Internet
150 Report
05/2001

Your worlds Our people

PricewaterhouseCoopers

An analysis of company performance in Europe's internet sector

Internet 150 Report 05/2001
Our Services

— PricewaterhouseCoopers is the world's leading professional services organisation, drawing on the knowledge and skills of 155,000 people in 150 countries, we help clients solve complex business problems.

— Dot.com management teams now have the difficult challenge of re-defining the future of their companies against a background of adverse sentiment in the investor community, whilst continuing to manage their businesses. Management of traditional companies with dot.com subsidiaries are facing the same issues but with an added layer of complexity.

— In these conditions you need advisors that:

- understand the potential of e-business
- will ensure swift and decisive action
- understand your business, but are prepared to challenge you
- have successfully helped similar companies

— PwC's Corporate Finance and Recovery team understands the issues and can help in a number of ways:

- Development of contingency plans to cover the risk of an unsuccessful funding round, including packaging the company for a trade sale
- Short term financial management and cost management advice
- Independent wrongful trading review
- Advisory services on the sale of a business
- Interim management
- Fund raising advice
- Strategy advice and action planning

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Fletcher Advisory Ltd. (www.fletcheradvisory.com) is a specialist consultancy helping senior management build and implement strategies for the internet and new media. It is an affiliate of Forrester Research Inc., the internet information business. For more information contact Toby Jennings or Stephen Adler on 020 7436 4217.

Internet 150 Report 05/2001
Introduction

— We are delighted to present the 3rd edition of our European Internet Index. The population consists of the top 150 internet businesses in Europe. However, we have redefined the population to include IPOs between 1st October and 31st December 2000 and to reflect changes in market capitalisation. The minimum market capitalisation is now EUROS 33 million (this compares to a minimum market capitalisation in the last report of EUROS 62 million)

— As with previous reports, our objective is to provide an independent report, on a quarterly basis, which considers changes in the internet sector, trends in burn rates, share price performance and profitability.

— References to share prices and market capitalisation in this report cover market activity throughout 2000 and the first quarter of 2001 (which will include Q1 2001 market reaction to Q4 financial reports). All other financial data referred to in this report relates to the period 1st October to 31st December (end of Q4 2000). Our last report covered financials up to 30 September 2000 (end of Q3 2000).

— If you have any questions about this survey or other matters relating to internet businesses please do not hesitate to contact Kevin Ellis on 020 7804 4102 or at kevin.ellis@uk.pwcglobal.com.

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Executive Summary

— The EU Internet industry is entering a new phase of maturity. This is evidenced by the following:

- there is little change quarter to quarter in sub-sectors and geographic make up
- there are now far fewer additions and deletions due to IPOs and/or consolidation
- sales growth is slowing dramatically. However, this is still significantly faster than old economy sales growth

— Overall burn rates have started to stabilise:

- With little fresh capital or cash flowing in, improvements in burn rates must signal turnaround in business performance and evidence that companies are operating within the boundaries of their cash flow
- For the first time since this index started the sales and overheads are growing at similar rates
- Last year, internet companies were driven to match analyst and shareholder expectations of exceptional growth and the importance of market share above all else. These have significantly fallen and firms are now adjusting to reduced spending and growth forecasts
- Slower growth rates have helped reduce future cash needs although, some companies are still under immediate cash pressure. 18 companies have insufficient resources to last 12 months without remedial action

— Polarisation continues as the gap between successful and less successful companies appears to be widening:

- Successful companies are better managing their SGA / sales ratio and controlling cash outflow
- Successful companies are growing their sales faster and more efficiently than the strugglers
- ISPs are by far the most successful group in terms of profitability, burn rate and share price
- The top performing quartile at the end of 2000 still mainly outperform in Q1 2001

— We predict that the worst is over for the successful companies, despite a slowdown in sales:

- Average sales growth in Q4 2000 was 7% compared to 11% in Q3 2000 - although this is reducing it is still 14 times EU GDP growth
- The proportion of profitable / cash generating companies is beginning to grow
- Sales growth matched SGA growth for the first time
- Some companies will become increasingly attractive to purchasers as their market values get ever closer to the value of their cash reserves. As a result cash will start to flow in to the sector.
- Polarisation leaves the winners in an increasingly strong position

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Changes to the Index Population

— We have identified the top 150, publicly listed, European internet companies with a combined market capitalisation at the 1st April 2001 of EUROs 64bn. The market capitalisation of the Internet 150 at the end of 2000 was EUROs 100bn and at the end of September EUROs 200bn. The research and analysis was done in conjunction with e-business strategy consultants, Fletcher Advisory.

