

BVINT – NEWSLETTER / OCTOBER 2020

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Index

- 1 – BVint Awarded Valuation Company of the Year
- 2 – How Can we be Accurate when Valuing Start-ups businesses?
 - 2.1 - Valuing Start-up Businesses
 - 2.2 - A Sample Case using the VaR methodology



1 – BVint Awarded Valuation Company of the Year

We are pleased to announce that the prestigious GLOBAL100 magazine has awarded BVint as the “Valuation Company of the Year 2020”. Last year, we were awarded “Valuation Company of the year 2019 – London” by the SME magazine.

The competition mainly takes into account the quality of our products and services as well as the recommendations of some customers. The award confirms the high recognition given by our clients, which demonstrates the customer’s trust and appreciation for our work.

Europe
Europe

Valuation Company of the Year 2020 London



BUSINESS VALUATION INTERNATIONAL LTD. – BVINT

BVint provides Advanced Independent Valuations, Risk Models, and Advanced Financial Services worldwide to private equities, family offices, investors, entrepreneurs, managers, and to accounting and legal firms. Founded in 2012, as a response to the financial crisis partly driven by the lack of accurate risk assessment in valuation practices, BVint was the first company in Europe to offer Advanced Multidimensional Valuations with Stochastic Models and is a global leader in this arena. Today, BVint has clients in more than 30 countries.

In our increasingly competitive world, attaining success depends on a deliberate recognition and measurement of the external and internal risk-value factors in the mid-long term. Although the financial crisis was partly driven by inaccurate risk assessment in valuation practices, the established valuation industry still conducts basic analytic approaches limited to the regulatory guidelines. As a consequence, the complexity of today’s markets is not reflected thus depriving decision-makers of key information.

BVint approach identifies and assesses all internal and external business drivers and considers all possible scenarios using advanced probabilistic and uncertainty analysis. BVint’s advanced valuation models reflect the true volatility of all business and market phenomena, asset values as well as the likelihood of different outputs. As a result, BVint can effectively support its clients in complex business decisions.

BVint Main Services

- > Advanced Independent Valuations
- > Advanced Financial and Risk Modelling & Management
- > Strategic and Value Creation Planning & Scenario Planning
- > Independent Research Services
- > Balanced Scorecard and Strategic Decisions
- > Integrated Reporting
- > Complex Assets and Securities Valuation
- > Crypto Valuations and Tokenization projects

• To improve decision-making, all BVint services include Monte Carlo Simulations and advanced uncertainty analysis
• BVint has experts for most industry sectors to support its clients during the planification process and in value-driven decisions.

BVint helps entrepreneurs to open the doors of institutional investors, increasing confidence and boosting chances of fundraising success.







Not content to simply deliver excellence within the valuation services that it offers, BVint is pioneering the way for other valuation companies to follow suit. It became the first company in Europe to sell valuations with advanced risk analysis and a multidimensional view, covering markets, strategy, technology, human resources, social impact, environmental impact, and much more. To this day, the firm remains the only company in Europe able to offer it due to the high level of skills and technical knowhow required.

Today, the COVID-19 pandemic business environment is posing a serious risk of disruption to most businesses and is forcing companies to redefine strategies in the light of the new market trends. Traditional resilience planning is not enough to prepare for companies for what is coming.

During COVID-19 pandemic BVint is helping organizations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery. For workforce strategies, organizations need to establish critical priorities for the next 24 months as they position themselves for new realities. Using advanced predictive analysis and scenario planning, BVint can support companies to redefine their strategy and mitigate risks looking at long term value creation. In this sense, an advanced valuation is the best tool to understand the market trends, the risks, the value-drivers and reformulate the company’s strategy. In fact, an advanced valuation is necessary to:

- To identify and understand the value drivers of a business in the long term;
- To measure the impact of the risks affecting the value of the company;
- Analyse the value of the company in the light of a probabilistic distribution which includes all possible scenarios that its drivers may generate;
- To have the information to elaborate a strategic value creation plan aimed at mitigating risks and capturing opportunities.

