

EPOCH DIRECT

Research

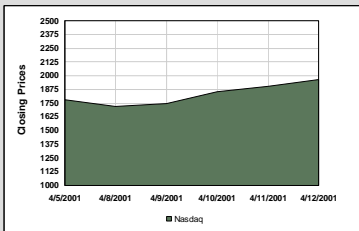
Matthew Adams, CFA
Mark Langley
Mark Langner
Seth Spalding
Mark Verbeck

Epoch Indices for the Week

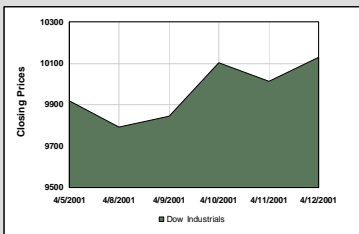
Broadband & IP Svcs: +13.51%
Comm. Equipment: +9.43%
Internet: +6.25%
Software: +7.16%

Market Statistics (5-Day)

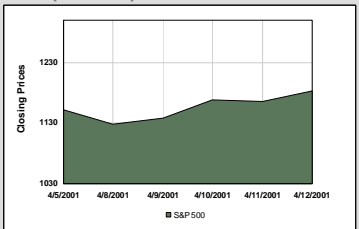
Nasdaq (+9.88%)



Dow (+2.11%)



S&P (+2.78%)



Roam Conference: It's About Time

By Matthew Adams, CFA

Vice President, Analyst

The current hoopla around the wireless space -- it is now the darling of those seeking "the next big thing" -- has spawned a plethora of conferences, most of which are long on sizzle and short on meaty conversation.

However, after racking up a pile of frequent-flyer miles attending a string of over-budgeted, overpopulated shindigs, we came across an oasis in what has become a desert devoid of realistic expectations and near-term focus. The Industry Standard's Roam conference, held last week in Tucson, Ariz., wasn't high on numbers or headliners, but the discussions from industry personnel on the front lines of sales and technology were the most relevant and realistic we have heard in a while. When Merrill Lynch CTO John McKinnley started his speech with "don't spend money on wireless applications," the audience new that this conference was going to be different.

The overarching theme from the three-day conference was realism and getting back to basics. The presentations and panels focused on wireless applications and services that cannot only generate revenue, but can do so in the current environment. We think that the shift in focus from promises to pragmatism was fueled by audiences weary of presentations whose charts only went up and to the right, depicting the awesome potential of wireless data.

Investors are still looking for the killer app (or apps) that will make the wireless Web take off. Just as they were at all other wireless conferences, panelists and speakers were asked this question ad nauseam. However, unlike other conferences, most speakers at Roam delivered an answer with an interesting twist: The killer applications are already here. Ron Croen, CEO of Nuance, for example, stated that the No. 1 application for carriers will be voice-activated dialing. Sprint is now marketing this service. It announced at the conference that it was signing privately held Hey Anita, a Los Angeles voice-access company, to provide voice-activated services.

We certainly agree that simple applications that increase the efficiency and speed of communication have killer-app potential. On the Internet, for example, search engines are a perfect example of simplicity as the quickest way to make money. Similarly, when a panel of financial-services executives was asked what content would drive wireless usage for their products, the top answer was "transactions." Obviously transactions are available today for most wireless data users. The point is that these industry insiders think wireless data will provide value even with today's somewhat basic applications. The question is whether or not these apps can provide the revenue to match the billion-dollar projections that have fueled public and private market valuations.

[more]



Former FCC chairman William Kenard added another dose of reality when he spoke about the current environment for wireless spectrum. Like his predecessor, Reed Hundt, Kenard has taken on an evangelical role for the need to increase the amount of spectrum available for next-generation networks. The United States is facing a spectrum shortage, with 3G services expected to exhaust the available spectrum. The likely candidates for more spectrum are the 700 MHz band currently utilized by TV broadcasters and the 1700 MHz used by the Defense Department. Conventional wisdom holds that the 700 MHz band is more attainable since the spectrum earmarked for digital TV is underutilized.

