

Revenue Models and Exit Multiples

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Agenda

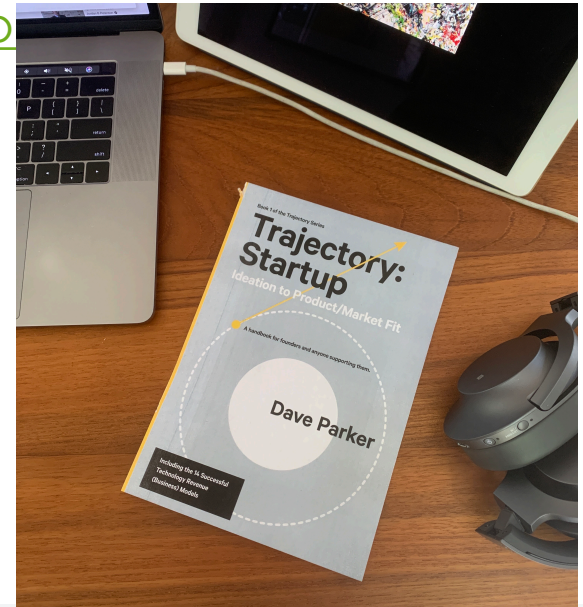
- ▣ About Dave
- ▣ Market Valuation Drivers
- ▣ Company Valuation Drivers
 - ▣ Creating, Delivering, & Capturing Value
- ▣ Revenue Models
 - ▣ The Data
 - ▣ The 14
- ▣ Public Comps

About Dave

- 5X founder, raised \$12M, exited \$85M
- Former SVP Programs at UP Global (Startup Weekend)
 - Startup Next creator, Startup Week, sold to Techstars
- Author – "[Trajectory: Startup – Ideation to Product Market Fit](#)"
- 2X VC and completely random Angel
- >15 transactions – now with [NextPath Advisors](#)

Resources

- Blog Content
 - www.dkparker.com
- 14 Revenue Model Excerpt
 - <https://www.dkparker.com/trajectory>
- [Amazon Book Order](#)



Ignore the Memes!

Follow Your
Passion,
Money Will
Follow!

It's All About
the Market

The Team
Matters
most!

The
Product is
Most
Important

Focus on
Customer
Growth,
Revenue will
Follow!

The Idea
Doesn't Matter
only Execution!

Top Market Value Drivers

- ▣ Market – big/nascent markets win
- ▣ Team – subject matter experts, balanced team
- ▣ Product – stickiness, problem solved or just fun
- ▣ Timing – not in your control, only in retrospect
- ▣ Competition – haven't the sucked oxygen out of the room
- ▣ Traction – early indication of proof - Flywheel effect
- ▣ Unit Economics – Revenue Model, Market & Sales
- ▣ Efficient capital—Tesla vs Snap

So, It All Matters!

