



Venture Capital and Valuations

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Agenda



- Venture Capital
- Why Valuation?
- Valuation Framework
- Softfactors / Value drivers
- Valuation Methods
- Venture Valuation

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VC Trends



- From exit-strategies to maintaining investment => larger, later funding rounds
 - Some funds paid back their funds to investors
 - Funds available, but ... follow-up investments
- => Currently less funds available

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Driving Factors



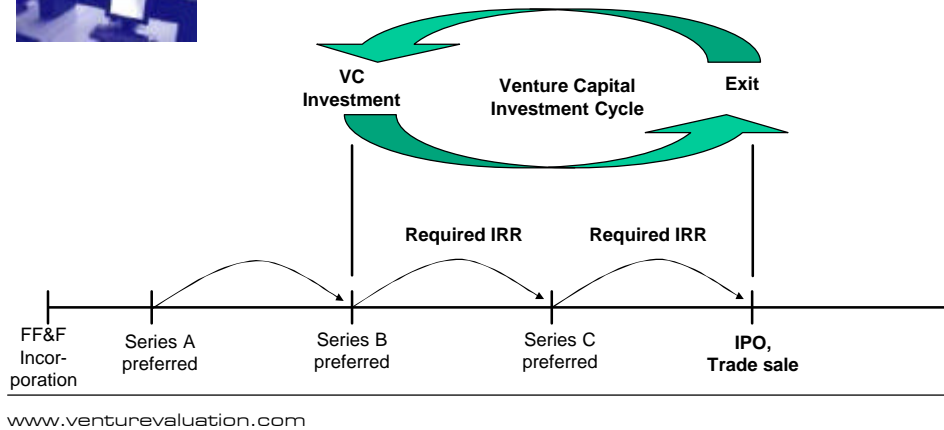
- Fragmented private equity markets in Europe
- Suffering from Governmental interventions (Germany, France?)
- Sliding public valuations
- Supply of / demand for capital
- VC also depend on investors

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Venture Capital Cycle



- Understand the Venture Capital Cycle
- Look at the whole Company Life Cycle



Outlook

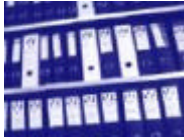


- Higher public valuations
 - Opening of IPO window
 - VC's get exits
 - Money for reinvestment
 - VC regain self-confidence
 - US environment is more positive
- => timing? => Slow process



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Why Valuations?



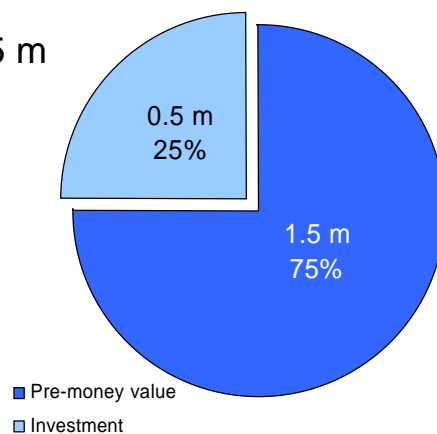
- Buy or sale (acquisition) or merger
- Extraction of key value drivers
- Parameter needed for investments
- Basis for investment negotiations

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Why Valuations?



- Value before investment (pre-money value): EUR 1,5 m
- Investment: EUR 0,5 m
- Value after investment (post-money value): EUR 2,0 m
- Share Investor:
 $0,5 \text{ m} / 2 \text{ m} = 25\%$



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Valuation Issues

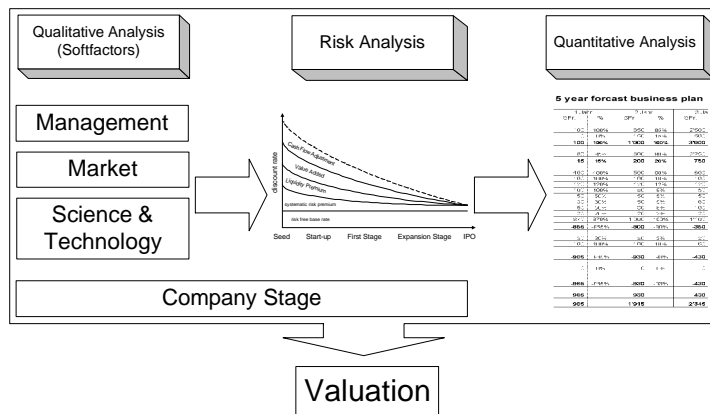


- Volatility of quoted companies
- Long investment cycle
- Traditional valuation methods unsuited
- Industry lacks transparency
- Multiple forms of competition (capital supply, IP, partnerships, market share & sales force)
- Complex technology and IP situations

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Valuation Framework



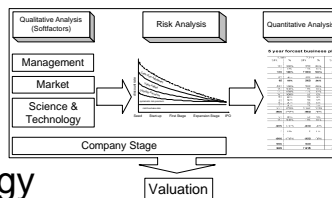
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Factors to influence value



Soft factors are essential ...

