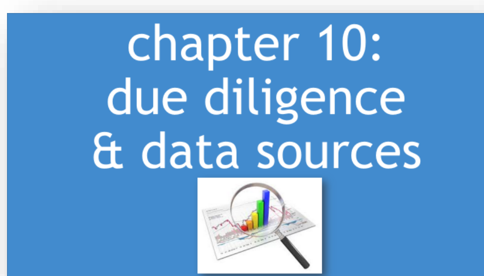
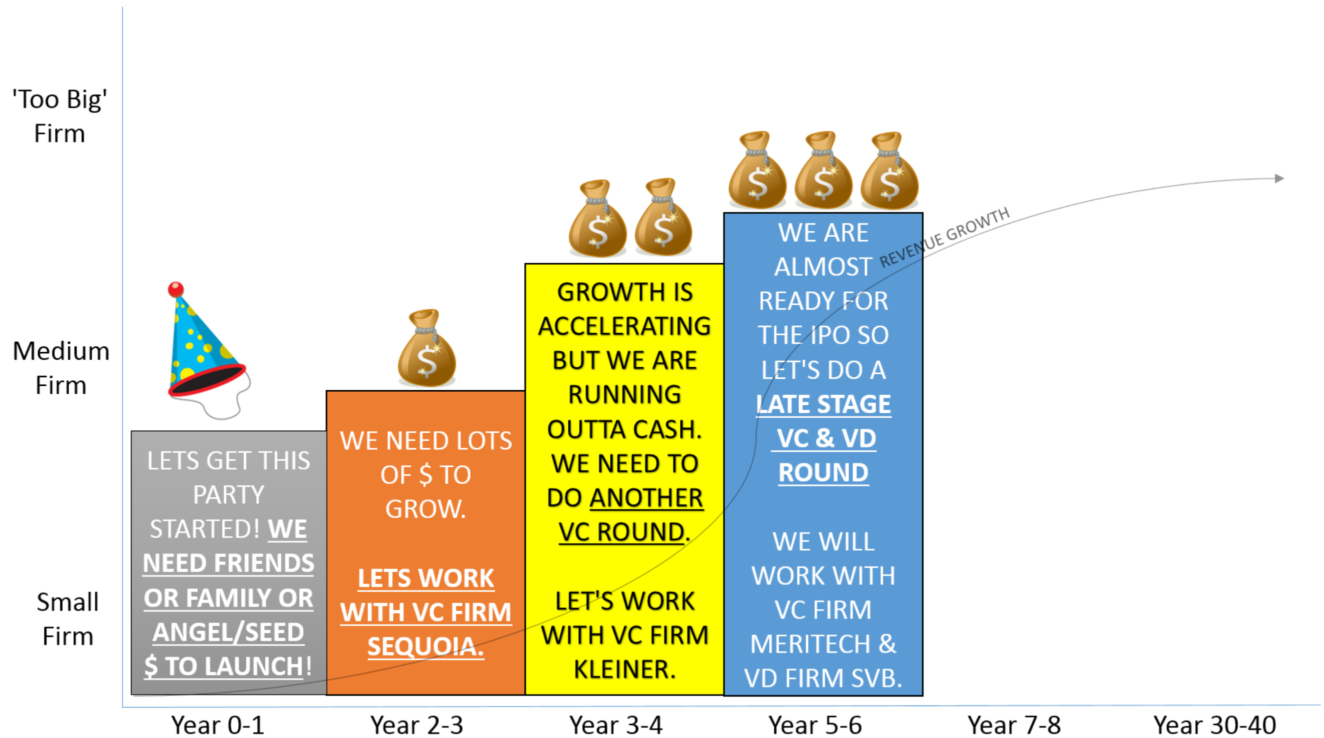
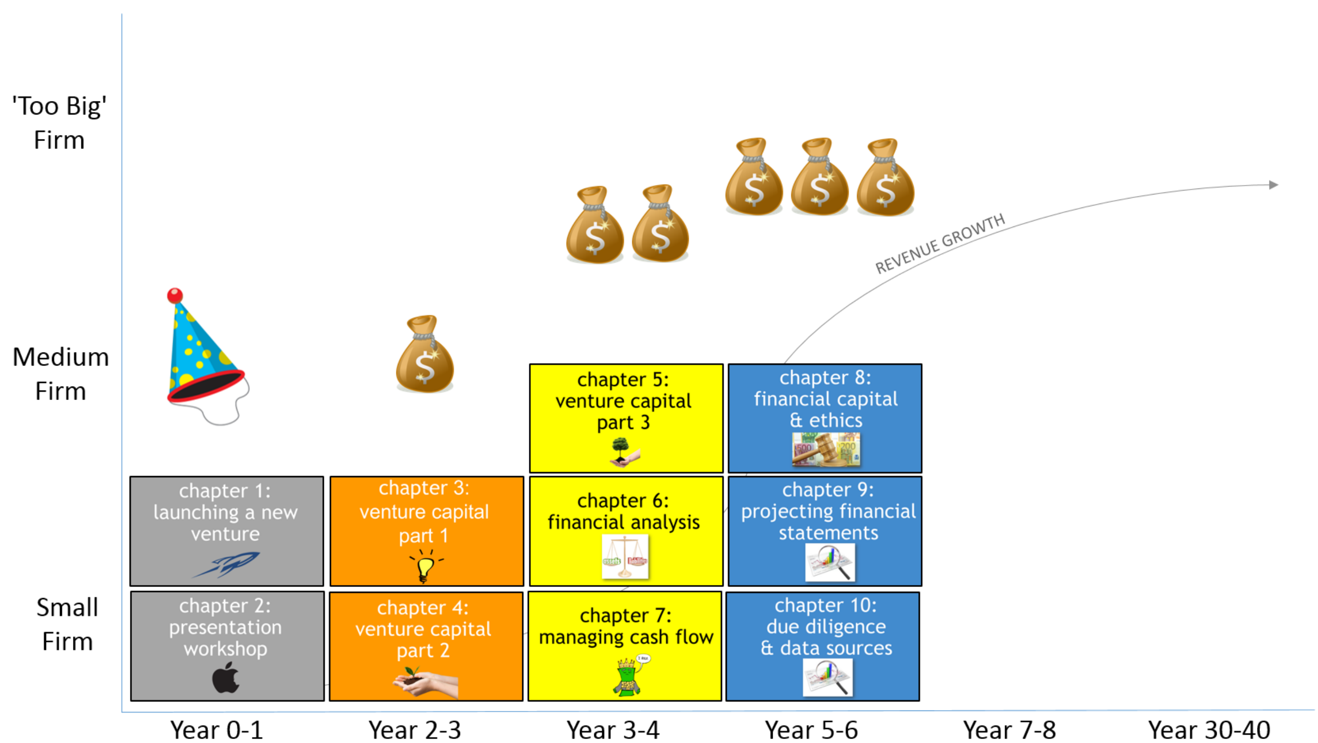
CHAPTER 10: DUE DILIGENCE AND DATA SOURCES

