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EUROPEAN STARTUP NETWORK

Startup valuation

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Agenda

- First remarks
- Pre-Money / Post-Money & dilution
- Dangers of wrong valuation
- Factors impacting valuation

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Agenda

Methodologies

- Rule of thumb
- Traditional methods
- VC method
- Scorecard method (not analyzed here)
- Dave Berkus Method
- Risk Factor Summation
- Multiples & comparables

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Reviewed by

Patrick Polak

Partner

newion investments
a new eye on investments

Frank Maene

Partner

VOLTA VENTURES

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First remarks

- 1st rule : there is no rule
- Rule of thumb
- More an art than a science
- Price is not (always) the value

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First remarks

- Do not compare
  - With US or other countries
  - With your friends
- More mature, more rational
  - From people/potential to metrics
- Valuations evolve all the time
- Be realistic and flexible

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First remarks

- Professional (not personal) discussions
- Always too diluted for entrepreneurs and too expensive for investors
- Investment terms are as important as valuation

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Dangers of wrong valuation

- Too high valuation

  - Not attract the right investors
  - Difficult for futher rounds (down rounds, weak progresses)
  - Time to close is longer
  - Pressure & expectations
  - Terms

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Dangers of wrong valuation

- Too low valuation

  - Too much given, not enough equity for further investors, employees
  - Founders – motivation
  - Difficulty to justify good valuation later

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Pre & Post Money Valuation

- Pre-money
  - Value of your company before investors money
- Investment
- Post money
  - Value of your company after investment

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Dilution

Example

- Company worth 1M₃ before investment (Pre)
- Investors invest 250k₃
- Post Money valuation : 1M₃ + 250k₃ = 1,25M₃

- Ownership after investment :
  - Founders : 1M₃/1.25M₃ = 80%
  - Investors : 0.25M₃/1.25M₃ = 20%

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Dilution

Pre-seed Round or creation

Shareholder	Shares	Percentage
Uncle	50	6,25%
Founder 1	250	31,25%
Founder 2	250	31,25%
Founder 3	250	31,25%
Founder 4		0,00%
TOTAL	***800***	***100%***

Uncle's Investment	50.000,00 €
% uncle	6,25%
"Share price"	1.000,00 €

Angel/Seed Round

Shareholder	Shares	Percentage
Uncle	50	4,86%
Founder 1	250	24,31%
Founder 2	250	24,31%
Founder 3	250	24,31%
Founder 4	0	0,00%
Angel	229	22,22%
TOTAL	***1029***	***100%***

Pre-money	700.000,00 €
Angel's investment	200.000,00 €
Post Money valuation	900.000,00 €
% angel	22,22%
Share price	875,00 €

VC Round #1

Shareholder	Shares	Percentage
Uncle	50	3,24%
Founder 1	250	16,20%
Founder 2	250	16,20%
Founder 3	250	16,20%
Founder 4	0	0,00%
Angel	229	14,81%
VC's 1	514	33,33%
TOTAL	***1543***	***100%***

Pre-money	2.000.000,00 €
VC1's investment	1.000.000,00 €
Post Money valuation	3.000.000,00 €
% VC1	33,33%
Share price	1.944,44 €

Calculate # shares & share price =>%

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Factors Impacting Valuation

Economy & market conditions

Location

Business Sector / industry

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Factors Impacting Valuation

Stage of Development

Team

Market Size

Competition

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Factors Impacting Valuation

- Revenue & (gross) margins
- Unit economics, metrics & traction
- Use of funds and next milestones
- Round size & competition to invest
- Further round(s) / past rounds

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Valuation (Rule of thumb)

(Net) Burn rate for the next 18-24 months

- Achieve milestones for next round

Investors want to have 20-35% of the company to have substantial returns

Multiples regarding your industry / your company

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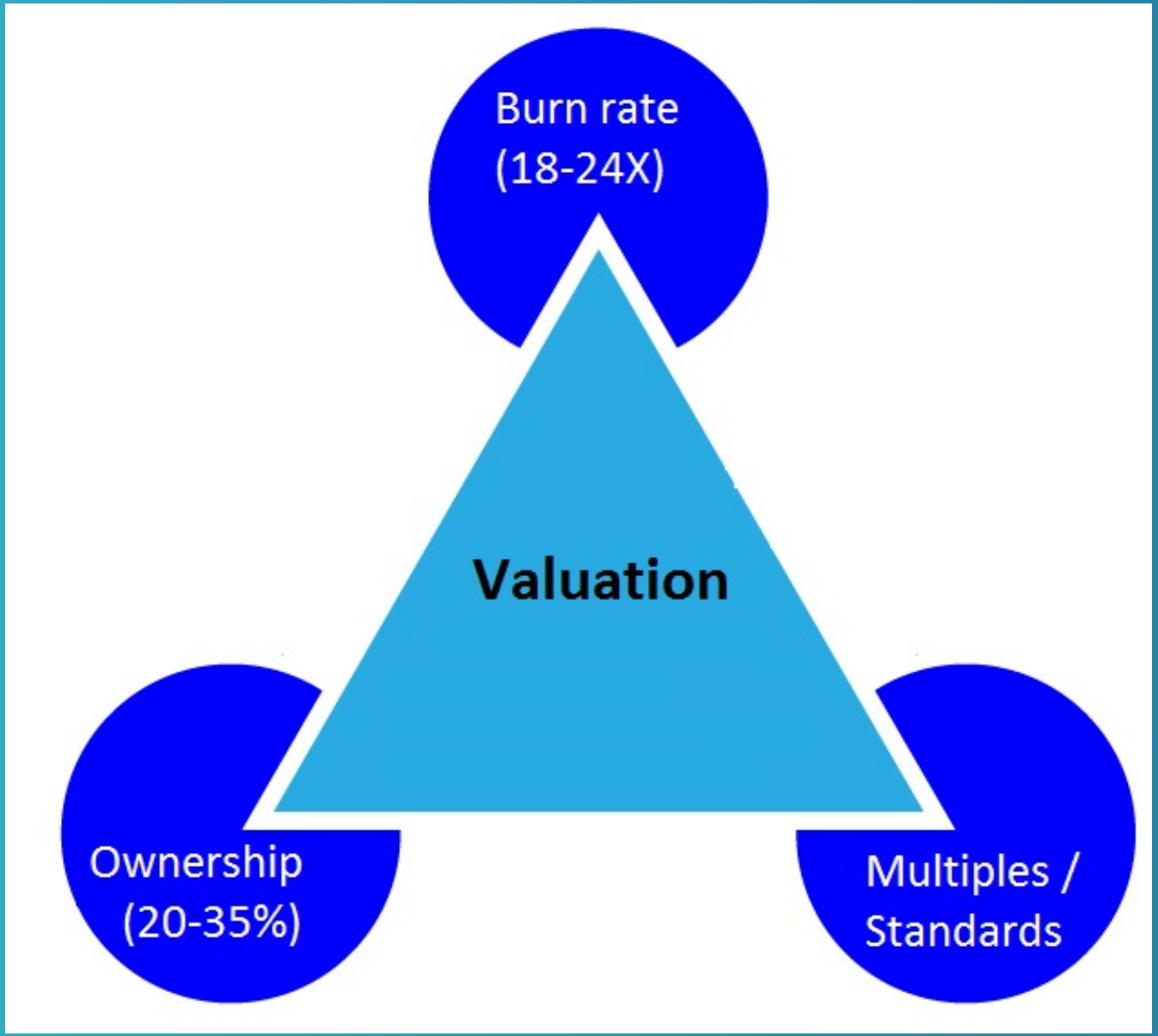

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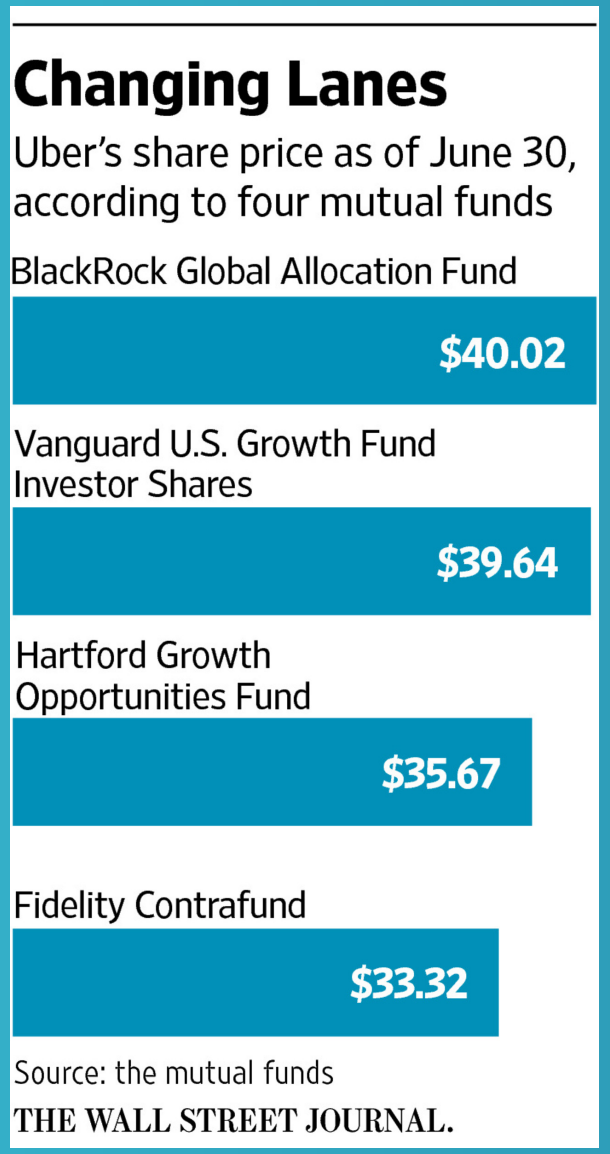
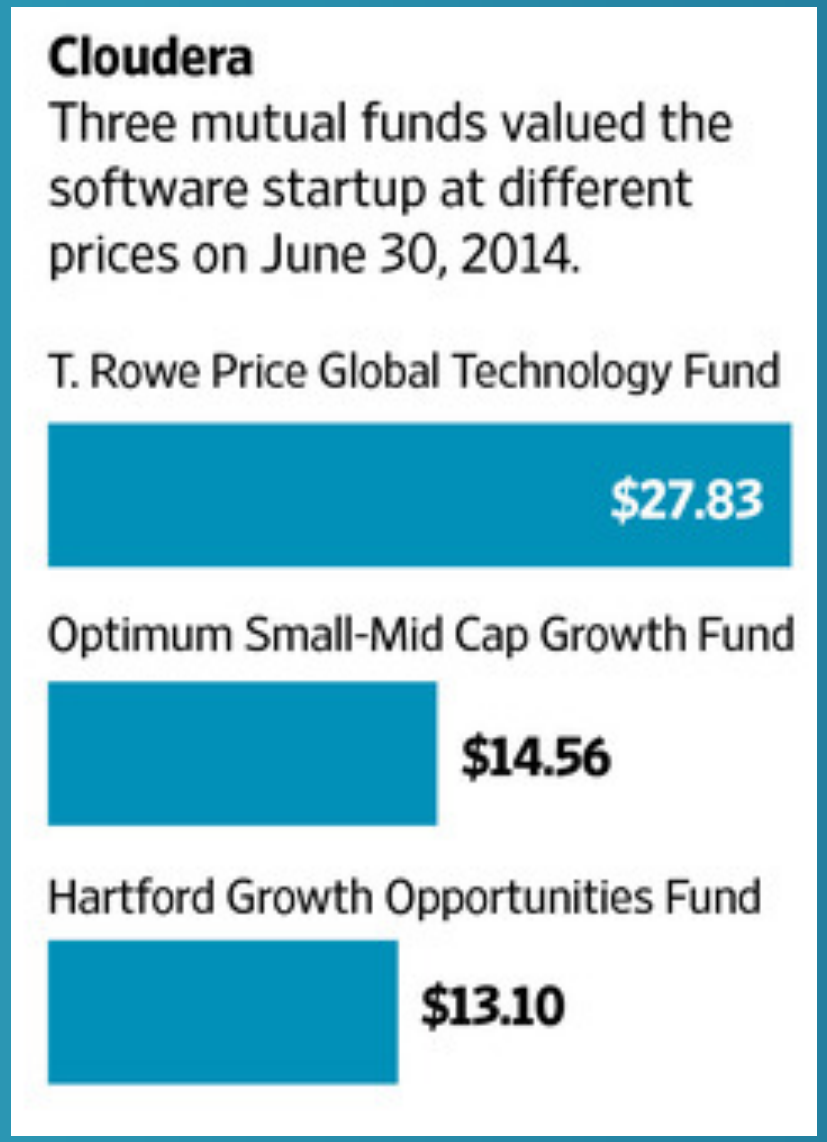
- J. De la Rochebrochart