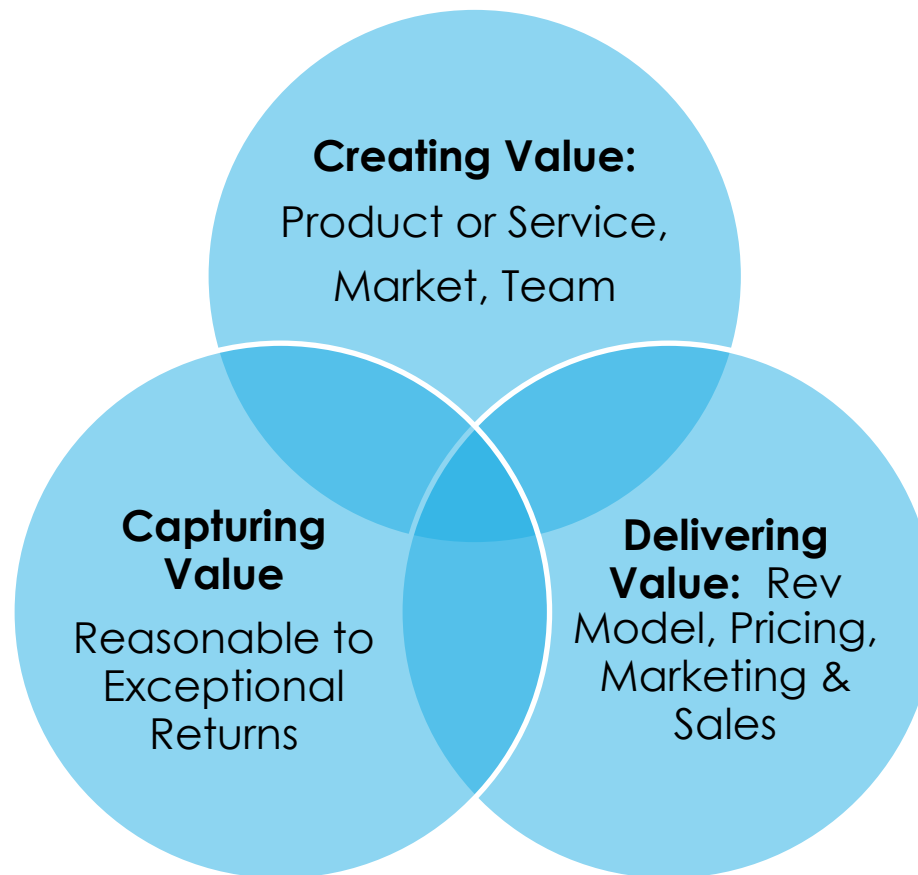
- Great Team in Bad Market = Failure or meh result
- OK team + Great Market = could be great result
- Great Product + no path to revenue = failure
- OK product + great monetization = make \$\$

- Great market + great team + great product + solid monetization + great execution = monster result

Categorizing the Solution

	Product	Service
B2B	Salesforce	Accenture
B2C	Spotify	For profit school

Business Model Breakdown



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Creating Value

- ▣ Product or Service or combination
- ▣ Cost to Build – Team
 - ▣ Engineering
 - ▣ Design
 - ▣ Hosting
 - ▣ Manufacturing
- ▣ Cost of Delivery & Support

Delivering Value

- ▣ Revenue Model
- ▣ Pricing
- ▣ Customer Acquisition Cost (CAC)
 - ▣ Marketing Methods and Spend
 - ▣ Sales Models
- ▣ Lifetime Value (LTV)
- ▣ Note Promotions are not pricing or revenue models (e.g. freemium is a promotion)

Capturing Value

What's left over!

