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# How to Raise Seed Stage Funding: The Startup Guide

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Here at Atrium, we learned something interesting by running Atrium Scale, a bootcamp for raising Series A funding from VCs: many applicants aren't ready for a Series A.

They haven't figured out things like customer acquisition costs, unit economics, and other checkboxes that make a Series A viable. But they still want guidance on general fundraising, meeting investors, and calculating valuations.

**They're often in a good position to raise a seed round.**

I've raised half a dozen seed rounds in my career as an entrepreneur, and I've invested in over 75 companies as an angel.

I've personally helped over 100 companies raise their seed rounds while I was a partner at Y Combinator.

These experiences have given me a good perspective on what works and what doesn't.

Given our findings from Atrium Scale (you can apply here) and the appetite for the subject, we wrote the following guide to raising a seed round.

Seed rounds and Series A are both part of the path for a startup's success. However, even though these two types of fundraising are different, I see a large amount of founder confusion on whether they are ready for a seed round or a Series A.

While the choice may seem straightforward, it can be tough for a founder to know where their business stands. If they have a solid foundation, a Series A might be more appropriate. If they don't, a seed may work better. However, it's tough for founders to suss out what a good foundation even looks like.

Part of the problem is a conflation of the two. Here are the basic definitions for both:

- **Seed round —** A seed round typically can be anywhere from several hundred thousand dollars to several million, and is raised from seed funds and high net worth angel investors. Usually the startup is expected to use the investment for market research and early product development. Investors are rewarded with stock options, convertible notes, or equity.
- **Series A —** A typical VC-led Series A is now five to ten million. Series A gets its name from the type of equity investors hope to receive one day– Series A Preferred Shares.

These standard definitions are helpful, but they don't necessarily help founders determine what fundraising round is right for them.

A Series A often happens after a seed round, but some companies have managed to bootstrap their way to success. These businesses may be able to skip the seed round.

You are probably ready for a Series A if:

- You have compelling metrics (growth, unit economics), have figured out customer acquisition, and are growing rapidly
- You are building into a large space that can support a company worth hundreds of millions or more
- You have a strong team

**If these are not true, you are probably a seed stage company and should target raising a seed round.**

Sometimes there are exceptions to the rule: if you have a particularly compelling team or vision you may be able to raise a Series A without metrics. However, most companies are not the exception and you should be realistic.

**To raise a seed round, you don't have to have everything figured out yet.**

Usually you should have assembled a founding team and have built something. Not having built something is a warning sign to investors, because the cost of creating software is now so low you can get started while you have a day job.

Often, I get founders telling me they need to raise a seed round to get started building, sometimes because they themselves don't have the technical ability to build something and they need to hire a team. From the investor perspective, this is a weak argument: why would I back you instead of another founding team with technical chops?

With the cost of rolling out an MVP (minimum viable product) lowering every year, many startups think you need a prototype in order to raise a seed round.

A prototype is helpful, but the level of traction needed to de-risk the full product potential is not usually possible with such prototypes. In the best case scenario, the MVP doesn't de-risk the idea. In the worst case scenario, the MVP gets poor results due to lack of resources.

When it comes to raising a seed round, focus the pitch and communication efforts on de-risking the team and space. The seed investor needs to walk away believing in a huge market potential and the team has what it takes to capture it.

Before we get started, there are a few terms you need to understand to read this guide:

## SAFE (Simple Agreement for Future Equity)

SAFE, which stands for Simple Agreement for Future Equity, is a simple contractual agreement a company makes with an investor guaranteeing them equity in a future priced financing round. This is now the standard for seed investing, because of its simplicity and low cost.

## Valuation cap (or "cap")

The valuation cap is the pre-money conversion price of the investment. These valuation caps apply to convertible notes, which is a hybrid of debt and equity, as well as SAFEs (referenced above). These caps protect investors and allow companies to postpone setting valuations.

## Pre-money valuation

A pre-money valuation is the valuation of a company prior to investment or financing. Once a company receives investment and the capital hits the bank, it will have a post-money valuation.

## Post-money valuation

The post-money valuation is the company's valuation after the investment (pre-money valuation + amount invested = post-money valuation).

The investment environment has changed a lot for private technology companies in the past 15 years. Here's a quick comparison of today vs. when I started over 10 years ago.

