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# DoubleClick, Inc. (NASDAQ: DCLK)

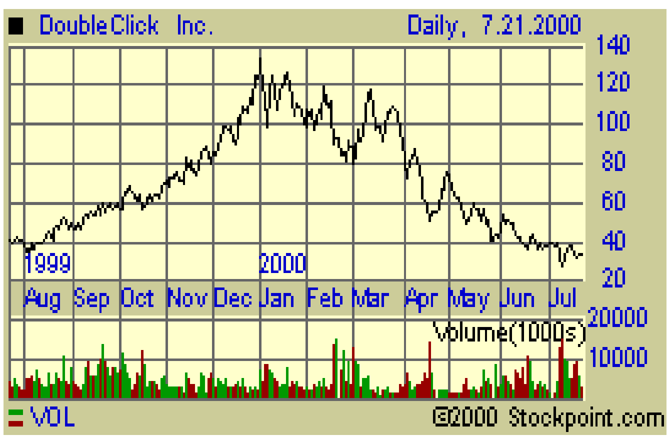
**Initiating Coverage**: **ACCUMULATE** July 25, 2000

## KEY CONSIDERATIONS

- DoubleClick continues to lead the online advertising industry by providing a variety of products and services to advertisers, ad agencies, Web publishers and merchants.
- DoubleClick Techsolutions signed record 297 new customers in second quarter.
- Advanced technology with patents is still facing potential innovation among online advertising industry.
- Mergers, such as with Abacus and NetGravity, are part of an overall strategy of diversification and competitiveness.
- Growth largely depends on the major Web sites' performance in its network and e-commerce.

| | |
|---|---|
| Recent Price | $33.25 |
| 52WK Low | $27.56 |
| 52WK High | $135.25 |
| P/E | N/A |
| P/Book | 4.25 |
| P/Sales | 9.61 |
| Market Capitalization | $4,073 M |
| Shares Outstanding | 122.5 M |
| Float | 91 M |
| Daily Volume (3-month Average) | 5 M |
| **EPS** | |
| 1998A | (0.21) |
| 1999A | (0.51) |
| 2000E | (0.06) |
| Current Ratio | 5.06 |
| Total Debt to Equity | 0.26 |
| LT Debt | 0.26 |
| Total Cash | $882 M |

**ONE-YEAR PRICE AND VOLUME GRAPH**




**COMPANY PROFILE**

DoubleClick Inc., together with its subsidiaries ("DoubleClick"), is a leading provider of comprehensive global interactive marketing and advertising solutions. DoubleClick offers a broad range of integrated media, technology and data solutions to advertisers, ad agencies, Web publishers and merchants. The Company is headquartered in New York, New York.

This report was prepared by Alina Degtar and David R. Rivas, Ph.D.

## THE COMPANY

DoublickClick derives its revenues from three principal lines of business:

- **DoubleClick Media.** DoubleClick Media offers advertising and marketing solutions to both publishers (i.e., AltaVista, the Dilbert Zone, Kelley Blue Book and Macromedia) and advertisers. The Company aggregates the advertising inventory of hundreds of Web sites into one of several domestic and international networks based on size, traffic and content. Doublick Media revenues are derived primarily from the sale and delivery of advertising impressions through third-party Web sites comprising the Worldwide Doublick Media networks. The Company delivers advertising on these networks using the DART technology.

- **DoubleClick TechSolutions.** DoubleClick TechSolutions is comprised of comprehensive service and software solutions designed specifically for the needs of its three targeted customer segments: advertisers and agencies, Web publishers and e-commerce merchants. DoubleClick TechSolutions revenues are derived primarily from sales of the DART Service for Publishers, the AdServer family of software products for publishers and e-commerce merchants, the DART Service for Advertisers, and the DARTmail Service. The Company has professional service teams to support these solutions and provide education, consulting services and around-the-clock support. DoubleClick TechSolutions acquired the AdServer family of software products through the merger with NetGravity, Inc. in October 1999.

- **DoubleClick Data Services.** DoubleClick Data Services, through the Abacus division, is a leading provider of information products and marketing research services to the direct marketing industry. Through Abacus, the Company has developed a comprehensive and productive source of information regarding consumer purchasing behavior by creating a database that includes consumer purchasing data contributed from over 1,500 alliance members. DoubleClick Data Services use this proprietary database and the advanced statistical modeling technology to provide direct marketers with information and analysis which is designed to increase response rates and profits from their direct mail marketing campaigns. DoubleClick Data Services merged with Abacus Direct Corporation in November 1999.

