

# Coms\*

Internet telephony  
COMS.L (AIM)

## Telecoms on demand

As a next-generation telecoms provider  
Coms specialises in business-use  
services that scale with its clients' needs.

### Investment Case

- Coms specialises in hosted services, i.e. removing capital equipment or maintenance to provide services-based proposition that evolves with a clients' needs.
- Coms is sole UK distributor for Polycom IP phones and conferencing equipment, a strong indicator of its service quality. Its portfolio includes Glastonbury Festivals, Halfords and the UK Federation of Small Businesses.
- We value Coms at 89p per share based on a strong top-line growth outlook driven by an on-line and telesales expansion strategy.

### Initiating Coverage

# Buy

#### At a glance

2009 (Jan) E EPS (p)	(0.41p)
2010 (Jan) E EPS (p)	1.22p
Rating	BUY
Price Target	89p

Price (post consolidation)	35p
Target Price	89p



Source: Proquote

Shares in issue	12.22m
Net Debt (Cash)	(£0.07m)
Market Cap	£4.28m
Enterp. Value	£4.20m
NAV/Share	21.5p
Next Event	FY08/9 Interims September 2008

\* Daniel Stewart acts as broker and nomad to Coms

#### Forecasts (£m) 01/07A 01/08A 01/09E 01/10E

Sales	0.106	1.229	3.629	6.394
EBITDA	(0.518)	(0.823)	(0.014)	0.186
EBIT	(0.547)	(0.857)	(0.050)	0.149
PBT	(0.538)	(0.860)	(0.049)	0.151
EPS (p)	(0.137)	(6.794)	(0.403)	1.237

#### Ratios 01/07A 01/08E 01/09E 01/10E

EV/EBITDA	(7.29)	(4.6)	(265.8)	20.3
EV/EBIT	(6.9)	(4.4)	(75.9)	25.4
PE (x)	(230.7)	(4.6)	(78.2)	25.5

#### Company Description

IP-based next-generation hosted business  
telecoms services provider  
<http://www.coms.com>

[danielstewart.co.uk](http://danielstewart.co.uk)

# IP telecoms on demand

## Opportunity ~ IP platform

Internet telephony has progressed from the level of the experimental (pre-2005) to become a disruptive technology and, latterly, the basis for the current generation of telecom services. The buzzwords are now familiar:

- “seamless”; with voice and data services coexisting in a common IP data packet environment; and
- “converged” ; with fixed-line and mobile integration, via VoIP and GSM, 3G or WiFi elements.

Delivery of integrated services is the basis of “hosted” platforms which remove the need for the client company to install, maintain and upgrade equipment (e.g. the PBX) and replace this with managed systems which are readily upgraded or reconfigured on demand. However, although systems have progressed from a largely experimental stage as recently as 2004-2005, quality of implementation varies.

## Strategy ~ scalable hosted SME services

**Coms** accesses its target market both through direct sales (backed by its web presence) and indirectly via resellers. It currently reports 3,000 business clients (recorded in 5 months), 150 active SIP trunk users and 3m paid VIP-based call minutes per month. Recent wins include; the Federation of Small Businesses (210k members) ; Legatum; Glastonbury Festivals (requiring a scalable solution); Pinewood Studios; ReMAX; MediaCorp; The Big Chill; Computer Warehouse. Also, we interpret its exclusive UK distribution contract with US conferencing specialist Polycom as validation of its quality of service benchmarks.

## Valuation ~ 89p /share

We value COMS at 89p/x share based on a 5-year DCF at a 11.3% WACC. This equates to an EV of £10.9m.

## Triggers ~ EBITDA positive by Jan 2010(e)

Coms' business model is cap-ex light and highly cash-generative due to the strong recurring revenue profile of hosted services. Our estimates indicate positive Operating FCF by January 2009.

### Share consolidation:

**We note that on August 21<sup>st</sup> 2008 the shareholders of Coms approved the consolidation of shares in issue from 1,221.96m to 12.22m.**

**Figure 1: Coms provides services for Glastonbury Festivals**



Source: Google images, lastrefuge.co.uk

**Figure 2: Polycom represents a seal of quality**



Source: Polycom

Valuation 89p/ share based on 5-year DCF, 11.3% WACC.

