Radiant Communications Corp. (RCN-V, $1.15)

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CAPITAL MARKETS HAYWOOD SECURITIES INC.
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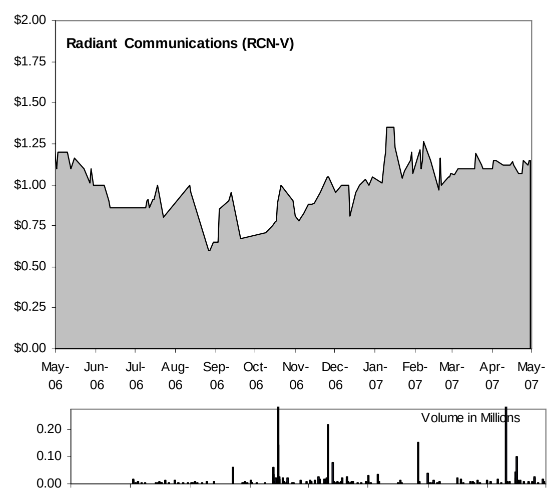
Investment Brief – Radiant is very well positioned to provide one-stop national IP connectivity to the growing and underserved SME market. The Company represents an attractive takeover candidate should it succeed widely, or even stumble.

Rating	**SECTOR OUTPERFORM**
Target Price	**$1.70**
Risk Profile	**SPECULATIVE**

Forecast Risk	**High**
Financial Risk	**High**
Valuation Risk	**Moderate**
Current Price	$1.15
Return (incl. dividend)	48%
52-Week High / Low	$1.40 / $0.60
Dividend / Yield	N/A
Shares O/S	10.8M (basic) / 10.8M (F/D)
Market Capitalization	$12.4 million
Daily Volume	17,194

Fiscal y/e Dec. 31	2006	2007E	2008E	2009E
Revenue ($000's)	19,284	21,228	23,669	26,628
EBITDA ($000's)	1,147	1,553	1,775	2,381
EPS -F/D ($)	0.00	0.04	0.06	0.12
CFPS - F/D ($)	0.08	0.14	0.16	0.22
FCF ($000's)	458.6	429.3	856.8	1,379.2
Current EV/EBITDA		7.0	5.9	4.1
Target EV/EBITDA		10.8	9.3	6.6
DCF Value		$1.70	$1.85	$2.04
Share Price - Current, Target		$1.15	$1.70	$1.90
DCF Discount - Current, Target		32.2%	8.2%	7.1%

Price Performance



Source: Bloomberg

Core moves ahead, foundation set for new service driven revenue acceleration.

- **Q1/07 Highlights.** Revenues at $5.1M(+9.1% Y/Y,3.3% Q/Q) were in line with our forecasts at $5.142M. Reported EBITDA was $270K vs. $312M last year and $70K below our forecast. The lower reported EBITDA was due to ~$100-$200K of start-up costs associated with new product development costs for phone and the IP office services. We had not fully factored these costs into our forecast. EPS/CFPS were $0.00/$0.02 vs. -$0.02/$0.01 last year & our forecast at $0.01/$0.03. Following the quarter, we adjusted our '07 rev. & EBITDA estimates from $21.4M/1.61M to $21.2M/$1.55M
- **Backlog Foreshadows Building Momentum.** We believe Y/Y revenue growth of 10.4% on the quarter should build through the year. Radiant noted 1,200 dsl connections in its record backlog. The backlog represents a 10% increase to the existing base. We further believe the avg. ARPU of these clients will be above Radiant's current average.
- **New Services Hit Costs then Revenue.** The company indicated that new product development costs related to the digital voice and the IP office were roughly $100K-$200K on the quarter. We continue to believe Radiant is well positioned to sell these services into its base of more than 12,000 DSL subscribers. The small and medium businesses subscribing to Radiant's services are ideal targets for hosted voice and IP services, such as the email and security services being trialled by Radiant.
- **Network Upgrade Neutral to Opex but Positive to Clients.** Radiant invested roughly $450K on the quarter to upgrade its network for layer 2 managed services. This upgrade benefits both existing users & tightens the network for phone. Radiant noted that the upgrade has drawn support from U.S. & U.K. partner carriers who can now extend SLAs(service level agreements) to end clients on Radiant's network.
- **Growth Thesis Intact – Solid Subscriber Growth to be Complemented by Higher Rev/Subs.** Radiant is focused on organic growth with positive EBITDA, while it pursues new products/apps to increase revenue/client. New distribution partners represent potential second wave of growth while new disruptive technology/markets represent third wave of growth.

