Startup Movers

Clarity. Structure. Growth.

VALUATION INSIGHT

Understand the numbers.

Make better decisions.

11 Valuation Terms Every Founder Should Know Before Fundraising

A Startup Movers Guide

A founder-first visual guide to making smarter fundraising decisions.

IDEA → SEED → SERIES A → SERIES B → EXIT

11 Terms
Core valuation terms explained simply.

Practical Examples
Real-world scenarios for every term.

Founder Tips
Actionable insights you can use.

Visual Breakdowns
Diagrams and visuals to understand faster.

TABLE OF CONTENTS

1. GETTING ORIENTED

3	Foreword	3
4	Chapter 1: Why Bother Learning This?	4
5	Chapter 2: Map of the Journey	5

2. THE 11 TERMS

6	Term 1 — SAFE (Simple Agreement for Future Equity)	6
7	Term 2 — Round Size	7
8	Term 3 — Valuation Cap	8
9	Term 4 — Discount Rate	9
10	Term 5 — Pre-Money Valuation	10
11	Term 6 — Post-Money Valuation	11
12	Term 7 — Cap Table	12
13	Term 8 — Dilution	13
14	Term 9 — Fully Diluted Shares	14
15	Term 10 — Floor Valuation	15
16	Term 11 — Liquidation Preference	16

3. PUTTING IT TOGETHER

17	Common Mistakes Founders Make	17
18	Quick Recap (One Line Each)	18
19	One Last Thing	19
20	Next Steps	20

Reading time: ~15 minutes

Foreword: The Meeting Rohan Almost Got Wrong

Rohan had built a great product. Customers loved it. Revenue was climbing. So when an investor offered him a term sheet, he almost signed it on the spot — until his co-founder asked one question:

'Wait, is that valuation before or after their money comes in?'

Rohan didn't know. Neither did his co-founder.

That one question saved them a very expensive mistake.

Most founders don't lose equity because they're bad negotiators. They lose it because nobody ever explained the words on the page. Investors use this language every single day. For a founder, it might come up twice in a whole career — and it shows.

This guide walks through the 11 terms that decide how much of your company you actually keep. We'll follow Rohan through his own raise, term by term, so none of this stays abstract.

By the end, you won't just know the definitions. **You'll know what to ask before you sign anything.**

> *One good question can save a founder a very expensive mistake.*

- Understand ownership
- Compare term sheets
- Ask better questions
- Protect future fundraising flexibility

Chapter 1:
Why Bother Learning This?

Quick truth: nobody loses their company in one dramatic moment. It happens quietly, one round at a time.

A little dilution here. A generous liquidation preference there. None of it feels like a big deal in the room. But three or four rounds later, some founders look up and realize they own a lot less than they expected — and control a lot less too.

Here's the thing though: every one of these terms is negotiable. You just can't negotiate what you can't see.

That's really the whole point of this guide — not to turn you into a lawyer, but to make sure you're never quietly nodding along to something you don't fully understand.

FOUNDER OWNERSHIP OVER TIME

Before Funding	After Seed Round	After Series A	After Series B	After Series C
100%	80%	64%	51%	41%

Ownership gradually reduces with each round.

See the full picture before you sign.

Protect your ownership and control.

Ask better questions. Get better terms.

Build for the long term, on your terms.

Chapter 2: Map of the Journey

Think of a fundraise as a road trip with five stops.
Every term in this guide lives at one of these stops:

1. **Before the round —**
   SAFE, Round Size, Valuation Cap, Discount Rate
2. **At the round —**
   Pre-Money Valuation, Post-Money Valuation
3. **Ongoing, always —**
   Cap Table, Dilution, Fully Diluted Shares
4. **At conversion —**
   Floor Valuation
5. **At exit —**
   Liquidation Preference

Keep this list in your head. When one of these words comes up in a meeting, you'll instantly know which stop you're at — and what else to check alongside it.

