Ubika Tech 20

March 20, 2017

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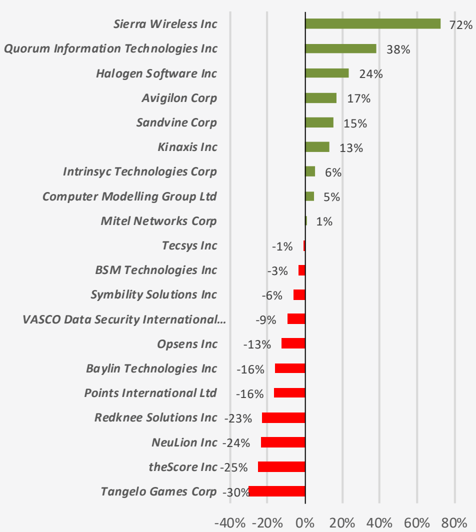
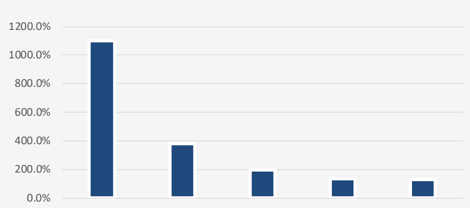
Jan. 16, 2017 - Mar. 20, 2017

UT20:	+14.4% (+44% Y/Y)
TSX Venture:	+2.1% (+41% Y/Y)
TSX Info Tech:	+6.6% (+15% Y/Y)

Ubika Tech 20: Performance Distribution



Top Volume Gainers (m/m)



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The Red-Hot Canadian Tech Sector is on Fire

The Ubika Technology 20 index (UT20) surged 14.4% since January 16th, outperforming both of its benchmark indices, the TSXV and TSX Information Technology Index, which gained 2.1% and 6.6% respectively.

Having said that, it was an exciting time for Quorum Information Technologies, as it rallied 40% thanks to new strategic partnerships and an integration of its XSellerator dealership platform with major auto makers. With increasing competition of smart technology in cars, Volkswagen chose Sierra Wireless to enable car-connectivity on its fleet starting in 2018, with Sierra's next-generation 4G LTE embedded modules.

Industry Highlights

- A report by the Brookfield Institute, *The State of Canada's Tech Sector*, found Canada's tech sector accounted for $117B or 7.1% of Canada's economic output, only behind the finance industry, which makes up 7.2%. Within tech, information and communications technology made up 61.2% of the industry's GDP, followed by architecture, engineering and design at 18.4%. This is consistent with findings that is Canada switching from a manufacturing to a services-based economy.

- Vancouver-based TIO Networks Corp. (TSXV:TNC), a cloud-based multi-channel bill payment processing and receivables management company, announced its acquisition by PayPal in an all-cash deal of $3.35 per share or approximately $304mm equity value. The purchase price represented a 25%+ premium to its 90-trading day volume-weighted average price as of February 13, the day before the deal was announced. TIO's digital platform and physical network of agent locations is expected to accelerate PayPal's entry into bill payments with 14 million consumer bill pay accounts.

- Faced with a shortage of programmers and information technology professionals, Canadian tech firms have called on Ottawa to issue visas for those displaced by Trump's travel ban. It is estimated that by 2020, Canada's tech industry could face a shortage of over 200,000 skilled tech professionals as the best talent from foreign countries tends to be more attracted to Silicon Valley than to Canadian tech hubs such as Waterloo and Toronto.

Upcoming Tech Events:

- • Artificial Intelligence (AI) Toronto Conference: March 29th, hosted by the Digital Finance Institute at the National Club, Toronto, Canada.

- • Connect 2017: April 25th-28th, hosted by CanConnected at the Scotiabank Convention Centre, Niagara Falls, Canada.

Notable Performers

Halogen Software Inc. (TSE: HGN)

Halogen Software Inc. ("Halogen") is a software-as-a-service (SaaS) company that provides Cloud-based talent management (TM) solutions, with industry-specific configurations for its solutions in healthcare, professional services, financial services, manufacturing, education, public sector, and hospitality. A notable performer from our October Ubika Tech 20 issue, Halogen has rallied 24% on better than expected FY/2016 results and its aforementioned acquisition by Saba Software.

