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Yahoo! Inc. (NASDAQ: YHOO)

Initiating Coverage: ACCUMULATE

August 20, 1999

KEY CONSIDERATIONS

- We project strong revenue growth rates in 1999 and through 2000. 2Q revenues increased 158% y/y to $128 million as Yahoo! continues to expand its offerings.
- We feel that a cable ISP presence can benefit Yahoo! as it can provide the more strategic broadband delivery infrastructure. However, relatively low stock price is expected to force Yahoo! to defer such a move post-millennium.
- We believe that Yahoo!'s acquisition strategy is in harmony with its focus on expanding reach and traffic and developing new technologies.
- We feel that the success of e-commerce warrants Yahoo!'s entry in this sector. At the same time we believe that a direct approach at this point may cause the company to lose its focus.
- We feel that Yahoo!'s product offerings will enable it to continue to be the leader in ease of use on the Internet. However, the challenge is to continue to advance this model, and stay ahead of its competitors.

Price 17/08/99	$163.75
52 WK Low	$43.50
52 WK High	$244.00
P/E	895.70
P/Book	51.08
P/Sales	110.01
Market Capitalization	$40.152 billion
Shares Outstanding	259.6 million
Float	103.2 million
Daily Volume (3-month Average)	9.4 million
EPS	
1Q99	0.05
2Q99E	0.08
3Q99E	0.06
4Q99E	0.07
1999E	0.25
2000E	0.53
Financials	
Current Ratio	4.63
Total Debt to Equity	0.00
LT Debt	0.00
Cash per share	

Yahoo! Inc. One-Year Price And Volume Graph

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Courtesy of Stockpoint.com

COMPANY PROFILE

Founded in 1994, Yahoo! Inc. started out as a directory listing service on the Web. Today, Yahoo! has emerged as a global Internet media company with one of the most recognized brands associated with the Internet. The company provides context based guides to on-line content, Web-search capabilities, aggregated third party content, free e-mail and calendar services, access to online communities and personalization features. Yahoo! has the distinction of being the first comprehensive on-line navigational guide to the Web, a fact that allowed it to establish its brand name and dominate two important performance benchmarks of the industry: "reach" and "traffic". Yahoo!'s main source of revenue is sponsorship and banner advertising contracts. It has partnership agreements with 1000 companies and its recent acquisitions include GeoCitites, and Broadcast.com (pending approval). Yahoo! has successfully expanded its global presence to 19 countries.

This report was prepared by David R. Rivas, Ph.D., and Nauman Khan

THE INTERNET INDUSTRY

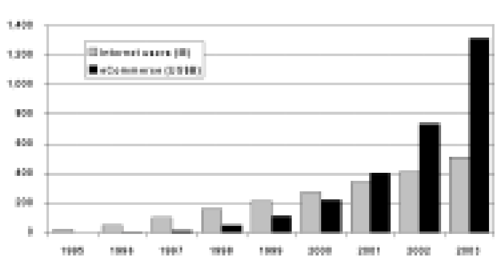
Brief Overview "Internet" has its origins dating back to 1960's when the need for a decentralized command and control communications network that can survive a nuclear attack gave birth to a whole new medium. Over the years the Internet has emerged as a graphically rich interactive multimedia distribution channel that provides convenience, resources and cost savings to its users. E-mail services allow users to exchange not only simple letters and notes but also whole "files" of different formats (text, image, spreadsheet, etc.). Chat rooms and virtual communities bring together people with common interests. Web sites maintained by people, institutions and organizations provide the level of access to resources that was not available before. The Internet's use as a "distribution channel" is cybernetic because of its ubiquitous presence. Its ability to allow buyers and sellers to deal directly with each other translates in to cost savings for both parties. Advertising and promotions on the Internet are now an integral part of the sales and marketing cycle of many companies. Major companies are now taking advantage of the "intranet" facility that allows them to maintain a parallel Internet network limited to the universe of the company. According to International Data Corporation one out of every four dollars spent on U.S. company Web initiatives in 1998 was spent on intranets, reaching $10.9 billion. Investors have been taking great interest in the Internet industry and their belief in its success is evident by the fact that over a short period of five years, the total capitalization of net related stocks in the U.S. has soared from almost nothing to approximately $700 billion (does not include Microsoft's market cap).

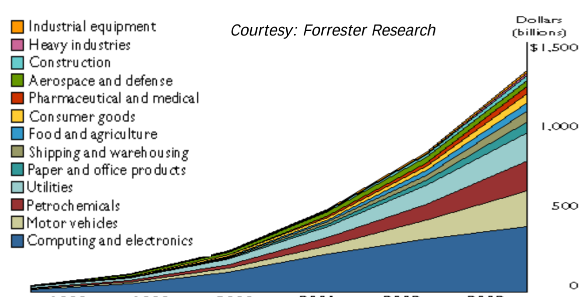
Major Sectors The four major sectors that are driving the Internet industry are described in the following table:

Sector	***Description of Entities in the sector***	***Major Brands***
1. **Access**	Companies in this sector are usually called ISP's (Internet Service Providers). They provide the basic vehicle to access (connect to) the Net.	AOL, (MSN's and AT&T's) WorldNet, GTE, @Home
2. **Content, e-commerce, e-services**	Entities in this sector usually provide original content and products/services via the Internet	
a. Portals	Entities in this sub-sector provide links to other content providers. They usually carry little original content.	Yahoo!, Excite, Lycos, Infoseek, Snap!, AOL, MSN
b. e-Commerce and e-Services	Entities in this sub-sector offer trade opportunities on the Internet and other services.	Amazon.com, e-bay, E*trade, 24/7 Media
3. **Software**	Entities in this sector provide software products that facilitate various activities on the web such as browsing the web, web hosting, listening to music, watching videos etc. In addition they also provide anti-virus, fire-wall, encryption, authentication products and web site design	Internet Explorer, Netscape, Adobe, MP3, Symantec, Check Point, Security Dynamics, Broadvision, USweb
4. **Hardware**	Companies in this sector provide the necessary equipment to establish and maintain the link with the Internet.	Ascend, Bay Networks, Cisco

Outlook The expansion of the Internet is somewhat but not strongly dependent on growth in the number of PC's in the world. Growth in global PC sales is expected to remain in a decent range of 13% to 15% annually for the next five years. This also means more growth in the number of Internet users which currently stands at around 100 million. According to the research firm Media Metrix, the total number of unique visitors to the web grew nearly 72% over the past twelve months from 53.9 million in May 1998 to 91.9 million in May 1999. The figures below show the growth in Internet users and e-commerce (total and per industry).

