

Private Equity Investment - Term Sheet example

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Pre- and Post- Money Valuation

- **Pre-money valuation**
 - Takes into account situation before the new proceeds
 - Assumes new proceeds will generate similar IRR
- **Post-money valuation**
 - Takes into account new proceeds for the valuation of the Company
 - % holding is determined based on share in valuation

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Typical approach:

start with Pre-Money

$$\text{Pre-money Valuation} + \text{Investment} \\ = \text{Post-money Valuation}$$

%Ownership

$$= \text{Investment} / \text{Post-money Valuation}$$

But start-ups are frequently worth hardly anything....

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VC sometimes start with Post-Money

%Ownership

$$= \text{Capital Needs} / \text{Post-money Valuation}$$

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Pre- vs. Post-Money

Does it matter?

If the Company is worth 100m and needs 100m investment, which is expected to boost it to 300m (as new project is more promising than existing business).

Than PE approach would be to get 50% stake,

.... Perhaps VC could accept 33%

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Valuation

- Discounted Cash Flow
- Multiple Based Valuation
- IRR based valuation

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Discounted Cash Flows

- Investment focused:
 - discount expected dividends and exit valuation (at investor's targeted IRR rate)

- Company's focused
 - discounts Company's free cash flows before financing at WACC

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Multiple Based Valuation

- Using comparable transactions or companies

Sl. No.	Industry	Underlying Parameter	Multiple
1.	Steel, Cement, metals etc	Per metric ton of installed capacity Per metric ton of production	EV / Ton of installed capacity EV / Ton of production capacity
2.	Oil & Gas Blocks, Coal Blocks, Natural Resources Blocks	Per barrel of oil & gas reserves Per ton of coal reserves	EV / bbl of reserves EV / Ton of reserves
3.	Banks	Book Value, loan book	$P / [B \times (1 - NPA)]$
4.	Telecom towers	No. of telecom towers	EV / Tower
5.	Mobile operators	ARPU	EV / ARPU
6.	EPC companies	Order Book	EV / order book

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IRR Based Valuation

Return on Investment
= Terminal Value/Post Money Valuation

Starting Point is the valuation at exit and you discount it back using the targetted IRR

STAGE	IRR	5 Year ROI
Seed/Start-up	82%+	20x
Early Stage	60%	10x
Growth	40%	5x
Later Stage	25%	3x

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Term Sheet : typical areas

- Offer
- Use of proceeds
- Return/Dividends
- Other options: conversion, drag along, tag along, right of first refusal
- Voting rights
- Exit
- Other undertakings

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Term Sheet example

- Follow the example documentation on:
[http://nvca.org/resources/
model-legal-documents/](http://nvca.org/resources/model-legal-documents/)

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