



My Company's Value is Now What?

Understanding the Factors that Impact Your Company's Value in
Today's Economy and Credit Markets

Presenter/Moderator:
Dan Branch, Taylor Consulting Group, Inc.

August 18, 2009

Panelists:
Sean Banks, Total Technology Ventures, LLC
David Smith, KPMG LLP

Overview of Presentation

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- History – 2001 through Today
- Factors that Impacted Value (Perfect Storm)
- How do Things Look Going Forward?
- Panel Discussion and Q&A

Pre-2008

Introduction

Historical Review

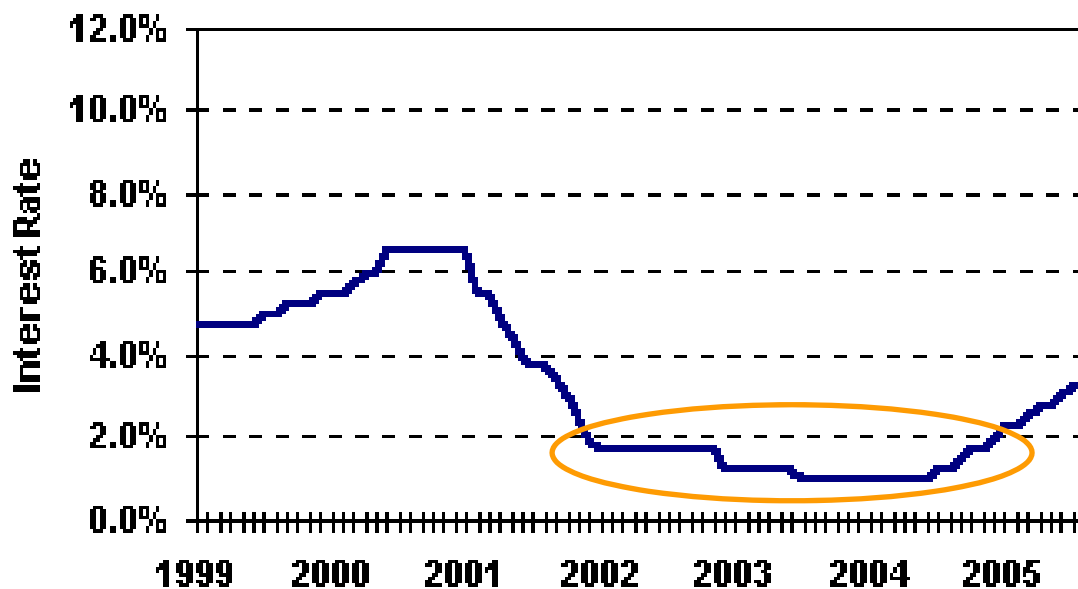
Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

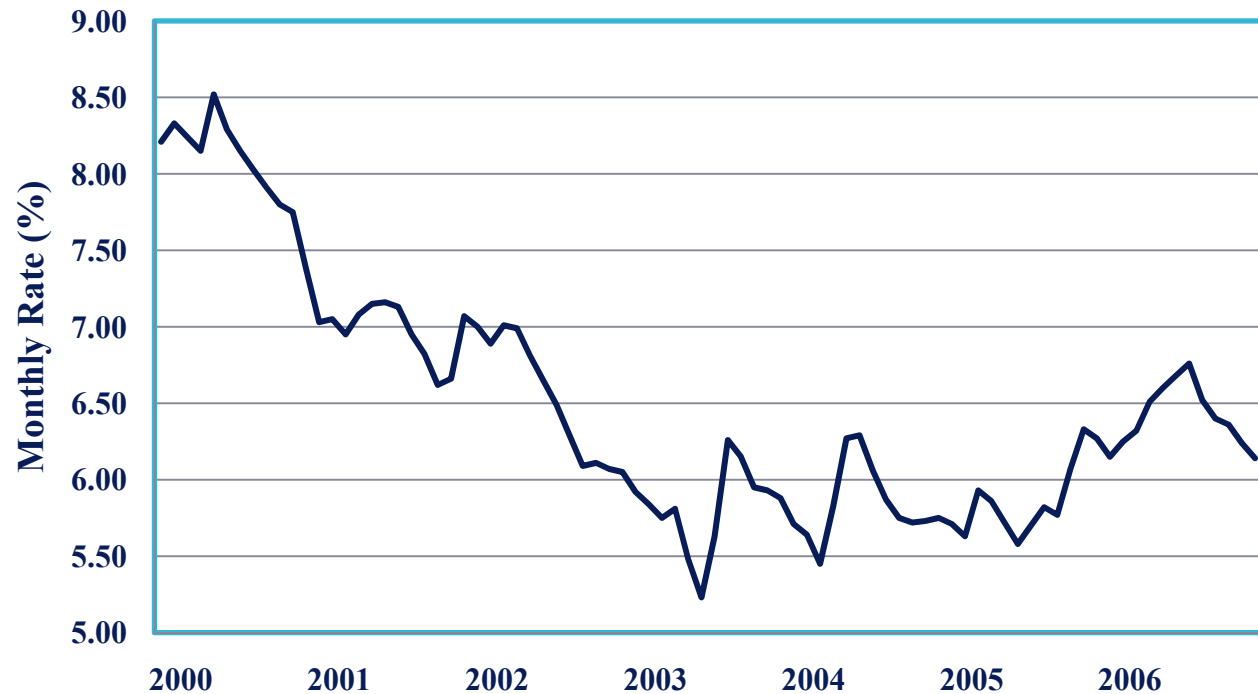
- 2001 – Dotcom bubble bursts
- The Fed responds -- too aggressively?
 - Jan '02 -- Federal Funds Target Rate < 2.00%
 - < 2.00% 36 months!



Pre-2008 (Cont.)

- Home buyer heaven -- mortgage rates in freefall!

Conventional 30-Year Fixed Rate



Source: Freddie Mac Primary Mortgage Market Survey®

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

Pre-2008 (Cont.)