Kenard, however, argued that the 1700 Mhz band is a better alternative and might be for sale if the Pentagon can be compensated with spectrum auction proceeds. Appealing to the Defense Department's needs for cash that won't be counted against its budget would seem to make sense, but the Pentagon has issued a report stating that giving up these airwaves would threaten national security. Secretary of State Colin Powell, whose son Michael Powell is the new FCC chairman, is viewed as a potential negotiator on behalf of the wireless industry. Colin Powell recently stated, however, that retrieving this spectrum would be next to impossible. In short, we think 3G could suffocate in the near term due to lack of airwaves, with the Defense Department holding the airbag.

Overall, the Industry Standard conference was a refreshing break (warm desert weather aside) in a sector that has had a lightning-quick ascent and a subsequent thunderous return to earth. The market has grown skeptical of wireless data, with the five stocks in our coverage universe -- Aether, Handspring, InfoSpace, Vicinity, and Openwave -- declining by an average of more than 60% each over the past six months. Instead of chasing valuation and IPO strategies, wireless-data companies have turned their attention back to delivering products and generating revenues. It's about time.

Top 10 Stocks Bought*

Broadbase Software (BBSW)	33.51%
Niku Corp (NIKU)	13.02%
Agile Software (AGIL)	12.39%
Inktomi (INKT)	11.40%
MetaWave (MTWV)	10.30%
Packeteer (PKTR)	10.16%
Kana Comm. (KANA)	8.93%
InterNap (INAP)	8.37%
Digex (DIGX)	7.81%
Interwoven (IWOV)	7.44%

Top 10 Stocks Sold*

Redback Networks (RBAK)	-4.37%
WebMethods (WEBM)	-4.36%
Extreme Networks (EXTR)	-4.33%
Juniper Networks (JNPR)	-4.24%
i2 Technologies (ITWO) ¹	-4.24%
Priceline.com (PCLN)	-3.49%
DoubleClick (DCLK)	-3.24%
Brocade Comm. (BRCD)	-3.14%
Rhythms Netconn. (RTHM)	-3.05%
Efficient Networks (EFNT)	-2.95%

***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

- 04/09/01 [Amazon's Preliminary 1Q Results](#)
- 04/09/01 [Wireless Earnings Preview: Hit Hard, But Some Companies Ready to Rebound](#)
- 04/09/01 [Software Earnings Preview: Preannouncement Parade](#)
- 04/10/01 [Has Foundry Found the Bottom?](#)
- 04/11/01 [Broadband Earnings Preview: Spring Forecast: Time to Sing a Different Tune, or More of the Same Music?](#)
- 04/11/01 [InterNAP: Call for a New Strategy](#)
- 04/11/01 [Standards -- Not a Standard Practice in Optical Components for Telecom](#)
- 04/11/01 [Ceragon Outlook Clouded by CLEC Customers](#)
- 04/11/01 [Avanex Preannounces Fiscal 3Q01 Again](#)
- 04/11/01 [Yahoo's First Quarter Earnings Results](#)
- 04/11/01 [Hand & Palm: Cats and Dogs Living Together . . . Mass Hysteria!](#)
- 04/11/01 [Palm: The First Shot in a Handheld Price War?](#)
- 04/11/01 [Amazon and Borders.com Announce Strategic Alliance](#)
- 04/12/01 [Juniper Misses But Doesn't Disappoint](#)

Heard on the Desk

Compiled by the Epoch Partners Equity Capital Markets Team

Is the Worst News Behind Us?

As we end the earnings-warning season and move toward the actual reports, investors are poised to reap the benefit of buying stocks they see as oversold. For the past few weeks, retail investors have been aggressively buying software stocks. Looking at the week ending April 6, four of the top five stocks with the largest increase in holdings were software companies.