"What gets measured gets managed."

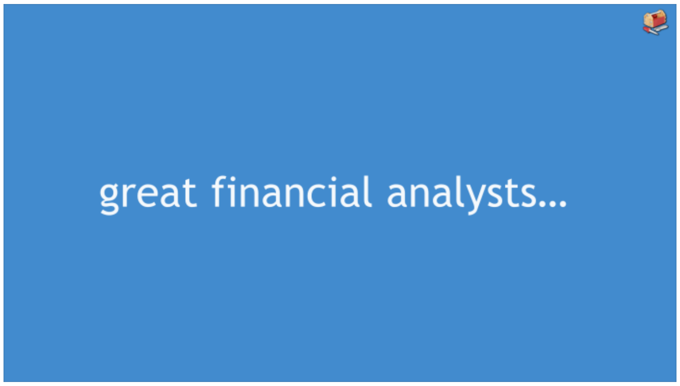
- *Peter Drucker*

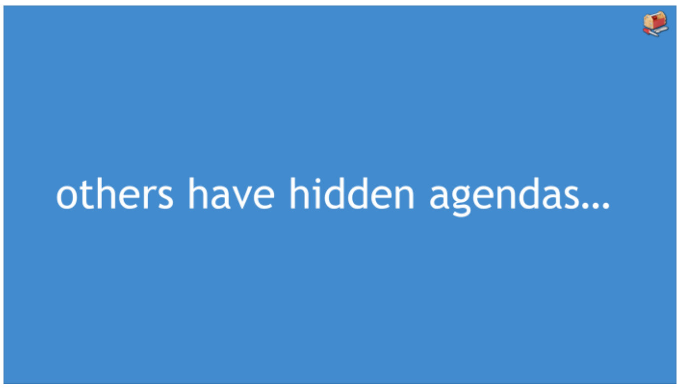


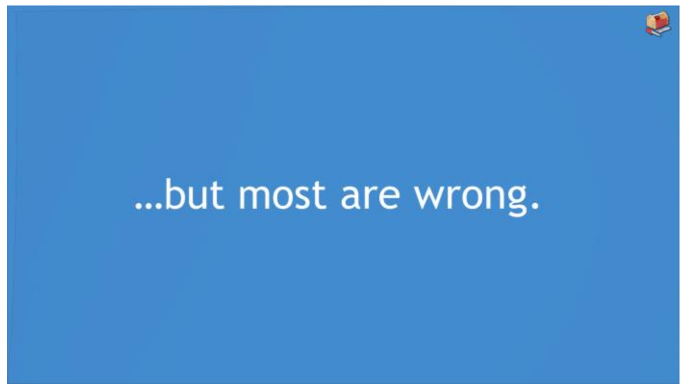

'Too Big' Firm
Medium Firm
Small Firm
LETS GET THIS PARTY STARTED! WE NEED FRIENDS OR FAMILY OR ANGEL/SEED $ TO LAUNCH!
WE NEED LOTS OF $ TO GROW.
LETS WORK WITH VC FIRM SEQUOIA.
GROWTH IS ACCELERATING BUT WE ARE RUNNING OUTTA CASH. WE NEED TO DO ANOTHER VC ROUND.
LET'S WORK WITH VC FIRM KLEINER.
WE ARE ALMOST READY FOR THE IPO SO LET'S DO A LATE STAGE VC & VD ROUND
WE WILL WORK WITH VC FIRM MERITECH & VD FIRM SVB.
REVENUE GROWTH
Year 0-1
Year 2-3
Year 3-4
Year 5-6
Year 7-8
Year 30-40


'Too Big' Firm
Medium Firm
Small Firm
chapter 1: launching a new venture
chapter 2: presentation workshop
chapter 3: venture capital part 1
chapter 4: venture capital part 2
chapter 5: venture capital part 3
chapter 6: financial analysis
chapter 7: managing cash flow
chapter 8: financial capital & ethics
chapter 9: projecting financial statements
chapter 10: due diligence & data sources
REVENUE GROWTH
Year 0-1
Year 2-3
Year 3-4
Year 5-6
Year 7-8
Year 30-40

Always do your own research. Always do your own due diligence. Everyone else has a bias and they want to influence your opinion. Please please please don't let anyone rent space in your head. Do your own work.







great analysts don’t let…

the following influence them

media.

other financial analysts.

folks that sound confident.

or…

politicians.

