



R.I.P.

GOOD
TIMES

NOW WHAT?



WALL STREET

HOW DID WE GET HERE?

ERIC UPIN

MULTIPLE PROBLEMS

HOUSING LED RECESSION

OVER LEVERAGED FINANCIALS

FALLING ASSET PRICES

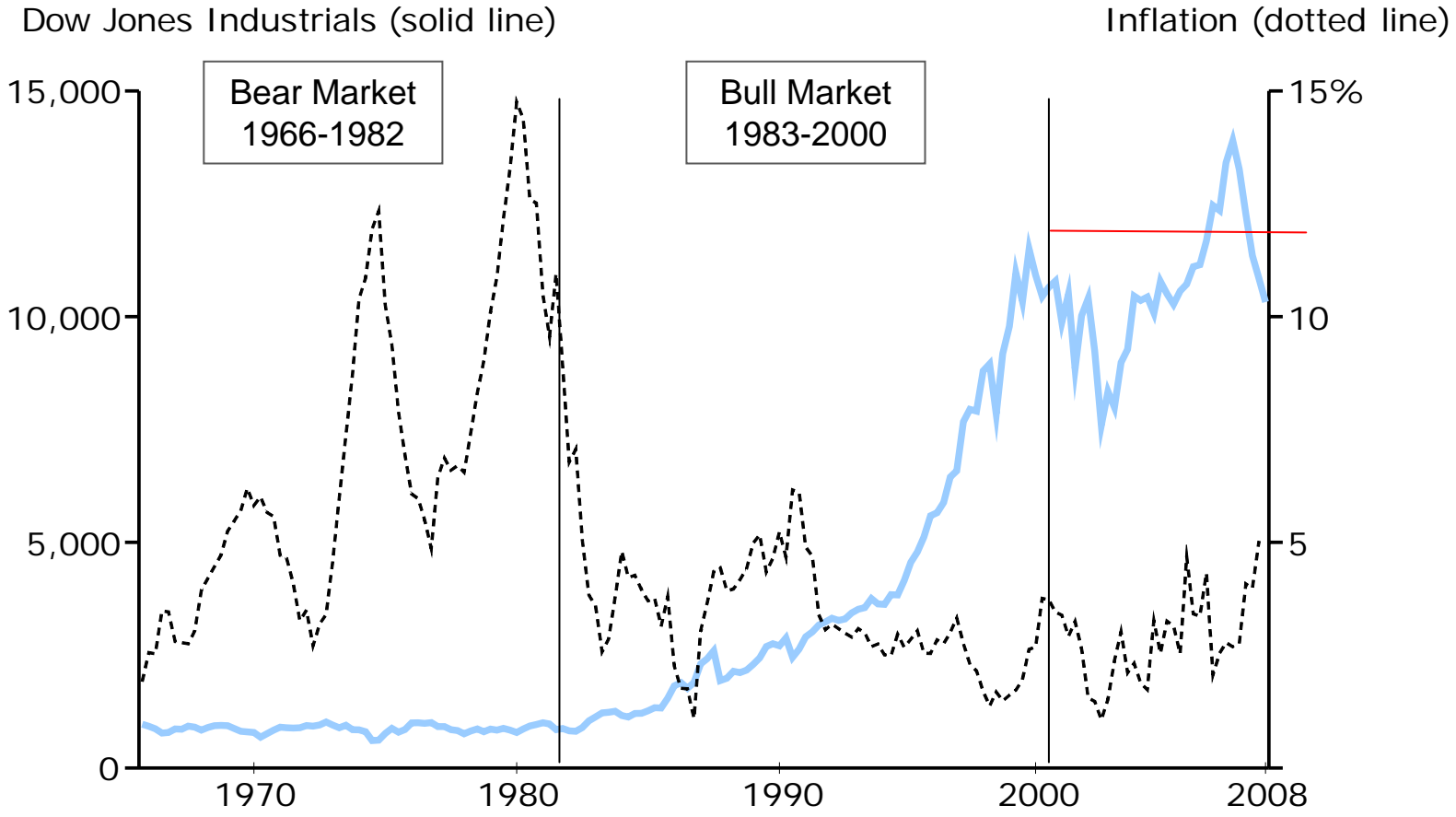
FROZEN CREDIT MARKETS

WEAK HOUSEHOLD BALANCE SHEET

GLOBALY SYNCHRONIZED SLOWING EXACERBATING ALL OF ABOVE

FORCES OF INFLATION VERSUS FORCES OF DEFLATION

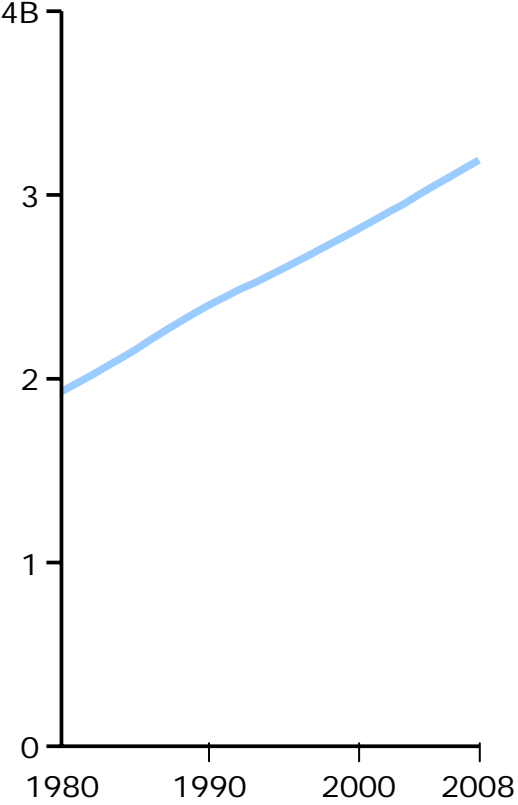
MARKET CYCLES ARE LONG



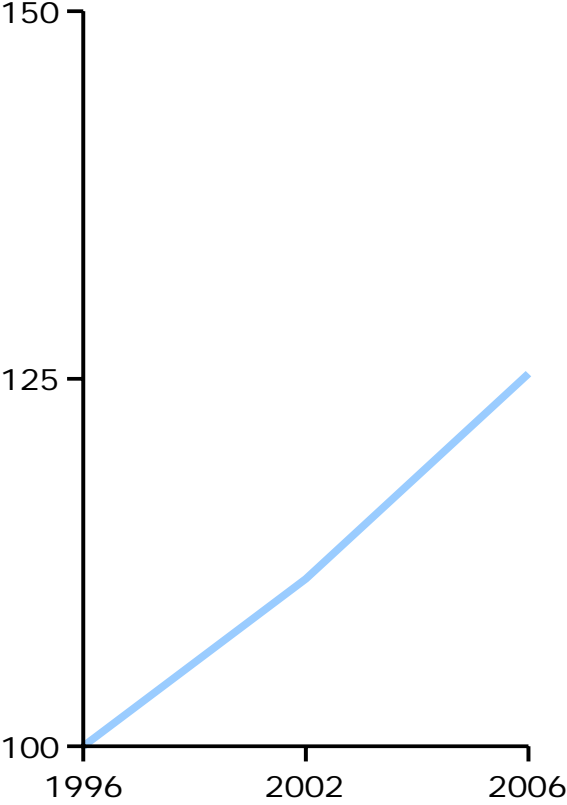
Source: Bureau of Labor Statistics, Dow Jones

DRIVEN BY PRODUCTIVITY AND CENTRAL BANK

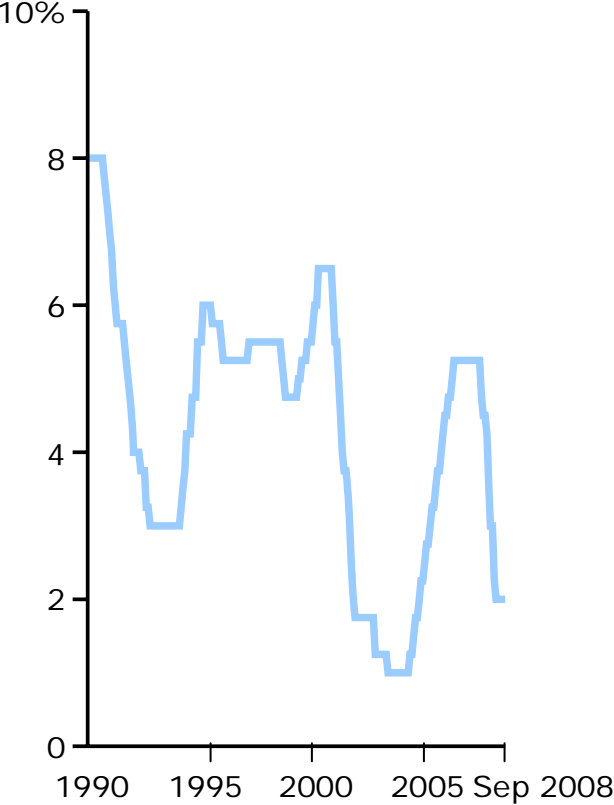
Size of global workforce



Indexed global productivity



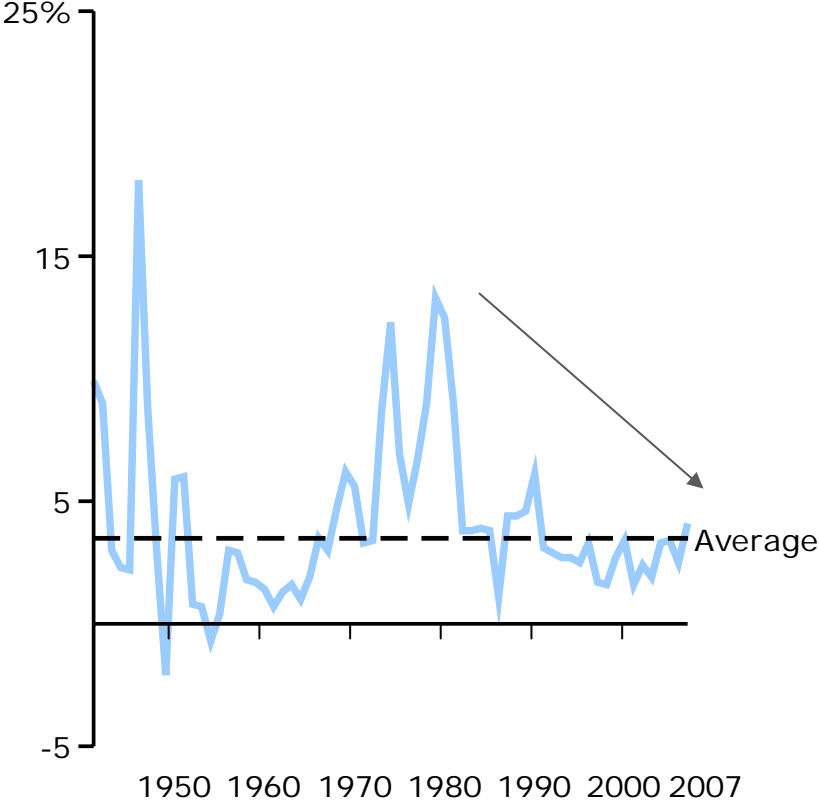
Fed funds rate



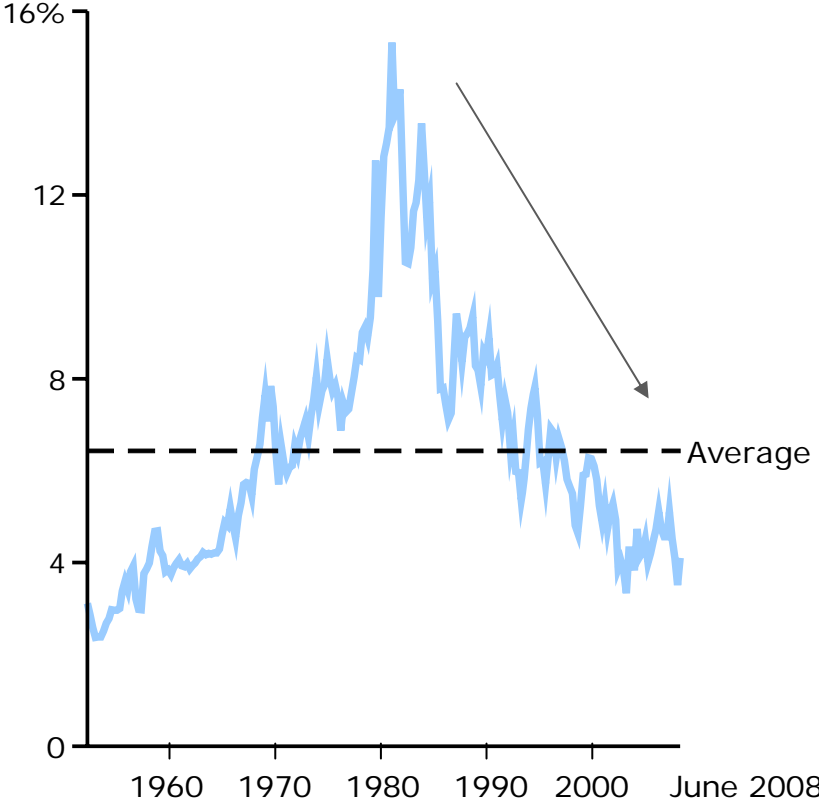
Source: Federal Reserve, International Labour Organization

RESULTING IN FALLING INFLATION AND COST OF DEBT

U.S. inflation (annual year/year CPI change)



