

Equity Matters

3. The Deal – Part 1

Investment Economics

04-05-2022



Agenda

- + Opening
- + Investment Economics
- + Panel Discussion
- + Questions and Answers
- + Links and Resources



Today's Speakers



Tom Early

Head of Equity & Legal
Enterprise Ireland



Killian McMahon

Senior Investment Advisor
Enterprise Ireland



Devan Hughes

CEO & Co-Founder
Buymie

Investment Economics





Investment Economics

- + **Pre-money valuation**
 - *Company valuation before the investment is made*
- + **Valuation discount**
 - *Investor gets a discount on a future valuation event*
- + **Valuation caps**
 - *Investors pays a maximum price per share on converting into voting shares*
- + **Tranched investments**
 - *Full investment released in stages and usually dependent on milestones*



Investment Economics



- + Warrants
 - *Options issued by the company affording the holder the right to acquire shares at a set price for a fixed period of time*
- + Dividend rights
 - *Cumulative or non-cumulative; dividend rate*
- + Annual fees
 - *Some investors charge an annual fee for investing*
- + Legal fees
 - *The company may have to pay investor legal fees*



Investment Economics



+ D&O Insurance

- *Directors and officers liability insurance for relevant losses suffered for alleged wrongful acts by directors and officers*

- *Investors may insist the investee pays for this*

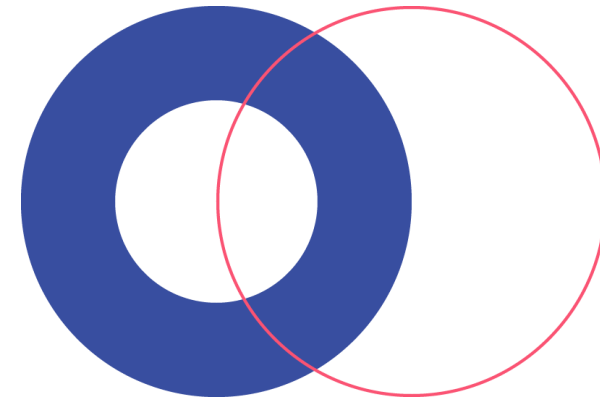
+ Keyman Insurance

- *An insurance policy where the employer pays the premium, the insured life is that of the same employer's key employee (keyman) and the benefit, in case of a claim, goes to the employer*

- *Investors will insist the investee pays for this*

+ ESOP

- *Employee Share Option Scheme*



Valuation & Equity

- + Valuing an early stage company is difficult (even abstract) and a number of factors can be considered including founder experience, product, revenue model and post-money shareholdings
 - *See Appendix A for a selection of valuation methodologies*
- + Pre-money and post-money valuation
- + Equity range considerations
- + Classes of shares
 - *Preferred (VCs typically want this)*
 - *Ordinary (Entrepreneurs start with these)*



Valuation

Both parties must seek to achieve:

- + Mutual respect and trust
- + Alignment of primary financial and strategic goals
- + Incentives for all parties to pursue shared goals
- + Fair win-win outcomes

Appendix A – Valuation Methodologies

Very Early Stage

Method	Stage	Valuation Output	Method Class	Features
Scorecard	Pre-revenue	Pre-money	Peer comparison	Comparison with benchmark based on observable factors
Payne Scorecard	Pre-revenue	Pre-money	Peer comparison	Comparison with benchmark based on observable factors
Risk Factor Summation	Pre-revenue	Pre-money	Peer comparison	Comparison with benchmark based on risk factors
Berkus Method	Pre-revenue	Pre-money	Hybrid model	Multiple observable factors based on industry characteristics
Venture Capital	Pre and post-revenue	Post-money	Discounted exit value	Single scenario, projection of financial performance. Discount rate incorporates risk of failure.
First Chicago	Pre and post-revenue	Post-money	Discounted exit value	Multiple scenarios, projection of financial performance. Discount rate incorporates risk of failure.

Growth Stage

- Discounted Cash Flows (best)
- Adjust for probability of survival

Multiples

- Revenue or EBITDA

Asset Accumulation

- Value assets separately and add together
- e.g. patents, technology, copyrights, assembled workforce, internally developed software, brand, customer relationships

Thank You

- + The next webinar is
THE DEAL — PART 2: INVESTMENT MANAGEMENT
on Tuesday 31 May @11am
- + Here's the link to the series:
globalambition.ie/equity-matters-webinar-series/
- + For more information on the supports mentioned:
visit enterprise-ireland.com.

Equity Matters Series

Long Term Funding Strategy

16th February 2022

- *Mapping and updating your funding journey*
- *Common Instruments*
- *Cap table structure*
- *Understanding investor motivations and goals*

Investor Types

22nd March 2022

- *Who invests in earlier stage*
- *Pro's & Con's of each investor type?*
- *Investor type and fit with long term funding strategy*

The Deal – Part 1: Investment Economics

4th May 2022

- *Who invests in earlier stage*
- *Pro's & Con's of each investor type?*
- *Investor type and fit with long term funding strategy*

The Deal – Part 2: Investment Management

31st May 2022

- *Control Rights*
- *Decision making rights*
- *Share transfers*
- *Insurances*

The Deal – Part 3: Exit & Downside Management

28th June 2022

- *Preferred share rights*
- *Liquidation Preferences*
- *Anti-dilution rights*

Exits

26th July 2022

- *Exit Types*
- *Secondary sales*
- *Exit Strategies*