

Early Stage Valuation Methods - Autoshop

MGT 481, New Venture Finance; MGT 482/582 New Venture Development, Fall 2018 - Use four different valuation methods for an early-stage company

Market comp valuation method: mechanics - this method can be a pre-\$ or post-\$ approach depending on the information you can get

1. Create a short profile of your startup (presented below, you would use their business plan, interviews with founders, etc. to validate your profile attributes)
2. Find similar startups with known valuations to use as comps (It's hard to find a comparable to Autoshop, so we're using the company *they* recommended: Build-A-Bear Workshop)
3. **Compare your startup profile to the comp's profile ↓**
4. Adjust the comp valuation for large and obvious differences

Startup attributes	Autoshop	Build-A-Bear Workshop
Industry	Toy Retail	Toy Retail
Niche	Toy cars, "entertainment retail"	Stuffed animals, "entertainment retail"
Founder experience	None, though see business plan ¹ . Also, their justification for major strategic decisions is often based on "our experience."	After college, she worked at Hecht's, a division of the May Company department store chain, and in 1976 was promoted to the corporate offices in St. Louis, Missouri. In 1992, Clark became the president of Payless Shoe Source, and left the company in 1996. ² She has been BBW CEO for years.
Location	Chicago	St Louis and 70 other locations
Customer traction	No paying customers	Millions of paying customers
Stage of development	Early, still refining MVP	Mature company, expanding into Asia
Funding	None	Public company
Team	Still recruiting seasoned manager	CEO, full team
Valuation	TBD	\$55M ³

¹ [Autoshop Business Plan](#)

² https://en.wikipedia.org/wiki/Maxine_Clark

³ <https://finance.yahoo.com/quote/BBW?p=BBW>

Your startup is seeking a \$1.6M investment to refine the MVP, hire a seasoned retail store manager, and open a full store in an upscale Chicago mall. Using this investment amount *or another you think is more appropriate*, estimate the pre-money and post-money valuation of your company. **LIST PRE- AND POST-MONEY HERE.** Hint: Build-A-Bear is what Autoshop aspires to be, so why not use BBW's valuation of \$55M and divide by 20 (VC investor's expected ROI for any investment) to get the **presumed current post-money valuation** of Autoshop.

$\$55M \div 20 = \$2.75M$ post-money value currently. $\$2.75M \text{ post\$} - \$1.6M \text{ inv\$} = \$1.15M \text{ pre\$}$.

Step-up Method

There are no paying customers or industry partnerships. Your team has written a business plan showing how it will execute on its vision to grow the venture. You do not have any protected intellectual property, and the competitive environment is not particularly favorable. But you are a great team! You can do this!

Read the business plan, watch their presentation. Use the step-up method to determine your *pre-money* valuation. Then determine post-money valuation based on the **investment amount** you're seeking in this seed round (**\$1.6M**).

Step Up Factor	Yes (each yes is \$250,000)
Total market size over \$500,000,000	
Business model scales well	
Founders have previous exits or significant experience	
More than one founder committed full time	
MVP developed, customer development under way	
Business model validated by paying customers	
Significant industry partnerships signed	
Execution roadmap develop and being achieved	
IP issued or technology protected	
Competitive environment favorable	
Total Pre-Money	

Investment amount:

Post-money valuation:

VC Quick Valuation Method

- How much money do you need for the next 18 months?
 - Understand how much equity the VCs want
 - Calculate the post-money valuation
 - Calculate the resulting pre-money valuation
-
1. Autoshop needs \$1.6M to fund your operations for the next 18 months
 2. VCs want to own at least 20% equity in any venture; anything less is not worth the time; substantially more will be too dilutive for founders and existing shareholders
 3. Calculate the post-money valuation:
-
4. Calculate the resulting pre-money valuation:

VC Valuation Method

- Starts at the end and works backwards: e.g., acquisition or IP, then working backward to assumptions that must be true for this to happen
- Puts financial projections in play: annual revenues in year of startup's exit and use of public company data such as P/E multiples
- Incorporates return on investment (ROI) expectations: If the VC doesn't think the startup can achieve hurdle rate of 20X ROI, they won't invest

Step by step

1. Understand the equation
2. Estimate your exit value, e.g.,
 - a. Simple exit value estimation using industry trends
 - b. More complex value estimation using price/earning multiples
3. Calculate post-money valuation
4. Calculate pre-money valuation
5. Calculate equity percentage owned by the investors

Use the simple exit valuation method with industry trends

Startups in your space typically get acquired for 2x revenues. Assume your revenues in your exit year are \$8.55M.

What is the exit value?

With the 20x ROI, what is your post-money valuation?

= \$Exit Value divided by 20 =

If you were trying to raise, e.g., \$170,000 to cover your next 18 months of operations, what is your pre-money valuation?

Pre-money =

Investment amount =