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Pinnacle Telecom Group – Long Term Buy

Pinnacle Telecom Group plc (formerly “Glen Group plc”) is an acquisitive AIM listed value added, solutions based provider of telecommunications services including IP solutions for the SME market. The group, through organic and targeted acquisitions, has amassed a wide range of customer solutions that include telecommunications calls, access and consultancy, IT support, mobile solutions both voice and data and hosted broadband voice services.

Pinnacle's strategy is to be a SME focused, value added, solutions based provider of converged communications services driven by leveraging organic opportunities as well as through targeted acquisitions.

Pinnacle underwent a fundamental restructuring during 2007 – a process that has taken two years to show concrete results – and which included the disposals of Eclectic and inGroup and a reversion of the business back toward recurring revenue streams (88% of revenues up from 33% in 2008) from non-recurring projects.

On 29 March 2010, at the AGM, the group issued an upbeat trading statement that confirmed the group had ‘... continued to make good progress since ... 30 September 2009 ... and ... unaudited management accounts for the five months to 28 February 2010 continue to show profits ... now seen a full six months of profits, ...’

Pinnacle will report interim results for the six months ended 30 June 2010 that should show the group reporting a profit that should provide a base from which to sensibly forecast the full year outcome as well as an expectation for at least the following year. Nevertheless

Key	Data
EPIC	PINN
Share Price	0.305p
Spread	0.27p – 0.34p
Total no of shares	21,067,443
Market Cap	£5.30 million
12 Month Range	0.0625p – 0.62p
Market	AIM
Website	www.pinnacletelecomgroup.co.uk
Sector	Software & Computer Services
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with the shares trading at 0.31p (indicating a market capitalisation broadly equivalent to the current year's annualized sales revenues), we feel the market has as yet recognised the fundamental change in the group's prospects and its earnings growth potential and would recommend the shares as a **long term buy**.



Forecasts Table

Year to 30th September	Turnover (£000)	Pre-tax Profit (£000)	Earnings Per Share (p)	Price Earnings Ratio (x)	Dividend (p)	Yield (%)
2007A	1,015	(2,583)	(0.46)	NA	0.0	0.0
2008A	1,495	(1,067)	(0.09)	NA	2.4	0.0
2009A	3,192	(895)	(0.07)	NA	2.9	0.0

*Company

Background

The company was established in 2002 and floated on the AIM market on 1 December 2004 as Glen Group plc ('Glen') following a placing of 25 million shares at 3p each raising £0.75 million and valuing the company at £1.5 million. The company started its quoted life as an IT and communications integration business, focussed on providing a wide range of communications and IT services to SMEs throughout the UK.

On 20 January 2006, Glen acquired Eclectic Holdings Limited ('Eclectic') for an initial consideration of £2.2125 million, of which £1.95 million was cash and the balance shares; there was an additional consideration of up to £787,500 dependent on adjusted results of Eclectic for their year ended 31st July 2006. The cash element of the acquisition was funded through a placing of 250 million shares that raised £2.5 million before expenses. Eclectic, based in Glasgow and London, was a reseller of IT services operating in the corporate market.

On 5 September 2006, the group acquired Edinburgh based Explore IT Limited ('Explore') for a cash consideration of £115,000.

On 6 June 2007, Glen acquired the Falkirk based Pinnacle Group Limited ('Pinnacle') for a consideration of £700,000 which was satisfied by the issue of 122,727,273 ordinary shares at 0.55p per share and cash of £25,000. Pinnacle had two main operating companies, Pinnacle Telecom plc (100% ownership) and Sports Club Telecom Limited ('Sports Club'), which was 80% owned and was acquired by Pinnacle Group in January 2007. Pinnacle Group also had a 50% interest in each of Pinnacle Mobile Limited, a provider of mobile services to the SME market, based in the Midlands, and Pinnacle Data Limited, a dormant company.

During the early part of 2007, substantial changes were made to the business and operations of Glen Communications to increase the focus of its product set on the provision of IT services and solutions, including the provision of voice services over a broadband connection (VoIP). The intention was to start to convert its revenue streams to recurring, rather than project-based, income.

