

THE FOUNDER FINANCIAL INFRASTRUCTURE (FFI) STANDARD

Book 4: Valuation

Beta v0.5

April 2026

<https://ffistandard.org/>

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BOOK 4: VALUATION

Book 4 defines the standards for how a company understands, documents, and communicates its valuation. Valuation is not a single number. It is a range of defensible estimates derived from documented methodologies applied to documented assumptions. A company that cannot explain how its valuation was derived cannot defend it. A company that presents a valuation without stating the methodology produces a number that has no basis an investor is required to accept. This Book establishes what a compliant valuation analysis contains, what methodologies are appropriate at each stage, and what the common failures of early-stage valuation practice look like when examined precisely.

Book 4 inherits the pre-money and post-money valuation definitions from Book 0, Section 0.4 and Book 3, Section 3.2. It inherits the fully diluted share count definition and the cap table standards from Book 3, Section 3.1. All references to ownership percentages in this Book use the fully diluted share count as defined in Book 3.

SECTION 4.1: THE VALUATION METHODOLOGY STANDARD

PURPOSE

The valuation methodology standard governs which methodologies a company must apply at each stage of development, how those methodologies must be documented, and what output a compliant valuation analysis must produce. No single valuation methodology produces a definitive value for an early-stage company. Each methodology applies a different set of assumptions, produces a different range, and is appropriate to a different set of circumstances. A compliant valuation analysis applies multiple methodologies, documents the assumptions underlying each, states the output range from each, and produces a synthesised valuation range that reflects the weight of evidence from all methodologies applied.

DEFINITIONS

VALUATION: An estimate of the economic value of a company at a specific point in time, derived from one or more documented methodologies applied to documented assumptions. Valuation is not a fact. It is an estimate with a range. A valuation stated as a single precise number without a stated range and a documented methodology does not satisfy the requirements of this Standard.

VALUATION METHODOLOGY: A structured analytical approach to estimating a company's value. Different methodologies are appropriate at different company stages and for different purposes. The methodologies recognised by this Standard are: Discounted Cash Flow Analysis, Comparable Company Analysis, Precedent Transaction Analysis, the Venture Capital Method, the Berkus Method, the Scorecard Method, and Asset-Based Valuation. A company applies the methodologies appropriate to its stage as defined in the compliance criteria of this section.

VALUATION RANGE: The span between the low estimate and the high estimate produced by a valuation analysis. A compliant valuation range is bounded by documented assumptions at the low end and documented assumptions at the high end. A valuation range is not a negotiating position. It is the honest output of the methodology applied under conservative and optimistic but plausible assumptions.

ENTERPRISE VALUE: The total economic value of a company, representing the value of its operations attributable to all capital providers, including equity holders and debt holders. Enterprise value is

calculated before the subtraction of cash and before the addition of debt. Enterprise value is not equivalent to equity value.

EQUITY VALUE: The value attributable to equity holders, calculated as enterprise value minus net debt. Net debt is total debt minus cash and cash equivalents. Equity value is the value that equity holders would receive in a liquidity event after all debt obligations are settled. For companies with no debt and material cash balances, equity value differs materially from enterprise value.

FAIR MARKET VALUE: The price at which a company's shares would change hands between a willing buyer and a willing seller, both having reasonable knowledge of the relevant facts and neither being under compulsion to complete the transaction. Fair market value is the standard used for equity compensation grant pricing, tax purposes, and certain regulatory requirements. It is distinct from transaction value, which reflects the actual terms agreed between specific parties in a specific transaction.

INVESTMENT VALUE: The value of a company to a specific investor, reflecting that investor's particular assumptions, synergies, or strategic benefits that would not be available to all market participants. Investment value may exceed fair market value where a specific acquirer derives unique synergies from an acquisition. Investment value is not the appropriate basis for fair market value determinations or option grant pricing.

PRE-MONEY VALUATION: Defined in Book 0, Section 0.4. The agreed value of a company immediately before a new investment is received. Pre-money valuation is the basis on which the price per share for a new investment is calculated. All references to valuation in funding round negotiations are pre-money unless explicitly stated otherwise. An unqualified statement of a company's valuation is ambiguous and does not satisfy the documentation requirements of this Standard.

POST-MONEY VALUATION: Defined in Book 0, Section 0.4. The value of a company immediately after a new investment, equal to pre-money valuation plus the investment amount. An investor's ownership percentage is calculated by dividing the investment amount by the post-money valuation. Pre-money and post-money valuations are not interchangeable and must be distinguished in all documentation.

VALUATION MULTIPLE: A ratio that expresses a company's value relative to a financial metric, such as revenue, earnings before interest, tax, depreciation, and amortisation, or annual recurring revenue. Valuation multiples are used in comparable company analysis and precedent transaction analysis to translate observed market valuations into an implied value for the subject company. A multiple applied without adjustment for differences in growth rate, margin, stage, or market between the subject company and the comparables produces a misleading valuation.

NORMALISATION: The adjustment of a financial metric to remove the effect of non-recurring, one-time, or distorting items, so that the metric reflects the ongoing operational performance of the company. Normalisation is required before any valuation multiple is applied to a company's financial metrics, and before any comparable company's metrics are used as the basis for a multiple.

PRINCIPLES GOVERNING THIS SECTION

A valuation analysis must use at minimum two methodologies appropriate to the company's stage. No single methodology is authoritative. The purpose of applying multiple methodologies is to triangulate toward a range that reflects the weight of evidence, not to select the methodology that produces the highest number.

The assumptions underlying each methodology must be documented at the time the analysis is prepared. An assumption that is added after the output is known is not a documented assumption; it is a rationalisation. The Standard requires that assumptions precede outputs.

A valuation prepared for the purpose of a specific transaction reflects the negotiated terms of that transaction and may differ from the fair market value of the company. A company that uses its transaction valuation as the basis for option grant pricing without a separate fair market value determination may be applying the wrong basis. The purpose of the valuation must be documented alongside the methodology.

Valuation analyses must be updated when the company's financial position, growth trajectory, or market conditions change materially. A valuation prepared more than twelve months ago does not reflect the company's current position unless updated. For companies in active fundraising, the valuation analysis must be current at the date of the fundraising conversation.

COMPLIANCE CRITERIA

Level 1

4.1.L1.1: The company has documented the basis on which its current internally assessed valuation was determined, including the primary methodology used and the key assumptions underlying that methodology.

4.1.L1.2: The company distinguishes between its pre-money and post-money valuation in all internal documents and investor communications, as defined in Book 0, Section 0.4.

4.1.L1.3: The company has identified the primary financial metric or metrics most relevant to its valuation at its current stage, such as annual recurring revenue, revenue run rate, or user count, and maintains current figures for those metrics.

Level 2

4.1.L2.1: The company maintains a written valuation analysis applying at minimum two methodologies appropriate to its stage as defined in the compliance criteria of each methodology section in this Book, with all assumptions documented for each methodology.

4.1.L2.2: The valuation analysis produces a stated range for each methodology applied, with the low end and high end of each range bounded by documented assumptions.

4.1.L2.3: The valuation analysis states a synthesised valuation range derived from the outputs of all methodologies applied, with the weight assigned to each methodology documented and the basis for that weighting explained.

4.1.L2.4: The valuation analysis documents the purpose for which it was prepared: fundraising, option grant pricing, strategic planning, or another stated purpose.

