



O C T A G O N

INVESTMENT RESEARCH

EZE - TSE: \$3.35

TARGET: \$6.25

**EZENET CORP.****RECOMMENDATION: BUY****THE NEXT GENERATION OF BANKING  
SOFTWARE***Investment Highlights*

- Ezenet provides software that runs banks and other financial institutions, with modules for processing deposits, mortgages, loans, bonds, RRSPs, RRIFs, LIFs, RESPs, and equities.
- The Company provides most of its software as an ASP in its own secure data centres, leading to a significant proportion of recurring revenue.
- The recent acquisitions of Wealth Management Systems Inc. (WMSI) and netSTOR Technologies Inc., provide Ezenet with a next generation platform for its banking systems, as well as an integrated platform for Internet and wireless banking.
- While the Canadian market should provide Ezenet with room for substantial growth, the U.S. market is key to accelerated revenues and earnings. The U.S. has many large entrenched competitors, and the Company has its work cut out cracking that market.
- We believe Ezenet's real-time processing, customer-centric wealth management focus, and integrated wireless and Internet offering, will help it achieve some U.S. success in 2001, with penetration accelerating in 2002.
- The Company's \$42 million cash horde puts it in an excellent position to be a near-term consolidator, but we believe, in the long term, Ezenet may itself get taken out by one of the large U.S. players.
- Ezenet's comparable group trades at 5.0x the current year's estimated sales. **Our 12-month target of \$6.25** is based on 4.0x our estimated 2001 sales, and the \$2.57 per share in cash the Company currently has. We believe there is upside in the target if management makes a key acquisition that would make Ezenet more appealing as an acquisition target for a U.S. buyer. **We rate Ezenet a BUY.**

Basic Information							
Sh. O/S Basic / FD (mln)	15.7 / 16.7		Mkt. Cap. (mln)	\$52.7			
Float (mln sh.)	8.8		52 Week Hi/Lo	\$39.45 / \$2.70			
Avg. Daily Vol. (sh.)	35,187		Cash / Share (FD)	\$2.57			
Estimates (Y/E Dec.)				Valuation			
	99	00E	01E		99	00E	01E
Revenues (\$mln)	\$3.21	\$11.60	\$17.56	P/Sales	16.4	4.5	3.0
EPS (FD)	\$0.04	(\$0.01)	\$0.00	P/E	NM	NM	NM

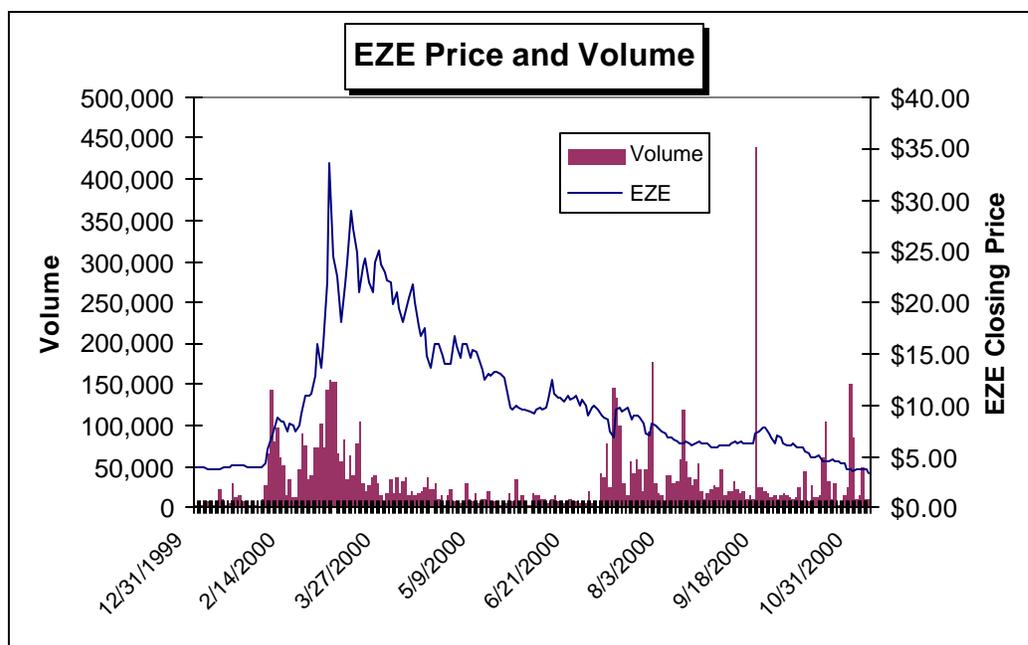
Note: Revenue for 00E is run rate assuming WMSI consolidated for full year

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OCTAGON

<b>Ezenet Corp.</b>			<b>Summary Information</b>					
<b>Market Profile</b>			<b>Income Statement</b>					
Closing Price		\$3.35	1998	1999	2000E	2001E	2002E	
Exchange		TSE	Sales	\$2.3	\$3.2	\$6.5	\$15.3	\$28.8
Average Daily Volume		35,187	EBITDA	\$0.6	\$0.9	\$1.5	\$3.1	\$6.2
Shares O/S	Basic	15.7M	Net Earnings	\$0.3	\$0.3	(\$0.1)	\$0.0	\$1.4
	F.D.	16.7M	<b>Cash Flow / Sh.</b>	<b>\$0.16</b>	<b>\$0.10</b>	<b>\$0.08</b>	<b>\$0.16</b>	<b>\$0.28</b>
Float		8.8M	<b>EPS (FD)</b>	<b>\$0.09</b>	<b>\$0.04</b>	<b>(\$0.01)</b>	<b>\$0.00</b>	<b>\$0.09</b>
Yield		0%	<b>Balance Sheet</b>					
Market Cap		\$52.7M	Cash and Mkt. Sec.	\$0.1	\$0.2	\$42.2	\$42.5	\$43.4
FD Market Cap		\$56.0M	Current Assets	\$0.3	\$0.5	\$43.6	\$43.4	\$43.8
Float Cap		\$29.5M	<b>Total Assets</b>	<b>\$1.2</b>	<b>\$2.4</b>	<b>\$53.5</b>	<b>\$53.4</b>	<b>\$54.6</b>
<b>Major Shareholders</b>			ST & LT Debt	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
	Haron Ezer	21.6%	Total Liabilities	\$0.3	\$0.5	\$0.7	\$0.6	\$0.4
	Kasra Meshkin	6.2%	Retained Earnings	\$0.4	\$0.6	\$0.5	\$0.5	\$1.9
	Gord Ramer	9.7%	<b>Book Value</b>	<b>\$0.42</b>	<b>\$0.36</b>	<b>\$3.33</b>	<b>\$3.33</b>	<b>\$3.43</b>
	Jay Cashmore	3.2%	<b>Ratio Analysis</b>					
			Cash / Share	\$0.03	\$0.03	\$2.68	\$2.70	\$2.76
			EBITDA Margin	26%	29%	23%	21%	21%
			Debt / Equity	0.0	0.0	0.0	0.0	0.0

All figures in \$millions except per share



\*\* In March 2000, Octagon Capital Corporation acted as lead underwriter in a \$50.0 million Offering of Special Warrants for Ezenet Corp.

## COMPANY OVERVIEW

### History

The Company was founded by Haron Ezer in 1978 as Ezer and Associates, to supply outsourced processing of mortgages to small financial institutions (FIs) in Canada. In 1984, the Company expanded into real-time data processing and GIC management, eventually offering a full range of bank processing services for numerous financial instruments. Its client base expanded to include all types of financial institutions. The Company went public in October 1998 on the Alberta Exchange, and changed its name to Ezenet Corp. in March 1999. Ezenet moved to the TSE in July 2000.

In March 2000, Ezenet raised \$50 million in a special warrant offering, the largest ever on the CDNX. The Company acquired netSTOR technologies in April 2000, and Wealth Management Systems Inc. (WMSI) in August 2000.

### Products and Services

#### *Overview*

Ezenet began offering outsourced processing for mortgages in 1978, with proprietary systems developed by Haron Ezer. The processing was delivered on an outsourced, service bureau (ASP) basis, with Ezer and Associates maintaining its own data centres. Through the 1980's, the functionality of the system grew to include all banking and mortgage functions. Ezer and Associates built a "bank in a box" concept, offering small FIs everything they needed in terms of processing, including: general ledger, deposit systems (chequing, savings), loans, mortgages, leases, assets (GICs, RRSPs, RIFs etc.), and reporting systems. Tellers interfaced with the system via a dumb terminal, or later, through PCs acting as dumb terminals.

In 1984, Mr. Ezer rewrote the systems for WICAT, an early multi-user platform. In 1994, the system was further upgraded to run on Unix using a more modern database back-end. However, as banking moved forward in the 1990s, customers demanded greater functionality and access to their money, including phone, online, and ultimately Internet banking. At the same time, banks struggled to offer more products and services to their customers, and to better manage their customer relationships. What was needed was a system with a new approach to overall management of customers' wealth, which could handle the complex environment of 24x7 access. Enter WMSI.

#### *WMSI - A Platform for the Next Generation*

Ezenet acquired Wealth Management Systems Inc. (WMSI) in August 2000 for \$5 million in cash and 505,000 Ezenet shares valued at \$3.8 million. If performance targets are met, this can increase by as much as \$1 million in cash and another 138,000 shares.

WMSI, at its inception, was more about wealth management product processing (RRSPs, RRIFs, LIFs, RESPs, etc.) than complete banking systems, however, its technology has most

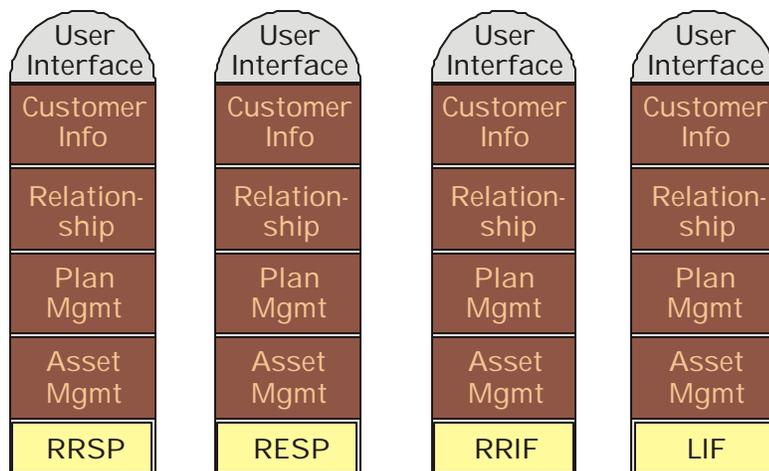
of the components to run a sophisticated banking system, and could easily be extended to complete the banking software offering.

The WMSI acquisition brought many things to Ezenet, including advanced technology, a top-notch customer list and an experienced management team. WMSI was founded by Jay Cashmore in 1998, after an extensive career in software systems for financial institutions. In 1992, Mr. Cashmore joined Footprint Software, a provider of processing systems to many large FIs in Canada and around the world. Footprint was purchased by IBM in 1995, and Mr. Cashmore stayed on with the company for two years. When IBM lost interest in pursuing the market, Mr. Cashmore licensed the crown jewel of the technology, the CORE system, back from IBM and formed WMSI. Today, WMSI systems administer over \$32 billion of client assets in over 500,00 accounts. IBM receives a royalty of 7% of sales on some of the CORE components.

