Report On

A Study on the Valuation Process of Homefectionery Limited

By

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ID: 18104048

An internship report submitted to the **BRAC Business School** in partial fulfillment of the requirements for the degree of
Bachelor of Business Administration.

BRAC Business School
BRAC University
November 2022

Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:

____

Rishad Azim

18104048

Supervisor's Full Name & Signature:

____

Riyashad Ahmed

Assistant Professor of Finance & Director of Programs (MBA & EMBA)
BRAC Business School
BRAC University

Letter of Transmittal

Riyashad Ahmed

Assistant Professor of Finance & Director of Programs (MBA & EMBA)

BRAC Business School

BRAC University

66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report on Homefectionery Limited.

Dear Sir,

I hope this letter finds you in good health. I, hereby submit my internship report combining my work experience in the Finance Department under the job role of Business Management Executive. I tried to follow my supervisor's instructions in every aspect of the report. It was a wonderful experience to complete my internship with this organization and under my supervisor's guidance, who supported me with all the necessary resources required to complete this report. I am ever grateful for that. I tried to make the report easy to read and understand and back my wording with references and numbers taken both in and outside the company.

Therefore, I hope you will like and appreciate the effort I have put into the report. I also hope that this report will benefit every reader in a fruitful way which was a prime goal while writing this report.

Sincerely yours,
Rishad Azim
Student ID: 18104048
BRAC Business School
BRAC University
Date: November 9, 2022

Non-Disclosure Agreement

This agreement is made and entered into by and between Homefectionery Limited and the undersigned student at Brac University, Brac Business School.

____

Rishad Azim
Student ID: 18104048
BRAC Business School
BRAC University

Acknowledgement

I am indebted to Almighty Allah for His mercy upon me by helping me throughout the internship journey. All my efforts would have gone in vain without His guidance. I would also thank the Homefectionery Limited management team for selecting me for the job. The role was unique in style, and I could learn much from it.

I would also like to convey my gratefulness to my Supervisor, Founder & Managing Director, Mr. Md.Umayer Islam, for interviewing me and seeing the spark in me to fulfill the roles and responsibilities by being a part of this company. I would humbly thank him for helping me with all the necessary information to complete this project. I would also like to thank my colleagues who participated while collecting data and helped me bring my hypothesis to life.

Finally, I would appreciate and express my gratitude to Mr. Riyashad Ahmed, Assistant Professor of Finance & Director of Programs (MBA & EMBA) BRAC Business School, for his continuous guidance throughout the internship. His systematic procedure helped me develop this report structure and efficiently.

Executive Summary

Homefectionery Limited is a B2B home-cooked food marketplace where home chefs help institutions to serve their employees affordable and healthy meals. Homefectionery is solving the country's two significant challenges, "unemployment" and "food," with the help of technology.

The first section of my report describes my internship and my general impressions of my time spent with Homefectionery. I also described my job scope, learnings, and others in detail. Later I focused on the organization and how it operated. In addition, I discussed Homefectionery's valuation method in the last chapter, noting its significance for new entrepreneurs in understanding their company's value and the amount of ownership they will have to give the investors.

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List of Acronyms

GPM	Gross Profit Margin
NPM	Net Profit Margin
ROI	Return on Investment
ROA	Return on Assets
VC	Venture Capital

Glossary

Homefectionery= this report always capitalizes Homefectionery, whether in the middle or end of a sentence. It is because of company policy.

Chapter 1: Overview of Internship

1.1 Student Information

Name: Rishad Azim

ID: 18104048

Program: Bachelor of Business Administration (BBA)

Major: Finance, Banking and Insurance,

Computer Information Management (CIM)

Minor: None

1.2 Internship Information

1.2.1 Period, Company name, Department, Address

Period: Full-Time Job.

Company Name: Homefectioney Limited

Department: Finance

Address: 1212 Bir Uttam AK Khandakar Rd, Dhaka 1212

1.2.2 Internship Company Supervisors

Name of supervisor: Md. Umayer Islam

Designation: Founder & Managing Director

1.2.3 Job Scope & Job Responsibilities

Job Description: Currently working as a Business Management Executive in Homefectionery Limited. During my time, I have worked in all the departments of the company, my key responsibilities were:

- Making a social media content calendar.
- Choosing which product to feature more prominently at a given time.
- Making content to promote featured products across several social media channels.
- Resolving Inquiries from Customers.
- Identifying a potential new client.
- Processing papers, making invoices, and storing them.
- Forecasting Cash Flow, Balance sheet, profit and loss statement for five years.
- Making a new marketplace app's flowchart and user interface

In addition to that, I have worked on:

- Finding information on Incubation Programs, Venture Capitalists & Angel Investors, making Presentation Decks, and evaluating Financial Data.

1.3 Internship Outcomes

1.3.1 Contribution to the company

As this is a startup and I am one of the first hires and was given the responsibility of business management. I had to look after all the departments.

- Forecasting and analyzing Financial Statements.

  As this is a startup and to get the funding we had to forecast our financial data, I helped in building the revenue model, Cash Flow statement, Profit & Loss statement and Balance sheet. I also analyzed the ratios like GPM, NPM, ROI, etc.

- Building the UI for the marketplace.

