

Providing Software to Car Dealerships to Manage their Entire Business, Quorum Information Technologies Inc. has Begun to Grow Again in 2011 as the Automotive Industry has Returned Producing Great Products and Bottom Line Results

**Technology
Auto Industry
(QIS-TSXV)**

**Quorum Information Technologies
Inc.**

**Suite 300, 10655 Southport Road
S.W.
Calgary AB Canada T2W 4Y1
Phone: 403-777-0036**



**Maury Marks, B.Mgt., CA
President and CEO**

BIO:

Throughout his career, Maury Marks has established himself as a visionary in the automotive retail technology industry. As one of the original founders, and as the President and CEO of Quorum Information Technologies, Maury has created a company that is committed to building and providing the best dealership management system in the world.

Maury has been around automotive retailing literally all of his life. Growing up in rural Alberta, Canada, Maury worked in his family's GM dealership. That exposure to all facets of dealership management and to the challenges dealers face from both a business and technology standpoint, has given Maury a firm basis for founding and leading Quorum.

In 1988, Maury earned a Bachelor of Management (with Distinction) from the University of Lethbridge in Alberta, Canada. In 1991, he received his Chartered Accountant's designation after articling with Deloitte and Touche in Calgary. At Deloitte and Touche, Maury first worked in the accounting practice. Later, he moved to the firm's technology consulting practice where he worked with many different companies to select and implement technology and systems to support their business needs.

He left Deloitte and Touche in 1992 and began his own practice of technology consulting for small businesses. It was during this time that his family turned to him to find a new dealer management system for their dealership. Having thoroughly evaluated the market and its offerings, Maury concluded that the industry had largely stagnated, and the idea for forming Quorum was conceived.

Maury and his partners founded Quorum in 1996. Since that time, Maury has focused the company on the development of its flagship XSELLERATOR™ DMS software.

Company Profile:

Quorum is a North American company focused on developing, market-

ing, implementing and supporting its XSELLERATOR product for GM, Isuzu, Chrysler, Hyundai, Kia, Nissan, Saab, Subaru, NAPA and Bumper to Bumper dealerships. XSELLERATOR is a dealership and customer management software product that automates, integrates and streamlines every process across departments in a dealership. One of the select North American suppliers under General Motors' IDMS program, Quorum is the second largest DMS provider for GM's Canadian dealerships with 25% of the market. Quorum is a Microsoft Gold Certified Partner and Field-Level Managed ISV in both Canada and the United States. Quorum Information Technologies Inc. is traded on the Toronto Venture Exchange (TSX-V) under the symbol QIS.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Marks, it has been a while since we talked about Quorum, what is happening today and how have you made it through the last couple of difficult years?

Mr. Marks: The last couple of years have been an interesting time for Quorum. We provide software to car dealerships. Our largest group of customers are GM dealerships, so in 2009 when GM went into bankruptcy it was a difficult time, but we managed through the year. 2010 was a year of change because GM did not renew 42% of their dealerships' franchises. Therefore, we had a number of our customers deciding as to whether they would continue their business with another manufacturer or close their business. Now in 2011, we

are growing the business again and we are pretty excited about the future. What has really helped is the recovery of the automotive industry. GM has returned as a strong organization producing great product and good bottom line results.

CEOCFO: What does Quorum offer the auto industry?

Mr. Marks: We provide a software product to car dealerships that manages their entire business. Essentially, we are an ERP for car dealerships. Our software manages their sales, service, parts and accounting departments, as well as all of the dealership's customer relationship management and integration back to the vehicle manufacturer. Today we provide our software to GM car dealerships and we have a very strong GM IDMS partnership with GM for North America. Under our IDMS partnership, GM promotes our product to their dealerships and we collectively build new business-to-business integration to improve the efficiency of their dealerships. In the last two years, we have also built manufacturer integration to Chrysler, Hyundai, Kia, Subaru, and a number of others. We have broadened our manufacturer footprint so that we now provide our software to a various different car dealership franchises.

CEOCFO: What are the challenges in providing software for the auto industry?

