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Commerce One, Inc. (NASDAQ: CMRC)

Initiating Coverage: HOLD

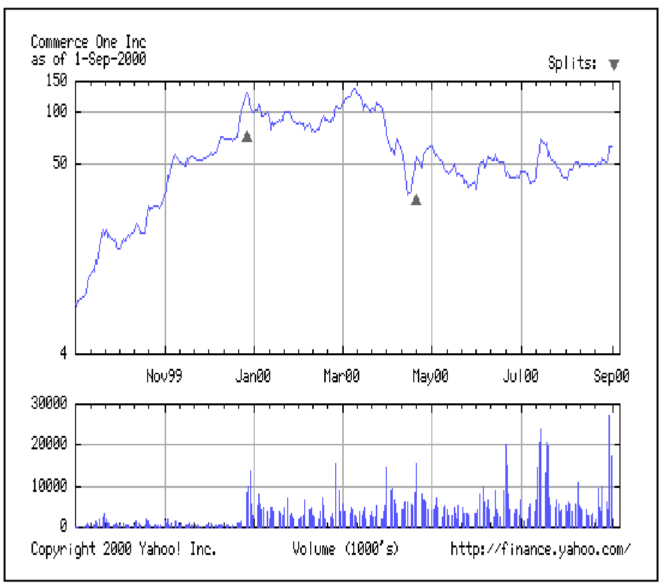
September 5, 2000

KEY CONSIDERATIONS

- Recent acquisition of AppNet gives servicing capabilities to complement Commerce One's software offerings.
- Commerce One beats estimates, posting strong numbers in the second quarter.
- Strategic relationship with GM potentially allows Commerce One to broaden its consumer base.
- Commerce One is still unprofitable and is expected to continue to incur losses for the foreseeable future.
- Intense competition in the strategic Internet services market will challenge Commerce One's ability to retain existing customers and gain market share.

Recent Price	$66.00
52WK Low	$7.83
52WK High	$165.50
P/E	N/A
P/Book	18.91
P/Sales	77.85
Market Capitalization	$10,692 M
Shares Outstanding	162 M
Float	126.40
Daily Volume (3-month Average)	7.74
EPS	
1998A	$-0.41
1999A	$-0.34
2000E	$-0.41
Current Ratio	2.66
Total Debt to Equity	0.00
LT Debt	0.00
Total Cash	$124.61 M

ONE-YEAR PRICE AND VOLUME GRAPH



COMPANY PROFILE

Commerce One is a leading provider of global e-commerce solutions for business. Solutions are designed to create a network of interoperable marketplaces, trading communities and commerce portals called the Global Trading Web. The Commerce One Solution is used to automate the procurement cycle between multiple buyers and suppliers.

Commerce One's MARKETSITE PORTAL SOLUTION is expanded to support Internet-based procurement of Direct Materials, Repair and Operations (MRO) materials, as well as collaborative supply chain management services. This new service is designed to enable integrated sourcing, collaborative planning, real-time business transaction management and support services across the entire supply chain

This report was prepared by Eugene Hwang, and David R. Rivas, Ph.D.

PRODUCTS AND SERVICES

The Commerce Solution is comprised of the following components: enterprise e-procurement applications consisting of BUYSITE ENTERPRISE EDITION and BUYSITE PORTAL EDITION and the MARKETSITE PORTAL SOLUTION. Within the MARKETSITE PORTAL SOLUTION, business services such as auction services and enhanced content services are offered, with others to be added in the future.

- **BUYSITE ENTERPRISE EDITION** is an intranet-based purchasing application that enables users throughout the enterprise to make purchases over the Internet. BUYSITE provides access to and easy purchasing from catalogs of many different suppliers while eliminating paperwork, automating the approval process, and enforcing the purchasing policies that apply to each buyer and supplier.

- **BUYSITE PORTAL EDITION** is similar to the Enterprise edition in terms of procurement functionality, but is intended to establish an industry leader to host small and medium sized companies in the relevant market. A more robust administration capability is provided to manage the number of companies that will be hosted at a single BUYSITE PORTAL EDITION implementation.

