How to Approach Private Company Valuation

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- Venture Capitalist Fred Wilson said:
  - "the more a company discloses, the more liquid their securities become"
- Think of Private and Public companies on a sliding scale

How to Approach Private Company Valuation

- The differences between public and private companies are become more blurred

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- Startup up companies are staying private longer but are taking on private investors
- This might make them more like public companies with small groups of investors and limited liquidity

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- Secondary markets are enabling investors to buy and sell private company shares
- e.g. NASDAQ Private Market

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- In the US new regulations now permit private investors (not only sophisticated accredited investors) to invest in private companies
- Reg A+ in the US, part of the JOBS Act enable companies to raise up to $50m from both accredited and non-accredited investors
- The FAST Act formalised rules on trading the shares of private companies

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- Regulation Crowdfunding enables private companies to raise up to $1m with minimal disclosure
- Beyond this companies need audited statements to comply with Reg A+

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- Many investment managers now value their private holdings rather than just report them at cost
- This enables private investors to see the valuations applied by professional investors

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- You need to consider these distinctions when evaluating private companies
- However…

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- Most small, owner managed companies have no incentive to apply complex controls or submit their accounts to GAAP auditing

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- Many large private companies have no reason to provide confidential financial information as they have no requirement to raise capital or sell shares

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