:)

in finance, please remember

confidence does not =

competence.

don't let others influence...

your opinion in finance.

be careful as...

CFOs are great salespeople.

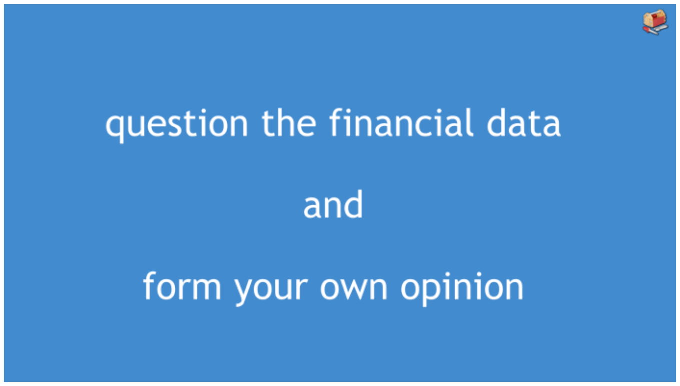
how to tell if a CFO is lying?

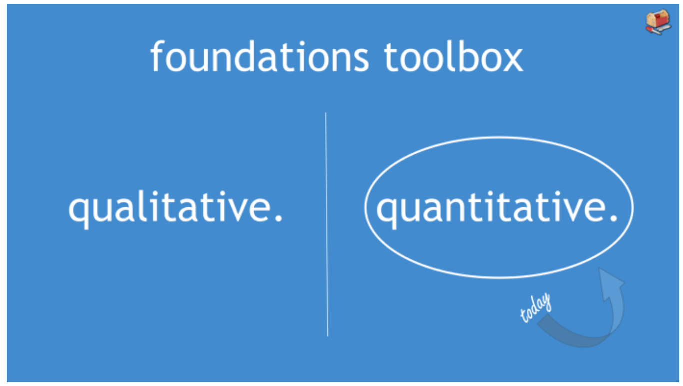
when he moves his lips!

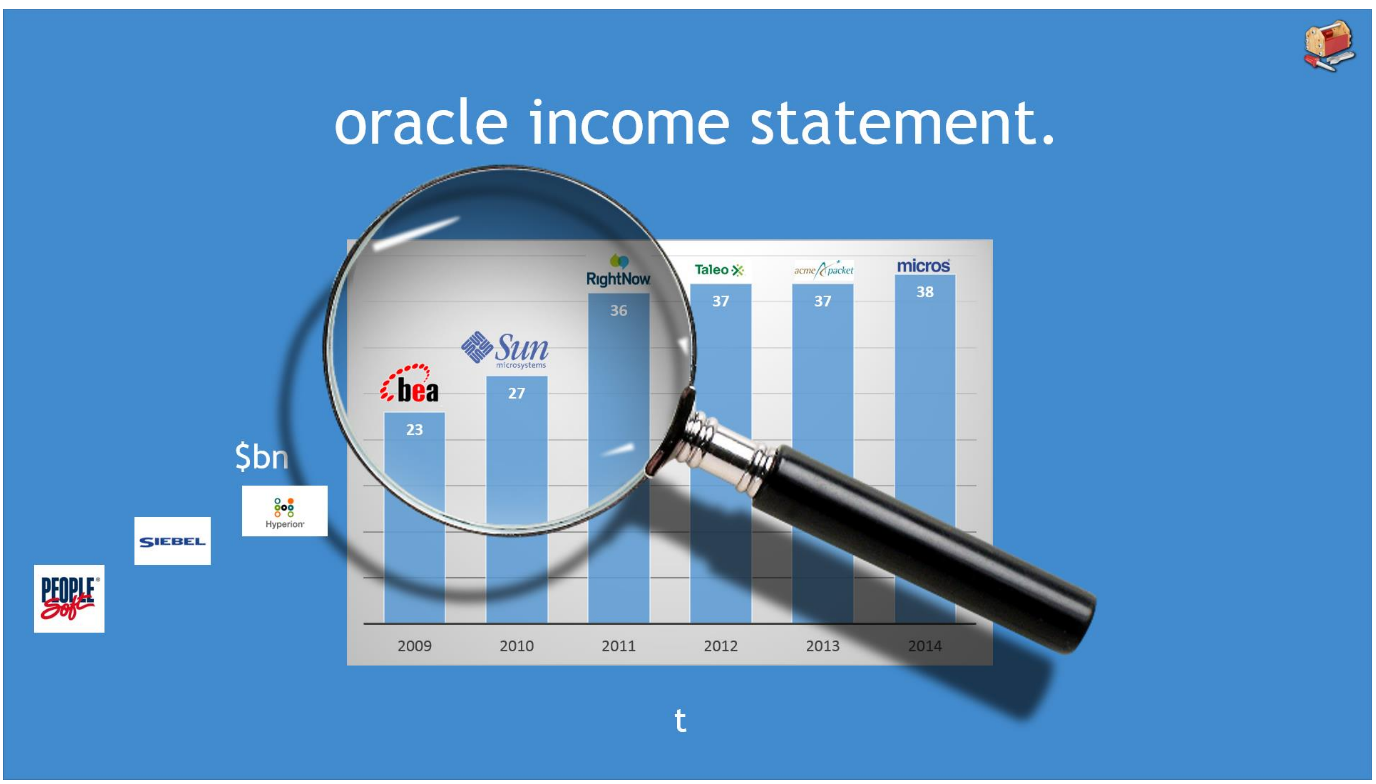
:)

be able to filter news from noise.

www.tiny.cc/chris78 :)







oracle p/e chart.

