You’ve done your seed round. A year later the end of the runway isn’t far away and it is time for another raise.

Though the mechanics of raising a Series A round are quite similar to a seed round, there are some critical differences that you need to be aware of.

The goal of this guide is to help you understand and navigate the nuances of raising a Series A.

This is not meant to be an exhaustive guide of fundraising best practices – we know you already know how to raise money successfully. Instead, we want to make sure you understand how this raise is different and are prepared to handle those differences.
1. Planning for the fundraise
2. Pitching investors
3. Setting up diligence
4. Negotiating deal terms
5. Post-closing considerations
Planning for a Series A is not different from a seed, but you need to be clear on what the requirements are for the raise and your own needs.

- **a.** Are you ready to raise a Series A? Should you raise a bridge instead?
- **b.** When is the right time to kick-off the raise?
- **c.** How much do you fundraise?
- **d.** Who are you talking to? And how do you do investor due diligence?
- **e.** What does the process look like?
- **f.** Who should run point on the process?
Are you ready to raise a Series A? (I/II)

Seed

Investors need to believe you are on the path to establishing strong product/market fit.

This means having core elements in place:

- Proof of a sizeable addressable market
- Clear articulation of value proposition
- Strong, well-suited team
- Attractive unit economics at scale
- Feasible strategy for acquiring customers
- Customer validation in market
- Concrete milestones for product/market fit

Show strong understanding of market dynamics, customer needs, and focus/prioritization.

Series A

Investors need to believe you are ready to hit the gas and scale. Show demonstrated growth in key metrics such as revenue, profit, and or users. The focus is on business acceleration and not proof of concept.

This means having proven out:

- Product/market fit
- Healthy unit economics and a strong understanding of CAC / LTV (this will be a main driver of future rounds, so it’s important that you’re tracking this)
- Team’s ability to execute (critical roles should be filled)
- Concrete milestones for growth (these must be aligned to fundraising amount)
- Clear path to scale product
- Acquisition strategy

Otherwise, consider raising a smaller bridge round instead to:

- Allow more runway to prove out your model e.g. considering a pivot
- Meet imminent milestones that can lead to higher valuation in the Series A and ultimately less dilution e.g. launching a new product, testing another market segment
Are you ready to raise a Series A? (II/II)

VilCap’s VIRAL framework is a good tool to help you think about what stage your company is (do not panic – it is exhaustive, but treat it as a framework!)