Valuation (Rule of thumb)





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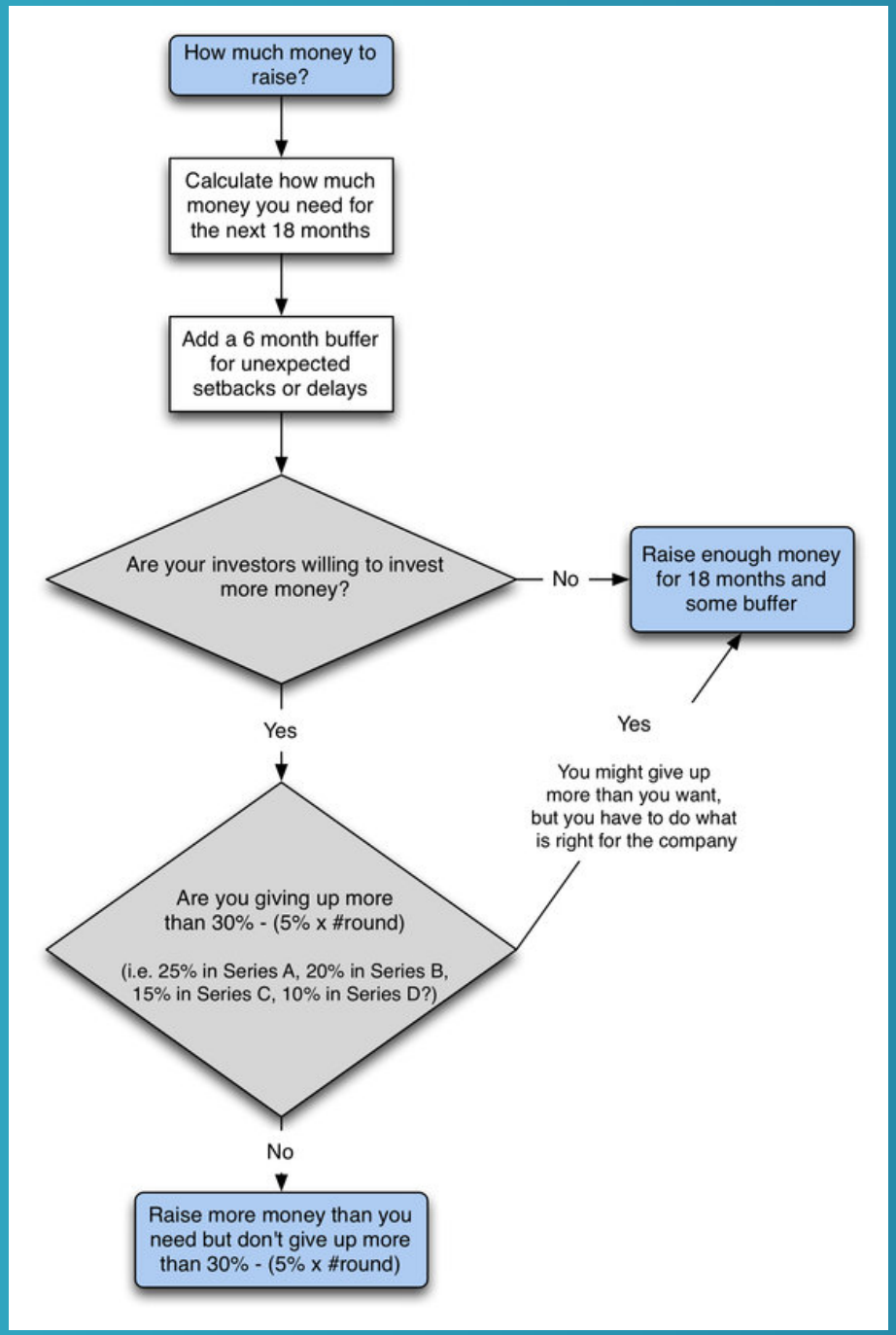
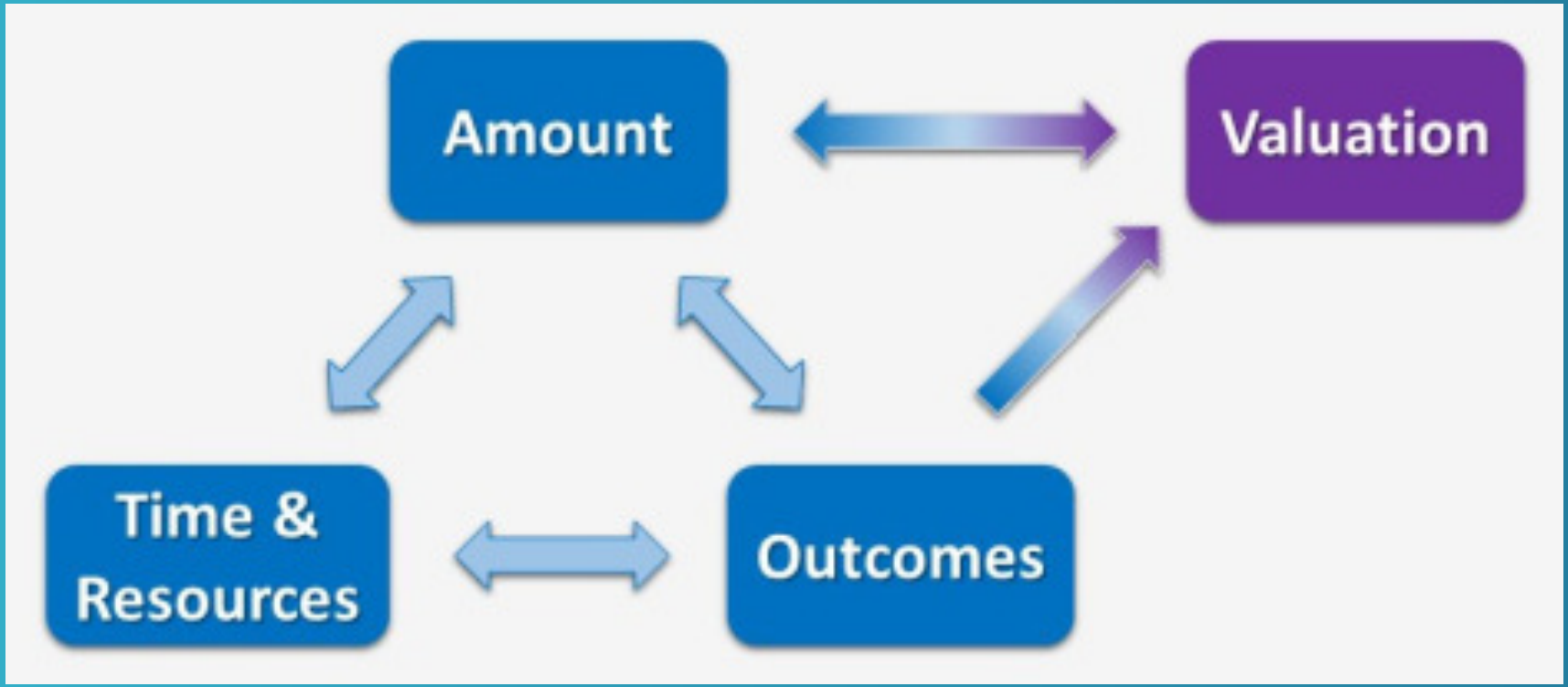


- Dries Bruytaert



- shockwaveinnovations.com

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Valuation
=
(
Founder's hopes
and dreams
)
X
How fast it's actually growing
—
(
Downside protection
X
Investor FOMO
)

Traditional methods

(Past : assets) -> not for tech startups

Present : multiple

(Future : Discounted Cash Flow) -> not for early stage startups

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Different methods

VC method

Scorecard method (not here->pre-revenue)

Dave Berkus Method

Risk Factor Summation

Multiples

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VC method

Size of the fund
IRR to their LP's
# of investments
# of rounds per company
Ticket size
Time to exit
Further rounds needed (further dilution)
Ownership

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VC method

What value at exit?

