

# Valuing New Economy Companies III (New York City)

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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
  - Cost – Investment Recovery
  - Market/Income – Capital Market Driven

# 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 (Year) | Range of Wted. Avg. Valuation Mult. (Post-April) |
|-----------------------|--|--|
| <b>ISPs</b>           | 13-18x   | 13-17x   |
| <b>Portals</b>        | 40-55  | 34-36  |
| <b>B2C</b>            | 5-6  | 3-4  |
| <b>B2B</b>            | 26-30  | 8-9  |
| <b>Infrastructure</b> | 30-38  | 21-30  |

# Intangible Assets

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