FINRO
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# AI STARTUP
# VALUATION REPORT

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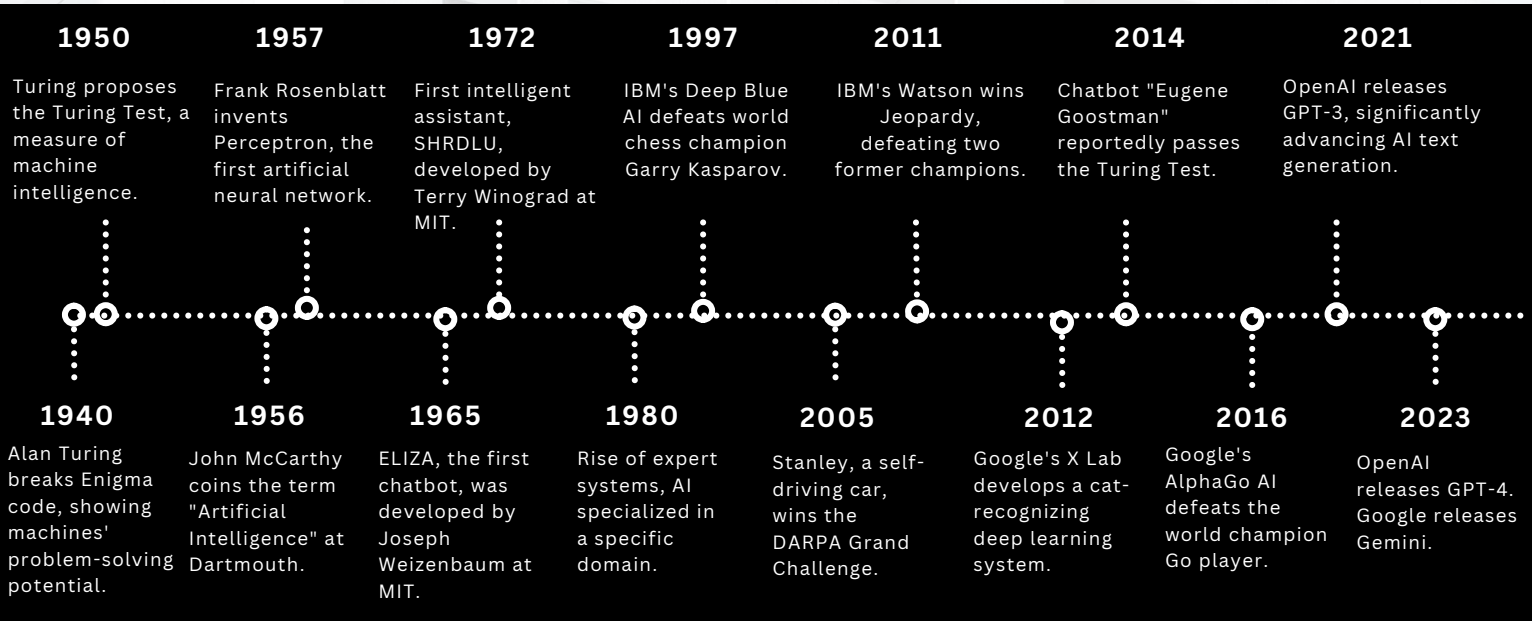
# INTRODUCTION TO AI VALUATION

## Understanding AI

Artificial Intelligence (AI) is a branch of computer science aimed at building machines capable of performing tasks that typically require human intelligence. This encompasses activities such as learning (machine learning), pattern recognition, understanding natural language, problem-solving, and decision-making.

The journey of AI began in the mid-20th century, gaining momentum with advancements in computing power and data availability. Presently, AI is categorized into two types: narrow AI, designed for specific tasks like speech recognition, and general AI, a conceptual framework for machines performing any human task, though it remains theoretical.

Today, AI is embedded across technology, influencing various sectors by enhancing efficiency, fostering innovation, and creating new opportunities. For startups, AI signifies a pivotal tool for transformative applications, distinguishing their value proposition and potential in a competitive landscape.



# INTRODUCTION TO AI VALUATION

## What is an AI Startup?

AI startups focus on building their main offerings around Artificial Intelligence technologies such as machine learning, natural language processing, and robotics. Their distinction lies in using AI as the key ingredient for innovation, not just an add-on.

These companies harness AI to uncover data insights, automate tasks, and improve decision-making. For example, healthcare startups might predict diseases using AI, while retail ones recommend products based on consumer behavior.

Despite AI's critical role, it's not a standalone business model. Many AI startups operate on a subscription basis, similar to utility services, offering AI tools for diverse solutions.

In summary, AI startups stand out through their unique applications of AI technology and their subscription-based revenue models, contributing novel value to various sectors.

### AI STARTUPS: TECHNOLOGY, UNIQUENESS, AND BUSINESS MODELS

01 **WHAT IS AN AI STARTUP?**

AI startups focus on creating products or services that are based on Artificial Intelligence technologies like machine learning, natural language processing, and robotics.

02 **WHY THEY'RE UNIQUE**

AI startups focus on creating products or services that are based on Artificial Intelligence technologies like machine learning, natural language processing, and robotics.

03 **AI AS A TOOL, NOT A BUSINESS MODEL**

AI is the sector, not the business model. Most AI startups use a subscription-based model, charging customers regularly for access to their AI-powered services.

# INTRODUCTION TO AI VALUATION

## What is AI Startup Valuation?

Valuing an AI startup is all about figuring out how much these cutting-edge companies are worth. But first, let's break down what we mean by an AI startup.

These are the newcomers on the block, harnessing artificial intelligence — technology that enables machines to mimic human learning and decision-making.

From making sense of human speech to recognizing images, AI startups are revolutionizing sectors like healthcare, finance, and retail, aiming to streamline operations and enhance our daily lives. Investors are keenly watching these startups, betting on their potential to lead the next wave of technological innovation with solutions that automate complex tasks, thereby making our lives easier and more efficient.

At the heart of many of these ventures is AI technology, yet they often operate on a subscription model, similar to Software as a Service (SaaS), offering AI-powered tools and services for a regular fee.

The challenge in valuing AI startups lies in their novelty and the speculative nature of their future success. It's not just about what they're earning now but about predicting how they'll transform industries.

# TOP ADVANTAGES OF PARTNERING WITH FINRO

**Personalized Valuation**

Tailored to reflect your startup's unique aspects, ensuring accurate and meaningful valuations.

**Swift and Efficient Service**

Rapid valuations to accelerate investor negotiations and strategic decisions.

**Flexible and Adaptive**

Our services evolve with your startup, staying relevant through all growth stages.

**Dedicated Attention**

Benefit from our deep understanding of your business for insightful, accurate valuations.

**Cost-Effective Solutions**

High-quality valuations without excessive costs, focusing your resources on growth.

**Strategic Partnership**

Beyond numbers, we capture your startup's essence, offering valuations as dynamic and unique as your vision.