Post-Money = Exit Value / (1+IRR)^time

Example

Time : 5 years

IRR : 20%

Exit : 25M€ (+/- average exit price in Europe)

Post Money : 25M€/(1,2^5) = 10,047M€

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VC method

Example

Time : 5 years

Invest 2M€ @ 10M€ (Post-money)->20%

Further investment : 3M€ @15M€

- Dilution of 20% (VC doesn't follow-on in this case)

Ownership : 16% ->4M€ return on 2M€

IRR : 15% -> NOT OK => lower valuation

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VC method

- Fund size : 50M₃
- Investments : 40M₃ (Fund - mgt fees)
- IRR (expected) : 3X on 10 years (12% IRR)
- # investments : 22

Investments in a startup (M€)	#startups
5	5
1,5	4
1	5
0,5	8
40	22

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Case 1 – 2,75X (10,65%)

Amount invested (M€)	#startups	Return	Exits (M€)
13,5	11	0	0
8	4	1	8
12	4	3	36
6,5	3	10	65
40	**22**		**109**

Portfolio
1) 5@0,5M + 3@1M+2@1,5M+1@5M
2) 1@0,5M + 1@1M+1@1,5M+1@5M
3) 1@0,5M + 0@1M+1@1,5M+2@5M
4) 1@0,5M + 1@1M+0@1,5M+1@5M

This is a theoretical case
Many VCs don't have this returns and few have much better
Portfolio repartition is never pre-determined

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Case 2 – 3,02X (11,69%)

Amount invested (M€)	#startups	Return	Exits (M€)
13,5	11	0	0
7	4	1	7
8,5	4	4	34
11	3	10	110
40	**22**		**151**

Portfolio
1)5@0,5M + 3@1M+2@1,5M+1@5M
2)2@0,5M +1@5M
3)1@0,5M +2@1,5M+1@5M
4)2@1M+2@5M

This is a theoretical case
Many VCs don't have this returns and few have much better
Portfolio repartition is never pre-determined
IRR on 50M€ not 40M€

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Case 3 – 2X (7,18%)

Amount invested (M€)	#startups	Return	Exits (M€)
13,5	11	0	0
2	2	1	2
7	3	1,5	10,5
7	3	3	21
5,5	2	4	22
5	1	5	25
40	22		80,5

Portfolio

1) 5@0,5M + 3@1M+2@1,5M+1@5M
2) 1@0,5M + 1@1,5M
3) 2@1M+ 1@5M
4) 1@0,5M + 1@1,5M+1@5M
5) 1@0,5M + 1@5M
6) 1@5M

This is a theoretical case

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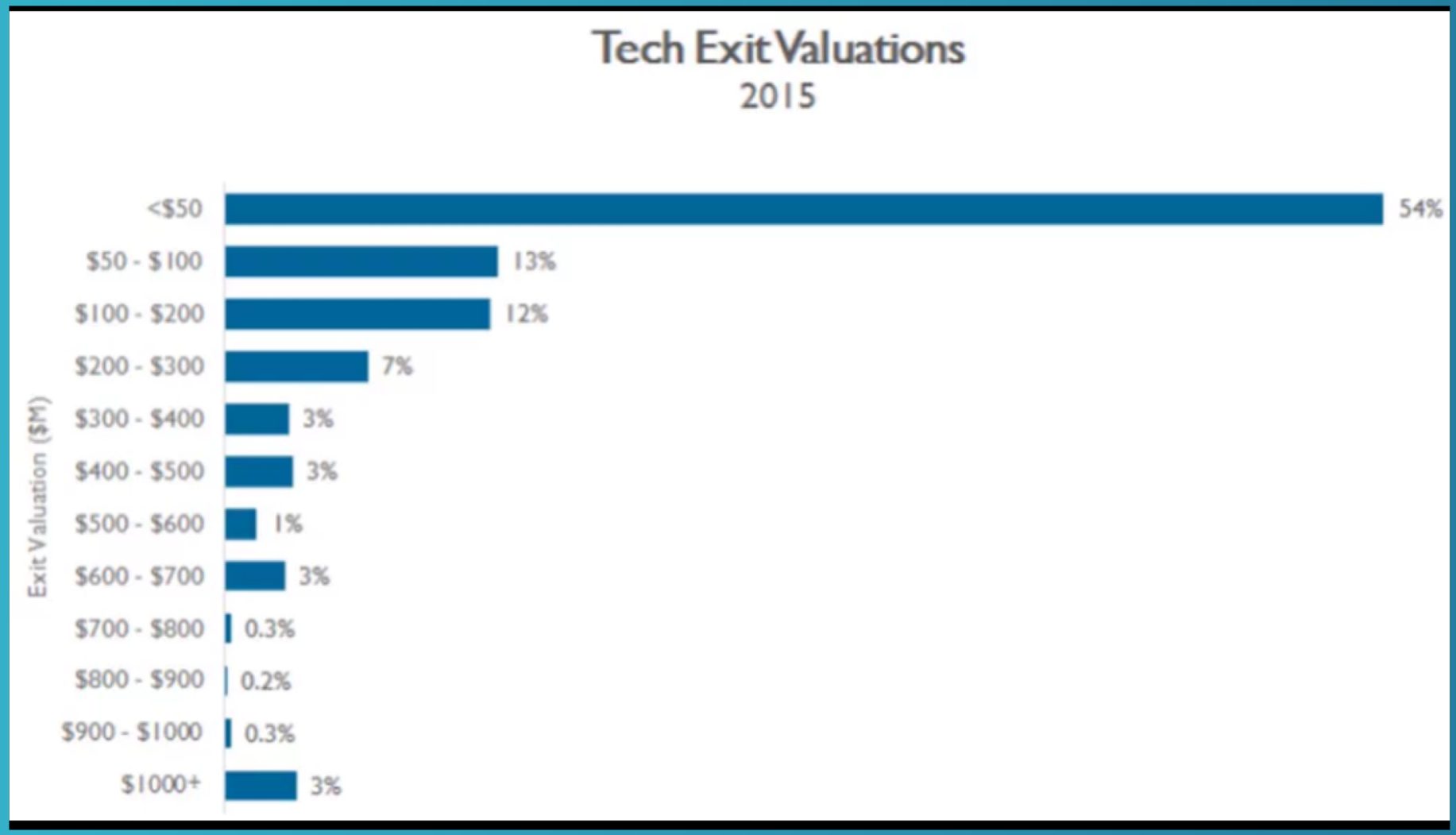
Berkus Method (seed stage)

Criteria	Range
Sound idea Basic Value	0-500.000€
Prototype Reducing technology risk	0-500.000€
Quality management team Reducing execution risk	0-500.000€
Strategic relationships Reducing market risks	0-500.000€
Product roll out & sales Reducing production risks	0-500.000€

VC method



CB Insights

BUT **majority** of the startups die before any exit
Average exit in Europe/Benelux : **23M€**

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Risk Factors Summation

Criteria	Range
Management	-2 / -1 / 0 / +1 / +2
Stage of the business	-2 / -1 / 0 / +1 / +2
Legislation/ Political risk	-2 / -1 / 0 / +1 / +2
Sales & marketing risk	-2 / -1 / 0 / +1 / +2
Funding risk	-2 / -1 / 0 / +1 / +2
Competition risk	-2 / -1 / 0 / +1 / +2
Technology risk	-2 / -1 / 0 / +1 / +2
Ligitation risk	-2 / -1 / 0 / +1 / +2
International risk	-2 / -1 / 0 / +1 / +2
Reputation risk	-2 / -1 / 0 / +1 / +2
Exit	-2 / -1 / 0 / +1 / +2

Risk Factor Summation

	Score
Management	1
Stage of the business	-1
Legislation/ Political risk	2
Sales & marketing risk	-2
Funding risk	1
Competition risk	0
Technology risk	-1
Ligitation risk	1
International risk	-1
Reputation risk	1
Exit	1
Total	2
Average valuation	1M€
Unit = 250k€	500k€
Total	1,5M€

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Multiples

- Multiple of few metrics like
  - Revenue
  - Growth
  - (EBITDA) -> most of the time negative
  - (P/E ratio) -> most of the time negative
  - (Price book ratio) -> no sense
  - (Dividend Yield) -> most of the time none

Shares of a public companies are more liquid then you will have a discount as a private company => lower valuation

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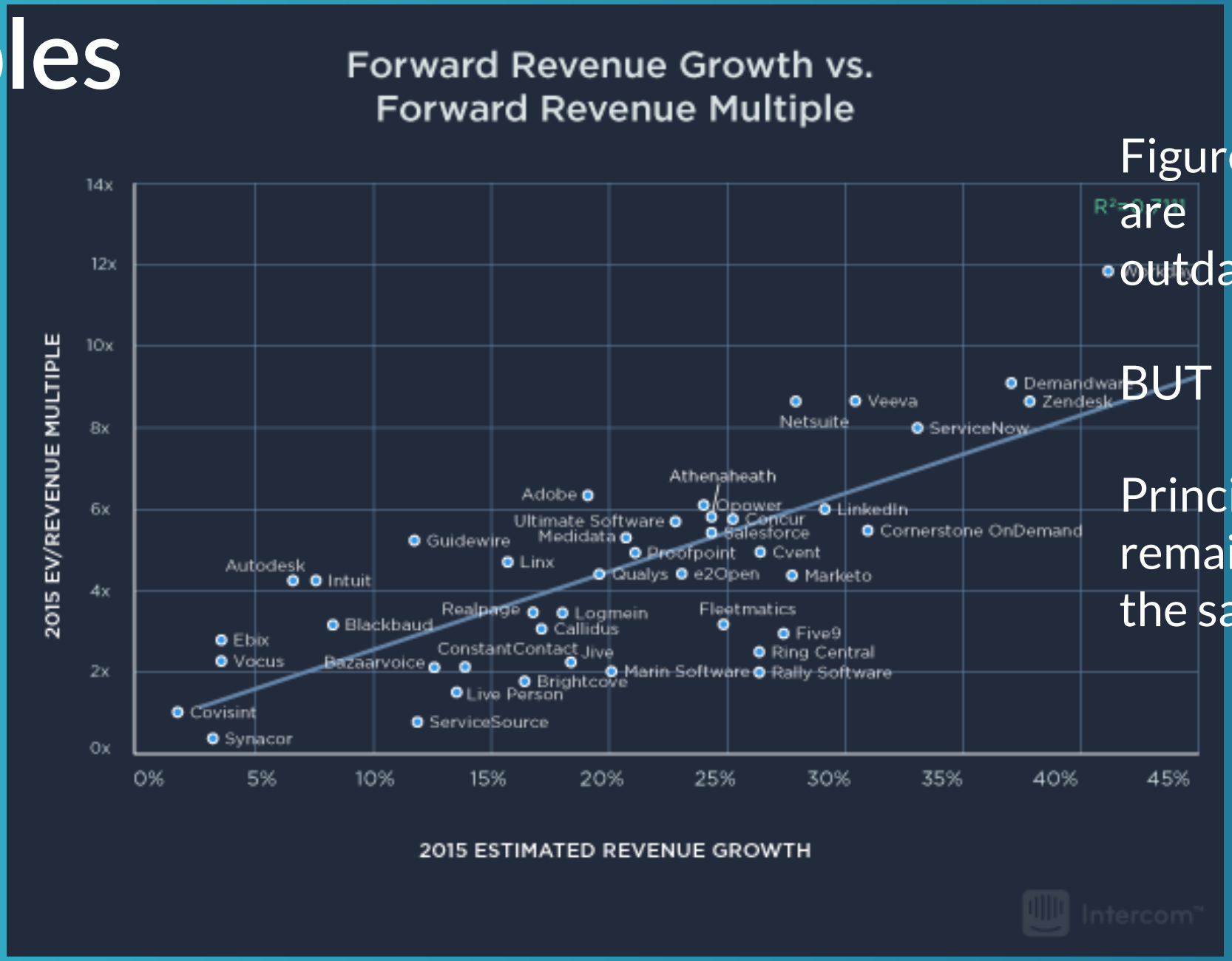
Multiples

