THE SMALL COMPANY

SHARE WATCH

January 2022

MARKET COMMENT

Last week the US central bank released minutes revealing that interest rates might have to go up sooner than expected. This rattled markets. Technology stocks fell sharply, and Scottish Mortgage, a UK-based investment trust with a US and tech emphasis, reflected this by falling nearly 4% the day after the announcement (6th January).

What was equally interesting was what didn't fall on that day. UK banks were up between 1-4%. In microcosm this shines a light on the opportunity in Value stocks (like banks) and smaller companies, at a time when the tech superstars of the last decade will come under increasing pressure, assuming that the Federal Reserve has the stomach to raise rates more than notionally.

The problem is that the US-centred problem will hold back the potential elsewhere. Last time we stressed that the UK "is a 'David' opportunity when compared to the 'Goliath' risks derived from a massively vulnerable US stock market, and a mountain of poor-quality global debt." To try and create some context we turned to charts of the US and UK smaller companies, the Russell 2000 index versus FTSE SmallCap ex ITs. Both indices had great runs from the pandemic-induced low in March 2020. Both went up more than 100% to their recent peaks, with the UK having the edge, up 130%, which was also more than twice the FTSE-100.

Using Elliott Wave analysis, the move by US smaller companies since March 2020 looks complete back in November – the classic three waves up, interlaced by 2 waves down. In contrast, the move up in UK small caps looks incomplete. If so there is the final wave upwards just ahead in the UK.

That analysis is good news for readers. The less good news is that this final move could be a rapid upward surge, after which these US and UK indices may fall in unison. It is important to be realistic about this possibility. Have a clear plan as to how you will respond. Do you already have some fat profits on paper? Then have a stop-loss. In the meantime, take the opportunity to tidy up your portfolio. Think about selling losers and those you have held for overly long but which have gone nowhere. Sell smaller holdings, those less than 5% of your portfolio. They are too small to change your life and if you really believe in them, build a bigger holding. That refresh of your portfolio also creates opportunities for new ideas, on which note, do have a look at our recommendations for 2022.

PHOTO-ME (PHTM)

Sector :	Leisure Goods	
Latest Price :	67p	
High/Low :	79.5p - 41p	
Market Cap. :	£253.3m	
Shares in issue:	378m	
end10/2020 EPS/PER	(0.2p)	-
end10/2021 EPS/PER est	6.2p	10.8
end10/2022 EPS/PER est	8.0p	8.4
Telephone	01372 453399	
Registrars	08716 640300	
CALENDAR		
Int/Fins/AGM	JUL/MAR/APR	

Octogenarian chief executive Serge Crasnianski took a shine to Photo-Me's shares during the pandemic by lifting his stake by 20m to 105.6m shares (28% of the equity). Regular readers will know that following his lead in the past has worked very well, most notably on *SCSW,* where we multi-bagged on the shares back in 2002; we featured the shares at prices as low as 10p before they peaked at 190p.

Photo-Me is best known for its estate of high street photobooths, which help consumers get Government approved photo ID for their travel documents, but in recent years Crasnianski has moved the business into newer areas of vending equipment. The first was digital printing kiosks (allowing shoppers to print their own photos from their phone or a SIM card). More recently a third pillar has emerged with an estate of self-serve laundry machines located in supermarket car parks but speaking to finance director Stephane Gibon last month, the latest pillar initiative is food vending. Photo-Me has already started roll out of machines to dispense freshly squeezed fruit juice and pizza 24x7.

Five upgrades since last April

I think that a potent combination of new technology development, the outsourcing of manufacture to reduce build costs, reduced staff costs, control of the revenue share paid to site owners, as well as food service equipment being leased to site owners as opposed to operated by itself could all contribute once again to margins rising sharply.

In the year to April 2018 (the year the shares peaked), EBITDA was £71.3m with EBITDA margins of 31%. Comparisons are slightly compli-

In this issue

--

• Next issue on Saturday 12 February

cated as there has been a change in the year end but brokers' forecasts have started to play catchup with five upgrades since the middle of last year.

In the light of the latest trading update in December, Canaccord upgraded its forecast by 6% for the year already ended October 2021 to EBITDA of £63.5m and pretax profit of £29m (eps 6.2p). For this year, their forecast is £74m EBITDA and pretax profit of £38m (eps 8p). Ebitda margins look well set to push back to record highs. Cash flow too has been spectacular, with net cash at October £33.8m, up from £16.9m last April.

The forecasts are powerfully supported by better trading in every segment. The photobooth side is recovering from the past two years when travel was restricted. On the laundry side, consumers are more worried about hygiene, which has led to an uptick in laundry machine usage. Meanwhile, rollout of the food side was curtailed when restaurants were shut during Covid related turbulence but will accelerate as normal business resumes.

In-house design function

Photo-Me has been listed since 1962. The original idea for coin operated photobooths came from a US company but Photo-Me became the dominant operator in the UK (with machines manufactured by itself).

The key deal that lifted Photo-Me into the top level in professional photo developing equipment was the merger with French company, KIS, back in 1994. KIS' founder (and also its inventor), Serge Crasnianski, became chief executive in 1998 and apart from a brief sabbatical in 2008-9, he's been running the business ever since.

His KIS business initially brought into the fold an inhouse product design and manufacturing operation. A major restructuring subsequently saw all manufacturing transferred to an outsourced facility in Hungary leaving a product design kernel, which has helped shift the business outside the ID market.

Simple formula

Since the early days, Photo-Me has had a very simple formula. It would invest in its own photobooths and then reach an agreement with site owners (retailers, railways, airports and so on), who would be paid a commission based on sales (average commission rate c.20%). Photo-Me uses a network of 650 home-based personnel to collect the cash and maintain the consumables, things like the ink and the photographic paper.

These days, however, photobooths are considerably more sophisticated with internet connectivity and telemetry built into the units to ensure high uptimes, lower running costs and new features. About 60% of the estate of photobooths are its *Philip Starck* generation (incorporating touchscreen, webcam and virtual reality options). Some of the more sophisticated booths go a step further and can have as many as eight cameras that can also collect biometric information (eg, the shape of your head, distance of your pupils and so on) and even allow a digitized e-photo and signature to be automatically uploaded direct to the government departments from the booth via a secure server.

Major restructuring during pandemic

When the pandemic hit two years ago, the photobooth side suffered quite badly. The estate, which is typically situated in high-footfall locations such as transport hubs and shopping centres, was impacted by reduced footfall and with international travel restrictions in place, when a passport expired I suspect many people didn't immediately get round to renewing or applying for the new post Brexit passports.

Even before the pandemic the UK had been struggling and this had triggered management to come across from France to instigate change. When the pandemic then hit, they knew exactly what needed to be done. Photo-Me launched a restructuring programme to remove or relocate 3,800 unprofitable machines across the UK and it also took the opportunity to remove another 1,200 in China, South Korea and Continental Europe. As a result, Photo-Me booked £23.7m of exceptionals, provisions and impairments (including a £19.3m impairment of goodwill and write-down of non-profitable machines).

