How to Raise Money

September 2013Most startups that raise money do it more than once. A typical  
trajectory might be (1) to get started with a few tens of thousands  
from something like Y Combinator or individual angels, then   
(2) raise a few hundred thousand to a few million to build the company,  
and then (3) once the company is clearly succeeding, raise one or  
more later rounds to accelerate growth.Reality can be messier. Some companies raise money twice in phase  
2. Others skip phase 1 and go straight to phase 2. And at Y Combinator   
we get an increasing number of companies that have already  
raised amounts in the hundreds of thousands. But the three phase  
path is at least the one about which individual startups' paths  
oscillate.This essay focuses on phase 2 fundraising. That's the type the  
startups we fund are doing on Demo Day, and this essay is the advice  
we give them.  
ForcesFundraising is hard in both senses: hard like lifting a heavy weight,  
and hard like solving a puzzle. It's hard like lifting a weight  
because it's intrinsically hard to convince people to part with  
large sums of money. That problem is irreducible; it should be  
hard. But much of the other kind of difficulty can be eliminated.  
Fundraising only seems a puzzle because it's an alien world to most  
founders, and I hope to fix that by supplying a map through it.To founders, the behavior of investors is often opaque — partly  
because their motivations are obscure, but partly because they  
deliberately mislead you. And the misleading ways of investors  
combine horribly with the wishful thinking of inexperienced founders.  
At YC we're always warning founders about this danger, and investors  
are probably more circumspect with YC startups than with other  
companies they talk to, and even so we witness a constant series  
of explosions as these two volatile components combine.  
[1]If you're an inexperienced founder, the only way to survive is by  
imposing external constraints on yourself. You can't trust your  
intuitions. I'm going to give you a set of rules here that will  
get you through this process if anything will. At certain moments  
you'll be tempted to ignore them. So rule number zero is: these  
rules exist for a reason. You wouldn't need a rule to keep you  
going in one direction if there weren't powerful forces pushing you  
in another.The ultimate source of the forces acting on you are the forces  
acting on investors. Investors are pinched between two kinds of  
fear: fear of investing in startups that fizzle, and fear of missing  
out on startups that take off. The cause of all this fear is the  
very thing that makes startups such attractive investments: the  
successful ones grow very fast. But that fast growth means investors  
can't wait around. If you wait till a startup is obviously a  
success, it's too late. To get the really high returns, you have  
to invest in startups when it's still unclear how they'll do. But  
that in turn makes investors nervous they're about to invest in a  
flop. As indeed they often are.What investors would like to do, if they could, is wait. When a  
startup is only a few months old, every week that passes gives you  
significantly more information about them. But if you wait too  
long, other investors might take the deal away from you. And of  
course the other investors are all subject to the same forces. So  
what tends to happen is that they all wait as long as they can,  
then when some act the rest have to.  
Don't raise money unless you want it and it wants you.Such a high proportion of successful startups raise money that it  
might seem fundraising is one of the defining qualities of a startup.  
Actually it isn't. Rapid growth is what  
makes a company a startup. Most companies in a position to grow  
rapidly find that (a) taking outside money helps them grow faster,  
and (b) their growth potential makes it easy to attract such money.  
It's so common for both (a) and (b) to be true of a successful  
startup that practically all do raise outside money. But there may  
be cases where a startup either wouldn't want to grow faster, or  
outside money wouldn't help them to, and if you're one of them,  
don't raise money.The other time not to raise money is when you won't be able to. If  
you try to raise money before you can convince  
investors, you'll not only waste your time, but also burn your  
reputation with those investors.  
Be in fundraising mode or not.One of the things that surprises founders most about fundraising  
is how distracting it is. When you start fundraising, everything  
else grinds to a halt. The problem is not the time fundraising  
consumes but that it becomes the top idea in  
your mind. A startup can't endure that level of distraction  
for long. An early stage startup grows mostly because the founders  
make it grow, and if the founders look away,  
growth usually drops sharply.Because fundraising is so distracting, a startup should either be  
in fundraising mode or not. And when you do decide to raise money,  
you should focus your whole attention on it so you can get it done  
quickly and get back to work.  
[2]You can take money from investors when you're not in fundraising  
mode. You just can't expend any attention on it. There are two  
things that take attention: convincing investors, and negotiating  
with them. So when you're not in fundraising mode, you should take  
money from investors only if they require no convincing, and are  
willing to invest on terms you'll take without negotiation. For  
example, if a reputable investor is willing to invest on a convertible  
note, using standard paperwork, that is either uncapped or capped  
at a good valuation, you can take that without having to think.  
[3]  
The terms will be whatever they turn out to be in your next  
equity round. And "no convincing" means just that: zero time spent  
meeting with investors or preparing materials for them. If an  
investor says they're ready to invest, but they need you to come  
in for one meeting to meet some of the partners, tell them no, if  
you're not in fundraising mode, because that's fundraising.   
[4]  
Tell them politely; tell them you're focusing on the company right  
now, and that you'll get back to them when you're fundraising; but  
do not get sucked down the slippery slope.Investors will try to lure you into fundraising when you're not.  
It's great for them if they can, because they can thereby get a  
shot at you before everyone else. They'll send you emails saying  
they want to meet to learn more about you. If you get cold-emailed  
by an associate at a VC firm, you shouldn't meet even if you are  
in fundraising mode. Deals don't happen that way.  
[5]  
But even  
if you get an email from a partner you should try to delay meeting  
till you're in fundraising mode. They may say they just want to  
meet and chat, but investors never just want to meet and chat. What  
if they like you? What if they start to talk about giving you  
money? Will you be able to resist having that conversation? Unless  
you're experienced enough at fundraising to have a casual conversation  
with investors that stays casual, it's safer to tell them that you'd  
be happy to later, when you're fundraising, but that right now you  
need to focus on the company.  
[6]Companies that are successful at raising money in phase 2 sometimes  
tack on a few investors after leaving fundraising mode. This is  
fine; if fundraising went well, you'll be able to do it without  
spending time convincing them or negotiating about terms.  