# AI TECHNOLOGIES AND THEIR APPLICATIONS

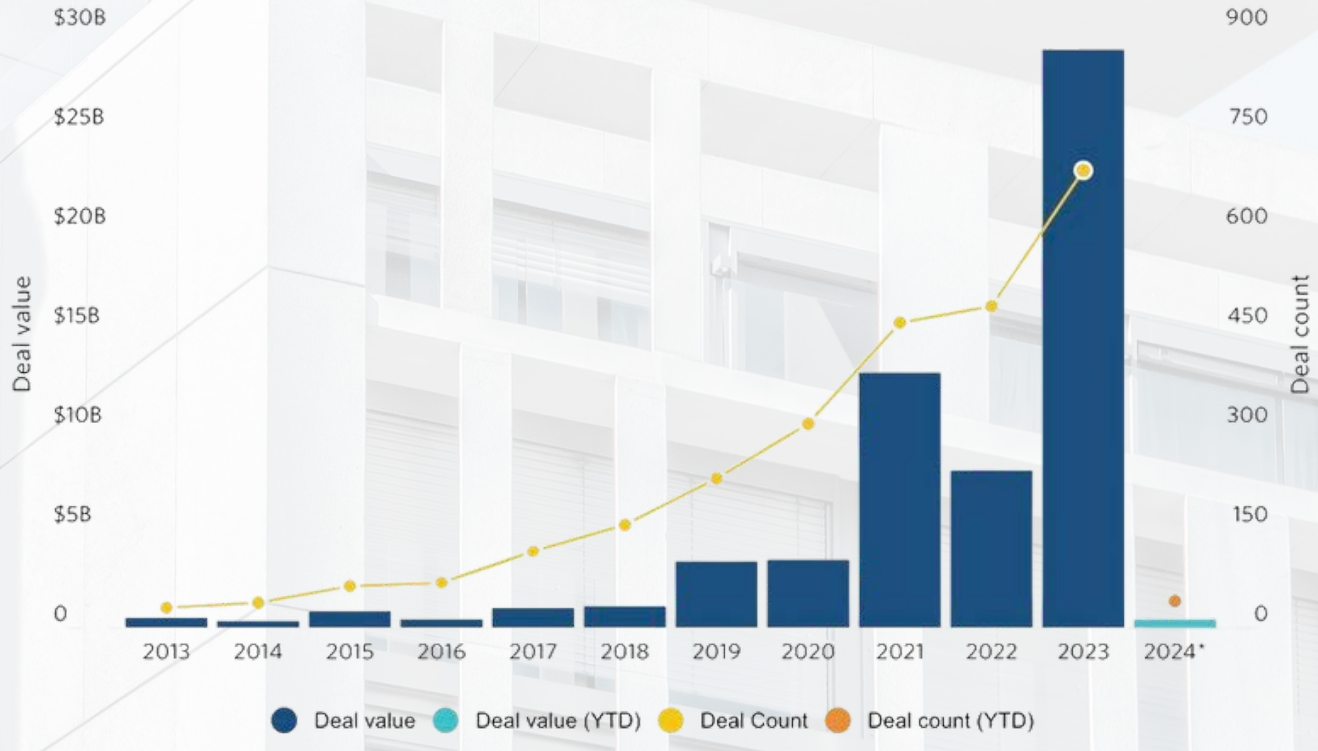
## Type 1: Generative AI

This type of AI can generate new content, data, or media that did not exist. It can create realistic images, videos, text, and sound recordings, among other things. The key aspect of generative AI is its ability to learn from existing data and generate new, original outputs similar but not identical to the data it was trained on.

Examples:

- Deepfakes: Using AI to generate hyper-realistic video and audio recordings.
- AI in Art and Design: Creating new artworks, designs, or creative writing pieces.
- Synthetic Data Generation: Producing data that can be used for training other AI models, especially in scenarios where real data is scarce or sensitive.

### VC INVESTMENTS IN GENERATIVE AI




Source: PitchBook data
Geography: Global
*As of Jan. 2, 2023

# AI TECHNOLOGIES AND THEIR APPLICATIONS

## Type 2: Predictive AI

This type of AI analyzes historical data to forecast future events or trends. It uses various statistical, machine learning, and data mining techniques to identify the likelihood of future outcomes based on historical data. This type of AI is highly valuable in scenarios where making accurate predictions can lead to better decision-making.

**Examples:**

- Weather Forecasting: Using AI to predict weather patterns and natural phenomena.
- Customer Behavior Analysis in Retail: Predicting future purchase trends based on past shopping data.
- Risk Assessment in Finance: Evaluating credit risk and investment risks using historical financial data.

## Type 3: Prescriptive AI

This type of AI goes a step beyond predictive AI by not only forecasting future outcomes but also suggesting actions to achieve desired results or mitigate risks. It combines prediction with decision-making guidance, using sophisticated algorithms to analyze data and present various action scenarios and their potential outcomes.

**Examples:**

- Healthcare: Suggesting personalized treatment strategies for patients based on their medical history and predictive outcomes.
- Business Strategy Optimization: Providing businesses with different strategies and their potential impacts on performance.
- Supply Chain Management: Recommending optimal supply chain actions to mitigate risks or improve efficiency.

# AI TECHNOLOGIES AND THEIR APPLICATIONS

## Type 4: Limited Memory AI

This type of AI refers to systems that can use past experiences or historical data to inform current decisions. Unlike reactive AI, which only considers the current situation, limited memory AI has a short-term memory, which it uses to make better predictions or decisions.

Most of the current AI applications, including those in self-driving cars, virtual assistants, and personalized recommendation systems, fall under this category.

**Examples:**

- Autonomous Vehicles: Using past and real-time sensor data to navigate and make driving decisions.
- Personalized Content Recommendations: Services like Netflix or Spotify suggesting content based on your viewing or listening history.
- Chatbots in Customer Service: Improving responses over time by learning from previous interactions.

Each of these AI types offers unique opportunities for startups to innovate and disrupt traditional markets. Understanding their capabilities and applications is key to grasping the potential and direction of the AI industry.

In the next section, we will dive one layer deeper into the AI industry and review the top 7 most common applications for AI, further exploring how these technologies are shaping the future of business and society.

# AI TECHNOLOGIES AND THEIR APPLICATIONS

| AI Type | Description | Key Characteristics | Examples |
|---|---|---|---|
| Generative AI | AI that creates new, original content from existing data. | Generates realistic images, videos, text, and sound recordings. Learns from existing data. | Deepfakes, AI in Art and Design, Synthetic Data Generation |
| Predictive AI | AI that analyzes historical data to forecast future trends. | Uses statistical, machine learning, and data mining techniques. | Weather Forecasting, Customer Behavior Analysis in Retail, Risk Assessment in Finance |
| Prescriptive AI | AI that suggests actions based on data analysis to achieve desired outcomes. | Goes beyond prediction, combines data analysis with decision-making guidance. | Healthcare Treatment Plans, Business Strategy Optimization, Supply Chain Management |
| Limited Memory AI | AI that uses past experiences or data to inform current decisions. | Has a short-term memory, used for better predictions or decisions. Common in most current AI applications. | Autonomous Vehicles, Personalized Content Recommendations, Chatbots in Customer Service |

# TOP 7 APPLICATIONS OF AI TECHNOLOGIES

## 1. Healthcare Diagnostics and Treatment

AI's application in healthcare is revolutionizing the way medical professionals diagnose and treat diseases. By analyzing vast datasets, AI algorithms can identify patterns and anomalies in medical images, genetic information, and patient records, leading to earlier and more accurate diagnoses.

AI also plays a pivotal role in developing personalized treatment plans, considering individual patient characteristics to optimize treatment efficacy. Moreover, AI-driven predictive models assist in patient monitoring and prognosis, enabling healthcare providers to make informed decisions and improve patient outcomes.

**Example Startups:**

- PathAI: Utilizes AI for pathology to improve the accuracy of cancer diagnosis.
- eMed (formerly Babylon Health): Provides AI-powered medical consultation and health services.'
- Tempus Radiology (formerly Arterys): AI-powered to extract actionable insights from medical images.

# TOP 7 APPLICATIONS OF AI TECHNOLOGIES

## 2. Financial Services and Fintech

In the traditional finance sector as well as among fintech startups, AI's impact is profound, streamlining operations and offering enhanced customer experiences.

AI algorithms are adept at detecting fraudulent transactions by analyzing spending patterns, thereby bolstering security in financial systems. In algorithmic trading, AI processes market data at high speeds to make informed trading decisions, often outperforming human capabilities.

