

**Wit SoundView Group, Inc. (NASDAQ: WITC)**

**WITC reported 2Q00 EPS at \$0.02, E\*Offering merger and exclusive agreement with E\*Trade**  
**Rating: HOLD**

July 26, 2000

**KEY CONSIDERATIONS**

- WITC reported 2Q00 diluted EPS of \$0.02 on July 18, 2000 meeting First Call estimates.
- WITC has agreed to acquire investment banking competitor E\*Offering thus leveraging complementary strengths.
- WITC will become the exclusive provider of IPOs and follow-on offerings to E\*Trade's 2.6 million customers.
- WITC has succeeded in diversifying its revenue base and performed well in 2Q00 despite a slow IPO season.
- WITC will be launching Vostock<sup>SM</sup>, a joint venture between WITC and Investment Technology Group (ITG), an auction system for secondary and follow-on offerings.

Recent Price	\$9.53
52WK Low	\$6.38
52WK High	\$27.50
P/E	NM
P/Book	1.77
P/Sales	3.03
Market Capitalization	\$941.5 M
Shares Outstanding	98.8 M
Float	51 M
Daily Volume (3-month Average)	547.7K
<b>EPS</b>	
1998A	(\$1.23)
1999A	(\$0.52)
2000E	\$0.06
Total Debt to Equity	0.00
LT Debt	0.00
Total Cash	\$62.9 M

**ONE-YEAR PRICE AND VOLUME GRAPH****COMPANY PROFILE**

Wit SoundView Group (WITC) is an investment banking and brokerage firm that uses electronic mail and the web to offer and sell shares in public offerings to institutions and individuals. The company also produces and disseminates investment research to institutional and individual investors. The Company has one of the biggest research teams that focus on over 285 internet and technology companies. 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 becomes a critical medium, Wit SoundView believes that corporate clients will gravitate towards those investment banks that use their knowledge and expertise about the internet.

This report was prepared by Sushil Bathija, and David R. Rivas, Ph.D.

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## **Company Update**

On July 18, 2000 the Company reported revenues of \$96.1 million for the quarter ended June 30, 2000 compared to \$11.3 million for the same quarter in 1999. We believe that the year on year comparisons are less meaningful for WITC as the SoundView merger that was completed in the first quarter of 2000 considerably increased the revenues and expenses while also adjusting the business model of the Company. Therefore, in our opinion, it would be more appropriate to draw comparisons to the previous quarter. Revenues fell compared to 1Q00 revenues of 106.6 million. We believe that this fact needs to be viewed in the light of 2Q00 being a slow IPO season. Cash EPS for 2Q00 came in at \$0.12 per diluted share. Net income for the quarter was \$2.3 million, or \$0.02 per diluted share. Net income per diluted share would have been \$0.04 except for a \$0.02 per diluted share non-cash charge arising from the acceleration of options related to the resignation of former co-CEO Ron Readmond.

## **Investment Banking**

Despite weak market conditions, WITC generated \$54.1 million in investment banking revenues as compared to \$60.3 million the previous quarter. The results were stable due to an increase in follow-on offerings, M&A advisory work and private placements. The company underwrote 27 deals participating as a co-manager on 16 and serving as a syndicate member in an additional 11. In comparison, during the previous quarter, the Company participated in 61 public equity offerings, 31 as co-manager and 30 as syndicate member. We believe that this could be attributed to the weak market for IPOs.

## **Brokerage**

WITC reported brokerage revenues of \$38.9 million up from \$36.5 million the previous quarter. Management believes that the Company gained market share as clients turned to WITC for its expertise in the technology sector which underwent a major correction in 2Q00.

### **Institutional Brokerage**

WITC reported institutional brokerage revenues of \$36.3 million for the quarter as compared to \$32.5 million in the previous quarter (approximately 12% sequential growth). Institutional commissions represented 93% of total brokerage revenues.

### **Retail Brokerage**

Retail brokerage revenues for the quarter came in at \$2.6 million down considerably from \$4 million the previous quarter. The retail investor has not been a major contributor to total revenues and is thus being handed over to E\*Trade Group. In exchange WITC will become the exclusive provider of IPOs and follow-on offerings to E\*Trade's over 2.6 million customers.

## **Asset Management**

Asset Management revenues for the quarter came in at (\$185K) as compared to \$7.8 million, the previous quarter. This revenue is derived from management and syndication fees received from the Company's series of Dawntreader II venture capital funds and from incentive royalties from hedge funds that were formerly managed by SoundView. We believe that the negative revenues are a result of the possibility of the hedge funds not performing very well.

