

# 101 Fundraising

## Fundraising Introduction

There is no greater fundraising advice than: build a product users love, grow month over month, and go after a large market (problem). The better you execute on these fundamentals of a good business, the easier it will be to fundraise. The best founders use this advice to gain leverage over investors when raising their rounds. Average founders skim this material and often copy what their peers do or get advice from friends.



# Fundraising Framework: Condensed Direction

**Core Principle:** Build product users love + grow MoM + target large market = fundraising leverage. Everything else follows from execution, not positioning.

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## Timing

Start meetings 2 weeks before Demo Day. Before that, have:

- Custom Fundraising Plan (you + group partners only—don't share the tiers)
- Fundraising Office Hours complete
- Deck prepared
- Investor CRM with 5-10 warm leads

**Early fundraising only makes sense if:** (1) money offered with zero work, (2) serious VC leading your round, or (3) you're a proven fundraiser/running out of cash.

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## The Three Plans

**Cockroach Plan:** Minimum to survive 8-12 months to next fundraising window. Safety net.

**Success Plan:** Amount needed for 18-24 months to Series A milestones at 10-15% dilution. Target this publicly.

**High Dilution Plan:** If you want >\$3M or have Series A investors pre-demo day offering large checks.

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## Investor Prioritization (Speed > Prestige)

1. Friends & family (\$25K, closes instantly)
2. Eager angels (move fast, no conditions)
3. Domain expert angels (social proof, quick decision)
4. Well-respected angels (harder meeting, but closes fast)
5. Seed firms (only after momentum from above)
6. VC firms (lowest conversion, don't lead with these)

Seed firms and angels move fast. Series A VCs meet 100-250 companies per check—assume most who seem interested will pass.

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## Pitch Execution

**Confidence > everything else.** Speak slowly. Know your 3-5 vertebrae cold. Use specific stories, not jargon.

**Engagement is the meeting.** Ask investors questions early. Make it a conversation, not a lecture. Watch their engagement level. Control the flow.

**End with clarity:** "How are you thinking about us? Do you need more info before deciding?" Get explicit next steps.

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## Handshake Protocol (Binding)

Once investor says "I'm in for [amount] at [cap]":

You confirm: "Confirm \$X at \$Y cap on post-money SAFE, no side letters?"

They reply: "Yes."

→ Done. Send SAFE same day.

Until this happens in writing, it's not a deal.

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## Cap & Dilution Math

**SAFE, not priced rounds** for 95% of companies. Safes close faster, lower legal fees, no board seat unless you agree.

**Don't offer pro-rata, MFN, or info rights**—let investors ask. Agree only to standard forms.

**Dilution targets:** 10-15% per round for sustainable control. >20% early = regret in Series A.

**Raising cap:** Once you hit your Success Plan, you can raise cap on new investors. Honor old caps for investors who moved fast early.

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## Common Investor Questions (Prepped Answers)

- **"How much are you raising?"** → Your Success Plan number. "Already closed \$X."
- **"Why that valuation?"** → Comps + market rate for traction. Don't justify with financials.
- **"Is that enough?"** → Model: "Hit \$1.5M ARR in 12 months at <\$50K/mo burn = 20 months runway."
- **"Who else invested?"** → Name closed SAFEs only. No speculation.
- **"Do you have a lead?"** → "Closing quality investors as they commit, moving fast."

**Don't overstate round momentum.** Signed SAFEs only count. Verbal offers don't.

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## Momentum Mechanics

Take small checks from angels early → creates proof → seed firms respond → bigger checks follow → use momentum to push final investors.

**Don't wait for big checks.** Money is money. Use small wins to pressure larger investors.

**Follow up aggressively** after good meetings: "When should I expect to hear from you?"

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## What Kills Rounds

- Taking meetings before fundraising plan is set (distraction, no narrative)
  - Pitching investors you're unsure about (wastes time, builds bad habits)
  - Overselling round progress (destroys credibility instantly)
  - Raising too much (missed Series A leverage, burned capital on hiring pre-PMF)
  - Selling >15-20% in seed (dilution compounds, limits control)
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## Post-Handshake

**Side Letters:** Don't agree to pro-rata, MFN, info rights, or board seats without discussion with lawyers ([asklegal@ycombinator.com](mailto:asklegal@ycombinator.com)).

**Cap table:** Post-handshake, share it. Pre-handshake, only if investor is large/serious.

**Crypto payment:** Avoid unless investor settles to USD themselves. If they insist: OFAC check them, use custom SAFE with compliance reps, assume tax/exchange risk.

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## Series A Readiness

**Enterprise SaaS:** \$1M+ ARR, multiple 6-figure contracts or pipeline.

**B2B SaaS:** \$100K+ MRR, 20%+ monthly growth for 6-12 months, good retention/CAC/payback.

**Consumer:** \$100K+ MRR, 20%+ growth, high retention, defensible unit economics.

**Marketplace:** \$1M+ GMV, \$100K+ revenue, supply/demand balance proof.

**Hardware/Bio:** Technical milestone or signed contract proving path forward.

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## Investor Updates

Send monthly to all investors (including YC: updates@ycombinator.com).

### Format:

- Lead with 1-3 KPIs + % change
- Cash in bank, net burn, runway
- 2-3 highlights + lowlights
- Specific asks (intros, advice, feedback)
- Next month's goals

**Tone:** Honest. Bad months still get updates. Silence = you're dead.

**Length:** 1-minute read. Metrics first, text buried.

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## Distribution of Outcomes (Thirds)

**Top third:** Close in 4 weeks. Demo Day is deadline. Hit cap quickly.

**Middle third:** 1-2 months of grinding. Many maybes and nos. Use Demo Day to finish.

**Bottom third:** 3-4 months post-Demo Day. Need to adjust expectations. Persistence wins.

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## Avoid These Myths

1. Raising most money = winning. (No. Product + growth + market = winning.)
  2. More money = more runway. (No. More money = more burn. Smaller teams reach PMF faster.)
  3. Lead investor required. (No. Most YC seed rounds have no lead. Close sequentially on SAFEs.)
  4. High-cap = signal. (Backward. High cap early = low cap later when you want to raise more = dilution math fails.)
  5. Seed investors don't help Series A. (Not true for YC. Numbers are the signal, not cap table.)
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## Final Mechanics

- **Custom plan stays private.** Public answer: "Raising \$X, already closed \$Y."
  - **Every meeting is a pitch,** regardless of what investor claims.
  - **Intros from passed investors are worse than no intro.** Don't take them.
  - **Decoding investor speak:** "We could come in for \$X" ≠ commitment. "We could invest more" = they want higher dilution. "Great conversation" = they were nice but uninterested.
  - **Believe the no, not the why.** Investors lie about reasons; they don't lie about passing.
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**Bottom line:** Execute relentlessly on product/growth. Investors follow traction. Fundraising is a sales process—treat timing, momentum, and clarity as your levers. Control cap and dilution; everything else is noise.



# Complete Fundraising Guide

## When to Start Fundraising

### Introduction

It is your responsibility to decide when you should start fundraising. For most companies, fundraising meetings should start 2 weeks before your major pitch event or deadline. Before this time period, you should have the following completed:

- Custom Fundraising Plan
- Fundraising Office Hours (or equivalent guidance)
- Fundraising Deck
- Investor CRM with first 5-10 leads

Before having investor meetings, it is strongly suggested you have your fundraising preparation with your advisors or mentors. This special preparation will happen 3-4 weeks before your major pitch event, but if you need to do it earlier, request it sooner.

### Should You Start Fundraising Earlier?

Here are situations where it makes sense to start fundraising earlier:

- 1. If you can raise money from a good investor at a good price without any work at all** (no decks, meetings, etc). Basically if a good investor is offering you money and you don't have to do anything to take it. Please note that many founders confuse an investor wanting a meeting with an investor offering money.
- 2. If a good investor at a reputable institutional fund is serious about investing in your company.** Serious means that they want you to pitch to the entire partnership and lead your round. This is rare but it does happen. Please note that just getting an email from a partner at a good firm does not count. When a good firm is serious about

pursuing you, a partner at the firm will be aggressive about you coming in to pitch.

**3. If you are a great fundraiser.** Signs of a great fundraiser include but are not limited to: you've already had a significant startup exit or there are a large number of investors who are interested in giving you money right now. If you're not sure whether you are a great fundraiser, you probably are not. If you want to double check, talk to your mentors or advisors.

**4. If you are going to run out of money before the end of your program / you need more money than your accelerator's investment to hit your major deadline goals.** If you do start fundraising early, understand the danger of what you're doing. Investors habitually act more positive about you than they feel, and they invest in very few companies. So if you spend weeks courting them and none ultimately invest, you could find yourself on your major deadline with no deal and also no product or growth to impress the investors with. This has happened in the past. Furthermore, if you pitch an investor and they pass, it is very hard to convince them to invest a couple of weeks or months later. Expect investors to email you.

## **Expect Investors to Email You**

As accelerator programs have become more popular, investors have become more focused on scouting the cohort and learning who all the companies are before the major pitch event. As a result, you should expect investors to reach out to you cold during the program. This doesn't happen to every company but will happen to many of you (especially if you launch publicly on Product Hunt or Hacker News).

This is a new experience for many founders who have always had to proactively reach out to investors in the past. Please understand the following:

- This is happening to many companies in the cohort.

- Just because an investor wants to meet doesn't mean they want to invest.
- Especially larger firms who like to meet many companies but write very few checks.
- Just because an investor wants to meet doesn't mean they are really interested in your company.
- A lot of investors want to meet companies to hear your opinions about your peers or to learn about your market.
- It is not impolite to delay meeting an investor.
- Many founders think putting off a meeting or scheduling a meeting more than a month out is being rude. It is not. In fact it is the opposite—it is being smart.
- Investors expect you to have a fundraising plan and respect you when you stick with it (regardless of what they say).
- Every meeting with an investor is a pitch—regardless of what the investor says.
- Every meeting is used to build a case for whether the investor should write a check (or not).
- If you are not fundraising till the last 2 weeks of your program (which is most typical), you should not change your fundraising plans because investors are emailing you.

## **How to Reply to an Investor Email / How to Schedule Investor Meetings**

### **Introduction**

As soon as investors find out that you are in an accelerator program (typically from when you launch, or update your LinkedIn profile), they will start reaching out to you. This guide will tell you what to do when that happens.

## **What to Do When You Receive Emails from Investors During Your Program**

**1. Look up the investor.** Determine whether they are a partner (or someone who can write checks) or not. See what other founders have said about them and what type of deals they do. Make a decision about whether it makes sense to talk to them at all. If after doing research this isn't clear, feel free to ask your mentors or advisors.

**2. Consider scheduling meetings with angels and seed funds who write a lot of checks.** They make decisions quickly and help build social proof/momentum. Read more about this here: [Which investor meetings to schedule first.](#)

**3. If this is an investor you would potentially like to raise money from:** Put them into your Investor CRM. Most companies typically start fundraising 2 weeks before their major deadline. If this is what you've decided to do, reply to the investor, agree to a meeting, and schedule a meeting for the two weeks before your deadline. This should be your approach for the majority of investor emails you receive.

If you have decided to start fundraising earlier in your program, then you should schedule a meeting for a date a week after you will have completed fundraising prep with your mentors. If you plan to do this, please raise it explicitly with your advisors—early fundraising is not recommended for most companies.

**4. If you get an email from an investor you really don't want to raise money from,** the best way to reply is to tell them that your head is down working on your startup and it would be better to talk after your major deadline. This should be relatively rare—you should follow step 3 for the majority of investor emails.

### **Are Investors Not Responding?**

We frequently hear reports of founder emails marked as spam. Check that your domain has SPF, DKIM, and DMARC set up properly using a site like <https://www.learndmarc.com/>. See this more in-depth guide.

## Example Email Response

"[Investor Name], Thank you so much for reaching out. We aren't currently fundraising but would be happy to schedule a pitch meeting closer to [your major deadline]. Are you free at [time/date]?"

Best, [founder name]"

## Common Mistakes

- Thinking that the advice is to not talk to any investor before your major deadline. (See: When to start fundraising)
- Waiting to schedule a meeting with an investor you would like to talk to because you aren't fundraising right now. (See example in section 4 above)
- Taking fundraising meetings before you have decided to start fundraising or before completing your fundraising preparation. Fundraising is very distracting and every meeting you have with an investor is a pitch (regardless of what they say or of whether you are presenting a deck). It is strongly recommended that you complete fundraising prep before you start raising.
- Thinking that the best way to optimize your program is to take as many fundraising meetings as possible. The best way to optimize is to accomplish something. Investors are attracted to companies that are growing usage/MRR, getting LOIs/Pilots/Deals signed, and/or who are accomplishing technical/scientific milestones.
- Trying to optimize for meeting as many "Top Tier" investors as possible, and ignoring other investors. The reality is that these investors make relatively few investments; the majority of funding comes from other investors.

# Fundraising Advice / Tactics

## Expectation Setting

### Introduction

Over the years fundraising has evolved. In the early days, \$250k - \$500k seed rounds at \$3m - \$4m valuation caps used to take a couple of months to raise. Later, seed rounds and valuations increased but still, most investor leads came from your major deadline and most fundraising happened after that event.

However, in the last 3-4 years it's become clear to the early stage investor community worldwide that accelerator program cohorts represent the highest quality cohort of startups that exist. Today it's much more common for founders who have publicly launched to receive most of their inbound interest & investor leads from investors who regularly invest in accelerator companies before the major deadline.

For the most part this is great for founders (who doesn't want inbound investor leads?) but there are a number of non-obvious implications:

- You will often be pressured to take investor meetings before you are ready and you will have to push back and schedule those meetings in the 2-3 weeks before your major deadline.
- Many of the leads you would have gotten at your major deadline in years past will now proactively reach out to you before that event.
- Those of you with the most traction & investor interest will raise significant amounts of money before your deadline and see that deadline as a closing deadline instead of a starting point for fundraising.
- You no longer have to rely on your major deadline being your most important source of investor leads, and trading leads between your peers can be amazingly effective.
- People giving you advice about how to optimize your fundraising process might not be aware of all of these changes.

What hasn't changed is that fundraising takes a lot of energy and focus. It is strongly recommended that the CEO focuses on fundraising preparation and pitching and the rest of the founding team focuses on the product, customers, growth and retention.

## **Fundraising Amounts and Valuations**

In recent years, founders are successfully raising money. Generally, seed rounds are between \$500k-\$2m and valuations are between \$10m - \$20m. However, companies that require significant capital (operationally intensive businesses, hardware, moonshots, bio/life science etc) may find it harder to fundraise than their traditional software counterparts and should plan accordingly.

The best way to convince investors to give you money is to make measurable progress on your KPI during your program. The second best way is to not need their money by reaching breakeven (or ramen profitable). If you make enough money to sustain your startup without needing additional cash—investors are far more excited to invest. One famous example: Airbnb did this during the 2008 crisis and raised from top tier investors.

Finally, remember that it is easy to get addicted to fundraising and raise too much money. Successful founders always tell us they wish they raised less money in their early stages and had smaller teams until they hit product market fit (when fundraising becomes easier and less dilutive).

## **Getting Investor Leads**

Please understand that your major deadline should not be your only source of investor leads. Be resourceful. Once you start taking investor meetings (typically 2-3 weeks before your deadline), you should ask for investor introductions from your peers, mentors, other founders, and/or existing investors. You should also use investor databases to search for investors who have invested in your industry or who have previously been successful in your industry. These investors can be a strong signal to other investors who may be less familiar with your industry.

Investors who have invested in non-competitive but related companies are a great starting point and use that to find investors with whom they co-invest. Add all of these investors to your Investor CRM, making a note of how you found them, and if someone you know can introduce you to them. Spending time very early in the process getting a lot of leads is very helpful.

## **Distribution of Fundraising Outcomes**

Fundraising outcomes are distributed in a fairly predictable way. You can roughly think about any cohort in thirds.

### **Top Third**

The top third of the cohort (as decided by investors) won't have too much trouble fundraising. It might take up to a month to get all the money in the bank but by and large, it won't be too painful. These founders will often do their public launch within the first month of the program and get a lot of investor interest in the 3-5 weeks before their major deadline.

If you are this type of company, your deadline is a strong tool for you to use as a closing deadline. You can convince the investors you are interested in closing your round before your deadline when many more investors will learn about you. In this way, your deadline is extremely effective.

Please remember though that just because investors like your company, that doesn't mean you have product market fit, it doesn't mean all your customers love your product, it doesn't mean you should start hiring a huge team, etc. Consider yourself lucky, help your peers with investor intros, and stay focused on your KPI and secondary metrics. Those numbers are the true scorecard for where you are as a company and they don't lie.

### **Middle Third**

The middle third of the cohort (as decided by investors) will find fundraising hard. They often wait till the last month of the program to do their public launch and get fewer pre-deadline leads. They will

be discouraged that it is taking longer than it takes their peers in the top third and they will have to work through a lot of maybes and no's to hit their fundraising goal.

These companies will usually raise 10-30% of their fundraising round before their major deadline and will use that deadline, their peers, and mentors to help them get the intros they need to close their rounds.

If you are in the middle third and you go into fundraising with clear expectations then you will not lose motivation and will often complete your fundraise within 1 - 2 months.

