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Mercury Interactive Corp NYSE: MERQ

Buy

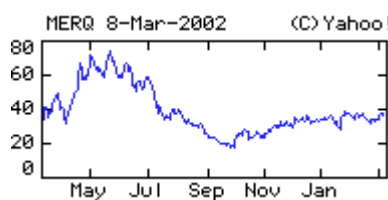
March 13, 2002

S&P Sector – Information Tech

Industry – Software

MARKET DATA

Price	52-Wk Range	Price Target	Shares Out.	Market Cap.	Beta	Dividend	Price to Earnings	Book Value	5 Year Growth
3-13-02 Close	Low Mid-Sept.	Valuation Result	(Million)	(Billion)	MSN.com	Yield	Forward	Per Share	Annual
\$39.70	18.00 to 75.50	\$50.07	82.7	\$3.22	1.98	N/A	74.90	\$4.28	32.9%



COMPANY OVERVIEW – FROM YAHOO! FINANCE

Mercury Interactive Corporation is a provider of integrated performance management solutions that enable businesses to test and monitor their Web-based applications. Its software products and hosted services help Global 2000 companies enhance the user experience by improving the performance, availability, reliability and scalability of their Web-based applications. Its hosted services provide its customers a cost-effective solution that quickly meets business needs without dedicating significant time and internal resources. Its integrated performance management solutions enable customers to more quickly identify and correct problems before users experience them. Its hosted services provide outsourced load testing and Web performance monitoring services that complement its software products.

INVESTMENT RECOMMENDATION:

Buy 200 shares of MERQ

REASONS FOR RECOMMENDATION

- ❑ Mercury Interactive turned in a solid performance in the 4th quarter, beating estimates by a healthy margin. Very strong gross margins and good expense control enabled a significant jump in earnings. This strong financial result is a strong indication of the continued growth of the company as well as the entire Software/Computer Services sector within the S&P 500.
- ❑ Mercury has been aggressively delivering new solutions to the market, and will continue to expand its offerings around Web-based applications to become a contender in other areas within the infrastructure management software sector. Mercury's R&D has continued to push out several new products per quarter, ensuring its leadership in hosted and APM offerings. Mercury anticipates a

continued flow of launches to capitalize on early successes in these segments over the next year. Also, Mercury will use its strength in product development to penetrate new segments within the broader network infrastructure management software market, as it has done recently with its network security testing product, *SecureCheck*.

- ❑ The company has recently secured a number of lucrative long term contacts that will guarantee a healthy increase in sales and revenues. Some of these major contracts include those with the BEA Weblogic Server, Citrix, and Freshwater Software.

INDUSTRY INSIGHT

Recent News***Mercury Interactive and Freshwater Software Announced the Immediate Availability of Site Scope 7 in order to Speed Up the Overall Implementation and Monitoring Process***

Freshwater Software, a wholly-owned subsidiary of Mercury Interactive Corporation MERQ, the leading provider of enterprise testing and application performance management solutions, recently announced the immediate availability of Site Scope 7. Site Scope 7 includes customizable templates that automate the configuration process, allowing operations staff to begin monitoring application server performance within minutes of deploying the system. The new templates work with all popular industry standard Web and application servers, and allow managers to monitor critical performance specifications unique to each platform. This new version adds support for BEA's Web Logic, IBM's Web Sphere application servers, along with 16 other new monitors and incorporates new functionality that speeds implementation by allowing IT managers to quickly tailor Site Scope to monitor complex multi-platform network architectures.

Mercury Interactive and Citrix Systems Team to Create Highly Optimized Enterprise Class Load Testing and Performance Management Solution For Citrix-Based Systems

Mercury Interactive and Citrix Systems have co-developed the first scalable testing and performance solution for the ICA protocol. Citrix application serving software enables organizations to provide remote access to applications running on central servers from a wide variety of client devices and platforms. The LoadRunner for Citrix solution will enable customers to minimize costs by optimizing the performance and scalability of their Citrix solutions, identifying end-user performance issues, and maximizing application performance. With Topaz for Citrix, users can save valuable time and resources by monitoring, detecting, diagnosing and quickly resolving application performance issues.

Mercury Interactive Announces Support for Testing and Performance Management Of BEA WebLogic Server Applications Solutions Ensure Applications Scale to Achieve Peak Performance

The integration of industry leading solutions from BEA and Mercury Interactive enables customers to use LoadRunner and Topaz to help pinpoint problems across all layers of an application to optimize and maintain the performance of solutions built on the world's number one Java application server. By using these solutions, organizations can accelerate their BEA WebLogic implementations, identify end-user performance and availability issues, and maximize application performance, often without investing in additional infrastructure.

