

TelePlus Enterprises Inc. (TLPE.OB)

MVNO led growth expected in FY06

Investment Outlook:

Positive

Volatility Risk: High

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12-month Price Target: \$0.78

Report Date: 17 April, 2006

Market Data

Price as on April 17, 2006	\$0.27
52 Week Range	\$0.15/\$0.55
Dil. Shares Outstanding (Million)	86.4mn
Market Cap. (Million)	\$23.3mn
Insider Holding	45.6%
Fiscal year end	31 Dec
Book Value / Share (31 Dec'05)	\$0.009

Source: Yahoo Finance, Analyst estimates

Investment Summary

TLPE's acquisition of Liberty Wireless in Dec'05 should provide the company with a strong platform for expanding its service offering in the US market. Liberty Wireless is a MVNO, and the third largest wireless reseller on the Sprint PCS network in US. Moreover, FY06 results will include the full impact of Telizon, Avenue and Freedom acquisitions made in FY05. Furthermore, discontinuation of the loss incurring retail business should positively impact earnings and valuations. We expect revenue to increase 273% in FY06 to \$30.1mn, followed by another 50% in FY07. Our 12-month price target is \$0.78/share, and we continue to maintain a Positive rating on TLPE.

Acquisitions to have positive impact on FY06 earnings

We expect the full impact of Telizon, Avenue and Freedom acquisitions be visible in FY06 results. Earnings should also benefit from closure of loss incurring retail operations. Based on the information provided by TLPE management, Telizon, Avenue and Freedom had combined revenue of \$15.6mn and EBITDA of \$2.1mn in 2004. We believe these numbers to be higher for FY06, given organic growth in these business segments. Furthermore, divestment of the loss incurring retail operations in Canada, should remove drag on earnings and valuations. Although retail operations earned \$12.1mn and \$11mn in revenue during FY04 and FY05 respectively, it had negative EBITDA of (\$0.3mn) in FY04 and (\$1.5mn) in FY05.

(PLEASE SEE RISK FACTORS ON PAGE 8 & DISCLOSURES AT THE END OF THIS PAID FOR REPORT)

FY05 acquisitions and their impact on Revenue and EBITDA

	Acquisition Date	Pro forma estimates for acquisitions
Freedom (Ontario, Canada)	April'05	\$2,500,000
Telizon (Ontario, Canada)	July'05	\$12,000,000
Avenue Reconnect (Windsor, Canada)	June'05	\$1,100,000
Total Incremental Revenues		\$15,600,000
Freedom EBITDA		\$300,000
Telizon EBITDA		1,600,000
Avenue EBITDA		200,000
Total Incremental EBITDA		\$2,100,000

Source: SEC Filings, Analyst estimates

Liberty Wireless (“Liberty”) should provide strong platform for MVNO led growth

TLPE acquired Liberty in Dec'05. We feel that Liberty is one of the most critical acquisitions for TLPE as it gives the company a strong footprint in the US market. More importantly, Liberty is a Mobile Virtual Network Operator (MVNO) and the third largest reseller on the Sprint PCS network in US, with approx. 22,000 active customers.

Financial History - Liberty Wireless

Year End 31 December	2003	2004	9mthFY05
Net sales	\$36,059,645	\$49,332,085	\$19,625,149
Cost of goods sold	27,220,707	31,077,036	14,191,044
Gross Profit	8,838,938	18,255,049	5,434,105
General, administrative and selling expenses	13,182,942	13,790,416	5,202,233
EBITDA	(-\$4,344,004)	\$4,464,633	\$231,872

Source: SEC Filings, Analyst estimates

Business Model

Liberty generates revenues from customers for monthly recurring usage of wireless airtime minutes and optional features, including voice mail text messaging. In addition, the Division bills for airtime usage in excess of monthly minutes included in monthly service plans. MVNO services revenue also includes non-recurring activation service charges to customers to the extent not allocated to wireless device revenue. MVNO services are provided on a month-to-month basis and are generally paid in advance.

Positive industry dynamics for MVNO

According to a report by Deloitte¹, MVNOs are likely to have revenue of \$10-12bn by 2008. Another report by A.T. Kearney² suggests that by 2010, MVNOs would account for 15% of the wireless market or 25 million subscribers.

