



**Initiating Report**

**March 12, 2009**

**Recommendation**  
Speculative Buy

**Risk**  
High

**Recent Price**  
\$0.05

**52-Week Range (Hi-Lo)**  
\$0.65 - \$0.01

**Intrinsic Value**  
\$0.20 - \$0.37

**Shares O/S**  
39.3 million

**Market Cap**  
\$2.0 million

**Average Daily Volume**  
20-day: 36,650  
150-day: 25,400

**Year-End**  
December 31

C\$	BVPS	EPS
2005A	\$0.32	\$(0.08)
2006A	\$0.38	\$(0.12)
2007A	\$0.38	\$(0.05)
2008E	\$0.38	\$(0.02)

BVPS: Book Value Per Share  
EPS: Earnings Per Share

**Analysts**  
Eric Eng, B.A. MBA  
Bob Weir, B.Sc., B.Comm, CFA

eResearch Corporation  
40 University Avenue  
Suite 440  
Toronto, ON M5J 1T1  
Telephone: 416-643-7650  
Toll Free: 877-856-0765

## QUORUM INFORMATION TECHNOLOGIES INC. (\$0.05, TSX-V: QIS)



Data Source: www.BigCharts.com

### UPFRONT

There is now no doubt that there will be substantial and far-reaching changes to the North American automobile industry. Venerable names may disappear. As a software developer for the automotive retail dealership market, Quorum Information Technologies has built a strong and growing customer base. Although its immediate outlook is a little cloudy, since General Motors Corporation is its largest customer, the Company is financially sound and is now generating positive EBITDA.

### RECOMMENDATION

We recommend Quorum Information Technologies Inc. (“Quorum” or the “Company”) as a Speculative Buy for long-term risk-tolerant investors. However, due to the extreme volatility currently being experienced in the capital markets, until the investment environment stabilizes, we are not providing a 12-month Target Price. (See “Target Price” page 2.)

### PROFILE

Quorum Information Technologies Inc. develops, markets, implements and supports its software product – XSELLERATOR™ – a dealership management system (“DMS”) for the automotive retail market. Quorum’s customers include General Motors (GM), Chrysler, and Hyundai dealerships in North America.

## HIGHLIGHTS

- Strong product brand – the XSELLERATOR – that has appeal to the dealership market
- The Company has approximately 230 customers, of which about 175 customers are in Canada
- The third quarter in 2008 produced positive EBITDA of \$196,000
- The Company is the third largest DMS provider to GM dealers in Canada (over 20% of market share)
- Operating costs declined in 2008, reflecting management’s efforts to control and reduce costs
- Reasonable liquidity and low debt leverage reflecting recurring revenues
- The number of auto dealerships is on a declining trend due to the industry restructuring
- GM, the Company’s major client, is struggling financially and operationally

## TARGET PRICE

The current environment for Quorum is extremely challenging. The North American automobile industry is beset with well-documented and continuing problems, and the future is uncertain.

In this respect, setting specific Target Prices for small-cap companies is particularly difficult. Instead, we are providing the intrinsic value that we have calculated using our stated assumptions concerning the Company’s activities.

For Quorum, we have derived the following intrinsic values over the ensuing 12 months using three valuation methodologies:

- Price/Book Valuation: \$0.37 per share
- Revenue/Market Cap Valuation: \$0.20 per share
- EBITDA Multiple Valuation: \$0.21 per share

Derivation and explanation of these parameters are set out in “Valuation” on page 12.

## THE COMPANY

Quorum Information Technologies Inc. has its headquarters in Calgary, Alberta, with offices in St. John's, Newfoundland and Detroit, Michigan. The Company currently has about 70 employees and has been in operation since 1996.

Quorum is a software developer with a focus on developing, marketing, implementing, and supporting integrated, Windows-based applications for the auto retail industry.

The Company's key product – XSELLERATOR – is a complete suite of software applications for the automotive retail dealership market. XSELLERATOR can automate every aspect of a retail dealership's operations.

The Company also provides DISTRIBUTOR™, a windows-based network solution for the dealerships .

Quorum has an extensive customer base, comprising 230 in Canada and the U.S.A., up from only 15 customers in 2000. This customer base has generated stable recurring revenues for the Company. Recurring revenues are forecasted to account for approximately 65% of total revenues in 2008.

Quorum is the third largest DMS provider to GM dealers in Canada with 155 GM customers. The Company also has 50 GM customers in the U.S.A. The Company is currently in the third year of a seven-year contract with GM as a designated GM Integrated Dealer Management System (GM IDMS) partner for North America.

In addition to its GM customers, Quorum integrates to Hyundai Canada and has completed necessary integration and successful pilots for Chrysler dealerships in North America. The Company is also working on specific integration for other OEMs (Original Equipment Manufacturers).

The Company has a contract with General Motors to develop and market GM's IDMS software system in North America. The Company is one of only five GM-approved IDMS software suppliers in the USA and one of two in Canada. Quorum has over 20% of the GM dealership market in Canada, making it the third largest DMS provider for GM dealerships in Canada.