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

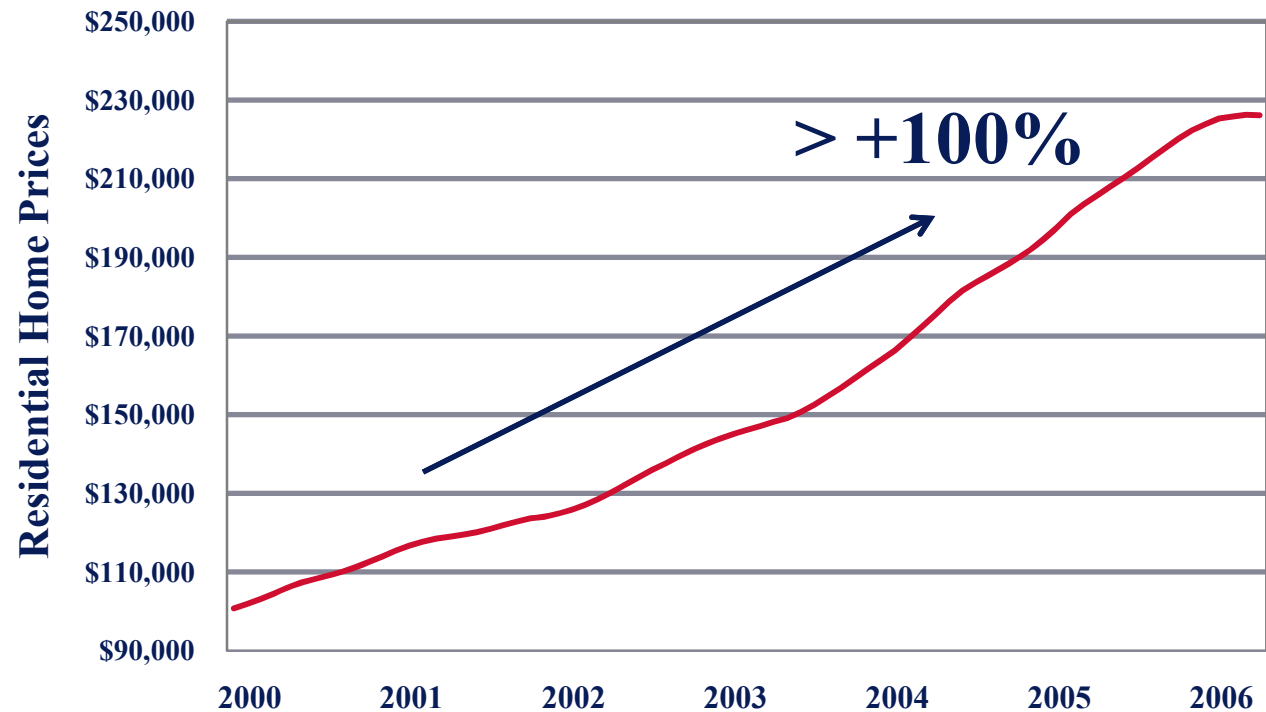
Panel Discussion

- Aggressive lending practices by banks (started in late 1990's) fuel “buying frenzy”
 - “Historically low rates!” – Get in now!
 - Documentation for applications – Maybe!
 - Down payments – Who needs them?
 - Mortgage types blossom – ARM's, no-interest, balloon

Pre-2008 (Cont.)

- “Buying frenzy” fuels home price increases

S&P Case-Shiller Index Home Prices



Source: S&P Case-Shiller Home Price Index

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

Pre-2008 (Cont.)

- “Continuing” increases in home price fuels speculative buying – number of ARM’s soars

Introduction

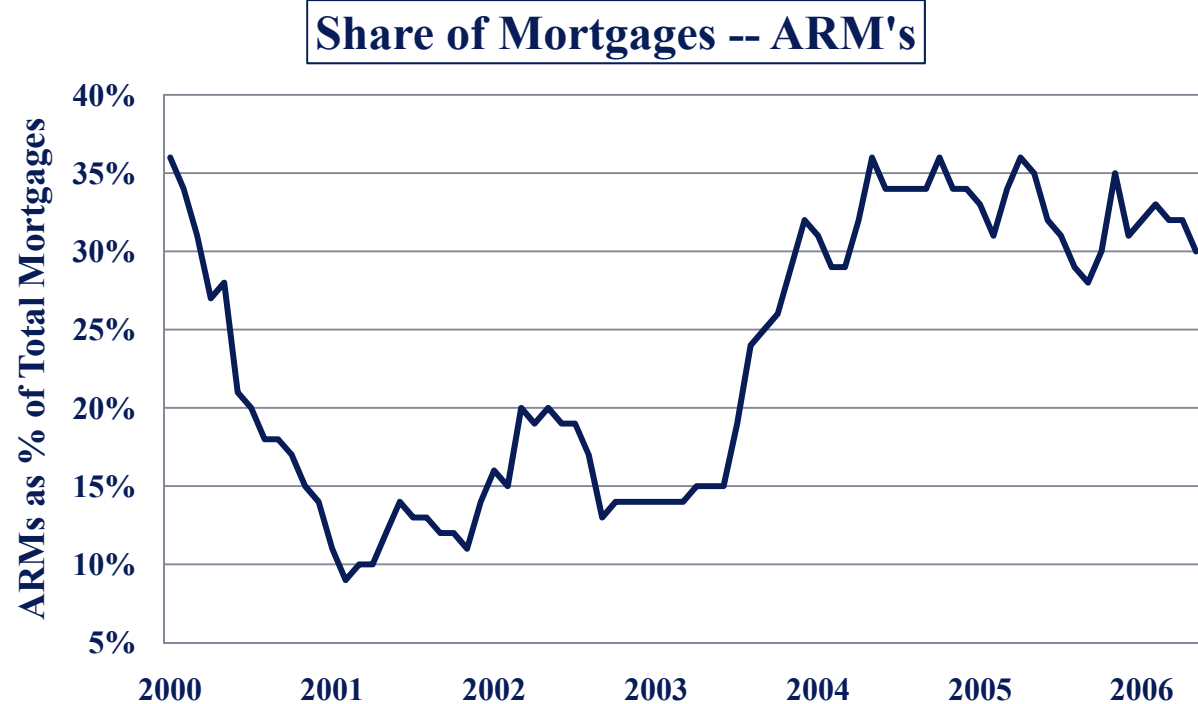
Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion



Source: Freddie Mac

Pre-2008 (Cont.)

