



October 16, 2007

## METROBRIDGE NETWORKS CORPORATION (TSXV-MEB C\$0.46)

Recommendation: SPECULATIVE BUY  
Revised 12-Month Target: C\$1.25  
Previous 12-Month Target: C\$1.00  
Risk Rating: ABOVE AVERAGE

### DEAL ADDS SCALE AND PROFIT

- Yesterday, MetroBridge announced the signing of a Letter of Intent to acquire 100% of WiBand Communications Corp., a fixed wireless broadband operator in Calgary, Edmonton and Winnipeg, for \$9 million (\$3.5 million in cash and \$5.5 million in MetroBridge common shares to be issued over a three-year period).
- This acquisition is significantly larger than the acquisitions that we forecasted in our Initiating Report of September 19, 2007 – WiBand's revenue and EBITDA run rates are estimated to be \$5 million and \$1 million, respectively, versus our expectation of \$2.2 million and nil.
- We believe that at this purchase price, WiBand is accretive in value to MetroBridge's stock. The Company paid 1.8x revenue and 9x EBITDA for a profitable company with strong infrastructure and a commercial customer base over 500 customers. Our previous forecast estimated MetroBridge would pay 2x revenue for a business with only 350 customers.
- This acquisition is also positive because WiBand's \$425 Average Revenue Per User ("ARPU") offers MetroBridge a higher starting point than previously forecasted. For example, the ARPU for Phoenix was approximately \$120 at acquisition.
- With this acquisition, MetroBridge competes directly with TeraGo Networks in each of Calgary, Edmonton and Winnipeg. We believe that there is enough opportunity in each of the markets to support multiple broadband wireless vendors.
- The acquisition of WiBand is a strong strategic fit because it operates primarily as a broadband network for small businesses. Because WiBand is profitable with relatively substantial revenue, we anticipate that this acquisition could accelerate MetroBridge's profitability inflection point to Q4 2008, which is approximately one year ahead of our original forecast.

### Sector: INFORMATION TECHNOLOGY

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### Company Statistics

52-week range	\$0.60 - \$0.31
Common Shares O/S	42.8MM
Fully Diluted Shares O/S	75.4MM
Management & Insiders	6.5MM
Fully Diluted Market Cap.	\$34.7MM
Average Daily Trading Volume	41,200
Cash	\$4.0MM
Debt	\$3.2MM

### Earnings Summary

FYE: December	2006A	2007E	2008E
Revenue (000s)	\$ 2,058	\$ 3,730	\$ 12,746
Gross Margin (000s)	\$ 1,135	\$ 2,174	\$ 7,187
Gross Margin (%)	55%	58%	56%
EBITDA (000s)	\$ (1,481)	\$ (1,553)	\$ (363)
EPS - Fully diluted	\$ (0.13)	\$ (0.06)	\$ (0.02)



MetroBridge is a provider of high-speed wireless internet access in Western North America. The Company plans to grow organically and by acquisition in order to penetrate the last-mile broadband market for small and medium-sized businesses. MetroBridge is currently competing in the unlicensed wireless spectrum and plans to differentiate itself from competitors by way of providing value-added services to customers.

Please see important disclosures on pages 4 and 5.

## FORECAST AND VALUATION

Our financial model has been revised to include WiBand revenue beginning in FY 2008. FY 2008 revenue is now estimated to be \$12.7 million, up from \$7.8 million. EBITDA is expected to improve to (\$0.4) million up from (\$1.3) million. The \$5 million revenue run rate estimated by the Company for FY 2007 includes \$1.3 million for a network-build in the city of Edmonton that is not recurring. Although this project should conclude at the end of this year, a second phase has been forecasted at \$0.9 million during FY 2008. The remainder of the revenue replacement for FY 2008 should come by way of new network customers and higher ARPU.

We forecast that within two years, ARPU in Calgary, Edmonton and Winnipeg should increase marginally to \$500 and that within three years, the commercial customer base should double. These assumptions are consistent with those for acquired companies stated in our Initiating Report.

We have assumed that gross margins for the consolidated entity should remain consistent with WiBand's current operations for FY 2008 at 55%, improving to 60% during FY 2009 as capital expenditures improve network efficiencies, and as higher margin services are added to the product mix. We have forecasted increases in operating expenses to reflect management's intentions to expand the direct sales force by an additional six to seven people during FY 2008. Profit margins should improve for FY 2009 as the sales force matures and offers more leverage.

Although the detailed terms of the purchase price have not been settled, we have forecasted that the \$3.5 million in cash will be paid in Q4 2007 and that the common shares will be issued equally over the three years following the transaction closing date. We estimate that the Company has approximately \$7.5 million in cash, which is sufficient to complete the transaction.

