10X genomics, peer-reviewed scientific publications disclosure, 234e	Alternative Investment Management Association (AIMA)
	guidance, 53
A	survey, 229, 231
Accounting Standard Codification (ASC)	American Bar Association (ABA), 51
350 Intangibles Goodwill and Other, 183	American Institute of Certified Public
504-50, fair value-based standard, 50	Accountants (AICPA), 34, 52, 178
505-50, 50	Accounting and Valuation Guide, 54
718, fair value-based standard, 50, 54	guidance, 52, 54
805 Business Combinations, 183	PE/VC Valuation Guide, 24–26, 49, 53, 112,
820 (Fair Value Measurement), 33-34, 41-42,	179, 238
84	Backsolve method definition, 113
arm's-length transaction, 113	fund estimation recommendation, 305
Glossary, Market Participants definition, 43	American Law Institute (ALI), 51
principles-based framework, 52	American option, 74, 260
standards, distinctions, 50	American Society of Appraisers, 178
valuation approach identification, 44	American warrant, 75, 274
GAAP source, 41	Amis, David, 97
Accounting Standards Update (ASU) No.	Amortization, 147–149
2016-01 Financial Instruments	Anchoring bias, 317
Overall, 41	Angel investors, 83
Accrued interest, value (subtraction), 300	defining, 84
Acquired intangibles, amortization, 211, 213	number/deal value, 85e
Acquisition-related expenses, 213	Angel round, exit time (estimation), 102
Active investment phase, 15	Angel stage (company life cycle development
Active users	stage), 4
metric, 220–221	Annual earnout payments, present value
types, 220	(calculation), 332
Add-on round, 119–121	Annualized IRR, 17e
Adjusted beta, 174	change, 15
Adjusted Conversion Ratio (ACR), equation, 65	Annualized target return (TR), representation,
Adjusted EBITDA, 211, 213, 214e, 215	101
Adjusted net earnings, present value, 187	Annual recurring revenue, metric, 221
Adjusted net loss, 211, 213	Annual revenue, present value (calculation), 326
Adjusted volatility, option valuation	Annual revenue run rate (ARR), 221
(combination), 268e	Antidilution rights, 67–70
Aeterni Patris, 36	Appraisal Foundation, guidance, 54
After-tax replacement cost before amortization,	Aquinas, Thomas, 34–35
calculation, 196	Arm's length transaction (ASC 820), 113
Agent investors, 84–89	As if converted method, 299–300
Allen, Paul, 84	Assembled workforce, 185, 201
Alphabet, intangibles, 184e	valuation, replacement cost, 202e

Asset	Beta
adjustments, 166–168	estimates, 158e
asset-based approach, 177. See also Valuation.	re-levered beta, calculation, 159
IGBVT definition, 178	total beta, calculation, 160
overview, 178–180	unlevered beta, calculation, 159
asset-based method, 47	Biases, checking, 317–318
fair value valuation, 180	Billings, 215–216
identifiable intangible assets, 184e	calculation, 216e
identification, 180	Bimodal scenario, 239-240
impairments, 215	calibration at inception, combination, 240–242
net value, 180	calibration at subsequent measurement,
re-levering, 159	combination, 242–243, 242e
sales, 215	enterprise value, combination, 241e
transfer, 42	postmoney valuation, calibration, 241e
tree	simplified scenario analysis, combination, 239e
binomial pricing model, 271e	simulation analysis, combination, 240
building, 270–271, 295–296	Binary structure. See Systematic binary structure
modification, 274e	Binomial lattice model (BLM), 259
useful life, estimation, 191	convertible notes valuation, 293-299
volatility, 137-138. See also Guideline public	inputs, 270e
companies.	setup, 294–295, 294e
equity volatility, relationship, 265–266	setup, 294–295, 294e
estimation, 137	tree, example, 298e
Asset Accumulation method (AAM), 177, 203	usage, 268-274, 293, 299
case study, 180	Binomial lattice tree, steps, 269e
example, 204e	Binomial pricing model, asset tree, 271e
Asset under management (AUM) level, 3, 22	Black-Scholes-Merton (BSM) inputs, 321e,
Auditing Standard 2501, revision, 305	323e–324e, 332e
"Available for issuance" reclassification, 75	Black-Scholes-Merton option pricing model
Average revenue per user (ARPU), 221	(BSM OPM), 116, 263–268, 278
	convertible notes, 291e
В	discounts, inclusion, 128e
Backsolve method, 111-112. See also Option	examples, 118e, 119e, 121e, 122e, 125e
Pricing method	input
AICPA PE/VC Valuation Guide definition, 113	change, impact, 264e
validity, 112	increases, impact, 265e
Balance sheet	pari-passu, example, 127e
adjustment, 180	secondary transactions, inclusion,
example, 181e	131e
Bankruptcy, filing, 72	usage, 197-198, 263e
Base case, 102	Bloomberg, 157
Base salary, increase, 21	Board of directors
Base Year revenues, level, 326	composition rights, 71
Bassen, Alexander, 233	voting rights, importance, 71
Ben Franklin Technology Partners, 84	Bond yield, 288
Berkus method, 90, 97–99	measures, 279–281
benchmark comparison, 98e	Bookings, 217–221
enhancements, 99	Bottom up approach, 111–112, 143–144
example, 100e	Bridge loans, 8–9
milestones/risk factors, 97e	Bridge notes
Berkus Model, example, 98e	combined transaction, future value, 303

