THE SMALL COMPANY

SHARE WATCH

June 2019

MARKET COMMENT

Last time we said "there is one more down and up just ahead (say 5% down, not too scary)...," and in a textbook fashion that is what has occurred. If this road map continues to be valid, before next month's issue the US stock market should be on its way to a new peak (pulling up others, including the UK), to be followed by a correction from the Autumn, the biggest in the large uptrend since March 2009.

The good news? After that large correction (say 30% down) Elliott Wave theory highlights the potential for a rise in excess of 40% - that's certainly worthwhile, providing you are fleet of foot. And, of course, you should plan to be wrong, for example with a sensible stop-loss to protect your capital.

If this sounds very volatile you are right, and exactly what you should expect towards the end of a long cycle. To the annoyance of investors, much of this volatility might be driven by politics. For example, a fractious general election in the UK in the months ahead is likely, and, more importantly globally, the US Presidential election campaign begins now - with Trump trying to look Presidential on his UK visit.

The big new policy issue, in both latter instances, could be new novel ways to fund revitalising economies. In the wake of the 2008 crisis, QE was directed at the financial system to prevent its collapse. In the short term it achieved that objective, but in the years that followed it created great wealth for a small number of people, while having little impact on the wider economy.

Politicians, central banks and economists are now being challenged. In the US, the Democrats are promoting a program of massive spending, the Green New Deal, to speed up a transition to a fossil fuel-free world, among other things. We can call it "People's QE", Modern Monetary Theory or Helicopter Money.

At heart it means the government would no longer fund deficits (that part of its spending not met by taxation) by issuing bonds, but rather have money printed – either to fund the deficit as a whole, or specific projects. As with so much else, views are polarised, and insults and sneering abound. There is more to say. For now, and inadvertently aligning himself with "the Left", expect The Donald to come up with a novel initiative to bolster his re-election hopes beyond the simple tax cuts of his first term, the benefit of which was predictably short-lived. This will propel that big upward move perhaps in 2020.

XPEDIATOR (XPD)

Sector :	AIM, Industrial Transportation	
Latest Price :	46.5p	
High/Low :	87p -32p	
Market Cap. :	£62.1m	
Shares in issue:	133.6m	
end12/2019 EPS/PER est	4.8p	9.7
end12/2020 EPS/PER est	5.4p	8.6
end12/2021 EPS/PER est	5.7p	8.2
Telephone	0330 043 2395	
Registrars	0125 282 1390	
CALENDAR		
Int/Fins/AGM	SEP/APR/JUN	

Xpediator is a logistics group that helps companies transport goods within Eastern and Central Europe and also further afield from countries including China and the US. Today it has 15,000 customers ranging from giants such as Amazon to small, local firms in Romania. It is often able to do things more efficiently than even the biggest companies because it doesn't operate its own truck fleet and therefore runs an asset light model. Turnover has already ballooned from £50.1m in 2015 to £179m in 2018 whilst profits have climbed five-fold from £1.3m to £7.2m.

Profits would have come in even higher last year but for the fact that the company beefed up its central team, with several new appointments including a new finance director, IT head and an M&A specialist alongside others, which added to its central costs. Xpediator's 65-year old chief executive, Stephen Blyth, is obviously in a hurry to get even bigger and his unofficial strategy is to achieve sales of £500m in the next three or four years after which he wants to be busting £1bn sales in the following three. He also makes no secret of his belief that the group is absurdly under-rated on a historical price-earnings ratio of just 10.5x, reflected in his purchase of another 500,000 shares at 48p last month, taking his holding to 35.3m shares or 26.4% of the equity.

History

Xpediator is the brainchild of Blyth who set up the business 31 years ago. Some of the early

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• Next issue on Saturday 13 July

investors came from Tibbet & Britten as has the recently recruited finance director. Old timers will recall T&B used to be quoted on the Full List before it was swallowed up by DHL (which in turn got swallowed up by Excel) but I don't think it's a role model for how Xpediator is now evolving. Blyth agrees.

The logistics sector has changed drastically since the mid-1990s and companies in the market are now faced with the dilemna of how to run things efficiently enough to survive. The internet has changed customer expectations with Amazon, Ebay and the like increasing the demand on packaging, warehousing and fulfillment with faster and more flexible deliveries, reduced shipping costs and, of course, safe delivery without damage to the package. Technology has enabled customers to receive instant updates on their delivery status through tracking systems and companies are fighting to keep up. In a competitive marketplace, after all, if you do not match pace you get left in the dust, says Blyth (casually throwing in the fact that he has signed an NDA with Amazon where it is working on the periphery to assist it in some of its logistics).

Blyth is a battered old veteran in the logistics sector. Qualified as an accountant in the early 80s, he cut his logistics teeth at Bleckmann, a transport supplier to the textile sector and a subsidiary of the Dutch Frans Maas group, where over a four year period he turned it around from substantial losses to substantial profits. That business was all about textile transport and in 1988 Blyth left to form Delamode (Xpediator's original business) providing freight forwarding services to the textile sector, initially moving clothing from Romania to the UK for a variety of retailers. That was the original business but acquisitions have widened the scope of the group's activities and the high growth in those means that textiles is now down to under 10% of sales.

In 2019, Xpediator's sales rose 54% to £179m and adjusted profit rose by £4m to £7.2m. The business gives the impression of being a tightly focused logistics conglomerate organised across three divisions with operating profits (before central costs) breaking down as follows :

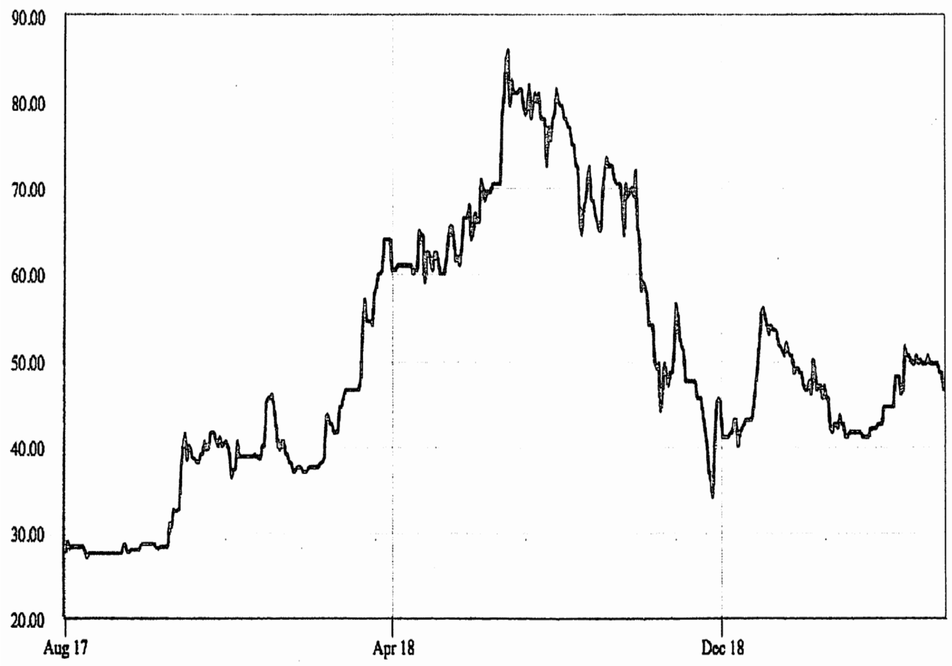
- Freight Forwarding (£3m);
- Warehousing and Logistics (£3m);
- Transport Services (£2.3m).