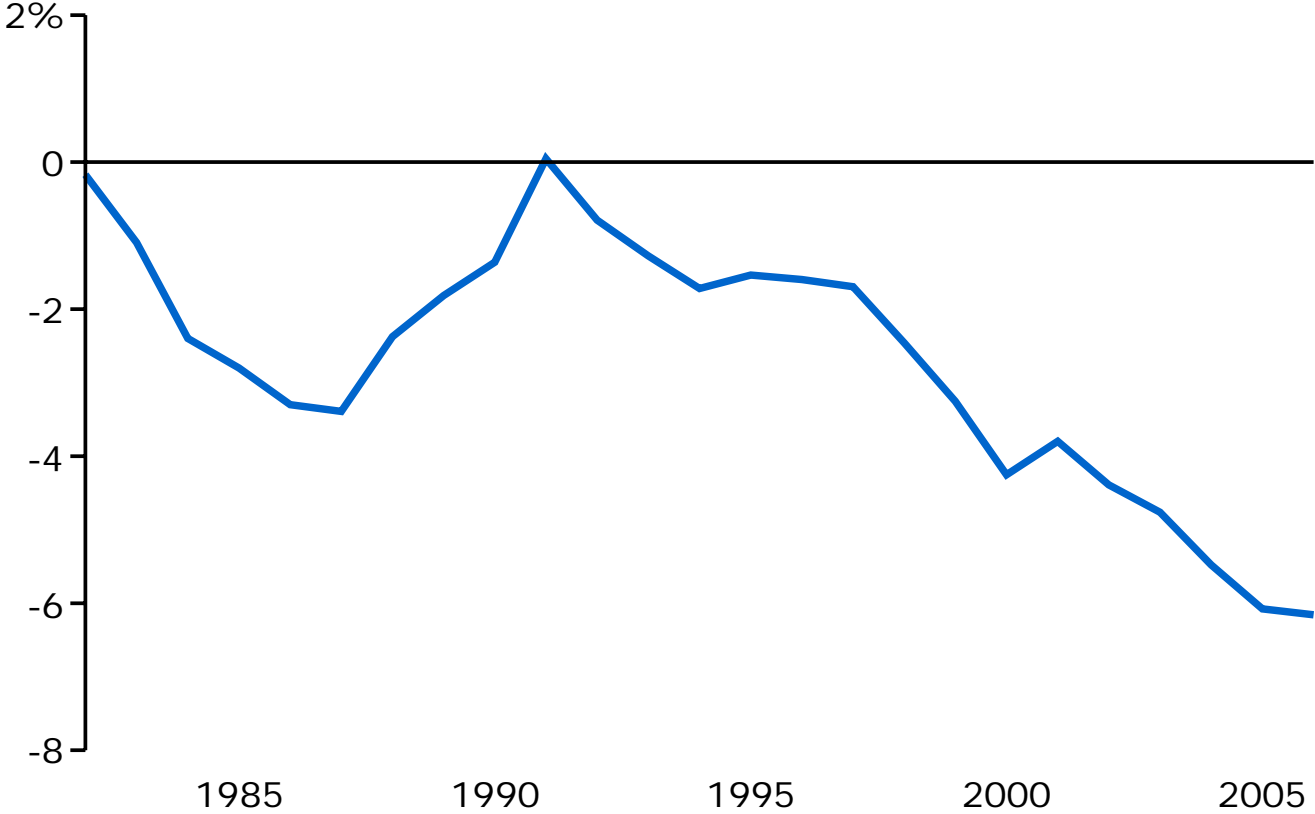
Yield on 10-year U.S. treasuries



Source: Bureau of Labor Statistics, Federal Reserve

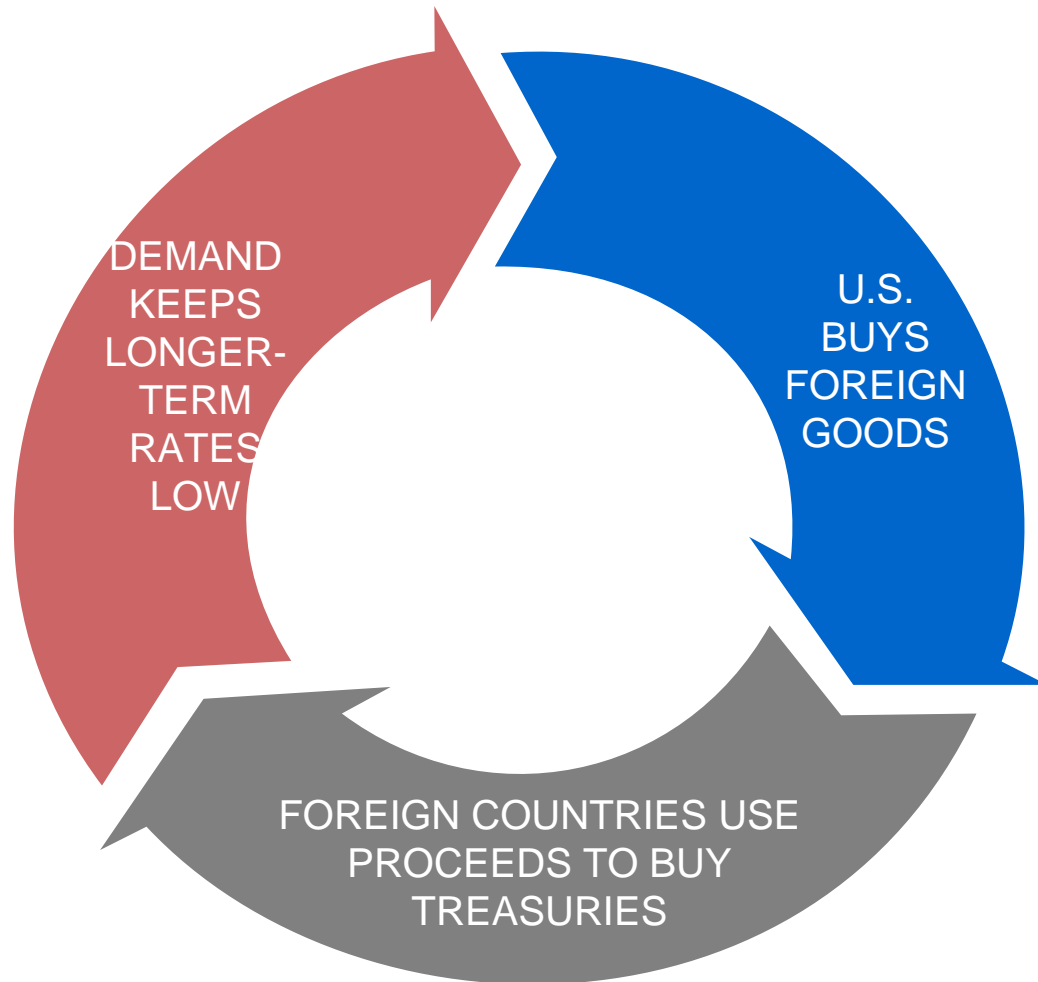
FUELING A NATION OF CONSUMERS

U.S. current account / GDP



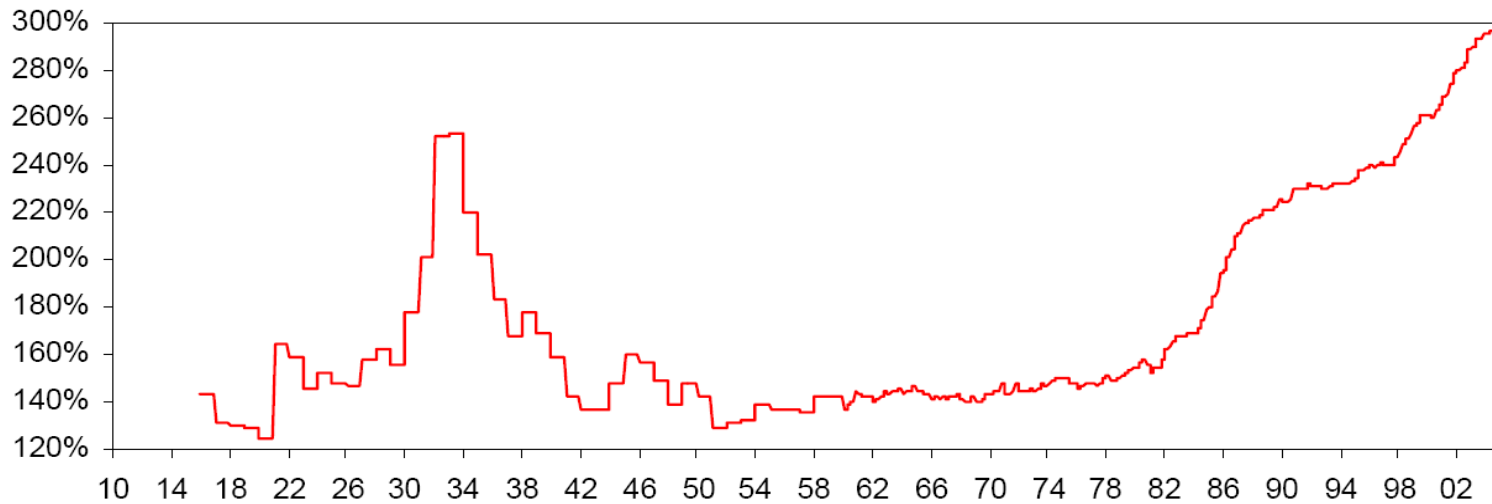
Source: Bureau of economic analysis

FOREIGN \$s RECYCLED INTO TREASURIES



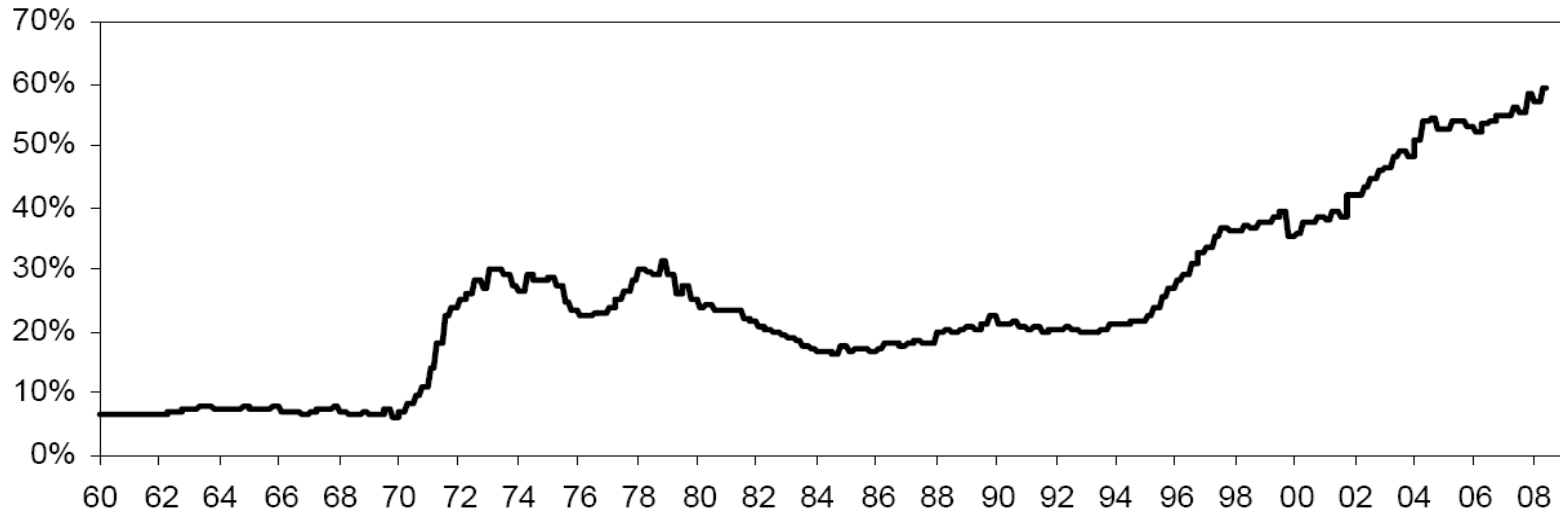
AS A RESULT, DEBT BALLOONED

Total Debt as % GDP



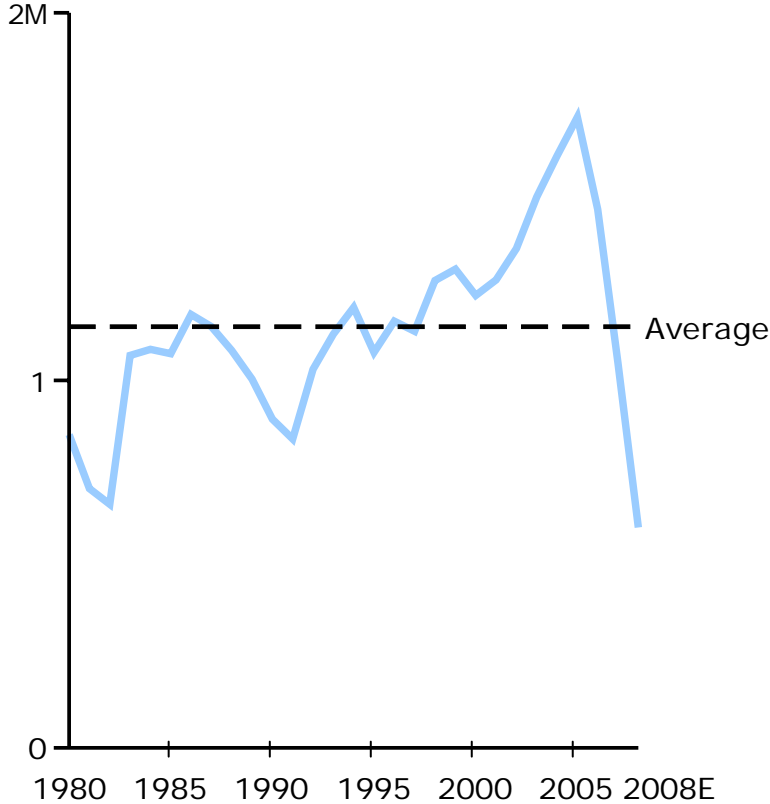
DEPENDENT ON THE KINDNESS OF STRANGERS

Foreign Ownership of US Treasuries % Total Market Capitalization

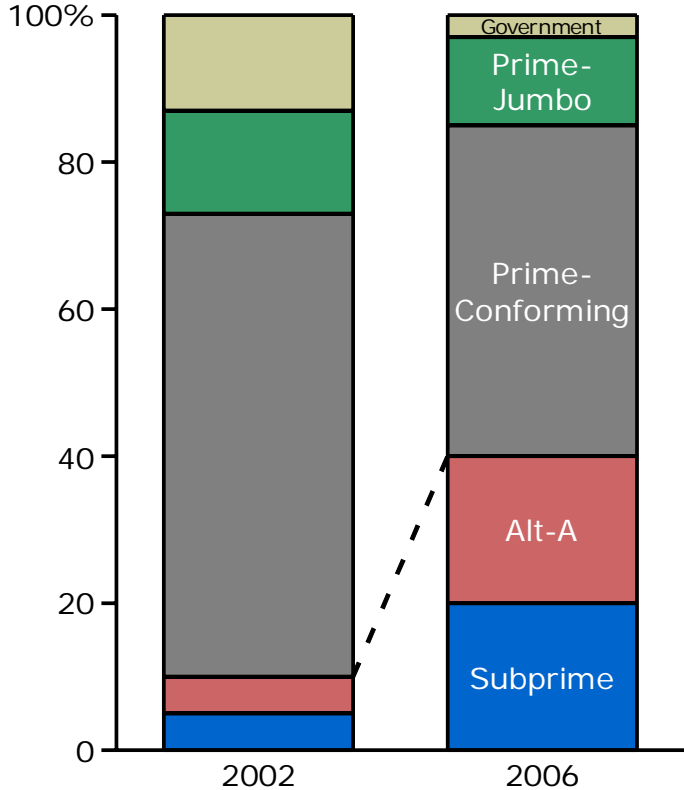


LIQUIDITY AND EASING SPREAD TO HOUSING

Single family housing starts

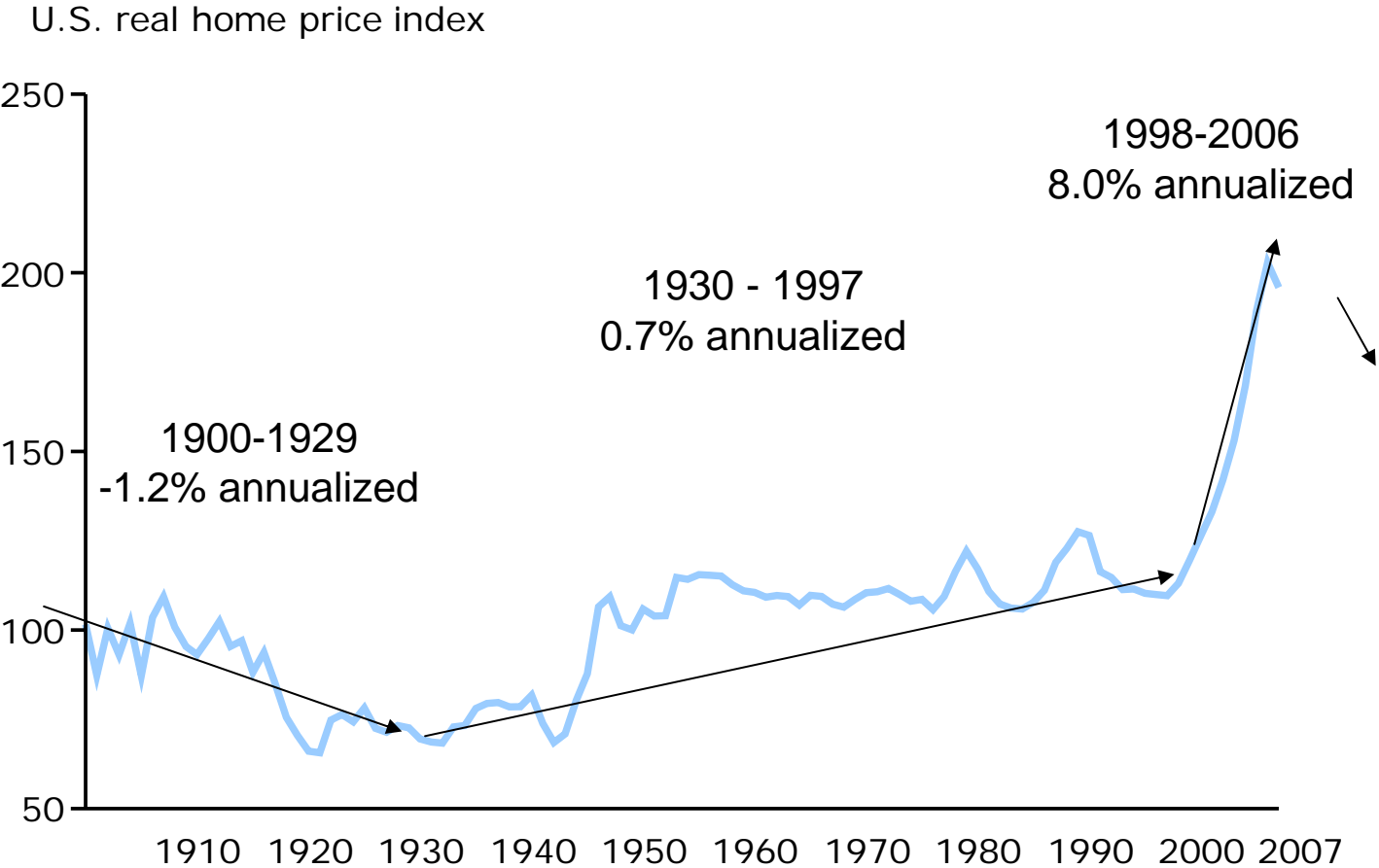


Distribution of U.S. dollar mortgage originations



Source: Bridgewater, National Association of Home Builders

HOME PRICES GREW SUBSTANTIALLY ABOVE MEAN