## The investment environment in 2007

When we raised our first seed round for Justin.tv in 2007, we raised 250k at a 3mm pre-money valuation (and this was considered very high!).

Raising money from seed investors was a very linear, manual process: we would meet an investor (usually referred by a fellow entrepreneur), ask them if they would invest, and then go to the next investor.

When we had enough investor commitments, we did a priced round and collected the entire $250k at the same time. Raising our seed round took months. I call this the **hunter-gatherer method** of fundraising.

## The investment environment in 2018

Because of a nine year bull market in tech driven by low interest rates and a mobile boom, money has poured into the tech ecosystem — all in search of high growth startups.

Even more importantly has been the inventions of Y Combinator's Demo Day and the SAFE.

On Demo Day, YC startups will pitch in front of an audience of 500 Silicon Valley investors (with even more watching online). These investors will invest in YC companies using the Simple Agreement for Future Equity, a lightweight convertible security that allows investors to sign a simple contract and immediately wire money.

Most importantly, it is an open standard that has been accepted by the market, and it allows founders to collect money in smaller increments (instead of raising their whole round at once).

By bringing all investors together on one day and making it fast to invest in them, YC has done the closest thing ever to creating a liquid market for startup equity. This is the equivalent to the fundraising invention of **agriculture.**

## Understanding high resolution fundraising

Because of this, startup investing has changed to be **high resolution fundraising**: early investors will often be rewarded with lower valuation caps than later investors.

For example, a company might raise and collect its first 500k pre-Demo Day at a 6 million cap, and then raise another $1mm at an 8 million cap after Demo Day, when they have momentum in their round (it is lower risk for an investor to invest once the company has already raised some of its money, because it is much more likely they will get to the whole amount they need).

This can be better for founders, because it often minimizes total dilution they take in the seed round.

However, many founders improperly estimate the total dilution they will experience and raise too much, often making them very sad at their ownership when all of these SAFEs convert in a Series A.

## Your narrative is your fundraising

The most important thing in any fundraising (whether seed or later stage) is your narrative, and every narrative follows the same arc.

In the case of a pitch to investors, the narrative for a seed stage company will break down into these three acts:

1. **The world is a certain way.** What is the problem you are solving? How did you get exposure to it / why are you an expert? Why is it a big and important problem to solve?
2. **Something changes.** What is your solution? Why is now the time to do it?
3. **The world is a new way.** How does the company (and therefore the investors) benefit from bringing this solution to market?

I like to write out my narrative (in an outline format) and practice with friends and fellow entrepreneurs. It is important to get feedback and see what objections and points of confusion smart people bring up; those are the same places that investors are going to get stuck.

**Once you have your narrative, you can make a short slide deck.**

I recommend limiting your seed stage pitch deck to six compelling slides that follow your narrative:

- Problem
- Scope of problem
- Why now
- Solution
- Traction (if any)

- Team

If you break up some of the stages into multiple slides (like the following example), that's fine — just make sure the additional slides truly add value.

One great example of a seed stage deck is Alto Pharmacy (previously ScriptDash).

They tell a compelling narrative and cover 5/6 factors above — no traction, as they hadn't generated any yet (they've since raised a Series B). To see a proven pitch in action, download the Alto seed round pitch deck below:

One of the hardest things with seed stage fundraising today is picking a valuation.

This is hard because you generally need to tell investors you are fundraising at a certain valuation before you really know what demand at that price point is.

Further complicating things is that too low of a valuation can be a negative signal in today's hot market, especially if you are participating in a program like Y Combinator.

## What is an average seed round valuation?

Generally seed stage valuations are anywhere from a $2MM to $10–20MM (for more experienced entrepreneurs). This is a huge range, reflecting the huge range in demand for different kinds of companies.

The truth is that market size should also affect the valuation that investors are willing to invest at. Often companies come out of YC with unrealistically high valuation expectations, which don't make sense because the industry they are building into isn't big enough to support a 30x+ outcome.

This can sour investors and make it difficult to raise a round.

## Process for calculating your seed valuation

When it comes to raising a seed round, it's hard to know how to value your startup. That's because you're raising money before you've found product market fit, determined your growth goals, and built a team.

Even so, it is possible to calculate a seed valuation.

## Setting Milestones

At minimum, you need to set milestones that you want to achieve in a certain amount of time. For example, you might want $50k monthly revenue within 2 years, a team of 10, expansion into two new verticals. From there, you must decide on the resources you need to reach these milestones and how much this will cost you on a monthly basis. This becomes your burn.

