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IDEIASNET (IDNT3) **ATTRACTIVE**

Price (10/07/06) R\$ 2.67
 Target price (Dec 2006): R\$ 4.27

Executive Summary

We are initiating coverage of IdeiasNet with an **ATTRACTIVE** recommendation for its shares. Through a discounted cash flow analysis at a rate of 15.5% p.a. and nominal growth of 7% to perpetuity, we estimate a **target price of R\$ 4.27**, which represents an upside potential of 60% over the current market price.

IdeiasNet is a holding company with stakes in Information Technology companies, positioned as a vehicle for long-term investments in the Brazilian IT sector. Its aim is to invest in specific IT areas, add value to the companies and then sell off its stakes.

Our **valuation model** for IdeiasNet consists of the current value of the companies within its portfolio on a proportional basis, without including any acquisitions or sales, or dividend payments or receipts. We have also deducted the projected operating costs for the holding company from the estimated cash flow.

The companies within the IdeiasNet portfolio **will continue to grow significantly** in the coming years due to the expected expansion of all the IT segments in which the company operates.

The **diversification strategy**, e.g. the incorporation of the companies of the Pactual Internet Fund at the end of 2004 and the acquisition of a stake in Officer in 2005, reduces the exposure to the risk of the investments, and also strengthens the business portfolio which includes the main sectors in the IT market.

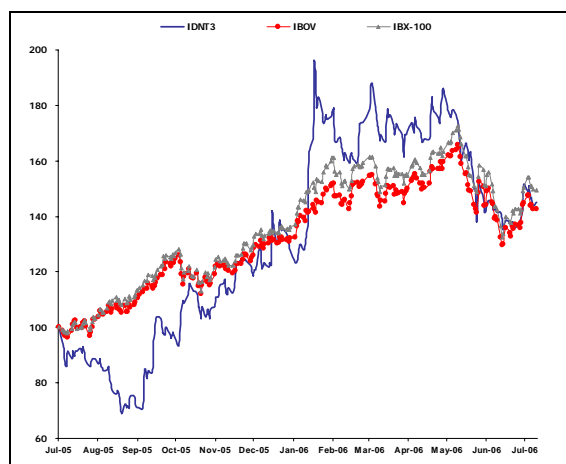
The **main critical point** in evaluating the IdeiasNet venture capital companies is the inherent uncertainty of this market which is still developing and is unpredictable, as is the case with the Internet.

We would also alert investors to the **low liquidity of the company shares** which could limit any investment in IdeiasNet. However, it is worth noting that Ideiasnet has contracted a market-maker and has been part of the IBX-100 since May 2006.

Main share data

Current price (10/7/06)	R\$ 2.67
Target price (Dec 2006)	R\$ 4.27
Number of shares (´000)	75,072
% ON	100%
Free-float (%)	51.3
Maximum and minimum (12m)	R\$ 3.90 e R\$ 1.26
Average daily volume(R\$ ´000)	314.6
Performance vs. Ibov (%)	0 (1m); -9 (3m); +2 (12m)
Performance vs. IBX-100 (%)	-2 (1m); -10 (3m); -4 (12m)
Beta (x)	0.51
Volatility (%)	0.32
Market value (R\$ million)	200.4
Firm Value (R\$ million)	320.5
FV/Ebitida 2005 / 2006P / 2007P	27.0x / 18.0x / 10.0x
P/Sales 2005 / 2006P / 2007P	0.74x / 0.66x / 0.51x

Performance of the share vs. IBOV and IBX-100



Key Investment Points

Strong Points

- The IT sector has a **high growth potential** for the coming years due to the expected increase in the number of Internet users in Brazil and the subsequent increase in online operations, particularly those related to e-Commerce;
- The company's **diversification** strategy, particularly over the last two years, has proven correct since it has reduced its weighting in venture capital companies and, in turn, the investment risk. IdeiasNet's main recent acquisitions were: (i) the incorporation at the end of 2004 of part of the Pactual Internet Fund portfolio; (ii) a 50% stake in Officer; and (iii) a 90% stake in 1Q06 in Trinn Phone (a company operating in the "VoIP" Corporate area). Besides reducing the portfolio risk, this diversification has strengthened the IdeiasNet investment portfolio;
- **IdeiasNet's management** is an experienced team. Most of its executives have been with the company for at least five years and, as a result, have led it during the learning curve after the Internet bubble burst;
- IdeiasNet's operating strategy is directed mainly at the creation of **synergies** among the companies that comprise the holding company's portfolio. The most likely synergies are the sharing of the administrative structure (contracts, accounting, fiscal and managerial), access to the capital markets, and marketing support and executive recruitment.
- IdeiasNet also stands out by investing in companies that provide services using **innovative technology**. One example is Padtec, a pioneer company in selling the wavelength division multiplexing equipment (WDM) for optical communications systems in Latin America, the current Brazilian market leader;
- The companies which make up IdeiasNet's current portfolio: (i) have an extremely broad and solid client portfolio; (ii) occupy a leading position in their operating area; and (iii) have a very efficient, lean business model from the operational and administrative point of view;
- IdeiasNet's **operational cash generation** has already hit the **break-even point**. EBITDA was positive in the consolidated 2005 results as well as in 1Q06, even ignoring the effect of the acquisition of Officer in September 2005; and
- In terms of **corporate governance** practices, the company's By-laws provide the following rights to minority shareholders: (1) 100% tag-along rights in the event of a sale of shareholder control; (2) qualified vote; and (3) a representative of the **minority shareholders** on the Board of Directors.