Quorum has the following competitive advantages:

- XSELLERATOR is a fully-integrated, windows-based system that integrates the sales, service, parts, customer relationship management, and accounting departments of dealerships; New versions of XSELLERATOR incorporate customer feedback to meet the needs of the retail dealers;
- One fully-normalized data base that can reduce duplicate customer and vehicle data. XSELLERATOR provides a 360-degree view of the customer, providing a complete understanding of customer history and their needs;
- Quorum has established and maintains a strong position in providing vertical integration to the manufacturer;
- As a strategic integration partner with GM, the Company has built 15 new B2B integration points with GM including: GM leads, electronic vehicle invoicing and orders, incentives and residuals, customer delivery reporting, VIS XML for recalls, factory warranty, and RouteOne credit applications, Parts Orders, Material Returns & Claims, etc.;
- XSELLERATOR provides an end-to-end business process for each department in a dealership that is integrated both to other departments (horizontal) and to the manufacturer (vertical);
- Customer satisfaction ratings about XSELLERATOR are high at 93%; and
- On average, XSELLERATOR improves dealer efficiency by 10%-20%.

## INVESTMENT CONSIDERATIONS

### (1) Strengths

- The Company has developed a unique product – XSELLERATOR – that helps car dealerships to significantly reduce operating costs and improve customer services.
- The Company is the third largest supplier of DMS to GM dealerships in Canada.
- The retail dealership market in North America, although facing a decline, presents a good opportunity for Quorum to expand its current operation. Currently, there are approximately 24,000 automotive dealerships in North America, of which over 3,000 are exclusively GM.
- Installation of XSELLERATOR often represents a large monthly savings for new customers and, therefore, the Company is well positioned to serve the dealerships that are looking to reduce spending in light of the challenging economic conditions.
- The Company's 230 dealerships in the U.S.A. and Canada contribute recurring revenues.
- Quorum generated positive EBITDA in Q3/2008, and reduced its operating losses year-to-date.
- eResearch expects EBITDA to be \$1.4 million in 2009, \$1.7 million in 2010, and \$1.8 million in 2011. Assumptions underlying our forecast are reasonably conservative, taking into account the current economic environment, as well as GM's financial and operational circumstances.

### (2) Challenges

- The current credit market crisis and the slowing economy in North America have reduced investors' confidence in small cap and high-risk companies such as Quorum.
- Quorum is a small company, relative to ADP and R&R. As a result, it is challenging for the Company to compete with these two market leaders, which account for approximately 80% of the retail dealership market, because of their greater financial and management resources.
- The American Big Three auto companies are in financial distress and are also in a restructuring process. Significant cost cuts need to be carried out. This is having a negative impact on the Company's customer growth strategy as the total numbers of North American dealerships are expected to decline by 10% in the U.S.A., and 5% in Canada over the next few years. The Company also could incur a loss of dealerships. General Motors Corporation could go bankrupt.
- Revenues from GM (directly or indirectly) account for 60%-70% of total revenues. GM is facing severe financial difficulties. Should GM file for bankruptcy protection, we would expect a significant negative impact on Quorum's cash flows and future business.
- The XSELLERATOR product is subject to technological changes. Substantial capital expenditures are required every year for research and product development.
- Financing operating losses and capex through external funds is becoming difficult due to tight credit markets. Although Quorum expects to produce positive EBITDA in 2009-2011, this is contingent on how fast the market improves, which is beyond the Company's control.

## DEALERSHIP MANAGEMENT SYSTEMS (DMS) INDUSTRY

Although the North American retail automobile industry is very competitive, it provides opportunities for companies such as Quorum.

In terms of the number of dealerships, the North American automobile dealership market has been in a gradual decline due to consolidation and, more recently, the restructuring that is occurring in the auto industry.

In the U.S.A., the number of dealers has declined to approximately 20,700 in January 2008 (source: National Automobile Dealers Association, "NADA") from over 24,200 in 1991. In Canada, there were 3,964 dealerships in 1991. This number declined by 13% to 3,450 in September 2008 (see table below).

Table 1: Number of Dealers in Canada from 1991 to 2008:

Number of Vehicle Dealers in Canada - By Manufacturer						
	As of May-91	As of Sep-00	As of Nov-07	As of Sep-08	Changed From 1991	Changed From 2007
GM	1,013	832	762	718	-295	-44
Ford	649	552	448	443	-206	-5
Chrysler	636	547	453	454	-182	1
Japanese	1,046	998	1,123	1,137	91	14
Korean	151	227	317	313	162	-4
European	469	363	382	385	-84	3
Total	3,964	3,519	3,485	3,450	-514	-35

Source: Canadian Automobile Dealers Association

There are currently approximately 24,000 automotive dealerships in North America, of which there are approximately 6,500 GM dealerships in the U.S.A. and 700 GM dealerships in Canada. Of those dealerships, approximately 3,000 are owned by a dealer that owns only GM dealerships. Most of the GM dealerships are owned by dealers that own GM and other automobile franchises. About 1,350 dealerships are owned by a dealer who owns only GM and Chrysler dealerships. A further approximate 950 dealerships are owned by a dealer who owns only Chrysler dealerships.

