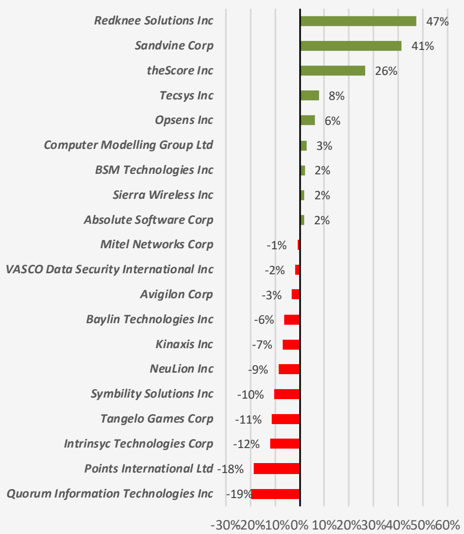
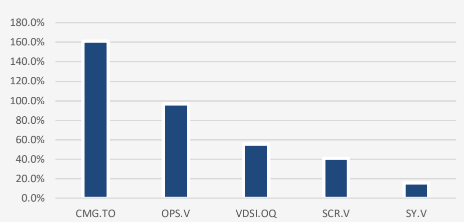
Ubika Tech 20
May 23, 2017 - July 17, 2017

UT20:	-3.9% (+35% Y/Y)
TSX Venture:	-6.4% (-2% Y/Y)
TSX Info Tech:	-1.7% (+16% Y/Y)

Ubika Tech 20: Performance Distribution



Top Volume Gainers (m/m)



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Canadian Tech Sector Cools Yet the Ubika Tech 20 Index Remains Hot

The Ubika Technology 20 (UT20) is up 30.7% YTD, outperforming both the TSX-V Index and the TSX Information Technology Index, which have returned -0.6% and 9.7% YTD, respectively. The industry has cooled down recently as investors begin to question high valuations, shifting their capital into more defensive sectors. In this edition of the UT20, we discuss some industry highlights as well as three companies that have had several eventful months. Companies mentioned include: Sandvine Corp, which has received multiple buyout offers, Tangelo Games, which is on the verge on bankruptcy, and Points International, which appears to be a solid company trading at an attractive price.

Industry Highlights

- **Blackberry shares rose 60%+ over a two-month span, hitting a 4-year high in late May.** The rally suggests investors are starting to have faith in the Company's new identity as a software manufacturer. The Company's shares began to rise when they exceeded Street expectations in their Q1/2017 earnings release. The rally may not be over, suggests Macquarie Group analyst Gus Papageorgiou, who states the shares could reach $45 by 2020.
- **A report from the Financial Post states that there is going to be an abundance of Canadian tech IPOs in 2017.** This was led by the $157mm IPO of a real estate data company Real Matters Inc. (TSX: REAL). Furthermore, Hootsuite Media Inc, D2L Inc, and PointClickCare Corp are all considering going public in 2017. There has been a flood of venture funding into the Canadian tech industry in recent years, and John Ruffolo, head of OMERS Ventures, said that the private market has been overvaluing growth, whereas the public market was not. He also stated that companies that have stopped burning cash and can now focus on sustainable growth should be ready to IPO.
- **Trump's travel ban may be good for the Canadian tech sector.** The Globe and Mail reports that Canadians' embracement of immigrants in the midst of a U.S. travel ban may prompt foreign workers and businesses to migrate to Canada. A Toronto-based corporate immigration lawyer has stated that multiple individuals with both Canadian and American job offers have contacted him stating they are heavily considering the Canadian job over the American one. If this is more than just a fad, we could see an increase in both skill level and marking size in the tech industry.

Upcoming Tech Events:

- FinTech Canada Conference, August 18th, 2017, hosted by Digital Finance Institute at the MaRS Discovery District, 101 College Street, Toronto, ON, Canada

Notable Performers

Sandvine Corp (TSX: SVC)

Sandvine is a Canadian technology company that provides network policy control solutions that add intelligence to fixed, mobile, and converged communications service provider networks. These services help increase revenue, reduce network costs, and improve subscriber quality and experience. The Company's stock is up 41%, as two private equity firms have engaged in a bidding war for Sandvine.

On May 26, 2017, the Company announced it entered into an agreement with Vector Capital, a private equity firm, to be acquired by their affiliate, Scalar Acquireco Corp. Under the terms of the agreement, Scalar would purchase all the issued and outstanding shares of Sandvine for $3.80 per share, implying an equity value of $483mm, and representing a 20% premium to Sandvine's previous day's closing price of $3.16.

A month after, Sandvine announced it received a binding offer from an affiliate of Francisco Partners, a second private equity firm, at an offer price of $4.15 per share, representing a 9% premium to the Scalar's offer. Strangely, the board recommended shareholders vote for the less-lucrative Scalar offer, due to Scalar agreeing to increase the level of communication with respect to obtaining the required regulatory approval.

