Unicorn AG

Startup valuation
Summary

Created by Maxi Muster

Content

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Unicorn AG

Foundation year

2016

Location

Germany
Zip code: 30354

Employees

45

Shareholders

04

Industry

- Internet Software & Services
- Automobiles

Startup Valuation

25 %
Scorecard method
€ 2,577,733

25 %
VC method
€ 8,009,226

Pre-money startup value (weighted)
€ 12,414,482

25 %
DCF method
€ 18,879,763

25 %
DCF method with multiples
€ 20,191,207
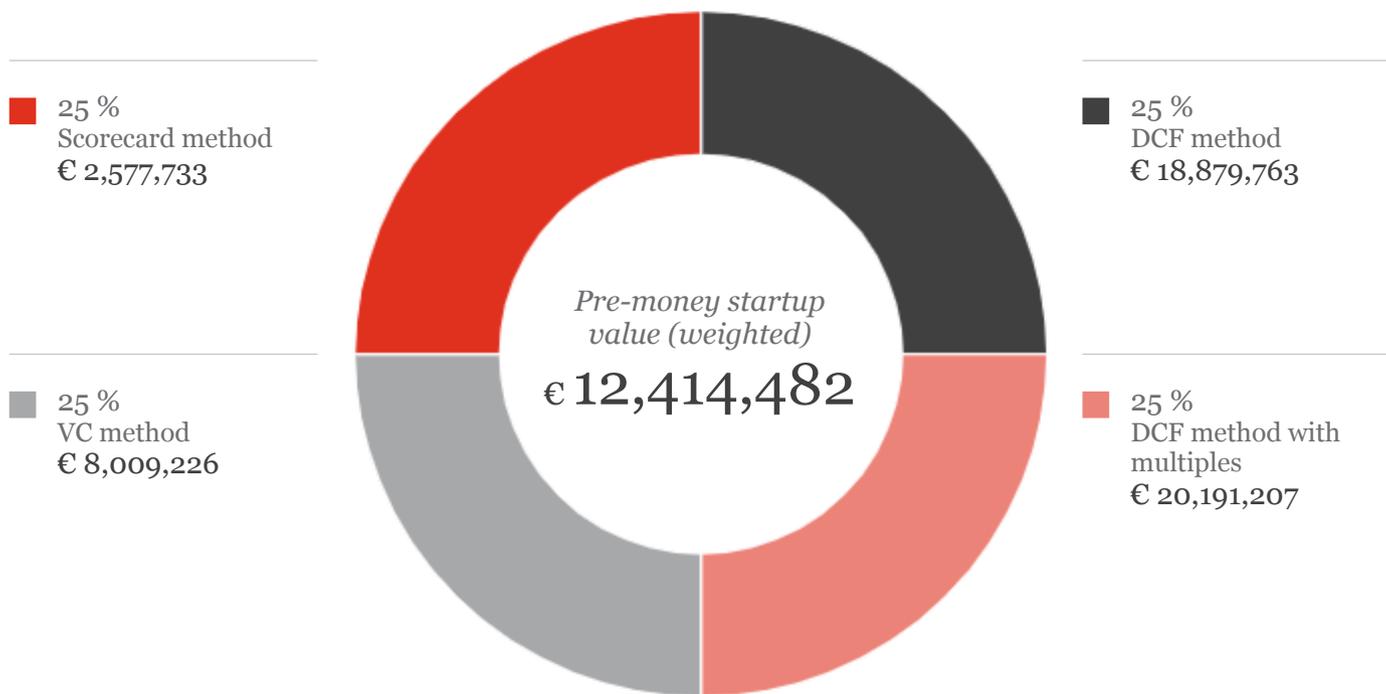
Money intended to raise	€ 500,000	Post-money share	3.87 %

How is the value calculated?

Due to specific characteristics of startup companies, the application of classical valuation methods, as used by established companies, can be inappropriate. In order to be able to calculate the value of the startup company objectively and subject to the founding phase, a combination of different valuation methods seems reasonable.

