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16 JANUARY 2008

SANGOMA TECHNOLOGIES CORPORATION

The Gateway to an IP World

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STC-TSX V: \$1.05
RECOMMENDATION: BUY
TARGET PRICE: \$2.20

TECHNOLOGY - COMMUNICATIONS AND EQUIPMENT

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INVESTMENT HIGHLIGHTS

SANGOMA TECHNOLOGIES CORPORATION

STC-TSX V: \$1.05

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- Moving to an IP-PBX environment:** The introduction of open-source telephony is making Voice-over-Internet Protocol (VoIP) and feature-rich Unified Communications accessible to the small and medium-sized business (SMB) market. This is creating growing market demand for telephony cards to handle IP-based communications.
- Market in infancy stage:** According to Infonetics Research and Sangoma, the current SMB market for Open Source Telephony (OST) cards is estimated at \$30-\$40 million annually, growing at a CAGR of 40%-50%. At the same time, a Windows-based IP PBX market is developing which would add an incremental \$125 million in telephony card revenues, growing at a CAGR of at least 30%, over the next 3-4 years. In addition to supporting OST, Sangoma is the only vendor with a Windows-based solution.
- Superior firmware offers premier performance:** Sangoma is regarded as an innovative, high-quality supplier, with growing global brand recognition, differentiated firmware design, and premier price/performance rating. Sangoma's solution offers an attractive value proposition compared to enterprise-oriented systems. Unlike competitors, the company is market neutral, focusing solely on the OEM market. Sangoma has a 30% share in the OST market.
- Sangoma operates a very profitable business model:** Despite a strong appreciation in the Canadian dollar, organic revenue growth stands at over 48% per annum during the past three years (reaching record quarterly sales in Q1/F08), gross margins have consistently remained above the 70% level, and profits have been realized for the last six fiscal years and past 13 sequential quarters. Net earnings have increased at a CAGR of 29% and 33% over these respective periods. Net margins currently stand at 33%.
- Solid balance sheet and cash-flow generation:** With minimal capex requirements and strong profitability, the company is able to deliver growing positive free cash flow. Sangoma is well financed with \$2.7 million in net cash (no debt), or \$0.10 per share.
- Attractive valuation:** We are initiating coverage of Sangoma Technologies Corporation with a **BUY** recommendation and a one-year target price of \$2.20 based on 10x our calendar 2009 earnings estimate of \$0.22. Based on our calendar 2009 EPS estimate, the shares are trading at 4.8x, a 55% discount to the peer group average of 10.6x. Considering the company's demonstrated strong profitability growth, we expect the multiple gap relative to the peer group to narrow as the company's addressable market grows (Microsoft IP-PBX), new products are launched, and the company gains increased investor awareness.

RECOMMENDATION: BUY

Per Share Data C\$

Price \$ (01/16/08):	\$1.05	Basic Shares O/S:	27.8 mm
Target Price \$ (1 yr.):	\$2.20	FD Shares:	28.5 mm
Projected Return:	110.0%	Float (Shares):	16.2 mm
52 Wk. Range (\$):	\$0.52-\$1.72	Market Cap. (\$):	\$30.0 mm

FY June 30	2006A	2007A	2008E	2009E
EPS-FD	\$0.04	\$0.08	\$0.14	\$0.18
P/E	26.3x	13.1x	7.5x	5.8x
CFPS	\$0.06	\$0.10	\$0.16	\$0.21
P/CF	17.5x	10.5x	6.6x	5.0x

SANGOMA TECHNOLOGIES CORPORATION — PERFORMANCE



Courtesy of BigCharts.com

SANGOMA TECHNOLOGIES CORPORATION

Sangoma Technologies Corporation (www.sangoma.com) designs, manufacturers, and distributes data and telephony hardware and software that allow PCs to be used as telephony devices or high-performance data routers. The company primarily targets the open-source telephony OEM market. The company's solutions are used in varying applications such as PBX, call centers, data transmission systems, voice monitoring networks, and Internet services.

EXECUTIVE SUMMARY

Sangoma Technologies Corporation (Sangoma) designs, manufacturers, and distributes analog, digital, and data hardware telephony cards that are integrated into PCs, enabling them to be used as Private Branch eXchange (PBX) and other telephony applications, or as high performance data routers. This allows PC servers to be used as Voice-over-Internet Protocol (VoIP) gateways, PBX devices, call-center managers, telephone switches, and data routers. Sangoma's products support Open Source Telephony (OST) applications such as the popular Asterisk system. In the OST market, the company has an estimated 30% market share. In addition to this, further growth opportunities reside with the emerging Microsoft Windows-based PBX (Unified Communications) market. Within this market, Sangoma has an early-mover advantage compared to its peers, as it already has a Windows-based product offering. The company's solutions are used by several industry segments, including government, military, banking, retail, medical, and manufacturing.

Unlike its key competitor, privately-held Digium, Sangoma's multi-pronged strategic plan is designed around a solution that is customer, application, and operating system agnostic, with a focus on growing the company's presence on a geographic scale. Following this strategy, the company has positioned itself as an innovative, high-quality supplier, with growing global brand recognition, differentiated firmware design, and premier price/performance rating. Overall, Sangoma's solution offers an attractive value proposition for the small and medium-sized business (SMB) market compared to enterprise-oriented systems.

The introduction of OST is making VoIP and feature-rich Unified Communications economical for the SMB market. This is creating growing market demand for telephony cards to handle IP-based communications. According to Infonetics Research and Sangoma, the growing market for OST telephony adapter cards is estimated at \$30-\$40 million annually, growing at a CAGR of roughly 40%-50%. This market growth is primarily among SMB users, Sangoma's targeted end-customer. The OST market is dominated by Digium and Sangoma; the remainder is comprised of several, small-scale private players. Most of these competitors compete on price, while Sangoma competes primarily on offering a differentiated, feature-rich product set.

A developing market opportunity over the next 3-4 years is the introduction of a Windows-based IP PBX software solution which would add an incremental \$125 million in annual IP telephony card revenue potential, growing at a CAGR of at least 30%. The Microsoft addressable market opportunity would be roughly 3x-4x bigger than the current OST telephony card market. The migration to a software-only Intel-developed Host Media Processing (HMP)-based market provides a longer-term market opportunity for Sangoma.

Sangoma has posted strong organic revenue growth of 72% during the last fiscal year and over 48% per annum during the past three years, despite a considerable appreciation in the Canadian dollar. Revenues have grown at an impressive 17% quarterly compound rate over the last eight quarters, reaching record quarterly sales in its latest quarter (Q1/F08). Currently, Sangoma garners 85%-90% of its telephony system-based revenues from supporting the Asterisk OST market, with the remainder from other telephony applications. Over the next 3-4 years, we expect this to decline as Windows-based IP PBX telephony becomes more mainstream.

For the last six years, Sangoma has consistently posted gross margins above 70%. The company's hardware products follow a modular design based on standardized components, helping maintain robust gross margins. Sangoma has been profitable for the last six fiscal years (since F2002) and in the last 13 sequential quarters. Net earnings have increased at a CAGR of 29% and 33% over these respective periods. Net margins currently stand at 33% as of Q1/F08. Longer term, we expect profit margins to decline to the low 20% range as the company focuses on large volume OEM orders.

Sangoma is led by a proven, entrepreneurial-minded management team headed by founder/President/CEO David Mandelstan. The company has a solid balance sheet, with \$2.7 million in net cash (no debt), or \$0.10 per share as of Q1/F08, and has been generating increasingly positive cash flow from operations for the last six years. With minimal capex requirements and strong profitability, we expect the company to remain cash-flow positive, and continue delivering positive free cash flow. Given its strong cash flow, the company was paying dividends totalling about \$300,000 per year between F2003 and F2006. In F2007, the company elected to re-invest these funds in the business to grow its operations.

We are initiating coverage of Sangoma Technologies Corporation with a **BUY** recommendation and a one-year target price of \$2.20 based on 10x our calendar 2009 earnings estimate of \$0.22. Over the last 3.5 years, the company's shares have traded within a P/E range of roughly 5x-12x. Based on our calendar 2009 EPS estimate, the shares are trading at 4.8x, a 55% discount to the peer group average of 10.6x. Considering the company's demonstrated strong profitability growth, we expect the multiple gap relative to the peer group to narrow as the company's addressable market grows (Microsoft IP-PBX), new products are launched, and the company gains increased investor awareness. We believe that the key risks to our valuation are increased competition, the introduction of alternative technologies, and currency.

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All share prices as of January 16, 2008.

MAIN REPORT

Note: All financial figures in this report are in Canadian dollars, unless stated otherwise.

COMPANY OVERVIEW - TURNING PC SERVERS INTO COMMUNICATION GATEWAYS

Founded in March 1984, Sangoma Technologies Corporation (Sangoma) designs, manufacturers, and distributes analog, digital, and data hardware telephony cards with embedded firmware (Figure 1). These cards are integrated into Internet Protocol Private Branch eXchange (IP-PBX) networks to enable computing devices such as PC servers, with a Peripheral Component Interconnect (PCI) interface slot, to transport voice packets to high-speed Wide Area Networks (WANs) and Public Switched Telephone Networks (PSTNs). This allows PC servers to be used as Voice-over-Internet Protocol (VoIP) gateways, PBX devices, call-center managers, telephone switches, and data routers (Figure 2). The growth opportunity is in the routing of voice, video, and IP data. IP PBXs convert IP phone calls into traditional circuit-switched TDM (Time Division Multiplexing) connections for the PSTN. They also support traditional analog and digital telephones, allowing enterprises to migrate slowly to an all-IP telephony environment.



Figure 1. Telephony/Data Card
Source: Company reports

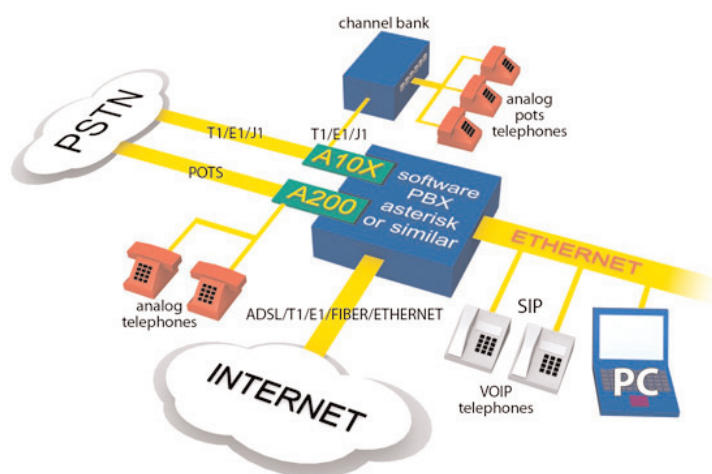


Figure 2. IP PBX Network System
Source: Company reports

Sangoma's products support Open Source Telephony (OST) applications such as the popular Asterisk system. Within the Open Source market, the company is a leading voice/data card supplier, having an estimated 30% market share. Most installations are currently on PC servers running the Linux operating system; however, some of the larger, upcoming opportunities reside in the emerging Microsoft Windows-based PBX (Unified Communications) market. Within this emerging market, Sangoma has an early-mover advantage compared to its peers. The company's solutions are used in varying applications such as PBX, call centers, data transmission systems/routers, voice monitoring networks, and Internet services by several industry segments, including government, military, banking, retail, entertainment, medical, and manufacturing. Sangoma has a broad, global customer base. Among its larger customers are Ericsson, CopperComm, RuggedCom, Smart Telecom (Philippines), Sagem Communications, Pingtel, and Fonality.

Headquartered in Toronto, Sangoma employs approximately 20 personnel, including ten hardware/software/technical support engineers. Hardware manufacturing (PCB boards) is done in China, while final board assembly is done in Toronto by several local assembly houses. The company uses a standard modular design for its hardware, allowing it to benefit from economies of scale with its Chinese manufacturer. Sangoma became a public entity via a reverse takeover on May 1, 2000, and is listed on the TSX Venture exchange, under the symbol STC.