# Hosted and Bespoke services

## Hosted Services and Bespoke Solutions

Coms's offering is built on the current generation of VoIP infrastructure and Voice over Internet services based on the SIP (Session Initiation Protocol) IP standard (see below). It provides hosted services primarily for SMEs, augmented by wholesale (trunk) capacity and hardware, notably Polycom IP Phones. There is also an on-demand consumer offering. Route to sales is via web and telesales contact, and also via resellers.

### Hosted Internet Telephony Services

Coms provides hosted internet telephony for SMEs and SOHOs based on handset equipment connected via Cat5 (cable), WiFi or DECT to a broadband router.

### Bespoke Internet Telephony Solutions

Here Coms addresses the corporate market with additional services such as internal messaging based on Microsoft Exchange, backed by enabling infrastructure (e.g. SIP trunks). Features include:

- Choice of over 2m geographic numbers in UK-wide area codes;
- Call waiting, call transfer, queuing, intelligent routing and the creation of user groups;
- All-format unified messaging collation;
- Polycom VoIP handsets and teleconferencing equipment.

**Table 1: Hosted Services and Bespoke Solutions metrics**

	Hosted VoIP	BespokeVoIP
Set-up cost (£)	70.0	4,000
ARPU/mth (£)	17.0	1,000
Gross margin (%)	45.0	39.0

Source: Company data

### Polycom

Coms is sole UK distributor rights for Polycom VoIP equipment and tele-conferencing equipment in a 12-month rolling contract. Founded in 1990 [NASDAQ.PLCM] Polycom has a global footprint in voice and video-conferencing hardware and systems; FY07 revenues \$929.9m.

### Company development

- March 2007 ~ selected as reseller channel retail deal with John Lewis Partnership;
- March 2007 ~ acquisition of VCOMM UK, establishing reseller channels;
- February 2007 ~ £685k share placing to fund integration of Exchange XT and Superline;
- December 2006 – acquisition of Exchange XT and Superline Ltd.;
- September 2006 ~ AIM listing via reverse takeover of Azman plc adopting its January year-end (FY06-7 year therefore 4months accounted).

Coms was created specifically to activate the infrastructure and services potential created by VoIP applications.

- Cat5: twisted-pair cable used in Ethernet networks;
- DECT: Digital enhanced cordless telecoms.

SIP architecture enables provision of the full-range of caller services, e.g. user groups or messaging.

**Figure 3: Polycom**



Source: Polycom

## SIP: key to VoIP quality

SIP ~ Session Initiation Protocol ~ is the key to seamless and effective VoIP; it creates real-time voice conversation within the *packetised* environment of the internet. SIP began as an Internet Engineering Task Force initiative in 1996 built around research conducted at the University of Columbia in the early 1990s. SIP shares characteristics with the video-oriented www HTTP (hypertext transfer protocol) that populates internet access. From the outset, therefore, SIP was integrated with the core drivers of the 'Net. On this basis both fixed and mobile operators began to rapidly re-engineer their infrastructure (both hardware and software) from 2005 onwards, replacing various levels of data transfer (e.g. Frame relay, ATM etc.) and their expensive interfaces with a single "cloud".

### Key features

- A voice packet requires some 20bytes (320 bits) of "header" information;
- Each packet contains 20-50 milliseconds of voice, with 20 packets transmitted per second at the 50ms level. The trade-off between capacity and transmission speed decides the quality of service;
- For example, Microsoft Netmeeting employed compression (ITU G.723.1) in order to negotiate slow-moving (28.8k bps) PC-based transmission.
- For a voice call to "survive" within the data cloud of the 'Net it requires its **prioritisation**, an element of **compression**, and compensation to overcome **jitter** (packets arriving out of sequence creating a echo effect).

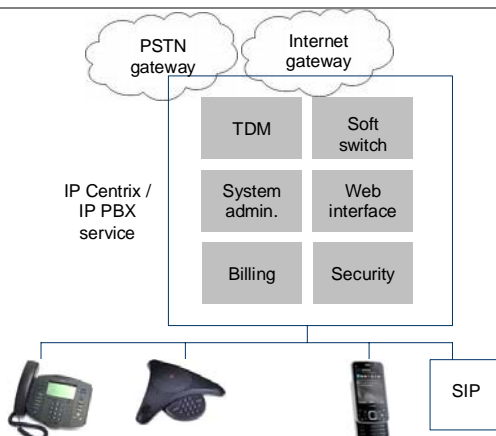
### Next generation telecoms

The development of and investment in WiFi and WiMAX networks, as part-licensed commercial propositions, means that device manufacturers such as Nokia (and new entrants such as Apple and Google) now see the opportunity for new revenue streams based on on-device services which are less dependent on GSM networks (2.5G or 3G and beyond, LTE) and propagate more efficiently and cheaply via links to the internet. The driver, as always, is cost.

