

Creating Shareholder Value

Success Strategies

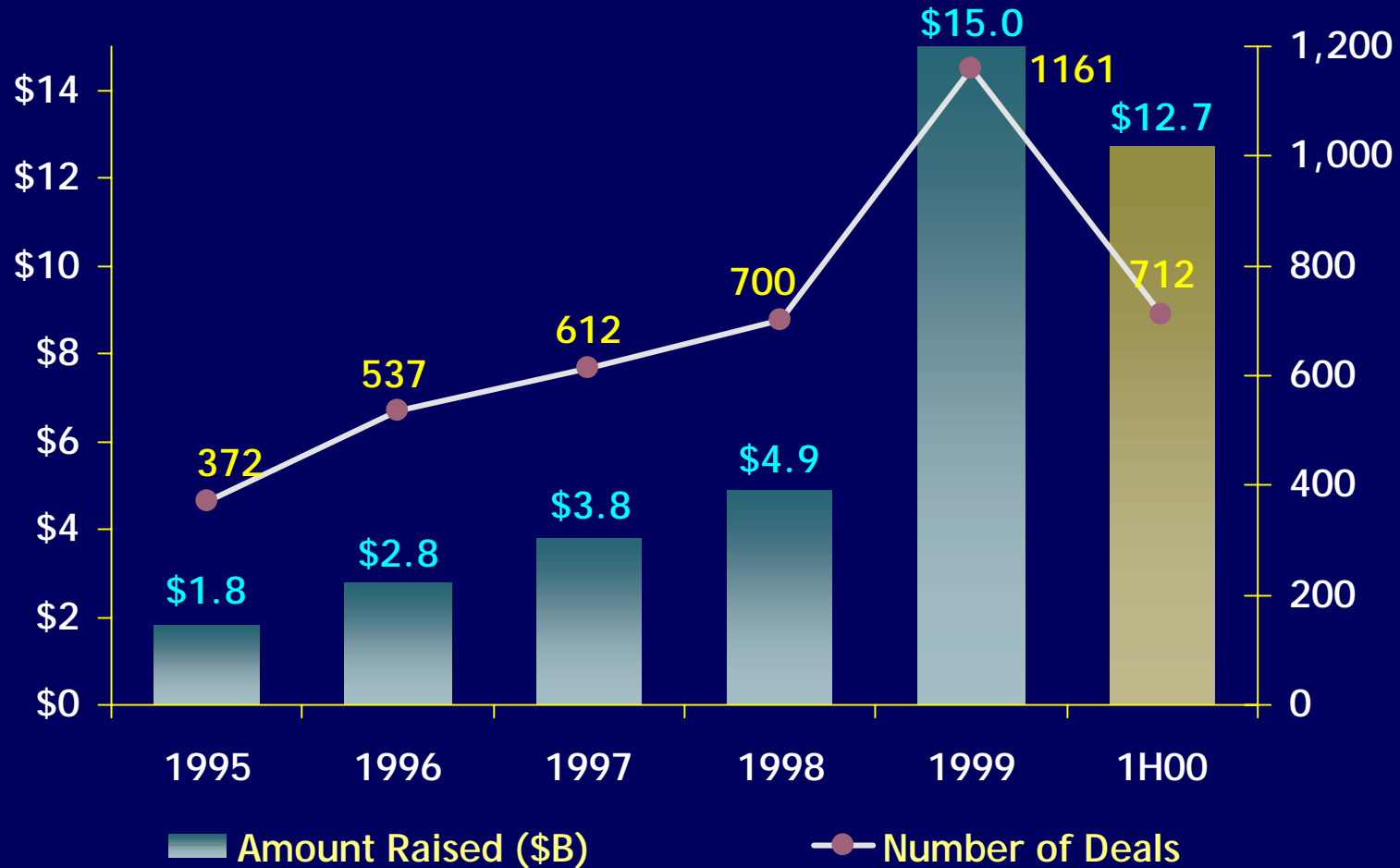
**National
Entrepreneur
Conference**
September 2000

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Agenda

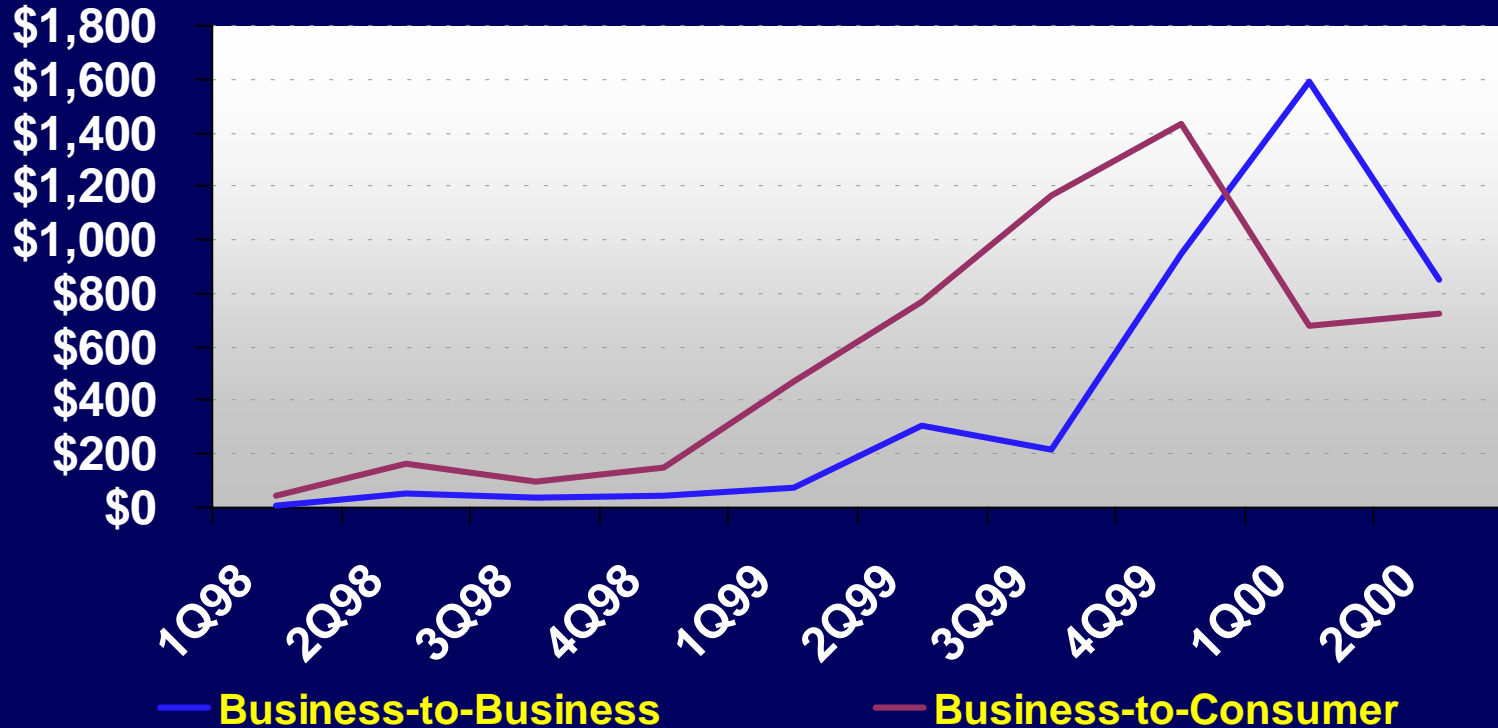
- **Today's Environment**
- **Models for Increasing Value**
 - Valuation
 - Competitive advantage
 - Lifecycle markers
- **Final Thoughts**

