WHAT IS EQUIDAM

Equidam is the leading provider of online business valuation. More than 130,000 startups and small businesses in 90 countries use Equidam to compute, understand and negotiate their value.

OUR MISSION

Bring transparency and objectivity to valuation, allowing companies to have a better understanding of it, make better decisions and ultimately bring more innovation into the world.

EQUIDAM VALUATION REPORT

The purpose of the Equidam Valuation Report is to start a fruitful and transparent negotiation process between the parties involved. It shows the valuation of the company, its details, the financial projections and all the parameters involved, so that they can be easily discussed and, if necessary, adjusted on the platform to change the valuation.

PARTNERS
METHODOLOGY

Equidam automates the complex calculations involved in valuation, allowing companies to seamlessly compute the valuation on their own and learn its drivers.

DATA SOURCES

A grounded valuation depends on grounded assumptions. This is why we curate the reliability of our data sources, as well as their specificity to the company’s country and industry. You can check out more information on our data sources at this link: equidam.com/data-sources/

COMPUTATION VS VALUATION ENGAGEMENT

Equidam does not engage in revising the input inserted by the company to compute the valuation (financial projections, questionnaire, and possible adjustments to the financial parameters). The resulting valuation and report, then, strictly depends on the reliability of the input inserted by the user.

Methodology compliant with
IPEV (International Private Equity Valuation) Guidelines

“As an angel investor, Equidam allows me to make more efficient investment decisions. I no longer have to create financial models for every company I evaluate.”

Jeff Morris Jr.
DIRECTOR, PRODUCT MANAGER AT TINDER
METHODS OVERVIEW

Introduction to the 5 valuation methods

Valuation guidelines encourage the use of several valuation methods as they analyse the business value from different angles and result in a more comprehensive and accurate view.

Equidam chooses to use the 5 valuation methods listed below, which will be described in details in the following pages.

Qualitative Aspects

Scorecard Method
Checklist Method

Developed by renowned American business angels to value the elements that guarantee future success in pre-revenues, early stages companies.

Future Cash Flows

DCF with Long Term Growth
DCF with Multiple

The standard and most traditional methods according to which a company is worth the cash that it’s going to generate in the future.

Investors Returns

Venture Capital Method

To take into account the required returns investors expect to earn when exiting the startup in order to have a profitable portfolio.

Final valuation: weighted average of the 5 methods

The final valuation is computed as the weighted average of the valuation methods. The default weights are applied by Equidam according to the company’s development stage indicated by the user as shown in the table below.

<table>
<thead>
<tr>
<th>WEIGHT OF THE 5 METHODS: DEFAULT SETTINGS*</th>
<th>SCORECARD</th>
<th>CHECKLIST</th>
<th>VC</th>
<th>DCF WITH MULTIPLE</th>
<th>DCF WITH LTG</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDEA STAGE</td>
<td>38 %</td>
<td>38 %</td>
<td>16%</td>
<td>4 %</td>
<td>4 %</td>
</tr>
<tr>
<td>DEVELOPMENT</td>
<td>30 %</td>
<td>30 %</td>
<td>16%</td>
<td>12 %</td>
<td>12 %</td>
</tr>
<tr>
<td>STARTUP STAGE</td>
<td>15 %</td>
<td>15 %</td>
<td>16%</td>
<td>27 %</td>
<td>27 %</td>
</tr>
<tr>
<td>EXPANSION STAGE</td>
<td>6 %</td>
<td>6 %</td>
<td>16%</td>
<td>36 %</td>
<td>36 %</td>
</tr>
</tbody>
</table>

Why these weights

DCF methods have more importance for companies with financial track record. Younger companies with no track record have more unreliable forecasts; for this reasons, qualitative methods that are not based on projections should be have a larger weight than DCF.

*Adjustable by the user

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UNDERSTANDING EQUIDAM VALUATION
SCORECARD METHOD

Comparable, recent transactions are relevant in pricing a company

The main tenet of this method is that comparable transactions are relevant in pricing a company. Originally developed in 2001 by American business angels, this method was published in 2007 by the Kauffman Foundation and revised in 2011 by Bill Payne from Ohio TechAngels. Equidam reviewed the score system and the information on which the scores are attributed.

HOW IT WORKS

1. Determination of the average pre-money valuation of similar companies*, valuations based on their geography.

   *Adjustable by the user

DATA SOURCES OF AVERAGE VALUATIONS

Crunchbase database of angel, pre-seed and seed funding rounds of the last 30 months

- By country
- Updated biannually

2. Based to the user’s answers to the “Questionnaire” section on Equidam, the company is assigned a score that indicates whether it performs better or worse than comparable companies on 6 criteria.