  As a marketplace with an emerging app, we saw the necessity for a user interface design. To help the developers envision the final product, I have created a few mockups in Adobe Xd.

- Customer Service and lead generation

  My job was to respond to customers' questions about our products and services posted on our Facebook page and website. I was also accountable for billing and document filing.

- Analyzing to understand customer demand for products.

  One of my tasks was to make content for products for social media. To complete this task, I did analysis of two months' sales data from website and Facebook sales on top moving products and what was always on demand.

1.3.2 Benefits of the Internship

The most important benefit received from this internship is the learning opportunity. I learned much about how a Startup performs and how the operations run smoothly. Here, I grew as an individual and helped me build a corporate personality, eventually leading me to my current role. I have to multitask, which is increasing my capacity and efficiency continuously. I have learned so many needed skills, including communication, MS office work, salesforce, and countless other software knowledge & leadership. I have worked directly under the managing director. It helped me learn and boosted my confidence to do any difficult task.

1.3.3 Problems faced during internship

The time spent doing my internship went off without a hitch, and I had no difficulties throughout that time. Because this is a startup and resources are always limited, I was required to multitask constantly. It was challenging to stay on top of everything and complete the assignment on time. Aside from that, everything functioned normally.

1.3.4 Recommendations

Since I had already worked there, my internship was not quite the same as a regular one. For instance, I was already familiar with my team and had previous experience working with them over an extended period. Nevertheless, it is usually difficult for a new intern to adapt to a new corporate environment. Homefectionery makes it much easier for new interns to get used to the business world by providing a friendly and healthy place to work.

Chapter 02: Organization Part

2.1 Introduction

2.1.1 Objective of the company

The focus of this section is to comprehend Homefectionery’s many functions. This chapter will provide readers with a glimpse of Homefectionery's procedures in other divisions.

This chapter proceeds to perform an all-inclusive explanation of Homefectionery’s operations, and the following will be discussed:

• The management strategies and marketing procedures used by Homefectionery to promote both the company and its products.

• Five-year financial forecasts and accounting techniques that adhere to regulatory body standards.

• The list of different departments, which operate within the Company.

• Homefectionery's industry analysis using SWOT and Porter's Five Forces.

2.1.2 Methodology

The data for this portion of discussion was compiled from both primary data sources and secondary data sources. Management procedures and market studies were established through observation and official statistics. Secondary data, such as financial performance and accounting practices, was obtained mostly from the financial forecast.

2.1.3 Significance of the study

The second chapter will provide the readers with the knowledge they need to comprehend the mission of Homefectionery as well as the functioning of the Company. Readers would be able to utilize the information and knowledge about the practices done by Homefectionery in areas such as Marketing, Human Resource Management (HRM), Operation Management, Information Management Systems, and Finance and Accounting point of view in the same way that it has enabled me to relate the knowledge that I have acquired throughout my undergraduate program. This chapter will also cover the industry analysis pertaining to Homefectionery. The report will allow the readers to gain knowledge of the present market state.

2.1.4 Limitations of the study

Many obstacles must be addressed during the whole internship study, ultimately creating limitations in the research data collection. The following are the constraints that were faced throughout the research:

• In order to continue the investigation, specific data were collected from previous studies. However, probably, these findings do not entirely cover Homefectionery.

• Some employees said that computations made under actual situations varied from interpretations in ways the report could not address. Even though the financial data was calculated using information from the forecasted report.

• Because the time allotted for this study was only three months, it was impossible to conduct an in-depth investigation of the subject matter.

• Certain pieces of information were kept hidden from the public under the stringent policy of secrecy that the company adheres to.

2.2 Overview of the Company

2.2.1 About the Organization

Homefectionery is in the business of empowering happiness. Bangladesh is home to 165 million people, 73% of the population cannot afford healthy food, and 46% of the female population is unemployed. Homefectionery-home cooked food marketplace is solving the country's two significant challenges, "unemployment" and "food," with the help of technology. It is a B2B home-cooked food marketplace, where home chefs help institutions to serve their employees affordable and healthy meals. In addition, home chefs can share skills and procure cooking essentials on the same platform.

Other services provided by Homefectionery are:

- Food delivery
- Training
- Baking essentials
- Machines & Tools
- Marketing
- 360 degree Business Support

2.2.2 Vision

Homefectionery's vision is to become the largest employer just in our home country Bangladesh by empowering 700,000 people.

2.2.3 Mission

Homefectionery's mission is to empower happiness without displacing people from their roots.

2.2.4 Values

The core values of Homefectonery are:

- Teamwork
- Responsibility
- Customers
- Ethics
- Innovation
- Trust
- Goals

2.2.5 Organizational Objective

Homefectionery is empowering women as it is a one-stop solution provider for home chefs to include them in the billion-dollar cooked food industry in Bangladesh.

2.3 Management Practices

The term "Management Practices" typically refers to the techniques and inventions that managers employ to increase the efficiency of their organizations' work processes. Standard management techniques include empowering employees, training employees, implementing plans to improve quality, and implementing various new technologies.

For Homefectionery, the core management practices include

Accountability: Everyone must be responsible for meeting his or her schedule. Employees hardly ever encounter problems in this area because it is carefully regulated, and the corporate culture encourages responsible work.

Flexibility: Although deadlines are closely adhered to, there is some flexibility in how the employee chooses to meet them. Deadlines are typically established weekly.