Get introductions to investors.Before you can talk to investors, you have to be introduced to them.  
If you're presenting at a Demo Day, you'll be introduced to a whole  
bunch simultaneously. But even if you are, you should supplement  
these with intros you collect yourself.Do you have to be introduced? In phase 2, yes. Some investors  
will let you email them a business plan, but you can tell from the  
way their sites are organized that they don't really want startups  
to approach them directly.Intros vary greatly in effectiveness. The best type of intro is  
from a well-known investor who has just invested in you. So when  
you get an investor to commit, ask them to introduce you to other  
investors they respect.  
[7]  
The next best type of intro is from a  
founder of a company they've funded. You can also get intros from  
other people in the startup community, like lawyers and reporters.There are now sites like AngelList, FundersClub, and WeFunder that  
can introduce you to investors. We recommend startups treat them  
as auxiliary sources of money. Raise money first from leads you  
get yourself. Those will on average be better investors. Plus  
you'll have an easier time raising money on these sites once you  
can say you've already raised some from well-known investors.  
Hear no till you hear yes.Treat investors as saying no till they unequivocally say yes, in  
the form of a definite offer with no contingencies.I mentioned earlier that investors prefer to wait if they can.  
What's particularly dangerous for founders is the way they wait.  
Essentially, they lead you on. They seem like they're about to  
invest right up till the moment they say no. If they even say no.  
Some of the worse ones never actually do say no; they just stop  
replying to your emails. They hope that way to get a free option  
on investing. If they decide later that they want to invest — usually  
because they've heard you're a hot deal — they can pretend they  
just got distracted and then restart the conversation as if they'd  
been about to.  
[8]That's not the worst thing investors will do. Some will use language  
that makes it sound as if they're committing, but which doesn't  
actually commit them. And wishful thinking founders are happy to  
meet them half way.  
[9]Fortunately, the next rule is a tactic for neutralizing this behavior.  
But to work it depends on you not being tricked by the no that  
sounds like yes. It's so common for founders to be misled/mistaken  
about this that we designed a protocol to fix the  
problem. If you believe an investor has committed, get them to  
confirm it. If you and they have different views of reality, whether  
the source of the discrepancy is their sketchiness or your wishful  
thinking, the prospect of confirming a commitment in writing will  
flush it out. And till they confirm, regard them as saying no.  
Do breadth-first search weighted by expected value.When you talk to investors your m.o. should be breadth-first search,  
weighted by expected value. You should always talk to investors  
in parallel rather than serially. You can't afford the time it  
takes to talk to investors serially, plus if you only talk to one  
investor at a time, they don't have the pressure of other investors  
to make them act. But you shouldn't pay the same attention to every  
investor, because some are more promising prospects than others.  
The optimal solution is to talk to all potential investors in  
parallel, but give higher priority to the more promising ones.   
[10]Expected value = how likely an investor is to say yes, multiplied  
by how good it would be if they did. So for example, an eminent  
investor who would invest a lot, but will be hard to convince, might  
have the same expected value as an obscure angel who won't invest  
much, but will be easy to convince. Whereas an obscure angel who  
will only invest a small amount, and yet needs to meet multiple  
times before making up his mind, has very low expected value. Meet  
such investors last, if at all.   
[11]Doing breadth-first search weighted by expected value will save you  
from investors who never explicitly say no but merely drift away,  
because you'll drift away from them at the same rate. It protects  
you from investors who flake in much the same way that a distributed  
algorithm protects you from processors that fail. If some investor  
isn't returning your emails, or wants to have lots of meetings but  
isn't progressing toward making you an offer, you automatically  
focus less on them. But you have to be disciplined about assigning  
probabilities. You can't let how much you want an investor influence  
your estimate of how much they want you.  
Know where you stand.How do you judge how well you're doing with an investor, when  
investors habitually seem more positive than they are? By looking  
at their actions rather than their words. Every investor has some  
track they need to move along from the first conversation to wiring  
the money, and you should always know what that track consists of,  
where you are on it, and how fast you're moving forward.Never leave a meeting with an investor without asking what happens  
next. What more do they need in order to decide? Do they need  
another meeting with you? To talk about what? And how soon? Do  
they need to do something internally, like talk to their partners,  
or investigate some issue? How long do they expect it to take?  
Don't be too pushy, but know where you stand. If investors are  
vague or resist answering such questions, assume the worst; investors  
who are seriously interested in you will usually be happy to talk  
about what has to happen between now and wiring the money, because  
they're already running through that in their heads.   
[12]If you're experienced at negotiations, you already know how to ask  
such questions.  
[13]  
If you're not, there's a trick you can use  
in this situation. Investors know you're inexperienced at raising  
money. Inexperience there doesn't make you unattractive. Being a  
noob at technology would, if you're starting a technology startup,  
but not being a noob at fundraising. Larry and Sergey were noobs  
at fundraising. So you can just confess that you're inexperienced  
at this and ask how their process works and where you are in it.  
[14]  
Get the first commitment.The biggest factor in most investors' opinions of you is the opinion  
of other investors. Once you start getting  
investors to commit, it becomes increasingly easy to get more to.  
But the other side of this coin is that it's often hard to get the  
first commitment.Getting the first substantial offer can be half the total difficulty  
of fundraising. What counts as a substantial offer depends on who  
it's from and how much it is. Money from friends and family doesn't  
usually count, no matter how much. But if you get $50k from a well  
known VC firm or angel investor, that will usually be enough to set  
things rolling.  
[15]  
Close committed money.It's not a deal till the money's in the bank. I often hear  
inexperienced founders say things like "We've raised $800,000,"  
only to discover that zero of it is in the bank so far. Remember  
the twin fears that torment investors? The fear of missing out  
that makes them jump early, and the fear of jumping onto a turd  
that results? This is a market where people are exceptionally prone  
to buyer's remorse. And it's also one that furnishes them plenty  
of excuses to gratify it. The public markets snap startup investing  
around like a whip. If the Chinese economy blows up tomorrow, all  
bets are off. But there are lots of surprises for individual  
startups too, and they tend to be concentrated around fundraising.  