measurement, valuation, 303-304	Cap, inclusion, 320–323
present value, discounting, 303	Capital. See Working capital
Bridge notes, conversion	call, 11
issuance valuation, 300–303	cost, example, 163e
note value, 301–302	expenditures
warrant, value, 302-303	components, 148–149
Bridge notes valuation	example, 150e
as if converted method, 299-300	financial investor input, 11–20
warrants, usage, 300-304	update cost, revised inputs (addition),
Broad-based weighted average (BBWA) formula,	171e
69–70	Capital asset pricing model (CAPM), 40, 153,
Bucket, determination, 44	157–159, 311
Buffett, Warren, 41	assumption, 160
Build-up method	method, equity cost, 160e
example, 156e	modified CAPM method, 160–162
usage, 153–157	Capitalism and Freedom (Friedman), 40
Busch, Timo, 233	Capitalization (Treatman), 40
Business metrics, 219e	complex capital structure, 123e
Buyers, strategic positioning, 24	current value method, 255e
Buyout	full scenario analysis, 243e
exit transaction, 4	• •
	hybrid method, 250e
sales (trade sales), 23	multiples, 165
transactions, 23	OPM Backsolve method, 114e
U.S. VC buyout exits, 24e	relative value analysis, 249e
	series C round, 246e
C	simple capital structure, 120e
Calibration. See Discounted cash flow model	simplified scenario analysis, 241e
calibration at inception	structure, partial ratchet, 68e
bimodal scenario, combination, 240–241	Capitalized Excess Earnings method (CEEM),
bottom-up approach, 246–247	186
calibration at subsequent measurement	Capital structure, 57. See also Complex capital
bimodal scenario, combination, 242–243,	structure; Simple capital structure
242e	adjustment, 290
full scenario analysis, usage, 247	components, 8–9
calibration to issue price, full scenario analysis,	convertible note example, 289e
247e	cumulative dividends, effect, 66e
example, 172e	economic rights example, 59e
scenario analysis, 173e	examples, 62e, 67e–68e
Call option, 114	options valuation. See Complex capital
calculation, 320	structure.
convertible note analysis, 282	partial ratchet, 69e
digital/binary call option formula, 324	premoney/postmoney capital structure,
granting, 74–75	87e
valuation, BSM model (usage), 263e	Capped participation, 61
value, expression, 264	existence, impact, 63
Call option tree	rights, 64
building, 272–274	Cash availability, importance, 227
example, 273e	Cash burn, 216
modification, 274e	rate, 6, 284
Cambridge Associates, VC funds development,	Cash flow
17–18	calculation, 187

Cash flow (Continued) data, example, 147e	Compensation, financial performance (impact),
discount rates, 315–316	Complex capital structure, 259
estimation, 283	example, 261e
Cash securities, adjustments, 166	options valuation, 260–263
Cayenne Consulting calculator, usage, 100	volatility, estimate, 265–268
Cayman Alternative Investment Summit survey,	Contingent consideration
229	process, PE/VC Valuation Guide, 310
Center for Research in Security Prices (CSRP),	valuation, 309
170	Contingent liabilities, 180
market return data set, 155	Contractual rights, 183
Certified in Entity and Intangible Valuations	Contributory asset charge (CAC), 187
(CEIV), Mandatory Performance	Control premia, 48–49
Framework, 54	Conversion price, 69, 70
Certified in the Valuation of Financial	Conversion ratio, 58–59
Instruments (CVFI) Credential, 53	Conversion rights, 58–59
Clawback, 332–332	Convertible notes, 76–77
present value, 332e	analysis, examples, 282
provision, 309	binomial lattice model (BLM)
valuation, BSM inputs, 331, 332e	inputs/model setup, 294e
Co-investment, 12	tree, 298e
Committed capital, 11	calibration, 304e
Committee of Foreign Investment in the United	option component valuation, 287e
States (CFIUS), foreign investment	straight debt component valuation, 288e
screening, 22	combined instrument, valuation, 286
Common good (bonum commune), 36	exit, note par value, 290
Common stock, 57	future value, discounting, 300
delta, calculation, 266	maturity value
payoff, 117e	determination, 296
volatility, estimation, 263–264	example, 297e OPM breakpoints, 290e
Companies	option component, valuation, 282–283, 283e
analytical summary, 137	purchase price allocation, scenario analysis,
asset volatility estimation, 137	302e
capital structure, debt incorporation, 306	S&P/Moody's/Fitch ratings, 285e
credit profile, deterioration, 293	straight debt component, valuation, 283–286.
cross holdings, adjustments, 166	286e
enterprise value, call option, 115e	tree, building, 296–299
life cycle (development stages), 4-5	value calculation/estimation, 296, 300
postmoney valuation, 105	variables, backsolving, 287
premoney valuation, 105	Convertible notes valuation
public offering, 28	binomial lattice model, 293-299
selection, 132–133	broker quotes, usage, 304-305
survival rate (U.S. Bureau of Labor statistics),	decomposition/yield method, 282-286
7e	OPM backsolve, calibration, 292-293
value estimation, 103	option pricing method, 288-292
waterfall, 289	yield method, calibration, 287–288
winding up, 72	Core business, exposures (separation), 213
Company-specific risk premium (CSRP), 155, 174	Corporate expenses, value drag, 228e estimation, 227
Comparison factors, 91e, 92e	Corporate family rating (CFR), 284

