Oversubscribed

A Founder's Guide to Seed Fundraising

by Mike Wilner and Max Nussenbaum

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Introduction

We're writing this book because too many founders are daunted by fundraising.

The truth is that there are more seed-stage investors, and more seed-stage capital being invested, than ever. Just as founders often feel that they have to scrape and claw their way to raising money, VCs often feel they have to go through similar trials to find good investments.

But too many founders struggle with fundraising because they don't understand how the seed fundraising ecosystem works and how to fundraise efficiently and effectively.

As a result, many founders waste a lot of their time fundraising, banging into walls in the dark and getting nowhere. But seed fundraising doesn't have to suck, and it doesn't have to take as long as you think.

Many founders have raised $1M rounds (or more) in as little as a month, lining up great investment partners who help propel their businesses forward. In order to have a chance of raising a round like that, you need to understand how to navigate the seed fundraising ecosystem effectively, how to use the dynamics of a round to your advantage, and how to act in a way that lines up with how investors make decisions.

With this book, you'll be able to increase your odds of raising seed funding. We wrote this book because founders with funding-worthy businesses shouldn't have to struggle through a difficult fundraising process.

For first-time fundraisers, we hope this guide shines some light on what can often be an opaque and confusing process. And for founders who've raised a seed round (or several) before, you'll get some valuable pointers on how to raise your next round more efficiently.

About the Authors

We (Mike Wilner and Max Nussenbaum) met in Detroit in 2013, as early members of the Venture for America fellowship program. By 2014, we had each started our own companies. As first-time founders, we faced the new challenge of fundraising. And we were terrible at it.

Which should come as no surprise—fundraising is really hard! It's hard in easy-to-predict ways, like crafting a compelling pitch deck; hard-to-predict ways, like finding investors to reach out to in the first place; and ways we could have never seen coming, like being too shy to ask for money during a pitch meeting.

Although neither of our companies made it in the end, we ended up becoming pretty good at early-stage fundraising along the way, raising a combined $4M from all sorts of investors: famous ones like Khosla Ventures, SV Angel, and Y Combinator, but also tons of smaller angels and VCs you've probably never heard of.

Over the years, as other founders started coming to us for fundraising advice, we realized that there wasn't a good source for the kind of guidance we'd have wanted to see when we were raising our companies' first rounds.

We found ourselves sending founders dozens of blog posts and podcasts, with tons of our own commentary—take this piece of advice from this source, that one from that source, and maybe eventually you'll have a nice pile of tips.

And lots of the best advice out there came from VCs—whose interests aren't always aligned with founders'—or was written for people who already had connections, or people who might walk into a cafe in Palo Alto and see Chris Sacca just sitting there. There wasn't much out there that felt targeted towards the types of founders we were—the types of founders most first-time founders are.

This book is the guide we wish we'd had when we were first starting out.

Who Is This Book for, and What Does It Include?

This book is for founders who are considering raising money, founders who are in the middle of raising money, and founders who have already raised an angel or seed round but find themselves needing to raise another one.

It covers everything from the basics of seed fundraising for first timers to the advanced tactics that enable founders to create urgency for investors and close seed rounds quickly.

This book is broken up into six chapters. If you've never fundraised before, you should read all six chapters. If you have fundraised before, you'll get the most value out of Chapters 2–6.

Chapter 1: Seed Fundraising 101

Most founders make mistakes when fundraising because they don't understand the true implications of fundraising for all involved parties. This chapter will give you a baseline understanding of the seed funding landscape, along with the implications of seed funding for founders, angel investors, and VC investors.

You'll learn:

- The consequences of raising money, and how raising will change your relationship with your business and redefine a "good" outcome
- Whether or not raising money is the right path for you
- When you should raise money, the different funding sources you can raise it from, and the different types of seed rounds
- Angel and VC investor motivations, how their business models work, and the implications those models have for you

Chapter 2: How to Run a Swift Seed Fundraise

Raising money doesn't have to take very long. This chapter outlines the way to approach fundraising that will enable you to open and close your round quickly and get back to building your business. We'll introduce you to many of the concepts that we'll dive more deeply into throughout the rest of the book.

You'll learn:

- The rules of thumb you need to consider when entering a fundraise, like how to message your fundraise, who should be involved in conversations, how much time you should spend on it, and more
- How to stack the chips in your favor before you start fundraising
- How to instill investors with a sense of urgency out of the gate and get momentum right away

Chapter 3: Fundraising Narrative Preparation

Founders who enter a fundraise with an incomplete fundraising narrative end up spending too much time filling in the blanks instead of pitching and closing investors. In this chapter, we'll outline all of the questions you'll need to answer—both about your business and the fundraise itself—before you begin pitching investors.

You'll learn:

- How to pitch your business, and how your fundraising materials should reflect your pitch
- How to develop a narrative around your fundraise, including your progress to date, the amount you're raising, and why you're raising
- How to approach your financial model

Chapter 4: Researching & Engaging Angels

Angel investors can be a great source of funding, but they're often hard to find. In this chapter, we'll break down the different types of angel investors, how to find them, and the best ways to engage them.

You'll learn:

- The different motivations and investment styles of different angel investors
- The best way to search and find angels who are the most likely to want to talk to you
- Tools that you can use for angel investor prospecting
- The best way to engage different types of angels

Chapter 5: Researching & Engaging VCs

Venture capital can be a broad-brush term, and many founders waste time talking to the wrong VCs—or the wrong people at VC firms—because they don't understand how VCs work. In this chapter, we'll explain how to navigate the VC landscape efficiently.

You'll learn:

- The different types of investment focuses VC firms have and how to read between the lines
- How to search for and find the most relevant VCs for your startup

- The different roles at a VC firm and how you should engage individuals based on their roles
- The people at VC firms that can help you the most

Chapter 6: Pitching & Closing

Founders struggle the most with turning investor prospects into money in the bank. In this chapter, we'll bring it all together, outlining in great detail how to manage all of the steps in the fundraising process from pitching to closing investors.

You'll learn:

- The different formats of your fundraising materials you'll need at different steps of the process
- How to talk about valuation during a raise
- The steps of a VC funnel and how you should set up your fundraise funnel
- How many investors you should have at different stages of the funnel
- How to solve the chicken and egg problem and close a lead investor
- How to create urgency for investors after you've pitched them

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Finally, we want to thank those whose content and teachings helped inform how we view some of the specific aspects of fundraising covered in this book: Mark Suster (partner at Upfront Ventures and author at Both Sides of the Table), Paul Graham (partner at Y Combinator), Rob Go (partner at Nextview Ventures), Will Herman and Rajat Bhargava (authors of *The Startup Playbook*), and Taylor Davidson (founder of Foresight).

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Seed Fundraising 101

Most startup founders have at least considered the possibility of raising money, but addressing the prospect more seriously means thinking through whether or not to raise at all, what type of of round to raise, and how to go about it.

The truth is, not every startup should raise money—or needs to in order to be successful.

In this chapter, we'll dive into the consequences of raising money from a personal, founder's perspective, and then explain the different funding stages of an early stage startup.

The Consequences of Raising Money

Raising money is not inherently good or inherently bad: it depends on the type of business you want to build, and the relationship you want to have with it. For some businesses, bootstrapping and growing more slowly are absolutely the way to go. For others, the window of opportunity is small, and raising capital to (hopefully) accelerate growth is the right decision.

How does raising money make it harder for you to make money?

Raising money doesn't always correlate with returns for founders, even in "success" stories. For example, Fanduel, the category leader of daily fantasy sports, was acquired for $465M. Sounds like an amazing victory, right? Well, the company had raised $416M across seven funding rounds, at one point valuing the company at over $1B. The founders and employees didn't make any money from the acquisition.

If you raise outside capital, you will need to have an exit at a valuation that exceeds your last funding round to make money. (The reality is a bit more complicated, but this is a good rule of thumb.) As a result, the more money you raise, the more challenging it becomes to create an outcome that will give you a big financial payoff.

Nathan Barry is a great example of a founder who has built a successful business without raising a penny. Nathan has completely bootstrapped ConvertKit to over $1M monthly recurring revenue. Conservative valuations would peg the company at $20–40M if someone were to acquire it now, netting Nathan close to $10M. Not to mention the fact that he's also paying himself well in the meantime!

How will raising money change your relationship with your business?

When bootstrapping, you really can be your own boss. But once you raise money, you have a fiduciary responsibility to your investors. That means you need to keep them informed about the state of your company, spend time managing your relationships with them, and make decisions that consider your responsibility to investors. Here are just some of the things you'll need to deal with as a founder who's raised funding that you wouldn't deal with if you bootstrapped:

- Regular reporting to investors
- Managing investor relationships and expectations through emails, phone calls, etc.
- Answering to investors when things are not going well
- Anxiety from external pressure to grow/succeed

Storytime from Mike

During my first time starting a company and raising money, the pressure and anxiety I felt from having investors (in addition to employees and customers) hindered my ability to enjoy parts of the entrepreneurial process and be my best self. I got so caught up in creating a good outcome for my investors, that I lost focus on my personal life, neglected certain relationships, and became in many ways a worse person overall.

The pressures that you feel when having investors are very real, and dealing with them is a challenge every investor-backed founder needs to deal with. Everyone deals with them in different ways, and as a 25-year old, I didn't deal with them well.

Mike and cofounder Taylor Sundali, stressed during a fundraise

How will raising money redefine what's considered a good outcome?

If you're bootstrapping your business, acceptable outcomes can be things like:

- Being profitable and paying yourself a comfortable salary
- Selling your company for $2M
- Getting acquired by another company you'd like to work for

However, once you accept funding, those realities change. For investors, backing a startup is high risk, high reward. If they wanted to invest in something Safer with more moderate returns, they'd be investing in real estate or the stock market. With an investment in a startup, most investors are aiming to grow their investment by at least a factor of ten. (We'll dive into this more when we talk about investor economics.)

While this can vary depending on your terms or stage, it generally means that your investors want you to create a company that can achieve at least a $20M exit.

Once you raise funding, you have to start making decisions with that outcome in mind. You no longer get to make decisions solely based on your own comfort and what you want personally—investors will want you to make decisions that drive towards that new definition of what a successful outcome is.

Besides putting cash in the bank, how will raising money help your business and you personally?

It's not all bad. One of the best parts of raising funding is not just the capital that you can get to fund your startup, but rather the people that you'll be partnering with to make your startup successful.

Here are some of the incredible things investors can do for over the lifecycle of your startup:

- Advise you on how to grow your startup
- Make introductions to partners who you couldn't access yourself
- Make introductions to other advisors and investors
- Make introductions to customers
- Invest in your future rounds
- Help you recruit top talent

Of course, you'll need to vet your investors and understand their strengths in order to make the most of their expertise and network, but sometimes a single investor can drastically change the trajectory of your business.

Another thing to note is that when you raise money, you're getting business partners, not just investors. Just like a relationship with a cofounder or early employee will be a relationship that will last through your career, when you fundraise, you'll build relationships that will ideally last you your entire career.

Both of us raised money for our companies, and while neither of us achieved the outcomes we wanted from our companies, we still have great relationships with most of our past investors.

Storytime from Max

When it became clear Castle was failing, I became incredibly stressed about letting our investors down. I had made promises to all of these people about what I was going to achieve with their money, and I hadn't done it. But without fail, every one of our investors was kind and supportive.

I think it can be comforting to remember that—in the best possible sense of this—you don't really mean all that much to your investors. Of course, they support you and want you to succeed, and the good ones will be there for you whenever you need them, but as a founder you think about your investors way more than they think about you. To them, you're just one bet of many, and they expect that most of their bets won't work out.

Many of our former investors have remained my friends, mentors, and advisors. And when I turned to freelance work to support myself after Castle wound down, some of our former investors became my first clients. One even responded to my final investor update with an offer to hire me right then!

Storytime from Mike

Selling everything off and returning as much capital as we could to investors was a disappointing outcome. I feared that my investors wouldn't want anything to do with me since the investment hadn't worked out as well as we'd all hoped. But when I broke the news to my investors, it became clear that these relationships were far more than short-term relationships based on an investment. Rather, they were relationships that would continue to serve me throughout my career.

Here are just a few of the responses I received from them:

"Hey Mike, thanks for this note. For what it's worth, thought and still think you're an incredible Founder / CEO and look forward to the possibility of investing in business #2 if and when the next idea strikes. Have been really impressed with your communication, strategic thinking & dedication throughout this process."

"It's a tough decision and it sounds like you thought it through pretty well … Glad you made the decision in a decisive way…Have a happy holiday with some good drinks!"

My investors have since helped make introductions for new opportunities I'm pursuing, and I now pass along investment opportunities to some of them as well.

How will raising money change your responsibilities as a founder?

Raising funding once doesn't obligate you to raise additional rounds of funding down the road. However, it's more than likely that you'll go on to raise venture capital to continue to grow your company towards an exit. If that's the case, then fundraising is now a permanent part of your job. You'll need to manage your current investors and constantly be ready to start fundraising again.

When VCs make seed-stage investments, their metric for success is getting their seed investments to a point where they can successfully raise a Series A. At each stage of fundraising, investors are motivated to get you to grow and reach the next funding round at a higher valuation.

Storytime from Mike

One basic thing I did to manage investors was write monthly investor updates, detailing KPIs, highlights, challenges, and asks. But in addition to these monthly updates, I sometimes needed to spend additional time with some of my angel investors, helping them wrap their heads around the direction of the business.

In particular, I had one investor who took a lot of my time to manage. This investor regularly reached out with questions about progress, and in one case, requested an on-site work session to dive into our financials.

When we decided to pivot the business, this investor took a lot of time to be convinced of our new direction. I didn't necessarily need their approval—they didn't have any legal control over the company—but I wanted it. If we were to raise another round of funding, I wanted them to participate, and it would be important to have the buy-in and support of my existing investors to make the next round easier to raise.

80% of the time I spent on managing investors was spent with this one investor.

Keeping your investors happy and bought in is important, but it can also be stressful when things aren't going perfectly.

Seed Fundraising Basics

When should you raise money?

The best time to raise money is when something good has happened with your business and you can build on that momentum.

It's possible to start getting money in the bank within one or two months after you begin fundraising, but it can sometimes take as long as eight months to put together a round. Plan accordingly.

When you begin fundraising, you should be able to clearly articulate what milestones you've achieved, what future milestones your round will help you achieve, and how that puts you on a path towards the endgame of creating a very valuable company. (We'll talk about this more in Chapter 3, when dive into building your fundraising narrative.)

It's really hard to raise a seed round if you don't have a something compelling to say about what you've already accomplished.

Here are some examples of milestones that put you in a good position to raise money:

- Getting substantial traction during an accelerator program
- Launching your product and getting initial traction (demonstration of early product-

market fit)

- Closing a big customer (demonstration of early product-market fit)
- Building a prototype and getting your first purchase orders (for technical physical products)

Here are some examples of milestones that don't usually put your company in a good position to fundraise:

- Launching a website
- Launching a product
- Forming a team
- Team going full-time

All of these milestones are good starting points, but you need to demonstrate that your business has momentum and some validation from the market—in other words, that you're on the path to finding product-market fit.

Repeat founders who have a successful track record of building and exiting companies are often able to raise seed funding with nothing but an idea and a deck, but they're the exception, not the rule. (And they're probably not the ones reading this book!)

Even if you follow the advice in this book perfectly, if your business is not yet at a point where you're ready to fundraise, it's going to be hard to be successful. **The number one thing you can do to improve your chances of raising a round is to have a compelling business.**

What are the different sources of pre-seed and seed funding?

There are different sources of pre-seed and seed-stage capital, including:

Friends and Family

To raise from friends and family, they'll have to be wealthy: legally, only "accredited investors"—defined as those with a net worth of at least $1M, excluding the value of their primary residence, or income of at least $200k for the past two years—can invest in startups. (The 2012 JOBS Act created some exemptions to this rule for crowdfunding campaigns, but we won't go into those in this guide. This *Entrepreneur* article has a good overview if you're curious.)

While entrepreneurs do, on average, come from wealthier backgrounds, it's very possible to close a successful seed round without any money from friends or family. Less than 5% of the initial capital we raised for our startups came from friends and family.

Accelerators and Incubators

These are programs that provide programming, mentorship, and capital in exchange for equity in your company. These programs don't need to be a part of a round with other investors—they can just write a check. Their goal is usually to help you get ready to raise a round at the conclusion of their program, but they can also participate in an existing round and may have investment vehicles to invest in follow-on rounds. They usually have a lot of valuable investor connections to help you raise a seed round. Most accelerators and incubators invest in cohorts of startups a few times a year, so you'd have to join one based on their schedule.

It's important to note that there has been a huge glut of accelerators in recent years, and many of them provide little value and can even, in some cases, actively harm your company. Before deciding to apply to (or participate in) an incubator or accelerator program, you should talk to other founders who have gone through the experience.

Accelerators and incubators take substantial equity—far more than you would give away to an investor for the same amount of money—so you should have reasons for joining one of these programs beyond just needing the capital.

Examples include: Top-tier industry-agnostic accelerators like Y Combinator and Techstars, geography-focused accelerators like gener8tor and Amplify.LA, and industry-focused incubators/accelerators like the Chobani Food Incubator and NextFab's Hardware Accelerator.

Non-Dilutive Grants

Non-dilutive grants are essentially "free" money that don't cost you any equity in your company. They can can come through pitch competitions, research grants, or small business development grants. Non-dilutive grants are a great way to fund your startup as you continue making progress in preparation of a larger seed round.

Before they had enough traction to raise a real round, our friends at Slope essentially funded their company through business plan competitions. They later went through the Microsoft Accelerator and raised an institutional seed round from several Seattle VCs.

Angel Investors

Angels investors have diverse motivations for investing, levels of activity, and check sizes. They come in all shapes and sizes: professional angel investors like Joanne Wilson, wealthy executives at big companies, former founders who've had a successful exit, high net worth individuals looking to have some fun with their money, and more. Basically, anyone with money who wants to invest it is an angel investor.

We'll dive into angel investors a lot more in later chapters.

Angel Funds and Groups

Angel funds are groups of high net worth individuals who are interested in angel investing, but don't have the bandwidth to source investments themselves. Angel groups operate more like VCs than angels, with entrepreneurs generally pitching the angel group, going through a diligence process, and getting a handful of the angels to participate in their round all at once. For the purposes of this book, you should think of angel funds and groups as VCs.

Angel groups tend to be organized by city or region. Examples include: NY Angels, Baltimore Angels, and Mid-Atlantic Bio Angels.

Pre-Seed VCs

Pre-seed VCs are venture capital firms that invest in the earliest stages of a company, often before a product is even in the market. A lot of pre-seed VCs will also invest in seed rounds, but it's rarer for a seed VC to invest in pre-seed rounds.

Examples include Precursor Ventures and Village Global. We'll dive into pre-seed VCs much more in later chapters.

Seed VCs

Seed VCs generally aim to get 5–10% ownership in your company, and try to get you to the next milestone of raising a Series A. They focus their efforts on investing in seed-stage companies, but typically reserve to invest in their portfolio companies' future rounds.

Examples include Uncork Capital, Forerunner Ventures, M25 Ventures, Collaborative Fund, First Round Capital, and more. We'll dive into Seed VCs much more in later Chapters.

Multi-Stage VCs

Whereas seed VCs are focused exclusively on seed-stage investments, multi-stage VCs are firms that have been around for a while and invest in multiple stages, from seed-stage all the way to Series A and growth capital rounds (Series B and later). These firms generally have funds dedicated to seed deals and team members who focus specifically on these rounds.

Examples include: Sequoia Capital, Tribeca Venture Partners, Khosla Ventures, and more.

Alternative Financing VCs

A growing number of VCs are providing alternative investment vehicles that can provide seed funding to founders, while aligning the VC and founder incentives differently so that the VC can have a successful outcome even if the founder raises no additional capital. These investments typically involve some form of revenue sharing, profit sharing, or some other way of giving VCs a return.

Examples include: Indie.VC, RevUp Capital, and Dwight Funding.