In this report, we discuss Sangoma's business strategy, market opportunity, competitive landscape, and growth prospects. Furthermore, we assess the company's financial performance and provide an overview of management and investment risks. We conclude with a valuation of the company's shares and our investment recommendation.

STRATEGY - FOCUSED ON THE OEM MARKET

Unlike its key competitor in the OST market, privately-held Digium, Sangoma's multi-pronged strategic plan is designed around a solution that is customer, application, and operating system agnostic, with a focus on growing the company's presence on a geographic scale. Following this strategy, the company has positioned itself as an innovative, high-quality OEM supplier, with growing global brand recognition, differentiated firmware design, and premier price/performance rating. We highlight the company's plan as follows:

1. **Remaining market neutral by focusing on OEMs:** Sangoma has strategically elected to be a supplier in the rapidly-growing OST market, rather than as a producer of end-market products, supplying its telephony cards to OEMs for integration into their end-products. The company's OEM focus is a key differentiator relative to its main competitors, Digium, which uses its ownership of the OST application Asterisk, and Rhino Equipment, both of which produce complete solutions for the end-market. We believe that Sangoma's wide-reaching, non-competitive supplier approach offers greater opportunity to build brand, scale, and access to a wide variety of vertical markets, compared to an end-market focus.
2. **Application and OS agnostic:** Sangoma's telephony cards are designed to support multiple operating systems such as Linux and now Microsoft, as well as a multitude of applications, giving the company greater target market potential. By contrast, its closest competitor Digium only has the device drivers to support Linux at this time, and not Microsoft. With Microsoft poised to enter the software telephony market to compete against Open Source solutions, we believe that Sangoma has an early-mover advantage. This is significant considering that we expect the market for Microsoft-based telephony cards to be roughly three times that of existing OST cards.
3. **Well-balanced geographic presence:** Sangoma has customers in over 100 countries, including recent expansion/penetration into South America (primarily Brazil), Southeast Asia, and Europe. In the coming quarters, the company expects to re-allocate further marketing dollars to these latter regions as management believes these regions are strategically economical. As well, the company recently added distributor Evenflow to cater to the South African market, and added a new distributor in Vietnam. Overall, as we highlight in *Figure 3*, the company maintains a diversified geographic presence, with domestic (U.S. and Canada) and international markets accounting for an equal share of the top line, with both segments growing at a 12% quarterly growth rate over the last nine quarters. Although volatile, we expect an increasing amount of growth to come from its expanding international presence, as has been the case of late.

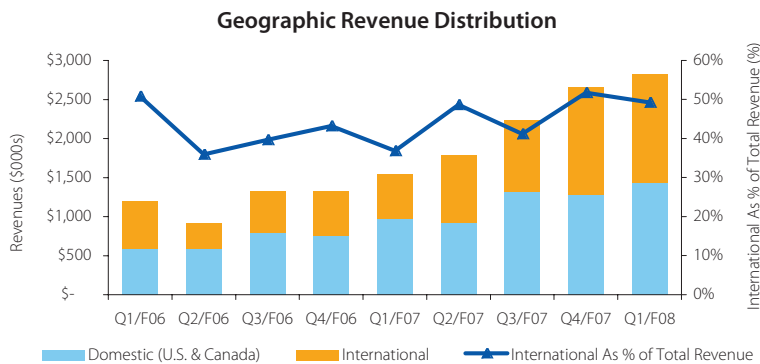


Figure 3. Geographic Revenue Distribution
Source: Company reports

MARKET OPPORTUNITY - VOIP ECOSYSTEM THE FUNDAMENTAL DRIVER

The high-growth PC-based telephony and data transport markets are in the infancy stage, characterized by many small players building custom-designed solutions for specific projects. However, the large growth opportunity resides in the routing of voice, video or IP data over WAN or telephony interfaces, a market that is gaining traction. Vendors in this marketplace, such as Sangoma, are already delivering attractive profitability based on growing volume orders. According to Infonetics Research and Sangoma, the current market for OST telephony adapter cards is estimated at \$30-\$40 million annually, growing at a CAGR of roughly 40%-50%. This market growth is primarily among SMB (small-medium businesses) users, Sangoma's targeted end-customer, where traction/adoption appears to be very strong. A developing market opportunity over the next 3-4 years, which we shall also discuss, is the introduction of a Windows-based IP PBX software solution which would add an incremental \$125 million in annual IP telephony card revenue potential, growing at a CAGR of at least 30%. Our discussion of the SMB telephony market dynamics that follows and the competitive environment are summarized in *Figure 4*.

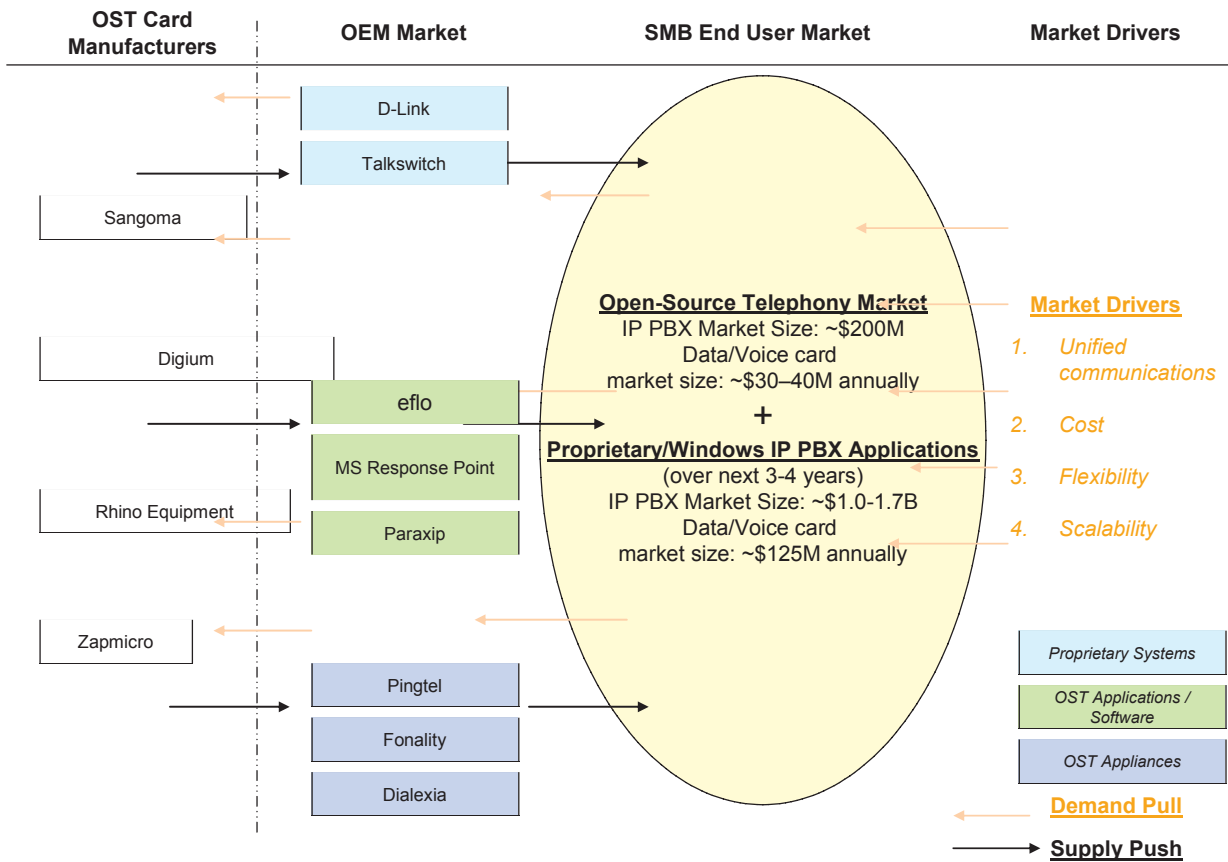


Figure 4. IP PBX Telephony Market Dynamics
Source: Company reports, Research Capital

VoIP - AN ATTRACTIVE BUT EXPENSIVE PROPOSITION FOR SMB MARKET

The key driver behind IP telephony card adoption is the rollout and increasing popularity of VoIP. We begin with a brief overview of the VoIP market.

VoIP is defined as the delivery of voice information over the public Internet or a private data network. It involves sending voice in discrete digital packets rather than using the traditional analog public-switched telephone system. A major advantage of VoIP or IP telephony is that it avoids the hefty toll charges, particularly for long distance calls, imposed by incumbent telephone carriers.

According to Info-Tech Research Group, only about one-third of companies in the SMB (<1,000 employees) market are using VoIP. However, the adoption of VoIP within the SMB market is on the rise. Hosted VoIP, in particular, is taking off in the SMB market compared to traditional (in-house) VoIP, with 3 million seats forecast in North America by 2010, according to Access Market International (AMI) Partners. In the hosted offering, SMBs receive the benefits of IP telephony without the upfront infrastructure upgrade expenditures, such as Local Area Network (LAN) switches associated with an in-house traditional solution. VoIP gives rise to the notion of network convergence (i.e. using a single, in most cases, existing network to transport both voice and data). To facilitate this convergence, companies have to install new IP PBXs or upgrade their existing traditional TDM PBX to handle the voice packets. This is perhaps the single-most capital intensive component of a full-scale VoIP architecture as offered by Cisco, Avaya, Nortel, etc. At present, the SMB market remains price sensitive and conversely wary of adoption. In this context, VoIP users in the SMB market seek high-quality, feature-rich, low-cost alternative solutions to the more expensive, in-house overhaul highlighted above. We regard this as a benefit for companies like Sangoma whose products convert a PC server into a voice/data router and are best geared toward the price-sensitive SMB customer segment.

While long-distance rates using VoIP have dropped to abysmally low levels, and despite the declines in server pricing and the improving price/performance trade-offs of an in-house solution, there still remains insufficient return on investment for SMBs to justify installing an in-house VoIP system at the moment. Although pricing is becoming less of an adoption barrier, according to Forrester Research, the SMB market is not yet at the point where it is price-effective to deploy in-house VoIP servers en masse.

In this context, VoIP has very few benefits to offer. Therefore, there has to be other persuasive reasons for companies to consider VoIP and this is found in the productivity benefits from emerging Unified Communications (UC) systems.

UNIFIED COMMUNICATIONS TO THE RESCUE

Unified Communications is still in the early stages of adoption. UC enables messages (phone calls, voicemails, emails, multimedia, etc.) to reach users in real-time or near real-time and further enables collaboration (or teaming) with external or internal customers. The concept organically evolved from disparate features that resided on IP PBXs, as vendors such as Cisco, Avaya, Nortel, and others tried to differentiate themselves in the marketplace. Moreover, as large enterprises were looking at network convergence, they were also demanding more bang for their buck (i.e. a higher ROI) from these vendors for capital deployment into VoIP or IP telephony systems.

As a result, the productivity benefits that businesses may derive from UC that compliments a standalone VoIP system are as follows:

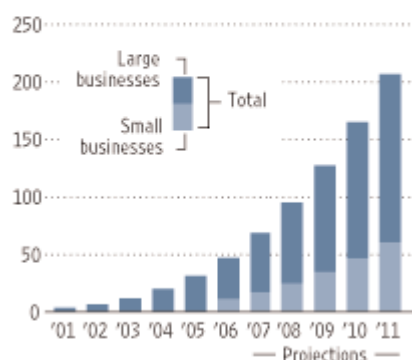
- Maximize existing network infrastructure (converged network).
- Streamline end-user communication.
- Increase network efficiency and reduce operating costs.
- Enable VoIP with existing infrastructure.
- Build a single identity system at both the end-user and server level.
- Offer flexible communication options.

