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*Internet Client and Collaboration  
3 Year Business Outlook*

Tuesday, February 11, 1997

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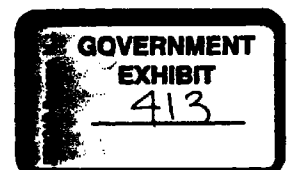
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*Agenda*

- ◆ Objectives and Metrics
- ◆ Competition
- ◆ Key Levers/Strategies
- ◆ Product Plans
- ◆ Risk Factors
- ◆ Issues

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## Objectives

- ◆ Build browser share
- ◆ Build email client share
- ◆ Rationalize IE, email and Office to deliver differentiated and profitable collaboration products

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## Metrics

- ◆ Be number 1 in IB browser share: (really)??
  - ◆ Grow IE IB share to 60% by FY00
  - ◆ NSCP = 38%
- ◆ Be number 1 in IB email client share:
  - ◆ Grow Email client IB share to 30% by FY00
  - ◆ NSCP = 14%, IBM/Lotus = 15%
- ◆ Correctly position IE, Outlook and Office in the market:
  - ◆ Execute upsell strategy from IE to Outlook to Office
  - ◆ Generate revenues from Outlook standalone of \$250MM by FY00
  - ◆ Assume leadership from Notes in groupware client space

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## IE 4 Product Plan

- ◆ Delivering the Web PC to Your Desktop
  - ◆ True Web Integration
  - ◆ Personal Content Delivery, Default Content
  - ◆ Scalable Collaboration and Communication (Suite)
  - ◆ Best Browser
  - ◆ Great Client for Corporations
  - ◆ Offline/Mobile use
- ◆ Risks
  - ◆ Late (After Communicator, miss OEM window)
  - ◆ Performance/compatibility
  - ◆ UI design (simpler, not more complex)
  - ◆ Cross platform late, support incomplete
  - ◆ roaming user, multi-login support

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## Outlook Web Release Major Goals

- ◆ Internet Standards support -- IMAP, LDAP, vCards, NNTP, S/MIME, HTML
- ◆ Great HTML client
- ◆ Performance, Size -- start to eliminate MAPI
- ◆ Ease of use
- ◆ IE4 UI rationalization
- ◆ New web features -- sharing folders, search results

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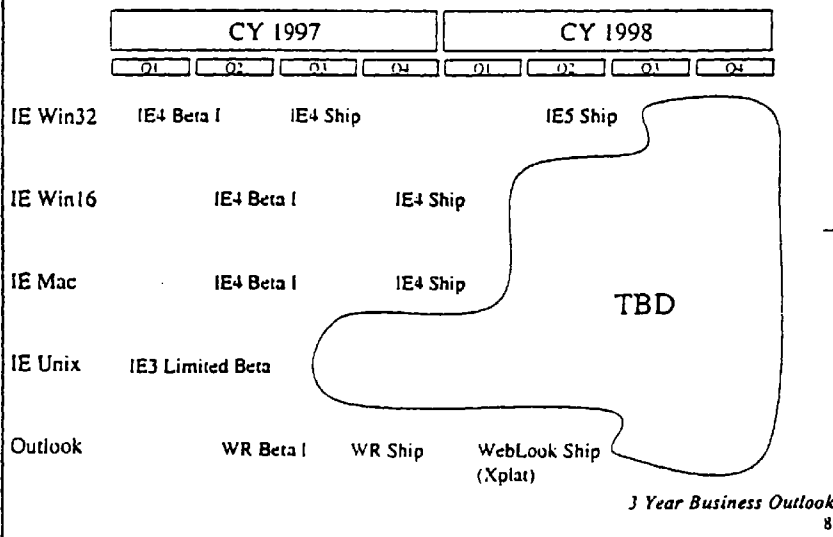
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## Early IE 5/6 Thinking

- ◆ Trident V2 -- better support for authoring, app development
- ◆ Better x-platform delivery
- ◆ Multimedia support
- ◆ Office 9 integration TBD
- ◆ Roaming user, multi-login support
- ◆ Outlook -- better x-platform, more size/perf/MAPI reduction, new protocols in sync with Exchange, Office 9 sync up, single code base for Outlook/Athena

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## Product Timeline



## Netscape Client Product line

Standard \$49	Navigator	Browsing
	Composer	Basic HTML authoring
	Conference	Real-time audio/data
	Collabra	Discussion groups
	Messenger	HTML mail
Price TBD	Constellation	Desktop UI
Pro \$79	Calendar	Calendar/scheduling
	AutoAdmin	Administration kit
	IBM Host	3270 emulation

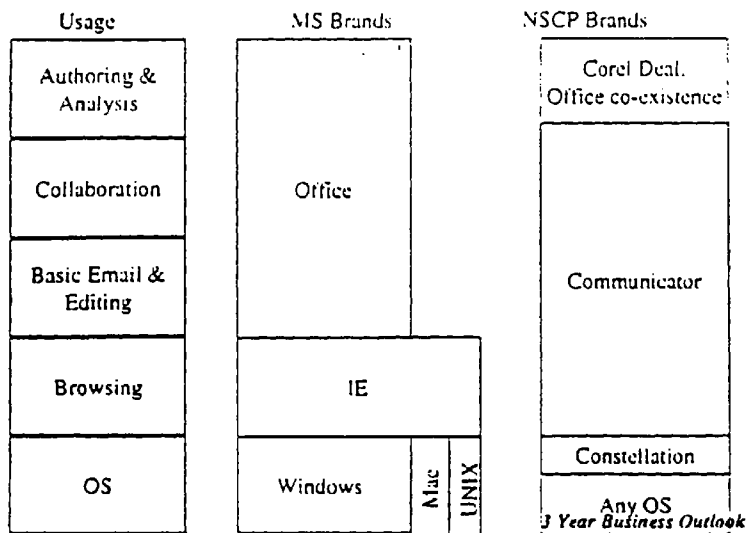
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## Netscape Strategy

- ◆ Change the battleground from browsing to collaboration with Communicator
  - ◆ Attack the middle ground between Windows and Office
  - ◆ Neutralize IE momentum, relevance
  - ◆ Use browser as entrée into groupware space
  - ◆ Use email as the trojan horse to the authoring market
  - ◆ Co-exist and attack other productivity categories
- ◆ Neutralize the OS and own the desktop with Constellation
- ◆ Highlight open and cross-platform, anti-Microsoft sentiment
- ◆ Partnerships

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## Netscape Strategy (cont'd)