Investment Activity in the Bay Area



Source: VentureOne

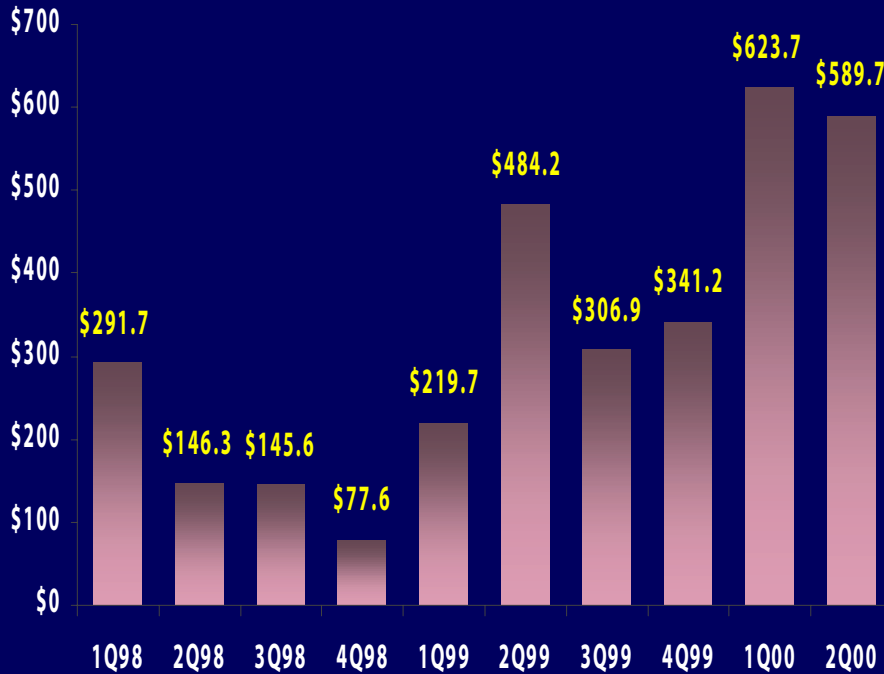
Internet Related Investments



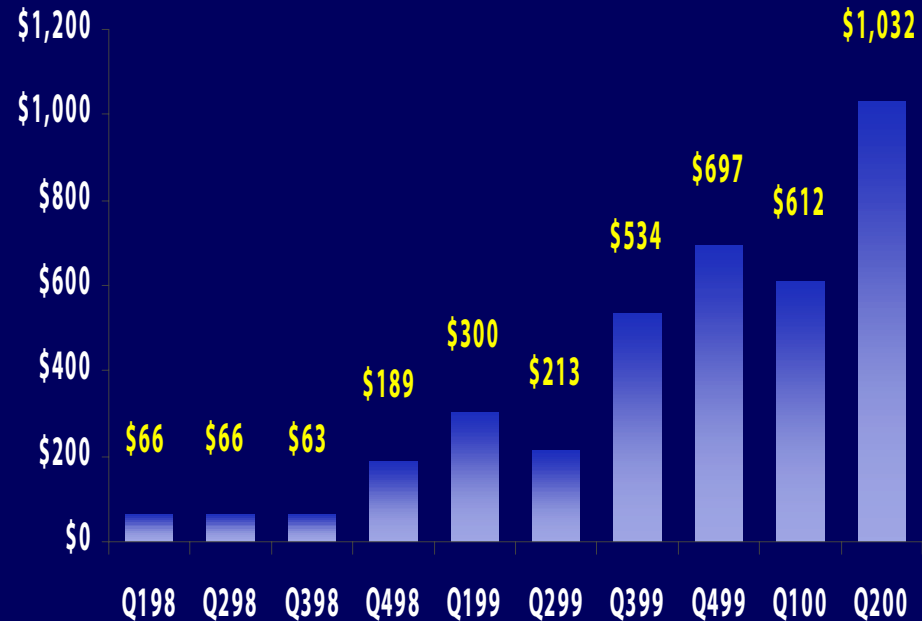
Source: VentureOne

Early Categories Take Off

Optical Networking

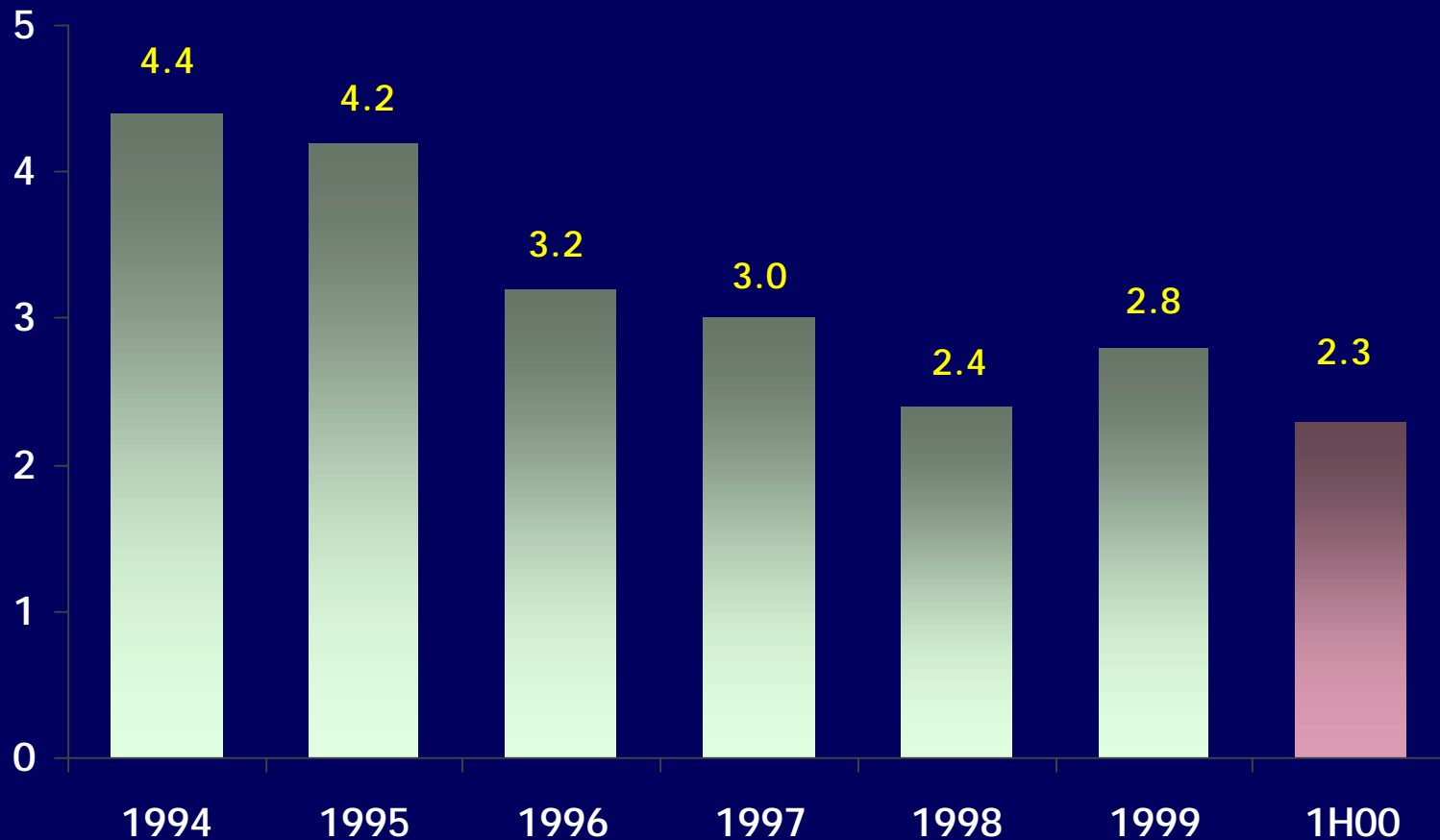


Wireless



Source: VentureOne

