

SECUREALERT INC.

USA / SECURITY SERVICES

OTC Pinksheets

Bloomberg symbol: SCRA

ISIN: US81373R1095

UPDATE

RATING:	Buy
PRICE TARGET:	\$0.27
RETURN POTENTIAL:	157.1%
RISK RATING:	High

FIRST INTERNATIONAL REVENUES RECOGNIZED

SecureAlert reported results for the Dec-2010 quarter (FQ1 of FY2011). International revenues were recognized for the first time. Gross margin was above expectations, though this was offset by higher than previously modelled OPEX. We are maintaining our BUY rating and \$0.27 price target on SecureAlert stock.

First international sales SecureAlert reported total FQ1 revenues of \$3.68M (+15% Y/Y). The company recognized its first international revenues of \$363K (9.9% of total) in the quarter. These were evenly split between monitoring services in Brazil and the build-out of the monitoring centre in the Bahamas. The recent major contract in Mexico was announced after the end of the quarter. The initial effect of Mexico will be seen in FQ2.

Profitability trends SecureAlert is making faster than expected progress with gross margin improvements, with an FQ1 actual of 49.3%. Cost efficiencies as well as the initial contribution from overseas business were the primary drivers of this positive surprise. Offsetting this, FQ1 SG&A was higher than expected. SG&A did decline Y/Y in absolute-dollar terms as forecast due to non-recurring items in the prior-year period. However, recurring SG&A spending was higher than expected. The FQ1 EBIT came in at -\$1.93M, with net loss for the period of \$2.06M.

Forecast model calibrations We are maintaining our FY2011 revenue estimate on SecureAlert at \$18.4M (+51% Y/Y). This forecast reflects expectations for continued strong international growth, especially as sales from the recent Mexico contract begin to kick in. We are raising our gross margin estimate for FY2011 from 50% to 56%. However, based on FQ1 trends, we are also raising our SG&A estimate for the fiscal year to \$11.0M. The net effect of the above changes is neutral with respect to our FY2011 EBIT forecast, which remains little changed at -\$1.90M.

FINANCIAL HISTORY & PROJECTIONS

	2007/08	2008/09	2009/10	2010/11E	2011/12E	2012/13E
Revenue (\$m)	12.40	12.63	12.45	18.84	30.01	42.40
Y-o-y growth	n.a.	1.8%	-1.4%	51.3%	59.3%	41.3%
EBIT (\$m)	-41.98	-20.96	-10.08	-1.90	1.50	6.36
EBIT margin	-338.5%	-166.0%	-81.0%	-10.1%	5.0%	15.0%
Net income (\$m)	-49.59	-22.94	-13.78	-2.72	-0.11	4.16
EPS (diluted) (\$)	-0.11	-0.05	-0.03	-0.01	0.00	0.01
EV / Sales (x)	2.7	2.6	2.7	1.8	1.1	0.8
EV / EBIT (x)	n.a.	n.a.	n.a.	n.a.	22.2	5.2
P/E (x)	n.a.	n.a.	n.a.	n.a.	n.a.	11.3
DPS (\$)	0.00	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF (\$m)	-10.20	-10.20	-8.01	-2.57	-0.30	3.68
Net gearing	16192.5%	-116.9%	74.5%	-20.6%	-36.8%	-46.3%
Liquid assets (\$m)	3.28	0.60	1.13	4.81	9.03	13.99

RISKS

Risks include, but are not limited to: failure to achieve profitability so far, highly competitive market, dependence on government regulation and penny stock regulations in the US

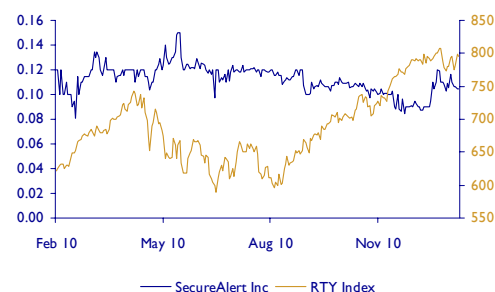
COMPANY PROFILE

SecureAlert specializes in patented wireless Global Positioning System (GPS) location technologies and systems and has provided active GPS offender monitoring solutions since 2001. SecureAlert currently provides GPS solutions to more than 600 public safety agencies throughout the United States. The company is based in Salt Lake City, Utah and had 186 full-time and 24 part-time employees as of December 2010.