— The research is undertaken on a quarterly basis to identify European cross border trends and sector trends in respect of:

- share price
- burn rates
- cash raised
- cash usage

— The companies in the index are listed on one of the following exchanges: London (including AIM), Paris (including Nouveau Marche), Frankfurt (including Neuer Markt), Italy, Switzerland, Spain, Sweden, Austria, Amsterdam, Helsinki, EASDAQ

— Companies included are not investment companies; must be headquartered in Europe; must have had an IPO before 31st December 2000 and must have at least 50% of their revenue dependent on the existence of the internet or internet technologies.

— From a wider population we have then selected the 150 largest companies by market capitalisation – these represent the overwhelming majority (circa 95%) of all European internet market capitalisation.

— IPO's and organic changes in share price have been responsible for the changes in the constituents to date. Looking forward we expect merger activity to be more significant.

— 25 companies have left the Internet 150 since Q3 2000:

- 2 have delisted
- 23 have seen their market capitalisation fall below the minimum threshold (EUROS 33m)

— 25 new companies have joined the index:

- 12 had IPOs between 1st October and 31st December 2000
- 7 were new to the index as a result of growth in relative size
- 6 return to the index from the original Internet 150 as a result of growth in relative size

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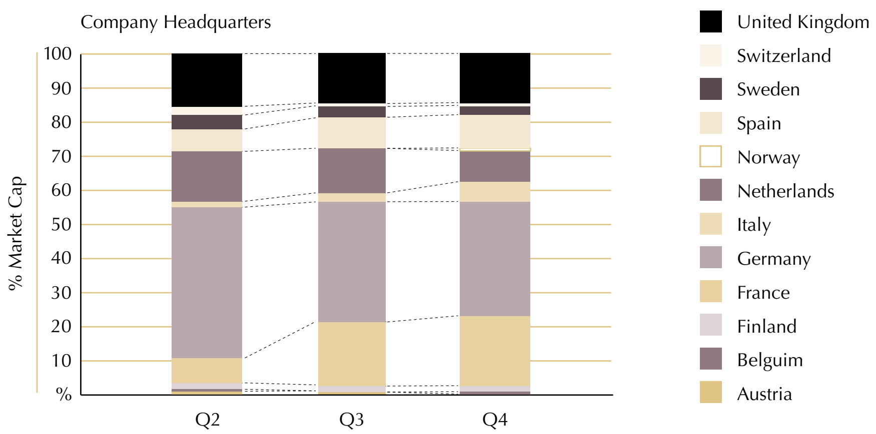
Changes to the Index Population

Source: Fletcher Advisory

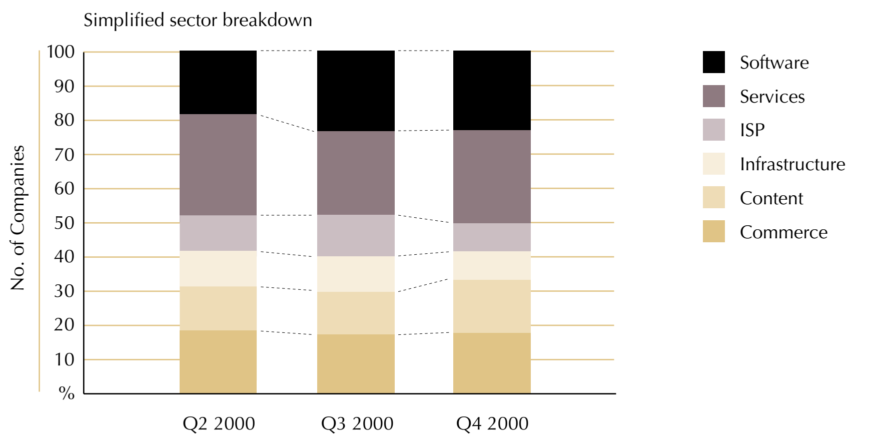


— Germany's internet companies represented 45 of the 150 companies in the last quarter's index and this figure has remained fairly static this time at 42. German companies represent 34% by market capitalisation this quarter compared to 35% last time.

— France and Spain show continued growth in market capitalisation, while The Netherlands has seen its market capitalisation contract.