The year of 2016 proved to be monumental for Halogen, from management restructuring and becoming profitable to meeting sales targets and negotiating its acquisition. For FY/2016, Halogen recorded recurring revenues of $66.7mm, an increase of 12% over 2015 and total revenue of $72.3mm, an increase of 10% over the same period last year (Figure 1). Recurring revenues are a strength of Halogen's subscription-based business model, which represented 92% of total revenue in 2016, compared to 91% in 2015. Furthermore, gross margins improved from 74% (2015) to 76% (2016), while total expenses decreased 13% Y/Y; the latter may have been the benefit of a weakened Canadian dollar. Altogether, Halogen recorded a profit of $1.2mm compared to a net loss of $13.5mm last year.

Figure 1: Summary of Halogen's 2016 Operational Results

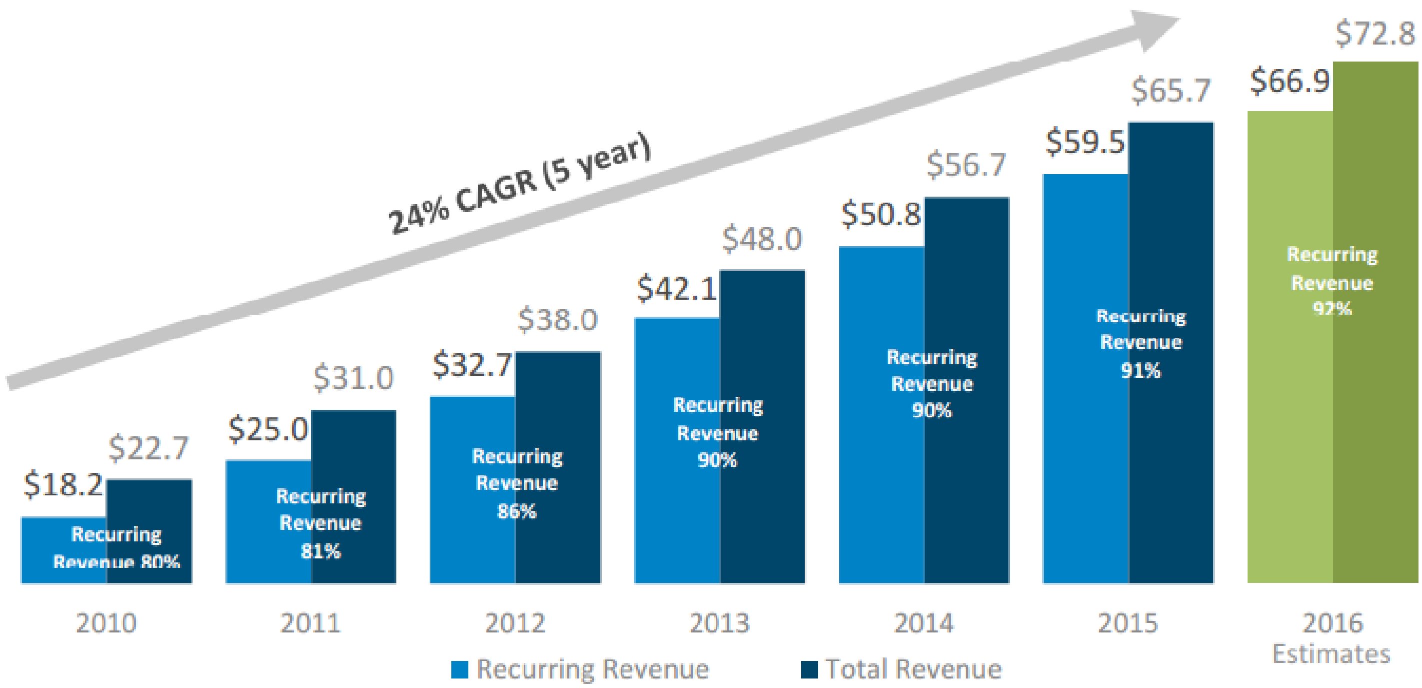
	2016	2015	2014
	(thousands of dollars except per share amounts)		
Recurring revenue	**$ 66,658**	$ 59,529	$ 50,771
Total revenue	**72,261**	65,692	56,659
Gross margin	**55,080**	48,480	40,697
Expenses	**53,779**	61,822	56,197
Income (loss) from operations	**1,301**	(13,342)	(15,500)
Net income (loss)	**1,167**	(13,475)	(15,384)
Earnings (loss) per share	**0.05**	(0.61)	(0.71)
Adjusted EBITDA(1)	**8,471**	(8,924)	(11,447)
Adjusted EBITDA per share(1)	**0.39**	(0.41)	(0.53)
Total assets	**58,932**	59,925	69,075
Deferred revenue	**38,972**	36,922	32,836
Cash flow provided by (used in) operating activities	**7,553**	(2,017)	(4,739)

