Goldman Sachs

Latin America Surfer
Media/Internet

September 18, 2000

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Brazil Pay TV – Big Brother wishes he was watching:
June 20, 2000

The secret's out, competition is everywhere. The past month has seen competitive concerns arise throughout the Hispanic Media & Internet world. With 500 million people, however, we believe that there is a lot of room for companies, and we continue to favor the Mexican market leader Televisa.

Execution is secondary – just an announcement roils the US Hispanic market

TV Azteca's September 7th announcement that it is forming a fourth TV network targeting US Hispanic viewers caused market leader Univision's stock to tumble 20% at one point, even though TV Azteca's new venture has only three working stations and is not set to launch for eight months. We maintain our Market Outperformer rating on TV Azteca, but have raised our price target to $17 on the back of a favorable programming contract.

StarMedia is cutting costs to close funding gap – good news

StarMedia announced on September 13 that it will lay off 15% of its work force, slashing $15-$20 million of costs in a business reorganization aimed at closing a one-year funding gap in the company's business plan. We believe that cost control is key to endurance in today's Latin American Internet sector and so are encouraged by the announcement. We continue to rate StarMedia a Market Outperformer.

Consolidation speculation abounds but actual activity remains in Europe

Both StarMedia and Radio Centro remained the subject of takeover speculation. But neither company had been purchased by September 18 and for StarMedia, in particular, we believe investors should focus on fundamentals when considering a position in the stock.

Highlights from our fifth annual Windows on Latin America Conference

Broadband opportunity is emerging but making money with it remains elusive.
Three of Latin America's most progressive broadband media companies – El Sitio, Todito, and Globo Cabo – presented their strategies for tackling the burgeoning broadband arena. Consumers should benefit but companies will likely grope for profits at first.

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The prices in this report are based on the market close of September 15, 2000.

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The secret's out – competition is everywhere

Recent stock price reactions, especially surrounding the US Hispanic television market, suggest that investors have been somewhat surprised by the announcement of new entrants into the marketplace. But we caution that most of what we are seeing in this early stage are simply announcements. In few cases has a new competitor actually succeeded in building a market presence in the region this year in the Media and Internet sectors. As in so many other markets (both industry and regional), successful competitors in Latin America's Media and Internet sector will need much time to build a following among consumers and distributors. Despite jitters about competitors, we continue to favor Televisa as our best stock pick for the sector.

US Hispanic television market is becoming crowded but Univision's dominant position is not really threatened

On September 7, TV Azteca announced that it is teaming up with Pappas Telecasting to form a fourth televison network to compete with Univision, Telemundo, and the nascent Hispanic Television Network (HTVN). This announcement is mildly encouraging (although largely anticipated) for TV Azteca because the new venture, Azteca America (AA), has guaranteed TV Azteca at least $15 million a year in programming fees – an agreement which we believe should add about $0.75/ADR to TV Azteca's market value. But we believe that the formation of AA does not particularly threaten market leader Univision's dominant position.

Latin American Internet – so many competitors you would think everyone was connected (not just 2%)

While the US Hispanic television market is becoming more crowded, it is nothing compared with the Latin American Internet market. But, as with the US Hispanic market, much of the new competition has been more talk than reality. We believe that investors should remain concerned about unsustainable cash burn rates for established Internet companies. But absent financial obstacles, we believe that many of the region's market leaders today are likely to remain so for some time.

StarMedia – cutting costs to close funding gap

StarMedia announced on September 13 that it will lay off 15% of its work force in a business reorganization aimed at closing a one-year funding gap in the company's business plan. StarMedia's actions should reduce costs by $15-$20 million, according to management, with no impact on forecast revenue. We are revising our 2000 and 2001 estimates to reflect the lower costs and we now forecast EBITDA breakeven to occur 4Q2001. We believe that cost control is key to endurance in today's Latin American Internet sector and so are encouraged by the announcement but recognize that StarMedia shares are likely to remain volatile. We continue to rate StarMedia a Market Outperformer.

Consolidation speculation abounds but activity remains in Europe

The past four weeks have been characterized by a flurry of speculation regarding potential mergers and acquisitions in the Media and Internet sectors. Both StarMedia and Radio Centro (potential target acquisitions) have seen sharp gyrations in their stock prices as a result of such speculation. But while M&A activity will occur in Latin America, some of the current speculation appears to be misplaced. In our opinion, the large consolidators in the Media & Internet sectors appear to have their acquisition funds still focused on Europe – a much larger market. In the nascent Latin America market, we believe that many consolidators have adopted strategies of growing a presence organically, frequently in partnership with a local company.

Facing the broadband challenge

We held our fifth annual Windows on Latin America Conference on September 6 and 7 in New York. Three of Latin America's most progressive broadband media companies – El Sitio, Todito, and Globo Cabo – presented their strategies for tackling the burgeoning broadband arena. All three presentations confirmed that the broadband opportunity is emerging but making money with it remains elusive. Consumers should benefit but companies will at first likely grope for profits.

Mexican TV – ratings stabilize going into the second quarter

TV Azteca recently released viewer ratings for the month of August and the first week of September that confirmed the stabilization of market dynamics in that TV Azteca's upsurge appears to have been stemmed by Televisa. In last month's *Surfer*, we predicted that ratings would stabilize going into the second half of the year, and believe this may be at least partially due to the success of Televisa's 9 PM novela launched in July plus an expected post-election shift back to Televisa. We do not think it should impact the stocks in the medium term.

The secret's out – competition is everywhere

The above title is of course somewhat tongue-in-cheek, especially for Latin American dedicated investors, because to think that the world has just discovered that the Hispanic population represents a 500 million consumer market would be naïve. But nevertheless, recent stock price reactions, especially surrounding the US Hispanic television market, suggest that investors have been somewhat surprised by the announcement of new entrants into the marketplace. But we caution that most of what we are seeing in this early stage are simply announcements. In few cases has a new competitor actually succeeded in building a market presence in the region this year in the Media and Internet sectors.

As in so many other markets (both industry and regional), successful competitors in Latin America's Media and Internet sector will need much time to build a following among consumers and distributors. In addition, we consider that market-dominating companies in Brazil and Mexico will be difficult to displace because of their superior leverage among advertisers and the economies of scale they are able to achieve in both the development and distribution of programming and Internet content. As a result, despite jitters about competitors, we continue to favor Televisa as our best stock pick for the sector. **Televisa's dominant viewer market share (75%+), low production costs and diverse portfolio of assets makes it the best way, in our view, to participate in the growth of Mexico's advertising sector. Our 12-month price target for Televisa remains $85.**

US Hispanic television market is becoming crowded but Univision's dominant position is not really threatened

On September 7, TV Azteca announced that it is teaming up with Pappas Telecasting to form a fourth televison network to compete with Univision, Telemundo, and the nascent Hispanic Television Network (HTVN). This announcement is mildly encouraging (although largely anticipated) for TV Azteca because the new venture, Azteca America (AA), has guaranteed TV Azteca at least US$15 million a year in programming fees – an agreement which we believe should add about $0.75/ADR to TV Azteca's market value. But the formation of AA does not mean that market leader Univision's dominant position is particularly threatened, in our opinion. AA currently has operating television stations in only three cities and must successfully negotiate the purchase and arrange the financing for at least seven additional stations. In addition, an entire network programming infrastructure must be developed and local news programs built-out before a viable competitor is formed. See Exhibit 1.

Exhibit 1: US Hispanic station comparison – presence in top ten US Hispanic markets

		Population (mn)	% of Total [1]	Univision	Telemundo	Azteca America
1	Los Angeles, CA	6.4	19.7%	KMEX-TV - 34	KVEA - 52	const. license [2]
2	New York, NY	4.3	13.2%	WXTV - 41	WNJU - 47	n/a
3	Miami-Ft. Lauderdale, FL	2.3	7.1%	WLTV - 23	WSCV - 51	being purchased
4	San Francisco, et al, CA	1.0	3.1%	KDTV - 14	KSTS - 48	KTNC - 42
5	Chicago, IL	1.4	4.3%	WGBO - 66	WSNS - 44	n/a
6	Houston, TX	1.2	3.7%	KXLN-TV - 45	KTMD - 48	KAZH - 57
7	San Antonio, TX	0.9	2.8%	KWEX-TV - 41	KVDA - 60	n/a
8	Dallas-Ft. Worth, TX	0.9	2.8%	KUVN - 23	KFWD - 52	being purchased
9	Brownsville-McAllen, TX	0.8	2.5%	KNVO - 48	KTLM - 40	n/a
10	San Diego, CA	0.8	2.5%	KBNT-LP - 19 KNSD-LP - 62	XHAS - 33	being purchased

1. % of total U.S. Hispanic population
2. Currently there is a construction license for the planned station in L.A.

Source: Duncan's 2000 Edition, US Census Bureau, company data.

Currently, Spanish-language advertisers have two national networks to divide about $1 billion in ad spending each year. We estimate Univision's share of this spending is 80%-85%. In such a relatively small market, it is not clear that a fourth network is needed. The formation of AA arose from TV Azteca's frustration with poor ratings from Telemundo (the network Azteca originally sold programming to). But Telemundo's viewership has surprisingly risen since it stopped showing TV Azteca novelas and turned to dubbed novelas from Brazil. Further complicating the success of AA is the recent emergence of HTVN, a small collection of television stations largely in the Southwest. HTVN is disadvantaged by not having the programming ties that Univision and AA have but the success of dubbed Brazilian programming on Telemundo may suggest that such a disadvantage can be overcome with the right promotion.

In the end, the obstacles facing TV Azteca's success in the U.S. are almost as great as they were prior to its September 7th announcement. But investors have now learned the following:

- who TV Azteca will partner with: Pappas Telecasting, a station operator, will contribute two operating television stations and a construction license to the venture;
- how much TV Azteca will pay to start this venture: $80-$100 million for a 20% stake;
- what TV Azteca will be paid for the use of its programming: at least $15 million and as much as 15% of revenue in Year 5 and beyond; and
- how much it may cost to build out the network: management estimates that capex for the first five years is likely to total US$750 million, most for the acquisition of stations.

However, investors still do not know whether TV Azteca's programming will prove more successful on the new network than it was on Telemundo where it struggled to find an audience. Nor is it clear whether AA can find owners willing to sell stations into AA at a price that is economically attractive. Finally, until it builds a broader presence, we believe that national advertisers will likely be reluctant to make significant up-front commitments to AA, forcing it to rely primarily on local advertising spending in its early years.

TV Azteca's improved and successful programming should provide a good platform for a successful US Hispanic television network. But much more than programming is necessary to be successful in the US market. Most importantly, competition will be fierce from the two existing players – Univision and Telemundo – making success anything but a sure thing. As a result, we continue to favor an investment in Televisa over TV Azteca and maintain our US$85 price target on Televisa ADRs. Televisa owns 13.6 million Univision shares and a long-term programming agreement which provides it with 9% of Univision's revenue. Our US broadcasting analyst, Rich Rosenstein, continues to recommend purchase of Univision.

While Televisa remains our top pick, we also maintain our Market Outperformer rating on TV Azteca and have raised our price target by $1, to $17, to reflect the incremental value of the guaranteed programming revenue from the new AA venture. Given the favorable programming agreement, TV Azteca's announcement of the formation of AA was, in our opinion, positive for the value of TV Azteca ADR's. In addition, TV Azteca should continue to benefit from higher ad prices in Mexico through the next 18 months, the primary driver behind our Recommended List rating for Televisa, as well.

Latin American Internet – so many competitors you'd think everyone was connected (not just 2%)

While the US Hispanic television market is becoming more crowded it is nothing compared with the Latin American Internet market. But, as with the US Hispanic market, much of the new competition has been more talk than reality. Investors should remain concerned about unsustainable cash burn rates for established Internet companies. But in the absence of financial obstacles, we believe that many of the region's market leaders today are likely to remain so for some time.

Today, we count around 20 serious competitors in the pan-regional portal/ISP sector (see Exhibit 2). Most of the current competitors have been backed by, or are the subsidiaries of large well-established companies with financial resources deep enough to ride out the requirements of the start-up phase. But while many companies have announced over the past 8-12 months that they are establishing an Internet presence in Latin America, the competitive landscape has actually remained surprisingly stable in just about every country, with the possible exception of Brazil. Market leaders a year ago, such as UOL, StarMedia, and Terra, remain market leaders today. And many of the recent start-ups continue to chase the leaders. We recognize that in many cases the gap between the leaders and the chasers in many sectors of the Internet has narrowed, but we do not believe that the recent influx of competition has, in and of itself, altered the long-term viability of the sector's leading companies.

Exhibit 2: Latin American horizontal portals

Pan-regional	Single Country
Terra	Ciudad Internet (AR)
StarMedia	iG (Br)
UOL	Globo.com (Br)
El Sitio	ZipNet (Br)
Yahoo! Latin America	Todito (Mex)
Lycos Latin America	Esmas (Mex)
AOL Latin America	T1msn (Mex)
Yupi	Quepasa (US Hisp)
eHola	Univision (US Hisp)
Guby	

Source: Company data, GS Research estimates.

For example, both StarMedia and UOL have recently begun to feel the pinch of declining cash balances in a suddenly skittish equity capital market. StarMedia recently laid off 15% of its workforce in an effort to accelerate profitability and close its funding gap. By the end of March, UOL's cash levels had fallen to $15 million and the company was compelled to turn to short-term debt financing to bridge the time until it can find a window for an expected IPO. **But while cash issues may begin to impact both UOL's and StarMedia's strategy, to date neither company appears to have veered too far from its original plan.** Rather, in our opinion, both companies' funding concerns stem more from changes in the equity capital markets than from the introduction of new competitors to the region. Given adequate funding, we believe that StarMedia and UOL should remain market leaders in Latin America's Internet sector for years to come.