Tomorrow a big competitor could appear, or you could get C&Ded, or  
your cofounder could quit.  
[16]Even a day's delay can bring news that causes an investor to change  
their mind. So when someone commits, get the money. Knowing where  
you stand doesn't end when they say they'll invest. After they say  
yes, know what the timetable is for getting the money, and then  
babysit that process till it happens. Institutional investors have  
people in charge of wiring money, but you may have to hunt angels  
down in person to collect a check.Inexperienced investors are the ones most likely to get buyer's  
remorse. Established ones have learned to treat saying yes as like  
diving off a diving board, and they also have more brand to preserve.  
But I've heard of cases of even top-tier VC firms welching on deals.  
Avoid investors who don't "lead."Since getting the first offer is most of the difficulty of fundraising,  
that should be part of your calculation of expected value when you  
start. You have to estimate not just the probability that an  
investor will say yes, but the probability that they'd be the first  
to say yes, and the latter is not simply a constant fraction of the  
former. Some investors are known for deciding quickly, and those  
are extra valuable early on.Conversely, an investor who will only invest once other investors  
have is worthless initially. And while most investors are influenced  
by how interested other investors are in you, there are some who  
have an explicit policy of only investing after other investors  
have. You can recognize this contemptible subspecies of investor  
because they often talk about "leads." They say that they don't  
lead, or that they'll invest once you have a lead. Sometimes they  
even claim to be willing to lead themselves, by which they mean  
they won't invest till you get $x from other investors. (It's great  
if by "lead" they mean they'll invest unilaterally, and in addition  
will help you raise more. What's lame is when they use the term  
to mean they won't invest unless you can raise more elsewhere.)  
[17]Where does this term "lead" come from? Up till a few years ago,  
startups raising money in phase 2 would usually raise equity rounds  
in which several investors invested at the same time using the same  
paperwork. You'd negotiate the terms with one "lead" investor, and  
then all the others would sign the same documents and all the money  
change hands at the closing.Series A rounds still work that way, but things now work differently  
for most fundraising prior to the series A. Now there are rarely  
actual rounds before the A round, or leads for them. Now startups  
simply raise money from investors one at a time till they feel they  
have enough.Since there are no longer leads, why do investors use that term?  
Because it's a more legitimate-sounding way of saying what they  
really mean. All they really mean is that their interest in you  
is a function of other investors' interest in you. I.e. the spectral  
signature of all mediocre investors. But when phrased in terms of  
leads, it sounds like there is something structural and therefore  
legitimate about their behavior.When an investor tells you "I want to invest in you, but I don't  
lead," translate that in your mind to "No, except yes if you turn  
out to be a hot deal." And since that's the default opinion of any  
investor about any startup, they've essentially just told you  
nothing.When you first start fundraising, the expected value of an investor  
who won't "lead" is zero, so talk to such investors last if at all.  
Have multiple plans.Many investors will ask how much you're planning to raise. This  
question makes founders feel they should be planning to raise a  
specific amount. But in fact you shouldn't. It's a mistake to  
have fixed plans in an undertaking as unpredictable as fundraising.So why do investors ask how much you plan to raise? For much the  
same reasons a salesperson in a store will ask "How much were you  
planning to spend?" if you walk in looking for a gift for a friend.  
You probably didn't have a precise amount in mind; you just want  
to find something good, and if it's inexpensive, so much the better.  
The salesperson asks you this not because you're supposed to have  
a plan to spend a specific amount, but so they can show you only  
things that cost the most you'll pay.Similarly, when investors ask how much you plan to raise, it's not  
because you're supposed to have a plan. It's to see whether you'd  
be a suitable recipient for the size of investment they like to  
make, and also to judge your ambition, reasonableness, and how far  
you are along with fundraising.If you're a wizard at fundraising, you can say "We plan to raise  
a $7 million series A round, and we'll be accepting termsheets next  
tuesday." I've known a handful of founders who could pull that off  
without having VCs laugh in their faces. But if you're in the  
inexperienced but earnest majority, the solution is analogous to  
the solution I recommend for pitching  
your startup: do the right thing and then just tell investors what  
you're doing.And the right strategy, in fundraising, is to have multiple plans  
depending on how much you can raise. Ideally you should be able  
to tell investors something like: we can make it to profitability  
without raising any more money, but if we raise a few hundred  
thousand we can hire one or two smart friends, and if we raise a  
couple million, we can hire a whole engineering team, etc.Different plans match different investors. If you're talking to a  
VC firm that only does series A rounds (though there are few of  
those left), it would be a waste of time talking about any but your  
most expensive plan. Whereas if you're talking to an angel who  
invests $20k at a time and you haven't raised any money yet, you  
probably want to focus on your least expensive plan.If you're so fortunate as to have to think about the upper limit  
on what you should raise, a good rule of thumb is to multiply the  
number of people you want to hire times $15k times 18 months. In  
most startups, nearly all the costs are a function of the number  
of people, and $15k per month is the conventional total cost  
(including benefits and even office space) per person. $15k per  
month is high, so don't actually spend that much. But it's ok to  
use a high estimate when fundraising to add a margin for error. If  
you have additional expenses, like manufacturing, add in those at  
the end. Assuming you have none and you think you might hire 20  
people, the most you'd want to raise is 20 x $15k x 18 = $5.4  
million.  
[18]  
Underestimate how much you want.Though you can focus on different plans when talking to different  
types of investors, you should on the whole err on the side of  
underestimating the amount you hope to raise.For example, if you'd like to raise $500k, it's better to say  
initially that you're trying to raise $250k. Then when you reach  
$150k you're more than half done. That sends two useful signals  
to investors: that you're doing well, and that they have to decide  
quickly because you're running out of room. Whereas if you'd said  
you were raising $500k, you'd be less than a third done at $150k.  
