The Art & Science of Valuation at the Different Stages of Company Development

February 19, 2008

Funds Focused Today in Three Investment Categories

Buyout / Later Stage Equity

Equity Fund I
$179 million
March 2000

Equity Fund II
$361 million
October 2003

Equity Fund III
$800 million
December 2006

Equity Fund IV
Coming Late 2008

Venture Capital

Venture Fund I
$104 million
December 2000

Venture Fund II
$108 million
October 2004

Venture Fund III
Target of $150 million
Coming 2008

Energy

Energy Fund
Target of $50 - $75 million
First Close Dec. 2007 $30 million

Valuation Methodologies for Later Stage Opportunities

"Tried and True" Methodologies

METHODOLOGIES	CONSIDERATIONS
Comparable companies analysis	• is it a "true" comparable • trading volumes • extraordinary items
Precedent industry transactions	• relationship between buyer and seller • synergies • deferred consideration • timing impacts • control premium / illiquidity discounts
Discounted cash flow analysis	• validity of projections • WACC and growth rate
Internal rate of return analysis	• validity of projections • capital structure • dilution from options, exit multiple
Sum of the Parts	
Price / Book	
Industry Specific Metrics	

Multiple Based Approach

- Generally based on some proxy for "cash flow"
- Time frame is a relevant consideration
- Not all companies are created equally
  - Expected growth rate
  - Stability of cash flows
  - Return on capital
- Other considerations
  - Cost of capital
  - Multiple expansion

Structuring to Bridge Valuation Gaps

- Common shares versus convertible preferred shares versus redeemable preferred shares (‘double dip’ preferred shares)
  - Maximize upside potential / minimize downside risk
  - Dilution concerns
- Earn outs versus deferred consideration
- Incentives for continuing owners / management / equity participants
  - Loans and other programs to increase equity ownership
  - Option programs
  - Homerun warrants