OPEN-SOURCE TELEPHONY - TAKING UNIFIED COMMUNICATIONS AND VOIP TO THE MASS MARKET

According to AMI Partners, the SMB market segment for PBX (IP and TDM) is projected to reach US\$6.7 billion this year (2007), with IP PBX unit shipments overtaking TDM PBX shipments for the first time. The Dell'Oro Group forecasts the IP-PBX market to grow at a CAGR of 31% over the next four years (2007-2011), reaching total VoIP installs of roughly 205 million by 2011 versus 70 million as of 2007 (Figure 5). Segmented, the large enterprise (30% CAGR) and SMB (32%) markets are expected to grow at roughly the same rate over this period. The SMB market is expected to reach about 70 million VoIP line installations by 2011 from a negligible amount in 2005. Overall demand for VoIP technology is still relatively low compared to the overall telecom market; however, by integrating various communications products onto a single, converged network/platform, VoIP demand should continue to gain traction and open up new market opportunities.

Turning Up the Volume

Number of VOIP phone lines for small/midsize businesses and large businesses, world-wide, in millions



Note: Numbers for small/midsize systems were too low to report between 2001 and 2005.

Figure 5. VoIP Phone Line Installations
Source: Dell'Oro Group

For the last six years, VoIP/IP telephony has largely been the domain of large enterprises due to the level of capital required to adopt a converged network. However, as we have highlighted above, the current introduction of open-source telephony (i.e. based on open not proprietary standards) is making VoIP accessible to the SMB market. The development of the open-source telephony platform, Asterisk, and its popularity offer significant cost savings, while at the same time delivering affordable, extremely functional IP PBXs for the SMB market. For example, a proprietary system from Avaya or Samsung costs in the range of US\$8,000 to US\$12,000 and, according to Sangoma, US\$12,000 for a data router from Cisco. By comparison, an open-source PBX solution (which converts a PC server into a voice/data router) from Fonality (Sangoma customer) retails in the range of US\$1,000 to US\$3,500. In other words, open-source telephony has made VoIP and Unified Communications accessible to SMBs, much like the costlier proprietary systems have done in the enterprise market.

MICROSOFT - UNIFIED COMMUNICATIONS STRATEGY BROADENS MARKET OPPORTUNITY

Microsoft has a dominant presence in the PC operating system market and has a strategic initiative to dominate the mobile handset operating system market as well. Leveraging its presence in these two markets, Microsoft has embarked on a new initiative to marry these opportunities through the introduction of its own Unified Communications software solution. Among Microsoft's larger partners for its Unified Communications ecosystem are Nortel and Ericsson, the latter a Sangoma customer. This initiative puts Microsoft in direct competition with the likes of Cisco. In mid-October 2007, Microsoft launched its Office Communication Server (OCS) 2007 and Office Communicator (OC) 2007 to become an active participant in the IP PBX market. OCS and OC combine to create a Unified Communications suite that fits into a telephony environment to offer Unified Communications applications such as VoIP, instant messaging, voicemail, unified messaging, conferencing, email, and other collaborative applications when linked to Exchange Server 2007. The OCS is Microsoft's UC/VoIP server, while the OC is the desktop Unified Communications client. OCS is designed to replace the IP PBX platform, with the software intended to serve as the core telephony platform for SMB and enterprise users. Moving telephony from a siloed PBX environment to a software platform integrating collaborative tools delivers on the concept of "presence", improves employee efficiency, and can ultimately reduce operating costs.

AMI Partners believes that Microsoft's Unified Communications solution can be a disruptive and transforming technology, with the potential to deliver a significant value proposition. Interestingly, earlier this year, Microsoft also introduced its Response Point solution for the SMB market in partnership with D-Link and others. We believe that the Response Point application will be instrumental in helping to educate the marketplace, particularly in capturing the interest of the SMB market with respect to potential benefits of Unified Communications. Furthermore, Microsoft's efforts should help define the size and technological requirements of an IP telephony market that is fragmented, undefined, and in the very early stages of adoption.

It is important to note that even with the advent of converged networks (VoIP), the traditional PSTN is not going away anytime soon. For the most part, we expect it to be a hybrid environment where large-scale companies that deploy OCS will likely keep any existing IP PBX system from the likes of Cisco, Avaya or Nortel Networks in the near-term (2-5 years) to provide connectivity to the PSTN network and use OCS as a complement (i.e. OCS will sit beside an existing IP PBX and voicemail system). If this is the case, interoperability will be key. In this scenario, voice-type telephony applications will likely go through existing IP PBX gear, while newer desktop collaborative applications such as VoIP and instant messaging will go through Microsoft's OCS. This hybrid environment will ensure access to the high-quality PSTN network for any external and critical communications. VoIP will be emphasized for inter-company communications, whether on a LAN, MAN (Metropolitan Area Network) or WAN network. In a hybrid environment, telephony hardware cards from Sangoma will serve the purpose of switching voice and data packets between PSTN and WAN networks.

Microsoft estimates that 100 million people worldwide will be using its Unified Communications suite within the next 3-4 years. Demand for a Windows-based IP PBX system and its applications are expected to create a revenue opportunity of about \$1.0-\$1.7 billion annually within the SMB market, in the next four years. Within this, the voice/data telephony card market opportunity is estimated at \$125 million annually, growing at a CAGR of at least 30%. The Microsoft addressable market opportunity would be roughly 3x-4x bigger than the current OST telephony card market (*Figure 6*).

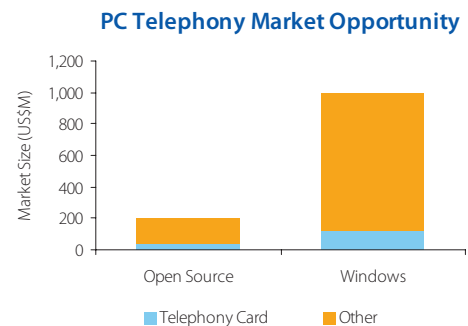


Figure 6. PC Telephony Market Opportunity
Source: Company estimates

Where does Sangoma fit into all of this? Among the OST telephony card vendors, Sangoma is the only company positioned with a Windows-based solution in its offering. With Digium, its largest competitor, promoting its homemade OST application, Asterisk, it is unlikely that Digium will pursue the Windows-based opportunity any time soon. That said, we believe that Sangoma's market-neutral stance best positions the company to tackle the OST and the substantially larger Windows telephony card market. In July 2007, privately-held Paraxip Technologies of Montreal partnered with Sangoma to incorporate its Windows-based software suite on Sangoma's telephony cards. We expect Sangoma to engage in more of these software-type partnerships in the future in an effort to help the company move upstream in the marketplace.

HOST MEDIA PROCESSING - A MARKET CHANGER?

An alternative solution in the IP PBX market is the Intel-developed Host Media Processing (HMP). HMP is a new way to deliver voice/media processing in telephony applications using the media processing capabilities of general-purpose host processors (i.e. off-the-shelf servers). This eliminates the need for traditional telephony cards/hardware with an embedded Digital Signal Processor (DSP) media gateway to perform the switching function between circuit-based (analog) TDM networks and digital IP PBX networks. Incumbents such as Dialogic/Cantata have until recently used a proprietary DSP design, but are now leading the market with a card-less HMP software offering.

HMP solutions provide flexibility in switching traffic from TDM to IP networks and vice versa, and offer support for "open source" initiatives such as Linux O/S, Eclipse, and Asterisk IP-PBX. The HMP solution uses built-in network interface (NIC) cards, housed by Intel architecture-based servers, to offer IP connectivity with the HMP software acting as the enabler. The solution is easily scalable, offers real-time media processing performance, supports the Session Initiation Protocol (SIP), and allows for a sharing of processing power. As a growing percentage of voice traffic becomes SIP initiated and the IP telephony footprint expands, HMP solutions make more logical sense. In addition, HMP developers can more rapidly create advanced voice processing applications, while value-added resellers (VARs) and end-users can significantly reduce the costs associated with installing, configuring, and maintaining these applications. This software model eases the burden of hardware-based upgrades as field upgrades can be handled remotely. As well, it offers substantial savings in the cost of ownership versus implementing DSP media processing solutions using conventional board-based systems.

Where does Sangoma fit into all of this? The company plans to participate in the software-only HMP evolution. As the IP PBX market moves increasingly to a software-based solution, this should play into Sangoma's strength as a developer of differentiated IP PBX firmware solutions. With the exclusion of the hardware component, companies like Sangoma will be able to offer an IP PBX switching functionality that is more affordable than current methods, and as a result should help accelerate adoption among Sangoma's targeted SMB market. We note that Sangoma's business relationship with Paraxip offers additional benefits in tackling the HMP market. Paraxip already has a working relationship with Intel, which we believe will be extended to include Sangoma as the HMP market opportunity unfolds. As such, we believe that an acquisition of Paraxip by Sangoma may make strategic sense at some point to secure the longer-term channel relationship with Intel for HMP.

SANGOMA'S SOLUTION OFFERS AN ATTRACTIVE VALUE PROPOSITION

Over the years, Sangoma has successfully reinvented itself from a pure Linux-based data communication company to a PC-based voice/data communications company to address the growing market opportunity for low-cost OST and Windows-based IP telephony systems. Prior to the advent of open-source telephony, Sangoma was - and remains - a well-established player in the WAN connectivity hardware market (data-only).

With the advent of OST applications, as well as upgrades in underlying carrier networks, an increasing number of enterprise call centers are motivated to consider OST for two reasons - cost and control. Readily available OST systems from traditional IP PBX vendors do not offer a fine level of control as demanded within most call-center environments. As a result, many call-center operations rely on "customized" systems developed by third-party OST system integrators. The cost benefits can be significant, as highlighted in our case study in *Figure 7* of an 100-seat call center comparing both proprietary and OST solutions. We note that the savings are not derived from hardware costs, as both proprietary IP PBX vendors (such as Cisco, Avaya, Nortel) and third-party OST systems have similar hardware requirements. The cost benefits instead are derived from software savings associated with licensing, technical support, feature sets, headcount, and on-going upgrades. The second benefit of an OST-based call-center system is from control over software code, which facilitates scaling and configuration of the system to suit specific user needs. In many cases, proprietary systems come with off-the-shelf configurations, making customization very expensive.

Case Study: Call Center Application

Market Overview (according to datamonitor): According to Datamonitor there are 50,000 call centers and 2 million agents in the United States. In Canada there are 8,000 call centers with 250,000 agents. Estimated call center startup costs are \$500,000 with over 50% of this amount for hardware and software equipment.

	Proprietary IP PBX System			Third Party OST/Vicidial Solution		
	\$/unit	No. of units	Total \$	\$/unit	No. of units	Total \$
Predictive Dialer (per seat)	1,000	100	100,000	0	100	0
Monthly service cost (per seat)	20	100	2,000	15	100	1,500
Customization charges (per hour)	350	5	1,750	100	5	500
Employees (for management of recordings)	3,000	2	6,000	0	0	0
Total			\$109,750			\$2,000

Assumptions:

1. Hardware costs are comparable for both the proprietary and OST scenarios.

Figure 7. Case Study: Call-Center Application

Source. efla, Research Capital.

COMPETITIVE LANDSCAPE - A NEAR DUOPOLY

Although the OST telephony card market as a whole has several active participants, the market is primarily led by two competitors, Sangoma and privately-held Digium, who combined have an estimated 70% market share (*Figure 8*). The remainder of the market is comprised of several, small-scale private players, including Rhino Equipment, Dialogic, Zapmicro, Pika, Odin Telesystems, Voicetronix, Yeastar, Aculab, Eicon, and Varion, resulting in an overall fragmented vendor market. The market itself is likely to remain fairly fragmented in the near term since the market is in the early stages and growing by leaps and bounds. Currently, none of the newcomers entering the market offer any proprietary advantage or superior firmware, competing instead on pricing. We highlight that there is some concern in the marketplace about product quality and technical support offered by new entrants. In *Figure 9*, we provide a direct comparison (strategy and pricing) among Sangoma's key competitors, and provide a detailed product/price comparison among the larger competitors in *Appendix 1*.

