



# Mossberg's Investor Digest

## Best Idea Profile

Pure Technologies, Ltd. (TSX: PUR.V)

### DESCRIPTION:

Headquartered in Calgary, Pure Technologies, Ltd. provides products and services for inspecting and monitoring pipelines, bridges and other structures. The company has technologies that use electromagnetic inspection to establish the existing condition of concrete cylinder pipelines. In addition, the company's technologies offer the only non-intrusive way to continuously monitor pipes (water, oil & natural gas) without the need for emptying the pipe. The company's monitoring technologies are also used to continuously monitor suspension cables in bridges and wire strands inside concrete structures. Revenue is defined in four categories 1) equipment sales (approximately 60% of revenue), 2) inspections (15%), 3) consulting (12%), 4) monitoring and support (12%).

### KEY INVESTMENT CONSIDERATIONS:

**Strong backlog gives visibility** – The company has grown revenue at 45% per year for each of the past three years and is poised for growth to continue at a significant pace. Management says the company has a confirmed backlog in excess of \$19 million and annual recurring revenues of approximately \$3.5 million...significant visibility into future revenue.

**Desperate need for spending on U.S. infrastructure** – According to the American Society of Civil Engineers' 2009 Report Card for America's Infrastructure, the nation's bridges and water infrastructure are in bad need of an overhaul. In the report, the ASCE says that one in four of the nation's bridges are either structurally deficient or functionally obsolete. The report also points out that leaking pipes lose an estimated seven billion gallons of clean drinking water a day. While clearly there is a need for spending on updating U.S. infrastructure, there are limited resources available, especially at the state and local levels. These agencies must allocate their limited resources carefully and Pure's technologies help them do that. 1) The technologies typically don't require the pipeline to be empty, which not only eliminates the disruption of water service, but also saves the costs associated with emptying and refilling the pipes. 2) The technologies allow for continuous monitoring, which allows problems to be spotted before they become more costly catastrophic failures.

**New technology has growing interest in oil and gas pipeline application** - The Company introduced its new leak detection technology called SmartBall® several years ago to detect and accurately pinpoint leaks at an early stage of growth. Early detection enables pipeline operators to take remedial action before more serious damage occurs. The technology was originally developed for water pipelines, but has recently been introduced as a solution for oil and gas pipelines. The SmartBall is a sphere with sensors inside that travels with the water/oil/gas flow down a pipe, detecting leaks as it rolls. The SmartBall can be inserted and retrieved from a pipeline under normal operation. In early March, the company announced its first license agreement with CLH, a major Spanish oil pipeline operator that manages a pipeline network more than 3,800 KM long, one of the most extensive civil pipeline networks in Western Europe.

### VALUATION:

With an EV/ EBITDA multiple of 14x, the shares appear to be valued on the potential of the growth of the business. While top line has grown, the margin levels have not, as the company has continued to invest at the operating level to grow sales and bring new products to market. Last year the company produced gross margins in the low 60's and net margin around 10%. As new products gain traction, there should be leverage in the business model that will allow profitability growth to outpace the top line and justify a higher valuation.

### (TSX: PUR.V)

Investment Data (as of 4/14/09)

<b>Recent Price</b>	<b>\$3.26</b>
52-Week Range	2.00 - 4.00
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	32.8 MM
Average Trading Volume (3 mos)	30,000
<b>Market Capitalization</b>	<b>107 MM</b>
Cash	20 MM
Long Term Debt	N/A
Enterprise Value (EV)	87 MM
LT Debt/ Equity	N/A
BV/ Share	1.00
TTM Revenue	22.2 MM
<b>P/ Revenue</b>	<b>4.9x</b>
TTM EPS	0.07
<b>P/ EPS</b>	<b>47x</b>
TTM adjusted EBITDA	6.2 MM
<b>EV/ TTM EBITDA</b>	<b>14x</b>

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