



VENTURE BESTSM

THE VENTURE CAPITAL & HIGH GROWTH COMPANY
LEGAL SOURCE

MICHAEL BEST

& FRIEDRICH LLP

Startup Valuation Workshop

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Agenda

- Preliminary Notes
- Valuation Methods
- Important Footnotes
- Questions/Discussion



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Preliminary Notes

- Forget Finance Theory
 - Cash is King (IRR is a distraction)
 - It's Worth ... What Someone Will Pay
 - More Art than Science
 - Only Real Valuation Leverage is Competition
- VC Portfolio/Deal Return Expectations
 - Portfolio Return Goal – 3-4X
 - Deal Return Goal – 10X+
 - See VC Cheat Sheet



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Preliminary Notes (cont.)

- Lingo – Pre and Post Money
 - $\text{Post Money} = \text{Pre Money} + \text{Investment}$
 - Startup Value Discussion is About *Pre-Money*
- Valuation Etiquette
 - Set the Hook before the Price
 - Remember Audience: Investors, not Customers



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Preliminary Notes (cont.)

Valuation, Dilution & Milestone Financing

At Given Financing, Minimize Dilution by ...

Maximizing Valuation and/or

Minimizing the Amount Raised



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Valuation I: Comparables

- Every Startup is Unique – But ...
 - There is a sizeable market

- Where to Find Comparables Data
 - Free Internet Sources (MoneyTree; Cooley; Wilson; etc)
 - \$\$\$ Internet Sources (Dow Jones VentureSource)
 - People *in the market* ...
 - Lawyers/Accountants
 - (Experienced/Funded) Entrepreneurs

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Valuation I: Comparables (cont.)

What Makes Your Deal Better (or Worse)?

1. *Team*
2. *Market*
3. *Secret Sauce*
4. *Location*

The “Big 4” Valuation Variables



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Valuation: The Venture Capital Method

- Investors Care About *Exit* Value
- *Size of Exit* is Important: Timing, Not So
- Find *Comparables* (Internet; Network)
- Common Metrics: *Multiples* (Rev/Profit)



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Valuation II: The Venture Capital Method

1. Estimate:
 - a. Investment Required
 - b. Exit Value
 - c. Future Dilution
 - d. Investor Req'd Return Multiple

2. Calculate (*see Cheat Sheet*):
 - a. Req'd Investor Return
 - b. Post-close Investor Ownership
 - c. Pre- and Post Money Valuation



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Valuation Boundaries

- The Top End
 - Most VCs Want at least 20%
- The Bottom End
 - Team Must be Incented



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Valuation Footnotes

- The Dumb Money Trap
- Don't Forget the Employee Pool
- Value Factors include the Investor Value Add
- Punting on Valuation: Convertible Debt/Warrants
 - Avoid “Bridge to Nowhere”
 - The Tale (the Bridge) Can't Wag the Dog (the A Round)
 - “Warrant Coverage” = Size of “Kicker” (see *Cheat Sheet*)



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Valuation Footnotes (cont.)

- Stealth Valuation Terms
 - Participating Preferred (*see Cheat Sheet*)
 - Cumulative Dividends (*see Cheat Sheet*)
 - Anti-Dilution “Price Protection” (*see Cheat Sheet*)



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Questions and Discussion

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