4.1.L2.5: The valuation analysis is updated within ninety calendar days of any material change in the company's financial performance, business model, or market conditions.

4.1.L2.6: Where the company uses its transaction valuation from a funding round as the basis for internal valuation purposes, the company has assessed whether that transaction valuation reflects fair market value and has documented that assessment.

Level 3

4.1.L3.1: The company maintains a version-controlled record of all valuation analyses prepared, such that any prior analysis can be retrieved and compared to subsequent analyses with all changes identified.

4.1.L3.2: The valuation analysis is reviewed by a qualified financial professional who did not prepare the analysis before it is used in any investor communication or transaction documentation.

4.1.L3.3: The company maintains a sensitivity analysis for its valuation, showing how the synthesised valuation range changes when the two most influential assumptions in the primary methodology are varied across their stated ranges.

4.1.L3.4: For option grant pricing purposes, the company maintains a separate fair market value determination prepared at minimum annually and within ninety calendar days of each option grant, using a methodology appropriate for fair market value determination in the company's jurisdiction.

BENCHMARKS

Valuation methodology applicability by stage:

- Pre-Incorporation: Berkus Method or Scorecard Method. No quantitative methodology is appropriate for a company with no operations and no financial history. Asset-Based Valuation may be applicable where the company holds intellectual property of assessable value.
- Pre-Revenue: Scorecard Method, Berkus Method, Venture Capital Method. Where the company has a clear revenue model and a bottom-up forecast, the Venture Capital Method produces a defensible range. Discounted Cash Flow Analysis is not appropriate at pre-revenue stage for companies without meaningful financial history; where applied, its outputs must be presented with explicit acknowledgment of the high sensitivity of the result to terminal value assumptions.
- Early Revenue: Comparable Company Analysis, Venture Capital Method, Discounted Cash Flow Analysis where revenue history is sufficient to calibrate forecasts. Revenue multiples become applicable where revenue is recurring and growing.
- Growth Stage: Comparable Company Analysis, Discounted Cash Flow Analysis, Precedent Transaction Analysis where relevant comparable transactions exist, Venture Capital Method as a cross-check.
- Scale Stage: Comparable Company Analysis, Discounted Cash Flow Analysis, Precedent Transaction Analysis. All three primary quantitative methodologies are applicable and must be applied where data is available.

Minimum methodology count by stage and compliance level:

- Pre-Revenue, Level 2: at minimum two of the following: Berkus Method, Scorecard Method, Venture Capital Method.
- Early Revenue to Growth Stage, Level 2: at minimum two of the following: Comparable Company Analysis, Discounted Cash Flow Analysis, Venture Capital Method.

- Scale Stage, Level 2: at minimum two of the following: Comparable Company Analysis, Discounted Cash Flow Analysis, Precedent Transaction Analysis.

COMMON DEFICIENCIES

CD 4.1.1: The company states its valuation as a single number without a range. The number was agreed with an investor in a funding round. The company presents this transaction valuation as its definitive fair market value in all subsequent contexts, including option grant pricing and strategic planning, without assessing whether the transaction terms reflect fair market value or investment value specific to that investor. No valuation analysis supports the number.

CD 4.1.2: The company's valuation analysis applies one methodology only. The single methodology produces a number that the company presents as its valuation. The assumptions underlying the methodology are not documented. The methodology selected is the one that produces the highest output among the methods the company considered. The selection basis is not disclosed.

CD 4.1.3: The company prepared a valuation analysis eighteen months ago for its last funding round. The company's revenue has grown by three times since that analysis. The market conditions for comparable companies have changed materially. The company continues to reference the eighteen-month-old valuation analysis in investor conversations without updating it. The analysis no longer reflects the company's current financial position or market context.

CD 4.1.4: The company's valuation analysis produces a synthesised range but does not document the weight assigned to each methodology. The low end of the range comes from a methodology the company weighted at ten percent. The high end comes from a methodology the company weighted at ninety percent. The weighting is not disclosed. A reader examining the range cannot assess whether it is balanced or whether the analysis was constructed to support a desired output.

SECTION 4.2: DISCOUNTED CASH FLOW ANALYSIS

PURPOSE

The discounted cash flow analysis standard governs how a company constructs, documents, and applies a discounted cash flow model for valuation purposes. A discounted cash flow analysis is the only intrinsic valuation methodology: it values a company based on its own projected future cash flows rather than by reference to what other companies are worth. This makes it the most transparent methodology and the most sensitive to assumption error. The requirements of this section ensure that a discounted cash flow analysis is constructed with sufficient rigour that the sensitivity of its outputs to its assumptions is visible and testable.

DEFINITIONS

DISCOUNTED CASH FLOW ANALYSIS: A valuation methodology that estimates the present value of a company by projecting its future free cash flows over a defined forecast period and discounting those cash flows to the present at a rate that reflects the time value of money and the risk of the projected cash flows. Discounted cash flow analysis values a company based on its own projected performance, not by reference to comparable companies or transactions.

FREE CASH FLOW: The cash generated by a company's operations after accounting for capital expenditures required to maintain and grow the business. Free cash flow to firm is calculated as earnings before interest and tax, multiplied by one minus the applicable tax rate, plus depreciation and amortisation, minus capital expenditure, minus the increase in net working capital. Free cash flow to equity additionally deducts interest payments and debt repayments. The type of free cash flow used must be specified in the analysis.

DISCOUNT RATE: The rate applied to future cash flows to calculate their present value. The discount rate reflects the time value of money and the risk that projected cash flows will not be achieved. For early-stage companies, the discount rate reflects the high probability that cash flow projections will not be achieved as forecast. The discount rate is not a precision-derived number; it is a risk-adjusted estimate that must be documented with the basis for its derivation.

WEIGHTED AVERAGE COST OF CAPITAL: A calculation of the discount rate that weights the cost of each source of capital by its proportion of the total capital structure. Weighted average cost of capital is the theoretically appropriate discount rate for a discounted cash flow analysis of a company with both debt and equity in its capital structure. For early-stage companies with no debt, the weighted average cost of capital approximates the cost of equity.

COST OF EQUITY: The return required by equity investors to compensate for the risk of holding equity in the company. Cost of equity for an early-stage company reflects the high probability of business failure and the illiquidity of the investment. The cost of equity for early-stage companies is materially higher than the cost of equity for public companies and must be documented with the basis for its derivation.

TERMINAL VALUE: The estimated value of all cash flows beyond the explicit forecast period of a discounted cash flow analysis, calculated as a single amount at the end of the forecast period and discounted to the present. Terminal value represents the continuing value of the business after the explicit forecast period ends and typically represents a substantial proportion of the total value produced by a discounted cash flow analysis. The method used to calculate terminal value must be documented, together with the key assumptions on which it depends.

TERMINAL GROWTH RATE: The long-term sustainable growth rate assumed for the company's cash flows beyond the explicit forecast period, used in the Gordon Growth Model calculation of terminal value. The terminal growth rate must be a conservative estimate of the long-term growth rate of the economy or the company's addressable market, not a continuation of the company's near-term growth rate. A terminal growth rate that exceeds the long-term growth rate of the economy in which the company operates produces a terminal value that implies the company will eventually become larger than the economy, which is not a plausible basis for a valuation.