AI-driven chatbots and virtual assistants are transforming customer service, offering personalized financial advice and support. Additionally, AI in credit scoring employs sophisticated models, going beyond traditional credit assessment methods to evaluate borrower risk, thereby democratizing access to finance.

**Example Startups:**

- Kensho: Delivers cutting-edge analytics and knowledge automation to the financial sector.
- Upstart: Leverages AI to streamline the lending process with improved risk assessment.
- Pangea: Foreign exchange hedging management software powered by AI.

# TOP 7 APPLICATIONS OF AI TECHNOLOGIES

### 3. Autonomous Vehicles and Transportation

AI is at the forefront of developing autonomous vehicles, a breakthrough in transportation technology. Through advanced machine learning algorithms and sensor technology, AI enables vehicles to navigate complex environments safely, making real-time decisions based on traffic conditions, pedestrian movements, and road obstacles.

This technology extends beyond cars to include drones and public transportation systems, aiming to reduce accidents, ease traffic congestion, and lower emissions.

AI also enhances logistic operations, optimizing delivery routes and schedules, leading to more efficient supply chain management and reduced operational costs.

**Example Startups:**

- Waymo: Leading in autonomous driving technology, Waymo's vehicles are equipped with sophisticated AI systems.
- Nauto: Specializes in AI-powered driver and fleet safety, improving road safety through technology.

# TOP 7 APPLICATIONS OF AI TECHNOLOGIES

## 4. Retail and E-commerce Personalization

AI is transforming the retail and e-commerce landscape by personalizing the shopping experience. It analyzes customer data, including past purchases, search history, and preferences, to offer tailored product recommendations, enhancing customer engagement and satisfaction.

In inventory management, AI predicts demand trends, helping businesses optimize stock levels and reduce waste. AI-powered chatbots provide instant customer service, handling queries and offering product suggestions.

Furthermore, AI in retail extends to in-store experiences, using facial recognition and behavior analysis to offer personalized discounts and improve security.

**Example Startups:**

- Stitch Fix: Combines AI with expert stylists to provide personalized clothing and styling services.
- Relex Solutions: Offers AI-driven solutions for retail planning, forecasting, and supply chain optimization.

### CHATBOTS VS. AI CHATBOTS

Chatbots are software designed for text or voice conversations with users, based on pre-set rules and scripts.

They serve in customer support, information retrieval, and as virtual assistants.

AI chatbots, incorporating Artificial Intelligence like Natural Language Processing (NLP) and Machine Learning, interpret human language more naturally.

They learn from interactions, offering dynamic, personalized experiences beyond the capabilities of standard chatbots, resembling closer to human-like conversations.

# TOP 7 APPLICATIONS OF AI TECHNOLOGIES

## 5. Smart Home Devices and IoT

In the realm of smart homes and IoT, AI is enhancing the way we interact with our living environments.

AI-driven smart home devices, like thermostats, lighting systems, and security cameras, learn from user behavior to automate settings, optimizing comfort and energy efficiency.

Voice-controlled AI assistants have become household staples, enabling users to control various home functions and access information through simple voice commands.

In the broader IoT context, AI is crucial in interpreting the vast data generated by connected devices, enabling predictive maintenance, energy management, and enhanced security solutions.

**Example Startups:**

- Ecobee: Innovates in smart thermostats with AI for improved home energy management.
- Ring: Provides a range of AI-enabled home security products, including smart doorbells and cameras.

# TOP 7 APPLICATIONS OF AI TECHNOLOGIES

## 6. Content Creation and Media

AI's role in content creation and media is reshaping the creative landscape. AI algorithms generate written content, music, artwork, and even synthetic media like deepfakes.

In journalism, AI assists in news gathering and reporting, automating routine articles and analyzing social media trends for story ideas.

In the entertainment industry, AI curates personalized content for users, influencing everything from music playlists to movie recommendations.

AI also aids in the production process, from scriptwriting assistance to post-production tasks, offering new tools for creativity and efficiency.

**Example Startups:**

- OpenAI: Known for its advanced AI language models like GPT-4, used for various content creation purposes.
- Midjourney: A generative AI program that generates images from natural language descriptions.
- Jukedeck: Pioneers in using AI to compose original music tracks for videos and other media.

# TOP 7 APPLICATIONS OF AI TECHNOLOGIES

## 7. AI in Education and EdTech

AI in education personalizes the learning experience and adapts content to meet individual student needs and learning styles. It enables the creation of interactive and engaging educational material, making learning more effective and accessible.

AI-driven tutoring systems provide students personalized guidance and feedback, often with real-time assessment capabilities.

In classroom settings, AI assists teachers by automating administrative tasks like grading, allowing educators to focus more on teaching.

Additionally, AI in education extends to higher education and corporate training, offering scalable and flexible learning solutions.

**Example Startups:**

- Carnegie Learning: Develops AI-powered software for personalized learning in K-12 education.
- Quizlet: Utilizes AI to create adaptive study tools, enhancing learning efficiency for students of all levels.

# TOP 7 APPLICATIONS OF AI TECHNOLOGIES

| AI Application | Description | Key Features | Example Startups |
|---|---|---|---|
| Healthcare Diagnostics and Treatment | AI algorithms for diagnosis and personalized treatment plans. | Analyzes medical images and predicts patient outcomes. | PathAI, Tempus Radiology, eMed |
| Financial Services and Fintech | AI in fraud detection, algorithmic trading, and financial planning. | Detects fraudulent transactions, automates trading, personalizes financial advice. | Kensho, Upstart, Pangea |
| Autonomous Vehicles and Transportation | AI for self-driving vehicles and transportation systems. | Navigates safely, optimizes routes, improves logistics. | Waymo, Nauto |
| Retail and E-commerce Personalization | AI for tailored shopping experiences and inventory management. | Personalizes product recommendations, optimizes stock levels. | Stitch Fix, Relex Solutions |
| Smart Home Devices and IoT | AI in energy efficiency, security, and home automation. | Learns user behavior, automates home settings, enhances security. | Ecobee, Ring |
| Content Creation and Media | AI in generating written content, videos, music, and artwork. | Automates routine articles, curates personalized content, assists in creative processes. | OpenAI, Jukedeck, Midjourney |
| Education and EdTech | AI for personalized learning, interactive materials, and administrative automation. | Adapts content to student needs, provides interactive learning, automates grading. | Carnegie Learning, Quizlet |

# RECENT SUCCESS STORIES

*Finro were one of the very few companies that had a correct view of the leap in technology, which is now slowly unfolding. Technology always gets overvalued in the short-term, and undervalued in the long term. And Finro helped us navigate that future like few others can.*

Sven Van de Perre
Co-Founder, Tropos AR

*With full command of all relevant financial aspects and demonstrated financial analysis capability, combined with equal expertise, understanding and knowledge of the global tech startup sector; Lior has an impressive understanding of early stage venture finance.*

Capt. Michael Sperling
Co-Founder and CEO, Spaceling

*Lior's foresight in identifying pivotal trends and disruptions within the sector has delivered real value. His adeptness and synthesis of large data sets into actionable intelligence based on key comps has also been instrumental in refining our investment strategy.*

Mic Carolan
General Partner, Princap

*I was impressed and very pleased with how much Lior was able to glean in a short amount of time about the operations and future strategy of the company from nothing more than its financial statements, pitch deck, and pro formas.*

Dave Mao
Managing Director, Come Up Capital

# STARTUP VALUATION METHODS FOR AI STARTUPS

## Valuation Methods for Idea Stage AI Startups: Berkus Method

The Berkus Method is a qualitative approach to valuing early-stage startups, particularly useful when there's little to no revenue data available.

Developed by angel investor Dave Berkus, this method evaluates a startup's potential based on five key elements: the soundness of the idea, prototype development, the quality of the management team, strategic relationships, and product rollout or sales plan.