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## Expenses

WITC reported total expenses of \$82.7 million 5% lower than the previous quarter expenses of \$ 86.8 million. However total expenses increased to 86% as a percentage of total revenues from 81.4% the previous quarter.

### Compensation and Benefits

Compensation and benefits accounted for \$55.7 million in the quarter compared to \$64.9 million the previous quarter. This represents a \$16.6% decrease prior to last quarter, however revenues decreased only 10.9%. We believe that this shows the effectiveness and benefits of the Company's incentive-based compensation. Compensation and benefits also decreased as a percentage of total revenues from 61% last quarter to 58% this quarter, representing a 300bps improvement. If we eliminate the one time non-cash charge of \$1.9 million, associated with the acceleration of options due to the resignation of former co-CEO Ron Readmond, compensation and benefits would represent 56% of total revenues.

## Strategies for Growth

### E\*Offering Acquisition

Wit SoundView has agreed to acquire competitor E\*Offering during 3Q00 subject to shareholder approval. The acquisition combines Wit SoundView's strengths in deal origination and research with E\*Offering's technology platform, product capabilities, significant presence in Silicon Valley and retail distribution channels. This acquisition will assert Wit SoundView's position as the leading internet investment banking firm. This will enhance the Company's position in its quest for deals as lead manager.

Becoming a lead manager will not only help the Company capture a bigger portion of commissions but will also give the Company more shares to distribute to its clients. In addition, as there could be an overlap with regard to personnel and marketing effort, this could be an avenue of expense reduction.

E\*Offering shareholders will receive approximately 32 million shares of Wit SoundView Group representing about 25% of Wit SoundView Group's fully diluted shares.

### Exclusive agreement with E\*Trade

As part of the acquisition agreement, the Company will also become the exclusive source for IPOs, follow-on offerings and other investment banking products for E\*Trade's over 2.6 million customers. In exchange E\*Trade will acquire the Company's approximately 100,000 retail brokerage accounts. This helps both companies concentrate resources on their respective areas of expertise. We believe this to be very positive as the Company's growth in the retail brokerage sector has not kept up with its other businesses. In addition, this gives WITC access to more than 2.6 million individual investors without having to bother with acquiring them, in effect eliminating its client (retail) acquisition costs. This increased demand for IPOs and follow-on offerings could attract issuers to WITC thus helping the Company become lead manager on more deals. All of E\*Trade's clients will have access to the Company's extensive research.

### About E\*Offering

E\*OFFERING is a California based Internet investment banking firm that uses the Internet and related technologies such as electronic mail and multimedia to deliver investment banking products to online individual investors and institutional clients. E\*OFFERING provides a range of investment banking services, including initial and follow-on public offering underwriting, private equity agency services, sales and trading, equity research and financial advisory services. E\*OFFERING is privately owned by E\*TRADE Group, Inc., General Atlantic Partners, other venture capitalists, its employees and other investors.

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## **Vostock<sup>SM</sup> - A Joint Venture with ITG**

Engineered by Wit SoundView, and leading financial technology firm Investment Technology Group, Inc. (ITG), Vostock<sup>SM</sup>, a joint venture, is an online auction engine designed to offer investors equal access, information and opportunity to participate in follow-on or secondary stock offerings.

On the Vostock<sup>SM</sup> web site, investors and visitors can view an auction in real time, tracking demand as the order book is built before their eyes. Both individual and institutional investors can compete anonymously, making bids that determine the price of the shares. We believe that this is an example of the Company's innovation and expertise in using the internet to help raise capital for its issuers. Vostock<sup>SM</sup> will not only help raise capital quickly using the internet but also more efficiently using less resources. We believe that Vostock<sup>SM</sup> will increase the transparency of secondary offerings and will give issuers the best price as individual investors become a part of the process that has traditionally been limited to the institutions and/or high net worth clients.

## **International Developments**

In May, Wit Capital Japan launched its online brokerage service, offering Japanese stock brokerage services to account holders. The Company also began providing research reports online and currently features sector and company reports on Japanese internet and technology companies. The firm grew from 50 employees in the first quarter to over 100 in the second quarter. Wit Capital Japan has decided to offer no-fee stock purchases in order to attract more customers.

