

UNDERSTANDING EQUIDAM VALUATION

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WHAT IS EQUIDAM

Equidam is the leading provider of startup valuation. More than 140,000 startups and small businesses in 90 countries use Equidam to calculate, understand and negotiate their value.



OUR MISSION

Bring transparency and objectivity to startup valuation, allowing founders and investors to make better decisions and ultimately bring more innovation into the world. Valuation shouldn't be a deal breaker.



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.

IN THIS DOCUMENT

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Details about the methods and all the formulas necessary to understand how the valuation is computed

The sources for each parameter or default value provided by Equidam.

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Which values are dependent on the user – so that they can be discussed during the negotiation and, if necessary, adjusted on Equidam to have an updated valuation.

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.

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.

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.

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.

WEIGHT OF THE 5 METHODS: DEFAULT SETTINGS*						
	SCORECARD	CHECKLIST	VC	DCF WITH MULTIPLE	DCF WITH LTG	
IDEA STAGE	38 %	38 %	16 %	4 %	4 %	
DEVELOPMENT	30 %	30 %	16 %	12 %	12 %	
STARTUP STAGE	15 %	15 %	16 %	27 %	27 %	
EXPANSION STAGE	6 %	6 %	16 %	36 %	36 %	
GROWTH STAGE	0 %	0 %	20 %	40 %	40 %	
MATURITY STAGE	0 %	0 %	0 %	50 %	50 %	

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

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

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

*Adjustable by the user

crunchbase

DATA SOURCES OF AVERAGE VALUATIONS

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

🕥 By country 🛛 💭 Up

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.

CRITERIA	WEIGHTS *
STRENGTH OF THE TEAM	30 %
SIZE OF THE OPPORTUNITY	25 %
COMPETITIVE ENVIRONMENT	10 %
STRENGTH & PROTECTION OF PRODUCT/SERVICE	15 %
STRATEGIC RELATIONSHIPS WITH PARTNERS	10 %
FUNDING REQUIRED	10 %

*Adjustable by the user

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

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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.

CRITERIA	WEIGHT	SAMPLE CASE SCORE	MAX VALUATION*	VALUE
QUALITY OF THE CORE TEAM	30%	80%	\$8M	30%*80%*8M=1.92M
QUALITY OF THE IDEA	20%	65%	\$8M	20%* 65%*8M= 1.04M
PRODUCT ROLL-OUT AND IP PROTECTION	15%	40%	\$8M	15% * 40% * 8 M = 0.48 M
STRATEGIC RELATIONSHIPS	15%	50%	\$8M	15% * 50% * 8 M = 0.6 M
OPERATING STAGE	20%	50%	\$8M	20% * 50% * 8 M = 0.8 M
PRE-MONEY VALUATION				\$ 4,840,000 Or, in relative terms, (4840/8000) = 60.5% of the total

*Adjustable by the user

DATA SOURCES OF MAXIMUM VALUATIONS

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

By country

🗾 Updated biannually



FUTURE CASH FLOWS

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.



n = 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:

Risk free rate + β (Market Returns – risk free rate)

Data Sources:

Risk free rate = The nominal interest rates of 10Y government securities of each country.

 β = 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.



n = Number of projected years

Growth rate

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 can not 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



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.



STAGE OF DEVELOPMENT	DISCOUNT / REQUIRED ROI *	
IDEA STAGE	135.93 %	The annual discount accounts
DEVELOPMENT STAGE	114.74 %	on Investment (or ROI). They
STARTUP STAGE	89.12 %	are based on Equidam's research on VC expected return
EXPANSION STAGE	48.60 %	multiples, timing, and dilution,
GROWTH STAGE	36.20 %	

*Adjustable by the user

DEFAULT VALUES IN FINANCIAL PROJECTIONS

	EQUIDAM DEFAULT SETTINGS (IF EMPTY - NO DEFAULT SET)					
		REVENUES		✓		
		COSTS OF GOODS SOLD		✓		
		SALARIES		 Image: A second s		
		OTHER OPERATING COSTS		 Image: A second s		
		EBITDA	REVENUES - COGS - SALARIES - OTHER OPERATING COSTS			
_	-	D&A	Average % of revenues for public companies in the user's industry	 Image: A second s		
		EBIT	EBITDA - D&A			
	-	INTEREST ON DEBT	See description below	~		
	-	TAXES	Country standard corporate tax rate. Includes tax carry forward	✓		
		NET PROFIT	EBIT - INTEREST - TAXES			
_	+	RECEIVABLES	Average % of revenues for public companies in the user's industry	✓		
_	+	INVENTORY	Average % of revenues for public companies in the user's industry	 Image: A second s		
_	-	PAYABLES	Average % of revenues for public companies in the user's industry	~		
		WORKING CAPITAL	RECEIVABLES + INVENTORY - PAYABLES			
	-/+	CHANGE IN WC	WORKING CAPITAL - WORKING CAPITAL PREVIOUS YEAR			
_	+	D&A	Average % of revenues for public companies in the user's industry	 Image: A second s		
	-	CAPITAL EXPENDITURE		 Image: A second s		
		DEBT AT THE END OF THE YEAR		 Image: A second s		
	+/-	CHANGE IN OUTSTANDING DEBT	Debt at the end of current year - Debt at the end of previous year			
		FREE CASH FLOWS TO EQUITY	Net Profit -/+ Change in Working Capital + D&A - Capital Expenditure +/- Change in Outstanding Debt			
		FUNDRAISING PLAN		~		
		FREE CASH FLOWS	Free Cash Flow to Equity + Fundraising Plan			

DATA SOURCES:

DEFAULT INTEREST COMPUTATION

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



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**

Valuation Delta[™] Analysis

Valuation Delta[™] is Equidam's Startup Valuation benchmarking engine, which allows you to compare the key attributes of your company against a sample of similar companies.

FILTERING FOR BENCHMARKS



Industry: select the appropriate industry for your company. This will be the same as the industry you selected for your valuation, and so the same guidelines apply.

Stage: select the stage of development you would like to compare against. Ideally, this should reflect the stage of development you have selected in the

Geography: Select the region you are comparing your startup against. Depending on the sample size you may either want to narrow the data down to a country level, or expand it to look at global results.

Valuation attributes

Valuation Delta[™] allows you to compare your valuation against data from similar companies across five different metrics:





Try it yourself at www.equidam.com

WE'D LOVE TO GET IN TOUCH!

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