Weak Points/Risks

- IdeiasNet's business model is very sensitive to the **performance of the economy**, especially *per capita* income. In our projections, we are assuming that GDP growth will come to 3.5% in 2006 and 2007, 3.75% in 2009 and 2010 and 4% in the following years. As a result, if growth rates come in at a lower than expected level, this would lead us to revising the target price downwards;
- The success of IdeiasNet and the companies in its portfolio **also depends on the development of the telecommunications** sector. On one hand, this segment has been growing at a fast rate in recent years. On the other hand, it is a highly regulated sector and frequently vulnerable to political decisions. At the same time, the telecommunications sector is experiencing great consolidation and also faces significant structural and corporate problems;
- Despite its high growth potential, **the IT market is also still developing** and is, therefore, **unpredictable** in some aspects, particularly the technical development, web security and threats to the privacy of users;
- The so-called **grey market for PCs**, which competes directly with Officer and Softcorp, is still responsible for 60% of sales of IT equipment in Brazil although this percentage has fallen in recent years. Officer and Softcorp are jointly responsible for 90% of the portfolio's combined revenues;
- Nine of the 16 companies within IdeiasNet's portfolio **are still at the venture capital phase** and have annual revenues of less than R\$ 10 million. However, the company has adopted a number of initiatives to strengthen these operations, e.g. corporate restructuring to create a holding company called Idéias Ventures, which will centralize the stakes of these companies;
- The **liquidity of the IdeiasNet shares remains very low**, although it has increased since 2005. The average number of daily trades and financial volume between 2000 and 2004 came to 7 and R\$34,000 respectively. From 2005 until the present these figures have risen to 48 and R\$600,000 respectively. It is worth pointing out that IdeiasNet recently contracted a market-maker and has been part of the IBX-100 index since May 2006; and
- Since the IdeiasNet **business model** is new to Brazil, it still has to **prove its success** in the long term.

Company Description

Historical

IdeiasNet is a holding company with stakes in IT companies

IdeiasNet is a holding company which owns stakes in IT companies concentrated mainly in four sectors: (1) e-Commerce and content; (2) infrastructure and software development; (3) wireless; and (4) venture capital.

The company was founded at the end of 1999 and concluded its Initial Public Offering of Shares (IPO) in June that year. Three million shares were issued and raised R\$40.6 million (R\$33 million from the market plus R\$7.6 million from a fund of the BNDES, Brazil's national development bank).

IdeiasNet's original model was built on the IT and Internet sectors which could provide the greatest potential for value creation. As a result, the company initiated its investment portfolio as the lead investor with 10 enterprises, most of which were acting independently.

In 2000, IdeiasNet began a restructuring process due to the difficulties caused when the IT bubble burst

In August 2000, IdeiasNet started a restructuring process due to the difficulties caused by the scarcity of market resources brought about when the IT bubble burst. In 2001, it began operating in a more pro-active way in the formation of its investment portfolio to reduce costs and bring forward the breakeven point.

As a result, the business plans for some projects were revised and their operations closed down. On the other hand, IdeiasNet raised its stakes in projects it considered promising. At that time, the stakes in the companies were raised from between 20% and 25% to between 40% and 50% and, in some cases, it had the option to assume control.

At the end of 2004, IdeiasNet incorporated part of the portfolio of the Pactual Internet Fund, through a share swap operation. After the process was concluded, Pactual held 36% of IdeiasNet's capital. On the other hand, the company increased its portfolio from 11 to 17 companies and doubled its revenues.

In October 2005, IdeiasNet acquired a 50% stake in Officer

Finally, in October 2005 IdeiasNet acquired a 50% stake in Officer, the leading company in the distribution of IT products, through a primary issue of 12.6 million common shares.

IdeiasNet currently has stakes in 16 companies. The company decided recently to reorganize its structure to separate the venture capital operations from those of the private equity companies that are at a more advanced stage and in the consolidation phase.

Table 1. Portfolio of companies

Company	Stake held by	
	IdeiasNet	Operating Area
Officer	49.5%	- Distribution of IT products
Softcorp	41.6%	- Corporate retailer of software, hardware and services
Padtec	22.5%	- Development and production of equipment for optic communication
Spring Wireless	22.5%	- Solutions and services for wireless – corporate market
iMusica	74.8%	- Distribution and management of digital media
iLogistica	34.6%	- Logistics and e-Commerce with added value
Automatos	19.0%	- Management of critical missions for computing environments
Hands	32.0%	- Solutions and services for wireless platform – consumer market
Pini	31.1%	- Publisher, software and services for the civil construction market
iVox	57.3%	- eCRM, research and opinion guides
TV ao Vivo	15.0%	- TV via the Internet
Addcomm	20.0%	- Webmarketing agency
Sadig	19.6%	- Business Intelligence software
Visionnaire	40.0%	- Software house based on technology of distributed objects
Trinn Phone	90.0%	- Voice Over Internet Protocol (VoIP) operator
Braspag	25.0%	- Solutions in electronic transactions payment area

Source: IdeiasNet

E-Commerce and Content

In the e-Commerce sector, the main companies in IdeiasNet’s portfolio are Officer and Softcorp.



Officer is one of the largest distributors of IT products in Brazil. It has been operating on the market for more than 20 years and has more than 15,000 retail outlets throughout Brazil.

In 2005, the company’s revenues increased by 20% to R\$ 482 million. For 2006, we are estimating they will rise by 24% to R\$ 600 million.



Softcorp is a retailer of IT products (hardware and software) and associated services to the corporate market. Its business model is based on using conventional sales channels, mainly account managers and tele-sales, supported by e-Commerce tools and support services which include the installation of the products sold.

An important differential in Softcorp's business model is the free access the company has to the stock held by the main distributors and manufacturers of IT products. This allows it to operate without inventories.

In 2005, the company's revenues rose by 50% to R\$ 65 million.

Wireless



Spring Wireless is a leader in solutions for mobile business in Brazil, with technology adapted to the domestic operators. The company has 55% of market share in the corporate market in Brazil and is in the process of expanding in Latin America.

Infrastructure and software development

Padtec and Autômatos are the main companies in the infrastructure and software development sector in the IdeiasNet portfolio.



Padtec originated in the research and development laboratory of CPqD and is a pioneer in the development and production of wavelength division multiplexing equipment (WDM) solutions and high technology equipment for use in the optical layer of communication systems for the metropolitan market.

The company's main clients are the telecommunications operators.

AUTOMATOS

Automatos is a Management Service Provider for corporate servers, desktops and hardware through distance monitoring. It was founded in Cupertino, California, in the heart of Silicon Valley.

Besides innovative technology, the company has the following competitive differentials: low costs, fast installation time and easy downloading of the application from the company's own site.

