

E - FINANCE



It's time to put up or shut up.

By Peter L. Martin

After attending a recent industry trade show, we came away with several observations, which, I believe, are truly relevant to the investment merits of this industry. Below, we summarize:

Modularization is in vogue. It's becoming apparent that an LMS isn't the only point of entry for an e-learning initiative. By breaking products into modules, providers can sell to a customer's pain point, which can be addressed through collaboration technology or learning content management. That also should provide future up-sell opportunities for providers that offer a number of different modules.

Collaboration is the next target. Last March, we highlighted the LCMS sector as an upcoming area of consolidation, which has, in fact, occurred. We believe that the acquisition spotlight will now expand to include collaboration or virtual classroom solutions. We think the fear of Microsoft's next move with NetMeeting and valuations are the reasons the dam hasn't broken sooner.

Performance management is the module of the future. We believe that with the LMS, authoring, collaboration, and now knowledge management (LCMS) offerings established in the marketplace, performance management will

be *the* module. We think integration, strategic planning, and benchmarking data will lead to strong demand for that product from the *Fortune 2000*.

Wireless distribution should be marketed 12 months from now. Due to the economic environment, many companies have toned down their e-learning wish lists, which included expensive initiatives such as wireless delivery. Current products are able to deliver limited content with little or no interaction, which doesn't create a compelling learning option, in our opinion. Once bandwidth and usability issues are resolved, however, we believe wireless distribution will garner traction due to the appeal of learning

anytime, anywhere—as well as the productivity enhancements.

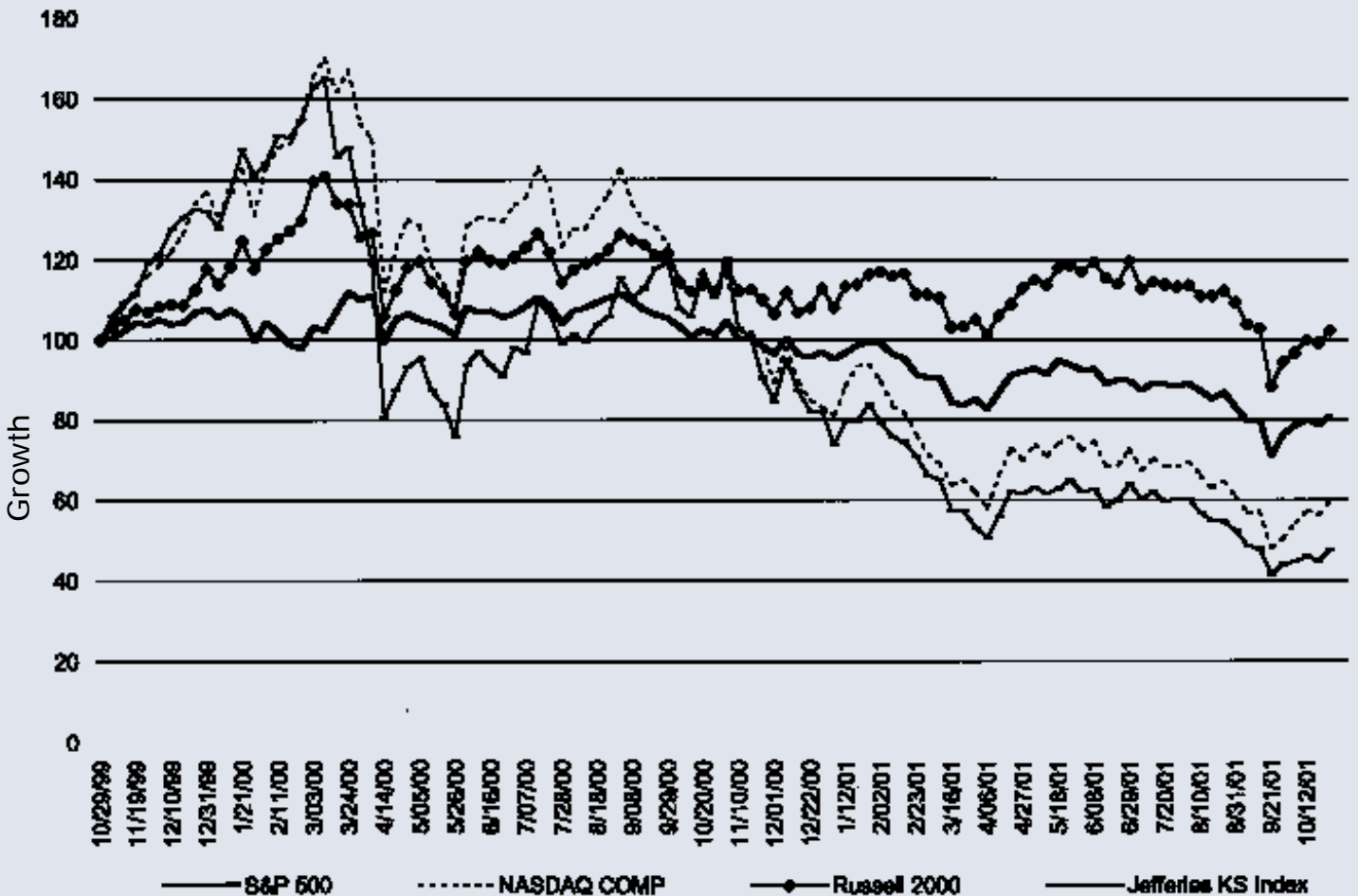
English as a second language is beginning to percolate. We believe the ESL online market will begin heating up in the next 12 to 24 months. In our opinion, ESL products are viable due to the global nature of business and will eventually gain traction with corporations and individual buyers.