Corporate notes, risk-free rate, 284	straight debt (convertible note component),
Corporate venture capital (CVC)	valuation, 283–286
establishment, 20	valuation, 305–307
M&A pipeline contribution, 21	debt holder/equity holder perspective,
predefined objectives report, 21	278e280e
strategic focus, 21	principles, 278–281
US investment, increase, 85	value, 306–307
Corpus of Civil Law (Giustinian), 34	measures, 278–279
Co-sale rights, 74	Deleveraging Equity Volatility method, 317
Counterparty credit risk (CCR), 316, 324	Delta value, 266
earnout payoff discount rate component, 316	Demand/supply, equilibrium point, 47
rate, 284	Depreciation, 147–149
Counterparty risk, 322	Derivative instruments, 260
Country risk premium, 155	di Giovanni Olivi, Pietro, 35–36
Coupon yield, 279	Digital/binary call option formula, 324
Credit rating agencies, 284, 285e	Dilution. See Expected dilution
Credit, subscription line	usage, 102–106
effect, 16e	Dingra, Gautham, 99
investor advantage, 16–17	Direct listing, 23, 28–29
Cross-border investing, 22–23	Discounted cash flow (DCF)
Cross holdings, adjustments, 166	method, 46, 141
Cumulative dividends, effect, 65, 66e	results, reconciliation, venture capital method
Cumulative revenue, present value, 321	(usage), 168–170
Current users	Discounted cash flow (DCF) model, 103
valuation, inputs (usage), 222e	calibration, 170–174
value, estimation, 222	example, 172e
Current Value Method (CVM), 238, 254–255	scenario analysis, 173e
description/uses, 254	debt cost, 162
liquidation preference, 255e	depreciation/amortization, 147–149
uses, 254–255	development, 143
Current yield, 279–280	discount rate, 149–162
Customer relationships, 185, 186–190	documentation/disclosure requirements,
valuation, 188e	173–174
Customers, number (metric), 218–219	example, 167e
Cybersecurity risk, 97	free cash flows, 149
Systematicy rising sy	future cash flows, estimation,
D	143–145
Daily active users (DAU), 220	normalization adjustments, 149
Daily recurring revenue (DRR), 221	operating expenses, 145, 147
Damage, seller experience, 35	revenue, 145
Damodaran, Aswath, 141	selection, 143
Debt Daniouaran, Aswatn, 141	Discount factor, calculation, 245
book value, usage, 306	Discount rates, 149–162, 240
cost, 162, 174	effect, 102e
inclusion, 151e	equation, 286
instruments	estimation, 103–104, 191, 284–286
convertible notes, comparison, 76	share percentages, 244e
valuation, 277	Discounts, 48–50
value, measures, 278e	inclusion (BSM OPM example), 128e
payoffs, 298	minority discounts, 48–49
securities, valuation, 277	usage, 49–50
securities, varuation, 4//	uougu, 17 JU

Dissolution. See Going out of business	fair value standard guidance, 52-54
proceeds, absence, 239	non-GAAP metrics, 209
Distressed transaction, exit representation, 60	value estimation, fair value standard, 237
Diversification-adjusted CAPM (DA-CAPM),	warrants, valuation, 259
160–161	Early VC stage/start-up stage (company life cycle
Dividend rights, 64–65	development stage), 4
Dividend yield, 115, 198, 263	Earnings Before Interest and Taxes (EBIT), 209
Down round, 67	Earnings before interest, taxes, depreciation, and
Drag-along rights, 72–73	amortization (EBITDA), 155, 164, 187,
Draw down, issuance, 11	209, 213. See also Adjusted EBITDA
Dry powder, 12	adjustments, 215
Dual-class common stock structure,	margins, 311
implementation, 57	Earnings, usage, 164–165
Dutch retirement fund, 227	Earnouts
	annual earnout payments, present value
E	(calculation), 332
Early stage enterprises (ESEs), 3	biases, checking, 317–318
buyout transactions, 23	cash flows, discount rates, 315-316
capital flow, 11	counterparty credit risk (CCR), 316
capital structure, components, 8–9	enhancement techniques, 315
characteristics, 4–9	events, 311
complex capital structure, 111	expected earnout payroll, 321
components, 3	linear payoff
control, change, 23	cap/floor, inclusion, 313e
dissolution, 23	floor, inclusion, 313e
exit strategy, 23–29	metrics, 311
failure, risk, 6	volatility estimation methods, 317
financial information, availability/quality, 9	Metric-Specific Risk Premium (MSRP), 316
financing, 86	Monte Carlo Simulation, 315
going out of business (dissolution), 23	option-pricing method (OPM), 315
governance, control, 9	path-dependent payoff, 313
initial public offering (IPO)/direct listing, 23,	payoffs, 311–314
26–29	components, 316
intangible assets, value drive, 6, 8	discount rate, 316
internal milestones, 48	equation, 313
investments, valuation/reduction, 19	expected value, 315e
losses, 5–6, 270	multiple/correlated metrics, basis, 313-314
merger and acquisition (M&A) transactions,	present value, 319e, 320e, 322e-324e, 325e
23, 24–26	calculation, 321-322, 324
milestones, 48	provisions, 309–310
off-balance-sheet liabilities, presence, 6, 8	risk-free rate (RFR), 316
operations, net losses/negative cash flows, 5	scenario-based method (SBM), 315
OPM model, liquidity event, 135	settlement, 314
options valuation, 260–263	types, 310–314
preferred shareholders, rights, 64-65	valuation, 314–318
revenue generation, demonstration, 24	case studies, 318–332
revenue growth, expectation, 5	methodologies, 314–315
senior rights, 59	value, calculation, 332
size, impact, 8	volatility, 316-317
valuation	EBIT margin, 147
BLM, usage, 299	Economic rights, 58–70

