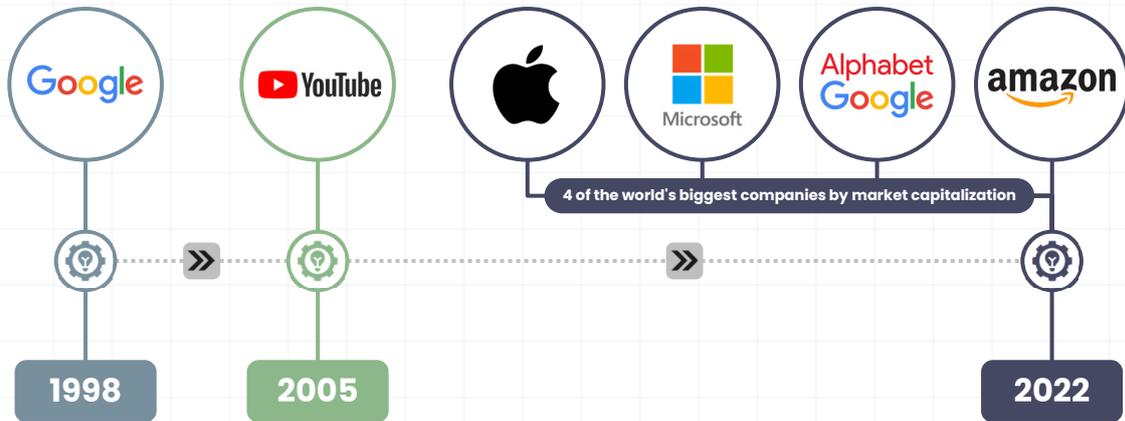


When we think about the **technology sector**, this is very much a **recent phenomenon**



Competition

Technology

Trends

Customer preferences



1982 - 2013



1992 - 2011



1995 - 2013

Many technology companies **don't sell physical products**

Most of the companies **sell software, a service or content**

Media

The New York Times Daily Mail

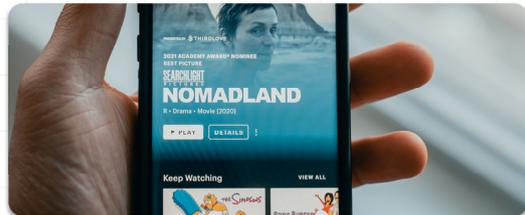
Two of the biggest players in the online news sector



Technology



Used the internet to transform the music, film, and book sectors



Some companies make **one off sales**, while others use the **subscription model** and **software as a service**.