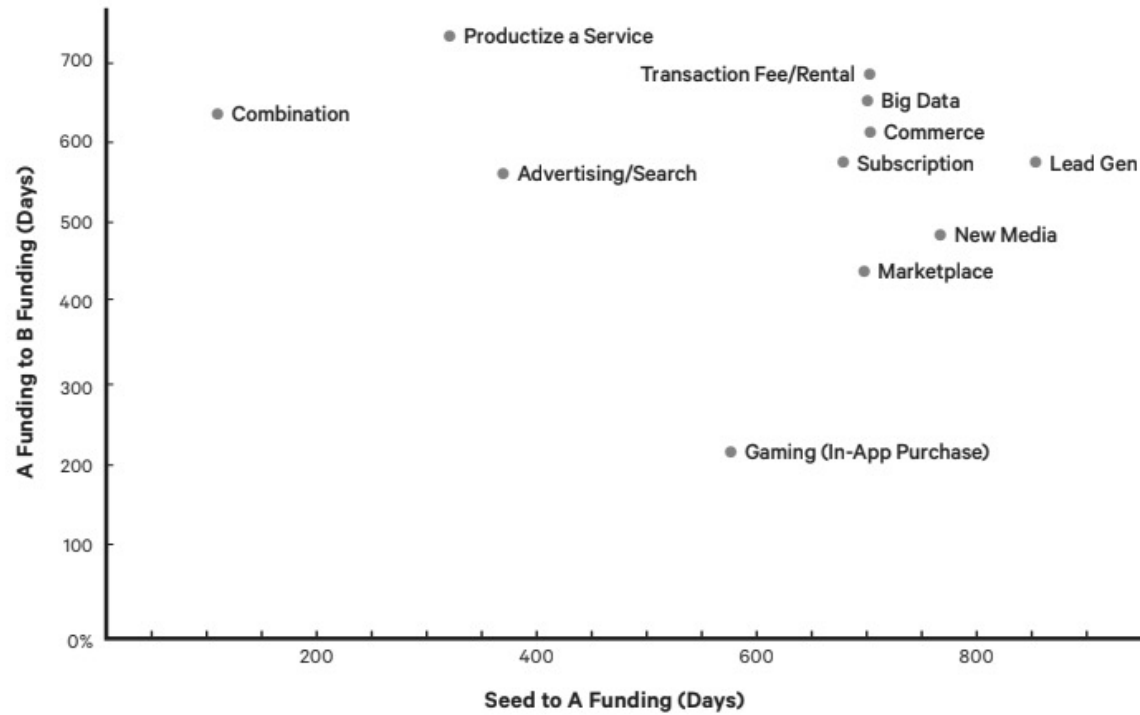
- ▣ Topline Revenue
- ▣ Gross Margins
- ▣ Net Profit

How to Monetize: Revenue Models

This isn't a calculus for valuations
- it's a heuristic

The Data

- ▣ Background – revenue templates
 - ▣ 2654 companies from Crunchbase
 - ▣ 5+ year tracking
 - ▣ Surprises
 - ▣ Seed 1-10
 - ▣ Combinations models
 - ▣ * on short time from Seed to A
 - ▣ Failures
 - ▣ Wayback Machine
 - ▣ >80% lacked clear CTA and Value Prop



1. Fee for Service

- Example: Accenture, Stride (Education)
- Use: B2B & B2C
- Key Metrics
 - Project Revenue
 - Cost of delivering (usually time)
 - Gross Margin
- Services are hard to scale because they require people to deliver including Restaurant, Contractors, etc.
- Services include markup on cost of goods sold

2. Productize a Service

- Example: SW Airlines, Guidant Financial, IBM
- Your offerings is generally complex and requires services to deploy
 - Gross margin on Services >35%
 - Product development comes with services
- Use: B2C & B2B
- Examples: Moz, service company convert to tools.
- Challenges – difficult to make the transition away from services

3. Commerce

- ▣ Example: Wayfair, Lululemon
- ▣ Use: B2C & B2B
- ▣ Key Metrics:
 - ▣ Wholesale or cost of goods sold
 - ▣ Average Margin %
 - ▣ Average Basket
- ▣ Commerce – Physical Goods- Wholesale, cost of goods, retail, average margin, physical good
- ▣ Notes: Can mature into marketplace

4. Subscription

- ▣ Example: Salesforce, Spotify
- ▣ Use: B2C & B2B
- ▣ Key Metrics
 - ▣ Average Revenue Per User (ARPU)
 - ▣ Conversion ratio – e.g. trial to purchase
 - ▣ Churn
- ▣ Tiered pricing to optimize customer profiles/revenues
- ▣ Notes: High multiple, forecastable revenue

5. Metered Service

- Example: Twilio, AWS, UIPath, Plaid Tech
- Use: Favors B2B
- Key Metrics
 - Average Revenue Per User (ARPU)
 - Usage growth over time
 - Churn
- Challenges: infrastructure required at launch
- Notes: Highest multiple, forecastable revenue



The API Economy

6. Transaction Fees/Rental

- ▣ Example: Stripe, Chegg
- ▣ Use: B2C & B2B
- ▣ Key Metrics
 - ▣ Average transaction revenue
 - ▣ Fee % per transaction
 - ▣ Number of transactions
- ▣ Challenges: Margins are small (15%), need efficiency
- ▣ Notes: Don't start too low

