

## How To Pick Tech Stocks Like A VC

by Evan Hessel and Amina Khan

There's a science to analyzing equities--as well as an art. We asked some of the top venture capitalists in Silicon Valley to share their perspectives on how they analyze publicly traded companies. Here's what they told us:

**Rob S. Chandra, Bessemer Venture Partners**

Chandra likes large-cap tech stocks of market-leading companies in fast-growing sectors, particularly in emerging markets. His top pick is Bharti Airtel, India's biggest cellular network operator.

The company posted a 25% net profit margin in 2008, compared with 6.5% for U.S. telecom giant Verizon, and grew revenue by 45% last year (versus 4% for Verizon). Bharti Airtel has been hit harder in the recent stock market collapse than its U.S. counterparts, Chandra notes, which makes it more appealing to him. He recently increased his position. Another pick: OnMobile, Asia's leading cellphone software maker and a former Bessemer portfolio company.

**Ron Conway, Angel investor**

The king of angel investing, Conway tries to diversify his personal net worth by investing in giant, well-known tech firms like Google, VMware and Baidu. A simple but smart rule: Only buy stock in companies that have the biggest share of the market by a wide margin.

**Todd Chaffee, Institutional Venture Partners**

IVP earmarks a portion of its venture fund for investment in public stocks, so Chaffee's tips stem from professional stock picking. A key factor in IVP's analysis: enterprise to EBITDA multiples. This metric is calculated by dividing the enterprise value of a firm (the sum of its market capitalization and total debt) by its EBITDA (earnings before interest, taxes, depreciation and amortization). The metric serves as a proxy for how much the market values the firm (i.e., the sum of its stock value and debt) relative to its earnings.

Tech stocks with appealingly low enterprise-to-EBITDA multiples include content delivery network Akamai (4.3) and commercial real estate listing Web site Loopnet (4.1 times). "Prior to the crash, any multiple under 10 was appealing," Chaffee says. "Now the threshold is five."

**Deborah Farrington, StarVest Partners**

Farrington's favorite watchword is "recurring revenue," which refers to sales earned from long-term contracts that don't require expensive marketing campaigns to maintain. Sectors where this characteristic is common include enterprise software and software-as-a-service (SaaS). Also, Farrington values strong sales growth ahead of low price-to-earnings multiples.

"What I'm not looking to invest in is a company that might be beaten down. It's probably beaten down for a reason," she says. Among her stock picks: Salesforce.com (customer resource management SaaS) and Athenahealth (SaaS for medical billing).

**David Katsujin Chao, DCM**

Chao looks for companies with a history of skillfully acquiring firms outside their main business to grow revenues. For some mature tech firms, Chao notes, fast sales growth may only come from expanding into new technologies developed by other outfits. "I'm not interested companies with the NIH--not invented here---mentality," Chao says. His picks: Silicon Valley's most voracious acquirer, Cisco Systems, and Google, which in recent years has purchased YouTube (video), Postini (data security) and Image America (aerial photographs).