The Next Four Years: Competition





Courtesy: Forrester Research

THE PORTAL SECTOR

Brief Overview Millions of pages are added to the Web daily. According to a study conducted by Steve Lawrence and C. Lee Giles of NEC Research Institute, the publicly indexable Web contains approximately 2.3 million sites and 800 million pages. Sifting through this plethora of information is not an easy task. Here "search engines" come into the picture. "search engine" services allow users to find specific information on the Web. Over the years most search engines have morphed into "portals" which complement search engine services with links to popular content. The obvious utility of these sites to new users has made them very popular. In fact, leading portals like Yahoo! Excite, Infoseek and Lycos are one of the most popular brands on Internet. Attracted by the success of portals many new companies are now offering the service. According to one estimate, there are more than 200 search engines services on the net today.

Revenue Drivers Portals get the majority of their revenues from banner and sponsor ads. Internet advertisers concentrate on sites that attract the most traffic and since distribution of content will remain a dominant theme during the on going evolutionary phase of internet growth, portals will continue to benefit from this source of revenue. According to a study conducted by New Media Group of PricewaterhouseCoopers, Internet advertising revenues increased 112 percent year over year from $905.6 million in 1997 to $1.92 billion in 1998. Banner ads remained the most popular followed by sponsorship ads and pop-up ads. In the future, banner ads are expected to be replaced by TV-like full screen ads that interrupt the regular content. Another source of revenue for portals is the commission from e-commerce related activities. At present, e-commerce commissions contribute little to the overall revenues but we expect this situation to change with the forecasted expansion of the e-commerce industry.

Changing Trends The popularity of portal sites is expected to diminish over time as seasoned users are bypassing the search engines directly accessing the sites of their interest and spending more time there. Direct access to favorite sites is made easier by the "book-mark" feature offered by most internet browsers. Book marking allows users to save addresses of their favorite web sites for later direct access. For Portals, less popularity means less traffic on the site and hence less revenues. Major portals have long realized the changing trends and have quickly adapted by offering more services on their web sites such as e-mails, calendars, maps, chat rooms, virtual communities, stock quotes and news at their home sites. The added features are expected to enhance the "stickiness" of the sites (makes the user spend more time on the sites). Although this strategy seems to have benefited most portals industry analysts are still unsure of the future of portal sites. According to Lisa Allen of Forrester Research – By 2002 portals will garner only 20% of the Web Traffic.

Future of Portals The survival of companies offering portal services depends on their ability to establish a strong brand name, provide an excellent online experience and on their ability to quickly adapt to the constantly changing Internet landscape. This may mean broadening the focus and diversifying into other sectors like "e-commerce" and "access". The anticipated vertical growth in e-commerce and the availability of wireless access to handheld devices (like cell phones, pagers and palm pilots) are expected to help portals maintain their popularity and provide increasing returns. For now content is becoming more and more popular, it is the portal sites that are attracting the most traffic
(see table below).

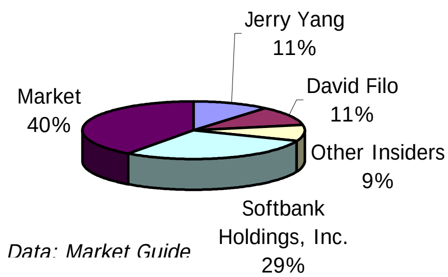
Top 10 Web Sites (August 1999)

Web Site	Unique Visitors (000)
Total Universe	*62,655*
1. Yahoo.com	32,853
2. AOL.com	29,889
3. MSN.com	22,852
4. Netscape.com	19,320
5. GeoCities.com	19,145
6. GO.com	19,064
7. Microsoft.com	15,932
8. Excite.com	15,425
9. Lycos.com	14,568
10. Angelfire.com	13,193

Courtesy: Media Metrix, Inc.

COMPANY OVERVIEW

Yahoo! Inc. Equity Ownership Chart



Data: Market Guide

Background Yahoo! Inc. (NASDAQ: YHOO) was founded in April 1994 by two Stanford students Jerry Yang and David Filo. The company went public in April 1996. Yahoo! Inc. is a global Internet media company that offers a network of branded Web programming serving millions of users daily. As the first navigational guide to the Web, www.yahoo.com is the single largest guide in terms of traffic, advertising, household and business user reach, and is one of the most recognized brands associated with the Internet. The company's web sites attracted 310 million page views per day in march 1999. Yahoo! provides targeted Internet resources and communications services for a broad range of audiences, based on demographic, key-subject and geographic interests. Yahoo! Get Local service includes Atlanta, Boston, Chicago, Los Angeles, New York, San Francisco, Seattle, Washington D.C. Yahoo! World Properties Yahoo! in Asia, Yahoo! Australia & NZ, Yahoo! Brazil, Yahoo! Canada, Yahoo! Chinese, Yahoo! Denmark, Yahoo! France, Yahoo! Germany, Yahoo! Hong Kong, Yahoo! Italy, Yahoo! Japan, Yahoo! Korea, Yahoo! Norway, Yahoo! Singapore, Yahoo! Spain, Yahoo! Spanish, Yahoo! Sweden, Yahoo! Taiwan, Yahoo! UK & Ireland. At present, Yahoo! Inc. has more than 1000 partnerships, and has made several important acquisitions; the two most recent being GeoCities and Broadcast.com. GeoCities is a leader in Web-based community sites and Broadcast.com dominates the streaming media sector on the internet. The company has 1000 employees and the chairman and CEO is Timothy Koogle. Yahoo! Inc. is headquartered in Santa Clara, California.

Products and Services Yahoo! has developed a set of proprietary database tools that it uses as its backbone in providing its Internet search capabilities. Yahoo! has developed a keyword search function, which returns relevant Web sites and category headings, which are matched to user's queries. Yahoo! supplements its directory listings with Web search results provided by Inktomi and AltaVista. In addition, Yahoo!'s principal Internet connections are provided by GlobalCenter, Inc., and its email service is provided by GTE. Companies can place merchant buttons on the Yahoo! site, which when clicked, will lead consumers to more information about the companies. Yahoo! also uses an automated system to check on established sites, and to delete any sites no longer available. Yahoo! also makes available to consumers content from leading providers, including Reuters, Zacks, The Sporting News, and Weather news, Inc. Other content includes White and Yellow pages, maps, directions, and classified advertisements. During the fourth quarter of 1998, Yahoo! extended its reach of online commerce by unveiling a new online service called Yahoo! Shopping, which helps merchants reach Yahoo!'s users.