OST Telephony Card Market Share

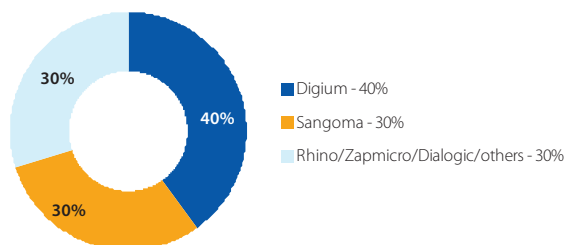


Figure 8. OST Telephony Card Market Share
Source: Company reports, Research Capital

Key Competitors Comparison

Competitors	Products	Strategy	Price Level- Comparison
Sangoma	OST voice/data cards	Remaining market neutral through support for various OST appliances including Asterisk. Also support multiple operating systems including Linux and upcoming Windows-based solutions. Seek growth in all growth markets. Compete on the basis of a superior firmware offering.	Priced in line or 10% higher than Digium but offers superior firmware and a better price-performance proposition.
Digium	OST appliances and voice/data cards	Owens Asterisk application. Moving up value chain with OST appliances and end-market solutions. Principal focus is on improving Asterisk functionality. Very recently announced distribution arrangement with 3Com for their VoIP appliances.	MSRPs almost the same as Sangoma's, but has better pricing control over the channels.
Rhino Equipment	OST appliances and voice/data cards	No differentiated strategy in the marketplace. Focused on data/voice cards; also has appliances. Not much different from Digium in offering.	Price levels are lower than Digium and Sangoma.
Zapmicro	OST voice/data cards	Price-competitive player. Pricing seems to be significantly lower than Sangoma and Digium but offers inferior quality and support.	Lowest price provider in the market.
Dialogic/Cantata Technologies	Proprietary voice/data cards - DSP based	Dialogic recently acquired Cantata. Target market is Enterprise segment (not OST). Increasing focus on HMP-based hardware and software products.	Price levels are extremely high: \$8k to \$12k per card

Figure 9. Key Competitors Comparison
Source: Company reports

MARKET DYNAMICS - DIFFERENTIATION THROUGH FIRMWARE

HIGH INTENSITY OF RIVALRY AMONGST EXISTING COMPETITORS

Given that the combined OST and Windows-based telephony market is still in its early stages, with low penetration and high growth rates, this should allow most competitors to achieve near-term revenue growth without having to steal market share. As with many industries, we believe that competition is intense, but not overly harsh. From our research, we conclude that in the data/voice telephony card market, competition is primarily between Digium and Sangoma. Having developed Asterisk, Digium does have an edge within the open-source market in promoting its systems and hardware components. The company also organizes training for Asterisk developers and system integrators, and is effectively educating its customer base on its proprietary system. Given Digium's market positioning, based on market feedback the company, in some cases, uses its clout with Asterisk to force its product line within certain channels by encouraging channel exclusivity and seemingly eliminating channel partners that refuse to conform. The challenge for Sangoma, particularly in these instances, is to leverage its existing reputation for superior quality, professional customer service, and better price-performance. To date, Sangoma has been successful with its superior offering. With the entry of Microsoft's Windows-based Unified Communications telephony solution, we believe that Digium's tactics will be challenged, with Sangoma standing to benefit from its early-mover advantage in supporting the Microsoft solution.

LOW BARRIERS TO ENTRY

At this early stage in the IP telephony market revolution, we do not believe that any competitor has meaningful scale or proprietary technology to create significant entry barriers. Furthermore, with low capital requirements, we believe that the most significant barriers to entry lie in distribution networks, customer relationships, and brand loyalty. As an aside, we note that Sangoma's products support the new PCI-Express bus standard adopted for all high-performance servers, with the company having pending patents to protect its design.

FIRMWARE A DIFFERENTIATING FACTOR

Sangoma's voice/data telephony cards are based on a proprietary design, although not protected by any strong patent covenants. The company offers an easily upgradeable, modular design with simple field firmware upgrades. A comparison between Sangoma's and Digium's solution is provided in *Figure 10*. Overall, Sangoma has a superior telephony card design with respect to flexibility, scalability, driver support, efficiency, and configuration. We believe that customers recognize these key differentiators in Sangoma's firmware, which are helping the company build brand and gain share. We believe that it is important for Sangoma to build a sustainable core competence around its firmware architecture to add to its superior value proposition.

Firmware Comparison		
Function/Utility	Sangoma	Digium
Flexibility	Very high level of compatibility with DIFFERENT motherboards, platforms (Asterisk, FreeSwitch, Yate, Windows) and peripheral combinations across its entire range of AFT cards.	Digium hardware is ONLY useful with Asterisk.
Scalability	Modular design makes firmware EASILY field-upgradeable by end user.	Firmware is NOT field upgradeable; telephony cards must be returned to Digium for upgrade.
Ease of Installation	Drivers are more COMPLICATED to install and set up compared to an Asterisk installation.	Asterisk-based cards are EASY to install.
Drivers	Uses zaptel driver called WANPIPE. Supports BOTH Linux and Microsoft.	Digium controls zaptel project as such cards have drivers built-in making Asterisk EASIER to integrate. ONLY supports Linux drivers.
Efficiency	Firmware allows for MORE efficient operation of T1 circuits on the server by clustering frames together, resulting in LESS overhead.	Cards have MORE overhead, LESS efficient.
Configuration	Offers configuration options to EASILY manage multi-card installs as well as having LESS reliability issues.	Cards have historically had reliability ISSUES with more than one card on the same machine.

Figure 10. Firmware Comparison
Source: eflo

TAKING THE ROAD LESS TRAVELLED TO REACH LONG-TERM SUCCESS

In the near term, we believe that the existing competitors in the IP telephony marketplace should be able to prosper given the strong market growth expectations. However, as growth slows, we believe that competitors with a significant scale-based cost advantage will win out. In our opinion, the key to dominating this industry in the long run is cost and market share. A scale and cost advantage should also lead to meaningful barriers to entry for new competitors attempting to enter the marketplace. Failing this, it will be important for market participants to move up the value chain, either through hardware or software differentiation, to be firmly entrenched as a high-margin supplier. Judging by Sangoma's pricing practices, we believe that management is pursuing the latter strategy at the moment, but may seek a volume strategy in the future. As this industry undergoes consolidation, from an investment perspective, this should support share price valuations and provide downside protection.

FINANCIAL PERFORMANCE - DRIVING PROFITABLE GROWTH

SALES GROWTH DRIVERS

There are six catalysts that should help Sangoma maintain its solid revenue and earnings growth. We summarize these as follows:

1. **Expand distribution network:** Sangoma sells nearly all its telephony cards through VARs worldwide and continues to work on expanding its network. Being early in a distribution channel is key to staying off competitors, building brand, and gaining critical mass. The company continuously takes part in industry-specific trade shows, with an increased focus outside North America, to demonstrate its products and educate new VARs/OEMs. This effort should help increase market share in the OST market.
2. **Penetrate existing distribution network:** Along with expanding the distribution network, Sangoma is working to increase revenue contributions from existing distributors. These efforts are primarily geared toward taking share from current OST competitors, mainly Digium.
3. **New product introductions:** Efforts are on-going to develop new products that address other transport solutions like ISDN, wireless, etc. The upcoming A500 BRI ISDN card is targeted at the ISDN market segment.
4. **Overall market growth:** In general, we expect Sangoma's top line to benefit from the growing demand for reliable, cost-effective unified communication feature sets (VoIP) within the SMB marketplace. The OST telephony card market is growing at a CAGR of roughly 40%-50%, while telephony card growth within the developing Windows-based IP PBX market is expected to be at least 30% compounded annually.
5. **Microsoft's Response Point:** Revenue growth over the next 3-4 years is also expected to come from Microsoft's proprietary Unified Communications telephony ecosystem and its Windows-based routing and data/voice systems. The introduction of Microsoft's Response Point application in mid-October 2007 should indirectly stimulate demand for IP PBX solutions in the SMB marketplace. As discussed earlier, Microsoft's telephony and routing market entry is a software-only solution, requiring third-party hardware components from the likes of Sangoma. As the only competitor within the telephony card market with a Windows-based solution, we believe that Sangoma is well positioned to build brand within this market. The migration to a software-only HMP-based market mentioned previously represents a longer-term market opportunity for Sangoma.
6. **Growth through acquisition - a wildcard:** The company may elect to accelerate its top-line growth through acquisitions. We would expect Sangoma to seek acquisitions that expand its addressable market, enhance its market share, add to its product portfolio, offer synergies, and broaden its customer base/relationships.

We have incorporated these sales drivers (1-5) into our forecast model for the company (*Figure 11*). A more detailed model is provided in *Appendix 2*. We expect the company's top line to continue exhibiting strong double-digit revenue growth over the next two years yielding 54% compounded annual EPS growth, building upon the current level of profitability.

Financial Snapshot

30-Jun C\$ (000s)	2005A	2006A	2007A	2008E	2009E
Revenue	3,438	4,776	8,223	13,291	18,601
% Change in Revenue	34.7%	38.9%	72.2%	61.6%	40.0%
Gross Margin	73.3%	71.4%	71.2%	70.9%	65.0%
EBITDA	1,420	2,082	3,931	6,335	8,652
EBITDA Margin	41.3%	43.6%	47.8%	47.7%	46.5%
EBIT	1,025	1,620	3,392	5,835	8,012
EBIT Margin	29.8%	33.9%	41.3%	43.9%	43.1%
Net Income From Continuing Operations	707	1,121	2,411	4,103	5,512
Return on Sales	20.6%	23.5%	29.3%	30.9%	29.6%
EPS From Continuing Operations	\$0.03	\$0.04	\$0.08	\$0.14	\$0.19
Net Cash/(Debt) per Share	0.04	0.05	0.11	0.18	0.32

Figure 11. Financial Snapshot

Source: Company reports, Research Capital estimates

INCOME STATEMENT - OPERATING IN A STRONG MARGIN ENVIRONMENT

STRONG TOP-LINE GROWTH...

Sangoma has posted strong organic revenue growth of 72% during the last fiscal year and over 48% per annum during the past three years, despite a considerable appreciation in the Canadian dollar. The company posted a strong increase in F2007 sales due to higher OEM card sales for data transport and voice-related businesses; the latter market is growing strongly and Sangoma is gaining share. Revenues have grown at an impressive 17% quarterly compound rate over the last eight quarters, reaching record quarterly sales in its latest quarter (Q1/F08). With growing product demand, we expect Sangoma to continue posting quarterly record sales, particularly as new product launches reach the market.

Sangoma's sales are derived almost entirely from the sale of WAN and telephony adapter cards. Currently, Sangoma garners 85%-90% of its revenues from the Asterisk OST market, with the remainder from Linux-based router applications. Over the next 3-4 years, we expect this to decline as Windows-based IP PBX telephony becomes more mainstream.

The company has a diverse customer base, with about 80% of its current business coming from smaller, lower-volume OEMs (1-3 month sales cycle), with the remainder from larger, higher-volume OEMs (6-18 month sales cycle). With a focus on increasing its exposure to large OEMs, we believe this could drive barriers to entry given the lead times for these contracts.

Sangoma's Average Selling Prices (ASPs) are about 10% higher compared to Digium; however, the company's products offer superior performance and, as a result, distributors are willing to sell the cards on par with competitor prices. We estimate ASPs to be about \$700/unit.

... ROBUST GROSS MARGINS AND MARGINAL OPEX REQUIREMENTS...

For the last six years (F2002-F2007), Sangoma has consistently posted gross margins above 70% (Figure 12). In the latest quarter (Q1/F08), gross margins stood at 71.5%. As Sangoma's hardware products follow a modular design based on standardized components, the products offer a dual use, being suitable for both voice and data transport, thereby helping deliver better economies of scale in production and helping maintain robust gross margins despite headwinds from a rising Canadian dollar.