Average Time to Liquidity for Venture Investments

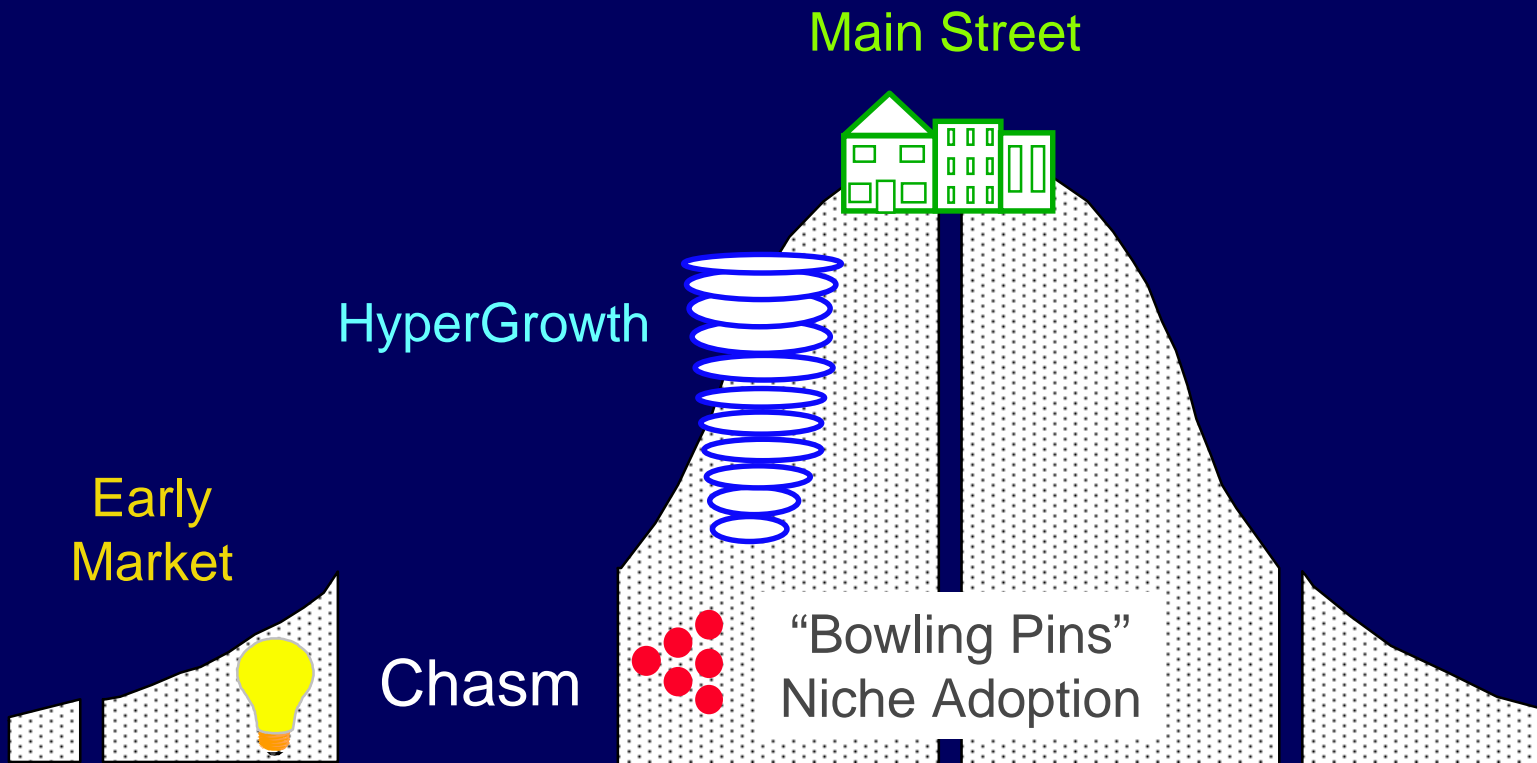


Time (Years) From Initial VC Funding to IPO

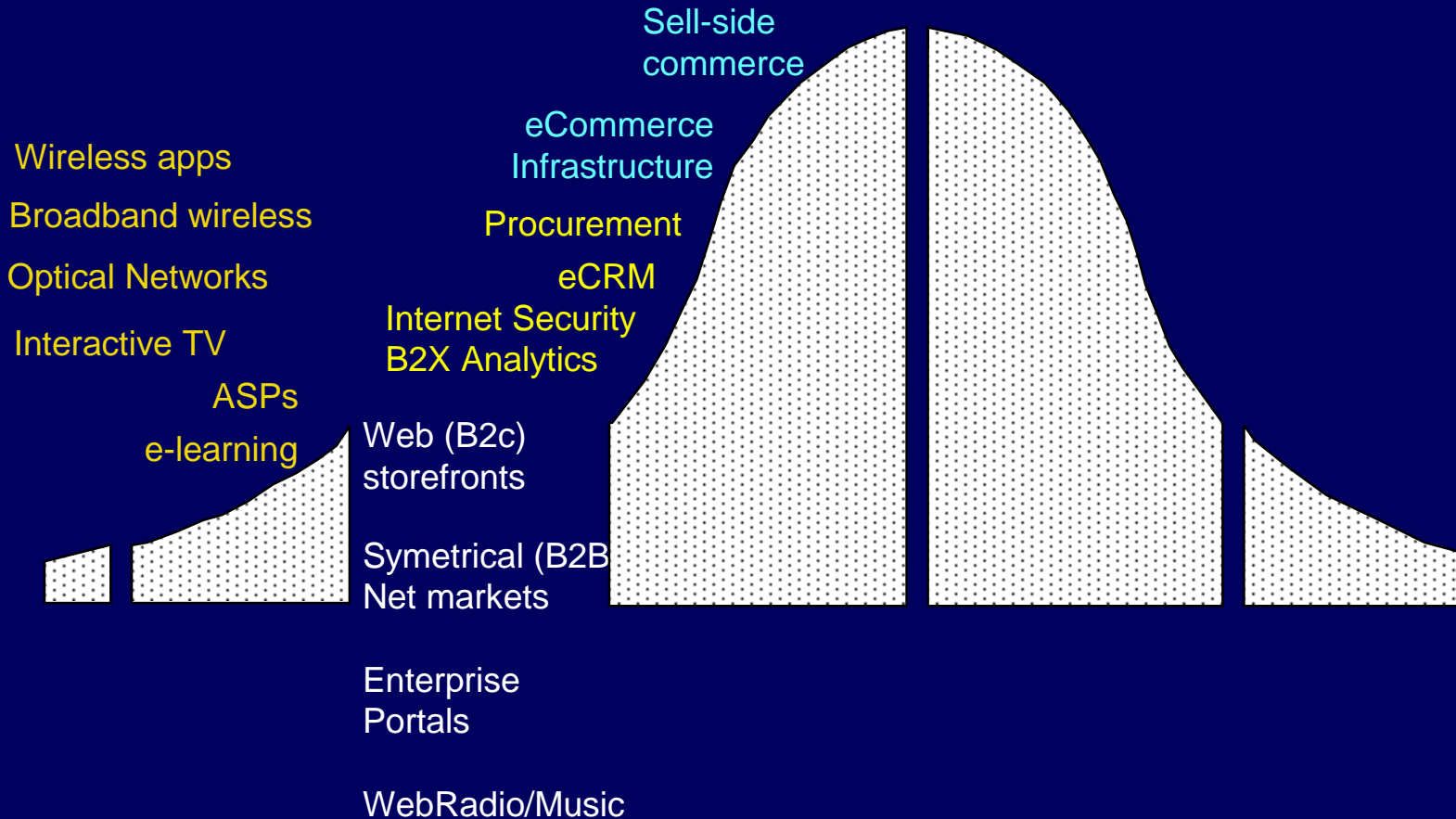
Source: VentureOne

**“Water, water everywhere but
not a drop to drink...”**

Importance of Timing



Importance of Timing

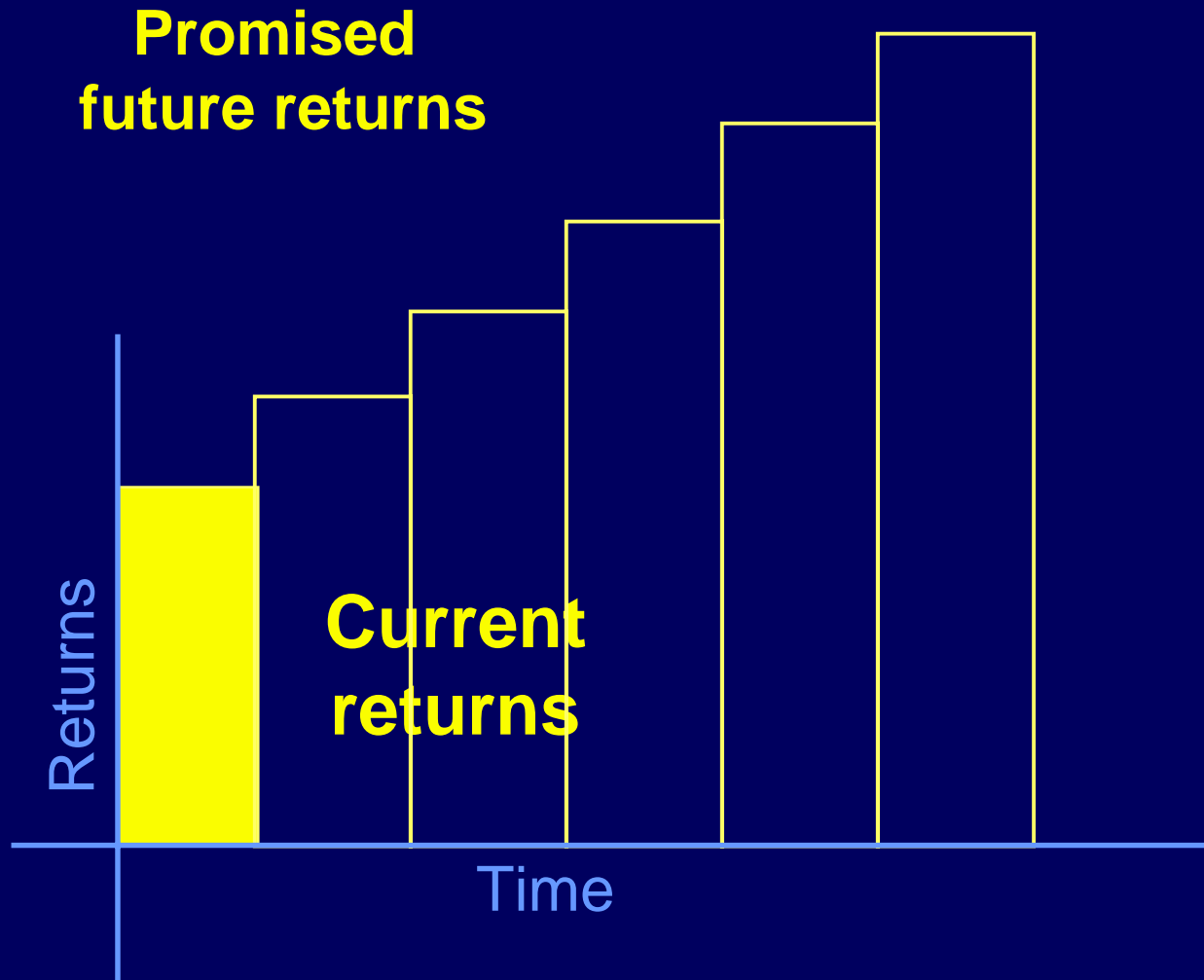


