



**Hello, and welcome**





# Valuation

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# A few random stats

- About £2 billion of EIS money has been invested in each of the last 5 years
- Beauhurst has identified 404 UK deals including angels done in 2019
- So 404 new deals plays 99 exits in 2019 – could there be an exit backlog?

Observation:

Patience is a virtue, but over-generosity on valuation is a vice

# The forward looking valuation approach

- Business Plan....
  - “Fact or fiction?” Fact may not be backed; fiction leads to friction
- How might the business really do?
  - How much should the plan be delayed and discounted?
  - Apply common sense and normal metrics
- What % might I own on exit?
  - How much more capital will be needed and how much dilution might it cause?
- What price might an acquirer pay?
  - 5 or 7 years out, how can one tell? Will it be financial or strategic, or a mix?

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**There are too many unknowns for a scientific equation.**

If there is a high chance of total loss: “Could this deliver 10x if it goes well?”

If the risk is lower: “Could this deliver 5x if it goes well?”



# The backward looking valuation approach

How much weight to these parameters?:

- Money invested so far (equity, grants, gross profit)
- Revenue (one off, repeatable, contracted)
- Proximity to breakeven
- Uplift from previous round

# The backward looking valuation approach

How much weight to these parameters?:

- Money invested so far (equity, grants, gross profit) **2x**
- Revenue (one off, repeatable, contracted)  
**2-5x**
- Proximity to breakeven  
**add 50% ?**
- Uplift from previous round - **something fair that shows progress**

# A simple approach

- First round – Plan written, kernel of team formed
  - ideally £150k for 25% - £600k up to £1.2m post money
- Second round – some technology built/some revenue generated
  - 100% uplift on previous round - £1.2m up to £2.5m pre-money
- Third round – revenue accelerating, opportunity proven
  - 25-50% uplift on previous round - up to £5m pre-money
- Fourth round – serious traction, breakeven in sight
  - 25-50% uplift on previous round - up to £10m pre-money

Some US investors just expect each round to buy 25%



# Other qualitative measures

- Competitive landscape
  - You need differentiation, but you also need competition
  - A good test of the management team's awareness
- IP and IP protection
  - A key barrier to competitive entry
  - Knowhow, software code, how valuable are patents?
- Total Addressable Market
  - Normally overestimated
  - Needs to be big enough; if it is too big the competition will be big too



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How much do I want to do this deal?



# What to look for in a management team

- 91% of angels cite the quality of the team as a key investment ingredient (Source: UK British Business Angels Survey 2019)

Management

Management

Management

# Few teams are the same at the end



Investment outcome	Total	%	Success/ Survival	%	Failure	%
CEO changed	16	78	15	83	1	20
CEO not changed	7	22	3	17	4	80
Total	23	100	18	100	5	100

Source: Simon Acland's directly managed Quester portfolio

Very few CEOs have the skills to go from start-up to exit.



# What to look for in a management team

- Honesty, transparency, openness
- The same values as you
- Likeable, fun to work with
  - (early stage investments last longer than the average marriage)
- Willingness to listen, take advice and learn
- As much understanding of their business as possible
  - (but an awareness that they do not know it all)
- How do they behave during legals and due diligence?
- Is it worth doing a personality profile test?

# Anything else ???



*How to do due diligence*

*What really matters in the legals*

*Managing investments after taking the plunge*

*Achieving exits*