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Cautions about Raising Too Much Money

David Frankel, *Altirah Capital*

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David Frankel, Founding Partner at Altirah Capital, cautions against raising too much money in an early round for two reasons. First, if things go poorly and the firm receives a lower valuation in the next round (down round) then substantially funding the venture will be difficult. Second, if you raise an appropriate amount of money in an early round and things go well you can always raise more money in a later round at a higher valuation.

Transcript

A lot of entrepreneurs -- you don't want to dilute so you want the biggest, and I'm thinking in a venture model, you want the biggest valuation possible so that you can give up the least equity. But that creates problems sometimes down the line. We've seen situations where a company off a power point gets a 10 million dollar pre. Great if it goes up the curve but if at some point it doesn't, the entrepreneurs are happy to do the round but the investors certainly aren't. That's the one side. And then the fact is that as an entrepreneur, you should back yourself. You should back yourself to say, "Look, I am going to take X amount of cash which is going to dilute me by X and I am going to raise the pre-money of this company." The optionality staging, by definition, stage funding is not just good for funders. It's good for entrepreneurs as well. Stage funding lets everyone have the optionality of time to see what happens. As an entrepreneur backing yourself, that time optionality gives you the ability to do more and raise your pre-money and give away less at a higher valuation in time.

So, I'm certainly against taking as much money as you can up front because we've seen that end tragically.