Source: Robert Shiller

STRUCTURED PRODUCTS AND REGULATORY CHANGES COMPOUND THESE ISSUES

GROWTH IN SECURITIZATIONS

LEVERAGE ON THOSE STRUCTURES

INCREASED LEVERAGE ON BANK'S BALANCE SHEETS

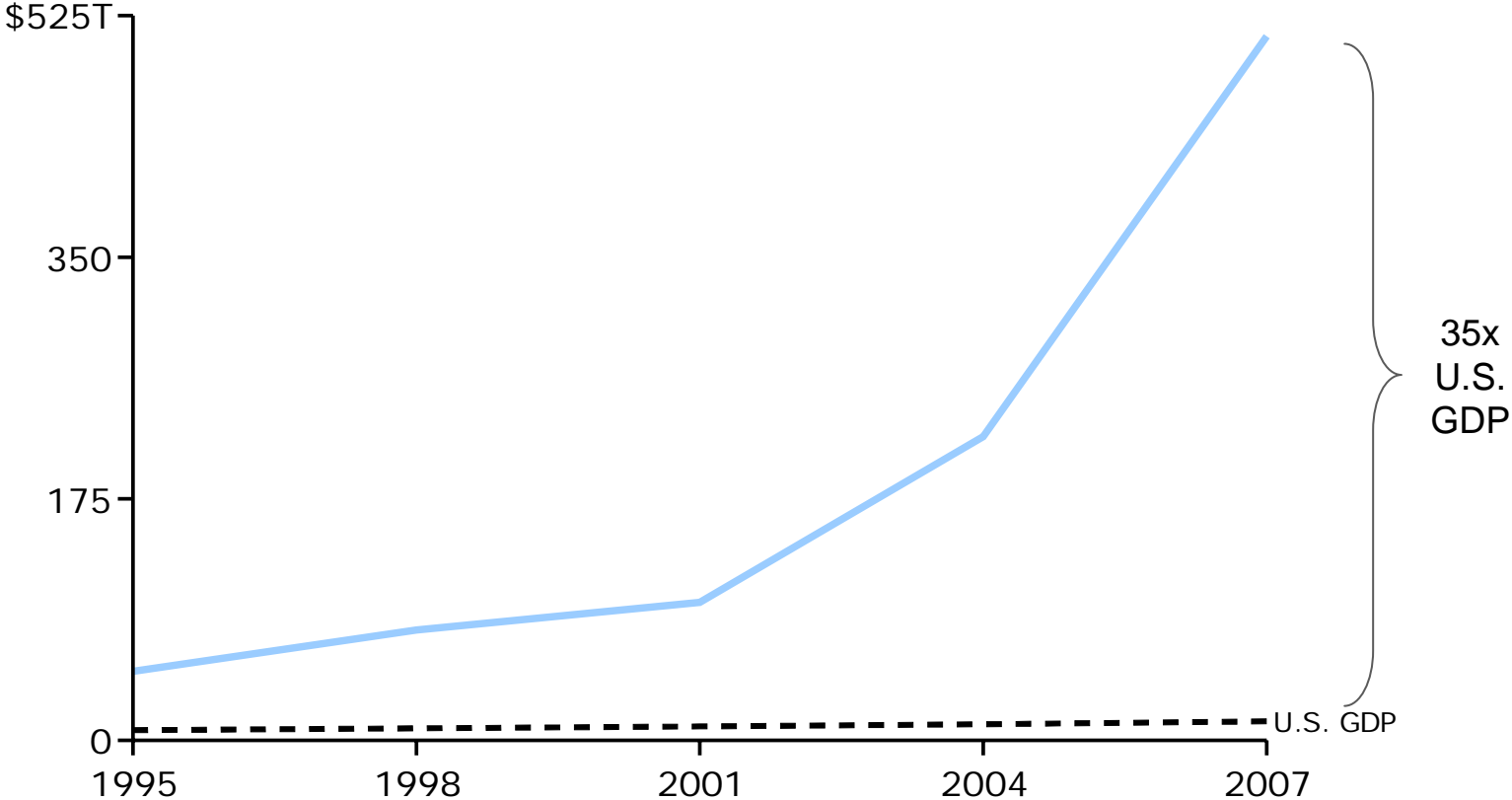
OFTEN MIS-RATED BY AGENCIES

REPEAL OF GLASS-STEAGALL

REGULATORY CHANGES ENCOURAGING HOME OWNERSHIP

HUGE GROWTH IN DERIVATIVES

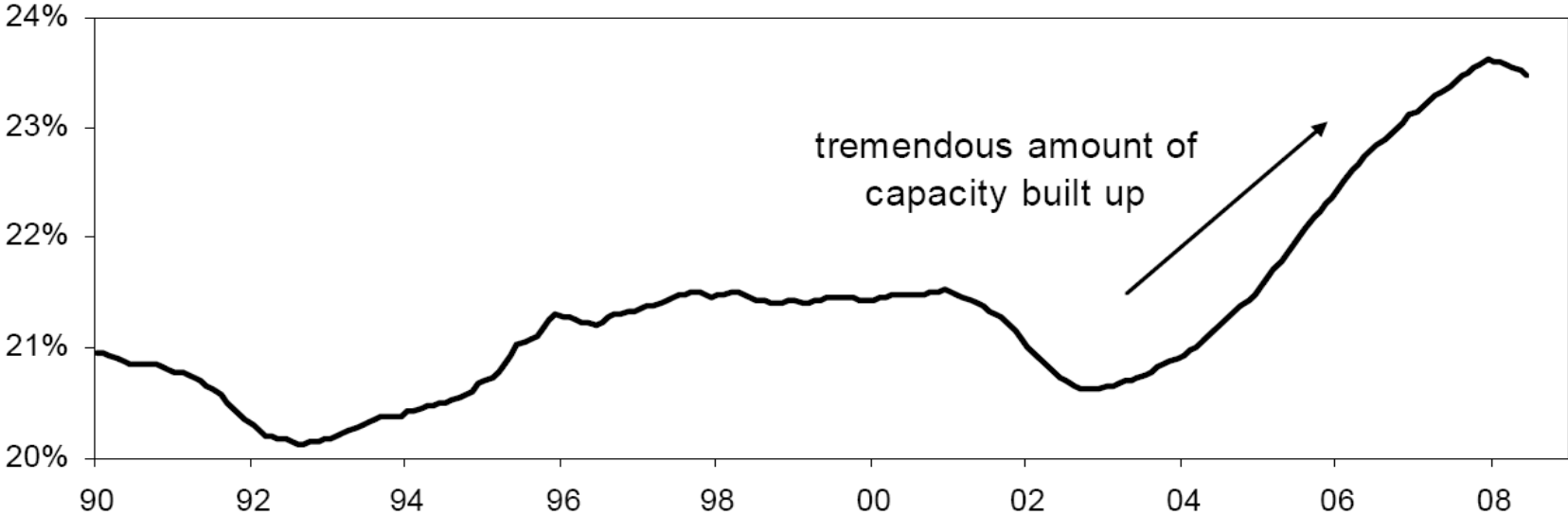
Outstanding amount of open positions in OTC derivatives markets



Note: Outstanding amount is not a pure measure of risk as some positions are netted and have collateral; U.S. GDP was \$13.8T in 2007
Source: Bank for International Settlements

SIGNIFICANT EXCESS CAPACITY

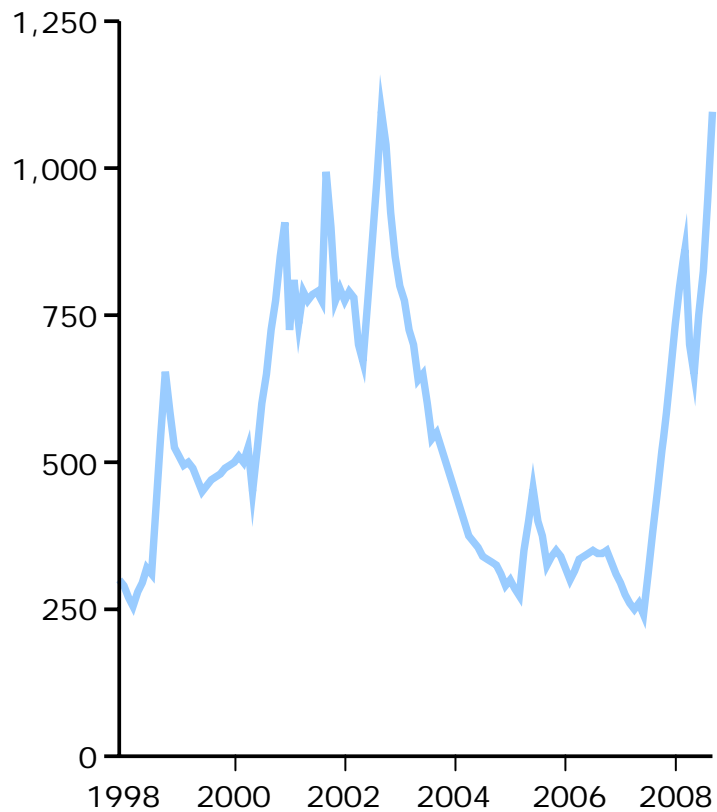
World Fixed Investment (%GDP)



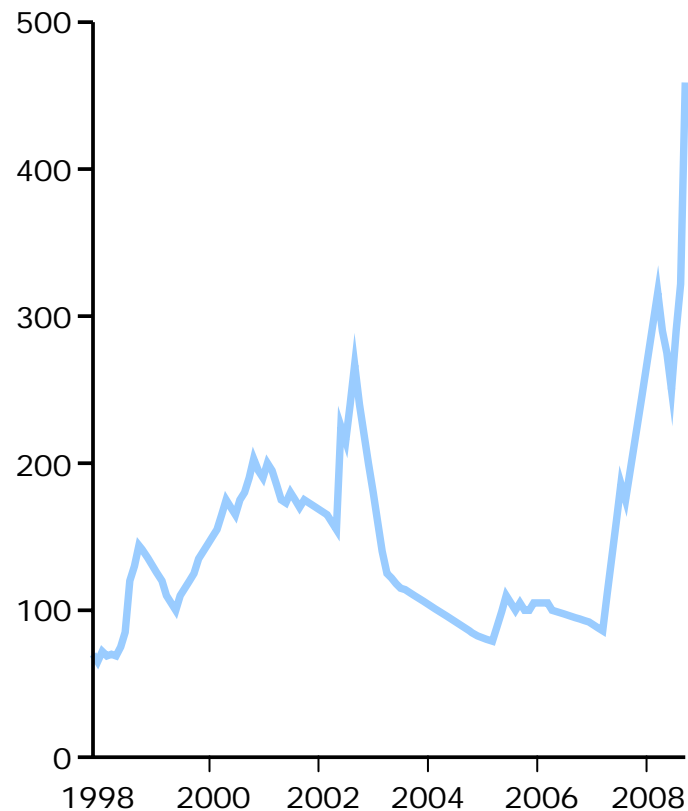
Source: Bridgewater

VERY TIGHT CREDIT

High yield spreads (basis points)

