Raise Millions

The ultimate guide to fundraising for first-time founders

BY HUSTLE FUND VC

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CHAPTER ONE

Introduction

In the past, raising money for a startup was reserved for an “elite” group of people. If you weren’t born into a family of entrepreneurs, or grew up in an area like Silicon Valley, you would have had no idea how to raise money. This meant the “elite” group of people were the only ones with the opportunity to fundraise and build billion-dollar companies, while everyone else had to struggle to figure things out.

Well, not anymore.

We wrote this book to bring transparency to the world of fundraising. So whether you’re a solo founder from India, a small team in Argentina, or a fresh college graduate from Minnesota, you’ll learn how we’ve helped thousands of first-time founders raise millions of dollars.

Who is Hustle Fund?

My name is Tam and I'm one of the writers at Hustle Fund, a venture capital firm that invests in pre-seed software startups. Our mission is to democratize wealth through startups by catalyzing capital, knowledge, and networks in startup ecosystems globally.

Our team is made up of founders, operators, and investors. We've invested in 500 (as of January 2023) companies thanks to a deals team that reviews 1,000 pitch decks every month. On a personal level, I've been writing about fundraising every week for two years to thousands of entrepreneurs via our newsletter, The Founder Playbook.

We've been on both sides of the table – raising money as entrepreneurs and investing in talented founders – so we know a thing or two about raising capital. The people who taught me everything I know about fundraising are the co-founders and general partners (GPs) of Hustle Fund, whom I'm honored to introduce below.

Eric Bahn (left) founded an education company called Beat the GMAT, which was acquired in 2012. He later became a partner at 500 Startups and a Product Manager at Instagram. His mom is still disappointed that he's not a doctor. Eric is also weirdly obsessed with minivans.

Elizabeth Yin (middle) co-founded and ran an ad-tech company called LaunchBit that was acquired in 2014. She later became a partner at 500 Startups where she invested in seed-stage companies and ran the Mountain View accelerator. Elizabeth loves hippos and roller coasters.

Shiyan Koh (right) worked as a Senior Investment Associate for Bridgewater Associates. She later became the VP of Business Operations and Corporate Development at NerdWallet (employee #10), a consumer finance business that she helped scale from 10 to 450 employees. Shiyan loves factoids and weird humans.

They're three of the sharpest people that I've ever met. I'll be using their names throughout the book. So if you see the names "Eric", "Elizabeth", or "Shiyan", just know that I'm referring to one of our super smart GPs.

This book is educational and actionable

The number one thing we believe is that **great founders can look like anyone and come from anywhere**. Based on circumstances beyond their control, many entrepreneurs are missing the tactical knowledge to build an investor network and raise money.

This book will dive deep into practical questions like:

- Should I raise from angel investors or venture capitalists?
- What do all the fundraising stages mean?
- What do equity, SAFEs, and dilution mean?
- How do I determine my startup's valuation?
- Why are cap tables, shares, and vesting so important?
- Where should I incorporate my company?
- When is the best time to start fundraising?
- What exactly should I include in my pitch deck?
- How should I structure my first meeting with an investor?
- What questions will early-stage VCs ask me?
- How do I build authentic relationships with investors?
- What happens if an investor says no or ghosts me?
- What should I expect after an investor verbally commits?

And so much more. If you're a first-time founder building a tech startup, this book will teach you how to fundraise from the pre-seed stage all the way to your Series A.

Ready? Let's dive in.

CHAPTER TWO

How the fundraising process works

Before you devote the next several months to fundraising, we must start with the most crucial question of all.

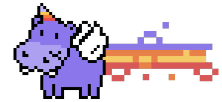
Should you even raise money?

Not every business should raise money.

Founders have to give up partial ownership of their company when they raise money. That percentage could be worth a ton of money when you go public or get acquired down the line. And once you start selling part of your company, these investors become your business partners. This means they will have opinions about how the business should operate, which may or may not align with your vision.

So if you can get away with securing money through bootstrapping, crowdfunding, government programs, banks, or even alternative lending models like Paintbrush… we actually recommend not fundraising to keep 100% ownership of your company.

> I know this is a weird start to a book about fundraising, especially from a venture capital firm. But we want to be fully transparent on what's actually best for you, the hard-working entrepreneur.



So, what type of businesses *should* raise money? Typically high-growth tech startups that hope to:

1. sell their business for hundreds of millions of dollars, or
2. go public, also known as an initial public offering (IPO)

If your goal is to sell your company for a smaller exit, it may be ok in some cases, but it's likely that your investors will be disappointed. Because they're looking for a very high return for their capital – like 100x their investment – so they want to invest in founders that are aiming for a big success.

If that's you, keep reading. You're in the right place.

Fundraising stages explained

Founders typically raise money in stages.

1. Pre-seed
2. Seed
3. Post-seed
4. Series A
5. Series B
6. Series C
7. Series D-G (if needed)
8. Initial Public Offering (IPO)

It usually takes several months to start and complete a fundraising round. Since this book is written for early-stage founders, we're going to primarily focus on the **pre-seed to Series A stages**.

Pre-seed

The pre-seed stage is the first round of funding that founders raise. People also call it an *angel round* or a *friends and family round*. Teams at the pre-seed stage are just getting started. This is when founders quit their jobs to go full-time on their startup. Investors want to see you launch a minimum viable product (MVP), a basic version of your product that's designed to quickly gather user feedback and improve your offering.

They also want to see data around customer discovery that proves what you're solving is indeed a big problem and these customers are willing to pay to solve this problem. You probably don't have many (or any) real users or revenue yet. So investors who put in money are betting on your team and the market you're in.

These investment rounds are typically small, ranging between **$100k - $1M**. The money will likely come from your family, friends, angel investors, and pre-seed funds like Hustle Fund (that's us!). The goal at this stage is to get enough money to go full-time on your startup, build your product, and start generating some traction.

Seed

The seed stage typically happens when you've shipped your MVP and have feedback from real users. You could have a consumer app with millions of users. Or you may have a B2B business with some enterprise customers in your pilot program. This is the stage where you're validating the market demand for your product and making solid traction.

Seed rounds typically range from **$500k to $3M**. The goal at this stage is to generate traction and find product-market fit. The typical traction range is ~$10k+/month.

Post-seed

The post-seed stage (also known as "pre-Series A") is a gray area between seed and series A, kind of like the awkward teenage phase. You've made major progress as a seed-stage company, but not quite enough to raise a Series A. You may hear people call this round the *mango seed stage* or *avocado seed stage*.

Not everyone who plans to raise a Series A will need to raise this round. If you have enough runway from previous fundraising rounds, or from your earned revenue, you may be able to skip this round entirely.

Before you get to Series A, you may need to hit specific metrics around retention and engagement. Or hit certain revenue milestones, or acquire a certain number of users. The post-seed round is your opportunity to achieve these goals.

Post-seed rounds can range from **$1M to $5M**. This can be an extension of your seed round with many of your previous investors, or separate rounds with new investors. The goal at this stage is to provide more evidence/data that your company is ready for a big series A round. The typical traction range at this stage is ~$100k/month.

Series A

You know you're ready to raise your Series A when you've found product-market fit, that sweet spot where your product fits so well with what customers want. You have strong evidence that you can capture a decent share of the huge market. You've shown that you can recruit A-players and have a solid team that can execute your vision.

Series A rounds are more substantial than previous rounds, ranging from **$5M to $10M**. They typically involve a **lead investor**, the first and main investor in a funding round who puts half or more of the money into the round. This stage is also when you typically form a board of directors (outside of your co-founders), to whom you'll report quarterly on your progress. The typical traction range at this stage is $2-3M/year.

To sum it up

These numbers are the typical ranges that we've seen in the venture world. But just because a company has these traction marks doesn't guarantee it'll be able to raise money successfully. Factors like your location, type of business, business model and more will impact your fundraising strategy.

Angel investors vs. venture capitalists

What is an angel investor?

An **angel investor** is an individual who has accredited investor status. That means they have a million dollars of investable assets or a really large salary ($200k+/yr). Angels don't have to be techies or experts in your industry. They could be your dentist or a friend's mom.

One of the main reasons to work with angels is that they make decisions about where to spend their money based solely on their own preferences. They don't have investors to consider, business partners to consult, or office politics to deal with. They can write you a check after one meeting if they like you and your idea. It's their money.

Angels can help with things other than money as well. Many angel investors are experienced operators who can help you solve real problems. So if you need guidance on how to build a marketing team or how to create a product roadmap, an angel who has experience in those areas could be a highly valuable partner.

One thing to consider before raising money from angels is that they typically write smaller checks, between $1k to $25k. This means that if you're raising $1M, you'll have to close a lot of deals if you only

stick with angel investors. Another downside is that angels might not be able to participate in your later rounds when the check sizes get bigger and the valuations get higher.

What is a venture capitalist?

On the other hand, **venture capitalists (VCs)** can write larger checks than angels, ranging from $50K to millions of dollars, with the opportunity to participate in their portfolio's later rounds. Here's how: a venture capital firm raises money from their investors called **Limited Partners (LPs)**. Then VCs invest all that capital into startups and divide the returns among all the LPs (and themselves).

VCs can be extremely well-connected. They often introduce their portfolio companies to other VCs, potential business partners, and even new hires. In later stages, VCs can also be great board members to help guide the next chapters of the business.

The fact that VCs have LPs is both a burden and a blessing. A blessing because LPs enable VCs to do their work. Without LPs, VCs wouldn't have the capital to invest in startups. But they're also a burden. Because VCs are essentially stewards of their LPs' money, they're obligated to invest only in deals they truly believe will give them a 100x return. This means if a VC invests in a startup at a $1M valuation, they are hoping that your business will exit or IPO for a $100M valuation.

The math of venture capital can be complicated. All you need to really know is that VCs invest in dozens of companies expecting the majority of them to fail. The 1-2 startups that give investors a 100x return will pull up the value of the entire portfolio.

For example, imagine a VC firm invested $50k into 100 early-stage startups for a total of $5M. Ninety-nine of these startups failed. But the one company that succeeded just happened to be Uber, a company that's worth over $100B today. The firm's $50k investment in Uber would be worth hundreds of millions of dollars, which more than makes up for the initial $5M investment.

This desire to show big returns to their LPs gives the VC industry a bad reputation. Some VCs put extreme pressure on founders to grow at a rapid, unsustainable pace. On the other hand, angel investors aren't generally looking for a specific ROI.

If they love you and your idea, they may invest even if they think they'll only get a 2x or 3x return. Since angel investors have no outside investors to consider, they can afford to be more patient in your company's growth.

However, to chase big returns, some angels may still pressure you to sell your company if that'll guarantee them a modest 2x return, or advise you to shut it down entirely.

So who should you raise from?

Any business that expects to exit and aims to provide its investors with a meaningful return on investment (ROI) should consider raising from angels… even if they also plan to raise from VCs. Here's why.

Angel investors are more accessible, will give you money faster, and often roll up their sleeves to help your startup. They can make intros to other investors (which builds momentum during fundraising) and they're likely not running a fund.

While any VC-backable business should strongly consider angel investors, several business models are not VC-backable. And those businesses might be great for angels. For example:

- Media companies
- E-commerce businesses
- Food and beverage businesses
- Hardware businesses/wearables
- Brick and mortar businesses

These are business models that VCs don't typically invest in because the overhead is too high to have a meaningful exit. Those types of businesses are more likely to see a 2-10x exit than a 100x exit.

VCs are looking for that one big winner like the next Uber or Instagram. If you're aiming to be a billion-dollar company one day,

VCs tend to be great partners in the later stages since they can provide you with more capital and direction when you're scaling fast.

But let's state the obvious: a 100x return is extremely tough to accomplish. Investors know this, and they only invest in companies that have the potential to scale fast. There are lots of things that make a business scalable. But since you don't have all day, here are the top three things we look for.

1. **Unit Economics** – the cost of acquiring and onboarding a customer compared to how much money you make from that customer
2. **Customer Acquisition** – your ability to acquire customers at scale
3. **Exponential Growth** – when your revenue is increasing at a faster rate than your incurring costs.

Both angel investors and VCs would love to invest in a startup with great unit economics, low customer acquisition costs, and rapid exponential growth. We recommend raising from angel investors first for speed. Then consider VCs if you have a business that can potentially scale to deliver a 100x exit.

Startups in the "vice" categories (think alcohol, cannabis, gambling) will likely have more success with angels than VC firms. This is because VCs usually have a "no vice" clause that they adhere to. Whereas angels can invest in whatever they want.

Incorporate your company in Delaware

Hustle Fund GP Eric Bahn made a huge blunder when he started his education startup: he formed a California LLC instead of a Delaware C-corp. When Eric later sold this business, his tax accountant told him that if he had switched to a Delaware C-Corp, he would have saved a *ton of money* on taxes upon his exit.

Learn from Eric's mistake and incorporate your company in Delaware. Here's why Delaware C-Corps are so advantageous.

Benefit #1: Delaware is business-owner friendly

Delaware has corporate governance laws that are basically simple rules around compliance and in cases of things like lawsuits. These laws were written to help business owners stay in business.

Delaware is a business-favorable state. So it's more relaxed and easier to do business in Delaware in comparison to other parts of the US.

Benefit #2: You'll save a ton of money on taxes

There's this thing called the **Qualified Small Business Stock (QSBS)**. If your business is a Delaware C-Corp and has been around for more than five years before getting acquired, you could potentially be

exempt from paying federal taxes when your company gets acquired or IPOs.

That's a huge deal. If Eric had converted the business to a Delaware C-Corp, he would have faced a much lower federal tax bill when his business was acquired thanks to QSBS.

There are a lot of potential federal tax exemptions only available for Delaware C-Corp businesses. This benefit also applies to investors. They'll be exempt from paying taxes in many scenarios thanks to QSBS. So everyone gets to keep more money upon an exit.

We're not lawyers. Do your research on QSBS and read all the nuances on Delaware's official page.

Benefit #3: It's favorable to investors who are buying shares

Imagine Eric invests in a cycling software business and it's doing really well. Like $20M in revenue every year. In this hypothetical situation, Eric wouldn't need to personally pay any taxes along the way even though he's a part owner of the business. Eric would only pay taxes on the gains he makes when this startup gets acquired or IPOs.

Just one of many unusual and wonderful treatments of taxes that you can find with Delaware C-Corp structures.

It's super easy to flip to a Delaware C-Corp

There are lawyers and possibly automated legal services that can help you switch over to a Delaware C-Corp. So if you're running a venture-backed business, switch to a Delaware C-Corp and keep more money upon your exit.

Breaking down equity, SAFEs, and dilution

If you want to fundraise, you need to know what SAFEs are and how dilution works. Because if you don't, you may accidentally give away too much equity and be left with very little at the end.

Let's break it down using my favorite food. Imagine you have a pizza in front of you. In the beginning, you and your co-founder(s) own 100% of this pizza (aka your company).

Photo by [Vit Ch] on [Unsplash]

Now let's assume this pizza is worth $20.

Your objective is to grow the value of your pizza. It could be worth $20 now, but in 10 years, your pizza could be valued at $1B. So how do you grow the value of the pizza? You give away slices of the pizza to strategic people – investors, advisors, and key employees – who will massively help you.

