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Yahoo! Inc. (NASDAQ: YHOO)

Update: Yahoo! and its sites second only to AOL - Strong Buy February 7, 2000

KEY CONSIDERATION

- Yahoo! remains a secure investment, despite the current competition.
- We project strong revenue growth rates through 2000 and until 2001 as Yahoo continues to grow in terms of product offerings and enhanced customer accessibility.
- Yahoo's sustainable advantage over other Internet Gateways would enable it to grow at a competitive rate at least for two fiscals.
- The success of Yahoo's joint venture with Kmart Corporation to create and distribute a free ISP will be crucial in its competition with AOL and Microsoft.
- Recent announcements of media mergers and other news regarding the acquisitions of MSN and consolidation of Compaq with Alta Vista might adversely effect the future growth rate of Yahoo!

Recent Price	$ 353 5/8
52WK Low	$ 55
52WK High	$ 496 1/16
P/E	1561.25
P/Book	5.94
P/Sales	156.2
Market Capitalization	93.104 B
Shares Outstanding	64.5 mil
Float	6 mil
Daily Volume (3-month Average)	N/A
EPS	
1999(Dec.)	$ 0.11
2000 (1st Q)	$ 0.08
2000 (Dec)	$ 0.26
2001(Dec)	$0.52
Current Ratio	5.66
Total Debt to Equity	0.08
LT Debt	0.07
Total Cash	$ 134.8 million

- Yahoo! and its collection of sites draw over 48 million unique visitors per month, second only to AOL.

ONE-YEAR PRICE GRAPH

COMPANY PROFILE

Yahoo! Inc. is a global Internet communications, commerce, and media company that offers a comprehensive branded network of services to more than 120 million users worldwide. As the first online navigational guide to the World Wide Web, Yahoo! reaches individual users, households, and business alike. The company's global Web network include 21 World properties. Yahoo! has offices in Europe, the Asia Pacific, Latin America, Canada, and the United States. The company is headquartered in Santa Clara, California.

This report was prepared by Jing Wang, Kinshuk Sharma and Simit Patel

THE COMPANY

Yahoo! Inc. (including its subsidiaries, "Yahoo!" or the "Company") is a global Internet media company that offers a branded network of comprehensive information, communication and shopping services to millions of users daily. As the first online navigational guide to the World Wide Web (the "Web"), www.yahoo.com is a leading guide in terms of traffic, advertising, household and business user reach, and is one of the most recognized brands associated with the Internet.

Under the Yahoo! brand, the Company provides broadcast media, personal communications, and direct services. In December 1998, Internet users viewed an average of approximately 167 million Web pages per day on Yahoo!-branded online media properties.

The Company's principal offering, yahoo.com, provides the flagship product for its global Internet media network that is the only place anyone has to go to find information, connect to anybody, or purchase anything. Yahoo! offers a comprehensive, intuitive and user-friendly online guide to Web navigation, aggregated information content, communication services, a strong user community, and commerce. Yahoo! includes a hierarchical, subject-based directory of Web sites, which enables Web users to locate and access desired information and services through hypertext links included in the directory. As of December 1998, Yahoo! organized over 1,200,000 Web site listings under the following 14 principal categories: Arts and Humanities, Business and Economy, Computers and Internet, Education, Entertainment, Government, Health, News and Media, Recreation and Sports, Reference, Regional, Science, Social Science, and Society and Culture.

The Company seeks to extend the Yahoo! brand into print and other offline media, primarily for the purpose of promoting the company and creating greater demand for its online properties. The Company continued its agreement with Ziff-Davis Publishing Company, a subsidiary of SOFTBANK, for the publication of Yahoo! Internet Life, a monthly print magazine companion to the online magazine. The Company also has entered into a multiple-book publishing arrangement with IDG Books Worldwide, Inc., a leading publisher of computer books and magazines.

The Company makes its properties available without charge to users, and generates revenue primarily through the sale of advertisements, promotions, sponsorships, merchandising and direct marketing. Advertising on domestic Yahoo! properties is sold through the Company's internal advertising sales force and advertising on international Yahoo! properties is sold through a combination of the Company's internal advertising sales force and third party agents. During 1998, approximately 3,800 customers advertised on Yahoo! properties. Although a substantial amount of advertising purchases on Yahoo! properties are for general rotation on pages within the services, the Company seeks to offer increasingly targeted properties that will deliver greater value to advertisers through more focused audiences. By developing an extended family of Yahoo!-branded properties, the Company seeks to offer advertisers a wide range of placement options.

