Case Study

ConnectedHome, Inc. (A)[1]

The CEO of ConnectedHome, Inc., recently received an invitation to make a presentation to Black Oak Partners, a venture capital group in Palo Alto that has successfully raised $125 million in capital commitments for Black Oak Fund I, a new venture capital fund it is organizing. The principals of Black Oak Partners are former entrepreneurs of successful Internet-related technology ventures, who now want to try their hand at forming and managing a venture capital fund. ConnectedHome is a direct-mail and Internet marketer of home improvement and home electronics products.

During the presentation, ConnectedHome's CEO had an opportunity to discuss the company's historical development and the perceived opportunity the venture was designed to address. ConnectedHome originated as a mail order business specializing in electronic products with applications to household management. For example, the company offers sophisticated home security systems that can be activated and monitored by phone. It also offers systems that provide remote ability to adjust lighting and heating. The list of products offered by the company has expanded gradually over time and includes several items that have been developed specifically for it. ConnectedHome has been in operation for several years and has a history of revenue generation and modest profitability from its mail order business. More recently, the management team has recognized that there is a significant opportunity to develop an Internet presence for the business. Operations during the most recent year reflect a significant revenue increase, but the increase is more than offset by expenses associated with developing a web site.

During the meeting, the company CEO was able to discuss management's projections for future sales and profitability, the amount of funding they hoped to raise, and their beliefs about the value of the opportunity. The Black Oak representatives at the meeting had already received and reviewed the business plan, which included the company's revenue and earning projections. Exhibit 1 contains a summary of the projections that were included in the business plan.[2]

Based on the projections, ConnectedHome was seeking $7 million in financing, enough, they believed, to get them through the next fiscal year. Based on the projections, company management was proposing to offer Black Oak a 16.7 percent share of the company, implying a post-money valuation of $42 million.

The ensuing discussion was demoralizing. It seemed that the investors, while they liked some aspects of the concept and agreed about the amount of capital that currently was needed, were not particularly impressed with the company's projections and raised serious questions about the terms for investing that the CEO had proposed. More specifically,

[1] Names and other information are disguised to protect confidentiality.
[2] Exhibits 1, 5, 6, and 7 are available as downloadable Excel files.

Black Oak challenged the company's mixed strategy, its growth projections, and its implicit valuation. In addition, they pointed out that even if the company achieved its objectives, it would need more than $7 million of additional funding in the near future.

ConnectedHome had been looking for serious venture capital backing for several months, with little success. The invitation to visit Black Oak had raised everyone's hopes, but the CEO reported back to the executive team that the meeting had not gone well. It appeared, based on the meeting that the venture would need to look elsewhere for financing.

Just as the team was beginning to gear up a new effort to search for financing, ConnectedHome received a letter from Black Oak Partners (Exhibit 2). The letter suggests that Black Oak is enthusiastic about investing in ConnectedHome. However, on more careful reading, and based on the enclosures with the letter, it is not at all clear that Black Oak and the ConnectedHome executive team are in agreement about the promise of the venture or about the valuation.

Strategic Vision

At the core of the disagreement is a difference of opinion about business strategy. The ConnectedHome group has taken a cautious stance of simultaneously pursuing both mail order and Internet-based business. The company's origin is mail order and the team members believe their established record in mail order can both serve as a launch platform for the e-commerce business, and protect against the uncertainties of the future of the Internet. Black Oak Partners on the other hand, is pushing for abandonment of the catalogue business and for an aggressive move to build the Internet business. The venture capitalist proposes to drop the mail order business and to change the company name and image to match its new Internet focus.

The venture capital investors also are seeking to expand the breadth of the company's product offerings. They argue that a broader menu will attract more web traffic, reduce dependence on existing customers, and discourage competitive entry. The ConnectedHome team, in contrast, believes they should stick with what they know best. The products they sell are often those they have developed themselves. Expansion of the product line would dilute this aspect of the business, and there is some concern that the company would have trouble managing the added complexity. They feel safe with the existing lines and are not eager to take on other products that might make the entire venture unprofitable. It is not that they are not eager to grow and expand the business, they just had planned to do so in a more controlled fashion. Nonetheless, they believe their projections reflect their ambition to grow rapidly.

