

# Mossberg's Investor Digest

## Best Idea Profile:

## Axesstel Inc. (OTCQB:AXST)

### DESCRIPTION:

Axesstel provides wireless voice, broadband access and connected home solutions products. Its products include phones, wire-line replacement terminals, security alert systems, and 3G and 4G broadband gateway. The gateway devices provide half of the Company's revenue and are targeted to rural markets, bringing high speed internet capability into residential and business locations, with the biggest customers in Poland and Scandinavia. Axesstel products, all of which are cellular based, are used for voice calling, high-speed data access, and connected home management services, and are sold to leading telecommunications operators and distributors in over 50 countries worldwide. Axesstel is headquartered in San Diego, California.

### KEY INVESTMENT CONSIDERATIONS:

**Transforming** – The Company's first transformation was completed in 2011 by management that came on board in 2008. Axesstel stemmed its financial decline and restructured past due payables into short-term, interest-free debt. It is paying 6.7% in interest, compared with up to 24% a short time ago. The second transformation is currently underway as Axesstel adds a recurring revenue security alarm business to its traditional sales of telecom devices.

**High Expectations for Security Alert Devices** – Axesstel is the first company to come to market with a cellular-based security alarm product. Management predicts the new alert system will be "disruptive to the securities alarm industry." Approximately 24% of U.S. households have security alarms, with only half of these using their systems daily because of difficulty of use, annoyance or fear of false alarm fines. Axesstel believes it can further penetrate this market by decreasing the cost through the use of cellular and tying its products to triggered events, which would increase value to the customer. For example, the motion sensor on a device could be inactive until a child gets home from school. Then the device would turn on and send a message to the parent notifying them of their arrival. It would also allow self-monitoring so customers can choose who is notified in a breach. Both of these features make security less expensive, as well as more flexible than existing systems.

**Creates Recurring Revenue** – Telecom carriers aren't in the security alarm business, but are looking for ways to further hook their customers and expand their vertical reach. The goal for Axesstel is to provide these

products and their multitude of accessories, and generate attractive recurring service fees. Axesstel shipped its first products to Africa, resulting in \$3.5 million in sales in the fourth quarter. Axesstel believes Boost (the prepaid arm of Sprint) will be the first U.S. customer to buy in real volume.

**Growing Revenue and Profitability** – Axesstel completed 2012 with six consecutive profitable quarters. Management has predicted positive working capital in 2013. Revenue is expected to increase 10 to 15% year over year, which on such a leveraged operating model, will in large part fall to the bottom line. Management is targeting \$100 million in revenue.

**Strong Legacy Business** – Axesstel's legacy business continues to grow and has significant barriers to entry. More than half of revenue is 3G and 4G gateways targeted at rural markets. The regulatory environment should be favorable for wireless as governments are removing many requirements to offer fixed lines to all markets.

### VALUATION:

Axesstel is a survival and turnaround story. Importantly, the turnaround was delivered without diluting shareholder value. Timing may be excellent for investors as Axesstel debuts its new security product line in Las Vegas in latter May.

#### Axesstel Inc. (OTCQB:AXST) Investment Data (as of 5/12/13)

<b>Recent Price</b>	<b>\$1.30</b>
52-Week Range	\$0.51 - \$1.95
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	24.1 M
Average Trading Volume (3 mos)	26k
Market Capitalization	\$31.4 M
Cash	\$1.9 M
Long-term Debt	\$10.4 M
Enterprise Value (EV)	\$39.9 M
Book Value	\$(0.29)
TTM Revenue	\$59.7 M
P/ Revenue	0.5 x
TTM EPS	\$0.16
P/ EPS	8.1 x
TTM EBITDA	\$4.9 M
EV/ EBITDA	8.1

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