Ubika Tech 20

May 23, 2017

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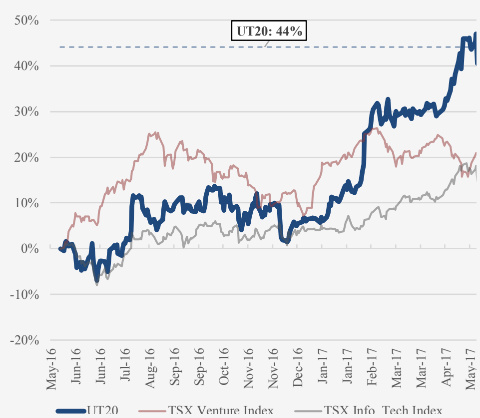
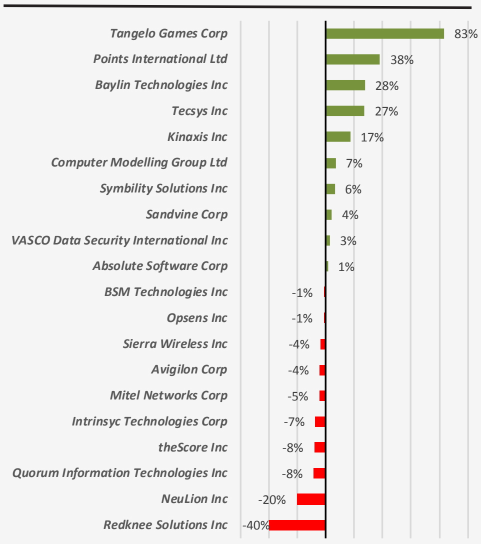
Mar. 20, 2017 - May 23, 2017

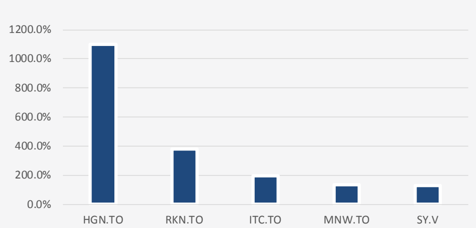
UT20:	+11.6% (+44% Y/Y)
TSX Venture:	-0.7% (+20% Y/Y)
TSX Info Tech:	+4.5% (+16% Y/Y)



Ubika Tech 20: Performance Distribution



Top Volume Gainers (m/m)



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UT20 Index Outperforms Benchmarks & New Constituent Added to Index

The Ubika Technology 20 Index (UT20) is up 31.7% YTD, and 8.9% since our last report, outperforming both the TSXV and TSX Information Technology Index. The TSXV is down 0.7%, while the TSX Info. Tech Index is up 4.5% since our last report.

If you recall, Saba Software announced an agreement to acquire Halogen Software back in February 2017. With the deal now closed and Halogen's shares officially delisted, a new company, Absolute Software Corp (TSX:ABT), has been added to the Index, which we discuss in detail later in the report.

Industry Highlights

- **Saba Software (pvt.)** completed its acquisition of Halogen Software **(delisted - TSX:HGN)** for $267mm in cash, representing a purchase price of $12.50 per share. The new organization is one of the largest independent talent management companies in the world, with 1,000 employees serving more than 4,000 customers in 195 countries around the globe.

- **Minister of Finance Bill Morneau said the government of Canada is following through with some of its innovation commitments** in the 2017 budget, as the government is trying to encourage innovation in the country. Highlights include: $50mm to launch a new procurement program called Innovative Solutions Canada, departmental money for early-stage research and development, late-stage prototypes from Canadian entrepreneurs, $400mm over three years to be made available through the Business Development Bank, which aims to increase late-stage venture capital to Canadian entrepreneurs who submit proposals.

- A report by Deloitte **outlines tech trends to look out for in 2017**. The report covers topics ranging from IT, and how its boundaries are shrinking as technology is becoming integral to nearly every business function, to how nanotechnologies, energy systems, biotechnology, and quantum technology will disrupt industries, strategies, and business models sooner than you may think.

- **A ransomware attack deemed** "WannaCry" that encrypts and makes files on a computer inaccessible until a ransom is paid affected 10,000 organizations in 150 countries last week. Canadians expressed confidence in their ability to stop ransomware attacks, however a study published last year indicated 75% of respondents paid the ransom before contacting authorities or cybersecurity firms. Furthermore, about half the Canadian respondents said they lost either revenues or files due to the attacks. The recent attacks show just how important technology has become to Canadian businesses, government, and everyday life.

