

E145 | FALL 2015


Session 10: Valuations & Unit Economics

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Valuing Public Companies



RATIOS & VALUING PUBLIC COMPANIES

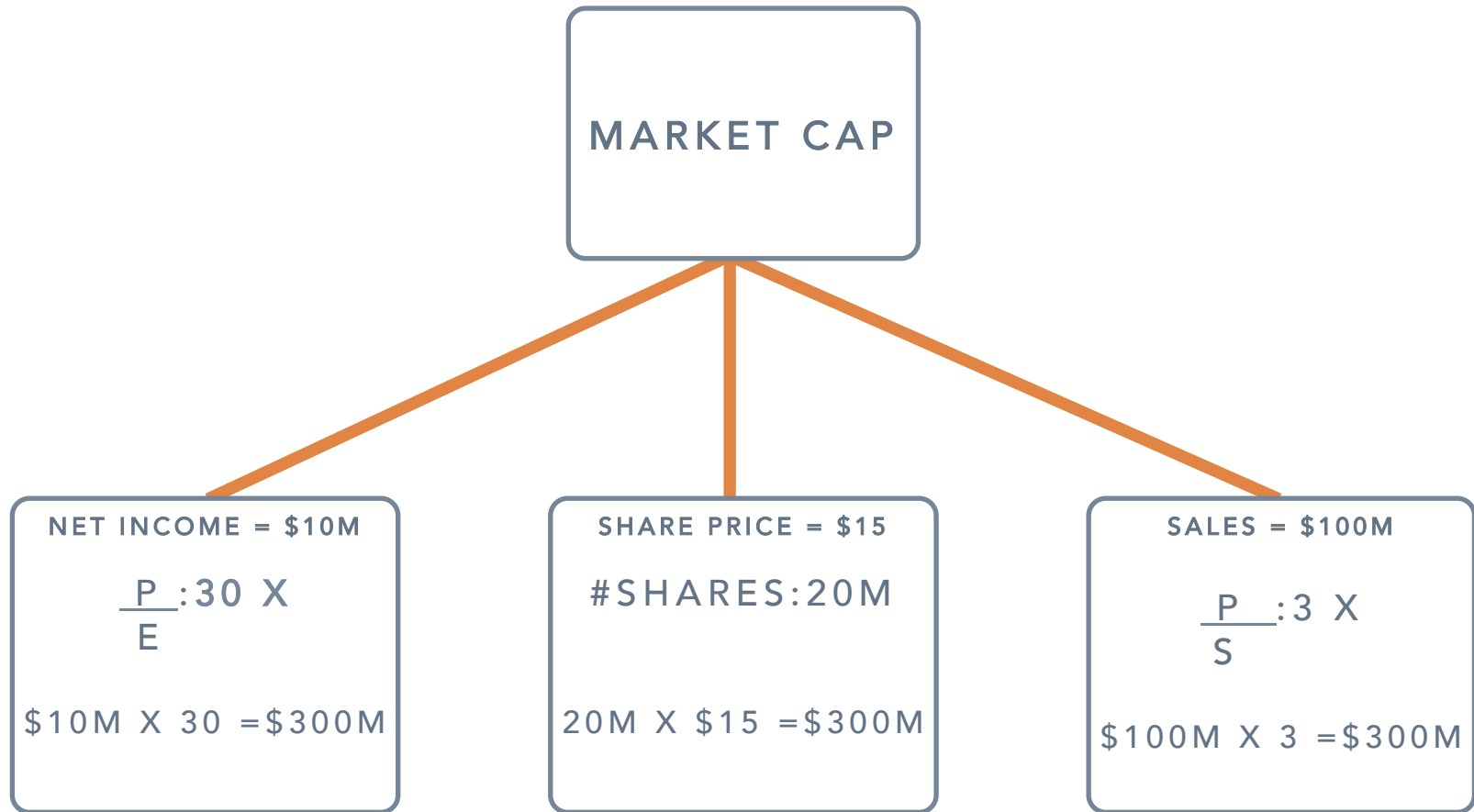
- **Market Cap = # of Shares Outstanding x Share Price**
 - What does the market think this company is worth?
 - Examples (as of 10/22/15):
 - GE with 10.1 Billion outstanding shares @ \$29.58/Share = \$299B Market Cap
 - <http://finance.yahoo.com/q/ks?s=ge>
 - AMZN with 468 Million outstanding shares @ \$564/Share = \$264B Market Cap
 - <http://finance.yahoo.com/q/ks?s=amzn>