Introduction


Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Wall Street flying high
 - Combine 1,0000 mortgages into a bond (Mortgage Backed Security)
 - Carve it into tranches (investment grade through “high yield”) → Collateralized Debt Obligation (CDO)
 - Ratings agencies:
 - Low Risk Tranche → “Investment Grade” 
 - What about the other “more risky” tranches?

Pre-2008 (Cont.)

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Higher yield tranches
 - Bear Stearns created a hedge fund with them
 - Example: \$1 bn of CDO's invested in hedge fund
 - Home prices continue to rise; value of fund gets "marked up"
 - Hedge fund approaches *unrelated lending bank* for loan – current CDO's as collateral
 - Eye-popping profits for the lending bank ...

Pre-2008 (Cont.)

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Higher yield tranches (Cont.)
 - The bank will own the underlying securities – no problem, right?
 - So, the hedge fund buys more CDO's
 - IB determines the CDO's value ↑
 - Hedge fund gets additional loan from bank
 - Cycle repeats
 - And repeats
 - And repeats
 - And repeats...

Pre-2008 (Cont.)

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Before long, hedge fund is highly leveraged
 - Bear Stearns' hedge fund leveraged 15 times (\$15 bn “invested” on initial \$1 bn investment)
- But doesn't high leverage demand a “hedge”?
 - Insurance – enter “Credit Default Swaps”, which transfers credit exposure to another party
 - Hedge fund pays insurance premium to underwrite the risk of default on the underlying home-loans
 - Enter the likes of AIG

Pre-2008 (Cont.)

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Bundle up the Credit Default Swaps
➔ Synthetic Collateralized Debt Obligations
 - “Synthetic CDO” is based on premium payments to insurers, not underlying home loan payments
 - “Insurers” are paid to take risk but no money set as collateral!
 - Tranches created; ratings agencies provide ratings
 - Tranches sold to investors or leveraged with bank loans
 - Cycle repeats... and repeats... and repeats...
- As home prices remain stable or rise, all is well!
 - Until...

Pre-2008 (Cont.)

- 2005 & 2006 – Fed raises rates; mortgage rates rise

Introduction

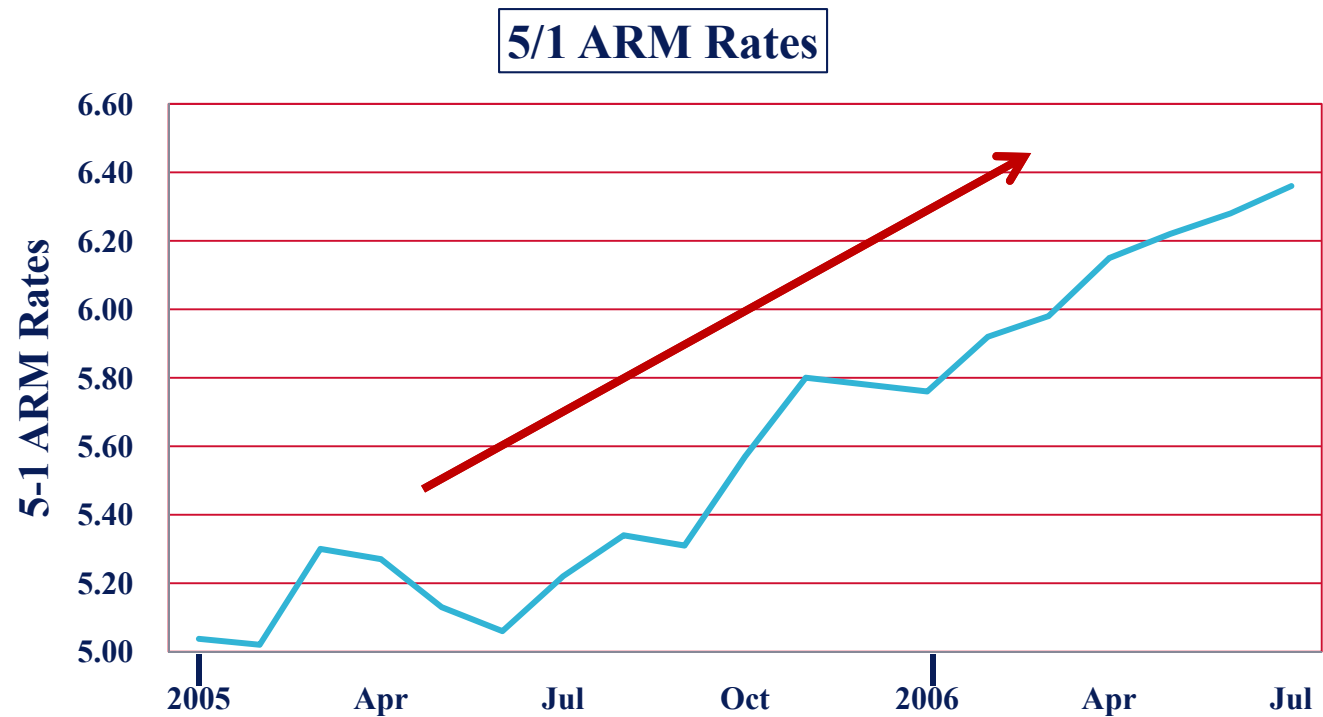
Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