Freight Forwarding

Freight Forwarding is the original part, still operating as Delamode. The business started off transporting textiles from Romania into the UK and this is in many ways why its centre of gravity and largest markets are still the provision of consolidation services throughout Central and Eastern Europe including the Baltic and Balkan regions (with freight forwarding from 10 offices including in Romania, Lithuania and Bulgaria).

As Blyth explains, given the fragmented nature of freight in the textiles market, you lose money if you are transporting partial trailer loads and this is why early on the group developed export consolidation services to aggregate loads and increase efficiency and Blyth is now applying this to the transportation of other goods like flooring, machinery and household products. Nowadays Xpediator doesn't run its own fleet of trucks but uses third parties to carry the loads and this means the business is asset light as it is essentially acting as a broker.

Loads are priced based on a combination of tonnage and cubic metres of volume and as is commonplace in the sector, Delamode operates under three models. "Groupage" - where the load is a mixture of a number of clients' products consolidated onto one trailer for delivery to respective final destinations; "Full Trailer Load" - where the client contracts with the freight forwarder and requests movement of a substantial volume of cargo from a single location to a single destination; and "Part Loads," which is used on occasions when it has undersold a groupage trailer.



Central to its operations is its bespoke Carrier Management System, says Blyth. This provides a database of 3,000 hauliers who meet the company's certain criteria - insurance, routes, countries covered and rates, as well as equipment types (eg. does the vehicle have a tail lift). When a customer calls and asks for a quotation, Xpediator's operational staff use the pool of suppliers to set up the shipment. As most of the stuff might be going overseas, Xpediator will often also use agents or associates to provide document delivery, deconsolidation and freight collection services to deliver the item to the destination.

Generally "closed book"

It might all sound simple but it can be fiendishly complex (especially if there are multiple clients per load) because several shippers may be used to transport to the final destination and there is a need to track inland transportation, prepare all the shipping and export documents (in some cases the shipper uses its own waybill), book cargo space and negotiate freight charges and to also handle cargo instances and file any insurance claims.

Almost all of the work is "closed book" so customers will get fixed, indexed prices for given volumes but don't see Xpediator's actual costs. Xpediator is paid a fixed rate for various services, such as a charge for storage of an item per day or for handling it. Closed book makes for higher margins compared to, say, **Wincanton** (WIN; 268p), which operates open book contracts. Last year overall the Freight Forwarding division's sales grew from £93.3m to £136.9m. Margin was 2.2% and should increase to 3% this year.

Last year Xpediator invested £1.5m on IT, says Blyth and he would like to spend more, especially looking to move one day towards a self serve model where he can enable customers to pick and choose their shippers online so he can reduce manual processing. Many small companies are circumscribed in their own ability to invest in this way and, using military jargon, this creates a target rich environment for acquisitions. Two in 2018 (of Benfleet and Anglia Forwarding) were responsible for reinforcing the group's strengths in the division.

Roll-up acquisition strategy

Key drivers for doing deals are to grow scale and add complementary capabilities. Often Xpediator is buying businesses on a multiple of roughly 5x profits before tax, free of debt and cash and with a deferred consideration based on future performance. However, there have been hiccups - for example, Benfield suffered last year from a UK industry-wide fallout, which affected all shipments from China after tightened customs security checks. The European Commission argued that many exporters from China had been under-declaring the value of imported goods to pay lower duties and sales taxes. Customs duties in EU countries are a direct revenue for the bloc's budget as they are collected by national authorities before being sent to Brussels. It could have blown up in his face but Blyth says his typical deal structure of deferred consideration meant that he was able to claw back most of his consideration on the acquisition. I described it as a bum deal but Blyth retorted saying it was a super deal as now that business is bouncing back as Benfleet is serving the Chinese clients who had been impacted via Xpediator's agents in Greece.

E-fulfilment exposure

Within the Freight Forwarding business, Xpediator also owns Regional Express, which provides door-to-door freight forwarding services, warehousing and UK/EU tax and filing services to Amazon sellers in the US.

Alongside that, Xpediator has launched EShopWeDrop as a service to reduce the cost of delivering e-commerce purchases in countries such as Estonia, Lithuania, Albania and the UK, at extremely competitive prices. The EShopWeDrop service works in conjunction with customers like Amazon to deliver consolidated consignments to a central location from where they are then transported using its freight forwarding infrastructure to the destination country and then onto the final customer using a local logistics operator. For example, my wife recently wanted to order a set of light fittings from a US supplier, which rather bizarrely was offering the product on its US website at a third of the price to that in its store on the Kings Road. When their US office said they weren't able to deliver into the UK directly, an obvious solution was to use EShopWeDrop. Similarly, the service appeals to overseas shoppers ordering products such as crash helmets, which are exempt from VAT in Britain but subject to tax in certain parts of the Baltics. Each local depot is run by franchisees and several new ones were opened last year, including Albania, Cyprus and the US.

Warehouse and Logistics margins rising

Alongside Freight Forwarding it has been natural for Xpediator to expand into warehousing and distribution for its customers in Romania and the UK, offering short to long term storage flexibility. This division is clearly the swing factor for the group as it is already growing fast. Last year operating margins soared from 5% to 8.4% and Blyth expects these to climb towards 10% this year as economies of scale kick in.

Whilst the UK economy might be in the doldrums, Romania is booming, particularly in the movement of machinery and electronics, helped by a strengthening economy. A key factor in the group's success is to allocate 28,000 sq m of the space to warehousing pallets and running a Pall-Ex pallet network operation, which commenced in 2012. You might remember a certain Hilary Devey off BBC's Dragons Den who originally set up Pall-Ex, a hub-to-hub pallet exchange in the UK.

