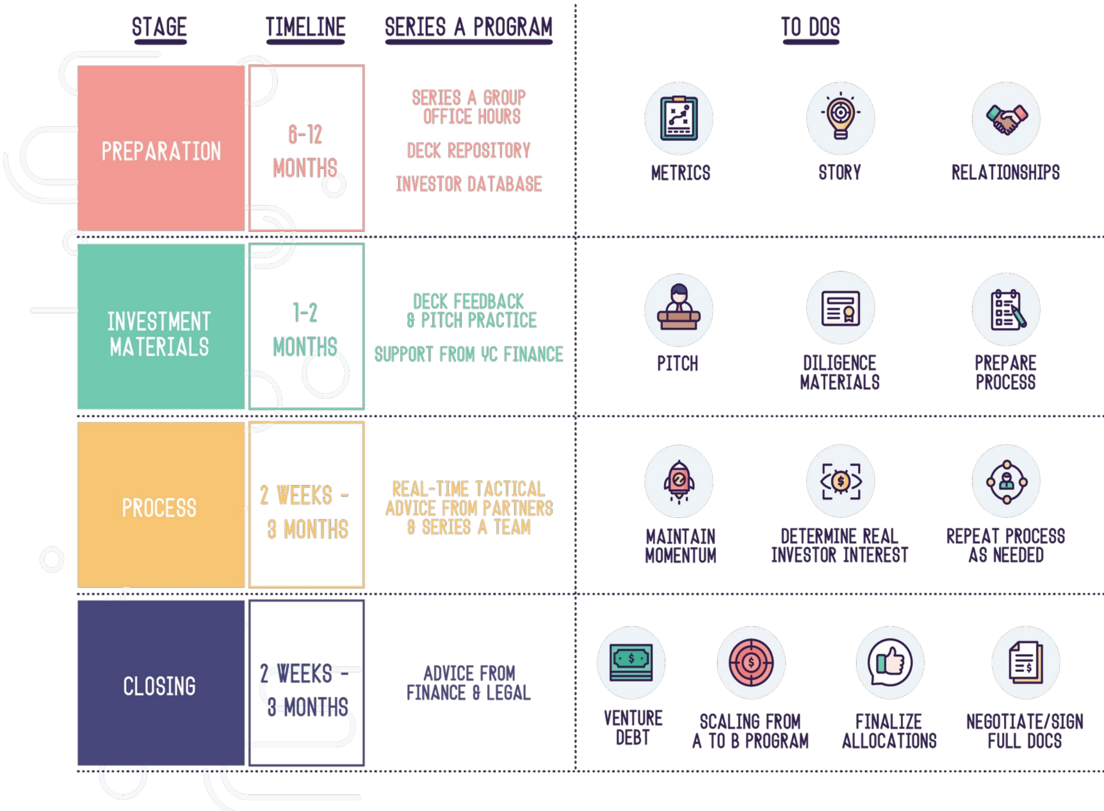
https://www.ycombinator.com/resources/series-a-guide

Quick Tactical Guide

This section lays out the timeline leading up to a Series A raise. For YC founders, the Series A Program has developed programming to support you at every step of the way. As a first step, we strongly recommend you sign up for Series A group office hours, as this will help you think through where you are in this timeline.



We've provided rough estimates for how much time is required for each stage based on our past experience. The biggest practical consideration in timing is how much runway you have. As PG lays out in The Fatal Pinch, you need to raise before you get down to 6 months of runway. Fundraises can take anywhere from a few days to a few months, but it's best to prepare for the worst and give yourself at least 3 months. You also need to factor in the 1-2 months it actually takes to build a solid deck and pitch.

That's why we suggest thinking about whether you need to raise more money when you have **12 months of runway left**. This gives you a few months of preparation to kick off a fundraise when you’re at 9 months of runway, plus a few months of buffer time before you get dangerously close to the fatal pinch.

Remember that just because you need money does not mean that investors will give you money. Raising a Series A is hard - only ~30% of founders who raise a seed round will go on to raise an A. If you’re at 9-12 months of runway and are not on track to hit the metrics from comparable companies that successfully raised (see our section on benchmarks), we’d recommend this article from YC Partner Dalton Caldwell on advice for companies with less than 1 year of runway.

6-12 months before raise

Know your metrics

Set and track your progress toward your Series A goals. Refer to our table on key metrics by business type to determine what metrics you should be using to gauge progress, and our set of comparative benchmarks to gauge what the minimum you should be aiming for is. The key is to have enough data to show an impressive trend.

Your numbers need to be detailed and consistent. Consistency demonstrates a level of predictability in the business and enables investors to trust the trend. Detail clarifies what the number means and enables investors to trust the number. Make sure you know your metrics cold.

Draft your story

Put together a rough draft of your fundraising vertebrae. These are the 3-4 points that comprise the story of why your company will be gigantic. Together, if investors believed in any one of these points, they’d be afraid not to bet on you. Test your story out in your investor coffees and take the feedback from these conversations to refine how you tell the story of your business over time.

Build relationships with investors

Put together a list of prospective Series A investors, get warm connections to them, and start meeting with them until you find the subset with whom you actually want to work. You need to impress and engage the investors through these meetings without sharing so much that the investor can fully evaluate a decision. We suggest keeping track of your investor relationships using a CRM.

If you think you’re receiving a pre-emptive offer

A pre-emptive offer is a term sheet that an investor delivers to a founder without making her jump through the usual hoops of the Series A fundraise. Typically, a founder does not have to build investment materials, pitch to the partnership or go through a typical diligence process.

Pre-emptive offers usually come from investors with whom a company has an existing relationship. Investors do this in order to win deals simply by offering to put in money before anyone else does. This is not common: only about 12% of Series As raised by YC companies from 2018-19 were pre-empted.

Sometimes, investors will convince the founder that an offer exists without actually stating the offer. This kicks off a one to one fundraising process on the investor's timeline. Unless you've received an actual term sheet outlining the terms of the deal in your inbox, you have not been pre-empted. If you have, refer to our section on "Pre-emptive Offers" for what to do next.

2 months before raise

Figure out how much to raise and a backup plan

You should be raising the minimum amount you need to hit your Series B milestones, typically somewhere between 3-5x current numbers. Build out a financial model that projects 1-2 years of spend to help you figure out how much this is.

Decide what you will do if you are unable to fundraise. Can you get to profitability or raise a bridge? Will that buy you enough time to drive growth that is impressive to investors and increases your future chances of raising an A? Having a Plan B is critical to peace of mind in what is often a very emotionally tumultuous process.

Workshop your investment materials

Refine how you tell the story of your business in your deck based on your conversations with investors. Write your investment memo to help you clearly and concisely articulate the key components of the investment and rationale for investing. Pick a set of "advisors" who will help you with your raise. Good candidates for this include existing investors you trust who can't lead As and founders who have successfully raised their As. Ask them for feedback on your investment materials.

Perfect your pitch

Practice pitching with your set of "advisors", and continue to iterate on your pitch as you receive feedback.

1 month before raise

Pick one person to pitch and delegate their responsibilities

Raising money is the CEO's job. If you are the CEO, you should plan for it to be your sole, full-time focus. Delegate your responsibilities for the next month. You will need to dedicate 100% of your time to pitching.

Even in the rare case of co-CEOs, it's best to have a single point of contact. Investors want to see a clear decision-making process, which generally requires a final decision-maker. Having more than one person fundraising at a time distracts two of the most important people away from building the company and makes the fundraise more difficult to coordinate.

Close hiring offers and create a hiring plan

Close hiring offers for employees who you want to receive equity at pre-Series A prices. As well, create a hiring plan that outlines how headcount will expand and which roles you will fill between the Series A and the Series B. The hiring plan will help you answer investor questions about what you are using your capital for, and can help you negotiate overly aggressive asks with respect to the Series A available option pool.

Align with current investors

Good angels can be extremely valuable in a Series A raise by helping to identify the right partners, provide warm introductions, serve as a backchannel to ongoing diligence, and advocate for you. If you have an insider investor who could have led but won't be doing so, agree on a narrative to avoid creating a signaling problem. Here's an example of a reasonable narrative: "Investor A hit their ownership target, are going to do their pro-rata and continue to be helpful, but we think we need a partner who has XYZ qualities. While they have expertise, they don't have that. That's why we're looking for a different lead."

Calculate your pro-ratas

Get your cap table in order so that you go into your fundraise knowing how much space you have left in the round once pro-ratas are filled. This will also help you understand how much dilution you'll be taking. These calculations can be done using tools such as captable.io, Angelcalc.com, Carta and Excel, for example. If you're not comfortable, ask your lawyers for help. YC founders can reach out to YC's finance department for help with this.

Create a diligence pack

Compile a standard package to share when information is requested. Examples of standard info include P&L statements, financial forecasts and your cap table. This helps control the narrative and will reduce your workload during the process. As much as possible, use services such as DocSend to track who sees what.

Prepare documents for post-term sheet diligence

Pull together all the pieces of information you'll need to have ready once you sign a term sheet. We've outlined this for you in the Series A diligence checklist. Having all of this together in one place – a Data Room – before you sign a term sheet will cut as much as a week off of your closing process.

Schedule your pitches tightly

Aim to improve the tilt of the market by grouping meetings as tightly as possible by stage. First pitches should all happen within a one to two week period; pitches to the full partnership (typically the last meeting before a term sheet offer) in a different one to two week period. Your goal is to make your raise a tight process and keep cohorts of investors in the same phase to generate competition. Ideally, this also means that investors make their offers at the same time without being able to collude or discover that others have passed.

When you launch your fundraise

PITCH

Continue to iterate on your pitch as you receive feedback from investors. As you meet with investors, you'll begin to see the parts of your pitch that people are most skeptical of, and what they're most excited about. You'll find questions that you don't have answers for or concerns you need to address. Carve out time each day to go over all the feedback you're getting to make your pitch better. Crunch data and add slides to your appendix to answer frequently asked questions. Focus on the parts of your story that resonate most strongly.

Create a sense of urgency

Provide each investor with just enough information on the status of your fundraise to maintain a sense of urgency and keep them moving forward in the process. The way in which you follow-up is important. If investors are interested, they will reach out within 24-48h of your meeting. If you're not hearing back, feel free to follow-up until you get a good response, but remember this guiding principle: there are things you do when you're desperate vs. things you do when you're busy. Try to look busy and not desperate.

Share information prudently

It is generally okay to provide some confidential information to enable investors to do diligence, but you should not share proprietary information (i.e. secrets that can be used to replicate you or poach customers). A good strategy is to ask the investor what question they are trying to answer by requesting information. This can help you (1) figure out a more efficient way to answer their question and (2) suss out if they are only trying to create busy work (or worse, get information to help a competitor or evaluate a competitive deal). Although everyone will seem as if they're interested, only about a quarter of the funds will be serious about doing the deal. It's your job to weed through the noise to figure out who's truly interested and spend time with them.

Repeat as needed

Sometimes, everyone passes or stops responding to you. If you are determined to continue fundraising, look for your next set of investors, get introductions and schedule meetings with them, and rinse and repeat the process as many times as needed.

Term sheet and closing

Notify all other investors

Once a term sheet is in hand, notify all other investors who are far along in the process that you'd actually like to work with that you have received a term sheet. Note that for Series As, verbal promises or handshake agreements do not qualify as term sheet offers. Do not disclose who the term sheet is from because investors will talk to each other.

You should only use this tactic to accelerate the process if the term sheet is one that you would actually take. This is because using a term sheet to pressure VCs pushes them to a yes/no within 24-48h, which may end up knocking everyone else out of the process.

Make sure you understand the terms of the offer

When evaluating terms, aim to understand how any qualifications and conditions attached to various terms can combine to trigger non-obvious domino effects with long-term implications. See our section on term sheets for more detail on this.

We work with our founders to understand where terms diverge from "good", what they can do about that divergence, and when and how it makes sense to negotiate. We've used this to create a standard Series A term sheet.

If there are terms that you need to negotiate, see our "How to negotiate" section.

Pick the right partner

If you are in the fortunate spot of having multiple offers, congratulations! You get to pick who you want to work with. It's time to do your due diligence. Figuring out if an investor would be a good board member is similar to deciding whether or not you want to start a company with someone. Meet with her in a social setting. Ask for references - especially back-channel references from founders they've funded who failed or who went through difficult times. This will tell you how the investor reacts when things go wrong.

Complete post-term sheet diligence

Post-term sheet diligence (aka confirmatory diligence) consists generally of "check the box" style inquiries on both the business and legal side. Confirmatory business diligence may involve things like customer calls, deeper dives into particular key metrics and follow up questions on your operating plan and models. Founder background checks are also a common and routine part of this process.

Expect negotiation of the definitive documents to take about 4-5 weeks from the signing the term sheet, if the deal is on a normal pace. If there's urgency to close sooner -- such as the need to make payroll -- be clear with the investor and your lawyers. Deals can close as quickly as a few days from the signing of the term sheet if everyone is aligned on that level of urgency, and the urgency is real.

Once all of the diligence and definitive documents negotiation is complete, you and everyone else will submit signatures and funds will arrive. At that moment, if your investor joined the board as part of the deal, their tenure will begin.

Kick-off post-closing administrative items

Engage your 409A firm to update the 409A as soon as you've closed. Set up a cadence for regular board meetings - the minimum cadence is usually one board meeting per quarter. It's also best practice to obtain general commercial, errors & omissions and D&O insurance following the Series A closing, if you haven't obtained them already.

When you close a financing, the company is legally required to file notices of the financing (a notification that securities were issued) with either federal authorities (the SEC) or state authorities (e.g. California Department of Corporations). If you make the federal filing -- what's known as the Form D -- you are basically also publicly announcing your round. If however you would rather stay stealth, or defer the announcement for a while, then the state filing is the better choice from a press coverage perspective. Either way, make sure you file notices of the financing with either the federal or state authorities.

Consider raising venture debt

If you would like to raise venture debt, the best time to secure it is as soon as you raise your A. This will allow you to negotiate good terms (e.g. interest, time to draw down). Founders have described venture debt to us as "basically free, non-dilutive money" (subject, of course, to the terms of your loan), so it can be a good option to consider to augment venture capital.

Now, get back to work.

Preparation

We suggest you begin to prepare for your Series A as soon as your seed round closes. Raising a Series A requires substantially more time and effort because Series As differ from seed rounds in 4 key ways:

1. **Series As (usually) require metrics as indicators of early product-market fit**, whereas seed rounds are mostly based on story and founders.
2. **Series As are raised from a different set of investors.** There are significantly fewer Series A investors, and they are generally institutional VCs (i.e. investing is their job). They will require

a much more thorough diligence process before investing and will want to build a relationship with you beforehand.

3. **Series As require handing over control in the form of a board seat** and ownership of (on average) ~20% of your company. While seed investors own equity, they have little control over founders' decisions. In contrast, Series A investors will have a say in your decisions for the duration of the company's lifetime. This also means Series A investors aren't just investing capital - they're investing time. They're choosing to devote a chunk of their life to you and your company for the next 10 years. This raises the stakes of each investment made, meaning that leading the Series A requires more conviction and diligence. This is especially true because it imposes an upper limit on the number of As that can happen - time constraints mean that each partner is only able to lead ~1-3 Series As per year. It also means that if investors don't like interacting with you, they probably won't do the deal (unless your traction is off the charts).
4. **Series As usually require securing a lead investor.** Series As generally depend on securing a large commitment from at least one investor, as opposed to small commitments from a handful of investors. This changes the dynamics of raising. In a seed round, smaller cheques are a useful way to create fundraising momentum; the less space there is left in a round, the more pressure there is to commit capital. In Series As, that smaller commitment is less useful unless it is used to create a syndicated round, which is rare and trickier to pull together.

In this section, we explain how you should prepare for your Series A. We start by talking about the strategy behind how to think about a Series A raise, and conclude with a step-by-step tactical guide that provides concrete next steps. We will cover the following topics:

- **How Series As Happen.** An analysis of the different paths companies and investors take to an A.
- **When to Raise.** How to determine when your company is ready to raise an A.
- **Pre-emptive Offers.** What to do if you receive a term sheet offer before you're ready to run a process.
- **Laying the Groundwork.** A tactical guide to getting ready to pitch investors focused on:
  - *Story*: how to craft the story of why your company is going to become gigantic
  - *Relationships*: how to build strong investor relationships in advance of your raise
  - *Metrics*: what numbers to focus on and benchmarks for how your company should be performing
  - *Round Size:* deciding how much to raise (and by extension, what your valuation will be)

How Series A's happen

Funding rounds occur either because a founder asks for money and gets it or an investor offers money and the founder accepts it. This may seem simple, but the dynamics are complicated. There are three ways this can happen:

1. Explosive traction

A company experiences explosive growth in an externally observable way, leading multiple investors to aggressively pursue the company with offers of funding. Examples of this include Facebook and Instagram. If a company has explosive traction, it will be obvious from the number of investors trying to give it money.

2. Pre-emption

A venture investor with whom a company has an existing relationship offers terms to that company before that founder is ready to run a process. We call this “pre-emption”. Investors do this in order to win deals simply by offering to put in money before anyone else does. This is not common: only about 12% of Series A's raised by YC companies in the past 2 years were pre-empted.

In a pre-emptive offer, an investor delivers a term sheet to a founder without making that founder jump through the usual hoops [1]. In these situations, the founder generally doesn’t have to build a deck or pitch a full partnership, although the specifics can vary. This is usually a good signal.

However, unprepared founders can get trapped by the dynamics of a pre-emptive offer and forced into suboptimal outcomes. Sometimes, investors will convince a founder that a term sheet is incoming whereas the offer is conditional on further diligence. Investors will use the promise of a pre-emptive offer to persuade founders to give them access to information ahead of anyone else, kicking off a one to one fundraising process on the investor’s timeline.

Most founders don’t realize that investors can write offers without a full pitch. Since founders don’t know this can happen, they often get fooled into believing that enthusiastic assertions of interest are the same as offers. This is in investors’ best interest because it reduces the expectations that they’ll make this kind of offer. To be clear, an offer is only an offer if it is a written formal term sheet [2]. For an example of what that looks like, see our standard Series A term sheet. Anything short of that is an attempt to get a founder to reveal more information.

3. Process-driven

A company initiates and runs a discrete fundraising process which produces a term sheet from one of the investors. The process includes building investment materials, pitching to venture partners and going through diligence. This is how the majority of Series A's happen and is therefore the focus of this guide.

Notes:

[1] We’ve seen investors deliver signed term sheets to companies that were not even thinking about raising.