INDUSTRY OUTLOOK

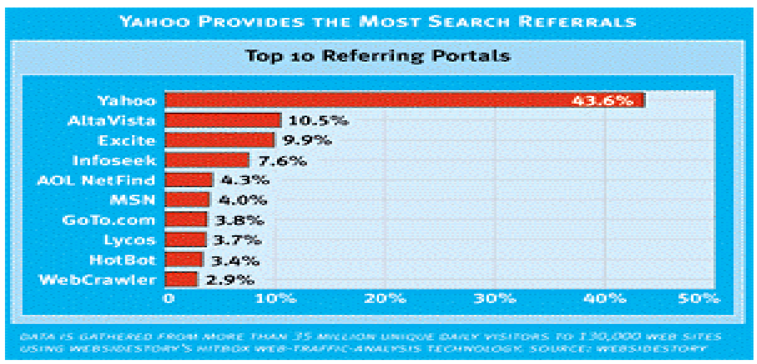
Yahoo's primary service is to function as an Internet portal, a place where web users can begin their journey on the Internet. In addition to search engines, portals provide user-friendly categorizations that allow Internet users to quickly and easily find what they are looking for. In addition to operating in the highly competitive Internet portal industry, Yahoo! also acts as a commercial and personal hosting provider, an auction site, a free Internet service provider, and a web communications company. Auctions, web hosting, Internet service providing, and portals are all particularly competitive industries, since there are very few barriers to entry. There are currently over 30 search engines and portals, and over 11,000 hosting providers in the United States alone.

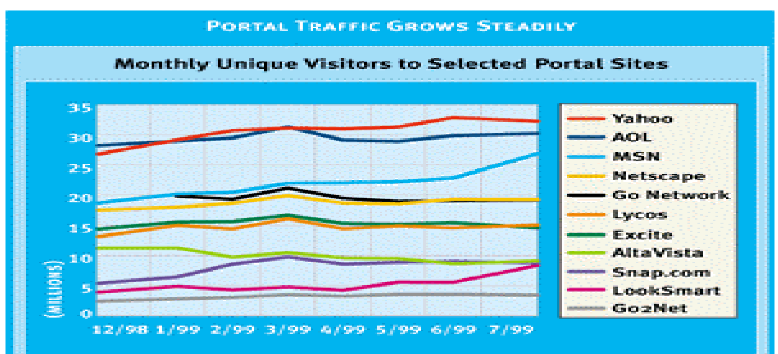
The intense competition has primarily been fueled by two factors: few barriers to entry and large demand. As the number of Internet users continues to grow exponentially, the demand for services that Yahoo!

provides – particularly that of operating as a portal by which users can enter the Internet and satisfy their needs – increases as well. Few Internet destinations lure more eyeballs or move more buyers around the web every month than portals. In spite of increased competition, most portals continue to enjoy double-digit growth rates in terms of Internet traffic. Seasoned web veterans such as MSN has led the market in terms of the traffic, but latecomers like Snap.com and the Go network have also recorded impressive growth rates. As a result, the Internet portal industry experienced a growth of approximately 10.8% in the six months between December of 1998 and July 1999. Yahoo fared exceptionally well, as it provided users with over 41% of all searches during this period.

Yahoo Inc. is one of the four original mainstream search engines turned portals, with the others being Excite, Infoseek and Lycos. The company survives in a highly competition and high growth industry namely the Internet media industry. According to an estimate there are close to seventy million people on line. This number is growing at a double-digit rate annually. By the end of the first decade of the new millennium, this number is expected to reach the one billion mark.

It is possible that aside from America Online, more Americans know the Yahoo name than any other online brand. By a comfortable margin Yahoo's network is the most visited on the Internet.





Portal Traffic Trends

Traffic		December '98 to July '99 change	
PORTAL	JULY VISITORS	VISITORS	PERCENT
Yahoo	32,266,000	+5,423,000	+20.2%
AOL.com	30,226,000	+1,971,000	+7.0%
MSN.com	26,868,000	+8,161,000	+43.6%
Netscape.com	19,284,000	+1,736,000	+9.9%
Go.com	19,176,000	-677,000	-3.4%
Lycos	15,057,000	+1,905,000	+14.5%
Excite	14,569,000	+183,000	+1.3%
AltaVista	9,091,000	-2,126,000	-19.0%
Snap.com	8,782,000	+3,396,000	+63.1%
LookSmart	8,302,000	+4,399,000	+112.7%
Go2Net	3,390,000	+988,000	+41.1%
Total Web Users	62,895,000	+6,114,000	+10.8%

DATA INCLUDES VISITORS AGES 2 OR OLDER. GO NETWORK DATA REFLECTS CHANGE FROM JANUARY. SOURCE: MEDIA METRIX, JULY 1999

COMPETITION

The industries in which Yahoo! participates are highly competitive. Due to a lack of substantial barriers to entry in these markets and the continued growth of these industries as a whole, it can be reasonably believed that competition will continue to intensify. The continued development of strong competition could have an adverse effect on Yahoo!'s business and on the trading price of its stock.