Outlook Software remains one of the most innovative and fastest growing sectors of the global economy, generating revenues of more than \$150 billion every year. About half of those sales come from software applications, with the remainder split by development tools and infrastructure software (operating systems, network management, middleware, and security software). Today the industry remains in the growth stage of its life cycle. Demand is increasing throughout the world. Consumption is greater in industrial countries, but is seeing faster growth rates in developing markets. Technical innovation and the ever-changing tides of the Internet pose an increasing challenge for established software companies. Given these positives, Mercury Interactive Co. will be well positioned to take advantage of an economic rebound.

INVESTMENT IMPACT

Investment Risks

❑ Mercury Interactive faces challenges that may dampen its normalized growth rate, such as business transition and market-penetration issues. In addition, Mercury has become so dominant in the Web performance management market that its competition could engage in a price war in a last attempt to remain relevant in the marketplace.

❑ Due to the increasing attractiveness of the software and computer services industry, competition in this market has rapidly strengthened. The continued health even in tough economic times and vast potential for future growth in this market, have resulted in an increased effort by competitors to capture market share from Mercury Interactive Co. These companies include SAP, Oracle, Microsoft.

Overall Effect on Wright Fund

The Information Technology Sector is currently 16.1% underweight, and the Information Technology research team has decided that the sector should be market weight. My recommendation will bring us closer to market weight, leaving each of the other two analyst's ample opportunities to make a stock recommendation.

VALUATION

Terry Ledbetter's

Valuation Model Using a 33% growth rate for the first five years, 20% growth rate for the next 5 years and finally a 5% growth rate till terminal value, the valuation model values Mercury Interactive's stock at \$50.59, an almost 30% premium to the current price.

Value Pro Net

Online Valuation Value Pro Valuation model values Mercury Interactive's stock at \$50.07 a 36% premium to the current price.

Conclusion I believe that a target valuation between \$50.00 and \$52.00 per share is an accurate one. It is true that this is dependent on high earnings growth rates but I believe that these rates are consistent with my forecast for the future growth of the Software and Computer Services sector and especially the growth of the Customer Relation Management software and computer services segment. This high growth rates is also consistent with the analyst consensus estimates which forecast a growth rate of over 33.00% in five years and who also estimate target stock prices at approximately \$50.

FINANCIAL INFORMATION

Earnings & Growth Estimates:

Earnings Estimates	Qtr(3/02)	Qtr(6/02)	FY(12/02)	FY(12/03)
Average Estimate	0.10	0.14	0.66	0.89
Number of Analysts	19	17	21	15
High Estimate	0.14	0.15	0.73	0.95
Low Estimate	0.09	0.12	0.60	0.83
Year Ago EPS	0.18	0.18	0.60	0.66
Growth Rate	-43.86%	-23.20%	10.16%	34.35%

Zacks Industry: COMP-SOFTWARE

Earnings Growth Rates	Last 5 yrs.	FY 2002	FY 2003	Next 5 yrs.	02 P/E
Company	38.80%	8.40%	34.40%	32.90%	66.10
Industry	17.10%	13.30%	29.70%	27.50%	124.50
S&P 500	8.40%	-21.70%	12.40%	7.50%	26.50

Zacks Industry: COMP-SOFTWARE

RATIO COMPARISON

Valuation Ratios	MERQ	BEAS	MSFT	ORCL	Industry	Sector	S&P 500
P/E Ratio (TTM)	206.24	NM	58.40	32.87	53.50	46.13	31.45
Price to Cash Flow (TTM)	67.91	600.77	46.24	29.04	43.67	41.84	24.14
% Owned Institutions	88.40	61.05	49.40	40.24	41.90	45.35	60.81
Dividends	MERQ	BEAS	MSFT	ORCL	Industry	Sector	S&P 500
Dividend Yield	0.00	0.00	0.00	0.00	0.33	0.67	1.71
Dividend Yield - 5 Year Avg.	0.00	0.00	0.00	0.00	0.01	0.20	1.25
Dividend 5 Year Growth Rate	NM	NM	NM	NM	-32.24	-28.73	2.10
Growth Rates(%)	MERQ	BEAS	MSFT	ORCL	Industry	Sector	S&P 500
Sales (TTM) vs TTM 1 Yr. Ago	17.59	19.05	12.92	-1.93	12.46	-5.51	2.56
Sales - 5 Yr. Growth Rate	45.93	72.14	22.82	20.79	29.72	24.60	13.49
EPS (TTM) vs TTM 1 Yr. Ago	-73.04	NA	-39.20	-61.91	-28.28	-33.49	-7.43
EPS - 5 Yr. Growth Rate	23.24	NM	26.42	34.31	27.37	13.78	11.69
Net Profit Margin (TTM)	4.94	-3.66	22.65	23.70	12.87	1.63	8.21
Net Profit Margin - 5 Yr. Avg.	13.46	-7.48	33.87	25.24	19.72	10.86	11.33
Management Effectiveness (%)	MERQ	BEAS	MSFT	ORCL	Industry	Sector	S&P 500
Return On Assets (TTM)	1.80	-2.17	10.04	24.55	6.93	0.84	5.69
Return On Assets - 5 Yr. Avg.	8.17	-8.19	22.56	27.81	14.01	9.34	8.09
Return On Investment (TTM)	2.21	-2.91	12.17	38.21	9.99	2.52	9.22
Return On Investment - 5 Yr. Avg.	10.97	-18.55	29.38	48.55	21.90	14.26	12.96