10 year p/e multiple contraction!

negative **organic** growth!

ORACLE

~$50bn in acquisitions since 2004

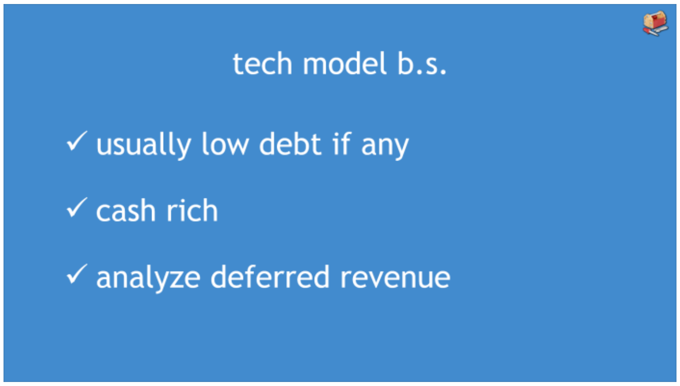
You need to understand why companies do what they do ('market signals'). Why is Oracle buying a massive tech company every year? Because the company is so big that organic revenue (its core competency) is actually contracting! Others will tell you otherwise. Just do your own research.

Don't rely on people that seem to speak gooder than you do :)

tech model i.s. **drivers**.

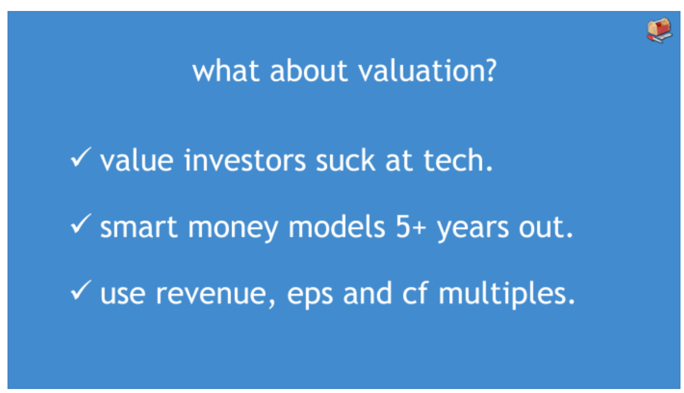
- ✓ subscribers or license revenues
- ✓ bookings
- ✓ operating and gross margin trends

Every financial model that you create when analyzing a company is different as different companies have different revenue drivers for your model.



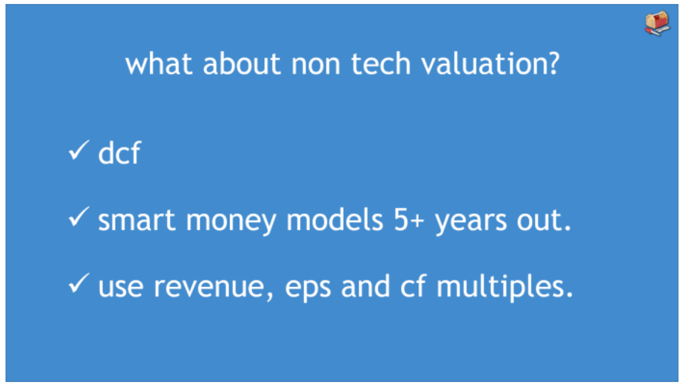
In technology investing, balance sheets aren't usually too relevant as most technology companies don't have massive debt positions (you don't need factories to sell software on the Internet). We tend to analyze deferred revenue a lot with tech companies. What is deferred revenue? It is revenue that you can't recognize today. Huh? Well you can only account or record revenue on your income statement when you get the benefit of selling the product in this financial period. Huh huh? Well if you sell 1 years worth of software today and your customer will pick up only 1 box of software this quarter and will come back to pick up the other box next quarter, then the box not picked up becomes deferred revenue so that you can only account for it in next quarter's financial statements (and not in this quarter's financial statements). Until then it is a liability on your balance sheet. Once you recognize it in your income statement then it is no longer a liability.

Since tech companies don't usually have much debt, then cash flow is usually very close to net income…..so we don't have to bother creating a cash flow statement! Yep that's right.

