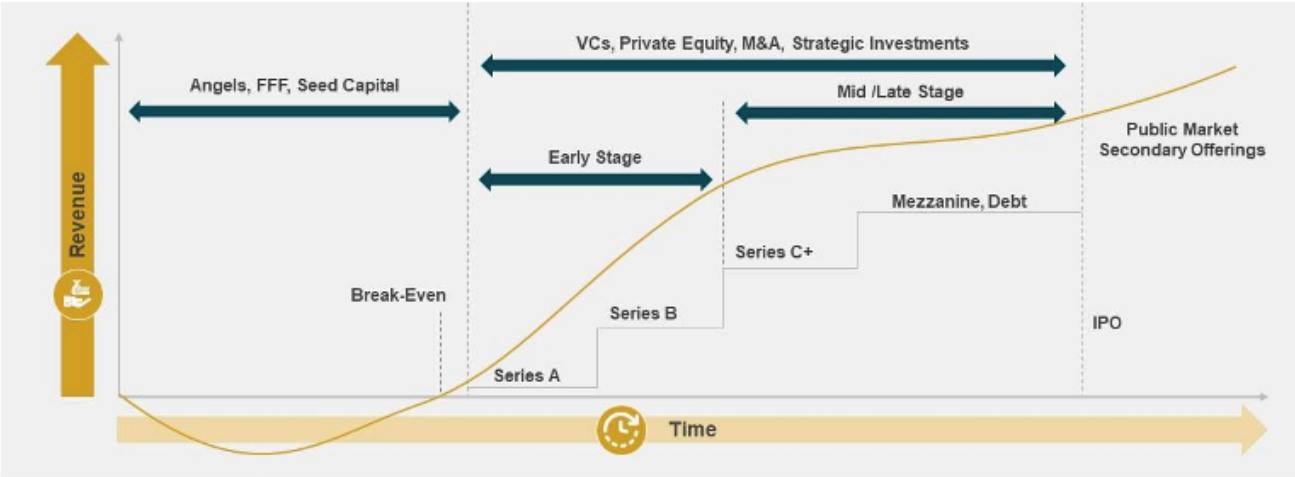
Why Every Serious Investor Needs 6ai Software

Comprehensive Strategy-based Valuations Development



Introduction

My team and I recently met with an angel group to discuss investing. During the discussion, one investor started using a brute-force revenue comparison to assign value to the company. However, considering our stage and the nature of our business, that approach was simply disconnected from reality. Of course, explaining why the investor's valuation method was wrong during the meeting was challenging and not appropriate, nevertheless, it's important to explain and defend your valuation as an entrepreneur.

Often, people adopt methods without objective analysis or first principles understanding about the suitability of the selected method. Not realizing the level of complexity involved, they oversimplify things to accommodate for their lack of knowledge on the subject matter. Most frequently, people choose methods based on what they believe to be true, engage in group think, or mimic. But what we believe or what we think we might know is of little consequence in the end. The only things of consequence are what is objectively true and what we do.

The **applied intelligence (ai)** strategy development methodology was developed to cut through the abstract, the noise and often too, the nonsense associated with improper decision-making. To provide a disciplined framework for analysis to ascertain what is objectively true, or not. These insights, then, can be taken to be empirically warrantable to build effective strategies.

The purpose of startup valuations is mainly to provide insight into a company's ability to use new capital to grow, meet customer and investor expectations, and achieve the next milestone. From this point, and after considering numerous factors, the 'intelligent investor', as Warren Buffett says, "can make an educated guess." This reflects the objective nature of valuations—part science, part art.

A proper startup valuation must include factors such as the team's expertise, product, assets, business model, total addressable market, competitor performance, market opportunity, goodwill, and more. Ultimately, value is what the founder and investors agree upon.

