What VCs want to hear: how to raise (or not) in any market

Jonatan Luther-Bergquist
The goal of today:
Low information asymmetry

1. What VC is
2. How VCs think
3. How to raise
Venture capital funds invest, advise and raise money

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Raise funds

Funds aren't permanent and need to raise capital themselves in order to stay in business. Last 10 years pushed funds to:

- Get bigger and bigger, vintage to vintage
- Run more funds in parallel
- Get more specialized
Venture is a network-driven, service business, traditionally

Only rarely does VC scale as a product

The core activities of VCs all compound with network, but the main limiting factor is still time of investors

Changing to some degree with two approaches
Funds are structured as partnerships

**General Partners (GP)**
- Active involvement (usually >full-time job)
- Manages fund
- Takes investment decisions
  - E.g., former builder/founder, finance, “pure” VC

**Limited Partners (LP)**
- Inactive involvement (oversight)
- Invests in fund
- E.g., HNWI, fund of funds, family office

**Fund LP**

**Investment team**
- To source, access, DD, networking
  - From junior analysts to senior principals and venture partners
  - E.g., operators, researchers, community builders, …

**Talent/Ops**
- Help recruit and manage talent for portfolios
- Maintain talent networks
- E.g., former Head of People

**Back-office**
- Administrative functions, incl. fund set up
- Legal (huge part)
- Accounting and reporting

**Tech**
- Build out internal tooling
- Sometimes tech DD on investments
- Sometimes support portfolio companies on tech

**Wesla Motors
GMNNMÖ
IÖNÖM
Microhard
Unter
...
Venture funds live 15y+, but front-load much of the heavy lifting

~3 years to deploy capital  ~7-12 years to monitor, support and decide on exit

Latest at this point: VCs want to continue investing, so start raising the next fund after ~3 years

15+ year outlook on investment strategy
Now we know what VF is. How do they think? How to raise
VCs are incentivized to increase AUM and make returns.

**Management fee (~2% p.a.)**
- Necessary to run a fund
- Salaries, legal expenses, etc.
- Scales with fund size

**Carried interest (~20%)**
- Necessary for aligning interest
- GP does well if fund and LPs do well
- Scales with fund returns and size

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*Graph:*
- 1y to 10y return timeline
- 2% annual return
- 200% cumulative return
- (maybe)
How do we get the dotted maybe returns??
Without exits, no returns. Without returns, no fun(d)

The venture machine

Output parameters
- Wind-downs (fatalities)
- Exits through:
  - Acquisitions
  - Initial Public Offering
  - Tokens
  - Secondaries

The Power Law drives venture
- Venture means big risk, massive returns
- A few portfolio companies drive returns of the entire fund, ergo:
  - Fatalities don’t matter
  - Each investment needs to be able to at least return the fund
  - Not every business fits the venture profile

Can be turned into an optimization problem btw: e.g., objective function is multiple on invested capital. Find optimal input parameters given risk profile, picking skills, etc.
Decision making is the real skill that matters in venture

Fund influences
1. Capital available
2. Stage in fund cycle
3. Attention split (vacation?)
4. Burned topic
5. Competitive investments in portfolio

Startup factors VCs consider
1. Exceptional team
2. Market
3. Product/Tech
4. Deal terms
5. Legal setup and cap table

Stuff VCs LOVE
1. Prior exits ("serial entrepreneurs")
2. Traction
3. Momentum in the round
4. Great narrative
5. Being early
AUM can be main motivator! $1B fund = $200M in mgmt. fees over 10y

Massive uncertainty requires each investment to have huge potential reward

Fund size determines strategy

Summary:
Outliers are important, but so is AUM
1. What VC is
2. How VCs think
3. How to raise
RAISE VC MONEY

I'm sorry sir, can't let you do that.

Not to worry. I have a permit.

EASY GUIDE + BIG BRAIN
Three questions to ask yourself before starting to raise venture capital

**Can you bootstrap?**
If you don’t need money for your business, why give up control and ownership?

- Yes

  Try it for as long as you responsibly can

- No

  Consider other financing options:
  - Loans
  - Crowdfunding
  - Rev-share agreements

**Is it venture scale?**
Market size in O($10B) or rapidly growing; grand, plausible vision capturing large parts of that market; ultra-scalable business, etc.

- Yes

  Would I bet the farm?
  Are you so convinced of your own ability and unique approach that you’d bet your entire livelihood?

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You decided to raise venture capital, wat do?

1. Least overhead, least control surrendered. Download from YCombinator, fill out blanks, sign, done

Instrument options

- SAFE
- Equity
- Convertible loan

Which VCs to target

- Stage + Check size
- Geography
- Intro-line

Do or do not, there is no try

- Be deliberate
- Build momentum
- Only “go out” when you’re sure you can close

Best guide for more info
Don’t be scared, fundraising doesn’t have to be horrible. It will be work though

Mechanics of a fundraising process

- Email long list of target VCs
  - Try to get to a decision maker ASAP
  - Educating VCs on your business
  - Building long term relationships

- First calls
- Due diligence
- Göööön poń óōöön
- Fööööön

100
50
15
8
3

- Lead VC (>40% of round)
- Additional VCs
- Angels
- Finalize terms
- Sign docs
- Wire money
Three tenets of VC psychology:

1. VCs are looking for a reason to pass on you.
2. (Many) VCs are herd animals, following the flock.
3. VCs can smell desperation.

How to use this in your favor:

1. Avoid early passes for bad reasons.
2. Tweak the pitch according to thesis of fund and trends.
3. Act as if you’re (and you are!) in the driver seat.

DO

- Target funds for whom you’re relevant.
- Tell a grand story, connecting your vision to larger supporting trends.
- Set tight deadlines and be prepared to stick to them.

DON’T

- Act mysterious and refuse to share information.
- Lie (obv.) or say you’ll do different things to different people.
- Impose artificial constraints that don’t allow for proper DD.
We’re at an inflection point
Inflection invests into novel cryptography and compute paradigms
Those technologies that empower individuals and secure societies’ most critical structures

First-checks, globally, in first companies
~$1M average check size
Any instrument that fits
10y+ mindset of VC, with urgency of harsh macro conditions

See ourselves as partners to founders in the earliest stage

Support
My hope after this

At least one person in the crowds starts a venture – backed company

Still on the fence?

JLB@inflection.xyz
@JonatanLB on tg
Red flags

- “Who else is investing?”
- “Get back when you have a lead”
- Unwilling to give references
- “These are standard market terms” (when they’re not)
- You just don’t like them
- No idea what you do, after third call
- “If you agree to my terms, I’ll buy you a lambo”