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INSTITUTIONAL RESEARCH

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CNET Networks, Inc. (NASDAQ: CNET)

Update: Largest technology vertical reports in-line Q4 results with significant reduction in forward-looking guidance

Rating: LONG TERM OUTPERFORM

February 12, 2001

KEY CONSIDERATIONS

Recent Price	$14.938
52WK Low	$12.75
52WK High	$75.00
P/E	NA
P/Book	0.74
P/Sales	5.32
Market Capitalization	$2.374 B
Shares Outstanding	137.14 M
Float	63.1 M
Daily Volume (3-Month Average)	2.69 M
EPS	
1999A	$(0.2)
2000A	$0.2
2001E	$0.16
2002E	$0.39
Current Ratio (MRQ)	3.29
Total Debt to Equity (MRQ)	0.07
LT Debt (MRQ)	0.07
Total Cash	$278.19 M

- Despite negative sentiments in the Internet sector, CNET Networks, Inc. reported in-line Q4 revenues of $120 million, reflecting a 9% sequential and 30% year-over-year growth

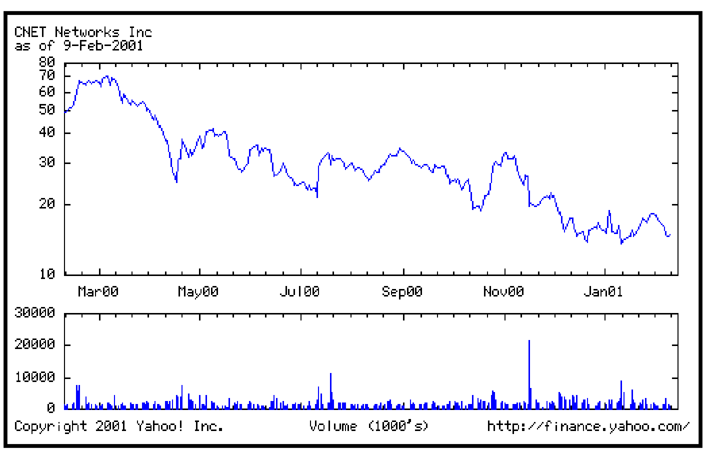
- The Company reported 41.1 million average daily page views, up 22% sequentially and 58% year-over-year. With traffic and usage up despite tech shakeout, we believe the core business remains strong

- Management significantly reduced forward-looking guidance due to concerns over continued weakness in on-line advertising spending. We don't expect to see improvements in the advertising market in the near future; consequently, we are lowering our FY:01 and FY:02 revenue estimates to $449.4 million and $561.8 million respectively

- CNET announced restructuring that includes reduction in headcount by 10%, an attempt to eliminate duplications created by ZDNet merger. We feel this cost cutting measure will help boost the Company's earnings in the near term

- CNET's acquisition of ZDNet positions the Company as the largest technology vertical portal in the IT marketplace. We expect this deal to further boost the Company's margins in the long run, given the increase in demand for targeted information

ONE-YEAR PRICE AND VOLUME GRAPH



- Given weakening Internet economic conditions, murky advertising outlook during the first half of FY:01 and lack of clear visibility thereafter, we do not see an upside potential for the stock in the near-term. Also due to significant reduction in management guidance, it is likely that there will be a negative near-term affect on the stock during the first half of FY:01. However, we continue to remain positive and are optimistic about the Company's growth prospects in the long-term. We therefore, give the stock a long-term Outperform recommendation

This report was prepared by Priya Mehrotra and David Rivas, Ph.D.

COMPANY PROFILE

CNET Networks, Inc., is a leading global source of technology and commerce-related information, data, exchanges and services. As a top 10 digital media property with operations in more than 25 countries and 16 languages, CNET Networks connects buyers, sellers and suppliers throughout the IT supply chain with award-winning content via the Web, wireless devices, television, radio and print. Its respected brand portfolio includes CNET.com, ZDNet.com, mySimon, News.com, TV.com, Computer Shopper magazine, SmartPlanet.com, and CNET Radio, as well as CNET Channel Services, including CNET Data Services, CNET Media Services and Channel Online.