Most angel investors and venture capital firms have been using multiple 'formulas' to find the pre-money value of a technology business, basically making good-guesses of its potential value. However, this has proven highly subjective, inward-looking, becoming misguided by the process itself. A more outward looking approach that focuses in on market fit and potential has proven best. Along with the founder's strengths, according to Sequoia Capital's 50-year study of entrepreneur success. The most reliable factors/characteristic for determining a startup's long-term success potential comes down to the founder, all things being equal.

Entrepreneur attributes is the 'main thing,' according to a survey study by http://www.asiaentrepreneurshipjournal.com/AJESII2Rose.pdf:

"The study found a significant relationship between venture growth and entrepreneurs with high personal initiative, focused on specific competency areas within operations, finance, marketing and human resources—every aspect in human resources is considered important."

"The common research areas cited in the literature are such as entrepreneurs' leadership, entrepreneurial orientation, management skills, competencies, human capital, personality traits and circle of network. Qualities associated with a high need for achievement contribute to the success of a new venture."

The journal reviewed a number of psychological characteristics: REFEREED MATERIAL Volume II, Journal of Asia Entrepreneurship and Sustainability, which concludes that the need for achievement, internal locus of control and a risk-taking propensity are the core attributes or factors contributing to the success of new business start-ups. The empirical findings showed support that entrepreneurs with an internal locus of control strive for high achievement.

The study concludes: when investors are valuing an investment, the factors listed above must hold the most weight! And when using financial metrics, they should proceed with caution.

So, if the research informs us of this, it is logical that valuation must not be one-dimensional, but robust, holistic and comprehensive. Which requires the data-science based software solutions.

The Importance of Applying applied intelligence (ai) in Valuations

Valuing a tech startup accurately is very complex, and complexity requires synthesis, examining characteristics/dynamics, industry and macro trends, understanding the limitations of valuing startups, and being realistic about the findings.

The dynamic nature of tech startups, particularly AI startups, makes it a challenge for investors and entrepreneurs, but applying ill-considered, irrelevant or wrong valuation methodologies creates unforced errors in judgments.

In this analysis, we will explore the most popular valuation methods, with a specific focus on relevance, to provide a better understanding of how to properly assess and apply the appropriate valuation methods.

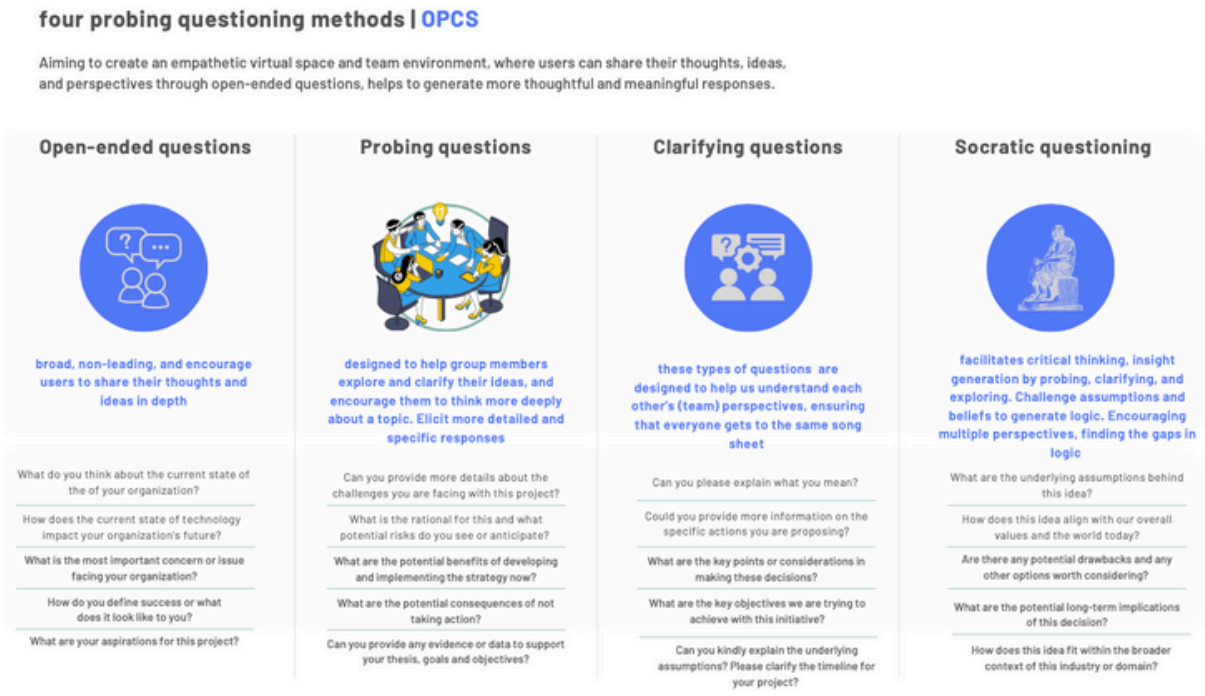
We make the argument that *manual human-driven singularity* methods of valuations are ineffective. More robust and comprehensive technology solutions to partner with general human intelligence is optimal. And adds significant value to the process.

