insights

Startup Valuations 101:

Scorecard vs VC vs SAFE-Conversion

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Executive **Summary**

Valuing early-stage startups requires a departure from traditional financial models due to limited revenue, high uncertainty, and lack of historical data. This publication explores three practical and widely used startup valuation methods tailored to such environments: the Scorecard Method, which benchmarks startups against regional peers using qualitative scoring (ideal for pre-revenue stages and angel investors), the Venture Capital (VC) Method, which back-solves valuation from a forecasted exit and target ROI (suitable for Seed to Series A rounds), and the SAFE (Simple Agreement for Future Equity) Conversion, a founder-friendly instrument used in pre-seed and accelerator rounds that defers valuation to a future priced round. Each method is explained with its mechanics, ideal use cases, pros and cons, and real-world applications such as Ola, Zomato, Uber, and Y Combinator-backed startups.

The publication underscores that no single method fits all contexts, valuation must be aligned with the stage of maturity, capital requirements, investor profile, and deal structure. While Scorecard emphasizes qualitative benchmarking, the VC Method focuses on forward-looking returns, and SAFE prioritizes speed and flexibility over precision. Founders and investors alike must understand not just the mechanics of these models, but also the strategic implications, especially around equity dilution, cap table complexity, and exit expectations. Proper advisory input remains essential to navigate these tools effectively and make sound early-stage investment decisions.

Startup Valuation **Approaches**

Valuing Startups Beyond Traditional Models

Startup valuations sit at the heart of early-stage financing, directly shaping how much equity founders relinquish, how investors price and diversify risk, and how both sides calibrate expectations for growth and returns. In pre-seed and seed rounds, where startups often have minimal revenue and unproven cash flows, traditional valuation methods like Discounted Cash Flow (DCF) or public comparables largely lose relevance. DCF requires stable, predictable earnings to forecast future cash flows, while public comparables depend on established peers, both of which are typically absent for startups still validating their markets.

Seven different methods have been set out, which are often used in practice and applied to different stages of a start-up. The list is endless, and valuation practitioners frequently employ a combination of the methods outlined in the table below.

Characteristics	Idea / Seed	Seed / Start-up	Early growth	Expansion	Sustainable growth
Cash flows	NA	Only negative	Negative (but increasing)	Negative (but increasing)	Stable
Proof of concept	✗	✗	✓	✓	✓
Historical data	✗	✗	Limited	✓	✓
Forecast data	✗	Limited	Limited	✓	✓

Valuation Methods	Idea / Seed – Seed / Start-up	Early growth – Expansion	Sustainable growth
	Fixed ranges	VC method	Discounted cash flows
	Cost approach	Discounted cash flows	Market multiples
	Scorecard valuation method		
	SAFE conversion method		

Valuation methods vary by the maturity stage of a company. Early-stage companies (Idea/Seed, Start-up) are often valued using fixed ranges, cost, or scorecard methods. As companies grow (Early Growth, Expansion), VC and DCF methods become more applicable, focusing on future cash flows and exit values.

Mature companies (Sustainable Growth) are typically valued using DCF or market multiples like EV/Revenue, EV/EBITDA, EV/EBIT, and EV/FCF.

Startup Valuation **Approaches**

Three Valuation Approaches for Startups

This publication outlines three valuation approaches that are designed specifically for high-uncertainty, early-stage environments:

The Scorecard Method

The Venture Capital Method

The SAFE Conversion Valuation Method

Why Startup Valuation Is Unique

Start-ups, especially in their early stage, present a variety of challenges; and these challenges must align with the valuation methods.

Lack of Profits or Revenue

Most early-stage startups operate at a loss while building their product and acquiring users. Revenue is either minimal or nonexistent.

Limited or No Historical Financials

Startups often lack meaningful financial history, especially at the pre-seed and seed stages. They may have recently incorporated and not yet produced financial statements.

Unpredictable Growth Paths

Startups operate in high-risk, high-uncertainty environments. Market adoption, product-market fit, and competitive responses are all unpredictable.

Valuation Must Reflect Future Potential

Ultimately, startup investors are not investing in what the company is today, but in what it could become. The valuation needs to reflect this future upside, not just current metrics.

The Scorecard **Method**

Overview

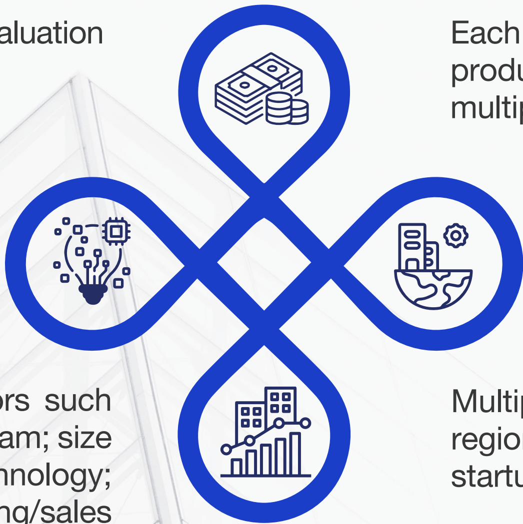
The Scorecard Method is a benchmarking tool developed by angel investor Bill Payne. It compares the target startup to other startups funded in a similar stage and geographic region.

