**Consul Data, LLC[[1]](#footnote-1)  
Representative Valuation Case[[2]](#footnote-2)**

Consul Data is a data analytics and consulting firm operating out of Cottonwood Heights, Utah. The firm began operations in 2010 and has sought to provide data analytics for consumer and enterprise marketing and product development. The firm’s founder holds a PhD in Economics from the University of Utah and developed much of the firm’s operating structure while working with students in a series of senior seminars on multi-variate regression modeling using large data sets. The firm has gone on to develop proprietary machine learning technologies (utility and design patents pending), intuitive user interfaces, and employee and client accountability systems, dashboards, customizable for its growing client list.

The market for such products and services is still developing and is challenging to assign an expected growth rate, but Consul Data’s growth appears to be limited only by the founder’s ability to replicate his skill sets and business network. The founder brought no financial capital into the venture, but contributed software code, business relationships, considerable research outcomes, and patentable intellectual property.

As of the end of 2019 the firm’s operating assets are carried on the balance sheet at $3.2 million, including $800,000 for the office building the firm owns and in which it is the only occupant, recently appraised at $1.9 million. Additionally, the firm shows net working capital on the balance sheet of $125,000.

In the firm’s earliest stages the firm raised two rounds of equity funding through Angel investors (personal associates and family members). In 2011 the first round raised through four equal investors acquiring 40% of the firm’s equity in exchange for $550,000, establishing a firm valuation of $1,375,000. The remaining 60% of common equity share were maintained by the founder and the total shares outstanding equaled 5,000,000 shares. Based on the initial funding round, the assets, intellectual contributions and relationships of the founder appear to have been valued at approximately $850,000.

The second funding round in 2014 raised an additional $300,000 through three investors who were not part of the initial round in exchange for 30% of the firm’s equity resulting in a down round and the dilution of the existing stake holder’s equity share.

By 2015 the surplus cash generated by the first two funding rounds had been exhausted as a result of persistent operating losses. As a result the firm negotiated a $1,000,000 credit line collateralized by the firm’s patents and founder’s personal assets at a 12% rate. The firm also gave up a 10% equity stake to the creditor, further diluting the equity stake of earlier investors.

Understanding the firm’s critical reliance on the founder for future successes, the early stage investors bound the founder to the firm through a 10-year employment contract at a rate of $250,000 per year. The founder has not taken a salary or any capital distributions since the founding of the company, but has elected to accept a deferred compensation package representing $1 of preferred stock with a 10% dividend for every dollar of salary not taken. While this has been agreed upon, neither the Founder nor other equity stakeholders have calculated the impact of this arrangement on share values or ownership interests.

Substantial operating losses notwithstanding, Consul Data’s revenue growth has been impressive and investor expectations remain high. A few of the investors have questioned the valuation inferred by the funding rounds and are resistant to further dilution without some indication the firm will become profitable and sustainable. The valuations on which the funding rounds have been based were estimated by negotiation between the Founder and investors and were not the product of a full valuation assessment. Nonetheless, the estimated equity values the firm has used are as follows:

|  |  |
| --- | --- |
| **Year** | **Estimated Equity Value** |
| 2010 | 850,000 |
| 2011 | 1,375,000 |
| 2012 | 1,500,000 |
| 2013 | 1,650,000 |
| 2014 | 1,000,000 |
| 2015 | 1,200,000 |
| 2016 | 1,350,000 |
| 2017 | 1,425,000 |
| 2018 | 1,650,000 |

The firm’s Founder has been approached by Opportunity Capital, a regional venture capital investor, regarding a $2,000,000 equity investment. Opportunity Capital is requiring a credible, independent valuation estimation be conducted to determine the firm’s market value and that the firm account for all possible outstanding share obligations.



1. This Valuation Case is representative of actual firms for which live valuation estimations have been performed by the author and/or Associates. The names, locations, and quantitative details have been altered to protect the subject firms’ privacy. [↑](#footnote-ref-1)
2. Developed by Richard Haskell, PhD (rhaskell@westminstercollege.edu), Gore School of Business, Westminster College, SLC, U T, (2019). [↑](#footnote-ref-2)