Berkus Valuation Method

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- Dave Berkus
- "Winning Angels"
- Focus on giving value to elements of the startup which add value and show progress towards revenues
- Make the company progressively less risky
- His base assumption is that the company will have $20m revenues after 5 years.
- This forms an initial filter to weed out investment opportunities with lower potential

Berkus Valuation Method

- Berkus Method assigns a financial valuation to each of the four elements of risk
- Berkus allowed up to $500k to be added to the basic valuation ($500k) for each element
- He updated his model to reflect that this was a little too inflexible and higher amounts could be justified on a case by case basis

- Sound Idea - basic value
- Prototype - technology risk
- Quality Management Team - execution risk
- Strategic Relationships - market risk
- Product Rollout or Sales- production risk

Berkus Valuation Method

- The original model therefore enabled a valuation to be up to $2.5m
- This forms the basis for a negotiation with the original investors/founders
- He stresses the importance of keeping the original investment low enough for the VC/Angel to achieve a 10x return on their investment

Base Value up to $500k

Prototype: up to $500k

Mgt Team: up to $500k

Strategic Rel.: up to $500k

Product Rollout: up to $500k

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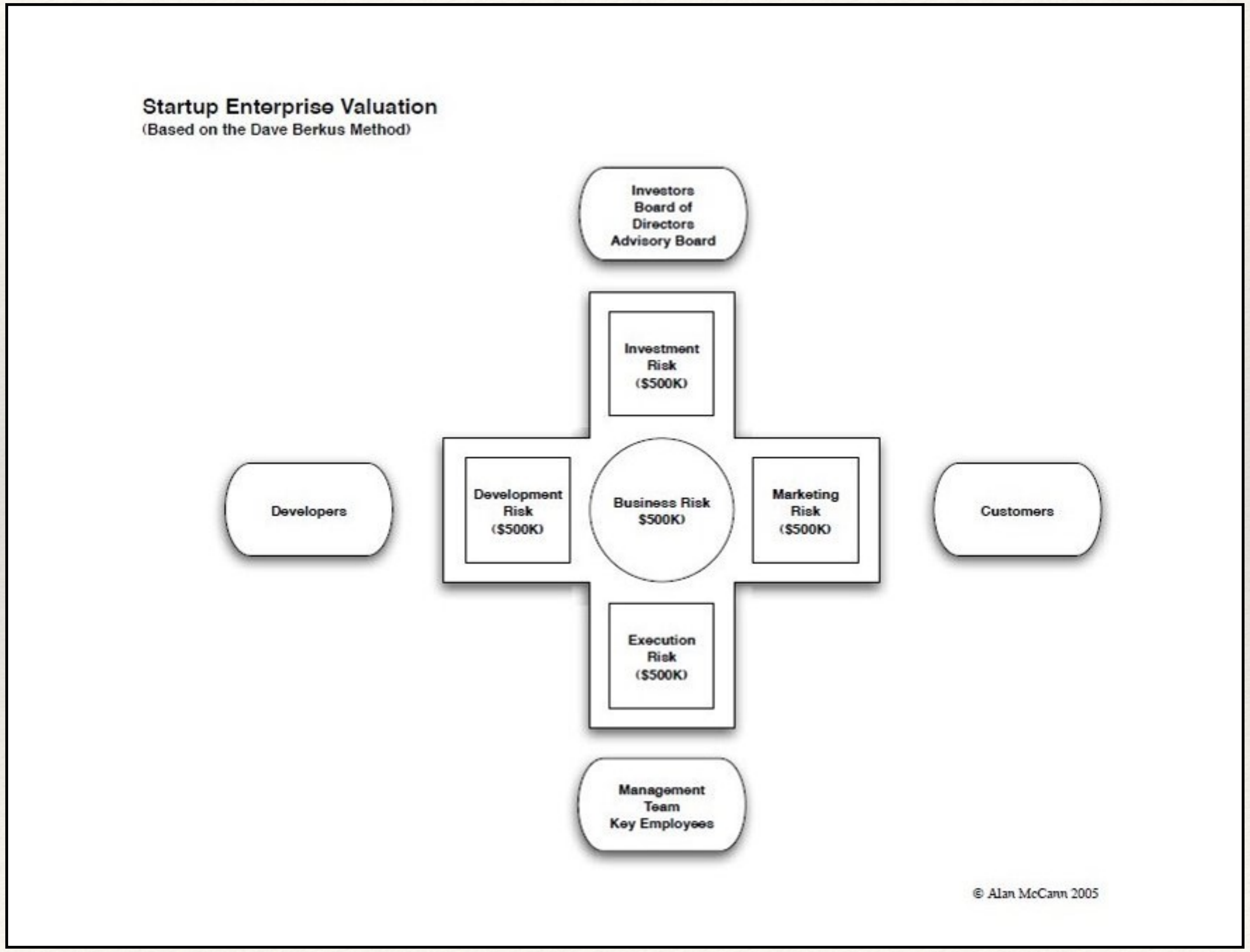
- In 2005 Alan McCann created a graphic representation of the model
- This also shows the cohort responsible for each factor
  - Investment Risk - Investors Board of Directors / Advisory Board
  - Development Risk - Developers
  - Marketing Risk - Customers
  - Execution Risk - Management Team / Key Employees



Berkus Valuation Method

- The Berkus method still requires considerable homework
- Its attractiveness is that it provides a short list of factors which can be discussed and negotiated in a structured way and it is easy for both sides to understand.

Berkus Valuation Method

- Remember, at the end of the day Startup Valuation is a negotiation between the Founders and the Investors who have opposite perspectives on the right valuation for the business

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