The most important and most competitive industry in which Yahoo! participates is that of Internet portals and search engines. Yahoo! competes with many other providers of online navigation, information and community services of all sizes. Besides competing in vertical markets where competitors may have advantages in terms of expertise, brand recognition, and other factors, the competition also extends in form of metasearch services and software applications that allow a user to search the databases of several directories and catalogs simultaneously. Yahoo! also competes indirectly with database vendors that offer information search and retrieval capabilities with their core database products. Many companies offer directly competitive products or services addressing Web navigation, information and community services, including, among others:

-- America Online, Inc. (NetFind);
-- Compaq/Digital Equipment Corporation (AltaVista);
-- Infoseek Corporation (including Go network);
-- Lycos, Inc. (including HotBot and Tripod);
-- Microsoft Corporation (msn.com); and
-- Netscape Communications Corporation (Netcenter).

The following table briefly compares Yahoo to its principal competitors:-

	Yahoo Yahoo.com	AOL NetFind	MSN msn.com	Compaq AltaVista.com
Brand Recognition	Highly recognized	Highly recognized	Mostly Recognized	Recognized
Ease of Use	Very easy	Very easy	Complicated	Unattractive
Comprehensiveness	Highly comprehensive	Not so comprehensive	Highly comprehensive	Comprehensive
Accessibility	Not linked to metasearch engines	Mostly to subscribers	Accessible	Very accessible

In the past several months, there have been a number of significant acquisitions and strategic plans announced among and between these companies.

These include:
-- The Walt Disney Company acquiring a significant interest in Infoseek;
-- AOL acquiring Netscape and then merging with Time Warner;
-- @Home Networks, Inc., a provider of high speed internet access serving the cable television infrastructure and the largest shareholder of which is AT&T, acquiring Excite, Inc.;
-- NBC acquiring an interest in Snap, a subsidiary of CNET;
-- USA Networks and Ticketmaster Online-Citysearch, Inc. announcing that they intend to combine their services with Lycos, Inc.; and
-- Compaq, a computer manufacturer, announcing that it intends to spin-off AltaVista into a separate independent entity through an initial public offering.

These acquisitions, if consummated, will also result in many of these companies gaining access to significantly greater marketing resources. The combination of Lycos with USA Networks and Ticketmaster Online-Citysearch, Inc.,it is believed, would permit Lycos to access significant television resources for marketing and other purposes. In addition, Infoseek and The Walt Disney Company recently entered into an agreement whereby Disney gains a significant interest in Infoseek. The parties have introduced a portal and navigation service entitled Go.com, which is supported by Disney's substantial promotional and media resources. Similarly, Snap, by virtue of its relationship with NBC, has and will continue to be supported by NBC's substantial promotional and media resources. Several large media companies, including both Time Warner, Inc. and CBS, have announced that they are contemplating Internet navigation services and are attempting to become "gateway" sites for Web users. These and other competitors are expected to continue to make substantial marketing expenditures to promote their online properties.

In addition, providers of software and other Internet products and services are incorporating search and retrieval features into their offerings. These added features could make it more difficult for Internet users to find Yahoo!'s products and services. Recently, Netscape announced an agreement with Excite under which Excite will be the most prominent navigational service within the Netcenter Web site. In the future, Netscape, Microsoft and other browser suppliers may also more tightly integrate products and services similar to Yahoo!'s into their browsers or their browsers' pre-set home pages. The pending merger between AOL and Time Warner may be particularly threatening to Yahoo!; AOL will gain access to Time Warner's cable television service, thereby allowing AOL to easily offer a high-speed connection to its customer's via Time Warner's cable infrastructure. Equally important is the fact that AOL will now gain access to Time Warner's established presence in music, television, print, and film. This development will be particularly detrimental to Yahoo's free Internet service product, which it offers via a joint venture with Kmart Corporation. Yahoo's free Internet service is a means by which the company can introduce customers that are new to the Internet to Yahoo! products and services as soon as possible, and thereby compete effectively with the other Internet portals that have become ISPs.

On the other side, however, Yahoo! will most likely benefit from the Justice Department's ongoing investigation of Microsoft in regards to whether or not the company is in violation of Antitrust statutes. The negative attention that Microsoft is receiving as a result of the investigation, in addition to the possible division of the corporation, will hinder the company from integrating its Web portal into its operating system and the company's popular web browser, Internet Explorer. Essentially, the investigation and possible division of Microsoft will allow Yahoo! to focus more of its resources on developing other aspects of its business and thus can concentrate less on maintaining its market share in the Internet portal sector.

