

**GROWTHWORKS**

# The Art & Science of Valuation at the Different Stages of Company Development

Feb 2008



# About GrowthWorks



- Leading Canadian venture capital manager
- Founded in 1992
- Over \$800 million in assets under management
- National reach with Regional expertise
  - Toronto, Vancouver, Ottawa, Saskatoon, Atlantic Canada
- Manager of 7 venture capital funds across Canada, including:
  - Working Opportunity Fund
  - GrowthWorks Canadian Fund
  - GrowthWorks Commercialization Fund
  - GrowthWorks Atlantic Venture Fund

# VC Valuations? Just Google it ...



*"I have never paid more money for so little a stake in a startup."*

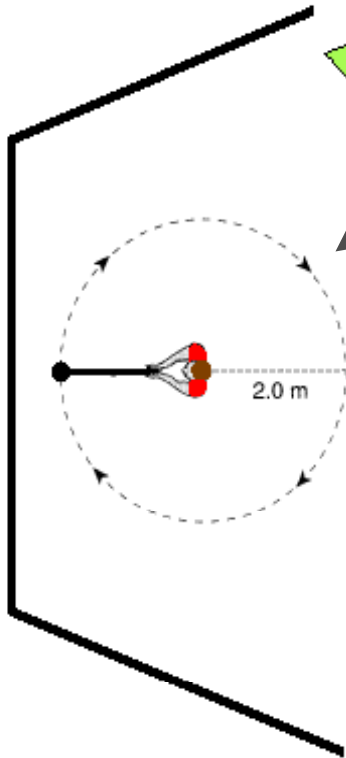
*- John Doerr on Google  
(according to Forbes Oct 1999)*

## VC Checklist

- ✗ Virtually no track record
- ✗ Academic founders
- ✗ Angel funds depleted
- ✗ Hyper-competitive market
- ✗ Unclear business model (<http://infolab.stanford.edu/~backrub/google.html>)

