forum ventures

The Forum Fundraising Playbook:

Raising Your Seed Round for First Time Founders

Introduction

So, you're ready to start fundraising. Congratulations! This is an exciting, albeit sometimes overwhelming part of your journey. There are a lot of different considerations, strategies, and necessary preparations needed to make your Seed round a success and set you up to propel your business forward.

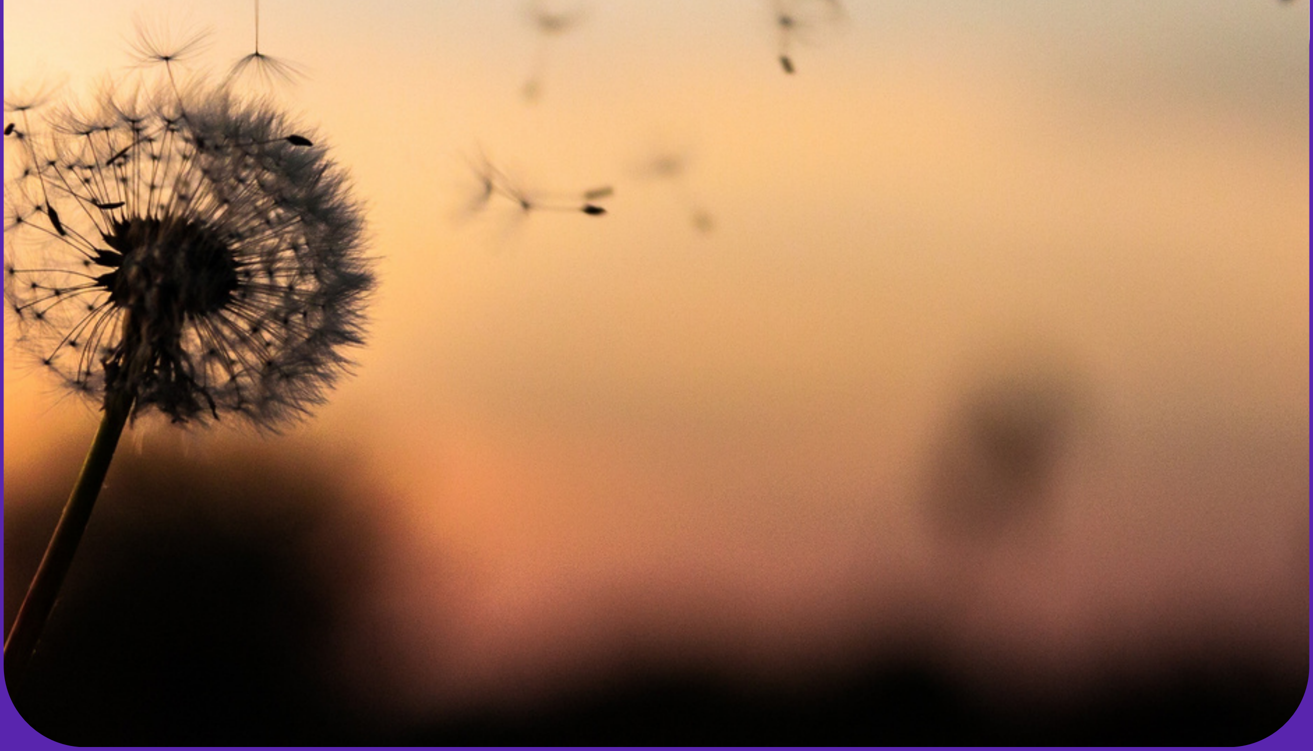
Being former SaaS founders and executives ourselves, and having helped dozens of early stage companies raise seed rounds from some of the top VC funds in the world, we've been through the fundraising process more than a few times, and we understand that everyone raises differently. However, we also know that there are some basic building blocks that will maximize the success of this round so that you can go on to build out your vision and make it to the next phase with ease.

This guide is going to focus on everything you need to know to successfully raise your Seed round, including

- When to start, and how much to raise
- How to start, the first steps to take
- The different fundraising strategies you can choose from

A Canadian Perspective:

Look out for our Canadian fundraising perspective throughout this guide brought to you by Jonah Midanik, Managing Director & General Partner of Forum Ventures in Toronto



Before We Start

It’s important to understand what a Seed round is. A Seed round is where 15 or less investors “seed” a new company so that it has the capital needed to develop its product, research the market, operate, hire, grow, and get to a Series A fundraising round or profitability.

We're excited to help you prepare for this round. Let's jump in!

The Basics: When and How Much?

When Should You Raise Your Seed Round?

We understand you're eager to get going, but before you start, you need to get very clear on three things:

1. The Market Vision

Have a clear and concise vision for how the market is going to evolve and how you win in that evolving market, as well as a clear path to several billion or more in revenue opportunity in this market.

2. Your Moats

Know how your business will build moats and protect your market share over time. In other words, be clear on your plan to protect your fortress.

3. Data Points

Gather the data points that will help mitigate the risks of investing in you.

Example data points

- Early traction with your product, ideally from unaffiliated customers, not your personal network and friends.
- Early customers who rave about your product and the impact it has had for them and/ or their business.
- Early reports, trends, and quotes from influential people in your industry that support how you're claiming the market is going to evolve.
- Proof of great founder/market fit: what innately makes you the perfect founder to take this product to market.

We'll talk about more ways you can get prepared for fundraising in section 3.

How Much Should You Raise?

The best way to figure out how much you should raise is to calculate the capital you need in the 18-24 months following your Seed round to put you in a good position to raise your Series A round, or become profitable and sustainable. In SaaS, your Series A will generally only happen once you've reached $1 million to $2 million in ARR, often with 10%+ MoM growth. There are always exceptions, however this is generally true for first time founders.
So, get clear on how much capital you need to get to this milestone.

What does this look like in numbers?

Location	Expected Seed Round for First Time Founders
San Francisco, New York	$1.5M to $4-5M
Rest of U.S	$1M to $3M
Toronto, Waterloo, Montreal	$1M to $2M CAD
Rest of Canada	$500k to $1M CAD

How Much Should You Raise? cont.

According to Crunchbase, between 2015 and 2020, 60.5 percent of U.S. seed rounds came in at less than $1 million. (Note, this includes Accelerator programs within the Seed category). In Canada, in 2018, the average Seed funding amount was $1 million, according to Betakit's State of Canadian SaaS report.

Much larger seed rounds are likely for founders who have already had success building venture backed companies, or who were an early employee at a "hot" venture backed company.

"We started out raising $1.5mm and then raised it as we got more interest from investors, including raising the cap on the SAFE. We ended up raising $2.4mm at the same goal of dilution we originally had."

- Mike Fulong, CEO of Indio

Take Your Time With the Financials

It's really important that you take your time to model out what you think the next 24 months could look like for your business. Understand what needs to go right to reach these key milestones, and potential pitfalls you might face. Less than 10 percent of companies that raise a seed round go on to successfully raise a Series A investment. It is crucial to give yourself enough time to build your product, prove product/market fit, reach your milestones, and then have time to fundraise again. Be realistic, determine your number, and then add a 3-6 month buffer. We promise, you'll thank us on this one later.

