Sterling Valuation Group

Spring 2018

THE STERLING STRATEGIST

A Quarterly Newsletter of Sterling Valuation Group

From Murray C. Grenville…

Welcome to the new edition of Sterling Valuation Group's *The Sterling Strategist*! This newsletter is one of the ways we at Sterling strive to effectively communicate with our clients and colleagues.

In this issue of *The Sterling Strategist*, I want to briefly touch on two topics:

- Venture capital investment valuations
- The impact of hurricanes on valuations

One of the topics highlighted in our recent discussions with clients was venture capital investment valuations. In our experience, the last capital raise is useful only as a starting point in determining the value of an investor's holdings. Most private startups do not generate a profit, but instead focus on revenue growth at all costs.

To achieve higher valuations, founders have been happy to hand out privileges to investors to increase valuations in follow-on capital raises. These agreements include giving later-stage investors incentives when firms go public. Those incentives can include giving the later-stage investors extra shares if the initial public offering results in a lower valuation than the last funding round and payment priority in the event of a sale.

Earlier-stage investors should be aware of these distortions and should adjust their valuations accordingly.

Looking ahead, my colleagues Dr. Jeffrey D. Fisher and Dr. Ron M. Donohue and I are hoping to soon publish research on the effects that hurricanes can have on valuations of various commercial real estate types in the area hit. Jeff and Ron are respected academics in this field and are members of Sterling's Board of Advisors. They are two of the experts we consult with when valuing real estate assets.

Jeff and freelance analyst Sara Rutledge did some number crunching using data from the National Council of Real Estate Investment Fiduciaries (NCREIF) and the National Hurricane Center. The upshot is that hurricanes may have a longer-term effect on the values of commercial real estate than one would typically think — but that impact is vastly different depending on the type of property.

For example, for all property types combined, the hurricane decreased values by almost 6 percent one year after the storm hit. But, somewhat astonishingly, the negative effect was even greater two years out — 10.5 percent. The office sector seems to have a short-term impact that fades quickly, while apartments are the opposite, with values down much more two years after the storm than one year after. (By the way, the National Oceanographic and Atmospheric Administration announced in January that 2017 was the costliest year ever for weather and climate disasters in the U.S., totaling $306 billion.)

There are other interesting findings in the research, and we believe investment funds should bear them in mind when they own an asset in an affected region. We'll alert you when we publish our article.

Well, that's all for now. I hope you find this interesting. Please contact us at IR@sterlingvaluationgroup.com with your thoughts, ideas, and questions.

Sincerely,

Murray

Murray

About Sterling:

Founded in 2005 by Murray Grenville – a leader in asset valuation with over 15 years of experience – Sterling Valuation Group is a pioneer with no equal in the industry. We understand the strategies, mission, and different investment philosophies of hedge funds and other investment vehicles, and are therefore able to tailor our services specifically to your needs. We serve many multi-strategy hedge funds globally and value more than 1,000 individual investments annually.

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