

# iBoost Educational Seminar

## Valuing Startups

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# Disclaimer

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# Value Definition

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- Business value = value of all future benefits accruing to the owners in today's dollars

# Valuation Principles

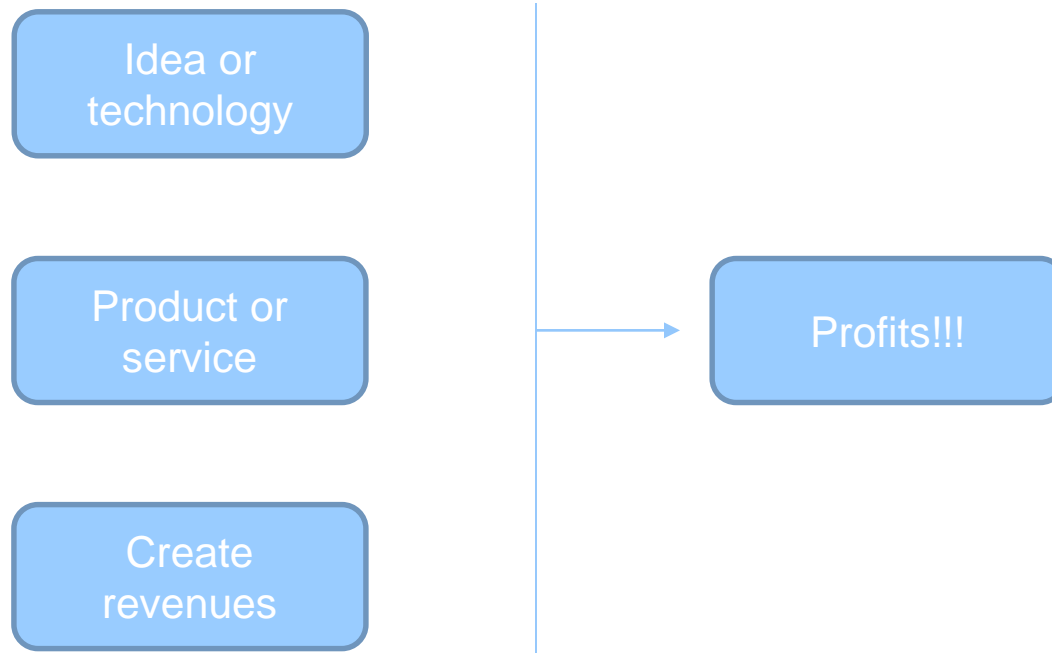
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- Value is at a point in time
- Value is future-oriented
- Market dictates the rate of return

# Value Creation

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- Where does value come from?



# The Calculation of Value

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- Operating companies
  - Future benefit is earnings/cash flow
  - Capitalized earnings/cash flow
    - Multiply earnings by factor
    - Factor is the inverse of rate of return
    - Rate of return reflects risk

# The Calculation of Value

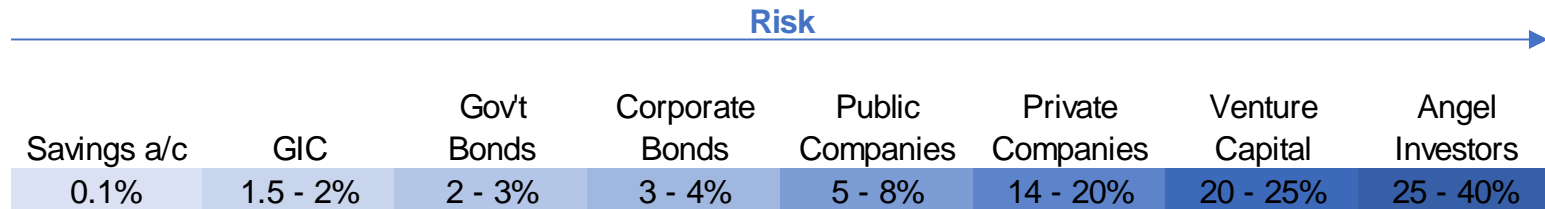
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<b>Business Value</b>		
		<u><b>Co. A</b></u>
<b>Maintainable net earnings</b>		\$ 100,000
<b>Capitalization rate (price earnings multiple)</b>	20%	5 x
<b>Share value</b>		<u><u>500,000</u></u>

# The Calculation of Value

## ***Investment Spectrum:***

- ***Rate of return (ROR)***





# The Calculation of Value

<b>Business Value</b>				
		<u>Co. A</u>		<u>Co. B</u>
<b>Maintainable net earnings</b>		\$ 100,000		\$ 100,000
<b>Capitalization rate (price earnings multiple)</b>	20%	5 x	40%	2.5 x
<b>Share value</b>		<u>500,000</u>		<u>250,000</u>

# Startups

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- Revenues – timing?
  - Stage of development
  - Research required
  - Regulatory approvals
  - Sales force
- Profitability – timing?

- Cash flow considerations
  - Capex – equipment, furniture, vehicles ...
  - Physical space
    - Upfront lease costs
    - Leasehold improvements
  - Working capital
  - Burn rate!!

# Startup Valuations

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- Discounted cash flow (DCF)
  - Overall best approach for valuing
  - What if:
    - Early stage development
    - Pre-revenue
    - Timing of profitability uncertain

# Startup Valuations

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- Other methodologies:
  - Venture capital method
    - Expected ROR at exit
  - Berkus method
    - Assess \$ value to key startup criteria
  - Scorecard method
    - Assess criteria - value is relative to average startup value
  - Risk factor summation method
    - Assess risks of criteria - relative value

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**“Based on our calculations and years of hard work,  
Molly and I believe the price of our business  
should be based on our revenues right about there!”**