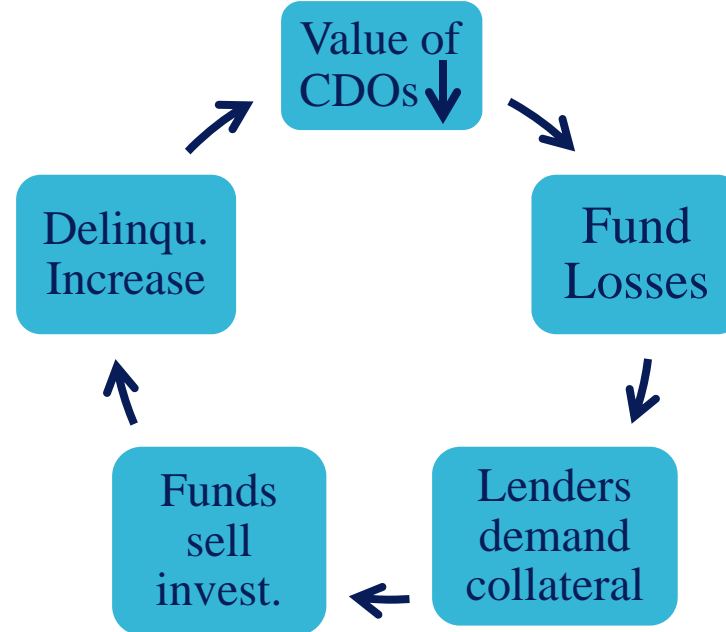


Source: Freddie Mac Primary Mortgage Market Survey®

Pre-2008 (Cont.)

- Introduction
- Historical Review**
- Perfect Storm
- Going Forward
- Panelist Intro
- Panel Discussion

- 2006/Early 2007, sub-prime delinquencies rising



- Bear Stearns – \$1 bn equity capital lost July 2007

2008 to Today

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Bear Stearns acquired by JP Morgan March 2008
 - January 2008 share \$171
 - March 2008 price \$2
- Lenders spooked; lending halts
- Bond market dries up – credit squeeze underway!
- Consumer sentiment plummets
- Business activity sharply declines, corporate earnings drop, equities tumble
- Unemployment rises
- The Perfect Storm has arrived!

2008 to Today

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Status Today – Highlights!
 - Total US bankruptcies up 35%
 - 72 Banks failed YTD – yeah GA!
 - Office space vacancy rates ~16%
 - Unemployment rate 9.4%
- Goodwill write-downs
 - 2006 \$87 billion
 - 2007 \$143 billion
 - 2008 \$340 billion

Making of a Perfect Storm

Factors that affect a company's value (Income Approach)

Introduction

Historical Review

Perfect Storm

Going Forward

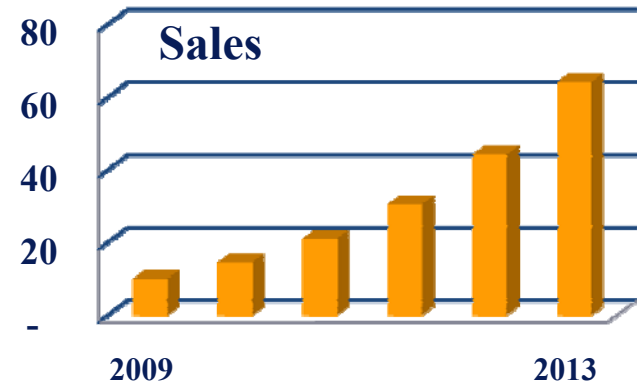
Panelist Intro

Panel Discussion

Expected Rate of Return



Expected Future Operations

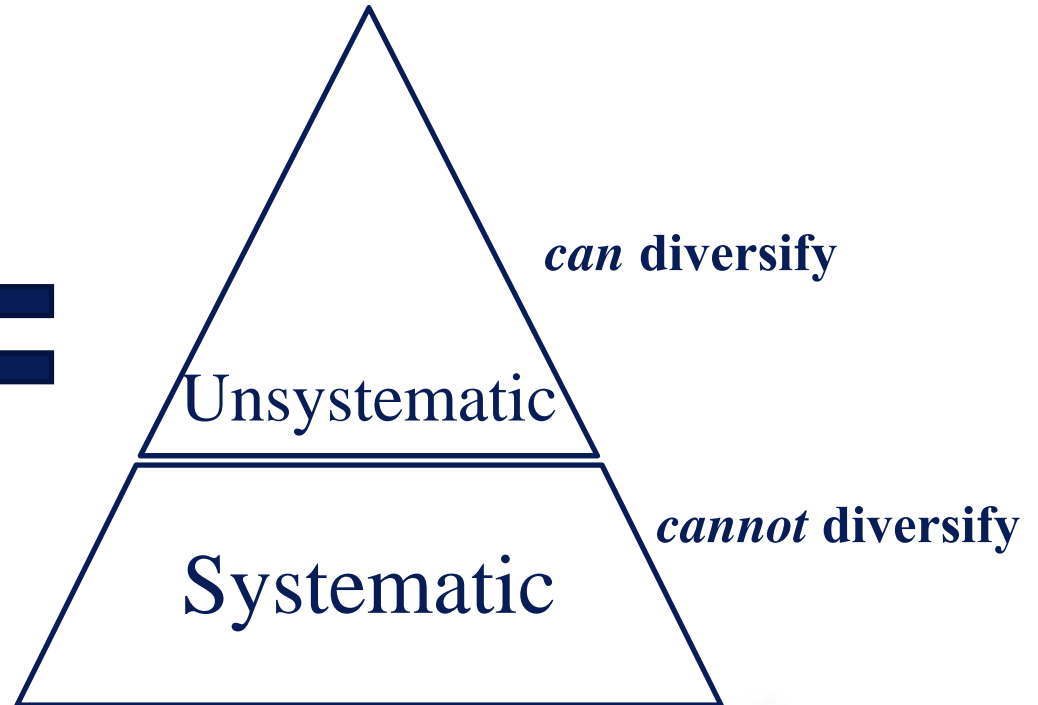


Making of a Perfect Storm – Equity Risk

Equity Rate of Return (or Equity Risk)