Source: Company Filings

Looking forward, there appears to be significant growth opportunities for Halogen to capitalize on. Industry analysts forecast the current talent management suite market at $4B and growing by 10% annually. Automating human resource processes with TM software continues to be attractive to companies as it produces significant cost and time savings. Currently, there are 300,000 mid-market organizations worldwide and over 90% have no talent management software solution. Hence, the TM market appears under-penetrated with significant potential for Halogen to grow.

Halogen's sales have been growing at a CAGR of 24% (Figure 2), while sales and marketing costs have been declining; 41% of revenue in 2016 versus 50% in 2015. Since Halogen relies on a subscription-based business model, where clients sign on for 2-year initial contracts and automatic renewals, future revenues will depend on Halogen's ability to attract new customers while retaining their existing customer base. Besides contract renewals, other opportunities to increase revenues include upselling clients and expanding the deployment of other Halogen solutions.

Figure 2: Halogen Software's Revenue Profile (US$M) and 2016 Guidance



Source: Company Filings

Halogen has considerable balance sheet strength with no debt and $50.2mm in cash as of December 31, 2016. Halogen's acquisition by Saba software at $12.50/share implies an EV/ sales multiple of 2.2x, below the current Saas industry average of 2.4x. Additionally, Halogen's software's 2016 gross margin of 76% and EBITDA margin of 9.5% are significant greater than its peer average of 67% and 7.7%, respectively. Stay tuned for our next issue where we will introduce a new company to replace Halogen on our Technology 20 index.

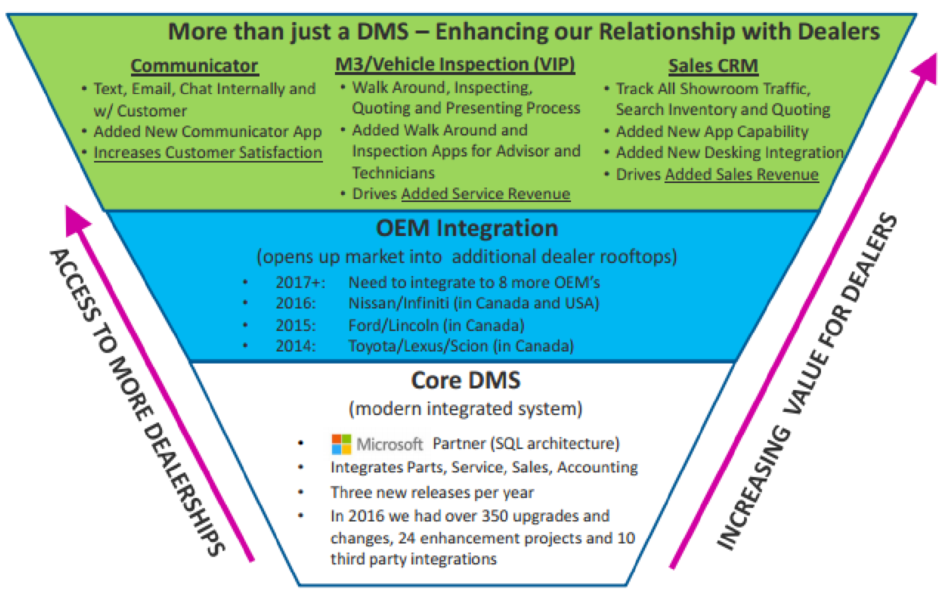
Quorum Information Technologies Inc. (TSXV: QIS)

Quorum Information Technologies Inc. ("Quorum") is a Canadian information technology company that develops, markets, implements, and supports its proprietary enterprise management software solution. Targeting car dealerships, Quorum provides legacy conversion, dealership and customer management systems through its XSellerator and AutoMate products. Since our January report, Quorum has rallied 38% upon news of increasing usage of its technology, strategic partnerships with major auto manufacturers such as Nissan, and integration with General Motors' Online Service Scheduling (OSS) system.

