HARDMAN & CO.

TECH SECTOR OUTLOOK

SMALL CAP FINDING SUPPORT AT COVID-19 LEVELS

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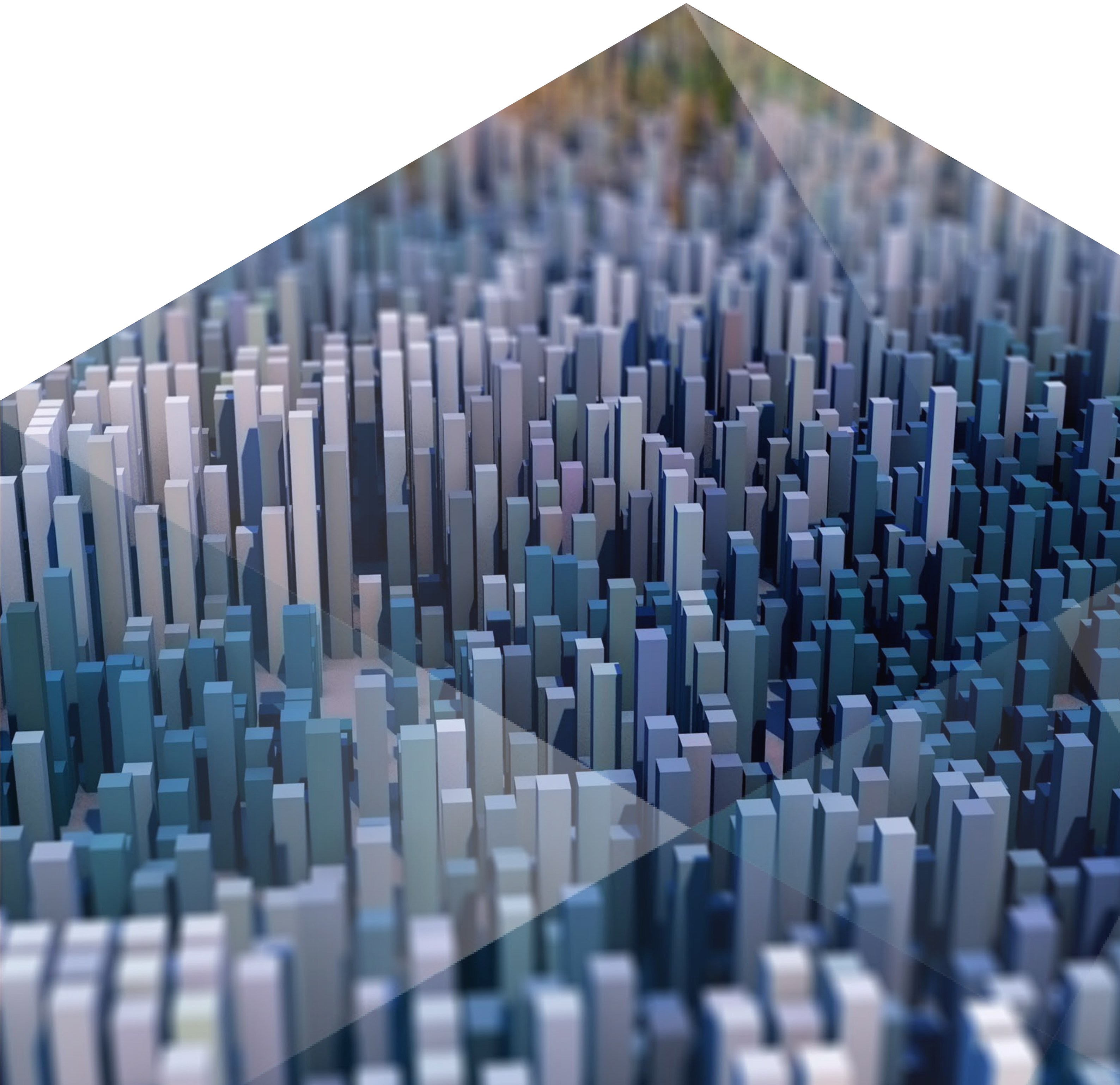
MARCH 2026



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Executive summary

Plenty of reasons to be positive

The past year has been a challenging period for UK technology stocks. The sector has diverged from buoyant UK blue chips due to the perceived threats of AI-induced disruption. This underperformance has been regardless of generally positive trading news, and larger cap software & services companies have performed significantly worse than their smaller brethren. Takeovers have continued to pick off the remaining companies while the IPO market has been effectively shut, resulting in a significant reduction in supply; ca.£38bn has been removed from the software and services sector since the COVID-19 pandemic began – which is equivalent to the market capitalisation of the remaining companies. Given the positive trading news, generally healthy balance sheet positions, supply reductions, and with small cap software & services companies now hovering around their pandemic-period lows, we believe the sector warrants a closer look.

