

# E - FINANCE



## Going Inside the Numbers

By Peter L. Martin

At press time, the three most prominent public e-learning infrastructure players—Click2learn, Docent, and Saba—had reported earnings for the fourth-quarter calendar period. We thought it would be interesting to go inside those quarterly numbers to evaluate where those players stand.

The table on page 80 shows several metrics that we use to evaluate the performance, trends, and prospects of public e-learning infrastructure stocks. Looking at the numbers, Click2learn (CLKS) has (surprisingly) outperformed its competition during these difficult economic times by growing its platform

business by about 97 percent year after year. With US\$7.4 million in license revenue for Q4, Click2learn is the leader in the e-learning infrastructure market in terms of total revenue. For about the same time period (November 2000 to November 2001), Saba's license revenue grew 19 percent to \$6.8 million. We should note that Saba's results include the impact of September 11, as well as the draw down of deferred revenue, which constituted more than half of license revenue in the quarter. That change was pursuant to a contract methodology shift announced by Saba in September 2001.

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Company	Ticker	Price	52 Week		Mkt	3-Mon Avg
		2/1	High	Low	Cap (mm)	Trdg Vol
<b>Infrastructure Software and Service</b>						
Click2learn.com	CLKS	\$2.82	\$5.13	\$1.00	\$67.74	212,421
Docent	DCNT	\$2.66	\$12.25	\$1.48	\$127.07	355,638
RWD Technologies	RWDT	\$2.40	\$5.25	\$1.70	\$37.33	27,705
Saba Software Systems	SABA	\$4.62	\$16.41	\$1.52	\$206.49	483,002
Vcampus Corp.	VCMP	\$0.52	\$2.25	\$0.21	\$7.58	28,952
				<b>Average</b>	<b>\$89.24</b>	<b>221,543</b>
<b>Content Providers</b>						
DigitalThink	DTHK	\$7.03	\$15.20	\$5.34	\$284.69	295,557
Dow Jones & Company	DJ	\$51.35	\$64.30	\$43.05	\$3,313.04	324,762
FactSet Research Systems	FDS	\$37.92	\$47.49	\$17.80	\$1,295.87	144,902
John Wiley & Sons	JWa	\$22.33	\$24.10	\$17.90	\$1,136.32	54,541
ProsoftTraining.com	POSO	\$1.40	\$14.75	\$0.29	\$38.19	134,343
Skillsoft Corp.	SKIL	\$24.89	\$38.94	\$13.63	\$391.74	175,613
SmartForce Public	SMTF	\$17.21	\$45.25	\$13.40	\$988.10	1,320,646
				<b>Average</b>	<b>\$1,063.99</b>	<b>350,052</b>
<b>Collaboration and Communication</b>						
Act Teleconferencing	ACTT	\$6.00	\$11.97	\$3.89	\$53.88	100,608
Centra Software	CTRA	\$7.23	\$17.14	\$4.51	\$182.72	377,916
Eloquent	ELOQ	\$0.75	\$1.60	\$0.45	\$14.62	52,270
Genesys	GNSY	\$5.58	\$15.29	\$4.55	\$147.40	36,867
Mentergy	MNTE	\$2.26	\$14.75	\$0.92	\$7.37	7,125
Nuance Communications	NUAN	\$8.30	\$43.00	\$5.65	\$259.43	527,697
Polycom	PLCM	\$35.35	\$42.60	\$10.75	\$3,443.01	2,342,762
Raindance Communications	RNDC	\$4.98	\$7.40	\$0.74	\$224.37	838,614
Speechworks International	SPWX	\$11.99	\$33.88	\$4.10	\$397.62	381,803
WebEx	WEBX	\$27.00	\$37.87	\$5.06	\$982.83	1,192,227
Wire One Technologies	WONE	\$6.60	\$10.22	\$1.44	\$164.54	423,625
				<b>Average</b>	<b>\$534.34</b>	<b>571,047</b>
<b>Content Management</b>						
Actuate Corp.	ACTU	\$6.46	\$23.94	\$2.80	\$397.26	806,678
Adobe Systems	ADBE	\$35.93	\$49.00	\$22.20	\$7,993.37	4,042,693
Broadvision	BVSN	\$2.20	\$15.13	\$0.68	\$644.78	6,123,136
Documentum	DCTM	\$20.96	\$45.25	\$5.88	\$774.38	729,887
Imanage	IMAN	\$7.40	\$8.45	\$1.50	\$176.69	120,527
Innodata	INOD	\$2.90	\$9.25	\$1.26	\$58.65	34,941
Insightful Corporation	IFUL	\$2.43	\$4.44	\$1.25	\$26.48	20,902
Interwoven	IWOV	\$7.48	\$38.56	\$3.11	\$747.06	2,170,204
Macromedia	MACR	\$17.61	\$34.69	\$11.30	\$1,079.54	1,368,821
Stellent	STEL	\$21.90	\$49.13	\$13.24	\$530.99	391,752
Vignette Corp.	VIGN	\$3.92	\$11.35	\$3.08	\$914.20	5,773,668
				<b>Average</b>	<b>\$1,213.04</b>	<b>1,962,110</b>
<b>Instructor Led Training</b>						
Corporate Executive Board	EXBD	\$32.30	\$43.60	\$22.85	\$1,120.70	415,859
Learning Tree International	LTRE	\$25.25	\$59.75	\$14.50	\$476.50	135,551
New Horizons Worldwide	NEWH	\$11.93	\$18.70	\$8.30	\$122.69	22,013
Provant	POVT	\$0.75	\$6.94	\$0.32	\$14.05	106,727
				<b>Average</b>	<b>\$433.48</b>	<b>170,037</b>
<b>Average Corporate Education Companies</b>					<b>\$759.19</b>	<b>844,815</b>