Term 1 — SAFE (Simple Agreement for Future Equity)

I'll pay you now, you give me shares later.

What it is

Before he even had a priced round, Rohan raised his first ₹50 lakh using a SAFE. It's not a loan — there's no interest, no repayment date. It's simply a promise: This money becomes shares later, once we agree on a price.

Why founders use it

It's popular because it lets founders raise money fast, without spending weeks negotiating a full valuation upfront.

Founder tip

Simple tip: Keep a running list of every SAFE you sign. Founders often stack several SAFEs at different caps without realizing how much they add up to once they all convert together.

HOW A SAFE WORKS

1. Money now

Investor gives money to the startup today.

2. Simple agreement

Both sides sign a SAFE with terms like valuation cap and discount.

3. Shares later

When the startup raises a priced round, the SAFE converts into shares.

FOUNDER TIP

Track every SAFE you sign — amount, cap, discount, and date. It protects you from surprises when you raise your next round.

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Term 2 — Round Size

How much are we actually raising — and why?

Rohan was tempted to raise ₹5 crore because a bigger number sounded impressive. His advisor talked him down to ₹3 crore — enough to hit his next milestone, plus a buffer.

Raise too much, and you dilute yourself for no reason. Raise too little, and you're back asking for money again sooner than planned, usually from a weaker position.

Simple tip: Build your round size bottoms-up — from your actual hiring and spending plan — and add a 20–30% buffer. Don't raise a number just because the market will let you.

CHOOSE THE RIGHT RAISE AMOUNT

₹3 CRORE The Smarter, Focused Choice	VS	₹5 CRORE More Isn't Always Better
Hits your next milestone		More money than needed
Includes 20–30% buffer		Higher dilution for no reason
Lean team, focused execution		Pressure to use it up
Smarter dilution		Longer path to next raise

Bottom line: *raise what you need to win the next chapter — not what makes you look bigger on a slide.*

Term 3 — Valuation Cap

A ceiling that protects early investors.

Before Rohan's priced round, an early investor put in money using a SAFE with a ₹6 crore cap. That means no matter how high Rohan's company is valued later, that investor's money converts as if the company were worth ₹6 crore — never more.

It's essentially a promise: You won't get diluted by our own success. Set the cap too low, and early investors end up owning way more than expected. Set it too high, and it stops meaning anything.

Simple tip: Only agree to a cap you can justify with real growth projections. If the company grows faster than expected, a badly set cap becomes a very expensive gift.

HOW A VALUATION CAP WORKS

1 **At investment: SAFE with a ₹6 crore cap**

The investor's money is protected by a ₹6 crore valuation cap.

2 **Later priced round: company valued at ₹20 crore**

The company's value jumps to ₹20 crore in a future round.

3 **Conversion with cap: effective valuation used for conversion = ₹6 crore, not ₹20 crore**

The investor converts as if the company were valued at ₹6 crore, not ₹20 crore.

Key takeaway: the cap acts like a ceiling. No matter how high the valuation goes, the investor converts at or below the cap.

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Term 4 — Discount Rate

A thank-you for investing early.

Along with his SAFE, Rohan's early investor also got a 20% discount rate. That means when the SAFE converts, that investor buys shares at 20% less than what new investors pay in the priced round.

It's a reward for taking the risk early, when the company was unproven.

Simple tip: Caps and discounts usually come together, not one or the other. Understand how both apply before agreeing to either.

20% DISCOUNT RATE

New investors pay

₹100 per share

→

20% discount

→

SAFE investor pays

₹80 per share

Result: **the SAFE investor gets more shares for the same money.**

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Term 5 – Pre-Money Valuation

What's the company worth before your cheque arrives?

When Rohan's investor said, "We're valuing you at ₹8 crore," that number was the pre-money valuation — what the company is worth right before any new money comes in.

