

Valuation Trends: How Are Companies Being Valued in Today's Market

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**BOND &
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Technology Sector: Valuation Issues

- Valuation Benchmarks (Market Approach)
- Intangible Assets
- Discount Rate
- Profitability Forecast vs. Capital Needs
- Likelihood of Liquidity Event

Valuation Methods

- Methodologies – Cost, Market, Income
- Application of Approaches
 - Cost – Investment Recovery/Liquidation
 - Market – Capital Market Driven
 - Income – Driven by Liquidity Event

Stage of Development and Valuation

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

Market Approach: Valuation Multiples

- No Magic Formulas
- Detailed Market Survey
- Technology Company Segmentation
- Calculation of Valuation Multiples

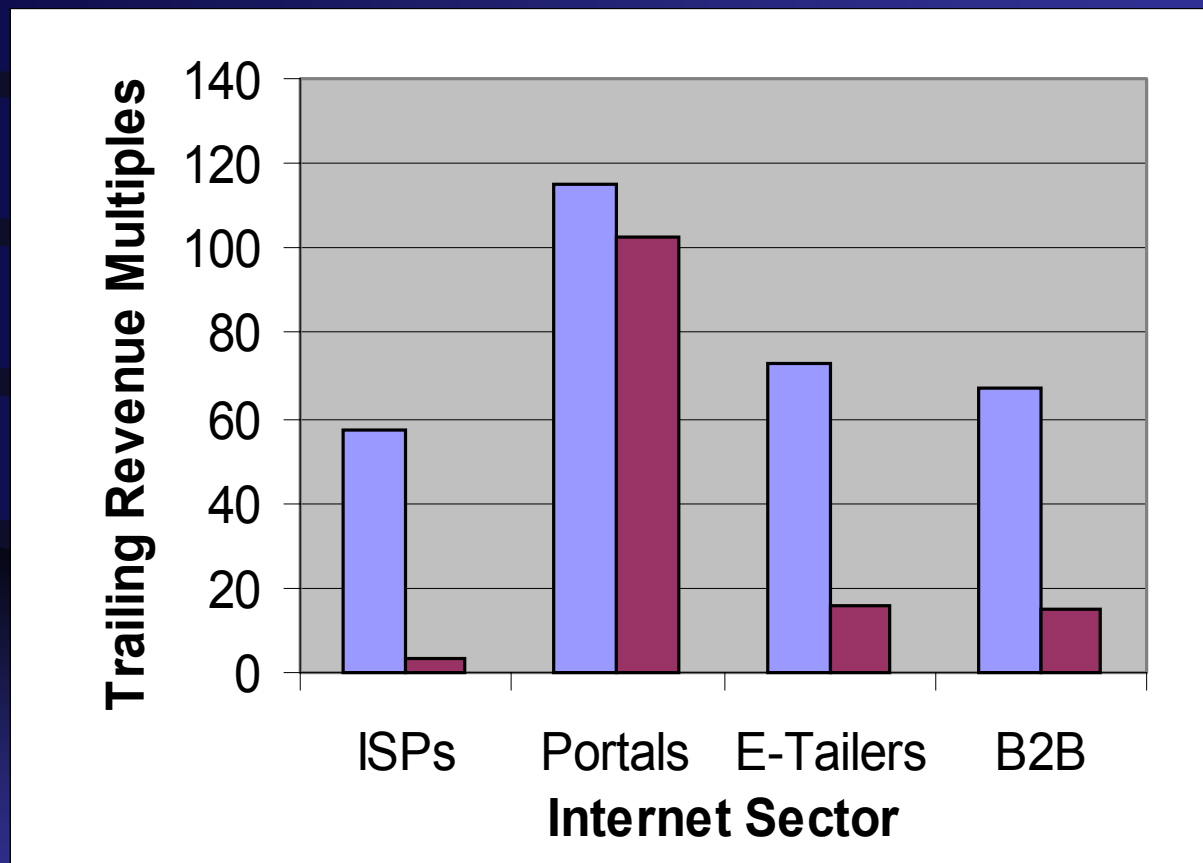
1999 Internet Company Valuation Multiples