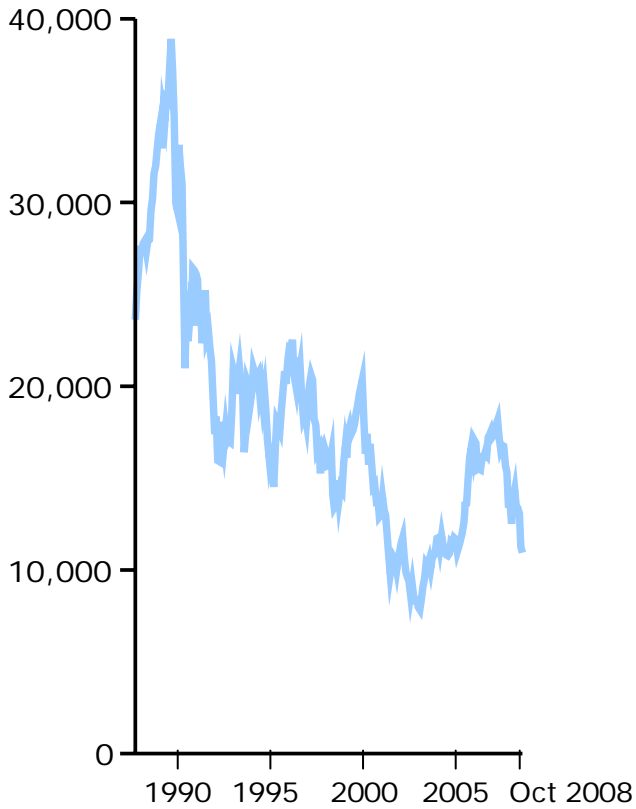


Investment grade spreads (basis points)

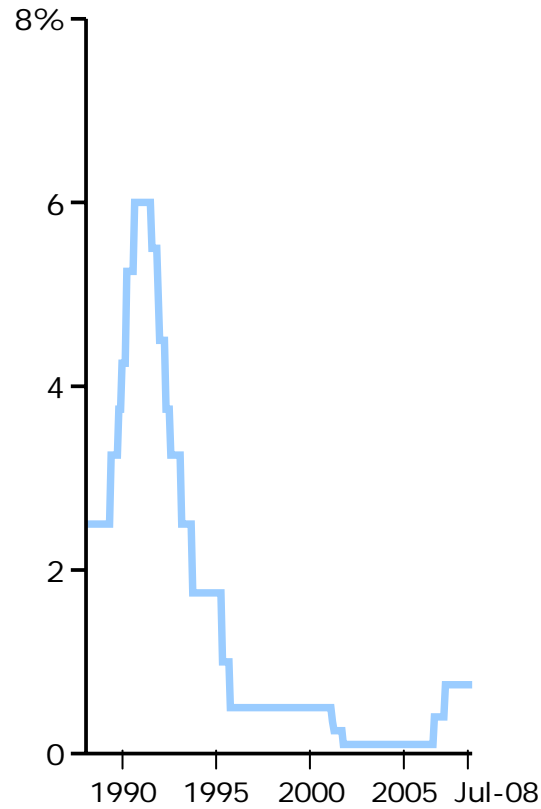


JAPAN MAY BE INSTRUCTIVE

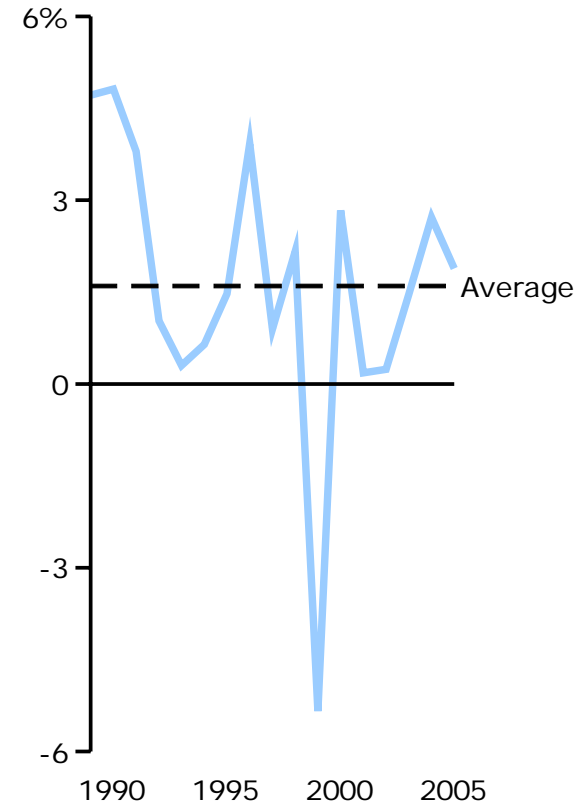
Nikkei Index 1988 - present



Japanese discount rate



Annual real GDP growth



KEY THEMES

GLOBAL

SECULAR

NOT “NORMAL CRISIS”, WILL TAKE TIME

CREDIT NOT EQUITY DRIVEN

SIGNIFICANT RISK TO GDP GROWTH

POTENTIAL FOR GREATER REGULATORY REFORMS / SCRUTINY

OUR TAKE

MANAGE WHAT YOU CAN CONTROL

SPENDING

GROWTH ASSUMPTIONS

EARNINGS ASSUMPTIONS

FOCUS ON QUALITY

LOWER RISK

REDUCE DEBT

MAIN STREET

WHERE ARE WE NOW?

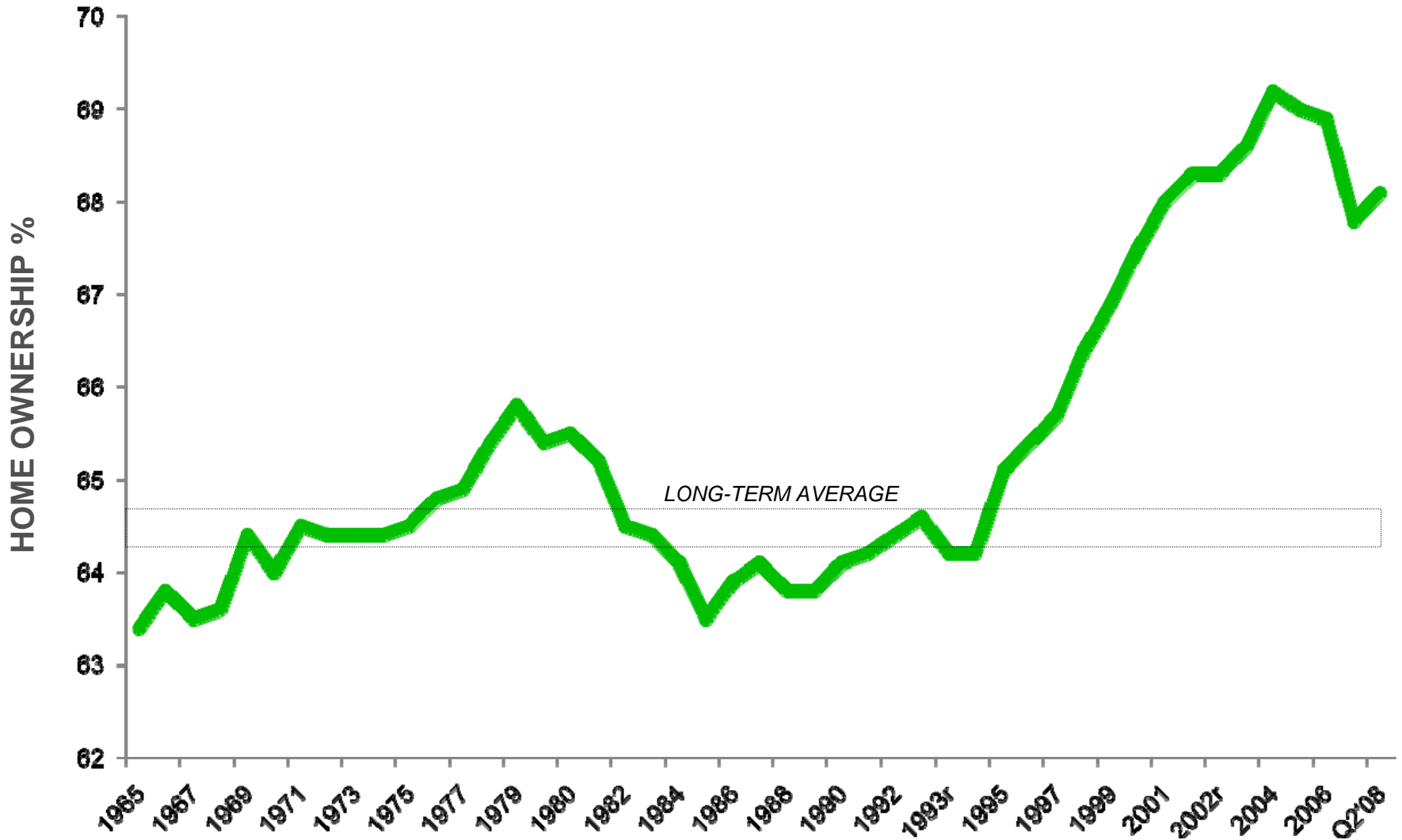
MICHAEL BECKWITH

THE U.S.: A NATION OF CONSUMERS

THE CHANGING FACE OF THE ECONOMY

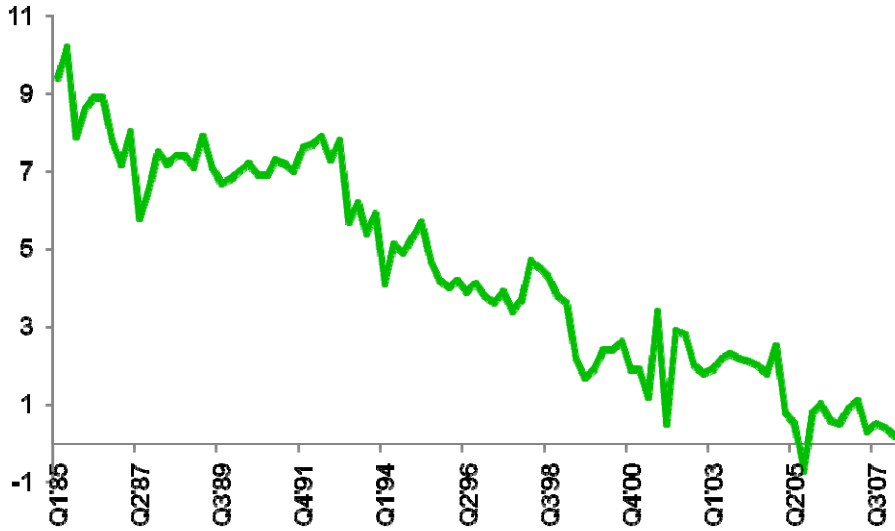
| \$ TRILLIONS | 1987 | 1997 | 2007 |
|-----------------------------------|-------------|-------------|-------------|
| TOTAL U.S. GDP | 4.7 | 8.3 | 13.8 |
| CONSUMER SPENDING | 3.1 | 5.8 | 10.1 |
| CONSUMER AS % OF TOTAL GDP | 66% | 70% | 73% |
| DISPOSABLE PERSONAL INCOME | 3.5 | 6.0 | 10.2 |

EXPLOSION IN HOME OWNERSHIP

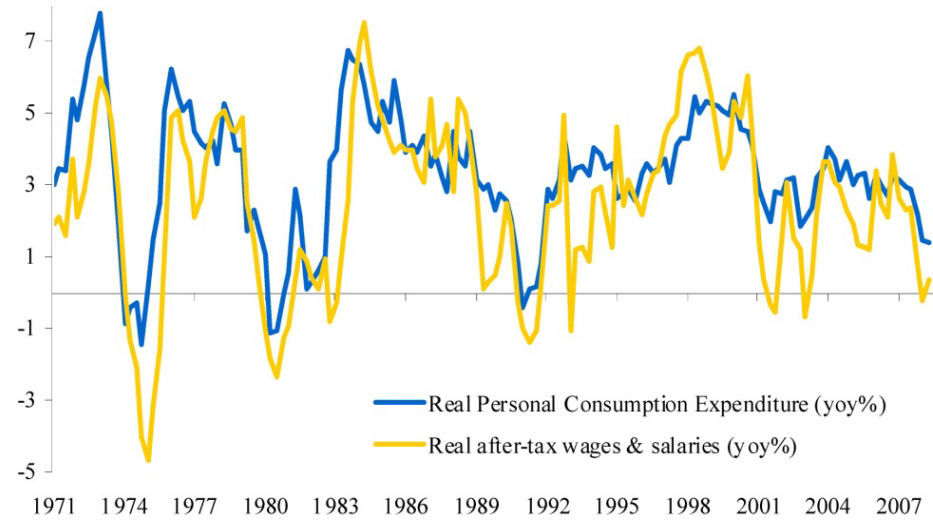


WAGE GROWTH & PERSONAL SAVINGS

PERSONAL SAVINGS RATE



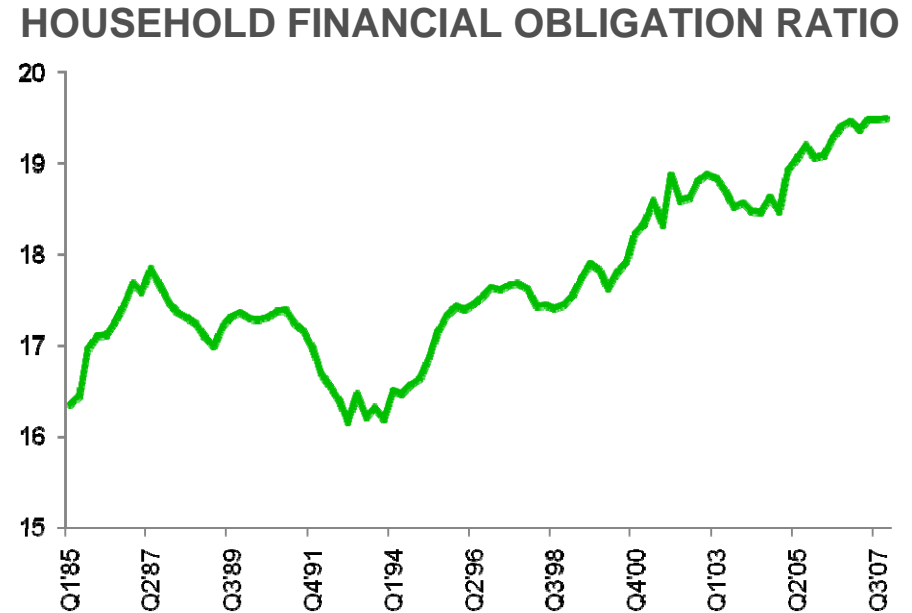
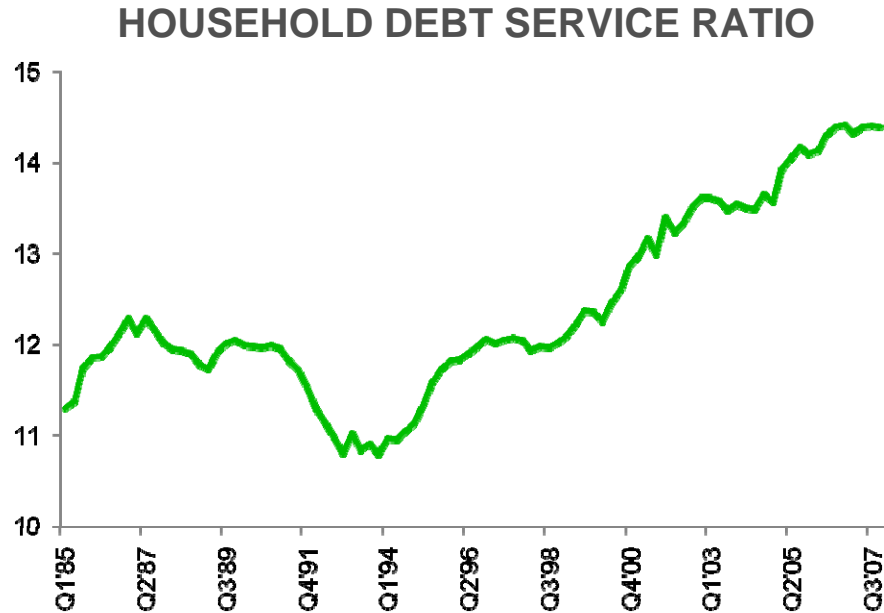
FALLING REAL WAGES ERODING PCE