**The CORE System - Breaking Down the Silos**

In order to understand the CORE architecture, it helps to understand the development of traditional banking systems for the large FIs. Banking systems have evolved over many years, and most were built by large systems consultants and integrators such as IBM and EDS, running primarily on mainframe systems. The systems are largely monolithic and hard to scale. Furthermore, each time a new product was developed by the bank for its customers, a new system would be built to handle the product. The result was a bunch of “silo” systems, which did not communicate very well with each other. Each silo had its own customer information, systems for taking and distributing funds, systems for administering the business and regulatory logic of the product, and reporting systems. Some banks have as many as 27 different investment systems, with multiple systems even within products (e.g. separate RRSP systems for holding GICs and mutual funds).

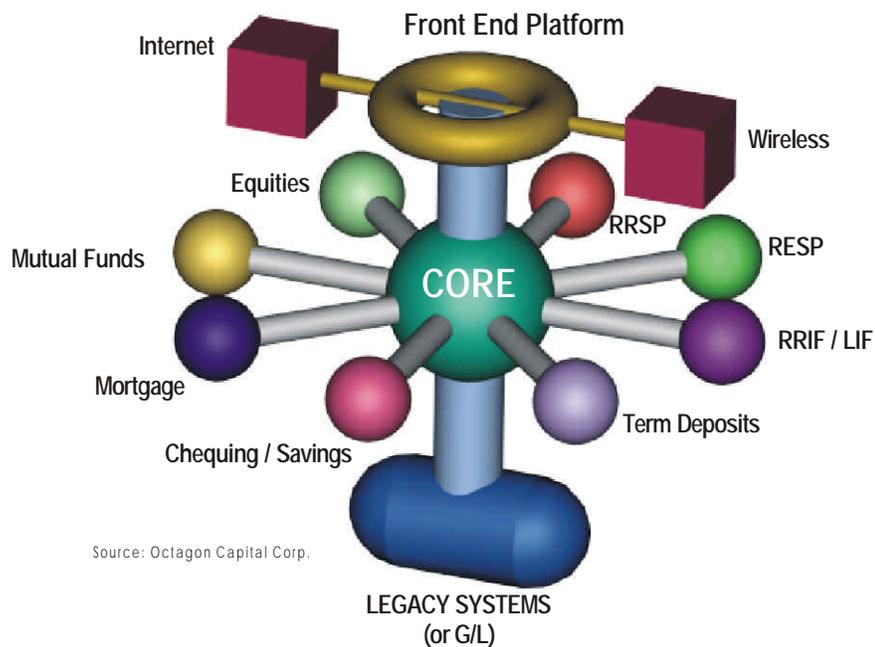
**Existing Silo Systems**



From a customer's point of view, it is often very hard to imagine why customer information has to continually be re-keyed for each system, customer service people have a hard time finding information from one system when they are working in another, and movement of funds between systems can be a nightmare, involving many pieces of paper. Yet, that's the way banking is today.

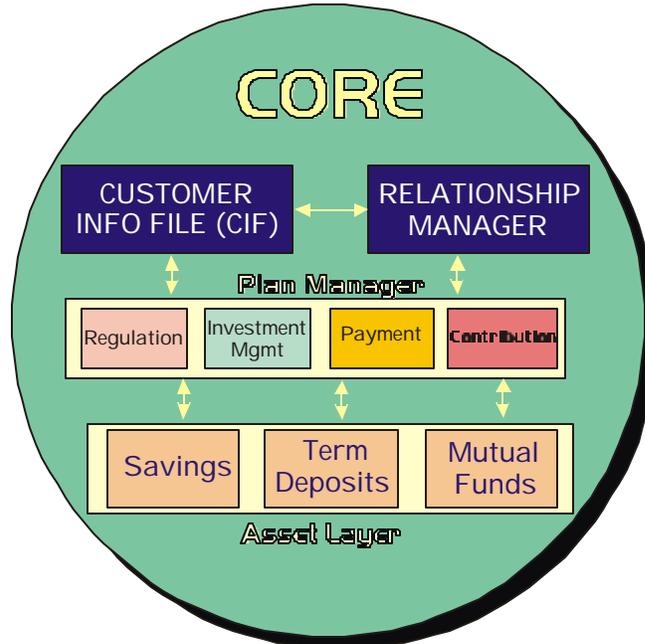
At the time of its development, the CORE system represented a dramatic shift in viewpoint, and a technological breakthrough compared with existing bank systems. Each product (e.g., mortgages, RRSPs, equities, RIFs, loans, deposits) is a module that interfaces to the heart of CORE. Even the general ledger (G/L) system can be a module, although to date, the CORE system has interfaced with general ledgers of the banks' legacy systems. In the future, Ezenet will either build a G/L or buy one of the many available on the market. Front-end interfaces for tellers and financial professionals, or even for customers via Internet, phone, or wireless, can also connect to the core.

## CORE ARCHITECTURE



The heart of the CORE system is modular inside as well. The core contains the relationship manager, a plan management layer, and the asset layer. What WMSI realized in designing the system is that most asset plans have the same requirements: regulation, payment processing (getting money out), contribution (getting money in), and investment management (the rules about what happens and when, what types of assets are held etc.). Furthermore, in the WMSI

system, any plan managed in the Plan Management layer can hold any assets. For example, an RRSP could hold cash, term deposits, and other assets, with no need for separate systems. This also makes moving the assets around within a plan very simple, without having to cash and redeposit the funds in a separate system. New product development is also made easier, as all the modules except regulation can be reused.



Source: Octagon Capital Corporation

The Relationship Manager manages the relationships between all of the people involved with a customer's accounts, including possibly non-customers. For example, if a grandparent was contributing regularly to an RESP fund for his grandson, and the father was managing the account, the Customer Information File (CIF) would have information on all three people, and the relationship manager would map the relationships between them. Ezenet plans to add further customer relationship management (CRM) and financial planning abilities to enable banks to use this information proactively to sell more products.

The CORE system is built with a modern client / server architecture, using C++ and JAVA, with a DB2 database engine. It is entirely object oriented, meaning that the function of each module is entirely encapsulated, making it possible to interface more easily to the bank's legacy systems, especially across networks. In fact, there is no limit to how many physical systems the CORE system could be run on. In many banking installations, the CIF will reside on a legacy system as well.

One of the most important features of the CORE system is its real-time updating. Most banking systems run in batch / memo-post mode, meaning transactions are not really processed through the whole system in real time, but rather at the end of the day in batch mode. "Memo-post" refers to a limited transaction information file that tries to keep the

system aware of transactions happening during the day. It is because of memo post that, for example, an ATM can display what appears to be an updated balance immediately after a transaction, yet that information is likely not available to some of the other systems in the FI until that night.

With the CORE system, all transactions can be processed straight through the system in real time. Because of its architecture, the system is completely scalable to handle even very high volumes of transactions in real-time.

### ***Product Development***

Ezenet is in the process of integrating the CORE system and its legacy products. The product strategy involves building out the CORE system so it has complete functionality to run a bank end-to-end. The CORE system today offers the following modules: Savings, RESP, RRIF/LIF, RRSP/LIRA and Mutual Funds, and Term Deposits. The mortgage origination, processing and syndication system (Mortgage Manager and MBS) and loan origination system (Underwriter) are presently stand-alone systems, as is the bond system (EasyBond). These modules are being integrated into the CORE system as well.

To become a complete banking system, a chequing module, and general ledger must be added. These should be relatively straight forward, as the legacy Ezenet system already has these modules. Additionally, the Company plans to add a front end for financial professionals.

The CORE system must also be made compliant with U.S. federal and state regulations, and must be modified for processing differences in the U.S. as well (e.g. the U.S. uses a 360 day year to compute interest). The Company expects to have the initial system ready for the U.S. in approximately 3 months, with approval for the additional modules to be sought as they become ready. The approval process by the FDIC and state banking associations usually takes between 30 and 60 days.

### ***netSTOR - Fast Track to Internet and Wireless***

In April 2000, Ezenet acquired netSTOR Technologies Inc. for 50,000 Ezenet shares, and its founder, Marc Nicholas was appointed CTO of Ezenet. Mr. Nicholas has vast experience in network and server architecture, having founded one of the first ISPs in the United Kingdom. After a stint running his own Internet systems consulting firm, Mr. Nicholas founded netSTOR to develop network appliances, which are server devices that are highly specific for running Internet applications in an extremely efficient way.

Typical servers are equipped with much functionality that is not necessary for running the single application that they will be used for, say serving data, or handling wireless transmission. By stripping out all of the unnecessary hardware, and software, the resulting machine is much less expensive, and uses less space and energy (important for data centres). Companies such as Network Appliances (NTAP:NASDAQ) and Cobalt Networks

(COBT:NASDAQ) have created large successful businesses in this segment. netSTOR took the Linux operating system (no license fees to pay), modified it to strip out unnecessary code (e.g. keyboard controls, video drivers etc.) which were not integral to functioning strictly as a single use server, and made the operating system more secure and robust (fault tolerant, supports redundancy etc.).

Taken together, these features made up the ideal server for running Internet based financial services applications, especially wireless applications, and **provided Ezenet with a platform to quickly develop Internet and wireless front ends to its banking system.**

Ezenet launched its first wireless application, a GIC rate quotation system for Home Capital, in August 2000. Although the functionality of this particular application is limited, the system infrastructure and application platform is capable of handling a much larger array of functions. The Company plans to offer its Internet front end by the beginning of 2001.

Although there are many vendors of Internet banking systems, Ezenet believes its wireless offering is the only solution targeted at smaller FIs, and is the only wireless platform “in-a-box”. Furthermore, the platform can be integrated with other vendors’ core systems.

### ***One-Account Capability***

The notion of a single account is simple, yet powerful. Many people have chequing and savings accounts, overdraft protection, a line of credit, and possibly a personal loan. The “one-account” consolidates all of these into a single account where different fees, rates, and privileges are in place depending on the circumstances, and all balances offset each other. For example, if the cash balance is large and positive, the customer gets GIC rates on the balance and free chequing etc. As the balance falls, the rates change, and fees begin at a certain minimum level. When the balance is negative, the account acts as a loan.

The benefit to the FI is a lower cost to process and maintain accounts. The customer benefits through lower fees and a better understanding of his overall position. For example, if the customer previously had a loan for \$5,000 and \$1,000 in a no-interest chequing account, under the one-account system, they would only pay interest on the net balance of \$4,000.

Because of its customer centric view and single database, the Ezenet / WMSI system can easily implement a one-account product, and the Company anticipates this will be a significant selling feature in the future.

### ***Application Service Provider (ASP) Services***

Ezenet has substantial experience and a solid reputation for offering its systems on an ASP basis. It has been doing this since long before anyone ever coined the term ASP (back then it was called a service bureau). Ezenet runs all of its applications in its own data centre connected to its customers via a private network connection. Its private network runs 24x7, with full redundancy and security.