In its slimmed down form Photo-Me has approx 28,000 photobooths worldwide, roughly split between three big territories; Europe 13,000, UK /Ireland 4,500 and Asia (particularly Japan, China and Korea) 10,800.

Some subscribers will be wondering exactly why things have suddenly changed for the better. There are two reasons. First, excluding Asia, there has been good progress in returning to pre-pandemic performance levels in the last months of 2021. The restructured UK business in particular is benefiting from a lower cost base and the elimination of unprofitable sites and has bounced back strongly.

Second, the largest territory within Asia is Japan, where last year the government incentivised the public to take up recently introduced ID cards, which required them to have a new photo. With a population aged 18+ of some 87 million and a requirement to have the card in order to receive state benefits including Covid-related payments, take-up of the ID card took off in Q3 and high demand continued in Q4. It would have been even higher but for some Covid restrictions introduced in Asia.

A third less important factor is that although photobooth numbers are expected to be fairly static (capex is mostly maintenance), Photo-Me is entering new markets such as Italy and Finland and has also made a small acquisition in Australia.

Editorial shareholdings of companies covered in this issue: XLM, Joules, Superdry, Volex, Menzies, Supreme, Bloomsbury, ADF, SDI, Reach

Diversification outside the ID market

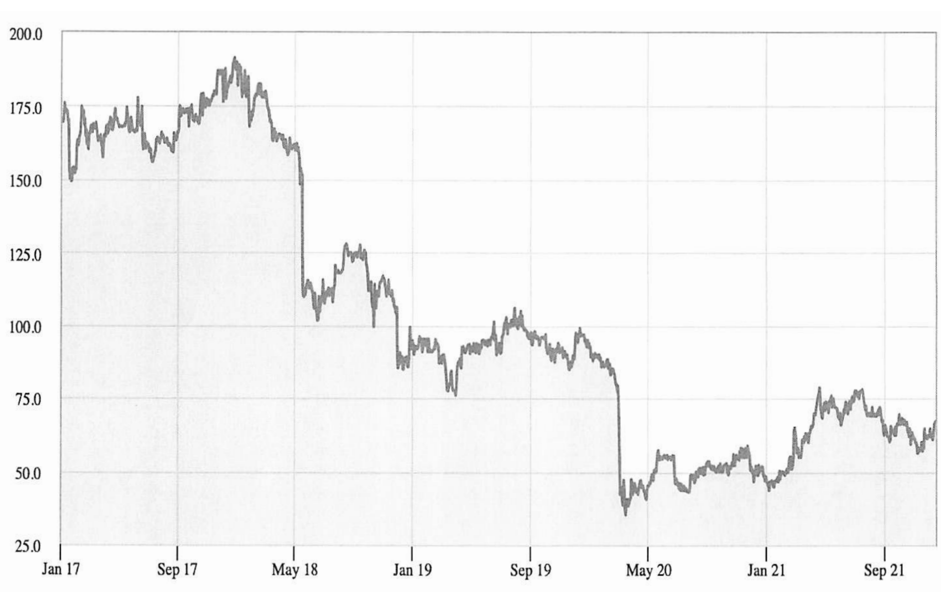
Alongside photobooths, Photo-Me's Kiosk side continues to operate over 7,500 kiddie rides worldwide and 4,700 digital printing kiosks, primarily in France and Switzerland. But, if anything, it is the investment in diversification outside the ID market that is a strategic priority and within this the laundry machines represent the biggest element of roll-out.

It was back in 2013 that Photo-Me first unveiled the *Revolution* laundry machine for washing and drying large laundry items. With £8m invested in the estate, last year there were c3,700 machines (8.4% of the overall vending estate) in the field with the biggest density in France, Belgium, UK and Germany, most of which are located in supermarket car parks. Customers turn up to use these machines mainly because their domestic machine is simply too small to wash a duvet and with a short 30 minute spin cycle, they can have these items washed whilst out shopping.

Like photobooths, manufacturing is not in-house but has been transferred to an outsourced supplier, which has sent build costs down. Gibon notes that the typical annual sales per machine are €18,000 and because Photo-Me can leverage the same photobooth field personnel to collect the cash and fill machines with soap, there isn't really much incremental cost attached. This, plus a relatively low sales commission to site owners, gives it eyewatering 70% ebitda margins and a payback of 1.5 years. This is real gravy. The latest first half saw 55 machines being added a month but the plan is to resume to 70 per month as lockdown restrictions ease.

Self service food equipment

What is also set to push up margins is the move into self-service food equipment from a low base at retail



sites.

To spearhead the move, in 2019 Photo-Me acquired Sempa and outlined a plan to dominate the US$154bn fresh fruit and vegetable juice market. As I am learning, whole fruit gets loaded and the equipment dispenses freshly squeezed juice.

Photo-Me didn't want to go around filling machines with oranges, apples and pineapples; instead, it operates a lease model, whereby it sells equipment (€2,500) to customers via lease finance agreements and leaves it up to them to replenish machines with fruit.

Under its agreements, Sempa receives full payment upon sale of the equipment and the lease finance contracts are then subject to renewal every 13 months on average, when it receives the same income once again. It finds that 70% of customers renew beyond the original term. Machines that get returned are simply refurbished and then sold to a different customer.

Since entering the fruit market, Photo-Me has made a second acquisition of Resto'clock pizza machines, which dispense fresh pizza 24x7. It deploys these under contract purchase leases.

Last year had seen the food division impacted by the widespread closure of restaurants and hotels due to the pandemic. Roll out stopped when the pandemic struck and there are currently 2,700 food service machines in the field, virtually all of which are juice. But things are beginning to improve and the plan is to be back to selling c.100 food machines per month by the end of 2023, says Gibon, adding that selling fruit juice or pizza machines via a lease generates higher EBITDA margin than that which would come from operating machines itself. *An exciting time to return to the Photo-Me story; buy.*

2022 NAP SELECTIONS

When it comes to the task of compiling the New Year mini-portfolio (NAPS) each January, it's never easy as constituents have to be held for precisely 12 months and I have to work out what kind of market we might end the year with. As the table shows, in 2021, I chose well with three shares doubling and the portfolio showing a gain to high of 78.2% in the early part of the year. But as we went into the final three months of 2021, worries over new variants generated uncertainty and the stellar performers saw their mojo plateau. Superdry, Volex, Tremor and Reach each lost almost £2 of gains from their highs, paring overall gains for the NAPS to 13%.

It became impossible to make sensible decisions whilst under a spectre of potential overreaction from governments but as we start 2022, investors are coming around to the idea that the Omicron variant is a less lethal strain than originally thought. Investors just have to accept that we are in a world of volatility but we will muddle through.

As JP Morgan notes, investors should buy the dip seen in the past few months because if the new variant crowds out more deadly variants, it could accelerate the end of the pandemic and turn COVID-19 into something similar to the seasonal flu. "That development would fit with historical patterns of previous respiratory virus pandemics, especially given the broad availability of vaccines and new therapeutics that are expected to work on all known variants." I agree with this and am expecting it to be a catalyst for rotation to growth and a rally in reopening themes: travel and retail, therefore, feature in this year's NAPS. As always, I've included some *SCSW* favourites from GP3, which many subscribers will already hold; when you find companies benefiting from tailwinds that are changing the world, don't just swipe right, get married. Several of the 10 NAPS can be bought on a single digit PE of less than 8!

