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STOCK REPORT - INITIATING COVERAGE

March 26, 2007

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Price: \$0.24
Symbol: CBZFF.OB

Market Cap (mil) \$23.694

Trading Data

Fiscal Year-End	January
52-Week Range	0.04 - 0.31
Shares Out (mil)	98.725
Approx. Float (mil)	8.0 - 10.0
Est '07 Revenues	\$6,552,758
Price / Est '07 Revs	3.62x
Book Value (mil)	-\$3.41
Price / Book	n/a
Acc Deficit (mil)	\$25.5
Gross Profit Margin	52.6%
Net Profit Margin	n/a
Dividend Yield	0.0%
Total Cash	\$79,615
10 day Avg Share Vol	64,150
DJIA	12,496.07
S&P 500	1,437.50

CarBiz Inc.
7405 North Tamiami Trail
Sarasota, FL 34243
(941) 952-9255
www.CarBiz.com
Incorporated in Ontario, Canada

CarBiz Inc. (CBZFF.OB)

Industry: Business Software & Services

Short-Term Rating: Speculative Buy Short-Term Target: \$0.56
Long-Term Rating: Speculative Buy Long-Term Target: \$1.18
Risk Profile: High

INVESTMENT HIGHLIGHTS

- CarBiz has historically focused operations on software, support, and consulting products for the "Buy-Here Pay-Here" automobile market.
- The company has now ventured into the dealership space itself and currently operates three CarBiz Auto facilities in Florida with plans to open 12 more locations by the year 2010.
- With 10 years of consulting experience to the Buy-Here Pay-Here segment of the industry, CarBiz feels confident it can leverage its intimate knowledge from the support side and translate that into predictable profits for its dealership operations.
- The company has recently announced financing arrangements that could result in \$12.5 million in debt funding for the continued expansion plans.
- Although CarBiz Inc. operates in Florida, it is a Canadian-based corporation which traded on the Toronto Venture Exchange until October 2006. At that time the stock began trading on the U.S. Bulletin Board market. The ticker symbol for the CarBiz common stock is CBZFF, which may look strange to some investors, but must bear the "F" signifier as the fifth character in the symbol to denote a foreign-based corporation.

COMPANY DESCRIPTION

Based in Sarasota, Florida, Carbiz is a leading provider of software, training and consulting solutions to the United States automotive industry. Carbiz's suite of business solutions includes dealer software products focused on the "buy-here pay-here," sub-prime finance and automotive accounting markets. Carbiz also operates "buy-here pay-here" dealerships in Florida through its Carbiz Auto Credit division that are wholly owned or joint venture companies. Capitalizing on expertise developed over 10 years of providing software and consulting services to "buy-here, pay-here" businesses across the United States, Carbiz entered the market in 2004 with a location in Palmetto, Florida. Carbiz has added two more credit centers since -- in Tampa and St. Petersburg -- and Carbiz seeks to expand its operations in Florida in the future.

The information and opinions in this report were prepared by Michael A. Willingham, a research analyst. Mr. Willingham is not affiliated with any NASD Broker/Dealer firms, although he has passed the NASD Series 86 & 87 Registered Research Analyst exams. Mr. Willingham has a background in professional money management and investment banking.



CBZFF: Translating Industry Intelligence into a Dealership Network

CarBiz has a clear plan to increase revenues primarily through the expansion of the CarBiz Auto dealerships in Florida. The company plans to build a “super-regional” dealership network in the largely expanding Buy-Here Pay-Here portion of the industry. With a decade of experience in this specific industry segment, CarBiz has achieved an elite status as the company to go to for support and consultation in the Buy-Here Pay-Here industry.

Having built software programs and consulted extensively in the Buy-Here Pay-Here industry, CarBiz plans to leverage this bank of knowledge and understanding to return better margins and growth through their operation of a dealership network. Currently operating three dealerships, the company plans to have 15 total outlets open for business within the next four years. Considering the CarBiz model projects additional revenues of \$1,000,000 from each new location along with additional \$150,000 in profit, this plan dictates CarBiz expectations of over \$20 million in revenues and profits of more than \$2 million by the year 2010.

So what exactly is “Buy-Here Pay-Here”? Exactly as implied, it is the term used in the automobile industry referring to dealerships which sell and finance vehicles all in-house. Most Buy-Here Pay-Here retailers pride themselves on giving more personal attention and have no intervention from an unrelated finance company. Consumers can purchase, finance, and make payments on vehicles all under one roof.