All of Ezenet's customers, and about 30% of WMSI's, run under the ASP model. One reason for the difference in ASP usage is the tendency of WMSI's larger FI customers to integrate its modules with their legacy systems, as well as the availability of in-house technical staff. WMSI will be moving its data centre to Ezenet's, which should increase the efficiency and reduce the cost of operation. For the U.S., Ezenet will establish a data centre in its North Carolina office, to comply with federal regulations of having data centres that can be audited within the U.S.

### *Instabase*

In 1998, Ezenet developed a database program for the Internet called Instabase. Instabase received positive reviews from trade publications in 1999, but it never achieved any significant revenues. We believe management will at some point either sell the product or write off the investment in it (approximately \$1 million), in order to focus on developing its core business.

## Market Strategy

### *Canada – Building the Base*

Both Ezenet and WMSI have, to date, done all of their business in Canada, with Ezenet primarily targeting small institutions (with some piecemeal penetration of larger FIs) and WMSI primarily targeting the large FIs. The tables below show a list of the respective customers of each prior to the acquisition. Together the list comprises every Schedule 1 bank in Canada.

Pre- Acquisition Ezenet CUSTOMERS	
<b>Trusts</b>	<b>Insurance</b>
AGF Trust Company	RBC Insurance Inc.
Maple Trust Company	IOF Foresters
First National Financial	
Home Trust	<b>Fund Management</b>
Effort Trust Company	Bank of Montreal Capital
Peoples Trust	
M.R.S. Trust Company	<b>Other</b>
Promutuel Capital	Household Financial
	Amresco
<b>Brokerage</b>	Newcourt Credit Group
Merrill Lynch Canada	
<b>Mortgage</b>	
First Marathon Mortgage Corp.	

Pre- Acquisition - WMSI CUSTOMERS	
<b>Large Banks</b>	<b>Insurance</b>
Toronto Dominion Bank	Canada Life Assurance
CIBC	Cooperators
Bank of Montreal	NN Life Insurance Company
Canada Trust	London Life Insurance
Bank of Nova Scotia	
National Bank Financial	<b>Fund Management</b>
HSBC Bank Canada	Alberta Treasury Branch
Royal Bank	Alberta Municipal Affairs
Laurentian Bank	Ontario Municipal Employees
	Penmor Investment Services
<b>Brokerage</b>	<b>Trusts / Credit Unions</b>
Dundee Securities Corporation	Canadian Western Trust
Canadian Mortgage Capital Corp.	Sherwood Credit Union
TD Waterhouse	Acadia Financial Services
Levesque Beaubien	Credit Union Central of Ontario
TD Evergreen	Landmark Credit
Merrill Lynch Canada	
PBN	
<b>Mortgage</b>	<b>Other</b>
PAFCO Mortgage Company	Adera Construction
Gibraltar Mortgage Ltd.	
Scotia Mortgage Corp.	

WMSI has tended to sell only a module or two (typically RRIF/LIF) to the large banks and insurance companies which were then tied to the bank's legacy systems. The brokerages mostly have the RESP and RRIF modules. Trusts and credit unions have tended to purchase multiple modules including savings, bonds, RRIF/LIF, and RESPs. Mortgage companies and some fund management companies have purchased the mortgage system.

The Company plans to begin exploring cross-selling between its customer bases. However, given its product strategy of going forward with the CORE system, the cross-selling will most likely be opportunistic. For example, a small trust customer of the Ezenet system has a mutual fund parent company that is now looking at purchasing the CORE system and RESP module.

Once the CORE system is enhanced with some of the functionality in the Ezenet system (for example, consumer mortgages and a broader loan offering), there may be some opportunity in up-selling existing WMSI customer's with additional functionality.

Ezenet's existing small trust customers must eventually be migrated to the CORE system. There is some upside, in that migrating makes it easier to add Internet and wireless functionality to their systems. As well, some customers may pay more for the CORE system as it typically requires less manual processing outside the system.

The Company uses a direct sales force, which currently consists of 3 people led by Jay Cashmore. Ezenet is also currently in discussions to establish a partnership channel strategy with IBM, Andersen Consulting, and PricewaterhouseCoopers, although the nature of the relationships has yet to be finalized. Ezenet has a long established history with IBM through WMSI, as Jay Cashmore's previous company, Footprint, was bought by IBM, and parts of the CORE system are still owned by IBM and licensed by Ezenet.

In Canada, due to the relative dominance of the large banks, and to the relatively small number of trusts (most of which are already Ezenet customers), the focus will be on increasing the penetration of the CORE system at the banks, as well as on increasing penetration with other non-bank financial institutions.

### ***U.S. – Big Opportunity, Heavy Lifting Required***

The Company's U.S. strategy is to target the community banks and trusts, savings and loans, thrifts and credit unions. Community banks tend to be owned by a small number of shareholders, and comprise between one and five branches.

Community banking is very much about relationships, and Ezenet's strategy is to parlay its sales people's relationships in the banking community into sales. Community banks all belong to state banking organizations, which act as lobby groups, educational resources, and providers of various services. The state associations also maintain vendor referral services,

which they run on a for-profit basis (usually a 1.5 – 2% referral fee). It is through these associations that Ezenet intends to introduce its products to the U.S. market. The Company will also hold seminars on topics of interest, including Internet and wireless banking, and attend annual trade shows put on by the banking associations. To date, the Company has spoken with four of the state banking associations (where they plan to open offices) that are interested in introducing Ezenet's products into the market.

The selling cycle in the community bank market is approximately 6 months. Most of the banks already have an existing system which is probably not more than a few years old, although there are still a few on much older systems including some very unsophisticated proprietary systems.

With over 10,000 small banks, and an average contract length of about 4 years, there are numerous accounts available for the taking in any given year. However, attrition rates have historically been low. Jack Henry and Associates, a competitor, reported a 5% attrition rate in 1999, 4% of which it attributed to consolidation in the community banking industry. Ezenet management believes that the low attrition rates stem largely from a lack of better alternatives. Developing industry trends (see Industry Overview below), as well as the entrance of a competitor with superior systems, could provide compelling reasons to switch.

Ezenet opened its first office in Research Triangle, NC. The Company plans to open offices in Los Angeles and Chicago during the latter part of 2001. Jeffrey Coyne heads the development of the U.S. market. Mr. Coyne is a lawyer who has acted for the FDIC as well as for over 100 domestic and international banks. He has run a number of companies and has built sales forces across the country.

## **Management**

### ***Haron Ezer - Chairman***

Haron Ezer founded Ezenet Corp. in 1978, and serves as Chairman of the Company. Mr. Ezer implemented Ezenet's first mortgage portfolio management program in 1978 and has modeled, designed and developed all of Ezenet's subsequent financial system software (prior to WMSI). He has considerable expertise in computer communications and financial services security, and continues to offer guidance on the design of financial systems applications.

### ***Kasra Meshkin – President and CEO***

Mr. Meshkin joined Ezenet in 1990 and served as Vice President of Research and Development from 1993-1999. He has designed and implemented the technology foundation on which many of Ezenet's applications currently operate. He has expertise in software development for the telecommunications industry, advanced Internet applications and security.

***Marc Nicholas - Chief Technology Officer***

Marc Nicholas joined Ezenet in May 2000 and serves as Chief Technology Officer. Prior to Ezenet, Mr. Nicholas was founder and President of netSTOR Technologies, a Toronto-based developer of network server appliances, and President of Hippocampus OSD Inc., a telecommunications consultancy group. With a background in telecommunications consultancy with companies such as Bell, FONOROLA, Sprint Canada and Telesystem International Wireless, he has expertise in numerous IT and wireless platforms.

***Gary Guthro C.A. - Chief Financial Officer***

Gary Guthro joined Ezenet in May 2000 and serves as Chief Financial Officer. Prior to Ezenet, he served as Vice President, Finance at Home Capital Group (HCG.B:TSE). He has also held managerial positions at Philips Services Inc. and Peat Marwick Thorne. Mr. Guthro holds a Bachelor of Commerce from MacMaster University.

***Jay Cashmore – President, Canadian Operations***

Jay has more than 30 years of experience in the financial services industry, including two years as President of WMSI and five years as President of FootPrint Software. Prior to FootPrint, Mr. Cashmore spent 13 years at IBM Canada, in various roles including systems development and engineering as well as 13 years at Canada System Group (now ISM) as Vice President of Financial Services and Systems Integration.

***Jeffrey C. Coyne - President, U.S. Operations***

Jeffrey Coyne joined Ezenet's board of directors in January 2000 and assumed the role of President, U.S. Operations in April 2000. He has expertise in U.S. banking and regulatory requirements. Mr. Coyne is a senior lecturing fellow at Duke University School of Law and serves as Chairman of the Board of Value-net International. He holds a Juris Doctor degree from Duke University School of Law.

## INDUSTRY OVERVIEW

### Shifting Sands – The Banking Revolution

There are a number of factors in the banking industry that are coming together to dramatically change the landscape for providers of software and systems. Deregulation and consolidation, the passing of Y2K, a shortage of skilled IT professionals, the rise of Internet and wireless banking, and a new focus on getting more out of the customer relationship, are wreaking havoc on the business, and opening up opportunities for “new” players like Ezenet.

### *Outsourcing – The Cream Rises to the Top... then Leaves*

The continued trend toward outsourcing is partially caused by the inability of banks to retain qualified technical personnel. After all, what hot techie wants to work at a bank, when a dot-com IPO with options is waiting around the corner? As well, banks are facing increased competition, meaning they can no longer afford the time to develop in-house systems, nor spend resources on the effort. According to IDC, the average development project is 35 days late at financial institutions due to lack of skilled IT people. Many banks are deciding to leave IT to the professionals, and focus on their core competencies: customer retention, cross-selling / up-selling opportunities, and product development.

Furthermore, the ASP model of delivering software as a service, without the headaches of managing systems installation and upgrades, is gaining in popularity. According to IDC, approximately 53% of FIs said they would consider using an ASP, and information systems' outsourcing in banking is growing at a CAGR of 13%.

### *Y2K – Over and Out*

Many companies, banks included, put off spending on drastically needed system upgrades in 1999 and channelled all available resources to address Y2K. It's over, and the big system spending has ramped up again.

### *Wealth Management - Putting the Customer at the Centre*

Traditional systems for large banks were home grown, or contracted out to systems developers such as EDS. These systems were mainframe based and very inflexible. Virtually every time a bank created a new product, it developed a system to house it, resulting in “silo” systems that didn't speak to each other very easily. Customers routinely question why a bank can't do some seemingly simple things, like tell if a credit card payment cleared or look at balances in various accounts or asset values, without jumping through scores of screens and systems.

The concept of wealth management is changing the way banks think about their customers, and what they can do with their systems. Wealth management focuses on the person, rather than the account. A person might be a current customer, or simply related to a customer in

some way, such as a beneficiary of a plan, or the spouse or child of an account holder etc. In theory, a wealth management system can easily allow customer service people and professionals to get a complete picture of all the accounts and products a person has with the institution, as well as all of the people related to the account holder or the product.