### Coms' VoIP positioning

Coms' services are built around the VoIP (IP Centrix- and IP PBX-based) platform described below, with service quality underpinned by ownership of the switch (Ericsson) and network.

Figure 4: Coms platform



Source: Coms

Session Initiation Protocol (SIP) has become the core architecture of the "IP Cloud" platform adopted to replace legacy PSTN (switched) networks.

VoIP was created to survive within an evolving telecoms architecture which retained obsolete elements. The re-engineering of entire networks as an IP "cloud" and the high operating and transmission speeds of broadband means that VoIP becomes the high-quality defector choice.

The cost advantages of hosted services have become apparent.

Figure 4 outlines the structure of Com's offering, based on an IP Centrix core connecting to both conventional (PSTN) and Internet-based networks.

# Revenue outlook

## For the year to January 2008 (FY07) Coms reported;

- Revenue £1.298m (FY06, £0.106m).
- EBITDA (adjusted) loss of £0.823m (FY06 -£0.518m).

**Table 2: Results FY06, FY07**

Year to January (£m)	2007	2008
<b>Revenues</b>	<b>0.106</b>	<b>1.298</b>
COGS	0.079	0.854
	<i>Mrg %</i>	65.8
Gross profit	0.027	0.443
Admin expenses	0.700	1.300
	<i>of which:</i>	
Staff costs	0.399	0.765
D&A	0.029	0.034
Intangibles written-off	0.126	0.000
Other	0.146	0.502
Operating (rptd)	(0.673)	(0.857)
<b>Operating (adj)</b>	<b>(0.547)</b>	<b>(0.857)</b>
<b>EBITDA (adj)</b>	<b>(0.518)</b>	<b>(0.823)</b>
Finance expenses (net)	0.008	(0.003)
PBT (rptd)	(0.664)	(0.860)
<b>PBT (adj)</b>	<b>(0.538)</b>	<b>(0.860)</b>
Tax	0.000	0.030
PAT (rptd)	(0.664)	(0.830)
<b>PAT (adj)</b>	<b>(0.538)</b>	<b>(0.830)</b>

Source: Company data, Daniel Stewart

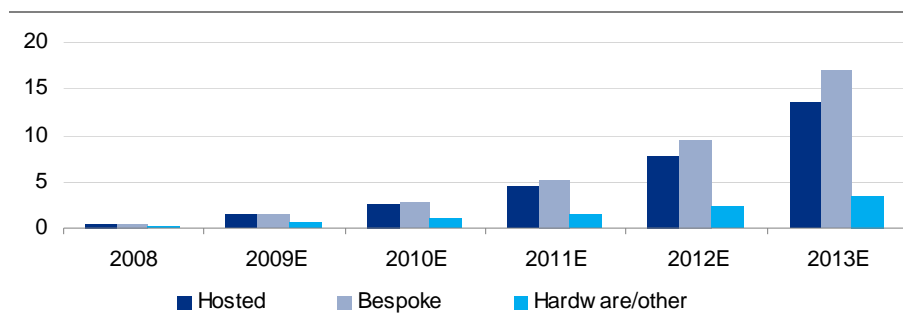
**Table 3: Revenues by division Jan 2008 and Jan 2009(e)**

Revenues £ '000	Jan-08	Jan-09E	YoY
Hosted Services	127	1,452	274
Trunk Services	450	1,524	133
Hardware /Other	652	653	223
Sum	1,229	3,629	195

Source: Company data

Chart 1 itemises the revenue elements that comprise our overall outlook.

**Chart 1: Coms, revenue outlook by revenue stream**



Source: Daniel Stewart

## January 07

- revenues of £1.3m;
- EBIT loss at £857k (reported basis)
- EBITDA (adj) at -£823k.