CNET's advertisement-based business model attracts traffic to its content regarding computers, the Internet, and digital technologies on its website. CNET then monetizes those viewers by selling "real estate" (advertising space) on its web site for a set fee, or for a charge that is based on the number of page views and by generating lead-based fees for click-throughs to merchant's website. In addition, the Company generates revenues from its television and radio programming and from licensing its database services. CNET is the largest technology-based vertical Portal catering to the needs of the global IT marketplace.

COMPANY METRICS

- CNET Networks ranked as top 7 most popular global web property with 27 million unique visitors according to November Media Metrix data
- In the US alone, CNET Networks ranked as top 10 digital media property with a reach of 24.6% US internet users in December
- Company reported 41.1 million average daily page views, up 22% sequentially and 58% year-over-year
- International page views of 450 million were up a spectacular 18% from 380 million in 3Q
- Unique customers up 8% from 1,300 in 3Q to 1,400 in 4Q
- 25 international websites, up from 23 in 3Q
- Daily leads to merchants reached 447,000, up 61% sequentially and 109% year-over-year
- CNET data (channel) services ended the quarter with 139 licenses, up 16% from 120 in 3Q

STRATEGY FOR GROWTH

Continued Innovation: The new, larger, interactive advertising format should help boost revenue growth and reduce CNET's exposure to dot.com advertising, starting FY:3Q.

Acquisition of ZDNet: Unlike horizontal portals such as Yahoo, CNET is a niche player in technology-focussed Internet media. The acquisition of ZDNet, its principal rival in technology-focussed Internet media sector, solidifies CNET's dominant position as a central information and technology resource for all audiences, from individuals and business professionals, to the resellers, distributors and manufacturers in the IT supply chain. In our opinion, the deal has created a clear leader in the niche; we expect to see a further boost in the Company's revenues and margins in the upcoming quarters.

Acquisition of mySimon: The acquisition of mySimon Inc. has proven successful for CNET as evident by mySimon's record-breaking quarter in terms of audience growth, page views, and leads in 4Q. It was the number one pure play consumer comparison shopping site that is not a portal, according to December data reported by both Nielsen//NetRatings and Media Metrix. mySimon attracted more than 5.2 million unique visitors in December, making it the number one consumer comparison-shopping site with an average of 11.3 unique pages viewed. mySimon generated more than 50 percent of CNET Networks' total leads to merchants in 4Q, with more than half of the mySimon leads representing non-technology products.

We believe that CNET's acquisition strategy is consistent with the Company's efforts in expanding reach and developing new technologies.

Expansion to International Markets: CNET Networks, currently, has an Internet presence in 25 countries around the world. In an attempt to further increase its global footprint, CNET acquired the remaining interest in its joint venture with AsiaContent.com in 4Q, to gain full ownership of seven CNET Web sites throughout Asia. By directly controlling the development of the sites' content, audience, brand and revenue streams, the Company strengthened its leadership position.

In addition, CNET Networks recently announced the formation of a European network sales organization, which provides the company's sales managers in nine European countries the tools they need to provide cross-border marketing opportunities for their clients. In our opinion, having a global presence and multi-lingual capability is not optional anymore; CNET's continued efforts to expand globally will enable the Company to further increase its market share in North America, Latin America, Europe and Asia.

KEY RISK FACTORS

- CNET Networks has an ad-based business model; continued slowdown in advertising spending on the Internet could lead to further negative pressure on the Company's pricing and dilute its margins
- Cost-cutting initiatives may not be achieved due to implementation difficulties or contractual spending commitments that can't be reduced
- Integration of ZDNet may not be as successful as currently anticipated
- The competition for advertising dollars is fierce; the Company may not be able to attract new customers for the Company's channel services products
- CNET has amended content licensing and print publishing contracts with Ziff Davis Media; the termination resulted in termination fees and may result in increased costs associated with the need to replace content previously provided by Ziff Davis Media
- The Company may not be able to increase the proportion of advertising from established companies maintain, establish or renew relationships with commerce, advertising, marketing, technology, and content providers

FINANCIAL OUTLOOK

Reduced Forward Guidance: Despite Internet stock meltdown, CNET reported solid 4Q EPS of $0.09 and revenues of $120 million, in-line with consensus estimates. However, the Company issued a significant reduction in forward-looking revenues to reflect continued softness in on-line advertising spending. The Company expects FY:01 revenues to be between $450-480 million. Accordingly, we are lowering estimates for FY:01 and FY:02 revenues to $449.4 and $561.8 million respectively. We now expect EPS of $0.16 and EBITDA of $63.8 million in FY:01 and EPS of $0.39 and EBITDA of $123.6 million in FY:02. Year-over-year, we expect FY:01 revenues to grow by only 5%, a conservative outlook given lack of visibility in tough advertising markets. In FY:02, we expect the revenues to grow by 25% as the economic conditions improve and established companies increase advertising spending.

