Gift Certificates & More

Company Valuation

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Team Warhammer:
Stephanie Elkin
Grant Mombach
Daming Wu
Yifei Yu
Li Zhang

Instructor
Ted Astleford

Center for Entrepreneurship
& Innovation

Warrington College
of Business Administration

UNIVERSITY of FLORIDA

Table of Contents

Executive Summary

GatorNest is an experiential learning program run by the Center for Entrepreneurship and Innovation at University of Florida. In this program, students are placed onto small teams to do business consulting for startups. This report was developed for Gift Certificates and More (GCM), a company that creates and aggregates a large number of gift certificates for local businesses and allows users to redeem them and save money. The purpose of this report is to estimate the company value.

To provide the most accurate company valuation for GCM, we have researched and performed five different methods of valuation. Each uses various aspects of risk assessment, revenue prediction, quantitative and qualitative factors, and comparable transactions in its methodology. These methods do not stand alone; instead, they should be used in combination to form the most informed estimate of a company valuation.

I. Berkus Method
According to Forbes, the Berkus Method "attributes a range of dollar values to the progress startup entrepreneurs have made in their commercialization activities." Five different elements of the business are evaluated, weighted, and added up to form a valuation. After completing the methodology for this method, we got a valuation of $1,450,000. We believe this number is reasonable for GCM.

II. Comparable Transactions Method
This method is fairly straightforward and intuitive. It simply examines the valuations of similar companies at a comparable stage in their operations. It is especially useful if you have multiple businesses to compare it to and can then average them based on similarity. Comparable transactions consider the past sales of similar companies as well as the market value of publicly traded firms that have an equivalent business model to the company being valued. In this method it is necessary to identify a set of comparable, recent acquisitions and observe the prices paid (total purchase price) for those companies.

III. Risk Factor Summation Method
This method considers a broad set of factors as criteria for investment, ranks them according to potential risk, and adds/subtracts value to the company based on the determined net risk. After completing the methodology for this method, we determined a net risk of 0 and added it to the estimated average pre-money valuation for a startup company in the region to get a valuation of $4,000,000. We concluded that although the information on risk is valuable for GCM, this number is not accurate enough to be considered a good valuation of the company.

IV. Discounted Cash Flows Method
The Discounted Cash Flow Method attempts to determine the value of the company by establishing the free cash flows over the forecast period in which the company have the most excessive profits, adding the terminal value in sustainable growth period, and using the weighted average cost of capital to discount the total value of FCFs and TV. By applying this valuation to GCM, we reached a value of $898,885.

Although the Discounted Cash Flow Method possess the superiority of reliability by using free cash flows as the key performance indicator, we have to admit that this method is also extremely sensitive to the assumption of sustainable growth rate and WACC. Even a small variation of such predictors will lead to errors in the valuation. Therefore, this method should be used when there is a high level of confidence in the assumed growth rate and WACC. We should not use this valuation alone without considering valuations from other methodologies.

V. First Chicago Method

The First Chicago Method (or Venture Capital Method) is a context-specific business valuation approach that is calculated by setting up different scenarios and assigning each a probability (i.e. best case 25%, worst case 30% and expected 45%), calculating the value under each scenarios, and finding out the final expectation of the company's value. Under this method, GCM is valued at $1,622,945.

Conclusions

Two of our methods, the Comparable Transactions method and the Risk Factor Summation method, gave us valuations that were based on figures that either didn't apply to GCM or were otherwise inapplicable, and therefore produced inaccurate valuations. The other three methods, the Berkus method, the Discounted Cash Flows method, and the First Chicago method, produced accurate and logical valuations. Averaging the DCF method valuation of $898,885, the First Chicago method's valuation of $1,622,945, and the Berkus method's valuation of $1,450,000, we get a final valuation of $1,323,943.

Recommendations

In this section, we came up with several marketing strategies to resolve the over/under redemption problem on the GCM app, to improve customer experience on GCM app, such as adding new GEO function, and to enlarge customer base through new customer incentive programs. We also recommend using Google Analytics to better understand GCM customers' behaviors on both their websites and apps. In addition, we recommend that GCM management build strategic relationships with the community to increase the company's exposure and enhance the core business.

