Equity Research
North America

United States of America

Enterprise Software

PeopleSoft

Reuters: PSFT.O Bloomberg: PSFT NASDAQ: PSFT

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Change in Earnings Forecast

April 26, 2002

At the Ready for a Tough Journey Ahead

STOCK RATING	EQUAL-WEIGHT-V
Price (April 25, 2002)	$21.89
Price Target	NA
52-Week Range	$51 - 15.78

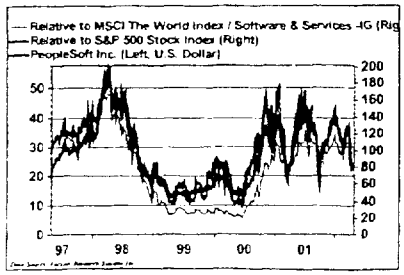
Stock ratings are relative to the analyst's industry (or industry team's) coverage universe

MSCI SECTOR INFORMATION TECHNOLOGY	
US Strategist Weight	14%
S&P 500 Weight	15%

WHAT'S CHANGED	
Earnings (2002)	*$0.68 to $0.56*
Earnings (2003)	*$0.78 to $0.68*

- **Guidance Lowered; Less Detail**
  The company gave similar guidance as Siebel, which is flat sequentially with the possibility of better or worse results depending on the economy, and no guidance for the second half of the year.
- **Still Good Relative Performance**
  The year over year decline of 13% in license revenue was still better than most of its competitors including Siebel, Oracle, and JD Edwards and roughly in line with SAP's decline.
- **Near Term Outlook**
  We expect the stock to trade between a 29-31x multiple off consensus estimates for next year which we expect to fall in the $0.65 to $0.75 range. Those numbers suggest a trading range of $19 to $23 in the near term.
- **Industry view is In-Line**
  Our thesis of an improving macroeconomic environment leading to an eventual upturn in capital spending results in our In-Line view of the Enterprise Software industry. We believe the worst is over, as 2002 should be a year of gradual and modest improvement, with further improvement in 2003, but overall tech spending should lag the pace of the recovery because of the lingering effects of over buying in the past.

Stock Price Performance



FY ending Dec 31:	2001A	2002E	2003E	2004E
EPS ($)	0.58	0.56	0.68	–
Prior EPS Ests. ($)	–	0.68	0.78	–
Revenue ($ m)	2,119	1,924	2,114	–
P/E	37.7	39.1	32.2	–
Price/Revenue	3.4	3.7	3.4	–

Market Cap ($ m)	7,133
L-T EPS Grth ('yy - 'yy) (%)	20.0
P/E to Growth	1.95
Shares Outstanding (m)	325.9

Q'trly EPS	2001A actual	2002E curr	2002E prior	2003E curr	2003E prior
Q1	0.11	0.14A	–	0.15	0.16
Q2	0.14	0.13E	0.16E	0.15	0.18
Q3	0.15	0.13E	0.19E	0.17	0.21
Q4	0.18	0.16E	0.19E	0.21	0.23

E = Morgan Stanley Research Estimate

Company Description

PeopleSoft designs, develops, markets, and supports a family of enterprise internet application software products for use in organizations worldwide, higher education institutions, and federal, state, provincial, and government agencies

PENGAD-Bayonne, N. J.
DEPOSITION EXHIBIT
15
Phillips
1/18/04

MS 00912

PENGAD-Bayonne, N. J.
GOVERNMENT EXHIBIT
P2290

At the Ready for a Tough Journey Ahead

Summary and Investment Conclusion

PeopleSoft reported its final earnings results on April 25, 2002 after preannouncing earlier in the month. The quarterly results were in-line with the pre-announcement but below our original revenue forecast. Earnings were in line with consensus as the company managed to rein in spending to offset the top line weakness.