**COMMENT:** *GM and Chrysler are Quorum's two key supported manufacturers.*

The current financial crisis and the slowing economy could lead to a considerable decline in the number of dealerships in North America, with GM expected to close down 15% of its dealerships in the U.S.A. and 10% in Canada.

**COMMENT:** *The automobile dealers have revenues approaching \$1 trillion and, collectively, spend about \$80 billion.*

## COMPETITION

The retail automotive market is dominated by two major software providers: ADP Dealer Services (ADP); and Reynolds & Reynolds (R&R). Together, they control approximately 80% of the market.

In the USA, the Company is competing against four main competitors within the GM Integrated Dealership Management System (IDMS) program as follows:

- (1) ADP, which has about 25,500 dealers in automotive, truck, motorcycles, and marine recreational vehicles internationally. ADP offers a range of software solutions, but most are based on older generation technologies;
- (2) ARKONA, a division of DealerTrack, which operates only in the U.S.A. and has approximately 1,000 customers. This company offers over the web with a more modern user interface;
- (3) AutoSoft, a private company, which has a customer base of approximately 1,700 dealers (600 GM customers); it provides a low-cost PC based system; and
- (4) Auto/Mate, a small private company that offers a low-cost PC based system.

**COMMENT:** *In Canada, the Company only competes against ADP within the GM IDMS Program.*

Outside of the IDMS program, the main player is R&R. After the 2006 acquisition by the number 3 DMS supplier, UCS - R&R reached a market share of nearly 40%, similar to that of ADP. R&R offers two unique products lines: ERA and Power.

The ERA dealer management is built on a foundation application for dealerships connecting the showroom to finance, insurance, and parts departments. The Power system is a dealership management system.

The other 20% of the dealer software providers (DSP) consist of over 20 companies. Many of these companies lack financial resources and market tools to compete with the major players. Some small players are expected either to be absorbed by bigger competitors, or cease operations due to: (a) financial difficulties in trying to cope with the recent market crisis; and (b) increases in operating costs.

**COMMENT:** *Although the auto dealership market will remain competitive, particularly as the auto industry is undergoing restructuring, we view those companies, such as Quorum, that offer "alternative" solutions for auto dealers that enable them significantly to reduce their operating costs and improve efficiency will perform relatively well in 2009.*

## FINANCIAL REVIEW & OUTLOOK

### A. Overview

**Financial Year-End:** December 31

**Revenues:** Strong revenue growth of over 28% since 2004 has benefited from a growing customer base, which currently amounts to 230 dealerships (54 in the U.S.A. and 176 in Canada). To date, EBITDA has been negative on a yearly basis; however, EBITDA in Q3/2008 was positive, improving to \$196,042 from a negative \$249,338 in Q3/2007. Revenues are expected to rise from \$7.7 million in 2009, to \$10.0 million in 2010, and \$11.9 million in 2011.

**Cash and Marketable Securities:** At end of 2008, the Company had over \$675,000 in cash. We estimate the cash balance at the end of February 2009 to be about \$625,000.

**Burn Rate:** The monthly burn rate was approximately \$270,000 for the 9 months ended September 2008. This was reduced from \$300,000 per month in 2007 reflecting the Company's focus on cost control given the current market difficulties.

**COMMENT:** *Cash is generated either in the form of sales or receivables. The Company's receivables are reasonably supportive to cash burn as Quorum has set up an automotive receivable system directly with GM. This automotive payment system has allowed Quorum to meet its obligations in a timely fashion.*

**Capital Expenditures:** Capital expenditures amounted to \$2.2 million per annum for the 2005-to-2007 period, but were reduced to approximately \$1.3 million in 2008. High capital expenditures in earlier years reflect a substantial investment in setting up new processes and systems to meet the GM IDMS contract. We estimate the Company's capital spending to remain between \$1 million to \$1.5 million per year over the next three years for product research and development. Of this amount, we expect 60% will be spent on growth projects and the remaining will be for system maintenance.

**Financing:** To date, all financing has largely come from external funds in the form of equity and convertible debt. In April 2008, the Company issued \$1.5 million in secured convertible debentures. The debentures are secured on all assets of the Company, bearing interest at a rate of 12%, maturing April 15, 2011. The debentures are exercisable at the option of the holder at \$0.55 per common share. Internal cash flow is expected to sufficiently finance the Company's future capital expenditures. However, this is conditional upon the recovery of North America's automobile industry in 2010 and 2011.

**Share Ownership:** Of the 39.3 million Quorum common shares outstanding, dealers and management each owns approximately 25%.

