Twitter Thread by David Frankel



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Founder 1: Runs startup for five years. Sells for ~$100M. Makes $30M.

Founder 2: Running startup for ten years (and counting). Valued at ~$1B. Founder shares valued at $30M.

Which founder would you rather be?

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There is no easy – or correct – answer to this question. These founders have different life situations and ambitions.
However, I don't think VCs do enough to highlight the financial risks founders take by getting on the fundraising treadmill.

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Raising venture capital increases the theoretical value of a startup and the paper wealth of its founders.

It also reduces the number of potential buyers for the startup and increases the risk that no buyer can be found, limiting the real wealth of its founders.

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This scenario also assumes that the startup is consistently able to justify its valuation.

It never needs to raise capital on a flat or down valuation and the ultimate buyer pays a premium at sale.

None of these facts are given or believed until "the moment".

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Luckily, not all founders are motivated primarily by money.
That said, most do care about the value of their equity and, ceteris paribus, would prefer to avoid a decade of all-consuming stress if there is not a larger pot of gold at the end of the process.

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In terms of pure probability, the most efficient way for founders to secure generational wealth for themselves is to raise a single round of funding, create as much value as possible with it, and sell the startup relatively early.

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For most founders, a “humble” $10M payout would represent a huge windfall after a five-year period.

What is considered a poor showing in VC circles – a $50-100M exit – can set up founders (& their children) for life.

Entrepreneurs should guard this class of exit jealously.

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This way of thinking runs counter to conventional VC wisdom that founders should focus on the "size of the pie", or their startup's overall value, rather than the "size of their slice", or the founder's ownership .....

I'm here to tell founders to guard their slices.

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I believe ownership percentage – the slice – and not exit value – the pie – will drive financial returns for the majority of startup founders.

Only in extreme outlier cases is the advice to grow the pie the most enriching goal.

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This is a hard path for most founders to navigate.
Getting to the point of sustainability can be difficult.

But getting to an exit is even more challenging and only becomes more complicated with larger and larger valuations.

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This thread is advice given against our own interest.

Our model works best when the startups we back have $1B+ exits. We want every company we back to reach that threshold.

It’s just not possible, and for founders, not necessary.

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Over-optimizing on ownership can lead some founders to make short-sighted decisions too.

Remember, the goal isn't to save a few percentage points by shortchanging employees in the ESOP but rather to avoid the 50%+ dilution that will be sold in future funding rounds.

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It's always possible to raise more money to pursue a bigger goal.

However, once you've taken money, you can't accept many smaller but still life-changing exits.

VC ratchets in one direction, and founders should be exceedingly confident before they add more pressure.

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