Positive January trading updates again

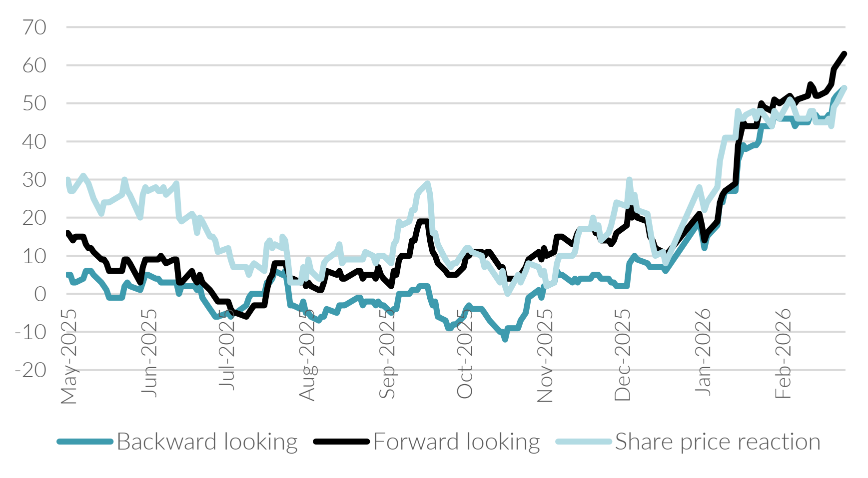
January trading updates continued to be positive, following the generally healthy updates in 2025, once again despite the cloudy economic and geopolitical backdrop.

Positive news flow again

We examined 104 trading updates and earnings announcements during January on UK tech-related stocks of all sizes, the vast majority of which are small caps. For the purpose of this analysis, our universe is broadly defined and includes IP-driven business across a range of sectors (excluding drug discovery). Based on commentary (including profit beats/misses, as well as new business wins and outlook statements), we estimate that about half of these announcements resulted in improvements to the outlook for the individual businesses, compared with a quarter that saw decreases. This positive mood has continued into February.

Following our analysis in 2025, we have begun quantifying these data, as shown in the graph below. On a trading or results announcement, we allocate a +1 for a beat and a -1 for a miss, with similar for the share price reaction and the perceived outlook. The numbers are aggregated on a quarterly rolling basis, since many companies release trading news each quarter.

Technology-related companies' sentiment indicators



Source: Hardman & Co Research

AI-induced disruption

Major US technology companies are expected to invest $650bn in AI capex 2026. This huge investment comes after ca.$400bn in 2025 and ca.$250bn in 2024. The US technology companies will ultimately need to earn an economic return on their substantial AI capital expenditure, either by creating new revenue streams or by capturing value through disruption of existing industries.

The investment is being focused on the construction of vast data centres — essentially giant warehouses full of computers — designed specifically to power AI. This is like the digital equivalent of building a new national electricity grid. Instead of ordinary processors, these centres use specialised AI chips that are far better at handling the intense calculations AI needs, and they are linked together with ultra-fast connections, so that data can move between machines almost instantly. The result is a massive, shared "engine room" for AI that makes these technologies faster, cheaper to run at scale, and widely available to businesses and consumers, much like how power stations made electricity usable for everyone.

This spending enables software companies to move much faster and to build much smarter tools. With so much computing power available, they can train AI systems that understand not just text, but also speech, images and even complex reasoning, and run them instantly for millions of users at once. This has led to a new wave of software that can act on your behalf — like AI assistants that draft documents, analyse data or manage workflows — and to entirely new types of applications that did not exist before. The pace of improvement is so rapid that software products now evolve within months rather than years. This means that, for software companies, keeping up with AI is no longer optional: those that do not innovate risk being left behind.