The stock that saw the largest weekly increase in holdings was Broadbase Software. Holdings of the provider of customer interaction software grew 34%. On Tuesday, shares plunged 60% after the company warned that first-quarter earnings would miss analyst expectations. This year, even though the stock has fallen 89% our holdings have doubled, up 102%, and the average position has increased by 73%. Existing BBSW shareholders have been buying as the stock has dropped.

Agile Software made the list again by adding 12%. On Monday, the company terminated its merger agreement with Ariba.¹ Investors have been buying the stock regardless. This year our holdings have increased by 33%; the stock has dropped 76%.

Interact Commerce led the decrease list for the second consecutive week, losing 26%. Sage Group PLC is acquiring the contact-management software company for \$12.00 per share. Investors are not content letting their money rest and are choosing to take profits and reinvest in other companies. Since the merger was announced, on March 27, investors have sold 43% of their holdings.

Company Highlight: Juniper Networks (JNPR)

Investment Thesis

Attacking the rapidly growing Internet router industry dominated by equipment giant Cisco, Juniper has grown in market share every quarter since introducing its first product in late 1998. RHK predicts a 69% compound annual growth rate (CAGR) for the core routing market (to 2004), reflecting our belief that core routers will essentially replace voice switches as the critical network element enabling all types of communications -- voice, video, and data -- to travel over a common, Internet protocol (IP) network. We believe that near-term upside for Juniper shares is limited due to broad market risk, however recent weakness in shares gives long-term investors an ideal opportunity to build a position in a company that should outpace the growth of industry titans. We believe Juniper is one of the best core holdings in the communications equipment industry.

Company Description

Juniper Networks sells core and edge Internet routers that service providers use to direct packet-based communications over IP networks. Juniper's routers are used for core bandwidth management, dedicated access, peering, data-center hosting, and aggregating traffic at the carrier edge.

Key Investment Points

- RHK predicts the core router market to reach \$18.0 billion in 2004 from \$2.2 billion in 2000, a staggering 69% CAGR. We conservatively assume that Juniper will maintain roughly 30% share of this market, despite potential competition on the horizon.
- With the introduction of five routers in less than two years, Juniper has timed its market entries well achieving 33.5% share in 4Q00 (according to Dell'Oro). Competition promises to get fierce as Cisco renews its product line and Avici and Pluris enter the market into late 2001.
- JNPR shares, battered in the technology valuation contraction of late, present a compelling opportunity. We recommend investors buy at prices under \$50, with upside coming from a recovery in relative valuations and Juniper's continued execution in a rapidly growing industry.
- Juniper boasts more than 300 service provider customers with large deployments at WorldCom, Metromedia Fiber, Qwest, and Cable & Wireless. Juniper has also been wildly successful through distribution and co-marketing agreements with Alcatel, Ericsson, and Nortel.

Companies mentioned as of 04/12/01:

Aether (Nasdaq: AETH, \$15.32), Agile (Nasdaq: AGIL: \$13.13), Ariba (Nasdaq: ARBA: \$4.84), Alcatel (NYSE: ALA, \$33.1), Avici (Nasdaq: AVCI, \$12.75), Broadbase Software (Nasdaq: BBSW: \$0.72), Cable & Wireless (NYSE: CWP, \$22.78), Cisco (Nasdaq: CSCO, \$17.98), Ericsson (Nasdaq: ERICY, \$6.23), Handspring (Nasdaq: HAND, \$14.25), InfoSpace (Nasdaq: INSP, \$2.59), Interact Commerce (Nasdaq: IACT: \$11.72), Juniper (Nasdaq: JNPR, \$50.38), Merrill Lynch (NYSE: MER, \$62.35), Metromedia Fiber (Nasdaq: MFNX, \$4.60), Openwave (Nasdaq: OPWV, \$27.04), Qwest (NYSE: Q, \$35.7), Sprint (NYSE: FON, \$22.99), Vicinity (Nasdaq:VCNT, \$1.58), and WorldCom (Nasdaq: WCOM, \$19.68).

1. The analyst(s) involved in the preparation of this report has an investment position in the subject security.

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