Wit Capital Europe continued to build out its management team and made a series of key investment banking, research and technology hires during the quarter. Total employees number 50, which is expected to double by the end of the year. Wit Capital Europe's brokerage system is undergoing testing and is expected to be launched in the fall.

In our opinion, these international ventures represent another diversification to Wit SoundView's revenue base.

## **Industry and Competition**

The IPO market has been lack lustre in the past few months. Traditionally the third quarter is also slow. But because there have been so many postponed IPOs, we believe that the third quarter will see increased IPO activity. WITC continues to compete with online and traditional investment banks. As WITC will be looking to capture the lead manager position, established investment banks will be the main competitors. As WITC moves out of the retail brokerage sector by handing its retail accounts to E\*Trade Group, we believe that the Company will no longer be competing with online discount brokers like Ameritrade, Datek, DLJDirect and E\*Trade itself. We believe that companies like Epoch Partners and W.R. Hambrecht and Co. continue to be direct competitors to WITC as they are internet investment banks with similar models to WITC. Epoch Partners has exclusive distribution agreements with Ameritrade, Charles Schwab, and TD Waterhouse giving them direct access to more than 10 million investors. W.R. Hambrecht is an investment bank started by Bill Hambrecht originally from Hambrecht and Quist (bought by Chase). Both these companies are based in San Francisco, CA and have geographic proximity to Silicon Valley. However, with the E\*Offering acquisition Wit SoundView will have access to the same markets.

## **Key Risk Factors**

- The transition into the lead manager position may be a difficult one, in view of the competition from well-established investment banks.
- The E\*Offering acquisition may lead to overlapping personnel. Thus, we believe that WITC may need to let go of a few people and this may eat into the Company's 4Q00 earnings in the form of severance pay. The acquisition as a whole may be time consuming for management and thus reduce their investment banking revenue input in 3Q00.

- Vostock<sup>SM</sup> is scheduled to launch in the coming months. However the success of this innovative idea cannot be measured at this time and will call for some monitoring.
- WITC has not been successful in the United States with its retail discount brokerage arm and with over 70 competitors in Japan, it may be a while before we can confirm the Company's Japanese success.
- With the 2.6 million investors that WITC will be servicing through the E\*Trade alliance, the Company may not be able to secure enough shares to satisfy the tremendous demand. This will depend on the Company's success of securing the lead manager position.

## Financial Model

As WITC just broke even in 1Q00, it is difficult to apply a Price-to-Earnings ratio in its stock evaluation. WITC has a unique model which makes it difficult to use a relative peer analysis. However, we believe that a Price-to-Book or Price-to-Revenue Valuation might put it in perspective.

## Valuation

As of July 25, 2000

Company	Ticker	Price	Book Value/ share	Price/ Book	Price/ Revenue	Est EPS Current Year	P/E Current Year
<b>Wit Soundview Group</b>	<b>WITC</b>	<b>\$ 9.53</b>	<b>\$ 5.38</b>	<b>1.77</b>	<b>3.03</b>	<b>0.08</b>	<b>119.13</b>
Goldman Sachs*	GS	106.00	26.55	3.99	1.62	6.11	17.35
Morgan Stanley Dean Witter*	MWD	94.47	15.66	6.03	2.67	4.97	19.01
Donaldson, Lufkin & Jenrette	DLJ	52.81	25.95	2.04	0.77	4.82	10.95
Lehman Brothers Holdings*	LEH	121.09	51.32	2.36	0.66	10.89	11.12
	<b>Average</b>		<b>\$ 24.97</b>	<b>3.24</b>	<b>1.75</b>	<b>5.37</b>	<b>35.51</b>

Source: Bloomberg, Company Financials, and InternetFundManager.com estimates.

\* Year end November 30, 2000.

## Summary and Opinion

We believe that Wit SoundView is successfully mobilizing the capital formation process while building strong long lasting and strategic relationships. The Company's revenue growth continues to be strong while maintaining a diversified revenue base. The recent developments this quarter have strengthened the Company's position as an internet investment bank and could also help Wit SoundView become the lead manager on future deals.

However at this point we are cautious about the Company's stock price that has the highest Price-to-Revenue ratio which is difficult to justify. We believe that this number will reduce in the consecutive quarters as WITC continues to report tremendous growth in revenues.

Therefore we reiterate our short-term **HOLD** rating with a long-term **Market Perform** rating. We have a 12-month price target of **\$12**.

