

EQUITY RESEARCH BRIEF



IDI Global, Inc.
OTCBB : IDIB

Randall Lewis, CFA – Analyst
May 2, 2001

Close as of: May 2, 2002
DJIA: 10,091.87
S&P 500: 1,084.56
NASDAQ Composite: 1,644.87
Russell 2000: 513.37

Buy RECOMMENDATION

Fiscal Year Ending: December 31

Report Date:	May 2, 2002	Market Cap.:	\$38.0M		EPS	P/E	REVS (\$M)	P/S
Stock Price:	\$3.30	Shares Out.:	11.5M	2000A	(0.05)	N/A	5.4	7.1
Price Range:	\$3.00 – 6.15	Estimated Float:	3.5M	2001A	0.01	360.0	13.4	2.8
Industry:	Web Software Services	6 mo. Target:	\$6.00	2002E	0.03	110.0	17.0	2.5
		Est. 3-Yr. Growth	137.2%	2003E	0.11	30.0	25.0	1.5

Investment Summary

- We are initiating coverage of IDI Global, Inc. (OTCBB:IDIB) with a “Buy” recommendation. IDI is positioning itself to become a leading application service provider (ASP) of infrastructure software, technologies, and services that implement comprehensive Internet-based business solutions. The Company’s business has primarily revolved around the small business owners—small office/home office (“SOHO”) industry—and larger companies within vertical markets.
- Despite the huge Internet shakeout of 2001, the Web remains the most efficient and least-costly form of communication, and provides extremely cost-effective tools for business management. In other words, the fundamentals of why the Internet received so much attention and promise in the 1990s are still there today. In addition, industry shakeouts have historically been great for the players that are left. Since corporations and individuals still need quality services, the companies that survive a major market adjustment can see business increase dramatically.
- IDI has developed two core product lines that best meet the needs of their clients: QuickSite Builder and ARRAY. The technology backing these programs enables the Company’s customers to fully utilize the Internet. IDI provides scalable, customizable, and complete solutions that provide increased margins and profitability for each new account.
- Despite declining IT budgets in 2001, the market for IDI’s products and services remains strong. Around 56% of Web site operating budgets for 2002 are within 10% of last year’s budgets, according to a new study by Jupiter Media Metrix. The worldwide ASP market is set to reach \$20 billion by 2006, according to a new report from International Data Corporation (IDC). IDC suggests that a renewed interest in application management services will fuel the increase in ASP spending. The research firm estimates that the application management market is also set to experience steady growth in the coming years. The application management market totaled \$11.1 billion in 2001 and is expected to reach \$21.8 billion in 2006.
- Based on the Company’s products and sound business model, we are projecting three-year revenue and earnings growth of 23.0% and 110.1% respectfully. We believe IDI could reach \$25 million in sales and \$1.5 million in net income by fiscal year 2003.



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Company Profile



IDI Global, Inc. (“IDI” or “the Company”) was founded in 1996 at a time when the Internet was relatively new and rapidly gaining popularity.

Since its inception, the Company has developed software that utilizes the Internet as a viable tool for business and has established itself as a prominent leader in developing e-commerce applications.

IDI is a software application service provider of infrastructure technologies and services that implement comprehensive Internet-based business solutions. The Company’s business has primarily revolved around the small business owners—small office/home office (“SOHO”) industry—and larger companies within vertical markets. IDI has developed two core product lines that best meet the needs of their clients: QuickSite Builder and ARRAY. The technology backing these programs enables the Company’s customers to fully utilize the Internet. IDI provides scalable, customizable, and complete Internet solutions, that have very low incremental cost to IDI as it adds new customers. This provides increased margins and profitability for each new account.

In 1997, IDI developed QuickSite Builder, a highly sophisticated, yet extremely easy-to-use web-based application that allows a user to build a highly functional, e-commerce enabled Web site in a matter of minutes. Through a partnership with Professional Marketing International (PMI), a marketing organization specializing in the sale of high-end business education, training, and motivational products, IDI successfully markets QuickSite Builder in conjunction with an Internet business education course.

Developed a year latter, in 1997, IDI’s flagship product—ARRAY provides solutions for large organizations that are dependent on a vast network of affiliates. Originally marketed to direct sales companies, ARRAY enables these organizations to deploy, integrate, interact with, and centrally administer e-commerce enabled affiliate Web sites. ARRAY is built on a highly flexible platform with the capacity to integrate additional applications and services. It is scalable and customizable to meet each organization’s specific requirements thus providing additional revenue and profitability. System enhancements will enable IDI to expand ARRAY into other vertical markets.

IDI continues to develop quality software, products and services for its clients and customers. The Company’s innovation and market leading technology has established it as a leader in the industry, as evidenced by its blue-chip client base and consistently growing revenue – even during a major industry downturn.