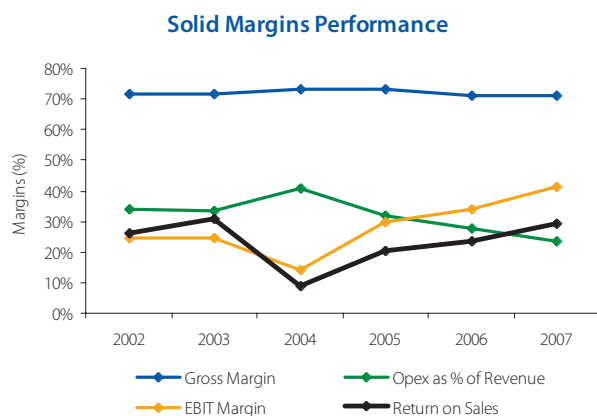


Figure 12. Solid Margins Performance
Source. Company reports

Sangoma's sales are currently skewed toward small-scale OEMs. The company is, however, looking to migrate its business more towards the large-scale OEMs. As this shift unfolds, we expect gross margins to fall somewhat as the large volume OEMs are likely to seek a greater discount compared to small-scale OEMs. That said, with this shift combined with increased international exposure and competition, we expect long-term gross margins to remain above the 50% plateau.

... AND AMORTIZED R&D EXPENDITURES...

While Sangoma is a telephony hardware manufacturer, the bulk of its R&D spending is directed at developing a proprietary firmware design offering advanced feature sets. As a result, instead of expensing its R&D in the quarter incurred, the company amortizes its software development costs on a straight-line basis over three years. In F2007, the company spent about \$850,000 in R&D, but only recorded an amortized expense of roughly \$550,000, a \$300,000 benefit to the company's F2007 bottom line (Figure 13). Net of taxes, this translated into \$0.01 in EPS. The company also receives government grants and investment tax credits that help reduce its overall R&D cash outlay. The company has roughly \$387,000 in scientific research and development costs (no expiry) and approximately \$800,000 in investment tax credits (expiry 2012).

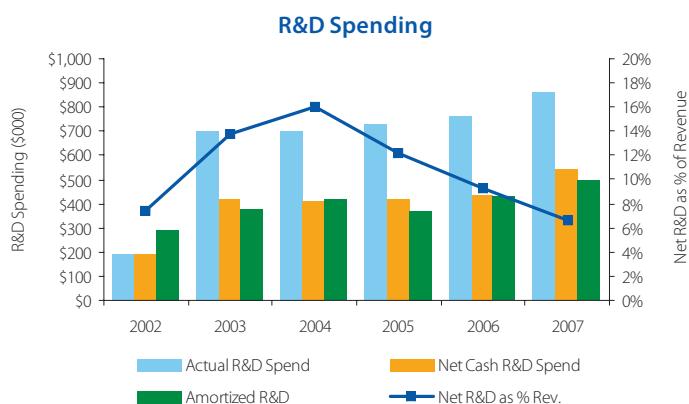


Figure 13. R&D Spending
Source: Company reports

... PROVIDE STRONG PROFITABILITY

Sangoma has been profitable for the last six consecutive fiscal years (since F2002) and in the last 13 sequential quarters. Net earnings have increased at a CAGR of 29% and 33% over these respective periods. As highlighted in Figure 12 above, net margins have rebounded since F2004 and currently stand at 33% as of Q1/F08. Benefiting profitability, the company has \$222,000 in scientific research and development (SR&D) investment tax credits (expiring between 2017 and 2018), which are helping reduce taxes payable. With the market at an early stage and Sangoma enjoying strong profit margins, we believe any new entrants in this market and existing competition could deliver longer-term pressure on both margins and market share. As such, we expect long-term profit margins to be in the low 20% range.

SOLID BALANCE SHEET AND CASH-FLOW GENERATION

Sangoma has a solid balance sheet, with \$2.7 million in net cash (no debt), or \$0.10 per share as of Q1/F08, as well as an additional \$3.3 million working capital position. The company generated \$3.1 million in cash flow from operations (excluding working capital) in F2007 (ending June), or \$0.10 per share (Figure 14) and \$0.9 million in the latest quarter (Q1/F08). With minimal capex requirements and strong profitability, we expect the company to remain cash-flow positive, and continue delivering positive free cash flow. Given its strong cash flow, the company was paying dividends totalling about \$300,000 per year between F2003 and F2006. In F2007, the company elected to re-invest these funds in the business to grow its operations.

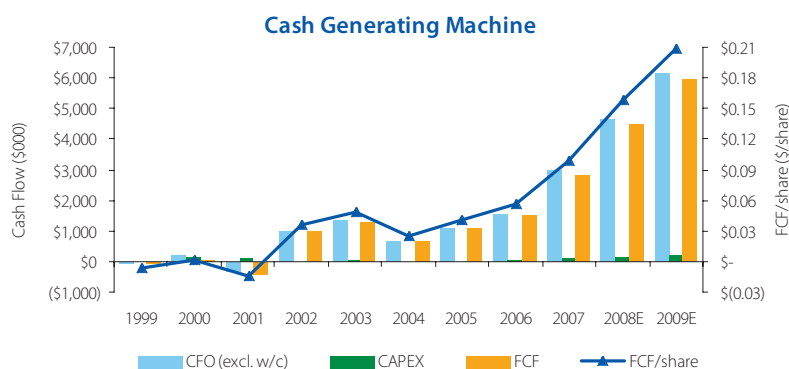


Figure 14. Cash Flow
Source. Company reports

AN ENTREPRENEURIAL-MINDED MANAGEMENT TEAM

Sangoma has a proven, entrepreneurial-minded management team led by founder/President/CEO David Mandelstam. We profile the two key members of management.

David Mandelstam, Founder, President, CEO: David Mandelstam has been the driving force behind Sangoma since its inception in 1984. He has served the company in varying capacities, including VP Engineering, CTO, Chairman, and currently as President/CEO. Prior to founding Sangoma, Mr. Mandelstam held various senior management roles, including President of Entropy Control Limited, VP of Solartech, and a Project Manager with Spar Aerospace. As of November 2007, Mr. Mandelstam owns/controls 20.4% of Sangoma's outstanding shares. Mr. Mandelstam is also the acting CFO for Sangoma while the company seeks to fill the vacancy.

Doug Vilim, VP Sales and Marketing: Mr. Vilim joined Sangoma in November 2002 as VP Sales and Marketing. Prior to this, Mr. Vilim served as Eastern U.S. Sales Manager for Eicon Network's Voice and Data WAN Card division. Prior to Eicon, Mr. Vilim spent 10 years at NEC and Compaq, operating in various sales roles.

The composition of the current Board is highlighted in Figure 15. As of November 2007, the directors and senior management own a combined 21% of the company. As an aside, we note that Hummingbird Management owns 4.1 million shares, or 14.5% of the shares outstanding.

Board of Directors

Name	Role	Since	Relevant Employment History
Jonathan Mathews	Chairman of the Board	2001	President, DOT Financial Corp.
Jay A. Lefton	Director/Secretary	2001	Partner/Lawyer, Aird & Berlis LLP
David Mandelstam	Director	2001	Founder/President/CEO of Sangoma
Yves Laliberte	Director	2007	EVP, Aastra Telecom

Figure 15. Board of Directors
Source. Company reports

VALUATION - LOOKS ATTRACTIVE

We have taken two approaches to valuing Sangoma: a traditional multiple approach, and a discounted cash flow (DCF) method. We discuss our methodology below.

MULTIPLE APPROACH - SHARES OFFER UPSIDE POTENTIAL

Although Sangoma operates in a fragmented marketplace, there are no direct competitors that are publicly trading. Its largest competitor Digium, as well as Rhino Equipment, Dialogic, Zapmicro, Pika, Odin Telesystems, Voicetronix, Yeastar, Aculab, Eicon, and Varion are all privately-held businesses. Looking at the broader industry, we have identified five comparables that operate within Sangoma's marketplace. The publicly-traded comparables are Aastra Telecom, AudioCodes, Interphase, Polycom, and RuggedCom. The closest comparable is Aastra Telecom, which produces a full range of open-standard IP-PBX and traditional PBX systems including IP telephones and wireless terminals. AudioCodes is a provider of Voice over Packet technology and Voice Network products to OEMs, network equipment providers, and system integrators. The company is a market leader in voice compression technology. Interphase products connect computer and telecommunications servers to WANs, SANs (Storage Area Networks), and LANs. Polycom offers an array of open-architecture, Unified Communications solutions that integrate video, wired and wireless (VoIP) voice systems. Finally, RuggedCom, a Sangoma customer, is a manufacturer of rugged communications devices that can be operated on IP-based networks.

As we highlight in *Figure 16*, we have examined Sangoma's shares on many metrics. Based on forward P/S, the shares currently trade at a deserved premium to the peer group considering the company's superior top-line growth rate. When we factor in the balance sheet and look at EV/Sales, however, Sangoma trades at a 24% discount to the peer group average despite its solid balance sheet (net cash position). On a forward EV/EBITDA and P/E basis, the shares also trade at a material discount (60%-70%) to the peer group. Despite earnings growth that are relatively superior to its comparables, we believe that a P/E discount to this peer group is warranted given Sangoma's relatively smaller size, limited product portfolio depth, and the fact that it is a relatively unknown entity in the marketplace. We would expect Sangoma shares to benefit from a multiple expansion as the company's addressable market grows (Microsoft IP-PBX), new products are launched, and the company gains increased investor awareness. Overall, we believe that using a P/E valuation multiple approach at this stage in the company's development is the best means to capture the company's sustainable level of profitability and future earnings potential. We provide a more comprehensive comparables table in *Appendix 3*.

Comparable Companies Summary, based on calendar year-end (C\$)

Company Ticker	Aastra						Group Avg.	
	Sangoma STC.v	Telecom AAH.to	AudioCodes AUDC.o	Interphase INPH.o	Polycom PLCM.o	RuggedCom RCM.to	Group Avg. (excl. STC)	Group Avg. (excl. STC and outliers)
Current Price (Jan. 16/08)	\$1.05	\$30.01	\$4.33	\$9.09	\$22.49	\$10.40		
Net Cash/(Debt)/Share	\$0.10	(\$4.73)	(\$2.06)	\$1.92	\$0.96	\$3.98		
Shares O/S (M)	28.5	16.0	42.5	6.2	91.4	9.2		
Market Cap (M)	\$30	\$480	\$184	\$56	\$2056	\$96		
Fiscal Year-end	30-Jun	31-Dec	31-Dec	31-Dec	31-Dec	31-Mar		
Valuation Metrics								
P/S NTM	2.1	0.8	1.0	1.7	1.9	2.5	1.6	1.6
P/E NTM	6.9	11.9	12.7	n/a	27.5	22.1	18.5	18.5
P/BV	2.4	1.9	1.0	2.3	2.0	1.9	1.8	1.8
EV/Sales NTM	1.9	1.3	2.5	2.5	2.4	3.8	2.5	2.5
EV/EBITDA NTM	4.0	12.7	n/a	n/a	11.7	34.7	19.7	12.2
EPS Growth								
Next 12M vs. last 12M	49.9%	20.8%	(764.0)%	(42.9)%	(5.0)%	(11.3)%		
2008E/2007E	40.9%	15.3%	86.1%	(909.5)%	24.1%	12.0%		
2009E/2008E	32.6%	8.1%	34.3%	n/a	14.8%	90.9%		
P/E Valuation Multiples								
P/E NTM	6.9	11.9	12.7	n/a	27.5	22.1	18.5	18.5
P/E 2008E	6.3	12.8	12.6	10.4	13.2	18.8	13.6	13.6
P/E 2009E	4.8	11.9	9.4	n/a	11.5	9.8	10.6	10.6

*outliers highlighted in grey.

Figure 16. Comparables Summary
Source: Company reports, Research Capital.

