

OCTAGON

INVESTMENT RESEARCH

EZE - TSE: \$3.40

TARGET: \$6.25

## EZENET CORP.

## INITIATING COVERAGE WITH A BUY

A 2 PART OVERVIEW OF OUR NEW 35 PAGE REPORT AVAILABLE TODAY  
 TODAY: COMPANY OVERVIEW, PRODUCTS, VALUATION  
 TOMORROW: INDUSTRY AND MARKETS, FINANCIALS, CONSOLIDATOR OR TARGET?

*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 acquisition of Wealth Management Systems Inc. (WMSI) provided Ezenet with a next generation platform for its banking systems.
- The netSTOR Technologies Inc. acquisition gave Ezenet 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 net revenues, 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)		\$53.5	
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	16.7	4.6	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

## Company Overview

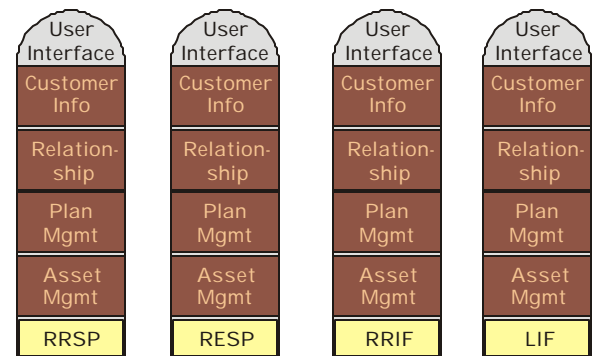
- Ezenet was founded by Haron Ezer in 1978. In March 2000, Ezenet raised \$50 million in a special warrant offering, the largest ever on the CDNX. The Company acquired netSTOR technologies in April 2000, and Wealth Management Systems Inc. (WMSI) in August 2000.
- Ezenet built a “bank in a box” software concept, offering small banks 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.

## WMSI – Next Generation Platform

- The WMSI acquisition brought many things to Ezenet, including advanced technology, a top-notch customer list and an experienced management team, led by Jay Cashmore.

- Traditional banking 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.

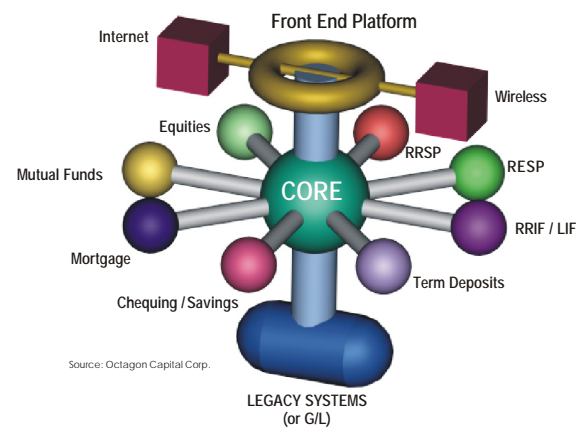
### Existing Silo Systems



- WMSI's CORE system represents a dramatic shift in viewpoint, putting the customer at the centre of all banking. Each product (e.g., mortgages, RRSPs, equities, RIFs, loans, deposits) is a module that interfaces to the heart of CORE. The general ledger (G/L) system can be a module, or can be the general ledger of the bank's legacy system.

- One of the most important features of the CORE system is its real-time updating. Because of its architecture, the CORE system is completely scalable to handle even very high volumes of transactions in real-time.
- To become a complete banking system, a chequing module, and general ledger must be added to CORE. The CORE system must also be made compliant with U.S. federal and state regulations. The Company expects to have the initial system ready for the U.S. in approximately 3 months.

### CORE ARCHITECTURE



## 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.

- netSTOR had developed 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 for Home Capital in August 2000. 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.

## Sales and Marketing

- Ezenet’s customer base includes every Schedule 1 bank in Canada and numerous non-bank financial institutions.

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.	

- 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.
- The Company’s U.S. strategy is to target the community banks and trusts, savings and loans, thrifts and credit unions. Ezenet’s strategy is to parlay its sales people’s relationships in the banking community into sales. Additionally, Ezenet plans to obtain leads by becoming the preferred vendor recommended by state banking associations.

## Valuation

- Ezenet currently has about \$2.57 per share in cash (including the effects of exercised options).

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		
Weighted Average (by Relevance)							40%			5.5	5.0	3.3		
EZENET CORP. (Net of cash)			\$0.78		2.4	9.7 15.3	57%			5.1	1.3	0.8		
EZENET CORP.			\$3.35		8.0	11.6 17.6	51%			6.6	4.5	3.0		

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

- 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 3.3x 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 in cash 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.

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

The Information contained herein has been obtained from sources which we believe reliable but we cannot guarantee accuracy or completeness. The report is not, and under no circumstances is to be considered as, an offer to sell, or the solicitation of an offer to buy, any securities. This report is furnished on the basis of and understanding that Octagon Capital Corporation is to be under no responsibility or liability whatsoever in respect of the report and the information contained in it. The inventories of Octagon Capital Corporation and its affiliated companies and the holdings of their respective directors, officers and employees may from time to time include the securities mentioned in this report. Octagon Capital Corporation may from time to time act as an advisor, agent or underwriter for a company being reported upon. Octagon Capital Corporation will provide upon request a statement of its financial condition and a list of the names of its directors and senior officers.