PERSONAL SAVINGS RATE EVAPORATED

REAL WAGE GROWTH FELL

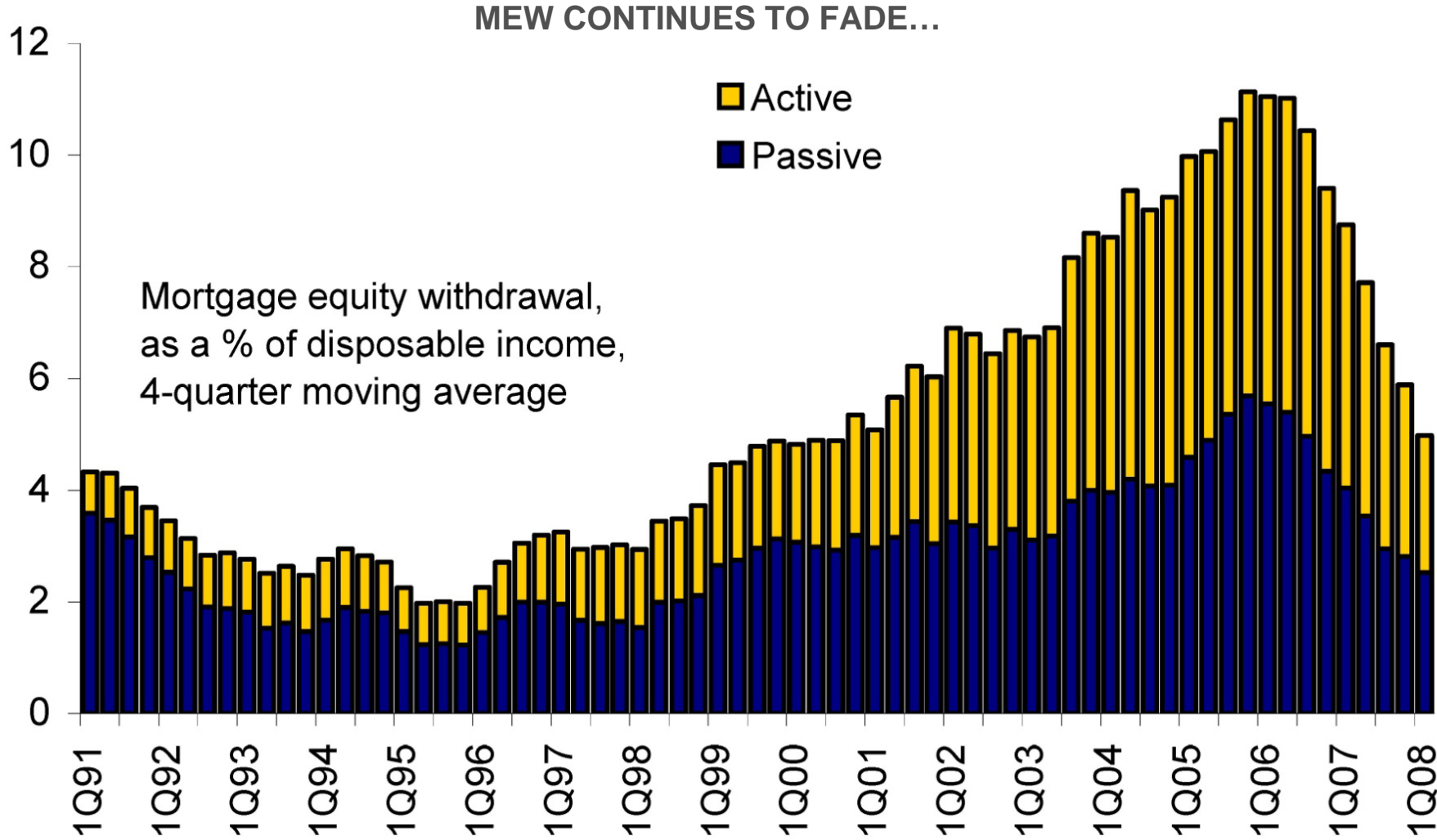
CONSUMERS BUCKLING UNDER DEBT



DSR = DEBT PAYMENTS ON OUTSTANDING MORTGAGES AND CONSUMER DEBT/DISPOSABLE PERSONAL INCOME

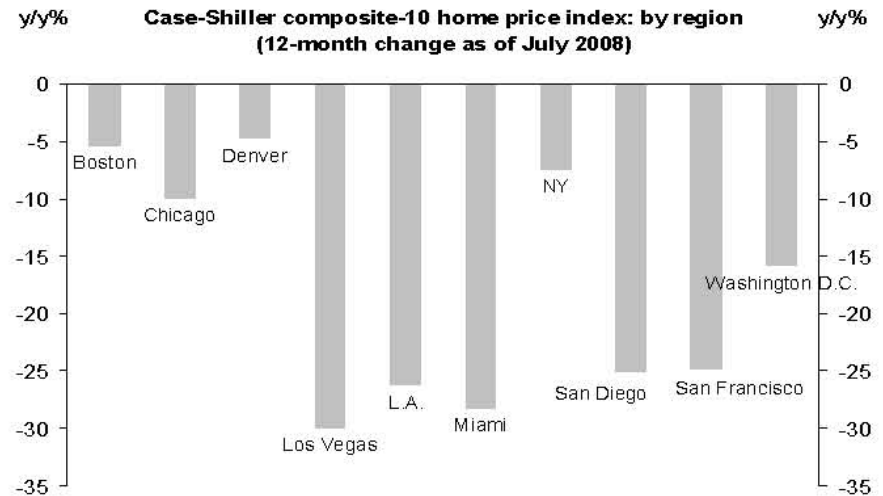
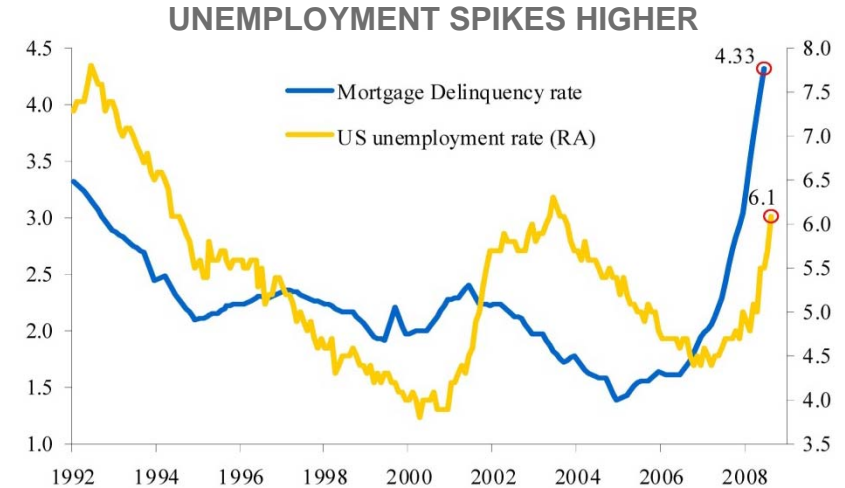
FOR = ADDS AUTOMOBILE LEASE PAYMENTS, RENTAL PAYMENTS, H/O'S INSURANCE AND PROPERTY TAX PAYMENTS TO THE DSR

MEWs BECAME THE NEW PIGGY BANK



Source: Haver, BEA, NAHB, Conference Board, EIA, Morgan Stanley Research.

FROM VIRTUOUS TO VISCIOUS CYCLE

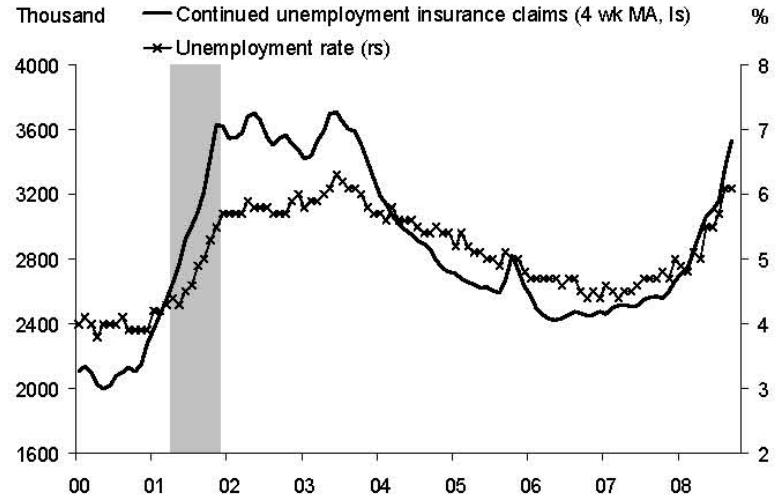


Source: Federal Reserve, Haver, Bureau of Labor Statistics, Census Bureau, Factset, Morgan Stanley Research, Case-Shiller & DB Global Market Research.

ON THE BRINK OF A RECESSION

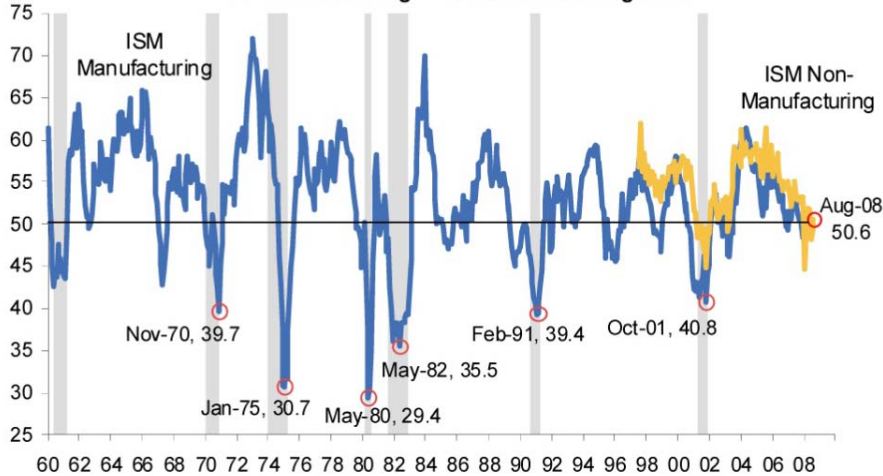
CONSUMER CONFIDENCE AT MULTI-DECADE LOWS

Conference Board Consumer Confidence Index



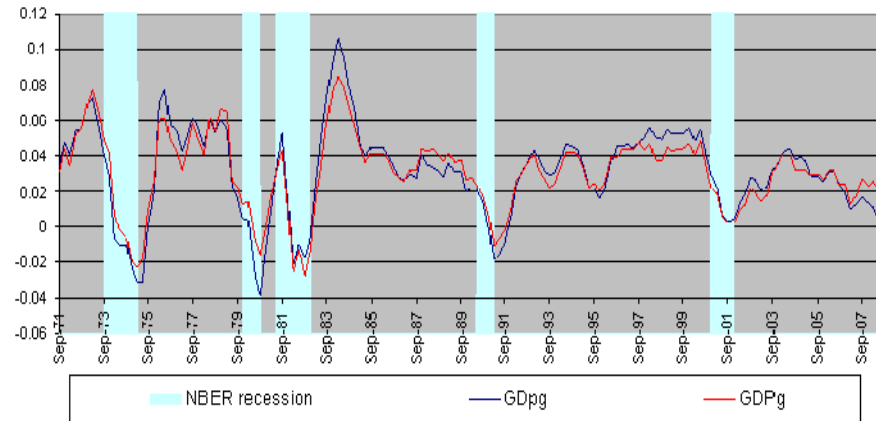
ISM IS FALLING FAST

ISM Manufacturing & Non-Manufacturing Index



GDP IS POISED TO TURN NEGATIVE

Real GDP and GDP growth (YoY SA)