CHARGE PREMIUM PRICES

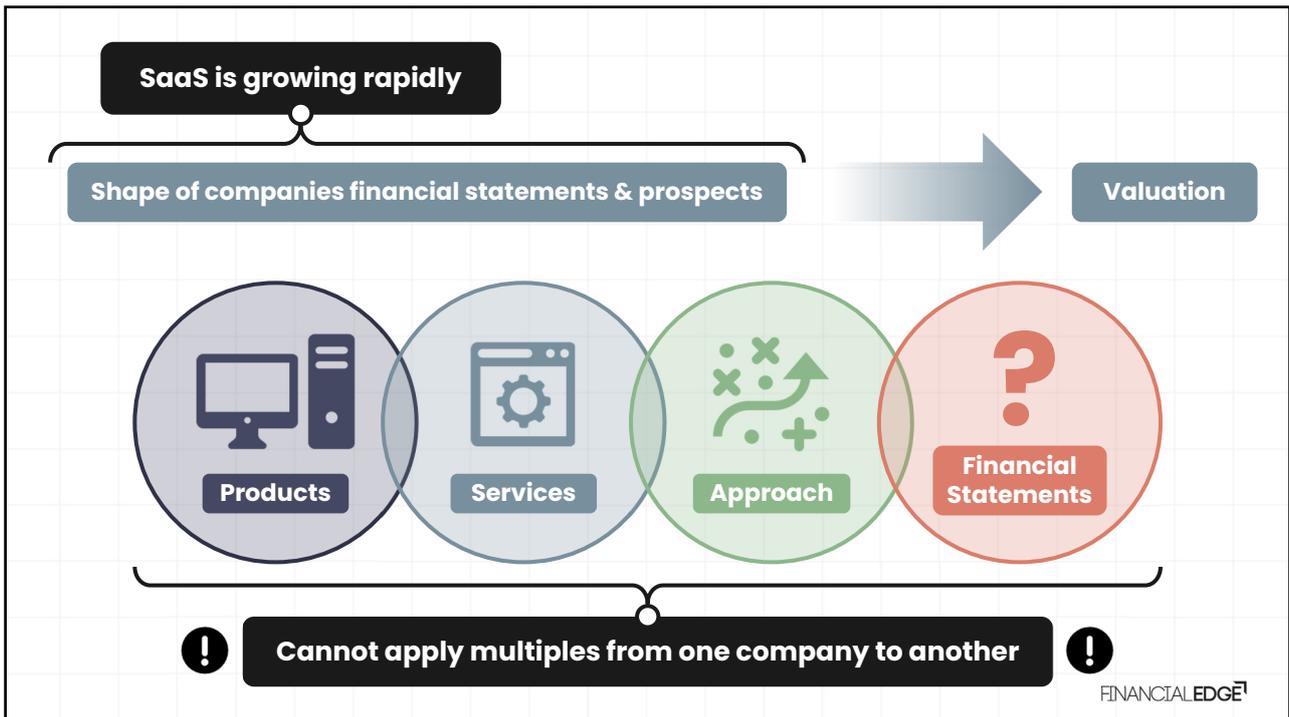


B2B
Business to business

B2C
Business to customer

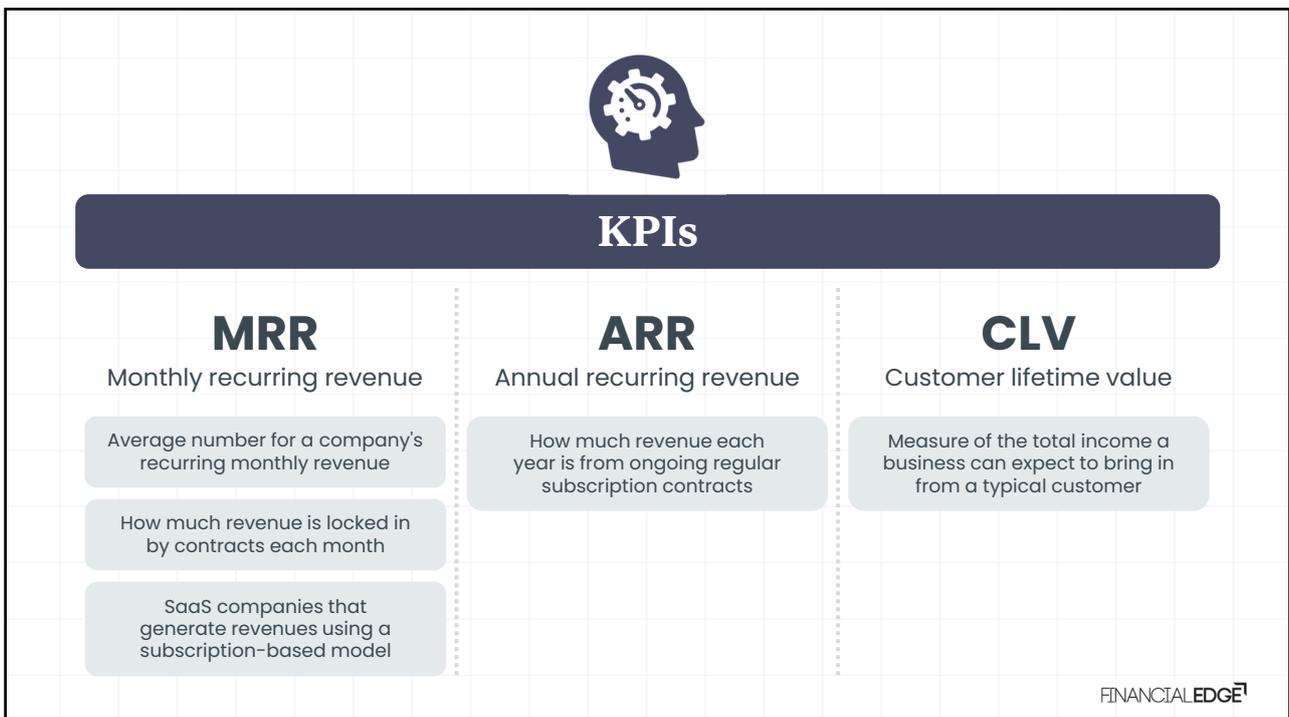
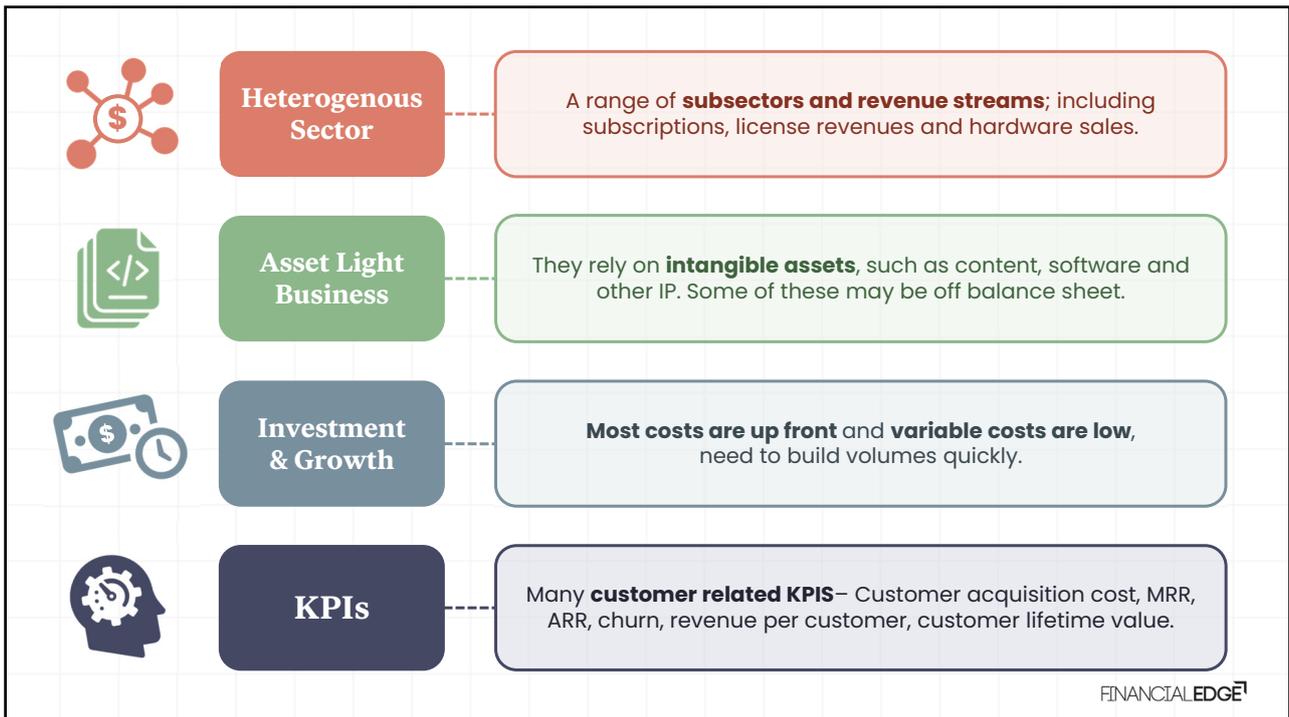