According to Ovum Limited³, an independent research company, the estimated number of wireless subscribers in the United States has more than doubled over the past five years, from

¹ Source: “Mobile Virtual Network Operators: Convergence in action Is an MVNO right for you?” - Deloitte

² Source: “The Virtual Wireless Future”, by Andrew J. Cole. TelephonyOnline.com, 13 Sept'04.

³ Source: InPhonic Inc. 10k filings for 2005. www.sec.gov

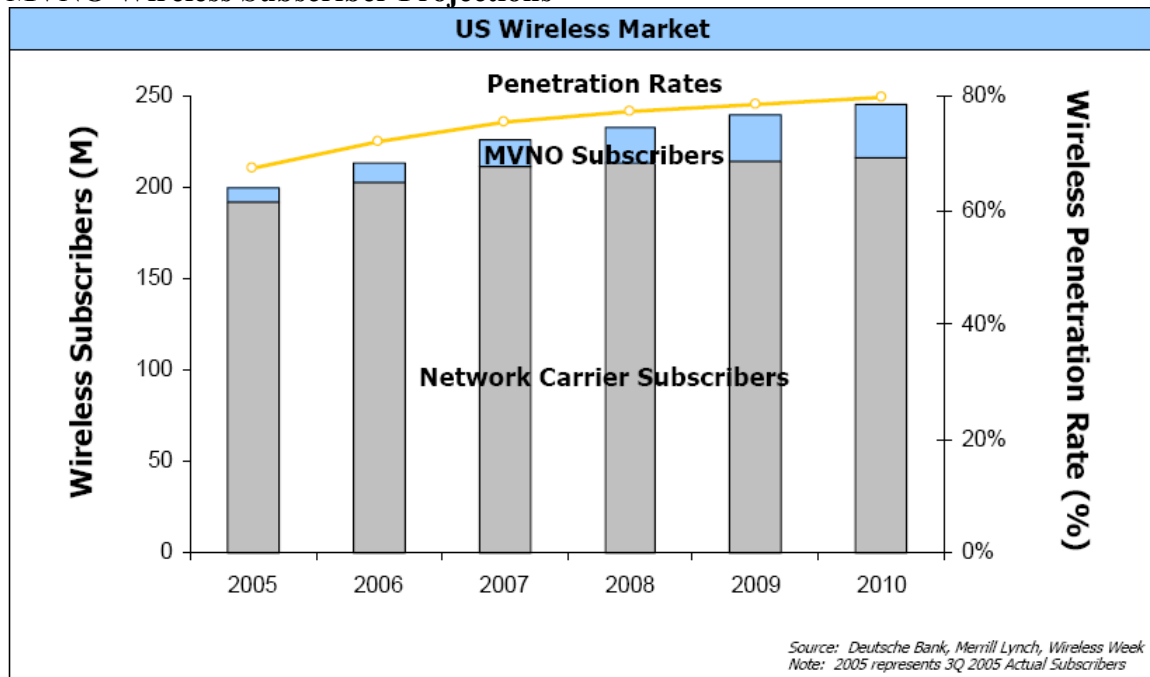
97.0mn subscribers in 2000 to 200.7mn in 2005, representing 68% of the U.S. population in 2005. Ovum expects that by 2010, there will be 256.0 million wireless subscribers in the U.S, representing additional growth opportunities going forward.

Furthermore, the future growth in wireless subscribers is expected to come from a mix of services, including traditional post-paid and pre-paid service plans, as well as handset service upgrades. Ovum expects future subscriber growth to come equally from both pre-paid and post-paid subscribers. Ovum expects churn to decrease from 2.4% in 2005 to 2.3% in 2010, and total gross additions will remain relatively flat, decreasing less than 1% annually from an estimated 74.7mn gross additions in 2005 to 71.9mn in 2010. Additionally, Ovum expects the handset service upgrade market, which represents current wireless subscribers who commit to a new contract with their current wireless carrier instead of switching to a new one, to grow from 59.0mn units in 2005 to 98.8mn in 2010. Collectively, these opportunities represented 133.8mn transactions in 2005, and Ovum expects this to grow to 170.7mn transactions in 2010, a 4.5% compound annual growth rate.

