



Ubika Tech 20

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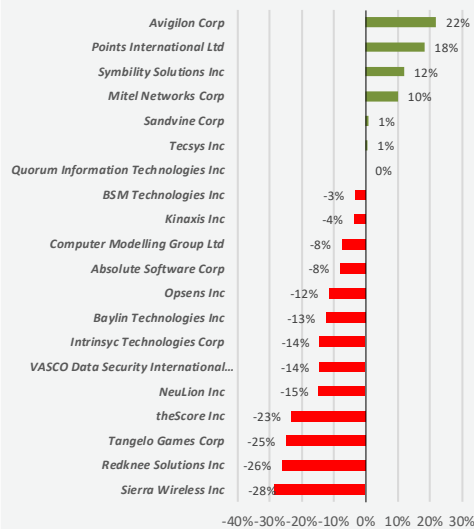
Ubika Tech 20

July 17, 2017 - September 18th, 2017

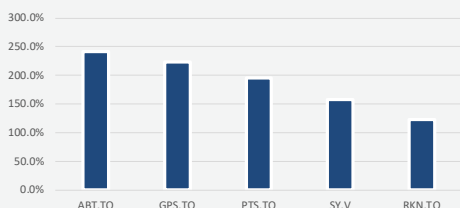
UT20: -11.8% (+29% Y/Y)
 TSX Venture: +2.3% (-2.9% Y/Y)
 TSX Info Tech: +1.1% (12.1% Y/Y)



Ubika Tech 20: Performance Distribution



Top Volume Gainers (m/m)



UT20 Index Weighed Down By ‘Tech Wrecks’

The Ubika Technology 20 Index (UT20) has slipped 11.8% since our last report dated July 17th, 2017, underperforming both the TSX-V Index and the TSX Information Technology Index, which have returned 2.3% and 1.1%, respectively, over the same period. Vasco Data Security (NASDAQ:VDSI) and Sierra Solutions (TSX:SW) have primarily dragged the UT20 Index down over recent weeks, with VDSI down 14.5% and SW down 28.5% since our last report date. In this report, we discuss some important industry highlights, as well as three companies that had an eventful summer. The companies covered are as follows:

- 1) Mitel Networks (TSX:MNW)** acquired ShoreTel Networks to become the second largest player in the Unified Communications as a Service (UCaaS) market.
- 2) Tecsys Inc’s (TSX:TCS)** volumes were up 60% M/M, re-sparking interest in the stock.
- 3) Vasco Data Security’s (NASDAQ:VDSI)** stock dipped, following the market’s response to lower than expected earnings.

Industry Highlights

- Apple Inc. (NASDAQ:AAPL) unveiled its latest iPhone X last week, with sales starting in November.** Apple was in the spotlight this past week, as it plans to test its consumers’ loyalty with a new and improved iPhone X that will cost US\$1000, and the iPhone 8, which will cost US\$700. This announcement comes weeks after Samsung unveiled the new Galaxy Note 8, priced at US\$930. Furthermore, the market seems a little dismayed with Apple’s decision to sell the iPhone X starting in November, as the stock dipped ~2% following the Company’s announcement.
- Members of the EU are pushing for tax reform on tech giants across the Union.** Companies such as Apple have famously been taking advantage of favourable tax jurisdictions, such as the one in Ireland, denying the EU governments billions of dollars in tax revenue. [Germany, Italy and France](#) have called for new legislation across the board to bring an end to any existing tax havens being utilized by tech giants. Any development on the legislation front for this proposal could be a major market mover.
- Major North American cities are lining up for a chance to become home to Amazon’s second Headquarters.** Amazon.com Inc. (NASDAQ:AMZN) announced plans to build a second headquarters and are currently in the process of selecting a city. The Company stated their new home may cost as much as \$5 billion, employing up to 50,000 people. Amazon issued a [request for proposal](#) to several North American cities and plans to announce its decision in 2018.

Upcoming Events

- Future Festival – Toronto, Canada, Sept. 27th, 2017. Innovators from all over the world come together at this highly-rated conference, to present their ideas.
- Deep Learning Summit – Montreal, Canada, Oct. 10th, 2017. At this conference, pioneers in the industry come together to explore deep learning software and any applications that could transform and optimize business efficiency.
- CIX – Toronto Canada, Oct. 17th-18th, 2017. Investors and innovative companies converge at this leading technology conference to learn, network, and do deals.