Recent Annual Financials (from MSN Money)

Annual Income Statement (Values in Millions)	12/2000	12/1999	12/1998	12/1997	12/1996
Sales	307.0	187.7	121.0	76.7	54.6
Cost of Sales	32.2	20.3	13.9	6.8	3.4
Gross Operating Profit	274.8	167.4	107.1	69.9	51.2
Selling, General & Admin. Expense	201.7	123.4	80.3	59.6	42.9
Other Taxes	0.0	0.0	0.0	0.0	0.0
EBITDA	73.1	44.0	26.8	10.3	8.3
Depreciation & Amortization	9.6	6.1	4.1	3.7	3.3
EBIT	63.5	37.9	22.7	6.6	5.0
Other Income, Net	17.5	6.0	4.6	3.1	3.4
Total Income Avail for Interest Exp.	81.0	41.7	27.3	9.7	5.8
Interest Expense	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Pre-tax Income	81.0	41.7	27.3	9.7	5.8
Income Taxes	16.2	8.8	5.5	2.9	1.2
Special Income/Charges	0.0	-2.2	0.0	0.0	-2.6
Net Income from Cont. Operations	64.7	33.1	21.8	6.7	4.6
Net Income from Discont. Ops.	0.0	0.0	0.0	0.0	0.0
Net Income from Total Operations	64.7	33.1	21.8	6.7	4.6
Normalized Income	64.7	35.3	21.8	6.7	7.2
Extraordinary Income	0.0	0.0	0.0	0.0	0.0
Income from Cum. Eff. of Acct. Chg.	0.0	0.0	0.0	0.0	0.0
Income from Tax Loss Carryforward	0.0	0.0	0.0	0.0	0.0
Other Gains (Losses)	0.0	0.0	0.0	0.0	0.0
Total Net Income	64.7	33.1	21.8	6.7	4.6
Dividends Paid per Share	0.00	0.00	0.00	0.00	0.00
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Basic EPS from Cont. Operations	0.81	0.44	0.31	0.11	0.08
Basic EPS from Discont. Operations	0.00	0.00	0.00	0.00	0.00
Basic EPS from Total Operations	0.81	0.44	0.31	0.11	0.08
Diluted EPS from Cont. Operations	0.70	0.39	0.28	0.10	0.07
Diluted EPS from Discont. Operations	0.00	0.00	0.00	0.00	0.00

Diluted EPS from Total Operations	0.70	0.39	0.28	0.10	0.07
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Annual Balance Sheet (Values in Millions)	12/2000	12/1999	12/1998	12/1997	12/1996
Assets					
Current Assets					
Cash and Equivalents	226.4	113.3	96.1	57.2	44.3
Receivables	76.2	46.7	33.9	27.4	21.6
Inventories	0.0	0.0	0.3	0.3	0.6
Other Current Assets	423.7	74.7	23.3	34.3	30.0
Total Current Assets	726.3	234.8	153.6	119.2	96.5
Non-Current Assets					
Property, Plant & Equipment, Gross	112.2	67.5	43.5	29.9	17.5
Accum. Depreciation & Depletion	29.3	20.6	15.2	10.6	7.1
Property, Plant & Equipment, Net	82.9	46.9	28.3	19.3	10.4
Intangibles	0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets	167.2	15.6	21.7	5.0	10.5
Total Non-Current Assets	250.1	62.5	50.0	24.3	20.9
Total Assets	976.4	297.2	203.6	143.4	117.5
Liabilities & Shareholder's Equity					
Current Liabilities					
Accounts Payable	12.9	8.5	4.6	4.0	1.9
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	160.4	89.2	53.4	26.4	16.6
Total Current Liabilities	173.3	97.7	58.0	30.4	18.5
Non-Current liabilities					
Long Term Debt	500.0	0.0	0.0	0.0	0.0
Deferred Income Taxes	0.0	0.0	0.0	0.0	0.0
Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total Non-Current Liabilities	500.0	0.0	0.0	0.0	0.0
Total Liabilities	673.3	97.7	58.0	30.4	18.5