On 9 August 2007, Glen acquired the London based IG Software Limited, a corporate performance management IT services and consultancy business, through its subsidiary Eclectic for a total consideration of £1.35 million which was satisfied by the issue of 200 million shares at 0.55p per share and £250,000 in cash.

However, on 19 December 2007, the company agreed to sell Eclectic and IG Software for a cash consideration of £2.72 million to Maxima Holdings plc.

On 30 June 2008, Glen acquired the Paisley based Colloquium, a public telecommunications operator and Internet Service Provider ('ISP'), through its subsidiary Pinnacle for a total cash consideration of £100,000.

On 11 June 2009, the group through Pinnacle acquired the Northampton based Accent Telecom UK Limited ('Accent') for a total consideration of £661,450 that was satisfied by the issue of 508,807,826 shares at 0.13p per share.

On 13 January 2010, the group acquired Hinckley, Leicestershire based Solwise Telephony Limited ('Solwise') and its wholly owned subsidiary, Sipswitch Limited ('Sipswitch') for a maximum all share consideration of up to £0.5 million which is in part based on an earn-out.

Glen Group plc changed its name to Pinnacle Telecom Group plc following the 5 March 2009 AGM because this better reflect the group's dominant telecoms activities.

Overview of Operations

Pinnacle Telecom Group plc is a value added, solutions based provider of telecommunications services including IP solutions. The group focuses on the SME market where it provides a wide range of customer solutions including telecommunications calls, access and consultancy, IT support, mobile solutions both voice and data and hosted broadband voice services.

Pinnacle is a fully licensed Public Telephone Operator with its own telephone network and interconnects with BT, Virgin Media and THUS. In addition to traditional telephony ('landline'), the group has its own hosted VoIP (Voice over Internet Protocol) platforms and engineers.

Pinnacle, or more precisely Colloquium, is Scotland's oldest ISP as well as a founder member of Nominet, which operates from the group's Glasgow data centre to service its clients, which include leading companies such as Loganair, Flybe, Salon Services and Holiday Inn Express.

The group has direct agreements with Vodafone and 02 as well as indirect agreements with Orange and T-Mobile.

In summary, Pinnacle is one of Scotland's leading providers of converged telecom solutions, bringing together fixed and mobile telephony, VoIP, broadband, and IP solutions, all bundled and service wrapped to our customers on one bill.

Group services are undertaken by the key operating companies:

- **Pinnacle Telecom plc** is a provider of solution driven telecommunications services to the SME market, including carrier pre-selection, line rental and other bespoke services.
- **Sports Club Ltd** is a provider of solution driven telecommunications services to the SME market, including carrier pre-selection, line rental and other bespoke services.

- **Pinnacle Mobile Ltd** is a provider of mobile services to the SME market.
- **ExploreIT Ltd** provides IT support services, equipment supply and consultancy to SMEs.
- **Glen Communications Ltd** is an IT and communications integration business, focussed on providing a wide range of communications and IT services to SMEs throughout the UK.
- **Colloquium Ltd** has its own telecom switch and provides telecommunications voice and data solutions, including call provision and line rental, to SME customers. The company has interconnect arrangements with leading telecommunications groups including BT, Virgin Media and THUS; and access to its own telephone number ranges, both geographic and non-geographic (such as 0845), allocated by OFCOM, and is able to port fixed line numbers to and from BT. This gives Colloquium more freedom in the market and will allow Pinnacle greater flexibility to provide a broader cost effective telecommunications solution to its customers. Colloquium is also an ISP, one of the oldest in Scotland, having first been established in 1995. It provides a full range of ISP services to the SME market including the provision of broadband, hosting services, domain name registration and web design and implementation. It has also developed its own broadband voice ('VoIP') platform routing telephone calls over the internet onto Cisco and other vendor handsets.
- **Solwise Telephony Ltd**, based in Hinckley, Leicestershire, provides solution driven telecommunications services to the SME market, including carrier pre-selection, line rental, broadband and other bespoke services. Solwise is also an ISP, and has a data centre in Brighton with connectivity into Telehouse North in London. It is envisaged that this will bring Pinnacle additional benefits and cost savings, once the data centre in Brighton is connected to the Pinnacle ISP and data centre in Paisley. **Sipswitch** has developed its own voice over IP ('VoIP') platform, and the acquisition includes the ownership of the intellectual property, which has been created by the development of the Sipswitch VoIP platform.
- **Accent Telecom UK Ltd** provides telecommunications services, including fixed line and mobile, to business customers both directly and indirectly through a dealer network. Also Accent owns 30% of the equity of two independent resellers who trade under the Accent brand and exclusively sell its services to the SME market; Accent Telecom North Limited, based in Stockton on Tees, and Accent Telecom South Limited, based in Middlesex. Additionally, Accent owns 40% of Stripe 21 Limited, a fast growing network solutions business based in Dorking, Surrey, which provides state-of-the-art IP based business services to SMEs and corporates. In addition, Accent owns 33% of CityX Limited, which seeks to provide high quality voice over broadband services to multi-sited businesses.

