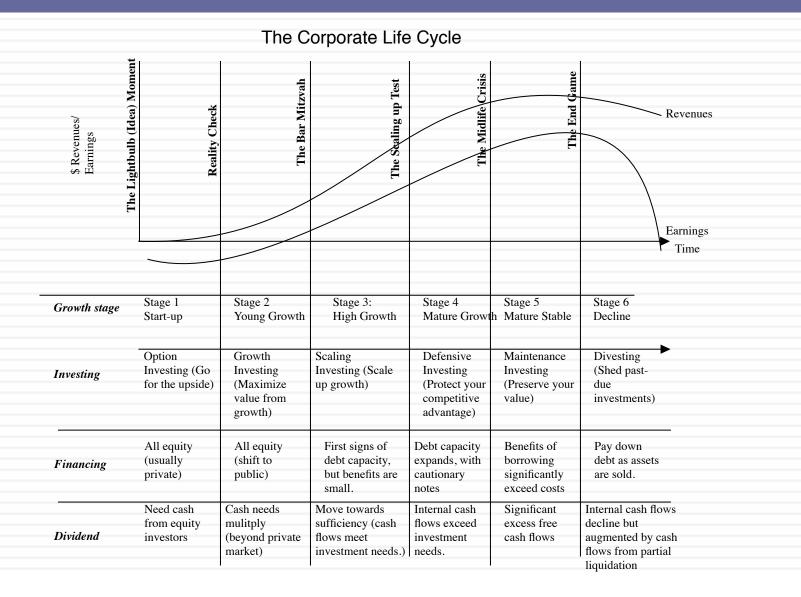
THE CORPORATE LIFE CYCLE: AGING GRACEFULLY IS HARD TO DO!

Aswath Damodaran

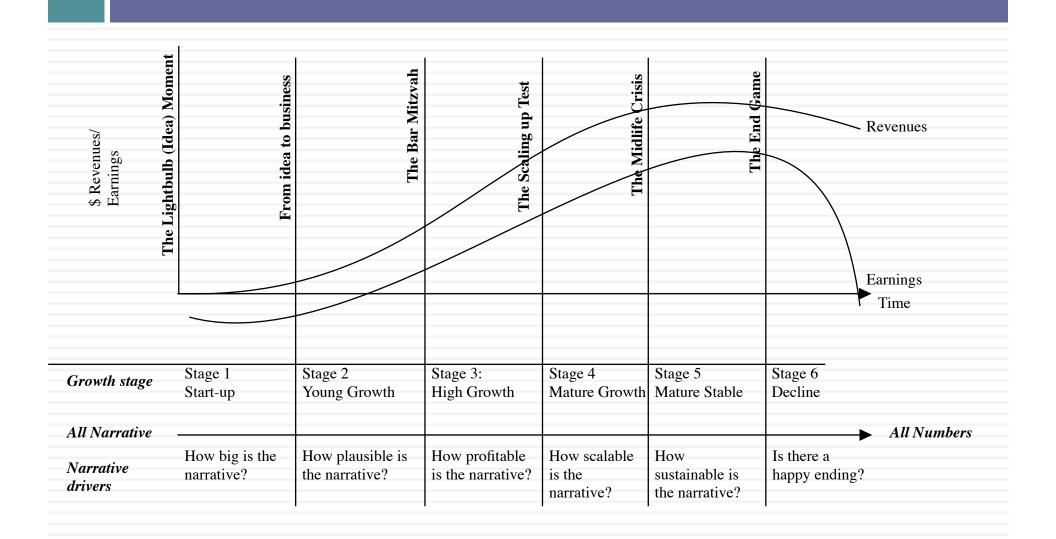
The Life Cycle

\$ Revenues/ Earnings The Lightbulb (Idea) Moment	From idea to business	The Bar Mitzvah	The Scaling up Test	The Midlife Crisis	The End Game	Revenues Earnings Time
Growth stage	Stage 1 Start-up	Stage 2 Young Growth	Stage 3: High Growth	Stage 4 Mature Growth	Stage 5 Mature Stable	Stage 6 Decline
Description	Have an idea for a business that meets an unmet need in the market.	Create a business model that converts ideas into potential revenues & earnings	Build the business, converting potential into revenues.	Grow your business, shifting from losses to profits	Defend your business from new competitors & find new markets	Scale down your business as market shrinks.

