

EPOCH DIRECT

Research

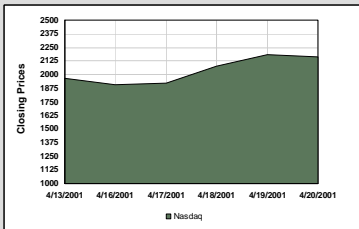
Matthew Adams, CFA
 Mark Langley
 Mark Langner
 Seth Spalding
 Mark Verbeck

Epoch Indices for the Week

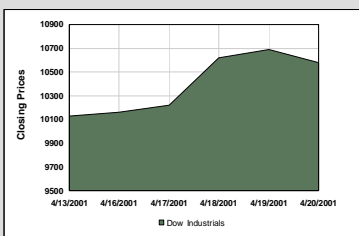
Broadband & IP Svcs: +18.75%
 Comm Equipment: +13.87%
 Internet: +18.15%
 Software: +14.79%

Market Statistics (5-Day)

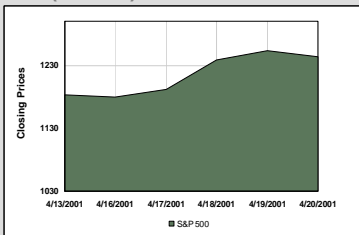
Nasdaq (+10.30%)



Dow (+4.47%)



S&P (+5.03%)



The Ugly, the Bad, and the Good

By Seth Spalding

Director, Senior Analyst

We already know the really ugly news. Technology stocks across the board are down, and down big. Specifically, the Epoch Partners Communications Equipment Index is down 75% from a year ago. Not to be outdone, the equivalent index for their customers, the communications service providers, is down 90%. This ugliness is a result of some bad news, namely that the expectations placed on the fruits of a deregulated telecommunications market were unrealistically high. The traditional service model for carriers did not change in Internet time, but that was not reflected in their aggressive capital spending budgets. So, is there any good after the ugly and bad? Yes. Even though I don't think we've yet seen the bottoming of the Nasdaq, I think the current market turmoil is uncovering some gems amidst the wreckage.

From the perspective of communications infrastructure, the market downturn is reflecting an anticipated slashing of capital spending on the part of their customers, the service providers. This cut in spending is really a function of two phenomena:

- 1) CLECs with unprofitable business models are shutting their doors. Though it grabbed its fair share of attention, the aggregate spending of these players -- Northpoint, Covad, Jato and others -- was actually quite small. RHK estimated that roughly 7% of 1999 industry cap-ex was attributed to CLECs, with only a fraction of that going toward the broadband access based carriers.
- 2) Incumbent carriers, seeing competition exiting the market, combined with the specter of an overall economic slowdown, have taken a conservative stance, and tightened their belts. This will have a bigger impact on the absolute dollar reduction, but on a percentage basis will actually be quite small.

Our communications equipment analyst team at Epoch has surveyed the capital spending of the important domestic telecommunications carriers, and the results will help shed some light on the picture. Spending for 2000 totaled \$95.6 billion, and was up 37% from 1999, which in turn was up 42% from 1998. Our forecast for 2001 is growth of 0.5% to \$96 billion, reflecting the guidance of carriers from their filed documents and conference calls.

Optimists are calling it a "pause" in spending, but let's play it safe and be pessimistic. For the sake of argument, let's say that the carriers themselves don't yet know how bad shape they're in, and that spending could be down by as much as 15% this year vs. 2000, well below their already reduced forecasts. Even this scenario represents a \$81.3 billion market in the U.S. alone.

[more]



There might not be a rising tide to lift all ships here, but the good news is this \$81 billion to \$96 billion market is a dynamic one, where market share can be gained or lost within the blink of a quarter. Now more than ever, technology prowess and market timing decide an infrastructure company's fate. Take Sycamore and Ciena, both players in DWDM. Sycamore's trail-blazing approach to mesh-based networking proved too far ahead of the market in a time where carriers are trying to squeeze all they can out of their existing infrastructure. The more staid DWDM implementation of Ciena showed surprising resiliency, however, despite the overall spending downturn.

What's the prognosis here? From July 1999 to December 2000, 480 private companies communications infrastructure market received a total of \$12.2 billion in funding. Of that, \$105 billion was raised in the public markets, largely the result of the promise of the 1996 telecom deregulation act. With the anticipated flourishing competition and resulting new services proving to take much longer than originally anticipated, many of the companies funded on a more bullish outlook are starting to pool their resources, or seek other "strategic alternatives." This process is painful, but the result will be a self-selected group of companies with the raw technical talent and wily management necessary to take a good sized bite from what, from a pessimistic perspective, will be a \$81.3 billion pie.



Top 10 Stocks Bought*

Niku Corp. (NIKU)	24.79%
Broadbase Software (BBSW)	15.80%
Kana Communications (KANA)	9.91%
InterNAP (INAP)	8.19%
Ibeam Broadcasting (IBEM)	7.69%
Metawave (MTWV)	7.60%
i3 Mobile (IIIM)	7.50%
Interact Commerce (IACT)	7.07%
PurchasePro (PPRO)	6.95%
Packeteer (PKTR)	5.14%

Top 10 Stocks Sold*

Micromuse (MUSE)	-4.04%
Webmethods (WEBM)	-3.22%
Finisar (FNSR)*	-3.06%
Sycamore Networks (SCMR)	-2.79%
EBay (EBAY)	-2.41%
Carrier Access (CACS)	-2.20%
RF Micro Devices (RFMD)	-2.14%
BEA Systems (BEAS)	-2.12%
Verisign (VRSN)	-2.09%
NaviSite (NAVI)	-1.83%

***Notes**

Percent change from the prior week in the number of technology-related shares held by customers of our brokerage partners.