Several companies, including Microsoft and AOL, are developing or currently offer online information services for local markets, which compete with Yahoo!'s regional online properties. As a result of its acquisition of Viaweb Inc., Yahoo! faces competition in the market for hosting online merchant stores, including companies such as iCat Corporation and Open Market, Inc. Yahoo! also faces intense competition in international markets, including from U.S. companies, media and online companies, Internet service providers and telecommunications companies that are already well established in those foreign markets, and in some cases are monopolies.

It is difficult to predict with certainty what the effects will be of the proposed merger between AOL and Time Warner or the acquisiton of Excite by @Home Networks, but it will likely increase competitive pressures on Yahoo! in several respects, including their additional access to end users and the ability to provide a more comprehensive offering to advertisers and sponsors. In addition, well-established traditional media companies may acquire, invest or otherwise establish commercial relationships with its competitors, such as NBC's recent investment in CNET's Snap service, Disney's investment in Infoseek or USA Network's and Ticketmaster Online-Citysearch's combination of their services with Lycos. These larger companies may use their substantial media resources to promote and enhance their own services. It can be adjudged that greater competition resulting from such relationships could have a material adverse effect on Yahoo!'s business, operating results, and financial condition.

In spite of the intense competition that Yahoo! faces, we feel that the company will continue to successfully compete in the industries in which it participates. Presently, the Yahoo! network of sites receives the second most number of visitors on the Web, trailing its most dangerous competitor, AOL, by approximately 10 million users a month. In spite of recent mergers and acquisitions by its competitors, Yahoo! remains well ahead of other Web companies in regards to traffic. According to Media Metrix, Yahoo! currently receives in excess of 48 million unique visitors per month – over 15 million more than competitors like Excite and Lycos. With such a firm market share and highly recognized brand, we feel that Yahoo! will successfully cope with the increasingly intense competition.

STRATEGIES FOR GROWTH

One of Yahoo's primary strategies for its future is to revise the company's revenue model. Yahoo's current model relies almost entirely on advertising. In order to increase its revenue capabilities and create a balanced and safer revenue model, Yahoo! has begun to develop an e-commerce platform. During the fourth quarter, Yahoo established itself as one of the major commerce destinations on the Web. Yahoo's users conducted more than an estimated 6.7 billion of transactions on the Internet during the fourth quarter, according to research conducted for Yahoo by InsightExpress. Yahoo! directly enables transactions through Yahoo! Shopping, Yahoo! Store and Yahoo! Auctions. Yahoo! Shopping is a consumer-focused site aggregating prominent merchants and their wares in categories ranging from books to apparel to unique gifts. As of December 1999, Yahoo! Shopping included over 7,500 stores, including Brooks Brothers, Coach, Eddie Bauer, The Gap, Guess?, Nordstrom, Patagonia, Macys, OfficeMax, Toys R Us, Victoria's Secret and Zales. Taking advantage of Yahoo! Store's technology, Yahoo! Shopping allows merchants large and small to build a commerce Web site. Consumers can compare and select items to purchase with a credit card, using the Yahoo! universal Shopping Cart and Wallet. Yahoo! Auctions enables consumers and businesses to auction items online in 12 different categories including Antiques and Collectibles, Business and Office, Computers, Home and Garden, Toys and Games, and Trading Cards. Yahoo! also facilitates transactions on a referral basis in Classifieds properties such as Autos, Real Estate and Employment. E-commerce will also allow the company to compete more effectively with its two biggest competitors, AOL and the Microsoft Network, both of whom use e-commerce in addition to advertising as a source of revenue.

Yahoo! also plans to maintain a competitive stance in the industries in which it participates by continuing to acquire key companies. For example, Yahoo! continued to expand and execute upon its Fusion Marketing Online(TM) (FMO) platform of services designed to enable clients to take advantage of Yahoo's media, direct services and communication tools to meet their marketing goals. Yahoo's acquisition of Broadcast.com will enable the company to enter the rapidly developing Internet news media and entertainment industries in the near future. In addition, its acquisition of GeoCities allowed Yahoo! immediately become a key competitor in the web hosting provider industry.

Yahoo! also plans to further develop its position in international markets outside of the United States, where competition is far less intense. The company's strategy is to successfully expand its business abroad before competitors can develop their respective business models. The success of Yahoo! in foreign markets remains to be seen, as its lack of familiarity with countries besides the United States poses an undeniable dilemma. Furthermore, Yahoo! may experience difficulty in establishing alliances in foreign markets, which may hinder the company's ability to rapidly grow and compete outside of the United States.

Yahoo! also plans to aggressively target newcomers to the Internet. Through various alliances with computer manufacturers and the development of its own free Internet service provider, Yahoo! hopes to beat both MSN and AOL in acquiring new customers. The success of Yahoo's ISP is particularly important to its strategy for growth; it is the most direct means of successfully defeating the company's key competitors.

