

# E - FINANCE



Any chance of an economic recovery in 2001?

By Peter L. Martin

It is becoming readily apparent, according to our due diligence, that sales cycles are continuing to extend because of the economic environment. At the beginning of 2001, the sales cycle was three to six months on the good side. Today, it's eight to nine months and creeping further out thanks to stringent due diligence checks as clients try to wade through marketing hype and "mistake-free" demonstrations.

Channel checks indicate an environment reminiscent of seven to 10 years ago, which is disturbing considering that employee training and development are supposed to be viewed as mission critical

as opposed to a cost center. Each coming week brings more negative earnings revisions by *Fortune* 2000 companies, which significantly affects the dollars available for training initiatives. We currently view training budgets as water holes on the Serengeti. Within that environment potential, revenue pools are drying up each day. We don't see relief until new training budgets are determined for 2002, and we'd assume those budgets will be tenuous in first quarter 2002, as companies get a feel for the direction of economic trends.

We see the biggest impact occurring on the ILD (instructor-led delivery)

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Company <i>eLearning</i>	Rating	Ticker	Price	52 Week		Mkt
			8/31	High	Low	Cap (mm)
Centra Software Inc	Accum	CTRA	\$9.85	\$17.14	\$2.75	\$247.6
Insightful Corp	NR	IFUL	\$3.70	\$4.44	\$1.25	\$39.9
Skillsoft Corp	NR	SKIL	\$28.00	\$38.94	\$11.75	\$443.7
VCampus Corp	NR	VCMP	\$0.99	\$7.38	\$0.38	\$14.0
Wire One Technologies Inc	NR	WONE	\$4.53	\$11.56	\$1.44	\$97.1
Rwd Technologies Inc	NR	RWDT	\$3.00	\$8.69	\$2.35	\$45.9
Dow Jones & Co Inc	NR	DJ	\$54.88	\$64.75	\$48.10	\$3,548.9
Wiley (John) & Sons	NR	JW.A	\$20.15	\$23.89	\$17.90	\$995.2
Webex Inc	Accum	WEBX	\$17.27	\$58.00	\$5.06	\$679.5
SmartForce Pub Ltd	Buy	SMTF	\$29.01	\$57.25	\$18.13	\$1,615.9
DigitalThink Inc	NR	DTHK	\$12.20	\$47.23	\$5.34	\$431.0
Raindance Communications Inc	NR	RNDC	\$1.21	\$11.06	\$0.74	\$57.0
Factset Research Systems Inc	NR	FDS	\$25.35	\$47.49	\$22.65	\$842.1
Polycom Inc	NR	PLCM	\$20.28	\$72.25	\$10.75	\$1,694.0
Eloquent Inc	NR	ELOQ	\$1.14	\$5.09	\$0.50	\$21.1
Itc Learning Corp	NR	ITCCE	\$0.11	\$1.53	\$0.10	\$0.4
Adobe Systems Inc	NR	ADBE	\$33.61	\$87.31	\$24.56	\$8,028.2
Docent Inc	NR	DCNT	\$4.95	\$27.13	\$2.75	\$209.3
Saba Software Inc	Buy	SABA	\$8.25	\$33.00	\$3.56	\$381.8
Innodata Corp	NR	INOD	\$2.45	\$9.25	\$2.12	\$52.4
Stellent Inc	NR	STEL	\$21.80	\$64.00	\$14.75	\$487.9
Click2learn Inc	Accum	CLKS	\$3.80	\$18.25	\$1.00	\$75.8
Vignette Corp	NR	VIGN	\$6.83	\$39.50	\$3.63	\$1,687.2
Documentum Inc	NR	DCTM	\$14.70	\$63.88	\$5.88	\$555.6
Interwoven Inc	NR	IWOV	\$8.15	\$68.47	\$5.84	\$844.0
Nuance Communications Inc	NR	NUAN	\$10.44	\$153.00	\$8.23	\$342.8
Mentergy Ltd	NR	MNTE	\$0.47	\$14.44	\$0.35	\$5.7
Macromedia Inc	NR	MACR	\$13.93	\$85.25	\$13.14	\$805.9
Speechworks Intl Inc	NR	SPWX	\$8.26	\$99.50	\$4.81	\$265.2
Prosofttraining.com Inc	Hold	POSO	\$1.03	\$15.00	\$1.00	\$24.2
<b>Corporate eLearning Average</b>						<b>\$818.0</b>
New Horizons Worldwide Inc	NR	NEWH	\$13.37	\$23.38	\$11.00	\$136.1
Corporate Executive Brd Co	NR	EXBD	\$34.75	\$47.25	\$24.25	\$1,207.5
Learning Tree Intl Inc	NR	LTRE	\$23.88	\$78.88	\$14.50	\$459.5
Provant Inc	Hold	POVT	\$1.60	\$9.00	\$1.40	\$34.9
<b>Corporate Traditional Average</b>						<b>\$459.5</b>
<b>Total Corporate Average</b>						<b>\$775.8</b>
Indices						
Russell 2000			\$468.56	\$542.82	\$419.70	
S&P 500 Composite			\$1,133.58	\$1,530.01	\$1,081.19	
Nasdaq Composite Index			\$1,805.43	\$4,259.87	\$1,619.58	

