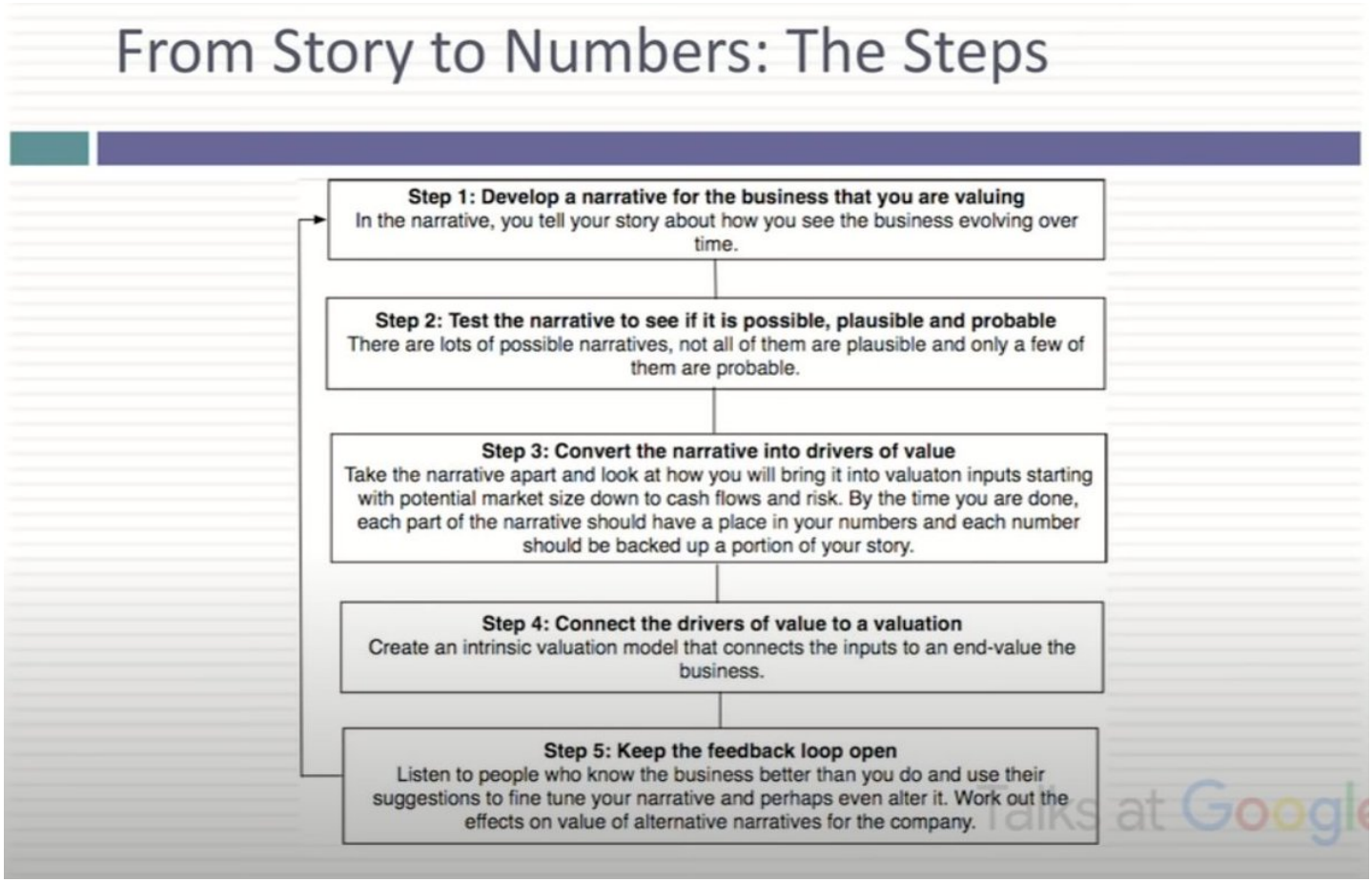
Twitter Thread by Bread Crumbs Research



Bread Crumbs Research
@breadcrumbsre

Valuation



https://t.co/EwhQNOyQzY

Step 1: Survey the landscape

- Every valuation starts with a narrative, a story that you see unfolding for your company in the future.
- In developing this narrative, you will be making assessments of
  - Your company (its products, its management and its history.
  - The market or markets that you see it growing in.
  - The competition it faces and will face.
  - The macro environment in which it operates.