If fundraising stalled there for an appreciable time, you'd start  
to read as a failure.Saying initially that you're raising $250k doesn't limit you to  
raising that much. When you reach your initial target and you still  
have investor interest, you can just decide to raise more. Startups  
do that all the time. In fact, most startups that are very successful  
at fundraising end up raising more than they originally intended.I'm not saying you should lie, but that you should lower your  
expectations initially. There is almost no downside in starting  
with a low number. It not only won't cap the amount you raise, but  
will on the whole tend to increase it.A good metaphor here is angle of attack. If you try to fly at too  
steep an angle of attack, you just stall. If you say right out of  
the gate that you want to raise a $5 million series A round, unless  
you're in a very strong position, you not only won't get that but  
won't get anything. Better to start at a low angle of attack, build  
up speed, and then gradually increase the angle if you want.  
Be profitable if you can.You will be in a much stronger position if your collection of plans  
includes one for raising zero dollars — i.e. if you can make  
it to profitability without raising any additional money. Ideally  
you want to be able to say to investors "We'll succeed no matter  
what, but raising money will help us do it faster."There are many analogies between fundraising and dating, and this  
is one of the strongest. No one wants you if you seem desperate.  
And the best way not to seem desperate is not to be desperate.  
That's one reason we urge startups during YC to keep expenses low  
and to try to make it to ramen  
profitability before Demo Day. Though it sounds slightly  
paradoxical, if you want to raise money, the best thing you can do  
is get yourself to the point where you don't need to.There are almost two distinct modes of fundraising: one in which  
founders who need money knock on doors seeking it, knowing that  
otherwise the company will die or at the very least people will  
have to be fired, and one in which founders who don't need money  
take some to grow faster than they could merely on their own revenues.  
To emphasize the distinction I'm going to name them: type A fundraising  
is when you don't need money, and type B fundraising is when you  
do.Inexperienced founders read about famous startups doing what was  
type A fundraising, and decide they should raise money too, since  
that seems to be how startups work. Except when they raise money  
they don't have a clear path to profitability and are thus doing  
type B fundraising. And they are then surprised how difficult and  
unpleasant it is.Of course not all startups can make it to ramen profitability in a  
few months. And some that don't still manage to have the upper  
hand over investors, if they have some other advantage like  
extraordinary growth numbers or exceptionally formidable founders.  
But as time passes it gets increasingly difficult to fundraise from  
a position of strength without being profitable.  
[19]  
Don't optimize for valuation.When you raise money, what should your valuation be? The most  
important thing to understand about valuation is that it's not that  
important.Founders who raise money at high valuations tend to be unduly proud  
of it. Founders are often competitive people, and since valuation  
is usually the only visible number attached to a startup, they end  
up competing to raise money at the highest valuation. This is  
stupid, because fundraising is not the test that matters. The real  
test is revenue. Fundraising is just a means to that end. Being  
proud of how well you did at fundraising is like being proud of  
your college grades.Not only is fundraising not the test that matters, valuation is not  
even the thing to optimize about fundraising. The number one thing  
you want from phase 2 fundraising is to get the money you need, so  
you can get back to focusing on the real test, the success of your  
company. Number two is good investors. Valuation is at best third.The empirical evidence shows just how unimportant it is. Dropbox  
and Airbnb are the most successful companies we've funded so far,  
and they raised money after Y Combinator at premoney valuations of  
$4 million and $2.6 million respectively. Prices are so much higher  
now that if you can raise money at all you'll probably raise it at  
higher valuations than Dropbox and Airbnb. So let that satisfy  
your competitiveness. You're doing better than Dropbox and Airbnb!  
At a test that doesn't matter.When you start fundraising, your initial valuation (or valuation  
cap) will be set by the deal you make with the first investor who  
commits. You can increase the price for later investors, if you  
get a lot of interest, but by default the valuation you got from  
the first investor becomes your asking price.So if you're raising money from multiple investors, as most companies  
do in phase 2, you have to be careful to avoid raising the first  
from an over-eager investor at a price you won't be able to  
sustain. You can of course lower your price if you need to (in  
which case you should give the same terms to investors who invested  
earlier at a higher price), but you may lose a bunch of leads in  
the process of realizing you need to do this.What you can do if you have eager first investors is raise money  
from them on an uncapped convertible note with an MFN clause. This  
is essentially a way of saying that the valuation cap of the note  
will be determined by the next investors you raise money from.It will be easier to raise money at a lower valuation. It shouldn't  
be, but it is. Since phase 2 prices vary at most 10x and the big  
successes generate returns of at least 100x, investors should pick  
startups entirely based on their estimate of the probability that  
the company will be a big success and hardly at all on price. But  
although it's a mistake for investors to care about price, a  
significant number do. A startup that investors seem to like but  
won't invest in at a cap of $x will have an easier time at $x/2.  
[20]  
Yes/no before valuation.Some investors want to know what your valuation is before they even  
talk to you about investing. If your valuation has already been  
set by a prior investment at a specific valuation or cap, you can  
tell them that number. But if it isn't set because you haven't  
closed anyone yet, and they try to push you to name a price, resist  
doing so. If this would be the first investor you've closed, then  
this could be the tipping point of fundraising. That means closing  
this investor is the first priority, and you need to get the  
conversation onto that instead of being dragged sideways into a  
discussion of price.Fortunately there is a way to avoid naming a price in this situation.  
And it is not just a negotiating trick; it's how you (both) should  
be operating. Tell them that valuation is not the most important  
thing to you and that you haven't thought much about it, that you  
are looking for investors you want to partner with and who want to  
partner with you, and that you should talk first about whether they  
want to invest at all. Then if they decide they do want to invest,  
you can figure out a price. But first things first.Since valuation isn't that important and getting fundraising rolling  
is, we usually tell founders to give the first investor who commits  
as low a price as they need to. This is a safe technique so long  
as you combine it with the next one.   
[21]  
Beware "valuation sensitive" investors.Occasionally you'll encounter investors who describe themselves as  
"valuation sensitive." What this means in practice is that they  
are compulsive negotiators who will suck up a lot of your time  
trying to push your price down. You should therefore never approach  
such investors first. While you shouldn't chase high valuations,  
you also don't want your valuation to be set artificially low because  
the first investor who committed happened to be a compulsive  
negotiator. Some such investors have value, but the time to approach  
them is near the end of fundraising, when you're in a position to  
say "this is the price everyone else has paid; take it or leave it"  
and not mind if they leave it. This way, you'll not only get market  
price, but it will also take less time.Ideally you know which investors have a reputation for being  
"valuation sensitive" and can postpone dealing with them till last,  
but occasionally one you didn't know about will pop up early on.  