In speaking with CarBiz CEO Carl Ritter, it was obvious in his discussion the importance of customer service. He made sure to point out that in this industry, a dealership must be viewed as part of the community and a place people can come if credit proves to be a problem elsewhere. The responsibility of helping clients purchase vehicles during difficult times is borne by many Buy-Here Pay-Here dealers, but the reliability and service are what make a return customer. These factors are some of the first topics Mr. Ritter discusses when addressing the sustainability of a good dealership in this industry, and who would expect less from the CEO of a company with 10 years of consulting experience.

In this industry, a company is as much a seller of vehicles as it is a financier. Considering the customer buys, finances, and pays for vehicles all under one roof, good software management systems are a must. CarBiz has 3,000 customers across all 50 states which have utilized any one of their services including the software applications. These applications are also in use at the lots CarBiz operates in Florida.

For the nine months ended October 31, 2006, CarBiz achieved revenues of \$2,452,258 from sales of software, consulting services, used car sales, and financing. With a gross profit of \$1,144,211 the company posted gross margin of 46%. Operating expenses, costs associated with getting listed on the Bulletin Board, and expenses from convertible debentures pushed the net loss to \$3,435,706. Historically, the company has operated in the red which has resulted in the accumulated deficit of over \$25 million. Due to continued negative operating income, CarBiz has had to rely on the sale of convertible debt to fund operations and expansion over time. Much of this debt has been converted to equity through the listing of the shares in the U.S. market. The company recently announced funding arrangements that should have less dilutive factors and will potentially fund the company through the expansion plans toward a “Super Regional” dealership network.

Carbiz has finalized a deal that will further assist in funding the expansion strategy of its auto credit business without diluting the share value. An up to \$10.0 million revolving "credit facility" has been finalized with Colossus Capital Fund, L.P. that will provide Carbiz with a credit facility to grow its chain of used car dealerships in the State of Florida. This credit facility is secured by all of the assets of Carbiz and its subsidiaries, matures in four years, and bears 15% interest. Carbiz may borrow from the Credit Facility up to the lesser of:

- *the total amount of funded tranches or*
- *the lesser of:*
 - *58% of Carbiz's eligible receivables' principal balance, or*
 - *100% of Carbiz's cost basis of such eligible receivables.*

At this time, Carbiz may borrow \$210,000 under the terms of the Credit Facility based upon its eligible receivables.



CBZFF Valuation Analysis

In analyzing CarBiz, I was provided forward-looking projections from company management. For disclaimers related to this, please see the final page of this report. The reason the projections are so important is that the company is basing its current operating decisions around a target operational plan by 2010.

The goal is essentially to open and operate 15 retail car “stores” in the state of Florida in the form of a “super regional” dealership network all branded as CarBiz Auto. The reason for this plan is that CarBiz management has spent 10 years analyzing the Buy-Here Pay-Here segment of the industry and has a very high level of comfort with patterns and predictability of the industry. Speaking of predictions, company management expects revenues from each new store of \$1,000,000 and \$150,000 profit from each. Including auto and software revenues, 2010 numbers should be about \$20,000,000 in sales and roughly \$3,500,000 of profit.

A discussion with company management shed additional light on the current outstanding share structure. Of the 98 million shares currently outstanding, 30 million are in an escrow account as collateral on the most recent \$2.5 million convertible debenture. Management commented that these shares should be returned to treasury stock as the debt converts to equity at higher rates than are stipulated in the agreement documents. The end result in management’s opinion is that 98 million shares outstanding will be reduced by 30 million upon return of the escrowed shares, and that about 12 million shares will be issued per the note terms. CarBiz management guidance is that shares outstanding by 2010 should be roughly 72 million shares.

Industry analysis of the Buy-Here Pay-Here market shows a major competitor to be valued most appropriately by a ratio of market capitalization-to-operating stores. America’s Car-Mart (Nasdaq-listed CRMT) analysts project that stock to trade at a market cap of \$4 million per store in operation. (Considering CRMT operates 90 stores, this calculation projects market value of \$360 million while current market cap for CRMT is only \$154 million. Current CRMT valuation on a per store basis is \$1.71 million.)

Applying the expected revenue for a four year plan and expected shares outstanding in that same time frame, a long term price target can be formulated.