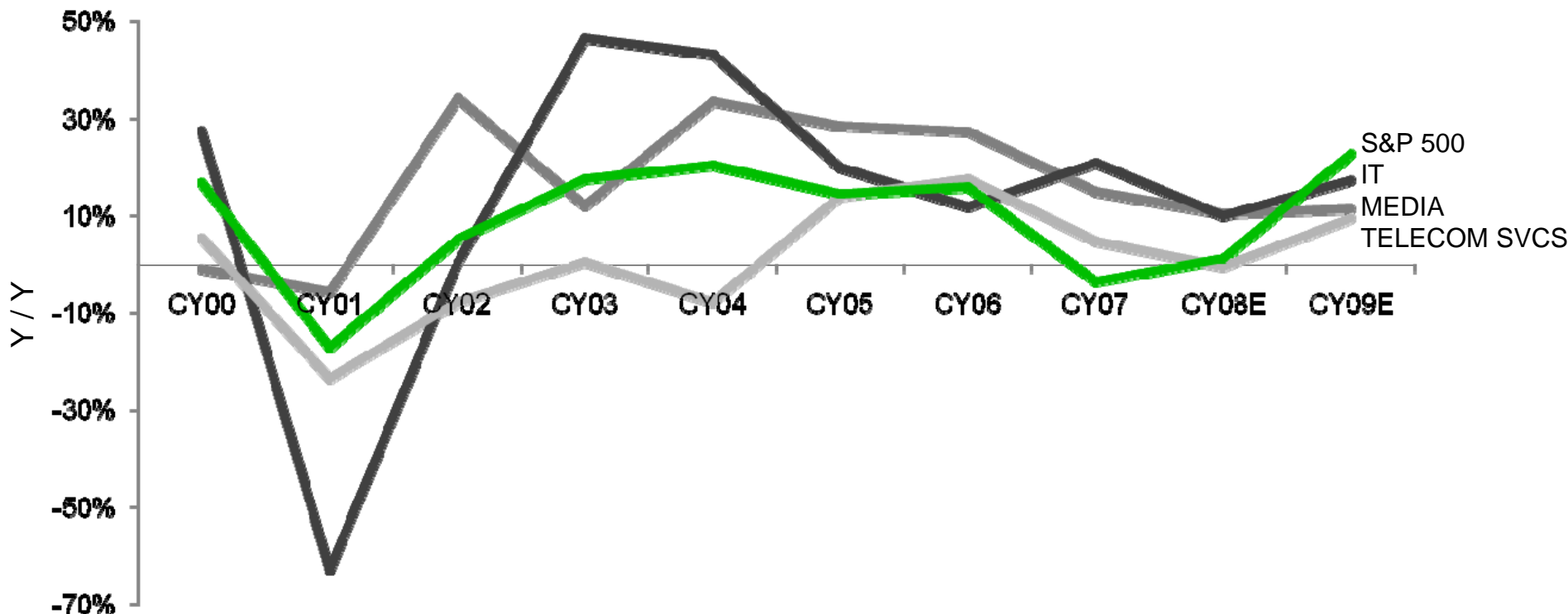


EARNINGS BEGINNING TO ROLL

EARNINGS DOWN 18% ON ESTIMATES MADE 12 MONTHS AGO



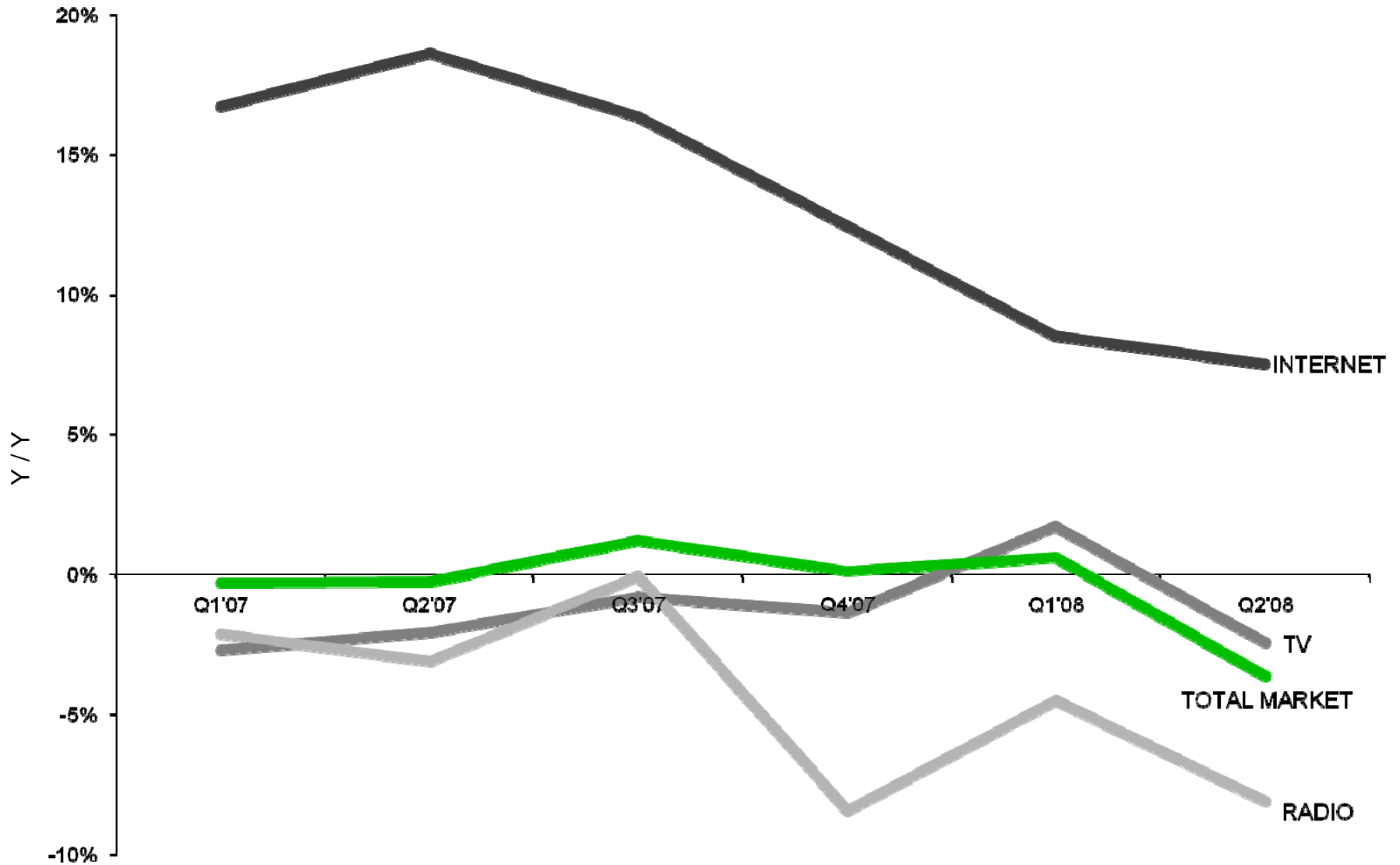
V-SHAPED RECOVERY UNLIKELY



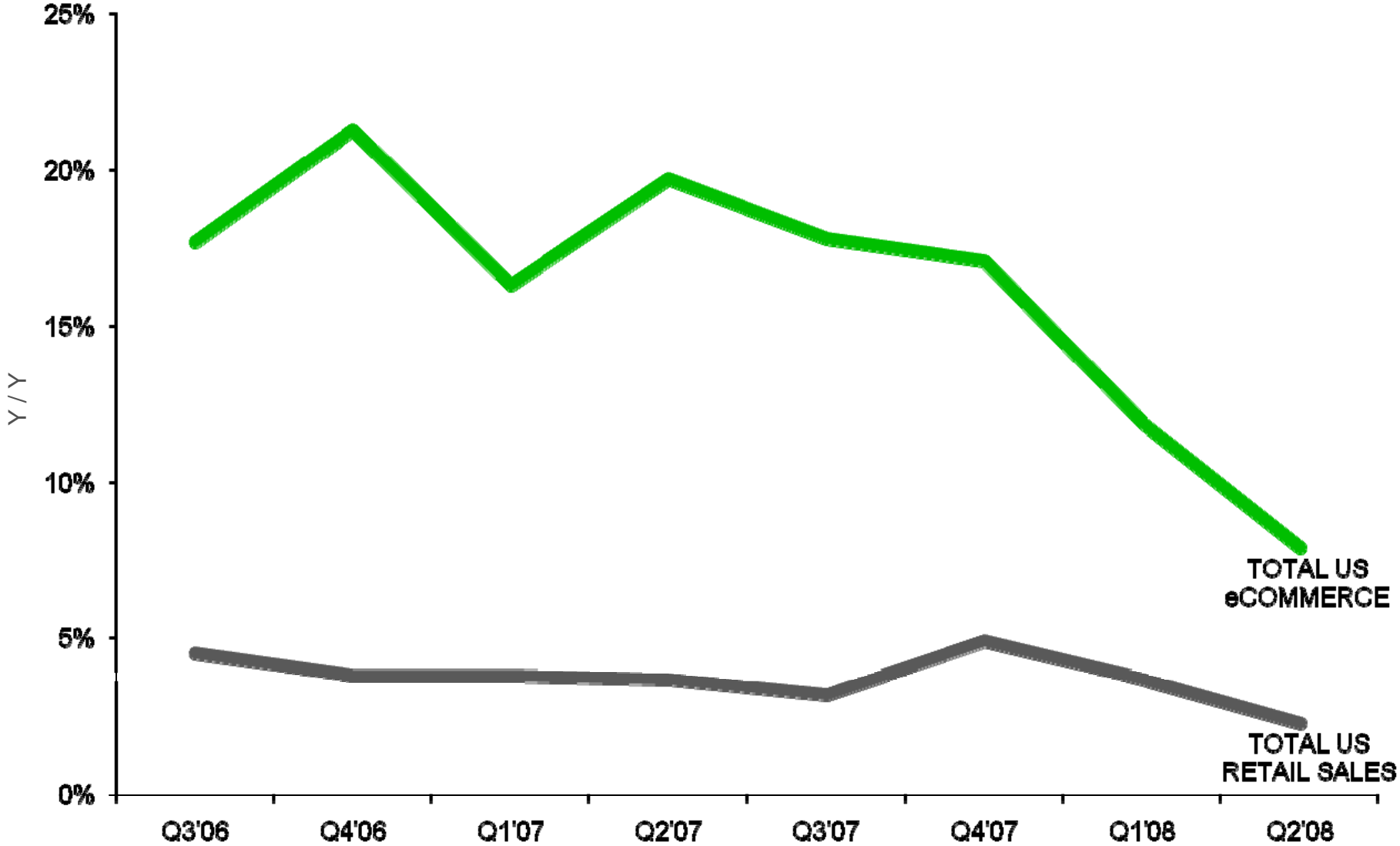
Current S&P 500 Consensus Actual and Expected Operating Earnings Growth (Weighted-Avg. % / Y/Y)

| | CY00 | CY01 | CY02 | CY03 | CY04 | CY05 | CY06 | CY07 | CY08E | CY09E |
|------------------------|------------|-------------|-----------|------------|------------|------------|------------|------------|-----------|------------|
| Financials | 5% | -10% | 18% | 25% | 11% | 5% | 23% | -37% | -46% | 109% |
| Consumer Discretionary | 0% | -24% | 33% | 11% | 28% | 2% | 9% | -10% | -16% | 41% |
| Media | -1% | -6% | 34% | 12% | 33% | 28% | 27% | 15% | 11% | 11% |
| Information Technology | 28% | -63% | 0% | 46% | 43% | 20% | 12% | 21% | 10% | 17% |
| Telecom Services | 6% | -24% | -8% | 0% | -8% | 14% | 17% | 5% | -1% | 10% |
| S&P 500 | 17% | -17% | 5% | 18% | 20% | 15% | 16% | -4% | 1% | 23% |

ADVERTISING MARKETS ARE CRACKING

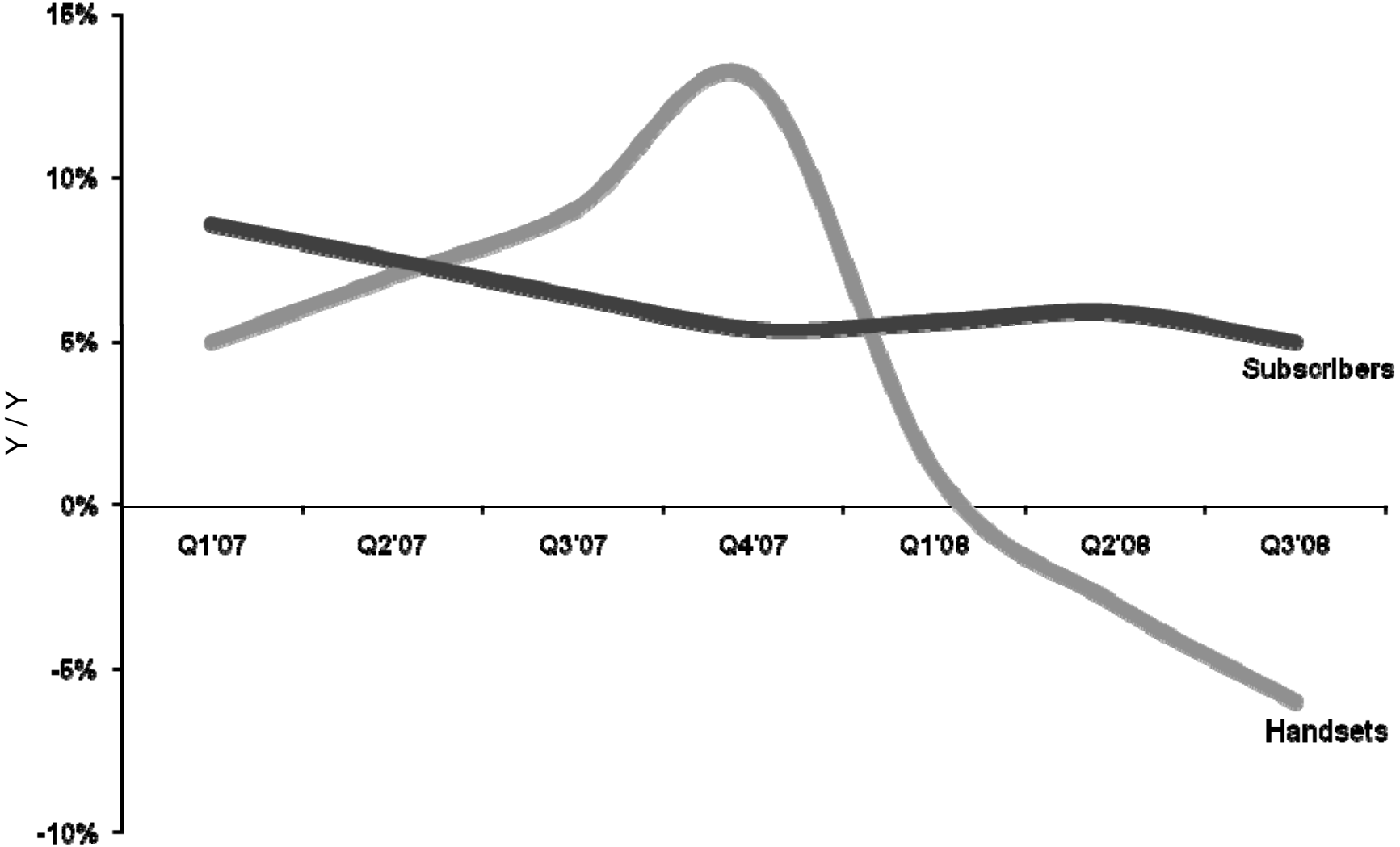


RETAIL/ECOMMERCE DETERIORATING



Source: US Census Bureau.

