Understanding the Startup Valuation Process

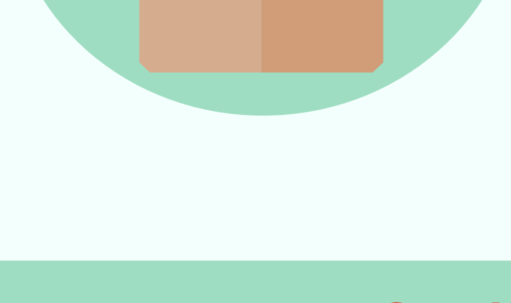
What is Startup Valuation

In contrast to the valuation of mature businesses, startup valuation takes into account the earnings before interest, taxes, depreciation and amortization (EBITDA). The process can also use other industry-specific multiples.

Funding Breakdown

Angel

Angel investors invest in small startups or entrepreneurs. They are often close friends with the founders or someone from the family who is willing to support a relative during the difficult stages.



Seed

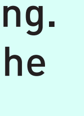
This is the initial capital used to start a business. The investment often comes from personal assets, friends or family. Put together, these sources could cover the initial operating expenses.

Exit Strategies

At this point, both investors and company owners are looking to realize their gains or losses on the invested capital. Generally, it's a move often planned early on and included in the official company business plan.

Startup Valuation Methods

Difference Between Pre-money Valuation & Post-money Valuation



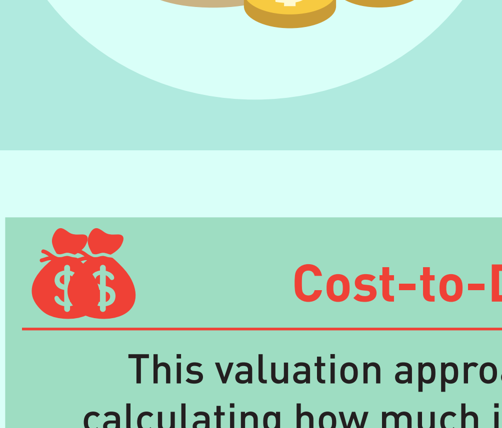
Pre-money valuation refers to the valuation of a company or asset prior to an investment or financing. Post-money valuation refers to the company's value after new investment capital gets received.

Venture Capital Method

Also known as the First Chicago Method, this approach is a combination of multiples-based valuation and discounted cash flow (DCF) valuation.

Post-money Valuation

This value is equal to the sum of the pre-money valuation plus new equity. This does not take into account the special features of preferred stock, and can't be equated with "market value".



Cost-to-Duplicate

This valuation approach involves calculating how much it would cost to build another company just like the startup, from scratch.

Market Multiple

The "multiples approach" is a preferred method for venture capitalists, as it gives them good indication of what the market is willing to pay for a company's assets. It's based on looking at recent acquisitions of similar companies.

Typical Valuation Multiples by Industry

Valuation multiples are financial measurement tools that evaluate one financial metric as a ratio of another, in order to make different companies more comparable to each other.

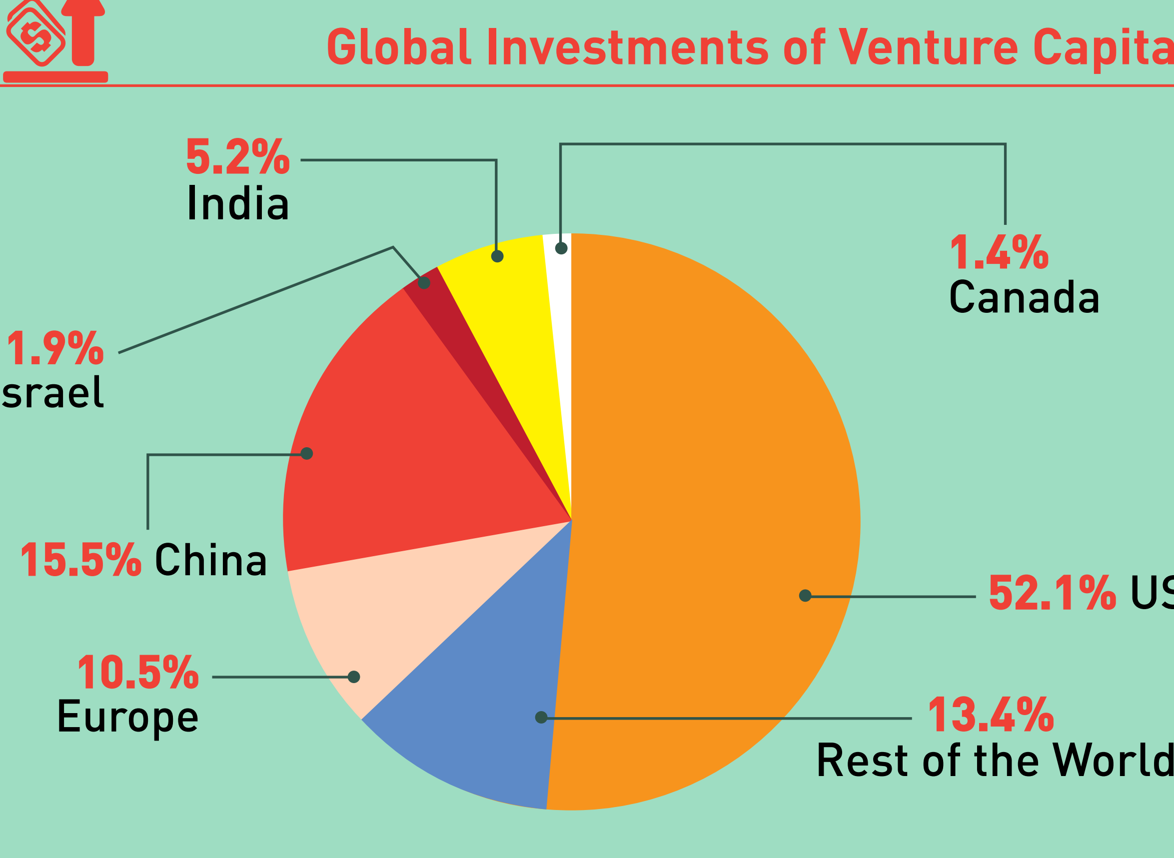
Software as a Service

Traditional software companies have an average enterprise value of 3 times their revenue. SaaS companies trade a multiple of 6.5 times their revenue.

What Makes SaaS Companies So Valuable

- Saas companies have a higher percentage of recurring revenues
- Cloud delivery is gaining traction with Enterprise-level clients
- SaaS companies have much more rapid growth
- The Saas business model is disrupting the traditional software cash flow
- Saas companies manage churn to a minimum.

Global Investments of Venture Capital



Why Startups Fail

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Sources

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