## Wit SoundView Group

(\$ Thousands except EPS figures)

	3/31/99	6/30/99	9/30/99	12/31/00	1999 Total	3/31/00	6/30/00	9/30/00	12/31/00	2000 Total
<b>REVENUES:</b>										
Investment banking	\$3,122.42	\$8,246.61	\$8,401.03	\$10,499.94	\$30,270.00	\$60,349.09	\$54,157.90	\$59,573.69	\$83,581.89	\$257,662.57
Brokerage	\$434.21	\$1,567.58	\$2,144.12	\$2,942.09	\$7,088.00	\$36,524.95	\$38,902.16	\$35,011.95	\$47,756.30	\$158,195.36
Asset management fees	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$7,833.03	(\$185.17)	\$1,500.00	\$1,650.00	\$10,797.86
Interest and investment income	\$191.67	\$1,176.60	\$1,807.70	\$2,575.03	\$5,751.00	\$1,819.21	\$2,828.30	\$1,131.32	\$1,468.45	\$7,247.28
Unrealized gains on investments	\$154.82	\$289.51	\$43.13	\$5,021.54	\$5,509.00	\$61.88	\$585.44	\$74.26	\$1,113.84	\$1,835.41
Other Income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$155.14)	\$0.00	\$0.00	(\$155.14)
<b>Total revenues</b>	<b>\$3,903.12</b>	<b>\$11,280.30</b>	<b>\$12,395.98</b>	<b>\$21,038.59</b>	<b>\$48,618.00</b>	<b>\$106,588.17</b>	<b>\$96,133.49</b>	<b>\$97,291.21</b>	<b>\$135,570.48</b>	<b>\$435,583.36</b>
<b>EXPENSES:</b>										
Compensation and benefits	\$6,558.13	\$8,588.46	\$9,862.40	\$14,005.02	\$39,014.00	\$64,942.36	\$55,704.77	\$54,483.08	\$78,697.88	\$253,828.09
Brokerage and clearance	\$260.63	\$1,303.60	\$1,342.80	\$2,439.97	\$5,347.00	\$6,196.71	\$6,561.75	\$5,472.95	\$8,531.69	\$26,763.10
Marketing and business development	\$212.34	\$844.75	\$193.30	\$1,343.84	\$2,594.22	\$3,047.03	\$4,574.60	\$3,815.53	\$6,556.46	\$17,993.63
Amortization of intangible assets and goodwill	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,749.40	\$4,124.10	\$3,439.78	\$17,019.73	\$27,333.01
Professional services	\$681.51	\$1,085.30	\$1,650.10	\$32.09	\$4,953.00	\$2,277.12	\$2,201.24	\$1,835.98	\$4,762.25	\$11,076.60
Data processing and communications	\$299.61	\$884.04	\$1,153.10	\$2,616.25	\$3,449.00	\$1,772.26	\$2,568.76	\$2,142.52	\$3,482.41	\$9,965.95
Write-off of computer software and equipment	\$0.00	\$0.00	\$0.00	\$0.00	\$5,565.00	\$1,339.77	\$0.00	\$0.00	\$0.00	\$1,339.77
Depreciation and amortization	\$220.50	\$278.56	\$364.97	\$745.47	\$1,609.49	\$1,275.83	\$1,501.70	\$1,252.52	\$2,701.63	\$6,731.69
Technology development	\$335.80	\$526.09	\$844.96	\$1,064.95	\$2,771.79	\$1,042.80	\$1,547.40	\$1,290.64	\$3,678.29	\$7,559.13
Occupancy	\$90.01	\$213.50	\$299.61	\$505.66	\$1,108.77	\$792.12	\$1,077.46	\$898.67	\$1,910.90	\$4,679.14
Other	\$144.78	\$353.88	\$1,751.88	\$298.29	\$2,548.83	\$1,334.29	\$2,824.84	\$2,356.11	\$3,599.31	\$10,114.55
<b>Total expenses</b>	<b>\$8,803.29</b>	<b>\$14,078.17</b>	<b>\$17,463.11</b>	<b>\$28,616.44</b>	<b>\$68,961.00</b>	<b>\$86,769.69</b>	<b>\$82,686.62</b>	<b>\$76,987.78</b>	<b>\$130,940.57</b>	<b>\$377,384.66</b>
Net income (loss) before equity in net loss of affiliates	(\$4,900.17)	(\$2,797.87)	(\$5,067.12)	(\$7,577.84)	(\$20,343.00)	\$19,818.48	\$13,446.87	\$20,303.43	\$4,629.91	\$58,198.70
Equity in net loss of affiliates	\$0.00	\$0.00	(\$24.35)	(\$535.65)	(\$560.00)	(\$1,709.69)	(\$4,481.07)	(\$5,825.39)	(\$5,242.85)	(\$17,259.00)
Net income (loss) before provision for income taxes	(\$4,900.17)	(\$2,797.87)	(\$5,091.47)	(\$8,113.50)	(\$20,903.00)	\$18,108.80	\$6,763.48	\$14,478.04	(\$612.94)	\$40,939.70
Provision for income taxes	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$10,608.17	\$6,683.39	\$10,151.72	\$2,314.96	\$29,758.23
Net income (loss)	(\$4,900.17)	(\$2,797.87)	(\$5,091.47)	(\$8,113.50)	(\$20,903.00)	\$7,500.63	\$2,282.41	\$4,326.32	(\$2,927.90)	\$11,181.47
Net income (loss) per share:										
Basic	(\$0.67)	(\$0.11)	(\$0.08)	(\$0.13)	(\$0.52)	\$0.10	\$0.03	\$0.05	(\$0.02)	\$0.09
Diluted	(\$0.67)	(\$0.11)	(\$0.08)	(\$0.13)	(\$0.52)	\$0.08	\$0.02	\$0.04	(\$0.02)	\$0.08
Weighted average shares used in the computation of net income (loss) per share:										
Basic	7,266	24,486	63,346	63,800	39,910	72,997	79,411	79,411	131,000	131,000
Diluted	7,266	24,486	63,346	63,800	39,910	98,086	98,801	98,801	135,000	135,000