We highly recommend the Mid Market Financial Model from Point Nine Ventures, which uses new hires as the key input to drive growth. For example, take what a new sales hire could sell in a month or quarter and project how many sales hires you need to hit your growth targets.

We also recommend Burnrate.io, one of our portfolio companies that provides revenue and capacity planning for SaaS founders.

What is Your Company Worth?

Your company valuation at the time that you fundraise is highly correlated to how much you raise.

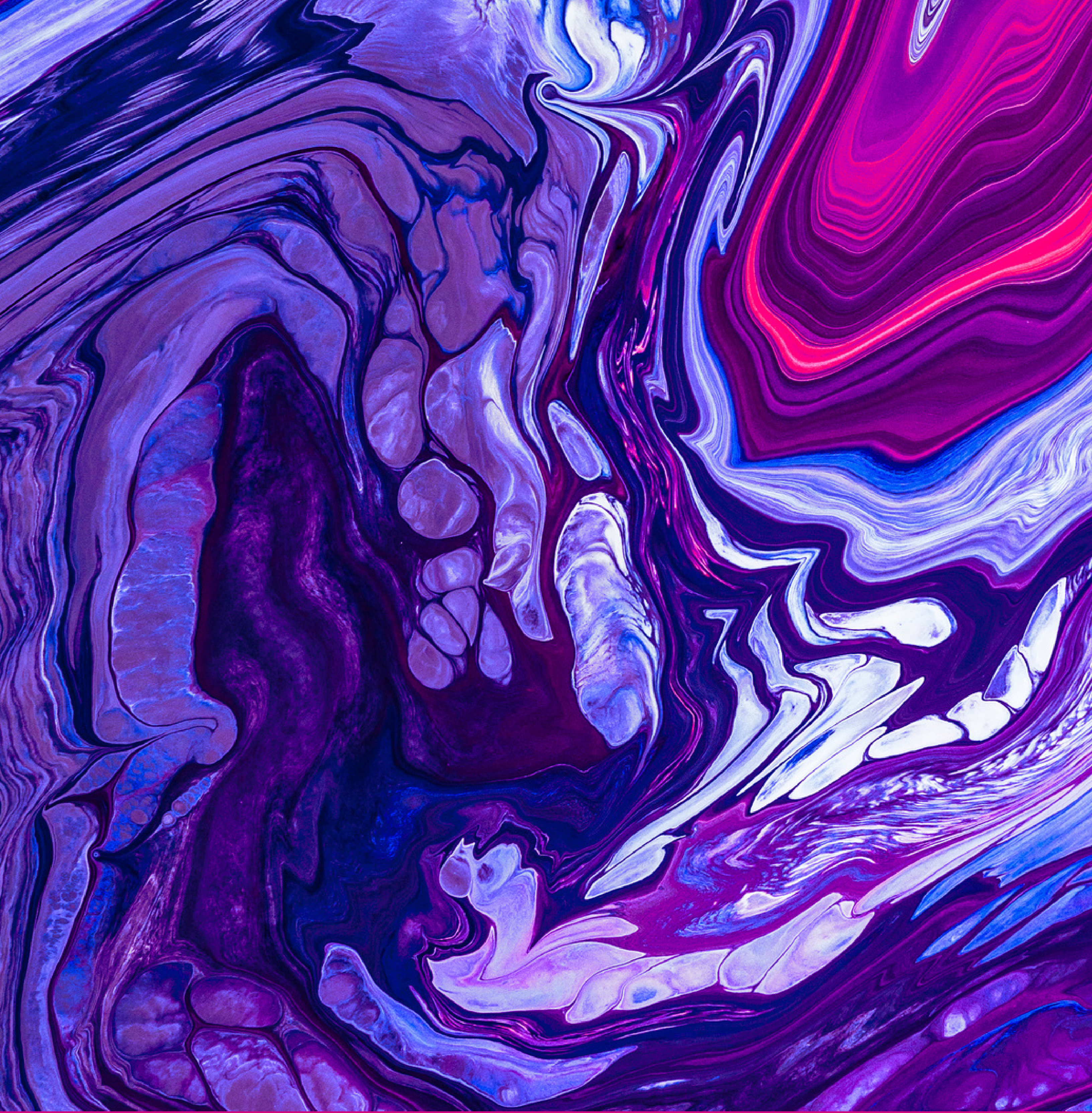
Amount Raised ∞ Valuation

If your company is valued fairly high, you'll likely secure a higher round. Conversely, if you have a slightly lower valuation, the Seed round will also be lower. Almost every Seed round we see, the company gives up 15-25 percent, with the average being 20 percent of ownership to the investors.

For example, if your company is valued between $6 million and $10 million pre-money, you're likely to raise a $2 million Seed round. In the U.S., the average pre-money valuation of a startup receiving seed funding is $7.5 million, according to Fundz.net. In Canada, the average is closer to $5 million.

Most institutional VC's have ownership targets they need to hit as part of their strategy, often between 10 and 15 percent ownership for the lead investor. So, if you are raising a small amount on a high valuation, you will rule out a lot of VC's who have these targets.

All you need to do is stay aware of this, and you can always ask investors about their targets during your meetings!



How to Secure Your First Meetings

Now that you've figured out when and how much to raise, it's time to prepare for your first investor meetings.
There are three steps in this process:

Building your list of target investors

Getting warm introductions

Preparing for conversations

At Forum Ventures, we've found that these first meetings play such an important role in the success of your round. Therefore, it's really important that you take your time with this and be strategic.
We're here to help with that.

Build Your Target List

You'll want to start out with a strong target list of investors so that you can maximize your outreach efforts. The way to do this is find investors that know the SaaS space well, and have previously invested in your sector and startup stage.

Here are some platforms we recommend using to find investors:

Crunchbase
Pro account provides much more data

Angelist

Signal.nfx.com

Glassdollar

For first time founders, we've found that it takes on average 3 months and 40-60+ intro meetings to get to a term sheet. So, you'll want to build a list of at least 60-80 investors since you won't land a meeting with everyone.

- Pro Tip 1: Put 10 or so firms at the top of your list as an ideal fit, and don't go to them first! Use other intro meetings to practice and hone your pitch before talking to your ideal investors. You only get one shot with each firm, so make the most of it!
- Pro Tip 2: Identify the right partner at each firm! Partners' backgrounds vary so you'll want to start with the partner that your company will resonate with best.

Share Your Target List

Once you have your list, share it with the people in your network who are open to helping you with introductions. An intro is always more impactful than cold outreach, which should be your last resort.

Pro Tip:

Make the intro easy for them! For example, write out a personalized email specific to that investor, so they can simply forward it along. This will make the intro more likely to happen.

Here are our 5 recommended intro paths to VC's

01 One of your customers who is connected to or a portfolio company of the VC

02 A current investor who is connected to the VC

03 A former co-worker who will speak highly of working with you

04 One of their portfolio company founders that can vouch for you

05 Mutual connections in general who will speak highly of you

Get Prepared

The introductions may happen quicker than you expect, so make sure to get fully prepared BEFORE asking for those intros, with:

1
A Blurb or Bullets

A 3-4 sentence blurb (or even better, bullet points) about your business, highlights of the team and key stats around traction/customers. This should get people excited if it's the only thing they see.