Internet Sector	Range of Weighted Average Valuation Multiples (Year)
ISPs	20-25x
Portals	110-120x
B2C	37-51x
B2B	46-50x

2000 Internet Company Valuation Multiples

Internet Sector	Range of Weighted Average Valuation Multiples (Year)	Range of Wted. Avg. Valuation Mult. (Post-April)
ISPs	13-18x	13-17x
Portals	40-55	34-36
B2C	5-6	3-4
B2B	26-30	8-9
Infrastructure	30-38	21-30

1999 Internet Valuation Multiples IPO vs. M&A



Intangible Assets

Intangible Asset	Description
Content	Data, Information, Entertainment
Technology	Patents, Business Process Technology, Proprietary Software, In-process Technology Development, Research & Development
Marketing	Brand, Trade names, Domain Names
Customers	Customer/Subscriber Base, Advertising Base, Customer Relationship, Unique Users
Intellectual Capital	Idea Network, Employment Agreements, Trained Workforce, IT Staff
Contracts/Licenses	Favorable Lease, Service Contract, Supplier Agreement, Digital Rights, Promotional
Alliances	Joint Venture Marketing, PR, Operating/Partner Agreements, Shared Content

Valuation of Intangibles

- Cost - Cost to Replicate
- Market - Difficult to Apply
- Income – Value Stream, Time
 - Incremental Revenue/Cost Savings
 - Time (Remaining Useful Life– Contract Length, Head Start Advantage, Customer Churn Rate)
 - Customer Base – Revenue/Customer, Variable Costs, Churn Rate, Repeat Customer
 - Business Technology/Patent – Head Start vs. Competition
 - Wireless/Software – Spectrum Rights/Access Agreement

Discount Rate

- Expected Rate of Return of Alternative Investment
- Investment Risk
- Generally Consistent Over Time Horizon
- Consistent with Type of Income

Technology Sector: Wireless WACC

Key Assumptions

- Wireless Index (Internet.com)
 - i.e.. Aether, Avanto, i3 Mobile, Palm
- Cost of Equity
- Debt Structure – Very Low
- Discount Rate = 35%
- Typical Mature Technology: 10%-20% Range

Income Approach - Key Variables

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

Income Approach – Old vs. New Economy Companies

DCF Variables	Old Economy	New Economy
Time Horizon	7 – 10 Years	2 – 5 Years
Revenue Drivers	Market Share, Production Capacity	Page Views, UMV, Viewer Conversion
Sales/Marketing Expense	15 – 20% of Revenues	50 – 100% + of Revenues
Operating Profit Margin	20 – 40%	Operating Losses
Discount Rate	10 – 15%	20%+

Migration of Key Operating Metrics

Early Stage	Developing	Mature
Traffic	Revenues	Cash Flows
Unique Visitors	Market Share	Experienced Management
Page Views	Sequential Growth	Market Dominance
Subscribers	Improving Gross Margins	Profitable Business Lines
Expansion of Product Lines	Stable Management	Improving Net Margins

So What's Changed? Everything!

- Market Comparables – All Down
- Shortened Time Horizon - Unrealistic
- No Capital to Fund Losses/Expansion
- Risks and Discount Rates are Higher
- Economy/Revenue Drivers Weak
- Cash Flows Still in the Future
- Liquidity Event has Evaporated

Winners and Losers

- Few Winners Today, Mostly Losers
- Short-term Forecast Isn't Much Better – Need for Deep Pockets/Patient Investors
- Weeding Out the Weak to Leave Others Stronger
- Some Segments Still Getting Funded
 - Biotech/Genome Technology
 - Wireless Applications/Software Slowing
 - Security Software/Technology

Conclusion

Risk Management:

- Consider All Valuation Methods
- Sensitivity Analysis
- Expand Operating Metric Analysis
- Due Diligence/Valuation of Intangibles