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WIT CAPITAL GROUP, INC. (NASDAQ: WITC)

Acquisition of SoundView Technology Group and Pan-European expansion

Rating: Hold

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HIGHLIGHTS

- Revenues were \$27.6 million for the nine months ended September 30,1999 and net loss per share was (\$0.40).
- Upon the merger with SoundView Technology, the company's nine month 1999 revenues increased significantly from \$27 million to \$127 million on a combined basis.
- We believe the company's global strategy—Wit Capital Japan and Wit Capital Europe will help to expand client base.
- Facing fierce competitions in the online investment-banking sector, the company continually builds up its brand recognition by improving its facilities and technology.
- We expect that losses per share for Wit Capital in 1999 will drop from 1998's (\$0.86) to (\$0.53) and continue to decline in 2000.
- We expect the stock to under-perform the Internet sector.

Recent Price	\$15.19
52WK High	\$38.00
52WK Low	\$9.00
P/E	N/A
P/Book	7.90
P/Sales	13.77
Market Capitalization	\$1.10 Billion
Shares Outstanding	72.32million
Float	7.60 million
Daily Volume (3-month Average)	0.71million
Short Ratio (11/99)	2.57

EPS	Reported
1996	(.23)
1997	(.29)
1998	(.86)
1999E	(.53)
2000E	(.25)

Financials	
Current Ratio	N/A
Long-Term Debt/Equity	0
Total Cash	\$9.37million

ONE-YEAR PRICE AND VOLUME GRAPH



COMPANY PROFILE

Wit Capital is an Internet investment banking and brokerage firm that uses electronic mail and the Web to offer and sell shares in public offerings to individuals. The company also produces and electronically disseminates investment research to individual investors. It also advises corporate clients in connection with significant transactions like mergers and acquisitions and assists them with the development of Internet strategies and businesses and in raising funds from private sources. As the Internet rapidly becomes a critical medium, Wit Capital believes that corporate clients will gravitate towards those investment-banking firms that use their knowledge and expertise about the Internet.

This report was prepared by Rubing Qian and David R.Rivas, Ph.D.

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RECENT STRATEGIES FOR GROWTH

- **Establish Pan-European Investment Banking Joint Venture**

Wit Capital group and enba, a Dublin-based Internet financial services provider, are planning to establish a Pan-European investment banking joint venture, called Wit Capital Europe. The company and enba will initially own 55 percent and 45 percent, respectively, of the equity of Wit Capital Europe. In proportion to their equity stakes, the parties will contribute to the joint venture an aggregate of US\$10 million in capital. This joint venture creates a unique alliance between two established Internet companies. Combining enba investment in technology and brokerage development experience in the European markets with Wit Capital revolutionary model for capital formation will be a major benefit to both individual investors as well as issuer throughout Europe.

- **Acquire SoundView Technology Group**

Under the terms of the transaction, Wit Capital will acquire 100% of the fully diluted shares of SoundView in exchange for approximately. The acquisition will enable Wit Capital to significantly expand its Internet-based product offering-both in items of number of shares distributed to online investors and breadth of timely research coverage broadly accessible through the Internet. The acquisition positions Wit Capital to be the market leader in Internet/technology investment banking-with one of the largest banking and research groups on Wall Street focused exclusively in the Internet and technology.

- **Innovative Website Redesign**

New Wit Capital website was built with individual investors in mind-navigation and easy access to information. The expectation research section contains coverage of over 45 companies and more than 200 institutions-quality research reports free charge. In addition, the site provides one-step access to a broad range of investing tools including stock quotes from Reuter, charting capabilities through stock point and dedicated investor relation section. The new website gives people convenience and confidence.

- **After-Hours Trading Network**

The company plans to sell or shut down its \$8 million dollars after-hours trading network to focus on completing merger with SoundView Technology Group. This is a result of the strong competition with ECNs and online brokerages in after-hours trading services.