3
A Full Investor Deck

The deck you will go through in your initial and Partner meeting with investors. You will end up with 2 versions of your investor deck:

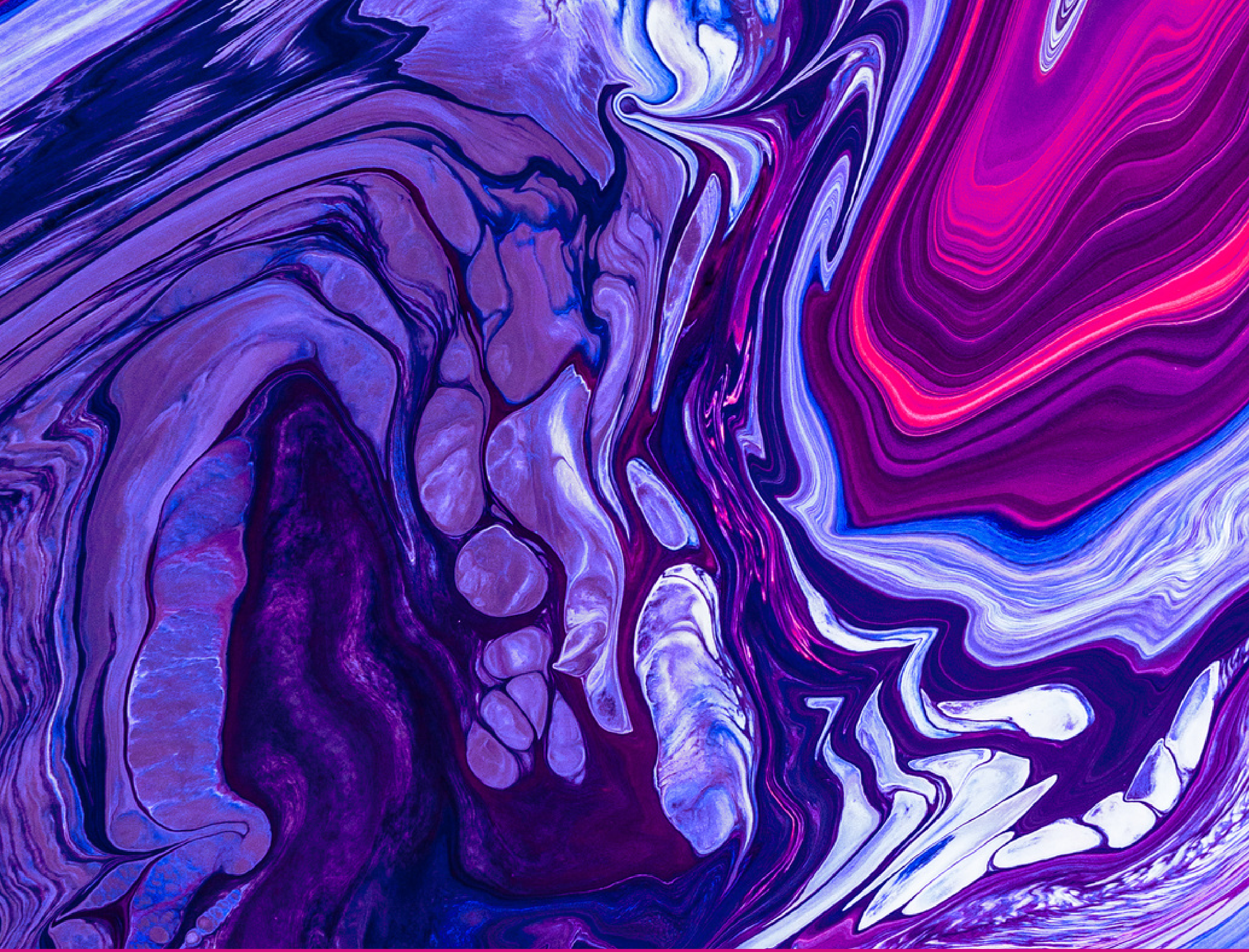
A larger deck with an appendix that has visuals for FAQs that might come up. This will be a work in progress deck that is continuously revised as you meet with investors and figure out how to best pitch your business.

The same deck without an appendix that will be in your data room (we'll tell you more about your data room a bit later). No Appendix on this one because you don't want to create questions and objections that weren't already there.

2
A 'Send' Deck

A short deck that can stand alone without a talk track that will pique an investor's curiosity. This should be a visual and textual representation of your business as it is today. It's usually shorter and less packed than an Investor deck.

"Remember that at the seed stage, you are ultimately selling the team and the dream. You need to tell a story: why you, why is your solution better, and how could the dream be huge. Knowing the details of your business is important, but too often it's easy to focus on the tactics instead of the vision."
- Mariel Reed - CEO of CoProcure



Fundraising Strategies

Now that you're fully prepared and have started your investor outreach,
let's talk about fundraising strategies:

(1) start small and build moments
(2) start with a lead and build around them. Both are equally effective, so it's just a matter of choosing the best one that works for you, and that might only become clear when you start your discussions.

Strategy 1: Start Small and Build Momentum

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In our first strategy, you would focus on getting angels and small funds early, and then use this as social proof and momentum to get a lead investor, while leaving the door open to pulling together a party round. If you go this route, some smaller investors will say they are in pending a lead, and the lead's investment will price the round (ie. set the price per share).

You can then use these commitments when talking to leads. If you can get these angels to commit with a check, even better. You'll probably need to let them invest at a discounted valuation cap so they feel they're getting a good deal for moving early. This gives you cash in the door and the option to do a rolling close with other small investors if you can't find a lead in the end.

Quick pause for definitions

Lead investor:
The first investor to fund your round, and the largest investor in the round. Having a lead provides social proof and traction to the remaining investors.

Party Round:
A round of funding from a large group of investors without the presence of a lead investor.

Rolling Close:
When you raise capital over a period of time (say, 3 months), rather than all at once, with the same investment terms.

Pro Tip:

Set your target amount slightly lower than what you ultimately want to end up with. Then, if you fall short of your end goal, you're not that far from what you've said, and you can always over subscribe if there is a lot of interest (ie. adjust the price or offer more shares to reflect the higher demand).

Strategy 2: Start With a Lead and Build Momentum Around Them

02

During your investor outreach, focus with the ones that are able to lead a round. Again, start with your lower tier so you have a chance to work through your ideal pitch. Have an amount you plan to raise but be open to price and optimize for the right partner (let them know this!). Once you've secured your lead investor, you can then build out the rest of the round from there.

Here are some tips to get you started

- Ask your lead to introduce you to investors they like to co-invest with
- Target angels who are strategic for your business and/or provide good social proof
- Talk to funds like Correlation Ventures that use data and an algorithm to decide to follow on in rounds that already have a lead investor
- Go back to other funds that expressed prior interest, but weren't moving quickly

"Once we got the first term sheet or even verbal offer, we immediately told other VCs we had a lead and they needed to let us know ASAP if they would invest. Most VCs will follow other VCs as opposed to making an independent decision, so they were hanging around waiting to see if we got an offer. Once we had an offer, we went from a dying start-up to potentially the 'one that got away' — so other VCs started to pile in and would make quick decisions. We didn't over optimize for valuation, as getting money at the seed stage is a door-die scenario."

