

SERENIC CORPORATION

Closing Price (March 31, 2010) \$0.36
52-Week Range \$0.57 - \$0.155
Shares O/S 15.2 million
Market Cap \$5.47 million
50-day Avg. Volume 29,700
200-day Avg. Volume 18,800
Fiscal Year-End February 28
Symbol TSX-V: SER
Website www.serenic.com

Financial Data

(C\$000)	Year	Year	12 Mos
	Feb-08	Feb-09	Nov-09
Selected Income/Cash Flow			
Revenue	\$9,839	\$9,326	\$10,968
EBITDA	\$223	(\$869)	\$434
Net Income	(\$236)	(\$1,192)	\$277
Cash Flow (CF) From Ops	\$539	(\$547)	\$857
Selected Balance Sheet	At Feb08	At Feb09	At Nov09
Cash (& Equivalents)	\$3,117	\$2,974	\$3,110
Shareholders' Equity	\$2,267	\$1,191	\$1,722
Total Assets	\$5,594	\$5,254	\$5,618
Working Capital	\$854	\$237	\$71,786
Working Capital Ratio	1.27x	1.06x	1.16x
Key Ratios	At Feb08	At Feb09	At Nov09
EBITDA Margin	2.3%	n/m	4.0%
Earnings Per Share	(\$0.02)	(\$0.08)	\$0.02
Cash Flow Per Share	\$0.04	(\$0.04)	\$0.06
Cash Per Share	\$0.21	\$0.20	\$0.20
Equity Per Share	\$0.15	\$0.08	\$0.11
Multiples	At Feb08	At Feb09	At Nov09
Price/ EPS	n/m	n/m	20.28x
Price/ EBITDA	32.70x	n/m	12.94x
Price/ Cash Flow	13.51x	n/m	6.56x

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Note: Report prepared with public information only.



Source: www.bigcharts.com

PROFILE

Serenic Corporation, an international software company based in Alberta, develops financial and operational applications for not-for-profit (NFP) organizations, non-governmental organizations (NGOs), and the public sector. The Company's software is based on Microsoft's *Dynamics NAV* product line, and Serenic is the exclusive provider of payroll and human resource management applications for *Dynamics NAV* in North America.

INVESTMENT CONSIDERATIONS

Strengths

- Strong partnership with Microsoft; included in Inner Circle.
- Embedded agreement with Microsoft means Serenic is the single vendor for all components of its flagship *Navigator* products, including Microsoft's *Dynamics NAV* technology.
- Revenue for the last three quarters increased by 19%, 39%, and 13.6% respectively, in a difficult environment; \$2.97 million cash on hand (Feb 28/10); no long-term debt.
- Landed several large customers in Q1/Q2/F2010; pipeline for new customers is growing; product offering enhanced as well with new release of flagship product *Navigator*.

Challenges

- NFP customers are dependent on funding levels, which have declined in the economic downturn.
- Open-ended agreement with Microsoft can be terminated in writing by Microsoft at any time.
- Royalties paid to Microsoft for embedded components; arrangement valid till July 31, 2010, and is renewable provided financial targets are met.
- Foreign exchange risk: most wages are paid in U.S. dollars.
- Intense competition from larger companies.

BACKGROUND

Serenic, founded in 1999, operates through two subsidiaries: Serenic Software International (SSI) and Serenic Canada (SCI). Both SSI and SCI develop software solutions for the NFP, educational and government sectors, and are the exclusive providers of payroll and HR management applications for Microsoft's *Dynamics NAV* software in North America. *Dynamics NAV* has over 65,000 installations and one million users worldwide.

Dynamics NAV is a business management solution for small and mid-sized organizations, providing companies with industry-specific functionality. A business's functions are collected into one integrated system.

SSI, based in Lakewood, Colorado, develops fund-accounting software for the NFP sector. SSI's primary software package, *Serenic Navigator*, has over 300 client implementations worldwide. In July 2009, SSI was admitted to Microsoft's President's Club, which recognizes Microsoft's top-performing partners.

