



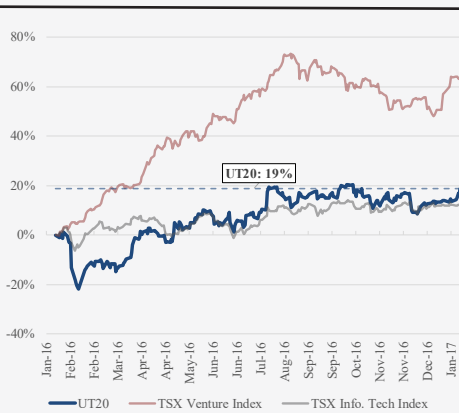
# Ubika Tech 20

January 16, 2017

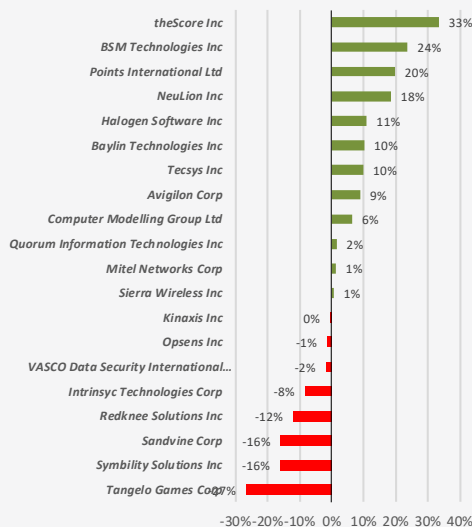
## Ubika Tech 20

Nov. 21, 2016 - Jan. 16, 2017

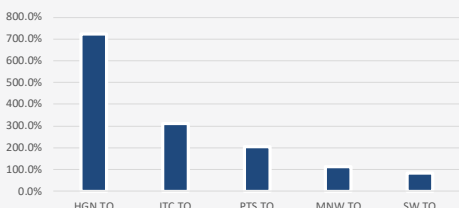
UT20: +2.6% (+19% Y/Y)  
 TSX Venture: +6.3% (+64% Y/Y)  
 TSX Info Tech: +0.6% (+12% Y/Y)



## Ubika Tech 20: Performance Distribution



## Top Volume Gainers (m/m)



Alex Cutulenco | Senior Analyst | Gravitas Financial Inc. | alex@gravitasfinancial.com | 1 (416) 992-6731  
 Jassie Bhathal | Analyst | Gravitas Financial Inc. | jassie@gravitasfinancial.com | 1 (647) 409-6308

## Ubika Tech 20 Holdings are Breaking New Waves in the Tech Sector

The Ubika Technology 20 index (UT20) gained 2.6% since November 21<sup>st</sup>. On the other hand, the benchmark indices saw mixed results with the TSXV rallying 6.3% whereas the TSX Information Technology Index gained 0.6%.

Having said that, it was an exciting time for BSM Technologies, the latest addition to our UT20 index, as it rallied 24% due to management’s ability to execute synergies from its Webtech acquisition. With increasing usage of mobile video streaming, NeuLion Inc gained momentum as it signed a partnership deal with Sony to roll out its newest 4K video platform on Sony’s latest smart televisions. All this, and more in this edition of the Ubika Tech 20 report.

### Industry Highlights

- FinTech companies are breathing new life into the Canadian start-up market, drawing in venture capital funds in levels not seen in two decades. A recent report by Reuters revealed a 35% increase in capital financing of Canadian FinTechs year-over-year to \$137.7mm.
- The federal government is planning to boost spending on new tech from Canadian companies through its Built in Canada Innovation Program (BCIP). Currently, the Innovation, Science and Economic Development (ISED) department is meeting with Ottawa to acquire up to \$300mm in contracts from their \$18B annual procurement budget for new technologies from startups.
- Google has announced a \$4.5mm investment over three years in the Montreal Institute for Learning Algorithms, the latest sign of Google’s growing interest in Artificial Intelligence. As part of the deal, Google will open an AI research group at its Montreal office, hoping to turn the city into a “super-cluster” of AI knowledge.
- Vancouver-based PayByPhone, a mobile payments technology startup, has been acquired by Volkswagen for \$43.9mm. PayByPhone allows users to easily pay for parking spaces from their mobile device and reminds users when their parking is about to expire, allowing them to top up from anywhere, at any time.