Each element is assigned a potential value, typically up to $500,000, allowing for a maximum theoretical value of $2.5 million. This method is favored for its simplicity and the way it emphasizes non-financial aspects crucial to a startup's success.

For AI startups, factors like the innovativeness of the AI application, the team's AI expertise, and early strategic partnerships or customer interest can significantly influence valuation.

### HOW TO CALCULATE A STARTUP'S VALUE WITH THE: BERKUS METHOD?

| BUSINESS ASPECTS | TOTAL VALUE | | GRADE SCALE |
|---|---|---|---|
| Sound Business Idea | $500,000 | x | Grade 0 - 1 |
| Prototype | $500,000 | x | Grade 0 - 1 |
| Management Team | $500,000 | x | Grade 0 - 1 |
| Strategic Relationships | $500,000 | x | Grade 0 - 1 |
| Product Rollout | $500,000 | x | Grade 0 - 1 |

TOTAL

# STARTUP VALUATION METHODS FOR AI STARTUPS

## Valuation Methods for Idea Stage AI Startups: Scorecard Method

The Scorecard Valuation Method, also known as the Bill Payne valuation method, is another qualitative approach tailored for early-stage startups.

It involves benchmarking a startup against other average startups in the region and sector and adjusting the valuation based on several factors.

These factors include the strength of the management team, size of the opportunity (market size), product or technology, competitive environment, marketing/sales channels, and need for additional investment.

The startup is scored against these factors, each weighted differently, to adjust the average valuation of comparable startups.

This method is particularly useful for AI startups in sectors with a variety of precedents or benchmarks, allowing for a more nuanced and comparative analysis of the startup's potential.

# STARTUP VALUATION METHODS FOR AI STARTUPS

## Valuation Methods for Post-Idea Stage AI Startups: Revenue Multiple Method

The Revenue Multiple Method is a straightforward quantitative approach, commonly used for startups that have begun generating revenue.

It involves applying a multiplier to the startup's current or projected revenues.

This multiplier is derived from the valuation/revenue ratios of comparable companies, typically within the same industry.

For AI startups, the multiplier might be influenced by market growth potential, scalability of the AI solution, and the recurring revenue model's stability.

This method is effective for AI startups with a track record of sales, though it can be less reliable for very early-stage companies or those in rapidly evolving market segments.

## WHAT IS REVENUE MULTIPLE?

### THE FORMULA

Revenue Multiple = Company Value / Annual Revenue

### REAL-WORLD EXAMPLE

**Scenario:** "Tech Innovate" – a startup with $2 million in revenue valued at $10 million.

**Calculation:** $10 million / $2 million = 5 >> Tech Innovate's Revenue Multiple is 5x.

### WHAT DOES IT TELL US?

- A higher multiple suggests high market expectations for growth.
- A lower multiple may indicate a more conservative view of future potential.

# STARTUP VALUATION METHODS FOR AI STARTUPS

## Valuation Methods for Post-Idea Stage AI Startups: EBITDA Multiple Method

The EBITDA Multiple Method is used for more mature startups with significant revenues and profitability.

It values a company based on its Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), applying an industry-specific multiple to arrive at a valuation. This multiple is typically derived from the sale or valuation of similar companies.

The method is well-suited to AI startups in later stages, which have clear financials and are operating in established markets.

The key challenge is determining the appropriate multiple, which can vary widely based on market conditions, growth rates, and the unique characteristics of the AI technology.

### WHAT IS EBITDA MULTIPLE?

#### DEFINITION

EBITDA Multiple is a financial metric used to assess a company's value relative to its earnings

#### THE FORMULA

**Step 1:** Calculate the EBITDA. Earnings before Interest, Taxes, Depreciation, and Amortization.

**Step 2:** Calculate the EBITDA Multiple.
EBITDA Multiple = Company Value / EBITDA

#### WHAT DOES IT TELL US?

- A higher multiple suggests high market expectations for growth.
- A lower multiple may indicate a more conservative view of future potential.

# STARTUP VALUATION METHODS FOR AI STARTUPS

The Discounted Cash Flow (DCF) Method is a sophisticated and detailed valuation approach, relying on forecasts of a startup's future cash flows, which are then discounted to their present value using a rate that reflects the risk of those cash flows.

This method requires extensive financial modeling, including projections of revenue, expenses, and capital costs. It is particularly effective for AI startups with a clear path to profitability and stable, predictable cash flows.

The DCF method can accommodate various scenarios and is sensitive to the assumptions about growth rates, margins, and capital needs, making it a powerful tool for understanding the long-term value of an AI startup's technology and market position.

Each of these methods offers different insights and is suitable for different stages in a startup's lifecycle.

For AI startups, which often navigate uncharted territories in technology and market potential, a combination of these methods may be necessary to gain a comprehensive understanding of their valuation.

# STARTUP VALUATION METHODS FOR AI STARTUPS

## 5 Steps For Building a DCF Model

1

2

3

4

5

01 FORECASTING THE COMPANY'S FINANCIALS

A 3-5 Year financial projection of the company’s income statement and cash (sometime also balance sheet )

02 BUILDING FREE CASH FLOW MODEL

Free cash flow, or FCF, is the net cash available for the company after the necessary investment in the company's operations and capital assets.

03 CALCULATING THE COMPANY'S WACC

The discount rate is the rate that we use to discount future cash flows to their present value.

04 ADDING THE TERMINAL VALUE

This is the forecasted cash flows that the company will generate from the moment our projection ends until the end of the company's life.

05 PUTTING IT ALL TOGETHER

The company's valuation is the aggregated amount of all the present values of all the years (and the terminal value).

# STARTUP VALUATION METHODS FOR AI STARTUPS

| Valuation Method | Pros | Cons |
|---|---|---|
| Berkus Method | • Simplifies valuation for early-stage startups.<br>• Focuses on qualitative factors.<br>• Quick to apply and understand. | • Highly subjective.<br>• Limited to a maximum valuation.<br>• May not reflect actual market potential. |
| Scorecard Valuation Method | • Offers a comparative approach against similar startups.<br>• Considers a broader range of factors.<br>• Adaptable to different regions and sectors. | • Subjective in weighting and scoring.<br>• Relies on the availability of benchmark data.<br>• May not capture unique aspects of AI startups. |
| Revenue Multiple Method | • Straightforward and easy to understand.<br>• Based on actual financial performance.<br>• Widely used and accepted. | • Less effective for pre-revenue startups.<br>• Relies on finding appropriate comparables.<br>• May not account for long-term growth potential. |
| EBITDA Multiple Method | • Suitable for mature startups with clear financials.<br>• Reflects profitability and operational efficiency.<br>• Industry multiples provide a market-relevant perspective. | • Not applicable to early-stage or non-profitable startups.<br>• EBITDA can be influenced by accounting practices.<br>• Requires accurate industry multiple data. |
| Discounted Cash Flow (DCF) Method | • Detailed and comprehensive.<br>• Incorporates future growth and risk factors.<br>• Can be highly tailored to the startup's specifics. | • Complex and requires extensive financial forecasting.<br>• Highly sensitive to assumptions used.<br>• Time-consuming and requires financial expertise. |

# STARTUP VALUATION METHODS FOR AI STARTUPS

## How to Compare AI Startups Valuation?

Comparing companies of varying sizes and revenues poses a significant challenge. How do we fairly assess a giant with a $100 billion valuation against a small startup valued at $10 million, or a business earning $1 million a year versus one with $100 million in revenue?

The solution lies in the revenue multiple, an essential tool for evaluating companies. By relating market value to annual revenues, the revenue multiple offers a standardized way to compare firms of different scales within the same industry.

This is particularly valuable in sectors like AI, where a startup's worth may depend more on growth potential and innovation than current earnings. Revenue multiples enable a clear comparison of future prospects among AI startups, leveling the playing field for businesses of all sizes.