— The sector composition of the index is largely unchanged between quarter 3 and quarter 4 of 2000.

Source: Bloomberg, Fletcher Advisory



With the Internet sector saturated large changes in the composition of the index are unlikely.

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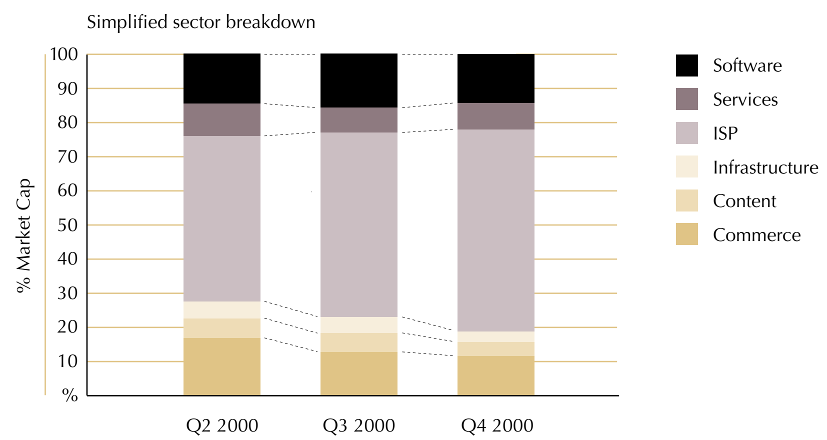
Changes to the Index Population

Source: Bloomberg, Fletcher Advisory



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Burn Rate Trends

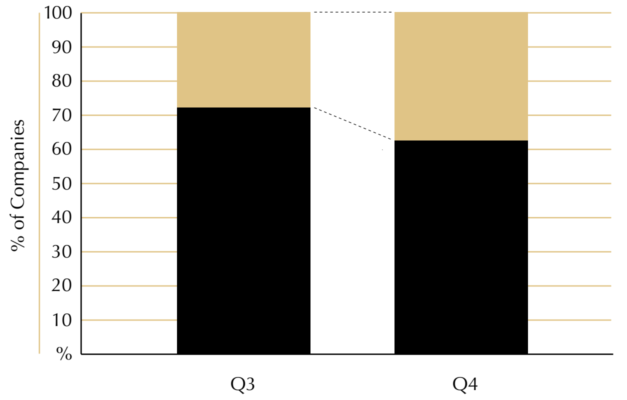
Overall burn rates have started to stabilise, although share prices are down:

- We would have expected the burn rates to worsen, on average by 3 months since the last quarter's report. However, the average rate is only 1 month less than last quarter's average.
- As there is very little evidence of new capital flowing into this sector this would suggest that there has been an improvement in business performance.
- Sales and overheads are now growing at a similar rate
- The slowdown in sales growth has helped to reduce future cash needs

Of the companies for which we have data, 38% are profitable compared to 28% who were not burning cash in the last quarter's results. This is a significant improvement.

