Investor Analysis

*Nothing in modern attitudes is believed more to signify exceptional
intelligence than association with large pools of money.
Only immediate experience with those so situated denies the myth.*
~ John Kenneth Galbraith

This page enables you to compare the effects of different valuations and scenarios played out with investors. Most of the numbers come to this page from your financials as well as the Valuation page. In a few instances you will need to enter a number.

Valuation Override

In the 'Pre-Funding Valuation' cell, the system will grab and use the valuation number from the previous page per the valuation method you select above.

If you want to enter another valuation number and override the pre-calculated amount, enter your presumed valuation here to use for this analysis. From the pull-down menu, choose 'Valuation Override.' The only time your override number will be used is when 'Valuation Override' is selected from the pull-down menu.

Valuation Step-Up

This is the increase in value of your company by round two of investment—100% (for example) means your company doubled in value between investment round one and round two. This is also the ROI enjoyed by your round-one investors.

Price/Earnings Ratio (P/E)

The price-to-earnings ratio (P/E) is probably the most widely used - and thus misused - investing metric. It's easy to calculate, which explains its popularity. The two most common ways to calculate it are:

- P/E = share price divided by earnings per share
- P/E = market capitalization divided by net income

The share price is the market capitalization divided by the number of shares, so the results should be identical. Share price and market cap are easy to find in the quote section of any financial website. The earnings are usually taken from the trailing twelve months (TTM) and can be found by checking the income statement for the past four quarters. A P/E using TTM figures is often called the current P/E.

Another variation is the forward P/E, which is calculated using analyst future earnings estimates, rather than actual historical earnings. Most financial websites give both the current and forward P/E. I find forward P/E a useful guide for cyclical companies, companies coming out of negative earnings, and those that have significant one-time charges embedded in current earnings.

In essence, the P/E tells us how much an investor is willing to pay for $1 of a company's earnings. The long-term average P/E is around 15, so on average, investors are willing to pay $15 for every dollar of earnings. Another useful way to look at this: Turn the P/E ratio around to look at the E/P ratio, which

when expressed as a percentage gives us the earnings yield. For instance: 1/15 gives us an earnings yield of 6.67%.

The "P" in the P/E ratio is determined at any given point by the market value of the company or its shares. Built into this market price are the future expectations of the company's growth.