## Options and Warrants

### Options as of February 28, 2009

Number of Options	Weighted Average <u>Years</u>	Weighted Average <u>Exercise Price</u>
1,859,100	3.9	\$0.15
960,000	4.6	\$0.49
2,819,100	3.6	\$0.56

### Warrants as of February 28, 2009

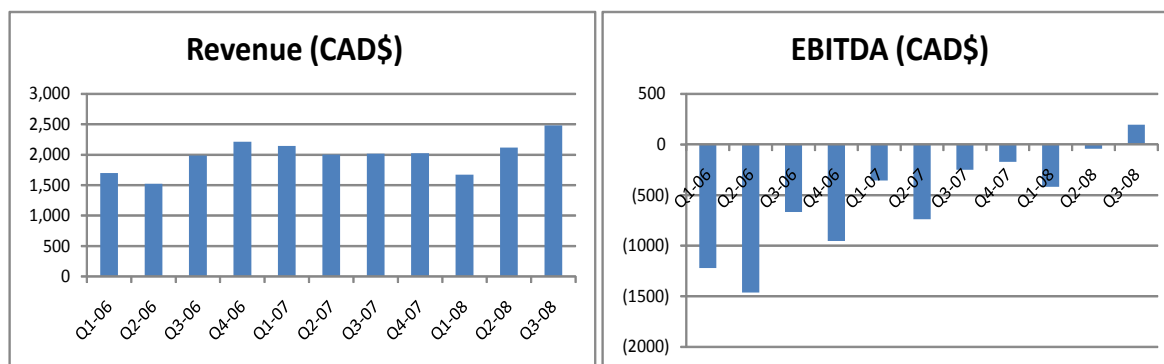
Number of Warrants <u>End of Period</u>	<u>Expiry</u>	Weighted Average <u>Exercise Price</u>
2,735,167	03/14/2009	\$1.10
382,923	03/14/2009	\$0.75
3/4 share purchase warrant	04/15/2013	\$0.55

Source: Company and eResearch

**COMMENT:** *The \$1.10 and the \$0.75 warrants expiring on 03/14/2009 are not likely to be exercised. From a financing perspective, we do not expect the Company to obtain a significant amount of new equity through the exercise of options and warrants over the next 12-15 months unless its stock price increases significantly.*

## B. Segment Analysis

### (1) Revenues and EBITDA by Quarter:



The above chart for Revenue shows a slight volatility in quarterly sales. This reflects the fluctuation in non-recurring revenues (revenues from installations). Installation services appear to be lowest in the first quarter.

EBITDA has improved significantly since the first quarter of 2007, reflecting the Company's efforts to manage operating cash costs.

**(2) Revenues by Products:**

The Company generates revenues from:

- Support: recurring revenues, monthly service charges to existing customers;
- Net New: Revenue from installing the latest version of XSELLERATOR for new customers;
- Migrations: providing services to help customers to convert the old system to the latest version of XSELLERATOR;
- Integration Services: providing Business-to-Business integration projects with GM; and
- Dealer Services: providing process and practice training to existing customers.

**(3) Salient Financial Statistics**

("\$000)	Actual	Actual	Actual	Actual	Estimate
<b>Key Ratio Analysis</b>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues	3,869	5,773	7,424	8,163	8,430
EBITDA	(706)	(2,254)	(3,748)	(1,097)	247
Net Income	(1,046)	(2,195)	(3,666)	(1,952)	(929)
Revenue/Total Assets	43.3%	56.8%	51.4%	49.8%	45.1%
EBITDA margins	-18.3%	-39.0%	-50.5%	-13.4%	2.9%

(\*) Estimate reflects base case done by Management

- The figures show a significant improvement in 2008 despite the market difficulties. EBITDA (adjusted by eResearch to exclude foreign exchange factors and employee stock options) is expected to improve to a positive \$247,000 (management estimates a loss of about \$50,000) from a loss of over \$1 million in 2007. This reflects a solid customer base, new customer growth, and effective cost control by management; and
- About 70% of total revenues are recurring, providing a stable source of cash flow from operations. However, future recurring revenues remain uncertain because the number of auto dealerships, which are currently under contract with Quorum in North America could decline, as the automobile industry is going through a restructuring.

**(4) Financial Statements**

- Set out below are abridged financial statements for the Company, showing the Statement of Income/(Loss); Statement of Cash Flow; and the Balance Sheet.
- As shown in the table below, cash costs reduced significantly in 2008, improving the EBITDA (loss) for Q3/2008 to near the break-even level. The earnings loss improved to (\$0.02) per share. Book value per share remains stable at \$0.38 for the third quarter, and likely for 2008 as a whole.