While UOL, StarMedia, and Terra (a subsidiary of the well-capitalized Telefonica of Spain) have been and remain market leaders, newer entrants to the market are facing the obstacles one would expect new entrants to encounter. For example, the success of the region's two largest media companies' Internet ventures has been mixed. Brazil's Globo launched globo.com in March to much fanfare and the site appears to have quickly attracted a large group of viewers. As important, Telecom Italia liked it so much that it paid $810 million for a 30% stake in the venture.

By contrast, however, Mexico's Televisa launched esmas.com in late May and has struggled to find a niche. Technical problems delayed the launch of the site, which has led to a public dispute between Televisa and the site's designer, March First. The very different results of these two efforts highlight the fact that as with so many other businesses, there is no one recipe for success in the Internet.

Another company which launched to much fanfare in March was T1MSN, a joint venture between Mexican phone company Telmex and Microsoft. While the venture seems to have the right ingredients for success, it appears to have struggled to find an audience outside Mexico. Again, we believe that the strengths of established Spanish-language incumbents such as StarMedia and Terra have made it difficult for T1MSN.

In addition, with Internet access penetration still at only 2%-3% of the Latin American population, we believe that many current users speak English and seek out English-language sites. As a result, MSN probably receives more hits than its Spanish-language cousin, T1MSN, even among Latin American users.

There have been some notable successful launches this year in Latin America's Internet – in Brazil especially. Free ISP, iG, managed to build a very strong presence in a very brief time beginning in January and currently appears to be among the top five Internet sites in Brazil. Globo.com, as mentioned above, has also met with success in Brazil. What has been a struggle for Brazilian sites, however, is reaching out to the rest of Latin America. UOL, which in our opinion has the strongest single-county presence of any Internet company in the region, has been unable to build a meaningful presence beyond Brazil. We believe that given the language barrier between Spanish and Portuguese, Brazilian Internet companies will likely need to team up with established Spanish-language counterparts in order to build a truly pan-regional presence.

StarMedia – cutting costs to close funding gap

StarMedia announced on September 13 that it will layoff 15% of its work force in a business reorganization aimed at closing a one-year funding gap in the company's business plan. StarMedia's actions should reduce costs by $15-$20 million, according to management, with no impact on forecast revenue. We have revised our 2000 and 2001 estimates to reflect the lower costs and we now forecast EBITDA breakeven to occur 4Q2001 (see Exhibit 3). We believe that cost control is key to endurance in today's Latin American Internet sector and so are encouraged by the announcement but recognize that StarMedia shares are likely to remain volatile. We continue to rate StarMedia a Market Outperformer.

In our opinion, StarMedia's funding gap has contributed to a sharp reduction in StarMedia shares since reporting 2Q2000 results. The high cash burn rate experienced during 2Q2000 caused many investors to become concerned that StarMedia's cash balances would run out in 4Q2001 or earlier, a full year before management previously expected to break even on an operating basis. With equity funding growing scarcer, investors in recent weeks have begun to look for a possible suitor to solve StarMedia's funding problems.

But the September 13th announcement, in our opinion, positions the company well to remain independent and should greatly reduce concerns about StarMedia's future funding. Management indicated that the personnel cuts should contribute about $5-$7 million of the cost savings goal with the remainder coming from real estate rationalization, reduction in duplicate service contracts and other business areas. Factoring in new management guidance on cost reductions and raising revenue slightly in 2001 to come in-line with management expectations, we now forecast EBITDA breakeven to come in 4Q2001.

Exhibit 3: StarMedia – new estimates following cost cutting announcement
US$ millions, except per-share data

	2000				2001			
	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE
Revenue	10.1	13.8	15.2	18.8	15.0	19.6	25.4	46.2
Cash Operating Expenses	42.6	49.4	43.2	44.4	43.9	44.5	45.0	46.1
EBITDA	**(32.5)**	**(35.7)**	**(28.0)**	**(25.6)**	**(28.9)**	**(24.9)**	**(19.6)**	**0.0**
D&A	4.5	7.3	8.3	9.8	9.8	10.0	10.0	10.2
Operating Income	(37.1)	(43.0)	(36.3)	(35.4)	(38.7)	(34.9)	(29.6)	(10.2)
Net Income	(35.1)	(44.0)	(38.9)	(35.9)	(38.8)	(35.3)	(30.3)	(11.1)
EPS	($0.54)	($0.67)	($0.59)	($0.54)	($0.59)	($0.53)	($0.46)	($0.17)
Cash	230.0	169.9	128.4	93.4	57.5	25.3	0.0	0.0
Debt	3.4	4.1	4.1	4.1	4.1	4.1	5.9	13.6
Capex	19.7	13.6	15.0	10.0	7.5	7.5	7.5	7.5

Source: Company data, GS Research estimates.

We continue to forecast cash levels to be exhausted in 4Q2001. But the much narrower funding gap provides us with increased confidence that over the next six quarters, StarMedia is likely to find ways to further narrow the gap (most likely through arranging debt financing for new capex), reaching a point where the company becomes self-funding.

Principal among the remaining obstacles facing StarMedia, in our opinion, is the company's ability to continue to grow revenue at a rapid pace even as it reins in spending. Our model forecasts 84% revenue growth in 2001 and a further 67% growth in 2002, all following a robust 188% growth rate expected this year. However, the Internet sector in Latin America remains very much in its infancy, especially as regards monetizing media traffic, making such high growth rates coming off low bases achievable, in our opinion. Also, most of the cuts that StarMedia announced last night do not appear to be critical to continuing to build its business. Even after the cuts, StarMedia will still have 725 full-time employees. And StarMedia's media platform is solidly built today suggesting that such cuts can be absorbed. During 2Q2000, StarMedia retained its leadership position in the Latin American Internet Media sector generating more advertising revenue than any of its competitors.

Changes to our model: lowering operating expenses in 2001

We have not changed our estimates for 2000 with the exception of including a $3 million expected one-time charge in 3Q2000 now to capture the cost of the restructuring program. For 2001, however, we are lowering our operating expenses by $18 million to capture the expected cost savings from last night's announcement (our 2001 forecast operating expenses are now flat with 2000 levels at about $180 million). In addition, we have raised our revenue estimate to $106 million from $99 million to put our estimate in line with management's expectations. StarMedia's exceptional track record of beating our top-line estimates this year (1H2000 revenue exceeded our January forecast by 50%) makes us confident that management can meet our estimate even while it trims costs. Capital expenditures are forecast to be an additional $25 million for 2H2000 and $30 million in 2001, meaning that on a free cash flow basis, StarMedia is not likely to break even until mid-to-late-2002.

Potential upside to our new model:

- **Further cost containment:** Our new estimates anticipate that StarMedia reduces costs only by the amount it indicated last night. In time, further synergies from new acquisitions may be identified, resulting in additional cost reductions.
- **Equipment leasing:** While our model forecasts the company needing to tap the debt market late next year, management has indicated that it is close to arranging an equipment leasing facility that may help to fund future capex.
- **Further revenue growth:** Latin America's Internet market has surprised us this year with StarMedia, in particular, realizing more advertising revenue than anticipated.

Potential concerns:

- **Additional financing is still necessary:** Last night's announcement is encouraging but our model indicates that StarMedia will likely still need to find additional financing in late-2001 to fund capex and part of 2002 operations.

Revenue growth is impacted by cost cutting: We are somewhat less concerned that revenue growth may be impacted by cost cutting measures although we recognize that the potential exists. StarMedia's rapid growth over the past 18 months suggests that the cost cutting measures announced last night should be able to be executed without impacting the company's market presence.

Consolidation speculation abounds but activity remains in Europe

The past four weeks has been characterized by a flurry of speculation regarding potential mergers and acquisitions in the Media and Internet sectors. Both StarMedia and Radio Centro (potential target acquisitions) have seen sharp gyrations in their stock prices as a result of such speculation. But while M&A activity will occur in Latin America, some of the current talk appears to be misplaced. **In our opinion, the large consolidators in the Media & Internet sectors appear to have their acquisition funds still focused on Europe – a much larger market. In the nascent Latin America market, we believe that many consolidators have adopted strategies of growing a presence organically, frequently in partnership with a local company.**

While Latin America has many more people than Spain and Portugal combined, the region still appears to be taking a back seat to the two European countries in terms of strategic importance (especially to European-based consolidators). We believe that in time, the consolidators may shift their attention to Latin America, but price will be an issue. For example, in early September, Germany's T-Online announced that it is buying the Spanish/Portuguese ISP/portal, Ya.com, for about $500 million in stock and cash. We believe that this acquisition potentially sets the scene for investors' M&A expectations. That is: Spain and Portugal first, and $1 billion-plus deals to reach the Latin American audience may be unlikely.

Interestingly, the greatest recent M&A speculation involved local Latin American companies buying other local Latin American companies, and Televisa was involved in both situations. First, Televisa's plan to buy Radio Centro (announced in May) fell apart in early August when regulatory issues and difficulties in negotiating with a key programmer became insurmountable. By early September, speculation had risen that the Mexican entertainment conglomerate CIE was interested in buying Radio Centro and in fact had built a position in the stock. CIE issued a press release, however, stating that it was not currently negotiating with Radio Centro although it continues to negotiate with several potential acquisition targets throughout the region. Fueling speculation about CIE's involvement in any transaction has been the company's recent plans to raise about $170 million in new equity with the stated purpose of using the proceeds for acquisitions.

Facing the broadband challenge – Highlights from our 5th annual Windows on Latin America Conference

We held our fifth annual Windows on Latin America Conference on September 6 and 7 in New York. Three of Latin America's most progressive broadband media companies – El Sitio, Todito, and Globo Cabo – presented their strategies for tackling the burgeoning broadband arena. All three presentations confirmed that the broadband opportunity is emerging, but that making money in it remains elusive. Consumers should undoubtedly benefit but at first, companies will probably grope for profits.

One of the key issues that Internet media companies will likely face with the emergence of broadband is the higher cost of broadband content. The foundation of many media-based Internet business models is low and fixed content costs. Content aggregators, for example, that link users to other sites that provide news and on-line entertainment can be thought of as the ultimate exploiters of this model. And while such a site of links will likely still have a place in the broadband arena, we believe that advertisers will likely gravitate to those sites where consumers spend time. For media companies, we believe, consumers will likely spend the most time on those sites that provide innovative broadband content.

But such broadband content is likely to be far more expensive to produce than current text-based content. Its one thing to pay a columnist to write an on-line feature and quite another to pay a group of actors, directors, technicians, set carpenters, sound and special effects technicians and many others to produce an on-line video. Even El Sitio's broadband chat room, which allows users to build a three-dimensional prototype that can exist in a virtual world, is more expensive to develop and maintain than a simple text-based chat room.

The emergence of high-speed Internet platforms will create a cost challenge for Internet companies but we believe that it also will likely deliver some of the most effective marketing vehicles in history. The key for Internet companies, in our opinion, is to develop broadband content that attracts both viewers and advertisers so it can be commercial. This has been a key for Internet companies since the beginning and it should remain so. El Sitio's product development expert Lucia Suarez pointed out that the emergence of broadband should allow Internet companies to deliver what the Internet has always promised advertisers but so far had difficulty delivering – the ability to build brand awareness, inform consumers, and close a sale, all in one virtual place.

Our panel of broadband companies included two Internet firms and a cable company. Todito, 50%-owned by TV Azteca, began as a pure e-commerce vehicle and has since transformed itself into a broader horizontal portal. El Sitio is an independent Internet entertainment site that develops a great deal of content in-house. Globo Cabo is Brazil's dominant cable company and has just launched a broadband product, Virtua, which when combined with a subscription to a broadband ISP, can provide users with a reliable high-speed Internet connection.

Key takeaways

- **Traditional media companies should be able to leverage their off-line programming and production expertise more favorably in the broadband arena**

than they have been able to so far on the Internet. Todito, teamed up with Mexican television company TV Azteca, and Globo Cabo, in the same family as Brazil's Globo, will both rely heavily on television-based programming to fill their broadband content needs.

- **But consumers will likely demand new types of content and will seek more than just their old telenovela on the Internet.** El Sitio has been developing customized broadband content such as its virtual 3d chat room in an effort to fuse fast data delivery and the Internet's unique ability to connect people.

- **The old chicken and egg dilemma applies here too** – more people need to have broadband connections before it makes sense for Internet companies to dedicate more time and money to producing attractive broadband content. Conversely, consumers are likely to demand (and pay for) faster connections only if there is appealing broadband content. We expect there will be an inflection point in the coming years where viral growth driven by new and less expensive broadband applications takes over so that the bulk of people online will have a high-speed connection.

- **The cable companies and telcos in Latin America are all seeking to be the provider of consumer broadband connections.** Those companies that are the first to market with a reliable product offering at a reasonable cost are the ones likely to garner greater market share – consumers will be indifferent to technologies and will just care about speed (and as the Internet market broadens in the region, price).

The following is a brief summary of the three broadband presentations made at the conference.