<table>
<thead>
<tr>
<th>Level</th>
<th>Name</th>
<th>Problem and Vision</th>
<th>Value Prop</th>
<th>Product</th>
<th>Market</th>
<th>Business Model</th>
<th>Scale</th>
<th>Exit</th>
<th>Type of funding typically closed at this level</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Hitting Product-Market Fit</td>
<td>C-suite as good or better than found CEO and can stay with company through its growth and exit phases.</td>
<td>Impact is successfully validated.</td>
<td>Majority of first sales in target market are inbound.</td>
<td>Product is built for scale and additional offerings in progress.</td>
<td>Sales cycles meet or exceed industry standards.</td>
<td>Business model validated: Validation of strong unit economics.</td>
<td>Evidence of strong unit economics across multiple markets.</td>
<td>Team has strong relationships with multiple acquirers.</td>
<td></td>
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<tr>
<td>6</td>
<td>Moving Beyond Early Adopters</td>
<td>Team has proven sales, product dev. skills, and management ability to support a growing team for scale.</td>
<td>Sales validate impact tied to solution scales.</td>
<td>Sales beyond initial targets - customers love it and are referring the product to others.</td>
<td>Complete product with strong user experience feedback.</td>
<td>Sales begin to map to projections. Evidence of decreasing CAC with growing customer base building at target price.</td>
<td>Company has cleared regulatory challenges and (if applicable) is implementing a strong IP strategy.</td>
<td>Team has identified specific acquirer(s) or other exit environment.</td>
<td></td>
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<tr>
<td>5</td>
<td>Proving a Profitable Business Model</td>
<td>Team has clear value understanding and strategy.</td>
<td>Evidence of impact to sales - the company has evidence that by growing the business, company solves the problem.</td>
<td>Target customers love the product and want to keep using it.</td>
<td>Fully functional prototypes with strategic partners to capture their market share/capture the competition.</td>
<td>Financial model with evidence of valid projections to reach positive unit economics.</td>
<td>Vision and initial evidence of positive unit economics in two markets.</td>
<td>Inbound interest from large strategies.</td>
<td>Close Round with Angel and Early VC</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Validating an Investable Market</td>
<td>Team has clear understanding of how their target market operates and has strong industry contacts in this market.</td>
<td>The company can articulate why they’re the best ones to solve this problem.</td>
<td>Evidence of differentiation through initial target customer feedback that the solution solves their problem significantly better than others in the market.</td>
<td>Team has clear understanding of product development costs and how to build the initial product effectively.</td>
<td>Evidence of $18+ total addressable market.</td>
<td>Team has financial model with cost and revenue projections articulated and a strategy for hitting these projections.</td>
<td>Initial evidence that multiple types of customers find value in the solution or in an extension of the product that the company is well-positioned to develop.</td>
<td>Evidence of growth trajectory that could lead to IPO, acquisition, or self liquidating exit.</td>
<td></td>
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<tr>
<td>3</td>
<td>Solidifying the Value Proposition</td>
<td>Team has technical ability to build fully functional product and has clear understanding of the value chain and cost structure in their industry.</td>
<td>The company can articulate why they’re the best ones to solve this problem.</td>
<td>Evidence that customers will pay the target price. For B2C - 100 customers, for B2B - 5 customers and conversations with multiple stakeholders each.</td>
<td>Team has built a working prototype and a product roadmap.</td>
<td>Initial evidence: no new customers, team can capture initial target market.</td>
<td>Team can articulate projected costs along the value chain and target cost points to reach positive unit economics.</td>
<td>Initial evidence that the company already solves the problem better than any incumbents.</td>
<td>Friends and Family, BootStrap Grants for R&amp;D (Hardware)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Setting the Vision</td>
<td>Team has senior members with lived experience of the problem and a deep understanding of their target customer’s problem.</td>
<td>The team can solve the problem and can articulate its vision at scale – what does the world look like if they succeed?</td>
<td>The team has potential customers who provide evidence that solution solves key pain point - product is a painkiller, not Vitamin.</td>
<td>Team has built a working prototype and a product roadmap.</td>
<td>Initial evidence: no new customers, team can capture initial target market.</td>
<td>Team can articulate the problem and has a strategy to overcome them.</td>
<td>Company can point to pricing and business models of similar products in the industry as further evidence that their revenue assumptions hold.</td>
<td>Vision for growth has company solving a large piece of the global problem in 30 years.</td>
<td></td>
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<tr>
<td>1</td>
<td>Establishing the Founding Team</td>
<td>Strong founding team - at least 2 people with differentiated skills.</td>
<td>The team has identified a specific hypothesis of their target customer’s problem.</td>
<td>The team has identified a specific hypothesis of their target customer’s problem.</td>
<td>The team has ability to develop a low-fidelity prototype and has not blocked by other patents.</td>
<td>Team can clearly articulate a to-scale addressable market, freedom to operate, and initial target market.</td>
<td>Team has identified an outline of reasonable model.</td>
<td>Team has identified all possible markets or customer segments and has an aspiration to scale.</td>
<td>Team understands what an exit is and has a vision for how they will ultimately provide a return for their investors.</td>
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Source: VilCap VIRAL Framework
When is the right time to kick-off the raise?

Start planning early, at least 6 months before you need money. Series A rounds generally feature institutional investors who may take longer and may be more demanding than seed-stage investors. Meanwhile you will have a fast-growing, full-blown business to run.
How much should you fundraise for your Series A?

Rule of thumb is to start by defining milestones and work backwards from there to determine how much you should fundraise.

Common mistakes include:

- **Raising too much:** We understand the temptation of giving yourself a long runway and not having to worry about fundraising. Aside from the obvious dilution consideration, a long runway can at times remove the pressure to perform – knowing there is an end can keep you and your teams motivated.

- **Raising too little:** You want to give yourself enough times to reach the milestones you need to reach an inflection point in the value of your business. Otherwise, you risk an unsuccessful Series B raise and end up spending more time fundraising than on your company.

- **Not building buffer for the fundraise:** You need to make sure you have enough to bankroll your company during your next fundraise as well. Remember, fundraises can take more time than expected, so make sure that account for this in your budget; the last thing you want is to run out of cash before you close your round.

* Some recommend raising enough for 18-24 months of runway, but this isn’t always the case.
How do you find investors? (I/III)

“Spray and pray” strategies do not work. Strive for quality, not quantity:

- Use Google, LinkedIn, CrunchBase, AngelList, GIIN, and other online resources to identify investors who are a good fit
- Talk with other companies in the industry
- Know the pet theories of your shortlisted investors

Leverage your existing investors: they can contribute to your Series A and introduce you to other investors

- Ask for introductions. A personal intro is always better than a cold call.
- If not, get the word out any way you can. Tell your network. Go to events. Unlikely connections can lead to investors.
- If you must cold call, make your email concise, personal, and polite. Your goal with the cold call is to get their attention, not their signature.