- **MARKETSITE PORTAL SOLUTION** provides the foundation for commerce service providers to create and maintain regional and vertical marketplaces. This platform creates significant economies of scale for market participants by centralizing content and transaction management services, eliminating the need for buyers and suppliers to create point-to-point integration with each trading partner. The MARKETSITE portals operating on this platform include, MarketSite Global Trading Portal, General Motors TradeXchange, Sesami.Net and BT MarketSite.Net.

  AUCTION SERVICES
  Available through the acquisition of CommerceBid in November 1999, Commerce One offers an Internet based B2B auction service via the Market Site Global Trading Portal. This valuable service will be made available in partner MarketSite portals in the future. Through the auction services, trading partners within the MarketSite Global Trading Portal will be able to participate in B2B auctions, both forward and reverse.

- **MARKETSITE CATALOG MANAGEMENT SERVICES** provide the process and the tools to automate and aggregate catalog content from multiple suppliers to create a scalable resource across the marketplace. These tools provide both manual and automated options for acquiring and aggregating the content from supplier catalogs. This service is accomplished through our Supplier and Content Management team as well as the technology developed by Commerce One. Commerce One has further enhanced strategic direction in catalog management services by acquiring the iMerge products through the acquisition of Mergent. IMerge products provide a more efficient aggregation capability, advanced search capability, as well as further ability to enhance catalog content such as creating rationalized content.

PROFESSIONAL SERVICES

Professional services organization helps customers maximize their investments by providing tools and services that facilitate the Commerce One Solution implementation process. By teaming with a range of leading services partners, Commerce One delivers comprehensive systems integration, implementation, technical support, supplier adoption, and education services and programs to deploy the Commerce One Solution. Professional services are grouped into three categories: implementation service packages, education and training services, and support and maintenance services.

SERVICE PACKAGES

SUPPLIER CONTENT MANAGEMENT SERVICES PROGRAM. The Supplier Content Management Services Program provides processes and tools to replicate and integrate data from multiple suppliers into a single catalog. Automation tools and services enable suppliers to provide content in a storable environment, lowering the supplier's costs. Commerce One provides a methodology and tools which offer a "publish once" content strategy that can be leveraged across many buyers. Unlike competing solution providers, Commerce One accepts catalog content in the supplier's preferred format and then map the data into the buying customer's preferred format.

EDUCATION AND TRAINING SERVICES

Commerce One is committed to delivering the knowledge and tools needed for the successful implementation and deployment of the Commerce One Solution. Commerce One has designed a comprehensive curriculum to meet the needs of customers and partners. The curriculum includes hands-on classes and Web-based training for BUYSITE and MARKETSITE customers, methodology and process-centered seminars for system integrators, detailed technical training for systems administrators, and integration training for suppliers.

SUPPORT AND MAINTENANCE SERVICES

Commerce One has developed a portfolio of complementary support and maintenance programs for customers. Customer support center uses on-line media access, call tracking, and knowledge management systems, as well as remote access to customer sites, to provide a comprehensive range of services. For the successful ongoing operation of our solutions, Commerce One offers support programs specifically designed for each BUYSITE customer and its suppliers.

SOURCE OF REVENUES

Commerce One generates revenues from multiple sources. License fees are generated from licensing the BUYSITE and MARKETSITE products to end-user organizations, primarily Fortune 1000 enterprises.

Professional service fees are received from BUYSITE and MARKETSITE licensees and their suppliers for enterprise resource planning integration, content aggregation, project management and other related services.

Software maintenance revenues are generated from product licensees based on the scope of their implementation and the extent of the service provided.

MARKETSITE subscription fees are received from BUYSITE licensees, as well as other customers, for the right to access services in MARKETSITE.

Transaction fees are received from suppliers for purchase orders the supplier receives through MARKETSITE.

To date, transaction and MARKETSITE subscription fees have been immaterial. However, revenue growth will depend upon realizing significant transaction and MARKETSITE subscription fees in the future.