The leading edge of wealth management involves grafting on CRM (customer relationship management) capabilities to the basic banking system. With CRM systems, FIs can store and track all types of information about customers, including age, birth date, family members, hobbies, etc., and use this information proactively to sell to customers. For example, if a customer is approaching a particular birthday, the system can offer appropriate new products, or the ability to transfer money between products. The better CRM systems allow tracking all customer contacts, regardless of the channel. For example, if the customer accessed their account via the web, then called a branch for some information, the web transaction information would be immediately available to the customer representative at the branch.

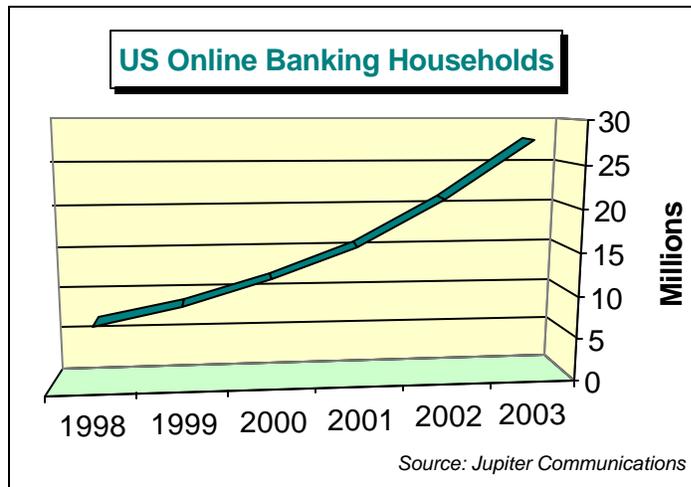
Newer, more modular banking systems are required, which allow easy interface to third party or newly developed CRM software, pushing many banks to consider a change or upgrade to their core systems. A CRM module could easily be plugged into Ezenet's CORE system.

## ***New Delivery Channels***

### **Internet**

Internet banking was started by the big banks that could afford to develop proprietary systems, and has now migrated down to the smaller banks, as off-the-shelf systems became available. An entire industry offering Internet systems has grown up over the last 3 years, including some large companies like Corillian (CORI:NASDAQ), S1 (SONE:NASDAQ) and Digital Insight (DGIN:NASDAQ). With customers demanding 24x7 access to their money, Internet banking is now a must-have feature. This is forcing the smaller institutions to play catch-up and, with many inexpensive systems now available, adoption by banks is accelerating.

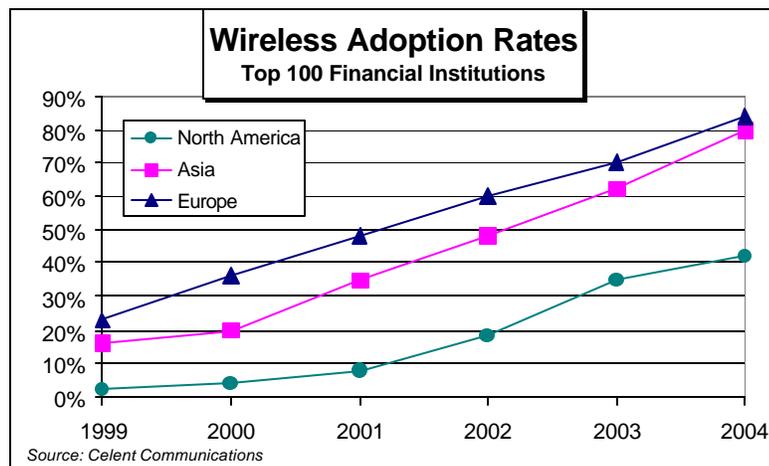
Customers have taken to Internet banking faster than they took to ATMs. Jupiter Communications predicts almost 30 million U.S. households (approximately 60 million people) will be banking online by 2003, from about 10 million households today.



### Wireless

Wireless banking is still in the early adopter phase around the world, particularly in North America. Several players have emerged, including market giant 724 Solutions (SVN:TSE, SVNX:NASDAQ).

The U.S. and Canada lag Europe and Asia in the adoption of next generation wireless appliances, and hence, wireless banking. According to a recent report by Celent on wireless banking, due to numerous conflicting wireless standards in North America, it may remain a laggard for yet another few years until third generation (3G) systems arrive.



That said, banks have begun to think about wireless, and tomorrow's wireless capability may be a factor in today's decision on core systems vendors. Ezenet has the only wireless solutions targeted at smaller FIs.

### ***Shift to Real Time Processing***

The shift to Internet banking has brought along another dramatic change in the way banks operate, and hence in the type of systems they need. Banks have traditionally operated with highly restricted hours (“bankers hours”), with rigid definitions of end-of-day processes and overnight batch processing.

The rise of ATMs years ago upset the applecart somewhat, with customers now able to access their funds around the clock. However, the systems devised to handle such processing were a patchwork solution, with limited functionality, balances that were not reflected across systems, and with further batch processing involved at night or the next day.

The rise of Internet banking appears to be the final straw that will break the back of batch process systems. The Internet’s always-available nature, and customer demands for accurate, timely information, are forcing banks to reconsider their business processes from the ground up, and at the same time, reconsider the systems that support those processes. This dramatic shift favours those suppliers, like Ezenet and a few others (Sanchez, OSI), that allow real time access right through to the core banking system.

### ***Deregulation, Consolidation, and Competition***

In the U.S. market, consolidation in the financial services market has heated up. With the elimination of the Glass-Steagall Act in October 1999, there are no longer restrictions on financial services companies operating across all segments including insurance, brokerage, and banking. In Canada, the same is true, with the large banks now offering insurance and buying brokerages. With the focus on wealth management, servicing a customer across all these product lines requires a new type of financial system, one that can easily integrate all customer information at once. Ezenet’s CORE system is designed to do just that, although it will have to build or buy the insurance and brokerage pieces to complete the picture.

Regional and national consolidation is an important driver of the community banking segment in the U.S. Community banking is viewed as almost an inalienable right, the last bastion of true customer relationships, where business is done on a handshake, and decisions have more to do with personal integrity than balance sheets and income statements. In that context, despite the continued purchases of regional and community banks by larger players (often seen as interlopers from the East / West / North / South, depending on your situation), more community banks spring up every year. Typically, the principals of a recently acquired bank will open a bank across the street after a one or two year non-competition agreement. This gives rise to about 200 new community banks opening each year, a coveted piece of new business for all the competitors.

Consolidation drives community banking in another way as well. Many communities previously immune to large nationals in their neighbourhood are suddenly seeing them appear across the street, offering advanced services and products. The bar is being raised, and these community banks must keep up, or face losing customers who are more interested in services

than relationships. Keeping up often means upgrading software and systems that will enable delivery of more advanced products, and doing it on a relatively low budget as compared with the big banks.

Consolidation is rife among vendors as well. Jack Henry and Fiserv have done over 20 acquisitions in the last 2 years alone. Between 1998 and 2000, 17 Internet banking vendors have merged into just 6. The market is rewarding the consolidators with share price appreciation, further fuelling the binge with valuable currency. Although most of the deals were private, the valuations of those deals for which information is available constitute a wide range. Straight data processors ranged between 1x and 1.6x trailing revenues, while some of the Internet banking deals were done at much larger multiples (e.g. S1 acquired Edify at 5x trailing revenues).

## **Market Spaces**

### ***Financial Services Software***

The market for financial services application software (including ASP revenue) in 1999 was approximately US\$4.8 billion, according to IDC, and is forecasted to grow to US\$7.6 billion by 2004 (CAGR=9.7%). This includes software for all types of financial institutions, including banks, credit unions, trusts, brokerages, and insurance and mortgage companies. Excluding insurance companies, the market was U.S.\$3.4 billion in 1999. The banking segment is expected to grow at a CAGR of 10.9% annually through 2004.

### ***Internet Banking***

Forecasting the Internet Banking industry has become an industry in itself. There are vastly differing statistics on the size, growth, and penetration rates of Internet banking. According to the FDIC and the American Bankers Association, of the 10,400 banks and thrifts in the U.S., only 490, or under 5%, had transactional web sites as of March 1999. It estimates there were about 1,000 by the end of 1999, and predicts approximately 2,500 installed by the end of 2000.

IDC however, reports 1,200 installations as of 1998, and 8,500 as of 1999, and predicts over 12,000 by year-end 2000, including credit unions. Even backing out the credit unions (about half of all financial institutions), there is still a large discrepancy with the ABA figures. According to Celent Communications, there are approximately 2,400 banks, trusts, and credit unions currently offering Internet banking in the U.S., equating to about 12% of all institutions, or 21% of all institutions with over \$25 million in assets.

According to Celent Communications, there are currently 6.75 million people banking online, a number that is expected to grow to 16 million by 2003. Jupiter predicts a full 30% of U.S. households (approximately 60 million people) will be banking online by 2003. Forrester Research estimates that online banking households will grow to 21 million by 2002.

IDC estimates the market for Internet banking applications grew from \$93 million in 1997 to over U.S.\$325 million in 1999, and is expected to grow to U.S.\$650 million in 2000.

Regardless of whose numbers one believes, it is clear that Internet Banking is currently on fire, at least from the systems vendors' point of view. However, depending on whose numbers one believes, the market (as far as available installations) may be heading for saturation by the end of 2001. Future growth will come with a second wave of spending as the initial applications are upgraded as a result of early experiences.

### ***Canadian Market***

Since regulations prohibiting bank ownership of trust, insurance, and brokerage businesses were relaxed some years ago, the industry has become extremely concentrated. The following chart shows a breakdown of financial institutions in Canada:

Banks	49
Credit Unions / Caisses Populaires	2,440
Trusts	25
Life Insurers	110
Finance Companies	100
Fund Managers	130
Investment Dealers	140
<b>Total</b>	<b>2,994</b>

*Source: Canadian Bankers Association*

The Canadian financial market is more concentrated than its U.S. counterpart, with the big-six banks dominating the picture. Of the 2,440 credit unions, over 1,300 were part of Desjardins in Quebec, which recently sold its entire processing operation to CGI (GIB:TSE). Consolidation is ongoing in the investment dealer segment.

### ***U.S. Market***

In the U.S., there were 8,386 commercial banks, 1,624 savings institutions, and 10,812 credit unions in 1999, although only about 2,500 of those credit unions are considered large enough (over \$25 million in assets) to be able to purchase systems like Ezenet's. Although the number of community banks has shrunk by approximately 4% in recent years due to consolidation, we believe the era of community banking will see a renewed surge riding on the back of new technology.

Traditionally, larger FIs have been able to offer more products and services than smaller FIs because their systems supported these products, and the larger FIs could outspend their smaller counterparts on these systems. With today's plethora of vendors offering cost effective solutions, and with the renewed focus on ASP offerings (meaning no up-front development expense), small banks should be able to compete more effectively than ever

before, while at the same time offering that personal touch so important to banking and so lacking at the big banks.