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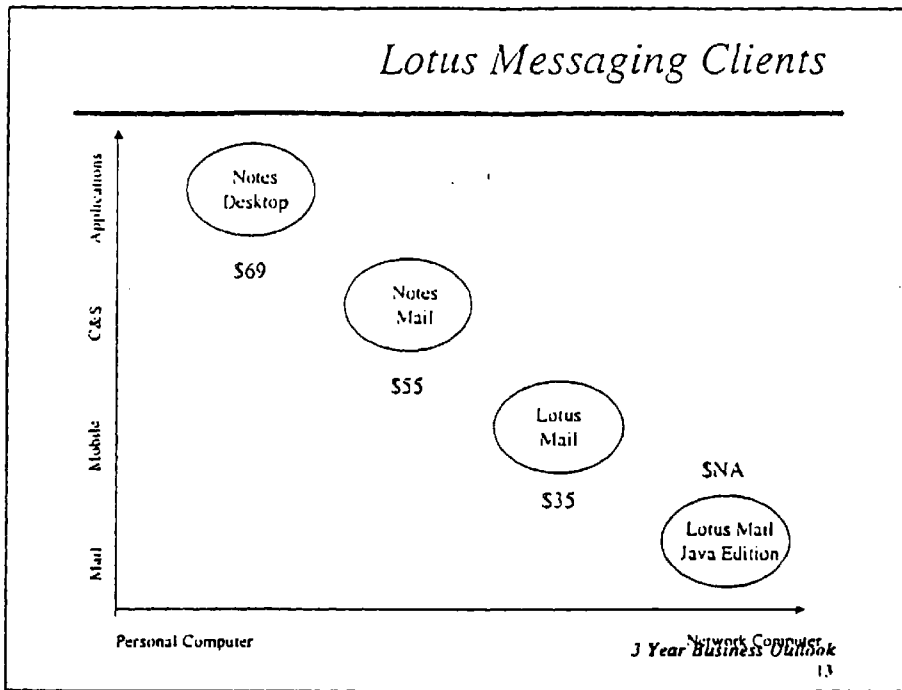
## IBM/Lotus

- ◆ Groupware, groupware, groupware
- ◆ Momentum
- ◆ Leverage selling infrastructure
  - ◆ IBM sales/support/consulting
  - ◆ Lotus Business Partners
  - ◆ Bottoms-up sell, breadth channel
- ◆ Confusing client story

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## Lotus Messaging Clients



## IBM/Lotus Client Product Drill Down

### Mail clients

Notes Designer	\$99/275
Notes Desktop	\$69
NotesMail	\$55
cc:mail	\$29
LotusMail	\$35
LotusMailJava	TBD
Cc:mail Web	\$29
Weblicator	\$29

### Calendar clients

Notes Designer	
Notes Desktop	
NotesMail	\$79
Organizer GS	\$79
Organizer 97	TBD
Calendar Java	TBD
PIM Java	

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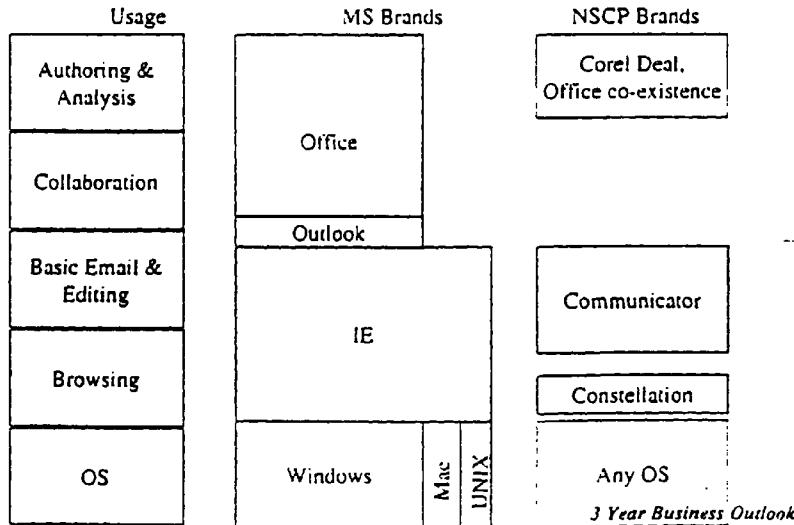
## *Microsoft Strategy*

- ◆ Force Communicator, Notes to compete against IE, Outlook and Office
- ◆ Bracket as inferior internet client and inferior collaboration client
  - ◆ Position IE as the free, superior browser and basic collaboration solution for the broadest market
  - ◆ Position Outlook as superior high-end collaboration client, best used and free with Office
  - ◆ Position Office as the complete, superior collaboration tool set
- ◆ Leverage IE momentum until Outlook Web Release and Web Look (x-platform) beta in late Summer
- ◆ Surround Communicator at retail
  - ◆ Drive retail share for IESK at \$19.99 and Outlook at \$99
  - ◆ Upsell to Office
- ◆ Make Outlook a cornerstone Office app moving forward