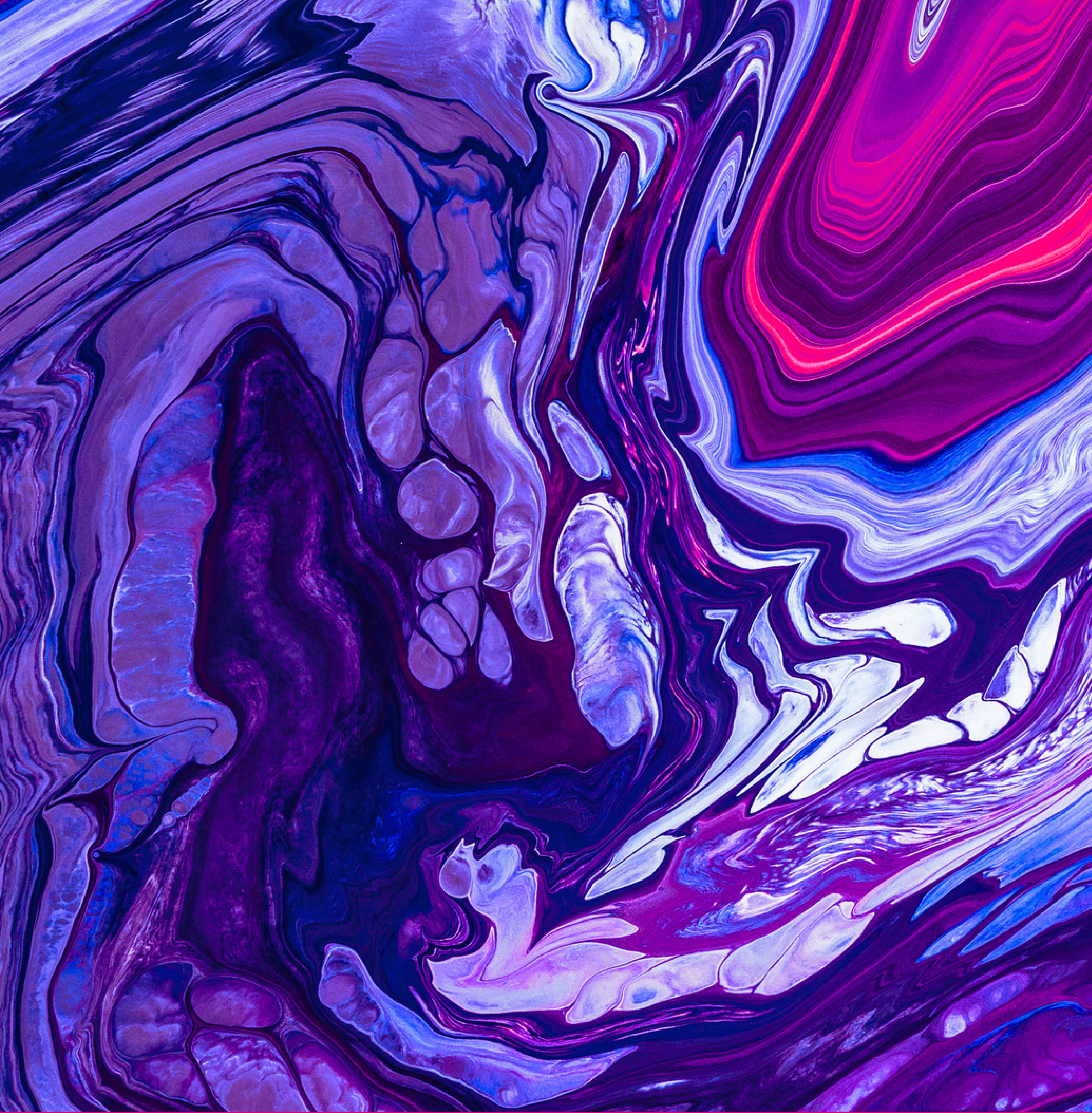
- Mike Fulong, CEO of Indio

A Note on the Dynamics of Deadlines

Investors love time. The more time they have, the more they can track and assess your company. So, if they don't have to make a decision, they won't. This is why the concept of momentum and FOMO is so important in the investor ecosystem. You can create both by setting a deadline.

"For our seed round, we ran a disciplined fundraising process that involved meeting a lot of VCs in a very short period of time. We prepared the deck beforehand and had it reviewed by a number of people, and practiced pitching it. When we were ready to start raising, we picked a date. In order to get meetings with VCs, we utilized advisors or Acceleprise to connect us over email and tried to schedule as many intro meetings as possible during a finite time period. Generally we had at least 2-3 meetings a day for two weeks straight. Stacking meetings in a short period of time creates urgency on the part of VCs to move quickly because you will have a higher probability of getting a term sheet, and word will start to spread about your company."

- Mike Fulong, CEO of Indio



How to Nail Your Investor Meeting

Investor Meetings

There are generally two investor meetings you need to be ready for: the Initial or Intro meeting and the Partner meeting.
Here is where they fall in the overall fundraising process:

1: Initial Meeting

- Founder Market Fit
- Unique Vision
- Traction
- Market
- Most compelling things about your business

2: Basic Analysis

- Revenue plans
- Competitor overview
- Market
- High-level vision

3: Partner Meeting

- Deep dive on any concerns the partner may have
- Use your associate meeting to understand potential concerns

4: Diligence

- Customer call
- Reference checks
- Technical review
- Product roadmap
- Financial projections

5: Term Sheet

The Initial Meeting: The Basics

Who should you meet with?

Ideally, your first meeting should be with a decision maker. If you end up meeting with an Associate or Principle, that’s ok, make the most of it.

What is the focus?

The first meeting will be focused on things like your unique vision, the market, traction, founder/market fit, and the most compelling things about your business.

For how long?

This meeting will likely be 30 minutes.

In what format?

Push for in-person or a video call. It's easier to display your passion and drive face-to-face.

Each initial meeting was structured and followed the same pattern. I always used the deck — even if it was an informal first meeting at a coffee shop — because I knew exactly how to pitch it and I know it followed a story that made sense.”
- Mike Fulong, CEO of Indio

Seven Tips to a Successful First Meeting

The first meeting is your opportunity to make a strong first impression, and you only have one shot at it with each potential Investor. To help you optimize that opportunity, we want to share 7 basic tips.

1. Do your research

On the fund and and partner(s) – if they've invested in a competitor, if they are focused on a particular vertical this year, etc.

2. Send the deck ahead of time

So they can come with questions. An open dialogue is much more effective than walking through the deck.

3. Pretend you're recruiting them

For your team. This is a great tactic to naturally show your passion and get them excited as well.

4. Be confident and have clarity

Around why you're building what you're building, and why you are the right team to do it. Prepare answers for:

- What is your unique perspective?
- What has your experience taught you about the direction the market is going?
- How does your product play into this vision?

5. Be open to feedback

But have conviction in what you are building. Investors may challenge your point of view and will want to see that you can have open dialogue as well as hold your own.

6. Take notes on the questions they ask you

This will give you a sense of the risks that concern them. Add these questions to your FAQ doc and build context for the questions into your pitch deck.

7. Get clear on next steps

End the call/meeting with a clear understanding of what their process looks like, next steps, and timing.