Venture capital

In this segment, we are highlighting iMusica and Braspag.



iMusica is the pioneer and leader in Latin America in solutions for the commercial distribution of digital media including the encoding, the downloading tool, and the marketing. It is the pioneer in the legal downloading of music and videos through the Internet and has licensing agreements with over 70 recording companies.

The company currently has over 60,000 licensed customers and uses the Digital Rights Management (DRM) Windows Media.



Braspag specializes in managing distance payment operations (Internet, CallCenter and M-Payment). In less than six months of activities, it has become the market leader in integrating means of payment for the Internet and call-centers.

Operating Performance

IdeiasNet's revenues were very low despite the big increase between 2002 and 2003, since in its first years of activity its main aim was to acquire companies with a venture capital profile. These investment decisions were made on prospects of strong growth in the short term and good results in the medium to long term.

From the end of 2004, IdeiasNet began diversifying its portfolio by incorporating part of the investment portfolio of the Pactual Fund, with more mature companies operating in sectors which complemented those already owned by the company.

From 2004, the company began investing in more mature companies

Table 2. P&L – Combined Portfolio¹

(R\$ '000)	2002	2003	2004	2005
Gross Revenues	9,235	13,155	32,289	293,274
- e-Commerce and content	8,646	12,504	25,511	276,474
- Wireless	339	416	2,115	5,166
- Infrastructure and Software	250	235	4,663	11,634
Net revenues	8,916	12,748	29,427	237,963
Gross Income	1,336	1,905	8,265	44,345
Gross Margin	15%	15%	28%	19%
EBITDA	(870)	140	(993)	6,506
EBITDA Margin	-10%	1%	-3%	3%
Net Income	(1,674)	(553)	(3,352)	(665)

¹ In proportion to the percentage of the companies from the time of their acquisition.

Source: Company

In 2005, revenues increased significantly with the acquisition of 50% of Officer

In 2005, the proportional revenues (i.e., considering the percentage of the stake of the companies from the time of their acquisition) jumped, thanks to the acquisition of a 49.5% stake in Officer, a company that still has great growth potential even though its operations are already consolidated in the market.

IdeiasNet had net income of R\$ 4.7 million in 2005, excluding the non-operating results of R\$ 5.4 million related to adjustments from the revaluation of the inventories of Officer and losses from claims.

Shareholder Control, Management and Corporate Governance

The main shareholders in IdeiasNet, which jointly own 42.50% of the company's total capital, are shown in the following chart:

Graph 1. Organizational Structure



Source: IdeiasNet

IdeiasNet is already qualified to join the Novo Mercado

IdeiasNet's management is an experienced team. Most of its executives have been with the company for at least five years and, as a result, have led the company through the learning curve of the Internet bubble.

To rationalize the company's business dealings, legal pools of marketing and administration and finance were created to serve the holding company as well as the companies invested in.

The company has still not joined the Novo Mercado created by the Bovespa, but has the qualifications to do so. As well as having only common shares its **By-laws incorporate** the following corporate governance practices: (1) 100% tag-along rights in the event of a sale of shareholder control; (2) qualified vote; and (3) a representative of the minority shareholders on the Board of Directors.

Competitive Outlook and Strategic Planning

The Information Technology sector

Historical summary

There is still plenty of space for the IT market in Brazil to grow

The world has always been swamped by an immense quantity of data and information. In the beginning, the great challenge was to develop ways of describing the properties of specific systems (natural or not) to then try and measure the parameters associated with them. Systems for storing data and information have been used for thousands of years in the form of notes written on clay, palm leaves and rocks or through ceremonies, dances, poetry and other. With the arrival of the computing age, the only change introduced was the storage of data through electromagnetic media.

Information Technology is currently used to represent a wide range of activities, related to technology and administration activities, and the processing and transmission of information. Informally, the IT-related activities range from the production of hardware and software, operating systems, applications and information from the Internet, telephones and other telecommunications components, video equipment and multimedia products to office material such as photocopying and fax machines.

IT Market in Brazil

Although the IT market in Brazil has grown extremely quickly and intensely in recent years, the consensus view is that there is still much room for growth. According to IdeiasNet's Management Report for 1Q06, the Brazilian IT market continued to grow in 2005 and there was an increase in Internet users, e-Commerce and mobile phones.

A. Internet

There are an estimated 20 to 30 million Internet users in Brazil

The commercialization of access to the Internet in Brazil completed 10 years in 2005. There are no precise figures of the total number of users in Brazil. To achieve this, it would be necessary to consider those who use the most varied local accesses such as the home, the workplace, school, government offices and public places such as LAN Houses. The estimates available are as follows:

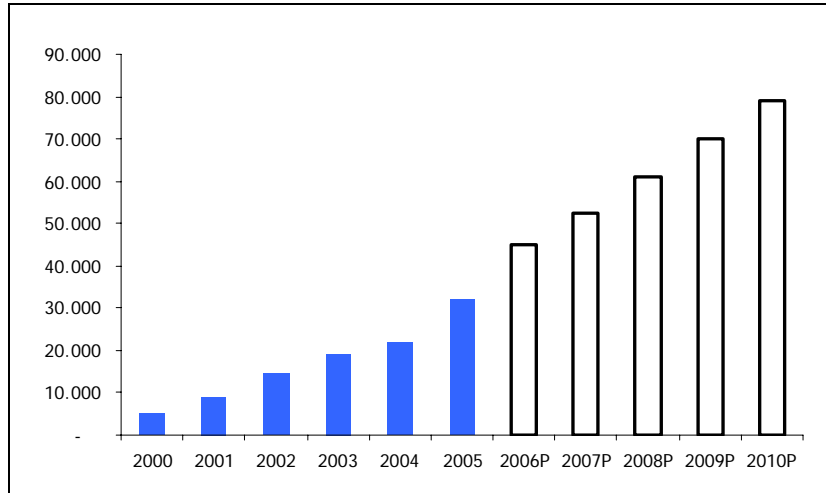
- According to the telecommunications regulator, ANATEL, in December 2005 the number of Internet users in Brazil came to 20 million (3rd in the Americas and 12th in the world), with only 12.2 million active users (at least one connection per month). In terms of the average time of access to the Internet, Brazil leads in the world ranking, with 20 hours and 25 minutes compared with 18 hours and 45 minutes in France, 17 hours and 29 minutes in Japan and 16 hours and 45 minutes in the United States, according to a study by the Ibope/Netratings organizations;
- According to data from the United Nations, there are currently 32.1 million people in Brazil who live, study and work in places with access to the Internet. However, only 16.6% of the population has a computer at home and there is a high concentration of users in the A and B classes, due to their greater purchasing power.