Every time you give away a slice of pizza, you're actually giving away **equity** in the business. Equity means ownership in the company. So if an investor has 5% of the equity in your business, they own 5% of your company.

Now, it's unavoidable that you'll lose some ownership of the pizza as you raise money. But these strategic people that you gave slices to can help bring the valuation of the entire pie from $20 to $1M to $100M and hopefully to $1B. Even if you only own 15% (equity) of the pie (your company) by the end, if it's valued at $1B, then your slice will be worth $150M. It'll be easier to accept that you don't own the other 85% of the pizza because your small slice is so valuable on its own.

But you need to be careful about giving away your pizza slices. As you can see, one small slice in the beginning can be worth millions of dollars down the line. Every time you give equity away means that you (the founder) will have less ownership over your own business.

Equity will translate to dollars when you IPO or get acquired, so you want to maintain enough equity to stay motivated to keep working on the business. So here's the million-dollar question: How much pizza should you expect to give away when you raise money?

This will depend largely on the amount your startup raises and the valuation at which you raise. We typically see founders give away 10-20% of their pizza per fundraising stage. The gold standard is for the founders to still own the majority (more than 50%) of the pizza after their Series A round. It's common to lose the majority by the time you raise your Series B. But as I mentioned earlier, this shouldn't bother you if the value of the pie is high enough.

What SAFEs are and why you should care

SAFE stands for "simple agreement for future equity." SAFEs aren't slices of pizza directly, but think of it like a ticket for a slice of pizza. You give these tickets to investors, which gives them the right to come back to you later to claim their slice (assuming the pizza is still alive and edible).

In non-pizza terms, a SAFE isn't equity you sell to your investors, rather it's the promise of equity in the future. Think of SAFEs almost like an IOU; you're not issuing any equity yet… but once you have an equity financing round, an acquisition, or an IPO, that SAFE will get converted into equity. If your startup crashes and burns, the SAFEs are worthless.

There are two kinds of SAFEs: **a pre-money SAFE and a post-money SAFE**. When Y Combinator created the SAFE in 2013, it started as a pre-money safe. This is important – remember this.

These SAFEs were open-source documents that have become the standard for founders to use when raising money. Without a SAFE, founders had to pay lawyers to draft a new contract from scratch. This was expensive and complicated to manage. SAFEs made it easier and more cost effective for founders to raise their earliest rounds.

But it had an unintended consequence. Founders wondered, *"A priced equity round takes a lot of paperwork, negotiation, and legal fees, which can easily cost me $20k. Why don't I raise my entire round via pre-money SAFEs? I can just download it from the YC website and keep my costs low."*

So founders started raising $2-3M rounds via SAFEs. But once they were ready to raise a priced equity round, founders weren't sure how much of the company they'd actually sold. They'd sliced the pizza in all kinds of weird shapes and sizes and never kept track of who owned what because of the nature of pre-money SAFEs.

By the time all those people with pizza tickets come back to claim their slices, the founders may realize they have the smallest slice out of everyone… which can kill their incentive to grow the value of the pizza.

We know a founder who raised a bunch of money via pre-money SAFEs. He didn't realize his equity had been diluted so much until he tried to raise his equity round. This founder discovered he only owned 35% of the company at the seed stage, which is no bueno.

We'll share exactly how all of this works with some easy numbers later in this chapter. But for now, Eric offers this warning,

"It is really easy to mess up these calculations when you have so many different kinds of pre-money valuations stacking on top of each other with capital that you raised before your Series A, or whenever your post-money raise takes place."

Why founders are using post-money SAFEs instead

To rectify the unintended consequences, YC later introduced post-money SAFEs. They wanted founders to have clarity on how much of the company they're selling.

Here's the magic equation: (investment) / (post-money valuation)

- Example #1: The founder raises $500k on a $5M post-money valuation. $500k / $5M = 10%. This founder has sold 10% of the company.

- Example #2: The founder raises $1M on a $5M post-money valuation. $1M / $5M = 20%. The founder has sold 20% of the company.

The math of what you've invested at the post-money valuation is simple and clear. This calculation is better for both the founders and investors because you know the exact percentage of pizza you're giving away.

To sum it up

Focus on growing the value of your one pizza. Be strategic in who you sell your pizza slices to because you want to own as much of your company as possible.

If you use pre-money SAFEs, learn how to calculate and keep track of how much pizza you've sold. Instead, use post-money SAFEs to have clarity… and sleep well at night knowing you still have enough pizza in the fridge to enjoy later.

How to determine a valuation for your startup

A **startup valuation** is the financial value of a startup's equity at a given point in time. In other words… how much your startup is worth.

Unlike public companies – where the stock is listed on an exchange and fluctuates throughout the day based on trading activity – private startup valuations are agreed upon by the investors and the founder(s) when the startup goes out to fundraise.

This valuation is based on a variety of factors:

- How much revenue the business has
- Business experience of the founders
- Competition in the market
- Macro market conditions
- Investor demand

The last point on "investor demand" is one you should definitely pay attention to. While the other factors do matter, a startup's valuation is not actually about how much your company is worth, but about the **supply and investor demand of your round**. Let me explain.

Example #1:

Imagine your goal is to raise $200k at a $1M valuation. But you discover that you have a lot of investor demand. In fact, these

investors are offering a total of $500k… $300k more than you're aiming to raise.

This means you have more demand in your company than available equity, so you can safely increase your startup's valuation and still secure the capital you're looking for.

Example #2:

Imagine your goal is to raise $2M at a $5M valuation. But no one is interested. Then your valuation is, well… $0. Because there's no investor demand to participate in your startup's round.

You can't raise money at a $0 valuation. But you can lower your valuation to a sweet spot where you'll get to investor demand. Alternatively, you could improve your pitch deck to try and convert more investors. Or you could work to grow the business and "earn" your desired valuation.

In practical terms, determining your valuation is less about your "actual" worth and more about what investors are willing to pay. So founders can set a value for their own startups, but VCs will also perform due diligence to determine a valuation they'd feel comfortable investing at. The two sides may then negotiate an acceptable valuation for both parties.

Still with me?

Because there are two different kinds of valuations that you should know: the pre-money valuation and the post-money valuation.

Pre-money and post-money valuation

The **pre-money valuation** is the valuation of the business before it receives any outside investment.

The pre-money valuation doesn't take into consideration the money the founder is planning to raise. So if a startup has a pre-money valuation of $2M, and she's planning to raise an additional $500K, her pre-money valuation is still just $2M.

This number is important because it tells investors how much they'll need to put in to purchase their desired equity stake. The pre-money valuation will usually change every time the startup raises a new round of financing.

For instance, a seed-stage startup might raise at a $5M pre-money valuation. After 12-18 months of growth, it'll return to raise its Series A at a $10M pre-money valuation. The increase in pre-money valuation would represent the additional value the startup has created by acquiring more customers, improving its product, building its brand, etc.

Let's take the example of the company with a pre-money valuation of $2M. If an investor wants to purchase a 20% equity stake, it means that the investor will need to put in $500k at a $2.5M post-money valuation. ($500k / $2.5M = 20%).

As the name suggests, the **post-money valuation** is the startup's valuation *after* receiving outside investment. Unlike the pre-money valuation, the post-money valuation is easy to determine: simply add the investment amount to the pre-money valuation.

A startup on a good trajectory should see its post-money valuation increase with every new financing round (i.e., investors should view it as growing in value). If the post-money valuation goes down round-over-round, it's called a **down round** and could signal the business is in peril.

High valuations aren't always a good thing

While high valuations leave founders with a larger percentage of ownership in their startup, there's more to consider.

Consideration #1: Investor incentives

We already know that investors can be really, really helpful. But with 24 hours in a day, they're only able to give meaningful help to their highest-priority investments. So if an investor has a 1% stake in your business and a 10% stake in another business, and you're at the same stage, which company do you think they'll dedicate more resources and time towards?

Consideration #2: Startups need time to grow into valuations

Let's say a founder generates interest in her idea or an early version of her product. She raises money at a $12M post-money valuation.

She uses that money to improve the product, acquire users, and hire a few people. After 8 months of working on the business, the founder doesn't see the traction she was hoping for. And she's out of money. She decides to raise another round of funding.

Only this time, investors have less conviction in her business. Since she hasn't proved that her idea is successful, they might recommend a lower valuation, but that can look really bad. Decreasing the valuation is a signal to investors that there is something wrong with the business. And since investors see anywhere from 10 to 1000 pitches every month, they're more likely to invest their money in a new company instead of writing this founder another check.

Ironically at the time of this writing (January 2023) where capital is really tight, down rounds are not negative signals. It's a sign that someone wants to invest. So this is the exception to the rule.

Consideration #3: Recruiting

Most startups don't have the capital to offer competitive salaries to high-quality talent. That's where the ESOP comes in. By attracting talent with stock options, founders are able to conserve cash while employees feel like they have ownership of the company. Those employees are incentivized to work really hard to make the business successful because if the business does well, their options will be worth a TON of money. Right?

Here's the problem: joining a team with a high valuation means that the price for the stock options is also high. Employees will realize that they can't actually afford to buy their options.

Couple that with the low salary and long hours, and they won't be incentivized at work. This can lead to ugly company culture and low productivity.

The savvy people who are smart enough to ask about valuation and exercise price will realize that the opportunity isn't as good as they thought. So if you have too high of a valuation, hiring those people will become very difficult.

How cap tables, shares, and vesting all work together

A cap table is a spreadsheet that lists all the people and entities that own pieces of your company. In the beginning, there may just be two lines for you and your co-founder. It'll list your names and how many shares you both own.

The shares in themselves are meaningless. But they are meaningful when you see how much of the pie they represent as a percentage. Every time you give a slice of pizza to an investor or a key employee, they will be granted shares and have some equity in the pie. Their

name will then be added to the cap table with the respective % numbers next to their name.

Here's an example of what a cap table looks like. You can also make a copy of our template here.

	Company Valuation				
	Total Value ($)	Per Share ($)	# of Shares	% of Total	
Series A					
Pre-Money Valuation	$7,500,000	$8	1,000,000	75.00%	
New Equity Raised	$2,500,000	$8	333,333	25.00%	
Post-Money Valuation	**$10,000,000**	$8	**1,333,333**	**100%**	
	Company Ownership Cap Table				
	Capital ($)	Common Shares	Preferred Shares	Total Shares	% Ownership
Shareholders					
Founders	$0	800,000		800,000	60.00%
ESOP Pool		200,000		200,000	15.00%
Investor Tam	$150,000		20,000	20,000	1.50%
Investor Kera	$450,000		60,000	60,000	4.50%
Investor Eric	$300,000		40,000	40,000	3.00%
Investor Shiyan	$250,000		33,333	33,333	2.50%
Investor Elizabeth	$900,000		120,000	120,000	9.00%
Investor Janel	$200,000		26,667	26,667	2.00%
Investor Brian	$100,000		13,333	13,333	1.00%
Investor Haley	$150,000		20,000	20,000	1.50%
Total	$2,500,000	1,000,000	333,333	1,333,333	100%

In this example, our post-money valuation is $10M. New investors are coming in for $2.5M. That means they now own 25% of the business. The cap table also has an ESOP pool of 15% (more on what that is below). Which leaves the founders with 60% ownership after the investment round.

Founders get **common shares** while investors earn **preferred shares**. There are three main differences.

- Voting power: Common shareholders get to vote on important company decisions whereas preferred shareholders usually don't have voting rights.

- Dividends: Preferred shareholders get preference on liquidity when the company IPOs/exits. This means they get paid out before the common shareholders.

- Risk: Common shares are a bit riskier. If the company has to close down, founders will be the last to get any money back from what's left, whereas preferred shareholders may recoup some of their money.

Founders and employees earn shares by working for the startup, but their shares typically **vest** across four years. This means they don't get all the shares upfront when they start working at the company.

A typical vesting schedule is as follows:

- The employee earns 25% of their allocated equity after working for the company for 1 year
- Over the next 3 years, they earn the remaining 75% of their equity on a monthly basis.

Once a founder or an employee has vested some shares, that's technically just a right to exercise the option to buy those shares for a cheap price (in most cases). Once your shares have vested, you can exercise or buy your options – pay the cheap price to get your shares – at any time that you are still at the company.

Most people do not exercise their options as long as they are still at a company, because they want to wait and see as long as possible how the company is doing to decide whether or not to spend the money. People typically exercise their options when they leave the company, because once you leave the company, you typically forfeit any options that have vested that you haven't bought.

If the company is doing well, buying their vested shares is generally a good deal for the employee (especially early employees) because the price for each share is directly related to the valuation of the company at the time the employee joined. So an employee who joined a startup early could buy their fully-vested shares at, say $.05 per share, even if the current valuation of the company at that time is much higher.

Vesting prevents people who only stay with the company for a month or two from running away with tons of shares. Investors expect founders to have vesting in place for everyone. This includes advisors, whose shares typically vest over 1-2 years.

You might be wondering, "What if everyone stays on until their vesting schedule is complete and exercises all their options?" Then

you'll have a **fully diluted cap table** where everyone who was allocated shares will indeed get all their shares.

If investors are investing on a SAFE, they technically do not own shares at that point. Remember the last chapter? Investors using SAFEs will have a ticket to claim the pizza later, but not actually own the slice in that present moment. So these investors will NOT be added to the cap table until their SAFEs/notes convert into actual shares.

This is another reason why founders don't realize how much of the pie everyone owns. There are investors who have invested money but aren't technically on the cap table yet. We recommend founders use Pulley (a plug for one of our portfolio companies), which makes cap tables super easy to understand even if someone invested through SAFEs.

When you raise money from investors, they will often ask you to create an **employee stock option pool (ESOP)**. This means setting aside some shares for your employees to incentivize them to stay longer and do great work. Investors typically expect founders to set aside 10% of the pie for ESOP but this percentage amount can be negotiated. 15 years ago, this percentage was typically 15-20%, and we may revert back to that if the markets get worse.

An ESOP can dilute the cap table faster than you might expect. For example, if you're being diluted down by 20% by the next round of

investment AND you have to create a 10% option pool in the same transaction, you are actually being diluted down by 30%. If a departing team member doesn't use their vested options, the unvested and unused options will be forfeited and added back to the ESOP. But still, this is more dilution than most founders realize when they go to raise money.

Cap tables have been traditionally hard to organize just using spreadsheets, especially when you have many SAFEs and shareholders. It's rare to see founders do accurate cap table math at each fundraising round. Even our team of VCs can miscalculate data.

This is why we recommend using a cap table management tool so you can have an accurate view on your current cap table, as well as compute different scenarios quickly and easily.

Be aware of the current market conditions

At the time of publishing this book, it's the start of 2024. Fundraising right now is tough, especially for series A and beyond. The truth is that VCs aren't investing as much in the later stages. Why the sudden change?

Well, there are a lot of factors.

1. VCs are having a harder time raising funds

Just like many startups, VCs have to raise money from their LPs (remember, an LP is someone who invests in a venture capital firm). Interest rates are high, and many LPs are opting to put their money into other assets like a savings account that earns interest there rather than invest in a VC fund.