<b>Quorum Information Technologies Inc.</b>	9 Months Ending Sept. 30		For the Year Ended December 31			
<b>Statement of Income (CAD\$)</b>	<u>2007</u>	<u>2008</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Gross Revenue	6,134,478	6,270,814	3,869,025	5,772,973	7,423,733	8,162,503
Cost of Products & Services Sold	4,389,551	3,849,211	2,832,287	5,196,823	6,233,650	5,610,441
<b>Gross Profit</b>	<b>1,744,927</b>	<b>2,421,603</b>	<b>1,036,738</b>	<b>576,150</b>	<b>1,190,083</b>	<b>2,552,062</b>
Operating Expenses	(2,778,770)	(2,430,134)	(1,743,207)	(2,829,751)	(4,937,912)	(3,648,722)
<b>EBITDA</b>	<b>(1,033,843)</b>	<b>(8,531)</b>	<b>(706,469)</b>	<b>(2,253,601)</b>	<b>(3,747,829)</b>	<b>(1,096,660)</b>
Depreciation and Amortization	(434,603)	(430,457)	(303,313)	(279,134)	(494,080)	(775,721)
<b>EBIT</b>	<b>(1,468,446)</b>	<b>(438,988)</b>	<b>(1,009,782)</b>	<b>(2,532,735)</b>	<b>(4,241,909)</b>	<b>(1,872,381)</b>
Interest expense	(35,462)	(116,813)	20,615	7,828	(62,410)	(38,925)
<b>Income Before Non-recurring Items</b>	<b>(1,503,908)</b>	<b>(555,801)</b>	<b>(989,167)</b>	<b>(2,524,907)</b>	<b>(4,304,319)</b>	<b>(1,911,306)</b>
Employee Stock Option Benefits	(308,222)	(293,297)	(217,375)	(437,203)	(555,097)	(418,018)
Foreign Exchange Loss	(125,552)	36,739	0	0	0	(132,088)
Disposal of Leasehold Improvements	(80,230)	0	(19,892)	0	0	(61,049)
Future Income Tax Recovery	695,554	110,675	180,786	767,521	1,193,063	570,545
Discontinued Operations & Other						
<b>Net Income</b>	<b>(1,322,358)</b>	<b>(701,684)</b>	<b>(1,045,648)</b>	<b>(2,194,589)</b>	<b>(3,666,353)</b>	<b>(1,951,916)</b>
Total Shares Outstanding	38,214,449	39,298,438	26,263,140	28,768,040	33,747,054	39,298,438
Weighted Average Shares Outstanding	38,214,449	39,298,438	23,971,784	27,634,483	31,517,432	38,214,449
Earnings (Loss) Per Share	(\$0.03)	(\$0.02)	(\$0.04)	(\$0.08)	(\$0.12)	(\$0.05)
<b>Statement of Cash Flow (CAD\$)</b>						
Net Income Before Non-recurring Item	(1,503,908)	(555,801)	(989,167)	(2,524,907)	(4,304,319)	(1,911,306)
Depreciation and Amortization	434,603	430,457	303,313	279,134	494,080	775,721
<b>Cash Flow From Operations</b>	<b>(1,069,305)</b>	<b>(125,344)</b>	<b>(685,854)</b>	<b>(2,245,773)</b>	<b>(3,810,239)</b>	<b>(1,135,585)</b>
Change in Working Capital & Other	580,897	(71,576)	99,788	(389,088)	70,401	310,044
<b>Cash Flow Before Investment</b>	<b>(1,650,202)</b>	<b>(53,768)</b>	<b>(785,642)</b>	<b>(1,856,685)</b>	<b>(3,880,640)</b>	<b>(1,445,629)</b>
Capital Expenditures	(1,630,716)	(1,049,295)	(2,151,989)	(2,693,236)	(2,236,706)	(1,912,137)
Other Investment & Disposals	0	0	125,184	0	0	0
<b>Cash Flow Before Financing</b>	<b>(3,280,918)</b>	<b>(1,103,063)</b>	<b>(2,812,447)</b>	<b>(4,549,921)</b>	<b>(6,117,346)</b>	<b>(3,357,766)</b>
Change in Equity	3,716,839	0	4,454,168	2,695,589	6,650,167	3,723,115
Change in Debt	(62,971)	1,413,315	0	0	(9,000)	(80,589)
Change in Capital Lease	(56,846)	(21,156)	0	0	(54,390)	(77,308)
Other Financing	0	0	0	0	0	0
<b>Change in Cash</b>	<b>316,104</b>	<b>289,096</b>	<b>1,641,721</b>	<b>(1,854,332)</b>	<b>469,431</b>	<b>207,452</b>
Cash, Beginning of the Period	543,164	750,616	286,344	1,928,065	73,733	543,164
Cash, End of the Period	859,268	1,039,712	1,928,065	73,733	543,164	750,616
<b>Balance Sheet (CAD\$)</b>						
	As at Sept. 30:		Dec. 31	Dec. 31	Dec. 31	Dec. 31
	<u>2008</u>		<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Cash	1,039,712		1,928,065	73,733	543,164	750,616
Accounts Receivable	1,887,918		1,418,777	1,332,032	1,442,024	1,495,190
Inventory	67,198		91,501	86,055	130,886	128,541
Prepaid Expenses	107,198		92,581	97,752	111,377	96,671
<b>Total Current Assets</b>	<b>3,102,026</b>		<b>3,530,924</b>	<b>1,589,572</b>	<b>2,227,451</b>	<b>2,471,018</b>
Property and Equipment	533,811		4,485,444	547,516	802,154	648,921
Software Development Costs	9,166,528		0	6,352,031	8,051,470	8,373,827
Software Licenses for Resale	92,265		0	0	213,362	144,164
Future Tax Asset	3,357,953		716,149	1,483,670	2,676,733	3,247,278
Investment Tax Credits	1,509,104		192,988	192,988	472,833	1,509,104
<b>Total Assets</b>	<b>17,761,687</b>		<b>8,925,505</b>	<b>10,165,777</b>	<b>14,444,003</b>	<b>16,394,312</b>
<b>Liabilities &amp; Equity</b>						
Accounts Payable & Accru' Liabilities	1,606,652		602,990	905,059	1,283,503	1,229,500
Current Portion of Long-term Debt	76,562		0	0	160,815	97,303
Long-term Debt	28,378				200,056	78,638
Convertible Debenture	1,299,597		0	0	0	
<b>Total Liabilities</b>	<b>3,011,189</b>		<b>602,990</b>	<b>905,059</b>	<b>1,644,374</b>	<b>1,405,441</b>
Equity	14,750,498		8,322,515	9,260,718	12,799,629	14,988,871
<b>Total Liabilities &amp; Equity</b>	<b>17,761,687</b>		<b>8,925,505</b>	<b>10,165,777</b>	<b>14,444,003</b>	<b>16,394,312</b>
Book Value (S.E.) Per Share	\$0.38		\$0.32	\$0.32	\$0.38	\$0.38