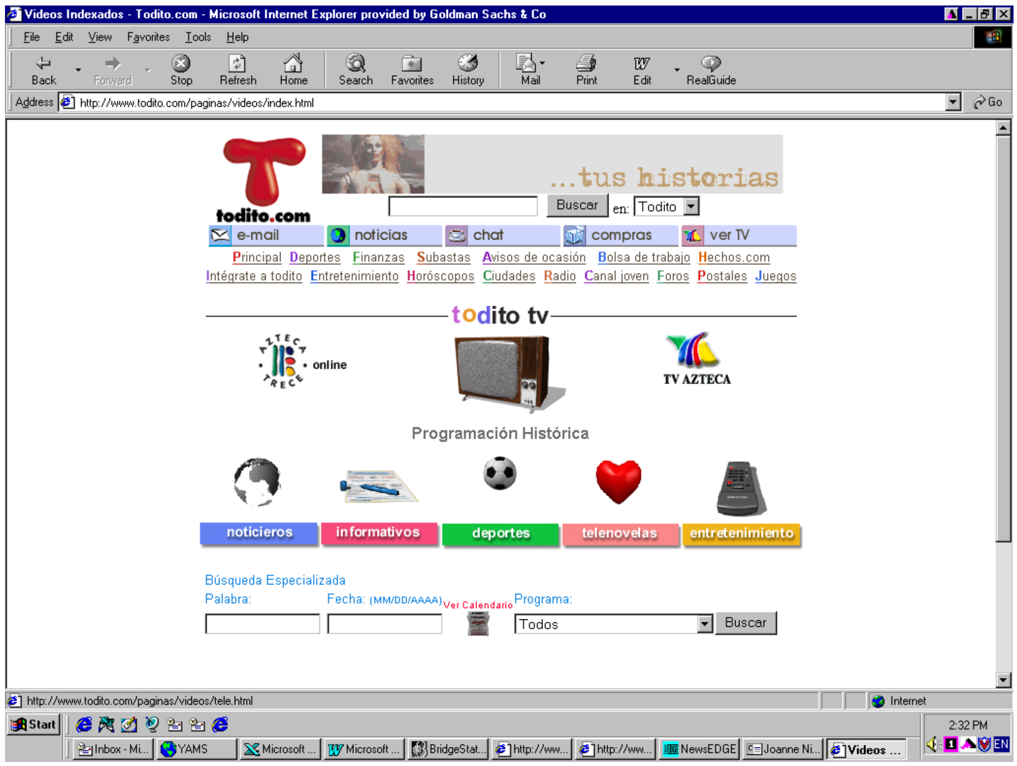
Todito.com

Tim Parsa, CEO of Todito, gave an overview of Todito and discussed how it is leveraging its exclusive access to TV Azteca's television content (Todito is 50% owned by TV Azteca and 50% by Dataflux) in both the narrowband and broadband arena. Todito is a Mexican portal focused exclusively on Mexico and the US Hispanic population. The company seeks to build loyal users both through its relationship with Dataflux's CNCI computer schools in Mexico and with mass market advertising campaigns on TV Azteca's network. Parsa pointed out that the majority of current Internet users in Mexico speaks English and seek out English-language sites. As a result, Todito is not seeking to build users as much from current Internet consumers as it is from new Internet adopters. Therefore, Todito believes that its relationship with computer schools and a mass marketer such as TV Azteca provides it with a great combination of tools to reach these new users.

Todito relies on a low-cost strategy of outsourcing almost all content development (although it does not consider itself a content aggregator). As a result, Todito reported that it was free cash flow-positive in the second quarter despite generating revenue of only $830,000. Almost all of Todito's marketing costs, for example, are born by TV Azteca, which has swapped television ad time for a stake in the company. In the broadband arena, the multimedia section on the Todito homepage includes MP3's, digital TV, and radio. Todito TV (see Exhibit 4) includes real-time webcasts of Azteca

13, TV Azteca's flagship channel, as well as archived programs of TV Azteca's popular news, telenovelas, and sports programming. Digital Todito TV currently already has over 30,000 users, and this number is expected to grow as more people in Mexico start accessing the Internet via broadband. Recently, Todito also entered into an alliance with on-line Latin music company dgolpe.com, which helps provide Todito's music channel content.

Exhibit 4: Todito TV



Source: Company data.

While Todito's strategy has helped to keep funding needs for the company low, as discussed above, we believe that Internet companies will likely need to develop Internet-based broadband content to attract consumers away from television and radio. Simply retransmitting programming that is available elsewhere may not be a viable long-term strategy. But to some extent, Todito's strategy hinges on the belief that the winners in Latin America's Internet sector will be those that can survive until a mass market of users emerges. Such a market, according to Parsa, is likely to emerge over the next five years and Parsa believes it should enable Todito to develop into a business on the same scale as TV Azteca. TV Azteca generates about $500 million in revenue and $200 million in EBITDA per year.

El Sitio

Lucia Suarez, VP of Product Development for El Sitio, gave a presentation on El Sitio 3d, its cutting-edge product designed for the advent of broadband functionality on the

Internet. El Sitio 3d is a virtual 3d world where users can pick an "avatar" (animated 3-dimensional character) and play games or communicate with other users through their avatar. It appears to be a unique product that allows users to have a highly interactive and differentiated experience on the Internet versus that available through other entertainment mediums such as television. The 3d environment is also well-suited for e-commerce and advertising because it is, in effect, a virtual world where users can try the products and manipulate them in various ways prior to making purchases.

In contrast to Todito, El Sitio produces the bulk of its content in-house, and currently focuses primarily on creating interactive, "sticky" content suitable for narrowband Internet users. The company, however, expects to spend close to 30% of its content budget on developing its 3d product and improving its functionality. Management recognizes that current access and PC speeds make using El Sitio 3d a challenge today but its 3d content is still apparently the most sought after of any of the site's offerings by new users on El Sitio. We expect that El Sitio 3d will meet increased demand as more people seeking differentiated content begin to access the Internet via broadband.

Partly as a result of its in-house product development strategy, however, El Sitio is faced with potentially the opposite of the problem facing Todito. While Todito's low-cost off-line alliance strategy may not be successful in the long term, El Sitio's relatively high cost has created early funding concerns for the company which threaten its ability to benefit from the fruits of a long-term strategy. We believe that El Sitio's strategy of developing broadband content uniquely suited to the attractiveness of the Net is sound, but we believe that investor concerns over reaching profitability soon may force the company to compromise that strategy in the medium term in an effort to reduce its funding requirements.

Globo Cabo

Augusto Rocha, Head of Capital Markets for Globo Cabo, gave an overview of Globo Cabo and discussed the company's strategy to be the leading broadband information distribution system in Brazil. With the acquisition of Net Sul, Globo Cabo will have over 1.4 million cable subscribers (over 75% cable market share) and 34,000+ kilometers of high-quality cable network. Globo Cabo launched its broadband product, Virtua, in the first quarter of 2000 and plans to begin introducing other value-added services such as Interactive TV (starting to test IDTV in October), Video on Demand (VOD), and IP telephony over the next few years.

Unlike either Todito or El Sitio, Globo Cabo is not dependent on which type of content is most attractive to users. Instead, Globo Cabo must remain concerned with whether Internet users in Latin America will pay a premium for broadband access, and which technolgy – cable, DSL, MMDS, satellite – is going to attract the most users. To date, Globo Cabo's traditional pay TV service has relied largely on subscriptions from Brazil's highest wage earners, the so-called A and B classes. It appears likely, in our opinion, that a high percentage of these consumers (70% of whom currently have Internet access) will chose to migrate to a broadband platform some time over the next two to five years. But unlike the situation in the United States, Brazil's telephone companies have not been idle. Controlled by European telco giants, Brazil's phone companies are aggressively marketing DSL offerings that have met with some success. We believe the threat from DSL is Globo Cabo's greatest long-term obstacle to finding success in the broadband world. Short-term, getting people in Brazil to pay for Internet access may be Globo Cabo's greatest barrier as Rocha indicated that the company's greatest competitive threat today is likely free ISP.

Growth driven by increased purchasing power of B class in Brazil

During our conference, Globo Cabo presented various long-term targets (about five years) including revenues by business line, and subscriber and penetration rates, that the company hopes to achieve given the current strength of the Brazilian economy and the growing demand for Pay TV and other value added services (see Exhibit 5). Globo Cabo (including Net Sul) is targeting the addition of 1 million pay TV subs over the next few years to reach penetration rates of homes passed (HP) of close to 40%, up from 23% today. The bulk of this growth is expected to come from increased penetration of the B class households, as well as going down into the C class. Globo Cabo currently passes 6.1 million homes in its coverage area of 10 million homes, but does not expect to increase HP given that the other homes are not economically viable potential subscribers at this time.

Exhibit 5: Globo Cabo long-term business targets
in thousands

	Long Term Targets	
	Dec-00	6 Yr
Video HP		6,135
Pay TV Subscribers		2,400
Pay TV penetration		39.1%
Data HP	2,400	2,400
Data Subscribers	56	1,044
Data Penetration	2.3%	43.5%
Corporate Network Division (Vicom)		
Satellite Data Transmission	90.2%	38.7%
Digital Leased Lines	2.5%	6.7%
Virtual Private Network	7.2%	54.5%
Subscriber Breakdown		
Only Cable	96.4%	56.5%
All Services	3.6%	43.5%
Future Revenue Mix		
Pay TV Residential	**93.8%**	**57.9%**
Internet (Data)	**1.5%**	**28.6%**
Corporate Business	4.8%	6.0%
Others (including Telephony)	0.0%	7.5%

Source: Company data.

Internet to become more meaningful in coming decade

The company expects its broadband Internet service to take off over the next few years, growing from about 6,500 subscribers as of June to 1 million in six years. Internet is expected to eventually account for close to 30% of total revenues, and Pay TV revenues will decline to less than 60% (currently about 95% of Globo Cabo's revenues come from Pay TV). **We believe Globo Cabo will be a major player in helping to spur the**

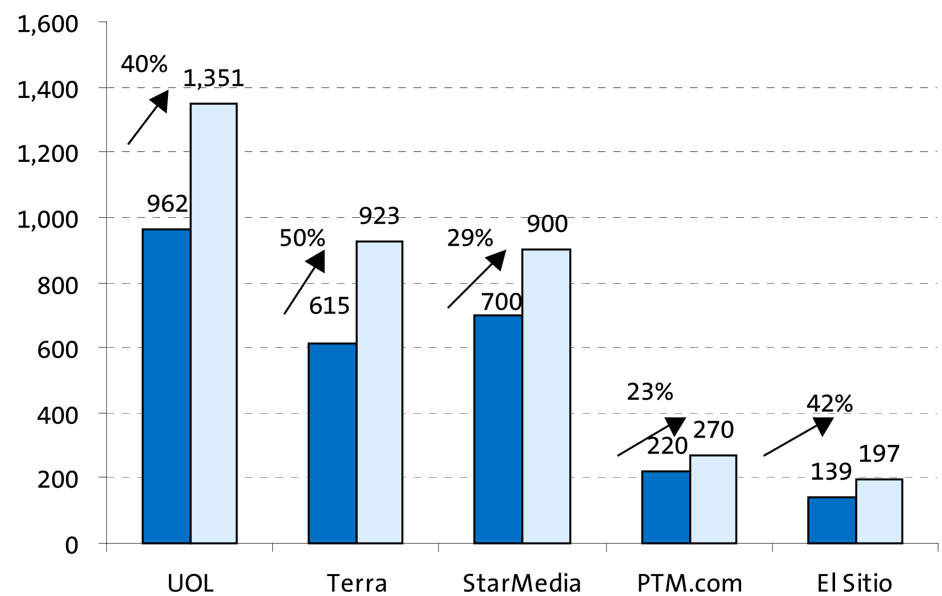
advent of the broadband digital era in Brazil over the next decade. Its greatest competition comes from DSL providers which have so far managed to activate more subscribers than Globo Cabo in the first few months of operation.

Latin America Internet – update on 2Q2000

AOL Latin America, UOL, and PT-Multimedia.com all recently reported second-quarter results, following the earlier round of reporting by the three public Latin Internet companies. Their results pointed to some of the same trends we have outlined earlier:

- Internet adoption continues to accelerate, as shown by strong sequential traffic growth (see Exhibit 6);
- **Access revenues show flat to negative revenue growth as competition from free ISP has forced paid ISP providers to slash subscription fees;**
- **Advertising revenues continue to accelerate as more advertising migrates online (see Exhibits 7 and 8). StarMedia remains ahead of the pack in garnering the greatest share of online advertising; and**
- High operating losses and low cash balances remain a problem for Latin Internet companies at this early stage of the game.

Exhibit 6: Average monthly page views soar in 2Q2000 vs 1Q2000
millions



Source: Company data, GS Research estimates.

Exhibit 7: Strong growth in 2Q2000 overall

	STRM	TRRA	LCTO	AOLA	UOL
Q/Q Growth Rate					
Ad Revenue	41%	82%	68%	154%	34%
Access Revenue	NM	15%	NM	11%	-4%
Total Revenue	37%	27%	34%	55%	23%
Pageviews	29%	50%	42%	NA	40%
Email accts/ subs	33%	34%	28%	28%	8%
Cash burn rate*	26%	42%	25%	NM	NM
Realized ARPU	NM	$10.53	NM	$5.99	$9.81

*the quarterly decline in cash as a % of beginning cash

Source: Company data, GS Research estimates.

First-half ad revenues of $68 million account for 25% of our $261 million estimate of total online ad spend in 2000. StarMedia garnered one-third of $68m.