Employee option plan (EOP), company	Existing users
placement, 75	valuation, 223e
Employee Stock Option Plan (ESOP), company	value, calculation, 224
usage, 75	Exit
Enterprise value, 77, 262	average valuation, 103
adjustments, impact, 168e	common stock, payoff, 117e
allocation, 237	company value estimation, 103
convertible notes, 291e	evaluation, 24
methods, comparison, 256e	IPO consideration, 27–28
bimodal scenario, combination, 241e	median time, 30e
calculation, 180	note par value, calculation, 290
call option, 115e	preferred stock, payoff, 117e
capping, 76t	proceeds, allocation, 62
debt, absence (calculation), 245	scenario, 26
Enterprise volatility, 317	alternative, 251e
Entrepreneur/team, strength (factor), 94	strategy, 23–30
Environmental, social, and governance (ESG)	summary, 29e
factors, 216	term, 303
effect, measurement, 229, 231	terminal value, 165–166
material ESG factors, 231e	time. See Time to exit.
Environmental, social, and governance (ESG)	U.S. VC exit activity, 29e
metrics, 229–233	value, effect, 102e
Environmental, social, and governance (ESG)	Expected dilution, 240
objectives, 21, 84	Expected present value (EPV) method, 46
	Expected present value (El V) method, 10
Environmental, social, and governance (ESG)	F
value contribution, assessment, 231	_
Equilibrium theory (Marshall), "normal value,"	Facebook, intangibles, 184e
36–38 Envitor	Factor total value, calculation (example), 92
Equity	Factor weights, summing requirement, 91
cost, 160e, 161e	FactSet, 157
build-up method, 156e	Failure
calculation, 156, 157	risk, 6
inclusion, 151e	scenario, 108
interest, measurement (seniority), 254	Fair market value, IRS definition, 51
interests, probability-weighted value, 246e	Fair return, allowance (absence), 38
payoff, call option, 115e	Fair value (FV)
valuation, debt valuation, 305–307	debate. See Railroad rate regulation.
value allocation, 243, 250	definition, 42
OPM, usage, 251e	estimation, replacement cost, 196
volatility, 135–138	hierarchy, 43–44
asset volatility, relationship, 135–136,	indication, 84
265–266	measurement. See Accounting Standard
calculation, 134e	Codification.
Equity risk premium (ERP), 154	valuation, 180
European call options, BSM	value standards, relationship, 50–51
form/formula/model, 114–115, 198,	Fair value (FV) standard, 33
263	development. See U.S. generally accepted
European option, 74	accounting principles.
European warrant, 75, 274	guidance, 52–54
EV/EBITDA, 107	historical notes, 34-42
Exercise price, 74, 75, 114, 197, 260, 302	US GAAP basis, 42–50

FCFE, 143	Full participation, 61
FCFF, 143, 149, 151	rights, 63e, 64
present value, increase, 173	Full scenario analysis (FSA), 238, 243–248, 252
stream, present value (calculation), 166	calibration at subsequent measurement, 247
variability, 155	calibration to issue price, 247e
Financial Accounting Standards Board (FASB),	Post-Series C Round, 246e, 248e
33, 41	top-down approach, 243-245
ASC 805 Business Combinations, 183	Full Scenario Analysis (FSA), 238
Glossary, usage, 46	Functional obsolescence, 196
Financial information	Fund index, summary, 18e
availability/quality, 9	Funding access, importance, 227
projection, 191	Future cash flows, estimation, 143–145
Financial Instruments Performance Framework	Future equity, simple agreements, 77–78
(FIPF), guidance, 53	Future equity value
Financial investors, 11–20	allocation, 244
label, 21–22	estimation, 243, 244
Financial metrics, 311	Future proceeds, allocation, 244e
Financial performance	Future value, discounting, 300
concerns (Swiss Sustainable Investment Market	
Study), 231	G
impact, 21	GCTs, multiples (usage), 45e
mechanics, 11–20	Generally accepted accounting principles
Financing rounds, usage, 72	(GAAP), 76, 209
Firm	division, 216
valuation, 227, 229e	global usage, 33
value, survival scenario, 168	metrics, 23
First Chicago method (FCM), 83, 107-109	mixed model, 183
example, 108e	non-GAAP metrics, 209
First Chicago National Bank, 107	revenues, gross billings (contrast), 215
First refusal rights, 74	usage, 178, 201
Floor	Geometric Brownian Motion, usage, 326
inclusion, 313e, 320–323	Going concern valuation, 51
provision, 203	Going-concern value, 40
Force liquidation/stress sale, 42	Going out of business (dissolution), 23
Foreign investment, CFIUS screening, 22–23–24	Going to market decision, 197
Foreign Investment Risk Review Modernization	Goodwill, 40
Act (FIRRMA), 22	value, 179
Form S-1 (SEC), 26	Governance, control, 9
Forms 10-Q/10-K, 26	Government Pension Fund Global retirement
Free cash flows (FCFs), 149	fund (Norway), 229
debt/equity, inclusion. See Free cash flows to	Greenfield Method, 186
the firm.	Gross billings, GAAP revenue (contrast), 215
example, 152e	Gross billings per year, 223
Free cash flows to the firm (FCFF), 149	Gross margin, trend, 285
change, 151	Gross private domestic investment (US), 182e
debt, inclusion, 151e	Guideline public companies (GPCs), 44, 132–135
equity, inclusion, 151e	asset volatility, 135–136
present value to FCFF, calculation,	beta estimates, 158e
166	capital structures, 174
Friede, Gunnar, 233	equity volatility, 135–136
Friedman, Milton, 22, 40	historical/implied volatilities, 137

