

THE HONEST TRUTH  
ABOUT VENTURE CAPITAL  
FROM STARTUP TO IPO

*founder*  
VS  
*investor*



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VS JERRY NEUMANN

FOREWORD BY SANDY LERNER,  
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A PDF COMPANION TO THE AUDIOBOOK

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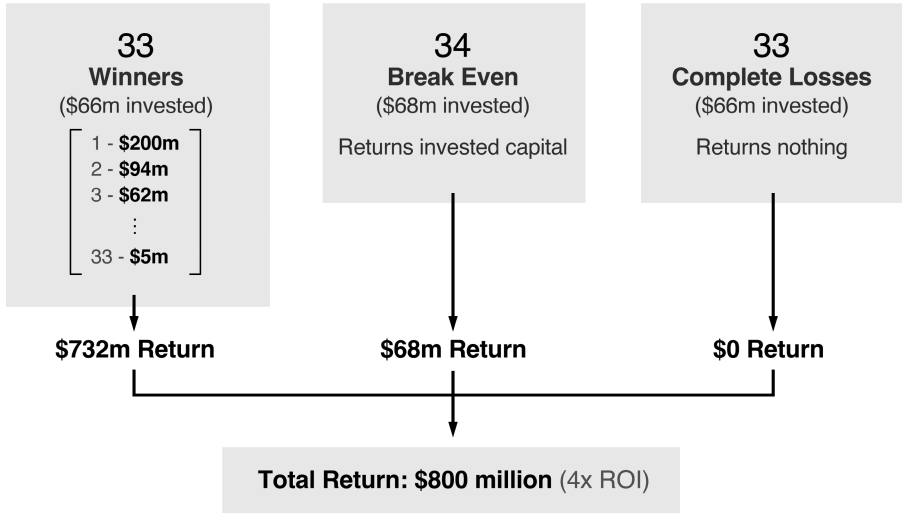
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CHAPTER 2: FUNDRAISING

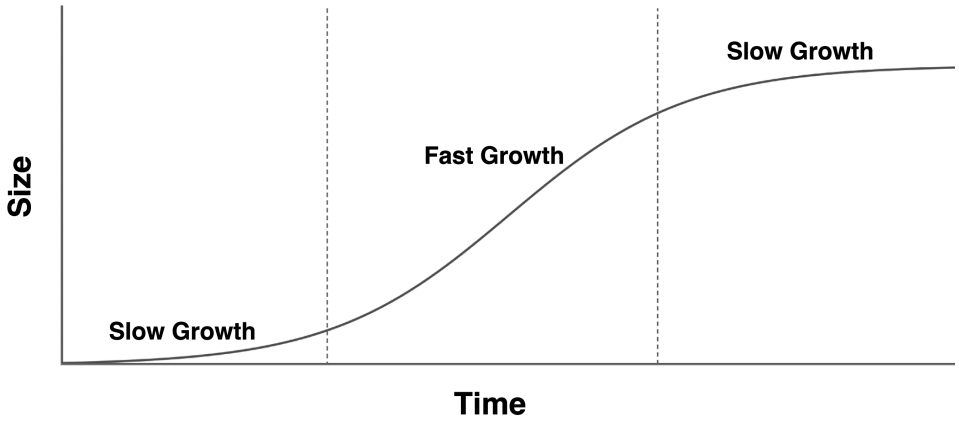
TIMING OF PITCHING WAVES

	<b>Week 1</b>	<b>Week 2</b>	<b>Week 3</b>	<b>Week 4</b>	<b>Week 5</b>	<b>Week 6</b>	<b>Week 7</b>
<b>Practice</b>	1 <sup>st</sup> meeting	2 <sup>nd</sup> meeting + diligence	Partner meetings				
<b>Kind of Care</b>		1 <sup>st</sup> meeting	2 <sup>nd</sup> meeting + diligence	Partner meetings			
<b>Care</b>			1 <sup>st</sup> meeting	2 <sup>nd</sup> meeting + diligence	Partner meetings		
<b>Really Care</b>				1 <sup>st</sup> meeting	2 <sup>nd</sup> meeting + diligence	Partner meetings	
<b>Backups</b>					1 <sup>st</sup> meeting	2 <sup>nd</sup> meeting + diligence	Partner meetings

## VC Fund: \$200 million, 100 companies



THE ICONIC S CURVE



Okta: Total Funding \$1.2 billion (\$200 million pre-IPO)