**(5) Outlook****(a) Management Base Case****Management Base Case**

<b>Key Ratios</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Revenues (\$000)	\$ 8,430	\$ 7,715	\$ 10,034	\$ 11,893	\$ 14,286
Year over year growth		-8.5%	30.1%	18.5%	20.1%
EBITDA (*) (\$000)	\$ (50)	\$ 1,637	\$ 2,487	\$ 2,930	\$ 4,113
Year over year growth		-3375%	52%	18%	40%
Net Income	\$ (929)	\$ (301)	\$ 32	\$ 150	\$ 554
Cash flow/Capex (x)	0.05	1.44	2.29	3.60	6.86
EBITDA margin	2.9%	21.2%	24.8%	24.6%	28.8%
Profit margin	-5.8%	1.5%	6.1%	7.0%	10.1%
ROE	-6.4%	-2.1%	0.2%	0.9%	3.2%
ROA	-5.4%	-1.8%	0.2%	0.8%	3.0%

(\*) EB ITDA does not include option expenses and FX gains (loss).

- Management anticipates lower revenues in 2009 because of the slowing economy.
- Revenue compound annual growth rate 2009-2012: 17%
- EBITDA compound annual growth rate 2009-2012: 26%

From this base case scenario, eResearch considered two other possibilities:

**(b) Scenario 1 – eResearch estimate: 5% Revenue and EBITDA Growth after 2009**

<b>Scenario 1:</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Revenues	\$ 8,430	\$ 7,715	\$ 8,101	\$ 8,506	\$ 8,931
EBITDA	\$ 247	\$ 1,637	\$ 1,719	\$ 1,805	\$ 1,895
Net Income	\$ (929)	\$ (301)	\$ (100)	\$ 48	\$ 115
ROE	-6.40%	-2.09%	-0.68%	0.32%	0.70%
ROA	-5.38%	-1.76%	-0.58%	0.27%	0.62%

(1) Revenues and EBITDA remain the same in 2009 as in Management Case and grow at 5% for 2010, 2011, and 2012

- Under this scenario, 2009 is the same as in the management base case, but we grow revenues and EBITDA by only 5% year over year after 2009
- Under this scenario, the Company could produce positive Net Income in 2011 and 2012

**(c) Scenario 2 – eResearch estimate: 10% Revenue and EBITDA Growth after 2009**

<b>Scenario 2:</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Revenues	\$ 8,430	\$ 7,715	\$ 8,487	\$ 9,336	\$ 10,269
EBITDA	\$ 247	\$ 1,637	\$ 1,801	\$ 1,981	\$ 2,179
Net Income	\$ (929)	\$ (301)	\$ -	\$ 61	\$ 185
ROE	-6.40%	-2.09%	0.00%	0.41%	1.14%
ROA	-5.38%	-1.76%	0.00%	0.34%	0.99%

(1) Revenues and EBITDA remain the same in 2009 as in Management Case

- Under this scenario, 2009 is the same as in the management base case, but we grow revenues and EBITDA by 10% year over year after 2009
- EBITDA would be approximately \$2 million for 2011 and 2012
- EBITDA would be sufficient to finance capital expenditures and result in positive free cash flows

## VALUATION

We have valued Quorum using three methodologies:

- (1) P/BV Valuation Method;
- (2) Revenue Multiple Method; and
- (3) EBITDA Multiple Method.