### **Bottom Third**

The bottom third of the cohort (as decided by investors) will often have to change their expectations of how much money they will raise and/or their valuation cap. They will have to deal with many more no's than the middle third and it can take up to 4 months to finish fundraising.

These founders often find it discouraging to raise money for so long and some give up fundraising before they reach even their revised goal. But the companies who keep their emotions in check, continue growing their startup post deadline, and don't give up will often reach their fundraising goal given enough time. Many successful companies did not have an easy time fundraising on their major deadline.

### **SAFEs v. Priced Rounds**

This article is about the pros and cons of doing your seed round as a priced round versus raising it on SAFEs. In almost all cases, companies should plan to raise their seed round on SAFEs, but be open to doing a priced round if a lead investor wants to structure their investment that way.

Typically, companies end up doing a priced round if a single investor wants to invest \$1m or more and asks to do it using a priced round. Approximately 5% of companies will end up raising their seed as a

priced round; the other 95% will end up raising it on SAFEs. But even for the 5% that end up doing a priced seed, they usually start by planning to raise on SAFEs and end up doing a priced round because an investor requests it.

There is nothing wrong with doing a priced round if you have a lead investor that wants to put money in on a priced round instead of SAFEs. Don't immediately reject a priced round just because it is priced—you should also consider the terms of the round, who the investor is, and how much you need the money.

A primary benefit of the SAFE is speed and simplicity—it allows you to get the money in, and fast. The legal fees are much less. It's also much less common to give a board seat to a SAFE investor. Most importantly, SAFEs allow you to close each investor as soon as they agree. With priced rounds, every investor in the round needs to be committed before the deal is done.

If you decide to do a priced round, you could consider agreeing with your investor to use less onerous documents than standard forms, which are quicker and cheaper (in terms of legal fees) to close—though once you raise a Series A, you will have to move to standard forms, so in the long run you will not save money.

### **SAFE v. Priced Round Comparison**

**Time:** It takes a lot longer to close a priced round (at least a few weeks), whereas a SAFE can be signed in one day.

**Order:** SAFEs can be done sequentially with investors. In a priced round all of the investors need to close together (or at least a majority close with the lead investor, and a smaller number of investors come in at subsequent closings, if this is agreeable to your lead).

**Costs:** Lawyer fees are much higher in priced rounds. For example, if the priced round term sheet has you reimbursing the lead investor for \$30k in legal fees, expect your total spend on legal to be up to ~\$90k since company counsel fees are typically about 1.5-2x investor counsel fees.

**Term Negotiations:** There are no term negotiations other than cap (and potentially investor required side letters) with a SAFE, whereas there are many more terms to be negotiated in a priced round.

**Board Seats:** The lead investor often requires a board seat in a priced round. With SAFEs a board seat is very unusual.

**Follow-on Money:** Bringing in additional angels/raising bridge money after a priced round but before your next priced round is a little more strategic than just raising more on SAFEs. You would either have to expand the round (with your investors' consent) and issue shares at the same price, or issue SAFEs to the investors at a cap that makes sense.

**Venture Debt:** It might be possible to raise a small amount of venture debt if you have done a priced round, whereas it will probably be impossible if you raise on SAFEs.

## **Taking Crypto as Payment**

Occasionally companies are approached by investors asking if they can invest, but use cryptocurrencies instead of USD to fund their investment. Is this ok? The short answer: it depends. Think carefully about whether it makes sense. Below are some tips to help you do that.

### **1. Ask the Investor if They Can Just Settle Into Dollars Themselves**

Taking crypto directly means you have to do the settlement and conversion into dollars yourself. That means you take on exchange rate risk, plus you have to be responsible for the transaction fees and taxation on any profit from the conversion into dollars.

If the crypto increased in value between receipt and you converting it into dollars, or any other cryptocurrency, the company probably owes taxes on the gain (confirm with a tax advisor, as these rules may be subject to change). Even if everything else looks legitimate, that's still extra work that the investor is making you go through, so ask yourself if it's really worth it.

### **2. If the Investor is a "Random"**

If you don't know them personally, and they aren't an established angel investor, affiliated with an institution, etc.—think carefully about why they're insisting on paying this way and diligence the investor. Why don't they want to settle into dollars first? Is it to avoid taxes on their end? Why don't they have a US bank account? Is there some important reason they can't get one?

Spend at least a little time getting to know the investor or doing diligence on them, even if that's just Google searches. Reference checks are even better if possible. Remember, once you take their investment, this person is going to be on your cap table for a very long time.

### **3. If You Still Want to Take Crypto as Payment**

Below are a few additional steps you can take that may help protect you from undue regulatory risk. Following these steps will help reduce risk, but how much is hard to say, and they definitely do not eliminate it.

**Avoid acting like an exchange yourself.** For example, don't connect the person who wants to use crypto to people who want to buy crypto and take a cut of the transaction. If you do, you are triggering a host of burdensome regulatory requirements that have nothing to do with your core business.

**If you plan to hold the crypto,** talk to your lawyers about the risk of becoming an inadvertent "Investment Holding Company." That status might be triggered if the crypto you are holding exceeds 40% of the total value of the company's assets (inclusive of the crypto, and note that it is assets, not equity value of the company). Crypto prices are very volatile, and the value of your assets at this stage is unlikely to be much more than the amount of cash you have, so a sudden spike in the crypto's value could thrust you into that category and trigger another set of regulations.

**It's illegal to do business with anyone on the OFAC Sanctions List.** That list includes countries but also banned individuals. If your investor insists on using crypto because they are foreign or based

abroad, check the list to see if they are on it. You can search the list here: <https://sanctionssearch.ofac.treas.gov/>

**Use a customized SAFE** that includes additional representations from the investor that they are in full compliance with all laws that apply to them OR the company. Talk to your lawyers about this. Some suggested language is below:

"The Investor hereby represents that it has satisfied itself as to the full observance of the laws of its jurisdiction, and the laws of any jurisdiction applicable to the Company, in connection with any invitation to subscribe for this instrument or any use of this instrument, including (i) the legal requirements within its jurisdiction for the purchase of this instrument, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained, (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale, or transfer of this instrument, and (v) any anti-money laundering or similar laws, rules or regulations. The Investor's subscription and payment for and continued beneficial ownership of this instrument will not violate any securities, commodities, money transmission, financial or other laws applicable to the Investor or the Company. For the purposes of the foregoing, the term "instrument" also includes any securities issued upon conversion, exchange or cancellation of this instrument."

## **Investor Diligence**

### **Pre Handshake Agreement SAFE Round Diligence**

Before agreeing to invest, some investors will ask for basic company financials, copies of important agreements/customer contracts/LOIs, etc. In general, it's good to place a copy of all of these documents into a Google or Dropbox folder that is easily shareable. However, it's just as common that investors don't ask for the information, especially if you are a very new or pre-revenue software startup.

### **Post Handshake SAFE Round Diligence**

Sometimes investors ask for your certificate of incorporation, other governance documents, and cap table. It's perfectly reasonable to share this information with an investor who has agreed to invest in your company. In general, it's good to place a copy of all of these documents into a Google or Dropbox folder that is easily shareable. However, it's just as common that investors don't ask for the information, especially because they know that your accelerator program has reviewed all of these documents as part of your onboarding.

### **What Do Investors Mean Exactly by Share Your "Cap Table"?**

Typically this is a spreadsheet where one tab has your share numbers (i.e., how many shares and what % of the company each founder owns) and a separate tab with SAFE information. If you are using cap table management tools like Pulley or Carta, there are downloadable versions that can be used.

In the tab with SAFE information, you can provide a detailed listing of each investor name and amount (assuming you have not signed any side letters agreeing to keep the identity of an investor confidential), or you can tell them "\$[x] was invested at [y] cap, \$[z] was invested at [a] cap, etc.," omitting actual investor names.

If you are debating whether or not to share this information with an investor prior to them investing, feel free to ask your mentors—the answer will likely depend on check size and quality of the investor. (Whereas with investors who have committed to investing, it's normal to provide this information upon request.)

### **Series A (Priced) Round Investor Diligence**

Investor diligence in your Series A round will be much more comprehensive than for a SAFE round. Both sides will have lawyers, and the investors' lawyers will be conducting diligence on your cap table, company structure, intellectual property, any regulatory or licensing issues, and any outstanding or threatened litigation. A sample due diligence checklist can be found at standard legal resources.

# Investor Side Letters

## Pro Rata Side Letters

An investor wants to have a pro rata side letter in a SAFE round. Should you say yes?

Pro-rata rights are the most commonly negotiated extra term when raising on SAFEs. Here are some rules of thumb about giving pro rata rights:

- Don't offer pro rata to anyone in a SAFE round; let them ask for it first
- Only give pro rata to large investors (typically \$250K+) if possible
- You might also give pro rata to checks that bring extra value, like your first check, or your first check at a new higher cap
- You can also consider using pro rata rights as a bargaining chip to get investors to put in more money: "Well, you're only investing \$150K; we're reserving pro rata for investors who invest \$250K+"
- If you are in a capital intensive business (i.e., hardware, hard-tech, bio, on-demand services), giving away pro rata rights is cheap for you because you will need a lot of capital in each round anyway
- Try not to give more than a handful of investors pro rata
- Don't worry too much about it, it probably won't make a big difference either way
- Confirm the pro rata right will be documented using the standard pro rata side letter

If you give pro rata to an investor and they introduce you to another investor, that investor will typically expect to get pro rata too.

If you have an investor who is asking for pro rata and you don't want to give it, here's a useful line to gracefully decline: "I promise to you I will make room in the next round for the investors who move the needle for us." This also incentivizes them to be helpful!

If you've agreed to give pro rata to an investor, next make sure that the paperwork is correct. If the pro rata side letter that the investor provides isn't the standard form, reach out to your legal resources. Occasionally investors will provide side letters with non-standard pro rata rights that are much more expansive than the standard letter.

You can tell if it is the standard form because it will include the following sentence in the last paragraph: "This Agreement is the form available at [standard location] and the Company and the Investor agree that neither one has modified the form, except to fill in blanks and bracketed terms."

### **How Will Pro Rata Rights Affect Dilution in Future Rounds?**

Here is a simple example to understand how this will work and estimate the dilutive impact of pro rata. Suppose in your seed round, investor X buys 10% of your company (for example, by investing \$1M on a \$10M post-money cap SAFE) and has a pro rata right based on the standard pro rata side letter. Later, in your Series A, you sign a term sheet with a lead investor to raise a total of \$20M at an \$80M post-money valuation, with the lead investor putting in \$17M and the remaining \$3M to be allocated to other new investors and existing investors' pro rata.

Investor X's pro rata in this round will be approximately  $10\% * \$20M = \$2M$  (note: the valuation is not a factor). So Investor X will be entitled to invest \$2M into this round and you will have \$1M remaining to allocate to other new investors, assuming no other existing investors have pro rata rights ( $\$20M$  round - ( $\$17M$  from the lead +  $\$2M$  from Investor X)).

Note these calculations are estimates because they don't take into account the impact of any option pool increase adopted as part of the Series A round.

### **Information Rights Side Letters**

An investor wants to have an information rights side letter in a SAFE round. Should you say yes?

Information rights are standard in priced rounds, but sometimes investors will also ask for information rights in connection with a SAFE round. Here are some rules of thumb about giving information rights:

- Don't offer information rights to anyone in a SAFE round; let them ask for it first
- Information rights are generally reasonable to give if they are limited
- Consider whether you're already preparing the requested information for other investors or customers. If you're not already preparing financial statements then it may be too much of a hassle to pull them together for a single investor
- Try to use the same form of information rights side letter with investors so that you do not have to track different information and timing requirements
- Make sure that the information rights don't require audited financial statements. Any requests for financials in a SAFE round should be for unaudited financial statements
- Any information that an investor receives should be covered by a confidentiality provision in favor of the company which does not terminate with the termination of the side letter

If you've agreed to give information rights to an investor, next make sure that the paperwork is correct. If an investor asks for information rights, you can present them with a standard form of information rights side letter. If the investor will not agree to use this form and sends you their own side letter, you can reach out to your legal resources to see if it is standard.

## **MFN Side Letters**

An investor wants to have an MFN side letter in a SAFE round. Should you say yes?

Sometimes investors will ask for MFN rights in connection with a SAFE round. Here are some rules of thumb about giving MFN rights:

- Don't offer MFN side letters to anyone in a SAFE round; let them ask for it first

- Typically MFN provisions are found in uncapped SAFEs because investors want someone else to set the cap
- Try to avoid giving MFN rights to investors with capped SAFEs if possible. Giving MFN rights to investors with capped SAFEs means you will not be able to lower the valuation cap for anyone else without giving the MFN investors the benefit of the lower cap
- You can always offer to keep investors on the same terms (verbally or via email) rather than include a contractual MFN right in a side letter
- If you agree to give MFN rights, try to use the same form of MFN side letter with investors so that you do not have to track different notice and amendment requirements
- If you've agreed to give MFN rights to an investor, next make sure that the paperwork is correct. If an investor asks for MFN rights, you can present them with a standard form of MFN side letter. If the investor will not agree to use this form and sends you their own side letter, you can reach out to your legal resources to see if it is standard

MFN provisions need to be reviewed carefully because there are certain MFNs that allow investors to cherry pick terms given to other investors, and other MFNs that apply to SAFEs issued to earlier or later investors—neither of these types of provisions should be agreed to.

### **An Investor is Asking for the Same MFN Provision as Your Accelerator Program**

Your accelerator program's MFN right, if it exists, is unlike most MFN provisions you will see because it covers a specific period and works automatically. It is specific and doesn't make sense for other investors.

### **Management Rights Letters**

An investor wants a management rights letter ("MRL") in a SAFE round. Should you say yes?

MRLs provide investors with some basic information rights and guarantee management access. Here are some rules of thumb about giving information rights:

- Don't offer management rights to anyone in a SAFE round; let them ask for it first
- Management rights are often needed by funds for their own compliance purposes, and are generally reasonable to give if the MRL is on the standard NVCA form
- Try to use the same form of MRL with investors (the standard NVCA form) so that you do not have to track different information requirements
- Any information that an investor receives under an MRL should be covered by a confidentiality provision in favor of the company which does not terminate with the termination of the side letter

If you've agreed to give management rights to an investor, next make sure that the paperwork is correct. If an investor asks for management rights, you can present them with the standard NVCA form of MRL. If the investor will not agree to use this form and sends you their own side letter, you can reach out to your legal resources to see if it is standard.

MRLs need to be reviewed carefully to make sure that the language is not overreaching.

## **What to Do if You Get a Term Sheet**

We recommend that the vast majority of companies raise money with SAFEs and don't need to worry about term sheets and priced rounds. A few companies will either raise a Series A or raise a priced round from investors. This article is for these companies.

### **Negotiating Priced Rounds**

Ok, you've decided a priced round is right for your company. Now what?

**Strategy:** Read the sections on Preparing for your Series A and the Series A guide thoroughly.

**Term Sheet Negotiations:** It's imperative that you have your own lawyers involved at the term sheet stages. If you think you may be doing a priced round, you should engage a lawyer well in advance of receiving your first term sheet—it can take several days to run conflicts checks and formally begin the relationship.

The term sheet isn't just a formality—it includes many terms that will have a substantial impact on your company for (hopefully) years to come. Don't try to do this on your own. Have trusted counsel review every term sheet.

**Lawyer Referrals:** See standard lists of recommended law firms. If you would like help finding legal counsel, reach out to appropriate resources for referrals.

## **Understanding Priced Round Deal Terms**

Educate yourself on deal terms so that you understand what you're agreeing to. That said, work with a lawyer you trust because it's not realistic to become an expert in a subject matter that you negotiate only once every year or two. Here are some good resources to get started:

- A Standard and Clean Series A Term Sheet
- Maintaining Control of Your Company
- Common Investing Terms and Rights
- Enhanced Model Deal Terms (with deal term benchmarks/insights)

## **Roll Up Vehicles (RUVs)**

We often get asked by founders: "Should I use a roll-up vehicle (RUV) like the one offered by syndicates to roll up small checks into one legal entity?"

Here is the advice: You can if you want, but it is not clear that this product solves an actual problem for founders. It seems mostly a clever user acquisition trick for syndicates (who make money and

acquire new investor leads by providing this service). We are also skeptical of the cost savings claims. There are setup fees and also not all investors are familiar with this investment vehicle, so you may find yourself needing to explain more how it works.

Sometimes founders want to set it up to get their "cap table clean", but in short, there is no problem with having a lot of direct SAFE investors on your cap table. However, there is an exception if you are incorporated outside the US.

## Fundraising Checklist

When raising money, you are expected to put together the following materials:

**Custom Fundraising Plan:** The plan that outlines the minimum amount of money you need to survive, the target amount of money you'd like to raise, and what you should do if you have the opportunity to raise more than your target.

**Key Messaging Points:** The 3-5 main points you need to communicate to get an investor interested in learning more about your business and investing.

**Investor CRM:** This is a shared spreadsheet to track which investors are in your pipeline, at what stage, what their typical check size is, how much you have committed, any feedback, and next steps. This will keep you focused and make it obvious if you need to find more leads, focus on converting investors, or figure out how to squeeze everyone in. It is not uncommon to have 50 potential leads and take investment from 10+ investors.

