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How to run a Series A fundraising process

by Alex Iskold

10-12 minutes

I've written many posts on this blog talking about how to raise a seed round.

The main characteristic most seed rounds is that they are based on the strength of the founding team, and, a lot of times, CEO's ability to present a compelling vision of the future for investors.

While sometimes seed companies have traction, a lot of times they do not, and seed investors may be fine with that. Not so with most series A investors.

In general, modern Series A rounds range from $5M to $15M and even north of that.

Series A is now much more like series B in the old days, and investors are looking to invest in absolute best companies, -those that have strong growth and potential for even stronger growth.

On the flip side of this, the founders that are running these rocketship companies, do not want to spend 6 months raising capital, because it takes their attention away from running the business.

In this post we take a look at how to run a tight Series A process to help you get multiple competing term sheets, while not taking a lot of time.

To be clear, this strategy only works if you've got the growth, and a lot of growth potential to raise a proper Series A. This is NOT the right strategy if your business is not growing fast.

> To raise Series A relatively quickly and to have an optionality to choose an investor in the end is to leave NOTHING TO CHANCE.

1. The Master Fundraising Calendar

Those of you who read my blog know that I am a big fan of Calendaring and Re-Calendaring. I believe that proper Calendaring is also key to running a successful Series A process.

You start by literally creating a fundraising calendar with all the items below – preparing materials, researching investors, and blocking the time for meetings.

> Your calendar is there for you and for your time to send a clear message – raising capital is your focus, your P1 and you are committed to it.

Here is a sample schedule.

- Preparation Phase (2 weeks): Materials + getting introductions
- Fundraising Phase: (6 weeks): Investor Meetings + More intros
- Closing Phase (4 weeks): Diligence and Legal

Consider working from home or out of another office, get people on your team to help you with the research and materials, in other words create an environment that will help you focus and win.

> Notice that the schedule above suggests 12 weeks, thats 3 months, from start to close. And this is VERY AGGRESSIVE !

Let's dive in and unpack what happens during each phase.

2. Preparation Phase

During this phase your goal is to pull together all the key materials that you will need during the raise. Here is a checklist:

- Blurb for introductions (relevant blog post)
- Deck (relevant blog post, caveat Series A deck is more complex)
- Financial Model: 2 year historical + 2 year forecast
- Investor FAQ (internal + for data room, relevant blog post)
- Your FAQ for investors (internal only, things that are important to you, relevant blog post)
- Investor Pipeline (internal, relevant blog post)

> Start with an FAQ – catalog ALL questions you think investors can ask you.

After that, create the blurb and the deck, make sure you iterate on both. You probably want to get the deck designed to give it a more professional look.

You should already have a financial model because you are running a rocketship 🙂

Review all historical data and forecast and keep an eye on two things.

First of all the milestones for Series B. Thats right, Series A investors will want to know when you will be ready for B. General rule is in 18 months, with an optionality to become profitable will be attractive.

Secondly DO NOT over do it. 2 years of the past and 2 years for the future is enough.

After that, create the FAQ for yourself that you want to use to ask questions from investors you are going to meet.

> The process is a two way street where you aren't just looking for cash, you are looking for the right partner for your business.

Your Series A investor is likely will be on your board through IPO or a sale – essentially forever. Think about what is important to you and write it all down.

The final item is the investor pipeline, and it is absolutely critical.

> Research EVERYTHING about the potential investor.

First of all figure out not only the firm, but who the right partner is. Really dig in and make sure:

- The firm is interested in your space
- The partner is interested in your space
- There are no competing investments
- The partner is not at capacity (relevant blog post)
- The partner has ability to write a check
- Consider connecting with the founders they backed

Do this and more for EACH FIRM. Do it YOURSELF. Do NOT outsource this task.

This knowledge will be critical to a) Make sure you are not wasting time b) Not talking to a firm that backed a competitor c) Can genuinely and meaningfully engage with a partner.

> A rock solid pipeline will ensure that you will not waste time.