Shareholder's Equity

Preferred Stock Equity	0.0	0.0	0.0	0.0	0.0
Common Stock Equity	303.0	199.5	145.6	113.0	99.0

Total Equity	303.0	199.5	145.6	113.0	99.0
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Total Liabilities & Stock Equity	976.3	297.2	203.6	143.4	117.5
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Total Common Shares Outstanding	81.1 Mil	78.1 Mil	73.3 Mil	67.0 Mil	64.2 Mil
Preferred Shares	0.0	0.0	0.0	0.0	0.0
Treasury Shares	0.0	0.0	0.0	0.0	0.0

Annual Cash Flow (in Millions)	12/2000	12/1999	12/1998	12/1997	12/1996
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Cash Flow from Operating Activities

Net Income (Loss)	64.7	33.1	21.8	6.7	4.6
Depreciation and Amortization	9.6	6.1	4.1	3.7	3.3
Deferred Income Taxes	-2.3	-2.8	-1.8	0.3	0.0
Operating (Gains) Losses	13.1	0.1	0.0	0.0	0.0
Extraordinary (Gains) Losses	0.0	0.0	0.0	0.0	0.0

Change in Working Capital

(Increase) Decr. in Receivables	-30.8	-12.9	-7.9	-7.9	-7.1
(Increase) Decr. in Inventories	0.0	0.0	0.0	0.3	0.0
(Increase) Decr. in Other Curr. Assets	-2.1	-3.3	-1.9	0.5	-0.4
(Decrease) Incr. in Payables	4.7	4.1	0.9	1.8	0.6
(Decrease) Incr. in Other Curr. Liabs.	73.2	36.6	26.7	11.7	-2.5
Other Non-Cash Items	0.0	0.0	0.0	0.0	0.0
Net Cash from Cont. Operations	130.1	61.1	41.9	17.1	-1.6
Net Cash from Discont. Operations	0.0	0.0	0.0	0.0	0.0

Net Cash from Operating Activities	130.1	61.1	41.9	17.1	-1.6
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Cash Flow from Investing Activities**Cash Flow Provided by:**

Sale of Property, Plant, Equipment	0.0	0.0	0.0	0.0	0.0
Sale of Short Term Investments	275.9	28.6	35.1	0.5	0.0

Cash Used by:

Purchase of Property, Plant, Equipmt.	-45.6	-23.9	-14.9	-11.8	-4.6
Purchase of Short Term Investments	-758.3	-68.3	-33.8	0.0	0.0
Other Investing Changes Net	0.0	0.0	0.0	-0.5	2.8

Net Cash from Investing Activities	-528.0	-63.6	-13.6	-11.8	-1.8
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Cash Flow from Financing Activities

Cash Flow Provided by:

Issuance of Debt	500.0	0.0	0.0	0.0	0.0
Issuance of Capital Stock	28.6	20.4	16.3	7.6	1.9

Cash Used for:

Repayment of Debt	0.0	0.0	0.0	0.0	0.0
Repurchase of Capital Stock	0.0	0.0	-5.1	0.0	0.0
Payment of Cash Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Charges, Net	-17.1	0.0	0.0	0.0	0.0

Net Cash from Financing Activities	511.5	20.4	11.1	7.6	1.9
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Effect of Exchange Rate Changes	-0.6	-1.4	-0.6	0.0	0.1
Net Change in Cash & Cash Equivalents	113.0	16.5	38.9	12.9	-1.5
Cash at Beginning of Period	113.3	96.8	57.2	44.3	45.9
Free Cash Flow	84.5	37.2	27.0	5.3	-6.2

CHARTS / TECHNICAL

Mercury Interactive - One Year Chart



INFORMATION TECHNOLOGY CORRELATION MATRIX
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	<i>MERQ</i>	<i>BEAS</i>	<i>MSFT</i>	<i>ORCL</i>
MERQ	1.00	0.92	0.64	0.60
BEAS	0.92	1.00	0.48	0.56
MSFT	0.64	0.48	1.00	0.68
ORCL	0.60	0.56	0.68	1.00