The **six steps to the applied intelligence (6ai)** process guide users through a conversational Q&A process underpinned by logic and scientific wisdom. A higher dimensional level of useful insight generation—taken as empirically warrantable, relevant and highly applicable for fact-based real-world analysis.

The overriding philosophical approach of the ai-process is rooted in the Socratic method of inquiry: the conversational questioning approach popularized by the ancient Greek philosopher Socrates. This involves carefully crafted empathetic questioning to probe the logical consistency of the user's beliefs and assumptions, leading to a deeper understanding of the subject matter to apply specific application methodologies for decisioning.

The 6ai process leverages the computational power of generative AI, doing so purposefully and responsibly to augment human intelligence through the open-ended inquiry. With enormous speed, accuracy and relevant consistency. The method is not used for quick and definitive answers, but more focused ones. Thoughtful insight generation, for a more nuanced, multi-dimensional undertaking.

The ability to effectively determine value comes down to how accurate and relevant the method is. Context is everything: every successful strategy must be underpinned by an in-depth understanding of both the macro and micro, industries and market environments and their dynamics. Including the general competitive landscape.



The process further draws out and crafts real-world valuation strategies. But, like in math, if your formula is wrong at this point, so too will be the answers. Without a base of of knowledge to build on, one is proceeding on shaky ground.

The 6ai strategic approach to designing custom valuation methods, is best, because it focuses on the proven characteristics of business success.

At different stages of a startup's lifecycle, accurate and relevant investment decisioning is critical for a good valuation deal between the investor and founder—win-win. A zero-sum game is counterproductive.

Founders need to retain sufficient equity and have enough to grow the best teams.

Early-stage investors can often outsmart themselves with narrow-mindedness and greed, driven by hubris, ending up using ineffective and wrong valuation methods.

Driving primarily for a 'great deal' is short-sided, especially if that 'good deal' ends up saddling the enterprise with fundraising issues at later stages.

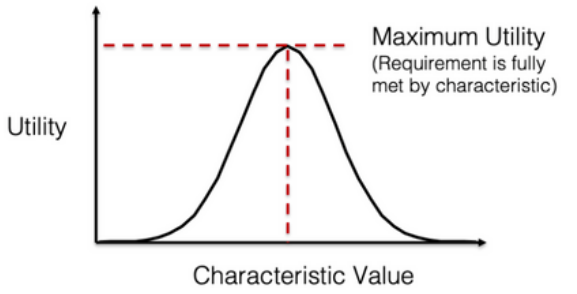
Vinod Khosla, co-founder of Sun Microsystems and the founder of Khosla Ventures, says that "*90% of investors don't add value, and 70% add negative value to a company. "Just because you have an MBA and joined a venture fund doesn't mean you've earned the right to advise an entrepreneur…have you built a large company, have you gone through how hard it is, how uncertain it is and how traumatic it is to go through?"*

The 6ai function applied here is called **"Maximum Utility,"** which calls for selecting the application method that has the highest degree of utility across the most probable future worlds. Nevertheless, how that future unfolds is independent of the business idea. The MU function measures the expected value of the idea's utility by examining its characteristics. The MU function also summates all of the utilities to find the idea's expected utility through a prediction function to estimate performance.