SUMMARY

The company's total revenues for the fiscal quarter ended September 30,1999 were \$12.4 million compared to \$1 million for that of 1998. The company's total revenues for the nine months ended September 30,1999 were \$27.6 million compared to \$1.3 million for that of 1998. The net loss per share for the nine months was from (\$0.78) in 1998 up to (\$0.40). We expect the upward trend of revenue and EPS will continue in 2000 for the following factors:

- The company has begun to receive larger management fees and allocations of the shares in the offerings, which it is participating and has experienced a general increase in the number of offerings in which it participates.
- The company's client base expands and the number of trades executed increases, which will result in the increase in brokerage revenues.
- The company has made a significant investment in fixed cost structure and will continue expand substantial resources to maintain and enhance facilities and technology. We believe that earlier spending will build strong brand name and reap bigger payoffs.

On October 26, 1999 the company and enba announced the intention to establish a Pan-Europe investment House-- Wit Capital Europe, which, together with Wit Capital Japan, will become participants in Wit Capital's

emerging global network of affiliated investment banking and brokerage firms. We believe that the network will facilitate the online capital raising processing for issuers and allow individual investors to trade securities in multiple countries around the world, which will help to expand the company's brand recognition and client base.

On November 1, 1999 the company signed a definitive agreement to acquire SoundView Technology Group, a Connecticut-based private investment-banking firm focused exclusively on technology. We believe that acquisition will enable Wit Capital to significantly expand its Internet-based product offering and strengthen its ability to demand an increasing proportion of deal economics and share retention. We anticipate that total shares offered to investors could more than triple in the first year following the transaction. The nine month 1999 revenues increase significantly from \$27 million to \$127 million on a combined basis. Meanwhile, the company plans to sell or shut down its \$8 million dollars after-hours trading network to focus on completing merger with SoundView Technology Group.

The company is facing fierce competitions as larger traditional investment banking firms, such as Merrill Lynch and Goldman Sachs, move online with innovative technologies and online brokers expand their services to offer the same investment banking services as Wit Capital. In response to the competitions, the company announced to launch new brand with innovative website redesign. The sites provides one-stop access to abundance of investing tools and more than 200 institutional-quality research reports free of charge. In addition, the company expects to roll out its Digital Trading Facility ("DTF") in early 2000 to enhance its online brokerage infrastructure for the company's rapid growth. We believe the development will extend the company's recognition in the investment-banking arena, if it will not face further delays.

The company hired the management team of Dawntreader Fund I LP to lead its newly formed Venture Capital Fund Group. We expect that it will enable the company to further leverage its exceptional network of Internet and e-commerce relationships.

Opinion

We are making a slight adjustment to our EPS projections for fiscal 1999 and fiscal 2000. We are raising our 1999 EPS estimates from (\$0.57) to (\$0.53) and our 2000 EPS estimates from (\$0.27) to (\$0.25). We believe the company's merger with SoundView Technology Group, rollout of global strategy in Japan and Europe, launch of venture capital group, improvement of facilities and technology and expansion of research team will help to increase its revenues. Therefore, we anticipate losses per share will drop from 1998's figure of (\$0.86) to (\$0.53) and continue to decline in 2000, with losses in the area of (\$0.25) thought possible.

Wit Capital's Price-to-Sales ratio is currently trading at a premium relative to the average of its online competitors due to the positive news on the merger with SoundView Technology Group and its innovative Website redesign. However, we believe that the premium in the P/S ratio is hard to justify because of the stronger future competition from larger investment banks that have greater resources.

The graph below compares the company's stock price to the Internet stocks index (IIX). We can see that the company's stock has under-performed the Internet sector during its short trading history and we expect it to continue to do so in the future due to the strong competition. The stock, however, might outperform the S&P 500, which is projected to increase by 10% in EPS in 2000.

Although we expect the company's loss to drop in 2000 and the company to be strengthened by its acquisition of SoundView, in view of competitive risks and possible further delays in the innovative DTF offering, we maintain our Hold recommendation.