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**EZENET CORP.****INITIATING COVERAGE WITH A BUY – PART 2**

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**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 rise of outsourcing, renewed spending post-Y2K, the move to wealth management, industry consolidation, new delivery channels like the Internet and wireless, and the shift to real time processing, are creating opportunities for companies like Ezenet.
- The Canadian market is just beginning to transition from in-house developed systems to third party vendors like Ezenet.
- The U.S. market is large, with over 10,000 small banks and savings institutions, and nearly 11,000 credit unions. The financial services software market is over \$5 billion, and growing at a rate of about 10% annually. Internet banking is on fire, and early adopters are starting to think about wireless.
- 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 like Fiserv or Jack Henry.
- **We rate Ezenet a BUY with a 12-month target of \$6.25**, based on 4.0x our estimated 2001 net revenues (\$3.66 per share), 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.

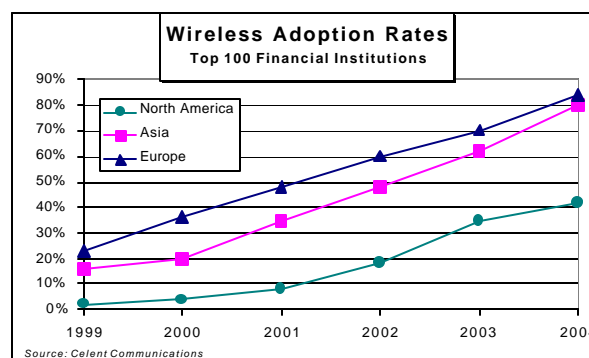
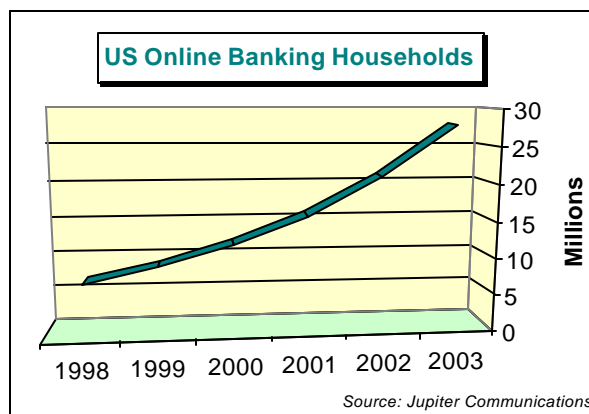
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## Industry Overview

- The continued trend toward outsourcing is partially caused by the inability of banks to retain qualified technical personnel. 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. Furthermore, the ASP model of delivering software as a service, without the headaches of managing systems installation and upgrades, is gaining in popularity.
- 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.
- The concept of wealth management is changing the way banks think about their customers. Wealth management focuses on the person, rather than the account. 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.
- 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.
- Wireless banking is still in the early adopter phase around the world, particularly in North America. 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. Ezenet has the only wireless solutions targeted at smaller FIs.
- 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.



## Market Spaces

- 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%).

## Competitive Analysis

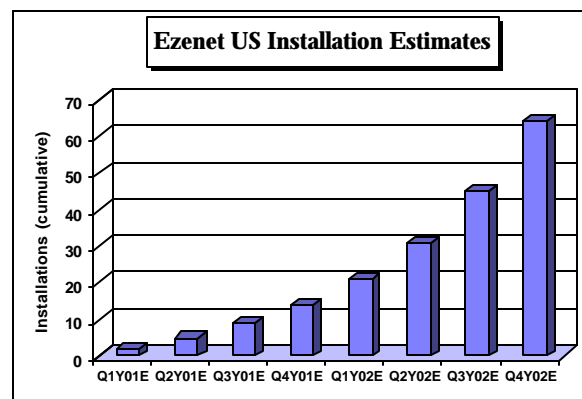
- We believe Ezenet's competitive position in Canada is strong due to several factors:
  - It has an established client base that includes all the Schedule 1 banks in Canada and 50 institutions in total. They should be able to use the credibility this base provides when competing for new business.
  - Its products 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.
- We believe Ezenet will find the U.S. market tough to penetrate, initially, but it should be able to make some inroads in 2001 and accelerate in 2002. From a product offering and positioning perspective Ezenet has some advantages.
  - **Ezenet's system is real-time**, and it is one of the only vendors who offer this in the community banking segment.
  - **The Ezenet platform is very strong on wealth management**, owing to its WMSI acquisition.
  - **We believe Ezenet's completely integrated Wireless and Internet platform is a significant competitive advantage.** 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.

## FINANCIAL OVERVIEW

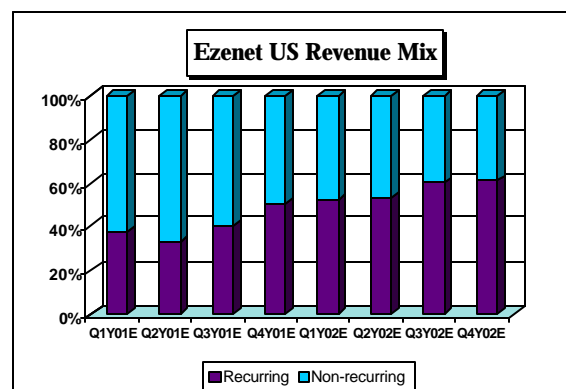
### Revenue

- 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.
- 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. 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.

- 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 to the right shows our projections of cumulative installations by quarter for 2001 and 2002.



- 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 to the right 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.



## Acquisitions

- Ezenet raised approximately \$50 million in March 2000. 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.
- 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?***

- 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.
- With over 90 acquisitions between them, 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.

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