Guidance Lowered; Less Detail

The company gave similar guidance as Siebel, which is flat sequentially with the possibility of better or worse results depending on the economy, and no guidance for the second half of the year. Given the uncertainty about the spending environment and the unpredictability of close rates, PeopleSoft as well as many other companies are choosing to get out of the forecasting business. We can sympathize with the difficulty of forecasting a volatile industry in a volatile macro environment and didn't expect much detailed guidance. The company's Q2 guidance assumes the abnormally low close rates of Q1 continue.

The stock will likely weaken in the near term and then we'll quickly be back to a macro call on the economy and IT spending. By our estimates, companies only spent 11% of their 2002 IT budget budgets in Q1. The sluggish start to the year could be just that as companies recover from a tumultuous year in 2001. After stepping on the brakes all last year, CIOs were unlikely to jam on the accelerator right out of the gate in Q1.

PeopleSoft's performance should be viewed in context with the rest of the group. The year over year decline of 13% in license revenue was still better than most of its competitors including Siebel, Oracle, and JD Edwards and roughly in line with SAP's decline. The company isn't as good as Siebel is painting a good picture on its performance, no matter what's reported, but the absolute growth rates speak for themselves. Siebel did better on a sequential basis in Q1 but that's partly because last year was so much worse for Siebel and it rolled over a third of the quarter in the form of backlog from Q4.

PeopleSoft's balance sheet remains strong with DSO of 58 days and $1.8 billion in cash. The company was solidly profitable and generated cash from operations.

But PeopleSoft's exceptional performance in 2001 makes for tough comparisons this year, although to be fair comparisons weren't easy last year either.

Quick View of the Quarter

- Total revenues of $483.3 million versus our original estimate of $503.4 million and our most recent estimate of $480 million, a 9% decrease sequentially and 4% decrease Y/Y.
- License revenues of $133.3 million, versus our original estimate of $160 million and our most recent estimate of $130 million — a sequential decrease of 23% and a 13% decrease Y/Y.
- Services revenue was $25.5 million — a sequential increase of 2% and a 7% increase Y/Y.
- DSO was 58 versus 64 days last quarter.
- Deferred revenue on the balance sheet was $421 million, up from $409 million from the previous quarter.
- The company added 78 new customers for the quarter and had 25 deals over $1 million, with one deal in the $10 million to $20 million range.
- Revenue from new customers was weaker than previous quarters at 25%, and was a significant contributor to the shortfall.
- Average deal size was $600,000, compared to $700,000 in 4Q01.
- International and North America grew at the same rate this quarter.

Please see the important disclosures at the end of this report.

Key Highlights

How Does It Change Our View?

- *Rating: Reiterate our Equal-weight-V rating.*
- *Lowering Estimates: In 2002, we are lowering our total revenue and earnings estimates from $2,076 million and $0.68 to $1,924 million and $0.56, respectively. In 2003, were are lowering our total revenue and earnings estimates from $2,374 million and $0.78 to $2,114 million and $0.68, respectively.*

Catalysts

- *An improvement in predictability of close rates, and then actual close rates are key catalyst for the stock.*

What Looked Good

- *Relative Performance: Despite the fact that the company came in below expectations, the license revenue growth was still better than many of the largest enterprise software companies such as Oracle, Siebel, JD Edwards, and i2.*
- *Upgrade Cycle Not the Issue In the Quarter: The weakness in the quarter was derived from a lower than expected license revenue figure from new customers, while license revenue from existing customers tracked to plan.*

Red Flags in the Quarter

- *License Revenue Below Initial Expectations: The company reported license revenue that was $32 million below analyst's original estimates.*
- *Close Rates and ASP were Down: Sequentially, close rates were down this quarter. Going into 2Q02, close rate predictability remains low. Average deal size in the quarter came down from $700,000 to $600,000.*

What Was Reported

- *License Revenue: $133 versus our estimate of $130 million and the preannounced result of $130 million to $135 million.*
- *EPS: $0.14, which was in-line with our initial estimate and the preannounced estimate.*

Outlook

We expect the shares to trade at around a 40% discount to Siebel as it has for the last couple of years. That would suggest a 29-31x multiple off consensus estimates for next year which we expect to fall in the $0.65 to $0.75 range. Those numbers suggest a trading range of $19 to $23 in the near term.