Weekly reporting: The entire department submits a report to the Senior Executive and Head of the department outlining its performance for the week and weekly goals.

Efficiency: Instead of encouraging overtime, management wants our employees to be efficient and meet demand during allotted working hours.

Alignment: A daily alignment meeting is scheduled to ensure that everyone is informed of all daily work developments.

Key performance indicators (KPI): Employees are given this portion of their pay depending on how well they perform. In addition to their ordinary compensation, this portion is extra. This encourages setting personal goals and working toward them.

The company also follows the following policies in case of recruitment and decision-making process.

Leadership Style: There is no requirement for Homefectionery's management system to follow a specific leadership stance. Regardless that the administrators' leadership styles may vary based on their personalities, they are all obligated to strictly abide by the rules of the firm and its management policy. Often, managers choose a leadership stance that straddles the lines between authoritative and participative leadership. Managers may decide to discuss the issue with other staff members working on a particular product or service before making any decisions. On the other hand, whenever it is in the company's best interest, managers may decide to act according to the firm's policies.

Human Resource Management: The human resources department handles the planning process. As a component of the planning process, the HR team analyzes and projects the requirement for personnel across the organization. The findings show that there is a need for workers in a variety of fields, including IT and customer service. It might have an impact on vacancies, among other things. Based on its findings, the HR team designs job descriptions and requirements. The job specification defines the credentials that the Homefectionery seeks in candidates, such as educational background and career history. In contrast, the job description outlines the nature of the role and its duties and responsibilities.

Recruitment Process: The Human resources department receives a request from the particular department where a job opening or vacancy exists in order to fill the post. A job description and the required minimum qualifications must be included in this requisition form. This facilitates the efficient completion of the job analysis by the human resources department. After consulting with the relevant department, the HR department decides whether it will use external selection or hire current staff. After one or two interviews, if they find qualified candidates already employed by the company, they get in touch with the potential applicant and extend the job offer. They advertise the job opening on LinkedIn and Bdjobs.com for external sourcing.

As a startup, our company has the following designations and hierarchical positions.

Managing Director			
CEO	CFO	CTO	COO
Department Heads			
Managers			

Table 1: Designations and hierarchical positions of Homefectionery management team.

2.4 Marketing Practices

Homefectionery follows two types of marketing strategies. They follow-

1. Customer based Marketing
2. Advertisements Campaign

2.4.1 Customer-Based Marketing

This strategy mainly focuses on specific customers. They use emails, SMS, and Facebook. They send promotional deals through emails to the registered customer email accounts. For SMS, they follow the same technique as emails. They send short updates through SMS to the customers' registered mobile numbers. They have a verified social media account on Facebook.

2.4.2 Advertisement Campaign

Advertisements are very impactful for any startup. Homefectionery is highly focused on this segment. It has multiple advertisement platforms. It gives its ads through YouTube and Facebook. Many sponsored companies are also involved in the campaigns. They have recently been trying to build billboards and cards in public transport to promote themselves. Homefectionery is also participating in multiple cooking shows to promote itself.

2.5 Financial Analysis

As mentioned, Homefectionery limited is a starting company; as a result, most of its financial data is dependent on projections, although Homefectionery has made a total income of $50,000 only from selling raw materials.

The following is a list of some of the most important financial ratios. All of these were derived from the data that was projected and which reflect how well the firm would perform:

2.5.1 Profitability Ratios:

The capacity of a company to create earnings concerning its revenue, operational costs, balance sheet assets, or shareholders' equity can be evaluated using data from a single moment in time with the use of a class of financial metrics known as profitability ratios.

2.5.1.1 Gross Profit Margin = Gross Profit / Sales

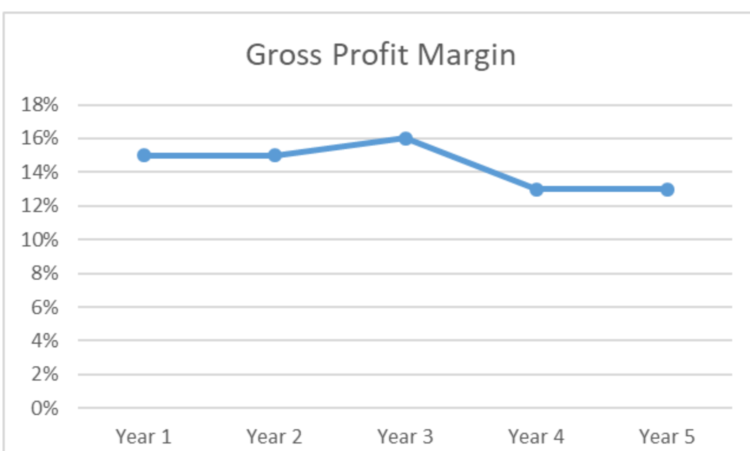

Figure 1: Gross Profit Margin

Gross profit margin is a measure of a company's financial sustainability that is determined by comparing a company's gross profit (sales less cost of goods sold) to sales. Gross profit margin is also known as gross profit percentage. In the first two years of operation, Homefectionery will maintain a constant gross profit margin. The gross profit margins will increase from 15% in the first year to 16% in the second year and 17% in the third year. According to the anticipated data, there would be a slight decrease to 13% in years four and five.