“CoProcure is not in a domain that many people know much about, so in early meetings I noticed that I was wasting too much time simply describing our market and answering questions about our space. I started writing down the questions I received during every meeting, then clustered these notes into a “Frequently Asked Questions” document. Writing down these answers helped me preempt these questions better in my updated pitch materials and by writing down my thoughts, I developed concise, thoughtful explanations for burning questions. Towards the end of the process, I even started sharing the FAQ doc in advance with potential investors. The investors we ended up working with had already read the document and came prepared with deeper questions even before our first meeting!”

- Mariel Reed - CEO of CoProcure

A Canadian Perspective: Extra Tips for Canadians Pitching US VCs

There are nuances between Canada and the U.S. that Canadian founders need to stay aware of when meeting with investors, as they could impact your chances at securing funding. Here are a few examples:

Ensure your deck is in US Dollars

Use American terminology and American spelling

Only call out your advisory board if you have a U.S. profile on it

Be aware of differences in rounds:

for example, 250K USD is considered a Seed round in Canada, while in the U.S. that amount would be considered an Angel round

Ensure your go-to-market includes the U.S.

A Note on Building Trust

The initial meeting with a Seed investor is like a first date where you need to consider marriage. We're talking about getting involved for a very long time together. For that reason, building trust from the very first minute of that meeting will be a key factor in whether or not they decide to saddle up next to you.

Here are 5 ways to help you build trust from the get-go:

- Be transparent. Everyone knows not everything is perfect at a startup.
- Be consistent in how you communicate.
- Be authentic. Don't try to be who you think they want you to be.
- Be polite and they might actually want to work with you in the long term.
- Do what you say you will do. If you say you will send something by a certain date, do it.

Following Up In Between Meetings

We get a lot of questions about how often to follow up between meetings, and the best way to do so, especially when an investor is seemingly “dragging their feet”. When an investor is excited about an opportunity, they usually move quickly, so if they don’t, it’s not a great sign. With that said, there are two primary reasons investors move slowly or reluctantly, without officially passing.

They are intrigued enough to not pass but are far along with another deal and are focused on getting that over the goal line. In this case, they may still like your company but don’t feel your urgency and have therefore prioritized this other deal.

They are intrigued enough to not pass but don’t feel your urgency and want to wait for more information to mitigate the risks they are concerned about. It’s up to you to figure out what those risks are based on the questions they asked you in the first meeting.

In either case, you need to show momentum and drive urgency.

A Canadian Perspective:

Be more aggressive. It’s no surprise that Canadians tend to err on the polite side of things. However, with investors this won’t work in your favour. You need to be more aggressive when it comes to following up between meetings. We can’t emphasize this enough. Follow up more, and when you feel like you’ve bugged them too much, follow up again. You’re competing for dollars against American founders so you need to be as aggressive as they will be.

Use every touch point with investors as an opportunity to build momentum and share tangible results and data points that mitigate the risks they are worried about. Don't send a generic follow up email! Instead, lead with some updates, even if they are small.
Below are some examples – the more they align with potential investor concerns, the better.

- A recent great conversation with a potential large customer in the pipeline
- New signed customers or new additions to the pipeline
- New key hires
- A screenshot of an email or tweet from a customer raving about your product
- Press
- Articles, tweets or emails validating market demand for your product
- New record on shortest sales cycle or largest deal size
- New investors that have committed if they provide social proof or at least new dollar commitments that shows the round is coming together sooner rather than later

As to how often you should follow up, we recommend every couple of weeks or more often if things are moving quickly.

Decoding Investor Responses

01

If they tell you that it’s “too early for them”...

...it’s usually not that simple. They might not think the team is good enough, or they view the market as too crowded. They will want to see more traction, more customers as data points, and/or that you have figured out your competitive advantage. Take time after the meeting to think about what risks they are truly worried about and what data points you have to mitigate those risks. Bring those to future meetings.

02

If they tell you they are passing....

...then they are passing. It won’t help to go back and clarify something they’ve already made up their mind about. You’ll be better served spending time on other investor.

The Second Meeting: The Basics

Who should you meet with?

Ideally this is with a Partner (especially if your first meeting wasn't).

What is the focus?

The partner meeting will be focused on any concerns they might have. Try to determine their major perceived risks based on the questions they asked in the first meeting, and then come prepared with proof points that mitigate those risks.

For how long?

1 hour.

In what format?

This meeting should be in person, if possible. If not, do a video call.

Each initial meeting was structured and followed the same pattern. I always used the deck — even if it was an informal first meeting at a coffee shop — because I knew exactly how to pitch it and I know it followed a story that made sense."
- Mike Fulong, CEO of Indio

Common Perceived Risks

The most common areas of risk that we've seen are team, market, traction, and product/engineering. We'll take you through each of these below so that you can be proactive, prepare, and nail that second meeting.

Team

Compatibility

At the seed stage, investors are betting on the team, first and foremost. They will want to see that you, your other co-founder(s), and early team members will be able to work well together for a long time. They will be looking for:

1. How long you and your cofounder(s) have worked together and how you met

2. The right skill sets and backgrounds for what you are building

3. What old colleagues have to say about you (via back channel)

Growth

The founder's ability to hire a strong team around them is highly correlated with the success of your startup. Investors need to see clarity, conviction, and obsession oozing out of you, because those are the things that will attract and retain a talented team. Here's how you can show this off:

1. Talk with clarity and conviction about how you see the market evolving over the next 5 years, how you fit into that and how you can build a very large company in that new market dynamic.

2. Show off your obsession with your business. Talk in detail about your pipeline, contracts, contract sizes, names of customers, etc. ave to say about you (via back channel).

A Canadian Perspective: What U.S. VCs Are Looking For

- Be assertive in presentations
- Don't be afraid to "brag" – it's not considered bragging in the U.S.
- Talk about your vision, and make sure it is sufficiently large
- Show that you're thinking BIG

Market: 7 Data Points to Prepare

The market opportunity will make or break your company, and no investor will want to get involved if there isn't a big and compelling enough one.

Come prepared with the following 7 data points to show them that your timing is right:

A clear path to $1B+ in revenue (or, ideally, more!) Use a bottoms up analysis to show a path to this.

What the company will look like at $100 million in revenue. For example, you estimate your Annual Contract Value (ACV) to be $100K per year, you've already closed 3 contracts, and you're confident you can close 1,000 more over the next 5 years.

Competition for your customers. Know who else your customers are/were considering, and why you won or lost a deal to a competitor.

A solution critical to your buyer's business. Will your product contribute to your buyers' KPI's or compensation? If you have customer feedback about the impact your product has had, share it!

Your market is growing. What is the large macro trend that will enable your company to grow over the next 5-10 years?

The barriers to entry today and how that will evolve over time. Can you build a moat as you scale? Read Leo Polovets from Susa Ventures to find out more about moats.

If other companies similar to you have failed in the past, why will you succeed? Relate this to market timing. Saying that your team can out execute the previous team is not good enough.

Traction: 5 Ways to Show It

Raising a seed round is all about momentum and traction. Here are 5 ways to show off traction in your meeting:

Current customers and what they're paying

(ideally outside of your immediate network). Explain how you acquired them. Note: if you're a Canadian founder, make sure you have at least one U.S. customer to maximize your chance of success.

