

What to Say When an Investor Asks for your Start-up Valuation

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I have written several times suggesting that entrepreneurs not put price tags on their startups. For a variety of reasons ([see most recently](#)), entrepreneurs should postpone the valuation discussion until an investor capable of leading the financing steps up to the plate and suggests serious interest in doing the deal.

What if, as all too often happens, when less sophisticated investors are involved, an investor asks for a pre-money valuation in an initial presentation or even initial contact? Several thoughts.

First, figure either that the investor is not very sophisticated; and/or testing your sophistication; and/or trying to determine if your valuation demands are simply unrealistic or in any event beyond their investing criteria.

Second, factoring in the above possibilities, consider as well the context of the question. Is it in a private discussion, or a public forum? Is the question being asked by an investor you know to be a credible lead investor prospect, or by someone who is either an unknown or an unlikely lead investor?

With all of this in mind, consider the following kinds of answers to the premature “what valuation are you looking for?” question:

1. “You know, that is something we can’t really figure out until we get a credible lead investor candidate at the table with a specific proposal.”
2. “There are so many factors beyond the price of the deal: who the investor is, what value add they bring to the deal beyond money, other important deal terms; like dividend provisions, exit provisions and such, that factor into the discussion that it just isn’t possible to put a specific number on the valuation at this stage.”
3. “At this point, there are so many variables that it is hard to pin down a specific number. What I can say is that we understand where the market is for sophisticated investors, and know that we will have to live within those constraints.”

4. “When you are ready to show me the money, I’ll be ready to talk about the terms of the deal.” Ok, you should save this one for the right circumstances, but in those circumstances it can send a pretty good message to every good potential lead investor in the room and maybe beyond. A variation of this might be “We are open to serious offers that leave enough on the table for the team, considering the immediate deal and the long-term financing plan.”

If these kinds of answers don’t suffice, the chances are the investor is unlikely to lead the deal, and probably not someone you would want to lead the deal at a reasonable price (they might want an inappropriately low price, or being willing to pay an inappropriately high price). In any event, the chances you want to give a prospective investor a fixed price (or even a range, as the investor will figure the bottom of the range is the actual price) on a first meeting are vanishingly small, because if you do you will have sent a signal to this investor and likely through this investor or anyone else in ear-shot to the investor community at large, that you are likely a bit naïve/inexperienced at the game (obviously not a good thing) and/or that you can ultimately be had for something less than the price you named. So, unless/until you have a credible lead investor ready to talk serious turkey, don’t tell them what the meal will cost them.

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