Modeling Valuation (Shareholder Value)

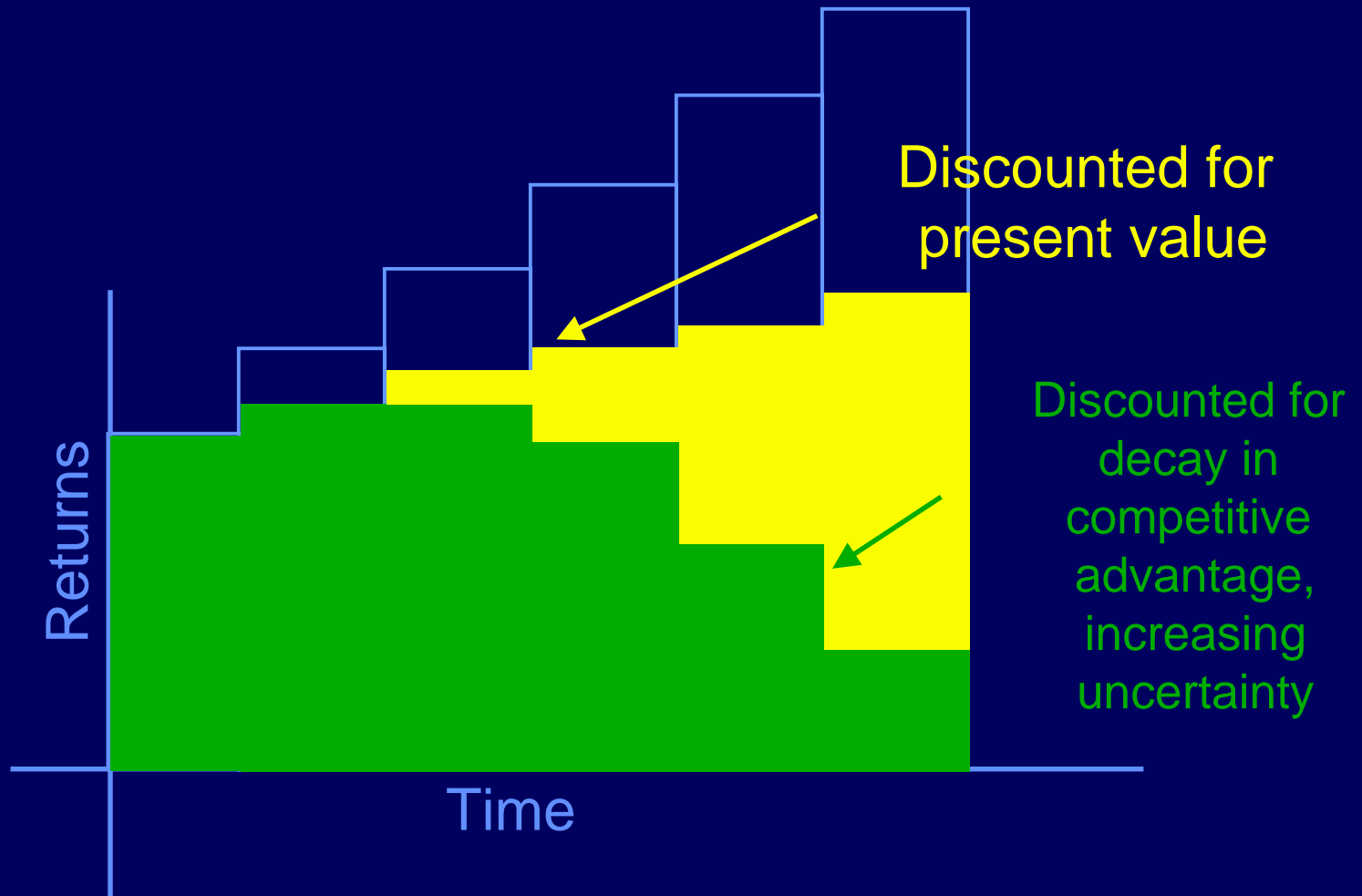
The Value of a Share

- In practice the value of a company's shares is equal to whatever an investor will pay now
- In theory that should be equal to :
 - The *present* value of
 - All *future* returns
 - Discounted for risk