- Management
 - Market
 - Science & Technology
- ... and the company stage



to define the risk profile of company

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Management



- Composition / Complementary skills
- Track record / Experience
- Ability to reach set goals
- Motivation / Incentive structure
- Composition and involvement of Board of Directors and Advisory Board
- Organization / Capacity to run a structure
- Emotional intelligence / social competence

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Market



- Substitutes
- Rivalry among existing competitors
- Barriers of entry
- Bargaining power of suppliers / buyers
- Market trends
- Market size / growth

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Science & Technology



- Intellectual Property (IP)
- Competitive Advantages
- Technological platform
- Product pipeline status
- Ability to reach milestones
- Management of future discoveries
- Collaboration agreements & alliances

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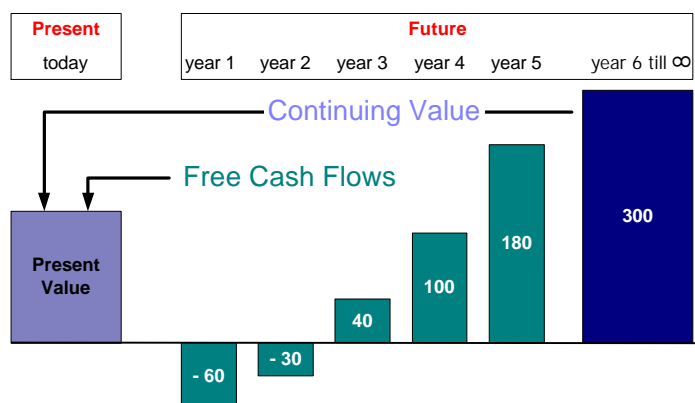
Valuation approaches



- Operations-based methods:
⇒ *business plan, fundamentals*
 - Market-based methods:
⇒ *price, trends, comparison difficulties*
 - 5 methods:
 - Discounted Cash Flows (DCF) } Operations meth.
 - Real Options } Operations meth.
 - Venture Capital method ⇒ Mixed meth.
 - Market Comparables } Market meth.
 - Comparable Transactions } Market meth.
- ⇒ *use several methods and weigh depending on the company valued*

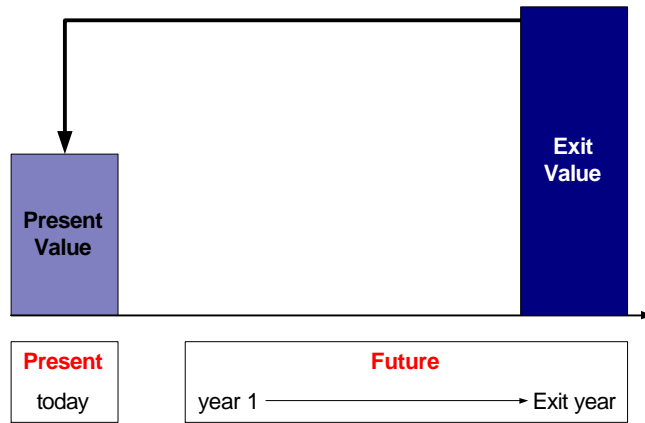
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DCF Method



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Venture Capital Method



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Market Comparable



Company Value:
EUR 10 m
50 Mitarbeiter

Ratio



- Revenues
- Earnings
- EBITDA
- Employees
- Company specific factors



10 Mitarbeiter
⇒ Company Value:
EUR 2 m*

* $(10/50) \times 10 \text{ m} = 2 \text{ m}$

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Conclusion



- Valuation as a process
- Use several methods
- Pure objective valuation not possible
- Risk and potential as main components
- Value spectrum as a result

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Venture Valuation



- Independent, third party Valuations
- Experts Finance / Biotech / Medtech
- Not a venture capitalist
- International experience (North America, Europe and Israel)
- Systematic / Validated Approach
- Track record of over 80 valued companies

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Thank you

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value your company?**

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