Exhibit 8: Advertising revenues and realized CPM rates jump in 2Q2000
US$ millions

	Advertising Revenues			Realized CPM		
	2Q00	1Q00	% Ch.	2Q00	1Q00	% Ch.
StarMedia	13.1	9.3	41%	$4.84	$4.41	10%
Terra	11.4	6.3	82%	$4.13	$3.42	21%
PTM.com (1)	6.1	NA	NA	NA	NA	NA
El Sitio	4.8	2.9	68%	$8.14	$6.88	18%
UOL	4.3	3.2	34%	$1.06	$1.11	-5%
AOLA	2.0	0.8	154%	NA	NA	NA
QuePasa	1.2	0.9	40%	$7.19	$14.60	-51%
Todito	0.8	0.4	97%	$6.14	$5.60	9%
	43.8	23.7	85%	$3.90	$2.95	32%

1. Ad revenue is for 1H00

Source: Company data, GS Research estimates.

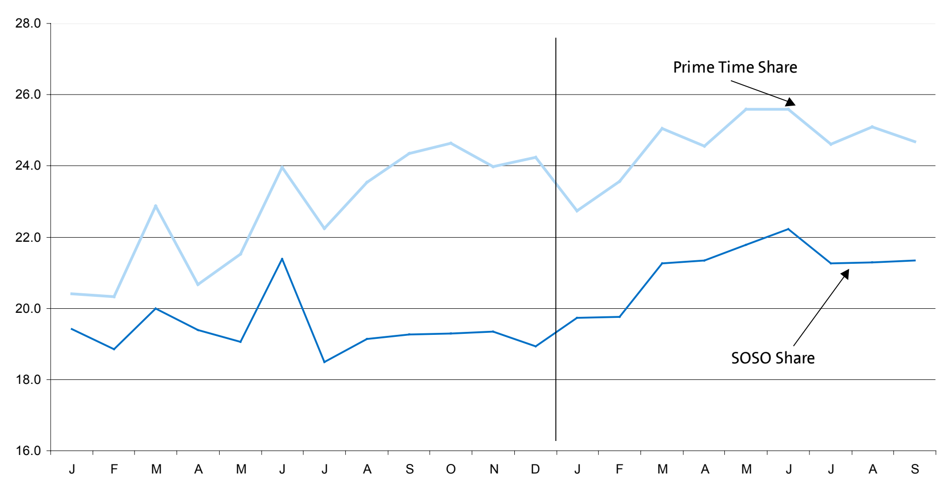
Mexican TV – ratings stabilize going into 2H2000

TV Azteca recently released viewer ratings for the month of August and the first week of September that confirmed the stabilization of market dynamics as TV Azteca's upsurge appears to have been stemmed by Televisa. In last month's *Surfer*, we predicted that ratings would stabilize going into the second half of the year. And we believe that the August ratings shift may be at least partially due to the success of Televisa's 9 PM novela launched in July plus an expected post-election viewer shift back to Televisa. We do not think it should impact the stocks over the medium term.

- TV Azteca's overall sign-on-to-sign-off (SOSO) market share in August was flat with July levels of 21.3% and so far, 3Q2000 share is only slightly below that of 2Q2000 (down 2%) (see Exhibit 9).
- TV Azteca's 'commercial audience' share declined further in August from July's dip and prime-time 'commercial audience' share in August was 33.3%, now down 460bps from its June high (commercial audience SOSO was 31.5% in August)

TV Azteca management has indicated that starting in 2000, it began signing all advertising contracts based on commercial audience ratings (the Mexican commercial audience is defined as ABC+, C and D+ households representing 63% of the Mexican population and 92% of Mexico's household income). TV Azteca had a 32% market share of Mexican television ad revenue in the second quarter, slightly below its 34% SOSO share of the commercial audience. Given TV Azteca's focus on commercial audience share, the fall-off we have seen in the third quarter (averaging 32% so far in 3Q2000) could point to a potential weakening in revenue share in the second half of the year. We remain confident, however, that TV Azteca will achieve our forecast 25%+ EBITDA growth, as the ad rate hike the company achieved in the first half of the year continues on track.

Exhibit 9: TV Azteca ratings – SOSO and prime time viewer share



Source: Company data.

Company updates

Televisa

Televisa ADRs are trading at 13.3X our 2000 EBITDA estimate on an EV/EBITDA basis – a 36% discount to its US peer group. **Given Televisa's 25%+ expected EBITDA growth rate this year combined with the strength and stability of the Mexican economy, we believe that Televisa ADRs should enjoy multiple expansion, as evidence of a recent ad rate increase becomes clearer in the second half.**

Potential upside in non-core publishing business

Televisa announced on August 22 that it has reached an agreement to purchase the 35% minority stake in its publishing division, Editorial Televisa, that it does not currently own, using Televisa shares. Televisa is buying the stake for 2.9 million ADR-equivalents, worth about $180 million using the closing price on the date of announcement, implying a $518 million valuation for the whole division, or 15X 2000E EBITDA. Management indicated that the transaction was priced at around 10X 2001 EBITDA, within the range of US publishing stocks which currently trade at about 7-11X forward EBITDA.

Recovery in publishing business picking up in 2H2000

The publishing division is not a big business segment for Televisa, although the company does consider it a key component of its broad content-focused strategy. We are expecting the publishing division to generate $35 million in EBITDA in 2000, roughly 5% of our total 2000 EBITDA estimate for Televisa. The publishing division was affected by the 1998 shift away from the French, communal plan of selling advertising in favor of a plan which called for each Televisa division to sell advertising on its own. As a result, the publishing division's EBITDA fell from $51.5 million in 1998 to an estimated $35 million in 2000. As stated above, management indicated that it priced the acquisition at 10X 2001 expected EBITDA, implying that Televisa expects EBITDA to rebound back to 1998 levels in 2H2000 and into 2001, above our current estimates. As a result, **we believe that our positive outlook for second-half results for Televisa could be further buoyed by a continued recovery in its publishing business, and our current estimates for this division could prove conservative**.

Cancellation of repurchased shares

Televisa also announced that it would cancel 5.1 million ADR-equivalents that it has repurchased over the past two years. The cancellation process is expected to be completed by October.

TV Azteca

Azteca America announcement includes positive programming agreement

TV Azteca announced that it is teaming up with Pappas Telecasting, a privately-held US television broadcaster, to form Azteca America (AA), a new Spanish-language television network targeting US Hispanic viewers (see page 3 for a discussion of the competitive dynamics of this announcement). **This was a positive although largely expected event for TV Azteca, and caused us to raise our 12-month price target $1, to $17 per ADR, while maintaining our Market Outperformer rating on TV Azteca ADRs**.

While it is encouraging that TV Azteca has forged an alliance in the United States, the US Hispanic television market is fast becoming crowded and with a limited initial reach (only 45% of the target audience), it may take some years before AA makes a significant impact in the market. In addition, the formation of a US partnership removes a much-anticipated catalyst for TV Azteca stock.

The principle positive element of the announcement, we believe, is a favorable program licensing agreement between TV Azteca and AA. TV Azteca will receive a minimum of $15 million a year in programming fees from the new venture, beginning in 2001. As a result, we have raised our 2001 EBITDA estimate by $12 million (we assume some costs will be incurred at TV Azteca's level) to $242 million – our 2000 EBITDA estimate remains unchanged at $214 million. AA is scheduled to launch full operations in the second quarter of 2001.

While the $15 million a year guaranteed fee is unquestionably favorable to TV Azteca's market valuation, in our opinion, the value of TV Azteca's 20% stake in AA is less clear. **In brief, we do not believe that TV Azteca's 20% stake in AA has added any incremental market value to TV Azteca ADRs.**

Management indicated in both its press release and a subsequent conference call that TV Azteca is not required to spend any cash up-front for its 20% stake. However, TV Azteca management has indicated that the 20% stake will eventually cost the company between $80 and $100 million. TV Azteca is, in effect, taking on seller financing to pay for its stake because it will not collect the first $80-$100 million of proceeds from its programming fee. This agreement helps TV Azteca finance its 20% stake and further helps the early-year cash flow of the new venture (in effect, AA will make no cash outlay for the first $80-$100 million of programming it receives from TV Azteca). But Exhibit 10 outlines a potential present value for TV Azteca's 20% stake in AA assuming AA is able to achieve a 20% ad revenue market share in Year 5 (2006). Under this assumption, the 20% AA stake is worth about $90 million by our estimates, fully offset by TV Azteca's required investment in the venture. In the future, outperformance by AA or investor enthusiasm for an AA IPO (management indicated that it may turn to the US equity markets for partial funding of the new venture) could enhance the value of AA to TV Azteca. But currently, we believe that TV Azteca benefits primarily from the programming agreement it has reached with AA.

Exhibit 10: Azteca America – potential present value of venture
US$ millions, except per-share data

	2006
US Hispanic Advertising Market	3,740
US Hispanic TV Ad market	2,069
Azteca America	
% TV Ad market	20%
Revenues	414
EBITDA margin	40%
EBITDA	165
Target EV/EBITDA mult	15.0x
Value in 2006	2,482
Average PV (discount rate of 15% - 21%)	927
Net Debt	475
Net Value	452
Azteca Stake - 20%	90
Cost of Azteca Stake	80
Net Incremental Value	10
Value per ADR	$ 0.06

Source: Company data, GS Research estimates.

Minimal impact expected on Televisa as a result of AA creation

We believe that the formation of AA should have little impact on Televisa shares because we do not believe that AA is likely to impact the success of the number-one US Hispanic television company, Univision, soon (Televisa owns 13.6 million shares of Univision and receives 9% of Univision's revenue). We believe that AA has much to do before establishing a presence that will significantly impact Univision's top-line growth rate. Televisa remains on our US and Latin America Recommended Lists.

Potential positives and our concerns over TV Azteca's recent announcement

The following are some initial thoughts about the potential positive and negative aspects (as they relate to TV Azteca) from the formation of AA.

Positives

- **TV Azteca currently has almost no US presence, so all revenue from this venture is incremental to first half 2000 results**.
- Its partner, Pappas Telecasting, has a proven success record with managing a myriad of television stations in the United States.
- AA is already present in several key cities including Los Angeles, San Francisco, and Houston. (Exhibit 1 on page 4 gives a list of the top ten Hispanic cities in the United States.)
- TV Azteca does not appear to need to leverage its balance sheet in order to purchase its 20% stake in AA, a new venture that will include at least four to ten

television stations in the United States. As mentioned above, there is a cost to TV Azteca, but it will be paid for from the incremental revenue of the venture, allowing TV Azteca to continue to apply its solid Mexican cash flow to projects at home.

Potential concerns

- Pappas Telecasting has never managed a television network (only stations) and must put together a management team that can face the challenges of selling nationwide advertising in an increasingly crowded, and still relatively small, market.

- TV Azteca's programming was available on Telemundo up until mid-1999 but did not find a broad US audience.

- **AA has initial agreements to purchase stations that will give it a 45% penetration of the US Hispanic market, but in order to attract a broad array of national advertisers it will likely need a greater presence.** Purchasing additional television stations or finding affiliates, especially in key markets such as New York, Chicago, and Miami, could be difficult and expensive. The debt financing required to build a presence may detract significantly from any equity value creation in the venture in its early years.

- AA is a start-up. With TV Azteca's programming it has a clear advantage, in our opinion, over Telemundo and HTVN, but the venture will likely face all of the challenges (financial, human resources, market penetration, etc.) that any start-up faces.

Details of the new venture

US partner will run the show

TV Azteca's partner in the United States is Pappas Telecasting, which will take an 80% stake in the venture and will contribute three wholly-owned television stations in San Francisco, Los Angeles, and Houston (see Exhibit 11). CEO Harry Pappas will be Chairman and CEO of AA and the managing team will come largely from Pappas' operations.

Programming fee is a positive – especially if AA succeeds

On the immediate front, TV Azteca will receive a guaranteed $15 million a year programming fee from AA in return for exclusive rights to air TV Azteca programming in the United States, Puerto Rico, and Canada. This fee could rise because TV Azteca may receive the higher of the guaranteed $15 million or 10% of revenue rising to 15% in Year 5. On a conference call with investors, management indicated that it expected to garner a 20%-25% market share in five years, which would imply fee revenue in Year 5 for TV Azteca of $60 million-$75 million. Currently, TV Azteca has been generating almost no programming fees from the United States since its agreement with Telemundo was dissolved last year.

Exhibit 11: Azteca America Stations – currently owned and being purchased

Currently Owned	
1	Los Angeles, CA
4	San Francisco-Oakland-San Jose, CA
6	Houston, TX
Being Purchased	
3	Miami - Ft. Lauderdale, FL
9	Dallas-Ft. Worth, TX
10	San Diego, CA
11	Fresno-Visalia, CA
12	Phoenix, AZ
13	El Paso, TX
14	Sacramento-Stockton-Modesto, CA
	Bakersfield

Note: numbers represent Top15 rankings for city hispanic population size

Source: Company data.

Competition in the United States will not cease with the entrance of AA

AA is now the fourth network competing with number-one Univision, Telemundo, and the nascent Hispanic Television Network (HTVN). Pappas will contribute three of its stations to AA (the LA station is in the form of a construction license) and indicated that it has just received FCC approval to purchase a fourth station (in Phoenix) that will also be contributed. Over the next 8-12 months, six more stations will be added to the network, bringing the total to ten, with an estimated coverage of 45% of the US Hispanic market.