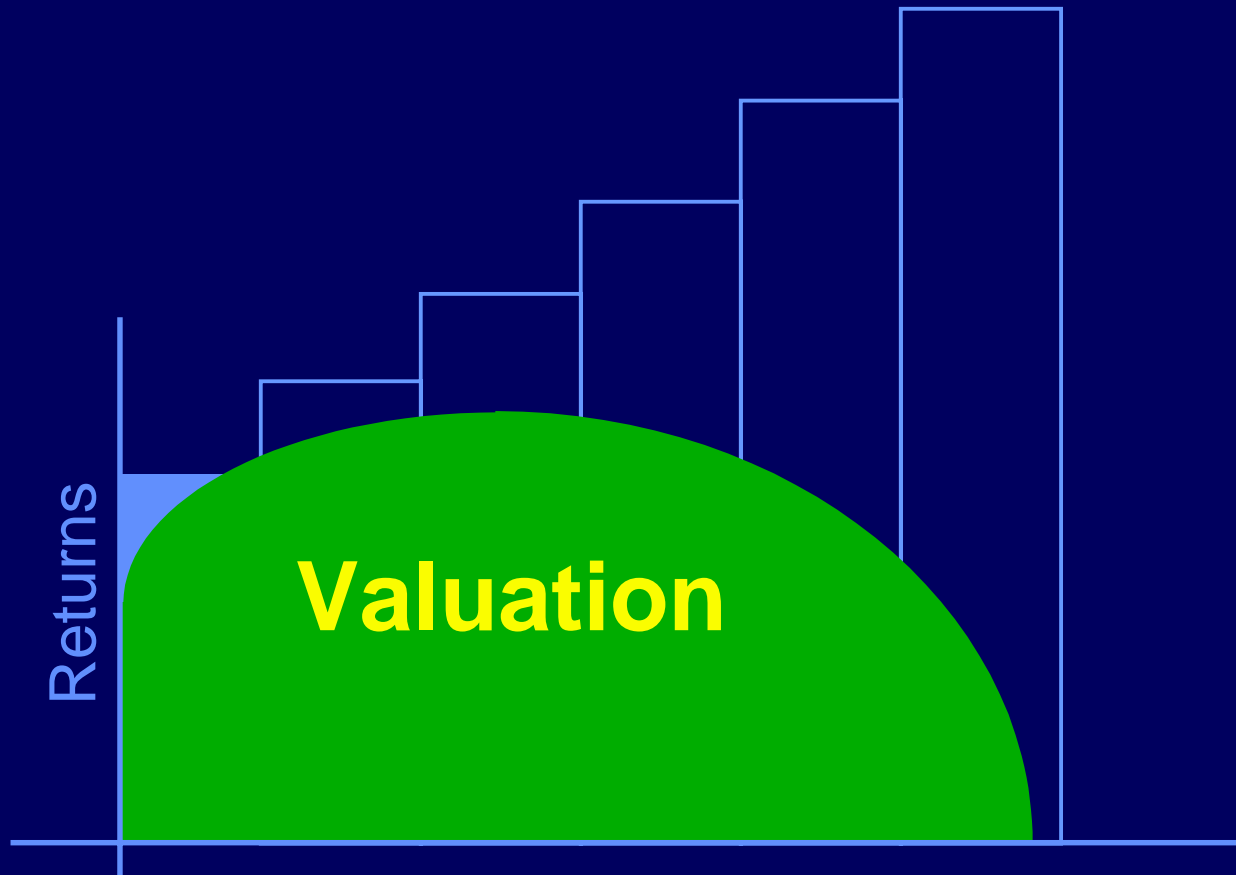
Forecasting Future Returns



Discounting for Risk



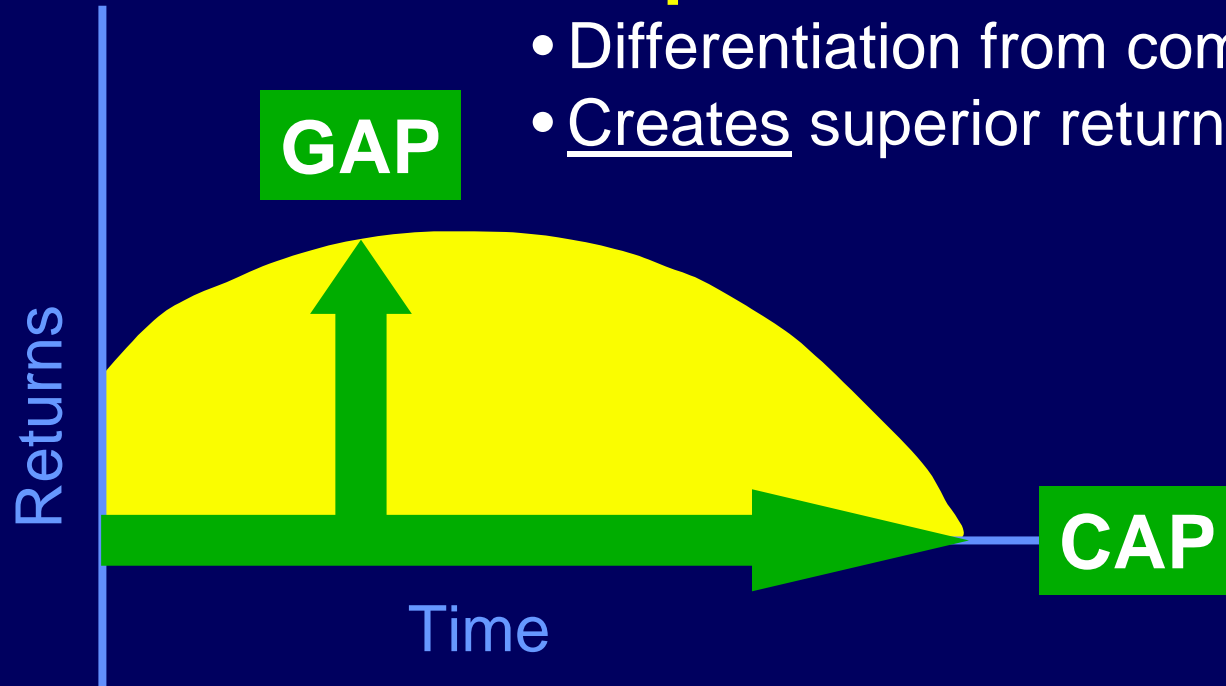
Visualizing Shareholder Value



**Investors win only if the green area gets bigger—
so how is management supposed to do that?**

Competitive Advantage Gap

- Differentiation from competitors
- Creates superior returns



Competitive Advantage Period

- Barriers to competitor entry, customer exit
- Sustains superior returns

Valuation is About Power

- **Early milestones support vision credibility**
 - **GAP against the plan – e.g.**
 - First product launch
 - Management team in place
 - Quality financial reporting in place
 - **CAP against the vision – e.g.**
 - Key partnerships
 - Major early wins that promise adoption
 - Market “buzz”- influencer support
- **Later milestones reflect market power**
- **Revenue is not valued for its own sake**
 - **Good revenues** come with increases in competitive advantage
 - **Neutral revenues** don't impact competitive advantage one way or the other
 - **Bad revenues** come with decreases in competitive advantage