What are the different funding rounds that exist before Series A?

We can also break this down by several different funding rounds you typically see early in a startup's lifecycle, along with the different types of investors will participate in different kinds of rounds. Note that the ways that the names of funding rounds pre-Series A are basically marketing speak. What today constitutes a seed round would have been considered a Series A a decade ago, and the phrase "pre-seed" was rarely ever used until around five years ago. As such, the ranges in this chart are rough estimates only.

	Friends & Family	Angel	Pre-Seed	Seed	Series A
Fundraise amount	<$200k	$150–$750K	$300–$750K	$500K–$4M	$2M+
Individual check size	$5K–$100K	$50–$500K	$50–$250K	$500K–$2M	$1M+

	Friends & Family	Angel	Pre-Seed	Seed	Series A
Valuation range	<$3M	$2–$5M	$3–$6M	$4–$10M	$6M+
Who participates	Friends & family	Friends & family, angels	Friends & family, angels, pre-seed VCs	Angels, pre-seed VCs, seed VCs, angel funds & groups, multi-stage VCs	Angels, Series A VCs, angel funds & groups, multi-stage VCs

Other rounds you may hear about are bridge rounds and seed extensions. Bridge rounds are rounds that founders may raise when they don't have enough money to hit the milestones needed to successful raise the next round. For example, if a founder raises an angel round, but after a year they're not quite ready to start raising a seed round from VCs, they may raise a bridge round from existing investors, and maybe a few others, in order to give them enough runway to then raise a more ideal seed round.

Seed extensions are a form of a bridge round—they occur when a startup has already raised a seed round and is close to Series A milestones, but not quite there. They're usually similar in size (or larger) than the seed round, and raised when things are going well (whereas bridges are sometimes when you're simply low on cash).

Bridge rounds and seed extensions are generally less than ideal, as most founders hope to be able to proceed straight from seed to Series A.

Storytime from Max

My startup's funding lifecycle:

- 2014: $270k angel round at $2M cap
- 2015: $350k bridge round at $5.5M cap
- 2016: $120K from Y Combinator
- 2016: $2.1M Seed round at $10M cap

- 2016: $500k bridge at $10M cap

By the time I raised my seed round, even if I didn't raise another dime, we would have needed to exit for at least $20M in order for me and my two cofounders to each make $1M.

Storytime from Mike

My startup's funding lifecycle:

- 2015: $300K angel round @ $4M cap
- 2016: $550K seed round @ $4.5M cap

By the time I raised my seed round, if I didn't raise another dime, we would have needed to exit for at least $6M in order for me and my two cofounders to each make $1M.

You may end up raising one or several smaller rounds prior to Series A. **While you may name these rounds different things for marketing reasons (angel, pre-seed, seed, seed extension, etc.), you should think about the collection of these rounds as your collective seed funding, the typical dilution for which is roughly 25%.** This is a good number to keep in mind when you're thinking about funding amounts and valuation, which we'll dive into in much more detail in Chapter 6.

Understanding the Investor Perspective

In order to understand how to interact with investors during a fundraise, it's important to understand exactly what their motivations are and how their business models work. After all, that's what drives their decision-making.

What are angel investors motivated by?

Angel investors are not beholden to anyone else, so they have more diverse reasons for investing than VCs. Their motivations are typically some combination of the following:

- Financial returns

- Learning about an interesting space
- Being able to say that they're invested in a certain space
- Building a relationship with a founder
- Feeling like they can add a lot of value
- Wanting to break into angel investing

How do angel investor economics work?

Unlike VCs, angel investors get to keep 100% of the returns they get from investments. As a result, an angel's threshold for a "good" return is a lot lower than a VC's. While any angel investor would love the possibility of a 100x return (which is what VCs more regularly want to be able to imagine), they don't need that kind of return to make a lot of money. A 5x return can be a great outcome for an angel.

It's important to note that this can vary greatly from angel to angel. Some angels may only want to take moonshots and invest in companies that generate 100x returns, much like VCs. This is why it's important to ask angel investors what kind of outcomes they're looking for in their investments. Not only will you be able to figure out if there's alignment between what you both consider a "good" outcome (if there isn't alignment, you shouldn't proceed), but you'll also learn how to pitch them in a way that addresses their motivations.

What are VC investors motivated by?

VC investors make investments out of a fund which is made up of other people's money (and usually some of their own). VCs need to raise specific funds that have a specific strategy, and they pitch Limited Partners (LPs) to invest in these funds, much like how startups pitch VCs. These LPs may be other VCs, family offices, institutional investors, pension funds, and more. Their "sell" to these money managers is that that early stage VC has the potential for outsized returns, and enables LPs to diversify their own portfolios. VCs are not just competing with other VCs, but also with other assets like stocks and mutual funds. Therefore, the main thing VCs are worried about is generating big returns.

Another important thing to note is that VCs raise specific funds, and they need to demonstrate that a fund is generating good returns in order to raise additional funds. We'll talk about this more in the next section.

Take a look at Shasta Ventures below. You'll see that they have $1.3B assets under management across six funds that they've raised over thirteen years. Each of these funds has a specific strategy based on Shasta Ventures' investment focus at the time. In their case, the "Shasta Camera Fund" is a different fund from the rest, is operated by different partners, and makes investments at different stages and in more specific startups than the other Shasta funds.

Funds Raised

Number of Funds 6

Total Fund Raised $1.3B

Announced Date	Fund Name	Money Raised
Sep 18, 2017	Shasta Camera Fund	–
Jun 29, 2016	Shasta Ventures V, L.P.	$323.2M
Jun 19, 2014	Shasta Ventures IV	$300M
Sep 21, 2011	Shasta Ventures III	$265M
Oct 21, 2007	Shasta Ventures III, L.P	$250M
Sep 21, 2004	Shasta Ventures	$210M

How do VC economics work?

First, let's start with how VCs make money.

Traditionally, VC firms make "2 and 20"—which means 2% in management fees and 20% in carry.

Management fees: making 2% in management fees means that VCs make 2% of the assets they manage. Therefore, VCs are incentivized to raise larger funds, and to raise subsequent funds as soon as a fund is showing signs of success. These management fees enable VCs to pay for overhead, grow their teams, and take salaries. However, no one gets rich from management fees. That's where carry comes in.

Carry: VC Funds generally make 20% in carry. That means that in a given fund, once they've returned all capital that's been invested, they take 20% of the capital gains.

For example, let's say a VC raises a $10M fund and makes 33 investments of $300K. Suppose…

- 10 startups fail
- 11 get the VC their money back but don't make any further returns
- 6 generate 3x returns
- 3 generate 5x returns
- 2 generate 20x returns
- 1 generates a 50x return

As you'll see below, this results in the fund gaining $40.2M, which is right around what the VC's investors (LPs) would *expect*.

In this scenario, the fund is returning $30.2M in gains, and the VC would take 20% of that (the carry), meaning the VC fund would make $6.04M.

If one of the startups in this fund that failed instead had a 50x return, then the Partners would make an additional $3M. As you can see, outsized 50x+ returns are the key drivers for VCs making real money. *Even if a VC batted 100% on getting 4x returns (which would be incredible), they would make less money than in the scenario outlined below.*

Returns	Startups in Fund	Capital Returned
0x	10	$0
1x	11	$3.3M
3x	6	$5.4M
5x	3	$4.5M
20x	2	$12M
50x	1	$14.5M
Total	**33**	**$40.2M**

The crux of VC economics is that out of their investments from a fund, VCs need a few giant, outsized returns (sometimes referred to as unicorns, for any company with a valuation of $1B or greater). The rule of thumb for seed VCs is that *they need to believe that each investment they make has the potential to return the entire fund*. In the case of a $10M fund making 33 investments of equal size, the VC needs to believe that your startup can exit at a valuation at least 33x your current valuation.

Pro Tip

This is a generalization that's true for most VCs, but there are some VCs who think about their economics and desired returns differently. We'll get into how to engage VCs in your fundraise in Chapter 6, where we'll advise you to ask a VC questions about how they operate in your first meeting. You should absolutely ask a VC about their fund's economics, desired returns, and definition of a "good outcome"—it's important that you find alignment between the outcome you want for your business and the outcome a VC expects.

How do VC investors demonstrate success, and how does that impact you?

VCs generally invest a given fund over the course of ten years, as it can take a long time for startups to exit and for investors to realize any returns. Therefore, it takes a long time for investors to definitely know if a fund's returns are good. Since VCs can't use fund returns to demonstrate success right away, they use their portfolio companies' fundraising success as a proxy for fund success instead.

This is why VCs are incentivized to get you to the next funding round at a higher valuation. While it may take five or more years from the time of their investment for your company to exit, if they can show potential fund investors that the startups they invested in raised Series A rounds at a valuation markup just a year after they invested, that's a leading indicator they can use use to pitch LPs on their next fund.

Seed VCs are incentivized to push you to get to Series A so that they can raise their next fund and grow their firm.

Why are VC investors incentivized to wait as long as possible before investing?

One of a VC's biggest assets is their deal flow pipeline. The more startups that they can track over time, the more opportunities they'll have to make winning investments. While VCs are starting to make decisions faster in order to maintain a good reputation among founders, the longer VCs can track startups without investing, the more confidence they'll have when eventually making (or passing on) an investment. This is what investors like Mark Suster are talking about when they say they like to invest in "lines, not dots."

This dynamic means a lot of founders end up feeling like they're getting strung along by investors, when in reality, they just haven't created a sense of urgency for the investor. If you don't give investors the sense that this is an opportune, limited time frame to invest, they are likely to default to "tracking" you rather than making a firm decision. This is why it's valuable to build relationships with investors prior entering fundraising mode and executing a swift fundraising process, which we'll explain how to do tactfully throughout the rest of this book.

Deciding to raise money is a big decision. Once you accept someone's money, you can't turn back. Before diving in to a fundraise, make sure that you understand how it will change your relationship with your business, and be realistic about your ability to raise money and how you'll go about it.

Still want to raise money? Ok, let's continue.

2

How to Run a Swift Seed Fundraise

Throughout the rest of this book, we're going to focus on the two classes of investors that are most fundamental to pre-seed and seed funding rounds: angel investors and VCs. The key to raising these kinds of funding efficiently is to generate FOMO (fear of missing out—but I hope you didn't really need us to spell that out for you). When you're telling an investor that you're fundraising, you should be giving them exclusive access to a compelling deal that won't be there forever, and you should inspire them to act quickly in order to take advantage of it.

Therefore, to quickly generate momentum and raise money efficiently, you need to present investors with:

1. A compelling investment opportunity (**narrative**)
2. Available in a limited time frame (**scarcity**)
3. Which will inevitably get filled with or without them (**competition**)

Of course, you shouldn't only pursue investors who will react to competition—you want to choose investors who you genuinely want to work with, which we'll dive into more later.

Before we go further, we need to cover ground rules and a basic understanding of investor motivations and economics.

Ground Rules

Be extremely careful about how and when you turn fundraising mode on

One of your biggest pieces of leverage when approaching fundraising is whether or not you're technically in fundraising mode. When you're not in fundraising mode, you're not asking investors to make a decision. As soon as you turn on fundraising mode, there will be an implication that you're asking for money, which will change the ways that investors will engage with you. It will also limit your ability to have your network share early access to your investment opportunity. You should stay out of fundraising mode until you're 100% ready to start turn the faucet on.

Fundraising is easiest when you cultivate warm investor relationships before "starting"

It's never too early to start building relationships with investors who can provide you with invaluable advice on how to build your business. Founders who fundraise effortlessly either already have a trusted relationships with investors, or they cultivate them from the earliest days of their company by earnestly seeking advice from investors as they get started. We'll explore this further later on.

Fundraising should be your full-time job

While there's a lot you can and should do in the weeks and months leading up to fundraising (which we'll get to), once you begin fundraising, you should treat it as your full-time job. All of your energy should go to running a swift fundraising process, and you should make sure core business functions have been offloaded to someone else on your team so you don't get distracted. When people say that fundraising takes longer than you think it will, it's often because people try to juggle too many responsibilities. You should aim to fundraise swiftly, so you can get back to building the business.

You should be the sole point of contact for all fundraising activities

One person—almost always the CEO—is solely responsible for fundraising. Everyone else should be working on managing and building the business. It's okay for other team members to leverage their networks to make introductions for the CEO, but it's bad signaling and confusing to potential investors to have interactions with multiple members of the team through email threads or calls, unless they ask to speak someone specifically during the diligence process. Investors may question who's building the business if multiple people are distracted by fundraising. Additionally, fundraising is a skill that you get better at as you do it, through rapid iteration and making contact with investors. Having one person fully focused on it speeds up that cycle.

You should have a minimum check size

Especially if you're allowing angels to participate in your round, it's important to have a minimum check size to limit the overhead involved with raising your round. For friends and family, this may be $10K. For other angels, $25K is a good minimum check size (but may be higher for bigger rounds). You can have different minimum check sizes for different types of investors. Generally speaking, angel investors will often default to the minimum check size. So, if you tell an angel investor who can afford to write a $25K check that the minimum is $10K, they may write a $10K check. Getting money in the bank requires work, and you don't want to deal with the overhead of having too many investors. When it comes to VCs, they're motivated to write bigger checks, so you don't have to worry about minimums when it comes to VCs.

Storytime from Max

We screwed many things up when raising our first angel round, but one of the biggest was our minimum check size. It had never even occurred to me to have a minimum check size, so when a prospective investor asked, I stumbled and said $10K, mostly because it sounded like a nice, round number.

We learned the hard way that $10K was too small. While that would have been a fair minimum to set for friends and family, this investor was the CEO of a large, publicly-traded financial services company, and was easily worth well over $100M. (In fact, it wasn't even him who asked me for our minimum check size—it was his assistant!)

This investor ended up putting in—you guessed it—$10K. I'm almost certain he would have invested $25K or even $50K if that had been our minimum.

You should be direct and confident, but respectful and human

If you're deciding to fundraise, then you've thought very intentionally about the need to fundraise. If capital is what your business needs to fuel its strategy, then you should have conviction that you'll raise the money that you need. When interacting with investors, you should be direct and confident about how you're going about your fundraise. That said, there's a fine line between being confident when engaging with investors and being arrogant. Every single interaction you have with an investor—even if they don't invest—can be a really valuable touchpoint for a relationship that can potentially be transformative for your business. They can connect you to other investors, big customers, or add value in other high-impact ways. If you go about this process efficiently and respectfully, you can expect some positive by-products to come of your fundraise from unexpected sources.

The Order of Operations of a Swift Seed Fundraise

There's a five-step process to efficiently raising a seed round:

1. Build relationships with investors before you start fundraising by seeking advice that would be genuinely valuable
2. Put yourself in a position of optionality so that you're not desperate for money (if possible)
3. Prepare your narrative
4. Solidify the investments you already have through your existing network investors/network
5. Turn on fundraising mode and start stacking up meetings

1. Build relationships with investors before you start fundraising by earnestly seeking advice

Before you're explicitly in fundraising mode, you should reach out to angel investors and VCs who you genuinely think could provide valuable insight or advice to you—after all, you'll want your eventual investors to be adding value.

You could even be doing this for months prior to your fundraise. As a CEO, spending 10% of your time getting advice from people smarter than you is a good use of time. And remember, since this book is all about fundraising, we're emphasizing the fundraising-related benefits of building these relationships, but the advice you get could end up being even more valuable.

You should approach these investors with specific asks, like:

- Given your investment in [insert comparable company], I'd love to get an understanding of how you see this market evolving
- Given your experience scaling a similar business model, I'd love to see if my assumptions about the economics are on point

People like being helpful, and through this process, they'll be able to start tracking you, see how you react to their advice, and become invested in you and your business through providing their advice.

It's important to note that VCs who are relevant for your business should know more than you do about how your business model and market is evolving. While you're heads down in your business, a VC has a lot of data points that they're seeing, and they've tracked companies at your current stage as they've grown and faced later stage challenges.

You may send these folks a version of your pitch deck to give them context about your business to make for a more productive conversation, but it should serve as an "operating strategy" deck and not include anything about a fundraise.

You should keep in touch with these people after they've given you advice. Allow them to see how you've taken their advice into consideration, and foster these relationships. (A quick "hey, we implemented your advice and here's what happened…" email is always a great excuse to follow up.)

While some founders may put these folks on their investor updates, it's more valuable to manage these relationships on an individual basis. You can keep them more engaged that way, and you can remain in control of how they perceive your progress. Also, if you have potential investors on your supporter update, you may be less comfortable telling the 100% raw, unvarnished truth about how things are going on your supporter updates, and vulnerability can be really valuable when communicating with your supporters.

2. Put yourself in a position of optionality so that you're not desperate for money (if possible)

In an ideal world, you can put yourself in a position where you don't need to raise money, even if you fully intend to do so. This will put give you leverage for your fundraise from the very beginning, as you'll be able to run an effective fundraising process without ever feeling like you're begging for money.

Being in this position of leverage and having the theoretical option to not raise money will affect your attitude and every interaction you have with potential investors throughout this process.

Examples of ways you can put yourself into a position of optionality include:

- Slowing down growth if it means reducing burn to becoming ramen profitable
- Doing some service/consulting work as a company to offset burn
- Winning business competitions or grants to get some "free money" in the bank
- Start raising money well before you need it (if your metrics support doing so), instead of waiting until your runway is extremely limited

3. Prepare your narrative

While you'll need a fundraising narrative for fundraising, 90% of your fundraising narrative isn't about raising money at all—it's the story of your vision, what your business has accomplished, its current status, and where it's headed in the future.

Y Combinator's Aaron Harris on Twitter

You need to create a tight, compelling narrative, and ensure that the financials of your business (including projections) and the story you're telling are completely aligned.

As a rule of thumb, you should be able to take someone through your full pitch in no more than five minutes. If it takes you longer to pitch your business, then your narrative isn't concise enough and you might be getting caught up in the weeds.

You should also have clarity around how much you're raising, what you're using the money for, what you'll be able to accomplish, and how much of your round you want to be taken up by angels, follow-on VCs, and a lead VC, respectively.

Figuring out your fundraising narrative before you get started will enable you to move a lot faster once you start pounding the pavement in Step 5. We'll explain in greater detail what you need to prepare (and how) in the next chapter.

4. Solidify the investments you already have through your existing network

You should think of your fundraising round as a limited supply of dollars that you can accept. For example, rather than thinking of your $1M seed round as $1M that you *need to raise*, think of it as only $1M in equity that you're *allowed to give away*.

Now that you're thinking of your round as a scarce resource, you need to figure out how much of it is already claimed. Whether it's family, friends, past bosses, or past investors, people who believe in you may want to invest in what you're building.

Even before you "turn on" fundraising mode, you should reach out to people in your network and figure out who would want to participate. You'll be able to get soft commitments for some initial funding, and you'll get a better understanding of how much of your round will remain available for new investors.

One important thing to note in this step: you should be extremely careful not to accidentally let this tip into true fundraising mode. Sometimes the line can be very blurry, and you don't want to accidentally start raising before you're ready. For example, some people in your network may want to start introducing you to other potential investors. If you take these introductions and start having investment conversations, then you've slipped into fundraising mode and may lose some of your ability to command the entire process efficiently.

If you feel like you're getting introductions and having investment conversations prematurely, you can always tell people to wait to make the introduction until you officially start fundraising, or you can pivot those conversations into those that focus on asking for advice (which we'll touch on more in step 4). If someone outside of your network asks if you're fundraising, you should remain coy, saying that you're considering it but are currently focused on building the business.

Storytime from Max

For me, one of the hardest parts of fundraising for the first time was just asking for money. In one of my first ever meetings with an investor, I got to the end of what I thought had been a fairly successful pitch, then stumbled at the close. Was I just supposed to… directly ask for money now? That seemed so uncomfortable, so gauche. It felt, in a lot of ways, like figuring out how to go for a kiss at the end of a first date.

In this case, I ended up freezing and not making any ask at all. I later followed up awkwardly via email, but it was too late—my obvious lack of confidence had killed any shot of that investor funding us.