As of the end of 2016, Quorum has received record usage and adoption of XSellerator, its dealership management system. The Xsellerator suite contains three components: B2C communicator, vehicle inspection process (VIP), and a sales customer relationship manager (CRM) (Figure 3). The 'communicator' allows dealerships to send text messages and e-mails to customers right from the XSellerator DMS. Dealerships have generated 4.25 million messages in 2016, a 40% increase over 2015, as they saw operational efficiencies and increased customer satisfaction. Additionally, over 115 dealers have been trained on Quorum's VIP and generated over $68mm in additional customer pay revenue as a result—up from $51mm in 2015.

The VIP process is a part of the XSellerator suite and encompasses the entire service flow starting with the customer appointment, through advisor and technician inspections and quoting additional work as required. The software has helped each dealership increase their revenues by $60k per month on average, from added pay service and parts revenue. These results are evidence of the return-on-investment of the XSellerator technology, as VIP is designed to drive incremental revenue into dealership customers' operations.

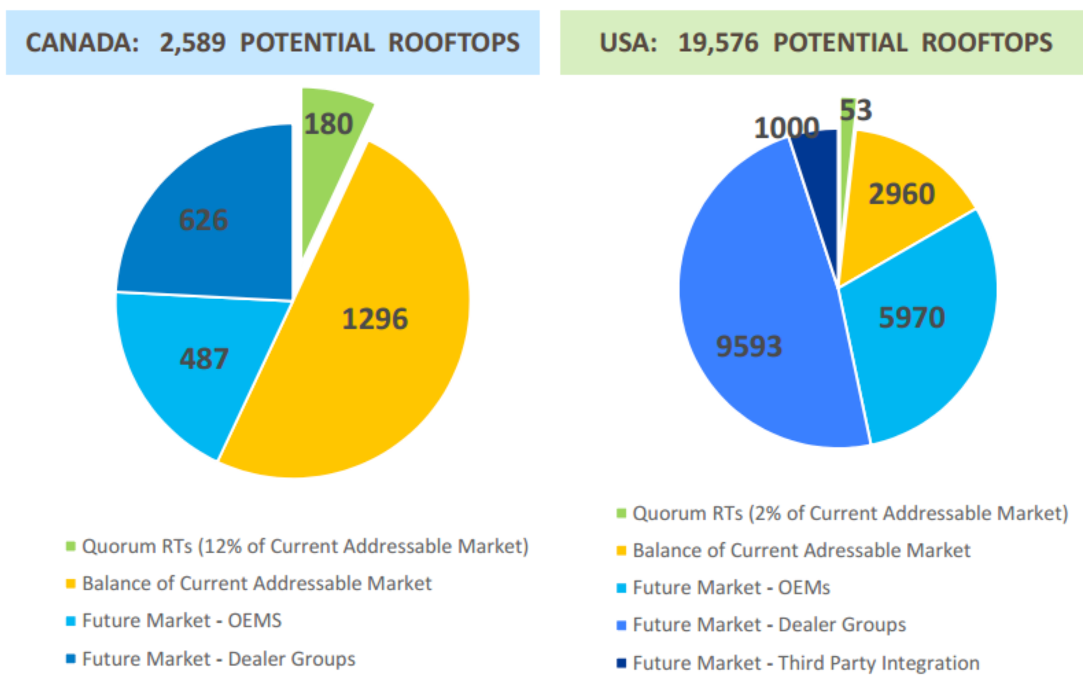
Figure 3: The Expanding Value of XSellerator



Source: Corporate Presentation

There are over 21,000 auto-dealerships in North America, and the DMS industry landscape appears ripe with opportunity. Quorum's total addressable market (TAM) has been growing substantially over the years and is expected to continue to grow (Figure 4). For Quorum, the main limiting factor for TAM growth is OEM integration, which it is currently addressing, as can be seen by the recent deals with Nissan and General Motors (GM). In February, Quorum completed integration requirements and has certified its DMS with Nissan Canada's dealer communicator system as well as installed its first two Nissan dealerships in Canada. This is profound as Quorum will not only be able to service Nissan dealerships across Canada, but also Infiniti—a subsidiary of Nissan. Altogether, this opens the door to over 1,000 potential rooftops; 130 Nissan dealerships in Canada and another 1057 in the USA! Similarly, Quorum announced integration with GM's web-based customer service appointment schedule system. GM dealerships are expected to quickly adopt Quorum's DMS as it provides seamless workflow between dealership and manufacturer systems, and is available to GM dealership customers at no cost.