ALLIANCES AND PARTNERSHIPS

In order to serve users more effectively and to extend the Yahoo! brand to new media properties, the Company has entered into strategic relationships with business partners who offer content, technology, and distribution capabilities. Yahoo's alliances are an integral part of the company's ability to succeed in highly competitive industries, and are also a key part of the company's strategy for growth and expansion into new industries and foreign markets.

CONTENT AND COMMERCE ALLIANCES

Yahoo! has entered into strategic alliances with selected leading providers--including Ziff-Davis, SOFTBANK, Reuters, Granite Broadcasting, Sporting News, ESPN SportsTicker, E! Online, Fox Sports, PriMedia, The Wall Street Journal, and the Motley Fool. This will permit the Company to bring Yahoo!-branded, targeted media products to market more quickly, while avoiding the cost of producing original editorial content. The majority of these alliances are non-exclusive and can be terminated at any time. As a result, Yahoo's media products lack stability.

DISTRIBUTION ALLIANCES

Yahoo!, in a joint effort with Kmart Corporation, has also launched a free Internet service provider. The primary goal of the ISP is to allow Yahoo! to target its brand name to newcomers to the Internet, and thus effectively compete with both MSN and AOL for new customers. Yahoo! promotes and distributes its new ISP primarily through Kmart stores across the United States.

In addition to its ISP, the Company has established co-promotional relationships with commercial online services, Internet access providers and operators of leading Web sites in order to expand its user base. The Company believes these arrangements are important to the promotion of Yahoo! particularly among new Web users who may first access the Web through these services or Web sites. These co-promotional arrangements typically are terminable upon short or no notice. Currently, Yahoo! has relationships with companies such as AT&T, MCI, @Home, Ameritech, and WebTV, under which these Internet access providers feature Yahoo! as a key navigational tool and engage in certain promotional activities.

LEADING WEB SITES AND BROWSERS

The Company has short-term distribution relationships with Microsoft Corporation ("Microsoft"). Microsoft and the Company have entered into an agreement under which MSN, the Microsoft Network online service, has made Yahoo! the exclusive third-party consumer-branded provider of global directory services on the MSN Premier subscription service and on MSN.com, the online service's free Web site. Yahoo!'s directory will complement the current search and directory services on MSN.

OEM'S Yahoo! has established distribution agreements with Hewlett Packard, Compaq, IBM, and Gateway whereby links to Yahoo! services will be offered on the desktop of new computers. This is another attempt by Yahoo! to promote its portal and other services to those who are new to the Internet. This is an important demographic, and one that Yahoo! must aggressively seek if it is to successfully compete with AOL and MSN.

YAHOO! ONLINE SERVICES

The Company and AT&T entered into a co-marketing and distribution agreement to launch a new co-branded, co-marketed online service. The service, Yahoo! Online powered by AT&T, is designed to provide consumers with an integrated and simple solution to easily explore the Internet with nationwide dial-up access coverage. Yahoo! and British Telecommunications plc (BT) launched Yahoo! Click, a new service combining Internet access from BT with the navigational and aggregation expertise of Yahoo! UK & Ireland (http://www.yahoo.co.uk) for Web users in the United Kingdom.

KEY RISK FACTORS

1. **Competition.** The market for Internet products and services is highly competitive. There are no substantial barriers to entry in these markets, and Yahoo! expects that competition will continue to intensify. Negative competitive developments could have a material adverse effect on Yahoo!'s business and on the trading price of its stock.

