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CNET Networks, Inc. (NASDAQ: CNET)

Update Report: Shifting focus to e-commerce with strong Q1 and outlook May 25, 2000
Reiterate BUY Rating

KEY CONSIDERATIONS

Recent Price	$29.50
52WK Low	$22.50
52WK High	$79.88
P/E	7.71
P/Book	1.95
P/Sales	18.03
Market Capitalization	$2.53 B
Shares Outstanding	85.80 M
Float	56.60 M
Daily Volume (3-Month Average)	1.98 M
EPS	
1997	$(0.91)
1998	$0.07
1999	$
2000E	$
Current Ratio (MRQ)	2.94
Total Debt to Equity (MRQ)	0.18
LT Debt (MRQ)	0.18
Total Cash	$716.7 M

- CNET Networks, Inc., continues to be a leading global media company that provides information online on technology and technology-related products and services. The company is expanding its efforts into e-commerce, which it believes will become a major source of revenue over the next few years.

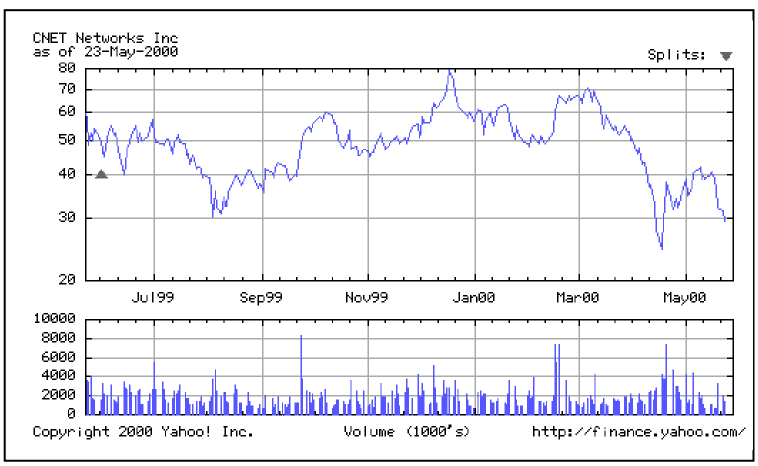
- With total traffic in Q1 2000 up 74% from the same period last year to 16.5 million page views per day and up 11% from 14.7million in Q4 1999, the core business remains strong.

- The company has formed the CNET Data Services unit, leveraging its massive product specification database to provide retailers and manufacturers with up to the minute information.

- The acquisition of mySimon Inc. which operates mySimon.com will allow CNET users to comparison shop for a wide variety of products not limited to just technology.

- CNET Networks, Inc., increase in revenues for 1Q 2000 vs. 1Q 1999 reflect an increase in pages delivered and advertisements sold on their Internet sites. Net loss increased due to additional goodwill amortization and investment losses.

ONE-YEAR PRICE AND VOLUME GRAPH



- The company continues to successfully build its network and market its products. The stock price has gone down significantly over the past few months with the rest of the online media and content sector, but its fundamentals remain strong. Management has created a very effective business model and its e-commerce ventures are expected to bring in bigger revenues. Based on CNET Networks, Inc., diverse product line, growth potential and current price we maintain a BUY rating.

This report was prepared by Michael Raczynsky and David Rivas, Ph.D.

COMPANY PROFILE

CNET Networks, Inc., is a leading global media company that produces a branded Internet network, a computer product database, and television and radio programming for both consumers and businesses. The company operates a network of websites that rate and review technology products.

The company is also actively providing information and services to businesses to enable and enhance online retailing of computer and technology products. Using unbiased content as a platform, CNET has created marketplaces for technology products, and, through its CNET Data Services subsidiary, is the primary provider of information powering the computer and electronics sales and distribution channels. CNET's Internet network serves millions of users each day. CNET Data Services licenses its multi-lingual product database to U.S. and European online computer retailers, re-sellers and e-commerce companies. CNET television programming airs on CNBC and in national syndication, as well as in nearly 100 foreign countries. CNET Radio airs in the San Francisco Bay Area on KNEW 910 AM.

CNET announced that it has changed its name to CNET Networks, Inc. to reflect the company's expansion and growth of additional brands under the CNET Networks banner.

CNET earns revenues from:

- sales of banner and sponsorship advertisements on our online network
- fees based on the number of CNET users who visit the websites of our merchant partners (leads)
- advertising sales and licensing fees from our television and radio programming
- revenues from licensing our original content - revenues from licensing our product database

COMPANY SUMMARY

CNET is continuing to increase its focus on e-commerce. The company is continuing to build brand image through its marketing program and key acquisitions and alliances. We see this as a positive and believe it will increase revenues in the future.