**Fundraising Deck:** This is a guide to the 8-12 slide presentation some investors will ask you to email or present during a fundraising meeting. Some founders like presenting their company with a deck—others prefer a conversation. Talk to your mentors about which approach is right for you.

**Cap Table:** A complete summary of who owns shares in your company. This includes founders, existing equity investors, employees, SAFEs, and other stakeholders. You can use cap table management tools to set up your cap table.

**Pitch Event Materials:** A single-slide company summary, an 8-10 sentence company description, and 3-5 sentence founder bio.

## **Most Common Fundraising Myths (You Need to Unlearn)**

There are many myths that lead founders to run a suboptimal fundraising strategy and these myths can come from you, your investors, potential investors, advisors, mentors, online discussions, etc. The best fundraising strategies are simple and clear.

Here are the most common fundraising myths the best founders have to unlearn/ignore:

### **Myth 1: Raising the Most Money from the Best Investors Means That My Company is the Most Likely to Win**

**Reality:** The vast majority of seed/angel investments fail. You are the biggest factor in your company's success or failure—no one else.

### **Myth 2: The More Money I Raise, the More Time/Resources I'll Have to Reach Product Market Fit**

**Reality:** Many companies die because they spend too much time on hiring/company building and too much money on marketing a substandard product with low retention. More money makes it easier to make these mistakes. Less money means you have to actually focus on building a product that people want.

### **Myth 3: The More I Raise in My Seed Round the More Time I'll Have to Find Product Market Fit**

**Reality:** The companies that do well often spend less money than they think and reach product market fit faster than they expect. The companies that fail most often increase their burn in the attempt to buy product market fit (through hiring or ad spend) and run out of money in the same amount of time as if they raised less.

### **Myth 4: It's Better to Have a Small Piece of a Big Pie Than a Big Piece of a Small Pie**

**Reality:** The best founders' products work so well that they are able to get a larger piece of a larger pie. For example, before reaching a billion dollar valuation, founders who succeeded raised less capital early. They raised significantly more total capital later. Turns out that later stage rounds post product market fit are significantly less dilutive.

### **Myth 5: I Have Product Market Fit Today and Now It's Time to Scale Up**

**Reality:** A tiny percentage of founders who believe they have product market fit actually have it. In fact, the term has lost almost all meaning because of how overused it is. If you think you have product market fit—ask your mentors and they can give you an honest assessment.

### **Myth 6: My Competitors Have More Money and I Need to Raise a Lot to Match Up**

**Reality:** In almost all cases you will be competing with large incumbents who have much more money than you or your VC backed competitors. Startups win by having the best products, not by having the largest war chests.

### **Myth 7: I Need to Hire a Lot of Engineers to Build/Optimize My Product and That Will Take a Lot of Money**

**Reality:** As soon as your team reaches 8-10 people, you personally become a manager and spend more time managing your employees than talking to your customers and building a product that they will love. Almost all of the best companies found product market fit with small teams and then hired to scale post product market fit.

### **Myth 8: If I Say I'm Raising Too Little Money Investors Won't Want to Invest in My Company**

**Reality:** When an investor believes a company will be successful, they often clamor to get any sized check into the round. We've seen large VC funds write significantly smaller checks than usual to get into a good company. On the other hand, if an investor doesn't like your company—any sized check is too large to invest in it.

### **Myth 9: The Best Way to Build Momentum for My Fundraise is to Start at a Low Cap and Raise It After Every Check**

**Reality:** The high-resolution fundraising strategy from the early 2010s is now deprecated—especially considering that part of SAFE conversion mechanics. Counter-intuitively this path has historically led to over dilution. As you raise more and more money at higher and higher caps you often lose track of how much of your company you are selling. At the end of the fundraise, instead of selling 10%–15% of the company and preserving your ownership—it's common to sell 20%–30% of the company without realizing it. This mistake can impact your ability to maintain control of your company in future fundraising rounds.

### **Myth 10: I Should Prioritize Meeting Larger VC Funds Before Seed Funds and Angel Investors**

**Reality:** Investors don't really help you with product market fit. You should optimize for the investors who move quickly and are willing to invest on the terms of your custom fundraising plan. More often than not that involves prioritizing seed funds and angel investors. Also, the momentum you get by raising money from them first helps you close your round faster.

## **Myth 11: If I Don't Have a Proper VC Fund in My Seed Round It Will Be Hard for Me to Raise a Series A**

**Reality:** For non-accelerator companies this can be true because it can be hard to get warm intros to Series A investors. However, if your numbers are good enough Series A investors find you. For accelerator program companies, this is simply not true because the investor database and mentors give you the ability to get warm introductions to almost any investor in the world.

## **Building a Custom Fundraising Plan / How Much Money to Raise**

### **Introduction**

The best founders avoid the most common fundraising myths and have a simple fundraising strategy. They raise the money they need to hit the next most important milestone for their business without selling too much of their company. They intuitively understand that staying small, lean, and focused on product instead of company building is the true path to product market fit. They also understand that post product market fit, they will have significantly more leverage when fundraising and be able to raise much more money at much better terms than today.

This planning exercise plus fundraising guidance with your mentors will help you design a customized fundraising plan for your business. Remember when talking to your mentors, be open and honest about the other advice you are getting from investors/advisors. That will help them help you build the best plan possible.

### **Benchmarks**

Most software companies should seek to dilute between 10-15% in their seed funding round (not including any accelerator investment). They should target <\$50k monthly burn while trying to find product market

fit. They should assume that a combination of fundraising and revenue will fund their business until they hit their Series A Milestone. They should grow their team as their revenue grows so that they can preserve <\$50k monthly burn until there is clear evidence of product market fit.

Capital-intensive companies like hard-tech, hardware, and biotech companies sometimes need to sell more than 15% to accomplish the milestones they need to raise future funding. That is okay.

### **How Much Money Do You Need?**

The biggest mistake founders make when calculating the amount of money they need to raise is they don't take revenue into account. The amount of money you need to raise is the difference between your total expenses and your total revenue. Also known as your burn.

Often times founders over dilute because they don't take into account their revenue when calculating the amount they want to raise and they raise more money than they need to burn in order to hit their Series A milestone. That excess money is also excess dilution.

### **Your Custom Fundraising Plan**

The concept of a Fundraising Plan was created to deal with the inherent unpredictableness of fundraising. Outside of accelerator programs, companies often go into a fundraising process with just a single number in mind for how much money they want to raise. If there is less demand than they expect and they raise less, they are discouraged and often feel like their company will fail (which can often become a self-fulfilling prophecy). If there is more demand than they expect, they are often unprepared and they over dilute.

Founders defeat themselves by not setting their expectations correctly. The approach instead encourages you to plan for a range of acceptable fundraising outcomes. There is a wide range of outcomes that can work for your business because you can operate differently

depending on how much you raise and if your business improves significantly you are almost always able to raise more money.

Understanding this range allows you to be flexible and optimize your outcome as you learn how much investor interest there actually is.

### **Cockroach Plan**

**How little can you raise and still survive?** Ideally, the answer is the minimum investment from your accelerator program or a similar amount. With this plan, estimate the cash burn you'll need (difference between revenue and total expenses) to hit a KPI goal that will give you the leverage to raise a seed round in the next 8-12 months. Remember, the less you need investors, the stronger your position is when dealing with them. It's always best to have the option of walking away from a bad investment offer.

Your cockroach plan isn't something you discuss publicly. This is what you fall back on if your fundraising doesn't go to plan.

### **Success Plan**

**This plan is designed to give you the money you need for the lowest possible dilution.** With this plan, estimate the cash burn you'll need (difference between revenue and total expenses) to hit your Series A milestone within 18-24 months. The goal will be to raise this amount of money for between 10-15% dilution. This amount of dilution will put you in the best position to maintain company control in future funding rounds.

For most software companies this number is between \$1-3m.

### **High Dilution Plan**

If you want to raise more than 3M you are likely going to take more dilution than the average company. This can make sense when a Series A investor wants to invest now, or perhaps your specific business needs more capital to reach your Series A goals than most software companies.

**Series A Path:** If a great VC firm is willing to give you a \$5-10m check pre-product market fit, more often than not they will want 15-20% ownership of your company. From a dilution perspective, this is still good for you because you are avoiding the dilution of a seed round. However, be careful. Series A investors are great at making you feel like they are interested in investing even when they are not. A typical VC partner will meet with 100-250 companies for every Series A check they write. Over 50% of those founders will feel like a term sheet is imminent. The vast vast majority will be wrong.

Don't make the mistake of thinking that your high dilution plan will work and not meeting with the seed funds and angel investors that can help you accomplish your Success Plan.

**\$3m+ Fundraise Path:** If you need to raise this much money and are willing to sacrifice dilution, the recommendation is to first estimate the cash burn you'll need (difference between revenue and total expenses) to hit your Series A milestone within 18-24 months. Then raise this amount of money in 2 tranches. Pick an achievable cap to raise the first half of the money and build momentum in the round before your deadline. Then raise the second half of the money at a higher valuation to hopefully take advantage of the additional investor interest in your company.

As a backup plan, the first half of the round should be enough to help you accomplish a significant milestone and raise a bridge round or second seed round on the path to your Series A milestone. The combination of raising at these two different prices will result in slightly less dilution than raising the whole round at the same price.

## **How to Discuss Your Plan with Investors**

When investors ask how much you are raising, don't say, "well, we have a Cockroach plan, a Success Plan, and a High Dilution Plan." Your Custom Fundraising Plan is for you to have for yourself, not to share.

The best answer to "how much are you raising" is typically to give your Success Plan number. For example, if your Success Plan is \$1.5M, you might say: "I'm raising \$1.5M, and have already closed half of that".

## **Which Investor Meetings to Schedule First**

Fundraising is about building momentum and getting the easy checks first. Here is how to prioritize investor meetings to accomplish this goal:

### **Friends & Family**

Check sizes will be small (\$25k and under) but they will close quickly, sometimes even without a real meeting. You can often close these before your major deadline because they are literally zero work.

### **Eager Angel Investors**

Check sizes don't matter, all that matters is they want to come in quickly and can help you generate buzz. Take their money quickly. These people will often offer a check in the first meeting.

### **Angel Investors with Domain Expertise**

Again check sizes don't matter. What matters is that angels can move quickly and will send a signal to the market that people who understand your industry are involved. These angels will sometimes offer at the end of a meeting and may ask for some follow-up information, or a second meeting to dig in more.

### **Well-Respected Angels**

Walking into a meeting with a well-respected angel with some money closed already, social proof because angels with domain expertise are involved, and having practiced your pitch dramatically increases your chances of closing a well-respected angel. Getting a meeting with these angels is more challenging and the likelihood they say yes is lower. But if they say yes, they will do it in the first meeting.

### **Seed Firms**

Going to seed firms with a few hundred thousand already closed, with domain expert angels, and well-respected angels will make the seed firms eager to move. Chances are they will have heard about you from

the angels they co-invest with frequently and have already backchanneled with others about you. Often these meetings happen because an angel will suggest you go chat with a firm they know well, as angels and firms have a symbiotic relationship where they share deal flow.

These check sizes can be \$250k+ and once you get one firm interested, other firms will likely also be interested. These will take more than one meeting and may involve meeting multiple partners in a second meeting.

Because of the larger check size, you can often field multiple offers from multiple seed firms in a week and avoid committing to accepting money on the spot (unlike with individual investors where you are incentivized to close them quickly since you can fit them all in).

## **VC Firms**

VC firms are large firms that mainly write Series A and B checks (\$5M+). Some of them also write seed checks (more like \$200K-\$1M), some of them do not. Their policies towards seed checks are highly variable and there is no way to tell from their website. You can sometimes find out from investor databases; sometimes you need to ask the firm or a mentor.

Fewer than 5 companies per cohort will raise a Series A before or around the time of the major deadline, so prioritize VC firms that are frequent seed check writers. VC firms have the lowest conversion rate of all investors—they take 100-1000 meetings for every one company they invest in.

## **Pitching Investors**

### **How to Present Well**

The single most important quality you need to fundraise effectively is to be confident (but not cocky). Confidence is about your delivery and

the content of what you're saying. Go through the list below (one by one!) and make sure you are embodying each of these points.

**Confident founders:**

- Speak slowly
- Engage investors throughout (see section below for more)
- Know the 3-5 most important parts of their pitch perfectly (your key messaging points)
- Don't use customer jargon when talking to investors
- Use specific examples and stories (and avoid general jargon-filled statements). If you're talking to investors from a different country, don't assume they understand the problem you are solving or the day-to-day lives of the customers you are serving. Telling specific stories about your users can help set the context. This is not the time to use generalities.
- Don't second guess their fundraising plan
- Don't let the scars of previous fundraising efforts affect them
- Know their numbers and use specific facts/stats when talking to investors (including specific stats about product usage). That being said, they don't just throw a wall of numbers and stats at investors.
- Know the tough questions they are going to get and have already prepared answers
- Speak succinctly. Does it take you 4 sentences to answer a question, or can you concisely answer in 1?
- Treat the investor like the student, and behave more like a teacher who is teaching why your solution is compelling for an important problem. You do NOT want to come off as if you are presenting a book report for a grade. You know more about your customer and the problem you're solving, so act like it. And make sure the investor walks away feeling like they have learned something.
- Are extremely comfortable talking about unit economics
- Are comfortable and confident in talking about the challenging parts of your business. No startup is perfect—investors know this. Good investors want to understand the challenges you face in addition to understanding your progress and the scale of the opportunity you are going after. If you pivoted or had a previous

startup fail and that informed how you are building the product/company today—be comfortable talking about it.

- Have a crisp story about how you get big – don't just give a TAM (Total Addressable Market). Talk about your go to market strategy and the companies you've modeled it after. Talk about the major milestones your product will need to hit as it appeals to more and more customers.

It is hard for an investor to judge the merit of your product directly (often, this is because they lack expertise in your industry and don't have time to do deep due diligence). As a result, they use other techniques to figure out if you are worth investing in. They judge how confident you are, how knowledgeable you are about your numbers, how well you communicate, how well you can explain specific examples, how well you organize the conversation, and most importantly, can they imagine you running a large successful company.

**When investors ask how much you're raising, say something like:** "We're raising \$1m on a \$10m post-money SAFE...and we already have \$150k committed from [angel1] and [angel2]".

## **How to Best Engage an Investor During Your Pitch**

The best investor meetings are usually a conversation, not a formal pitch where you walk through a 15-30 slide deck. People don't want to be talked at for 30 min; they want an engaging back and forth conversation. If you are using a deck to organize the conversation, make sure to use it as a tool, not a crutch.

**When you start the call, ask the investor a couple of questions about themselves before you start pitching your company.** For example, you can ask them about their fund / investment strategy, or their prior experience in your space, or a related investment they have made, or something interesting about their background. That is a good way to engage them off the bat and get them talking.

**Throughout the presentation,** especially if the investor isn't asking you questions, you should engage them by asking them questions (which turns the meeting into a 2-way conversation, instead of a lecture) and

keep the investor engaged – you can watch for their engagement if you're on a video call.

Your goal is to get the investor to speak up while you go through the deck as much as possible. Questions to ask should be ones that will catch their attention or make them part of the story (hint: don't ask over and over "Do you have any questions?" or "Does this make sense?"... those are easy yes/no questions that won't actually optimize for engagement. Save those for only if you present a very complex slide and want to make sure they aren't lost.)

If you're struggling to come up with questions to ask during the presentation, you can ask your mentor for help. Remember: you control the conversation. If questions being asked aren't relevant or good, take charge and steer the conversation where you know it's most effective.

Zoom is the best video-call tool and what most investors use.

## **Common Investor Questions**

### **"Is \$x Really Enough Money?"**

Answer this by talking through your model at a high level: "This allows us to hire up in engineering and experiment with new marketing channels to hit our Series A milestone of \$1.5m ARR in 12 months, while keeping our burn below \$50k/m giving us 20 months of runway...more than enough time to fundraise for the A."

### **"How Can You Justify Your Company Being Worth \$x?"**

Don't try to justify based on financials or projections. Justify based on market comps. "This is the market rate based on hundreds of other companies that have come through programs like ours, especially given the team and traction we have so far."

## **Unknown Questions**

If you don't know the answer to a question don't fake it, or worse, lie—be honest and tell them you'll get back to them with an answer, or, depending on the context, that you just don't know. This being

said, there are a set of questions about your company you should have at the ready.

## **What to Do at the End of the Pitch**

Never leave a meeting without next steps, just like any sales process. If an investor says, "ok, let me think it over and get back to you", say "Ok-when should I expect to hear from you?". That way you can write down the date and follow up with them then.

**Always explicitly ask investors to invest!** One good template for this is: "We'd love to have you in the round. Would you like to move forward?"

## **Decoding Investor Speak**

- **"We could come in for \$400-500k"** – not a commitment. No such thing as a "soft commit"...doesn't count until handshake and money in the bank
- **"Who else has invested?"** – I don't have the conviction in your company to be the first check, I want to see if other people like it too
- **"You should take more money / would you consider raising more?"** – I have a specific ownership % target, and there isn't enough left in your round for me to get there unless you raise more.
- **"[Mentor] told you X, but let me tell you why you should do Y"** – optimizing for my own self interest
- **"Wow, your business seems really interesting! This has been a great conversation"** – it's literally my job to be nice and keep my options open

**Believe the "no", not the "why"** – Often times it's not in the investors' best interest to tell you why they aren't investing. You might find it insulting and that closes the door to the investor investing in your company in the future.

