

Valuation Based On an Evaluation Tool Presentation Slide Notes

Slide 1 Valuation Based on Evaluation	If a CPA, attorney, or someone from the SEC were to see this presentation, they would likely have a fit! It addresses a subject that is on the minds of virtually every entrepreneur and early-stage companies. Its intent is to add a bit of objectivity to a very subjective topic. The goal is to help early-stage companies understand the nuances of valuation in the setting of stock and option prices. It will help them be better prepared when (not if) they talk to financial and legal professionals. There can be severe tax consequences involved if these subjects are not managed properly.
Slide 2 Valuation: What is it?	The determination of a company's valuation is only accurate for publicly traded companies in a free market. In that case, the valuation is determined by what investors are willing to pay for the company's stock. In all other cases, a company's valuation is determined by some level of math or the consensus of opinions of others.
Slide 3 How is Equity for an Investment Determined?	For private companies, the primary purpose of valuation is to determine how much of the company's equity must be "given up" for an investment. Although the term "given up" is often used, the more proper term should be "traded." Companies trade equity for cash.
Slide 4 How is the Valuation Determined?	Many financial variables and methods can be used to determine a company's valuation. Unfortunately, for early-stage companies with little or no revenue, none of these options work. This presentation introduces a method that may aid in determining a valuation number. At the very least, it will provide a basis for starting discussions about a company's valuation.
Slide 5 Business Factor Assessment	<p>This presentation introduces an assessment tool that can serve as the basis for valuation. It consists of assessing the company in twenty different categories on a scale of zero to five. The higher the composite scale, the better the company's assessment and its chances of raising money on reasonable terms.</p> <p>All of the categories have been given equal weighting. Clearly, some categories are more important than others. However, attempting to establish generalized ratings to improve the granularity of the tool is not worth it. The tool should be thought of as a general guideline. Adding weighting would be too subjective and could easily vary from one rater to the next.</p>
Slide 6 Assessment Examples	The twenty categories listed may not apply to all companies. The tool enables users to modify any category to better reflect their business.
Slide 7 From the Tool	This slide is a screen shot of an assessment for a company. The first column lists the twenty categories. The second column shows the selection for each category made from the drop-down choices. Note that

	<p>the value (0 through 5) is shown with each menu choice. The third column is a bar chart, with each bar corresponding to the numeric value of the choice.</p> <p>The total assessment score is shown at the bottom of the chart.</p>
Slide 8 Equity for a Given Assessment	With the assessment established as described above, a technique was developed to map the assessment to a certain amount of equity. To do that, some bounds for the assessment score and the equity were set. The values shown are typical but can be easily changed by the tool user.
Slide 9 Equity for a Given Assessment	The relationship between assessment and equity has been assumed to be linear. With that assumption, an assessment to equity graph can be developed based on the standard straight-line calculation shown with the slope and Y-axis crossing specified.
Slide 10 Equity Bounded	The graphic displays two points on the graph that correspond to the previously described variables.
Slide 11 Determining the Slope	Going back to our Junior High School algebra class, with two data points, the slope and Y-axis intercept can be calculated as shown.
Slide 12 From the Tool: Chart	The slide is a screenshot of the results, assuming the variables previously specified are used. The results are shown as bars instead of a line but the results are the same.
Slide 13 From the Tool: Input & Output	<p>Here are the input and output tables from the tool. The user needs only to specify the three variables to create the tool. The desired investment amount is also a variable and only reflects the pre- and post-money calculations. The investment amount is typically associated with the money to be raised, but it could also represent the past investments the company has made. In that case, the pos-money valuation could be used as the starting point for investor discussions.</p> <p>The shaded cells provide a shortcut method for determining “what-if” valuations for a given, manually entered score.</p> <p>The pre- and post-valuation examples show the dramatic impact the assessment score can have. The actual score, as well as the “best” and “worst” assessment pre- and post-money scores, are shown.</p>
Slide 14 What is the Value of the Tool?	The tool has multiple uses. However, its most important use is to provide a more objective assessment of the company. With that assessment in mind, the company can focus on the areas that need the most work and help to determine if it makes sense to seek an outside investment at all.
Slide 15 Another Tool “Feature”	<p>Although most entrepreneurs focus on valuation when discussing financial investments, other deal terms can have a significant impact.</p> <p>Entrepreneurs must never forget the saying: “You set the price (valuation) and I will set the terms.” Even with a seemingly minority equity stake, an</p>