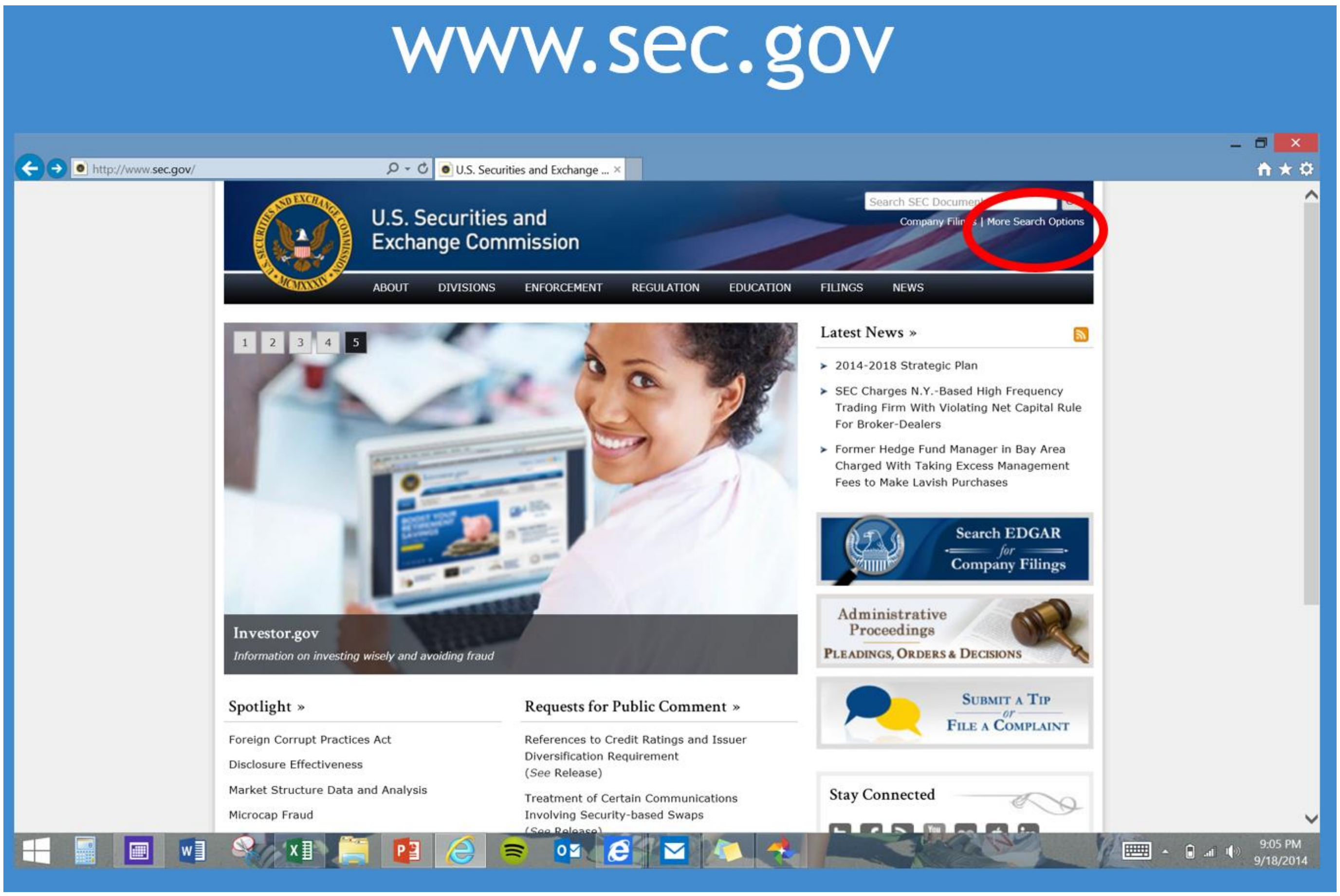


You always want to model at least 5 years into the future. Ask yourself this basic question before doing any due diligence: "In 5 years is this company going to be more relevant or less relevant that it is today?" If you do this then you will make a killing owning companies like Amazon or LinkedIn and not lose your short shorting these companies in a bull market! Huh? Well in my LinkedIn financial model, I can get to $50 in earnings in 5 years so LinkedIn's stock is only trading at 5x my 5 years earnings per share (EPS) estimate and is a bargain! Well if I looked at LinkedIn and Amazon on this year's earnings (bad idea) then I would think that both companies are ridiculously expensive.

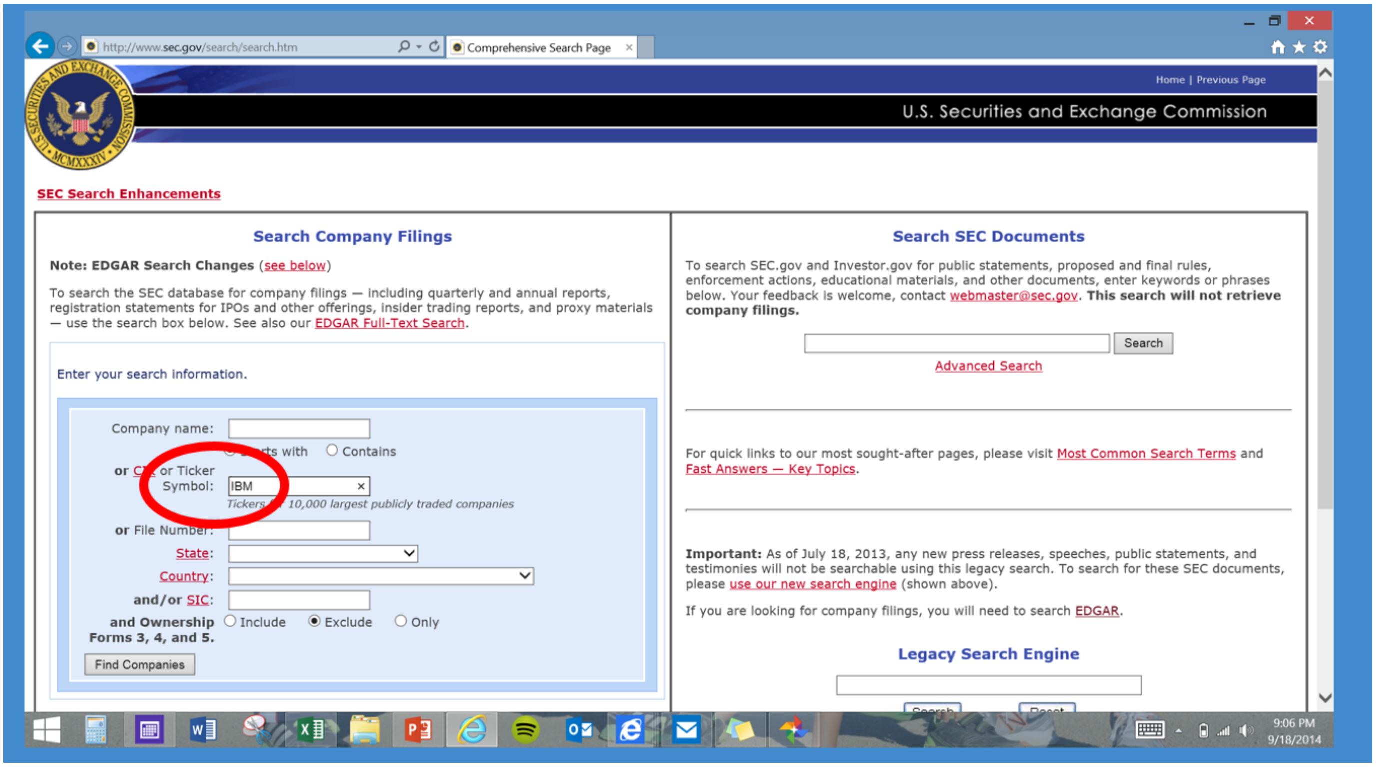
If you are valuing non tech companies, you still want to look 5 years out but you might be more inclined to make a discounted cash flow analysis instead of a p/e or p/sales based target price.