New Addition

With respect to the completed business acquisition of Halogen Software, we added Absolute Software Corp (TSX:ABT) to the Index. Absolute has a market cap of $294mm and was selected for the Index due to the expected growth of the software and software security markets, as well as the Company's attractive valuation and growth outlook.

Notable Performers

Kinaxis Inc. (TSX:KXS)

Kinaxis, up 34% YTD, is a leading provider of cloud-based subscription software that enables customers to improve and accelerate analysis and decision making across their supply chain. The impressive rise in their shares is due primarily to growth through their "land and expand" model, which entails landing new customers and expanding service and solution engagements with existing customers. Management has executed on this strategy, reflected by a 24% three-year revenue CAGR (2014-2016), and strong Q1/2017 results.

Q1/2017 revenue was $32.5mm, a 20% increase compared to the same period last year. Subscription revenue accounted for the bulk of this revenue at $23.9mm, a 29% increase from the same period last year. The increase in subscription revenue was driven by contracts secured with new customers in the last 12 months, and the expansion of existing subscriptions. Currently, the Company's 10 largest customers make up 49% of revenue, and their largest customer makes up 12% of revenue. This looks to be concerning, however, investors feel comfortable with management's ability to retain existing customers as seen in the Company's 100% revenue retention rate. Furthermore, management is taking the necessary steps to expand and diversify their customer base.

EPS was down 7% from the same period last year due to lower operating margins, however this should not be concerning due to the Company's ability to continue to generate and increase free cash flow.

Management has outlined Kinaxis' growth plans, which entails growth through their "land and expand" model, Asia and European expansion, new vertical markets, leveraging channel and partners, and expanding direct sales. On the Q1/2017 earnings call, management gave an update on new partnerships, stating "we have some large partners that are in the incubation phase, and you might expect to see some additional partners going public with Kinaxis in 2017 as a result." Furthermore, their investments in readying partners to sell and deploy RapidResponse (their SCM software) have proven to be successful, as Deloitte, who signed on as a Kinaxis partner last year splayed a significant role in closing a large account in Q1/2017.

Management states their operating cash flow, as well as their credit facility, will be able to fund their planned growth and current financial obligations of $19.4mm. Management estimates subscription growth of 26-28%, and revenue to be $140-$144mm in 2017.

Barriers to entry in the freight packaging and logistics services industry in Canada are low, per this IBIS world report. This makes us wonder how Kinaxis is going to fend off competition as an increased number of firms recognize the profitability of SCM (supply chain management) services.

Figure 1: Barriers to Entry Checklist

Barriers to Entry checklist	
Competition	High
Concentration	Low
Life Cycle Stage	Mature
Capital Intensity	Low
Technology Change	Medium
Regulation & Policy	Light
Industry Assistance	Low

Source: IBIS

Kinaxis is trading well above its peers on several metrics. Most notably the Company is valued at 109.72x CF, well above the industry average of 21.71x, implying the Company is overvalued, and investors have high expectations of growth. Low barriers to entry and a high valuation means that investing in the stock may be risky if new entrants steal market share from Kinaxis and disrupt their growth plans. New entrants may also force Kinaxis to spend more on CapEx or R&D, which would have an impact on free cash flow, which would render the high multiple unjustifiable.

Figure 2: Kinaxis' Peers

Company Name	P/CF (TTM)	EV/Sales (TTM)
Kinaxis Inc	109.72x	11.87x
CGI Group Inc	13.11x	1.76x
Sierra Wireless Inc	20.28x	1.18x
Sandvine Corp	15.56x	1.46x
Open Text Corp	6.57x	5.00x
Celestica Inc	10.06x	0.26x
Redknee Solutions Inc	NA	0.52x
Descartes Systems Group Inc	29.13x	8.54x
Intrinsyc Technologies Corp	NA	1.43x
Enghouse Systems Ltd	16.81x	4.72x
Absolute Software Corp	28.09x	2.03x
Sylogist Ltd	20.35x	4.52x
Symbility Solutions Inc	NA	3.23x
ProntoForms Corp	NA	3.06x
Espial Group Inc	NA	1.34x
Quorum Information Technologies Inc	23.27x	2.85x
Tecsys Inc	20.06x	2.17x
Computer Modelling Group Ltd	29.91x	10.47x
NYX Gaming Group Ltd	NA	2.53x
NeuLion Inc	49.10x	1.15x
Average (Excluding Kinaxis)	21.71x	3.07x