SCI, based in Edmonton, Alberta, also develops HR software on the *Dynamics NAV* platform. It is the exclusive provider of payroll software for *Dynamics NAV* in North America.

Since its acquisition of SSI in 2004, Serenic has grown organically and, in 2008, was ranked 20th in PROFIT magazine's listing of Canada's fastest-growing companies.

Among the organizations on Serenic's client list are the Vancouver 2010 Winter Olympics, the Heart and Stroke Foundation of Canada, Trans World Radio, the Human Rights Campaign, the African Wildlife Foundation, and the International Union for the Conservation of Nature (IUCN) - see Recent Developments opposite.

Serenic's products, in addition to *Serenic Navigator*, include: *Serenic DonorVision*, *Serenic AwardVision*, *Serenic CommunityCare*, and *Serenic MinistryView*.

OUTLOOK

With the increasing demand for transparency in financial accounting, firms of all sizes and in all sectors are under pressure to improve their transparency and financial decision-making. As a software provider using Microsoft's *Dynamics NAV* platform to build and develop solutions for the NFP

sector, Serenic has the ability to leverage a global software firm's technology and client base (of over one million users with 42 different country versions) with its NFP sector-specific approach.

Dynamics NAV integrates with other widely used applications, such as Microsoft *Excel* and *Sharepoint*, which makes it easier for clients to add Serenic's solutions. Serenic is listed on Microsoft's website as a member of the Inner Circle, a position given to the top 1% of its partners. This adds credibility to Serenic, and makes it easier to sell solutions to potential customers.

The challenging global economic climate presents budget challenges for Serenic's potential and existing customer base; however, Serenic has increased revenues significantly over the past year, and has landed several large customers - including the Arbor Day Foundation (U.S.), the American Wildlife Foundation, and Family and Children's Services of Guelph (Canada).

The Company is carefully increasing its marketing budget to pursue more software sales. In addition, Serenic will be investing in its products, as it operates in a highly competitive environment. The Company is currently well capitalized, with \$2.97 million in cash (Feb 28/2010), and no long-term debt.

RECENT DEVELOPMENTS

New Flagship Product Update Released

Serenic Navigator 2009 was released with a new User Interface (UI) and a productivity enhancing User Experience (UX). CEO, Randy Keith, calls it a "game changer". The new version features a simplified user experience and three-tier architecture with built in web support, which makes it easier to connect other applications and share data with Outlook, Excel, and Word.

Strategic Options Being Reviewed

PricewaterhouseCoopers Corporate Finance (PwCCF) has been retained to look at ways to optimize shareholder value. Options include looking at capital structure, and strategic partnerships (including M&A).

RECENT DEVELOPMENTS (continued)

Contract Awards

The International Union for the Conservation of Nature (IUCN), the world's largest environmental network with over 1,000 government and non-governmental organizations (NGOs), has chosen *Serenic Navigator* for its global financial management (announced August 31, 2009). IUCN will replace its existing *Sun Systems by Infor*, with a 60-user application of *Serenic Navigator*. Serenic beat out a short list that included rivals such as Oracle and Sage. The Company met a critical requirement for IUCN, in that its system can easily integrate with IUCN's existing Microsoft platform.

Serenic Named Microsoft Dynamics ISV of the Year for U.S.

Serenic won the 2009 Microsoft Dynamics' Industry Solutions Vendor (ISV) of the Year for the U.S. The award was given on the basis of sales performance, technological expertise, and Microsoft team members' feedback.

IFRS Transition to Increase Administrative Spending in the Next Several Quarters

All Canadian publicly-traded companies are required to have accounting procedures in compliance with International Financial Reporting Standards (IFRS) by 2011. This means that Serenic will be significantly increasing its disclosure from the IFRS implementation, and will possibly be reviewing its choice of functional currency (U.S. dollars or Canadian dollars).