Four years and 100+ investor conversations later, asking for money is still hard for me. What's helped me gain more confidence is reframing the conversation in my head. I'm not just asking for money like I'm asking for a favor; I'm offering the chance to be partners on an opportunity that's good for both of us.

5. Turn on fundraising mode and start stacking up meetings

Once you've built up enough potential investors who you have warm relationships with, it's time to enter fundraising mode. At this point, you'll have:

- Developed a sharp fundraising narrative
- Gotten a few investors committed to give yourself momentum out of the gate
- Built warm relationships with potential investors who already know your business well and have added value to it

Now, you need to create competition for your round. You only have 80–90% of the round available, and you need to make it a hot commodity. Here's how:

First, privately tell the investors you already have warm relationships with that you're about to start fundraising. Explain that you're going to them first before you start broader outreach to other investors in your network—and, to create urgency, tell them precisely when you're going to do that. They'll feel like they're getting early access to a deal, which investors love, and may be compelled to write checks quickly. You should be able to get at least soft commitments from some folks in this pool, even if they say "I'll invest if you find a lead."

At this point you may have 30–60% of your round committed, and you need to go get the rest. You should will go to other investors through your extended network, scheduling and stacking up meetings as quickly as humanly possible.

Every investor should feel like you're about to leave their office and go to another investor's office—and that should be precisely how busy you are based on the meetings you've stacked up. You should give every investor deadlines. Giving deadlines is hard to do if they don't have any basis in real life, which is why it's important to fundraise in parallel, not serial. You should be able to honestly communicate that you need an answer from investors by a certain date because of the other ongoing conversations you have with investors. Investors will appreciate this, as the last thing an investor wants is to not know that you had a deadline, take their time deliberating, and lose out to a deal because you went with someone else.

We'll dive deeper into how to run this process in Chapter 6: Pitching and Closing, but generally speaking, you want to create competition for your round and put yourself in a position where you have to say "no" to investors.

3

Fundraising Narrative Preparation

Fundraising Milestones and Amounts

How to determine and communicate your milestones

You're not raising money because you need money, or because it's the thing to do. You're raising money to level up your business by reaching milestones which require capital.

When explaining why they're raising money, too many founders talk about the specific things they're going to spend that money on, like marketing efforts or new team members. But these things are the how, not the why. Instead of jumping immediately to the spending plan, you should be able to articulate the milestones that the funding round will help you achieve, and only then turn to the specific ways you're going to spend money to achieve them. For example, a milestone might be finding product-market fit, which then requires adding a developer and product designer to the team.

A common mistake founders make is thinking about their milestones immediately in terms of metrics. At the seed-stage of a startup, what you're going to accomplish is more important than the specific numbers that will help you measure whether or not you've accomplished it. The best milestones demonstrate that you've built more certainty around the business model (often referred to as "de-risking") and that a high-growth future is not just possible, but likely.

For example, with your funding round, you may be able to surpass $500K in annualized revenue. But the real goal may be to validate that you can sell your product to enterprises. Closing ten $50K contracts would demonstrate this in a way that closing two $250K contracts might not.

Here are the questions you should be answering (in order) to properly determine and communicate milestones:

1. What have you already proven about your business model?
2. How can you express that as a qualitative milestone you've reached?
3. What are the quantitative metrics that support that claim?
4. What are the riskiest assumptions about your business model that you need to figure out with this funding round?
5. If you figure them out, what qualitative milestone will you have achieved?
6. What are the quantitative metrics that would indicate successfully hitting that milestone?

Investors want to know what you're aiming to prove about your business. They're most concerned about what the big risks are and how you're going to aggressively mitigate those risks on the path to creating a valuable company. So they don't expect perfect predictions about the metrics you're going to hit.

Example from Castle, Max's startup

Below, we'll share some examples from Max's company, then see how they were illustrated in his deck.

What have you already proven about your business model?

That landlords in a city find this valuable, will pay for it, and that we can gain traction in a market.

How can you express that as a qualitative milestone you've reached?

Growing MoM recurring revenue.

What are the quantitative metrics that support that claim?

480 units under management with 25% MoM growth in Detroit.

What are the riskiest assumptions about your business model that you need to figure out with this funding round?

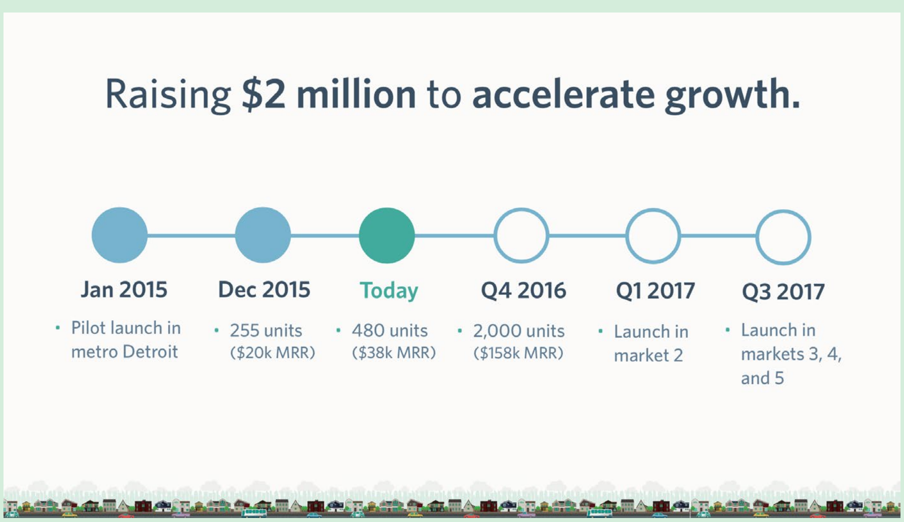
That we can figure out how to dominate a single market, and that we can replicate that playbook in other markets

If you figure them out, what qualitative milestone will you have achieved?

Market saturation in Detroit, and initial traction in expansion cities

What are the quantitative metrics that would indicate successfully hitting that milestone?

2,000 units under management, and launched in five markets



How to decide how much to raise

Once you've identified the milestones you want to hit and the timeline in which you want to hit them, you can start thinking about what resources you'll need to do so. Then you can do some math to figure out how much capital will be required to invest in those resources.

You should always have a conservative bias, and assume that things will not go perfectly as planned. You should aim to give yourself eighteen months of runway, even in a scenario where things don't go too well. The last thing you want to do is close your round and then need to start thinking about fundraising only a few months later.

As you'll see in the next section, you also need to choose the amount that you'll raise based on the types of investors you want to participate in the round. For example, by only raising $500K, you'll be making it more difficult for VCs who typically write $300K+ checks to participate.

It's important to note that investors are generally going to be happy with the prospect of you raising more than you initially set out to raise. If you set a conservative amount that you want to raise (e.g. $750K) and you're able to drum up a lot of interest, you can create even more investor excitement by "oversubscribing" your round and letting a few more investors into your round to raise $1M.

How and why you should allocate parts of your raise to different classes of investors

Raising a round can be daunting. If you're starting out raising $2M, then the idea of getting a lead investor and then other investors can feel like a long, uphill battle.

One mistake founders make is thinking that they need to be finding a lead investor first. By allocating chunks of your round into portions that are available for three types of investors—lead VCs, follow VCs, and angels—you can create a lot more urgency out of the gate when talking to these different investors.

For example, let's say you allocate your $2M seed round as follows:

- $1M for lead VC(s)
- $500K for follow VCs
- $500K for angels

Given that angels typically write checks in the $25–100K range, follow VCs write checks in the $200–300K range, and lead VCs write checks in the $500K–$1M range (for a round like this), that means that you only have room for the following (roughly):

- $1M for lead VC(s): 1–2 lead VCs
- $500K for follow VCs: 2–3 follow VCs
- $500K for angels: 5–8 angels

This is an important part of your fundraising narrative because your fundraise is not just about asking for money for your business—it's about finding the right people to partner with. It's not uncommon for an investor to ask you about what types of investors you're looking for, and this is one of the ways you can answer that question.

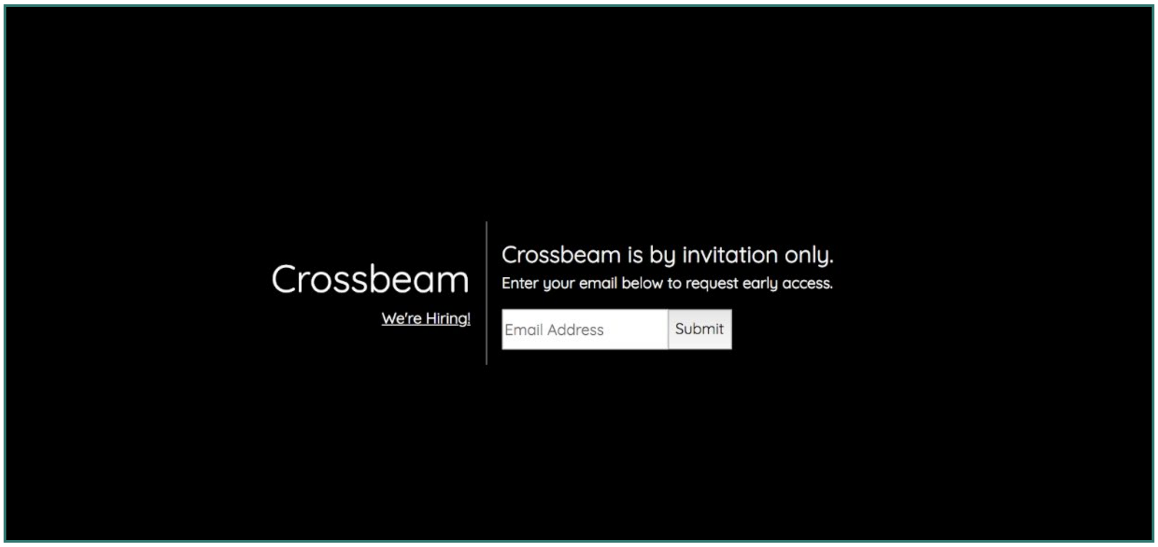
Having a confident fundraising narrative with a limited number of spots available will also help you create a sense of urgency with investors. If you talk to a VC who says they'd be interested in following if you found a lead, you should tell them that you have limited spots for follow VCs based on the way you're allocating your round. After all, if you ended up talking to a lot of VCs who wanted to follow, and then finally found a lead, you'd have to tell certain VCs no, and that would disappoint them. Being upfront in how you're allocating the round and how much room is available for each type of investor not only creates a sense of urgency, it gives the VC the information they need to not miss out on your round.

How to ensure that your online presence (or lack thereof) helps your fundraise

If you're fundraising, you want your online presence to exist at one of two extremes: either minimal to non-existent, or strong.

What a Minimal Online Presence Looks Like, and How It Can Help

Early stage startups that are in stealth mode, or that don't require a website for the current operations of the business, can benefit from having a cryptic online presence. If there's no real need for a website, not having one (or just having a really basic landing page with not much on it) conveys the sense that the startup is really early stage and that not many people know about it. This can get investors excited about having access to something that not many people know about. For example, take a look at Crossbeam's website at the time they were raising their seed round:



What a Strong Online Presence Looks Like, and How It Can Help

If your business needs a website at this stage—for example, if you can't sell to customers without one—then you should have a strong online presence during fundraising.

A big mistake founders make when trying to polish their online presence for investors is making their website messaging investor-facing.

When an investor looks at your website, they're not trying to learn your pitch—that's what the actual pitch is for. They're trying to see that you have a clear idea of who your customers are and that you know how to simply explain your solution to them. In other words, they want to know that you speak your customers' language.

Creating a website that is investor-facing actually hurts because it can give investors the impression that you don't know how to speak to your customers. Investor-facing messaging is almost always very different from customer-facing messaging: customer-facing messaging is simple and focused on solving a customer's immediate problem, whereas investor-facing messaging contains things customers don't care about, like the future vision of the company and the underlying technology.

In addition to a well-designed website with clear, customer-facing messaging, having a strong web presence means having a complete AngelList profile for your company and updated

LinkedIn profiles for all founders.

The Full Story of Your Fundraise

You should have a two-second pitch, a 30-second pitch, and a five-minute pitch.

At the seed-stage you should be able deliver a well-paced pitch in no more than five minutes. In a formal pitch meeting with 30 minutes or an hour allocated, the rest of the time can be used for Q&A to dive deeper. The last thing you want is for an investor to be thinking, "I get it, keep it moving" while you're delving into more detail about something they don't care much about.

A bad pitch is one where the investors politely listen and nod their head. A good pitch is one where you get interrupted frequently with questions and even pushback. While it may seem counterintuitive, pitches that are going well often feel like debates.

Your deck should answer the 26 questions listed below. Note that you don't need to answer these questions in the exact order listed below. You should feel free to get creative with how you tell your story.

You will generally need at least three versions of your deck:

1. A teaser deck
2. A full presentation deck (the five-minute pitch, with appendix slides, designed to be presented alongside)
3. A full readable deck (the five-minute pitch, with appendix slides, designed for a recipient to read on their own without you presenting)

Y Combinator gives their founders advice that you should have the strongest piece of your story upfront right away, which is something to consider when deciding how to tell your story. For example, Castle's Demo Day pitch leapt immediately into revenue numbers after just one introductory sentence about what the company did. Only after Max had gotten investors' attention with our strong growth trajectory did he circle back to discuss the market and a deeper explanation of the product.

Pro Tip

If there's information that you think is important, or that addresses a commonly asked questions but you don't know how to fit it into the narrative, throw it in the appendix. You don't need to pre-emptively answer every question in your pitch. It can actually be a good thing if you can predict what the first few questions will be after your pitch, and have great appendix slides to knock answers to those questions out of the park.

We've outlined 26 questions that your narrative should answer. They're listed in the most conventional order that you'll see in a lot of pitch templates, but it's important to remember to put the most compelling part of your pitch first. We'll show an example of Max's seed round deck after, with each slide annotated based on the questions it's addressing.

Two-Second Pitch (Cover Slide)

1. How would you explain this startup to your friends in two seconds?

Problem

2. Who has a problem?
3. What is their problem?
4. How painful is it?

Solution

5. What is your product?
6. How does it solve the problem?
7. What are the biggest benefits to your customers that come as a result of you solving their problem?

How It Works

8. How does your product work?
9. What is the novel insight that enables you to have a better solution than the status quo?

Business Model

10. What is your revenue model?

11. What are the businesses' economics (unit economics if appropriate)?

Go-to-Market

12. What's your strategy for growth?
13. What about your go-to-market strategy is novel and interesting? (Listing marketing strategies like referral campaigns and content marketing isn't enough.)

Competition & Differentiation

14. Who are your competitors?
15. How are you positioned relative to your competitors in the market?
16. How are you a better solution than your competitors?

Market Size

17. How big can this be?
18. What market are you focusing on to start?

Team

19. Who are the founders and other key hires?
20. Why does your team have a competitive advantage when it comes to executing on this business?

Traction/Progress

21. What have you validated about the business model so far?
22. What are your KPIs?

Ask/Milestones (When Fundraising)

23. How much money are you raising?
24. What will you be spending that money on?
25. What milestones will you be able to accomplish by spending money on those things?
26. If you hit those milestones, what your company be able to do afterwards?

Here's one of the decks that Max used to raise his seed round. You'll see how he answers almost all of these questions, in an order that creates a flowing narrative. (Some topics, like the team and unit economics, were covered in the appendix, which is not shown here.)

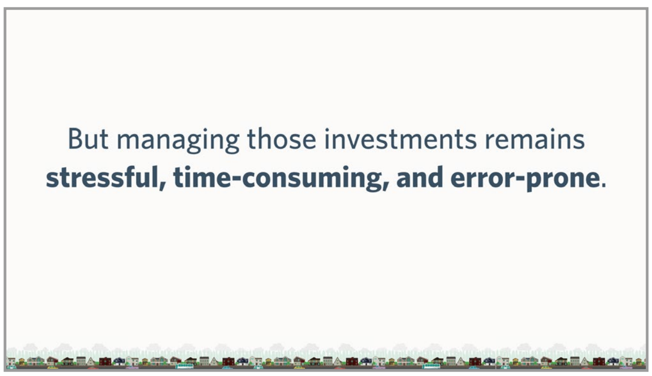
Note that while this deck is pretty good, it could do a better job answering the following:

9. What is the novel insight that enables you to have a better solution than the status quo?

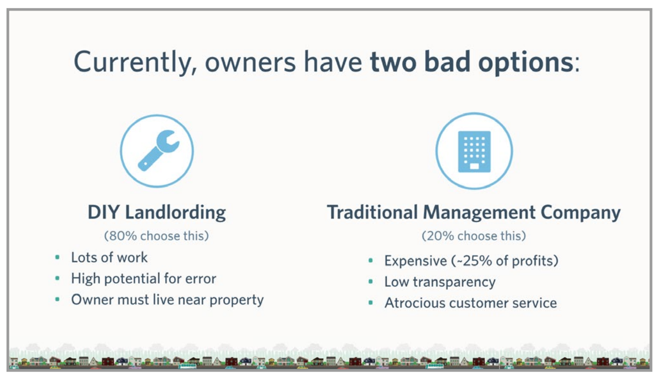
26. If you hit your milestones, what will your company be able to do after that?

#1: How would you explain this startup to your friends in two seconds?

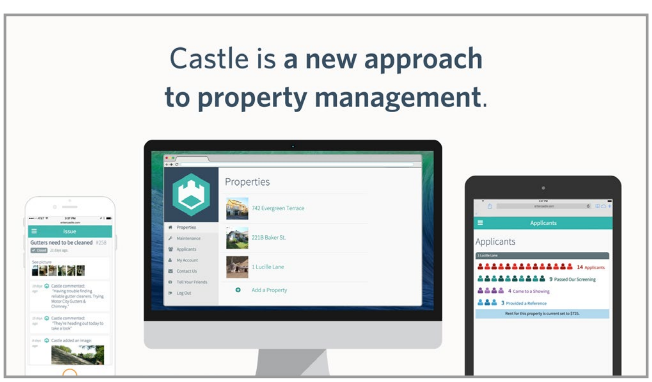
#17: How big can this be?



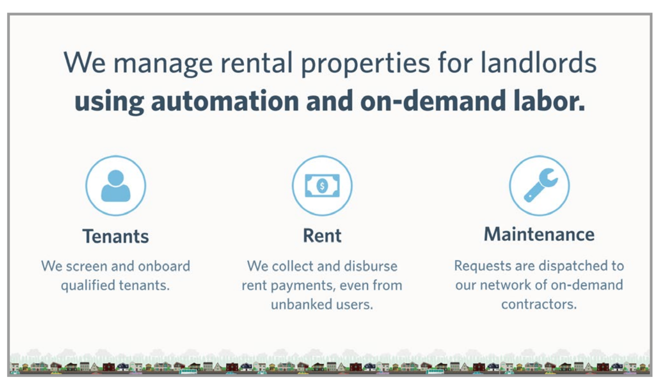
#2: Who has a problem?; #3: What is their problem?



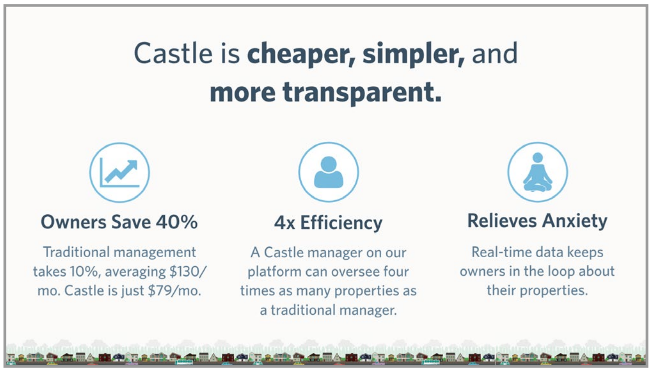
#14: Who are your competitors?; #4: How painful is it [your customers' problem]?



#5: What is your product?