## Two revenue streams: Hosted services and Bespoke Solutions

COMS' revenues are cleanly divided between the provision of complete solutions (Hosted Services) and the provision of enabling Solutions for other providers. Revenue streams are based on;

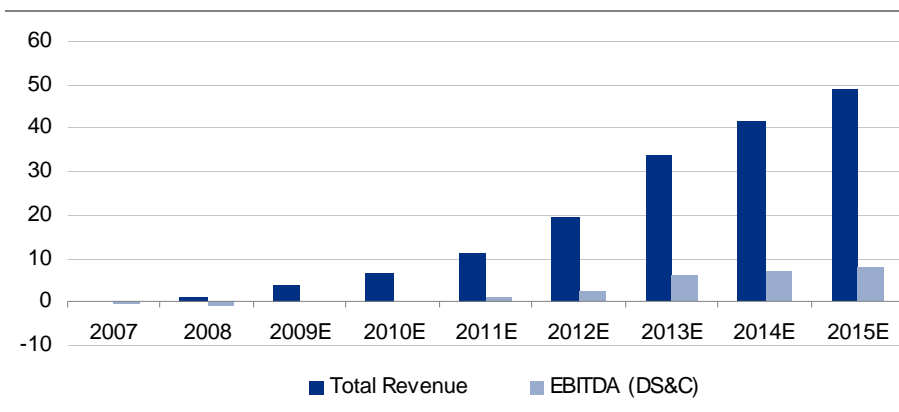
- Set-up fees for enabling technology and hardware;
- Recurring fees (IP Centrix subscriptions, IP Centrix call minutes and SIP trunk minutes); and
- Hosted user subscriptions (subdivided between initial fees and recurring ARPU).

Our outlook for overall revenue and EBITDA evolution is shown in Chart 3, indicative of January 2010(e)-2013(e) revenue CAGR at 74% and EBITDA evolution at a 217% CAGR, albeit from a low base.

Revenue outlook is characterised by a high recurring component. This combined with low headcount and a "soft-switch" proposition equates to strong cash generation.

Projected EBITDA margin by January 2012 (e) is 11.2%, and 2013(e) 17.4%.

**Chart 2: Revenue, EBITDA outlook**



Source: Company data, Daniel Stewart

### Outlook:

- Revenues: January 2009(e) £3.6m; January 2012(e) £19.6m;
- EBITDA: January 2010(e) positive at £0.19m; January 2012(e) £2.21m.

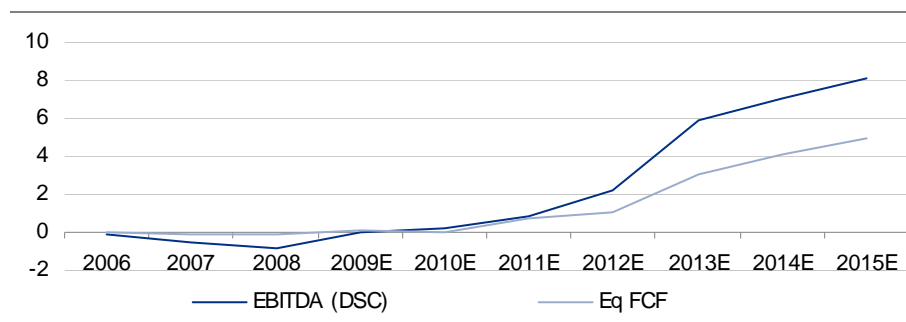
# Cashflow and Valuation

**Table 4: EBITDA and cashflow evolution (£m), 2006-2015(e)**

Cashflow (£m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA (DSC)	(0.068)	(0.518)	(0.823)	(0.014)	0.186	0.871	2.206	5.911	7.056	8.123
Operating cash flow	(0.042)	(0.494)	(1.417)	0.106	0.056	0.621	1.779	5.165	6.884	7.933
Net operating cash flow	(0.042)	(0.486)	(1.383)	0.106	0.058	0.804	1.186	3.562	5.090	5.993
Cash before dividends, financing	(0.057)	(1.060)	(1.506)	0.099	0.048	0.754	1.086	3.062	4.090	4.993
Eq FCF	0.000	(0.143)	(0.121)	0.099	0.048	0.754	1.086	3.062	4.090	4.993
Net OpFCF/EBITDA (%)	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	31.3	92.3	53.7	60.3	72.1	73.8