2. **Proprietary Rights.** Yahoo! regards its copyrights, trademarks, trade dress, trade secrets, and similar intellectual property as critical to its success. Yahoo! cannot guarantee that the steps Yahoo! has taken to protect its proprietary rights will be adequate.
3. **Volatile Common Stock.** Yahoo!'s stock price may fluctuate volatile in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by Yahoo! or its competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable, and news reports relating to trends in its markets.
4. **Limited Operating History.** Yahoo! Has a litmited operating history, and its its prospects are subject to the risks, expenses and uncertainties frequently encountered by young companies that operate exclusively in the new and rapidly evolving markets for Internet products and services.
5. **Increased Operating Expenses.** Yahoo! currently expects that its operating expenses will continue to increase significantly as the sales and marketing operations are expanded and Yahoo! continues to develop and extend the Yahoo! brand, fund greater levels of product development, develop and commercialize additional media properties, and acquire complementary businesses and technologies. As a result, Yahoo! may experience significant losses on a quarterly and annual basis.
6. **Seasonal Effect.** Quarterly operating results may fluctuate; advertising revenue is seasonal; reliance on short-term advertising contracts.
7. **Dependence on continued growth in use of the internet; technological change.** To the extent that the Internet continues to experience significant growth in the number of users and level of use, the Internet infrastructure may not be able to support the demands placed upon it by such growth and the performance or reliability of the Web may be adversely affected.
8. **Yahoo!'s market is still developing; unproven acceptance of Yahoo!'s products and media properties.** It is difficult for Yahoo! to predict whether, or how fast, these markets will grow.
9. **Risks associated with Brand development.** If Yahoo! is unable to provide high-quality products and services or otherwise fails to promote and maintain its brand, or if Yahoo! incurs excessive expenses in an attempt to improve its products and services or promote and maintain its brand, its business, operating results, and financial condition will be materially and adversely affected.
10. **Reliance on advertising revenues and uncertain adoption of the Web as an advertising medium.** Yahoo!'s continuing ability to generate significant advertising revenues will depend upon, among other things: advertisers' acceptance of the Web as an effective and sustainable advertising medium; the development of a large base of users of its services possessing demographic characteristics attractive to advertisers; and its ability to continue to develop and update effective advertising delivery and measurement systems. Failure to sustain or increase current advertising sales levels will have a material adverse effect on its business, operating results, and financial position.
11. **Yahoo! depends substantially upon third parties** for several critical elements of its business including, among others, technology and infrastructure, content development, and distribution activities.
12. **Yahoo! may not be able to successfully enhance its properties or develop new properties.** If so, its business, results of operations, and financial condition could be adversely affected.
13. **Risks of Equity Investment in Other Companies.** Yahoo! intends to continue to make significant additional investments in other companies in the future. Losses resulting from such investments could have a material adverse effect on its operating results.
14. **Management of Potential Growth.** Yahoo!'s recent growth has placed a significant strain on its managerial, operational, and financial resources. Any inability to effectively manage growth could have a material adverse effect on its business, operating results, and financial condition.
15. **Risks Related to the Geocities Merger.** The market price of Yahoo! common stock could decline as a result of the Geocities merger if the integration of Yahoo! and GeoCities is unsuccessful; the combined company does not achieve the perceived benefits of the merger as rapidly or to the extent anticipated by financial analysts; or the effect of the merger on the combined company financial results is not consistent with the expectations of financial analysts.
16. **Risks of capacity constraints and systems failures.** Yahoo! is dependent on its ability to effectively serve a high volume of use of its online media properties. Accordingly, the performance of its online media properties is critical to its reputation, its ability to attract advertisers to its Web sites, and to

achieve market acceptance of its products and media properties. Any inability to do so may affect the goodwill of users of these services, or negatively affect its brand and reputation.

17. **Dependence on key personnel.** If Yahoo! does not succeed in attracting new personnel, or retaining and motivating existing personnel, its business will be adversely affected.
18. **Government regulation and legal uncertainties.** 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 laws and regulations may be adopted, covering issues such as user privacy, defamation, pricing, taxation, content regulation, quality of products and services, and intellectual property ownership and infringement. Such legislation could expose Yahoo! to substantial liability. Such legislation could also dampen the growth in use of the Web, decrease the acceptance of the Web as a communications and commercial medium, or require Yahoo! to incur significant expense in complying with any new regulations.
19. **Liability for the company's services.** Yahoo! hosts a wide variety of information, community, communications and commerce services that enable individuals to exchange information, generate content, conduct business and engage in various online activities. The laws relating to the liability of providers of these online services for activities of their users is currently unsettled. Claims could be made against Yahoo! for defamation, negligence, copyright or trademark infringement, personal injury or other theories based on the nature and content of information that may be posted online by its users.
20. **Potential commerce-related liabilities and expenses.** As part of its business, Yahoo! enters into agreements with sponsors, content providers, service providers, and merchants under which Yahoo! is entitled to receive a share of revenue from the purchase of goods and services by users of its online properties. Such arrangements may expose Yahoo! to additional legal risks and uncertainties, including potential liabilities to consumers of such products and services.
21. **Year 2000 implications.**
22. **Risks associated with international operations and expansion.** A key part of its strategy is to develop Yahoo!-branded online properties in international markets. To date, Yahoo! has only limited experience in developing localized versions of its products and marketing and operating its products and services internationally, therefore, Yahoo! may not be successful in foreign markets.
23. **Concentration of stock ownership.** As of December 31, 1998, Yahoo!'s directors and executive officers, and their affiliates beneficially owned approximately 57% of the outstanding stock. As a result of their ownership, the directors, executive officers, and significant shareholders (including SOFTBANK) collectively are able to control all matters requiring shareholder approval.
24. **Anti-takeover effect of certain charter provisions.** Yahoo!'s board of directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions. The rights of the holders of common stock may be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change of control of the Company without further action by the shareholders and may adversely affect the voting and other rights of the holders of common stock.
25. **Shares eligible for future sale.** An estimated number of 2,570,000 shares recently issued in connection with acquisitions and investments have been available for resale pursuant to registration statements previously filed by Yahoo! with the Commission. Sales of substantial amounts of such shares in the public market or the prospect of such sales could adversely affect the market price of its common stock.