[2] We’re mainly referring to priced equity rounds here. This logic holds for SAFEs and converts as well, though in that case, there is no actual term sheet.

When to raise

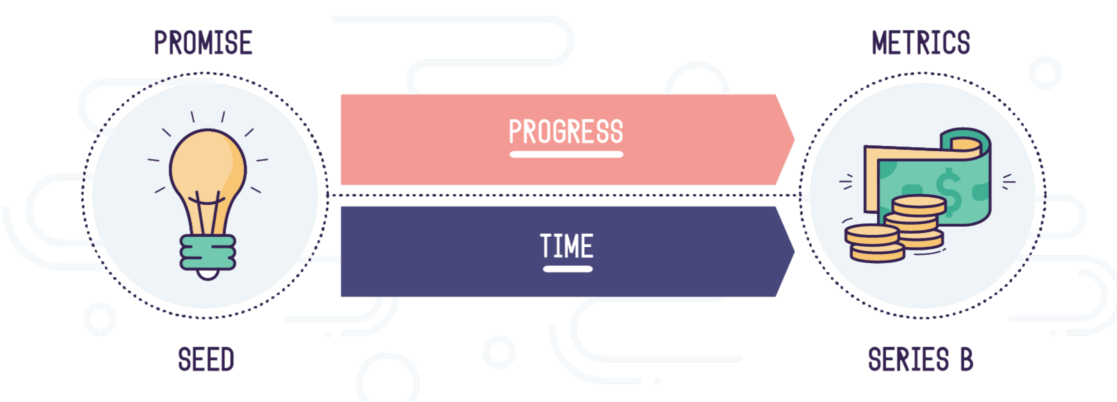
One of the hardest questions to answer is “when is my company ready?” This is another one of those questions for which there are hundreds of answers on the internet, none of which are particularly satisfying. The reason these answers don’t work is that each rule has so many exceptions as to make the rule seem silly.

Founders often want clean and concrete answers as to when they’re ready to raise. This is why the idea that VCs filter exclusively on metrics is attractive. For instance: SaaS companies are ready for an A when they cross $1m in ARR. This sounds good, but we’ve seen A's happen for SaaS companies with ARR between $200k and $9m with plenty of companies failing all along that range. Clearly VCs don’t care that much about this rule.

The other end of this set of advice says “raise when you can.” This is correct, but tautological. You only know that you can raise if you actually do so. It doesn’t form a coherent framework for deciding when to raise money.

We’ve been returning to this problem nearly every day since we started the Series A program and we’ve started to build a framework for how to solve it. Full disclosure – there’s no perfect answer, but having more context around why that answer doesn’t exist is helpful.

To understand what’s going on at the A round, it’s helpful to think of the decision process for funding as sitting along a horizontal axis. This axis roughly corresponds to the progression of a company from an idea to a functioning, scaling business. The decision process and the progress of the company are closely related because – at each point in the life of a company – an investor looking at the company only has the evidence of everything that the company has achieved up to that point. That evidence strongly informs that investor’s decision. The biggest gap in this axis is between Promise and Metrics, which maps to the seed round and the B round respectively (see diagram below)



Most seed rounds get raised based on the quality of the founders and the raw story that they can tell about their company and the future that company will create. By the Series B, those founders need to have accomplished a significant set of things that prove their ability to accomplish that future. This usually takes a few years, and comes with a set of in depth metrics about the health of the business and the impact of additional capital on that business. The exact set of metrics will vary depending on the specifics of the business - a hardtech or biotech company will be evaluated by the technical or regulatory milestones hit, whereas a software company would be expected to have a substantial amount of revenue and growth.

The reason the A is so hard to figure out is that it sits somewhere between these two points, and the point at which it sits differs based on the founders, the progress created, and the amount of time that the company has existed.

If you think of the A as being either a giant seed or a small B, then the conflicting advice starts to make sense because it's all actually right and wrong depending on the specific situation. There are founders who can raise what looks like an A in dollar terms because they are so compelling. This will only work early on in the life of the company and before it has raised significant seed capital since time + money has to equal progress or investors will get suspicious. [1]

The longer a company has been in business – or the less good a founder is at telling a story – the more concrete and certain the metrics of that business need to be. Part of the challenge for companies that have raised too much seed money is that the requirements they face for an A are significantly higher than for those who raise less. They generally wait longer for their A's, so investors expect to see associated progress.

As we said at the start, this doesn't provide the sort of certainty we know founders want in answering the question of when to raise. However, knowing that there is no clean answer is important because it provides a framework for thinking through the relative advantages you have when thinking about your raise.

Practical Ways to Determine if the Time is Right

We've noticed that founders who regularly – though infrequently – meet with a small but highly motivated set of investors are generally presented with the most options during fundraising, and are most likely to get pre-emptive term sheets. This contradicts what we used to believe: that founders should only meet with investors when they are actively fundraising.

In today's over-capitalized world, you always need to be thinking about fundraising because investors are always thinking about deploying capital. Each time you meet with an investor, the investor is evaluating whether or not to make an offer. Founders who realize this know that no cup of coffee is entirely between friends.

That is why we suggest that founders begin meeting with a limited number of Series A investors shortly after raising their seed. These meetings let you determine if the progress you're making excites investors. If an investors begins to push you to come in to do a formal pitch to her partners, it indicates that you may be close to ready to raise an A [2]. Conversely, if you're finding that investors are not interested in meeting, are not following up regularly, or have not shown an interest in a potential fundraise, you still have work to do - so focus on growing your business.

A practical consideration in timing is how much runway you have. As PG lays out in The Fatal Pinch, you need to raise additional capital before you get down to 6 months of runway. Fundraises can take anywhere from a few days to a few months, but it's best to prepare for the worst and give yourself at least 3 months to get the fundraise to close. You also need to factor in the few months it actually takes to prepare for a fundraise. That's why we suggest thinking about whether you need to raise more money when you're at 12 months of runway. This gives you 3 months of preparation to kick off a fundraise when you're at 9 months of runway - 3 months of buffer time before you get dangerously close to the pinch. However, remember that just because you need money does not mean that investors will give you money. If you're at that point and are not hitting the metric benchmarks from companies we've seen successfully raise, we'd recommend reading this article from Dalton on advice for companies with less than 1 year of runway.

Notes:

[1] Though, as with all rules here, there are situations in which this rule gets violated by either a pivot or a founder who is just that good at telling stories.

[2] But remember that investors excel at convincing founders that they're about to invest in order to get more information. You'll only learn to recognize this with practice.

Pre-emptive offers

A pre-emptive offer is a term sheet that an investor delivers to a founder without making her jump through the usual hoops of the Series A fundraise such as building investment materials, pitching to the partnership or going through their typical diligence process. Typically, pre-emptive offers come from investors with whom a company has an existing relationship. Investors do this in order to win deals simply by offering to put in money before anyone else does. This is not common: only about 12% of Series A's raised by YC companies in the past 2 years were pre-empted.

The Cost of Pre-emptive Deals

We looked at 120 US Series A rounds from our portfolio from Mar 2018 to Sept 2019 to see whether or not pre-emptive offers were generally more or less dilutive than process driven rounds and were somewhat surprised to discover that, on average, founders taking pre-emptive offers are taking ~1.4% more dilution for less money [1].

Investors that make pre-emptive offers are capitalizing on two different founder incentives. The first is a Risk Premium as expressed by a founder's preference toward taking a sure thing - the offer in hand - vs. risking being told "no" by the market.

Founders who use this as the primary driver for taking a deal are making a mistake. In nearly all cases, an investor willing to preempt a deal is willing to make a formal offer in the course of an actual process. Once an investor makes up her mind to do a deal, she is emotionally bought in and will fight to get it in a process. Good investors are also highly competitive, and enjoy beating rival partners [2].

The second incentive could be called the "Work Premium" [3]. This is the price that a founder is willing to pay to avoid the considerable work of fundraising via a process. A full fundraise can take 6 months or more, and is hugely distracting. For a business that is doing well and scaling, this distraction can hurt growth and the company. This is a tough premium to value, though you could think of it as the value of:

amount of burn you'd take while raising + △ between the growth of your KPI when focused with extra capital vs. the growth while distracted by fundraising over the time of the fundraise × some factor to account for the improved price you'd get as a result of that growth

However this works out, it is unlikely that the numbers will be significant except in cases where a company unexpectedly inflects into a rapid adoption curve with extremely limited capital and time.

One of the crucial differences we noticed was the number of investors which companies talked to. Some only talked to a single investor, while others used their first pre-emptive term sheet to run an accelerated process with a few investors that were already in the loop. When we split these two groups and analyzed the data, we found that companies that talked to multiple investors took ~2% less dilution and raised ~$900k more than companies that only talked to a single investor. In other words, most of the difference in dilution between pre-emptive vs process-driven rounds is likely due to founders in pre-emptive rounds that only talked to one investor. However, founders that used their pre-emptive TS to run an accelerated process were able to minimize the "cost" of the pre-emptive offer.

That suggests that to get the best of both worlds – to minimize the Work Premium as well as the work of running a full fundraise – founders should use pre-emptive offers to run an accelerated, abbreviated process with a handful of select investors. The way to do this is for founders to make sure they are cultivating relationships with a subset of investors they think would be good partners for their company far in advance of their actual raise. This allows them to ensure that in the case of pre-emption, they have other partners who could keep up with an accelerated process.

A pre-emptive offer is neither good nor bad in a vacuum. As discussed below, each offer needs to be considered on its own merits and in the context of the business, founder, and specific investor. The Risk and Work Premiums - combined with knowledge about market norms - are helpful frameworks for founders to use when evaluating whether or not to actually take the offer in front of them. However, founders can also minimize these premiums by leveraging pre-emptive offers to run an accelerated process.

A Guide to Pre-emptive Funding Offers

Sometimes, investors will convince the founder that an offer exists without actually stating the offer. This kicks off a one to one fundraising process on the investor's timeline. If you find yourself in a situation where you think you are getting preempted, here's what to do:

1. Ask yourself whether or not you've been given a term sheet. To be clear, an offer is only an offer if it is a written formal term sheet. Anything short of that is an attempt to get you to reveal more information. For an example of a term sheet, see our standard Series A term sheet. If not, you haven't been preempted.
2. If you have gotten a term sheet, ask whether or not, in a vacuum, you'd want the investor to own more of your company. If the answer is no, then politely decline.

3. If you do want the investor to own more of your company, ask whether or not the amount of money you are being offered makes sense for what you need to get done before your next round.
4. If the money seems right, ask whether or not the amount of equity the investor is asking for is something with which you are comfortable.
5. If the answers to all of these questions are “yes,” then you can either take the offer without doing more work or run an accelerated, abbreviated process with a handful of select investors that already know your company well.

If you decide to start an accelerated, abbreviated fundraising process based off the momentum of receiving a pre-emptive offer, it’s typically with a handful of firms that have already spent time getting to know the business as they have the context to make a quick decision. This is where the groundwork laid during those coffee meetings becomes valuable. The relationships you’ve formed during those coffee meetings become the set of investors who can quickly be pulled into an actual fundraising process. At this point, refer to the “Process” section of this guide.

Notes:

[1] Because each market has different average dilution levels, we limited our analysis to the US. This provided a more comparable set, and is also more relevant to most of the rounds we see. We don’t yet have a large enough data set in any other market to do a similar analysis.

[2] This could go badly if the founder runs a botched process. Founders who know that they are bad at pitching investors should value this Risk Premium more highly than those who are good at it.

[3] Jared Friedman’s term for it, which we like for its relationship to the Liquidity Premium.

Laying the groundwork

In nearly all cases (i.e., unless your company is experiencing explosive traction), raising an A requires significant preparation. Even preemptive offers do not appear out of thin air. Proper preparation is focused on three facets of the fundraise: story, relationships, and metrics. This section covers how to lay the groundwork for all three components.

Metrics

There's no magical set of metrics that trigger an A. Instead, A’s happen when you get investors to believe you're going to build a gigantic company. That belief is largely emotional, just as it is at seed. Metrics are helpful when they help convince an investor that you are already on the path to success. They are the data points that make your story credible.

If you don’t know your metrics cold, you’re not ready to fundraise. Not knowing your metrics suggests that you don’t know your business well enough to know if you have product-market fit. That will cause investors to write you off.

Relevant metrics differ by sector (see "Key Metrics" for a list of key metrics by business type), but they must be consistent and detailed.

Consistency demonstrates a level of predictability in the business and enables investors to trust the trend. 6 months of growth at 25% looks like a trend. Alternating months of shrinking and growing looks like a fluke, even if it averages out to 25% monthly growth over a 6 month period. If your numbers are inconsistent, you need to have a solid explanation of that inconsistency. For example, seasonality can explain a drop during the winter if you're in an obviously seasonal industry like agriculture.

Detail clarifies what the numbers mean and enables investors to trust the numbers. Knowing your metrics in detail means:

- Showing the numbers that most clearly represent what is going on in your business. Obfuscating your numbers is the best way to lose investor trust. Common examples of obfuscating numbers include showing cumulative graphs or reporting GMV as revenue
- Being fluent in your absolute numbers as well as the growth of those numbers across monthly, quarterly and annual timelines (where applicable)
- For every number you report, knowing exactly how you calculated it, as well as all of the numbers supporting that calculation. You're able to explain the assumptions made in the course of your calculation and ideally know what the calculation would be if you changed or removed that assumption (Ex: if you defined a "user" as someone who logs on once a month, know what the answer would be if you defined a "user" as someone who logs on once a day)

You'll be expected to know most of these numbers by heart. If you don't know the answer to a question about your numbers, and don't have it handy, say "I'm not sure about that one, I'll get back to you later today." This is a better answer than making something up that turns out to be wrong.

Key Metrics

Here is a list of key metrics by business type that we put together. You should know the relevant metrics for your business by heart.

Enterprise

- Total customers
- Bookings
- Revenue
- Revenue CMGR
- Gross margin
- Customer LTV / paid CAC
- Burn rate / runway

Example: Scale

SaaS

- Total customers
- Bookings
- Monthly recurring revenue (MRR)
- Revenue CMGR
- Gross margin
- Gross account churn
- Net dollar churn
- Customer LTV / paid CAC
- Quick ratio: a measure of a company's short term liquidity
- Magic number: a measure of sales efficiency that looks at what the output of a year's worth of revenue growth is per dollar spent on sales and marketing
- Burn rate / runway

Example: Slack

Usage-Based

- Monthly revenue
- Revenue CMGR
- Gross margin
- Dollar-based net expansion
- Customer LTV / paid CAC
- Burn rate / runway

Example: Twilio

Subscription

- Total subscribers
- Trial conversion (if applicable)
- Monthly recurring revenue (MRR)
- Revenue CMGR
- Gross margin
- Gross user churn
- Customer LTV / paid CAC
- Burn rate / runway

Example: Netflix

Transactional

- Gross transaction volume (GTV)
- Net revenue
- Net revenue CMGR
- Take rate (net revenue as % of GTV)

- Gross margin
- User retention
- User transaction frequency
- Customer LTV / paid CAC
- Burn rate / runway

Example: PayPal

Marketplace

- Gross merchandise value (GMV)
- Net revenue
- Net revenue CMGR
- Take rate (net revenue as % of GMV)
- Gross margin
- Contribution margin per order
- Customer retention
- Seller retention
- Transactions frequency
- Average transaction value
- Customer LTV / paid CAC
- Seller LTV / paid SAC
- Burn rate / runway

Example: Airbnb

E-Commerce

- Total visits
- Total unique visitors
- Total customers
- Conversion rate
- Total registered accounts
- Revenue
- Revenue CMGR
- Gross margin
- Customer retention
- Order frequency
- Average order value
- Customer LTV / paid CAC
- Net working capital as % of change sales
- Burn rate / runway

Example: Bonobos

Advertising

- Total visits (if applicable)
- Page views (if applicable)
- Unique visitors (if applicable)
- Minutes per session
- Daily active users (DAU)
- Monthly active users (MAU)
- Percent logged-in
- Downloads / installs (if applicable)
- Mobile usage share
- Impressions per user
- Average cost-per-impression (CPM)
- Average click-through-rate (CTR)
- Revenue
- Revenue CMGR
- User retention
- User LTV / paid CAC
- Burn rate / runway

Example: Twitter

Hardware

- Total units sold
- Average unit price
- Revenue
- Revenue CMGR
- Gross margin
- Average transaction value
- Customer LTV / paid CAC
- Net working capital as % of change in sales
- Burn rate / runway

Example: GoPro

Moonshots / Hard Tech / Biotech

- Technical milestones accomplished
- Total subject matter experts (FTEs)
- Net working capital as % of change sales
- Burn rate / runway

Example: Boom Supersonic

It’s most important to demonstrate that you’ve made progress towards reducing these 3 risks:

1. **Technical risk** - does the technology work?
2. **Market risk** - will people pay for this?
3. **Execution risk** - can you accomplish hard things?

Your focus here is to show that you've de-risked these 3 facets. This looks different for every company, but examples of how to do so include accomplishing key technical milestones or signing LOIs, pilots or contracts.

Benchmarks

Although it's difficult to be sure your company is ready to raise a Series A, having a set of comparative benchmarks can help you determine if your company is *not* ready. As such, we've aggregated a set of business-model specific benchmarks from Series A's raised by YC companies in the past 5 years. Again, these are guidelines, not surefire indicators of whether you are ready to raise a Series A. We've kept these intentionally broad to demonstrate that the process of raising an A differs for every company. These numbers also do not provide context around the story and investor relationships of each company that raised. A founder who struggles to tell a good story will need to make up for it with even more impressive numbers, and vice versa. Interestingly, we've noticed that great storytellers without numbers have an easier time raising than founders with great numbers and no story.

Do not rely upon the news that a company (you believe to be) similar to your own has succeeded at raising an A to justify that the time must also be right for you. Unless you have insider knowledge of the specifics of the situation (their product and business model, metrics at the time of their fundraise, the terms of their deal, etc.) it is basically impossible to make an accurate comparison. A B2B SaaS company that raised at a $500k run rate probably had an exceptionally high growth rate or an extremely compelling story, or might have taken a lower price to compensate for being a higher risk investment. These nuances are generally not captured in a TechCrunch article or press release.