Valuation – Radiant is currently valued at 7/6x 2007/08 EV/EBITDA and a 32% discount to our C$1.70 DCF valuation. Our target values Radiant at 11x/9x 2007/08 EBITDA. Excluding takeout potential, our $1.70 target is at a 8% discount to our target DCF of $1.85. Radiant is currently valued at $900 per DSL subscriber against a subscriber COA of roughly $900 to $1,000.

Industry & Company Profile

Radiant Communications provides high-speed IP-based data communication services, Internet connectivity, network security, web hosting, web development and marketing services. The company is headquartered in Vancouver and currently serves over 10,000 business customers, primarily in Canada and the US.

Revisions, Date of Record

Rating – SECTOR OUTPERFORM SPECULATIVE rating maintained since June 10, 2005.
Target – $1.70 since May 8, 2006

Company CEO:
David Buffet
Company Web Site:
www.radiant.net

Please see rating structure,important disclosure,risk profile parameters, disclaimers, and notes on pages 7-10 of this report.

Investment Thesis

We continue to believe that Radiant is well positioned to provide national IP data services to the historically underserved SME marketplace. Our basic thesis finds support in the consistent growth in DSL connections (11%-13%YOY). The record backlog on the quarter represents 10% of the installed base. We see continued subscriber volume growth supplemented by higher revenue/subscriber through new applications. New products like digital voice and hosted IP office suites will be crucial in positioning to sell add on services into its base of more than 12,000 DSL subscribers. We believe, the small and medium businesses subscribing to Radiant's services are ideal targets for hosted voice and IP services, such as the email and security services being trialled by Radiant.

We believe the company's national capabilities, focus and independence are sufficient sustainable competitive advantages to carve out a positive profile against the larger incumbents with significant network cost advantages but typically with lower customer service levels. The company's focus on its core data provision to the SME market along with prudent investment in application/infrastructure has clearly lead to improved growth prospect/profit measures. As such, we believe, Radiant is an attractive acquisition target. On page 3, we highlight the upside value of Radiant as an acquisition. We note that Radiant is currently capitalized at roughly $900 per DSL subscriber, a level at the low end of its COA to date. A potential acquirer could apply a multiple of 2.5x the 2007 gross profit at $10.7 million that would imply a valuation of $2.16 per fully diluted share.

Looking ahead, we look for continued growth in DSL connections at roughly 11%-13%. Our forecasts are primarily driven on the first wave of organic growth. The company looks to increase customer revenues through the introduction of additional service applications. Feedback from customers has supported interest in data archieving, email archieving and digital voice. Furthermore, Radiant's contract with MTS supported the introduction of level two connectivity service for private network services after the network upgrade this quarter. Radiant noted that the upgrade has already drawn support from U.S. & U.K. partner carriers who can now extend SLAs (service level agreements) to end clients on Radiant's network. Radiant has deliberately chosen suppliers interested in wholesale or white lable services to minimize its capital and operating expenses.

Looking further ahead, the company considers new disruptive markets and/or technologies as a final wave of growth. We recognize the potential for new distribution partners to build sales growth beyond current capabilities in a business where direct sales efforts can be expensive. Management is committed to minimizing capital expenditure and maintaining positive EBITDA. Management indicated that the amount available to invest in new service applications will be related only marginally to the build in revenues. We expect investors to maintain a wait and see attitude for the additional waves beyond the core.

Our near term focus remains on revenue growth and EBITDA flow-through. **–** For its Q1/07, year over year quarter revenues gained $427K or 9.1% with year over year quarter EBITDA down by $41K, due to higher development costs for new applications. For 2007, we conservatively forecast revenue growth of 10% and EBITDA flow-through at 21%. These assumptions support 2007 EPS/CFPS of $0.04 and $0.14, respectively.

