

QUORUM INFORMATION TECHNOLOGIES INC.

(QIS: TSX-V)

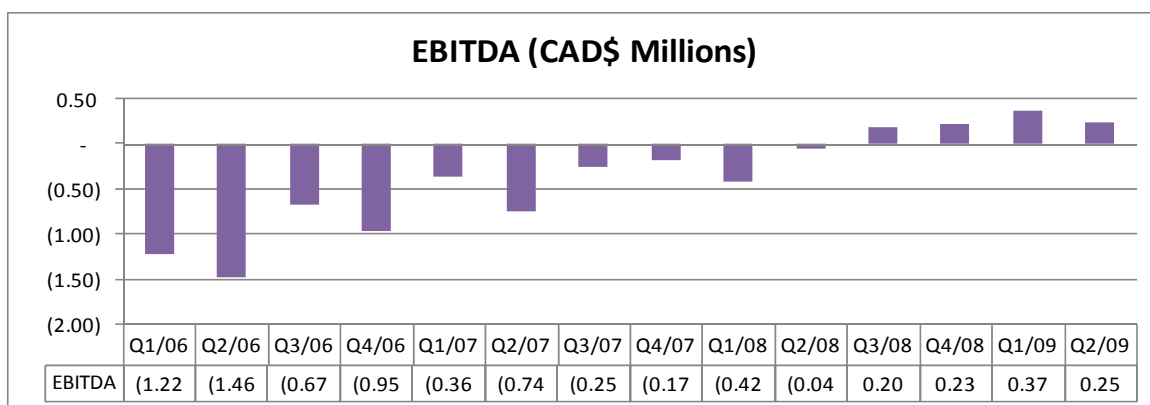
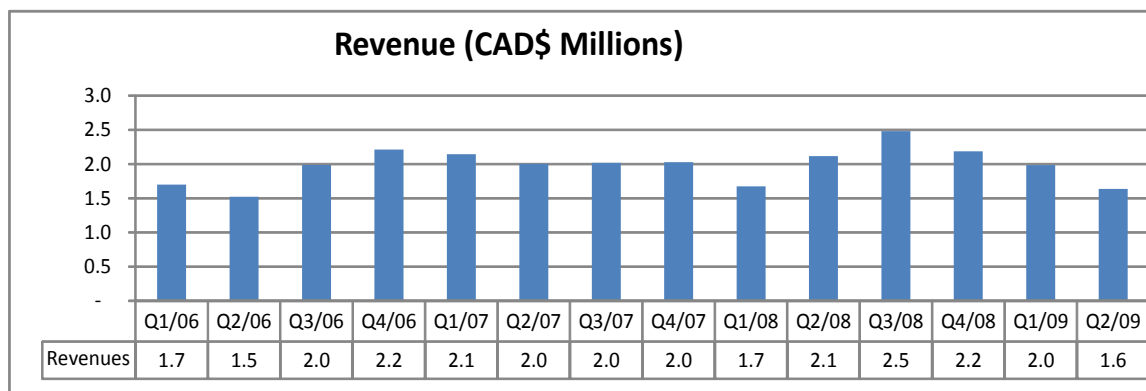
Last Trade: \$0.12

Current Bid-Ask: \$0.12-\$0.22

52-Week Range: \$0.36-\$0.01

SECOND-QUARTER RESULTS

Quorum Information Technologies Inc. reported financial and operating results for the second quarter of 2009. Shown on the charts below are the Company's revenue and EBITDA trends since 2006.