RECENT EVENTS

1. Acquisition of Mergent Systems, Inc.

On January 7, 2000, Commerce One acquired privately held Mergent Systems, Inc.(Mergent), a company specializing in enabling infomediaries and Global 3000 companies to create, operate and manage product information systems and aggregated multivendor catalogs for e-commerce. The acquisition was structured as a tax-free, stock-for-stock exchange, and will be accounted for as a purchase transaction. Commerce One issued approximately 871,095 shares of common stock with a fair value of $122.6 million, 109,505 options assumed with a fair value of $15.3 million and approximately $10.0 million in cash to the Mergent stockholders in this transaction.

2. Strategic Relationship with General Motors

In January 2000, Commerce One entered into agreements with General Motors to create and operate the GM TradeXchange, an Internet-based trading exchange owned by GM that enables buying and selling over the Internet by GM, its dealers and its suppliers. The agreements governing the GM TradeXchange currently provide that Commerce One and GM will share equally in the net revenues generated by the GM TradeXchange, after the repayment of both parties' expenses, for an anticipated ten-year term. The GM TradeXchange agreements also provided for the restructuring of Commerce One into a holding company and the issuance of 14,400,000 shares of common stock to GM. Of these 14,400,000 shares, 7,200,000 shares will be held in escrow until the GM TradeXchange has repaid the accumulated investements by both Commerce One and GM in developing the GM TradeXchange. The shares issued to GM will generally not be freely transferable for three years and would be subject to standstill restrictions that will restrict GM's ability to acquire more than 19.9% of the company's outstanding stock during the first three years of the relationship or more than 25.0% thereafter. GM is also entitled to certain registration rights with respect to the shares after the initial three year period. The closing of the GM TradeXchange agreements remains subject to certain customary closing conditions, including requisite regulatory clearance, and has been delayed pending the negotiations described below.

Subsequent to the execution of the GM TradeXchange agreements, Commerce One and GM have entered into negotiations with Ford Motor Company, DaimlerChrysler and Oracle Corporation concerning the possible creation of a broader business-to-business e-commerce exchange for the automotive industry. Such an exchange would integrate or combine the GM TradeXchange with an Internet-based trading exchange being developed by Ford and Oracle Corporation. The parties have not, however, reached agreement on the specific terms and conditions governing the creation of the exchange, the responsibilities of the parties with respect to the exchange, or the extent to which the parties, including Commerce One, will receive equity in the exchange and share in the revenues of the exchange. In addition, such an agreement would also require regulatory clearance.

3. Acquisition of AppNet, Inc

On June 20, 2000, Commerce One agreed to acquire publicly traded Appnet, Inc., a premier provider of end-to-end Internet professional services. The acquisition will be structured as a tax-free, stock-for-stock exchange, and will be accounted for as a purchase transaction. Commerce One will issue 0.8 shares of registered common stock for each outstanding share of Appnet and will assume all outstanding stock options and other rights to acquire Appnet common stock. The transaction is scheduled to close during the third quarter of 2000.

INDUSTRY

The success of the Internet in streamlining business-to-consumer commerce is encouraging companies to seek similar efficiencies in their transactions with other businesses. Companies are increasingly using the Internet to enter new markets, improve supply chains and meet the challenges of increased competition and global markets. Forrester Research estimates that U.S.-based Internet commerce between companies will grow from $109 billion in 1999 to $1.3 trillion in 2003. Forrester Research further estimates that by 2003 this market for business-to-business transactions will be more than ten times larger than the related business-to-consumer transactions market.

COMPETITION

The market for Internet-based, business-to-business electronic commerce solutions is extremely competitive. Competition is expected to intensify as current competitors expand their product offerings and new competitors enter the market. Because there are relatively low barriers to entry in the electronic commerce market, competition from other established and emerging companies may develop in the future.