Key Takeaway

Creating
Value

=

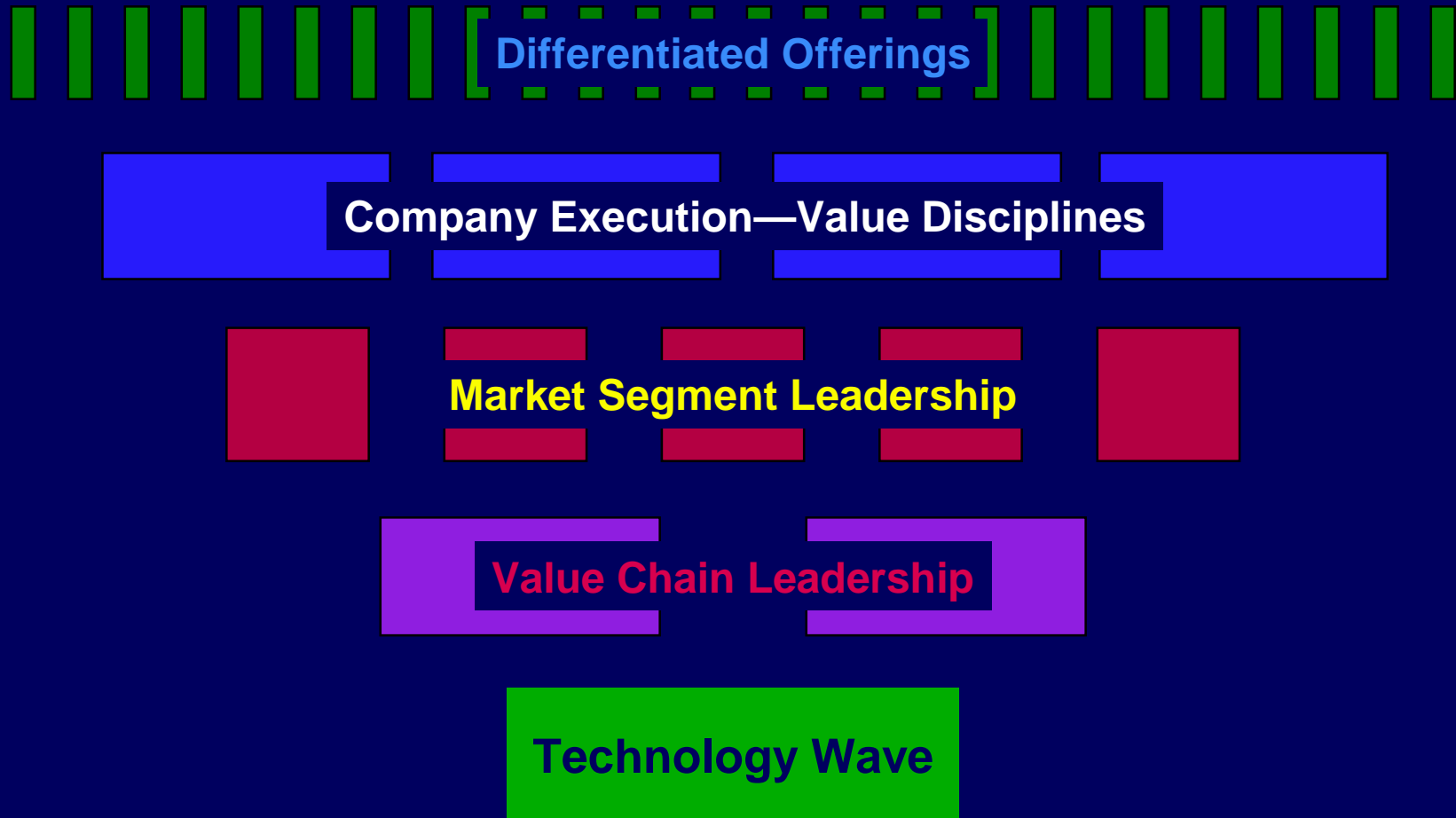
Focusing
on competitive
advantage

not

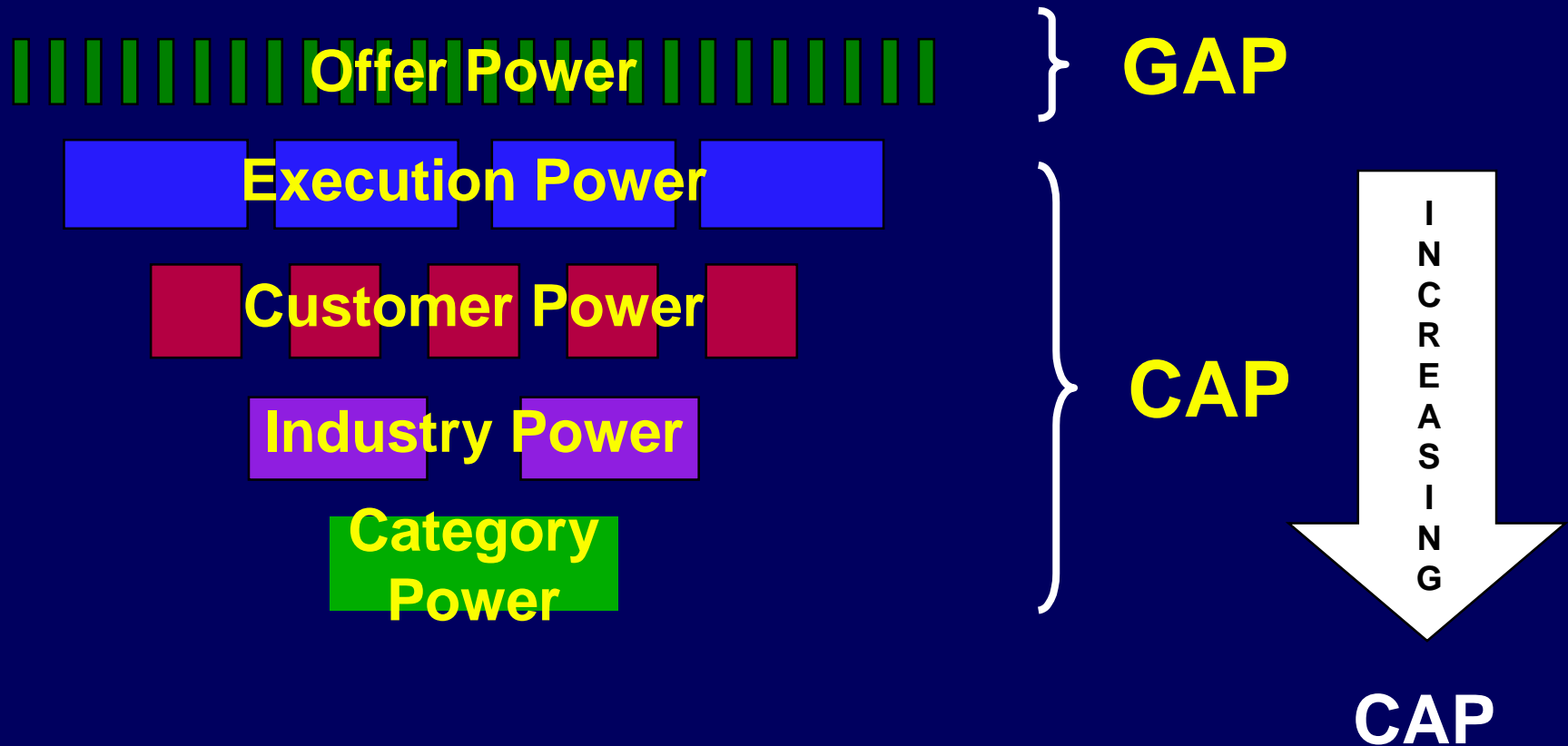
“Just” making
the financial
statement

Modeling Competitive Advantage

Where Does Competitive Advantage Come From?



GAP, CAP, and the Hierarchy



In Mature Categories

- **CAP becomes fixed as market share status quo becomes “institutionalized”**
- **Bottom of the hierarchy is frozen**
- **GAP continues to vary with each generation of offerings**
- **Changes in GAP translate into changes in margins, not market share**
- **Stock values follow Price/Earnings ratio**

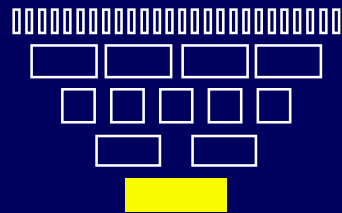
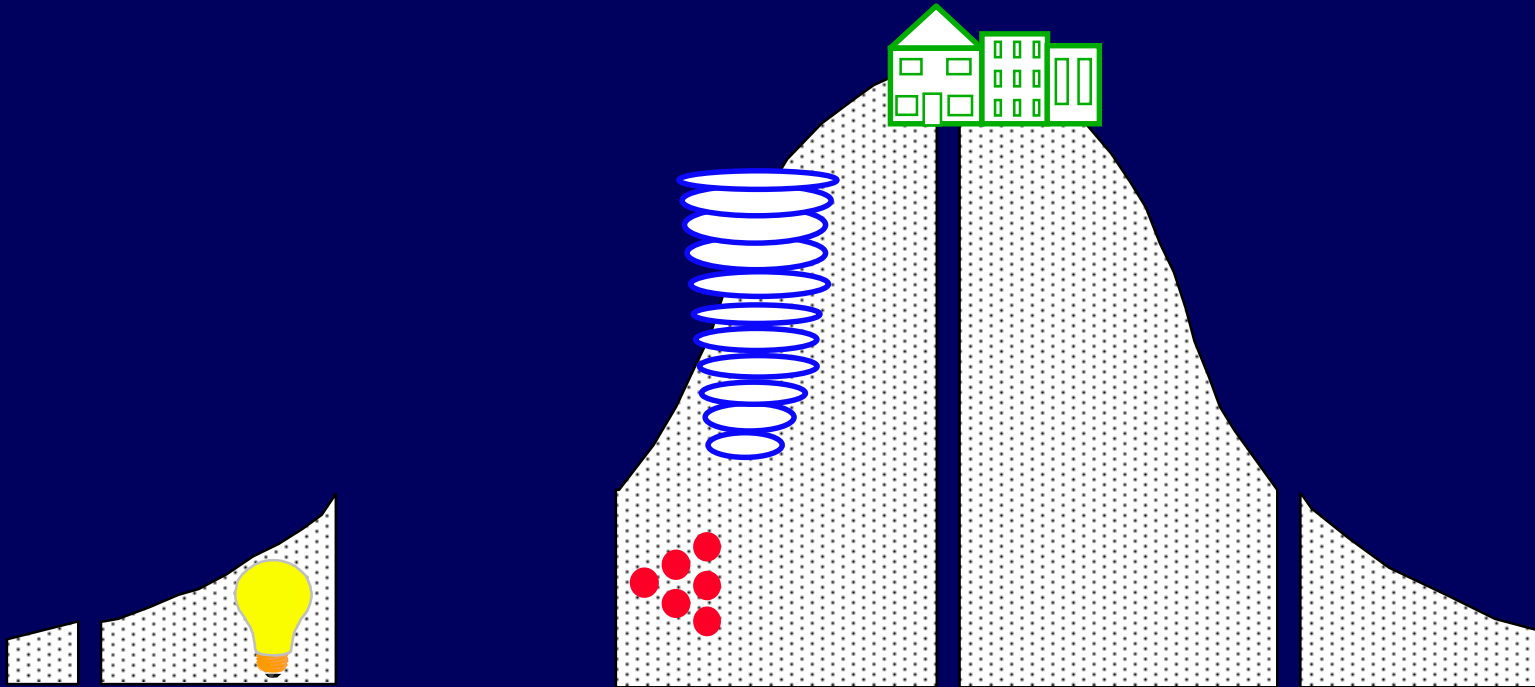
What Happens in New Ventures?

- **New market emerges following the model of the Technology Adoption Life Cycle**
- **Competitive advantage hierarchy forms in stages that synchronize with the model**
- **Investors treat each stage as a real option**
- **Competitive advantage hierarchy status is the marker to use for go/no-go decisions**

