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My Top 7 Mistakes Raising $200M from Investors

ON THE INSIDE

Raising Money is a Game.

Raising funding for startups is really f'n hard. But it's a game, and one that can be mastered. Since most businesses require some outside investment, as a founder or CEO, it's a good idea to learn how to play the game!

For me, I built a software company in an industry that required outside capital to break through the noise and succeed 10-fold. It was also a space in which the Venture & PE community didn't see much of an opportunity at first. So, we had to raise our first $5M from all angel investors – much of it $25,000 at a time. Talk about painful! But eventually, we gained traction and started to attract the bigger dogs. By the time we sold the company to GoFundMe, we'd raised a whopping $200M from outside investors, including Norwest Venture Partners, Mithril Capital (Peter Theils' fund), and Salesforce Ventures.

But it was anything but easy. Along the way, I received a thousand rejections. Everyone from Sequoia Capital to Jeff Weiner (the former CEO of LinkedIn) passed on the opportunity at some point. So, in this e-book I will dive into the 7 biggest mistakes I made raising that $200M.

What Not to Do When Raising Funding for Startups

Fundraising is a game of human psychology. Momentum and confidence are your friends.

A killer deck, a strong pitch, and a compelling financial model are all super important when raising funding for startups. But the process is also riddled with perception pitfalls. It's like walking through a minefield where one wrong move could mean game over.

Having met with angels, venture capital, and private equity firms from Seed through Series D, I've had to navigate a lot and these are some of the most important lessons I've learned from raising over $200 million from investors.

1. I MET WITH INVESTORS IN THE WRONG ORDER

When I used to start a fundraising round, I would pitch my top prospects first (the investors I was most excited by). My thinking was this: you want your top prospects to lead the round and give you a term sheet, so you should naturally talk to them first. Then, you talk to other investors about following along. **But I quickly realized this was the wrong approach.** Why? Because you're the least practiced and least confident at this point in the process. So, you're reducing the probability of a successful interaction simply by the order in which you meet with that prospect.

The Jeff Weiner meeting (mentioned above) was a case in point. I met with Jeff way too early in our process, and he ate me alive. To this day, I'm confident that if I had met with Jeff at the end of the process, maybe even with a term sheet in hand, he would have invested. Instead, I was left feeling REALLY self-conscious heading into the rest of my investor meetings.

Remember: raising funding for startups is about momentum and confidence.

HERE'S WHAT YOU SHOULD DO:

1. **Rank prospects from most interesting to least interesting**
2. **Divide the list evenly into three batches**
3. **Reach out to the least interesting batch first, then the second, then the first**
4. **Stagger each batch outreach and meeting schedule by about 2 weeks**
5. **Use feedback from batch 1 to strengthen your batch 2 pitch, and so on**
6. **Try to get term sheets from batches 1 and 2 to create a sense of urgency and competitive tension with batch 3 (your top prospects)**

2. I FOCUSED MY PITCH ON THE WRONG THINGS

Investors look for specific criteria to make an investment decision at each fundraising stage. Think of it like taking a test by stage. You need to prove that you've passed the test to get their money and officially enter the next startup growth phase. Otherwise, the conversations will be dead in the water.

To maximize your chances of success, you need to know what test you're taking and how to tailor your pitch accordingly. This is why no successful fundraiser uses their Seed stage pitch deck to raise their Series A, B & C rounds. You may use a few slides, but the company has evolved, and the investors are looking for different things.

WHAT INVESTORS ARE MOST INTERESTED IN AT EACH STAGE:

- **Seed: Market and team**
- **Series A: Product market fit**
- **Series B: Repeatable sales process**
- **Series C: Command of unit economics**
- **Series D: Profitability (or path to)**

Your pitch deck and narrative need to be weighted accordingly. In my opinion, you should spend around 50% of your pitch proving why you've passed the respective test.

One important note: the market continues to be important at every stage. It's not the gatekeeper from series A to D, but it can certainly kill a deal at any stage if they don't think it's large enough.

3. I DIDN'T PRESENT THE MARKET WELL ENOUGH

Investors are only interested in 2 things when it comes to market:

1. Is it big enough
2. How you plan to attack it

They need to believe you can build a multi-hundred million dollar or billion-dollar company in your space. But most companies start out in a niche and go wide later. So, it's common for investors to conclude that your market is much smaller than it actually is. They won't see that your current market is really just a starting point. But in reality, you're sitting in the middle of a massive market that not many can see. You're going after the center first, your target customer base. You'll expand outward to a series of very similar customers.