However, we believe PeopleSoft's competitive position still remains quite solid. The upgrade cycle remained intact since it was sales to new customers starting new projects that fell off in the quarter. New customers fell to 25% of revenue from 39% last quarter. That's consistent with a Q1 hesitation in the market since new projects tend to get more scrutinized more closely than upgrades and extensions of existing infrastructure. Support for version PeopleSoft 7.5 will end in 12 months at which point PeopleSoft customers will need to either upgrade to PeopleSoft 8 or remain on PeopleSoft 7.5 without support. Consequently we expect the upgrade cycle to continue and new customers will come back when the economy strengthens.

Stepping back a bit, the back-office applications market for global companies is dominated by an oligopoly comprised of SAP, PeopleSoft, and Oracle. The market is down to three viable suppliers who will help re-automate the back-office business processes for global enterprises for years to come. These are critical functions and while most companies have begun implementing these products, few have completely rolled out a suite across all locations and countries on the latest version of the technology. At some point the pressure to open up the back-office to customers and supplier for machine to machine communications via web services will encourage more companies to modernize their back-office infrastructure most consistently. PeopleSoft had made it into an elite club of critical enterprise software suppliers – those with thousands of customers relying on the company for mission critical functions.

We're watching corporate profits outside of the technology and telecom sectors as a catalyst and we see saw some encouraging signs in Q1. Two thirds of the non-technology companies reporting in Q1 met or beat estimates. But the data is preliminary and the turnaround still fragile. But the prospect of improved corporate earnings logically leads to a possibility of improved technology spending later this year.

Exhibit 1

PeopleSoft First Quarter 2002 Financial Results

$Million (EPS$)	MS 1Q02 Estimate	1Q02 Actual	4Q01 Actual	1Q01 Actual
% Growth (Y/Y)	4.4%	-13.0%	5.8%	69.9%
% Growth (Q/Q)	-8.1%	-23.4%	14.7%	-6.8%
% Growth (Y/Y)	5.1%	7.3%	11.6%	21.8%
% Growth (Q/Q)	0.0%	2.1%	0.6%	6.2%
% Growth (Y/Y)	0.1%	-3.9%	6.1%	34.0%
% Growth (Q/Q)	-4.7%	-8.5%	3.7%	1.1%
Operating Margin	13.1%	13.1%	15.2%	9.2%
Tax Rate	34.5%	34.5%	34.5%	34.5%
Shares Outstanding	326	326	323	315
DSO	–	58	64	77

Source: Company data, Morgan Stanley Equity Research estimates

Estimates are based on our figures prior to the company's preannouncement.

Company Guidance

The company described the IT spending environment as very cautious and made the caveat that predicting future financial results is very difficult in this environment. As a result, the company expects demand in the information technology market to be flat next quarter. Management did highlight the potential for a pickup in demand during the 2H02. The current assumption on close rates is that they will remain flat at current levels, which were down in 1Q02. This guidance implies flat license revenue and flat earnings per share in 2Q02 of $133 million and $0.14, respectively.

The company will also have a non-recurring write off in 2Q02 of $10 million for in process research and development as a result of the purchase of Momentum. In addition, the purchase price of Momentum, less $10 million will be allocated to capitalize software and amortized over five years.

Income Statement Summary

Earnings per share were in-line with expectations. The company reported $0.14, which compares to our estimate of $0.14 and preannounced estimate of $0.14.

Revenue for the quarter on an absolute basis was $483.3 million, year over year growth was -4% and sequential revenue growth was -9%. License revenue for the quarter on an absolute basis was $133.3 million, year over year growth was -13% and sequential revenue growth was -23%. Services revenue for the quarter on an absolute basis was $342.4 million, year over year growth was 7% and sequential revenue growth was 2%. The company did reclassify out of pocket expenses in accordance with FASB.