	investor can effectively control the company. Those methods are beyond the scope of this presentation.
Slide 16 Investor's Return	This slide shows the potential impact of SOME of the financial deal terms. Six scenarios are shown. The red-shaded cells indicate that they have different values than those shown in the previous column.
Slide 17 Cash to Others	This slide shows the resultant cash distribution based on the six scenarios. Note the apparent loss in equity associated with the founders.
Slide 18 Share and Options Pricing Methods	<p>The tool has another useful feature. It can be used to approximate the price of shares and options. As highlighted on the slide, there is a “right way” and a “wrong way” of making these calculations. The “right way” is to follow the IRS guidelines by obtaining an IRS 409A independent valuation. The “wrong way” is to use the tool described in this presentation!</p> <p>Independent of which method is chosen, one or the other must be used.</p>
Slide 19 Share and Options Pricing Shortcut	Using either method to determine the company's valuation, the options and share price can be determined. Some additional subjective factors also come into play. Those factors relate to the marketability – or lack thereof – of the stock and options. The values shown seem to be representative.
Slide 20 Who Gets What Choices	<p>If there is one thing to remember from this entire presentation, it is covered on this slide. Entrepreneurs seem to commonly make equity commitments to employees and others without a thorough understanding of the various instruments available and their impacts on the company and the person “given” the equity.</p> <p>Financial and legal advice is imperative to “get it right” early in any discussions. Entrepreneurs are often cash-strapped and tend to be frugal with their spending, preferring to allocate funds only to items directly related to their offering. Professional guidance always seems to be put off.</p> <p>Think of those funds the way you think of car insurance. Can you afford not to have it?</p>
Slide 21 Who Gets What Choices: More Details	This slide is certainly an “eye-chart.” It has been included intentionally to highlight some of the details associated with the various types of equity instruments. You simply must work with professionals to determine what instruments are right for the company, the awardee, at the right time.
Slide 22 Final Take-Aways	We have covered lots of material quickly. Addressing the issues covered is essential. They represent some of your efforts that you must spend working ON the business instead of keeping your head down while you work IN the business. If you don't, when you lift your head, you may find

	that you have unwittingly severely impacted the business, which may not be recoverable without great pain.
Slide 23 CxO-Atlas Website Article Organization	The CxO-Atlas website content is free to browse and read each Article's Abstract. Members can browse, read, and download any articles, tools, or presentations on the site. Members can also interact with a private AI chatbot by asking questions and responding to the answers. The chatbot's responses are based on the site's uploaded content.
Slide 24 CxO-Atlas Valuation Articles	This slide lists the valuation-related articles on the website. The large number of articles is indicative of the importance of this topic.
Slide 25 Finding Articles	<p>There are multiple ways to find articles on the site.</p> <p>From the Article Search Option:</p> <ul style="list-style-type: none"> • Enter the article number or title. • Entering a few keywords will provide a list of the articles that meet the keyword criteria. <p>From the Volumes Option:</p> <ul style="list-style-type: none"> • Select the appropriate volume based on the brief description. In this case, Volume 8, Tools and Presentations, and then scroll through the table display, reviewing the article titles and quick summaries. <p>From the Home Page:</p> <ul style="list-style-type: none"> • The six newest published articles as well as the six most viewed articles are listed. Clicking on any of them will provide direct access to the article.