

**NETWORK SOLUTIONS INC. (NASDAQ: NSOL)**

Competition from new registrars and new agreement with ICANN and D.O.C.

Update: REITERATING BUY RATING

November 1, 1999

**KEY CONSIDERATIONS.**

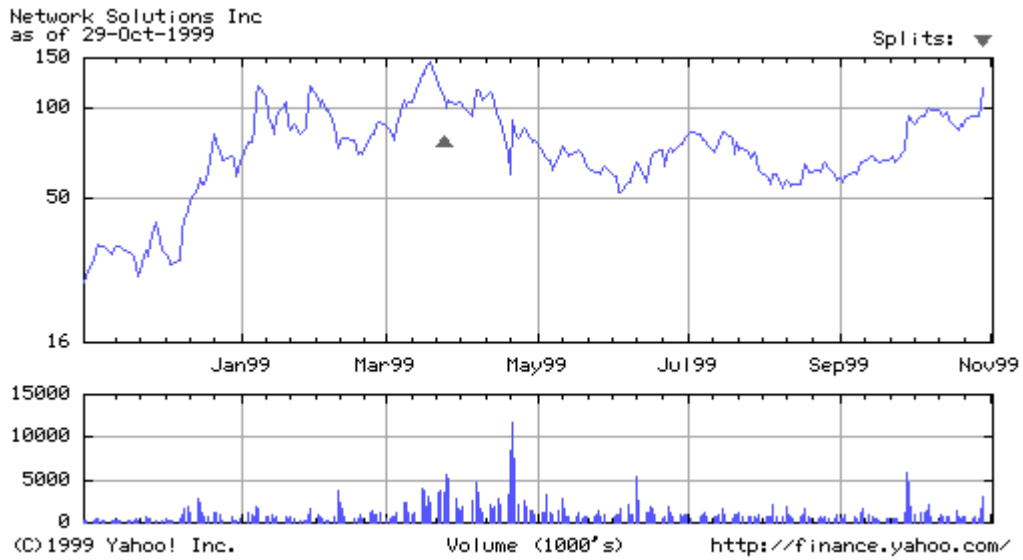
- NSOL announced its twelfth consecutive record quarter. This increasing profitability shows the power of their business model. For the first three quarters of 1999, they generated over \$108 million in operating cash flow and their deferred revenue balance increased to \$283 million.
- 1.5 million domain names had been registered in the last quarter by all the registrars. NSOL by itself registered 1.3 million of this, and its biggest competitor Register.com registered 84 percent of the rest (~150,000). Currently, 17 registrars are operational among more 60 that have been accredited by ICANN.
- NSOL's cumulative registrations grew to 6.5 million as of Sept. 30. The significant increase in international registrations due to NSOL's international partners is remarkable.
- NSOL also sold value added services to roughly 15 percent of the new registrations in the third quarter that emphasizes a potential future growth area for the company.
- NSOL, ICANN and the Department of Commerce have reached to an agreement, which allows NSOL to maintain the registry for another 4 years. It will charge the other registrars \$9 a year until 1/15/2000 and \$6 thereafter.
- NSOL finally launched the *dot com directory*, the online business finding engine. Since launch, the directory has been visited nearly seven million times and online business listings exceed two million.
- The company entered into strategic marketing agreements with UPS, Chase Merchant Services, Orientation.com, Micro Warehouse, HP, MindSpring, Interliant, and leading international ISPs.
- NSOL introduced dot com essentials for small businesses and dot com ISP Tools for ISPs.

|                                   |                 |
|-----------------------------------|-----------------|
| Recent Price                      | \$118 1/2       |
| 52WK Low                          | \$24.875        |
| 52WK High                         | \$153 3/4       |
| P/E                               | 190.21          |
| P/Book                            | 34.63           |
| P/Sales                           | 23.29           |
| Market Capitalization             | \$3.951 billion |
| Shares Outstanding                | 33.34 million   |
| Float                             | 15.70 million   |
| Daily Volume<br>(3-month Average) | 0.99 million    |
| <b>EPS</b>                        |                 |
| 1996                              | \$(0.07)        |
| 1997                              | 0.16            |
| 1998                              | 0.34            |
| 1999E                             | 0.71            |
| 2000E                             | 1.33            |
| <b>FINANCIALS</b>                 |                 |
| Current Ratio                     | 1.31            |
| Total Debt to Equity              | 0.01            |
| LT Debt                           | 0.00            |
| Total Cash                        | \$234 million   |

This report was prepared by Umut Vardar and David R. Rivas, Ph.D.

