

# CyberValuation: Internet Business Trends, Analysis, and Valuation

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# Internet Industry Segments

- ISPs (Internet Service Provider)
- Portals
- Internet Retailers
- Business-to-Business (B2B)

# ISP Trends

- Non-Traditional ISPs (Telcos)
- Free (Advertiser Supported ) ISPs
- Demand for Broadband Services (ISDN, T1, DSL, Cable Modem)
- Convergence of ISPs and Broadband Providers: AOL/Time Warner Transaction
- Diversification (Web design, hosting, IP Telephony)

# Portal Trends

- Emergence of Super Portals: AOL, Yahoo, MSN
- Development of Niche Portals: Ask Jeeves, iVillage, Google
- Falling Advertising Rates/Advertising Networks
- Formation of Marketing Alliances
- Wireless Portals

# Internet Retail Trends

- Contraction of Distribution Channels
- Operating Losses
- Internet Taxation
- Customer Service

# Business-to-Business (B2B) Trends

- B2B Market Exchanges (Online, Hybrid)
- Infrastructure (Security, Authentication, Streaming Media)
- Business Services (Web Design/Marketing, Advertising Networks)
- Emergence of Industry Leaders

# •Market

- No Magic Formula
- Valuation Driven By Capital Markets
- Traditional Valuation Methods Difficult to Apply

# •Valuation Methods

- Cost Approach
- Market Approach
- Income Approach

# Stage of Development and Valuation

Stage of Development	Financing	Valuation Method
Start-up/Business Concept	Seed	Cost, Market
Early Stage	Venture Capital - Initial Rounds	Cost, Market (Venture Capital, Comparable Sales)
Later Stage	Venture Capital - Later Rounds	Market (Venture Capital, Comparable Sales), Income
Pre-IPO	Venture Capital, Private Equity	Income, Market (Comparable Sales)
Public	Capital Markets	Income, Market (Comparable Sales)

# Migration of Key Operating Metrics

Early Stage	Developing	Mature
Market Share, Traffic (users, viewers, subscribers, pageviews), Product Line Expansion	Revenue, Revenue Share, Sequential Revenue Growth, Improving Margins	Operating Cash Flow
Many Competitors	Competitive Shakeout	Few Competitors

# Income Approach - Key Variables

- Time Horizon
- Revenue Drivers
- Sales and Marketing Expenses
- Operating Cash Flow Margin
- Discount Rate

# Income Approach

## Old Media vs. New Media

DCF Variables	Traditional	New
Time Horizon	10 Years	3-5 Years
Revenue Drivers	Audience/Revenue Share	Pageviews, UMV, Viewer Conversion
Sales/Marketing Expenses	20% of Net Revenues	50-100%+ of Revenues
Operating Profit Margin	30-40%	Negative Cash Flow
Discount Rate	12-14%	20%+

# Market Approach-Valuation Multiples

- Market Survey
- Internet Company Segmentation
- Calculation of Valuation Multiple

# ISP Valuation Results

Weighted Average Revenue Multiples		
All	IPO	M&A
20-25x	56-59x	3-4x

- Broadband Provider IPOs – Rhythm NetConnections, Northpoint Communications, Cobalt Networks
- Dial-up ISPs Feel Competitive Pressure

# Portal Valuation Results

Weighted Average Revenue Multiples		
All	IPO	M&A
110-120x	111-119x	100-106x

- Emergence of High Profile Vertical Portals (LookSmart, GoTo.com, MP3.com, LifeMinders.com)
- M&A Transactions Impacted on High End by (WebMD/Healthon, Yahoo!/Broadcast.com, Excite@Home)

# Internet Retail Valuation Results

Weighted Average Revenue Multiples		
All	IPO	M&A
37-51x	66-79x	13-18x

- Extraordinary Revenue Multiples (Webvan, Stamps.com, Drugstore.com)
- Large Players Active Acquirers (Amazon.com, eBay, Excite@Home)

# B2B Valuation Results

Weighted Average Revenue Multiples		
All	IPO	M&A
46-50x	64-71x	12-18x

- High Value IPOs (Akamai, Critical Path, NetRatings, FreeMarkets)
- M&A Impacted Across All B2B Segments (Incubators, Online Advertising Networks, Market Exchanges)

# Selected Recent New Media Revenue Multiples

				1999	2000
	Enterprise	1999	2000 Est	Rev.	Rev.
<u>Company</u>	<u>Value</u>	<u>Rev.</u>	<u>Rev.</u>	<u>Multiple</u>	<u>Multiple</u>
Audible	\$105.8	\$1.7	\$2.0	62	53
Audiohighway	3.8	2.1	4.4	2	1
Digital Lava	34.2	1.5	4.0	23	9
Musicmaker.com	18.3	1	12.4	18	1
Launch Media	46.9	16.6	25.6	3	2
Liquid Audio	111.9	4.4	12.0	25	9
MP3	607.5	21.9	70.0	28	9
NetRadio	15.3	1.4	5.6	11	3
Sonic Foundry	368.9	14.8	24.0	25	15
Viewcast.com	43.3	7.3	7.6	6	6
Visual Data	36.2	4.5	5.6	8	6
** Dollars in Millions					
		Average		19	10
		Weighted Average		18	8
		Median		18	6

# Television Network - Internet Company Investments

Television Network	Equity Investment Examples
CBS	iWon, MarketWatch, HealthWatch, Sportsline, Big Entertainment, Jobs.com, Medscape, StoreRunner, Switchboard, Hollywood.com
NBC	Flooz.com, Ralph Lauren Media, ValueVision, iVillage, Selfcare.com, Space.com, Telocity
ABC/Disney	InfoSeek, Pets.com, Netpliance, Soccernet, Toysmart

Source: The Industry Standard

# Conclusion

- Life Cycle Dictates Valuation Methods
- Ultimately Cash Flow Will Matter
- Old/New Media Convergence Underway

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