Your investment in customer success

You'll need to over invest in this for early customers so that they become big fans and are willing to talk to investors, and ideally, other prospects.

A Growing Pipeline

Know the expected value of your pipeline and how that has grown MoM. Even if your sales cycles are long, if you can still build top of funnel and show progress with your pipeline.

Healthy early sales funnel metrics

a. Does your current pricing or average contract value (ACV) line up with expected sales cycle to such that you believe each account executive you hire could produce 4X+ in ARR bookings vs. all in comp once they are fully ramped up? If not, is there a clear path to increase ACV over time?

b. Is there a focus in the market you're targeting that will give you momentum as you scale? What is the next market you are going to go after and why?

Churn Rate

If you've had any churn, what happened? Don't try to hide it. Proactively bring it up and share your learnings as well as changes you have put in place to mitigate it ongoing.

Product/Engineering

Without a great product, and team to build it, you won't get very far in this process. We've seen founders nail everything up until now and then things dissipate because they haven't made an airtight plan for product & engineering. Make sure that you have the following in place and are ready for some show and tell in your second meeting:

1. Can you build the product you say you are going to build?
2. How technically challenging is it?
3. Do you have the talent on the founding team to (a) understand the needs of the customer, and (b) actually build the product?
4. How much of it is already built?
5. Can you walk us through a demo?
6. How/Why is the UX great?

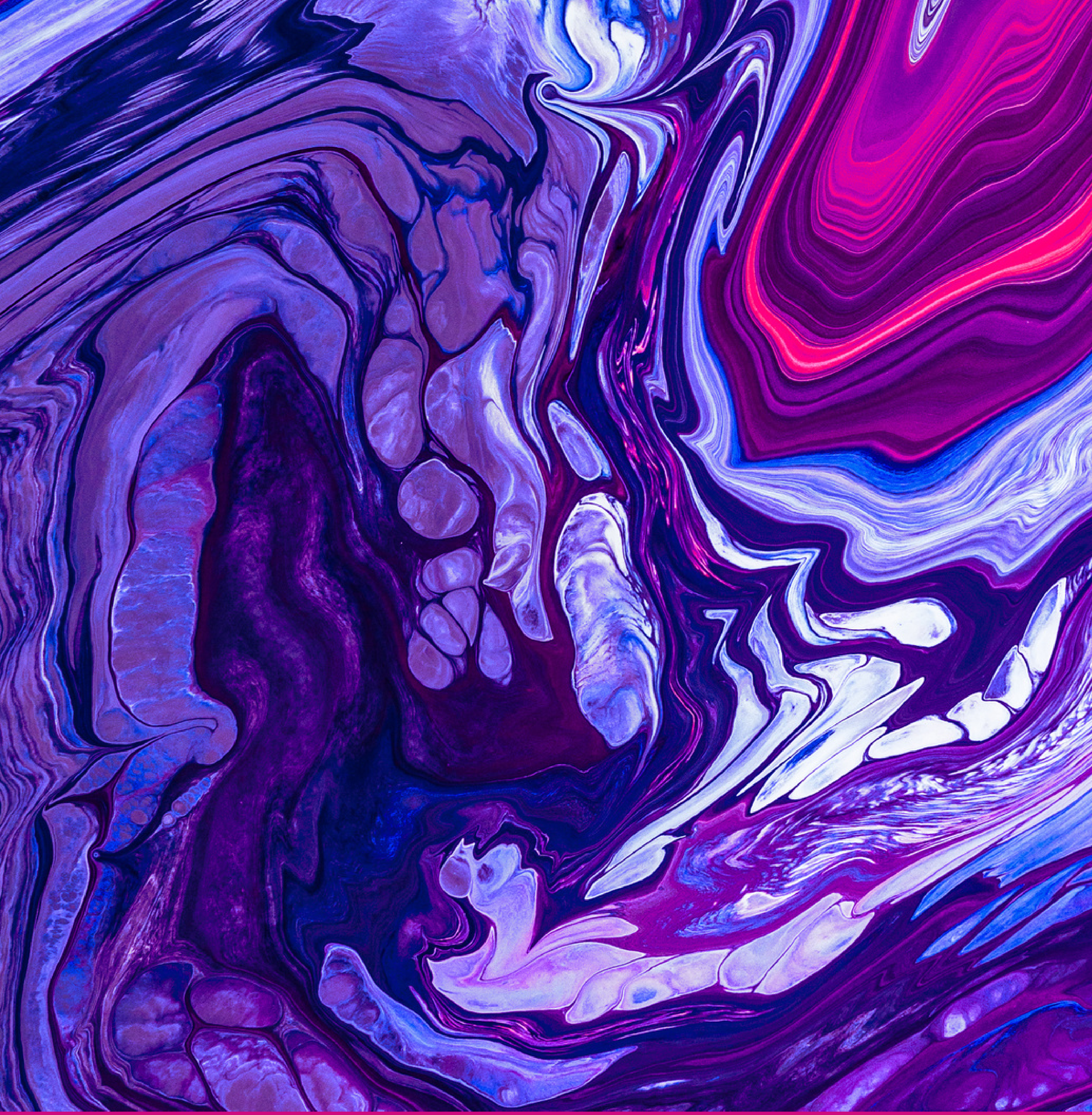
At Forum Ventures, we make sure that our founders come prepared in all four areas before jumping into investor meetings. Like we've said, you only have one chance to get these meetings right!

"Overall, the key to our fundraising process was urgency around setting meetings and communication, along with discipline around following the same pattern of meeting structure."
 - Mike Fulong, CEO of Indio

A Canadian Perspective:
Highlight the Canadian Advantage

Canadian founders have a significant advantage over U.S. founders when it comes to a few key aspects outlined below. Make sure you hit these home during your meetings!

- We have an operating advantage: with the currency exchange, your company is cheaper to run.
- At the same time, we have the same great infrastructure as the U.S. (if not better), as well as access to all U.S. makings like trade agreements, proximity, and culture.
- We have better early stage startup government support, like SR&ED and IRAP.
- Lastly, due to our differing immigration policies, we have access to incredible talent from around the world.



Have Your Data Room Ready

The Basics

What is a data room?

A data room holds all of the details of the information you've presented throughout your fundraising process as well as any data-heavy documents too detailed to present.

What is the format?

This can take the form of a zip folder, Google Drive folder, or USB stick.

When is it shared?

A data room is typically shared after the second investor meeting. Once in a while, an investor will ask for access to it after the intro call. Our suggestion is to ask them what details they are looking for and just share those for now. You'll want to stay transparent throughout the process, but save the data room for after you've had a full partner meeting and they are leaning in. Since most investors will ask for access to your data room, we want to make sure you're well prepared. This section will take you through everything that needs to be in there.

First and Foremost, Financial Projections

The most important information in your data room is your financial projections for the next 2 years at least. Here are some tips to show investors that you understand the inputs that will drive business growth:

- Use a template. We recommend using the Mid Market Financial Model from Point Nine if you primarily plan to leverage an inside sales model.
- Don’t use an arbitrary MoM growth rate to project revenue growth. This shows a lack of effort or understanding of the inputs that will actually drive growth.
- If you have acquisition channels that are working and a sample set of data, you can use existing sales funnel metrics and extrapolate those out.
- Use a sales hiring driven approach to project revenue:
    - Determine a quota for each sales rep
    - Know your average contract value (ACV)
    - Know the sales cycle for each type of customer
    - Account for demand gen costs like attending conferences
    - If you think you can grow your ACV over time, show when and what will drive that
- Make sure your costs are aligned with the hiring plan.