A couple weeks later, on July 6th, Scalar matched the $4.15 offer proposed by Francisco, but that didn't mark the end of the bidding war. Francisco partners upped their bid to $4.40 per share the next day, representing a 16% premium to Scalar's initial offer, and a total equity value of ~$540mm. The board still recommends voting in favour of the Scalar offer on the July 18th voting date.

It appears as if investors still expect more action in the bidding war as the stock is trading 2% above the $4.40 offer by Francisco. If you recall, a TD analyst, Daniel Chan, expressed Sandvine's ability to sell for as much as $4.50/share, stating this just days after the initial $3.80/share offer, and way before the bidding war occurred.

Figure 1: Bidding History

Sandvine Bidding History				
	Bid 1	Bid 2	Bid 3	Bid 4
Company	Scalar	Francisco	Sccalar	Francisco
Date	2017-05-26	27-Jun-17	06-Jul-17	07-Jul-17
Bid price	$ 3.80	$ 4.15	$ 4.15	$ 4.40
Premium to may 25 price	15%	26%	26%	33%
Premium to MV	15%	9%	0%	6%
Equity Value	483	527	527	559

Source: Ubika Research

Tangelo Games Corp (TSX-V: GEL)

Tangelo Games is a developer of social and mobile gaming for PC, Mac, iOS, and Android platforms. The Company also develops and distributes their social casino-themed games within online social networks, such as Facebook, and mobile platforms, such as Android and iPhone. Their games are free to play and generate revenue primarily through the in-game sale of virtual coins. The Company's stock is down 11% since our last report, and 33% YoY, as they defaulted on a large debt payment.

Tangelo's problems began shortly after it levered up to purchase Diwip (now Tangelo Israel) for $100mm in 2014, and then shortly after did the same to purchase Akamon (now Tangelo Spain) for $24mm. The terms of both debt deals were extremely unfavourable, paying 12% interest, and obliged to repay the full principal in three years.

The purchase of these assets resulted in the Company's balance sheet predominantly being made up of goodwill and intangible assets, and over $24mm worth has since been written down due to the "worse than expected" performances of these two assets. About 92% of the Company's $112mm in assets are in the form of goodwill & intangibles, leaving them with virtually no tangible assets to cover their $88mm in loans maturing this year.

Figure 2: Tangelo Goodwill Impairment

8. Goodwill

	Tangelo Israel	Tangelo Spain	TOTAL
December 31, 2014	$ -	$ -	$ -
Additions through acquisitions	49,935,013	18,533,214	68,468,227
Foreign exchange impact	4,165,856	949,246	5,115,102
Impairment charges	(24,445,283)	-	(24,445,283)
December 31, 2015	$ 29,655,586	$ 19,482,460	$ 49,138,046
Foreign exchange impact	(884,954)	(1,114,839)	(1,999,793)
Impairment charges	(1,872,836)	(1,219,177)	(3,092,013)
December 31, 2016	$ 26,897,796	$ 17,148,444	$ 44,046,240

Source: Company Filings

Earlier in the year, the Company entered a waiver and amendment to its credit agreement with its lenders to amend certain terms of its outstanding credit agreement. The amendment loosened up some restrictive covenants, giving the Company more breathing room, and allowed the Company to pay only $10mm by March 31st. Tangelo missed this payment and is now in negotiations with its creditors. It is highly likely that the Company will file for bankruptcy given their $8mm in tangible assets and ~$9mm in annualized operating cash flow compared to $88mm in short-term debt.

With a $7.23mm market cap, Tangelo is trading below its tangible assets, however, in the case of bankruptcy, these assets will belong to creditors, leaving nothing behind for equity holders of the company.

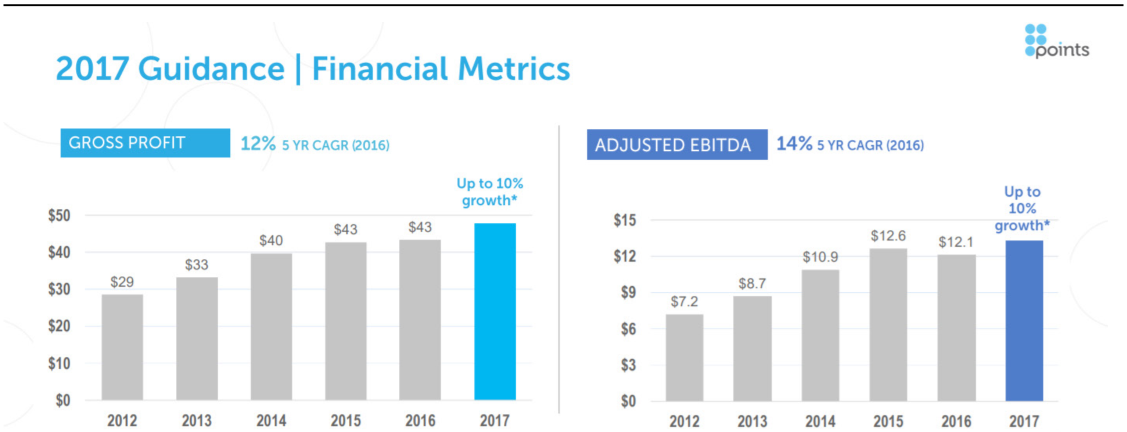
Points International Ltd. (TSX: PTS)