Independency is another pillar BVint holds. Today, companies and investors need an independent valuation before negotiating or taking investment decisions. Accounting firms offering valuations cannot be fully independent, as conflicts of interest arise from longstanding relationships between them and their clients. With valuation not being a core competency as it is at BVint, accountancy firms cannot offer the same level of expertise and knowledge. Nor can M&A advisory firms, who may also be biased depending on the level of interest in buying or selling a firm. Better to simply work with an expert within valuations and get the most accurate information available.

In order to ensure that the firm continues to stand out against the competition within the valuations industry, the team use Monte Carlo simulations, an exceedingly advanced tool to help reach value-driven decisions. Whilst very few valuation companies even use this technique, BVint boasts the most updated and complete databases for market analysis and valuations, akin to those used by first class private equity firms and venture capitals.

The team of experts at the core of BVint bring a wealth of experience from within private equity, investment banking, and top-tier consultancy firms. Pooling that expertise and information together, the firm has since become one of the best valuation companies in London, with clients and partners in more than thirty countries around the world. Bringing a global view to local industries and economies, the team remain focused on the mission to deliver multidimensional, advanced, and independent valuations with the necessary information and tools to take strategic and value-driven decisions.

BVint Partners are International Valuation Specialists Certified by IACVS and IACVA

Contact Details
Company: BVint – Business Valuation International Ltd.
Contact: Dr. Fernando Scarpatti
Email: fscarpatti@bvint.com
Web: www.bvint.com

36
GLOBAL 100 | 2020
GLOBAL 100 | 2020
37

2 – How Can we be Accurate when Valuing Start-ups businesses?

2.1- Valuing Start-up Businesses

If you are an entrepreneur looking for investment for your early-stage start-up, you may wonder “What is my company worth?”.

Some entrepreneurs and business professionals believe that the answer to this question can be quite challenging to formulate. Many believe that most start-up valuations only depend on a negotiation; a balance of setting a price that is acceptable to the founders but also agreeable to the investors. In other words, they believe that there is no general rule of putting a price on a start-up.

This belief is **WRONG**, and unfortunately, this causes severe distortions on the valuation and losses for the entrepreneurs who have no rationale to defend a price.

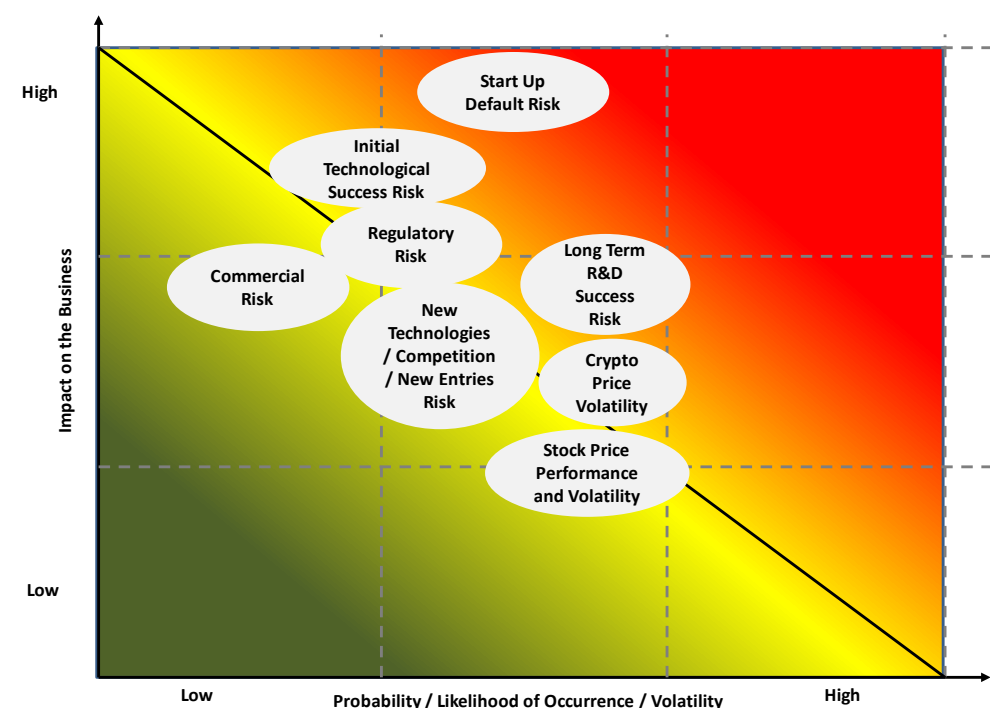
Venture capitals work on robust valuations which calculates how much the company is or will be worth in the future. Such valuations require the following necessary steps:

1. Analysis of the business model and technology
 2. Management skills and experience
 3. Analysis of the market
 4. Benchmarking with other product/services
 5. Analysis of possible business and commercial strategies
 6. Advanced Risk Analysis with uncertainty analysis
 7. An accurate calculation of the Cost of Capital or Discount Rate (WACC) using not only the capital asset pricing model (CAPM) but also the additional variables required for start-ups businesses.
 8. Elaboration of an accurate forecast using both scenario and probabilistic analysis. The projections should be driven by those risks identified and assessed during the market and business analysis.
- Valuation using the Value at Risk (VaR) methodology which offers much more information than traditional models and it's necessary for decision making at early stages.
 - Analysis of comparables in the same micro sector with and the same stage of development as well as fundraising round.
 - Calculation of the future valuation evolution of the business
 - Analysis of the expected valuation at the year of sale (terminal value at time of the exit)

2.2- A Sample Case using the VaR methodology

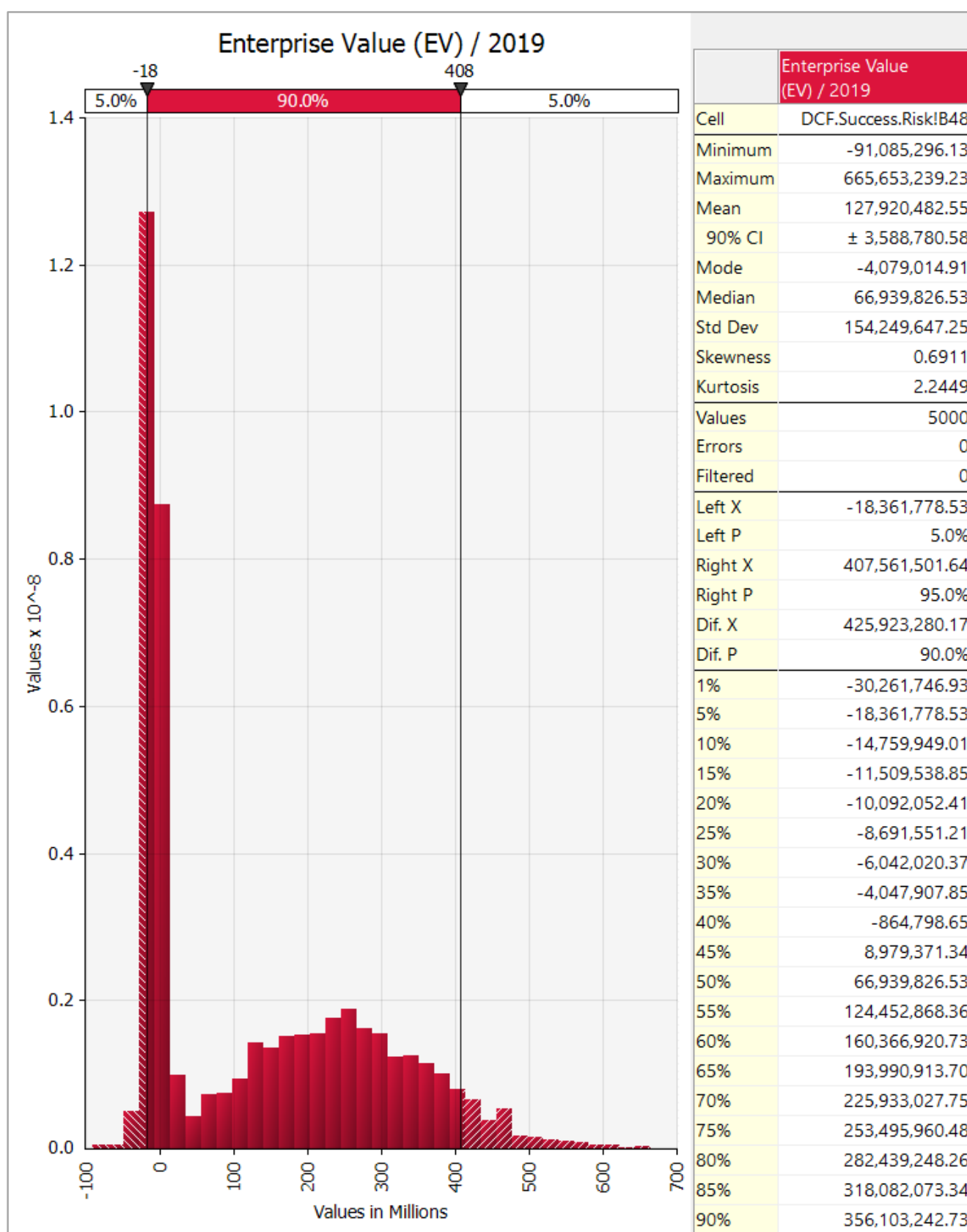
We show a sample case for a Crypto Bank start-up.