Related to the proposal, Black Oak Partners raised other concerns about the infrastructure that would be needed to support the Internet business as they envision it, the company's strategy with respect to such factors as product positioning, pricing, quality, and customer support. They also would like to devote more time to thinking about whom the key competitors might be and what it would take to make the venture a success.

The executive team has significant concerns about the new strategic orientation that is being advanced by Black Oak. They wonder about the possible reasons for the different views. Might they be wrong and Black Oak right? Are they overly concerned about the risks? How might they be able to salvage a deal that would satisfy both sides?

Due Diligence

In the interest of closing the funding as quickly as possible, Black Oak Partners had prepared a due diligence request list and enclosed it with their offer (Exhibit 3). The partners knew that if ConnectedHome was like most ventures, completing the due diligence review was one of the more likely impediments to closing on time.

The management team at ConnectedHome knew that the kind of financing they were seeking would necessarily be associated with some level of due diligence review. Thus, they were not surprised to receive the request list. Nonetheless, the detailed deliberations that are reflected in the list have started some team members to question whether the review will become a problem. On one hand, Black Oak is requesting a great deal of confidential information and some members of the group are concerned about what the venture capitalist might do with the information if the deal falls through. On the other, there are areas where team members feel somewhat vulnerable, particularly with regard to their ability to support their projections. The group wonders how forthright and candid they should be in preparing a response to the request. They also wonder about the best way to proceed.

Terms for Investing

While there is much work to be done before the parties can settle on a final valuation, Black Oak decided to prepare a draft term sheet, setting out the conditions under which it is interested in investing (Exhibit 4). Although the group has been seeking an investment of about $7 million, the term sheet is explicit in stating that the investment will not exceed that amount. Some members of the team question what would happen if the venture were to run out of cash sooner than they expect. Other aspects of the proposed agreement make this even more problematic. The anti-dilution privilege and the restrictions over which Black Oak would have complete control are the most disconcerting. Closely related, constraints in the term sheet, on how the funds could be used, appear to virtually force ConnectedHome to adopt the venture capitalist's strategic vision that is focused on the Internet, and essentially abandon the mail order business. Other concerns include the favorable position of the investor with regard to payment of dividends, the suggestion that some of the managers would have to agree to termination rights that include buy-out provisions, and the right of the investor to demand registration. The group wonders how much opportunity exists to negotiate the various provisions of the agreement and what sorts of counter-proposals are likely to be acceptable to the investor.

Valuation

Black Oak supported their position and recommendations with a financial analysis of the venture. Initially, they accepted the management team's projections from the business plan and the terms for investing that the team had proposed (Exhibit 5). They applied a discounted cash flow valuation methodology to the projections. Because the venture has yet to establish a significant amount of Internet business, they applied a discount rate of 50 percent to the cash flow projections. They used the rate to discount the explicit cash flows during the first five years of projected operation. To assess continuing value after the five years, they based their valuation on a multiple of revenues. Based on a study of mail order businesses that were similar to ConnectedHome, they determined that a revenue multiple of 1.25 is appropriate for a pure mail-order business. Based on their own judgment and the experience of other Internet businesses, they estimated that the revenue multiple for a pure Internet business would be 6.0 times revenue. The Black Oak submission to ConnectedHome included no formal support for the 6.0 multiple. Using 1.25 and 6.0 as endpoints, Black Oak included in its analysis a valuation of a mixed strategy and applied a multiple of 3.5 to projected revenue, based on the assumption that the two activities contribute equally to value. In each case, it used the discount rate of 50 percent to convert the continuing value estimates to present value.

After computing the value of total equity, Black Oak determined its share of the value. To the extent that additional financing was projected to be required in a subsequent year, Black Oak assumed that the financing would be raised at a cost of \$2.00 per share and factored this into determination of its share of ownership. Finally, recognizing that it did not expect to actually harvest the investment until three years hence, the venture capitalist computed a rate of return between the investment amount and the value of the investment.

Using the rates of return shown at the bottom of Exhibit 5, Black Oak suggested to the ConnectedHome group that the opportunity could not meet its return expectations. In this case, the venture capitalist focused on the mixed strategy valuation and the rate of return of 11 percent that is shown in the exhibit.

Continuing with the projections provided by management, Black Oak prepared a second valuation. In this case, instead of \$1 per share, they assumed that they would invest at a value of \$.60 per share, which would give them 25 percent of the shares outstanding after the investment (Exhibit 6). Pointing again to the mixed-strategy projections, they noted that the 28 percent rate of return was one they might find acceptable. However, they indicated that this did not appear to be the best arrangement for ConnectedHome. To make this point, they emphasized that the founders' share of enterprise value in Exhibit 6 is \$44 million under the mixed strategy.