MVNOs are being driven by three key factors

Market Opportunity	Technology Evolution	Competitive Dynamics
<p>\$10-12 billion revenue projected by 2008 due to:</p> <ul style="list-style-type: none"> • Opportunities for customer acquisition by non-wireless companies based on their existing core competencies such as content, brand extensions or efficient distribution channels • Opportunities to capture non-consuming wireless customers through niche, targeted offerings 	<p>Maturing of 3G (high-speed wireless networks) enabling media/entertainment offers</p> <p>Emerging integration technologies such as IMS (IP Multimedia Systems) which support integration of voice and data products</p>	<p>Slowing growth of the overall wireless market – thus making wholesale an attractive revenue source to the wireless carriers</p> <p>Consolidation of mega wireless carriers creating a need for differentiation</p> <p>Competitive pressure to continue to invest in improving the network</p>

Source: Mobile Virtual Network Operators: Convergence in action Is an MVNO right for you? - Deloitte

MVNO Wireless Subscriber Projections

Source: <http://library.corporate-ir.net/library/77/775/77594/items/185158/022306InvestmentCommunityHELIO.pdf>

Experienced MVNO management

Since its acquisition of Liberty Wireless in Dec'05, TLPE has focused on creating a strong management team to manage its US operations. For instance, it hired Eduardo Janeiro as Director of Sales and Marketing, and Laura Seijo as Channel Manager - Online Sales & Marketing. Both Mr. Janeiro and Ms. Seijo will be based in Miami and will provide retail sales support for the Liberty Wireless brand by managing key accounts and developing distribution channels. Ms. Seijo will be responsible for all aspects of website creation and marketing for the Liberty Wireless brand, from web analytics and reporting to user interface design and content development.

Mr. Janeiro, was formerly a Director of Sales with Metro PCS, Inc. a leading wireless provider in the US. Mr. Janeiro will be responsible for executing an aggressive marketing and sales campaign that aims at appealing to a larger base of customers and distributors. Having worked in marketing and sales for MCI Telecommunications, Telefonica International and with Metro PCS, he brings a wealth of experience into this role

Similarly, Ms. Seijo has over 7 years of experience in internet marketing and user interface design and development. Prior to joining the Company, Ms. Seijo was a Consultant to TracFone Wireless in which capacity she conducted requirements analysis, customer experience analysis, and user interface design. Moreover, she led the North American E-commerce User Interface team at Office Depot Inc for a period of over 5 years. She also worked as a webmaster and web designer, holds a Bachelor of Arts from the University of Florida and is a National Merit Scholar.

What is a MVNO⁴?

An MVNO purchases wholesale airtime on an existing wireless network and provides its own branded wireless communications services to end-users. Typically, MVNO focuses on closely targeted niche markets, defined by particular demographics such as lifestyle, age, payment methods, ethnicity, geography or membership of a specific community or interest group. By buying network and radio capacity from an existing mobile network owner – and managing this through a dedicated third-party platform capable of handling Customer Relationship Management (CRM), billing, service creation and network inter-working – the MVNO is able to build its own brand identity through innovation with new data and content-based services and through dedicated market understanding and support. MVNOs are also particularly interested in the increasing role that mobile content and applications can play in targeting these niche markets to increase both revenues and loyalty.