The rule of doing breadth first search weighted by expected value  
already tells you what to do in this case: slow down your interactions  
with them.There are a handful of investors who will try to invest at a lower  
valuation even when your price has already been set. Lowering your  
price is a backup plan you resort to when you discover you've let  
the price get set too high to close all the money you need. So  
you'd only want to talk to this sort of investor if you were about  
to do that anyway. But since investor meetings have to be arranged  
at least a few days in advance and you can't predict when you'll  
need to resort to lowering your price, this means in practice that  
you should approach this type of investor last if at all.If you're surprised by a lowball offer, treat it as a backup offer  
and delay responding to it. When someone makes an offer in good  
faith, you have a moral obligation to respond in a reasonable time.  
But lowballing you is a dick move that should be met with the  
corresponding countermove.  
Accept offers greedily.I'm a little leery of using the term "greedily" when writing about  
fundraising lest non-programmers misunderstand me, but a greedy  
algorithm is simply one that doesn't try to look into the future.  
A greedy algorithm takes the best of the options in front of it  
right now. And that is how startups should approach fundraising  
in phases 2 and later. Don't try to look into the future because  
(a) the future is unpredictable, and indeed in this business you're  
often being deliberately misled about it and (b) your first priority  
in fundraising should be to get it finished and get back to work  
anyway.If someone makes you an acceptable offer, take it. If you have  
multiple incompatible offers, take the best. Don't reject an  
acceptable offer in the hope of getting a better one in the future.These simple rules cover a wide variety of cases. If you're raising  
money from many investors, roll them up as they say yes. As you  
start to feel you've raised enough, the threshold for acceptable  
will start to get higher.In practice offers exist for stretches of time, not points. So  
when you get an acceptable offer that would be incompatible with  
others (e.g. an offer to invest most of the money you need), you  
can tell the other investors you're talking to that you have an  
offer good enough to accept, and give them a few days to make their  
own. This could lose you some that might have made an offer if  
they had more time. But by definition you don't care; the initial  
offer was acceptable.Some investors will try to prevent others from having time to decide  
by giving you an "exploding" offer, meaning one that's only valid  
for a few days. Offers from the very best investors explode less  
frequently and less rapidly — Fred Wilson never gives exploding  
offers, for example — because they're confident you'll pick  
them. But lower-tier investors sometimes give offers with very  
short fuses, because they believe no one who had other options would  
choose them. A deadline of three working days is acceptable. You  
shouldn't need more than that if you've been talking to investors  
in parallel. But a deadline any shorter is a sign you're dealing  
with a sketchy investor. You can usually call their bluff, and you  
may need to.  
[22]It might seem that instead of accepting offers greedily, your goal  
should be to get the best investors as partners. That is certainly  
a good goal, but in phase 2 "get the best investors" only rarely  
conflicts with "accept offers greedily," because the best investors  
don't usually take any longer to decide than the others. The only  
case where the two strategies give conflicting advice is when you  
have to forgo an offer from an acceptable investor to see if you'll  
get an offer from a better one. If you talk to investors in parallel  
and push back on exploding offers with excessively short deadlines,  
that will almost never happen. But if it does, "get the best  
investors" is in the average case bad advice. The best investors  
are also the most selective, because they get their pick of all the  
startups. They reject nearly everyone they talk to, which means  
in the average case it's a bad trade to exchange a definite offer  
from an acceptable investor for a potential offer from a better  
one.(The situation is different in phase 1. You can't apply to all the  
incubators in parallel, because some offset their schedules to  
prevent this. In phase 1, "accept offers greedily" and "get the  
best investors" do conflict, so if you want to apply to multiple  
incubators, you should do it in such a way that the ones you want  
most decide first.)Sometimes when you're raising money from multiple investors, a  
series A will emerge out of those conversations, and these rules  
even cover what to do in that case. When an investor starts to  
talk to you about a series A, keep taking smaller investments till  
they actually give you a termsheet. There's no practical difficulty.  
If the smaller investments are on convertible notes, they'll just  
convert into the series A round. The series A investor won't like  
having all these other random investors as bedfellows, but if it  
bothers them so much they should get on with giving you a termsheet.  
Till they do, you don't know for sure they will, and the greedy  
algorithm tells you what to do.  
[23]  
Don't sell more than 25% in phase 2.If you do well, you will probably raise a series A round eventually.  
I say probably because things are changing with series A rounds.  
Startups may start to skip them. But only one company we've funded  
has so far, so tentatively assume the path to huge passes through  
an A round.  
[24]Which means you should avoid doing things in earlier rounds that  
will mess up raising an A round. For example, if you've sold more  
than about 40% of your company total, it starts to get harder to  
raise an A round, because VCs worry there will not be enough stock  
left to keep the founders motivated.Our rule of thumb is not to sell more than 25% in phase 2, on top  
of whatever you sold in phase 1, which should be less than 15%. If  
you're raising money on uncapped notes, you'll have to guess what  
the eventual equity round valuation might be. Guess conservatively.(Since the goal of this rule is to avoid messing up the series A,  
there's obviously an exception if you end up raising a series A in  
phase 2, as a handful of startups do.)  
Have one person handle fundraising.If you have multiple founders, pick one to handle fundraising so  
the other(s) can keep working on the company. And since the danger  
of fundraising is not the time taken up by the actual meetings but  
that it becomes the top idea in your mind, the founder who handles  
fundraising should make a conscious effort to insulate the other  
founder(s) from the details of the process.  
[25](If the founders mistrust one another, this could cause some friction.  