GORDON GROWTH MODEL: A method of calculating terminal value by dividing the terminal year free cash flow by the difference between the discount rate and the terminal growth rate. Gordon Growth Model terminal value equals terminal year free cash flow multiplied by one plus the terminal growth rate, divided by the discount rate minus the terminal growth rate. This formula produces an implausible result if the terminal growth rate equals or exceeds the discount rate. The Gordon Growth Model must not be applied where the terminal growth rate is within two percentage points of the discount rate.

EXIT MULTIPLE METHOD: An alternative method of calculating terminal value by applying a valuation multiple to a financial metric in the terminal year. The exit multiple must be derived from comparable company multiples at maturity, not from the company's current growth-stage multiples. The exit multiple method is an alternative to the Gordon Growth Model, not a supplement to it.

NET PRESENT VALUE: The sum of all discounted future cash flows, including the terminal value, in a discounted cash flow analysis. Net present value represents the enterprise value of the company as implied by the discounted cash flow analysis.

PRINCIPLES GOVERNING THIS SECTION

The terminal value in a discounted cash flow analysis of an early-stage company typically represents more than seventy percent of the total implied enterprise value. A discounted cash flow analysis in which the terminal value represents more than ninety percent of the implied enterprise value is not producing a valuation based on the company's near-term cash flow prospects; it is producing a valuation that is almost entirely dependent on terminal value assumptions. Such an analysis must be presented with explicit acknowledgment of this dependency and must include sensitivity analysis on the terminal growth rate and the discount rate.

For pre-revenue and early-revenue companies, the explicit forecast period must be long enough to reach a state of normalised, sustainable free cash flow generation. Applying a terminal value to a company that is still in its high-growth, cash-consuming phase produces a terminal value calculation that compounds uncertain near-term growth assumptions indefinitely and produces an output that cannot be validated against any observable financial metric.

The discount rate for an early-stage company is not derived from public company cost of equity data without adjustment. The additional risk of an early-stage business, including execution risk, market risk, key person risk, and liquidity risk, must be reflected in the discount rate. An unadjusted public company weighted average cost of capital applied to an early-stage company understates the discount rate and overstates the implied value.

COMPLIANCE CRITERIA

Level 1

4.2.L1.1: Where the company applies discounted cash flow analysis, the analysis documents the explicit forecast period used and the basis for the length of that period.

4.2.L1.2: Where the company applies discounted cash flow analysis, the discount rate is documented with the primary factors considered in its derivation.

4.2.L1.3: Where the company applies discounted cash flow analysis, the terminal value calculation method is documented as either the Gordon Growth Model or the exit multiple method, with the key inputs to that calculation stated.

Level 2

4.2.L2.1: The discounted cash flow model uses the bottom-up financial forecast maintained under Book 2, Section 2.1 as the basis for projected free cash flows, and the connection between the valuation model and the financial forecast is documented.

4.2.L2.2: The discount rate is documented with the specific components considered in its derivation, including the base rate used, the equity risk premium applied, and any company-specific risk adjustments made, with the basis for each component stated.

4.2.L2.3: The terminal growth rate used in the Gordon Growth Model is documented with the basis for the rate, including reference to the long-term economic growth rate of the primary market and the basis for any premium or discount applied.

4.2.L2.4: The analysis includes a sensitivity table showing how the implied enterprise value changes when the discount rate and the terminal growth rate are each varied across a range of at minimum three values above and below the base case assumption.

4.2.L2.5: The analysis states the proportion of total implied enterprise value represented by the terminal value, and where that proportion exceeds seventy percent, the analysis includes an explicit acknowledgment of this dependency.

4.2.L2.6: Where the company is pre-revenue or early revenue, the discounted cash flow analysis explicitly acknowledges the high sensitivity of its outputs to the forecast assumptions and does not present its output as a precise valuation.

Level 3

4.2.L3.1: The discounted cash flow model integrates with the three-statement model maintained under Book 1, Section 1.1, such that a change in any forecast assumption updates the free cash flow projections and the implied enterprise value without manual recalculation.

4.2.L3.2: The discount rate is derived from a documented cost of equity calculation that includes a stated base rate, an equity risk premium referenced to an observable market source, a size premium reflecting the company's stage, and a company-specific risk adjustment reflecting the material risks identified in the company's risk assessment.

4.2.L3.3: The analysis applies both the Gordon Growth Model and the exit multiple method to calculate terminal value, presents the results of each, and documents the basis for the weight assigned to each in the synthesised output.

4.2.L3.4: The discounted cash flow analysis is accompanied by a written narrative that explains the key assumptions, the sensitivity of the output to those assumptions, and the reasons the analysis is or is not given significant weight in the synthesised valuation range.

BENCHMARKS

Discount rate benchmarks for early-stage companies:

- These benchmarks are directional indicators. Discount rates for early-stage companies vary materially by market, by sector, and by stage. They will be refined in v1.0 as additional data accumulates.
- Pre-Revenue: discount rates in the range of forty to seventy percent per annum are commonly observed in venture capital valuation practice for pre-revenue companies, reflecting the high probability of business failure and the long duration before expected cash generation.
- Early Revenue: discount rates in the range of thirty to fifty percent per annum are commonly observed, reflecting reduced but still material execution risk and liquidity constraints.

- Growth Stage: discount rates in the range of twenty to thirty-five percent per annum are commonly observed for companies with demonstrated growth and improving unit economics.
- Scale Stage: discount rates in the range of fifteen to twenty-five percent per annum are commonly observed, converging toward public company discount rates as the company approaches profitability and liquidity.

Terminal growth rate benchmarks:

A terminal growth rate above the long-term nominal GDP growth rate of the primary market is not appropriate as a base assumption. In most developed markets, long-term nominal GDP growth rates of two to four percent per annum are the appropriate ceiling for terminal growth rate assumptions. A terminal growth rate above five percent in any market requires explicit justification with reference to documented structural drivers.

Explicit forecast period benchmarks by stage:

- Early Revenue: five to seven years minimum to reach a state of normalised free cash flow.
- Growth Stage: five years minimum; seven to ten years for companies in early phases of a long growth cycle.
- Scale Stage: three to five years to the point of normalised margins.

COMMON DEFICIENCIES

CD 4.2.1: The company applies a terminal growth rate of fifteen percent to its discounted cash flow analysis, reflecting its current revenue growth rate projected in perpetuity. The terminal value represents ninety-three percent of the implied enterprise value. The implied enterprise value suggests the company will generate more free cash flow in perpetuity than the entire current addressable market can support. The analysis is not presented with any acknowledgment of this dependency or any sensitivity table.

CD 4.2.2: The company derives its discount rate from the weighted average cost of capital of three publicly listed companies in its sector. The public company weighted average cost of capital is between eight and twelve percent. The company applies eleven percent as its discount rate without adjustment for the illiquidity, execution risk, key person risk, and stage differences between a listed company and a pre-revenue startup. The resulting discounted cash flow produces an implied valuation that is three to five times higher than any comparable transaction in the private market at the same stage.

CD 4.2.3: The company's explicit forecast period is three years. After three years, the company is still loss-making in its base case forecast, with negative free cash flow. The terminal value is applied to negative free cash flow using the Gordon Growth Model. The formula produces a negative terminal value, which the company ignores, adjusting the terminal cash flow to a positive number on the basis that the company will be profitable "at some point beyond three years." No basis for this adjustment is documented.

CD 4.2.4: The discounted cash flow analysis produces a wide range of implied enterprise values depending on assumptions. The company presents only the output from the assumptions that produce the highest value without disclosing that the range under alternative assumptions is materially lower. The sensitivity table that would make this visible is not included.