Operating margins for the quarter were 13%, which compares to 15% last quarter and 9% in the year ago period. The company was able to improve both services margins and general and administrative expenses in order to manage toward the bottom line result and hold operating margins at a very respectable 13%.

In 1Q02, service margins were 52% and license margins were 91%. Service margins were 47% last quarter and 44% in the same period last year. License margins were 92% last quarter and 89% in the same period last year. Sales and marketing was 26% of revenue, which compares to 24% last quarter and 25% in the year-ago period. Research and

development was 17% of revenue which compares to 14% last quarter and 15% in the year ago period (excludes Development Services Costs). General and administrative expense was 6% of revenue, which compares to 7% last quarter and 7% in the year ago period.

Balance Sheet and Cash Flow Summary
The company finished the quarter with $1,823 million in total cash, which compares to $1,673 million last quarter and $1,155 million one year ago. DSO for the company was down sequentially to 58 days, which compares to 63 days last quarter and 75 days in the same period one year ago. Deferred revenue was up sequentially to $421 million, which compares to $409 million last quarter and $415 million last year. The increase in deferred revenue is largely a result of strong first quarter maintenance renewals. Cash flow from operations was $141 million this quarter.

Customer Metrics
PeopleSoft brought in 78 new customers in the quarter, down from 147 last quarter. New customer license revenue was 25% of total license revenue, which compares a recent quarterly average of 39%.

PeopleSoft's ASP was $600,000 this quarter, which compares to $700,000 last quarter and a historical level of $500,000. There were 25 deals in the quarter that were greater than $1 million, which compares to 41 from last quarter. Additionally, PeopleSoft had one deal in the $10 to $20 million range. This deal was a human capital management sale, which was global in nature.

Thus far, 1/3 of PeopleSoft customers have upgraded to PeopleSoft 8, the remaining 2/3 have not upgraded. Support for version PeopleSoft 7.5 will end in 12 months at which point PeopleSoft customers will need to either upgrade to PeopleSoft 8 or remain on PeopleSoft 7.5 without support.

Revenue Segmentation Analysis
By Product — Across product lines, the company saw consistent relative performance.

By Geography — North America and International license revenue both decreased year over year at comparable rates of 13%. On a constant currency basis, International was down 8% year over year.

By Verticals — One market that performed better than the bunch was education and government. This was the company's least impacted sector in the quarter.

Headcount
The company decreased headcount sequentially from 8,436 last quarter to 8,512 this quarter. The decrease in headcount is attributed to a decrease in services.

Exhibit 2

PeopleSoft
Sales and Earnings Summary

($ Millions, Except Per-Share Data)

