

To: Board of Directors / Investment Committee

From: [Founder Name], CEO

Date: [Insert Date]

Subject: Valuation Risk Assessment - [Company Name]

Dear Board Members,

This letter provides a formal assessment of the risks associated with the current valuation of [Company Name] in the context of the [Insert Round, e.g., Series A] financing. This assessment aims to ensure transparency regarding potential future impacts on capital structure and operations.

1. Market Comparison and Pricing

The current valuation of \$[Insert Amount] is based on [Insert Basis, e.g., recent term sheet/market multiples]. While this reflects strong investor interest, it places the company in the [Insert Percentile] percentile for our stage, which may create high performance expectations for subsequent rounds.

2. Dilution and Down-Round Risk

In the event that the company does not meet its projected milestones before the next capital raise, there is a risk of a "down-round." This could lead to:

- Significant dilution for founders and early employees.
- Activation of anti-dilution clauses for existing investors.
- Potential negative impact on team morale and retention.

3. Liquidation Preference Impact

With the current valuation and the [Insert X] liquidation preference, the company must achieve an exit value exceeding \$[Insert Amount] for common shareholders to realize meaningful returns. High valuations increase the "preference overhang" that must be cleared during an exit event.

4. Operating Constraints

To justify this valuation, the company is committed to a high-growth trajectory. This creates a risk of:

- Increased burn rate and reduced runway.
- Pressure to scale operations before achieving full product-market fit.
- Reduced flexibility in pivoting the business model.

5. Mitigation Strategy

To manage these risks, the management team will:

- Maintain a minimum of [Insert Months] of runway.
- Implement rigorous KPI tracking to ensure growth aligns with valuation benchmarks.
- Maintain open communication with investors regarding market shifts.

Sincerely,

[Signature]
[Founder Name]
[Company Name]