***\$25 million invested @ ~\$75 million pre-money***

# Art, Science ... or Hammer Throw?



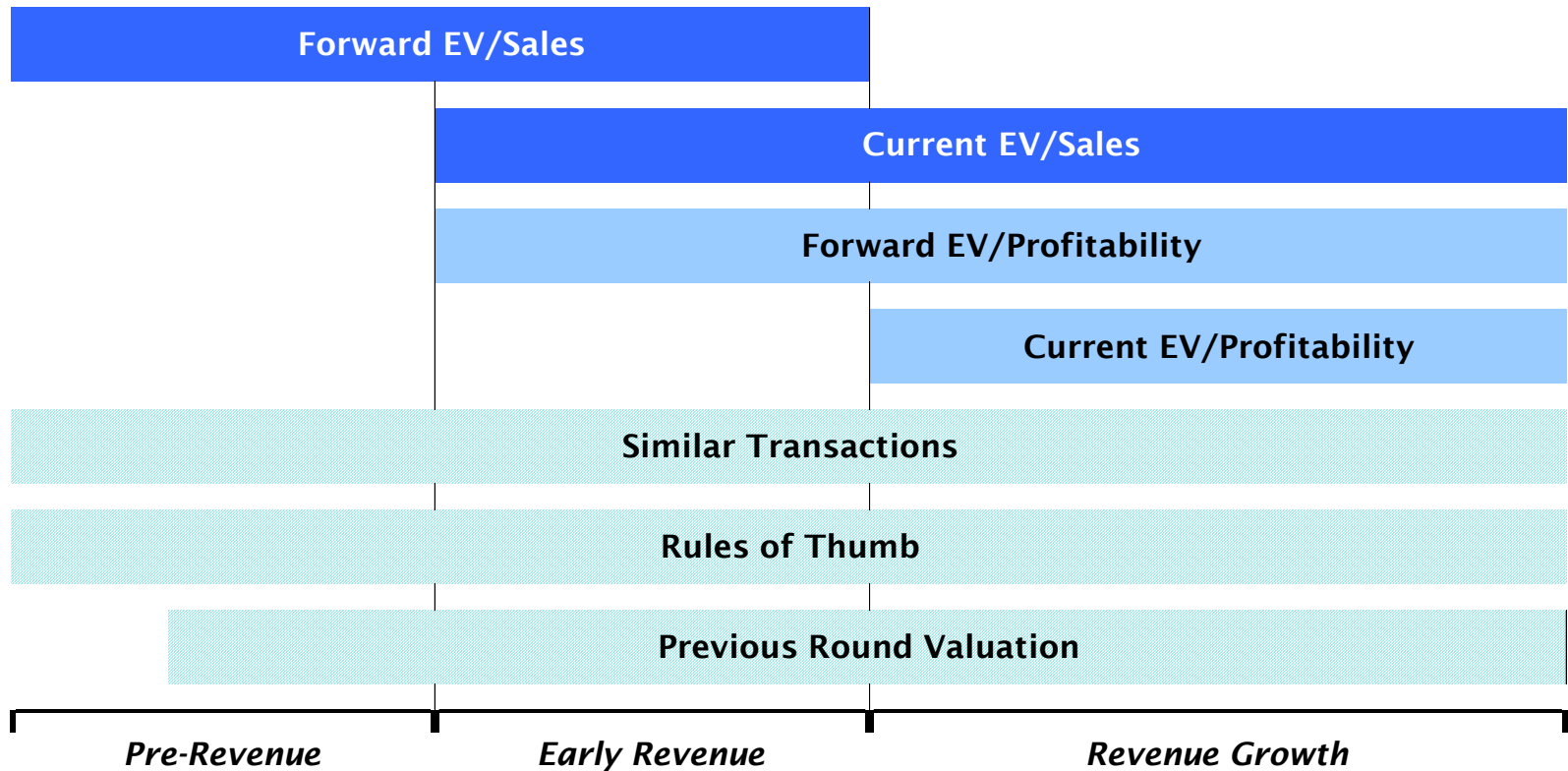
Explicitly/implicitly, valuations start with a Reference Point

- a.k.a. “the ballpark” analysis
- Multiples / Comparables / Rules of Thumb

**The Challenge: determining how far to go**

- assumes degree of competition for deal
- assumes financial contracting realities
- can range from cram-down to GOOG-type bid
- pure application of judgment