How do you find investors? (II/III)

Make sure you understand the role of a lead investor:

- A lead investor sets the price and terms of the investment, takes a large part of the round, and usually represents the round on the board

Identify potential lead investors:

1. Ask current investors and any follow investors. If they say no, understand why
2. Seek introductions to potential leads by current investors and any follow on investors
3. Look for Series A investors who invest in round-relevant ranges
4. Target investors who know your market, geography and/or sector
5. Identify investors who typically lead
6. Find investors who add value and bring a strong reputation. Multiple investors can help drive your negotiation power (though be cautious not to have too many that it discourages others from investing)
How do you find investors? (III/III)

You should do your own set of investor diligence, which requires knowing what to consider when evaluating a potential investor:

- What combination of investors do you want, i.e. strategic, impact investors, angels, institutional? Local vs. global?
- Does the investor have a good track record?
- Do you have a good rapport with the individual championing your deal? What about juniors at the fund (you’ll be interacting with them in a day-to-day)?
- Do they invest in Series A rounds and beyond?
- Can they do follow-on investments?
- Do they still have room for investments?
- Do they invest in your geography / sector?
- How long is their investment process? (then add 3 months)
- Can they lead?
- Do they co-invest?
- What can they add besides money (PR, technical expertise, network, market experience, etc…)?

Splitting a round between multiple investors can enable you to maximize the distinct, non-monetary benefits of each investor.
How do you prepare for the Series A kickoff?

3 things a CEO should do before launching its Series A raise:

1. **Engage investors:**
   - Balance **low-touch vs. high-touch engagement** methods
   - **Send a monthly “investor update”** (a couple of bullets under “the good”, “the bad”, and “the ugly” can do the trick!) to keep investors warm before kicking off your fundraise

2. **Communicate (carefully) with your company about your fundraising plans:**
   - Discuss your Series A at a high-level, but **don’t commit to specifics**, such as timing, pricing, or valuation.
   - Give yourself enough wiggle room on the details, so you can navigate the unexpected.

5. **Position your company to over-deliver on expectations:**
   - **Establish key metrics** and future milestones that are ambitious, but realistic
   - Series A investors are looking to invest in growth, so don’t lose sight of the bigger picture - you’ll only have a successful Series A if you **position your company for long-term growth and profitability**
Who should run point on contact with investors?

You need to embrace the fact that **fundraising is a core part of your job as the CEO**

- The CEO is leader of the company and will drive the company’s success
- A CEO who can tell the story of the company well to investors will do the same with others (employees, customers, partners, regulators)
- Raising can help change your thinking, adjust your positioning, or learn about other markets
- Investors are betting on **you** as a leader

**There is minimal incremental value to getting bankers involved for seed/Series A raises**

- Although bankers can be helpful to get you in front of people beyond your network, investors want to deal with you and your team
- Series A is still incredibly early, and investors are ultimately **betting on the team**
- To get beyond your network, **leverage your existing investors** as much as possible. Chances are they have existing relationships with most of the people you are trying to access.
What you are pitching looks very different at the seed round and Series A. During a seed round, you are pitching a vision. Series A investors are looking for more.

2a What is the **story** you want to tell? e.g. vision, performance, team, use of funds, etc.

2b How do you communicate **sticky situations**? e.g. investors not following on

2c What **materials** do you need?
What is the story you want to tell?

At the seed stage, pitching is about selling a vision. Pitching in the Series A requires more than just vision:

- **Progress**: Need to be clear about what the company has done to date e.g. partnerships created, technology development, etc.
- **Financial Performance**: Emphasize traction to date, especially relative to key operational metrics such as customer acquisition costs, and positive unit economics (or that you are on the path to it)
- **Team**: Critical roles should be filled, but you should show your plan for filling mid-level management positions.
- **Use of funds**: Need to share clearly defined milestones to scale up your business

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<thead>
<tr>
<th></th>
<th>Seed</th>
<th>Series A</th>
<th>Series B</th>
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<tbody>
<tr>
<td><strong>Vision</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Performance/Traction</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Projections post raise</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Scale</strong></td>
<td>N/A</td>
<td></td>
<td></td>
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<tr>
<td><strong>Competitive differentiation</strong></td>
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<tr>
<td><strong>Exit Thesis</strong></td>
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</table>

Remember Series A investors need to believe that you are ready to scale
How do you communicate sticky situations?