Source: Ubika Research

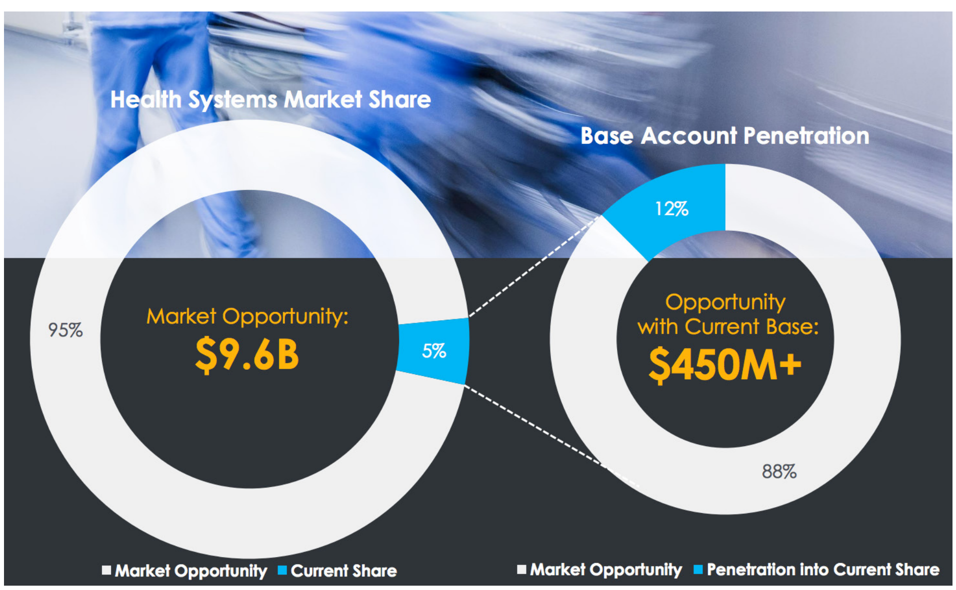
TECSYS Inc. (TSX:TCS)

TECSYS, up 27% YTD, is a software vendor that aims to improved customers supply chains through industry solutions based on advanced, proven technologies and feature-rich suites of enterprise SCM and logistics applications. The Company has performed well in the past, posting strong 2016 and Q3/2017 numbers, including a 14% four-year revenue CAGR (2014-2017). The Company's strong operating results reflected growth in contract bookings for existing customers, as well as new customer additions.

Revenue for Q3/2017 increased 11% y/y to $17.4mm, mainly due to an increase in total contract value bookings for existing customers. Total contract value bookings for existing customers amounted to $13.8mm in Q3/2017 in comparison to $7.1mm in the previous year. The Company signed two significant agreements with two existing health systems totaling $3.3mm and two agreements with two complex distribution companies for $3.8mm. The Company's earnings grew 75% to $0.07/share, mainly due to scale and operating leverage stemming from management's strict cost-control initiatives.

The Company has carved out an effective niche strategy, as they aim to build a leadership position in healthcare, which has yielded success in recent years. In 2016, the Company achieved record results in both revenue and earnings, driven primarily from growth in the healthcare segment, as healthcare revenues were up 38% in 2016. Furthermore, in Q3/2017, healthcare accounted for 47% of revenues, whereas complex distribution resulted in the other 53%. However, 74% of new account bookings came from healthcare, and 26% came from complex distribution. This is important as the Company only has a 5% share in the $9.6 billion healthcare market, and within their $450mm share, they only have a 12% account penetration.