If ConnectedHome would concentrate on the Internet, the venture capitalist argued that capital expenditures and expenditures for working capital could be reduced, profitability could be achieved more quickly and with a lower level of total sales (from a broader product line), and the venture would be more attractive to the capital market as an Internet company at the time of an IPO. These changes would enable the IPO to occur a year earlier. The changes, they claimed, could also eliminate the need for an additional round of private equity investment. The venture capitalist summarized its revised assumptions and their implications in Exhibit 7. They noted that the rate of return of 38 percent was in their comfort zone. For the ConnectedHome founders, they pointed to the $66 million value estimate, a value 50 percent higher than that shown in Exhibit 6.

To the ConnectedHome management team, the Black Oak valuation analysis was the most disconcerting aspect of the proposal. It appeared to one member of the group that Black Oak was attempting to double-up on the discount used in the valuation. Why, he argued, would the venture capitalist discount the final revenue projections by 50 percent per year, and then still compute an IRR from the time of investment to the time of harvest? Another member thought there could be some rationality to the adjustments. She suggested that possibly the first discount could be a way to address the uncertainty of the revenue projections and the fact that the business plan projections effectively assumed that the venture would be a success. If so, then the IRR calculation could be a way to reflect the investor's opportunity cost.

After an extensive discussion, the team was unable to reach a consensus about the investor's valuation model. Nonetheless, it raised an important question for them. If the Internet strategy could produce a higher multiple than the mixed strategy, and could get them to an IPO more quickly, maybe they should consider it seriously. However, they were not comfortable relying on the valuation numbers cited by Black Oak.

In preparation for their meeting with Black Oak, the team decided that they needed to do their own analysis of value. As bases for that analysis, they acknowledged that their projections had a fairly small chance of being realized, somewhere around 10 percent. There was a good chance that the growth rates of revenues would be only half as rapid as projected, due primarily to weaker growth of the Internet business. A reasonable worst case would be failure of the Internet business and growth of the remaining business at a rate of about 20 percent per year. They assigned a 50 percent probability to this outcome. With regard to the Black Oak projections for a pure Internet venture, they assigned a 30 percent weight to the Black Oak projections and a 70 percent weight to outright failure of the venture.

The team felt they could reasonably defend these projections and wondered how they would influence the Black Oak equity requirements in exchange for investing. Because of the different methodology, the team knew that a different discount rate would be needed to evaluate the Black Oak investment. They assembled some data on market interest rates to use in the analysis (Exhibit 8).

Even with a properly done valuation of common equity to Black Oak, some nagging questions remained. Among them, how should the advantageous position of Black Oak as a preferred stock investor be factored into the valuation? Equally important, how should they factor the differences in risk between the alternative strategies into their own decision of the best way to proceed?

Exhibit 1

ConnectedHome, Inc.

Revenue, Income, and Cash Flow Projection

	Actual		Projected				
Fiscal Year (12/31)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Sales Revenue*	$7,540	$12,640	$24,016	$48,032	$84,056	$126,084	$163,909
Percent change		*67.6%*	*90.0%*	*100.0%*	*75.0%*	*50.0%*	*30.0%*
Operating Income**	270	-640	($4,203)	($4,803)	($4,203)	$2,774	$12,621
Percent of revenue	3.6%	-5.1%	-17.5%	-10.0%	-5.0%	2.2%	7.7%
Net Income	270	-640	($4,203)	($4,803)	($4,203)	$2,774	$12,621
Percent of revenue	3.6%	-5.1%	-17.5%	-10.0%	-5.0%	2.2%	7.7%
Change in Working Capital***			$1,955	$961	$1,441	$1,681	$1,513
Capital Expenditures****			$741	$720	$1,081	$1,261	$1,135
Free Cash Flow			($6,899)	($6,484)	($6,724)	($168)	$9,973

*Mail order and Internet revenues are projected to be similar.
**Variable costs are projected to be 90 percent of sales revenue for both mail order and Internet revenues.
***Changes in working capital are projected to be similar for both mail order and Internet business.
****Capital expenditures are predominantly related to the Internet business.