Notable Performers

Mitel Networks (TSE:MNW)

As a big player in the UCaaS market, Mitel provides business communications and collaboration software, services and solutions. The Company's main business segments are comprised of cloud and enterprise services. As an industry leader, Mitel serves 60 million end users across 100+ countries. Mitel's stock price increased 10% since our last report, following the positive response to an improved performance Q/Q, and the acquisition of a competitor, ShoreTel Networks.

Mitel acquired ShoreTel Networks for \$530mm in cash, becoming the second-largest player in the worldwide UCaaS market. As a result of the acquisition, Mitel expects to realize \$60mm in synergies over a two-year period.

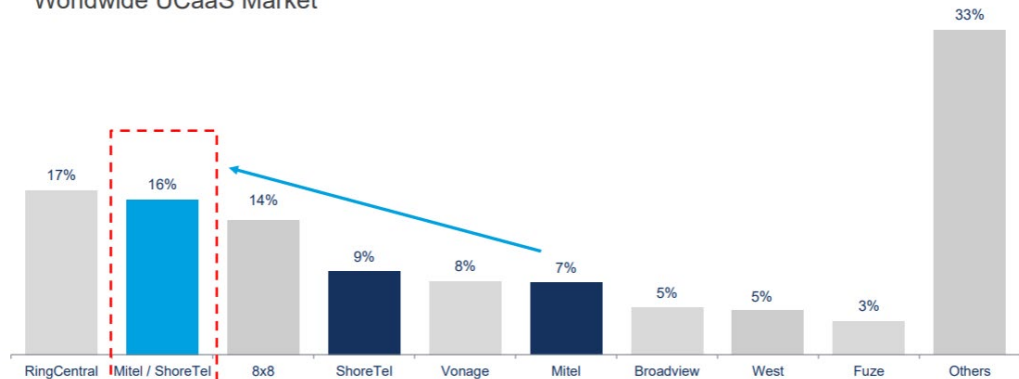
Mitel's management believes there is an increasing trend amongst customers to switch onto hosted cloud solutions and services, as evidenced by a record number of cloud bookings recorded during Q2/17. Mitel's CEO, Rich McBee, stated that the acquisition of ShoreTel would enable MNW to add new technologies and significant cloud growth to its business. He also stated that the combined Company would be able to take customers to the cloud faster. It seems that this acquisition could potentially put Mitel in a strong position to leverage the demand for cloud solutions.

Although Mitel posted a net loss of US\$100K for the quarter ended June 30th, 2017, the Company performed significantly better as compared to the previous quarter, during which it posted a net loss of US\$27mm. Furthermore, Q/Q revenues were up 7% to US\$239mm from US\$223mm in Q1/17.

Five analysts cover the Company with an average price target of \$11.30, with 1 Strong Buy, 2 Buy and 2 Hold recommendations.

Leading Position in Cloud with Large Installed Base

Worldwide UCaaS Market



Source: Synergy Research, Q1 2017.

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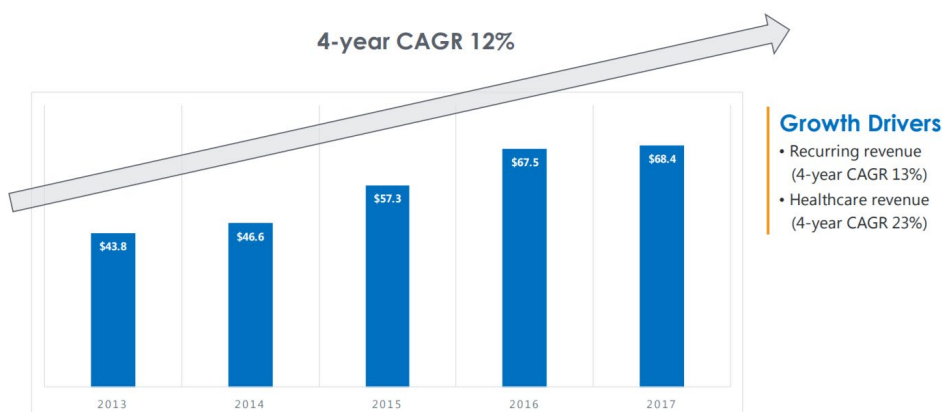
 Mitel
Powering connections

Tecsys (TSX:TCS)

Tecsys provides an array of enterprise-wide Supply Chain Management (SCM) solutions to clients in various industry sectors, ranging from service parts to general high-volume wholesale. However, the Company’s main focus lies within the healthcare market. Tecsys plans to capture further market share in the healthcare industry by leveraging its unique SCM platform, which was designed specifically for the healthcare sector. With a market cap of \$178mm, TCS has grown to become one of the largest players in the healthcare logistics space.