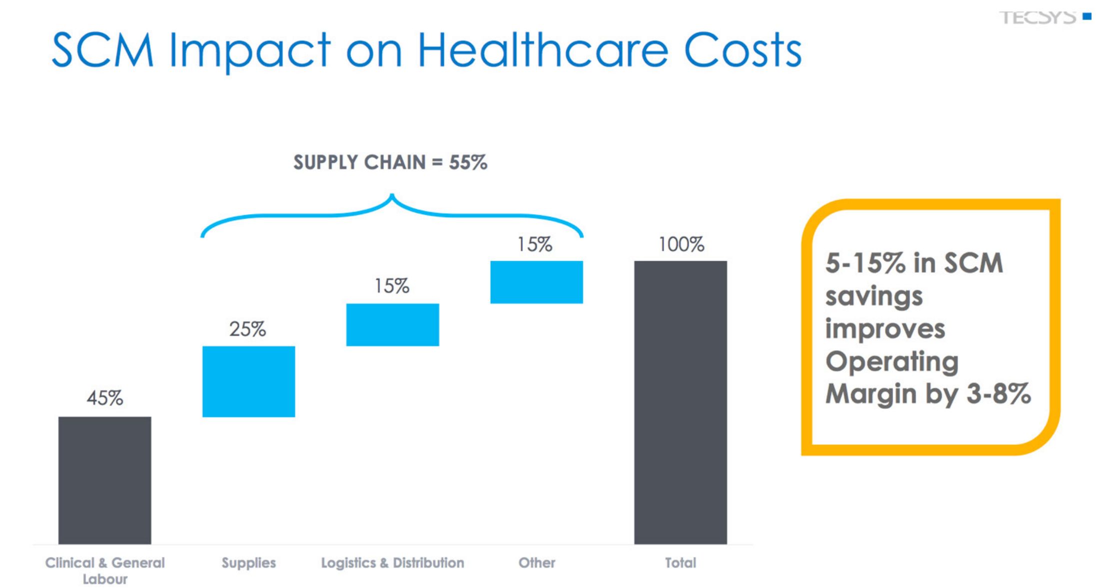
Figure 3: Market Opportunity & Penetration



Source: Corporate Presentation

Healthcare companies have a big incentive to invest into TECSYS' SCM system, as supply chain costs make up the bulk of costs for healthcare companies. Using TECSYS SCM system can result in 5-15% in SCM savings and can improves operating margins by 3-8%.

Figure 4: SCM Impact on Healthcare Costs



Source: Company's Presentation

Furthermore, TECSYS has the only SCM platform designed for healthcare. The Company intends to continue to book new clients and expand offerings to existing clients in the healthcare market while maintaining operating expenses at near current levels. If executed properly, their targeted 8-12% revenue growth and near flat operating expenses would result in a large boost to earnings.

With TECSYS' 2.2x EV/Sales multiple, the Company is slightly undervalued relative to its peers. We think this is good value for a company who has positioned itself effectively in a large niche market in which it has plenty of room to grow by attaining new customers or upselling to existing ones.

Figure 5: Growing Sales from a Growing Addressable Market

Company Name	P/CF (TTM)	EV/Sales (TTM)
TECSYS Inc	20.06x	2.17x
BSM Technologies Inc	8.88x	1.86x
Mediagrif Interactive Technologies In	13.17x	3.24x
Solium Capital Inc	31.55x	3.49x
Cortex Business Solutions Inc	NA	2.92x
Kinaxis Inc	109.72x	11.87x
Attunity Ltd	NA	2.04x
Average (Exclusing TECSYS)	40.83x	4.24x

Source: Ubika Research

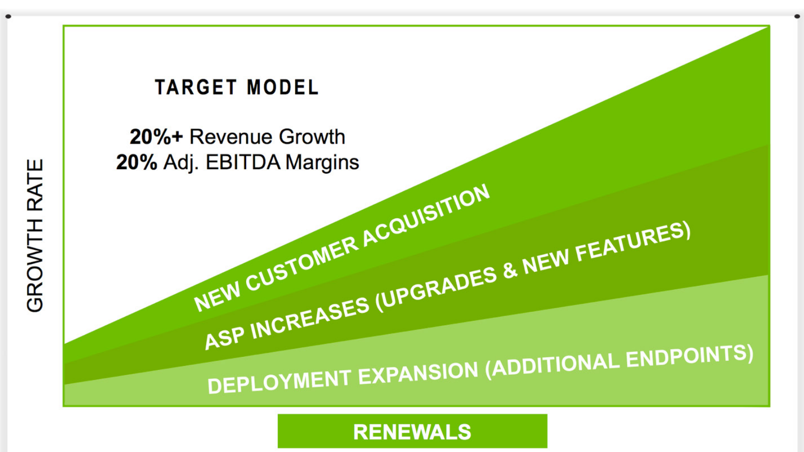
Absolute Software (TSX: ABT)

Absolute Software provides persistent endpoint security and data risk management solutions for computers, tablets, and smartphones. The Company focuses on helping organizations secure mobility and protect sensitive data that resides on the endpoint. The Company's stock price is up 16.8% YTD.