	2001					2002E					2003E				
	3/01	6/01	9/01	12/01	CY01	3/02	6/02E	9/02E	12/02E	CY02E	3/03E	6/03E	9/03E	12/03E	CY03E
North America Revenue	391.4	407.9	392.7	402.0	1594.0	367.3	355.7	359.5	384.6	1467.1	375.7	380.3	392.9	425.6	1574.4
International Revenue	122.7	136.6	128.1	137.6	525.0	116.0	106.3	113.5	121.4	457.2	125.2	126.8	138.0	149.5	539.6
Total License Fees	153.3	166.3	151.8	174.1	645.4	133.3	120.0	128.0	151.0	532.3	135.9	132.0	145.9	175.2	589.0
y/y % change	*70%*	*51%*	*15%*	*6%*	*30%*	*-13%*	*-28%*	*-16%*	*-13%*	*-18%*	*2%*	*10%*	*14%*	*16%*	*11%*
seq % change	*-7%*	*8%*	*-9%*	*15%*	–	*-23%*	*-10%*	*7%*	*18%*	–	*-10%*	*-3%*	*11%*	*20%*	–
Services	330.2	349.1	344.8	346.9	1371.0	342.4	342.0	345.0	355.0	1384.4	365.0	375.0	385.0	400.0	1525.0
y/y % change	*22%*	*20%*	*22%*	*12%*	*19%*	*4%*	*-2%*	*0%*	*2%*	*1%*	*7%*	*10%*	*12%*	*13%*	*10%*
Development Services	30.7	29.2	24.1	18.7	102.7	7.5	0.0	0.0	0.0	7.5	0.0	0.0	0.0	0.0	0.0
y/y % change	*33%*	*-1%*	*-35%*	*-43%*	*-16%*	*-75%*	–	–	–	*-93%*	–	–	–	–	–
Total Revenues	**514.2**	**544.5**	**520.7**	**539.7**	**2119.1**	**483.3**	**462.0**	**473.0**	**506.0**	**1924.3**	**500.9**	**507.0**	**530.9**	**575.2**	**2114.0**
y/y % change	*34%*	*27%*	*15%*	*6%*	*20%*	*-6%*	*-15%*	*-9%*	*-6%*	*-9%*	*4%*	*10%*	*12%*	*14%*	*10%*
seq % change	*1%*	*6%*	*-4%*	*4%*	–	*-10%*	*-4%*	*2%*	*7%*	–	*-1%*	*1%*	*5%*	*8%*	–
Cost of Licenses	16.3	18.2	12.0	14.8	61.3	11.4	10.2	10.9	12.8	45.4	10.9	10.6	11.7	14.0	47.1
Cost of Services	184.8	196.0	180.5	183.0	744.2	164.5	164.2	164.9	169.7	663.3	171.6	176.3	181.0	188.0	716.8
Cost of Development Services	27.9	26.5	21.8	16.9	93.1	6.8	0.0	0.0	0.0	6.8	0.0	0.0	0.0	0.0	0.0
Total Cost of Revenue	**228.9**	**240.7**	**214.4**	**214.7**	**898.6**	**182.7**	**174.4**	**175.8**	**182.5**	**715.4**	**182.4**	**186.8**	**192.6**	**202.0**	**763.9**
Sales & Marketing	126.2	131.4	126.0	130.3	513.9	124.6	119.2	120.1	125.0	488.9	125.2	125.7	129.0	138.0	518.0
Product Development	79.0	72.8	70.9	75.2	299.0	82.3	87.8	88.5	93.6	352.2	95.2	93.8	96.6	101.8	387.4
General & Administrative	33.9	41.7	40.9	39.1	155.6	30.2	30.0	30.0	31.0	121.2	31.0	32.0	33.0	34.0	130.0
Other Charges	–	-0.7	0.8	–	0.0	2.8	10.0	4.0	4.0	20.8	4.0	4.0	4.0	4.0	16.0
Total Expenses	**239.1**	**246.2**	**238.6**	**244.6**	**968.5**	**239.9**	**247.0**	**242.6**	**253.6**	**983.1**	**255.4**	**255.5**	**262.6**	**277.8**	**1051.4**