## INDUSTRY OUTLOOK

The Internet has emerged as an attractive new medium for advertisers due to the rapid growth in the number of Web users, the amount of time such users spend on the Web, the increase in electronic commerce, the interactive nature of the Web, the Web's global reach and a variety of other factors. DoubleClick believes the number of U.S. online households will grow from 39 million in 1999 to 63 million in 2004 and consumer e-commerce will reach $108 billion in 2003. Consequently, the Company believes that U.S. online advertising spending will grow from $2.8 billion in 1999 to $22.2 billion in 2004. In addition, the markets outside the U.S. will become an increasingly important component of Internet advertising, growing from $500 million in 1999 to $10.5 billion in 2004, accounting for approximately 33% of worldwide Internet advertising.

## COMPETITION

The markets for Internet advertising and related products and services are intensely competitive and such competition is expected to continue to increase as a result of industry consolidations. There are no substantial barriers to entry in this market and the ability to compete depends upon many factors within and beyond DoubleClick's control, including the timing and market acceptance of new solutions and enhancements to existing solutions developed by the Company and its competitors, customer service and support efforts, sales and marketing efforts, and the ease of use, performance, price and reliability of the Company's solutions.
DoubleClick Media competes for Internet advertising revenues with large Web publishers and Web portals, such as America Online, Excite@Home, Microsoft, GO.com and Yahoo!. The Company also competes with

the traditional advertising media of television, radio, cable and print for a share of advertisers' total advertising budgets. Furthermore, the DoubleClick networks compete with a variety of Internet advertising networks, including 24/7 Media, AdSmart and Flycast. DoubleClick Media also encounters competition from a number of other sources, including content aggregation companies, companies engaged in advertising sales networks, advertising agencies, and other companies which facilitate Internet advertising.

DoubleClick TechSolutions competes with providers of ad server software and related services, including Accipiter and Real Media. The Company also faces competition for outsourced ad services by AdForce, AdKnowledge, AvenueA, Excite@Home (through its MatchLogic unit) and L90. Additionally, DoubleClick TechSolutions faces sales challenges from the internal capabilities of some potential customers, as some large and popular online content publishers use internally developed interactive marketing and advertising solutions rather than the commercial solutions offered by DoubleClick and their competition. The DARTmail Service competes with providers of e-mail delivery and list management services, such as Exactis and MessageMedia.

DoubleClick Data Services, through the Abacus database and services, competes with companies such as Z-24, which is a subsidiary of Experian, and marketing intermediaries such as Junkbusters, as well as list brokers and individual companies that sell their customer lists. The Company’s Abacus Online Alliance will compete with providers of profiling technology, such as MatchLogic and Engage.

Table 1 **Publicly Traded Competitors 7/8/00**

| | DoubleClick | 24/7 Media | L90 | Engage Technologies |
|---|---|---|---|---|
| Symbol | DCLK | TFSM | LNTY | ENGA |
| Services | A provider of comprehensive global interactive marketing and advertising solutions for a broad range of integrated media, technology and data solutions to advertisers, Web publishers and merchants | A global provider of end-to-end advertising and marketing solutions for Web publishers, online advertisers, advertising agencies, e-marketers and e-commerce merchants | A provider of Internet-based advertising and direct marketing solutions for advertisers and Web publishers, designing and implementing advertising campaigns and placing the ads on L90’s network of We sites | A provider of products and services that enable customers to create and use profiles of individual web visitors to target advertisements, content and e-commerce offerings |
| Clients | AltaVista, IBM, AT&T | Reuters, MapQuest | IParenting.com, HollywoodTicket.com | Attorney.com, Oracle |
| Products | DoubleClick Network, DoubleClick DART, DoubleClick AdServer, DoubleClick Local, DoubleClick International, DoubleClick Boomerang | 24/7 Mail, 24/7 Connect, 24/7 Network, e.merge | L90Premium, L90Targeted, L90R&E, adMonitor, L90D.m., L90Mail, L90Opt-in, L90Link, L90Rewards | Engage Media, Engage Business Media, Adknowledge, Engage AdManager, Enagage AdBureau, Ebgage ProfileServer, I/PRO Netline, I/PRO I/Audit |

## Strategy for Growth

- **Expansion of the DoubleClick Network.** By enhancing and expanding the DoubleClick Network, the Company believes that the DoubleClick Network will become a leading choice for Web advertisers. The Company intends to continuously target Web publishers of high quality Web sites, directories and search engines for addition to the existing content categories comprising the DoubleClick Network. Any such additions will be required to meet strict inclusion and maintenance criteria in order to ensure that they will continue to provide the desired audiences of advertisers. In order to provide advertisers with additional audiences, the Company also plans to add new content categories comprised of high quality and high traffic Web sites.