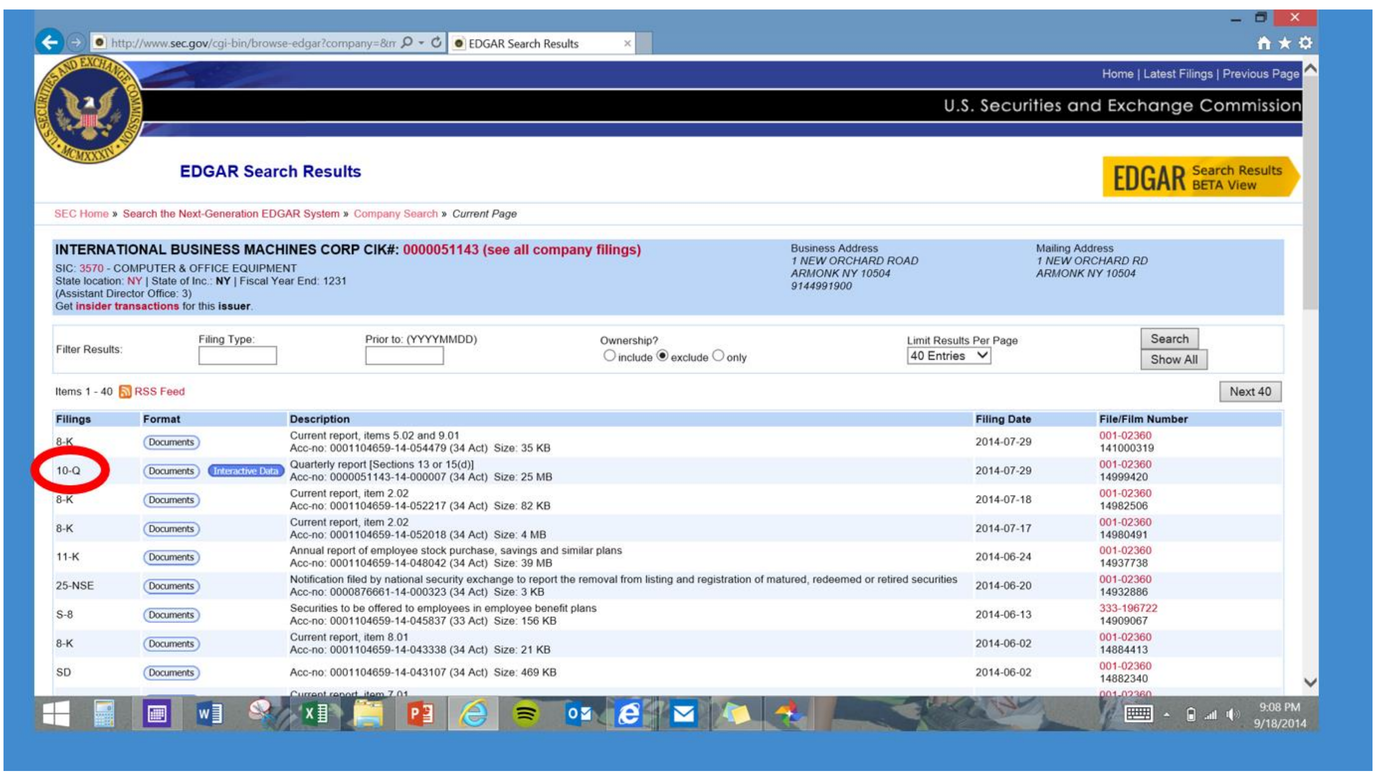
We already know that the best accounting resource on the web is www.sec.gov .Use this resource a lot to get detailed financial information on every publically traded company. We will do this in great detail next chapter.



Select search in the top right hand corner of www.sec.gov .



Then enter your ticker, for example, IBM.



This is a wealth of resources for all relevant quantitative and qualitative stuff. We will talk much more about this next chapter.