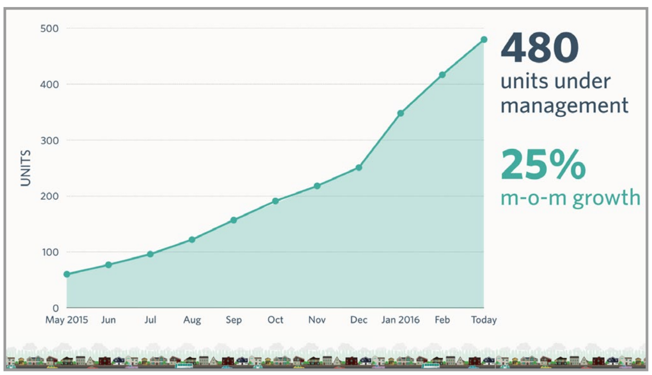


#6: How does it solve their problem?; #8: How does your product work?

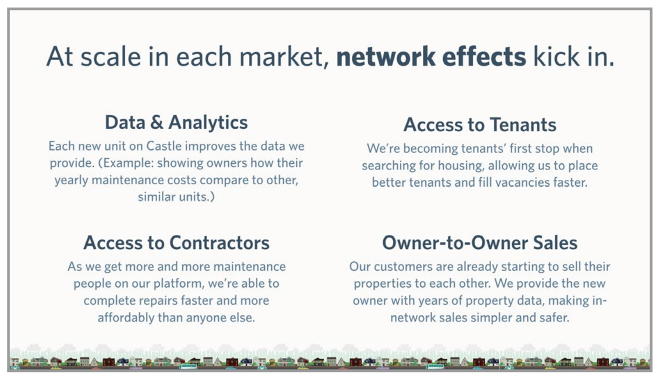


#7: What are the biggest benefits to your customers?; #15: How are you positioned relative to your competitors in the market?; #16: How are you a better solution than your competitors?; #10: What is your revenue model?

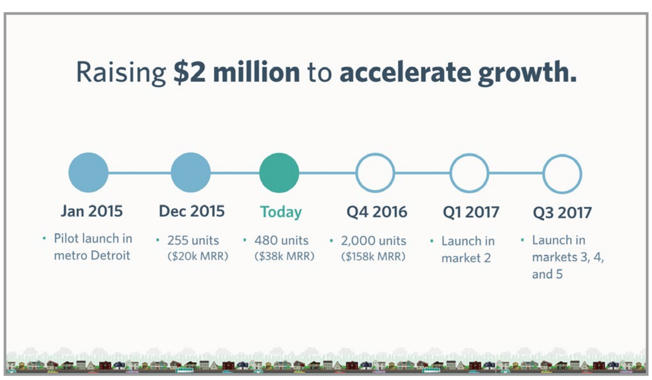
#21: What have you validated about the business model so far?



#22: What are your KPIs?



#12: What's your strategy for growth?; #13: What about your go-to-market strategy is novel and interesting?



#18: What markets are you focused on to start?; #22: What are your KPIs?; #23: How much money are you raising?; #24: What milestones will you be able to accomplish by spending that money?

Creating Your Financial Model

At the seed-stage, no good investor will expect your projections to be perfectly accurate. The goal of a financial model is to tell your fundraising narrative with math.

As Taylor Davidson explains in Foresight's email course on financial models:

> Accuracy is a misguided goal. Start with well-grounded assumptions, create a structure that allows you to understand how your business works, and create a model that helps you make the decisions you need to: that's the goal.

Since seed-stage startups are full of risky assumptions, coming up with financial projections is difficult. When investors look at your financial model, they're looking to see a few things communicated:

1. The fundraising narrative is backed by numbers.
2. The founder understands the economics of the business.
3. The founder understands the biggest assumptions behind the business.

Generally, you'll create your financial model, and some of the numbers in your model will surface into your deck. You can't create a milestone slide with well thought-out projections if you haven't done the math of creating a financial model.

We won't go into granular detail on creating financial models in this book. For that, we recommend Foresight's resources. However, we'll share some of the things a good financial model includes:

- An assumptions sheet where the user can tweak assumptions about your main cost and revenue drivers, like growth rate, key hires, price, etc.
- Historical financials for as far back as you can realistically go
- A detailed profit and loss sheet (with all line items, broken down monthly)
- A high-level profit and loss sheet (with higher level line items, broken down quarterly)
- A cash flow statement and balance sheet (not always required, but definitely a good idea if your business has complicated cash flow)

4

Researching and Engaging Angels

The key to finding the highest potential investors, whether angels or VCs, is finding the people with whom your story will resonate the most—both your personal story as an individual and the story of your startup. An investor relationship is a partnership, so the number one rule of thumb is to work with people who you enjoy working with and who get you and your business.

Different Types of Angels

Generally speaking, a minority of angel investors are actually visible online as angel investors. Many angels prefer to remain under the radar, only investing in entrepreneurs they connect with through their existing network. While AngelList is a great place to look for angel investors, it's just the tip of the iceberg when thinking about the addressable market of angel investors who could invest in your business.

We'll focus on three different personas of angels:

1. Visibly active angels
2. Executives of successful companies in your space
3. High net worth individuals interested in angel investing

Visibly active angels

As their name indicates, these angels are the easiest to find. However, precisely because they're the easiest to find, they can be the most difficult to sift through to to determine which of them are relevant, active, and likely to be interested in your company.

Visibly active angels are those who have an up-to-date online presence as angel investors. They may have AngelList profiles, refer to themselves as an angel in their LinkedIn profile, or write articles about angel investing.

Since these folks are publicly visible as angels, they often get inundated with requests from founders. Therefore, if you're looking to pitch a visibly active angel, it's usually best to get an introduction to them from someone they trust. It's generally near-impossible to get these angels to pay attention to you without an introduction. (But don't worry—these angels are just the tip of the angel investor iceberg.)

Visibly active angels aren't necessary professional angels. Sometimes they may be tech executives or successful startup founders who are plugged into the startup ecosystem, and therefore actively make angel investments.

Storytime from Mike

I found my largest angel investor by searching AngelList for angels who attended my Alma Mater, Washington & Lee University (unfortunately, AngelList no longer lets you search like this). I found an angel who'd been one of the most active angel investors out of all of the W&L alumni. Having an alma mater in common made it much easier for me to get in touch with him.

We'll explore pursuing angel investors who share your alma mater further later in this chapter.

Examples of visibly active angels:

Drew Houston	Joanne Wilson	Edward Lando
		
Cofounder of Dropbox	Full-time angel investor	Full-time angel investor
18 publicly-announced investments	64 publicly-announced investments	41 publicly-announced investments
Crunchbase	Website Crunchbase AngelList	Crunchbase AngelList

Executives at successful companies in your space

Successful executives generally have the wealth to invest in startups. While they may not invest in startups regularly, an executive who has a lot of experience in a specific space can generally can do a good job spotting winners in that space. So despite not being active angel investors, if a successful executive sees a good opportunity to get involved with a startup they understand, they'll often be willing to write a check.

These types of angels can be some of your most valuable investors. They can provide a lot of strategic value and help move the needle for your business by contributing more than just capital.

High net worth individuals interested in angel investing

Some people are just really rich, and interested in angel investing.

These investors may not have much experience as investors—they may not even have much experience with the startup world more generally—but they may be excited to invest for other reasons, like:

- Wanting to be a part of a founder's career (a $25K check is an easier way for them to help than investing time in mentorship)
- Believing in the founder and wanting to help
- Wanting to start angel investing and needing somewhere to start
- Wanting to support entrepreneur from their hometown, high school, university, or some other common affiliation

These folks are often harder to find, as they have more limited online presences, but know that they're out there and a viable option. You will generally need to find them through your network, but you should take a very broad view of what "your network" is.

Storytime from Mike

Out of the $765K that I raised from angel investors, $435K was from nine high net worth individuals who don't even have LinkedIn profiles.

They included:

- A 20-year investment banker at UBS
- Someone who built a personal fortune building cell towers
- An oil tycoon
- An entrepreneur who built a large tourism company
- A retired lawyer who spend decades as general counsel for a few large companies
- An entrepreneur who built a large family business in Atlanta
- Two 20-year Goldman Sachs investment bankers
- Someone who manages his own family office

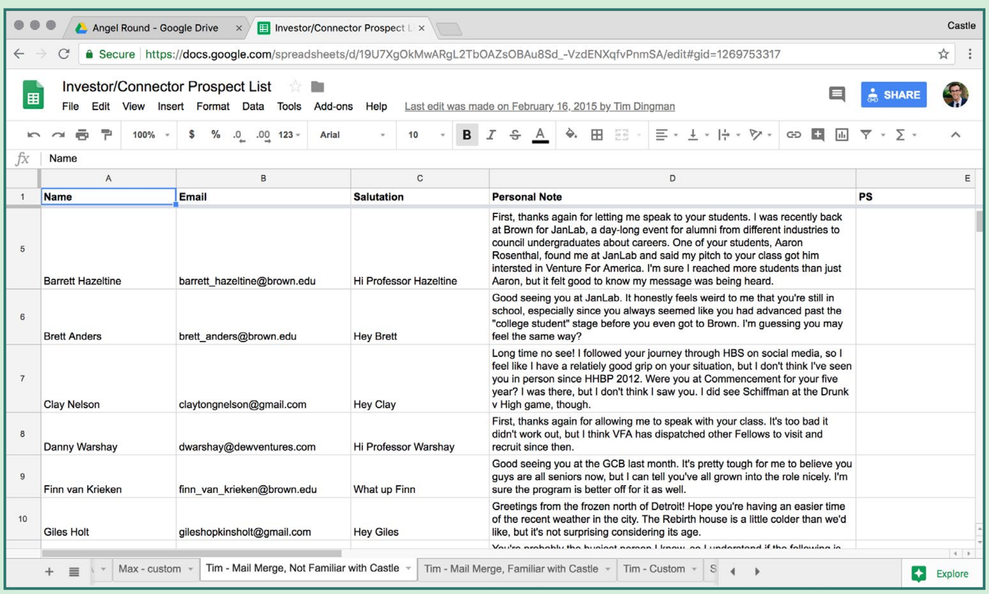
You couldn't find any of these people online. I received introductions to these folks through pitch competitions, my networks, friends, or cofounders' family friends.

Storytime from Max

When we were raising our first round, we spent months struggling to convince professional investors to take a chance on us. We only started to find success once we learned an essential fundraising truth: every rich person is a prospective angel investor.

To find prospective investors, my cofounders and I each combed through all of our LinkedIn contacts and Facebook friends, pulling out anyone who we thought might know rich people. The final list contained more than 300 people. We then sent every single one of those people a brief personalized email letting them know we were raising money and asking if they knew anyone who might be interested in investing.

Even with the work split between all three of us, this process took an entire exhausting weekend. But it worked! Our first significant commitment came from the father of a guy my cofounder Scott had gone to college with—someone we hadn't even known made angel investments.



	Name	Email	Salutation	Personal Note	PS
5	Barrett Hazeltine	barrett_hazeltine@brown.edu	Hi Professor Hazeltine	First, thanks again for letting me speak to your students. I was recently back at Brown for JanLab, a day-long event for alumni from different industries to council undergraduates about careers. One of your students, Aaron Rosenthal, found me at JanLab and said my pitch to your class got him intersted in Venture For America. I'm sure I reached more students than just Aaron, but it felt good to know my message was being heard.	
6	Brett Anders	brett_anders@brown.edu	Hey Brett	Good seeing you at JanLab. It honestly feels weird to me that you're still in school, especially since you always seemed like you had advanced past the "college student" stage before you even got to Brown. I'm guessing you may feel the same way?	
7	Clay Nelson	claytongnelson@gmail.com	Hey Clay	Long time no see! I followed your journey through HBS on social media, so I feel like I have a relatiely good grip on your situation, but I don't think I've seen you in person since HHBP 2012. Were you at Commencement for your five year? I was there, but I don't think I saw you. I did see Schiffman at the Drunk v High game, though.	
8	Danny Warshay	dwarshay@dewventures.com	Hi Professor Warshay	First, thanks again for allowing me to speak with your class. It's too bad it didn't work out, but I think VFA has dispatched other Fellows to visit and recruit since then.	
9	Finn van Krieken	finn_van_krieken@brown.edu	What up Finn	Good seeing you at the GCB last month. It's pretty tough for me to believe you guys are all seniors now, but I can tell you've all grown into the role nicely. I'm sure the program is better off for it as well.	
10	Giles Holt	gileshopkinsholt@gmail.com	Hey Giles	Greetings from the frozen north of Detroit! Hope you're having an easier time of the recent weather in the city. The Rebirth house is a little colder than we'd like, but it's not surprising considering its age.	

A small cross-section of our angel round prospect list

Where to Find Angel Investors

In the sections below, we'll discuss ways to find the warmest, most qualified angel investor leads. But first, we need to break down the different sources of angel investors, along with some disclaimers about the quality of their data.

Crunchbase

Crunchbase is like Wikipedia for companies, funding rounds, and investor data. Anyone with a profile can contribute data, and contributors generally get their data from press articles. This means that Crunchbase is often inaccurate and doesn't capture all of a company's investors and funding rounds. For example, Crunchbase data on both of our companies and their respective funding rounds is only partially accurate.

That said, Crunchbase can be a simple way to find potential investors, especially if you know what you're looking for.

AngelList

AngelList is a website for startups, angel investors, and job-seekers looking to work at startups. While AngelList initially focused on providing a lot of information about angel investors by heavily emphasizing the ability for these investors to create their own profiles, the company has since started focusing more on other parts of its product, like job listings. While you can still use AngelList to find investors, they've throttled some of their valuable search functionality, and a lot of the data is becoming out of date.

Private networks

If you've graduated from a university, participated in a fellowship, or belong to any other networks, there's probably a private network that you can access to search other people who are in that network. These can be really valuable, though the quality of the data varies greatly.

Ways to Find and Engage the Warmest Angel Investor Leads

Searching for angels from your alma mater

When looking for angel investors, a great place to start is through your alumni network. Successful alumni generally want to support younger entrepreneurs if they can. You'll also begin with a head start, as fellow alums already share a common experience with you, and they'll often trust that if you went to the same school they did, you must be of a certain quality.

Another valuable aspect of searching based on your alma mater is that alumni know plenty of other alumni. Even if you reach out to someone who isn't a good fit, if the context of your conversation is about wanting to get alumni involved in your round, they may be able to connect you to other alums who many be interested.

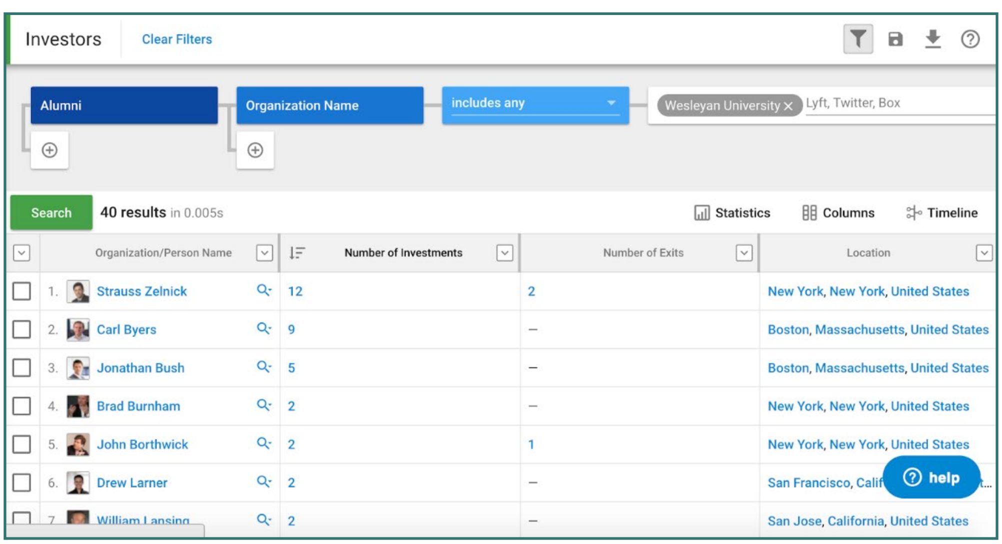
Storytime from Mike

When I was raising my $300K angel round, I was looking at some of the biggest trustees from my alma mater, Washington & Lee University, for potential investors. I reached out to a few of them cold, and was able to quickly get on the phone with one of them.

He was in his late seventies and wasn't making investments anymore, but he told me of a few other Trustees that I should talk to, one of which became an angel investor in my company.

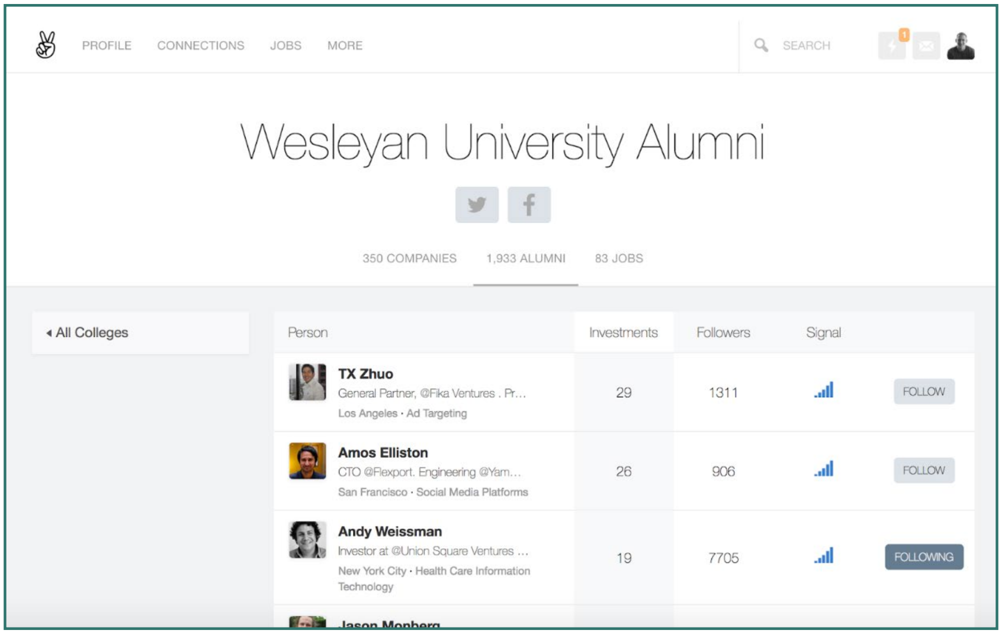
Finding angel investors from your alma mater with Crunchbase

To search for investors from your alma mater in Crunchbase, go to Investors, and follow the following steps for creating an investment filter: Basic Info > Person Info > Education > Alumni > Basic Info > Organization Name > {insert your alma mater}



Finding angel investors from your alma mater with AngelList

To search for angel investors from your alma mater with AngelList, go to AngelList and enter your alma mater in the search bar. By default, AngelList will show you startups founded by alumni, so click on "alumni" and then sort by number of investments.



Finding angel investors from your alma mater through university private networks

Your school should have a private alumni database that you can gain access to. Additionally, you should see if your school's alumni affairs office can connect you to investors. Their job is to increase engagement in the alumni community, and if alumni are investing in other alumni, that's a win for them. A friend of ours landed several investors for his startup through this process.