The Business Model Yahoo! provides its content free of charge to users, and derives the majority of its revenue (about 90%) from advertising. The company is constantly trying to enhance its business model so that the heavy dependence on ad revenues is mitigated to some extent. In 1998 Yahoo! came out with the Yahoo! Online service but Yahoo!'s ISP aspirations never really took off partly because of its less aggressive ISP strategy. Yahoo! is also preparing for the broad band market and the recent acquisition of streaming media company, Broadcast.com, is a key link in this direction. Apart from advertising, other revenue sources for Yahoo! include e-commerce commissions and promotions and placement fees. Advertising consists of banner advertisements, promotional sponsorships focusing on a particular event such as a movie opening, or a sweepstakes, and merchant buttons, which link directly to a merchant. Advertising fees are based on the number of impressions viewed by users. Advertising on the internet is a very high margin business. That is why Yahoo! has gross margins in the 80 percentile. The cost of revenues primarily consist of fees paid to third parties for content included on the company's online media properties, internet connection charges, amortization of purchased technology, prize awards, equipment depreciation, and management compensation. The increase in reach and site stickiness provided by GeoCities acquisition will enhance this model.

Registered users Yahoo! has more than 65 million consumers registered on its My Yahoo service, which allows users to store a personal profile, and then have information delivered directly to them based on their profile. Yahoo! offers its registered users access to communication and community tools such as Yahoo! mail, Yahoo! pager, Yahoo! chat, Yahoo! message boards, Yahoo! clubs, Yahoo! calendars, Yahoo! address book and Yahoo! To Do lists. Other services for its registered members include Yahoo! Auctions, Yahoo! Sports, travel reservations, and stock portfolios.

Top Institutional Holders

Rank	Institutional Name	Report Date	Position
1	AMERINDO INVESTMENT ADVISORS INC	12/31/98	4,989,372
2	FIDELITY MANAGEMENT & RESEARCH CORP.	03/31/99	3,148,500
3	BARCLAYS BANK PLC	03/31/99	2,236,196
4	JANUS CAPITAL CORPORATION	03/31/99	1,895,355
5	MORGAN STANLEY DEAN WITTER & COMPANY	03/31/99	1,859,430

Source: Vicker's Institutional Ownership

Stock Splits

Date	02 September 1997	03 August 1998	08 February 1999
Split Ratio	3:2	2:1	2:1

GROWTH STRATEGIES

Building Brand Identity The “Yahoo!” brand name is perhaps the strongest asset of the company. Yahoo! has continued to promote its brand name with effective advertising strategies. The popular “Do you Yahoo!” ad campaign on television has been very successful in building brand awareness. We feel that as the net is still in its early stages of development yahoo! should follow a more aggressive advertising and promotion strategy establishing its brand name further. We feel that the company’s current policy of keeping operating costs low by not spending aggressively on advertising and promotion may effect growth of the company.

Personalization Users can personalize the presentation of information and navigational resources. This not only makes the site user-friendly, but also offers potential advertisers the opportunity to have placement within a desired category, which can be matched to their target market demographics. Yahoo! also offers users Yahoo! Get Local, which provides local information content, and can be delivered according to the users’ zip code. Other content-specific information sites are Yahooligans!, aimed at children, and Yahoo! Seniors’ Guide for older adults. We believe that the convenience provided by personalization of online content is a strong selling point and will attract new users.

International Operations Yahoo! enjoys by far the greatest success outside of the United States with the most popular sites from London to Sydney. The established Yahoo! brand has a strong advantage over the local competition. International revenues have accounted for less than 10% of net revenues during the three and six months ended June 30, 1999 and 1998. Yahoo!’s global presence in 19 countries includes recent additions of subsidiaries in Brazil, Canada, Hong Kong, Singapore, Spain, and Taiwan that were added subsequent to June 1998. Yahoo! has invested in Yahoo! Japan and has a 34% stake in the venture. The market value of Yahoo! Japan is approximately $1.7 billion.

Investing in Technology Yahoo! has developed a set of proprietary database tools that it uses as its backbone in providing its Internet search capabilities. Yahoo!’s staff updates this database as developers submit new Web sites for approval. Yahoo! also uses an automated system to check on established sites, and to delete any sites no longer available. Yahoo! has also developed a keyword search function, which returns relevant Web sites and category headings, which are matched to users’ queries. Yahoo! supplements its directory listings with Web search results provided by Inktomi. In addition, Yahoo!’s principal Internet connections are provided by GlobalCenter, Inc., and its e-mail service is provided by GTE. We believe that Yahoo! must keep up with technological advances in order to provide an excellent online experience.

Yahoo! Online In January 1998, in order to compete with the internet giant AOL, Yahoo! started offering internet access services in partnership with MCI Communications Corporation. This strategic alliance ended in September 1998 when MCI sold its internet business while merging with WorldCom. After this deal Yahoo! entered another partnership, this time with AT&T, the world's premier voice and data communications company, serving more the 90 million customers. The co-branding and distribution arrangement with AT&T provides users a Web-based online service in conjunction with dial-up Internet access provided by AT&T WorldNet Service. By subscribing to Yahoo!, Online users can have their own personal start-up page, email, chat, and free Web pages. We feel that the conventional ISP industry is increasingly facing downward pricing pressures because there are many companies offering the service . We also feel that free internet service that has been quite successful in Europe, is also a potential threat to continuing expansion of conventional ISP industry in the U.S. We feel that the future of the Internet revolves around the broadband market and this is where the growth is. Broadband means high speed and high bandwidth and can only be provided by non-conventional transmission mediums such as cable. We feel that in order for Yahoo! to succeed in the ISP business in U.S., it needs a cable internet service under its umbrella and ATHome (NASDAQ: ATHM) is definitely a suitable candidate. However, whether it is the conventional ISP business or cable based service, Yahoo! needs to become more aggressive in marketing itself as an internet service provider, with further distribution of start-up disks to make consumers aware of this offering. AOL has done a great job of saturating the market with its ubiquitous disks, which is something Yahoo! may want to consider.

