Investment Judgement and Deal Experience

Interview preparation summary · VC track

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INT.VJ.1.a · Is it a good investment

Turn a pitch into the few beliefs that must all be true for the fund's target return, starting from the exit value the venture method requires.

An interviewer who asks what you have to believe wants to see whether you can turn a persuasive pitch into a short list of claims that must all be true for the fund to earn its target return. Start from the return you need: cheque size times the target multiple gives the proceeds required, and dividing by your ownership at exit (entry ownership times the share kept after later rounds) gives the exit value the company must reach. That single number then converts into beliefs a person can test: revenue at a sensible multiple, the number of customers at a realistic price, and the share of the reachable market that implies. Good beliefs are specific, measurable and uncertain; 'the market is large' is not one. The usual mistakes are quoting a top-down market share ('only 1% of a huge market'), forgetting dilution so the exit looks easier than it is, and listing strengths instead of claims that could be wrong. Finish by naming the belief you trust least.

WORKED EXAMPLE: FROM A SEED CHEQUE TO THE BELIEFS BEHIND IT

You are considering a 2.0m seed cheque into Tarnwick Freight, an invented booking tool for independent hauliers, at a post-money valuation of 10.0m. You expect three later rounds that leave you 80%, 85% and 90% of your stake in turn, and you do not plan to follow on. The fund wants 10x on this cheque. Assume an exit at 6x revenue, customers paying 24,000 a year, and about 40,000 reachable hauliers. State what you must believe. Convention: ignore tax and fees.

Answer: At 10.0m post-money, a 2.0m cheque needs an exit of about 163.4m for 10x. That means about 27.2m of revenue, or roughly 1,135 customers at 24,000, which is 2.8% of the reachable market. Say it aloud as: for this to return 10x I need to believe four things, and the one I trust least is that hauliers will pay 24,000.

> **Interview tip:** Start from the proceeds the fund needs, not from the company's story. Show the arithmetic in the order proceeds, ownership at exit, exit value, revenue, customers, share of market, then name the weakest belief.

INT.VJ.1.b · Is it a good investment

Run a pre-mortem on a deal and set measurable kill criteria that would make you pass, ranked by how likely a belief is to fail and how cheaply it can be tested.

A pre-mortem asks you to assume it is three years later and the investment has failed, then write down the most likely reasons before you invest. It catches optimism that a normal memo hides, and it produces kill criteria: results, agreed in advance, that would make you pass. A good kill criterion is measurable, tied to one belief and set from the numbers the plan needs, for example the maximum customer acquisition cost the unit economics can bear, rather than from a feeling. Rank beliefs by how likely they are to be false and how cheaply they can be tested, and test the likeliest cheap killers first. When several independent beliefs must all hold, the joint chance is their product, so four 'probably true' claims can add up to a long shot. The usual mistakes are listing generic risks everyone shares, moving the goalposts when the data comes in weak, and treating a lower price as a cure for a belief that has failed.

WORKED EXAMPLE: TURNING A PRE-MORTEM INTO A KILL CRITERION

You are looking at Fenwick Rota, an invented staffing app for care homes. It sells annual contracts worth 18,000 each at a 70% gross margin. The plan needs customer acquisition cost (CAC) paid back from gross profit within 18 months. A sales person costs the company 90,000 a year. In a six-month pilot the founders spent time worth 45,000 selling. Set a kill criterion for the pilot and say what it implies. Convention: gross profit is spread evenly over the year and ignore discounting.

Answer: The plan can afford at most 18,900 to win a customer, so a pilot that spends 45,000 of selling time must win at least three paid customers; two would put CAC at 22,500 and the deal fails its own test. Say it aloud as: before I invest I want one number that would make me walk away, and here it is.

> **Interview tip:** Derive the kill criterion from the plan's own unit economics and agree it before the data arrives. Say who decides if it is missed.

INT.VJ.1.c · Is it a good investment

Explain why a good company can be a poor venture investment, using ownership, price, dilution and the fund-returner test to find a walk-away price.

A good company and a good venture investment are different things, and the difference is price and ownership. A fund earns its return from the share of the exit it owns after dilution, so the same company bought at two prices gives two different outcomes. Work backwards: ownership at exit equals entry ownership times the share kept after later rounds; proceeds equal that stake times exit value; the multiple is proceeds over cheque. Then ask whether a good outcome returns enough of the fund, the fund-returner test: with a 100m fund, a position must plausibly reach a large fraction of 100m in the success case, otherwise it cannot move the result however good the company. The usual mistakes are admiring growth without checking the price, comparing exit value with post-money while ignoring dilution, and assuming you will be allocated the size you want in a competitive round. A strong answer names a walk-away price.

WORKED EXAMPLE: FINDING THE WALK-AWAY PRICE FOR A GOOD COMPANY

Lattice Grid is an invented energy-software company raising a Series A. The fund (150m) would invest 5.0m. Assume you keep 55% of your stake through later rounds, a base-case exit of 600m, and a required 10x on the cheque. Compare a 25m post-money with a 40m post-money, find the highest post-money that still gives 10x, and say how much of the fund the position returns there. Convention: ignore preferences, fees and tax.

Answer: On a base-case exit of 600m, 5.0m returns 13.2x at 25m post-money, 8.25x at 40m, and the walk-away price for 10x is 33.0m. Even there the position returns about a third of the fund. Say it aloud as: it is a good company, but above 33m post-money I would be paying for an outcome I have not underwritten.