Therefore, eValuation Startup determines the company value based on a combined use of the above mentioned methods. The results of each approach are weighted individually by the user.

Key financials

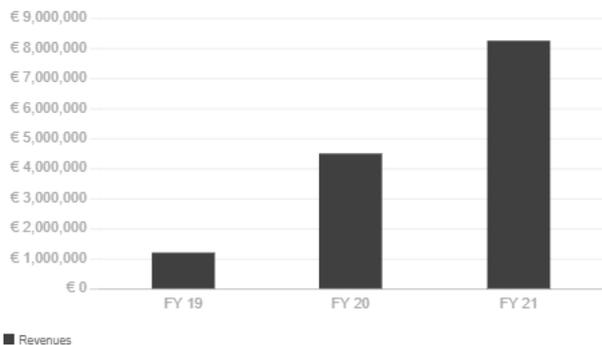*Presentation of company-related performance and profitability indicators.*
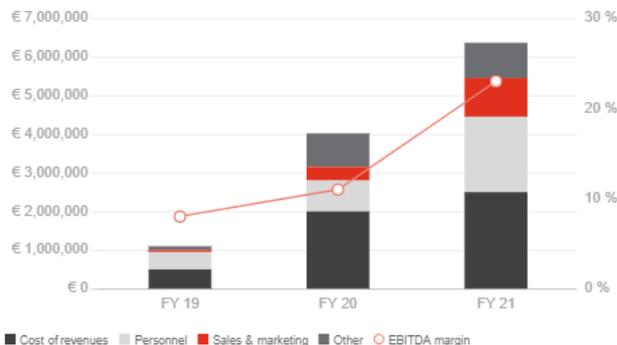
Revenues FY 19

€ 1,200,000

EBITDA Margin FY 19

8.33 %

Revenues

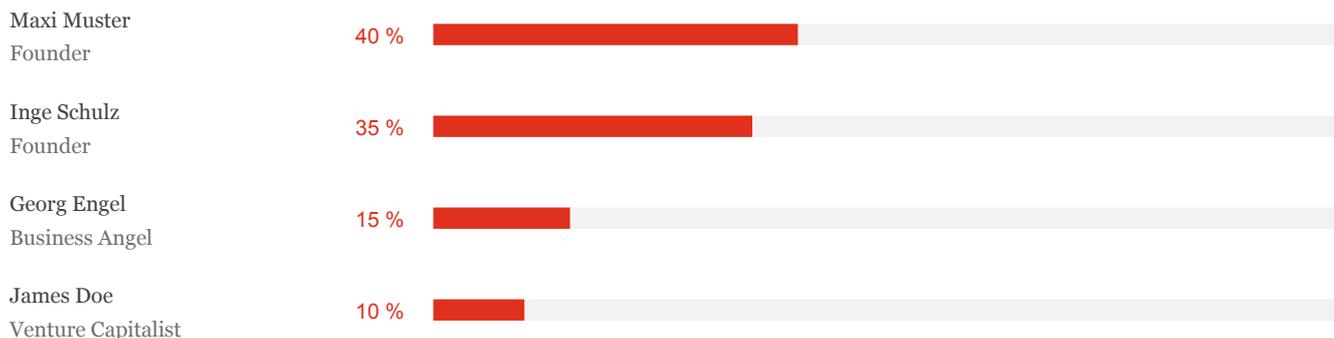■ Revenues

Operational expenditures & profitability

■ Cost of revenues ■ Personnel ■ Sales & marketing ■ Other ○ EBITDA margin

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Business plan

Depiction of expected sales and cost planning.

