

Robert J. Schafer
schafrob@rice.edu

Siebel Systems Inc. NYSE: SEBL

Buy

March 05, 2002 S&P Sector – Information Technology Industry – Software/Computer Services

MARKET DATA

Price	52-Wk Range	Price Target	Shares Out.	Market Cap.	Beta	Dividend	Price to Earnings	Book Value	LT Debt/Equity	Credit Rating
3-05-02 Close	Low Mid-Sept.	Valuation Result	(Million)	(Billion)	Bloomberg	Yield	Forward	Per Share	Per Share	Moody's/S&P
\$32.94	12.24 to 55.90	\$41.00	466.950	\$15.38	2.50	N/A	65.88	\$8.27	%16	BB



COMPANY OVERVIEW – FROM YAHOO! FINANCE

Siebel Systems, Inc. is the world's leading provider of eBusiness application software. Siebel Business Applications comprise a family of Web-based applications software designed to meet the sales, marketing and customer service information system requirements of even the largest multinational organizations. Siebel eBusiness Applications enable organizations to sell to, market to, and service their customers across multiple channels, including the Web, call centers, field, resellers, retail and dealer networks. By employing comprehensive eBusiness applications to better manage their customer relationships, the Company's customers achieve high levels of customer satisfaction and continue to be competitive in their markets.

INVESTMENT RECOMMENDATION:

Buy 500 shares of SEBL

REASONS FOR RECOMMENDATION

- ❑ Siebel's total 4th Quarter Earnings of \$481 million exceeded First Call consensus estimates by over 9%. In addition, the quarter's earnings per share (EPS) also exceeded First Call Consensus by \$0.04. These strong financial results are a strong indication of the continued growth of the company as well as the entire Software/Computer Services sector within the S&P 500.
- ❑ The company has recently secured a number of lucrative long term contracts that will guarantee a healthy increase in sales and revenues. Some of these major contracts include those with the Rockwell Automation, CSC holdings, the U.S. Navy, GM, Banc of America, Eli Lilly, Marks & Spencer, and CSFB.
- ❑ The company recently released its latest platform Siebel 7 which now provides the company with a vertical advantage that its competitors are unable to match. One powerful aspect of the new platform which separates it from those of its competitor's is its integration of the Banter Relationship Model Engine. This enables the platform to automate more transactions with the utilization of linguistics. Siebel has been able this Seibel 7 platform to cater to a number of specific industries to include wireless communications, media, oil and gas (energy), medical products, chemicals, retail, and travel and hospitality. Each industry specific application is a version of the original platform that targets the unique functionality, analytics and business processes of each given industry. In addition to these industry application products, the company has also devoted a large amount of resources to the enhancement of existing applications that cater to financial services, communications, life sciences, consumer goods, industrial and public sectors.
- ❑ According to analyst estimates, the CRM market is also expected to increase five-fold by the year 2004. In addition, I believe that as the economy begins to recover the demand for CRM software/computer services will greatly increase as companies begin to grow and as business to business B2B volume also increases as well.

INVESTMENT RATIONALE

Recent News

On March 06, 2002, Siebel announced the appointment of Peter Mark Droste, former Compaq executive, to the position of Vice President of Northern and Central Europe for Siebel Systems. During his final three years with the company, Droste ran Compaq Germany, Compaq's second largest business in Europe. His experience with enterprise application customers will augment the company's ability to provide the best ERM solutions to the European market.

On March 05, 2002, Siebel announced that it will increase the strength of its Siebel Alliance Program through the expansion of its partnership with BMC software, who will now become a Strategic Software Partner with Siebel. This partnership will further increase the use of the company's Siebel & 7 platform in the ERM software market.

On March 04, 2002, Oracle, one of Siebel's main competitors released its profits for the third quarter ended February 28th, which were \$0.09 a share instead of the \$0.10 a share that it had previously estimated. This is the fourth time in the last five quarters that Oracle has been forced to issue profit warnings.

Outlook

Siebel Systems, Inc. is the world's leading provider of eBusiness application software and will remain at the top for years to come because of its ability to capitalize on the rapidly changing trends within the industry. The company has had in the past and still will have in the near future the first mover advantage. As a result of already possessing a proven platform, the company is now able to be the first company in the industry to gain vertical advantage through development of an industry customized product line. Siebel's main competitors are largely still trying to develop and perfect a proven software platform and the core competencies necessary to implement and service those customers who use that platform. Ongoing cost-cutting and productivity measures should continue to improve the company's efficiency and expand free cash flow. Despite the fact that the growth rate of the CRM market has slowed, as a result of the sluggish economy in the short run, the future displays a positive outlook for the growth of this market in the long-run. I believe that the demand for CRM software, which allows companies to cut costs and provide better customer service through the automation of front office operations, will only increase in the future. The Cahners In-Stat Group (IT consulting firm) predicts that this market will expand at a compound annual growth rate of approximately 34% over the next four years. Siebel is poised to take advantage of this long term market growth because of their strong product line and the ability to provide the best customized customer computer services. Given these positives, Siebel will be well positioned to take advantage of an economic rebound.