Xpediator holds the master Pall-Ex franchise for Romania and has in turn recruited a number of franchisees who run the trucks. As Blyth explains, a pallet exchange function works by dividing a country or area among the members of the networks. A truck with a pallet of goods comes into his exchange and is unloaded within 16 minutes and then individual consignments are picked up by franchisees for onward delivery. 20% of the pallets never touch the ground and for each pallet that it accepts into the hub, it earns a revenue of Eu4.50 before paying a royalty to Pall-Ex. The beautiful aspect is that the facility is only one third capacity utilised at the current 50,000 pallets a month and with it only requiring, perhaps, an additional forklift to handle greater volumes, margins could soar.

Xpediator has now also acquired the Pall-Ex rights for Hungary and Moldova and is working on using the Pall-Ex network to target the e-commerce market by developing a national courier service in Romania.

Elsewhere in the UK, there are two warehouses at Braintree and Beckton with high bay pallet storage dedicated e-commerce fulfilment and garment storage including the management of returns for retailers (reverse logistics - with value added services such as removing dog hair from garments, ironing them and returning them to retailer shelves). There is also 40,000 sq m of warehousing facilities located within Southampton port (which came from the acquisition of ISL last year). As Blyth explains, before the deal, Xpediator was mostly about road haulage but ISL expanded its capabilities into sea freight and recently Xpediator has added port offices at Dover and Felixstowe and also full AEO status, which will permit its facilities to be used for potential post Brexit customs clearing work.

Fuel Card business

The final bit of Xpediator's operation is Affinity, which offers a range of transport solutions services that support the activities of transport companies throughout CEE countries. Here the mainstay is running DKV fuel cards in Romania, which it has done for 16 years.

DKV is one of the largest operators in the independent fuel cards market and focuses on HGV commercial vehicle fleets. It operates pay-as-you-go international fuel cards, which enable fleets to purchase fuel at a weekly fixed price rather than the site pump price and the card is accepted in 65,000 sites in 42 European countries. Affinity targets mostly smaller clients whose HGV drivers might cross several countries and re-fuel along the way and as part of the service it makes VAT reclaims for its clients. It essentially earns a commission based upon fuel volumes and last year made a £2.3m profit on sales of £6.4m, a 38.6% segment margin.

Not a rag bag

When I first started to look at Xpediator it appeared to be a bit of a rag bag but there are obvious synergies across the various moving parts. Even on the Affinity side, some customers are already suppliers of haulage services elsewhere in the group and as a consequence Affinity can use the money it owes them as a credit against their fuel purchase, credit which they might not be able to secure elsewhere. Blyth adds that the plan now is to also sell 'captive lease' solutions - lease financing for vehicles organised by a regular lease company from which Xpediator will take a commission per sale.

Xpediator reports in sterling, with 40% of sales being Euro denominated. At the recent results statement, Blyth reported that trading was going very well and ahead of the same period last year. Analysts' forecasts range between pretax profit of £8.1m and £8.6m, against £7.2m for 2018, raising hopes that something over £10m may be on the cards if Blyth can conclude another deal. The prospective PE on forecast earnings of 4.8p/5p is under 10. *I am a buyer.*

EAGLE EYE (EYE)

Sector :	AIM, Software & Computer Servs.
Latest Price :	160.5p
High/Low :	205p - 96.5p
Market Cap. :	£40.9m
Shares in issue:	25.5m
end6/2018 EPS/PER	See text
end6/2019 EPS/PER est	See text
end6/2020 EPS/PER est	See text
Telephone	0844 824 3686
Registrars	0121 415 7082
CALENDAR	
Int/Fins/AGM	MAR/SEP/NOV

Two years ago, in May 2017, I recommended shares in Eagle Eye for the first time and they caught the imagination spectacularly - within just two months the share price had surged from 193p to 316p. At the time it had signed a contract for nationally rolling out AIR, its cloud-based digital marketing platform, for Loblaw, a Canadian supermarket chain with c.2,500 stores covering 40% of the Canadian market. AIR allows a retailer to digitally connect to its customers through promotions, loyalty rewards, apps, subscriptions and gift cards and the Loblaw win had followed on from similar national roll-outs for Asda and Sainsburys in the UK.

But the burden of expectation all proved too great. The shares drifted off and then crashed along with the stock market in December last year. Although they have recovered from the low points, they are currently trading a few pennies under the 164p flotation price in 2014. However, the market opportunity for the company is still intact, if not better. Revenue has grown from £1.8m in FY14 to over £18.6m expected in the current year to end June and with chief executive Tim Mason telling me that profitability is in sight for the second half of 2019, I think it is time to revisit the shares.

Old Tesco hands at the helm

For those who don't know, Mason was Deputy CEO, Chief Marketing Officer and CEO of Fresh & Easy at Tesco between 1982 and 2012. A non-executive at Eagle Eye, Sir Terry Leahy is another old Tesco hand and was the CEO there from 1997 to 2011. Clearly it is their contacts that have been helping Eagle Eye to sell its systems to the big tier one grocers - Loblaw, Asda and Sainsburys.

AIR is a software as a service (SaaS) platform that enables businesses in the grocery, retail and casual dining/hospitality sectors to manage end-to-end digital offers and rewards, running from campaign creation through to validation and redemption. Not only do companies use coupons to bring customers into business establishments, keep current customers coming back, reward them for shopping, and build traffic on otherwise slow days but usually consumers are motivated to spend more than the incentive cost of the coupon in their purchases and this is why the addressable market for AIR is huge. For instance, Mason states that there were 302 billion coupons issued globally in 2017, and the loyalty management market in 2018 was worth US$2.6 billion and similarly the gift card market was worth US$307 billion.

Retailers and consumers are fast moving away from paper to digital offers but the really appealing factor is that only a small fraction of this spend, perhaps less than 10%, has moved to digital promotions and it seems certain that over the next few years, much of this volume is going to migrate that way.

Asda was first tier one customer

Paper coupons, which overwhelmingly form most of the market, are typically slow, relatively expensive to process, subject to fraud and provide little insight into consumers and unsurprisingly one study shows that e-coupons have been increasing in popularity in recent years with an estimated 31 billion e-coupons expected to be redeemed worldwide in 2019, a massive rise from 16 billion in 2014.