As we highlight in Figure 17, over the last 3.5 years the company's shares have traded within a P/E range of roughly 5x-12x. The shares are currently trading at 6.9x NTM EPS versus the peer group at 18.5x. Its closest comparable, Aastra Telecom, currently trades at 11.9x. Based on our calendar 2009 EPS estimate, the shares are trading at 4.8x, a 55% discount to the peer group average of 10.6x. Considering the company's strong profitability growth going forward, we expect the multiple gap relative to the peer group to narrow. As a result, we are comfortable in valuing Sangoma shares using a 10x P/E multiple, which is conservative given our growth estimates for the company. Applying the 10x valuation multiple to our calendar 2009 EPS estimate of \$0.22 yields a target price of \$2.20.

Price and P/NTM EPS

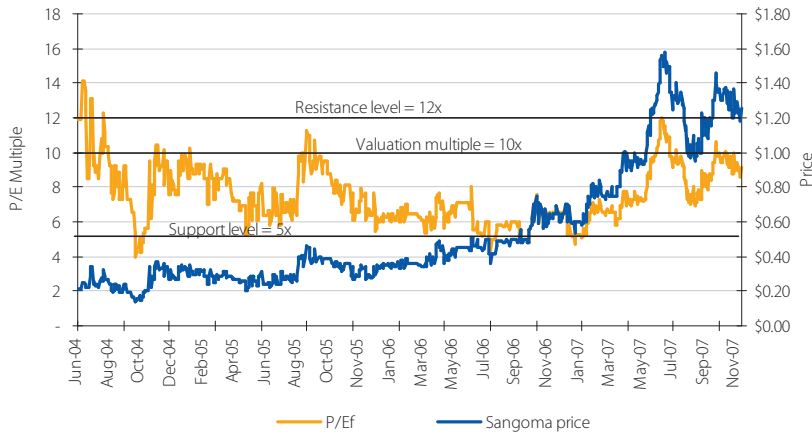


Figure 17. Price versus P/NTM EPS
Source: Company reports, Research Capital

REASONABLE DCF ASSUMPTIONS SUPPORT OUR TARGET PRICE

In addition to our multiple-based approach to valuation, we evaluate Sangoma using a DCF analysis. While we are wary that this approach is highly sensitive to variable inputs, we believe this valuation methodology incorporates the company's long-term growth prospects and allows for some assessment of the implied growth built into the shares' current net present value (NPV).

Our DCF analysis, based on key assumptions summarized in *Figure 18*, delivers a one-year share price value for Sangoma of \$2.20, inline with our P/E multiple approach. Our DCF model uses a 10-year (F2008-F2017) outlook and incorporates, in our view, fairly reasonable assumptions:

- An implied sales CAGR for the period F2008 to F2017 of roughly 19%, which is reasonable considering the attractive market growth prospects.
- A long-term gross margin of 50% and an EBITDA margin of 34%.
- An implied terminal value multiple of roughly 8.2x.

Discounted Cash Flow Assumptions

Risk free rate = 3.9% (based on 10-yr Canada Treasury)	WACC = Cost of equity = 15.5%
Beta = 1.9 (versus S&P/TSX broad index)	Terminal growth rate = 3.0%
Equity risk premium = 6.1%	

Figure 18. Discounted Cash Flow Assumptions
Source: Research Capital

A sensitivity analysis, summarized in *Figure 19*, of our DCF assumptions highlights the upside potential for the shares.

DCF Sensitivity Analysis (C\$)

			NPV	Suggested Target
Base-case values			1.90	2.20
Variable	Base Case	Change in Base Case	Impact	Impact
WACC	15.5%	+/- 100 bps	0.19	0.20
Terminal growth rate	3.0%	+/- 100 bps	0.07	0.08
Sales growth	18.7%	+/- 100 bps	0.12	0.14
EBITDA margin	33.5%	+/- 100 bps	0.06	0.07

Figure 19. DCF Sensitivity Analysis
Source: Research Capital

RISKS - ABOVE AVERAGE

We view the following as risks relating to our expectations of performance for Sangoma.

End-market demand: Sangoma is dependent on the VoIP market, particularly catering to open-source telephony, for top-line growth. Any slowdown in capital expenditure due to general economic weakness may affect sales growth.

Increasing competition: The market for open-source telephony could become increasingly competitive due to the relatively low barriers to entry. OEM customers may elect to develop their own in-house hardware telephony cards as opposed to seeking outsourced solutions from the likes of Sangoma. The ability to innovate and continue to introduce new improved hardware products in a timely fashion is very crucial to maintaining top-line growth and stave off any competition from customers who may seek to be more vertically integrated, which we believe is counter-intuitive. Furthermore, prospects may also diminish if traditional PBX vendors like Avaya, Cisco, or Nortel decide to participate in the open-source telephony market, beyond their proprietary platforms. We note, however, in both scenarios that the possibility remains for Sangoma to be an acquisition target for its firmware expertise, which should provide for downside share price support and upside share potential.

Financial controls: Given the current size of Sangoma, the company may not have the adequate financial resources/personnel to put in place a robust financial reporting system. We note, however, that the company's annual results have been audited, with no material weakness in its reporting system disclosed.

Alternative technologies: It is our belief that the telephony market will move increasingly toward open-standard platforms, as exemplified by the current popularity of Asterisk, and conforms with Microsoft's efforts in Unified Communications. However, the possibility exists for the market to swing in favour of a closed, proprietary solution from heavy-weight vendors such as Cisco, which would hinder Sangoma's ability to compete. At the same time, customers may migrate toward managed (or hosted) VoIP solutions from companies like M5 Networks that espouse the virtues of subscribing to a service as opposed to having an installed, in-house system.

Foreign exchange: The vast majority of Sangoma's sales occur in foreign currencies (mainly U.S. dollars), while most of its operating and capital expenditures are denominated in Canadian dollars, the reporting currency for the company. As a result, any appreciation in the Canadian dollar relative to the U.S. currency could have a material negative effect on Sangoma's reported revenues, margins, and earnings. In the latest quarter (Q1/F08), the Canadian dollar appreciation had a 5% negative impact on sequential top-line growth. Sangoma does, however, have natural hedges against the U.S. dollar as the majority of product components (printed circuit boards), direct marketing expenses, and public-relations expenditures are all priced in U.S. dollars. As a result, Sangoma's bottom line is not severely impacted by an unfavourable CAD/USD exchange rate. We note that the company does not participate in any currency hedging programs.

Valuation volatility: Our target price on Sangoma is derived by applying an estimated P/E multiple on corresponding future earnings forecasts. While our multiple considers past and relative performances and future expectations, the risk remains that the realized multiples may vary significantly from our expectations, altering our estimates and outlook on the company.

CONCLUSION AND RECOMMENDATION - IT'S A BUY

We are initiating coverage of Sangoma Technologies Corporation with a **BUY** recommendation and a one-year target price of \$2.20 based on 10x our calendar 2009 earnings estimate of \$0.22. We believe that the company provides a formidable means to gain exposure to emerging demand for IP-PBX and Unified Communications solutions within the SMB market. Our conclusion is derived on the following:

1. The introduction of open-source telephony is making VoIP and feature-rich Unified Communications accessible to the SMB market. This is creating growing market demand for telephony cards to handle IP-based communications.
2. According to Infonetics Research and Sangoma, the current SMB market for OST telephony cards is estimated at \$30-\$40 million annually, growing at a CAGR of 40%-50%. At the same time, a Windows-based IP PBX market is developing which would add an incremental \$125 million in telephony card revenues, growing at a CAGR of at least 30%, over the next 3-4 years. In addition to supporting OST, Sangoma is the only card vendor in the market with a Windows-based solution.
3. Sangoma is regarded as an innovative, high-quality OEM supplier, with growing global brand recognition, differentiated firmware design, and premier price/performance rating. Sangoma's solution offers an attractive value proposition compared to enterprise-oriented systems.
4. Sangoma operates a very profitable business model. Despite a strong appreciation in the Canadian dollar, organic revenue growth stands at over 48% per annum during the past three years (reaching record quarterly sales in Q1/F08), gross margins have consistently remained above the 70% level, and profits have been realized for the last six fiscal years and past 13 sequential quarters. Net earnings have increased at a CAGR of 29% and 33% over these respective periods. Net margins currently stand at 33%. With minimal capex requirements and strong profitability, the company is able to deliver growing positive free cash flow.
5. Based on our calendar 2009 EPS estimate, the shares are trading at 4.8x, a 55% discount to the peer group average of 10.6x. Considering the company's demonstrated strong profitability growth, we expect the multiple gap relative to the peer group to narrow as the company's addressable market grows (Microsoft IP-PBX), new products are launched, and the company gains increased investor awareness.

APPENDIX 1

COMPETITOR PRODUCT COMPARISON

Competitor Product Comparison

Competitors	ANALOG				DIGITAL				
	Price	Echo Cancellation	FXO/FXS	Zaptel Driver	Interface	Price (#of ports)	Cancellation	Interface	Zaptel Driver
Digium	\$75- \$100 (4 port)	no	any combination available	wctdm	PCIonly	\$ 900 (Single TI/EI/II)	no	PCIonly	wctL2xp
	\$ 200- \$ 700 (8 port)	no	any combination available	wctdm	PCIonly	\$ 890- \$ 2,000 (DualTI/EI/II)	yes	PCIonly	wct4xxp
	\$ 300- \$ 2,000 (24 port)	yes	any combination available	wctdm	PCIonly	\$ 1,390- \$ 2,390 (Four TI/EI/II)	Yes	PCIonly	wct4xxp
	-	-	-	-	-	\$ 1,190- \$ 1,590 (Two TI/EI only)	yes	PCIExpressonly	wct4xxp
Sangoma	\$ 100- \$ 2,000 (1 - 24 port)	-	-	-	-	\$ 1,090- \$ 2,490 (Four TI/EI only)	yes	PCIExpressonly	wct4xxp
	\$ 200- \$ 4,000 (1 - 48 port)	yes	any combination available	Wanpipe	PCI&PCIExpress	\$ 890- \$ 990 (Four BR)	yes	PCIonly	b410p
	-	yes	any combination available	Wanpipe	PCI&PCIExpress	\$ 460- \$ 1,200 (Single TI/EI/II)	yes	PCI&PCIExpress	Wanpipe
	-	yes	any combination available	Wanpipe	PCI&PCIExpress	\$ 800- \$ 1,900 (DualTI/EI/II)	yes	PCI&PCIExpress	Wanpipe
Rhino Equipment	\$ 300- \$ 4,20 (4 port)	yes	4 FXO ports	r4xo	PCIonly	\$ 900 (Single TI/EI/II)	no	PCIonly	r1t1
	\$ 290- \$ 700 (2-8 port)	yes	any combination available	icbix	PCIonly	\$ 800 (DualTI/EI/II)	no	PCIonly	ext1
	\$ 300- \$ 1,900 (2-24 port)	yes	any combination available	icbix	PCIOnly	\$ 1,400 (Four TI/EI/II)	no	PCIonly	ext1
	-	-	-	-	-	\$ 800 (DualTI/EI/II)	no	PCIExpressonly	ext1
Others*	\$ 9- \$ 400	-	any combination available	custom	PCIonly	\$ 1,400 (Four TI/EI/II)	no	PCIExpressonly	ext1

* Others include Dialogic, Pika, Odin Telesystems, Voicetronix, Yeastar, Aculab, Eicon, Varion