In addition to this surprise acquisition, based on statements made by the Company during its Q2 conference call, MetroBridge is actively pursuing at least two additional acquisitions. The size and timing of such acquisitions are unclear, so we maintain our forecast of a possible capital raise during the first part of FY 2008 (as per our Initiating Report).

We continue to believe that there is potential for surprise upside due to the conservative nature of our estimates. With MetroBridge's product mix, focused marketing and a larger sales force, both the customer base and ARPU may increase at a faster pace than we have forecasted. After a period of time, there may also be an opportunity to realize cost synergies by consolidating certain aspects of operations.

We continue to value MetroBridge using a weighted average of discounted cash flow, 75%, and comparative analysis, 25%. These methods return a valuation of \$1.46 and \$0.58, respectively, with no changes to the valuation assumptions from our Initiating Report. When weighted, the average of the two methods returns a value of \$1.24, which we have rounded to \$1.25 to obtain our revised price target.

We view this acquisition positively and have **revised our price target upward to \$1.25** from \$1.00. We continue to recommend purchase of the stock with a **SPECULATIVE BUY** recommendation.

**Figure I: Revised Financial Model**

Income Statement (\$000s)	F'06A	F'07E	F'08E	F'09E	F'10E	F'11E	F'12E
<b>Revenue</b>	<b>2,058</b>	<b>3,730</b>	<b>12,746</b>	<b>20,135</b>	<b>29,218</b>	<b>37,099</b>	<b>45,348</b>
Cost of Sales	923	1,555	5,559	8,493	11,703	14,840	18,139
<b>Gross Margin</b>	<b>1,135</b>	<b>2,174</b>	<b>7,187</b>	<b>11,642</b>	<b>17,515</b>	<b>22,259</b>	<b>27,209</b>
	55%	58%	56%	58%	60%	60%	60%
<b>Expenses</b>							
Corporate office	1,099	1,521	2,250	3,000	3,750	3,850	3,950
Sales and marketing	767	1,005	2,900	3,700	4,400	5,100	5,200
Salaries and benefits	283	284	800	1,100	1,400	1,500	1,600
General and administrative	303	664	1,100	1,250	1,400	1,550	1,700
Stock-based compensation	155	241	500	750	750	750	750
Amortization	124	350	335	445	515	565	615
Bad debts	10	12	-	-	-	-	-
	2,740	4,078	7,885	10,245	12,215	13,315	13,815
<b>EBITDA</b>	<b>(1,481)</b>	<b>(1,553)</b>	<b>(363)</b>	<b>1,842</b>	<b>5,815</b>	<b>9,509</b>	<b>14,009</b>
<b>EBIT</b>	<b>(1,605)</b>	<b>(1,904)</b>	<b>(698)</b>	<b>1,397</b>	<b>5,300</b>	<b>8,944</b>	<b>13,394</b>
Net interest expense	47	(149)	18	50	168	13	(44)
Income (loss) before tax and other items	(1,652)	(2,411)	(716)	1,347	5,132	8,931	13,437
Other		(268)					
Tax expense	-	-	-	-	1,847	3,215	4,837
<b>Income (loss) for the period</b>	<b>(1,652)</b>	<b>(2,023)</b>	<b>(716)</b>	<b>1,347</b>	<b>3,284</b>	<b>5,716</b>	<b>8,600</b>
Earnings per share							
Basic	(0.13)	(0.06)	(0.02)	0.02	0.04	0.07	0.11
Diluted	(0.13)	(0.06)	(0.02)	0.02	0.04	0.07	0.10
Weighted average shares							
Basic	12,451	32,900	46,743	61,002	73,877	76,705	77,032
Diluted	12,451	33,037	52,890	69,794	79,677	82,823	83,379

Source: JCI

**Figure II: Comparative Analysis Table**

	Mkt.Cap. (\$MM)	Enterprise Value (\$MM)	Sales (\$MM) 2008E	P:Sales 2008E	EV:Sales 2008E
Towerstream	91	47	16	5.6x	2.9x
Terago	75	74	33	2.3x	2.2x
<b>Average</b>				<b>4.0x</b>	<b>2.6x</b>
MetroBridge	35	30	13	2.7x	2.4x

Source: Thomson, JCI

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### Company

MetroBridge Networks Corporation

### Ticker

TSXV-MEB

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**Note:** We initiated coverage on **MetroBridge Networks Corporation** on September 19, 2007 with a **SPECULATIVE BUY** recommendation, a C\$1.00 target price and an **ABOVE AVERAGE** risk rating. Share price at that time was C\$0.40.

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***Revised Monthly***

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