

Valuing New Economy Companies II

**BOND &
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Internet Sector: Valuation Issues

- Valuation Benchmarks (Market Approach)
- Intangible Assets
- Discount Rate

Valuation Methods

- Methodologies – Cost, Market, Income
- Application of Approaches
 - No Magic Formula
 - Still Difficult to Apply
 - Driven By Capital Markets – Market/Income

Market Approach: Valuation Multiples

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

2000 Internet Company Valuation Multiples

Internet Sector	Range of Weighted Average Valuation Multiples	Range of Wted. Avg. Valuation Mult. (Post-April)
ISPs	9-13x	8-9x
Portals	41-65	34-36
B2C	5-6	3-4
B2B	27-29	9-14
Infrastructure	30-38	21-31

Intangible Assets

Intangible Asset	Description
Content	Data, Information, Entertainment
Technology	Patents, Business Process Technology, Proprietary Software, In-process Technology Development, Research & Development
Marketing	Brand, Tradenames, 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 Income

Internet Sector: Wireless WACC

Key Assumptions

- Wireless Index (Internet.com)
 - ie. Aether, Avanto, i3 Mobile, Palm
- Cost of Equity
- Debt Structure – Very Low
- Discount Rate = 35%
- Typical Mature Technology: 15%-20% Range

Conclusion:

Risk Management:

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