### Upcoming Tech Events:

- Cantech Investment Conference 2017: January 18<sup>th</sup>, hosted by Cambridge House at the Metro Toronto Convention Centre, Toronto, Canada
- Resolve TO: January 25<sup>th</sup>-27<sup>th</sup>, hosted by Startupfest at the Waterworks building, 505 Richmond Street West, Toronto, Canada
- IoT Big Data Healthcare Summit Western Canada: January 31<sup>st</sup>-February 1<sup>st</sup>

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## Notable Performers

### BSM Technologies Inc. (TSX: GPS)

BSM Technologies is a Canada-based company providing hardware and software solutions for asset tracking worldwide, allowing companies to monitor aspects such as telematics, fuel and maintenance, compliance, routing, and scheduling. Since its addition to the UT20 on November 21<sup>st</sup>, BSM has rallied 24% as a result of strong Q4/2016 financial results.

The 2016 financial performance marked a milestone for BSM Technologies, as it posted a record \$7.61mm in profit, compared to a mere \$18k for 2015. Although hardware revenue for the quarter increased 131%, gross profit margins fell by 11% as a function of volume discounts. This is not a concern, though, as BSM benefits from recurring revenues. On the other hand, service revenue increased 290% to \$1.3mm.

Figure 1: Key Changes in Financial Results for Period Ending September 30th, 2016

(\$ thousands)	Three months ended September 30				Twelve months ended September 30			
	2016 (\$)	2015 (\$)	Change (\$)	Change (%)	2016 (\$)	2015 (\$)	Change (\$)	Change (%)
Revenue	14,965	7,486	7,479	100%	58,997	30,691	28,306	92%
Cost of revenue	6,378	3,615	2,763	76%	26,000	15,035	10,965	73%
Impairment of inventories	-	-	-	-	-	389	(389)	(100%)
Gross profit	8,587	3,871	4,716	122%	32,997	15,267	17,730	116%
Interest income from finance leases	42	33	9	27%	189	124	65	52%
General and administrative expenses	2,679	1,371	1,308	95%	10,329	5,527	4,802	87%
Research and development expenses	2,204	1,649	555	34%	8,641	6,096	2,545	42%
Sales and marketing expenses	3,482	1,425	2,057	144%	12,894	5,574	7,320	131%
Acquisition, integration and restructuring expenses	219	2,166	(1,947)	(90%)	1,151	2,558	(1,407)	(55%)
Fair value adjustments on contingent consideration	(1,704)	(1,726)	22	1%	(1,854)	(3,201)	1,347	42%
Foreign exchange (gain) loss	(223)	(282)	59	21%	66	(689)	755	110%
Net interest expense	138	158	(20)	(13%)	549	647	(98)	(15%)
Total expenses	6,795	4,761	2,034	43%	31,776	16,512	15,264	92%
Income (loss) before income taxes	1,834	(857)	2,691	314%	1,410	(1,121)	2,531	226%
Current tax expense	11	5	6	120%	62	5	57	nm
Deferred tax recovery	(7,312)	(1,341)	(5,971)	(445%)	(6,261)	(1,144)	(5,117)	nm
Net income for the period	9,135	479	8,656	nm	7,609	18	7,591	nm
Foreign exchange gain (loss) on foreign operations, net of tax	36	222	(186)	(84%)	(113)	509	(622)	(113%)
Total comprehensive income for the period	9,171	701	8,470	nm	7,496	527	6,969	nm
EBITDA <sup>(1)</sup>	3,485	201	3,284	1,634%	8,282	3,004	5,278	176%
Adjusted EBITDA <sup>(1)</sup>	2,033	494	1,539	312%	8,353	2,612	5,741	220%

