

What You Need to Know About Valuing Your Early Stage Company

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Presentation Outline

Introductions

Traditional Valuation Approaches

Valuations are Down

**Early Stage Company Valuations-
Art or Science**

Valuation by Stage

Valuation: A Working Definition:

- At the core of every investment transaction is a mutually accepted valuation of the company by the investor and entrepreneur.
- A valuation reflects both the entrepreneur's determination of the acceptable amount of ownership that may be given in return for the investor's capital and expertise, and the venture investor's determination of the risks and rewards of the investment.
- Value equals the present value of future benefits of ownership

Adapted from *Understanding Valuation:
A Venture Investor's Perspective*,
Callow and Larsen

Traditional Valuation Approaches

Market Approach

Income Approach

Asset Approach

Valuation Premises

- Value equals the present value of future benefits of ownership
- Value is not always a single number
- Value is based on a single point in time
- What is valued
 - minority interests vs controlling interests
 - equity value vs. entity value

Valuation Methodologies

Market Approach

- Comparative Public Companies`
 - Price / Earnings
 - Price / Cash Flow
 - Price / Book Value
 - Price / Revenues
 - Price / Asset Value
- Comparative Acquisitions

Valuation Methodologies

Income Approach

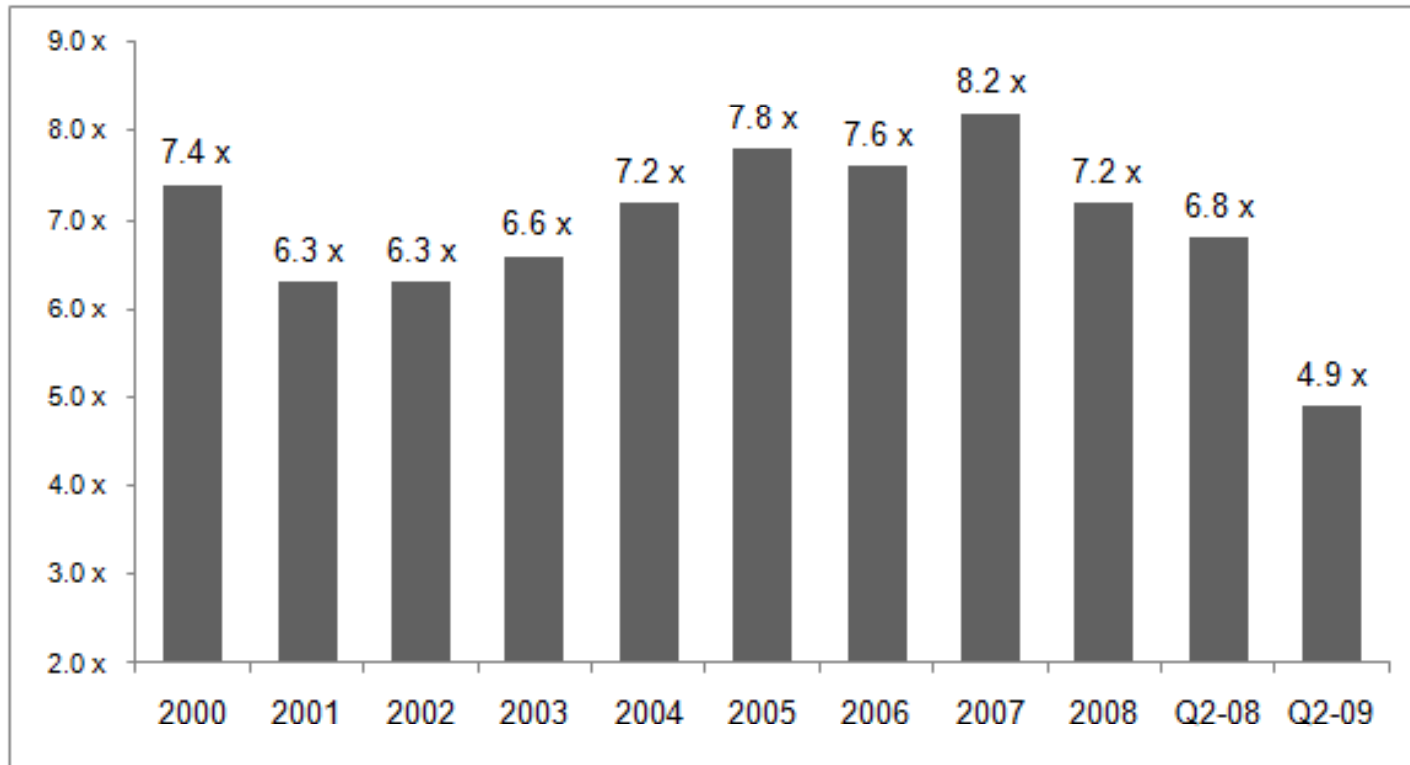
- Income Methodology
 - Capitalized Returns Approach
 - Capitalization of Earnings
 - Capitalization of Cash Flow
 - Discounted Future Returns Approach
 - Discounted Net Cash Flow
 - Discounted Earnings

