How do you value a Startup?

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- If you are asked to value a Startup company - no revenues, no profits - where do you start?
- All the valuation work we have done in this course requires there to be a business to value.
- Which is why this topic is so interesting
- We are going to focus on Valuation and not capital raising in this discussion

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- Entrepreneurs need valuations for their startup companies when they want to raise money
- This requires three questions to be answered:
  - How much money should you raise?
  - What % of the company should you sell?
  - What valuation should you use?

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- It does not take a maths genius to realise that these three questions are interconnected.
- So you can either start by deciding how much to raise or
- Decide how much of the company to sell

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- The question on how much to raise is determined by the 12-18 months cash requirements of your business
- You should have a financial model which tracks this very carefully, certainly monthly

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- The question of how much of the company to sell is largely determined by the return expectations of early stage investors
- For a seed round 10% to 15% is the norm
- For an Angel round this can go up to 30%

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- The stage the business has reached has an impact on the valuation too
  - Idea
  - Mock Up
  - MVP
  - Unpaid Pilot
  - Paid Pilot
  - Revenue

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- This stage also impacts the type of investors who will be interested
  - Idea —> Friends & Family
  - Mock Up —> Friends & Family
  - MVP —> Angels
  - Unpaid Pilot —> Angels
  - Paid Pilot —> Seed Funds
  - Revenue —> Venture Funds

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- The starting point for valuation then is no better than a rule of thumb

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- Idea Stage
- Valuation: $300-$500k
- Raise: $50 - $100k
- This gets your idea off the ground
- You may be able to bootstrap this and not raise any money at this stage

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- Prototype Stage
- Valuation: $300-$750k
- Raise: $100 - $250k
- Your prototype is ready, possibly after six months hard work
- This will increase your valuation
- Remember the later you raise money, the less dilution founders will suffer

How do you value a Startup?

- Launch Stage
- Valuation: $500-$1m
- Raise: $150 - $350k
- Your product is ready to launch
- You still probably have not been paid a cent since the start!

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- Traction Stage
- Valuation: $1m-$2m
- Raise: $250 - $750k
- Your launch was successful and you are seeing good signs of traction
- Revenues are coming in but you are still burning cash

How do you value a Startup?

- Revenue Stage
- Valuation: $1m-$3m
- Raise: $500 - $1m
- Now the revenue is looking steady, still some way from profitability
- Time to think about how you are going to scale up

How do you value a Startup?

- Scale Stage
- Valuation: $3m+
- Raise: $1m+
- By now you need to have a good product/market fit, repeatable business, significant market demand
- Developed your scale plan and your new customer acquisition strategy

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- So far then Startup valuation seems to be all guess work
- These rules of thumb are useful but if you are raising money you need to be a little more scientific
- We will develop this discussion further…

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