SECTION 4.3: COMPARABLE COMPANY ANALYSIS**PURPOSE**

The comparable company analysis standard governs how a company selects comparable companies, derives valuation multiples from those companies, adjusts those multiples for differences between the comparables and the subject company, and applies those adjusted multiples to produce an implied valuation range. Comparable company analysis is the most commonly used valuation methodology in early-stage markets because it is observable and can be applied without a long financial history. It is also the methodology most susceptible to manipulation through selective comparable selection and unadjusted multiple application.

DEFINITIONS

COMPARABLE COMPANY ANALYSIS: A valuation methodology that estimates a company's value by reference to the valuations of similar companies, expressed as multiples of financial metrics such as revenue, annual recurring revenue, or earnings before interest, tax, depreciation, and amortisation, and applied to the subject company's equivalent metrics.

COMPARABLE COMPANY: A company whose business model, stage, growth characteristics, margin profile, and market exposure are sufficiently similar to those of the subject company that the multiple at which it is valued provides meaningful information about the value of the subject company. A company is not comparable solely because it operates in the same broad sector.

PEER SET: The group of companies selected as comparables for a comparable company analysis. The peer set must be constructed using documented selection criteria applied consistently to all candidates. A peer set constructed by selecting companies whose multiples support a desired valuation output is not a compliant peer set.

REVENUE MULTIPLE: A valuation multiple calculated as enterprise value divided by annual revenue. Revenue multiples are the primary multiple applied in comparable company analysis for early-stage companies that are not yet profitable. Revenue multiples vary significantly by growth rate, gross margin, and business model predictability.

ARR MULTIPLE: A valuation multiple calculated as enterprise value divided by annual recurring revenue. The ARR multiple is the primary multiple applied to Recurring Revenue companies and is more informative than a revenue multiple for businesses with a mix of recurring and non-recurring revenue.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AND AMORTISATION MULTIPLE: A valuation multiple calculated as enterprise value divided by earnings before interest, tax, depreciation, and amortisation. This multiple is applicable to companies that are profitable or approaching profitability and is not appropriate for pre-revenue or early-revenue companies with negative earnings before interest, tax, depreciation, and amortisation.

GROWTH-ADJUSTED MULTIPLE: A valuation multiple that has been adjusted for the difference in growth rate between the comparable company and the subject company. A company growing at twice the rate of a comparable commands a higher multiple than an unadjusted application of the comparable's multiple would imply. Growth adjustment is a required element of compliant comparable company analysis.

RULE OF 40 ADJUSTED MULTIPLE: A valuation multiple calibrated to the sum of the growth rate and the profit margin of the comparable company, used to compare companies with different growth and profitability profiles on a standardised basis. The Rule of 40 adjusted multiple is defined in Book 2, Section 2.4 and is applicable at Growth Stage and Scale Stage for Recurring Revenue companies.

SELECTION CRITERIA: The documented criteria used to determine whether a company qualifies for inclusion in the peer set. Selection criteria must be applied before multiples are observed. Selection criteria applied after multiples are observed are subject to selection bias and do not satisfy the requirements of this Standard.

MEDIAN MULTIPLE: The middle value in the range of multiples observed across the peer set, where half the peer set values are above the median and half are below. The median is the appropriate central tendency measure for a peer set because it is less sensitive than the mean to outlier multiples at either end of the distribution.

CONTROL PREMIUM: An adjustment to a comparable company multiple to reflect the additional value a buyer pays for a controlling interest relative to a minority interest. Control premiums are applicable in comparable transaction analysis but are not applicable in comparable company analysis based on public market trading prices, which reflect minority stakes.

LIQUIDITY DISCOUNT: A reduction applied to a comparable company multiple derived from publicly traded company valuations to reflect the difference in liquidity between a publicly traded share and a private company share. Private company equity is less liquid than public company equity. A liquidity discount of fifteen to thirty-five percent is commonly applied in fair market value determinations for private company equity, with the appropriate discount depending on the specific liquidity constraints of the share class.

PRINCIPLES GOVERNING THIS SECTION

The peer set must be constructed using selection criteria that are documented before the multiples of candidate companies are examined. A peer set is not compliant if the selection criteria were applied after the multiples of candidate companies were observed, because the knowledge of those multiples creates an incentive to include companies with high multiples and exclude companies with low multiples.

The selection criteria must address at minimum: business model similarity; stage similarity; growth rate comparability; gross margin comparability; geographic market; and primary revenue type. A peer set consisting solely of the largest publicly traded companies in a broad sector, without adjustment for scale, margin, or stage differences, does not satisfy the requirements of this Standard.

Multiples must be adjusted for material differences between each comparable and the subject company before they are applied. The most material adjustments are for differences in growth rate and gross margin. A company growing at twice the rate of a comparable is not appropriately valued at the comparable's unadjusted multiple.

For private company comparables where multiples are estimated from reported funding round terms, the multiple must account for the preference structure of the investment, which affects the true economic value received by common shareholders. A preference-adjusted multiple is more appropriate than an unadjusted multiple for private company peer sets.

COMPLIANCE CRITERIA

Level 1

4.3.L1.1: Where the company applies comparable company analysis, the peer set is documented with the name of each comparable and the primary selection criteria used to include it.

4.3.L1.2: The multiple applied to the subject company's metrics is identified as derived from the peer set and the median, mean, or specific peer multiple used is stated.

4.3.L1.3: The financial metric to which the multiple is applied is stated, together with the time period it represents, whether historical or forward-looking.

Level 2

4.3.L2.1: The selection criteria for the peer set are documented in writing before the multiples of candidate companies are observed, with each criterion applied to all candidates consistently.

4.3.L2.2: The peer set includes at minimum five comparable companies and does not include any company whose primary business model, gross margin profile, or stage of development differs so materially from the subject company that no growth rate adjustment could render the comparison meaningful.

4.3.L2.3: The analysis presents the distribution of multiples across the peer set, including the minimum, median, and maximum observed multiple, and states whether the subject company's characteristics support application of a multiple above or below the median, with the basis documented.

4.3.L2.4: The multiple applied to the subject company's metrics is adjusted for material differences in growth rate between the subject company and each comparable, with the adjustment methodology documented.

4.3.L2.5: Where the peer set includes public company comparables and the subject company is private, a liquidity discount is applied and the basis for the discount percentage is documented.

4.3.L2.6: The analysis states the implied enterprise value range produced by applying the peer set multiples, from the minimum to the maximum observed in the peer set, before adjustments, and the adjusted range after applying the growth rate adjustment and any other documented adjustments.

Level 3

4.3.L3.1: The peer set is reviewed and updated at minimum annually, or within ninety calendar days of a material change in the trading multiples of publicly listed peers, to ensure that the multiples reflect current market conditions.

4.3.L3.2: The analysis includes a regression of the peer set multiples against the growth rates of the comparable companies, to derive a growth-adjusted multiple that reflects the observed relationship between growth and valuation in the peer set rather than applying a fixed adjustment factor.

4.3.L3.3: Where the peer set is insufficient because no sufficiently comparable public companies exist at the subject company's stage, the analysis documents this limitation explicitly and assigns lower weight to the comparable company analysis in the synthesised valuation range.

