

Netscape's Initial Public Offering



Question

How and with what justification the IPO prices of Netscape doubled to \$28 from \$14?



Market

The number of Internet users

- Rapidly increase

IPO Market

- Quite good



Assumption 1. Growth Rate

Company Overview

- Marc Andressen set up Netscape 2 years after he made Mosaic
- Market share : 70% of web browser in 2005
- Revenue source : Internet Ads, software selling, service

Threat

- by awakening giant companies (Windows Internet Explorer) it may lose its market share

Core Competence

- excellent products, better service, Entrepreneurship



Assumption 2. Others

Cost of goods sold : 10.40%

R&D : 36.80%

Other operating expenses :

- 80.90% Declining 10% each year until 2001

- 20.90% of revenue after 2001 (close to MS 34%)

Capital expenditures

- 45.80% declining 7% each year until 2001

- 10.80% after 2001 (close to MS)

Depreciation 5.50%

Change in net working capital 5%

Tax 34%

Discount rate : 12.00%

Growth rate (1995-2005) : 55.00%

Terminal value perpetual growth rate : 4.00%

Valuation Results

Present value of cash flows (m.) (1996-2005) \$172,408

Present value of terminal value (m.) \$877,471

Total present value -Value of Netscape (m.) \$1,049,879

Current shares outstanding (m.) 32,764

New shares (m.) 5,000

Total shares (m.) 37,764

Value per share28