This gives VCs less capital to work with, so they become more conservative with their cash. VCs will be extra selective about investing in new companies, or they'll focus more on reinvesting in and bolstering their existing portfolio companies.

2. Companies are valued less

If there are fewer investors (supply), there's more competition amongst startups to raise money (demand). This means investors can usually negotiate terms that are more beneficial for themselves rather than for founders. But it's not all sunshine and rainbows for investors, either.

Founders that do raise successfully tend to have lower valuations than in the last few years – when the market favored founders over investors. So a company that raised a pre-seed round at a relatively high valuation (say, $8M), is raising their seed-round at a relatively lower valuation (say, $10M). Some companies are having such a hard

time raising, they might not see any increase in valuation from one round to the next. Or their valuation will actually go down.

When a company's valuation fails to increase, the VCs who invested at the earlier stages are left with a portfolio that's worth less than what they expected or planned for. A rough rule of thumb is that founders should aim to double their valuation every round.

But there is cash – this is not 2008

This section isn't intended to be all doom and gloom. The good news:

- Seed stage investors are less affected
- Deals are happening but all stages are just moving slower

The benefit of a less frothy market is that it forces you to think about how much cash you actually need. Elizabeth suggests thinking about your cash needs in two ways:

1. Stop the bleeding

Founders often say, *"I need to raise $2M."* Do you really? Probably not.

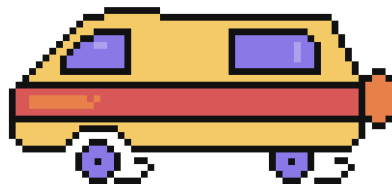
Instead, ask yourself: What is the minimum requirement to keep the company running? How can you reduce your burn rate? How can you cut expenses? Are there creative ways to generate revenue in the interim?

Remember: the Airbnb founders sold cereal boxes to keep the company alive in the early days.

2. Long-term planning

If you can stop the bleeding, then how much cash would help you with long-term planning? Think through your long-term vision, goals, metrics, product development, hiring, etc. How much capital would you need to hit those milestones?

Is the answer still $2M? Maybe. Or maybe it's a smaller number. You should aim to raise enough cash to cover both your short-term and long-term needs. However, if that's not possible, definitely prioritize the stop the bleeding strategy first.



Best times of the year to fundraise

When Eric was trying to raise money as a founder, he had no idea VCs were on vacation, like, all the time. VCs would auto-respond with OOO messages saying they're skiing in Jackson Hole. Or on a beach in Mykonos. Or "finding themselves" at Burning Man.

This might sound super weird if you're not from Silicon Valley. Why are VCs always on vacation? After lots of trial and error, we figured out the best time VCs are active to take meetings with founders.

Good: January – February

The first part of the year is a good window of time to start fundraising. However, there are a few important things to note:

- The first week of January is an extension of the end-of-year holidays. So if you raise in the new year, wait until the 2nd or 3rd week of January.
- Many VCs have kids in school who have mid-winter breaks in the middle of February. This is the perfect opportunity to take the family to Aspen or Jackson Hole for a mini ski vacation forcing them out of the office.

Best: March – May

Spring is the best time to fundraise. There aren't too many major holidays. The weather is amazing. Yeah, there's usually a spring break but most VCs are working.

It's normal for VCs to meet you in person outside at the Rosewood Hotel. Or take a walk with you somewhere on Sand Hill Road. Or grab coffee together at Coupa Cafe in Palo Alto. You know, Silicon Valley things.

Decent: June – July

School is out! VCs usually go on another vacation to spend time with family. But there is still some activity happening in both June and July. Besides the 4th of July holiday, VCs are fairly responsive.

All in all, the first half of the calendar year is a pretty good time to start the fundraising process.

Worst: August

August is the absolute worst time to raise money. VCs basically take the entire month off for summer vacation. They're somewhere in Ibiza, Mykonos, or Croatia enjoying the sunshine.

There’s also Burning Man at the end of August. This is when VCs go off to the desert wearing ridiculous costumes and return after a week covered in dust. So you’re probably not going to get any meetings with VCs in August.

Good: September – November

This is Eric’s favorite window to fundraise. VC firms host annual meetings in the Fall to bring their LPs together and they also invite some of their portfolio founders to meet everyone.

Investors rush to do deals before the end of the year. There’s great activity happening everywhere.

Bad: After Thanksgiving – December

In the United States, we have this major holiday called Thanksgiving. It happens every year on the 3rd Thursday of November. It’s a pretty big deal. Schools are closed. No one really wants to work that week. But it turns out that the feeling of not working basically extends through the end of the year.

Of course, most VCs come back to work after Thanksgiving. But Eric has been in VC offices around this time. There’s eggnog and snacks everywhere. Michael Buble's music is playing in the background. The energy is super low key.

VCs may take a few meetings here and there. But they’re not doing that much. And VCs are off again for Christmas break until early January. Where the cycle starts all over again.

These are not hard-and-fast rules

We are speaking generally of the VC world. Getting a fast response from VCs depends a lot on the VCs themselves. The Hustle Fund team works year-round because we’re young and hungry to make big things happen. Newer VCs are more like startups, so we’re a bit different from other funds.

Outside of VCs, angel investors tend to be active year-round, too. Keep this tip in your back pocket if you’re looking to close a round in a month when VCs are out of office.

CHAPTER THREE

The essentials of a killer pitch deck

There's a popular saying that ideas without execution are useless. Well, I have a new twist to this quote.

"Ideas that you can't clearly communicate to others are useless."

If you can't communicate your ideas, no one will understand you. And if no one understands you, no one will buy your product or invest in your company. This means great communication is everything.

After reviewing thousands of pitch decks and raising $100M for Hustle Fund, Eric has deduced the five most essential parts for a great pitch.

1. team
2. problem
3. solution
4. market
5. traction

Your odds of success skyrocket if you have just these five slides nailed down. Let's break down each one.

Team

The most important thing Eric cares about in pre-seed companies is the team. Since pre-seed startups often have no customers or traction, there's very little to judge them on, outside of the people behind the idea. Because at the end of the day, investors are not just investing in your idea; they are investing in you and your co-founders.

Eric wants to see two main things:

1. Relevant skills + background

Let's say you have an idea for a business that would eradicate COVID. Obviously, this is a pretty intriguing idea: COVID is a big problem and people would almost certainly be willing to pay for a solution. But it doesn't matter how big the problem is if an investor doesn't believe you're the right team to solve it.

So if you want to go into the COVID-eradication business, but your background is in social media marketing... no investor will back you. But if your background is in developing medicine and your co-founder's background is in bio-medical sales... that's a different story.

When you're pitching your team to an investor, consider how you can convince her that **your team is uniquely positioned to solve this problem**. And that confidence won't just come from pedigree. Going to a fancy school or working at a brand-name tech company won't cut it.

Let's say your business helps musicians build a bigger audience. You should include a few sentences about your experience as a musician in your pitch. This will show the investor that you deeply understand your customers' pain points. and that you have connections within the music industry, which will help with customer acquisition.

Work on problems where your team has a competitive edge. Show investors why your unique background is ideal for your business.

2. Your co-founder relationship

Building a company is hard. There are days and weeks when it feels like nothing is going right. There are nights and weekends when you don't see your family because you're grinding so hard. Having a co-founder isn't essential... but it can help.

The thing is, co-founders often come with drama. When co-founders don't work well together, a lot of stuff goes wrong. They fight about the product roadmap. They disagree on which candidate to hire. They stop including each other in important meetings. And this drama leads to even bigger problems.

Employees get tired of the in-fighting and leave for a company with a better culture. When employees leave, responsibilities go unfulfilled. Customers notice and stop renewing. Investors see all of this and decline to participate in future fundraising rounds.

The book *The Founder Dilemma* cites that 6 out of 10 startups fail because of co-founder conflict. That’s why it’s so important for investors to feel confident in the co-founder relationship. They want to know that co-founders can make decisions together, communicate openly, share the burden of work, and disagree without tearing the company apart.

So when you're pitching the "team" portion of your company to an investor, show that you and your co-founder are a good fit. For example:

- you're hackathon buddies
- you’ve put on an event together
- you've shipped a product before
- you worked together closely at your last company

Something to prove to the investor that you've weathered storms before and you can take on future challenges that'll eventually arise.

Problem

Your pitch deck's problem slide is arguably the most important slide in your deck after the team. Even if you've developed the most innovative, cutting-edge technology the world has ever seen, people won't buy it if it's not solving a real problem. And if no one is buying your product, investors won't have any incentive to write you a check.

Every unicorn business:

1. solves a real problem...
2. ... that's important enough for people to pay to fix
3. ... and applies to a large audience

If your problem slide doesn't quickly demonstrate those three points, investors might not even look at the rest of the deck. So this slide is super important.

Now, it's possible that you are solving a huge problem but you stink at explaining what that problem is. This can cause investors to make some assumptions about the business and think things like:

- This isn't *that* big of a problem

- This is a huge problem, but people won't pay for the solution (either because it's too expensive or too complicated)
- The founder hasn't done enough customer research to understand the problem

Your problem slide should give efficient and compelling responses to these three questions:

- What is the problem?
- How do you know it's a problem?
- Who needs a solution to this problem?

Here is an example of an ineffective problem slide:

1. Airbnb hosts don't know how to market their homes to travelers
2. The average Airbnb is vacant 15 days a month
3. There are no tools designed for Airbnb hosts to increase their bookings

What's the problem with this example? Let's dissect it:

> *"Airbnb hosts don't know how to market their homes to travelers."*

This is a broad, general statement with no data to back it up.

"The average Airbnb is vacant 15 days a month."

This doesn't capture the importance of the problem.

"There are no tools designed for Airbnb hosts to increase their bookings."

A quick Google search shows me there are tools out there. Inaccurate statements raise red flags for investors. It makes us think that you either aren't honest or you haven't done your research.

OK let's take the same points and tell a more effective story. Here's our new and improved problem slide:

1. We surveyed 300 Airbnb hosts and found that 55% don't get any bookings for 3 months
2. The average Airbnb host is leaving $2,000 a month on the table because of vacancies
3. Existing tools don't offer incentives for hosts to continue using the platform, so they have extremely low retention rates

Let's dissect why this problem slide is more convincing:

"We surveyed 300 Airbnb hosts, and found that 55% don't get any bookings for 3 months."

This shows us that you've done loads of customer research.

> *"The average Airbnb host is leaving $2,000 a month on the table because of vacancies."*

This quantifies the problem your customers are facing and makes the problem tangible, specific, and big.

> *"Existing tools don't offer incentives for hosts to continue using the platform which leads to extremely low retention rates."*

This demonstrates that you understand why other companies are failing and point to how your solution will be different.

See the differences? Investors want to see that you've done your homework. Share how you arrived at your problem statement. Include data that you've gathered from your customer research. Get specific by using real numbers that matter. This will better convince investors that what you're working on is a massive problem.

Solution

There are 3 important things to consider when putting together your "solution" slide:

1. Differentiation
2. Framing your story
3. Product vision

1. Differentiation (aka: how to stand out)

Did you know investors see decks that are pitching the same business all the time?

To stand out amongst the crowd, you must show investors what's different about your solution. Now, we're not talking about the nitty-gritty details here. Specifics like "we're more affordable!" or "we have an app!" are not compelling. What is compelling to investors is having a unique approach.

Here's an example:

Let's say I'm building a marketing automation platform. Investors might see 10 pitch decks about marketing automation platforms each week. So, how can I make sure my deck stands out? For starters, I can state the obvious: Marketing automation is crowded. But if you dig into it, the most successful companies focus on a specific audience.

- Hubspot is marketing automation for content creators.
- Marketo is marketing automation for SaaS companies.
- Hootsuite is marketing automation for social media managers.

My company, BookingPop, is marketing automation for Airbnb hosts.

By focusing on the most differentiated component of my business – the audience – I'm showing investors that I've discovered an

untapped opportunity in the marketing automation industry. Pretty cool, right?

2. Framing your story (especially when investors hate your space)

Unfortunately, having a differentiated solution isn't enough when you're in an industry that investors won't touch. Let's say I'm building a media company for teachers. My business will include a newsletter, Facebook group, and events.

Here's the problem: investors don't like media companies. This is because media companies typically earn revenue through sponsorship or ad dollars, and those require a massive audience to bring in meaningful revenue. So instead of pitching my business as a media company, I'm going to pitch it as a data business.

For example: There is not currently a database of teachers in the United States. My company, CoolSchool, will collect dozens of data points on this audience, which we can use to sell products, services, and memberships.

In this example, I'm not changing the core elements of my business. But the newsletter, Facebook group, and events are a means by which I'll collect the data. And I know that investors love data companies – because there is so much you do with data once you

have it (just ask Meta) – so this frames my business in a way that is compelling to them.

3. Product vision

If you're a first-time founder in the early stages, your product or service is likely terrible right now. That's honestly OK. VCs are not expecting perfection from anyone who has barely graduated from the idea stage. When you explain your solution, don't focus on what you have right now. Instead, sell them on your product vision.

- What will the next six months or year look like?
- What are the milestones you've set for yourself along the way?

Investors want to know how you're thinking about the future: Are you clear about what needs to be accomplished next? Do you have ambitious plans? How fast can you move? Reassure investors that you know exactly where you're going and the only thing missing is some capital to help you get there.

Market

As we mentioned in our chapter "Should you raise from angel investors or VCs?", both groups have different investing strategies. At Hustle Fund, we have a simple question that helps us with all our

decision-making: *Do we believe that you are a founder with the right team and market to support a 100x outcome?*

Eric also angel invests in companies outside of Hustle Fund. He has invested in non-software companies, small businesses, and even local restaurants in his neighborhood. His mindset as an angel investor is very different. The question he and his wife ask themselves: *Do we think this is a company that isn't going to lose our money? Will we get any multiple on this investment?*

As an angel investor, if Eric gets a 10x return on a company, that would be a huge success. A 3x return wouldn't be bad at all. But as a VC, a 3x or 10x return will be a failure because it won't be enough to pull up the entire portfolio. Angel investors are happy with hitting bases. VCs are looking to hit grand slams.

If you're looking to raise money from a venture fund, make sure your market can be measured in billions of dollars. This shows VCs that there is room to grow and capture a slice of the huge market. If your market is smaller than that, consider raising from angel investors. During those conversations, ask what success looks like to them to see if your goals fit with their vision.

How do you actually nail down your market? Let's use Hubspot as an example. They did a great job targeting a niche audience before later scaling to other areas. They started out targeting small business owners specifically around things like SEO. But fast forward to today, their products are largely targeted at enterprises. They do email

marketing, lead generation, sales pipelines, etc. They've expanded their offerings along with their audience as they grew.

For early startups, you don't have many resources. So it's really important to go after a specific niche. The more targeted and specific the niche, the better it'll be. At the same time, you need to have some vision of expansion because investors want to understand how this can become a big opportunity (like Hubspot).

The best way to display this in a pitch deck is through three circles that describe your different markets. For Hubspot, it can look something like

1. Small market: SMB SEO tool
2. Medium market: SMB marketing automation
3. Large market: Enterprise marketing automation

This shows investors the initial market you're in now and what your growth plan may look like in the future.