## **What to Do After a Pitch**

Make sure you build time into your schedule to iterate on your pitch after every single one. Debrief and write down what questions were

asked, what you answered well, what you didn't have good answers for, etc.

For video calls, one founder can be off to the side taking notes on what made the investor get excited vs what killed the energy of the call.

Follow up quickly to intros, investor asks, sending decks/etc after meetings. Everything you do reflects your urgency.

## **A Successful Investor Meeting**

Before ending any investor meeting, you should always leave with clarity on what the next steps are. It may be nothing, it may be a request for more information, or it may be sending your SAFE and wire instructions.

Most angel and seed firm meetings follow the same arc. In most cases, you will have a one-on-one meeting with an investor. Your goal is to get them to want to invest. The general flow of a meeting is to ask if the investor wants to walk through the deck or just talk. In either case, an investor will want to know the same basic information:

- Who is the team?
- What problem are you solving?
- How do you know it's a real problem?
- How much traction do you have?
- Why should they invest?

You will also want to get clarity on how serious the investor is, what their typical check size is, and what the process and timeline is for them to make a decision.

**If the investor does not ask specifics about investing by the end of the meeting, you should ask directly:**

"Thank you for your time today. How are you thinking about us as an investment? Do you need any more information before making a decision?"

If they tell you they are not interested, thank them for their time. If they make a concrete ask as a follow up, make a note of it and follow up after the meeting. If the conversation went well, the investor will ask how much you are raising and at what valuation.

**For small checks early in your process**, you should move quickly to accept the check and receive the money. If you are talking with angels early in your process, ask how much they would like to invest, agree, and send them a handshake protocol email, and mark them in your spreadsheet as committed.

**For larger checks**, you should ask what allocation they would like. Do not commit in the meeting. Tell them that you would like to work with them but are likely oversubscribed and need to figure out allocations, and you will get back with them in the next 48 hours. Getting a big check is a watershed moment as this means you can now tell every subsequent meeting that you are near (or over) your target amount. You can also use this to go back to high quality angels who were on the fence that the round is filling up and you'd love to have them involved.

## **Handling Offers**

**Note 1:** It is never a bad idea to run offers by your mentors. Especially early in the fundraising process.

**Note 2:** Investors are now much more commonly asking for side letters with additional investor rights they don't discuss until after a verbal agreement is in place. If you get an offer from an investor make sure you don't agree to it until you know if they are using a side letter and you understand / negotiate the terms in that side letter. If you ever have questions about terms in a side letter please reach out to legal resources.

If you get an offer, don't feel pressure to respond in the moment: "Let me talk with my cofounder", or "Let me think about it and get back to you while I figure out allocation." But if you like the investor, and it fits with your plan, take it! Don't need to default think about it.

**Stick to your fundraising plan!** Don't hold off money to wait for bigger checks...use the smaller checks as leverage to push bigger checks to move faster. Don't over-optimize...optimize for getting the money quickly and getting back to work. Significant dilution comes from taking more money, not as much from \$15m v \$17m cap. Once an investor handshakes, ask them for intros to other investors you should talk to...creates a viral loop to keep the momentum going.

## Handshake Protocol

### Note

Investors are now much more commonly asking for side letters with additional investor rights they don't discuss until after the handshake deal is done. If you get an offer from an investor make sure you don't do a handshake deal until you know if they are using a side letter and you understand / negotiate the terms in that side letter. If you ever have questions about terms in a side letter please reach out to legal resources.

### Introduction

The handshake deal is a specific protocol that enables you to quickly agree on an investment transaction by email or text message before signing a SAFE. Very often founders and investors will discuss a range of hypothetical transactions. You might hear from an investor "I'd love to invest \$50-100K", or "I'm in just as soon as I check with my partners", or "I can do up to \$50K this round."

All of those sound sort of like commitments to invest, but because they are not fully specified, they should all be considered to be non-binding. A deal that follows the handshake protocol, by contrast, should be considered a binding deal for both parties.

Handshake protocol are not enforceable legally, but if you have a handshake deal with an investor and they break it, you will have

significant leverage to get them to follow through with their commitment. The reason is that deals following the handshake protocol are designed to be completely unambiguous as to what was committed to (on both sides).

Often investment conversations leave a significant amount of ambiguity as to whether a specific deal was firmly committed to, or whether it was merely strongly considered. The handshake protocol is designed to remove all possible ambiguity, so that if someone backs out, they are unmistakably breaking their word.

Nonetheless, once you have a handshake deal with an investor, you should follow it by immediately sending them a SAFE. SAFEs can be signed quickly with online tools; there is no reason to wait.

## The Protocol

The protocol defines an offer as an amount to be invested, plus a valuation or valuation cap (or no cap). Here are some example offers:

- \$100k on a post-money SAFE with a \$10 million cap.
- \$100k on an uncapped MFN SAFE.

Here is an example conversation following the handshake protocol:

**Investor:** "OK, I'm in for \$100K like we discussed."

**You:** "Awesome! Can you confirm you'll be investing \$100K at a \$12M cap on a post-money SAFE with no side-letters?"

**Investor:** "Yep, confirmed"

**You:** "Excited to have you onboard!"

According to the protocol, you have a handshake deal if and only if the following happens:

1. The investor says "I'm in."
2. The startup sends the investor an email or text message saying "Can you confirm you're in for [offer]?", spelling out the exact offer including the amount and terms with a timeline for when the investment will be received.

3. The investor replies yes.

Unless and until this process is completed, there is no handshake deal. So it is in the interest of investors to complete the 3rd step, because until they do the startup is under no obligation to take their money.

### **Avoids Ambiguity**

The protocol deliberately makes it impossible to say certain things. For example, an investor can't just say they'll invest \$x, without specifying a valuation or cap. Investors who do that can escape their commitment later by claiming the price turned out to be too high. An offer to invest has to specify a valuation or cap, or no cap. Otherwise, it's incompletely defined and thus not even an offer.

It also isn't possible to make a handshake deal on an offer to invest a range of money. Investors will sometimes try to make a deal to invest, say, \$50k to \$150k. If a startup agrees to that, they're obliged to save \$150k of space but the investor is only obliged to invest \$50k. An offer to invest a range of money is really two separate things: an offer to invest the bottom end of the range, plus an expression of interest in possibly investing more.

So we suggest startups respond to each separately: do a handshake deal for the bottom end of the range, and respond politely to the investor's interest in investing more, but don't feel any obligation to take more money till the investor commits to investing it. Knowing they're guaranteed no more than the lower end of their range should sometimes cause investors to commit upfront to investing more. And if it doesn't, it would have been a mistake for the startup to rely on getting more.

Finally, it isn't possible to add conditions to a handshake deal. For example, there is no way for an investor to use this protocol to offer, as some investors try to do, to invest if other people will—e.g. to say that they'll invest as part of a larger round if you can find a lead. That sort of commitment is so worthless in practice that it's a mistake for startups either to rely on it, or to feel

themselves bound by it. It's not even rightly considered an offer, but at best a lead (and one that will rapidly grow cold).

While the investor can't add conditions to a handshake deal, it is possible to change the deadlines in which the offer must be accepted and the funding has to be completed. The purpose of these deadlines is to prevent situations where either the investor delays acceptance of the handshake deal or the startup and the investor have a valid handshake deal, but no time frame in which the investor must send its money. These deadlines avoid any ambiguity about whether or not there is a valid handshake deal and about when the handshake deal expires, and it should certainly expire if the investor fails to fund after a certain period of time.

Ten days is a reasonable period of time for both parties to complete the funding process, but they can decide on different timing, provided there is unequivocal agreement (in writing) about a different deadline. Startups and investors can of course make any sort of arrangement they want. But they don't have a handshake deal according to this protocol unless the terms are precise and unconditional.

## **Modeling Dilution**

Understanding cap tables and dilution is critical to your fundraising strategy. Dilution modeling tools and guides are available to help you understand how your ownership will be affected by different fundraising scenarios. Use these tools to model:

- How much equity you will own after each funding round
- How much total dilution you will have experienced
- How different cap amounts affect your ultimate dilution
- What happens to employee option pools across rounds

This modeling should inform your fundraising plan decisions.

# Common Investor Questions to Prep For

Here are 25 common questions you may get from investors (angels or VC's) when raising a seed round. Survey results indicate these are the questions founders most wish they had prepared for. We strongly recommend you read through everything in this section before your first fundraising conversation, as it can help you come more prepared and confident.

## 1) How Much Are You Raising?

In most cases, you should give the number that is in your Success Plan. And if you have a meaningful amount closed, you can also mention that (to drive FOMO). For example, if your Success Plan is \$1.5M, say: "I'm raising \$1.5M, and have already closed half of that".

**IMPORTANT:** You should not say, "well, we have a Cockroach plan, a Success Plan, and a High Dilution Plan." These are for you and you alone. These are not designed to be shared with investors.

## 2) You're Raising at an \$xx Cap? How Did You Come Up With That Number?

There are a few possible approaches. Usually this is an investor who feels like your cap is too high and wants you to justify it. The fact is, there is no logical basis for the valuations of early stage companies, so there isn't really a literal answer to this question. Nonetheless, investors ask it anyway.

First, let's talk about what not to say. Definitely don't say, "that's what my mentors told me in fundraising office hours" or "that's what companies are raising at". Here are some possible good answers.

**If you already have investors committed on that cap,** say "Well, we've already raised \$xx on that cap from investors including x, y and z."

You can basically repeat your key messaging points. Something like, "Well, we think a \$12M cap is justified because we have \$30K / month

in revenue, growing 25% / month and this is a \$4B market." Did that answer the question? No, not really, but if delivered convincingly investors will nod and say something like "ok, sounds reasonable".

**Explain it from a dilution standpoint.** Something like "We need to raise \$2M to hit our next milestone and we only want to sell max 20% of the company in this round, so we're raising at a \$10M cap".

### **3) Why Are You Only Raising [Success Plan Amount]? That Seems Like Not Enough to Get You to Your Series A**

That seems like a concern that may not be a big enough round for a fund of our size. Many funds do have ownership targets in order to do seed rounds. But remember these are targets that the investors themselves have created – these targets are not formal rules they must follow. Often this is just a negotiating technique to help them get more ownership in your round. (Or sometimes, it's just an excuse to pass on an investment and blame it on the founder.)

Typically if an investor feels like a deal is good, they will waive these targets, or will just outright make an offer that is for a bigger amount than you're raising (after which, you can choose whether or not you want to negotiate).

### **4) Do You Have Any Questions for Us?**

During your first meeting or call with investors, you should take the time to ask 4 important questions and write down the answers in your investor spreadsheet. Don't be afraid to ask these questions—the investor is expecting you to ask these. Asking them will make you appear organized and deliberate.

- What is your normal check size?
- How does your investment process work? Can you make solo decisions to fund or do you need to go through an approval process?
- How many investments do you make per year or per program cohort?
- What is your fund size?

It's critical to ask these questions early in the process so you can determine if the investor is worth spending time with. You can also ask other questions that are more specific to your company, if you have any.

## **5) Who Else Has Invested? What's the Status on Your Round / Fundraise?**

This is one of those answers where the delivery is more important than the content. If you already have closed investors as part of this round, you should name them proudly (emphasize their credibility if they are domain experts or notable funds), and you can say "We have already closed \$x of the \$y we are raising."

However, we understand that you may be in a position where you haven't closed anything yet or fundraising isn't going well. In that case, remember that investors are going to be watching your body language and tone of voice to see if you sound like things are actually going well or if you're just saying that.

In the situation where no one else has invested yet, you can answer with something like: "We only just started fundraising a few days ago. I'm swamped with meetings and everyone's asking very smart questions," or "We're taking lots of meetings and working through them," or "I have final partner meetings with 3 firms next week".

Of course, if you're farther along with your raise, you can say "We have half of the round filled and anticipate the rest to move quickly."

**Note:** It's important to only count signed SAFEs as "closed" investments. AngelList syndicates that are still running don't count. Verbal investment offers don't count. If you tell an investor you have \$x closed, be prepared to show the SAFEs or your bank balance. If an investor feels you are misleading them about the round they will not invest and may tell other investors to steer clear. Never overstate round traction to try to create FOMO.

## **6) Are You Looking for (or Do You Have) a Lead Investor?**

A very large percentage of companies graduating from accelerator programs never have a "lead" investor for their seed round SAFE. As such, in most cases you should say "We are meeting with funds that could write larger checks but we're focused on closing our round with quality investors as quickly as possible as investments come in so we can get back to work."

It's worthwhile to understand what investors mean when they ask this question. When companies raise money on priced rounds (i.e., Series A rounds), a lead has a specific, legal definition—the firm who negotiated the term sheet with you. In fundraising rounds raised on SAFEs, this original legal definition is lost, and there is no clear or agreed upon meaning of what a "lead" is.

Nonetheless, the term has persisted. When investors ask about a lead, they may be unfamiliar with SAFEs and asking about the original meaning it had in the world of priced rounds. Or they may be asking essentially, "is there a large firm that has committed to investing in this round?"

If 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." While this is lame investor behavior, it's extremely common so don't get flustered. The best thing to do is to mark the investor down accordingly and keep fundraising. You might come back to those people after you have more than half of your round committed.

**Note:** Some investors offer to invest so long as you can close the rest of the round. They may ask for you to hold or "reserve" an "allocation" in the round. If someone asks for this it's important to tell them you are closing checks one by one as they come in, or doing a "rolling close". If they object, you can offer to circle back at the end of the round if there's still space. Investors who ask for this are low conviction and unlikely to convert later but it does happen.

## **7) What Are Your Financial Projections?**

If you're an early stage company (making < \$20K / mo) and aiming to raise <= \$2M, you generally don't need a financial model to fundraise.

Companies that are further along and hard-tech/biotech companies that are looking for large seeds often need a more detailed model.

If you're an early stage company and an investor is asking for this, it may be an indicator that the investor isn't an experienced seed-stage investor. Financial projections are standard stuff in later stage investing, and they may be used to see if you're serious. They may also just be trying to figure out if you have a plan to hit your next milestones.

If you want to put together financial projections, use templates specifically designed for seed-stage fundraising. If you want to put together your own template or use another template, here are rough guidelines to use:

- Make a monthly projection for the next roughly 12 months. That means a spreadsheet with one column per month.
- Break your expenses down into a few major categories: people, equipment, etc. Don't try to account for the small stuff.
- If you have multiple lines of revenue / potential revenue, break them out
- If you have costs of goods sold (marginal costs), break them out separately from your fixed costs
- No one expects them to be very accurate at this stage, but having a model is still helpful to discuss what the future could look like

## **8) Who Are Your Previous Investors?**

Yes. Once investors have invested in your company, you should broadcast their names to everyone you talk to—they are your social proof.

## **9) Who Else (What Other Investors) Are You Talking To?**

No. That's important to keep secret. Investors you are just "talking to" should never be mentioned—not until they commit. Otherwise, they are likely to reach out to each other and start colluding.

## **10) Can I See Your Cap Table?**

If you've already met with the investor, they are high quality and/or writing a bigger size check, and you think they are very interested in investing, feel free to share your cap table. (If you're unsure whether you should, ask your mentor.)

What do investors mean exactly by your "cap table"? Typically this is a spreadsheet where one tab has your share numbers (i.e., how many shares and what % of the company each founder owns) and a separate tab with SAFE information. If you are using cap table management tools there are downloadable versions that can be used.

You have the option to provide either:

- A detailed listing of each investor name and amount (assuming you have not signed any side letters agreeing to keep the identity of an investor confidential)
- Or you can tell them "\$[x] was invested at [y] cap, \$[z] was invested at [a] cap, etc.," omitting actual investor names

## **11) What Are You Looking for in a Partner?**

The investor is asking what kind of help you want from your investor(s) outside of just money. Keep in mind that if you say something like "We're looking for deep expertise in our domain" and the investor doesn't have that, they may disqualify themselves as a good fit based on your answer.

Think about what you want from your investors (that you think is reasonable)—your answer may change depending on who you're talking with (an angel, a fund, etc). If this is your first time fundraising, you can also ask other founders who have raised before what their investors helped them with, for inspiration.

## **12) What Is Your Market Size?**

Thoroughly understand your market size and how you calculated it. Consider creating a slide (whether in your main deck or in your appendix) about this. Some founders also like to have two versions of their market size: one for the market they're going after today, and

one for the market that they could expand to in the 5-10 year horizon. Talk to your mentors about what is best for your situation.

### **13) How Do You Think About Defensibility / Why Can't Your Competitors Copy This?**

This question is one of the more popular ones investors like to ask—especially in hot domains. Sometimes, the answer may relate to you talking about a "moat" (see next question), whereas other times, it could relate to a difference in technology approach or market approach.

Do your homework to really think through this question—and be prepared for them to ask about both the big players (established companies, for example) and the smaller ones (other startups with similar ideas). And remember that confidence is key in your answer.

### **14) What's Your Moat?**

First, let's explain what a moat is. From general business definitions: "The term 'economic moat' refers to a business's ability to maintain competitive advantages over its competitors in order to protect its long-term profits and market share. Just like a medieval castle, the moat serves to protect those inside the fortress and their riches from outsiders."

