

COMPARABLE TRANSACTION METHOD

The Comparable Transactions Method is one the most popular startup valuation techniques because it's built on precedent. You're answering the question, "How much were startups like mine acquired for?"

For instance, imagine that Rapid, a fictional shipping startup, was acquired for \$24 million. Its mobile app and website had 700,000 users. That's roughly \$34 per user. Your shipping startup has 120,000 users. That gives your business a valuation of about \$4 million.

You can also find revenue multiples for similar companies in your sector. In your market, it may be normal for SaaS companies to generate 5x to 7x the previous year's net revenue.

With any comparison model, you need to factor in ratios or multipliers for anything that's dramatically different between your two businesses. For example, if another SaaS company has proprietary technology and you don't, you may want to use the multiplier on the lower end of the range, like 5x (or lower) in our example above. This method is similar to the Market Multiples Approach.