

### Icoworks Inc.

(ICOW - OTC Bulletin Board)

Fully integrated commercial/ industrial auction company.  
 Successfully expanding organically with steep ramp up in sales.  
 Future plans include aggressive acquisition program.

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Jeff Howlett is a financial analyst who for over the past 10+ years has provided research services to companies lacking adequate coverage. Mr. Howlett was previously affiliated with a major Canadian investment firm specializing in Mergers & Acquisitions and has received a B.Sc. in Economics from the Wharton School of the University of Pennsylvania.

#### The Company

Early in 2003, Icoworks acquired a majority 56% interest in *Icoworks Holdings Inc.*, a company providing fully integrated auction, liquidation, and appraisal services for corporate assets such as wholesale and retail inventories, used industrial equipment, and related goods. The Calgary, Alberta based company has several regional offices in North America, incorporates a full suite of best of breed technologies into its offerings, has assembled a database of over **200,000** fully profiled buyers and sellers, and **has reached a critical mass of operations**. Icoworks also has in place a Cdn \$3.6 million jv bought deal fund. **Icoworks has embarked on an aggressive expansion strategy**, both in terms of organic growth and through acquisition.

#### The "Asset "Recovery Business

The business involves the identification, re-use or re-marketing of non-working assets. The U.S. commercial auction market has **\$267.5 billion** in gross sales, with **600,000** auctions held each year by **12,000** licensed auctioneers. However, the auction industry accounts for only 5% of used industrial equipment annually and has positive industry dynamics for future growth. **This highly fragmented, largely regional market structure is ripe for an industry consolidation.**

#### Value Parameters

Our analysis (see p. 4, 5) indicates that the market tends to view this sector favorably, based on the **4½ to 7½ price/sales multiples** attributed to the few publicly traded auction companies identified. Many former public auction companies have left the sector and trading patterns may well reflect perceived growth opportunities in the sector.



#### Share Data (\$US):

Recent Price:	\$0.33
52-week Price Range:	\$0.24 - \$1.125
Shares Outstanding (6/13/03):	12.89 million
Fully Diluted Shares (1):	28.78 million
(1) Incl. 3,042,000 warrants @ \$0.75 + 400,000 options @ \$0.375 + Cdn \$3.6 million bought deal fund converted @ US\$0.41 + acquisition of 44% minority interest for 5.7 million shares.	

#### Capitalization (\$ US):

Market Capitalization:	\$4.25 million
Total Debt - Due to Related Parties (3/31/03):	\$785,329

#### Corporate Information:

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#### WE LIKE ICOWORKS FOR SEVERAL REASONS:

- ① *The company has reached a critical mass in terms of revenue generating capabilities.*
- ② *We have seen several highly positive announcements recently which shows an ability to grow the business aggressively. Based on this information, Icoworks appears to have a current annual run rate of \$20+ million in reported auction sales.*
- ③ *A fragmented market with many possibilities to grow through acquisition and pursue a consolidation strategy. A significant acquisition could significantly change the characteristics of Icoworks from a market perspective.*
- ④ *Depth of Management, including project management expertise which allows the company to pursue a variety of projects.*
- ⑤ *Favorable market valuation parameters.*

*Our analysis indicates that Icoworks trades at the low end of its peer group, despite the recent positive announcements and current \$20 million annual run rate in reported auction sales. Should Icoworks just maintain this pace, we see rather significant potential for shareholders, with considerable additional upside from many very attainable acquisitions.*

## THE COMPANY

**Company Structure** On February 20, 2003, Icoworks acquired 56% of the issued and outstanding stock of Icoworks Holdings Inc., a company which conducts auctions. Prior to this acquisition, Icoworks Holdings purchased all the issued and outstanding stock of two companies, Icoworks Services Ltd. (formerly Bill Wigley Auction Services Ltd.) and DM International Appraisals & Consulting Ltd. Icoworks Holdings also has two other subsidiaries, being Icoworks Eastern Ltd. and Icoworks Joint Venture Ltd. Management expects to purchase the remaining minority interest over the coming months.