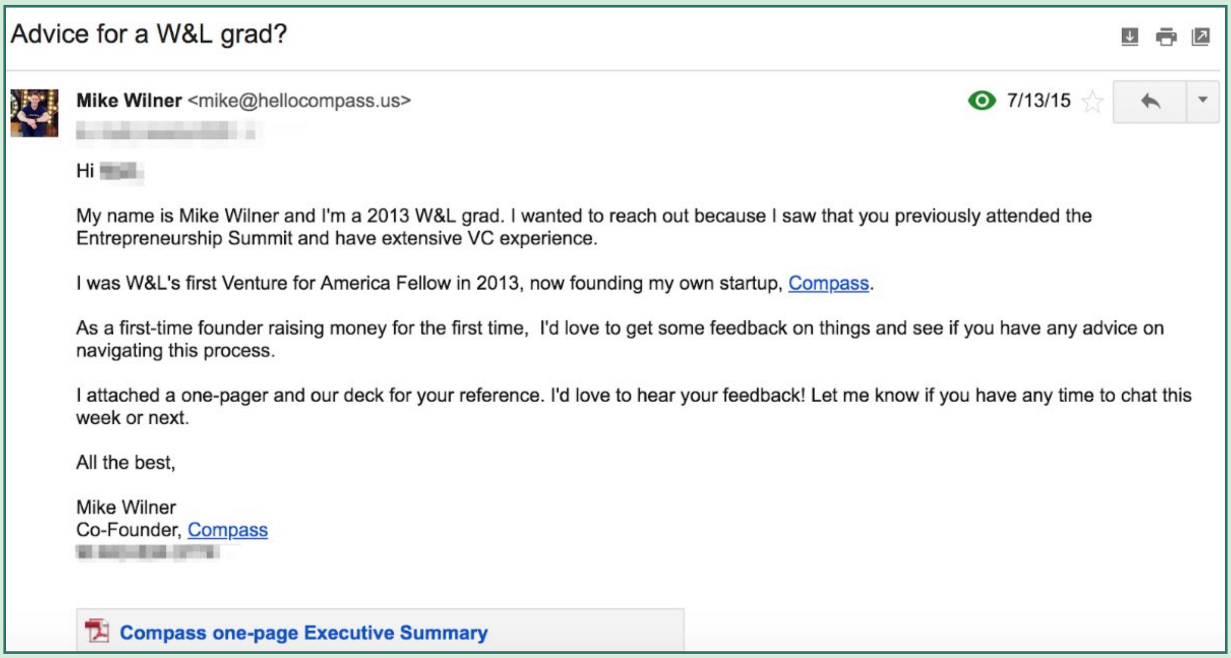
Reaching out to angel investors from your alma mater

A warm introduction is always preferable, especially if you went to a large school that may not have a huge sense of community. However, cold emailing is generally acceptable and well-received when you're a young entrepreneur reaching out to a successful alum from your alma mater.

If you can easily find someone who can make a warm introduction, then use it. But if you don't have one, don't let that stop you from making contact. (The exception to this is if you're contacting a luminary alum who's likely to already be overwhelmed with people reaching out, like Jeff Bezos.)

Storytime from Mike

Here's an example of a cold email I sent to an angel investor who went to my alma mater. He ended up writing a $25K check for the round I was raising at the time. Then, when we raised our seed round, he ended up leading the round with a $200K investment.



Advice for a W&L grad?

Mike Wilner <mike@hellocompass.us> 7/13/15

[redacted]

Hi [redacted]

My name is Mike Wilner and I'm a 2013 W&L grad. I wanted to reach out because I saw that you previously attended the Entrepreneurship Summit and have extensive VC experience.

I was W&L's first Venture for America Fellow in 2013, now founding my own startup, Compass.

As a first-time founder raising money for the first time, I'd love to get some feedback on things and see if you have any advice on navigating this process.

I attached a one-pager and our deck for your reference. I'd love to hear your feedback! Let me know if you have any time to chat this week or next.

All the best,

Mike Wilner
Co-Founder, Compass
[redacted]

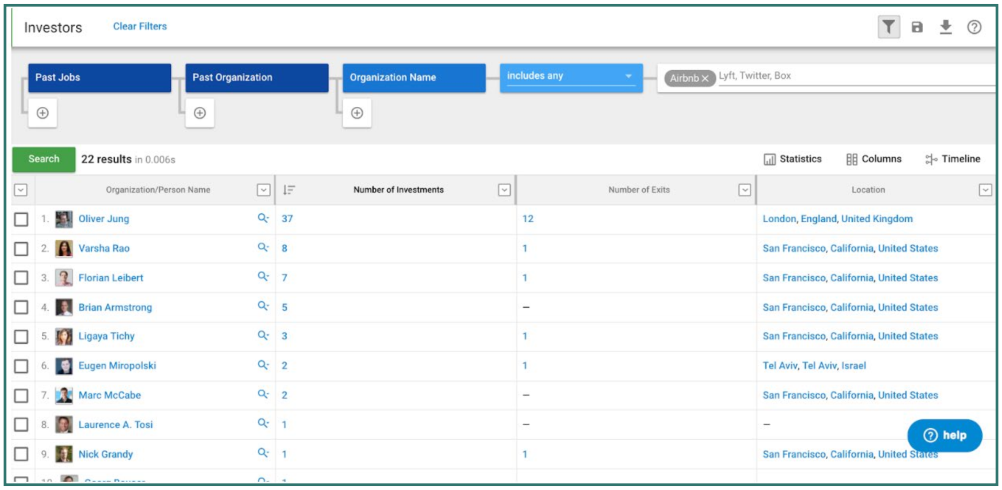
Compass one-page Executive Summary

Searching for angels with a common past employer or network affiliation

If you share a past employer or network affiliation (e.g. a fellowship program, participation in a community) with an investor, then you have a shared experience and baseline trust out of the gate.

You may be able to find this creatively by spending a lot of time on Linkedin, but a faster way is usually to search through Crunchbase.

To do this, go to Investors, and follow the following steps for creating an investment filter: Basic Info > Person Info > Career > Past Jobs > Basic Info > Organization Name > [company name]



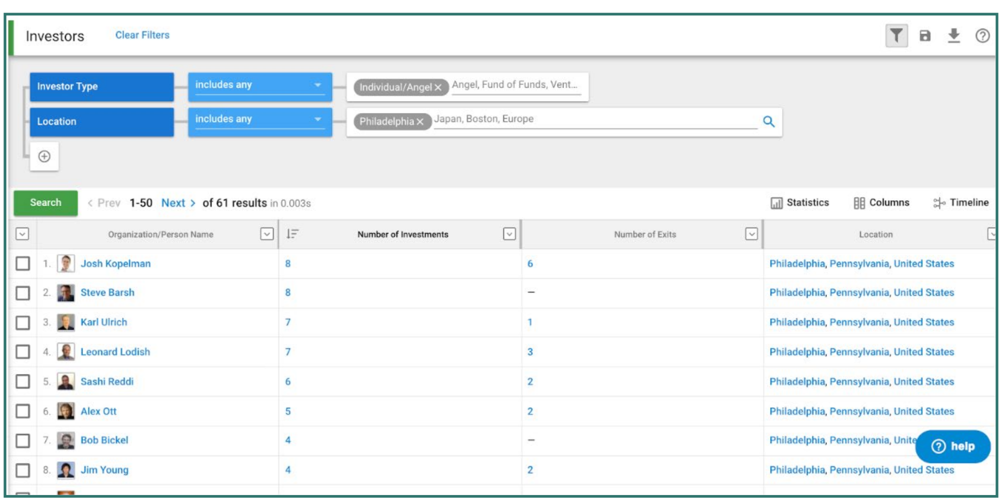
When trying to make contact with an angel investor who shares a past employer or network affiliation, it's highly likely that you can find a warm intro to them. Always start there, but if you're in a pinch, a well-crafted cold email can do the trick.

Searching for angels based on location

Finding investors who are local—especially if you're outside the Bay Area—is another great way to find angels. It will be easier to grab coffee with these folks and meet in person, which often leads to a more effective connection. And if you're outside major tech centers, local angels will likely be more willing to meet, help, and potentially invest.

To find local angels on Crunchbase, go to the Investor tab and create the following two filters:

1. Investor Details > Investor Type > Individual/ Angel
2. Basic Info > Location > {location}



Finding angels based on investments in your space

If you can find startups that are similar to yours—for example, that target a similar market or share a similar core technology—then their angel investors may have an interest in your startup, as long as you're not competitive with one of their existing investments. Therefore, searching the angel investors of companies in a similar space is a great way to surface potential angels.

The downside to this strategy is that it's very difficult to know precisely why an angel invested in a startup. It's possible that an angel invested in a startup because they have an interest in the space, but it's also possible that they invested because they're from the same hometown or went to the same college.

Therefore, if you highlight angel investor prospects based on their past investments, the best way to make contact with those investors is by first reaching out to the founder they invested in. Founders like helping other founders—it's part of the startup ethos. By reaching out to the founder and asking if they think their angel investor would be worth talking to, you'll quickly get context for why they invested. If the angel isn't looking for other investments, they can tell you that. However, if the angel might be interested, the founder might be able to facilitate an introduction, which would carry a lot of weight.

Founders enjoy becoming sources of future deal flow for their angels who are looking for new investments. This highlights another opportunity for prospecting angel investors (and even VCs)—instead of just trying to build relationships with investors, you can build relationships with founders who are slightly ahead of you in their startup lifecycle.

Storytime from Mike

When we were raising our seed round, I told Max, and he actually had a recent angel investor from the round he'd just raised who wanted to invest in more Venture for America Fellows. He made the introduction, and that angel invested $50K.

5

Researching and Engaging VCs

Understanding the VC Landscape

Why you should consider the people—not just the firms

When navigating the world of venture capital, you need to be thinking beyond VC firms' focus and to consider the individuals at each firm. Different people are likely to have different types of investments that they focus on within a firm, may make investments out of different funds, and often have different roles that impact their influence in investment decisions and ability can help you. (We'll dive into the different roles at a VC firm later in this chapter.)

When thinking about VC firms that could be good prospects for your round, you should be thinking both top-down (by starting at the firm level, then figuring out how to get introduced to someone there) while also thinking bottom-up (by finding people in your extended network who work at qualified VC firms and could be your foot in the door).

Understanding VC stage focus

One of the first things you should look at when researching a VC is their stage focus. To take an obvious example, if a VC solely invests in Series A rounds with a minimum check size of $1M, and you're raising a $1M seed round, they're clearly not a fit. As we'll talk about later, a VC who isn't a fit can still be a useful resource in your fundraising process: later-stage investors have an incentive to provide value to you and connect you to investors they know who may be a better fit for your current round.

Most VC firms will invest in their portfolio companies' later rounds. So it's totally normal for someone who seems like a seed investor to have invested in a Series B round for one of their portfolio companies. You can rest assured that they're still a seed investor.

Understanding VC investment focus

VCs generally have a specific investment focus—or an intentionally broad focus—in the types of startups they invest in. Understanding how to read between the lines of these investment focuses will help you quickly identify VCs who will be most interested in your startup. We categorize VCs according to five different types of focus (though some VCs exhibit combinations of multiple focuses).

1. Generalist
2. Categoric
3. Thematic
4. Demographic
5. Geographic

Note that this list is a taxonomy we developed ourselves, not an "official" VC categorization system. While others in the industry may think about this slightly differently or use different terms, the broad outlines should remain the same.

Generalist

Generalist VCs prioritize a diverse portfolio and maintain the flexibility to make investments in any type of startup. Usually, VCs will be generalists for one or more of the following reasons:

1. They have such a good reputation, or have enough relationships, that they get access to more deal flow than they know what to do with, and their LPs trust them to make investment decisions for all types of startups because that's what's worked for them in

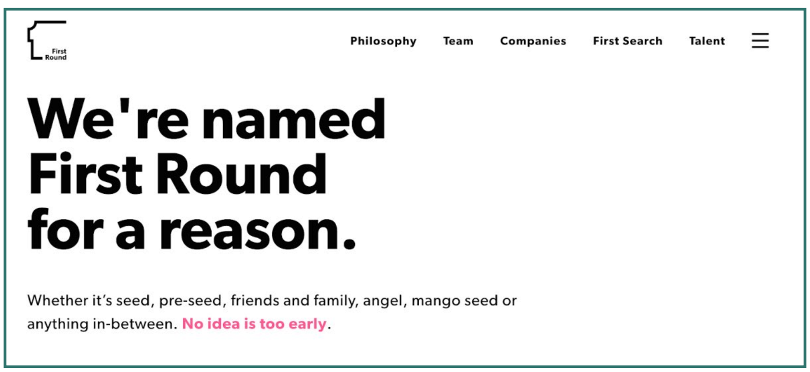
the past.

2. They're a really small fund and don't need to make a ton of investments, so they can be very patient and wait for opportunities that get them really excited.
3. They're an older VC who started out in the VC world when it was much smaller—back when everyone was a generalist VC and there was less of a need to focus.

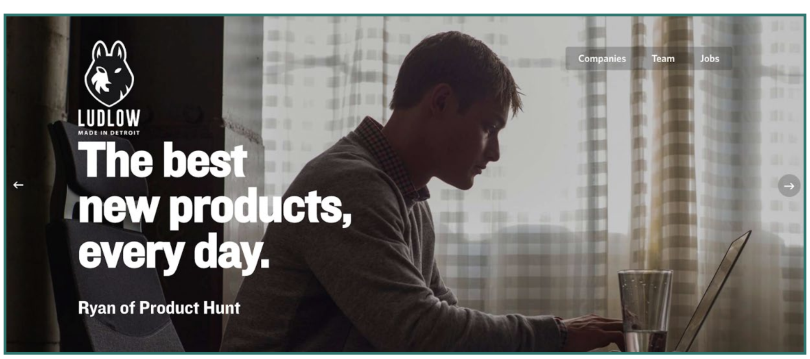
Many VCs need to differentiate themselves in order to find enough potential investments to make their business model work. Therefore, generalist VCs can often be the most difficult to access.

Examples

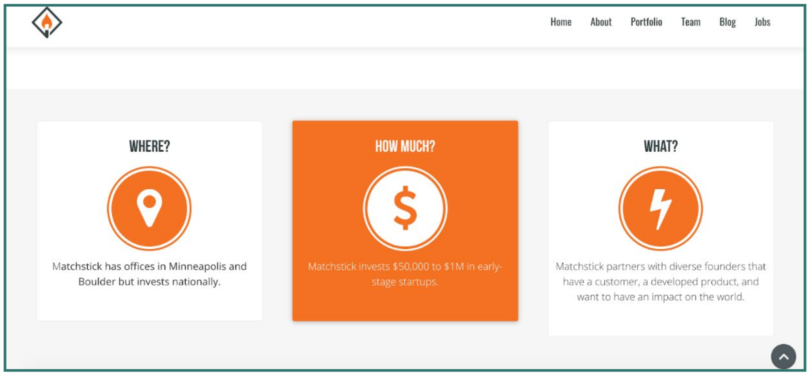
First Round Capital is one of the most well-known seed VCs in the world—they were the first investor in Uber and many other unicorn companies. They've invested heavily in being a resource to founders over the years, with initiatives like First Round Review and First Search. As a result, they've built their process around investing in a wide array of startups early.



Ludlow Ventures is a small, four-person VC firm based in Detroit that makes investments primarily through close relationships they have with co-investors and founders. They do not have a specific focus.



Matchstick Ventures is a seed VC firm with offices in Minneapolis and Boulder that invests nationally across a wide array of startups.



Thematic

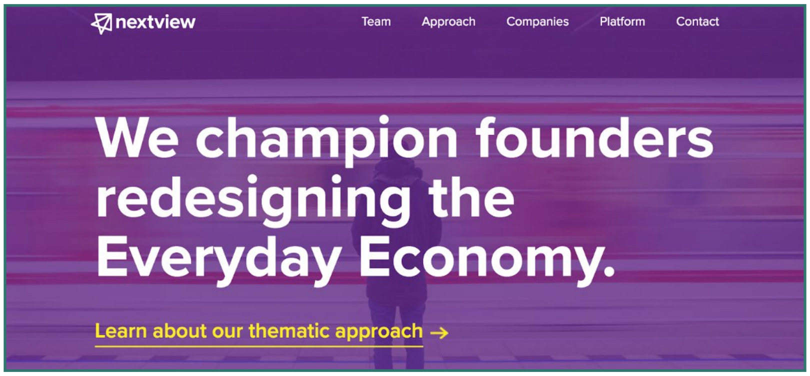
Thematic focuses are generally investment theses that VCs generate themselves. Rather than subscribing to generally accepted categories (which we'll dive into in a bit), VCs may come up with investment themes based on markets, technologies, problem spaces, or business models. When it comes to VCs with a thematic focus, you can get more creative in pitching your startup as a fit for them.

Examples

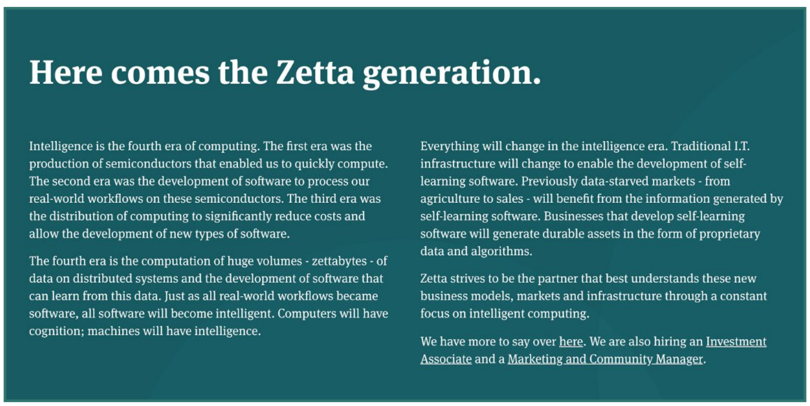
NextView Ventures explains their investment thesis as the "everyday economy." Here's how they describe it:

> There are a finite set of things that nearly all of us experience every day.
>
> As individuals, the things we do and the purchases we make account for 70% of U.S. GDP. This activity is clustered in a handful of areas: home, transportation, food, work & money, health, apparel, and entertainment. Each of these categories represents a market opportunity in excess of $1 trillion, and each of them is ripe for disruption by digital technologies.

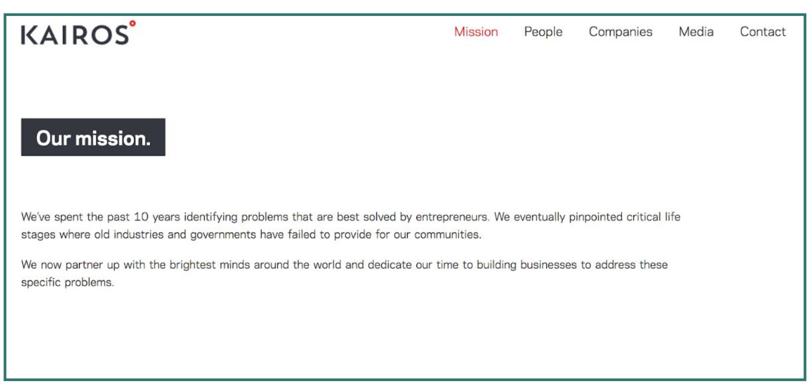
As you can see in this example, the "everyday economy" is an investment theme that touches several categories—home, transportation, food, work & money, health, apparel, and entertainment—but only through the lense of the everyday consumer. Therefore, while "health" is a category included in their investment thesis, if you're selling B2B software to hospitals, NextView would not be a good fit.



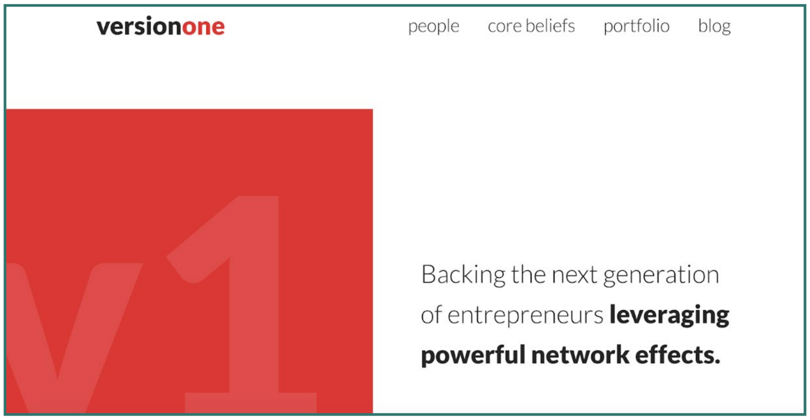
Zetta Venture Partners invests in intelligent enterprise software. If you dig further, you can read more about why they're investing in that space: they have a technological thesis that the fourth era of computing involves computing zettabytes of data on distributed systems. If you were to approach Zetta, you would want to have a compelling explanation of why your startup is aligned with their thesis.