- **Expanding sales and marketing.** The Company believes that strong sales and marketing organization is essential to effectively sell and market Internet advertising solutions. The Company intends to continue to expand its sales and marketing efforts. Specifically, DoubleClick plans to expand its DoubleClick Network sales force and has established dedicated sales organizations for its DART Service and DoubleClick Direct. DoubleClick believes that brand awareness of the Company and its solutions is critical to its success given the emerging nature of the Internet advertising market. As a result, the Company is targeting its efforts to advertisers and advertising agencies in order to establish and expand the recognition of its corporate identity and service offerings through its Web site, advertisements within trade publications, direct mail, promotional activities, trade show participation and other media events.

- **International expansion.** To provide U.S. and foreign advertisers with the ability to deliver their ads in global markets and to provide Web publishers in international markets with the ability to outsource their ad sales, ad server operations and ad space inventory management, DoubleClick is developing DoubleClick Networks and is providing its other solutions in a number of countries. The Company is building DoubleClick Networks in Australia, Canada, France, Germany, the United Kingdom, Benelux (the Netherlands, Belgium and Luxembourg), Iberoamerica (Spain, Portugal and Latin America), Ireland and Scandinavia (Sweden, Norway, Denmark and Finland), and operates through business partners in Japan, Asia (Hong Kong, Taiwan and Singapore) and Italy.

## Alliances and Partnerships

- DoubleClick, Inc. and eWay System, Inc., a provider of infrastructure software solutions for Internet companies, joined in a strategic partnership to deliver automated end-to-end customer order and billing solutions. The alliance enables DoubleClick to offer customers a product that compliments and fortifies Ad Server capabilities, with planned integration for DART for Publishers.

- DoubleClick, Inc. and Inktomi Corp., a developer of scalable Internet infrastructure software joined in an alliance to offer Inktomi's portal and destination site customers an integrated solution for matching targeted banner advertising to keyword search results through DoubleClick's Search category. This agreement will enable Internet portals to increase their revenue potential by leveraging their search keyword inventory using DoubleClick's Network of sites while providing users comprehensive search results powered by Inktomi.

- DoubleClick, Inc. and Topica, a provider of email-based content, joined in a strategic partnership that leverages each company's strengths to deliver 100% opt-in, interest-based email and advertising messages. Under the agreement, Topica will take advantage of a variety of DoubleClick solutions, including opt-in email list management and sales, ad sales representation and media buying, while DoubleClick advertisers will be able to link to Topica's interest-based, targeted email inventory.

## Analysis of Risk Factors

- **Limited operating history.** Doubleclick was incorporated in January 1996 and has a limited operating history. An investor in its common stock must consider the risks and difficulties frequently encountered by early stage companies in new and rapidly evolving Internet advertising market. These risks include the company's ability to sustain historical revenue growth rates; ability to attract, retain and motivate qualified personnel; ability to maintain current, and develop new, strategic relationships with Web publishers; ability to anticipate and adapt to the changing Internet market; ability to attract and retain a large number of advertisers from a variety of industries; reliance on the DoubleClick networks; managing the Company's operations; competition; and dependence on a comtinuing relationship with AltaVista. The business depends also on the growing use of the Internet for advertising, commerce and communication, and on general economic conditions.

- **History of losses and anticipation of continued losses.** DCLK incurred net losses of $4 million for the year ended December 31, 1996, $7.7 million for the year ended December 31, 1997, and $18.2 million for the year ended December 31, 1998. For the year ended December 31, 1999, the Company incurred a net loss of $55.8 million and, as of December 31, 1999, the accumulated deficit was $109.8 million. DoubleClick has not achieved profitability and expects to continue to incur operating losses in the future. In order to cover the significant operating and capital expenditures in the coming year, DCLK will need to generate significant revenues to achieve and maintain profitability. Although revenues have grown in recent quarters, it's not assured that it will achieve sufficient revenues for profitability. If revenues grow slower than anticipated, or if operating expenses exceed expectations or cannot be adjusted accordingly, results of operations and financial condition will be materially and adversely affected.