2.5.1.2 Operating Profit Margin = Operating income (EBIT)/Sales

Figure 2: Operating Profit Margin

A company's financial profitability can be measured by its operating profit margin, which is calculated by dividing operating income (sales minus cost of goods sold minus operating costs) by revenue. Since Homefectionery is a new business, its operating profit margin drops to a negative 6% in its first year. However, it rose to 6% the following year, 11% in year three, again declined to 9% in year four and again increased to 10% in year five.

2.5.1.3 Net Profit Margin = Net income/Sales

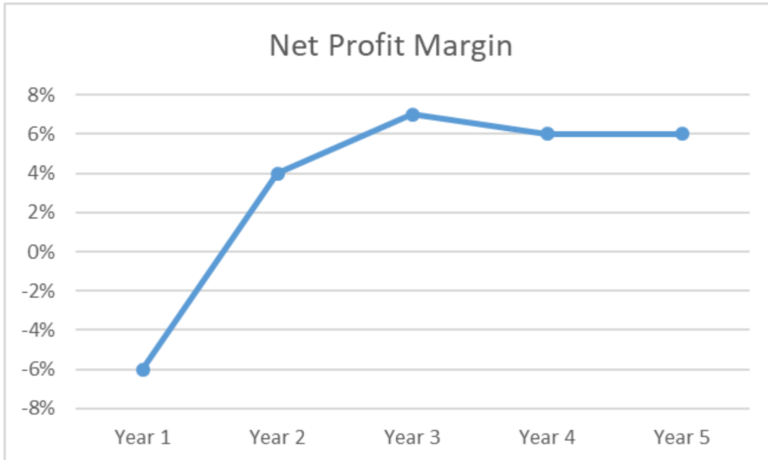

Figure 3: Net Profit Margin

After deducting all costs, a company's net profit margin represents its profitability. Homefectionery's first-year net profit margin is -6%. Although it went up in year two, which will be 4%, and in year three, it will hit 7%, a 3% increase, and in years four and five, it will be stable at 6%.

2.5.1.4 Return on Assets (ROA) = Net income/Total assets

Figure 4: Return on Assets

Calculating a company's return on assets reveals how profitable its assets are for the business overall. Homefectionery sales will decrease by 42% in the first year, rise by 67% and 81% in the second and third years, and then fall by 29% in the fourth year, totaling 52%. Even if we observe a rise of 1%, bringing the total to 53%, the decline in ROA is a significant setback for Homefectionery.

2.5.1.5 Return on Investment (ROI) = Net income/Cost of Investment

Figure 5: Return on Investment

The ratio of net income to the amount invested is known as the return on investment or return on costs. It is a method for determining whether or not an investment is profitable. The projected return on investment looks quite good if the firm does not need to obtain any other funding rounds after the initial $200,000 outlay. Since the first year is the investment year, the return is -31%. Subsequent years, however, provide returns of 152%, 971%, 1302%, and 2800%.

2.5.2 Stock Market Ratios:

2.5.2.1 Earnings per Share (EPS) = Net Income / Total Number of Common Share Outstanding

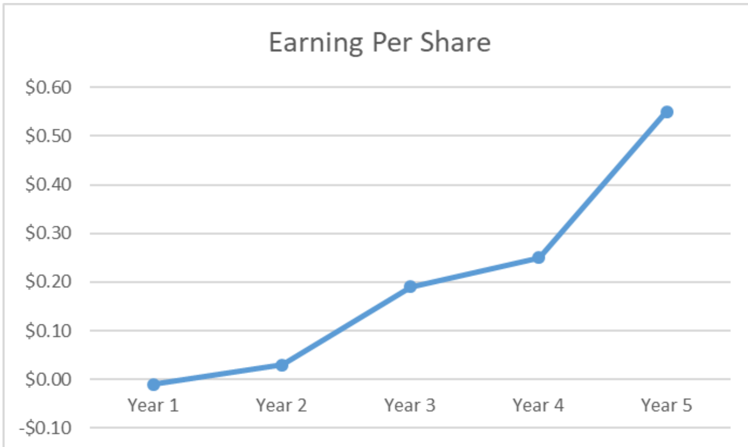

Figure 6: Earning Per Share

Earnings per share, or EPS ratio, is calculated by dividing net income by the total number of common stockholders. We can see from the graph that the first year's earnings per share will be $-0.01. The second year sees a $0.03 gain, followed by $0.19 the following year, $0.25 the year after, and $0.55 in the fifth year.

2.5.2.2 Price/Earnings = Price per share/Earnings per share

Figure 7: Price per Earning Ratio

The price-earnings ratio (P/E ratio, P/E, or PER) compares the current price of a company's stock to its per-share earnings. Homefectionery's P/E is 33% in year two as this is a start-up, a high P/E is suitable for it, but in year three it goes down to 16%, which is a 17% decrease. In year four it is 20%, it went up by 3% more than the previous year. Lastly, in year five, it decreased by 2%, which is 18%.In other words, the P/E ratio for Homefectionery is attractive in the second year, but it levels off to average in years three, four, and five.

2.6 Operations Management and Information System

Homefectionery's app was built and maintained by in-house programmers. It also contains a point-of-sale (POS) system and an inventory management system to handle orders and stock.