Building out a national network is first and foremost

Over the first 18 months of the venture, we believe that investors should pay closer attention to the success of building-out a national network of television stations than AA's programming success, because such a build-out is critical to attracting national advertising revenue. We believe that finding stations to join the Azteca Americas network and funding the acquisition of these new stations is the biggest initial obstacle to the success of TV Azteca's new venture. While management indicated that it has already entered advanced discussions with several well-situated television stations, key cities such as New York and Chicago remain question marks.

TV Azteca management indicated that its five-year plan for AA is to spend about $750 million in acquiring and building out the television station infrastructure required to have a national network in the United States. This figure is in addition to the $350 million in television station assets that Pappas Telecasting indicated it was contributing to the venture on Day 1. Pappas is contributing two stations and a construction license that it already owns; these are in San Francisco (KTNC – Ch.42), Houston (KAZH – Ch.57), and Los Angeles (KIDN-TV, a construction license only).

In addition, management announced that it is in advanced discussions to acquire seven additional stations (see Exhibit 12) that may require $450-$500 million in funding.

This initial burst of acquisitions will allow AA to reach about 45% of US Hispanic viewers. By the end of 2001, management indicated that it hopes to reach 65% of US Hispanic viewers, which would likely require additional spending.

Exhibit 12: Azteca America – contributed assets
US$ millions

Pappas Telecasting:	
Houston and SF stations and LA construction license	$350
Other Assets	50
TV Azteca Programming Contribution	100
Total Initial book value of Contribution	500
Additional 7 TV stations	450-500
Additional Capex over first 5 years	250-300
Total Asset Contribution in 1st Five Years	**$1,250**

Source: Company management.

Timing: Houston to launch in October

Management is planning to start full network operations in the second quarter of 2001. But individual stations will likely begin airing TV Azteca programming earlier. The Houston station, for example, will begin a pilot project in October. TV Azteca will be paid $1.5 million per month until network operations begin as compensation for its programming and as an exclusivity agreement that will prevent it from selling its programming to stations outside of the network.

Management also indicated that it plans to issue both publicly traded debt and potentially equity as part of its financing program. No timing was provided for either issuance although management indicated that bank financing would likely be initially used to fund the purchase of new stations.

Globo Cabo

2Q2000 results impacted by higher programming costs but ARPU rises

Globo Cabo reported 2Q2000 results in August that showed a year-on-year decline in EBITDA and margins driven primarily by higher programming costs (see Exhibit 13). Advanced subscribers as a percentage of total subscribers increased to 54.3% in 2Q2000, driving average revenue per user (ARPU) up slightly to $35.17. The introduction of the lower-priced Standard package ($14 versus $37 for Advanced) during the quarter is expected to have a downward pull on ARPU going forward, but the effect in 2Q2000 was minimal because Standard subscribers accounted for less than 1% of total subscribers.

Net revenues were flat versus 1Q2000, due primarily to seasonally weaker pay-per-view (PPV) revenue as there were fewer soccer events in 2Q2000. Subscription revenues, however, grew 3.1% versus 1Q2000. Subscribers increased to 1.042 million in 2Q2000, representing an annualized growth of 6.5%, in line with management's guidance of around 7% full-year subscriber growth. Programming costs grew to 33.4% of net revenue in 2Q2000 from about 30% previously, and management has indicated that it expects programming costs to remain at the 33% level over the next few quarters. Selling expenses also increased in 2Q2000 to $5.5 million (up from $1.0 million in 2Q1999) as a result of the marketing campaign for the launch of its Standard Package targeting C class homes passed.

Exhibit 13: Globo Cabo summary 2Q2000 results
US$ millions, except ARPU

	2Q00	1Q00	% Ch.
Net Revenues	104.3	104.4	0%
EBITDA	23.2	23.5	-2%
EBITDA margin	22.2%	22.6%	
Net income	(34.9)	(22.2)	58%
Subscribers ('000)	1,042	1,026	2%
ARPU	$35.17	$34.59	

Source: Company data.

Other important recent events include:

- Unicabo was fully incorporated into Globo Cabo's results through the assumption of debt and the issuance of 40 million new shares;
- Bovespa Index re-weighting – Globo Cabo's weight in the Bovespa Index grew to 8% from 5%;
- Vicom acquisition was approved on July 17 and 28.6 million new shares were issued, as Vicom is now the corporate data division of Globo Cabo; and
- ANATEL approved the acquisition of Net Sul by Globo Cabo.

See page 16 for more on Globo Cabo's long-term business targets.

Management still targeting 50,000 Virtua subscribers by year-end

Globo Cabo continued with a full launch of its broadband offering Virtua in the second quarter (following a soft launch in 1Q2000), signing up 5,800 new subscribers. Globo Cabo had a backlog of 25,000 people with a clean return path waiting to receive the Virtua service as of the end of the quarter, and the run rate of net adds was around 100 per day in August. Management indicated that its biggest obstacle to growing its broadband business at this early stage is not competition from the DSL providers, but rather the presence of free ISP in Brazil and the confusion among consumers trying to decide between free narrowband ISP or paid ISP.

Net Sul acquisition approved by ANATEL – pending Board approval

Globo Cabo's previously announced acquisition of Net Sul, a pay TV company in the south of Brazil, is on track to close by early October pending approval by Globo Cabo's Board of Directors. Following this acquisition, Globo Cabo will have approximately 1.4 million subscribers and a Brazilian cable market share of over 75%. Net Sul also offers broadband Internet services and had net sales of 2,500 subscribers as of June 30, with over 180,000 bi-directional homes already activated. Net Sul plans to activate the bi-directionality of 400,000 homes passed to be able to offer broadband Internet access.

PT Multimedia.com – grows in Latin America, reinforces lead in Portugal

PTM.com, the Internet subsidiary 68% owned by PT Multimedia of Portugal, reported 1H2000 results that showed a strong surge in growth in Brazil and continued dominance of the Portuguese Internet market. We continue to rate PT Multimedia a Market Outperfomer. PT Multimedia is covered by our European Internet Analyst Matthew Walker.

PTM.com expects to break even in 4Q2002

PTM.com reported revenues of EUR24 million and EBITDA of EUR(32 million). Revenue was up 19% year on year but portal revenue was up 66% to EUR6 million since December 1999. For the full year we now expect revenue for PTM.com of EUR56 million and EBITDA of EUR(70 million). PTM.com is aiming to be EBITDA-positive in 4Q2002, with a full year of positive EBITDA in 2003. Of EUR59 million of costs, EUR21 million was for marketing.

Extension of dominance in Portugal

In Portugal, PTM.com continues to lead the access and portal market. The portal Sapo increased its reach in 2Q2000 to 51.2%, from 34.4% in 1Q2000, maintaining a wide lead over the number-two player Yahoo!, which had reach of 31.8% in 2Q2000. The June Market survey showed PTM.com with a 43% share in the residential ISP market, double the nearest competitor.

Number-three player in Brazil

In Brazil, the recently acquired portal Zip.net showed strong growth with monthly page views increasing from 176 million to 255 million. This compares to approximately 500 million for Terra Brazil and 1 billion for UOL. In July the page views showed explosive growth to 382 million, partly due to the introduction of a new webmail system from Critical Path. Zip.net was the only leading portal to grow in July. Unique visitors grew from 2 million in December to 2.8 million in June. **PTM.com claims to be the third-largest portal in Brazil, behind UOL and Terra, and to be the leading portal in terms of e-mail users.**

Rapid product innovation

Product innovation appears to have been rapid across the group with the launch of a host of vertical content channels, mobile portals in both Portugal and Brazil on the leading mobile operators TMN and Telesp Celular, and a restructuring of the broadband content portal which is the default portal for the broadband cable system owned by PT Multimedia. The TV-based version of the broadband service is planned for 4Q2000. Other key products include worldwide search from Google, SMS messaging, and NetBI, an authentication system. PTM.com benefits from cost savings in using these technologies and experience in both Portugal and Brazil.

AOL Latin America

America Online Latin America (AOLA) reported fiscal fourth-quarter results on September 5, showing revenues up 55% from the previous quarter to $4.0 million, and full year revenues of $9.2 million. Advertising and e-commerce revenues of $2.0 million in the fourth quarter accounted for about half of AOLA's total revenues. AOLA went public on August 7 and we do not have a rating on AOLA shares.

The company launched its AOL-branded interactive services in Brazil in November 1999, Mexico in July 2000, and most recently in Argentina in August 2000. The company reported revenues of $4.0 million in the fourth quarter ended June 30 (50% from access and the other 50% from advertising and e-commerce) and incurred a net loss of $46.7 million (see Exhibit 14). AOLA had 123,000 subscribers in Brazil as of June, with a substantial portion of its subscribers still in a free trial period. In Brazil, the company's current fee that it charges for unlimited access is R$24.95 (about US$14), but its realized subscriber ARPU in the fiscal fourth quarter was only $6.00 due to the large number of free trial subscribers. We expect the company to continue to face difficult pricing pressure on its ISP business due to the strong presence of free ISP in the region (UOL and Terra both posted weak or negative growth in their ISP revenues in the quarter that ended June 30).

Exhibit 14: AOLA summary quarterly results
US$ millions

	Jun-00	Mar-00	% Ch.
Revenues			
Adv. & commerce	2.0	0.8	154%
Access	2.0	1.8	11%
Total	4.0	2.6	55%
Operating Loss	(47.5)	(23.7)	100%
Net Income	(46.7)	(23.3)	100%
Subscribers	123,000	96,300	28%
Realized ARPU	$5.99	NA	
Cash	221	35	

Source: Company data.

AOLA has had a sometimes choppy start as its Brazil launch last fall received a great deal of criticism from the press due to an embarrassing switch of software and Samba music. But Internet executives we have spoken with in Brazil continue to count AOLA as one of the principle competitors. And while many have said AOLA is too late to build a presence in the region, we disagree. **With only 2%-3% Internet penetration in Latin America we believe no one is too late. AOLA's challenge, however, will be to create a compelling offering that will entice consumers to pay up for ISP when free-ISP options remain.**

First Latin Internet IPO of the year

America Online Latin America completed a $200 million IPO of 25 million A shares at $8 per share on August 7, pricing at the low end of its revised filing range of $8-$10 (the company initially filed at a range of $15 to $17, but revised it downwards during its roadshow). The completion of the IPO was encouraging. But the lackluster aftermarket performance in AOLA shares in the past month (the shares have traded in a range of $7 to $9 per share) could make other Latin American Internet companies contemplating an IPO think twice before deciding to go through with their own transactions.

Key strategic relationship with Banco Itaú in Brazil

AOL Latin America entered into a strategic marketing alliance with Banco Itaú in June to create a co-branded customized version of America Online Brazil service that Banco Itaú will market to its seven million customers. Banco Itaú received a 12% stake (31.7 million shares) in AOL Latin America at the close of the offering in exchange for Itaú's commitment to achieve various subscriber and revenue levels during a five year period.

America Online (AOL) and the Cisneros Group control AOLA with 80% of the shares (see Exhibit 15) and 97% of the voting power following the completion of the offering (AOLA issued A shares to the public which have one vote per share, while the B and C preferred shares held by AOL and Cisneros Group have ten votes per share). AOL and the Cisneros Group purchased 4 million shares each of AOLA's A shares at the time of the IPO, so that only 17 million shares of the 25 million A shares were issued to the public.

Exhibit 15: Share structure of AOL-LA post-offering
shares in millions

	Shares	%	Type	Votes/shr	Voting Power
AOL (1)	105.9	41%	B preferred	10	49.70%
Cisneros Group (1)	101.8	39%	C preferred	10	47.73%
Banco Itau	31.7	12%	A common	1	1.54%
Former Cisneros employees	2.1	1%	A common	1	0.10%
Directors, officers	2.0	1%	A common	1	0.10%
Public (2)	17.0	7%	A common	1	0.83%
Total	**260.4**				

(1) AOL and Cisneros purchased 4 million A shares each at the time of offering
(2) assumes 3.75m additional shares available for over-allotment not exercised

Source: Company data.

UOL

UOL recently reported second-quarter results, posting net revenues of $30.7 million, up 23% versus the first quarter, driven by strong growth in advertising revenues (up 34% to $4.3 million) and a marked surge in e-commerce revenues of $6 million. UOL's second-quarter results confirm its leading position in Brazil, and highlight the powerful position Brazil plays in the Internet market in Latin America as a whole. UOL is not publicly traded.

Advertising revenues not as high as appeared to be in 1Q2000 – but still good

UOL for the first time reported advertising revenues excluding advertising contracts with its controlling shareholders, Folha Group and Abril. With this restatement, it now appears that UOL's advertising revenues are not as high as we had previously thought following the release of 1Q2000 results. Ad revenues in the first quarter were restated to $3.2 million, about a third of StarMedia's, and significantly less than the $8.9 million initially reported. Nevertheless, UOL is still the clear leader in Brazil in terms of traffic and Brazil-only advertising revenues. The company was able to grow its ad revenues by 34% in the quarter, reaching $4.3 million, while monthly page views grew to 1.5 billion in June, up 32% from March (see Exhibit 16).

Exhibit 16: UOL summary 2Q2000 results
US$ millions

	2Q00	1Q00	% Change
Revenue			
Advertising	4.3	3.2	34%
Access	20.4	21.2	-4%
E-Commerce	6.0	0.5	1100%
Net Revenue	**30.7**	**24.9**	**23%**
Operating Income	(48.8)	(51.5)	
Net Income	(44.6)	(48.0)	
Operating Statistics			
Subscribers	721,197	668,459	8%
Page views - monthly (mn)	1,470	1,113	32%
Realized ARPU	$9.81		

Source: Company data.

