

Route 1 Inc. (TSX-V: ROI)
 Initiating Coverage

Rating: Buy
 Target: \$0.12

Key Data (in C\$)	
Industry:	IT Services
Price:	\$0.04
52 Week Range:	\$0.035-\$0.225
Market Cap:	\$14.0 mil.
Shares Outs.:	349.4 mil.
Book Val./Share:	\$0.015
Price/Book:	2.7x
Price/Sales (FY08E):	7.2x
Net Gearing:	0.0%
2007 EPS:	(\$0.026)
2008 EPS est.:	(\$0.017)

Initiating Coverage on Route1 Inc.; Innovative Secure Remote Access Provider with Large Growth Potential

Investment Summary

Route1 Inc. (TSX-V: ROI) is a provider of secure remote access technology with an innovative and dynamic product range. The company has recently entered into promising collaborations with brands such as Novatel Wireless, Qwest Government Services, and Giesecke & Devrient. Given our view of the strong prospects for Route1's secure remote access technologies, we are initiating coverage on ROI shares with a Buy rating and a 12-month target price of \$0.12.

Products and Services



ROI's flagship product solution, "MobiNET," offers a secure and convenient means to connect users to their desktop data, applications, and network resources. Unlike traditional remote access services, Route1 offers a highly secure connection in a user-friendly platform. To support the MobiNET delivery system, the company provides various products such as the MobiKEY, EnterpriseLIVE, MobiNET Aggregation Gateway (MAG), and MobiVDI. The core product is the MobiKEY, which is a thumb-sized USB device that can be plugged into any computer with internet access. After authentication on MobiNET, the MobiKEY provides the user full access to a home or work computer including all of its local data, programs, and network resources from anywhere, anytime. Unlike traditional hardware such as laptops or PDAs, the MobiKEY contains no sensitive data and can be canceled remotely if lost or stolen. The company also plans to introduce a smartphone-enabled variant of MobiKEY, named MobiMICRO.

Company Description: Route1 Inc., (TSX-V: ROI), formerly known as Prospectus Group, was formed through a reverse takeover in October, 2004. Headquartered in Toronto, Canada, Route1 provides security and identity management network solutions delivered through a wide array of products and services. Route1 enables end-users to reliably connect to their digital resources, data applications, network assets, and web content from any location in the world, while ensuring the integrity of sensitive data. Route1's patent-pending products and services serve the needs of individuals, corporations, and federal agencies.

Route1 also offers various services, including TruOFFICE, PurLINK, MobiNET Administration and Provisioning (MAP), and SAFE (Simplified Access for Emergency). ROI's patent-pending products and services are certified with ICSA labs, the central authority for certification of security products, and the Communications Security Establishment, Canada (CSE). Route1's products comply with the strict security needs and standards mandated at all levels of government.

Route1 offers its products and services to individual users, international enterprise units, public sector organizations, and original equipment manufacturer (OEM) customers. Over the years, Route1 has expanded into the defense and space sectors by offering security products and solutions such as DEFIMNET (DEFense Identity Management NETwork), PurCOMMAND, TruCOMMAND, dMAP and dVDI.

Route1 maintains a global presence with a customer base spread

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across North and Central America and has recently entered negotiations for a distribution agreement in Moscow to serve the Russian markets. In addition, the company provides its services to the Dutch Ministry of Foreign Affairs.

Products	Description
MobiKEY	An ultra-portable USB thumb drive that securely connects users to MobiNET services from any Internet-enabled Windows-based PC
EnterpriseLIVE	Route1's family of high assurance platforms built for financial services, military, government, telecommunication service providers and Web 2.0 to secure systems and digital content
MobiNET Aggregation Gateway (MAG)	A sophisticated, appliance-based solution that provides enterprises with greater visibility and control over data traffic that flows across the network when MobiNET services and applications are accessed
MobiVDI	Empowers the workforce by allowing fully secured, low-cost access to virtual desktop resource from within the enterprise and/or from a remote location

Services	Description
TruOFFICE	Delivers secure remote access via MobiKEY
PurLINK	A highly secure, two-factor authentication solution that mitigates highly malicious threats, and delivers the ultimate level of assurance
MobiNET Administration and Provisioning (MAP)	Ideal for large-scale deployments of MobiKEY subscribers; enables enterprises to set up policies for usage, audit user access to understand what resources are being accessed when, and gain visibility into how many host computers are allocated to each MobiKEY and vice versa
SAFE (Simplified Access For Emergency)	A response solution for proportional business continuity designed to lessen the operational impact of potential worker quarantines and other disruptions resulting from man-made and natural causes

Potential Growth Catalysts

In 2Q08, the company concluded a strategic alliance with Giesecke & Devrient (G&D), a leading global provider of banknotes, ID documents and smart card solutions. The agreement will provide Route1 with an extension of its product offerings into G&D's latest StarSign family, which includes the StarSign Mobility Token and the StarSign USB Token microSD. Route1 is also capitalizing on G&D's worldwide presence by marketing and distributing its software solutions through G&D's global sales force.