CNET is in the midst of a $100 million advertising campaign to increase its brand image that it launched in July 1999. Besides adding to its growing list of products the company is also successfully marketing itself to consumers and businesses. It has seen an increase in revenues over the past year because of an increase in pages delivered and advertisements sold on their websites. CNET's Internet sites had an average of 16.5 million page views per day in the first quarter of 2000 compared to 9.5 million the same time last year.

By expanding the shopper.com model to other parts of its network, CNET could see increased competition from major retailers who are venturing online in addition to competition from established sites such as Yahoo. As mentioned in a previous report, online shoppers may flock to CNET because they typically research product capabilities and compare prices before making a purchase. CNET's comparison shopping model may prove to be the tech savvy and information hungry online buyer's one stop shop.

CNET's new data services unit is leveraging the vast amounts of data that CNET has amassed to provide businesses with market information and product description and specification information in multiple languages on more than 170,000 products.

CNET is also using the data services unit to provide online cataloging services to e-commerce companies. This area is expected to grow as more e-commerce sites outsource costly cataloging operations. CNET's service makes it easier and more cost effective for companies to update an ever-changing product list. Although there are other companies that are already doing this such as pcOrder.com, CNET has demonstrated that it is capable of competing in this area by winning such large accounts as computer distributor Ingram Micro.

CNET Linux Center is a new site for Linux professionals interested in leveraging the power of Linux for their businesses. The CNET Linux Center consolidates the most relevant Linux information from across CNET and around the Web.

Game Shopper is a specialized version of CNET's popular Shopper.com that allows users to search and browse data on computer video games, video game systems, peripherals, accessories and more, while comparing prices from online retailers.

KEY ACQUISITIONS AND ALLIANCES

On February 29, 2000, CNET completed its acquisition of mySimon, Inc., the Internet's leading comparison shopping service. The acquisition enables CNET to quickly expand its leading content model into 250 categories with hundreds of millions of products. The acquisition is taking CNET beyond its technological foundations by allowing its users to comparison shop for many different types of products. According to Nielsen/Net Ratings, comparison shopping sites saw tremendous growth during the holiday shopping season 1999. mySimon, Inc. saw a 146% growth in traffic from November to December 1999.

In a joint venture in January, CNET and broadcasting giant AMFM launched CNET Radio, the country's first all-technology radio format serving the San Francisco Bay Area. CNET and AMFM plan to roll out CNET Radio nationally by the end of 2000.

In February, CNET acquired Digital Media Services, Inc., ("DMS"). Digital Media Services provides tools that enable manufacturers and merchants to offer product-specific promotions directly to customers before and at the point-of-sale, both online and offline.

In May CNET and Keen.com announced a one-year agreement to provide CNET users with access to Keen.com's Live Answer Community. The partnership will enable CNET's users to get a live answer to questions that they may have about a product on a CNET site.

STRATEGY FOR GROWTH

Changes in Management Halsey Minor CNET's founder was replaced by Shelby Bonnie as CEO. Minor will remain as Chairman and will focus on long-term vision for the company, while Shelby will focus on strategy and execution. We believe that the shift in management represents a natural pattern of development and one that resembles moves made by other companies in the industry.

Continued Marketing Program The $100 million advertising plan launched last July seems to be working. According to Nielsen/Net Ratings, the number of unique visitors on CNET's sites shot up 56% from July to January. The benefits should continue into this year. In Q1 200 total traffic was up 74% from the same period last year and up 11% from Q4 1999.

Acquisition of mySimon, Inc., The mySimon acquisition solidifies CNETs dominant position in the comparison shopping space for computers and consumer electronics. The company views this acquisition as a logical extension of its shopper.com comparison shopping model. The acquisition will allow CNET to provide expand information from technology to consumer electronics and office supplies. It also provides CNET with the means to expand its focus of products even further.

CNET Data Services The CNET Data Services unit (CDS) had a strong performance in Q1. It has been adding to its already impressive list of customers and partners. CDS continues to grow its product database, now numbering over 170,000 SKUs, having added more than 55,000 SKUs since the beginning of Q1. The growth of CDS since July's integration into CNET Networks, Inc. and its rapid acceptance in the PC Channel surprises even those who expected it.

Expanding Into International Markets In addition to providing television programming to international markets, CNET also produces localized versions of CNET's Web site and services for Hong Kong, Singapore, Japan, Korea, China, Taiwan and Australia. CNET Data Services licenses its multi-lingual product database to more than 40 U.S. and European online computer retailers, resellers and leading e-commerce companies. 50-plus U.S. and European online e-tailers, distributors, resellers and e-commerce content providers, including Commerce One, Buy.com and Egghead.com, who license CDS' multi-lingual Transactive Product Data(TM).