Paid ISP continues to be challenged by free options

UOL reported access revenues down slightly (4%) in the quarter despite 8% subscriber growth, as free ISP in Brazil continues to drive down ARPU's. UOL's realized ARPU in 2Q2000 was $9.81, slightly below Terra's of $10.53 and significantly above AOLA's $6.00 (AOLA has a significant number of subscribers still in a free three-month trial period). Access revenues still accounted for close to 70% of UOL's total revenues, but down from 85% in the first quarter. We expect to see continued downward pressure on access revenues in the second half of the year, and believe this will continue to be a more difficult business line to grow in the short term.

Cash position continues to be a problem

UOL had $32 million in cash at the end of the second quarter, after burning through an estimated $50 – $55 million in cash that was partially offset by new borrowings. The company issued $55 million in commercial paper to help finance its operating losses. Encouragingly, UOL's operating loss narrowed slightly to $49 million from $51.5 million in 1Q2000, as the company cut sales and marketing expenditures by $5 million. UOL's long-awaited IPO continues on hold (the company first filed to go public in the first quarter of 2000), and we expect the company to monitor AOLA's aftermarket performance closely as it contemplates trying to access the public equity capital markets.

News and statistics

Latin America Media/Internet news

Mergers, acquisitions, and funding

T-Online expands its European strategy with purchase of Ya. T-Online, a unit of Deutsche Telekom AG and Europe's biggest Internet provider, said it will purchase Ya.com for EUR550 million in shares and cash. EUR100 million will be paid in cash and 15.25 million will be paid via a capital increase. Ya.com is a leading ISP/portal in Spain and Portugal. We believe that T-Online's acquisition of Ya.com instead of a site that had a greater presence in Latin America is indicative of European companies' eagerness to establish businesses in Europe before tackling the emerging markets.

Site launches

StarMedia and Codetel launch mobile Internet portal in the Dominican Republic. StarMedia and Codetel, the leading mobile telephone company in the Dominican Republic, announced the creation of Tun-Tun, allowing Codetel's digital cellular phone users to receive customized Web content on their cellular phones.

Strategic alliances

Univision and Ask Jeeves to create a 50/50 joint venture. Ask Jeeves will produce Ask Jeeves en Español, a Spanish-language version of Ask.com to be launched first, with the focus then shifting to marketing its suite of business solutions to Spanish-speaking businesses in the United States.

Globo.com and Caixa Economica Federal formed a venture to provide consumers with $880 million in credit to purchase personal computers in an effort to broaden Internet adoption in Brazil. The loans will target low-income families, with a monthly salary of about $165. The computers are expected to cost about R$1,600 each, and come equipped with free Internet access to be provide by Globo.com. The computers are expected to be sold in 24 installments with an interest rate of 2.75% per month, and will start to be sold as soon as October.

Asista forms alliances with Axa and Grupo Financiero Banorte. Asista, a Latin American B2B business, announced in early September its intention to form a strategic alliance with Axa and Banorte. Asista will make Axa one of the anchor buyers for its e-Marketplace in Mexico. Asista will also provide Banorte with on-line payment features, as well as different e-commerce business to business solutions available through Asista's platform.

Cablemas announces digital cable launch in alliance with NDS Group. Cablemas, Mexico's second-largest digital cable provider, announced that it is launching a new digital service in Tijuana that will include 20 video channels, 40 audio channels and Internet access.

Globo Cabo, Telesp Celular announce partnership. Globo Cabo, Brazil's largest Pay TV operator and provider of broadband digital services, and Telesp Celular, the dominant São Paulo-based cellular telephone carrier, announced a partnership agreement to help bridge the gap between current analog cable service and emerging digital cable service.

Under the alliance, Telesp Cellular subscribers will be able to order pay-per-view programs on Globo Cabo's network as well as other services, automatically, using their cellular phone.

Product launches

Telefónica to invest R$5 million in marketing Brazilian DSL service. Telefónica announced its current marketing budget for "Speedy," the company's Brazilian DSL, high-speed Internet service. DSL has jumped out to an early lead in the race to capture residential broadband customers. But Globo Cabo's cable-based Virtua product has also recently begun aggressive marketing.

Terra launches WAP-based Web page in Argentina. Terra Networks' Argentine unit launched an Internet page allowing users to check news, sports scores or stock prices from their mobile phones. The Terra Web page, which uses WAP (Wireless Application Protocol) technology, will also be accessible through palmtop computers and feature other services found on its regular Internet portal. Terra's parent company Telefonica also controls Argentine phone company Telefónica de Argentina.

Yupi Internet and Ecuador newspaper to launch an Ecuador portal for news and entertainment services. In test phase since June, Yupi management has indicated that the site has had an average of one million visitors per month.

Broadband Network for Latin America. Telecom Italia, Italy's biggest telephone company, said that together with three Latin American allies it plans to invest as much as $800 million to build a broadband network linking the region's biggest cities.

Corporación GEO and start-up to develop B2B online procurement service for construction materials. Mexican homebuilder GEO announced that it is taking an equity stake in Internet start-up Mutus, which is developing a B2B vertical exchange that it plans to roll out in Mexico and eventually Argentina and Brazil during 2001. GEO has not invested any cash in Mutus, but, along with other construction companies, has been offered a free equity stake in exchange for an exclusivity agreement designating Mutus as the company's sole provider of on-line procurement services.

Company news

CIE announces capital stock increase proposal. Corporación Interamericana de Entretenimiento, the leading live entertainment company in Latin America, announced a proposal for a capital stock increase to raise about $170 million aimed at funding potential acquisitions, as well as to finance capital expenditures, and working capital requirements.

ABTA survey estimates 3+ million Pay TV viewers in Brazil. According to a survey by Brazil's Pay TV industry group (the ABTA), the number of Pay TV subscribers in Brazil is expected to end the year with a combined total of between 3.2 million and 3.54 million.

Pittsburgh-based FreeMarkets opens office in northern Mexico. B2B company FreeMarkets is aiming to provide a marketplace for international companies seeking to purchase raw materials from Mexican suppliers.

Latin American Internet growth outlook

Advertising

Exhibit 17: Total advertising spending – all media
US$ million

	1999E	2000E	2001E	2002E	2003E	2004E
Latin America						
Argentina	2,618	2,666	2,733	2,842	2,956	3,074
Brazil	4,400	5,060	5,566	6,123	6,612	7,141
Chile	626	661	712	762	815	872
Colombia	1,438	1,653	1,711	1,797	1,886	1,981
Mexico	2,400	2,592	2,799	2,995	3,205	3,429
Puerto Rico	1,473	1,574	1,684	1,802	1,910	2,025
Venezuela	1,172	1,119	1,111	1,133	1,145	1,167
Other LA	2,214	2,046	2,209	2,319	2,435	2,557
Total Latin America	16,341	17,371	18,525	19,773	20,965	22,247
Growth (YoY)		6%	7%	7%	6%	6%
Europe						
Spain	5,114	5,382	5,645	5,927	6,224	6,535
Portugal	1,629	1,924	2,269	2,609	2,870	3,100
United States						
US Hispanic	1,955	2,190	2,409	2,649	2,888	3,148
Tot Ad Spending	**25,039**	**26,867**	**28,848**	**30,959**	**32,947**	**35,030**
Growth (YoY)		7%	7%	7%	6%	6%

Source: Zenith, IBOPE, GS Research estimates.

First-half online ad revenues for UOL, StarMedia, Terra, AOLA, PTM.com and El Sitio were $66 million combined – 25% of our $261 million estimate for 2000.

Exhibit 18: Online advertising expected to skyrocket
US$ million

	1999E	2000E	2001E	2002E	2003E	2004E
Latin America						
Argentina	13	24	52	80	106	138
Brazil	22	51	122	214	364	500
Chile	1	3	7	17	33	44
Colombia	4	12	26	45	64	89
Mexico	10	21	45	75	128	171
Puerto Rico	1	9	25	49	82	121
Venezuela	1	6	11	23	34	47
Other LA	4	12	33	58	90	128
Total Latin America	56	138	321	560	902	1,238
% of Total	0.3%	0.8%	1.7%	2.8%	4.3%	5.6%
Europe						
Spain	26	54	113	178	249	327
Portugal	7	19	34	57	86	124
United States						
US Hispanic	35	50	72	98	127	157
Total Online Ad Spending	**124**	**261**	**541**	**893**	**1,364**	**1,847**
Growth (YoY)		111%	107%	65%	53%	35%

Source: GS Research estimates.

e-Commerce

Exhibit 19: e-commerce spending estimates for Latin America
US$ million

	1999	2000	2001	2002	2003
B2C					
IDC	129	264	560	1,089	1,932
Jupiter	200	500	1,200	2,200	3,700
Forrester		484	947	2,100	5,252
Average	**164**	**416**	**902**	**1,796**	**3,628**
Growth		153%	117%	99%	102%
B2B					
IDC	330	795	1,830	3,560	6,089
Gartner	1,021	2,819	7,623	19,696	47,397
Forrester		6,339	12,401	27,504	68,770
Average	**676**	**3,318**	**7,285**	**16,920**	**40,752**
Growth		391%	120%	132%	141%
Total Average	**840**	**3,733**	**8,187**	**18,716**	**44,380**
% B2C	20%	11%	11%	10%	8%
% B2B	80%	89%	89%	90%	92%

Source: International Data Corporation, Jupiter Communications, Forrester Research, Gartner Group.

Access

Over 2.7 million PCs have been shipped to Latin America already in the first half of 2000 – up 47% versus 1H1999. Rapid 1H2000 growth in the PC base suggests that IDC's user estimates could be conservative.

Exhibit 20: Projected number of online users in Latin America
millions

	1998	1999	2000E	2001E	2002E	2003E
Argentina	0.4	0.9	1.3	2.1	2.7	3.5
Brazil	2.5	3.6	5.7	7.6	9.3	11.4
Chile	0.2	0.5	0.8	1.1	1.4	1.7
Colombia	0.3	0.4	0.6	0.7	0.9	1.1
Mexico	1.0	1.8	2.8	3.9	5.4	6.9
Venezuela	0.3	0.5	0.7	0.9	1.2	1.5
ROLA	0.6	1.0	1.5	2.1	2.8	3.8
Total Latin America	**5.3**	**8.8**	**13.4**	**18.4**	**23.7**	**29.8**
Growth		67%	51%	37%	29%	26%

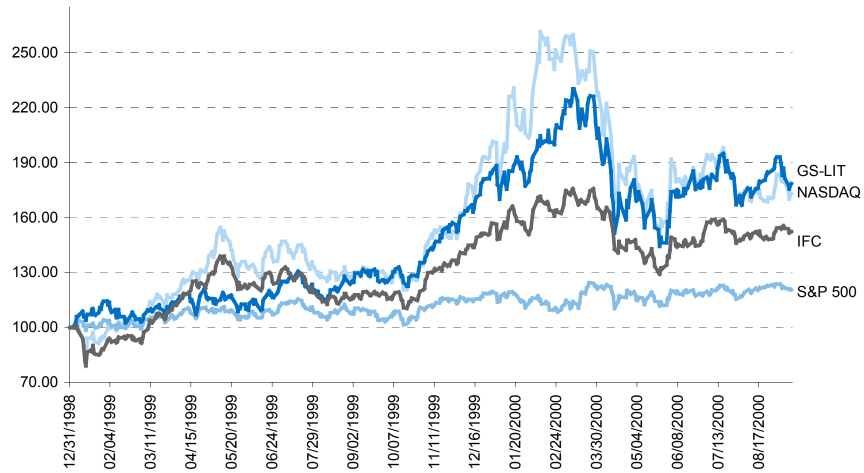
Source: International Data Corporation.

GS Latin America Technology and Internet Indices

The GS-LIT, GS-LIT-I, and GS-LITXI provide equity benchmarks for traded Latin American stocks with exposure to the information technology and Internet sectors. Exhibits 21 and 22 list the components and chart the performance of GS-LIT and GS-LIT-I since December 31.

Exhibit 21: GS-LIT down 14% Y-T-D

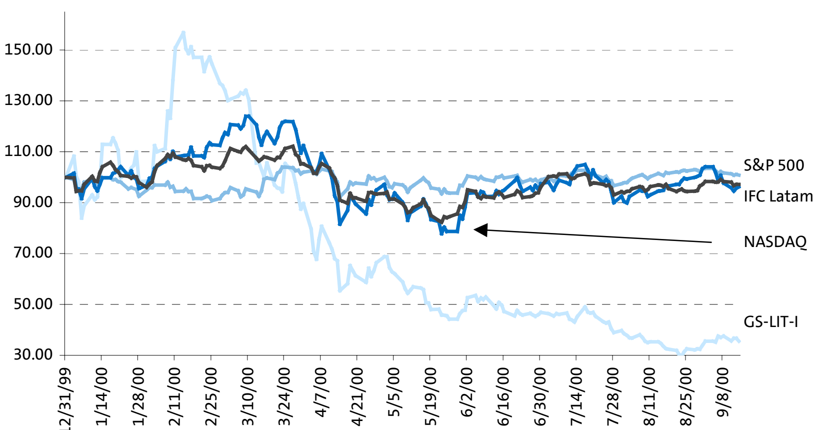
	Companies	Ticker	Wgt (%)
1	Telmex	TMX	12.50
2	Terra	TRRA	12.50
3	Televisa	TV	11.03
4	Tele Norte Leste	TNE	9.75
5	Embratel	EMT	8.44
6	Telecom Argentina	TEO	8.32
7	Telesp Celular	TCP	6.96
8	Tele Centro Sul	TCS	6.55
9	CTC	CTC	5.67
10	Globo Cabo	GLCBY	4.22
11	CANTV	VNT	4.13
12	Star Media	STRM	2.31
13	TV Azteca	TZA	1.82
14	Tele Celular Sul	TSU	1.39
15	El Sitio	LCTO	1.34
16	Iusacell	CEL	1.02
17	First Com	FCLX	0.93
18	Telemig Celular	TMB	0.88
19	Tele Centro Oeste Celular	TRO	0.24



Source: Goldman Sachs, FAME.