### 1. P/BV Valuation Method

The price-to-book value method determines an appropriate valuation for the shares of Quorum based on the following assumptions:

- Equity book value at the end of 2009 and 2010 is estimated.
- The number of shares outstanding remains the same for 2009 and 2010.
- Internal-generated cash flow is sufficient to cover capital expenditures.
- Convertible debentures will not be converted into common shares during this period.

	Actual	Actual	Actual	Est	Est
	<u>Dec-06</u>	<u>Dec-07</u>	<u>Dec-08</u>	<u>Dec-09</u>	<u>Dec-10</u>
<b>Price/Book Value</b>					
Market capitalization (\$ millions)	34.422	23.186	3.537	14.605	14.605
Equity (\$ millions)	12.799	14.988	14.707	14.605	14.878
Equity per share (\$)	0.38	0.38	0.37	0.37	0.37
P/BV (times)	2.69	1.55	0.24	1.00	1.00
<b>Stock price (\$)</b>	<b>1.02</b>	<b>0.59</b>	<b>0.09</b>	<b>0.37</b>	<b>0.37</b>

Analysis:

- The range from December 31, 2006 to December 31, 2008 of the P/BV ratio is from 0.24x to 2.69x.
- The Company's fundamentals have remained satisfactory since 2006. However, the market and industry for the dealerships has deteriorated and are expected to remain weak, reflecting a slowing economy and the automobile industry restructuring.
- We believe that the P/BV ratio will not improve to the last three-year high at 2.69x but we do believe that the ratio ranging from 1.00x to 1.50x is appropriate.
- The stock price would be \$0.37 (Ratio of 1.00x) and \$0.56 (Ratio of 1.50x).

### 2. Revenue Multiple Valuation Method

The multiple of revenue method determines an appropriate valuation for the shares of Quorum based on the following assumptions:

- Revenues will be \$7.7 million in 2009 and \$8.1 million in 2010, using our conservative assumption of a 5% growth rate in Scenario 1.
- The number of shares outstanding remains the same for 2009 and 2010, at 39.3 million.
- Internal-generated cash flow is sufficient to cover capital expenditures.
- The Company's customer base will not decline during this period.

	Actual	Actual	Actual	Est	Est
	<u>Dec-06</u>	<u>Dec-07</u>	<u>Dec-08</u>	<u>Dec-09</u>	<u>Dec-10</u>
<b>Revenue/Market Capitalization</b>					
Revenue (\$ millions)	7.423	8.162	8.430	7.715	8.101
Revenue per share (\$)	0.22	0.21	0.21	0.20	0.21
Revenue/Market Cap Multiple (times)	0.22	0.35	2.38	1.00	1.00
Market capitalization (\$ millions)	34.422	23.186	3.537	7.715	8.101
<b>Stock price (\$)</b>	<b>1.02</b>	<b>0.59</b>	<b>0.09</b>	<b>0.20</b>	<b>0.21</b>

## Analysis:

- Although the market and industry for the dealerships have deteriorated and could remain weak, reflecting a slowing economy and the auto industry restructuring, we believe that, as long as the Company's customer base remains the same, the level of revenue projected in the table is reasonable.
- Based on the Revenue/Market Capitalization ratio for comparable companies in equivalent industries, we believe that a ratio of 2.00x is appropriate. However, given what is happening currently in the auto industry, we are using a 1.00x multiple for 2009 and 2010 as being the most appropriate.
- At the Revenue/Market Cap ratio of 1.00x, we arrive at a stock price of \$0.20, in the next 12 months.
- At the Revenue/Market Cap ratio of 2.00x, we arrive at a stock price of \$0.39, in the next 12 months.

### 3. EBITDA Multiple Valuation Method

The multiple of EBITDA method determines an appropriate valuation for the shares of Quorum based on the following assumptions:

- EBITDA will be \$1.64 million in 2009 and \$1.72 million in 2010, using our conservative assumption of a 5% growth rate in Scenario 1.
- The number of shares outstanding remains the same for 2009 and 2010, at 39.3 million.
- Internal-generated cash flow is sufficient to cover capital expenditures.
- The Company's customer base not will decline during this period.

	Actual	Actual	Actual	Est	Est
	<u>Dec-06</u>	<u>Dec-07</u>	<u>Dec-08</u>	<u>Dec-09</u>	<u>Dec-10</u>
<b>EBITDA Multiple</b>					
EBITDA (\$ millions)	-3.747	-1.096	0.247	1.637	1.719
EBITDA per share	(0.11)	(0.03)	0.01	0.04	0.04
Market Cap/EBITDA Multiple (times)	(9.19)	(21.15)	14.32	5.00	5.00
Market capitalization (\$ millions)	34.422	23.186	3.537	8.185	8.595
<b>Stock price (\$)</b>	<b>1.02</b>	<b>0.59</b>	<b>0.09</b>	<b>0.21</b>	<b>0.22</b>

## Analysis:

- Although the market and industry for the dealerships have deteriorated and could remain weak, reflecting a slowing economy and the automobile industry restructuring, we believe that, as long as the Company's customer base remains the same, EBITDA projected in the table is reasonable.
- Based on the EBITDA/Price for comparable companies in equivalent industries, we believe that an EBITDA ratio of 7.0x–8.0x is appropriate. However, given what is happening currently in the auto industry, we have chosen to use a 5.00x multiple for 2009 and 2010 as being the most appropriate.
- At the EBITDA/Price multiple of 5.00x, we arrive at a stock price of \$0.21 over the next 12 months.
- At the EBITDA/Price multiple of 7.50x, we arrive at a stock price of \$0.31 over the next 12 months.