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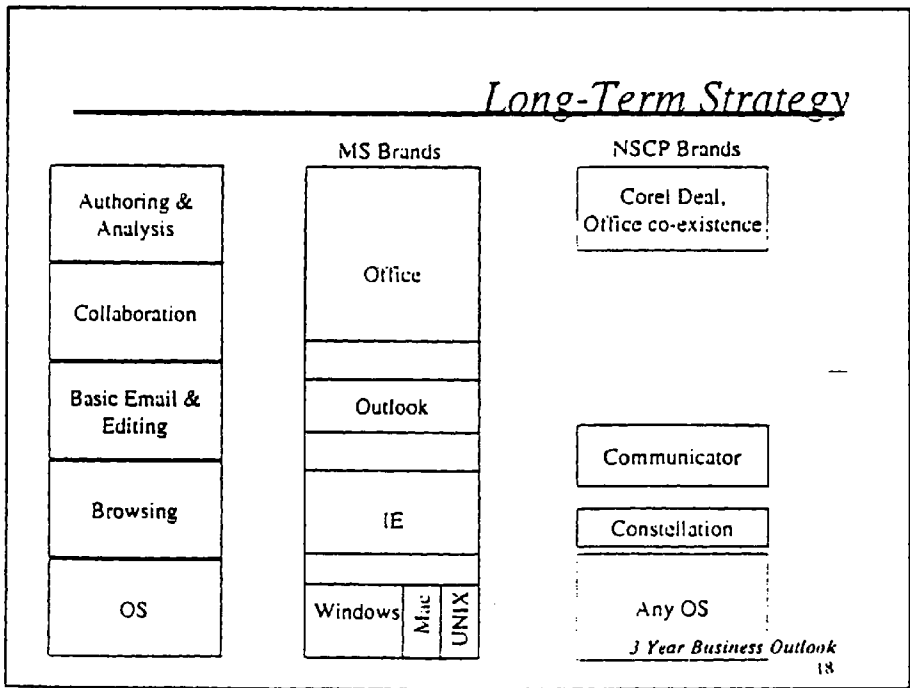
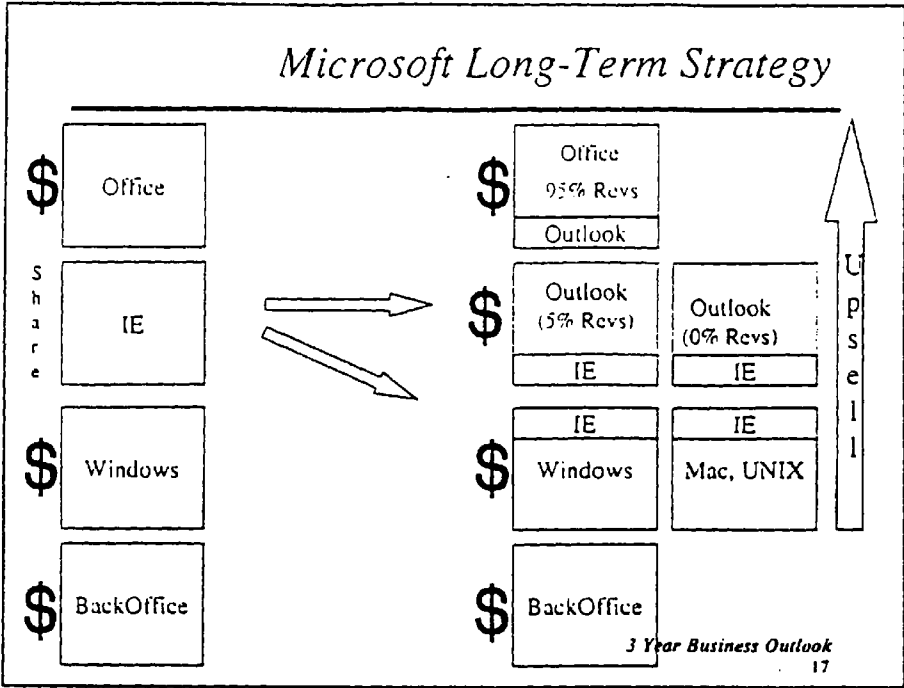
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## *Microsoft Near-Term Strategy*

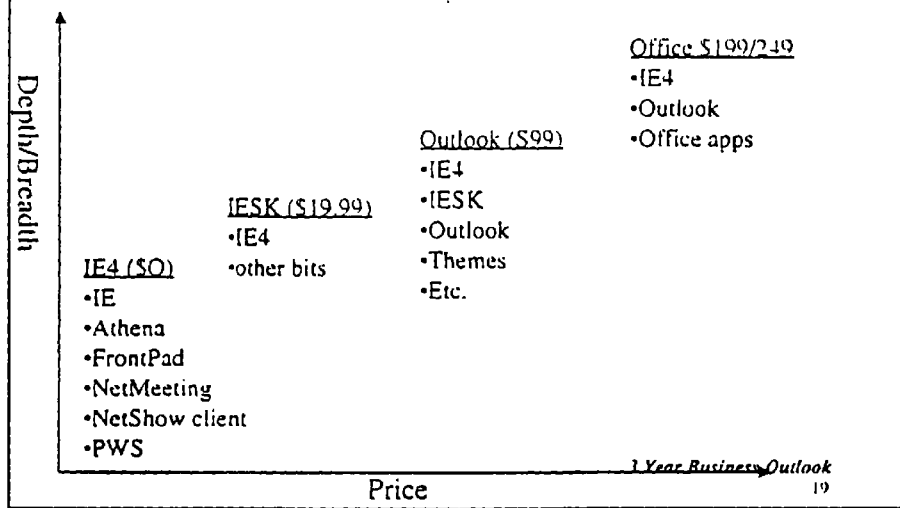


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## Branding, Packaging, Pricing Drill Down



## Key Risks

- ◆ Confusion, difficult to communicate
- ◆ X-platform, esp. Outlook
- ◆ Timing - waiting for an x-platform solution
- ◆ Exchange dependency
- ◆ Potential to cannibalize Office

## Competitive Levers

- ◆ Integration with MS products
- ◆ Distribution and partnerships
- ◆ Developer/SP franchise
- ◆ HTML leadership
- ◆ Scale

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## Integration

- ◆ Integrate Windows and Web
  - ◆ Shell integration, autoupdate, distribution primary 1997 weapons
  - ◆ Discussing Java, Trident, MM
- ◆ Integrate Office and IE
  - ◆ Make Outlook the best internet mail client
  - ◆ Scaleable Athena to Outlook architecture -- UI, AB, Store (upgradeable)
  - ◆ Email/Outlook integration with Office apps
- ◆ Integration with BackOffice
  - ◆ Common forms, object model, scripting
  - ◆ Best workgroup/workflow with IIS/Exchange
  - ◆ Admin. config mgmt, proxy services

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## *Distribution and Partnerships*

- ◆ Enhanced user experience with Windows and Office
- ◆ Trial approaches on OEM machines, msft.com
- ◆ Expand relationships with AOL and other OLS
- ◆ Gain browser and email share through ISP programs
- ◆ Get aggressive at retail

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## *Developer and SP focus*

- ◆ Integration into marquee tools
  - ◆ VB -- ActiveX, Trident (98)
  - ◆ Vegas -- Trident, AFC
  - ◆ Interdev -- Trident
- ◆ Pull Collab development into mainstream tools/platform effort
- ◆ Rally developers around the MS platform
  - ◆ PDC, events, SDKs, tools
  - ◆ SP education and mobilization
- ◆ Support and mobilize the field
  - ◆ Aggressive MCS approach
  - ◆ Sample apps, tools, training

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## *HTML Leadership*

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- ◆ Trident
  - ◆ 2.5D
  - ◆ Animation (Ihammer and AxA)
  - ◆ Data binding
  - ◆ Netscape compat -- layers, jsss
- ◆ But publishers are slowing down in adoption of new features
  - ◆ Specific deals with top sites
  - ◆ Position Active Desktop content as separate from mainstream website
  - ◆ Staff up xplat and netscape hosting work

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## *Scale*

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- ◆ Win32 Development resources -- we are out investing netscape
- ◆ Global Coverage
  - ◆ Netscape in 11 languages, IE in 30 and growing
- ◆ Purchased Code expenses
  - ◆ Notably codecs
- ◆ Windows distribution -- for IE, and as draw for partners
- ◆ Look at subsidized internet usage -- free email, free usage
- ◆ Paid content deals
- ◆ MCS resources

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## Response to Competitive Levers

- ◆ Communicator & Notes
  - ◆ Respond with Outlook/Office -- more features, better fit with existing environment
  - ◆ Get groupware development story straightened out with Exchange team
- ◆ X-platform
  - ◆ Evaluate trident plans -- get more focus
  - ◆ Pull Unix IE in house -- outsource has not worked
  - ◆ Continue Mac and Win3.1 investments
  - ◆ Eval and strengthen Outlook xplat plan