We believe management has successfully restructured/refocused, rationalized and refinanced its operations. Now we look for Radiant to continue building its base in a consistent fashion, while it introduces applications to drive ARPU from its customer base.

Takeover potential limits downside, increases upside.

We believe Radiant would represent an attractive strategic and financial acquisition target for incumbents such as Bell Canada, Allstream/MTS or independents such as Rogers, or Q9 Networks. The list could include TELUS although we are not confident of regulatory approval. While never comfortable relying on takeout protection to mitigate downside risk, the proposition is less risky with Radiant now generating positive free cash.

We believe Radiant is extremely attractive as a takeover candidate considering both the potential revenue synergies and cost savings available to an existing provider. A potential acquirer would value the more than 12,000 DSL connections (excluding another 1,200 in backlog) where Radiant has a customer relationship that a buyer could look to upsell additional products. The current enterprise capitalization of Radiant equates to $900 per DSL subscriber. This compares with an average recurring revenue of $128 per month or $1,536 annually per DSL location. Furthermore, the current capitalization falls below the cost of acquisition that would approach $1,000 per DSL connection for the existing subscriber base.

A potential acquirer could apply a multiple of 2.5x the 2007 gross profit at $10.7 million that would imply a valuation of $2.16 per fully diluted share after allowing $3 million for closing down the operations and terminating the leases. With >90% of revenues recurring under typical 2-3 year contracts, Radiant would command a reasonable valuation given the list of potential acquirors. We are excluding an estimated value of $4 million or $0.36 per share for Radiant’s $21 million of tax loss pools as another cushion for costs associated with closing/relocating Radiant’s facilities and potential client turnover.

Forecasts,Outlook

Following the quarter, we made the following adjustment to our model.