2021 NAPS: Gain 13%

Company	Recd Price p	Current Price p	Change (%)	High Price p	Change (%)
Volex	308	318.5	+3.4	495	+60.7
Reach	143.5	269	+87.5	430	+199.7
Heiq	181	88.5	-51.1	250	+38.1
Tremor	392	524	+33.7	870	+121.9
D4T4	295	333	+12.9	410	+39.0
K3C	256	338	+32.0	395	+54.3
Victoria	655	1195	+82.4	1220	+86.3
Superdry	246.5	267.5	+8.5	493	+100.0
Esken	26	13.5	-48.1	38	+46.2
N Brown	60.2	41.2	-31.6	81.5	+35.4
Average Gain			**+13.0**		**+78.2**

• A recovery in high volume short haul flights will light the blue touch paper for **John Menzies** (MNZS; 317p), which provides essential airport services and operates in 198 airports across 34 countries. Its services include ground handling (everything from operating executive passenger lounges, checking in passengers, providing assistance with tickets, handling passengers at the gate in the terminal area and loading luggage), as well as air cargo services and into-plane fuelling. A holiday stampede is underway whilst Menzies has cut costs and ditched low margin work to re-focus on higher margin areas, so recovery is stronger than expected. Last year saw a record £73m net sales win in annualised revenue and Q4 volumes to date are significantly up. Shore Capital forecasts eps of 38.8p, dropping the PE to 7.8.

• DMGT, owner of Daily Mail, has just been taken private. DailyMail churns out 1,700 stories each day and much of it is tawdry celebrity fare and other weird news because most of the time nothing earth shattering occurs. But we keep scrolling down and it keeps ringing in the advertising pounds. **Reach** (RCH; 269p) now takes the mantle as the biggest listed newspaper group with nine national titles and dozens of local papers. Although print circulations have been in decline, many commentators forget that Reach dominates the online UK news landscape: 17 of its digital brands are in the Top 50 UK news sites and new management were appointed three years ago. It is still in the foothills of monetising this market audience. Digital has grown 39% on a two year basis but looks set to accelerate as Reach recently added 400 digital editorial roles to crank out content and feed growth. Management's priority is to grow the registered users (run rate implies 12m by end 2022) and set up high margin personalised advertising packages for advertisers. M&A could be a key opportunity as US group Gannet looks to sell News International. Again, dirt cheap: forecast eps of c36.3p is a PE of 7.4.

• **Photo-Me** (PHTM; 67p) is an old friend to SCSW and sits nicely in reopening themes as not only does it provide photos for passports and ID cards but it is also rolling out a food vending side. PE of 11 dropping to 8 and a mountain of cash. Meeting notes on page 1.

• Founded in 1986 by Nigel Newton **Bloomsbury's** (BMY; 350p) big break came 24 years ago when it started its Childrens division and signed up JK Rowling to a seven book contract for boy wizard Harry Potter. In recent years Newton has used the profits to build up its Non-Consumer (academic and professional) arm where it has a presence in the humanities, social sciences, special interests and visual arts. New technology also provides many new paths to market and Bloomsbury Digital Resources (BDR) is actively engaged in digital distribution. The past 18 months have been acquisition heavy: last month Bloomsbury bought ABC-CLIO, an academic publisher, for £17.3m cash. This publishes reference, nonfiction, online curriculum and professional development materials for schools and academic libraries and bolsters Bloomsbury's footprint in the US and gives it more content (23k titles, 32 databases) to feed into BDR. The latest H1 whacked the ball out of the park with pretax profit up 225% to £12.9m and eps of 12.8p. Both divisions had outstanding periods. The £19.3m/18.2p forecast for the full year implies only c. £6-7m profit in H2 vs a 'usual' year pretty much double this. ABC-CLIO adds even greater scope for a beat. I am due to meet Newton this month and will write more next time.

• I am bringing one in from out of left field. Bridgend-based **Facilities by ADF** (ADF; 56p) has just joined the market following a placing at 50p to raise £18.4m. It provides production and support vehicles to the television and film industries. The firm hires out drivers and rents out its all-DAF truck fleet, which includes a mix of box trucks, tractor units, costume and makeup caravans, generator carriers, toilets and others. It obviously got mashed during the pandemic and had to resort to £2m of CBILS. But recently utilisation has sky rocketed: it is less about luvvies demanding their own dressing rooms due to the pandemic but a return to TV programming and supporting Netflix TV shows such "The Crown" and "Peaky Blinders." Other clients include the BBC and Disney. Looks like a single figure PE and growing like topsy. More in a future issue.

• **Lookers** (LOOK; 72p) See April '21 issue for main write up. A refreshed strategic and capital allocation framework will be presented on 13 April by the car retailer, which operates 140 franchises for 30 car makers. When I wrote about it, it was forecast to deliver eps of 5.3p in FY21 but now expects to report 17.4p driven by used vehicle margins and strong cost control. The forecast eps of 10p for this year gives a PE of 7.2.

• **Superdry** (SDRY; 267.5p) peak earnings were 90p+ and there has been no equity dilution during the pandemic. Its finance director expects sales to recover to previous highs by 2023 - but as savings from rent reductions are permanent, he says profits are going to climb up faster. It was a main buy in August 2020 and the shares are well off the 492p high last May.

Like much of retail, this one has been in the doghouse since COVID-19 shuttered stores but the direction of travel under CEO Julian Dunkerton has improved. There is some serious range transformation and improved segmentation/style choices. The positive vibe from a Who's Who of social media influencers is hard to ignore: 1,500 influencer partners vs c.270 last year and none the year before and its brand perception among younger demographics is on the rise. Ecommerce has seen major reacceleration helped by Omicron. A full-price performance in the Summer translated into a stronger overall performance going into the peak Autumn months and Superdry's stock availability was strong going into the peak period.

• **Volex** (VLX; 318.5p) In January, the eps forecast was upgraded to 25.9 cents for this year with 28.9 cents for the year starting 1 April. I include it for its Electric Vehicles (EV) exposure where it supplies grid chargers to Tesla, Ford and GM as well as components for charging stations. It looks an attractive area given the political environment, rising gas prices and expansion of charging stations. It is reassuring to note that despite an EV needing 2,000 semiconductor chips (vs 4 in a phone), Tesla's Q4 deliveries were 308.6k vehicles taking FY deliveries to 936k, +87% year-on-year. This year Tesla should top 1.5m. Volex's other divisions are also well set to grow including medical (as hospital procedures resume), data centre cabling and defence and it has become the go-to business for integrated electronics. More M&A is expected.

• **Joules** (JOUL; 133p) I am including a second retailer. Having hit 300p in FY21, the shares are back where they were a year ago - and so too are forecasts, which have been pushed back a year. Established in 1989, the company's mainstay is its own range of "funked up" bright, sporty, weekend clothes and like Superdry, it benefits from more people staying in and wearing casual wear throughout the day. It has a high proportion of 25-44 year old customers and those in the A/B socio-economic demographic. Last year it paid £12m for Garden Trading Company adding its own ranges of garden and outdoor products. Based on an eps forecast of 11.7p for the year starting 1 April, the PE drops to 12. See update.