## COMPETITION

For the purposes of this analysis, we will primarily look at core systems providers. While Ezenet also competes with “pure” Internet and wireless solutions providers, its primary focus is on core systems. The Company intends to sell its Internet and wireless platform independently, however, its strategy will be to “get in the game” with wireless, where it has no competition in the small FI segment, and back its way into supplying Internet banking as well.

### Canada – Banking and Credit Unions

In Canada, Ezenet is the largest player in the trust segment, as well as one of the largest third party providers of back office processing systems to the larger FIs including banks, fund managers, mortgage companies, insurance companies and brokerages. Most financial institutions in Canada currently have in-house developed systems, and in fact, the in-house IT departments can be viewed as competitive, as can the third party system integrators feeding off them.

In Canada, Ezenet does have a handful of competitors, including SLMsoft.com Inc. (ESP:TSE), Prologic, Plexus, and Strategic Information Technology Ltd. (S.I.T.).

#### *SLMSoft.com(ESP:TSE)*

SLMSoft.com (“SLM”) is a public company founded in 1986 in Toronto. The company began providing Unix based banking solutions when Unix had yet to make inroads in the business sector in North America. Outside North America, however, Unix was more widely used, and through an early partnership with NCR, SLM expanded throughout the world, growing to 23 offices, over 650 employees, and 1,500 customers in over 50 countries. It has a revenue run rate of about \$70 million, with over \$300 million in sales backlog.

The company earned most of its revenue historically by providing EFT (electronic funds transfer) infrastructure, including switching, ATM management, and transaction processing. In 1999, the company moved into the U.S. market with the purchase of Bankline Inc. for about U.S.\$20 million. Bankline is a banking systems company serving 400 banks on an outsourced basis with 14 data centres in eight states. It offers a real-time, client server, core banking system (MicroSOLV) on a Unix and Windows NT platform, as well as cheque imaging. With the acquisition, approximately 78% of SLM’s revenues now come from the U.S. Most of SLM’s revenue is from transaction processing.

SLM product offering also includes credit card processing, point of sale, health claims processing, and e-commerce enabling. SLM offers middleware to enable a variety of front

ends including Internet and IVR (interactive voice response), although it does not actually provide these. It has a deal with Q-UP, a U.S. Internet banking provider to cross-sell systems.

SLM also provides its RBS core banking systems to a limited number of credit unions in Canada.

### ***Prologic Corporation***

Prologic is a developer of high-end software for large financial institutions. Its products are used in over 350 financial institutions globally, including more than 25 Internet banks and 7 of the top 25 largest banks in the world. Its primary product is iWealthview, a wealth management system which features open architecture to allow interoperability with legacy systems and acts as an aggregator and consolidator of financial transactions through the various systems. The system is similar to the Ezenet offering with its focus on wealth management, its customer-centric design, and availability of an integrated core banking solution. It has a heavy emphasis on CRM.

### ***Plexus Systems Design Ltd.***

Plexus is private, Vancouver-based niche player in loan and mortgage origination and administration software. Plexus' systems administer a wide range of residential and commercial loans including complicated secured lending arrangements, such as shared ownership mortgages and multiple-rate loans.

### ***Strategic Information Technology Ltd.***

SIT is a privately held company based in Ontario that provides retail and commercial banking products and services including chequing/savings accounts, term deposits, loans, wealth management as well as all related accounting, reporting and control. Its 21 clients include large banks, insurance and mortgage companies, small trusts, and credit unions.

The company's main system is called Portfolio 2000, which can be run either in-house or under an ASP model. The system is client/server based and runs on both Windows NT and Unix platforms. SIT offers an Internet front end called EasyBanking.

### ***Analysis***

The Canadian financial services market is quite developed, however its use of third party software vendors is just beginning, and hence there are relatively few players in the market. While Ezenet is not the largest player, we believe its competitive position in Canada is strong due to several factors:

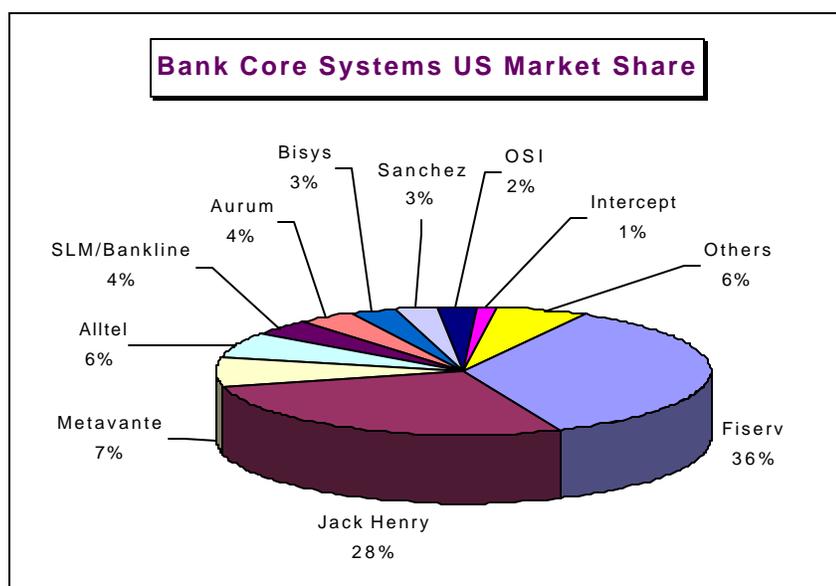
- It has an established client base that includes all the Schedule 1 banks in Canada and 50 institutions in total. They should be able to use the credibility this base provides when competing for new business.
- Its products are extremely scalable, and the same system can be used to run a bank as large as TD, or as small as a credit union, offering economies of scale.

- Its products can be run both under an ASP model as well as in-house, offering customers flexibility, and taking advantage of increased outsourcing.
- Its wealth management solution offers financial institutions new ways to sell products and retain customers.

One limitation to the growth of penetration of Ezenet's products within the larger FIs is its size. While the Company's systems could probably run large banks better than the banks' current silo systems, the banks may view *complete* reliance on a company of Ezenet's size as riskier than managing it in house, no matter how good the solution is. Ezenet (in the guise of WMSI) has been growing its penetration despite this, as large customers purchase more and more components of the CORE system and realize its benefits. As the Company grows in size, this will be less of an issue.

## U.S. Market

In the U.S., Ezenet's intention is to compete primarily in the community banking space. There are over 40 software vendors offering core processing systems in the U.S. The segment is dominated by a few large competitors, including Fiserv, Jack Henry, and Metavante. There are also a number of small to mid-size competitors, including Sanchez Associates, Intercept Group, Alltel, Open Solutions Inc., SLM/Bankline, Aurum, and BISYS.



### ***Fiserv (FISV:NASDAQ)***

Fiserv is one of the largest providers of software and processing services for financial institutions around the world, with revenues running at a rate of US\$1.6 billion. The company has grown by acquisition, with over 80 completed in its 15-year history. Fiserv has four primary business processing areas: banking, securities, insurance, and IRA trust. Its banking segment provides approximately 65% of its revenue, making it the 800 lb. gorilla in the space.

Fiserv offers a complete spectrum of products, services and platforms, including core processing, trust administration, investments, loans, electronic payments, credit cards, item imaging, data warehousing, treasury management, decision support, and human resources. It covers all sizes of financial institutions and hardware platforms and offers its services both on an ASP basis as well as in-house (managed by the FI itself or by Fiserv).

Fiserv's key offering in the community bank segment is called ITI (Information Technology Inc., a subsidiary), which has approximately 3,500 customers. It is typically targeted at institutions with up to \$10 billion in assets. Fiserv's second key offering is Comprehensive Banking System (CBS), which has approximately 270 customers and runs on an IBM AS/400 platform targeted at mid-size institutions. Its third offering is Vision, run as an ASP only on a Unisys platform. These systems run in batch mode

For the credit union market, Fiserv has another 3 offerings, all of which run in real time: XP Systems, AFTEC, and Summit. It has approximately 1,300 credit union customers.

Fiserv has an active direct sales force of over 150 people, and also sells in conjunction with Unisys. It claims to win contracts with approximately 50% of the newly opened community banks (over 100 new banks in the past 2 years). Typical contracts run approximately 5 years and have cancellation clauses. The company also claims a retention rate of nearly 98%.

### ***Jack Henry (JKHY:NASDAQ)***

Jack Henry is a public company that has grown significantly via acquisition over the past few years. Since 1995, JKHY has made 15 acquisitions, and its revenues have climbed from US\$50 million in FY95, to US\$225 million in FY00 (year-end June). Approximately 30% of its sales come from hardware.

The company offers core banking systems including web (Neteller – 296 installations) and Interactive Voice Response (IVR) front ends, as well as cheque imaging, ATM solutions, payroll and HR solutions. It has approximately 2,800 customers in the community banking market and 330 in the credit union segment. Approximately 830 of these are customers which are in the process of being converted from older systems belonging to a company it recently acquired (Banctec). It has five offerings aimed at the banking segment, the most important being Silverlake, CIF 20/20, and CoreDirector. All of its offerings in the CB market run in batch mode. Jack Henry runs 13 data centres for its outsourced services.

### ***Metavante***

Metavante (formerly M&I Data Services) is a wholly owned subsidiary of Marshall & Ilsley Corporation (MI:NYSE), a bank holding company. M&I has filed a prospectus to spin out Metavante in a deal which values the company at about U.S.\$1.24 billion. The Metavante division of M&I had revenue in 1999 of U.S.\$540 million, with about 11% coming from its parent company's banks. It earned about \$37 million in 1999.

Metavante provides bank data processing services on an outsourced basis primarily to the community banking market, with about 650 customers. It offers core processing with a centralized CIF database, data warehousing, Internet front end, and extensive reporting. For its credit union customers, the company also offers EFT switching, and credit card management / merchant / fulfillment services.

### ***Sanchez Computer Associates Inc. (SCAI:NASDAQ)***

Frank and Michael Sanchez formed Sanchez Computer Associates Inc. in 1980. The company went public in 1996, and has a revenue run rate of about \$65 million, of which approximately 50% comes from the U.S.

Sanchez's Profile banking system is used around the world by over 1,200 institutions. It is comprised of a core banking system, with fully integrated customer relations management, teller and Internet front ends (via its WebLink module). It is constructed with an open client / server architecture and runs on most platforms and operating systems. Profile is one of the only systems that operates in real time. It is scalable to meet the needs of FIs from small credit unions to large international banks, and was written to handle multiple currencies and languages from its inception.

The company historically only offered the system as an in-house run model, however, in 1997, it created an outsourcing division, e-Profile, to run Internet-only virtual banks, such as Wingspan.com and Citi f/i in the U.S. and ING Direct in Canada. This has become one of the company's main focus areas.

The company maintains strategic and partnership alliances with Compaq and IBM, as well as PricewaterhouseCoopers. Sanchez has primarily targeted only the larger FIs, but through alliances with third parties has begun to attack the community banking market. It recently signed a deal with NCR to use its system in 300 community banking customers, which will bring its total installed base in the U.S. banking market to about 600. Sanchez licenses its software to Datawest solutions for use in Canada (see above).