FINANCIAL PERFORMANCE

A. Annual Results (F2007-F2009)

(See table opposite)

Serenic Corporation has experienced revenue growth in the past three years. Losses were narrowing until fiscal 2009, when the difficult economic environment caused many organizations to scale back purchases of new software and implementations. Serenic also experienced an increase in expenses in F2009, as a result of a higher exchange rate. There was no capitalization of software development in F2009 as there had been in previous years, as no new products met capitalization requirements. Many new customers were obtained in F2009, and with an increase in sales and marketing efforts by Serenic, more potential customers are in the pipeline and these are expected to sign with Serenic as the economy recovers.

SELECTED FINANCIAL INFORMATION

	Year Ending February 28:		
	2007	2008	2009
Statement of Income/(Loss):			
Operating Income	5,917,018	7,014,861	7,031,656
Non-Operating Income	(427)	(54,360)	226,846
General & Administrative Expense	(5,965,614)	(6,542,108)	(7,786,999)
Amortization	(555,555)	(670,801)	(674,023)
Stock-based Compensation	(124,983)	(250,069)	(113,239)
Other Non-Cash Items	143,343	146,238	142,430
Other Income/(Expenses)	<u>348,329</u>	<u>120,312</u>	<u>(18,352)</u>
Net Income/(Loss)	(237,889)	(235,927)	(1,191,681)
Total Shares Outstanding	11,632,470	15,172,458	15,185,458
Weighted Average Shares O/S	11,632,467	14,234,588	15,183,553
Earnings (Loss) Per Share	(\$0.02)	(\$0.02)	(\$0.08)
Statement of Cash Flow:			
Net Income (Loss)	(237,889)	(235,927)	(1,191,681)
All Non-Cash Items	<u>537,195</u>	<u>774,632</u>	<u>644,832</u>
Cash Flow from Operations	299,306	538,705	(546,849)
Cash Flow Per Share	\$0.03	\$0.04	(\$0.04)
Capital Expenditures (Properties)	(75,940)	(68,220)	(72,234)
Other Investing Items	<u>(414,765)</u>	<u>(123,851)</u>	<u>0</u>
Free Cash Flow	(191,399)	346,634	(619,083)
Working Capital Changes	1,320,786	(280,815)	474,025
Equity Financing	0	1,654,745	2,400
Debt Financing	<u>(216,490)</u>	<u>(169,369)</u>	<u>0</u>
Change in Cash	912,897	1,551,195	(142,658)
Cash, Beginning of the Period	653,044	1,565,941	3,117,136
Cash, End of the Period	1,565,941	3,117,136	2,974,478

	Year Ending February 28:		
	2007	2008	2009
Balance Sheet:			
Cash	1,565,941	3,117,136	2,974,478
Short-term Investments	0	0	0
Other Current Assets	701,809	868,430	1,272,782
Property and equipment	169,824	160,023	145,077
Other Assets	<u>1,917,451</u>	<u>1,448,405</u>	<u>861,563</u>
Total Assets	<u>4,355,025</u>	<u>5,593,994</u>	<u>5,253,900</u>
Current Liabilities	3,415,344	3,131,782	4,010,159
Other Liabilities	341,495	195,139	52,709
Debt Obligations	0	0	0
Total Liabilities	3,756,839	3,326,921	4,062,868
Shareholders' Equity	<u>598,186</u>	<u>2,267,073</u>	<u>1,191,032</u>
Total Liabilities & Equity	<u>4,355,025</u>	<u>5,593,994</u>	<u>5,253,900</u>
Book Value (S.E.) Per Share	\$0.05	\$0.15	\$0.08

B. Third-Quarter Fiscal 2010 Results

(See table on page 4)

Third-quarter F2010 revenue improved by 13.6% over the corresponding F2009 period. Revenue in Q3/F2010 came in at \$2,588,602 versus \$2,278,69. This marks the fifth consecutive quarter where revenues have increased compared with the corresponding period a year earlier.