In addition, identify 3 category of investors:

- Your Dream Investors
- Second choice Investors
- Backup investors

Your Dream Investors are obvious – they are, for whatever reason, the best partners from your perspective – brand name firm, experienced in the space, etc.

The Second choice investors, are investors you think would be a good fit, but you'd rather get your Dream investor. To be clear, you should be fine with your Second choice investors, they could be a great fit, just not an amazing fit.

And lastly, you have Backup investors. Those maybe less know, less obvious folks who could be a fit but you aren't willing to approach them unless the conversations with the Dream and Second choice investors go sideways.

At the end of the preparation phase, you will ask your existing investors and founders you are friendly to introduce you to Series A investors in your pipeline.

> Do not reach out cold, only warm introductions work for Series A. investors.

3. Fundraising Phase

The goal is to have multiple term sheets in hand by Week 6 of the Fundraising Phase. This is really hard.

To accomplish the goal, we organize Second choice and Dream investors into waves and actively communicate our timeline to them.

This schedule assumes that you are based outside of bay Area (I use NYC in the example below). If you are based in Bay Area, then the process will be simpler, because you will not need to fly back and forth.

First step, is to lock down the weeks when you will be in Bay Area. You will work 4 days out of the week in Bay Area during alternative weeks, this will make booking meetings very easy and will reduce stress to the extent possible.

> All meetings should be in person, and all meetings, even initial meetings should be with partners.

Here is a sample schedule:

- Week 1: First meetings with Second Choice Investors in NYC
- Week 2: First meetings with Second Choice Investors in Bay Area
- Week 3: Second meeting with Second Choice + first meeting with Dream Investors in NYC
- Week 4: Second meeting with Second Choice + first meeting with Dream Investors in Bay Area
- Week 5: Final meetings in NYC and Bay Area – you may need to fly back and forth here
- Week 6: Final meetings in NYC and Bay Area – you may need to fly back and forth here + get term sheets.

A few things about this strategy.

First, always start with the Second Choice investors because a) you will be able to get feedback and iterate on the deck and on the pitch b) these investors are more likely to give you a term sheet first, which you can then use as a leverage to get the Dream Investors to also give you a term sheet.

Notice this does not include the Backup Investors. You will need them if for whatever reason things do not go well and you can't raise from your Dream or Second choice investors. If that happens you will need to step back and rethink the whole round.

Assuming that things go as planned your goal is to get a first term sheet. This is key because once you have a term sheet you can use it as leverage to get more term sheets. Continue to actively communicate the deadline and expectations to the investors and you should be able to pull this off.

4. Closing Phase

Post term sheet, expect at least 4 weeks to close. Lawyers will be drafting docs and you will need to be on top of it and work on reps and warranties, etc.

This part is not hard, but it is still stressful. Bullet 6 in this post talks about due diligence and closing in more details.

Here is a sample Data Room that you will need for closing Series A:

- All materials above minus pipeline and Your FAQ
- Formation documents
- Financing docs to date (all notes, SAFEs, etc)
- All major business contracts
- All IP assignments from employees
- Stock option plan
- Any IP / patents
- Board minutes

What happens during closing is investors' lawyers are doing DUE DILIGENCE and asking A LOT of questions about the business. Do not panic and don't stress, this is totally normal, just go along with it.

The key thing is actively communicate a closing date to your lawyers, VC's lawyers and VC. Things tend to drag and linger, keep pushing for close and articulating the closing date.

Be ready that sometimes material things come up and you need to continue negotiating the details, and you aren't done until the money in the bank. That said, you should be able to get back to operating the business during this phase.

If this feels like a long and exhausting post – it truly is a long and exhausting process.

Fundraising is never easy and Series A is extra challenging even for the companies that are rocketships because a) it is just never easy and b) founders view as a distraction.

> This is why giving yourself a break, planning and really preparing will make raising Series A less painful.

If you have ran a similar process we would love to hear from you – please share your tips and tricks and I will incorporate them into this blog post.

Venture Capital Fundraising

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