### ***Intercept Group (ICPT:NASDAQ)***

Intercept is a public company with a sales run rate of approximately \$60 million. It offers ATM / EFT processing, Windows based core banking software and processing (PC BancPAC), communications management, merchant portfolio management, cheque imaging, document imaging, and check printing. All but 10 of its 140 core banking customers use Intercept on an outsourced basis. The company is a fairly large player in the EFT and ATM switching segment, with approximately 630 institutions using its services.

The company has taken an interesting approach to selling by partnering with bankers' banks. A banker's bank offers non-competitive correspondent services to community financial

institutions, including credit and lending, investments, safekeeping, and operations, and acts as a technology advisor and buying group.

Intercept also offers Internet and telephone banking through its 28% ownership of Netzee (NASDAQ:NETZ), a leading provider of remote banking systems.

### ***Alltel***

Alltel, an international telecom services provider with over \$6 billion in revenues, got into the banking segment with its purchase in 1990 of information services company Systematics, and its 1992 mortgage processing industry purchase of Computer Power, Inc. It supplies banking systems mostly to mid-size and large institutions, including 23 of the 50 largest international banks. Bank of Montreal's and Harris Banks' *mbanx* Internet banking product is based on Alltel's solution. In 1999, Alltel acquired Southern Data Systems, a provider of fully integrated front and back office solutions.

The company has two offerings in the banking space, one based on an MVS mainframe platform, and the other, Horizon, based on IBM AS/400 mid-range platform. Horizon is primarily targeted at the community banking segment. Alltel has approximately 625 installations, of which about 44% are under an ASP model.

### ***Open Solutions Inc.***

Open Solutions is a relative newcomer in the space, having sold its first system in 1995. It is built on client server technology running under NT with an Oracle database engine. OSI's system runs in real time, and is offered to both credit unions (Complete Credit Union) and community banks (Complete Banking Solution).

Currently, due to its agreement with BISYS (see below), it can only offer the system as an in-house solution. The company currently has 240 customers. It also sells its Internet solution, e-Commerce Banker, as either a front-end to its system, or as a stand-alone piece that can interface to core systems from other vendors.

### ***Aurum***

Aurum is the former EDS division that provided solutions for community banks. It was recently purchased by Willis Stein (a financial buyer) of Chicago. Aurum has two systems in the banking segment: BMIS, an ASP only batch solution for the MVS mainframe environment, with 200 customers, and MISER, a real time system for the Unisys platform, which can be run in-house or as an ASP, with 180 customers.

### ***BISYS (BSYS:NASDAQ)***

BISYS is a public company with sales for the year ending June 2000 of US\$571 million, on which it earned US\$70 million. Its solutions support commercial and retail banking, mortgage

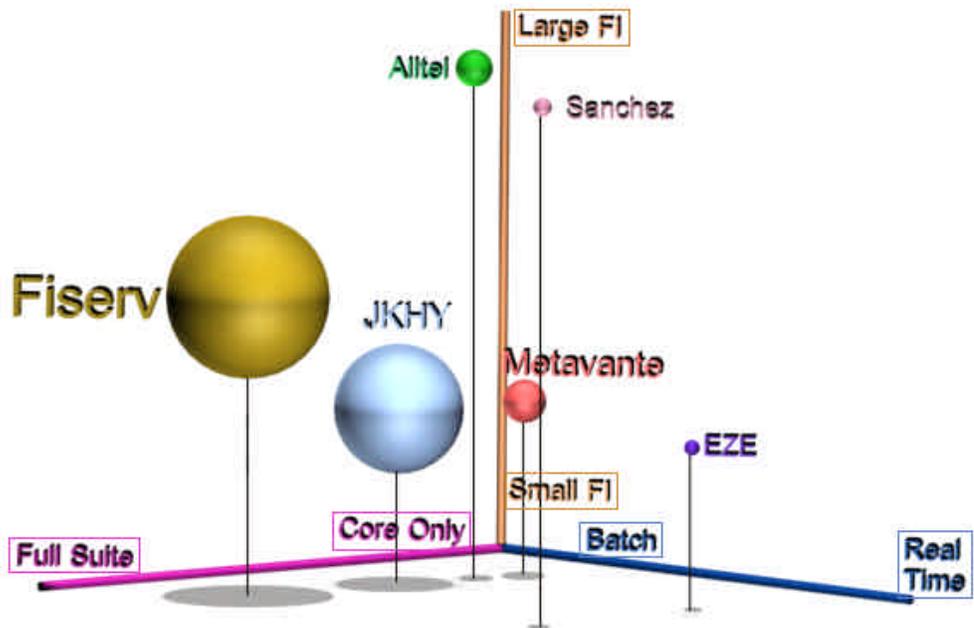
banking, electronic and Internet-based transactions, branch automation, executive decision-support, and data warehousing. It has two core-banking offerings: TotalPlus which runs on an MVS mainframe system, with 250 customers, and Total C/S, which runs on Windows NT (produced by Open Solutions – see above) with 30 customers. Both systems are real time and run under an ASP model.

BISYS also offers cheque imaging, wealth management solutions and mutual fund clearing for the investment industry, and transaction processing for the insurance industry.

**Analysis**

We believe Ezenet will find the U.S. market initially tough to penetrate, but it should be able to make some inroads in 2001 and accelerate in 2002. The U.S. market has many competitors, including the 800 lb. gorillas, Fiserv, Jack Henry and Metavante, as well as numerous mid-size vendors. The 4dimensional competitive space map shows the relative positioning and sizes of the players. The vertical axis shows the size of the institutions targeted (small FI vs large FI), the right axis shows batch vs real-time processing, and the left axis shows the array of services offered (core only vs full suite). The size indicates the number of installations.

**US Community Bank Competition**



Source: Octagon Capital Corporation

As the map shows, Ezenet is targeted primarily at smaller community banks, pitting it squarely against the likes of the three giants. From a product offering and positioning perspective, however, Ezenet does have some advantages.

- **Ezenet’s system is real-time**, and it is one of the only vendors who offer this in the community banking segment. Real time systems have advantages in the 24x7 world of online banking. However, converting U.S. banks to the concept of real time systems has proven difficult for some other entrants such as SLM and Open Solutions. Going to real time means not just a change in systems, but a number of changes in business processes that require some handholding. It’s the case of the medicine that tastes bad, but it works. That said, between SLM and OSI there are about 640 customers, so U.S. banks are beginning to “see the (real-time) light”.
- **The Ezenet platform is very strong on wealth management**, owing to its WMSI acquisition. Given the importance of wealth management in bank competition today, this is an increasingly crucial factor. Few other systems offer diverse wealth management capabilities. One that does, Sanchez, is targeted at larger banks, and costs millions of dollars.
- **Ezenet’s system is also one-account ready** (see above – Products and Services). However, to date, few banks have offered one-account capability, we believe due to the short-term negative fee impact. We believe this will be a slow but accelerating issue as banks realize the potential processing savings available with a one-account system and the competition bar gets moved even higher.
- **We believe Ezenet’s completely integrated Wireless and Internet platform is a significant competitive advantage.** While there are numerous vendors offering Internet banking, there are none offering wireless capabilities “in a box”, targeted at the smaller financial institution. Furthermore, the ability to get these features on an integrated platform is a plus, which will help sell core banking systems, and provide additional stand-alone sales opportunities.

Ezenet does face the issue of having limited ancillary product offerings. It will have to partner with third parties to provide cheque clearing and imaging, ATM and EFT switching. While it is not uncommon for vendors to take this approach to the market, the larger competitors offer a “soup-to nuts” approach. It should be pointed out, however, that these larger players have not always integrated these parts of their business well, as most came from acquisitions.

Ezenet’s sales approach involves hiring high-level regional sales people with good connections to the community bankers and state banking associations. It plans to use those connections to obtain preferred vendor status with the technology recommendation arms of the state associations. We believe this is a good strategy, if the Company can pull it off, as relationship selling in the community banking segment is probably as important as the technology itself. Intercept Group has taken a similar approach using the banker’s banks as their entry, and met with some success.

## FINANCIAL OVERVIEW

### Financial Projections

(Note: All figures in CAD unless stated)

#### Revenue

Ezenet's revenue model comprises licensing, installation and maintenance for the in-house model, as well as installation and monthly service fee revenue under the ASP model. While Ezenet's Canadian banking business was historically 100% ASP service fee based, WMSI's revenue was approximately 30% ASP. In the U.S., the Company intends to push the ASP model, which should result in a high percentage of recurring revenue. The Company will be amortizing its licence fees, but recognizing one-time installation fees as they occur.

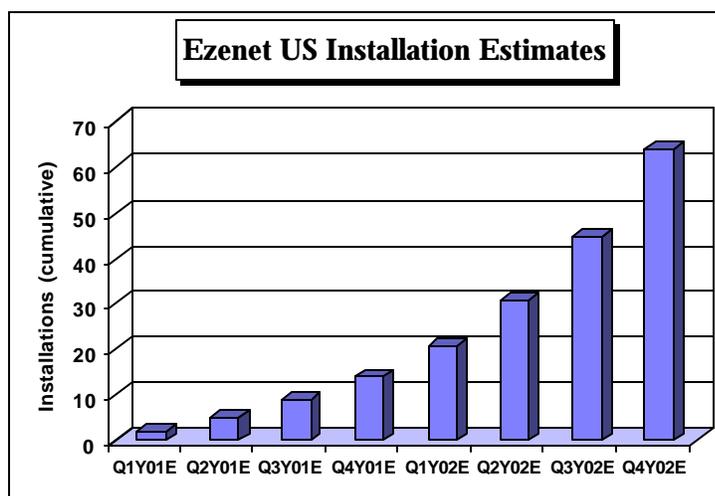
#### Canada

We estimate that Ezenet's Canadian business will grow at 36% in 2001 to revenue of \$13.2 million (excluding interest income), based primarily on new customers from a more robust sales effort, as well as increased penetration of existing clients with new products, including Internet and wireless solutions. Some of the increased sales should come from cross-selling between Ezenet's and WMSI's customers, although with integration expected to be completed early in 2001, we will increasingly view this as a single customer base. We estimate a further 36% growth in 2002 to revenues of \$18 million.

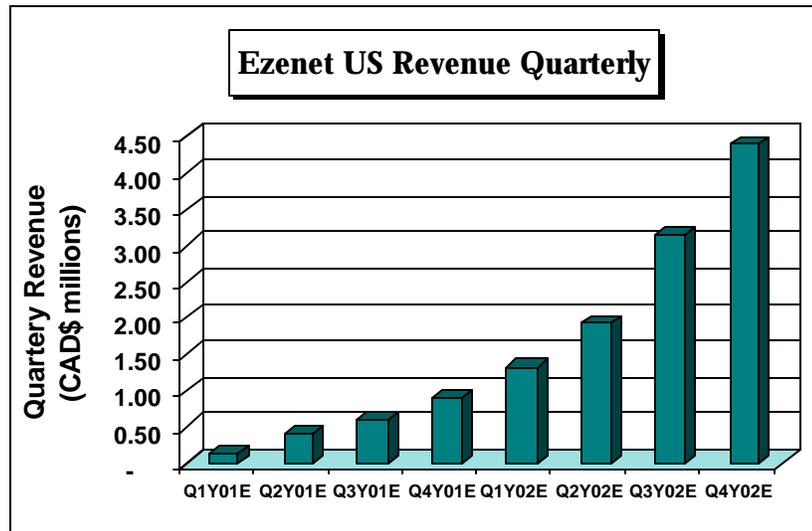
We estimate that Ezenet will earn about \$2.3 million interest per year from its cash reserve, assuming it makes no acquisitions.