List of Selected MVNOs in US

Name	Comments
7-Eleven Speak Out	Prepaid MVNO via MVNE with Ztar Mobile (press release) (Cingular network)
Air Voice Wireless	MVNO selling prepaid cards (AT&T Wireless network)
Amp'd Mobile	New CMDA 2000 EV-DO MVNO.
Boost Mobile	Lifestyle service provider, targeting youth segments via prepaid voice and data services that are priced simply, est. 500k customers (division of Nextel)
BRAVO Wireless	Pay-as-you-go MVNO targeting immigrants from Africa, Asia, Europe and Latin America.
Call Plus	Prepaid MVNO (AT&T Wireless network)
Disney Mobile	MVNO (Sprint PCS network)
EarthLink	BlackBerry data MVNO, also sells packages that include voice
ESPN	MVNO featuring sport-oriented data applications. (Sprint PCS network)
GlobalTalk PCS	MVNO targeting credit risk customers (Sprint PCS network)
GSR Mobile	Prepaid card MVNO Prepaid card provider (Sprint PCS network)
Mobile PCS	MVNO (Sprint PCS network)
Movida Communications	Prepaid voice and data MVNO services focusing on the U.S. Hispanic population - mainly sold in Wal-Mart stores, etc. (Sprint PCS network)
Page Plus	Prepaid MVNO (Verizon Wireless network)
Tracfone Wireless	Pre-paid service provider focusing on Hispanic segments in the
U Mobile	MVNO (Sprint PCS network)
Virgin Mobile USA	MVNO (Sprint PCS network) 1,75m customers as of March 2004

Source: <http://www.cellular-news.com/mvno/>

FY05 and FY06 Financial Analysis**Preliminary Jan-Feb'06 Results**

According to preliminary results for Jan-Feb'06, TLPE has reported year-to-date revenues of \$4.3mn and earnings of \$97,936. In Feb'06, the company reported revenue of \$2.1mn, EBIDTA of \$197,222, and an EPS (pre-tax) of \$0.002. Wireless Sales accounted for 38% of revenue in Feb'06, with the remaining 62% coming from Telecom Sales.

⁴ Source: "The Mobile Virtual Network Operator - Building a new mobile value chain and creating opportunities for all". www.Telcordia.com, Jan'06.

Comparatively, the YTD'06 (Jan-Feb) numbers are significantly higher than 1QFY05 actual. Revenue is up 43.3% during first two months of FY06, compared to 1QFY05. Similarly, the YTD'06 EBITDA is a positive \$0.43mn compared to a negative EBITDA of (\$0.4mn) in 1QFY05.

YTD FY06 versus 1QFY05 performance

\$mn (except EPS)	Jan-06	Feb-06	YTD 2006	1QFY05
Net Revenue	2.2	2.1	4.3	3.0
EBITDA	0.23	0.197	0.427	-0.4
EPS (pre-tax)	0.0015	0.002	0.0035	-0.571

Source: TLPE Press Release, SEC filings, analyst estimates

FY05 Performance

Given that TLPE discontinued its retail operations in Feb'06, it has restated its FY05 financial statements to exclude the impact of discontinued operations. Hence, as company's operations primarily consisted of retail business in FY04, the FY05 numbers are not comparable to them.

Ending 31 December	FY05	FY04
Net revenues	\$8,092,689	\$ --
Cost of Revenues	5,409,705	
Gross Margin	2,682,984	--
General, Administrative and Selling	2,612,572	365,906
EBITDA and discontinued operations	70,412	-365,906
Depreciation of Property and Equipment	91,917	
Amortization of Deferred Finance Fees	170,213	57,471
Interest Expense	406,737	48,207
Income (loss) before Income Taxes	-598,455	-471,584
Income Taxes	--	--
Net income (loss) from Continuing Operations	-598,455	-471,584
Net loss on Discontinued Operations	-2,294,833	-602,386
Net Income (loss) for the Year	\$ 2,893,288	(\$1,073,970)
Loss per share from Continuing operations	(\$0.01)	(\$0.01)
Loss per share from Discontinued operations	-0.03	-0.01
Net income (loss) per share	(\$0.04)	(\$0.02)

Source: SEC filings, analyst estimates

Valuation

We estimate TLPE's 12-month target price at \$0.78/share. Our estimate is an average for the price derived by using comparable PE and Price/Sales multiple for FY07.