The UN warns that Brazil has a high level of digital exclusion since around 68% of the population never accesses the Internet. Although some government programs have tried to reduce this digital exclusion, penetration is still low.

However, the Internet market should grow significantly in the coming years.

Graph 2. N° of Internet Users in Brazil (000)

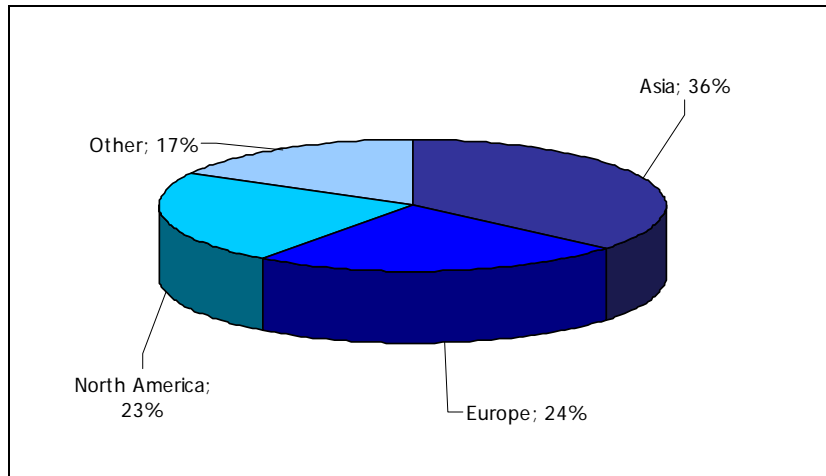
There are one billion Internet users in the world and the number has been growing at an average annual rate of 18% since 2002



Source: ONU. Estimates: Nielsen NetRatings, e-Bit and Forrester Research.

- According to Useable Information Technology (USEIT) there are already one billion Internet users in the world. The Internet has been growing at an average annual rate of 18% since 2002. By 2015 the number of Internet users is expected to increase to two billion, most of whom will be concentrated in Asia.

Graph 3. Current distribution of Internet users in the world

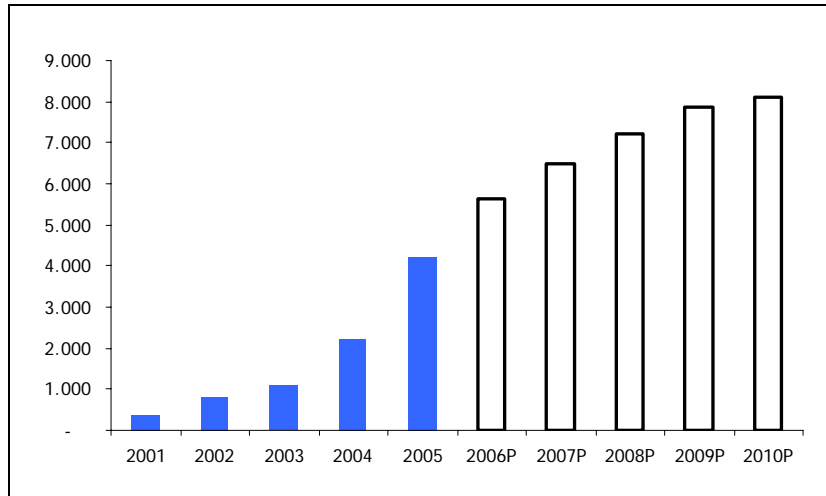


Source: www.useit.com

Only 13% of Brazilian Internet users access the web through broadband, showing its great growth potential

The use of broadband in Brazil has grown significantly in recent years and came to approximately 4.2 million users at the end of 2005 (85% more than in 2004), mainly due to the migration from the dial-up connections. By the end of May 2006, this number had reached 4.5 million, surpassing for the first time the number of cable TV subscribers in Brazil. The fact that only 13% of Brazilian Internet users access the web by broadband shows the great potential in the coming years.

Graph 4. N° of Broadband Users in Brazil (000)

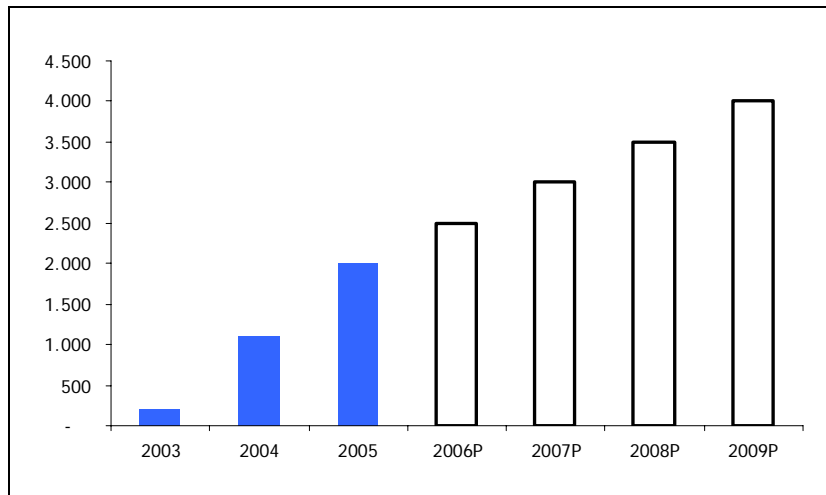


Source: Teleco and Operators

VoIP was another highlight in 2005, reaching around two million users

The Voice over Internet Protocol (VoIP) is also linked to the broadband Internet access and was another highlight of the telecommunications sector in 2005. The business gains from this technology were the main driving force behind the expansion of the VoIP which was used by around two million people at the end of 2005. According to IDC (a consulting and market intelligence company that focuses on IT and telecoms) the number of VoIP users in Brazil is expected to double by 2009. Besides this, the market expects the voice, video and data areas to converge to the so-called Triple Play and continue to drive the IT market in coming years.