- **Web publisher concentration.** DoubleClick derives a substantial portion of the DoubleClick Media revenues from ad impressions they deliver on the Web sites of a limited number of Web publishers. Over 20% of the revenues for each of the years ended December 31, 1999 and 1998 resulted from ads delivered on the Web sites of the top four Web publishers on the DoubleClick networks. The business, results of operations and financial condition could be materially and adversely affected by the loss of one or more of the Web publishers that account for a significant portion of the revenues from the DoubleClick networks or any significant reduction in traffic on these Web publisher's Web sites. The loss of these Web publishers could also cause advertisers or other Web publishers to leave the networks, which could materially and adversely affect the business, results of operations and financial condition.

- **Action lawsuits.** DoubleClick is a defendant in several pending class action lawsuits alleging, among other things, that the Company unlawfully obtains and sells Internet users' personal information. DoubleClick is also the subject of a Federal Trade Commission inquiry concerning its collection and maintenance of information concerning Internet users, and a request for information from the New York Attorney General's office relating to the Company's collection, maintenance and sharing of information concerning, and its disclosure of those practices to, Internet users. Further, the press has reported that the Michigan Attorney General commenced legal proceedings against DoubleClick under Michigan's consumer protection laws. The Company may receive additional regulatory inquiries and intends to cooperate fully. Class action litigation and regulatory inquiries of these types are often expensive and time-consuming and their outcome is uncertain. If, as a result of any of these proceedings, a judgment is rendered or a decree is entered against DoubleClick, it may materially and adversely affect the business, financial condition and results of operations.

- **Internet advertising competition.** The Internet advertising and related products and services, are intensely competitive. Such competition is to continue to increase because the markets pose no substantial barriers to entry. Competition may also increase as a result of industry consolidation. Many of the existing competitors such as 24/7 Media, AdForce, AOL, and Yahoo, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than DoubleClick does. They may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They also may be able to devote greater resources to the development, promotion and sale of their products and services.

- **Risks associated with potential acquisions or investments.** DoubleClick may acquire or make investments in complementary businesses, products, services or technologies. It is not for sure that the Company will be able to identify suitable acquisition or investment candidates. Even if it does, DoubleClick might not be able to make such acquisitions or investments on commercially acceptable terms. The problems, arising from all kinds of acquisition or investment, such as the difficulty of assimilating personnel and operations and difficulty in assimilating the acquired products, services or technologies into their operations, could disrupt the ongoing business, distract the management and employees, increase expenses and adversely affect the results of operations due to accounting requirements such as goodwill. Furthermore, DoubleClick may incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities could be dilutive to the Company's existing stockholders.

- **Dependence on Altavista**. Approximately 10.8% and 26.9% of revenues for the years ended December 31, 1999 and 1998, respectively, resulted from advertisements delivered on or through the AltaVista Web site. In November 1999, DoubleCLick entered into an Interim Advertising Services Agreement with AltaVista, as successor to Compaq, which temporarily suspends until January 2001 the Advertising Services Agreement DoubleClick entered into with Compaq in January 1999. The Interim Advertising Services Agreement allows for the Company to continue to sell advertisements throughout AltaVista's network and provides for AltaVista to maintain and service some advertising accounts previously serviced by DoubleClick. The loss of AltaVista as a customer or any significant reduction in traffic on or through the AltaVista Web site would materially and adversely affect the business, results of operations and financial condition.

## EXPLANATION OF FINANCIALS

**Revenue.** Since the fourth quarter of 1996, DoubleClick has derived substantially all of its revenues from the DoubleClick Network. DoubleClick offers advertising on the DoubleClick Network to third party advertisers with pricing generally determined on a CPM (cost per thousand ads delivered) or cost per day basis. DoubleClick's revenues from the DoubleClick Network are received from the advertiser that orders the ad, and DoubleClick typically pays the Web publisher (on whose Web site such advertisement is delivered) a service fee. In addition, DoubleClick earns service fees for providing the DART Service to Web publishers and the Closed Loop Marketing Solutions suite of products to Internet advertisers and ad agencies.

1999 revenues and gross profits increased over 1998 due primarily to volume increases both domestically and internationally and a favorable product mix. This partially offset the declines that resulted from the change in the manner in which the Company presents revenues earned pursuant to the AltaVista Advertising Services Agreement and in pricing of some of the technology products. The second quarter of 2000 ended with record revenues of $48.7 million, a sequential increase of 22%, and an increase of 234% over the same period a year before. I believe that the revenues will continue to grow. However, the third quarter has been historically a slower quarter. Therefore, the growth rate might slow down to 13.87%, but should pick up to 16.54% in the fourth quarter.