CarBiz plans to operate 15 stores in 2010, at a market cap multiple of \$4 million per store gives \$60 million market capitalization based on the CarBiz Auto. Currently, the software and consulting division nets about \$700,000 in annual profits and grows roughly 15% per year. In four years, expected profit from that business line is about \$1,224,000. We can apply a 20x P/E to that figure to get a market cap of roughly \$25 million in that revenue stream. Put the two together for an estimated market capitalization in 2010 of \$85 million. Outstanding shares in that time frame are expected to be around 72 million:

$$\text{\$85 million market cap} / \text{72 million estimated shares} = \text{\$1.18}$$

The long term price target for CarBiz common stock based on the analysis above is \$1.18.

In the short run, we can assume a straight-line growth pattern for CarBiz to reach the 15 stores they have planned for 2010. There are currently 3 in operation now, meaning 3 additional stores will need to be opened each of the next four years to be on target. By the end of 2007, CarBiz should have 6 stores open and using the previously mentioned \$4 million market cap per store, this results in projected value of \$24 million by year end. In addition, the software business is projected to add \$16 million of market cap this year as well.

$$\text{\$24 million} + \text{\$16 million} = \text{\$40 million} \quad \text{\$40 million estimated mkt cap} / \text{72 million estimated shares} = \text{\$0.56}$$

The short term price target for CarBiz common stock based on the analysis above is \$0.56.



Recent Announcements

CarBiz recently completed a project with Tracker Marine Financial Services, to provide online credit applications and loan approvals for "Bass Pro Shop" dealers across the United States.

Also, the company has altered its software to accommodate the printing of plain paper contracts from the suite of products the company provides their dealer clients.

The company also recently partnered with the Automotive Industry Center for Excellence and the Florida Independent Automobile Dealer Association to together provide continuing education classes to automotive dealers across the State of Florida. These classes will include education in "Buy-Here Pay-Here" compliance as well as topics on how to be an effective "Buy-Here Pay-Here" dealer.

CarBiz recently partnered with Allstate Capital who provides financing to automotive dealers for their automotive equipment needs. Dealers who wish to finance the CarBiz license fees, software, and consulting products now have that option.

Industry

Growth Strategy

Research on the buy-here pay-here industry indicates a strong case for the CarBiz Auto Credit business model. One example is America's Car-Mart (NASDAQ: CRMT), with a 90 store operation, profitable margins (12% EBITA) and strong trading multiples. The average Car-Mart transaction results in an average internal rate of return (IRR) of more than 100% and the CarBiz model projects an IRR exceeding 135% per transaction. The CarBiz model reduces risk with a shorter break-even period.

CRMT is one of several large multi-store buy-here pay-here companies identified in the United States. Their typical competitors are local "mom and pop" operations. The large multi-store companies are able to capture significant market share and operate more profitably than their competition because they have developed "super-regional" purchasing power through strong, used auto vendor relationships and volume purchases; a proven, standardized operational template related to collection policies, customer relationship-building, lending decision process and superior market research; and strong capabilities for regional brand building.

CarBiz's strategy is to pursue a similar approach, and the company believes its more than 10 years of buy-here pay-here training and consulting experience combined with its ability to statistically predict buy-here pay-here results will allow it to achieve similar, if not better, results than CRMT.

CarBiz has an opportunity to quickly capture new store growth in the State of Florida as they roll out their expansion program they call "Fifteen in 2010" referring to their plan to operate 15 stores by the year 2010.

In addition to America's car-Mart, three other companies have been identified that operate as multi-store, buy-here pay-here dealerships. Drivetime, a chain approaching 100 stores, is based in phoenix with a national roll out strategy, J.D. Byrider operates 13 corporate stores and almost 100 franchises and a new public company Manchester Inc. (MNCS:OTCBB) which has unveiled a rollup strategy acquiring portfolio's of business from current operating dealers. With an estimated 30,000 independent dealers nation-wide and the fastest growing market in the automotive business sector CarBiz sees an opportunity to position itself as a "super-regional" company in the State of Florida over the next three years.

The buy-here pay-here industry is positioned to make the move from a "mom and pop" business to several large and dominant corporately owned mega-store groups. This transition is in the early stages of an eventual evolution and CarBiz is well positioned to effectively operate, compete and dominate in the Southeast United States.