Traction

If you're really early, you may not have much traction yet, and that's OK. But selling before you launch demonstrates that your team has the capability to build an audience. Since customer acquisition can be a business' biggest roadblock, it's compelling to see some information about your **go-to market (GTM) strategy**.

- Do you have any early users or customers? Having some data on retention here can go a long way.
- Do you have a pilot program? If you're a SaaS company, having signed contracts before you launch or a pilot group in progress shows you have some promising traction.
- What are your distribution channels? Do you have marketing experience in these areas?

Investors want to see your thought process behind distribution and how you'll execute your plan.

Let's take our earlier example of BookingPop (a marketing platform for Airbnb hosts) and show our GTM strategy.

Somewhat compelling GTM strategy:

- Free assessment of Airbnb host's listing and comparison to similar listings
- Tactical webinars led by Airbnb-certified marketers
- Money back guarantee if hosts don't see booking requests increase in 3 months

This is a decent start. Let's see how we can make it even better.

Super compelling GTM strategy:

- Free assessment of Airbnb host's listing + comparison to similar listings
    - *Results: 200 leads captured, 100 assessments completed, 17% conversion rate into paying customer*
- Tactical webinars
    - *Results: 1 published webinar, 100 registrants, 5% conversion rate into paying customer*
- Money-back guarantee
    - *Results: Of the 22 paying customers, 1 requested refund*

Why is the second example so much more compelling than the first? Because it shows investors that not only are you thinking creatively about your go-to-market strategy, but you've already gained some traction.

Even if the numbers aren't great, demonstrating that you can move quickly and experiment with different tactics gives investors a reason to believe in your team. They want to see that you're making progress and if you're capable of building the tech, especially if your product is complicated software.

So if you're super early stage, show investors something – an MVP, results from your small experiments, or even a Figma design – will go a long way.

Keep your pitch deck short

For an early-stage company, the pitch deck has one purpose: to drive enough interest in your business to schedule a meeting. That's it. It should not (and will not) convince someone to invest in the company.

You should be able to accomplish that goal in 5-10 slides, max. If your pitch deck is 12+ pages, you are likely providing too much information. Too much information can be risky because it gives investors more opportunities to find red flags.

For example, if your pitch deck includes a plan to hire 4 engineers in the next 12 months, but the investor thinks you only need 2, she might pass on the opportunity. That might sound silly at first read but trust us: less is more.

Here's the solution: omit unnecessary details so that investors can focus on the details that matter most. Now, if you're thinking, "No problem! I'll just squish slides 11, 12, and 13 onto one slide… shrink down my text, and voila!"... please don't.

Your most powerful elements will get lost in all the noise. Instead, cut anything that isn't absolutely necessary. For example:

- That slide about how many people you're going to hire → Focus instead on the amazing team you already have (even if it's just you)

- Those inspirational quotes by Benjamin Franklin → Cut 'em. You're innovating. We get it.
- Screenshots of the product → These won't be nearly as powerful as a live demo of your product.
- Your revenue projections for the next 5 years → Tell us instead what about your growth over the last few months.

If you're having trouble ruthlessly editing your own work, try presenting your deck to someone who knows nothing about your industry. Like a parent, grandparent, or sibling.

As you explain your business to someone who doesn't understand your industry, you'll quickly realize what is (and what is NOT) a powerful addition to the deck.

How to actually design a captivating pitch deck

We asked our friends at Deck Doctors to create an ebook to show what a good pitch deck looks like... and how to create one. The Deck Doctors are the strongest narrative and slide designers we've ever worked with. We work with them on our own decks, and we recommend our founders at Hustle Fund work with them, too.

This book is relentlessly actionable. With real-life slide breakdowns from Hustle Fund portfolio companies. Instead of copying and pasting a light version of that book in this chapter, we recommend you read it in its entirety here.

It's free to download and it's the perfect complement to this book.

"You're halfway done!"

CHAPTER FOUR

Build relationships with investors

If you don't come from the startup world, there's a good chance that you aren't casual friends with any investors. So how do you meet angels and VCs?

Every business book will tell you to just go out and "network." To meet important people, you should just "go out and network with people."

When I first started my career, I thought I had to play golf with businessmen. Or attend every startup conference out there. Or somehow get invited to a pre Burning Man party.

Now having spent my entire career building communities of entrepreneurs, I finally understood what "networking" really meant.

Make authentic relationships in business

Networking is not about going to a bunch of conferences and exchanging business cards. Networking is simply about **making friends**.

Wait, that's the big revelation? OK stay with me. People do business with people they like and trust. And who do we like and trust? Our friends! If you reflect on all the people who've helped you and whom you've helped in business (or in life), what do they all have in common? If I had to guess, they're probably your actual friends.

The opposite is also true. Think about a time when you've worked with a client or a team member who you didn't like or trust. They probably didn't pass your "friend test." I bet doing business with them must have been extremely challenging.

So when you're meeting new investors, potential candidates for your team, or people to partner with, don't think of them as "contacts" to pitch later on LinkedIn. Try to be actual friends with them.

What most "business" people do:

- They hard sell right off the bat.
- They obsess about their own self-interests.
- They don't keep in touch with the people they've met.

- They spam their prospects with irrelevant marketing messages.
- They don't show any interest in the other person's hopes or dreams.

It's not a surprise that no one is responding to cold emails from these people. Instead ask yourself: what would a good friend do? A good friend would:

- Check in to see how they're doing as a human.
- Spend quality time together, in and out of the business world.
- Offer to make introductions to potential clients, hires, or partners.
- Share relevant news, books, or articles the other person would be interested in.
- Recommend the option that's best for them, even if that means going against your personal interests.

I especially love the last point. Good friends look out for what's best for YOU. For example, a true friend might recommend you accept a fundraising offer from a strategic partner over their own deal because it'll be the better decision for you.

Where to meet investors

Now that you understand why we should make friends over "LinkedIn connections," how do you actually meet investors?

Start with your current network

The best place to start is with your current network. Ask friends, family, and colleagues if they know any investors. Since investors come from all backgrounds, they could look like friends in tech, your local electrician, or the small business owner across the street. You never know who an investor could be so you may be surprised by the reach that you already have. Elizabeth has pitched her optometrist three times to invest in Hustle Fund. He turned her down. But maybe the fourth time's the charm.

Use LinkedIn, Twitter, and AngelList

Previously founders had to fly to Silicon Valley for a chance to meet with VCs. But with the power of the internet, we can connect with almost everyone. On AngelList, you can find investors who have previously invested in startups similar to yours. On Twitter, you can easily slide into investors' DMs. On LinkedIn, you can ask 2nd-degree connections for an introduction. Many investors even leave their email addresses in the "biography" section of their social profiles.

Attend relevant events and conferences

While meeting people online is great, nothing beats meeting people in real life. Find the gatherings where investors in your industry meet and make friends there. Sometimes these events might be in your local area. Or you may have to do some thorough research to see which gatherings are worth traveling to. Even though we have a pretty decent-sized audience online, our team at Hustle Fund loves hosting live events because we see the magic of connecting amazing people together IRL.

Host your own fiesta

The GPs of Hustle Fund got stuck raising money for our first fund. They didn't know what to do but Elizabeth had an idea: throw a rager.

I'm kidding. It wasn't a rager. It was just a fun gathering for their existing investors. They asked them: "Hey, we're pulling together a group of our favorite investors at a cool taco shop in San Francisco. Next Thursday at 7pm. You interested? " Tacos and meeting other investors? Heck yes!

After the guests confirmed, the GPs did one more thing. They asked each person to bring someone who might enjoy the party plus have some interest in investing in Hustle Fund. This strategy to pitch to a group of curated people worked well. And the tacos were delicious.

The “host your own fiesta” strategy works well once you have a small base of people to invite. We recommend doing this once you’ve already built personal relationships with the invitees.

Find warm intros or craft your cold email

You might not have heard of Kathryn Minshew but you probably know a job-search and career advice site that she started called The Muse. Kathryn and her team have raised over $30M. But before raising all that capital, Kathryn was rejected *143 times*. And when I think about how many cold emails she sent just to get 143 meetings, my head starts to hurt.

So this got me thinking… What can fundraising founders do to increase their chances of getting a meeting? Here are 5 things the Hustle Fund GPs suggest to increase your odds of landing a meeting with a VC:

1. Keep your message short

Most investors are constantly on the go, checking email on their phone between meetings. This means they likely won’t have time to read a 5-paragraph essay that outlines your company’s mission, business model, value prop, fundraising goals, and traction.

Our recommendations:

- Include one line about your business
- Use a few bullet points to indicate the value proposition, current pilots, and/or traction
- End with a clear call to action, like "Do you have time for a 15-minute call on Wednesday to talk about fundraising?"

Example of a cold email from a founder to an investor:

Hey [NAME],

In America, you can't buy food for your pet hippo in a store. FastHippo is an on-demand food delivery for your pet hippo.

- In just the first month, we have done $4k per month in sales
- Notable customers include Hilary Duff, Naomi Osaka, and David Chang
- We have been featured on the NYTimes and WSJ

I'm raising a seed round - what is the best way to talk about this?

Thanks,
Elizabeth

2. Get a warm intro

Investors are 93% more likely to take a meeting with someone who has been recommended to them. If you don't have a second-degree connection to an investor, one tactic is to reach out to one of the investor's portfolio company CEOs.

Start by introducing yourself and asking for their advice on something startup-related. Then once you've developed a relationship with her, ask the CEO for an intro to their investors. When an investor gets an introduction to an emerging startup from one of their star CEOs, they're more likely to take you seriously. If they say yes, write an email that makes it super easy to forward to that investor.

Example of an email that the CEO can forward to their investor:

Hi Jake,

Thank you in advance for sending this to Martha at BigCrazy VC. We're raising our seed round and I'd like to get her thoughts on HippoCo. Here's a quick background:

The $180B hippo education market is antiquated and ripe for disruption:

1. Highly fragmented – over 80% of hippo education is distributed through mom-and-pop stores and only 20% is branded, elite hippo education
2. Structurally inefficient – archaic supply chains require significant working capital for inventory and long lead times to launch new classes / educational content for hippos
3. Un-segmented – Product offerings are split mainly into expensive, elite hippo education or cheap made-up content for hippos with nothing in between

HippoCo has addressed these issues and created a direct-to-consumer educational brand that offers affordable, useful educational content for the millennial hippo. We co-design and market new educational products in collaboration with top teachers at traditional hippo schools.

The results are validating our model and popularity with hippos:

- Annualized revenue: $900K USD, growing +70% QoQ
- Margins: 50% – 60%
- Strong unit economics: CAC: $25, 25% repeat purchase rate in the past 6 months

Founders are third generation hippo teachers and technologists from the Bay Area.

Best,
Elizabeth

3. Do your research

VCs often tailor their investments around a certain type of business. Their focus could be an industry (VR vs. marketplaces), founder profile (female founders vs. founders in a specific region), or size (pre-seed vs. Series A). Many VCs won't take the time to respond to emails from startups that aren't in their sweet spot, let alone take a meeting with them.

As one investor told us, *"I'm far more likely to book a meeting from a cold email that seems like it could be a good fit for my firm's mandate than I am to book a meeting from a warm intro to a company that isn't a fit."*

4. Ask for intros, strategically

Most founders ask the same generic question at the end of their meetings. *"Here's our blurb, can you share it with anyone who may be interested?"* The founders or investors say, *"Sure, of course"* to be nice. But we all know they never actually share your info with anyone.

Now this isn't a bad question to ask, per se. The intent is actually great. But this question feels too general. Here's our advice: Change the way you ask. *"Can you think of one person who might be interested in hearing about my company?"*

This new question is wildly more effective. Most people can think of one name with ease. The hurdle is far lower and the ask is achievable. Oftentimes, that person is the richest person they know.

5. Reduce your red flags

As VCs, it's our job to ask the hard questions. To determine (quickly and fairly) whether a company is promising enough to warrant 45-60 minutes of our time. We review enough applications to quickly spot red flags in an application–things that prevent us from moving forward with a company.

Here are a few common flags that often prevent us from taking a meeting:

- If the founder isn't working on the business full-time
- If the revenue model is based entirely on ads
- If the team seems distracted with many different opportunities, rather than focused on the core business
- If we've already invested in a similar company
- If the company requires a huge amount of capital to be raised before you can take the MVP to market
- If the valuation is super high

Keep in mind that these "flags" are specific to Hustle Fund. Be sure to do your research (see tip #3) to find out what other VCs consider to be deal breakers.

Create your elevator pitch

OK it's unlikely you'll actually pitch your company in an elevator. But you will likely bump into an investor at a cafe where they'll eventually ask, *"So, what do you do?"*

Can you confidently and effectively communicate what your startup does in 30 seconds? Here's the structure we recommend.

Basic elements of an elevator pitch

1. Keep it short. Aim for 30-60 seconds.
2. Be straight to the point. Highlight 2-3 impressive things about your company, nothing more.
3. End with a specific call to action. Ask "Would you like to learn more?" to investors if you're looking to fundraise. Or ask "Do you have any feedback?" to founders if you're looking to improve your pitch.

Now let's see this in action. Imagine we created a company called The Well Crafted Adventure.

"Let's say you're traveling in the next 12 months and you have a few places picked out for business, family, and friends. You can tell the app more about the type of adventuring you like to do, your fitness level, where you plan to travel, etc. And this app will spit out recommended adventures in each location. It will connect you with a local expert and it'll provide a list of places where you can rent gear

or anything else that would make your adventure easy while you're on the road."

Here's how we would turn this generic company description into a compelling elevator pitch.

"I founded a company called The Well Crafted Adventure. Our app allows us to understand how people prefer to travel. Then we use our AI to spit out recommendations of things you can do, where to find the proper gear, and more info on how to maximize your time to enjoy the trip.

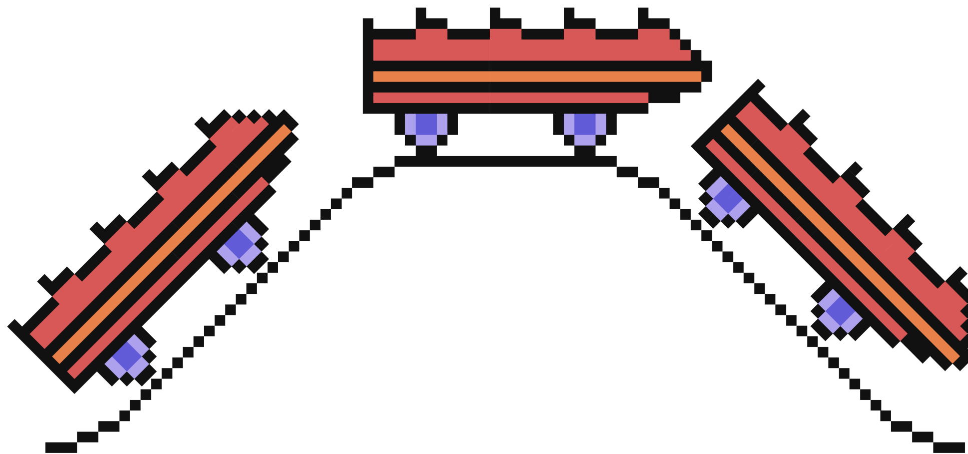
We've attracted 750k users in the second year alone, growing at a 35% month over month rate. We've been named App of the Year from both National Geographic and Outside Magazine. Founders have previously been the GM of Expedia and Tech Lead at JetBlue.com. We're currently closing up our round. If you'd like to learn more, let's continue the conversation."