Questions Based on Chapter 10:

1: When doing due diligence on a company, it's important to:

a) Do your own research and form your own opinion.
b) Listen to the experts because their opinion becomes your opinion.

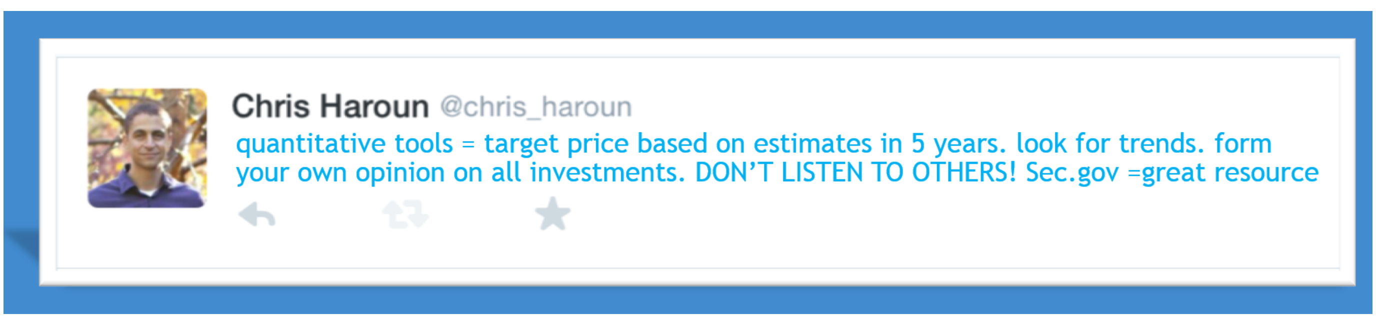
2: Value investors only buy expensive stocks.

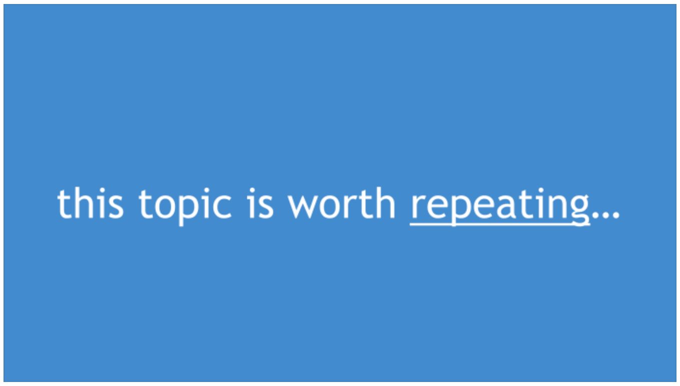
True or False

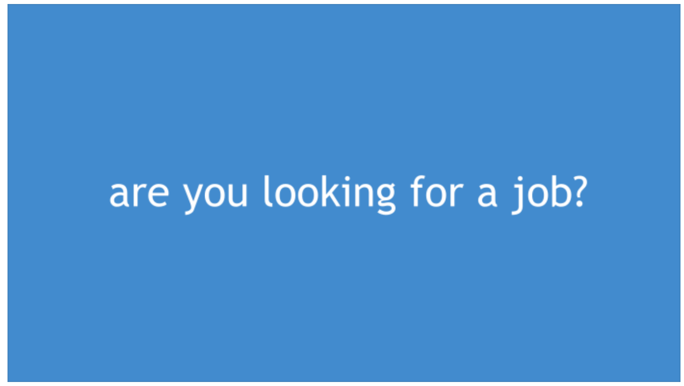
3: The best investors value companies based on estimates in 5+ years.