Talks at Google

https://t.co/fLrW2cLAQC

Step 2: Create a narrative for the future

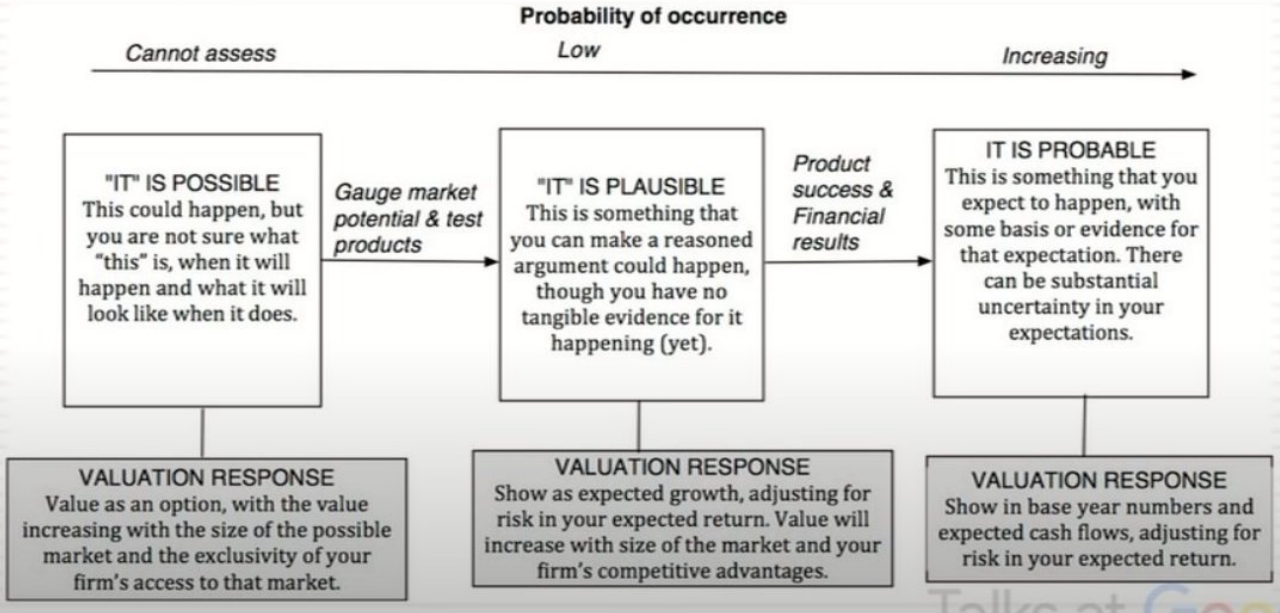
- Every valuation starts with a narrative, a story that you see unfolding for your company in the future.
- In developing this narrative, you will be making assessments of your company (its products, its management), the market or markets that you see it growing in, the competition it faces and will face and the macro environment in which it operates.
  - Rule 1: Keep it simple.
  - Rule 2: Keep it focused.

Talks at Google

https://t.co/mHEwU3i7f7

Step 3: Check the narrative against history, economic first principles & common sense

11



https://t.co/xvX1LGOFaR

The Impossible, The Implausible and the Improbable

12

The Impossible

Bigger than the economy
Assuming Growth rate for company in perpetuity> Growth rate for economy

Bigger than the total market
Allowing a company's revenues to grow so much that it has more than a 100% market share of whatever business it is in.

Profit margin > 100%
Assuming earnings growth will exceeds revenue growth for a long enough period, and pushing margins above 100%

Depreciation without cap ex
Assuming that depreciation will exceed cap ex in perpetuity.

The Implausible

Growth without reinvestment
Assuming growth forever without reinvestment.

Profits without competition
Assuming that your company will grow and earn higher profits, with no competition.

Returns without risk
Assuming that you can generate high returns in a business with no risk.

