URL:

https://stvp.stanford.edu/blog/videos/insight-into-the-changing-valuations-of-companies-since-the-dot-com-era

The dot com bubble has changed the way companies are now valued, and their valuations over time. Bellas discusses how valuations are currently determined, and typical financing and return amounts.

Transcript

So very good question about how do you value an idea in a team and then what do the investors look for in a return on that investment? And I think that things were peculiar before during the dot com era.. Valuations got sky high unrealistic.. Time frames for corporate development and acquisition became too short.. And I think those of us who have been in the business through a couple cycles saw some level of discomfort with that because it was fun to make money fast but we knew it couldn't last.. And so, now I'll characterize today's market as back to normal where valuations typically in the serious A round, the first round, or below, or in single digit.. Valuations for a second round of financing are in the "thins" and so on, as companies build value by hitting clinical milestones.. The X evaluations, we're really happy if we sell the company for 150 million.. We're very happy if we sell the company for 300 million.. And so, I think we're back to pre-bubble sort of set of expectations for the companies recognizing that it takes five to seven years, you know.. I need a HP 12 calculator to figure out what our ROIs are..

The longer the time, the lower the return.. And so, the reason why expectation is that for the past 30 years the venture capital industry in good firms you produce a return higher than 20% compounded and we strive for 25% for a limited just to try to maintain ourselves in that level.. And so, if you do that you're wonderful in the eyes of your limited partners because any public stock investors probably can't produce returns better than 13% or 14% historically...