## HOW TO BUILD A COMPS ANALYSIS?

Master the art of comps analysis with our step-by-step guide. Learn to identify comparable companies, gather critical financial data, and calculate key valuation metrics effectively.

### 01 | BUILD THE LIST

Identify and compile a list of 20-25 relevant companies in your field for comparison.

### 02 | GATHER DATA

Collect key financial data (EV, TTM EBITDA, revenues & EBITDA, beta, 3-year revenue CAGR) from sources like Yahoo Finance, media articles, or specialized platforms.

### 03 | CALCULATE MULTIPLES

Compute individual company's revenue and EBITDA multiples, and then calculate overall averages for meaningful comparison.

# MARKET AND INVESTOR INSIGHTS

## Investor Perspective on AI Startups

When it comes to investing in AI startups, investors look for unique factors that set these companies apart from traditional tech startups. Understanding these factors can help founders better prepare for fundraising and valuation discussions. Here's what investors typically consider:

**1. Innovative Use of AI:** Investors seek startups that leverage AI in novel ways to solve significant problems or create market opportunities. The application should be a clear differentiator, offering a competitive edge.

**2. Scalability of AI Solutions:** The potential for growth is paramount. Investors evaluate how the startup's AI solution can scale, considering both the technological aspects and the market demand.

**3. Data Strategy:** Given AI's reliance on data, a coherent strategy for data acquisition, processing, and utilization is crucial. Investors assess the quality and accessibility of the data sources the startup intends to leverage and its approach to data privacy and security.

**4. AI Talent and Team Expertise:** The expertise and experience of the team in AI and the specific domain of application are critical. Investors look for teams with a strong technical foundation in AI, complemented by industry-specific knowledge.

# MARKET AND INVESTOR INSIGHTS

## Investor Perspective on AI Startups

**5. Business Model and Monetization:** Beyond the technology, investors are keen on understanding how the startup plans to make money. Clarity on the business model, customer acquisition strategy, and paths to monetization are essential components.

**6. Regulatory and Ethical Considerations:** AI startups often navigate complex regulatory environments. Investors evaluate how the startup addresses ethical AI use, potential biases, and regulatory compliance, especially in sensitive sectors like healthcare and finance.

**7. Market Validation:** Early signs of market validation, such as pilot projects, partnerships, or customer commitments, can significantly enhance an AI startup's appeal to investors. It demonstrates demand and the startup's ability to deliver value.

**8. Exit Potential:** Finally, investors consider the startup's exit potential, looking for a clear path to a high return on investment through acquisition, IPO, or other means. The alignment of the startup’s potential exit with current market trends and acquisition appetites in the AI space is a key factor.

# MARKET AND INVESTOR INSIGHTS

**Engaging with Investors: Tips for AI Startups**

- **Articulate the AI Advantage:** Clearly communicate how your AI technology creates a significant competitive advantage and addresses a substantial market need.
- **Showcase Your Team:** Emphasize the AI expertise and track record of your team members. Highlighting previous successful projects or contributions to the AI field can be particularly persuasive.
- **Demonstrate Market Validation:** Provide evidence of market interest, such as customer testimonials, case studies, or pilot project results.
- **Address Ethical and Regulatory Challenges:** Proactively discuss how your startup navigates AI ethics and regulatory compliance, showcasing your commitment to responsible AI development.
- **Outline the Path to Monetization:** Be clear on how your startup will generate revenue, the scalability of your business model, and your strategy for customer acquisition and growth.

Investors in AI startups are not just investing in technology; they're investing in the future. By aligning your startup with the aspects investors care most about, you increase your chances of successful fundraising and achieving a valuation that reflects your startup's true potential.

**Simon Reid**
**Co-Founder & Managing Director, Darvis UK**

I have worked with Lior at Darvis, an AI powered technology company, where Lior worked with us to develop a financial model, review pricing structures, cash flow needs and general financial information.

Lior is always insightful, responsive, professional and resourceful, which are key attributes when working with rapid paced entrepreneurial companies.

Lior is really effective at helping organisations development the necessary financial forecasting and management tools needed to grow successfully and attract new investment. I would strongly recommend Lior to new clients.

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**Joseph Baldassarra**
**Managing Partner, Broad Street Global Fund**

As a fund manager, purchasing investments in the pre-ipo market where company financials are not published, it is often difficult to assess a company.

However, one of the solutions that help guide me is Lior and Finro. I think without Lior's guidance, the success that we have achieved would have been much more difficult. The firm has incredible customer service and guidance and I recommend the service for anyone in the space.

Always available, always intelligent and always within budget. What a winning combination!

# MONETIZATION STRATEGIES FOR AI STARTUPS

For AI startups, developing groundbreaking technology is only part of the equation. Equally crucial is choosing the right monetization strategy to ensure sustainable growth and profitability.

Here are some effective strategies AI startups can adopt:

**1. Subscription Models:** Subscription-based models provide a steady revenue stream and are particularly suitable for SaaS AI products. Clients pay a recurring fee for continuous access to AI tools or services, appealing to both B2B and B2C segments.

**2. Licensing:** AI startups can license their technology to larger companies or developers. This approach allows startups to capitalize on their innovations by charging for the use of their AI algorithms, models, or entire platforms.

**3. Freemium Models:** Offering a basic version of the AI product for free while charging for premium features can attract a wide user base initially. Once users experience the value of the AI solution, they're more likely to upgrade to paid versions for enhanced functionalities.

**4. Pay-Per-Use or Transaction-Based Models:** Some AI services, particularly those involving data analysis or processing, fit well with a pay-per-use model. Customers pay based on the volume of data processed, the number of queries, or specific transactions, providing flexibility and scalability.

# MONETIZATION STRATEGIES FOR AI STARTUPS

**5. Custom Solutions**: Developing tailored AI solutions for specific enterprise clients can command high fees, particularly for complex problems or industries with significant budget allocations for AI, such as healthcare, finance, and cybersecurity.

**6. Data Monetization:** AI startups often have access to valuable datasets or generate unique insights through their operations. Anonymizing and aggregating this data can create new revenue streams by selling it to researchers, marketers, or other businesses.

**7. Consulting and Professional Services:** Beyond offering products, AI startups can leverage their expertise to provide consulting services, helping clients implement AI solutions, train their models, or integrate AI into their existing systems.

## ARTIFICIAL INTELLIGENCE (AI) MONETIZATION

### FREEMIUM MODELS CAN LEAD TO HIGHER PROFITS

Offering core AI services for free might seem counterproductive, but it can attract a broad user base. Once engaged, users are more likely to pay for premium features, leading to significant revenue growth.

### CUSTOM SOLUTIONS AREN'T JUST FOR LARGE CLIENTS

Tailoring AI solutions might appear viable only for big companies with deep pockets. However, small to medium enterprises often seek customized AI services, providing a lucrative niche for startups.

### CONSULTING SERVICES CAN SCALE YOUR PRODUCT

It might seem that offering consulting diverts focus from scaling the AI product. But, consulting engagements provide deep market insights and client needs, informing product development and refinement.

### PAY-PER-USE MODELS ENCOURAGE MORE USAGE

Charging customers each time they use your AI service might seem to deter usage. Instead, it aligns costs with value received, often leading to increased adoption and dependency on the service.

# THE AI PREMIUM

In the venture capital ecosystem, a new kind of valuation phenomenon has emerged, known as the "AI Premium."

This premium reflects the higher price investors are willing to pay for startups that incorporate artificial intelligence into their core products or services. But why does this premium exist, and why is it significant? The answers lie in the transformative potential of AI.

Artificial intelligence promises to revolutionize industries, create new markets, and reshape the competitive landscape. This revolutionary potential translates into a higher perceived value for AI startups, as investors bet on their ability to disrupt markets and deliver outsized returns.