The pitch is concise, it highlights a few impressive items (using AI, growth rate, and notable partnerships), and ends with a call to action.

Don’t try to close money off an elevator pitch

The goal of an elevator pitch is to leave the investor curious to learn more about your startup. It’s inappropriate to ask, *“Are you ready to put $100k into this idea?”* right after a pitch.

There’s not enough context or trust in the relationship yet. Remember: an elevator pitch is only the tip of the iceberg. Schedule a proper meeting with the investor and be prepared for the next steps.



CHAPTER FIVE

Pitch to investors

Pitching to investors can feel intimidating, but it doesn't have to be such a scary thing. Hustle Fund GPs Eric, Elizabeth, and Shiyan have seen over 50,000 pitches from startup founders throughout their careers. So they know what makes a pitch great.

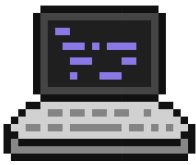
We'll walk you through how the whole process works and share some advice you might not expect.

How to run your first meeting with a VC

Meet on Zoom

It might seem weird to pitch over Zoom. But this is how Hustle Fund conducts all our pitch meetings. We love this medium because it allows both parties to see one another in their natural elements.

When founders meet with Eric on Zoom, they see him in his garage with his kids' bikes, BBQ, and trash cans in the background. Eric shows his real background because it shows what his life actually looks like. Vulnerability is often reciprocated and that's where you can both start to form a more personal connection.



Zoom tip: Set your camera to be at eye level to make the meeting feel more conversational.

Don't use a pitch deck

Yes, you read that correctly. It's totally ok to not use a slide deck during your first meeting. I know you spent weeks crafting your pitch deck, but hear us out.

When you use a slide deck, you automatically enter "presenter mode", which gives the meeting a clear power dynamic. Both parties become uncomfortably aware that one of you is the decision maker (hint: it's not you).

When you have a relaxed conversation with someone, the power dynamic feels more balanced. And when the dynamic is balanced, you can connect more deeply as humans. By the way, you can still pitch yourself and your company without using a pitch deck.

After the initial small talk, ask the investor to tell you a bit about themselves:

- How they got into venture
- What their role at their firm is
- A deal the fund recently completed

After they share their story, you can tailor your pitch to the VC's context.

Great storytelling is great listening

Having a normal conversation rather than a formal presentation gives you an opportunity to listen to what excites the investor. If they mentioned

- How they believe in startups who think slowly and long term, you can tailor your pitch to show how you're thinking long-term for your startup
- How they started their women-focused VC fund to even the playing field, you can emphasize the women and diversity on your team
- How they invested in a similar company, you can weave how that company has inspired your journey (if this is true) and how you have a similar vision as them

These are good ways to connect with the investor and find some common ground. As you share more about your similarities, notice

their reactions on Zoom. If the other person is looking away or fading off, change the subject to what they care about. If they're nodding and smiling, those are cues to lean more into your story.

Questions that early-stage VCs may ask you

Elizabeth has a list of questions that she regularly asks early-stage founders to decide whether or not to invest. The **questions in bold** are what she personally cares most about. The other questions are common examples of what many early-stage software investors may ask.

Team

- **Tell me a bit about your background and your co-founder(s)'s background.**
- **How do you all know each other?**
  - **How long have you worked together and in what capacity?**
- Why is your team uniquely motivated to solve this problem?
- Why did you pick your co-founder?
- Who do you need to hire during the next 18 months to be successful?
- When was the last time you disagreed on a business issue? How did you resolve it?

- Do the founders have the knowledge to build the technology or would they need outside help?
- What does the cap table look like? (equity distribution across founders)

Problem You're Solving

- **What is the specific problem you are solving?**
- How big / serious of a problem is it?
- **Why is this a problem?**
- **Who has this problem?**

Solution / Product

- **How are people solving this problem today?**
- **Describe your solution to this problem.**
- What effort/timing is required to switch from a different solution to yours?
- (For deep tech) What is unique about the tech? (Do you have any patents / IP / trademarks?)
- What is your product roadmap for the next 6-12 months?

Market / Market timing

- **Why now?**
    - Why hasn't this worked/been done before?

- How big is this specific market?
  - How many people does it affect?
  - How much money are people spending to solve this?
- What is your unfair advantage?
- Who would you see as your key competitor at the moment? Why?

Customer Acquisition / Unit Economics / Go-To-Market

- **Who is your customer persona?**
  - **Who is the end user?**
  - **Who is the buyer?**
  - What does a day-in-a-life look like for these people?
- **How much are people paying today? (range?)**
  - How much do you think you can charge in the future?
- **How are you currently getting users/customers? (what customer acquisition channel(s)?)**
- **How do you think you will get users/customers in the future?**
- **How much does it cost you currently to get a user? And in which channel?**
- How have different customer acquisition channels performed? For example, what is the difference in conversion rate between Facebook ads versus LinkedIn ads?
  - Tip: understanding how to slice and dice your numbers over time and through different channels helps you understand two things: Are your numbers getting better

over time? And which channels are working or not working?

- **How much does your solution/product cost (COGs)?**
- **How much will it cost in the future?**
- **Why do people buy/use your solution?**
- **What is the sales cycle to-date?**
- **How does the product team interact with current and potential customers? If so, how and how often?**

Competition

- **What differentiates your solution from other alternatives?**
- Who are you more afraid of: Google or another startup?
- Who are you most afraid of?
- What happens if Google (or equivalent) does this?
- Who are the major players?
- What is your moat?

Traction

- When did you start the company?
- How many customers do you have to-date?
    - Or how many pilots / contracts are signed?
        - When are the start dates of those pilots / contracts?
        - What are the contingencies?
    - Or how many LOIs signed? What do those look like?
- How much revenue have you generated to date?

  - How much revenue did you earn this month? Last month? The month before?
  - As product revenue vs consulting / services revenue?
  - What are your margins?
    - Tip: margins are especially relevant for companies with a high cost of goods, like expensive items, or e-commerce companies with delivery expenses.
- Any notable customers?
  - Any enterprise customers paying big money?
- **What does retention or churn look like? (if you know)**
  - How many daily active users do you have? How many monthly?
  - What is your monthly churn?
    - Tip: churn is especially important for subscription-based companies
- What does engagement look like?
- What is your website conversion rate?
  - How have your conversion rates changed over time? Have they increased, decreased, or stayed the same?
- Any upsells?
- When will your company break even in terms of profitability and cash flow?

Fundraising/plans

- **How much have you raised to date?**
  - **What were the terms in your last round?**

    - Who are your current investors?
- **How much are you looking to raise?**
    - **What are you looking to achieve (milestones) with this round if everything goes well?**
    - **What milestones do you expect to hit with this raise?**
- **Where are you in your round?**
    - **Have the current terms been set? And if so, what are they?**
- **What is your burn rate?**
- **What is your top priority for the next 3-6 months?**
- What metrics do you care about when measuring the health of your business? Why?
- What are your capital costs? (if capital intensive, like hardware / e-commerce)
    - Minimum batch sizes / inventory / etc?
- Have you secured a lead investor for the round? If so, who and how much is the lead investing?

We recognize that these are tough questions. And sometimes tough questions put people on the defensive. A red flag for most investors is when founders get SUPER defensive, or even dismissive of the questions or ideas that investors bring to the table. This is because a defensive founder indicates that they are probably not coachable.

Now you should feel free to push back against an investor if you have a different opinion. Especially if you have data to back up that

opinion. But there's a difference between being a jerk and holding your ground.

Our team at Hustle Fund looks for founders with growth mindsets. People who are open to receiving new information and hearing new perspectives, then changing their worldview based on that new information. It's a big red flag when it appears the founder lacks that mindset.

> If you find that investors are grilling you on your business, that's actually a good sign. This means the investor is interested in the business and wants to dig in more.

One more thing: your numbers or answers might not be impressive, especially if you're an early-stage company. That's OK. The important thing is to know your metrics.

True story: once someone from our team was on a Zoom meeting with a founder looking for investment. During the call, one thing became painfully clear: this founder didn't have a basic understanding of his metrics.

He didn't know how much traffic he got each month, or at what rate his customers converted. He didn't know how many of his purchases

were from returning customers, or what it cost to convert a visitor into a paying customer.

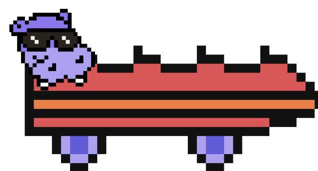
Spoiler alert: we didn't invest in this founder.

But the reason we didn't invest had nothing to do with what his actual numbers were. It came down to the fact that this founder didn't understand what was happening in his business. If the founder had a firm grip on his metrics – even if the numbers were low – it would have shown us two important things:

1. He has thought critically about his funnel
2. He knows what's happening in the business and can iterate quickly.

I'll say it again: **the actual numbers meant far less to us than the founder's understanding of those numbers**. Because without that knowledge, how can the founder know where to focus his time and resources? How will he know what's driving the business, and what changes should be made to improve it?

Prepare as much as you can to answer these questions. Respond gracefully and honestly. You'll be on the right path.



Questions that founders should ask VCs

Fundraising meetings are a two-way street. Entrepreneurs need to do a good job answering an investor's questions, but they should also ask questions to VCs. Skipping this is a serious mistake.

Entrepreneurs should learn everything they can about an investor before entering into an agreement. You don't want to take money from bad apples. If things get tough down the road, investors can:

- Call their convertible note
- Potentially replace you (depending on the equity and board situation)
- Threaten litigation (even if they have no case)
- And most importantly, be a big pain in the ass and call you all the time

You are looking for a relationship – not just money.

Before taking an investor meeting (or even reaching out), do your homework and research investors. Make sure to reach out to investors who are actually a good fit for your business (stage, sector, amount, what they look for, etc). Most websites will spell his all out – especially newer micro funds who are trying to differentiate themselves in the market by going after a specific niche.

In addition, here's a list of questions you should ask investors when you meet them:

- How big is your fund? (for VCs)
- Where are you in your fund? (for VCs)
- When will you need to fundraise again? (for VCs)
- Do you lead rounds? (for VCs)
- What is your typical check size?
- Do you reserve capital for follow-on?

This gives you a sense of how much money you can raise from a given firm or individual. This is key because there are a lot of investors out there who have no money but are still taking meetings.

It's OK to take a meeting with an investor who has no money to invest, but you should know that they won't be able to come into your round until they have raised money so your meeting might not lead to anything.

Understanding how much is allocated for follow-on investments also gives you a sense of how much money is left in a fund. If a fund is $10M and two-thirds is reserved for follow-on, then in practice, there's $3M for first checks. If the firm has already deployed $2M, you know that your chances of getting a first check are slim.

In general, it's slightly easier to raise from funds that have just raised a fund. They have a lot of money that needs to be deployed, and so they are more eager to invest. In contrast, when there are fewer

dollars left to deploy, those last dollars will be extremely competitive.

You should find out an investor's cadence:

- How many seed deals have you done in the last 6 months?
- How many seed deals do you anticipate doing in the next 6 months?
- How long does your process typically take?

And how decisions are made:

- What is involved in your process?
- Who is the decision maker? (for VCs, although sometimes angels need to consult their families or friends)

By the end of the meeting, you should understand:

- Everything about an investor's decision-making process
- Whether you have a champion to take this to the decision makers (whether it be partners at a firm or their family)
- What the concerns are with your business in their eyes
- What the CONCRETE next steps are

If you do not have answers to ALL of these questions, do not be afraid to keep asking questions.

- Everything about an investor's decision-making process

- Whether you have a champion to take this to the decision makers (whether it be partners at a firm or their family)
- What the concerns are with your business in their eyes
- What the CONCRETE next steps are

If you do not have answers to ALL of these questions, do not be afraid to keep asking questions.

Follow up immediately after the call

After Eric pitches a prospective investor, he sends a follow-up note as quickly as possible. Sometimes within minutes of hanging up. You don't have to be *that* fast.

But it's good to set expectations before you hang up, saying something like "I'll follow up in the afternoon" or "I'll get back to you within 24 hours." And then *actually* follow up within the timeline you've set.

This signals that you're a person who does what they say. This may seem like a small thing but investors notice these details.

Craft the perfect follow-up email

Let’s talk about the anatomy of a great follow-up email, then we’ll show you an example template that you can use in your follow-up emails.

First, we recommend reiterating details that made the other person excited during the call. Here’s an example.

Imagine you just pitched your fintech company to an investor, who mentioned that she’s interested in Latin American fintech infrastructure. You can reference that note and frame your company (or yourself) as a thought leader in this space in your follow-up email.

Next, include anything you promised to share after the meeting. This could include your pitch deck, a link to an article you mentioned, info about your market, data from your pilot program, etc. Make sure the other person has everything they need to properly evaluate your startup.

Lastly, set expectations on what’s next. This could be something like *“I’ll follow up in a week after you’ve had a chance to process the info and organize your thoughts.”* Most email clients allow you to “snooze” the email, so the message will automatically pop back into your inbox a week later (if you haven’t received a response by then).

Example of a good follow-up email:

Hey {NAME},

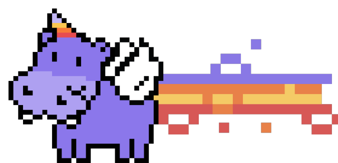
Thanks so much for spending some time with me this morning! Really glad we can share intros and get to know one another. I love how excited you were about {Reference back to something that made the investor excited during the call}

Some additional context about {Your company}:

- {Mention notable progress}
- {Include link to pitch deck and other materials}
- {Link to notable press coverage}

Thanks for your time and hope we get a chance to collaborate!

Best,
Eric



Create your investor CRM

Here's our controversial take: A great fundraising process is only 20% about pitching. The other 80% is all about organization.

While fundraising for his startups and for his fund, Eric spoke to thousands of investors. It was impossible to remember all of them, let alone details of when they last spoke, what they talked about, etc.

The secret to Eric's success in fundraising is having a strong CRM system to organize everything. For those who have lives outside of making spreadsheets, **CRM stands for customer relationship management.** Companies like Salesforce, HubSpot, and Pipedrive have built exquisite CRM systems. But a CRM can be as simple as a Google Sheet.

A CRM is a tool that keeps all your contacts in one place with detailed notes about each relationship. Using a CRM allows Eric (and his team) to tailor communications, build stronger relationships, and ultimately close more deals.

Let's walk through a template we've made (yes, you can duplicate it) to show what makes an effective CRM and how to get started today.