The swift advances in AI have led to sell-offs in stocks across the digital world, as investors digested the potential impact on specific industries. The sell-offs, initially, included areas such as educational technology, digital advertising and translation services. Late last year, the sell-off spread to classifieds businesses (including Autotrader, Rightmove and Baltic Classifieds) amid concerns that their business models could be challenged by generative AI assistants. Selling also spread to AI-enabled data and analytics businesses (including LSEG, Relx, Experian and GlobalData) as investors sought to access the impact of AI on various business models.

In recent weeks, the sell-off has spread to enterprise software stocks, following the release of new agentic AI tools from providers such as Anthropic, which has exacerbated more generic concerns that AI-assisted development could lower barriers to entry across parts of the software industry. However, we note that modern enterprise SaaS platforms are increasingly complex, requiring deep expertise across security, data protection, privacy and regulatory compliance, as well as high standards of availability, performance and operational continuity. These requirements create meaningful barriers to entry that are not easily eroded by AI-driven code generation alone.

We note that Nvidia CEO, Jensen Huang, said at the time of Nvidia's results, in late February, that the markets had got it wrong regaarding the AI threat to software companies, and he pushed back on fears that AI agents will cannibalise the enterprise software industry.

AI agents are expected to operate enterprise software, and not replace it, sitting above systems of record as an orchestration layer. There remains a concern, however, that this function could reduce the pricing power of the enterprise software company, particularly when it operates a seats-based pricing model – in which case an AI agent could slash the required number of users.

Trading news flow has been healthy

As discussed on page 3, recent trading news has been positive. We have seen outlook improvements, on our assessments, among large cap tech-related businesses including LSEG, Rolls-Royce, Mony and Renishaw. Small cap outlook improvements, in our assessments, include Made Tech, AdvancedADVT, Tracsis, TPXImpact and Beeks Financial.

Balance sheets are healthy

Of the companies in our two software & services indices, two thirds of the constituents in each of the large cap and small cap have a net cash position. Further, all companies are EBITDA-positive on year 2, where consensus data are available, with only two small caps loss-making in year 1.

Growth drivers remain but clouded by AI concerns

Digital transformation and AI are still growth drivers

In spite of AI disruption fears, the underlying drivers remain in place with the UK software and computer services sector, propelled by a combination of digitalisation, AI adoption, cloud transformation, regulatory pressures and global demand. We note that industry analysts are forecasting low double-digit growth in global IT spending in 2026, which includes particularly strong growth in data centres, as we would expect, given the heavy US AI capex. The IT sector growth also includes a respectable mid-teen increase in software spending in 2026.

Shrinking equity supply

Takeovers have continued while the IPO market has been effectively shut, and secondary fundraisings have been sporadic.

We estimate that more than ca.£44bn has been removed from the tech-related space via takeovers since the COVID-19 pandemic began, of which more than £38bn was in the software and service space. Meanwhile, ca.£10bn has been added via new listings. Even after adjusting for secondary fundraisings, as well as buybacks, there has been a significant shrinkage in the sector, and this huge disparity should sway the odds for the bulls. The 51 stocks in our software and services have a combined market capitalisation of £37.2bn, and hence the total sector is ca.£38bn.

Investment conclusion

We look for companies on modest ratings, healthy balance sheets and with strong growth prospects. We prefer to look at EV/EBITDA and the Rule of 40 test (growth plus EBITDA margin is a good overall assessment of the opportunity).

Nearly a third of companies in our selection continue to trade at less than 7x Year 2 EBITDA

The small cap space remains modestly valued, with almost a third of the software and service companies in the selection trading at less than 7x EBITDA in the second year (see table on page 7) while two thirds of the companies have a net cash balance sheet.

Eight of the companies (Pinewood, Cerillion, Boku, Eurowag, Beeks Financial, Bango, Elixirr and Auction Technology) pass our simple Rule of 40 test, based on the three years of consensus data. A further nine are within five points of achieving the target.