identification, 45e multiples, usage, 45e	increases, impact, 265e measurement, 222e
volatility	warrant valuation, 276e
analysis, 137e	Institutional Limited Partner Association (ILPA),
estimation, 133, 135	Portfolio Metrics Reporting Template, 229
Н	Intangible assets. See Identifiable intangible assets
HALO report (Angel Resource Institute), 86, 99	identifiable, term (characteristics), 183
Hartman, Harleigh H., 39	identification, 181–185
Highest and best use (HABU), 185	IGBVT definition, 6, 8, 181
Historical Variability method, 317	valuation, 185–194
Horizon pooled return, 18e	methodologies, summary, 201, 203e
Houston Angel Network, 84	RRM, usage, 191
Human laws/customs, virtue (contrast), 35	value drive, 6, 8
Hybrid instruments, 77–78	Intellectual property products, private
Hybrid method, 249–252	investment, 182e
inputs, 250e	Internal rate of return (IRR), 13, 203–205
probability-weighted valuation, 252e	annualized IRR, 17e
	change, 15
I	increase, 16
Identifiable intangible assets, 184e	information, absence, 19-20
Impact investments, 21–22	subscription line of credit, effect (example), 16e
Implied volatility, 268e	TVPI/MOIC/exit year basis, 14e
Income approach. See Valuation	Internal Revenue Service (IRS)
Incremental revenue, reinvestment percentage,	Revenue Ruling 59-60, 51
148	Internal Revenue Service (IRS) Revenue Ruling,
Incremental working capital, components, 148	fair market value definition, 51
Industry risk premium (IRP), 155	International Accounting Standards Board
Information rights, 74	(IASB), 33
Initial public offering (IPO), 23, 26–30, 49, 72 assistance, 9	International Financial Reporting Standard
completion, 70	(IFRS) 13 Fair Value Measurement
direct listing, 28–29, 130	(guidance), 33–34
exit, 89, 145, 241–242, 249	International Glossary of Business Valuation
future proceeds, 240	Terms (IGBVT)
market, evolution, 27	asset-based approach definition, 178
outcome, 153	intangible asset definition, 181
pe-IPO registration statements, 213	International Private Equity guidelines, 53
proceeds, calculation, 240	Valuation Guidelines, 52
qualified IPO, 28	International Private Equity Valuation (IPEV)
scenario, 239, 250	Guidelines, 34
U.S. VC-backed IPO deals, 27e	International Valuation Standards Council
VC investor perspective, 28	(IVSC)
In Process Research and Development, 200–201	guidance, 54
valuation, replacement cost, 201e	International Valuation Standards (IVS),
In-Process Research and Development (IPRD),	52–53
200–201	Standards Review Board proposal, 42
In-progress research and development, 185	Technical Information Paper 3, 54
Inputs	Internet bubble (2001-2002), 41
change, impact, 264e	crash, 27–28
hybrid method, 250e	Intrinsic value, 260

Investment	Logistical obsolescence, 196
performance (risk component), information	Long-term equilibrium state, factors, 37
(absence), 19–20	Long-Term Growth method (LTGM), 162, 164
phase, 15	Loss from Operations financial statement, 211
staff, parent employees (incluision), 21	Lyft
Investors	adjusted EBITDA, 214e
angel investors, number/deal value, 85e	bookings, 217e
low case scenario, 254	
mission investors, 21–22	M
strategic investors, 20–21	Management Assessment method, 317
strategic relationship, 126	Management rights, 74
IOSCO guidance, 210	Mandatory Performance Framework (MPF), 54
IVS 500 Financial Instruments, 54	141, 173–174
,	documentation, 196
J	usage, 190, 194
J Curve, 15	valuation, support, 177–178
effect, 16–17, 19	
"Just price," medieval theory, 34–36	Mandatory preferred stock conversion, 59 Market
just price, incurevar theory, 51 50	
V	approach. See Valuation.
K Voor it simple sequeities (VISS) 79	market-based information, 47
Keep it simple securities (KISS), 78	participants
Keiretsu Forum, 84	ASC 820 definition, 43–44
Keynes, John Maynard, 37	capital structure, 174
Key performance indicators (KPIs), 232	Marketability
ktMINE, 194	absence, discounts (usage), 49–50
•	liquidity, contrast, 49
L	Marketable securities, adjustments, 166
Later VC stage (company life cycle development	Market multiples, basis, 103
stage), 4	Mark-to-market accounting rules, 41
Legal reserves, 215	Marshall, Alfred, 36–38, 40
Legal rights, 183	Material ESG factors, 231e
Liabilities	Maximum Rate Bill (Nebraska), 38
adjustments, 166–168	Median net IRR, 19e
debt treatment, absence, 166	Membership survival, calculation, 223
fair value valuation, 180	Merger and acquisition (M&A)
identification, 180	candidate, 4
net value, 180	exit, 89
transfer, 42	scenario, evaluation, 24
Linear payoff, floor/cap (inclusion), 322–323	transactions, 23, 24–26
BSM inputs, 323e	financing, 10
Linear payout, cap/floor inclusion (earnout	U.S. VC M&A exits, 25e
present value), 323e	Metrics, 233. See also Non-GAAP metrics
Lines of code (LOC), reproduction, 195	revenue-based metrics, 220-229
Liquidation	usage, 216–234
phase, 15	Metric-Specific Risk Premium (MSRP), 319
preferences, 59, 60e, 67, 124	calculation, 319
rights, 59–61	earnout payoff discount rate component, 316
Liquidity	usage, 321
event, 135, 254	Milestones, 48e
need, 129	analysis, 48
preferences, 116	Minority discounts, 48–49

Mission investors, 21–22	0
Modern portfolio theory (MPT), 40, 311, 316	Obsolescence
Modified CAPM	subtraction, 194–196
method, 160-162	types, 196
risk premia, addition, 161e	Occurrence, probabilities
Monte Carlo Simulation, 47, 315	assignment, 243
application, 53, 325	identification, 244
steps, 332	Off-balance-sheet liabilities, 166
usage, 325–332	presence, 6, 8
Monthly active users (MAU), 220, 221	risk, 8
Monthly recurring revenue (MRR), 221	Olson, Christopher, 99
Morgan Stanley Capital International (MSCI)	Operating expenses, 145, 147
ratings, 232	Operating expenses per user, 223
Multiperiod Excess Earnings Method (MEEM),	Operating margin, trend, 285–286
186	Operations
Multiperiod Excess Earnings Method (MPEEM),	adjusted loss, 212e
186–189, 201	net losses/negative cash flows, 5-6
customer relationships, valuation, 188e	Option pool, 75
steps, 187	Option pricing method (OPM), 288-292, 315
Multiple of invested capital (MOIC), 13	breakpoints, 290e
NI	Option Pricing method (OPM), 112
N	backsolve
Narrow-based weighted average (NBWA)	convertible notes valuation, calibration,
formula, usage, 68–69	292–293
Nasdaq Composite Index, 17	model, 292
National Venture Capital Association (NVCA) model legal documents, 71	breakpoints
VC Term Sheet update, 23	examples, 116e, 120e, 124e
Net asset value (NAV), 179	pari-passu, example, 126e
VC investor report, 12	unit price, 130e
Net revenues per user, 223	volatility, estimation, 132–138
New users	Option Pricing Method (OPM), 237
valuation, 226e	usage, 251e
value, estimation, 224–227	value allocation, 262e
Noncompetition agreements, 185	breakpoints, 261e
valuation, WWM (usage), 199e	volatility per class of shares, combination,
With and Without method, 198, 200	267e
Noncumulative dividends, carry forward	Option Pricing method (OPM) Backsolve
(absence), 65	Method, 112–113
Noneconomic rights, 71–74	application, 123
Nonfinancial milestones, 311	case study, 113
Non-GAAP Financial Measures (NGFM), 209,	complex capital structure, financing (new
211, 217	round), 121–128
Non-GAAP metrics (NGMs), 209–210,	simple capital structure
216–234, 286	initial measurement calibration, 113–118
revenue-based NGMs, importance, 220	inputs, add-on round/change, 119-121
trends, 286	subsequent measurement calibration,
Normalization adjustments, 149	118–119
North American Industry Classification System	Option Pricing model. See Black-Scholes-Merton
(NAICS) code, usage, 132	option pricing model
Notes, valuation. See Bridge notes valuation;	Options
Convertible notes valuation	expiration, values