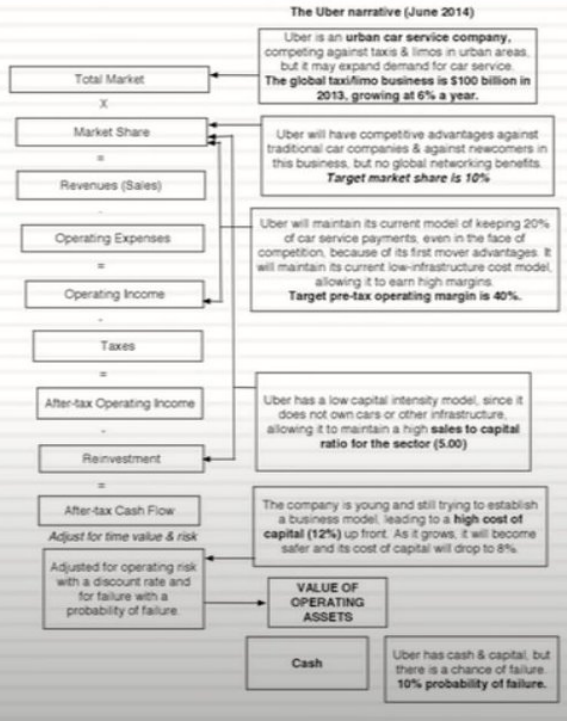
The Improbable



Talks at Google

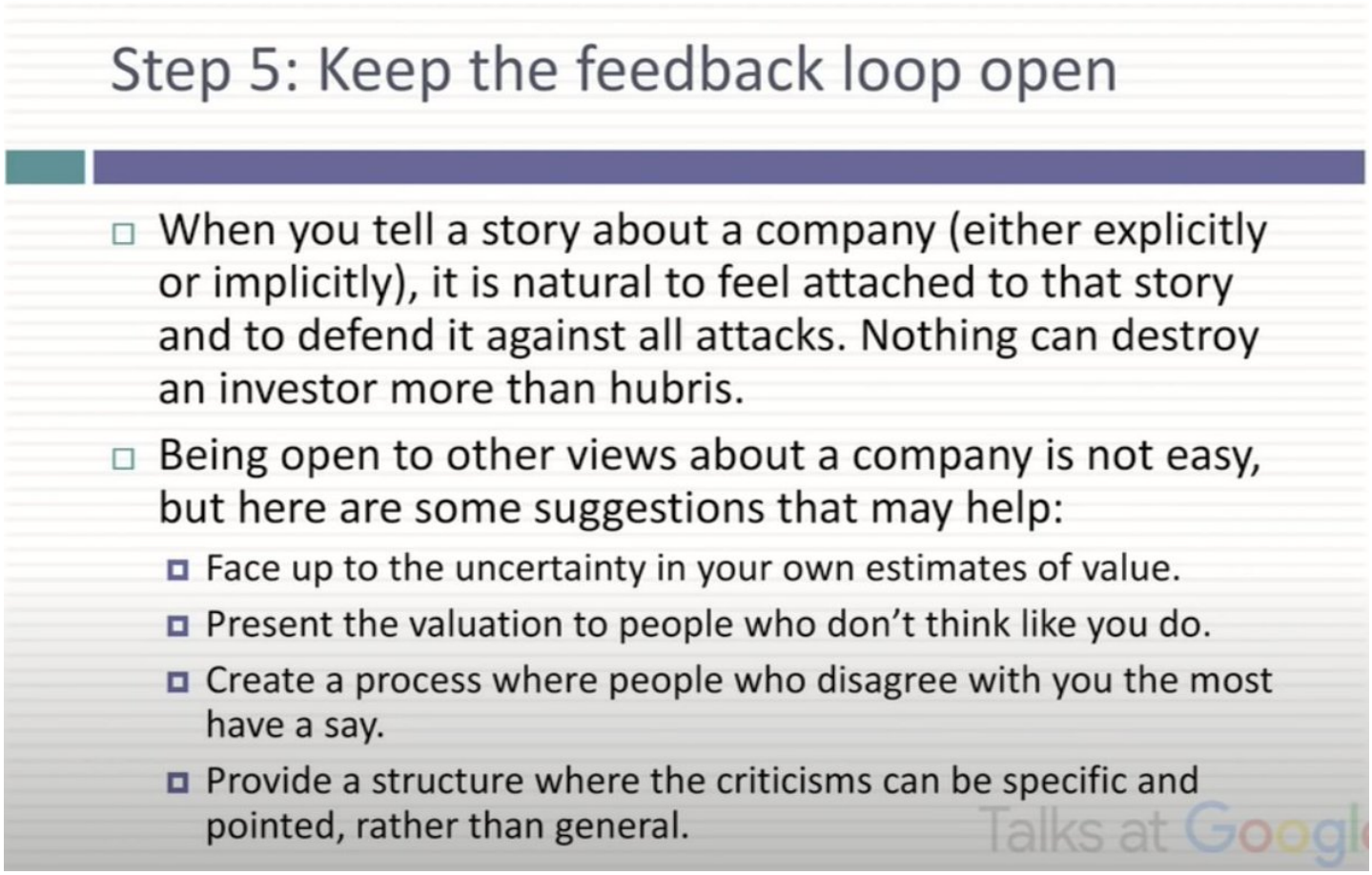
https://t.co/b7dG6ToEZG

Step 4: Connect your narrative to key drivers of value



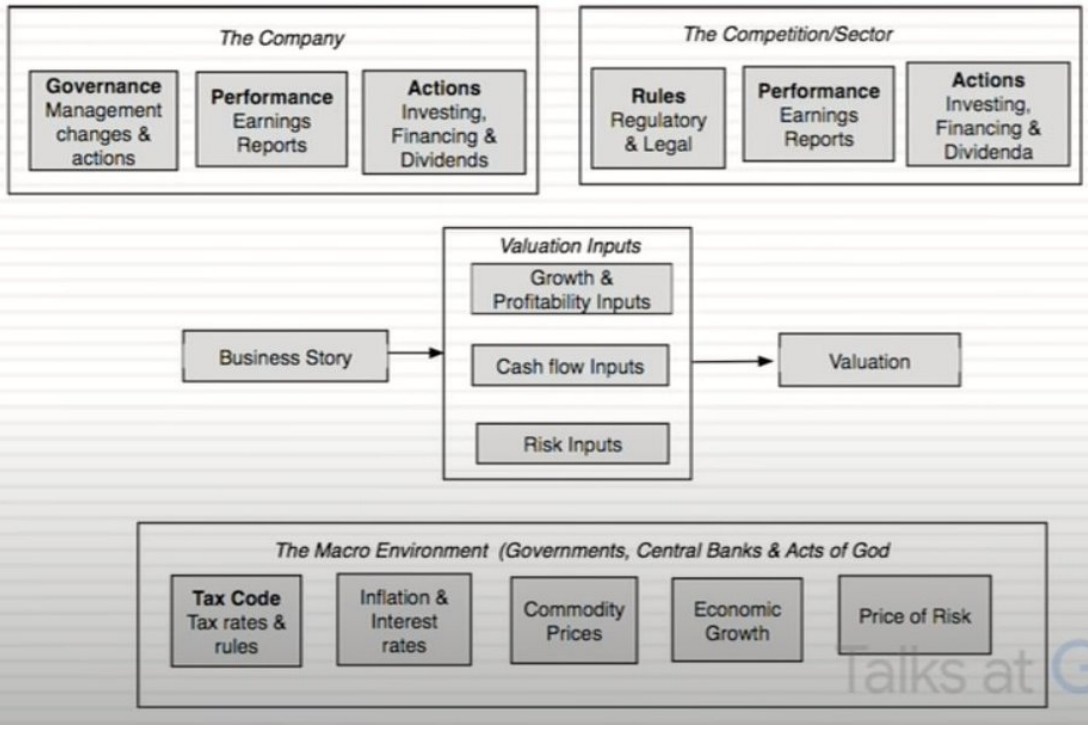
Talks at Google

https://t.co/RVeul1dBbY



https://t.co/uuRei205CF

Why narratives change: Because the world changes around you…



https://t.co/MR7DjkQuKP

How narratives change

24

Narrative Break/End	Narrative Shift	Narrative Change (Expansion or Contraction)
Events, external (legal, political or economic) or internal (management, competitive, default), that can cause the narrative to break or end.	Improvement or deterioration in initial business model, changing market size, market share and/or profitability.	Unexpected entry/success in a new market or unexpected exit/failure in an existing market.
Your valuation estimates (cash flows, risk, growth & value) are no longer operative	Your valuation estimates will have to be modified to reflect the new data about the company.	Valuation estimates have to be redone with new overall market potential and characteristics.
Estimate a probability that it will occur & consequences	Monte Carlo simulations or scenario analysis	Real Options