Access To Non-PC Devices Yahoo is actively seeking to seed its portal to non-PC devices, including hand helds and web appliances such as web TV. The company recently announced a partnership with Online Anywhere which provides a technology called FlashMap that lets content providers reformat and repackage content for hand held computers, televisions, pagers, and internet appliances. Yahoo also has deal with PageNet to provide content, e-mail, and calendar services to PageNet subscribers.

RECENT ACQUISITIONS

Broadcast.com On July 20, 1999, Yahoo! completed its acquisition of broadcast.com Inc. ("broadcast.com"), a publicly traded Internet company and a leading aggregator and broadcaster of streaming media programming on the Web. This is Yahoo!'s largest acquisition to date, valued at around $5 billion dollars. Broadcast.com is an Internet distributor of audio and videoconferences, radio and television broadcasts, and other multimedia information. Broadcast.com also has a deal with Trimark Holdings to transmit films over the Internet. It earns almost two-thirds of its revenue from business services. Broadcast.com has not been profitable since starting up in 1995, but has had increasing revenues during this time. We believe this strategic acquisition will provide Yahoo! with the necessary infrastructure for the evolving high bandwidth market. Yahoo! will have enhanced audio and visual technology to offer to its patrons that include both net surfers and e-businesses. We expect Yahoo! to enjoy greater popularity among advertisers and content providers due to this acquisition.

GeoCities On May 28, 1999 - Yahoo! Inc. completed its acquisition of GeoCities. GeoCities is the leader in Web-based community sites. These “neighborhoods” allow users to interact with each other based on common interests. GeoCities derives part of its income from charging customers for disk space that it offers for storing web sites. GeoCities also has partnership arrangements with online advertisers, who offer users the chance to buy books, compact disks, and other merchandise. This acquisition will reportedly increase Yahoo!'s reach to more than 60 percent of online users. We believe the acquisition will help Yahoo! keep users on its sites for longer periods of time, thereby, attracting more advertisers.

Online Anywhere On June 2, 1999 - Yahoo! Inc. acquired Online Anywhere in anticipation of developing trends and changing needs of users. Online Anywhere is a leading provider of Web delivery solutions for non-PC appliances. Online Anywhere specializes in delivering online content to a wide array of non-PC devices, including TV-based Internet appliances, personal digital assistants (PDAs), and wireless devices such as pagers and data phones. We believe that this acquisition will enable Yahoo! to maintain its popularity in future.

Yoyodyne is an on-line permission-based direct marketing company. Yoyodyne's business involves substantial use of sweepstakes, contests and similar promotional events in order to solicit user registration and involvement in direct marketing relationships. Yahoo! hopes that this purchase will not only draw more customers to its site, but also encourage repeat visits. We believe the acquisition will directly boost bottom-line results.

Encompass, Inc. On May 27, 1999 - Yahoo! Inc. acquired Encompass, Inc., a market leader of software designed to give consumers easy and compelling access to the Web. Encompass' custom-designed software enables PC manufacturers to give Internet users a fully integrated, all-in-one Internet solution. Encompass currently serves the world's leading PC and PC peripheral manufacturers and ISPs, including Acer, CTX, Dell, Diamond Multimedia, Hewlett-Packard, Micron, Toshiba, Sony, AT&T, Earthlink and GTE. We believe that the Encompass acquisition is yet another attempt on the part of Yahoo! to capitalize on the growth in parallel sectors that drive the internet industry. This acquisition should open more doors for Yahoo! and add to Yahoo!'s reputation as a user-friendly site.

Acquisition History

DATE	Acquired Co.	BUSINESS DESCRIPTION	APPROX. VALUE
October 1997	Four11 Corp.	Online communications and Internet directory	$94Million
June 1998	Viaweb Inc.	Software and reporting tools for e-commerce	$48.6Million
July 1998	WebCal	Web based calendaring and scheduling	N/A
October 1998	Yoyodyne Corp.	Internet direct marketing	$30Million
December 1998	HyperParallel, Inc.	Internet direct marketing (esp. data analysis)	$8.1Million
December 1998	Starseed, Inc.	Internet technology development	$24.8Million
January 1999	Log-ME-On.com LLC	Browser technology development	$9.9Million
March 1999	Yahoo! Canada	A Yahoo! site targeted at the local market in Canada	$18Million
May 1999	Encompass Inc.	Software for all-in-one internet solution	$130Million
May 1999	GeoCities	Web based communities/Web publishing	$3.7Billion
May 1999	Online Anywhere	Web delivery solutions for non-PC appliances	$80MIllion
July 1999	Broadcast.com	Web streaming media services	$5.04 Billion

RECENT STRATEGIC ALLIANCES

Since 1994 Yahoo! has grown from a search engine to a complex functional service for more than 65 million registered users. The company is focusing on growth through strategic alliances and partnerships. Yahoo!'s partnership agreements are a coalition of advertisers, merchants, technology subcontractors and information distributors. The company has 1000 such agreements most of which are of short duration. The short duration allows Yahoo! to alter the terms of agreement with the changing industry environment.

Global Vacation Group (NYSE: GVG), one of the largest U.S. providers of value-added vacation products and services targeted to higher-income travelers, recently signed an agreement with Yahoo! to participate as the first vacation package provider on the recently launched Specials area of Yahoo!® Travel (http://travel.yahoo.com), ranked the number one online travel site by Forrester Research in June 1999.

Healtheon Corp. (NASDAQ: HLTH), a leading e-commerce provider for healthcare will provide Yahoo! users research capabilities and access to some of the most respected healthcare information on the Internet. Healtheon's services simplify the business and clinical processes of healthcare, provide more timely access to information, provide faster and more convenient service, and lead to higher quality, more affordable care. Healtheon faces very little direct competition and virtually dominates the emerging Internet healthcare transaction services market. We believe that this partnership will give Internet users another reason to visit the Yahoo! web site.

TIBCO Software (NASDAQ: TIBX) will offer corporate My Yahoo! to the corporate marketplace. TIBCO's infrastructure enables the presentation of custom Yahoo! Web solutions that integrate external and internal content for corporate clients, such as supply chain status, benefits summaries, accounts payable information and employee directories.

Telebank (NASDAQ: TBFC) will offer users of Yahoo!® Finance and My Yahoo! online access to their Telebank account information. This easy access and secure information will include Telebank savings, CDs and True.net checking account balances, as well as a transaction history. In addition, users of Yahoo! Finance and My Yahoo! will have the opportunity to open new Telebank accounts.