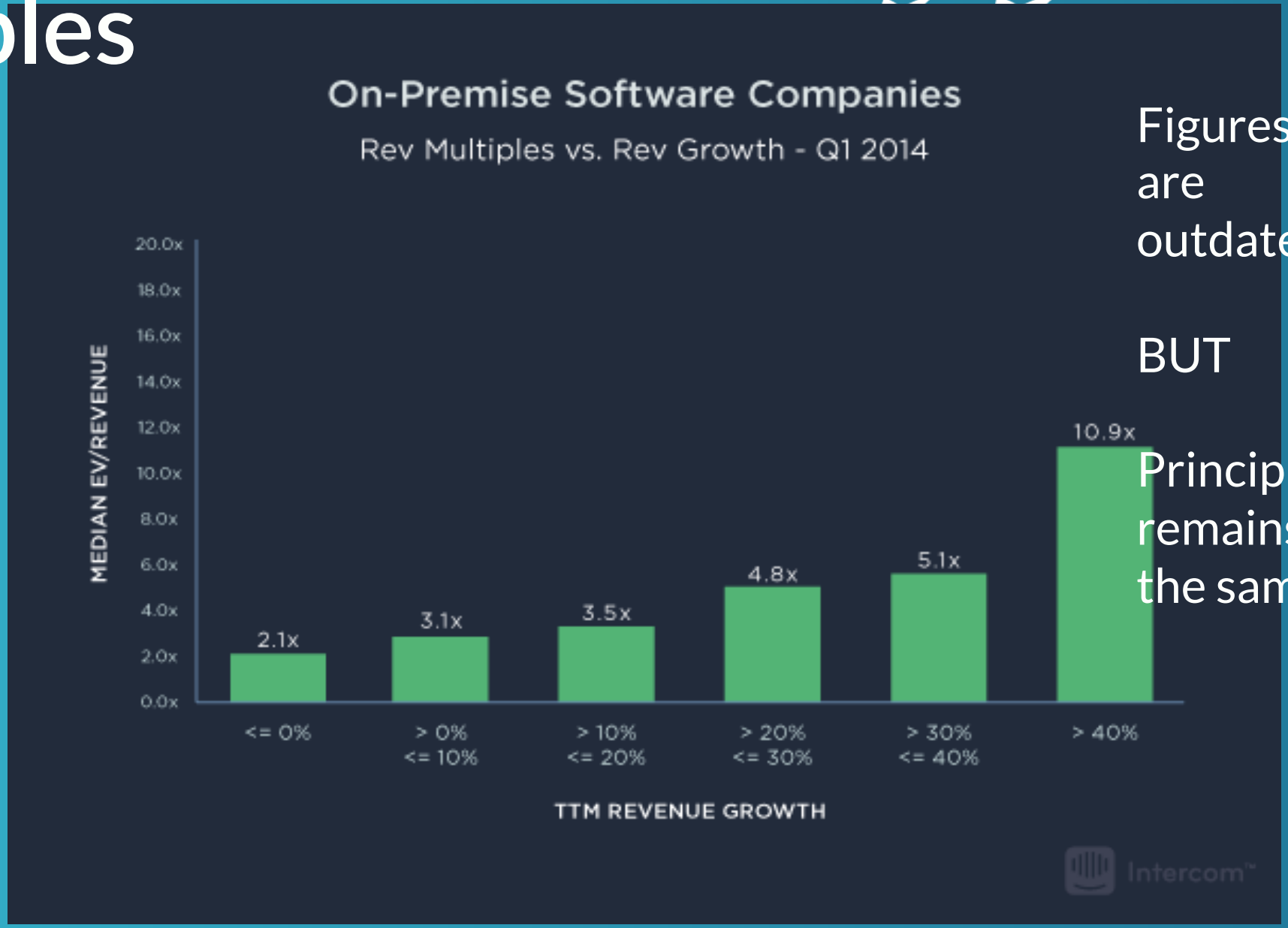


Figures are outdated

BUT

Principle remains the same

Multiples



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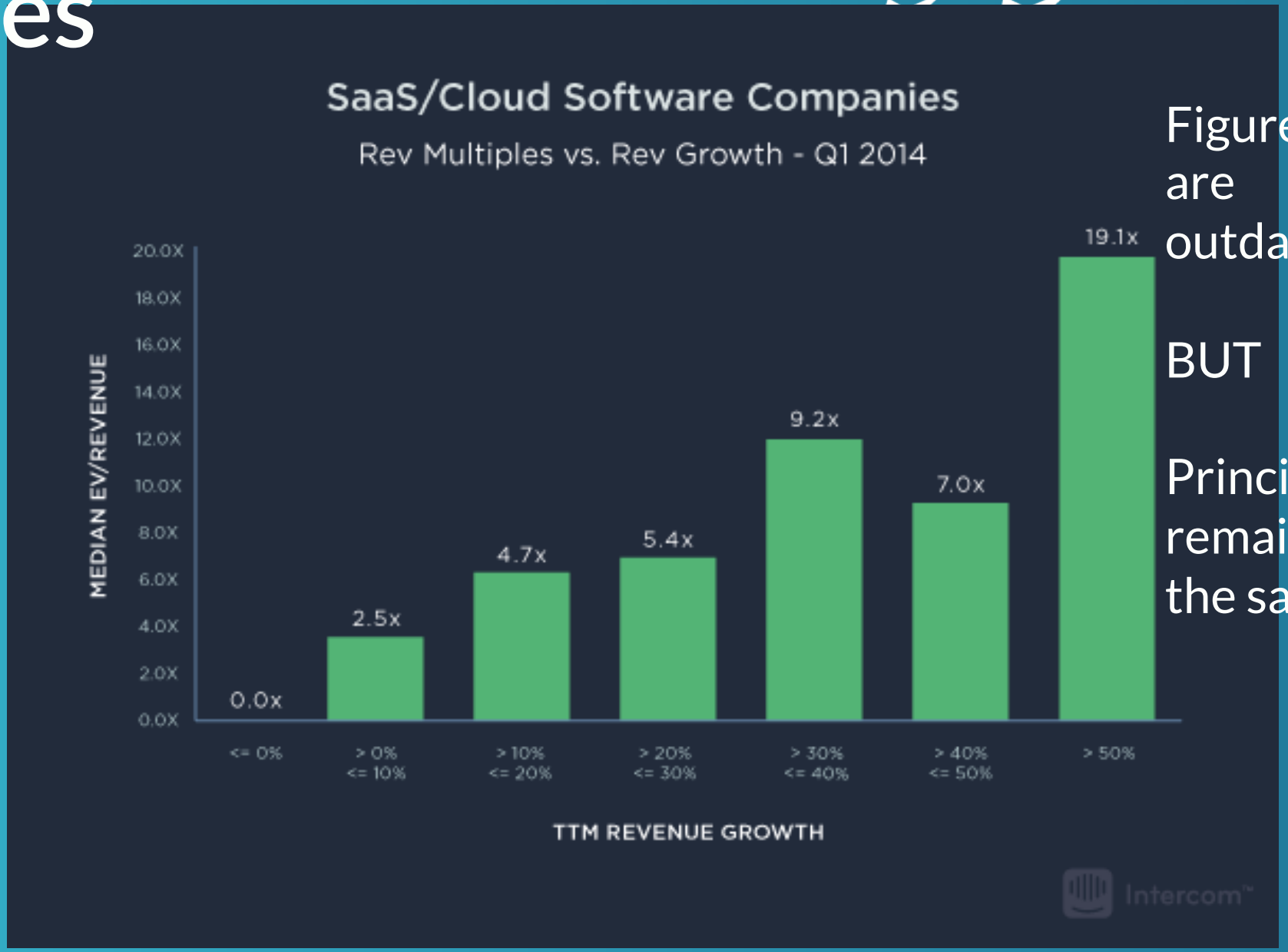
BUT

