

CyberValuation: Internet Business Trends, Analysis, and Valuation

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•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) |

Operating Metric Migration

- Growth



- Revenue Conversion/Efficiency



- Profitability

Portal Metrics: Growth

- Market Share
- Total Reach
- Number/Type of Advertiser
- Number/Type of Sponsorships
- Unique Visitors
- Page Views
- Registered Users
- Number of Transactions
- Key Partners



Portal Metrics: Revenue Conversion/Efficiency

- Revenue Per Advertiser/User/Page View/Employee
- Advertiser Attrition
- Advertiser Growth
- Advertising Rate Trends
- Advertising Contract Length
- Type of Advertising (banner/sponsorship rate-volume analysis)
- Sell Through Rate
- User Visit Duration
- User Conversion
- Partner/Product Conversion Profile
- Click Stream Data Analysis



Portal Metrics: Profitability

- Gross Margin Trends
- Sales/Marketing Expense Per Incremental Customer
- Sales/Marketing Expense to Revenue Ratio
- Sales/Marketing Expense Per User
- Ad Sales Revenue to Ad Sales/Marketing Expense
- Content Expense Per Page View
- Promotional Expense Per Page View
- Product Line Cash Flow
- Operating Cash Flow
- Operating Cash Flow Margin

Income Approach - Key Variables

- Time Horizon
- Revenue Drivers
- Sales and Marketing Expenses
- Operating Cash Flow Margin
- Exit Multiple
- 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

1999 Internet Company Valuation Multiples

| Range of Valuation Multiples For 1999 Transactions | ISPs | Portals | Internet Retailers | Business-to-Business |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------|
| Range of Weighted Average Revenue Multiples | 20 – 25x | 110 – 120x | 37 – 51x | 46 – 50x |
| Range of Weighted Average Revenue Multiples for IPOs | 58 – 61x | 111 – 119x | 66 – 79x | 64 – 71x |
| Range of Weighted Average Revenue Multiples for M&A Transactions | 3 – 4x | 100 – 106x | 13 – 18x | 12 – 18x |
| Range of Weighted Average Subscriber and Monthly Unique Visitor Multiples | \$1,682 - \$2,026 per subscriber | \$404 - \$453 per unique visitor | \$641 - \$812 per unique visitor | N/A |

Conclusion

- Life Cycle Dictates Valuation Methods
- Deepen Operating Metric Analysis
- Ultimately Cash Flow Will Matter