



Mossberg's Investor Digest

Idea Profile

Telular (Nasdaq: WRLS)

DESCRIPTION:

Headquartered in Chicago, Telular Corporation designs, and markets devices and services that enable a standard telephone, fax, computer, security alarm or remote monitoring system to operate wirelessly over the cellular network for either primary or back-up communications. The company has three main lines of business 1) The company's TelGard wireless alarm business (2/3 of revenue) provides systems and subscription services that allow data from security and fire systems to be transmitted to central stations using the nationwide GSM digital cellular network. The company has approximately 425,000+ subscribers and is the dominant player (more than 50% market share) in this market. 2) The company also sells terminals, primarily into Latin America, that give small businesses and other users phone, fax and internet access, where landline connectivity is not available. For the first nine months of the fiscal year, business outside the U.S. (primarily Latin America) grew 37% and represented 15% of revenue. 3) Recently the company acquired SupplyNet, which provides tank monitoring solutions for petroleum logistics and chemical companies.

KEY INVESTMENT CONSIDERATION:

Growing base of recurring profitable revenue – Telular already dominates the wireless event monitoring market for security monitoring applications. The company's 425,000+ subscribers provide an annual revenue stream of about \$20 to \$25 million, with significant profitability and predictability. WRLS is a mobile virtual network operator (MVNO), which means that they do not own their own cellular network infrastructure, but rather purchase airtime on a wholesale basis, mark it up and sell it to home security companies. This is a good business, which requires no capital outlay and produces a 50% gross margin. The company has a goal of growing the recurring revenue base from 1/3 of revenue to 2/3 of revenue.

SupplyNet acquisition adds to recurring revenue base and provides entrance into new event monitoring market – SupplyNet currently monitors 13,000 tanks for companies such as BASF, Cargill, US Filter and many other leading petrochemical companies. The company is expected to generate \$6 million in revenue during 2009. The acquisition diversifies WRLS' revenue stream, adds a new rapidly growing vertical market, and allows the company to leverage its technology investment and service expertise.

Solid balance sheet with excess liquidity – After subtracting the \$3 million in cash paid for SupplyNet, and adding back cash flow generated during the quarter, the company has approximately \$1.00 in cash per share and no debt.

KEY RISKS:

Customer Concentration – During the first nine months of its fiscal year, the company derived approximately 55% of its revenue from two customers in the U.S. and one in Latin American. During the September 2008 quarter, orders from ADT, one of its significant U.S. customers, slowed causing results to come in below expectations.

VALUATION:

Like many other micro cap stocks, WRLS stock is not trading based on fundamentals. It's possible that there are some holders that are being forced to sell due to redemptions, margin calls, or other non-fundamental reasons, which means shares could go lower. However, with the stock trading near its cash value, and a \$5 million buyback in place, the downside should be limited and longer term holders should be rewarded when fundamentals come back into play.

The SupplyNet acquisition was valued somewhere between 0.5x and 1.0x revenue. If we apply this conservative range to Telular's 4Q revenue run rate of \$50 million (includes \$6 million of SupplyNet revenue), we come up with a value of \$1.30 to \$2.60 per share. Add the cash and the stock is valued somewhere between 2x to 3x its current valuation. This is a base case scenario and valuing the company based on discounting cash flows could yield much higher valuations.

(Nasdaq: WRLS)	
Investment Data (as of 10/16/08)	
Recent Price	\$1.28
52-Week Range	1.09 - 8.59
Fiscal Year End	September
Dividend	N/A
Yield	N/A
Shares Outstanding	19.3 MM
Average Trading Volume (3 mos)	74,000
Market Capitalization	25 MM
Cash	19 MM
Long Term Debt	0
Enterprise Value (EV)	6 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	1.98
TTM Revenue	81 MM
P/ Revenue	0.3x
TTM EPS	-0.03
P/ EPS	N/A
TTM EBITDA	9.6 MM
EV/ TTM EBITDA	0.8x

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