Principle remains the same

Multiples

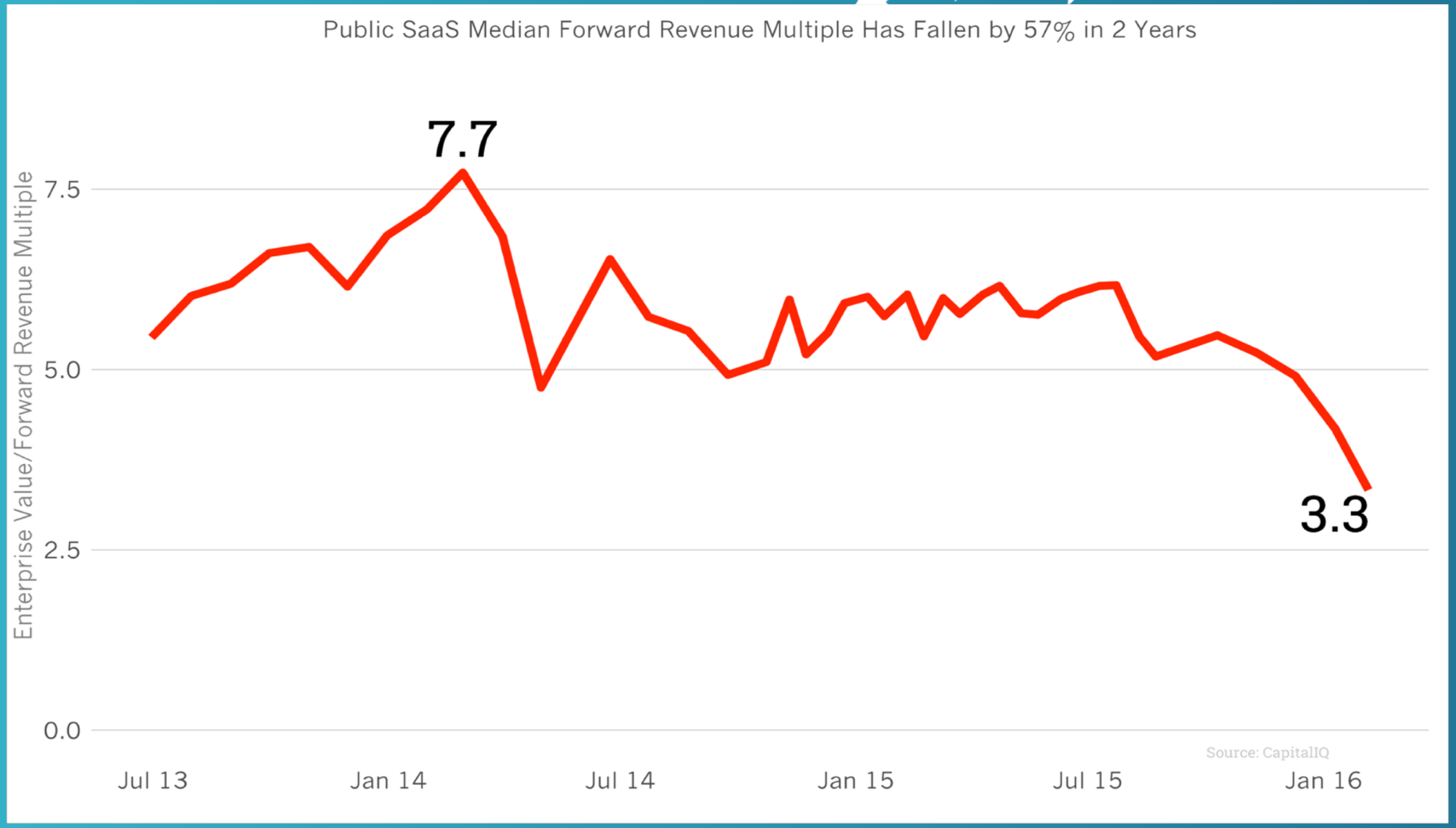


Figures are outdated

BUT

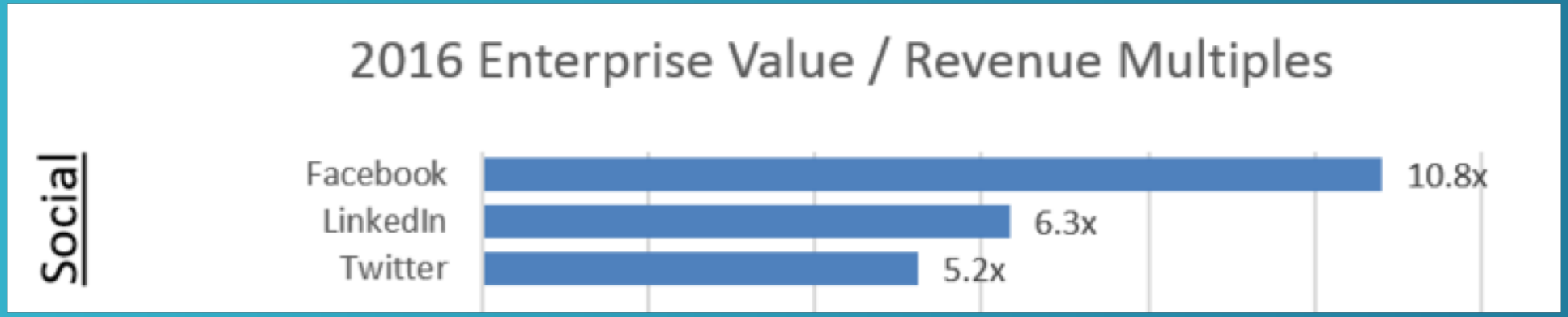
Principle remains the same

Multiples (evolution)

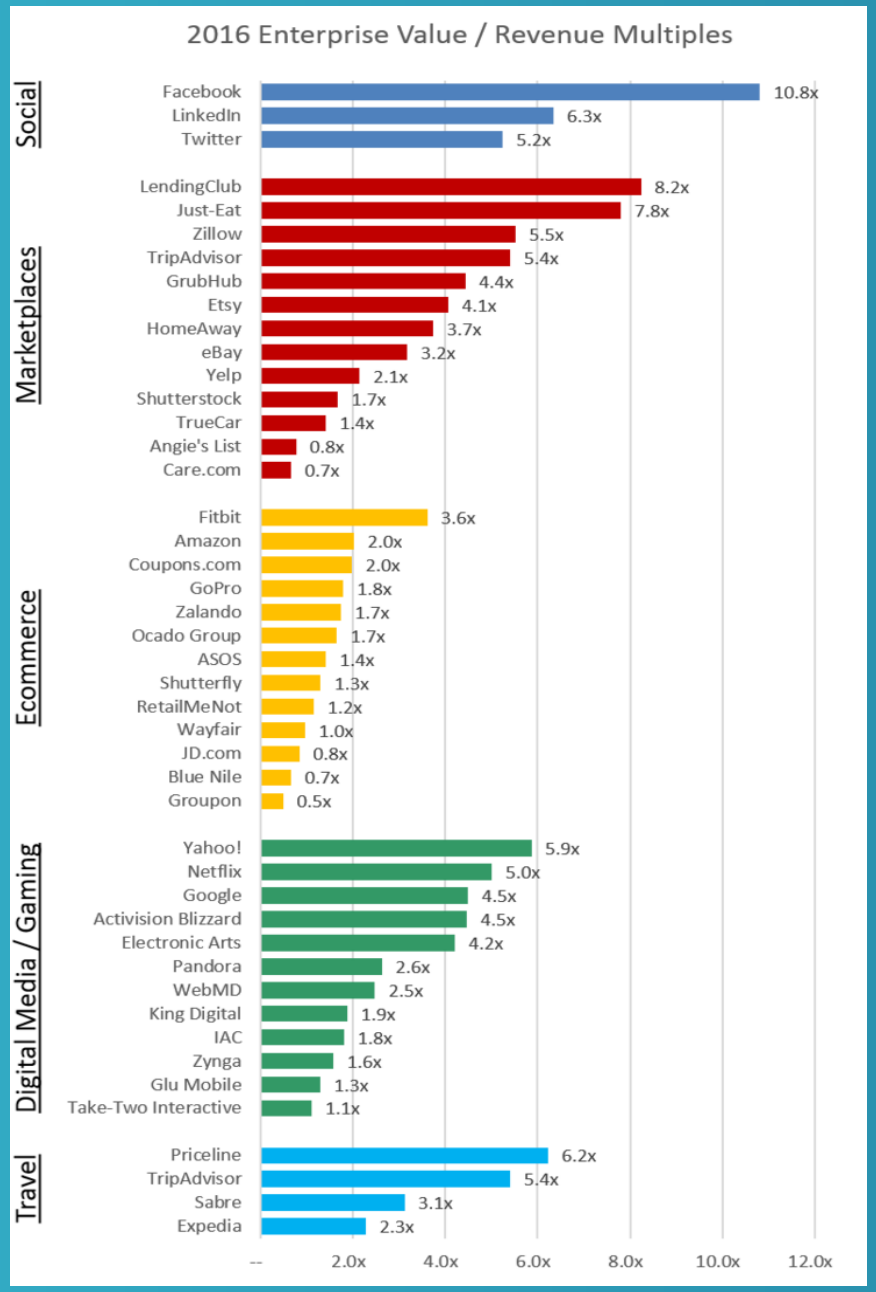


Tomasz Tunguz

Multiples


2016 Enterprise Value / Revenue Multiples
Social
Facebook
LinkedIn
Twitter
10.8x
6.3x
5.2x

Multiples



- The next slides are about US publicly traded companies
- Goal is to show difference by sectors
- Difference between private and public companies exists
- Public companies have a premium valuation
- Leader companies too