Many of Commerce One's competitors have more experience developing Internet-based software and end-to-end purchasing solutions, larger technical staffs, lager customer bases, more established distribution channels and customer relationships, greater brand recognition and greater financial, marketing and other resources than Commerce One has.

Some of competitors may be able to secure alliances with customers and affiliates on more favorable terms, devote greater resources to marketing and promotional campaigns and devote substantially more resources to systems development than Commerce One. In addition, new technologies and the expansion of existing technologies may increase competitive pressures.

	Commerce One	Ariba	Oracle
Breadth and scope of solution	Good	Good	Good
Installed base of customers	Medium	Medium	Large
Brand Recognition	Moderate	Moderate	Highest

STRATEGY FOR GROWTH

- **Strategic Relationships:**

Commerce One has entered into several strategic relationships that are integral to establishing trading communities, implementing their solutions and developing products. The continued establishment of partnerships is a fundamental piece of Commerce One's strategy as they expand products and services and enter new markets. Strategic partners include, British Telecom; Banamex; Cable & Wireless Optus; Deutsche Telekom; NTT Communications; Sesami.Net; Toronto Dominion Bank; General Motors; Citigroup and Swisscom AG. The success of this strategy is questionable, as many of the companies that have agreed to launch MarketSites, or have indicatedt that they will launch MarketSites have not yet done so. Also, to date, a few of Commerce One's partners have been unsuccessful in reselling its BuySite products. If Commerce One's strategic partners are not able to successfully resell its BuySite products, its business will suffer.

- **Sales and Marketing:**

Commerce One sells products and services to organizations through an direct sales force. Sales offices are located in the United States, the United Kingdom, France and Switzerland. Since products and services touch upon multiple departments within an organization, sales efforts are directed at multiple decision makers, frequently including the chief financial officer, chief information officer and vice president of procurement. Sales efforts are targeted at Fortune 1000 enterprises and their suppliers and have initiated Vertical sales strategies targeted at the utilities, telecommunications, government and oil and gas markets have been initiated.

Marketing activities include seminar programs, trade shows, Web-site programs, public relation events and direct mailings.

Commerce One's sales and marketing efforts have been successful. The young company must continue its rigorous efforts to create its brand awareness

- **Product Development**

Product development expenses were approximately $20.5 million, $6.8 million and $2.2 million for the years ending December 31, 1999, 1998 and 1997, respectively.
The increase in product development expenses during 1999 was primarily attributable to personnel related expenses to support development of the BUYSITE and MARKETSITE products. The overall number of employees engaged in product development was 158 at December 31, 1999, which included the addition of 22 employees from the acquisition of VEO Systems in January 1999, 61 at December 31, 1998 and 26 at December 31, 1997. Investments in product development are essential to future success and it is expected that the dollar amount of product development expenses will increase in future periods. Commerce One has been successful with its product development and offers a competitive line of products.

KEY RISK FACTORS

Competitive market:
The market for Internet-based, business-to-business electronic commerce solutions is extremely competitive. Competition is expected to intensify as current competitors expand their product offerings and new competitors enter the market. Because there are relatively low barriers to entry in the electronic commerce market, competition from other established and emerging companies may develop in the future.

Limited operating history of losses:
Commerce One has never been profitable and expects to incur net losses for the foreseeable future and may never be profitable. In addition, a limited operating history makes if difficult to forecast future operating results. Commerce One expects to substantially increase sales and marketing, product development, and general and administrative expenses. As a result, additional revenues will need to be generated to achieve and maintain profitability in the future.

Service Provider Partners:
Future success depends upon commerce service provider partners developing and operating successful Marketsite marketplaces; if marketplaces developed by partners are not successful, sufficient revenues to sustain the business or growth will not be generated:

Commerce One has established strategic relationships with various companies each of whom has licensed Buysite and Marketsite Portal Solution products in order to create Marketsite marketplaces. These Marketsite marketplaces are in the United Kingdom, Japan, Southeast Asia as well as many other geographical regions. These partners may not be able to implement Commerce One's products and services effectively or develop and launch Marketsite marketplaces. Also, buyers and suppliers may not participate in their Marketsite marketplaces. Furthermore, these parties may encounter delays in launching their Marketsite marketplaces, in fully deploying these marketplaces and in achieving supplier participation in the marketplace. If these or any other Marketsite marketplaces are not successful, business, operating results and financial condition will suffer.