Values in Euro	Bud FY 19	Plan FY 20	Plan FY 21
Revenues	1,200,000	4,500,000	8,250,000
Cost of revenues	500,000	2,000,000	2,500,000
Personnel expenses	450,000	800,000	1,950,000
Sales and marketing expenses	50,000	352,000	1,000,000
Other expenses	100,000	867,600	915,100
EBITDA	**100,000**	**480,400**	**1,884,900**
Depreciation	84,000	105,000	120,000
EBIT	**16,000**	**375,400**	**1,764,900**
CAPEX	300,000	300,000	200,000

Shareholder structure

Overview of shareholders involved in the company.

Maxi Muster Founder	40 %	
Inge Schulz Founder	35 %	
Georg Engel Business Angel	15 %	
James Doe Venture Capitalist	10 %	

Financing rounds

List of startup investment rounds.

Values in Euro

Financing rounds	Date	Investment raised	Post-money valuation
Seed	4/2017	150,000	1,000,000
Series A	11/2018	100,000	2,000,000

Startup analysis

The startup score results from the performance comparison between the company to be valued and selected peer group companies.

The completion of a detailed questionnaire, in which different factors such as products, technologies, competitive situation, marketing and management are evaluated,serves as a basis. The startup score can range between 0 and 100, with 50 indicating the average benchmark. In case the startup reaches a higher (lower) score the startup outperforms (underperforms) the average peers.

Startup score
66

Management & Product

1 How many years of relevant industry / business experience does the management team have?

No experience
✔ One to two years
Three to five years
Greater than 5 years

2 Has any of you worked in the entrepreneurial environment before (founded own startup, worked within a startup, worked with startups e.g. as clients)?

No entrepreneurial experience
Working experience in entrepreneurial environment but no own founding experience
✔ Previous founding experience
Founding experience with at least one successful exit /merger

3 Does your management team have past experience in expanding operations internationally?

No experience

✔ < 25% of management team have experience

25% - 75% of management team have experience

> 75% of management team have experience

4 Does your managment team have leadership experience?

No one in the team has leadership experience

<25% of managment team have leadership experience

✔ 25% - 75% of managment team have leadership experience

>75% of managment team have leadership experience

5 Is the management and operational team currently fully staffed to reach the financial plan for the next 12 months??

Our management and/or operating team is not fully staffed

✔ We are currently staffed in the key functions but we need to hire people for the open vacancies to reach our business plan goal

We are currently staffed in the key functions to reach our business plan goal

We are currently completely staffed and have no open vacancies

6 How would you describe the idea of the product / service your startup offers?

We have positioned a completely new idea in the market

Our idea is disruptive compared to existing products / services in the market

✔ We have copied an existing idea but added some new features

We have copied an existing idea without any / minor adaptions

7 Have you already tested the customer demand?

No, not yet

Not tested yet, but comparable products (e.g. in domestic market / foreign countries) were successful

✔ Yes, we have tested possible customer demand and have not generated initial product revenues yet

Yes, we have tested possible customer demand and have generated product revenues

8 How would you define the stage of the product or service roll-out?

Planning stage

Demo stage

✔ Market stage: Minimum Viable Product (MVP)

Market stage: Product Market Fit and Scale-up

9 Is the product or service scalable?

Barely scalable product / service: No operating leverage

Difficult to scale - high effort is needed: Limited operating leverage

✔ Medium scalable / high level of adjustments: Medium operating leverage

Easy scalable / few adjustments: High operating leverage

10 Does the product / service has an USP compared to the relevant competitors?

No USP: No differentiation compared to relevant competitors

Low USP: one to two competitive differentiators

Medium USP: two to four competitive differentiators

✔ High USP: more than four competitive differentiators

Market & Strategy

11 What is the total market potential (in terms of revenues) of the addressable market in the next three years?

< 50m EUR

✔ 50m EUR to 100m EUR

101m EUR to 500m EUR

> 500m EUR

12 What is the current level of competition in the addressable market?

Competition is not yet developed

Low level of competition

✔ Medium level of competition

Strong level of competition

13 What is the short-term (less than 12 month) target market?

Domestic market or less than two countries

✔ 2 to 10 countries

10 to 20 countries

Worldwide (20+ countries)

14 Are there any substitutes with respect to the product or service?

No substitutes

✔ A few substitutes in the market

Broad portfolio of substitutes in our adressable market

Broad portfolio of substitutes in our adressable and non-adressable market

15 Have you already started marketing or promotional activities?

Our marketing activities have not yet started

We have started with either online or offline activities on an irregular basis

✔ We have started with either online or offline activities on an systematic basis

Both online and offline marketing have started on a systematic basis

16 Given your current amount of capital, how many months can you operate without running out of cash (reference: net cash burn)?