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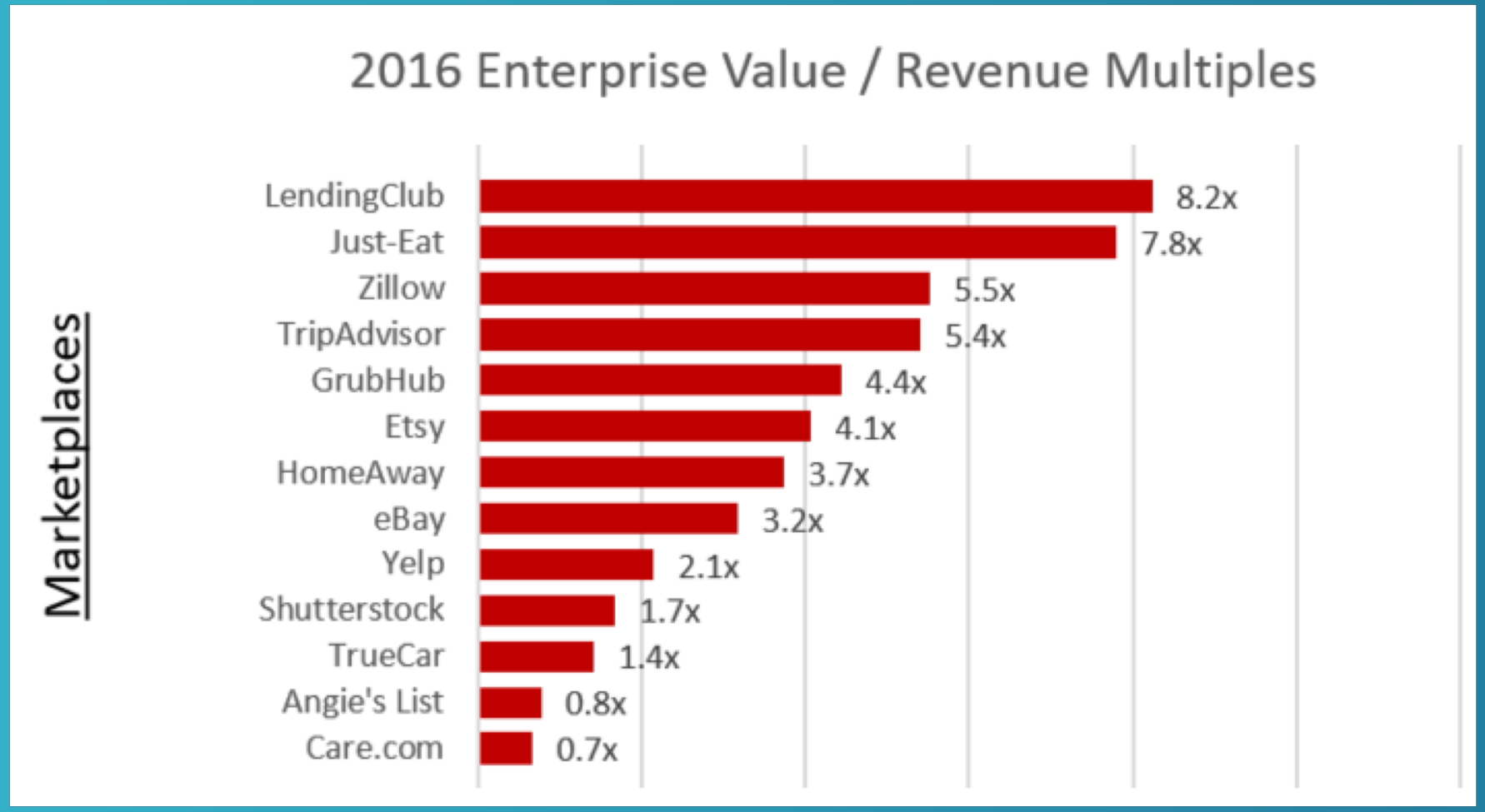
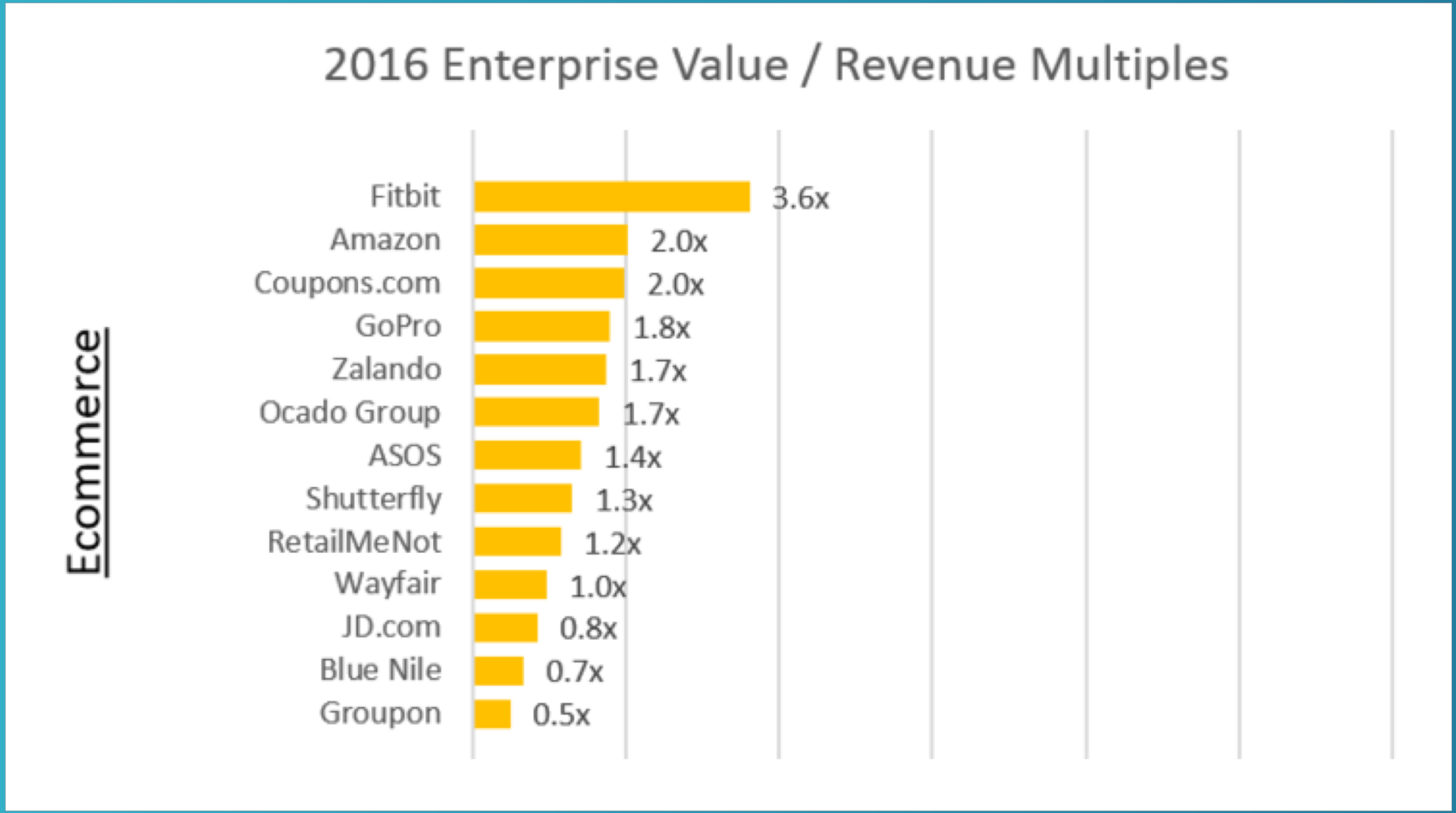
Mahesh.vc

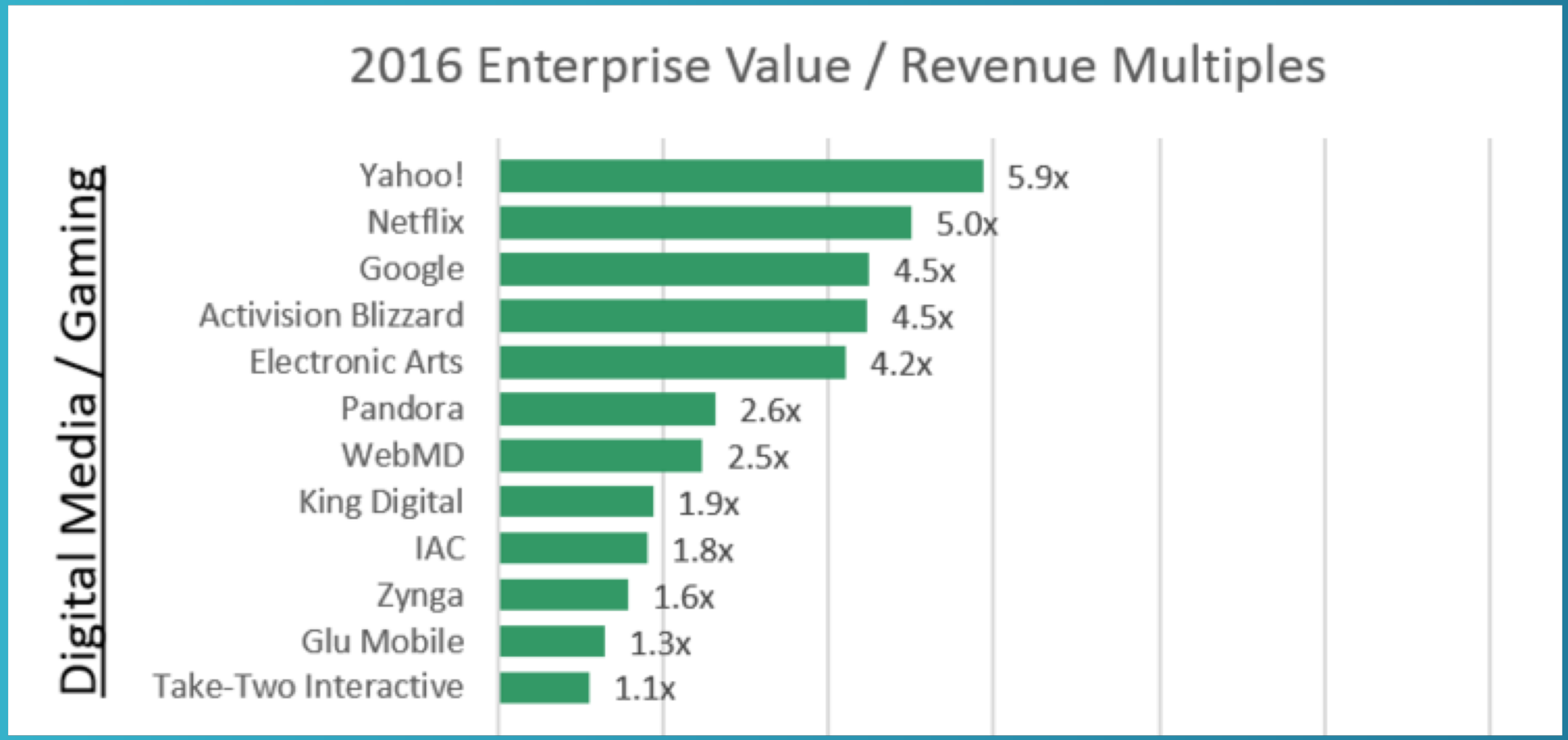
Multiples


2016 Enterprise Value / Revenue Multiples
Marketplaces
LendingClub 8.2x
Just-Eat 7.8x
Zillow 5.5x
TripAdvisor 5.4x
GrubHub 4.4x
Etsy 4.1x
HomeAway 3.7x
eBay 3.2x
Yelp 2.1x
Shutterstock 1.7x
TrueCar 1.4x
Angie's List 0.8x
Care.com 0.7x