Changing Tide of the Internet

It’s no secret that the Internet – at least perceptions as such – has experienced a sharp drop from its 1999-2000 peaks. The bursting of the so-called “Internet bubble” has bankrupted countless firms and rendered others to a prolonged phase of downward revisions to revenue and earnings. It has affected nearly all facets of our economy. The once high-flying Web-services sector has been racked by consolidation and bankruptcies as corporate tech budgets fell last year. MarchFirst, once worth \$4 billion, filed for bankruptcy last year and Divine Inc. bought some of those assets and is in a deal to acquire Viant Corp.

In contrast to these firms, the companies that have survived, are largely those companies that have diversified their product offering beyond providing a mere web presence. Additionally, the Internet remains the most efficient and least-costly form of communication, and provides extremely cost-effective tools for business management. In other words, the fundamentals of why the Internet received so much attention and promise in the 1990s are still there today. In addition, industry shakeouts have historically been great for the players that are left. Since corporations and individuals still need quality services, the companies that survive a major market adjustment can see business increase dramatically.

IDI Markets

According to Cahners In-Stat, IT spending in the U.S. fell approximately 12% last year, the first decrease in total business IT spending in the past decade. But the worst appears over. Newsbytes recently reported that U.S. corporate spending on IT will be up 4 to 5% this year, according to a survey from the Aberdeen Group. Aberdeen says spending will be slow in the first half of the year before picking up in the third and fourth quarter.

Corporate Web Sites. Around 56% of Web site operating budgets for 2002 are within 10% of last year’s budgets, according to a new study by Jupiter Media Metrix. However, while corporate spending on Web sites remains high, around 42% of Web site managers feel that their operations are under-funded and that they are struggling to stay competitive. Jupiter also indicated that companies are shifting their focus away from customer-visible features towards internal initiatives such as interactive publishing tools, site management, and measurement services. The research firm also forecasts that spending on site measurement services will rise to \$1 billion by 2006.

ASP Market. The worldwide ASP market is set to reach \$20 billion by 2006, according to a new report from International Data Corporation (IDC). IDC suggests that a renewed interest in application management services will fuel the increase in

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SOHOs. Over 43 million Americans are now self-employed and working from home offices, and millions more will join them through the end of the decade, according to a 1998 report by IDC. According to a 1999 study by Forrester Research, the home-office population is expected to include more than 28% of all U.S. households by 2003, compared with 11% today. Though somewhat less technically savvy compared to their corporate counterparts, the Internet is playing a vital role in the operating of home based businesses. Over 50% of the SOHO market regularly uses the Internet for product research, while 24% utilizes the Internet for customer service requests, according to the Forrester study. Though these statistics are somewhat dated, we expect the numbers are even higher today.

Business Strategy

Continued Product Penetration. IDI's strategy is to continue to penetrate the U.S. market in its two primary segments. QuickSite Builder will be marketed through effective penetration and sales growth within the highly lucrative SOHO market. The product will also be sold through additional strategic partnerships with organizations that have established sales channels within the small business market. In addition the Company plans on pursuing aggressive telemarketing and infomercial campaigns. IDI's strategy also includes continued consummation of corporate contracts by effective presentation and implementation of its ARRAY products to large, affiliate-dependent organizations.

Global Expansion. Perhaps as exciting as any of the U.S. initiatives are the international applications IDI is aggressively pursuing. IDI is experiencing significant success and acceptance with international contacts that have expressed great interest in Web office solutions for potential international applications. Discussions continue with influential contacts in Mexico, which have the ability to open the doors to key relationships for IDI's expansion into the Hispanic marketplace.

IDI believes these contacts will provide introduction and business opportunity with telefonica.com, México.com, and other sizable corporations. We anticipate that these relations will provide future business with visioncorp.com, which has substantial relationships with large corporate partners including, Microsoft.com, IBM, Novell, FranklinCovey.com, and Keystonelearning.com. IDI will then look at leveraging

these relationships to enter additional countries such as New Zealand, Australia, UK, Singapore, Brazil, and Mexico. IDI is also leveraging existing client relationships to enter into foreign countries; Canada, Japan, Korea, Taiwan, and Western Europe.

Acquisitions. In addition to organic growth, the Company also plans to grow through acquisitions, both revenue-building and synergistic. IDI recently announced the acquisition of a new sales and marketing operation in Salt Lake City, UT. Increasing net income was the main purpose for this move. In previous years, the Company has outsourced most of its sales operation, but expects to save nearly \$1 million by bringing this function in-house. We believe this will be the first of several acquisitions that IDI will undertake in the coming months.

Revenue Models

ARRAY. IDI generates recurring revenues by providing independent affiliates with applications to manage their own e-commerce enabled Web sites for an initial set-up fee and monthly licensing fees.