Source: Company data, Daniel Stewart

**Chart 3: EBITDA and Net Op FCF (£m), 2006-2015(e)**



Source: Company data, Daniel Stewart

## DCF-based valuation

**Table 5: DCF Valuation**

Year to Jan (£m)		2009E	2010E	2011E	2012E	2013E
Net Op FCF		0.099	0.048	0.754	1.086	3.062
Risk Free Rate	5.00%					
Eq risk premium	5.00%					
Beta unlevered	1.30					
Target LR Debt / Equity Value	25%					
Target LR Debt / Enterprise Value	20.0%					
Debt Premium	2.0%					
Pre-tax cost of debt	7.0%					
Corporate tax rate	30.0%					
Beta - Levered	1.48					
Cost of levered equity	12.4%					
<b>WACC</b>	<b>11.3%</b>					
PV CF	3.126	0.043	0.039	0.547	0.707	1.791
Terminal growth rate	2.0%					
Perpetuity	7.7					
<b>Sum EV</b>	<b>10.9</b>					
Net debt*	(0.1)					
<b>Equity value</b>	<b>10.9</b>					
Shares (m)	12.2					
<b>Per share</b>	<b>89.44</b>					

Source: Daniel Stewart

Our valuation target of 89p/share is based on a DCF approach the key components of which are:

- WACC 11.3%;
- EV: £10.9m;
- Equity value £10.9m;
- Jan'12 (e) EV/EBITDA 4.9x.



# Financial summary

**Table 6: P&L Outlook to January 2013(e)**

Year to January (£m)		2007	2008	2009E	2010E	2011E	2012E	2013E
Total Revenue		0.106	1.229	3.629	6.394	11.379	19.611	33.896
	YoY (%)	0.0	0.0	195.3	76.2	78.0	72.3	72.8
Gross		0.027	0.443	1.262	2.217	3.965	6.865	12.085
	Mrg (%)	25.4	36.1	34.8	34.7	34.8	35.0	35.7
Admin costs		(0.549)	(1.289)	(1.301)	(2.057)	(3.127)	(4.707)	(6.297)
EBITDA (DS&C)		(0.518)	(0.823)	(0.014)	0.186	0.871	2.206	5.911
	Mrg (%)	0.0	(67.0)	(0.4)	2.9	7.7	11.2	17.4
Dep		(0.004)	(0.023)	(0.024)	(0.025)	(0.033)	(0.048)	(0.123)
Amort		(0.025)	(0.011)	(0.012)	(0.012)	(0.012)	(0.011)	0.000
EBIT (DS&C)		(0.547)	(0.857)	(0.050)	0.149	0.827	2.147	5.788
	Mrg (%)	0.0	(69.7)	(1.4)	2.3	7.3	10.9	17.1
Goodwill		0.000	0.000	0.000	0.000	0.000	0.000	0.000
Exceptionals		(0.126)	0.000	0.000	0.000	0.000	0.000	0.000
EBITDA (rptd)		(0.644)	(0.823)	(0.014)	0.186	0.871	2.206	5.911
	Mrg (%)	0.0	(67.0)	(0.4)	2.9	7.7	11.2	17.4
EBIT (rptd)		(0.673)	(0.857)	(0.050)	0.149	0.827	2.147	5.788
	Mrg (%)	0.0	(69.7)	(1.4)	2.3	7.3	10.9	17.1
Other		0.000	0.000	0.000	0.000	0.000	0.000	0.000
Net Interest		0.008	(0.003)	0.001	0.002	0.032	0.073	0.190
PBT (rptd)		(0.664)	(0.860)	(0.049)	0.151	0.858	2.220	5.978
PBT (DS&C)		(0.538)	(0.860)	(0.049)	0.151	0.858	2.220	5.978
Provision for Income Taxes		0.000	0.030	0.000	0.000	0.152	(0.666)	(1.793)
Tax rate		0.000	n.m.	0.000	0.000	0.177	(0.300)	(0.300)
PAT (rptd)		(0.664)	(0.830)	(0.049)	0.151	1.010	1.554	4.185
PAT (DS&C)		(0.538)	(0.830)	(0.049)	0.151	1.010	1.554	4.185
Basic Wtd Av Shares		394.284	12.220	12.220	12.220	12.220	12.220	12.220
EPS reported		(0.168)	(6.794)	(0.403)	1.237	8.268	12.718	34.245
EPS (DS&C)		(0.137)	(6.794)	(0.403)	1.237	8.268	12.718	34.245
Dilutive shares		0.000	0.000	0.000	0.000	0.000	0.000	0.000
Basic Wtd Av Dil Shares		409.560	12.220	12.220	12.220	12.220	12.220	12.220
EPS reported diluted		(0.162)	(6.794)	(0.403)	1.237	8.268	12.718	34.245
EPS DSC diluted		(0.131)	(6.794)	(0.403)	1.237	8.268	12.718	34.245