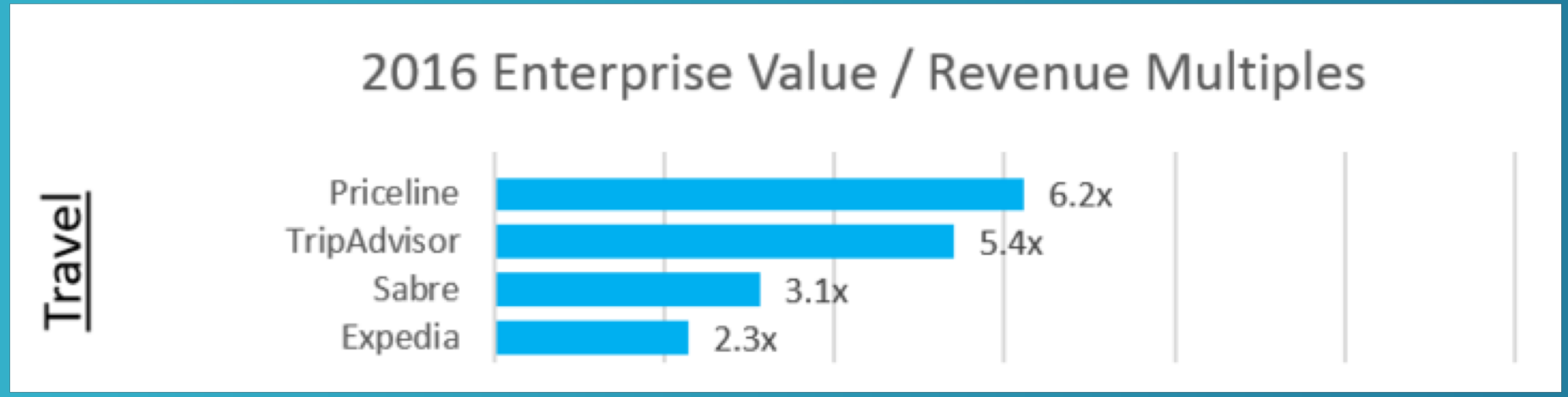
Multiples


2016 Enterprise Value / Revenue Multiples
Ecommerce
Fitbit 3.6x
Amazon 2.0x
Coupons.com 2.0x
GoPro 1.8x
Zalando 1.7x
Ocado Group 1.7x
ASOS 1.4x
Shutterfly 1.3x
RetailMeNot 1.2x
Wayfair 1.0x
JD.com 0.8x
Blue Nile 0.7x
Groupon 0.5x

Multiples


2016 Enterprise Value / Revenue Multiples
Digital Media / Gaming
Yahoo! 5.9x
Netflix 5.0x
Google 4.5x
Activision Blizzard 4.5x
Electronic Arts 4.2x
Pandora 2.6x
WebMD 2.5x
King Digital 1.9x
IAC 1.8x
Zynga 1.6x
Glu Mobile 1.3x
Take-Two Interactive 1.1x

Multiples


2016 Enterprise Value / Revenue Multiples
Travel
Priceline
6.2x
TripAdvisor
5.4x
Sabre
3.1x
Expedia
2.3x

One tool that can help you

- www.seriousfunding.be

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Any Questions?

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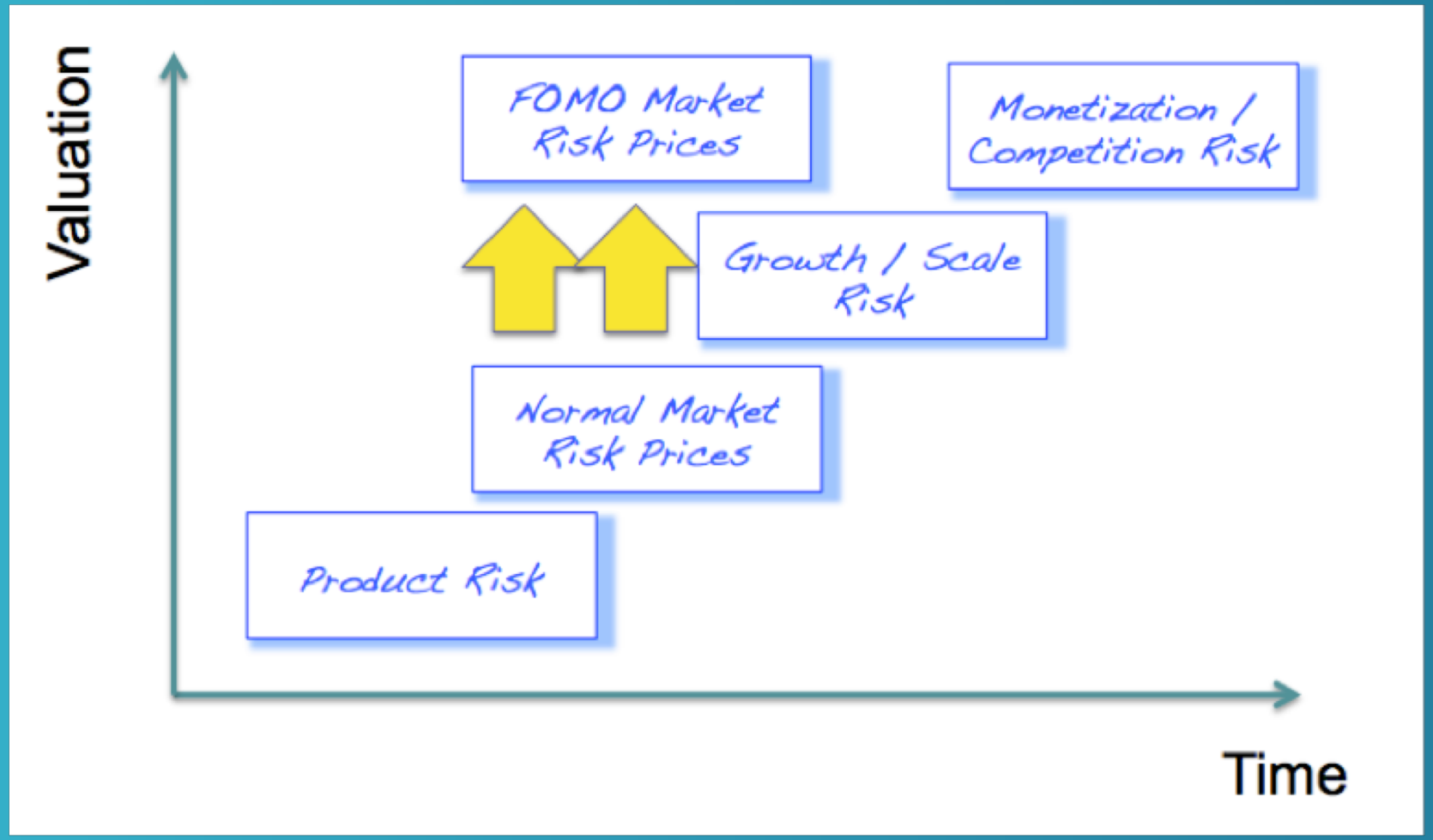

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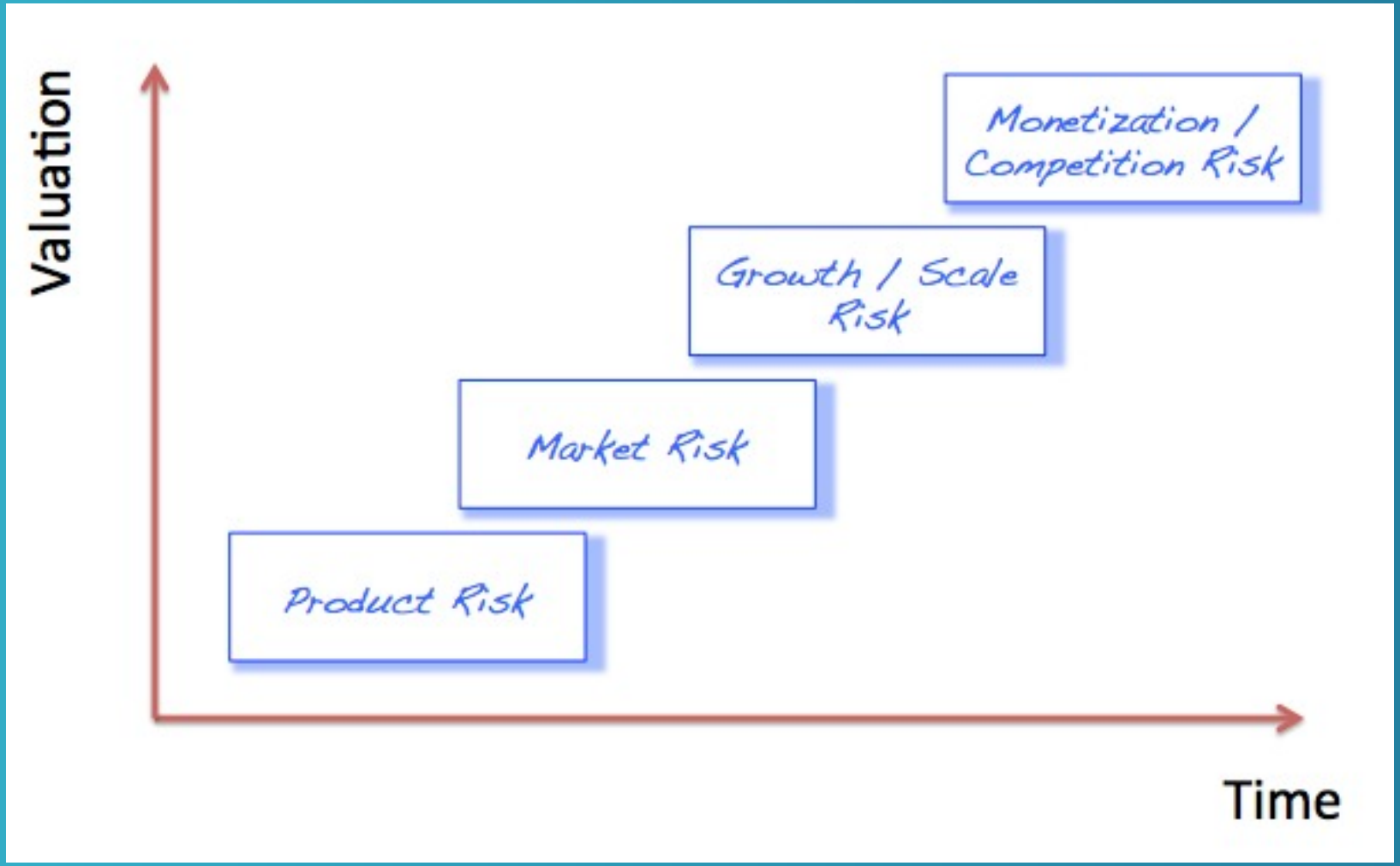

