



**COMPETITIVE LOCAL EXCHANGE CARRIERS,
INTERNET INFRASTRUCTURE**

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RESEARCH NOTE

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**ITXC
(ITXC-\$47.38)[2,3]**

Rating: Buy

ITXC: Benefits from AT&T Affirmation of Internet Telephony

KEY POINTS

- Net2Phone (NTP) announced that it will receive a \$1.4 billion investment from a consortium led by AT&T (T-\$57.81)[3] and British Telecommunications. This transaction gives the group a 32% stake, valuing the company at almost \$4.4 billion.
- Separately, the company announced a \$150 million stock swap with Yahoo!, giving the portal a 5% stake in NTP. Yahoo! had an existing relationship with NTP to resell communications services.
- A major investment from two of the largest telecommunications carriers into what was, until today, considered a niche market is a substantial validation of the Internet telephony industry and highlights its roll as a disruptive force in competitive communication services.
- AT&T's roll specifically suggests that quality of service constraints in Internet calling are becoming a non-issue.
- As a direct competitor to Net2Phone, ITXC should benefit from the changing perception of the Internet telephony market. The deal also highlights the value of these assets to larger telecommunications carriers and online properties, suggesting more deals to come.
- The \$75 per share offer from the consortium suggests an enterprise value to 2001 revenue multiple of approximately 30x for Net2Phone. This is a significant premium to ITXC's 2001 revenue multiple of 8x, despite its faster growth rate and larger IP network.
- We are therefore reiterating our Buy rating on ITXC shares with 12- month price target of \$120 per share based on our DCF analysis.

Key Data		Quarterly Earnings Per Share (fiscal year ends December)				
		1999A	2000E	<i>Prev</i>	2001E	<i>Prev</i>
52-Wk Range	\$120-27					
Eq.Mkt.Cap.(MM)	\$2,061	1Q (\$0.12)	(\$0.23)			
Sh.Out.(MM)	43.5	2Q (0.18)	(0.21)			
Float	NA	3Q (0.22)	(0.26)			
Inst.Hldgs.	36.5%	4Q (0.17)	(0.31)			
Av.Dly.Vol.(K)	299	Year	(\$0.69)	(\$1.01)		
Curr. Div./Yield	None/NA	FC Cons.:	(\$0.73)	(\$0.92)	(\$0.98)	
Sec.Grwth.Rate	NA	Revs.(MM):	NA	NA	NA	
12-mo. Tgt Price	\$120.00	P/E:	NM	NM	NM	
12-mo. Ret. Pot'l	153.3%					
Convertible?	No					
<p>ITXC is a leading IP telephony provider offering phone-to-phone and PC-to-phone based wholesale voice services to domestic and international telecom providers and web-centric companies.</p>						

Risks include regulatory change, management execution, continued dependence on the capital markets, increasing competition from larger, well-financed carriers and technological change.

Additional information available upon request.

2. PaineWebber Incorporated makes a market in this security.

3. PaineWebber Incorporated has acted in an investment banking capacity for this company.