#### U.S.

We do not expect to see revenue from the U.S. until late Q1 of 2000. The product must still be modified for the U.S. and approved by state and federal regulators, and the sales cycle is still 6 months, although pre-selling is already occurring. The chart below shows our projections of cumulative installations by quarter for 2001 and 2002.

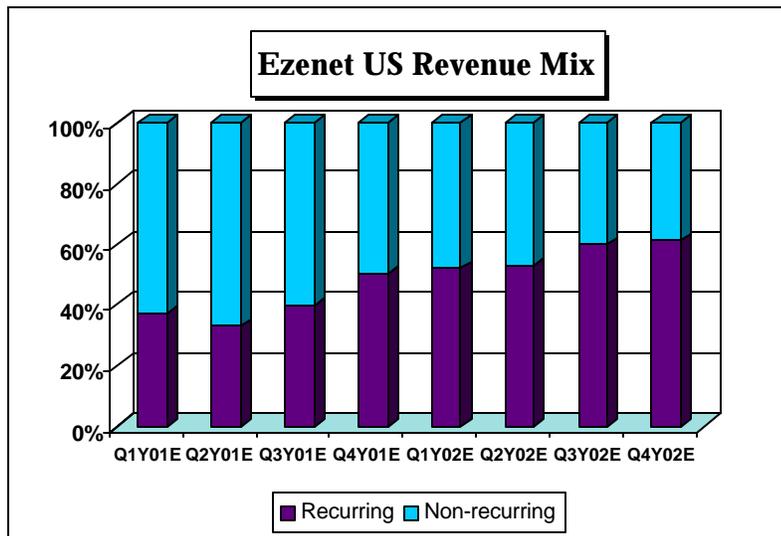


Ezenet will probably have to sell its early customers at significantly below market rates to establish reference accounts. Furthermore, we expect the cost of installation and conversion to exceed the revenue from installation. Based on discussions with industry participants, the cost of installation and conversion can range from \$150,000 - \$225,000, while initial installation revenues are currently ranging between \$45,000 and \$125,000.



It is difficult to estimate what the sustainable revenue rates per institution will be in the U.S., but based on information from Ezenet’s competitors, we believe the average rate will be about \$110,000 per year initially, and will grow as Ezenet is able to sell more products and services into these accounts.

Because of its strategy to focus on ASP sales in the U.S., we expect to see recurring revenue form a large percentage of Ezenet’s U.S. revenue. The table below shows our estimated mix of revenues in the U.S.



We expect to see about \$2 million in revenue from the U.S. in 2001, growing to \$10.8 million in 2002.

### *Expenses*

Ezenet is facing the costs of opening U.S. offices in 2000 and 2001, although management has been extremely frugal in spending on the U.S. start-up. The North Carolina office is running out of less than 1,000 square feet. Sales people will be highly motivated to produce, as much of their compensation will be tied to not only the initial sale, but also to ongoing revenues from accounts.

Ezenet has spent substantially on R&D in 2000, as it brought out its wireless platform. It continues to spend funds on developing the systems for the U.S. market, and on developing its Internet front-end. We expect the development effort to continue through 2001, as the U.S. product is improved based on early experiences. We expect to see some operating efficiencies in Canada as the WMSI and Ezenet operations are integrated. In particular, all out-sourcing should be running through a single data centre by early 2001.

### *Earnings*

As the table below shows, 2001 is an investment year, as the U.S. gets built out and development accelerates. The results of this investment should become apparent in 2002, with earnings turning positive even without the effects of interest income.

#### **Ezenet Corp.**

#### **ANNUAL INCOME STATEMENT** **(\$ MILLIONS, EXCEPT PER SHARE)**

	Dec00E	Dec01E	Dec02E
<b>Sales</b>	8.39	17.56	31.08
<b>EBITDA</b>	1.47	3.13	6.17
<b>Net Income</b>	(0.10)	0.03	1.42
<b>Common Shares Outstanding (Fully Diluted)</b>	16.73	16.73	16.73
<b>EPS (Fully Diluted)</b>	(0.01)	0.00	0.09
<b>EPS (FD) excl. Goodwill</b>	\$0.01	\$0.05	\$0.14

One of the main reasons we estimate a small loss in 2000 and breakeven in 2001 is amortization of its acquisition goodwill. We expect cash EPS (excluding goodwill) to be positive in 2000, and increase dramatically in 2001 and 2002.

### **Acquisitions**

Ezenet raised approximately \$50 million in March 2000 with the intention of developing its Internet and wireless solutions and growing through acquisition. It has acquired two companies so far in 2000: netSTOR, to accelerate development of the Internet and wireless

applications, and Wealth Management Solutions Inc. (WMSI), to leverage its bank system platform technology and blue chip customer base. Ezenet currently has about \$42 million, most of which management has stated will be targeted for acquisitions. WMSI was accretive in the sense of price/sales valuation, with Ezenet trading at over 10x 2000 sales, and WMSI at between 1x and 2x estimated sales.

We believe Ezenet will look in three possible directions for acquisitions:

- A U.S. competitor to accelerate its entry into that market;
- A Canadian competitor to consolidate its position and make it a more attractive candidate for a U.S. player looking to move into Canada;
- Complementary technologies, including potentially CRM, ATM/EFT, or imaging technologies.

### ***Consolidator or Target?***

The longer-term question is whether Ezenet will be a consolidator in the industry, or ultimately a target. With over \$40 million in cash and a tough equity market for other smaller players to raise capital, Ezenet could certainly be a consolidator in the short term. However, we believe that ultimately Ezenet will become a target of one of the U.S. behemoths, such as Jack Henry, Fiserv, or possibly Metavante.

While most high tech stocks are down significantly from the pre-April highs, the stocks of Fiserv, and Jack Henry are flying, with FISV up over 100%, and JKHY up over 300%. The market is clearly rewarding the consolidators, and giving them the currency with which to keep snapping up the smaller players. It's only a matter of time before they run out of things to buy in the U.S. and turn their sights northward, especially if Ezenet makes some noise in the U.S. and starts encroaching on their territory.

## **Valuation**

### ***Methodology***

Due to Ezenet's large store of cash relative to its size, our approach to valuing Ezenet is to strip out the cash, value the underlying business, and then add the cash effects back in. In the table below, we show key income statement items without the effects of the cash. With 16.7 million fully diluted shares outstanding Ezenet currently has about \$2.57 per share in cash (including the effects of exercised options).

## Ezenet Corp.

ANNUAL INCOME STATEMENT  
(\$ MILLIONS, EXCEPT PER SHARE)

WITHOUT CASH	Dec00E	Dec01E	Dec02E
Sales	6.49	15.27	28.78
EBITDA	(0.43)	0.84	3.87
Net Income	(1.16)	(1.26)	0.14
Common Shares Outstanding (Fully Diluted)	16.73	16.73	16.73
EPS (Fully Diluted)	(0.07)	(0.08)	0.01
EPS (FD) excl. Goodwill	(\$0.05)	(\$0.03)	\$0.06

Because of amortization from its acquisitions as well as investment spending in the U.S. and on development, we don't expect significant EBITDA or earnings from Ezenet until 2002. We therefore prefer to value Ezenet at this time based on revenues, and examine the Company in light of its comparables, its growth potential, and our belief in its ability to execute its business plan. Additionally, we have rated Ezenet's comparables with a "relevance" rating, indicating our belief as to the comparability between Ezenet's business and that of the other companies.

**Valuation and Recommendation**

The table below shows Ezenet and other companies in the financial services technology sector.

EZENET COMPARABLES														
	Relevance (1=low)	Symbol	20Oct00 Price	Fiscal Year	LTM Sales - (\$M)	Consensus Est. Sales TY Sales NY		Est. Sales Growth	EPS LTM	Consensus EPS TY EPS NY		P/S LTM	P/S TY	P/S NY
724 SOLUTIONS INC	1	SVN	\$43.00	Dec	26.4	30.9	76.6	147.9%	N/A	(\$2.61)	(\$3.43)	59.5	50.8	20.5
BASIS 100 INC	2	BAS.	\$2.13	Dec	11.0	N/A	N/A	N/A	N/A	N/A	N/A	N/M	N/M	N/M
SLMSOFT.COM INC	8	ESP.B.	\$4.00	Dec	62.9	N/A	N/A	N/A	N/A	N/A	N/A	0.9	N/M	N/M
DATAWEST SOLUTIONS	8	DS	\$2.40	Dec	32.6	N/A	N/A	N/A	N/A	N/A	N/A	N/M	N/M	N/M
DIGITAL INSIGHT CORP	3	DGIN	\$17.13	Dec	33.2	57.5	98.7	71.7%	(\$1.66)	(\$0.88)	(\$0.32)	14.9	8.6	5.0
S1 CORPORATION	3	SONE	\$10.88	Dec	174.7	242.9	328.8	35.4%	(\$7.51)	(\$9.06)	(\$8.34)	3.4	2.4	1.8
CORILLIAN CORP	3	CORI	\$14.75	Dec	24.7	28.7	54.7	90.3%	(\$2.10)	(\$1.11)	(\$0.66)	19.1	16.4	8.6
NETZEE INC	3	NETZ	\$2.25	Dec	9.2	20.7	58.0	179.9%	(\$3.02)	(\$0.62)	\$0.11	5.4	2.4	0.9
BISYS GROUP INC	7	BSYS	\$46.81	Jun	571.4	690.6	813.7	17.8%	\$2.56	\$2.94	\$3.54	2.2	1.8	1.6
FISERV INC	10	FISV	\$48.00	Dec	1540.0	1657.7	1883.4	13.6%	\$1.29	\$1.36	\$1.61	3.8	3.6	3.1
JACK HENRY & ASSOCIATES	10	JKHY	\$56.13	Jun	259.9	305.0	367.0	20.3%	\$0.91	\$1.22	\$1.54	4.3	3.7	3.1
SANCHEZ	10	SCAI	\$19.88	Dec	62.4	66.0	96.0	45.5%	(\$0.10)	(\$0.43)	(\$0.13)	3.8	3.5	2.4
INTERCEPT GROUP INC	10	ICPT	\$28.00	Dec	59.1	65.3	77.0	17.9%	\$0.48	\$0.65	\$0.82	4.5	4.0	3.4
<b>Weighted Average (by Relevance)</b>								<b>40%</b>				<b>5.5</b>	<b>5.0</b>	<b>3.3</b>
<b>EZENET CORP. (Net of cash)</b>			<b>\$0.78</b>		<b>2.4</b>	<b>9.7</b>	<b>15.3</b>	<b>57%</b>				<b>5.1</b>	<b>1.3</b>	<b>0.8</b>
<b>EZENET CORP.</b>			<b>\$3.35</b>		<b>8.0</b>	<b>11.6</b>	<b>17.6</b>	<b>51%</b>				<b>6.6</b>	<b>4.5</b>	<b>3.0</b>

Note: EZENET Sales TY is Run Rate for Dec00

Source: Octagon Estimates, Compustat, Co. Reports

**Definitions:**

TY = Current fiscal year

Sales Growth = Sales NY/TY

NY = Next fiscal year

As the table shows, excluding the effects of the cash (taking \$2.57 off the closing price and removing the interest income), Ezenet is trading at just 1.3x its 2000 sales run rate (the run-rate is the revenue Ezenet would report if WMSI had been consolidated for the full year), or just 0.8x our 2001 estimated sales. Ezenet's comparable group is trading at a relevance-weighted average of 5.0x current year's sales, and 3.2x next year's.