Autoweb.com to provide Yahoo! users direct access to Autoweb.com's (www.autoweb.com) comprehensive new and pre-owned automotive-buying service. Autoweb.com provides Yahoo! users with direct access to an extensive source of automotive content, commerce and community offerings. Yahoo!, is accelerating its position as a leading consumer automotive Internet site.

PageNet (NASDAQ:PAGE) will allow the firm's pager customers to receive Yahoo-branded information such as weather and sports on their pagers. According to PageNet, under the deal PageNet will distribute Yahoo's personalized Internet services, including personalized content, Yahoo Mail, and Yahoo Calendar on a national basis. PageNet users will be able to re route their filterable Yahoo! e-mails to their pagers.

Hewlett Packard Company (NYSE: HWP) to offer access to My Yahoo! and Yahoo! Small Business Offered on New HP OmniBook XE Notebook PCs and HP Brio PC Line and the expansion of its global distribution agreement with Hewlett-Packard. Under the new agreement, HP's Pavilion PC line will feature integrated functionality and customized Internet services from Yahoo!, when users sign-up for Internet service with AT&T Worldnet. The new HP Pavilion PC keyboard provides heightened Internet integration through seven shortcut keys giving users direct access to Yahoo! properties including Yahoo! Shopping; Yahoo! Finance; Yahoo! Mail; Yahoo! Messenger; and the HP My Yahoo! start page (hp.my.yahoo.com). The integrated functionality available from the new HP Pavilion PC keyboard gives consumers easier access to some of Yahoo!'s most popular Web content and services.

Sprint PCS (NYSE: PCS), the nation's largest PCS provider, will offer Yahoo!® Web content and services to Sprint PCS wireless subscribers using Sprint PCS phones. Sprint PCS and Yahoo! will jointly provide a range of co-branded Sprint PCS My Yahoo! services such as news features, weather, sports scores, email, calendar, address book functions and daily horoscopes to both companies' users. These features will also include hypertext links. Through Sprint PCS My Yahoo!, users can connect directly to Sprint PCS' Web site for individual Sprint PCS account information or to purchase phones and service. We believe that Yahoo!'s strong brand gives it a lot of momentum and ease for entering into alliances with key companies because most of them would also significantly benefit from Yahoo!'s traffic.

COMPETITION

Yahoo! faces competition from many different sources, such as media companies and service providers, but its chief competition comes primarily from portals like Excite, Lycos, and Infoseek. Entrance barriers to this market are low and competition is fierce. There will most likely be a shakeout in this industry, with many mergers and acquisitions taking place, leaving behind fewer, stronger companies. In its bid to become a full service provider, Yahoo! faces competition from the industry leader AOL. We believe that Yahoo! will need to continue to evolve with the marketplace to keep pace with this perpetually changing industry and that it will maintain its leadership in the portal sector only if it carefully and timely makes the right mergers/acquisitions/alliances in the future, specially with large companies.

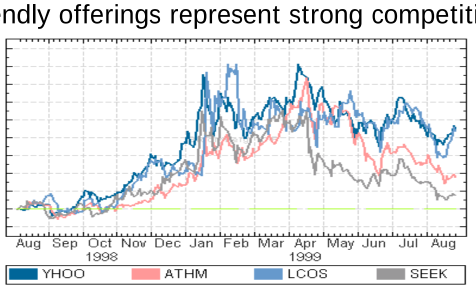
Excite@Home (NASDAQ: ATHM) acts as a search engine, gathering and providing information on its site free of charge to Internet users. It also sells advertising on its site. Excite operates Excite Networks, which includes both Excite.com and Webcrawler.com. Excite has made many important strategic agreements in the past. In January of 1998, Excite announced plans to acquire Matchlogic, Inc., an online advertising services company. Matchlogic has developed technology to measure the amount of impressions that online servers experience from online consumers. Furthermore, this year Excite and @Home merged. We believe that the combining of At Home and Excite could provide Yahoo! with a serious challenge as broadband usage becomes more popular.

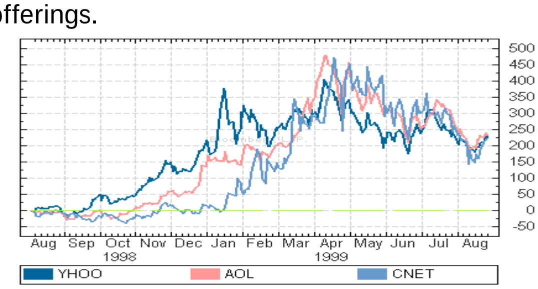
Lycos (NASDAQ: LCOS) was founded in 1995, and is now the second most popular search engine after Yahoo!. Lycos generates revenue from selling advertising on its Web site, but unlike Yahoo!, also generates revenue from licensing its technology to other companies. Lycos has Internet commerce agreements with many companies, including BarnesandNoble.com, American Greetings and CDNow. USA Networks has announced plans to buy Lycos. If this deal goes through, it could also pose a threat to Yahoo!, if USA Networks can integrate all of its different businesses. If this deal falls through, we expect Lycos to merge with or be purchased by another media company.

Infoseek (**GO Network**) (NASDAQ: SEEK) Founded in 1994, Infoseek provides search technology, content and commerce offerings, and strong customer service. Infoseek's technology is known for is ease of use, and Infoseek emphasizes customer service to provide the best service to online users. Infoseek now offers fifteen channels, which are similar to America Online's channels, and has agreements with Borders Online, Microsoft Investor and Auto-by-Tel. The Walt Disney Co. which already owns 43 percent of Infoseek 's shares, plans to merge its Buena Vista Internet Group with Infoseek Corp. by buying the remaining 57% shares. The two companies together form the GO Network. GO Network brings together original content from a number of trusted sources, including entertainment giant, ABC, kid friendly Disney, news leader ABC News, and the first site for sports ESPN, plus a number of other sites. Although Disney seems to have come late to the game, we feel that its marketing power could help it to quickly catch up with more established competitors.

SNAP NBC Internet, CNET (NASDAQ: CNET) Snap.com is run by the newly formed company NBC Internet. The new company is the result of a merger of several of NBC's key Internet assets with XOOM.com and CNET's Snap.com. For Higher-Speed Users http://speed.snap.com is an option. Snap.com's Internet portal services offer users powerful ways to organize and find things on the Internet. Looking at the mix of companies behind Snap.com, we believe this fast growing portal could make it difficult for current sector leaders to maintain their dominance.