Ideal Use Case

Best suited for angel investors assessing pre-revenue companies, especially where market benchmarks are accessible.

Steps

Start with the average pre-money valuation for comparable startups.



Adjust based on qualitative factors such as: strength of the management team; size of the opportunity; product/technology; competitive environment; marketing/sales strategy; need for additional investment.

Each factor is weighted and scored to produce a weighted average multiplier.

Multiply this score by the average regional valuation to arrive at the startup's valuation.

Pros & Cons

Pros

- Structured yet flexible
- Aligns with local investor expectations
- Encourages holistic evaluation of business model
- Easy to communicate to non-financial stakeholders

Cons

- Subjectivity in scoring
- Relies heavily on regional data
- Can be influenced by bias or lack of transparency
- May not scale well for later-stage rounds

The Venture Capital (VC) **Method**

Overview

The VC Method calculates a startup's valuation by estimating its exit value and applying a target return mutliple.

Steps

Forecast Exit Value
Estimate revenue at exit (5-7 years) and apply industry multiples.

Determine ROI Requirement
Usually 10x or higher for early-stage investments.

Calculate Post-Money Valuation
Subtract investment amount to get the pre-money valuation.

Ideal Use Case

Favored by VC firms for deals from late-seed to Series A, especially when startups have some financial traction.

Pros & Cons

Pros

- ROI-driven logic
- Transparent for VC discussions
- Anchored to expected outcomes
- Easily integrates exit strategy planning

Cons

- Heavily assumption-based
- Ignores execution and operational risk
- May inflate valuations unrealistically
- May mislead founders unfamiliar with valuation mechanics

Safe Conversion **Valuation**

Overview

SAFE (Simple Agreement for Future Equity) was created by Y Combinator to allow startups to raise funds without setting a valuation upfront. SAFE investors convert to equity at a later financing round.

Key Terms

Valuation Cap — The maximum valuation at which the SAFE will convert.

Discount Rate — A percentage discount on the future round price.

Ideal Use Case

Pre-seed to seed-stage startups where speed and flexibility in closing capital outweigh valuation precision

Conversion Mechanics

At the next priced equity round, the SAFE converts based on:

- The lower of the valuation cap or
- The price after applying the discount rate

Pros & Cons

Pros

- Quick, founder-friendly
- Avoids premature valuation
- Attracts early capital with minimal legal friction
- Simple documentation

Cons

- Can create cap table complexity
- Potential for unexpected dilution
- SAFE terms may conflict across investors
- Investors lack equity rights until conversion

Practical Applications of Valuation **Method**

Scorecard Method

Ola Cabs (India)

Angel investors used the Scorecard Method to value Ola during its initial seed rounds. Factors like market opportunity (90/100), team quality (85/100), and product promise (80/100) drove early valuation, enabling seed-stage capital injection based on strong qualitative profiles early in its growth trajectory.

Ola Cabs

Zomato

In its pre-funding days, Zomato used Scorecard evaluations where market potential, team experience, product differentiation, and competition were carefully scored. Market opportunity received a high score (e.g., 80/100), while competition lowered its competitive factor (e.g., 60/100). This provided the basis for setting pre-money valuation for early angel rounds.

Zomato

VC Method

Uber

Uber – Early Growth Stage

In its Series A (2011) and later rounds, Benchmark Capital and other VCs estimated Uber's future exit potential (via IPO or acquisition) and used that projected outcome to back into a present valuation using high required return rates. This approach is a prototypical application of the VC valuation method. Analysts estimated exit values and then discounted them at assumed ROIs of 20× or more, yielding pre-money valuations in the tens of millions of dollars. By its Series C and later rounds, Uber was valued at $18 billion post-money, reflecting continued use of forward-looking, exit-based valuation assumptions.

SAFE Conversion Method

Y Combinator Startups (e.g. Dropbox, Airbnb, Stripe)

Following Y Combinator's introduction of the SAFE instrument in 2013 (and its refined post-money version later), many startups like Airbnb, Dropbox, and Stripe raised early rounds using SAFEs with valuation caps and discounts rather than fixed valuations. They converted into equity at priced rounds or liquidity events based on those terms.

Y Combinator

Key Insights and **Conclusion**

Comparison Table

Method	Best Stage	User Type	Highlights
Scorecard	Pre-revenue, Seed	Angel Investors	Benchmark-based, qualitative
VC Method	Seed to Series A	VC Funds	ROI-focused, back- calculated
SAFE	Pre-Seed to Seed	Angels, Accelerators	Flexible, defers valuation

Key Takeaways

- **Match the method to the stage:** Each approach suits different levels of risk, data availability, and investor expectations.
- **Clarity and structure matter:** Even informal methods benefit from clear, transparent logic.
- **Advisory insight is critical:** Navigating multiple SAFEs, cap tables, and future dilution scenarios requires expert guidance.

Conclusion

Valuation isn't just a number, it's a strategic tool. Understanding how Scorecard, VC, and SAFE methods work allows founders and investors to align goals, avoid missteps, and build long-term value. As early-stage capital markets evolve, so too should the frameworks we use to evaluate risk, reward, and growth potential.

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