Return (%)				
1-Mon	3-Mon	6-Mon	12-Mon	YTD
-6.3	-19.3	-7.0	-34.8	-6.3
-5.0	72.0	-52.3	NA	-5.0
-5.4	11.4	-25.8	-48.4	-5.4
-17.6	53.0	-66.5	-69.8	-17.6
20.5	23.3	-66.1	-64.7	20.5
<b>-2.8</b>	<b>28.1</b>	<b>-43.5</b>	<b>-54.4</b>	<b>-2.8</b>
-34.4	-14.4	-51.1	-47.2	-34.4
-5.4	15.0	-9.1	-14.7	-5.4
10.7	56.4	16.7	3.4	10.7
-0.3	13.6	12.5	14.7	-0.3
53.1	240.9	22.0	-89.3	53.1
-7.3	4.7	-30.6	61.5	-7.3
-29.5	6.1	-54.9	-56.5	-29.5
<b>-1.9</b>	<b>46.0</b>	<b>-13.5</b>	<b>-18.3</b>	<b>-1.9</b>
-18.3	-34.7	21.1	-21.9	-18.3
-9.6	37.2	-55.8	-7.5	-9.6
19.0	25.0	-25.0	-42.9	19.0
-15.4	-23.3	-20.9	NA	-15.4
-18.2	-5.1	10.5	-82.3	-18.2
-13.3	-2.2	-41.1	-79.0	-13.3
2.7	16.7	37.4	24.1	2.7
-17.7	-12.1	282.1	276.0	-17.7
9.3	64.0	8.4	-61.2	9.3
0.6	-18.9	9.1	36.9	0.6
5.3	-29.9	14.9	45.6	5.3
<b>-5.1</b>	<b>1.5</b>	<b>21.9</b>	<b>8.8</b>	<b>-5.1</b>
25.2	59.0	-35.4	-71.3	25.2
8.5	27.7	-10.1	-22.9	8.5
-17.2	11.3	-33.6	-83.1	-17.2
-6.9	37.0	35.3	-53.2	-6.9
-4.9	71.6	66.7	32.6	-4.9
-7.7	-20.6	-17.7	-61.5	-7.7
1.3	-14.1	-26.6	31.4	1.3
-26.5	-2.1	-30.4	-78.7	-26.5
0.1	19.1	3.5	-45.6	0.1
-19.1	16.6	1.5	-50.3	-19.1
-30.7	-20.5	-53.1	-55.2	-30.7
<b>-7.1</b>	<b>16.8</b>	<b>-9.1</b>	<b>-41.6</b>	<b>-7.1</b>
-12.3	5.3	-22.6	-2.5	-12.3
-10.0	19.3	9.3	-49.2	-10.0
4.8	14.8	-11.9	-20.3	4.8
20.0	8.2	-63.3	-89.9	20.0
<b>0.6</b>	<b>11.9</b>	<b>-22.1</b>	<b>-40.5</b>	<b>0.6</b>
<b>-4.2</b>	<b>18.7</b>	<b>-6.8</b>	<b>-24.4</b>	<b>-4.2</b>

