Valuing Private Technology Companies

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What is Valuation?

Price at which you buy into a company.

Foundation you set for the company to achieve success.
Dramatic Valuations

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Gain</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$745M</td>
<td>$215M</td>
<td>29%</td>
</tr>
<tr>
<td>2008</td>
<td>$960M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>$5M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>$1B</td>
<td>$995,000,000M</td>
<td>19,900%</td>
</tr>
<tr>
<td>2011</td>
<td>$40M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>$19B</td>
<td>$18,960,000,000M</td>
<td>47,400%</td>
</tr>
</tbody>
</table>

WhatsApp

745 Seventh Ave.
New York

$960M exit
29% gain

$9BBM exit
47,400% gain
In determination consider….

If successful, the company will require more investment.

Make sure the founders and team are properly incentivized.

Valuation models….
Early stage companies:

• have little to no revenue
• have minimal traction and proof points
• have unproven business models
• are often not more than an idea

Valuing something from nothing…?
### Value: Team

<table>
<thead>
<tr>
<th>Company</th>
<th>1&lt;sup&gt;st&lt;/sup&gt; Round Valuation</th>
<th>Founder</th>
<th>Prior Co’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>jet</td>
<td>$275M</td>
<td>Mark Lore</td>
<td>Quidsi, acq by Amazon for $545M</td>
</tr>
<tr>
<td>Square</td>
<td>$100M</td>
<td>Jack Dorsey</td>
<td>Twitter</td>
</tr>
<tr>
<td>Addepar</td>
<td>$75M</td>
<td>Joe Lonsdale</td>
<td>Palantir, PayPal</td>
</tr>
<tr>
<td>The Melt</td>
<td>$50M</td>
<td>Jonathan Kaplan</td>
<td>Pure Digital, acq by Cisco for $590M</td>
</tr>
<tr>
<td>Porch</td>
<td>$35M</td>
<td>Matt Ehrlichman</td>
<td>Thriva, acq by active.com for $60M</td>
</tr>
</tbody>
</table>

*Valuation extrapolated as selling 20% on 1<sup>st</sup> financing round.*
## Value: Traction & Revenue

<table>
<thead>
<tr>
<th>Company</th>
<th>Valuation</th>
<th>Revenue</th>
<th>Key Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Uber</strong></td>
<td>$40B</td>
<td>$1.5B - $2B</td>
<td>55 countries, 1M+ drivers</td>
</tr>
<tr>
<td><strong>Airbnb</strong></td>
<td>$20B</td>
<td>$500M</td>
<td>600K listings, 200 countries</td>
</tr>
<tr>
<td><strong>Slack</strong></td>
<td>$2.76B</td>
<td>$25M</td>
<td>500K DAU, 135K paid users</td>
</tr>
<tr>
<td><strong>Instacart</strong></td>
<td>$2B</td>
<td>10X growth y/y, 2X Q4 2014</td>
<td>4,000 shoppers, 15 cities</td>
</tr>
<tr>
<td><strong>Thumbtack</strong></td>
<td>$830M</td>
<td>$1.8B GMV</td>
<td>3M job leads, 75,000 providers</td>
</tr>
</tbody>
</table>

*Valuation & revenue listed is last publicly reported*
<table>
<thead>
<tr>
<th>Company</th>
<th>Valuation</th>
<th>Growth</th>
<th>Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>WhatsApp</em></td>
<td>$19B</td>
<td>Added 300M active users in 2014</td>
<td>700M MAU, 30B msgs daily</td>
</tr>
<tr>
<td></td>
<td>(acq by Facebook)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>snapchat</em></td>
<td>$15B</td>
<td>$500M</td>
<td>200 MAU, 700M snaps per day</td>
</tr>
<tr>
<td><em>Pinterest</em></td>
<td>$11B</td>
<td>37% growth y/y</td>
<td>75.8M uniques, US</td>
</tr>
<tr>
<td><em>Instagram</em></td>
<td>$1B</td>
<td>50% growth in 9 mos</td>
<td>300M MAU</td>
</tr>
<tr>
<td></td>
<td>(acq by Facebook)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Valuation, growth and engagement listed is last publicly reported*
Benchmarks

<table>
<thead>
<tr>
<th>Region</th>
<th>Avg Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silicon Valley</td>
<td>$4.8M</td>
</tr>
<tr>
<td>Turkey</td>
<td>$4.3M</td>
</tr>
<tr>
<td>Russia</td>
<td>$3.3M</td>
</tr>
<tr>
<td>Estonia</td>
<td>$3.2M</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$2.8M</td>
</tr>
<tr>
<td>Ukraine</td>
<td>$1.7M</td>
</tr>
</tbody>
</table>

Seed stage companies, valuations <$10M

http://angel.co/valuations
Other contributing factors

Investor syndicate
• Who are the other investors?
• Strategically advantageous that add value

Competition
• Difficult to get into the deal
• Market dynamics & pricing at play

Comps
• What valuations have similar companies raised at?

