



The Rising Tide Program

Valuation of Early Stage Companies

December 16, 2015

Marcia Dawood, BlueTree Allied Angels and Golden Seeds
Bill Payne, Angel Resource Institute, Frontier Angel Fund

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NEXT WAVE
Driving Diversity in Entrepreneurship
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portfolia

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GO BEYOND
EARLY STAGE
INVESTING



- Use chat to submit questions
- Yes, you'll get the slides
- We're recorded, so come back and listen again

- Mission: Fuel the success of angel groups and accredited individuals active in in the early-stage landscape
- World’s largest trade group for angel investors
 - 220+ angel groups
 - 13,000 accredited investors
 - Voice of accredited individuals, portals, and family offices
- 50 US states + Canada
- Research/ education partner



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Member Groups & Accredited Platforms



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ACA Partners



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Rising Tide Angel Training Program

Founding Members:



Education Partners:



Support by:



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OUR SPEAKERS



Bill Payne
Fellow and Lead Instructor
Angel Resource Institute and
Frontier Angel Fund



- Seasoned angel investor – 70 deals with four angel groups
- Teaches best practices using Power of Angel Investing Series to angels honing their skills and entrepreneurs seeking capital
- Las Vegas, NV and Whitefish, MT

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OUR SPEAKERS



Marcia Dawood
Managing Director
Golden Seeds and BlueTree Allied Angels



- Board member of Angel Capital Association
- Evaluates and mentors startup companies and investment opportunities with a clear emphasis on women led businesses
- New York, NY

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Topics We'll Explore Today

- Pre and Post Money Valuation Definitions
- Factors Impacting Valuation & Recent Trends in the US
- How to Calculate Valuation
- What If the Entrepreneur and Investors are Far Apart?
- What If You Get It Wrong?
- Are We in a Bubble?

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Pre and Post Money Valuation Definitions

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Pre and Post Money Valuation Definitions

Pre-money Valuation + Investment = Post-money Valuation

$$\% \text{Ownership} = \frac{\text{Investment}}{\text{Post-money Valuation}}$$

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Pre and Post Money Valuation Definitions

- If Company A has a pre-money valuation of \$2m and raises an investment of \$500,000 then the post-money valuation is \$2.5m.
 - % ownership of the company = $\$500,000 / 2.5\text{m} = 20\%$
- “I’ll give you \$200,000 for a 10% stake in your company” – would value a company at a \$2m post and \$1.8 pre
 - $\$200,000 / .10 = \$2,000,000$ $\$2,000,000 - \$200,000 = \$1,800,000$

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Factors Impacting Valuation & Recent Trends in the US

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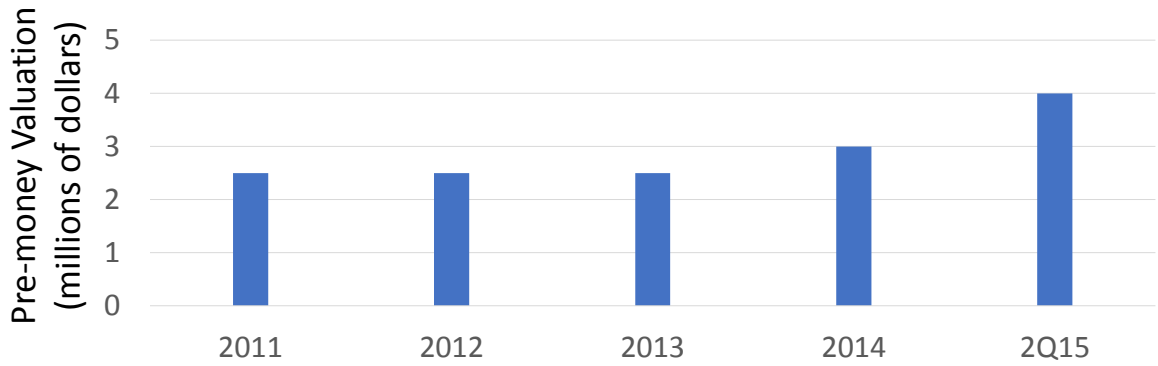
Factors Impacting Valuation

- Economy
- Location
- Round size
- Stage of Development of the Target Company
- Business Sector of the Target Company
- Assessment of the Target Company –i.e. Team, Market Size, IP

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Median US Pre-money Valuation (rounds preceding Series A)

