
Analysts' Ideas of the Week – Rapidly growing company; wholesale telecommunications

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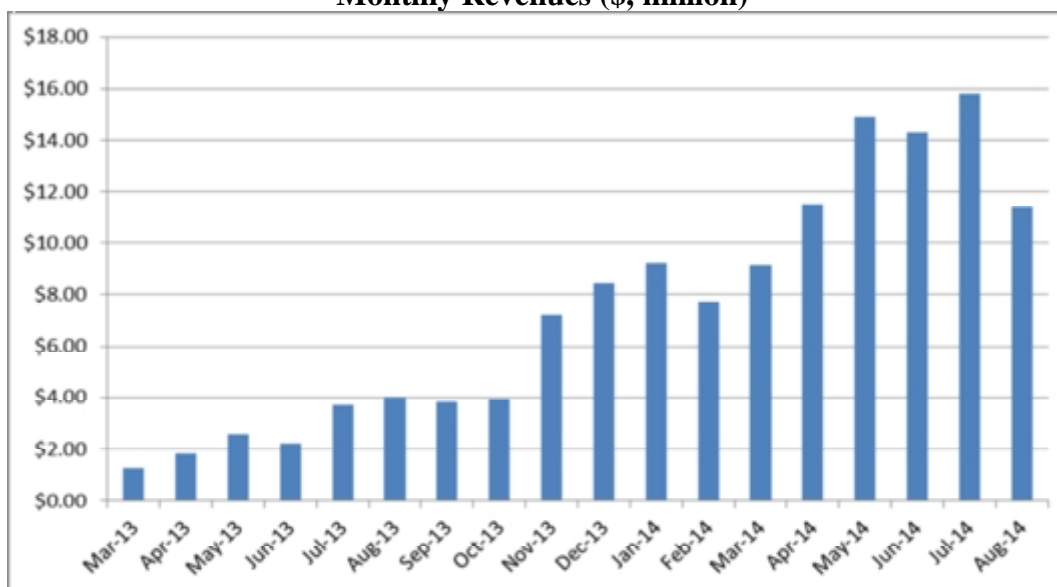
Rapidly growing company in the wholesale telecommunications business

This week, I would like to introduce you to a TSXV listed company, Virtutone Networks Inc. (TSXV: VFX). We will be initiating coverage on the company shortly.

Virtutone was founded in 2007, and went public through a reverse takeover of a capital pool company in 2008. The company is in the wholesale telecommunications business, wherein they buy minutes from local carriers worldwide, and sell the minutes to carriers in U.S., Canada, UK and Australia. This service allows the customers of the carriers who purchases minutes from Virtutone to place international phone calls. Virtutone's focus is on niche markets in Africa, and South America, as there is less competition.

Wholesaling is a high volume – low margin business, which is highly competitive. Gross margins are typically 3% - 5%. The company has been able to quickly grow its wholesale business, since moving into that space in early 2013. Revenues increased from \$1.25 million in March 2013, to \$11.40 million by August 2014. The chart below shows revenues since the company commenced its wholesaling business.

Monthly Revenues (\$, million)



Management's goal is to grow revenues to \$1 billion within the next 5 years. Virtutone is now focused on continued revenue growth, and gradually improve its margins from the current 3% - 5% range, to 5% - 7%, by providing value added services, such as SMS.

Growth through acquisitions is key in this business, as larger companies acquire their smaller counterparts to expand their offerings. **If Virtutone is able to develop a reasonable track record of recurring and stable business, we believe Virtutone can position themselves as a good acquisition target.**

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