Graph 5. N° of VoIP Users in Brazil (000)



Source: IDC

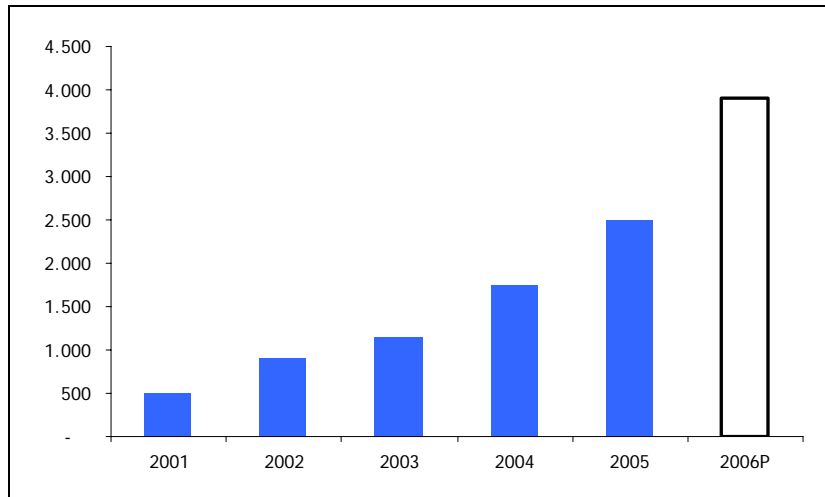
The e-Commerce sector in Brazil registered an increase of 43% in revenues in 2005 to R\$ 2.5 billion

A. e-Commerce

The electronic commerce sector in Brazil is also continuing to expand, thanks to the greater level of security in making virtual transactions and the constant increase in the number of Internet users in the country. According to e-Bit (an online market research company) revenues from the e-Commerce sector in Brazil rose by 43% to R\$ 2.5 billion in 2005.

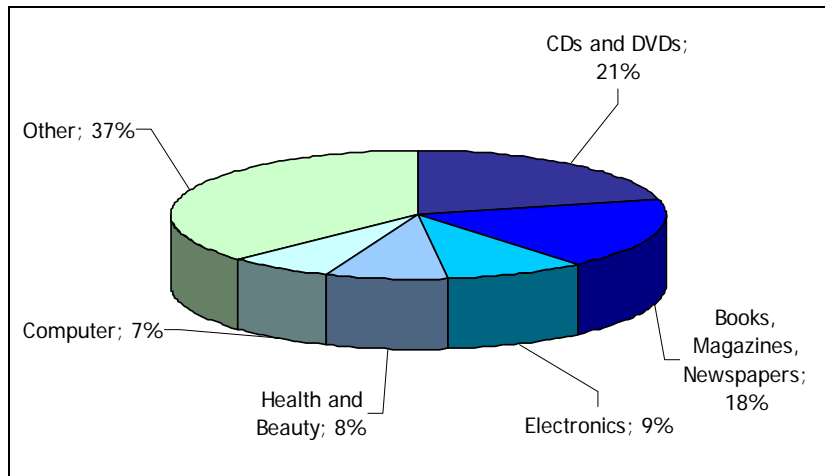
The average ticket in 2005 came to R\$ 272, with CDs and DVDs representing 21% of total sales. Estimates by e-Bit point to a rise of around 50% in 2006 to R\$3.9 billion. Despite the fast rate of growth of e-Commerce in recent years, there is still room for greater expansion since the business volume in 2005 represented only 0.15% of Brazilian GDP.

Graph 6. Revenues from e-Commerce in Brazil (R\$ million)



Source: e-Bit

Graph 7. Most popular products sold via the web in 2005 (% of revenues)

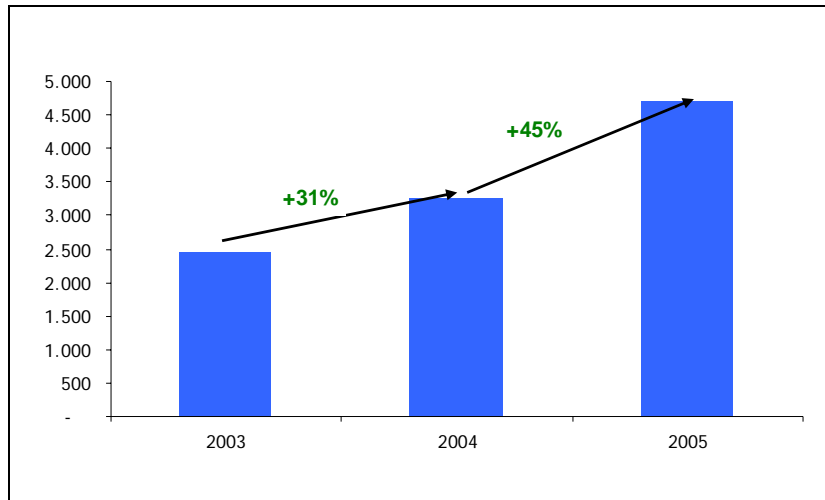


Source: e-Bit

There are an estimated 4.7 million virtual consumers in Brazil, a number which should continue to increase

The number of virtual consumers has been growing in line with the e-Commerce sector and amounted to an estimated 4.7 million in 2005. Although the habit of online buying is higher in Brazil than in other Latin American countries, there is still plenty of room for expansion compared with the more developed markets in Europe and the United States. For example, of the 170 million Internet users in the US, approximately 100 million shop via the Internet.

Graph 8. N° of Virtual de Consumers in Brazil (´000)



Source: e-Bit

However, there are some factors that could dampen this growth. Although the network has been developing extremely rapidly recently, a survey by e-Bit shows some resistance particularly in relation to the delivery times and web security.

