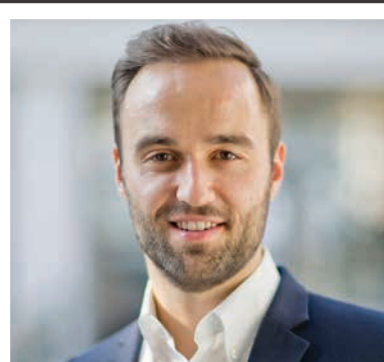


Valuation of Early-Stage Technology Ventures: An Approach to Derive the Discount Rate



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Overview

In [Valuation of Early-Stage Technology Ventures: An Approach to Derive the Discount Rate](#), from the Winter 2021 issue of *The Journal of Alternative Investments*, authors **Christoph P. Wessendorf, Jared Schneider, Kai Shen, and Orestis Terzidis** of **Karlsruhe Institute of Technology (KIT)** seek to develop an approach venture capitalists can use to derive the discount rate of technology ventures at their early stage. Traditional venture valuation methods rely on quantifiable financial history and data that often are unavailable in early-stage ventures. To compensate for the missing data, venture capitalists often use subjective, or nonfinancial, determinants to assess a venture's value. The authors explore which nonfinancial valuation determinants have a meaningful impact on eventual value, weigh their relative importance, and use these factors to calculate a venture-specific valuation score. Next, the authors assess mathematical models that can be used with this score to calculate a suitable discount rate. They compare the empirical results of early-stage technology ventures with the values attained using these models to find high fidelity between the exponential discount rate structure and the real observed target return data. Ultimately, the authors propose that an exponential discount rate structure can be used in tandem with nonfinancial determinants to develop sound, venture-specific valuation.