Options (Continued)	Payne Scorecard
determination, 271–272	company/benchmark, 93e
example, 272e	comparison factors/weight range, 91e
option-free note, par value (convertible note	example, 93e
analysis), 282	method, 90–95
option-like instruments, 74–75	Payne Summation Model, 90
stand-alone instruments, valuation	Payoff. See Earnouts
binomial lattice model, usage, 268-274	diagrams, 116
BSM model, usage, 263-268	simple linear payoff structure, 319
value	Pay-to-play provisions, 73
increase, 121	Peer-reviewed scientific publications disclosure
single point estimate, 272	(10X Genomics), 234e
Options valuation, 259, 260–263. See Complex	Pinterest Inc., revenue/business metrics, 219,
capital structure	220e
adjusted volatility, combination, 268e	PitchBook, 157
call option tree, building, 272–274	report, 11–12
convertible note calibration, 287e	Plain vanilla options, valuation, 263
input	Pooled horizon IRRs, 17, 18e
change, impact, 264e	Portfolio diversification, absence (effect), 161e
increases, impact, 265e	Postmoney capital structure, 87e
setup, 270	Postmoney valuation, 86–89
model, setup, 270	
principles, 260	calculation, examples, 94, 101, 108, 240
stand-alone instrument function, 263-266	calibration, 241
Other Metrics (OM), 217	stock options, effect, 88e
Overconfidence bias, 317–318	Postmoney value, estimation, 105
Oversubscription right, 74	Post-Series C Round, 246e, 248e
Ownership	Preemptive rights, 73
example, 170e	Preferred shareholders
required ownership, 105-106	consent, requirement, 72
Ownership percentage, 101	rights, 64–65
estimation, 105–106	Preferred stock, 8–9, 58–70
exit value/discount rates, effect, 102e	asset tree, 295e
	capped participation rights, 64e
P	delta, 266
Paid-in-kind (PIK) accrued interest, 301	economic rights, 58–70
Paid-in-kind (PIK) interest, 283, 290	full participation rights, 63e
accrual, 279	noneconomic rights, 71–74
Partial ratchet, 68e, 69e	payoff, 117e
Participation rights, 61–64	total return, 61
capped participation rights, 64e	Pre-IPO registration statements, 213
full participation rights, 63e	Premia, 48–50
Patent	control premia, 48–49
costs, development, 179	Premoney capital structure, 87e
development, absence, 185	Premoney valuation, 86–89
Path-dependent earnout, factors, 326	average, 99e
Path-dependent payoff, Monte Carlo Simulation,	calculation, example, 94
325–332	increase, 87
forecast table, 331e	median/average, 99
iterations, 326e	median premoney valuation, 88e
Payne, Bill, 90–91	Present value per share class/series, 245e

Pre-Series A Rounds, median premoney valuation, 88e	trade name, valuation, 192e		
Price-to-earnings ratio (P/E), 107	usage, 191 Penlacement cost, 201c, 202c		
Principles for Responsible Investing, 229	Replacement cost, 201e, 202e method, obsolescence (subtraction), 194–196		
"Principles of Political Economy" (Marshall), 37	Replacement cost new, 195e		
Privately held companies, valuation, 47	Required ownership. See Ownership		
Probability-weighted (PW) average, 238	Required return. See Return		
Probability-weighted (PW) valuations, 168, 168e	Restitutions, 35–36		
hybrid method, 252e			
Probability-weighted (PW) value, 251, 252e	Restructuring clause, impact, 65 Retention		
Proceeds, allocation, 64e			
Project financial information, 185, 187	percentage, estimation, 104–105 ratio, calculation, 104		
Property, plant, and equipment (PP&E), 187			
	Return on assets (ROA), 204–205		
Proprietary software, 185, 194–196	Return ownership, 170e		
fair value, 196	Revenue, 145		
replacement cost new, 195e	cumulative revenue, present value, 321e		
value, blended hourly rate, 195e	definition, 311		
Prospective financial information (PFI), 191	expected present value, calculation, 326		
examples, 146e, 147e	expected value, 315e		
preparation, 143–144	forecast values, 325e		
schedules, 145	growth		
Protective provisions, 71–72	expectation, 5		
Public Company Accounting Oversight Board	rate, 200, 284–285		
(PCAOB), guidance, 52	metrics, 219e		
Public-market equivalent (PME) return metric,	multiples, 164–165		
20	net revenues per user, 223		
Purchase price allocation, scenario analysis, 302e	projection, 326		
Put option, calculation, 331	revenue-based metrics, 221–229		
	revenue-based NGMs, importance, 220		
Q	revenue-generation company, example, 142		
Qualified IPO, 28, 59	revenue run rate, 221		
scenario, 61	risk-neutral random revenue, generation, 326		
Quartile boundaries, 19e	Revenue per User (RPU), 221–229		
Quartile returns, review, 18–19	Risk		
	assessment, example, 96e		
R	exposure, stages, 151, 153		
Railroad rate regulation, fair value (debate),	factors, 97e		
38–40	premia, 156		
Rath, Raymond, 165	inclusion, 161e		
Real option pricing, 197–198	risk-neutral random revenue, generation,		
Redemption rights, 70	326		
Registration rights, 70	Risk Factor Summation (RFS)		
Regulatory reserves, 215	method, 94–97		
Reinvestment, incremental revenue percentage,	example, 96e		
148	risk factor coefficients/valuation adjustments,		
Relative valuation, market multiples (basis), 103	95e		
Relative value analysis, 248–249	model, 94–95		
example, 249e	Risk-free rate (RFR), 115, 157, 198, 263, 283,		
Relative Value Analysis (RVA), 239	319, 326		
Re-levered beta, calculation, 159	adjustment, 120		
Relief from Royalty method (RRM), 191–194	corporate notes, 284		

