Mossberg's Investor Digest
Idea Profile

Jacada (Nasdaq: JCDA)

DESCRIPTION:

With an 18 year operating history, Jacada provides contact center software designed to bridge disconnected systems and simplify and automate customer service processes. Essentially, the company's software allows contact center agents to be more efficient and lowers the average call times. In turn, lower call times reduces headcount requirement and ultimately leads to significant cost savings. The company has 1,200 customers including Vodafone, Qwest, UBS and 20 of the Fortune 100. Headquartered in Israel with global operations, Jacada's principal markets are in North America (40% of 2007 sales) and Europe (56%).

KEY INVESTMENT CONSIDERATIONS:

Divesting legacy business repositions JCDA as a pure-play high growth company, which should lead to higher valuations – In January 2008, Jacada sold a legacy business for $26 million in cash. While selling the legacy business takes away approximately 30% of revenue and lowers profitability, removing the mature business increases the company's growth rate from a blended 20% to 60%.

Tough economic times means customers focus on IT investments with a high impact high return projects – JCDA's products have demonstrated ability to produce significant return on investment, enabling customers to reduce call times (and headcount) by 15% to 20%.

Solid value proposition leads to new customer growth – With its solid value proposition, 1Q08 backlog was up 50% and new customers have accounted for 70% of revenue in recent quarters. On August 5th the company announced a new material contract with a major telecom service provider, the fourth major contract win since June.

$2.68 per share in cash, no debt, and positive operating cash flows, should offer limited downside risk – The company has announced an authorization to buy back as much as $10 million (13% of stock outstanding at current levels) worth of its own shares, which should offer downside support should shares fall from current levels.

Increased activity from channel partners – 2007 investments in establishing sales and service channels have begun to pay off in 2008. During the 1Q08, channel partners, which include Accenture and IBM, represented 20% of revenue. These channel partners extend the company's market reach and validate the value proposition of its products.

KEY RISKS:

Competition – Microsoft and other large players have competing offerings. While competitors don't appear to be enjoying as much success as JCDA in this market, a change in focus by competitors could lead to increased pressure.

Customer concentration – In 2007, two customers represented 41% of total revenue and in 2006 three represented 57% of revenue. A failure to secure new customers and retain existing customers could severely impact financial results. In addition, the large nature of these contracts can cause significant fluctuations in quarterly performance.

VALUATION:

With revenue expectations of $20 million to $22 million for 2008, JCDA trades at an enterprise value of just 0.8x to 0.9x revenue, a compelling valuation for a software company with a 60% growth rate. If management is able to execute on its growth plans over the next year, valuation multiples could expand significantly as the company begins to generate profits and investors realize the story has migrated from deep value play to a growth story.

(Nadaq: JCDA)
Investment Data (as of 8/9/08)

Recent Price	**$3.68**
52-Week Range	2.76 - 4.34
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	20.6 MM
Average Trading Volume (3 mos)	40,000
Market Capitalization	**75.9 MM**
Cash & Investments	55.4 MM
Long Term Debt	NA
Enterprise Value (EV)	17.9 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	$2.95
TTM Revenue	16.2 MM
EV/ Revenue	**1.1x**
*TTM EPS	(0.45)
P/ EPS	**NA**
*TTM EBITDA	(11.1 MM)
EV/ TTM EBITDA	**NA**

* Adjusted for $20.6 million extraordinary gain