We believe Ezenet should be given a discount to its comparable group based on its size and the difficult task it has ahead making inroads into the U.S. However, Ezenet is forecast to grow at over 50% next year, vs 40% for its comparable group. We therefore value Ezenet based on 4x its 2001 estimated sales, or \$3.66 per share. Adding the \$2.57 per share we arrive at our **12-month target of \$6.25. We rate Ezenet a BUY.**

We intend to revisit our target price as Ezenet executes its business plan, and in particular, as it hits milestones relating to its U.S. market entry. We believe the stock has further upside if the Company makes a key acquisition. Management has demonstrated prudent use of its cash to date in making two excellent acquisitions at good valuations, and we believe there is much more to come.

## Appendix A – Financial Model

### Ezenet Corp.

### ANNUAL INCOME STATEMENT (\$ MILLIONS, EXCEPT PER SHARE)

	Dec97	Dec98	Dec99	Dec00E	Dec01E	Dec02E
Revenues	1.84	2.35	3.21	8.39	17.56	31.08
less Interest Income	0.00	0.00	0.00	(1.90)	(2.30)	(2.30)
<b>Net Sales</b>	<b>1.84</b>	<b>2.35</b>	<b>3.21</b>	<b>6.49</b>	<b>15.27</b>	<b>28.78</b>
COGS and SG&A	1.70	1.74	2.28	6.92	14.43	24.91
Non-Operating (Income)/Expense	0.00	0.00	0.00	(1.90)	(2.30)	(2.30)
<b>EBITDA</b>	<b>0.15</b>	<b>0.60</b>	<b>0.93</b>	<b>1.47</b>	<b>3.13</b>	<b>6.17</b>
EBITDA %	7.9%	25.8%	28.9%	22.7%	20.5%	21.4%
Depreciation & Amortization	0.08	0.21	0.39	1.38	2.42	2.97
Pretax Income	0.06	0.39	0.53	0.10	0.71	3.20
Income Taxes	0.01	0.12	0.27	0.20	0.68	1.78
<b>Net Income</b>	<b>0.05</b>	<b>0.28</b>	<b>0.26</b>	<b>(0.10)</b>	<b>0.03</b>	<b>1.42</b>
Common Shares Outstanding (Primary)	2.96	2.96	6.80	15.73	15.73	15.73
Common Shares Outstanding (Fully Diluted)	2.96	2.96	6.80	16.73	16.73	16.73
EPS (Primary)	\$0.02	\$0.09	\$0.04	(\$0.01)	\$0.00	\$0.09
EPS (Fully Diluted)	<b>\$0.02</b>	<b>\$0.09</b>	<b>\$0.04</b>	<b>(\$0.01)</b>	<b>\$0.00</b>	<b>\$0.09</b>
<b>EPS (FD) excl. Goodwill</b>	<b>\$0.02</b>	<b>\$0.09</b>	<b>\$0.04</b>	<b>\$0.01</b>	<b>\$0.05</b>	<b>\$0.14</b>

Note: 1997 and 1998 figures are for Ezenet Inc.

<b>Growth</b>						
Sales		27.3%	36.7%	102.5%	135.2%	88.5%
EBITDA		315.3%	53.3%	58.9%	112.7%	97.0%
EPS FD (excluding Goodwill)		480.2%	-59.1%	-61.4%	248.1%	161.1%

## Ezenet Corp.

## ANNUAL BALANCE SHEET

EZE

(\$ MILLIONS)

	Dec97	Dec98	Dec99	Dec00E	Dec01E	Dec02E
<b>ASSETS</b>						
Cash & Equivalents	0.03	0.10	0.17	42.23	42.53	43.39
Net Receivables	0.10	0.18	0.23	1.20	0.75	0.23
Inventories	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Current Assets</b>	<b>0.18</b>	<b>0.32</b>	<b>0.53</b>	<b>43.56</b>	<b>43.41</b>	<b>43.75</b>
Gross Plant,Property & Equipment			0.99	1.99	4.49	8.29
Accumulated Depreciation			0.56	1.00	1.99	3.82
Net Plant,Property & Equipment	0.44	0.43	0.43	0.99	2.50	4.46
Intangibles	0.00	0.48	1.48	0.89	0.30	0.00
Other Assets	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Assets</b>	<b>0.62</b>	<b>1.23</b>	<b>2.43</b>	<b>53.47</b>	<b>53.39</b>	<b>54.57</b>
<b>LIABILITIES</b>						
Long Term Debt Due In One Year	0.11	0.00	0.00	0.00	0.00	0.00
Notes Payable	0.00	0.00	0.00	0.00	0.00	0.00
Accounts Payable	0.13	0.15	0.14	0.39	0.39	0.14
Taxes Payable	0.02	0.00	0.00	0.00	0.00	0.00
Other Current Liabilities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Current Liabilities</b>	<b>0.25</b>	<b>0.15</b>	<b>0.14</b>	<b>0.39</b>	<b>0.39</b>	<b>0.14</b>
Long Term Debt	0.00	0.00	0.00	0.00	0.00	0.00
Other Liabilities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Liabilities</b>	<b>0.25</b>	<b>0.28</b>	<b>0.54</b>	<b>0.74</b>	<b>0.64</b>	<b>0.39</b>
<b>EQUITY</b>						
Common Stock	0.26	0.57	0.95	51.96	51.96	51.96
Retained Earnings	0.10	0.38	0.65	0.48	0.51	1.93
<b>Total Equity</b>	<b>0.37</b>	<b>0.95</b>	<b>1.89</b>	<b>52.73</b>	<b>52.76</b>	<b>54.18</b>
<b>Total Liabilities &amp; Equity</b>	<b>0.62</b>	<b>1.23</b>	<b>2.43</b>	<b>53.47</b>	<b>53.40</b>	<b>54.57</b>
<b>Common Shares Outstanding</b>	<b>2.96</b>	<b>2.96</b>	<b>6.80</b>	<b>15.73</b>	<b>15.73</b>	<b>15.73</b>
<b>Book Value per Share</b>	<b>\$ 0.21</b>	<b>\$ 0.42</b>	<b>\$ 0.36</b>	<b>\$ 3.33</b>	<b>\$ 3.33</b>	<b>\$ 3.43</b>

## Ezenet Corp.

## ANNUAL STATEMENT OF CASH FLOWS

EZE

(\$ MILLIONS)

	Dec97	Dec98	Dec99	Dec00E	Dec01E	Dec02E
<b>INDIRECT OPERATING ACTIVITIES</b>						
Income Before Extraordinary Items	0.048	0.279	0.262	(0.100)	0.028	1.423
Depreciation and Amortization	0.083	0.209	0.392	1.377	2.422	2.969
Extraordinary Items and Disc. Operations	0.000	0.000	0.000	0.000	0.000	0.000
Deferred Taxes	0.000	0.131	0.273	(0.054)	(0.100)	0.000
Equity in Net Loss (Earnings)	0.000	0.000	0.000	0.000	0.000	0.000
Sale of Property, Plant, and Equipment and Sale of Investments - Loss (Gain)	0.000	0.000	0.000	0.000	0.000	0.000
Funds from Operations - Other	(0.051)	0.037	(0.077)	0.000	0.000	0.000
Receivables - Decrease (Increase)	0.052	(0.077)	(0.053)	(0.970)	0.450	0.520
Inventory - Decrease (Increase)	0.000	0.000	0.000	0.000	0.000	0.000
Accounts Payable and Accrued Liabs - Inc (Dec)	(0.049)	0.021	(0.011)	0.250	0.000	(0.250)
Income Taxes - Accrued - Increase (Decrease)	0.024	(0.044)	(0.005)	0.000	0.000	0.000
Other Assets and Liabilities - Net Change	0.000	0.000	0.000	0.000	0.000	0.000
<b>Operating Activities - Net Cash Flow</b>	<b>0.106</b>	<b>0.556</b>	<b>0.780</b>	<b>0.503</b>	<b>2.801</b>	<b>4.662</b>
<b>INVESTING ACTIVITIES</b>						
Product Development	0.000	(0.480)	(1.180)	0.000	0.000	0.000
Sale of Investments	0.000	0.000	0.000	0.000	0.000	0.000
Short-Term Investments - Change	0.000	0.000	0.000	0.000	0.000	0.000
Capital Expenditures	(0.365)	(0.007)	(0.223)	(1.000)	(2.500)	(3.800)
Sale of Property, Plant, and Equipment	0.000	0.000	0.000	0.000	0.000	0.000
Acquisitions	0.000	0.000	0.198	(5.000)	0.000	0.000
Investing Activities - Other	0.000	0.000	0.000	0.000	0.000	0.000
<b>Investing Activities - Net Cash Flow</b>	<b>(0.365)</b>	<b>(0.487)</b>	<b>(1.204)</b>	<b>(6.000)</b>	<b>(2.500)</b>	<b>(3.800)</b>
<b>FINANCING ACTIVITIES</b>						
Sale of Common and Preferred Stock	0.264	0.101	0.419	48.125	0.000	0.000
Purchase of Common and Preferred Stock	0.000	0.000	0.000	(0.500)	0.000	0.000
Cash Dividends	0.000	0.000	0.000	(0.068)	0.000	0.000
Long-Term Debt - Issuance	0.005	(0.106)	0.000	0.000	0.000	0.000
Long-Term Debt - Reduction	0.000	0.000	0.000	0.000	0.000	0.000
Financing Activities - Other	0.000	0.000	0.000	0.000	0.000	0.000
<b>Financing Activities - Net Cash Flow</b>	<b>0.269</b>	<b>(0.005)</b>	<b>0.419</b>	<b>47.558</b>	<b>0.000</b>	<b>0.000</b>
<b>Cash and Equivalents - Change</b>	<b>0.010</b>	<b>0.065</b>	<b>(0.005)</b>	<b>42.060</b>	<b>0.301</b>	<b>0.862</b>
Cash Flow	0.13	0.49	0.65	1.28	2.45	4.39
Cash Flow per Share	\$0.04	\$0.16	\$0.10	\$0.08	\$0.16	\$0.28
Free Cash Flow	(0.2)	0.5	0.4	0.3	(0.0)	0.6
Free Cash Flow per Share	-\$0.08	\$0.16	\$0.06	\$0.02	\$0.00	\$0.04

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