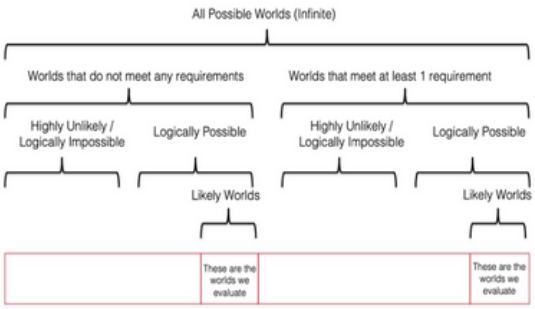
Furthermore, to compute the probability of each possible world occurring based on the likelihood of the characteristics being true. Given that we do not know what the future will be, we establish a set of possible worlds and determine their associated probabilities of being realized.

To do this, we use the following equation to calculate the chance of each of the world's characteristics occurring according to the defined variables.

$$p(W_n) = p,(C_{1m}) * p_2(C_{2m}) * \cdots * p_n(C_{nm}) = \sum_{i=1}^{n} p_i C_{im}$$



The variables and definitions used to formulate the possible future worlds process look like this:



Selecting the investment/idea that has the highest degree of utility across the most probable future worlds must be the investor mindset. Identifying the winning characteristics and conditions for the idea to succeed and the valuation methods required for decisioning is critical; again, because how the future unfolds is independent of the idea.

Bold, new, innovative thinking based on science and optimization, supported by historical data, rigorous decisioning and relentless iteration is the basis of ai. And the most viable path toward effective, sustainable, executable and measurable solutions.

ai equation

ap3 is VSP + DS over TU

$$\frac{\text{Vision + Strategy + Performance (VSP) + Data Sciencee (DS)}}{\text{Technology Utilization (TU)}}$$

$$\text{ap3} \circledcirc \frac{\text{VSP + DS}}{\text{TU}} = \text{success}$$

The main objective here continues to be **"Identifying The Right Strategic Problem to Solve."** If you get it wrong, the probability of getting the strategy or valuation right diminishes significantly!

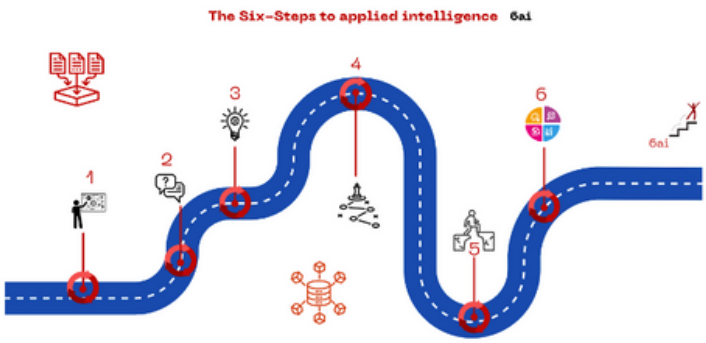
Also, the other underlying dimensional function within 6ai's multi-dimensional approach, is identifying the **Whitespaces of Opportunity**. A four-step process focused on applying relevant valuation methods to identify compelling investment opportunities.

Identifying whitespaces of opportunity

By combining big data/advance analytics and artificial intelligence. The applied intelligence (ai) strategy framework allows for a series of process that can identify the whitespace within industries/sectors that offer significant market growth opportunities.

The framework works to ensure efficacy by combining the awesome computational power of computers with the general intelligence of humans; to optimize decisioning.