1. The first step is to identify risk drivers and assess them placing them in a risk map like the one of the figures below:



2. The Second Step is to elaborate a forecast considering business strategy, market potential, and the risk drivers assessed in the previous step. We use probabilistic scenarios based on statistics and benchmarking.
3. We then discount the free cash flows and obtain the Value at Risk (VaR) shown in the figure below. The VaR is a measure of the risk of loss for investments. It estimates how much a set of investments might lose (with a given probability). The VaR is a distribution of probable valuations, being the median (the value at the 50th percentile) the fair value.
4. The VaR gives us a lot of useful information, as shown in the blue square below. For instance: What is the most I can lose on this investment? What is the maximum risk in terms of probability an investor is willing to take?

The Belief that there is no general nor accurate rule of putting a price on a start-up, and it can only be based on negotiations is **WRONG**, and unfortunately this causes severe distortions on the valuation and losses for the entrepreneurs who have no rationale to defend a price.

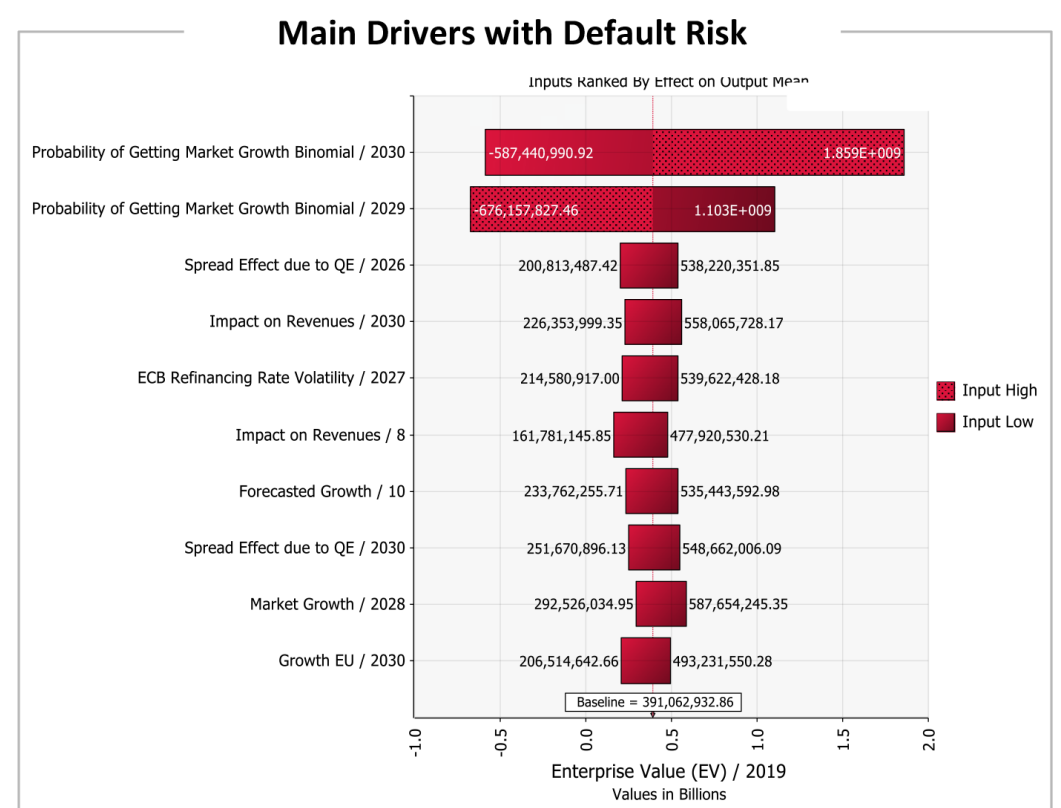
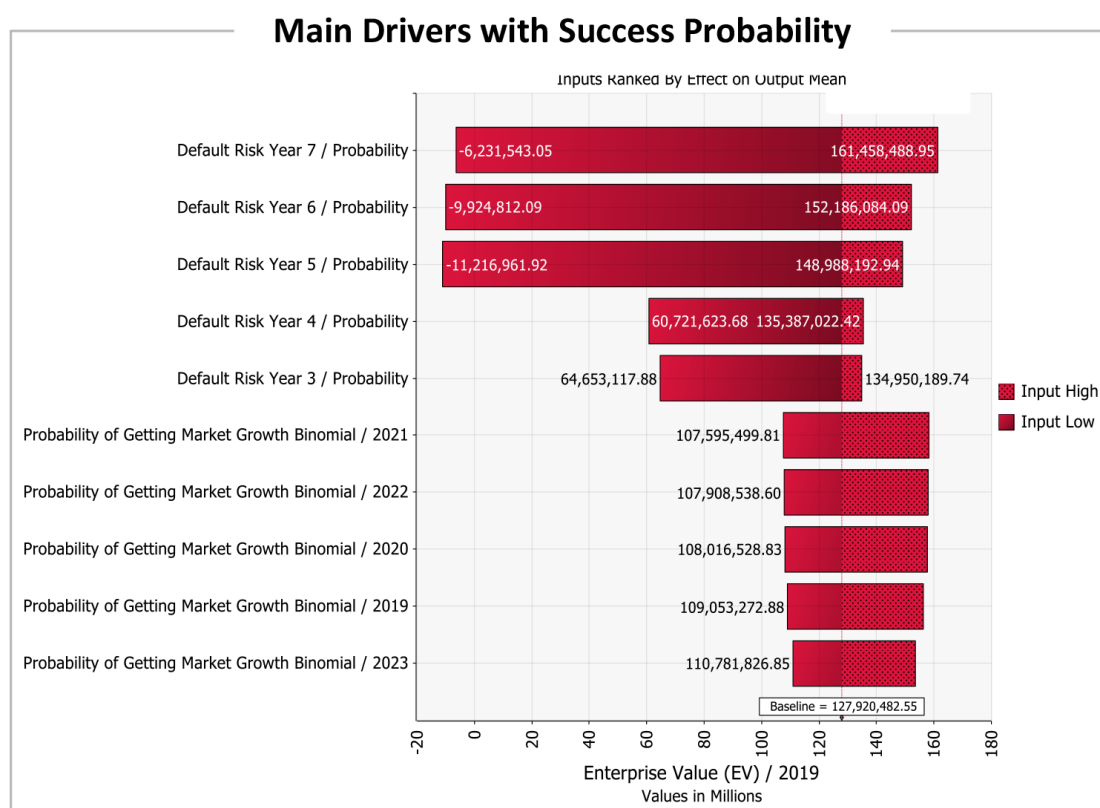