Berkus Method

Introduction

The Berkus Method is one of the most well-known and widely respected methodologies and uses both qualitative and quantitative factors to calculate a valuation. It was developed in the mid 1990's by Dave Berkus, an angel investor, speaker, author, and educator. He was frustrated by the fact that most valuation methods relied on an entrepreneur's revenue and profit projections as a starting point, which were then discounted according to a set percentage or weight. As an alternative, Berkus developed a methodology that calculates a valuation based on five drivers. (Worth Worm)

Usage

This method applies best to technology companies. However, this method doesn't consider market or competitive environment, which is important in many situations. This is a back–of–the–envelope method, but it is useful for angel investors to evaluate startups in the earliest of stages. (Angel Kings)

Methodology

Characteristic	Add to Pre-Money Valuation
Sound Idea (basic value, product risk)	$0 - $500,000
Prototype (reducing technology risk)	$0 - $500,000
Quality Management Team (reducing execution risk)	$0 - $500,000
Strategic Relationships (reducing market risk and competitive risk)	$0 - $500,000
Product Rollout or Sales (reducing financial or production risk)	$0 - $500,000

Analysis

We estimate the percentage for each driver based on its benefits and multiply the percentage by $500,000 to calculate the value. Then we add them up to get the total valuation of the company.

Sound Idea: 80%
GCM is a great idea, but could be easily replicated. Companies with financial backing can copy their unprotected model and use their resources to run them out of business.

Prototype: 90%
We estimate the weight of prototype to be high because there is little risk with the company's website and app, even though turnover time is too long for changes. Outsourcing technology also has disadvantages. For example, GCM is likely to lose management control of the operations that are outsourced.

Quality Management Team: 50%
As of now there are only two people on the management team. According to the CEO, GCM needs to make enough revenue to instill loyalty in the additional employees that he'll need for expansion. The expansion plans that the CEO has for expanding to new areas such as Jacksonville, Tampa, Orlando, Miami pose execution risks that can not be ignored. It's much harder to reach a larger customer base in big cities. Also, GCM+ and GCM Golf pose risks in execution. Furthermore, the top management team has no real experience in starting/running a tech company even though GCM positions itself as a technology company. Moreover, a lack of board of advisors is unfavorable to GCM's development.

Strategic Relationships: 20%
The weight of strategic relationships is very low because there are no contracts with any companies. Competitors, such as Groupon, have better relationships. GCM should establish a strategic relationship with an app/website developer in order to build a stronger foundation for its technology.

Product Rollout or Sales: 50%
GCM needs to put more effort into their product rollout. First, a small team will make expansion more difficult. Second, although GCM+ and GCM Golf could greatly contribute to the development of the company, finalized plans for marketing GCM+ and GCM Golf have not been established. Third, a weak social media presence in the current market makes it hard for GCM to attract potential customers and instantly engage current customers. Finally, the CEO has great enthusiasm and ideas, but there are no concrete plans for expansion to new cities or new product rollouts for now.

Valuation

Characteristic	Weight	Value Added
Sound Idea (basic value, product risk)	80%	$400,000
Prototype (reducing technology risk)	90%	$450,000
Quality Management Team (reducing execution risk)	50%	$250,000
Strategic Relationships (reducing market risk and competitive risk)	20%	$100,000
Product Rollout or Sales (reducing financial or production risk)	50%	$250,000
Company Valuation According to the Berkus Method		**$1,450,000**

Comparable Transactions Method

Introduction
Comparable transactions consider the past sales of similar companies as well as the market value of publicly traded firms that have an equivalent business model to the company being valued. To get a more accurate valuation, more than one comparable transaction should be used. This method of valuation can help identify the current value and potential growth for a company. Comparable transactions look at multiples such as the EV/EBITDA ratio, among others, to determine a value. The difficulty with this approach is the limited availability of financial data regarding past transactions between private companies. Therefore, a comparable transaction approach is generally used in conjunction with other valuation techniques including the Discounted Cash Flow Method and other comparable company analysis techniques. (Investopedia)

Company 1: Hooked
Hooked is managed by Timothy Rothwell, Co-Founder of UMeTime, entrepreneur & Brett Berman, entrepreneur. It was created in 2013 and can be found on over 20 college campuses.

What They Do
Hooked is a free mobile app that provides users with real-time, short-term deals from the best local businesses around college campuses. Their main feature, "Hooks", are location-based, exclusive deals that are happening right around you, right now. All Hooks are short-term (up to 5 hours long), so the app is continually refreshed with new Hooks every day around your college community.