Source: Company data, Daniel Stewart

## Financial summary continued:

**Table 7: Balance Sheet. Outlook to April 2013(e)**

Balance sheet Year to April (£m)	2007	2008	2009E	2010E	2011E	2012E	2013E
Cash & Equivalents	0.179	0.022	0.156	0.204	0.959	2.044	5.107
Investments	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Inventory	0.005	0.187	0.173	0.303	0.554	0.981	1.726
Accounts Receivable	0.095	0.758	0.994	1.752	3.118	5.373	9.287
Accrued/Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Total Current Assets</b>	<b>0.278</b>	<b>0.967</b>	<b>1.324</b>	<b>2.259</b>	<b>4.630</b>	<b>8.398</b>	<b>16.120</b>
Goodwill	1.950	2.308	2.308	2.308	2.308	2.308	2.308
Accum impairment	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Goodwill net	1.950	2.308	2.308	2.308	2.308	2.308	2.308
Fixed Assets gross	0.143	0.184	0.191	0.201	0.251	0.351	0.851
Depreciation	(0.121)	(0.147)	(0.171)	(0.196)	(0.229)	(0.277)	(0.400)
Net Fixed assets	0.022	0.037	0.020	0.005	0.022	0.074	0.451
Other intangibles	0.010	0.058	0.058	0.058	0.058	0.058	0.058
Other int amort	(0.000)	(0.012)	(0.024)	(0.035)	(0.047)	(0.058)	(0.058)
Other int. net	0.010	0.046	0.034	0.022	0.011	(0.000)	(0.000)
Deferred tax, other	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Fixed assets</b>	<b>1.982</b>	<b>2.391</b>	<b>2.362</b>	<b>2.335</b>	<b>2.340</b>	<b>2.381</b>	<b>2.758</b>
<b>Total Assets</b>	<b>2.260</b>	<b>3.358</b>	<b>3.686</b>	<b>4.594</b>	<b>6.970</b>	<b>10.780</b>	<b>18.878</b>
Accounts Payable	0.318	0.652	0.994	1.752	3.118	5.373	9.287
Short-term debt	0.000	0.039	0.039	0.039	0.039	0.039	0.039
Tax& Provisions	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Accruals and Deferred Income	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Total Current Liabilities</b>	<b>0.318</b>	<b>0.691</b>	<b>1.033</b>	<b>1.790</b>	<b>3.156</b>	<b>5.411</b>	<b>9.325</b>
LTD	0.000	0.043	0.043	0.043	0.043	0.043	0.043
Accruals, Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Long-term Liabilities	0.000	0.043	0.043	0.043	0.043	0.043	0.043
Share Capital	0.794	1.056	1.056	1.056	1.056	1.056	1.056
Share Premium	6.099	7.348	7.348	7.348	7.348	7.348	7.348
Adjustments, other	(4.236)	(4.236)	(4.236)	(4.236)	(4.236)	(4.236)	(4.236)
Profit/Loss	(0.714)	(1.544)	(1.593)	(1.442)	(0.432)	1.122	5.307
<b>Total Equity</b>	<b>1.942</b>	<b>2.624</b>	<b>2.575</b>	<b>2.726</b>	<b>3.736</b>	<b>5.290</b>	<b>9.475</b>
<b>Sum Liabilities &amp; Shareholders Equity</b>	<b>2.260</b>	<b>3.358</b>	<b>3.686</b>	<b>4.594</b>	<b>6.970</b>	<b>10.780</b>	<b>18.878</b>