Figure 20. Competitor Product Comparison
Source: Company reports, elfo

APPENDIX 2

COMPANY FINANCIALS

Income Statement

30-Jun C\$ 000s	2006	Q1A	Q2A	Q3A	Q4A	2007	Q1A	Q2	Q3	Q4	2008	2009
Revenue	4,776	1,546	1,802	2,238	2,637	8,223	2,822	3,139	3,489	3,841	13,291	18,601
Cost of Goods Sold	1,368	447	451	711	764	2,372	804	910	1,012	1,142	3,868	6,510
Gross Profit	3,408	1,100	1,351	1,527	1,874	5,851	2,018	2,229	2,477	2,699	9,423	12,091
Gross Margin	71.4%	71.1%	75.0%	68.2%	71.0%	71.2%	71.5%	71.0%	71.0%	70.3%	70.9%	65.0%
Selling & Marketing	647	196	260	247	340	1,042	466	484	504	535	1,988	2,115
Administrative	678	177	191	194	317	878	208	231	256	405	1,100	1,324
EBITDA	2,082	727	900	1,086	1,217	3,931	1,345	1,513	1,717	1,760	6,335	8,652
EBITDA Margin	43.6%	47.0%	49.9%	48.5%	46.2%	47.8%	47.6%	48.2%	49.2%	45.8%	47.7%	46.5%
Depreciation & Amortization	463	128	131	132	148	539	122	125	125	128	501	641
EBIT	1,620	600	769	954	1,069	3,392	1,223	1,388	1,592	1,631	5,835	8,012
EBIT Margin	33.9%	38.8%	42.7%	42.6%	40.5%	41.3%	43.3%	44.2%	45.6%	42.5%	43.9%	43.1%
Interest Expense / (Income)	35	7	8	11	11	37	12	-	-	(0)	12	-
Other Expense / (Income)	(29)	(14)	(16)	(13)	(23)	(66)	(31)	(20)	(20)	(20)	(90)	(94)
Earnings Before Taxes	1,613	607	777	956	1,082	3,421	1,242	1,408	1,612	1,651	5,913	8,106
Taxes	492	213	275	310	212	1,010	311	451	516	532	1,809	2,594
Tax Rate	30.5%	35.1%	35.4%	32.4%	19.6%	29.5%	25.0%	32.0%	32.0%	32.2%	30.6%	32.0%
Earnings Before Minority Interest	1,121	394	502	646	870	2,411	931	957	1,096	1,119	4,103	5,512
Net Income From Cont Ops	1,121	394	502	646	870	2,411	931	957	1,096	1,119	4,103	5,512
Return on Sales	23.5%	25.5%	27.9%	28.9%	33.0%	29.3%	33.0%	30.5%	31.4%	29.1%	30.9%	29.6%
Other Income / (Loss)	(113)	8	3	(66)	(538)	(594)	(441)	(70)	(70)	(70)	(651)	(280)
Net Income	1,008	401	505	579	332	1,817	489	887	1,026	1,050	3,452	5,232
Dividends Paid	300	-	-	-	-	-	-	-	-	-	-	-
Payout Ratio	29.8%	-	-	-	-	-	-	-	-	-	-	-
Undistributed Equity	708	401	505	579	332	1,817	489	887	1,026	1,050	3,452	5,232
Shares Outstanding (000s)	27,313	28,172	28,048	28,589	29,724	28,633	28,468	28,468	28,468	28,468	28,468	28,468
EPS From Continuing Operations	\$0.04	\$0.01	\$0.02	\$0.02	\$0.03	\$0.08	\$0.03	\$0.03	\$0.04	\$0.04	\$0.14	\$0.19
Other Income / (Loss)	\$0.00	\$0.00	\$0.00	\$0.00	-\$0.02	-\$0.02	-\$0.02	\$0.00	\$0.00	\$0.00	-\$0.02	-\$0.01
EPS	\$0.04	\$0.01	\$0.02	\$0.02	\$0.01	\$0.06	\$0.02	\$0.03	\$0.04	\$0.04	\$0.12	\$0.18
DPS	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
CFPS	\$0.06	\$0.02	\$0.02	\$0.03	\$0.03	\$0.10	\$0.04	\$0.04	\$0.04	\$0.04	\$0.16	\$0.22
Revenue Breakdown Summary (Est.)	2006	Q1A	Q2A	Q3A	Q4A	2007	Q1A	Q2	Q3	Q4	2008	2009
Analog Telephony	n/a	236	274	343	411	1,264	438	486	539	593	2,055	2,867
Data & Digital Equip	n/a	1,154	1,346	1,681	1,978	6,160	2,110	2,343	2,600	2,860	9,914	13,830
Data only cards	n/a	156	181	214	248	800	274	311	350	387	1,322	1,904
Total	n/a	1,546	1,802	2,238	2,637	8,223	2,822	3,139	3,489	3,841	13,291	18,601

Figure 21. Income Statement
Source: Company reports, Research Capital estimates

Balance Sheet

30-Jun C\$ 000s	2006	Q1A	Q2A	Q3A	Q4A	2007	Q1A	Q2	Q3	Q4	2008	2009
Assets												
Cash	1,427	1,547	1,246	2,086	3,098	3,098	2,731	3,500	4,238	5,206	5,206	9,199
Accounts Receivable	789	1,163	1,383	1,623	1,497	1,497	2,133	2,236	2,371	2,403	2,403	3,313
Inventories	939	908	1,780	1,621	1,543	1,543	1,631	1,796	1,996	2,119	2,119	2,675
Prepaid Expenses and Deposits	83	91	87	124	134	134	99	99	99	106	106	107
Income and Other Taxes Recoverable	128	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	3,365	3,708	4,496	5,454	6,273	6,273	6,593	7,630	8,703	9,834	9,834	15,294
Capital Assets	109	115	145	157	184	184	242	267	292	284	284	420
Deferred Income Tax	517	431	304	157	88	88	-	-	-	-	-	-
Goodwill	5,543	5,543	5,543	5,543	5,543	5,543	5,543	5,543	5,543	5,543	5,543	5,543
Development Costs	471	450	445	463	514	514	598	598	598	598	598	598
Total Long Term Assets	6,640	6,539	6,436	6,320	6,329	6,329	6,384	6,409	6,434	6,425	6,425	6,561
Total Assets	10,005	10,247	10,932	11,774	12,602	12,602	12,977	14,039	15,137	16,259	16,259	21,856
Liabilities & Shareholders' Equity												
Accounts Payable/Accrued Liabilities	459	297	399	584	620	620	474	648	721	795	795	1,159
Deferred Income Tax	-	3	76	154	260	260	107	107	107	107	107	107
Other Liabilities	75	75	-	-	100	100	-	-	-	-	-	-
Total Current Liabilities	534	375	475	738	981	981	581	756	828	902	902	1,266
Deferred Income Tax	-	-	-	-	-	-	37	37	37	37	37	37
Total Long Term Liabilities	-	-	-	-	-	-	37	37	37	37	37	37
Shareholders' Equity												
Share Capital	13,047	13,047	13,059	13,059	13,140	13,140	13,261	13,261	13,261	13,261	13,261	13,261
Adjustments	(4,028)	(4,028)	(3,960)	(3,960)	(3,788)	(3,788)	(3,662)	(3,662)	(3,662)	(3,662)	(3,662)	(3,662)
Retained Earnings/(Deficit)	452	853	1,358	1,937	2,269	2,269	2,759	3,646	4,672	5,722	5,722	10,953
Total Equity	9,471	9,872	10,457	11,036	11,621	11,621	12,358	13,246	14,272	15,321	15,321	20,552
Total Liabilities & Equity	10,005	10,247	10,932	11,774	12,602	12,602	12,977	14,039	15,137	16,259	16,259	21,856

Figure 22. Balance Sheet

Source: Company reports, Research Capital estimates

Cash Flow

30-Jun C\$ 000s	2006	Q1A	Q2A	Q3A	Q4A	2007	Q1A	Q2	Q3	Q4	2008	2009
Operating Cash Flow												
Net Income	1,008	401	505	579	332	1,817	489	887	1,026	1,050	3,452	5,232
Deferred Income Tax	-	-	-	-	-	-	37	-	-	(0)	37	-
Depreciation & Amortization	463	128	131	132	148	539	122	125	125	128	501	641
CFO	1,471	529	635	711	480	2,356	649	1,013	1,151	1,178	3,990	5,872
Accounts Receivable	(308)	(374)	(220)	(240)	126	(709)	(635)	(103)	(135)	(33)	(906)	(909)
Inventories	(432)	31	(873)	159	78	(604)	(87)	(165)	(200)	(123)	(576)	(556)
Prepaid Expenses and Deposits	(24)	(8)	4	(37)	(11)	(52)	35	-	-	(7)	28	(1)
Income and Other Taxes Recoverable	(51)	128	-	-	-	128	-	-	-	-	-	-
Accounts Payable/Accrued Liabilities	240	(162)	102	184	37	161	(147)	175	72	74	174	365
Other Liabilities	(21)	-	(75)	-	100	25	(100)	-	-	-	(100)	-
CF From Financing	875	143	(426)	778	811	1,305	(286)	919	888	1,089	2,611	4,770
Financing Activities												
Deferred Income Tax	223	86	127	147	69	429	88	-	-	-	88	-
Dividends	(300)	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Tax	-	3	73	78	106	260	(153)	-	-	(0)	(153)	-
Share Capital	144	-	12	-	81	93	121	-	-	(0)	121	-
Adjustments	-	-	68	-	171	240	127	-	-	(0)	126	-
CF From Financing	67	89	280	225	428	1,022	183	-	-	(1)	182	-
Investment Activities												
Capital Assets	(486)	(134)	(161)	(144)	(175)	(614)	(180)	(150)	(150)	(121)	(600)	(776)
Development Costs	(12)	21	6	(18)	(52)	(43)	(84)	-	-	0	(84)	-
Total Cash from Investing	(498)	(113)	(155)	(162)	(227)	(657)	(264)	(150)	(150)	(120)	(684)	(776)
Total Movement in Cash	444	120	(302)	840	1,012	1,670	(367)	769	738	968	2,108	3,994
Cash at Beginning of Year	984	1,427	1,547	1,246	2,086	1,427	3,098	2,731	3,500	4,238	3,098	5,206
Cash at End of Year	1,427	1,547	1,246	2,086	3,098	3,098	2,731	3,500	4,238	5,206	5,206	9,199

Figure 23. Cash Flow Statement
Source: Company reports, Research Capital estimates