DATE	SERIES	MONEY RAISED
June 2020	IPO	\$1 billion
September 2015	F	\$75 million
June 2014	E	\$75 million
September 2013	D	\$27 million
December 2012	C	\$25 million
August 2011	B	\$17 million
February 2010	A	\$10 million
September 2009	Debt	\$750,000

OneLogin: Total Funding \$175 million

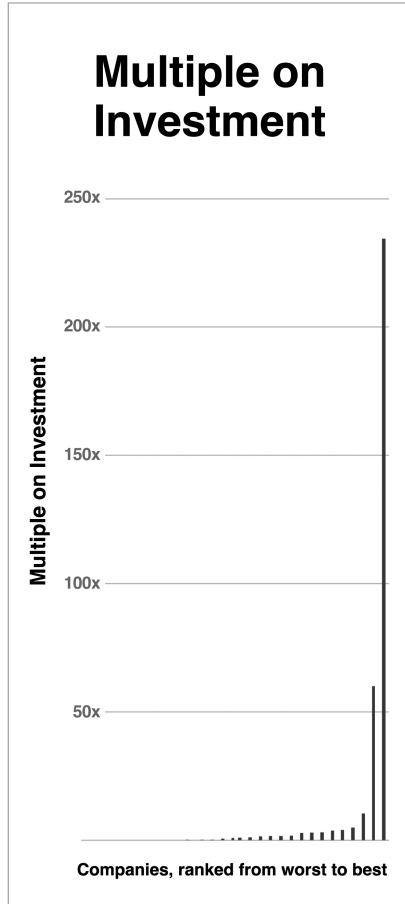
DATE	SERIES	MONEY RAISED
January 2019	D	\$100 million
June 2018	C Extension	\$23 million
May 2017	C Extension	\$10 million
December 2014	C	\$25 million
October 2013	B	\$13 million
June 2010	A	\$5 million

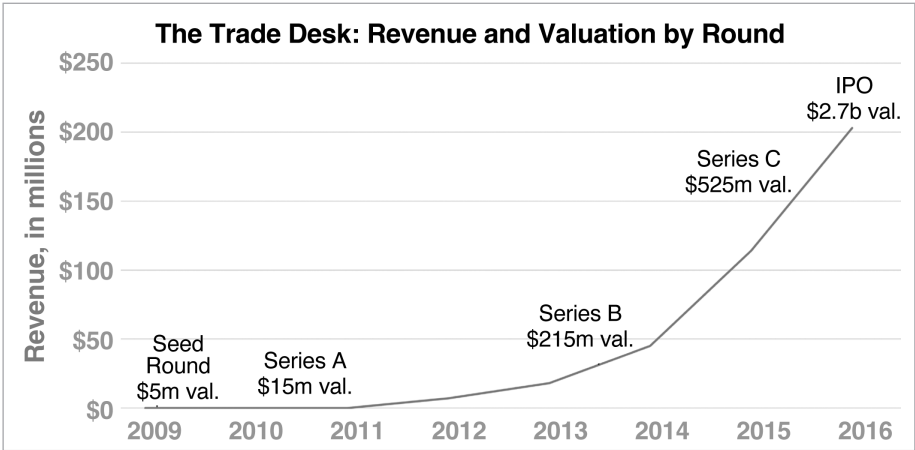
Datadog: Total Funding \$150 million (pre-IPO)

DATE	SERIES	MONEY RAISED
September 2019	IPO	\$648 million
January 2016	D	\$95 million
January 2015	C	\$31 million
February 2014	B	\$15 million
November 2012	A	\$6 million
April 2011	Seed	\$1 million

Loggly: Total Funding \$47 million

DATE	SERIES	MONEY RAISED
January 2018	Acquired by SolarWinds	Undisclosed Price
June 2016	D	\$12 million
October 2014	C	\$15 million
September 2013	B Extension	\$11 million
July 2012	Venture Round	\$6 million





## GLOSSARY

**Acquirehire:** When a startup is acquired by a larger company primarily for its talent, usually engineers. Acquirehires are a great way for a startup to save face instead of shutting down: Have another company hire most of the engineers as a package deal and announce to the world that they were “acquired.”

**AE (account executive):** Salesperson in charge of finding customers, closing deals, and maintaining the customer relationship after the sale.

**Angellist:** A website that lists startups raising money so angel investors can find and invest in them.

**ARR:** a. Recurring revenue generated by annualized subscriptions (annual recurring revenue); or b. Latest monthly revenue multiplied by twelve (annualized run rate).