Name	E-mail	Type of Investor	Referrer	Stage	Committed: 300000	Notes	Closed: 200000	Next Contact
Hippo Angel	angel@fakeangelinvestor.c	Angel	Janine Hippobotherto	Due Diligence		10/18/22 - Sent blurb, awaiting response. 10/25/22 - Reached out to angel, asked about new questions/thoughts. 10/27/22 - Great conversation with Hippo Angel. Learned that she is a member of the royal family in Wales and loves building robot airplanes in the side. Has 2 dogs.		11/1/2021
Investor A	example@example.com	Angel	Example Name	Lead		10/25/22 - Asked Hung to forward my investor blurb to this angel. Hung confirmed he has sent.		10/27/2021
Investor B	example@example.com	Angel	Example Name	Lead				10/25/2021
Investor C	example@example.com	Angel	Example Name	Lead				10/25/2021
Hippo Venture Capita	hippo@fakevcfund.com	Venture Fund	James Hippoton	Soft Commit	$100,000	10/20/22 - Committed at Philz Coffee. Great taste in patagonia sweater vests!		10/27/2021
Investor D	example@example.com	Angel	Example Name	Lead				10/28/2021
Giraffe Ventures	giraffey@giraffe.com	Venture Fund	Ms. Giraffey	Lead	$150,000	9/15/2022 - Talked about hippos and giraffes. They seem so interested. 9/16/2022 - Blah.	$150,000	10/28/2021
Investor F	example@example.com	Venture Fund	Example Name	Lead				10/28/2021
Investor G	example@example.com	Family Office	Example Name	Lead				10/28/2021
Investor H	example@example.com	Family Office	Example Name	Lead				10/28/2021
Investor I	example@example.com	Corporate	Example Name	Lead				10/30/2021
Investor J	example@example.com	Angel	Example Name	Lead				10/30/2021
Investor K	example@example.com	Venture Fund	Example Name	First Contact				10/30/2021
Investor L	example@example.com	Venture Fund	Example Name	First Pitch				10/30/2021
Investor M	example@example.com	Venture Fund	Example Name	First Pitch				10/30/2021
Investor N	example@example.com	Venture Fund	Example Name	First Pitch				10/30/2021
Investor O	example@example.com	Venture Fund	Example Name	First Pitch				10/30/2021
Investor P	example@example.com	Venture Fund	Example Name	First Pitch				10/30/2021
Hustle Fund	hustlefund.vc	Venture Fund	Cold outreach	Signed	$50,000	10/15/22 - Elizabeth committed on the spot!	$50,000	CLOSED

This spreadsheet may look like a lot at first. But a CRM is simpler than you might think. Also, since the text on this image is hard to see, let's break down each section.

	Name	E-mail
2	**Name**	**E-mail**
3	Hippo Angel	angel@fakeangelinvestor.com
4	Hustle Fund	hustlefund.vc
5	Investor A	example@example.com
6	Investor B	example@example.com
7	Investor C	example@example.com
8	Hippo Venture Capital	hippo@fakevcfund.com
9	Investor D	example@example.com
10	Giraffe Ventures	giraffey@giraffe.com
11	Investor F	example@example.com
12	Investor G	example@example.com

Basic contact info

To kick things off, add the names and email addresses of the investors that you already know. Then add the names and email addresses of prospective investors you'd like to build stronger relationships with.

Type of Investor

In the next column, label what type of investor they are (angel investor, venture fund, etc). This will help you tailor your messaging accordingly.

Referrer
Janine Hippobotherton
Example Name
Example Name
Example Name
James Hippoton
Example Name
Ms. Giraffey

Referrer

The referrer is the person who introduced you to the investor listed in your CRM. So if James Hippoton sent an email to introduce me to investor Eric Torres, James is the referrer.

This is crucial because your team can see where your leads are coming from. Plus, if the introduction is beneficial, it's respectful to reach out to the referrer later on to say thanks.

Add their names in the next column and let's keep moving.

Stage

What stage are they at in terms of considering an investment in your company? These stages can be customized to your situation. For simplicity, we'll show you the stages that we use during our fundraising process.

- **Lead** – When someone offers to refer somebody new to you but you haven't made contact yet.

- **First Contact** – This is the first time you've officially engaged. Someone might have sent an email introduction and the lead may have reciprocated back saying, "Yes, let's meet!"

- **First Pitch** – This is the first meeting you have with them to pitch your company. Usually done over Zoom without a pitch deck.

- **Due Diligence** – This comes after the pitch when they're considering investing. It's normal for investors to ask to see more materials to help them make a decision.

- **Soft Commit** – This is when they are interested in investing and have given you a dollar amount they want to put towards your company. This is purely a verbal commitment, nothing official, but a positive sign to move them into the next stage.

- **Signed** – This is when the confetti drops from the ceiling because you have received a full commitment from this investor. Whooot!

- **Rejected and Ghosted** – If someone rejects your pitch, mark them as "rejected" and invite them to be part of your investor newsletter (more on that in the next chapter) to convert them later down the road. If someone isn't returning your messages, you should ping them at least 10 times before marking them as "ghosted."

Name	E-mail	Type of Investor	Referrer	Stage	Committed: 300000 Total sum
Hippo Angel	angel@fakeangelinvestor.com	Angel	Janine Hippobotherton	Due Diligence	
Hustle Fund	hustlefund.vc	Venture Fund	Cold outreach	Signed	$50,000
Investor A	example@example.com	Angel	Example Name	Lead	
Investor B	example@example.com	Angel	Example Name	Lead	
Investor C	example@example.com	Angel	Example Name	Lead	
Hippo Venture Capital	hippo@fakevcfund.com	Venture Fund	James Hippoton	Soft Commit	$100,000
Investor D	example@example.com	Angel	Example Name	Lead	
Giraffe Ventures	giraffey@giraffe.com	Venture Fund	Ms. Giraffey	Lead	$150,000

Committed

If the investor has given you a verbal commitment with the amount they want to invest, include this number in the "Committed" column. Above, you can see three investors committing a combined total of $300,000 as an example.

Notes
10/18/22 - Sent blurb, awaiting response. 10/25/22 - Reached out to angel, asked about new questions/thoughts. 10/27/22 - Great conversation with Hippo Angel. Learned that she is a member of the royal family in Wales and loves building robot airplanes in the side. Has 2 dogs.
10/15/22 - Elizabeth committed on the spot!
10/25/22 - Asked Hung to forward my investor blurb to this angel. Hung confirmed he has sent.
10/20/22 - Committed at Philz Coffee. Great taste in patagonia sweater vests!
9/15/2022 - Talked about hippos and giraffes. They seem so interested. 9/16/2022 - Blah.

Notes

The “Notes” section summarizes what you talked about during your calls or emails. Add as many notes as you can along with the dates of each interaction. These notes are crucial because fundraising is a team sport.

Tracking everything helps your team understand all the context of the relationship. So when they interact with this person, they know where each investor is in the process, and can pick up right where their teammate left off.

H	I
Closed: 200000 total sum	**Next Contact**
	11/1/2021
$50,000	CLOSED
	10/27/2021
	10/25/2021
	10/25/2021
	10/27/2021
	10/28/2021
$150,000	10/28/2021
	10/28/2021

Closed and Next Contact

The “Closed” column shows how much money you’ve actually closed. This is the time to celebrate! Put on some upbeat music. Have a dance party. You deserve it.

Ok, time to get back to work. The last part of the CRM is a “Next Contact” column. This is a reminder for yourself when you should reach out to this person again. So if you're still in the due diligence or soft commit phases, set a clear date here on when you should follow up.

If people have committed, we recommend being aggressive and following up every two or three days. This shows that you’re committed to making this work and are certain you have given them all the materials they need to make a decision.

For the people who have rejected or ghosted you, you should keep reaching out. One time Eric reached out to an investor 12 times with no response. Then, on the 13th attempt, that investor replied. He ended up committing half a million dollars into Hustle Fund.

So a rejection is never truly a rejection until you get a hard “no.”

What's the key takeaway?

Your investor CRM is a critical tool for successful fundraising.

- All your contacts are in one place with detailed information
- All interactions your team has had with each person are tracked so everyone is on the same page
- It tracks where everyone is in the fundraising process and gives reminders on when to follow up.

Start your investor CRM as soon as possible. Like, now. There are paid CRM tools out there to track opens and clicks on emails. But to keep things simple, start with a basic spreadsheet. We created a free template that you can use as inspiration.

Create an investor newsletter

Whether they committed capital or turned down the opportunity to invest, invite all the investors you connect with to join your investor newsletter.

This is a monthly update on what's happening in your startup. This newsletter has two benefits:

1. **It keeps your existing investors engaged** – and helps you make important asks when you need support.

2. **It's a crazy effective fundraising tool** – the people who said "no" to you are looped into your progress and may convert into investors down the line.

Here's what's inside an effective investor newsletter (you can duplicate our template here).

SUBJECT LINE: HippoLove Investor Update - June 2021

EMAIL BODY:

Hey [INVESTOR],

We hope that you are having a great summer. We are pleased to share that our team has been fully vaccinated, and we are now meeting in person on a regular basis! Here's a picture of us enjoying an afternoon of work at Jack London Square from last week:

Very much look forward to catching up with many of you over coffee in person soon.

All information that follows is confidential, please do not share or forward.

The introduction

Eric likes to add a bit of humanity at the top of his newsletters. This usually means sharing an update on what's going on with the team or his own life. It's a nice way to show everyone you're a team of good human beings.

TL;DR.

- We are now at $1.5M ARR.
- HippoLove is now pacing 32% month-over-month revenue growth, and have sustained this level of growth now for the past six months.
- Our team just hired a new CFO, who was previously the VP of Finance at Amazon!
- We believe we are Series A ready. We are considering a raise starting with our insiders first.

If you'd like to quickly catch up let's schedule 15 minutes here: [calendly link]

Executive summary

Next, Eric recommends including an executive summary. This should consist of the most important items, like:

- Major news (positive and negative)
- Top line review numbers
- Growth metrics
- Key hires

Not every investor will read the entire newsletter. This executive summary gives them the TL;DR (too long; didn't read) of what's most important.

What does HippoLove do?

HippoLove is a platform to help zoos better manage the health and safety of their hippos. Hippo management has traditionally been an arcane industry, managed by paper and pen for decades--we are modernizing this space with cloud management software, machine learning, and data analytics. We are backed by Hustle Fund and other top VCs.

Key Asks.

- We are hiring 5 infrastructure engineers: [job link]
- Our CEO is looking for an executive coach. Would love recommendations, please reply.
- We are running into a payments scale issue with Stripe. Anyone here have contacts at Stripe or expertise to share to assist us? Please reply.

Company description and key asks

Yes, founders should "repitch" their company again. Believe it or not, investors sometimes forget what they invested in since they've invested in so many companies. Or prospective investors on your list need a quick refresher on what you do.

A short summary to remind folks of your mission and what you do is beneficial for everyone.

Next, include your key asks. These are areas where you could use help like hiring, coaching, or fundraising advice. Investors want to help you but don't always know how. This section makes it easy for them to reply, *"I know somebody at Stripe! Let me connect you to them now,"* or *"I have a recommendation for an executive coach. Here's their website."*

> **Our goals from May.**
>
> - Hire 2 new front-end engineers. Goal hit.
> - Reach $1.6M ARR. Goal miss by $100K.
> - Complete our NPS survey of existing clients. Goal hit, and more details below.

Goals and highlights

Investors like to see founders set clear milestones and reflect on past goals. The highlights section helps investors better understand what the founders are going through.

Like in the section about revenue (in the photo), it's totally ok to say,

"We set this goal. We didn't really make it. But this is what our projections look like now and the lessons that we've learned."

Some final stats.

- Current burn is $100K/month, which gives us 10 months of runway. $1M in the bank.
- We have 47 candidates in our pipeline for infrastructure engineers, but given the roadmap we have planned, we need to at least double this to triangulate the right candidates.
- Retention is now at 97%! People love our product!

Final stats

It can be helpful to reiterate some important metrics again toward the end of the newsletter. Founders don't need to include a final stats section every time. But if there's a massive milestone you want to emphasize, include that here.

Thank you!

- Huge thank you to Elizabeth Yin at Hustle Fund for offering key advice on hippo grazing.
- Thank you to Natasha at TechCrunch for the awesome coverage of HippoLove last week: [LINK]
- Final thank you to Jimmy Jingleheimer for spending several hours this month with us to analyze our cohort analysis.

***

It's been a wonderful month, thank you all for being a part of this journey! If you'd like to catch up, please schedule 15 minutes with me here: [Calendly LINK]

#Hippos4Life,

Rhonda, Co-Founder and CEO

Thank yous

It's possible to train people to read a specific section of your newsletter by giving them a chance to see their own name listed. In our Hustle Fund investor newsletter, we give a dozen shout-outs to

people who have helped us in the previous month. People often read to the end to see if they're listed.

This is also a subtle name-dropping element. Including the people who have helped you gives everyone a sense of the community you're surrounding yourself with. This can also potentially FOMO people into helping you, as well.

Bonus tip: Add your Calendly link

Consider adding a link where prospective investors can schedule a call with you. Remember, this investor newsletter is essentially a drip campaign for your fundraising. These monthly newsletters show prospective investors all the work you're doing along with a progress report of how it's going. So when it's time to raise money again, you have the opportunity to include a Calendly link and say something like,

"Things are going great. We're thinking about doing a little round with our insiders first before we raise something bigger. Here's my Calendly link if you want to schedule time."

If you've done your work well, you're going to see a lot of people schedule a meeting with you.

Be consistent

Consistency is paramount. Whether it's once a month or once a quarter – we recommend once a month – you want the folks on your investor newsletter to get used to hearing from you at a regular cadence. It's a great way to build trust with your investors. They'll see you as reliable and trustworthy, and will be more likely to recommend you to other investors and strategic partners in the future.

Newsletters can also be a way to slowly pitch your company over time. And it works. At Hustle Fund, investors who have passed on us have invested in later rounds because of our newsletters. If someone rejects you on an investment, invite them into the newsletter anyway. You might find that over time, you'll be able to land them as an investor.

Keep it simple

It's OK to send the same updates to all your investors. No one needs an individualized note to go with their update. Just be sure to BCC everyone so you're not sharing their information without their approval.

Lastly, include relevant links. Did you just launch a new product? Post a new job listing? Release a new version of your website? Linking to those pages will make it easy for your investors to get excited about what you're building, and think of ways they can help you be more successful.

How to ask for feedback if the investor says no

One thing that frustrates our team about venture capital is *vague passes*. Most investors aren't incentivized to give a clear reason to say "no". They'd rather preserve the optionality of coming back to you later if it seems that your business is actually doing well.

Frankly, this feels disrespectful. But it's bound to happen. Here are two ways to try and get some real perspective on what may be happening.

1. – Ask the investor directly

"Is there one thing that caused you concern about our company?"

If you ask for generic feedback, there may be too much "analysis paralysis," and it's going to be hard to get an answer. But when you ask for just one reason or one thing that you could improve, this makes it easier for the person to respond.

Keep in mind if you use that "one thing" to try and convince them that they were wrong, you'll likely just jeopardize the relationship. If you do get feedback using this method, we recommend thanking them for their honesty, letting them know you're addressing that piece, and asking if you can add them to your investor update newsletter.

2. – "Pitch" to other founders

If you've been talking with investors and the conversations haven't gone anywhere, pitch your startup to other founders. Make sure these are founders you can absolutely trust. Give them permission to drop honest and brutal feedback.

