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VALUATION GUIDE

FOR FOUNDERS

Everything you need to know about methods,
multiples, and due diligence preparation

Complete Due Diligence Preparation

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Introduction

Valuing your startup is one of the most critical moments in your journey as a founder. Whether you're raising your first investment round, negotiating with a potential acquirer, or simply trying to understand the real value of what you've built, knowing valuation fundamentals is essential.

This guide is designed to give you the tools and knowledge needed to navigate the valuation process with confidence, understand what investors are looking for, and prepare for successful due diligence.

Why is Valuation Important?

- • Determines how much equity you give away: A higher valuation means you give away less ownership for the same investment
- • Market signal: Your valuation sends a message about your company's traction and potential
- • Benchmark for future rounds: Establishes the starting point for subsequent valuations
- • Talent attraction: Stock options and equity grants are based on the valuation

1. Valuation Methods

There are multiple methods to value a company, each with its advantages and specific applications. The choice of method will depend on your startup's stage, your industry, and available data.

1.1 Discounted Cash Flow Method (DCF)

DCF is considered the most rigorous method and is based on projecting the company's future cash flows and discounting them to present value.

When to Use DCF?

- Your company has predictable revenue and a proven business model
- You're in growth or maturity stage (not pre-revenue)
- You can make reasonable financial projections for 5-10 years

Advantages:

- Based on real business fundamentals
- Allows sensitivity analysis
- Intrinsic valuation independent of the market

Disadvantages:

- Requires projections that can be speculative
- Very sensitive to assumptions (WACC, growth rate)
- Not applicable to pre-revenue startups

1.2 Comparable Multiples Method

This method values your company by comparing it with similar companies that have been recently valued (by the market or in transactions).

Most Common Multiples:

- • EV/Revenue (Enterprise Value / Revenue): Most used for SaaS and tech
- • P/E (Price to Earnings): For profitable companies
- • EV/EBITDA: Common in mature companies
- • Price/ARR (Annual Recurring Revenue): Specific to subscription models

How to Select Comparables:

- • 1. Similar industry: Look for companies in your same sector
- • 2. Comparable size: Companies with similar revenue and stage
- • 3. Business model: B2B vs B2C, SaaS vs marketplace, etc.
- • 4. Geography: Consider market differences (US vs LatAm)
- • 5. Growth metrics: Similar growth and retention rates

1.3 Venture Capital Method

This method works backwards from the expected exit to determine current valuation. It's widely used by VCs for early-stage startups.

Formula:

Post-Money Valuation = Terminal Value / (Expected ROI)^{years}

Practical Example:

Suppose that:

- • Expected exit in 7 years for \$100M
- • VC's required ROI: 10x

Post-Money Valuation = \$100M / 10 = \$10M

If the VC invests \$2M, your pre-money valuation would be \$8M.

1.4 Berkus Method

Specifically designed for pre-revenue startups, assigns value to key business elements.

Valued Components (up to \$500K each):

- • Sound Idea: Basic value of the idea/concept
- • Prototype: Technology risk reduction
- • Quality Management Team: Founding team experience
- • Strategic Relationships: Partners, advisors, early customers
- • Product Rollout/Sales: Traction and first sales

Maximum valuation: \$2.5M (5 elements × \$500K)

2. Industry Multiples

Multiples vary significantly by industry, stage, and geography. Here are typical ranges updated to 2024-2025.

2.1 SaaS (Software as a Service)

Typical EV/Revenue multiples:

- Early-stage (< \$5M ARR): 4-8x with >100% growth
- Growth (\$5-50M ARR): 8-15x with 50-100% growth
- Scale (>\$50M ARR): 10-20x with >40% growth

Factors that increase the multiple:

- Net Dollar Retention > 120%
- Gross Margin > 80%
- CAC Payback < 12 months
- Large market (TAM > \$1B)

2.2 Marketplace & E-commerce

EV/GMV (Gross Merchandise Value):

- • Early-stage: 0.5-1.5x GMV
- • Growth: 1-3x GMV
- • EV/Revenue (take rate): 3-8x depending on margins

2.3 Fintech

Fintech multiples vary greatly by sub-sector:

- • Payments: 5-10x revenue
- • Lending: 2-5x revenue (default risk)
- • Neobanks: 3-8x revenue
- • Wealth Tech: 4-10x revenue

2.4 Regional Adjustments

Multiples in Latin America are typically 20-40% lower than in the US:

- • LatAm SaaS: 3-10x revenue (vs 5-15x in US)
- • LatAm Fintech: 2-6x revenue (vs 4-10x in US)

Reasons for the discount:

- • Country risk and macroeconomic volatility
- • Smaller markets (lower TAM)
- • Lower liquidity for exits
- • Competition for capital is greater

3. Due Diligence Preparation

Due diligence is the process where investors validate all the information you've shared. This is where many deals fall apart, not because of business quality, but due to lack of preparation or, worse yet, lack of integrity in the information presented.