**B2B (business-to-business):** A software or service sold by a business directly to another business. Contrast to, among many other increasingly confusing startup acronyms, B2C, where businesses sell to consumers; D2C, where businesses sell direct to consumers (as opposed to selling through a retailer or wholesaler); and

B2B2C, where businesses sell to another business that sells to the consumer (but where the first business becomes valuable to the consumer in itself; e.g., Microsoft selling Windows through PC manufacturers).

**Board deck:** A presentation used to update board members on company progress in board meetings.

**Board meetings:** A regular meeting of the board of directors to hear from company management about the state of the business and to discuss and decide any actions that need to be taken.

**Breakup clause:** A term in a contract, typically an *LOI*, in which the issuer must pay a fee if they decide not to close the deal without good (as specified in the *LOI*) reason.

**Call option:** The right, but not the obligation, to acquire equity at a specific price at some point in the future. VCs often say an early-stage investment is a “call option” because it gives them the chance to participate in a future financing if the company becomes hot, even though this is a bit of a misnomer because there is no set price for the future purchase.

**Capital calls:** When a venture capital firm raises a fund, their investors commit the capital. That is, they agree they will invest a certain amount of money over the life of the fund as needed. But they send the money when the fund needs it, not all at once. A capital call is when the fund asks its investors to wire their share of the money needed to make an investment.

**Cap (capitalization) table:** A record of who owns or has the option to own what types and amounts of shares in a startup.

**Cause:** A list of reasons that an executive or founder can be fired without triggering severance payments or other contractual requirements.

**COGS (cost of goods sold):** Direct costs associated with building a product. Excludes marketing, sales, and distribution, while including delivery costs (e.g., server costs).

**Common stock:** Your vanilla, no-frills stock, typically owned by founders and employees. Common has fewer rights than the *Preferred stock* purchased by investors.

**Corp Dev (corporate development):** Team in charge of finding ways for a company to grow outside of their usual sales channels.

**Corporate (venture) arms:** A division at a large company that makes venture capital investments.

**Co-sale right, exempt from the ROFR:** An exemption in the IRA in which certain employees, typically founders, have the right to sell some percentage of their holdings without being subject to the ROFR. This allows founders, who might be rich on paper—they own a large stake in a very valuable company—but cash-poor, to take money off the table.

**Crunchbase:** An online database of startups and funding rounds.

**Decacorns:** In 2013, venture capitalist Aileen Lee coined the term unicorn to describe private venture capital-backed companies valued at more than \$1 billion. The word unicorn was meant to denote how rare these beautiful creatures were. In the ensuing ten years, as everyone and their dentist poured money into VC, unicorns became so common that VCs couldn't even brag about them

anymore. In response, they coined a more impressive word: decacorn. A decacorn is ten times a unicorn, a private company valued at more than \$10 billion.

**Direct-to-consumer/business-to-consumer (D2C/B2C):** See *B2B*.

**D&O (Directors & Officers) insurance:** Insurance purchased to indemnify a company's board of directors against lawsuits.

**Down round:** A financing round that occurs at a lower valuation than the previous one. Usually an indication that either something has gone drastically wrong at the company or that the market has tanked. Down rounds can cause excess dilution for founders and early investors leading to bad blood, so many VCs would prefer to not invest at all rather than lead a down round.

**Escrow:** The holding of money or signatures while a deal is in the process of closing (typically by lawyers). This allows the synchronization of all signatures and sendings of money so no weird legal gaps can open where a deal has been agreed to by some but not all parties or where a deal has been agreed to but money hasn't been wired. It's easier than trying to get everyone to do everything all at the same time.

**Exited/exits:** When a startup's shareholders have a chance to sell their equity for either cash or more liquid equity. This may take the form of an acquisition (see *M&A*) or an *IPO*.

**Follow-on round:** Any subsequent round that an investor invests in.

**Form D:** A notice filed with the SEC on the event of a stock offering for sale that includes basic information about the company, its executives, and the size and date of the sale.

**Fund expenses:** The costs of running the VC firm itself (rent, salaries, phones and computers, etc.).

**Good Reason:** A list of reasons an executive or founder can quit while still retaining their severance and other benefits. “Good Reason” tries to codify what being fired without actually being fired is: having your compensation reduced, your job description substantially changed for the worse, your responsibilities or direct reports taken away, etc.

**Greater fool theory:** If you buy something for \$100 and then realize it is worth only \$90, you are a fool. But you can save your own ass by finding a greater fool and selling it to them for \$120. When you are selling something, your goal is to find the greatest fool (see *Winner’s curse*). The greatest fool of all is usually the general public, so selling to them in an *IPO* is the best exit of all.