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>WEIGHTS *</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRENGTH OF THE TEAM</td>
<td>30 %</td>
</tr>
<tr>
<td>SIZE OF THE OPPORTUNITY</td>
<td>25 %</td>
</tr>
<tr>
<td>COMPETITIVE ENVIRONMENT</td>
<td>10 %</td>
</tr>
<tr>
<td>STRENGTH &amp; PROTECTION OF PRODUCT/SERVICE</td>
<td>15 %</td>
</tr>
<tr>
<td>STRATEGIC RELATIONSHIPS WITH PARTNERS</td>
<td>10 %</td>
</tr>
<tr>
<td>FUNDING REQUIRED</td>
<td>10 %</td>
</tr>
</tbody>
</table>

   *Adjustable by the user

3. Based on these scores and their weights, the valuation will be adjusted upward or downward.
CHECKLIST METHOD

Valuing intangible assets

The main tenet of this method is that intangible assets of early stage companies are the foundation of their future success, thus valuable - just as tangible assets are for established businesses.

Business Angel Investor Dave Berkus, who has participated in more than 140 early-stage deals, proposed this method in 1996, and later extended it in 2016. Equidam reviewed the weights system and the information on which the scores are attributed.

HOW IT WORKS

The Checklist method assumes a fixed maximum valuation based on the region and assigns the company a score for each of the 5 criteria, based on the answers to the “Questionnaire” section on Equidam. The weighted sum of the score of each criteria determines the pre-money valuation.

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>WEIGHT</th>
<th>SAMPLE CASE SCORE</th>
<th>MAX VALUATION*</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>QUALITY OF THE CORE TEAM</td>
<td>30%</td>
<td>80%</td>
<td>$8M</td>
<td>30% + 80% + $8M = 1.92M</td>
</tr>
<tr>
<td>QUALITY OF THE IDEA</td>
<td>20%</td>
<td>65%</td>
<td>$8M</td>
<td>20% + 65% + $8M = 1.04M</td>
</tr>
<tr>
<td>PRODUCT ROLL-OUT AND IP PROTECTION</td>
<td>15%</td>
<td>40%</td>
<td>$8M</td>
<td>15% + 40% + 8 M = 0.48 M</td>
</tr>
<tr>
<td>STRATEGIC RELATIONSHIPS</td>
<td>15%</td>
<td>50%</td>
<td>$8M</td>
<td>15% + 50% + 8 M = 0.6 M</td>
</tr>
<tr>
<td>OPERATING STAGE</td>
<td>20%</td>
<td>50%</td>
<td>$8M</td>
<td>20% + 50% + 8 M = 0.8 M</td>
</tr>
<tr>
<td><strong>PRE-MONEY VALUATION</strong></td>
<td></td>
<td></td>
<td></td>
<td>$ 4,840,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>*Adjustable by the user</td>
<td></td>
</tr>
</tbody>
</table>

Or, in relative terms,

\[
\frac{4840000}{8000} = 60.5\%
\]

of the total

DATA SOURCES OF MAXIMUM VALUATIONS
Crunchbase database of angel, pre-seed and seed funding rounds of the last 30 months

© 2020
THE 2 DISCOUNTED CASH FLOW METHODS

These methods stem out of the widely applied Discounted Cash Flow, based on discounting future cash flows for an array of risk factors, for which the formula is illustrated below. The difference between the 2 DCF that Equidam uses lies on the computation of the Terminal Value (TV), explained in the next page.

\[
Y_1 \times SR \times \frac{1}{(1 + DR)^1} + Y_2 \times SR \times \frac{1}{(1 + DR)^2} + \ldots + Y_n \times SR \times \frac{1}{(1 + DR)^n} + TV \times (1 - ID)
\]

\(n = \text{Number of projected years}\)

---

**DISCOUNT RATE**

The discount rate used is the Weighted Average Cost of Capital (WACC). Being the debt in private companies (when present) not tradable, the Equidam system assumes that the WACC is equal to the cost of Equity. The cost of Equity is then calculated with the CAPM formula, that is:

\[\text{Risk free rate} + \beta (\text{Market Returns} - \text{risk free rate})\]

**Data Sources:**
- **Risk free rate** = The nominal interest rates of 10Y government securities of each country.
- \(\beta\) = indicates how the industry of the company relates to the market in terms of risk. If the industry is more volatile than the market, then the risk but also the expected returns are higher, and vice versa. Equidam uses a 4 factor beta (industry, number of employees, stage of the company, profitability) according to researches published by NYU Professor Aswath Damodaran.
- **Market Risk Premium** = determined according to the country where the company is based. It is calculated on a biannual basis by Professor Aswath Damodaran by subtracting the risk free rate to the last 12 months returns of the stock market in the country.

**SURVIVAL RATE**

Being the nature of private companies riskier than the public one, Equidam applies a survival rate discount to the estimated cash flows.

**Dara Sources:**
- Country-specific Central Bureau of Statistics (such as Eurostat, SBA, etc.)

**ILLIQUIDITY DISCOUNT**

The illiquidity discount is applied to take into account the risk of being unable to resell the stocks of the company due to the lack of a market for private companies. It is computed by Equidam based on research on private companies' share liquidity and it is updated annually.

**FREE CASH FLOWS TO EQUITY OF THE RESPECTIVE YEAR**

See page 9 for more information.

