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NST FOUNDER LAB / WEEK 13 / DAY 3

WHAT IS IT WORTH?

WHAT DO YOU GIVE UP?

Valuation, dilution and the price of capital: how companies are valued, how headline numbers get inflated, and why the same company can get different offers.

Teaching material. Worked examples use invented numbers unless a source is named.

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PRICE, VALUE, VALUATION: THREE DIFFERENT THINGS

People use them as if they were one.

Value

What the business is worth to a particular buyer, given what they expect it to earn and how risky that is. Different buyers get different answers. Always an estimate.

Price

What one buyer and one seller actually agreed to pay for specific shares, with specific terms. Negotiated. It is a fact about that deal only.

Valuation

The company-level number implied by a deal: Price per share × all shares. It is arithmetic on the deal, not a measurement of the company.

Terms

Everything else in the paper: preference, anti-dilution, vesting, tranches, board seats, pro rata. Two deals with the same valuation can have very different value to you.

RULE • Value is an estimate. Price is what a deal says. Valuation is a number inside that deal.

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PRE-MONEY, POST-MONEY AND OWNERSHIP

The three equations behind every term sheet.

Post-money = Pre-money + Investment

Ownership sold = Investment ÷ Post-money

Price per share = Pre-money ÷ Shares before the round

Worked example

Step	Number
Investor puts in	₹30 lakh
Company is valued at (pre-money)	₹4.7 crore
Post-money = 4.7 + 0.3	₹5.0 crore
Ownership sold = 0.3 ÷ 5.0	6%
Shares before: 10,00,000. Price = 4.7 cr ÷ 10 lakh	₹47 per share
New shares = ₹30 lakh ÷ ₹47	63,830 shares

Same deal, said two ways:

"₹4.7 crore pre-money" and "₹5 crore post-money" describe one company price.

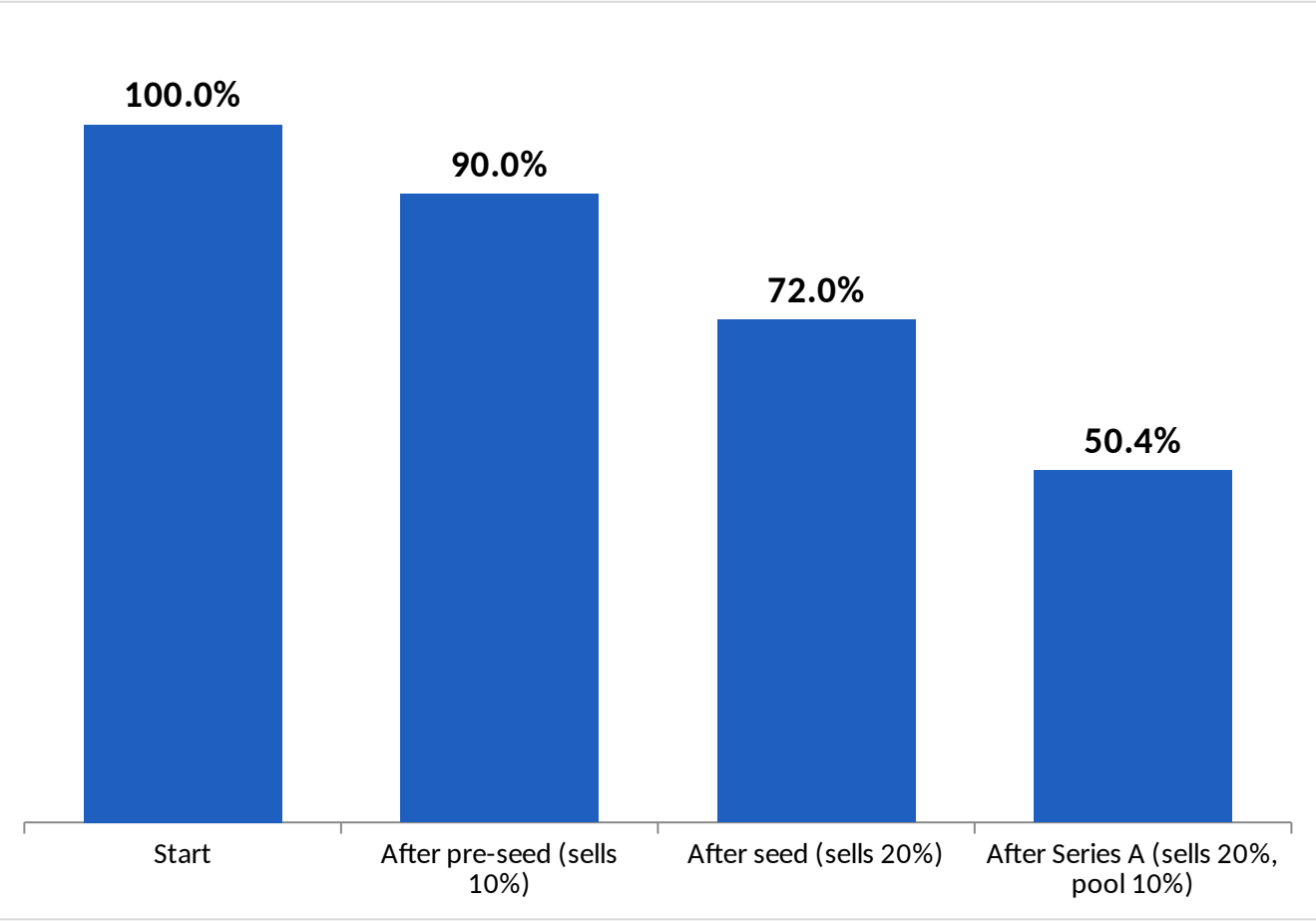
When someone says "valuation" without the word pre or post, ask which one.