**Hacker News:** A social news aggregation website run by *Y Combinator*. The audience is primarily software engineers and startup folk of the technical bent, so the upvoted articles are usually things of interest to them.

**Hockey stick:** Also known as “up and to the right,” hockey stick growth is when revenue suddenly starts to grow rapidly after a period of low or no growth. When you forecast hockey stick revenue in your board deck, the chart kind of looks like a, you know, hockey stick.

**Inside round:** When a new round is financed entirely by people who are already investors. Often a really good or a really bad sign.

**IPO (initial public offering):** When a company lists on a stock market in order to raise money from the public and to create liquidity for its existing shareholders. IPOs are usually the most lucrative exit

for the investors and, unlike most acquisitions, leave the current management in charge of the company.

**Lead (investor):** The VC in a round that issues terms, hires lawyers, and negotiates contracts. It's often the same VC that invests the largest amount of money in the round and sits on the startup's board afterward, but not always.

**LOI (letter of intent):** A written indication from a potential acquirer of their intent to buy a company and an outline of what the deal would be. While getting something in writing is a huge step in an acquisition process, an LOI is a *nonbinding* offer and the price is liable to change as the acquirer does due diligence. Some LOIs may come with a *breakup clause*.

**LP (limited partner):** One of the investors in a venture capital fund.

**M&A (mergers and acquisitions):** Companies team up to have a bigger market presence or to use each other's assets. The term acquisition is usually used when one company is buying the other and the acquired company will have little say at the executive level. Merger tends to mean something mutual and friendlier. The friendliest is a merger of equals where the two companies will evenly share ownership and control after the transaction. In reality, every M&A deal is an acquisition to some extent. You can usually tell by seeing which company's CEO ends up being CEO of the combination.

**Merger of equals:** See *M&A*.

**Milestone:** A tangible event (working software, first users, paying customers, etc.) that shows that a startup is making progress toward being a real company.

**Moats:** A colloquial term for a sustainable competitive advantage. A way to make it harder for imitators to compete with you. A moat might be increasing returns to scale, network effects, a well-known brand, patents, etc.

**MRR (monthly recurring revenue):** Predictable, monthly revenue generated by subscriptions.

**NDA (non-disclosure agreement):** A legal agreement between a company and another person (employee, contractor) that prohibits that person from sharing sensitive company information, even after they are no longer employed by the company.

**Nonbinding:** An offer or agreement that doesn't come with a contractual obligation to complete it.

**NVCA (National Venture Capital Association):** A trade association formed primarily to lobby on behalf of venture capital firms but that also provides some assistance to members, such as model legal documents and industry research.

**Participating preferred:** A type of *Preferred stock* that not only returns the investors' money before paying anything to Common shareholders, but requires the Preferred investors to *make* a multiple of their investment before the Common makes anything.

**Partner:** One of the owners of a venture capital fund (versus, say, associates, who are mere employees). It is almost always the partners who decide which startups to invest in and who manage the investment afterward.

**PE (private equity) funds:** A fund that invests in companies that are not traded on a stock exchange. This includes both venture capital

funds and funds that invest in more mature businesses, like some buyout and hedge funds.

**PLG (product-led growth):** Most products must be sold. Product-led growth is the idea that some products sell themselves. Building a product that customers just show up to buy is the field of dreams in the startup world but, like the *Field of Dreams*, it's rarely anything but wishful thinking.

**Post-money valuation:** See *pre-money/post-money valuation*.

**Preferred stock:** Class of stock typically reserved for investors, which comes with special privileges, most notably that the Preferred stock gets paid first in any sale or liquidation of the company. For example, if the company has raised \$100 million through sales of preferred stock but later doesn't do as well as expected and is sold for a total of \$50 million, then the preferred stockholders get the entire \$50 million and the Common stockholders (including the founders and employees) get nothing. Preferred stock is a necessary protection for VCs when the *pre-money valuation* does not reflect what the company could be sold for, which is almost always the case in VC.

**Pre-money/post-money valuation:** Notionally, a startup's value immediately before and after a round of financing. The pre-money is the number of shares in the company before the financing multiplied by the price per share offered in the financing. The post-money is the number of shares after the financing multiplied by the price per share. Theoretically, the post-money valuation is the pre-money valuation plus the amount of money invested in the round, but this often isn't exactly true because the financing may also require the option pool being expanded, etc.