Business

CarBiz revenues have been derived from three sources, which include:

- Software product and support sales and business model consulting services – through initial software license fees and subsequent support agreements, which provide monthly maintenance fees as well as through a combination of one-time consulting fees and monthly business analysis services;
- Tax return processing used for down payments on automobile purchases (TaxMax) – which was sold during May 2006; and
- Direct auto sales and related financing (Carbiz Auto Credit centers) – through self provided on-site specialty finance business, which includes company-owned locations as well as locations owned by its joint venture.

Historically, CarBiz has been a software company that has also offered tax return processing services for, and business model consulting services to, the North American automobile industry. In May 2004, CarBiz decided to enter the direct automobile sales market utilizing its own software and business model consulting products by opening its first “credit center” in Palmetto, Florida, which is a used car dealership that offers financing on-site to customers with poor credit. Rather than continuing to focus its resources only on its software, tax processing and consulting businesses, it is the Company’s intent to expand and further diversify its business operations by opening additional credit centers in the future. CarBiz opened its second credit center in St. Petersburg, Florida in November 2004, and CarBiz opened its third credit center, a joint venture location, in Tampa, Florida in May 2006. CarBiz anticipates opening additional credit centers in the future, with some of these credit centers being wholly-owned by the Company and others utilizing a joint venture structure. Further, on May 16, 2006, CarBiz sold its TaxMax business to Tax Refund Services Inc. of Tampa, Florida. As a part of this asset sale, CarBiz agreed to enter into a non-competition agreement and, therefore, CarBiz do not intend to provide tax return processing services in the future.

In terms of its existing software and consulting businesses, CarBiz believes that its Independent Dealer Accounting (“IDA”) software and the related consulting will drive its software revenue and consulting services growth in the near term. To date, it has been installed in 20 dealerships, and CarBiz has a backlog of seven installations which are expected to be fully operational by the end of the fourth quarter of this fiscal year. CarBiz believes there is an industry-wide movement towards the adoption of standardized accounting procedures and financial reporting within the independent dealer population, which consists of non-franchise automotive dealers, as a result of efforts by NIADA (National Independent Automobile Dealer Association) and NABD (National Alliance of Buy Here-Pay Here Dealers). CarBiz has worked closely with both of these associations during the development of its IDA software, and has received the “Approved Vendor for Standardized Accounting” designation from NIADA, a designation that indicates to the dealer community that IDA operates properly in producing appropriate audit trails, transaction processing, and financial reporting as defined by NIADA. Although NIADA approval is not required for a company to market its products to independent automobile dealers, CarBiz believes that the NIADA “Approved Vendor” designation will provide additional market acceptance of IDA as a specific accounting solution for independent dealers throughout North America.

The fastest growing segment of the business continues to be the Carbiz Auto Credit specialty consumer finance business. CarBiz operate three facilities in Florida called “Carbiz Auto Credit,” that originate, underwrite, fund and collect auto loans to customers with credit difficulties. The scalable business model leverages its industry expertise and proprietary underwriting and collection processes.

CarBiz believes that the results from its Palmetto and St. Petersburg corporate locations and Tampa joint venture location for the year ended January 31, 2006 have indicated a strong consumer demand for the finance product in that market, as well as reinforce the effectiveness of its system for operations, marketing, underwriting and collections.

The Carbiz Auto Credit division operates in a \$50-billion-a-year industry providing consumer financing for automotive loans at buy-here, pay-here locations. Capitalizing on expertise developed over 10 years of providing software and consulting services to buy-here, pay-here businesses across the United States, CarBiz entered the market in 2004 with a location in Palmetto, Florida. The company has added two more credit centers since -- in Tampa and St. Petersburg -- and plans to expand with multiple units across Florida.



Carbiz has reported double-digit growth in annual revenues for the past three fiscal years. The company recently reported that revenue increased by 31% or U.S. \$1,057,648 in the fiscal year ending Jan. 31, 2006, compared to the prior year. This was a result of software and consulting revenue growth of 14% or U.S. \$297,727 and an increase in auto sales from the Carbiz chain of dealerships of 152% or U.S. \$902,124.

CarBiz recently announced a \$12,500,000 expansion financing comprised of \$2,500,000 in convertible debt and \$10,000,000 in a revolving credit facility. This recent financing fully funds the statewide expansion plans for CarBiz. “Fifteen in 2010” is the name of the first stage of expansion for CarBiz beginning in 2007. “Fifteen in 2010” refers to the target of operating 15 stores in the year 2010 which would mean the addition of 12 new facilities for CarBiz over the next 3 years.