In this light, the AI premium is not just a trend, but a testament to the confidence that the market places in AI-driven innovation.

**Valuation Differences by Funding Stage**

When we dive into the valuation differences by funding rounds, the narrative of the AI premium gains a quantitative backbone. At the Seed stage, the median valuation of AI startups exceeds that of non-AI tech startups by 20%, indicating early investor optimism.

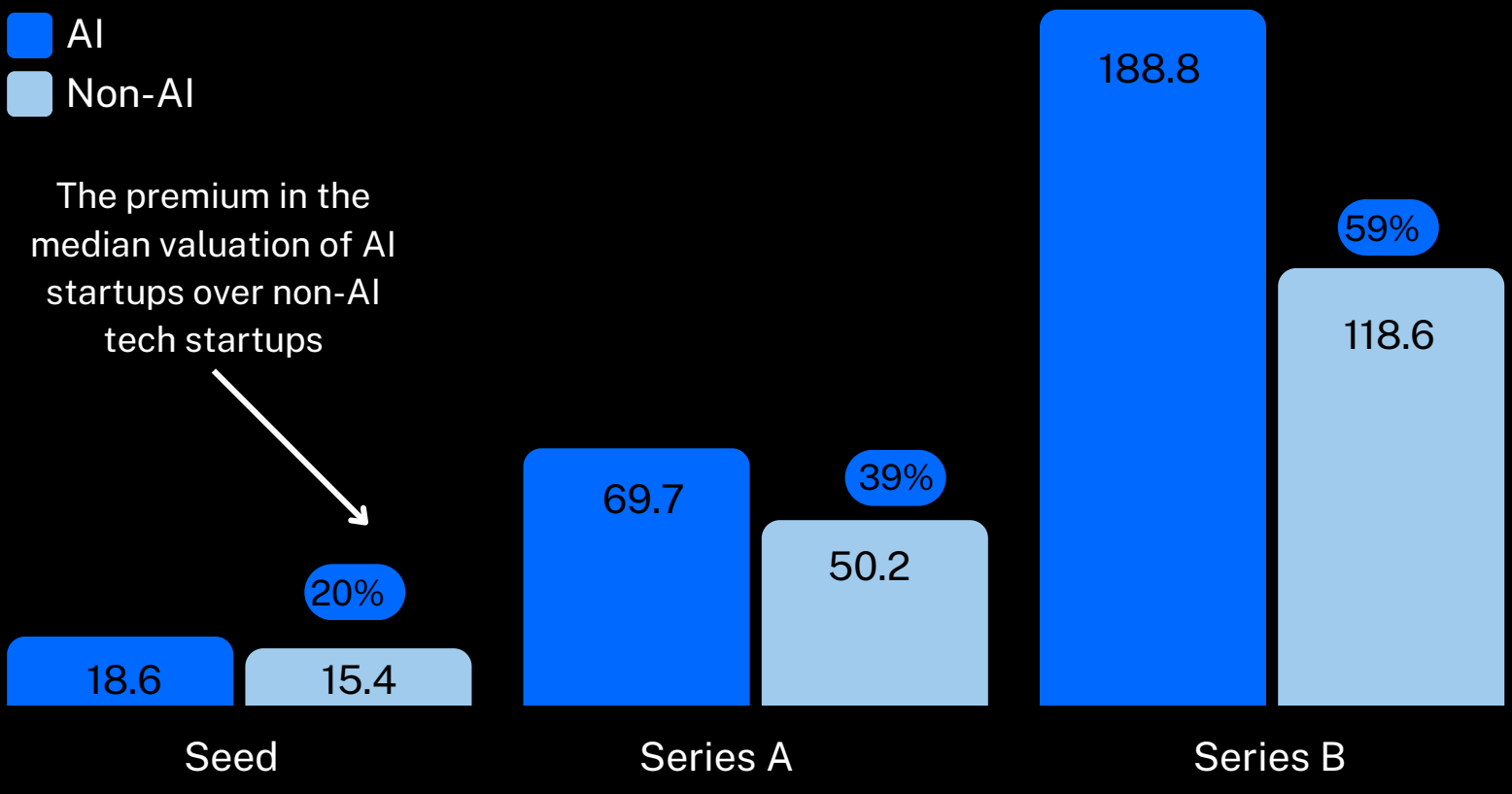
This optimism grows as startups mature, with Series A AI startups commanding a 39% higher median valuation. By Series B, the gap widens dramatically, with AI startups valued at nearly double their non-AI counterparts, showcasing a 59% premium.

# THE AI PREMIUM

These figures paint a clear picture: as AI startups progress, the faith investors have in their potential becomes more pronounced, leading to significantly higher valuations.

This trend is critical for founders, investors, and analysts alike, as it underscores the importance of AI innovation in startup growth trajectories and market expectations.

## 2023 GLOBAL MEDIAN VALUATIONS OF AI AND NON-AI STARTUPS BY STAGE | USD MILLIONS




Information is based on research by Statista. The analysis included private companies worldwide in 2023. This chart is for informational purposes only and should not be used to make any investment decisions. Finro is not liable for damages, losses, or expenses incurred by any party relying on this information,

# THE AI PREMIUM

## Valuation Multiples Across Niches

The AI premium is not only reflected in its latest valuations per stage, as we've seen above; it's even more fundamental than this. The premium goes deep into the revenue multiples used for these valuations.

The chart below, drawn from Finro's analysis, contrasts the valuation multiples of AI startups against those in other leading tech sectors. It reveals that AI companies' revenue multiples are not simply inflated figures but a pronounced testament to their market value, being 93% higher than Fintech, 130% more than payment companies, and 186% above cybersecurity firms.

This significant premium can be attributed to AI's groundbreaking role in modern technology, with its potential to disrupt and innovate across the board. AI startups are perceived not just as businesses but as pioneers with the power to define the future landscape. The ability of these companies to attract rare AI talent further cements their high-growth prospects, compelling investors to value them more generously.

Despite the spotlight on revenue multiples, it's essential to recognize that they are part of a larger evaluation framework that includes growth potential, market size, and profitability. Nevertheless, the stark contrast in multiples speaks volumes about the market's bullish stance on AI, positioning it as a sector not just for current investment but for future gains.

# THE AI PREMIUM

## Valuation Multiples Across Niches

This staggering premium in revenue multiples can be attributed to several foundational factors:

**Innovation and Disruption Potential**: AI stands at the forefront of innovation, wielding the power to disrupt countless industries. This transformational capability significantly influences investor sentiment, leading them to place a higher value on AI startups. The premium reflects a collective anticipation of AI's long-term impact, which, while not fully realized in immediate profitability, holds the promise of redefining entire market segments.

**High Growth Trajectory**: AI startups frequently showcase a trajectory of rapid growth. The scalability of AI solutions means that once an AI startup hits its stride, its growth curve can steepen dramatically. Investors, recognizing this potential, are willing to assign higher revenue multiples in anticipation of future revenue expansion.