Ask targeted and action-oriented questions like, *"What is one thing you think that I should change about my pitch?"* You can even gather a few founders into a small mastermind group to do this activity together. Each person pitches and the other people in the group give feedback for 10-15 minutes. This allows you all to gather input from multiple perspectives and learn from each other.

What to do if you aren't hearing back from investors

If someone ghosts you after a Bumble date, they probably aren't that interested in you. But investors are a different story.

1. Be persistent in following up

Elizabeth used to think that investors would get annoyed if she bugged them too much. But now that she's on the other side of the table, she doesn't even notice if someone has pinged her three times because she's overwhelmed with emails.

If you get no response, follow up within the week – ideally 3-4 days later. If you still haven't received a response, follow up again 3-4 days later.

If you are writing to American investors, direct asks are best, because recipients are busy and don't want to spend time interpreting what you really want. Are you asking for a meeting about your seed round? Or are you asking for something else?

This should go without saying but… don't be an asshole. Emails like, "Listen stupid, you haven't responded yet" don't work. Don't even address the fact that the recipient hasn't responded yet because it sounds desperate. Just pretend that they never received the email in the first place. Sometimes that does happen.

Include a line that says that you'll stop pinging them if they're too busy or if it's not the right time to partner. You're simply looking for a confirmation – yes or no. Having persistence is more appreciated than people might assume here. Just keep at it.

2. Be nice to an investor's assistant and ask for help

It goes without saying that you should treat an investor's assistant with respect. But take it one step further and be actively friendly. An investor's assistant is actually the most powerful person at the firm.

They control the investor's calendar, and while the investor may not 100% follow that calendar, the assistant may be able to nudge the investor or slot you in for another meeting if you're still having trouble.

3. Create urgency

If you're trying to get in touch because you are raising money, it helps to create urgency. An investor will make you their top priority if your deal is going to close tomorrow.

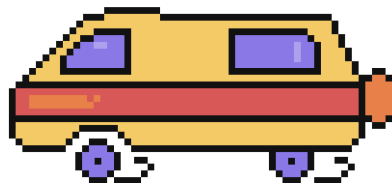
Now, the question here is credibility – you can't say your deal is going to close in a week unless it really is. One big mistake that entrepreneurs make is to say, *"Oh my round is closing next week and we have a ton of interest."* And next week comes and goes and no one has committed to the round! All of a sudden the entrepreneur looks either like a liar.

The urgency you create must be real and something you know 100% you can deliver on. Here are some things that can say to create urgency:

- You have a Demo Day coming up on X date, and your price will likely go up afterward.
- You are in second-meetings with a number of investors (this must be true!) and you expect the round to close soon.

- You only have $X left in the open round and about $Y amount of high-level interest from the investors you're talking to, so you need to know soon.
- You are only raising $X (a small amount) on a convertible note at $Y cap, and after you hit that, the price will likely go up. (Note: use this only for investors who don't lead rounds)

Creating urgency is a good thing, but remember: you must be credible. Otherwise, it can backfire on you and your reputation.



CHAPTER SIX

What to do after an investor verbally commits

An investor may tell you "Yes, I want to invest" but the hard work is not over yet. Here are some things we recommend you do before you officially accept their money, along with expectations about what happens next.

Do your due diligence on investors

It's normal for early-stage startups to grow for 7-10 years before getting acquired or creating an IPO. This means that founders will interact with their investors for a long time. As Eric puts it, you're

"growing old together," and most of us want to grow old with people we like and trust.

Before you officially accept money from an investor, you need to do your due diligence. You don't want to get into business with the wrong people. Here is an example of why Drew (founder) shouldn't have accepted money from Jason (investor).

- Jason called and emailed Drew ALL the time. Way too much for Drew's comfort level. Other times, when Drew emailed him for help or advice, Jason didn't reply for weeks.
- Jason had promised to introduce Drew to other angel investors but never fulfilled that promise.
- Jason told Drew that he wasn't ready to raise another round, but never explained why.

Meanwhile, Drew's founder friends saw Jason's name listed as his investor on Crunchbase. They went out of their way to share unflattering stories of their experiences working with him. But it was too late for Drew to reverse his decision to work with Jason.

He could have avoided the drama if he didn't skip a critical part of the fundraising process – conducting **investor reference calls.**

Investor reference calls are phone calls with other founders who have worked with your prospective investor. These reference calls usually take 10 minutes and will probably tell you everything you

need to know. Trust us, putting in the time to complete this step will help you avoid toxic investors and save you years of pain.

How to find investor references

First, ask your investor for two references. Drew can ask: *"Hey Jason, are there two founders you've worked with that I can speak to? I want to learn more about the relationships you have with your founders."*

Next, we recommend finding two more founder references outside of the names that the investor gave you. Why? Because an investor will give you the names of two founders that he feels confident will give him a good review.

But you want a less biased source. So how do you find the other founders? Here are two methods that we've seen work well:

1. At the end of your call with the first referred founder, ask them if they can refer you to another person who has worked with the investor. This is the easiest way to get a sense of who's within the orbit of the investor that you're considering taking capital from.

2. Look at LinkedIn and other investor databases, and email founders who have worked with that investor. You'd be surprised at how effective a cold outreach is when you're doing investor due diligence. Founders are eager to help other founders when they can.

What to ask in your reference calls

You've now set up several calls. What should you ask these founders about the investors you're thinking of working with? Scott Cook, the founder of Intuit, recommended two key questions.

"On a scale of 1-10, 10 being perfect and 1 being catastrophic, how would you rank this person?"

Expect the founder to say 8 or 9. They will likely list a canned response of how helpful or awesome the investor has been so far. Founders want to be cordial and not speak poorly of anyone's character. This is where our next question is extra critical.

"What would this person need to do to become a 10?"

Most people aren't prepared for this introspective question. That's when you'll hear more honest answers.

- *"I wish Quinn was a more strategic thinker."*
- *"I wish Mohit was more responsive."*
- *"I think Avery goes on vacation too much."*

When to conduct investor reference calls

Do your investor reference calls AFTER the investor commits and BEFORE you accept. Don't waste your time doing investor reference calls before they've even committed because it might be a wasted

effort. Don't leave it for after you've accepted their offer because once you're locked in, it's important to honor your commitments.

This is why doing your investor due diligence between these two stages is ideal. Any good investor will give you enough time to conduct these calls because that is what a responsible steward of capital should do.

Don't skip the references as Drew did. You're starting a long-term relationship with your investors. Spending a little extra effort at the beginning may save you a lot of pain down the road.

What to expect when you're expecting VC funding

When you accept money from a VC, there's a checklist of things that they need to verify before they're legally allowed to wire money to you. Things like:

- Certificate of incorporation
- Bylaws
- Board consents
- Founder stock purchase agreements
- Option plans
- 409a valuations
- Cap tables

And more documents. This can get more complex as you raise larger amounts of money. We recommend working with an attorney to make sure everything goes smoothly.

Here are some other things you should expect.

VCs may run a background check

It's pretty common for VCs to run background checks on founders before investing. They want to know if the founder has a criminal background or any active lawsuits that could put the business at risk.

VCs might also run an OFAC background check. This is when they run the founder's name through the Treasury Department database. They want to make sure the founder isn't aligned with terrorism or on any ban lists, sanctions list, etc. If the founder has a common name, this might trigger a false positive and they may need to clear things up with their VC.

VCs will ask you to sign a side letter

A **side letter** is a document outside of the SAFE / convertible note that outlines additional rights. You'll likely see these two from VCs:

1. **Pro Rata Rights** – this allows the VC to invest more capital into your company in future fundraises typically on a "proportional" basis (the right to reinvest the amount required to maintain the equivalent percentage of equity as before).

2. **Most Favored Nation Rights (MFN)** – this means if a different VC comes in later in the fundraising process and successfully negotiates a lower valuation than the previous investor(s), the previous investor(s) can re-set their valuation to the lower amount.

Other things can happen in side letters, too. We recommend reviewing everything with an attorney before you sign.

Call your VC to confirm wire details

This might sound strange but you'll actually need to call your VC to verify your details. No, texting isn't gonna cut it. Unfortunately, fraud and scams are always a possibility when it comes to wire transfers.

Hop on the phone and verify your routing and account number to make sure the money goes to the right place. Please do this.

Beware of VCs who don't actually have money

This isn't a good look for VCs, but there are investors who verbally commit to an investment who have no money. Or worse, investors who sign the official documents but don't wire transfer you the money until a year later… How is this possible?

This could be because the VC is still raising capital themselves. They can tell you they'd love to be your first check in for $100,000. You go through the entire process outlined above. And then you're waiting… for weeks. Months. Maybe even an entire year. You call your VC, *"Where's the money??"*

The VC may say something like, *"Well as you already know* [aka they never told you], *we are still in the process of raising our first fund. Once we can call down some money from investors, we will deploy it. Just be patient."*

This is a trap. Here's what you can do to catch signs before it happens.

1. Please please please conduct investor reference calls (don't skip this)
2. Seek clarity from VCs by asking these questions:
    a. When did you raise capital?
    b. Are you still in the process of fundraising? If so, when is your anticipated first close or second close?
    c. How long should we expect from your commitment to receiving a wire?
    d. How much money has been called by your current fund?

Getting a verbal commitment is just the first step toward actually receiving the money. Get your documents in order, confirm your wire details, and do your due diligence.

What investors look for in a data room

A **data room** is where founders store their most important company documents, like:

- Incorporation documents
- Bylaws
- Cap table

Basically, data rooms show that your startup is a legit company with actual employees. Super early-stage startups don't need a data room. But we've met great pre-seed and seed-stage startups that have a simple Dropbox or Google Drive folder with their key documents.

For series-A and beyond, data rooms are important because they have a lot more documents, like:

- Financial projections
- Client contracts
- Board minutes
- Founder stock purchase agreements
- Option plan and stock option agreements
- 409A valuation report

Do VCs actually need to look at all the documents? In full transparency, Elizabeth doesn't ask to see their data room when she personally invests in startups as an angel investor. But as a VC, she does ask for their incorporation papers to verify her investment is going to the company, not the founder's bank account. In addition, Hustle Fund verifies the founders have vesting in place, a stock plan, and a cap table that makes sense.

If the company sends her a link to the data room anyway, she doesn't thoroughly review each document. Instead, she looks to see how the founders organize their data room.

One of my favorite quotes is *"How you do anything is how you do everything."* As such, we can expect that the way founders keep track of their documents is reflective of the way they run their companies.

Impressive companies have everything organized and easy to find

- All documents are filed in the correct folders
- All important documents are included
- Everything is clearly labeled and easily searchable

Messy companies have very little sorted out

- Nothing is organized
- Files are missing
- Documents aren't properly labeled

Sure, we might verify some of your assets. But what's more important to us is seeing how you set up your Dropbox folder. Because how you do anything is how you do everything.

What if a founder doesn't have a data room?

In the early days, not having a data room isn't a big deal. But as a company matures, there are consequences for not having one. For example, we know a founder whose fundraising round stalled for months because his data room was missing half of the required documents.

As a best practice, we send all companies we invest in a checklist of items to share with us before we wire them money. You can use our template below as an example of what your investors might look for.

Hustle Fund's Document Requirements

We need fully executed and dated copies of the following:

- Action of Sole Incorporator
- Certificate of Incorporation
- Bylaws
- Board Consents/Minutes
- Founder Stock Purchase Agreements
- Option Plan and Stock Option Agreements (if any)
- 409A Valuation Report (if any)

- Capitalization Table (if any)
- Proprietary Information and Investments Assignment Agreements (PIIAs)

Some of these items like a 409A doc or cap table may be overkill, but the fundamentals are there. Any startup lawyer can easily provide this to a company.

Here's how you'll actually receive the money

In September 2022, Hustle Fund raised $46M for Fund III. You must think that we're sitting on top of the world with all that cash in the bank, right? Except we don't have $46M in our checking account, even though we raised that money.

How the heck does that work? There's a process we've gotta go through called **capital calls**. A capital call is the process by which VCs get access to the money they fundraised from their LPs.

When VCs have a deal that's ready to fund, they call down a percentage of the money that their LPs committed to our fund. Once the VCs have received the cash, they're able to wire the appropriate amount to the founders.

The norm in VC is to ask for little portions of their funds several times each year. But if they haven't called enough to fund all the startups

they've committed to, the VC may need to make an additional capital call, which can take a few weeks or even months.

Why does the process work like this?

Imagine we received all $46M that we raised upfront and we issued a $50k check to a founder. That means $45,950,000 is left sitting in our checking account. That's money not being put to work. Maybe not even earning any interest.

That money could be back in our LPs' hands to generate more cash. They can invest in index funds or real estate or something else as they wait for us to fund deals. It makes sense for VCs to not have all the money sitting idle in their bank accounts. But this means the capital call process takes time, and it's often the most common reason for delays in founders receiving money from VCs.

Every time a fund calls down money, they need to

- write an investment memo
- document why we're investing
- inform our LPs that we have a deal that's ready to fund

Basically they're asking their LPs "Please give us some money that we raised from you so we can fund this awesome startup." Money is normally called down by percentages. So our fund admin (who manages cash flow) may tell our LPs that they want to call down 1%

($460,000) from our Fund III. Or they want to call down 10% ($4,600,000).

A typical capital call takes two weeks. And there's a two-week grace period window for each LP to send the money to the VC fund, which can cause more delays. At Hustle Fund, we have a different kind of capital call structure. We call a little bit more money than we normally need at any given time so we can wire money faster since we do a lot of deals. That process is slowly starting to become the norm, but it's still infrequent.

Delays are somewhat common but it is rare for an LP to completely miss or ignore a capital call. To spare you the details, there are severe consequences to the LP if this happens. Plus it massively damages their reputation. Be patient when waiting to receive the money. If there's a delay, you'll know that it's likely because of the capital call process.

What to say to your team after a successful fundraise

Once you complete a successful fundraise, it's best practice to communicate expectations with your team. Be sure to cover:

1. What you're gonna do with the money
2. How these funds affect your runway

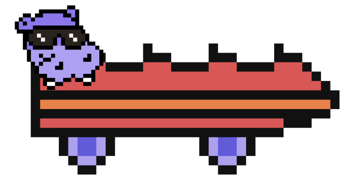
3. How this could be your last fundraise, ever…

1. What are you going to do with the money?

You've pitched a roadmap to investors on what you're going to do with this cash. Now it's time to bring your team up to speed on what you've promised.

Will you hire more employees? Boost your marketing efforts? Buy new office chairs for your team? Be super clear on how the money will be spent. Then actually do those things.

Employees might feel this is a good time to mention that they want raises. It'd be smart to prepare for these potential conversations.



2. How these funds affect your runway

You want to explain how these funds are going to affect your company's runway and the timing of your next fundraise. Tell your team what milestones you need to hit before the next fundraise.

Imagine I had a company called Quantus Solutions that just raised $2M. I told investors that I'd generate $10M in revenue with 20 enterprise clients within 12 months. My plan is to raise the next round of funding only when I accomplish this milestone. We

currently have 18-24 months of runway so we have some buffer in case we don't hit $10M in 12 months. But the goal is crystal clear.