• **XLMedia** (XLM; 40.5p) As US states legalise sports betting on a state by state basis including New York (starting 8 January), online casino operators like Draftkings and Betfair are following the Amazon playbook - relentlessly splash the marketing dollars, keep losing a tonne of money until scale reaches a monumental level and then profits cascade in. They know being first mover is key: this is playing into the hands of XLM, which provides marketing services to these online gaming companies. Content is king when it comes to sports betting and having made three US acquisitions to build content inventory, XLM is using it to drive the traffic to customer sites and generate income. The sports calendar in the US is strong despite Covid disruptions in both the NFL and the NBA. Berenberg forecasts eps up from 1.7 cents to 6 cents this year for a PE of 8 ish. Cluster buying by directors.

UPDATES

Joules (JOUL) 133p

Sector: Retailers

The shares came off after Joules reduced full year guidance, with a hit from labour shortages and capacity constraints. For the year ending May, the new guidance is £9m-£12m pretax profit.

Shopping habits were almost back to 2019 levels in the first half with revenue up by 35% (+24% excluding Garden Trading) to £128m, supported by growth in active customers of 0.2m to 1.9m. Within that, E-commerce grew 14% to £63m helped by the acquisition of Garden Trading, and Store revenue grew 80% to £35m - which is just 3% behind the comparable pre-pandemic period two years ago - and was helped by five new recently opened Center Parcs locations. Wholesale also increased 16% to £25m despite timing delays on shipments and management anticipates a strong H2 as these land, with a strong orderbook for Spring/Summer 22.

It ought to have been its best Christmas but for the supply chain issues hitting H2, with a particular impact over Black Friday. For the current year to end May, Liberum has cut its pretax profit forecast to £10m and to £15.4m next year, for eps of 8.7p and 11.7p, respectively. Essentially the forecasts are moving a year out. *Buy.*

Supreme (SUP) 234p

Sector: Personal Care, Drug & Grocery Stores

A string of new share price highs followed an H1 update. No inflationary headwinds were evident and in fact Supreme saw gross profit margin actually rise from 25% to 30%. This is, of course, partly down to the greater proportion of products manufactured in house (61% from 56%) but chief executive Sandy Chadha says it is also down to being able to pull levers with suppliers.

Overall H1 sales were +11% to £61.1m, pretax profit +25% to £8.5m and eps +13% to 5.2p. A maiden 2.2p dividend was paid.

In terms of owned products, the Vaping category grew revenues organically by 13% to £21.7m, driven by new supply agreements into Sainsbury's and McColl's and the expansion of the contract with HM Prison Service into Scotland. As I had intimated in my March update, the government has confirmed it is to make vaping a prescribed product having recognised e-cigarettes as a healthier alternative to smoking. Chadha has submitted his products into the MHRA approvals process (eg. ensuring no metal is ingested and also consistency and potency) and he says supply is likely to be two years away.

Sports Nutrition and Wellness also grew sales by 192% to £6.4m. While some of that was driven by M&A (a full six months of *Battle Bites* and three months of *SCI-MX*), organic growth was c.80% boosted by the newly launched vitamin brands "*Millions& Millions*" and "*Sealions*."

H2 has started with a bang and Supreme looks set to exceed eps expectations of 13.2p for the year to end March. Next year's forecast is eps of 15.3p. *Buy.*

Hargreaves Services (HSP) 412.5p

Sector: AIM, Industrials

Hargreaves has said the German joint venture, HRMS, has continued to be a standout performer. It benefited from forward trading positions in H1 characterised by strong commodity prices, which prevailed throughout most of the year. Of course these may not endure and things should become clearer by 26 January when it reports. Meanwhile, Singer has kept its eps forecast unchanged at 43.9p for the current year to end May, with 39.3p next year. *Buy.*

Gear4music (G4M) 680p

Sector: AIM, Leisure Goods

Gear4Music has completed the acquisition of AV Online and an associated domain name, AV.com, for £9.2m. Founded in 2013, AV Online is a retailer of audio-visual equipment, such as home cinema systems, a market that is adjacent to G4M's core market. AV Online had sales of £8.6m in 2020 and the deal equates to an exit multiple of 7.1x operating profit. Chief executive Andrew Wass believes that AV Online will greatly benefit from being transferred onto the existing European e-commerce platform.

Separately the company has reported H1 results with sales down 8% to £64.7m and gross margin shading by 60bps to 28%. This delivered EBITDA of £4.8m in H1, equivalent to a 6.2% EBITDA margin.

UK trading was generally OK but Europe was slower than hoped, with low conversion rates restricting growth but Wass has begun scaling up its new EU distribution hubs, which is expected to see EU growth re-accelerating in Q4. Brokers have downgraded eps by 37% and 25% to 18.6p and 29.8p for this year and next, respectively. When AV completes, it is likely to be eps neutral this year but provide a c5-10% upgrade on the FY23 forecast.

A main profile at 245p in Jan' 20, I suggested locking in at least half of the massive profits at 800p in Feb'21 as it saw soaring interest in musical instruments during the lockdown. This one has been accident prone in the past so I would be inclined to lock in some profit if not already done so, to leave a free carry.

SDI Group (SDI) 210p

Sector: AIM, Healthcare

SDI reported a strong H1. Revenues were up 75% to £24.7m with the uplift split between organic (£5.9m) and acquisitions (£4.6m). Pretax profit rose 89% to £5.1m for eps up 59% to 3.9p.

The swing factor was the higher margin Digital Imaging (DI) cluster and within it, Atik proved the star. Overall DI grew sales £4.4m to £11.4m and Atik doubled its sales to £7.9m, benefiting from peak shipments under a Covid-related contract with a Chinese OEM, whilst other businesses (Synoptics and Graticules) grew c.11% to £3.5m. With the incremental gross profit from Atik falling through to the bottom line, divisional profits doubled to £4.3m.

The Sensors and Control cluster grew sales £6.1m to £13.3m with acquisitions contributing c.£4.6m. The reporting period benefited from a full six-months of Monmouth Scientific and Uniform Engineering whilst most of the other businesses (Sentek, Astles Control Systems, Applied Thermal Control and Chell Instrument) rebounded from the pandemic lows of last year. Operating profit increased 60% to £2.5m.

Atik has obviously boosted this year's performance and the Asian OEM contract has been fully delivered, so clearly SDI needs to make an acquisition to fill a £2m operating profit ‘gap’ next year - which is why it increased its loan facility in November from £5m to £20m. Net cash is £1m.

For the full year, Finncap forecasts £9.2m pretax profit and eps of 6.6p. *Written about at 21p in March ‘17, the gain is 900%. Some profit should have been taken. Hold the rest.*

D4T4 Solutions (D4T4) 333p

Sector: AIM, Software & Computer Services

D4T4 has reported its H1 with sales +49% to £7.6m, driven by large one-off term licences rather than ARR-based (recurring) ones. Consequently, ARR came in at £10.4m (FY21: £10.6m) but overall the higher gross margin on the licence sales helped D4T4 increase profits to £0.1m vs a £0.6m loss. Net cash climbed to £16.1m.