Risk-free rate (RFR) (Continued) default spread, 162	methods, alternatives, 99–100 scorecard approach, 90–100		
earnout payoff discount rate component, 316	Senior rights, 59		
Royal Institute of Chartered Surveyors (RICS),	Sensitivity analysis, 102		
178	enterprise value, bimodal scenario		
Royalty Connection, 194	(combination), 241e		
Royalty method, relief, 191–194	Series B preferred stock		
Royalty rate, estimation, 191	shares, warrant conversion, 303		
Royalty savings, calculation, 193	volatility, 303		
Royalty Source, 194	weighted average issue price, 292e		
Russell 2000, 17	Series B shareholders, percentage holdings, 67		
S	Series B shares, conversion number (calculation), 292		
S-1A registration statements, 233	Series C issue price, 247		
SAFE. See Simple agreements for future equity	Series C round, calculations, 246e, 248e		
Sahlman, Bill, 100	Service-based vesting conditions, 75		
Scalability, 218	Settlements, 215		
Scenario analysis, 302e. See also Full scenario	Shares		
analysis; Simplified scenario analysis	pro rata purchase, 73		
approaches, comparison, 253e	received, calculation, 77		
method, selection, 252	reclassification, 75		
Scenario-Based method (SBM), 238–253, 315	Shares, class/series (value)		
Scenario-Based Method (SBM), 237–238	discounting/calculating, 243		
Scenario probabilities, 240	present value per share class/series, 245e		
Scenarios	Shortfall, addition, 313		
future equity value, estimation, 244 identification, 243, 244	Simple agreements for future equity (SAFE), 77–78, 84		
present value, discount, 244–245	Simple capital structure. See Option Pricing		
Secondary market, 129	method Backsolve Method		
size, 129	Simple linear payoff, floor (inclusion), 320–322		
Secondary market transactions, 129–132	BSM inputs, 321e		
ESE representation, 12	cumulative revenue, present value, 321e		
example, 130e	earnout present value, 322e		
inclusions, example, 131e	valuation process, 321		
Secondary offering, shares registration, 72	Simple linear payoff structure, 319		
Securities and Exchange Commission (SEC)	SBM, usage (earnout present value), 320e		
egulation G, 210	Simplified scenario analysis (SSA),		
Form S-1, 26, 210	238–241, 252		
Forms 10-Q/10-K, 26	bimodal scenario, combination, 239e		
Seed investing, market, 84–89	strengths/weaknesses, 242–243		
Seed-stage companies capital sources, 84	Simulation analysis, bimodal scenario		
life cycle development stage, 4	(combination), 240		
stock option offerings, 87–88	Slack Technologies, Inc., 215		
valuation methods, 109e	billings calculation, 217e		
Seed valuation	revenue/business metrics, 219e		
Berkus method, 97–100	Small stock risk premium (SSRP), 154–156		
Payne scorecard, 90–94	Smyth v. Ames, 38		
Risk Factor Summation (RFS) method,	Social responsibility, doctrine, 22		
94–97	SoftBank, cross-border investing, 22		
scorecard	Stage valuation, 83		