In short: the investor is just trying to find out if you have some kind of plan for building up a strength that others cannot easily copy. Keep in mind that most companies coming out of accelerator programs likely don't have a moat built around their business quite yet (it's just too early). But you can certainly speak to how you think about creating a moat in the future.

Moats can happen in various different ways: maybe your product is extremely sticky, or you have network effects among customers, or maybe there is an ecosystem effect, and so on.

### **15) What Questions Should I Have Asked You That I Didn't?**

This is often a good opportunity to reiterate / go deeper into your strongest key messaging points—especially if you didn't get through all slides during your pitch.

## **16) How Are You Different Than [Competitor Name]?**

You should know all about all of your competitors, including those that are tangentially related. It's a red flag when you show up without that research done. That being said, when giving your answer, don't come off as naive—if you just bad-talk everyone else and act as if you're perfect, it won't come off well either. Show self awareness and differentiation when answering this question.

## **17) Tell Me About Your Competitive Landscape**

The investor wants to learn more about who you see as competitors—we recommend you think about them from a high-level perspective. For example, you can bucket them into a few categories. Some founders like to have an appendix slide about this, while other founders like to just verbally explain the landscape. You should do whatever you think is best for your talk track / business, but be prepared to also talk about differentiation (see the point above) if asked more about a specific competitor.

## **18) What's Your GTM Strategy?**

Your GTM strategy (or, "go to market" strategy) is how you plan to get more customers / users. For your short-term GTM, you should share a high-level answer that sounds realistic, and ideally, one where you can show you've had some success already (whether it be founder-led sales, or something else).

In the longer-term, you can be a bit more vague at first, as your strategy will likely change over time—and any smart investor should know that.

## **19) How Are You Thinking About Spending the Money You Raise (and How This Will Affect Your Burn)? How Long Will It Last You? What Hires Are You Planning to Make First?**

Almost no company finishing their program knows exactly how they will spend their money or who they will hire, so it's okay to push back and share how you're broadly thinking about this question. But especially for seed companies, the key is ensuring the investor knows and is comfortable with you being flexible—after all, if you're hitting all of your goals much sooner than expected, you'll likely ramp up hiring sooner than expected, as well.

Unfortunately, many investors aren't great at understanding good cash management, and push their companies to spend as much as they can (hiring expensive executives, etc) before ever finding great product market fit. Be prepared for some investors to try and push you in that direction—despite that it's probably not the right one.

## **20) What's Your Exit Strategy?**

Investors may be asking you this question to find out if you're trying to sell soon / for a quick return, or if you're trying to "go big" (IPO or build a multi-billion dollar business, etc). They also could be asking this question if they have concerns about the exit opportunities in the market (for example, maybe there are few acquirers or paths to exit available in their eyes).

## **21) Why Are You a Solo Founder?**

Be confident in your answer, and share either what your rationale is, or whether you are open to finding a co-founder and what your steps in doing that are (along with assuring them that you are taking the process seriously and not making hasty decisions). Just remember when crafting your answer: you want to avoid them feeling like they need to wait for you to find a co-founder in order to invest, so be sure to have the investor feel confident enough in your skillset and abilities to continue running the company solo, at least for the time-being.

**22) What Are the Biggest Challenges You Expect to Have in the Future? What Would Be a Reason You May Not Succeed in Building a Billion Dollar Business? If You Fail, What Will Be the Main Reason?**

Investors want to make sure you are self aware about the long-term risks to your business. Every successful business has challenges, and investors know it, so be confident! It's key that you show self awareness (the equivalent of not answering "I work too hard" in a job interview) but also that you confidently share how you think about one day tackling or circumventing this challenge in the long-term.

**23) What Keeps You Up at Night?**

The investor is asking you what is the biggest thing (issue, problem, or challenge) on your mind right now. Especially as a CEO, your answer should show that you have a strong understanding of your business and are spending your time focused on the right things. Again, be honest but confident.

**24) What's Your Short Term Product Roadmap Look Like, and What Does the Product Look Like 5-10 Years From Now?**

This question is asking exactly what it sounds like—have a few examples of what is on your short-term product, and really emphasize what the reason for each of those features or products is. In the long term, they want to know what the vision for the business is—what does this turn into, if you're incredibly successful?

**25) What Is the Top Reason Customers Say No to Buying Your Product?**

The investor wants to make sure you're self aware enough to know the real rationale behind why some customers haven't bought your product. Just saying "price" is usually not a great indication of this. Be honest, but also share if you have a plan for how you will tackle the objection you've heard most frequently—unless you're okay with losing

those customers (which often at early stages, businesses are), in which case it's great to confidently share that.

## **Fundraising FAQ**

### **Talking to Investors**

#### **How Many Founders Should Be in Fundraising Meetings? (Who is Responsible for Pitching Investors?)**

Raising money is the CEO's job. We recommend that the CEO decides when to start fundraising, schedules fundraising meetings, builds the fundraising plan, prepares fundraising materials, pitches investors, collects handshake agreements, sends SAFEs for signature, confirms that wires have been received, and sends investor updates.

During fundraising the other founders should focus on keeping customers happy and keeping the company growing. Of course all founders should agree on the fundraising strategy and can offer advice on all the above tasks, but the ultimate responsibility for the fundraise rests with the CEO.

#### **An Investor Passed But Wants to Make Intros to Other Investors. What Should You Do?**

In most cases, you should not take these intros. An intro from an investor who passed is worse than no intro at all. The investor may mean well, but it's better to get an intro from someone else. Politely thank the investor but don't take the intros.

There are occasional exceptions to this advice if there is a specific and unusual reason they passed, like their fund ran out of money.

#### **An Investor Asked Me to Email Them My Deck After I Met With Them. Should I Do That?**

Yep.

## **An Investor Asked Me to Email Them My Deck Before I Meet With Them. Should I Do That?**

There are two versions of this.

**Version 1)** You already have a meeting with the investor scheduled and the investor says something like, "Can you send me the deck ahead of the meeting so I can prepare and ask better questions?" In this case, you should send them the deck.

**Version 2)** You have been introduced to the investor but they have not committed to a meeting yet. They say something like, "Can you send me the deck so I can see if this company fits my investment profile?" Typically what is really going on in "version 2" is that investor is protecting their time. They want to screen you by looking at your deck to see if it is worth their time to take a meeting with you.

While this makes sense for them, it isn't a great deal for you. If you present to them live, you have an opportunity to excite them with your energy level, and to address any objections they have. If you just send a deck, you can't do that.

How much you can push back depends on how much leverage you have. If possible, you can say something like, "I'd rather present it live and leave you with a copy afterwards". If they insist on seeing the deck before they are willing to commit to a meeting, you should probably just send it to them, but you should consider that a sign that they are not very interested in you.

## **How Long Should I Schedule My Investor Meetings For?**

Default to 30-minute blocks on the calendar. If an investor wants more time, they can ask for it. It is recommended to leave breaks between meetings (at least 15-30 minutes). It's important to have time to write down follow-ups from your last meeting, think through what questions you could have answered better, and prepare for your next meeting.

## **Should I Use Calendly to Schedule Investor Meetings?**

Many founders use Calendly while actively fundraising to make scheduling easier. Here are a couple of tips for using it correctly.

- Don't force investors to use it. Good example language is "What times work for you? Here's my calendly if that's easier."
- Investors can see how many open times you have on Calendly. If there are tons of open slots it makes it seem like you don't have a lot of interest. If you don't have a lot of meetings yet, open up a small number of slots to start with so investors can't tell.

### **What's the Right Way to Follow Up With an Investor After Meeting?**

You are not bothering the investor by following up—this is most likely the investor's main job. After a good first meeting with an investor, you can send a follow up message thanking them and reiterating the terms that you are raising at and your excitement to have them be part of the round. Hopefully they respond but if not, you can follow up a few days later.

The two best times to follow up with an investor who is on the fence are after you have advanced your product/sales ('We just closed another \$5k in MRR' or 'We just got study results back') or after you have closed (SAFEs signed and hopefully money wired) more funding in your round ('We just closed another \$200k, just \$150k left in this round if you want to participate!')

### **An Investor is Asking Me to Complete a Long Due Diligence Checklist Before Deciding to Invest in My Seed Round—Should I Do It?**

First, understand this is typically a sign that this investor is either not very experienced in investing in early stage companies or is not very good. Check their background and reputation to gauge whether you should spend any time at all continuing the conversation.

Second, a good push back if you don't want to spend hours doing this task is to follow up and tell the investor that you have a ton of meetings and don't believe you'll be able to get to this task in the next week. By that time it might already be moot because the round would be full. But if there are 3-5 questions they are particularly curious about, you'd be happy to answer them in the next 24 hours.

Third, remember there are a lot of investors in the world and this activity is not associated with the best ones. Many investors want to talk to my customers and I'm hesitant to bother them. What should I do?

It's pretty common for investors to want to talk to your customers or the people who wrote you LOIs. If it's just one or two this is fine. Unfortunately, you probably can't bug your customers to talk to too many investors. Here are a few potential strategies to deal with this:

- Consider letting just the most serious investors do this, and only investors who would write a big check
- Try pushing back gently if an investor asks. Say "Of course, these relationships are very valuable to us. We want that to be the very last step in your evaluation process, can you let us know when you've checked off everything else and we can make an intro?"
- If you get too many requests, consider interviewing one of your customers yourself and writing down their answers in a document or making a video of the interview. If you do this, you should ask them the hard questions that an investor would like "why did you choose this product over competitors?"

## **Who to Raise Money From**

### **Am I Better Off With a Bunch of Small Investors or a Few Large Ones?**

It doesn't matter. Both are equally good.

### **What Is the Smallest Check I Should Take?**

A rough rule of thumb would be about \$10K. But if you meet an angel investor who you think would be valuable who can only invest less, it's probably worth taking it. Some of the most helpful investors can be angel investors who are early in their careers and write small checks.

### **How Many Investors Is Too Many?**

There really isn't an upper limit with rounds closed on SAFEs. Companies have raised money from 50+ investors at their major deadline without any apparent harm.

### **Should I Worry About "Signaling Risk" When Taking Checks from Large Funds?**

The general opinion is: probably not.

For more background: many firms that mainly lead Series A's also write seed checks. The concern around "signaling risk" is that if you take a seed check from these firms and they don't want to do your Series A, it may make it harder to raise from other investors. The theory goes that their lack of interest in your Series A will "signal" to other firms that your company isn't good.

In experience this is not true today and it's not clear how true it's ever been. Many successful companies have VCs participate in their angel rounds. Also companies fail to raise an A because they don't make enough progress building something users will want (and often pay for). Not because of who is on their cap table.

### **An Investor Who Has Invested in a Competitor Wants to Talk to Me. Should I Talk to Them?**

If an investor emails you and wants to talk and you are concerned about talking to them because of a competitive company they've invested in, we recommend emailing them back, not just ignoring the email. Explain the situation and your concern, and ask about their policy on investing in competitive companies and their suggestions on how to handle the situation. It's the polite thing to do, and also you may discover that the situation is less problematic than you thought and decide to take the meeting after all.

Unless the investor can reassure you that there is no conflict, it's normally best to steer clear of investors involved with competitive companies. It's less dangerous with angel investors than funds but still not ideal.

Some investors have policies against investing in competitors; others don't care. The only way to find out whether an investor who has

invested in a competitor will be open to investing in you is to ask them directly. But before you talk to them about whether they would be ok with the potential conflict of interest, you should decide if you would be ok with it.

If you do decide to talk to them, start the conversation by mentioning the competitor. Ask them how they will ensure that information you share with them will not make its way back to the competitor. You can decide how to proceed by how convincing their answer is. Usually just by mentioning that you are concerned about it, you dramatically reduce the chances they will share information, because they know you're watching.

Here's example language you might use to email back an investor in this situation: "Hey, thanks so much for the interest. Before we chat, I wanted to flag that you have an investment, xxx, that may be competitive with us. What do you think, and how do you approach investing in companies that may be competitive in general?"

### **An Associate at a Firm Asked to Meet With Me. Should I Take the Meeting?**

It really depends on your opportunity cost. A meeting with an associate is a relatively low value meeting (even if it is an associate at a prestigious firm), because the best case scenario if the meeting goes well is that they will ask you to come back to meet with a partner.

So if you have a lot of decision makers who want to meet with you, you should prioritize those over associate meetings. If you have run out of better options, there is nothing wrong with meeting with associates. Some associates trawl the internet mass emailing companies indiscriminately. You should try to avoid meeting with those as the conversion rate to an investment will be very low.

### **An Associate at a Firm Asked to Meet With Me. Can I Ask to Meet With a Partner Instead?**

Yes, it is possible, though it doesn't always work, and you have to be careful not to offend them. You can reply to the associate, share all

the great progress you are making and then include something like this (restated in your own words):

"I am really interested in learning more about [fund] and would love to schedule some time to talk in [timeframe]. In the interest of time with [deadline] approaching, would it be possible to have everyone needed to make an investment decision at the meeting?"

If you are actively fundraising and have some progress on your round (money closed, many meetings scheduled), you can talk about how fast your round is moving as an alternative to the above text.

### **An Investor Wants to Syndicate My Deal. Is That a Good Idea?**

Very roughly: if your round is hot—you are closing checks left and right—there are some disadvantages to doing syndicates, so you want to wait and not do it right now. Otherwise, it is fine.

Syndicates help angels write larger checks than they could on their own by teaming up with other investors to write a single group check. This is good because angels make decisions faster than funds and money is money. Syndicate checks can be as small as \$80k but will usually be about \$150k.

The downside of syndicate checks is they take 5-7+ days to actually close and wire. The amount is not guaranteed until they close, but you have to leave that much room open in your round while the syndicate is deciding. If your round is moving quickly, a syndicate may not move quickly enough. Often companies leave them for the end of their rounds for this reason.

Any information you give a syndicate lead could be shared with as many as 1200 other investors and funds when they consider backing the deal. Those investors have all signed NDAs but they do talk to each other so be thoughtful about what you share. Also, you should do only one syndicate in your round. If multiple angels want to syndicate a check in your round, ask them to team up and co-lead a single syndicate.

### **Someone in My Family Wants to Invest. Should I Take Money from "Friends and Family" Investors?**

You definitely shouldn't unless they meet legal requirements to be an accredited investor (typically, they have a net worth over \$1M). Consult legal resources for more information on accredited investor requirements.

If they are an accredited investor, then the next thing to consider is what will happen to your family relationship if the company fails. A good test is the "Thanksgiving test". If you take this check and the company fails, will Thanksgiving dinner be awkward?

If you're raising money from friends and family, you want it to be from people who don't care if you lose it. If that's the case (and they are accredited investors), then it's fine to take these checks.

### **An Investor Says They're from a Family Office. What's That?**

Family offices are small funds where all the money comes from one wealthy family. The nice part about taking money from a Family Office is they tend to be less price sensitive. The bad part is their decision-making process can be less professional. Ask them up front about their process, how long it will take, average check size etc.

### **I'm Considering Taking a Large Check from an Investor (\$500K+), But I Am Not Sure About Them. How Can I Find Out If They Are Good?**

The best way is to ask for founder references. If they have invested in a bunch of companies, it's easiest to ask them. If not, just go their website and look at their portfolio. Find a few companies they've recently invested in and cold-email the founders to ask for a reference. You probably don't need an introduction; usually you will get a response if you just cold-email the reference.

### **An Investor Asked Me to Allocate Part of My Round to Funds That They Haven't Closed Yet. Should I?**

No. You shouldn't bet your own fundraise on some investor hopefully closing their own fundraise. Just politely let them know you'd be open to talking about allocation from a fund that they have already closed, and for any future funds they close, that you can chat with them about it when you're raising a future round.

## **Investment Terms and Caps**

### **An Investor in My SAFE Round Wants to Do the Pro-Rata Side Letter. Should I Say Yes?**

See the section on pro-rata for a full rundown of the considerations.

### **An Investor Asked Me to Give Them Advisory Shares. Should I Say Yes?**

Almost never. This is usually an ask from really lame investors. There are rare exceptions with investors who are going to be extremely involved in your company. The rule of thumb is to only consider this if you were planning to make them advisors and give them advisory equity if they didn't invest.

### **An Investor in My SAFE Round Wants a Board Seat. Should I Say Yes?**

No. In almost all cases this is a very non-standard ask. Most companies don't have regular board meetings before they raise a priced round and get a non-founder board member. Giving up a board seat to a seed investor can make it significantly harder for you to maintain control of your company.

### **An Investor in My SAFE Round Wants a Board Observer Seat. Should I Say Yes?**

No. In almost all cases this is a very non-standard ask. Most companies don't have regular board meetings before they raise a priced round and get a non-founder board member. Having an investor from your seed round in your board meetings post Series A is almost always not a good move. You want to be very careful about who can attend board meetings because they have access to a lot of information about your company and because they can use that influence people on your board even if they don't have a formal vote.

### **Can I Give Some Investors a Lower Cap for Some Reason?**

Basically, no. Here's a common situation. You're raising at a \$10M cap. It's going well, a number of investors said yes and were fine with the cap. But there's this one investor you really want, and they

won't invest above an \$8M cap. Isn't it ok to just give this one investor \$8M?

From a legal standpoint, yes, you can do that. SAFEs are independent legal agreements. However, from a cultural standpoint, in terms of what is accepted practice, this has become a big faux pas. It's a surefire way to hurt your reputation with your new investors.

