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Redknee Solutions Inc. (RKN : TSX)

Date: November 1, 2009
Price: \$1.03



KEY INFORMATION

Fiscal Year-end	September 30
52-Week High/Low	\$1.40 - \$0.15
3-Month Avg. Daily Trading Volume	164,331 shares
Market Capitalization	\$58.8 million
Enterprise Value	\$36.4 million
Book Value per Share (June 30)	\$0.42
Current Ratio	2.1
Gross Margin	78%
LT Debt to f2009e CF	0.0
LT Debt to Equity	0.0
Price to f2008 Earnings	n/a
Price to f2009e Earnings	11.5

FINANCIAL DATA (000's of Canadian Dollars)

	3 Months Jun 30		9 Months Jun 30	
	2009	2008	2009	2008
Revenues	8,861	8,079	42,447	36,027
Net Income	508	(3,854)	3,575	(5,310)
per share	0.009	(0.068)	0.063	(0.094)
Cash Flow	2,982	(3,199)	3,236	(5,502)
per share	0.052	(0.057)	0.056	(0.098)

BALANCE SHEET (as at June 30, 2009)

Current Assets	\$ 40,102,774
Total Assets	43,153,780
Current Liabilities	19,409,349
Long-Term Debt	nil
Shareholders' Equity	23,744,431

SHARES OUTSTANDING (as at June 30, 2009)

Basic	*57,107,659
Fully-Diluted	59,122,135

* management and insiders own approximately 48% of the company's issued and outstanding common shares.

Highlights:

- expansion into high population regions with increasing demand for mobile applications
- profitable operations for past 4 quarters
- gross profit margin of 78%
- healthy balance sheet with cash and short-term investments of \$22.4 million (\$0.39 per share) and no debt

COMPANY OVERVIEW

Redknee was established in 1999 and has developed into a leading global provider of innovative communication software products, solutions and services for the mobile communications industry. The company develops, markets, and licenses infrastructure software solutions and related professional services to some of the largest network operators throughout the world, including wireless, wireline, broadband and satellite. The company listed on the Toronto Stock Exchange in October 2008.

Redknee has worldwide offices or presence in countries across five continents. These include Canada Australia, China, England, France, Germany, India, Indonesia, Jamaica, Kenya, Malaysia, Singapore, the United Arab Emirates, and the US. The company's global customer base now includes over 70 well-known communication service providers in more than 50 countries. Redknee currently has 17 granted patents and over 50 pending patent applications.

Redknee is dedicated to delivering software solutions that enable mobile, fixed, and satellite service providers to charge, price, deliver, and bill for all of the newest telecommunications services available. The company's product portfolio includes converged billing; interconnect billing; customer care; mobile money and real-time rating, charging and policy for voice, messaging and next generation data services. These products are discussed in more detail below.

Redknee's award-winning *Turnkey Converged Billing* is a complete billing and customer care solution for wireless, broadband, and fixed service providers. *Next Generation Rating and Charging* is a powerful, real-time rating and charging engine for wireless or broadband providers to creatively price, bundle, and charge for new services. *Redknee Policy Manager* is a solution that helps operators to reduce costs and better control their network resources. *One Call Resolution* enables customer care representatives to resolve problems quickly and efficiently. *InBill* is a wholesale billing and content management solution. Finally, *Mobile Money Solutions* is a suite of real-time solutions that focus on serving the financial and commerce requirements of mobile subscribers.

Redknee's management team is dedicated to delivering on the following three long-term measures of success: providing mission-critical solutions to its global customer base; achieving market leadership in target markets including the high-growth regions of Africa, the Middle East and Asia Pacific; and continuing to increase the proportion of recurring revenues in its business model.

FINANCIAL SUMMARY

The company has demonstrated tremendous year over year growth and surpassed \$50 million in revenues for fiscal 2008. For the first 9 months of fiscal 2010, Redknee has achieved an 18% increase in revenues to \$42.4 million and net income of \$3.6 million or \$0.063 per share. Approximately 75-80% of the company's revenues are presently denominated in US dollars and about 60% of operating expenses are denominated in Canadian dollars. This can cause large fluctuations in foreign currency conversions. During the third quarter of fiscal 2010, Redknee recognized a foreign currency exchange loss of \$1.3 million as the Canadian dollar strengthened significantly against the US dollar. This trend has recently reversed.

Revenues for the 9 months ended June 30, 2009, were comprised of 60% software and services, 37% support and subscriptions, and 3% third party software and hardware. Recurring revenues improved to approximately 40%. Geographically, 42% of revenues were derived from the Americas (North America, South America, Caribbean), 40% from EMEA (Europe, the Middle East, Africa), and 18% from APAC (Asia Pacific). The company's gross margin increased to 78% in the first three quarters of f2010 as compared to 68% for the same period in f2009. The backlog at the end of the third quarter totaled approximately \$28.3 million.

RECENT DEVELOPMENTS

In July 2009, Redknee signed a multi-million dollar license expansion agreement with a leading Tier 1 operator in the EMEA region. In September 2009, the company released version 8.1 of Turnkey Converged Billing. Six operators are already in the process of installing or upgrading to the new system.

SUMMARY

Redknee is a rapidly emerging company with a strong focus on gaining market share in key geographic regions where mobile demand is growing at unprecedented rates. At the same time, Redknee has been successful in increasing its recurring revenue stream which is having a positive impact on gross margins, cash flow and earnings. The company is presently trading at just over 11 times trailing earnings and has a healthy balance sheet including cash and short-term investments of \$22.4 million (\$0.39/share) and positive working capital of \$20.7 million (\$0.36 per share). The latest reported working capital includes \$7.0 million of deferred revenue, which, if eliminated, would increase the company's positive working capital position to \$27.7 million or \$0.49 per share. Redknee also has no debt and an undrawn US\$10 million line of credit.

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