Exhibit 22: GS-LIT-I down 65% Y-T-D

	Companies	Ticker	Wgt (%)
1	Terra	TRRA	40.00
2	Star Media	STRM	37.98
3	El Sitio	LCTO	22.02



Source: Goldman Sachs, FAME.

Company investment profiles & models

StarMedia investment profile

Rating: MO

Founded in 1996, StarMedia is an Internet media company targeting Latin America and other Spanish- and Portuguese-speaking markets worldwide. The StarMedia Network consists of a number of branded sites, including StarMedia, Periscopio, LatinRed, OpenChile, Zeek, Cade?, Adnet, and Paisas. Additionally, StarMedia provides content to wireless and broadband Internet service providers through StarMedia Mobile and StarMedia Broadband. StarMedia is co-covered by Chris Hussey and Michael Parekh.

Investment summary

Major beneficiary of increasing Web usage in Latin America. The region has experienced explosive growth in Internet users over the past three years, and we expect this growth to continue at a 36% CAGR through 2003. This growth has been accelerated by the proliferation of free ISPs throughout the region, and will be augmented by mobile and residential broadband users.

Scalable business model and management team. The company's media-driven model is leverageable on multiple fronts. Subscribing to the coda "build it once and run it everywhere," StarMedia is striving to create an arsenal of "must-have" content that can be distributed to all Internet users regardless of how they access the Net.

Growing presence in wireless. StarMedia Mobile has recently forged alliances with several major wireless companies. There are currently 37 million cellular subscribers in Latin America, and only 5 million PCs, which points to the tremendous market opportunity for mobile Internet as WAP-enabled phones become available.

Narrowing funding gap. September's announcement of cost-cutting measures has moved up EBITDA breakeven by one year to 4Q2001 and should temper investor concerns about the company's balance sheet.

Risks

Brazilian presence still looking to gain traction. Brazil is generally projected to account for between 40% and 50% of all Internet users, e-commerce revenues, and cellular phone subscribers in Latin America over the next few years, and its importance in these markets is not likely to diminish in the foreseeable future.

Competition. The abundance of public and venture capital available to Latin American Internet companies, and the entrance of traditional media companies into the space, are raising the price of brand recognition.

Execution. StarMedia's September cost-cutting initiative is encouraging but will likely shift investor attention towards the company's ability to maintain its torrid top-line growth pace even while it streamlines the enterprise for the first time.

Exhibit 23: StarMedia – income statement, 1998-2002E
US$ millions, except per-share data

	2000E				2001E				Fiscal Years				
	1Q00A	2Q00A	3Q00E	4Q00E	1Q01E	2Q01E	3Q01E	4Q01E	1998	1999	2000E	2001E	2002E
Net Revenues	**10.1**	**13.8**	**15.2**	**18.8**	**15.0**	**19.6**	**25.4**	**46.2**	**5.8**	**20.1**	**57.8**	**106.2**	**177.0**
Sales & Marketing	18.6	22.3	18.3	18.3	18.7	19.1	19.5	20.1	29.3	53.4	77.4	77.3	85.8
Product & Technology	15.9	19.5	17.0	18.0	17.1	17.2	17.4	17.9	7.1	33.2	70.4	69.7	76.6
G&A	8.1	7.7	7.9	8.1	8.1	8.1	8.1	8.1	4.8	15.3	31.8	32.6	35.2
Depreciation & Amort.	4.5	7.3	8.3	9.8	9.8	10.0	10.0	10.2	0.8	6.5	29.9	40.0	42.0
Operating Costs	47.1	56.7	51.5	54.2	53.7	54.5	55.0	56.3	42.0	108.4	209.5	219.6	239.6
Operating Income/ (Loss)	(37.1)	(43.0)	(36.3)	(35.4)	(38.7)	(34.9)	(29.6)	(10.2)	(36.2)	(88.3)	(151.6)	(113.4)	(62.6)
Interest Income	3.5	3.3	1.5	0.6	0.6	0.3	0.1	0.0	0.7	5.9	8.9	1.0	0.0
Interest (Expense)	(0.3)	(0.4)	0.0	0.0	(0.1)	(0.1)	(0.1)	(0.2)	0.0	0.0	(0.7)	(0.5)	(3.7)
Other expenses		(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.4)	0.0	0.0
Minority Elimination	0.0	(2.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(2.5)	0.0	0.0
Pretax profit	(33.9)	(42.9)	(34.8)	(34.8)	(38.2)	(34.7)	(29.6)	(10.4)	(35.6)	(82.4)	(146.3)	(113.0)	(66.3)
Tax	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.2)	(0.0)	0.0	0.0
Net inc from ongoing ops	(33.9)	(42.9)	(34.8)	(34.8)	(38.2)	(34.7)	(29.6)	(10.4)	(35.6)	(82.7)	(146.3)	(113.0)	(66.3)
Non-cash compensation	(1.2)	(1.1)	(1.1)	(1.1)	(0.6)	(0.6)	(0.6)	(0.6)	(10.4)	(6.4)	(4.5)	(2.5)	(1.6)
Non-recurring charges	0.0	0.0	(3.0)	0.0	0.0	0.0	0.0	0.0	0.0	(1.6)	(3.0)	0.0	0.0
Net Income	(35.1)	(44.0)	(38.9)	(35.9)	(38.8)	(35.3)	(30.3)	(11.1)	(46.0)	(90.7)	(153.8)	(115.5)	(67.9)
EPS (operating)	($0.52)	($0.65)	($0.53)	($0.53)	($0.59)	($0.53)	($0.46)	($0.17)	($1.05)	($1.53)	($2.23)	($1.70)	($0.98)
EPS (reported)	($0.54)	($0.67)	($0.59)	($0.54)	($0.59)	($0.53)	($0.46)	($0.17)	($1.36)	($1.68)	($2.34)	($1.73)	($1.00)
Average shares	64.6	65.7	66.0	66.2	66.2	66.2	66.2	66.6	33.8	54.0	65.6	66.6	67.6
Operating Statistics													
Pageviews (mm)	2,100	2,700	3,200	4,000					471	8,000	12,000	20,000	32,000
Growth (sequential)	24%	29%	19%	25%						1599%	50%	67%	60%
Active e-mail accounts (mm)	3.3	4.4	5.2	6.5						2.5	6.5	10.9	17.4
Unique users (mn)		12.0											
# of advertisers	463	500	520	550					88	236	508	658	858
CPM													
Reported	$59	$56	$45	$40					$100	$74	$50	$45	$40
Realized	$4.41	$4.84	$4.51	$4.47						$2.26	$4.55	$4.89	$4.78
Total On-line Ad Spending (Spanish & Portuguese Speaking world)									29.9	123.7	260.9	540.7	893.0
Market Share									18%	15%	21%	18%	17%
Cash	230.0	169.9	128.4	93.4	57.5	25.3	0.0	0.0	53.1	274.1	93.4	0.0	0.0
As a % of Total Net Revenues													
Advertising	92%	95%	95%	95%	93%	93%	92%	92%	92%	90%	95%	92%	86%
Access	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	0%	0%	0%
E-Commerce	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%
Wireless	8%	5%	5%	5%	7%	5%	6%	6%	0%	0%	6%	6%	8%
Broadband	0%	0%	0%	0%	0%	2%	2%	2%	0%	0%	0%	2%	5%
Year-Over-Year Growth													
Advertising					51%	39%	62%	136%		241%	202%	79%	56%
Wireless					31%	42%	101%					100%	136%
Broadband													300%
Total revenues	531%	255%	171%	109%	50%	42%	67%	145%		249%	188%	84%	67%
Operating Costs	211%	126%	72%	41%	14%	-4%	7%	4%		158%	93%	5%	9%

Source: Company data, GS Research estimates.

Televisa investment profile

Rating: US & Latin RL

Grupo Televisa, the world's largest producer of Spanish-language television programming, is the dominant media and entertainment company in Mexico. Its portfolio of horizontally and vertically integrated assets includes interests in television production and broadcasting, international programming distribution, publishing, music recording, cable television, radio production and broadcasting, professional sports, paging services and feature film production. The company has broadened its global presence through its investment in Univision, a Hispanic-programming network in the United States, and with its Latin American DTH satellite venture.

Investment summary

Mexico's advertising market is poised for growth. The number-one driver of profit growth for Televisa over the next few years should be the expansion of Mexico's advertising market. We forecast 10% growth in ad prices in 2000.

Internet enterprise could fuel future growth leg. Televisa's horizontal portal, esmas.com, should help the company to take advantage of the new media world.

Hidden value coming into view. The potential IPO of Televisa's majority-owned cable TV business, Cablevision, should provide a clearer valuation for this important asset. We expect Cablevision to expand operations beyond Mexico City and beyond cable television.

Three years of austerity should lock in profit gains. Further significant cost cutting is unlikely, but we believe that the work of the past three years ideally positions the company to realize significant profit gains as rising advertising rates lead to real revenue growth.

Valuation

Our $85 target price for Televisa is based on a 17.5X 2000 EV/EBITDA multiple for the core television business.

Risks

Advertising market – we could be wrong. Having gone through a difficult last three years, the Mexican ad market appears poised to grow significantly, although any macroeconomic weakness could stifle growth.

Competition. Televisa has a 75%-80% market share in Mexico, making it vulnerable to a stronger number-two broadcaster or alternative pay-TV options.

Exhibit 24: Televisa – income statement, 1999-2001E

	NOMINAL PESOS (Nominal P$, mn)			CONSTANT PESOS (Constant P$2000, mn)			U.S. DOLLARS ($) (US$, mn)		
	1999A	2000E	2001E	1999A	2000E	2001E	1999A	2000E	2001E
Net Sales	17,928	21,124	24,280	19,595	21,124	22,692	1,886	2,112	2,149
Cost of Sales	10,413	11,636	12,817	11,382	11,636	11,978	1,096	1,164	1,134
Gross Profit	7,514	9,488	11,463	8,213	9,488	10,713	791	949	1,014
Gross Margin	41.9%	44.9%	47.2%	41.9%	44.9%	47.2%	41.9%	44.9%	47.2%
Administration	1,384	1,464	1,566	1,513	1,464	1,464	146	146	139
Selling	1,398	1,680	1,931	1,528	1,680	1,804	147	168	171
Total Operating Expenses	2,782	3,143	3,496	3,041	3,143	3,268	293	314	309
EBITDA	**4,732**	**6,345**	**7,967**	**5,172**	**6,345**	**7,446**	**498**	**635**	**705**
EBITDA Margin	26.4%	30.0%	32.8%	26.4%	30.0%	32.8%	26.4%	30.0%	32.8%
Depreciation & Amortization	1,055	1,114	1,192	1,153	1,114	1,114	111	111	105
Operating Income	3,677	5,231	6,775	4,019	5,231	6,332	387	523	600
Operating Margin	20.5%	24.8%	27.9%	20.5%	24.8%	27.9%	20.5%	24.8%	27.9%
Interest Expense	1,521	1,126	879	1,662	1,126	822	160	113	78
Interest (Income)	(748)	(912)	(906)	(818)	(912)	(846)	(79)	(91)	(80)
Exchange Loss/(Gain), Net	(159)	360	(444)	(174)	360	(415)	(17)	36	(39)
Monetary (Gain)/Loss	222	135	(318)	243	135	(297)	23	14	(28)
Comprehensive Financial Cost	836	709	(789)	914	709	(737)	88	71	(70)
Other (Income), Net	1,738	921	1,070	1,899	921	1,000	183	92	95
Pretax Income	1,103	3,601	6,494	1,206	3,601	6,069	116	360	575
Pretax Margin	6.2%	17.0%	26.7%	6.2%	17.0%	26.7%	6.2%	17.0%	26.7%
Taxes, Profit-Sharing	264	1,248	2,208	289	1,248	2,064	28	125	195
Rate	23.9%	34.7%	34.0%	23.9%	34.7%	34.0%	23.9%	34.7%	34.0%
(Incr.)/Decr. - Equity in Assoc. Co.	700	1,207	1,000	765	1,207	935	74	121	88
Extra. Items - Charges/(Inc.)	(1,134)	1,522	0	(1,239)	1,522	0	(119)	152	0
Minority Interest	216	337	361	237	337	337	23	34	32
Net Income	1,057	(713)	2,925	1,155	(713)	2,734	111	(71)	259
Net Margin	5.9%	-3.4%	12.0%	5.9%	-3.4%	12.0%	5.9%	-3.4%	12.0%
Weighted Average # of CPOs/ADRs	3,002.4	2,946.5	2,946.5	3,002.4	2,946.5	2,946.5	150.1	147.3	147.3
Adj Earnings (ex. monetary & fx)	(14)	1,304	2,162	(15)	1,304	2,021	(1)	130	191
Per CPO	($0.00)	$0.44	$0.73	($0.00)	$0.44	$0.73	($0.01)	$0.88	$1.30
EPS	(77.0)	808.7	2,925.1	(84.1)	808.7	2,733.7	(8.1)	80.9	258.9
Per CPO/ADR	($0.03)	$0.27	$0.99	($0.03)	$0.27	$0.99	($0.05)	$0.55	$1.76
EBITDA									
EBITDA	4,732	6,345	7,967	5,172	6,345	7,446	498	635	705
EBITDA Margin	26.4%	30.0%	32.8%	26.4%	30.0%	32.8%	26.4%	30.0%	32.8%
Per CPO/ADR	P$1.58	P$2.15	P$2.70	P$1.58	P$2.15	P$2.70	$3.32	$4.31	$4.79
Balance Sheet Data:									
Cash	6,099	6,578	9,885	6,666	6,578	9,239	642	658	875
ST Debt	735	252	252	804	252	236	77	25	22
LT Debt	8,652	8,709	9,606	9,456	8,709	8,978	910	871	850
Net Debt	3,289	2,383	(27)	3,595	2,383	(25)	346	238	(2)
Equity	19,354	17,470	21,827	21,153	17,470	20,399	2,036	1,747	1,932
Book Value/ CPO/ADR	$6.45	$5.93	$7.41	$7.05	$5.93	$6.92	$13.56	$11.86	$13.11
Key Ratios:									
Net Debt/Capital	14.5%	12.0%	-0.1%	14.5%	12.0%	-0.1%	14.5%	12.0%	-0.1%
Interest Coverage:	3.1	5.6	9.1	3.1	5.6	9.1	3.1	5.6	9.1
Return on Equity	5.1%	-3.7%	14.4%	5.1%	-3.7%	14.4%	5.1%	-3.7%	14.4%
Macroeconomic Assumptions:									
Inflation	12.0%	9.3%	7.0%	12.0%	9.3%	7.0%	12.0%	9.3%	7.0%
P$/US$ Exchange Rate	9.505	10.000	11.300	9.505	10.000	11.300	9.505	10.000	11.300
# CPOs per ADR	20	20	20	20	20	20	20	20	20