Sale/Investment
On June 6, 2012, Hooked received a $650,000 investment and on Jan 30th, 2014, they raised $1,300,000 in a seed round.

Relevance to GCM
Obvious similarities to GCM include the layout, use, and overall functionality of the app. One main difference is that Hooked only offers coupons, not offer gift certificates. Hooked is live on 20+ campuses across the country. They have a huge "head-start" on GCM.

Company 2: Yowza!!
Yowza is managed by David Teichner who co-founded & exited several companies in media, tech, and marketing and is currently the CRO at Forwardline. It was created in 2012 and is located in Arizona.

What They Do
Yowza!! is the leading location-based mobile coupon app. No games or tricks, just local offers for over 45,000 restaurants, stores, salons, etc. on your phone. Retailers create, manage, and track their own offers and messages via the Yowza!! control center. Merchants have various pricing options, starting with a free

service for your local store to a nominal monthly or performance-based charge. Working with many of the nation's top retailers and restaurants as well as local merchants in your neighborhood, Yowza!! has built one of the most powerful savings apps on the market. They have saved Yowza!! users over $15,000,000 to date and that number grows each day.

Sale/Investment
On Jan 30th, 2012, Yowza!! raised $1,500,000 in their seed round of funding.

Relevance to GCM
There are some major similarities between Yowza!! and GCM. The functions of both platforms are almost identical. Both apps are extremely user friendly and offer the user the same thing: great deals in your area. Again, GCM has a slight advantage because Yowza!! does not provide gift certificates.

Company 3: LiveDeal

LiveDeal was created in 2005 and is located in Las Vegas.

What They Do
LiveDeal is the world's first deal engine—a real-time, online marketplace that connects the user with local restaurants that are offering deals right now. Offers found on LiveDeal are all limited-time offers happening at that moment. Unlike daily deal sites, LiveDeal will never flood your inbox with irrelevant offers. LiveDeal only publishes limited-time promotions and deals from popular restaurants that want you as their customer. Restaurants choose when their deals become live, when they appear on the site, and the number of redeemable vouchers available to users, which is perfect to attract the right number of customers based on number of reservations, available staff, etc. Since LiveDeal collects no funds from users, restaurants transact directly with the consumers at the point of sale, so they don't wait to get paid by LiveDeal and don't get squeezed out of their profits. Additionally, since no fees are paid to livedeal.com, restaurants can pass along the savings to consumers. Restaurants gain access to an incredibly powerful online dashboard where they can create and publish a deal to nearby consumers within two minutes.

Sale/Investment
On June 7th, 2007, LiveDeal sold for $12,000,000.

Relevance to GCM
Other than the obvious functionality, LiveDeal is also 100% free to both the user and the business.

Valuation

After research, we found that venture capitalist firms take 25% equity for early funding rounds. At a $1,300,000 investment, Hooked was valued at $5,200,000. At a $1,500,000 investment Yowza!! is valued at $6,000,000. Averaging the two valuations, we valued GCM at $5,600,000 at its current stage.

Company Valuation According to the Comparable Transactions Method	$5,600,000

Risk Factor Summation Method

Introduction

The Risk Factor Summation method can be used to determine the pre-money valuation of pre-revenue companies. Just like the other methods we've looked at, it should be used alongside other valuation methods. This method considers a broad set of factors as criteria for investment and forces investors to think about various types of risk factors, both internal and external. Essentially, the higher the number of factors there are, the greater the overall risk is for investors looking to put their money into the company.

Risk, Defined

Risk is a possible financial loss determined by the probability of an event occurring and the magnitude of the effect on the company if it were to occur. Essentially, it's the chance that the actual return of an investment will be different than the one that was expected. Overall, an investor's risk tolerance is determined by their length of investment, meaning that the more time they plan to invest for, the more risk they can accept in their investments. It is also affected by the relationship between risk and return, as investors are compensated for taking on additional risk and therefore encouraged to be more tolerant of it.