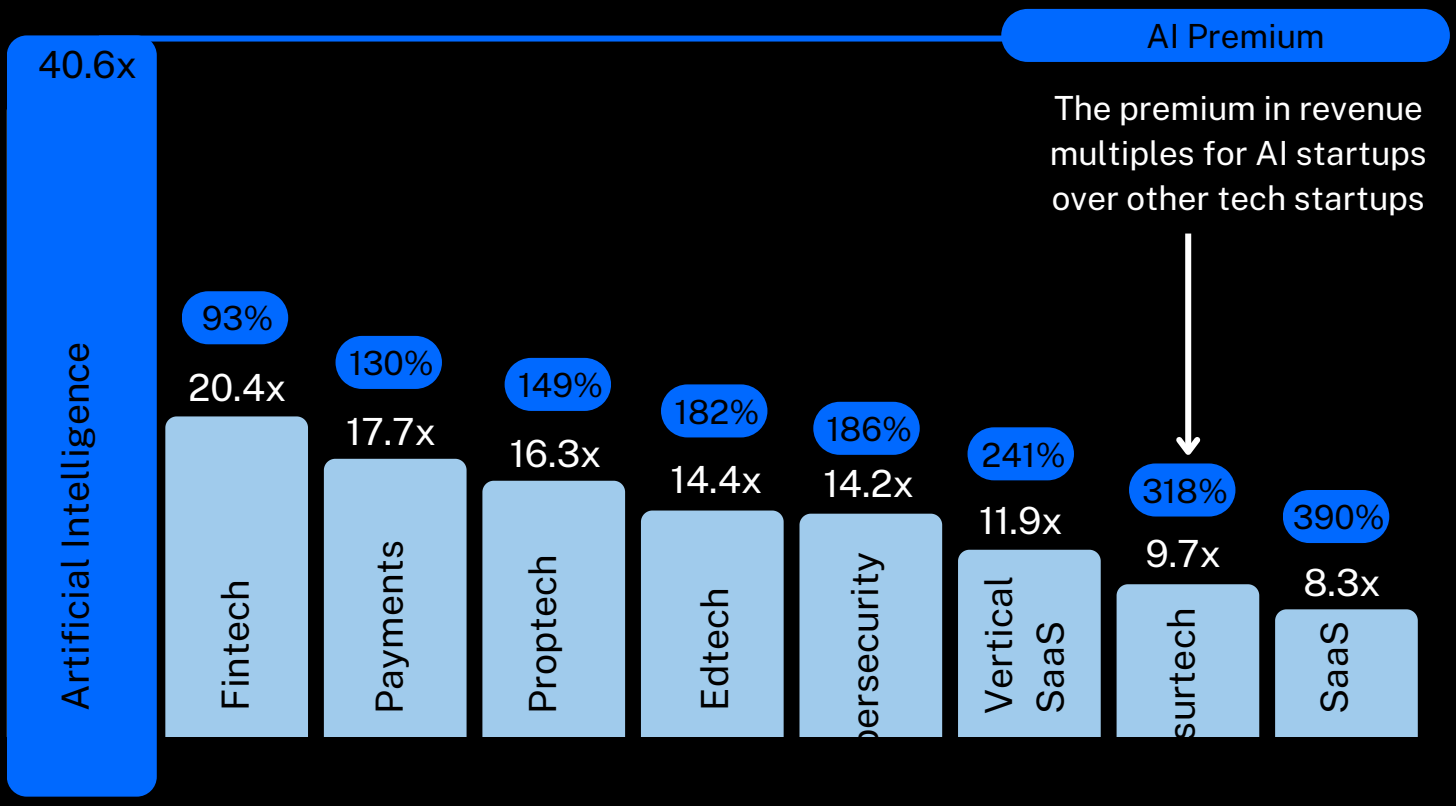
**Scarcity of AI Talent**: The pool of expert AI developers is limited, yet the demand is pervasive across industries. AI startups that successfully attract and retain such talent are seen as having a competitive edge. This talent concentration within AI startups not only enhances their product offerings but also solidifies their potential for market leadership and justifies higher valuations.

# THE AI PREMIUM

## Valuation Multiples Across Niches

While revenue multiples are a critical metric for business valuation, they represent one aspect of a multifaceted evaluation process. Investors also weigh other factors, such as profitability prospects, market size, and the competitive landscape, to paint a full picture of a startup's worth.

Nevertheless, the pronounced revenue multiples for AI startups underscore a clear market consensus: we are witnessing the AI revolution. The future is in AI, and it is valued accordingly.



# WHAT IS REVENUE MULTIPLE?

Ever wondered how to compare the worth of companies distinctly different in size and earnings?

That's where the term "revenue multiple" comes into play. Imagine you're at a garage sale deciding between two vintage lamps: one priced for its unique history and another for its appealing design. Similarly, in the business realm, valuing a company involves various factors, but for a uniform comparison, we use the revenue multiple.

**What is a Revenue Multiple?**

A revenue multiple acts as a universal measure, enabling comparison of companies regardless of their scale or profit margins. It's essentially a ratio reflecting how the market values every dollar of a company's sales. For example, a revenue multiple of 5x suggests the market values the company at five times its current annual revenue. So, a company generating $1 million annually is considered to be worth $5 million by the market.

**Calculation of Revenue Multiples**

The formula for calculating a revenue multiple is:
Revenue Multiple= Company’s Market Value / Annual Revenue
This straightforward calculation provides a comparative figure to assess how investors value the revenue of different companies.

# WHAT IS REVENUE MULTIPLE?

## Significance of Revenue Multiples

Revenue multiples offer insights into market expectations. A high multiple might indicate anticipated growth or significant market advantage, while a lower multiple could signal investor caution due to various challenges.

## Pros and Cons

Revenue multiples simplify company valuation, particularly in dynamic industries, by providing a direct comparison metric. However, they don't detail profitability or future earnings potential. Companies with identical multiples might have vastly different financial health or growth prospects.

External factors like market trends and economic conditions also affect these multiples, underscoring the importance of comprehensive analysis beyond just revenue multiples.

In essence, while revenue multiples are a valuable part of the valuation toolkit, they're merely the starting point for deeper investigation into a company's overall worth.

# AI VALUATION MULTIPLES 2024 ANALYSIS: METHODOLOGY

We analyzed the latest valuations, revenues, and revenue multiples of what we view as the 30 top private AI startups as of 2024. This offers a snapshot of the sector's meteoric growth.

As background, a revenue multiple compares a company's value to its annual revenue. This ratio helps benchmark high-growth startups regardless of profitability or size. Specifically, we divide the company's valuation by total yearly revenue.

The resulting multiple shows investors' willingness to pay for each revenue dollar - a useful proxy for future prospects. The higher the ratio, the more bullish investors are on substantial expansion ahead.

Our list focuses on trailblazing private companies with AI at the core - from categories like large language models, generative AI, fintech innovations, and advanced health technologies.

We prioritized startups with available data on both market valuations and revenues over the past year. Of course, reported figures have their limitations.

# AI VALUATION MULTIPLES 2024 ANALYSIS: METHODOLOGY

| Company | Niche | Revenue Multiple |
|---|---|---|
| MidJourney | Image Generation | - |
| OpenAI | Generative AI | 61.5x |
| Databricks | Data Intelligence | 24.6x |
| Anthropic | Generative AI | 21.6x |
| Perplexity | Search Engine | 69.3x |
| Scale AI | Data Intelligence | 25.2x |
| Gong AI | Fintech | 40.7x |
| DataRobot | Data Intelligence | 50.4x |
| Hugging Face | Dev Tools | 112.5x |
| Harvey | Legal Tech | 73.7x |
| Abnormal Security | Security Tech | 40.0x |
| Dataiku | Data Intelligence | 16.1x |
| Verily Life Sciences | Health Tech | 12.5x |
| Ironclad | Legal Tech | 21.3x |
| HighRadius | Fintech | 12.4x |
| Freenome | Health Tech | 19.3x |
| AlphaSense | Fintech | 25.0x |
| Dialpad | Customer Intelligence | 11.0x |
| Cohere | Generative AI | 24.7x |
| eightfold.ai | HR Tech | 46.7x |
| Moveworks | HR Tech | 57.1x |
| Glean | Search Engine | 60.6x |
| DataStax | Generative AI | 11.2x |
| Jasper | Generative AI | 16.7x |
| Runway | Generative AI | 107.1x |
| AI21 Labs | Generative AI | 70.0x |
| Stability AI | Image Generation | 22.6x |
| Tessian | Cybersecurity | 41.7x |
| Atomic AI | Health Tech | 50.0x |
| Luminance | Legal Tech | 33.3x |

# AI VALUATION MULTIPLES 2024 ANALYSIS: RESULTS

What stands out from our analysis is the diverse approaches and innovative solutions of these AI startups, showcasing the dynamic and ever-evolving nature of the AI sector.