**Product market fit:** The semi-mystical moment when a company's product perfectly suits their customer, so that customers begin clamoring to buy it. While startup growth gurus say you'll know this moment when it happens, it more often seems that people only recognize it several years later, when they retroactively try to claim that their success was a result of them knowing exactly what they were doing.

**Recycle:** When a venture fund takes the money from an exit and invests it back into a new startup instead of returning it to their limited partners. This is a way to increase the size of their fund and thus the overall amount of money they can make. For instance, if a VC raises a \$100 million fund, but has an exit in year three of \$20 million, they may recycle that \$20 million by investing it in more startups. They have, in effect, turned their \$100 million fund into a \$120 million fund.

**Retained search:** Also called headhunting, where recruiters are hired, typically for a flat fee, partly paid up front and partly paid on successful completion, to find and hire an executive. This is in contrast to a contingent search in which the recruiters are paid only after someone is actually hired. Although the payment may be similar in the end, contingent search firms have an incentive to find a spot for a person while retained search firms are motivated to find a person to fill a spot.

**Return on Investment (ROI):** The gain on an investment divided by its cost.

**RIA (registered investment advisor):** In the USA, venture capital firms are exempt from reporting requirements that most other investment firms have to follow. But when more money pours into venture than VCs know how to spend, they decide to make

non-venture investments. To be allowed to do so, they must become RIAs. In the 2020s, these non-venture investments were in crypto, other venture funds, and public market equities. In the 1980s, they were in leveraged buyouts. Generally, when venture firms decide they would rather put their money in non-venture investments, it means that either venture prices are too high or expected exits are too low.

**SaaS (software-as-a-service):** Software licensed and centrally hosted instead of the older “shrinkwrap” model, where software was sold to a customer who then had to install it on their own computers, then make sure the computers stayed up and someone kept the software updated. Once internet connections became ubiquitous and reliable, it just made sense to customers to have the software provider do these things. And it made sense to the software provider because they could now charge a subscription instead of a one-time fee.

**Shiva:** Traditional Jewish gathering to mourn someone who has died.

**Single/double trigger acceleration:** Startup stock options vest over time: Someone may be given options on ten thousand shares of stock vesting over five years. This means (though it may be more complicated) that they have the right to two thousand options each year for five years. But if the company is acquired by another company or the option holder is fired, that vesting stops. Executives may negotiate their employment contracts with clauses that allow all of their options to vest immediately if some event occurs, like an acquisition, being fired without *cause*, or quitting for *Good Reason*. Single-trigger acceleration usually means that the employee becomes fully vested if the company is acquired. Double-trigger means the employee becomes vested if

an acquisition happens and then the employee is terminated or leaves for Good Reason.

**Stock option pool:** Options on shares of *common stock* reserved to be granted over time to employees as an incentive for them to make the company more valuable.

**Strategic:** A company who would have a strategic interest in a startup. Strategics are sometimes approached to invest in a startup and often do. They also are often the acquirers of the startup.

**Syndicate:** Many venture financings include more than one investor, either because no single investor has enough money to fund the whole round themselves, or because different investors bring different expertise to the startup. This group of investors is called a syndicate. When a VC finds an investment they want to make and brings other investors in to invest as well, they are syndicating the deal.

**TAM (total addressable market):** Theoretical maximum amount of the market a company could capture if everyone who could use the product bought from that company.

**Thesis:** A thesis is a venture capitalist's elevator pitch of what they plan to invest in. It usually includes an area (or a few areas) of specialization and the VC's prediction of why those markets are The Future.

**Tier 1/2 firm:** A top venture capital firm (e.g., Accel Partners, Andreessen Horowitz, etc.). There are thousands of active venture capital firms, and if you listen to them, they are all among the top firms. Because returns are not public, there's no real way of knowing for sure, so which firms are Tier 1, Tier 2, or below is more folk wisdom than fact.

**Triple-double/triple-triple-double-double:** The VC expectation of revenue growth in early-stage *SaaS* companies. Revenue triples for two consecutive years, and then doubles each of the following two years. This expectation is rarely met.

**Use of funds:** The slide a startup shows when a VC asks, “What are you going to do with my money?” even though the answer is almost always “Hire people.”

**Winner’s curse:** By definition, the winner of an auction is the one who paid more than anyone else was willing to. Since they can’t sell for as much as they paid, they have paid more than the item is worth. This means that the winner of any auction has *always* overpaid (unless they know something everyone else doesn’t know, and this information is revealed after the auction).

**Y Combinator:** A notable and influential startup incubator/accelerator. Named after an obscure and rarely used programming construct.