VALUATION
METHODS

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Tips for Increasing Your Startup's Valuation When Seeking Investors

There are a variety of ways to value a startup, and determining the pre- and post-investment of an early-or even mid-stage startup is a mixture of art, intuition and science. Startups are valued using any number of different startup valuation models, each of which may yield a different valuation for the same startup. If you're an entrepreneur seeking funding, it's important to know both how some of these valuation models work and what you can do to increase your startup's valuation.

Here are four of the more common startup valuation models that investors use, followed by some factors that could potentially increase the value of your startup both pre- and post-investment.

4 Common Startup Valuation Models

1. Market Comparables Method
2. Venture Capital Method
3. Scorecard Valuation Method
4. Risk Factor Summation Method

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1. Market Comparables Method

The Market Comparables Method will be familiar to anyone who's bought or sold a house, and real estate agents are experts in it. This method uses comparable "sales" to determine how much a startup business is worth. Instead of looking at actual sales as is done in the housing market, the method looks at other successful funding rounds of similar businesses when valuing a startup.

In theory, the investors in a similar business that's already raised funds knew what they were doing and provided an accurate valuation. If your business is like that one, your business' value is probably comparable.

The Market Comparables Method might not always stand on its own, for investors will want to dive into the specifics of your business. It's helpful for establishing a range and can be used as support for other valuations, however. The method is sometimes also known as the Market-Based Valuation, Comparables Approach, or Comparable Company Analysis (CCA) method.

2. Venture Capital Method

The Venture Capital Method looks at a startup's valuation from the perspective of a venture capitalist — and that's a perspective that focuses on making money. Accordingly, the method is concerned with the expected return on investment at the time of exit. Exit is normally in three to eight years for most venture capital businesses, but there are exceptions.

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When using the Venture Capital Method, there are two key terms to know. Terminal value is the anticipated value of a company at exit, when it's sold. Return on investment (ROI) measures the expected return as a percent. The formula for ROI is: (Terminal Value) / (Post-money Valuation) = (ROI).

The Venture Capital Method is useful when evaluating how much money investors might make off of a business. It can be especially helpful when comparing different investment opportunities, and most VCs and angel investors have a minimum ROI that they seek.

3. Scorecard Valuation Method

The aptly named Scorecard Valuation Method uses a scorecard to value a business much in the same way that a judge might use a scorecard to evaluate an athlete's performance. The method initially bases valuation on the value of a similar business, and then, it applies different weights to different categories. The methodology helps investors arrive at an overall valuation based on how they view the different strengths of a business.

The Scorecard Valuation Method is frequently used to value pre-revenue businesses that are seeking seed funding, and it offers a matrix through which valuation and seed capital can be discussed. The method is also known as the Bill Payne Method.

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4. Risk Factor Summation Method

The Risk Factor Summation Method is similar to the Scorecard Valuation Method both in that the two are commonly used to value pre-revenue startups and both try to gauge how various aspects of a business impact valuation.

The Risk Factor Summation Method, however, focuses specifically on the various risks that can impact launch and growth. The method begins with a baseline valuation that's obtained by averaging similar businesses' valuations, and then each risk is individually considered in turn. The presence of a risk reduces valuation, while the lack of a common risk can raise valuation.

Factors That Increase Your Startup's Valuation

While these and other valuation methods that investors use to evaluate startups capture many aspects of a business, few (if any) capture all potential factors for all businesses. Specifically, intangible factors such as the following can often be used to increase a startup's valuation:

- **Team experience & qualifications**
- **Intellectual property**
- **Business reputation**
- **Customer database**
- **Barriers to entry**

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If your business has any of these intangibles—or others—that could increase its overall valuation, make sure you know how to present those intangibles to investors for the best possible outcome, which is of course to increase the pre- and post-investment value of your startup.

Get Help Valuing and Presenting Your Business?

Interested in learning more about how you can leverage intangible factors to increase the valuation of your startup? Schedule a call, and let's talk about valuation methods and intangibles that could help maximize the valuation of your startup.

Schedule A Call

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