Operating Income - Reported	46.1	57.7	67.7	80.4	252.0	60.6	40.7	54.6	69.9	225.8	63.1	64.7	75.7	95.3	298.7
Operating Margin - Reported	*9.0%*	*10.6%*	*13.0%*	*14.9%*	*11.9%*	*12.5%*	*8.8%*	*11.5%*	*13.8%*	*11.7%*	*12.6%*	*12.8%*	*14.2%*	*16.6%*	*14.1%*
Operating Income - Normalized	**46.1**	**57.0**	**68.5**	**80.4**	**252.0**	**63.4**	**50.7**	**58.6**	**73.9**	**246.6**	**67.1**	**68.7**	**79.7**	**99.3**	**314.7**
Operating Margin - Normalized	*9.0%*	*10.5%*	*13.2%*	*14.9%*	*11.9%*	*13.1%*	*11.0%*	*12.4%*	*14.6%*	*12.8%*	*13.4%*	*13.5%*	*15.0%*	*17.3%*	*14.9%*
Other - Reported	8.9	13.1	7.8	7.8	37.6	7.2	7.5	7.5	8.0	30.2	8.0	8.5	8.5	8.5	33.5
Other - Normalized	-	-	-	-	0.0	-	-	-	-	0.0	-	-	-	-	0.0
Pretax Income - Reported	55.1	70.8	75.5	88.2	289.6	67.8	48.2	62.1	77.9	256.0	71.1	73.2	84.2	103.8	332.2
Pretax Income - Normalized	**55.1**	**70.1**	**76.2**	**88.2**	**289.6**	**70.6**	**58.2**	**66.1**	**81.9**	**276.8**	**75.1**	**77.2**	**88.2**	**107.8**	**348.2**
Taxes - Reported	19.0	23.5	25.1	30.4	98.0	23.3	16.6	21.4	26.9	88.2	24.5	25.2	29.0	35.8	114.6
Taxes - Normalized	19.0	24.5	26.7	30.4	100.6	24.4	16.6	21.4	26.9	89.3	24.5	25.2	29.0	35.8	114.6
Tax Rate - Normalized	*35%*	*35%*	*35%*	*34%*	*35%*	*35%*	*29%*	*32%*	*33%*	*32%*	*33%*	*33%*	*33%*	*33%*	*33%*
Net Income - Reported	36.1	47.4	50.3	57.8	191.6	44.5	31.5	40.7	51.0	167.8	46.6	47.9	55.1	68.0	217.6
Net Income - Normalized	**36.1**	**45.6**	**49.6**	**57.8**	**188.9**	**46.3**	**41.5**	**44.7**	**55.0**	**187.5**	**50.6**	**51.9**	**59.1**	**72.0**	**233.6**
Basic Avg. Shrs. (mil)	290.2	296.1	302.2	303.7	298.0	308.0	311.1	314.2	317.3	312.6	320.5	323.7	326.9	330.2	325.3
FD Avg Shrs (mil.)	315.0	318.6	322.3	323.1	319.8	325.9	329.1	332.4	335.7	330.8	339.1	342.5	345.9	349.4	344.2
EPS - Reported - Basic	0.12	0.16	0.17	0.19	0.64	0.14	0.10	0.13	0.16	0.53	0.15	0.15	0.17	0.21	0.68
EPS - Reported - FD	0.11	0.15	0.16	0.18	0.60	0.14	0.10	0.12	0.15	0.51	0.14	0.14	0.16	0.19	0.63
EPS - Normalized - Basic	0.12	0.15	0.16	0.19	0.62	0.15	0.13	0.14	0.17	0.59	0.16	0.16	0.18	0.22	0.72
EPS - Normalized - FD	**0.11**	**0.14**	**0.15**	**0.18**	**0.58**	**0.14**	**0.13**	**0.13**	**0.16**	**0.56**	**0.15**	**0.15**	**0.17**	**0.21**	**0.68**
% Change	*175%*	*133%*	*88%*	*38%*	*87%*	*27%*	*-7%*	*-13%*	*-11%*	*-3%*	*7%*	*15%*	*31%*	*31%*	*21%*

