

Why We Invested in Redknee Solutions

This article by Matthew Sweeney is excerpted from a letter of [Laughing Water Capital](#).

Redknee Solutions (RKN.TO) is a vertical market software company focused on selling billing software to telecom companies, that entered our portfolio as a top five position. In short, a year or so ago the company ran into problems with its balance sheet after being overly focused on growth, and making poor acquisitions. The company announced they were reviewing strategic alternatives, which led to a controlling investment from software turnaround specialist ESW Capital. I am generally wary of turnaround stories, but upon learning more about ESW, I think the odds are tilted very heavily in favor of success.

ESW has traditionally operated in the private markets, and has previously maximized profitability at ~40 small software companies by bringing the benefits of scale to these small software companies. This has been accomplished by partnering the target companies with ESW's competitively advantaged platform, which includes internally controlled outsourcing capabilities, software development capabilities, and shared infrastructure.

Our investment is rooted in the fact that in August, the company raised capital through a rights offering, which led to un-economic selling, and thus a very attractive purchase price for our shares. In sum, Redknee is an excellent opportunity to partner with a best in class management team that has invested well over \$100M in the company in the belief that they can simply do what they have done dozens of times before: maximize revenue at a small software company with sticky revenue. A more thorough description of the mechanics of the rights offering and the business can be found at the end of this letter.