

# Early-Stage Company Valuation in New Zealand's Equity Crowdfunding Market

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## Abstract

Promoters of equity crowdfunding (ECF) companies can use disclosure to defend their company's valuation, reducing information asymmetry and reassuring investors. Promoters can name valuation approaches used and provide supporting information such as audited accounts, details of peer companies, or details of prior funding rounds. However, none of this is required in equity crowdfunding where only standard risk warnings are mandated, all other disclosure is discretionary.

This paper reviews ECF valuation disclosures and raises concerns about the level of detail provided and the exclusion of value-relevant factors including differential voting rights and non-financial sources of investment return. Around one-third of sample companies did not explain how the company was valued. Companies that do discuss valuation vary in the quality and quantity of disclosure provided. The most common valuation model used by ECF companies is a multiple of forecast revenue. Although this corresponds to recommended best-practice, in most cases only a single accounting multiple is used, and forecasts are based on limited financial history from unaudited accounts.

An alternative, qualitative, valuation model is developed so investors can compare new ECF offers with prior offers as a reasonableness test. Companies are assessed on; business development, customers, employees, funds sought, governance, and revenues to classify them as; proof-of-concept, seed, start-up, or early expansion. Benchmark values are reported for each.