Why it matters: the higher this number, the less of your company you give away for the same investment. It's not calculated by any fixed formula — it's negotiated, based on your revenue, growth, and how you compare to similar startups.

Example: Investor says your pre-money is ₹8 crore. That's the value of everything you've built so far — before their money is added.

Simple tip: Never accept a valuation you can't defend with real numbers — revenue, growth rate, comparable deals. If you can't justify it, an investor will push back, and you'll be negotiating from a weak spot.

Pre-money valuation
= ₹8 crore
The value of the company today

+

Investor's cheque
= ₹2 crore
New money coming in

=

Post-money valuation
= ₹10 crore
Your company's value after the investment

Remember: Pre-money + Investment = Post-money.

WHAT INFLUENCES PRE-MONEY VALUATION?

Revenue & Traction
Proven growth builds confidence.

Market Size
Bigger markets mean bigger opportunities.

Comparable Deals
Benchmarks set the reference for valuation.

Team Quality
A strong team delivers on the vision.

Product Strength
Differentiated products deserve higher value.

Term 6 – Post-Money Valuation

What's the company worth right after the cheque clears?

Rohan's investor offered ₹8 crore pre-money and wanted to invest ₹2 crore.

Add those together: ₹10 crore post-money.

This number matters because actual ownership math is based on post-money valuation.

The investor's ₹2 crore is 20% of ₹10 crore, not 20% of ₹8 crore.

Example:
₹8 crore (pre) + ₹2 crore (investment) = ₹10 crore (post).

Investor owns
2 ÷ 10 = 20%.

HOW POST-MONEY VALUATION WORKS

Formula: Post-money = Pre-money + Investment

OWNERSHIP AFTER INVESTMENT (POST-MONEY)

FOUNDER TIP

Before agreeing to anything, always ask:
Is that pre-money or post-money?
The same number can mean two very different deals.

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Term 7 – Cap Table

Who owns what, exactly?

A cap table is a single spreadsheet that lists every founder, employee, and investor who owns a piece of the company, round by round.

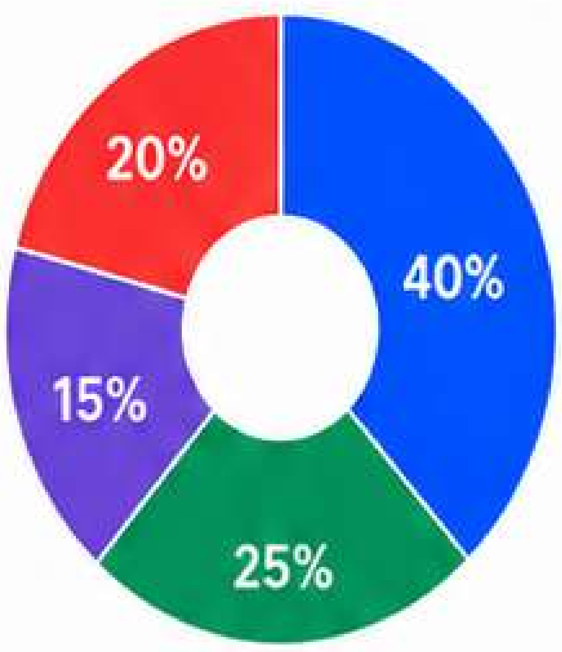
It's the master record of ownership — it shows who holds what, how much, and under what terms.

A messy cap table slows future deals. A clean one builds confidence.

SAMPLE CAP TABLE

Shareholder	Type	Shares	Ownership %
Rohan (Founder)	Founder	4,000,000	40%
Priya (Co-founder)	Founder	2,500,000	25%
ESOP Pool	Employee Pool	1,500,000	15%
Seed Investor	Investor	2,000,000	20%
Total	—	**10,000,000**	**100%**

OWNERSHIP SPLIT



- Rohan (Founder) 40%
- Priya (Co-founder) 25%
- ESOP Pool 15%
- Seed Investor 20%

FOUNDER TIP

Update it the moment anything changes — don't wait for year-end.