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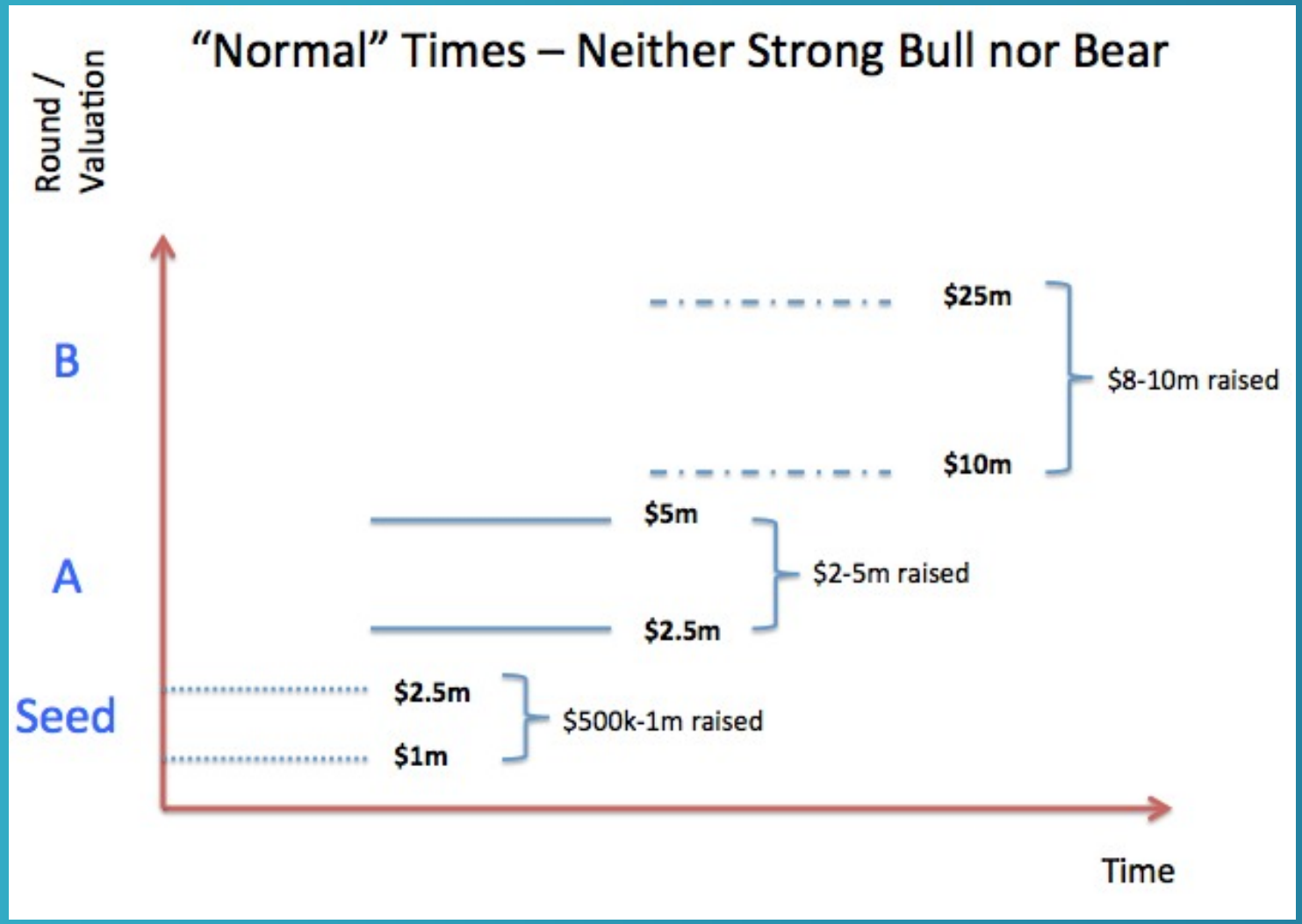

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Mark Suster/US

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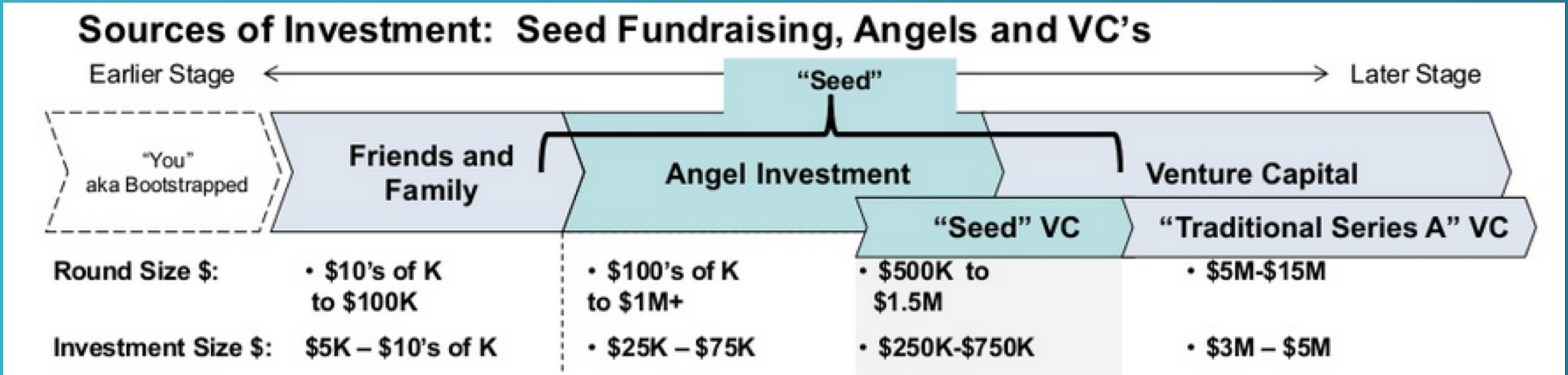

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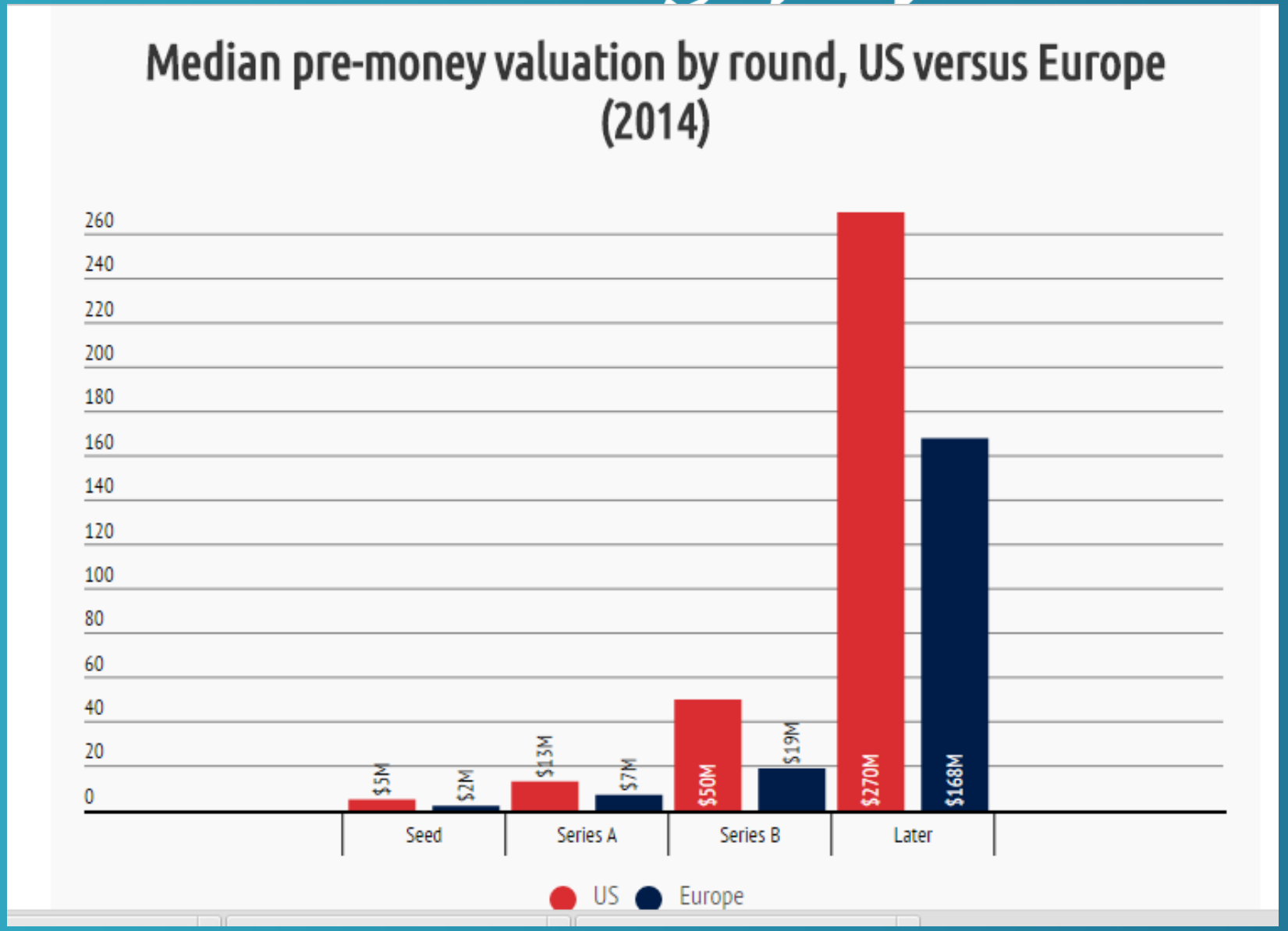

Appendix

A good assessment is to look at your competitors through two Databases

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