

Note on DISRUPTION & VALUATION in the Technology Sector

Valuation is a tough task in sectors where disruption is a key element, for example when valuing an innovative technology company.

We must be aware that in this case the already known, over the past many years, valuation rules in the sense of what is cheap or expensive become obsolete.

The rule is that there is no rule.

When valuing an innovative technology company in an environment of disruption, look for data that demonstrate the company's social response or customer base in terms of customers, users, subscribers and utilize these data for future projections. That's the key.

Don't assume the same trend or too much of this trend for too long unless there is substantial, and perhaps historic, evidence that such a scenario can or will materialize.

Estimate the valuation of the company by extracting a number that is realistic based on available evidence. If the company is being valued in order to be sold to its "perfect fit" then this buyer will probably have to pay a higher price, but this is not the scope of the valuation in an environment of disruption.

When it comes to sectors with great disruption, the scope of the valuation is to be in the right price range rather than to puzzle over an extreme case.

Interesting piece of evidence: Due to the need to deploy more technology in their day-to-day operations, even companies which are not technology ones, become implicitly members of the technology sector. Therefore, the technology sector has been expanding into multiple layers of the economy and business, and is expected to continue doing so. Even more, technology companies in the future will be the outcome of the effort made by companies in every other sector to utilize technology in their business model and to turn their businesses into on-line ones, digital ones, and so on.

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