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How I Invest.

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6-8 minutes

Companies making the world suck less by delivering magical-seeming *solutions* to important and difficult problems. And appeal to a rational economic buyer.

Companies with the potential to be dominant. Ones that have an accelerating advantage that enable them to capture the majority of the market and resulting economics.

Companies benefiting from a massive fundamental trend. Ones where the market presents a clear business case today and where the market will continue to blossom over the next 10+ years. In other words, companies with unbounded upside. For example:

- DataDog and DigitalOcean benefit from the incredible growth of new software developers,
- DataRobot benefits from the importance of ML and the desire to democratize it,
- Canvas benefits from the move to value-based health care, and
- Vectra benefits from the rise of AI, the move to the cloud, and the increasing sophistication of security attacks.

Pre-product market fit companies. Ones with audacious visions that can deliver an MVP and have many collisions with the market in the 12 months following our initial investment because distribution matters as much as product. Ones that can get to fast-growing, high-margin, scalable, and repeatable revenue within 18 months.

Founders that display clarity, courage, & urgency (clarity of speech == clarity of thought). Ones who are relentlessly resourceful and can attract the talent to achieve the vision.

Provide enough runway. 24+ months of capital (thoughts on burn and team size at the seed stage) to build team, product, demonstrate the irrefutable product-market fit needed to raise the next round from a great investor.

Have enough conviction to do the whole round. No lead investor should make founders scavenge to fill out the round.

Value great syndicate members over ownership. The right syndicate can change the complexion of a company. Bottom line is the founder has the final say as to the right raise and right syndicate — keeping in mind it's in both our interests to have a small focused group of truly helpful investors.

Hold an additional amount in reserve from the outset in case the company needs a bridge to demonstrate product-market fit. This falls under the responsibility of a true lead investor.

Invest in only a handful of companies a year. New investments should never be "options" or "lottery tickets." Every investment I make has the potential to change the world, be a legendary company, and return our fund many times over.

Keep it simple. Use standard docs and expect that the time from signed term sheet to money in the bank will be less than 2 weeks.

Pay my own legal fees.

Earn the trust of founders. Founders who believed in me enough to let me invest in their company.

Do no harm. The singular focus of a seed-stage company is finding irrefutable product-market fit. Investors can and do help, but most important is to ensure they don't randomize founders. Founders know their business better than anyone.

Be an accountability partner. This has an outsize effect on success.

Get the right support in place for founders. That includes:

- CEO Coach. The most difficult part of being a CEO is managing your own psychology. Talking with family, partners, co-founders, friends, employees and even investors can help. But I have also found great leadership coaches are invaluable early on. We recommend every founder work with one. The problem is that just at the time they are most needed (early on) is when founders can least afford them. That sucks. If a founder wants a coach we will pay one (gratis — totally separate from our equity investment) for the first 18 months after our investment. We have a number of coaches we trust which we will introduce to you and your team.
- Outsourced CFO. The financial books are generally the lowest priority of an early-stage company. Most throw it in a shoebox and have an accountant sort it out at the end of the year. We believe good hygiene matters when it comes to a company's books, and the earlier you do it the better off you are. But before a company has product-market fit, achieving that fit is the all-consuming focus of the founding team. There isn't the luxury of having someone dedicated to finances. This also sucks. We are going to pay (again gratis) for an outsourced CFO to get the books setup right and help with finances, invoices, and payroll.

Be aligned. Every round of funding is an experiment. It is important to be explicit about, constantly assess, and evolve the hypotheses that are being tested. The company and its investors must be aligned prior to an investment. I've found that the best way to achieve this is for the founders and investors to explicitly define and agree upon the hypotheses being tested with this round of funding (here is an example of a hypothesis document). That is not to say things won't change, but it's much easier when both parties are starting from a place of mutual understanding.

Be open. Send me anything you think is helpful or useful. When in doubt, send it. I read every email — if I have something of value to say I'll respond, if not I won't. The more information we share, the better we can work together.

I've found that the best entrepreneurs send out monthly updates.

Be candid. If I've done something that you want me to stop doing, keep doing, or start doing — let me know. I'd rather you be honest with me and tell me I screwed up than keep it to yourself. It makes me better and builds trust between us.

I'm your investor. I believe in you. I want you to succeed. I've seen it all (ducks!). You don't need to market to me.

While each company has its own path to success, patterns do stand out. Generally, within 18 months after our initial investment, the best companies have built the right team, have the product in market and have demonstrated conclusive and ***irrefutable*** product-market fit (if you are not sure you have it, you likely don't).

Once a company has demonstrated product-market fit, actively help raise the next round. Work closely with companies to refine the pitch (here is some great advice). Introduce them to the best VCs.

Invest my pro-rata in subsequent rounds of those companies that have demonstrated success. On average we invest somewhere between $6 and $10M over the life of the best companies in our portfolio. And those companies return 10x++ our total investment.