Many of the companies that have agreed to launch or have indicated that they will launch Marketsites have not yet done so. Additionally, although Commerce One's technology architecture supports the development of trading communities that can operate with each other, it cannot be assured that their marketplaces will in fact operate with each other. Futhermore, there is no guarantee that these marketplaces will be able to successfully adapt to address markets of different size, scope and geography.

Strategy of establishing MarketSite marketplaces as trading communities is unproven and may not be successful:
Directly and through relationships with strategic partners, Commerce One intends to establish and maintain

MarketSite marketplaces where buyers and suppliers can conduct business-to-business electronic commerce. If this business strategy is flawed, or if it is not executed effectively, business, operating results and financial condition will be substantially harmed. To date, Commerce One has not generated significant revenue from the MarketSite Global Trading Portal of any significant transaction-based revenue from any of the MarketSite marketplaces.

EXPLANATION OF FINANCIALS

Revenues: Commerce One generates revenue from multiple sources. License fees are generated from licensing the BUYSITE, MARKETSITE, auction and content management products to end-user organizations, primarily Fortune 1000 enterprises and major international enterprises. Professional service fees are received from BUYSITE and MARKETSITE licensees and their suppliers for enterprise resource planning system integration, content aggregation, project management and other related services. Training revenues are generated from providing in-house and on-site training to customers who have licensed Commerce One products. Software maintenance revenues are generated from product licensees based on an annual amount. Network services revenues are generated from MARKETSITE subscription fees, hosting services fees, auction fees, marketplace transaction fees and revenue sharing from partners who generate revenue from their marketplaces deployed on the Commerce One products. MARKETSITE subscription fees are received from BUYSITE licensees, as well as other customers, for the right to access services built on the MARKETSITE software platform. Auction fees are received from customers who conduct auctions utilizing Commerce One's auction services. Hosting services fees are received for Commerce One hosting the BUYSITE and/or the MARKETSITE products that are licensed to certain customers. Revenue sharing is received from partners who have licensed the BUYSITE, MARKETSITE and/or auction products and share a portion of revenues generated with Commerce One.

Total revenues for the year ended December 31, 1999 increased to approximately $33.6 million compared to $2.6 million and $1.7 million in the years ended December 31, 1998 and 1997, respectively. A relatively small number of customers have accounted for a significant portion of total revenue to date. We expect revenues to continue to grow at an increasing rate, but die down after a year due to increasing competition.

Gross Margins: The Gross Margin for the first two quarters has been 66%. However, with the combined company of Appnet and Commerce One, gross margin will probably be suppressed in the next several quarters. We expect Gross Margin to be 63% in 2000 and 2001.

Sales & Marketing: Sales and marketing expenses consist primarily of employee salaries, benefits and commissions, and the costs of seminars, promotional materials, trade shows and other sales and marketing programs. Sales and marketing expenses were approximately $31.2 million and $6.3 million for the three months ended June 30, 2000 and 1999, respectively. The increase in 2000 was primarily attributable to an overall increase in the number of sales and marketing personnel as well as an increase in marketing related activity. Expenses are expected to grow, but we expect margins to fall.

