Internet Trends 2003

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Equity Research
North America

Industry

Internet & PC Applications Software

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MSCI SECTOR	INFORMATION TECHNOLOGY
US Strategist Weight	15.0%
S&P 500 Weight	15.0%

COMPANIES FEATURED	
Amazon.com (AMZN, $22.21)	Overweight-V
eBay (EBAY, $65.97)	Overweight-V
TMP Worldwide (TMPW, $12.89)	++
Yahoo! (YHOO, $17.45)	Overweight-V

++Rating for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.

Industry Overview

November 18, 2002

Online Classified Advertising Report: Search/Find/Obtain (SFO)

- **Online classified advertising is a rapidly growing market**
  In the U.S., online classified advertising revenue grew 119% in C2001, to $1.4 billion, while newspaper classified advertising declined 15%, to $17 billion, and total US advertising declined 9%, to $147 billion. We estimate online classifieds are gaining additional share in 2002.
- **We believe the SFO capabilities of the leading Internet platforms are helping drive online share growth**
  We believe SFO is the third "killer application" of the Internet. The first was email. The second was the browser. Because of SFO, we believe online classified-related advertising has the potential to encompass a much larger market than offline, owing to its global reach, pricing transparency (which often leads to lower prices), and the ability to consummate transactions instantaneously.
- **We view Yahoo! and eBay and Monster as key beneficiaries of this shift**
  As examples, eBay Motors became the largest U.S. pre-owned car vendor in terms of units in C3Q02, by our estimates. Yahoo! Classifieds has robust offerings in help wanted, real estate, and personals. Monster has become one of the largest US employment marketplaces. And categories, such as computers, consumer electronics, and media products (books, movies, etc.) that were small markets offline have proven to be much larger markets online.
- **This is an excerpt from an 80+pp report that is available on Client Link**
  In the report, we review the overall trends in online classifieds. We then examine different companies' online offerings. We also drill down into major categories of classified advertising on Yahoo, eBay, and Monster and compare the online with the offline offerings
- **Internet & PC Applications Software View is Attractive**
  Given still strong 20%+ global growth in Internet users and usage, we continue to believe our stocks could outperform the market over 12-18 months.

Online Classified Advertising Report: Search/Find/Obtain (SFO)

General Thoughts…

Having evolved from five million Internet users in 1995 to an estimated 500 million now, the Internet has experienced the type of change that is common in the development and acceptance of a new, dramatic, and wide-reaching technology. With our research over the years we have endeavored to determine how that change would occur — before it occurred.

When the commercial Internet was in its early stage, in an effort to attempt to define context and frameworks for how relevant areas of the Internet might evolve, we published *The Internet Report* (1995), *The Internet Advertising Report* (1996) and *The Internet Retailing Report* (1997) (see http://www.morganstanley.com/techresearch/). In our view, the reports have held the test of time, and we have not written a report of this ilk in a long time. In part this is because the reports covered most of the key trends that evolved until 2001, and, in part, because there has not been a trend that we thought had the potential to have as profound an impact. Until now…

The Next Generation of the Internet — Consumer Empowerment to Search/Find/Obtain Is Key…

We are very excited about the online user/usage/revenue momentum we see in what is informally called "online classified advertising." In our view, there are a handful of important trends that all relate, in part, to a major theme of rising consumer empowerment:

1) *User satisfaction related to online shopping has risen*, in part due to broad-based improvements in the user experience for ecommerce services including eBay, Amazon.com, Yahoo!, and PayPal.

2) *User satisfaction related to information search has risen*, in part due to the rapid acceptance of the very high-quality search focused on relevance provided by Google, which we think has driven other vendors to improve their online search capabilities. Companies appear to realize the stakes and, with different core strengths, Google, Yahoo!, Microsoft, Amazon.com, and eBay all have their sights on the search prize(s). Stay tuned…

We believe this opportunity — we call it "search/find/obtain" or (SFO) — is the third 'killer application' of the Internet. The first was email. The second was the browser.

3) *Rising vendor satisfaction related to effective (i.e., monetizable) linking to potential customers*. We believe the efficient targeting of marketing spending online has benefited from Overture's (OVER, $24.48, not covered) key-word search network and, increasingly, other competing services. These services enable advertisers to pay to have their listings displayed in the search results for key words on either a click-through or a CPM-type basis, thus creating a toll booth for the provider.

4) *Appreciation by the Internet leaders for the efficient marketing potential of their platforms (especially relative to offline) has risen*. In our view, eBay's low-cost launch of an auto category, now one of the largest auto marketplaces in the world, makes a compelling case study in the use of marketing leverage online. We note also Amazon.com's ability to send very low-cost relevant emails to millions of its active online customers and boost sales.

5) *Underlying global growth in Internet user/usage growth has remained strong*, and the evolving acceptance of "always on" broadband has grown the available market of users (both buyers and sellers), in our view.

6) *The leading online companies have increasingly demonstrated that their business models have compelling attributes* like strong revenue growth, expanding operating margins and annuity-like characteristics.

We think Jeff Bezos summarized things well recently when he told Chip Bayers of *Business 2.0:*

"People have very little intuition for what it will mean when the top 40 percent of US households, based on income, have half a dozen computers, all of them connected to the Net, all of them with 'instant on.' They just don't know how important a part of our daily life the online world will be!"

Online Classified Advertising Thoughts…

In our view, "online classified advertising," as we note later in this report, is difficult to define. In print, classified advertising is about matchmaking — helping buyers and sellers search for and find each other — but as it migrates online, its strength comes from market making. So, the definition, in effect, becomes much broader online.

In its more complex market-making form, classified advertising benefits from the proliferating search/find/obtain (SFO) capabilities of online platforms. We believe online classified advertising has the potential to encompass a much larger market (based on volume) than offline, owing to its global reach, pricing transparency (which often leads to lower prices), and the ability to consummate transactions instantaneously — in effect, within the advertisement. The online classified market is growing not only through market share gains versus offline media (including classified and Yellow Page advertising), but also by creating marketplaces (for items at different price points and for transactions across a variety of geographies) that did not, and could not, exist in the offline world.

As industry veteran, GM O'Connell of Modem Media, recently summarized his views for us,

1) The trends we are seeing in online classified advertising represent what may be the beginning of a fundamental shift in marketing (not just advertising), driven by the power being transferred to the customer by the Internet.

2) We are entering an "always on" age in which buyers are empowered by instant access to information, services, and transactional ability that shifts their expectations and will ultimately cause marketers to shift their spend and behavior. As "always on" functionality makes it possible for the search/find/obtain process to take place in only a session or two, this will affect each stage of the customer lifecycle — not just awareness or purchase. In effect, this will shrink the overall purchase cycle.

3) The resulting productivity gains for both seller and buyer could be fairly significant.

Investment Thoughts…

We see compelling opportunity for investors as a handful of Internet leaders monetize the efficiencies they are bringing to previously inefficient markets.