If you feel like you need to lower your cap for all investors, talk to your mentors about it, because this is possible and does work, just needs to be carefully orchestrated.

Seems Like I Started Raising at Too High a Cap, and Now I Need to Lower It. How Should I Do That?

Carefully. Let's assume you were raising at \$10M but now you need to go to \$8M. If you have closed some money on the \$10M cap recently but then closed some other investors on \$8M afterwards, it is considered the proper social etiquette to retroactively amend the \$10M SAFEs to be at the \$8M cap. You are not legally required to do so, but it is a terrific way to build goodwill with your first investors and make everyone aligned in supporting you.

Actually doing this is simple. You email the investors with an email like "Good news! You're getting extra equity for free because I'm amending my cap downwards." Then you amend the old SAFE. Amendments can be made using standard legal tools and templates.

If you're actively talking to investors who you've told \$10M to, and they are thinking about investing but haven't yet, you probably want to wait to tell them about the new cap until after they've decided to invest. Paradoxically, lowering the cap in the middle of discussions is more likely to scare them off than to make them feel like they're getting a good deal.

**I'm Getting Strong Investor Interest and Want to Raise My Cap. How Do I Do That?**

First off, let's decide if you should raise your cap. Typically, a good time to raise your cap is when you have hit the plan you shared with investors. For example, you told investors "I'm raising \$1M at a

\$10M post", and then you did in fact raise \$1M at a \$10M post. Usually this is when you hit your "Success Plan" from your fundraising planning.

When you raise your cap, you have to do it carefully to avoid upsetting investors. For new investors who you haven't talked to before raising your cap, this is straightforward—you just tell them the new cap. The tricky case is dealing with investors who you told the old cap to, and who are still deciding.

Here is the typical case. You were raising at a \$10M post and then you hit your plan and decided to raise another tranche at \$14M.

Previously, you had told some investors the \$10M cap, and they've been thinking about it. Meanwhile, you hit your plan and raised the cap to \$14M. A couple days later, one of those investors comes back and say, "great—we decided we'd like to put in \$500K at your \$10M cap". Whoa! You're not raising at \$10M anymore—that was three days ago. What should you do? Should you honor the original cap you told them or should you tell them, "sorry, but the cap is now \$14M"?

There isn't a clear answer to this, but the one thing we can say for sure is that if you tell them the cap has changed on them, they will be pissed and likely will not want to invest anymore—they may even say bad things about you. Whether you want to risk that depends on your situation.

Typically, the advice would be the following. If the investor has been following up attentively, keeping in touch and moving forward quickly in their decision, honor the original cap. If the investor went gone radio silent for a good long while and then popped back up and asked you to honor the original cap, tell them it's too late but they can invest at the current cap.

### **An Investor Says They Only Invest in Priced Rounds, But I Have Been Raising on SAFEs. What Should I Do?**

While most companies raise after their major deadline on SAFEs, some do raise on priced rounds. The advice is to be open to this. See the SAFEs vs Priced Rounds section for a detailed discussion of this question. Because priced rounds have a lot of disadvantages compared

to SAFEs, it's typically only worth switching to a priced round if it would be a major investor (typically ~\$1M+). If someone wants to put in a large amount on a priced round, that's certainly worth considering.

### **What Happens If I Raise Money at a Certain Cap But My Series A Pre-Money Valuation Ends Up Being Lower Than That Cap?**

Your SAFE investors will convert at the Series A valuation vs. the SAFE cap. It is not technically a "down round" and it is not a problem per se—though it can sometimes be perceived as the company not doing as well as expected.

### **An Investor Signed a SAFE But Then Never Wired the Money. What Now?**

Email your mentors. They may be able to help facilitate the funding. If not, they will recommend that you cancel the SAFE officially so there is no ambiguity about the situation. Templates for nullifying an unconsummated SAFE are available through standard legal resources.

### **An Investor Asked If She Can Make a Few Changes to the Standard SAFE. Is That OK?**

Typically this is a bad sign. SAFEs are designed to be very simple so that they don't need to be changed. When investors want to change them, it's typically not for a great reason. There are exceptions though—legal resources are the best place to ask about individual proposed changes.

### **I'm Considering Taking Investment from a Foreign Investor. Should I Be Worried About CFIUS?**

Yes. You should be aware of a set of rules ("CFIUS") that may affect you if you raise money from foreign investors. For more information, please check out appropriate legal resources.

### **Should I Cold Email Investors in Investor Databases Directly?**

We don't recommend it. Most investors regard cold emails as desperate, and they have a low response rate. If there's an investor you want to talk to, get an introduction from a founder they've invested in.

## **An Investor is Offering Me a SAFE SAFE (Offer to Invest in My Round Once Their Fund Closes). Should I Take It?**

Short answer: no. Long answer: hell no. You should only take money from investors who actually have the money to invest. There is no assurance the investor will ever actually have money to invest and you should focus on actually closing your round with people who have money.

## **Common Fundraising Mistakes**

**Not having realistic expectations.** Every founder believes their startup is great but every founder will not experience their major deadline the same way. It is better to expect a long and stressful fundraising process and be surprised if it turns out better.

**You cannot trust fundraising anecdotes.** Often the most outlier stories are the ones that are told most often and stories are commonly embellished.

**Believing that your program / deadline will "get you a seed round".** In the end, you have to convince investors to give you money. Your program can help prepare you, and your deadline provides you with some investor leads, but it is your responsibility to find and close the investors you need. Please do not simply lean back and "trust process". Lean forward and engage. Nothing will simply be given to you—you have to go get it!

**More money gives my company a longer runway.** Often this isn't true. Companies with more money tend to spend more money. Often on employees. As a result they first spend a lot of time recruiting and then have to spend a lot of time managing. This is time they don't spend with the customers figuring out how to build what they want. In general small lean teams (6 people or less, \$50k a month burn or less) who raise slightly less money tend to survive much longer.

**Ignoring advice and following the advice of a successful peer.** What works for some founders, some companies, and in some industries might not work for you. Your mentors have seen many companies fundraise and can often give you a much more educated picture of what your experience might be.

**Bragging to batchmates about how much you raise and from who.**

Fundraising is not equal to success. Don't build a reputation for being a braggart. The person you are bragging to today could be the founder of a billion dollar company in the next 5-10 years. Be humble and if you have finished fundraising faster than your peers, help them out by making intros with your investors.

**Confusing a successful fundraising with product market fit.** There are a number of famous investors who have a track record of investing in some amazing companies. What most founders don't realize is that every great startup investor has invested in more companies that didn't work out than companies that become great. In other words, just because a famous investor invested in your company that doesn't mean you have product market fit.

**The more you raise on your deadline, the higher expectations are for Series A.** Series A investor expectations are a function of not only what milestone you hit but how much time it took and how much money you spent to achieve that milestone.

**Selling too much of your company in the seed round.** Most founders are not used to the situation where there is more demand for their fundraising round than there is room in the round. It's easy if you are one of these startups to sell more of your company than you intend to because a lot of impressive people want to give you money. Please remember that you can only sell pieces of your company once and that for most companies who raise a Series A—too much founder dilution in their seed round is one of their biggest regrets.

**In a video meeting, not knowing when the investors are engaged with what you have to say.** The single biggest mistake we see in a video meeting is founders doing a bad job of telling when the investor(s) are engaged with what you have to say. Being nervous makes this worse. And so the nervous founder just drones on and on and on and the

investor gets bored and frustrated. In a good investor meeting, video or not, the investor will be saying as much or possibly more than you (between asking questions proactively and answering your questions when you engage them). You need to give the conversation room to breathe so that this has a chance to happen.

**Sharing names of other investors you're talking to.** Until a handshake happens with the investor who you want to name-drop, you should not mention their name. Name dropping investors who haven't at least done a handshake deal (or, even better, have wired the money) can usually lead to bad backchannels you want to avoid.

**Opening Pandora's box during your pitch or fundraising conversations.** Don't give too much surface area to attack. Keep things simple. Answer concisely.

**Taking your time with fundraising.** Show a sense of urgency to get money and get back to work. Don't appear like you are over-optimizing or more in love with fundraising than building your business.

**Only focusing on big checks.** Don't ignore investors who write small checks. Money is money and often smaller investors help you build momentum in your round. They can also help with investor intros and can be a signal to larger investors that you are worth talking to.

**Intros from non-investors don't count.** Don't take intros from investors that have not committed yet (handshake or signed docs).

## **So Fundraising is Going Well...**

During the fundraising season, companies that are doing well and are close to their Success Plan often ask: Should I raise more money? Should I increase my cap? What should I do with investor leads I don't need to raise money from?

For more than 1/3 of cohorts there will be more demand for your round than there is room. Those companies will have to choose between leaving money on the table or over diluting in their seed round.

## **Money = Food**

Successful founders have shared that they learned that money is not like oxygen—it's like food. Eating more food when you are hungry is good. But there are far more Americans dying from too much food than too little food. The same applies to startups.

After years watching companies raise money, there is suspicion that more are suffering from raising too much money than not enough. For some, their deadline is a buffet where there is far more food (money) than they could ever comfortably eat. Nevertheless they are compelled to eat too much (raise too much money) and get a stomach ache (over dilute).

Investors don't warn startups about the risks of raising too much money because they have no incentive to. Raising more gives them the chance to invest into your round or gives them the chance to have their pre-existing investment marked up—both of which are very good for them. As a result they say: "isn't it better to have a smaller piece of a bigger pie?" The counter is: "isn't it better to have a bigger piece of a bigger pie if that is available?"

For some of you, that option is available and you achieve it by not diluting too much in early rounds.

## **Questions You Should Consider**

**Do I need the money because I have an asset heavy, low margin, or otherwise capital intensive business where the extra dilution is worth the additional capital?** If that is the case—you should talk to your mentors and make a plan for taking more money.

**How much actual dilution will I save by raising the cap?** Am I optimizing for a vanity metric (fundraising cap) but not understanding the dilution difference is tiny? The easiest way to do this is to

model out the dilution difference. If you are raising on post money SAFEs the math is very easy.

**Do I realize the more money I raise, the higher the bar for raising a Series A?** Series A milestones increase the more you raise because investors want to know what you did with the extra money. If you spend \$3m to get to \$1m in ARR and another company spends \$1.5m to hit the same milestone—which company looks better to an investor? Also, if a majority of your seed round is in the bank when you hit your Series A milestone, almost by definition you over diluted in your seed round.

**Will raising more money make me feel more hungry/resourceful or make me feel more safe/lazy?** Companies tend to get way more resourceful when they are facing death and they tend to have more magical thinking when they have a lot of money in the bank and they are pre-product market fit. Remember that hard work, resourcefulness, and building something people want gets you to product market fit—not the amount you raise or your cap.

**If this company starts working and generating income, will I be happy that I raised more money right now or will I be pissed at how much I diluted during my seed round?** Too many founders plan for failure and not enough plan for success. If you succeed, often you will be generating income and you can use that income to partially or fully fund your business. Remember this should be the goal of all companies!

**Remember fundraising pre-product market fit is way different than raising post-product market fit.** That is an understatement! If you think you are getting great offers now—you have no idea what you can get if you can grow to \$5m - \$10m in annual revenue over the next 2-4 years. Companies that do this get offered tens of millions of dollars at valuations of \$300m-\$1B+.

## **Fear, Greed, Envy, Pride**

A lot of the motivation to push past your fundraising Success Plan comes from fear, greed, envy, and pride.

### **Fear**

What if things don't work out—more money gives me more time to figure things out right? I wish this was true but it appears as though no matter how much companies raise, they figure out how to spend it all within 2-3 years. It's really hard to be frugal when you have a lot of money in the bank and so you find reasons to spend more on things that don't matter or that actually make your company worse (too many employees).

Also, a lot of people remember when fundraising wasn't as easy and they fear that this time will come again. This fear is healthy and correct but unfortunately raising more money won't save you. Only building something people want can save you. You actually have to make something of value to stop fearing failure! Then you start fearing success but that is a topic for another time.

### **Greed**

If there is more money out there, why shouldn't I try to grab it? Greed can also be healthy but the question is—why aren't you greedy about how much of your company you own? Ultimately that number will drive how much money you make and often how much governance control you have. Being greedy about how much of your company you are going to give to others seems... strange.

### **Envy**

Other companies are raising more money at higher valuations and I think we have a better business. Once again, not necessarily bad, but the answer to the question of whether you have a better business is not how much you raise or how high your cap is. Investors want you to think this so they can convince you to raise more money—which serves their interests. The actual way you prove you are better than those around you is be first to generate \$100m dollars in annual revenue and then be first to generate \$1B in annual revenue. Generating \$1B in annual revenue puts you in the top 1% of all companies. Those are the companies you should envy because they built something people wanted.

## **Pride**

I want to brag to my friend about how much money I raised and how high of a cap I got because that will make me feel good. You are correct, for a couple weeks it will make you feel good. But then when you get back to running your company and your KPI metrics are flat... that feeling of pride will go away quickly. Remember, that you aren't competing in the game of whether you can raise a lot of money at a high cap. You are competing in the game of whether you can make something people want.

## **What to Do With Extra Investor Leads**

If you have hit your Success Plan and are no longer interested in raising money—here is what to do with your extra leads.

First, sort your leads into three categories: Angels, Seed Funds, and Series A funds.

**For angels**, I would meet with all of them. They tend to write small checks (\$10k - \$100k) that won't be very dilutive and they can often be the most helpful. In almost all cases I would take an extra \$100k - \$200k in dilution to get great angels into my round. Also, you can often ask angels to reduce their check size if you are very worried about dilution.

**For seed funds**, I would figure out which funds are active investors in companies and who have good reviews. I would follow up with those firms first, tell them you are oversubscribed but tell them you would be happy to meet because you might be interested in raising a seed extension in the next 6-12 months. Also, offer to keep them updated with your investor updates. If they don't want to take the meeting that is fine but either way I would send them updates every 2-3 months to keep them warm just in case you want money from them in the future.

For the rest of the seed funds, feel free to tell them you oversubscribed and still offer to keep them updated with investor updates. Once again, why burn a lead that you might want in the future?

**For Series A funds**, I would meet with them. Building relationships with Series A funds can help you run a more competitive process when raising a Series A. Once you are done with your seed round, it's good to meet a few Series A firms and keep these leads warm.

In all of these cases, offer to make intros to other companies in your cohort who are still fundraising and who you think are good. Remember: Karma exists in the startup world and treat people how you would want to be treated if your roles were reversed.

## **Build Something People Want**

Congrats on being in a high leverage fundraising position. About 33% of cohorts have this outcome and about 2% of companies build successful companies. Don't over dilute and remember the real goal is to build something people want. Don't peak in high school.

## **Maintaining Control of Your Company**

"VCs have control when things don't work. Entrepreneurs have control when they do." - Fred Wilson

At its core, maintaining control of your company comes down to leverage. The absolute best way to maintain control is to build a great company, run it well, not burn too much, and not raise too much money.

In this section we won't go into the downsides of taking too much dilution—suffice it to say that some bad investors are incentivized to give you too much cash, which results in less founder ownership and limits your exit options. Instead, we'll address how legal structure can influence your ability to maintain control.

Maintaining company control in a venture-backed private company is more complex than just keeping 51% of voting control of all

classes/series of stock combined, because the board of directors exercises substantial influence over the company's direction and preferred stock (what's issued to investors) comes with special voting and blocking rights. Keeping board control, and carefully negotiating the rights granted to your investors, are critical.

## **Background on Corporate Governance in a Private Company**

"Corporate governance" means the system by which the company is directed and controlled. The company's corporate governance structure allocates rights and responsibilities among the different company stakeholders—most importantly the board, management, and stockholders—and sets the rules for making decisions.

Corporate governance evolves over a company's life cycle. It's important to remember that rights granted to investors are typically additive—new investors are reluctant to give up any rights granted to existing investors, and anchor heavily to the prior round. In a worst case scenario, you may end up with increasingly onerous obligations if new investors ask for additional rights and existing investors won't agree to those rights unless they are given the same.

With leverage and good lawyers, you may be able to roll back investor rights, but it's extremely rare. It's best to assume that what you negotiate in this financing round will be the baseline for the next round.

Also understand that the company structure will change significantly if you do end up at the brink of an IPO. There are significant differences between the legal structure of a venture-backed private corporation and a publicly traded corporation. You should optimize for control decisions that are best for your company while it remains private, and it doesn't make sense to worry about public company control issues at the stage that you're in your accelerator program.

This discussion assumes your company is formed as a Delaware corporation, but similar concepts apply to companies incorporated in other jurisdictions as well.

## **Tutorial: Corporate Governance in a Private Company**

There are three power centers in a private company: the company's management, the board of directors, and the stockholders.

**Management** is in charge of running the company's day to day operations. It's responsible for setting the company's strategy, managing budgets, and making sure goals and tasks are accomplished. It makes these decisions within the framework agreed between management and the board of directors.

**The board of directors** has a supervisory role, and ultimate legal responsibility for the running of the company's business, including the responsibility of appointing and removing the company's officers (including the CEO). Board approval is necessary for almost all major (and some relatively minor) company actions, including all equity issuances, amendment of the company's certificate of incorporation, financing agreements, acquisitions (buy side or sell side), etc. And there is a wider universe of things where board consent is advisable, like approving major commercial agreements and licenses.