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## IE Marketing Review

Jan-June 1997 Budget: \$12.31M

PLANNING - JUNE 1997			
Program	Highlights	Investment	# of Users
AT&T User Upgrade program	<ul style="list-style-type: none"> <li>◆ Incentive upgrade by end of 1997</li> </ul>	\$2.1 Mtd	4.5 Mtd
Corporate Marketing	<ul style="list-style-type: none"> <li>◆ Share Drive field incentive</li> <li>◆ RCH Study, IS Advertising</li> <li>◆ Unix Seminar, Asian promo</li> </ul>	\$1.7 Mtd	1.1 Mtd
PR & Product Driven Demos	<ul style="list-style-type: none"> <li>◆ Re-launch Mac (win3.1)</li> <li>◆ Win 3.1 with Java</li> <li>◆ IE 4 beta prod. user reviews</li> </ul>	\$1.7 Mtd	2.0 Mtd
On-Line Partner Promotions	<ul style="list-style-type: none"> <li>◆ Direct and Performance Based Advertising</li> <li>◆ Usage Promotions: ESPN SportsZone, DuquandABC &amp; others</li> </ul>	D/L Ads: \$750K Usage Promos: \$1.1 Mtd	D/L Ads: \$80K Usage Promos: 750K
ISPM'S (win-Mac) and Post upgrades	<ul style="list-style-type: none"> <li>◆ Focus on marketing programs on key OEM/ISP channels</li> </ul>	\$2 Mtd	1.0 Mtd
Retail	<ul style="list-style-type: none"> <li>◆ Self-serve release on IESK</li> <li>◆ End user status and promo</li> <li>◆ Share drive</li> </ul>	\$0.75 Mtd	0.4 Mtd

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### Near Term Email Client Share Plans

- ◆ Expand AOL User Upgrade Promo to include email
- ◆ Aggressive ISP/OEM promos
  - ◆ Idea: "Use Athena or Outlook, get free mail for one year" promo
- ◆ Eudora Switcher Campaign, or strategic relationship
- ◆ Major PR push starting with Web release/WebLook beta
- ◆ Corporate SWAT team in workgroup space
- ◆ Outlook retail SKU marketing

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### Share and Revenue Implications

- ◆ Current IE Share Status
- ◆ IE Share Goal Model
- ◆ Email Market Overview
- ◆ Email Share Goal Model

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## *IE Share (Popular Web Site Hits)*

Site	PC Meter ranking	Share %		Site	PC Meter ranking	Share %	
		IE	Nav			IE	Nav
YAHOO.COM	2	18.4	71.6	TICKETMASTER.COM	247	23.8	74.7
EXCITE.COM	6	18.3	62.0	IMHOT.COM	338	18.0	72.0
INFOSEEK.COM	7	16.6	76.0	CDNOW.COM	338	18.5	58.3
ZDNET.COM	16	23.8	72.9	GAMESDOMAIN.COM	338	20.2	77.2
PATHFINDER.COM	21	15.0	70.0	CMP.COM	338	21.6	52.0
RELAUDIO.COM	23	23.0	74.0	BINGOZONE.COM	382	11.1	69.5
FOUR11.COM	25	29.0	62.0				
TRIPOD.COM	28	8.0	81.0				
CNET.COM	29	25.9	57.8				
SHAREWARE.COM	31	19.3	74.3				
SEARCH.COM	48	28.9	60.7				
WEATHER.COM	54	20.0	69.0				
DOWNLOAD.COM	56	26.5	67.4				
DEJANEWS.COM	61	16.5	64.8				
SPORTSLINE.COM	65	14.2	78.9				
WINDOWS95.COM	96	44.0	54.0				
INFOSPACE.COM	148	19.4	75.0				
HOTWIRED.COM	190	21.6	62.0				
NEWS.COM	190	31.4	58.2				
WARNERBROS.COM	218	22.0	71.0				
NBA.COM	218	26.5	68.9				

		Share %	
		IE	Nav
Average Share:		22.6	68.4

Other Sites	Share %	
	IE	Nav
Double Click (rep. 60+ sites)	21	78
Internet Link Exchange (rep. 70,000+ sites)	23	74
Interse Web Trends	31	57
Univ. of Illinois EWS	22	71
Zone Research Study	28	70

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## *IE Share (Call Downs)*

	Internet Explorer		Navigator		AOL (Non-MS)		All Other	
	Jun-96	Jan-97	Jun-96	Jan-97	Jun-96	Jan-97	Jun-96	Jan-97
<b>U.S. Browser Share:</b>								
U.S. Overall	6%	19%	52%	54%	20%	18%	22%	9%
U.S. Home	8%	23%	48%	50%	26%	22%	20%	5%
U.S. Workplace	4%	16%	60%	64%	10%	9%	25%	11%
<b>U.S. Share by Platform:</b>								
Win32	12%	21%	47%	51%	24%	23%	17%	5%
Win16	1%	2%	50%	53%	23%	39%	26%	6%
Mac	3%	16%	71%	56%	15%	25%	11%	3%
<b>International Browser Share: Qcc-97</b>								
Europe		31%						
Japan		25%						
Australia		23%						
Latin America		36%						
Africa/Middle East		32%						

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## IE Share Goal Model

(Units in 000's)

	1996	1997	1998	1999	2000
<b>U.S. Installed Base of PCs on Work</b>					
Home PC's	7,982	12,928	20,885	30,329	41,883
Workplace PC's	8,092	17,241	27,297	38,894	49,762
Total U.S. Installed Base on work	15,974	30,067	47,982	69,019	91,645
<b>U.S. on Work</b>					
Home	2.0	1.9	1.8	1.4	1.3
Workplace	0.8	0.8	0.7	0.8	0.8
<b>U.S. users on Work</b>					
Home	15,724	23,854	32,703	43,635	54,232
Workplace	4,474	13,793	19,041	23,212	29,697
Avg. for overlap of home/workplace	-3,560	-7,588	-10,472	-12,788	-16,421
Total	18,638	29,059	40,643	54,059	67,508

U.S. Share Goal U.S.	1996	1997	1998	1999	2000
%	8%	19%	30%	40%	50%
# Users	1,118	4,750	9,019	18,508	27,040

Ratio of U.S. to WW Users	1996	1997	1998	1999	2000
	57%	57%	57%	54%	54%

U.S. Share Goal Worldwide	1996	1997	1998	1999	2000
%	8%	19%	30%	40%	50%
# Users	1,281	5,333	15,823	30,572	52,008