Your financial projections will need to show that this round will give you enough runway for you to reach your milestones (ie. between $1.2 million and $2 million in ARR) and enough time to raise your Series A within 18-24 months after they invest.

If you think you can get to higher revenue numbers in the same timeframe, make sure your assumptions are based on real data.
Stay reasonable and stay realistic.

What else should be in your data room?

1. Product Roadmap

Help investors understand where the product is headed with a high-level outline of the features you plan to implement, when, and why.

2. Technical Outline (Optional)

This should comprehensively explain what your technology does, and how it is unique and defensible. This is only important for companies where technology is a key driver.

3. Hiring Plans

Who you will hire first, when and why (aligned with your financial model).

4. References

You should have 1-3 customers you can count on for references, and only share these when an investor asks. We only recommend sharing these with investors with checks over $250K, so that you don’t have to use them too often.

5. Revenue by Customer

Include signed contracts, letters of intent (LOI), and anything else that backs up your revenue numbers. Provide a detailed overview of each customer: who are they? Pilot vs. annual deal? Current ACV? Potential contract size over time?

6. Pipeline Report

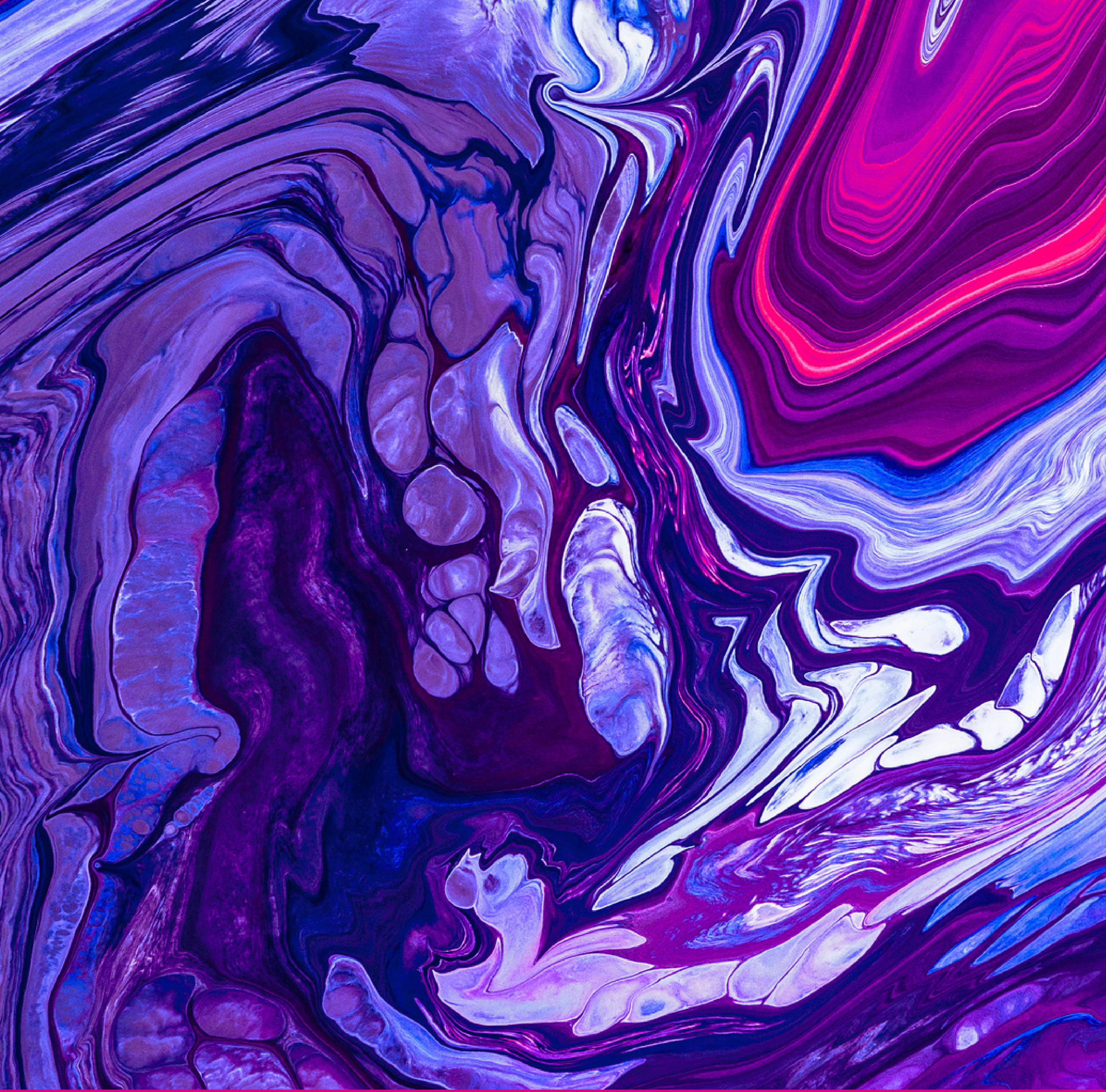
This should be directly out of your CRM. Include screenshots of conversations you are having with late stage leads that haven’t closed yet to show the likelihood of closing these deals.

7. Legal Documents

Include Articles of Incorporation and a Cap Table showing percentages of ownership (we recommend using Carta).

8. Bank Statements

This serves to verify payments of contracts and cash flow. You can include stripe screenshots.



Financing Options: SAFE vs. Convertible Note vs. Priced Round

Financing Options:

Understanding and deciding on how to finance your round can be complicated. This is generally new territory for a founder, and some can find it confusing.

We will provide a high level explanation of each option below so that you can choose the one that aligns with your long term fundraising goals. However, we highly recommend working with your Accelerator, or your lead investor, to understand the intricacies of these options further.

Let's jump into what each of these are, and do some comparing as well.

SAFEs

SAFE stands for "Simple Agreement for Future Equity", and is basically a warrant to purchase stock in a future priced round. It was created by Y Combinator as a way to streamline the Seed investment process. There are currently two types of SAFEs – Pre Money and Post Money – with the primary difference being how the conversion is calculated:

On a Post Money SAFE, the investment will convert into the percentage of pre-money shares on the priced round divided by the post money cap.

On a Pre Money SAFE, the conversion calculation depends on the amount of money raised in subsequent SAFE rounds.

Let's look at an example...

SAFEs Example

If an investor invested $100K on a $10 million cap on a post money SAFE, once you raise your first priced round, no matter how many other SAFE rounds you raise, that investor will convert into 1 percent of the pre-money and then will get diluted by the new priced round like everyone else. If that same investor puts in $100K on a $10 million cap on a pre money SAFE, and then you raise a $1.5 million round on a $15 million cap, and then you raise your first priced round; that initial $100K investor will get diluted by both the $1.5 million round and the priced round.