In our view, we are entering a second stage in the Internet's evolution in which the leadership positions are more clear. We continue to believe in the investment opportunities of a risk-adjusted portfolio of Internet leaders — including the likes of eBay (EBAY, $65.16, Overweight-V), Amazon.com (AMZN, $21.21, Overweight-V), Intuit (INTU, $49.23, Overweight-V), Yahoo! (YHOO, $16.70, Overweight-V), Microsoft (MSFT, $56.99, Overweight-V), and Expedia (EXPE, $72.47, Overweight-V) — which should benefit from the themes discussed in this report.

Note that we continue to believe that Internet companies remain exposed to a wide variety of challenges as they implement their still-evolving business models in a rapidly changing market. Individual investors need to consider carefully the role that such investments would play as part of a balanced portfolio. This report focuses on general industry trends; for more extensive discussions of our financial projections stemming from the broad trends discussed in this report, please refer to our recent company-specific reports.

Some Definitions

"Classified advertisement *n.* An advertisement, usually brief and in small type, printed in a newspaper or magazine under headings with others of the same category."

American Heritage Dictionary

Based on this definition of *offline* classified advertising, our definition of *online* classified advertising is:

"An interactive advertisement with *search* and *find* functionality, usually brief but linked to relevant information, listed online under headings with others of the same category. Frequently, these advertisements have embedded transaction capabilities that allow a user to facilitate *obtaining* the product/service he/she is interested in."

In this report, we have taken the liberty to morph some definitions of this evolving industry. We believe that many forms of online advertising could be characterized as forms of classified advertising. For example, one could argue that all ecommerce revenue could be tagged as classified advertising revenue as every online listing from wal-mart.com to ebay.com is, well, a listing.

We haven't gone as far as that, but we have combined two categories as defined by the Interactive Advertising Bureau (Internet classified advertising and key-word search advertising) into one category, which we call "online classified advertising."

Summary

We believe the relatively resilient growth of online classified advertising supports our view of a significant opportunity for a handful of major players.

In part, we attribute the revenue and user/usage momentum experienced by Yahoo!, eBay, Monster, Google, and Overture to their online classified efforts. In effect, they have developed new venues for cost-efficient matchmaking — bringing together parties, which then may conduct a separate transaction offsite or onsite. We believe online classifieds excel compared to offline, print equivalents due to ease of use, breadth and depth of offerings, and pricing.

In this online model for what we call online classified advertising, buyers and sellers benefit from the low cost of online transactions and from new categories/volumes of products and sellers. In addition, low-price products are captured that would otherwise be priced out of the market by expensive offline classifieds. And even for these low-price products, the online classifieds and transaction platforms themselves can still derive significant profits.

As people are increasingly turning to the Web when they want information about news, products, and services, companies such as eBay, Yahoo!, Amazon.com, Overture, and Google have found ways to take just a little bit of revenue (in part, via paid listings) out of many of those millions of searches (see Exhibit 1). We view the revenue opportunity from online classifieds in the same terms that Microsoft's Steve Ballmer used to describe the Windows royalty stream: "When you multiply little numbers (price per unit) by big numbers (units), you can still get big numbers."

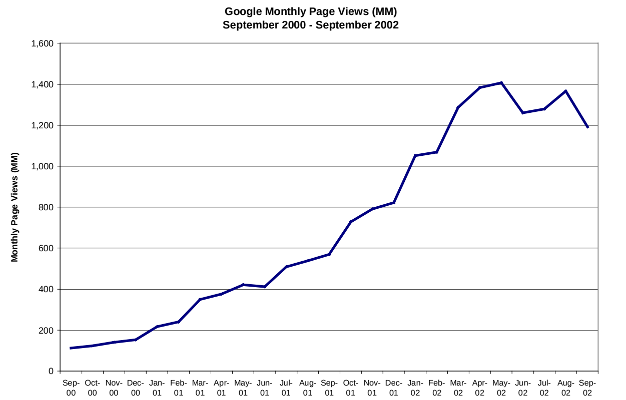
This multiplier effect is manifested in the very robust growth enjoyed by the key-word search segment, the key beneficiaries of which are Overture, Google, and leading Web portals like Yahoo!. We expect this growth to continue at a strong rate, with this segment possibly generating $1 billion in revenue in C2002, a level that would be up approximately 250% Y/Y.

Classified advertising revenues have continued to grow faster online than offline.

US online classified revenues rose 119% in 2001, to $1.4 billion, even as the economic downturn and the Internet shakeout have negatively affected overall advertising revenue, both online (down 12%, to $7.2 billion, in 2001) and offline, excluding Internet (down 9%, to $147 billion).

Exhibit 1

Google Monthly Page Views — Sept. 2000 to Sept. 2002



Source: Media Metrix

In 1H02, the growth in online classified advertising slowed markedly (owing largely to a decline in online help wanted advertising) to 1% Y/Y, but it still outpaced offline classified advertising, which declined 9% Y/Y in 1H02.

Online classified revenue growth should benefit from long-term growth prospects for overall Internet advertising, which remain impressive, in our view.

Despite the 12% decline in 2001, to $7.2 billion, and the 21% Y/Y decline in 1H02, US Internet advertising remains just below trend line, having grown at compound annual rates of 125% since 1995, and 55% since 1998. Even with the drop-off in 2001, Internet advertising growth still surpasses the rates of revenue growth seen during the first seven years of development of broadcast TV (46% CAGR) and cable (62% CAGR).

Over time, we expect strong growth of Internet advertising revenue, in part, as a consequence of overall growth of users, uses, and usage of the Internet. And online advertising should also benefit from broader acceptance of a variety of enabling technologies. With its always-on high-speed functionality and expanded use of images, video, and audio, broadband has already helped boost Internet usage levels and enhance the appeal of online classified advertising. Our cable and DSL teams (spearheaded by Rich Bilotti and Simon Flannery) estimate the number of US broadband subscribers to grow from 12 million in 2001 to perhaps as high as 44 million in 2006, a 30% CAGR.

Just how much offline classified advertising revenue is being captured by online is still difficult to gauge.

We think it may be another six to 12 months before we can estimate a long-term growth rate for general online advertising spending. More data points should enable us to pinpoint the extent of overspending on online in 1999 and 2000 and the impact of the economic downturn on offline advertising since 2001. That said, we note that all in (excluding AOL) the overall online advertising market appears to have stabilized.

We see perhaps one of the biggest battles being waged between online and offline for market share in recruitment advertising, a category in which the trend is obscured by significant demand weakness overall. The current job recession in the US has led to one of the steepest recorded declines in newspaper help-wanted advertising. We believe, however, that online continues to gain share even in the recession and that online will, potentially, gain significant additional share during an eventual recovery.