Market
• Considering the regional / economic dynamics of the overall market
Rules of thumb

- **Total** fundraise should dilute company by 10 – 20%, for early stage deals (seed, Series A)
- Plan for future fundraises and calculate in your dilution
- Unallocated employee option pool set to 15% after each financing
- Make sure founders and early team members have significant ownership to keep them in the game
Ranges

- Seed (proof of concept): $2M - $5M pre money
- Series A (business model expansion): $5 - $20M pre money
- Series B (scaling the business): $25M - $100M pre money
- Series C+ (growth): $100M+

Pre Money + Capital invested = Post Money

$2M Pre + $500K = $2.5M Post

20%
End of the day

What will the market (you and the entrepreneur) bear?

• Strong team…

• Traction & revenue…

• Growth & engagement…
Seed Round to Series C+: What’s Changed?

More Data to Draw From
- Revenue, EBITDA, cash burn, cohort data, prior funding rounds, etc.

Change in Risk
- Later stage investors pay a premium for lower levels of risk
- There is less upside potential in later stages, but more predictable performance
Impact on Valuation

Deeper Understanding
• Past performance is used to understand the economics of the business and model best and worst case scenarios
• Projected performance can be viewed with more certainty

More Valuation Methods Available
• Apply revenue multiples from public comps
• DCF analysis can be used when there is greater certainty around future performance
Not All Multiples are Created Equal

Revenue Multiple

What causes this?

2x

19x

amazon.com

workday.
Not All Multiples are Created Equal

- New competition
- Low margin
- High burn

2x

- Low churn
- High growth
- Easily projected performance

19x
Characteristics of High Quality Revenue Companies

- Sustainable competitive advantage
- Network Effects
- Visibility/Predictability
- Gross Margin Levels
- Customer Concentration
- Major Partner Dependencies
- Organic Demand vs Heavy Marketing Spend
- Growth

All Revenue is Not Created Equal: The Keys to the 10X Revenue Club- Bill Gurley
Domestic vs. International Valuation

Revenue Multiple

15x

15x

What causes this?

NETSUITE
San Mateo, California
SaaS, Business Productivity

TOTVS
Sao Paulo, Brazil
SaaS, Business Productivity
Public Company Valuation

Tech P/E Ratios

25x

13x

[Flag of the United States] [Flag of Brazil]
International Valuation

International companies come with their own unique risks:

- Political implications
- Currency fluctuation
- Underdeveloped infrastructure
- Access to credit, financial services
Global Unicorns

- **Beijing, China**
  - $46B

- **Bangalore, India**
  - $11B

- **Stockholm, Sweden**
  - $8B

- **New Delhi, India**
  - $3B

- **Helsinki, Finland**
  - $3B

- **Berlin, Germany**
  - $1.2B
Late Stage Jump:

- With early stage valuations climbing, late stage companies have nowhere to go but up!
- Despite large rounds and valuations, industry leaders have legitimate revenue to support them
- Demand from hedge funds, mutual funds, and family offices is driving up prices
- Companies are staying private longer (Series D+)

Later Rounds Have Gotten Expensive

### LATE STAGE MEDIAN VALUATIONS BY YEAR

- Series C
- Series D+

Source: PitchBook
## Exit Scenarios

### M&A

**Advantages:**
- Value creation (synergies)
- Additional resources
- Economies of scale

**Disadvantages:**
- Possible loss of control
- Employee redundancy
- Diseconomies of scale

### IPO

**Advantages:**
- Access to capital
- Publicity
- Marketable shares for acquisitions

**Disadvantages:**
- Possible loss of control
- Increased scrutiny
- Need for transparency

*Other Scenarios:* Secondary Sale, Recapitalization
Thank you

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