Convertible Notes

A convertible note is a type of debt that automatically converts into equity (shares or preferred stock) when you hit an agreed upon milestone, such as closing a Series A round.
From a conversion calculation standpoint, they function very similarly to a pre money SAFE, with two main differentiation points:

01 It has an interest rate. While some investors will try to put a 5-10 percent interest rate on the investment, we think this is unnecessary and strongly recommend keeping your interest rate under 5 percent. It will add up if it's a large check!

02 It has a maturity date, usually set for 18-24 months. If the priced round or conversion event doesn't happen by then, the founder either has to pay back the principle plus interest (difficult to do if the company isn't doing well), or convert the debt into equity. One way around this is to issue addendums to extend the maturity date, however this adds a layer of administrative work.

These are becoming less common given the rise of SAFEs and the democratization of priced rounds through tools like SeriesSeed.com. However, they are definitely still used, especially outside the Bay Area.

SAFE vs Convertible

We understand that every startup is different, and therefore, while a SAFE might be right for one founder, a Convertible Note will be right for another. In the Bay Area, most companies are using SAFEs over Convertible Notes. In Canada and other markets across the U.S., it's mixed. For that reason, we aren't recommending one over another.

Some of the main points of differentiation are:

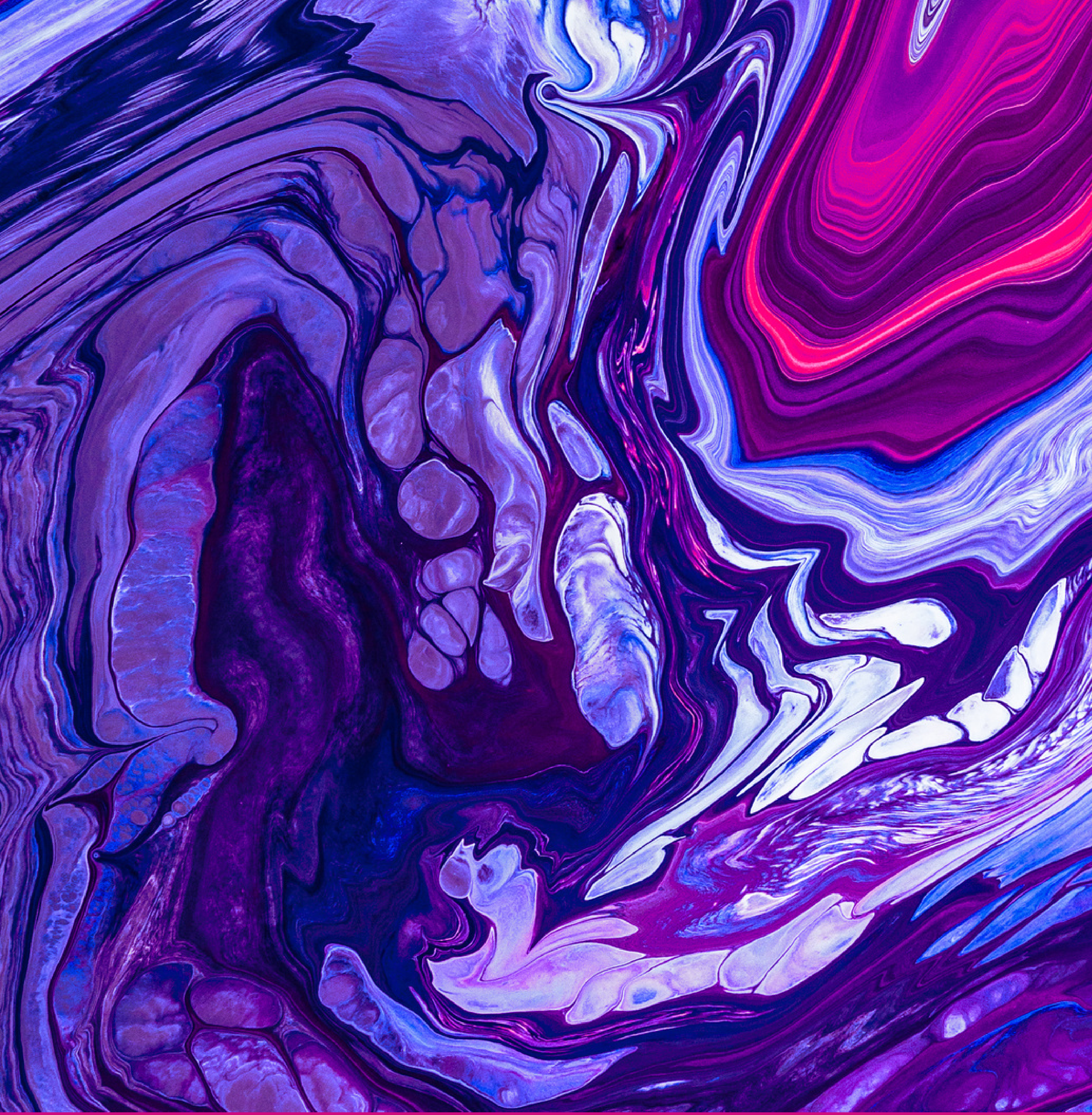
SAFE	Convertible Notes
Simple with minimized terms	More complex and lengthy term
Doesn't carry an interest rate or maturity date	Carries an interest rate
Only allows for conversion in the next round of financing	Allows for conversion into the current round or future financing even
Can convert when you raise any amount of equity investment, ie. less control for the founder	Only converts when an agreed upon transaction takes place, ie. founders have a say in this

Price Round

Priced Round is when an investor purchases shares of a company at a set share price, ie. at a defined pre money valuation. Priced Rounds are becoming more and more templatized, and are therefore starting to be more common at the Seed stage. A lot of founders use something similar to the documents found at SeriesSeed.com.

- We are seeing about half of Seed rounds raised as Priced Rounds in the Bay Area.
- Sometimes when you do a Priced Round, the lead investor will ask you to set up a board and for a board seat.
- This is harder to do when you are raising with a party round but a good option if you are raising your round with a lead investor (see: Section 3 - Fundraising Strategies).

A Canadian Perspective: A Note on Non-Standard Terms
Canada uses a lot of non-standard business terms that won't make sense to U.S. investors. For example, asking for multiple board seats, super prorata rights, liquidity preferences and more. Your lawyer should have a list of standard U.S. terms, so make sure you familiarize yourself with those before your meetings. Keep it simple for U.S. investors, as they won't want to back a company when things feel complicated.



Conclusion

We've covered a lot here today, and we understand that it can be a lot to take in. Don't worry, it will come together as you move through the process. Just make sure to take time before each meeting to ensure you're prepared.
Here are our top 10 key takeaways so you can get on with your fundraising feeling clear and motivated:

1. Before you start, make sure you fully understand your market vision, the moats you'll build, and key data points to mitigate risk
2. Give yourself 6 or more months for your first fundraising journey
3. Take time to model out the next 12-24 months
4. Use your network to get introductions to target investors
5. Get prepared before you set up investor meetings
6. Make sure you meet with tier 2 investors first, so you can perfect your pitch for your first choice investors
7. Build trust with investors from the first meeting
8. Get ahead of major perceived risks
9. Take the time and effort to set up a strong data room
10. Educate yourself in investment setup options so you pick the one that's right for you

Good luck on this exciting journey!

Questions? Contact: jonah@forumvc.com