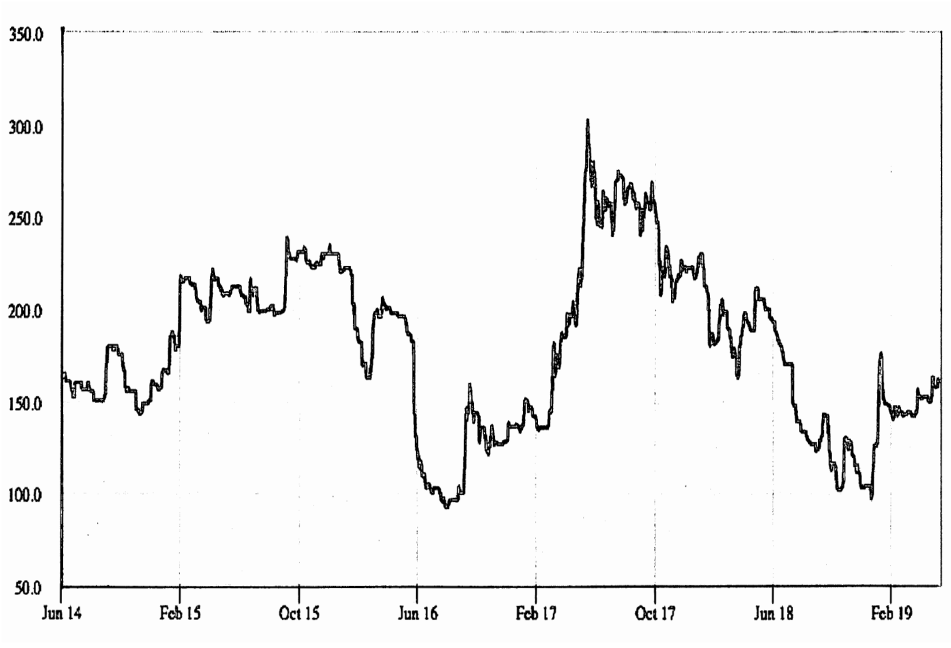
Take the case of Asda, which became the first Tier 1 customer on the platform. Eagle Eye has been working with Asda since 2015 when it was brought on board (via a global framework agreement with Toshiba Global Commerce Solutions) to eliminate the manual reconciliation of paper coupons and enable the real-time issuance and redemption of coupons and vouchers for Asda-specific campaigns.

As Mason explains, previously a customer might have gone into an Asda store wanting to redeem paper-based coupons against items they have bought. Once the customer had found and then presented the coupon, there was the whole laborious issue of the checkout girl having to scan it in and put it into the till. These vouchers would then be collected from all the 626 Asda stores and sent to a processing site in Kent before they were sent to Poland to be manually reconciled, with the results emerging often weeks or months later. After that, there was all the financial reconciliation of those coupons that had been redeemed.

Data enabled, digitally driven, real time...

Instead of all that paper shuffling, Asda's newly implemented AIR system now gives it mistake-free, real-time reconciliation and counting of these coupons.

Using the AIR platform, Asda generates codes or coupons in any format through the use of a "rules based engine." The grocer may decide, for instance, to constrain the coupon in certain ways by coding - for instance, incorporating rules that define how many times a coupon can be redeemed, at what location (whether online or in store) and over what time period and so on.



Once these kinds of rules have been set the promotions can be delivered by both traditional and digital means including email, SMS, via mobile app and paper.

Most retailers have a whole load of data and big data CRM analytics and by using this they can make each promotion ultra targeted or "hyper personalised" so that they only send the promotion to those customers it might be relevant to (eg. sending a baby food offer to those customers who have a child who is less than a year old or sending an offer for discounted socks when someone buys a pair of shoes). The more personalised a campaign is, the more likely a customer is to redeem a voucher.

Based on the rules Asda has set up, coupons can be validated and redeemed in real time by a customer who is either online, at a self-service checkout or through an EPOS device. When a voucher is presented, the Eagle Eye AIR system is automatically able to track which coupons have been redeemed. Once redeemed, data is delivered back to Asda and can be fed into the CRM. Asda will immediately know a campaign's effectiveness and can decide whether the promotion should be altered or halted. They can also use the data to generate behavioural patterns and drive key business decisions in future.

By all accounts there is nothing like AIR on the market - certainly no solution provides a similar "one stop shop" as most competitors tend to focus on only one side of the transaction, says Mason. I understand Eagle Eye also has around 40 patents covering the UK, Australia, New Zealand, the EU and US. The biggest competition is probably "self-build" but only a very big retailer like Tesco has the capability to do this themselves. The proof really is in the pudding.

As well as Asda, there are other significant customers. Sainsburys, for instance, which has the Nectar loyalty programme in the UK, has just started a trial allowing customers to opt into personalised offers for which they can earn Nectar points, using either the new Nectar app or their website, with deals made available through an offers programme that utilises AIR technology. Nectar should certainly know what is the best thing out there as its mainstay is rewards and loyalty.

Even Canada's largest retail group, Loblaw, has turned to Eagle Eye to run its PC Optimum loyalty programme and has attracted 18m customers to the scheme giving proof of the technology at scale. In fact, Loblaw has also extended the places customers can redeem points to include 2,000 Esso fuel stations alongside its own stores and this drives further transaction growth for Eagle Eye.

72% recurring fees

In terms of revenue model, Eagle Eye receives a fee for configuration and implementing its Eagle Eye Air platform with customers. It can often take a couple of years and cost multiples of millions to connect to all electronic point of sale (EPOS) systems via APIs. After that Eagle Eye receives hosting fees, licence fees to use the software, as well as transaction revenue from that deal, which comes from both the issuance of promotions and also a fee on each coupon redeemed. These are the real gravy.

When I wrote two years ago, there wasn't much guidance on the average transaction fee but now Mason is happy to share information on the three key AIR transaction types: a digital gift card, loaded with £50 for instance, will generate a fee of 10-30p; a promotional coupon worth 50p generates 1-5p; whilst a loyalty scheme transaction such as that from Loblaw's scheme is a partpence.

Overall, the latest first half of this year has seen interaction volumes from its AIR platform for all customers increasing by 414% to 430.7m on H1 18. The period saw 1m gift transactions, 150m promotional transactions and 250m loyalty transactions. Overall H1 sales of £8m split £2.2m implementation fees, £2.9m recurring licence fees and £2.9m transaction fees - in other words, £5.8m or 72% of the income is transactional or by subscription and therefore recurring, either contractually or in nature.

As coupons are validated and redeemed at the point of sale, the really beautiful aspect to the business is that once the system gets fully integrated with a tier one customer's EPOS systems it increases barriers to entry and the tier one retailers are then naturally inclined to use the platform more - confirming this phenomena, Mason says that like-for-like H1 transactional income (which excludes the seismic impact of Loblaw transactions) grew 37%.