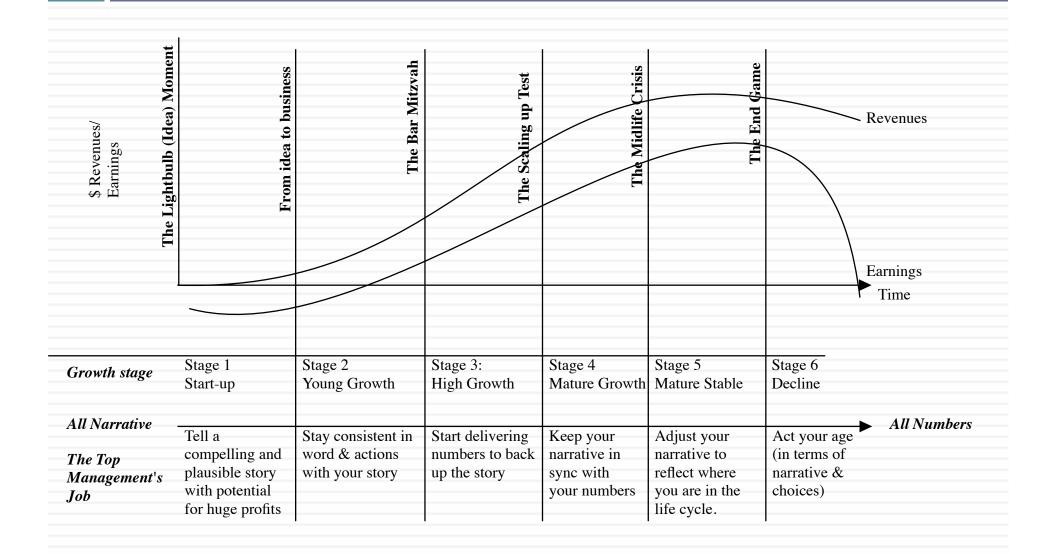
Corporate Finance 101



Narrative versus Numbers



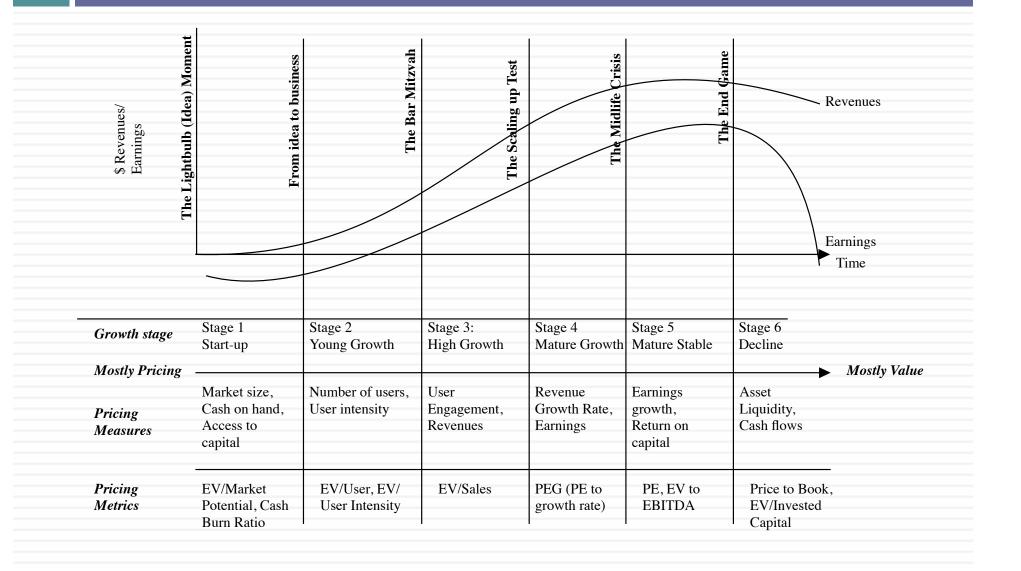
And your job as founder/manager



The Evolution of Uncertainty

<pre>\$ Revenues/ Earnings The Lightbulb (Idea) Moment</pre>	a to bu	The Bar Mitzvah	The Scaling up Test	The Midlife Crisis	The End Game		Revenues Earnings Time
Growth stage	Stage 1 Start-up	Stage 2 Young Growth	Stage 3: High Growth	Stage 4 Mature Growth	Stage 5 Mature Stable	Stage 6 Decline	
Uncertainty about	Does the idea have potential?	Is there a business model for the idea to be commercialized?	Will the business model generate profits?	Can the business be scaled up?	Can the business be defended?	Will management face reality?	
Type & Magnitude	High & company specific					Low & sector or macro driven	

The Pricing Game



	Potential	Idea	Business Model	Harvesting	Moving on
Description	See a big market that can be exploited	Product or service to exploit the market	Business model to generate profits on product or service	Ongoing business	Market decline
Drivers of value	How big is the market? What is the product/servic e? Are producers happy? Are customers happy? What are the inefficiencies in the market?	How innovative is the product? How easy is it to imitate? How much do customers like it? How do existing producers react to it?	How profitable is it? How scalable is the model?	How sustainable are the profits? What are the inefficienci es embedded in it? What are the threats from new entrants?	How quickly will
Certainty spectrum	Possible	Plausible	Probable	Probable	Probable
Valuation technique	Option	Decision trees/Probabilis tic analysis	Cash flow based valuation	Cash flow based valuation	Cash flow based valuation
Uncertainty	Increases value	Trade off	Decreases value	Decreases value	
Determinan ts of success in valuation	How well you gauge market potential & pick idea generator	How objectively you can assess product quality and competitive standing	How well you can forecast future profitabili ty & scalability	you can value an established business	How well you adapt to your changed circumstanc es