The **six steps (6ai)** is shown below:



1. Identify the Right Problem to Solve & Data Sourcing, Aggregation
2. Framing the Strategic Question Insight & Targeting
3. Idea Generation Strategy & Planning
4. Finding the Objective Truth Data/information Quality Control
5. Understanding the Challenges Execution
6. Iteration and Testing Measure and Monitor

Valuation Methods Frequently Used

Several valuation methods can be applied to tech startups, each with its own set of advantages and challenges. Here are some of the most commonly used ones:

1. Market Comparables (Comparative Market Analysis) This method involves comparing the startup to similar companies that have recently been valued or sold. Key metrics such as revenue, user base, and growth rate are analyzed to estimate the startup's value.

However, the world does not stay static, times change and so do the variables that impact valuations. The flaw here is that relevance to time and place is not taken into account with the cursory methods used.

Finding truly comparable companies can be challenging and can't account for the unique aspects and characteristics of the startup. Which of course is critical to identifying the unique value proposition. This method is best suited for later-stage startups with established metrics.

2. Discounted Cash Flow (DCF)

DCF is a forward-looking method that estimates the present value of future cash flows. This method requires detailed financial projections and a discount rate to account for the risk and time value of money. However, when applying this method to early stages and particularly early stage AI-based opportunities, it is useless. Evaluating future cash flow here provides no true understanding of future value.

DCF requires accurate and reliable financial projections to be useful. DCF is more suitable for companies in the growth stages with more predictable cash flows and longer operating histories.

3. Scorecard Valuation Method

The Scorecard Method involves evaluating the startup based on several criteria, such as team, product, market size, and competition. Each criterion is scored and weighted to arrive at an overall valuation. This is a good method because, in the early stage, you really don't know, but numerous studies tell us that often enough the common denominator in predicting startup success is the drive and resilience of the founders and the leadership of their teams.

This is the most logical and holistic approach to valuations with the most qualitative factors accounted for, optimal for early-stage startups where qualitative factors are significantly important. Still, technology/AI can be a big help in expanding and improving this method.

4. Venture Capital (VC) Method

The VC Method estimates the return on investment (ROI) expected by venture capitalists. It involves calculating the post-money valuation by dividing the expected exit value by the target ROI. This is a poor method, however, it sides with the interests of the VC and their fund management and performance objectives. It can be harmful to entrepreneurs.

The VC method is a quick-study method. A straightforward calculation that is not suitable for authentic investing, building relationships and great companies.

5. First Chicago Method

This method combines elements of DCF and scenario analysis. It involves estimating different possible future outcomes (best case, worst case) and calculating a weighted average valuation based on those scenarios. Random, abstract and not well thought out.

Complexity and Challenges in Valuing Tech Startups Predicting is impossible, but using ill-informed methods to evaluate startups can give a false sense of effective due diligence. The *manual/human* process is just not effective enough, particularly in this rapidly evolving knowledge-based economy. One leaves themselves at great competitive disadvantages if they are not using the awesome computational power of machines to do the heavy-duty analytical lifting.

All data is from the past, but new startups are about the future, and no data exists about the future. Therefore, we must use all our our available tools in the tool box if we want to win!

Methodology & Insight Generation

Primary

- Assessment of data and objectives
- Build a base version of your understanding of a relevant functional methodology
- Develop initial iteration based on the data provided and found
- Define the environments for testing and iteration

