

How to raise money before launch

Delian Asparouhov [Follow](#)

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An analogy we use at KV is that building a company is like laying cement. Early on the cement is liquid and malleable – you can stir it around with your hands. As time passes, the cement hardens. Once it solidifies, adjustments require a jackhammer. And jackhammering leads to cracks and lots of noise.

As a result, we prefer to get involved as early as possible in a company so we can help founders lay the foundation correctly. In fact, **our favorite checks to write are \$1–3M checks where we provide the first institutional capital in the company.** But since we get involved so early, there aren't many metrics or traction to help us build conviction. In fact, many of the companies have not even launched a product yet. For example we've funded all of these before launch (Opendoor, Forward Health, IndigoFair, Go Insurance, Ever. AI).

In order to build conviction, **we rely on founders to tell us a compelling story, almost always in the form of slides. We've funded companies almost entirely because of the quality of their seed decks.** Poor deck? We'll likely pass on the opportunity.

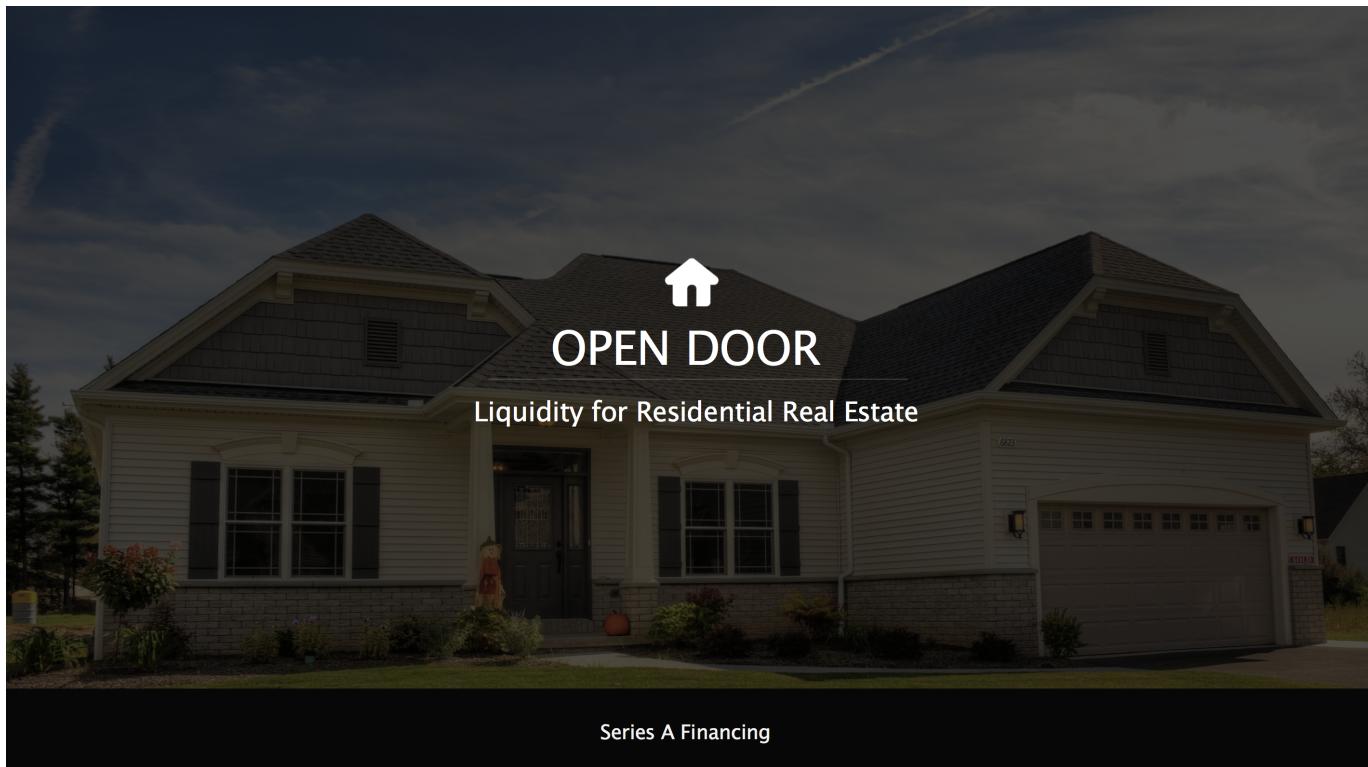
Because seed decks are distinct from later fundraising decks, which often rely on metrics, cohorts, and other empirical evidence of traction, here are the best patterns we've seen from some of our favorites. Full links to the decks here (Opendoor, Wanderjaunt, Even)