4.3.L3.4: The analysis maintains a record of the multiples observed for each peer at each prior analysis date, to allow assessment of how the peer set multiples have moved over time and whether the current implied valuation range reflects a market multiple expansion or contraction relative to the prior analysis.

BENCHMARKS

Revenue and ARR multiple benchmarks by stage and company type:

These benchmarks reflect observed private market multiples and public market trading multiples as of the preparation of Beta v0.5. They are subject to material change as market conditions evolve and will be updated in v1.0. All multiples stated are enterprise value multiples applied to trailing twelve-month or forward twelve-month metrics as specified.

1. Recurring Revenue companies, Growth Stage, trailing twelve-month ARR:
2. Low growth, below thirty percent annually: three to six times ARR
3. Moderate growth, thirty to sixty percent annually: six to ten times ARR
4. High growth, sixty to one hundred percent annually: ten to twenty times ARR
5. Exceptional growth, above one hundred percent annually: fifteen to thirty times ARR or above, depending on gross margin and net revenue retention

These ranges reflect a period of multiple compression following the peak of 2021 and are calibrated to observed transaction data from 2023 through 2025. Multiples above the stated ranges require explicit justification by reference to company-specific characteristics that are observable and documentable.

Transactional Revenue companies, Growth Stage: two to five times trailing revenue is commonly observed, reflecting the lower predictability of transactional revenue relative to recurring revenue.

B2B Enterprise companies, Growth Stage: four to eight times ARR is commonly observed, reflecting high net revenue retention and large contract values offset by longer sales cycles and higher customer acquisition costs.

Consumer companies: multiples for consumer companies are highly variable and depend on monetisation model. Advertising-monetised consumer businesses are commonly valued on revenue or earnings before interest, tax, depreciation, and amortisation multiples rather than ARR multiples. Benchmarks for consumer company valuation by monetisation model will be stated in v1.0.

AI-Native companies: revenue and ARR multiples for AI-Native companies are not yet established with sufficient consistency to state as benchmarks in Beta v0.5. The high revenue growth rates observed in AI-Native companies in 2024 and 2025 have produced multiples that span a very wide range, reflecting the market's uncertainty about the long-term unit economics of businesses whose cost structure is dominated by inference compute costs that may change materially as model efficiency improves. The company must document the specific peer set characteristics and the adjustments applied, with explicit acknowledgment of the limitations of available comparable data. These benchmarks will be stated in v1.0.

COMMON DEFICIENCIES

CD 4.3.1: The company's peer set consists of three public companies, each with market capitalisation above five billion pounds, each profitable, and each growing at less than fifteen percent annually. The subject company is pre-revenue and projecting one hundred and fifty percent growth. The unadjusted median multiple from the peer set is applied to the subject company's projected forward revenue without

adjustment for stage, growth rate, or profitability differences. The resulting implied valuation is higher than any private market transaction for a company at the subject company's stage and financial profile.

CD 4.3.2: The company selects comparables by searching for companies that have been valued at high multiples in recent funding rounds. The selection criteria are reverse-engineered from the multiples rather than applied before the multiples are examined. The resulting peer set consists of companies that all trade at high multiples. The median of a non-representative sample is applied without acknowledgment of the selection methodology. The analysis cannot be replicated by a third party applying the stated criteria without producing the same peer set.

CD 4.3.3: The company applies the peer set median multiple to its forward revenue projection without applying a liquidity discount. The peer set consists of publicly traded companies. The subject company's shares are illiquid private equity. The absence of a liquidity discount produces an implied valuation that overstates the value a private market buyer would be willing to pay by fifteen to thirty-five percent.

CD 4.3.4: The company's peer set has not been updated in fourteen months. In that period, the trading multiples of the peer set companies have declined by forty percent due to a market-wide compression of technology company multiples. The valuation analysis presented to investors continues to reference the multiples from fourteen months prior. The implied valuation range is materially inconsistent with current market conditions and is rejected by the investor, causing the company to reassess its valuation at a significantly lower range than it had anticipated.

SECTION 4.4: PRECEDENT TRANSACTION ANALYSIS

PURPOSE

The precedent transaction analysis standard governs how a company identifies, documents, and applies multiples from prior transactions in comparable companies to estimate the implied acquisition value of the subject company. Precedent transaction analysis differs from comparable company analysis in two material ways: it reflects the prices paid by acquirers in completed transactions rather than trading prices in public markets, and it reflects the terms of those transactions, including control premiums and preference structures, that affect the total value paid. For early-stage companies not contemplating an imminent transaction, precedent transaction analysis is most useful as a cross-check on comparable company analysis and as a baseline for acquisition valuation conversations.

DEFINITIONS

PRECEDENT TRANSACTION ANALYSIS: A valuation methodology that estimates a company's acquisition value by reference to the multiples implied by completed transactions in comparable companies. Precedent transaction analysis is distinct from comparable company analysis because it reflects transaction values rather than trading values and includes control premiums paid by acquirers.

TRANSACTION MULTIPLE: A valuation multiple calculated from a completed acquisition, expressed as the total consideration paid divided by a financial metric of the acquired company at the time of the transaction. Transaction multiples are typically higher than trading multiples for equivalent companies because they include a control premium.

CONTROL PREMIUM: The additional value paid by an acquirer for a controlling interest in a company, above the value implied by minority market trading prices. Control premiums in technology company

acquisitions have historically ranged from twenty to fifty percent above the pre-announcement public trading price, reflecting the strategic value of control and the elimination of minority discount.

TRANSACTION DATE ADJUSTMENT: An adjustment applied to a historical transaction multiple to account for changes in market conditions, valuation multiples, and the macroeconomic environment between the date of the historical transaction and the date of the current analysis. A transaction that occurred at the peak of a market cycle in 2021 must be adjusted before its multiple is applied in a different market environment.

STRATEGIC ACQUIRER: An acquirer whose primary motivation for a transaction is the strategic benefit of combining the target's capabilities with its own business, rather than purely financial return. Strategic acquirers often pay higher multiples than financial acquirers because they ascribe investment value rather than fair market value to the transaction.

FINANCIAL ACQUIRER: An acquirer, typically a private equity firm or financial institution, whose primary motivation is financial return from the investment. Financial acquirers apply more disciplined multiple constraints than strategic acquirers and are generally more sensitive to the target company's financial metrics.

PRINCIPLES GOVERNING THIS SECTION

Transaction data for private company acquisitions is less available than public company trading data. Where transaction multiples cannot be verified from public sources, the source of each multiple must be documented and the reliability of the source must be assessed. An unverified transaction multiple sourced from secondary press coverage is less reliable than a multiple sourced from regulatory filings or audited accounts.

A precedent transaction analysis must apply transaction date adjustments where the transactions in the data set are more than eighteen months old. Market conditions for technology company valuations have changed materially in recent years, and historical multiples from peak market periods do not reflect current market terms without adjustment.

COMPLIANCE CRITERIA

Level 1

4.4.L1.1: Where the company applies precedent transaction analysis, each transaction in the data set is documented with the name of the acquired company, the acquiring company, the approximate transaction date, the transaction value or implied multiple, and the source of that information.

4.4.L1.2: The financial metric to which each transaction multiple is applied is documented, together with the time period it represents.

Level 2

4.4.L2.1: The transaction data set includes at minimum five completed transactions; each transaction is in a company with a comparable business model and financial profile to the subject company; and the selection criteria for inclusion are documented before the multiples of candidate transactions are examined.