B2B Software as a Service

Based on 36 companies

- Core metric: $0.5-5.0M Run Rate
- Growth: >300% y-o-y
- Round Size: $4-15M
- Dilution: 13-38%
- Post Money: $15-75M

Usage Based / B2B

Based on 11 companies

- Core metric: $1.3-6.1M ARR
- Growth: >300% y-o-y
- Round Size: $5-10M
- Dilution: 13-27%

- Post Money: $20-80M

Marketplace

Based on 6 companies

- Core metric: $4.8-63.2M GMV
- Growth: >20% m-o-m
- Round Size: $5-12M
- Dilution: 20-32%
- Post Money: $15-60M

Moonshot / Hardtech

Based on 28 companies

- Core metric: Varies
- Growth: N/A
- Round Size: $8-43M
- Dilution: 15-54%
- Post Money: $24-240M

Consumer (transactional)

Based on 16 companies

- Core metric: $3.5-9.6M Run Rate
- Growth: >20% m-o-m
- Round Size: $4-15M
- Dilution: 9-33%
- Post Money: $15-107M

Consumer (subscription)

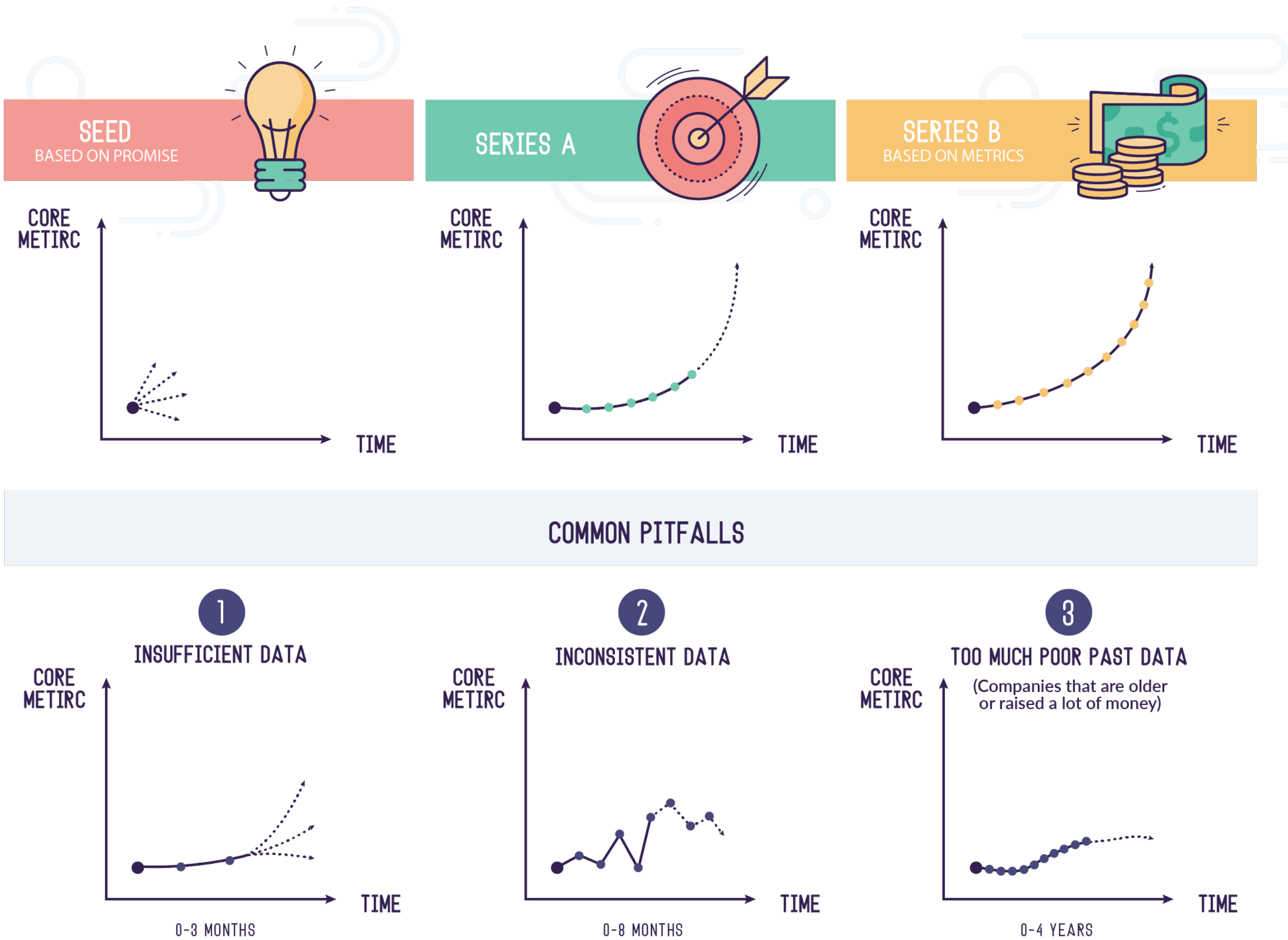
Based on 4 companies

- Core metric: $1.5-6.8M Run Rate
- Growth: >20% m-o-m
- Round Size: $5-10M
- Dilution: 17-28%
- Post Money: $30-43M

The Importance of Trends

It’s helpful to envision metrics as inputs to an investor’s mental model of whether or not your business will become gigantic. At the seed, there are few data points, so an investor must make a decision based on the promise of the business. At the Series B, the business has produced enough data points to show a trend.

The Series A bridges the promise of the seed to the trend at the Series B. Series A metrics serve as early indications that the trend promised in the seed is becoming real.



From this perspective, there are 3 major pitfalls when evaluating whether or not your Series A metrics are compelling:

1. Insufficient data

You launched 2 months ago and early numbers seem promising.

This is a fundraise based on promise, which is appropriate for a seed round (or even a bridge) but not a Series A. 2 months of data isn't enough data to extrapolate a trend.

2. Inconsistent data

Your average growth rate is high, but the underlying numbers show alternating months of negative, flat and positive growth.

Consistent performance demonstrates that the growth in your business is a trend, not a fluke. As Michael Seibel put it, "ever-growing numbers of happy, loyal, and ideally paying customers" is a strong indicator that you've found product-market fit. It also suggests that you understand the inner workings of your business enough to know what levers to press to grow somewhat predictably over time.

3. Too much poor past data

You've been around for years or already raised a significant amount of money, and in that time your growth has largely remained flat. Only recently have things really started to take off.

What founders don't realize is that it is more difficult to convince an investor to believe in the most recent trend over a substantive years long body of data showing a different (and much less promising) trajectory. The burden of proof is higher.

Story

Understanding what makes a good story is something we talk about extensively when preparing our companies to pitch at Demo Day. It's worth repeating Paul Graham's advice on the topic, modified to fit a Series A context:

> There's no way an investor can follow up with every company that wants to raise an A. So at every meeting, the investor's first priority is to whittle down the field: to cross off all the companies it's safe not to have a second meeting with. Your goal, and your only goal, is to make investors feel it's not safe to cross you off. And there is a verb for convincing someone that something is not safe. It sounds dramatic, but your goal is to frighten them.
>
> What frightens them? The possibility that you might become really big. They know there are maybe a few companies that will become really big. And since the next point is both surprising to most people and also the most important thing to understand about the venture business, I'm going to give it its own paragraph:
>
> Those few companies that make it really big will make all the money.
>
> If investors cross those off, they lose. So the game they're playing, whether or not they consciously realize it, is: cross off as many companies as possible, without crossing off the ones that will become really big.

> Since the whole goal of a Series A pitch is not to get crossed off, and investors can't safely cross off companies that could get really big, the whole goal of a Series A pitch is to convince investors that you could get really big.

Before you start meeting investors, put together a rough draft of your fundraising vertebrae. These are the 3-4 points that comprise the narrative of why your company will be really big. Together, if investors believed in any one of these points, they'd be afraid not to bet on you.

The best way to figure out if your story is frightening investors is to test it out on them directly. Meeting with investors on a semi-regular cadence 6-12 months beforehand gives you a chance to feel out what pieces of your story are most compelling. What excites them? What triggers the deepest questions? What do they remember most clearly? Take the feedback from these conversations to refine how you tell the story of your business over time.

As you do, keep in mind that there is an important distinction between what the business is and *how* you tell the story of what your business is. Your conversations with investors should influence the latter, not the former. No investor knows your business as well as you do.

Relationships

At some point well in advance of the actual raise, start meeting with investors. You should work through a set of investors until you find the subset with whom you actually want to work. You need to impress and engage the investors through these meetings without sharing so much that the investor can fully evaluate your company and come to a decision. Part of this is done by clearly communicating a timeline for when fundraising will actually start.

While these pre-fundraising meetings are valuable, you shouldn't confuse them with actual fundraising. We've had founders tell us that the best way to raise an A is to pretend that they're not raising at all, and just have lots of social conversations with investors. This is almost always a bad strategy. The founders who have the most success in raising clearly and actively decide when to raise and then communicate that decision to investors, advisors, and other founders. These founders run well thought through processes in which they prepare their stories, decks, and diligence items, set up formal pitch meetings with the investors they liked most, and practice.

Spending time figuring out who you want to work with before you start a formal process ensures that you have a market made up entirely of good investors. You've limited your risk of only receiving term sheets from investors you don't want to work with. At this point, you have already started the process to tilt markets in your favor.

Here is a step-by-step guide to how to do this:

1. Put together a list of prospective Series A investors

Begin by compiling a list of investors who lead Series A's in your space that you might want to work with. Good sources include investors who:

- You like that you've talked to in the past or know personally

- Have written about your space
- Led Series A's in your vertical (however, be wary of competitive investments)
- For YC Founders: liked you on Demo Day (accessible via your company profiles on Bookface)

Make sure these partners are actually check-writers. Check-writers generally sit on boards, which can often be confirmed by checking their LinkedIn profiles. As much as possible, avoid sinking time into pitching people who are not checkwriters.

Treat this like a sales funnel and use your investor CRM to track your meetings. (We provide a CRM template to YC companies.) Focus on picking people who you think will, one day, be the right partners for the life of your company. Figuring out who these investors are is more art than science. However, there are techniques which can help. Talk to other founders in your industry to find out who is helpful and who simply writes checks. Spend time reading the posts that investors write – this will tell you what the investors are interested in and what they like to talk about [1].

Based on our early analysis of YCA companies' successful fundraises, we suggest targeting at least 30 coffee meetings. On average, we found that companies that raised A's started with coffee meetings with at least 30 individual investors [2] before narrowing this subset to the handful they actually wanted to work with.

2. Get warm connections

Begin looking for warm leads to investors on your list. The person connecting you to an investor matters a lot. The investor will evaluate the quality of the lead based on the person who makes the introduction. As such, choose who you ask for introductions wisely. Avoid investors who are introduction mills and will connect you to someone even if they don't know them well.

From an investor standpoint, the best introductions come from (in descending order):

1. Someone who has made them a lot of money (i.e., another successful founder)
2. A portfolio company of theirs who is one of your current customers
3. One of your existing investors who is good, but could not have led the round
4. A trusted friend

As you can see from the list above, founders top the list as some of the best sources of warm introductions. For YC founders, this is where the YC network can be extremely powerful. Look for other YC founders that you know well and can attest to you and your company, and who have raised from the investor you want to connect to.

Never take an introduction from an investor who could have led your A but did not. Investors who want to lead your A would not intentionally introduce you to a competitive bid. Thus, this introduction indicates that the investor making the connection chose not to invest.

3. Have initial coffee meetings to find investors you like

Your goal is to narrow your current list to 4-5 investors that you think would be a good fit. Remember, these meetings are not formal pitches. They are 30 minute coffees where you ask investors questions to determine (1) if they are someone you want to work with and (2) what parts of your business interest them the most.

A good way to do this is to ask investors for something of value to you that requires effort on their part, i.e., something they can't do on their phone in the meeting. This could include an introduction to a specific customer they have in their network or referrals to a candidate for a role. These requests provide two additional benefits. One, the speed of the investors' response or follow-up is a good gauge for their level of interest. Two, these requests are a great way to derive value from investor conversations - one YC company landed $4-5M additional ARR from investors that turned them down. This is a business transaction, not dating, so don't be afraid to ask for things - if they think it's a good business proposition they'll agree.

Investors will try to dig into your business - it's their job. However, avoid giving them detailed information. A useful rule of thumb is to share enough information so investors want to know more, but not enough that they can make a final judgment call. The reason for this is that any information you provide that gets them to a yes or no on your company gives them a leg up on the market and diminishes your leverage in the process.

Generally speaking, high level metrics that make you look good - such as revenue and growth - are fair game, but avoid sharing anything proprietary. Proprietary information is defined by anything a competitor could use to beat you [3]. You should act as if any information you give investors will become public. Requests for information can be politely deflected by clarifying that you'll release the information they are requesting during your raise, and you would be happy to talk about it then. If an investor declines to continue meeting until you provide more information, you can simply agree to follow up once you launch your raise and are ready to share more.

Your Series A investor will likely own a fifth of your company and sit on your board. You're letting someone into your company - this is not something to be taken lightly. These pre-pitch coffees are your chance to get to know your partner as a person and build a relationship. It's also a chance to figure out what the extent of your partner's decision-making ability is, and who actually makes the fund/no-fund decision at the firm. Take the time to learn about them now, not after the deal is done.

4. Meet regularly with a select set of investors

Once you've chosen a set of investors, your goal is to build their excitement about your company. The best way to do this is to give them an ambitious prediction of your future performance and then to achieve or outperform that prediction.

If you do this consistently over time, investors will get increasingly excited about your company. They will indicate their interest by reaching out more frequently or even inviting you to do a formal pitch. That's a strong indicator that you're getting close to being ready to raise your A [4].

You need to keep them interested in the company and convinced it is doing well without also being able to piece together enough information to make a full decision. It is important, at each of these more casual meetings, for you to clearly communicate whether or not you are actively raising [5].

This balance is tricky. If you meet with too many investors in this way, you can get distracted and risk being seen as a socializer rather than company builder. If you share too much information or pitch too hard, investors believe you are actively fundraising and act accordingly.

There is no perfect science to this balance. When an investor does issue a preemptive offer, it is usually because she thinks you are about to start fundraising and wants to get ahead of the entire process.

There is also no perfect cadence. These coffees should be frequent enough to keep you top of mind while also giving you enough time to achieve the goals you set out. A starting point is quarterly meetings, depending on how much time you have and which investor you're meeting.

A special note on Series A funds who invested in your seed:

Series A funds invest in the seed rounds of companies they think are particularly promising. The funds do this to gain an advantage in winning the A. If you have a Series A fund as an investor, you should make sure to cultivate that relationship.

Notes:

[1] See http://www.aaronkharris.com/utopia-bets-slash-apocalypse-bets.

[2] The fact that founders needed to meet with roughly 30 investors in order to produce a term sheet surprised us. We thought this number would be lower.

[3] This is company specific, but examples include channel specific customer acquisition costs or retention.

[4] For YC companies: when that happens, schedule office hours with your group partner. We will practice your pitch with you so you do not go in to these meetings unprepared.

[5] The specific cadence and tactics of these early coffee meetings is the subject of a significant amount of discussion during YCA.

Round size

You should raise the minimum amount you need to hit your Series B milestones, typically ~3-5x your current numbers. We suggest picking a single number, not a range. Ranges look indecisive and investors will assume that your numbers can flex, so pick the amount you actually need. The more you are raising, the more detailed your budget (or use of funds) should be. Build out a financial model that projects 1-2 years of spend and make sure you have a good handle on the key categories.

The larger your ask, the more you limit the pool of investors that can lead your round. This is because larger cheque sizes are only feasible for larger funds, can only be written by more senior partners, and often require increased amounts of diligence. The average round size for YC companies' Series A from 2018-19 was $9M.

We recommend using a regret minimization function when fundraising. This means focusing on getting what you need, avoiding doing stupid things - such as optimizing for vanity metrics like valuation - and moving on. In this case, the primary goal is to get a term sheet. Factors like round size, pricing, and dilution are secondary considerations that can be negotiated if you have leverage. The best way to gain that leverage is to land multiple term sheets, and this is made more likely by maximizing the number of investors that can offer one.

As a rule of thumb, expect ~20% dilution at the Series A round. However, the exact number will flex based on the circumstances: we've seen it go as high as 40% for hardtech companies and as low as 15% for competitive rounds. In this paradigm, valuation is a product of round size x dilution - a by-product, not a number to be optimized for (for more on this, see the section titled "Avoid over-optimizing"). For example, a company raising $8M will likely do so at a valuation of $40M ($8M ÷ 20% = $40M).

Investment Materials

Investment materials are the chosen medium of storytelling in fundraising. As you build your deck, write your memo, and practice your pitch, the story of why your company will become gigantic should be at the forefront of your mind.

As a founder, you are typically immersed in the granular day-to-day running of the business. Building investment materials is a useful forcing function for you to zoom out to the birds-eye view of an investor, and can help you think through key aspects of your business in a deliberate way.

In this section, we cover the following:

- **Deck:** the content, structure and design of an effective pitch deck
- **Memo:** how to put together a clear and concise articulation of the key components of the investment and rationale for investing
- **Pitch:** how to communicate the story of your company clearly and credibly

This chapter is focused on the tactics of creating investment materials. We go over the strategy of how to deploy investment materials in the "Process" section.

Deck

The pitch deck is a visual support to the words said in a pitch. Start by pulling together all relevant content, then structure it to follow the arc of the story, and finally, design it to convey your message as clearly and simply as possible. Follow the principles and structure of our seed deck template.

Content and structure

A good general structure for pitch decks is:

- **Title:** company name, logo, and one-liner outlining what you do.
- **Problem:** what's wrong with how the world currently works?
- **Solution:** how do you solve the problem you just outlined?

- **Traction:** do you have PMF as demonstrated by your numbers (e.g., strong growth, path to healthy unit economics)?
- **Market:** is there a large TAM today or in the future?
- **Competition:** who are your competitors and why are you 10x better than them?
- **Vision:** how do you become a gigantic company?
- **Team:** why are you the right people to do this? (*Where this slide is ordered within your deck depends on the strength of your team. For example, if you're a biotech company with experienced pharma executives, make this your second slide.)*
- **Use of funds:** what does the business look like in a few years and how much capital will it require?

Pitches generally run for approximately an hour. However, plan to only fill twenty to thirty minutes - pitches that are going well usually turn into freewheeling conversations. A rule of thumb is to have 10-15 slides for your main deck, not including your appendix.

Design

Start by giving Kevin Hale's excellent article on how to make a better pitch deck a thorough read. We've also compiled the most common feedback we give founders on deck design below.