And before signing new terms, run the numbers on what your next round would actually do to it.

WHY IT MATTERS

A clean cap table helps you move faster, close deals quicker, and keeps everyone aligned on ownership.

Term 8 — Dilution

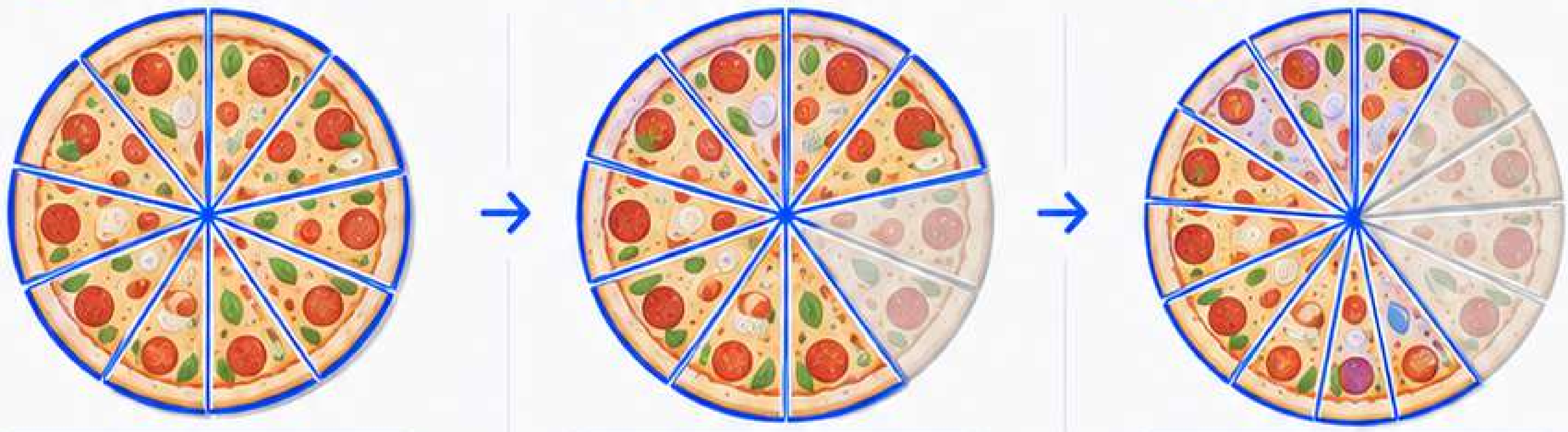
Same slice count, smaller pie.

If you own 10 slices out of 10, you own 100% of the pizza.

Later, the company issues new shares so the same pie now has 12 or 16 slices. You still own 10 slices — but a smaller % of the whole.

Dilution happens every time new shares are created — new round, new ESOP pool, anything. One round rarely feels dramatic, but four or five rounds add up fast.