When it comes to fundraising, everyone has questions and there may be some questions where your positioning matters. Here is how to think about 3 common “sticky” situations:

**Situation #1: Funders from previous rounds are not following on in your Series A**
- Be direct about this and the reasons why, e.g. stage, focus, relationship-driven
- What you tell potential investors must be aligned to what past investors will say
- Point to other investors who are following on

**Situation #2: Core team members have departed**
- Be comfortable with talking about why and keep this high-level, e.g. performance-related, relationship-driven, other opportunity, etc
- Show that you’ve hired or identified a strong replacement

**Situation #3: You have made significant business model pivots or changes**
- Be upfront about this – it should not be framed as a problem
- Explain learnings and highlight how this is better, e.g. drives growth and profitability
- Share traction to date
What materials do you need? (I/II)

We suggest having both a teaser and pitch deck for pitching purposes:

1. Teaser
   - Concise, compelling overview of your company and needs
   - Use this when investors have little previous knowledge of you to give them a quick preview before diving into details
   - 5-10 slides, PPT or PDF; can also be a 2-3 page document

2. Pitch deck
   - Supporting document and reference guide that touches on all the variables that are key to your company’s success and significant to investors’ decision-making
   - Used for live pitches, on calls, and as post-pitch reference
   - 10-20 slides, PPT or PDF
## Sample pitch deck components

1. **Your Company** (3-5 slides)
   - The **problem** your product solves (pain point)
   - Your **solution** to the problem (product)
   - How your product makes money (**revenue model**)

2. **Market** (2-3 slides)
   - The **market** for this product
   - The **competition** you face and how you will respond to it

3. **Status** (3-5 slides)
   - Historical **growth/traction**
   - Secured **partnerships**
   - **Unit economics**

4. **Other** (2-3 slides)
   - Your **team**
   - The **deal** you’re seeking
   - What you will **use** the funds for
   - 3-5 year **financial projections**

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**Being clear and explicit about what you have done is critical in a Series A Pitching**

**For your teaser deck:**
- Content is very similar
- Key difference is that teaser has less details on financials (both current and projected)
3. Diligence: Key questions to consider

Series A investors typically consider a deeper diligence simply because there is a lot more to diligence.

3a What to include in your data room? And, how to organize it?

3b How to prepare for in-person diligence?

If investors who you’ve pitched to decide not to invest, schedule a call to get their honest feedback – was their decision due to mandate fit, stage, unit economics, etc…? Use their feedback to guide future pitches and assess whether to approach them for your next fundraise.
What to include in your data room?

A data room is an easy, secure way to store, share, and control access to your materials.

- Premium data room services exist, but we recommend using a free alternative while you're still a small company e.g. DropBox, GoogleDrive, Box
- Some investors have different approaches to sharing information, so make sure to ask about the fund’s NDA policy

Broadly, we see data room organized in 6 broad folders:

1. **Business fundamentals** (e.g., pitch deck, demos, operational dashboards, details on tech roadmap, customer pipeline, marketing)
2. **Legal documents** (e.g., Article of Incorporation, Corporate Bylaws, past investment docs)
3. **Capitalization** (e.g., cap table on a fully converted/diluted basis and term sheets of current (if available) and past rounds)
4. **Financials** (e.g., historical monthly financial performance; income statement, P&L, balance sheets; financial projections)
5. **External agreements** (e.g., partnership agreements, Intellectual Property)
6. **Org chart and future hiring plans**
How to prepare for in-person diligence?

Series A investors typically conduct in-person diligence and like to do site visits to meet with your team, customers, and partners.

• Prior to the on-site visit, **investors typically communicate key goals of the diligence** and key stakeholders with whom they would like to meet
  – If they do not, ask them explicitly to make best use of your time together
  – Often, investors will want to meet team members beyond C-suite so be prepared for that and make sure to communicate with your team

• Seek to **make site visits as easy as possible** for your investors
  – Set up meetings and create a clear schedule for your investors to follow during their site visits
  – Site visits are an important opportunity to get to know your investors and build rapport so be sure to include more unstructured time e.g. lunch

• Recognize that site visits are an **opportunity to diligence potential investors**
  – Do not be afraid to challenge them - your ability to push back can be a strength
  – Use the time to see if they are a professional and/or personal fit
  – Learn more about their vision
4. Negotiations: Key questions to consider

Series A rounds, unlike seed rounds, are priced so negotiations can look very different than what you are accustomed to.

4a How to think about valuation?

4b What are key terms you need to consider in a Series A term sheet? Where should you push and where should you give?
How to think about valuation?