The Company's recent decline in revenues (2016-2017) is due to a divesture of their Absolute Manage and Absolute Service Business unit. However, adjusting for this, revenues were up a modest 4%, compared to the double-digit revenue growth they saw in prior years. This is because the Company began to restructure their sales team in mid-2015, to achieve larger sales growth. Looking at the annual contract value (ACV) metric we can see sales are trending in the right direction, as ACV increased 9% year over year. Furthermore, the Company has a 100% revenue retention rate and a 102% ACV retention rate.

The Company has outlined its intention to move the business toward a 20% revenue growth, 20% EBITDA model.

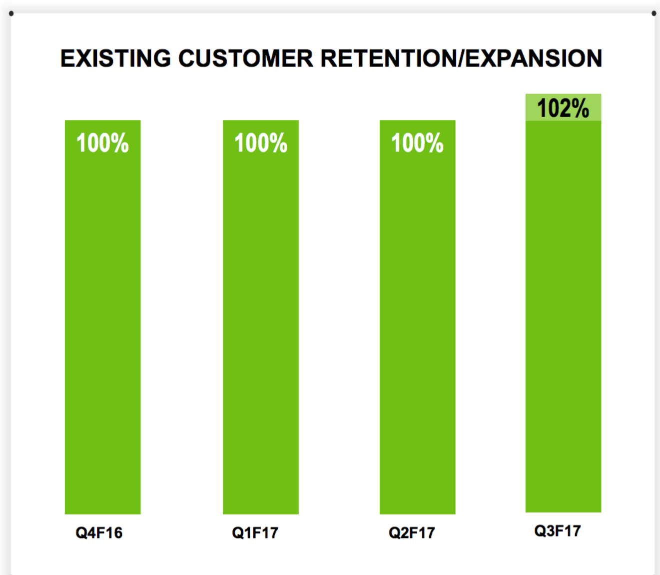
Figure 6: Growing Sales from a Growing Addressable Market



Source: Corporate Presentation

There is compelling evidence the Company has executed in recent quarters to get itself toward this figure. Firstly, the Company's 100% ACV retention rate and 100% revenue retention rate means it is effectively reselling their products to existing customers, which is a low-cost way to generate sales. Furthermore, the Company has great upsell opportunities; 40% of its installed customer base is not yet on the premium tier of their product and within the top 100 customers, the Company estimated only 40% of endpoints have Absolute's data and device security activated.

Figure 7: Absolute Software's customer retention



Source: Company Filings

The Company has been investing into R&D, which has resulted in new product developments. The Company recently announced a new security posture dashboard product, which provides users with a consolidated view of the effectiveness of the security on end point devices. Expect more products to come out in the coming years as a more rapid output of products is a goal of their recent R&D spending.

Absolute Software's EV/Sales multiple of 2.0x if far below its peer average of 7.0x, which implies the Company is undervalued. This is likely due to their recent decline in revenues. However, the Company's 20% revenue growth target and low valuation provides it with significant upside potential if these targets can be met.

Figure 8: Absolute Software peers

Company Name	P/CF (TTM)	EV/Sales (TTM)	EV/EBITDA (TTM)
Absolute Software Corp	28.09x	2.03x	18.79x
Kinaxis Inc	109.72x	11.87x	70.47x
Open Text Corp	6.58x	5.00x	15.08x
Constellation Software Inc	23.27x	4.74x	18.07x
Descartes Systems Group Inc	29.13x	8.54x	25.69x
MacDonald Dettwiler and Associates Ltd	12.41x	1.67x	11.28x
CGI Group Inc	13.09x	1.76x	9.57x
Shopify Inc	NA	15.33x	NA
Average (Exclusing Absolute)	32.37x	6.99x	25.03x

Source: Ubika Research

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