Exhibit 2

Principals
ConnectedHome, Inc.
Newport Beach, CA

My partners and I wish to thank you for affording Black Oak Partners the opportunity to submit this proposal to become an equity investor in ConnectedHome. We believe our experience with a wide range of entrepreneurial ventures and our extensive network in Silicon Valley will enable us to serve as a highly effective partner. Our investment capital is committed and we are eager to consummate a transaction with you on a timely basis.

Following our recent meeting with you, we prepared an outline that can serve as the basis for a discussion of ConnectedHome's strategic potential. We would like to have this discussion with the key members of your staff at your earliest convenience. We also have developed a preliminary term sheet that outlines the terms under which we would be prepared to invest, assuming we can agree on the strategic direction of the venture, and following our due diligence review of your organization.

We also have conducted our own valuation of ConnectedHome. The results of our analysis are reflected in the proposed terms for investing. Note, however, that we have not settled on a final valuation of the company. Unfortunately, however, we believe the correct valuation is somewhat below the valuation you proposed at our meeting. If we are to go forward, we need to agree on a valuation that can provide an adequate return to the investors in our fund. We are enclosing some working papers that will set out our thinking about the opportunity, using a hurdle rate that is typical for investors such as ourselves.

The key factors that account for our differences about value are the company's lack of a history of profitability, risks about future profitability over the next few years, uncertainty about whether the company will be able to achieve its e-commerce positioning, risks associated with the need of the company to expand its product offerings, and uncertainty about the level of investment that will be needed to support the venture during the period of our investment. As you know, the business plan projections are based on the assumption that you will be successful in accomplishing what you have set out to do.

We would be delighted to meet with you soon to discuss all of the issues raised in this letter and the attachments. We would like to be in a position to close the transaction within about two weeks. Please do not hesitate to call if we can amend or augment the information we have provided. We look forward to speaking with you soon and to expeditiously moving the process forward.

Sincerely,
Black Oak Partners

Exhibit 3

Black Oak Partners
Due Diligence Request List
ConnectedHome, Inc.

Management and Organization

Organizational chart
Resumes and references for all key members of the management team
Schedule of management ownership
Base and incentive compensation for current year and previous year
Description of management stock option program
Composition of Board and Board committees

Business History and Strategy

Review of company history since inception
Customer composition and purchase behavior for the most recent two years, including identification of key customers
Identification of key suppliers and supplier relationships
Evidence of web site traffic since initiation of the site
Analysis of competitive advantages, strengths, and weaknesses
Description of current and proposed markets, including international markets
Strategy for growth of business
Identification and description of intellectual property, trademarks, and patents

Financial and Accounting

Detailed financing history
Audited financial statements since inception
Interview with company auditor
Copies of all corporate income tax filings
Detailed statement of assumptions used in developing financial projections in the business plan
Terms of any debt, trade credit, or other vendor financing
Capital expenditures in most recent two years and planned expenditures reflected in the business plan projections
Agings of accounts receivable and payable by year and current
Quarterly sales by product line and by mail order versus Internet
Gross profit margin by product line and by mail order versus Internet
Identification of any contingent liabilities of the company

Legal

By-laws and articles of incorporation
Copies of all material contracts, leases, and agreements
Review of outstanding litigation and potential litigation
Interview with corporate legal counsel

Exhibit 4

Proposed Terms

Principal Amount:	Not to exceed $7,000,000
Price per Share:	To be determined based on valuation
Closing Date:	On or about January 15, 2000
Form of Investment:	Preferred stock of ConnectedHome, Inc.
Dividends:	The preferred stockholders are entitled to dividends of 10 percent per annum in preference to any dividends on common stock. The preferred stock dividend is cumulative.
Liquidation:	In the event of liquidation, holders of the preferred stock shall be entitled to receive, in preference to holders of common stock, all declared and unpaid dividends plus the original purchase price.
Conversion:	At their option, by majority vote, holders of the preferred stock may convert to common on a one-for-one basis. Preferred stock will automatically convert in the event of a public offering of $20 million or more, at a price per share of not less than $3. Conversion price will adjust in the event of a stock split or stock dividend.
Anti-dilution:	In the event of issuance of equity securities at a price less than the conversion price, the preferred stock investor shall receive additional shares such that the investor's weighted average investment price is equal to the lowest subsequent issue price.
Preemptive Right:	The preferred stock investor will have the right to participate in any future issuance of equity, except in conjunction with employee stock incentive programs, to preserve the investor's share of equity as converted.
First Refusal:	In the event of a proposed sale of shares by any existing investor or employee, the preferred investor shall have the first right to purchase the shares on terms offered by any prospective purchaser.