Slides

- The goal of the first few slides is to make investors want to learn more. Right out of the gate, you need to convince investors that they should listen to the rest of your pitch. A good way to do this is to include a teaser "traction" slide as your second slide - impressive numbers right out of the gate will make investors sit up and pay attention.
- Tailor your deck to your audience. Different partners focus on different things, so backchannel to understand what each partner and firm looks for and modify your pitch accordingly. You can get this information from founders that have raised from those firms, internal investors who know the investor you're pitching, and the partner bringing you to the full partnership meeting.
- Only include what is meaningful to your business. Too much detail is overwhelming and can cause you and the investor to get stuck in the weeds.
- To explain a complex concept to someone with very little context, pick a higher level, categorical problem and explain that cleanly. Once they've understood the big picture, you can go down the more complicated and intricate pieces.
- Titles should describe the slide.
- Slides should be reentrant - each should make sense and make your case individually.
- Remember that minds wander, and people check phones. When they look up, they should immediately be able to pick up the thread.
- Don't use pretty, but thin, fonts. This isn't a time for subtlety. Make sure your slides are legible from far away.
- Coolness and legibility are not orthogonal, they're diametrically opposed.
- Screenshot slides are typically bad.

Charts/metrics

- Charts should be easy to understand - make one point with any single graphic or chart. Don't make people read charts
  - they'll stop listening to you.
- If you put up a graph that confuses people, they will feel stupid and stop listening. Avoid slides that are only intelligible with massive amounts of context.
- Avoid graphs with two different y-axes - they are unnecessarily confusing.
- Line graphs are better than bar graphs when showing growth.
- Label your axes clearly and use real numbers - even if they are small. The shape of the graph matters more than absolute numbers.
- Explain anomalies.
- If you should be generating revenue but show a different metric instead, investors will be suspicious.
- TAM should be bottom up, not top down.
- Don’t show projected revenue that is not based on real data. Booked revenue is okay, but avoid hypothetical projections.
- Don't show cumulative data.

Memo

An investment memo is a clear and concise articulation of the key components of your company and what the rationale is for investing in it.

Writing one helps clarify your company’s story and pitch. VCs also write investment memos of their own, so doing the work for them is a way to incept your vision of the memo into their brains.

A memo is particularly effective if you can write well. It stands better on its own as the deck (sent ahead of time) can miss context provided by your voiceover. Founders tell us that memos sent before meetings in place of a deck provided the necessary to set up an engaged conversation from the outset. For an example of how Rippling used their memo to raise their Series A, see this post by Parker Conrad.

Here is the template we use to guide our founders in drafting their memo:

YC Series A Memo Template

Introduction (roughly a paragraph each)

- What do you do?
- What problem are you targeting?
- How does the world work now in relation to this problem?
- How do you solve the problem?
- How does solving the problem change behavior and make you money?
- What is the scale of the opportunity?

Traction / Metrics

- Discuss traction up to now (include a chart).
- Discuss main related metrics, such as churn, ACV, rake.
- Discuss revenue drivers.
- What does go-to-market look like?

Challenges to Growth

- What's prevented you from growing even faster?
- How will raising money solve this problem?

Market

- Who are the customers?
- How do they think/act?
- How big is the opportunity they represent?

Future States

- What happens to the market as you start to win?
- How do you change the market and where does that lead your company?

Competitive Landscape

- What is your competitive landscape and how do you defeat it?

Team

- Who are you and what makes you special?

FAQ

- Surface the main objections you are likely to face, and eloquently knock them down. Data is good here.
- This is probably the part where the memo is most powerful relative to a deck.

Use of funds

- How much have you raised in the past?
- How much are you raising and what are you going to do with it?

Pitch

Your deck and memo are supporting materials for your pitch: the ~20-30 minute section of an investor meeting where you present your case, followed by a freewheeling conversation/Q&A.

The goal with your pitch is to inspire fear in investors: specifically, the fear of missing the next runaway success. That's why it is critical that you can articulate for yourself (and your employees) the clear, wildly ambitious vision you have for your company.

Series A investors only care about whether your company could be a multi-billion dollar company. Your job is to communicate that story clearly and credibly. (For more on this, see our section on "Story").

Communicate clearly

Content

- The simpler the pitch, the clearer it is. Straightforward pitches > complicated ones.
- Be specific and concise.
- Actually explain what you do, and do it quickly. Investors should have a clear mental picture of what it is that you do within the first minute of the pitch.
- If you make a large transition, be very clear about it and explain why.
- If an example is a real person, make it clear that you're talking about a real person, not a user model.
- Don't hide the big good things because you are modest, highlight them specifically and early on.
- If you make a joke, telegraph it. If you're not sure the joke will land, cut it.

Language

- Don't use generic phrases as transitions ("so...").
- Use natural language and simple sentences, i.e. no sentences with three verbs.
- Don't use words you wouldn't use in normal conversation.

Presence

- Speak slowly and enunciate.
- Be excited. You are responsible for projecting enthusiasm into your pitch and getting investors excited. If you don't believe in it and show that you do, they won't either.
- Your pitch should not sound memorized. Intonation, cadence, and projection help a lot.
- Look at your audience. Since you'll be pitching to a single person or a group of individuals, try to make eye contact with each individual in turn.
- Don't be "cute" with your points, be declarative.
- Be firm and resolute, with clear positions and convictions.

Telegraph credibility

Every business has its weaknesses. In order to convincingly respond to questions about the problems facing your business, you need to be honest with yourself about what those problems are.

The best way to respond to these weaknesses in the context of a pitch meeting is to anticipate and have well-thought out answers to concerns that might arise. In fact, it's generally best to address the biggest criticisms upfront - often by folding it into the pitch. Investors want to know that you recognize these issues and have a plan for how to respond.

Being honest also builds your credibility. Telegraphing credibility is critical because the Series A is a bet on your ability to make the story you're telling come true. Investors are evaluating you as much as they are evaluating your story.

Practice

We can't emphasize this enough. **Practice. A LOT.** Do it with inside investors who can't lead As. In the Series A Program, we do between 2-4 in-person hour-long mock investor meetings with founders to make sure they are fully prepared before launching their fundraises.

In practice sessions, focus on having your story come through in a clear and compelling way. To test if you've done this effectively, ask your audience what 3-4 main points they took away from your pitch. If these points differ from what you were trying to convey, your pitch needs more work.

This kind of practice will help you see what parts of your pitch people are most skeptical of, and where they get the most excited. As you receive feedback, continue to iterate on your pitch. Add appendix slides to help you answer questions that arise repeatedly.

One word of warning: advice is free, and there is such a thing as too much advice. If you try to do everything everyone tells you, you will go in circles. Pick one person whose advice you trust.

At the end of the day, it's your choice. You must make a strong, high-conviction decision as to what you want to do.

Process

YC changed seed investing by creating more structure, programming, and competitive pressure. In today's environment, Series A fundraising looks like seed fundraising 10 years ago. It requires much more diligence, time, and work. In addition, a Series A is usually contingent on securing a large commitment from a single investor, as opposed to a bunch of small commitments from multiple investors. This changes the dynamics of raising. We discuss what running a good Series A fundraising process looks like in the following sections:

- Strategy:
    - **Maximize process and leverage:** why parallel fundraising tilts the market in favor of founders and how to use this to run a Series A process
    - **Avoid over-optimizing:** which factors matter - and which don't - in a fundraise
- Tactics:
    - **Preparing to pitch:** what to do before you start your Series A process
    - **The Series A fundraising process:** how the process works and what to expect at each stage
    - **How to run a good process:** how to maintain momentum and maximize leverage by tightly scheduling meetings and controlling the flow of information

- **Special cases:** a discussion of specific factors that apply to hardtech/biotech and international founders

Strategy

Running a good Series A process allows you to maximize your leverage in the fundraise.

In any negotiation, leverage is the pressure that you can bring to bear on the other party to achieve your goals. While leverage is never the only thing that matters, it is a powerful and generally misunderstood tool. It is critical to understand when and where to use leverage while fundraising. However, we've noticed that many founders – and most first-time founders – don't think systematically about leverage.

Though you can generate leverage from a number of different sources, fundraising leverage generally comes down to effectively using an investor's fear of missing out on an outlier company. Because most venture returns are driven by a tiny number of companies, investors know that they need to invest in those companies in order to make money [1].

The trick, then, is convincing investors that your company will be one of those outliers. The way you do this varies slightly by stage, but always comes down to a mix of traction, team, vision, market opportunity, and product. Founders who combine these elements in a way that makes their upcoming success appear inevitable generally have more leverage while raising money [2].

We used to think that founders were limited to these five elements in raising money, but in running the Series A program, we uncovered a way to materially influence the leverage a founder has in any round: process. Running a tight process while fundraising is a deceptively complex task. On the surface, it seems very simple, but without conscious focus, founders invariably screw it up.

Process is important because it gives founders the best opportunity to create a market for startups that favors the founders. A market that favors founders can positively impact valuations, but more importantly, it gives founders leverage to find the right investors.

The difference between a market that favors founders versus one that favors investors is not the difference between an open market and a closed one. The difference is based on who has more information about – and control over – the process of the raise.

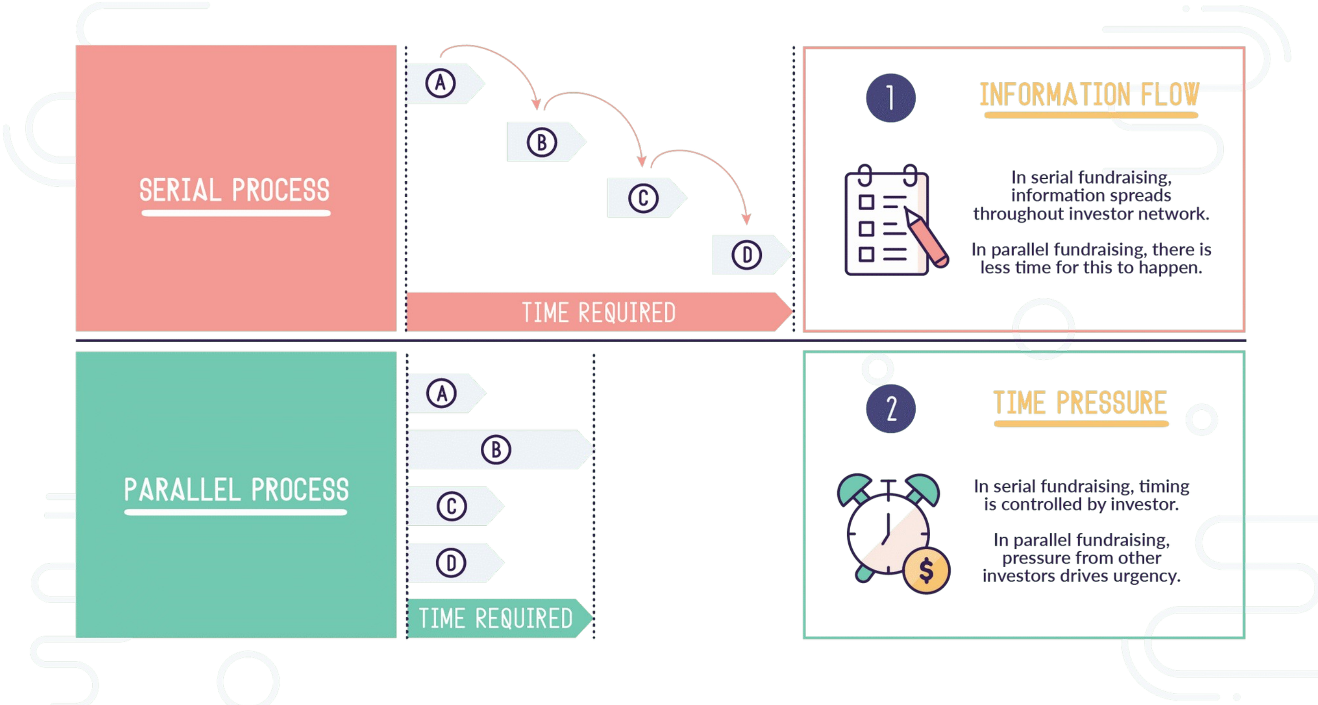
Notes:

[1] For more on this, read Paul Graham's essay on the distribution of venture returns: http://www.paulgraham.com/swan.html.

[2] Geoff Ralston has written about this extensively: https://blog.ycombinator.com/how-to-raise-a-seed-round/. While his essay is focused on seed rounds, the advice generally applies to all rounds.

Maximize leverage

How founders order their investor meetings can affect whether the market is tilted in their favor. The key distinction here is between serial and parallel fundraising. In serial fundraising, founders meet with one investor at a time, one after the other. In parallel fundraising, founders meet with multiple investors at a time, allowing them to run multiple processes at the same time.



Serial fundraising tilts markets to investors

Early stage startups usually operate in markets that favor investors. This is because the founders of those startups typically pitch investors serially – one by one as they convince those investors to meet and hear a pitch. Each time the founder walks into a meeting with an investor, the investor has full control of whether or not to make an investment decision.

As a founder meets with each new investor, chances are that some information about the company has reached the incremental investor before the meeting. This is because the network of investors is relatively small and often collaborative. Each investor that meets the company therefore has an information advantage, and knows that either a) this company has been passed on before or b) this company is gaining momentum.

The investor in this dynamic has total ability to set the process and terms. If the deal is slow, then there's no reason to move quickly. If the deal is moving faster, then the investor gets to enter a bid with significant knowledge of terms and capacity. This is a great place for the investor to be.

Parallel fundraising tilts markets to founders

Founders who can reverse the information advantage create markets that favor them. When founders are able to create the same starting point for a large number of investors, the investors are forced to operate in parallel. This means that any piece of information investors get has less time to spread through the network, which forces investors to make decisions on their own.

What's more, investors are not able to get a sense of whether or not the market is moving quickly, so they need to make decisions under the assumption that it is. If they don't operate under this assumption, then they'll lose their chance to invest because someone else will grab it.

On a purely psychological level, this kind of opacity creates a competitive dynamic in a group of people – investors – who are extremely competitive. This is a significant advantage for founders.

YC took this idea one step further by batching companies. Because our companies fundraise together, they're willing to share information about where the market is at any given time as well as pass on useful information about specific investors. It's like a union for startups where we were able to create a sort of collective bargaining position. It was and still is powerful.

Because investors are incentivized to stop founder tilted markets from forming in the first place, founders have significant leverage just before this market is created (in addition to the leverage they have during the market's existence). Founders can create this type of dynamic whenever they raise [1].

Series A Process

We'd been conditioned, by Demo Day, to believe that founder tilted markets required an actual Demo Day. In building our Series A Program and watching dozens of A's happen outside of Demo Day, we learned that it isn't the day itself or the absolute number of investors that's most important. What's most important is the process in which Demo Day forces founders and investors to participate. Founders can create this same dynamic whenever they raise by making sure that the number of investors getting first time access to the company at the same time is greater than 1.

Founders continue to improve the tilt of the market by grouping meetings as tightly as possible by stage. First pitches should all happen within a one to two week period, partnership pitches in a different one to two week period. Ideally, this means that investors make their offers at the same time, without being able to collude or discover that others have passed.

There are two different common errors at this point – some founders let initial meetings drag out over the course of months, which moves the market back into the investor's favor. The other end is sometimes worse: founders create artificially tight deadlines for term sheets. Investors tend to react very badly to this latter case unless the momentum behind the company and deal are incredible.

Getting this sequencing right is tricky because investors who know more about the company – and know that a fundraising process is coming – will be heavily incentivized to try to move ahead of all the other investors. Founders have to manage this carefully. On the one hand, founders need to make sure that all of their introductory meetings happen in a tight timeframe so that all funds are moving at the same pace.

On the other hand, there are often inside investors who are good enough – and aggressive enough – to offer quality terms before a formal raise begins. Balancing this tension is different in every situation, and it's a good thing to discuss with someone with no interest in that round. Often, these early offers are good enough to take without running the process [2].

Founders who choose not to take these early offers must push the process forward. Managing this tightly creates the exact same type of market that our founders see at Demo Day, if at a slightly smaller scale. We've been amazed at the impact of arranging meetings in a week instead of letting them drag out over many. At the same time, running a sloppy process – one in which founders lose track of the schedule or make overly aggressive timing demands – can completely destroy a fundraise for a good company.

Notes:

[1] While the rest of this post focuses specifically on the Series A process, all companies can use something similar for whatever round they are raising.

[2] This is a lot of what we do in YC's Series A Program.

Avoid over-optimizing

It seems to us that many founders approach fundraising as they would a math problem. They think that there's a single correct answer. This usually leads to over-optimization, which is a mistake. Optimization presumes that incremental changes improve fundraising and/or company outcomes. It does not.

Because fundraising is never the deciding factor in the success of a company, founders should instead look to use a regret minimization function when fundraising. Essentially, they should get what they need, avoid doing stupid things, and move on. Part of the challenge in learning to not over-optimize is understanding what qualifies as a "stupid thing" and what qualifies as a big deal.

There are nearly as many ways to over-optimize a fundraise as there are founders. Here are some of the more common mistakes.

- **Over-optimizing for price** - Founders optimize for price largely because of ego. If you've raised at a higher price than someone else, the thinking goes, your company and therefore you are better. This is absurd. Raising at high prices has almost nothing to do with the quality of the company. It doesn't necessarily even reflect how good the founder is at fundraising. Price mostly reflects where the market is at any given time.
- **Over-optimizing for investor** - The funny thing about this one is that people start doing it before they even have offers. You only get to pick your investor if you have a choice. In the end, while some investors are better than others, none of them translate directly to success.
- **Over-optimizing for dilution** - This is another take on price. Founders who quibble over selling 18% or 20% of their company in a round have lost sight of what actually matters - building the company for massive success.

- **Over-optimizing for the amount raised** - When founders begin to obsess about the amount they are raising, independent of what they need, they lose sight of why they are raising money. Money is a means to an end, not a goal in and of itself. Raising more money doesn't yield success, but it usually results in more dilution.
- **Over-optimizing for speed -** Founders who try to close rounds in days seem to believe that humans make better decisions under extreme pressure. This is almost never true.

Here's the tricky part: each of these decisions, price, investor, dilution, and speed are important. The right way to deal with each of these is to step back and approach them from the perspective of a goal that needs to be achieved.