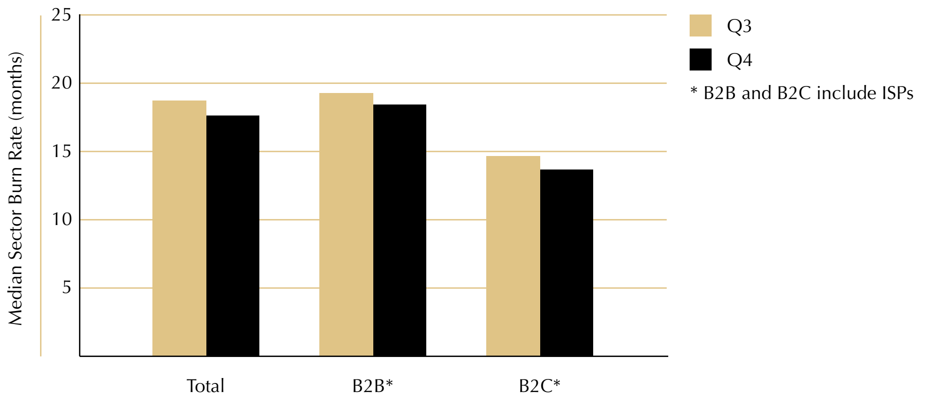
Source: Fletcher Advisory

Proportion of cash profit-making companies



Source: Fletcher Advisory

Median Sector Burn Rates for loss-making companies



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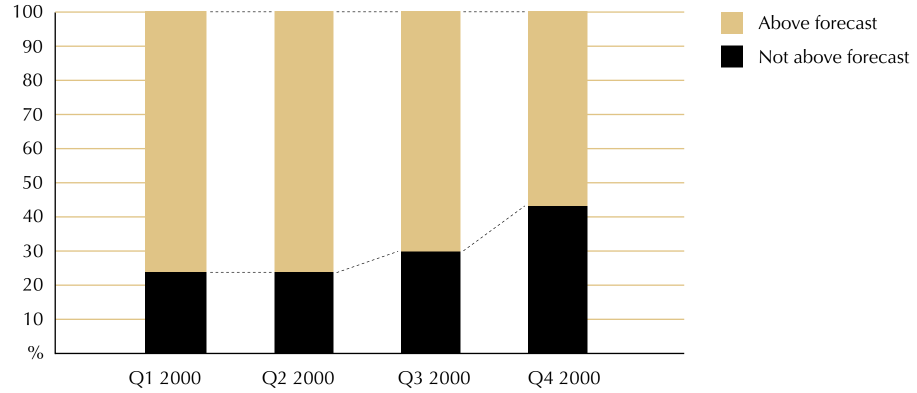
Burn Rate Trends

Last year, internet companies were driven to match analyst and shareholder expectations of exceptional growth and the importance of market share above all else. These have been shown to be unrealistic and firms are now adjusting to reduced spending and growth forecasts. This is illustrated by companies' ability to meet and exceed equity analyst earnings forecasts

Source: FactSet, Morgan Stanley, Fletcher Advisory

Percentage of technology companies: exceeding consensus earnings by quarter



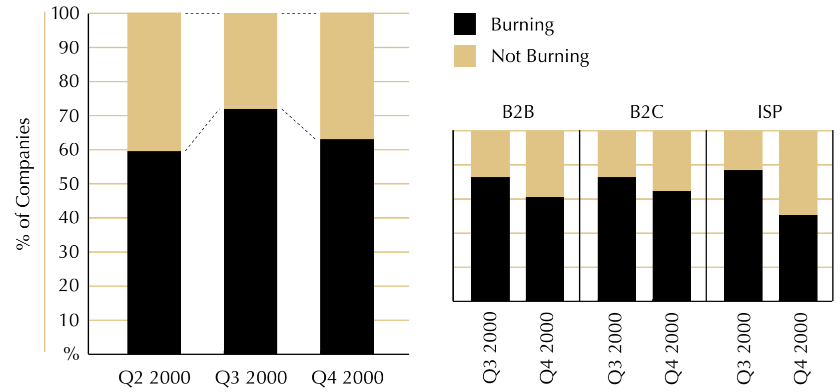
Median burn rates have shortened by an average of 1 month across the industry. B2B companies continue to look relatively more secure than their B2C counterparts.

For those companies which are burning cash, the average burn rate is 17.5 months vs 18.5 months for the last quarter:

- B2B firms (including B2B ISPs) have an average burn rate of 18 months compared to 19 months last quarter, on a like for like basis.
- B2C firms (including B2C ISPs) have an average burn rate this quarter of 14 months compared to 15 months last quarter
- ISPs are the only sector to see an improvement from Q3 to Q4.

Source: Fletcher Advisory

Proportion of cash profit-making companies



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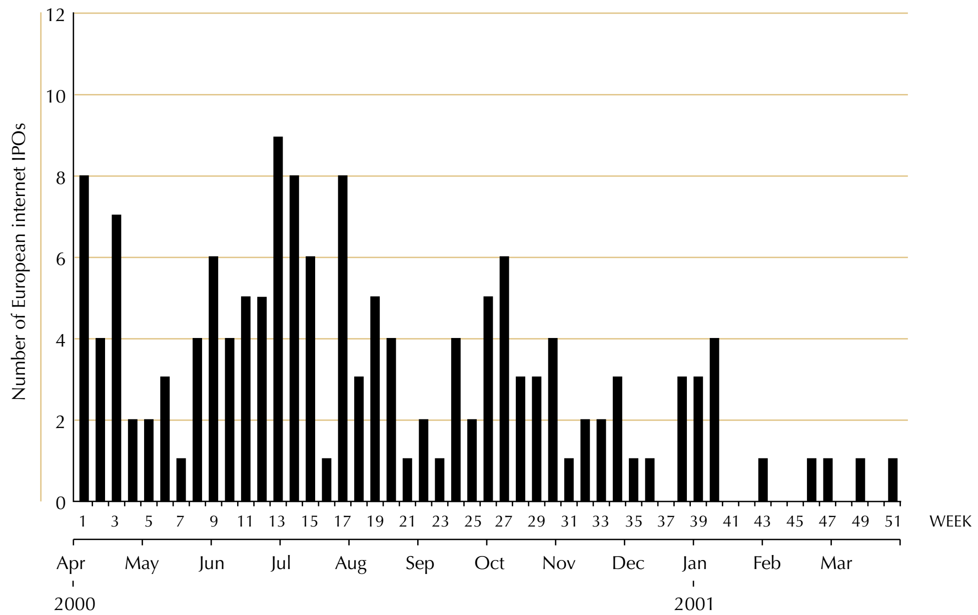
Factors affecting burn rates