FREEMIUM APPROACH



What Makes The Technology Sector Different?

FINANCIALEDGE¹



Different Patterns of Revenue Recognition

Revenues are recognized when services and goods are delivered to the customer



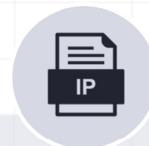
Recognize revenue when **goods transferred** to customer

HARDWARE



Recognize revenue **gradually** over service period

SERVICES

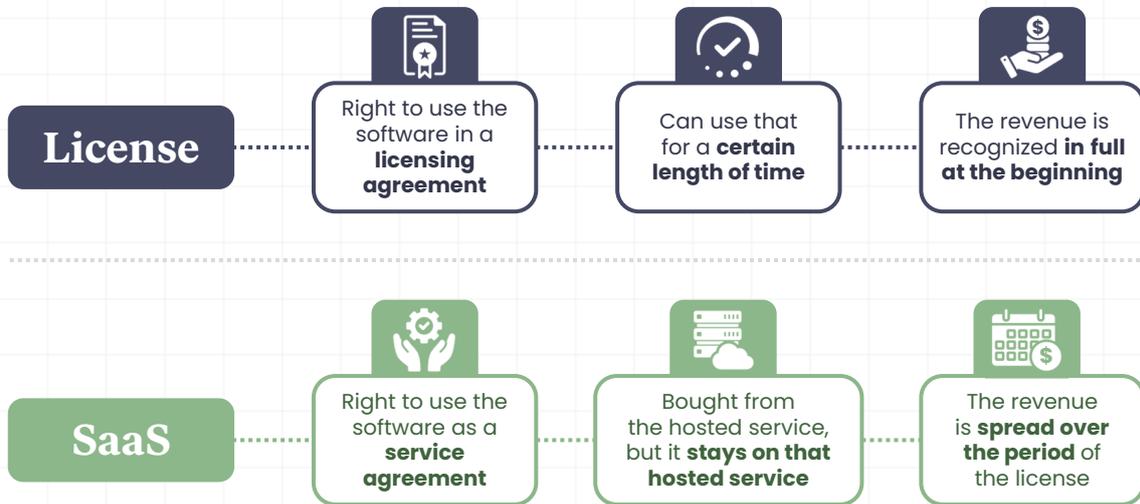


Recognize revenue when **IP available** for use by customer

LICENSES

Contracts for **bundled services, licences, and hardware** are carved up based on the **relative standalone values** of each deliverable

