eCorner

Stanford eCorner

Pay Back Time

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Roizen believes terms are more important than a startup's valuation. One of the biggest mistakes entrepreneurs can make is to sell part of the company, think they've made a few million dollars, and then forget to factor in the investment from VCs, she says.

Transcript

I think one of the biggest mistakes entrepreneurs made in the last couple of years is hey, I own a company and I sold 50% of it for $5 million and the day that $5 million gets in my bank, I've got $2.5 million.. No, you don't.. You have $5 million of debt and usually at three or four liquidity preferences and participation that you got to pay back before you ever see a dime.. That money is very dear and very precious and that's why I would caution everyone that terms are more important than valuation and recognizing that that money is yes, it's risk capital and yes, it's okay.. We're in the business that we intend that many of our investments will be lost and we won't ever see that money again.. But if there's any value in the company that gets created as a result of your sweat and our money, our money that's first, right? Whatever the expression is, I'm not a baseball fan so I never know.. Is it bats last or bats first? Well, whatever it is, we get our money back first.. That's the point.. So just pay attention to that when you go into these things...