## Equity & Pre-money Valuation

You'll also need to:

1. Decide on how much equity you will give away at this early stage, knowing that you may need to give more away in additional funding rounds
2. Calculate your pre-money valuation.

**Pre-revenue valuation is more art than science** because all investments are based on potential, not results.

They are forward-priced and are based on gut-level estimates from seasoned angel and seed stage investors. Valuation at this stage serves as a signal for where the company, based on team and space, can ultimately go. Sending the wrong signal can attract wrong investors, which can set the company up for the wrong growth trajectory.

When it comes to calculating a valuation, accelerators and investors are great resources to turn to. But be warned: **they may give you a biased answer since they may be seeking the best terms for their**

**own investment in your company.**

## Mentors and Programs

Like any other part of the company building process, it's helpful to seek advice from those who have done it before.

Having a founder or investor to mentor you throughout the early stages of your company can be the difference between survival and demise.

Outside of informal relationships, there are structured programs or bootcamps to help you prepare for the valuation process. Here at Atrium we have Atrium Scale, an application-only mentorship program that gives founders:

1. Help with their fundraising efforts
2. A better a sense of valuation and how to approach it for their startup
3. A platform to workshop their pitch — and then get intros to investors

Given our team's experience raising over $100M, we offer this resource to well-qualified early-stage companies that can use the experience to their advantage.

When raising a seed round, there are a few other factors to consider. These include:

- **Timing:** Don't try to raise a seed round when people tend to be OOO — think August, December, July.
- **Dilution:** Fundraising isn't easy, but that doesn't mean you have to take every penny that you can get. Be wary of dilution and set a maximum amount to raise.
- **Approach:** Do you want to raise at different caps and valuations over time, or in one batch? Paul Graham advocates for minimizing the amount of time in 'fundraise mode', so you can focus on business.
- **Fundraising environment:** Understand the state of the market with an index such as the free one provided by GoodWater.
- **Valuation caps:** In seed rounds, it's common to raise money through convertible notes and SAFEs. But when investors use convertible notes, they use valuation caps. The valuation cap is the pre-money conversion price of the investment.These valuation caps apply to convertible notes, which is a hybrid of debt and equity. These caps protect investors and allow companies to postpone setting valuations.
- **Discounts:** Discounts give investors the opportunity and right to purchase shares at a discount in subsequent funding rounds.

There are several different types of seed stage investors. It's good to know which kind you are talking to — which will help you understand their goals and objectives.

Each one of these can be broken down further, but here is a high-level summary:

These are typically rich people who have made money in tech (either by investing or by starting a company or being an executive).

They can make decisions very quickly, because they are investing their own money, often on a whim. Investment decisions are usually made on their gut feel, whether they have experienced the problem or have knowledge of the market, and how compelling they find you as a founder.

**Typical check size:** $10K — $300K

These are funds that focus on investing in seed rounds of startups. They can either participate, or lead a round.

Often the funds have multiple partners, and you may have to meet more than one to get a check.

**Typical check size:** $100K — $500K

**Generally speaking, VCs only invest in seed deals as lead gen for Series As**.

They want to stay close to you so that in the event you actually build a good company they can build a relationship and lead your next round.

**Typical check size:** $200K — $1MM

There are some commonalities across all investors.

1. Investors want to invest in things that have fundraising momentum already, which is why the first check is the hardest to get.
2. None of these investors are investing for 10% IRR. Many companies present an idea that can be a fine business, and will become profitable, but isn't making a huge splash in a big industry.

Seed stage tech investors don't want to invest in those companies (they call them "lifestyle businesses"). This is because seed stage investors are looking for double digit multiple returns from single investments, which in turn pay for all the failed companies they invested in.

**When you think of fundraising, think of it like a sales funnel.**

Not every lead is going to get to the bottom and close, and you shouldn't take offense when someone says no.

In order to close a certain number of sales (aka raise your round) you will need to fill the top of the funnel with many leads, and expect attrition. A healthy attitude here is to go in expecting some rejection (or even more likely, some investors to just ghost on you and stop responding to emails).

I wrote an entire guide on how to get investor intros, which goes into greater detail and provides an example of emails that get intros. I recommend that you check it out once you have your seed-stage strategy in place.