The difference between a **license** and **software as a service** is subtle



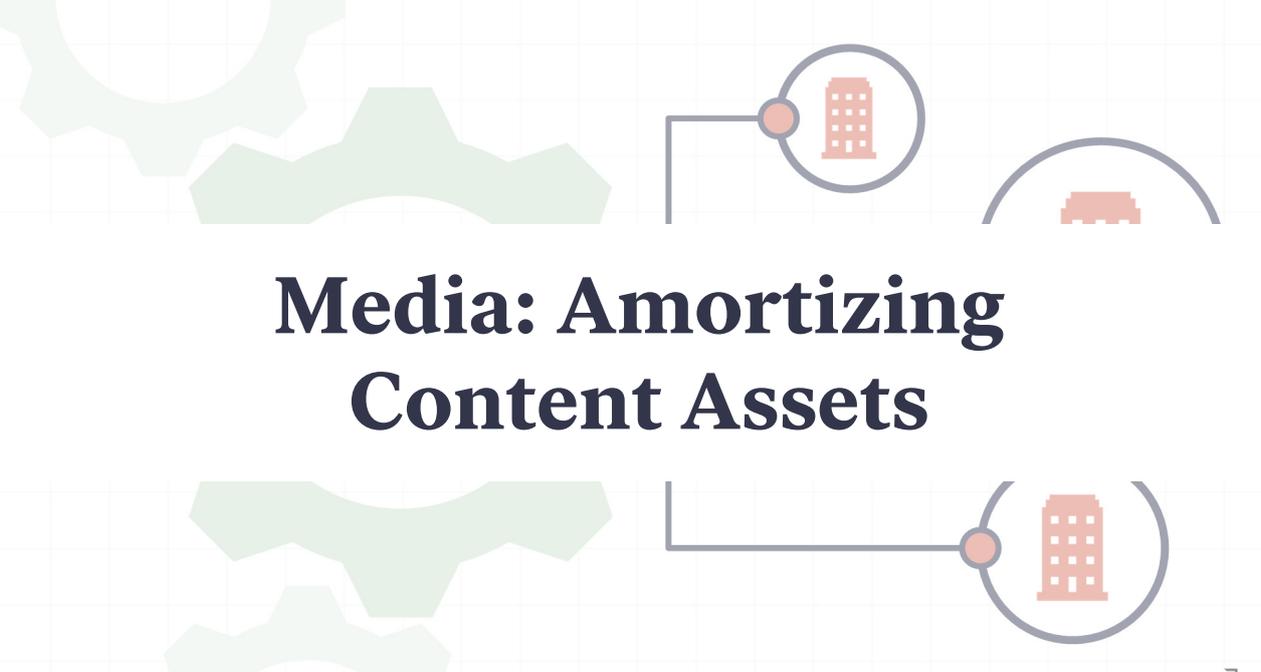
FINANCIALEDGE⁷

Balance Sheet

FINANCIALEDGE⁷

 <p>GOODWILL</p> <p>Due to high number of acquisitions, rapid change puts carrying value at risk</p>	 <p>CURRENT ASSETS</p> <p>Prepayments and accounts recoverable on contracts</p>
 <p>INTANGIBLE ASSETS</p> <p>Rely on intangible assets, such as content, software and other IP. Some of these may be off balance sheet</p>	 <p>CURRENT LIABILITIES</p> <p>Deferred revenue</p>