The H1 result leaves £16.7m H2 sales to achieve forecasts, which might seem a big ask but new chief executive Bill Bruno tells me there is good visibility. Costs are also set to increase by £2m to support the growth of the recently launched Fraud Data Platform (FDP). This uses all kinds of behaviour analytics (eg. how you tilt your phone, how fast you type your details, whether you’re logged in or not) to provide customers with fraud scores even before they place an order. A new reseller partner (Quantexa) has been appointed for FDP and the first contract has just been announced. FDP sales will be ARR-based and Bruno’s mid term plan is to take ARR to 65% of sales (vs 46% presently), which investors would value highly. Canaccord forecasts eps of 6.6p this year to end March lifting to 9.8p next year. *Hold*.

Solid State (SOLI) 1315p

Sector: AIM, Electrical Equipment

The acquisitions of Willow and Active Silicon at the end of last year have provided a much needed shot in the arm. Results for H1 saw sales up 20% to £39.4m (8% organic). Adjusted pretax profit and eps were both up 28% at £3.27m and 32.7p, respectively. The order book stood at £61.5m.

Helped by the Active Silicon acquisition and the fact that SOLI had judiciously increased its inventory holdings last year, the Systems Division (formerly Manufacturing) delivered sales growth of 13% to £15.2m. The Power business unit saw lower revenues versus a record first half in the prior year. However, the Computing Systems and Communications units more than made up the shortfall.

The Components Division (previously VAS) also grew sales 24% to £24.1m. Willow has traded above management expectations, where its electromechanical products have been less significantly impacted by the semiconductor shortages.

Internal actions and FX drove a 280bps improvement in the gross margin, which alongside good cost control and the natural FX hedge resulted in an 80bps improvement in the operating margin to 8.6%. Finncap forecasts eps of 60p for this year and next but with the wind in its sales, I suspect acquisitions will emerge. *Strong hold*.

Calnex (CLX) 115p

Sector: AIM, Telecommunications Equipment

Calnex has reported a 20% jump in H1 revenue to £9.3m. Pretax profit increased 18% to £2.3m for eps of 2p. Demand for its high-end test instrumentation continued to be strong with the transition to 5G driving demand from both 4G and 5G mobile network operators and data centres. H1 saw it introduce its latest version of its Paragon-Neo platform (speeds up to 100G) for carriers deploying open standards for radio access networking (Open-RAN) technology, a mix and match approach where they use equipment from different suppliers but that requires considerable testing to ensure it all works together. The latest 5G enabled version of the Sentinel product also experienced strong uptake from datacentre customers.

The US (35% of sales) and RoW (41%) saw growth whilst China (24%) remains impacted due to ongoing geopolitical tensions with the US. During the period Calnex added 19 employees (total 113), including salesmen in the US and India. The full year pretax profit forecast is £5.6m/eps 5p but Calnex needs to deploy the £13.6m cash to get proper jump off next year. *Hold*.

Renew Holdings (RNWH) 820p

Sector: AIM, Support Services

Renew's FY21 results demonstrate the benefit of current and prior year M&A. Revenues increased by 28% from £620m to £791m, helped by a full year’s contribution from Carnell and the in-year acquisitions of J Browne and REL. Pretax profit was up 31% to £50.8m and eps were up 23% to 50.1p. Net debt was £13.3m despite £33m spent on the acquisitions.

Within Engineering Services, which accounts for over 95% of the group’s adjusted operating profit, sales were up 22% to £706.7m with operating profit up 26% to £51.5m, resulting in an operating margin of 7.3% (2020: 7.1%) and the divisional order book has increased from £665m (March) to £679m. The Rail and Highways divisions were the swing factor behind the 12% organic growth. Renew holds over 50 CP6 maintenance and renewals frameworks across Rail and this segment is >50% of the group whilst the £38m Carnell deal now takes it into the buoyant Highways segment. Although these are mostly about maintenance rather than capex, a helpful tailwind is the government’s National Infrastructure Strategy, which has committed over £24bn investment between 2020-21 and 2024-25 in strategic roads and a £96bn investment in rail infrastructure, which is the biggest in history. Other smaller segments aren’t doing too badly; notably, nuclear works have recovered at Sellafield since early May whilst Water had been weak due to the transition to AMP7 but has been ramping up in H2.

First written about at 79p in January 2007 (and more recently at 430p in Sep ‘20), the shares are now a 10-bagger. Peel Hunt forecasts eps of 53.2p for the current year to end September but if last year’s momentum is anything to go by, these will be well beaten.

Playtech (PTEC) 720p

Sector: Tourism & Leisure

Since my last update, Playtech has received a further takeover approach from a consortium led by former F1 boss Eddie Jordan. No details yet but with the shares trading well over the original 680p offer from Aristocrat, a bidding war could develop. *Await developments. Gain now 141%.*

MADE TECH GROUP (MTEC)

Sector :	AIM, Software & Computing	
Latest Price :	118.5p	
High/Low :	143.5p - 102.5p	
Market Cap. :	£175.4m	
Shares in issue:	148m	
end5/2022 EPS/PER est	2.3p	51.5
end5/2023 EPS/PER est	6.1p	19.4
end5/2024 EPS/PER est	8.7p	13.6
Telephone	020 3397 7846	
Registrars	020 7954 9603	
CALENDAR		
Int/Fins/AGM	FEB/NOV/DEC	

Kainos (KNOS; 1700p) has been a spectacular winner for *SCSW*. I made the shares a main profile in the August ‘15 issue at 189p, shortly after the company floated and the shares have 9-bagged in six years (I added them to GP3 and it still holds!). I was therefore particularly interested to see its smaller rival, Made Tech, join AIM in September.

Like Kainos, MadeTech’s core business is Digital Services, designing and building high-quality cloud-based IT systems for central and local government departments to move public services online, both from a citizen facing point of view and the civil service internal systems. The government is keen to phase out postal and telephone communication to cut the costs of citizen-government interactions; the Cabinet Office estimates a digital transaction is 30 times cheaper than a postal one and there are still 3,000 government services that require paper-based forms, creating a huge market opportunity for the next 10-20 years.

The Government’s Digital Transformation (DX) programme isn’t just about saving money; some changes have been enforced. Brexit, for instance, necessitated spending on digital services to ease the burden of additional regulation and there are still a lot of websites that require changing and upgrading after Brexit. Covid has acted as a further accelerant and government departments at the forefront of dealing with the fall-out are deploying new applications to roll out the government’s COVID-19 stimulus package.

Front end-loaded investment

Demand seems only limited by the number of IT consultants on Made Tech’s payroll. Overall, staff numbers have expanded rapidly over the past few years, from 35 in 2018 to 223 by September. In October and November it added another 43 experienced staff and 20 Made Tech Academy graduates. Putting this into perspective, at 300 employees, it is about half the staff count of Kainos when I first wrote on it. Kainos has since grown to >1,200 (and its share price chart has begun to roll over a bit recently as some investors begin to fret over how it can keep utilisation running high).