Tech sector listing changes

Buyouts continue

Decline in UK technology sector listings continues

We have identified an additional five takeovers of UK technology and technology-related businesses during the past year, with a deal value of at least £100m and aggregate amount of just under £10bn. These five deals take the total since the COVID-19 pandemic began in 2020 to 27 and have an aggregated value of ca.£44bn. Excluding the latest two deals, of Alphawave IP and Spectris, the rest fit in the software and services sector and have an aggregated value of ca.£38bn. This compares with the total market capitalisation of the software and services sector of ca.£38bn, on our estimates. This acquisition wave began at the peak of the technology boom during the COVID-19 pandemic, with deal sizes larger at the early phase, and has continued relentlessly. There have been plenty of other recent approaches, including for Rightmove, Auction Technology, Pinewood and Senior. IDOX has accepted an offer from Long Path, at 71.5p, having defeated an approach in 2021 at 75p, but Long Path has not yet achieved the 50% binding acceptance level from IDOX shareholders.

Another disappointing departure from the London market is Augmentum Fintech, which is being acquired by Verdane, a Swedish/Norwegian growth buyout investor for ca.£186m. Augmentum Fintech is a closed-ended investment trust that provided investors with a rare mechanism to invest in a diversified portfolio of early-stage fintech companies. Augmentum Fintech floated on the main market of the London Stock Exchange in 2018 and traded at a premium to NAV between 2019 and 2021, but, in recent years, that swung to a discount. Prior to the bid by Verdane, it was trading at a 45% discount to latest published NAV, and it is being acquired at a 30% discount to this NAV.

We have seen no notable IPOs in the sector over the past year. However, there have been some interesting reverse takeovers, including Defence Holdings (via Cassel Capital), Gana Media (via Mobile Streams) and Trasna, which is undergoing an RTO via Anemoi. Visma, the Norwegian software company, was rumoured to be considering a €19bn (ca.£17bn) IPO on the London market, prior to the recent software sell-off, but the IPO appears to have been delayed. Visma is a competitor of Sage (current market cap is ca.£8bn), which tried to acquire Visma in 2006 for ca.£334m. Sage was trumped by HGCapital, which still holds ca.70% of Visma.

Selection of notable technology-related, UK-quoted companies acquired since the COVID-19 pandemic

Target	Estimated value	Announced	Completed	Acquiror
Avast	$6bn	August 2021	September 2022	NortonLifeLock
Blue Prism	$1.6bn/£1.25bn	December 2021	March 2022	SS&C
Ideagen	$1.3bn/£1.1bn	May 2022	July 2022	Hg Pooled Management
Emis	£1.2bn	June 2022	October 2023	UnitedHealth
Microfocus	$5.8bn	August 2022	January 2023	OpenText
Aveva	$10.8bn/£9.5bn	September 2022	January 2023	Schneider Electric
Kape	$1.6bn	February 2023	May 2023	Unikmind
Instem	£203m	August 2023	November 2023	Archimed SAS
Blancco Technology	£175m	August 2023	December 2023	Francisco Partners
Onthemarket	£100m	October 2023	December 2023	CoStar Group
Kin & Carta	£239m	December 2023	April 2024	Valtech
Sopheon	£115m	February 2024	December 2023	Wellspring Worldwide
Spirent	$1.5bn	March 2024	October 2025	Keysight
Gresham Technologies	£147m	April 2024	July 2024	STG Partners
Darktrace	$5.3bn	April 2024	October 2024	Thoma Bravo
IQGeo	£333m	May 2024	September 2024	KKR
Alpha FMC	£626m	June 2024	August 2024	Bridgepoint
Keywords Studios	£2.2bn	July 2024	October 2024	EQT, CPP and Temasek
Eckoh	£162m	October 2024	January 2025	Bridgepoint
Aquis Exchange	£194m	November 2024	July 2025	SIX Exchange
Learning Technologies	£836m	December 2024	March 2025	General Atlantic
Windward	£216m	December 2024	March 2025	FTV VIII LP
FD Technologies	£570m	May 2025	July 2025	TA Associates
Deliveroo	£2.4bn	May 2025	October 2025	Doordash
Inspired	£184m	June 2025	August 2025	HGGC
Alphawave IP	$2.4bn	June 2025	December 2025	Qualcomm
Spectris	£4.7bn	June 2025	December 2025	KKR