WW Share by Computer	1996	1997	1998	1999	2000
Netware	32%	34%	32%	34%	30%
Microsoft	8%	19%	30%	40%	50%
ACL/Interim (Non-MS)	20%	18%	10%	5%	2%
All Others	22%	2%	8%	1%	0%

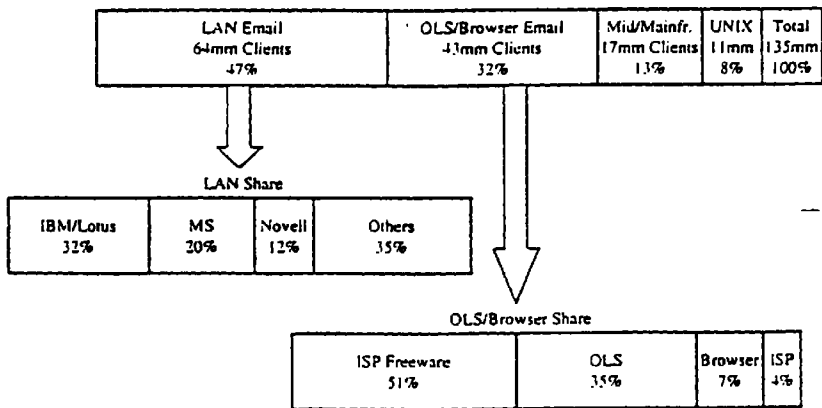
**U.S. Inst. 31.1M Workplaces**

- MS, non-MS, Novell & 4M users
- 17M users on 11M work
- Physical device ownership is 1.9M users
- Home ISP requires 1.2M users
- 1.1M non-purchase/usage premium (1.2M users)
- ISP must have subscribers (1.8M users)
- 1.8M ISP on 4M users

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## E-mail Client Market Summary

Email Installed Base Y/E 1996



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## Email Share Goal Model

### LAN Client Installed Base Market Share

	1997	1998	1999	2000
Total MS (Mail, E-mail, Outlook, Office Outlook)	15%	18%	26%	20%
Lotus (for Mail, Notes)	32%	30%	29%	29%
Novell (Groupwise)	10%	12%	11%	11%
Microsoft (Communicator)	0%	1%	1%	3%
Others	41%	43%	42%	37%
	100%	100%	100%	100%

### Installed Base

	1997	1998	1999	2000
Total MS (Mail, E-mail, Outlook, Office Outlook)	3,271	4,849	10,850	20,438
Lotus (for Mail, Notes)	24,245	31,265	28,071	45,811
Novell (Groupwise)	9,323	12,100	14,933	17,794
Microsoft (Communicator)	171	722	1,741	4,512
Others	21,408	44,906	55,593	56,352
	75,219	93,442	130,994	152,548

### Internet/ISP/OLS Installed Base Market Share

	1997	1998	1999	2000
Total MS (IE, MSN, ISP, Office Outlook)	4%	20%	30%	41%
Hotmail (Newsgroup)	20%	24%	23%	28%
AOL	15%	12%	7%	5%
CompuServe	9%	6%	4%	2%
Outlook (or FreeWare Leader)	21%	19%	19%	19%
Others	28%	20%	18%	7%
	100%	100%	100%	100%

### Installed Base

	1997	1998	1999	2000
Total MS (IE, MSN, ISP, Office Outlook)	4,573	13,359	32,331	62,733
Hotmail (Newsgroup)	10,267	17,632	25,109	39,864
AOL	8,039	6,718	7,846	7,062
CompuServe	4,750	4,275	3,848	3,463
Outlook (or FreeWare Leader)	10,982	14,083	20,175	29,858
Others	13,329	14,668	19,673	11,448
	31,218	74,445	109,342	154,464

Note: The Microsoft share above is the same as that reported in our earlier and unpublished per Outlook report.

### Total LAN/Internet/ISP/Browser Installed Base Market Share

	1997	1998	1999	2000
Total Microsoft	15%	17%	22%	30%
Lotus	19%	17%	18%	15%
Novell	7%	7%	8%	6%
Total Hotmail	8%	10%	11%	14%
AOL	8%	5%	3%	2%
CompuServe	4%	3%	2%	1%
Outlook (or FreeWare Leader)	9%	8%	8%	10%
Others	35%	33%	31%	22%
	100%	100%	100%	100%

### Installed Base

	1997	1998	1999	2000
Total Microsoft	15,244	29,708	52,368	93,731
Lotus	24,245	31,085	28,071	45,811
Novell	9,323	12,100	14,933	17,794
Total Hotmail	10,438	18,354	26,910	44,378
AOL	8,039	6,718	7,846	7,062
CompuServe	4,750	4,275	3,848	3,463
Outlook (or FreeWare Leader)	10,982	14,083	20,175	29,858
Others	44,836	59,574	75,266	68,398
	128,237	177,887	240,036	310,492

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## Key Issues

- ◆ Cross Platform
  - ◆ NT 3.51, Win 3.1, UNIX, Mac
- ◆ Exchange dependency
- ◆ QFE needs staffing
- ◆ Under investing
  - ◆ Java
  - ◆ Unix
  - ◆ Multimedia
  - ◆ DRG