7. Marketplaces

- ▣ Example: eBay, Alibaba, Uber
- ▣ Use: B2C & B2B
- ▣ Key Metrics
 - ▣ Average Transaction Amount
 - ▣ Number of Monthly Transactions
 - ▣ Commission %
- ▣ Challenges: two sided marketplaces require you start with one side, value to seller & Product market fit (x2)
- ▣ Notes: critical mass or marketplace required

8. Combinations

- Example: SmartSheet, conglomerates at scale
- Combination business models happen for two reasons
 - You don't know which model is right
 - At scale you can expand revenue sources
- Examples: Hardware sensors + software services to create data analytics. At Scale, Amazon, Microsoft
- Challenges – most require scale or at least traction
- Mature faster

9. Gaming

- ▣ Example: King.com/Candy Crush, Blizzard
- ▣ Use: B2C Only
- ▣ Key Metrics:
 - ▣ Downloads
 - ▣ % play
 - ▣ Average in app purchase
- ▣ Challenges – tends to be “hit driven business”
- ▣ Notes: use in first 21 days is a predictor of success

10. Advertising/Search

- Example: Google, Facebook
- Use: B2B – advertisers pay, users are free
- Key Metrics
 - Traffic
 - Click
 - Avg. revenue/click
- Challenges – Scale, need >1M uniques/month to consider the option

11. New Media

- Example: SnapChat, Clubhouse
- Use: B2C only
- Key Metrics:
 - K-Factor (Viral Co-efficient)
 - Network effect of inviting others to join
- Challenges – K-Factor is hard. Little revenue until scale
- Notes: Everyone wants to! Not happening in B2B
- No revenue actually required – GREAT multiple



This is the
Non-
Revenue
Model

12. Big Data

- ▣ Examples: PatientsLikeMe, Splunk
- ▣ Use: B2B
- ▣ Key Metrics:
 - ▣ Per API Call
 - ▣ Per record pricing
 - ▣ Frequency/recency
- ▣ To monetize data, you need to have the data in advance or massive cash

13. Lead Generation

- ▣ Example: [Mint.com](https://www.mint.com), [Chime.com](https://www.chime.com), [AllStarDirectories](https://www.allstardirectories.com),
- ▣ Use: B2C (selling consumers data), B2B
- ▣ Key Metrics
 - ▣ Cost to generate traffic
 - ▣ % conversion of form data
 - ▣ Price per lead
- ▣ Challenges: Highly competitive, barrier of entry is low
- ▣ Notes: Conversion rates average 0.06%

14. Licensing

- Example: Think Microsoft office license or server license – before subscription. Content Licensing
- Use: B2B
- Key Metrics:
 - Duration of license
 - Upgrades & maintenance (20-25% annually)
- Use can be based on vertical market or geography

Revenue Models– Primary/Secondary

1. Fee for Service
2. Productize a Service
3. Commerce
4. Subscription
5. Metered Service
6. Transaction Fee/Rental
7. Marketplace
8. Combinations
9. Gaming
10. Advertising/Search
11. New Media
12. Big Data
13. Lead Generation
14. Licensing

Public Comps

- Public companies are the likely buyer, if you're going to be acquired, it's a good place to start
- You can get their Enterprise value
 - Price (market cap)/Sales (ttm) Ratio
 - Most early-stage companies don't have profit, so valuing based on EBITDA or Earning (PE) is rough
- Notes:
 - Combination models aren't clearly calculated
 - Current stock prices reflect Covid Era pricing (ttm)