The money raised as a result of European internet IPO's for Q4 2000 was EUROS 900 million compared to EUROS 196 million in Q1 2001. The total number of IPO's in Europe across all sectors in Q4 2000 was 158 compared to 42 in Q1 2001.

Source: Bloomberg, Fletcher Advisory

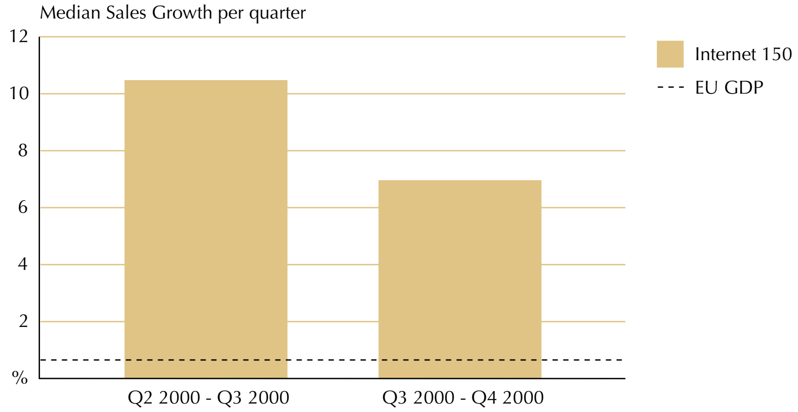
Number of European internet IPOs by week, 04/00 - 03/01



Sales growth has slowed dramatically in Q4 although it still considerably exceeds average GDP growth.

Source: Bloomberg, Fletcher Advisory

Median Sales Growth per quarter



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Factors affecting burn rates

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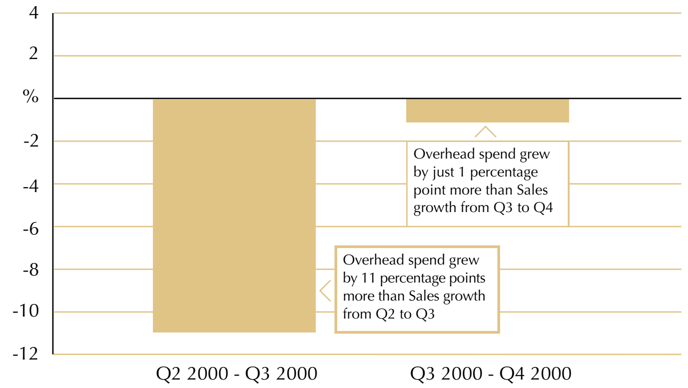
Factors affecting burn rates

Median sales growth grew at a similar rate to SGA from Q3 to Q4, if this trend continues sales growth will exceed SGA growth in Q1 2001.

Source: Fletcher Advisory

Sales Growth minus SGA Growth Q3 and Q4 (Median, like for like companies)



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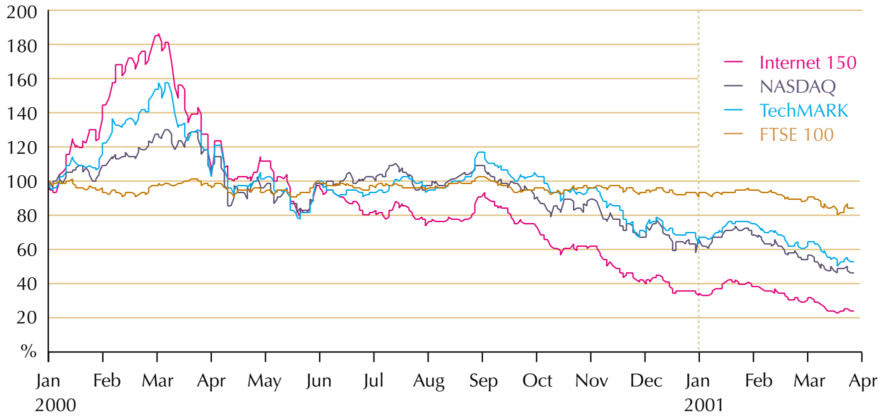
Stock market activity