- **Price** - This needs to be high enough to allow the company to raise enough money to achieve its goals without so significantly diluting the founders and employees that they are not incentivized to work hard.
- **Investors** - Most investors are fine. They provide capital and some help when asked. Some investors are great. They provide capital, are hugely helpful when asked, and get out of the way when asked. There is, however, such a thing as a destructive investor. These investors can hurt companies in a number of ways. They should be avoided.
- **Dilution** - Founders need to retain enough ownership in the company to be committed to its success over and above any other business venture that they might pursue. If this flips, there's a risk to the founder drifting off or doing a mediocre job. Ownership is also often linked to control. At some point, most founders lose control of their companies, but it's generally good for this to happen as late in the life of the company as possible.
- **Amount** - Founders raise money in order to hit specific milestones. Founders need to raise enough money to actually hit those milestones, with some buffer to account for mistakes or delays. While the press loves to talk about gigantic fundraises, smart founders raise enough to succeed, and not more.
- **Speed** - Fundraises that stop moving quickly generally die. This is because it is always easier to not fund something than fund it. Founders need to be careful to keep a round moving fast enough to close, but it doesn't have to be much faster than that.

When fundraising, founders need to stay on top of many conversations with many people without losing sight of their businesses or employees or lives in general. With all of this in play, it is easy to lose sight of what matters and to start focusing on the wrong things. What matters most is getting enough money to achieve a set of goals. Paying attention to price, investors, dilution, and speed is important, over-optimizing them is not.

Work vs. Fundraising

A final word of caution: founders often become obsessed with the process of fundraising. This is usually a fatal mistake for their companies. It is much easier to spend time theorizing and optimizing about when and how to apply leverage to specific investors than it is to focus on the fundamentals of a company.

In nearly every fundraise we've seen, great companies barrel through and keep going, no matter how heavily they optimize. Bad companies twist themselves into knots, celebrate silly meetings, and then run out of money – no matter how much they raise.

Knowing when and how to fundraise is important, but it's only worth thinking about when founders need to raise. Any other time spent on it is time that should be spent writing code and talking to users.

Tactics

Now that you understand the strategy behind running a parallel process to create competition and tilt the market in your favor, here are the tactics you can use to put this into practice.

Preparing to pitch

Organizing a few critical things ahead of your fundraise can make the difference between a smooth fundraise and one with a lot of friction. We'll walk through each of those in the following sections:

- **Prepare your company:** delegate CEO responsibilities to free you to focus on fundraise, close out hires and create a hiring plan
- **Align with current investors:** make sure you are on the same page with existing investors
- **Legal:** find a lawyer, clean up your cap table and organize items for post-term sheet diligence

Prepare your company

Pick one person to pitch and delegate their responsibilities

Raising money is the CEO's job. If you are the CEO, you should plan for it to be your sole, full-time focus. Fundraising can be an all-consuming endeavor for anywhere from 2 weeks to 4 months. Do not underestimate the time and energy (mental, physical and emotional!) required to fundraise. That's why it helps to figure out a good structure for how your company will run without you before you go out to pitch. We suggest that you delegate your day-to-day decision making to a co-founder or a few key team members for the duration of the process.

On the flipside, it's a distraction for the company to be kept up to date on how the fundraise is going. It's as important for your leadership to be fully dedicated to running the company as it is for you to be fully dedicated to fundraising since they have to fill in for you, in addition to everything else they already do. Do what you can to avoid distracting others with fundraising. Co-founders or other executives are typically only brought in to answer specific questions (e.g. CTOs handle technical diligence), and usually only at the full partnership stage.

Even in the rare case of co-CEOs, it's best to have a single point of contact. Investors want to see a clear decision-making process, which generally requires a final decision-maker. That's why if you've chosen to go the co-CEO route, you'll need to clearly delineate your areas of responsibility - for example, separate internal vs. external facing CEO roles. If that's the case, then the external facing CEO should handle fundraising. Having more than one person fundraising at a time distracts two of the most important people away from building the company and makes the fundraise more difficult to coordinate.

Close hiring offers and finish pending employee equity grants

An employee can only receive equity at pre-Series A prices if they start work before you receive the term sheet. If you're hiring, try to do so before you sign Series A term sheet (i.e. before upside for your employee - and therefore much of the financial incentive - goes away).

In general, if you have any pending or promised equity grants you haven't already taken care of before you start your Series A process, do that ASAP. More people than not believe that once you have a term sheet, you can no longer use your current 409A valuation for option/stock grants because a material event has occurred that implies a newer (and hopefully higher) valuation for the company's common stock. Team members that were hired earlier who haven't been granted their equity yet will then have to receive their equity at a higher strike price, which reduces their upside. Since you cannot control the exact timing of when you receive a term sheet, the prudent thing to do is to make sure there isn't a significant backlog of equity grants while you are in the middle of your fundraise process.

Have a hiring plan

One of the reasons you are fundraising is to have capital to further build out the team and operations. Having a hiring plan that outlines how headcount will expand and which roles you will fill between the Series A and the Series B can help you in several ways.

Most obviously, this may be a direct question from potential investors. In other words, who do you plan to hire with this round's capital, why do you want to or need to hire them, and how do they fit into the overall operating plan you're pitching to your prospective investors? Being ready to go into detail on this question can only help your case and demonstrate command of the business.

Less obvious but no less important: the hiring plan can help you negotiate overly aggressive asks with respect to the Series A available option pool. The market figure for a Series A option pool -- by far -- is an unissued and available option pool that represents 10% of the company as of immediately following the closing of the Series A.

However, some investors may ask you for a higher pool. Alternatively, you may wish to keep the pool smaller than the market norm, either to limit dilution or because your company is based in, or recruiting from, a geographic location outside of Silicon Valley, where the equity compensation expectations are generally lower.

In these cases, one of the most effective negotiation strategies is to present the hiring plan with the equity compensation packages you will need to fill those roles (e.g. 10 engineers at 0.1% each = 1%). This gives investors some comfort that you have thought through hiring ahead of time, which makes it far less likely that you exhaust the option pool before the Series B, which would otherwise necessitate another pool increase, which in turn dilutes the Series A investor even before new capital is raised in the Series B. In addition, you will now be negotiating on your turf, on details you have greater knowledge of.

Align with current investors

It's important to align with your existing investors - how you do so can either help or harm your fundraise. The way to handle these relationships depends on the kind of investor you are dealing with.

Series A Funds

These are internal investors that could lead your Series A - typically institutional venture capital funds. The way you choose to talk to them about your fundraise depends on what outcome you would like.*If you want them to lead the A*: If your partner wants to lead your A, they'll likely make that clear before you have a chance to ask. If the partner hasn't made an offer and you want them to, you should ask them:

> *"Hey - I love working with you, appreciate all the help you've given us, and the relationship we've built. We think it's time to raise, and I'd love to avoid running a process and just have you lead. Are you in?"*

If the partner gives you a good term sheet, you could take it or run an abbreviated process with a handful of investors you are close to that know your company well. However, if he gives you a bad term sheet, you can negotiate ("I want to work with you, but not to the detriment of my company.") and/or prepare to run a full process. See section on "Pre-emptive Offers" for more on how to handle this.

If you don't want your investor to lead the A or she has declined to do so: to avoid creating a signaling problem, talk to her and agree to a narrative. An example of a plausible narrative: "Investor A hit their ownership target, are going to do their pro-rata and will continue to be helpful. However, we think we need a partner who has XYZ qualities and are looking for a lead that has them." If true, you can also say that even if they made you an offer you probably wouldn't have taken.

Avoid taking introductions to new investors from Series A funds that could have led, but chose not to. Again, investors who want to lead your A would not intentionally introduce you to a competitor. Therefore, this type of introduction indicates that the investor making the connection chose not to invest which creates a negative signal.

Angels

These are internal investors who cannot lead, but want to be helpful. Good angel investors can help you identify and connect to the right partners for a Series A, as well as advocate for you during the process. Pick a few angels with strong reputations and networks who have been extremely helpful in the past and will vouch for you, and use them for warm introductions and back-channels to ongoing diligences. For example, keeping them in the loop about who you're meeting and what those investors were most excited about in those meetings helps angels know what to focus on in their own conversations with those investors.

Your early investors bet on you before anyone else did, so it's important to honor your word by trying to preserve room for angels that have pro-rata rights and want to exercise them. Once you've secured a Series A lead, you'll need to determine which of your existing investors want to exercise their pro-rata right. If your round is over-subscribed, you may have to negotiate exact amounts, but as a general principle, it's important to keep your promises.

If you are asked about your current investors, it's generally fine to say something along the lines of: "Our existing investors have pro ratas that we want to honor, but we haven't gone beyond that because we want to confirm that we have space for our lead." This is when it becomes important to have agreed upon a narrative with any inside Series A investors who are not leading the round.

Legal

Get a lawyer

We recommend getting a lawyer who has extensive experience with Series As, ideally at least a few weeks before you expect any term sheets (if not, at least as soon as you receive the first draft of a term sheet). The best way to find one is to get recommendations from other founders who've closed their As. Below are some lawyers who have worked with lots of YC companies on their Series A fundraises:

- Josh Pollick (Orrick) - jpollick@orrick.com
- Craig Schmitz (Goodwin) - cschmitz@goodwinlaw.com
- Rachel Proffitt (Cooley) - rproffitt@cooley.com
- Steve Levine (Fenwick) - slevine@fenwick.com

Understand your cap table and model out how a Series A will change it

If we could give founders only one piece of advice for keeping their Series A dilution under control, it wouldn't have anything to do with tips for negotiating a great valuation. Instead, the most important thing founders can do is to take the time to understand their cap table and how outstanding safes and convertible notes, as well as the Series A new money and option pool increase, will change the cap table.

Typically, the dilutive effect of safes, notes and option pools are interdependent with the Series A valuation and investment round terms. This is because safes and notes conversion terms are impacted by the Series A valuation, and the option pool is pegged to a percentage of the post-Series A cap table (e.g. 10% of the post-Series A cap table). Consequently, the challenge is that you may not be able to calculate exactly what the cap table is ahead of receiving a term sheet, since the valuation and round size will be inputs into the safe and note conversion calculations and the option pool calculation as well.

However, what you ***can*** do is model out how various valuations and round sizes will impact safe and note conversions, the option pool and the final cap table. You should be able to get a sense of the range of outcomes.

These calculations can be done using tools such as captable.io, Angelcalc.com, Carta and Excel, for example. If you're not comfortable, ask your lawyers for help. Cap table numbers are one of the few things that are very hard to change after a deal is signed, so the up-front investment in time will pay large dividends with respect to one of the most important outputs of the Series A process -- how much of the company you continue to own.

Organize commonly requested post-term sheet diligence items

Below, you'll find a Series A legal diligence checklist. This runs through all the pieces of information you'll need to have ready once you sign a term sheet. Having all of this together in one place – a Data Room – ***before*** you sign a term sheet will cut as much as a week off of your closing process. Founders don't generally realize that closing an A can take more than a month, much of which is often spent tracking down documents for lawyers.

Corporate Records and Charter Documents

1. All minutes of directors' and stockholders' meetings, and all written consents of directors and stockholders.
2. Certificate of Incorporation, Certificates of Designation, Rights, etc., and Bylaws.
3. Similar information for the Company and subsidiaries, if any.
4. A corporate entity organizational chart, if there are any parents or subsidiaries.

Business Plan and Financials

1. Current business plan and any financial projections.
2. Most recent financial statements.

Intellectual Property

1. A list of the Company's trademarks, patents, copyrights and domain names (or any applications therefore) including documentation of filing or registration with the appropriate governmental entities.
2. If any of the foregoing were assigned to the Company, please so state and provide documentation of the assignment and recordation with the appropriate governmental entities.

Security Issuances and Agreements Concerning Securities

1. A list of the Company's stockholders, including issuance dates and original issuance price.
2. A list of the Company's option holders, including grant dates and exercise prices.
3. Copies of agreements relating to outstanding options, warrants, rights (including conversion or preemptive rights) or agreements for the purchase or acquisition of any of the Company's securities, and agreements relating to the Company's past stock issuances.

4. Any documents evidencing registration rights for the Company's securities, or evidencing any agreements among the Company's shareholders or between the Company and its shareholders.
5. A summary of the vesting schedules of any stock or options subject to vesting, including any vesting acceleration.
6. Agreements relating to voting of securities and restrictive share transfers.
7. Evidence of qualification or exemption under applicable federal (including Rule 701) and state blue sky laws for issuance or transfer of the Company's securities.

Material Agreements

1. The Company's standard terms of service / terms of use for its customers.
2. Any agreements, understanding, instruments, contracts or proposed transactions to which the Company is a party or by which it is bound which involve obligations of, or payments to, the Company in excess of $25,000.
3. Any personal property leases.
4. Any agreements concerning the purchase, lease, or sublease of real property.
5. Any documents evidencing indebtedness for money borrowed or any other liabilities incurred by the Company.
6. Any documents evidencing any mortgages, liens, loans and encumbrances with respect to the Company's property or assets.
7. Any documents evidencing any loans or advances made by the Company.
8. Any licenses or agreements of any kind with respect to the Company's or others' patent, copyright, trade secret or other proprietary rights, proprietary information or technology, including employee confidentiality and proprietary information agreements.
9. Any insurance policies held by the Company or of which the Company is a beneficiary and a summary of such policies, if available.
10. Any judgment, order, writ or decree by which the Company is bound or to which it is a party.
11. Any standard forms of agreements used by the Company.
12. Any joint venture and partnership agreements.
13. Any management, service and marketing agreements.
14. Any confidentiality and nondisclosure agreements.
15. Any agreements requiring consents or approvals in connection with the financing.
16. Any consulting contracts.
17. Any other agreements material to the business of the Company, or outside the ordinary course of business.
18. A list of officers and directors. If any officers are not currently devoting 100 percent of their business time to the Company, please note them on this list.

Information Regarding Disputes and Potential Litigation

1. Any correspondence or documents relating to any pending or threatened action, suit or proceeding or investigation, including, without limitation, (i) those involving the Company's employees in connection with their prior or present employment or use of technology and (ii) those being conducted by or before any governmental entity or regulatory agency.

2. Any correspondence or documents relating to allegations of the Company's infringement of the proprietary rights of others.
3. Any correspondence or documents relating to any labor agreements or actions, union representation, or strike or other labor dispute.

Information Regarding Employees and Employee Benefits

1. A list of the Company's employees and consultants, including title, base salary, target bonus (if applicable), commission plan (if applicable), classification (including, if an employee, whether the employee is exempt or non-exempt) and state of residence.
2. The Company's standard form of offer letter.
3. Any agreements, understandings or proposed transactions between the Company and any of its officers, directors, affiliates, or any affiliate thereof, including without limitation, employment agreements and offer letters with severance benefits or vesting acceleration provisions.
4. Any plans, agreements or arrangements that provide benefits contingent upon a change in control.
5. Any severance or deferred compensation plans (including any salary deferral agreements, whether written or oral, with employees or consultants).
6. Any employee benefit plans, including, without limitation, stock option plans, 401(k) plans, pension plans and insurance plans.
7. Any forms of agreements used in connection with any stock option plans (such as a form of option agreement, notice of exercise and restricted stock purchase agreement).
8. If the Company sponsors a 401(k) plan, any determination or opinion letter and Form 5500 filings for the last 3 years.
9. All documents or other information relating to any loans made by the Company to its employees, directors or consultants.
10. The Company's employee handbook.
11. If the Company has any foreign employees, separately list (by country) all benefits provided to foreign employees.

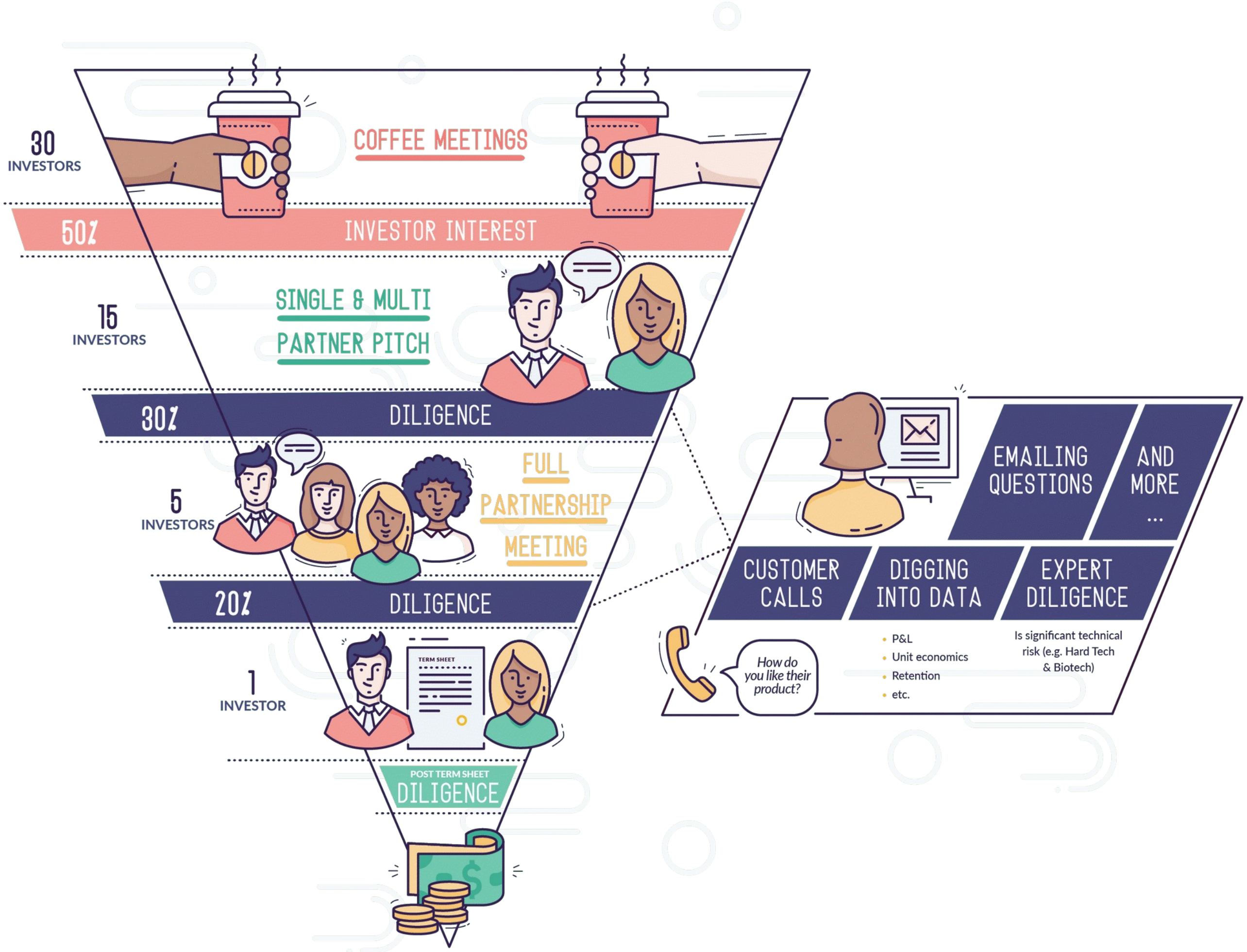
The Series A process

The specifics of the process vary by firm, but follow the general structure:

- Single and multi-partner meeting(s)
- Full partnership meeting
- Term sheet offer
- Post term-sheet diligence
- Closing

Every fund works differently, so it's best to ask partners about the specifics of their process. You're not expected to have a deep understanding of an investor's process, so it is perfectly reasonable to ask how their process works and what the next steps are. This will help you understand how far along you are in the process.