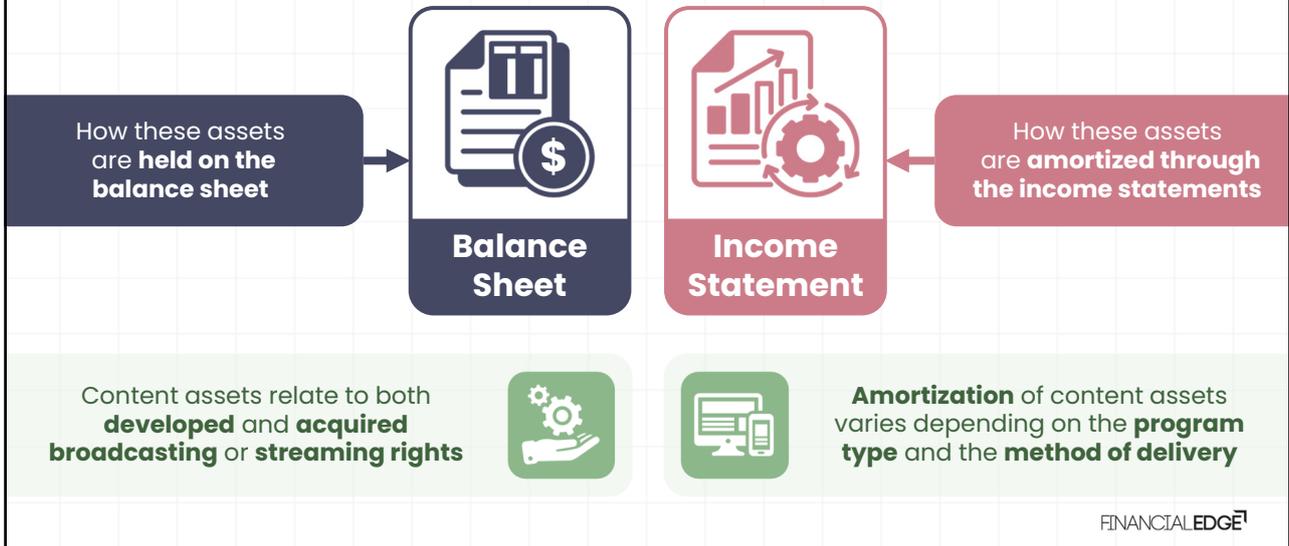
FINANCIALEDGE¹



Media: Amortizing Content Assets

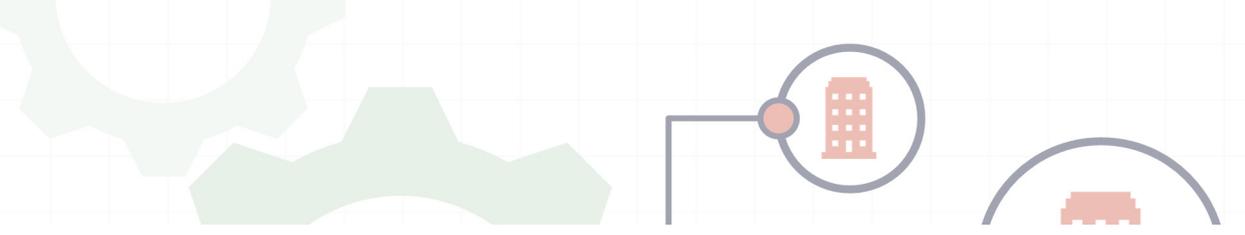
FINANCIALEDGE¹

Technology companies have **significant media content** that is **delivered through their platforms**



	PROGRAMME TYPE	TYPICAL AMORTIZATION PATTERN
	ENTERTAINMENT	Expense in full at first transmission
	SPORTS – PAY PER VIEW	Expense in full at transmission
	SPORTS – MULTI-YEAR	Amortize over expected number of transmissions
	FILM AND DRAMA (BROADCAST)	Typically, 50-80% expensed at first transmission, with residual expensed at second transmission
	FILM AND DRAMA (STREAMING)	Amortize over period of availability, accelerated to reflect viewing patterns