Historically, other categories of the print classified advertising market have also been highly sensitive to the economy. Nevertheless, we have seen strong performance since mid-2001 for print advertising in the auto and real estate categories — reflecting strong end-market demand thanks to low interest rates.

As we look for evidence relating to the migration of classified advertising from offline to online, available data already show the following: 1) during this recession, US newspaper classified advertising revenue has been under intense pressure including an almost 20% estimated decline between 2000 and 2002; 2) traditional newspaper help-wanted advertising has dropped almost 50% since 2000 — a period in which online recruitment sites have gained important traction and; 3) offline competitors are now taking the online threat more seriously and ramping up online alternative platforms.

Even as newspaper revenues from automotive have softened and help-wanted advertising has been hit hard, eBay and Monster have continued to experience strong relative growth.

Monster's 39% growth in US revenues was in contrast to a 35% drop in newspaper help wanted in 2001. Note, however, that some of Monster's growth in 2001 benefited from long-term contracts that had been signed earlier and have subsequently run out or have been renewed at lower commitment rates. As a result, Monster's revenues over the 9-month period ending C3Q02 are down 25% Y/Y, reflecting the delayed impact of the downturn. The good news is that we believe Monster's revenues are beginning to stabilize and deferred revenues are flattening out.

The online medium is particularly well suited for classified advertising, in our view.

For instance, in the online recruitment market, job seekers can activate a "job-search agent" to search and retrieve relevant job listings around the clock. And employers can rapidly search through large resume databases, compile a candidate list, and then email potential applicants — all in real time and at significantly lower price points than for traditional offline job searches. We believe the growing availability and market presence of huge online resume databases is rapidly becoming an alternative, particularly for small companies, to recruitment ad listings. The ease of use and accessibility of online recruitment platforms is reflected in the quick adoption by large employment agencies that increasingly rely on these databases for job candidates.

The suitability of classifieds to the online medium is reflected in the fact that classified advertising is already contributing a larger percentage to online advertising than to offline — classifieds accounted for 16% of total online advertising in 2001 versus 11% of total offline advertising.

All that said, we also believe that online classified advertising can grow through creating marketplaces and opportunities that do not or cannot exist offline — i.e., that online companies can essentially expand the size of the entire classified market.

Exhibit 2
Offline vs. Online US Classified Advertising ($MM)

	2000	2001	H1:02
Offline Classified Advertising	$19,609	$16,621	$7,259
Y/Y Change	5%	-15%	-9%
% of Total Offline Advertising	12%	11%	--
Total Online Classified Advertising	$658	$1,442	$684
Y/Y Change	--	119%	1%
% of Total Online Advertising	8%	20%	23%
% of Offline Classified Advertising	3%	9%	9%

Source: Newspaper Association of America, PricewaterhouseCoopers, Interactive Advertising Bureau, Morgan Stanley research

We expect to see continued migration from offline classified advertising — and we expect to see continued organic growth in online classified advertising, including category expansion — because of the following six inherent advantages we see for the online model:

1. Ease of Use

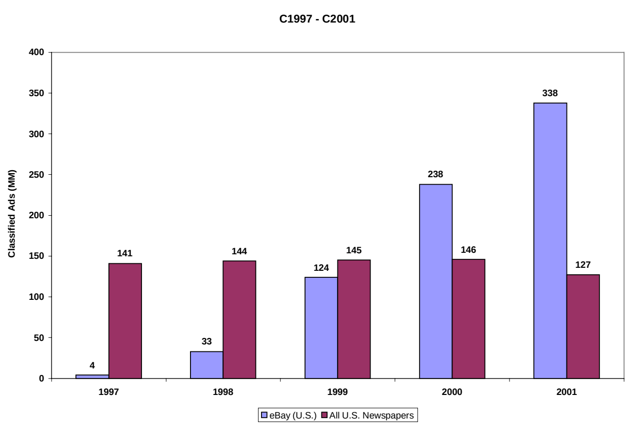
Compared to offline offerings, searches through online classifieds are user-friendly, constantly updated and available 24x7, very targetable, very broad and deep, and not geographically constrained.

In addition, users feel reasonably comfortable that they can search (and find) the best price for a good/service. In our view, Yahoo! has a competitive advantage with its broad search base/experience. eBay has a competitive advantage with its extensive trading platform, on which transactions can be initiated and concluded all in one place. And Amazon.com has a competitive advantage with the depth of information it has about its products (and its customers) and the confidence customers have the company will get the products to them.

To us, the key point is that customer or user *pull* — rather than seller *push* — is driving the online classified opportunity. And as broadband and "always on" become more prevalent, we expect this trend to be accelerated.

Exhibit 3

Annual Classified Ads (MM) — eBay (one Website) vs. All U.S. Newspapers (1,468 dailies), 1997–2001



Source: Morgan Stanley Research, Newspaper Association of America, eBay

2. Breadth and Depth of Listings

Yahoo! Classifieds and eBay often offer a more robust/larger listings base than offline classified media. We estimate that in 2001 the size of eBay's US online listings (338 million) was 2.7 times larger than all US newspaper classified ad listings combined.

In stating this, we realize the following: 1) many of the items listed on eBay are more relevant in the context of the weekly shopper or *Pennysaver* markets, which have significantly lower ad rate structures than leading, big city newspapers; 2) not all listings are comparable, i.e., one cannot directly compare a typical eBay sports item listing with a $10 million, Park Avenue apartment that may appear in the Sunday *New York Times* and; 3) ad rates are typically a function of not only audience reach but also the average income and general demographic characteristics of the intended audience.

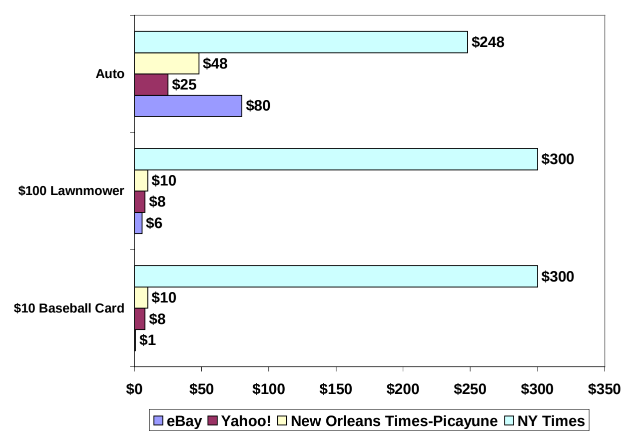
3. Compelling Value Proposition/Pricing for Sellers

Prices for classifieds on Yahoo! and eBay are typically lower than those for newspaper classifieds (see Exhibit 4).

The economics of classified advertising in larger newspapers makes it unfeasible to sell some lower ticket items.