Wireless In March CNET announced that it would offer its Internet services to mobile devices using the technology of Wysdom, Inc., an Internet Application Service Provider (ASP). Users will be able to access the WAP (wireless application protocol) site from their mobile phones and will be able to sign up to receive CNET News.com headlines through Short Messaging Service (SMS).

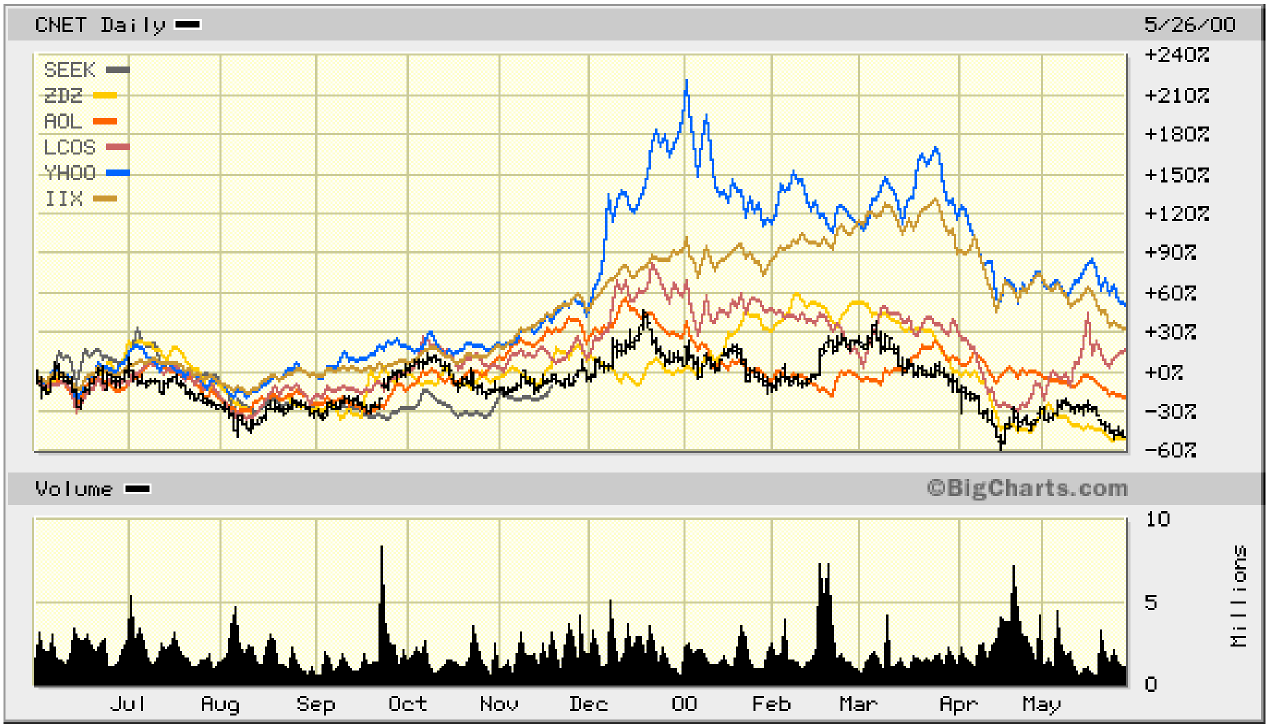
CNET also announced an agreement with AT&T to deliver CNET's content to AT&T Digital PocketNet users. The relationship enables mobile phone users to access CNET's up-to-the-minute technology news, which AT&T Wireless will prominently feature on its offering's menu. Comparison pricing and product information from mySimon, a member of CNET Networks, Inc., will also be accessible on the AT&T Digital PocketNet service.

INDUSTRY OUTLOOK AND COMPETITION

Competition among content and service providers is intense and is expected to increase significantly in the future. CNET’s operations compete against a variety of firms that provide content through one or more media, such as print, broadcast, cable television and the Internet. As with any other content or service provider, CNET competes generally with other content and service providers for the time and attention of consumers and for advertising revenues. To compete successfully, CNET must provide sufficiently compelling and popular content and services to attract Internet users, television viewers and radio listeners and to attract advertisers hoping to reach such audiences.

In the overall market for Internet users, CNET competes with other Internet content and service providers, including Web directories, search engines, shareware archives, sites that offer original editorial content, commercial online services, e-commerce sites and solution providers, and sites maintained by Internet service providers.