But if the founders mistrust one another, you have worse problems  
to worry about than how to organize fundraising.)The founder who handles fundraising should be the CEO, who should  
in turn be the most formidable of the founders. Even if the CEO  
is a programmer and another founder is a salesperson? Yes. If you  
happen to be that type of founding team, you're effectively a single  
founder when it comes to fundraising.It's ok to bring all the founders to meet an investor who will  
invest a lot, and who needs this meeting as the final step before  
deciding. But wait till that point. Introducing an investor to  
your cofounder(s) should be like introducing a girl/boyfriend to  
your parents — something you do only when things reach a certain  
stage of seriousness.Even if there are still one or more founders focusing on the company  
during fundraising, growth will slow. But try to get as much growth  
as you can, because fundraising is a segment of time, not a point,  
and what happens to the company during that time affects the outcome.  
If your numbers grow significantly between two investor meetings,  
investors will be hot to close, and if your numbers are flat or  
down they'll start to get cold feet.  
You'll need an executive summary and (maybe) a deck.Traditionally phase 2 fundraising consists of presenting a slide  
deck in person to investors. Sequoia describes what such a deck  
should contain, and  
since they're the customer you can take their word for it.I say "traditionally" because I'm ambivalent about decks, and (though  
perhaps this is wishful thinking) they seem to be on the way out.  
A lot of the most successful startups we fund never make decks in  
phase 2. They just talk to investors and explain what they plan  
to do. Fundraising usually takes off fast for the startups that  
are most successful at it, and they're thus able to excuse themselves  
by saying that they haven't had time to make a deck.You'll also want an executive summary, which should be no more than  
a page long and describe in the most matter of fact language what  
you plan to do, why it's a good idea, and what progress you've made  
so far. The point of the summary is to remind the investor (who  
may have met many startups that day) what you talked about.Assume that if you give someone a copy of your deck or executive  
summary, it will be passed on to whoever you'd least like to have  
it. But don't refuse on that account to give copies to investors  
you meet. You just have to treat such leaks as a cost of doing  
business. In practice it's not that high a cost. Though founders  
are rightly indignant when their plans get leaked to competitors,  
I can't think of a startup whose outcome has been affected by it.Sometimes an investor will ask you to send them your deck and/or  
executive summary before they decide whether to meet with you. I  
wouldn't do that. It's a sign they're not really interested.  
Stop fundraising when it stops working.When do you stop fundraising? Ideally when you've raised enough.  
But what if you haven't raised as much as you'd like? When do you  
give up?It's hard to give general advice about this, because there have  
been cases of startups that kept trying to raise money even when  
it seemed hopeless, and miraculously succeeded. But what I usually  
tell founders is to stop fundraising when you start to get a lot  
of air in the straw. When you're drinking through a straw, you can  
tell when you get to the end of the liquid because you start to get  
a lot of air in the straw. When your fundraising options run out,  
they usually run out in the same way. Don't keep sucking on the  
straw if you're just getting air. It's not going to get better.  
Don't get addicted to fundraising.Fundraising is a chore for most founders, but some find it more  
interesting than working on their startup. The work at an early  
stage startup often consists of unglamorous schleps. Whereas fundraising, when it's  
going well, can be quite the opposite. Instead of sitting in your  
grubby apartment listening to users complain about bugs in your  
software, you're being offered millions of dollars by famous investors  
over lunch at a nice restaurant.  
[26]The danger of fundraising is particularly acute for people who are  
good at it. It's always fun to work on something you're good at.  
If you're one of these people, beware. Fundraising is not what  
will make your company successful. Listening to users complain  
about bugs in your software is what will make you successful. And  
the big danger of getting addicted to fundraising is not merely  
that you'll spend too long on it or raise too much money. It's  
that you'll start to think of yourself as being already successful,  
and lose your taste for the schleps you need to undertake to actually  
be successful. Startups can be destroyed by this.When I see a startup with young founders that is fabulously successful  
at fundraising, I mentally decrease my estimate of the probability  
that they'll succeed. The press may be writing about them as if  
they'd been anointed as the next Google, but I'm thinking "this is  
going to end badly."  
Don't raise too much.Though only a handful of startups have to worry about this, it is  
possible to raise too much. The dangers of raising too much are  
subtle but insidious. One is that it will set impossibly high  
expectations. If you raise an excessive amount of money, it will  
be at a high valuation, and the danger of raising money at too high  
a valuation is that you won't be able to increase it sufficiently  
the next time you raise money.A company's valuation is expected to rise each time it raises money.  
If not it's a sign of a company in trouble, which makes you  
unattractive to investors. So if you raise money in phase 2 at a  
post-money valuation of $30 million, the pre-money valuation of  
your next round, if you want to raise one, is going to have to be  
at least $50 million. And you have to be doing really, really well  
to raise money at $50 million.It's very dangerous to let the competitiveness of your current round  
set the performance threshold you have to meet to raise your next  
one, because the two are only loosely coupled.But the money itself may be more dangerous than the valuation. The  
more you raise, the more you spend, and spending a lot of money can  
be disastrous for an early stage startup. Spending a lot makes it  
harder to become profitable, and perhaps even worse, it makes you  
more rigid, because the main way to spend money is people, and the  
more people you have, the harder it is to change directions. So  
if you do raise a huge amount of money, don't spend it. (You will  
find that advice almost impossible to follow, so hot will be the  
money burning a hole in your pocket, but I feel obliged at least  
to try.)  
Be nice.Startups raising money occasionally alienate investors by seeming  
arrogant. Sometimes because they are arrogant, and sometimes because  
they're noobs clumsily attempting to mimic the toughness they've  
observed in experienced founders.It's a mistake to behave arrogantly to investors. While there are  
certain situations in which certain investors like certain kinds  
of arrogance, investors vary greatly in this respect, and a flick  
of the whip that will bring one to heel will make another roar with  
indignation. The only safe strategy is never to seem arrogant at  
all.That will require some diplomacy if you follow the advice I've given  
here, because the advice I've given is essentially how to play  
hardball back. When you refuse to meet an investor because you're  
not in fundraising mode, or slow down your interactions with an  
investor who moves too slow, or treat a contingent offer as the no  
it actually is and then, by accepting offers greedily, end up leaving  
that investor out, you're going to be doing things investors don't  
like. So you must cushion the blow with soft words. At YC we tell  
startups they can blame us. And now that I've written this, everyone  
else can blame me if they want. That plus the inexperience card  
should work in most situations: sorry, we think you're great, but  
PG said startups shouldn't \_\_\_, and since we're new to fundraising,  
we feel like we have to play it safe.The danger of behaving arrogantly is greatest when you're doing  
well. When everyone wants you, it's hard not to let it go to your  
head. Especially if till recently no one wanted you. But restrain  
yourself. The startup world is a small place, and startups have  
lots of ups and downs. This is a domain where it's more true than  
usual that pride goeth before a fall.  
