

Wall Street Playbook.

FREE FIELDNOTES / VENTURE CAPITAL

Venture capital: test the revenue story

Fictional startup SignalDesk sells workflow software and seeks a \$3m investment at a \$12m pre-money equity valuation. The founder's headline is '\$1.8m run-rate revenue.' Your task is to establish what that number contains before writing an investment view.

THE TASK

Separate a founder's headline from recurring revenue, financing needs and the next diligence decision.

Investment interview practice | Suggested session: 35 minutes

Updated 2 October 2026. Original exercises with stated assumptions and source notes.

How to use this resource

Work through the prompts before checking the answers. Keep a record of the assumption or step that caused difficulty, then repeat that part without notes. The suggested timing is a study aid, not an employer assessment standard.

The data room excerpt

For this exercise define live ARR as annualized recurring subscription contract value for customers already live, excluding one-time projects and contracts not yet started. ARR is an operating metric, not revenue recognized under accounting standards. Actual company definitions and contract terms can differ.

Item	Information provided
Live annual subscription contracts	\$1.20m total recurring contract value
Paid one-time implementation projects	\$0.30m this year
Signed annual subscriptions not yet started	\$0.30m; begin next quarter
Largest live subscription customer	\$0.36m annual contract value
Unrestricted cash today	\$1.00m
Current monthly net cash burn	\$0.20m
Proposed raise	\$3.00m at \$12.00m pre-money
Planned incremental monthly burn after closing	\$0.10m
Financing assumptions	Immediate close, no fees, no debt, SAFEs, options or other securities

- Reconcile the founder's \$1.8m headline to the provided components.
- Calculate live ARR and largest-customer concentration on that basis.
- Calculate cash runway before and after the financing and hiring plan.
- Calculate new-investor and existing-holder ownership immediately after the raise.

- Decide what to investigate next, rather than issuing a binary investment verdict from limited data.

A one-page diligence memo

Attach a definition to every metric. Ask for customer-level contracts, invoices, collection data, cancellations and implementation obligations. Signed contract value does not establish retention, gross margin or cash collection.

What is recurring today / what is future / what is one-time?

Revenue quality and concentration questions

Cash timeline and financing assumption

Ownership calculation

The next piece of evidence that would change my decision

Worked answer: three different questions

The \$1.8m headline mixes live recurring value, one-time work and future starts. That makes it unsuitable as live ARR under this packet's definition. The future contracts may be valuable evidence of demand, but keep them in a separately dated schedule.

The post-financing runway calculation assumes an immediate close and constant burn. Collections, delayed closing, implementation costs and hiring dates can change the result. The 20% ownership answer depends on the deliberately simple capitalization assumptions.

Question	Calculation	Result
Headline reconciliation	1.20 live + 0.30 projects + 0.30 future	\$1.80m
Live ARR by case definition	Exclude projects and not-yet-live contracts	\$1.20m
Largest-customer concentration	0.36 / 1.20	30%
Runway before financing	1.00 / 0.20	5 months
Runway after immediate close and hiring	(1.00 + 3.00) / (0.20 + 0.10)	13.33 months
Post-money equity valuation	12 + 3	\$15m
New investor ownership	3 / 15	20%
Existing holders after financing	12 / 15	80%

A follow-up: the round closes two months late

Assume current burn remains \$0.20m per month until close. The planned extra burn begins only at close. There is no other cash movement and the raise is still \$3m. Calculate cash at close and runway after close. Then consider a 10% post-money option pool that must be created entirely from the existing holders' stake, with the investor still owning 20%.

WORKED ANSWER

Follow-up answer

Cash immediately before close is \$1m - 2 x \$0.20m = \$0.60m. Cash after funding is \$3.60m. At \$0.30m monthly burn, runway after close is 12 months, rather than 13.33. The two months already elapsed are not part of that post-close runway.

Under the stipulated pool allocation, the investor owns 20%, the pool is 10%, and existing holders own 70%. The existing holders' percentage retention relative to their prior 100% stake is 70%. In an actual term sheet, pre-money versus post-money pool treatment and other securities must be modeled from the documents.

A conditional next step

Choose the first three diligence questions you would ask. Explain what decision each answer would inform. A longer request list is not automatically better than a small set of questions tied to the investment thesis.

Example investment-team note

I would continue focused diligence on customer durability and implementation economics, but I would not underwrite the business as having \$1.8m live ARR. The supplied live base is \$1.2m with 30% concentration in one customer. The raise funds about 13 months of constant post-hiring burn only if it closes immediately. Before recommending terms, I need contract-level retention, gross-margin and collection evidence and a fully diluted capitalization table.

Source notes and next steps

SEC: capital raising glossary

General capital-raising terminology. ARR, burn and ownership conventions are explicitly defined for this original fictional case; no universal ARR accounting standard is implied.

<https://www.sec.gov/resources-small-businesses/glossary>

Continue when you have identified a gap

The full guide adds contrasting investment memos, financing choices, sourcing work and spreadsheet cases.

[Preview the venture capital playbook](#)

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