Exhibit 4

Comparative Classified Pricing (Cost to Seller) — eBay vs. Yahoo! vs. *New York Times* vs. *New Orleans Times-Picayune*



Source: eBay, Yahoo!, The New York Times
Note that for eBay, Auto includes $40 listing fee and $40 final value fee, $100 item includes $2.20 listing fee and $3.37 final value fee, and $10 item includes $0.55 listing fee and $0.53 final value fee. For Yahoo!, Auto includes $25 listing fee (no additional charge for successful sale). Yahoo! charges $7.95 for listing any general merchandise item, regardless of price. For The New York Times, Auto is for the minimum ad (4 lines @ $62 per line). The New York Times charges $75 per line (with a 4 line minimum) for all general merchandise. For New Orleans Times-Picayune, $48 Auto rate is for 3 line ad that runs for up to 50 days, and is available only to private parties. $9.90 general merchandise rate is for a 3 line, 3 day ad, and is available only to private parties.

For higher-price items, like autos, eBay and Yahoo! can be much less expensive sales channels than large newspapers like *The New York Times*, but pricing is in line with smaller regional papers like *The New Orleans Times-Picayune*. However, the rates for the New Orleans newspaper apply only to private parties, and are not available to commercial entities as eBay's and Yahoo!'s are.

Key-word search services, such as those offered by Overture and Google, can also provide very appealing pricing for advertisers, in our view, since advertisers only pay when users click on specific links and advertisers can set limits on their maximum expenditures.

Online classifieds can also be more efficient at helping sellers determine their specific customer acquisition costs. Sellers can easily track the source of their buyers and use that information to allocate their online listing and commission fees directly to a customer transaction and thus calculate ROIs on their online classified spend.

In addition, we believe that the Internet lends itself to higher conversion rates for one simple reason — more potential buyers are likely to look at each listing online owing to better, faster searching capabilities. We estimate that conversion rates (actual transactions vs. item listings) across eBay have consistently remained in the 50% range, with higher conversion rates for lower-ASP products like collector baseball cards and lower conversion rates in higher-ASP products like autos. Absent hard data on conversion rates offline, our sense is that these rates may be one-third to one-fifth the levels seen on eBay.

We note that online classified advertising provides a degree of seller self-service that to date has not been available on other media. Through services like eBay or Yahoo!, sellers can manage their own campaigns — uploading the content and the pitch that they choose and then monitoring the results in real-time. For many sellers, we believe this is a key benefit.

4. Leading Ecommerce Destinations

Yahoo! and eBay have large and ready audiences for classified offerings because they are already leading ecommerce destinations on the Internet, measured in terms of users and usage, per Media Metrix.

Yahoo! enabled almost $800 million in transactions in C3Q via Yahoo! Shopping, Yahoo! Travel, and several other ecommerce channels, and Yahoo! Stores hosts over 18,000 stores on its network. eBay, on the other hand, generated $3.8 billion in online gross merchandise sales in C3Q, with 60% Y/Y growth (see Exhibit 5).

In our view, eBay's distinctive transaction platform and its increasingly strong and loyal customer base suggest a compelling opportunity, and eBay has already manifested this potential with its rapid inroads in the auto transaction marketplace, where it has become a significant competitive threat for "old media" auto advertising. One promising new area for eBay could also be business-to-business transactions.

Exhibit 5

eBay and Yahoo! — Key User/Usage Momentum Metrics

	CQ3:01	CQ4:01	CQ1:02	CQ2:02	CQ3:02
eBay					
Gross Merchandise Sales ($MM)	2,355	2,735	3,110	3,400	3,770
Y/Y Change	74%	69%	57%	51%	60%
Q/Q Change	5%	16%	14%	9%	11%
Online Listings (MM)	108	127	138	145	160
Y/Y Change	59%	59%	55%	47%	48%
Q/Q Change	10%	16%	9%	5%	10%
Registered Users (MM)	38	42	46	50	55
Y/Y Change	99%	89%	55%	46%	44%
Q/Q Change	10%	13%	9%	8%	10%
Yahoo!					
Daily Page Views (MM)	1,055	1,122	1,372	1,457	1,504
Y/Y Change	--	--	39%	44%	43%
Q/Q Change	4%	6%	22%	6%	3%
Unique Users (MM)	177	188	201	196	201
Y/Y Change	--	--	20%	14%	14%
Q/Q Change	3%	6%	7%	-2%	3%

Source: Company Reports, Morgan Stanley Research

Exhibit 6

Selected Companies — Ranked by Estimated Revenue Exposure to Consumer Spending

	Direct Source of Revenue:		
Company	**Consumer**	**Large Enterprise**	**SME**
Amazon.com	95%	3%	2%
Expedia	75%	5%	20%
eBay	30%	5%	65%
Yahoo!	10%	40%	50%

Source: Morgan Stanley Research; SEM = small-to-medium size enterprises

Exhibit 7

Selected Companies — Ranked by Estimated User Exposure to Consumer Spending

	Users:		
Company	**Consumer**	**Large Enterprise**	**SME**
Amazon.com	95%	3%	2%
eBay	92%	1%	7%
Expedia	75%	5%	20%
Yahoo!	60%	15%	25%

Source: Morgan Stanley Research; SEM = small-to-medium size enterprises

5. Strong symbiotic relationships with small and medium-size enterprises (SMEs) and individuals that, based on business trends, seem to have been somewhat immune, to date, to challenges in the economy

Yahoo! and eBay's business models (along with those of several of the leading Internet companies) thrive on a symbiotic relationship with SMEs, for which the Internet can offer cost-effective marketing and distribution and the possibility of almost unlimited geographical expansion.

We believe that the Internet and online classified advertising can offer significant competitive advantages to SMEs. And it is our sense that SMEs are increasingly taking advantage of this. For instance, eBay claims 110,000 "power sellers," who transact at least $1,000 per month, and we estimate SMEs account for 65% of its total revenue. Yahoo! Stores support over 18,000 businesses, most of which are SMEs. We estimate that Yahoo! generates 50% of its revenue from SMEs, with 40% coming from large enterprises and 10% from consumers. And from the perspective of Internet classified advertising and transaction platforms, we believe SMEs represent a dynamic source of potential new partners.

6. Cost-effective Online Transaction Platform

Newspaper classifieds and most online sites are based on a marketing model — buyers seeing a product they are interested in are given the mailing address, telephone number, and/or email address of the seller to contact. With eBay, for instance, buyers can transact for the product instantaneously right on the platform, either through an auction format or increasingly through a fixed price format.

Online transaction engines can help reduce the operating as well as marketing costs for vendors.

For individual stores without significant scale, we believe this proposition can be particularly compelling. And as a bonus, thanks to its low costs, the online classifieds model allows companies to generate significant returns even from items of general merchandise with very low selling prices. The average revenue per eBay transaction is small, about $1.75 per listing in 1H02, but the cost per transaction (calculated as COGS divided by number of listings) is even lower, at about $0.31. We believe most of the sellers on eBay, where the average selling price is $45, likely would not even think of paying for a classified listing in a newspaper which on a relative and absolute basis would be significantly more expensive.