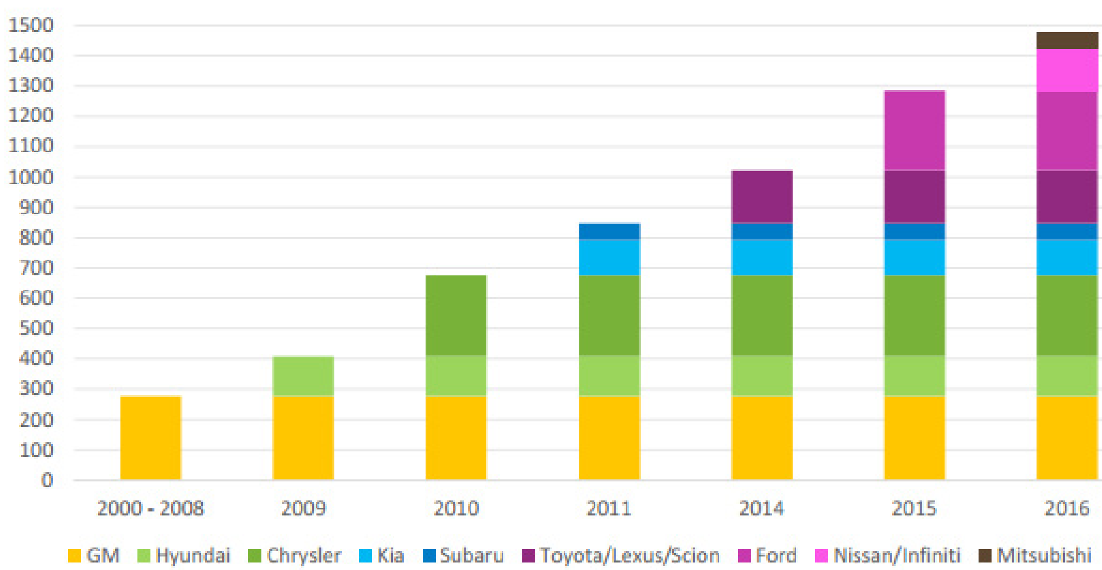
Figure 4: Quorum's Total Addressable Market (TAM)



Source: Company's Presentation

Looking ahead, Quorum is on pace to continue achieving significant growth in sales as it partners with new automakers, opening an ever-expanding market to service virtually all dealerships. From the auto-crisis in 2008 until now, Quorum's strategic integration with additional OEMs has expanded its total addressable market by 430% (Figure 5). As a result, Quorum has enjoyed 12 consecutive quarters of revenue growth (over prior year quarters), with sales increasing 10% to $3.1mm in Q3/2016 from Q3/2015—the strongest revenue quarter in the company's history. Even though Quorum's gross margins of 52% trail its SaaS industry average of 67%, it enjoys substantially higher EBITDA margins of 19% compared to its peer average of 7.7%. Currently trading at an EV/Sales multiple of 3.3x versus a peer average of 2.4x, Quorum appears to be overvalued. Nonetheless, management's guidance for increasing sales staff should further build upon Quorum's high-margin recurring revenue stream, which does make the stock appear more attractive considering its future growth potential.

Figure 5: Growing Sales from a Growing Addressable Market



Source: Company's Presentation

Sierra Wireless Inc. (TSE: SW)

Sierra Wireless Inc. ("Sierra") is engaged in building the Internet of Things (IoT) with intelligent wireless communication and technology solutions in three business segments: OEM solutions, enterprise solutions, and cloud and connectivity services. Sierra focuses on the machine-to-machine (M2M) market with wireless embedded modules and gateways, as well as a secure cloud that allows for seamless integration of its products and services. Since our last issue, Sierra Wireless has skyrocketed 72% as it won a contract to connect Volkswagen (VW) cars beginning in 2018 and reported full-year profitability for the first time in three years.