Source: Company Filings

BSM's strength lies in its business model, where organic growth accounts for over 60% of total revenues. For this quarter, recurring revenues of \$9.3mm represent an increase of 75% compared with \$5.3mm in Q4/2015, highlighting the potential for significant revenue growth. The synergies of the September 2015 acquisition of Webtech doubled BSM's

subscribers Y/Y, resulting in increased monthly recurring revenues with minimal incremental costs. The improved Y/Y operating results demonstrate management's ability to exercise effective synergies as it moves forward with its acquisition strategy. CEO Aly Rehamtulla has emphasized the importance of increasing customer satisfaction and retention as a key business strategy to stabilize revenues and drive future growth.

The recent October 2016 acquisition of Mobi Corp, a geolocation services provider, appears to be a painless bolt-on addition that will allow BSM to enhance its commercial fleet management solutions to include planning, scheduling, route optimization, and fleet analytics. This will complement BSM's analytics offerings, which will attract organizations that want to maximize the value of their assets. Additionally, Mobi will add another 15,000 new subscribers, and BSM will further benefit from synergies such as cross-selling and savings from sales and administration.

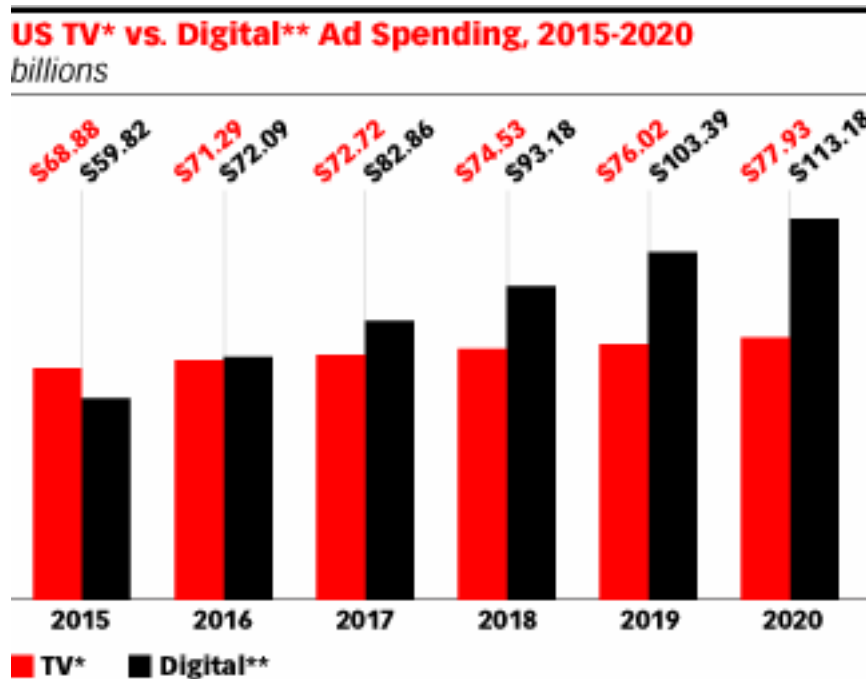
As of the quarter ending September 30th, BSM had \$26mm in cash on hand, with only \$7.7mm in total debt, which testifies to their ability to service debt obligations with enough cash for additional corporate finance activities. Currently trading at an EV/Sales multiple of 1.7x, compared to industry peers (telematics, recurring revenue software) of 2.9x, BSM appears to be undervalued. This creates the possibility that BSM may become a takeover target as consolidation in the fleet industry continues. Its industry peer Fleetmatics Group PLC was acquired by Verizon Communication Inc. earlier this year. There has also been increased attention from activist investor Crescendo Partners (CP)--its largest shareholder—as three members were recently appointed to BSM's board and CP announced discussions with management, the board, and other shareholders concerning future plans of BSM.