Wit Capital vs. IIX (courtesy of Bigcharts.com)



Wit Capital Group, Inc.									
Statement of Operations (in thousands, except per share data)									
<i>Year Ending December 31</i>									
	<i>FY1997</i>	<i>FY1998</i>	<i>FY1999E</i>	<i>1Q2000E*</i>	<i>2Q2000E</i>	<i>3Q2000E</i>	<i>4Q2000E</i>	<i>FY2000E</i>	
Revenues:									
Investment banking	\$ 43	\$ 1,515	\$ 29,685	\$ 29,740	\$ 41,635	\$ 56,208	\$ 73,070	\$ 200,653	
Brokerage	10	295	6,673	7,590	10,626	14,345	18,648	51,208	
Interest	54	183	5,310	6,400	8,960	12,097	15,726	43,183	
Other	139	45	539	152	213	288	374	1,027	
Total Revenues	246	2,038	42,207	43,882	61,435	82,937	107,818	296,071	
Expenses:									
Compensation and benefits	1,550	4,444	37,587	32,911	42,390	55,568	67,925	198,794	
Brokerage and clearance	6	186	4,474	4,388	5,529	6,635	7,547	24,099	
Professional services	330	870	5,465	5,266	6,143	6,635	5,391	23,435	
Data processing and communications	238	578	4,239	4,388	4,915	5,806	7,547	22,656	
Technology development	511	1,212	3,170	2,633	2,457	2,488	2,156	9,735	
Marketing	503	934	1,251	1,316	1,843	2,488	3,235	8,882	
Depreciation and amortization	229	897	1,157	878	1,229	1,659	2,156	5,921	
Occupancy	201	237	1,042	878	614	829	1,078	3,400	
Other	(352)	1,440	5,072	5,266	5,529	6,635	7,547	24,977	
Total expenses	3,216	10,798	63,456	57,924	70,650	88,742	104,583	321,899	
Net loss before equity in net loss of subsidiaries	(2,970)	(8,760)	(21,249)	(14,042)	(9,215)	(5,806)	3,235	(25,828)	
Equity in net loss of subsidiaries	-	-	(24)	-	-	-	-	-	
Net loss	\$ (2,970)	\$ (8,760)	\$ (21,273)	\$ (14,042)	\$ (9,215)	\$ (5,806)	\$ 3,235	\$ (25,828)	
Basic and diluted new loss per share	\$ (0.28)	\$ (0.86)	\$ (0.53)	\$ (0.15)	\$ (0.09)	\$ (0.05)	\$ 0.03	\$ (0.25)	
Weighted averaged shares outstanding	10,432	10,200	40,123	96,456	102,562	108,456	111,257	104,683	
Margin Analysis (% of Revenues)									
Compensation and benefits	630%	218%	89%	75%	69%	67%	63%	67%	
Brokerage and clearance	2%	9%	11%	10%	9%	8%	7%	8%	
Professional services	134%	43%	13%	12%	10%	8%	5%	8%	
Data processing and communications	97%	28%	10%	10%	8%	7%	7%	8%	
Technology development	208%	59%	8%	6%	4%	3%	2%	3%	
Marketing	204%	46%	3%	3%	3%	3%	3%	3%	
Depreciation and amortization	93%	44%	3%	2%	2%	2%	2%	2%	
Occupancy	82%	12%	2%	2%	1%	1%	1%	1%	
Other	-143%	71%	12%	12%	9%	8%	7%	8%	
Growth Rates									
Total Revenues	500%	728%	189%	200%	40%	35%	30%	175%	
Total Expenses	79%	236%	175%	151%	22%	26%	18%	407%	
Net Loss	69%	195%	151%	66%	-34%	-37%	-156%	21%	
*Assumes merger with SoundView Technology Group closes in the first quarter of 2000, previous years figures are NOT consolidated.									