Public Multiples

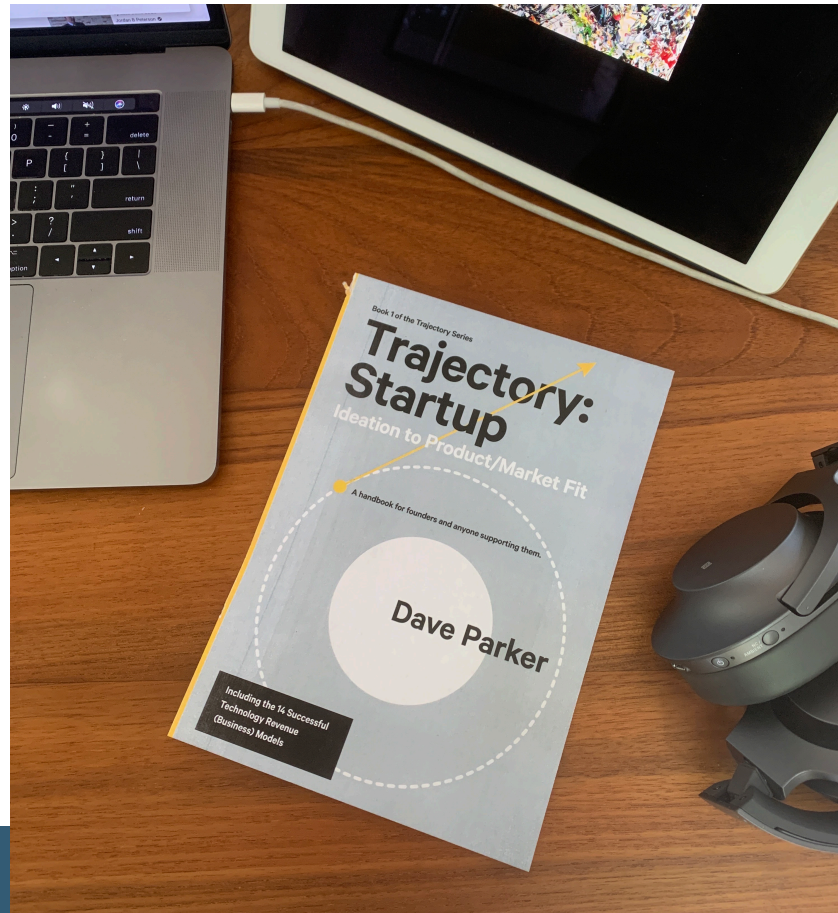
	Model	Example	Price/Sales Ratio (TTM)
1	Services	Stride, Accenture	.75-1.5X
2	Productize a Service	SWAir, IBM	1-2X
3	Commerce	Wayfair, Lululemon	4-5X
4	Subscription	Salesforce, Spotify	8-12X
5	Metered Service	Twilio, AWS, UiPath	24X
6	Transaction Fee/Rental	TripAdvisor, Chegg	12-15X
7	Marketplace	eBay, UBER	4-8X
8	Combinations	SmartSheet, Amazon	8-12X
9	Gaming	Activision - Blizzard	7-10X
10	Advertising/Search	Alphabet, Facebook	7-9X
11	New Media v. Old	Snap	3-23X
12	Big Data	Splunk, Plaid Tech	8-10X
13	Lead Generation	Chime, Mint	4-5X
14	Licensing	Broadcom, Oracle	5-9X

A few last Sell Side notes

- Rule of 40 (now 50)—Growth or Growth and Profit >40%
- Logical and acquisitive up market buyers prefer early relationships
- Invested Capital to Revenue is under 3:1 (prefer 1:1)
- Create competition between buyers will increase your price by 40% or more

Summary

- Dave did not say: “This is a method you can use to calculate your current valuation” especially for pre-revenue companies!
 - Too many variable at early revenue stage to calculate
 - See [Berkus Method](#) for a 20 year method
- It can help you pick you potential buyers
 - Based on track record (size/stage/tech)
 - Business Development as a process
- The data is still a work in progress
- Startups need to be creative, in product and marketing. Not revenue models



Q&A

Available at [Amazon.com](https://www.amazon.com)