2.7 Industry and Competitive Analysis

The food delivery sector is one of Bangladesh's most competitive markets.

It is one of the most critical parts of e-commerce in Bangladesh. E-commerce removes the barrier between a business, a buyer, and a possible buyer. Furthermore, of course, there is a price tag attached to everything. It involves a lot of risk, money, so ensuring the market keeps growing, and getting new sales leads is crucial.

The food sector in Bangladesh has a long way to go before it can compete with other global powerhouses like India. Whereas the food-delivery industry in India contributes more than 6 billion USD annually, the food-delivery industry in Bangladesh contributes only 43 million USD annually (Business Inspection, 2021).

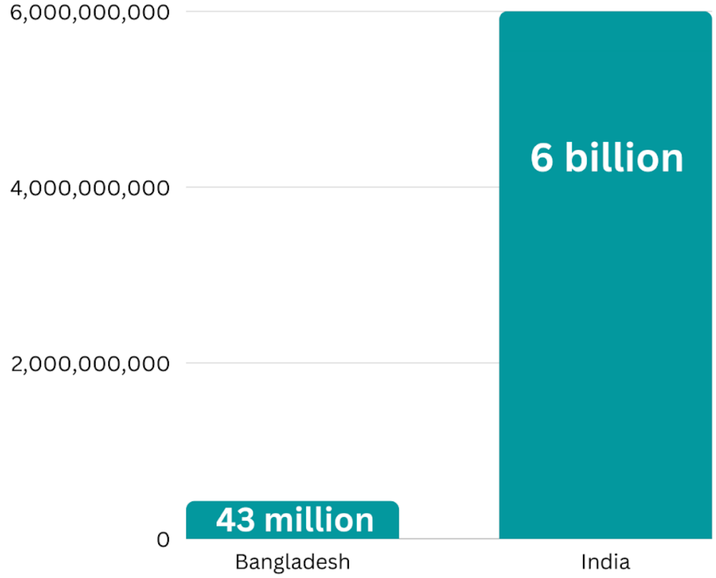

Figure 8: Generated revenue comparison (Source: Business Inspection, 2021)

The meal delivery sector in China is the most lucrative in the world, with a market value of more than 50 billion dollars. In 2020, the average number of deliveries made daily in the Bangladesh food delivery sector was only about 25,000. At that time, the four most significant rivals, HungryNaki, foodpanda, Pathao Food, and Shohoz Food, shared 90 percent of the market (Business Inspection, 2021). Although there are other food apps and vendors out there, Homefectionery has a significant edge because it serves institutions, has a competitive commission structure, and is the only platform with countrywide market penetration. None of its competitors can say the same. In addition, it provides various services that assist home cooks in developing their skills and overcoming any challenges, they may encounter.

	Commission Structure	Market Coverage	Home-Cooked Food	Corporate Lunch	Cooking Essentials	Backed by
Homefectionery	5-15%	Nationwide Delivery	✓	✓	✓	Community Co-Created
foodpanda	25-35%	50 City	✓	✗	✗	Delivery Hero
pathao food	25-30%	42 City	✗	✗	✗	gojek
HungryNaki	15-30%	17 City	✗	✗	✗	Alibaba Group
cookups	$25 signup+ 20-30%	Dhaka only	✓	✗	✗	Chaldal

Figure 9: Competitive advantage of Homefectionery

Nevertheless, keeping an eye on the competition is just as vital as ensuring service quality. Homefectionery is taking the high road with its marketing as the market leader in institutional meal delivery. At the same time, its rivals frequently employ negative tactics to undermine its standing.

2.7.1 SWOT Analysis

Strengths:

1. Having a strong face value is working as a strength for the startup company.
2. Quality of services is doing better within a short period of time.
3. Having a good reputation with the investors.

Weaknesses:

As Homefectionery is a startup company it has multiple drawbacks which results as weaknesses of the company. One of the main weaknesses of the company is its limited manpower.

Opportunities:

1. The company is rising effectively in a short span of time.
2. Many business partners are interested to invest as they provide better services.

Threats:

1. There are many new entrants coming as competitors.
2. There are many investors who like to invest in big companies rather than small start-ups

2.7.2 Porter's five forces analysis

Threat of substitution: Homefectionery does not have to consider a substitution because there is no substitution for food service in the institutional sector.

Threat of new entrants: This is the most critical point because even if Homefectionery is doing everything right, they are always replaceable by someone doing things better. Therefore, there will always be a threat of new entrants in this industry. Furthermore, as per consumer psychology, a portion of the customer base will always prefer to explore new options. Therefore, Homefectionery must be careful about new entrants and their market penetration policy. It is essential to counter competitors' policies if they may work as a potential threat to the company.

