
VALUE WIZARD INSIGHTER

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1. FUTURE MODEL ENHANCEMENTS

The most frequently mentioned enhancement of the valuation models is automatic retrieval of the necessary company financial data as is currently done for the market price. The next generation of these models is planned to do this task for most if not all of the input data for US-listed stocks on the New York Stock Exchange, American Stock Exchange, and NASDAQ National Market System. Any other common stock can be evaluated by over-writing the default example data in the input data forms. Automatic data retrieval will require access to one or more standardized company financial databases, and this will cost money. We are investigating different databases to identify one or more that are acceptable quality and affordably priced. Automatic data retrieval also will require additional programming to build new models to handle the non-standardized situations of different companies. This first generation of models is designed for a smooth programming migration from self-retrieval of additional input data, self-precalculation of preferred input data where necessary, and self-posting of input data to automatic retrieval, precalculation and posting. To pay for standardized financial database subscriptions, we are exploring ways to generate revenue at the Value Wizard website.

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2. BEHIND THE MODELS

There is no one right way to estimate intrinsic value or the cash that can be taken out of an investment. The Value Wizard intrinsic value calculator provides methods of evaluation rather than advance findings for particular common stocks. It produces more than a quick take, but less than a definitive study. It can be thought of as an antidote against speculative urges and irrational exuberance. Valuation results are based on input data assumptions that depend on the judgment of each investor.

Each data item in the Value Wizard model input forms is linked to pop-up help windows that contain explanatory information. Some of these help windows contain links to more-detailed information. This includes definitions of proprietary input data items and examples of precalculation of these data items before posting them into the input data forms of the models. Some additional information is provided in the example stock analyses.

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3. EVALUATION OF YAHOO! COMMON STOCK

The estimated value of YHOO common stock for each of the relevant Value Wizard models using the input data for free cash flow to equity (FCFE) is as follows:

1-Stage Value : single-point estimate	= $95
1-Stage Value Goal Seek : two goals	= (see below)
1-Stage Range (Normal) : mean estimate	= $127
1-Stage Range (Lognormal) : mean estimate	= $138

2-Stage Value : single-point estimate	= $105
2-Stage Range (Normal) : mean estimate	= $131
2-Stage Range (Lognormal) : mean estimate	= $138

The S-Curve model is not applicable because the growth rate exceeds the discount rate. The average discount rate for the time horizon of the investment is determined independently of growth rates. For those who expect both a sea change in revenue due to the impact of the Internet on commercial productivity (high sales volumes) and a high capture of value-added for the stockholders (high profit margins) rather than for the consumers (low competitive prices), the example assumptions may seem reasonable. The deterministic value per share in this high volume-high margin case is $95 to $105, and the stochastic value per share is $127 to $138.These rough estimates vary widely from a low of $95 to a high of $138. From April 1999, when the 1998 fiscal year financial reports on Form 10-K became available, to September 1999, the market price of Yahoo common stock has fluctuated between $115 and $185. The market price is currently about $170, and over the past 52 weeks it has fluctuated between $42 and $244. An intermediate market price of $150 is used in the following discussion.

Some companies have more-predictable cash returns than other companies. Where the cash-return predictability is low as with Yahoo, the goal-seeking model can be used to gauge the reasonableness of the market price. The 1-Stage Value model calculates a single-point intrinsic value of $95 based on the input data assumptions. What changes in these assumptions would it take to justify an asking price or buying price of $150 equal to an intrinsic value of $150 with no safety margin? What changes in assumptions would it take to justify a buying price of $150 equal to an intrinsic value of $200 with a safety margin of 25%?

The 1-Stage Value Goal Seek model estimates the following values of key input variables for two goals, summarized in the data columns below: first, the case of a calculated intrinsic value per share of $95; second, a goal of buying price of $150; and third, a goal of the same buying price plus a desired safety margin of $200.

Market Price	$95	$150	$200
Initial FCFE ($mil.)	100	157	210
Growth Rate %	20	23	25
Years Until Sale	20	24	26
Discount Rate %	6.0	3.3	1.7
Selling Price/FCFE Ratio	10	20	30

For instance, if the ending or selling Price-to-FCFE ratio were changed from 10 to 20, all other input data items remaining the same, the resulting intrinsic value per share would be $150 instead of $95; if it were changed from 10 to 30, all other input data items remaining the same, the value per share would be $200 instead of $95.

Yahoo is in the Internet information provider industry. The company has no long-term debt. The authorized preferred stock has no shares issued and outstanding. The common stock has paid no cash dividends. The appraisal of the net worth is problematic because the financial reports do not include intangibles such as (1) human capital, or more particularly, intellectual capital, of company employees, (2) franchise due to brand-name recognition, and (3) leadership market position of the company in its industry, all of which constitute the most important assets of Yahoo company.

The end-of-fiscal-year 31 December 1998 Balance Sheet
(Source: FreeEDGAR Form 10-K dated 2/26/99)
restated below on a per share basis
using 224,100,000 fully-diluted shares of common stock:

Cash and equivalent	$0.56
Short-term marketable securities	1.37
Accounts receivable	0.11
Prepaid expenses	0.04
Total Current	$2.08
Long-term marketable securities	0.40
Property and equipment	0.07
Other assets	0.22
Total Assets	$2.78
Accounts payable	$0.03
Accrued expenses	0.15
Deferred revenues	0.17
Due to related parties	0.01
Total Liabilities	$0.36
Deferred tax	0.02
Commitments (Leases)	(note)
Minority Interest	0.01
Stockholders' equity	
Additional paid-in capital	2.33
Accumulated deficit	(0.04)
Accumulated other income	0.10
Total Stockholders' Equity	$2.39
Total Liabilities & Equity	$2.78

Note: $0.07 for aggregate total minimum office-space rents.

Even with generous assumptions regarding the value of YHOO intangibles, it is not easy to for an intrinsic-value investor to get from a reported book value of $2.39 per share (of which about 75% is investments in marketable securities) to a market price of $150. Likewise, with generous assumptions regarding an initial FCFE of $0.44 ($98.367/224.1) growing fast enough for enough number of years, it is not easy for an intrinsic-value investor to get from an estimated DCF value between $95 and $138 per share with no safety margin to a market price of $150.

How can the current market price of Yahoo be explained?

There were 803 full-time Yahoo employees at fiscal year-end. A market price of $150 before adjusting for a safety margin equals about $0.19 per share per employee or $42 million per employee. That is a high price. The incentive stock options that would result in an increase of 40.04 million shares from 184.086 million basic to 224.100 million diluted shares are about 18% of the diluted shares. This translates into about $0.033 per share per employee or about $7.5 million per employee. This is a high price for intellectual capital.

The Yahoo Form 10-K dated 2/26/99 has a section entitled RISK FACTORS on pages 12 through 27 that contains 22 major factors. A possible explanation for the current market price may be offered by the twelfth-listed risk factor on pages 18 and 19, "MANAGEMENT OF POTENTIAL GROWTH AND INTEGRATION OF ACQUISITIONS" which is discussed briefly there.

The seemingly expensively-priced Yahoo common stock simultaneously is a relatively inexpensive currency for takeovers and acquisitions of other companies. Such external growth may be necessary to fulfill the expectations implicit in the current market price of the stock as indicated by the goal-seek analysis. Thus, the buzz at places such as online chat room keeps the short-term traders busy assessing the latest speculative rumors about inside company information in the midst of a bullish stock market and an Internet-industry IPO mania.

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