Kairos Ventures is a seed VC with a thematic focus on a problem space: the critical life stages where they believe old industries and government have failed, like graduating with loans, having a child, or losing your job.



Version One Ventures is a seed-stage VC focused on startups that leverage powerful network effects. Unlike the last two examples, their theme is not about markets or technologies at all, but rather about how startups create value—in other words, their business model.



Categoric

Categoric focuses are generally based on a market, industry, or technology. Whereas thematic focuses are typically a more creative or explorative theme that a VC has come up with on their own, there is a finite list of existing categories. Most VCs with a strict category focus have one to three categories they focus on. However, some VCs may say that they have a categoric focus, but remain opportunistic about startups outside of their primary focus.

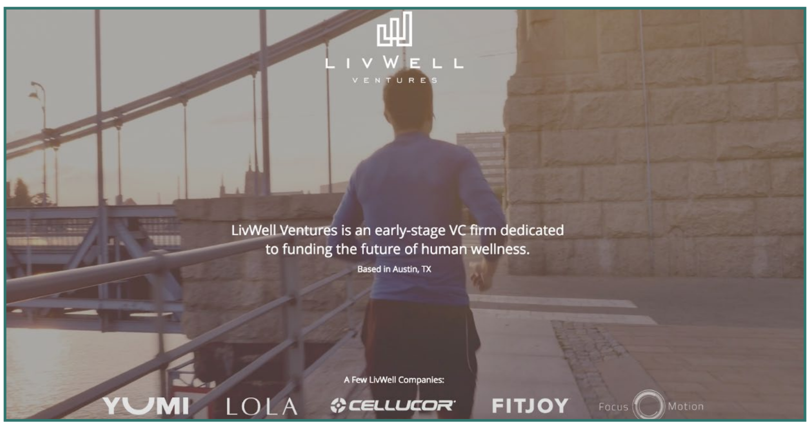
We've identified 47 primary categories in VC. Again, since we've developed this taxonomy ourselves it may not precisely line up with how every VC thinks about categoric focuses, but it should be broadly accurate.

Advertising
Agriculture and Farming
AR/VR
Artificial Intelligence
Biotechnology
Blockchain
Clothing and Apparel
Commerce and Shopping
Consumer Electronics
Consumer Goods
Content and Publishing
Data and Analytics
Education
Energy
Events
Financial Services
Fitness
Food and Beverage
Gaming
Government and Military
Hardware
Healthcare
Information Technology
Internet of Things
Internet Services
Manufacturing
Marijuana

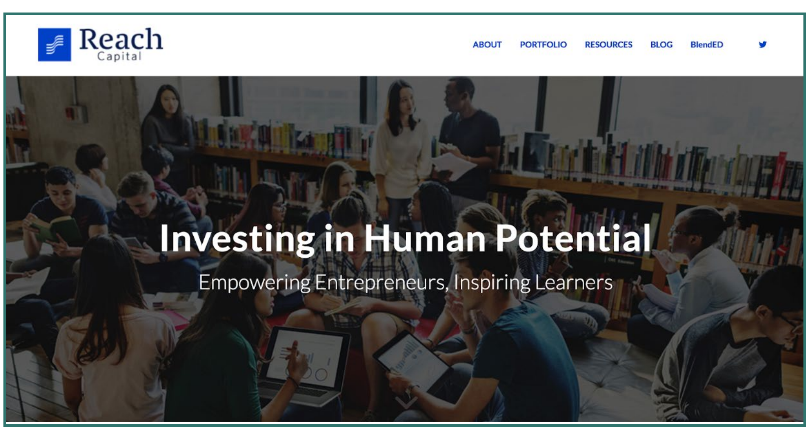
Marketplaces
Media and Entertainment
Messaging & Telecommunications
Mobile
Music and Audio
Navigation and Mapping
Networks
Payments
Platforms
Privacy and Security
Professional Services
Real Estate
Sales and Marketing
Science and Engineering
SaaS/Enterprise Software
Sports
Transportation
Travel and Tourism
Video
Wellness

Examples

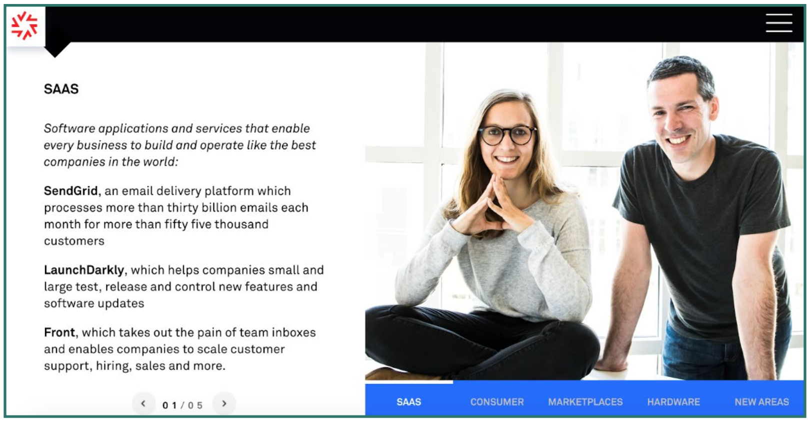
LivWell Ventures is a small VC focused specifically on wellness companies. Wellness has some overlap with the categories of food and beverage, healthcare, and fitness. This is a strict focus for them, and while you might be able to get a bit creative with positioning yourself as a wellness company, if you fall outside the umbrella of "wellness," then LivWell won't be a good fit.



Reach Capital is a seed-stage VC focused specifically on education technology companies. All of their resources are dedicated to finding emerging edtech startups, and they add specific value for those companies.



While LivWell and Reach Capital have very strict categoric focuses, Uncork Capital maintains some flexibility. As you can see on their website, they clearly focus on SaaS (a.k.a. enterprise software), consumer, marketplaces, and hardware. However, you'll also see they have a "New Areas" catch-all that affords them the flexibility to invest in new things they see. Knowing which bucket you fit in will help you engage a VC more productively.



Storytime from Max

Most startups can fit within multiple categories when viewed through different lenses. To maximize the number of VCs you can talk to, it's important to stay open-minded about how you pitch your company.

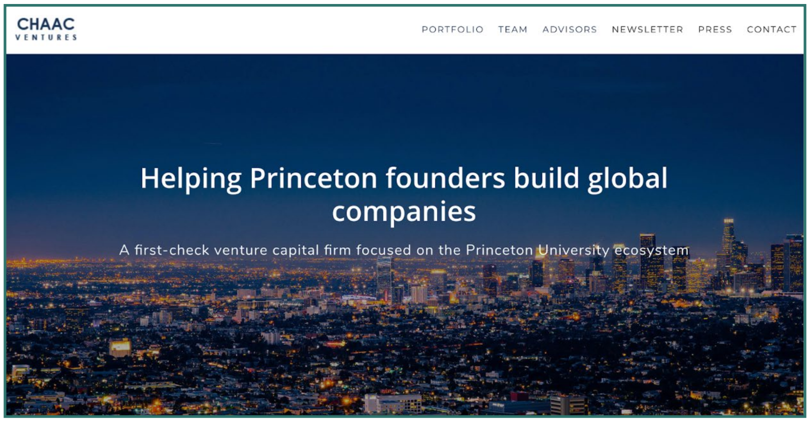
My startup, Castle, was a tech-powered property management service, so real estate-focused VCs were an obvious fit. But I also pitched VCs with a focus on marketplaces (since our platform contained a quasi-marketplace for maintenance work) and fintech (since real estate management is also a form of financial management).

Demographic

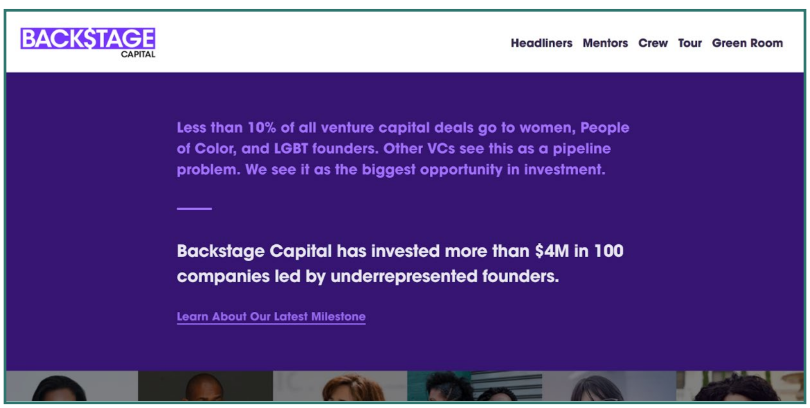
Some VCs focus on attributes of the founders they invest in, rather than attributes of their companies. Generally, these types of VCs invest in founders with specific network affiliations, identities, or even skills. Again, since we've developed this taxonomy ourselves it may not precisely line up with how every VC thinks about categoric focuses, but it should be broadly accurate.

Examples

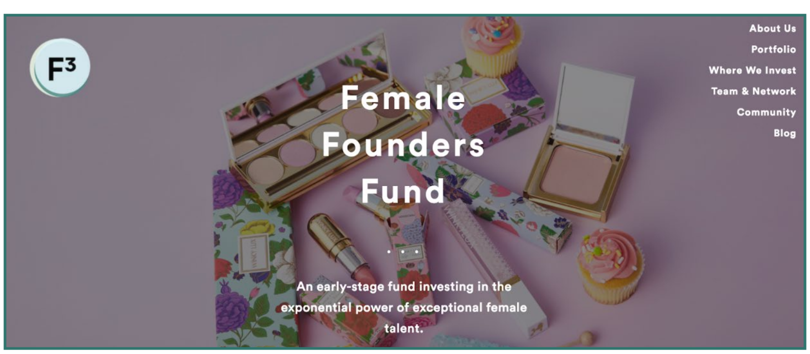
Chaac Ventures is a seed-stage VC focused on the Princeton alumni ecosystem, so they can only invest if someone on the executive team is a Princeton alum. There are a bunch of VCs like this, including the House Fund (focused on UC Berkeley alumni), the Engine (focused on MIT), and Evertrue Ventures (Brown alumni).



Backstage Capital invests in underrepresented founders: women, people of color, and LGBTQ founders.



There are also a lot of funds emerging that focus solely on female founders, like Female Founders Fund and XFactor.



Designer Fund invests specifically in founding teams with talented designers, while Engineering Capital focuses only on technical founders.

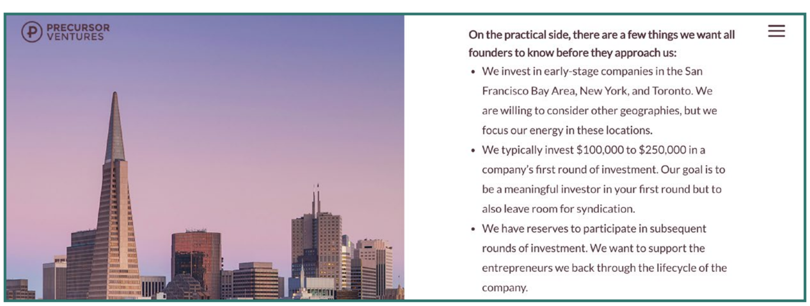
Geographic

Last but not least, we have VCs who focus on certain geographic areas. While there are a lot of VCs who focus specifically on Silicon Valley, other VCs are starting to differentiate by focusing on less saturated markets.

Much like with categoric focuses, there are different degrees of strictness that VCs have with geographic focuses.

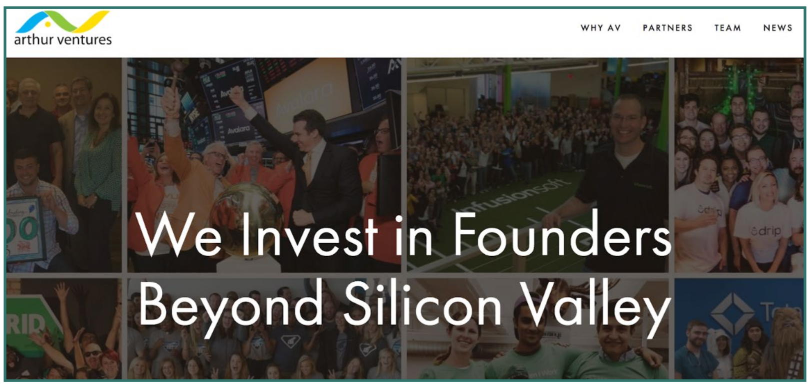
Examples

Precursor Ventures, a pre-seed VC based in San Francisco, explicitly states that they invest in San Francisco, New York, and Toronto. However, they explain that they "are willing to consider other geographies."



On the stricter side, you'll find VCs like M25, which focuses exclusively on the Midwest. Other VCs focused on the Midwest include Mercury Fund and Hyde Park Venture Partners.

Some VCs invest based on avoiding certain areas rather than focusing on certain areas. For example, Arthur Ventures doesn't focus solely on the Midwest or the East Coast, but instead define their geographic focus as "outside Silicon Valley." Another notable VC with this approach is Revolution Ventures, which runs the Rise of the Rest contest for startups outside the coasts.



The Different Roles at a VC Firm and What They Mean for You

There are a variety of different roles at a VC firm, and in order to engage a firm the right way, you need to understand what the roles are, what people in each role are responsible for, and how they can help you. (Note that the explanations below are generalizations—while most firms work more or less like this, every firm does things a little differently.)

Full Investment Partners (Partners, General Partners, Managing Partners)

The partners at a VC firm are the owners of the firm, and manage the capital that is invested. There is sometimes a hierarchy of partners, with the order generally being (1) general partner, (2) managing partner, (3) partner, and (4) junior partner. (We've excluded operating partners and venture partners from this list—we'll get to them later.)

Partners are decision-makers who have the ability to make investments for the firm. When pitching a VC firm, you'll generally need to get one partner to really push the deal through. It's important to note that different partners often have different areas of focus, so you should do your research and be intentional about your outreach to a specific partner. You should only pursue a partner at a firm if you're ready to pitch them for investment, whereas with other roles, like associates, you can more casually build a relationship over time and earlier in your fundraising lifecycle.

Venture Partners

A venture partner is a less committed partner who's tasked with sourcing and managing deals, but may not be as involved in the fund on a day-to-day basis as full partners. Venture partners typically (though not always) have part-time involvement or work for the fund on the side.

Most venture partners have non-VC day jobs, like startup executive, author, or professor. Their day jobs give them expertise and a network that makes them a valuable asset to a VC firm, which can extend its reach and in-house expertise by adding a venture partner to the fund.

More and more firms are adding venture partners, though they sometimes call them different things. For example, Village Global has "network leaders" who operate just like venture partners, but making pre-seed investments. They have autonomy to source their own deals and make investments on behalf of the firm, but they're not full-time investors at Village Global. Similarly, Founder Collective has "founder partners," who are simply successful founders who operate just like typical venture partners.

When approaching a venture partner, it's important to consider why the firm gave them that title in the first place. Often it's because the venture partner has deeper expertise in an area than anyone else on the team.

David Bell

Venture Partner, Brand Foundry Ventures

David is an award-winning teacher and researcher who developed Wharton's first course on Digital Marketing and Electronic Commerce. He speaks globally on e-commerce and digital behavior.

Melody Koh

Venture Partner, NextView Ventures

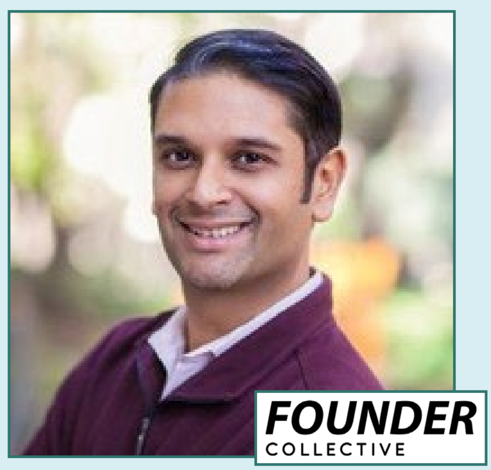
Prior to joining NextView, Melody was Head of Product at Blue Apron. Melody joined Blue Apron as the first product hire when the company was 18 months old with 20 HQ employees. She helped scale the business through hyper-growth and to its IPO, building and leading a 35-person team.

Shilpi Kumar

Network Leader, Village Global

Shilpi previously led hardware investments for VegasTechFund and has spent the past four years working on technology commercialization for hardware companies. With Village Global, she's focused on making pre-seed hardware investments.

Raj De Datta



Founder Partner, Founder Collective

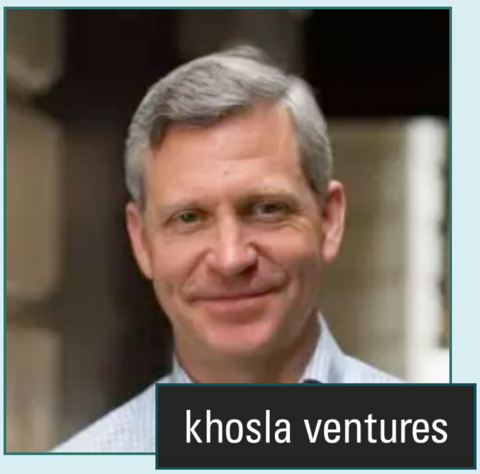
Raj De Datta is the cofounder and CEO of BloomReach, a firm that brings businesses the first open and intelligent Digital Experience Platform.

Operating Partners

Operating partners generally aren't responsible for making investments. They are usually experienced operators who work closely with portfolio companies and/or help the firm with its own operations.

If you have a warm connection to an operating partner, they can route you to the right person at a firm to talk about the possibility of working together, but generally speaking, making investments is not their job.

Paul Kirincich



Operating Partner, Khosla Ventures

Paul Kirincich advises portfolio companies as a former CFO and finance executive of a series of venture-backed companies including Netflix, One Medical Group, Extend Health (sold to Towers Watson) and Reputation.com.

Stuart Lander

Chief Operating Partner, Upfront Ventures

Stuart joined Upfront Ventures in April 2014 and is responsible for all non-investment activities. Before joining Upfront, Stuart was Chief Marketing Officer at CareerArc Group, a Software as a Service based social recruiting platform, where he was responsible for the marketing, business development and product development functions.

Vice Presidents/Principals

Principals (also sometimes called vice presidents) are senior members of the investment team, who are responsible for sourcing and executing investments and working closely with portfolio companies.

They don't sponsor or lead deals, but they have the influence within a firm to drive an investment through. They're in between an associate and a partner.

Loren Vittetoe

Principal, Bowery Capital

Prior to joining Bowery Capital, Loren was an Associate in the Investment Banking Division at Goldman Sachs where she participated in a number of equity, debt and M&A transactions, predominantly in the enterprise software and internet sectors.

Racquel Bracken

Vice President, Venrock

Racquel focuses on pharmaceutical and biotech investments. She currently serves on the Board of Cyteir Therapeutics and is a Board Observer at Inscripta. Prior to Venrock, Racquel was an early employee of Clovis Oncology, a biopharmaceutical company.

Associates

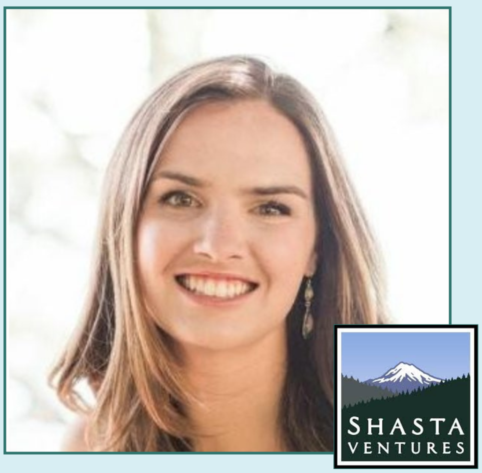
Associates are one of your greatest assets in the fundraising process. The most fundamental job of an associate is to source deal flow. Therefore, a majority of their time is spent building relationships with founders and other VCs, and they're always on the hunt for new deals.