America Online (NYSE: AOL) Founded in 1985, America Online, Inc., based in Dulles, Virginia, is the world's leader in interactive services, Web brands, Internet technologies, and e-commerce services. The Company operates two worldwide Internet services, America Online and CompuServe. The company has several leading Internet brands under its umbrella including ICQ, Digital City, Inc., the Netscape Netcenter, AOL.COM portals and the Netscape Navigator and Communicator browsers. AOL also provides Internet online services such as electronic mail, conferencing, software, computing support, interactive magazines and newspapers, and online classes. Through its acquisition of Netscape and partnerships with Sun Microsystems, AOL is also aggressively pursuing delivery of web content to wireless appliances with its AOL everywhere strategy. AOL's numerous user friendly offerings represent strong competition for Yahoo!'s offerings.





"SWOT" Analysis for Yahoo! And Its Competitors

Company	Reach*	Alliances	Strengths	Weaknesses	Opportunities	Threats
Yahoo!	•49.44% (excluding Broadcast.com reach)	•Softbank Holdings	•Great name recognition •Very user-friendly •Large market cap.(i.e.currency)	•No high-speed connection •Weak e-commerce •No media partners	•Turning users into subscribers •Ability to expand popular site	•Core (portal) business face a bleak future
Excite Network	•18.66 %	•At Home	•At Home's cable reach •Ability to deliver local content	•Needs to exploit At Home's high-speed network	•Ability to exploit high-speed lines to full advantage	•Competitors soon may be able to access cable, cutting At Home's advantage
Lycos	•31.45 %	•USA Networks •Tripod	•Access to USA's TV audience •Tripod gets repeat users	•Not considered a first rate search engine	•Licensing of search technology	•Can USA build a strong brand name for Lycos?
GO Network	•22.78 %	•Disney	•The Disney marketing machine	•Weak e-commerce	•Turning Disney fans into Infoseek fans	•Is Go too little, too late?
Snap	•10 %	•NBC	•NBC's desirable demographics	•Small penetration	•Potential for exposure through NBC's network	•Getting lost among bigger, more established players
America Online	• 55.73 %	•Netscape	•Number 1 in name recognition •Strong e-commerce from Netscape	•Lack of high-speed access •Weak home page service	•Turning Netscape's business users into AOL users	•Threat from high-speed cable providers
MSN	•35.03 %	•Microsoft •WebTV •HotMail	•Microsoft •Ability to integrate with other products	•Already has antitrust problems •Slow to offer Web services	•Cash-rich gives it the ability to do almost whatever it wants	•More Anti-trust problems •Too focused on the core software business

***% of the total internet audience (July 1999) Data: Nielsen/NetRatings*

KEY RISK FACTORS

Although the year 2000 problem may result in a temporary slowdown, beyond the millennium we maintain a positive outlook for the growth of the Internet as a whole and specifically advertising on the web. We might see a totally different face of the Internet as a result of the convergence of the Internet and television (i.e. voice, video and data) in the near future. We, therefore, feel that Yahoo! does not face any threats originating from acceptance of web as a viable medium of trade and advertising.

Threat from Intense Consolidation In The Industry Yahoo!'s competitors have been forming alliances with companies that are much larger and well established than Yahoo!. These large companies include media and entertainment giants like Disney, and NBC. As a result of these alliances Yahoo!'s competitors may have access to significantly greater financial, marketing and, in certain cases, technical resources than Yahoo!.

Reliance On Advertising Revenues The company derives 90% of its revenues from the sale of advertisements on its web pages under short term contracts. Advertising revenue is also subject to seasonal fluctuations. Historically, advertisers spend less in the first and third calendar quarters and user traffic on Yahoo! online media properties has historically been lower during the summer and during year-end vacation and holiday periods. Furthermore, increased competition may result in a downward pricing pressure on advertising contracts, even though Yahoo! has recently increased its advertising rates (which could be a seasonal increase as well).

Reliance On third parties For Key Online Services Yahoo complements its text based search results with those provided by Inktomi. Frontier GlobalCenter, Inc., provides Yahoo! with principal Internet connections and Email and other Internet service connections are provided by GTE. If Yahoo! fails to renew such agreements upon expiration, substantial additional costs to the company could result in developing or licensing replacement technology and in loss of levels of use of the company's Web site.

Risks Associated With Post Acquisition Restructuring Such risks include, among other things, the difficulty of assimilating the operations and personnel of the acquired companies, additional expenses associated with amortization of acquired intangible assets, potential off balance sheet liabilities associated with acquired businesses.

Government Regulations There are currently few laws or regulations directly applicable to access to or commerce on the Internet. Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations with respect to the Internet may be adopted covering issues, such as user privacy, copyrights, and taxation of Internet commerce. The adoption of such laws may slow down the growth of the Internet and may also cause the cost of doing business on the Internet to rise.

Year 2000 Implications Yahoo!'s future business depends on the successful operation of the Internet following the commencement of the year 2000. If the Internet is inaccessible for an appreciable period of time, or if customers and users are unable to access Yahoo!'s site, Yahoo!'s business and revenues could be materially adversely affected. The measures taken by the company to prepare for the Y2K seem to be in line with contemporary measures taken by other well established companies.

EXPLANATION OF (Pro Forma) CONSOLIDATED FINANCIALS

The recent acquisitions of GeoCities and Broadcast.com warrant restatement of the financial statements in order to correctly reflect the financial position of the company. The following discussion is based on the restated figures (see attached income statement).

Revenue Yahoo! derives the majority of its revenue from banner advertising and sponsorship agreements. The increase in revenues has come primarily from the increasing number of advertisers on the Yahoo! sites, and longer term purchases. It also receives revenue from e-commerce, although this is a small percent of current revenues. E-commerce revenues should continue to grow in the future, as Yahoo! has been working to expand this offering. Since its inception, Yahoo has succeeded in continuously increasing its revenues, although the rate of growth in revenues is slowing down (partly because of the of large numbers). In 1998, net revenues grew to $250.570 million, triple the net revenues of $84,690 million for 1997. We expect Yahoo! to see a 118% rise in revenues reaching $547.645 in 1999. Net loss per share excluding amortization of intangibles and nonrecurring expenses was $0.06 for 1998 while the expected earnings for 1999 are $0.25 per share.