**Gross Margin.** The change of gross margin or gross profit is mostly coming from changes in revenues and cost of revenues. Cost of revenues consists primarily of service fees paid to Web publishers for ads delivered to the Web sites on the DoubleClick Network and also includes other costs of delivering advertisements, including depreciation of the ad delivery system, facilities and personnel-related costs incurred to operate our ad delivery system and Internet access costs. The increase in gross margin percent was primarily the result of an increase in revenues from higher margin DART services as a percentage of total revenues, including the impact of the AltaVista Advertising Service Agreement.

Gross margin was 50.12% and 58.51% for the years ended December 31, 1998 and 1999, respectively. To the extent revenues from its DART Services increase as a percentage of total revenues, DoubleClick anticipates that its overall gross margin will increase. As estimated, gross margin will increase to 55% and 43% for years ended December 31, 2000 and 2001 respectively.

**Sales & Marketing Margin.** Sales and marketing expenses consist primarily of salaries, commissions, advertising, trade show expenses, seminars and costs of marketing materials. The increase was primarily attributable to the increase in sales personnel associated with its expansion and the continued development and implementation of DoubleClick's marketing and branding campaigns. Moreover, as DoubleClick hires additional personnel, expands into new markets and continues to promote the DoubleClick brand, which is required by the competitive environment in Internet advertising service industry, I expect DCLK's sales and marketing expenses to increase on an absolute dollar basis but decrease as a percentage of revenues. In fiscal years 2000 and 2001, sales and marketing margin will likely decrease from 35% to 31% on average.

**General & Administrative Margin.** General and administrative expenses consist primarily of compensation and professional service fees and related supplies and materials. These expenses will likely continue to increase on an absolute dollar basis, but general and administrative margin will decrease at about 11% in 2001 as DoubleClick hires additional personnel and incurs additional costs related to the growth of its business and its operations as a public company on the condition of continuing business expansion.

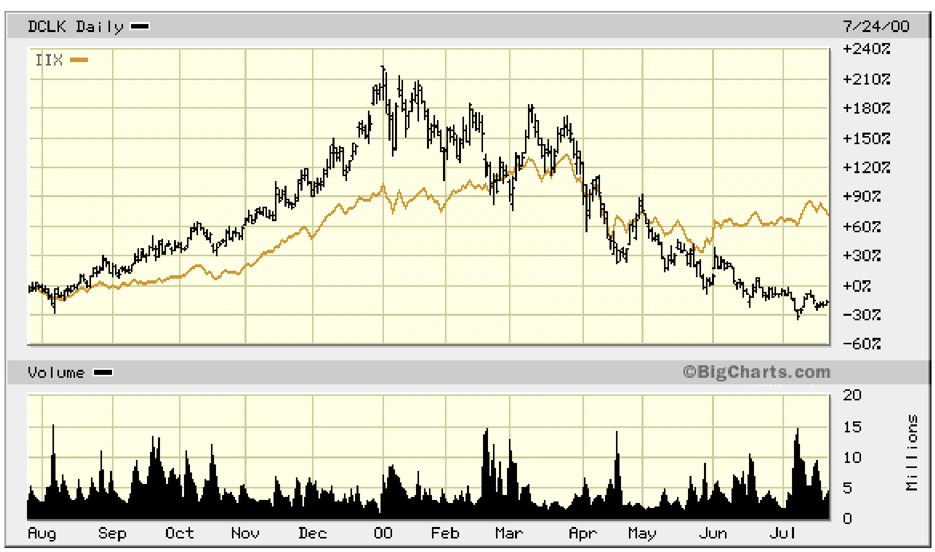
**Product Development Margin.** Product development expenses consist primarily of compensation and consulting expenses and enhancements to the DART technology. A continued investment in product development is critical to attaining the Company's strategic objectives, and therefore, the product development margin, I predict, will stay around 8% in 2001, while the dollar expense increases with the increase in revenue.

**Operating Income.** A loss from operations should decrease through 2000 and possibly end with positive 3rd and 4th quarters. The end of the year should nevertheless be negative.

**Cash.** DoubleClick has $882 million in cash, a substantial amount to finance its activities and pay off outstanding debt.

## Valuation

**Internet Sector.** DoubleClick outperformed the Internet sector in the last month of 1999 and the first couple of months of 2000. That was as a result of a few major mergers with Abacus Direct, Net Gravity and Opt-In E-mail.com. However, by the end of the first quarter, the demand for online advertising has diminished. As client base continues to increase, and DoubleClick continues to grow, the stock price should go up



again.