Restructuring: CNET announced plans for near-term restructuring that includes reduction in headcount by 10%, an attempt to eliminate duplications created by ZDNet merger. We feel this cost cutting measure will help boost the Company's earnings in the near term.

Advertising: CNET recently launched its new advertising format that has attracted nine trial customers including as Sun, Oracle, IBM, PeopleSoft. The Company's new, larger, interactive ads will help reduce CNET's exposure to dot.com advertising revenues. We believe this new advertising format will boost CNET's revenues in the second half of FY:01.

INDUSTRY OUTLOOK AND COMPETITION

The emergence and wide acceptance of the Internet has fundamentally changed how millions of people worldwide share information, communicate and conduct business. According to the International Data Corporation, the number of Internet users worldwide will increase from approximately 142 million in 1998 to approximately 399 million by the end of 2002.

According to NetRatings, although the amount of time spent on the Internet is increasing, the number of sites visited in a given session is decreasing. This is mainly because people are no longer surfing the Internet as an entertainment medium but using it as an information resource. People want reliable, accurate, real-time information of their personal interest. We feel this increase in demand for targeted content on the Internet will increase the demand for vertical portals such as CNET Networks, Sportsline.com, Internet.com and iVillage.com versus horizontal portals such as Yahoo.

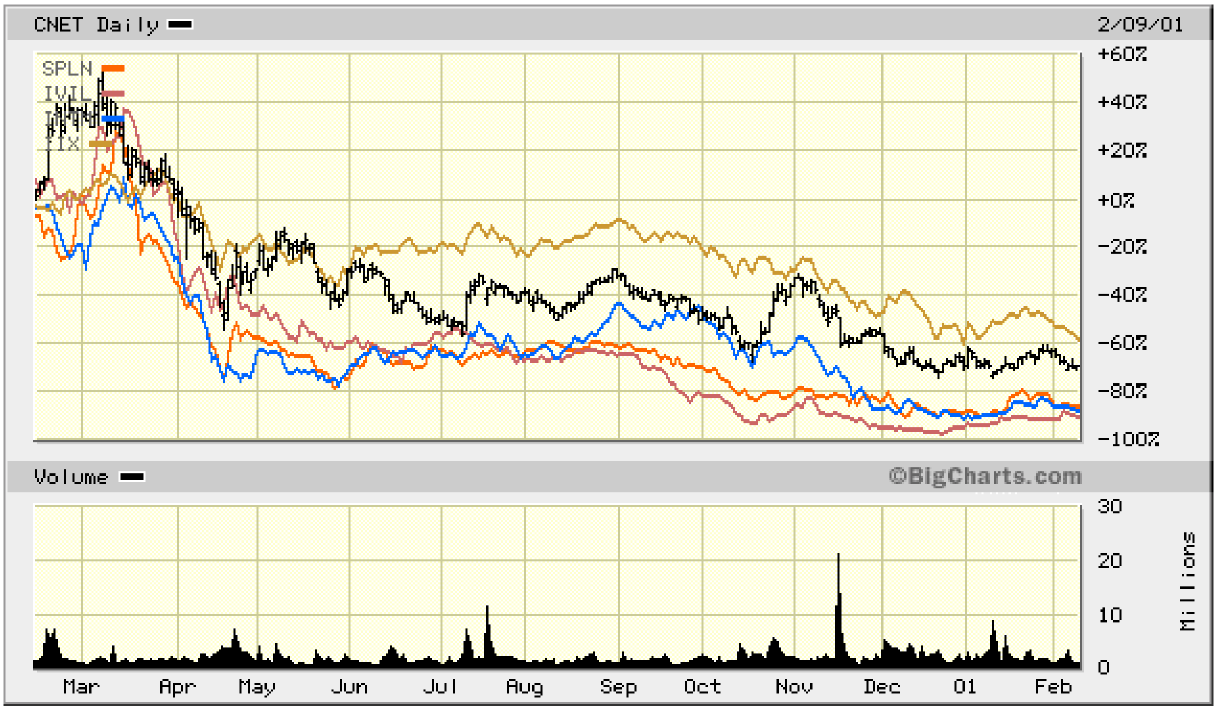
The growth in the number of Internet users has also led to the emergence of the Internet as a powerful advertising and commerce medium. Forrester Research estimates that total spending on Internet advertising in the United States will grow from $1.5 billion in 1998 to nearly $11 billion in 2002. But, given current softness in Internet advertising, we do not see near-term improvements in ad spending. However, since CNET's advertiser base consists mainly of established technology businesses, we feel that decline in ad revenues in the near-term shall be modest unless of course, there is a tremendous slowdown in IT spending.