Exhibit 8

Example of eBay's "Buy It Now" Offering — 105 sets of Washington Redskins Tickets

Source: eBay

The interactive platforms of eBay, and also Yahoo!, allow vendors to determine their marketing ROIs (returns on investment) more efficiently than offline media. With key-word search offerings in which advertisers pay only when users click through, Overture and Google can provide an even more exact measurement of ROI. Some of Overture's clients have indicated an ability to generate 40%-plus ROIs, while Google case studies indicate that clients are able to convert visitors to buyers 50% more frequently than with traditional media buys.

In our view, Yahoo! and eBay appear to be well positioned for the growth in online classifieds revenue.

Thanks to their competitive positioning, their range of offerings, and their very large and growing customer bases, we believe Yahoo! and eBay should be able to generate significant revenue and earnings growth from online classifieds. In addition, we believe Overture, with its key-word search network, and Google, with its high-quality search algorithms, may also be well positioned for ongoing growth in online classifieds**.**

- *Yahoo!* classified advertising revenue (reported within its Listing and Fees category) in C3Q may have in may have been $40 million (flattish Q/Q, but up 33% Y/Y), or 16% of total company revenue, according to our estimates. Categories of particular strength would be help wanted (HotJobs) and personals. In addition, as one of the leading Web portals, Yahoo! is also a major beneficiary of the growth in key-word search revenue. Via its Sponsored

Search offering that it runs in conjunction with Overture, Yahoo! generated approximately $31 million in CQ3 revenue (up approximately 25% Q/Q).

• *eBay* may not immediately come to mind as a classified advertising business — it tends to be viewed as a transaction platform — but we see its market opportunity as closely linked to the classified advertising market. Nevertheless, thanks to its transaction capabilities, eBay's business model and market opportunity are broader than online classifieds, in our view. eBay is demonstrating significant depth and breadth in its business, with five categories (motors, computers, consumer electronics, books, movies & music, and sports) generating annualized gross merchandise sales (GMS) in excess of $1 billion, and each of these categories supporting 30%-plus Y/Y growth rates.

Exhibit 9

eBay CQ3 Gross Merchandise Sales by Category ($MM)

	Annualized GMS	Y/Y Growth
Motors	$3,800	116%
Computers	1,600	34%
Consumer Electronics	1,400	77%
Books, Music, Video	1,200	34%
Sports	1,000	35%

Source: eBay

Starting from its origin as an online auction market for collectibles, eBay has focused more on general merchandise and autos — it currently has very small real estate and help wanted offerings — and derives its revenue from both listing fees as well as final value fees or commissions. In our view, eBay's particularly strong transaction capabilities highlight a major competitive advantage for online versus offline classified advertising. As one person noted as we were discussing trends in online classifieds, "most potential buyers of products don't want to look at advertisements, they *want to transact*… and eBay let's them do both in a very efficient/effective way."

• *Overture* has been the leader in the online key-word search segment in which the advertiser pays only for clicks following a key-word search by the user. Overture has generated very impressive momentum to date, in our view, and it has key distribution arrangements with Yahoo! and MSN. In C3Q, Overture generated revenue of $173 million (up 138% Y/Y, 13% Q/Q) with robust growth in underlying metrics. Paid clicks reached 500 million (up 48% Y/Y). Further, Overture generated on average $0.34 per click (up 62% Y/Y). This last data point, we believe, speaks volumes about the growth and the "mainstreaming" of key-word search — how both advertisers and portals have adopted this segment. We do not believe any other advertising media has been able to generate that level of pricing increase over the last year. That said, in our view, one of Overture's greatest strengths (its processing/ infrastructure/network functionality) may also be a weakness in an increasingly competitive environment, insofar as it does not necessarily control its own destiny (although it does have an impressive, hard-to-duplicate advertiser network — 73,000 in C3Q).

Exhibit 10

Overture's Price per Click Momentum

	CQ4:01	CQ1:02	CQ2:02	CQ3:02
Average Price per Click	$0.23	$0.24	$0.30	$0.34
Y/Y Growth	*35%*	*50%*	*58%*	*62%*
Q/Q Growth	*10%*	*4%*	*25%*	*13%*

Source: Overture

• As a search destination, Google ranks as the leading site by a large margin when measured on total monthly usage minutes, per Media Metrix. Google has also developed a key-word search offering, with key distribution arrangements with AOL and EarthLink. Because Google is a private company, its financial performance is not public, but its user and usage growth patterns, as measured by third-party services, have been impressive, in our view. An issue we see for Google, however, is that because of its very strong user and usage growth, it may be perceived as a competitive threat by some of its largest partners.

Industry Investment Thesis (Attractive)

We continue to believe that the Internet is still in the early stages of becoming a central communications, information, commerce, and entertainment medium. We estimate there are over 500 million Internet users worldwide using the Internet an estimated average of roughly 30 minutes per day. We continue to expect the number of Internet *users* to grow at 20%-plus annually for the next several years, with stronger growth in non-US markets. And we estimate that *usage* growth should continue to be higher, thus, we believe, demonstrating relatively compelling underlying growth trends.

Given this robust underlying growth, we continue to believe that the leading Internet companies should, over time, be able to generate strong double-digit top-line growth, and as the financial models scale towards higher long-term margins, should be able to generate even stronger earnings growth — AKA leverage. If the leaders execute to their opportunities, we believe that the leaders could demonstrate classic growth-stock undervaluation characteristics.

While the current business environment continues to be very challenging — we note that according to our analysis, most GDP forecasts for 2001 were too high by 75% AND 97% of the companies in the S&P 500 missed earnings estimates at least once in 1999-2000 — we point out that many of the leading Internet companies are supporting very strong revenue growth. In C3Q02, we note that Y/Y growth rates for several of the Internet leaders were compelling, in our view — 109% Y/Y growth for Expedia (66% pro forma with Classic Custom Vacations acquisition), 50% for Yahoo! (29% pro forma with HotJobs acquisition), 49% Y/Y growth for eBay, 33% for Amazon.com, and 26% for Microsoft.

In general, near term, we remain focused on what we consider to be key underlying positive trends:

1) **Search/find/obtain (SFO) is becoming a global reality** — Google, eBay, Amazon.com, Yahoo! and Microsoft have driven this and it benefits users and vendors as it helps make inefficient markets much more efficient.

2) **Strong underlying growth rates for global Internet usage/users** — despite a very challenging economic environment.

3) **Online market share gains from offline markets** — such as Expedia in travel and eBay in collectibles. In the US, e-commerce accounts for only 1.3% (and rising) of retail sales.

4) **"Mind share" well above "market share" demonstrates growth opportunity** — 500 million-plus Internet users and, for example, only 29 million active Amazon.com customers?