1 BEFORE FUNDING → **2 AFTER SEED ROUND** → **3 AFTER NEXT ROUND**

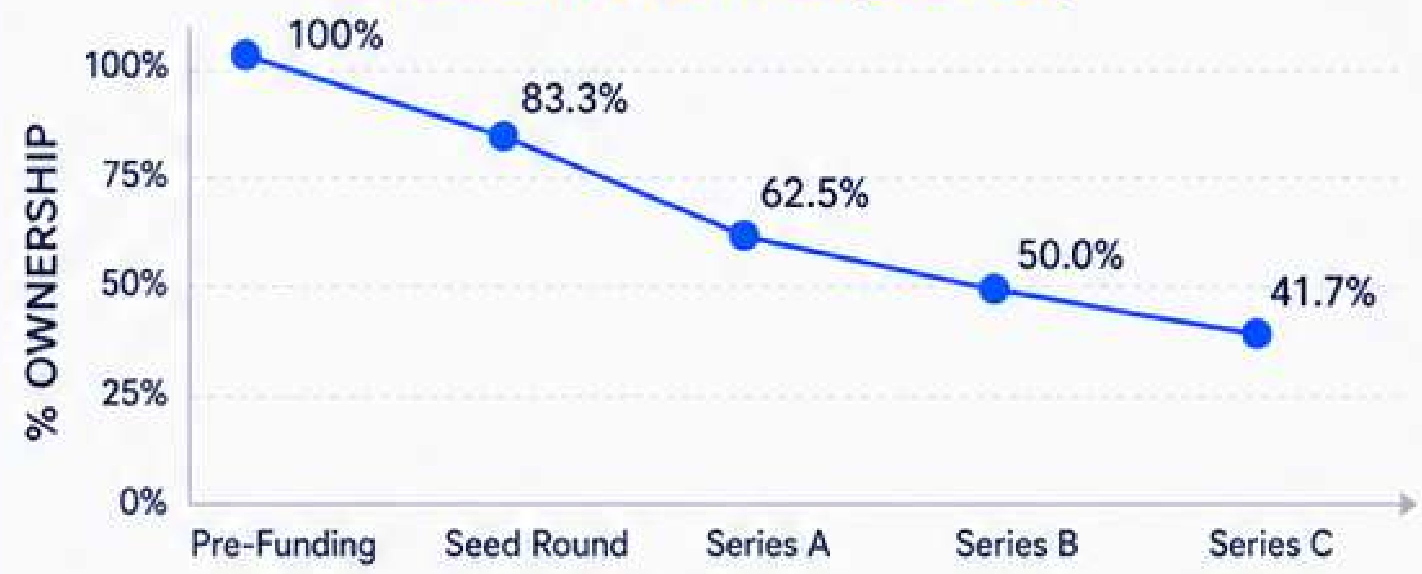


1 Before funding	2 After seed round	3 After next round
10/10 slices = 100% ownership	**10/12** slices = 83.3% ownership	**10/16** slices = 62.5% ownership

FOUNDER TIP

Don't just look at what this round does to your ownership — model what the next one or two rounds will do too.

OWNERSHIP OVER TIME (EXAMPLE)



Illustrative example. Actual dilution depends on round size, valuation, ESOP pool, SAFEs/convertibles, and other factors.

KEY TAKEAWAY: Dilution is normal — but it's a game of compounding. Protect today, so future you owns enough to care.

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Term 9 — Fully Diluted Shares

Count everyone who could ever own shares — not just who does today.

Fully diluted shares include all the shares that could exist if every outstanding option, warrant, SAFE, or note converts into equity.

That means it includes the shares already issued today, the ESOP pool set aside for future hires (even if unissued), and any convertibles like SAFEs or notes waiting to become shares.

Ownership percentages should always be based on the **full fully diluted number,** not the smaller current number.

ISSUED SHARES
Shares already issued to founders, investors, and employees.

\+

ESOP POOL
Shares reserved for future employees, even if not yet issued.

\+

CONVERTIBLES / SAFES / NOTES
SAFEs, notes, or other instruments that can convert into shares.

=

TOTAL FULLY DILUTED SHARES
The total number of shares that could exist in the future.

FOUNDER TIP

Whenever someone gives you an ownership percentage, ask:

Is that fully diluted?

It's a simple question that can completely change the number.

WHY FULLY DILUTED IS MORE ACCURATE

NOT FULLY DILUTED
Looks Better, But Misleading

- Based only on shares issued today.
- Ignores future dilution from options and convertibles.
- Gives an inflated view of ownership.

VS

FULLY DILUTED
Realistic, Fair, and Standard

- Includes all shares that could exist.
- Accounts for ESOP, SAFEs, notes, and other dilutive instruments.
- Shows true ownership and sets clear expectations.

Term 10 — Floor Valuation

A safety net — but for the founder, not the investor.