The massive volume and growth of content on the Internet has created the need for sophisticated search tools. We feel that traditional Internet directories, ISPs and search engines lack focus, have limited content and contain many links to outdated or irrelevant websites. Also horizontal portals such as Yahoo, Terra Lycos, About.com often generate large sets of results but typically cannot determine website quality. We believe Internet users are demanding smarter search capabilities and better organized content that will allow them to find specific, deeply specialized and local content. Hence, the growth of niche players with targeted information capabilities. As a result, we expect CNET to remain the popular digital media property attracting greater viewers and greater ad revenues.

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 continue to 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.

VALUATION

The Internet sector as a whole has been volatile since the year 2000. The chart below shows that CNET and its peer vertical portal companies have followed a downward trend similar to the Internet Index. The steep decline in the portal sector is a result of weakness in on-line advertising spending, slower traffic growth, declining investments, weakening economic conditions, and declining CPMs due to massive dot-com meltdown. CNET has under-performed relative to the Index, since June 2000 mainly because of tough conditions in the technology, advertising, and Internet media markets. More recently, there has been a steeper negative trend due to the broader market's increasing fears of overvaluation and decline in consumer confidence.



Courtesy of BigCharts.com

Vertical Portal	Price	Market Value	P/S (TTM)	Price/ Average Daily Page Views	Gross Margin (TTM)	Key Metric (Average Daily Page-Views)
CNET	$14.938	$2,050 M	4.79	$49.87	59.22%	41.1 M
INTERNET.COM	$7.00	$177.3 M	3.40	$19.36	55.86%	9.16 M
IVILLAGE	$1.875	$55.7 M	0.73	$7.810	63.86%	7.13 M
SPORTSLINE.COM	$6.266	$165.6 M	1.73	$5.483	57.25%	30.2 M
AVERAGE	$7.52	$612.15	2.66	$20.63	59.04%	21.89 M

The table above provides a look at other vertical online media portals and their performance relative to CNET. CNET's price to sales ratio of 4.79 is much higher than the average 2.66 for its peer digital media companies; CNET is currently trading at 4.79x TTM revenues, a multiple much higher than its peers that are trading at an average 2.66x TTM revenues. The high ratio is also inconsistent with the Company's slightly lower than average gross margin of 59.22%. Furthermore, CNET's price to average page views per day metric of $49.87 is also well above the average $20.63 of other verticals. The higher than average ratios suggest that CNET is over-valued compared to its peers.

That said, we believe the high ratios are justified given the fact that CNET dominates the technology vertical platform and as a top digital media property, it has strong long-term prospects. Although CNET, like other portals, has an advertisement-based business model, the Company's advertisers are mainly established technology businesses such as Oracle, IBM and Sun Microsystems. Therefore, the decline in its ad revenues is expected to be modest compared to its peer companies that depend on early-stage dot-coms for advertisement revenues.

INVESTMENT OPINION

We continue to view CNET as a strong niche player in the digital media sector and remain optimistic about the Company's performance in the long run. We believe that the softness in the Internet sector is already priced into the stock. Given murky outlook in the advertising market, we do not see a near-term upside in the stock's performance. In our opinion, the dramatic lowering of forward guidance by the Company's management means tougher times ahead for CNET which is likely to cause short-term pressure on the stock. But, despite the near-term challenges, we feel that over the long-term, earnings will improve substantially. We therefore, give CNET a short-term rating of Hold and a long-term Outperform rating of 6.