Mr. Marks: It is an interesting industry, but a challenging one to supply software for because of the complexity of car dealerships. With sales, service and parts departments, a dealership is really three mini-businesses in one and because the barrier to developing an application for them is so high they have been under serviced, as compared to other vertical industries. Most dealerships are accustomed to using older systems and they have had very little access to modern technology. Quorum offers an integrated system that is very customer centered that has the CRM business processes built into it. Our

product is a Windows-based system that gives them open access to their data. We are really providing car dealerships with systems of the caliber that other industries already enjoy. In the automotive marketplace, our offering is unique.

The barrier to enter the automotive dealership system provider market is even greater when you consider that you have to have business partnerships with all of the large manufacturers. In each case, you need to build business to business integration between your software and the manufacturers' back-end systems. Often times those systems are very old and difficult to integrate to. We have been a very patient company and "paid our dues" and as a consequence, we are

In 2010, we reached a critical mass of customers and the company has been cash flow positive for the last five quarters in a row. We anticipate we are going to be cash flow positive throughout 2011 as we grow the business. Quorum is debt-free except for a government non-secured loan for under half a million dollars. Therefore, this is the strongest financial position the company has ever been in. We are now looking to grow the Company as fast as we can while staying cash flow positive every quarter. - Maury Marks

now starting to get increased traction in the marketplace.

CEOCFO: What is the competitive landscape for Quorum?

Mr. Marks: There are two major competitors in the market, ADP and Reynolds & Reynolds. ADP is known as the leading payroll processing company, but another one of their divisions also supplies software to car dealerships. It is a billion dollar division for them, as well as for Reynolds & Reynolds. Our story can be likened to "David and Goliath" because we have two very large competitors in the marketplace. They have dominated, and control, the marketplace and have supplied old technology systems. We supply new, modern technology. In addition, General Motors support us and we also have a strong partnership with Microsoft. What is a lot of fun is that our product always

gets a "WOW!" when we demo it to dealerships.

CEOCFO: Do most dealerships realize their current software is inadequate or do you have to convince them?

Mr. Marks: The definitely realize it once we show them our product. However, dealerships are generally sole proprietorships and there is a trend towards a transition in the ownership. We are seeing the younger generation taking over ownership of a lot of the dealerships. The younger generation expects better technology and they understand that technology can help grow their business, make them more profitable and improve their customer retention efforts. This is a big plus for a company like ours that uniquely offers such modern technology to the industry.

CEOCFO: How do you reach the dealerships?

Mr. Marks: As part of our GM IDMS partnership, we are able to market directly to dealerships through the GM distribution channel. That has been our primary method of marketing. We are now starting to spend more on alternative methods of marketing because

our expansion of franchise coverage in recent years. For instance, I just recently returned from the North American Auto Dealers Association conference and trade show in San Francisco where we had an exhibition booth.

CEOCFO: Would you walk us through the sales process?

Mr. Marks: Once we generate a lead through our marketing efforts, we have salespeople that manage that lead through our sales funnel. We have a sophisticated sales tracking process where we manage all of our prospects. During the process we ensure that they talk to our dealer references. Typically, deals take three to six months from a lead to final decision. Our available market is so large, that we can predictably grow our business by increasing our investment in marketing and sales staff.

CEOCFO: Would you tell me about the recent integration of CARFAX and what else you are adding to enhance the program?

Mr. Marks: CARFAX is one of the many partners that we have added in the last couple of years as we have been building our integration “footprint” to third party providers, which is key to helping us grow, especially in the US marketplace. This is a similar strategy to our manufacturer growth strategy. You need to keep in mind that we are the source system of our dealership customers’ core data, so we have a large number of requests to integrate to third party providers and manufacturers. Our strategy is to continue to provide our system to larger and larger dealerships and dealer groups. To accomplish this we need to expand our footprint because larger dealerships have more relationships with different companies that provide them third party software.

CEOCFO: Would you tell us about your DMS Assurance?

Mr. Marks: Although new and “shocking” in the industry, the DMS Assurance program we recently announced is really about articulating the way that Quorum has always done business. We have always been very open and honest about the cost of our system, and the terms of our contracts with dealerships. We sell our system as a single integrated system, and as dealerships add people (and grow), we charge based on the additional users. It has been a very different model for the automotive industry where our competitors are used to selling by modules and really “nickel and diming” dealerships. We have also always had month-to-month contracts in place because we believe we have to deliver and earn our customers’ business every single month.