INVESTMENT IMPACT

Investment Risks

- ☐ Due to the increasing attractiveness of the Customer Relations Management 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 Siebel. These companies include SAP, Oracle, Peoplesoft.
- ☐ The shift in demand to customized product offerings in the form of specialized and integrated product suites from a "best of breed" software emphasis will provide new challenges for Siebel which now can no longer rely on their proven platform to remain the market leader.
- ☐ The recent announcement by Microsoft Corporation that it will soon launch its first major new product for the CRM market, in order to cater to the increased desire of small and mid-sized companies to be able to streamline their ability to track and manage customer accounts more efficiently, will ultimately increase competition for Siebel's large share of this market.

**Overall Effect on
Wright Fund**

The Information Technology Sector is currently 17.8% underweight, and the Industrials 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 analysts ample opportunities to make a stock recommendation.

VALUATION

Terry Ledbetter's

Valuation Model Using a 22% growth rate for the first five years, 15% growth rate for the next 5 years and finally a 5% growth rate till terminal value, (free cash flows at \$0.65 per share), the valuation model values Siebel's stock at \$40.22, an almost 9% premium to the current price.

Value Pro Net

Online Valuation Using the default settings with a 35% growth, the Value Pro DCF model values Siebel's stock at \$41.74, an almost 10% premium to the current price.

Conclusion I believe that a target valuation between \$40.00 and \$41.00 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 27.00% in five years and who also estimate target stock prices between \$41.00 on the low end to \$45.00 per share on the high end.

FINANCIAL INFORMATION

Earnings & Growth Estimates:

Earnings Estimates	Qtr(3/02)	Qtr(6/02)	FY(12/02)	FY(12/03)
Average Estimate	0.12	0.14	0.58	0.75
Number of Analysts	21	20	24	18
High Estimate	0.13	0.15	0.64	0.80
Low Estimate	0.08	0.09	0.39	0.61
Year Ago EPS	0.15	0.15	0.49	0.58
Sales Growth Rate	-20.95%	-9.67%	18.54%	28.74%

Earnings Growth Rates	Last 5 yrs.	FY 2002	FY 2003	Next 5 yrs.	02 P/E
Company	N/A	16.20%	28.70%	27.00%	70.60
Industry	17.10%	13.30%	29.70%	27.40%	115.10
S&P 500	8.40%	21.70%	12.40%	7.50%	26.20

Zacks Industry: COMP-SOFTWARE

Income Statement

Period Ending:	Sep 30, 2001	Jun 30, 2001	Mar 31, 2001	Dec 31, 2000
Total Revenue	\$428,487,000	\$549,742,000	\$588,741,000	\$614,530,000
Cost Of Revenue	\$137,273,000	\$151,981,000	\$165,649,000	\$145,144,000
Gross Profit	\$291,214,000	\$397,761,000	\$423,092,000	\$469,386,000
Operating Expenses				
Research And Development	\$53,089,000	\$50,142,000	\$48,687,000	\$145,514,000
Selling General And Administrative Expenses	\$193,178,000	\$236,697,000	\$267,009,000	\$186,368,000
Non Recurring	N/A	N/A	N/A	\$26,502,000
Other Operating Expenses	N/A	N/A	N/A	N/A
Operating Income	\$44,947,000	\$110,922,000	\$107,396,000	\$111,002,000
Total Other Income And Expenses Net	\$10,921,000	\$10,596,000	\$14,699,000	\$31,366,000
Earnings Before Interest And Taxes	\$55,868,000	\$121,518,000	\$122,095,000	\$142,368,000
Interest Expense	N/A	N/A	N/A	\$17,909,000
Income Before Tax	\$55,868,000	\$121,518,000	\$122,095,000	\$124,459,000
Income Tax Expense	\$20,671,000	\$44,961,000	\$45,174,000	\$60,478,000
Equity Earnings Or Loss Unconsolidated Subsidiary	N/A	N/A	N/A	N/A
Minority Interest	N/A	N/A	N/A	N/A
Net Income From Continuing Operations	\$35,197,000	\$76,557,000	\$76,921,000	\$63,981,000
Nonrecurring Events				
Discontinued Operations	N/A	N/A	N/A	N/A
Extraordinary Items	N/A	N/A	N/A	N/A
Effect Of Accounting Changes	N/A	N/A	N/A	N/A
Other Items	N/A	N/A	N/A	N/A
Net Income	\$35,197,000	\$76,557,000	\$76,921,000	\$63,981,000
Preferred Stock And Other Adjustments	N/A	N/A	N/A	N/A
Net Income Applicable To Common Shares	\$35,197,000	\$76,557,000	\$76,921,000	\$63,981,000