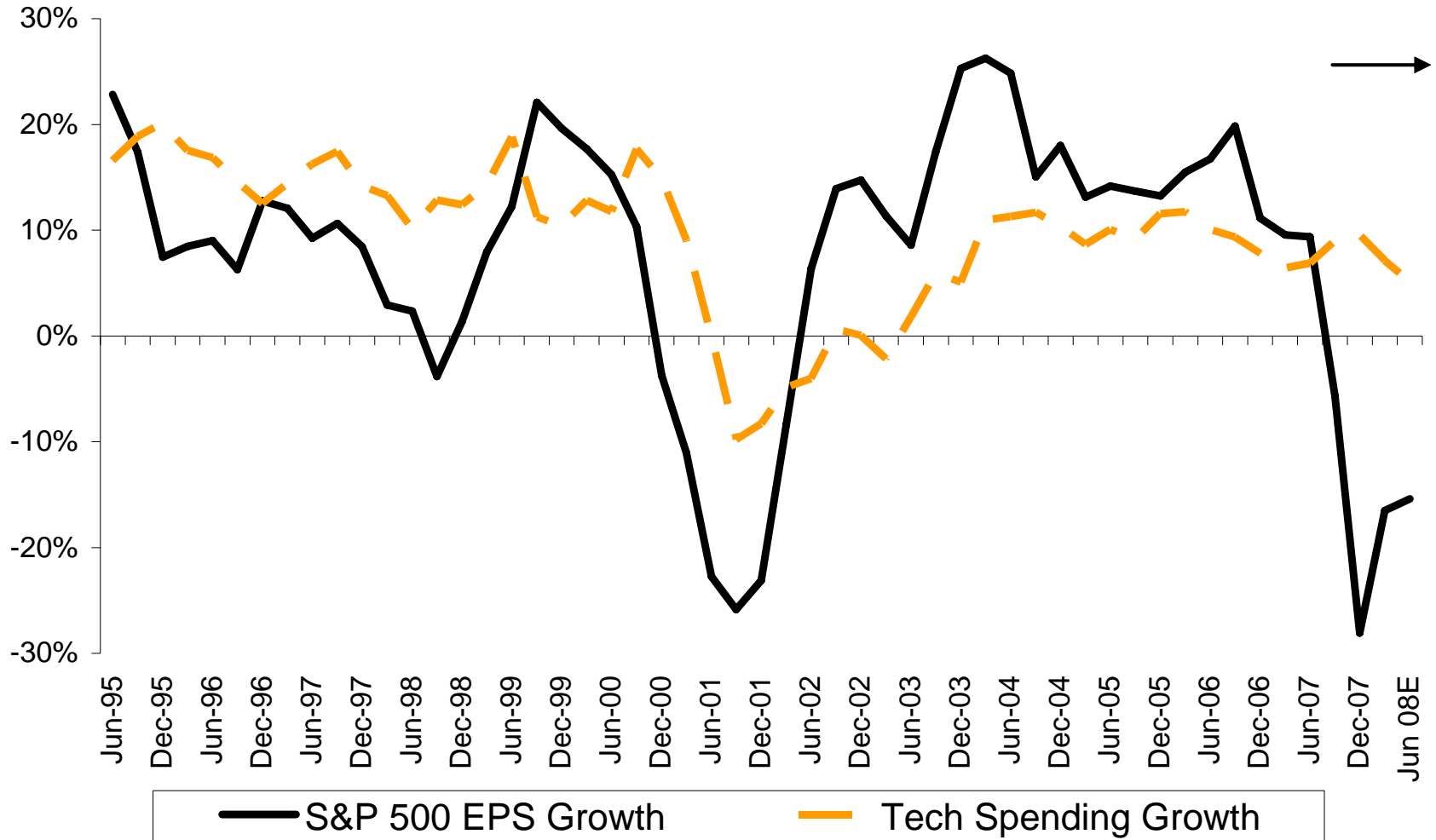
MOBILE IS NOT IMMUNE



Source: TNS U.S. Advertising Expenditure Estimates

TECH SPENDING DEPENDS ON ECONOMY

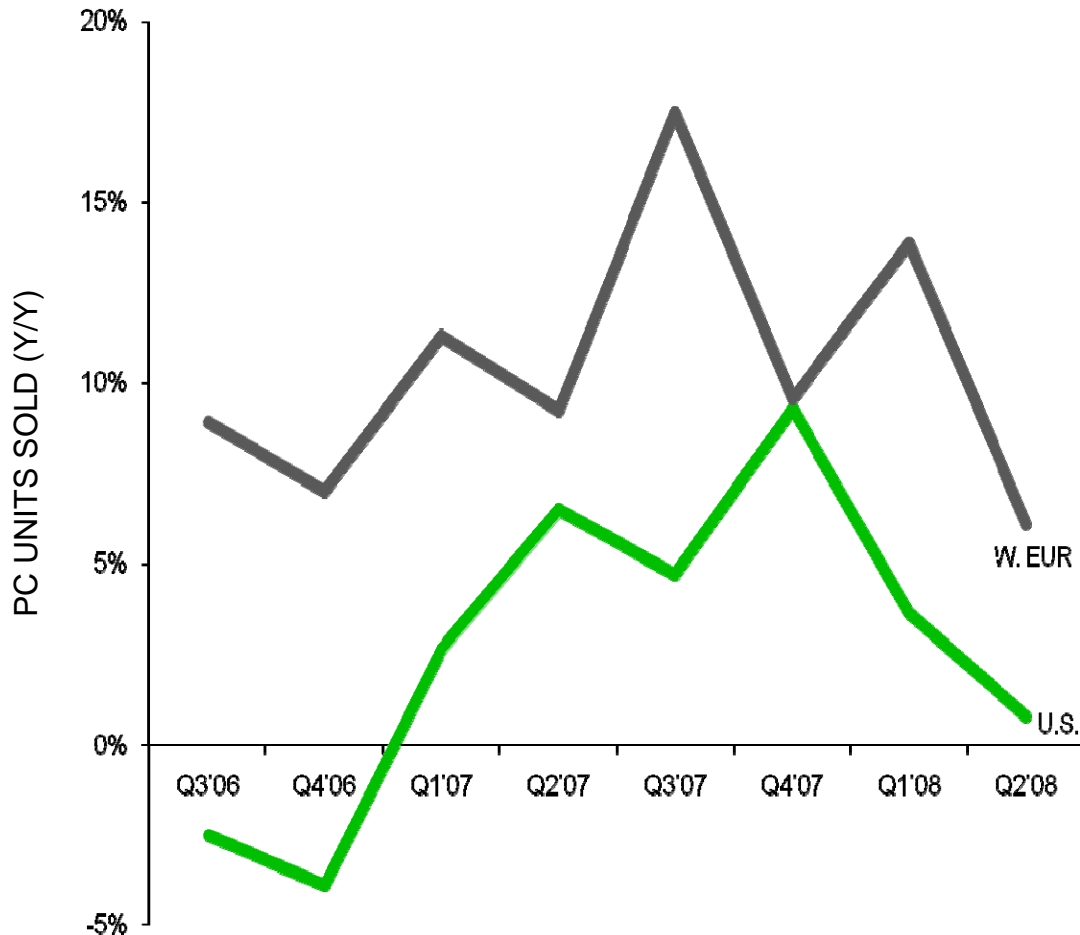
Y-Y Change in S&P 500 Earnings, Technology Spending (1996-2008E)



Source: Bernstein Strategy Group; First Call

Drop in earnings in Dec 07 was partly due to financial services industry write offs

ENTERPRISE INDICATORS



“IT spending is being more scrutinized now than at any point in the 2003 through 2007 timeframe ... customers are showing more caution.”

- EMC, JUL 2008

“It's now clear that this economic softness is continuing into September.”

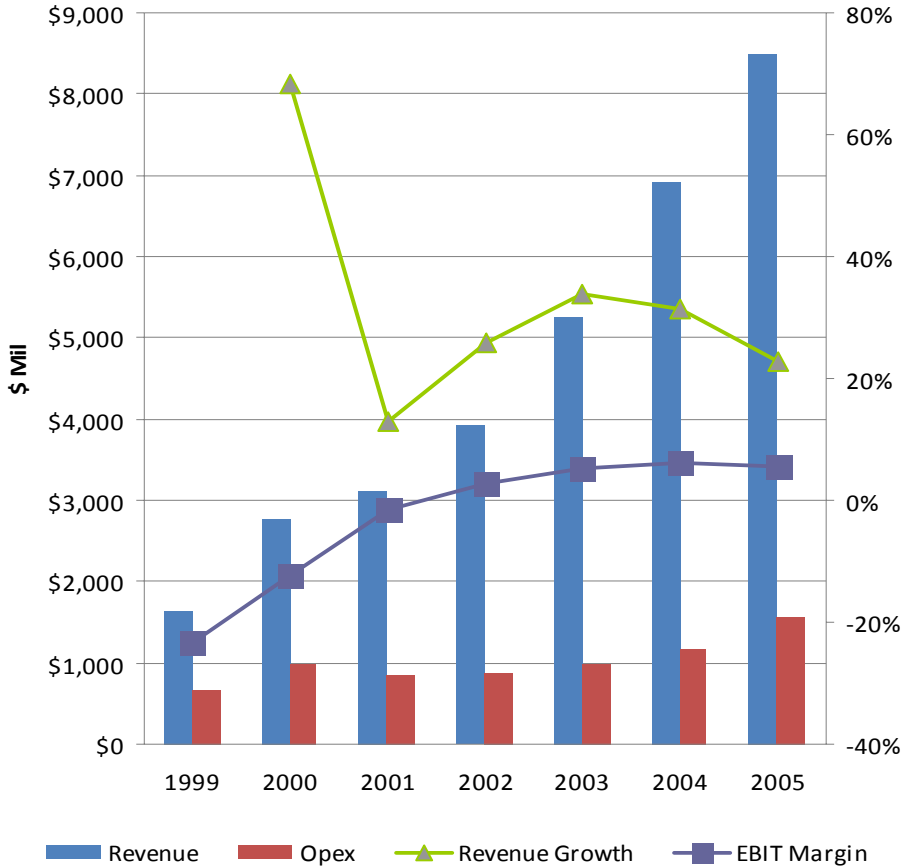
- INGRAM MICRO, SEP 2008

“Market developments of the past several weeks have been dramatic and worrying to many businesses. These concerns triggered a very sudden and unexpected drop in business activity.”

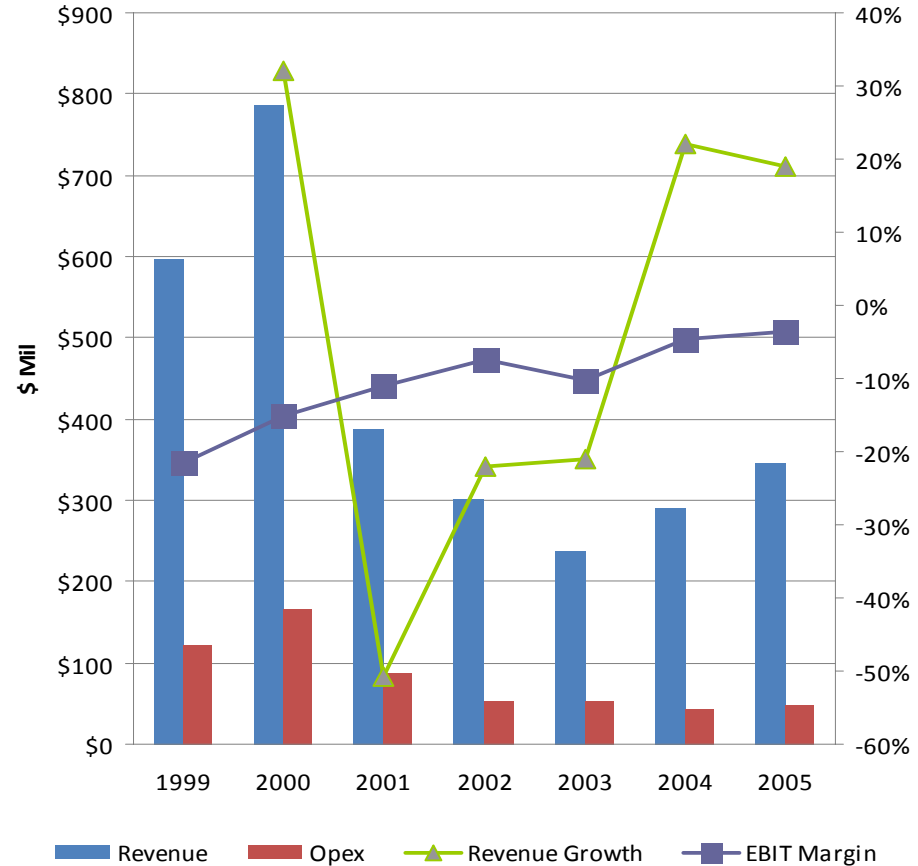
- SAP, OCT 2008

AMAZON.COM & BUY.COM

Amazon.com Financial Performance '99-'05



Buy.com Financial Performance '99-'05

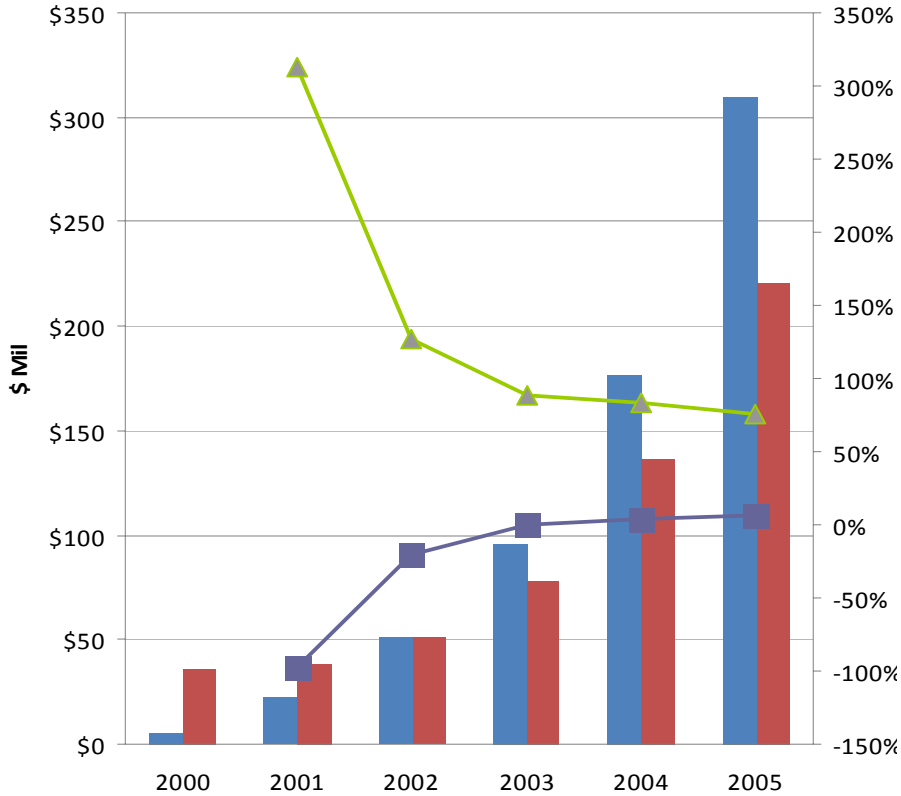


- Strong business model
- Focus on core value proposition

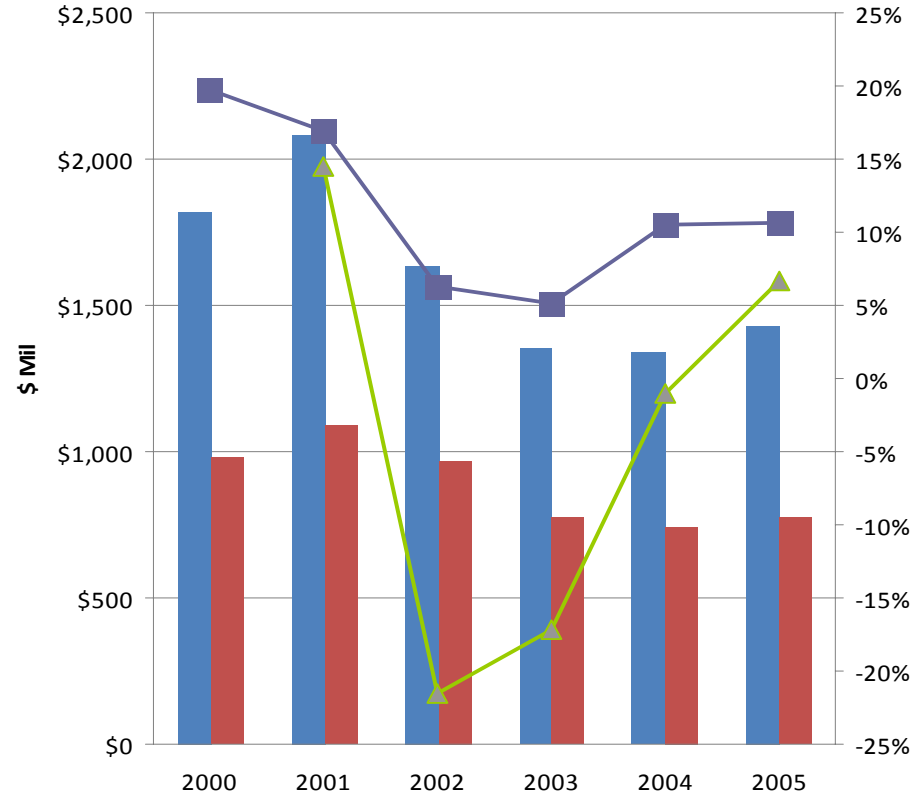
- Profitable growth
- Trim fat during lean times

