

Mossberg's Investor Digest

Best Idea Profile:

Elephant Talk Communications, Corp. (NYSE:ETAK)

DESCRIPTION:

Elephant Talk Communications, Corp. provides mobile networking software and services. Elephant Talk's software solutions enable the emerging technology that underpins some of the most common transactional activities including the use of near field communications: waving a wireless travel card; and the use of mobile wallets: using a SIM card to pay for goods by swiping a phone in front of a wireless payment enabled terminal. Elephant Talk provides a proprietary cloud-based mobile communications infrastructure, operating software, and managed services to Mobile Operators and Virtual Network Operators. As a specialized outsourcing partner, the Company provides cloud-based services to the mobile telecommunications industry globally. Products include remote health care, credit card fraud prevention, mobile internet ID security, secure remote file access management, and loyalty and transaction management services. The Company is headquartered in Lutz, Florida.

KEY INVESTMENT CONSIDERATIONS:

Big Contract Should Accelerate Growth – Elephant Talk recently announced a multi-year mobile services contract with a leading global telecommunications company (not yet able to disclose which one), which moves its mobile operations into at least two new European countries and will expand operations in an existing one. This contract is expected to add several million mobile subscribers to its platform and continue to add subscribers. Management is having formal discussions with over a dozen other mobile operators throughout the Americas, Europe, and the Middle East.

Entrance in North American Market – Elephant Talk signed its first North American financial institution for its ValidSoft fraud detection and prevention capabilities. It expects first-year revenue from this contract to be between \$0.5 million and \$1.5 million, depending on that institution's roll-out. ValidSoft's solution offers real-time fraud prevention before the purchase is even processed by adding another layer of security: it matches the location of the financial transaction to the location of a user's mobile device before authentication. Although established in Europe, this provides a foothold into North American markets. The worldwide fraud problem is very large, and therefore has substantial opportunity for unique fraud solutions.

Positive Cash Flow on the Horizon – Management expects positive operational cash flow by early 2013.

Lessening Impact of Legacy Business – Elephant Talk's legacy landline business is quietly diminishing. After a fifth consecutive quarter of sequential growth, Mobile and Security revenues are now almost 44% of total revenues and this higher-margin business should continue to capture the spotlight.

Cash Position Bolsters Flexibility – Elephant Talk has \$4.3 million in unrestricted cash. It bolstered its balance sheet a year ago through the completion of a private equity placement and convertible note conversion. With a history of reliance on acquisitions to fuel growth, this positions the company to take advantage of operational or acquisition opportunities.

Risk – Revenue is hard to predict because the original landline outsourcing business has been in planned decline for years and it is uncertain at what rate that will continue. Also, the reported results are subject to substantial currency translation effects.

VALUATION:

Despite its exciting announcements, Elephant Talk remains off most investors' radar. There is near-term upside as ETAK turns the corner on profitability, and longer term, the valuation could expand several times as the Company continues to demonstrate rapid growth and ability capture significant portions of large markets.

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Investment Data (as of 11/28/12)

Recent Price	\$1.06
52-Week Range	\$0.77 - \$3.45
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	111.7 M
Average Trading Volume (3 mos)	226k
Market Capitalization	\$118 M
Cash	\$4.3 M
Long-term Debt	\$7.4 M
Enterprise Value (EV)	\$115 M
Book Value	\$0.22
TTM Revenue	\$30.5 M
P/ Revenue	3.9x
TTM EPS	(\$0.21)
P/ EPS	NA
TTM EBITDA	(\$17.4)M
EV/ EBITDA	NA

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