RATIOS & VALUING PUBLIC COMPANIES

- **Ratios**

- EPS = Earnings Per Share
 - An indicator of value created for shareholders
- P/E = Market Cap / Annual Earnings = Stock Price/EPS
 - How much does \$1 of earnings cost an investor
- P/S = Market Cap / Annual Sales
- Similar companies facing similar risks should have similar ratios (Comparables / Comps)
- "Enterprise Value" = Market Cap + Debt - Cash

METRICS IN ACTION



METRICS CALCULATION

Public Company Information

Sales:	\$100M
Net Income:	\$10M
Shares Outstanding:	20M
Stock Price:	\$15

(Must be filed with SEC)

We Can Calculate

EPS:	
P/E:	
P/S:	
Market Cap:	

Pop-up Exercise:

CALCULATE EPS, P/E RATIO, P/S RATIO,
AND MARKET CAP

METRICS CALCULATION

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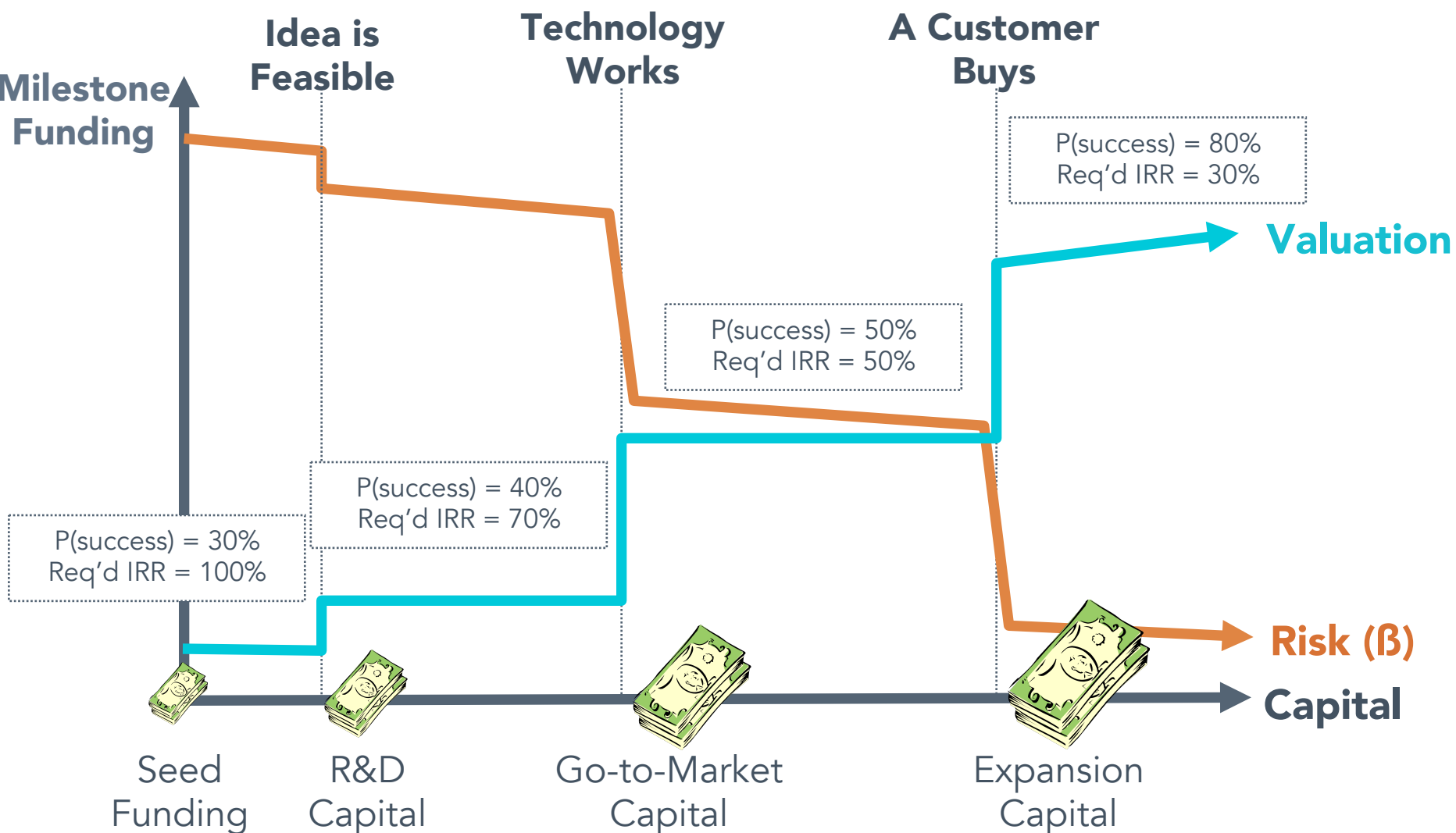
We Can Calculate