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## YEARLY PRICE CHART



## VALUE COMPARISON as of 11/1/1999

|                         | Value Comparison<br>11/1/1999 |                                    |  |            |                                    |
|-------------------------|-------------------------------|------------------------------------|--|------------|------------------------------------|
|                         | <i>\$ Price</i>               | <i>Market Cap. In<br/>millions</i> | <i>Trailing 12<br/>Month Sales<br/>in millions</i> | <i>P/S</i> | <i>Gross<br/>Margin<br/>%(TTM)</i> |
| Network Solutions, Inc. | 118 1/2                       | 3,951                              | 176.1  | 23.29      | 61.60                              |
| America Online, Inc.    | 129.31                        | 143,800                            | 5,250.0  | 30.74      | 45.38                              |
| France Telecom          | 96 3/4                        | 99,100                             | 26,000.0   | 3.73       | 47.68                              |
| Verio, Inc.             | 37.313                        | 2,840                              | 188  | 13.85      | 62.38                              |
| WebTrends Corp.         | 61 3/4                        | 782.7                              | 14.8   | 49.84      | 91.46                              |

## NSOL vs. AMEX as of 11/1/1999



### INVESTMENT OPINION

We believe that Network Solutions will not be affected by the competition as much as investors previously expected. The third quarter results show that NSOL is keeping and will keep its leading position in the domain name registration market. We expect that NSOL will surpass our previous estimate of a total of 7.5 million domain name registrations for the end of the year and that it will reach a number between 8 and 8.5 millions.

The announced third quarter results indicate its twelfth consecutive month of record profits. We expect NSOL to continue to announce record profits for at least the next four years.

The price of the stock increased to 118 ½ after the announcement of the third quarter results and we expect it to rise up to at least \$150 in order to complete its double-top formation. We therefore give the stock of NSOL a STRONG BUY rating.

**Network Solutions Inc.**  
**Income Statement**

(in thousands, except per share data)

|   | <b>FY94</b> | <b>FY95</b> | <b>FY96</b> | <b>FY97</b> | <b>FY98</b> | <b>FY99E</b> | <b>FY00E</b> |
|---|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Net Revenue                                 | 5,029       | 6,486       | 18,862      | 45,326      | 93,652      | 197,606      | 391,259      |
| Cost of Revenue                             | 3,073       | 5,704       | 14,666      | 25,798      | 38,530      | 75,090       | 152,591      |
| Gross Income                                | 1,956       | 782         | 4,196       | 19,528      | 55,122      | 122,516      | 238,668      |
| Research and Development Exp.               | 0           | 0           | 680         | 1,653       | 4,821       | 9,880        | 19,563       |
| Selling, General and Adm. Expenses          | 1,544       | 2,394       | 6,280       | 12,268      | 37,144      | 81,018       | 160,416      |
| Operating Expense                           | 1,544       | 2,394       | 6,960       | 13,921      | 41,965      | 90,899       | 179,979      |
| Operating Income                            | 412         | -1,612      | -2,764      | 5,607       | 13,157      | 31,617       | 58,689       |
| Interest Income                             | 0           | 0           | -496        | 2,211       | 6,303       | 10,000       | 24,471       |
| Other Expenses                              | 109         | 61          | 0           | 116         | 116         | 0            | 0            |
| Inc.(Loss) from Cont. Op. Before Income Tax | 303         | -1,673      | -2,268      | 7,702       | 19,344      | 41,617       | 83,160       |
| Provision (Benefit) for Income Taxes        | -114        | 239         | 643         | -3,471      | -8,109      | -16,917      | -34,500      |
| Income (Loss) from Cont. Operations         | 189         | -1,434      | -1,625      | 4,231       | 11,235      | 24,700       | 48,660       |
| Loss from Discontinuing Operations          | -1,169      | -1,403      | 0           | 0           | 0           | 0            | 0            |
| Net Income (Loss)                           | -980        | -2,837      | -1,625      | 4,231       | 11,235      | 24,700       | 48,660       |
| Shares Outstanding                          | 2,084       | 20,670      | 25,000      | 26,966      | 33,397      | 35,000       | 36,680       |
| Fully Diluted EPS                           | -0.47       | -0.14       | -0.07       | 0.16        | 0.34        | 0.71         | 1.33         |

**Margin Analysis**

|                  |       |       |       |      |      |       |       |
|------------------|-------|-------|-------|------|------|-------|-------|
| Gross Margin     | 0.39  | 0.12  | 0.22  | 0.43 | 0.59 | 0.62  | 0.61  |
| R&D Margin       | 0     | 0     | 0.04  | 0.04 | 0.05 | 0.05  | 0.05  |
| S,G&M Margin     | 0.31  | 0.37  | 0.33  | 0.27 | 0.4  | 0.41  | 0.41  |
| Operating Margin | 0.08  | -0.25 | -0.15 | 0.12 | 0.14 | 0.16  | 0.15  |
| Net Margin       | -0.19 | -0.44 | -0.09 | 0.09 | 0.12 | 0.125 | 0.125 |

**Growth**

|                   |   |       |       |       |      |      |      |
|-------------------|---|-------|-------|-------|------|------|------|
| Total Revenue     | 0 | 0.29  | 1.91  | 1.4   | 1.07 | 1.11 | 0.98 |
| Gross Profit      | 0 | -0.6  | 4.37  | 3.65  | 1.82 | 1.22 | 0.95 |
| Operating Expense | 0 | 0.55  | 1.91  | 1     | 2.01 | 1.16 | 0.98 |
| Operating Income  | 0 | -4.91 | 0.71  | -3.03 | 1.35 | 1.4  | 0.86 |
| Net Income        | 0 | 1.89  | -0.43 | -3.6  | 1.66 | 1.2  | 0.97 |