Source: Company data, Daniel Stewart

**Table 8: Cashflow: Outlook to January 2013(e)**

Cashflow Year to April (£m)	2007	2008	2009E	2010E	2011E	2012E	2013E
Op DS&C	(0.547)	(0.857)	(0.050)	0.149	0.827	2.147	5.788
D&A	(0.029)	(0.034)	(0.036)	(0.037)	(0.045)	(0.059)	(0.123)
Working capital	0.023	(0.594)	0.120	(0.130)	(0.251)	(0.427)	(0.745)
<b>Op CF</b>	<b>(0.494)</b>	<b>(1.417)</b>	<b>0.106</b>	<b>0.056</b>	<b>0.621</b>	<b>1.779</b>	<b>5.165</b>
Net interest	0.008	0.003	0.001	0.002	0.032	0.073	0.190
Taxation	0.000	0.030	0.000	0.000	0.152	(0.666)	(1.793)
<b>Net OpCF</b>	<b>(0.486)</b>	<b>(1.383)</b>	<b>0.106</b>	<b>0.058</b>	<b>0.804</b>	<b>1.186</b>	<b>3.562</b>
Purch. Fixed Invest.	(0.597)	(0.083)	0.000	0.000	0.000	0.000	0.000
Capital Expenditure	(0.007)	(0.040)	(0.007)	(0.010)	(0.050)	(0.100)	(0.500)
<b>Net OpFCF</b>	<b>(1.090)</b>	<b>(1.506)</b>	<b>0.099</b>	<b>0.048</b>	<b>0.754</b>	<b>1.086</b>	<b>3.062</b>
Cash before dividends, financing	(1.060)	(1.506)	0.099	0.048	0.754	1.086	3.062
Dividends Paid	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Issue of Shares (net)	0.917	1.412	0.000	0.000	0.000	0.000	0.000
Increase/Decrease in Borrowings	0.000	(0.027)	0.000	0.000	0.000	0.000	0.000
<b>Eq FCF</b>	<b>(0.143)</b>	<b>(0.121)</b>	<b>0.099</b>	<b>0.048</b>	<b>0.754</b>	<b>1.086</b>	<b>3.062</b>
Net Change in Cash	(0.143)	(0.121)	0.099	0.048	0.754	1.086	3.062
Net Cash - Beginning Balance	0.322	0.179	0.057	0.156	0.204	0.959	2.044
<b>Net Cash - Ending Balance</b>	<b>0.179</b>	<b>0.057</b>	<b>0.156</b>	<b>0.204</b>	<b>0.959</b>	<b>2.044</b>	<b>5.107</b>

Source: Company data, Daniel Stewart

# Coms: Management profiles

## **Jason Drummond ~ Executive Chairman**

- 1996 ~ founded Virtual Internet; online intellectual property protection and web hosting; AIM-listed January 1999. April 2000 ~ £30m fundraising combined with a move to the Official List.
- Co-founder of a number of AIM-listed technology ventures including Media Corporation (MDC), and Networx (NTWX).

## **Terence Martin ~ Chief Executive**

- 2001 ~ Board member of Scoot.com, Managing Director responsible for the sale and integration of the business to BT Directories;
- 1999 ~ Ingram Micro UK, Commercial Sales Director (£500m revenues in FY99);
- 1997 ~ Sales Director Samsung Electronics (UK);
- 1989-1997 ~ Apple Computers (UK), latterly as Channel Sales Director;
- 1982-1988 ~ Hewlett Packard.

## **Andrew Branson ~ Finance Director**

- 1996 ~ Finance Director of Computer Warehouse, Apple computer distributor;
- Other Finance Director positions include Metacharge Ltd., Popxpress Ltd.;
- 1984 ~ qualified as a Chartered Accountant; 1985 ~ BDO Stoy Hayward London, Senior Audit Manager in (1990).

## **Richard Bennett ~Corporate Development Director**

- Director of AIM-listed Virtual Internet (London and NY);
- Founder of the low-carbon clean-tech companies Green Riband Capital and PZERO Limited;
- 1994 ~ co-founder of JFAX Inc., (New York), Internet-based messaging service operator, renamed J2 Global Communications Inc, (NASDAQ:JCOM);
- Richard started his career working with GE.

## **Jonathan Cole ~ Non-Executive Director**

Entrepreneur. Established The Synthesizer Company ("TSC") in 1987 and in 1991 established Computer Warehouse as a division and brand of TSC. TSC was renamed Computer Warehouse Ltd., as a UK Apple reseller (£15m). Jonathan has also established a number of other companies; Metacharge Ltd. (Internet transactions); Popxpress Ltd., (iPod and accessory stores).

## **Justin Drummond ~ Non-Executive Director**

Entrepreneur. Founded Media Corp. in 2000, LSE-listed in 2001 via reverse takeover of Chrome Technology plc. In 2005 via a £14m placing, acquisitions of Eyeconomy Ltd., (media agency) and Search Focus Ltd., (sector-specific search technology and marketing specialist).