> 18 months

15 to 18 months

✔ < 15 months

Cash flow already positive

17 Which business plan scenario have you applied for this startup valuation?

We use one business plan without considering scenarios

✔ Use of high case scenario, classified as ambitious

Use of management case scenario, classified as realistic

Use of low case scenario, classified as conservative

18 How strong are your relationships with strategic partners?

No partners contacted so far

Contacted only partners that we urgently need

✔ Identified and contacted some key partners (but no agreements yet)

(Informal) agreements with most of the key partners in place

19 Have you already reached the break even with respect to EBIT (Operational profitability)?

EBIT break even in more than 24 months

EBIT break even between 12 months and 24 months

✔ EBIT break even in less than 12 months

Already reached EBIT break even

20 Can you easily get financing if needed (e.g. banks, investors, strategic partner)?

No experience

(Strongly) disagree

✔ Neither agree nor disagree

(Strongly) agree

Scorecard method

Definition

With the scorecard method, the value of the startup is derived on the basis of a comparison with other companies from the same industry, the same geographical region and development stage. In order to estimate the company value, the performance of the startup is evaluated by comparing different quantitative and qualitative factors.

Fundamental approach

In order to compare the startup with the industry, the average value of all peer companies is determined. This is followed by a profound assessment of the company's performance. The assessment is based on the answers to a detailed questionnaire, in which the founders subjectively rate different key factors, for instance the products, technologies, competitive situation, marketing and management. Each of the answers will be classified into a points system and will be aggregated into a final score. The startup value is then derived from the product of this score and the average value of the peer companies.

Venture capital (VC) method

Definition

The venture capital method is especially suited for the valuation of startups that are still in the funding phase and that are not generating revenues yet. The potential proceeds of a future sale of the startup serve as a basis for the valuation of the company. The sales price is calculated by applying industry-specific sales multiples and in consideration of the rate of return up to the exit date.

Fundamental approach

In the first step, the exit value of your startup at a given time in the future is calculated by applying the average industry-specific sales multiple on the forecasted revenues of the exit year. Should the field of activities of the startup encompass more than one industry, the industry-specific multiples are given weight according to an individual determination. Subsequently, the value of the startup in the exit year will be discounted to the valuation date using a risk-adequate rate of return. The latter takes the risk into account that the company might fail.

Discounted cash flow (DCF) method

Definition

The value of a company is determined by the gain it can generate in the future as a result of its available success factors as of the valuation date, e.g. its products, market position, internal organisation, innovative strength, employees, and management. Provided that only financial objectives are pursued, the corporate value is derived solely from its capacity to generate financial surpluses for shareholders.

Fundamental approach

The discounted cash flow method with long-term growth is characterized by a two-stage approach. In the first step, the total market value of your startup is derived as the sum of the present values of all future financial surpluses (free cash flows) that are available to providers of equity and debt. Subsequently, the market value of the debt is deducted from the total enterprise value to determine the market value of equity. This method is based on the so-called going concern premise. An infinite continuation of the startup is assumed and shown in the derivation of the value by taking into account a sustainable growth of free cash flows.

Discounted cash flow (DCF) with multiples method

Definition

With the DCF with multiples in terminal value, the value of the startup is calculated analogously to the DCF method with long-term growth rate. However, the two methods differ in the representation of the continuation premise. While the DCF long-term method considers an infinite growth of free cash flows, the terminal multiple method is based on the application of sector-specific EBITDA multiples in the last planning year.