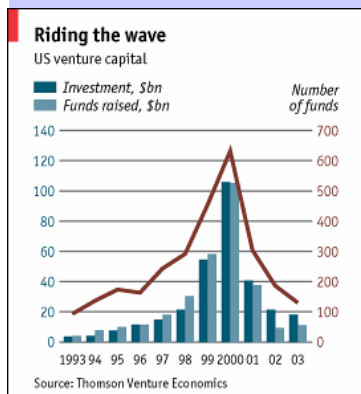
# Establishing the Reference Point



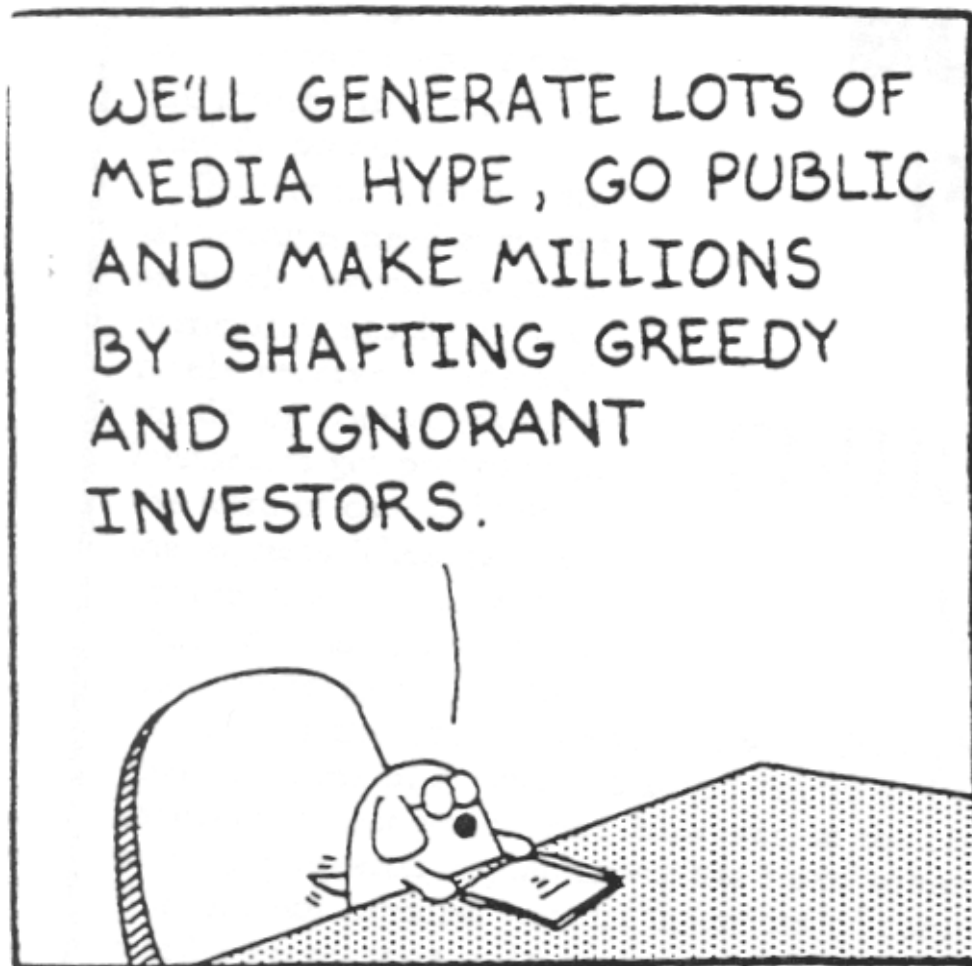
# ... Then Throwing the Hammer



	-	+
<b>Quality of Management</b> <ul style="list-style-type: none"> <li>• primary driver in &gt;60% of deals</li> </ul>	<ul style="list-style-type: none"> <li>• Past failures</li> <li>• Difficult personalities</li> <li>• Reliance on one/few individuals</li> <li>• Little at stake</li> </ul>	<ul style="list-style-type: none"> <li>• Past successes</li> <li>• Experience/domain expertise</li> <li>• High-profile/attracts talent</li> <li>• Lots at stake</li> </ul>
<b>Offering &amp; Markets</b>	<ul style="list-style-type: none"> <li>• Mature market</li> <li>• Strong incumbent competitors</li> <li>• Capital intensive</li> <li>• Reliance on execution</li> </ul>	<ul style="list-style-type: none"> <li>• Nascent, potential huge market</li> <li>• Vulnerable competition</li> <li>• Scaleable</li> <li>• Strong IP</li> </ul>
<b>Financial Markets</b>	<ul style="list-style-type: none"> <li>• Exit relies on large scale</li> <li>• Concentrated marketplace</li> <li>• Poor investor sentiment</li> </ul>	<ul style="list-style-type: none"> <li>• Early exit potential</li> <li>• Multitude of buyers</li> <li>• Sector enthusiasm/"hype"</li> </ul>
<b>VC Dynamics</b>	<ul style="list-style-type: none"> <li>• End of fund, VC can be choosy</li> <li>• Lack of syndicate bonds</li> <li>• Lower competition for deals</li> </ul>	<ul style="list-style-type: none"> <li>• Beg. of fund, incentive to deploy</li> <li>• Strong syndicate bonds</li> <li>• Strong VC inflows ('00 run-up)</li> </ul>



# What Won't Work (hopefully)



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