ANALYSIS

Revenue declined to \$1.64 million for Q2/09 (ended June 30), compared with \$2.12 million for the same quarter a year earlier. The decline reflects the following:

- A substantial (80%) reduction in revenues from Net New and Migrations and the Integration business, due to the ongoing difficulties and uncertainties among dealerships regarding the future of General Motors (GM) and Chrysler. In Q2/09, the Company only generated \$131,759 in revenue from Net New and Migration and \$44,094 from the Installation business. There was one new dealership being installed in the quarter, compared with ten in the quarter a year earlier.
- However, recurring revenues from Support and Other still showed a strong performance, reflecting a larger customer base (244 compared to 213).
- The Company's revenue composition is shown in the following table:

Revenues by Products (CAD\$)	Q1-2008		Q1-2009		Q2-2008		Q2-2009		<u>6 months</u>	<u>6 months</u>
	Jun. 2008	Jun. 2009	Jun. 2008	Jun. 2009	Jun. 2008	Jun. 2009	Jun. 2008	Jun. 2009	Jun. 2008	Jun. 2009
Support and Other	1,266,387	1,460,241	1,208,915	1,460,510	2,430,363	2,920,751				
Net New and Migrations	287,919	284,270	684,345	131,759	972,264	416,029				
Integration	118,577	151,841	223,711	44,094	387,227	195,935				
Total	1,672,883	1,896,352	2,116,971	1,636,363	3,789,854	3,532,715				

- Although the dealership sector remains weak as GM and Chrysler reduced the number of dealerships significantly, the uncertainty surrounding the viability of these companies has also been reduced as both have gone through a restructuring process. We do not expect cuts in dealerships beyond the number that has already been announced.
- GM notified 42% of its dealerships across the U.S. and Canada that their franchises would not be renewed; 23% of Quorum's GM dealership customers received such notification. The Company expects to have a customer base reduction by 10%, spreading over a period until the end of 2010.
- As a result, we expect a further decline in recurring revenues over the next 18 months. However, the degree of the decline will depend on how fast the Company can generate new business.
- We believe that the decline will be moderate, since the Company can leverage its XSELLERATOR™, the most advanced product in the automotive DNS field, to attract new customers. The Company is in a good position to expand its customer base in a 4,000-dealership (still a high number) market in North America.

Despite the decline in revenue in Q2/09, EBITDA remained positive for a third consecutive quarter, reflecting the following:

- Improved efficiency has been realized as a result of ongoing efforts to reduce overlaps to improve effectiveness.



- Lower operating costs (a 28% reduction in salaries compared to the quarter a year earlier) as the Company reduced staff to be in line with lower activities.
- As a result, we would expect the decline in EBITDA to be less than the decrease in revenues over the next 18 months.
- The Company incurs significant costs associated with maintaining GM contracts and a Microsoft strategic relationship. The Company has high fixed costs that require a large number of installed dealerships to cover. Going forward, Quorum expects to have 95% of fixed costs covered with recurring revenues from Support and Integration Services.

Overall, despite the difficulty and uncertainty in the last quarter, we are satisfied that the Company's financial results have shown strong resilience. The decline was somewhat below what the market had expected. Profitability over the next 18 months, although lower, should remain at the breakeven level (assuming a 10% decline in revenues and a 10% reduction in operating costs).

RECOMMENDATION

For the above reasons, we continue to recommend Quorum shares as a Buy, without having a Target Price (for the reasons we set out in our March 9, 2009 Initiating Report, available at www.eresearch.ca). The shares are, however, thinly traded and are subject to wide bid/ask prices. As we went to press, the stock's bid/ask prices were \$0.12 bid (bid size 3,000 shares) and \$0.22 ask (ask size 3,500 shares). During the month of August, the shares escalated from \$0.07 to a high of \$0.24, which was the last price before the 2,500-share last trade of \$0.12. The stock's thin liquidity will often lead to wide share price swings. We expect future trading to return to the plus-20-cent level.

THE COMPANY

Quorum Information Technologies Inc. develops, markets, implements and supports its software product XSELLERATOR™, a dealership management system for the automotive retail market. The Company's customers include General Motors, Chrysler and Hyundai dealerships in North America.

RATINGS HISTORY

<u>Date</u>	<u>Report Type</u>	<u>Recommendation</u>	<u>Stock Price</u>	<u>Target Price</u>
Mar. 9, 2009	Initiating	Speculative Buy	\$0.05	None
May 22, 2009	Bulletin	No Change	\$0.05	None
Sept. 4, 2009	Perspective	No Change	\$0.12	None

High-Low Since Initiating: \$0.24-\$0.025

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