SALESFORCE.COM & SIEBEL

Salesforce.com Financial Performance '00-'05



Siebel Financial Performance '00-'05



Revenue Opex Revenue Growth EBIT Margin

Revenue Opex Revenue Growth EBIT Margin



- Tailor sales message to environment
- Take advantage of competitors' weakness

- Understand your true customers
- Value of quick ROI and low cost

YOUR STREET

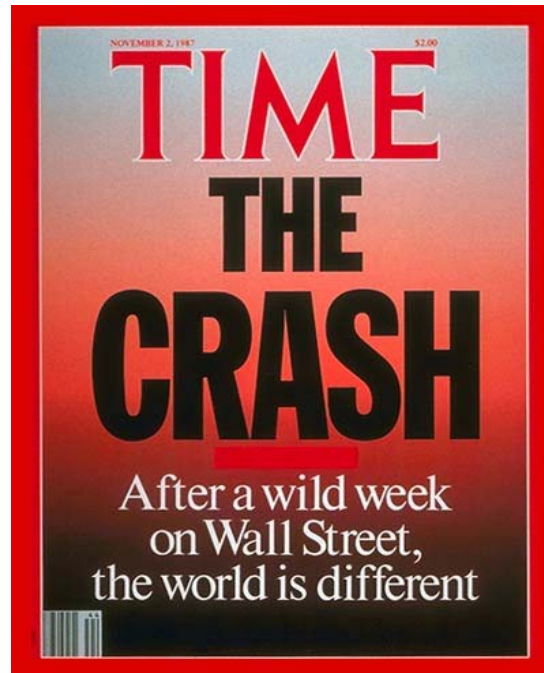
WHERE DO WE GO FROM HERE?

DOUG LEONE

SEQUOIA  **CAPITAL**[®]

THE ENTREPRENEURS BEHIND THE ENTREPRENEURS[®]

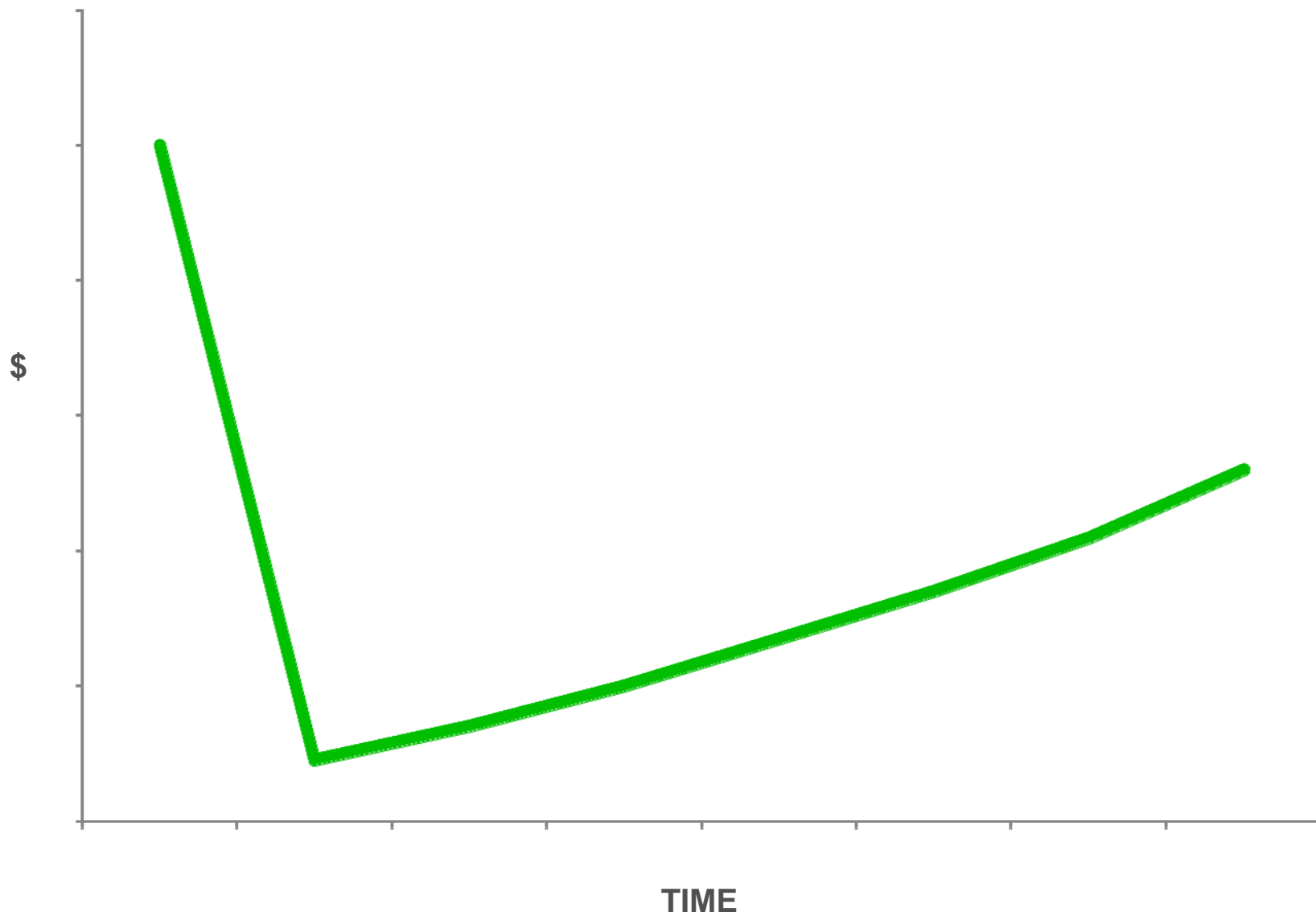
UPS AND DOWNS ALWAYS OCCUR



IT IS DIFFERENT THIS TIME



RECOVERY WILL BE LONG



CHANGES IN FINANCING ENVIRONMENT

FORTUNE

Venture firms brace for cash crunch

Big investors turn away from VCs as the financial crisis takes its toll.

By Michael V. Copeland

"If you are a venture capitalist looking for a new limited partner, don't stop in here. Don't try and sell me on a new fund, and good luck trying with everyone else."

"If you're a second or third-tier venture firm trying to raise another fund, forget about it."

"It will start first in private equity funds where there will be a substantial miss on capital calls. Then we'll see it next in venture capital."

"If you are start-up that is not cash-flow positive you are in a tough spot right now. If you haven't figured out your business model yet you are in trouble."

"It's going to be hard to get another round. You aren't going to get a second life this time."

NEW REALITIES

\$15M RAISE @ \$100M POST IS GONE

SERIES B/C WILL BE SMALLER RAISES

CUSTOMER UPTAKE WILL BE SLOWER

CUTS ARE A MUST

NEED TO BECOME CASH FLOW POSITIVE

INCREASED CHALLENGES

M&As WILL DECREASE

PRICES WILL DECREASE


ACQUIRING ENTITIES WILL FAVOR PROFITABLE COMPANIES

IPOs WILL CONTINUE TO DECREASE AND WILL TAKE LONGER

SURVIVAL

PRESERVE
CAPITAL

GRAB
SHARE

- 
- MUST-HAVE PRODUCT
 - ESTABLISHED REVENUE MODEL
 - UNDERSTANDING OF MARKET UPTAKE
 - CUSTOMERS' ABILITIES TO PAY
 - ASSESSMENT VS. COMPETITORS
 - CASH IS KING
 - NEED FOR PROFITABILITY

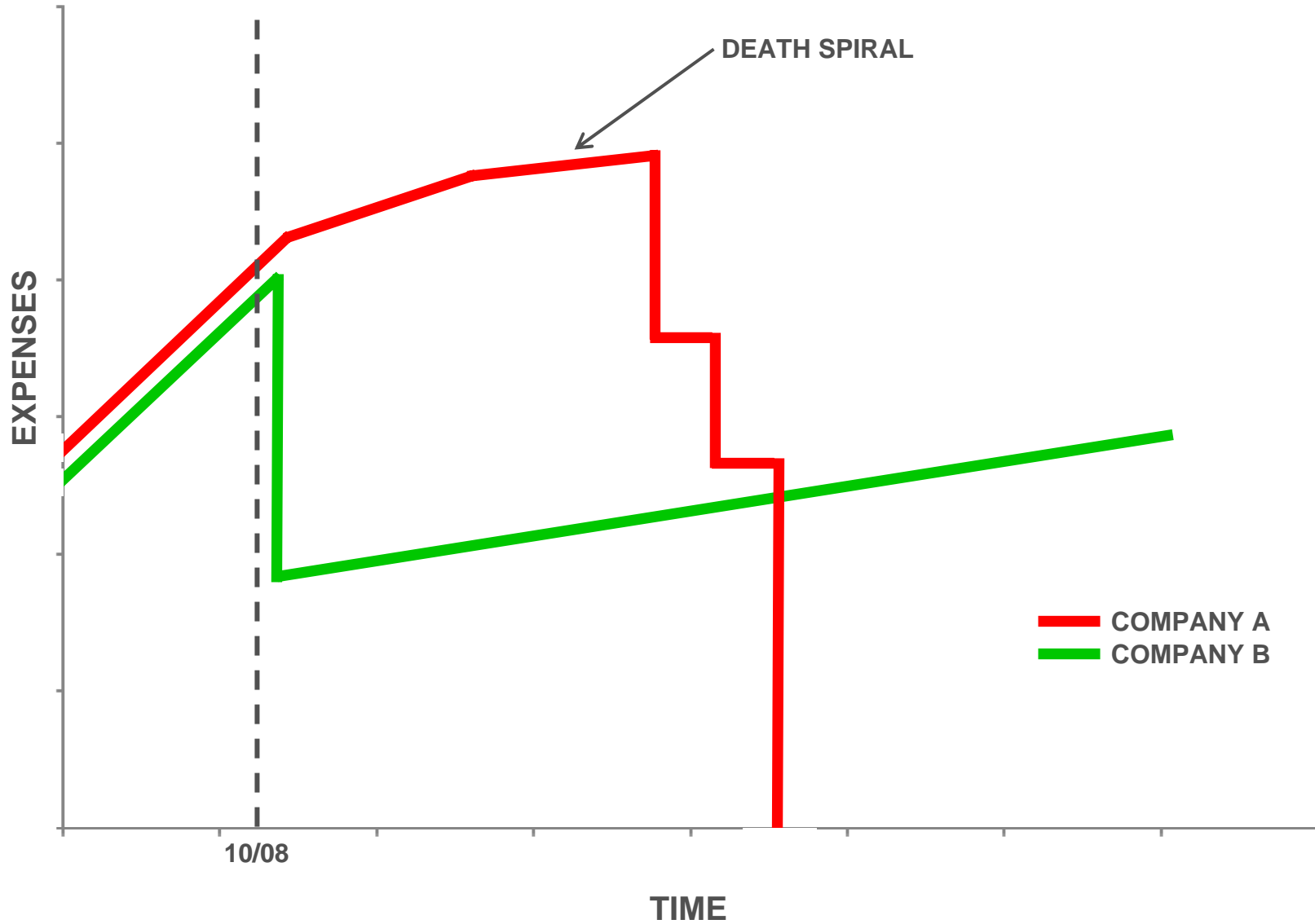
OPS REVIEW

- ☑ ENGINEERING DECREASE HEADCOUNT FOR NEXT VERSION?
- ☑ PRODUCT WHAT FEATURES ARE ABSOLUTELY ESSENTIAL?
- ☑ MARKETING MEASURING & CUTTING WHAT'S NOT WORKING?
- ☑ SALES & BUS DEV GETTING RETURN ON EXPENSE INCREASE?
- ☑ PIPELINE REAL PROBABILITIES OF CLOSING DEALS?
- ☑ FINANCE
 CASHBURN WHERE CAN PAYMENTS BE DEFERRED?
 G&A WHAT DEPARTMENTS ARE ESSENTIAL?

DEATH SPIRAL



SURVIVAL OF THE QUICKEST



NO ONE MOVES FAST ENOUGH



| OP EX % Y/Y | CY01 | CY02 | CY03 | CY04 |
|----------------|------------|------------|------------|------------|
| CSCO | -3% | -10% | -1% | 9% |
| EMC | 9% | -22% | -4% | 31% |
| ADBE | -2% | -1% | 12% | 18% |
| YHOO | -3% | 14% | 33% | 57% |
| AMZN | -15% | -4% | 10% | 24% |
| Average | -3% | -5% | 10% | 28% |

CHOICES

**WHAT DECISIONS DO
YOU PLAN TO MAKE?**

vs.

**WHAT DECISIONS DO YOU
WISH YOU HAD MADE?**

Douglas Leone

Sent: Monday, October 6, 2008 7:37 PM
To: Douglas Leone; Michael Moritz
Subject: mkt conditions...

Is this awful or what ?

What is sequoia's take ?

My attitude is **batten down the hatches**it is going to be a rough ride...

Any co without **at least a yr of cash minimum in the bank** is in trouble...in my opinion

Thoughts ??

Here is what I sent to all my cos in april of 2000 and am dusting it off to resend again now !!

To: Portfolio CEOs
Date: 04/17/2000 05:24 PM
RE: Market Conditions Effect on Portfolio Companies

The down draft in the stock market sends us some obvious "signals" and we can't help but mention them.

1. If you are in a funding cycle, you should **raise your funding as soon as possible** and raise as much as possible.
2. You must aggressively examine and **pursue M&A opportunities** (unless you have over 12 months of cash reserves!) to insure you have critical mass (including funding, customers, rolodex power, market share, cash, synergy, etc.).
3. **Be realistic on valuations** - they will fall so be ready and willing to co-operate.
4. While it's safe to say entrepreneurs have had negotiating leverage with the "down draft" in the market, **the VC community will start exercising their leverage.**

THE SOLUTION

PERFORM SITUATION ANALYSIS

ADAPT QUICKLY

USE A ZERO-BASED BUDGETING APPROACH

MAKE CUTS

REVIEW SALARIES

EMPLOY A HEAVILY COMMISSIONED SALES STRUCTURE

BOLSTER BALANCE SHEETS

BECOME CASH FLOW POSITIVE AS SOON AS POSSIBLE

SPEND EVERY DOLLAR AS IF IT WERE YOUR LAST

GET REAL

OR

GO HOME

Q & A