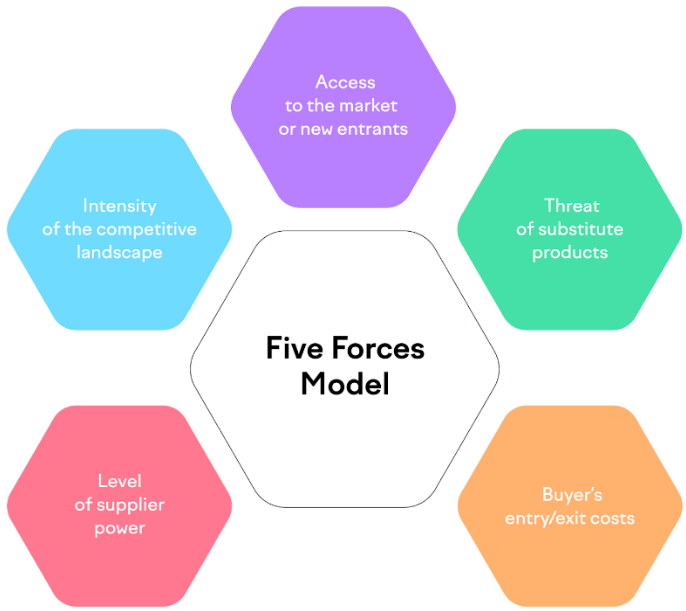

Figure 10: Porter's five forces model

Competitive rivalry: Though Homefectionery is serving the institutions by utilizing home chefs, the following three can play as significant competitors: foodpanda, Pathao Foods and Local vendors. As per the data of 2019, foodpanda had 30% of the market share. Though they do not serve institutions, they started a new line to serve customers homemade food by home chefs beside restaurants. Pathao owns 40% of the market share and can be a potential threat in the future though they are only sticking with restaurant-based delivery for now. Compared to the other competitors, local vendors are much bigger threats as they have already captured many small proportions of the market and are the primary competitor of Homefectionery now.

Supplier power: The most important people in the chain are the home chefs or suppliers who collaborated with Homefectionery. Their end has to be met properly otherwise Competitors may gain the benefit of biases toward them. Homefectionery works hard to make sure the chefs are happy with the partnership.

Buyer Power: Buyer is the most potent force in every business since the sole purpose of the service is centered on them. Keeping the buyers happy is essential, especially in food service. Social platforms can be a sensitive place where negative feedback from customers may generate a considerable amount of sales loss. Homefectionery customer service team knows what they are doing and plays a vital role in gaining, managing, and recovering customers for the platform.

2.8 Summary

In conclusion, Homefectionery Limited has made significant progress in expanding its company. Even though it started operation just after the Covid-19 pandemic, it has expanded rapidly. It reached $30,000 in sales after seven months of operation and an additional $20,000 after two more months, for a total of $50,000 in 9 months with zero capital outlay.

Chapter 03: Project Part: Valuation process of Homefectionery

3.1 Introduction

3.1.1 Background

Startups are starting to take on a new meaning for the younger generation. Everyone is inspired to take on new endeavors to advance the country. To establish a startup, one has to understand how much the company is worth. To achieve this, one must understand valuation methodology and its significance.

A business valuation offers owners an overview of the company's economic value. A business valuation is conducted when an owner seeks funding, sells all or a portion of their firm, or merges with another company.

3.2 Objective

3.2.1 Broad Objective

This article will highlight the significance and utilization of valuation in a startup. The purpose is to help and serve as a resource for new entrepreneurs, showing founders how to evaluate their businesses quickly.

3.2.2 Specific Objective

- Gaining a general understanding of valuation.
- Gain insight into why it is crucial to conduct a startup valuation.

- To comprehend which valuation method(s) should be used to secure funding from venture capitalists and angel investors.
- Which approach was utilized to determine the value of Homefectionery.

The objectives will aid the founders in understanding what valuation means. After learning about valuation and its value, it is crucial to comprehend the many valuation techniques available. A founder should be familiar with all of these techniques' applications and how they can be used to raise money. Venture capitalists and angel investors will always want to know how much your firm is now valued at, before deciding whether to invest in it, what percentage they will hold, and how much money they will put into it. This research will also demonstrate the technique that was used to value Homefectionery since it will provide a real-world illustration for the founders of the issues that were encountered, the variety of approaches that might be used, and the procedures that were followed. Finally, I will offer my personal assessment of the analysis.

3.3 Methodology

This Study methodology is based on the data I gathered from a various number of different methods and sources. Information was gathered from these two sources –

Primary:

Data collected from officials.

On-site Supervisor

Secondary:

Five years’ financial report

Official website

Various research papers

Previously analyzed forecasted data

3.4 Findings and Analysis

There is no singular, widely acknowledged valuation process for investors because many startup valuations depend on speculation and estimation. Instead, VCs and angels will use various valuation techniques to determine the worth of a business.

The use of such valuation techniques depends on the stage of a company and the appropriate data points (earnings/revenue/acquisition multiples, etc.) accessible in the market or industry where the startup operates. This paper will examine the four most popular ways to value a business before it starts making money:

1. Scorecard Valuation Methodology
2. Dave Berkus Valuation Method
3. The Risk-Factor Summation Method
4. Venture Capital Valuation Method

3.4.1 Scorecard Valuation Methodology

This method for figuring out how much a startup is worth changes the average value of recently funded companies in the same sector. To figure out the pre-money value of the target company, it compares it to startups that get money from angel investors. Only firms at the same development level can be compared in this way. The first step is to find the typical pre-money valuation of unprofitable businesses in the target company's industry. Pre-money valuation fluctuates with the state of the economy and the level of competition facing fledgling businesses in a specific sector. Pre-money valuations for pre-revenue businesses often do not change all that much amongst different companies in different sectors.