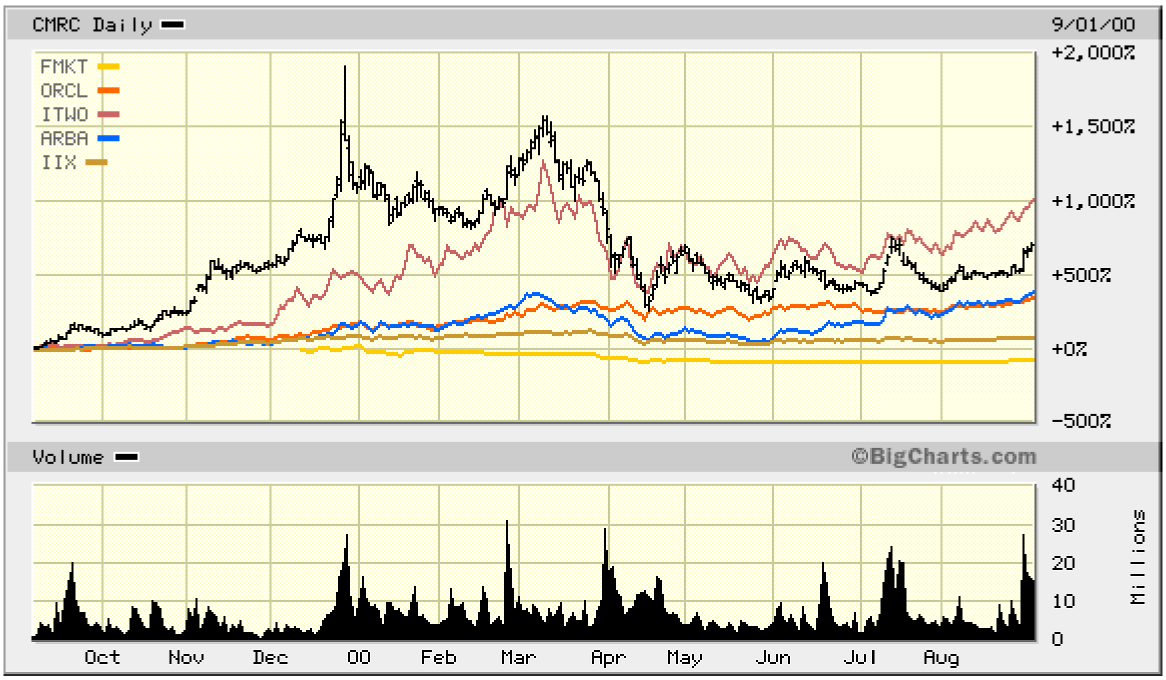
Product Development: Product development expenses consist primarily of personnel and related costs associated with our product development efforts. Product development expenses were approximately $20.8 million and $3.6 million, for the three months ended June 30, 2000 and 1999, respectively. The increase in product development expenses during 2000 was primarily attributable to personnel and consulting related expenses to support development of the BUYSITE and MARKETSITE products and other strategic initiatives. We expect margins to continue to fall.

General and Administrative Expenses: General and administrative expenses consist primarily of employee salaries and related expenses for executive, administrative and finance personnel. General and administrative expenses were approximately $5.6 million and $0.9 million for the three months ended June 30, 2000 and 1999, respectively. The increase was primarily attributable to an increase in personnel related expenses and additional legal cost associated with portal joint ventures. We expect margins to continue to decline in upcoming years.

Cash Commerce One's cash has increased from $15.1 million in 1998 to $124.6 in 1999. The company currently has sufficient to continue operations.

VALUATION BY COMPARATIVE ANALYSIS

Many pure online retail companies remain unprofitable and their future performance is highly unpredictable due to the fast changing nature of this industry. Thus, we believe a reliance on price to earnings ratios and discounted cash flow models is not practical for valuation purposes. However, sales can be measured and compared to other companies. In addition, other factors such as revenues, margins, customer base, and sector leadership are significant in helping to determine the relative value of an online company. We believe a focus on the latter aspects of a company's performance provides a reasonable valuation of a company.



Ariba beat analyst estimates by huge amounts this quarter. Revenues were $80 million compared with estimates around $50 million, which accounts for it recent sharp rise. Commerce One also did better than expected, but to a lesser degree.