Source: Company Data and InternetFundManager.com estimates

### Quarter over Quarter Growth Rates

	3/31/99	6/30/99	9/30/99	12/31/00	3/31/00	6/30/00
<b>Revenues:</b>						
<b>Investment banking</b>		62.1%	1.8%	20.0%	82.6%	-11.4%
<b>Brokerage</b>		72.3%	26.9%	27.1%	91.9%	6.1%
<b>Total revenues</b>		65.4%	9.0%	41.1%	80.3%	-10.9%
<b>Expenses:</b>						
<b>Compensation and benefits</b>		23.6%	12.9%	29.6%	78.4%	-16.6%
<b>Brokerage and clearance</b>		80.0%	2.9%	45.0%	60.6%	5.6%
<b>Marketing and business development</b>		74.9%	-337.0%	85.6%	55.9%	33.4%
<b>Professional services</b>		37.2%	34.2%	-5042.6%	98.6%	-3.4%
<b>Depreciation and amortization</b>		20.8%	23.7%	51.0%	41.6%	15.0%
<b>Technology development</b>		36.2%	37.7%	20.7%	-2.1%	32.6%
<b>Net income (loss)</b>		NM	NM	NM	NM	-228.6%
<b>Net income (loss) per share:</b>		NM	NM	NM	NM	-300.0%

### Margins (as a % of revenue)

	3/31/99	6/30/99	9/30/99	12/31/00	3/31/00	6/30/00
<b>Compensation and benefits</b>	168.0%	76.1%	79.6%	66.6%	60.9%	57.9%
<b>Brokerage and clearance</b>	6.7%	11.6%	10.8%	11.6%	5.8%	6.8%
<b>Marketing and business development</b>	5.4%	7.5%	1.6%	6.4%	2.9%	4.8%
<b>Amortization of intangible assets and goodwill</b>					2.6%	4.3%
<b>Professional services</b>	17.5%	9.6%	13.3%	0.2%	2.1%	2.3%
<b>Data processing and communications</b>	7.7%	7.8%	9.3%	12.4%	1.7%	2.7%
<b>Write-off of computer software and equipment</b>						
<b>Depreciation and amortization</b>	5.6%	2.5%	2.9%	3.5%	1.2%	1.6%
<b>Technology development</b>	8.6%	4.7%	6.8%	5.1%	1.0%	1.6%
<b>Occupancy</b>	2.3%	1.9%	2.4%	2.4%	0.7%	1.1%
<b>Other</b>	3.7%	3.1%	14.1%	1.4%	1.3%	2.9%
<b>Total expenses</b>	225.5%	124.8%	140.9%	136.0%	81.4%	86.0%

Source: Company Data and InternetFundManager estimates.