WORKING CAPITAL: New Wi-Fi contracts signal improvement for Edgewater

BY BERT HILL, OTTAWA CITIZEN APRIL 2, 2013

OTTAWA — Edgewater Wireless Systems, one of Ottawa's newest public companies, is ringing up decent sales after a tough first year in public markets depressed the stock.

It reported sales of $349,328 in the quarter that ended in January as new contracts for advanced Wi-Fi gear started generating revenue.

In the previous six months it had sales of less than $30,000. The bottom line is also starting to look better with a loss of $780,374 in the January quarter compared with losses of $6.3 million in the preceding six months.

Edgewater makes special Wi-Fi access technology that promises much better capacity and service to the many parts of the world beyond the reach of optical fibre. But product development and sales force expansion costs were high and sales demand was low in a tough economic climate.

Edgewater took action late last year to slash operating costs in which the first chief executive officer, a former Texas Instruments executive, and other employees left the company.

Duane Anderson, the veteran Ottawa business executive who quietly built Edgewater's private predecessor, a supplier of military aviation wireless gear since 1988, is now firmly in charge.

The company devoted much of its early sales efforts to Brazil and Mexico and announced a slew of design wins with many potential customers. While some limited business is coming from Latin America, the biggest paying customer so far is World Affinity Telecom, a Sierra Leone carrier, which is building a network linking hospitals and schools in Africa. Edgewater said that deal has grown more than 35 per cent to $6.7 million. The company has also raised more than $15 million from investors in the last eight months. It will be interesting to see if the new results lift the depressed Edgewater stock price from the current level of just five cents a share, down from 39 cents a year ago.

Magor Corp., an even newer Ottawa public company, has some bad news. Just a couple of weeks after its market launch, it revealed a big jump in losses.

It makes video conferencing gear in competition with market leader Cisco Systems. Magor is part of the group of technology magnate Terence Matthews' companies.

Losses in the January-ending quarter soared 53 per cent to $2.06 million on a 26-per-cent decline in overall sales to $323,789 compared with a year earlier. The big problems were weak hardware sales and a hefty $97,000 inventory writedown during the quarter.

Magor made a big strategy shift in the last year to software-based video conferencing products and stopped selling some hardware. Software sales rose seven per cent from the January quarter a year earlier but could not make up for the overall decline.

Chief executive officer Michael Pascoe is promising better things ahead. The backlog of sales orders at the end of January jumped more than sevenfold to $583,896 from just three months earlier on deals with "several new high profile customers," he said.

Investors, who just bought $5.9 million in stock at the launch, may need more convincing. The stock, which went public at 59 cents per share, closed at 42 cents Monday before the announcement.

In-Touch Survey Systems is paying $1 million in cash for the field services operation of NAVEX Global of Oregon. The Ottawa company said the deal brings about $2 million in annual business providing ground-level research to corporate clients on how their operations meet regulatory standards on issues ranging from prescription drugs labelling to credit rating services. NAVEX was created last year by a private-equity financed merger of three U.S. companies. In-Touch said it wants to make more market research takeovers to expand sales.

Magellan Aerospace, a big employer in Renfrew County, is betting that strong demand for new commercial aircraft will help fight big cuts in defence spending in the U.S. and other countries. Shares of the Mississauga company rose almost 10 per cent after it reported healthy results for the December-ending quarter. Magellan has owned Haley Industries, which makes lightweight magnesium and aluminum aircraft parts, for 11 years. The plant employs about 400 people and has been a mainstay of the county economy for more than 60 years. Magellan sales rose eight per cent to $186.6 million and profits rose two per cent to $30.6 million in the December quarter. With Boeing and Airbus increasing airliner orders to 1,305 this year, a gain of almost 10 per cent, Magellan is betting the commercial business, 70 per cent of sales, will be a hedge against weak military markets. Even a sluggish corporate jet market could improve with Bombardier reporting a 75-per-cent increase in orders last year. However, Magellan's efforts to diversify into new markets, particularly a thermal energy operation in Ghana, are losing money. On the military front, Magellan is optimistic that demand for Joint Strike Fighter aircraft will help with orders significantly higher in last year.

Joint ventures have been the rage for years in the technology world. Despite the benefits of pooling resources, some deals just don't work.

Cisco Systems cut about 500 jobs last week in a sign that a close relationship with EMC, the big database company, and EMC's VMware subsidiary is souring. Cisco and EMC had worked closely selling gear to the booming data centre industry. But competition between the two has also grown as each made acquisitions. The problem for Cisco, which sells a ton of routers and switches to data centre customers, is that EMC has jumped into a new approach called software-defined networks, which means less demand for Cisco hardware. Cisco said the cuts represented less than one per cent of its 66,600 employees and will help the company pursue growth markets. The giant last cut about two per cent of the workforce in the summer of 2012 as it ran into challenging market conditions.

Two other companies, also with Ottawa operations, are taking apart a formal joint venture. The action by Ericsson and STMicroelectronics will eliminate 1,600 jobs. Both companies are facing significant market challenges and likely decided the joint venture was just adding to the problems.

Ericsson has also been hit by an injunction in a New York court over alleged infringement of Airvana wireless technology, a company that has long been a supplier to Ericsson and predecessor Nortel in the wireless business. Airvana, which is seeking more than $300 million in damages, told the court Ericsson was secretly attempting to duplicate critical software in equipment sold to giants like Verizon and Sprint Nextel.

Adobe Systems is having more success than Oracle in the strong trend to rent software by subscription from central data centres — the much publicized "cloud" — that is rapidly replacing the upfront sale of software licences. The two companies employ about 500 people in Ottawa.

Adobe, though feeling the pain of the new model with revenues down four per cent to $1 billion during the latest quarter, still beat analyst expectations. Profits fell 65 per cent to $75 million. But the results were better than analysts expected. More important, Adobe boosted the number of paying subscribers by 47 per cent to reach 479,000 customers.

Oracle software sales also fell four per cent and revenues from new products sold over the web declined two per cent, surprising analysts and investors. More bad results in the former Sun Microsystems division added to the gloom. Profits were flat at $2.5 billion, much better than Adobe's 40-per-cent decline, but worse than analyst expectations for Oracle.

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