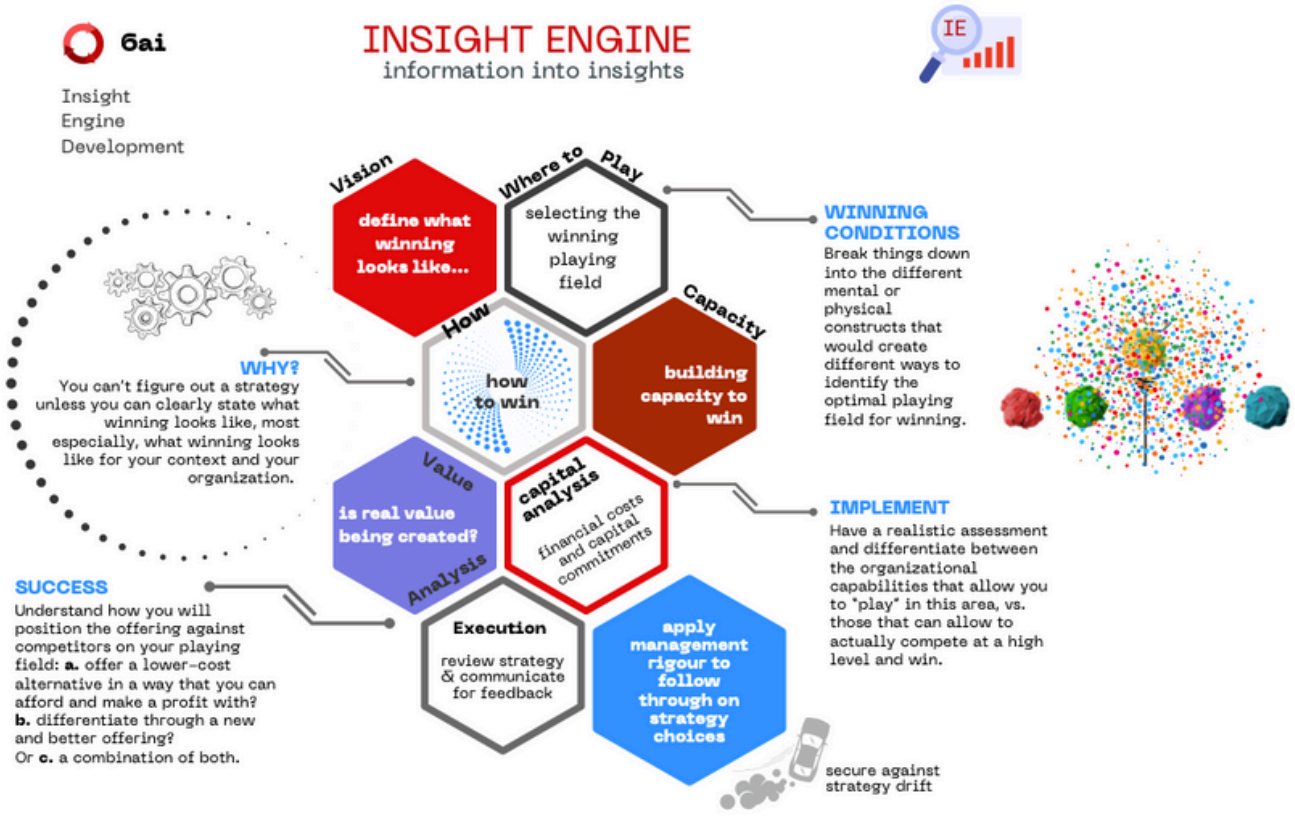
Valuation Solution Development

- Data onboarding and processing and models
- Develop the solution iteratively to ensure the best possible results

Valuation Methodology Deployment

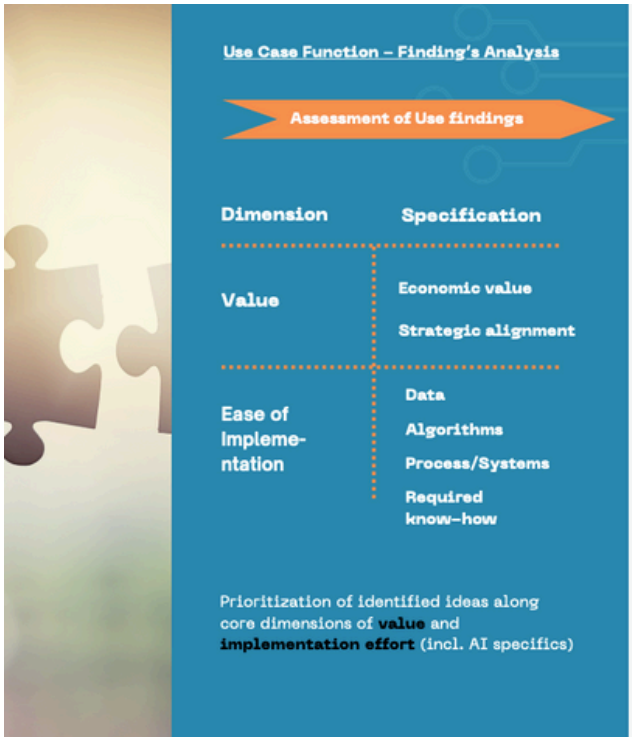
- Deployment of pre-processing methodology, supporting models and system checks using AI-Agents
- Design and build workflows related to use case functionality and relevance analysis
- Design and create a basic web-based Dashboard (UI) to visualize and work in teams