CNET Networks, Inc.
Quarterly Earnings Outlook
Historical and Projected Pro Forma Income Statement

(Millions except per share data)	1Q99	2Q99	3Q99	4Q99	F1999A	1Q00	2Q00	3Q00	4Q00	F2000A	1Q01E	2Q01E	3Q01E	4Q01E	F2001E	F2002E
Revenues:																
Internet	37.0	47.6	54.8	73.1	212.6	78.3	89.5	96.8	106.2	370.8	72.11	87.55	105.17	125.26	390.08	506.71
Other	20.8	17.4	17.3	19.0	74.5	14.5	14.8	13.7	13.7	56.7	12.88	13.23	14.51	18.72	59.33	55.05
Total Revenues	**57.8**	**65.0**	**72.1**	**92.1**	**287.0**	**92.8**	**104.3**	**110.5**	**120.0**	**427.6**	**85.8**	**101.8**	**120.9**	**144.0**	**449.4**	**561.8**
Cost of Revenue	25.4	25.7	29.3	37.2	117.7	40.3	44.3	46.0	43.8	174.5	31.50	37.16	43.52	51.11	161.79	196.62
Gross Profit	**32.4**	**39.2**	**42.8**	**54.9**	**169.4**	**52.5**	**60.0**	**64.5**	**76.1**	**253.1**	**54.3**	**64.6**	**77.4**	**92.9**	**287.6**	**365.1**
Operating Expenses:																
Sales & Marketing	13.4	15.9	45.4	66.5	141.2	36.0	44.0	37.6	51.3	168.9	42.92	45.81	47.15	48.95	183.36	207.85
General & Administration	6.70	12.35	12.62	11.97	43.62	9.84	10.85	10.28	6.79	37.64	8.15	9.16	10.88	11.52	40.45	33.71
Total Operating Expenses	20.1	28.3	58.0	78.5	184.8	45.8	54.9	47.8	58.1	206.5	51.1	55.0	58.0	60.5	223.8	241.6
EBITDA	12.4	11.0	(15.3)	(23.6)	(15.5)	6.7	5.1	16.7	18.0	46.5	3.3	9.7	19.3	32.4	63.8	123.6
Non-Cash Operating Expenses:																
Depreciation	2.1	2.6	3.3	3.5	11.5	3.9	4.3	5.0	5.5	18.7	6.2	6.6	6.8	6.9	26.5	30.0
Amortization of Goodwill	135.4	136.4	142.7	146.6	561.1	166.1	206.1	208.2	182.7	763.1	183.0	183.0	183.0	183.0	732.0	732.0
Merger related costs	-	-	-	-	-	-	-	-	1.2	1.2	-	-	-	-	-	-
Total Non-Cash Operating Expenses	137.5	139.0	146.0	150.1	572.6	170.0	210.4	213.2	188.3	781.9	189.2	189.6	189.8	189.9	758.5	762.0
Operating Income (excluding non-cash	**10.3**	**8.4**	**(18.6)**	**(27.1)**	**(27.0)**	**2.8**	**0.8**	**11.7**	**12.5**	**27.8**	**(2.9)**	**3.1**	**12.5**	**25.5**	**37.3**	**93.6**
Operating Income	(125.1)	(128.0)	(161.3)	(173.7)	(588.1)	(163.3)	(205.3)	(196.5)	(170.2)	(735.3)	(185.9)	(179.9)	(170.5)	(157.5)	(694.7)	(638.4)
Other Income (Expense):																
Gain (Loss) on Sale of Assets	19.9	4.7	97.8	613.7	736.1	(4.0)	73.6	37.3	(384.7)	(277.8)	-	-	-	-	-	-
Minority Interest	0.1	-	-	-	0.1	(0.4)	-	-	-	(0.4)	-	-	-	-	-	-
Interest Income (Expense)	0.2	0.7	0.1	1.4	2.4	0.1	(0.2)	(0.0)	0.7	0.5	0.5	0.5	0.5	0.5	2.0	2.0
Other Income (Expense)	-	-	-	-	-	-	(5.5)	-	-	(5.5)	-	-	-	-	-	-
Total Other Income (Expense)	20.2	5.4	97.9	615.1	738.6	(4.3)	67.8	37.3	(384.0)	(283.2)	0.5	0.5	0.5	0.5	2.0	2.0