## AUCTION ACTIVITIES

**Company Structure** Icoworks is engaged in the *asset realization business*, providing a comprehensive range of auction, liquidation, and appraisal services for corporate assets such as wholesale and retail inventories, used industrial equipment, and other related goods. The company operates principally out of Calgary, Alberta, but is active in California, Houston, Phoenix, Calgary, Oakville, Vancouver, and (recently) a full service office in Tulsa. Icoworks maintains a *database of more than 200,000 names*, including both customers and prospective bidders, which contains full profiles of key auction information (i.e. industry, buying habits, etc.). Activities include:

The key to understanding Icoworks is that it is a fully integrated auction company that offers a complete solution to companies.

Services	Summary
Appraisal	<ul style="list-style-type: none"> <li>● Valuation of corporate assets.</li> <li>● Coordination of cleaning, repair, and refurbishment of equipment to be sold.</li> <li>● Advice on how to present equipment to maximize proceeds to the customer.</li> </ul>
Auctions	<ul style="list-style-type: none"> <li>● Occur either on-site or at Icoworks locations.</li> <li>● Straight commission or guaranteed minimums.</li> <li>● Provision of a detailed item by item catalogue for each auction and delivered to each prospective buyer upon registration at the auction sale.</li> <li>● Provision of detailed information to participants (i.e. travel arrangements, check-in procedures, streamlined paperwork, 3<sup>rd</sup> party financing / leasing, trucking &amp; freight forwarding, and customs brokerage services).</li> <li>● Adoption of fair auction practices to establish a solid reputation as a fair dealer.</li> </ul>
Outright Purchase	<ul style="list-style-type: none"> <li>● Access to capital through joint venture partners offers opportunity to purchase assets outright should client require immediate proceeds. Higher margins are typical.</li> <li>● Use of Icoworks auction network to liquidate / auction assets.</li> </ul>

### Incorporation of Best of Breed Technologies

*We are very impressed with how Icoworks has integrated technology into its service offerings.* This includes:

- ❶ the use of **Bidspotter.com** webcasting techniques, which enables low cost broadcasting of traditional auctions to online bidders and broadening the scope of each auction,
- ❷ development of *auction management software*, which is integrated to Icoworks website management function and to Bidspotter - it includes a multi-user auction management system that offers portability via laptop and point-to-point data communication which can facilitate up to 5 auction rings simultaneously. It also provides *customized seller reports* with complete auction details immediately upon the closing of the auction. Five auctions have operated with this new system and the previous Sold II system has been retired.
- ❸ *In addition to these tools, Icoworks has a full suite of online and offline technology capabilities, including:*
  - Online item listings / descriptions / management.
  - Search engine /content management.
  - E-commerce capabilities.
  - Broadcast fax.
  - Inventory management.
  - Database management tools (buyer & seller).
  - E-mail campaigns.
  - Traffic & sales analysis.

## THE ASSET RECOVERY BUSINESS

### Converging Technologies at the Heart of the System

The asset recovery (or investment recovery) business is an integrated business process for the identification, re-use or remarketing of non-working assets. This includes, for example, out-of-service equipment, excess inventory or raw materials, waste and process by-products, and demolished facilities. Due to economic conditions, *organizations have sharpened their focus on not only material procurement, but also on the function responsible for the deployment of surplus assets.*

According to the *U.S. National Auctioneers Association (NAA)*, the commercial auction market is a very large one, categorized as follows:

- Over **\$267.5 billion in gross sales** in 2001.
- An average of **600,000 commercial auctions** held each year in the U.S.
- Over **12,000 licensed auctioneers.**

*Bain and Company* has estimated the market for the disposal of corporate assets is approximately **\$300 billion** per year. There is approximately **\$1 trillion** in used industrial equipment currently in operation and approximately **\$100 billion** of used equipment trading hands annually.

#### Potential for Growth of the Auction Sector

- Increased acceptance of auctions.
- Shortening capital asset lifecycles.
- Trend toward outsourcing.
- Increasing need to access aggregated buyers.
- The ability of auctioneers to market a wide range of equipment / assets.
- The ability to achieve sales quickly and efficiently.

**The auction industry accounts for only 5% of used industrial equipment sales annually.**

## GROWTH STRATEGY

To date, Icworks has largely accomplished its short term goal of going public, raising capital, and streamlining its operations. A critical mass in terms of financial, management, and auction expertise is now in place, and the company is now poised to begin executing a two-pronged growth strategy.