Founders often forget to share this crucial piece of info with their team. They usually go out for a nice dinner and celebrate. Then everyone just goes back to work. But your team needs to be in the loop. Transparency builds trust. Share how much runway the company has left and what the team needs to achieve together to get everyone on the same page.

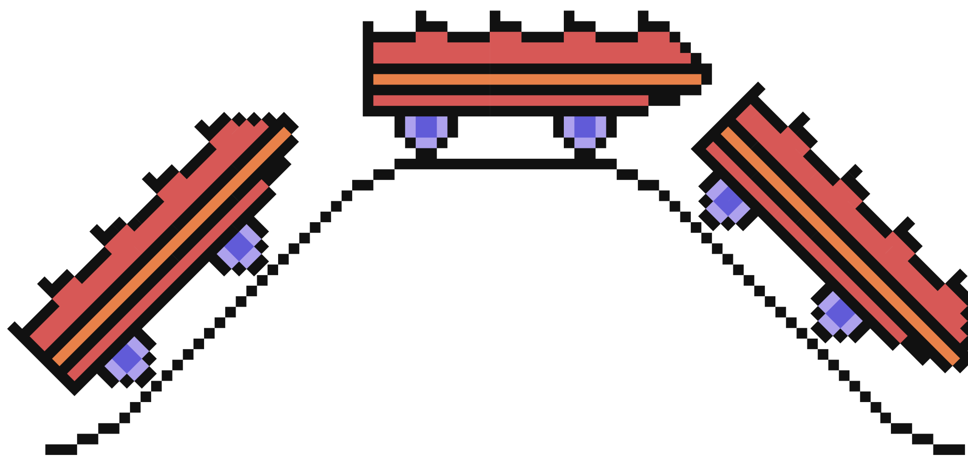
3. This could be our last fundraise…

The final thing you should share is the most cheerful point of all: everything could go in flames tomorrow.

It's currently January 2024. We're in a downturn right now. Raising capital has gotten harder. Maybe the economy will get worse. We don't really know what's going to happen. With all this uncertainty, it's hard to predict whether or not you'll be able to raise money in the future. So the goal here is to stay alive.

There's no need to incite panic, but help your team understand that every dollar is precious. Just because you have more of it now than you did a few months ago doesn't mean you can waste it. Raising money after you achieve your big milestones is not guaranteed.

Continue to be lean, disciplined, and resourceful. Don't forget your bootstrapper roots. It might even be easier to ignore the fact that you have all this money in the bank. Whatever helps you stay alive.



Conclusion

Wow – you read to the very end! 🦛

This book is everything we wished we had known when we first started to fundraise for our startups. We hope it helps you build a thriving business that brings you joy and helps you leave your mark on the world.

Hustle Fund invests in hilarious early-stage startups. If that's you, tell us what you're hustling on at hustlefund.vc

We write a weekly newsletter all about fundraising and scaling startups. Read more great content on our blog and watch our Uncapped Notes series on YouTube.

Meet our community at our online and in-person events.

Did you like the book? Let us know on Twitter! You can find us @mrtampham, @ericbahn, @dunkhippo33, @shiyankoh, @kerademars, @hustlefundvc

Do you know other founders who needs this book? Share this link: bit.ly/RaiseMillions 🙏

Questions? Email us at hello@hustlefundvc.com.

Cheat Sheet

This is a high-level summary of the book's key takeaways. Refer back to this page when you need a quick answer. Or go to bit.ly/DunkyHippocorn to ask our chatbot any questions about the book.

Fundraising 101

- Not every business needs to raise money. It can be advantageous to fundraise if your goal is to eventually get acquired or go public.

- If you're a pre-seed founder, we recommend working with angel investors. They're more accessible, will give you money faster, and often roll up their sleeves to help your startup. If you're in the later stages, VCs can provide you with more money and direction when you're scaling fast.

- The amount of money you should raise is based on several factors: what industry you're in, how experienced your team is, and how the market is doing. Typically speaking, we've seen founders raise $100K - $1M at the pre-seed stage, $500K - $3M at the seed stage, $1M-$5M at the post-seed stage, and $5M - $10M at the Series A stage.

- Incorporate your company as a Delaware C-Corp and take advantage of many benefits, including saving money on taxes through the Qualified Small Business Stock (QSBS).

- Raising money through post-money SAFEs is often the easiest and most cost-effective way to fundraise for early startups. Use a tool like Pulley to keep track of your cap table at all times.

- How much equity you give up will depend largely on the amount your startup raises and the valuation at which you raise. In general, it's best to save as much equity as you can to allocate it to people who can meaningfully help push the business forward like investors (through capital and strategic help) and key employees.

- Determining your valuation is more of an art than a science, especially if you have an early-stage startup. Beyond factors like revenue, team, and market, what is oftentimes most important is investor demand.

- Be aware of the current market conditions. Do your research on how the market is before you fundraise. This will impact your fundraising strategy.

- The best months to fundraise are from January - May and September - November. Avoid fundraising in August and during the Thanksgiving - New Year period.

Craft your pitch deck

- Team: Investors focus heavily on the team, especially in pre-seed companies. Emphasize your relevant skills and background. Show investors that you have a strong relationship with your co-founder.

- Problem: VCs want to see your business solve a significant problem that affects a large group of people. Demonstrate how you arrived at your problem statement and how much you deeply understand your customers' pain points.

- Solution: Focus on differentiation, framing the story, and product vision. You can differentiate your business by highlighting a unique approach or market niche. The way you frame the story should make your startup attractive even in less favored industries. The product vision should outline future goals to get investors excited rather than where you are right now.

- Market: VCs look for startups that can give them a 100x return while angel investors have different, often lower, expectations. If you raise money from VCs, make sure the market can be measured in billions of dollars. Consider raising from angel investors if your market is smaller, and have conversations about what success looks like for them.

- Traction: Think about traction more in terms of ability to execute rather than specific numbers. Your numbers don't have to be great, but early-stage investors want to see that you can move quickly and experiment with different tactics. Include a go-to-market (GTM) strategy that includes early users, pilot programs, and/or distribution channels.

- Keep your pitch deck short. It should be brief, ideally 5-10 slides, and easy to understand. You should be able to pitch to someone outside of your industry and not leave them scratching their heads. If they find your pitch too complicated, that's a sign to simplify your deck.

- Designing an effective pitch deck can have a huge impact on your fundraising efforts. Invest time to make it great.

Build relationships with investors

- Networking isn't about exchanging business cards and playing golf together. It's about forming authentic friendships in the way you'd normally form friendships. People prefer doing business with people they like and trust (aka their friends).

- You can meet investors anywhere. Start with people you know, and consider people you normally wouldn't expect to be an investor (like your optometrist). Connect with them online

through LinkedIn, Twitter, and Angelist. Or offline through live events.

- Ask for warm intros: Investors are more likely to take a meeting with someone who has been recommended to them. If you don't know anyone, one tactic is to build a relationship with one of the investor's portfolio company CEOs.

- Send cold emails: Research relevant investors in your industry and send them a short email. Include a line about your business, a few bullet points about your value proposition and traction, and end with a clear call to action.

- Have an elevator pitch ready: It should be concise, impress with a few key facts, and end with a specific call to action. It's not about closing money on the spot but more about driving enough interest to have a proper meeting.

Pitch your startup

- Have your first VC meeting on Zoom. Show your real background. Don't worry about presenting your pitch deck. Listen to their story and weave their comments into your pitch.

- Expect questions about your team, the problem you're solving, your solution, market size, customer acquisition, traction, and fundraising plans. Look at tough questions as a sign that

investors are interested. Be open to feedback, show a growth mindset, and avoid being defensive.

- Follow up right after the call reiterating what you both talked about and send over any promised assets.

- Create an investor CRM to organize your investor contacts, track interactions, and manage follow-ups.

- Send an investor newsletter to all investors and potential investors. This builds trust with your current investors and it acts as a driver to fundraise from potential investors. Be consistent in sending out the newsletter, whether monthly or quarterly.

- Some investors may give you a vague pass. It’s OK to ask for specific feedback from investors who say no. If you’re not receiving helpful advice, lean on trusted founders for honest feedback.

- Follow up, follow up, follow up. Be persistent in following up with investors. Sometimes investors are busy. Send another message until you get a clear yes or no.

What happens after an investor says “yes”

- Before you commit to the wrong person, conduct investor reference calls before you accept their offer. You can find references by asking the investor directly, searching on LinkedIn, and asking the people you’ve talked to for other references.

- You’ll need to prepare necessary legal documents like incorporation certificates, bylaws, founder agreements, etc. Be aware that VCs may conduct background checks and require additional documents like side letters. Once you’re in the clear, confirm wire details over a phone call to avoid fraud. Lastly, beware of cashless VCs.

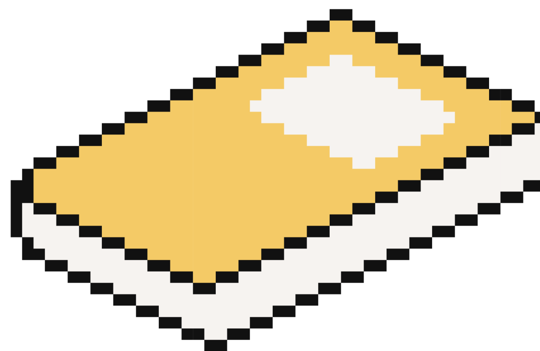
- A data room reflects how founders manage their company, so keep it well-organized, especially for series A and beyond. Having a messy data room can stall fundraising and be a bad sign about company management. Having a Dropbox folder with your key documents is a great start for your data room

- The capital call process is where VCs call down funds from their LPs. This might cause delays in founders receiving money, which is why founders should ask insightful questions about the fund's status and available capital.

- Share with your team the plans on how your new funds will impact the company's runway and strategy. Remind the team to stay scrappy because fundraising successfully in the future is not always guaranteed.

Resources

- Pitch deck eBook with Deck Doctors
- Cap table template
- Investor CRM template
- Investor newsletter template
- Hustle Fund Investment Checklist



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Thank you to my best friend Chloe Lim for being my biggest cheerleader throughout my ups and downs, and modeling what it's like to be an amazing friend and human.

Lastly, thank you to the countless number of people who have impacted my life in both big and small ways – I am forever grateful.

With ,
Tam Pham

Glossary

Angel investor: An angel investor is an individual who has accredited investor status. That means they have a million dollars of investable assets or a really large salary. Angels don't have to be techies or experts in your industry. They could be your dentist or a friend's mom.

Cap table: A cap table is a spreadsheet that has a list of all the people and entities that own pieces of your company.

Capital calls: A capital call is the process of venture capitalists calling down money from their Limited Partners (LPs) to give that capital to the startups they want to invest in. Capital calls can be a common reason for delays in founders receiving money from VCs.

Common and preferred shares: Common shares and preferred shares are two types of stock that companies can issue, and they come with different rights, benefits, and risks.

Data room: A data room is a place where founders store their most important company documents, like incorporation documents, bylaws, and your cap table. Investors might verify some of your assets but what's more important to them is seeing how well you've organized your data room.

Dilution: Dilution is the decrease in an existing shareholder's ownership percentage of a company as a result of the company issuing more shares.

Down round: A startup on a good trajectory should see its post-money valuation increase with every new financing round. If the post-money valuation goes down round-over-round, it's called a down round and this could signal the business is in peril.

Employee stock option pool (ESOP): Investors will often expect you to create an employee stock option pool (ESOP). This means setting aside some shares for your employees to incentivize them to do great work. This typically represents 10% of the pie and is something to potentially negotiate when you raise money from investors because the ESOP will further dilute the cap table.

Equity: Equity is ownership in the company. So if an investor has 5% of the equity in your business, they own 5% of your company. You want to strategically give equity to key people – investors, advisors, and employees – to help grow the value of the company. Beware of giving away too much because a small amount of equity in the beginning can be worth millions of dollars down the line.

Exponential growth: when your revenue is increasing at a faster rate than your incurring costs. Investors love investing in startups that have the potential to scale fast through exponential growth.

Fully diluted cap table: If the founders, investors, and key employees stay on until their vesting schedule is complete, then you'll have a fully diluted cap table. Everyone who was allocated shares will have the option to purchase their shares.

Go-to-market (GTM) strategy: Your go-to-market strategy is your plan on how you're going to acquire customers. Investors want to see your thought process behind distribution and how you'll execute your plan.

Investor CRM: CRM stands for customer relationship management and is a tool that keeps track of your important contacts in one place. Think Salesforce, HubSpot, or Pipedrive. But a CRM can be as simple as a Google Sheet. Founders should have a CRM to organize their fundraising efforts.

Investor newsletter: This is a monthly (or quarterly) update on what's happening in your startup that keeps your existing investors engaged and acts as a fundraising tool for prospective investors.

Investor reference calls: These are phone calls with people who have worked with your prospective investor. Founders should do their due diligence before accepting an investor's money to verify the investor is someone whom they'd like to work with long-term.

Lead investor: A lead investor is the main investor in a funding round. They usually put half or more of the money into the round.

Limited Partners (LPs): A venture capital firm raises money from investors called Limited Partners (LPs). Then VCs invest that capital into startups and return money to their LPs in the event of an exit.

Pre-money valuation: The pre-money valuation is the valuation of the business before it receives any outside investment. This is the number negotiated between founders and VCs that informs how much the investors will need to put in to purchase their desired equity stake.

Pre-seed: The pre-seed stage is the first round of funding that founders raise. It's also known as an "angel round" or "friends and family round".

Post-money valuation: The post-money valuation is the startup's valuation after receiving outside investment.

Post-seed: The post-seed stage is a gray area between seed and series A. You've made major progress as a seed-stage company but not quite enough to raise a Series A. You may hear people call this round the "mango seed stage", "avocado seed stage", or "pre-series A".

Qualified Small Business Stock (QSBS): This may help you become exempt from paying federal taxes when your company exits. Only Delaware C Corporations that have been around for at least five years can qualify for QSBS. See Delaware's official page for the full details.

SAFEs: SAFE stands for "simple agreement for future equity." A SAFE isn't equity you sell to your investors, rather it's the promise of equity in the future. Think of SAFEs almost like an IOU – you're not issuing any equity yet… but once you have an equity financing round, an acquisition, or an IPO, that SAFE will get converted into equity.

Seed: The seed stage is where you're validating the market demand for your product and making solid traction.

Series A: The Series A stage is when you've found product-market fit and can scale your business. You have strong evidence that you can capture a decent share of the huge market. You've shown that you can recruit A-players and have a solid team that can execute your vision.

Side letter: A side letter is a document outside of the SAFE / convertible note that outlines additional rights.

Startup valuation: A startup valuation is the financial value of a startup's equity at a given point in time.

Unit economics: the cost of acquiring and onboarding a customer compared to how much money you make from that customer.

Vesting: Founders and employees earn shares by working for the startup, but their shares vest across 4 years. This means they don't get all the shares upfront when they start/join the company. They have to work at the company for 4 years to get all of them. Vesting

prevents people who only work for the company for a short period of time to walk away with considerable equity.

Who else needs to read this?

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