Fiscal year end Dec 31	2006	Q1A	Q2E	Q3E	Q4E	2007 New	2007 Old	2008E	2009E	2010E	2011E	2012E
Revenue	**19,283,902**	**5,100,146**	**5,242,514**	**5,461,014**	**5,424,521**	**21,228,195**	**21,367,216**	**23,669,438**	**26,628,118**	**29,823,492**	**33,104,076**	**36,414,483**
YOY revenue gain $	1,693,360	427,409	498,157	530,076	488,651	1,944,293	2,083,314	2,441,242	2,958,680	3,195,374	3,280,584	3,310,408
Consec. Rev. gain $	1,693,360	164,276	142,368	218,499	-36,493	1,944,293	2,083,314	2,441,242	2,958,680	3,195,374	3,280,584	3,310,408
YOY revenue gain %	9.6%	9.1%	10.5%	10.8%	9.9%	10.1%	10.8%	11.5%	12.5%	12.0%	11.0%	10.0%
Consec. Rev. gain %	9.6%	3.3%	2.8%	4.2%	-0.7%	10.1%	10.8%	11.5%	12.5%	12.0%	11.0%	10.0%
Cost of Revenue ($)	9,320,456	2,552,938	2,626,500	2,735,968	2,658,015	10,573,421	10,469,936	11,598,025	12,914,637	14,315,276	15,889,956	17,478,952
Y/Y growth (%)	7.5%	14.3%	13.8%	12.2%	13.6%	13.4%	12.3%	9.7%	11.4%	10.8%	11.0%	10.0%
As a % of revenue	48%	50%	50%	50%	49%	50%	49%	49%	49%	48%	48%	48%
Gross Profit ($)	9,963,446	2,547,208	2,616,015	2,725,046	2,766,506	10,654,774	10,897,280	12,071,413	13,713,481	15,508,216	17,214,119	18,935,531
YOY gross profit gain $	1,043,890	108,188	179,723	233,174	170,244	691,328	933,834	1,416,639	1,642,067	1,794,735	1,705,904	1,721,412
Consec. GP gain $	1,043,890	-49,054	68,807	109,031	41,460	691,328	933,834	1,416,639	1,642,067	1,794,735	1,705,904	1,721,412
Y/Y growth (%)	11.7%	4.4%	7.4%	9.4%	6.6%	6.9%	9.4%	13.3%	13.6%	13.1%	11.0%	10.0%
As a % of revenue	52%	50%	50%	50%	51%	50%	51%	51%	52%	52%	52%	52%
Gross Profit Flow-through												
YOY basis %	61.6%	25.3%	36.1%	44.0%	34.8%	35.6%	44.8%	58.0%	55.5%	56.2%	52.0%	52.0%
Consec. Quarter basis %	61.6%	-29.9%	48.3%	49.9%	-113.6%	35.6%	44.8%	58.0%	55.5%	56.2%	52.0%	52.0%
Operating Expenses ($)	9,771,660	2,485,541	2,509,950	2,586,289	2,565,156	10,146,935	10,182,546	11,377,669	12,409,146	13,099,337	14,357,560	15,793,219
YOY opex gain $	-1,426,614	109,396	-3,337	238,887	30,330	375,275	410,887	1,230,734	1,031,478	690,191	1,258,223	1,435,659
Consec. opex gain $	-1,426,614	-49,285	24,409	76,339	-21,133	375,275	410,887	1,230,734	1,031,478	690,191	1,258,223	1,435,659
Y/Y growth (%)	-12.7%	4.6%	-0.1%	10.2%	1.2%	3.8%	4.2%	12.1%	9.1%	5.6%	9.6%	10.0%
As a % of revenue	51%	49%	48%	47%	47%	48%	48%	48%	47%	44%	43%	43%
EBITDA	**1,147,463**	**270,651**	**381,248**	**416,810**	**483,962**	**1,552,671**	**1,613,995**	**1,774,861**	**2,381,390**	**3,547,702**	**4,090,489**	**4,487,738**
YOY EBITDA gain $	1,850,905	-41,343	216,739	42,754	187,058	405,208	466,532	222,190	606,529	1,166,312	542,788	397,249
Consec. EBITDA. gain $	1,850,905	-26,253	110,597	35,561	67,152	405,208	466,532	222,190	606,529	1,166,312	542,788	397,249
Y/Y growth (%)	-263%	-13%	132%	11%	63%	35%	41%	14%	34%	49%	15%	10%
As a % of revenue	6%	5%	7%	8%	9%	7%	8%	7%	9%	12%	12%	12%
EBITDA Flow-through												
YOY basis %	109.3%	-9.7%	43.5%	8.1%	38.3%	20.8%	22.4%	9.1%	20.5%	36.5%	16.5%	12.0%
Consec. Quarter basis %	109.3%	-16.0%	77.7%	16.3%	-184.0%	20.8%	22.4%	9.1%	20.5%	36.5%	16.5%	12.0%
Income before D.O. ($)	37,096	23,115	97,711	125,375	189,846	436,047	775,217	671,290	1,310,204	2,482,568	3,039,295	3,460,148
Net Income ($)	14,928	23,115	97,711	125,375	189,846	436,047	775,217	671,290	1,310,204	2,482,568	3,039,295	3,460,148
Cash Flow - Pre W/C	832,606	224,884	376,570	407,104	476,133	1,484,691	1,674,478	1,756,219	2,391,072	3,625,204	4,277,038	4,809,387
Capex ($)	374,029	450,560	196,594	204,788	203,420	1,055,362	747,853	899,439	1,011,868	1,133,293	1,257,955	1,383,750
- % of Revenue	1.9%	8.8%	3.8%	3.8%	3.8%	5.0%	3.5%	3.8%	3.8%	3.8%	3.8%	3.8%
Free Cash Flow ($)	458,577	-225,676	179,976	202,316	272,714	429,330	926,625	856,781	1,379,204	2,491,911	3,019,083	3,425,636

Valuation

We forecast compound annual revenue growth of 11% over the 2007 to 2012 period, with capital expenditure intensity normalizing at 3.8% of sales. We apply a terminal valuation of 4.5x EBITDA, or 5.8x free cash flow. Our discount rate is 15% to reflect the execution and competitive risks for Radiant Communications. We estimate the current share price is at a 32% discount to our DCF valuation of $1.70 per share. Our $1.85 one-year target represents a discount of 8% to our 1 year DCF valuation. Increasing our terminal multiple by one percent point would add $0.26 to our DCF valuation. Similarly, moving our discount rate to 14% would add $0.06 to our DCF valuation. With evidence of new service momentum building, we believe our 15% discount rate and terminal multiple may be conservative.