When we put together DMS Assurance, we looked at everything we were doing and said, “Gee, some of our core philosophies are really strong selling points for us”. Our dealers and our customers really like dealing with us because we are so open about everything. Now, with DMS Assurance we took our core philosophy and put them in writing as a guarantee to dealerships. We also added another

option for the dealership that wants even more predictability in their costs for their dealership management system (DMS) including protection for future hardware upgrades and subscriptions to commonly used adjunct services like bank forms and the like.

CEOCFO: How is the software implemented and what how do you make the process less painful for the dealership?

Mr. Marks: That is a fundamental question from our prospects. They look at our product and say, “WOW! That is remarkable.” With our DMS Assurance, our terms are incredibly flexible and our monthly support covers all the core charges for a dealership’s DMS needs, which should create another “WOW!”. Our up-front pricing for our system is as low as we can get it – and really should generate yet another “WOW!” from the dealership. So, the largest concern from the dealership is “will the transition to our system be a smooth?”

I don’t want to underestimate the job. Realistically, we are replacing their backbone system and, as anybody knows, in any industry when they have a core system replaced there are always a few bumps as part of the transition. We have spent a lot of time and energy on making the transition as smooth as possible. We have automated every process to ensure consistency and we scorecard the entire implementation to ensure that everything is completed. I am a big fan of measuring things because if you measure it, it gets accomplished. Therefore, we measure every step of the way through our process to make sure we are delivering. We also measure the dealer side of the process to make sure they are on track and they are getting their pieces accomplished. There are still bumps, however, typically, they are small bumps and we identify them right away and get them resolved.

CEOCFO: What is the financial picture like for Quorum today?

Mr. Marks: The way we price our system in the marketplace first involves an upfront charge for the infrastructure and the implementation services. As I mentioned earlier, we have done

everything possible to keep that cost to the dealership as low as we can – it is a very low margin business for us. We also charge a recurring support fee, which is higher than you would typically see in most vertical technology solution industries, but is the norm for the automotive industry. We provide our customers with a lot of value for that monthly fee. For Quorum, our monthly charges are a higher margin revenue stream and therefore the more we grow, the more customers we add, the more profitable we become. In 2010, we reached a critical mass of customers and the company has been cash flow positive for the last five quarters in a row. We anticipate we are going to be cash flow positive throughout 2011 as we grow the business. Quorum is debt-free except for a government non-secured loan for under half a million dollars. Therefore, this is the strongest financial position the company has ever been in. We are now looking to grow the Company as fast as we can while staying cash flow positive every quarter.

CEOCFO: Why should potential investors pay attention to Quorum?

Mr. Marks: Quorum trades around \$0.12 per share. We are starting to see more volume of our stock trade and, therefore, decent volume on a regular basis. The company is cash flow positive. If you look at our trailing 12 months of results from our last reported results in Q3 2010, and apply common technology company ERP multiples of ten times EBITDA and two times revenue, we should be trading at over \$0.35 per share. Therefore, we are undervalued based on common ERP multiples. We are in a steady growth mode where we are installing thirty plus systems each year. We are doing a lot of work internally to turn the company into a high growth company. With our higher margin monthly support revenue stream the company becomes a lot more profitable if we can achieve a high growth model – and it is consequentially worth more than \$0.35. So, we potentially have a very exciting upside and we are undervalued today based on our historic results.

CEOCFO: In closing, you are one of the founders, what surprised you most about the whole Quorum package of development?

Mr. Marks: As with many entrepreneurial endeavors, when we started we were a bit naïve. We figured we are going to build a product that is going to generate an incredible

“WOW!” in the marketplace and we have done that. We did not realize that was only part of the work that went into developing a high growth company. We have spent a lot of time over the last 2 to 3 years improving our services offering to support our product. We have a great support-services offering and a very strong,

efficient implementation approach. What has been interesting is how much effort we had to put into building our services offerings to allow the Company to be high growth ready. It was something that, at the very beginning, we just didn't view as being as critical as it truly was.



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