Route1 also engaged with Quest Communications International Inc. in 2Q08 to extend its existing security network solutions to federal government agencies under the Washington Interagency Telecommunications Systems (WITS) 2001 Crossover contract. The collaboration between Route1 and Qwest will allow for the security levels mandated for federal government teleworking and continuity of operations planning. Recent "green" initiatives by the U.S. federal government have encouraged a workweek with four days at the office and one day of telecommuting. The need for a secure, easy to use connection for these telecommuters is met by Route1's collaboration with Qwest.

In addition to the agreements with G&D and Qwest, Route1 reached an OEM distribution agreement with Novatel Wireless in 4Q07. Route1 integrated its subscription-based services into Novatel's wireless USB modems.

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Although deployment has been initially slow, we expect this agreement to result in improved margins and a substantially larger subscription base for Route1 with minimal incremental costs.

Industry Analysis

The remote access services industry has been around for decades, but until recently has lacked innovation and truly secure connectivity. After experiencing success in the individual user market, the remote access services industry is faced with relatively untapped demand from corporations. End-users are looking for secure offsite access for telecommuters, continuity of operations for disaster recovery scenarios, and to avoid data leaks from lost or stolen laptops. Consequently, vendors such as Route1 are driving these trends by offering broader versions of the software to meet the high-end demand of these corporations.

Because Route1's products and technologies have pending patents, the company is unique in its product offerings and faces virtually no direct competition for products such as the MobiKEY. Route1 also does not face any direct competition as there is no company providing a range of remote access products and services as complete as Route1 has. Some of the other providers, including larger players like Microsoft, have developed individual technology pieces rather than a comprehensive product and service. Looking forward, the company intends to work on corporate partnerships with major telecommunication companies for future growth in its business.

Financial Review and Outlook

Route1 is transitioning from the development stage to the marketing and commercialization stage. As such, operating cash flows are negative and revenues are not substantial at this point. Additionally, revenues are affected by the ebb and flow of larger orders in any given quarter.

In 1Q08, Route1 reported a net loss of \$1.63 million or \$(0.004) diluted earnings per share, an improvement of 4% from 1Q07. First quarter 2008 revenues of \$194,297 fell from \$407,785 in 1Q07, a decrease of 52%. The drop in revenue indicated a fall of 73% in the devices segment from the year-earlier period, which included approximately \$170,000 in device segment sales to one customer that did not reoccur thereafter. On a sequential basis, revenues from the same segment increased 70%. The services segment saw virtually flat year-over-year growth of 1.7% and a reasonable 19% growth rate on a sequential basis.

As a result of fewer units sold in 1Q08, gross profit margin declined to 9.1% as compared to 10.0% in 1Q07. However, gross profit margin has improved sequentially over the immediate three preceding quarters. Route1 incurred lower selling and marketing expenses in 1Q08 due to a reduced headcount and lower commissions, which partially mitigated higher administrative and R&D expenses. As per management guidance, the company continues to modify and adapt its technology to the changing requirements of the customers, which is expected to result in higher R&D expenditures in coming quarters. We expect SG&A expenses to grow in tandem with sales.

Since its inception, Route1 has been financing its cash requirements through equity capital primarily raised via private placements. At the end of 1Q08, the company had cash and cash equivalents of \$4.7 million, which we believe is adequate to fund operating activities through the end of 2008. Furthermore, if any of the recent agreements with Novatel, Qwest, or G&D come to fruition, Route1 could begin to generate sustainable cash flows and may not need to raise additional capital.

ROI seems to be at a crossroads in its growth story as it builds its business using strategic collaborations as stepping stones. Thus, we expect revenues to grow as the subscription base expands and as the collaborations begin to yield results. For 2Q08, we expect Route1 will generate sales of \$0.4 million, registering a year-over-year growth rate of 29%. Going forward, we expect a solid increase in revenue to \$2.2 million for FY08, representing a

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year-over-year growth rate of 116%. We believe the driving force behind the revenue growth will be the company's ability to convert the underlying increase in its prospective subscription base (owing to collaborative agreements and new products) into effective sales. Also, we anticipate 3Q08 will be critical for the growth of the company as new devices and form-factors are shipped. We are looking for projected revenues of \$9.7 million in FY09, with the services segment being the major source of revenues going forward.