4.4.L2.2: Transaction date adjustments are applied to all transactions more than eighteen months old, with the adjustment methodology documented.

4.4.L2.3: The analysis distinguishes between transactions completed by strategic acquirers and those completed by financial acquirers, and documents whether the applicable control premium profile reflects strategic or financial acquirer behaviour.

4.4.L2.4: The analysis states the implied enterprise value range produced by the transaction data set and documents whether the subject company's characteristics support application of a multiple above or below the median transaction multiple.

Level 3

4.4.L3.1: The transaction data set is updated at minimum annually to include transactions completed in the preceding twelve months, removing the least comparable historical transactions as newer, more comparable transactions become available.

4.4.L3.2: The analysis includes a written assessment of whether the strategic or financial acquirer profile is more relevant to the subject company's likely acquirer universe, and the implications of that assessment for the appropriate multiple range.

BENCHMARKS

Transaction multiple benchmarks for technology company acquisitions:

Transaction multiples for early-stage private company acquisitions vary materially by acquirer type, strategic rationale, and market cycle. The following are directional indicators based on reported and regulatory-disclosed transaction data from 2022 through 2025.

Recurring Revenue companies, Growth Stage, acquired by strategic acquirers: four to twelve times trailing ARR has been observed across a range of transactions, with higher multiples associated with companies with strong net revenue retention, high gross margins, and product capabilities that would be difficult for the acquirer to replicate organically.

AI-Native companies: acquisition multiples for AI-Native companies in the 2024 to 2025 period have shown extreme variance, from two times revenue for businesses with uncertain unit economics to multiples that effectively reflect acqui-hire value for teams with research capabilities considered scarce. Benchmarks for AI-Native company acquisitions are not yet stable enough to state as reliable reference points and will be assessed in v1.0.

COMMON DEFICIENCIES

CD 4.4.1: The company's transaction data set includes two acquisitions from 2021, when technology company multiples were at a cyclical peak. No transaction date adjustment is applied. The multiples from those transactions are two to three times the multiples observed in comparable transactions completed in 2023 and 2024. The company presents the unadjusted 2021 multiples as the primary basis for its acquisition valuation expectation.

CD 4.4.2: The company sources transaction multiples from press coverage and investor blog posts that report approximate transaction values without specifying whether the stated value reflects equity value, enterprise value, total consideration including earn-outs, or implied value at a specific investor preference

structure. The multiples are applied without clarifying what they represent. A transaction described as a "fifty million pound acquisition" may reflect equity value to preference shareholders only, with common shareholders receiving materially less.

SECTION 4.5: THE VENTURE CAPITAL METHOD

PURPOSE

The venture capital method standard governs the application of the venture capital valuation framework, which derives a present-day valuation by working backward from an expected future exit value. The venture capital method reflects how many institutional investors actually assess the value of an early-stage investment: by estimating the exit value required to produce the return they need, discounting that exit value to the present at their required return rate, and determining whether the implied current valuation is acceptable. A company that understands the venture capital method understands how its investor is thinking about valuation.

DEFINITIONS

VENTURE CAPITAL METHOD: A valuation methodology that derives a company's present-day value by dividing an expected future exit value by the investment return multiple required by the investor, discounting that result to the present to account for the time value of money and investment risk, and then calculating the ownership percentage the investor must receive to achieve that return.

EXPECTED EXIT VALUE: The projected enterprise value of the company at the time of a future liquidity event, estimated using the financial projections maintained under Book 2 and valuation multiples appropriate to the company's projected financial metrics at the exit date. Expected exit value is an estimate, not a commitment.

REQUIRED RETURN MULTIPLE: The multiple of invested capital an investor requires to achieve their target internal rate of return, given the expected holding period. A fund targeting a thirty percent internal rate of return over a five-year holding period requires an approximately three point seven times return multiple on invested capital, before accounting for management fees and carry. Required return multiples vary by fund strategy, fund stage, and holding period.

HOLDING PERIOD: The expected number of years from the date of investment to the date of the anticipated liquidity event. Holding periods for early-stage venture investments commonly range from five to ten years.

POST-MONEY VALUATION, VENTURE CAPITAL METHOD: In the context of the venture capital method, post-money valuation is calculated as the expected exit value divided by the required return multiple. This produces the maximum post-money valuation at which the investor can achieve their required return. The pre-money valuation is then derived by subtracting the investment amount from this post-money valuation.

DILUTION ASSUMPTION: In the venture capital method, the adjustment made to the investor's expected ownership percentage at exit to reflect the dilution from anticipated future funding rounds between the current investment and the exit. If the investor holds fifteen percent immediately after the current round but expects to be diluted to eight percent by the time of the exit through subsequent rounds, the dilution assumption must be incorporated into the return calculation.

PRINCIPLES GOVERNING THIS SECTION

The venture capital method produces a valuation that reflects the investor's required return and the investor's expectations about exit value and dilution. It is not a methodology that values the company based on its intrinsic characteristics; it values the company based on what an investor with a specific return requirement would pay. A company applying the venture capital method must document the return requirements and assumptions used, because the result is highly sensitive to those inputs.

The expected exit value must be derived from a documented financial forecast and documented valuation multiple assumptions for the exit period, not from an aspirational exit number. An expected exit value that is not connected to a financial projection and a valuation multiple cannot be assessed by a third party and does not satisfy the requirements of this Standard.

COMPLIANCE CRITERIA

Level 1

4.5.L1.1: Where the company applies the venture capital method, the expected exit value is documented with the basis for the estimate, including the financial metric projected at the exit date and the multiple applied to that metric.

4.5.L1.2: The required return multiple or target internal rate of return used in the analysis is documented, together with the basis for the selection of that rate.

4.5.L1.3: The holding period used in the analysis is documented.

Level 2

4.5.L2.1: The expected exit value is derived from the company's bottom-up financial forecast maintained under Book 2, Section 2.1, using the financial metrics projected at the anticipated exit date and multiples drawn from the comparable company analysis maintained under Section 4.3 or the precedent transaction analysis maintained under Section 4.4.

4.5.L2.2: The dilution assumption is documented, reflecting the anticipated number of additional funding rounds between the current investment and the exit, the typical ownership dilution per round, and the resulting expected ownership percentage at exit.

4.5.L2.3: The analysis produces a stated pre-money valuation range by applying the venture capital method under at minimum two sets of return assumptions, representing the range of investor return requirements likely to be encountered in the current market.

4.5.L2.4: The analysis presents the implied ownership percentage the investor must receive at the current round to achieve the stated required return under the documented assumptions.

Level 3

4.5.L3.1: The venture capital method analysis is sensitivity-tested across a range of exit valuations, holding periods, and dilution assumptions, producing a matrix of implied current valuations that shows the company's negotiating range under different investor assumption sets.

4.5.L3.2: The analysis is updated before each fundraising process to reflect changes in the company's financial projections, changes in exit multiple benchmarks, and any changes in prevailing investor return expectations.

BENCHMARKS

Required return multiple benchmarks by stage:

Pre-Revenue and Early Revenue: institutional early-stage investors commonly target ten to twenty times return on invested capital over a five to seven year holding period, reflecting the high probability of loss or underperformance in the portfolio. The required return multiple for any specific investment is higher than the portfolio-level target because the portfolio includes companies that return less than the investment.

Growth Stage: institutional growth-stage investors commonly target five to ten times return on invested capital over a four to six year holding period.