On the other hand, the following positive factors were mentioned in the survey: (i) convenience; (ii) flexibility and (iii) facility in checking prices and comparing products. Besides this, a survey by PricewaterhouseCoopers showed that 74.3% of those interviewed felt that the company brand still played an important role in the decision of the client who is still wary of buying via the Internet.

In the B2B sector in Brazil, e-Bit reported revenues of R\$ 267.5 billion in 2005, an increase of 37% over 2004. The growth has been driven by continuous investment in the IT area, as well as the better macroeconomic conditions in the country. The bodies which measure the B2Bol index – Business to Business Online – expect an increase of more than 30% in 2006.

Another important growth driver was the fall in Brazil of the so-called “grey market” i.e. the illegal sale of IT equipment. According to IDC, the “grey market” share fell from 74% at the end of 2004 to 60% at the end of 2005. This was due to the government granting exemption from the PIS and Cofins taxes for computers costing up to R\$ 2,500 and efforts taken by the authorities to reduce contraband.

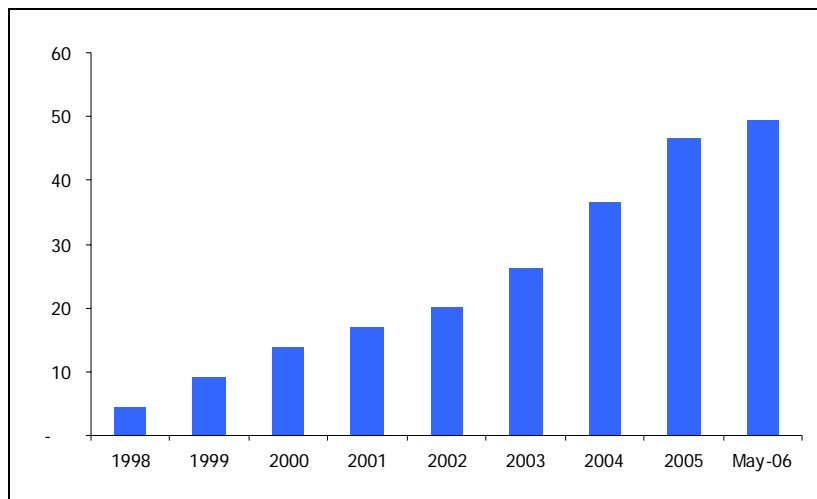
The fall in the “grey market” is an important growth driver for the sector

Mobile telephony in Brazil continues to be the highlight of growth in the telecommunications sector

C. Telecommunications

The highlight in the telecommunications market continues to be the growing mobile telephony sector which had 92.4 million subscribers in May 2006, according to ANATEL. Brazil is currently the country with the third-largest number of subscribers, behind only of the United States and China with 172.0 million and 334.6 million, respectively. Mobile telephony penetration has already reached 50% of the population in Brazil, with consecutive years of high growth.

Graph 9. Mobile Telephony Penetration in Brazil (%)



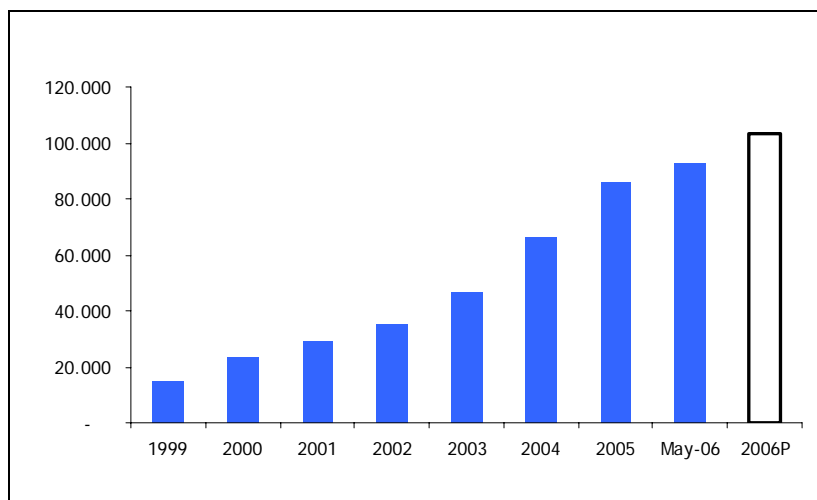
Source: ANATEL

The mobile telephony market should have 103 million subscribers by the end of 2006

We estimate that the mobile telephony market should amount to 103 million subscribers by the end of 2006. However, while half the population owns a cellular phone, around 80% use pre-paid systems. This situation creates obstacles for the mobile telephony operators in raising their revenues based on call traffic. This is making these operators concentrate their efforts on selling higher added value services as a way of increasing their revenues per subscriber.

The current distribution of income in Brazil means that the growth potential of the subscriber base for mobile telephony should be limited to around 55% of penetration of the country's population.

Graph 10. Nº Mobile Phones in Brazil (´000)



Source: Teleco; Estimates: Fator

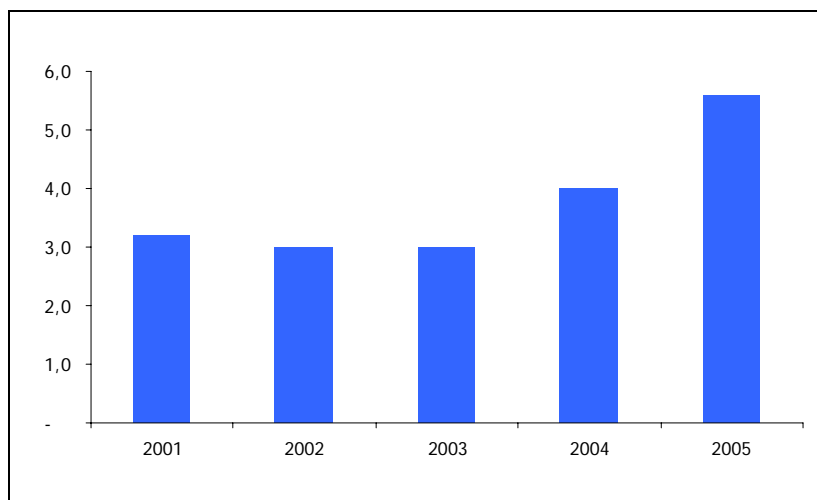
D. Computers

According to IDC, 5.6 million computes were sold in 2005, compared to 15 million units between 1985 and 1999. In 2005, the following factors were prominent:

- Sales of laptops rose by 100%; and
- Sales of computers to private individuals increased by 120%.