*Adjustable by the user*
DCF WITH LONG TERM GROWTH

The DCF with long term growth method is one of the most widespread models to value public companies. This method assumes that the company is going to survive and grow at a steady and constant rate.

TERMINAL VALUE COMPUTATION

\[
( \text{Free cash flow to Equity of the final projected year} \times \text{Survival Rate, see page 7}) \times (1+\text{Growth rate}) \]

- Growth rate
- DR - Discount Rate, see page 7
- n = Number of projected years

Equidam applies a fixed range that spans from 0.1% to 2.5%, based on the industry of belonging.

**Why this growth rate**

The growth rate assumes the company will grow at that pace in perpetuity and it cannot be higher than the GDP growth rate of a certain country, as this would mean that the company will outpace the country and eventually become bigger than the country itself.

DCF WITH MULTIPLE

TERMINAL VALUE COMPUTATION

\[
\text{EBITDA of last projected year} \times \text{Industry multiple*} \times \text{Survival rate last projected year} \]

*Adjustable by the user

DATA SOURCES:

Online database compiled and curated by Prof. A. Damodaran, NYU Stern School of Business

By industry  Updated annually
VENTURE CAPITAL METHOD

The venture capital method is a quick approach to the valuation of companies.

It estimates the exit value of the company at the end of the forecast horizon and ignores the intermediate cash flows. The exit value is calculated by taking the EBITDA of the last projected year and applying the EBITDA multiple. This value is then discounted at a high rate to get the present value.

HOW IT WORKS

Potential exit value

\[
\text{EBITDA of last projected year} \times \frac{\text{Industry multiple}^*}{(1 + \text{Discount rate})^n} - \text{Capital Raised} = \text{Pre-money valuation}
\]

\(n = \text{Number of projected years}\)

*Adjustable by the user

DATA SOURCES:

Online database compiled and curated by Prof. A. Damodaran, NYU Stern School of Business

Update annually

STAGE OF DEVELOPMENT | DISCOUNT / REQUIRED ROI *
--- | ---
IDEA STAGE | 135.93 %
DEVELOPMENT STAGE | 114.74 %
STARTUP STAGE | 89.12 %
EXPANSION STAGE | 48.60 %

*Adjustable by the user

The annual discount accounts for a high year-on-year Return on Investment (or ROI). They are based on Equidam’s research on VC expected return multiples, timing, and dilution, and are updated annually.
## Default Values in Financial Projections

<table>
<thead>
<tr>
<th>Financial Item</th>
<th>Equation/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
</tr>
<tr>
<td>Costs of Goods Sold</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
</tr>
<tr>
<td>Other Operating Costs</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>REVENUES - COGS - SALARIES - OTHER OPERATING COSTS</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>Average % of revenues for public companies in the user's industry</td>
</tr>
<tr>
<td>EBIT</td>
<td>EBITDA - D&amp;A</td>
</tr>
<tr>
<td>Interest on Debt</td>
<td>See description below</td>
</tr>
<tr>
<td>Taxes</td>
<td>Country standard corporate tax rate. Includes tax carry forward</td>
</tr>
<tr>
<td>Net Profit</td>
<td>EBIT - INTEREST - TAXES</td>
</tr>
<tr>
<td>Receivables</td>
<td>Average % of revenues for public companies in the user’s industry</td>
</tr>
<tr>
<td>Inventory</td>
<td>Average % of revenues for public companies in the user’s industry</td>
</tr>
<tr>
<td>Payables</td>
<td>Average % of revenues for public companies in the user’s industry</td>
</tr>
<tr>
<td>Working Capital</td>
<td>RECEIVABLES + INVENTORY - PAYABLES</td>
</tr>
<tr>
<td>Change in WC</td>
<td>WORKING CAPITAL - WORKING CAPITAL PREVIOUS YEAR</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>Average % of revenues for public companies in the user’s industry</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td></td>
</tr>
<tr>
<td>Debt at the End of the Year</td>
<td></td>
</tr>
<tr>
<td>Change in Outstanding Debt</td>
<td>Debt at the end of current year - Debt at the end of previous year</td>
</tr>
<tr>
<td>Free Cash Flows to Equity</td>
<td>Net Profit +/- Change in Working Capital + D&amp;A - Capital Expenditure +/- Change in Outstanding Debt</td>
</tr>
<tr>
<td>Fundraising Plan</td>
<td></td>
</tr>
<tr>
<td>Free Cash Flows</td>
<td>Free Cash Flow to Equity + Fundraising Plan</td>
</tr>
</tbody>
</table>

### Default Interest Computation

Debt at the end of the year * 5% = standard interest  
EBIT/standard interest = Coverage ratio  
According to different values of coverage ratios, a spread is assigned to compensate for the risk, as companies with low coverage ratios have a higher risk of not being able to cover the debt payments with their earnings. The spread of the company is then applied to the risk free rate - the interest of 10y maturity ECB bonds - and results in the final interest percentage, indicated on the report. The value that you see in the interest row is then:  
**Debt at the end of the year * final interest**