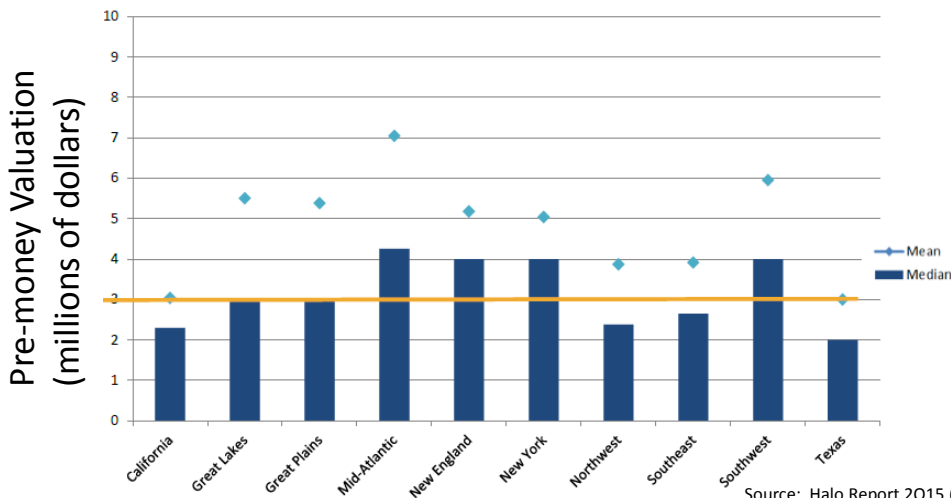


Source: Halo Reports (Angel Resource Institute)

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Pre-money Valuation by Region

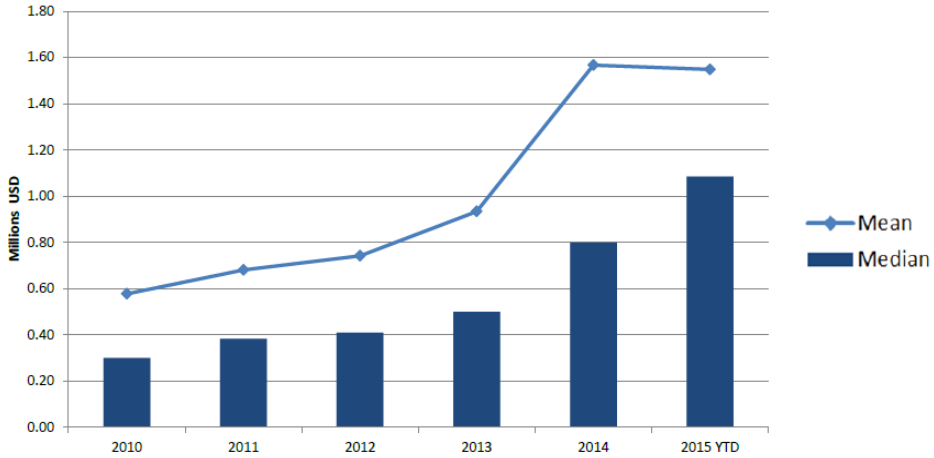


Source: Halo Report 2Q15 (Angel Capital Association)

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US Angel Round Size is Increasing

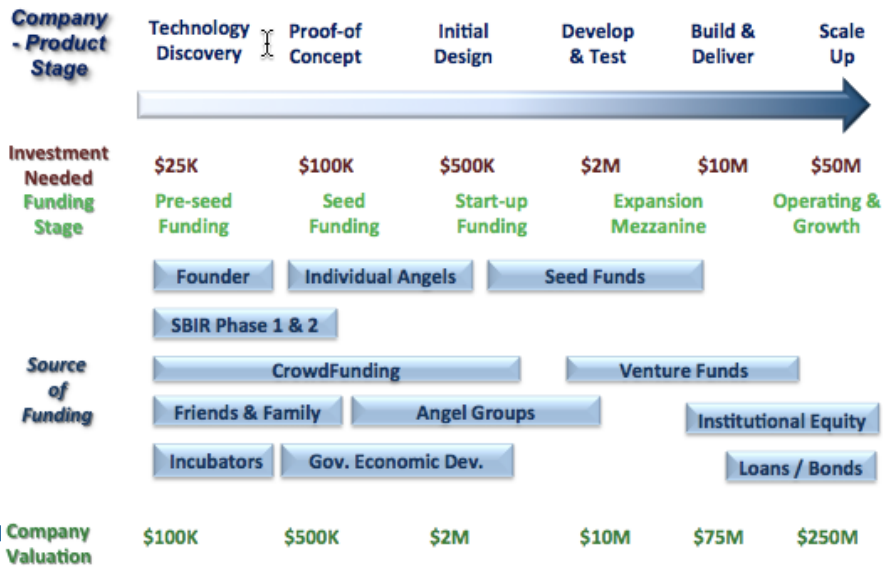


Source: Halo Report 2Q15 (Angel Resource Institute)

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Investment Landscape



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Factors Impacting Valuation

Sector or Industry:

Tech
Life Science
Consumer Products



Assessment of the Target Company:

Team
IP
Market size
Competition
Revenue?
Use of Funds/Exit

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How To Calculate Valuation

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Valuations Methodologies

(for establishing the pre-money valuation of pre-revenue startups)

- Discounting exit valuation or proforma financials
 - Venture Capital Method
 - Chicago Method
- Comparing target to typical funded startup
 - **Scorecard Method**
 - Dave Berkus Method
 - Risk Factor Summation Method
- Online questionnaire
 - Cayenne Calculator

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Scorecard Method

A real estate analogy – appraising target startups using comps

- Starting point: Median valuation of similar startups
 - Similar stage of development
 - Similar business sector
 - Similar location
- Comparing features of target to the norm
- Adjust median by your appraisal of the target

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Scorecard Criteria Weightings

| Criteria | Weighting | Comparison | Adjusted Weighting |
|---------------------------|-----------|------------|--------------------|
| Entrepreneur, Team, Board | 30% | | |
| Size of Opportunity | 25% | | |
| Product/Technology | 15% | | |
| Competitive Environment | 10% | | |
| Sales/Marketing | 10% | | |
| Need for More Financing | 5% | | |
| Other | 5% | | |

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Hypothetical Example

| Criteria | Weighting | Comparison | Adjusted Weighting |
|---------------------------|-----------|------------|--------------------|
| Entrepreneur, Team, Board | 30% | 120% | |
| Size of Opportunity | 25% | 100% | |
| Product/Technology | 15% | 140% | |
| Competitive Environment | 10% | 80% | |
| Sales/Marketing | 10% | 60% | |
| Need for More Financing | 5% | 100% | |
| Other | 5% | 75% | |

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Hypothetical Example

| Criteria | Weighting | Comparison | Adjusted Weighting |
|---------------------------|-----------|------------|--------------------|
| Entrepreneur, Team, Board | 30% | 120% | 0.36 |
| Size of Opportunity | 25% | 100% | 0.25 |
| Product/Technology | 15% | 140% | 0.21 |
| Competitive Environment | 10% | 90% | 0.09 |
| Sales/Marketing | 10% | 60% | 0.06 |
| Need for More Financing | 5% | 100% | 0.05 |
| Other | 5% | 80% | 0.04 |

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Calculate Pre-money Valuation

- Add up Adjusted Weightings = **1.06**
- Determine median pre-money valuation for startups in your area for startups in the same business sector
- Let's assume the US median from the Halo Reports
- Then:
\$4 million multiplied times the adjusted weighting = \$4.24

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What If the Entrepreneur and Investors are Far Apart?

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What If the Entrepreneur and Investors are Far Apart?

- Entrepreneur can feel over diluted and leave
- Starts off the relationship on a sour note
- Takes twice as long with twice as much \$



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What If You Get It Wrong

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What If You Get It Wrong

- If the seed-stage valuation is too high...
 - The financial contribution is undervalued
 - Smart money will walk away
 - The time to close seed rounds can be significantly extended
 - The likelihood of a downround later is higher
 - Especially if the company has a hiccup and misses an important milestone
- If the seed-stage valuation is too low...
 - Entrepreneurs are less motivated
 - Especially after multiple rounds of funding

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Additional Resources

Angel Resource Institute education: <http://www.angelresourceinstitute.org/education.aspx>

Halo Reports: <http://www.angelresourceinstitute.org/research/halo-report/halo-report.aspx>

Scorecard Method: <http://blog.gust.com/valuations-101-scorecard-valuation-methodology/>

Venture Capital Method: <http://billpayne.com/2011/02/05/startup-valuations-the-venture-capital-method.html>

Dave Berkus Method: <http://berkonomics.com/?p=1214>

Location Impacts Valuation:
<http://www.forbes.com/sites/mariannehudson/2015/06/05/startup-valuations-why-location-matters/>

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Speakers Contact Information



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Thank you! Upcoming Webinars

January 13, 2016: Experience from the Trenches: How Angels Use Accredited Investing Platforms

January 27, 2016: DEMO of Seraf - tool for angel investors

Webinar programs archived at: www.angelcapitalassociation.org/events/webinars/



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Additional Resources

Forbes

Marianne Hudson
Executive Director
Angel Capital Association



<http://www.angelcapitalassociation.org/news-forbes/>

Inc.
Handbook of the American Entrepreneur

Christopher Mirabile
Managing Director, Launchpad;
Board Chair, Angel Capital
Association



<http://www.angelcapitalassociation.org/news-inc/>

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Upcoming ACA Events

- February 25, 2016, Western Syndication Meeting, Irvine, CA
- March 9-10, 2016, NW Regional Meeting, Seattle, WA
- May 9 – 11, 2016: ACA Summit, Philadelphia, PA
- <http://www.angelcapitalassociation.org/events/>



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