Stock	Price	Market Capitalization	Price to Sales Ratio	Gross Margin
Commerce One	53.88	8,727.86	63.55	52%
I2	166.5	32,987.15	38.21	75%
Freemarkets	65.25	2,414.32	39.09	42%
Oracle	84.63	240,200.36	25.04	65%
Ariba	147.69	35,535.95	161.51	81%
Average	-----	6,397.13	65.48	50%

Conclusions We believe that Commerce One will continue to grow rapidly in the promising business-to-business industry, despite increasing competition. It's partners, which includes GM, gives it a good start in developing the large consumer base that it needs. Its acquisition of AppNet also provides Commerce One with technological advantage.

The company consistently beats estimates by analysts, proving its successful model. Furthermore, as shown in the above table, the company's gross margin is above average and its price to sales ratio falls slightly below average. Therefore, the company seems to be fairly valued relative to its competitors. However, because we expect a very volatile Internet sector performance in the near future, we give CMRC a HOLD rating.

Commerce One Income Statement

($ in thousands, except per share data)

Fiscal Year Ending December 31,	**1997**	**1998**	**1999**	**2000E**	**2001E**
Revenues:					
License fees	$742	$1,633	$24,571	$176,076	$282,073
Services	1,004	930	8,986	91,639	167,975
Total Revenues	$1,746	$2,563	$33,557	$267,715	$450,048
Cost of Revenues:					
License fees	$0	$0	$484	$10,000	$25,000
Services	2,887	4,369	15,586	89,715	140,700
Total Cost of Revenues	$2,887	$4,369	$16,070	$99,715	$165,700
Gross profit (loss)	**($1,141)**	**($1,806)**	**$17,487**	**$168,000**	**$284,348**
Operating Expenses:					
Sales and Marketing	$6,055	$13,108	$31,546	$124,755	$164,718
Product Development	2,172	6,839	20,496	86,740	108,912
General and Administrative	1,805	1,941	5,050	24,094	36,004
Purchased in-process research and development	0	0	9,374	94,000	88,000
Amortization of deferred stock compensation	0	1,102	2,324	2,500	2,500
Amorization of goodwill and other intangible assets	0	0	11,133	16,800	16,800
Total operating expenses	$10,032	$22,990	$79,923	$348,889	$416,933
Total adjusted operating expenses	10,032	21,888	57,092	235,589	309,633
Loss from operations	**($11,173)**	**($24,796)**	**($62,436)**	**($180,889)**	**($132,585)**
Adjusted Loss from operations	**(11,173)**	**(23,694)**	**(39,605)**	**(67,589)**	**(25,285)**
Interest income, net	$9	$156	$3,302	$4,500	$1,500
Loss before income taxes	($11,164)	($23,538)	($36,303)	($63,089)	($23,785)
Provision for income taxes	$0	$0	$4,188	$1,500	$0
Adjusted Net loss	($11,164)	($23,538)	($40,491)	($64,589)	($23,785)
Fully Diluted EPS	($0.23)	($0.41)	($0.34)	($0.41)	($0.14)
Fully Diluted Shares Outstanding	48,222	56,814	118,097	158,371	175,500
First Call Consensus (September 5, 2000)				($0.41)	($0.13)
Margin Analysis (% of revenue)					
License Fees Cost of Revenue	0%	0%	2%	6%	9%
Services Cost of Revenue	288%	470%	173%	98%	84%
Gross Margin	(65%)	(70%)	52%	63%	63%
Sales and Marketing	347%	511%	94%	47%	37%
Product Development	124%	267%	61%	32%	24%
General & Administrative	103%	76%	15%	9%	8%
Adjusted Operating Margin	(640%)	(924%)	(118%)	(25%)	(6%)
Adjusted Net Loss Margin	(639%)	(918%)	(121%)	(24%)	(5%)
Growth					
License Fees Revenue	-	120%	1405%	617%	60%
Services Revenue	-	(7%)	866%	920%	83%
Total Revenue	-	47%	1209%	698%	68%
Gross Profit	-	NM	NM	861%	69%
Adjusted Operating Expense	-	NM	NM	NM	NM
Adjusted Operating Income	-	NM	NM	NM	NM
Adjusted Net Loss	-	NM	NM	NM	NM
Fully Diluted EPS					