Equity
Risk

=



Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

Making of a Perfect Storm – Equity Risk

- Systematic -- **cannot** diversify
 - Risks that affect market in general
 - Uncertainty about future fosters fear – investor premium
 - Stock prices drop in “flight to safety”

S&P Tech Sector and Cisco and Google



Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

Making of a Perfect Storm – Equity Risk

Introduction

Historical Review

Perfect Storm

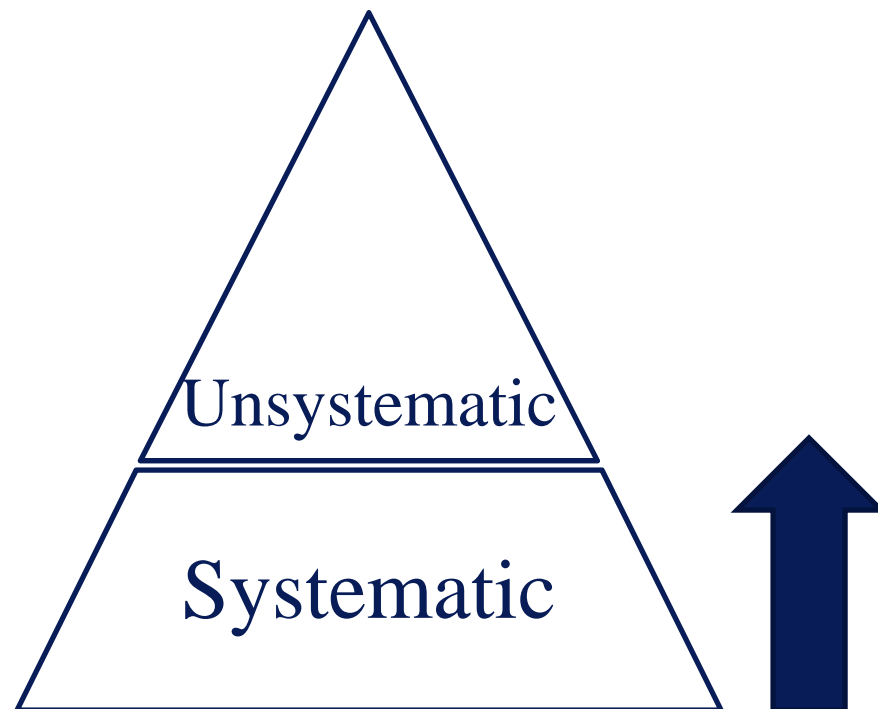
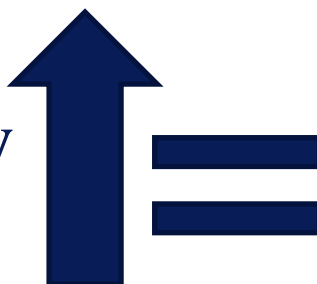
Going Forward

Panelist Intro

Panel Discussion

Systematic

Equity
Risk



Making of a Perfect Storm – Equity Risk

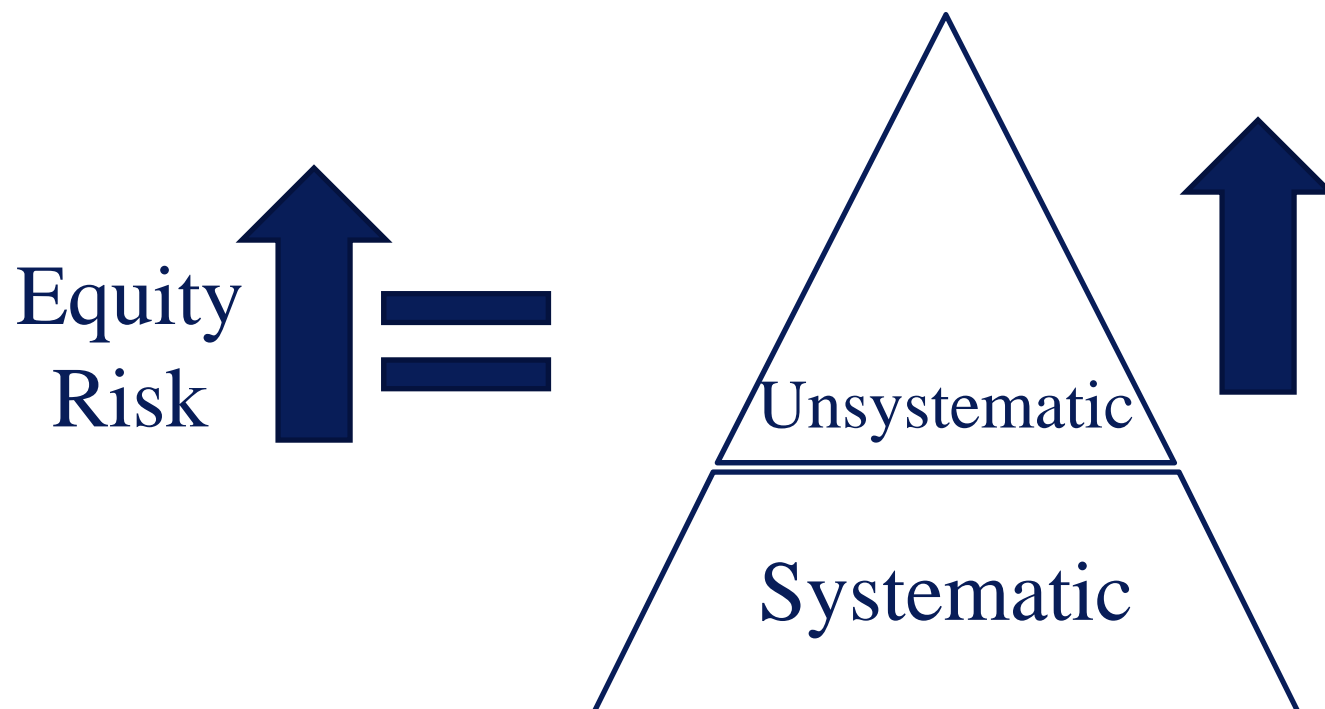
- Unsystematic -- **can** diversify
 - Risks that affect specific company analyzed
 - Diversification “mitigates” this type of risk
 - Company size, industry-specific, company-specific, other
- S&P Tech Sector and Cisco and Google and Dell



- Introduction
- Historical Review
- Perfect Storm
- Going Forward
- Panelist Intro
- Panel Discussion

Making of a Perfect Storm – Equity Risk

Unsystematic (diversifiable!)