[27]Be nice when investors reject you as well. The best investors are  
not wedded to their initial opinion of you. If they reject you in  
phase 2 and you end up doing well, they'll often invest in phase  
3. In fact investors who reject you are some of your warmest leads  
for future fundraising. Any investor who spent significant time  
deciding probably came close to saying yes. Often you have some  
internal champion who only needs a little more evidence to convince  
the skeptics. So it's wise not merely to be nice to investors who  
reject you, but (unless they behaved badly) to treat it as the  
beginning of a relationship.  
The bar will be higher next time.Assume the money you raise in phase 2 will be the last you ever  
raise. You must make it to profitability on this money if you can.Over the past several years, the investment community has evolved  
from a strategy of anointing a small number of winners early and  
then supporting them for years to a strategy of spraying money at  
early stage startups and then ruthlessly culling them at the next  
stage. This is probably the optimal strategy for investors. It's  
too hard to pick winners early on. Better to let the market do it  
for you. But it often comes as a surprise to startups how much  
harder it is to raise money in phase 3.When your company is only a couple months old, all it has to be is  
a promising experiment that's worth funding to see how it turns  
out. The next time you raise money, the experiment has to have  
worked. You have to be on a trajectory that leads to going public.  
And while there are some ideas where the proof that the experiment  
worked might consist of e.g. query response times, usually the proof  
is profitability. Usually phase 3 fundraising has to be type A  
fundraising.In practice there are two ways startups hose themselves between  
phases 2 and 3. Some are just too slow to become profitable. They  
raise enough money to last for two years. There doesn't seem any  
particular urgency to be profitable. So they don't make any effort  
to make money for a year. But by that time, not making money has  
become habitual. When they finally decide to try, they find they  
can't.The other way companies hose themselves is by letting their expenses  
grow too fast. Which almost always means hiring too many people.  
You usually shouldn't go out and hire 8 people as soon as you raise  
money at phase 2. Usually you want to wait till you have growth  
(and thus usually revenues) to justify them. A lot of VCs will  
encourage you to hire aggressively. VCs generally tell you to spend  
too much, partly because as money people they err on the side of  
solving problems by spending money, and partly because they want  
you to sell them more of your company in subsequent rounds. Don't  
listen to them.  
Don't make things complicated.I realize it may seem odd to sum up this huge treatise by saying  
that my overall advice is not to make fundraising too complicated,  
but if you go back and look at this list you'll see it's basically  
a simple recipe with a lot of implications and edge cases. Avoid  
investors till you decide to raise money, and then when you do,  
talk to them all in parallel, prioritized by expected value, and  
accept offers greedily. That's fundraising in one sentence. Don't  
introduce complicated optimizations, and don't let investors introduce  
complications either.Fundraising is not what will make you successful. It's just a means  
to an end. Your primary goal should be to get it over with and get  
back to what will make you successful — making things and talking  
to users — and the path I've described will for most startups  
be the surest way to that destination.Be good, take care of yourselves, and don't leave the path.  
Notes[1]  
The worst explosions happen when unpromising-seeming startups  
encounter mediocre investors. Good investors don't lead startups  
on; their reputations are too valuable. And startups that seem  
promising can usually get enough money from good investors that  
they don't have to talk to mediocre ones. It is the unpromising-seeming  
startups that have to resort to raising money from mediocre investors.  
And it's particularly damaging when these investors flake, because  
unpromising-seeming startups are usually more desperate for money.(Not all unpromising-seeming startups do badly. Some are merely  
ugly ducklings in the sense that they violate current startup  
fashions.)[2]  
One YC founder told me:  
  
 I think in general we've done ok at fundraising, but I managed  
 to screw up twice at the exact same thing — trying to focus  
 on building the company and fundraising at the same time.  
  
[3]  
There is one subtle danger you have to watch out for here, which  
I warn about later: beware of getting too high a valuation from an  
eager investor, lest that set an impossibly high target when raising  
additional money.[4]  
If they really need a meeting, then they're not ready to invest,  
regardless of what they say. They're still deciding, which means  
you're being asked to come in and convince them. Which is fundraising.[5]  
Associates at VC firms regularly cold email startups. Naive  
founders think "Wow, a VC is interested in us!" But an associate  
is not a VC. They have no decision-making power. And while they  
may introduce startups they like to partners at their firm, the  
partners discriminate against deals that come to them this way. I  
don't know of a single VC investment that began with an associate  
cold-emailing a startup. If you want to approach a specific firm,  
get an intro to a partner from someone they respect.It's ok to talk to an associate if you get an intro to a VC firm  
or they see you at a Demo Day and they begin by having an associate  
vet you. That's not a promising lead and should therefore get low  
priority, but it's not as completely worthless as a cold email.Because the title "associate" has gotten a bad reputation, a few  
VC firms have started to give their associates the title "partner,"  
which can make things very confusing. If you're a YC startup you  
can ask us who's who; otherwise you may have to do some research  
online. There may be a special title for actual partners. If  
someone speaks for the firm in the press or a blog on the firm's  
site, they're probably a real partner. If they're on boards of  
directors they're probably a real partner.There are titles between "associate" and "partner," including  
"principal" and "venture partner." The meanings of these titles  
vary too much to generalize.[6]  
For similar reasons, avoid casual conversations with potential  
acquirers. They can lead to distractions even more dangerous than  
fundraising. Don't even take a meeting with a potential acquirer  
unless you want to sell your company right now.[7]  
Joshua Reeves specifically suggests asking each investor to  
intro you to two more investors.Don't ask investors who say no for introductions to other investors.  