According to statistics from Seedrs, pre-revenue firms' pre-money valuations for the seed stage range from $750,000 to $2 million as of 2019.

The next phase is to evaluate the organization in light of how other businesses in the market value agreements of similar nature, considering the following:

- Capability of the management team: founders' expertise and skill set, their adaptability, and the management team's completeness.
- The potential size of the market: What percentage of the market the company's product or service occupies how quickly sales are expected to expand, and the level of competition.
- Goods or services: the fit between the product and the market, the entry hurdles, and the acceptance curve.

The nature of the company's sales strategy, current development stage, the size of the investment round, the company's funding requirements, and the quality of the business plan and presentation.

Here is a part of a document used to figure out how strong different possible targets are:

Size of Opportunity:

1. Size of specific market for the company’s product or service	2. Potential for revenues in five years?	3. Strength if competition in this marketplace
0 > $500m (+2)	0 > $100m (+2)	0 Weak (+1)
0 > $100m (+1)	0 > $50m (+1)	0 Modest (or none) (-1)
0 > $50m (-1)	0 < $25m (-1)	0 Strongest (-1)
0 < $50m (-2)		

*Table 2: Understanding the different targets size of opportunity in Scorecard Valuation Method (*4 Startup Valuation Methods Used by VCs and Angels*, 2019)*

How does the Scorecard Valuation Methodology work?

There are several multiple-choice questions regarding the company to answer for each comparative element, such as the one seen above. The responses are scored between -3 (worst) and +3 (best). The comparative factor range (see below) multiplies this score to give each component a weight. Then the overall factor is added together and multiplied by the average pre-money valuation for the particular sector to provide the projected valuation.

Comparison Factor	**Range(R)**	**Target Company(T)**	**Factor**
Strength of Entrepreneur and Team	30%	Score	= RxT
Size of Opportunity	15%	Score	= RxT

Product or Service	15%	Score	= RxT
Sales Channel	10%	Score	= RxT
Stage of Business	10%	Score	= RxT
Size of Investment round	5%	Score	= RxT
Need for Subsequent funding	5%	Score	= RxT
Quality of Business Plan and Presentation	5%	Score	= RxT
Location of business	2.5%	Score	= RxT
Type of Business	2.5%	Score	= RxT
	100%		Sum of above

*Table 3: Comparative factor range for Scorecard Valuation Method (*4 Startup Valuation Methods Used by VCs and Angels*, 2019)*

3.4.2 Dave Berkus Valuation Method

Dave Berkus is a highly esteemed professor who invested in over eighty new companies. In the mid-1990s, Harvard's Howard Stevenson released a book, including Dave's approach, which angel investors have been using ever since.

How does the Dave Berkus Methodology Work?

To begin, assume that the pre-money value is zero, the latest 2009 update to Dave Berkus takes into account the following factors in determining the quality of the target company:

Characteristics	Add to Pre-Money Valuation
Quality management team	Zero to $0.4 million
Sound Idea	Zero to $0.4 million
Working prototype	Zero to $0.4 million
Quality board of directors	Zero to $0.4 million
Product rollout or sales	Zero to $0.4 million

*Table 4: Factors in determining the quality of the company for Dave Berkus Valuation Method (*4 Startup Valuation Methods Used by VCs and Angels*, 2019)*

For instance, using the Dave Berkus technique, a valuation of $1.2 million would be projected if the startup had a strong management team, a functional prototype, and sales.

We must remember that these figures represent the maximum number for each category. A valuation can be anywhere from $800,000 to $2 million. Nevertheless, Dave is quick to point out that his approach "was established expressly for the earliest stage investments as a way to locate a starting point without relying upon the founder's financial forecast/expectations."

3.4.3 The Risk-Factor Summation Method

This approach considers various factors when calculating a company's pre-money valuation. The Ohio Tech Angels, created this technique, explaining it as:

This approach forces investors to think about the various dangers a company faces on its way to a successful exit, in line with the idea that the more variables there are, the higher the risk will be. Management risk, which requires the greatest attention and is seen by investors as the most extensive risk in every business, is always the largest and most significant risk. This approach considers management risk, but it also implies that the user analyzes additional risk forms, such as management, business stage, legislative/political risk, manufacturing risk, sales and marketing risk, funding/capital raising risk, competition risk, technology risk, litigation risk, international risk, reputation risk, and the possibility of a remunerative exit.

How does the Risk-Factor Summation Methodology Work?

Consider all the risks the business must evaluate. The most important ones are management, business stage, legislative/political risk, manufacturing risk, sales and marketing risk, funding/capital-raising risk, competition risk, technology risk, litigation risk, international risk, reputation risk, and the possibility of a profitable exit.

Each of the above risks is then assessed as follows:

+2	very positive for growing the company and executing a lucrative exit
+1	Positive
0	neutral
-1	negative for growing the company and executing a lucrative exit
-2	Very negative

*Table 5: The risk score card for The Risk-Factor Summation Method (*4 Startup Valuation Methods Used by VCs and Angels*, 2019)*

The Risk-Factor Summation works as follows: For startups in a specific sector or industry, the average pre-money valuation of a company is modified upwards by $200,000 for every +1 (plus

$400,000 for a +2) or downwards by $200,000 for every -1 (minus $400,000 for a -2). A company's worth would be $1.2 million if there were no manufacturing risk (+$400,000), no legislative risk (+$400,000), no reputation risk (+$400,000), and minimal competition that would be beneficial to the company's growth (+$200,000), and possible management risk (-$200,000) (*4 Startup Valuation Methods Used by VCs and Angels*, 2019).