Discounted Cash Flow Analysis

Radiant Communications Corp. DCF Analysis	2007	2008	2009	2010	2011	2012	CAGR 06 - 12
Revenue ($)	21,228,195	23,669,438	26,628,118	29,823,492	33,104,076	36,414,483	11.4%
Revenue Growth	10.1%	11.5%	12.5%	12.0%	11.0%	10.0%	
EBITDA ($)	1,552,671	1,774,861	2,381,390	3,547,702	4,090,489	4,487,738	n.m.
EBITDA Growth	35.3%	14.3%	34.2%	49.0%	15.3%	9.7%	
EBITDA Margin	7.3%	7.5%	8.9%	11.9%	12.4%	12.3%	
Amortization ($)	(946,069)	(963,116)	(959,056)	(1,020,823)	(1,115,930)	(1,227,426)	
EBIT ($)	606,602	811,745	1,422,334	2,526,878	2,974,559	3,260,312	
Less Taxes ($)	0	0	0	0	0	0	
Plus Amortization ($)	946,069	963,116	959,056	1,020,823	1,115,930	1,227,426	
Less Capital Expenditures ($)	(1,055,362)	(899,439)	(1,011,868)	(1,133,293)	(1,257,955)	(1,383,750)	
Capital Intensity	5.0%	3.8%	3.8%	3.8%	3.8%	3.8%	
Unlevered Free Cash Flow ($)	497,309	875,422	1,369,522	2,414,409	2,832,534	3,103,988	
PV of Unlevered FCFs ($)	480,233	735,098	999,997	1,533,002	1,563,901	1,490,240	

Valuation Assumptions:	
Discount Rate	15.0%
Terminal Multiple	4.5

Valuation Analysis:	Current	1-Yr Trgt	2-Yr Trgt	3-Yr Trgt
Total PV of FCFs ($)	6,802,472	7,270,575	7,388,994	6,976,473
Terminal Value ($)	20,194,821	20,194,821	20,194,821	20,194,821
PV of Terminal Value ($)	9,695,637	11,149,983	12,822,480	14,745,852
Net debt less cash ($)	(1,800,981)	(1,565,707)	(1,861,990)	(2,698,659)
Total Value to Shareholders($)	18,299,090	19,986,265	22,073,464	24,420,984
DCF Value/Share	**$1.70**	**$1.85**	**$2.04**	**$2.26**
Fully Diluted Shares Outstanding	10,794,136	10,794,136	10,794,136	10,794,136
Current/Target Share Price	**$1.15**	**$1.70**	**$1.90**	**$2.15**
Discount to FMV	32.2%	8.2%	7.1%	5.0%

Radiant DCF Sensitivity

		Discount Rate						
		14.0%	14.5%	15%	15.5%	16.0%		
Terminal	4.00x	1.79	1.76	1.74	1.71	1.69	-2.0%	Terminal
EV/EBITDA	4.25x	1.85	1.82	1.79	1.77	1.74	-1.1%	Growth
	4.50x	1.91	1.88	1.85	1.83	1.80	-0.3%	
	4.75x	1.97	1.94	1.91	1.88	1.85	0.4%	
	5.00x	2.03	2.00	1.97	1.94	1.91	1.0%	

At Radiant Communication's development stage, valuation considerations are beginning to move from revenue multiples and DCF valuations towards EBITDA and CFPS. As evident below, EV/EBITDA and P/CF valuation support awaits a move to forecast 2007 and 2008 financials. Notably our target price of $1.70 reflects a 27x multiple on our 2008 EPS estimate at $0.06. **Growing confidence in our 2008/09 forecasts should drive material gains ahead of our target.**