That will in many cases be an anti-recommendation.[8]  
This is not always as deliberate as its sounds. A lot of the  
delays and disconnects between founders and investors are induced  
by the customs of the venture business, which have evolved the way  
they have because they suit investors' interests.[9]  
One YC founder who read a draft of this essay wrote:  
  
 This is the most important section. I think it might bear stating  
 even more clearly. "Investors will deliberately affect more  
 interest than they have to preserve optionality. If an investor  
 seems very interested in you, they still probably won't invest.  
 The solution for this is to assume the worst — that an investor  
 is just feigning interest — until you get a definite commitment."  
  
[10]  
Though you should probably pack investor meetings as closely  
as you can, Jeff Byun mentions one reason not to: if you pack  
investor meetings too closely, you'll have less time for your pitch  
to evolve.Some founders deliberately schedule a handful of lame investors  
first, to get the bugs out of their pitch.[11]  
There is not an efficient market in this respect. Some of the  
most useless investors are also the highest maintenance.[12]  
Incidentally, this paragraph is sales 101. If you want to see  
it in action, go talk to a car dealer.[13]  
I know one very smooth founder who used to end investor meetings  
with "So, can I count you in?" delivered as if it were "Can you  
pass the salt?" Unless you're very smooth (if you're not sure...),  
do not do this yourself. There is nothing more unconvincing, for  
an investor, than a nerdy founder trying to deliver the lines meant  
for a smooth one.Investors are fine with funding nerds. So if you're a nerd, just  
try to be a good nerd, rather than doing a bad imitation of a smooth  
salesman.[14]  
Ian Hogarth suggests a good way to tell how serious potential  
investors are: the resources they expend on you after the first  
meeting. An investor who's seriously interested will already be  
working to help you even before they've committed.[15]  
In principle you might have to think about so-called "signalling  
risk." If a prestigious VC makes a small seed investment in you,  
what if they don't want to invest the next time you raise money?  
Other investors might assume that the VC knows you well, since  
they're an existing investor, and if they don't want to invest in  
your next round, that must mean you suck. The reason I say "in  
principle" is that in practice signalling hasn't been much of a  
problem so far. It rarely arises, and in the few cases where it  
does, the startup in question usually is doing badly and is doomed  
anyway.If you have the luxury of choosing among seed investors, you can  
play it safe by excluding VC firms. But it isn't critical to.[16]  
Sometimes a competitor will deliberately threaten you with a  
lawsuit just as you start fundraising, because they know you'll  
have to disclose the threat to potential investors and they hope  
this will make it harder for you to raise money. If this happens  
it will probably frighten you more than investors. Experienced  
investors know about this trick, and know the actual lawsuits rarely  
happen. So if you're attacked in this way, be forthright with  
investors. They'll be more alarmed if you seem evasive than if you  
tell them everything.[17]  
A related trick is to claim that they'll only invest contingently  
on other investors doing so because otherwise you'd be "undercapitalized."  
This is almost always bullshit. They can't estimate your minimum  
capital needs that precisely.[18]  
You won't hire all those 20 people at once, and you'll probably  
have some revenues before 18 months are out. But those too are  
acceptable or at least accepted additions to the margin for error.[19]  
Type A fundraising is so much better that it might even be  
worth doing something different if it gets you there sooner. One  
YC founder told me that if he were a first-time founder again he'd  
"leave ideas that are up-front capital intensive to founders with  
established reputations."[20]  
I don't know whether this happens because they're innumerate,  
or because they believe they have zero ability to predict startup  
outcomes (in which case this behavior at least wouldn't be irrational).  
In either case the implications are similar.[21]  
If you're a YC startup and you have an investor who for some  
reason insists that you decide the price, any YC partner can estimate  
a market price for you.[22]  
You should respond in kind when investors behave upstandingly  
too. When an investor makes you a clean offer with no deadline,  
you have a moral obligation to respond promptly.[23]  
Tell the investors talking to you about an A round about the  
smaller investments you raise as you raise them. You owe them such  
updates on your cap table, and this is also a good way to pressure  
them to act. They won't like you raising other money and may  
pressure you to stop, but they can't legitimately ask you to commit  
to them till they also commit to you. If they want you to stop  
raising money, the way to do it is to give you a series A termsheet  
with a no-shop clause.You can relent a little if the potential series A investor has a  
great reputation and they're clearly working fast to get you a  
termsheet, particularly if a third party like YC is involved to  
ensure there are no misunderstandings. But be careful.[24]  
The company is Weebly, which made it to profitability on a  
seed investment of $650k. They did try to raise a series A in the  
fall of 2008 but (no doubt partly because it was the fall of 2008)  
the terms they were offered were so bad that they decided to skip  
raising an A round.[25]  
Another advantage of having one founder take fundraising  
meetings is that you never have to negotiate in real time, which  
is something inexperienced founders should avoid. One YC founder  
told me:  
  
 Investors are professional negotiators and can negotiate on the  
 spot very easily. If only one founder is in the room, you can  
 say "I need to circle back with my co-founder" before making any  
 commitments. I used to do this all the time.  
  
[26]  
You'll be lucky if fundraising feels pleasant enough to become  
addictive. More often you have to worry about the other  
extreme — becoming demoralized when investors reject you. As  
one (very successful) YC founder wrote after reading a draft of  
this:  
  
 It's hard to mentally deal with the sheer scale of rejection in  
 fundraising and if you are not in the right mindset you will fail.  
 Users may love you but these supposedly smart investors may not  
 understand you at all. At this point for me, rejection still  
 rankles but I've come to accept that investors are just not super  
 thoughtful for the most part and you need to play the game according  
 to certain somewhat depressing rules (many of which you are  
 listing) in order to win.  
  
[27]  
The actual sentence in the King James Bible is "Pride goeth  
before destruction, and an haughty spirit before a fall."Thanks to Slava Akhmechet, Sam Altman, Nate Blecharczyk,  
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