Strategy for Growth

Pinnacle's strategy is to be a SME focused, value added, solutions based provider of converged communications services driven by leveraging organic opportunities across the group as well as through targeted acquisitions.

Management

William (Bill) Allan is the Group's Non-Executive **Chairman**. Prior to joining Pinnacle he was Chief Executive of THUS Group plc from February 1999 until December 2008. Mr. Allan has more than 25 years' experience in the telecommunications industry. In previous years, he has also been Chief Executive of Cable & Wireless Regional Businesses, and a director on the boards of Telecommunications of Jamaica, Entel Panama, the Barbados Telephone Company, and the Barbados External Telecommunications Company. Between 1995 and 1997, Mr. Allan was Regional Director for Cable & Wireless North East Asia Region, President and Representative Director of Cable & Wireless Japan, and Chairman of Cable & Wireless Communication Services Limited (Japan). He was also a Director on the boards of International Digital Communications (IDC Japan), Sakhalin Electrosvyaz, Sakhalin Telecom, Sakhalin Telecom Mobile and Nakhodka Telecom.

Alan Bonner is the group's **Chief Executive Officer**. He founded Pinnacle Telecom PLC in 1998. The business, including Pinnacle Mobile Limited and Sports Club Telecom Limited, was brought into Glen Group plc (later renamed Pinnacle Telecom Group plc) in June 2007. Pinnacle, based in Scotland, grew very rapidly as a provider of solutions based telecoms services to the SME market. The company has received numerous awards for its growth profile, and the entrepreneurial nature of the way it helped businesses by taking a solutions based approach to their telecoms requirements.

John Anderson is a **Non-Executive Director**. A Chartered Accountant and a former partner at Grant Thornton, he has worked with many of Scotland's most exciting growth companies. He is the CEO of The Entrepreneurial Exchange; Mr. Anderson is also an Honorary Senior Lecturer at the Hunter Centre for Entrepreneurship at the University of Strathclyde; a founding GlobalScot member; a Saltire Foundation Fellowship advisory board member and sits on the boards of PSYBT and Stirling University Innovation Park.

Significant Shareholders

There are 1,738,857,630 ordinary shares of 0.1p each in issue and those owning more than 3%, as at 17 February 2010, are:

Name	Number of Shares	% of Shares
D. Giddens	178,273,709	10.47
P. Goodland	178,273,709	10.47
A.J. Bonner	172,791,257	10.15
S. Dronfield	84,136,855	4.94
S. Patel ¹	75,356,571	4.43
J. Alexander ²	75,356,571	4.43

Source: Company

Notes:

¹Includes interests of his wife, N. Patel

²Includes the interests of R. Alexander

Recent Results

Pinnacle underwent a fundamental restructuring during 2007. The transformation has taken two years to complete and for the financial year ended 30 September 2009 88% of revenues (including Accent Telecom for 3½ months) were recurring compared with 33% for 2008 and we estimate around 17% for 2007.