Dilution benchmarks per round: twenty to thirty percent dilution per funding round is commonly observed in competitive markets. A company raising multiple rounds before exit should model cumulative dilution of fifty to seventy percent across all anticipated rounds when applying the venture capital method.

COMMON DEFICIENCIES

CD 4.5.1: The company applies the venture capital method using an expected exit value of five hundred million pounds derived from a market opportunity assessment rather than from a financial projection and a valuation multiple. The financial projection that would support a five hundred million pound exit valuation at any plausible multiple does not exist in the company's financial model. The venture capital method produces a current valuation that implies a growth trajectory the company has not modeled and cannot support.

CD 4.5.2: The company applies the venture capital method without a dilution assumption. The analysis assumes the investor's current ownership percentage is maintained through to exit without additional funding rounds. The company's financial model shows the company will require two additional funding rounds before exit. Omitting the dilution assumption overstates the investor's expected exit proceeds and produces a pre-money valuation that is higher than the investor's return requirements would support under realistic assumptions.

SECTION 4.6: EARLY STAGE VALUATION METHODS: BERKUS AND SCORECARD

PURPOSE

The Berkus Method and the Scorecard Method are qualitative or semi-quantitative valuation frameworks applicable to pre-revenue companies where quantitative methodologies cannot produce reliable outputs because no financial history exists and no financial metrics are available to which multiples can be applied. These methods provide a structured basis for estimating value where estimation is inherently imprecise. A company that applies these methods must acknowledge their limitations and must not present their outputs with the same precision implied by quantitative methods.

DEFINITIONS

BERKUS METHOD: A valuation framework for pre-revenue companies that assigns monetary value to five categories of startup progress: a sound idea; a working prototype; a quality management team; strategic relationships; and product rollout or initial sales. The total of the values assigned across the five categories produces an implied pre-money valuation. The maximum value assigned to each category is defined at the time of the analysis; commonly used maxima are five hundred thousand to one million pounds per category, producing a maximum implied valuation of two point five to five million pounds under this method. The Berkus Method is not applicable to companies with meaningful revenue.

SCORECARD METHOD: A valuation framework for pre-revenue companies that begins with a median pre-money valuation for comparable companies at the same stage and in the same geography, and adjusts that median using a weighted scoring of the subject company against the comparables on dimensions including management team strength, market size, product stage, competitive environment, marketing and sales channels, and need for additional investment. The sum of the weighted scores produces an adjustment factor applied to the median comparable valuation to derive the implied pre-money valuation.

BENCHMARK MEDIAN VALUATION: In the Scorecard Method, the median pre-money valuation of companies at the same stage, in the same geography, and in comparable sectors that have raised external capital in the relevant period. The benchmark median must be derived from a documented source and must reflect transactions completed within the preceding twelve months.

ADJUSTMENT FACTOR: In the Scorecard Method, the product of the weighted scores assigned to the subject company across all scoring dimensions. An adjustment factor of one point two implies that the subject company is assessed as twenty percent better than the median comparable on the weighted scoring. The adjustment factor is multiplied by the benchmark median valuation to produce the implied pre-money valuation.

PRINCIPLES GOVERNING THIS SECTION

The Berkus Method and Scorecard Method are appropriate only at pre-revenue stage. A company that has meaningful revenue must apply quantitative methods as defined in Sections 4.2 through 4.5. Applying the Berkus Method or Scorecard Method to a company with revenue understates the relevance of the financial evidence available and does not satisfy the requirements of this Standard.

The scoring in the Scorecard Method must be based on documented evidence, not on unsubstantiated management assessment. Each score assigned must be supported by a stated basis that a third party can assess independently.

COMPLIANCE CRITERIA

Level 1

4.6.L1.1: Where the company applies the Berkus Method, each of the five categories is documented with the value assigned and the basis for that value stated.

4.6.L1.2: Where the company applies the Scorecard Method, the benchmark median valuation is documented with the source and the date from which it is derived.

4.6.L1.3: Where the company applies the Scorecard Method, each scoring dimension is documented with the score assigned and the specific evidence supporting that score.

Level 2

4.6.L2.1: The valuation analysis acknowledges explicitly that the Berkus Method or Scorecard Method is being applied because the company is pre-revenue and that the output of these methods is more uncertain than the output of quantitative methods applicable to revenue-generating companies.

4.6.L2.2: Both the Berkus Method and the Scorecard Method are applied simultaneously, and the results of both are presented to produce a triangulated range rather than a single output from a single method.

4.6.L2.3: The benchmark median valuation used in the Scorecard Method is derived from transactions completed within the preceding eighteen months and the source is documented.

BENCHMARKS

Berkus Method value assignment benchmarks:

Commonly used maximum values per category range from five hundred thousand to one million pounds in UK and European markets, reflecting typical pre-revenue seed round valuation ranges. In US markets, maximum values of five hundred thousand to two million dollars per category are commonly observed. The maximum values must be calibrated to the current market environment and the geography of the company. Benchmarks calibrated to 2021 peak market conditions do not reflect the market environment of 2024 to 2026.

Scorecard Method benchmark median valuations by geography and stage:

- UK pre-revenue seed stage: benchmark median pre-money valuations of one to three million pounds have been observed in the 2023 to 2025 period, reflecting a compression from the 2020 to 2021 peak. These benchmarks will be updated in v1.0 with data from 2025 and 2026.
- US pre-revenue seed stage: benchmark median pre-money valuations of two to six million dollars have been observed in the 2023 to 2025 period.

These benchmarks are directional only. The applicable benchmark must reflect the specific geography, sector, and market conditions at the time of the analysis.

COMMON DEFICIENCIES

CD 4.6.1: The company applies the Scorecard Method using a benchmark median valuation sourced from a 2021 database that reflected peak market conditions. The benchmark median is three million pounds. Applying the company's adjustment factor of one point three produces an implied pre-money valuation of three point nine million pounds. Comparable transactions in the current market suggest a benchmark median of one point five million pounds for similar stage and geography. Applying the current benchmark produces an implied valuation of one point nine five million pounds. The company does not disclose the date or source of the benchmark used.

CD 4.6.2: The company applies the Berkus Method and assigns the maximum value to all five categories without documenting the basis for any score. The resulting implied valuation is at the maximum possible output of the method. The scores are not supportable by specific evidence. An investor reviewing the analysis cannot assess whether the scores reflect the company's actual position or an optimistic self-assessment.

SECTION 4.7: THE MARKET SIZING STANDARD FOR VALUATION**PURPOSE**

The market sizing standard for valuation governs how a company documents and presents the market opportunity that underlies its valuation. Market sizing is not, by itself, a valuation methodology. A large market does not imply a high valuation. But the plausibility of a company's growth projections and, therefore, the credibility of its valuation, depends on whether the market opportunity can support the projected revenue trajectory. A market sizing analysis that cannot support the company's projected revenue scale undermines the credibility of every quantitative valuation methodology that depends on those projections.

DEFINITIONS

TOTAL ADDRESSABLE MARKET: Defined in Book 0, Section 0.4. The total revenue opportunity available if the company captured its entire target market with its current or planned offering. Total Addressable Market is the ceiling of the market opportunity and is not a forecast.

SERVICEABLE ADDRESSABLE MARKET: Defined in Book 0, Section 0.4. The portion of Total Addressable Market accessible given the company's current product, business model, and geographic reach.