Methodology

1. Compile list of all potential risk factors for the venture, both internal and external.
   - Management
   - Stage of the business
   - Politics and legislation
   - Manufacturing
   - Sales and marketing
   - Funding and capital raising
   - Competition
   - Technology
   - Litigation
   - International
   - Reputation
   - Potential lucrative exit
2. Determine the average pre-money valuation of a pre-revenue company in the region.
3. Assess each risk factor on a scale for growing the company and a lucrative exit:
   - +2 - very positive
   - +1 - positive
   - 0 - neutral
   - -1 - negative
   - -2 - very negative
4. Determine net risk factors by adding assessed values, keeping positive/negative signs intact.

5. Evaluate: (Net risk x $250,000) + average pre-money valuation of a pre-revenue company in the region = company's pre-money valuation according to the risk factor summation method

Analysis

First, we needed to find the average pre-money valuation of similar companies in the region. We used comparable valuations for multiple factors from AngelList and the median seed pre-money valuation from Q3 in 2015 from Angel Resource Institute and determined that the average valuation was around $4 million. We then assessed the risks for each of the factors identified above and ranked them from -2 to +2.

Management: -1
GCM is a partnership between two people. It has strong current management, but also has thin resources for expansion and may underestimate the need for additional employees.

Stage of the business: 0
It is technically still an early stage, even though it has working software and a working product. GCM changed to their current business model in 2012 and started making revenue in mid-2015.

Politics and legislation: 0
There is no applicable risk for this factor to the company.

Manufacturing: 0
There is no applicable risk for this factor to the company.

Sales and marketing: +1
GCM already has positive marketing operations occurring, with a decent social media presence, email marketing processes, and continuous print, TV, and radio ads. They started making revenue in mid-2015 and the number of users has steadily increased. However, although people do use it, it has low buzz factor. GCM's competitive advantage is not currently being communicated adequately through marketing.

Funding and capital raising: -1
They currently have low working capital and are self-funded.

Competition: -2
There are no patents or protections in place, so anyone can copy GCM's unique business model. There are no direct competitors, but there are similar substitutes. Furthermore, since their business model is unique, but difficult to convey and understand, there sometimes is no perceived difference from a user standpoint. This again ties into the fact that GCM's competitive advantage is not communicated adequately.

Technology: +1
The company's website and app are simple, yet effective. They are easy to build with a user-friendly interface, but have low chance of failure in execution.

Litigation: 0

There is no applicable risk for this factor to the company.

International: 0
There is no applicable risk for this factor to the company.

Reputation: +1
GCM has a good reputation with their current customers and businesses. However, their reputation is not widely established outside of Gainesville. The management team has an unknown personal reputation.

Potential lucrative exit: +1
GCM can capitalize on the success of similar companies, but they do have a second-mover advantage of seeing their errors. They have a large target market and a large potential user base.

Valuation

Risk Factor	Risk to Company
Management	-1
Stage of the business	0
Politics and legislation	0
Manufacturing	0
Sales and marketing	+1
Funding and capital raising	-1
Competition	-2
Technology	+1
Litigation	0
International	0
Reputation	+1
Potential lucrative exit	+1
Net Risk	**0**

Company Valuation According to the Risk Factor Summation Method	$4,000,000

Discounted Cash Flow Method

Introduction

The Discounted Cash Flow Method attempts to evaluate early stage companies by establishing the net present value of the cash flows over forecast period and the terminal value.

Components

To come up with a more accurate valuation of an early stage enterprise, we need to further discuss several parts of the equation.

Free Cash Flow

Free cash flow represents the actual amount of cash that a company has left from its operations that could be used to pursue opportunities that enhance shareholder value.

$$\text{EBIT } (1\text{-}T) + \text{Depreciation} - \text{Capital expenditures} - \Delta \text{ NWC} = \text{FCF}$$

Revenue Growth Rate

When we forecast the revenue growth of early-stage companies, we carefully consider a variety of factors, such as if the company's market is expanding or contracting and how its market share is performing. We also need to consider if there are any new products driving sales or if price changes are imminent.

Forecast Period

In this period, the company is most likely to earn returns on the new investments that are greater than its capital cost. By considering its competitive and market position, such as marketing channels or entry barriers, we can have a better guess on how far out in the future we can project the FCFs.

