ENET

Understanding Term Sheets and Valuation

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Outline

- Introduction to LaunchCapital
- Valuation Methodology
- Valuation Considerations for Early Stage Companies

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LaunchCapital Overview

- Established in February '08 to address the early stage funding gap
  - Large VCs focused on later stage and bigger deals
  - At that time, the gap was acute on the East coast as few institutional investors specialized in seed stage
  - Over 60 investments in 3 years
- Great time for investing in capital efficient businesses
  - Cost of starting a business had dropped
  - Opens the door to successful investments at lower value exits
- Goal to diversify across several parameters
  - Geography – 3 offices open in Spring/Summer '08
  - Industry – industry agnostic, focus on the business model
  - Deal type – from pre-seed/tech transfer to small Series A, lead or follow, level of activity
- Typical investment in $50k to $250k range

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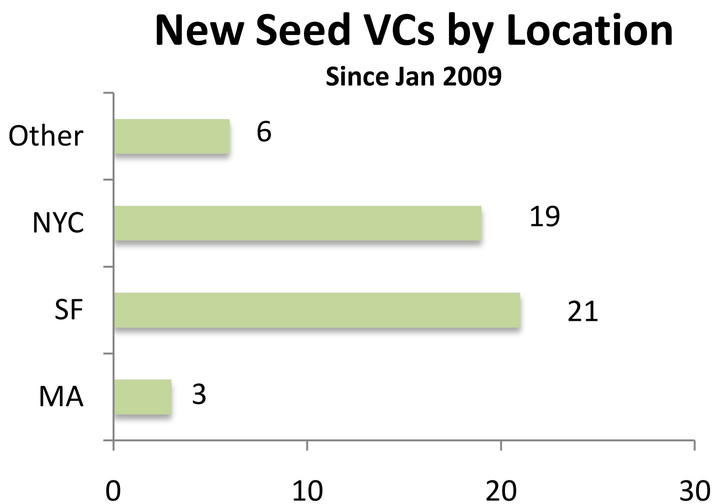
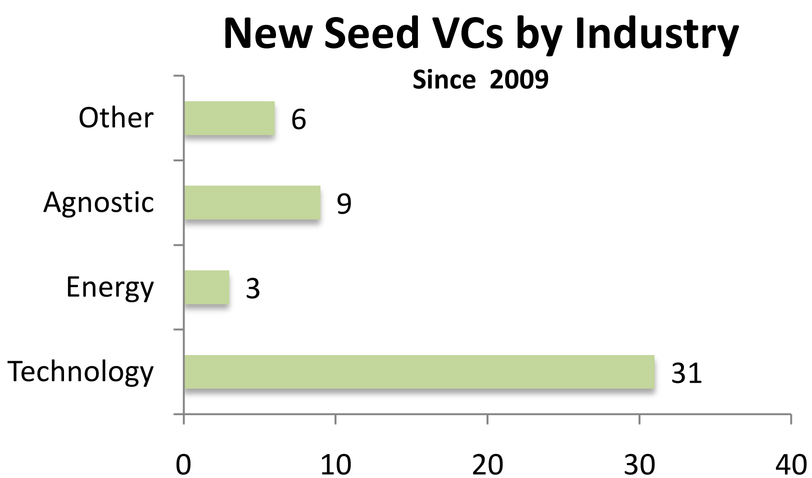
Changing Landscape - Explosion of Seed Funds in 2H09 and 2010





Plus:

- Emergence of Angel List (1000 angel investors)
- Larger VCs also syndicating seed rounds (KPCB, CRV, Greylock, Sequoia, Accel, GC, etc.)

Valuation Methodology

- It all depends on the stage of investment
- Late-Stage is heavy on data – Quantitative
- Early stage is highly subjective – Qualitative

Valuation Methodology – Late Stage

- Comparable Company Valuation
  - Publicly traded or known private
  - Multiple based – sales, EBITDA or perhaps UMV or other users data
  - Challenge – finding true comparable companies (markets, business model, stage/growth rate etc.)
- Comparable Transaction Valuation
  - Again, multiple based
  - Challenge - Finding relevant data
    - Valuation not revealed for many private transactions
    - Things changes in 2008-2009
- Discounted Cash Flow
  - One data point with sensitivity
  - Challenge - Assumption driven (growth rate, discount rate, etc.)

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Valuation Methodology – Early Stage

- Often Pre-revenue or even Pre-product
- Very Subjective with influence from
  - Team – have they done it before, successful exit?
  - Traction – is the product done?, any early customer traction
  - Market – size, competitive position, barriers to entry
  - IP – absolute necessity for some businesses (e.g. life sciences, medical devices), less important for others
  - Future capital needs
- Largest Influencer is the team
  - Early stage start-up with first time entrepreneur is a price taker
  - Experienced entrepreneurs often have more pricing power

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Valuation - Considerations

- Pure Valuation (e.g. pre-money) is One Consideration

- More Important is Post Money Ownership Stake
  - Pre-Money is one component
  - Equally important is how much does one raise
  - Need at least 12 months plus some cushion and a sense of key milestones to be reached with the round

- To Maximize Ownership
  - Bootstrap as long as possible to demonstrate traction in the market
  - Look for non-dilutive sources of capital
  - Create demand for your deal

Valuation - Conclusion

- Valuation Methodology Varies with Stage
- Early Stage Valuation is Qualitative
- In the End, Valuation is Less Important than Finding the Right Investor
  - Compatible
  - Relevant Industry Experience
  - Deep Network that you can leverage