Even if you're not a fit for an associate's firm, they're highly incentivized to be helpful. Good associates know that founders know other founders, and if an associate can be seen as a helpful resource for a founder, then it increases their chances of meeting other high potential founders.

Additionally, associates rely on relationships with other VCs for deals. That means that if you're not a good fit for an associate's firm, but they know of another firm that would be a better fit, they often like to introduce you to them. The introduction helps cultivate a relationship with that VC, in the hopes that the favor will someday be reciprocated.

If you're truly interested in pitching an associate's firm, you should make sure to take your outreach seriously, as the associate is going to be your gatekeeper at the firm if you go to them first. However, if you don't think their firm is a likely target for you, you can be more casual in your reachout. Assuming they like you, they'll help you if they can.

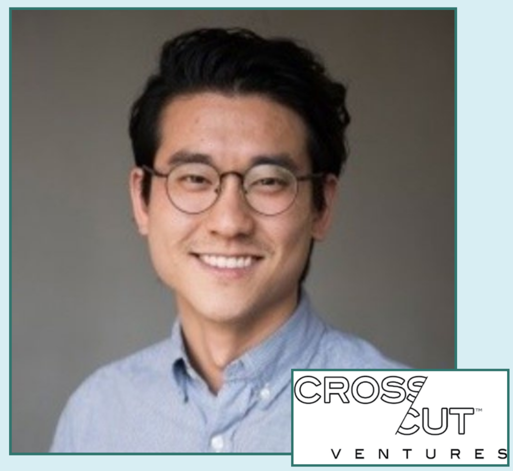
Natalie Sandman



Associate, Shasta Ventures

At Shasta, Natalie focuses on enterprise software. Prior to Shasta, Natalie led the product team at Ravelin, a London-based fraud detection startup. Previously, she was one of the first product managers at Zenefits in San Francisco where she built insurance, payroll, and HR products during the company's hyper-growth phase. She also co-founded and built Dabble, a mobile shopping app.

Michael Tam



Senior Associate, Crosscut Ventures

Michael has spent most of his career as an operator. Prior to CrossCut, he managed Uber's business in six Southern California regions, launched L., an online native brand, and built media and ecommerce startups. In professional services, he has worked with Bullpen Capital, a post-seed focused venture capital fund, Bank of America Merrill Lynch's technology investment banking group, and PwC's advisory service.

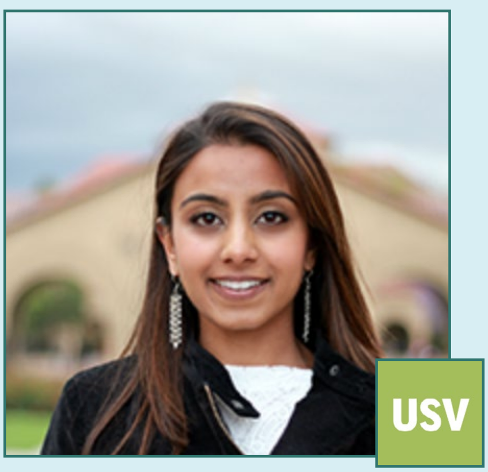
Our friend Chisom Uche, an associate at Cultivation Capital, explains how good associates view their role in the startup ecosystem, and how it's in their best interests to help founders:

To me, the most exciting part of being an associate is meeting with founders to learn about their businesses. In turn, I get a chance to not just better understand their businesses and industries, but also to get a sense of the alignment between their needs and how our fund can add value. As an associate, you must have the utmost respect for the life of an entrepreneur. You have to be able to quickly evaluate whether you can add value, and to have the confidence to be transparent with a founder when you can't. An entrepreneur's time is precious, so the worst thing an associate can do is string along a conversation for fear of missing out on an opportunity. Or in the words of the Dalai Lama, "Our prime purpose [as an associate] is to help [entrepreneurs]. And if you can't help them, at least don't hurt them."

Analysts

Analysts are the most junior members of the investment team, and their main responsibility is doing diligence on potential investments, not sourcing new ones. Analysts may be able to be an advocate for you and make a strong introduction within the firm, but they're unlikely to have a significant influence on investment decisions.

Naomi Shah



Analyst, Union Square Ventures

Naomi graduated from Stanford in Mechanical Engineering with a minor in Human Biology. Prior to USV, Naomi worked on the trading floor at Goldman Sachs and in the Internet of Things group at Intel.

Laura Easton

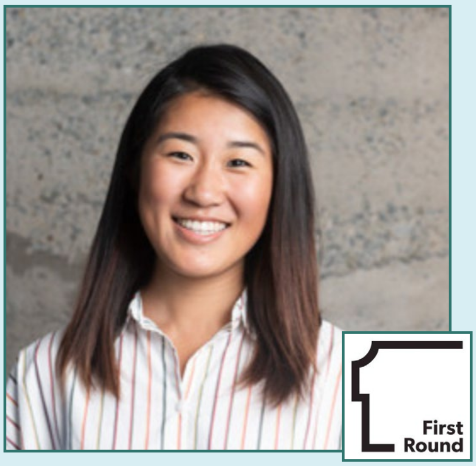
Analyst, Real Ventures

Laura got her undergraduate degree in Information Systems at McGill University. After graduating, she delved into technology market trends and business transformation at Forrester Research before joining Real Ventures.

Platform/Talent/Community/Marketing

Members of the platform, talent, community, and marketing teams provide resources to portfolio companies, help the firm engage the startup community, and help portfolio companies find talent. They're not focused on investments, but if you know someone in one of these roles at a firm, they can usually help make an internal introduction.

Serena Bian



Community Manager, First Round Capital

Serena spends her days working to create meaningful human connections at every community event we host, each online interaction we enable, and every mentorship relationship we make happen. Prior to First Round, she worked as an analyst at Trail Mix Ventures, and as a community strategist at Community By Design.

Sachin Maini

Content Lead, NFX

Sachin joined NFX as the content lead in 2018. He produces essays, videos, and media content with a special focus on language, narrative, and depth analysis. Prior to joining NFX, Sachin studied the second-order effects of emerging technologies at Day One Insights.

6

Pitching & Closing

What You Need Before You Start Pitching

You should have all of your supporting materials ready on day one so that you can build momentum quickly, and avoid a situation where you end up slowing the process down because you need to pause to put new material together. Of course, you can expect to continue making iterative tweaks to your materials throughout the fundraise process.

Here's everything you should have ready before you turn on fundraising mode:

1. **A teaser deck:** This is a shortened version of your deck that you'd be okay with those you send it to sharing broadly with anyone who might be interested. You'll use it to get introductions and give investors context about your business right away, even before they see your full pitch. Your teaser deck is typically one-third to one-half the length of your full deck.
2. **A full presentation deck:** This is the version of your deck which has the full fundraising narrative, along with some appendix slides which address frequently asked questions. This is what you'd use to pitch an investor in person or via screenshare.
3. **A full readable deck:** This is the same version of your narrative as the full presentation

deck, but in a format so that an investor can read through it and reference it later, or share it with other stakeholders at the firm. This usually means adding explanatory text that would be redundant if you were presenting alongside the deck.

4. **A financial model:** This is the financial model that we talked about in Chapter 3.
5. **Investment docs:** Investment docs are the legally binding agreements that investors will sign before wiring the money.

What to include in a teaser deck

As discussed in Chapter 3, there are 26 questions you should be answering in your pitch. You'll want your teaser deck to do just what the name says: tease potential investors. You shouldn't answer all 26 questions in a teaser deck, and you should create a teaser deck that you'd be comfortable with people sharing without your permission (we'll talk about why later in this chapter).

Here's a breakdown of all 26 questions, along with what you should definitely keep out of your teaser deck, what you might want to include if it's compelling enough, and what you should absolutely prioritize.

Question	Include in teaser deck?
How would you explain this startup in two seconds to your friends?	Yes
Who has a problem?	Yes
What is their problem?	Yes
How painful is it?	Maybe
What is your product?	Yes
How does it solve the problem?	Yes
What are the biggest benefits to your customers that come as a result of you solving their problem?	Maybe
How does your product work?	Yes
What is the novel insight that enables you to have a better solution than the status quo?	Maybe

Question	Include in teaser deck?
What is your revenue model?	Maybe
What are the business' economics?	No
What's your strategy for growth?	No
What about your go-to-market is novel and interesting?	No
Who are your competitors?	Maybe
How are you positioned relative to your competitors in the market?	Maybe
How are you a significantly better solution for your target market than your competitors?	Maybe
How big can this be?	Yes
What market are you focusing on to start?	Yes
Who are the founders and other key hires?	Maybe
Why does your team have a competitive advantage when it comes to executing on this business?	Maybe
What have you validated about the business model so far?	Maybe
What are your KPIs?	No
How much money are you raising?	No
What will you be spending that money on?	No
What milestones will you be able to accomplish by spending money on those things?	No
If you hit those milestones, what will your company be able to do after that?	No

What are the financial instruments you can use for fundraising, and which should you choose?

Raising money with Safes (Simple Agreement for Future Equity) or convertible notes (debt that converts into equity upon future events) is cheaper and easier than raising a priced equity round, which is why the vast majority of seed and pre-seed rounds now use Safes or notes. You should raise with them as well.

With priced equity rounds, agreeing on a reasonable valuation is more consequential, the legal costs are higher, and all of the investments need to happen at once. With Safes and convertible notes, investors can have both downside (discount) and upside (valuation cap) protection, making it a little less important to get the valuation perfectly right. Also, different investors can invest in the same round with different terms, and wire money immediately.

The fundamental difference between Safes and convertible notes is that convertible notes are technically debt, while Safes are not. That means that convertible notes will have interest and maturity dates where they automatically convert. Thus, notes end up having a little more complexity around how debt converts into equity.

Safes were invented by Y Combinator and are becoming more and more broadly used, especially on the West Coast. We recommend using them over notes if possible, since they are generally simpler for everyone involved (hence the "simple" in the name). However, if an investor isn't comfortable using a Safe (usually because they are a newer, less familiar form of investment), falling back to a convertible note doesn't have significant downsides—especially if doing so helps you get the deal done faster.

Some ways convertible notes can convert to equity:

- When the founders choose
- At maturity
- Upon subsequent financing

How Safes convert to equity:

- Only upon subsequent financing

Whether you're using a Safe or a convertible note, there are three terms that people will ask about: valuation cap, discount rate, and interest.

Valuation Cap

The highest valuation that can be used to determine the conversion price of the note or Safe. We'll dive deeper into valuation caps in the next section.

Discount Rate

The valuation cap rewards investors for their early risk in an upside scenario, and the discount rate rewards them for their early risk in a downside scenario.

If you raise a future round at a similar or smaller valuation than the valuation cap of your current round, then investors will opt for their investment convert to equity with a discount instead of a valuation cap. The industry standard for convertible notes is to have a 20% discount. This standard is less consistent for Safes, which often have no discount at all.

A 20% discount means that if you raise an angel round with a $4M valuation cap, then raise a bigger seed round a year later at a $4M or lower valuation, your investors will opt to convert to equity with a 20% discount. Essentially, their Safe or convertible note will convert as if you had a $3.2M valuation.

Interest

Interest is only applicable for convertible notes, since they are technically debt. The industry standard is 7% annual interest with two-year maturity. If you raise a $400K angel round at a $4M valuation cap with 7% interest and then, eighteen months later, you raise money at an $8M valuation, your angel investors will have $442,980 in debt with which to purchase preferred shares.

Pro Tip

Financial instruments for fundraising can get complicated, and while we've covered the essentials in the previous three pages, there's a lot more to learn if you really want to go deep. Here are some additional resources we'd recommend:

- *Venture Deals* by Brad Feld and Jason Mendelson
- Mark Suster on convertible debt
- Fred Wilson's contrarian blog post on convertible notes and Safes (he's not a fan)
- Y Combinator's Safe financing documents
- UpCounsel's template convertible notes

How should you think about valuation (and how should you roughly value your company) before you start?

When raising with notes or Safes, you'll have a valuation cap, not an actual valuation. A valuation cap is essentially a ceiling on the maximum valuation at which a note or Safe can convert. Caps kick the can down the road for a more formal valuation, while rewarding early investors for taking bigger risks.

For example, if an investor invests in your company with a $4M valuation cap, and your next round of funding has an $8M valuation, then their convertible note or Safe will turn into equity at the $4M valuation cap, while new investors will be purchasing equity at an $8M valuation.

Despite all this, when you really get down to it, a valuation cap isn't all that different from a valuation. While there are some technical differences between the two, at a fundamental level, both a cap and a formal valuation are still basically a number that puts a financial value on your company.

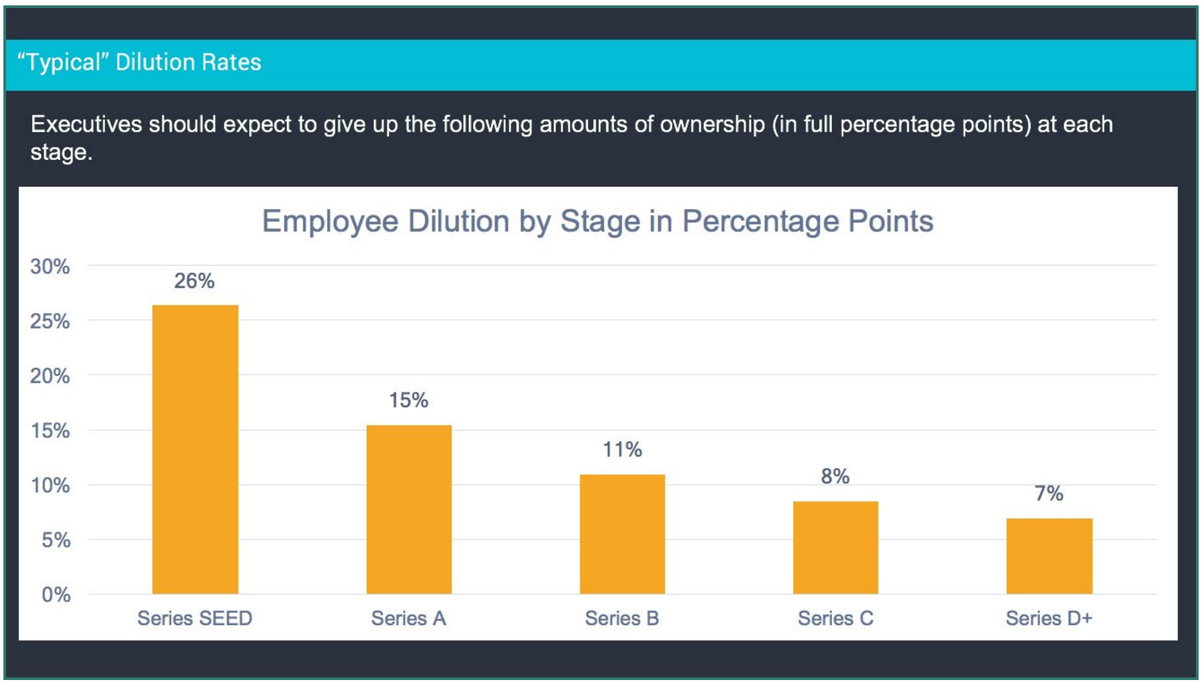
At the time of this writing in 2018, valuation caps for angel and pre-seed rounds are generally in the $2–6M range, while valuation caps for seed rounds are generally in the $4–12M range.

You don't want to just come up with the highest valuation cap you can possibly justify, even though that's often the temptation. Instead, your valuation cap should be based on the following guidelines:

1. Pick a cap you're confident you can beat in eighteen months. At this stage, there's not a lot of data to back your cap. In eighteen months, there will be a lot more data, and if you look to raise an additional round of funding, you may raise from VCs who will want to do a priced equity round. You'll want that round to be at a higher valuation than your previous round. Therefore, even if you can get a lead investor to bite at a $5M cap despite little progress, being more realistic with a $3M valuation could put you in a better position down the road, even though you'll be giving away more equity.

2. Pick a cap (or range) that initial investors find reasonable. You want to spend your time getting great investors excited about your business and investing, not squabbling over the cap of a company that's near-impossible to realistically value. Pick a cap or range that your initial investors find reasonable. (For more on using a range of caps, check out Mark Suster's post on how to talk to VCs about valuation.)

3. Pick a valuation (or range) based on the amount of the company you want to give away. In an angel round, anticipate selling ~10-15% of your company. So, if you're looking to raise $500K, a 3.5M valuation cap could end up being 15% of your company depending on when/how the notes convert. Note that in all of your seed fundraising (a.k.a all fundraising prior to Series A), you should expect to give up around 25% of your company.



Source: https://www.capshare.com/blog/dilution-101-startup-guide-equity-dilution/

You should have a valuation range in mind based on these factors, but there's no need to come up with an exact amount until you begin negotiating terms with investors, which we'll dive into later in this chapter.

Pro Tip

Unsure if your valuation is realistic? Talk to an investor who you're not planning on raising money from. They can be blunt with you about how the market is valuing companies like yours, and you can rest assured that they're not trying to negotiate.

Navigating the VC Process

While angels often operate with a flexible process and make investment decisions quickly, VCs have a fiduciary responsibility to get their investments approved by key stakeholders in the firm, and they (hopefully) have a well-thought-out investment process that enables them to see and make decisions on a high volume of deals.

In order to understand how to navigate your conversations with VCs, it's important that you first understand the typical VC Process:

Initial Meeting: This is your first meeting with someone at the firm who's responsible for investments (e.g. an associate, principal, or partner)

Basic Analysis: After your first meeting, the VC will analyze your opportunity to see if it's worth moving forward into deeper diligence

Due Diligence: The VC will dive deeper into your business—potentially calling your customers, doing a technical review of your product, diving into your product roadmap, and more—with the goal of creating an investment memo that they can send to others at the firm, outlining the highlights and risks of your investment opportunity.

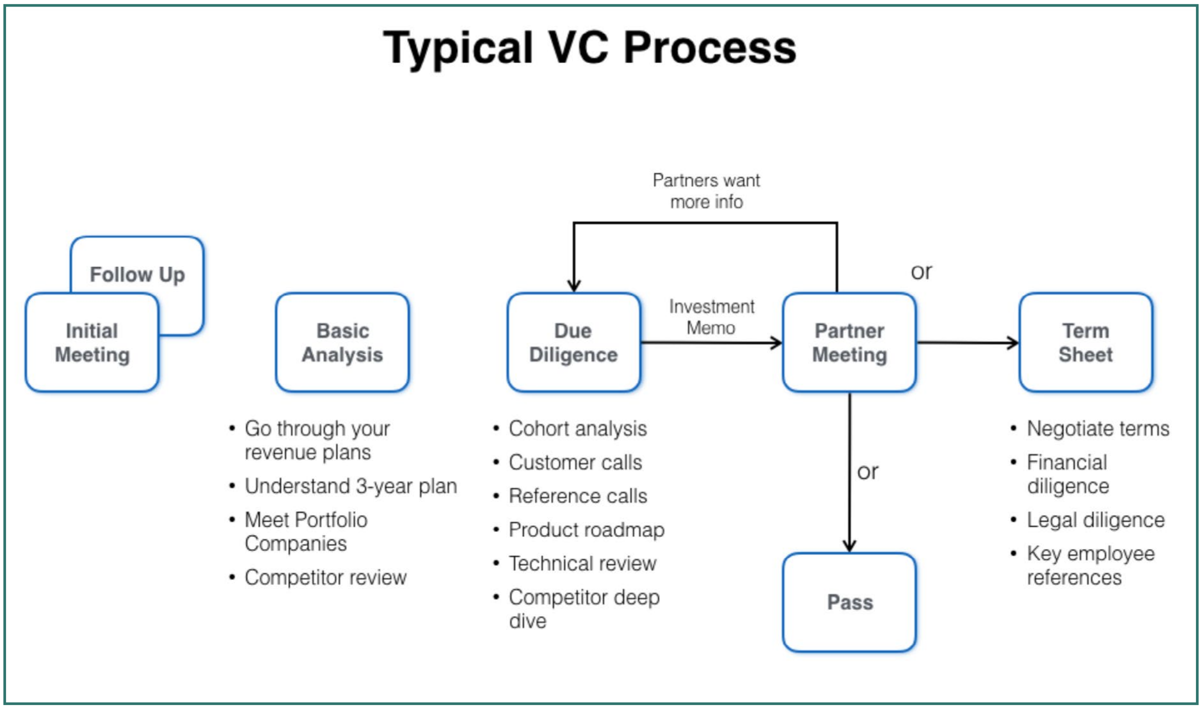
Partner Meeting: Firms with multiple partners will usually have a partner meeting on a recurring basis where new opportunities are pitched. If you've made it this far in the process, you'll usually be invited by the partner you've been working with to come pitch the full partnership.