FINANCIALS

See attached Consolidated Statements of Operations.

Net Revenue. Net revenues were $203.3 million, $70.5 million, and $21.5 million for the years ended December 31, 1998, 1997, and 1996, respectively. The increases from year to year are due primarily to the increasing number of advertisers purchasing space on the Company's online media properties as well as larger and longer-term purchases by certain advertisers. Approximately 3,800 customers advertised on the

Company's online media properties during 1998 as compared to approximately 2,600 and 700 in 1997 and 1996, respectively. There can be no assurance that customers will continue to purchase advertising on the Company's Web pages, that advertisers will not make smaller and shorter term purchases, or that market prices for Web-based advertising will not decrease due to competitive or other factors. Additionally, while the Company has experienced high revenue growth rate of 227.84% and 188.53% in 1997 and 1998, respectively, management does not believe that this level of revenue growth will be sustained in future periods. **We expect Yahoo! to see a 120% rise in revenues reaching $447,194 in 1999, and a 99% rise reaching $889,196 in 2000.**

Gross Profit. The cost of revenues of Yahoo! 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 compensation. The Company anticipates that its content and Internet connection expenses will increase with the quantity and quality of content available on Yahoo! online media properties, and increased usage of these properties. However, we believe that the gross margin should still be very high, since Yahoo! offers the products and services with very little overhead and cost of goods sold. **We anticipate that the gross profit will be in the neighborhood of 87% and 85% of the net revenue in 1999 and 2000,** respectively. However, anticipated spending levels may vary as a result of acquisitions and future business combinations.

Research and Development. Research and development expenses were $22.7 million, or 11% of net revenues for the year ended December 31, 1998 compared to $12.1 million and $5.7 million, or 17% and 27% of net revenues for the years ended December 31, 1997 and 1996, respectively. Because significant investments in product development are required to remain competitive, we expect the increased product development expenditures in absolute dollars in future periods. As a percentage of net revenues, we believe that the **research and development expenses will be closed to 12% and 10% during 1999 and 2000,** respectively.

Sales and Marketing Margin. Sales and marketing expenses were $92.4 million, $45.8 million and $16.2 million for the year ended December 31, 1998, 1997 and 1996, or 45%, 65% and 75%of net revenues, respectively. The Company anticipates that sales and marketing expenses in absolute dollars will increase in future periods as it continues to pursue an aggressive brand-building strategy through advertising and distribution, continues to expand its international operations, and continues to build its global direct sales organization. As a percentage of net revenues, we can see clearly a decreasing trend during 1996, 1997 and 1998. We believe that **sales and marketing expenses will be around 43% and 40% of sales for 1999 and 2000 respectively.**

General and Administrative Margin. General and administrative expenses consist primarily of compensation and fees for professional services. These expenses were $11.2 million, or 6% of net revenues for the year ended December 31, 1998 compared to $7.4 million and $5.8 million, or 10% and 27% of net revenues for the years ended December 31, 1997 and 1996, respectively. The absolute dollar level of these expenses will increase in future periods, as a result of an increase in personnel and increased fees for professional services. As a percentage of net revenues**, general and administrative expenses will approximate 5% and 4% during 1999 and 2000, respectively.**

Operating Income. Operating income of Yahoo! was first time positive in 1998. We expect that its operating income will increase **to 118 million and 273 million in** 1999 and 2000, respectively.

Net Income. Yahoo! recorded net income of $25.6 million or $0.11 per share diluted for the year ended December 31,1998 compared to net losses of $25.5 million and $6.4 million, or $0.15, and $0.04 per share diluted for the years ended December 31, 1997 and 1996, respectively. We expect net income to grow to **$145 million in 1999**.

VALUATION

In the valuation of Internet companies, it is impractical to use the traditional discounted cash flow model, instead, the Comparative Analysis is more suitable and accurate for them. In the case of Yahoo! and its peer portals, we believe that page views per day is a key metric in the analysis. The following is the Comparative Analysis Table for Yahoo!, Excite, Lycos and Infoseek.