New geographies and new verticals

Eagle Eye recently reported that the number of customers and brands using its technology grew by 58 in the last six months to 316 customers, including a new tier one win, Waitrose.

As I have already described, Eagle Eye had started life selling its systems into the casual dining/hospitality segment (Pizza Express, Greggs, M&B are customers) where data suggests that something like one in three visits involves the use of a promotion or a coupon and from that it gained traction with the tier one grocers. But there is a whole world of customers (eg. Burger King recently became the first quick service restaurant customer whilst IMO, which runs 900 car washes, is also using an Eagle Eye developed App to run a loyalty program).

To identify new opportunities Mason has just repackaged the mobile App software (24 customer Apps with 3m customers presently) and the Gift offering into standard products to shorten implementation times and target them.

Going the other way and targeting bigger customers, Eagle Eye is also starting to work with brand owners (eg. Coke) to run promotional campaign unique digital codes across a variety of different issuance channels (eg. Asda and fuel courts). Big brands dwarf what retailers spend on promotions and it has huge implications for future growth, although it is early days (<2% of sales is brands, says Mason). It is also spreading its wings internationally. Before Loblaw, Eagle Eye didn't have a North American presence but now it has 15 in the region including two salesmen. It has also just announced a partnership with News America Marketing, a marketing services company which will start to sell its services to FMCG clients in the US and Canada

Analysts' forecast sales are pitched at c.£18.6m for the year ending June with the business moving into positive territory in H2. Next year should see a full move into the black. *The risks are obvious, but more than matched by the potential. I am a buyer.*

UPDATES

Kape (KAPE) 82.5p

Sector: AIM, Software & Computer Services

At its AGM Kape said customer acquisition has exceeded management expectations. It has added 117,000 new SaaS users since December, taking the total to 945,000. In particular, Kape said its VPN user base (Zenmate and Cyberghost) generated >65% growth as these recently acquired businesses benefit from Kape's digital marketing machine.

I like to think of Kape as a business in which customer acquisition runs in two stages - 'farming' and 'harvesting.' The farming period, during which users are rapidly added, loses money but the second stage - harvesting - begins in month 15 and carries through to month 72 and is hugely profitable as the costs of customer acquisition have already been covered. In total assuming usual rates of attrition the current user base would throw off US$33.5m across the next 6 years. As users move into that phase it gives Kape growing firepower to fund faster growth - think of it as a multi-stage rocket. As CEO Ido Erlichman said to me in April, as long as the farming first year losses don't change, he will throw even more money at it. At the same time, acquisitions using the US$40.4m cash (21p per share) add a new exciting dimension. *Buy.*

Water Intelligence (WATR) 339p

Sector: AIM, Support Services

I met with WATR's CEO, Pat DeSouza, following full year results. These came in line with recently upgraded expectations: sales were ahead 45% at US$25.5m, with pretax profit up 44% to US$2.5m and eps +23% to 12.7 cents.

As previously described, WATR's mainstay is leak detection in the US under a franchise model. In the past two years it has been selectively buying in franchisees and offering services directly. This is the swing factor and these corporate locations (those managed directly by WATR) grew sales by over 70% to US$10.1m and more than trebled profit (with margins rising from 4% to 12%). There were four re-acquisitions in the year, excluding which like-for-likes were +34%.

The logic is straightforward - for every US$100 of work performed, it would earn perhaps 6-10% of gross sales via a franchisee royalty whereas it can earn four times as much doing things directly. DeSouza says that notionally buying in all franchisees would give it US$25m gross profit - and he can buy franchisees cheaply on exit multiples of only 5x. There are 30 franchisees with sales of >US$1m of interest.

The re-acquisitions leave 105 franchisees and obviously reduces the possible pool of royalty income but WATR still saw royalty up 6% to US$6.3m. Elsewhere, "franchise-related sales," which derive from centrally procured insurance jobs that are remitted to franchisees, is now handling 50,000 jobs annually and grew sales 69% to US$6.2m. A third large insurer contract was signed up last month.

Internationally, WATR is small but the leak detection service in the UK for utilities lifted sales by 39% to US$2.9m and moved into the black. The potential is vast as it is about clean and dirty water leak finding but DeSouza's ultimate plan is to use this as a springboard for moving into residential leak detection.

The statement highlights the hundreds of billions of global dollars spent on water issues, as well as the massive US insurance bill. The valuation, however, is up with events based on WH Ireland's eps forecast of 15.3 cents for 2019 and 17.8 cents next year. The company has availed of its fly away share price by placing 863,402 shares at 370p to raise a net £3.2m.

Tipped at 253p in November '18, the shares have gained 34% and remain a sound hold.

Victoria (VCP) 490p

Sector: AIM, Domestic Goods

A solid end of year update from Victoria. Ahead of reporting in July, it said it expects full year results to be in line with market forecasts (£95.5m ebitda). Like-for-like revenue gains were 3% and it expects a margin increase of over 100bps in the 2019 financial year to be compounded by a further circa 100bps increase in the 2020 financial year. Last year saw a new ceramic tile production line installed in Serra and Keraben, as well as a new carpet backing line commissioned at its South Wales factory and now that heavy year of investment has ended, debt repayment can start. *The chart is bottoming out and starting to look attractive again.*

Solid State (SOLI) 491p

Sector: AIM, Electrical Equipment

The shares shot ahead after Solid State said sales for the year ended 31 March were up 20% to £56m (+10% organic). Profits are said to be slightly ahead of the upgraded market consensus forecasts of £3.5m pretax profit (eps c.34.5p).

In Manufacturing, progress in enhancing operating margins has continued and efficiencies in the Power business unit are being delivered as a result of investment in new equipment.

Solid State also benefited from particularly strong Distribution sales in Q4. Pacer has bedded in well and a brand new facility in Weymouth began production in March.

The order book at 31 March was £35.9m, which compares to this year's expected sales of £68m. At this point in time, broker Finncap is adopting a cautious stance with a flat profit forecast for the current year of £3.5m. *Results will be announced on 2 July. Strong hold.*

SafeCharge (SCH) **Bid: 436p**

Sector: Travel & Leisure

I always thought Safecharge, which facilitates mobile online payments, would be a predator as it had a cash pile of US$85m but this month the company is being swallowed up by Texas-based payment firm Nuvei, which has made a recommended cash offer of US$5.55 per share (436p a share). The deal values the company at £699m.