Stand-alone instruments, 259, 263. See also Options valuation	earnout present value, 324e	
Standard Industry Classification (SIC) code,	usage, 323–325 Systematic risk, 311, 316	
usage, 132	premiums, 154	
Standard & Poor's 500 (S&P500), 17	premiums, 134	
Standard & Poor's (S&P) Capital, 157	T	
Statement of Financial Accounting Standards	T	
(FAS)	Tag-along rights, 74	
No. 107 Disclosures About Fair Value of	Tail-risk, 232	
Financial Instruments, 40	Tangible property, fair value (valuation), 40	
No. 133 Accounting for Derivative	Target company M&A transactions, 182	
Instruments and Hedging	premoney valuation, 94	
Activities, 40	warrants, expiration, 25	
Statistical techniques, usage, 47–48	Target return (TR), 105e	
Statutory appraisals, fair value, 51	annualized TR, representation, 101	
Step volatility, equation, 294	required return, relationship, 103–104	
Stevenson, Howard, 97	Target TVPI, 101, 105e	
Stock	Tax amortization benefit (TAB), calculation, 189,	
class/series, modeling, 114	193	
options, effect, 88e	Tax amortization benefit multiplier (TABM),	
stock-based compensation, 211	calculation, 193	
Straight debt (convertible note component)	Taxes	
valuation, 283–286, 286e, 288e	considerations, 147	
value, calculation, 286	deduction, 225	
Strategic buyer, financial condition, 24	reserves, 215	
Strategic investors, 20–21	Technical milestone, binary outcome	
Strike price, 74, 114	earnout present value, 319e	
breakpoints, 262	FDA approval, 318–319	
comparison, 260	Technological obsolescence, 196	
Subscribers, number (metric), 218–219	Terminal values, 162–166. See also Exit	
Subscription line of credit. See Credit	calculation, 164, 227	
Success, probability, 325	Term to expiration, 197–198	
Summa Theologiae (Aquinas), 34	Thomson Reuters Recap, 194	
Survival adjusted operating profit, 223	Time horizon	
Survival scenario	defining, 283	
DCF model, development, 143	increase, 325	
firm value, 168	Time to exit, 240–241, 263	
Sustainability issues, impact, 232–233	estimation, 102	
Swiss Sustainable Investment Market Study,	Time value, 260	
financial performance concerns,	Top down approach, 143–144	
231	Total beta, calculation, 160	
Synthetic rating, 286	Total value to paid in capital (TVPI), 13-16	
Systematic binary payoff structure, usage,	information, absence, 19-20	
325	requirement, 169	
Systematic binary structure, Monte Carlo	target TVPI, 101, 104, 105e	
Simulation	value generation measurement, 14	
earnout present value, 325e	vintage year basis, 13e	
revenue forecast values, 325e	Trade name, 185, 191–194	
usage, 325	fair value, calculation, 194	
Systematic binary structure, OPM	valuation, 192e	
RSM inputs 324e	Trade sales. See Buyout sales	

U	seed valuation, scorecard approach, 90-100
Uber	statistical techniques, usage, 47–48
adjusted EBITDA, 214e	step-up, 29
adjustments, 215	summary, example, 230e
bookings, 217e	Value
Uncalled capital, 12	drag. See Corporate expenses.
Underlying	going concern premise, 179
current price, 197	OPM value allocation, breakpoints, 261e
present value, 321	Value per new user, calculation, 225
volatility, 198, 262	Value standards, fair value (relationship), 50-51
Underlying asset, 260	Venture capital (VC)
value, 262, 302	deals, U.S. number, 10e
Underlying stock price, comparison, 260	early VC stage/start-up stage (company life
Undeveloped patent, 185	cycle development stage), 4
real option pricing, 197–198	enterprise, 252
Unicorn exits, number, 8	investing stages, U.S. deals (allocation), 10-11
United Kingdom (UK) Law Commission, ESG	investors
investment position, 232	attention, 165
United States, gross private domestic investment,	capital structure entry, 9
182e	later VC stage (company life cycle development
Unlevered beta, calculation, 159	stage), 4
Up movement, probability, 269	market, 3, 9
Up round/down unit price, 90	overview, 10–20
U.Sbased venture capital funds, median net	players, range, 3
IRR/quartile boundaries, 19e	portfolio investments, 49
U.S. deals, allocation, 10–11	U.S, VC-backed IPO deals, 27e
Users	U.S. VC buyout exits, 24e
number, metric, 218–219. See also Active users.	U.S. VC exit activity, 29e
valuation, 223e, 224e. See also New users.	U.S. VC funds, annualized IRR, 17e
U.S. generally accepted accounting principles (US	U.S. VC M&A exits, 25e
GAAP), fair value standard development,	valuation guidelines, 53
40–42	Venture capital (VC) funds
Usury, 35–36	annualized IRR. See U.S. venture capital funds.
U.S. venture capital funds, annualized IRR, 17e	investors, return expectations, 12
	IRR, report, 14
V	NAV report, 12
Valuation	number, increase, 11
adjustments, 95e	performance, measurement, 12–13
approaches	size, PitchBook report, 11–12
ASC 820 identification, 44	summary, 18e
overview, 44–50	TVPI, 13e
asset-based approach, 46–47	U.Sbased venture capital funds, median net
calibration, 47	IRR/quartile boundaries, 19e
date, bond yield, 288	Venture capital (VC) method, 83, 90, 100–107
divergence effect, 89e	base case, 101–102
income approach, 46	dilution, usage, 102–106, 106e
market approach, 44–46	example, 169e
milestones, 48e	limitation, 106–107
multiple valuation techniques, usage, 47	sensitivity analysis, 102e
premia/discounts, 48–50	Vesting cliff, usage, 75
premoney/postmoney valuation, 86–89	Veto rights, 71–72

VFR Valuation Advisories, 52–53 Villalobos, Luis, 89 Volatility. See Option Pricing method adjusted volatility, option valuation (combination), 268e calculation. See Equity. Deleveraging Equity Volatility method, 317 earnout volatility, 316–317 estimate, 132 complex capital structure, 265–268 delevering, 135 estimation, 133, 135 methods, 317 implied volatility, 268e step volatility, equation, 294 Volatility per class of shares, OPM (combination), 267e Voting rights, 71	Weekly active users (WAU), 220 Weighted average cost of capital (WACC),  162–166, 190, 203–206, 319 implied goodwill, 206e reconciliation, 204, 205e Weighted-average return on assets (WARA), 190,  193, 203–206 implied goodwill, 206e reconciliation, 204, 205e Weights change, 92e range, 91e When and if declared clause, 65 Winning Angels (Amis/Stevenson), 97 With and Without method (WWM),  198–200 usage, 199e Working capital, 148, 187
W	Y
Warrants, 75–77 exercise, outstanding shares (equation), 275–276 usage, 300–304 valuation, 259, 274–276 inputs, 275e modified BSM formula, 276 value, 302–303 equation, 275–276 Waterfall, 289 WAW method, 200	Y Combinator Continuity Fund, creation, 85 Yield measures, 279–280 method, convertible note valuation (calibration), 287–288 Yield to call (YTC), 280–281 example, 281e Yield to maturity (YTM), 280, 283 example, 280e yield curve trend, 281e Yield to put, 281, 281e