5) **Online retail trends, we believe, are particularly impressive, with online retail visitor growth accelerating** — 27% Y/Y growth in 9/02 vs. 24% growth in 9/01.

6) The **consumer seems to be alive and well for key technology-related purchases —** Internet, digital cameras, video games… could the consumer (vs. the enterprise) drive the next leg of technology-related growth? In addition, we believe that many **small to medium-sized enterprises (SMEs)** have benefited from the increased usage of the Internet as vendors/users/sellers.

7) **Convenience, low (and transparent) prices/pricing, strong customer service, and extensive selection** have been key factors behind growth in leading online shopping (and information) sites and should continue to spur growth for the leaders.

8) **Online advertising trends could surprise on the upside** in next 6–12 months, and we believe the compelling ROI will become more apparent.

9) **Handful of industry leaders gaining share** with less competition on almost all fronts.

10) **Operating leverage with inherently scalable models is powerful** — for example, Amazon.com got big fast, spent lots of money, now what? Fixed costs and operating leverage, in our view.

11) **Positive earnings surprises are, more often than not, followed by more of the same**… and improving operating margins and revenue growth acceleration can be found in this group, in our opinion.

Exhibit 11

Yahoo! Overview

Investment Thesis:

Internet user, uses, and usage growth (IU³) continues at a strong pace — stronger internationally than with in the US — and Yahoo!, with 201 million visitors worldwide (excluding Yahoo! Japan) as of CQ3 (approximately 30% outside the US), should be well positioned to tap into and develop the revenue streams that accompany this growth. Yahoo! is a leading technology-enabled service provider and its network is a leader in interactive media and commerce.

Key Positives:

1. **Very large market opportunity —** Internet advertising/marketing services — 60% of 2002E revenue; listings/fees (Webcasting, portal solutions, access and premium services) — 32% of 2002E revenue; and transaction revenue — 8% of 2002E revenue.
2. **Leading Web portal with very powerful momentum in key metrics —** 201 million unique users in September, up 14% Y/Y, up 3% Q/Q, 1.5B average daily page views, up 43% Y/Y, 3% Q/Q.
3. **Strong international positioning —** 25 international properties, top 5 player in 23 countries, top 2 player in 12.
4. **High-margin business model —** 84% gross margin in tough CQ3 market environment, with potential for further improvement. In CQ3, Yahoo! reached an EBITDA margin of 24% and operating margin of 12%. By C2004E, these could reach 28% and 20% respectively.
5. **Brand strength —** Strongest brand among Internet companies according to Young & Rubicam in August 2002.
6. **User loyalty —** 93 million active registered users in Sept. (up 35% Y/Y, 12% Q/Q), No. 1 global site in reach and usage per Nielsen (8/02).
7. **Large opportunity for advertising (including pay for performance search and classifieds) —** Internet advertising long-term market opportunity remains attractive. Not that monthly avg. revenue per user was $0.42 in CQ3, the highest level since at least CQ1:01.
8. **Potential for premium services —** Large and loyal global audience bode well for better monetization, but this will take time…early data points from areas like personals are compelling (fee paying customers rose 52% Q/Q to top 1.5 million in CQ3).
9. **Broadband (access) opportunities could prove compelling** — Early data on SBC relationship appears positive (DSL launched on 9/13).

Key Risks:

1. **Significant dependence on advertising spending —** Expected to account for 60% of C2002E revenue, though we continue to maintain a positive long-term stance on Internet advertising.
2. **The supply and demand problem —** Strong user and usage growth creates rise in inventory that in turn creates tough sell through.
3. **Still demonstrating ability to diversify revenue away from marketing services —** Although marketing services as % of total revenue has declined significantly from 85% in CQ4:00 to 59% in CQ3:02; execution risk in new business lines also present.
4. **Competitive environment —** Strong competition from likes of AOL Time Warner and Microsoft in portal space and eBay, Amazon.com, Microsoft and AOL in the growing shopping area, where on one level, companies are having to respond to the potential competitive challenge posed by Amazon.com's free shipping offers. In addition, Google is gnawing away at Yahoo!'s search and, potentially, other businesses. All in, we see key players becoming more like one another, and the competitive landscape becoming more difficult for all.
5. **International execution —** Maintaining a consistent quality of customer experience and competitive position will be tough.
6. **Acquisition risk —** With the intent to pursue acquisitions, merger integration could be a challenge.

Stock Catalysts:

1. **Revenue growth acceleration —** We believe that Yahoo!'s business has stabilized and shown sustainable improvement and that if the company makes/beats estimates in CQ4:02, it sets the company up for upside in C2003E for both revenue and EBITDA. Positive surprises should drive the stock as many investors are still in 'show me' mode.
2. **Major client wins among larger, traditional marketers —** Signs that Yahoo! is attracting strong traditional brands should validate Internet advertising and strengthen Yahoo!'s revenue base — a turn in the ad market is key and Yahoo! is making good strides.
3. **Strong traction with the SBC broadband service.**
4. **Ongoing traction in consumer premium subscription services —** Signs of successful revenue diversification via recurring subscription fees, such as access fees, should reduce concerns about over-dependence on Internet advertising.
5. **Continued growth in Yahoo! users, uses, and usage —** We believe that continued growth in users, uses, and usage is critical for company to keep position of No. 1 global portal, and not lose share to AOL and Microsoft.
6. **Development of Internet advertising and e-commerce markets overseas —** Bodes well for Yahoo!'s international properties.

Valuation:

With Yahoo!, we believe there is long-term valuation upside if the company executes. Specifically, our 10-year DCF ($24, using a 15% discount rate and a 7% terminal growth rate), Price-to-Earnings-to-Growth (PEG) valuation ($18-30), and Discounted Future Price-to-Earnings valuation ($21-42) triangulate to a fair value of $26. Note that Yahoo! also has sizable non-operating assets — $1.4B in cash and marketable securities ($2.36 per share), $1.2B Yahoo! Japan stake ($1.93 per share), and $1.1B in NOLs ($1.81). Thus, at $17 (11/15 closing price), Yahoo! shares would trade at an adjusted Enterprise Value to EBITDA multiple of 25x, using our estimate of $270 million in 2003 EBITDA ($0.45 per share).

Exhibit 12

eBay Overview

Investment Thesis:

We believe that eBay is still in the very early innings of a big secular growth cycle that it is leading…one could call it E2E (everyone to everyone) trading. eBay should be able to continue to impact a growing number of markets, making many inefficient markets more efficient. As it expands its global trading platform, eBay could support powerful self-reinforcing revenue and margin growth for many years.