 This Past Week at Epoch

- 04/16/01 [Finisar Preannounces 4Q01, Trims 2002 Guidance](#)
- 04/16/01 [Cisco Officially Preannounces the Quarter](#)
- 04/16/01 [MatrixOne: Benefiting from Collaborative Design](#)
- 04/17/01 [Loudcloud Announces Service Enhancement; Adjusting EPS Based on Revised Share Count](#)
- 04/17/01 [Yahoo Hires New CEO Terry Semel](#)
- 04/17/01 [Aether: March Numbers Look Good, But Slowdown Ahead](#)
- 04/18/01 [Equinix: Solid Quarter, Attractive Stock](#)
- 04/18/01 [StorageNetworks Reports Solid Quarter](#)
- 04/18/01 [Level 3: No Longer an Island](#)
- 04/18/01 [Akamai: Starting to Convince the Street](#)
- 04/18/01 [New Aether Software Platform Unveiled at Analysts' Day](#)
- 04/18/01 [Openwave Meets March Projections; Keeps Guidance Consistent](#)
- 04/18/01 [i2's 1Q: End of an Era](#)
- 04/18/01 [Covisint Finds CEO, Industry Experience a Concern](#)
- 04/19/01 [Avici: Gold-Plated Quarterly Results](#)
- 04/19/01 [Nortel Reports 1Q01 Results -- Still No Visibility \(or Guidance!\)](#)
- 04/19/01 [Netro: 1Q01 In Line With Preannouncement](#)
- 04/19/01 [eBay 1Q: A Veritable Sunshower](#)
- 04/19/01 [Pivotal Reports Solid Third Quarter Results](#)
- 04/19/01 [Commerce One: Friends in High Places](#)
- 04/20/01 [Ariba: Bright Spots in the Details](#)
- 04/20/01 [March: Out Like a Lion; April: In Like a Lamb](#)
- 04/20/01 [Take-away Thoughts From Bandwidth Glut Conference](#)

Heard on the Desk

Compiled by the Epoch Partners Equity Capital Markets Team

Retail Investors See Upside of Software Merger

Over the week ending April 12, technology stocks were gaining momentum and retail investors were trying to jump in before the opportunity window closes. Following the trend we have seen over the last month, investors continue to favor software stocks.

On Monday, April 9, Kana Communications (Nasdaq: KANA, \$1.32) and Broadbase Software (Nasdaq: BBSW, \$1.08) announced they would merge. Broadbase shareholders will receive \$71.4 million in stock or 1.05 shares of KANA per share of BBSW. The company feels the merger will allow the combined entity to offer a broader suite of systems to manage customer relationships. The merger of the two customer-service software makers comes at a time when the stocks are trading around \$1.00, down almost 99% over the past year. Over the week, holdings of KANA and BBSW rose 10% and 16% respectively as investors see plenty of room for the upside of the merged company.

Among the stocks that saw a weekly decrease over the week, investors took profits on Micromuse (Nasdaq: MUSE, \$42.53). On Tuesday, April 10, the stock jumped 20% as the company announced that it is comfortable with first-quarter Wall Street estimates. Retail investors were comfortable with the 20% daily gain and sold their shares.



Company Highlight: eBay (Nasdaq: EBAY)

By Adam Levy, Associate Analyst

Company Description

eBay is the world's largest online trading platform for individuals and businesses with more than 29.7 million registered users. The site enabled more than 89.0 million auctions and \$1.98 billion of gross merchandise sales in the first quarter of 2001.

Investment Thesis

eBay is the most successful e-commerce platform on the Internet. It enjoys high margins, low customer-acquisition costs, and revenues that appear set for exponential growth. eBay continues to devise ways to extract greater value from its customers and to increase transaction velocity on its site while aggressively pursuing international, product-category, and customer-base expansion. Considering the company's superb performance in a soft economy, we believe eBay's business model will shine as the overall economy improves. We think eBay represents an attractive opportunity for investors to participate in the Internet sector with a company that has proven its resilience.

Key Investment Points

- **Furthering Its Lead.** We believe eBay's impressive performance furthers the company's tremendous lead as the world's trading site for individuals and businesses.
- **User-built.** eBay has transformed from a niche, collectibles site to one of the largest centers of mainstream economic activity on the Web, largely through the activity of its own user base, rather than via high advertising and marketing costs.
- **Already Profitable.** eBay's virtual business model is profitable and has been since 1996. Without inventory requirements or the distribution and fulfillment costs typical of e-tailers, eBay's gross margins are in the low-80s (growing toward 85%), with operating margins expected to mature to 35% or better.
- **New Initiatives Further Growth.** The success of eBay's newer businesses including: new international sites, Billpoint, Half.com, the Microsoft partnership, and eBay Motors will in our opinion help further eBay's dominance, and offset any concerns of potential U.S. market saturation.

Undervalued Given Market Opportunity. eBay's stock price today does not fully reflect growth opportunities from new revenue sources, business partnerships, and international expansion.

****AMERITRADE, A MINORITY SHAREHOLDER OF EPOCH PARTNERS, HAS BEEN AN UNDERWRITING MANAGER OR CO-MANAGER OF THE COMPANY IN THE LAST THREE YEARS.**

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