Source: Company data, GS Research estimates.

TV Azteca investment profile

Rating: MO

TV Azteca is the second-largest television broadcasting company in Mexico. It owns and operates two national television networks through two anchor stations in Mexico City (Channels 7 and 13), and owns and operates over 250 stations throughout the country. The company produces its own programming for national and international distribution. TV Azteca has a 50% stake in fixed wireless phone provider, Unefon, a 50% stake in Internet portal, Todito.com, and a 20% stake in recently announced U.S. Hispanic network, Azteca America.

Investment summary

Mexico's advertising market is poised for growth. The number-one driver of profit growth for TV Azteca over the next few years should be the expansion of Mexico's advertising market. As with rival Televisa, we forecast a 10% real increase in advertising prices in 2000.

Internet enterprise could fuel future growth leg. A three-pronged Internet strategy, which includes a 50% interest in Mexican portal, Todito.com, should help position the company to take advantage of the new media world.

Hidden value of Unefon emerging. Unefon has gone in one year from a value-destroying to a value-enhancing investment, generating substantial interest from potential acquirers. We believe that TV Azteca's Unefon investment is worth $2/ADR or more.

Valuation

Our $17 price target for TV Azteca is based on a 14.0X EBITDA multiple for TV Azteca's core television business (a 20% discount to Televisa).

Risks

Ad rate hike does not stick. If either TV Azteca or rival Televisa seeks to increase market share rather than implement the price hike, the expected growth in Mexico's advertising market may not materialize.

Costs begin to rise. TV Azteca has had difficulty in recent years in holding down expenses. Any surprises in production costs would erode the benefits of higher advertising revenue.

Controlling shareholders' cross-holdings. Related-party transactions among the Salinas group of companies have frequently raised questions over minority shareholder rights.

Exhibit 25: TV Azteca – income statement, 1999-2001E

	NOMINAL PESOS (Nominal P$, mn)			CONSTANT PESOS (Constant P$2000, mn)			U.S. DOLLARS ($) (US$, mn)		
	1999A	2000E	2001E	1999A	2000E	2001E	1999A	2000E	2001E
Net Sales	4,102.3	5,289.7	6,048.8	4,483.8	5,289.7	5,653.1	431.6	529.0	535.3
Cost of Sales	1,947.9	2,321.4	2,426.9	2,129.0	2,321.4	2,268.2	204.9	232.1	214.8
Gross Profit	2,154.4	2,968.3	3,621.8	2,354.8	2,968.3	3,384.9	226.7	296.8	320.5
Gross Margin	52.5%	56.1%	59.9%	52.5%	56.1%	59.9%	52.5%	56.1%	59.9%
SG&A	734.6	826.6	884.5	803.0	826.6	826.6	77.3	82.7	78.3
EBITDA	**1,419.8**	**2,141.7**	**2,737.3**	**1,551.8**	**2,141.7**	**2,558.3**	**149.4**	**214.2**	**242.2**
EBITDA Margin	34.6%	40.5%	45.3%	34.6%	40.5%	45.3%	34.6%	40.5%	45.3%
Depreciation & Amortization	530.4	587.3	628.4	579.8	587.3	587.3	55.8	58.7	55.6
Operating Income	889.4	1,554.4	2,109.0	972.1	1,554.4	1,971.0	93.6	155.4	186.6
Operating Margin	21.7%	29.4%	34.9%	21.7%	29.4%	34.9%	21.7%	29.4%	34.9%
Interest Expense	749.2	678.6	696.0	818.8	678.6	650.5	78.8	67.9	61.6
Interest (Income)	(203.2)	(126.4)	(128.9)	(222.1)	(126.4)	(120.4)	(21.4)	(12.6)	(11.4)
Exchange Loss/(Gain), Net	(252.1)	142.6	287.8	(275.6)	142.6	269.0	(26.5)	14.3	25.5
(Gain)/Loss on Monetary Position	(325.3)	(195.8)	(166.5)	(355.6)	(195.8)	(155.6)	(34.2)	(19.6)	(14.7)
Comprehensive Financial Cost	(31.5)	499.0	688.5	(34.4)	499.0	643.4	(3.3)	49.9	60.9
Other (Income), Net	845.1	224.0	160.0	923.7	224.0	149.5	88.9	22.4	14.2
Pretax Income	75.8	831.4	1260.5	82.8	831.4	1178.0	8.0	83.1	111.5
Pretax Margin	1.8%	15.7%	20.8%	1.8%	15.7%	20.8%	1.8%	15.7%	20.8%
Taxes, Profit-Sharing	309.3	331.1	441.2	338.1	331.1	412.3	32.5	33.1	39.0
Rate	408.2%	39.8%	35.0%	408.2%	39.8%	35.0%	408.2%	39.8%	35.0%
(Incr.)/Decr. in Equity in Assoc. Comp.	(18.4)	383.7	447.0	(20.1)	383.7	417.8	(1.9)	38.4	39.6
Extraordinary Items - Charges/(Income)	(55.0)	298.8	0.0	(60.1)	298.8	0.0	(5.8)	29.9	0.0
Minority Interest	(17.3)	(12.3)	(13.2)	(18.9)	(12.3)	(12.3)	(1.8)	(1.2)	(1.2)
Net Income	(142.9)	(169.8)	385.5	(156.2)	(169.8)	360.3	(15.0)	(17.0)	34.1
Net Margin	-3.5%	-3.2%	6.4%	-3.5%	-3.2%	6.4%	-3.5%	-3.2%	6.4%
Weighted Average # of Shares (mm)	7,758	8,982	9,018	7,758	8,982	9,018	7,758	8,982	9,018
Weighted Average # of ADSs (mm)	162	187	188	162	187	188	162	187	188
Adjusted Earnings	(775.3)	75.8	506.8	(847.4)	75.8	473.7	(80.2)	7.6	44.9
Per Share	(P$0.10)	P$0.01	P$0.06	(P$0.10)	P$0.01	P$0.06	($0.50)	$0.04	$0.24
Earnings from Cont. Ops.	(197.9)	129.0	385.5	(216.3)	129.0	360.3	(20.8)	12.9	34.1
EPS	(P$0.03)	P$0.01	P$0.04	(P$0.03)	P$0.01	P$0.04	($0.13)	$0.07	$0.18
EBITDA									
EBITDA	1,419.8	2,141.7	2,737.3	1,551.8	2,141.7	2,558.3	149.4	214.2	242.2
Per Share	P$0.18	P$0.24	P$0.30	P$0.18	P$0.24	P$0.30	$0.92	$1.14	$1.29
Balance Sheet Data:									
Cash	972.9	1,236.8	2,272.5	1,063.3	1,236.8	2,123.8	102.4	123.7	201.1
ST Debt	761.4	507.6	507.6	832.2	507.6	474.4	80.1	50.8	44.9
LT Debt	5,109.7	5,617.5	6,193.3	5,584.9	5,617.5	5,788.2	537.6	561.7	548.1
Net Debt	4,898.2	4,888.3	4,428.4	5,353.7	4,888.3	4,138.7	515.3	488.8	391.9
Equity	4,089.1	3,942.9	5,221.9	4,469.4	3,942.9	4,880.3	430.2	394.3	462.1
Book Value/Share	P$0.53	P$0.44	P$0.58	P$0.58	P$0.44	P$0.54	$2.66	$2.11	$2.46
Key Ratios:									
Net Debt/Total Capital	54.5%	55.4%	45.9%	54.5%	55.4%	45.9%	54.5%	55.4%	45.9%
Interest Coverage:	1.90	3.16	3.93	1.90	3.16	3.93	1.90	3.16	3.93
Return on Equity	-3.8%	-4.0%	8.2%	-3.8%	-4.0%	8.2%	-3.8%	-4.0%	8.2%
Macroeconomic Assumptions:									
Inflation	12.0%	9.3%	7.0%	12.0%	9.3%	7.0%	12.0%	9.3%	7.0%
P$/US$ Exchange Rate	9.505	10.000	11.300	9.505	10.000	11.300	9.505	10.000	11.300
Number of Shares per ADS	48	48	48	48	48	48	48	48	48

Source: Company data, GS Research estimates.

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MO: Market Outperformer	**MP:** Market Performer	**MU:** Market Underperformer

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Global Media and Internet valuation statistics

Global Internet Valuation Statistics

Company	Ticker	Price 09/15/2000	Performance 1999	YTD	Rating	Market Cap ($M)	Cal Rev (M$) '00E	'01E	P/Sales '00E	'01E
Internet - Latin America										
El Sitio	LCTO	$4.50	10%	-88%	NR	$174	--	--	--	--
StarMedia Network	STRM	10.13	54%	-75%	MO	654	58	106	11.3x	6.2x
Terra Networks, S.A.	TRRA	38.94	43%	-29%	NR	10,727	--	--	--	--
Latin Internet Average									***11.3x***	***6.2x***
Internet - Global										
Chinadotcom	CHINA	$16.00	134%	-25%	MO	$1,568	123	259	12.7x	6.2x
Internet Initiative Japan	IIJI	45.00	210%	-53%	RL	2,023	321	441	6.3x	4.6x
Global Internet Average ex-Latin America									***9.5x***	***5.4x***
Total Group Averages										
Total Group Averages			222%	-55%		253			13.2x	7.4x
Media/Portals			3%	-69%		49			3.1x	1.6x
Consumer e-Commerce			291%	-32%		124			25.8x	14.4x
B2B e-Commerce			291%	-32%		124			25.8x	14.4x
Networks			74%	-12%		103			7.9x	5.4x
e-Health			289%	-41%		84			20.0x	10.3x
e-Finance			88%	-75%		6			18.4x	5.3x

Global Media Valuation Statistics

Company	Ticker	Price 09/15/2000	Performance 1999	YTD	Rating	Market Cap ($M)	EBITDA 2000E	Gr. 2000E	EV/EBITDA '00E	'01E
Television - Latin America										
Televisa	TV	$65.25	175%	-4%	RL	$9,613	608	26%	13.3x	11.5x
TV Azteca	TZA	13.88	35%	54%	MO	2,596	214	43%	11.6x	9.1x
Mexican Television Average			**105%**	**25%**				**35%**	***12.5x***	***10.3x***
Television - U.S.										
Univision	UVN	$44.19	187%	-14%	RL	10,565	336	26%	31.0x	25.4x
U.S. Television Average			**42%**	**-20%**				**8%**	***13.8x***	***13.9x***
Entertainment - U.S.										
News Corp	NWS	$55.75	46%	46%	MO	$56,029	1,832	21%	13.6x	10.1x
Viacom	VIA_B	64.31	67%	6%	RL	96,849	3,107	29%	23.7x	17.9x
Walt Disney	DIS	39.19	-1%	34%	RL	82,294	4,885	14%	17.7x	15.1x
U.S. Entertainment Average			**37%**	**29%**				**21%**	***20.7x***	***16.5x***

Global Cable Valuation Statistics

Company	Ticker	Price 09/15/2000	Performance 1999	YTD	Rating	Market Cap ($M)	# Subs (mn)	EV/Sub	EV/EBITDA '00E	'01E
U.S. Cable Average			**43%**	**-46%**			**4.3**	**$2,614**	***11.1x***	***9.9x***
Cable - Latin America										
Globo Cabo	GLCBY	$14.50	700%	-19%	NR	$3,218	1.04	$3,517	--	--

Source: Company reports, GS Research estimates.