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## Appendix

- ◆ P&L
- ◆ Headcount
- ◆ Revenue/share models
- ◆ Dependencies

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## 3 Year P&L

Income	2000						2001				2002								
	Q1	Q2	Q3	Q4	YTD	YTD	Q1	Q2	Q3	Q4	YTD	YTD	Q1	Q2	Q3	Q4	YTD	YTD	
Revenue	11,281	13,408	14,491	12,949	52,129	53,147	17,726	17,776	18,776	18,776	74,354	74,354	18,776	18,776	18,776	18,776	74,354	74,354	
Revenue Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Revenue	11,281	13,408	14,491	12,949	52,129	53,147	17,726	17,776	18,776	18,776	74,354	74,354	18,776	18,776	18,776	18,776	74,354	74,354	
Cost of Revenue	16,700	17,444	17,119	18,135	69,408	69,408	16,800	16,800	16,800	16,800	67,200	67,200	16,800	16,800	16,800	16,800	67,200	67,200	
Gross Margin	-4,419	-4,036	-2,628	-5,186	-17,279	-16,261	926	976	1,976	1,976	7,154	7,154	1,976	1,976	1,976	1,976	7,154	7,154	
Direct/Contributable Marketing Expenses																			
People	11,000	11,000	11,000	11,000	44,000	44,000	11,000	11,000	11,000	11,000	44,000	44,000	11,000	11,000	11,000	11,000	44,000	44,000	
Administration	12,000	12,000	12,000	12,000	48,000	48,000	12,000	12,000	12,000	12,000	48,000	48,000	12,000	12,000	12,000	12,000	48,000	48,000	
Customer Acq	10,000	10,000	10,000	10,000	40,000	40,000	10,000	10,000	10,000	10,000	40,000	40,000	10,000	10,000	10,000	10,000	40,000	40,000	
Product Marketing/Support	21,000	21,000	21,000	21,000	84,000	84,000	21,000	21,000	21,000	21,000	84,000	84,000	21,000	21,000	21,000	21,000	84,000	84,000	
Product Development	2,000	2,000	2,000	2,000	8,000	8,000	2,000	2,000	2,000	2,000	8,000	8,000	2,000	2,000	2,000	2,000	8,000	8,000	
Other	500	500	500	500	2,000	2,000	500	500	500	500	2,000	2,000	500	500	500	500	2,000	2,000	
Net/Contributable Marketing Expenses	37,500	37,500	37,500	37,500	150,000	150,000	37,500	37,500	37,500	37,500	150,000	150,000	37,500	37,500	37,500	37,500	150,000	150,000	
Product-Related Marketing Expenses																			
Channel & Promotional Marketing	1,000	1,000	1,000	1,000	4,000	4,000	1,000	1,000	1,000	1,000	4,000	4,000	1,000	1,000	1,000	1,000	4,000	4,000	
Partner Support Services	1,000	1,000	1,000	1,000	4,000	4,000	1,000	1,000	1,000	1,000	4,000	4,000	1,000	1,000	1,000	1,000	4,000	4,000	
Field Sales & Prom	500	500	500	500	2,000	2,000	500	500	500	500	2,000	2,000	500	500	500	500	2,000	2,000	
R&D Shared Expenses	1,500	1,500	1,500	1,500	6,000	6,000	1,500	1,500	1,500	1,500	6,000	6,000	1,500	1,500	1,500	1,500	6,000	6,000	
Product-Related Marketing Expenses	4,000	4,000	4,000	4,000	16,000	16,000	4,000	4,000	4,000	4,000	16,000	16,000	4,000	4,000	4,000	4,000	16,000	16,000	
WYTD Marketing Expenses	41,500	41,500	41,500	41,500	166,000	166,000	41,500	41,500	41,500	41,500	166,000	166,000	41,500	41,500	41,500	41,500	166,000	166,000	
Contribution Margin	-30,219	-28,092	-27,019	-23,325	-115,079	-112,856	2,226	2,276	6,876	6,876	7,154	7,154	2,226	2,276	6,876	6,876	7,154	7,154	
Net Revenue	11,281	13,408	14,491	12,949	52,129	53,147	17,726	17,776	18,776	18,776	74,354	74,354	18,776	18,776	18,776	18,776	74,354	74,354	
Cost of Revenue	16,700	17,444	17,119	18,135	69,408	69,408	16,800	16,800	16,800	16,800	67,200	67,200	16,800	16,800	16,800	16,800	67,200	67,200	
Marketing Expenses	41,500	41,500	41,500	41,500	166,000	166,000	41,500	41,500	41,500	41,500	166,000	166,000	41,500	41,500	41,500	41,500	166,000	166,000	
Operating Income	-46,919	-45,536	-43,128	-38,811	-182,859	-178,659	-64,774	-64,724	-64,524	-64,524	-254,446	-254,446	-64,774	-64,724	-64,524	-64,524	-254,446	-254,446	
Operating Margin	-416%	-339%	-298%	-299%	-353%	-336%	-365%	-364%	-346%	-346%	-343%	-343%	-346%	-346%	-346%	-346%	-343%	-343%	

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## P&L by Business

Year	1997				1998				1999				
	Class	Costs	UEs	RUEs	Class	Costs	UEs	RUEs	Class	Costs	UEs	RUEs	
Total Revenue	56.2	27.0	102.3	198	129.3	27.0	175.3	616	202.1	27.0	230.2	616	202.1
Revenue Adjustments	(1.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Revenue	55.2	27.0	102.3	198	129.3	27.0	175.3	616	202.1	27.0	230.2	616	202.1
Cost of Revenue	(15.4)	7.5	27.1	100	70.0	7.5	27.1	100	70.0	7.5	27.1	100	70.0
Gross Margin	39.8	19.5	75.2	98	59.3	19.5	148.2	516	132.1	19.5	203.1	516	132.1
<b>General &amp; Administrative Operating Expenses</b>													
People	(12.7)	60.2	27.5	17.0	173.0	60.2	27.5	17.0	173.0	60.2	27.5	17.0	173.0
Infrastructure	(8.0)	11.0	6.5	3.0	40.0	11.0	10.0	7.0	30.0	11.0	11.0	7.0	30.0
Computer Staff	(2.0)	10.0	1.0	0.7	22.0	10.0	1.0	0.8	21.0	10.0	1.0	0.8	21.0
Product Marketing Expenses	(60.0)	10.0	5.0	28.0	40.0	10.0	5.0	28.0	40.0	10.0	5.0	28.0	40.0
Product Development	(16.7)	10.0	4.0	4.0	15.0	10.0	5.0	10.0	22.0	10.0	6.0	10.0	22.0
Other	(1.0)	1.0	0.5	0.0	7.0	1.0	0.5	0.0	7.0	1.0	0.5	0.0	7.0
General & Administrative Operating Expenses	(100.4)	100.0	51.0	60.0	300.0	100.0	51.0	60.0	300.0	100.0	51.0	60.0	300.0
<b>Product-Related Operating Expenses</b>													
Channel & International Marketing	(20.0)	10.0	5.0	5.0	22.0	10.0	5.0	5.0	21.0	10.0	5.0	5.0	21.0
Product Support Issues	(5.0)	10.0	5.0	5.0	10.0	10.0	5.0	5.0	20.0	10.0	5.0	5.0	20.0
R&D Tools & Fees	(0.0)	0.2	0.0	0.0	1.0	0.2	0.0	0.0	1.0	0.2	0.0	0.0	1.0
R&D Shared Services	(10.0)	5.0	0.0	0.0	5.0	5.0	0.0	0.0	5.0	5.0	0.0	0.0	5.0
Product-Related Operating Expenses	(35.0)	25.2	10.0	10.0	48.0	25.2	10.0	10.0	48.0	25.2	10.0	10.0	48.0
<b>WYU Operating Expenses</b>	(95.4)	125.2	61.0	70.0	348.0	125.2	61.0	70.0	348.0	125.2	61.0	70.0	348.0
Responsibility Margin	(100.0)	(100.0)	10.0	(10.0)	(100.0)	(100.0)	10.0	(10.0)	(100.0)	(100.0)	10.0	(10.0)	(100.0)

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## Headcount and Cost Assumptions

- ◆ Regular headcount forecasted to be at Revised Budget total by 6/97.
- ◆ Growth guideline for headcount 4%/year, but we are reviewing. DRG growth FY98 is 30 heads or 25%.
- ◆ COGS in FY97 includes \$9.7M of one-time IE royalties.
- ◆ Product development \$ grows at 15% per year.
- ◆ \$10 million of FY97 product marketing budget is unallocated. Projected decrease of 10% in FY99.
- ◆ PSS costs for MS Plus! and Outlook at 6% of revenue.  
PSS costs for IE assumes same incident rate/user as FY97.