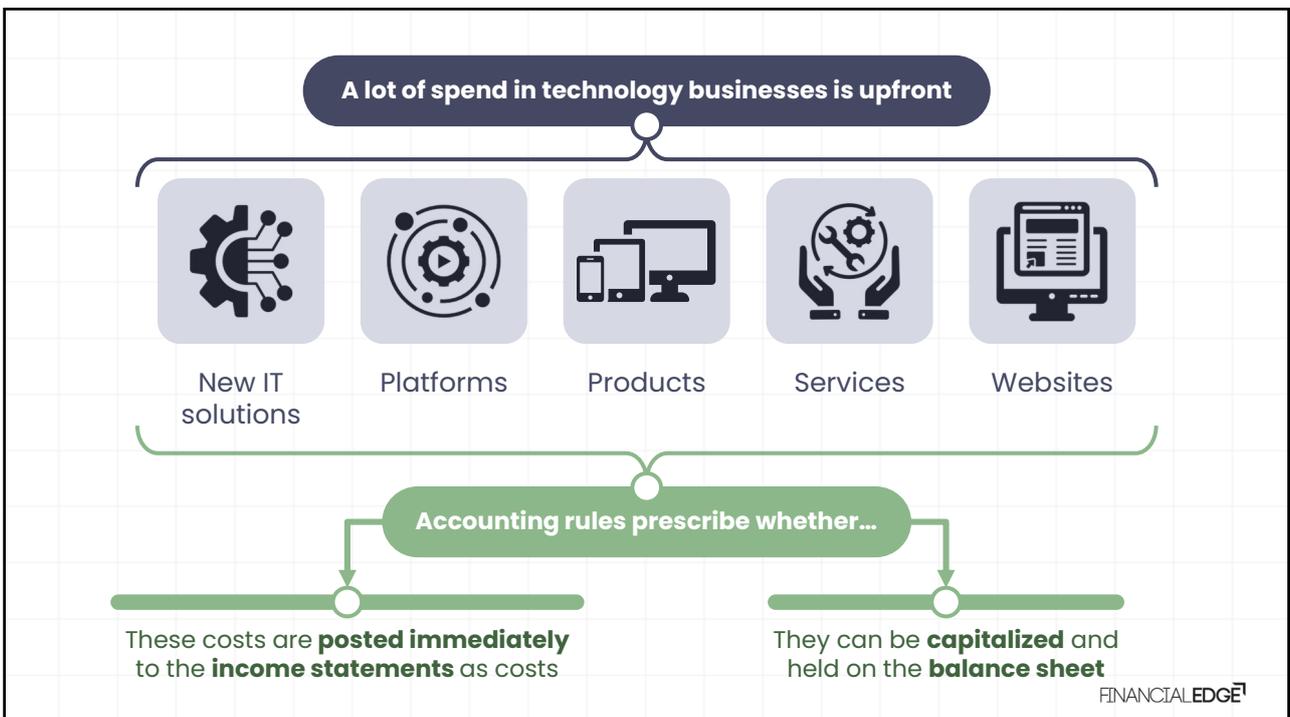
FINANCIALEDGE⁷

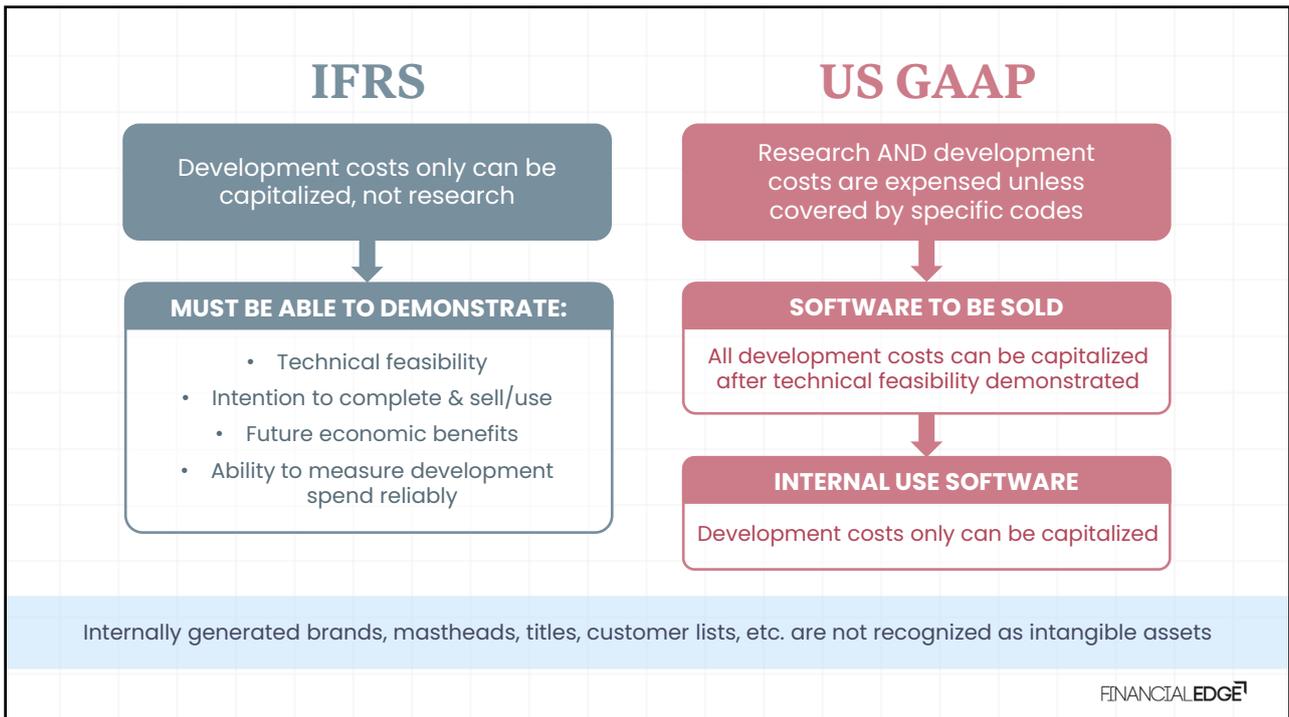