Comparable Valuations

Symbol	Price (13 April'06)	Mkt Cap	P/E FY06	P/E FY07	P/Sales FY06	P/Sales FY07
BCE	\$24.6	\$23.0bn	14.7	14.1	1.4	1.4
T.TO	46.3	17.3	18.1	14.9	2.0	1.9
AIT.TO	35.7	4.6	22.6	21.2	2.1	2.1
T	25.6	99.5	12.8	11.6	1.2	1.2
VZ	32.8	96.2	12.9	12.2	1.0	1.0
S	26.0	77.5	16.1	14.9	1.7	1.6
RG	38.4	12.2	40.9	22.1	1.6	1.5
Average			19.7	15.9	1.6	1.5

Source: Yahoo Finance, analyst estimates, First Call Research Reports

TLPE Derived Price

	FY07E
P/E	\$0.76
P/Sales	0.80
Average	\$0.78

Source: Yahoo Finance, analyst estimates, First Call Research Reports

Earnings Projections

US\$'000. Dec year end	2006E	2007E
Revenue		
- Reconnect	15,180	20,160
- MVNO	15,000	24,960
Total Revenue	30,180	45,120
Gross Profit		
- Reconnect	7,590	10,080
- MVNO	3,750	6,739
Total Gross Profit	11,340	16,819
EBITDA		
- Reconnect	1,973	4,032
- MVNO	1,500	2,995
Total EBITDA	3,473	7,027
Less - Depreciation & Amortization	92	92
- Net Interest Expense	576	576
Profit before Tax	2,805	6,359
Net Income	1,964	4,133
EPS	\$0.023	\$0.048
Revenue/share	\$0.35	\$0.52
EBITDA/share	\$0.04	\$0.08

Source: Yahoo Finance, analyst estimates, SEC Filings

Major Risk Factors:

- **Margin squeeze risk** remains ever-present in an industry where products tend to become commoditized quickly leading to high price elasticity and retailers always remain price-takers, unable to defend margins in the face of lower price initiatives by competitors or outright price wars.
- **High dependence on key management personnel** means that if any of these key managers leave, it could have a materially adverse impact upon TLPE's operations and financial performance.
- **High stock price volatility** and low trading volumes of micro-cap stocks means that despite a favorable fundamental outlook, our price target may be missed.
- **In connection with acquisitions made in FY05**, the company has agreed to additional consideration of up to \$17,839,000 payable on an earn out basis based on the achievements of specific operating benchmarks during 48 months period following the acquisitions. Lack of availability of funds could adversely impact the company's ability to make earn out payments.
- **Potential dilution from Convertible Debenture and Warrants.** The company has \$9.25mn of Convertible Debentures outstanding. These debentures can be converted at a maximum price of \$0.275/share, resulting in 33.6mn additional share issue (or 38.9% of current number shares outstanding). Apart from Convertible debentures, the company has outstanding warrants for another 33mn shares.

Company Background

TLPE is a provider of wireless and telecommunications services in Canada and the U.S. Its products include prepaid and postpaid wireless, landline, long distance and internet services. Its subsidiary, TelePlus Connect, Corp. is a reseller of a variety of Telecom services including landline, long distance and internet services. TelePlus Wireless, Corp. -under the brand name "Liberty Wireless" - operates a virtual wireless network selling cellular network access (MVNO) to distributors in the United States. It offers wireless prepaid service primarily to customers who are unable to get access to services provided by bigger wireless service providers.

In Dec'05, TLPE acquired certain assets of Liberty Wireless from Star Number, Inc. Liberty Wireless is the third largest wireless reseller on the Sprint PCS network in US. The acquisition should provide TLPE with a strong platform to launch its prepaid wireless services in US.

Furthermore, as part of its strategy to focus on telecom related services only, TLPE divested its retail infrastructure in Feb'06. The retail segment primarily consisted of retail stores in Canada.

Disclaimer & Disclosure

Waheed Hassan has worked as a Senior Research analyst with Indosuez W.I. Carr Securities, UBS Warburg, and an affiliate of Merrill Lynch. He was rated amongst #1 Financial Sector research analysts in The Reuters Survey of Global Emerging Markets 1998. Similarly, he was a member of the #1 rated research team according to The Reuters Survey of Global Emerging Markets 1999 and Euromoney Awards for Excellence 2000. He is a member of AIMR, and got his MBA with Beta Gamma Sigma honor membership from Vanderbilt University.

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As part of TLPE's enrollment in Investology Inc.'s Premium full-year coverage program, Investology Inc. received \$18,500 from TelePlus that includes this update report.

The analyst hereby certifies that he does not own any share in TelePlus Enterprises Inc. Investology Inc. does not have any investment banking relationship with TelePlus Enterprises Inc.

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