UNDERSTANDING EQUIDAM VALUATION

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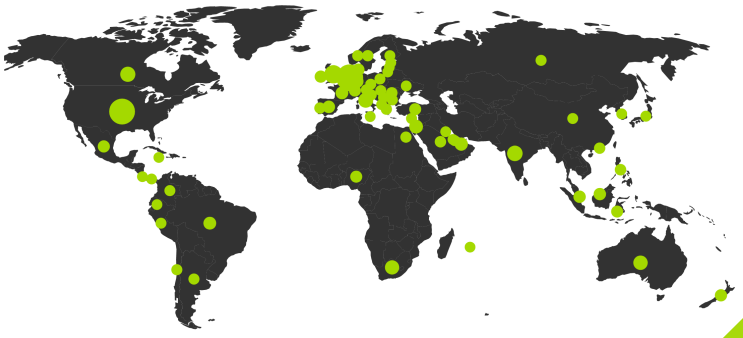
WHAT IS EQUIDAM

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

BizPlace Connecting Entrepreneurs · esa · FLASHFUNDERS · HORIZON 2020 · TECH BERLIN · altfi · ERASMUS CENTRE FOR ENTREPRENEURSHIP · SEEDUPS INTELLIGENT CROWDFUNDING · innovestment · WHub #StartupPassion

In this document:

METHODOLOGY

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

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

DATA SOURCES

Equidam facilitates the computation by aggregating 10,000,000 data points on comparable companies, necessary to estimate financial parameters such as multiples, discount rates, etc. In this way, Equidam eliminates potential inefficiencies caused by manual research and lack of accuracy due to little data collected.

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

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.

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.”

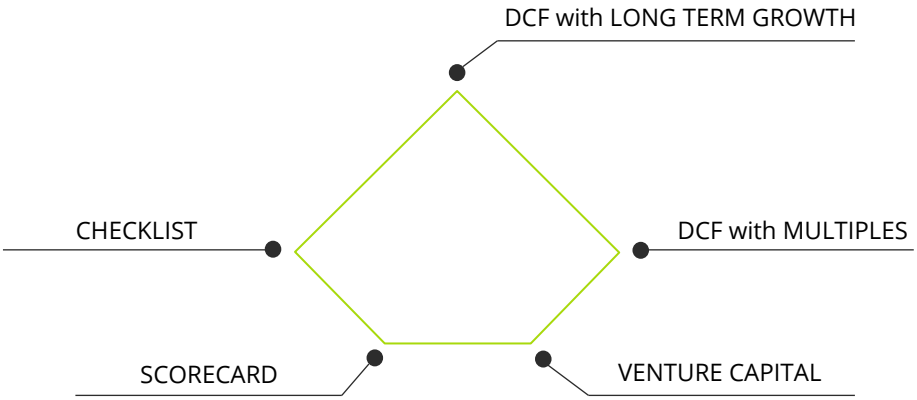
Jeff Morris Jr. - **Director, Product Manager at Tinder**

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.



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 STAGE	30 %	30 %	16 %	12 %	12%
STARTUP STAGE	15 %	15 %	16 %	27 %	27 %
EXPANSION STAGE	6 %	6%	16 %	36 %	36 %

**Adjustable by the user*

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.

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*, based on their geography.

**Adjustable by the user*

DATA SOURCES OF COMPARABLE TRANSACTIONS

- Successful deals on online investment platforms (equity crowdfunding platforms and similar)
- Publications by angel networks, service providers, media and other online channels
- Equidam's database of companies

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*

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.

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

**Adjustable by the user*

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.

$$\left[\frac{Y1 * SR}{(1 + DR)^1} + \frac{Y2 * SR}{(1 + DR)^2} + \ldots + \frac{Y_n * SR}{(1 + DR)^n} + \frac{TV}{(1 + DR)^n} \right] * (1 - ID)$$

^{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 (for all EU countries the 10Y German Bund is applied).

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.

**Adjustable by the user*

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

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

**Adjustable by the user*

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 based on researches published by NYU Professor Aswath Damodaran and it usually ranges from 25% to 40% of the Present Value.

FREE CASH FLOWS TO EQUITY of the respective year
See page 9 for more information.

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

$$\frac{(\ Y_n\ *\ SR\ )\ *\ (\ 1 + \text{Growth rate}\ )}{DR\ -\ \text{Growth rate}}$$

= Free cash flow to Equity of the final projected year

= Survival Rate, see page 7

= Discount Rate, see page 7

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

EBITDA of last projected year X Industry multiple * X Survival rate last projected year

**Adjustable by the user*

DATA SOURCES:
Daily data of 35,000+ publicly traded companies worldwide, from blue-chip companies to mid-market, and OTC (Over-The-Counter) .

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

Terminal value

EBITDA of last projected year **X** Industry multiple * **/** (1 + Discount rate)^n **=** Pre-money valuation

^{n} = number of projected years
**Adjustable by the user*

DATA SOURCES:
Daily data of 35,000+ publicly traded companies worldwide, from blue-chip companies to mid-market, and OTC (Over-The-Counter) .

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). In the Equidam default settings, the ROI are defined according to the stage of development of the company and are specifically:

DEFAULT VALUES IN FINANCIAL PROJECTIONS

		EQUIDAM DEFAULT SETTINGS (if empty – no default set)	EDITABLE BY USER
	REVENUES		
	COSTS OF GOODS SOLD		
	SALARIES		
	OTHER OPERATING COSTS		
	EBITDA	Revenues – COGS – Salaries – Other operating costs	
-	D&A	Average % of revenues for public companies in the user's industry	
	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	
-	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	
-	CAPITAL EXPENDITURE		
	DEBT AT THE END OF THE YEAR		
+/-	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:
Daily data of 35,000+ publicly traded companies worldwide, from blue-chip companies to mid-market, and OTC (Over-The-Counter) .

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*

Try it yourself for free at
www.equidam.com

For any remaining questions,

WE'D LOVE TO GET IN TOUCH!

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