The process works like a funnel: only a subset of investors will move on to each stage. We did some early analysis of the Series A processes for YC companies that successfully raised to find the average level of attrition across stages [1]. On average, 50% of coffee meetings led to single partner pitches, 30% of partner pitches led to full partnership pitches, and only 1 in every 5 partnership meetings produced a term sheet. Note that these numbers are from a select group of companies that successfully raised - the numbers for companies that failed are likely much lower.



The timing of this entire process varies widely, ranging from 1 week to 4 months. In general, expect 2 weeks from a single or multi-partner meeting to a full partnership, and an average of 1 week from a full partnership meeting to a term sheet [2]. Note that investors do diligence between each meeting as they determine whether or not to continue, which factors into how quickly the process moves. The speed with which investors follow-up is a good gauge of their level of interest in the deal.

Single and multi partner meeting(s)

The Series A fundraise begins with a 1:1 pitch meeting with a partner. In this meeting, you typically walk the partner through your deck and talk informally about your company. If the partner is interested but wants a second opinion, she may pull other partners in for additional meetings with you. She will likely follow up after these meetings with questions and requests for information. (See section titled “Control information flow” for more on how to respond to these requests.)

Occasionally, these meetings include 2 or more partners. The reasons for this vary: sometimes a senior partner is teaching a junior partner, other times a junior partner is trying to convince a senior partner to take the deal. We’ve also seen firms surprise founders by inviting them back for “coffee” and surprising them with the equivalent of a full partnership meeting. In fact, if your round is small enough ($4-5M), some firms can offer term sheets off of multi-partner pitches, without full partnership meetings.

One of the most common questions founders ask us is how to follow-up if there is radio silence after a meeting. You should feel free to follow-up until you receive a response. However, remember this guiding principle: there are things you do when you’re desperate vs. things you do when you’re busy. Try to look busy, not desperate.

As far as possible, avoid sinking time into pitching people who are not check writers. Junior investors help direct you to the right partner to talk to within the firm, but they do not make investment decisions. If you are connected to an associate or principal during your formal pitch process, you can politely let them know that because you are already in conversations with a number of funds and have a limited timeframe, you’d like to pitch to a partner in order to give the firm an opportunity to be part of the process. Keep in mind, however, that your ability to move the conversation up the chain of seniority depends on how much leverage you have.

As you meet with investors, you’ll begin to see what parts of your pitch drive skepticism and which produce excitement. You’ll find questions that you don’t have answers for or concerns you need to address. Carve out time each day to go over all the feedback you’re getting to make your pitch better.

Although everyone will seem as if they’re interested, only about a quarter of the funds will be dialed in. It’s your job to weed through the noise to figure out who’s truly interested and spend time with them. Partner dynamics within the firm matter a lot, so pay attention to them. Figure out who actually makes the decision and the true extent of your partner’s decision-making ability.

These meetings will comprise the bulk of the fundraising process.

Full partnership meeting

If the partner you pitched wants to invest, she will invite you to the full partnership meeting. Meeting the entire partnership is (usually) the final step to making an investment decision.

At this stage, the role of the partner who invited you flips from being an outsider to an insider: from someone you need to convince to your advocate within the partnership. Enlist her help to prepare your pitch and understand what other partners will focus on during the discussion. In cases where your sponsor is senior enough (for example, if she founded the firm), this meeting may just be a rubber stamp. Otherwise, further diligence may be required after this meeting.

Term sheet offer

A term sheet offer = a term sheet in hand. For Series As, handshake agreements or verbal promises of an incoming term sheet do not qualify as term sheet offers. For our full guide to handling term sheets, see the section titled "Closing".

When negotiating term sheets, we recommend using the standard YC Series A Term Sheet where possible. If you've received multiple term sheets, see the section titled "How to choose an investor" for advice on how to decide who to partner with.

Post-term sheet diligence

Post-term sheet diligence kicks off once you sign the term sheet and generally lasts about 30-45 days. To speed up this process, make sure you have all of the materials on our Series A Diligence Checklist ready to go.

Your lawyer will handle the legal aspects of closing the round. If you need lawyer recommendations, see the section titled "Legal".

Closing

This is when money finally hits the bank. This can be a good opportunity raise venture debt (see our section on "Venture Debt"). Now you have the funds you need - it's time to get back to work!

Repeat as needed

Sometimes, everyone passes or stops responding to you. This happens more frequently than most founders realize. We were surprised to discover just how many times founders who raised rounds heard "no" after pitching investors before hearing "yes." One company got 30 rejections before getting a great term sheet, and the median was 18 - and these were all companies that successfully raised. There doesn't seem to be an upper limit on how many investors to pitch while fundraising, so long as the process is organized and you control the flow of information.

If you are determined to continue fundraising, look for your next set of investors, get warm introductions, and schedule meetings with them. Rinse and repeat the process as many times as needed until you get down to the Fatal Pinch, at which point you may have to switch to Plan B: getting profitable or raising a bridge.

This is also why we suggest that you have a backup plan. What will you do if you are unable to fundraise? Can you get to profitability or raise a bridge? Will that buy you enough time to drive growth that is impressive to investors and increases your future chances of raising an A? Having a Plan B is critical to peace of mind in what is often a very emotionally tumultuous process.

Syndicated Rounds

One of the key differences between raising a seed and raising a Series A is that Series A's generally depend on securing a large commitment from at least one investor, as opposed to small commitments from a handful of investors. This changes the dynamics of raising. In a seed round, smaller cheques are a useful way to create fundraising momentum; the less space there is left in a round, the more pressure there is to commit capital. In Series A's, that smaller commitment is usually less useful unless it is used to create a syndicated round, which is rare and tricky to pull together.

The reason Series A's typically have a lead investor is that it is usually a company's first priced round, where SAFEs convert into equity and important terms around governance and control like board composition and stock preferences are decided. This means that everyone in the round has to abide by a single set of terms. Lead investors, by virtue of putting in the most money, get to set the terms and take a board seat. The toughest part of raising a Series A is finding a lead, so a commitment to take 10% of a round is rarely useful. Once you have a lead, the round is de-risked and it's generally not tough to fill the remainder of the round - in fact, companies often don't have enough space for pro-ratas. If an investor offers to take a small piece of the round, thank them and let them know that you'll certainly keep them in mind, but cannot make any promises.

The exception to this rule is a syndicated round. Syndicated rounds are uncommon in Series A's, though we've noticed more of them recently. In syndicated rounds, there is a small coalition of a few investors writing similar sized cheques, all of whom have an equal "right" to this. This makes it tricky to set terms and find a board member that everyone will be happy with. The founder also must work to round up the rest of the capital.

Syndicated rounds are tricky because nobody has stepped up to lead the entire round. Whoever writes the biggest of the syndicated checks usually wants a board seat. It ends up looking like a game of chicken where no single investor wants to commit until the others do. You'll end up needing to play investors off against each other until enough of them come in to give you the money you need.

This can be a great outcome for founders who, for whatever reason, do not get an offer from traditional investors. However, it is generally harder to put together and manage and should generally be seen as a last resort.

Notes:

[1] Our sample size was relatively small, so treat these numbers as guidelines.

[2] There are always exceptions. We've seen founders receive term sheets anywhere from a day to a month after the full partnership meeting.

Running a good process

Running a tight process allows you to maintain momentum and maximize your leverage. Your goal here is to use the very real pressure of others competing for the deal to persuade investors to act quickly. There are two key pieces to a good process: scheduling meetings tightly and controlling the flow of information.

Schedule meetings tightly

Your goal is to make your raise a tight process and keep cohorts of investors in the same phase at the same time to generate competition. We recommend setting up 5-10 formal single partner pitch meetings in week 1 and a second set of 5-10 meetings in week 2. We've found that it's difficult for founders to sustain more than 2-3 pitches a day. A good rule of thumb is to keep it to <30 investors over a 2 week period, provided that you're managing the process properly.

We're often asked whether pitches with top choice investors should be scheduled first or last. This depends on your level of confidence in your pitch and how much you think it can improve from further practice. Additional practice can help you work out the kinks of your pitch, and tier 1 investors generally act faster and can move quickly enough to catch up with tier 2 investors. However, starting with tier 2 leads that all say no leaves a stink. As such, good leads need to be close enough that you don't come off as a passed over deal. In our experience, having a week lead time is generally fine.

Control information flow

Because you are now engaged in a business transaction with anyone you'll be pitching, any information you share will be fed into their decision-making algorithms.

There are 2 types of information that are valuable in a fundraise that you need to carefully control. The first is information on how other investors are acting, which influences what the investor in question will do. The second is information on your business that gets investors closer to a yes/no decision.

Information on your fundraise

Your goal is to provide each investor with just enough information on where your fundraise is to maintain a sense of urgency and keep each one moving forward in the process.

If an investor is interested, she will reach out within 24-48h of your meeting. If you haven't heard back for a few days, a good way to nudge the process forward is to subtly indicate that your round is progressing (and that she should join the party). You can do this by strategically sharing information about your fundraise. Examples of what this could look like include: "I'm in meetings all week", or if you have GP meetings scheduled, "We really enjoyed meeting you and would love to continue the process / talk about next steps. Just so you know, next week is already filling up with partnership pitches." [1]

Investors want to win, and a deal being competitive is a crowdsourced indicator of value. However, investors also don't want to feel pressured. You need to balance keeping things moving without pushing investors too hard. This is tricky.

For example, don't create fake pressure on investors by setting up tight, artificial deadlines - it rarely works and leaves a bad taste in their mouths. Good investors need to get to high conviction on your business, and tactics like pushing the process too fast can get in the way of this. Getting to know investors and getting them excited about your business often requires at least a few meetings. If you push too hard too early, some investors may just decide to pass.

That's why it's important to read each situation and determine if you should push, or sit back and let it develop on its own. More experienced investors can pattern match and get to high conviction on your business faster, while newer investors tend to be more conservative.

At the end of the day, investors are human. They need to believe that they're fundamentally differentiated as humans because that's their main competitive advantage, so play into the idea of "I know there's a lot of money, but it's you I really want." You will have to find your own way of doing this depending on your communication style, rhetoric, etc.

If you receive a term sheet, you should only use it to accelerate the process if it is a good term sheet that you would actually take. The reason is that using a term sheet to pressure VCs pushes them to a yes/no within 24-48h, which may end up knocking everyone else out of the process.

If you receive an acquisition offer, avoid using it to pressure VCs because it conveys the message that you're going to sell small (as opposed to going public). This may negatively impact their impression of you. Pursue it in parallel if it's a serious offer that looks good, but keep this information confidential and separate from your fundraise.

Information about your business

Time and information are the resources that drive fundraising processes. Investors want as much of both as possible, and it's your job to figure out where to allocate them. You want to invest time and information into the investors that are most likely to invest. A good way to gauge this is to see how investors respond to the information you provide them. If they are interested in doing the deal, getting additional information should move them towards the next step in the process.

To save time, we first recommend pulling together a standard diligence package to share when information is requested. Examples of standard information include P&L, forecasts, and your cap table. This helps control the narrative and will reduce your workload during the process. When you share information, track who sees what as much as possible through services such as DocSend.

A second strategy is to ask the investor what question she is trying to answer by requesting a piece of information. This can help you (1) figure out a more efficient way to answer their question and (2) suss out if she is only trying to create busy work (or worse, get information to help a competitor or evaluate a competitive deal).

If you have a full schedule of pitches and want to gauge the investor's level of interest, here's one possible response: you're backed up with pitches, making it difficult to pull the request together in the next few days, but you'd be happy to get it to them before the full partnership pitch. If they schedule the full partnership pitch, then that's a strong indication of interest. If they push back, it's up to you to assess the situation.

Providing some confidential information is necessary to enable investors to do diligence, but avoid sharing proprietary information. The distinction we draw between the two is that proprietary information consists of any secret that can be used to replicate you or poach your customers. Here are some examples of standard vs. non-standard kinds of information to share:

- **Usually standard:** monthly P&L, high level metrics.
- **On the line:** month-by-month per customer revenue breakdown.
- **Not standard:** legal documents and contracts, key customer agreements, and full customer names, especially if specific customers drive major portion of your revenue.

Sharing customer references is standard, but make sure you are only sharing active customers from whom you have already secured buy-in and prepped. We'd suggest removing customers from your website if they haven't been prepped or if you don't want investors talking them. We've seen investors pass as a result of negative customer references. Worse, we've seen customer relationships sour when they receive an unexpected diligence call they did not agree to do.

Overall, the amount of information about your business you need to give to an investor is inversely correlated to the amount of leverage you have in a deal. If only a few firms are in the running, you can't afford to knock one out of the process by refusing to share information. That's why this situation varies depending on the specifics of the company and fundraise.

In closing

Ultimately, whoever funds your Series A will be on your board for the next 10 years, so maintaining a good relationship is paramount. Treat the advice here as guidelines - it is up to you to develop a feel for how the conversation is going and make decisions accordingly.

Notes:

[1] This should go without saying, but only say these things if they are actually true.

Special cases

For hardtech and biotech founders

If you are a founder of a hardtech or biotech company, you will likely have a different experience raising venture capital. You will need to pitch a smaller subset of firms, go through more intense diligence, and probably take more dilution. For hardtech companies specifically, Series Bs and Cs are generally the hardest rounds to raise. Given that high prices at the Series A require even higher prices at the B and C, we would especially recommend against optimizing for the highest price at your A in order to make raising future rounds of capital easier.

Another unique issue you may encounter is investors using you to learn about your space. It can be frustrating to feel you are sinking time into educating someone who may not actually be interested in funding you. Don't be frustrated. This is your opportunity to own *your* expertise in your space - which is why they should be investing in you to begin with. While it is likely that the person who does your deal will be familiar with your space, this can also be a wonderful opportunity to keep selling. Most VCs are intellectually curious and get very excited about learning interesting things.

That being said, we advise founders who suspect they may be in this situation to look for signs of someone who's serious: they're smart, deeply interested, and **progressing in their knowledge from meeting to meeting without you**. This suggests that they're doing a lot of work to learn on their own. Conversely, when you feel like investors are trying to wring you dry of information, you can pull back a bit.

For biotech founders specifically

Domain-specific conferences are an excellent opportunity for investor outreach. Presenting data (after submitting the patent!) at a conference can increase your credibility, in addition to providing a stage from which you can reach multiple investors and potential partners simultaneously. Expect representatives from every major (and minor) pharma as well as most of the top tier investors in your space to be in attendance. Use this as an opportunity to make contact with these funds. You should know every major conference in your space that will be happening over the next 2 years, and plan for how you will be releasing information at any conference you plan to attend at least 6-12 months in advance of each. As such, it may be helpful to create a roadmap of what story you want to be able to tell and where you are going to tell it. The key here is to identify what your inflection points are, and therefore when you will have the most leverage, and plan your data-release/fundraise around that timeline.

Another piece of the puzzle you may want to think about earlier than your non-biotech colleagues is when/how to recruit experienced bio or pharma talent. In the absence of clinical inflection points, a startup's ability to attract impressive talent will be seen as de-risking for your core thesis and thus serves as an orthogonal indication of value. The optics around these hires is: "These domain experts joined you because they (1) did due diligence and (2) expected that they will make a greater return on their investment (time) than staying at [brand-name company]." All of this will help make you more attractive to bio VCs - who will want to understand both your current team and your plans and timing to recruit or fill any resource the investors may feel your team is currently missing.

For international founders

International founders are faced with the question of whether they should raise capital in their home market or in the US. The answer to this depends on the maturity of the institutional VC landscape in your home geography.

For example, there is a large VC community in India and China. In these countries, it likely makes sense to raise from local investors. For Indian founders in particular, most US VCs have an India office and are not going to override their Indian counterpart. Local investors also tend to have a network and knowledge bank in your market, which means they can be more helpful to you.

However, if venture capital does not exist or is not well developed in your country, it makes sense to raise from US investors. If this is the case, keep in mind that you will need to commit to being physically present in the US for the duration of your fundraise.

Closing

This is not legal advice.

Term Sheets

Once you receive a term sheet, you will generally be asked to make a decision and sign the term sheet within 24-48 hours. You can usually get up to a week just by asking for it and stating that you need to discuss with your co-founders, your counsel, your advisors, etc. Getting more time than that generally requires leverage in the form of multiple term sheets coming in simultaneously. Regardless, what you **don't** want to do is take too long to respond (whether with negotiation points, a request for more time, acceptance, etc.). Investors are always wary of just being used to generate a wider auction process, so waiting too long can upset them and even lead to the term sheet being pre-emptively pulled.

If you have run a tight fundraising process, you should have multiple VCs far along in the process. Once a term sheet is *in hand* (note: verbal promises or handshake agreements do not qualify as term sheet offers), notify all other investors that were also far along in the process that you have received a term sheet. **Do not disclose who the term sheet is from** because investors will talk to each other. You can deflect questions on this by saying you have a policy of not disclosing who your term sheet is from until you sign on the line.

All term sheets come with exclusivity ("no shop") clauses, which typically last for 30 days and take effect the moment you sign (but not before). This is to prevent you from shopping the term sheet around to get competing offers once you have signed it. Thus, your only opportunity to get competing offers is during the period after you receive the term sheet and before you sign. That's why running a process to ensure you have multiple investors moving towards a term sheet at the same rate is so important - it maximizes the chances that receiving one term sheet will trigger competing offers in the timeframe available.

On their part, VCs rarely pull out of signed term sheets for fear of reputational damage. If they do, it is usually because (1) they found something egregious during their post-term sheet diligence (e.g. fraud) or (2) the term sheet was offered by a very junior partner who doesn't have real power. VCs have an extra incentive not to mistreat YC companies as YC punishes bad actors by essentially blacklisting them.

Terms can be complicated. A simple rule of thumb is this: **when evaluating terms, aim to understand how any qualifications and conditions attached to various terms can combine to trigger non-obvious domino effects with long-term implications**. Economics are temporary, but control is forever.

For example, you might see a board provision that looks like this:

> 3 board seats, one of which will be designated by the lead investor, and two of which will be designated by the holders of a majority of common stock who are then providing services to the company as employees, officers or consultants.