**Revenue Growth.** I expect that revenue will continue to increase throughout 2000 and 2001 as new clients are added and the business model becomes proven. Revenues will also increase as transaction volume and customer base increases through the latest acquisitions and launched programs. Based on the comparison below, DoubleClick does not have a very serious competition. Nevertheless, the Company has to continue to grow and increase the revenues to stay in the lead of its market.

**Price to Sales Ratio.** Due to the fact that most emerging Internet companies do not post positive earnings, the price to earnings ratio can not be used to predict future performance. Therefore, the price to sales ratio has to be used instead to evaluate the stock's valuation. At this point DoubleClick's price to sales ratios is 9.61, above the average of 7.19 of these four companies. Aside from Engage, which is part of CMGI, a very big and diverse company, DoubleClick is doing much better than other companies in its industry. Overall, the Company seems to be fairly valued.

| Table 2 | | Value Comparison 7/25/00 | | | |
|---|---|---|---|---|---|
| | Price | Market Cap in millions | Trailing 12 Month Sales in Millions | P/S | Gross Margin % (TTM) |
| DoubleClick | 33.25 | 4,072.99 | 328.9 | 9.61 | 56.14 |
| 24/7 Media | 13.00 | 343.30 | 124.8 | 2.30 | 26.88 |
| L90 | 9.25 | 203.35 | 17.1 | 4.97 | 40.08 |
| Engage | 11.63 | 2,014.35 | 117.1 | 11.89 | 23.46 |

**Gross Margin.** Gross margin for DoubleClick is higher than of its competitor. However, it is not indicative of what will come in the future. Year-end gross margin will likely be around 56%.

**Investment Opinion**

We believe that in the long term, DoubleClick will continue to increase revenues and decrease costs causing an appreciation in the stock's price. DoubleClick has the services, innovative products, and expertise to be able to grow significantly. In addition, the Company's early mover advantage has resulted in it having a very large client base, which continues to grow every quarter. We, therefore, believe that DoubleClick's business has a significant growth potential. We also believe that the Company is valued reasonably. Thus, we give its stock an ACCUMULATE recommendation.

## *Doubleclick Income Statement ($000, including per share data)*

| | FY97 | FY98 | FY99 | FY01E |
|---|---|---|---|---|
| **Revenues** | **67,926** | **138,724** | **258,294** | **1,317,603** |
| Cost of Goods Sold | 29,741 | 69,191 | 107,156 | 543,261 |
| **Gross Profit** | **38,185** | **69,533** | **151,138** | **560,559** |
| Research & Development | 5,210 | 12,554 | 69,969 | 79,263 |
| Sales & Marketing | 24,855 | 52,525 | 103,578 | 261,638 |
| General & Administrative | 11,948 | 19,424 | 36,306 | 177,983 |
| **Operating Expense** | **42,013** | **84,503** | **209,853** | **518,884** |
| **Operating Income** | **(3,828)** | **(14,970)** | **(58,715)** | **41,675** |
| Financial Income(Expense) | 396 | 3,997 | 11,481 | 35,642 |
| **EBT** | **(3,432)** | **(10,973)** | **(47,234)** | 77,317 |
| Effective Tax Rate | | | | |
| Income Taxes | 4,309 | 7,066 | 8,587 | |
| **Net Income** | (7,741) | (18,039) | (55,821) | 77,317 |
| **Basic EPS** | (0.16) | (0.21) | (0.51) | **0.38** |
| **Weighted Average Shares Outstanding** | 13,717 | 30,440 | 91,648 | 203,863 |

| | FY97 | FY98 | FY99 | FY01E |
|---|---|---|---|---|
| **Margin Analysis** | | | | |
| Gross Margin | 56.22% | 50.12% | 58.51% | 42.54% |
| R&D Margin | 7.67% | 9.05% | 27.09% | 7.76% |
| S&M Margin | 36.59% | 37.86% | 40.10% | 30.98% |
| G&A Margin | 17.59% | 14.00% | 14.06% | 11.29% |
| Operating Margin | -5.64% | -10.79% | -22.73% | -16.80% |
| Net Margin | -11.40% | -13.00% | -21.61% | -15.99% |
| **Growth** | | | | |
| Total Revenues | | 104.23% | 86.19% | 137.85% |
| Gross Profit | | 82.10% | 117.36% | 81.37% |
| Operating Expense | | 101.14% | 148.34% | 36.59% |
| Operating Income | | 291.07% | 292.22% | -158.86% |
| EPS | | -31.25% | -142.86% | 702.83% |