Here's how to communicate this effectively:

- Show your total addressable market (TAM) like an archery target
- The middle represents where you're focused today
- Each outer ring is a future market
- Now show how you'll move from ring to ring with (essentially) the same core product
- Focus on your "unfair advantage" that allows you to evade competition.

4. I DIDN'T TIME THE RAISE CORRECTLY

The best time to raise money is when you don't need it.

But what I did (and what happens so often) is that you start to fundraise when you're already running out of money. This is precisely the wrong time to raise because your leverage is the lowest. You want to forecast when you're going to run out of money and then start the fundraising process well before that (12+ months in advance).

The absolute best time to raise is right after a major milestone in your business—a breakthrough, like a big product launch, landing a whale, or hitting profitability. You've figured out an important aspect of the business, and now you're raising money to accelerate things off the back of that breakthrough.

This becomes the "Why Now?" section of your pitch. And it creates a sense of urgency that isn't running out of money.

5. I CHASED VALUATION

I was guilty of focusing too much on valuation and not enough on partner-fit and other important terms.

This was especially memorable in our Series C fundraise when I let a bad-fit investor onto the cap table because they offered the highest valuation. The subsequent two years were a living hell as he tried to kick me and the leadership team out of the company and take control. A 20% higher valuation was not even close to worth this nightmare.

Luckily, we could rally the existing investors to buy out the bad-fit investor. But we had to face near insurmountable odds just to pull this off, and the company was dangerously close to going under. It took nearly all of my energy and attention and set the company back at least a year.

Instead, do the following:

- **Be willing to accept a slightly lower valuation for the right partner & clean terms**
- **Vet your new potential investor thoroughly**
- **Talk to founders in their portfolio that are not on their reference list**
- **Don't let them prop up your valuation by increasing the liquidation preference**

6. I DIDN'T NEGOTIATE THE TERM SHEET WELL ENOUGH

Getting a term sheet is one of the most exciting steps in the fundraising process. But more often than not, the investor leaves key terms or details that really should be agreed upon upfront. If they aren't included in the term sheet, you'll end up negotiating them during the due diligence process (the time between the term sheet being signed and the final close). This is problematic because you are now blocked from talking to other investors, and your leverage is at another low point in the process.

Instead, you want to include all the major terms in the term sheet and negotiate them to your satisfaction BEFORE signing. Don't sign anything unclear or if the investor marks something "TBD" (not a joke; I've seen this multiple times.)

KEY TERMS THAT YOU WANT TO SIGN OFF ON FIRST

- **Board composition**
- **Post-money ownership percentages**
- **Post-money option pool size**
- **Voting rights**
- **Liquidation preference**
- **Anti-dilution protection**
- **Dividends**
- **Right of first refusal**

7. I WASN'T READY FOR DUE DILIGENCE

As I mentioned in #6, the due diligence process when raising funding for startups is the period between term sheet signing and final close. It's your most vulnerable moment during the entire process. Why? Because you have agreed to only talk to this investor for 30-90 days while they do their due diligence on the company. Since the term sheet is non-binding (it's just a letter of intent), the due diligence period is really when the investor decides if they want to go through with the final investment and wire the money.

So, for 30-90 days (depending on the term sheet), the investor's firm gets to probe the business and find everything wrong with it. Their goal is to stress test their investment thesis and make sure what you told them about the business is actually true. If either one is off, they may renegotiate the deal or walk away entirely.

So, two things are critically important here for the founder:

1. Make sure what you told the investor will check out during due diligence (pretty obvious, but many founders have been caught in an "exaggeration" during due diligence. When raising funding for startups, this is not a good place to be.)
2. Make sure your house is in order (this is something that most founders overlook or don't take seriously enough. It's one thing to have a Dropbox folder with a bunch of legal docs in it, but it's another thing entirely to have anticipated everything that they will need or ask about.

At the bare minimum, you need:

1. 3-5 year financial model
2. Cap table
3. Product roadmap
4. Capacity model & sales pipeline
5. Unit economics
6. All legal documents
7. Any documents from past fundraises
8. Customer references
9. Wire info 🙂
10. If you have this stuff dialed in, you can cut a 90-day due diligence period down to 30 days!

A WORD OF CAUTION

If it takes you too long to produce the documents they need for due diligence, it can absolutely stall the deal, and investors will lose confidence and walk away.