Company	Symbol	Recent Price $	Market Cap (million)	Price/ Sales	Gross Margin	Page Views/day	Price/daily Page Views
Yahoo	**YHOO**	**353.00**	**92,923.72**	**158.80**	**86.84**	**310m**	**299.75**
Excite	XCIT	126.00	6,946.00	34.23	81.51	81m	85.75
Lycos	LCOS	73.50	7,466.72	39.39	78.95	70m	106.67
Infoseek	SEEK	33.25	2,079.99	14.04	43.16	52m	40.00
Average				**61.62**	**72.70**	**128m**	**133.04**

Margins. Yahoo! has the highest Gross Margin at 86.84. among its main competitors listed on the table above. The higher the gross margin of an internet company, the easier it is for it to become profitable. In the case of Yahoo!, a high gross margin means high potential to strengthen its ability to make profit and large resources to implement its S&M campaign and brand strategy. Historically, its Gross Margin has been in the range of 78-87% with an uprising trend during the past three years. We expect it to stay around 85 over fiscal years 1999 and 2000.

Price to Sales. In comparison with its competitors, Yahoo! has the highest P/S ratio of 158.80 which is much higher than those of its peer portals.

Price/daily Page Views. Yahoo! also has the highest Price/ daily page views of 299.75, compared with other portals.

The highest Price to Sales Ratio and Price to Daily Page Views Ratio indicate a high valuation of Yahoo!. We believe that the high valuation can be justified by its high gross margin and Page Views Per Day. In addition, thanks to its first mover advantage, Yahoo!'s brand recognition is much higher than any other portals. On the other hand, the key risks that discussed in the early part of the report might undermine the high valuation, such as the increasing competition and unproven business models of the newly-acquired companies.

INVESTMENT OPINION
Yahoo!, as a key player in the young internet industry, has a very bright future. Its gross margin, operating margin and net margin showed an uprising trend during the past three years, and it started to become profitable in 1998. In addition, its extremely well established brand, capable management team, aggressive business strategies ensured its leader position among the portals and in the internet industry, thereby, strengthened the market confidence in its stock. We believe that Yahoo!'s stock price will continue to rise in the long term.
We give Yahoo! a short-term BUY rating and a long-term STRONG BUY rating of 7.9.

Yahoo! Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
	YEAR ENDED DECEMBER 31,				
	1996A	1997A	1998A	1999E	2000E
Net revenues	$ 21,490	$ 70,450	$203,270	$ 447,194	$ 889,916
Cost of revenues	$ 4,722	$ 10,885	$ 26,742	$ 58,135	$ 133,487
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Gross profit	$ 16,768	$ 59,565	$176,528	$ 389,059	$ 756,429
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Operating expenses:					
Sales and marketing	$ 16,168	$ 45,778	$ 92,380	$192,293.42	$355,966.42
Product development	$ 5,700	$ 12,082	$ 22,742	$ 53,663.28	$ 88,991.61
General and administrative	$ 5,834	$ 7,392	$ 11,210	$ 22,359.70	$ 35,596.64
Amortization of intangibles	$ -	$ -	$ 2,028	$ 2,028	$ 2,028
Other--non-recurring costs	$ -	$ 25,095	$ 19,400	$ -	$ -
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Total operating expenses	$ 27,702	$ 90,347	$147,760	$ 270,344	$ 482,583
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Income (loss) from operations	$ (10,934)	$ (30,782)	$ 28,768	$ 118,714	$ 273,846
Investment income, net	$ 3,967	$ 4,535	$ 14,579	$ 25,951	$ 46,192
minority interests in operations of consolidated subsidiaries	$ 540	$ 727	$ 68		
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Income (loss) before income taxes	$ (6,427)	$ (25,520)	$ 43,415	$ 144,665	$ 320,038
Provision for income taxes	$ -	$ -	$ 17,827	$ 59,313	$ 131,216
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Net income (loss)	$ (6,427)	$ (25,520)	$ 25,588	$ 85,352	$ 188,822
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Net income (loss) per share-basic	$ (0.04)	$ (0.15)	$ 0.14	$ 0.31	$ 0.63
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Net income (loss) per share-diluted	$ (0.04)	$ (0.15)	$ 0.11	$ 0.26	$ 0.52
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Shares used in per share calculation-basic			157,300	174,672	184,060	271,289	297,385
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Shares used in per share calculation-diluted			157,300	174,672	224,100	330,973	362,810
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Margin Analysis (% of revenue)							
Gross Margin			78.03%	84.55%	86.84%	87%	85%
Sales & marketing			75.23%	64.98%	45.45%	43%	40%
General & administrative			27.15%	10.49%	5.51%	5%	4%
Research & Development			26.52%	17.15%	11.19%	12%	10%
Operating margin			-50.88%	-43.69%	14.15%	27%	31%
Net margin			-29.91%	-36.22%	12.59%	19%	21%
Growth							
Total revenue				227.83%	188.53%	120.00%	99.00%
Gross profit				255.23%	196.36%		
Operating expense				226.14%	63.55%		
Operating income				-181.53%	193.46%		
Net income				-297.07%	200.27%		
Fully diluted EPS				-257.58%	178.15%		