This looks like it gives founders control over the board -- the investor gets 1 seat, and the majority of common stock (which founders typically control) get to appoint 2 seats. And it does, at least to start.

But what's that "who are then providing services" clause all about? It means that if any founder leaves or is fired from the company, their common shares are now **excluded** from the calculation. If all of the founders depart or are terminated, then whoever controls a majority of common stock held by non-founders who are still at the company will appoint those board seats. Because this board is currently a 3 person board slanted 2-1 in favor of founders to begin with, you don't have to worry about being terminated and kicked off the board because of this combination of terms. But when you raise your Series B, Series C, etc., the board may grow and it's possible the founders will no longer control the board. Now you are stuck with this condition that if you are not providing services to the company as an employee, consultant or officer, your votes no longer count when it comes to filling the common director seats. That is the domino effect with long-run implications.

YC's Standard Series A term sheet

While working with companies in YC's Series A Program, we noticed a common problem: founders don't know what "good" looks like in a term sheet. This makes sense because it is often the first time that they've seen one. This puts founders at a significant disadvantage because VCs see term sheets regularly and know what to expect. Because we've invested in thousands of founders and have seen hundreds of Series A term sheets, we know what "good" looks like. We work with our founders to understand where terms diverge from "good", what they can do about that divergence, and when and how it makes sense to negotiate.

Below is what a Series A term sheet looks like with standard and clean terms. Bracketed items (besides the names of the company and lead investor) are always or frequently negotiated. Items not in brackets are sometimes negotiated, but this has more to do with the idiosyncratic features of the company or the situation, and generally aren't terms that parties intend to heavily bargain over during the negotiation.

One of the critical things you'll notice is that we didn't put in standard pricing. While the lead in a Series A round generally wants 20% of the company, pricing can flex up and down depending on the leverage held by each side. We think price is an important term, but too specific to each raise to try to create a standard. We're more concerned with terms around control and structure, which are less familiar to founders, and therefore more prone to cause confusion and trouble.

Note: this term sheet doesn't belong to any particular VC — we drafted it — but it does substantively reflect what we see most often. Founders with a lot of negotiating leverage can sometimes do better, and the converse is true too.

You can also download the Word version of the doc here.

TERM SHEET

Company:	[__________], a Delaware corporation.
Securities:	Series A Preferred Stock of the Company (“**Series A**”).
Investment Amounts:	$[_] million from [__________] (“**Lead Investor**”) $[_] million from other investors Convertible notes and safes (“**Convertibles**”) convert on their terms into shadow series of preferred stock (together with the Series A, the “**Preferred Stock**”).
Valuation:	$[_] million **<u>post-money</u>** valuation, including an available option pool equal [__]% of the post-Closing fully-diluted capitalization.
Liquidation Preference:	1x non-participating preference. A sale of all or substantially all of the Company assets, or a merger (collectively, a “**Company Sale**”), will be treated as a liquidatio
Dividends:	6% noncumulative, payable if and when declared by the Board of Directors.
Conversion to Common Stock:	At holder’s option and automatically on (i) IPO or (ii) approval of a majority Preferred Stock (on an as-converted basis) (the “**Preferred Majority**”). Conversio ratio initially 1-to-1, subject to standard adjustments.
Voting Rights:	Approval of the Preferred Majority required to (i) change rights, preferences privileges of the Preferred Stock; (ii) change the authorized number of shares; (i create securities senior or pari passu to the existing Preferred Stock; (iv) redeem repurchase any shares (except for purchases at cost upon termination of services exercises of contractual rights of first refusal); (v) declare or pay any dividend; (v change the authorized number of directors; or (vii) liquidate or dissolve, including Company Sale. Otherwise votes with Common Stock on an as-converted basis.
Drag-Along:	Founders, investors and 1% stockholders required to vote for a Company Sa approved by (i) the Board, (ii) the Preferred Majority and (iii) a majority of Comm Stock [(excluding shares of Common Stock issuable or issued upon conversion the Preferred Stock)] (the “**Common Majority**”), subject to standard exceptions.
Other Rights & Matters:	The Preferred Stock will have standard broad-based weighted average anti-dilutio rights, first refusal and co-sale rights over founder stock transfers, registration right pro rata rights and information rights. Company counsel drafts document Company pays Lead Investor’s legal fees, capped at $30,000.
Board:	[Lead Investor designates 1 director. Common Majority designates 2 directors.]
Founder and Employee Vesting:	Founders: [______________]. Employees: 4-year monthly vesting with 1-year cliff.

The "No Shop" is legally binding between the parties. Everything else in this term sheet is non-binding and only intended to be a summary of the proposed terms of this financing.

[COMPANY]

By: ______________________________

Name: ______________________________

Title: ______________________________

Date: ______________________________

[LEAD INVESTOR]

By: ______________________________

Name: ______________________________

Title: ______________________________

Date: ______________________________

It may be surprising to see everything covered in a single page [1]. This wasn't always the case, but became common over the last decade as some investors decided to make their term sheets more user friendly. They did this by shortening the legalese as if to say, "We aren't going to get bogged down in the minutiae. We're going to make this easy, friendly, standard and fast."

This leads us to the most important thing to understand about the term sheet: the term sheet is another way in which your Series A investor might be telling you something. A contract allocates risks between the parties, so the terms the investor insists on can sometimes say a lot about the investor's perceived risks. These perceived risks show up in a couple of ways.

The first way relates to control terms. We don't mean the set of investor vetoes in the "Voting Rights" section, which are pretty standard fare [2], but rather issues of board composition and the investor's ability to block or dictate operational decisions made by the board. The board structure in this term sheet is founder-friendly because the founders retain board control 2-1 [3]. The way in which founders most often lose control at the Series A is with a 2-2-1 board structure, i.e. 2 founders, 2 investors and an independent board member. The loss of board control is most significant because it means the founders can be fired from their own company [4]. Another way in which founders lose some control is a term that doesn't appear in the standard example above; this would be a separate provision that says the investor director's approval is required for operational decisions, like setting the annual budget, hiring/firing executives, pivoting the business, adding new lines of business, etc. When boards are set up to take power away from founders, the investor's outward justification will frequently be reasons of governance or accountability. The more power that's taken away, the more it's undeniable that the investor is attempting to structure away a perceived risk. So, when an investor says that they're committed to partnering with you for the long-term – or that they're betting everything on you – but then tells you something else with the terms that they insist on, believe the terms.

The other way perceived risks manifest is if a term sheet includes non-standard or "dirty" economic terms. Here, the term sheet example is instructive not for what it contains but what it *doesn't*. Examples of such terms would be:

- Liquidation preference greater than 1x — the investor gets back more than its invested capital first.
- Participating preferred — the investor double-dips by getting its money back plus its pro rata portion of exit proceeds, rather than choosing between the two.
- Cumulative dividends — the investor compounds its liquidation preference every year by X%, which increases the economic hurdle that has to be cleared before founders and employees see any value.
- Warrant coverage — the investor gets extra fully diluted ownership without paying for it at the agreed upon valuation.

These are all ways of adding structure to reduce typical venture risk — either directly by boosting the investor's downside economics or indirectly by juicing the upside outcomes. The investor is essentially saying, "I'm sort of afraid of losing my money." It can also foreshadow how they might behave when things aren't going well, such as pushing you to sell when you don't want to or dialing back risk when it's important to take it. Good investors would rather address economic risks by negotiating valuation and are otherwise happy to give standard terms; they know that the real money in venture is not made with structure, but by building long-term value — which they are confident in their ability to help you do.

The last thing to remember is that your Series A documents are a foundation and precedent for the terms of future rounds. Good foundations make the next term sheet and financing round fast and simple, as future investors just step into the same straightforward terms. Doing the opposite complicates future fundraises, such as future investors asking for the same structure-heavy terms, existing investors refusing to drop terms that subsequent investors want removed as a precondition of investing, etc. Unwinding bad terms is difficult and oftentimes impossible.

That said, the point is to get a clean deal, not to cycle a lot to get the perfect deal. No one ever built an enduring company solely by winning their Series A negotiation. Also, even if you can’t get everything right or the way you want it, you always have the power to execute. If you do that, the value you build can outrun suboptimal terms or establish leverage to renegotiate later. Don’t lose sight of the ultimate goal: closing fast and getting back to work.

Notes:

[1] Some great investors still send longer term sheets, but this has more to do with their preference for going a bit deeper into the details at this stage, rather than deferring this until the definitive documents. The definitive documents are derived from the term sheet and are the much longer (100+ pages) binding contracts that everyone signs and closes on. It’s common to negotiate a few additional points at this stage, though deviation from anything explicitly addressed in the term sheet is definitely re-trading. Also, in a few places, this term sheet refers to certain terms as being “standard.” That may seem vague and circular, but term sheets frequently do describe certain terms that way. What that really means is that there’s an accepted practice of what appears in the docs for these terms among the lawyers who specialize in startups and venture deals, so make sure your lawyer (and the investor’s lawyer) fit that description.

[2] The two most impactful investor vetoes in this section are the veto on a financing, which is covered by clauses (ii) and (iii), and the veto on a sale of the company, which is in clause (vii). We point these out because the concrete implications of these clauses aren’t facially obvious, and because most term sheets use similar technical jargon for these vetoes.

[3] The founders implicitly control those two seats because they’re designated by a majority of common, and founders generally control a majority of common for a long time. In even more founder-friendly term sheets, those two seats may be designated by the founders themselves (as individuals).

[4] Whether being fired from the company as an employee also triggers the removal of the founder from the board is a separate question and depends on what was negotiated in the financing documents. Sometimes a founder’s right to vote her shares to appoint a director will be conditioned on the founder being currently employed by the company. Whenever conditions are attached to your rights to vote on anything, make sure to ask your lawyer to walk you through the various scenarios in which those conditions matter and how they can hurt you.

How to negotiate

General tips

1. **Know what you want.** It's shocking how frequently parties enter into negotiations without a clear understanding of what they each want. If you don't know what you want, it's impossible to know what you can give up and what you need to hold onto.
2. **Understand the terms.** This is basic, but generally ignored. If you're signing a document, you need to read it and understand it. If you're going to use terms in negotiations, make sure you know how to use them. This applies to financing terms ("pre", "pro-rata", "control"), employment terms ("vesting", "cliff", "at will"), and essentially anything else you say to the other party [1].
3. **Do not leave anything to ambiguity.** Turns out this is one of the hardest things to do, especially in "friendly" negotiations with investors you know or friends you might be hiring. Don't assume that something you think is implied is agreed upon. Every point that you negotiate should be made explicitly. Which leads to…
4. **Document everything.** If you agree to something, confirm it in writing. This can be as simple as an email saying "Thanks for meeting Aaron. As agreed, we're excited to have you investing 100k in our round at $5mm valuation." If the other side confirms, great. Do this immediately because if there's disagreement on what was actually agreed in person, this is how you'll find out. Importantly, silence doesn't count as consent.
5. **Just because the other party is your friend...** doesn't mean they're going to give you everything you want, or that you should give them everything they want. This is where mixing business and friendship gets tricky, so keep in mind that deals are about business. Negotiating with friends is also where ambiguity is most likely to arise, so be extra cautious.
6. **You don't get points for being a jackass.** There's a popular misconception that mean people are better negotiators. That's not true. People who are formidable are good negotiators. They're tenacious about the important points and gracious about the things that don't matter. The key here is to remember that a negotiation tends to be the start of a relationship. You don't want to start that relationship on a bad foot [2]. In most cases, you're also operating in a surprisingly small world. You're going to see the same people again and again, so being on good terms with them is going to be productive [3].
7. **Your word is your bond.** Probably the most important rule. If you agree to something, don't break that agreement. If you agreed to something, whether with a handshake or in writing, the negotiating on that point is done. Reneging is the fastest way to destroy your reputation and any trust that you built up. If you're unclear about an agreement, refer to point 3. This is not the place to get cute or try to re-interpret after the fact. You can be forgiven being confused (up to a point), but not for breaking an agreement you knowingly made.

If you find yourself raising money from an experienced VC or negotiating a contract with an experienced business development lead, keep in mind that they negotiate for a living and are probably better at it than you. They know how to push your buttons to get what they want. This isn't malicious (usually), but it is effective. These are good times to ask a more experienced advisor for advice.

Ultimately, you'll have to run the negotiation yourself, but it doesn't hurt to get an outside opinion. If you stick with these guidelines, you'll do fine.

Series A specific tips

Make sure the things you care about the most are explicitly addressed in the term sheet, and you understand how leverage declines post-term sheet.

Once you sign the term sheet, you will almost always be bound by a 30-45 day “no shop” or “exclusivity” provision. This means for that period of time, you can only negotiate with the current investor, which increases that investor’s negotiating leverage.

Theoretically, you could wait out the exclusivity period if you run into problems and revive discussions with other investors that you turned down when you signed this term sheet. In reality, though, you're usually viewed as damaged goods at this point. Other investors will always wonder if the deal died because your first choice investor found something wrong in post-term sheet diligence, you were difficult to deal with, or some other unflattering speculative theory.

This all means that whatever is really important to you in this deal — things like board control, how your founder shares will be vested, what veto rights investors will have, etc. — should ideally be spelled out in the term sheet rather than left to the definitive agreements. Refer to the YCA standard term sheet for what you absolutely should make sure is clear up front. Also, make sure any special non-standard things you and the investor have discussed end up in the term sheet.

Remember that Series A terms become precedents for future rounds and use this to drive favorable terms.

Most investors understand these precedent effects, especially Series A investors. For example, let’s say your investor asks for a non-standard term — like a 2x liquidation preference, (i.e. if they invest $10M, they have the right to get $20M back before common stock even sees a dime). That’s ostensibly good for them, but only in the short-term. In the longer-term, this term becomes precedent for the Series B investors to ask for the same thing, but perhaps when they are investing $50M instead. That then makes it actually harder for the Series A investors to get their money back, since now the company would need to clear at least $120M in proceeds ($20M + $50*2) instead of $60M ($10M + $50M). And Series C investors, Series D investors, Series E investors, etc. would ask for the same.

For any term you want to push back on, play out how it may become precedent for future investors to ask for the same thing, and how that might actually hurt the Series A investor later. One of the most effective arguments is to point out that in the longer-term, what they are asking for will come back to haunt both you and them; share that you would prefer to build a structure where both of you benefit in the long-run — especially since almost all of the value in startups is built in that time frame. It’s also a decent test for ascertaining whether your investor really does take the long-term view.

Understand what “market” terms are and use those norms to drive at least a baseline, normal deal.

You can refer to the YC standard term sheet to help with this. Your lawyers are good resources here too. Even if you don’t fully understand what a term is all about, you can always push back by telling the investor that they are “off-market” on their request.

Most investors want to be founder friendly these days; understand how you can work with this.

A lot of times this just comes down to savvy use of specific turns of phrase or ways of framing the discussion that can be effective in boxing investors into a choice between giving you want you want, or denying you and being cast as founder unfriendly. Even just simply saying "Can't you just do the founder friendly thing?" or "This doesn't seem to set us up for a win/win long-term relationship" can sometimes have this effect.

The area in which this can make the most difference is in negotiations over control (board control or investor vetoes) and founder economics (dilution outcomes and founder re-vesting). When it comes to control, it’s usually straightforward to frame the loss of founder control as founder unfriendly - “This seems to take control away from the founders. Why do you want to do that? Don’t you want us running this company? This seems founder unfriendly.”

When it comes to economics, it’s harder, because more dilution or re-vesting for you usually translates to more ownership or security for the investor. But even then, you can still pose pushback in the language of founder unfriendliness. For example - “This would leave me and my co-founders with only X% of the company; in the long-term, it’ll be us building the business, so I don’t understand why you would want us to own this little. I’m not sure how this would be founder friendly?”

Focus negotiation on high level *outcomes***, rather than on specific terms.**

For example, instead of debating various permutations of board structures, such as 3 founders and 2 investors, or 2 founders and 1 investor, or 3 founders and 1 investor and 1 independent, you can focus on the outcome, which is “We would like to make sure that the founders retain board control. Can we agree on that as the outcome and have the lawyers work out the specific details in the term sheet?”

The reason you are better off with this approach is that investors understand how specific terms work together to produce outcomes much better than you do. But if you focus on outcomes instead, you will be on equal footing and speaking in plain terms. Then you can ask the investor to punt mechanics and specifics over to the lawyers to figure out.

Focusing on outcomes also makes it more difficult for the investor to push for certain terms that disadvantage you, because they have to confront the concrete implications head-on and make uncomfortable asks. To use the example above, if you are negotiating over whether founders will retain control over the board, the investor has to communicate clearly to you whether they will grant or deny you that. But if you are negotiating over the specific structure — such as the board being 2 founders and 1 investor instead of 2 founders, 1 investor and 1 independent — the investor doesn’t have to confront the implications of his asks as clearly. Now he can talk about how adding an independent is good governance, and possibly avoid having to talk about how that 2-1-1 structure takes away some founder control since the board will be deadlocked, if the investor and the independent vote differently than the two founders.

If you ever find yourself in a back and forth and don't feel comfortable that you fully understand the implications of the terms being proposed, do not hesitate to (1) bluntly ask what this concretely means for you, in terms of control and economics, i.e. are you losing either/both, and (2) ask for time to talk to your lawyer and co-founder. You don't have to worry about losing credibility or respect by asking "stupid" questions in this context. It's not your job to know how to do these deals well. That's the investor's job. Your job is to know and execute on your business better than anyone else.

Notes:

[1] It's shocking how many people sign legal documents without understanding what those documents actually mean. This is how people end up with unexpected board observers, losing voting control, or taking unexpected dilution.

[2] This isn't exactly true when it comes to corporate raiders, an investor who buys a large number of shares in a corporation whose assets appear to be undervalued.

[3] Despite the best intentions, negotiations can get incredibly heated and parties will sometimes feel wronged. That's unavoidable, but it can be mitigated.

How to choose an investor

You're in the exciting circumstance of having been offered multiple term sheets. (Note that the average company that is ready to raise a Series A gets 1-2 term sheets *at most*.) How do you choose?

Signing on with a Series A lead is the beginning of a 10 year relationship. If all goes well, that's how long your board member will have a say in your company. As such, **optimize for your board member, not vanity metrics, like valuation.**

Figuring out if an investor would be a good board member is similar to deciding whether or not you want to start a company with someone. Meet with her in a social setting. Ask for references - especially back-channel references from founders they funded who failed or who went through difficult times. That way, you can learn how the investor reacts when things go wrong. Founders have told us that they do not look for a "yes" person, but someone they respect and can be honest with.