• At the Series A stage, priced equity – not convertible debt – is the norm and you will need to settle on an exact valuation

• Build cap table, including conversion of convertible note and ESOP

• Typically, at this stage we see founders give up 10-30% of their company

• You can further refine this valuation estimate by adopting the same methods that investors do:
  – **Discounted Cash Flow analysis**: Perform a discounted cash flow analysis. This is also helpful to do in advance because the financial projections you share with investors should tie with the valuation you are proposing.
  – **Comparables analysis**: Look at valuations of comps in the market. It can also be helpful to share comps with investors to anchor the valuation and give you greater control.
  – **Discounted exit value**: Look at returns of investment in the sector and use exit multiples to determine a terminal value for the company. Examples of multiples to use include loan book size, # of users, revenue, EBIDTA

• Always keep your Series B in mind – a higher valuation is not always better and can lead to down rounds in the future

Be confident and don't undervalue yourself, but don't propose a valuation that makes investors question you
What are the key terms to consider?

**Overall guidance**: Push on terms that will impact your day-to-day operations
- Often, entrepreneurs worry about one-off control rights such as veto rights
- Realistically, those rights are rarely exercised and make little difference
- Pick your battles when negotiating term sheets
- Focus most on C-suite operations, e.g. creating a subsidiary, reporting, appointing directors, etc…

Other key terms to consider in term sheets include:

- **ESOP**:
  - Most Series A companies create pools of 10-20% of outstanding stock for key executives (founders should not be included in this pool).
  - Make sure to ask if ESOP is issued before or after Series A.
  - In later rounds, companies will need to expand the pool.
    - For example, in Series B companies add another 5-10% and companies in Series C and later tend to add 1-2% each year.

- **Governance (board representation)**:
  - At Series A, a 5 person board is a good size
  - You need to think carefully about the composition of your board (see next slide)
  - It is often helpful to have a variety of players at the table (e.g. impact and strategic, independent advisors, etc.) who complement your skills.
  - *Do not just choose board members who you get along well with – your board is there to challenge you and keep you accountable.*
5. Post closing: Key questions to consider (I/II)

After closing the fund, there are a number of governance issues to consider:

• **What is the role of your board?**
  - Will handle corporate governance, including issuing stock, setting up a stock option plan, authorizing a fundraise, or getting loans
  - Making critical discussions and decisions for the company, like whether to raise money, enter into strategic partnerships, budget approval, or hire / fire senior management

• **How do you transition your board?**
  - At Series A, board composition typically includes co-founder(s), lead seed investor, Series A lead investor, and an independent
  - Consider offering a board observer seat to a valued investor, but do not dish out board observer seats lightly and make sure he/she is a silent observer
  - Set a culture of mutual trust, respect, and commitment from the get-go

• **How do you recruit independent board members?**
  - Identify someone who has industry knowledge and valuable contacts
  - Avoid people with strong loyalty or history with Board members
  - Equity amount given depends on stage
5. Post closing: Key questions to consider (II/II)

- How do you recruit **advisors**?
  - Think about what you might need in the next few years - you can always add advisors, but you shouldn’t drop them, so make sure it’s a fit
  - Make a list of the categories you could use help in – and then make a list of people who are experts in those areas
  - Consider giving them equity – the amount depends on what stage your company is in

- **What should you leverage your board for?**
  - Mentorship, advice and guidance
  - Industry influence
  - Future investment
  - Connections to other investors, partners, or ecosystem stakeholders
Resources (I/II)

• **Venture Deals** – A comprehensive but readable book on understanding venture term sheets.

• **Sequoia Grove** – A practical resource spanning topics from “developing a business plan” to “to sell or not to sell”

• **Ask The VC** – From the writers of *Venture Deals*, a blog in which professional VCs answer questions from founders.

• **How to Raise a Successful VC Round or Series A** – Advice specific to the Series A round from the perspective of an entrepreneur who successfully raised a Series A

• **What does it take to get a Series A Funding?** – Insights from an early-stage financial services firm

• **How to Present to Investors** – Concise guide to pitching. If you only read one piece on pitching, read this.

• **Lessons from a Study of Perfect Pitch Decks** – A quantitative approach to determining pitch deck best practices

• **Pitchenvy: A gallery of startup pitch decks**

• **Startup Viagra: How to Pitch a VC** – A humorous but not inaccurate guide from Dave McClure, a prominent VC
The blogs of prominent VCs can be great regular sources of insight into the fundraising process. Here are some of the best:

- Sam Altman
- Fred Wilson
- Brad Feld
- Aaron Harris
- Andy Weissman
- Chris Dixon
- Bill Gurley
- Paige Craig
- Paul Graham
- Mark Andreessen
- First Round Review
- Board Best Practices
- ESOPs: Overview and Best Practices
Investing in individuals.
Improving our world.