Safecharge's obvious attraction is that it is a business with increasing scale with a total transaction value processed in 2018 of US$13.9bn, up 45% year-on-year from merchants that are mostly in Europe. *Safecharge was a main recommendation in April 2015 at 247.5p. Accept the offer; gain 76%.*

Dialight (DIA) **520p**

Sector: Electronic & Electrical Equip

Shares in Dialight have broken to a 52-week high after the AGM was told that the transfer of manufacturing back in-house will be complete by June. All but two of the smaller product lines have reached acceptable on-time delivery levels. As I said in my April write up, Dialight has historically concentrated on the most highly regulated end of the industrial market but is now launching products for general industrial applications, which quadruples its market from £0.5bn to £2bn. The first of these launched this month. Forecast eps are for 32.8p this year with 46.5p and 57.6p for the next two years.

I expect the shares to run ahead of interims on 5 August. Buy.

Future (FUTR) **1116p**

Sector: Media

Future whacked the ball out of the park with its interims to end March, sending the shares to over £11. Sales were up 103% to £109m, with Media the swing factor. Adjusted pretax profit was up 87% to £21.5m and eps increased 92% to 20.5 cents but best of all Q3 has started with a bang and Future said it expects to beat even recently increased forecasts.

Media saw a 180% jump in sales to £75.7m half year-on-half year - so divisional turnover is now greater than the whole of the previous 12 months. Of course acquisitions played their part - Purch last September and Mobile Nations close to the period end - but organic growth is +38%.

To recap, Media consists of several website brands (it has market leadership in the tech news on both sides of the pond now). As I have said before, it's about building a community of users - now 192m - and monetising them via e-commerce, events and digital advertising. Same site audience growth is stated at +25%.

Purch's titles began to be migrated onto Future's technology platform in February and is driving audience numbers - eg. *Laptop* audience +4% year-on-year, *Livescience* +11% year-on-year; and *Tom's Guide* +28% year-on-year (excluding forums).

Magazine revenue increased 24% to £33m largely driven by the acquisitions of NewBay and four brands from Haymarket, which more than offset the usual expected underlying circulation declines of paper magazines.

The adjusted EBITDA margin increased to 22% from 16% as a result of the increasing scale and the shifting revenue mix. 2018 proved a transformational year and the US is now 52% of sales from 20% a year ago - the US of course can finally utilise historical tax losses to drive eps. Broker Numis upgraded its full year eps forecast from 27p to 33.7p in March and now lifts it again to 38.2p. Net debt at the period end was £39m but with cash flow of £23.7m in the period, I suspect other acquisitions will emerge before the year end. *Tipped at 352p in June 2018; an amazing gain of 217% so far but there's more to come.*

Luceco (LUCE) **118p**

Sector: Electronic & Electrical Equipment

Regular SCSW readers could be forgiven if they politely yawned after Luceco issued an update that said it is trading "materially ahead of market expectations." As we said last month, margins are now expected to be back to double digit helped by lower raw material costs (copper), headcount reduction at the Chinese manufacturing plant, better currency hedging and the price changes. Net debt is also falling as expected, down from £32m at the year end to £30m.

In the light of the statement Numis has lifted its eps forecast by 22% to 7.1p this year with next year's climbing 17% to 8.4p.

Added to GP3 in January at 53.75p and with a perfectly timed main write up last month, the gain is 120%. Strong hold.

Tarsus (TRS) **Bid: 425p**

Sector: Media

Tradeshow owner Tarsus, which has been a longstanding favourite for *SCSW,* has announced a recommended cash offer. Private equity firm Charterhouse Capital is paying 425p cash per share, which values Tarsus at £56m. The enterprise valuation is £668m. As Tarsus has biennial events, which skew its earnings into every odd year, the company points out that this is a multiple of 17x EBITDA for the last two years.

Tipped at prices as low as 72p (the last main write up in December 2008), we will drop update cover with the shares ending almost a six-bagger. Accept the offer.

Altitude (ALT) **115p**

Sector: AIM, Media

Altitude has announced results for 2018 but these are academic as it acquired distributor membership group AIM (rebranded AIM Smarter) post its year end. This has revenues of c. US$1m from membership fees but more importantly it creates a captive group that Altitude can force to use its AimPro platform; most members are still placing their orders with supplies of promotional goods through offline means (phone, email and fax) so this is a natural migration.

As it was, sales were up £0.5m to £6.6m, of which £3.7m related to UK promotional products supplier AdProducts (£1.6m incremental revenue)) offset by a £1.1m decline in the legacy exhibitions/print businesses in the UK.

AIM Smarter membership has continued to grow in the post-acquisition period, adding 191 members bringing the total to 2,108, who in total have promotional goods spend of US$1.9bn. The bit that everyone was hoping to see broken down in these results was the commissions from users onboarded to the AIMPro platform but these were not trumpeted as they have been in the past and this KPI is getting shelved, although Altitude did say that the total weekly order value transacted on AIMPro in March was US$1m, and by April this had doubled to US$2m - suggesting annualised throughput of US$100m from 850 members onboarded.

Altitude says that it will shelve the KPI because the opportunity is based upon generating a percentage of value of the members' purchase orders regardless of how an order might be placed, in other words it is happy to take an offline commission (c.2%) as well as a (bigger) online one (c.6%). It adds that its immediate focus is shifting in favour of signing up suppliers to commit to service fees for promoting themselves to the AIMPro membership.

In truth, I am not interested in fees for advertising to members like this. I'm in this for the platform fees so if all of the US$100m were online/offline then gross platform fees are somewhere between US$2m and US$6m, so it's obviously burning cash at the moment. US headcount including sales, marketing and project management positions has risen to 32 and admin expenses increased by £1.4m, or 41%, to £4.8m (2017: £3.4m). Finncap forecasts eps of 7.3p for the year to end December and 15.4p next year but they don't appear correct and given Altitude is about to change its year end, these need reviewing.

First tipped at 22p in September '16, hold.

Kainos (KNOS) **616p**

Sector: Tech - Software & Services

Kainos is building a reputation for being consistently boring - the kind of boring I like, with all growth being organic. Latest full year results showed sales grew 56% to £151.3m, adjusted pretax profit by 52% to £23.3m and eps by 48% to 15.4p. And the profit is pouring out in cash with net cash up 47% to £42.5m.

Headcount, which is the biggest proxy for future growth, was up 26% to 1,470. Sales orders in the year totalled £171m, up a third on the year. Included in this figure is £18.4m of SaaS product sales orders, an increase of 38%. This resulted in the overall contracted backlog growing by 10% to £122m. International revenues were up 44% to £29m.