1. **Organic Growth.** With offices in place at several locations in North America, management intends to maximize the value of its history, reputation, experience, and existing client base to increase sales. **We are now seeing definite results in the very recent past**, announcing new contracts with significant sales potential (i.e. RKM - \$6.5 million, Stewart House Publishing – Cdn \$2.5 million, HTM Industries - Cdn \$1 million, Madawaska Hardwood Flooring - Cdn \$2.5 million, Anderson Sand – Cdn \$1.5 million, Dexter Lawson - Cdn \$1.9 million). There are several others generating sales of under \$1 million. **From the recently announced 9 months sales level of US \$1.4 million, we could see Icworks reach a sales level of US \$20+ million for the calendar year ended June 30 / 2004.**
2. **Growth Through Acquisition.** Given that **the industry is highly fragmented**, there is an opportunity to pursue a consolidation strategy. Because the value of a particular local auction company is in large measure the value of its management and operations team, **purchase prices are relatively low** (i.e. either on a P/E or P/Sales basis). We understand that it is often the case that existing management has built a business over a long time period, is profitable, and is desiring an exit strategy. Icworks can offer management a cash exit and work with the remaining team (who are highly knowledgeable but have little ownership position) to continue to operate the business. As a public company, Icworks can offer share positions in the public company and align the interests of all involved. **We believe that this strategy is definitely a workable strategy.** Because these companies are normally profitable, **we would expect these acquisitions to be highly antidilutive.** Because these companies typically operate regionally, they could be expected to be relatively easy to incorporate given some continuity of management and several such acquisitions could be expected over the medium term (i.e. 10 - 20 over the next 3-5 years).

**There is high potential to capture significant "value gaps" between the valuation of private auction companies and valuations in the publicly traded companies.**

There is also potential to add value to existing businesses through the use of Icworks technologies, buying networks, and buying power.

One of Icworks' strong attributes is its **project management team**. Several of its senior employees have come from the project management and general management backgrounds rather than just the auction background. **It is this project management expertise that allows Icworks to take on more complex (and profitable) workouts.**

## SECTOR VALUATION PARAMETERS

Our analysis of publicly traded companies involved in the "space" generally has been revealing and we note some key valuation factors:

- Ritchie Brothers, a significant and well managed company, has shown consistent and impressive growth in both sales (double digit) and EPS (62% for Q1 / 03, 40% for FY 2002). The company trades at an impressive **4.90 x sales** and a 20+ PE.
- Small companies, such as *Fairmarket* and *AbleAuctions*, have posted relatively nominal results and are breakeven or losing money. However, the market still attributes these companies **sizeable Price / Sales multiples of 7.5 x and 8.6 x** respectively, in spite of any rapid growth in sales.
- *Liquidation World*, which is not a direct comparable insofar as it is oriented more towards a bricks and mortar approach, appears to trade on a PE basis that is similar in nature to that of Ritchie Brothers (although relatively high due to a recent hiccup in earnings).
- We have included some dated statements for Dovebid and Tradeout (from S-1's filed) to gather some indicative data concerning expense ratios and profitability.
- With the exception of Ritchie Brothers, **the sector now appears to trade on a Price / Sales basis, which perhaps reflects the perception of the market that there is strong potential to execute an aggressive consolidation / growth strategy.**

Icworks Inc. Comparative Financial Statement Analysis						
	Ritchie Brothers	FairMarket	AbleAuctions.com	Liquidation World (1)	Dovebid (2)	IcoWorks (3)
	RBA – N	FAIM.Nasd	AAC.Amex	LQW.TO		ICOW.OB
Reported Results (000's)	Q1 – 3/31/03	Q1 – 3/31/03	Q1 – 3/31/03	Q1 – 4/6/03	6 mos – 6/02	Q1 – 3/31/03
Revenue	36,381	1,357	0.140	38,934	50,356	405
Direct Expenses	4,650	759	0.059	23,886	22,568	373
Gross Profit	31,731	598	0.081	15,048	27,788	31
G&A / Marketing	16,675	1,962	0.134	15,764	22,033	122
Tech Development		352		0	1,341	n/a
EPS (Latest Quarter)	\$0.52	(\$0.06)	\$0.01	(\$0.10)	(\$1.24)	
<b>Ratios - % of Sales</b>						
Direct Expenses	12.78%	55.93%	42.30%	61.35%	44.82%	92.22%
G&A / Marketing	45.83%	144.58%	95.78%	40.49%	43.75%	30.15%
Tech Development	n/a	n/a	n/a	n/a	n/a	n/a
<b>Financial Statement Analysis</b>						
Sales (ttm – 000's)	149,400	5,790	2,330	171,594	93,693	1,043
EPS (ttm – 000's)	\$2.01	(\$0.42)	(\$0.04)	\$0.07	(\$15.80)	(\$0.07)
Recent Price	\$43.55	\$1.62	\$0.70	\$4.25	n/a	\$0.27
Market Cap (\$ millions)	731.64	43.25	20.09	36.30	n/a	\$3.48
Price / Sales	4.90	7.47	8.62	0.21		3.34
Price / Earnings	21.67	Nmf	Nmf	60.71		Nmf