Gross Profit Because Yahoo! offers a product that has very little overhead, we believe margins should continue to be among the highest in its industry. Yahoo! continues to have strong gross profit performance, with margins around 80 percent. Recent acquisitions have slightly reduced the margins but they are expected to remain in the neighborhood of 80%.

Sales and Marketing Sales and Marketing has always been Yahoo!'s largest expense, consisting of 50% of net revenues in 1998. As the intense rivalry of this segment continues, we believe that marketing expense will remain the predominant expense, however, to keep operating costs low Yahoo! has not been pursuing an aggressive S&M campaign, therefore, we do not expect this expense to rise in proportion to the revenues and remain around 40% of sales.

Research and Development Yahoo! continues to upgrade its proprietary system to further enhance its site. Research and development expenses were 20% percent of net revenues in 1998 and we expect it to grow in absolute dollars over the next few quarters. As a percentage of net revenues R&D expense should be close to 13% in 1999.

General and Administrative General and Administrative expenses are composed primarily of compensation for professional services. In 1998, these expenses were 12% of net revenues and absolute spending should increase in 1999. These expenses are expected to be approximately 10% of net revenues in 1999.

Operating Income Operating income has been positive since 3Q98. The year 1998 ended with an operating loss of 12.7 million. As Yahoo! continues to expand its offerings, operating expenses should continue to rise in terms of absolute dollars, however, we expect operating income to increase to $93 million dollars in 1999.

Net Income We expect Yahoo! to continue to show positive income flows through 1999 and 2000. As a percent of revenue, net income may experience some fluctuations due to higher marketing costs and acquisition related restructuring charges. Excluding acquisition related charges, Yahoo! showed a loss $13.7 million for 1998. However, we expect net income to grow to $121 million in 1999 not taking into account almost $100 million in acquisition related charges.

Tax Rate. Yahoo! has some loss carryforwards and research credit carryforwards that will expire starting in 2003 if they are not used. The tax burden is not expected to increase substantially in future.

Number of Shares Outstanding. Yahoo! has been issuing new shares to finance its acquisitions and partnerships (alliance with the Visa Group for Yahoo! credit card). Average number of shares outstanding in first quarter of 1998 was 197 million. This number is expected to increase 50% by the end of year 2000.

Restructuring Charges In 2Q99, Yahoo incurred nonrecurring expenses of $56.1 million relating to the GeoCities and Online Anywhere transactions. The company is expected to take a similar restructuring charge of $22 million in association with the Broadcast.com acquisition.

Dividends. Yahoo! continues to reinvest income into its business, and we believe the company will not pay dividends for the foreseeable future.

VALUATION SUMMARY

It is difficult to justify the high valuations of Internet companies using the traditional discounted cash flow model or its variants. In fact alternative models such as price to earnings or price to sales sometimes leave us with surreal figures. We believe that to value an internet company a better approach could be to look at the key metrics driving the industry and draw a comparison with the company's peer group. The key metrics for an internet company depend on its business model and sector, and may include such measures as the number of registered users or members, the number of paid subscribers, the number of accounts, the number of partnerships, the number of brands displayed on the site, traffic on the site, etc.

In the case of Yahoo!, we believe that the number of yahoo! Web pages viewed by internet users is the key metric for the company and its (portal) peer group. "Page Views" means the number of web pages that have been looked at by visitors. In our comparison we have limited our analysis to companies that are "true" portals. We have included companies like the media portal Yahoo! (YHOO), portal Excite (pre merger ticker symbol: XCIT) (all data before its merger with the cable ISP @home), media portal Lycos (LCOS), and media portal Go network (SEEK). We have excluded America Online from our valuation analysis because AOL does not come under the category of portals and has a totally different business model and key metric.

A Relative Approach to Valuation

Company	Symbol	Recent Price$	Market Cap	Price / Sales	Gross Margins	Key Metric	Price / Mthly Page Views
Yahoo	YHOO	163	40,125M	110	88%	310M Page Views/Day	3.54
Excite	XCIT**	67	7,003M	43	81%	81M Page Views/Day	2.88
Lycos	LCOS	41	4,494M	33	76%	60M Page Views/Day	2.49
Go	SEEK	28	2,574M	30	80%	45M Page Views/Day	1.91

** *All data prior to @home merger*

Although Yahoo! and its peer group share similar high gross margins, Yahoo! has been enjoying very high valuations as indicated by its relatively high price to sales multiple of 110. Following are, what we feel, some of the valid arguments both in favor and against the high valuation of Yahoo! stock.

Arguments in favor of the high valuation

- Compared to its peer group Yahoo has an extremely huge audience (235 million page views per month)
- Yahoo! is a pioneer in the organized distribution of content on the web and because of its well-established Brand name "Yahoo!" for some people is synonymous with "internet".
- Within 4 years of inception Yahoo! became profitable (an exception when it comes to most internet startups)
- The ease of use and personalization of content offered by Yahoo! is difficult to match.

Arguments against the high valuation

- Yahoo!s own search engine is not that powerful and according to one estimate covers only 6%- 7% of the web. The search engine HotBot covers up to 30 % of the web.
- Going forward, increasing competition may force the company to lower its advertising tariffs
- Most of the companies acquired by Yahoo! have unproven business models
- Unlike its peer group Yahoo! lacks direct support from a traditional media company

INVESTMENT OPINION

The Internet industry has almost unlimited potential and it still is only in its infancy, and Yahoo! has positioned itself as a key player in this ever-expanding industry. The whole internet sector has a limited operating history and it is too volatile. Internet stocks are identified with any other high risk and volatile financial instrument that carries with it the risk of suddenly deflating but at the same time has a strong upside potential. We believe that Internet stocks should be part of any diversified portfolio with appropriate weight allocation based on risk and reward preferences.

Most of the high value (i.e. high price to sales ratio and huge price to earnings multiples) Yahoo! enjoys can be attributed to the company's extremely well established brand name, and the markets confidence in the (Yahoo!) management's ability to develop and expand Yahoo! properties in step with the Internet. Yahoo! stands out from the pack as one of the few profitable Internet companies and it seems poised to take on its competitors. We feel that with a good strategy in place, the company is positioned well for future growth.

We give Yahoo! an "Accumulate" rating.