Steady Revenue Growth

In \$CAD Millions



Source: Comany Filings

The Company’s stock price remains roughly unchanged since our last report, as it outperformed the UT20 Index by 11%, but remained on par with the TSX Information Technology Index. Furthermore, the Company’s stock volumes are up 60% M/M following the release of its quarterly results.

Key Metrics			
	Q1/2018	Q1/2017	Change y/y
Reveunes	\$ 16,500,000	\$ 16,000,000	2%
EPS	\$ 0.01	\$ 0.01	-
Contract Bookings*	\$ 9,900,000	\$ 6,000,000	65%

*Contract Bookings: Total Value of accepted contacts that are yet to be delivered upon.

Although the Company’s revenues have not shown significant growth, the Contract Bookings are a strong indicator of the upcoming quarter’s performance. CEO Peter Brereton explained, “The first quarter of our fiscal year covers the summer months and is typically our slowest quarter.” He also stated, “This year however, we experienced increased sales activity in the quarter resulting in a record level of contract bookings for the first quarter. Included in the new

bookings is a contract from a provincial liquor board, the fourth one to choose Tecsys for its SCM needs.”

Analysts estimate an average price target of \$17.40 for TCS, which provides an upside of 25.7%. Furthermore, the stock has four Buy recommendations with no Hold and no Sell recommendations. Currently, Tecsys trades at an EV/EBITDA ratio of 18.7x, as opposed to its peer average of 10.5x.

Vasco Data Security International Inc. (NASDAQ:VDSI)

Based in Illinois, Vasco Data Security aims to provide secure, customer-oriented software to clients in a wide variety of industries. Vasco focuses on the development of software solutions that support transactions online and via mobile phones. Vasco’s stock price has dipped 14.5%, following the response to its lacklustre quarterly earnings.

Vasco’s flagship product, “E-SignLive” allows for documents to be signed and sent online. The Company’s e-signature platform ranks as one of the top 3 products in the market. According to Forrester Research, e-signature transactions are increasing at a rate of ~50% per year, and this should be a key area of growth for the company.

Key business drivers for e-signatures



Source: Company Filings

For the period ended June 30, 2017, Vasco Data Security posted revenues of \$46mm, down 16% Y/Y, and operating costs decreased 2% over the period to \$32mm. As a result, the Company’s net income for the quarter was down 96% Y/Y. Additionally, Vasco has reported net income of \$680K for the last six months ended June 30, 2017, down 86% from \$5mm for the corresponding period last year. This continues to illustrate a downward trend in net income over the past year.

Key Metrics			
	Q1/2018	Q1/2017	Change y/y
Revenues	\$ 16,500,000	\$ 16,000,000	2%
EPS	\$ 0.01	\$ 0.01	-
Contract Bookings*	\$ 9,900,000	\$ 6,000,000	65%

For the quarter ended June 30th, 2017, Vasco Data Security recorded a 70% gross margin as compared to an industry median of 77%. Furthermore, the Company had net margins of 0.2%, significantly lower than the 2.3% industry median. On a positive note, Vasco has virtually no debt, and it has a strong cash balance of US\$156mm. Overall, with an EV/EBITDA for the last fiscal year of 17.0x, Vasco is valued relatively lower than its peers, which trade at an average of 36.5x.

Upcoming Catalysts:

Leaders in the EU are already discussing revamping the current tax structure, potentially bringing an end to the tax havens, which tech giants such as Apple operate in. Additionally, the Trump administration has announced plans to release a framework for the [overhaul of U.S. taxation](#) on September 25th, 2017. Recent reports suggest Congressional tax writers hope to spur economic growth by allowing companies to [fully expense investments](#) in new equipment, creating an opportunity to reduce tax bills. Investors should mark their calendars, as the framework may provide further clarity who the winners and losers are with regards to the upcoming reform.

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