Balance Sheet

Period Ending	Sep 30, 2001	Jun 30, 2001	Mar 31, 2001	Dec 31, 2000
Current Assets				
Cash And Cash Equivalents	\$776,279,000	\$831,545,000	\$910,555,000	\$751,384,000
Short Term Investments	\$773,283,000	\$664,169,000	\$431,289,000	\$415,485,000
Net Receivables	\$476,245,000	\$514,213,000	\$560,909,000	\$583,183,000
Inventory	N/A	N/A	N/A	N/A
Other Current Assets	\$76,061,000	\$86,232,000	\$71,809,000	\$92,825,000
Total Current Assets	\$2,101,868,000	\$2,096,159,000	\$1,974,562,000	\$1,842,877,000
Long Term Assets				
Long Term Investments	N/A	N/A	N/A	N/A
Property Plant And Equipment	\$349,663,000	\$329,764,000	\$267,911,000	\$189,610,000
Goodwill	N/A	N/A	N/A	N/A
Intangible Assets	N/A	N/A	N/A	N/A
Accumulated Amortization	N/A	N/A	N/A	N/A
Other Assets	\$99,894,000	\$98,464,000	\$104,545,000	\$97,546,000
Deferred Long Term Asset Charges	\$31,708,000	\$31,708,000	\$31,708,000	\$31,708,000
Total Assets	\$2,583,133,000	\$2,556,095,000	\$2,378,726,000	\$2,161,741,000
Current Liabilities				
Accounts Payable	\$363,076,000	\$384,062,000	\$384,577,000	\$379,272,000
Short Term And Current Long Term Debt	N/A	N/A	N/A	N/A
Other Current Liabilities	\$230,689,000	\$250,944,000	\$247,282,000	\$202,523,000
Total Current Liabilities	\$593,765,000	\$635,006,000	\$631,859,000	\$581,795,000
Long Term Debt	\$300,000,000	\$300,000,000	\$300,000,000	\$300,000,000
Other Liabilities	N/A	N/A	N/A	N/A
Deferred Long Term Liability Charges	N/A	N/A	N/A	N/A
Minority Interest	N/A	N/A	N/A	N/A

Negative Goodwill	N/A	N/A	N/A	N/A
Total Liabilities	\$893,765,000	\$935,006,000	\$931,859,000	\$881,795,000
Stock Holders Equity				
Misc Stocks Options Warrants	N/A	N/A	N/A	N/A
Redeemable Preferred Stock	N/A	N/A	N/A	N/A
Preferred Stock	N/A	N/A	N/A	N/A
Common Stock	\$462,000	\$460,000	\$452,000	\$442,000
Retained Earnings	\$414,923,000	\$379,726,000	\$303,169,000	\$226,248,000
Treasury Stock	N/A	N/A	N/A	N/A
Capital Surplus	\$1,272,470,000	\$1,255,989,000	\$1,158,671,000	\$1,062,599,000
Other Stockholder Equity	\$1,513,000	(\$15,086,000)	(\$15,425,000)	(\$9,343,000)
Total Stockholder Equity	\$1,689,368,000	\$1,621,089,000	\$1,446,867,000	\$1,279,946,000
Net Tangible Assets	\$1,689,368,000	\$1,621,089,000	\$1,446,867,000	\$1,279,946,000