Source: Company announcements, Hardman & Co Research

Tech sector performance

Divergence from blue chip indices in spite of the growth profiles

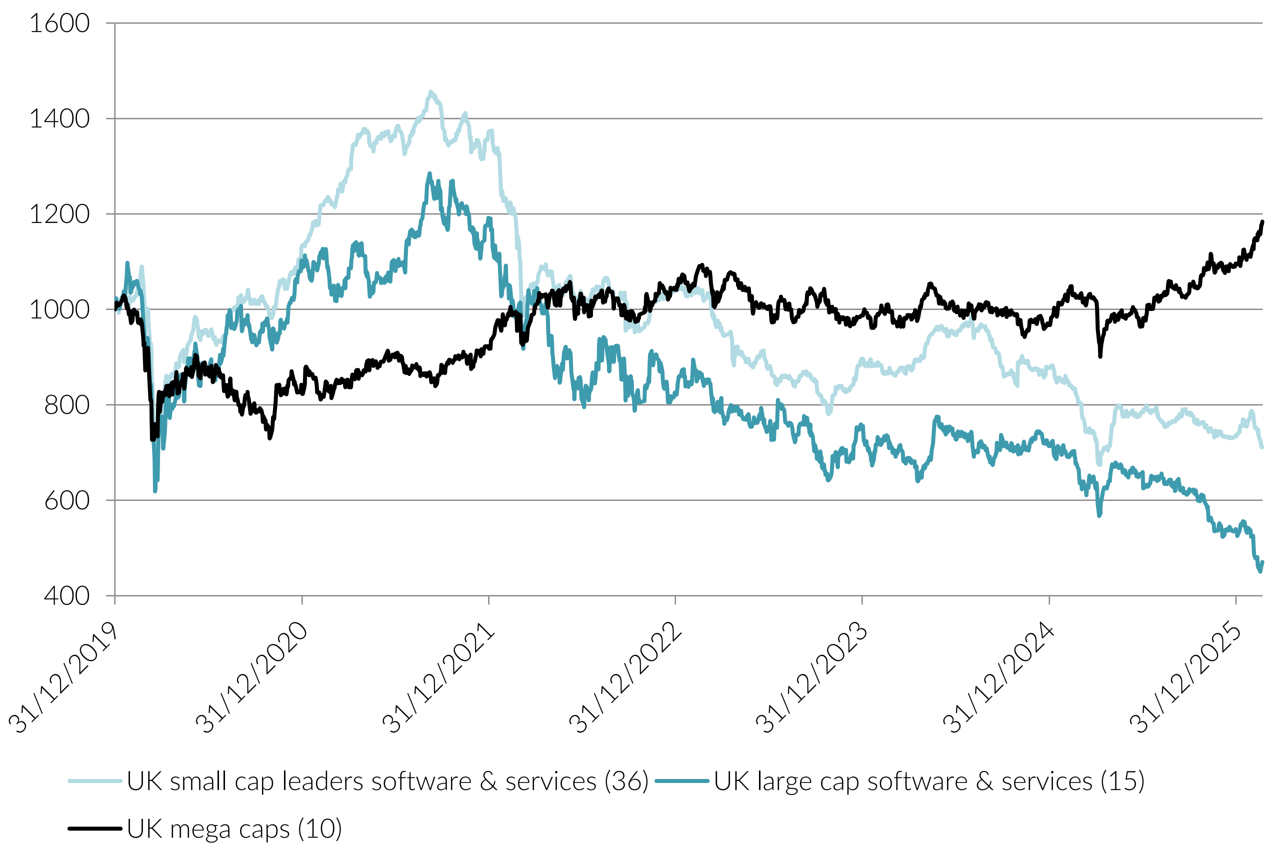
We follow equal-weighted indices of 15 large cap and 36 small cap UK software services companies and compare these indices with an equal-weighted section of 10 UK mega caps. The latter acts as a useful proxy for the broader weighted index.

Both small and large software & services indices follow a similar pattern. After slumping with the broader markets when COVID-19 hit in early 2020, software and services stocks were swept up as the economy was flooded with liquidity, substantially outperforming the broader markets. Both indices peaked in September 2021 but, subsequently, fell back when inflation hit and rates were tightened.