Key Metrics: August 12, 1999

Total Unique Audience	19.1 Million
Average Time Spent Per Person	31 Minutes
Sites Visited Per Person	3 Sites
Total Home Internet Usage for U.S.	9.8 Million Hours

Source: Nielsen/NetRatings

Average Time Spent Per Person (August 1999)

	Home/Work Combined	At Home Only	At Work Only
Average Usage Days Per Visitor	13.5	11.1	13.1
Average Minutes spent per Usage Day	49.8	46.0	43.3
Average Hours Spent Per Usage Month	11.2	8.5	9.5

Courtesy: Media Metrix, Inc.

Top 10 Web Properties (August 1999)

PROPERTY	REACH %	TIME PER PERSON (hr:m:sec)
1. AOL Web Sites	55.73	0:30:40
2. Yahoo!	49.44	1:08:49
3. MSN	35.03	0:57:26
4. Lycos Network	31.45	0:15:51
5. GO Network	22.78	0:22:43
6. Excite Network	18.66	0:39:40
7. Microsoft	16.56	0:21:44
8. Time Warner	14.31	0:21:44
9. Amazon	12.87	0:16:43
10. AltaVista	12.55	0:12:29

Source: Nielsen/NetRatings

Yahoo! Inc. Pro Forma Income Statement

(All figures restated to include recent acquisitioins of GeoCities and Broadcast.com)

All figures in '000 except ratios

August 22, 1999	**1998**				**1999**				**Calendar Years**		
	March	**June**	**Sept**	**Dec**	**March**	**June**	**SeptE**	**DecE**	**1998**	**1999E**	**2000E**
Revenues	37,351	49,763	74,203	89,253	104,354	128,742	135,179	179,370	250,570	547,645	790,658
Cost of Revenues[1]	10,220	12,951	15,582	17,906	21,189	26,248	28,939	40,319	56,659	116,696	147,853
Gross Income	**27,131**	**36,812**	**58,621**	**71,347**	**83,165**	**102,494**	**106,240**	**139,051**	**193,911**	**430,949**	**642,805**
Operating Expenses											
Sales and Marketing	22,979	28,582	34,207	39,785	43,876	46,903	51,711	72,046	125,553	214,535	287,088
Product Development	11,386	12,713	12,978	13,789	13,771	15,981	16,580	23,101	50,866	69,433	87,051
General and Administration	6,281	7,598	8,102	8,304	8,602	13,451	14,807	16,637	30,285	53,497	60,406
Total Operating Expenses	40,646	48,893	55,287	61,878	66,249	76,335	83,098	111,784	206,704	337,466	434,545
Operating Income	**-13,515**	**-12,081**	**3,334**	**9,469**	**16,916**	**26,159**	**23,142**	**27,267**	**-12,793**	**93,484**	**208,260**
Amort&Nonrecur. Expense*	663	15,508	2,100	8,041	14,058	78,723	3,012	3,533	26,312	99,326	22,850
Investment Income	1,681	1,848	5,209	8,343	7,535	8,550	7,570	7,210	17,081	30,865	33,952
Minority Interest Income[2]	243	112	10	-297	-325	-839	-923	-1,015	68	-3,102	-6,980
Net Income Before Taxes	**-12,254**	**-25,629**	**6,453**	**9,474**	**10,068**	**-44,853**	**26,777**	**29,929**	**-21,956**	**21,921**	**212,382**
Adjusted Net Inc. (preTax)	**-11,591**	**-10,121**	**8,553**	**17,515**	**24,126**	**33,870**	**29,789**	**33,462**	**4,356**	**121,247**	**235,232**
Tax Provsion (Benefit)	1,120	3,125	5,671	8,201	10,508	12,260	14,280	15,710	18,117	52,758	76,458
Adjusted Net Income(Loss)	**-12,711**	**-13,246**	**2,882**	**9,314**	**13,618**	**21,610**	**15,509**	**17,752**	**-13,761**	**68,489**	**158,774**

EPS

Shares Oustanding basic	197,801	205,142	237,256	248,356	252,024	258,325	264,783	271,402	220,004	271,289	297,385
Pro Forma EPS	-0.06	-0.06	0.01	0.04	0.05	0.08	0.06	0.07	-0.06	0.25	0.53

Margins

Gross Margin	72.64%	73.97%	79.00%	79.94%	79.70%	79.61%	78.59%	77.52%	77.39%	78.69%	81.30%
Operating Margin	-36.18%	-24.28%	4.49%	10.61%	16.21%	20.32%	17.12%	15.20%	-5.11%	17.07%	26.34%
Net Margin	-34.03%	-26.62%	3.88%	10.44%	13.05%	16.79%	11.47%	9.90%	-5.49%	12.51%	20.08%

% of Sales

Cost of Revenue	27.36%	26.03%	21.00%	20.06%	20.30%	20.39%	21.41%	22.48%	22.61%	21.31%	18.70%
S & M	61.52%	57.44%	46.10%	44.58%	42.05%	36.43%	38.25%	40.17%	50.11%	39.17%	36.31%
Product Development	30.48%	25.55%	17.49%	15.45%	13.20%	12.41%	12.27%	12.88%	20.30%	12.68%	11.01%
G & A	16.82%	15.27%	10.92%	9.30%	8.24%	10.45%	10.95%	9.28%	12.09%	9.77%	7.64%

Growth Rates (q/q)

Revenues		33.23%	49.11%	20.28%	16.92%	23.37%	5.00%	32.69%			
Cost of Revenues		26.72%	20.32%	14.91%	18.33%	23.88%	10.25%	39.33%			
Gross Income		35.68%	59.24%	21.71%	16.56%	23.24%	31.29%	31.29%			
Sales and Marketing		24.38%	19.68%	16.31%	10.28%	6.90%	10.25%	39.33%			
Product Development		11.65%	2.08%	6.25%	-0.13%	16.05%	3.75%	39.33%			
General and Administration		20.97%	6.63%	2.49%	3.59%	56.37%	10.08%	12.36%			

Growth Rates (y/y)

Revenues					179.39%	158.71%	82.17%	100.97%	189.56%	118.56%	44.37%
Cost of Revenues					107.33%	102.68%	85.72%	125.17%	169.46%	105.96%	26.70%
Gross Income					206.53%	178.42%	81.23%	94.89%	196.10%	122.24%	49.16%
Sales and Marketing					90.94%	64.10%	51.17%	81.09%	108.54%	70.87%	33.82%
Product Development					20.95%	25.71%	27.76%	67.53%	66.79%	36.50%	25.37%
General and Administration					36.95%	77.03%	82.76%	100.35%	46.99%	76.65%	12.91%

1 Income from net minority interests in operations of consolidated subsidiaries