Implications

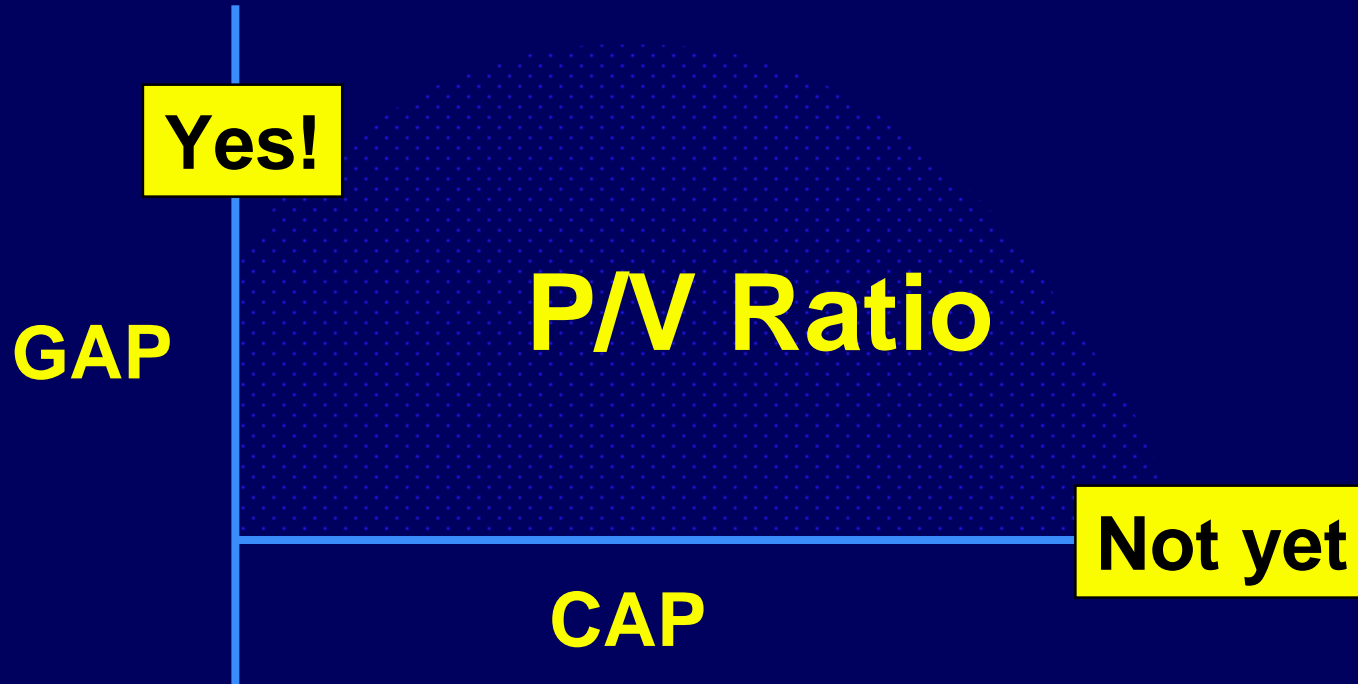
- **Early stage investments flow to companies positioned as a new category winner**
- **Category transitions to proof mode - requires “first prover” status**
- **Late stage investments flow to *proven* models requiring capital for scale.**

Staged Investment Markers



**Category
Power**

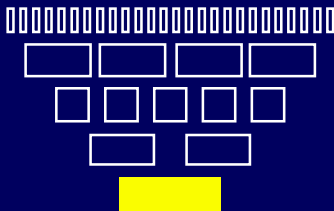
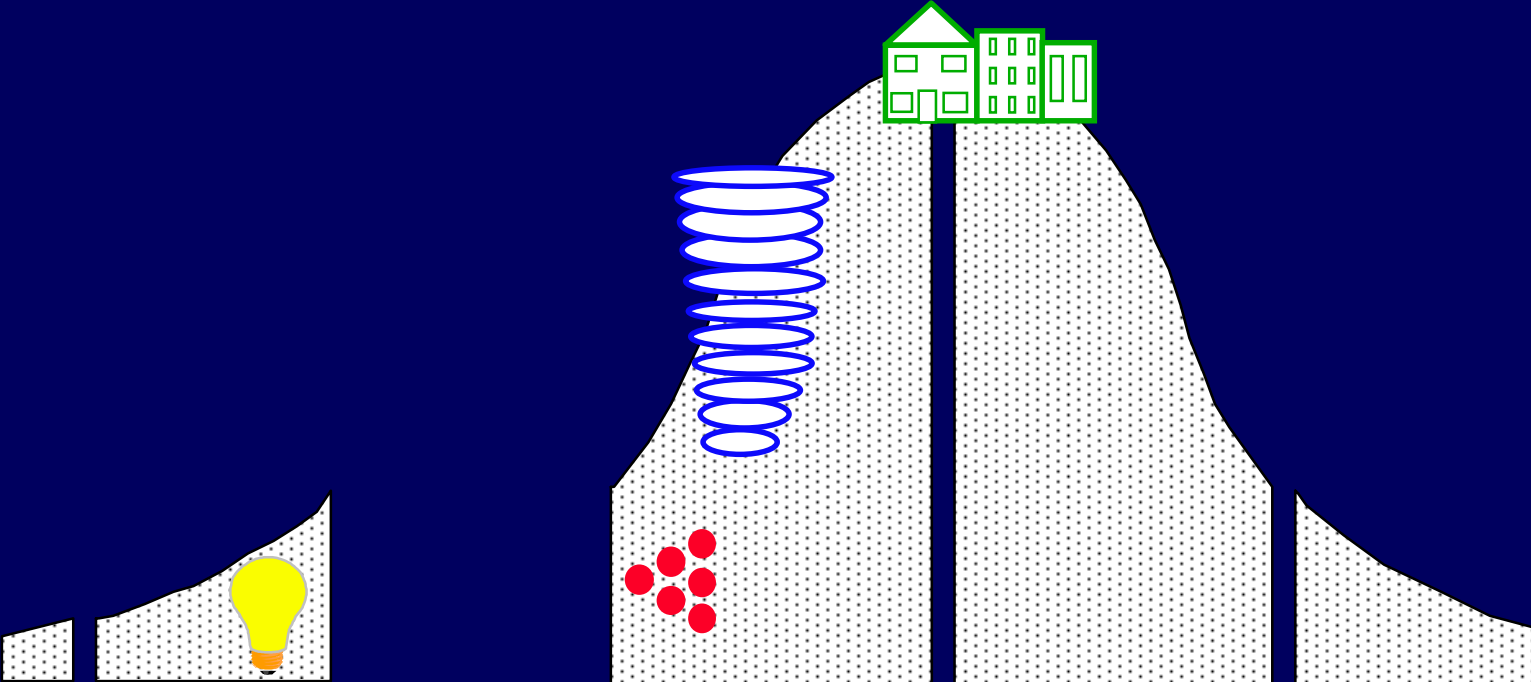
Early Market Valuation



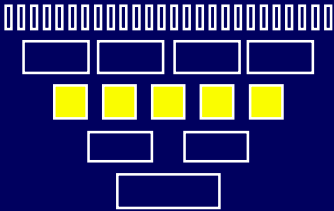
The P / V ratio

- **Key ‘branded’ account wins that prove the vision**
- **Marquee team**
- **Outbound positioning**
- **Value-add investors**
- **Market buzz / industry support**