Since January 2000 the European Internet Index performed less well that the NASDAQ, TechMARK or the FTSE100. Since January 2001 a similar underperformance is seen. The Internet 150 is down 35% vs 25% for the NASDAQ and TechMARK.

Source: Bloomberg, Fletcher Advisory

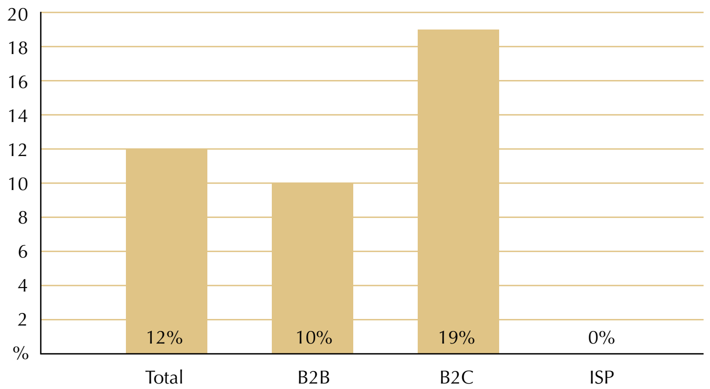
Index performance - 4th January 2000 = 100



12% of the Internet 150 and 19% of B2C companies are now worth less than the value of the cash and marketable securities on their balance sheets. Some of these companies will appear increasingly attractive to purchasers and as a result cash will start to flow in to the sector.

Source: Bloomberg, Fletcher Advisory

Proportion of companies worth less than the sum of cash and marketable securities



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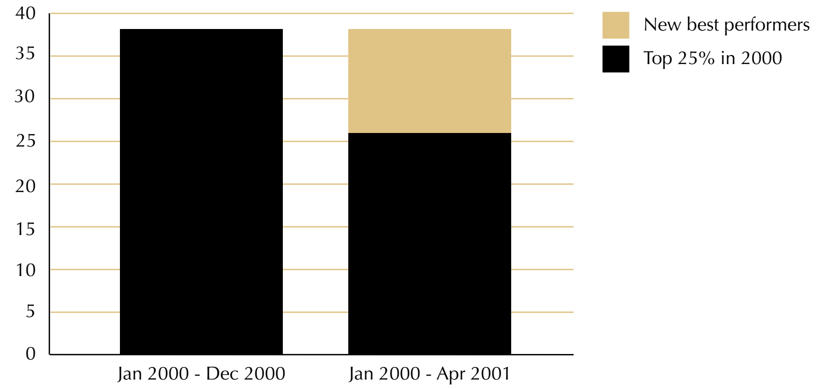
Polarisation continues

Most of the top performers in 2000 have continued to perform well in 2001.

Source: Bloomberg, Fletcher Advisory

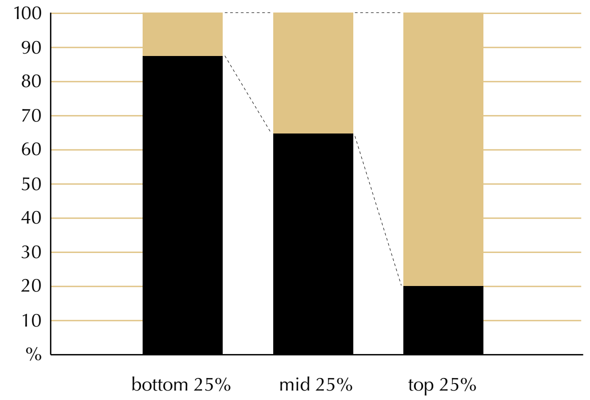
Composition of top performers



The top 25% of companies, by share price performance in 2000, show the highest proportion of cash profitable companies. The bottom quartile has the highest proportion of cash burning companies.