Fundamental approach

In a first step, the total market value of the startup is derived as the sum of the present values of all future financial surpluses (free cash flows). This is done by applying the EBITDA multiple to the corresponding operational number of the company. Subsequently, the market value of the debt is deducted from the total enterprise value to determine the market value of equity.

Derivation of the multiples

The eValuation Startup multiple-based valuation is based on trading EBITDA multiples. Industry-specific multiples supplied by a financial information provider are the basis for our calculations. These industry-specific multiples are determined based on forward-looking variables (EBITDA analyst estimates, reference date + 1 year). Should the field of activities of the company to be valued encompass more than one industry or if it is not possible to unequivocally assign it to one industry, eValuation Startup offers the option of selecting up to three industries and weighting them. It is advisable to use the sales volumes generated in each industry for instance as a point of reference for the weighting.

Cost of capital

Determination of the cost of capital

The WACC (weighted average cost of capital) is the tax adjusted opportunity cost of capital that we use to determine the present value of the planned free cash flows. The cost of equity and the cost of debt are weighted respectively with the equity ratio and debt ratio and used as a basis for the interest rate. The WACC specifies the minimum interest rate which must be generated from the object under valuation in order not to place the equity investors and debt holders in a less favourable position than if they had invested in the next best alternative. eValuation derives the cost of capital in euros (EUR) and US dollars (USD).

Equity & debt ratio

The cost of equity and cost of debt are weighted using the market values of equity and debt. According to the definition of a company's (net) indebtedness, pension provisions are also included in addition to financial debts, and all cash and cash equivalents are subtracted when determining the level of net debt.

Cost of equity

The cost of equity is derived using the capital asset pricing model (CAPM), which is based on the portfolio theory. This is a theoretical capital market model based on attainable returns from a portfolio of company shares listed on the capital market and adjusted to reflect the risk structure of the object under valuation. In this context, a differentiation is made between the risk-free interest rate and the components of the risk premium (market risk premium and beta factor).

The starting point for determining the risk-free rate is a yield curve derived taking into account the current interest rate level and the term structure of interest rates as published by the federal banks (in EUR based on data from the Deutsche Bundesbank and in USD based on data from the Federal Reserve Bank of the United States of America). The data on the term structure of interest rate are estimates on the basis of the observed yields of (virtually) riskfree coupon bonds. The derived yield curve illustrates the relationship between interest rates and maturities, much like the one which would apply to zero-coupon bonds without credit default risk.

In order to derive the beta factor, a peer group is set up according to the industry specified in eValuation. The median of the indebted (raw) beta factors of the companies in the respective industry group is derived when calculating the beta factors. This approach analyses weekly returns over a period of two years (104 data points), which are derived from rate data supplied by the financial information provider S&P Capital IQ. The MSCI World Index with rate data translated

into EUR or USD, respectively, is utilised as the benchmark index.

The market risk premium forecast for the future can be estimated by means of the historical difference between the returns of risk-prone securities, for example on the basis of a stock market index, and the returns of (virtually) risk-free capital market investments. Empirical analyses of the capital markets are used as a basis in this context.

In practice, country risks and particularly the associated default risk are often not reflected adequately when forecasting financial surpluses. Therefore, they must be included in the risk-adjusted capitalisation interest rate. If necessary, a country-specific risk premium according to the list compiled by Prof. Damodaran (New York University) is applied as a country risk premium. This risk premium is then taken into account both for the cost of equity and the cost of debt.

Cost of debt

The same interest rate is used as when calculating the cost of equity.

The credit spread with an equivalent term is derived based on the ratings which are observable on the capital market or the credit model scores for the respective industry peer group (median) which are supplied by a financial information provider (effective interest method).

The allowable tax deduction for interest on debt ("tax shield") must be considered when calculating the weighted average cost of capital.