What continues to catch our eye is the spin as opposed to the substance of solutions that vendors continue to push on potential customers. We believe that most suppliers are going to continue to have real trouble generating sales in a declining economy because of their inability to succinctly and specifically

differentiate their technological advantage, which is what clearly and quickly translates to saving money and increasing competitive advantage.

We understand that the economy is slow, but we think companies are using that as a crutch. Companies that can communicate a solution that a customer can use and really needs today have been successful. Too many businesses are selling “me too” technology within a product line that's too thin due to capital constraints or plain lack of vision.

This month, we unveil a new performance table to help differentiate our chosen corporate sector by niche. This should help readers better understand



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Company <i>eLearning</i>	Ticker	Price	52 Week		Mkt	3-Mon Avg
		10/31	High	Low	Cap (mm)	Trdg Vol
Infrastructure Software and Service						
Click2learn.com	CLKS	\$3.48	\$18.25	\$1.00	\$69.18	67,018
Docent	DCNT	\$1.75	\$27.13	\$1.48	\$68.09	184,855
RWD Technologies	RWDT	\$2.20	\$7.47	\$1.70	\$37.76	12,019
Saba Software Systems	SABA	\$2.81	\$25.88	\$1.52	\$95.29	714,381
Vcampus Corp.	VCMP	\$0.43	\$2.75	\$0.36	\$6.39	15,905
				Average	\$55.34	198,835
Content Providers						
DigitalThink	DTHK	\$8.28	\$36.38	\$5.34	\$260.35	322,479
Dow Jones & Company	DJ	\$45.00	\$64.30	\$43.05	\$2,891.86	325,744
FactSet Research Systems	FDS	\$24.75	\$47.49	\$17.80	\$823.45	195,745
John Wiley & Sons	JWa	\$20.20	\$23.89	\$17.90	\$1,003.06	47,071
ProsoftTraining.com	POSO	\$0.44	\$15.00	\$0.29	\$9.71	157,890
Skillssoft Corp.	SKIL	\$22.95	\$38.94	\$11.75	\$343.92	214,450
SmartForce Public Ltd. Co.	SMTF	\$16.46	\$53.13	\$13.40	\$897.96	1,745,077
				Average	\$890.05	429,779
Collaboration and Communication						
Act Teleconferencing	ACTT	\$9.57	\$11.35	\$3.89	\$62.18	90,781
Centra Software	CTRA	\$5.27	\$17.14	\$2.75	\$127.18	569,766
Eloquent	ELOQ	\$0.60	\$3.38	\$0.45	\$10.19	36,158
Genesys	GNSY	\$7.17	\$15.29	\$4.55	\$195.91	24,645
Mentergy	MNTE	\$0.64	\$5.50	\$0.23	\$9.47	45,040
Nuance Communications	NUAN	\$8.07	\$120.00	\$5.65	\$264.97	669,055
Polycom	PLCM	\$29.98	\$67.75	\$10.75	\$2,369.83	2,546,073
Raindance Communications	RNDC	\$5.35	\$5.03	\$0.74	\$211.03	712,966
Speechworks International	SPWX	\$7.50	\$99.50	\$4.10	\$216.68	371,790
WebEx	WEBX	\$30.80	\$50.75	\$5.06	\$1,240.97	1,357,776
Wire One Technologies	WONE	\$9.35	\$10.31	\$1.44	\$182.27	233,127
				Average	\$444.61	605,198
Content Management						
Actuate Corp.	ACTU	\$4.15	\$36.31	\$2.80	\$246.47	625,327
Adobe Systems	ADBE	\$26.40	\$87.31	\$22.20	\$6,819.27	4,336,624
Broadvision	BVSN	\$2.04	\$37.13	\$0.68	\$526.51	5,258,218
Documentum	DCTM	\$14.77	\$63.88	\$5.88	\$551.07	542,594
Imanage	IMAN	\$4.37	\$8.50	\$1.50	\$104.62	67,231
Innodata	INOD	\$3.45	\$9.25	\$1.26	\$67.42	70,894
Insightful Corporation	IFUL	\$2.73	\$4.44	\$1.25	\$28.90	36,829
Interwoven	IWOV	\$7.31	\$59.31	\$3.11	\$729.09	3,171,864
Macromedia	MACR	\$14.96	\$84.63	\$11.30	\$888.04	651,571
Stellent	STEL	\$20.50	\$64.00	\$13.24	\$448.33	436,744
Vignette Corp.	VIGN	\$4.68	\$34.19	\$3.08	\$1,168.41	4,581,918
				Average	\$1,052.56	1,798,165
Instructor Led Training						
Corporate Executive Board	EXBD	\$30.57	\$46.75	\$22.85	\$1,074.09	485,945
Learning Tree International	LTRE	\$21.04	\$59.75	\$14.50	\$408.68	159,210
New Horizons Worldwide	NEWH	\$10.50	\$18.70	\$8.30	\$101.82	20,371
Provant	POVT	\$0.61	\$7.94	\$0.32	\$12.43	119,690
				Average	\$399.26	196,304
Average Corporate Education Companies					\$646.65	821,706