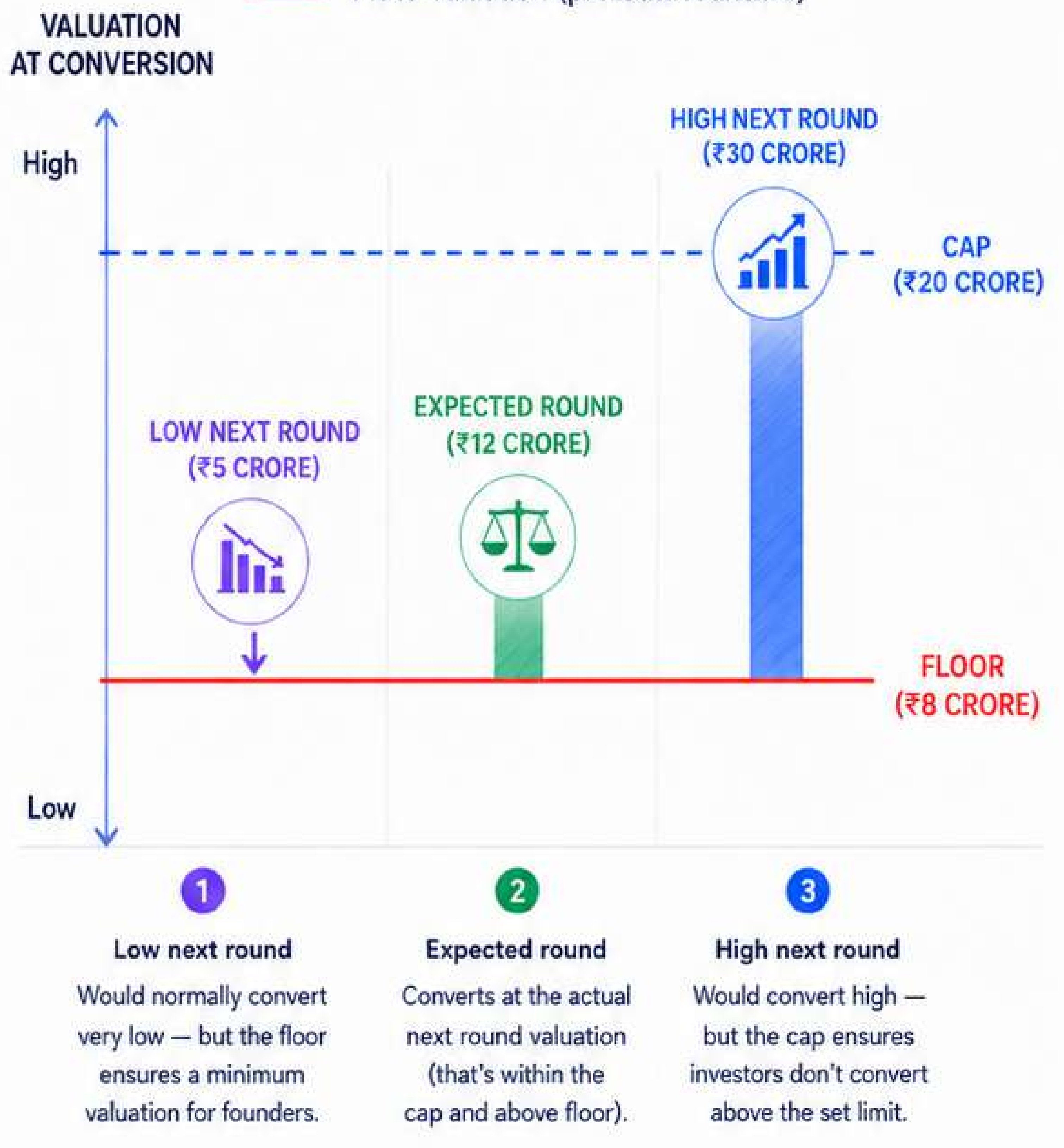
A valuation cap protects investors from converting too low if the next round comes in higher than expected.