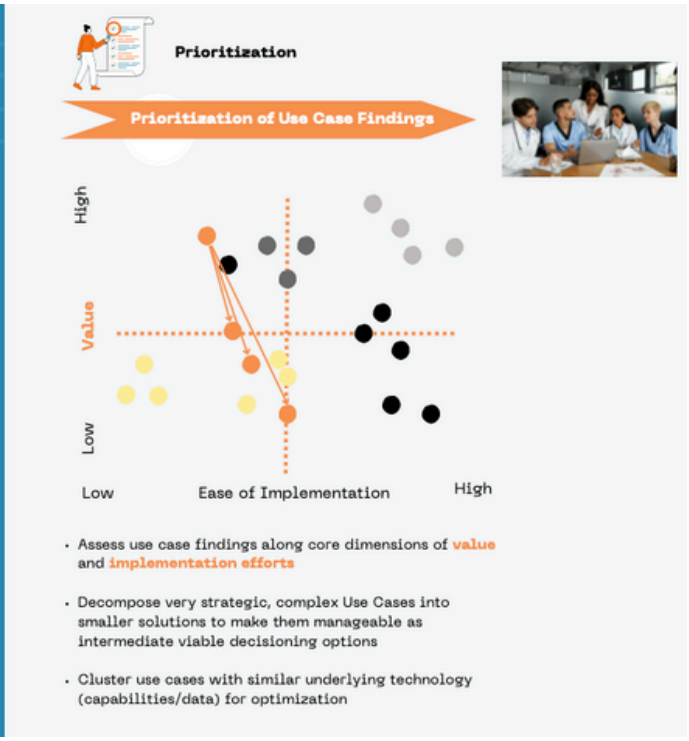
The **6ai Insight Engine** below shows the multiple components and robustness of the strategy development process.



Use Case Efficacy

Building any strategy and/or developing a methodology for evaluating requires critical functions for identifying core characteristics and dimensions, to access value creation and easy of implementation.





Valuing tech startups, particularly in the fast-evolving AI era, requires more than just human intelligence, it requires the multi-dimensional technology approach of applied intelligence (ai) and its technology applications and systems. More advanced analytics to capture authentic meaning and balancing quantitative data with qualitative insights is imperative for achieving good outcomes.

The applied intelligence approach offers a framework/platform to process, evaluate and value investment opportunities—with speed and accuracy. ,

Applying the right valuation method is paramount for optimal results. There are no guarantees but applying **6ai software** gives a you a significant advantage, than if you were otherwise not using it.

6ai is redefining how strategy is crafted in the age of AI

www.6aitech.com

6ai Technologies Inc. Empowering Strategy for Human Progress

- The applied intelligence (ai) framework/IP is based on applying complexes of empirical facts through a higher and more reliable dimensional level of information retrieval and insight generation.

- An easy-to-use/do-it-yourself software solution that doesn't require any special training or skills. Accessible to all at a fraction of the cost of hiring consultants, specialists, or advisors.

- 6ai is a **human-centric** software offering that doesn't pursue making AI competitive, surpassing or replacing human intelligence. It takes an augmenting approach and is powered by our proprietary **six-steps-to-ai (6ai) IP**.

- Utilizing generative AI as an amplifying tool for focused and practical language model applications. Purposefully and responsibly to augment human intelligence capacity, capabilities, and ingenuity. To enhance our user's value proposition and worth in the marketplace.