Introduction

Historical Review

Perfect Storm

Going Forward

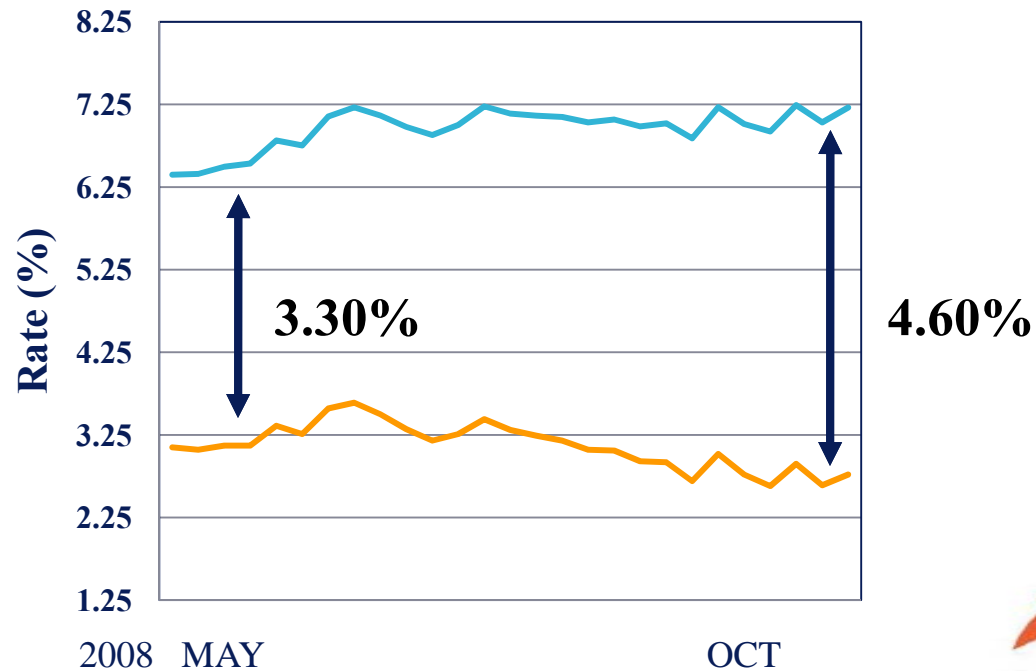
Panelist Intro

Panel Discussion

Making of a Perfect Storm – Debt Risk

- Introduction
- Historical Review
- Perfect Storm**
- Going Forward
- Panelist Intro
- Panel Discussion

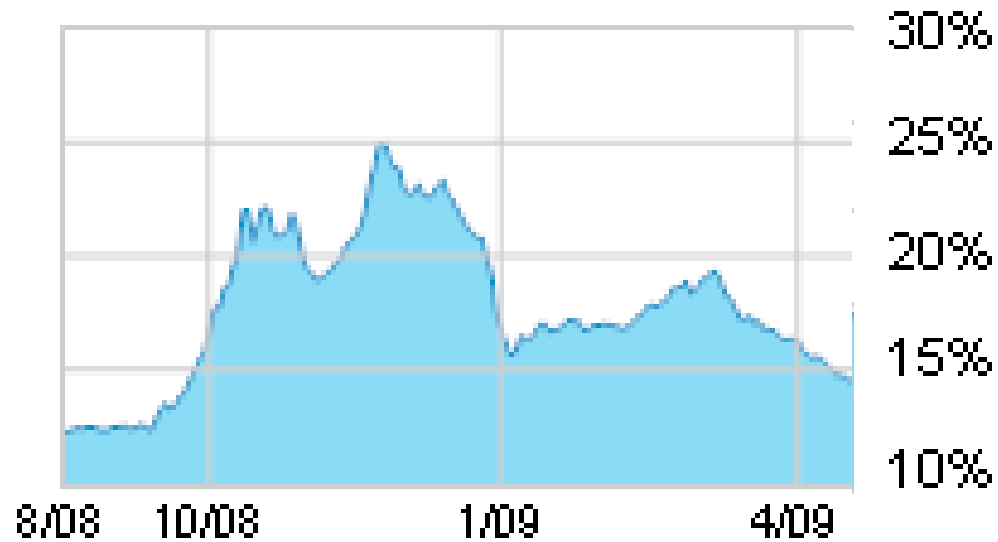
- Debt rates late 2008
 - Treasuries decreased (Fed action) -- interest rates decrease?
 - No – spread demanded increased!