The one-liner on the first slide

The best companies are founded from a simple-to-understand value proposition. The first slide highlights that value proposition.

Your first slide is your first impression to investors; the one-liner on it should describe the company vision to employees, and the value to potential customers.

Opendoor was founded off a single value proposition. “Liquidity for Residential Real Estate”



Great decks often provide analogies to help investors understand the business they pitch, e.g. a new twist on a well understood business model. This one got a little clever, and it works:

A slide with the word "wanderjaunt" in orange, defined as a noun. Below it is a numbered list of two items. The first item describes the brand as customer-obsessed and decentralized, enabling a seamless travel experience. The second item notes the best domain name found for \$12/year. A quote follows: "we stayed at a wanderjaunt because we knew what we would get". An analogy is provided: Opendoor for short-term rentals, Starwood/Hilton/Marriott for vacation rentals and serviced apartments.

wanderjaunt | 'wändər, jônt/ |

noun

1. the first customer-obsessed decentralized hoteling brand that enables a seamless travel experience for both guests and homeowners
2. the best domain name the founders could find for \$12/year

"we stayed at a wanderjaunt because we knew what we would get"

analogies: Opendoor for short-term rentals, Starwood/Hilton/Marriott for vacation rentals and serviced apartments

0 Comments

hello@wanderjaunt.com

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Each title tells a story

The next step in building your deck is distilling the story you'll tell into a single paragraph. Each slide in your deck should then dive deep into each particular sentence from that paragraph – the sentence is the title. Below are the titles of each slide in the Opendoor deck:

THE PROBLEM

Residential real estate is one of the largest asset classes, yet one of the least liquid.

Moving is often cited as one of the most stressful events in life.

OUR EXPERIENCE

Simple, Certain & Fast

In all assets, sellers demand and will pay for liquidity.

We are mitigating these three core risks in this first phase.

We have better economics that allow us to optimize data for every home we value.

0 Comments



For every home we purchase, we ensure accuracy.

You can read those headers out loud one after another – it's essentially an elevator pitch for Opendoor. The goal is to have the investors think QED at the end.

What problem are you solving? What about the current state of the world sucks?

One powerful technique is to tell a customer persona story. Even introduced a single mom who works at Starbucks, Amy. Amy's landlord calls her one day and says he will no longer accept late rent payments, and wants this month's rent by tomorrow or he is evicting her:



Amy takes out a payday loan to cover this sudden expense, but the fees and high interest of the loan spiral her into poverty.





Even's team ends the story with a powerful single slide:

THIS IS FUCKED UP

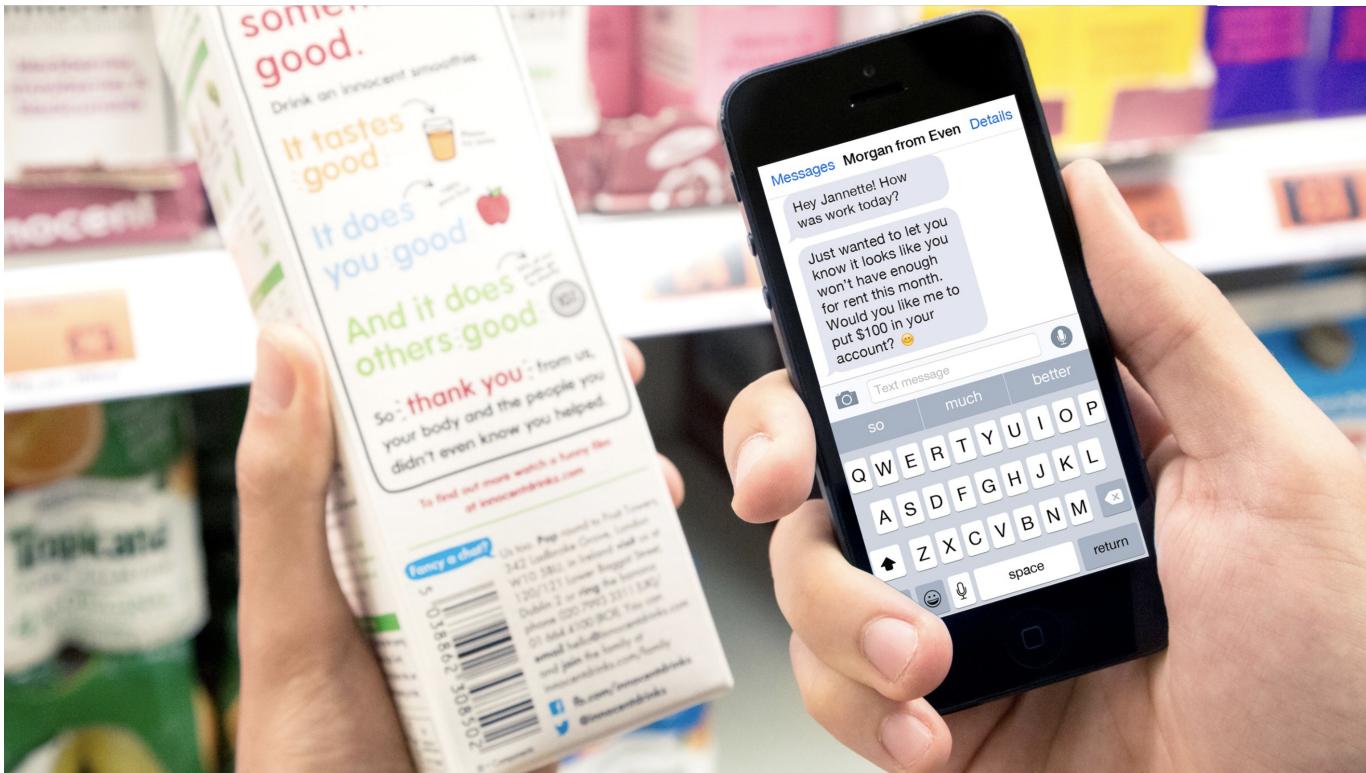
The problem is clear, the current world sucks, and it makes a reader want to drive change.

How is your state of the world better?

Even's deck continues with the story, and shows how the world is better with it around: Even is the friend who can spot Amy, as opposed to the predatory sharks like payday lenders.

0 Comments





Even better if your business model explains why; rather than being incentivized to increase credit utilization, Even is incentivized to decrease it. Even will also cut out most of the costs of running a lending business (e.g. the brick and mortar retail locations).

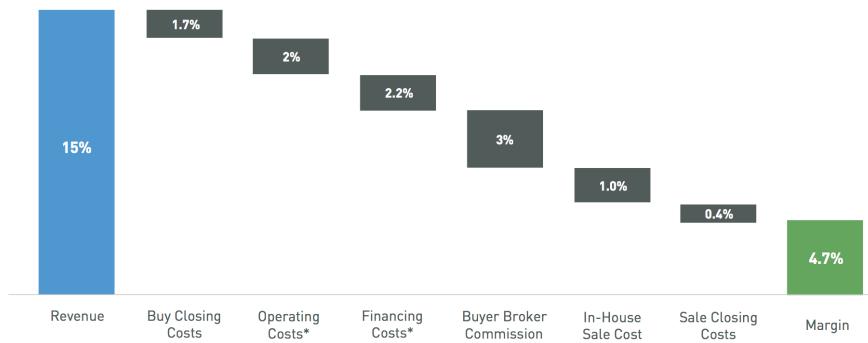
We're flipping the business model and aligning it towards helping people escape wealth transience