Key Positives:

1. **Extremely large market opportunity and a very extensible business model** — $1.8 trillion addressable market worldwide in C2002.
2. **Relatively low penetration of Internet users should signify upside** — With 55 million registered users in CQ3 and an estimated 500 million+ global Internet users, this 10% penetration level should rise.
3. **Becoming more mainstream with brand strength** — Growth in practicals (41% of CQ2 GMS, up from 39% in Oct-00) and automotive (21% of CQ2 GMS, up from 10% in Oct-00), less reliance on collectibles (33% of CQ2 GMS, down from 43% in Oct-00).
4. **Great business model with diversified revenue stream and high margins** — No inventory, high gross margins, viral customer acquisition and low capital requirements; $112 million in CQ3:02 operating cash flow.
5. **Continued growth at high levels** — CQ3 net revenue up 49% Y/Y and U.S. online transaction revenue accelerated to 52% Y/Y growth in CQ3 vs. 48% Y/Y in CQ2.
6. **Strong metric growth** — Record levels in CQ3 for registered users (55 million, up 46% Y/Y), online listings (160 million, up 47% Y/Y) and gross merchandise sales (GMS) ($3.8B, up 60% Y/Y); these metrics have shown consistently strong growth.
7. **Continued momentum in velocity, ASPs** — Buy-It-Now (35% of CQ2 listings) decreases auction length, practicals growth raises ASPs.
8. **Potential ability to raise prices** — Fee increases in the past have not led to market share losses; although pricing increases in the future may be more challenging and the alternative option of lowering them may be viable.
9. **Ability to improve and enhance its service** — Launch of eBay Stores (over 50,000 paying stores as of CQ3) enhances options for buyers and provides a new merchandising solution for sellers. Also, eBay has unique customer feedback loop.
10. **Many of the key attributes of a great growth company** — Including leadership in large and growing markets.

Key Risks:

1. **Execution against aggressive targets** — eBay continues to progress toward core $3B net revenue target ($1B cash flow) for C2005.
2. **Limited control over customer service** — The downside to no inventory risk, though customer satisfaction levels appear strong. PayPal integration should help mitigate this risk somewhat.
3. **Competitive environment** — Amazon.com, Yahoo!, AOL Time Warner, and Microsoft remain threats. And companies have to respond to the potential competitive challenge posed by Amazon.com's free shipping offers. All in, we see key players becoming more like one another, and the competitive landscape becoming more difficult for all.
4. **Technology development/execution** — Technology infrastructure improving but user interface (incl. payments, search) remains lacking; PayPal integration should help here.
5. **Merger integration and international expansion** — Risk in integrating and expanding the businesses of past international acquisitions (Internet Auction, iBazar, NeoCom) as well as potential future acquisitions.
6. **Meeting seller desires** — As eBay expands, if demand does not keep pace with seller supply, there is the potential for seller backlash. This may be especially relevant for the core SME sellers that have been mainstays on eBay's platform.

Stock Catalysts:

1. **Delivering on financial forecasts in a slowing economy** — Tight economy may actually help eBay in that buyers may be more likely to search out bargains, and sellers may be more aggressive about finding new distribution channels.
2. **Broadening breadth of products and services and buyers and sellers** — IBM now among largest sellers on eBay; Among notable new sellers are Hitachi, Casio, Motorola, Intel, Yamaha, Sprint, OfficeMax, Harmon/Kardon, and Kenwood.
3. **Ongoing ramps in practicals business** — We estimate practicals currently 4X collectibles' addressable opportunity and growing faster.
4. **Continued international momentum** — International accounted for 26% of total net revenue in CQ3:02, up from 16% in CQ3:01.
5. **Operating margin expansion** — General trend of ongoing margin expansion should be compelling for investors.
6. **Success with the eBay API** — Launched in CQ4:00, early milestones are positive with over 60 licensees as of CQ1 and 43 live apps.
7. **Expanding beyond the eBay platform** — While eBay should increasingly benefit from the depth and breadth of product/service offerings at www.ebay.com, thanks to PayPal, given the company's presence in ecommerce transactions off of the eBay platform, eBay will now grab a piece of many transactions that take place away from www.ebay.com.

Valuation:

With EBAY, if the company executes, we believe there is long-term valuation upside. Specifically, our 10-year DCF ($75, using a 14% discount rate and a 7% terminal growth rate), Price-to-Earnings-to-Growth (PEG) valuation ($44-88), Discounted Future Price-to-Earnings valuation ($73-113), and Discounted Market Capitalization/GMS valuation ($96-215) combine to an average fair value of about $97.

Exhibit 13

Amazon.com Overview

Investment Thesis:

Total worldwide online retail sales are expected to grow nicely over the next 3-5 years, and Amazon.com, with 29MM active customers as of 9/30/02 (customers who have purchased from Amazon.com at least once in the last 12 months), and one of the strongest e-commerce brands, should be well positioned to benefit from this growth. In our view, the challenge for the company, which is not insignificant, is to continue to demonstrate that its financial model works and truly has impressive growth and scale/leverage dynamics.

Key Positives:

1. **Large and growing market opportunity** — Per US Commerce Department, US online retail sales were $10.2B in CQ2, up 24% Y/Y.
2. **Leadership spot in direct online retailing** — AMZN accounts for an estimated 6% of US online retail (excluding travel); during CQ3, AMZN Y/Y organic unit growth was an estimated 40%, up from an estimated 30% in CQ2 and CQ1. Impressive growth of third-party sales (Marketplace and Services) (23% of US units in CQ3) adds another dimension to AMZN's customer offering.
3. **Accelerating revenue growth in each core segment** -- Adjusting for estimated $30MM impact to CQ3:01 results from 9/11, Y/Y "organic" growth accelerated in CQ3:02 for U.S. BMVD (12% vs. 6% in CQ2), U.S. ETK (18% vs. 16%), and International (84% vs. 70%).
4. **Operating profitability achieved and repeated** — AMZN posted its first pro forma operating profit in CQ4:01, then continued pro forma operating profitability in the seasonally weaker CQ1:02, CQ2:02, and CQ3:02. International segment achieved break-even operating margin in CQ3 for first time. On a trailing twelve month basis, AMZN has generated $151MM in operating cash flow and $120MM in free cash flow.
5. **Consistent profitability of the US BMVD (Books, Music & Video/DVD) business** — Ten consecutive quarters of operating profitability for US BMVD may bode well for viability of earlier stage segments, such as International.
6. **Strong technology assets** — AMZN has created a leading e-commerce platform that is integrated, feature-rich, scalable, and secure.
7. **Continued diversification of revenue** — US BMVD accounted for 48% of CQ3 total revenue, down from 55% Y/Y.
8. **Improving inventory management** — Annualized inventory turns (using quarter average inventory) in CQ3:02 of 18 vs. 15 in CQ3:01.
9. **Brand strength and customer service (with a focus on convenience) are especially strong** — Brand value ranked No. 76 worldwide by Interbrand, ahead of Burger King and Shell Oil. AMZN ranked No. 1 in American Customer Satisfaction Index with record score.
10. **Expanded AOL alliance** — AOL currently using Amazon e-commerce platform to power shopping channel.

