9 Venture Capital (VC)

Pre-Money vs. Post-Money Valuation

Step-by-Step Guide to Understanding Pre-Money vs. Post-Money Valuation

Last Updated December 6, 2023

Pre-Money vs. Post-Money Valuation:

When it comes to evaluating early-stage companies, the **Pre-Money Valuation** refers to how much a company's equity is worth prior to raising capital in an upcoming round of financing.

Once the financing round and terms are finalized, the implied value of the company's equity rises by the amount of funding raised, resulting in the **Post-Money Valuation**.

$$\text{Post-Money Valuation} = \frac{\text{Financing Raised}}{\text{\% Equity Ownership}}$$

Pre-Money and Post-Money Valuation: What is the Difference?

In venture capital (VC), the pre-money valuation and post-money valuation each represent the valuation of a company's equity, with the difference being the timing of when the equity value is estimated.

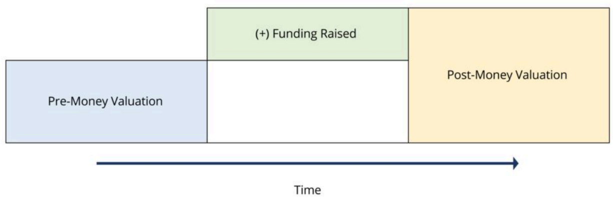
The pre-money and post-money valuations each refer to different points in the funding timeline:

- Pre-Money Valuation: The value of a company's equity before raising a round of financing.
- Post-Money Valuation: The value of a company's equity once the round of financing has occurred.

As implied by the name, the pre-money valuation does NOT account for any new capital expected to be received from investors based on an agreed-upon term sheet.

If a company decides to raise financing, the total amount of new funding is added to the pre-money valuation to arrive at the post-money valuation.

Therefore, while the pre-money valuation refers to the company's value before the first (or the next) financing round, the post-money valuation accounts for the new investment proceeds received.



How to Calculate Post-Money Valuation?

Post-Money Valuation Formula

The post-money valuation is equal to the amount of financing raised plus the pre-money valuation, as shown below:

Post-Money Valuation = Pre-Money Valuation + Financing Raised

But depending on the amount of information readily available on the terms of the funding round, the pre-money and post-money valuation could also be calculated using an alternative approach.

If the pre-money valuation is unknown, but the financing raised and implied equity ownership is announced, the post-money valuation can be calculated using the following formula:

Post-Money Valuation = Financing Raised ÷ Equity Ownership (%)

For instance, if a venture capital firm invested $4m with an implied equity ownership stake of 10% after the financing round, the post-money valuation is $40m.

- Post-Money Valuation = $4m Investment Size ÷ 10% Implied Equity Ownership Stake = $40m

What are the Funding Rounds in Venture Capital (VC)?

The funding rounds in venture capital (VC) are as follows.

- **Pre-Seed / Seed Stage:** The pre-seed and seed-stage round consists of close friends and family of the entrepreneurs as well as angel investors. More seed-stage VC firms have emerged in recent years, but the area remains niche and is typically for unique situations (e.g. founders with previous exits, preexisting relationships with the firm, former employees of the firm).
- **Series A:** The Series A round includes early-stage investment firms and represents the first time institutional investors provide financing. Here, the startup's focus is on optimizing its product offering(s) and business model.
- **Series B/C:** The Series B and C rounds represent the "expansion" stage and comprise predominantly of early-stage venture capital firms. At this point, the startup has likely gained tangible traction and shown adequate progress towards scalability for success to seem achievable (i.e. proven product/market fit).
- **Series D:** The Series D round represents the growth equity stage in which new investors provide capital under the impression that the

company can have a large exit (e.g. undergo an IPO) in the near term.

What is the Difference Between Up Round vs. Down Round Financing?

Prior to raising capital, the pre-money valuation must be determined by existing shareholders, most notably the founders.

The difference between the beginning valuation and the ending valuation following the round of financing determines whether the financing was an "up round" or a "down round."

- **Up Round Financing** → An "up round" means the valuation of the company raising capital has increased in comparison to the prior valuation received.
- **Down Round Financing** → A "down round," in contrast, means the company's valuation has decreased post-financing in comparison to the preceding round of financing. However, a company can certainly recover from a negative round of financing, despite the increased dilution among shareholders and potential internal conflict after the unsuccessful round of financing.

While many questions (and doubts) are certain to be raised about the future of the company and raising capital in the future will become far more challenging, the capital raised in a down round may have eliminated the risk of imminent bankruptcy.

Although the odds are likely stacked against the founders, the capital could have given it enough time to turn the business around – i.e. the financing was the lifeline that the startup required to remain afloat for the time being.

Pre-Money vs. Post-Money Valuation Calculator

We'll now move to a modeling exercise, which you can access by filling out the form below.

First Name *

Email *

Submit

By submitting this form, you consent to receive email from Wall Street Prep and agree to our terms of use and privacy policy.

1. Early-Stage Startup Funding Assumptions

Suppose a startup is raising $5 million in growth capital in an upcoming funding round.

After the financing is complete, the ownership of the investors is expected to amount to 20% of the total equity.

- Investment Size = $5 million
- % Investor Equity Ownership = 20%

2. Pre-Money Valuation Calculation Example

Using those assumptions, we can divide the investment size by the ownership percentage, and then subtract the investment amount to calculate the pre-money valuation.

- Pre-Money Valuation = ($5 million ÷ 20%) – $5 million = $20 million

3. Post-Money Valuation Calculation Example

The post-money valuation can simply be calculated by adding the $5 million investment to the pre-money valuation, or $25 million.

Alternatively, we can divide the investment size by the equity ownership of the new investors, which again comes out to $25 million.

- Post-Money Valuation = $5 million ÷ 20% = $25 million

Pre-Money vs. Post-Money Valuation	
($ in thousands)	
Investment Size	$5,000
% Investor Equity Ownership	20.0%
Pre-Money Valuation	$20,000
Post-Money Valuation	**$25,000**