**Notes:**

(1) Amounts in Cdn dollars.

(2) From S-1 dated September/ 02

(3) As recent acquisition, no reported revenues prior to Q1/03. Reported results represent

56% of total. TTM Sales are 56% of 9 mos. Results annualized TTM EPS are Q3 annualized

We note that *Icworks appears to trade at the very low end of the range of this group* (which, owing to the relatively limited number of companies in the sample cannot be regarded as statistically significant but indicative only). We believe that *should Icworks successfully execute its strategy, given the nature of trading in this sector, rapid increases in shareholder value are possible.*

## EXPECTATIONS FOR ICOWORKS

We believe that there is considerable upside in Icworks based on several considerations:

- Based on annualizing 9 month sales levels, we believe that Icworks is getting a "haircut" on its Price / Sales figure.
- Recent announcements indicate that **Icworks will easily realize annual sales in the double figures (i.e. well over \$10 million)** over the coming 12 months. Based on our fundamental analysis, we would associate a significant price / sales multiple to these amounts (see below).
- We believe that given the dynamics of the private auction market and potential for **value "bumps"**, there is strong potential to add shareholder value through acquisitions.
- We also believe that through 2004 / 05 Icworks can become highly profitable, given current management's cost controls and expected anti-dilutive acquisition strategy.

We have shown indicative values only given several levels of Icworks sales:

- ① historical (posted) sales levels,
- ② based on the current "run rate" given recent announcements, and
- ③ the value bump for an assumed acquisition of a small regional auction company realizing only \$5 million in sales.

We have shown amounts reflecting Icworks' current 56% interest, as well as assuming the minority interest is purchased.

Indicative Future Value for Icworks Based on Annualized Data (All Amounts \$US)				
		Historical (1)	Current Run Rate	Representative Acquisition (2)
Revenue		1,864	20,000	5,000
Net to IcoWorks (Public Co.)	56.00%	1,044	11,200	2,800
Indicative Value @ 5 x Sales --->		5,219	56,000	14,000
Indicative Value @ 5 x Sales ---> (4)		9,319	100,000	25,000
Indicative Value Per Share --->		\$0.40	\$4.34	\$0.95
Indicative Value Per Share ---> (4)		\$0.37	\$3.95	\$0.92
Assumed Shares O/S (millions) (3)		12.89	12.89	14.76
Assumed Shares O/S (millions) (4)		25.34	25.34	27.21

(1) Historical revenues based on actual 9 months annualized.

(2) Purchase price for 56% of target acquisition assumed to be 20% of sales (roughly 2.5 PE), and financed by equity @ \$0.30 per share.

(3) Basic shares outstanding only + shares assumed issued for 56% of acquisition.

(4) Assumes Cdn \$3.6 million bought deal fund converted to shares (@ US \$0.41) + assumes 44% minority interest acquired for 5.7 million shares.

***We obviously see potential for considerable upside for Icworks in the coming weeks and months as actual results are posted.***

Results do not appear to vary significantly whether or not Icworks purchases the 44% minority interest or not.

## CONCLUSIONS

*We like Icworks for several reasons:*

- ① *The company has reached a critical mass in terms of revenue generating capabilities.*
- ② *We have seen several highly positive announcements recently which shows an ability to grow the business aggressively.*
- ③ *The market is fragmented with many possibilities to grow through acquisition and pursue a consolidation strategy. A significant acquisition could materially change the characteristics of Icworks from a market perspective.*
- ④ *Management expertise, particularly in the project management area, allows the company to take on some of the more complex and profitable workouts.*
- ⑤ *Favorable market valuation parameters.*

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