Board members owe something called a "fiduciary duty" of loyalty and care to the company and its stockholders, which means that they must act in the best interest of the company and its stockholders (and not in the interest of the individual board member).

**Stockholders** include common stockholders (founders/employees) and preferred stockholders (investors). Stockholders acquire voting rights in two ways: by law (under corporate law) and by contract (in the company's Certificate of Incorporation, bylaws, Investors' Rights Agreement (if any), Voting Agreement (if any) and other stockholder agreements).

In addition, in an acquisition an acquirer will set a threshold stockholder approval requirement—typically 90-95% of all stock, in order for the deal to proceed. But this is a requirement by the acquirer, not something mandated by law or the company's governing documents.

There are things that require separate class (i.e., common or preferred) or separate series (i.e., series of preferred—Series A, Series B, Series C, etc.) votes and there are things on which all stockholders vote. Protective provisions (described below), for example, require a separate vote of the preferred holders (and sometimes, a separate vote by a series of the preferred). And all stockholders vote together on the adoption of a company stock plan or the adoption of an officer or director indemnification agreement.

Unlike the board of directors, stockholders do **not** owe a fiduciary duty to the company or its stockholders. Common stockholders (founders and employees) typically derive most of their rights by law, with few contractual protections added in. Typically common stockholders only vote on major corporate issues like changes to the company's certificate of incorporation, election of directors, acquisitions, etc.

Preferred stockholders (your investors) typically gain most of their rights by contract. Lead investors typically do not take controlling stock interests in companies in a single financing round—instead, they will take something like 5-20% depending on the round and the company's stage. Therefore, in order to protect their investment, they will ask for certain special rights and privileges that the common stock is not entitled to.

### **Protective Provisions**

One of the special rights typically granted to investors are "protective provisions" over certain company actions. These protective provisions are important because they specify how much influence the investors can exert over the company. Protective provisions are negative controls. An investor can't unilaterally make decisions on a company's behalf.

Typically the protective provisions cover decisions affecting an investor's stock, such as:

- Future fundraising
- Any change of rights or changes to a company's organizational documents

- Any sale, IPO or insolvency of the company
- An increase of the company's authorized stock
- Any payment of dividends or change to the board composition

Outside of the US, investors may seek even more restrictive rights—Silicon Valley financings tend to have the most founder-favorable terms.

These protective provisions will require approval of a certain threshold of the preferred stock voting as a whole and/or approval of a certain threshold of a specific series of preferred stock (such as the Series B) in order for a company action, like a venture debt line, to proceed.

### **Blocking Rights**

Investors sometimes require that certain actions may not be taken without the approval of holders of a majority of a particular series of preferred stock. This gives a particular series of preferred stock (or a particular investor) a "blocking right" over certain actions that might otherwise be approved by the preferred shareholders as a whole.

Actions that might require a series vote include:

- A sale of the company
- Waiver of the preferred stock antidilution rights
- Waiver of rights to liquidation preferences

For example, often a lead investor will try to set the preferred stock voting thresholds such that the lead investor will have a unilateral blocking right (for example, if the investor is purchasing 45% of the stock and is the only series of preferred stock outstanding at the time, the preferred voting threshold will be set at 56% or above).

In later rounds, investors may set the preferred stock voting thresholds so that two or three investors together have blocking rights, or to avoid a situation where a single earlier investor would have a blocking right. Generally speaking, investors' interests are aligned—they are all investors and preferred holders—but there are multiple scenarios (typically early investors versus later investors,

where the initial purchase price per share is markedly different), where interests diverge.

Investors are most protective around maintaining blocking rights over the following (which protect their economics):

1. Auto-conversion of their preferred stock into common stock
2. Waiver of their liquidation preference and waiver of the treatment of something as a liquidity event
3. Waiver of their anti-dilution protections

## **Applying These Concepts to Your Company**

### **Using Leverage**

When you have leverage, you should use it. Having leverage now doesn't mean that you will necessarily have it in the future, but you shouldn't shoot yourself in the foot by **not** using your leverage now just because things might change in the future.

What does using leverage look like? It means you shouldn't agree to a term or right just because another company agreed to it. It also means using your leverage in the term sheet negotiation process (or in SAFE round, when you're negotiating investor rights and side letters).

How do you do it? Unless you have extensive experience with venture financings (including knowledge of the current fundraising market), you must involve your lawyers. There is a consistent disconnect in this process:

**Scenario A:** A founder doesn't communicate to her lawyer that she is killing it and has 5 term sheets from top tier VCs. She picks her top choice, and shares the term sheet with her lawyer to mark up. The lawyer marks up the term sheet, assuming the company is just like the dozen other recent deals she's done, and the founder ends up with middle-of-the-road terms, despite the fact that all signs are that this is the next great company.

**Scenario B:** A founder is running out of cash and about to miss payroll. Miraculously, he gets a term sheet from a respectable VC and wants to close as quickly as possible. He passes the term sheet to his

lawyer, not mentioning that he needs to close ASAP, and again the lawyer marks it up with middle of the road terms. This doesn't make any sense.

You, as the founder, have a good sense how much leverage you have with respect to investors. How strong your numbers are, how many investors are vying for your deal, what your burn looks like. Share this information with your lawyer, and make sure it's reflected in the terms that you agree to with your investor!

Make sure to read through the term sheet, and understand it. If your lawyer proposes edits that you don't understand, ask them to explain those changes, and how you should advocate for yourself. And never, ever sign a term sheet without having a trusted lawyer review it.

Once you sign a term sheet, you're in most cases subject to a no-shop provision that greatly hinders your ability to seek potential alternate investors, and there is path dependency—your negotiating leverage drops the minute that you sign the term sheet. If you try to change terms after the term sheet, your investor may accuse you of trying to re-trade on the deal.

It's extremely important to negotiate the best terms that you can **PRIOR** to signing the term sheet. This is not the time to spend minimal time with your lawyer to minimize legal fees.

### **Maintaining Board Control**

Board votes are rarely split. Matters are decided in the discussion preceding the vote, not in the vote itself, which is usually unanimous. But if opinion is divided in such discussions, the side that knows it would lose in a vote will tend to be less insistent. That's what board control means in practice. You don't simply get to do whatever you want; the board still has to act in the interest of the shareholders; but if you have a majority of board seats, then your opinion about what's in the interest of the shareholders will tend to prevail.

With each priced round of funding, you will most likely give up one additional director seat to the investor leading the round. The new board composition will be described in the term sheet and documented in the company's Certificate of Incorporation and Voting Agreement for the round.

The result is that, after two or three rounds of funding, the founders of many companies lose control of the board, because at that time the investor directors match or outnumber the number of directors representing the common stock.

It is extremely difficult to remove an investor director once they are on the board, so your upfront expectation should be that they will remain on the board for the foreseeable future.

There are a few different strategies for maintaining board control:

**Holding a Majority of Director Seats** (common stock or founders personally appoint a majority of the directors): This is the old-fashioned way of maintaining board control. The founders have the right to appoint a majority of the total number of directors. Depending on how many investors are sitting on your board and the number of founders on your team, this may require keeping certain seats vacant or appointing non-founders to the board—this is sub-optimal from a control perspective because you cannot guarantee how those people will vote.

**Supervoting Director Seats:** Devised as a solution to this problem, supervoting director seats are entitled to more than one vote per seat. Therefore a founder director may be able to cast 2, 3 or even 4 votes (in very high leverage situations) per seat. This enables a company with a small founding team to maintain control of the board through several rounds of funding (assuming the supervoting feature is not negotiated away by a future investor). This mechanism has become increasingly popular in recent years among high-leverage companies.

Be careful how your own "founder" board seats are characterized. Often founders confuse "CEO" director seats with seats that are designated by the common stock or by one or more of the founders personally. CEO seats are only founder seats for so long as the founder remains

CEO—and the board has the ability to hire/fire the CEO. So if in a future financing round the founders lose board control, the CEO could be replaced and they are then at risk of losing the CEO seat too.

Don't make the mistake of assuming that a CEO seat will always be a founder controlled seat. There is also a difference between board seats that are appointed by the founder personally, those that are elected by a majority of the common stock, and those that are elected by a majority of the common stock "then-providing services" to the Company as officers, employees or consultants. If you are a solo founder, a personally appointed seat may make the most sense. If you are a founding team of several that has an ex-cofounder that still holds significant equity, the "then-providing services" formulation may be best. And if you have a founding team of several who are all currently with the company, it could be any of the above depending on personal dynamics and how your ownership breaks out.

You should talk with your lawyers to figure out what formulation makes the most sense for your situation.

**Proceed with caution on so-called "Independent" seats.** Even if the independent director is nominated and elected by the common stock, that person is **not** a founder and their interests may not be fully aligned with yours. Be especially wary of independent directors who have a preexisting relationship with your investor board member—if your company goes through a hard patch, it is quite possible that person will align with your investor.

**Deadlocked (Even) Boards:** Some advisors will urge you to not agree to an even number of directors, because it may lead to a deadlock. One potential solution is to designate a founder as a "Tiebreaker/Casting Vote" that will make the deciding vote in the event of a deadlock, though this is less effective from a founder control perspective than having another director seat or supervoting director seats.

### **Limiting Protective Provisions / Blocking Rights**

Founders should review the protective provisions / blocking rights closely (particularly in relation to any operational matters) to make sure that the company can operate efficiently going forward. Investors

often fight hard to maintain certain rights that protect their fundamental economics, but other aspects are more easily negotiated—and even the rights protecting fundamental economics are more flexible if you have a significant amount of leverage.

Regardless of leverage, avoid protective provisions that are strictly operational in nature. Worst case, try to make the most restrictive approvals require only the consent of a director appointed by the investor, instead of the preferred stockholders (stockholder protective provisions are found in the company's Certificate of Incorporation, investor rights are found in the company's Investors' Rights Agreement).

That approach (1) is more efficient because consent can be obtained at board meetings and (2) leverages the fiduciary obligations of the investor director to make decisions that are in the interests of the company and its stockholders. Remember—stockholders have no duty to act in the best interests of the company. Therefore, it is not unheard of for a board member representing a VC to approve a corporate action (which they determine to be in the best interests of the company) only to have the investor veto it as a stockholder if it goes against their economic interest as a fund.

### **Dual Class Common Stock**

In a dual class common stock structure, one class of common stock has significantly more voting power than the other class of common stock. The super-voting common also often carries more votes per share than the preferred stock.

In a typical dual class common stock structure, founders and/or management will hold Class B Common Stock with 10 votes per share, while the other employees will have Class A Common Stock with 1 vote per share. The preferred stock often also carries only 1 vote per share.

Dual class common stock can be implemented by the company at formation, but unless the company has significant traction and high leverage, it will often be unwound by the lead investor in the Series A financing. Because of the relatively limited scope of matters that

the common stock votes on, a dual class common structure is most valuable as the company approaches IPO and its true value is to create a structure that allows insiders to maintain significant voting control after going public.

For that reason, high leverage companies may implement dual class common stock at around the time of their Series C (or later), with the support of their existing investors.

### **Voting Proxies**

A voting proxy gives a designated individual or entity the right to vote a stockholders' shares. Voting proxies are the legal equivalent of a blunt force instrument. They are effective at giving the proxy holder power, but the stockholder giving the proxy also exposes itself to a lot of risk, because the proxy holder could abuse the power and vote on a range of matters that are against the stockholder's or company's interest.

Occasionally extremely high-leverage, late-stage founders with a proven track record will be able to persuade their investors to sign a limited proxy assigning over some of their rights to a designated person, usually a founder. But these are extremely rare, and most investors will have an extremely adverse reaction to the suggestion of a proxy over their shares because proxies can so easily be abused. They also don't by themselves achieve the goal of maintaining founder control because so many important decisions are made at the board level.

## **The Evolution of Corporate Governance and Control Over a Company's Life Cycle**

### **SAFEs**

In your post-deadline seed round, only a very small number of companies will bring on an outside investor director. You may be asked by a few investors to enter into a side letter that contains certain investor rights. Before agreeing to bring on an investor director or

signing any side letters other than the standard pro rata side letter, discuss the ramifications with your lawyers.

## **Series A**

At your Series A, you will most likely bring on one outside investor director, and you will enter into the first priced round financing documents that set out the company's board composition and key investor rights (including protective provisions and blocking rights). This is a key moment because these documents will set the foundation for your company's legal structure going forward.

Work with trusted counsel to negotiate the term sheet. If you are a high leverage founder, discuss with your lawyer how you can implement one of the strategies for maintaining board control described above. Work with your lawyers to try to limit the number and scope of investor protective provisions and blocking rights.

## **Growth**

Additional lead investors will typically be given the right to appoint directors, and you will need to be particularly careful about the evolution of your board structure. By the Series C, the median size of the board is 6 directors. Some high leverage companies may consider implementing dual-class common stock.

## **Late Stage/Unicorn**

Board structure continues to evolve. The company may begin preparing itself for eventual IPO. Investors begin to focus on acquisition and IPO downside protections and blocking rights.

## **Summary**

Everyone wants to maintain control of their company. This gives you maximum flexibility and freedom to operate, and in the event that there is reasonable disagreement over a material event or decision impacting the company, you will have the ultimate say in what to do.

Some investors will argue that you shouldn't maintain control of your company because so-called "entrenched" founders are bad for corporate governance. There are definitely examples where entrenched founders lead their companies into the ground. In these cases founders engaged in behavior that led to criminal charges, personal wealth accumulation, and/or serious failures of culture, ethics and compliance.

Don't be those founders. If your investors tell you that they don't want to agree to legal structures that would allow you to maintain control, remember that you're looking for a partner that believes in you as a founder and is in it for the long haul.

## **How to Reject an Investor Meeting**

This is one of the most common questions that comes up—typically after your major deadline. There are 4 common fact patterns and what to do:

### **You Are Finished Fundraising and an Interesting Investor Has Emailed You Requesting a Meeting**

Politely reply that you are finished fundraising but you'd be happy to reach out in the next 6-12 months if there is opportunity to invest. (Please keep a list of these people because many companies end up raising seed extensions. If you really like the person you can also offer to include them on your investor updates).

Example email language: "Thank you so much for reaching out. Unfortunately we are done fundraising but we are always interested in keeping in touch with investors who might want to fund us at a later date. If interested, I'm happy to reach out with periodic updates on our progress."

### **You Are Finished Fundraising and You Have Positive Responses from Investors You Won't Be Raising Money From**

Politely email these investors that you are finished fundraising but you'd be happy to reach out in the next 6-12 months if there is opportunity to invest. (Please keep a list of these people cause many companies end up raising seed extensions. If you really like the person you can also offer to include them on your investor updates).

Example email language: "Thank you so much for reaching out. Unfortunately we are done fundraising but we are happy to reach out if there is an opportunity to invest in the future."

### **An Investor with a Bad Review Is Asking for a Meeting**

Politely email the investor that you are not interested in a meeting at this time. Thank them for reaching out to you.

Example email language: "Thank you so much for reaching out. Unfortunately we are done fundraising."

### **An Investor Who Led the Round in a Competing Company Is Asking for a Meeting**

Politely email the investor and ask them whether they have a conflict with the other company. You can also ask them if they would need that founder's approval before investing.

Example email language: "Thank you so much for reaching out. I see your fund has invested in [name of competitor]. Do you believe there would be a conflict if you invested in us?"

## **Strategic Investors**

A strategic investor is typically a large company that is in your industry. Unlike a VC fund, their main job is not investing in companies, but they are interested in investing in yours. Deals like this are more complex than simple investment deals. Most of the time these are deals you should avoid.

Here are some things to consider:

## **Why Do They Want to Invest?**

It's important to understand their motivation, and to ensure it's aligned with yours. Do they want to have an option to acquire you later on? Do they want to have control over your roadmap? Do they just think it's a promising business and want to own part of it? Do they want to learn more about a new space?

## **What Is the Non-Financial Value You Could Get Out of the Investment?**

Could it turn into a partnership with the company, where they become a customer or distribution partner? If so, why not just do a partnership?

## **What Control and Information Rights Will They Get Over Your Company?**

You want to be very careful giving strategic investors controlling rights like board seats because there is real potential for a misalignment.

## **Be Careful When Sharing Information About Your Company**

Avoid sharing any secret sauce / technical information with strategics that could enable them to replicate your technology.

## **If They Invest, Will It Make It Harder for You to Get a Deal With Their Competitors?**

Does that reduce your market opportunity? If so, that's a major drawback.

# Market Size

## Introduction

When trying to calculate the size of your market the first thing to recognize is that this is more of an exercise to explain to investors (and yourself) how many potential customers you believe exist in your market and how much you will eventually be able to charge them. The goal isn't just to produce a large number that you can quote in your pitch deck.

## Bottoms Up Market Math

We recommend you calculate your market size bottoms up. Quoting random industry market sizes from some investment banking report is basically useless. Also when asked to explain that number—most of the time you won't be able to.

Doing the math bottoms up requires a little bit of research but it's a much more believable & defensible approach.

## Customers

Start with your number of customers. Don't just consider the customers you can sell today. Consider all the customers you would like to sell in the next ten years. Consider all the geographies/industries you would like to sell your service in the next 10 years.