Software & services stocks have continued to diverge from the mega caps over the past year, with the large cap software & services stocks most severely hit. In our view, this is largely due to fears over the potential disruption of the three classifieds businesses in the sector.

We are aware of only two stocks – Activeops and Skillcast – among the wave of COVID-19 IPOs that trade above their IPO prices. Eurowag has had a good run over the past year but still trades below its 150p IPO price. We plan to promote Eurowag back into the top 15 software and services companies.

Software and services performance against mega caps since before COVID-19



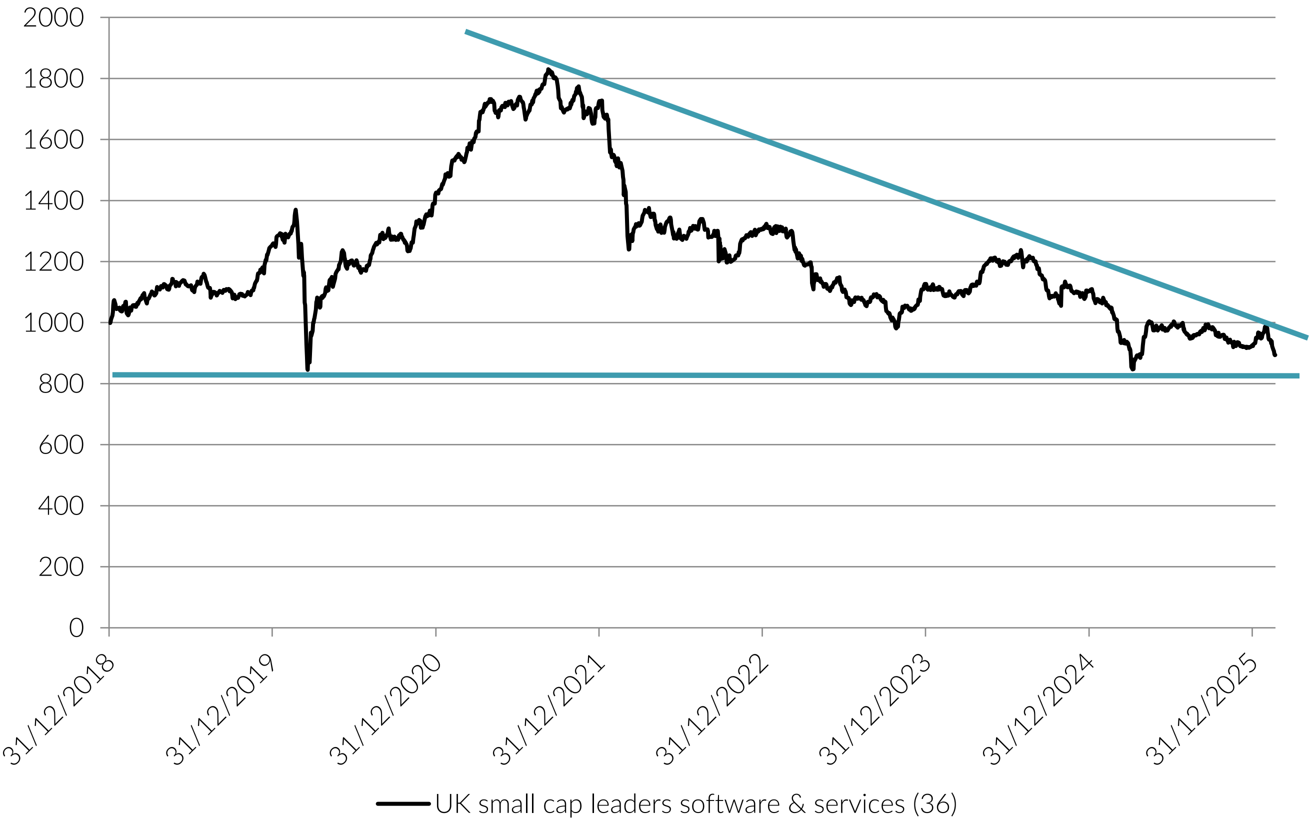
Source: Hardman & Co Research, LSEG data

Small caps testing pandemic lows

Small caps finding support at COVID-19 pandemic lows

Looking at the small cap picture separately, we see that the index is at roughly half its September 2021 peak, and testing the pandemic lows. In our view, this could provide a reason for more opportunistic investors to consider investments in the sector.