Repurchase:	For any employee who is terminated with cause, the company shall have the right to repurchase the employee's shares at their original cost. For any employee who is terminated without cause or terminates for any reason, the company shall have the right to repurchase the employee's shares at their market value. In the event that a public market has not been established, the company shall have the right to purchase such shares at their fair value as determined by the board of directors.
Restrictions:	So long as the preferred shares are outstanding, approval of the preferred stock investor shall be required for any action that would (1) alter the rights of the preferred stockholder, (2) alter the number of shares of preferred stock, or (3) result in merger, corporate reorganization, or change of control.
Co-sale:	Prior to public offering, if an existing shareholder seeks to sell his stockholdings, the preferred stock investor shall have the right to participate in the sale in the same proportion and on the same terms.
Registration:	Upon the earlier of four years following the investment or six months after a public offering of equity, the investor shall have the right to demand conversion and registration of its shares.
Directors:	The company board shall consist of five directors. The investor will be entitled to appoint one director. The investor-appointed director shall serve on the compensation committee of the board and on the audit committee of the board.
Employment Contracts:	Key members of the management team will be required to enter into employment contracts that include termination rights, and to enter into non-competition agreements.

Uses of Investment Funds:

Initial Investment	
Increase in working capital	$1,500,000
Capital investment	$ 800,000
Operating expenses related to Internet	$4,700,000
Total	**$7,000,000**

Exhibit 5

ConnectedHome, Inc.

Revenue, Income, and Cash Flow Projection (thousands)

	Actual		Projected				
Fiscal Year (12/31)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Sales Revenue	$7,540	$12,640	$24,016	$48,032	$84,056	$126,084	$163,909
Percent change		*67.6%*	*90.0%*	*100.0%*	*75.0%*	*50.0%*	*30.0%*
Operating Income	270	($640)	($4,203)	($4,803)	($4,203)	$2,774	$12,621
Percent of revenue	3.6%	-5.1%	-17.5%	-10.0%	-5.0%	2.2%	7.7%
Net Income	270	($640)	($4,203)	($4,803)	($4,203)	$2,774	$12,621
Percent of revenue	3.6%	-5.1%	-17.5%	-10.0%	-5.0%	2.2%	7.7%
Change in Working Capital			$1,955	$961	$1,441	$1,681	$1,513
Capital Expenditures			$741	$720	$1,081	$1,261	$1,135
Free Cash Flow			($6,899)	($6,484)	($6,724)	($168)	$9,973

Valuation

Existing shares outstanding	35,000,000	
Black Oak investment (000)	$7,000	
Price per share	$1.00	
Shares purchased	7,000,000	16.67%
Additional investment required (000)	$13,500	
Projected price per share	$2.00	
Additional shares issued	6,750,000	
Ending shares outstanding	48,750,000	14.36%
Investment date	01/15/2000	
Anticipated harvest date	12/31/2002	
Holding period (years)	3	

	Catalog	**Mixed**	**Internet**
Revenue Multiple at Exit	1.25	3.50	6.00
Discount Rate	50%	50%	50%
PV of Explicit Cash Flows	($8,194)	($8,194)	($8,194)
PV of Continuing Value	$26,981	$75,547	$129,509
Enterprise Present Value	$18,787	$67,353	$121,315
Debt	$0	$0	$0
Equity Present Value	$18,787	$67,353	$121,315
Black Oak Value	$2,698	$9,671	$17,420
Black Oak IRR	-27%	11%	36%
Founders' Value	$13,488	$48,356	$87,098

Exhibit 6

ConnectedHome, Inc.