The picture is similar to previous periods. Turnover was driven by Digital Transformation and Workday Implementation, with combined sales up 69% to £132.6m. Digital Services was driven by growth in both the UK government's digital transformation programme and new commercial clients. Despite the Brexit debate continuing to generate uncertainty, Kainos says it's an opportunity as there will be significant IT change as a result of the EU Exit, with over 300 IT systems to be impacted.

On the Workday side (where it has one of the biggest clusters of consultants providing consulting, project management, integration and post deployment services for Workday's software suite) Kainos continued its geographic expansion, with the opening of an office in Paris and Toronto.

Revenues in Digital Platforms - the SaaS and software-related bit- were up 3% to £18.7m with blistering 45% growth to £11.3m for Kainos Smart for automated testing of the Workday suite (154 clients up from 115) offset by a decline in Evolve, (down 27% to £7.5m) due to the usual NHS funding constraints.

Tipped at 189p in August '15. Gain: 226%. Some profit should have been taken. Hold the rest.

Watkin Jones (WJG) 215.5p

Sector: AIM, Home Construction

Watkin Jones has reported a strong H1. Sales were flat at £159m but pretax profit grew by 10% to £26m and eps by 8% to 8.1p. Net cash was £18m, albeit a delayed payment of £14m was subsequently received.

Due to timing and mix, revenue from the student accommodation side was £13.4m less than for H1 18 at £128.8m reflecting fewer developments in H1 19 compared to the prior year: six schemes are scheduled to complete this year (2,723 beds), compared with ten schemes (3,415 beds) in FY18. Watkin Jones reports a pipeline of 9,000 beds across 20 developments, of which 5,334 over 11 sites are currently forward sold for delivery over the period FY19 -21, so outer years are set to see a pickup.

This reduction in revenue from student accommodation in H1, however, has been offset by higher contributions from the other operating segments - Build to Rent, managing accommodation and housebuilding. In particular, Build to Rent is likely to take centre stage going forward. H1 revenue was £8.8m and the division has a pipeline of 1,800 plots for FY19-22.

Now the new CEO ex-Unite has his feet under the desk, I'm expecting better newsflow ahead. *I am a buyer.*

Litigation Capital Management (LIT). 93.5p

Sector: AIM, Financial Services

The shares firmed after Litigation Capital said that a fourth litigation project (class action by shareholders of Discovery Metals against KPMG relating to information in an independent expert report) has completed in the current financial period. An announcement will follow once the precise share of funds is known. Separately, Litigation Capital said it presently has a portfolio of 28 projects under management as well as 65 in the pipeline including nine corporate portfolio transactions.

The main reason the shares have been slow to take off is that asset manager Miton stagged the placing and has been supplying the market. Once that goes, expect a vertical take off. Buy.

eServGlobal (ESG) 5.8p

Sector: AIM, Software & Computer Services

The latest update on its Homesend joint venture with Mastercard demonstrates renewed momentum following a switch in focus from remittance to account to account (A2A) banking transactions. Mastercard has been pushing the service to a growing number of global banks, and thereafter encouraging the banks to switch a growing proportion of their transactions on to the service. Homesend saw its average transactions value rise 13% in the three months to March-end compared to the prior quarter. Although only relative changes are provided, Finncap estimates this as a rise from Eu200 to Eu225. Gross value flow across the platform increased 20%. The number of key destination markets covered by Homesend has increased to 64, up from 60 last quarter. Meanwhile, sale talks on the PayMobile division are ongoing, which would leave eServGlobal as a pure play on Homesend and trigger that long awaited bid from Mastercard.

UPDATES & IDEAS

• **Renew** (RNWH; 430p) is an old friend to *SCSW*, a company I have followed since 2006. Back then the share price was 49p. Even as recently as December 2011, the shares could have been bought at 64.5p - the business was still being valued as a construction company rather than the higher rated support services business that it is.

Of course part of the problem when a business has gone through the wars and traumatised investors is that investors are slow to forgive and forget. Back in 2006, it had just gone through a period of crisis. Known as YJ Lovell, it had been established over 200 years earlier and ended up as a hodge podge owning a variety of construction and land development businesses. Several outstanding construction difficulties relating to fixed price contracts emerged and derailed it and the best part of the group, a social housebuilder, was sold. After a tidying up period by the previous chief executive, Brian May, who grew the engineering services side through acquisitions for the next 10 years, the reins were handed to Paul Scott who had earlier sold his nuclear decommissioning business, Shepley, to the group.

Renew has since gone from strength to strength and whilst the share price hit a new high last month, they look underrated. Numis is forecasting eps of 39.9p for the full year to end September with 42p next year and I suspect before long the earnings per share will exceed the 49p share price at which I first recommended them.

There is still a legacy building business involved in things like complex basement and overcrofts at top end residential properties in Mayfair and Kensington but this division has been downsized and in the latest first half recorded a profit of just £0.3m on sales of £19m. One day there will be an ultimate bit of refocussing whereby the division will likely disappear. Engineering services, meanwhile, has grown like topsy with sales overall up by 25% to £282m and operating profit up by 48% to £19.1m in the period. Margins within specialist engineering hit an all time record 6.8%, up 1.1% year-on-year.

Growth, both of sales and profits, comes from engineering services across areas that benefit from long-term spending programmes, very roughly split 60% Infrastructure (rail & telecoms), 20% Energy (nuclear) and 20% Environmental (water & land remediation). Most divisions work with long-term framework contracts, which offer greater security and therefore significantly lower risk, although the overall mix can change slightly from year to year depending on growth of the individual parts.

Last year the company completed the £80m acquisition of QTS and this alongside an earlier acquisition of Amco means rail is now Renew's biggest chunk at c.50% of sales with Scott noting that Renew is now a top six company in renewals and maintenance. Working across five regions and all 13 routes, QTS carries out civil works, geotechnical and earthworks services and fencing whereas Amco is generally offtrack civil (tunnel repair), mechanical and electrical work.

As Scott notes, the main customer is Network Rail, the owner and operator of most of the rail infrastructure, and it plans its work across control periods of 5-year timespans. The current period ended in March and things had been expected to cool down ahead of Control Period 6 starting but when it got to December, the phone didn't stop ringing. And last year there hadn't been a freak event like when a bridge collapsed into the sea at Dawlish (near Exeter) taking a significant stretch of the railway with it; instead it was bread and butter type jobs. Now CP6 has resulted in a 17% increase in spending to £46bn over the previous programme, within which renewals and maintenance is earmarked to see the greatest growth.

Still within the infrastructure division, telecoms has also seen its strongest period yet, says Scott, with 4G and 5G continuing to present an opportunity under long term programmes. This division is all about the design, building and decommissioning of masts for the likes of Telefonica and other mobile network operators.