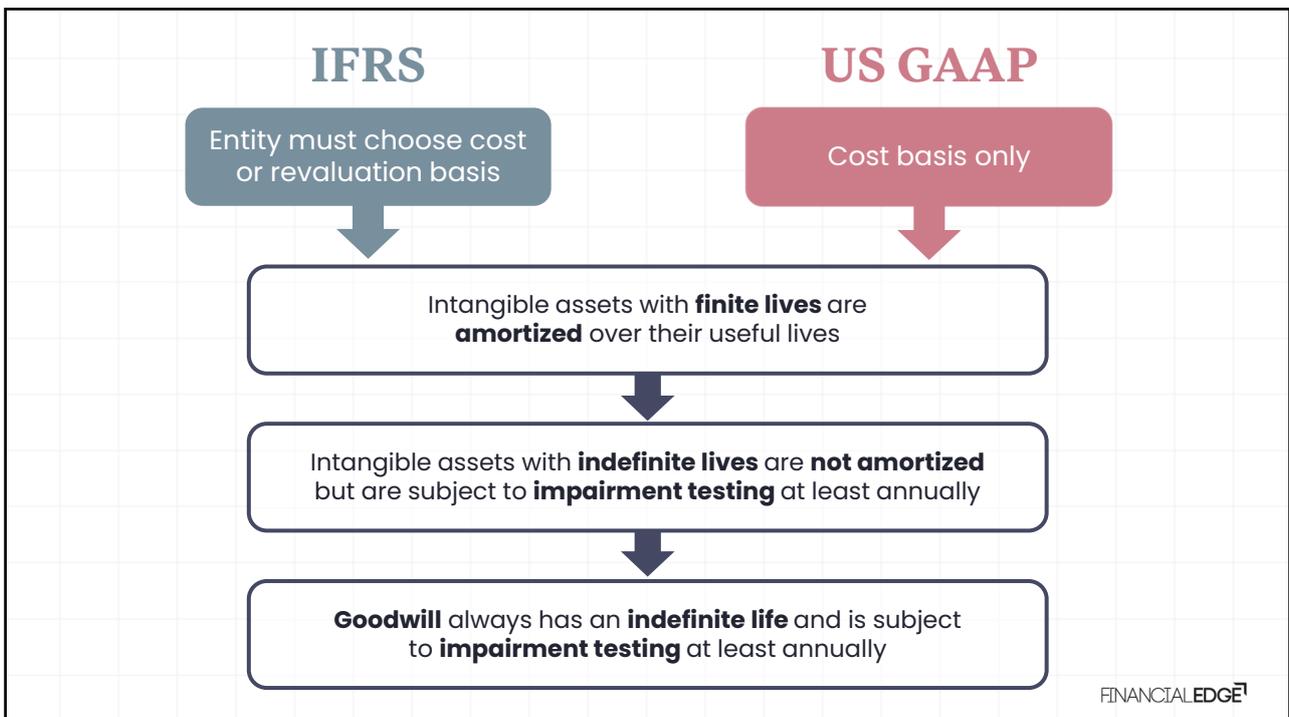
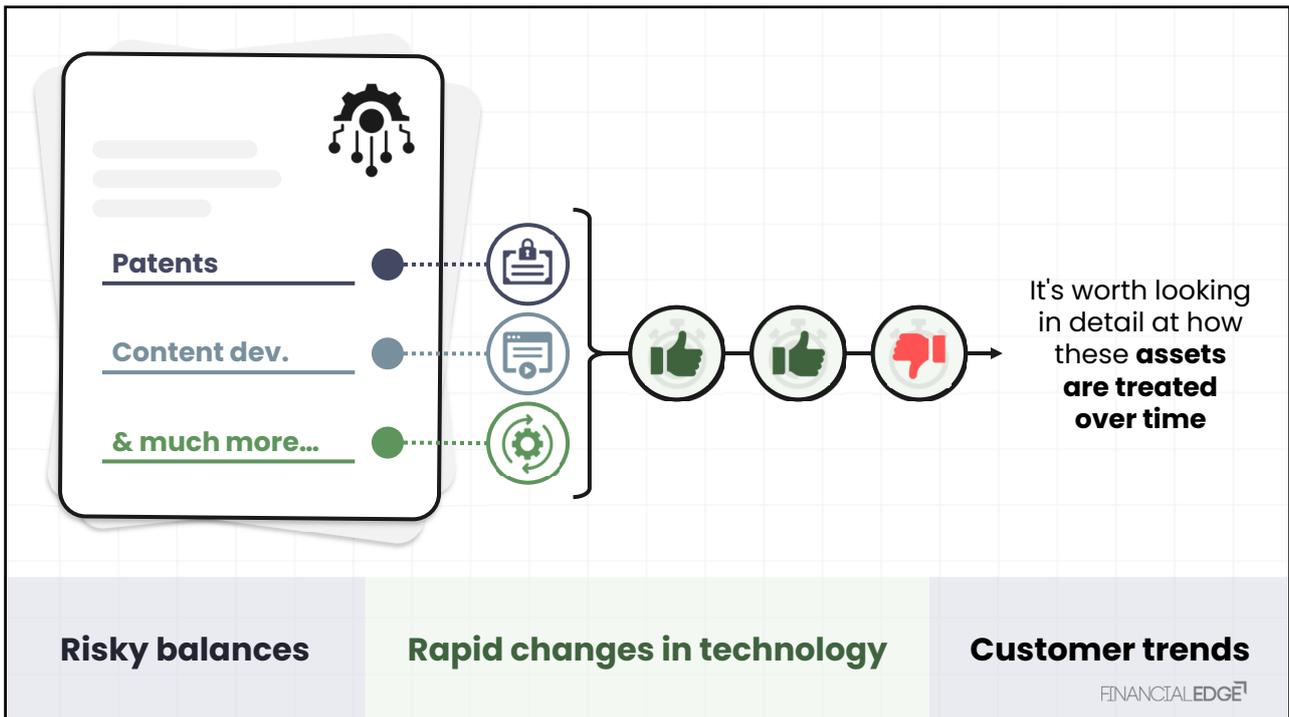
Intangible Assets – Research & Development