Making of a Perfect Storm – Debt Risk

- Debt rates spike Sept – Dec 2008

High Yield Bond Rates



Source: FINRA

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

Making of a Perfect Storm – Debt Risk

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion



Making of a Perfect Storm – Future Operations

Introduction

Historical Review

Perfect Storm

Going Forward

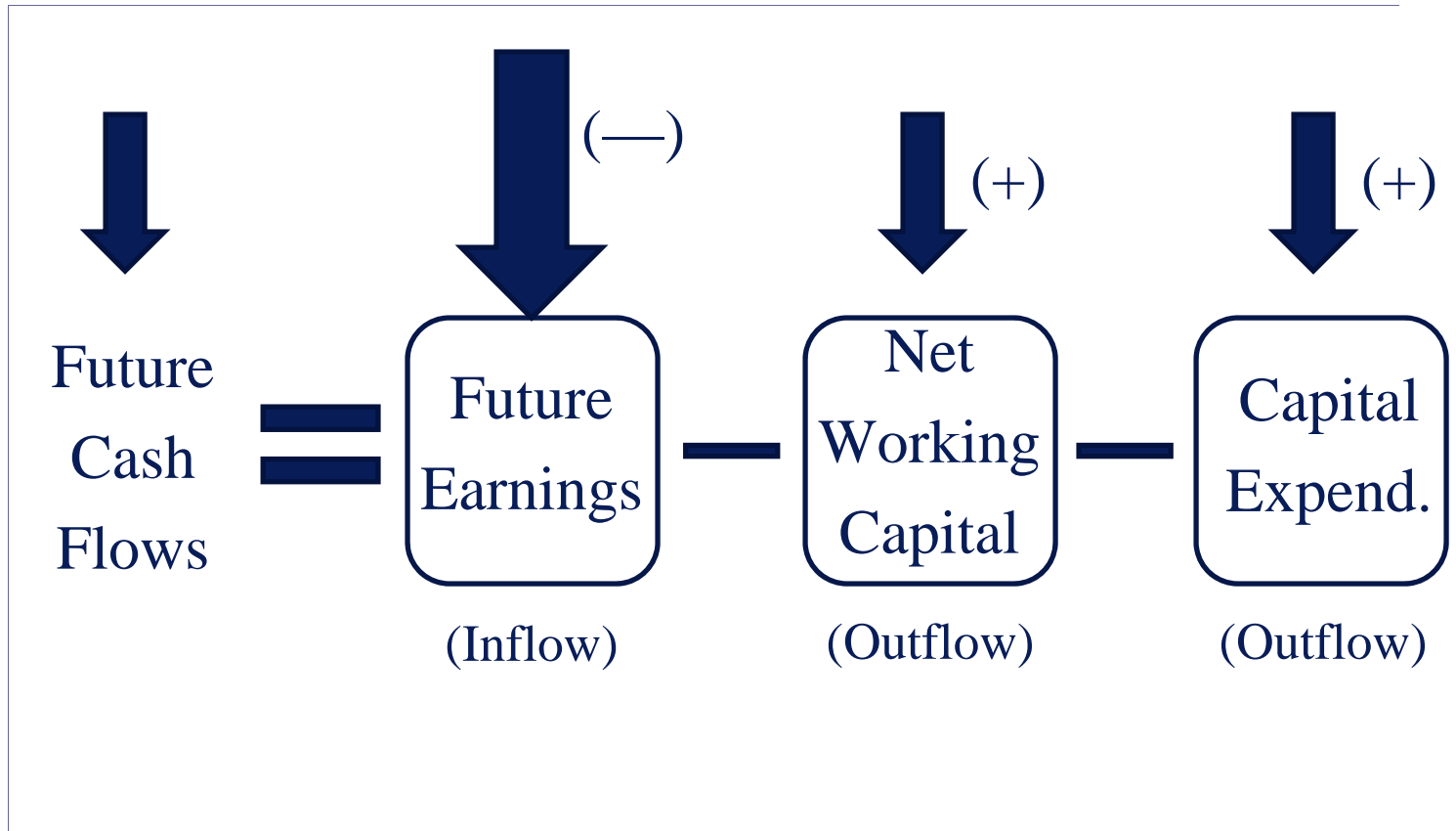
Panelist Intro

Panel Discussion

- Expectations for the Future
 - Consumer sentiment and spending – revenue
 - Margin squeeze?
 - Commodity price volatility
 - Marketing costs
 - Health care costs
 - Restructuring charges
 - Inventory
 - Recovery expected!? When? How?

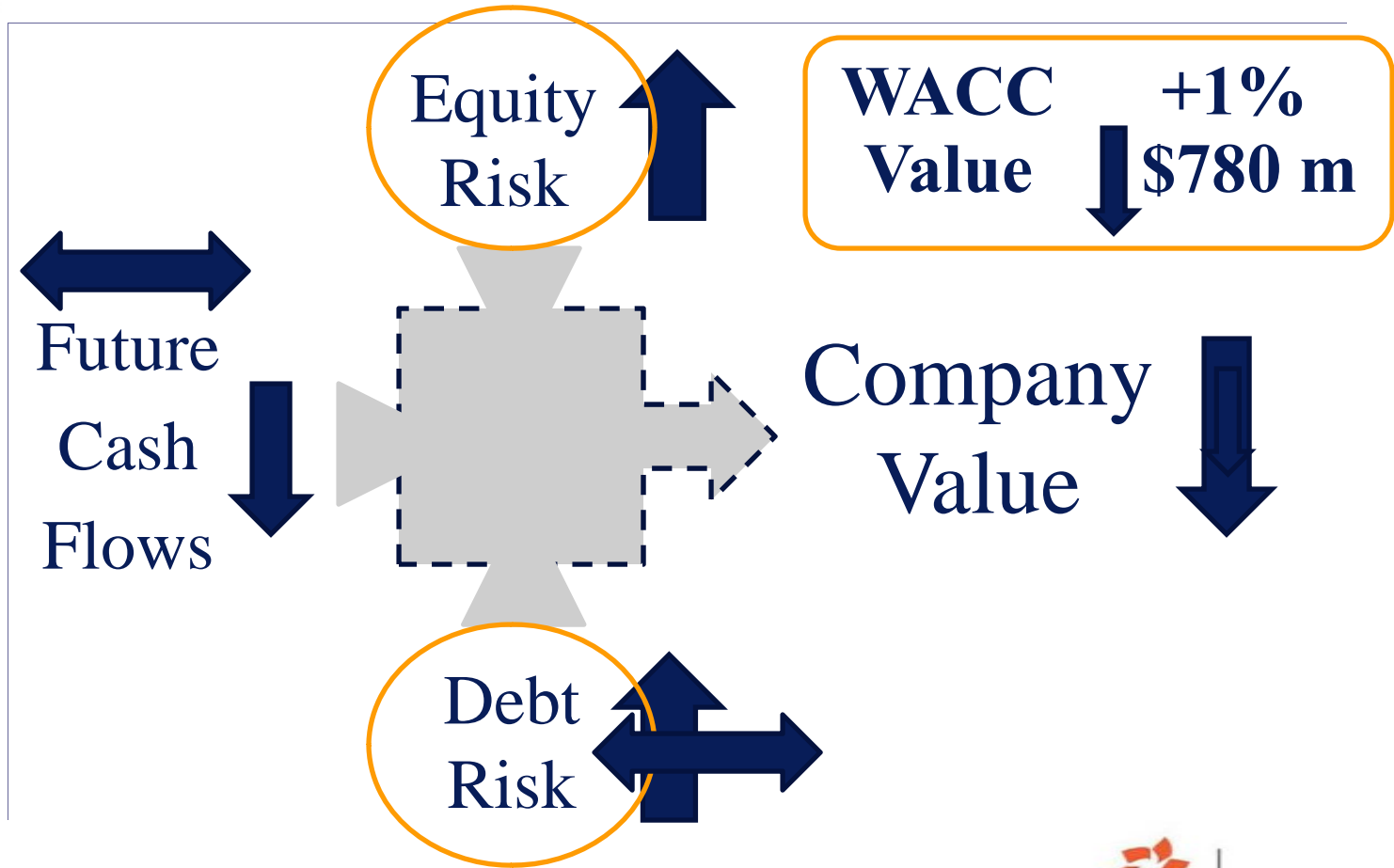
Making of a Perfect Storm – Future Operations

