

[HOME](#) | [FRONT PAGE](#) | [CITY](#) | [SPORTS](#) | [NATIONAL](#) | [WORLD](#) | [OPINION](#) | [ENTERTAINMENT](#)
[OTTAWA.COM](#) | [HIGH TECH](#) | [BUSINESS](#) | [PRESS CLIPS](#) | [STOCKS/MUTUALS](#) | [INTERNET COMMUNITY](#)
[SEARCH/ARCHIVES](#) | [CAREERCLICK](#) | [CARCLICK](#) | [HOMESCLICK](#) | [CLASSIFIED](#)
[BIRTHS](#) | [DEATHS](#) | [PERSONALS](#) | [ABOUT US](#) | [ADVERTISING INFO](#)

OPINION

[Editorials/Letters](#)

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CITY

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NATIONAL/POLITICAL

[Ron Corbett](#)[Dan Gardner](#)[Charles Gordon](#)[Susan Riley](#)[John Robson](#)[Christina Spencer](#)[David Warren](#)

SPORTS

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Web sites give facts on small-cap stocks

Larry MacDonald
 Citizen Special

There are Web sites that provide information useful to Canadian technology investors. In some cases, the sites seem to be little more than tip sheets. In other cases, they are quite substantial sources of investment information. Tip sheet or not, the Web sites tend to focus on small-cap stocks and, as such, are useful sources of hard-to-get information.

Seeking investment ideas lurking behind a few clicks of the mouse, I did a few hours of Internet surfing and surveyed a number of sites. There was quite a diversity.

Of note were sites operated by brokerage firms allowing access to their research reports without cost or obligation, for example, Merrill Lynch's <http://askmerrill.com/international>.

Also of note were sites offering analyses and breaking news on Canadian and U.S. small-cap stocks -- particularly www.smallcapcenter.com.



Bloomberg News, The Ottawa Citizen / (The Graph: NewSys solutions heady rise.)

Reviewing these sites, I found three interesting junior technology companies with growth potential. All three are profitable. The site of Groome Capital, www.groomecapital.com, yielded NewSys Solutions Inc., the 'Feature Company Section' of www.investcom.com provided Ezenet Corporation, and the e-mail service of www.stockwatch.com sent in WSi Interactive Corp.

NewSys Solutions Inc.

NewSys Solutions, which last week reported its 26th consecutive quarter of revenue growth and profitability, helps corporations implement business intelligence software applications, specializing in data warehousing, integration, and outsourcing solutions. The company's list of blue-chip clients and partners includes Cognos Inc., IBM, Microsoft Corp., Bell Canada Enterprises, and Nortel Networks -- nearly all of which are experiencing dramatic growth that should spill over to NewSys.

The Ottawa company has made Profit magazine's 'Profit 100: Canada's Fastest Growing Companies' three years in a row.

Revenues for the six months ending Oct. 31 were \$9.874 million, up 29.8 per cent over the same period last year. Net earnings were \$255,670, an increase of 90.7 per cent.

With 160 consultants, NewSys can now compete for larger and higher-margin information technology contracts.

NewSys also plans to supplement internal growth through acquisitions. Early in November, an initial step was taken with the purchase of Crystalline Data Structures, a \$2 million firm specializing in integrating business intelligence software from Oracle, Cognos, IBM and others (a higher margin niche than traditional systems integration business).

Groome Capital likes NewSys on its own merits but also because it is an attractive takeover target.

Market recognition of its track record of financial growth, profitability, and strong balance sheet appears to be lagging: its shares are priced below 0.9 times revenues. Given this undervaluation, a larger information technology firm looking to integrate a proven business intelligence consulting firm into its operations would be interested in doing an acquisition.

Ezenet Corp.

Ezenet Corp, listed less than a year, has been profitable in each of its 20 years. In fiscal 1998, the company earned \$275,000 on sales of \$2.3 million.

Over the six months to June 30, 1999, net profits stood at \$327,000 on revenue of \$1.4 million.

Ezenet's core business is data centre outsourcing -- mainly the use of its banking software to process GICs, RRSPs, mortgages, and other transactions for financial institutions like Bank of Montreal, London Trust Company, and First Marathon

Mortgage Corp.

Earlier this year Ezenet signed a multi-year, multi-million-dollar contract to process data for a venture by Bank of Montreal and Newcourt Credit Group that will enable consumers to conveniently lease cars online. This contract is expected to give a nice lift to Ezenet's quarterly financial statements over this year and the next.

Ezenet's software expertise in data processing has been transferred into a new market niche, with the development of the "INSTAbase Web-Ready" software program. It lets users design their own databases on the Web without programming skills. INSTAbase has won accolades from several publications such as PC World, PC Magazine, and Business Week.

Fundamental analysis shows Ezenet is a strong company. It has no debt and plenty of cash holdings for its size -- nearly \$1 million. (Its cash and other current assets cover current liabilities more than four times.) Return on equity ranges between 30 per cent and 40 per cent, far above the industry average. Also above the industry average are profit margins: the company's net profit margin of 30 per cent is nearly triple the average.

WSi Interactive Corp.

WSi Interactive Corp. went public in July on the Vancouver Stock Exchange, bringing together three companies to create a platform upon which to create, build, and manage Internet Web sites. The three subsidiaries, established and profitable businesses, together are projected to have revenue of \$11 million over the next fiscal year.

The main goal of WSi Interactive is to develop Internet businesses and Web sites for itself and third parties. In addition to the three businesses already under its wing, WSi Interactive plans to develop and add another 11 Web businesses within 18 months. It recently raised \$2 million in financing, ensuring sufficient funds for implementing its 18-month plan.

The company projects the new businesses will have at least \$1.2 million in revenue within their first year. WSi Interactive believes that with its strategic alliances and experience in helping Internet companies build traffic and brand recognition, it can add value to start-up Internet companies.

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[↑top](#)

[HOME](#) | [FRONT PAGE](#) | [CITY](#) | [SPORTS](#) | [NATIONAL](#) | [WORLD](#) | [OPINION](#) | [ENTERTAINMENT](#)
[OTTAWA.COM](#) | [HIGH TECH](#) | [BUSINESS](#) | [PRESS CLIPS](#) | [STOCKS/MUTUALS](#) | [INTERNET COMMUNITY](#)
[SEARCH/ARCHIVES](#) | [CAREERCLICK](#) | [CARCLICK](#) | [HOMESCLICK](#) | [CLASSIFIED](#)
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