But with the market buoyant and with smaller scale, Made Tech doesnt’ have such immediate problems and has already grown sales by 140% to £13.3m in

FY21 and sales are expected to climb by another 145% to £32.5m this year to end May and to £59m next year. Pretax profit is set to climb from £0.4m to a forecast £4.25m and then £11m.

Profit growth has been constrained to date by the fact that Made has had to put in a lot of support costs to build its infrastructure ahead of winning contracts. For instance, within overall headcount, last year the sales and marketing team went from 5 to 18, its contract bidding team from 1 to 3, HR from 1 to 8 and its finance function grew from 1 to 4 and so on. As utilisation of these in house employees rises, profitability will take off.

History

Made Tech was established in 2008 by founder and current chief executive Rory MacDonald to provide technology services to VC-backed UK start-ups. However, in 2017 it won its first UK government client when it had success with Government Digital Service (GDS) delivering successful contracts for gov.uk and GovWifi. That success led to contract awards with Hackney Council and the Department for Education and a year later MacDonald moved the business to working exclusively with the public sector.

These days, Made Tech specialises in the design and build of tailored citizen-centric Digital Services for large government departments and the NHS. These are effectively bespoke software applications called 'Digital Services.' It is a large and attractive market with government spending on DX estimated to be worth c.£5bn.

Frameworks but not fixed price

As MacDonald told me when I caught up with him, prior to the 1990s the vast majority of UK Government IT spending used to be in-house. An outsourcing wave began in the early 90s leading to the heydays of giant IT outsourcers such as Cap Gemini, Fujitsu & Accenture and Capita, with huge multi-year departmental contracts. The problem was that a department no longer had any real insight into what any particular sub-system might have cost (everything was bundled) and therefore had no idea of what value for money it might be receiving. Contracts often ran to 10,000 pages and were riven with potential contractual pitfalls. Just look at high profile disasters such as the NHS National Programme for IT - after seven years and £10bn cost to the taxpayer, the patient record system was abandoned.

It has been such high profile cock-ups that have resulted in mega multi-year contracts being disbanded in favour of procuring smaller sized projects from smaller disruptors. "Disaggregation," as it is called, is all about speeding up a new Digital Service (work gets carried out in a series of sprints to deliver a skeletal system and changes are accommodated on the way) and ensuring the government gets on-time completion and service quality. The DX agenda therefore favours modern methods and technologies such as agile delivery, cloud-first, open source, microservices/containers and data-sharing, which are native to small specialists such as Made Tech and Kainos.

The Government Digital Service, a division of the Cabinet Office, was formed in 2011 to lead the DX agenda and set up new frameworks with pre-approved third party vendors to purchase and procure IT projects. These days contracts are tendered for under a competitive process, but they rarely use fixed prices. For instance, Made Tech has a traditional IT services model on its contracts based on billing for 'time and materials.' The total revenue from contracts is based on the number of its developers that are deployed to work on it and the length of time involved.

Made Tech manages its staff base in the typical pyramid structure of an IT Services firm. At the top are heads of divisions, high end solution architects, delivery/project managers and business analysts. While these are the group's most senior employees, they are the least profitable of the staff base in terms of day rates versus the salary structure. They are supported by the middle tier of staff of technical architects and senior software engineers. Junior level talent is hired with a view that they move up through the firm into senior levels with internal promotion. Made Tech has also started to reduce its reliance on outside contractors and 90% of the work is now carried out by direct employees, which is cheaper than a contractor.

Crucially, gross margins have been steady at c39%. But clearly there is a shortage of digital services consultants and salaries are inflating, which is why Made Tech has had to expand regionally - headquartered in London, it has added offices in Swansea Manchester and Bristol and it has also set up its Made Tech Academy - a 12-week paid programme that upskills new joiners in various digital skills, including programming, UX/UI design and product development. Upon completion, Academy graduates are given full-time employment and placed into live projects for the government. Interestingly, given the high-margin nature of recruits, one broker notes that over 50% of the company's operating profit can be produced by Academy hires within three years.

DVLA - "land and expand"

Typically a contract is for one year. However, the strategic projects Made Tech is engaged in are frequently much longer. Consequently, Made Tech is regularly awarded renewals, extensions, expansions and new projects. One customer that perfectly encapsulates what has been going on is the DVLA, where in just one year Made Tech grew its account from zero to become its largest at 16% of sales. Price was only part of it, says MacDonald; cultural fit was equally important and in DVLA's case it also brought employment to Swansea (40 of its staff are there).

Made Tech has since launched numerous services for the DVLA, including the online service to apply for a tachograph card, making it easier and quicker than the old paper-based form that preceded it. Another example is the modernisation of the Driver's First Provisional service. A third service is to enable police to near-instantly check drivers' identities at the roadside (previously took 16 minutes), which has already saved 14,000 hours of police time. Other ongoing projects include identity verification and streamlining vehicle registration. The strength of this relationship was underlined just recently when the DLVA awarded Made Tech a £7m, 2-year contract and in the process also consolidated its IT supplier relationship so that it is now 'sole sourcing' from Made.

Made's other Central Government customers are HMRC (it operates HMRC's "Making Tax Digital" ecosystem) and Ministry of Justice (supporting the delivery of a programme to digitally transform the prison estate). Other customers include the Home Office, MoD, DfE, Defra and Local Government (e.g. London Borough of Hackney).

Significant operating leverage expected

Some of these customers did not go live in FY21, so were instead captured in Made Tech's record £63m signed order backlog and this already covers 87% and 34% of FY22 and FY23 sales, respectively. *I think this one could do very well in 2022. I am a buyer.*

UPDATES & IDEAS

• A bald description of what **K3C** (K3C; 338p) does makes it easy to imagine that in a recessionary climate, investors could become very excited about the company as one of the UK's largest insolvency practitioners under the *Quantuma* brand. There is a huge iceberg of suppressed company insolvency volumes due to the ending of government support measures, which were introduced in response to the pandemic and since May, there has been a month on month increase in insolvency volumes, which is boosting the UK mini sector of insolvency specialists including Begbies and FRP.

Liquidations are back to pre-pandemic levels (which typically represent insolvencies of smaller companies) whilst administrations (typically the larger, more complex instructions) are still well below pre-pandemic levels but this higher value work is starting to accelerate. K3C's chief executive, John Rigby, who I spoke to last month, says its share of the company insolvency market in volume terms has already climbed from 3.2% since buying Quantuma to perhaps 5%.

My first vexed question was just how a recession might impact K3C's other business, perceived as cyclical. Alongside the insolvency side it has its original M&A business providing business sales brokering and advisory services to vendors of businesses. But as Rigby says, at present, M&A is as good as it has ever been and his confidence is supported by a commitment to investors to pay 75% of profit as dividends. In FY21, the dividend amounted to 9.1p; it expects to pay 12.1p this year and 15.5p next.

K3C had started off life as a business transfer agent to transact small business sales under the *Knightsbridge* brand, typically selling newsagents, licensed outlets, catering and small commercial businesses etc, generally for sub-£1m. But since 2007, the business has become incredibly proactive in marketing its services and has brought in the best direct-marketing techniques to the sales process.