Expenses declined by 31% (\$706,510) to \$1,571,669 in Q3/F2010 from \$2,278,179 in Q3/F2009, due to a lower foreign exchange rate and capitalization of expenses related to the release of the *Serenic Navigator* product.

Sales were up 37.4% compared with Q3 F2009. *Serenic Navigator* accounted for the lion's share of the sales, and sales were near evenly split among direct sales and a reseller partner. Training revenue was down 65% Q3 Y-O-Y, due to discretionary reductions by clients. Other sources of revenue were stable, notwithstanding the large increase in new software licence sales.

Expenses dropped 31% versus the corresponding period last year. This was mainly due to three factors: (1) reduced employee levels and benefits; (2) shift in online marketing, and the completion of last year's outsourced marketing program; and (3) the development of the next-generation *Navigator* has been completed and the associated costs (\$177,808) are not expected to recur.

(1) Q3 Results

(000s)	Q3 F2010	Q3 F2009
	Third Quarter Ending:	
	Nov30/2009	Nov30/2008
Software License Sales	1,011	736
Client Services and Consulting	803	748
Software Maintenance and Other	774	795
Total Revenue	2,588	2,279
Direct Costs	(818)	(500)
Gross Profit	1,770	1,779
Gross Margin	68%	78%
Operating Expenses (Burn)	(1,645)	(2,109)
EBITDA	278	(222)
Net Income	154	(386)
Shares Outstanding (Average)	15,185	15,185
Net Income per Share	\$0.01	(\$0.03)
Cash	3,110	2,225
Monthly Cash Burn	(548)	(703)
Cash/Burn (months)	6	3

C. Nine-Months Fiscal 2010 Results

Serenic's software licence sales increased 22.3% (\$590,520) in the first nine months of F2010 compared with the corresponding period last year. This was in large part due to a 300% increase in sales outside North America. In Canada, sales declined 35% year-over-year, and U.S. sales increased 8%. The weaker U.S. dollar hurt the Canadian sales figures; however, an increase in the C\$ versus the US\$ creates gains for Serenic, which has a net US\$ asset position.

For nine months F2010, Serenic allotted significant resources to the development of the new version of Serenic *Navigator*. This led to capitalization of salaries for the personnel involved in the project, and gave Serenic a higher net income in this period due to the decreased salary expense. The development costs capitalized in the current fiscal year were \$448,320 compared with none in the previous year.

Several cost control measures have been implemented in the current fiscal year. This has helped Serenic to generate cash as opposed to using cash, as was the case in the previous year. Cash increased by \$135,660 compared with the same time last year. However, accounts receivable also increased over the same period (by \$124,741). This exceeded management's expectations, and was a result of slow payments by some customers.

(2) 9M Results

(000s)	9M F2010	9M F2009
	Nine Months Ending:	
	Nov30/2009	Nov30/2008
Software License Sales	3,241	2,650
Client Services and Consulting	2,689	1,861
Software Maintenance and Other	2,363	2,139
Total Revenue	8,293	6,650
Direct Costs	(2,390)	(1,567)
Gross Profit	5,903	5,083
Gross Margin	71.2%	76.4%
Operating Expenses (Burn)	(5,370)	(5,852)
EBITDA	846	(560)
Net Income	452	(1,017)
Shares Outstanding (Average)	15,185	15,183
Net Income per Share	\$0.03	(\$0.07)
Cash	3,110	2,225
Monthly Cash Burn	(597)	(650)
Cash/Burn (months)	5	3

MANAGEMENT

Randy Keith: President and Chief Executive Officer.

Paul Johnston: Chief Financial Officer

BOARD OF DIRECTORS

Dwayne Kushniruk, Ronald Odynski, Don Caron, Bruce A. Saville, David Tam, and Randy Keith

CORPORATE INFORMATION

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