The market expects computer sales to follow a similar rate of growth as mobile telephony since penetration of computers in Brazilian homes is still low, at an estimated 16%, which shows the significant growth potential.

Graph 11. Computer Sales in Brazil (million)



Source: IDC

Strategy: diversification and growth

With the incorporation of part of the Pactual Fund portfolio, particularly the acquisition of the stake in Officer, IdeiasNet altered the focus of its strategy from concentrating on companies with venture capital features, to diversifying its investments in the IT sector, preferably to more mature companies but which still have a high growth potential.

As a result, IdeiasNet has not only gained strength but has reduced its exposure to the risks intrinsic to investments centered on companies in the initial phase of operations and/or excessively concentrated in one segment.

As a result, IdeiasNet's current strategy is as follows:

- Organic growth of the companies in the portfolio;
- The consolidation of the companies in the sectors where IdeiasNet already has investments. A number of operations of this kind occurred in 2005, e.g., the purchase of the Columbian company Sysgold by Spring Wireless, the merger of Dotcomm, Advice Net and Tange, creating Addcomm, and the inauguration of the new affiliate of Softcorp in Curitiba, the result of the purchase of Netsan in the city;
- Selective investments in companies with the venture capital profile; and
- Acquisition of strategic stakes in complementary IT companies in the IdeiasNet portfolio and with a Private Equity profile.

The drivers of growth for the main companies within the IdeiasNet portfolio are as follows:

Officer

- Reduction of the "grey market" which currently corresponds to 60% of the total market;
- "Tax emption decree" – sales of PC's below R\$ 2,500;
- Increase in sales of current product lines (Microsoft, HP, Lenovo, Intel, amongst others);
- New product lines – supplies and components; and
- Better results after the recent capitalization in the company which occurred in 1Q06.

Softcorp

- Reduction in the "grey market";
- "Tax emption decree"; and
- Higher sales made through the company website, improving its scale.

Padtec

- Maintenance of the flow of investments in infrastructure in Brazil – demand from telecommunications operators;
- Higher sales to large contractors; and
- Higher sales to Latin America.

Spring Wireless

- Maintenance of the strong rate of sales and market share at the current levels of 55% in Brazil;
- The expansion of business to Latin America – demand from the company’s large clients; and
- Higher profitability due to the return on the investments made since its opening – maturity of the projects financed by the company.

Automatos

- Expansion of the use of technology developed by the company on the Brazilian market;
- Expansion of the number of products sold; and
- Possibility of realizing strategic partnerships to increase sales.

Financial Situation

On 31/03/06, the holding company had net cash of R\$ 6.2 million and net debt proportional to the stakes in the invested companies of R\$ 1.9 million. This brought the combined net cash to R\$ 4.3 million.

IdeiasNet ended 1Q06 with combined net cash of R\$ 4.3 million and proportional net debt of R\$ 1.9 million

IdeiasNet has increased its capital annually since the IPO in 2000. The resources raised were the main form of financing investments in the portfolio and were directed at capitalizing the companies and acquiring new stakes.

Table 3. Capitalization

Year	(R\$ million)
2000	40.6 ¹
2001	2.5
2002	2.0
2003	0.8
2004	3.0
2005	19.6 ²

¹ IPO

² R\$ 10.5 million through the capital increase and the rest in subscription bonus. Source: IdeiasNet

In 2005 the resources were used to strengthen the holding company’s cash situation, the capitalization of Officer (R\$ 4.5 million), Padtec, Spring Wireless iMusica and Softcorp.

Company Valuation and Outlook for Results

We are initiating coverage of IdeiasNet with an **ATTRACTIVE** recommendation for its shares. Through a discounted cash flow analysis at an rate of 15.5% p.a. and nominal growth of 7% to perpetuity, we estimate a target price of R\$ 4.27, which represents an upside potential of 60% over the current market price. It is worth pointing out that the current value of the cash flows projected to 2015 corresponds to 44.8% of the firm value.

DISCOUNTED CASH FLOW Valuation

	R\$ million
Present value of cash flows	141.8
Present value to perpetuity	174.4
Firm value	316.2
(-) Net debt on 31.03.2006 ¹	(4.3)
(=) Equity Value	320.5
Number of shares (mm)	75.1
Target price (R\$/shares)	4.27

¹ Net cash of the holding company of R\$ 6.2 million plus proportional net debt of the IdeiasNet portfolio of R\$ 1.9 million.

Sensitivity Analysis

	Perpetuity			
	9%	8%	7%	6%
13.5%	7.52	6.52	5.83	5.32
14.5%	6.04	5.41	4.94	4.59
15.5%	5.02	4.59	4.27	4.01
16.5%	4.28	3.98	3.74	3.55
17.5%	3.71	3.49	3.32	3.18

↑
Discount
Rate
↙
Target price

Valuation Methodology

IdeiasNet is a holding company, the results of which consist of the equity accounting of the stakes in the invested companies. All of them not listed companies and do not, therefore, publish financial statements (except Officer).

As a result, we are using the following criteria in drawing up our valuation model for IdeiasNet:

1. Present value of the IdeiasNet portfolio: the company issues quarterly statements of the consolidated results of its portfolio in proportion to the stakes it holds in each company presented by operating sector (e-Commerce and content, infrastructure and software and wireless).

As a result, we are using this information to estimate the future cash flows of the IdeiasNet portfolio and bringing them to present value. Our model does not consider any new acquisition and possible divestments.

We do not consider any payments or receipts of dividends.