In the Energy division, the original nuclear bit is going really well and Scott makes no secret of wanting to grow the company's nuclear capability. Shepley, which has operated at the Sellafield nuclear site in Cumbria for almost 70 years, is involved in decommissioning nuclear assets. The Nuclear Decommissioning Authority has confirmed £3bn annual expenditure; most of the reactors in the UK have now lasted out their lifetime and are being dismantled and decommissioned but this dismantling process can take a number of years with a site often having to be run in safe storage mode for 40-50 years while the building remains sealed and monitored by decommissioning experts. Shepley is all about building the long term storage solutions to manage the decommissioning process before things can be dismantled. Scott says the division is also cleaning up and dismantling Dounreay as well as some old power stations.

Renew's Water and Environmental divisions are doing really well. Like nuclear, the water side is underpinned by regulatory guidance for expenditure and significant investment is needed to upgrade existing ageing infrastructure, and the industry's £22.1 billion AMP7 scheme - the asset management plan period put forward by the regulator Ofwat, which runs between 2020 and 2025 - is already seeing the water companies dishing out new contracts. The key customer is Welsh Water, for which it works under frameworks for sewer maintenance, trunk mains cleansing as well as water distribution.

The last element in the mix is Environmental, which is involved in piling works, flood defences and so on; a sector with £1bn a year committed for the next 50 years.

The rating doesn't look demanding especially as net debt is down to £17.2m and by next year Renew is expected to move back to net cash. *On a prospective PE of just 10.8x, with excellent prospects of further growth, the shares look attractive.*

Editorial shareholdings of companies covered in this issue: Kape, Altitude, Luceco, Xpediator, Eagle Eye, Kainos, Future, eServGlobal, Tarsus

UPDATES & IDEAS

• British Steel going into liquidation this month shows just how good the Indians and Koreans are at bashing metal cheaply. So eyebrows might be raised at my recommendation of **Pressure Technologies** (PRES; 109p) here. But Pressure is not at the commodity end of the market and prospects look excellent.

Pressure's core specialist manufacturing activities are in the defence and oil & gas markets. The company looks interesting to me on two grounds. First, the group has taken a massive step forward via the imminent disposal of its lumpy business in alternative energy equipment for £11m. The technology upgrades biogas from landfill and food waste into natural gas. When the division's sale completes in coming weeks it will leave it debt free and I think the stock market's enthusiasm for the deal will be shown by marking the shares higher. The other bull point is the management team led by new chief executive Chris Walters, an experienced manager with P&O and Lloyds Shipping. He became involved with the business last September, around the time that Pressure started to see a massively expanded order book.

Pressure's historical specialism was high-pressure vessel systems used to balance floating offshore oil rigs; if you are drilling for oil in deep water you will need this system as lower hulls are submerged but do not rest on the seabed. They are floating and as waves raise and fall the platform, Pressure's motion compensator system keeps the rig stable, preventing heave, which might otherwise snap the drill string. Since 2014 Pressure has also been selling cylinders for submarines to hold compressed air, which is released into the ballast tanks to blow out seawater and cause a submarine to surface or to launch torpedoes. Warship build programmes are largely unaffected by cuts in defence spending and Pressure is working on long term programs with order visibility to 2023.

The oil price has had a renaissance and this is presently boosting the other side of the group, which makes engineered products. Pressure machines difficult-to-work-with-alloys of steel and carbides and then fuses them together to produce parts used in high pressure choke and control valves in underwater wellheads that control flow (subsea trees); you can't use mild steel parts in these applications as the crude oil would wear it out quickly. The divisional order intake reached its highest level in October for over four years. *I will revisit the financials once the disposal completes but I think the shares are an excellent buy. More in due course.*

THE GROWTH PORTFOLIO 3

PERFORMANCE TABLE		Change on One Month	Since Start
Growth Portfolio		+10.58%	+150.10%
FTSE-100	7161.71	-3.59%	+9.38%
FTSE-All Share	3923.87	-3.66%	+11.34%

If GP3 had followed the old investment adage of selling in May and going away it would have been a mistake. Not participating in the two standout gainers of Future (up 268p or 32% on the month!) and Luceco (up 43p or 56% on the month) would have made for a depressing time. It shows that the best money is often made in the sitting. Neither company was closely followed by the investment community when I added them to GP3 and now both are saying trading is materially ahead of forecasts - not just once but three/four times each - awareness has risen and we are getting a sudden influx of investor demand. Elsewhere, not doing too badly are Kainos (results) and Softcat (Q3 update). Overall these helped GP3 to gain 10.6% on the month, leaving GP3 at a closing high of +150%.

I am nervous after such a run, especially as we have a Conservative party leadership contest kicking off and the UK is expected to leave the EU on 31st October without a deal. But there are opportunities and this month I sold Lighthouse following the recent bid and I am replacing it with Dialight, covered two months ago. It looks cheap.

My original reason for alighting on Xpediator this month was prospects for its Southampton facility but meeting the company I found an interesting logistics conglomerate with other irons in the fire, an ambitious CEO and PE of under 10. With the EU being one of our most active trading partners, coupled with our 'island' state, I can see a demand for warehousing/stockpiling. There will be generations who have not seen customs procedures at all and Xpediator's AEO status allows it to undertake Brexit clearing work.

I also re-visit Eagle Eye - it's at a critical inflexion point and even relatively small increases in market share would be transformational.

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 (£)
2500	* Kainos	6/8/15	197.5	5007	616	15400
1000	EMIS	1/10/15	1045	10495	1192	11920
1000	^* Softcat	7/12/15	260.3	2648	910	9100
4000	IG Design	5/8/16	220	8845	592	23680
12000	* Altitude	5/9/16	24	2925	115	13800
1750	Smart Metering	14/10/16	544	9565	494	8645
39000	Scientific Dig. Imaging	15/2/17	20.5	8080	53.5	20865
5000	Medica	10/4/17	190	9593	147	7350
2000	Alpha FX	27/7/17	470	9445	818	16360
10000	Kape	9/4/18	93.5	9390	82.5	8250
2982	^ Future	9/4/18	329.5	9919	1116	33279
5000	Bloomsbury Pub.	26/6/18	235	11854	230	11500
20000	UP Global Sourcing	31/1/19	59.9	12085	79	15800
20000	Luceco	31/1/19	53.75	10849	118	23600
10000	Fair FX	1/3/19	90.5	9095	108.5	10850
2000	Dialight	3/6/19	520	10452	520	10400
					Cash £	9305
					Total £	250104

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 + Adj. for rights issue ^Adj for special divs.

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