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Sangoma Technologies Corp. (STC: TSX-V)

Date: June 2, 2008
Price: \$1.30



KEY INFORMATION

Fiscal Year-end	June 30
52-Week High/Low	\$1.72 - \$0.86
3-Month Avg. Daily Trading Volume	50,496 shares
Market Capitalization	\$36.9 million
Enterprise Value	\$31.7 million
Book Value per Share (March 31)	\$0.51
Current Ratio	8.8
Gross Margin	70%
LT Debt to f2008e CF	0.0
LT Debt to Equity	0.0
Price to f2007 Earnings	18.6
Price to f2008e Earnings	10.8

FINANCIAL DATA (000's of Canadian Dollars)

	3 Months Mar 31		9 Months Mar 31	
	2008	2007	2008	2007
Revenues	3,214	2,238	9,107	5,586
Net Income	963	579	2,209	1,287
per share	0.033	0.021	0.078	0.046
Cash Flow	1,250	858	3,489	2,304
per share	0.043	0.031	0.125	0.083

BALANCE SHEET (as at March 31, 2008)

Current Assets	\$ 9,323,255
Total Assets	15,893,389
Current Liabilities	1,063,057
Long-Term Debt	nil
Shareholders' Equity	14,422,069

SHARES OUTSTANDING (as at March 31, 2008)

Basic	28,360,000
Fully-Diluted	29,615,000

* management and insiders own approximately 23% of the company's issued and outstanding common shares

Highlights:

- consistent quarterly revenue and earnings growth
- gross margins of approximately 70% over the last six years
- positive working capital of \$8.3 million (\$0.29 per share) and no debt
- projected CAGR of 30% for Windows IP PBX market

COMPANY OVERVIEW

Sangoma Technologies was incorporated in 1984 and became publicly listed via a reverse takeover of a public company on May 1, 2000. The company is engaged in the manufacturing, distribution and support of PCI cards for the telephony and wide area network industry. Some of Sangoma's products include analog, digital, and data hardware telephony cards that are integrated into PCs, facilitating their use as Private Branch eXchange (PBX) and other telephony applications, or as high performance data routers. WAN products include WANPIPE® internal routing and telephony solutions for Linux, FreeBSD, Windows and other operating systems. Sangoma is also a leading voice and data card supplier within the Open Source market.

Sangoma's products are used across the world with applications in various industry segments that primarily include PBX, call center, voice monitoring systems, Internet services, government and military, banking, retail, entertainment, medical, and manufacturing. The company also provides communication toolkits that allow third parties to set up WAN access into their own products. The majority of the company's products are based on its range of communication adapters that support standard telephony interfaces.

FINANCIAL SUMMARY

For the 3 months ended March 31, 2008, revenues increased by 44% to \$3.21 million from \$2.24 million for the comparable quarter in f2007. Gross margins were 68% in the third

quarter, equivalent to margins recorded during the same period in f2007. Net income increased by 66% to \$962,565 (\$0.033 per share) from \$579,245 (\$0.021 per share). Both sales and net income figures were all-time records for the company. The third quarter completes 7 consecutive quarters of record sales.

For the 9 months ended March 31, 2008, revenues increased by 63% to \$9.11 million from \$5.59 million for the comparable period in f2006. Gross margins were basically flat at 70%. Gross margins have declined marginally over time as larger OEM deals have become a larger proportion of the company's sales. Net income for the 9 month period increased by 72% to \$2.21 million or \$0.078 per share from \$1.29 million or \$0.046 per share for the first three quarters of f2007. The company remained debt free with working capital of \$8.26 million or \$0.29 per share as at March 31, 2008.

Sales growth was positive in all geographic regions, with sales outside of North America showing the highest annual growth rate at 92%. The future performance of the company will be driven by growth and recovery in the data transport business, expansion of distribution networks, focused marketing efforts, and leveraging economies of scale.

RECENT DEVELOPMENTS

Keeping in line with its international expansion strategy, Sangoma partnered with Convergence and MSMLE (both being providers of open source networking solutions) in March 2008, to expand the distribution network of its premium telephony and data cards across Pakistan, Belgium, Netherlands, Luxembourg and the Middle-East.

Sangoma is developing products to enhance voice transport and control that serve emerging market

segments such PC-based PBX, VoIP, and IVR technology. Sangoma's existing voice related products have been well received, and the development of new products has been driven by customer demand. Sangoma is also expanding its portfolio of offerings by moving into providing higher speed data communications for voice, data and video. These new products include support for multi-megabit per second T3 and E3 for larger telephony and data connections along with designing cards that support other industrial and telecommunications grade bus architectures in addition to PC-based bus designs.

SUMMARY

Sangoma has a strong financial foundation with exceptional revenue and earnings growth over the past four years. The company has positioned itself as a leading provider in the open source PBX and PC-based WAN markets. Management forecasts that Sangoma will continue to achieve annual growth of approximately 80% in PBX hardware products, which is estimated to have a market size of \$5.5 billion. The compound annual growth rate for the company is expected to run at about 30 to 45%, for both the OST cards business and the Windows-based IP PBX.

Sangoma is presently trading at an attractive price to earnings multiple of about 11 times expected f2008 earnings. Given that the company is debt free with positive working capital of about \$0.29 per share, Sangoma is presently trading at less than 10 times trailing earnings net of debt and working capital. Revenues are expected to continue to expand throughout f2008 and f2009, resulting in continued earnings growth. Current annualized earnings already exceed \$3.8 million or \$0.13 per share resulting in a forward p/e multiple of only 7.7 times net of working capital compared to the average industry p/e that stands at 18.5 times.

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