Generally, for enterprise software companies (and most B2B SaaS companies) the number of customers will be in the thousands (think large enterprise software companies). For B2B SaaS companies specifically focused on small businesses, this number will be in the millions. For consumer businesses, the number will tend to be in the tens to hundreds of millions of people.

It's helpful when thinking about the customer number to make sure you are intelligently narrowing this number down so it's realistic. While a ride-sharing company could claim every person in America is in their market, that would include small children, people living in rural

areas, etc. This is not realistic. A better number might be the number of people between 18-60 living in cities and suburbs in America.

Same thing for B2B SaaS businesses serving SMBs. A large number of SMBs in America are single-employee companies that might or might not be active. Those folks probably don't need your product. Much better would be to quote the number of small businesses in America between 5-200 employees.

Another trick, if you sell to a specific type of user (let's say developers) and you sell per user, is to quote the number of developers who work at companies of a certain size. You can do the same thing for example if you are selling software to accountants.

As you can see, this number can be the number of companies you plan to sell to or the number of users in these companies who will use the product (depending on your market size calculation).

### **Annual Revenue Per Customer**

Once you have a total number of customers, the next number you need is the amount they will spend on your service per year. For enterprise businesses, you typically are signing up customers with annual contracts so this math is pretty easy. However, make sure you aren't just thinking about what you can charge for your product as it exists today. Think about how much you can charge your customers when your product is mature.

For many enterprise software companies that number will be in the high hundreds of thousands to low millions. For B2B SaaS business selling monthly renewing contracts, this math is also easy (just multiply your monthly rate by 12). For B2B or consumer startups who charge based on usage (think tax preparation software or travel software) you also need to estimate how many times a customer will need to use your product per year in addition to how much you will charge per use.

### **Market Size (With Examples)**

Once you have the number of customers and the annual revenue per customer, all you have to do is multiply them together to get your market size. Here are some examples:

**B2B SMB SaaS:** There are 14 million small businesses in America between 5-200 employees. We make an average of \$2500 dollars per customer per year with direct SaaS fees and other revenue. This represents a \$35B market opportunity.

**Consumer:** There are 120 million households in America & Europe who go on vacation for at least 1 week every year. We generate approximately \$200 dollars per 1 week trip by taking a 15% booking fee. This represents a \$24B dollar market opportunity.

**Enterprise:** There are 20 million people in America who work at large companies of 1000+ employees. We charge \$600 per employee per year for our software. This represents a \$12B dollar market opportunity.

## **Common Mistakes**

**Stating a number that is impossibly large.** For example, if you are a solar power company and you say your market size is \$1.9 trillion dollars (the same size as the global energy market).

**Stating a number that is specific to 1 country when you are going to obvious expand past that country.** This is very relevant in Europe, MENA, Africa, Latam.

**Just stating the number without the math.** (See above for details.)

**Being an idiot about your assumptions so that an investor can catch the obvious mistake.** For example, being an enterprise software company but saying that you are going to sell to the 30 million+ businesses in America.

**Not speaking to your business model.** It's really good to say how you charge (per employee, per use, transaction fee, etc).

**Being too specific.** Trying to speak to more than 1-2 ways you will monetize, breaking down countries in too much detail, using more than 2-4 sentences to explain your market math.

**Deciding it's too hard to do your market math and just not doing the work.**

Quoting a number that you can Google and see is completely wrong.

## Investor Updates

Once you've raised money, you should start sending regular monthly investor updates to all of your investors. Send updates to investors in your round, plus any other formal investor programs you're part of.

### Why Sending Updates is Important

Besides keeping your investors up to date, consistently sending investor updates has a number of non-obvious important benefits.

**It's a good way to hold yourself accountable.** Think of these updates as a continuation of setting goals, where they become a forcing function for you to measure, track, and report on your metrics and progress.

**It's a simple way to get more value from your investors.** Sending reliable updates makes investors feel like they're on your team, and helps generate excitement when you start growing. You should ask investors for help in specific areas, and they may also send you potential hires, customers, and other serendipitous opportunities because you'll be top of mind for them. It's also not uncommon for monthly update emails to lead to pre-emptive offers to invest in your next round.

**It builds trust with your investors, especially if things aren't going well.** Oftentimes founders are afraid to send updates if things aren't up-and-to-the-right because they're worried investors will be upset or regret funding them, but ironically this is exactly the time you should be sending investor updates. Investors are very unlikely to be upset, and will be more likely to reach out, try to help, and want to continue supporting you when you need money again (either for your current startup, or your next one).

**If you don't send regular investor updates, your investors will assume you're dying or dead.** And if you ghost them once you take their check, and only show up later when you need more money because you're about to die, don't expect that to go well.

## **What to Include**

Start with a template and customize for your company as needed. Note: please do not make investors click a link to a PDF/Notion/Google doc/etc to read your update. Include the entire update directly in the body of your email.

**Lead with Metrics:** The best investor updates are metrics focused. Every single update should start with the same 1-3 primary KPIs for your company each month, along with the % change from the prior month, which will give investors an overview of how things are going at a glance. If you're building software and the product is live, those KPIs should almost certainly include revenue and active users. If you're unsure what yours should be, ask your mentors.

We also recommend including a monthly graph of your main KPI (not cumulative!), even if it doesn't look great. And you should also include your cash in the bank, net burn (revenue-spend), and months of runway in this section.

**Include an Ask:** Tell your investors specific ways that they can help you. These often include things like intros to potential customers/job candidates/investors, advice on navigating tricky situations, feedback on your product or strategy, or help with any other challenges you're facing. That said, the response rate you'll get to mass-emailed updates with asks is pretty low. If you really want your investors to do something, you're better off sending a 1-1 personalized email directly to each investor individually, specifically requesting help with something.

**Share Highlights and Lowlights:** Give a couple bullets of qualitative thoughts on what's going well, and what's keeping you up at night. These give investors more context for what's going on inside your company, and can also lead to replies to help.

**Give Shout Outs to People Who've Helped:** Beyond being a nice public way to say thanks to your investors that have been helpful, it also creates social pressure for investors to help you even more so they'll look better in front of their peers.

**Set Goals/Priorities for the Next Month:** Just like in goal-setting, if you commit publicly to what you plan to achieve in the next month, you'll be more likely to make it happen. Another hack we've even seen founders do is to pre-write your investor update a month in advance (so on Nov 1st write the update you plan to send on Dec 1st, but don't send it yet), and then you'll have a month to make everything you wrote to be true so you can just hit Send 30 days later.

## **Most Common Mistakes**

**Not sending an update because things aren't going well.** The most common story is something like "our growth was bad this month, but it'll turn around soon, so let's wait to send it". This sounds rational but is the wrong call. Investors expect startup trajectories to be bumpy and are more patient than you think—plus you'll get points for being honest.

**Not including your metrics, or burying them in lots of text.** You should put your metrics up at the top, even when things aren't going well.

**Making them too long.** The more words/explaining, the worse investors will assume you're doing. Good investor updates can be read in 1 minute.

**Linking to an external doc to read your update.** You'll get far less engagement if your update can't quickly be read directly in an email client.

## **Updates for Potential Future Investors**

If there are investors you met with that didn't invest yet, but might be a good fit for a future round, it's often a good idea to send them

updates every few months (or whenever you have good news to share) to keep them in the loop on your progress.

First, get them to opt-in to getting occasional updates by asking them "Would you like me to send you occasional updates about how we're doing?"

Next, don't send them the same investor update you send to your current investors. That investor update is designed to be very transparent, to have all your metrics, and to include the bad news along with the good. But for potential investors, you just want to send good news, and you usually don't want to share all your metrics. It's best to draft separate updates for this set of people that share just good news and major milestones.

For example, if you sign a major customer, do a new product launch, or reach a big revenue milestone, those are all good times to reach out to prospective investors and share the news with them.

## **Raising a Seed Extension Round**

### **What's a Seed Extension Round?**

It has become increasingly common for companies to raise a seed extension round. Typically, this is additional money raised on SAFEs, 9-24 months after your seed round. Unlike a Series A, which is a priced round led by a single main investor, a seed extension typically has several investors. It's often a mix of both your existing investors from your first seed round and new investors. They're typically \$1-5M in size, similar to seed rounds. These rounds were previously called "bridge rounds" and had some stigma attached to them. But in recent years they have become increasingly common and the stigma has worn off though you will rarely read about them in major publications. They now go by multiple names: "Second seed rounds", "Seed+ rounds", "Seed extension rounds" and even "Pre-A rounds".

## Why Raise a Seed Extension?

There are a number of reasons why it may make sense to raise a seed extension:

**You didn't raise enough in your first seed round to get to a Series A,** and you'll need a bit more runway to grow into your Series A milestones.

**Your business is doing very well and seed investors are offering you money on exceptionally good terms,** so you decide to take some.

**You're at the point where you maybe could raise an A, but not on the terms you want.** So rather than raising an A now, you make a strategic choice to raise a smaller amount and grow to better metrics so you can raise a better A at a higher valuation later.

## What You Need to Raise a Seed Extension

To be able to raise a seed extension, your business needs to be doing well. You need to have made a lot of progress with the proceeds of your first seed round, and typically you are closing in on your Series A milestones.

For example, suppose you're a B2B SaaS business. At your seed round you were at \$5K MRR and you raised \$1M. Your Series A milestones are \$100K MRR. A typical time when you might think about raising a seed extension is when you're at \$25-50K MRR with a good growth rate.

If you are considering raising a seed extension, it's a good idea to test the waters from your existing investors first. If your existing investors don't want to invest, it will likely be difficult to get the round done.

## How to Raise a Seed Extension

Here's a specific process for how to raise a seed extension:

**Make a fundraising plan:** Just like for your seed round, we recommend building a Custom Fundraising Plan for this fundraiser and thinking through what valuation would make sense.

**Make a fundraising deck:** While many companies raise after a major event without a formal deck, you will need a deck to help tell the story for a second seed.

**Make a spreadsheet with a target list of investors:** You can include investors from investor databases, investors who invested in similar companies, investors who you spoke with but who passed on your first seed round, and investors who have reached out to you since then.

**Go to each one of your existing investors individually:** We recommend first talking to angels who you believe will be interested in investing. Then talk to larger investors who you think will be interested. Talking to the angels first lets you practice your pitch in a low stakes context before talking to the larger investors whose participation is more important.

Try to talk to the people you think will be easiest to convince first. To set up these conversations, tell them, "I'm thinking about raising a seed extension round. I'd love to get your feedback on my deck and fundraising plan". Schedule a 60 minute call with them. If an investor offering you money prompted this round, it's great to mention that (without identifying the investor) as that's a great sign that there's already interest.

Spend the first part of each call running through your deck and then getting their feedback. Doing this has two purposes. (i) It gets their feedback, which is likely to be helpful since investors are good at giving feedback on investor presentations. (ii) It indirectly pitches them on your company, updating them on all the great progress you've made and getting them excited about you again.

Once you've pitched them and gotten their feedback on the deck, now ask for feedback on your fundraising plan and for investor intros. Show them your list of target investors and ask them which investors they could introduce you to (and put their name down on the spreadsheet). Ask them which investors aren't on your spreadsheet that should be.

If you feel like the meeting went well, ask them if they'd like to double down in this seed extension round. You should try hard to get

some of your existing investors to double down. If you are not able to get any of your existing investors to participate, it will be challenging to raise this round unless a new investor is aggressively pushing to invest a significant check already. Ideally you want your existing investors to take most (or even all) of the round.

**If You Need to Go Outside Your Current Cap Table:** Approach investors you've connected via intros from your current investors or those who may already be familiar with your company but who haven't invested yet. Perhaps you were not able to fit them into the seed round or they passed because it was moving too quickly but you think they are still interested.

Again, it's best to start with some angels before talking to funds because the stakes are lower if the call does not go well.

If your round is not complete from talking to the first two camps of people, it's fine to seek out warm intros to other investors you've not talked to before. Obviously the conversion rate on these conversations will be lower so ideally you would fill up your round with insider investors and maybe a few other people who have been looking to come in or who are connected to your investors.

**Get Back to Work:** Remember, while it's great to raise more money quickly from friendly investors, they are very much expecting you to deliver on your promise to use this money to accelerate toward the Series A round. Seed extension rounds actually carry a higher expectation from investors than first seed rounds. This is because seed rounds are typically raised by getting investors excited about your startup's potential while seed extension rounds are usually raised based on the founders making strong statements about the company's near future and prospects for an A.

If your startup falls off after your seed round, that's common and investors are used to that. If your startup falls off after a seed extension, investors will wonder where you got your numbers wrong and what else you might be wrong about.

## **Final Thoughts**

It's rare for seed extension rounds to be promoted in the press or mentioned publicly at all, unless the first seed round was never announced and you announce them together. Most companies keep these rounds a secret. Often founders do this to maintain the illusion that they reached a massive Series A with just their \$1-2m seed round. Other times they keep it a secret to avoid painting the company as one that needed more help than other startups to reach its A.

## **Series A Milestones**

When figuring out how much money to raise in your seed round, one of the most important considerations is what milestone you have to hit in order to raise a Series A. Below are some minimum benchmarks to consider shooting for within 18 months of raising your seed round. Needless to say, Series As can and do happen before companies hit these marks, and hitting a mark isn't a guarantee for raising a Series A success.

Understand that aiming for a target that is greater than the benchmarks below will give you even more leverage when raising. The other important component to raising a Series A that isn't mentioned below is your relationship with partners at Series A firms. You can learn more about building these relationships in the Series A manual.

Also if you want more information about how the KPIs below are measured—please read the "Choosing your KPI guide".

### **Enterprise Software (Enterprise Sales Model)**

Primary KPI: Annual revenue (in annual recurring contracts) i.e. ARR

Series A KPI target: \$1m+ ARR (composed of multiple 6 figure contracts with good pipeline or one 7 figure contract with good pipeline)

Special Considerations: Enterprise sales experience highly valued. Sales team mechanics—cost of sales, time to close are key.

## **Enterprise Software (Open Source Model)**

Primary KPI: Annual revenue (in annual recurring contracts) i.e. ARR

Series A KPI target: \$1m+ ARR

Series A growth rate target: 10%+ monthly growth

Special Considerations: Often these deals can also get done with earlier "ARR" traction when there is widespread usage/contribution in the developer/startup community. Downloads are an important indicator of adoption, and we've typically seen monthly downloads exceed 10K per month at a minimum.

## **B2B SaaS**

Primary KPI: MRR

Series A KPI target: \$100k+ MRR

Series A growth rate target: 20%+ monthly for 6-12 months prior to raise

Special Considerations: The ranges here are extremely wide. Depending on the age of your business. Please keep in mind that high retention, revenue expansion (customers paying you more over time), CAC (Customer Acquisition Cost) and payback period, and your growth rate are really important here (often more important than your raw MRR).

## **Consumer Subscription**

Primary KPI: MRR

Series A KPI target: \$100k+ MRR

Series A growth rate target: 20%+ monthly for 6-12 months prior to raise

Special Considerations: Please keep in mind that high retention, CAC and payback period, and your growth rate are really important here (often more important than your raw MRR).

## **Social**

Primary KPI: DAUs & 1, 3, 7, 30, 60, 90 day retention

Series A KPI target: ?

Series A growth rate target: High

Special Considerations: These rounds either happen because an investor falls in love with the founder/idea before there is significant growth or because there is just incredible growth with good retention (everything is breaking level of growth).

## **Bio**

Primary KPI: Technical milestones and/or significant contracts

Series A KPI target: Will depend on the company. If a therapeutic or diagnostic company—will often be a clear path to your first human studies in the next 18-24 months. The \$\$ amount you raise should usually be consistent with entry into human studies, or a key enabling milestone (such as a proof-of-concept for a platform technology)

Special Considerations: Know your regulatory path well. Regulatory milestones are often value inflection points, and your investors will probably have strong opinions on these.

## **Hardware/Moonshot**

Primary KPI: Technical milestones and/or significant contracts

Series A KPI target: Depends on the company

Series A growth rate target: NA

Special Considerations: These will only appeal to investors who understand what you are doing and are bought in. Relationship building is especially important here.

## **Consumer Marketplace**

Primary KPI: Monthly GMV and Revenue

Series A KPI target: \$1M+ GMV and \$100k in monthly revenue

Series A growth rate target: 20%+ monthly for 6-12 months prior to raise

Special Considerations: Please keep in mind that high retention of both demand and supply, your ability to match demand with supply in a timely manner, CAC and payback period, and your growth rate are really important here (often more important than your raw MRR).

## **B2B / Consumer Transactional**

Primary KPI: Revenue

Series A KPI target: \$100k+ Monthly Revenue

Series A growth rate target: 20-30%+ monthly for 6-12 months prior to raise

Special Considerations: Please keep in mind that high retention, revenue expansion (customers paying you more over time), CAC and payback period, and your growth rate are really important here (often more important than your raw MRR). Fraud rate / loss rate will be also considered. To be clear if your business requires lending capital (i.e. a credit card) you will also be judged on your ability to raise debt.

## **B2B Usage Based**

Primary KPI: Monthly revenue

Series A KPI target: \$100k+ Series A growth rate target: 20%+ monthly for 6-12 months prior to raise

Special Considerations: Please keep in mind that high retention, revenue expansion (customers paying you more over time), CAC and payback period, and your growth rate are really important here (often more important than your raw MRR). Margins are also very important here; a plan to get to 40%+ is also helpful.