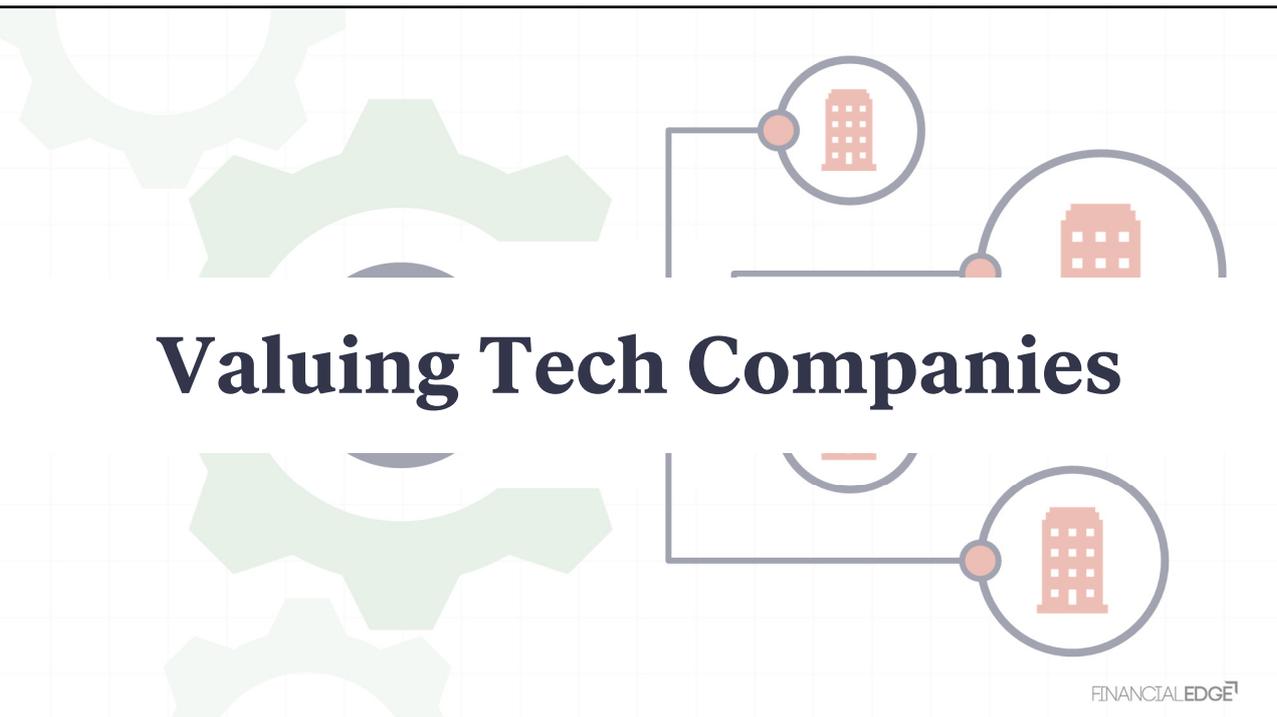


FINANCIALEDGE¹









Valuing Tech Companies

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CHALLENGES

Multitude of
different
business models

May have no
revenue and be
loss-making

Future profits &
cash flows
difficult to predict

Sector failures
make valuation
highly uncertain

FINANCIALEDGE⁷



DISCOUNTED CASH FLOW

McKinsey – favor
a DCF approach
to valuation

DCF approach
is the most
reliable method

Scrutinized due to
the reliance on high-
growth assumptions

Appropriate to
add a risk element
to the WACC

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MULTIPLES

PE ratio or
EV to EBITDA
multiple

Difficulty here is finding
similar comparison
companies

Revenue
multiple

Firm figure, not
distorted by early
investment costs

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ENTRY VALUATION

Cost of establishing similar business

Employing & training people

Developing products & services

Building assets & a client base

Unique sector – difficult to forecast

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RULE OF THUMB

Number of customers or subscribers

Stickiness of customer retention

Uniqueness of the IP or patents

Size and prospects of the markets in which it operates

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