3.4.4 Venture Capital Valuation Method

Bill Sahlman, a professor at Harvard Business School, was the one who initially presented the venture capital valuation approach in 1987. Using data from the relevant industry, it first determines the post-money valuation and then uses that information to calculate the pre-money valuation.

How does the Venture Capital Valuation Methodology Work?

It is easy to figure out how much a venture capital investment is worth using the following equations:

ROI = terminal value/post-money valuation

Post-money valuation equals terminal value divided by the expected return on investment.

Let us take a closer look at the parts of the formula so we can understand it better:

Terminal value is the price the company is likely to be sold in the near future. For early-stage equity, we estimate that 5 to 8 years is the average holding period. To get an idea of the selling price, the company needs to set a reasonable expectation for sales in the year of sale and, based on those sales, guess how good the year of sale will be.

Software as a service (SaaS) farm is one such example that exits the market with revenues of $20,000,000 and may reasonably anticipate having a 15% after-tax income, or $3,000,000. A

15x PE ratio would give the firm a projected terminal value of $45 million based on the price-to-earnings (PE) ratios that are currently available for the SaaS industry.

What is a Price to Earnings Ratio?

The expected return on investment is as follows: As per industry standards for early-stage investments, all investments must show that, there is a chance of a 10x to 40x return. Therefore, pretend that the anticipated ROI is 25x. Now that we have all of this information, we can determine the pre-money worth.

To figure out this deal's pre-money value, let us assume the SaaS founder requires $500,000 to reach a positive cash flow and will grow on its own in the future.

Post-money valuation: $45 million divided by 25.0x = $1.8 million

Pre-money valuation: $1.8 million minus $ 500,000 = $1.3 million

If further capital is required in the future, what then? If the company wants to alter the current round of pre-money valuation, it may subtract the expected dilution from future investors.

3.5 Valuation of Homefectionery Limited

Even though there are a variety of approaches to valuation, the venture capital method was selected as the most suitable one to determine Homefectionery's pre-money valuation. In addition, this method was used to determine the proportion of equity the company's founder will be required to transfer to the investor. VC is one of the most accepted methods out there by investors, particularly VC firms. Homefectionery is seeking pre-seed funding and will go for seed in five years; therefore, we had to take the fifth year as the exit year. Homefectionery will have $100 million in revenue, 10 million issued shares, and an asking fund of $200,000 with an

80% discount (based on assumptions; depending on the risk involved, different investors look at a discount on share rate differently).

The pre-money value (using the NPV approach) is $5.1 million, which is equal to $5,331,928 minus $200,000, which is $5,131,928.

The post-money value is $5.3 million, which is equal to $100,750,412 divided by 1889.57% (exit value/post money value) which is $5,331,928.

The investor will obtain a 4% ownership stake in the company in exchange for 389,717.05 shares that, after discounting, will cost $0.51 apiece. The actual price per share is $10.08.

Pre-Seed	
Information	
Exit value	$100,750,412
Exit (years)	5
Investment	$200,000
Discount rate	80%
Number of shares currently	10,000,000
Pre-Money Value (NPV method)	**$5,131,928**
POST-Money Value	**$5,331,928**
Fractional Ownership Required (f)	**4%**
Shares for a VC	389,717.05
Price per share	$0.51

Table 6: Valuation process of Homefectionery using Venture Capital Valuation Method

3.6 Common Valuation Mistakes

- **Unrealistic growth projections**

  A value is based entirely on an expectation of future growth. A financial plan's purpose is to provide a basis for building future financial decisions. The next step is to engage in some form of negotiation. Realistic expectations for the company's growth can help determine how much investment is needed and the proportion one should give away.

- **Failure to show profitability**

  Currently, it is possible that the company is not bringing in that much money. However, if there is no indication that it will succeed in the future (even if it is just five years from now), then investors will not risk investing in it.

- **Missing costs**

  It is important to consider all the costs, including taxes, production overheads, labor, leaseholds, yearly subscription fees, and license payments.

- **Getting the unit economics wrong**

  The company should offer a product worth $10 for $20, not vice versa. It will be concerning if shipping their goods costs more than buying them.

- **Not allowing for impact of debt**

  Future earnings might impact the company's requirement to repay debts, such as corporate loans or government funding. When making forecasts, it is vital to consider repayments and any possible future increases in interest rates.

- **Incorrect discount/risk factor**

  Money in the future is not the same as money today. When calculating future revenue multiples, the company must account for increased expenses, inflation, and other potential risk factors.

3.7 Recommendation and Conclusion

According to what I have seen, VC method is the most effective for finding valuation but I would advise applying at least three startup valuation techniques to determine the proper pre-money valuation. If all three numbers are about the same, take the average of the three. If one of the methods is an anomaly, average the other two instead, or try using a fourth way to get the other three numbers as close as possible. Because if the numbers are not close, that method may not be appropriate for that startup or there may be a mistake in the financials.

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