In the model that CarBiz uses, each dealership adds an incremental \$1,000,000 in annual revenue and \$150,000 in earnings meaning that the operation of 15 stores would generate an incremental increase in revenue of \$15,000,000 in annual sales and over \$2,000,000 in profit to the current software and consulting operation. This would push annual revenues over \$20,000,000 by the year 2010.

In the past year, the company has continued developing a young, capable, effective and aggressive management team, conducted a major re-write of the flagship MSP product for buy-here pay-here dealers; improved the internet delivery of all of its products, from software to consulting functions; added several new consulting products that offer smaller services to a wider range of clients; and offered several new “add-on” products for software customers. The company’s efforts, in both product development and marketing, are equally committed to not only gaining new customers, but to increasing revenue per existing customer.

Products

The traditional core business of CarBiz is software and consulting to the automotive dealer industry, particularly buy-here, pay-here dealers. This division has experienced steady growth over the past three years, generating recurring revenues and providing valuable statistical information and dealership management expertise to support the company’s expansion in automotive finance market.

CarBiz clients, which number more than 3,000 across 50 states, use one or more of the following products and/or services:

MSP (Management System Plus) - A complete easy-to-use solution for cost effective management of buy-here pay-here automotive dealerships. This integrated software package provides tools to track and manage underwriting and sales, inventory, customers and collections.

VisualCat – Provides a full range of sales tools to locate the right vehicle for customers, help choose appropriate financing and close the sale faster and easier – while controlling dealer costs and maximizing profits.

IDA (Independent Dealer Accounting) – A capable, cost effective dealer financial control system designed to process accounting requirements for the independent auto dealer. Fully-integrated with the MSP and VisualCat products to simplify data entry.

CarBiz offers a range of training and consulting packages from a basic, startup operation to high-end consulting and analysis. The company offers training on-site or at the CarBiz training center in Sarasota, as well as on-line troubleshooting and telephone consultation.

An annual dealer conference, which is open to anyone in the industry, draws dealers from throughout the United States who want to learn more about maximizing profitability and reducing risk associated with the auto finance business.



Financial

The decrease in sales activity during the three months ended October 31, 2006 was the result of a decrease in inventory levels at all three locations due to a decrease in cash available for the purchase of inventory. Additional costs related to the Form SB-2 registration statement process resulted in the temporary cash shortage.

In the nine months ended October 31, 2006, revenues decreased by \$496,916 compared to nine-month revenue during the previous period ended October 31, 2005. This was primarily due to a decrease of \$511,320 in sales by the Carbiz Auto Credit operating unit during the first nine months of 2006 when compared to the first nine months of 2005. Carbiz Auto Credit generated sales of \$645,860, including \$451,743 from its Company-owned locations and \$194,117 from its joint venture location, during the first nine months of 2006.

Management



Carl Ritter - Chairman, Chief Executive Officer

Mr. Ritter co-founded Carbiz, leading an acquisition strategy to consolidate 11 competitive businesses in the United States and Canada. The resulting company is a dominant software provider in the North American automotive dealer market. Mr. Ritter also led the successful launch of the company's retail auto finance division in 2004. He has extensive experience in the retail automotive industry, operating several dealerships as president and dealer principal, and serving in senior management positions in the industry in Canada



Ross Richard Lye - President, Director

Mr. Lye co-founded Carbiz and leads the company's highly successful data analysis and consulting operations, as well as the fast-growing Carbiz Auto Credit division. With more than 25 years of experience in the North American retail automotive business, Mr. Lye is a respected industry expert particularly in the buy-here, pay-here sector. He is a graduate of the NADA Dealer Academy and held several senior management positions in the retail automotive business in Canada.



Stanton Heintz - Chief Financial Officer, Director

Mr. Heintz oversees the financial and reporting processes for the company. Mr. Heintz has held the position of chief operating officer since 2003 and previously was vice president since joining the company in 2000. Mr. Heintz was voted in as a director and joined the board on July 20, 2006 at the company's annual general meeting. Mr. Heintz served the automotive finance industry for more than 30 years in programming and sales positions with international firms and his own software business.

Sources

www.sec.gov, Capital IQ-Standard & Poors, EDGAR Online, Pink Sheets, Yahoo Finance, www.MN1.com, MarketWire, BusinessWire, PRNewswire, management of the company, www.carbiz.com

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