SKODEN

VENTURES

LET'S GO THEN

sko·den (skō′dən) verb.
slang commonly used by
Native youth, meaning
"Let's go then."

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4 Things to Keep in Mind

1. A higher value is not necessarily a good thing! A realistic value benefits you, your investors, and future investors more than inflated numbers that force you to hit stratospheric revenue numbers.

2. Understand your potential investor's priorities. For example, fund managers manage other people's money - they have customers they have to delight! And they do that by selling companies for a lot more than they were worth when they originally invested.

3. Investors mostly see risk. In some cases this is because they are familiar with all the things that can go wrong. In other cases it is because they see many companies in your industry and are familiar with the challenges you will face.

4. Founders and investors build companies together. The most important aspect of the relationship you build is ensuring alignment - on the long term goals and the role each of you will play in getting there. Agreeing to a valuation is just the first of many, many steps you will take together.

Valuation

Valuation = the monetary value assigned your company upon closing a financing with equity investors.

Our Method:
Step 1 establishes a maximum possible valuation - before assessing and measuring the risks.

STEP 1:	ELEMENT	HOW TO DO IT	EXAMPLE
Base value we assigned to all/ any startups	$50,000	Put $50,000 on your notepad	$50,000
Add: Past 3-6 months of Reve-nue	Based on growth rate for previous 12 or 6 months. Also could be a significant revenue event such as a big performance. In past 24 months.	add revenue amount	$35,000
Mulitply:	Calculate the growth rate of revenue over past months - 50% for example = 1.5	equals $35,000* 1.5	$52,500
		equals $50,000 + $52,500	$102,500
	MAXIMUM VALUATION This = 50% of total possible value. Half of the possible value comes from proven traction (revenue). The other half is estimated based on Risk Factors.	multiply above by 2	$205,000

Valuation

Our Method:
Step 2 identifies the risks and subtracts value from the above maximum possible valuation to recognize the risks.

STEP 2:	ELEMENT	HOW TO DO IT	EXAMPLE	EXAMPLE
Risk Area 1	Team & management experience in the industry, growth mentality.	Given what you know and can learn about the founders, have they proven their ability to grow a startup in this space? Do they exhibit a customer-centric growth mentality? Is the team diverse in skills and abilities?	Possible points are 12.5. For example, if the team is deeply experienmced and this is their second startup in this space you might assign 10 points. Multiply $205,000 * .10	From $205,000 subtract $20,500
Risk Area 2	Scalability - market size, use of technology, regulatory, customer acquisition, cash flow needs	Is the market they are serving large and growing? Can they use technology to scale aspects of the business? Do regulations or other challenges pose significant risks?	If the market is small and local, you might assign 3 points. Multiply $205,000 * .03	subtract $6,150
Risk Area 3	Defensible - patents, trademarks, product uniqueness, quality, brand value.	Do they have IP (patents, etc) that keep the competition at bay? Is the prodct difficult to replicate? Is the brand stronger than others?	5 points	subtract $10,250
Risk Area 4	Liquidity - feasible sale of business or revenue share.	Is there a foreseeable acquisition? A sector that is established and would acquire? Or will the startup generate profits enough to do an equity buy-back or "revenue share" in a short timeframe?	7 points	subtract $14,350
			TOTAL VALUATION	$153,750

Further Reading, Watching, Doing

- Brex: How to do a startup valuation using 8 methods
- Investopedia: Valuing Startup Ventures
- YouTube Crowdwise: Valuation of Early Stage Startups
- Sharpsheets: The Venture Capital Valuation Method - a Free Template

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STAY IN TOUCH!

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