We expect our FY08 gross margin estimate of 51% to expand to 70% in FY09 compared to (28%) in FY07, mainly due to higher service revenues. We believe costs and expenses as a percentage of sales will fall as revenues increase due to operating leverage.

We are estimating an EPS of (\$0.017) for FY08 and (\$0.015) for FY09. In our view, there is a reasonable possibility for a favorable outcome from the collaborative arrangements.

Financial Summary

<i>All figures in C\$</i>	2005	2006	2007	2008E	2009E	2Q08E
Revenue	70,600	535,453	1,007,200	2,171,897	9,731,801	414,650
Growth Y-o-Y	NA	658.4%	88.1%	115.6%	348.1%	29.2%
Op. Margin	-8921.8%	-1754.1%	-740.4%	-315.2%	-62.8%	-431.0%
Net Income	(6,406,348)	(8,874,211)	(7,464,421)	(6,804,095)	(6,115,452)	(1,787,142)
EPS	(\$0.051)	(\$0.047)	(\$0.026)	(\$0.017)	(\$0.015)	(\$0.005)
P/E	(0.8x)	(0.8x)	(1.5x)	(2.3x)	(2.7x)	(2.0x)
Price/Sales	71.8x	14.0x	11.4x	7.2x	1.7x	15.7x

Valuation, Rating, and Target

We are initiating coverage on ROI shares with a Buy recommendation and a 12-month target price of \$0.12 per share. Our valuation is based on a relative valuation. Using our peer group average price-to-sales multiple of 22.0x and our FY08 forecasted revenue of \$0.006 per share, we arrive at our 12-month target price of \$0.12 per ROI share.

Peer Comparison

Company	Ticker	Price	Sales (mil.)	Shares Outs. (mil.)	Sales per Share	Price to Sales
01 Communique Lab.	ONE.TO	\$ 0.26	\$ 0.50	51.6	\$ 0.010	27.1x
Absolute Software Corp.	ABT.TO	\$ 11.17	\$ 32.94	47.3	\$ 0.696	16.0x
Atlas Technology Group	ATYG.OB	\$ 0.35	\$ 0.61	39.5	\$ 0.015	22.7x
Average						22.0x
Route1 Inc.*	ROI.V	\$ 0.04	\$ 2.17	349.4	\$ 0.006	7.2x

*FY08 estimated sales
 Data as of August 14, 2008.

Conclusion

We believe Route1 is well-positioned to grow its revenue base as the company's proprietary technology is adapted and as the company benefits from the recent strategic alliances with Novatel, Qwest, and G&D. We also expect the company to grow its array of products and service solutions along with diversifying its market

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breadth in years to come. Route1 is guided by a qualified and experienced management team, which in our opinion further supports our belief that Route1 will be able to exploit market opportunities and enhance its market share.

We believe the company possesses exciting growth prospects for the future. Based on these attributes, we recommend a Buy rating and a 12-month price target of \$0.12 on ROI shares.

Management

Andrew White, Founder, President and Chief Executive Officer: Andrew White possesses 15 years entrepreneurial business experience in technology, specializing in design and product integration. Mr. White is the founder of three businesses in security applications and networking. He has served as the manager of information systems at Delrina, which was later acquired by Symantec. Mr. White also established a software testing facility for the Ontario Research Foundation. Currently, he owns a 17.3 % stake in Route1.

Tim Hyland, Founder, Executive Vice President and Chief Operating Officer: Tim Hyland comes to Route1 with 10 years business development and sales experience in telecommunications and commercial realty working for Maxlink Communications, GT Group Telecom, Colliers International, and All-City Real Estate Services. Mr. Tim Hyland owns a 26.8% stake in Route1.

Jerry Iwanski, Chief Technology Officer: Jerry Iwanski has been with Route1 since inception. Mr. Iwanski has devised and architected MobiNET, the core of Route1's business. Mr. Iwanski brings with him 14 years of experience in business management, software and technical project management and delivery, and information technology.

Anthony F. Rzepka, C.A., Executive Vice President and Chief Financial Officer: Mr. Rzepka holds a Bachelor of Commerce and Finance (Honors) degree from the University of Toronto. He has extensive working experience with enterprise-class, publicly traded companies. He was most recently executive vice president and chief financial officer of Genesis Worldwide, where he oversaw the entire financial reporting, planning, information systems, and tax compliance activities for the consolidated entity and each of the subsidiary companies. He has also served as finance and acquisition manager at TLC Vision Corporation.

Risks

The company appearing in this report is at a development stage and consequently any investment in the company's securities should be considered highly speculative. This analysis should be considered by sophisticated investors only, in conjunction with the advice of a qualified investment professional.

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