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## Headcount

	Dec FY97	FY 97	FY 97	FY 98	FY 98	FY 99	CAGR
	Actuals	Revised Plan	Est.	Est.	Est.	Est.	Est. 97-99
ICC Development:							
Client	519	611	611	658	664	711	3.9%
Network	71	86	86	89	93	97	3.1%
Collaboration	251	245	245	253	263	276	3.1%
Total ICC Development	823	964	964	1,002	1,042	1,086	4.0%
ICC Mktg/Mgmt	92	114	114	119	124	129	4.2%
Dev Relations Group	115	118	118	148	154	160	10.7%
Total (Regular Heads)	1,012	1,196	1,196	1,269	1,320	1,375	4.2%
Discrete temps and contractors	340	296	340	340	340	340	0.0%
Total Devision	1,372	1,492	1,536	1,609	1,660	1,715	3.7%

Note: Headcount based upon 4% growth guideline; projected needs being reviewed.

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## Headcount and Cost Assumptions

- ◆ Regular headcount forecasted to be at Revised Budget total by 6/97.
- ◆ Growth guideline for headcount 4%/year, but we are reviewing. DRG growth FY98 is 30 heads or 25%.
- ◆ COGS in FY97 includes \$9.7M of one-time IE royalties.
- ◆ Product development \$ grows at 15% per year.
- ◆ \$10 million of FY97 product marketing budget is unallocated. Projected decrease of 10% in FY99.
- ◆ PSS costs for MS Plus! and Outlook at 6% of revenue.  
PSS costs for IE assumes same incident rate/user as FY97.

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## Standalone Outlook Revenue - LAN

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
<b>1) From New LAN Shipments</b>				
WW LAN Market PC Ships	37,107	41,743	44,404	46,776
WW LAN Email IB Net Adds ('000)	25,868	30,207	31,740	30,032
Exchange CALs	1,429	2,317	3,682	6,148
Office Purchasers with Mail	1,708	4,690	9,477	10,873
Outlook Standalone Candidates	22,731	23,191	16,361	13,011
Outlook Standalone Purchases	0.3%	2.0%	3.0%	4.0%
Standalone Outlook Licenses	68	464	351	520
Outlook Revenue Per License	\$78.00	\$78.00	\$78.00	\$78.00
Standalone Outlook Revenue ('000)	\$5,183	\$35,251	\$41,908	\$39,553
<b>2) From Converting LAN Installed Base</b>				
Beginning LAN Installed Base Candidates	31,964			
New Non-Outlook Candidates (2 year lag)	0	0	11,331	15,998
Office 97/98 Upg Conversion Candidates	20,870			
Schedule of Upgrade	23.7%	22.4%	14.8%	7.1%
Office 98 Upgraders	4,947	4,647	3,092	1,471
Outlook Upgrade Candidates	47,017	42,350	49,963	63,379
Outlook Upgrade Purchases	0.0%	1.5%	2.0%	2.5%
Outlook Upgrade Licenses	-	638	999	1,584
Outlook Revenue Per License	\$78.00	\$78.00	\$78.00	\$78.00
Outlook Upgrade Revenue ('000)	\$0	\$49,878	\$75,979	\$120,420
<b>Total LAN Revenue</b>	<b>\$5,183</b>	<b>\$85,129</b>	<b>\$117,887</b>	<b>\$159,973</b>

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## Standalone Outlook Rev. - Athena Up-sell

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
<b>Total LAN Revenue</b>	<b>\$5,183</b>	<b>\$85,129</b>	<b>\$117,887</b>	<b>\$159,973</b>
<b>3) From Athena Up-sell Strategy</b>				
WW ISP Market PC Ships	22,854	30,506	46,347	54,387
New Active Athena Email Clients ('000)	1,900	11,705	14,548	24,489
Office 97/98 Purchasers with Athena	213	534	708	555
Athena Upgrade Candidates	1,587	11,171	13,840	23,934
Athena to Outlook Upgrades	0.0%	2.0%	5.0%	6.0%
Outlook Upgrade Licenses	-	223	682	1,436
Outlook Revenue Per License	\$0.00	\$43.00	\$83.00	\$83.00
Total Athena Up-sell Revenue ('000)	\$0	\$18,546	\$57,448	\$119,192
<b>Total Personal Revenue</b>	<b>\$5,183</b>	<b>\$102,675</b>	<b>\$175,335</b>	<b>\$279,165</b>

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## Office Cannibalization Impact: LAN

FY00 Office Licenses 70,824

Total Cannibalization of Office by Collaboration Industry	Units Table (000s)	Outlook Market Share Collaboration Market					Net Revenue Effect (MM \$)				
		10%	20%	30%	40%	50%	10%	20%	30%	40%	50%
		Office Loss	(2,083)	(2,083)	(2,083)	(2,083)	(2,083)	\$ (329)	\$ (329)	\$ (329)	\$ (329)
Outlook Recovery	708	417	625	833	1,042	\$ 16	\$ 32	\$ 48	\$ 63	\$ 79	
Net Position						\$ (313)	\$ (297)	\$ (281)	\$ (266)	\$ (250)	
Office Loss	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	\$ (659)	\$ (659)	\$ (659)	\$ (659)	\$ (659)	
Outlook Recovery	417	833	1,250	1,667	2,083	\$ 32	\$ 63	\$ 96	\$ 127	\$ 158	
Net Position						\$ (627)	\$ (596)	\$ (563)	\$ (532)	\$ (502)	
Office Loss	(6,250)	(6,250)	(6,250)	(6,250)	(6,250)	\$ (988)	\$ (988)	\$ (988)	\$ (988)	\$ (988)	
Outlook Recovery	625	1,250	1,875	2,500	3,125	\$ 48	\$ 96	\$ 142	\$ 189	\$ 238	
Net Position						\$ (940)	\$ (892)	\$ (846)	\$ (799)	\$ (750)	
Office Loss	(8,334)	(8,334)	(8,334)	(8,334)	(8,334)	\$ (1,317)	\$ (1,317)	\$ (1,317)	\$ (1,317)	\$ (1,317)	
Outlook Recovery	833	1,667	2,500	3,333	4,167	\$ 63	\$ 127	\$ 190	\$ 253	\$ 317	
Net Position						\$ (1,254)	\$ (1,190)	\$ (1,127)	\$ (1,064)	\$ (1,001)	
Office Loss	(10,417)	(10,417)	(10,417)	(10,417)	(10,417)	\$ (1,647)	\$ (1,647)	\$ (1,647)	\$ (1,647)	\$ (1,647)	
Outlook Recovery	1,042	2,083	3,125	4,167	5,208	\$ 79	\$ 158	\$ 238	\$ 317	\$ 396	
Net Position						\$ (1,568)	\$ (1,489)	\$ (1,409)	\$ (1,329)	\$ (1,251)	