Staged Investment Markers

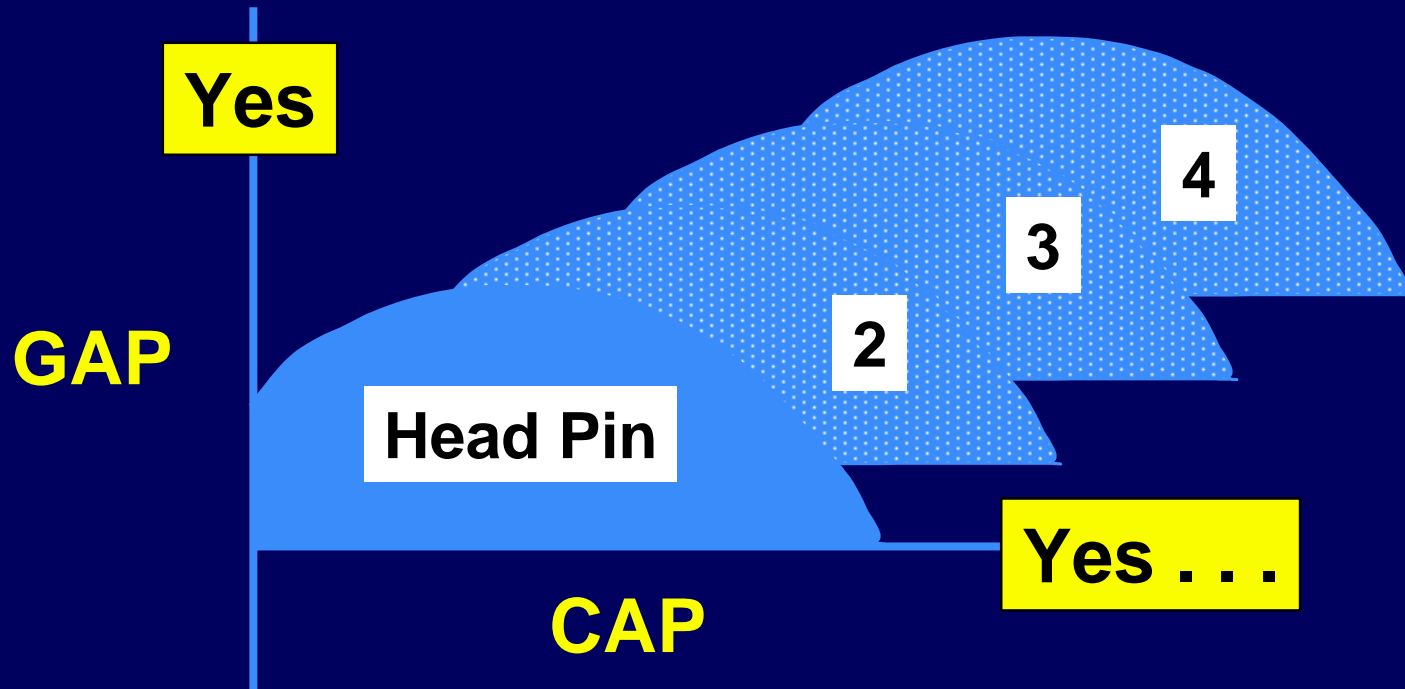


Category Power



Customer Power

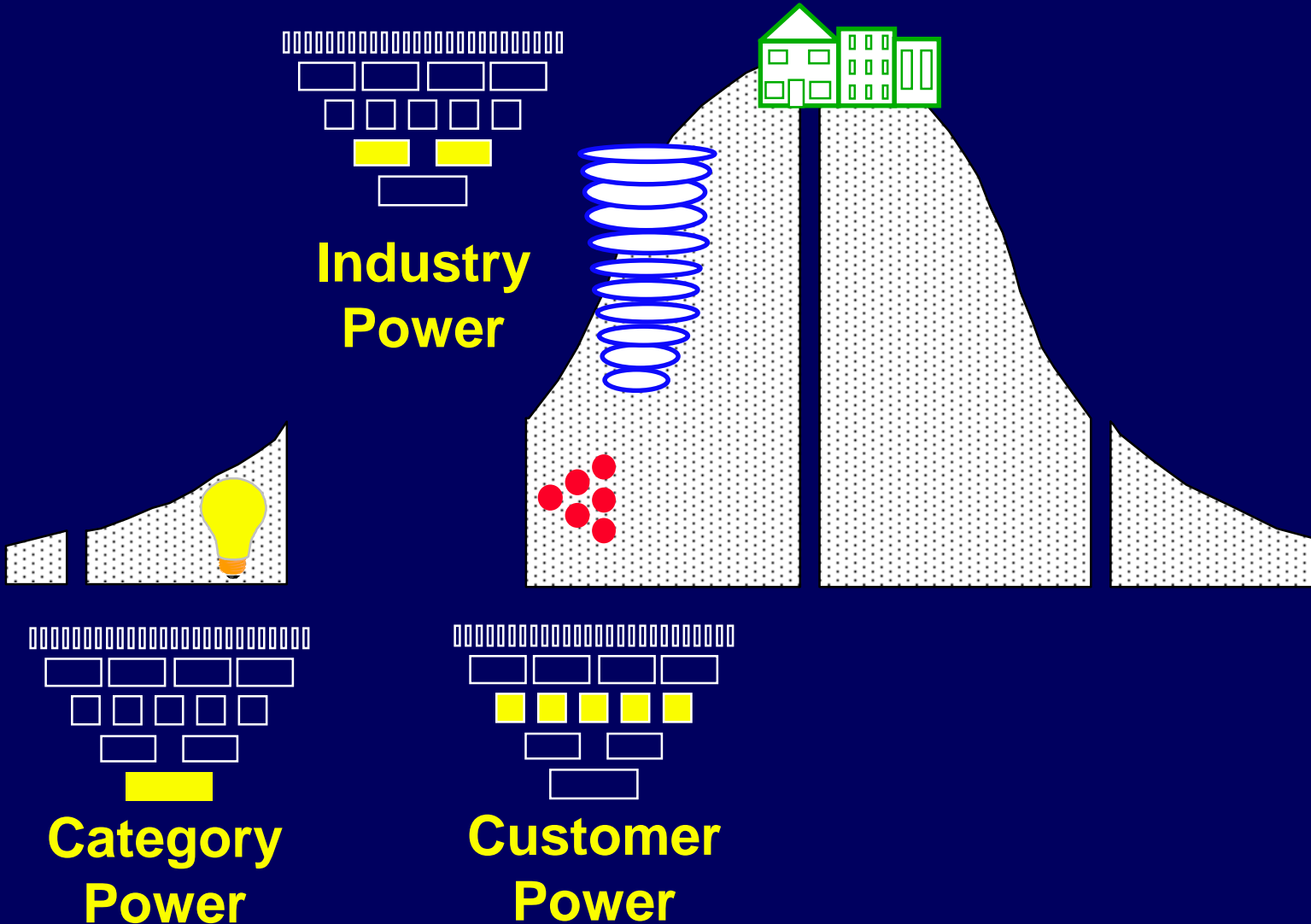
Bowling Alley Stock Price



Customer Power Milestones

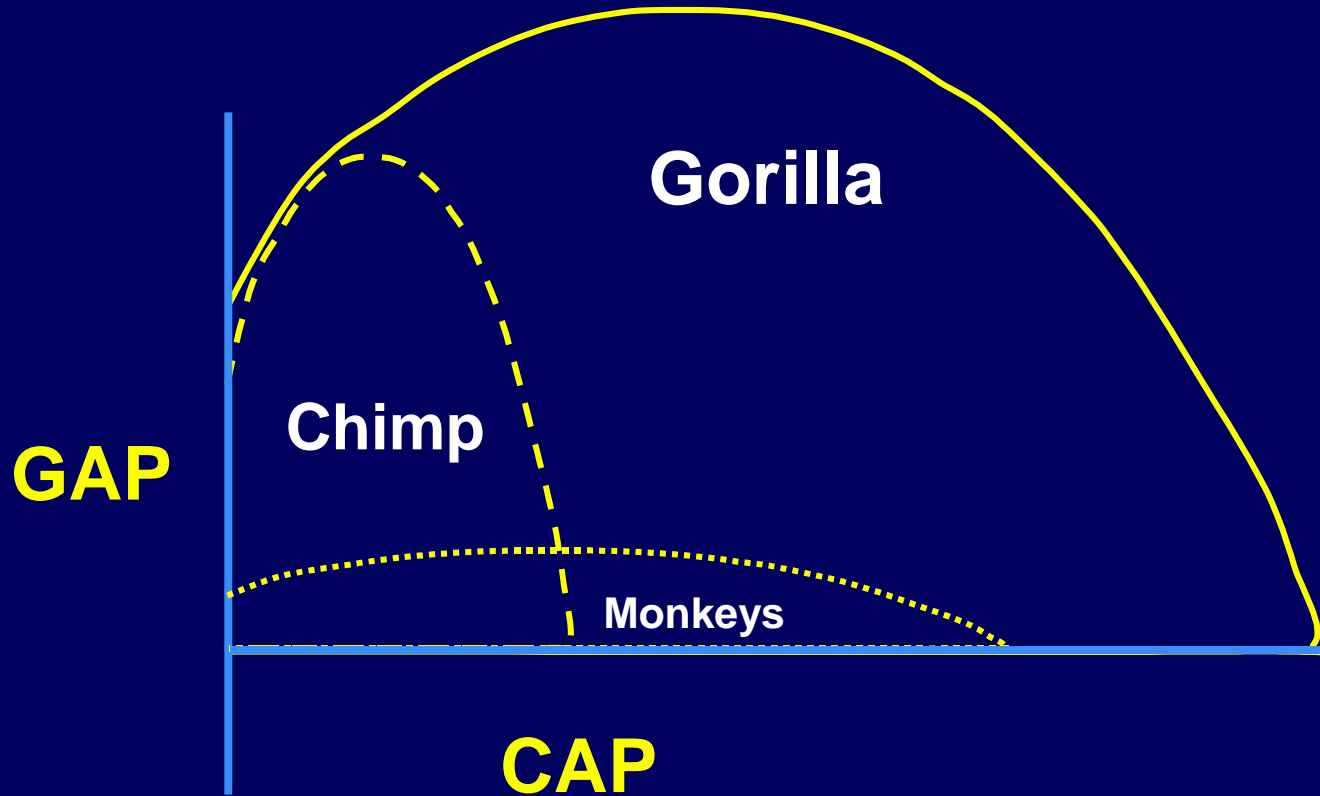
- **Segment share**
- **Customer references**
- **Deep, working sales/service partnerships**
- **Leadership within a value chain**

Staged Investment Markers



Hypergrowth Market Valuation

Increasing Returns Markets



Final Thoughts

- **Know yourself**
- **Understand the market timing**
- **Create a compelling positioning and vision**
- **Hire *UP*, partner *WIDE***
- **Different proof points at each stage**
- **Increase *credibility* of the vision, technology and team at each phase**

Thank You

For a copy of these slides go to
www.chasmgroup.com/netsuds

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