E = Morgan Stanley Equity Research estimates.

Exhibit 3

PeopleSoft - Financial Statistics and Ratios

	2001					2002E					2003E				
	3/01	6/01	9/01	12/01	CY01	3/02	6/02E	9/02E	12/02E	CY02E	3/03E	6/03E	9/03E	12/03E	CY03E
Growth Y/Y %															
License Fees	69.9	51.4	15.4	5.8	30.1	-13.0	-27.8	-15.7	-13.3	-17.5	2.0	10.0	14.0	16.0	10.7
Services	22.3	20.2	21.5	11.9	18.8	3.7	-2.0	0.0	2.3	1.0	6.6	9.6	11.6	12.7	10.2
Total revenues	34.1	26.8	15.1	6.4	19.6	-6.0	-15.2	-9.2	-6.2	-9.2	3.6	9.7	12.2	13.7	9.9
Cost of Licenses	55.9	132.9	41.7	21.8	57.6	-29.7	-44.1	-9.5	-13.3	-26.0	-4.9	3.5	7.3	9.2	3.9
Sales & Marketing	45.8	17.3	8.1	-1.8	14.7	-1.3	-9.3	-4.7	-4.1	-4.9	0.5	5.5	7.4	10.4	6.0
Product Development	-1.1	-12.4	-7.5	-5.6	-6.7	4.2	18.9	24.7	24.5	17.8	15.6	6.9	9.2	8.8	10.0
General & Adminvstrabve	32.2	75.0	40.5	32.4	43.9	-10.7	-28.0	-26.7	-20.7	-22.1	2.5	6.7	10.0	9.7	7.2
Total expenses	24.5	11.9	-7.6	2.6	6.6	0.4	0.3	1.7	3.7	1.5	6.4	3.5	8.3	9.6	6.9
Operating Profit	440.2	252.7	165.8	51.3	143.2	37.4	-11.0	-14.4	-8.1	-2.2	5.8	35.5	35.9	34.4	27.6
% of Sales															
License margin	89.4	89.0	92.1	91.5	90.5	91.4	91.5	91.5	91.5	91.5	92.0	92.0	92.0	92.0	92.0
Services margin	44.0	43.9	47.7	47.3	45.7	52.0	52.0	52.2	52.2	52.1	53.0	53.0	53.0	53.0	53.0
Sales & Marketing	24.5	24.1	24.2	24.1	24.3	25.8	25.8	25.4	24.7	25.4	25.0	24.8	24.3	24.0	24.5
Product Development	15.4	13.6	13.6	13.9	14.1	17.0	19.0	18.7	18.5	18.3	19.0	18.5	18.2	17.7	18.3
General & Administrabve	6.6	7.7	7.9	7.2	7.3	6.3	6.5	6.3	6.1	6.3	6.2	6.3	6.2	5.9	6.1
Total expenses	46.5	45.2	45.8	45.3	45.7	49.7	53.5	51.3	50.1	51.1	51.0	50.4	49.5	48.3	49.7
Operating Margin	9.0	10.5	13.2	14.9	11.9	13.1	11.0	12.4	14.6	12.8	13.4	13.5	15.0	17.3	14.9
Pretax Margin	10.7	12.9	14.6	16.3	13.7	14.6	12.6	14.0	16.2	14.4	15.0	15.2	16.6	18.7	16.5
Net Margin	7.0	8.4	9.5	10.7	8.9	9.6	9.0	9.4	10.9	9.7	10.1	10.2	11.1	12.5	11.0
Selected Ratios and Balance Sheet Highlights															
Book Value/shr	3.45	4.13	4.44	4.93	–	5.26	–	–	–	–	–	–	–	–	–
Cash/shr	3.35	3.96	4.41	5.05	–	5.46	–	–	–	–	–	–	–	–	–
Sales/Shr	6.04	6.33	6.47	6.56	–	6.41	–	–	–	–	–	–	–	–	–
Total Cash+Investments	1155	1402	1515	1673	–	1823	–	–	–	–	–	–	–	–	–
Total Debt	57	57	57	57	–	57	–	–	–	–	–	–	–	–	–
Total Equity	1087	1315	1430	1592	–	1716	–	–	–	–	–	–	–	–	–
Total Assets	2024	2285	2363	2548	–	2667	–	–	–	–	–	–	–	–	–
Total Receivables	430	402	354	375	–	313	–	–	–	–	–	–	–	–	–
Rec Days Outst	75	66	61	63	–	58	–	–	–	–	–	–	–	–	–
Employees	8255	8539	8631	8436	–	8512	–	–	–	–	–	–	–	–	–
Revenue Per Employee	0.23	0.24	0.24	0.25	–	0.25	–	–	–		–	–	–	–	
Average Contract Size	0.500	0.600	0.700	0.700	–	0.600	–	–	–	–	–	–	–	–	–
Number of Customers	4119	4249	4352	4499	–	4577	–	–	–	–	–	–	–	–	–
New customers	130	120	103	147	–	78	–	–	–	–	–	–	–	–	–
Deferred revenue	415	419	408	409	–	421	–	–	–	–	–	–	–	–	–
Deferred Rev./LTM Rev	22%	21%	20%	19%	–	20%	–	–	–	–	–	–	–	–	–
Provision for Doubtful Accounts	9.4	4.9	1.5	0.8	–	–	–	–	–	–	–	–	–	–	–
Depreciation and Amortization	19.7	23.5	30.6	29.3	–	–	–	–	–	–	–	–	–	–	–
LTM Sales	1903	2018	2087	2119	–	2088	2006	1958	1924	–	1942	1987	2045	2114	–
LTM EPS	0.38	0.46	0.53	0.58	–	0.61	0.60	0.58	0.56	–	0.57	0.59	0.63	0.68	–