Table 4. L & P – Selected Data – Historical and Projections

(R\$ million)	2005	2006P	2007P	2008P	2009P	2010P	2011P	2012P	2013P	2014P	2015P
Gross Revenues	293.3	390.6	507.9	630.9	734.8	807.5	885.8	968.9	1,059.5	1,158.9	1,268.1
- e-Commerce	269.9	362.7	463.0	570.3	660.5	721.8	790.5	862.0	940.2	1,025.7	1,119.2
- Wireless	4.6	6.1	12.5	19.1	25.5	31.5	35.4	39.9	44.9	50.5	56.9
- Infrastructure	10.9	15.9	23.6	32.1	38.1	43.1	48.3	55.1	62.0	69.8	78.5
- Others	7.9	5.9	8.8	9.5	10.7	11.1	11.5	12.0	12.5	13.0	13.5
(-) Taxes	55.3	90.0	117.0	145.3	169.3	186.0	204.1	223.2	244.1	267.0	292.1
Net Revenues	238.0	300.6	390.9	485.6	565.5	621.4	681.7	745.7	815.4	891.9	976.0
Growth	-	26%	30%	24%	16%	10%	10%	9%	9%	9%	9%
COGS	193.6	250.7	316.6	388.4	452.4	497.1	538.6	589.1	644.2	704.6	771.0
Gross Income	44.3	50.0	74.3	97.1	113.1	124.3	143.2	156.6	171.2	187.3	205.0
Gross Margin	19%	17%	19%	20%	20%	20%	21%	21%	21%	21%	21%
Operating Costs	37.8	39.1	54.7	68.0	73.5	74.6	81.8	89.5	97.9	107.0	117.1
EBITDA	6.5	10.9	19.5	29.1	39.6	49.7	61.4	67.1	73.4	80.3	87.8
EBITDA Margin	3%	4%	5%	6%	7%	8%	9%	9%	9%	9%	9%
(-) Depreciation	1.1	0.8	1.5	1.9	2.3	2.5	2.7	2.9	3.2	3.5	3.9
EBIT	5.4	10.1	18.1	27.3	37.3	47.2	58.7	64.2	70.2	76.8	84.0

Source: Company and Fator Corretora estimates

Although we are estimating significant growth in net revenues, the operating margins should not increase much

We estimate **an increase in net revenues** of 26%, 30% and 24% for 2006, 2007 and 2008, respectively as we expect a significant expansion in sales of IT equipment, higher sales penetration through e-Commerce, and growing demand for wireless and telecommunications infrastructure.

Despite the big increases in sales, **we are estimating small increases in the operating margin**, since there is little room for gains of scale and efficiency in the business model of the companies which make up the IdeiasNet portfolio, particularly Officer (responsible for around 80% of the proportional revenues). This because they operate in an extremely competitive market that is highly exposed to smuggled goods.

2. Holding Company's costs: In 2005, the holding company's operating costs amounted to R\$ 2.3 million. In 2006, we are estimating an increase in these costs to R\$ 2.5 million (+9%) and for the following years are restating this figures in line with the IGP-DI index.

Table 5. Firm Value - IdeiasNet

(R\$ million)	2006P	2007P	2008P	2009P	2010P	2011P	2012P	2013P	2014P	2015P	Perp.	Total
PV Portfolio IdeiasNet	6.9	10.7	14.1	16.7	18.4	19.8	18.8	17.9	17.0	16.1	184.4	340.8
PV Holding company costs	(2.2)	(2.0)	(1.8)	(1.6)	(1.5)	(1.3)	(1.2)	(1.1)	(1.0)	(0.9)	(9.9)	(24.6)
PV IdeiasNet	4.6	8.7	12.2	15.1	16.9	18.5	17.6	16.8	16.0	15.3	174.4	316.2

Source: Estimates Fator Corretora

The IdeiasNet business model is very sensitive to the performance of the economy, particularly in terms of popular income

Critical factors in our valuation

Our projection assumes that the companies which make up the IdeiasNet portfolio will continue to grow at a fast rate in the coming years. However, as we point out, IdeiasNet's business model is highly sensitive to the performance of the economy, particularly in terms of *per capita* income.

We have carried out an exercise in which we reduced the annual rate of growth of IdeiasNet's combined revenues between 2006 and 2010. We assumed reductions of 10%, 20% and 30% in the annual growth rate of the combined revenues in the following scenarios A, B e C, respectively, while maintaining all the other assumptions unaltered.

Table 6. Sensitivity – Annual Growth Rate of the Combined Revenues

	2006P	2007P	2008P	2009P	2010P	Target price	Var %
Base Scenario	26.3%	30.0%	24.2%	16.5%	9.9%	4.27	
A	23.7%	27.0%	21.8%	14.8%	8.9%	4.09	-4.2%
B	21.1%	24.0%	19.4%	13.2%	7.9%	3.92	-8.2%
C	18.4%	21.0%	16.9%	11.5%	6.9%	3.74	-12.4%

Source: Fator Corretora Estimates

In conclusion, our valuation **does not consider acquisitions or sales**. The projection takes into account only the present value of the IdeiasNet portfolio, which we believe is undervalued compared with the current market price.

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Valuation Method Used to Calculate the Target Price of IdeiasNet: discounted cash flow at average rate of 15.5% p.a. and growth to perpetuity of 7.0% p.a..

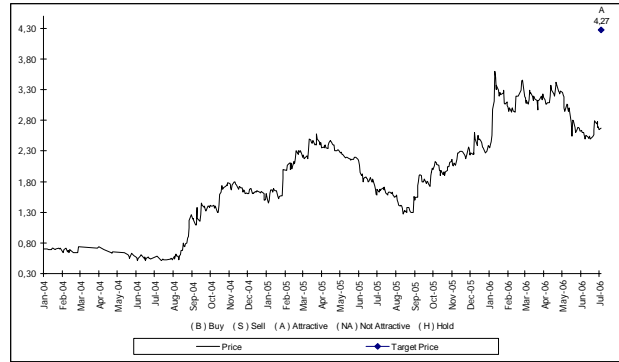
Risk Assessment: IdeiasNet's business model is highly sensitive to the performance of the economy, particularly in terms of popular income.

The current investment analyst began covering IdeiasNet shares on 12/07/2006.

Previous Recommendations:

Date	Recommendation	Target price (R\$/share)
12/7/06	Attractive	4.27

Share Price, Target Price and Performance of Fator Corretora Recommendation for shares in IdeiasNet. (IDNT3)



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