Term Sheet: If the partners decide to proceed with the investment, then you'll move on to the term sheet phase. In this phase, terms are nailed down, and final diligence is performed (usually just financial and legal diligence).

Pass: At any point in the above funnel, a VC may decide to pass.

Pro Tip

Looking at the investment memos for well-known companies is a great way to understand how VCs evaluate deals. Here's Sequoia Capital's 2005 investment memo for YouTube.



Source: https://bothsidesofthetable.com/how-many-investors-should-you-talk-to-in-a-vc-fund-raise-and-how-do-you-prioritize-7be15aa7136e

Getting and having your initial meeting

Rule #1: Use your teaser deck to get high quality first meetings quickly

One of the reasons a teaser deck is so critical is that it makes it 10x easier for people in your network, or new people you meet, to make introductions for you.

Anyone making an introduction is going to need to ask the person they're introducing you to if they want the intro before making it. Having a compelling teaser deck for your company makes that person's ask much simpler.

Storytime from Mike

When founders ask me for introductions to investors, I always want to ask the investors if they're interested before I make intro.

It takes additional work for me to summarize the company in a way that's compelling to investors. But when founders send me their companies' full decks, they generally include too much information.

> I'm able to make the most introductions for founders who send me a teaser deck. With a teaser deck, making the intro is easy. Plus, they make me feel important—like I have access to a semi-secret deck that isn't broadly available.

Once you're talking to an investor via email, it's in your best interest to send your teaser deck ahead of time. If there's something about your business that would lead the investor to conclude that it's not a good fit, you want to know that right away! Getting a quick no is actually a good outcome, since it means you won't waste your time with someone who isn't going to invest in your business.

And assuming you do proceed to a first meeting, you'll get a lot more out of that meeting if the investor is already familiar with your business. Your first meeting can be focused on the full narrative and diving into the details, rather than have the VC trying to process your business for the first time on the fly.

Rule #2: Always try to meet investors in person

When possible, always try to meet investors in person. In-person meetings improve your chances of receiving an investment, and even if the investor doesn't end up investing, they'll have a deeper relationship with you once they've met you face to face, which will make them more willing to help.

Rule #3: Before you give your pitch, get clarity on an investor's decision-making process

A first meeting has a fixed amount of time, usually 30–60 minutes. You need to leave the meeting with clarity around how the investor you're meeting with makes investment decisions: what diligence looks like, what kinds of other meetings would be needed, what other stakeholders are involved in the decision-making process, and what the timing of the process is.

If the meeting is going well, you'll end up spending a lot of time talking about your business, and you'll run out of time to ask about their decision-making process. That's why it's important to get that answer first, before you dive into your pitch.

Once you understand the process well, you can go into your pitch, at which point your job is to make the investor excited enough to move forward. At the end of the meeting, you'll already have a good sense of process and timing, and you can talk about next steps more specifically.

One thing you'll need to consider when creating urgency for investors (something we'll dive into in more detail later in this chapter) is any practical constraints that an investor has.

For example, it'd be great to find yourself in a position where you can only give the investor a week to make a decision. However, if they absolutely need to have a partner meeting in order to make a decision and partner meetings are scheduled once per month, then pushing them to move faster than that usually won't work.

Rule #4: Don't talk about valuation explicitly (yet)

The goal of an initial conversation is not to negotiate valuation. Unless you already have most of your round committed at a valuation that you're confident in, you should avoid talking about an exact valuation until you're further along in the process. If a VC asks, you can turn the tables on them by asking what they think is a fair valuation range based on what they're seeing in the market. This can be a good data point for later.

Pitching an investor

Depending on where a firm is located, and where the partners are based, you may end up pitching informally at a coffee shop or other third place, at a VC's office, or via conference call or screenshare. (Of course, the in-person options are preferred!)

You will typically be pitching alongside your full presentation deck. You should be able to get through your full pitch in five or ten minutes if not interrupted. That said, you can expect (and you should want) to get interrupted. As Mark Suster says in his post "What Should You Send a VC Before Your Meeting?," "A great meeting is a debate, not a pitch." The deck you use should have appendix/pocket slides at the end which you can reference for questions that you're expecting.

Since you should already have a clear sense of an investor's decision-making process, you should know what happens after the meeting. Follow up thanking the investor for their time, and if you're able, to give them a timeline for when you'll need a decision by, based on the other conversations you have going on with investors. Offer to assist in any diligence that they need in order to make a decision in that timeline.

While the experience we just described is typical, not every VC will require a formal pitch at seed-stage. More and more early-stage VCs are making decisions after more informal meetings at coffee shops and restaurants. When Max was raising his seed round, he pitched some investors (like SV Angel) formally, while others (like Khosla Ventures) stuck to more casual meetings.

Participating in diligence

Once a pitch is over, a VC may want to do deeper, more formal diligence. If you're asking a VC to make a decision quickly, then you need to be able to assist them with making that decision. Here are some things you can expect to do when assisting a VC with diligence:

- Answering more detailed follow-up questions that they still have
- Introducing them to certain key team members
- Introducing them to customers or partners
- Introducing them to personal references
- Helping them do a technical review of your product
- Providing more information on key accounts or your customer pipeline
- Providing details on your fundraising history (where applicable)

You should aim to do these things ask quickly as possible. While you can't always predict everything an investor is going to ask you for, once you're asked for something once, you'll be able to provide it to other investors easily.

Getting to a decision

If you've set time constraints, then a VC will usually get back to you with a decision. If they don't, then you should follow up, providing some more information and asking if they've come to a decision.

It's possible—even likely—that delays will happen. Maybe there's one little thing that they still need diligence on, or maybe a partner is on vacation and they need to talk to that partner before getting sign off.

In these situations, you should remain respectful, but direct. Ask the investor to give you a timeline for when they can get you an answer, and tell them that you'll need to continue talking to other investors and can't guarantee that you'll have room for them beyond that point.

If they do get back to you with a "yes," then it's time to talk terms.

Getting the deal signed

We advise that you get intimately familiar with your own deal terms, and that you initiate the sharing of deal terms.

While there are some high level terms that may be negotiated, there are a lot of smaller terms that you'll want to make sure you have a handle on, like liquidation preferences. The easiest way to ensure that you're getting investment terms that you're comfortable with is if you start with your own investment terms.

Starting with simple, pre-built investment docs like Safes is also a great way to minimize the number of potential complexities in your deal terms. You may end up using a VC's investment docs, but if that happens, you should be crystal clear on what the differences are between your original terms and what they've sent you.

At this point, you should be on the same page with your VC when it comes to valuation cap range, but may not have agreed on the exact amount. You should expect the VC to try to negotiate your valuation cap down. Therefore, you should tell the VC something on the higher end of your desired range.

Note that valuation comes down to supply and demand. If you have more investors interested in your deal than you have space available, then you can ask for a higher valuation. Investor demand in your deal has a much bigger impact on your valuation than the progress of your company or the valuation that other startups have raised at.

You should aim to find common ground as quickly as possible with your investor. It's also important to try to have valuation conversations over the phone. While much of the fundraising process is very human, valuation is one of the topics that can feel cold and transactional. It's easy for this negotiation to become toxic if it's happening via email.

Storytime from Mike

I once got into a bitter exchange via email with one of my investors. He had already invested in a previous round, and we were talking about him participating in the next one. We started emailing back and forth about the rationale of the valuation and whether the valuation from the previous round had been too high. With each email, our responses got longer and longer. Ultimately, I think we were both spending so much time crafting email responses that we forgot that we were both humans who genuinely liked each other.

Once we decided to talk about it over the phone, the issue was cleared up in thirty minutes, and we were on great terms again.

Money in the bank

It's never a done deal until the money is in the bank. Let's repeat that: *it's never a done deal until the money is in the bank*.

No matter how committed a potential investor may seem, until you have the money, the deal isn't closed. This applies even if the investor has personally committed to closing the deal, even if investor has signed investment documents, and even if the investor is your mother.

So when someone does commit, you should aim to get the money in the bank as quickly as possible.

If you're raising money with Safes or notes, then you can have investors sign docs and send money right away—independent of other investors. On the other hand, if you're raising money with priced equity rounds, you need to get commitments and then have all investors wire the money at once. This is one of the reasons we don't recommend priced rounds for early stage deals.

Storytime from Mike

In my first angel round, in which we raised $300K, I had an investor who committed $50K after seeing me at a pitch competition. He was one of the first commitments and he was really excited, so I didn't sweat getting the money in the bank right away. Instead, I focused my energy on closing other investors.

Two months later, I had most of the commitments I needed for the round, and was getting money wired from investors. This first investor is a very busy person, so when it was time to get all his money in the bank, I suddenly had a very difficult time getting ahold of him. I started to worry that he'd gotten cold feet.

In reality, he'd basically forgotten about me. While my fundraise was the first thing on my mind for those few months, it was the last thing on his.

I was trying to work with his assistant to schedule a call with him, but he was usually too busy to call back. Eventually, I scheduled a meeting with his assistant in his office, where I knew he'd be.

I went into the scheduled meeting expecting to just pick up a check, but it turned out that he'd basically forgotten about my business, and I needed to pitch him on it again on the spot.

He asked me how much he previously said he'd invest, and I reminded him that it was $50K. He told me he'd wire the money the next day.

When the money hadn't been wired the next day, I called his assistant again and scheduled another meeting, telling her to let him know that the purpose of the meeting was for me to pick up the check.

What Your Fundraising Funnel Should Look Like

Below are the steps in a typical fundraising funnel. As Mark Suster explains in this blog post, you should start with roughly forty qualified VCs, broken down into roughly ten A's (VCs you really, really want to work with), ten B's (VCs you'd be excited to work with), and twenty C's (VCs you'd be fine working with).

It's important to note that your funnel shouldn't stay static. As you meet new people and get more introductions, you should be adding new investors to your list. You're also going to have investors who pass on you, so you need to be continuously filling the funnel.

Prospecting

1. Prospect

Contacted/Introduced

2. First meeting scheduled

Basic Diligence

3. First meeting complete
4. Formal pitch scheduled

Formal Diligence

5. Formal pitch complete

Closing

6. Term sheet
7. Investment docs signed
8. Money in the bank

Your goal should be to have multiple investors from each allocation (angels, follow-on VCs, lead VCs) at the same stage. This requires that you start with your initial investor prospects quickly (and simultaneously) so that you can find yourself in a position where you have roughly twice as many angels, follow-on VCs, and lead VCs in the "Formal pitch complete" stage as you have spots available for each type of investor. We'll show how this shakes out later in this chapter.

Solving the Chicken-and-Egg Problem: Getting Investors to Take the Leap

In a perfect world, you'd find a lead investor who invests right away, and then it'd be easy to close the rest. In fact, lots of VCs will advise you to find a lead first, and everything else will fall into place. That's certainly the simplest way to put a raise together if you can shake it, but that's not always how it goes.

Getting investors across the finish line is where most founders get stuck. We've had countless conversations with founders who express frustration that VCs are telling them, "if you find a lead investor, then we'll participate," but struggle to find an investor who's willing to lead.

So how do you break the stalemate?

The ideal answer was mentioned in the last section. There's no better way to break the stalemate than by being in the formal diligence stage with more investors than room you have available, forcing them to race each other to the finish line.

But regardless of how many investors you have battling for you in the final diligence stage, the following strategies can help you maintain (or regenerate) momentum.

1. Using fundraise allocations to create more scarcity for angels, follow VCs, and lead VCs.
2. Using high resolution fundraising to offer better terms to the first investors.

Using allocations to create more scarcity for angels, follow VCs, and lead VCs

In Chapter 3, we talked about allocating portions of your total raise to different classes of investors. In the example we used, a $2M seed round broke down as follows:

- $1M for lead VC(s)
- $500K for follow VCs
- $500K for angels

Given that angels typically write checks in the $25–150K range, follow VCs write checks in the $200–300K range, and lead VCs write checks in the $500K–$1M range (for a round like this), that means that you only have room for the following (roughly):

- $1M for lead VC(s): 1–2 lead VCs
- $500K for follow VCs: 2–3 follow VCs
- $500K for Angels: 5–8 angels

You want to find yourself in a position where you're talking to more investors in the formal diligence stage than spots you have available. Only by having more demand for your round than supply of money available can you truly be in a position of leverage.

In this example, the rough numbers shake out as follows

- $1M for lead VC(s): 1–2 lead VCs: 3–4 lead VCs in formal diligence at a time
- $500K for follow VCs: 2–3 follow VCs: 5–6 follow VCs in formal diligence at a time
- $500K for angels: 5–8 angels: 10–12 angels in formal diligence at a time

Using allocations to more productively secure follow-on VCs

These allocations can enable you to solve the investor chicken-and-egg problem, which arises when founders are talking to VCs who tell them that they'll follow, but not lead.

With these allocations, if a VC says something like this to you, tell them explicitly how much of your round you've allocated for follow-on VCs. You should also tell them that you're talking to other firms who are also interested. If you truly have more demand from follow-on VCs then what you've allocated, then you can create urgency for an investor to verbally commit and potentially sign docs. You can then use the momentum from these follow-on commitments to help secure a lead investor.

Using angels to create upward pressure on VCs

It can be difficult to play VCs against each other. Founders sometimes overplay their hands, telling one VC about other VCs they're talking to. You need to be very careful about doing this, since VC is a small world and there's a good chance the different investors you're talking to will all talk to each other.

Instead, you can use what you've allocated from angels to create pressure for a lead.

For example, suppose you have $400K committed of the $500K you've allocated for angels. Clearly, you're having some success raising money from angels, and angels typically know other angels that they can introduce you to.

With the momentum you have from angels, there's real potential for VCs to get squeezed out of your round completely if you were to choose to fill it up entirely with angels. You can then earnestly tell the VCs that you're talking to that you want to find strong VC partners, but if you're not able to find VCs to lead, then you'll just raise the rest of the round from angels. After all, your main objective is to get back to building your business.

The fact that angels will start eating into the allocations for VCs will create urgency for VCs to make a decision before angels push them out.

Giving early investors a sense of urgency through high resolution fundraising

Another way to create urgency in the fundraising process is through high resolution fundraising, a term coined by Y Combinator's Paul Graham. In his essay on High Resolution Fundraising, he describes the deadlock (a.k.a. chicken-and-egg) problem that can arise during fundraising, and how high resolution fundraising can help. (It's important to note that you can only do this when using a Safe or convertible note, since it relies on a rolling close.)

> By far the biggest influence on investors' opinions of a startup is the opinion of other investors. There are very, very few who simply decide for themselves. Any startup founder can tell you the most common question they hear from investors is not about the founders or the product, but "who else is investing?"
>
> That tends to produce deadlocks. Raising an old-fashioned fixed-size equity round can take weeks, because all the angels sit around waiting for the others to commit, like competitors in a bicycle sprint who deliberately ride slowly at the start so they can follow whoever breaks first.
>
> Convertible notes let startups beat such deadlocks by rewarding investors willing to move first with lower (effective) valuations. Which they deserve because they're taking more risk. It's much Safer to invest in a startup Ron Conway has already invested in; someone who comes after him should pay a higher price.
>
> The reason convertible notes allow more flexibility in price is that valuation caps aren't actual valuations, and notes are cheap and easy to do. So you can do high-resolution fundraising: if you wanted you could have a separate note with a different cap for each investor.
>
> That cap need not simply rise monotonically. A startup could also give better deals to investors they expected to help them most. The point is simply that different investors, whether because of the help they offer or their willingness to commit, have different values for startups, and their terms should reflect that.

In practice, this means that you can isolate portions of your round and offer better terms for the investors you're talking to if they commit by a certain date (or if they're the first $x invested), without sacrificing ideal valuation.

Going back to our example of a $2M round, you can use high resolution fundraising to create even more urgency. While allocating portions of your round can generate a sense of FOMO for investors (they might get squeezed out), high resolution fundraising can create a positive incentive (they get a better deal for being one of the first in).

For example, if you've allocated $500K of your round for angels, and your plan is to raise at a $7M valuation cap, you can tell angels that the first $300K invested will get in at a $6M valuation cap. You can of course negotiate these terms on a case-by-case basis, but you can already see how that can generate even more urgency. With allocations, they were competing for participation in the $500K angel allocation. Now, they're competing for participation in the $300K allocation at a lower valuation cap.

Turning an investor "pass" into new leads

If an investor passes on you, it's for one of the following reasons:

1. They don't believe your company is a good investment.
2. They believe your company could be a good investment, but it's not a fit for their firm.
3. They believe your company is a good investment and it's a good fit, but due to operational constraints (like needing to reserve capital for an upcoming follow-on investment in an existing portfolio company), they can't pull the trigger on a deal.

As a founder, it's important that you figure out why you were passed on. Depending on the reason, you may be able to turn a "pass" into hot investor leads.

If an investor passes due to reason #1, asking them to refer you to other investors is going to be a waste of time. Even if they do refer you, they're probably going to do so with a caveat to protect their reputation with whomever they refer you to.

> **Storytime from Mike**
>
> I once had lunch with a founder who was looking for feedback on his startup, as well as introductions to investors. I voiced some concerns about his business model, letting him know that I could see other investors having similar concerns and that addressing those challenges before fundraising would be ideal.

He pressed on, saying that he was definitely raising money, and asking if I could introduce him to specific investors that I knew. I warned him that I could make the ask for an introduction if he really wanted, but that I'd need to voice some of my concerns in the ask—after all, I need to protect my own reputation and can't be making introductions to startups that I don't fully believe in.

He thought that despite my concerns, he'd be able to convince the person I introduced him to. I made the introduction with the caveat about my concerns over the business model, and, unsurprisingly, the investor passed.

However, if an investor passes due to reason #2 or #3, and they truly believe your company is a good investment, then you're in a great position to turn that investor into an evangelist who can introduce you to other investors. After all, investors thrive on sharing good deals with each other.

So what do you do when an investor passes? Ask them explicitly if they think it's a good enough investment to share with other investors, and give them an easy out by saying, "if you're not comfortable sharing this with others, I completely understand." Doing this with every investor who passes on you will ensure that you don't waste any time with half-hearted introductions, and might result in finding some qualified investor leads that you weren't considering originally.

Conclusion

Not everyone should raise a seed round. But if you do have a business that's truly deserving of investment, then you're in a much better position of leverage than a lot of VCs will make you feel like you are.

Investors are thirsty for good deals. If you approach fundraising with the same rigor that you approach other aspects of your business, with the confidence that you'll make a raise happen regardless of whether a specific investor says yes or no, and with a focus on completing your raise as quickly as possible, then you should have a good shot at raising money.

But before you go all-in on raising your seed round, make sure that raising outside funding is the right thing for you personally, and the right thing for your business.

After all, this is your business you're building, and these are precious years of your life that you're dedicating to do so. The freedom and independence to make decisions about the business and life you want to create for yourself is more valuable than any seed investment.

If you decide that raising a seed round is right for you, then good luck—get it done and then get back to building your business.