



VALUATION BASICS

How to value an early-stage business, and defend the number with confidence
GUIDE 10

There is no single 'correct' valuation — only one you can both live with.

Valuation is often the most contentious topic in any equity investment conversation. This guide explains the main valuation methods used for early-stage businesses, how to choose the right approach, and how to present and defend your valuation in investor conversations.

GUIDE 10 | Business Lincolnshire Finance Accelerator

Who this guide is for: founders preparing to negotiate a valuation with angels, MEIF II, or other equity investors.

YOU'LL GET

- Plain-English guidance tailored to Greater Lincolnshire businesses
- Practical steps, checklists and decision points
- A clear route into Accelerator support and adviser conversations

START: Use this guide alongside the Finance Accelerator resources and book a fully funded Funding Diagnostic Session when you are ready to discuss your options.

ABOUT THIS GUIDE

Valuation is often the most contentious topic in any equity investment conversation. It is the number that determines how much of your business you sell for a given investment — and getting it wrong, in either direction, can cause problems that persist for years.

The key principle

There is no single 'correct' valuation for an early-stage business. Valuation is a negotiation informed by evidence. The goal is not to find the theoretically perfect number — it is to find a number that both you and your investors can justify and live with.

SECTION 1 — WHY VALUATION IS HARD FOR EARLY-STAGE BUSINESSES

For established public companies, valuation is relatively straightforward. Early-stage private businesses are different — often with limited or no revenue, no profit, and a track record spanning months rather than years. The value is largely a bet on the future.

Stage	Typical valuation basis	Key driver
Pre-revenue	Scorecard / Berkus / comparables	Team quality and concept strength
Early revenue	Revenue multiple + scorecard	Revenue quality and growth rate
Established growth	Revenue or EBITDA multiple	Margin profile and scalability
Mature / profitable	EBITDA multiple / DCF	Profitability, cashflow, assets

SECTION 2 — VALUATION METHODS EXPLAINED

Method	How it works	Best for
Scorecard	Start with the average valuation for comparable funded companies, then adjust up/down across six dimensions: team (30%), market (25%), product (15%), competition (10%), channels (10%), other (10%)	Pre-revenue or very early revenue; widely used by angel networks including LBA
Revenue Multiple	Value as a multiple of annual revenue or ARR — SaaS 3–10×, product/manufacturing 0.5–2×, services 0.5–1.5×	Businesses with at least 6–12 months of consistent revenue
Discounted Cash Flow (DCF)	Project 5–10 years of cash flow, discount back at 30–60% for early-stage risk	More predictable, established cash flows — best as a cross-check at early stage
Berkus Method	Assigns value to five risk-reducing milestones (concept, MVP, team, partnerships, first sales), up to £2.5m maximum	Very early stage, pre-revenue SEIS rounds

Worked example — Scorecard

Average regional SEIS valuation: £800,000. Team scores 1.2× (strong), market scores 0.9× (smaller than average), product scores 1.1×. Blended multiplier ~1.05. Implied valuation: £840,000.

SECTION 3 — COMMON VALUATION MISTAKES

Mistake	Why it matters
Anchoring to a round number	Signals you have not done the work — always explain your methodology
Overvaluing based on potential	Investors value what exists today, discounted for risk
Undervaluing to close quickly	Sets a damaging precedent and may not motivate investors
Ignoring comparable transactions	Investors benchmark against deals they have seen
Conflating pre- and post-money	Be clear which number you are quoting at all times
Incompatible with future rounds	If today's valuation leaves no room for future investor returns, your next round is harder

SECTION 4 — DEFENDING YOUR VALUATION

Having a valuation is one thing. Being able to defend it confidently in an investor conversation is another.

Know which method(s) you used and be ready to walk through your workings step by step. Reference comparable transactions — name them if you can. Acknowledge the subjectivity openly: 'We believe this is a fair range based on X, Y, Z'. Be willing to negotiate on structure rather than just price. Do not become defensive if challenged — engage with the challenge analytically.

Accelerator support

The Accelerator can help you build a valuation model, benchmark against comparable deals, and practise defending your number in a mock pitch session. Book a fully funded Funding Diagnostic Session at businesslincolnshire.com.

START YOUR JOURNEY TODAY

Visit our website to learn more and access support

Ready to move forward?

The Business Lincolnshire Finance Accelerator gives you the knowledge, tools and expert support to understand your options and prepare to access funding at the right time, in the right way.

FIND OUT MORE

- Book a fully funded Funding Diagnostic Session
- Access Finance Accelerator tools and templates
- Speak to an experienced Business Lincolnshire adviser

FIND OUT MORE



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