- Introduction
- Historical Review
- Perfect Storm**
- Going Forward
- Panelist Intro
- Panel Discussion



The Perfect Storm

- Introduction
- Historical Review
- Perfect Storm**
- Going Forward
- Panelist Intro
- Panel Discussion



Going Forward

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Equity Risk
 - Systematic (market in general) – decrease with improved economy
 - Unsystematic (company) – depends!

Going Forward (Cont.)

Introduction

Historical Review

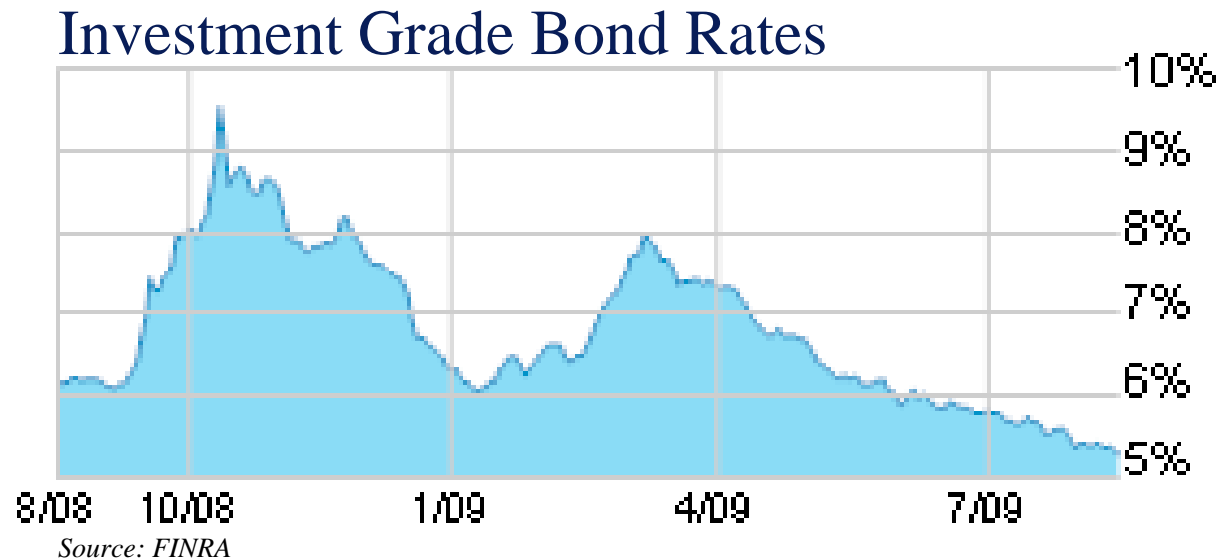
Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Debt Risk



- Evidence of credit market loosening
- Expect higher fees, more strings, etc.

Going Forward (Cont.)

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

- Future operations
 - Depends
 - Increase with improved economy?
 - When????

Panelists

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

Sean Banks – Total Technology Ventures, LLC

- Prior to joining TTV, Sean served as the Vice President of Finance and General Counsel for an Atlanta based start-up company
- He is currently on the Board of Directors for ControlScan and Chain Reaction Ecommerce
- MBA from the Goizueta Business School at Emory University
- Mr. Banks is currently a member of the Georgia Bar Association, having earned his J.D. at the University of San Diego
- Graduate of the United States Naval Academy

Panelists

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

David Smith – KPMG LLP

- As a senior manager in KPMG’s Economic and Valuation Services practice, he specializes in business and intangible asset valuation services
- Intangible asset valuations associated with purchase price allocations pursuant to SFAS 141
- Business valuations for a variety of purposes, including restructuring, estate and gift tax planning, goodwill impairment, etc.
- Support for KPMG’s audit practice in a SAS 73 role
- Mr. Smith was educated at Emory University and Georgia State University

We Welcome Your Questions!

Please feel free to contact us with any additional comments or questions.

Introduction

Historical Review

Perfect Storm

Going Forward

Panelist Intro

Panel Discussion

Dan Branch
Taylor Consulting Group, Inc.
Director
404.874.2111 x222
dbranch@taylorconsultinggroup.com

Sean Banks
Total Technology Ventures
Principal
404.347.8406
sbanks@ttvatlanta.com

David Smith
KPMG Economic and Valuation Services
Senior Manager
404.222.7203
davidmsmith@kpmg.com