Points is a Canadian technology company that provides loyalty eCommerce and tech solutions to some of the world's top brands to help increase their loyalty program revenues and member engagement. Points has a network of almost 60 global loyalty programs. The Company has three core business segments: Loyalty Currency Retailing, which retails loyalty points and miles directly to consumers; Points Travel, which generates loyalty program revenues from hotel and car bookings; and Platform Partners, which is a multi-channel service offering providing developers with transactional access to loyalty programs. The stock is down 18% since our last report, which may provide a good entry point into this profitable, growing Company.

Points posted solid financial results on May 3rd, with Q1/2017 revenues rising 13% Y/Y to top $83mm. The increase was driven primarily from organic growth from the Company's existing loyalty program partnerships in its Loyalty Currency Retailing segment. Gross profit grew 9% Y/Y to $11mm, driven by an increase in the high-margin Platform Partners segment, as well as increased fees and commissions from existing customers.

The Company reaffirmed their 2017 guidance, targeting a 10% increase in both gross profit and adjusted EBITDA.

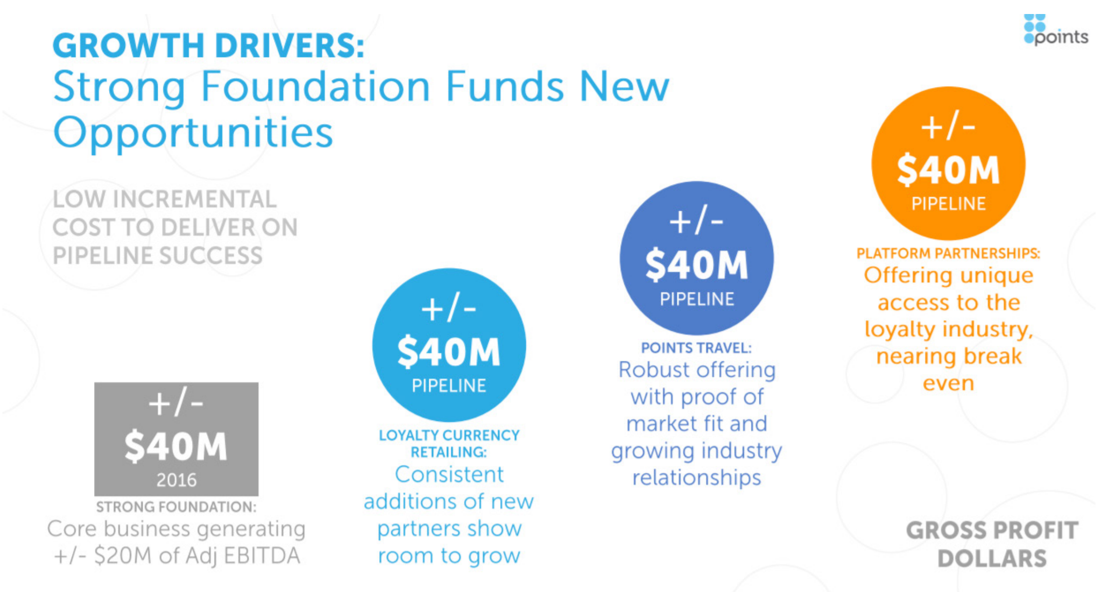
Figure 3: Points Guidance



Source: Corporate Filings

Points has a $120mm pipeline, which they intend to realize through the addition of new partnerships in all three business segments, and international expansion. The Company has already started to execute on the plan by landing WestJet as a client and expanding into Latin America, and the Middle East.

Figure 4: Points Growth Pipeline



Source: Company's Presentation

Points has a great balance sheet with a 1.2x current ratio, $42mm in cash, and no debt. Furthermore, they are an asset light company with an ROA of 29%. This suggests the Company will be able to generate substantial returns without taking on excessive leverage or diluting their earnings power. Overall, at 7.6x EV/EBITDA (LTM), the Company seems attractive relative to its peer average of 21x, given its strong balance sheet and growth pipeline..

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