Deal metrics illustrate how Click2learn is establishing itself as a leader in the platform race. Last quarter, Click2learn won twice as many enterprise deals as Saba (24 versus 12) and now is improving its average deal size. Saba's average contract value has fluctuated dramatically over the past three quarters—from \$803,000 to \$308,000 to \$418,000—while Click2learn's average contract value has risen steadily—from approximately \$150,000 to \$200,000 to \$300,000—as its new Aspen platform gained traction.

Docent (DCNT) won nearly as many deals as Click2learn (21 versus 24), but at a significantly lower average contract value of \$178,000, compared with \$300,000 a year ago. The Docent sales model depends heavily on the firm's strong relationships with its reseller network of integrators, which has been weak since September. In 3Q01, Docent was affected severely by the loss of business within its reseller channel, with revenue dropping sequentially from \$4.8 million in 2Q to \$2.6 million for the third quarter. Docent reported improved platform revenue of \$3.8 million in 4Q, placing it last among the three public players.

A figure that's near and dear to the hearts of the investment community is the expected quarter that each of these companies will deliver positive operating income. Click2learn is again the leader—expected to breakeven at the end of the first quarter. Saba estimates to be cash-flow positive by May 2002. If these players can deliver on their stated objective of positive operating income, that would be a significantly positive event for the sector. We emphasize, however, that the goal should be achieved by top-line out-performance, not expense reductions. The latter would mitigate the achievement and future outlook.

January performance for the corporate sector was down 4.2 percent for the month, which was to be expected following the sector's strong run up since

Comparing the Players

(in last reported quarter)	CLKS	DCNT	SABA
Price as of 2/1	\$2.82	\$2.66	\$4.62
Market capitalization	\$67.7mm	\$127.1mm	\$206.5mm
Cash	\$9.6mm	\$62.8mm	\$26.8mm
Expected cash EPS breakeven	March '02	Dec '03	May '02
Platform revs	\$7.4mm	\$3.8mm	\$6.8mm
Gross margins	64.3%	60.3%	74.4%
Average deal size	\$300K	\$178K	\$418K
New enterprise customers	24	21	12
Total enterprise customers	350	295	141
Quota-carrying sales reps	35	38	30

October 1<sup>st</sup>. The group's strong performance (up almost 54 percent October to December) was created by investors' speculation of an earlier than expected economic recovery and by long-term investors capi-

talizing on oversold stocks. The S&P 500 fell 0.8 percent, and the NASDAQ fell 1.6 percent. We believe that the group will move sideways until investors are confident about 2003 earnings estimates.

We think investors will come back to the group, based on 2003 valuation, but they will have to believe in a company's accounting policies, market position, economic leverage, and balance-sheet strength before allocating capital. In January, poor earnings reports affected several high-profile names, including SmartForce, down 30 percent; DigitalThink, down 34 percent; and Vignette, down 31 percent. Outperformers included Actuate, Prosoft Training, and Provant—whose stocks are coming from low bases but are leaders in their respective areas. Content management and collaboration were off 7.1 percent and 5.1 percent.

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