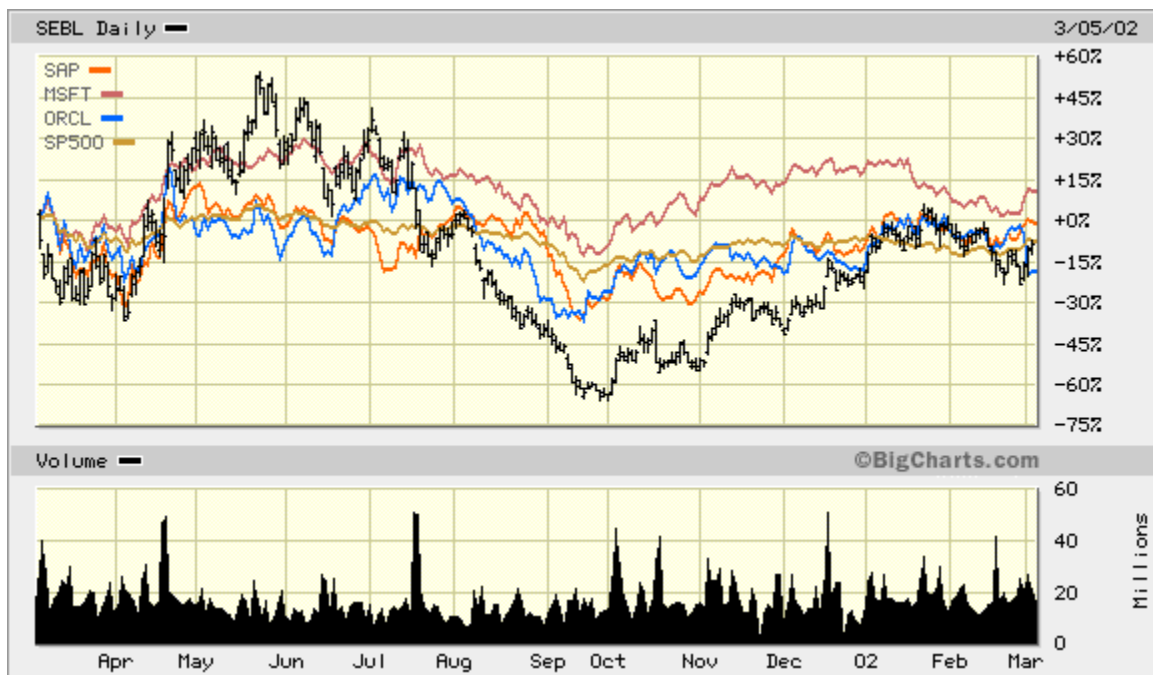
Cash Flow Statement

Period Ending:	Sep 30, 2001	Jun 30, 2001	Mar 31, 2001	Dec 31, 2000
Net Income	\$35,197,000	\$76,557,000	\$76,921,000	\$63,981,000
Cash Flow Operating Activities				
Depreciation	\$34,303,000	\$25,925,000	\$21,621,000	\$19,610,000
Adjustments To Net Income	\$12,081,000	\$25,308,000	\$42,690,000	\$76,920,000
Changes in Operating Activities				
Changes In Accounts Receivables	\$28,759,000	\$40,201,000	\$14,258,000	(\$183,533,000)
Changes In Liabilities	(\$41,241,000)	\$3,147,000	\$49,176,000	\$69,094,000
Changes In Inventories	N/A	N/A	N/A	N/A
Changes In Other Operating Activities	\$10,171,000	(\$14,423,000)	\$21,346,000	(\$48,534,000)
Cash Flows From Operating Activities	\$79,270,000	\$156,715,000	\$226,012,000	(\$2,462,000)

Cash Flow Investing Activities				
Capital Expenditures	(\$46,247,000)	(\$80,500,000)	(\$91,944,000)	(\$62,750,000)
Investments	(\$126,023,000)	(\$222,129,000)	(\$21,653,000)	(\$139,847,000)
Other Cashflows From Investing Activities	\$18,092,000	(\$12,639,000)	\$13,681,000	\$25,000
Cash Flows From Investing Activities	(\$154,178,000)	(\$315,268,000)	(\$99,916,000)	(\$202,572,000)
Cash Flow Financing Activities				
Dividends Paid	N/A	N/A	N/A	N/A
Sale Purchase Of Stock	\$11,250,000	\$81,248,000	\$37,244,000	\$82,528,000
Net Borrowings	\$406,000	\$97,000	\$698,000	(\$299,000)
Other Cashflows From Financing Activities	N/A	N/A	N/A	N/A
Cash Flows From Financing Activities	\$11,656,000	\$81,345,000	\$37,942,000	\$82,229,000
Effect Of Exchange Rate	\$7,986,000	(\$1,802,000)	(\$4,867,000)	\$5,674,000
Change In Cash And Cash Equivalents	(\$55,266,000)	(\$79,010,000)	\$159,171,000	(\$117,131,000)

CHARTS-GRAPHS/TECHNICAL

Siebel One Year Chart (Volume in millions below)




INFORMATION TECHNOLOGY CORRELATION MATRIX

	<i>SEBL</i>	<i>MSFT</i>	<i>SAP</i>	<i>ORCL</i>
<i>SEBL</i>	1			
<i>MSFT</i>	0.732952	1		
<i>SAP</i>	0.758566	0.653128	1	
<i>ORCL</i>	0.746648	0.63236	0.631085	1