

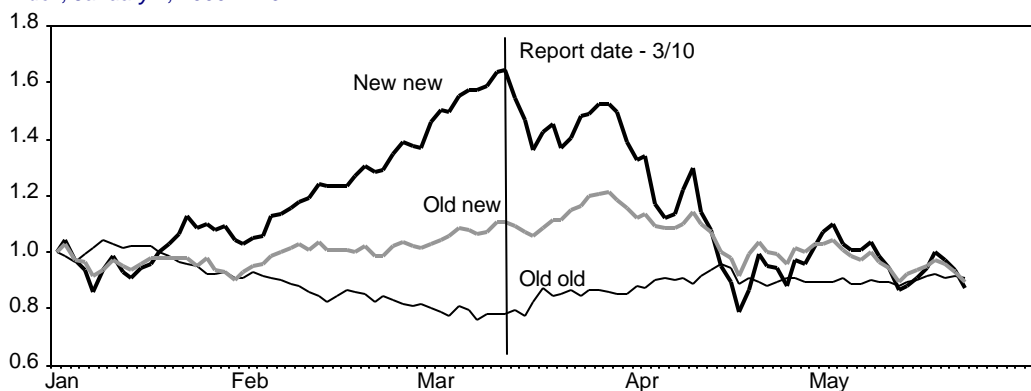
New Metrics: Still Sliding

May 21, 2000

- Our thesis in “New Economy: Yes; New Metrics: No” (March 12, 2000) was that, while the benefits of the information revolution are for real, “new metrics” are being indiscriminately applied today to justify extremely high valuations for companies with no earnings and no well-defined path to ever reaching profitability.
- After rising 64% for the year through March 10, the “new new industrials” (large cap, but recently public tech stocks) have given back all of their gains over the last ten weeks—they are now *down* 12% for the year. But even that sharp correction in the “new new industrials” has not yet *fully* erased their excesses.
- Despite recent price declines, valuations of “new new industrials” still look somewhat excessive by traditional metrics. Further price declines seem possible. The “new new industrials” could fall by another 10% before even aggressive assumptions would put their valuations on a par with the mid-March valuations for the “old new industrials” (established large-cap tech stocks).
- Today, “old old industrials” (i.e., “smokestack” America) are trading at a 12.2x P/E, “old new industrials” at 43.4x, and “new new industrials” still at infinity, since they still have no earnings. In terms of sales, “old old” are at 0.7x, “old new” at 5.7x, and “new new” at 39.9x—even after updating for Q1 '00's higher sales versus Q4 '99.

Chart 1: “Old Old Industrials,” “Old New Industrials” and “New New Industrials”

Index, January 1, 2000 = 1.0



Source: PaineWebber.

Table 1: “Old Old Industrials,” “Old New Industrials” and “New New Industrials”
Percent change in price

| | December 31, 1999 to March 10, 2000 | March 10, 2000 to May 19, 2000 | December 31, 1999 to May 19, 2000 |
|---------------------|--|-----------------------------------|--------------------------------------|
| Old Old Industrials | -21.7% | 16.0% | -9.1% |
| Old New Industrials | 10.8 | -19.2 | -10.4 |
| New New Industrials | 64.2 | -46.7 | -12.4 |
| Nasdaq 100 | 23.7 | -28.9 | -12.1 |
| Nasdaq Composite | 24.1 | -32.8 | -16.7 |
| S&P 500 | -5.0 | 0.9 | -4.2 |
| DJIA | -13.6 | 7.0 | -7.6 |

“Old old industrials” are 20 largest “smokestack” (paper, chemical, metals, machinery, auto) industrials in S&P 500.

“Old new industrials” are 20 largest tech companies in S&P 500 that have been public for 5 or more years.

“New new industrials” are 20 largest Nasdaq Composite companies (excluding ADRs) not in S&P 500 that have been public less than 5 years.

See “New Economy: Yes; New Metrics: No” (March 12, 2000) for a stock-by-stock listing.

Table 2: Old and new metrics—As of March 10 and May 19
Of “Old Old Industrials,” “Old New Industrials” and “New New Industrials”

| | March 10, 2000 | | | May 19, 2000 | | |
|---------------------|------------------------|------------------------|---------------------|------------------------|------------------------|---------------------|
| | Price/Earnings 1999 | Price/Earnings 2000 | Price/Sales 1999 | Price/Earnings LTM* | Price/Earnings 2000 | Price/Sales LTM* |
| Old Old Industrials | 12.6x | 10.8x | 0.6x | 13.9x | 12.2x | 0.7x |
| Old New Industrials | 69.2 | 54.3 | 7.3 | 52.7 | 43.4 | 5.7 |
| New New Industrials | Nmf | Nmf | 85.7 | Nmf | Nmf | 39.9 |
| Nasdaq 100 | 147.1 | 110.8 | 11.0 | 108.2 | 92.3 | 7.7 |
| Nasdaq Composite | NA | NA | NA | NA | NA | NA |
| S&P 500 | 28.3 | 24.1 | 2.1 | 27.1 | 24.0 | 2.1 |
| DJIA | 21.9 | 19.1 | 1.7 | 21.6 | 19.1 | 1.6 |

* Based on earnings and sales for 12 months ending Q1 '00.

Source: PaineWebber.

Additional information available upon request.

The information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. PaineWebber Incorporated and/or Mitchell Hutchins Asset Management Inc., affiliated companies and/or their officers, directors, employees or stockholders may at times have a position, including an arbitrage or option position, in the securities described herein and may sell or buy them to or from customers. These companies may from time to time act as a consultant to a company being reported upon. Copyright © 2000 by PaineWebber Incorporated, all rights reserved