Revenue, Income, and Cash Flow Projection (thousands)

	Actual		Projected				
Fiscal Year (12/31)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Sales Revenue	$7,540	$12,640	$24,016	$48,032	$84,056	$126,084	$163,909
Percent change		*67.6%*	*90.0%*	*100.0%*	*75.0%*	*50.0%*	*30.0%*
Operating Income	270	($640)	($4,203)	($4,803)	($4,203)	$2,774	$12,621
Percent of revenue	3.6%	-5.1%	-17.5%	-10.0%	-5.0%	2.2%	7.7%
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Percent of revenue	3.6%	-5.1%	-17.5%	-10.0%	-5.0%	2.2%	7.7%
Change in Working Capital			$1,955	$961	$1,441	$1,681	$1,513
Capital Expenditures			$741	$720	$1,081	$1,261	$1,135
Free Cash Flow			($6,899)	($6,484)	($6,724)	($168)	$9,973

Valuation

Existing shares outstanding	35,000,000				
Black Oak investment (000)	$7,000				
Price per share	$0.60				
Shares purchased	11,666,667	25.00%			
Additional investment required (000)	$13,500				
Projected price per share	$2.00				
Additional shares issued	6,750,000				
Ending shares outstanding	53,416,667	21.84%			
Investment date	01/15/2000				
Anticipated harvest date	12/31/2002				
Holding period (years)	3				

	Catalog	Mixed	Internet
Revenue Multiple at Exit	1.25	3.50	6.00
Discount Rate	50%	50%	50%
PV of Explicit Cash Flows	($8,194)	($8,194)	($8,194)
PV of Continuing Value	$26,981	$75,547	$129,509
Enterprise Present Value	$18,787	$67,353	$121,315
Debt	$0	$0	$0
Equity Present Value	$18,787	$67,353	$121,315
Black Oak Value	$4,103	$14,710	$26,496
Black Oak IRR	-16%	28%	56%
Founders' Value	$12,310	$44,131	$79,489

Exhibit 7

ConnectedHome, Inc.

Revenue, Income, and Cash Flow Projection (thousands)

	Actual		Projected				
Fiscal Year (12/31)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Sales Revenue*	$7,540	$12,640	$21,488	$34,381	$51,571	$74,778	$104,690
Percent change		*67.6%*	*70.0%*	*60.0%*	*50.0%*	*45.0%*	*40.0%*
Operating Income**	270	($640)	($3,223)	($1,031)	$516	$2,991	$8,375
Percent of revenue	3.6%	-5.1%	-15.0%	-3.0%	1.0%	4.0%	8.0%
Net Income	270	($640)	($3,223)	($1,031)	$516	$2,991	$6,281
Percent of revenue	3.6%	-5.1%	-15.0%	-3.0%	1.0%	4.0%	6.0%
Change in Working Capital			$1,065	$387	$516	$696	$897
Capital Expenditures			$577	$258	$344	$464	$598
Free Cash Flow			($4,866)	($1,676)	($344)	$1,831	$4,786

* Higher than half of Exhibit 1 due to switching of customers to Internet

** Assumes variable expenses are 90 percent of revenue. The balance of expenses are fixed.

Valuation

Existing shares outstanding	35,000,000
Black Oak investment (000)	$7,000
Price per share	$1.00
Shares purchased	7,000,000
Additional investment required (000)	$0
Projected price per share	$2.00
Additional shares issued	0
Ending shares outstanding	42,000,000
Investment date	01/15/2000
Anticipated harvest date	12/31/2002
Holding period (years)	2

	Catalog	Mixed	Internet
Revenue Multiple at Exit	1.25	3.50	6.00
Discount Rate	50%	50%	50%
PV of Explicit Cash Flows	($3,099)	($3,099)	($3,099)
PV of Continuing Value	$17,233	$48,252	$82,718
Enterprise Present Value	$14,134	$45,153	$79,619
Debt	$0	$0	$0
Equity Present Value	$14,134	$45,153	$79,619
Black Oak Value	$2,356	$7,526	$13,270
Black Oak IRR	-42%	4%	38%
Founders' Value	$11,778	$37,628	$66,349

Exhibit 8

Capital Market Data		
Current return on Treasury Notes	4.0%	
Current return on Long-term Treasury Bonds	4.2%	
Historical average return on Treasury Notes	3.2%	
Historical average return on Treasury Bonds	3.5%	
Historical average inflation rate	2.8%	
Historical average return on the S&P 500	10.7%	
Projected market risk premium based on dividend growth		6.5%
Mail-order business estimated asset beta	0.8	
E-commerce venture estimated asset beta	1.4	
Estimated correlation of CH mixed-strategy returns to market	0.3	
Estimate correlation of CH Internet strategy returns to market	0.2	
Annual standard deviation of market returns	20.0%	