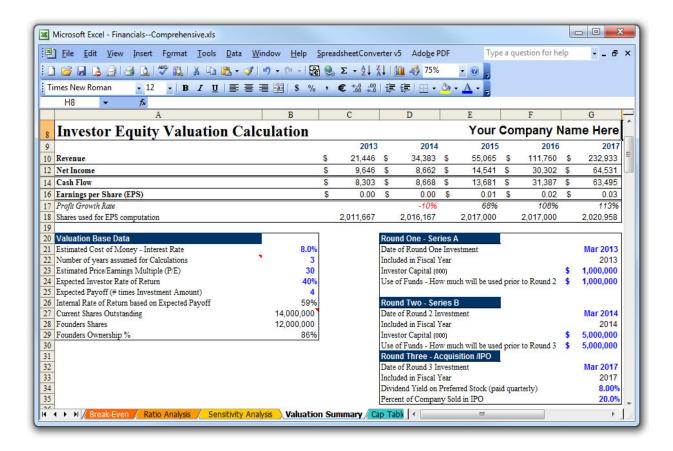
Valuation

"How much is your company worth?" investors will eventually ask. With the right investor in place, it will be worth a fortune! Is the right answer... but you don't want to come across as a smart aleck. The real question should be, "How much will your company be worth?"

Remember that investors will not even begin to address valuation unless and until they feel comfortable with your Company. Only after they are satisfied with market demand, product development and management capabilities will they seriously consider valuation. The assumptions data entered on this page (in blue) provides the basic data used by investors to calculate the value of your business *today*, presuming it does what you think it will do in the *future*.

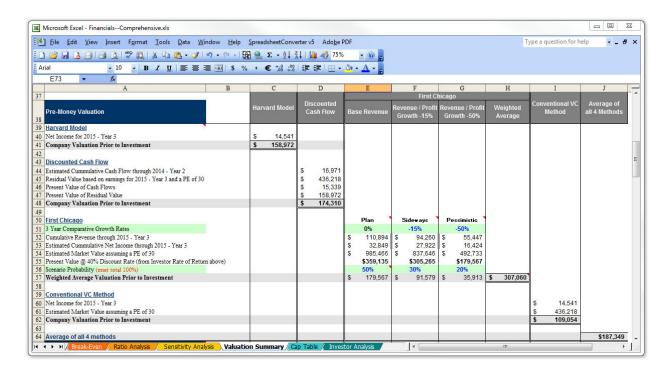
The blue variables ask you make some assumptions about possible future financing. The big number to research is the likely Price/Earning Multiple (P/E) — we enter an assumed '10' = your company would be worth 10 times your profit. Depending upon your industry, this could range from .5 to 50+. Take a look at http://www.bizstats.com for some possible ratios that you can quote from a reliable and up-to-date source. You can leave rounds two out and set it to zero if you like, but you should enter an estimate of when you would likely be acquired go public.



The formulas on this page use the revenue and profit numbers carried forward from your projected Income Statement.

Harvard Model

This model is a fairly simplistic calculation of the net present value (NPV) of the possible future value of your company. (Profit Year 5) \times (P/E) / (1+IRR)⁵ You can also substitute 3 in both places where there is a 5, for a year 3 valuation.



Discounted Future Cash-Flow

The Discounted Cash Flow technique is the most commonly used valuation method that accounts for the present value of the Company's projected pre-interest cash flow for a determined period of 3 to 5 years (expected date of an IPO or acquisition). These cash flow projections are derived from assumed revenue generation on product sales, less operating costs and debt repayment on capital investments (not including interest payments), plus an estimate of the Company's residual value at the end of 3 to 5 years. These projections are then discounted back to the present by the risk-adjusted, weighted-average cost of capital. This cost of capital accounts for interest payments and/or equity returns expected by investors.

First Chicago

The First Chicago Method values the Company based on the cumulative impact of the probability of different earnings scenarios. While different scenarios can be generated under the either the DCF, Hockey Stick or Conventional Methods - the First Chicago Method requires management and the investors to consider the likelihood of earnings scenarios, thereby accounting for a range of possible outcomes in a single analysis. As you can see on the screen, we ask for several growth scenarios.

Common VC Formula

- The VC first decides what return on investment it seeks through the projection period.
- Then applies a price/earnings ratio to earnings at the end of the projection period to determine the market valuation of the Company in the future.

- The future market valuation of the Company is discounted to the present using a discount rate resulting from a desired payoff of xx times investment over x years.
- The investor's ownership in the Company is determined by taking the initial investment of \$xxx as a percentage of the \$xxx present value of the Company which equal xx%.

Parts excerpted from Venture Law Firm White & Lee on investor valuation.