Small cap software and services performance since before COVID-19



Source: Hardman & Co Research, LSEG data

Valuations

Sector retains modest valuation multiples with growth

We have constructed a simple valuation table (see page 11) of 36 small cap software and services companies. Although we monitor the broader technology sector, this analysis focuses on software and services companies to ensure there is comparability, while excluding hardware and other disparate technology-related businesses. For simplicity, we have used the consensus forecast balance sheet position as at the end of the first financial year (31 December 2025, in many cases) to estimate the enterprise value.

Large cap software and services

Higher valuations reflect their larger scale and more established business models

UK larger cap software and services companies, on average, have moderately higher ratings than the small caps, with FY3 EV/EBITDA of 7.7x, compared with 7.1x for the small caps. Further, the compound revenue growth and margin expansion are more modest, at 5.7% and 120bp, respectively, over this two-year period.

Software and services valuation table

Name	Price (p)	Est. EV (£m)	EV/sales FY1	EV/sales FY2	EV/sales FY3	EV/EBITDA FY1	EV/EBITDA FY2	EV/EBITDA FY3
Sage	827	8,671	3.16	2.90	2.68	11.7	10.6	9.6
Auto Trader	484.2	4,049	6.42	6.04	5.69	9.5	9.0	8.5
Rightmove	443.4	3,374	7.32	6.74	6.24	10.8	10.0	9.4
Computacenter	3,160	2,892	0.34	0.32	0.31	8.3	7.7	7.2
Ocado	199.15	2,624	1.80	1.78	1.67	13.3	9.5	8.3
Softcat	1,135	2,092	1.44	1.35	1.23	10.7	9.8	8.9
Playtech	351	1,024	1.49	1.42	1.32	6.7	6.1	5.1
Mony	166.5	886	1.97	1.90	1.83	6.1	5.8	5.7
Trainline	188.5	871	1.94	1.87	1.78	4.9	4.8	4.7
Baltic Classifieds	181.2	847	10.86	9.74	8.79	14.2	12.9	11.6
Gamma	887	835	1.29	1.25	1.22	5.9	5.9	5.7
Kainos	746.5	815	2.02	1.83	1.68	12.1	10.3	9.1
Bytes	298	608	2.78	2.49	2.29	8.9	8.2	7.5
Alfa Financial Software	190.8	558	4.42	4.10	3.82	12.7	12.6	11.6
Trustpilot	143.8	543	2.85	2.43	2.11	20.0	15.6	12.5
Averages of stocks with 3 years of data			**1.70**	**1.61**	**1.51**	**9.1**	**8.4**	**7.7**
Weighted averages of stocks with 3 years of data			**1.65**	**1.56**	**1.65**	**1.57**	**1.48**	**9.9**

Source: Hardman & Co Research, LSEG data. Priced on the morning of 2 March 2026

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Small cap software and services

Sector retains modest valuation multiples with growth

Interestingly, for small caps, the averages are very similar to those we published a year ago. Focusing on averages of stocks with three years of data, the EV/revenue is 1.56x in FY1, falling to 1.49x in FY2 and 1.38x in FY3, while EV/EBITDA falls from just under 10x to 7.1x over the same period. This equates to ca.6.2% compound revenue growth over the two-year period and a ca.290bp increase in the average EBITDA margins.

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Software and services valuation table