Source: Fletcher Advisory

Proportion of Burning Companies vs. share price performance

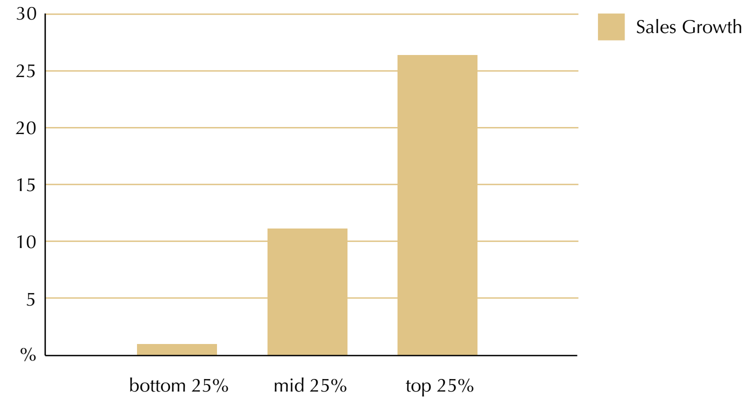


The top performing companies, in terms of share price, have maintained high growth rates. However, in contrast, struggling companies have shown little sales growth Q3 to Q4 2000. The top performers have also grown sales faster than SGA / overheads whilst the strugglers have seen their overhead spend grow much more than their sales in the last quarter.

Internet 150 Report 05/2001
Polarisation Continues

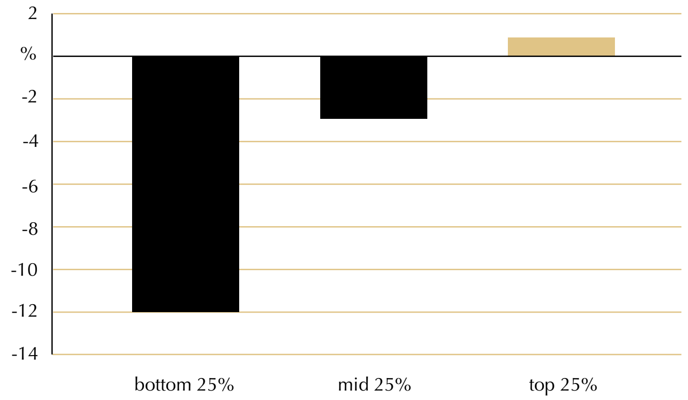
Source: Fletcher Advisory

Median Sales Growth vs. share price performance quartile
(like for like companies)



Source: Fletcher Advisory

Sales Growth minus SGA Growth vs. share price performance quartile
(Median, like for like companies)



— Individual sub-sectors still show a degree of share price performance variation.

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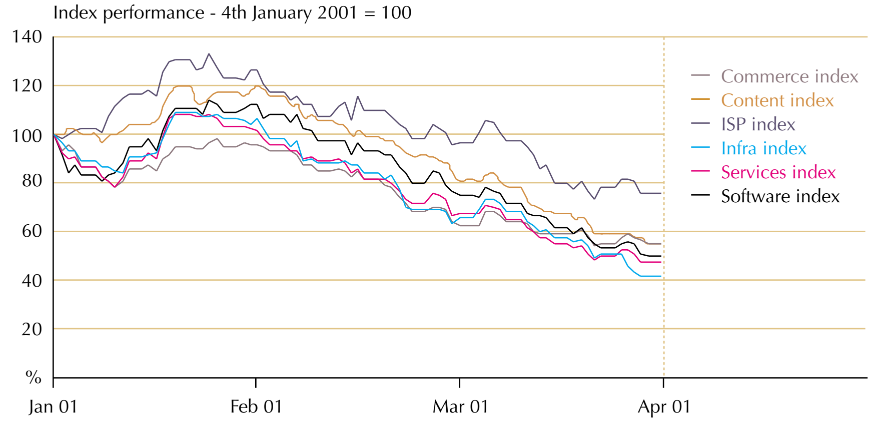
ISP's are leading the turnaround

— ISPs have outperformed other sectors since 1st January 2001.

