Valuing –
Loss Making Startups

❏ Executive Summary

Valuing loss-making startups requires a pragmatic hybrid approach: rigorous, transparent financial modelling anchored by a disciplined assessment of the business narrative. Investors need quantified scenarios; founders need a value story grounded in measurable drivers. The objective is to produce defensible ranges, not a single "magic" number.

A startup's valuation is not purely about numbers nor solely about the story it tells; it is the synthesis of that guides investors towards rational yet optimistic investment decisions.

❏ Framework

- Map the value drivers (market size, go-to-market efficiency, retention, gross margin, capital intensity).
- Create 3–5 forward scenarios (Base / Upside / Downside + an extreme downside). Each scenario must tie to clear KPI paths.
- Choose appropriate methods and triangulate:
1. Probability-weighted DCF (risky cash flows): Model explicit years with scenario probabilities; cap terminal growth conservatively.
2. Stage-adjusted multiples: Use multiples from comparable growth-stage exits (revenue, GMV, or active users) adjusted for scale, geography, and margin pathway.
3. Real options / milestone valuation: Value optionality where future funding tranches unlock step-changes (useful for platform plays, biotech).
4. Benchmarking against rounds: Implied valuations derived from recent financings, with downward adjustments for dilution, performance and market shifts.

Valuing –
Loss Making Startups

❏ Core Challenges While Valuing
- **Lack of earnings:** No historical profits — standard multiples and DCF terminal assumptions break down.
- **High uncertainty:** Product-market fit, unit economics and scale effects are unproven.
- **Narrative risk:** Over-optimistic growth stories inflate implied valuation; downside is often ignored.
- **Data gaps:** Limited reliable inputs for cost curves, churn, conversion and margin expansion.

❏ Balancing Narrative & Numbers – Practical Rules
- **Quantify the story:** Every qualitative claim (e.g., "large addressable market") must be converted into a KPI and sensitivity (TAM → realistic serviceable market → achievable share).
- **Stress-test the optimism:** Run sensitivity tables on 3–5 key levers (CAC, churn, payback, gross margin, revenue growth).
- **Attach probabilities:** Convert scenarios into a single price range using probability weights — makes assumptions explicit and defensible.
- **Adjust for execution & financing risk:** Apply stage-based discount/premium (e.g., governance, team, tech defensibility, capital runway).
- **Present ranges, not point estimates:** Communicate a central estimate plus credible high/low bounds and the assumptions that move them.

❏ Common Mistakes To Avoid
- Baking in unrealistic long-term margins or perpetual high growth.
- Relying solely on headline metrics (e.g., GMV) without conversion economics
- Hiding subjective judgments — never present a valuation without a clear trace of subjective adjustments.

Valuing –
Loss Making Startups

❑ Deliverable Clients Need

- **One – Page Valuation Summary:** headline range, central estimate, key assumptions and highest-impact sensitivities.
- **Scenario models (excel):** transparent inputs, scenario toggles, sensitivity tables.
- **Narrative deck:** one slide per key driver linking qualitative evidence to model inputs (customer cohorts, pilot metrics, contract backlog).
- **Risk checklist & milestone matrix:** what must occur for the upside to realise and trigger re-rating.

❑ FinVal Advise

Adopt a transparent, scenario-based valuation that ties the founder's narrative to measurable KPIs and uses probability weighting to produce a defensible valuation range. That approach serves all stakeholders: it protects acquirers and investors with clear downside visibility while providing founders a credible basis for negotiating capital and setting milestones.

DISCLAIMER

This presentation is intended solely for general information. Valuation ranges are indicative and should be supported by independent review and due diligence. Users should seek appropriate professional guidance before making any financial or strategic decisions based on this content.