3-Mon Avg Trdg Vol	Return (%)				
	1-Mo.	3-Mo.	6-Mo.	12-Mo.	YTD
466,855	-39.8	-29.1	64.2	7.2	154.2
36,632	16.0	73.7	107.7	64.4	132.2
179,105	-19.2	-9.5	71.0	57.7	49.3
5,274	-37.1	-41.4	5.1	-86.4	16.7
83,945	-20.5	-15.5	34.2	-41.5	-0.7
14,470	-9.1	-36.0	-30.4	-62.8	-2.0
252,459	-3.6	-1.6	-10.9	-12.3	-3.1
42,633	-1.2	-0.2	-4.1	1.4	-6.3
637,429	-24.6	9.0	54.4	-68.8	-17.3
1,099,892	-25.1	3.6	-20.4	-44.2	-22.8
506,759	-15.9	48.8	41.4	-64.2	-28.5
261,529	-1.6	-6.2	-44.7	-89.0	-30.9
194,270	-23.5	-36.8	-18.8	-25.9	-31.6
1,013,676	-20.3	-18.2	-6.8	-63.9	-37.0
96,568	13.9	54.1	14.0	-76.8	-37.1
2,267	-15.4	-45.0	-58.6	-92.3	-38.9
3,999,528	-10.3	-15.5	15.6	-48.3	-42.2
246,456	-21.6	-36.5	-36.6	NA	-43.4
634,418	-35.8	-30.6	-5.7	-71.2	-47.6
130,964	-26.4	-59.1	-51.0	-3.8	-55.5
484,229	-7.5	-39.6	-14.9	-51.9	-57.3
101,556	25.8	133.1	19.2	-75.0	-61.0
3,487,075	-14.0	-16.5	10.9	-82.1	-62.1
509,555	-1.7	5.2	-31.2	-58.9	-70.4
3,253,814	-20.8	-55.0	-50.8	-83.0	-75.3
906,782	-22.1	-30.9	-54.6	-92.1	-75.8
27,548	-14.5	-71.5	-76.5	-96.2	-76.5
877,312	-19.0	-37.5	-52.5	-79.8	-77.1
390,015	-27.2	-36.6	-49.7	-89.2	-83.2
268,471	-16.3	-51.4	-91.1	-92.3	-91.5
<b>673,716</b>	<b>-14.6</b>	<b>-13.1</b>	<b>-9.1</b>	<b>-52.5</b>	<b>-27.4</b>
43,685	-2.3	-27.7	-9.7	-37.3	-3.6
294,777	-16.4	2.9	-2.8	-2.1	-12.6
133,568	4.0	1.2	-46.9	-65.1	-51.8
56,606	-11.1	-34.7	-71.2	-76.5	-62.6
<b>132,159</b>	<b>-6.5</b>	<b>-14.6</b>	<b>-32.7</b>	<b>-45.3</b>	<b>-32.7</b>
<b>610,004</b>	<b>-13.7</b>	<b>-13.3</b>	<b>-11.8</b>	<b>-51.6</b>	<b>-28.0</b>
	-3.3	-5.6	-1.2	-12.9	-3.1
	-6.4	-9.7	-8.6	-25.3	-14.1
	-10.9	-14.5	-16.1	-57.1	-26.9

We don't see relief until new training budgets are determined for 2002, and we assume those will be tenuous in the first quarter.

side of the business. Public players such as Learning Tree and New Horizons have revised revenue forecasts down from 20 percent to flat due to the tremendous slowdown in IT spending. We've seen traditional training dollars move to e-learning initiatives in an attempt to cut costs and leverage education, training, and retention initiatives over a wider employee and customer base. Despite the long-term benefits of those implementations, they require considerable due diligence and capital. They also can be time-consuming and, in a lot of cases, offer limited near-term ROI. One area in which we've seen significant resilience is the collaboration space due to ease of use and immediate impact on corporate expense lines. We believe companies such as Centra and Webex should continue to benefit from the current environment, as well as from testimonials of their products.

E-learning infrastructure providers continue to find sales leads, but leads aren't turning into purchase orders. More often than not, eventual orders are significantly less committed than

anticipated. With the current economic environment showing no indications of a turnaround, we believe corporate training companies will be negatively affected through the end of the year. We expect to see additional downward revenue revisions by the public companies and continued attrition in the private marketplace, especially in the high-end, enterprise-wide application segment. That should prompt continued consolidation of the vendor market, allowing the leaders to strengthen their content or infrastructure offerings to position themselves better for the eventual upswing in the market. Providers that offer subscription-based revenues as opposed to one-time perpetual license sales should weather the

poor environment better due to the lower price point and implementation time of a hosted ASP product.

The performance of our chosen corporate sector in August was severely affected by continued economic concerns as well as summer vacations on Wall Street, which create volatility due to poor trading liquidity. The corporate sector declined nearly 14 percent in August compared to the NASDAQ and Russell 2000, which were down 11 percent and 3.3 percent. SmartForce had the toughest public relations month as it tumbled over concerns regarding account retention and insider selling, despite making two strategic acquisitions to strengthen its platform and content offerings. Shares of Centra

were affected by profit taking in August, after its strong performance over the past several months. Click2 Learn posted the only out performance as its first quarter beat expectations and solidified investor concerns regarding its balance sheet with a line of credit at Silicon Valley Bank. It's interesting to note that as of the end of August, only four stocks are up YTD in the Jefferies & Company corporate universe of 34 firms.

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