E = Morgan Stanley Equity Research estimates

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INDUSTRY COVERAGE: ENTERPRISE SOFTWARE

Company	Ticker	Rating	as of	Price at 4/24/02
Agile Software	AGIL.O	E	3/18/02	$9.01
Ariba	ARBA.O	E	3/18/02	$3.48
Aspect Communications	ASPT.O	E	3/18/02	$4.79
BEA Systems	BEAS.O	E	3/18/02	$10.42
BMC Software	BMC.N	E	3/18/02	$14.64
Business Objects	BOBJ.O	E	3/18/02	$35.11
Check Point Software	CHKP.O	E	3/18/02	$18.25
Click Commerce	CKCM.O	E	3/18/02	$1.05
Cognos Inc	COGN.O	O	3/18/02	$24.51
Computer Associates	CA.N	O	3/18/02	$18.44
Compuware	CPWR.O	U	3/22/02	$8.08
Documentum	DCTM.O	E	3/18/02	$19.29
E.piphany	EPNY.O	E	3/18/02	$5.65
Hyperion Solutions	HYSL.O	E	3/18/02	$24.48
i2 Technologies	ITWO.O	E	3/18/02	$3.28
Informatica	INFA.O	O	3/18/02	$8.50
J.D. Edwards	JDEC.O	E	3/18/02	$11.99
KANA Software	KANA.O	E	3/18/02	$11.45
Manugistics Group Inc.	MANU.O	O	3/18/02	$16.21
McAfee.com	MCAF.O	NR	3/18/02	$18.54
Mercury Interactive	MERQ.O	O	3/18/02	$36.51
Network Associates	NET.N	NR	3/18/02	$23.75
Novell	NOVL.O	U	3/18/02	$3.70
Oracle	ORCL.O	O	3/18/02	$10.50
PeopleSoft	PSFT.O	E	4/2/02	$22.48
Peregrine Systems	PRGN.O	O	3/18/02	$8.31
Quest Software Inc	QSFT.O	E	3/18/02	$12.70
Rational Software Corp.	RATL.O	E	4/19/02	$14.10
SAP	SAP.N	O	3/18/02	$33.35
SeeBeyond	SBYN.O	E	4/23/02	$3.22
Siebel Systems	SEBL.O	E	3/18/02	$23.76
SilverStream Software	SSSW.O	U	3/18/02	$4.90
TeleTech	TTEC.O	O	3/18/02	$12.27
TIBCO Software	TIBX.O	E	3/18/02	$9.05
Veritas Software	VRTS.O	O	3/18/02	$26.85
Vignette	VIGN.O	U	3/18/02	$3.02
webMethods	WEBM.O	E	3/18/02	$14.27

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

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Attractive (A). The analyst expects the performance of his or her industry coverage universe to be attractive vs. the relevant broad market benchmark over the next 12–18 months.

In-Line (I). The analyst expects the performance of his or her industry coverage universe to be in line with the relevant broad market benchmark over the next 12–18 months.

Cautious (C). The analyst views the performance of his or her industry coverage universe with caution vs. the relevant broad market benchmark over the next 12–18 months.

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