

SELECTCORE LTD.

(SCG: TSX-V)

Price (May 4): \$0.07
52-Week Range: \$0.10-\$0.015
Shares O/S: 106.9 million
Market Cap: \$7.48 million

RECORD FINANCIAL RESULTS IN 2009

Headline: SelectCore Ltd. reported record results for the year ended December 31, 2009.

THE COMPANY

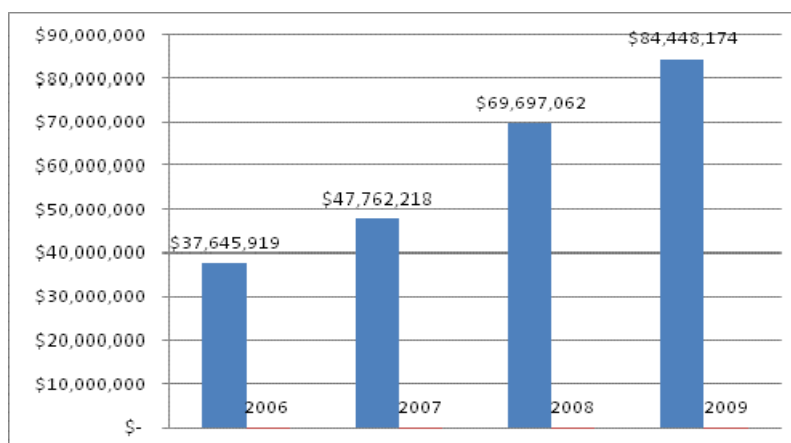
Toronto-based SelectCore provides pre-paid telecom and financial services for the credit-challenged and “un-banked” consumer markets. The Company offers products and services to consumers through its nation-wide retail channel, and also provides wholesale solutions to its corporate clients.

FULL-YEAR 2009 RESULTS

(1) Revenue

Revenues in 2009 were \$84.4 million compared with \$69.7 million in 2008, an increase of \$14.7 million, or 21%. Sales continue to increase year-over-year, as a result of market demand for SelectCore’s proprietary PrepaidONE point-of-sale solution for the sale of pre-paid telecom products.

SelectCore Ltd. Revenue Growth 2006-2009



Source: The Company.



2. Earnings

Gross profit for 2009 was \$4.8 million, up 15.5% compared with 2008, while adjusted EBITDA was \$1.02 million, up significantly from \$77,629. Net earnings came in at \$430,943, compared to 2008's loss of \$7.88 million.

SelectCore completed several business and product development milestones in 2009, including:

- The recently-announced entry into the U.S. market;
- The launch of the Iridium MasterCard; and
- International mobile top-up.

FOURTH-QUARTER 2009 RESULTS

Revenues in Q4/2009 were \$20.6 million, compared with \$18.2 million in Q4/2008, with the increase attributable to PrepaidONE. Gross profit for the quarter was \$988,482, compared with \$1.13 million in Q4/2008. The gross margin declined in Q4/2009, both from Q3/2009 and Q4/2008. General sales and administrative expenses came in at \$835,081 compared with \$999,661 in Q4/2008. The net loss was \$296,008 in Q4/2009 compared with a net loss of \$5.96 million in Q4/2008.

SelectCore Ltd. Quarterly Comparison

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>\$000s except per share</i>								
Revenue	20,572	23,064	22,623	18,189	18,190	19,779	16,372	15,356
Gross Profit	988	1,418	1,324	1,055	1,125	1,061	929	1,026
Gross Margin	4.8%	6.1%	5.9%	5.8%	6.2%	5.4%	5.7%	6.7%
General & Admin.	835	912	1,035	982	999	1,031	1,075	959
Net Income (Loss)	(296)	595	318	(186)	(5,966)	(481)	(1,150)	-288
Net Income (Loss) Per Share	(\$0.003)	\$0.006	\$0.003	(\$0.002)	(\$0.060)	(\$0.005)	(\$0.012)	(\$0.003)
<i>(Basic & fully diluted)</i>								

Source: The Company.

COMMENT: eResearch was projecting revenue of \$26.5 million in Q4/2009, which represented a 15% increase over Q3/2009, and a 46% gain over Q4/2008. The Company experienced a revenue downturn in Q4/2008 over Q3/2008, which we attributed to the global economic malaise that was settling in, and so assumed that there would be a pick-up this year over last. Clearly, this did not occur. As a consequence, as stated below, we are scaling back our 2010 revenue projection.



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REVENUE OUTLOOK

For the current year 2010, our initial revenue projection was \$134.2 million, a significant yearly increase that was based on continued progress with existing business and a successful roll-out of the Company's Iridium MasterCard, which was launched on February 9, 2010.

The Iridium MasterCard is a reloadable prepaid credit card that is accepted for purchases, and for ATM and online use. It is accepted everywhere MasterCard is accepted - at more than 28.5 million locations and 1 million bank machines worldwide. The Iridium MasterCard can be purchased from authorized store locations across Canada for \$3.99 and used instantly. A personalized version with added security can be purchased for \$9.99. There is no application, credit check, ID or personal bank account required. The Iridium MasterCard will be reloadable up to a \$5,000 balance.

The Company will earn revenue through card sales, interchange fees on merchant transactions, float interest, POS transaction fees, ATM transactions, monthly service fees, remittance fees, breakage, and other miscellaneous fees.

We have tempered our initial enthusiasm and now expect 2010 revenue to approach \$105-106 million. This is based on a 20% increase in the core, non-Iridium business, and a \$4.5-5.0 million contribution from Iridium.

EBITDA/NET EARNINGS

SelectCore reported positive EBITDA of \$1.02 million in 2009 compared to a loss in 2008. Net earnings came in at \$430,900 against a sizable loss for 2008.

COMMENT: *With lower revenue, EBITDA and net earnings for 2009 were well below our estimates of \$1.60 million and \$1.24 million respectively.*

For 2010, our new EBITDA estimate is \$1.79 million (down from our initial estimate of \$6.80 million), and our net earnings estimate is \$1.04 million, or \$0.01 per share, which is down from our original estimate of \$5.75 million, or \$0.06 per share.

For 2011, assuming consumer acceptance of Iridium and no serious competition in the pre-paid credit card market, revenue and net earnings could increase significantly. Our EPS estimate is \$0.012 per share.

TARGET PRICE

Clearly, we were too optimistic in our initial prognostications for SelectCore's revenue potential and, hence, our EBITDA and net earnings estimates.

Accordingly, we are lowering our 12-month Target Price for the shares of SelectCore from \$0.35-\$0.40 to \$0.20-\$0.25. This still represents a multiple of 17x-21x our 2011 expectations.

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RECOMMENDATION

Despite our scaling back of our financial forecasts, we continue to recommend SelectCore shares as a Speculative Buy for risk-tolerant investors. Our revised 12-month Target Price range of \$0.20-\$0.25 is still significantly above the current share price, and represents a substantial capital appreciation opportunity provided the Company can execute on its Iridium MasterCard program.

RATINGS HISTORY

<u>Date</u>	<u>Report Type</u>	<u>Recommendation</u>	<u>Stock Price</u>	<u>Target Price</u>
March 12, 2010	Initiating	Speculative Buy	\$0.07	\$0.35-\$0.40
April 5, 2010	Perspective	No Change	\$0.085	No Change
May 5, 2010	Perspective	No Change	\$0.07	\$0.20-\$0.25

NOTE: *eResearch reports on SelectCore Ltd. and other companies are available FREE on our website at www.eresearch.ca.*

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