

IDEIAS NET (IDNT3: R\$ 2.97) – IdeiasNet buys a participation in NetMovies

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**Recom.: OUTPERFORM**

**Target Price: R\$ 4.27**

**MKT. CAP.:  
R\$ 223.7 million**

**EV: R\$ 219.5 million**

According to an article published on 09/22/06 in the newspaper "Valor Econômico", **IdeiasNet has entered into the market of online movie rental by buying a participation in NetMovies (www.netmovies.com.br)**, a company which started operating in February 2006. The idea is to offer a "subscription plan" in which the user can watch movies without return dates or late fees, paying only a monthly fee (starting at R\$ 28.00/month, depending on the number of movies simultaneously rented and the form of payment). The value of the deal hasn't been released.

**The no-late fees** is the largest differential of the service. It's estimated that around 30% of the Blockbuster chain's revenues come from late fees.

NetMovies, which works in the Greater São Paulo area and the city of Rio de Janeiro, has currently around 1.7 thousand subscribers, who chose their movies from among 9,000 titles – the largest selection in the country. According to Daniel Topel, NetMovies' founder and CEO who will remain in charge, the Company intends to expand its coverage to the main cities of the Southeastern, Central-Western and Southern regions of Brazil, and **it should reach the mark of 50 thousand users by the end of 2007.**

In order to increase the number of subscribers, IdeiasNet intends to develop cross marketing actions, making the most of the synergy with the companies of its portfolio, i.e. iMusica, iVox, Bolsa de Mulher, TV ao Vivo and Hands. With IdeiasNet entering NetMovies, the **Company estimates to reach net revenues of R\$ 12 million in 2007, jumping to R\$ 50 million in 2008.**

However, **competition in the Brazilian market will be fierce** when companies such as **Blockbuster** enter this market, as it intends to begin a pilot in São Paulo by the end of 2006, to offer DVDs in the monthly subscription model, via the Internet, **ClickMovies**, which has been offering rentals in the traditional model for four years, but is studying to enter the virtual model and **Pipoca Online**, created in January this year.

As the online movie rental market is very fragmented in small operations without a large capacity of structured growth, **IdeiasNet is planning to absorb two or three other operations in the same sector over the next few months**, and one of them is in Rio de Janeiro.

IdeiasNet's entrance into the business also marks its market positioning in the market of Video On Demand (VOD), i.e. the distribution and commercialization of movies in digital media - for computers and mobile phones, as it's done nowadays with music and audiobooks by the iMusica.

The acquisition of NetMovies, which integrates the IdeiasVentures' portfolio, although it doesn't have a relevant gross sales as of yet, it is in line with IdeiasNet's strategy of accompanying the trends in the IT and e-commerce industry and invest in enterprises with growth potential. NetMovies follows the model of the US Company NetFlix, which is currently being traded at an EV/EBITDA multiple of 17x.

We reaffirm our **OUTPERFORM** recommendation for IdeiasNet's shares.

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Recommendation	Criteria	Distribution	
		Quantity	% of total
Buy	The total return of the share is expected to be significantly above Ibovespa's variation.	32	38.6%
Outperform	The total return of the share is expected to be above Ibovespa's variation.	21	25.3%
Hold	The total return of the share is expected to be in line with Ibovespa's variation.	20	24.1%
Underperform	The total return of the share is expected to be below Ibovespa's variation.	10	12.0%
Sell	The total return of the share is expected to be significantly below Ibovespa's variation.	0	0.0%
<b>Total</b>		<b>83</b>	<b>100.0%</b>

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