Company Competitive Position	Excess Return/Forecast Period
Slow-growing company; operates in highly competitive but low margin industry	1 year
Solid company; operates with advantage such as strong marketing channels, recognizable brand name, or regulatory advantage	5 years
Outstanding growth company; operates with very high barriers to entry, dominant market position or prospects	10 years

Weighted Average Cost of Capital (WACC)

The discount rate used in DCF is based on the systematic risk of the beta of the early-stage company. We can use CAPM to calculate the cost of equity:

$$\text{CAPM} = Rf + \text{Beta } (Rm\text{-}Rf).$$

Terminal Value

We need to come up with a reasonable idea of the value of the company's cash flows after the forecast period--when the company has settled into maturity.

Gordon Growth Model

$$TV_N = \frac{FCF_N \times (1 + \text{Growth})}{WACC - \text{Growth}}$$

TV$_N$ =   Terminal value in year N that values cash flows beyond year N

FCF$_N$ =   Free cash flow for year N

     Growth   =   Long-term sustainable growth rate of cash flows—normally equal to GNP growth or inflation plus 1% to 2% real growth.

     WACC   =   The discount rate should reflect the risk of the cash flows. Since early-stage companies are private, we find an appropriate rate based on the beta coefficients from publicly held companies comparable to the target.

Valuation

Free Cash Flows in Forecast Period

As discussed, there are two parts to this method: free cash flows in the forecast period and the terminal value in the sustainable growth period. According our research on a start up's growth stage, we must first determine a five-year forecast period in which we assume GCM will start embracing executive revenues.

Figure 1: The Early Stages of the Life Cycle
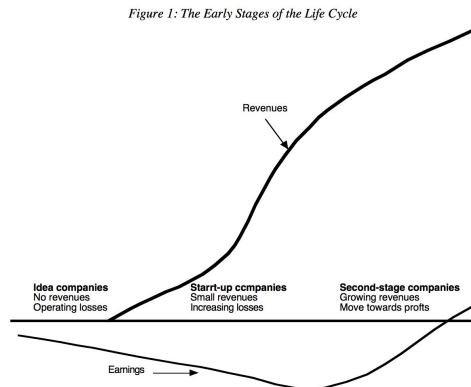
First, we calculate the net operating profits after tax by projecting the 5-year revenues and subtracting all the operating expenses. Based on data given by the GCM management team, we estimate that monthly revenues for 2017 will be $35,000 and will increase by 30% every year. However, we believe this number will be higher when GCM successfully penetrates the markets of Tampa, Jacksonville, Orlando, and especially Miami, considering higher disposable incomes of the population, larger customer base, and better advertising opportunities. However, it may take 2 to 3 years before GCM starts to make profits in those markets; therefore, GCM may still face financial stress from year 2017 to 2019. Utilities and rent expenditure will increase to $15,600 per year after the five-year free rent contract end. As for salary and commission, we applied a 3% increase on base salary every year. Also, we added on average 2.5 sales representatives per year to the sales force, according to GCM's expansion plan. Accordingly, we increased the expenditures in the areas of salary, commission, and business travel.

In the table, we also provide a section of non-operating incomes, including income from interests and so on. Although at this stage this section doesn't apply to GCM's financial situation, it could be useful when

sustainable profits are generated and investments are made. When it comes to enterprise tax, we consider 25%; however, it can be replaced by the actual tax percentage in use.

Free Cash Flows (forecast period)		2017	2018	2019	2020	2021
Revenues		420000	600000	780000	1014000	1318200
Operating Expenses						
	Utilities&Rent	3600	3600	15600	15600	15600
	Salaries	111240	140039	209804	270122	324147
	Commissions	126000	180000	234000	304200	395460
	Marketing expenses	82783	108389	151680	192679	237965
	Supplies	500	600	700	800	900
	Travel expenses	31800	37100	50350	60950	71550
	*Professional Fees	12000	12000	12000	12000	12000
Non-operating Incomes (or expenses)		52577	118873	106566	158449	261479
N/A	Income on investment					
N/A	Interest expenses					
N/A	Loss on disposal of assets					
EBIT		52577	118873	106566	158449	261479
**EBIT(1-T)						
Net op-profit after tax		39433	89154	79925	118837	196109

Weighted Average Cost of Capital (WACC)
The second factor we'd like to elaborate on is the weighted average cost of capital, also known as WACC. WACC in the DCF Method represents the opportunity cost or the expected return on investment of similar risk to the enterprise in question. For most startups, equity is the primary method of financing, so it may be helpful to simplify things and state that WACC equals the cost of equity which means that the discount rate should be equal to Ke from the CAPM.