A floor valuation flips that — it protects founders from converting too cheap if the next round comes in lower than expected.

Not every deal has a floor, but more founders are beginning to ask for it, especially in tougher markets.

Simple tip: A floor sets the minimum valuation your note or SAFE will convert at, no matter how low the next round price is.

It ensures you don't get unfairly diluted just because the market turned.



Key takeaway: The floor is your protection against downside valuation. The cap is the investor's protection against upside loss.

FOUNDER TIP

If you're offering a cap to investors, it's fair to ask for a floor in return. It protects you the same way the cap protects them.

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Term 11 — Liquidation Preference

Who gets paid first when the company is sold?

This is the one founders skip past most often — and regret the most.

If the company is sold, investors with a liquidation preference **get paid back before founders or employees** see a single rupee.

Depending on the structure, they might get their investment back and their ownership share — a version called **participating preferred.**

Two companies can sell for the exact same price and the founders can walk away with completely different amounts, purely because of this clause.

EXAMPLE: 1x LIQUIDATION PREFERENCE

Sale Price	₹100 Cr
Pay 1x Preference to Investors	– ₹20 Cr
Remaining Amount	₹80 Cr
Founders' Share (e.g., 50%)	= ₹40 Cr
Founders Take Home	**₹40 Cr**

THE LIQUIDATION WATERFALL

1 COMPANY SOLD

The company is sold to a buyer.
Let's say the sale price is ₹100 Cr.

↓

2 PAY LIQUIDATION PREFERENCE

Investors with liquidation preference get paid first.

Example: 1x preference on ₹20 Cr investment = ₹20 Cr paid back.

↓

3 DISTRIBUTE REMAINDER

The remaining amount is distributed as per the terms (often pro rata based on ownership).

↓

4 FOUNDERS' OUTCOME

Founders finally receive what's left after investor preference payouts.

FOUNDER TIP

Always read the liquidation preference section closely, even when the valuation looks great. It can quietly decide your actual payday.

Common Mistakes Founders Make

Avoid these before you sign.

1. Treating pre-money and post-money as the same number

2. Signing multiple SAFEs without checking how they all add up together

3. Agreeing to a valuation without asking for the fully diluted share count

4. Getting excited about a high valuation and skipping the liquidation preference clause

5. Not keeping the cap table updated — and getting surprised at the next round

6. Negotiating the cap without thinking about the discount rate, or the other way around

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Quick Recap

One Line Each

1. **SAFE**
Money now, shares later

2. **Round Size**
How much, and why

3. **Valuation Cap**
Ceiling protecting early investors

4. **Discount Rate**
Early investor's price cut

5. **Pre-Money Valuation**
What you're worth before the cheque

6. **Post-Money Valuation**
What you're worth after the cheque

7. **Cap Table**
Who owns what, exactly

8. **Dilution**
Same slices, smaller pie

9. **Fully Diluted Shares**
Everyone who could own shares

10. **Floor Valuation**
Founder's safety net

11. **Liquidation Preference**
Who gets paid first at exit

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One Last Thing

Rohan closed his round three weeks after that almost-mistake — this time asking every question on this list.

Understanding these words didn't make him a better product builder. It made him a founder who couldn't be quietly out-negotiated.

That's really all this guide is for.

> ***Better questions protect better outcomes.***

You've got the terms. Now go build what matters.
From Start to Scale.

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Next Steps

Get expert help before you sign.

We help founders with end-to-end fundraising readiness, documentation, and post-round support.

Cap Table Structuring

Clean, accurate and investor-ready

SAFE & Fundraising Documentation

Secure, compliant and founder-friendly

Post-Round Support

Stay on top of compliance, reporting and next steps

Book a Fundraise Readiness Consultation

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