SERVICEABLE OBTAINABLE MARKET: Defined in Book 0, Section 0.4. The portion of Serviceable Addressable Market the company can realistically capture within a defined period given its current go-to-market capacity and competitive position.

TOP-DOWN MARKET SIZING: A market sizing approach that begins with the total market size derived from external research and applies a capture rate to derive the company's addressable opportunity. Top-down market sizing is directionally useful for establishing the order of magnitude of the opportunity but is not sufficient for a compliant market sizing analysis at Level 2 and above because it does not demonstrate a mechanistic connection between the company's operations and the projected revenue.

BOTTOM-UP MARKET SIZING: A market sizing approach that builds the total opportunity from the company unit level upward, by calculating the number of potential customers, the average revenue per customer, and the product of those two figures to derive the total opportunity. Bottom-up market sizing is the required methodology at Level 2 and above because it produces a figure that can be validated against the company's unit economics.

MARKET SIZING CONSISTENCY: The requirement that the company's financial projections are consistent with its market sizing. A company whose financial projections imply capturing thirty percent of its Serviceable Addressable Market in three years must demonstrate that the Serviceable Addressable Market is large enough to support those projections, that its go-to-market capacity can reach that portion of the market, and that the competitive dynamics of the market make a thirty percent capture rate plausible.

PRINCIPLES GOVERNING THIS SECTION

The Serviceable Obtainable Market is the market sizing figure that must be consistent with the company's financial projections. A large Total Addressable Market that is not translated into a specific Serviceable Obtainable Market does not provide a credible basis for the company's projected revenue.

Market sizing figures derived from external research reports must be assessed for their applicability to the specific segment, geography, and business model of the subject company. A global Total Addressable Market for a broad sector is not the correct reference for a company serving a specific customer segment in a specific geography with a specific business model.

The company's projected market share at the end of the financial projection period must be calculated explicitly and assessed for plausibility. A projection that implies a market share of more than ten percent of the Serviceable Addressable Market within five years requires explicit justification by reference to the company's competitive position and distribution capacity.

COMPLIANCE CRITERIA

Level 1

4.7.L1.1: The company has documented a Total Addressable Market estimate with the source and the date of the underlying data.

4.7.L1.2: The company has derived a Serviceable Addressable Market from the Total Addressable Market with the basis for the reduction documented.

4.7.L1.3: The company has estimated a Serviceable Obtainable Market covering the next three to five years with the basis for the estimate stated.

Level 2

4.7.L2.1: The Serviceable Obtainable Market is derived using a bottom-up methodology, calculating the number of potential customers in the reachable market and the average revenue per customer at the company's current pricing, and stating the product of those two figures as the Serviceable Obtainable Market.

4.7.L2.2: The company's financial projections are explicitly compared to the Serviceable Obtainable Market, with the implied market capture rate calculated for each year of the projection period.

4.7.L2.3: Where the implied market capture rate in the projection period exceeds ten percent of the Serviceable Addressable Market, the analysis includes a documented basis for why a capture rate above ten percent is plausible given the company's competitive position, go-to-market capacity, and market dynamics.

4.7.L2.4: The market sizing analysis is updated at minimum annually and within ninety calendar days of any material change in the company's product offering, geographic focus, or target customer definition.

Level 3

4.7.L3.1: The bottom-up market sizing is validated against external market data sources, with the number of potential customers in the addressable market cross-referenced against observable data such as company databases, industry association membership figures, or government statistical sources.

4.7.L3.2: The market sizing analysis models the share of market required to support the company's exit valuation assumption in the venture capital method or discounted cash flow analysis, and assesses whether that market share is achievable given the competitive dynamics of the market.

BENCHMARKS

Market sizing plausibility benchmarks:

A Serviceable Obtainable Market that is smaller than the company's projected revenue at the end of the financial projection period implies the company will capture more than one hundred percent of its reachable market, which is not possible. This condition indicates either that the financial projection is inconsistent with the market sizing or that the Serviceable Obtainable Market has been defined too narrowly.

A market capture rate of more than five percent of the Serviceable Addressable Market in year three of a projection is unusual for a company that is not the dominant established player in the market. A market capture rate above ten percent in year three requires explicit justification.

COMMON DEFICIENCIES

CD 4.7.1: The company's investor presentation states a Total Addressable Market of one hundred billion pounds, sourced from a global market research report for the broadest possible definition of the sector. The company's product serves a specific customer segment in the United Kingdom and is priced at a level that addresses a fraction of the cited market. No Serviceable Addressable Market or Serviceable Obtainable Market is derived from the Total Addressable Market figure. The company's financial projections imply capturing zero point zero zero one percent of the one hundred billion pound figure, making the market size irrelevant to the valuation analysis.

CD 4.7.2: The company's financial projections show revenue of forty million pounds in year five. The bottom-up Serviceable Obtainable Market, calculated from the number of addressable customers and the average revenue per customer, is thirty-five million pounds. The financial projections imply capturing more than one hundred percent of the Serviceable Obtainable Market. The inconsistency between the projections and the market sizing has not been identified or disclosed.

CD 4.7.3: The company's market sizing is based on a report published in 2019. The company operates in a market that has been materially affected by technological and regulatory changes since 2019. The market size figure does not reflect the current competitive landscape, the entry of new participants, or the contraction of certain demand categories that were prominent at the time of the report.

STAGE AND LEVEL APPLICABILITY

The compliance level expectations for each section of Book 4 are as follows.

Section 4.1: Valuation Methodology Standard

Pre-Incorporation: no requirement

Pre-Revenue: Level 1

Early Revenue: Level 1

Growth Stage: Level 2

Scale Stage: Level 3

Section 4.2: Discounted Cash Flow Analysis

Pre-Incorporation: no requirement

Pre-Revenue: not required; where applied voluntarily, Level 1 minimum

Early Revenue: Level 1 where applied; Level 2 from Growth Stage
Growth Stage: Level 2
Scale Stage: Level 3

Section 4.3: Comparable Company Analysis
Pre-Incorporation: no requirement
Pre-Revenue: not required; where applied voluntarily, Level 1 minimum
Early Revenue: Level 1 where applied
Growth Stage: Level 2
Scale Stage: Level 3

Section 4.4: Precedent Transaction Analysis
Pre-Incorporation: no requirement
Pre-Revenue: no requirement
Early Revenue: no requirement
Growth Stage: Level 1 where applied
Scale Stage: Level 2

Section 4.5: Venture Capital Method
Pre-Incorporation: no requirement
Pre-Revenue: Level 1
Early Revenue: Level 1
Growth Stage: Level 2
Scale Stage: Level 2

Section 4.6: Berkus and Scorecard Methods
Pre-Incorporation: Level 1 where applied
Pre-Revenue: Level 2
Early Revenue: not applicable; quantitative methods required
Growth Stage: not applicable
Scale Stage: not applicable

Section 4.7: Market Sizing Standard
Pre-Incorporation: Level 1
Pre-Revenue: Level 1
Early Revenue: Level 2
Growth Stage: Level 2
Scale Stage: Level 3

Stage definitions are as established in Book 0, Section 0.5. Compliance level expectations reflect the Maturity Model established in Book 0, Section 0.8.

Feedback on Book 4 may be submitted to standard@ffistandard.org with reference to the specific section and criterion number. Feedback received before the close of the beta review period will be considered in the preparation of v1.0.