Against NSCP LAN forecast of 4.5, 50% of Communicator units cannibalize Office

Worst Case

Average Office Rev/Lic \$ 158  
Average Outlook Rev/Lic \$ 76

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## Office Cannibalization Impact: ISP/OLS

FY00 Office Licenses 5,215

Total Cannibalization of Office by Collaboration Industry	Units Table (000s)	Outlook Market Share Collaboration Market					Net Revenue Effect (MM \$)				
		10%	20%	30%	40%	50%	10%	20%	30%	40%	50%
		Office Loss	(521)	(521)	(521)	(521)	(521)	\$ (136)	\$ (136)	\$ (136)	\$ (136)
Outlook Recovery	52	104	156	208	261	\$ 4	\$ 9	\$ 13	\$ 17	\$ 22	
Net Position						\$ (132)	\$ (127)	\$ (123)	\$ (119)	\$ (114)	
Office Loss	(1,043)	(1,043)	(1,043)	(1,043)	(1,043)	\$ (269)	\$ (269)	\$ (269)	\$ (269)	\$ (269)	
Outlook Recovery	104	208	312	417	521	\$ 9	\$ 17	\$ 26	\$ 33	\$ 43	
Net Position						\$ (260)	\$ (252)	\$ (243)	\$ (236)	\$ (227)	
Office Loss	(1,564)	(1,564)	(1,564)	(1,564)	(1,564)	\$ (403)	\$ (403)	\$ (403)	\$ (403)	\$ (403)	
Outlook Recovery	156	312	468	625	782	\$ 13	\$ 26	\$ 39	\$ 52	\$ 66	
Net Position						\$ (390)	\$ (377)	\$ (364)	\$ (351)	\$ (338)	
Office Loss	(2,085)	(2,085)	(2,085)	(2,085)	(2,085)	\$ (536)	\$ (536)	\$ (536)	\$ (536)	\$ (536)	
Outlook Recovery	208	417	626	834	1,043	\$ 17	\$ 33	\$ 52	\$ 69	\$ 87	
Net Position						\$ (519)	\$ (503)	\$ (484)	\$ (468)	\$ (451)	
Office Loss	(2,607)	(2,607)	(2,607)	(2,607)	(2,607)	\$ (650)	\$ (650)	\$ (650)	\$ (650)	\$ (650)	
Outlook Recovery	261	521	782	1,043	1,304	\$ 22	\$ 43	\$ 66	\$ 87	\$ 108	
Net Position						\$ (628)	\$ (607)	\$ (584)	\$ (561)	\$ (537)	

Against NSCP LAN forecast of 40M, 5% of Communicator units cannibalize Office. Assumes 100% Nav installed base is Communicator

Worst Case

Average Office Rev/Lic \$ 248  
Average Outlook Rev/Lic \$ 83

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## IE Dependencies

- ◆ Internet Security - SSL, CAPI, Secure store, Wallet (PBS)
- ◆ DCOM95(PBS) Win32 and x platform
- ◆ Internet Connection Wizard
- ◆ OLE automation (PBS)
- ◆ Task Scheduler
- ◆ VB and Java scripting (tools)
- ◆ Direct X (PBS)
- ◆ PWS (PBS)
- ◆ ISDN Accelerator Packs (PBS)
- ◆ TAPI (PBS)
- ◆ Web Post (PBS)

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## IE Dependencies

- ◆ IHammer Controls (tools, IMD)
- ◆ FrontPad
- ◆ Winsock 2
- ◆ PPTP
- ◆ Certificate server
- ◆ Server support for IMAP, LDAP, ULS, SMIME
- ◆ Tools:
  - ◆ Visual InterDev
  - ◆ Caesar
  - ◆ Vegas
  - ◆ Etc.

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## Outlook Dependencies

- ◆ '97 Web Release
  - ◆ Trident -- viewing OK, editing support a concern
  - ◆ Exchange Server for Notes competitiveness
  - ◆ Office for TCO and .DLL factoring
  - ◆ Tools group for dev environment
- ◆ WebLook
  - ◆ Exchange's "Kluane" object model implementation

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## Backups

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## IBM/Lotus client share

### Lotus Notes, Software Business WW

	FY96	FY96	FY97
Revenue (\$ millions)	\$ 212	\$ 350	\$ 437
Y/Y Growth	49%	64%	25%
Seats added ('000)	1,325	4,100	5,100
Y/Y Growth	148%	209%	24%
Servers added	29,444	91,100	118,500
Y/Y Server Growth		209%	30%
\$ Seat Added	\$ 160,755	\$ 85,268	\$ 85,888
Installed Base ('000)	2,200	6,300	11,400

### Lotus cc:mail, Software Business WW

	FY96	FY96	FY97
Revenue (\$ millions)	\$ 111	\$ 60	\$ 60
Y/Y Growth	7%	-26%	0%
Seats added ('000)	2,248	2,600	2,750
Y/Y Seat Growth	11%	16%	6%
Servers Added	\$1,400	60,440	81,000
Y/Y Servers Growth		18%	1%
\$ Seat Added	\$ 49,377	\$ 30,769	\$ 29,091
Installed Base ('000)	7,495	10,095	12,845
Total Mailboxes ('000)	9,686	16,396	24,246

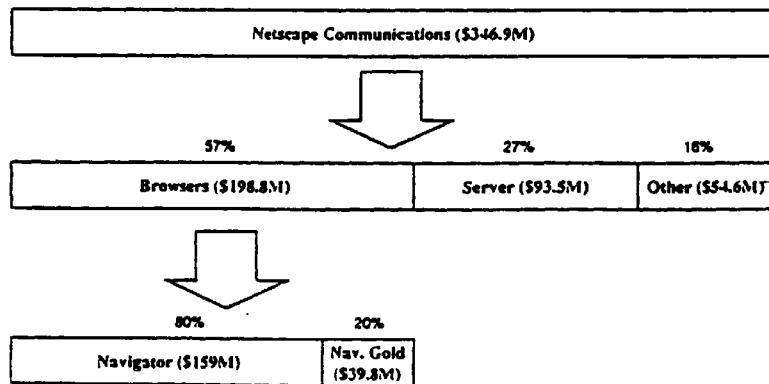
Source: Estimates from MS Channel.

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## Netscape share and revenue projections

### 1996 Financial Performance



Source: Montgomery Securities report dated 1/29/97.

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