The results for the financial year ended 30th September 2009 provide evidence that the group may have turned the corner following the 2007 fundamental review. While the acquisitions of Accent Telecom (included for 3½ months) and Solwise Telephony should enable the enlarged group to more than cover total operating expenses going forward such that the group should move firmly into profit.

Reported turnover for the 12-months to 30 September 2009 increased 113% from £1,495,267 to £3,192,222; however, £1,154,067 of the increase was due to a 3½ month contribution from Accent Telecom, which indicates the underlying or organic growth rate for the year was a healthy 36.3%.

Gross profit increased 85% from £535,966 to £991,169 although gross margins slipped by 4.8% points to 31.05%. While administration charges increased a modest 9.8% to £1,573,985 and resulted in operating loss (before associates, amortization and exceptional items) shrinking from £989,150 to £582,816.

Table: Profit & Loss Account (continuing operations), £000

Year ended 30 September	2009	2008	2007
Mobile Services	332	168	222
IT	571	127	424
Other Telecom	2,289	1,200	369
Revenues	3,192	1,495	1,015
Cost of sales	(2,201)	(959)	(778)
Gross profit/(loss)	991	536	237
<i>Margin</i>	<i>31.05%</i>	<i>35.85%</i>	<i>23.35%</i>
Administration expenses	(1,574)	(1,434)	(1,445)
Operating profit/(loss) before amortisation & exceptionals	(583)	(898)	(1,208)
<i>Margin</i>	<i>(18.26%)</i>	<i>(60.07%)</i>	<i>(119.01%)</i>
Amortisation	(312)	(170)	(66)
Goodwill impairment	0	0	(994)
Reorganisation	0	0	(305)
Operating profit/(loss)	(891)	(1,068)	(2,573)
<i>Margin</i>	<i>(27.91%)</i>	<i>(71.44%)</i>	<i>(153.50%)</i>
Interest receivable	618	4,150	2,771
Interest payable	(4,927)	(2,761)	(12,600)
Pre-tax profit/(loss)	(895)	(1,067)	(2,583)
<i>Margin</i>	<i>(28.04%)</i>	<i>(71.37%)</i>	<i>(154.48%)</i>
Tax	462	2,183	(439)
Loss after tax	(895)	(1,065)	(2,584)
Loss per share p¹	(0.07)	(0.09)	(0.46)

Source: Company

Notes:

1 Loss per share basic and fully diluted – continuing businesses

2 Discontinued operations – Ectetric and inGroup

Revenues 2009: £0; 2008: £1,686,652; and 2007: £5,670,935

Loss after tax: 2009: £2,360; 2008: £566,930; and 2007: £421,781

The group's operating loss after all charges fell from £1,068,394 to £890,856 while net interest swung from an income of £1,389 for 2008 to a charge of £4,309 in 2009 resulting in a loss before tax of £895,165 compared with £1,067,005 a year earlier. The loss per share for the group's continuing businesses was reduced from 0.09p to 0.07p.

The group provided an upbeat trading statement at the AGM held on 29 March, when the Chairman confirmed that the group had '*... continued to make good progress since*

... 30 September 2009 ... and ... unaudited management accounts for the five months to 28 February 2010 continue to show profits ... now seen a full six months of profits, ...'

Moreover the current year will include 12-months from the fully integrated Accent Telecom compared with only 3½ months previously, which contributed £1,154,067 to revenues. In addition, there will be an 8½ months contribution from Solwise (already fully integrated into the group within 2½ months of acquisition!), which continues to grow strongly and on 4 March 2010 secured an annual £150,000 telephony and data services contract for the UK's largest outdoor events and festivals in 2010.

Pinnacle will report interim results for the six months ended 30 June 2010 that should show the group reporting a profit and provide a base from which to sensibly forecast the full year outcome as well as an expectation for at least the following year. Nevertheless with the shares trading at 0.31p (indicating a market capitalisation broadly equivalent to the current year's annualized sales revenues), we feel the market has as yet recognised the fundamental change in the group's prospects and its earnings growth potential and would recommend the shares as a **long term buy**.

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Source: Company

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