### **NeuLion Inc. (TSX: NLN)**

NeuLion is a leading online video technology company, specializing in digital video broadcasting, distribution, and monetization of live as well as on-demand content in up to 4K quality to Internet-ready devices. NeuLion has been instrumental in delivering mobile media content to millions of users worldwide, with recently-renewed contracts with the NBA and NFL.

As consumers shift away from traditional television, companies will seek to monetize the mobile streaming trend via digital advertising as a defensive strategy to protect their advertising market share. According to eMarketer's latest advertisement spending forecast, digital will overtake television ad spending this year for the first time. In fact, digital advertisement is expected to account for a third of media ads in the U.S. by 2019. By creating an integrated seamless platform capable of streaming live, high-quality content, NeuLion benefits most from this market growth as it is the backbone of the growth strategy of many blue-chip telecommunications, technology, and media companies.

Figure 3. Projected US TV vs Digital Ad Spending, 2015-2020



Source: eMarketer, Sep 2016

On January 5<sup>th</sup>, NeuLion announced the availability of its NeuLion CE SDK digital platform for 4K smart televisions, and has licensed the software through a partnership with Sony to roll out on its next generation 4K televisions. Besides business from large-cap clients, NeuLion licenses its codecs and plug-ins to other smaller media, software, and technology companies such as Magix and Playbox.

Since our previous report, NeuLion has rallied 18%. A key advantage of NeuLion is its highly-integrated video platform that seamlessly streams and connects client content, a significant entry barrier for competitors. Currently, the Company has a strong balance sheet with no debt and a reported cash balance of US\$70mm at quarter ending September 30. Besides a good cash conversion, NeuLion also benefits from recurring revenues, accounting for 68% of total revenues. NLN has an EV/Sales multiple of 1.9x, which is far below the peer average of 3.8x, suggesting the Company is undervalued.

## Points International Ltd. (TSX: PTS)

Points International provides a range of e-commerce and technology services to loyalty program operators using a common infrastructure. PTS has regained its momentum after a large Q3 miss of \$82mm in revenues compared to consensus estimates of \$93mm, which led to a lowered 2016 guidance. Quarter over quarter, Q3 also saw the number of points/miles transactions decline for the first time in six quarters - a key business performance metric for PTS.

PTS has rallied from a November 21 low of \$8.94 to \$10.78 upon news of expansion of its Point Travel SaaS booking service to include car rental and hotel capabilities for their loyalty programs. PTS launched the program with partner Miles and More, Europe's leading frequent flyer and awards program, allowing MM's 29 million members to redeem their award miles to pay for all/part of hotel bookings or car rentals via the Points Travel service. The partnership is aimed at generating significant incremental revenues for Points International, as the number of points/mile transactions increase.

Success of the SaaS booking system will result in high conversions, as well as interest from other private loyalty programs for future partnerships. A competitive advantage of PTS is that its Points Travel booking program is the only private travel commerce of its kind and can be quickly integrated into loyalty programs' web and mobile properties. Presently, the Company's balance sheet remains relatively solid with US\$48M and no debt. However, PTS' current market price of \$10.60 implies that it may be overvalued, as its P/E ratio of 39.5x is much more than the median peer group of 20x for back office software companies.

Figure 4. PTS - Key Metrics

Points International Ltd. Business Metrics										
	2015					2016				
	Q1	Q2	Q3	Q4	FY TOTAL	Q1	Q2	Q3	Q4	YTD TOTAL
<b>TOTAL ALL CHANNELS</b>										
Points/Miles Transacted	5,798,910,788	5,366,495,726	5,432,398,796	5,879,013,463	22,476,818,773	5,664,856,022	6,633,623,599	6,100,550,361	6,187,598,598	18,399,029,581
vs. previous year	23%	-8%	3%	29%	10%	-2%	24%	12%	11%	11%
# of Points/Miles Transactions	604,520	591,647	594,936	581,861	2,372,964	638,555	630,489	606,555	606,555	1,875,598
vs. previous year	10%	-7%	-4%	10%	4%	6%	7%	2%	2%	5%

Source: Company's Presentation

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