Return (%)				
1-Mon	3-Mon	6-Mon	12-Mon	YTD
33.5	6.8	74.4	-76.9	-64.4
-22.2	-73.8	-68.7	NA	-81.6
29.3	-27.4	-29.6	-64.7	-19.3
1.0	-84.2	-75.0	-90.9	-87.3
-19.6	-71.2	-77.4	-78.2	-46.7
4.4	-50.0	-35.3	-77.7	-59.9
-4.7	-49.9	-14.0	-78.3	-56.8
-1.6	-21.2	-17.6	-24.0	-21.0
2.2	-24.7	-30.2	-31.1	-33.1
-2.8	-0.2	8.8	0.2	-5.6
-35.9	-66.9	-86.6	-94.2	-96.6
32.2	-37.0	-23.1	20.3	12.6
-1.5	-53.6	-55.2	-66.2	-57.1
-1.7	-36.2	-31.1	-39.0	-36.8
20.5	141.0	65.0	31.1	40.4
-40.9	-68.8	-44.9	-2.5	30.6
-37.5	-43.3	-38.9	-78.0	-69.7
4.4	3.7	-36.4	NA	NA
136.4	36.8	-48.7	-83.6	-61.0
24.2	-40.2	-37.0	-90.1	-81.3
16.4	11.0	22.1	-53.7	-11.9
107.4	261.3	168.3	-0.4	156.0
36.9	-39.5	-47.7	-91.2	-86.2
48.5	28.8	163.7	-29.3	51.1
39.1	49.1	192.1	-15.5	86.3
32.3	30.9	32.5	-41.3	5.4
-1.9	-60.1	-67.1	-83.4	-78.5
19.9	-29.1	-36.0	-58.7	-50.6
107.7	-41.7	-70.4	-93.1	-84.0
78.0	-5.3	-2.6	-65.8	-70.7
11.5	2.5	58.7	15.1	-2.2
57.5	-13.0	-62.3	20.7	-42.7
12.6	-2.9	21.8	17.5	68.2
82.4	-31.2	-51.9	-84.9	-78.6
26.8	-9.9	-32.3	-79.7	-74.7
39.1	-19.0	-39.4	-51.1	-60.7
33.6	-40.3	-29.4	-82.4	-73.7
42.5	-22.7	-28.3	-49.6	-49.9
18.5	-26.3	-7.0	-32.8	-22.3
4.6	-6.8	0.6	-49.4	-57.1
-13.2	-28.6	-31.7	-27.8	-27.9
50.0	-67.4	-81.5	-91.3	-86.7
15.0	-32.3	-29.9	-50.3	-48.5
23.5	-14.3	-12.3	-48.5	-33.6

Once bandwidth and usability issues are resolved, wireless distribution will garner traction due to the appeal of learning anytime, anywhere.

the movements in the group. October performance went as expected except for the out-performance in the content management segment due to short covering (investors buying back stock after selling it hoping the stock would fall) following earnings reports. The collaboration sector rose 32 percent on the potential strong demand for its services.

Centra being down 41 percent after a poor earnings report for 3Q01 mitigated the group's strong performance. Overall, the industry rose 15 percent in October, which was in line with the NASDAQ. Further insight into this month's performance shows that the strength of the collaboration segment and short covering were easily able to offset the minimal pressure from tax-loss selling by the institutions. Tax-loss selling is when institutions purge poor-performing stocks to offset any gains they've had during the year—to prevent taxable events for their shareholders.

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