3.1 Due Diligence Areas

Financial Due Diligence

Required Documents:

- Financial statements for the last 3 years (audited if possible)
- Monthly P&L for current year
- Cash flow projections 12-24 months
- Updated cap table
- Debt and financial obligations
- Revenue recognition policies
- Accounts receivable reconciliation

Commercial Due Diligence

Business Analysis:

- Customer list with revenue breakdown
- Cohort analysis and retention rates
- Unit economics (LTV, CAC, payback period)
- Sales pipeline and conversion rates
- Competitive analysis
- Go-to-market strategy

Legal Due Diligence

Critical Legal Documentation:

- • Incorporation documents and bylaws
- • Founder contracts (vesting, IP assignment)
- • Employee contracts and offer letters
- • Non-disclosure agreements (NDAs)
- • Customer contracts (MSAs, SOWs)
- • Intellectual property registrations
- • Litigation history or pending lawsuits
- • Compliance certifications (SOC 2, GDPR, etc.)

Technical Due Diligence

Technology Assessment:

- • Architecture overview and tech stack
- • Code review and quality assessment
- • Security audits and penetration tests
- • Infrastructure and scalability plan
- • Technical debt assessment
- • Product roadmap

4. The Critical Importance of Integrity

This is perhaps the most important chapter of this guide. Your reputation is your most valuable asset as a founder, and once damaged, it's almost impossible to recover.

4.1 Why Integrity is Non-Negotiable

The temptation to 'massage' the numbers or exaggerate traction is real, especially when:

- • You urgently need to close a round
- • Your competitor just raised a large round
- • The quarter's numbers aren't as expected
- • You want to achieve a higher valuation

But here's the reality:

Investors ALWAYS discover the truth during due diligence.

And when they do, you don't just lose that deal - you lose credibility across the entire ecosystem.

4.2 Common (and Fatal) Errors

Creative Revenue Recognition

✗ Wrong: Recognizing the entire annual contract as revenue in the signing month

✓ Right: Recognizing revenue monthly or according to contract terms

Why it matters: VCs will do revenue quality analysis and review your accounting policies. If they detect 'creative accounting', the deal dies.

Metric Inflation

✗ Wrong: Counting users who registered but never activated as 'active users'

✓ Right: Clearly define what 'active' means and be consistent

Other problematic metrics:

- • Including free trials in ARR
- • Counting GMV without mentioning your real take rate
- • Reporting gross retention when asked for net retention

Hiding Negative Information

✗ Wrong: Not mentioning that your largest client (40% of revenue) is churning

✓ Right: Being transparent about risks and your mitigation plan

Information you MUST disclose proactively:

- • Customer concentration risk (client >20% of revenue)
- • Pending litigation or legal threats
- • Recent key employee departures
- • Disputes with co-founders or among shareholders
- • IP issues or ownership disputes
- • Limited runway (< 6 months)

4.3 How to Be Transparent Without Self-Sabotaging

Being honest does NOT mean sharing every problem without context. It's about honesty with context and solutions.

3-Step Framework:

1. Acknowledge the problem: 'Our churn rate increased from 3% to 5% this quarter'
2. Explain the context: 'This was mainly due to 2 enterprise clients who consolidated vendors'
3. Present your solution: 'We've implemented a customer success program and are already seeing improvement in Q4'

4.4 The Real Cost of Lack of Integrity

The consequences of being discovered are devastating:

Consequence #1: Dead Deal

The investor withdraws immediately. There's no second chance.

Consequence #2: Destroyed Reputation

The VC ecosystem is small. Partners talk to each other. Your name gets marked.

Consequence #3: Future Rounds Impossible

No serious VC will want to invest if they discover your history.

Consequence #4: Impact on Your Team

Top talent doesn't want to work for founders without integrity.

5. Building Your Data Room

A well-organized data room accelerates due diligence and builds trust. Here's the recommended structure:

Recommended Folder Structure

1. Corporate Documents

- • Certificate of Incorporation
- • Bylaws
- • Board consents and meeting minutes
- • Shareholder agreements
- • Updated cap table (with dilution scenarios)

2. Financial Information

- • Audited financials (if applicable)
- • Monthly P&L last 24 months
- • Balance sheet and cash flow
- • Budget vs actual analysis
- • Financial projections with assumptions
- • Editable financial model

3. Commercial Metrics

- • Customer list (anonymized if necessary)
- • Revenue breakdown by customer/segment
- • Cohort analysis
- • Unit economics dashboard
- • Sales pipeline
- • Market analysis and TAM calculation

4. Contracts & Legal

- • Customer contracts (top 10 clients)
- • Vendor/supplier agreements
- • Employee agreements
- • IP assignments
- • NDAs
- • Compliance certifications

Conclusion

Valuation and due diligence are complex processes, but with proper preparation and, above all, absolute integrity, you can navigate this process successfully.

Remember:

- Your reputation is your most valuable asset
- Transparency builds trust
- VCs value honesty more than perfect numbers
- An acknowledged problem with a solution is better than a hidden problem

At LGF Consulting, we're here to help you every step of the way.

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