	Payday Loan	Even
Revenue source	APR	Flat monthly fee
Incentive	Increase credit utilization	Decrease credit utilization
Regulatory burden	Extremely focused and highly variant by state	Grey area

Where's the money?

The next section should explain who you expect to buy for what. These can be as complex as your projected unit economics:

UNIT ECONOMICS



Or as simple as a headline price for a subscription:

\$0.66/day

What are the risks? What needs to happen for your state of the world to exist?

Between now and you becoming a billion dollar company, what needs to be true? These things can be simple, like “can we scale our customer acquisition while keeping our payback period reasonable”. Or complicated, like “the laws of physics may not permit our technology to be viable”. Opendoor’s were valuation error, outliers, and capital:

THREE CORE RISKS

		
AVM Error	Outliers	Capital
Current AVMs have high variance and are error prone.	During the validation stage, purchasing greatly overvalued homes is a costly mistake.	There are large initial capital requirements to purchase homes.

How much money do you need to remove what risks in what timeframe?

A common metaphor used in VC is investing is like playing poker. At the beginning, we only have a single card in our hand. It might be an Ace; the next four cards could be terrible, or they could be a royal flush.

In order to get the next card and find out, you have to invest more capital. At the beginning of the hand, the possibilities are endless. As you get closer to 5 cards, the possibilities become more limited.

You want to show how the first money in will let you draw a good card. Or better yet, two good cards!

SERIES A FINANCING

Key Objectives

Build AVM

Gather real-time MLS data, location data, seller inputs, and proprietary offline data to build an AVM.

Milestones to Achieve

< 8% Error Instantly, < 4% Error Post-Process

We will be able to instantly price homes with less than 8% median error. Post-process [inspection], have less than 4% median error of the homes we purchase.

0 Comments



Acquire Sellers

Acquire a large sampling ($n=500$) of real sellers looking to sell their home instantly online.

Validate Seller Discount Curve

Analyze both accepts and rejects to statistically validate conversion rates across various discounts and seller types.

Acquire and Sell Homes

Acquire, rehab, maintain, and sell 50-150 homes in one geo.

Validate Cost Structure

Confirm the cost structure of acquiring, financing, maintaining, and selling properties.

We're raising \$9m in our Series A to execute on three key objection.

Why are you the team that can do this?

The best thing you can do is explain why you are the team best suited to tackling this problem, over anyone else in the world. Startups are really fucking hard, why do you have an unfair advantage?

The worst thing you can do is give us a bunch of photos, names, logos, and university emblems. This is complete fluff and tells me nothing about why you're more likely than others to solve a specific, hard problem.

One of my favorite team slides is from IndigoFair:



Daniele Perito

As Director of Risk and Security for Square Cash, Daniele designed and implemented the anti-abuse and anti-fraud systems that make Cash possible. He got his PHD in Computer Science with a focus on security and machine learning.



Marcelo Cortes

Marcelo has over 18 years of software experience. He led the engineering team that launched Google+ for Android, before leading the server team for Square Cash since the project started almost 4 years ago.



Max Rhodes

As a Director of Product at Square, Max was a founding team member on several key initiatives, including Square Capital (\$1Bn deployed), Square Cash (3M MAUs), and Caviar.

When you see this slide, you immediately grok that these guys have an unfair advantage serving SMBs.

If you've followed this guide then please send us your seed deck, we'd love to chat. Email me at da@khoslaventures.com

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