3 Tech Companies to Watch

Description

If you look at a list of Canada's top 10 technology companies (by market capitalization) from March 2000, how many of those 10 would still be on the same list today?

The answer is three: **Blackberry** (TSX:BB), **Celestica** (TSX:CLS), and **CAE** (TSX:CAE). Such is the nature of technology — things change so quickly that once-great companies can easily be left in the dust. It's no wonder that so many great investors avoid the sector altogether.

In Canada, there seems to be a particular lack of enthusiasm towards the tech sector – perhaps many investors still have bad memories from Nortel or Blackberry. Predictably, access to capital is often cited as a number-one concern among Canadian tech companies, and selling out to **Google** becomes a much more attractive option than going public.

In 2013, the tide started to turn. The Canadian technology sector outperformed the broader market, returning 36%, and investor interest picked up. **Difference Capital** chairman Michael Wekerle pointed out that many investment bankers and analysts who were once committed to natural resources slowly shifted into sectors such as technology. Trading volume in technology stocks increased by 19% in 2013, 46% when measured by dollar value traded.

Thus it seemed like the perfect time for Cantech, a Canadian technology newsletter, to hold its first-ever investment conference, featuring speeches from a wide variety of Canadian technology companies. A few companies stood out.

One of these was **QHR Corporation** (TSXV:QHR), a provider of software for the healthcare industry, in particular electronic medical records. QHR offers a perfect case study of what investors should look for in a technology company.

The company has high recurring revenue (78% of the total) with renewal rates above 95%. QHR also has a diversified revenue base with over 25,000 users. The company is the leader in a very fragmented market, meaning it has a very long runway for growth and is in a great position to consolidate the industry.

QHR has been able to grow revenues at 46% per year since 2008, and investors seem to have caught on. The company's shares have returned 162% over the past 12 months alone.

A company with similar characteristics is **GuestLogix Inc.** (TSX:GXI). GuestLogix provides technology for travel operators, with a focus towards onboard revenue. The company has a 90% airline market share in North America, and like QHR, it has high recurring revenue. Unlike QHR, its revenue growth has not been as strong – essentially flat over their past three fiscal years – although its shares are still up 30% over the past year.

No tech investment conference would be complete without companies that have very innovative technologies but no revenues. For investors who like to make those kinds of bets, the most interesting presentation came from **UrtheCast** (TSX:UR). This company has mounted cameras on the Russian side of the International Space Station, and will be selling HD video of Earth to data partners in natural disaster relief, agricultural monitoring, and other sectors.

The highlight of the conference came at the end of the day with Canadian astronaut Chris Hadfield's incredible speech about his expedition to the space station last year. It was the perfect way to cap off such a conference.

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