Source: Bloomberg, Fletcher Advisory

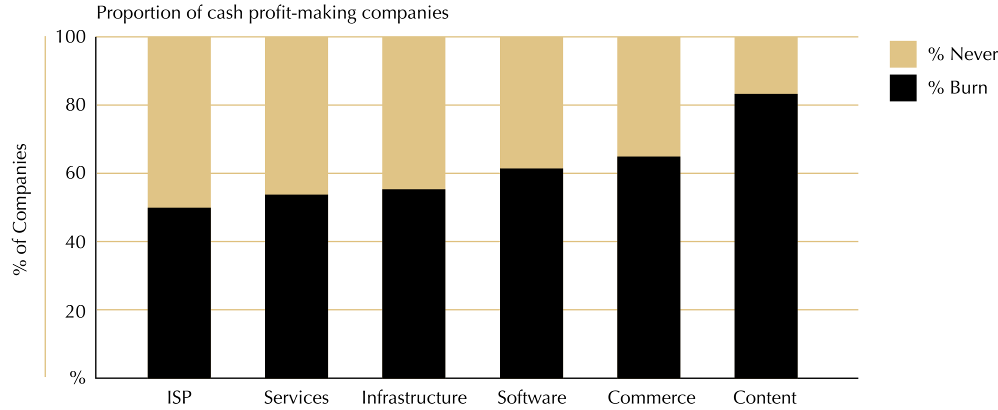
Index performance - 4th January 2001 = 100



— ISPs have the highest proportion of profitable companies (50%) compared to the sector average of 38%. ISPs also reflect the highest sales growth from Q3 to Q4 (29%) compared to other sectors.

Source: Fletcher Advisory

Proportion of cash profit-making companies



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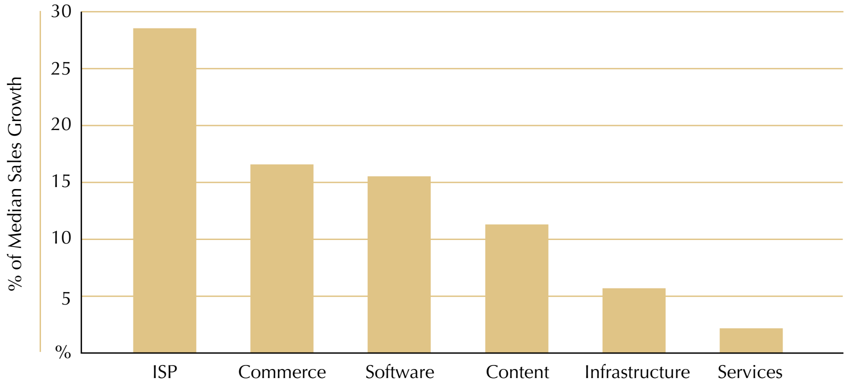
ISP's are leading the turnaround

— ISP's are the fastest growing sector although some of this growth may be due to acquisitions.

Source: Fletcher Advisory

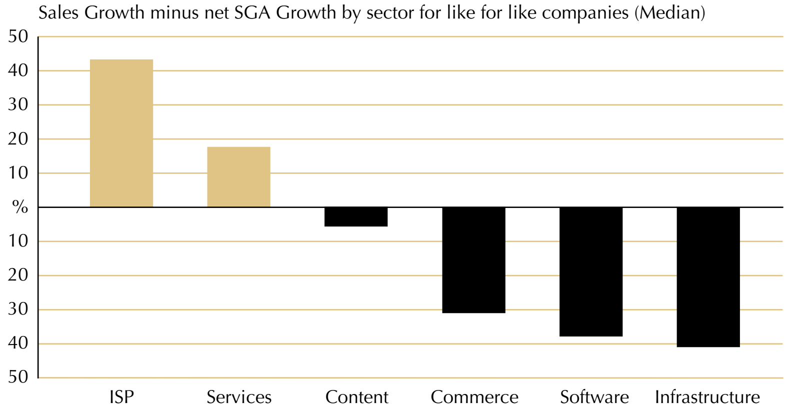
Median sales growth per quarter in each sector for like for like companies



— ISP's have increased their efficiency by reducing SGA / overhead costs whilst increasing sales and, as a consequence, they have maintained a better share price than any other sector.

Source: Fletcher Advisory

Sales Growth minus net SGA Growth by sector for like for like companies (Median)



Internet 150 Report 05/2001
ISP's are leading the turnaround

— There are several possible reasons for the success of this sector:

- Early sector consolidation which has led to reduced competition among the remaining players and larger companies who can benefit from economies of scale
- Leading ISPs were established by telecoms companies, often with experienced management
- ISPs are direct beneficiaries of increased internet penetration as they have a revenue stream linked directly to subscriber growth

— We predict that, as the market matures, a combination of polarisation and consolidation will lead to more internet sector failures and the emergence of clear sector champions.