TRADING DATA

Closing price (15.02.11)	\$0.11
Shares outstanding	294.31m
Market capitalisation	\$30.90m
52-week range	\$0.08 / 0.15
Average volume (12 months)	570,980

STOCK OVERVIEW



COMPANY DATA (as of 31 December 2010)

Liquid assets (incl. securities)	\$0.66m
Current assets	\$3.76m
Intangible assets	\$4.28m
Total assets	\$11.62m
Current liabilities	\$7.00m
Shareholders' equity (incl. minorities)	\$3.63m

SHAREHOLDERS

Winfried Kill	14.6%
Euromicron AG	5.7%
Free Float	79.7%



CHANGES TO OUR FORECAST MODEL ON SECUREALERT

All figures in \$m	2011E			2012E			2013E		
	old	new	% change	old	new	% change	old	new	% change
Sales	18.84	18.84	0.0%	30.01	30.01	0.0%	42.40	42.40	0.0%
EBIT	-1.88	-1.90	1.1%	1.50	1.50	0.0%	7.42	6.36	-14.3%
Margin (%)	-10.0%	-10.1%	-	5.0%	5.0%	-	17.5%	15.0%	-
Net income	-4.16	-2.72	-34.6%	-0.11	-0.11	0.0%	5.21	4.16	-20.1%
EPS diluted (€)	-0.01	-0.01	-34.7%	0.00	0.00	0.0%	0.02	0.01	-20.1%

UP-TO-DATE DCF VALUATION

In order to determine SecureAlert's Weighted Average Cost of Capital (WACC), we use our proprietary multi-factor risk model, which takes company-specific risk factors into account, such as management strength, balance sheet and financial risk, competitive position and company size. We continue to assign a High risk rating to the company.

Our WACC calculation of 12.1% is based on a risk-free rate of 3.35% (the yield on 10-year US treasury bonds), a market risk premium of 4.0% and a terminal effective tax rate of 30%. In our DCF model, we use a planning period until SecureAlert's FY2020 (shown up to FY2017 in the below table) and a terminal sales growth rate of 3%.

The model below yields a price target of \$0.27 per SecureAlert share. We retain our BUY rating on the stock.

	2010/11E	2011/12E	2012/13E	2013/14E	2014/15E	2015/16E	2016/17E	2017/18E
Revenues	18 840	30 010	42 398	54 809	67 221	79 891	92 962	105 860
(y-o-y change)	51%	59%	41%	29%	23%	19%	16%	14%
Operating profit	-1 884	1 501	6 360	13 702	18 486	21 970	27 889	31 758
(operating margin)	13%	28%	31%	34%	31%	27%	24%	20%
NOPLAT	-1 884	1 501	6 360	13 702	11 091	13 182	16 733	19 055
+ depreciation & amortisation	1 649	2 159	2 721	2 993	3 292	3 622	3 984	4 382
= net operating cash flow	-235	3 659	9 081	16 695	14 384	16 804	20 717	23 437
- total investments (Capex and WC)	-3 500	-4 250	-5 000	-5 750	-6 500	-8 838	-8 700	-8 590
capital expenditure	-2 500	-3 000	-3 500	-4 000	-4 500	-4 838	-5 200	-5 590
working capital	-1 000	-1 250	-1 500	-1 750	-2 000	-4 000	-3 500	-3 000
= Free cash flow (FCF)	-3 735	-591	4 081	10 945	7 884	7 966	12 017	14 847
PV of FCF's	-3 479	-491	3 022	7 228	4 642	4 183	5 626	6 198

PV of FCFs in explicit period	40 157
PV of FCFs in terminal period	40 779
Enterprise value (EV)	80 937
+ Net cash / - net debt (31 December 2010)	-1 279
Shareholder value	79 658

Number of shares outstanding (m)	294 309
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WACC	12.1%
cost of equity	13.2%
pre-tax cost of debt	7.0%
normal tax rate	30.0%
after-tax cost of debt	4.9%
share of equity	87.0%
share of debt	13.0%
Fair value per share in \$	0.27

		Terminal EBIT Margin						
		10.1%	11.1%	12.1%	13.1%	14.1%	15.1%	16.1%
WACC	8.1%	0.43	0.46	0.49	0.52	0.55	0.58	0.61
	9.1%	0.36	0.38	0.41	0.43	0.45	0.47	0.50
	10.1%	0.31	0.33	0.34	0.36	0.38	0.40	0.41
	11.1%	0.27	0.28	0.30	0.31	0.32	0.34	0.35
	12.1%	0.24	0.25	0.26	0.27	0.28	0.29	0.31
	13.1%	0.21	0.22	0.23	0.24	0.25	0.26	0.27
	14.1%	0.19	0.20	0.20	0.21	0.22	0.23	0.24
	15.1%	0.17	0.18	0.18	0.19	0.20	0.20	0.21

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	18 July 2010	\$0.12	Buy	\$0.40
2	7 February 2011	\$0.11		\$0.27
3	Today	\$0.11	Buy	\$0.27

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance
BUY: Expected return greater than 25%
ADD: Expected return between 0% and 25%
REDUCE: Expected negative return between 0% and -15%
SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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