The basic CAPM formula for Ke is $Ke = Rf + \beta * (Rm - Rf)$

1. Rf (Risk free rate of return): A good proxy is a US government bond of a duration that's commensurate with the time frame an investor would think of when owning the equity. The 5 year T-bill is a good proxy.Today the 5 year T-bill yield rate is around 1.3%.
2. B (Beta): Sensitivity of the expected stock return to the market return. Have to use history to estimate. Mathematically it's the covariance of the historical return of this particular stock and the market divided by the variance of the market. So B = Cov (Rs, Rm)/Var(Rm). The best way of getting at this is to look at the beta of similar public stocks. For public SaaS companies, the beta today seems to be about 1.3.
3. Rm(Market rate of return): what the investors expect the market to return. The public markets have returned around 8% per year over the last decade, and one would think that that's a reasonable rate expected by investors. There could be different opinions (for example the 5 year rate of return is a lot higher). If a company is private, one would expect a much higher rate of return. For a private, or higher risk company, Ke will depend on the assumption on Rm (the market rate of return). Reality is this is highly volatile and situation specific – sometimes one can raise cheap money and sometimes one can not. While a lot of situational judgment should be applied, Cambridge Associates, which tracks the stronger venture firms, claims a 30 year venture return of 17%, and that's probably the best proxy.

So for a private enterprise, one could assume Ke = 1.3 % + 1.3 (17% – 1.3 %) = 21.2%
Therefore, 20% would be a good estimate to use for startups that have not yet reached scale and predictable growth.

Terminal Value

To estimate the terminal value, we need to come up with a reasonable idea of a stable growth rate. According to our research on companies like GCM, usually, a sustainable growth rate of cash flows around 5 % to 8% will be adequate. So, we feel comfortable to use 6.5% as the growth rate. And we continue to use the discount rate of 205 as WACC in the Gordon Growth Model. By calculating through NPV function, we reach $898,885 dollars as the value of GCM.

Terminal Value						
FCF(cash flow at year 2021)	196109					
Revenue Growth rate (long term)	6.50%					
		FCFs				
WACC	20.00%	2017	2018	2019	2020	2021
TV in 2021	1547082	39433	89154	79925	118837	1743191
PV of FCFs	$898,885					

Conclusion

Compared with other methodologies, DCF method possess one superior attribute: reliability. As we can see in the valuation, DCF applies free cash flow, one of the most reliable performance indicator, which not only captures the essential drivers of the business, such as WACC and growth rate, but also allows the evaluation to embody key changes in the business strategy through the free cash flows of a 5-year or 10-year period. However, admittedly, DCF method is highly sensitive to assumptions related to perpetual growth rate and discount rate. Any minor tweaking here and there, and the DCF Valuation will fluctuate wildly and the fair value so generated won't be accurate. It works best only when there is a high degree of confidence about future cash flows. But if the company is still in such a too-early stage, it will be more difficult to predict sales and operating expenses, just as in our GCM case. While forecasting cash flows for the next few years is difficult, pushing them out perpetually becomes almost is susceptible to error. One major criticism of DCF is that the terminal value comprises far too much of the total value (65-75%). Even a minor variation in the assumptions on terminal year can have a significant impact on the final valuation. In our valuation above, we predict the perpetuate growth rate and discount rate based on existing research, probably leading to errors. Therefore, in the following section, we introduce First Chicago method which simulate the growth rate, revenues and discount rate in best and worst cases, thus providing a weighted and hopefully more accurate valuation.

Company Valuation According to the Discounted Cash Flow Method	**$898,885**

The First Chicago Method

Introduction

The First Chicago Method (or Venture Capital Method) is a context-specific business valuation approach that is calculated by setting up different scenarios and assigning each a probability (i.e. best case 25%, worst case 30% and expected 45%), calculating the value under each scenarios, and finding out the final expectation of the company's value.

Usage

The method is used particularly in the valuation of growth companies which often do not have historical financial results that can be used for meaningful comparable company analysis. Multiplying actual financial results against a comparable valuation multiple often yields a value for the company that is objectively too low given the prospects for the business.

Often the First Chicago Method may be preferable to a Discounted Cash Flow taken alone. This is because such income-based business value assessment may lack the support generally observable in the market place.

