

How Much is That Startup in the Window? -- Figuring Out How Much A Startup is Worth.

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For many entrepreneurs, figuring out how much their high impact startup is worth – that is, how much ownership do they have to offer for the amount of money they want to raise – is one of the more obscure nooks of the startup/venture capital world. Almost by definition, high impact startups are so risky – in terms of team/execution, technology, market factors, timing, etc. – that conventional finance tools like discounted cash flow really don't fit well with the startup valuation task. So, what is an entrepreneur to do? While there are a variety of ways to approach the problem, and a dozen or more rules of thumb, there is one too-often-overlooked approach, and one too-often-overlooked rule of thumb, that stand apart from the pack.

The oft-overlooked approach is one that most people – including entrepreneurs – are pretty familiar with in most parts of their lives, but for some reason don't think of in the startup pricing context. Comparables. When you want to sell your car, what's the first place you go to figure how much you should ask for it? Market data, right? Look at what the market is paying for similar cars, and then make a case why your car is worth a little more (or perhaps a little less) than the average comparable vehicle.

While perhaps not as broad and deep as the used car market, the market for high impact startup financings is pretty significant. We are talking hundreds of deals – sometimes thousands – over the course of even weak years. And despite the private nature of these transactions, there is lots of pretty solid data on the terms, including price, of these transactions. See for example PriceWaterhouseCoopers quarterly MoneyTree report (www.pwcmoneytree.com). Or check out the web pages of some of the major Silicon Valley law firms (e.g. www.Coooley.com or www.wilsonsonsini.com): these firms provide their own quarterly snapshot of venture capital trends, including pricing and other common terms of a wide range of venture capital investments. As unique as every startup may be, it's the rare startup for which you can't find some pretty decent comparables data.

Once you know have a feel for what the comparables are pricing at – what the market price is for similar deals – you can think about how your startup might be more (or less) attractive than the typical comparable. For example, maybe you are located in flyover country – fair or not, that's usually a bad thing, in terms of valuation. Then again, maybe Steve Jobs has joined your team as Chief Design Officer: your value just went up. So comparables aren't the end of the valuation story, but they are

an awfully good place to start.

As for the oft-overlooked rule of thumb, its simple. Nothing, nothing, gives an entrepreneur more pricing power in a valuation negotiation than having more than one interested buyer seriously interested leading the investment in your deal. Beggars, as they say, can't be choosers. And they pretty much take what is offered. Ditto entrepreneurs who start assuming the deal is done before the investor's check clears the bank. So, while venture investors will do their best to take your deal off the market as soon as possible in the negotiating process, and (gasp) may even do some calling around with their colleagues aimed at heading off a bidding war, it almost always pays for the entrepreneur to resist taking a deal off the market – usually via some sort of no-shop provision offered up by the venture capitalist – as long and hard as possible.

[In a subsequent post I will explore some other high impact startup valuation approaches and rules of thumb.](#) For now, remember that the gold standard approach is the same as it is for cars, houses, etc.: figure out what the comps are. And the gold standard for rules of thumb is equally simple: if you want to have the upper hand in valuation discussions, make sure you've got more than one credible lead investor interested in the deal.

For additional information on Start Up Valuations - try: [How Much is That Startup in the Window. Really. Realistically Valuing a Start Up.](#)

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