VALUATION AND INVESTMENT OPINION



Courtesy of BigCharts.com

Portal	Price	Market Value	P/S	Price/P. View per Day	Gross Margin	Key Metric (page-views)
CNET	$29.50	$2.53B	18.03	153.33	0.621	16.5mp /day
YAHOO	$112.63	$60.9B	87.87	130.96	0.849	465mp /day
ZDNet	$10.50	$790.5M	6.53	68.15	0.747	11.6mp /day
LYCOS	$59.00	$6.48B	24.17	53.11	0.813	122mp /day
GO.com	$12.50	$563.8M	1.89	10.25	--	55mp /day
NBC Internet	$17.75	$1.08B	8.96	--	0.688	10.7 M Members

The chart above shows how CNET has performed relative to the Internet Index. The company has not outperformed the index in the past 11 months although it has followed a similar trend. It has also followed a trend closely correlated to its peer online media and content companies. More recently there has been a steeper negative trend due to the broader market's increasing fears of overvaluation and higher interest rates.

The table on the previous page updates data from the previous report. This table provides a look at other online media portals and how they have performed. CNET's competitor list will grow significantly as it expands into e-commerce. At this time it is difficult to say what the competition and industry landscape will look like for CNET. It will depend on how it intends to progress into the arena (e.g. what products besides technology and small electronics it intends to add to its network). The table above shows that CNET' price to page view per day metric is above the averages of other portals.

CNET's diverse products and services are providing it with plenty of future growth potential. It has demonstrated ability to leverage its assets to provide a wide range of services and attract a broad range of clients from consumers to manufacturers and distributors. We believe that CNET will maintain its leading position in technology and media products as it expands to include other products. These factors along with the recent decline in the stock price leads us to reiterate a BUY rating.

	1998	1999	1Q 2000	2Q 2000E	3Q 2000	4Q 2000	2000E
Television (Broadcast)	$7,057	$7,458	$2,323	$2,606	$2,854	$3,440	$11,223
Internet	$49,374	$104,887	$42,043	$48,172	$52,989	$65,707	$208,912
Total Revenue	$56,431	$112,345	$44,366	$50,779	$55,843	$69,147	$220,135
Cost of Revenue							
Television (Broadcast)	$6,741	$8,341	$2,722	$2,314	$2,446	$2,748	$10,230
Internet	$23,291	$35,619	$14,072	$15,019	$15,971	$17,888	$62,950
Total Cost of Revenue	$30,032	$43,960	$16,794	$17,333	$18,417	$20,636	$73,180
Gross Profit	$26,399	$68,385	$27,572	$33,446	$37,426	$48,511	$146,955
Operating Expenses							
Sales and Marketing	$14,530	$91,660	$14,728	$14,728	$14,728	$15,906	$60,090
Development	$3,454	$7,561	$2,447	$2,447	$2,624	$2,847	$10,366
General and Administrative	$6,806	$15,266	$5,994	$6,354	$6,703	$7,373	$26,424
Unusual Items	($921)	$0	0	$0	$0	$0	$0
Amortization of Goodwill		$15,036	$28,114	$28,114	$28,114	$28,114	$112,456
Total Operating Expenses	$23,869	$129,523	$51,283	$51,643	$52,169	$54,241	$209,336
Operating Income or Loss	$2,530	($61,138)	($23,711)	($18,197)	($14,743)	($5,730)	($62,381)
Cash Operating Expenses	$23,869	$114,487	$23,169	$23,529	$24,055	$26,127	$96,880
Cash Operating (Loss) Profit	$32,562	($2,142)	$21,197	$27,250	$31,788	$43,020	$123,254
Other Income (Expenses)							
Equity Losses	($11,795)	$0	$0	$0	$0	$0	$0
Gain on Investment Sales (Loss)	$10,450	$734,138	($3,966)	$0	$0	$0	($3,966)
Interest Income (Expense), Net	$1,415	$1,223	($13)	$600	$600	$600	$1,787
Total Other Income (Expense)	$70	$735,361	($3,979)	$600	$600	$600	($2,179)
Income Taxes		$257,315	$0	$0	$0	$0	$0
Net Income (Loss)	$2,600	$416,908	($27,690)	($17,597)	($14,143)	($5,130)	($64,560)
Diluted Net Income (Loss) per share	$0.07	$5.05	($0.36)	($0.21)	($0.16)	($0.06)	($0.72)
Shares Used in Diluted per share calculation	34,852	83,373	77,422	85,800	90,000	90,000	90,000
EPS Before Goodwill	$0.93	($0.03)	$0.27	$0.32	$0.35	$0.48	$1.37
Margin Analysis as a % of Revenue							
Gross Margin	46.78%	60.87%	62.15%	65.87%	67.02%	70.16%	66.76%
Sales & Marketing	25.75%	81.59%	33.20%	29.00%	26.37%	23.00%	27.30%
Development	6.12%	6.73%	5.52%	4.82%	4.70%	4.12%	4.71%
Corporate	12.06%	13.59%	13.51%	12.51%	12.00%	10.66%	12.00%
Operating Margin	4.48%	-54.42%	-53.44%	-35.84%	-26.40%	-8.29%	-28.34%