Step 1

The first step is to set up all the 3 scenarios (Best, Expected. Worst).

Best Scenario
For the Best scenario, we examined the Groupon Inc.

Groupon is a global e-commerce marketplace connecting millions of subscribers with local merchants by offering activities, travel, goods and services in more than 28 countries. Groupon was launched in November 2008 and by the end of March 2015, Groupon served more than 500 cities worldwide, nearly 48.1 million active customers and featured more than 425,000 active deals globally.

Year	2009	2010	2011	2012	2013	2014	2015
Active User	0.38	9.03	33.74	41	43.7	53.9	48.9
User Growth rate		22.7631579	2.73643411	0.21517487	0.06585366	0.23340961	-0.09276438
Revenue	$14.54	$200.41	$634.98	$1,165.70	$1,521.36	$1,824.46	$2,047.74
Revenue Growth Rate		12.7833563	2.16840477	0.83580585	0.30510423	0.19922964	0.12238142

It took 5 years for Groupon to make its active user growth and revenue growth steady. The revenue grown very fast at beginning and slowed down by the time goes.
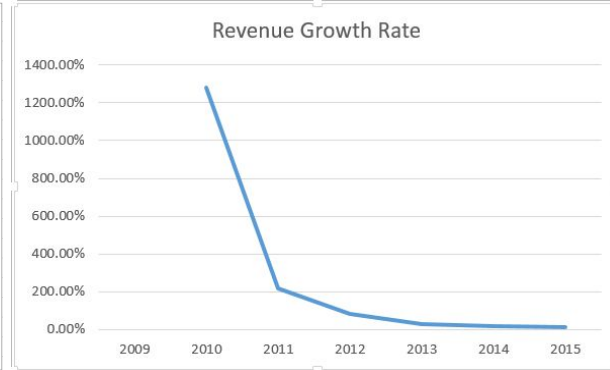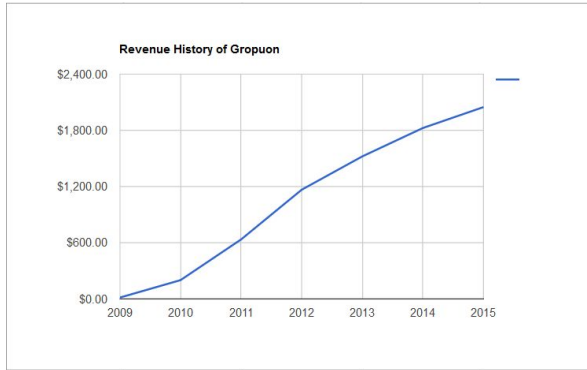
The revenue growth rate of Groupon of its first year (2010) is almost 1300%, which is high but not rare in Web Company. Actually, as the revenue of advertising is positively correlated with the user number, by performing efficient marketing strategies, it is possible to achieve high revenue growth rate.

Considering the competition, market size and other factors, we think in the best scenario, the following growth rates are reasonable. The possibility of this scenario is 10%.

Best Scenario	2017	2018	2019	2020	2021	Terminal Gro	Possibility
REV Growth Rate	300%	150%	60%	30%	15%	10%	10%
REV	660000	1650000	2640000	3432000	3946800		
Employee	6	9	12	15	18		

Expected Scenario
We choose the data of the DCF Method as our Expected scenario.
And the possibility of excepted scenario we estimate is 75%.

Expected Scenario	2017	2018	2019	2020	2021	Terminal Gro	Possibility
REV Growth Rate	30%	30%	30%	30%	30%	7%	75%
Employee	4	5	7.5	9.5	11.5		

Worst Scenario
Considering the heavy competition and industry revolution could happen, we chose 20% as revenue growth rate for first 4 years, 15% for the fifth year and 7 for the terminal growth rate.
The worst scenario is shown as follows:

Worst Scenario	2017	2018	2019	2020	2021	Terminal Gro	Possibility
REV Growth Rate	20%	20%	20%	20%	15%	7%	15%
REV	387600	465120	558144	669772.8	770238.72		
Employee	4	5	6	7	8		

Step 2
Run the Discounted Cash Flow method and get the present value of each scenario. The outcomes of each scenario are as follows:

Scenario							
Best Scenario	2017	2018	2019	2020	2021	Terminal Growth R	Possibility
REV Growth Rate	300%	150%	60%	30%	15%	10%	10%
Employee	6	9	12	15	18		
Scenario PV	$9,063,716						
Expected Scenario	2017	2018	2019	2020	2021	Terminal Growth R	Possibility
REV Growth Rate	30%	30%	30%	30%	30%	7%	75%
Employee	4	5	7.5	9.5	11.5		
Scenario PV	$898,885						
Worst Scenario	2017	2018	2019	2020	2021	Terminal Growth R	Possibility
REV Growth Rate	20%	20%	20%	20%	15%	7%	15%
Employee	4	5	6	7	8		
Scenario PV	$282,735						

Step 3

Use the weighted average to get the final present value.

	PV	Possibility
Best Scenario	$9,063,716	10%
Expected Scenario	$898,885	75%
Worst Scenario	$282,735	15%
Over-all Estimate	$1,622,945.62	

Company Valuation According to the First Chicago Method	$1,622,945.62

Conclusions

In order to calculate a proper valuation for Gift Certificates and More, we performed five different methods: Berkus, Comparable Transactions, Risk Factor Summation, Discounted Cash Flow, and First Chicago. After analyzing the results from each and the methodology used, we decided to base our valuation on three of the method's results and not include the other two in the final number.

We concluded that two of our methods, the Comparable Transactions method and the Risk Factor Summation method, did not give an accurate and reasonable valuation for Gift Certificates and More. After researching and finalizing the Comparable Transaction Method, we found GCM would have a $5,600,000 valuation at the current stage of the company. We don't think that this number is accurate enough to be considered a valid valuation of the company. It was difficult to find information regarding different financial stages of similar companies because it is not public information. After completing the Risk Factor Summation method, we determined a valuation of $4,000,000. We concluded that although the information on risk is valuable for GCM, this number is not accurate enough to be considered a good valuation of the company. Both of these methods provided us with helpful knowledge in other areas, but the valuations will not be included in our final valuation for GCM.

After completing the Berkus method, we believe the valuation of $1,450,000 is reasonable. The Berkus method is very suitable for pre-revenue companies like GCM because this methods only assesses the value of critical elements of a startup without analyzing the projected financials. Besides, the startup valuation can be kept relatively low using this method, which allows for the extreme risk taken by the investor and to provide some opportunity for the investment to increase in value over its life.

In the DCF valuation, by projecting a five-year period of revenues along with operating expenses, we reach our estimated free cash flows for the next years, and apply 6.5% as our perpetual growth rate and 20% as the WACC to discount the cash flows. Through DCF method, we have a valuation of $898,885 for GCM. However, as mentioned in DCF section, this valuation is highly sensitive to the variation of growth rate and discount rate assumptions. In the case of GCM, our assumptions on growth rate and discount rate are based on existing research on startups similar to GCM but in different industries and regions, which could easily lead to errors. Therefore, we will not use the valuation of DCF alone.

By running the DCF method under 3 scenarios, we get $1,622,945.62 as the valuation. The First Chicago method is very suitable for a company like GCM with high potential but few financial statements. It considers the uncertainty of an early startup and is one of the best and reliable ways to estimate its value.

Averaging the DCF method valuation of $898,885, the First Chicago method's valuation of $1,622,945, and the Berkus method's valuation of $1,450,000, we get a final valuation of $1,323,943.

Company Valuation	$1,323,943

Recommendations

1. "Send via SMS" option for website
2. Solve problem of over-/under-redemption:
   - Incentivize users to redeem as many offers as they can per month
   - Each restaurant has a unique PIN code that they must enter on the consumer's phone in order for the offer to be redeemed
3. Google Analytics offers a service of tracking customers' action on apps and websites by adding a code into the programming. For example, if GCM adds an event of clicking redemption button in their Google Analytics account, it will automatically collect data such as how many times the user redeemed a gift certificate and information on the customer's favorite restaurants. GCM can use that information on their customers' behavior to improve their marketing strategy.
4. Build strategic relationships in the community
5. Add new GEO function as "Certificates Near Me" on app.
6. Marketing plan to encourage members to use apps and recommend to friends more often
   - Option to enable location services on app and send a notification when a user is near a participating business
   - Referral/reward: invite 4 friends to become new members and get 1 month of GCM+ for free

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