There are two types of people you should target to provide intros to investors:

- Founders who have been funded by that investor
- Investors who have invested in your company already.

This is because of social proof: **you want to get an intro from someone the investor respects and/or has put her money where her mouth is.**

Sometimes an investor who hasn't invested will offer to intro you to another investor.

**Don't take it!**

The signal you are sending is bad; if you were a good investment, the first investor would have invested.

It pays to optimize your process: when you sit down with friends / investors and ask for intros, come prepared with a list of people you want to talk to and ask "who on this list do you know?" It is very difficult for your allies to respond to the open ended question "what investors will be interested in my company?"

Odds are, your friends won't have a mapping of investors to types of companies they are interested in in their heads.

**Cold emailing investors almost never works.**

Most people who are out there as investors have been cold emailed before, and may have even met up once or twice with one of those founders. However, they almost never lead to an investment. Make the time and effort to find a warm intro.

After you get introduced to an investor, you should arrange a meeting with them. An in-person is generally better than a phone call; investors invest in founders, and you will have more opportunities to display excitement for your company in an in person meeting.

A successful investor meeting will be more conversation than pitch.

You may choose to walk through your deck, although generally I suggest you just have a conversation around your narrative without your deck (unless specifically asked).

**You can tell if an investor is engaged if they are asking questions about your business.**

If they are really engaged they will start getting excited and coming up ideas themselves for where you can take your startup. This is when you really know you've got a good chance to close them.

When you go into the meeting, you not only want to be prepared to share your company's story and vision; **you want to make a good impression on the investor.**

After all, they're not just investing in your company, but **they're investing in you**.

Here are a few points of advice for going into meetings with investors:

- **Don't make assumptions about what the investor does and doesn't know.** The investors may have the reputation for knowing about certain technologies, but be sure to spell out your goals and visions as clearly as possible.
- **The first meeting may be a starting point OR your chance to close the deal.**You need to read the situation and figure out if you're playing a medium or short-term game.Some investors fall in love on the first date; others need to be courted and convinced.
- **Be honest about where you're at.**Many deals fall apart because it becomes clear that a founder was lying about the facts. Don't lie about commitments, relationships, milestones, or anything else. The truth will come out.
- **Nail down your unique selling point (USP).** Your USP is why investors will be interested in supporting your company. Make sure you're able to show this clearly in meetings.

Usually you can close seed investments quickly. Skilled (and/or lucky) fundraisers can close a round in 4–8 weeks.

Successfully raising an investment round involves many basic sales tactics to engage your prospective "clients".

**Your goal in a meeting is to move the conversation along and get a firm commitment for an investment**. Often times founders struggle to directly ask "we'd love to have you as an investor: will you invest?" and instead wait for the investor to ask for the terms of the deal and suggest they are interested.

However, in these meetings, it's best to **be as direct as possible.**

- Ask the pointed questions that you want answered.
- Once you have a firm commitment, make sure the deal is one that works for you. Consider whether the investment terms are fair, and have your lawyer walk through the options with you.
- Don't dally on sending paperwork, either. Have your lawyer send a SAFE, or use Clerky.

Don't put an arbitrary "soon" date on your round — clarify the time so you can bring about a legitimate sense of urgency. "Soon" can be a default to "no."

Make it clear what date you want money in the bank, which will also filter out investors who aren't prepared to move quickly enough.

Startups move faster than complex legal processes, hence the need for a way to enforce commitments before they can reach their legal conclusion.

The YC Handshake Protocol is recognized as a code of ethics (by most) in Silicon Valley. Commitments go both ways: don't back out from investors — or feel guilty if investors back out from your seed round — after the following 4 steps have been completed:

1. *The investor says "I'm in for [offer]."*
2. *The startup says "Ok, you're in for [offer]."*
3. *The startup sends the investor an email or text message saying "This is to confirm you're in for [offer]. This offer is valid for 48 hours, please confirm acceptance. You agree to fund your investment no later than 10 business days from the date of your acceptance of this offer."*
4. *The investor replies yes.*

As you raise your seed round, stay disciplined and work systematically to make the best decisions for your company.

This requires making sure you're knowledgeable about seed rounds and their terms, cultivating relationships with the right people, and preparing to meet with investors. Most importantly, you need to have a lawyer review your terms to ensure they are fair and not something that would come back to haunt you.