True or False

CHAPTER SUMMARY

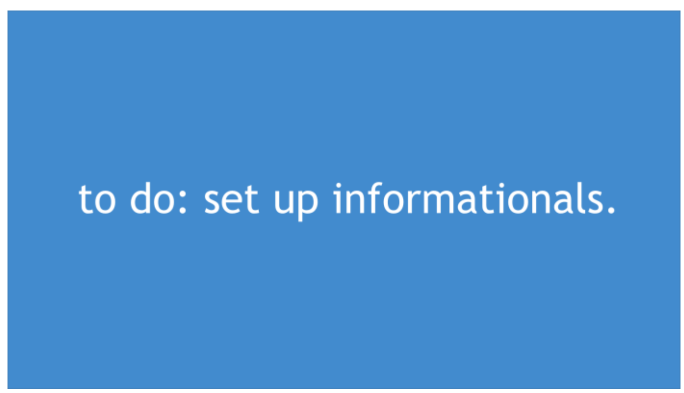




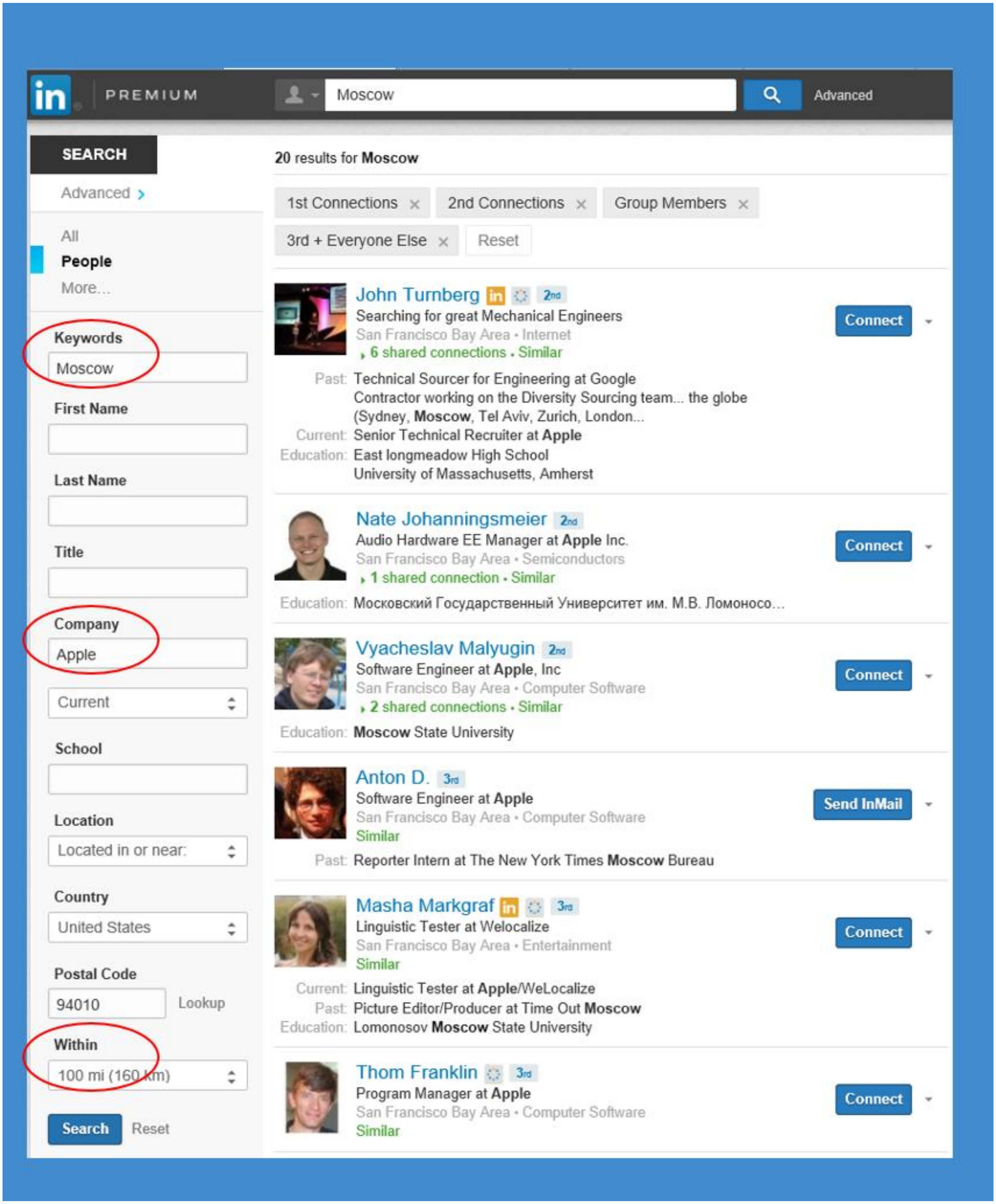


Don’t send in your resume anymore. Huh? It’s too competitive and you have similar chances of winning the lottery. You need to set up many informational meetings using LinkedIn.

Every year I tell my students during the first day of class that I could guarantee them a job if they do 20 informational meetings with strangers at firms that they want to work for during the school semester. I ask them all who would do this if I would guarantee that you got the job of your dreams? Of course every single hand goes up! Then during the last class, I ask how many students actually did this? Usually only 1 or 2 hands go up and these students always get a great job! They are never the top students in the class either. Remember the Steve Jobs video. If you want something in life you need to ask for it! Ask and you shall receive.



how?	find something in common.
just ask.	people love helping students.


in PREMIUM
Moscow
Advanced
SEARCH
Advanced ›
All
People
More...
Keywords
Moscow
First Name
Last Name
Title
Company
Apple
Current
School
Location
Located in or near:
Country
United States
Postal Code
94010
Lookup
Within
100 mi (160 km)
Search
Reset
20 results for Moscow
1st Connections ×
2nd Connections ×
Group Members ×
3rd + Everyone Else ×
Reset
John Turnberg 2nd
Searching for great Mechanical Engineers
San Francisco Bay Area • Internet
6 shared connections • Similar
Past: Technical Sourcer for Engineering at Google
Contractor working on the Diversity Sourcing team... the globe
(Sydney, Moscow, Tel Aviv, Zurich, London...
Current: Senior Technical Recruiter at Apple
Education: East longmeadow High School
University of Massachusetts, Amherst
Connect
Nate Johanningsmeier 2nd
Audio Hardware EE Manager at Apple Inc.
San Francisco Bay Area • Semiconductors
1 shared connection • Similar
Education: Московский Государственный Университет им. М.В. Ломоносо...
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Vyacheslav Malyugin 2nd
Software Engineer at Apple, Inc
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2 shared connections • Similar
Education: Moscow State University
Connect
Anton D. 3rd
Software Engineer at Apple
San Francisco Bay Area • Computer Software
Similar
Past: Reporter Intern at The New York Times Moscow Bureau
Send InMail
Masha Markgraf 3rd
Linguistic Tester at Welocalize
San Francisco Bay Area • Entertainment
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Current: Linguistic Tester at Apple/WeLocalize
Past: Picture Editor/Producer at Time Out Moscow
Education: Lomonosov Moscow State University
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Similar
Connect

www.tiny.cc/chris79

Confidence is not an American thing….but it is fascinating how American students (whether or not they were born in the US) are the most confident and with confidence comes the ability to sell yourself, raise money, reinvent an industry….etc. Please read the section on confidence in the last chapter of this book for more details on this crucial concept.