

The GCI Digest

 [BACK TO DIGEST CONTENTS](#)**SMARTSPACE SOFTWARE** Ticker SMRT Sector Software Market cap £20m Share price 89p**HOLD**

SmartSpace was formerly Redstone Connect, combining telecom and networking infrastructure with a developing 'smart building' software business. Last year the board made the strategic decision to dispose of the cabling and hardware arm, where projects were lumpy and margins relatively low, and focus on software. The disposal brought in £21m cash and with the subsequent purchase of SwipedOn, net cash is expected to be around £12m at the end of 2019 in the context of a market cap of just £20m. The change of tack also saw chairman Frank Beechinor, who also chairs highly successful software company Dotdigital, become CEO.

The key product is the SmartSpace platform. This enables companies to manage their office space efficiently. The most important module is desk management, a 'hot desking' application which allows clients to save costs by occupying less space. Other modules cover car parking, meeting room, and visitor management. The prospect of saving office space provides scope for a quick pay back on the investment for customers. The business model is SaaS subscription focused, but a recent big banking deal covering 360 locations will be a hybrid of usage and licence revenue. ■

SOMERO Ticker SOM Sector Industrials Market cap £188m Share price 345p**BUY**

Somero shares have had a tricky second half of the year, possibly on concerns of a peaking in the US cycle for construction equipment. That is not been evident in the January trading update which said that a strong second half means both sales and ebitda will be "moderately ahead" of market expectations. It also said that the market was expecting a cash balance of \$25m and that the outturn will be "significantly ahead" of this number. The dividend policy is to pay 50% of eps as a regular dividend and a special of 50% of the excess year-end cash over \$15m. So if we assume this excess cash is \$13m, that equates to a special

dividend of 9p. When added to the regular dividend of an indicated 15.5p, we get a 7% yield.

The cash generation and dividend policy highlights the quality of the profits being earned by Somero, yet its shares trade on a p/e of just 11 times 2018 earnings. This seems grudging to say the least. The company has introduced a new product for the high-rise market segment and has made the bolt-on acquisition of Line Dragon, a concrete pouring equipment provider. Geographically the US remains key, though if the company can generate some consistent growth in Europe and China it would underpin long term prospects. ■

TAPTICA Ticker TAP Sector Media Market cap £101m Share price 137p**SPECULATIVE BUY**

Taptica shares have remained under severe pressure following the announcement in early December that Hagai Tal had resigned as CEO after being found guilty of misleading the buyers of a business he sold back in 2011. Although that pre-dated his involvement with Taptica there might be a reputational issue and Tal is clearly a loss given his sector expertise, though he is remaining in a non-board capacity for a while. The company has also announced a \$10m share buyback programme, which was a sensible move in the light of the share price fall and the fact that its net cash balance is \$54m, or 40% of the market cap.

Frustratingly, the company has suspended the buyback almost as soon as it got started because it is in negotiations with a potential acquisition target. Without this support, the shares have fallen a long way below the 195p level at which the company's sole purchase was made. Sentiment has not been helped by a brief update, confirming merely that profits will be in line with expectations. This was a lost opportunity to provide a detailed update and begs the question why the company has not been more open about prospects. The p/e of less than 4 implies the market does not believe the numbers; so the board needs to get its act together. ■

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