Key Risks:

1. **Interest expense remains a drag on cash flow** — Annual cash interest expense of roughly $112MM on AMZN's $2.2B in debt makes positive free cash flow bar that much higher.
2. **U.S. ETK (Electronics, Tools & Kitchen) segment remains profit-challenged --** The segment, which accounted for 15% of CQ3:02 revenue, generated a negative 19% operating margin vs. a negative 14% margin in CQ2, although improved from negative 32% in CQ3:01. Profitability in this segment is not expected until late 2003 at the earliest.
3. **Business model is still not fully proven** — Company still needs to prove it can ramp its generation of free cash flow on full-year basis; economy, particularly the possibility of weaker consumer spending, remains an issue.
4. **Big competitors continue to come at Amazon.com from unique vantage points** — Among leading competitors, we would highlight eBay, Yahoo! Shopping, and MSN. As we have noted before, as eBay has continued to push its fixed-price initiatives, and Amazon.com has moved aggressively into used sales via Marketplace, the companies increasingly have competed more directly.
5. **Christmas seasonality boost…happens only once per year** — 36% of annual revenue comes in CQ4.

Stock Catalysts:

1. **Demonstration of continued improvement in operating cash flow** — AMZN has focused on liquidity and profitability and now needs to focus on growth. The platform is built and fixed costs are largely stable; now we think the company needs to drive more of its customers' products through its platform to demonstrate scalability.
2. **Ability to ramp revenue growth and profitability of ETK** — US ETK growth (up 25% Y/Y in CQ3) has shown strong top-line momentum, but remains unprofitable. We do not anticipate ETK segment profitability until late C2003 at the earliest, but we are looking for segment losses to steadily decline as a percentage of revenue.
3. **Successful moves into more "virtual" businesses** — Amazon.com Marketplace is a positive trend, in our view. In addition, we look for ongoing growth in SKU count to leverage fixed-cost base.

Valuation:

With AMZN, we believe there is long-term valuation upside if the company executes. And we believe our estimates are conservative. Specifically, our 10-year DCF ($22, using a 16% discount rate and 7% terminal growth rate), our Price-to-Earnings-to-Growth (PEG) valuation ($12-24), our Discounted Future Price-to-Earnings valuation ($11-38), and our Discounted Market Cap./Sales valuation of ($18-48) triangulate to an average fair value of approximately $24.

Global Stock Ratings Distribution

(as of October 31, 2002)

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight	660	32%	249	37%	38%
Equal-weight	980	47%	315	47%	32%
Underweight	434	21%	105	16%	24%
Total	2,074		669		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

ANALYST STOCK RATINGS

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.

Ratings prior to March 18, 2002: SB=Strong Buy; OP=Outperform; N=Neutral; UP=Underperform. For definitions, please go to www.morganstanley.com/companycharts.

ANALYST INDUSTRY VIEWS

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.

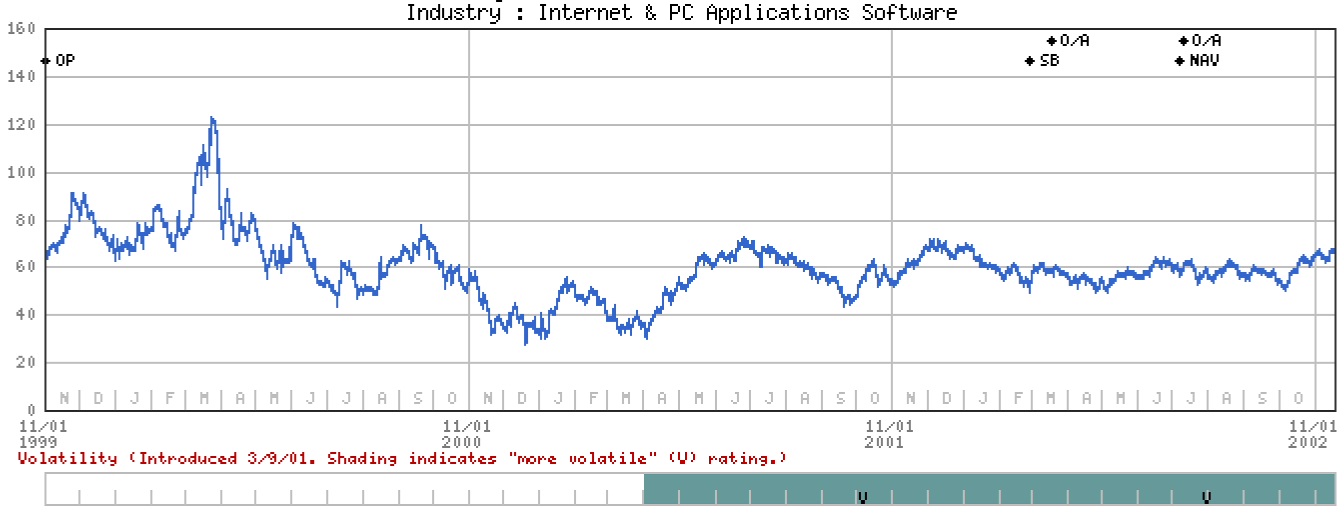
Stock price charts and rating histories for companies discussed in this report are also available at www.morganstanley.com/companycharts. You may also request this information by writing to Morgan Stanley at 1585 Broadway, 14th Floor (Attention: Research Disclosures), New York, NY, 10036 USA.

Stock Price, Price Target and Rating History (See Rating Definitions)

Stock Rating History: 2/24/99 : OP; 3/18/02 : O/A
Price Target History: 1/27/99 : NA

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Available (NA)
Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)
Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View)
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

eBay (EBAY.O) - As of 11/17/02 in USD
Industry : Internet & PC Applications Software



Stock Rating History: 9/24/98 : OP; 2/28/02 : SB; 3/18/02 : O/A; 7/8/02 : NAV; 7/10/02 : O/A

Price Target History: 9/24/98 : NA

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Available (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ◆
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

TMP Worldwide (TMPW.O) - As of 11/17/02 in USD
Industry : Publishing/Diversified

Stock Rating History: 2/9/99 : OP; 8/7/00 : SB; 5/3/01 : OP; 3/18/02 : O/I; 10/22/02 : NAV

Price Target History: 4/7/99 : 35; 11/3/99 : NA; 12/23/99 : 77.5; 2/8/00 : 90; 3/9/00 : NA; 3/22/00 : 90; 8/7/00 : 112; 1/3/01 : 72; 9/26/01 : 55; 1/24/02 : 50; 2/21/02 : 45; 5/9/02 : 35; 7/15/02 : 30; 8/6/02 : 17; 8/8/02 : 13; 10/22/02 : NA

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Available (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ◆
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Stock Rating History: 8/6/99 : OP; 3/18/02 : O/A
Price Target History: 4/9/98 : NA

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Available (NA)
Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)
Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ◆
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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