



Stanford eCorner

Setting Valuation

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May 01, 2007

Video URL: <http://ecorner.stanford.edu/videos/1841/Setting-Valuation>

Jason Green, Founding Partner at Emergence Capital, describes the common situation of an entrepreneur raising money and receiving questions about the expected valuation for the startup. Green argues that one of the biggest mistakes made by entrepreneurs is responding to this loaded question and suggests that instead entrepreneurs should just let the market decide the valuation.



Transcript

In all of your experiences, what's the biggest mistake entrepreneurs typically make in the fundraising process? I'll give you my biggest mistake. This is such an easy one to fix too which is why I'm talking about it. Inevitably after that initial meeting when people start to get interested and you'll know they're interested because they ask this question which is, "What do you think about valuation? What's your expectations?" And, this is a very loaded question and you should know that because there's a lot of answers in a number. Those answers are the embedded motivations of the team is in that answer. The expectations of existing investors are in that answer. The expectations of what you want to produce for your future investors is in that answer. It's a very loaded question and one you ought handle very carefully and with a lot of thought. In general, I'd say the best philosophy is to try and let the market determine what that valuation is because what your preconceived notions about what valuation are may be completely different from what that investors expectations are or frankly, the market. In general, I'd like to say, "This is the valuation of the company at the last round. This is what we've done since the last round.

We think we've done a good job in delivering value to our investors and to our customers. We're going to let the market decide basically what the valuation on the next round is." It may be a cop out but in some ways it's the best answer to that question, which is you also get to see what your potential partner or investor's expectations are in that question. Sometimes I think turning it around and saying, "Well, what do you think the valuation should be?" is an interesting question as well. So, you should know that it's a loaded conversation and one you have to enter in very carefully. In a lot of ways, you shouldn't feel that the responsibility is on you to set that valuation since its our business. We generate returns for our investors by hopefully buying low and selling high. We should have an opinion about what your company should be worth. Hopefully, it's consistent with what you think is a reasonable valuation. If not, you should move on to the next investor.