



# VALUATION OF DIGITAL BUSINESSES

Q & A



To read in more detail - refer  
<https://nupurjalan.com/valuation-of-digital-businesses-qa/>

**Q1.**

**WHAT ARE THE  
COMMON  
METHODS OF  
VALUING A  
COMPANY?**

- **THERE ARE SEVERAL COMMON METHODS THAT CAN BE USED TO VALUE A COMPANY, INCLUDING INTRINSIC VALUATION/ DISCOUNTED CASH FLOW, COMPARABLE COMPANY ANALYSIS/RELATIVE VALUATION, ASSET-BASED VALUATION, AND CONTINGENT CLAIM VALUATION.**
- **OVERALL, THE METHOD USED TO VALUE A COMPANY WILL DEPEND ON THE SPECIFIC CIRCUMSTANCES OF THE COMPANY AND THE PURPOSE OF THE VALUATION.**

**Q2.**

**WHY STARTSUP'S/  
PRIVATE COMPANY  
VALUATION IS  
DIFFERENT VIS A VIS  
THAT OF THE PUBLIC  
COMPANY?**

- **THE BIGGEST CHALLENGE IN THE VALUATION OF PRIVATE COMPANIES IS THE AVAILABILITY OF REQUISITE DATA FOR UNDERTAKING THE VALUATION.**
- **FOR PUBLIC COMPANIES, DATA ARE PUBLICLY AVAILABLE: ONE CAN FIND FINANCIALS AND MULTIPLE SOURCES FOR GATHERING COMPARABLE COMPANIES' DATA.**
- **FOR PRIVATE COMPANIES, MOST OF THE DATA IS NOT PUBLICLY AVAILABLE, AND MANY OF THEM ARE ALWAYS INTO LOW-PROFIT PROJECTIONS LIKE LOW FINANCIAL RESULTS, AND MOST OF THE STARTUPS ARE RUNNING IN LOSSES IN THE INITIAL YEARS. SO, ALL THESE THINGS MAKE THE VALUATION OF PRIVATE COMPANIES MORE DIFFICULT.**
- **HENCE, IT IS IMPORTANT TO USE APPROPRIATE METHODS AND ASSUMPTIONS TO ENSURE THAT THE VALUATION IS ACCURATE AND REFLECTS THE COMPANY'S UNIQUE CIRCUMSTANCES.**

**Q3.**

**WHAT ONE SHOULD  
BE MINDFUL OF  
WHEN QUOTING THE  
VALUATION NUMBERS  
TO INVESTORS AND  
OTHER PEOPLE?**

- **ONE SHOULD BE ABLE TO JUSTIFY THE VALUATION - CONSIDERING THE ADDRESSABLE MARKET OF THE PRODUCT SEGMENT, MARKET POSITION, REGULATION ASPECTS (IF IT IS A HIGHLY REGULATED SEGMENT), SCALABILITY PROSPECTS OF THE BUSINESS, CUSTOMER ACQUISITION COST ETC.**
- **SUPPOSE A SEGMENT IS HYPER-SATURATED AND INVESTOR KNOWS THERE ARE FEWER CHANCES OF SCALABILITY AS THERE IS ALREADY MUCH COMPLETION IN THE SEGMENT - IF ONE DOES VALUATION BY TAKING A 20% GROWTH RATE IN SUCH SEGMENT WITHOUT HAVING CONCRETE JUSTIFICATION ON SUCH DIRECTIONAL BELIEF, INVESTORS IN SUCH CASES WOULD NOT BELIEVE IN VALUATION. SO ONE HAS TO BE MINDFUL OF NUMBERS/ ASSUMPTIONS USED IN THE VALUATION TO AVOID OVERSTATING/ MISREPRESENTING THE COMPANY'S VALUE - IT IS IMPORTANT TO BE TRANSPARENT.**

**OVERALL, THERE SHOULD BE:**

- **CLARITY ABOUT THE ASSUMPTIONS AND METHODS USED TO CALCULATE THE VALUATION.**
- **REALISTIC PROJECTIONS OR FORECASTS ABOUT FUTURE GROWTH OR PERFORMANCE.**

**Q4.**

**WHAT ARE THE  
METRICS THAT ARE  
USUALLY USED WHEN  
VALUING DIGITAL  
BUSINESSES?**



**THE METRICS USED TO VALUE DIGITAL BUSINESSES WILL DEPEND ON THE SPECIFIC CIRCUMSTANCES OF THE BUSINESS AND THE PURPOSE OF THE VALUATION.**

**IT IS IMPORTANT TO CAREFULLY CONSIDER AND SELECT THE APPROPRIATE METRICS TO ENSURE THAT THE VALUATION IS ACCURATE AND REFLECTS THE UNIQUE CHARACTERISTICS OF THE BUSINESS. SOME OF THE METRICS USED ARE MENTIONED BELOW:**

- **NO. OF USERS/ ADDRESSABLE MARKET AND A PORTION OF THE ADDRESSABLE MARKET THAT THE COMPANY CAN ACQUIRE.**
- **CUSTOMER ACQUISITION COST, AVERAGE CUSTOMER LIFETIME VALUE, AVERAGE REVENUE PER CUSTOMER, USER ENGAGEMENT ETC., ARE USED TO ESTIMATE THE FUTURE CASH FLOWS FOR THE INTRINSIC VALUATION OF THE COMPANY.**
- **P/E MULTIPLES, EV/ EBITDA.**
- **NETWORK EFFECTS ENJOYED BY THE COMPANY.**
- **REVENUE/ EARNINGS OR PROFIT.**

**SO ONE HAS TO JUST CHECK A FEW METRICS AND SEE WHICH ONE FITS WELL FOR THE COMPANY/ OR SPECIFIC SEGMENT OF THE COMPANY UNDER VALUATION.**

# CERTAIN TAKEAWAYS

- **ANALYZE THE ADDRESSABLE MARKET OF THE SECTOR AND THEREAFTER DETERMINE THE PORTION OF THE ADDRESSABLE MARKET THAT THE COMPANY THAT IS BEING VALUED CAN COVER IN THE COMING YEARS.**
- **PICK THE RIGHT METRICS FOR REVENUE AND GROUP PROJECTION FOR THE DISCOUNTED CASH FLOW VALUATION. USE OF SCENARIO ANALYSIS MAY HELP IN IDENTIFYING THE IMPACT OF USE OF ALTERNATIVE AVAILABLE METRICS ON THE FINAL VALUATION RESULTS.**
- **DO CARRY OUT MARKET RESEARCH ON THE COMPARABLE COMPANIES.**
- **USE RELATIVE/ COMPARABLE COMPANY VALUATION METHOD AS A CORROBORATIVE METHOD IN ADDITION TO DISCOUNTED CASH FLOW VALUATION METHOD FOR VALUING THE COMPANY. RELYING ONLY ON RELATIVE VALUATION MAY GIVE DIRECTIONAL RESULTS BECAUSE OF CERTAIN FACTORS (FOR EX: SMALL SAMPLE SIZE OF AVAILABLE COMPARABLE COMPANY DATA).**