## Disclosure Checklist

Company	Code	Disclosure
Coms	COMS	2,3,6

Source: Daniel Stewart

1. Within the past twelve months Daniel Stewart & Co plc and/or its affiliates has managed or co-managed a public offering for this Company, for which it received fees or the promise of fees
2. Daniel Stewart & Co plc and/or its affiliates act as corporate broker or nominated advisor to this Company
3. Daniel Stewart & Co plc and/or its affiliates regularly hold/may hold in future trading positions (which may include options) in this Company
4. Daniel Stewart & Co plc and/or its affiliates holds more than 5% of the securities of this Company
5. The Company holds more than 5% of the securities of Daniel Stewart & Co plc and/or its affiliates
6. Daniel Stewart & Co plc and/or its affiliates may currently be providing, expects to provide within the next three months or may have provided within the previous twelve months, investment banking services to this Company, which have given rise to payment or the promise of payment
7. The author and/or an individual responsible for production of this report has direct ownership of stock in this Company
8. The author responsible for the production of this report received or purchased shares in the issuer, prior to a public offering of the shares.
9. Daniel Stewart and Company is party to an agreement with this company for the publication of research on it
10. This research note has been disclosed to the Company, with resulting amendments, prior to its dissemination

The Daniel Stewart recommendation structure is based on relative upside/downside to target price. The target price is set on a rolling 12 month view. Upside or downside of 10% or more is categorised as Buy or Sell respectively, and less than 10% a Hold.

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### Distribution of Ratings

	All Companies	Of which are Investment Banking Clients in the last 12 months
Buy	80%	35%
Hold	13%	19%
Sell	7%	0%

*data as of Q2'08 30 June 2008*

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Authorised and Regulated by the Financial Services Authority. Aug08

## Key Assumptions

- SIP-based hosted telecoms services become mainstream
- Coms maintains web- and telesales-based momentum

Income	01/07A	01/08A	01/09E	01/10E
Sales	0.11	1.23	3.63	6.39
EBITDA	(0.52)	(0.82)	(0.01)	0.19
EBIT	(0.55)	(0.86)	(0.05)	0.15
PBT	(0.54)	(0.86)	(0.05)	0.15
EPS (p)	(0.14)	(6.79)	(0.40)	1.24
Data adj. basis				

Valuation (x)	01/07A	01/08A	01/09E	01/10E
P/E	(230.7)	(4.6)	(78.2)	25.5
EV/EBITDA	(7.3)	(4.6)	(265.8)	20.3
EV/EBIT	(6.9)	(4.4)	(75.9)	25.4
P/FCF	(7.8)	(2.7)	36.4	69.1
FCF Yield (%)	(12.8)	(36.8)	2.7	1.4
P/NAV	18.9	55.0	1.1	1.0
NAV (p)	1.7	0.6	27.5	30.2

Cash Flows (£m)	01/07A	01/08A	01/09E	01/10E
Op. CF	(0.49)	(1.42)	0.11	0.06
Net OpCF	(0.49)	(1.38)	0.11	0.06
Net Op FCF	(1.09)	(1.51)	0.10	0.05
FCFPS (p)	(4.05)	(11.60)	0.86	0.46

Balance Sheet (£m)	01/07A	01/08A	01/09E	01/10E
Fixed Assets	1.98	2.39	2.36	2.33
Current Assets	0.28	0.97	1.32	2.26
Current Liabilities	0.32	0.69	1.03	1.79
Capital Employed	1.94	2.58	2.53	2.68
Long-term Liabilities	0.00	0.04	0.04	0.04
Net Assets	1.94	2.62	2.61	2.76
Net Debt (Cash)	(0.18)	0.06	(0.07)	(0.12)

## Recent News / Events

**21 August 2008:** Share consolidation

## Management Team

Executive Chairman - Jason Drummond  
CEO - Terence Martin  
FD - Andrew Branson  
MD - Richard Bennett

Major Shareholders	% Held
Drummond J K	42.61
Wiils & Co	8.69
Cole J C	7.44
Drummond J P	3.39
Hoodless Brennan	3.14
Riverrock Ltd	2.63
Winterflood Secs.	1.38
<b>Sum</b>	<b>69.28</b>