### 4. Summary

<b>Range:</b>	<u>12 mths</u>	<u>24 mths</u>
P/BV = 1.00x	\$0.37	\$0.38
P/BV = 1.50x	\$0.55	\$0.56
Price/EBITDA = 5.00x	\$0.21	\$0.22
Price/EBITDA = 7.50x	\$0.31	\$0.33
Revenue/MK Cap = 1.00x	\$0.20	\$0.21
Revenue/MK Cap = 2.00x	\$0.39	\$0.41

### 5. Conclusion

Based on our valuation approaches, and assuming that GM remains in business in Canada, our estimate of the intrinsic value for Quorum over the next 12 months ranges between \$0.20 to \$0.37 per share. Provided there is no major loss in customer dealerships, and the auto industry recovers, the 24-month range is \$0.33-\$0.56.

## Management and Directors

### **Maury Marks - President & CEO; Director & Officer**

Maury Marks has over 15 years' experience in the automotive retail technology industry. He is one of the original founders of Quorum. Mr. Marks received his Chartered Accountant designation in 1991 while at Deloitte and Touche where he worked with many different companies involving technology implementation and system supports. Mr. Marks left Deloitte and Touche in 1992 and began his own practice of technology consulting for small businesses. Shortly afterwards, his family's auto business asked him to find a new dealer management system for their dealership. Mr. Marks and his partners founded Quorum in 1996. Since that time, he has focused the Company on the development of its flagship XSELLERATOR™ DMS software.

### **Larry W. Shelley - Chairman of the Board**

Larry Shelley is President of SRG Capital Ltd, a private venture capital firm, and Executive Chairman of Subway Developments 2000 Ltd. He is a director of Birch Mountain Resources Ltd, Gemini Corporation, and Golder Associates Ltd.

### **Mark Allen – Vice President, Sales, Marketing and Services**

Mark Allen has over 20 years' experience within the automotive and information technology industries. He has direct dealership experience, and has held executive positions at companies such as General Motors and Electronic Data Systems (EDS), including its Automotive Retail Group.

### **John Carmichael - Director**

John Carmichael is the Dealer Principal of City Buick Pontiac Cadillac in Toronto, Ontario. With a staff of over 130, City is one of Canada's largest Buick Pontiac Cadillac dealerships. Mr. Carmichael has been involved at the most senior level on many projects with General Motors, and is a past Chairman of the Canadian Automobile Dealers' Association (CADA).

### **Michael Croxon - Director**

Michael Croxon is the majority shareholder and president of North York Chevrolet Oldsmobile in Thornhill, Richmond Hill Pontiac Buick GMC in Richmond Hill, and Open Road BMW and Kia of Newmarket, Ontario. He is also a partner in North York Chrysler Dodge Jeep and a partner in Walkaway Canada, a company providing negative equity insurance to vehicle buyers.

### **Kenneth R. McKinnon - Director**

Mr. McKinnon has served as a Director for Quorum since February 2007. He is also Vice President, Legal and General Counsel for Critical Mass Inc., an interactive services firm headquartered in Calgary, Alberta. He is a Director and Member of the Audit Committee of both Petrobank Energy and Resources Ltd. and Petrominerales Ltd., and Chairman of the Compensation Committees of both companies. He is also a Director and member of the Audit Committee at Savaria Corporation.

## ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that:

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- (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

### **eResearch analysts on this report:**

**Eric Eng, BA (Acct., Econ.), MBA** Eric Eng worked at DBRS as a Analyst/Vice President for 10 years. He obtained a BA in Accounting and Economics and a MBA in Finance at the University of Toronto. He joined eResearch in January 2008.

**Bob Weir, B. Comm, B.Sc., CFA** Bob Weir has 42 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

## **eRESEARCH ANALYST GROUP**

**Managing Director, Research Services: Bob Weir, CFA**

### **Financial Services**

Robin Cornwell

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Scott Davidson

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Bill Campbell

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<b>Strong Buy:</b>	Expected total return within the next 12 months is at least 40%.
<b>Buy:</b>	Expected total return within the next 12 months is between 10% and 40%.
<b>Speculative Buy:</b>	Expected total return within the next 12 months is substantial, but Risk is High (see below).
<b>Hold:</b>	Expected total return within the next 12 months is between 0% and 10%.
<b>Sell:</b>	Expected total return within the next 12 months is negative.

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<b>Medium Risk:</b>	<p><i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.</p> <p><i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.</p>
<b>Low Risk:</b>	<p><i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.</p> <p><i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.</p>

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