With the ARRAY product, IDI is currently profitable and generating positive cash flow. The Company's current business model assumes an average monthly licensing fee of \$14.95, which is 35% below the industry average. Commissions paid to the corporate parent and the cost of hosting each Web site average \$7.95 per month, leaving IDI with a \$7.00 per month projected gross profit for each licensed Web site.

The Company's number of licensed sites has grown from 15,000 in the second quarter of 2001, to over 28,500 today. Given the stepped-up marketing efforts, we don't see any reason why this growth trend can't continue for the calendar year of 2002.

QuickSite Builder. The QuickSite Builder / business education package being marketed through multiple sales organizations, such as PMI, is expected to be priced at approximately \$2,500, and IDI anticipates a gross margin of \$525, for the product utilizing this distribution channel.

For each business customer that uses the product to establish an online commerce site, IDI will also charge a one-time set-up fee and a monthly licensing fee, with pricing to vary according to the features selected. Based on products for small businesses. IDI will retain more customers as it develops enhancements to its existing technology.

Outlook and Investment Opinion

Though the Company has many competitors in its core markets, we believe that IDI has separated itself from its competition, through pricing, quality, and the educational component. These factors should give the Company a sustainable advantage. Management is strong, led by CEO Kevin Griffith, who has served in several senior management positions at AT&T, MCI and Citizen Corp. The markets have been well-defined and a specific strategy for reaching those markets has been implemented, as evidenced by the continued revenue growth in a difficult market environment.

Our projections indicate that IDI can achieve approximately \$17.0 million in sales, \$600,000 in EBITDA, and net income of \$350,000 or \$0.03 per share in FY 2002. For fiscal 2003, we expect net sales of approximately \$25.0 million and net income of roughly \$1.5 million, or \$0.11 per share. The projections are based on the Company raising \$4 – 5 million, by mid-summer 2002, for the issuance of one million shares.

Obviously, in this market, valuation is difficult. On the one hand, as stated earlier, stocks in the Web services sector have gotten pummeled in the past year, if they have remained solvent at all. Based on our comps, the sector is selling at an average revenue multiple of 1.11. IDI is currently selling at 2.53x estimated 2002 revenue. We argue, however, that IDI does not fit this valuation metric for two reasons. First, the Company is rapidly growing revenue, unlike most other stocks in this space. Of our comps, only Scient Corp. showed solid organic revenue growth.

Second and most important, however, IDI is

profitable. While net margins are small right now, EBITDA is positive (\$367k in 2001) and growing. The Company is taking great strides towards increasing efficiencies and

Company	Ticker	MC	Revenues		EBITDA	P/E	P/S
			FY 2001	FY 2000			
Scient, Inc.	SCNT	530.5	300.2	155.7	-307.9	N/A	0.10
Viant Corporation	VIAN	414.5	34.6	127.2	-71.1	N/A	2.66
Razorfish, Inc.	RAZF	161.1	104.0	267.9	-182.2	N/A	0.32
Divine, Inc.	DVIN	17.7	199.6	44.1	-305.9	N/A	0.22
Digital Fusion, Inc.	DIGF	0.81	16.7	23.4	-8.52	N/A	0.46
ePresence, Inc.	EPRE	96.6	67.7	81.6	-88.3	N/A	1.45
Weighted Averages							1.1067

margins. Therefore, we see no reason why the Company cannot maintain its multiple or even increase it slightly. Assuming IDI can achieve and maintain a multiple of 3.0x 2003 revenue, we would estimate a stock price of \$6.00 a share (based on 12.5 million shares outstanding and no stock option exercise).

The Company has been successful in raising capital from private investors over the life of the firm, and for the most part has funded growth internally. In fact, IDI has only raised \$1.7 million since inception from outside investors. We caution, however, that the continued aggressive growth we are projecting is predicated on the \$4 - 5 million raise mentioned earlier. Given IDI's sound products and strategy, though, we are confident that the Company will be able to raise the necessary capital to realize its business plan. Given these assumptions, we are initiating coverage of IDI Global, Inc. with a "Buy" rating for investors with a long-term time horizon. The core research and development is completed, the business model has been proven (as evidenced by the Company's rapid growth) and management has shown the ability to execute. All in all, we feel that IDI is not a typical OTC company and represents a unique investment opportunity with significant upside potential at this price level.

IDI Global, Inc. Balance Sheet Highlights For the Periods Ended as Stated

	12-31-01 audited	12-31-00 audited
Current Assets	\$ 1,127,297	\$ 402,491
Total Assets	1,572,669	907,143
Current Liabilities	1,842,722	1,349,118
Total Liabilities	1,863,154	1,369,438
Shareholders' Equity	(290,485)	(462,295)
Shares Outstanding	11,500,000	10,962,500
Current Ratio	0.61	0.30

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