> **Interview tip:** Give the walk-away price as a number and say what exit you would have to believe to pay more.

INT.VJ.2.a · Telling your deal story

Tell a venture deal story in a fixed order, owning your own contribution, with figures that reconcile and a clear statement of what is realised.

A deal story is a compressed account of one investment or analysis that lets a busy partner judge your thinking in about two minutes. Use a fixed order: the company and the situation, why it was attractive (the beliefs behind it), your role, the numbers you owned, the key risk and how it was handled, where it stands now, and what you learned. Say 'I' for what you did yourself and 'we' for the team, and be able to say which decisions were the partner's. Quote figures that tie together: cheque, pre- and post-money, ownership, and the one metric the decision turned on. Be precise about outcomes: a markup after a later round is a paper value, not cash returned. The usual mistakes are starting with company history, claiming the team's work as your own, quoting numbers that do not reconcile, and hiding that the result is unrealised or below plan.

WORKED EXAMPLE: BUILDING A TWO-MINUTE SEED DEAL STORY

You helped on a seed investment in Orrin Soil Sensors, an invented farm-sensor company. The fund put in 1.8m at a 9.0m post-money. A later Series A raised 9.0m at a 36.0m post-money and the fund did not follow on. Your work was 40 customer calls and the cohort analysis. Build a two-minute story with a time budget, reconcile the numbers and state what the position is worth. Convention: ignore preferences, tax and fees.

Answer: The fund put 1.8m into Orrin at a 9.0m post-money, 20%, and after a Series A at 36.0m it holds 15%, a paper value of 5.4m or 3.0x, with nothing yet returned in cash. Say it aloud as: I ran the 40 customer calls and the cohort analysis, we led the round, and the 3.0x is unrealised.

> **Interview tip:** Use I for what you did, we for the team, and always say whether the number is a paper mark or cash returned.

INT.VJ.2.b · Telling your deal story

Defend a deal without rigidity, critique a deal someone else describes by recomputing what the fund actually received, and give an honest account of an outcome or mistake.

Interviewers probe a deal story to see whether you can defend a view without being rigid, change it when evidence changes, and speak plainly about what went wrong. When challenged, concede the part that is right, restate the evidence for the rest and say what result would change your mind. When critiquing a deal described by someone else, check the numbers first: a

headline multiple is usually gross, often unrealised, and may ignore dilution and preference terms that cut the proceeds; ask what was invested, what was received, when, and in what form. When describing your own mistake, name the specific decision, its cost in money or time, the belief that proved false and what you now do differently. The usual mistakes are defending out of pride, agreeing with every challenge to seem open, offering a fake weakness, and blaming founders or the market.

WORKED EXAMPLE: RECOMPUTING A CLAIMED 4.0X

A candidate says: we put in 2.0m for 20% at a 10.0m post-money, the company was sold four years later for 40.0m, so we took 20% of 40.0m, which is 8.0m, or 4.0x. You learn that a Series A sold 20% of the company and a Series B sold another 20%, and that the Series B investors put in 12.0m with a 1x non-participating liquidation preference. Recompute what the fund received, the multiple and the IRR. Convention: the fund did not follow on; no other preferences; ignore tax and fees.

Answer: The fund received about 4.48m on 2.0m, which is 2.24x or an IRR of about 22.3%, not 8.0m and 4.0x, because two rounds diluted the stake to 12.8% and the Series B took its 12.0m preference first. Say it aloud as: I would ask what the fund actually received, because headline multiples usually ignore dilution and preferences.

> **Interview tip:** Critique with questions about the numbers first, then give your recomputed figure, and keep the tone of someone helping, not scoring points.

INT.VJ.2.c · Telling your deal story

With little deal experience, present an analysed company honestly as analysis, state the exit value you would have needed to believe, and judge a past pass by the information at the time.

With little or no deal experience, the honest and strongest approach is to show the same thinking on a company you have studied closely, and say clearly that it is analysis, not a deal you closed. Choose a company whose funding history is public, so you can state the round, the price and the ownership an investor would have bought. Work through what you would have needed to believe, the exit value that implies after dilution, the main risk, what you would diligence that public information cannot tell you, and what would have made you pass. Offer any real contribution, however small, such as customer calls, a market map or a model, with a precise description of what you did. Judge a past pass by the information and price at the time, not only by the later outcome. The usual mistakes are pretending the analysis was a live deal, listing many companies shallowly, and apologising for the gap instead of showing the work.

WORKED EXAMPLE: A MOCK DEAL ON A COMPANY YOU HAVE FOLLOWED

You have followed Quillon Pay, an invented payments start-up for market traders, whose public Series A raised 20.0m at an 80.0m post-money. You have no deal experience and want to present it as a mock deal. Assume a 4.0m cheque, 70% of the stake kept through later rounds, a 10x target, and an exit at 8x revenue. Work out what you would have needed to believe. Convention: ignore preferences, tax and fees.

Answer: At an 80.0m post-money a 4.0m cheque buys 5%, which becomes 3.5% after dilution, so 10x needs an exit of about 1,143m, or about 143m of revenue at 8x. Say it aloud as: this is a mock deal on a public round, and the thing I would test first is merchant churn, because it decides whether 143m of revenue is reachable.

> **Interview tip:** Label the work as analysis in your first sentence, then be as specific as a person who had written the cheque.