Trading Multiples

	2007E	2008E	2009E	2010E
EV / EBITDA				
Current	7.0	5.9	4.1	2.2
Target	10.8	9.3	6.6	3.9
EBITDA	1,552,671	1,774,861	2,381,390	3,547,702
P / CFPS				
Current	8.4	7.1	5.2	3.4
Target	12.4	10.4	7.7	5.1
CFPS	0.14	0.16	0.22	0.34
P / E				
Current	28.5	18.5	9.5	5.0
Target	42.1	27.3	14.0	7.4
EPS	0.04	0.06	0.12	0.23
EV / Revenues				
Current	0.5	0.4	0.4	0.3
Target	0.8	0.7	0.6	0.5
Revenues	21,228,195	23,669,438	26,628,118	29,823,492

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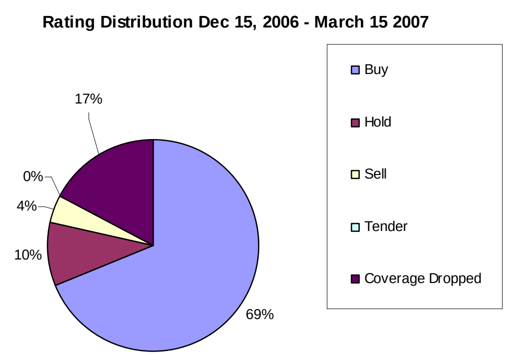

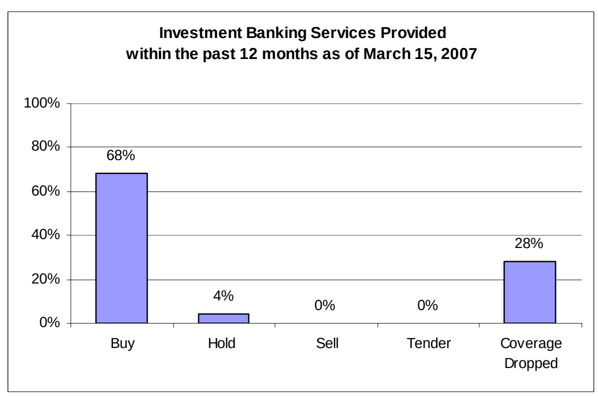

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Risk Profile Parameters

SPECULATIVE: – Investment for risk accounts only. Companies within this category carry greater financial and/or execution risk. All junior/venture companies that carry great financial and/or liquidity risk will be tagged "SPECULATIVE". A stock indicating a SPECULATIVE risk is determined from sector specific criteria outlined below listed below.

Risk Profile Parameters – Telecom Service Providers

Forecast Risk: *High* – Haywood forecasts are below guidance. The Company has a history of missing targets. *Moderate* – Haywood forecasts are generally in line with guidance. The Company has a history of meeting or exceeding guidance. *Low* – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance.

Financial Risk: *High* – The business plan is not fully funded but requires debt and/or equity financing. This categorization does not necessarily predict whether the additional funds will be raised. *Moderate* – The business plan is fully funded. The Company's debt is rated below investment grade. *Low* – The Company is fully funded with investment grade debt.

Valuation Risk: *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. Where applicable, the DCF valuation is not more than 10% above the current equity valuation. *Moderate* – The current valuation is within historic ranges and generally consistent with peers. Where applicable, the DCF valuation exceeds the current capitalization by more than 10%. *Low* – The current valuation is at the low end of historic ranges and at a discount to peer valuations. Where applicable, the DCF valuation exceeds the current capitalization by more than 20%.

Disclaimers

Estimates and projections contained herein, whether or not our own, are based on assumptions that we believe to be reasonable. The information presented, while obtained from sources we believe reliable, is checked but not guaranteed against errors or omissions.

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This report has been approved by HSUK for the purposes of section 21 of the UK's Financial Services and Markets Act 2000.If you wish to contact HSUK please email D. Kim Gorius at kgorius@haywood.com.

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Changes in the rates of exchange between currencies may cause the value of your investment to fluctuate.

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(b) in the event of a dispute, access to the UK's Financial Ombudsman Service;
(c) protection of money held on your behalf under the FSA's Client Money Rules.