EPS:	0.5
P/E:	30
P/S:	3
Market Cap:	\$300M

Valuing Startups



VC DISCOUNT RATES AND RISK REDUCTION



Source: Jim White (SHV)

VC MILESTONE STAGED TIMELINE

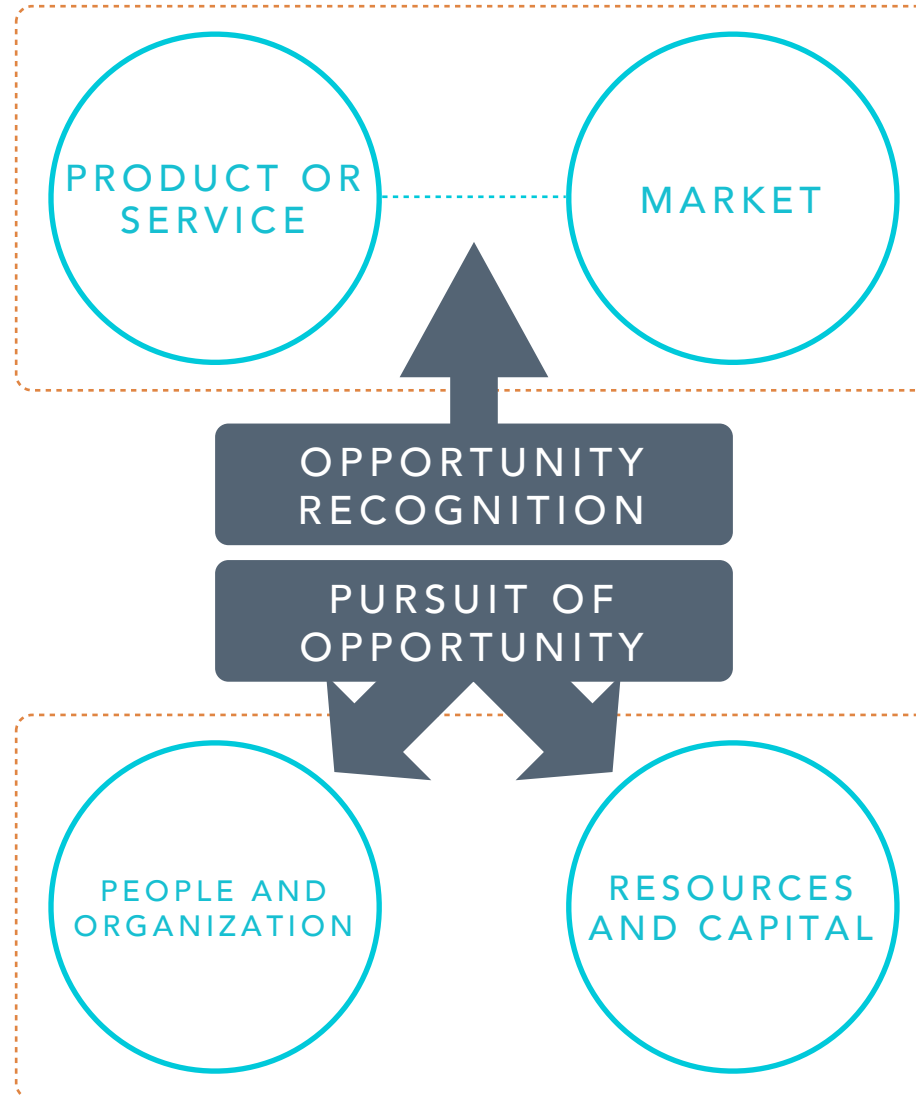
	Seed	"A"	"B"	"C/D"	IPO/ M&A
Size	~\$1m	\$3-8m	\$10-20m	\$20-50m	>\$100m
Source	Angel	VC	VC	Growth	IB
Runway	6-12 months	12-18 months	18-24 months	2+yrs	
# Empl.	<10	~30	~50	~100	>200
Milestone	Clear plan & Team	Beta product & customers	Sales, mkt size, competition	Strategic, financial execution	Growth, profit

SILICON VALLEY VC TRENDS IN 2015

- **Pre-Seed is the new Seed**
 - \$500K used for building team and initial product/prototype
- **Seed is the new Series A**
 - \$2M used for building product, establishing product-market fit and early revenue
- **Series A is the new Series B**
 - \$5-15M used to scale customer acquisition and revenue
- **Series B is the new Series C**
- **Series C/D is the new Mezzanine**
- **Explosion of \$1B+ "Unicorns"**
- **IPOs delayed**

FRAMEWORK A: TWO PERSPECTIVES

Idea Vs.
Opportunity
(module 1)



Realities of
Business
Operations
(module 2)

Thank you!

Questions?

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