Interestingly, the average revenue multiple for the listed companies is 40.6x, underscoring investors' significant expectations for their future growth and profitability.

Here are five counterintuitive insights regarding the revenue multiples of leading AI startups:

**1. Generative AI vs. Image Generation:** Despite the close relationship between generative AI and image generation in content creation, there is a significant disparity in revenue multiples, with OpenAI at 61.5x and Stability AI at 22.6x.

**2. Fintech Variety:** Within the fintech sector, the valuation multiples vary widely, from Gong AI at 40.7x to HighRadius at 12.4x, and AlphaSense at 25.0x, indicating a non-uniform valuation approach across fintech AI startups.

**3. Development Tools Standing Out:** Hugging Face, with development tools for AI, has an exceptional revenue multiple of 112.5x, suggesting that the tools enabling AI development may be valued more highly than the applications they help to create.

**4. Search Engines:** AI startups in the search engine niche, like Perplexity and Glean, command high multiples of 69.3x and 60.6x, respectively, which is unexpected in a market with dominant players like Google.

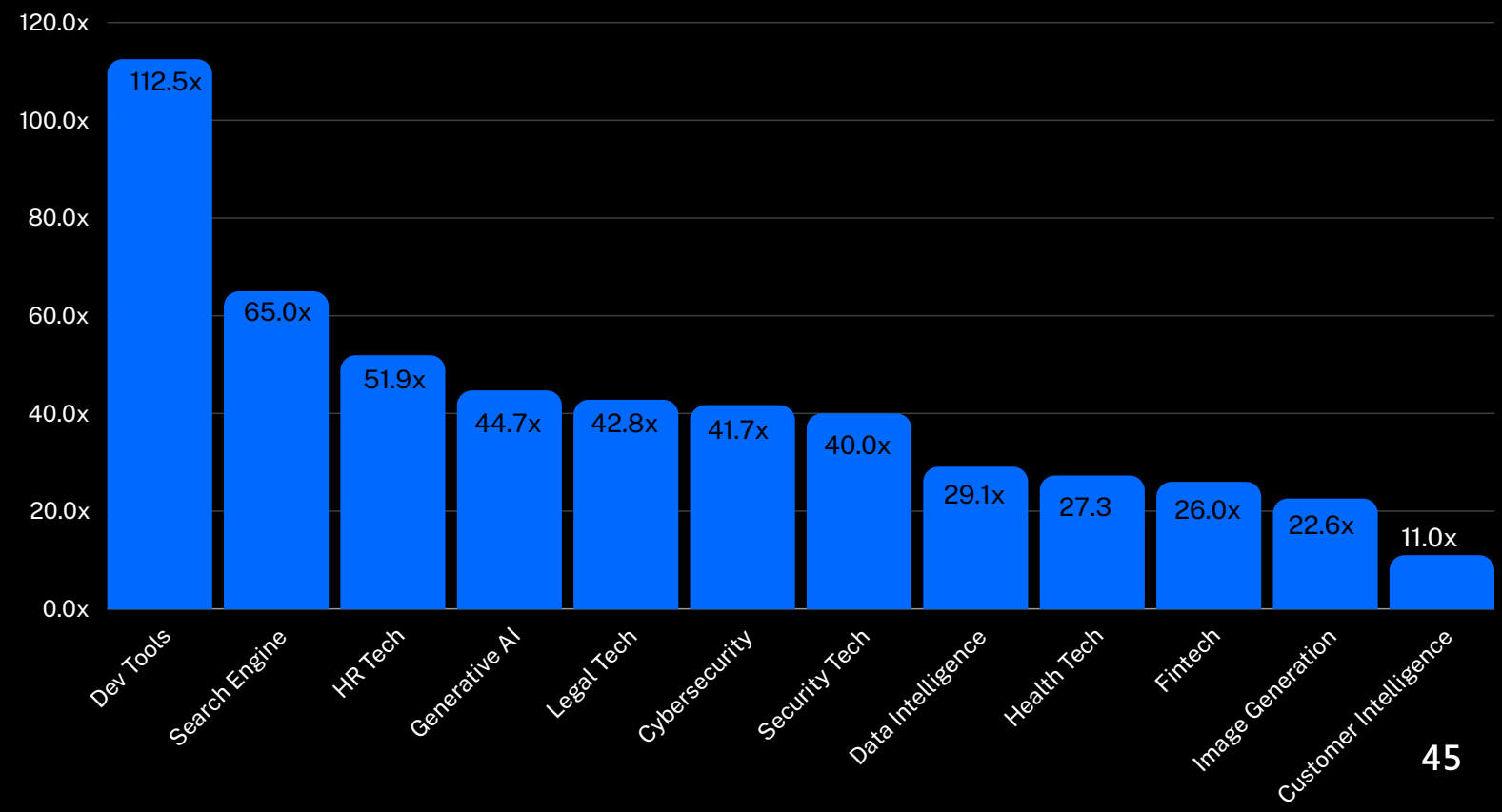
# AI VALUATION MULTIPLES 2024 ANALYSIS: RESULTS

**5. Health Tech Discrepancies:** The health tech sector shows a broad range of revenue multiples, with Verily Life Sciences at 12.5x, Freenome at 19.3x, and Atomic AI at 50.0x, reflecting the unpredictable nature of valuation in this critical and innovative sector.

As investors continue to place their bets on these companies, the coming years will be key in seeing how their valuations make a real impact and lead to success. We're particularly curious to observe how these average multiples might shift as the market evolves.

The valuation differences within the same sectors and between related fields highlight the complexities of the AI market and suggest that the path to profitability might not always be straightforward or predictable.

## REVENUE MULTIPLES IN SELECT AI NICHES



# CONCLUSION: NAVIGATING THE VALUATION LANDSCAPE OF AI STARTUPS

In conclusion, the journey through the complex terrain of AI startup valuation reveals a landscape where innovative technology intersects with traditional business models. We've explored the unique nature of AI startups, delving into their diverse applications and the distinctive challenges they pose in valuation.

From early-stage startups harnessing groundbreaking AI technologies to more established companies leveraging AI in various sectors, the valuation process demands a nuanced approach.

Our exploration underscored the importance of understanding the distinct valuation methods suited for different stages of a startup's lifecycle. From qualitative methods like the Berkus Method and Scorecard Valuation Method to more quantitative approaches such as Revenue and EBITDA Multiples, and the detailed Discounted Cash Flow Method, each provides a lens through which the potential and worth of an AI startup can be assessed.

Crucially, we highlighted the significance of comps analysis, a tool that not only aids in valuation but also offers insights into market trends, sector-specific dynamics, and strategic positioning. For AI startups, this analysis is not a mere exercise in number-crunching; it's a strategic compass guiding them through the competitive tech landscape.

# CONCLUSION: NAVIGATING THE VALUATION LANDSCAPE OF AI STARTUPS

As we stand at the cusp of a new era of technological innovation, AI startups continue to redefine industries, challenge conventional business paradigms, and open new avenues for growth and investment. The valuation of these startups, therefore, is more than just assigning a monetary value; it's about understanding the pulse of innovation and the future of technology-driven business.

For investors, entrepreneurs, and enthusiasts alike, the world of AI startups is not just an investment frontier; it's a vista of opportunities where the future is being shaped. And in this world, accurate valuation is the key to unlocking potential, fostering growth, and driving forward the relentless march of progress.

## SELECT LEADING AI REVENUE MULTIPLES