Valuation Methodologies

Asset Approach

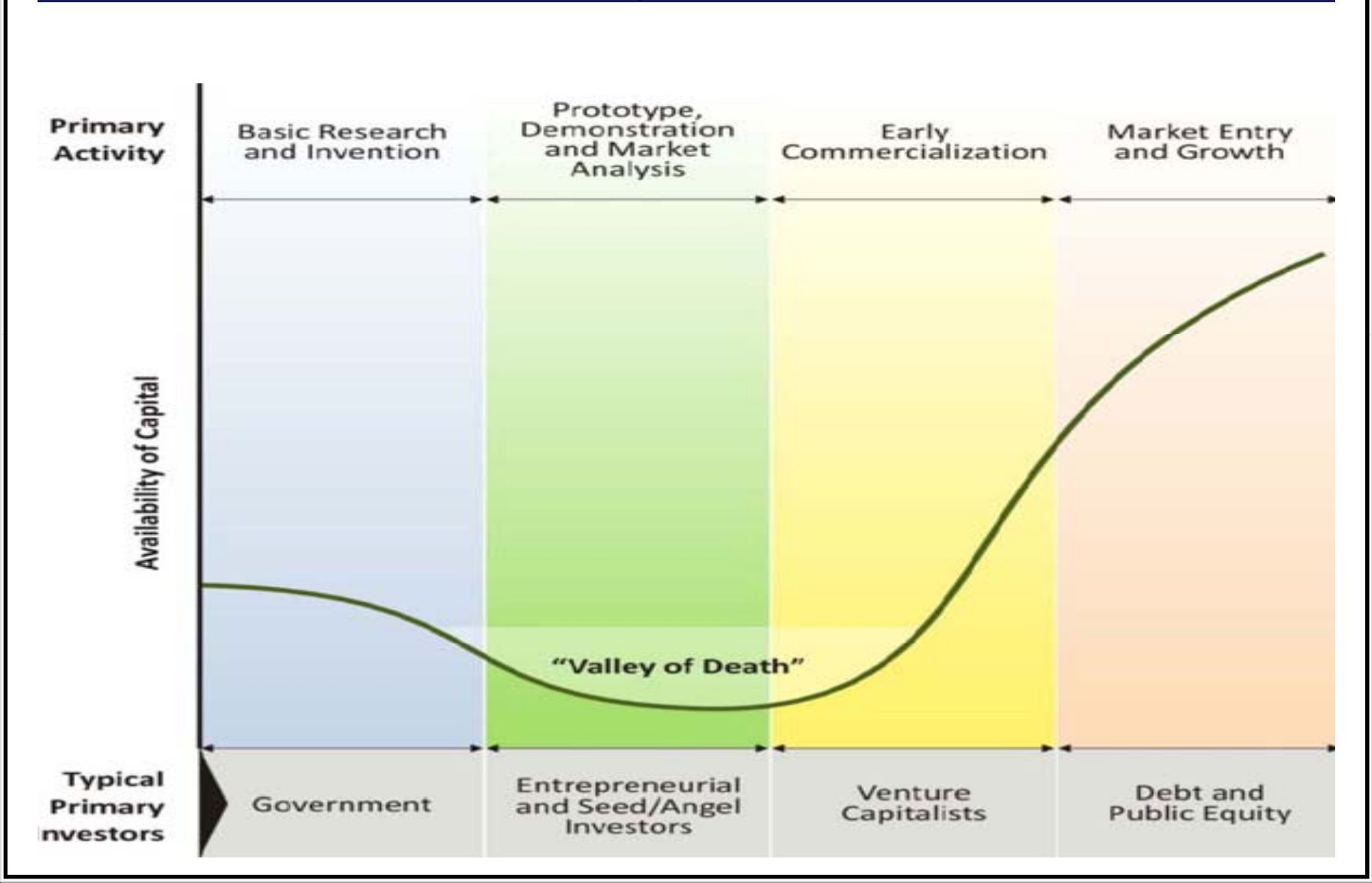
- Net Asset Value
- Adjusted Book Value
- Liquidation Value

Valuations Are Down



* Transactions between \$10 and \$250 million with EV/EBITDA multiples < 15x; (excludes technology, media and telecom). Source: W.Y. Campbell & Co.

Valley of Death



Valuation stages-Art or Science

Seed

- Pure Abstract Art
- No mathematics or approaches have any validity at this stage

Series A

- More of an impressionistic approach
- More clarity on market validation, management, technology and business model

Series B

- A little less artistic
- Product/service has “market traction”, forecasts are reality based, technology risk mitigated , management is becoming “proven” and markets are well defined.
- Valuation begins to lend itself to Market and Income Approaches.

Valuation stages-Art or Science

Series C

- More of the same as Series B
- Milestones have been reached
- All company needs is capital

Mezzanine

- Company has sustainable profitable operations
- Mezzanine capital relies on cash flow and credit markets

Public

- Valuation is now an organized market...supply & demand
- Information is readily available to all potential shareholders.
- As much of a science as we have

Valuation By Stage

Financing	Company Stage	Data	Risk Uncertainty	Value Range (\$MM)
Seed	Incorporation & Early Development	Concept, soft data, no mgt,	Highest Risk	.1-1.0
Series A	Development	Market validation and little technology risk	Very High	3-5
Series B	Shipping Product	Beginning Revenues	High	5-10
Series C	Reference Clients	Predictive Revenues	Moderate	>10
Later Stage/Mezzanine	Profitable	Hard Data, EBITDA	Normal Business Risk	20-50
Public Company	Profitable	Public Information	Least Risk	Whatever