Ratios

	2006	Q1A	Q2A	Q3A	Q4A	2007	Q1A	Q2	Q3	Q4	2008	2009
Year/Year Delta												
Revenue	38.9%	28.7%	95.4%	68.3%	99.5%	72.2%	82.5%	74.2%	55.9%	45.6%	61.6%	40.0%
Gross Margin	35.1%	33.1%	97.7%	55.2%	104.9%	71.7%	83.5%	65.0%	62.3%	44.0%	61.0%	28.3%
Gross Margin %	(2.0)%	2.4%	0.9%	(5.8)%	1.9%	(0.2)%	0.4%	(4.0)%	2.8%	(0.8)%	(0.3)%	(5.9)%
EBITDA	46.6%	37.5%	136.3%	60.7%	145.3%	88.8%	84.9%	68.2%	58.1%	44.5%	61.2%	36.6%
EBITDA %	2.3%	3.0%	8.6%	(2.3)%	8.6%	4.2%	0.6%	(1.7)%	0.7%	(0.3)%	(0.1)%	(1.2)%
Net Income	58.6%	43.6%	194.8%	56.0%	78.7%	115.1%	22.0%	75.9%	77.1%	215.9%	70.2%	34.3%
EPS	51.4%	40.3%	187.5%	50.2%	61.5%	72.0%	20.7%	73.3%	77.9%	229.8%	91.1%	51.5%
CFPS	42.9%	31.8%	112.1%	44.1%	137.7%	77.6%	106.9%	68.6%	57.7%	27.9%	58.2%	32.6%
Per Share Data - (T12M)												
EPS	\$0.04	\$0.04	\$0.05	\$0.06	\$0.06	\$0.08	\$0.07	\$0.08	\$0.10	\$0.12	\$0.14	\$0.19
CFPS	\$0.06	\$0.06	\$0.07	\$0.08	\$0.10	\$0.10	\$0.12	\$0.14	\$0.15	\$0.16	\$0.16	\$0.22
EBITDA	\$0.08	\$0.08	\$0.10	\$0.11	\$0.13	\$0.14	\$0.16	\$0.18	\$0.20	\$0.22	\$0.22	\$0.30
Dividends	\$0.01	\$0.01	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
BVPS	\$0.35	\$0.35	\$0.37	\$0.39	\$0.39	\$0.41	\$0.43	\$0.47	\$0.50	\$0.54	\$0.54	\$0.72
Closing price	\$0.51	\$0.50	\$0.70	\$0.75	\$1.52	\$1.52	\$1.19	\$1.19	\$1.19	\$1.19	\$1.19	\$1.19
Valuation Ratios - (T12M)												
P/E	12.4	12.5	13.4	12.8	24.9	18.0	17.8	14.8	12.4	9.8	8.3	6.1
P/CFPS	8.8	8.2	9.5	9.2	15.3	14.8	9.6	8.5	7.7	7.3	7.3	5.5
P/EBITDA	6.7	6.2	7.0	6.7	11.5	11.1	7.4	6.6	5.8	5.3	5.3	3.9
Dividend Yield	2.2%	2.1%	1.5%	-	-	-	-	-	-	-	-	-
P/BV	1.5	1.4	1.9	1.9	3.9	3.7	2.7	2.6	2.4	2.2	2.2	1.6
Enterprise Value (000)	12,502	12,539	18,388	19,355	42,083	40,425	31,146	30,377	29,639	28,671	28,671	24,677
EV/EBITDA	6.0	5.5	6.6	6.0	10.7	10.3	6.8	5.9	5.1	4.5	4.5	2.9
Debt & Liquidity												
Current Ratio	6.3	9.9	9.5	7.4	6.4	6.4	11.3	10.1	10.5	10.9	10.9	12.1
Quick Ratio	3.6	7.2	5.5	5.0	4.7	3.2	8.4	7.6	8.0	8.4	5.1	4.8
Cash Ratio	2.7	4.1	2.6	2.8	3.2	3.2	4.7	4.6	5.1	5.8	5.8	7.3
Net Debt/Equity	(15.1)%	(15.7)%	(11.9)%	(18.9)%	(26.7)%	(26.7)%	(22.1)%	(26.4)%	(29.7)%	(34.0)%	(34.0)%	(44.8)%
Net Debt/(Total Capitalization)	(17.7)%	(18.6)%	(13.5)%	(23.3)%	(36.3)%	(36.3)%	(28.4)%	(35.9)%	(42.2)%	(51.5)%	(51.5)%	(81.0)%
ROE Breakdown (T12M)												
Tax Burden	62.5%	63.3%	63.9%	62.0%	53.1%	53.1%	47.0%	48.8%	51.2%	58.4%	58.4%	64.5%
Interest Burden	99.6%	100.2%	100.6%	100.6%	100.9%	100.9%	101.0%	101.1%	101.3%	101.3%	101.3%	101.2%
EBIT Margin	33.9%	34.8%	37.9%	38.8%	41.3%	41.3%	42.3%	42.8%	43.6%	43.9%	43.9%	43.1%
Asset Velocity	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.9	0.9	0.9	1.0
Leverage	1.0	1.0	1.0	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.0	0.9
ROE	10.7%	12.0%	15.1%	16.6%	17.3%	15.8%	16.6%	18.9%	21.2%	25.1%	22.9%	25.6%
Balance Sheet Ratios												
AR Days	60.3	68.6	70.1	66.2	51.8	66.5	69.0	65.0	62.0	57.1	66.0	65.0
Inventory Days	250.6	185.5	360.3	208.1	184.4	237.5	185.1	180.0	180.0	169.4	200.0	150.0
AP Days	122.6	60.7	80.8	74.9	74.1	95.5	53.8	65.0	65.0	63.5	75.0	65.0
Prepayment & Sundry Days	22.0	18.5	17.6	15.9	16.0	20.7	11.2	9.9	8.9	8.5	10.0	6.0

Figure 24. Ratios

Source: Company reports, Research Capital estimates

APPENDIX 3

VALUATION COMPARABLES

Valuation Comparables (based on calendar year-end)

C\$ (M)	STC.v	AAH.to	AUDC.o	INPH.o	PLCM.o	RCM.to
Net Cash/Debt) per Share	\$0.10	(\$4.73)	(\$2.06)	\$1.92	\$0.56	\$3.98
Current Price (Jan. 16/08)	\$1.05	\$30.01	\$4.33	\$9.09	\$22.49	\$10.40
S O/S (M)	28.5	16.0	42.5	6.2	91.4	9.2
Market Cap	\$30	\$480	\$184	\$56	\$2,056	\$96
Year-End	30-Jun	31-Dec	31-Dec	31-Dec	31-Dec	31-Mar
EPS						
2006A	\$0.06	\$2.00	\$0.17	\$0.34	\$0.84	\$0.33
Last 12 MonthsA	\$0.10	\$2.09	(\$0.05)	(\$0.21)	\$0.86	\$0.53
Next 12 MonthsE	\$0.15	\$2.52	\$0.34	(\$0.12)	\$0.82	\$0.47
2007E	\$0.12	\$2.03	\$0.18	(\$0.11)	\$1.37	\$0.50
2008E	\$0.17	\$2.34	\$0.34	\$0.87	\$1.71	\$0.55
2009E	\$0.22	\$2.53	\$0.46	n/a	\$1.96	\$1.06
YOY Growth						
Next 12 over last 12	49.5%	20.8%	(764.0)%	(42.9)%	(5.0)%	(11.3)%
2007E/2006A	113.3%	1.5%	5.9%	(131.8)%	63.3%	50.0%
2008E/2007E	40.5%	15.3%	86.1%	(909.5)%	24.1%	12.0%
2009E/2008E	32.6%	8.1%	34.3%	n/a	14.8%	90.5%
P/E						
P/E 2006A	19.0	15.0	24.8	26.8	26.7	31.5
P/E Next 12 Months	6.9	11.9	12.7	(75.8)	27.5	22.1
P/E 2007E	8.9	14.8	23.4	(84.4)	16.4	21.0
P/E 2008E	6.3	12.8	12.6	10.4	13.2	18.8
P/E 2009E	4.8	11.9	9.4	n/a	11.5	9.8
Sales per Share						
2006A	\$0.21	\$37.51	\$3.55	\$5.46	\$7.66	\$2.83
Last 12 MonthsA	\$0.33	\$38.24	\$3.81	\$4.95	\$9.58	\$3.59
Next 12 MonthsE	\$0.51	\$37.55	\$4.35	\$5.44	\$12.05	\$4.13
2007E	\$0.38	\$38.29	\$3.81	\$5.94	\$10.32	\$5.30
2008E	\$0.56	\$39.04	\$4.35	\$7.86	\$12.01	\$7.51
YOY Growth						
Next 12 over last 12	53.0%	(1.8)%	14.1%	10.1%	25.9%	15.2%
2007E/2006A	77.9%	2.1%	7.4%	8.8%	34.8%	87.7%
2008E/2007E	46.0%	2.0%	14.3%	32.3%	16.4%	41.6%
P/S						
P/S 2006A	4.9	0.8	1.2	1.7	2.9	3.7
P/S Next 12	2.1	0.8	1.0	1.7	1.9	2.5
P/S 2007E	2.8	0.8	1.1	1.5	2.2	2.0
P/S 2008E	1.9	0.8	1.0	1.2	1.9	1.4
Enterprise Value / EBITDA						
Market Cap	\$30	\$480	\$184	\$56	\$2,056	\$96
Net Debt	(\$3)	\$312	\$274	\$29	\$617	\$50
EV	\$27	\$793	\$458	\$85	\$2,674	\$146
EBITDA Last FY	\$3	\$44	\$3	\$1	\$73	\$3
EBITDA Next 12 Months	\$7	\$62	n/a	n/a	\$228	\$4
EBITDA 2007E	\$5	\$59	n/a	n/a	\$146	\$5
EBITDA 2008E	\$7	\$63	n/a	n/a	\$194	\$10
YOY Growth						
Next 12 over last FY	145.5%	43.0%	n/a	n/a	213.2%	31.6%
2007E/2006A	84.4%	34.6%	n/a	n/a	101.4%	57.5%
2008E/2007E	44.2%	6.8%	n/a	n/a	32.7%	97.7%
EV/EBITDA						
EV/EBITDA 2006A	9.7	18.2	135.3	65.7	36.8	45.7
EV/EBITDA Next 12	4.0	12.7	n/a	n/a	11.7	34.7
EV/EBITDA 2007E	5.3	13.5	n/a	n/a	18.3	29.0
EV/EBITDA 2008E	3.6	12.7	n/a	n/a	13.8	14.7

Figure 25. Valuation Comparables
Source: Company reports, Research Capital

Valuation Comparables (Continued)

C\$ (M)	STC.v	AAH.to	AUDC.o	INPH.o	PLCM.o	RCM.to
Enterprise Value / Sales						
Market Cap	\$30	\$480	\$184	\$56	\$2,056	\$96
Net Debt	(\$3)	\$312	\$274	\$29	\$617	\$50
EV	\$27	\$793	\$458	\$85	\$2,674	\$146
Sales 2006A	\$6	\$601	\$151	\$34	\$700	\$26
Sales Last 12 MonthsA	\$9	\$612	\$162	\$31	\$876	\$33
Sales Next 12 MonthsE	\$15	\$601	\$185	\$34	\$1,102	\$38
Sales 2007E	\$11	\$613	\$162	\$37	\$944	\$49
Sales 2008E	\$16	\$625	\$185	\$49	\$1,098	\$69
YOY Growth						
Next 12 over last 12	53.0%	(1.8)%	14.1%	10.1%	25.9%	15.2%
2007E/2006A	80.6%	2.1%	7.4%	8.8%	34.8%	87.7%
2008E/2007E	46.0%	2.0%	14.3%	32.3%	16.4%	41.6%
EV/Sales						
EV/Sales 2006A	4.5	1.3	3.0	2.5	3.8	5.6
EV/Sales Next 12	1.9	1.3	2.5	2.5	2.4	3.8
EV/Sales 2007E	2.5	1.3	2.8	2.3	2.8	3.0
EV/Sales 2008E	1.7	1.3	2.5	1.7	2.4	2.1
Book Value						
BVPS	\$0.43	\$15.62	\$4.18	\$4.00	\$11.49	\$5.41
tBVPS	\$0.24	\$13.15	\$0.66	\$3.67	\$4.59	\$5.41
P/BVPS	2.4	1.9	1.0	2.3	2.0	1.9
P/tBVPS	4.4	2.3	6.6	2.5	4.9	1.9
Income Statement (Latest Quarter)						
Gross Margin %	71.5%	42.5%	56.4%	61.4%	57.9%	54.8%
R&D	\$0	\$13	\$11	\$2	\$37	\$1
R&D %	-	9.1%	25.3%	28.5%	15.0%	6.4%
SG&A %	23.9%	24.5%	31.7%	30.8%	32.1%	33.4%
EBITDA %	47.6%	8.7%	0.6%	2.0%	10.8%	14.9%
EBIT Margin %	43.3%	6.4%	0.6%	2.0%	9.7%	12.9%
Net Margin %	33.0%	5.0%	0.5%	8.3%	8.2%	11.2%
Balance Sheet (Latest Quarter)						
Debt	\$0	\$194	\$181	\$8	\$283	\$7
Cash	\$3	\$118	\$93	\$20	\$334	\$44
Equity	\$12	\$250	\$178	\$25	\$1,050	\$50
Goodwill+Intangible Assets	\$6	\$39	\$150	\$2	\$630	\$0
Net Debt to Capital	(22.1)%	17.1%	24.5%	(35.8)%	(3.9)%	(64.6)%
Net Debt to Equity	(22.1)%	30.3%	49.4%	(48.1)%	(4.9)%	(73.5)%

Figure 25. Valuation Comparables (continued)
Source: Company reports, Research Capital

IMPORTANT DISCLOSURES:

- This report was prepared by Nick Agostino, Analyst and Arun Thomas, Associate. At the date of release of this report, Nick Agostino owns no common shares of Sangoma Technologies Corporation.
- On October 5, 2007, Nick Agostino and Arun Thomas made a visit to Sangoma's head office in Toronto, Ontario at the expense of Research Capital Corporation.
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