At the heart of the group's operation these days is its proprietary software system called *KMS Globe*, which allows it to take a high volume approach to marketing and in any given month it sends 100,000 pieces of direct mail and 1.5-2m emails to businesses to see if they are considering a sale. The usual outcome from a monthly campaign is 600 business appointments, which ultimately results in 20-25 mandates.

Each client pays a retainer of between £5,000-£8,000. The typical number of offers this results in is 100 a month, from which it also earns a transaction fee, which is a percentage of the completion value; this is 2.5% generally and is £10,000 on average. The important aspect to collecting its fees in two parts is that part one covers all its payroll costs and part two becomes pure profit.

Alongside the development of KMS Globe, Rigby's second change has been to make the business broader. He has added three newer brands to the M&A side - KBS Corporate (sells businesses where valuations reach seven figures (£1m-£15m), KBS Corporate Finance (£15m+) and Knights Corporate Finance (telecoms and software specialism) - which targets larger clients and bigger transactions. Bigger transactions take longer to conclude but generate bigger fees.

The exciting thing is that since 2020, K3C has become a multi-disciplinary services group and Rigby has begun to apply the same two principles - reinventing distribution and moving into larger case work in two new market segments - insolvency and R&D - having bought Quantuma and Rannd.

As it stands, K3C's sales this year are projected to be c£56m split between £18m M&A, £10m tax division and £28m restructuring advisory. The first two are both 50% gross margin activities whereas restructuring advisory is lower at a 20% margin, giving it a blended average of 30%.

On the Restructuring advisory side, Quantuma operates from 20 offices (versus 60 at Begbies Traynor, the market leader) and employs 220 staff. Its mainstay is liquidation, receiverships, administrations and CVAs.

Randd is an R&D claim specialist tax business. R&D tax reliefs are available to support companies that work on innovative projects in science and technology. Making the claim basically involves submitting a report to HMRC that details the expenditure, and Randd employs 25 specialists who will handle the claims process. For this service, Randd takes a per centage of the amount claimed (eg. a claim for £50,000 might earn a £10,000 fee) but the beautiful aspect is Randd signs up customers on contracts that span five tax years giving it high recurring revenues.

So, what has he changed since buying these businesses? As Rigby says, the group needs capacity to run its business and distribution to bring in the work and this is where changes have come in. Historically Quantuma and Randd got leads from a network of introducers; typically, these are accountants who might not have the specialism in-house and so will refer work to it and get a commission.

To enhance distribution, Rigby has replicated KMS Globe to create a direct marketing engine, Randd Globe in the tax business. Meanwhile, Quantuma has launched K3Hub, a referral network that has dramatically grown the number of introducers from 350 accountants a year ago to 1,600 accountants at 900 practices now. As K3C is not an accountant itself, introducers are not worried it will poach clients.

A second change is to move both businesses from their current position as low value, high volume players, where they are strong, towards higher value, bigger corporates. An attractive feature for investors is the tendency for profitability to grow as the business grows larger.

As part of this, Rigby has segmented clients to free up time for fee earners. In the tax business, for instance, mundane tasks and routine processing is now done by a support team freeing up more time for fee earners to handle bigger cases. In fact, K3C also recently acquired Knights R&D, which manages larger cases. Within Quantuma, Rigby is similarly developing a liquidation support team. For instance, Quantuma has just picked up the administration of Derby County FC.

All told, K3C shares are not cheap but certainly not expensive given Restructuring Advisory could pleasantly surprise on the upside. FinnCap forecasts £17.7m pretax profit/eps 19.8p for the year ending May, lifting to £21.7m/24.3p to drop the PE to 13.9. First covered this time last year, the best is yet to come. *I am a buyer.*

<< Continued from page 8

As Friel explains, ORPH runs human viral challenge studies that are used to accelerate the development of vaccines by testing efficacy of vaccine candidates in a more streamlined and cheaper way.

With traditional drug development, large phase III field trials get conducted on thousands of people to determine the extent to which a drug treatment or vaccine works. However, this takes years to complete. On the other hand, his human challenge studies, if designed and administered correctly, can provide accelerated evidence that treatments work through a focused and statistically relevant trial and allow new vaccines to be developed and approved within 12-18 months rather than several years.

A human challenge study basically uses a suppressed version of a virus in a study so as to elicit a response from the patient's immune system without exposing them to the very worst aspects of a particular virus. Such "models" are a vital tool for assessing antivirals and vaccines. Developing the modified models is expensive and to date, hVIVO has burnt its way through >£100m to develop 10 challenge study agents: 1 COVID-19, 2 flu, 2 RSV (respiratory syncytial virus), 1 HRV (human rhinovirus), 1 asthma, 1 cough and 1 COPD (chronic obstructive pulmonary disease) and Malaria.

What happens in practice? Friel gives the example of a trial to test an RSV vaccine for Pfizer, which it began in September 2020. ORPH recruited 100 volunteer patients in London and Manchester for a study, tested them for prior infections and then exposed half these healthy volunteers with the vaccine candidate by spraying them up their nose. Half were given a placebo. After four days, during which their immune response should have been activated, they were given the modified virus. The volunteers were then monitored closely for signs of infection and a significant amount of data collected on symptoms and infection levels. By 29 March Pfizer had been given the results. Quick and in pharma terms, cheap.

Typically hVIVO is paid £55,000-£60,000 for each volunteer (sometimes it can be as high as £100,000). Typically it will get £5m-£7m for running a single trial. The volunteer gets £2,500 in their pocket. Obviously, injecting healthy volunteers with stuff cannot be taken lightly and it needs to have a lot of doctors and nurses involved in the process so there are significant costs. It also has to bear the costs of its quarantine beds - 24 at the Queen Mary BioEnterprises Centre (30 by January) and 19 in its Whitechapel Clinic - where each patient stays for a two week average duration.

Since buying hVIVO, the business has started to win substantial lumps of work. As Friel says, it was the pandemic that resulted in increased spending but the previous management used to take 18 months to do a study whereas these days hVIVO can do this in less than six months, as it did with Pfizer.

In March 2020, ORPH raised £12m and also made a strategic decision to develop a Covid-19 human challenge model, although hVIVO's prospects for other models are so strong that none of this is included in present forecasts, although some work is certain to emerge.

My second reason to like the shares is valuation. Based on £50m sales, ORPH will move into the black this year, with a pretax profit of £3.6m (eps 0.5p) versus a £1m loss last year. Finncap notes that CRO **Ergomed** (ERGO; 1325p), which has been a huge winner for *SCSW* readers, is now trading on 4.8x EV/sales and a similar multiple would place ORPH at 44p.

If that's not exciting enough, my third and final reason is that ORPH also plans to divest a non-core division by way of a scrip issue to existing shareholders before the end of FY22 - and if that happens, shareholders will end up with two holdings, one in a pharma services company, which by then will have become profitable and the other in an exciting pharma data platform.

Friel started to simplify the group last June when he divested the first of four non-core assets. Shareholders in ORPH were given shares in Poolbeg Pharma by way of a scrip issue. Poolbeg has developed POLB 001, a small molecule immunomodulator drug with potential as a treatment for severe influenza.