Using Sierra's Airprime AR Series modules and the Legato software platform, VW will be able to offer a variety of value-added connected services and telematics to its customers. Sierra's technology delivers high-speed cellular connectivity and allows a variety of in-vehicle internet-based services such as: remote vehicle access, roadside assistance, diagnostics and maintenance, and ability to set speed and boundary alerts. This technology was earlier demonstrated by Sierra with the Bloodhound Supersonic Car (SSC), which travels faster than a bullet and used Sierra's technology to live-stream video feeds during its test runs in the UK at speeds of 1,000 mph (Figure 6).

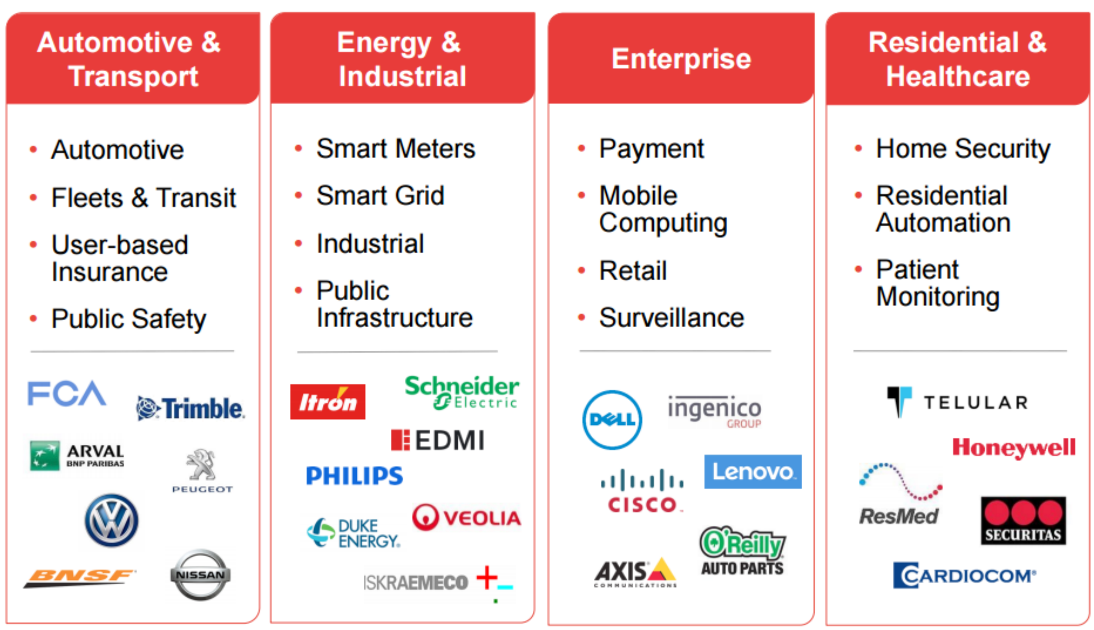
Figure 6: Test Run of the Bloodhound SSC

Source: Bloodhound

Besides the automotive sector, applications of Sierra Wireless' products and services seem endless, with its global base of customers and partners ranging from the energy and technology sector to healthcare and wearable devices (Figure 7). It is a global leader in the highly-competitive IoT industry, with 33% of global market share for embedded modules with customers in over 130 countries. Recently Sierra's technology has been selected by PrecisionHawk to enable drone safety and traffic management as well as by Nauto for its commercial artificial intelligence-powered auto network. With the increasing advancement of smart technology and artificial intelligence, IoT is one of the fastest growing tech industries and there will be strong demand for Sierra's products and services.

As of December 31, Sierra has a solid balance sheet with $138mm of cash and no outstanding debt. Year-over-year, FY/2016 revenues increased by 1.3% to $815.6mm and gross margins increased to 35.4% from 31.9% the year before. The increase in revenues and gross margins is likely the result of growth in the enterprise segment, which was up 13.3% Y/Y, with margins of 52.1%. Going forward, Sierra plans to expand its product portfolio for its high-margin enterprise solutions and cloud services. Currently trading at an EV/Sales multiple of 1.3x, Sierra appears to be trading at a substantial discount compared to its communication and networking peers at 1.8x. Upon further analysis, the lower valuation may be due to Sierra's poor operating margins of 3.5% and EBITDA margins of 7.6% compared to the industry average of 14.0% and 25.0%.

Figure 7: Sierra's Market Reach



Source: Bloodhound

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