VaR with Start up Default Risk

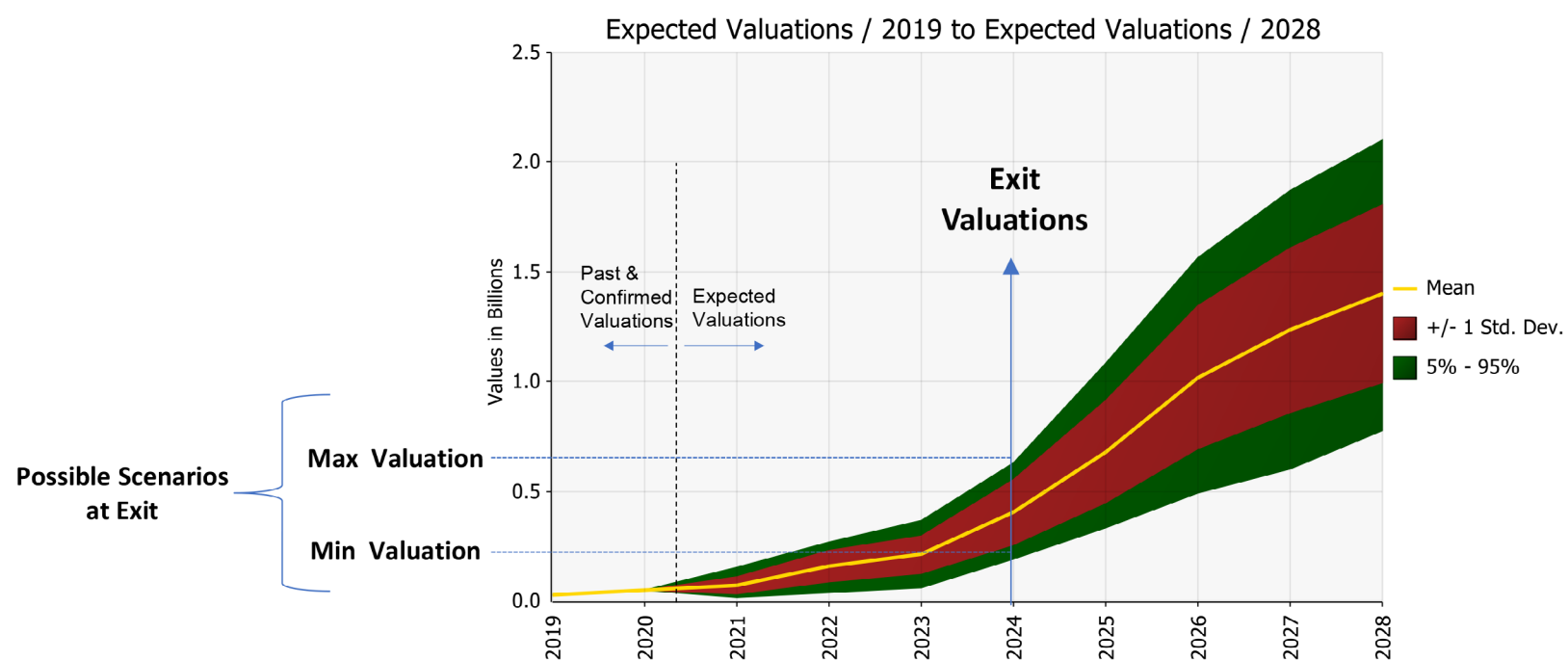
- There is a 35% probability in which market scenarios and drivers might generate a negative value (driven by start up risk default probabilities)
- There is a 20% probability in which market scenarios and drivers might generate a value between USD 0 M & USD 100 M.
- There is a 35% probability in which market scenarios and drivers might generate a value between USD 100 M & USD 300 M .
- There is a 9% probability in which market scenarios and drivers might generate a value between to USD 300 M & USD 665 M. These are the most successful scenarios in which market share targets are completely achieved.
- The Median Value of all those scenarios is USD 66,939,826. The Mean value is USD 127,920,482 with a standard deviation of USD 154,249,647. The high standard deviation is mainly driven by the start up risk.

Tornado graphs from a sensitivity analysis display a ranking of the input distributions that impact an output. Inputs with the largest impact on the distribution of the output have the longest (and topmost) bars in the graph (Change in Output Mean). Samples for an input are grouped into a set of equal-sized bins, ranging from the input's lowest value to its highest. A value for a statistic of the output (such as its mean) is calculated for the output values in the iterations associated with each bin. The length of the bar shown for each input distribution is based on the range of the highest statistic value

for any bin to the lowest statistic value. The highest statistic value is plotted on one end of the bar and the lowest statistic value for any bin is plotted on the other end. These are "double-sided" tornado graphs, where each bar ranges above and below the baseline, or center, of the graph.



As shown in the tornado graphs, the main risk drivers (those with higher volatilities or higher probabilities of occurrence) are the default risk, the management success probability of capturing market share, the market growth, The effect of the European Central Bank Quantitative Easing on Interests rates, etc.



For more information write to us at
info@bvint.com

 [Follow us on LinkedIn](#)



Contact us

78 York Street,
London, UK, W1H 1DP



+44 (0) 20 7692 0877

info@bvint.com

www.bvint.com