Pretax Income (excluding non-cash ite	**10.6**	**9.1**	**(18.5)**	**(25.7)**	**(24.4)**	**2.5**	**0.6**	**11.7**	**13.2**	**27.9**	**(2.4)**	**3.6**	**13.0**	**26.0**	**39.3**	**95.6**
Pretax Income	(104.9)	(122.6)	(63.4)	441.4	150.5	(167.6)	(137.5)	(159.2)	(554.2)	(1,018.5)	(185.4)	(179.4)	(170.0)	(157.0)	(692.7)	(636.4)
Tax Expense	2.0	0.7	40.9	217.3	260.9	-	30.4	19.2	-	49.6	-	1.2	5.0	10.3	16.4	38.8
Net Income (excl. non-cash items)	**10.6**	**9.1**	**(18.5)**	**(25.7)**	**(24.4)**	**2.5**	**0.6**	**11.7**	**13.2**	**27.9**	**(2.4)**	**2.4**	**8.1**	**15.7**	**22.9**	**56.8**
Net Income (Loss)	(106.9)	(123.2)	(104.3)	224.1	(110.4)	(167.6)	(167.9)	(178.4)	(554.2)	(1,068.1)	(185.4)	(180.6)	(174.9)	(167.3)	(709.1)	(675.2)
Basic EPS	(0.9)	(1.0)	(0.9)	1.7	(0.9)	(1.3)	(1.2)	(1.3)	(4.1)	(8.2)	(1.4)	(1.3)	(1.3)	(1.2)	(5.2)	(4.8)
Diluted EPS	(0.8)	(0.9)	(0.9)	1.8	(0.9)	(1.2)	(1.2)	(1.2)	(3.9)	(7.7)	(1.3)	(1.3)	(1.2)	(1.2)	(5.0)	(4.7)
Shares Used in Computing Basic EPS	119.5	121.7	122.5	135.5	124.8	127.4	135.7	137.1	134.2	130.8	135.0	137.0	138.0	139.0	137.3	140.0
Shares Used in Computing Diluted EPS	126.4	130.1	122.5	123.6	125.7	139.1	135.7	143.6	140.5	139.0	141.0	142.0	143.0	144.0	142.5	145.0
EPS excl.Goodwill	**0.08**	**0.07**	**(0.15)**	**(0.21)**	**(0.19)**	**0.02**	**0.00**	**0.08**	**0.09**	**0.20**	**(0.02)**	**0.02**	**0.06**	**0.11**	**0.16**	**0.39**
% of Sales																
Internet	64%	73%	76%	79%	74%	84%	86%	88%	89%	87%	84%	86%	87%	87%	87%	90%
Other	36%	27%	24%	21%	26%	16%	14%	12%	11%	13%	15%	13%	12%	13%	13%	10%
Cost of Revenue	44%	40%	41%	40%	41%	43%	43%	42%	37%	41%	37%	37%	36%	36%	36%	35%
Gross Profit	56%	60%	59%	60%	59%	57%	58%	58%	63%	59%	63%	64%	64%	65%	64%	65%
Sales & Marketing	23%	25%	63%	72%	49%	39%	42%	34%	43%	40%	50%	45%	39%	34%	41%	37%
General & Administration	12%	19%	17%	13%	15%	11%	10%	9%	6%	9%	10%	9%	9%	8%	9%	6%
Total Operating Expenses	35%	44%	80%	85%	64%	49%	53%	43%	48%	48%	60%	54%	48%	42%	50%	43%
EBITDA	21%	17%	-21%	-26%	-5%	7%	5%	15%	15%	11%	4%	9%	16%	23%	14%	22%
Operating Income (excl. non-cash items)	18%	13%	-26%	-29%	-9%	3%	1%	11%	10%	6%	-3%	3%	10%	18%	8%	17%
Pretax Income (excl. non-cash items)	18%	14%	-26%	-28%	-9%	3%	1%	11%	11%	7%	-3%	4%	11%	18%	9%	17%
Net Income (excl. non-cash items)	18%	14%	-26%	-28%	-9%	3%	1%	11%	11%	7%	-3%	2%	7%	11%	5%	10%
Year-over-Year Growth Rate																
Internet						111.77%	87.86%	76.49%	45.32%	74.46%						
Other						-30.44%	-14.65%	-20.74%	-27.70%	-23.81%						
Total Revenues						60.56%	60.49%	53.19%	30.25%	48.96%	-7.50%	-2.40%	9.40%	20.00%	5%	25%