RULE • Ownership sold = Investment ÷ Post-money. Nothing else.

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DILUTION MAKES YOUR PERCENTAGE SMALLER, NOT YOUR CLAIM SMALLER

Illustrative: three rounds, founders as a group.



Round	Post-money	Founders hold	Worth
Seed	₹10 cr	72%	₹7.2 cr
Series A, up round	₹40 cr	50.4%	₹20.2 cr
Series A, down round	₹6 cr	50.4%	₹3.0 cr

Smaller slice of a bigger company can be worth more. The same smaller slice of a cheaper company is worth less.

Every round sells a slice, and every slice stays sold unless bought back. So the question is never "how much valuation?" alone. It is "how much of the company does this cash cost, and what does the cash let us prove?"

RULE • Judge a round by (your % after) × (the valuation), not by the % alone.

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FOUR LENSES ON VALUE: NO SINGLE ONE IS "THE" VALUATION

Different lenses fit different evidence.

Cost to build

What would it cost to rebuild this? Useful for asset-heavy or technology-heavy companies. Ignores future earning power.

Comparables

What did similar companies sell for, or raise at? Needs honest similar companies at the same stage. Public company multiples do not transfer cleanly to private startups.

Income and returns

Value = what future cash is worth today (DCF), or what an investor needs to earn (VC method). Very sensitive to assumptions.

Scorecards

Adjust a regional norm for team, market, product and risk (Scorecard, Berkus, Risk Factor). Built for pre-revenue companies where nothing else exists.

RULE • Early on, methods structure a negotiation. They do not measure truth.

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A TEAM IS QUALITATIVE. YOU CAN STILL SCORE IT WITH EVIDENCE

Convert judgement into transparent, arguable numbers. This is a teaching convention, not a market standard.

Dimension	What counts as evidence
Domain insight	Interviews done, access to customers, unusual knowledge of the problem
Execution record	What has shipped, how fast, past outcomes
Skill coverage	Can the team build, sell and run operations, or is one missing?
Commitment	Full-time? Vesting on founder shares? Own money at stake?
Learning speed	Experiments per week, how feedback changed the product
Working relationship	How long they have worked together; how conflict was handled; references

Score and convert

Score each dimension 0–4:

0 none · 1 claim only · 2 some evidence · 3 repeated evidence · 4 repeated and independently checked.

Total out of 24.

Team factor for the scorecard = 60% + (score ÷ 24) × 80%.

So 12 points = 100% of norm. 18 points = 120%. 24 points = 140%.

RULE • No evidence, no points. Two scorers, separate scores, then argue.

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THE VC METHOD: WORK BACKWARDS FROM THE EXIT

Used from early revenue onward. Start with what the investor needs, not what the founder wants.

Post-money today = Expected exit value × (share kept after future dilution) ÷ Target multiple

Step (illustrative)	Number
Expected exit equity value	₹120 crore
Target multiple	10×
Share kept after later rounds	50%
Post-money today = 120 × 0.5 ÷ 10	₹6 crore
Investment	₹1 crore
Pre-money = 6 − 1	₹5 crore
Ownership sold = 1 ÷ 6	16.7%

Sensitivity: post-money today (₹ crore, target 10×)

Exit value	Keep 40%	Keep 50%	Keep 70%
₹60 cr	2.4	3.0	4.2
₹120 cr	4.8	6.0	8.4
₹240 cr	9.6	12.0	16.8

Same company, same investor: a fourfold spread from assumptions alone. This is why the exit story gets argued, not the formula.

RULE • Post-money today = Exit value × Retention ÷ Target multiple.

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LIQUIDATION PREFERENCE: THE SAME PERCENTAGE CAN PAY VERY DIFFERENTLY

Who gets paid first when the company is sold, and how much.

1× non-participating

Investor takes the greater of (a) money back or (b) its percentage of the sale if converted. Founder-friendly and common as a default in standard term sheets.

Participating

Investor takes money back first and then also shares in the rest by percentage. Investor-friendly: it is paid twice.

Multiples (2×, 3×)

Investor gets a multiple of its money back before others. Check the multiple and whether it participates.

Example: ₹2 crore for 20% (post-money ₹10 crore). Investor proceeds at different sale values:

Sale value (₹ cr)	5	10	40	100
1× non-participating	2.0	2.0	8.0	20.0
1× participating	2.6	3.6	9.6	21.6

RULE • A headline valuation tells you the price of a share. The preference tells you the payout.

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"ONCE IT IS DONE, IT IS DONE": TRUE FOR THAT DEAL ONLY

Six common beliefs, checked.

Belief	What is actually true
"Our pre-seed valuation is fixed forever."	Fixed for that signed round. The next round is priced on the next round's evidence.
"A SAFE has no valuation."	A cap is a ceiling price that becomes real when the SAFE converts. Uncapped SAFEs defer the price to the next round.
"Different investors cannot offer different prices."	They do, often at once. You pick one. After signing, that price is on your cap table.
"A higher price is always better."	Only if you can grow into it. A later lower price brings down-round mechanics and anti-dilution.
"Terms are details."	Preferences and anti-dilution persist across rounds even when the headline resets.
"Our last price is just history."	New investors anchor on it. It shapes the next negotiation.

RULE • A signed price is fixed for that round. Its consequences are not.

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FIVE THINGS TO CARRY OUT

1

A valuation is an estimate. A price is a signed fact for one deal.

2

Ownership sold = investment ÷ post-money. A smaller slice of a bigger company can be worth more.

3

Qualitative things can be scored, if each score cites evidence.

4

Headline numbers can be inflated by structure. Read the preference, not just the price.

5

Different funders give different prices because their deals and return models differ.

RULE • Value is argued with evidence. Price is signed. Terms are what stay.