Poolberg is set to come to AIM in 2022 but as these shares have been distributed already, there is no value to ascribe to ORPH. However, Friel now plans to do a similar split and launch a second non core asset on AIM - a unique data platform called Disease in Motion. As Friel says, the Disease in Motion platform has collated disease data across the full time-course of infections, yielding possible insights into the body's response to infection. "This includes clinical, immunological, virological biomarkers with multiple infectious disease applications that are applicable to a wide variety of end users including big tech, wearables, pharma and biotech companies who pay an annual subscription to access this data." *If that happens, I expect value-unlock; I am a buyer.*

UPDATES & IDEAS

• **Open Orphan's** (ORPH; 22p) chairman, Cathal Friel, notes that most vaccines were developed 25-30 years ago and the pandemic has heightened the need for better performing antivirals, with pharma companies increasing their funding into vaccines and future pandemic prevention. The world is getting more crowded, more connected, and the worlds of humans and animals are increasingly converging. All four pandemics in the last 100 years have had viruses skipping over from birds and as for Covid, they say it came from bats and pangolins but who knows?

ORPH was formed following a three way merger of Open Orphan, Venn and hVIVO in 2019. None of the businesses had made much headway on their own but since coming together, Friel has made significant progress by cutting into a bloated cost base to remove duplicated costs (CEO, CFO, management and personal assistants), which has saved £11m on an annualised basis and revitalised sales.

Calling the business "Open Orphan" seems a misnomer. "Orphan" drugs are those developed to treat rare diseases that impact only a tiny percentage of the population. As a result, they tend to have extremely high price tags - beyond reach, without government assistance. Friel's early plan had been to build a drug development consultancy to help pharmaceuticals place US registered orphan drugs on the European market but he changed tack and these days the mainstay is providing services to pharmas developing antivirals for diseases that impact a wider population eg. influenza, malaria and Covid.

The Venn/Open Orphan businesses, with expected sales of c.£7m this year, provide Phase I and Phase II clinical trial design and execution, data management and statistical analysis regulatory expertise from an office in Paris and also pre-clinical chemistry, manufacturing and control (CMC) services from an office in the Netherlands. Divisional growth is fairly muted.

However, it is hVIVO that is going like a rocket and is expected to generate £40m-odd sales this year. It is the swing factor to why the group's sales are forecast to top £50m in 2022 (up from the £38m expected in FY21 and the £20m achieved in FY20) and with Friel saying 95% of hVIVO's orders are 'in the bag' and with contracts (to do with Covid and presently not in forecasts) expected to close, it will likely beat its sales forecasts by a significant margin.

That top line trajectory is the first of three reasons for me alighting on ORPH. As I am learning, hVIVO is a virology services business including testing vaccines, anti-virals and other respiratory tract products, primarily through the provision of "challenge model" virus studies.

>> Continues on page 7

THE GROWTH PORTFOLIO 3

PERFORMANCE TABLE		Change on One Month	Since Start
Growth Portfolio		+3.85%	+496.30%
FTSE-100	7458.28	+4.72%	+13.91%
FTSE-All Share	4249.43	+4.68%	+20.58%

The FTSE-100 and Dow have set off higher and small caps are playing catchup. However, we still need to get through a period where many companies will be reporting on gross margin headwinds as a result of elevated freight rates and raw material cost inflation. I spent most of my December break condensing and collating meeting notes and the CEOs I spoke to seem a bit divided on how transitory inflation will be and how quickly supply chain pressure can ease. Consumer borrowings on credit card debt have also risen to their highest level in a year; this reflects a more confident, pre-pandemic pattern of borrowing but some are borrowing in order to offset higher costs of living. Therefore, I don't think there will be a quick return to the rip roaring stock market rally seen last year when in 17 months we saw GP3 triple. Risks abound - but I'm feeling lucky. Having ten bagged on Kainos I have sold some to free up cash to add something new. My 10 NAPs include many on PEs of 7-8x and several were unfairly sold off in September when momentum traders exited. They can be bought c30% off their highs - if they get back there, it makes for a c.50% gain.

THE GROWTH PORTFOLIO 1

Starting Capital (1/11/94):	£25,000
Termination Value (12/7/01):	£297,142
Portfolio gain:	+1088.57%
FTSE-100 gain in period:	+89.19%
FTSE-All Share gain:	+84.99%

THE GROWTH PORTFOLIO 2

Starting Capital (13/1/01):	£50,000
Termination Value (28/11/14):	£653,643
Portfolio gain:	+1207.29%
FTSE-100 gain in period:	+17.51%
FTSE-All Share gain:	+34.39%

		Shares Bought	Date Bought	Buying Price (p)	Total Cost (£)	Present Price (p)	Value Now (£)
500	*	Kainos	6/8/15	191	1000	1700	8500
1000		EMIS	1/10/15	1045	10495	1302	13020
1000	^*	Softcat	7/12/15	229.2	2337	1638	16380
10000	*	SDI Group	15/2/17	20.5	2095	210	21000
1000	*	Alpha FX	27/7/17	470	4745	2300	23000
10000	^	Kape	9/4/18	93.5	9390	430	43000
1000	#*	Future	9/4/18	329.5	3340	3558	35580
15000	*	UP Global Sourcing	31/1/19	59.9	9075	186.5	27975
4500	*	Luceco	31/1/19	53.75	2476	324	14580
60000	•	XLMedia	8/7/19	43.7	26330	40.5	24300
2500	*	Ergomed	22/10/19	313	7870	1325	33125
10000		Volex	9/12/19	133	13345	318.5	31850
15000		CentralNIC	9/12/19	63	9495	142	21300
4000		Mpac	3/2/20	290	11645	512	20480
26069	•∞	Reach	3/2/20	98.8	26019	269	70126
8000		Superdry	22/9/20	146	11783	267.5	21400
3000		Victoria	13/11/20	450	13545	1195	35850
3000		Tremor	11/1/21	450	13545	524	15720
25000		N Brown	22/1/21	61.85	15508	41	10250
7000		Supreme	5/3/21	189	13275	231	16170
6000		Menzies (John)	7/6/21	332	20065	317	19020
6000		On the Beach	5/7/21	326	19703	293.5	17610
25000		Staffline	7/8/21	65.4	16395	62	15500
10000		T Clarke	6/9/21	147	14745	155	15500
						Cash £	25062
						Total £	596298

Transactions take full account of dealing charges and bid offer spreads. Income from dividends is ignored. Current holdings in the portfolio are valued at mid prices and include all buying costs. Starting cap £100,000 (2 Jan '15). * Part profits taken • Averaged down. ^Adj for special divs. # Adj. for rights issue ∞ Adj. for bonus share issue

SHAREWATCH is published monthly by Equitylink Ltd, Subscriber Services, PO Box 1015, Croydon, CR9 5DL. Equitylink Ltd is an independent organisation and is not tied to any stockbroker, bank or any other financial institution. Editor and Publisher: S Berry BEng, Contributor: R Welby BA. Opinions, interpretations and conclusions are our own. Facts have been checked where possible, although no responsibility can be accepted for errors, omissions or inaccuracies.