Name	Price	Est. EV		EV/sales			EV/EBITDA	
	(p)	(£m)	FY1	FY2	(p)	(£m)	FY1	FY2
Eurowag	110	1,005	3.55	3.21	2.90	8.9	7.8	6.9
GB Group	197.2	548	1.92	1.83	1.73	7.8	7.3	6.8
Craneware	1505	529	3.07	2.80	2.65	10.2	8.9	8.5
Auction Technology	307	478	2.70	2.54	2.37	7.7	6.9	6.2
Cerillion	1515	431	8.11	7.31	6.69	17.9	16.1	14.7
Boku	181.5	400	4.27	3.53	2.95	13.3	10.8	8.7
NCC	128.4	396	1.30	1.30	1.26	9.1	9.2	8.8
Elixirr	698	376	2.53	2.03	1.89	8.7	6.8	6.4
RWS	74	311	0.44	0.43	0.42	2.8	2.6	2.4
Pinewood	294	297	6.67	4.79	3.80	18.7	11.6	7.7
Fintel	215	258	2.99	2.78	2.62	10.0	8.8	8.0
Redcentric	120.25	234	1.73	1.67	1.59	13.6	12.5	10.6
Team Internet	47.25	191	0.51	0.49	0.51	6.0	5.5	5.2
Seeing Machines	3.31	179	2.23	2.23	1.75	84.8	10.9	6.6
Netcall	112	174	3.02	2.59	n/a	14.5	11.8	n/a
Activeops	256	170	4.02	3.60	3.37	48.7	31.3	25.3
Dotdigital	57.6	162	1.76	1.61	1.50	5.6	5.1	4.8
Fonix	168	145	1.80	1.69	1.53	9.1	8.6	7.7
Beeks Financial Cloud	207.5	138	3.44	3.06	n/a	8.9	7.8	n/a
Tribal	66	137	1.51	1.47	1.47	8.0	8.0	8.4
Quartix	282	131	3.61	3.20	3.03	16.8	13.5	12.5
Eleco	144	127	3.31	2.95	n/a	14.5	12.4	n/a
FDM	140	124	0.70	0.75	0.67	6.5	6.5	5.1
Advanced ADVT	145	110	2.09	2.01	n/a	7.6	7.7	n/a
Aptitude	239	103	1.57	1.41	1.32	9.0	8.3	7.5
Eagle Eye	370	101	2.25	1.95	1.73	14.5	9.6	8.0
Accesso	275	84	0.73	0.77	0.75	5.1	5.5	5.1
Microlise	71	82	0.98	0.94	0.85	9.9	7.1	5.6
Tracsis	365	80	0.97	0.95	0.92	6.1	5.7	5.4
Corero Network Security	13	64	3.50	3.05	2.69	(649.3)	52.7	21.8
Software Circle	14.25	53	n/a	n/a	n/a	n/a	n/a	n/a
Skillcast	71	52	3.39	2.96	2.52	34.8	23.7	14.5
Bango	78	52	1.33	1.15	n/a	4.3	3.3	n/a
Intercede	109	48	2.54	2.26	1.98	10.3	9.3	7.4
Celebrus	131.5	28	1.64	1.41	1.10	(53.8)	31.4	7.2
Oxford Metrics	48.1	24	0.48	0.44	n/a	3.2	2.9	n/a
Averages of stocks with at least 2 yrs' data			**1.53**	**1.45**	**n/a**	**9.0**	**7.7**	**n/a**
Averages of stocks with 3 years of data			**1.56**	**1.49**	**1.38**	**9.7**	**8.3**	**7.1**
Weighted averages of stocks with 3 years of data			**1.82**	**1.82**	**1.72**	**1.61**	**9.0**	**7.8**

Source: Hardman & Co Research, LSEG data. Priced on the morning of 2 March 2026

Conclusion

AI-disruption fears have wreaked havoc across the digital world in recent months. However, this increased volatility creates an opportunity for investors in the technology sector. We suggest that investors should focus on stocks with healthy balance sheets and attractive valuation metrics. Stocks that pass the Rule of 40 test and have strong financial position warrant a more serious consideration.

In summary, we highlight the following points supporting the investment case for UK technology stocks:

- Recent trading news has been positive
- Takeover activity has been brisk
- Limited equity supply is supportive
- Software and services sector valuations are attractive
- Software and services sector balance sheets are mostly healthy
- Small cap software and services stocks are trading at pandemic lows

About the author

Richard Jeans

Richard Jeans is an equity analyst at Hardman & Co, covering the technology sector.

Richard has worked in the investment research industry and financial media for over 35 years. He has covered small cap technology stocks from across the globe for more than 15 years. He has built up a strong knowledge of the global capital markets, having worked on the capital markets desk at the Financial Times. Prior to that, he worked at an independent equity research company in the early 1990s. Brought up in New Zealand, his first job involved compiling the stock market data for New Zealand's largest newspaper.

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