You can also tell whether an investor is good by how she handles the fundraising process. Good investors tend to decide quickly without waiting for consensus to form. If she chooses to work with you, it will be because she has high conviction and a strong belief in your company's future success. Similarly, if she passes, she will tell you and explain why.

What to expect from your board member

Investors can add value in two additional ways. First, by bringing a strong brand, which helps with press coverage, recruiting talent, and imparting legitimacy to your company. (This is especially useful for closing deals with larger enterprises.) Second, by helping you bring in follow-on investment. Follow-on investors often look to the Series A investor to evaluate the legitimacy of a company. As such, you need your Series A investor to be incredibly and effusively supportive of you the next time you go out to raise money.

We mentioned this when talking about how to prepare for your Series A, but it bears repeating as it is equally as important for raising your Series B. Every investor keeps a list of their top companies in their head. These are the companies they boast about investing in. Because the support of your existing investors is a key signal when raising your next round of funding, we suggest asking your investors 4-6 months before you raise your next round whether they would include your company in the list of top companies they've invested in. If you are on that list, congratulations! Your investors will likely have been talking you up to their network, which builds buzz for your next round of fundraising. If you are not, ask why and figure out how to fix it. It's useful here to also learn who they consider to be the best company in their portfolio, what that company is doing to make them think so, and how you can beat that.

What *not* to expect from your board member

Whatever investors have over you in terms of experience and intelligence, they lack in context about your business. Even board members are at your company once a quarter, which is simply not enough to truly understand what is going on. That's why we advise against letting investors dictate company decisions. Look for "do no harm" investors: investors who want to add a lot of value by intervening can be disruptive. The best investors are experienced enough to know how to keep enough distance. Investors can share their relevant experience in specific areas, such as navigating tricky interpersonal interactions or hiring executives, but remember that the decision ultimately lies in your hands.

It's also important to consider the incentives investors are responding to. Typically, an investor's top priorities, from most to least important, are:

1. Their personal reputation and brand;
2. Their firm's reputation;
3. Their returns and returns to their limited partners;
4. Your company and its success.

Usually all of the priorities align. However, sometimes they don't. It's in those times that you need to be aware of the mechanisms investors have to control your decisions.

What to expect post-term sheet

Post-term sheet diligence

Post-term sheet diligence (aka confirmatory diligence) consists generally of "check the box" style inquiries on both the business and legal side. Confirmatory business diligence may involve things like customer calls, deeper dives into particular key metrics and follow up questions on your operating plan and models. Founder background checks are also a common and routine part of this process. The scope of the check will usually be broader than a typical employment background check, but you are unlikely to notice (it's broader more in terms of data collected rather than the people they speak to).

Confirmatory legal diligence is something you will probably be less ready to deal with if any major issues come up, but fortunately major issues are rare. They generally fall into these categories:

- **Flaws in IP ownership** -- e.g. the company didn't obtain invention assignments from people who wrote code, the founders wrote the prototype on their former employer's laptops or the core technology is in a field that relies heavily on patents (e.g. biotech) and there are existing patents held by other companies that apply to what the company is building.
- **Major litigation** -- e.g. lawsuits that either threaten the viability of the business or would result in very high costs that would eat into too much of the venture dollars being raised.
- **Cap table issues** -- e.g. someone has claims to more ownership, or there are legal defects in how stock was previously issued, which need to be fixed before the investor can invest and be issued shares.
- **Tax problems** -- e.g. founders missed their 83(b) elections, or options were issued below 409A prices.
- **Extraordinarily bad contracts that significantly inhibit the business** -- these have to be really bad to be issues, such as exclusivity arrangements that effectively shrink the company's TAM, or rights for other companies to acquire the business, which effectively limit exit value.

If any of these things jump out at you as issues that you think your company might have, it can be a good idea to talk about them with your lawyers beforehand so you can strategize about the best way to deal with them.

Post-term sheet process and closing

Negotiation of the definitive documents

Expect this to take about 4-5 weeks from the signing the term sheet, if the deal is on a normal pace. If there's urgency to close sooner -- such as the need to make payroll -- be clear with the investor and your lawyers. Deals can close as quickly as a few days from the signing of the term sheet if everyone is aligned on that level of urgency, and the urgency is real.

Safe or note holders - special considerations

Although safes and most convertible notes are generally drafted to automatically convert upon the closing of your Series A round, the investor and/or the investor's lawyers will usually want to all or the vast majority of your safe/note holders to sign the definitive documents before the lead investor closes and wires. It's a form of risk management. If the safe/note holders sign the definitive documents, they've accepted the terms of the round and won't have cause to dispute the terms after the closing. It's hard to make cap table adjustments post-closing if, for example, a safe or note holder disputes how they are being converted into shares.

Practically what this means is that you need to budget at least 3-4 days to send all of the documents out to your safe and note investors to give them time to review and sign the docs, after you finalize the documents with your lead investor. During that time, you may get some questions from these investors, and occasionally you may get specific requests like a safe or note investor asking to be included in going-forward pro-rata or information rights. The right answer to these situations is a case by case decision. The main thing is to be prepared, and to stay focused on getting people to sign expeditiously so you can drive the round to closing. It can be helpful to give safe and note holders some, but not too much information, such as a brief summary of the deal and back up calculations on how their safes and notes were converted (lawyers are helpful here). Most of the time they just want to know that it's a standard deal and that their conversion into shares was handled correctly, as well as how much they will own post-closing.

Hiring people during the middle of the Series A - special considerations

There are two ways in which continued hiring can interact with the fundraising process.

1. **Option issuance** -- as mentioned earlier, once you receive and proceed with the term sheet, your 409A valuation will be viewed as stale, and you will need a new one before you can issue more options (presumably at a higher strike price too). This means you will have to wait until post-closing and the obtainment of a new 409A before you can issue options to people hired during the fundraise.
2. **Series A option pool** -- most term sheets will have language that says something like "the available and unpromised option pool will represent 10% of the post-Closing capitalization." Technically, once you hire someone during the fundraise, you have now given out a promise for options (under their offer letter). The key is to make sure that anyone hired after the term sheet is signed does NOT count against the 10% "unpromised" number. Otherwise, you will be taking even more dilution from the pool -- 10% for everyone you hire after the closing, PLUS some additional percentage for the people you hired in between the term sheet and the closing. Make sure you and your lawyers are taking the position that the "promised" portion only applies to pre-term sheet options and hires.

Dealing with re-trades

A "re-trade" occurs when the investor promised you one thing in the term sheet, but starts asking for something different in the definitive documents. This can range from asking for different or additional rights, to actually changing the economics of the deal, including the valuation. It doesn't happen often, since investors always incur some cost to their relationship with the founder and to their reputation when it does, but this also has something to do with today's capital environment and the pendulum swinging towards founders. In different environments, this was far more common, and just something founders had to slog through; if the environment changes again, be on guard against the possibility.

If a re-trade does happen:

- Call out the investor on the re-trade. Make it clear that they are going to incur a cost. Sometimes that's enough to get someone to back off.
- Let us know. Being part of the YC network is oftentimes a cheat code, and it can be here, because the cost of the re-trade is now magnified.
- Weigh your other options. If you had other term sheets before you signed this one, now may be a time to consider reaching back out if the re-trade is significant enough. But keep in mind the explanation for the re-trade must not reflect poorly on you (i.e. it hurts you to do this if the reason for the re-trade is that the investor perceived greater risk to the company after further diligence). Know when the exclusivity period expires and confirm with your lawyer when you can reach back out to other investors, and what you can tell them in the meantime.
- Consider whether there's anything you could re-trade on as well. Despite the unpleasantness of the situation, a decent practical outcome could be a different deal than the one originally envisioned, but which nevertheless still works for you.

Signing, wires, new board, new company

Once all of the diligence and definitive documents negotiation is complete, you and everyone else will submit signatures and funds will arrive. At that moment, if your investor joined the board as part of the deal, their tenure will begin. The cap table will legally become what was negotiated, and all of the rights and terms that were negotiated will go into effect immediately. The point is that at the closing, the balance sheet is not the only thing that undergoes dramatic change; the company itself is now different, and will run differently than before.

Post-closing administrative items to remember to kick-off

New 409A

Engage your 409A firm to update the 409A as soon as you've closed. This way you will maximize the window of time you have to issue options under the new 409A valuation.

New board meeting cadence

Your new board member(s) will want to set up a cadence for regular board meetings. The minimum cadence is usually one board meeting per quarter, but it's not uncommon to see something more frequently like once every 4-6 weeks, at least in the period of time between the Series A and B.

Securities filings and press implications

This one is very non-obvious, but can pay a lot of dividends to be aware of. When you close a financing, the company is legally required to file notices of the financing (a notification that securities were issued) with either federal authorities (the SEC) or state authorities (e.g. California Department of Corporations).

The choice matters. Federal SEC filings are monitored by a host of services, which automatically parse the information to break news of company financings. If you make the federal filing -- what's known as the Form D -- you are basically also publicly announcing your round. But you ideally want to control the announcement, so if you're fine with announcing within 15 days of closing (that's the deadline for the Form D filing), then announce to the press and then make the filing.

If however you would rather stay stealth, or defer the announcement for a while, then the state filing is the better choice from a press coverage perspective. Technically, it is not as good from a legal standpoint, for reasons that are a bit too wonky to discuss here (you can always ask your lawyer). But the punchline is that if your Series A consists entirely or mostly of real institutional investors, there's very little difference between a federal or state filing (from a compliance standpoint).

Insurance

It's best practice to obtain general commercial, errors & omissions and D&O insurance following the Series A closing, if you haven't obtained them already. Talk to your broker about what the appropriate limits would be, and also check with your investor. Some term sheets or deals will require minimum levels of coverage for these policies.

Venture debt

A good way to augment your Series A raise is through venture debt. Founders have described it to us as "basically free, non-dilutive money" (subject, of course, to the terms of your loan). However, venture debt comes with its own risks. In this section, we outline what venture debt is, when it makes sense for your company, how to obtain it, and what to watch out for.

A typical venture debt deal, at a high level, consists of the following:

- A line of credit or term loan for $X amount of dollars, which is debt, with an associated interest rate
- That debt is secured by the assets of the company, sometimes including the IP (a friendlier deal is one that only requires a "negative pledge" of IP, which means you won't pledge the IP as collateral to anyone else)
- Some upfront costs or payments associated with getting the facility in place
- Warrant coverage that on a dollar basis represents 0.5-1.5% of the total amount being loaned to you (e.g. if you are getting $10M in venture debt, then warrant coverage of $100K would be in the normal range). This will be higher if you are getting either a much better interest rate pricing on the loan, a higher than normal loan amount or some other favorable terms elsewhere in the deal

- Covenants that you must abide by, including certain financial ratios
- Moving over primary banking to the venture debt lender, if they have a banking arm (e.g. SVB, PacWest, Comerica, etc.)

The best time to secure venture debt is as soon as you raise your A, for a couple of reasons:

1. It maximizes the size of the facility you can obtain. Venture debt lenders typically offer facilities representing 20-25% of the venture equity dollars you have in the bank.
2. You will have the greatest amount of negotiating leverage at this point. Everything is great, your Series A investor is excited and you don't need the money, which is of course typically the easiest time to raise more.

But before diving in, make sure you understand a few things first.

Venture debt is great for financing working capital or operating leverage; it is typically a poor choice for extending runway (i.e. financing headcount, op-ex, etc.).

If you're drawing down on the debt in order to finance the former, you're largely smoothing cash flow or levering unit economics that work. The risk of defaulting should theoretically be low, and the lender should also be comfortable letting you draw on the facility in the first place.

On the other hand, if you're just trying to extend runway, then you are essentially reliant on raising a subsequent venture round in order to repay the debt you've drawn on. That can work out sometimes, but it can also go disastrously wrong. Make sure you understand that you are taking on some risk of a game over scenario if you do this, and that you are very confident that you will be able to raise a subsequent round.

For example, if your subsequent fundraise starts taking longer than you had planned, or looks troubled, the lender may opt to declare default and accelerate repayment (usually there are various triggers in the terms that the lender can look to when the situation is this insecure). If you don't have the cash on hand to repay, the company will die, with the lender foreclosing on the collateral in order to recover capital. Whenever you hear founders express regret about taking on venture debt, this is almost always the reason why.

This all assumes that the lender even let you draw on the line to extend runway in the first place, and they simply may refuse to let you if they don't feel very comfortable in your ability to raise the next round. They will reserve for themselves "outs" in the credit agreements to ensure they can refuse to fund if they determine it's too risky.

Identify what type of debt facility you want -- a revolving line of credit or a term loan -- and make sure you plan around it accordingly.

A revolving line of credit is what it sounds like. You can borrow and repay repeatedly for a length of time, subject to a maximum limit that can be outstanding at any given time. For example, you might have a $5 million revolving line of credit for a span of 24 months. During that time, you could theoretically borrow $5 million, repay that plus interest from a mix of revenues and equity capital, borrow $5 million again, repay that plus interest again, and so on and so forth.

On the other hand, a term loan is a defined amount you are borrowing. It can be split into one or multiple tranches. Sometimes the tranches will be available for only certain periods of time. For example, you may have a term loan where the first tranche is for $5 million and a second tranche that's for $2 million. The first tranche is available for 24 months but the second tranche is available only for the first 12 months (staggering this is a way for the lender to manage risk, since the company is more likely to have more venture dollars that it can use to de-lever in the first 12 months as opposed to the last 12 months). Term loans can also mandate draw down, i.e. you are *required* to borrow some amount of money by X date, which ensures that the lender gets paid some minimum interest they are looking for to make this worth their while.

Facilities will also have an amortization schedule on outstanding amounts, which specify when you are making interest-only payments, and when you are actually paying down the principal. You need to pay attention here so that the duration of the loans and the repayment / amortization schedule is matched to the expected inflow of capital to the company, whether it be in the form of revenues, further equity investments, or both.

Run a process and try to get multiple term sheets.

This is MUCH easier to do than an equity raise. Debt capital is basically a commodity and most venture debt lenders are just looking to place their loans with startups backed by well-resourced VCs (who can bail out the company and help pay back the venture debt), and hope to make a bit more than normal interest rate pricing by (1) obtaining the banking relationship (e.g. SVB) and/or (2) obtaining the economic kicker from the warrant coverage. It's not that difficult to get a few term sheets from various venture debt lenders, compare terms and pricing and pick one from there.

The diligence process will involve sharing financials, metrics and other materials that you probably already had to share with your Series A investor. They will also want to talk to your Series A investor to get a sense of how bullish they are on you. All told, this will probably take 1-2 months from start to finish, but it will generally be less distracting than your Series A financing.

Watch for and understand two key terms - the MAC clause and the Investor Support clause.

These are both clauses that act as event of default triggers, i.e. if one or both of these clauses are triggered, the lender has the right to demand repayment in full (plus interest) immediately. An event of default is typically deadly for an early stage startup, so you can basically think of these as triggers that can kill your company.

The MAC clause - the "material adverse change" - is a clause that basically means "something bad happened to the company." The lender will naturally want to make this as broad as possible; your and your lawyer's job is to try and keep it as narrow and specific as possible. Failing that, you at least want to understand what's covered, so you can proactively manage to avoid triggering this.

The Investor Support clause is a clause that generally goes something like, "If the lender determines in its sole discretion that the Company's investors will no longer financially support the Company, the lender may declare an Event of Default." In plain English, it means that if the lender thinks your Series

A investor has triaged you and won't step up to further fund you, then they can declare default, yank further funding and demand immediate repayment. Here, what you want to do is try and remove the lender's discretion to make the determination that your Series A investor is not going to support the company anymore. A common approach is to make this a double trigger by adding an objective element to this, which is the resignation of the Series A director from the board (in addition to the lender making a determination that the investor will no longer support the company). The reason the director resignation makes sense as an objective element is that venture investors do in fact resign when things have become unrecoverable, in order to avoid any exposure to fiduciary duty liabilities by serving on the board of a company that is about to die.

In closing

Venture debt can be great, if used for the right reasons and deliberately managed to complement clear objectives and a solid operating plan. Just keep in mind that the lender has a much different risk profile than your Series A investor. They are focused on minimizing the risk of capital loss, while your Series A investor is happy to lose all of their money on low probability swings if the outcome of a successful swing is large enough. These observations may seem painfully obvious, but they also explain 99% of the behavior of these two types of capital providers in situations where they act differently. It's in those times when adding a venture debt lender to the company ends up looking like a bad decision in hindsight, or at least a significant complexifier. So understanding the divide and different needs of these two types of capital providers early on can help you avoid tricky situations in the first place.

After the A

If you've succeeded in raising an A, there's one final challenge: remembering that raising money isn't the goal. While it is true that raising an A is a significant milestone in the life of a successful startup, it is just that, a milestone. Milestones don't tell you what to do, or if you did it right. They just tell you that you've moved along a bit.

The money you raise during an A isn't success, it is a tool. Tools can be used to build great things or tear them down.

Some founders use their A as an excuse to ramp burn before they have product market fit. They usually crash their companies. Some founders lose sight of the fact that they, and not their fancy new investor, run the company and are responsible for their own decisions. These founders often get fired. There are quite a lot of ways to fail after raising an A. However, there are also clear ways to succeed.

The founders that succeed don't rest after raising an A, they start planning for their B. They form a clear plan of what they need to grow well: who they need to hire, what they need to build, how to manage their new board, and how to grow themselves. These founders see the path from their current milestone all the way to their IPO. We've already started working on codifying the lessons that help founders do that well. We look forward to sharing them.

Acknowledgements

Thank You to:

- All of the YC Series A companies that we’ve worked with over the years - the knowledge in this guide comes from our experiences with you!
- All the YC partners - the advice in this guide was gleaned from the advice you’ve given to founders: during pitch practice and office hours, in frantic texts and long email chains.
- Michael Seibel and Adora Cheung for reading early drafts of this and providing feedback.
- Jared Friedman for help with many, many data requests.
- Jason Kwon for writing most of the “Closing” section of the guide and Carolynn Levy, Jon Levy, and Nicole Cadman for their feedback on the standard Series A term sheet.
- Uri Lopatin for his contributions to our advice on biotech companies.
- Zain Ali for helping to design the layout of the guide.
- Casey Muller and Matt Long for coding the infrastructure necessary to host this guide on this website.
- Nic Dardenne, Sachin Patel and Matt Bogrand for helping to compile the list of metrics by vertical and Series A comparative benchmarks.

All illustrations are by Sylvie Leveiller (sylvieleveiller.com).