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1/17: When a #startup that I'm advising wants to raise money in the near future, I always ask them the question: "Are there any asterisks?" By this I mean, are there any counter-factual results that will have to be explained in diligence. This matters A LOT. A 🧵 👇

2/17: Building a startup isn't an overnight task. On day 1, a startup is an idea backed by some combination of research, intuition, experience and a huge number of assumptions. The goal of a Founder is to learn every day and adjust the business based on these learnings.

3/17: Every new learning is either proof that a startup is on the right path (positive proof) or proof that the market reality and the startup's assumptions aren't in sync (anti-proof). Positive proof always feels good. Anti-proof can hurt a little or a lot. It depends.

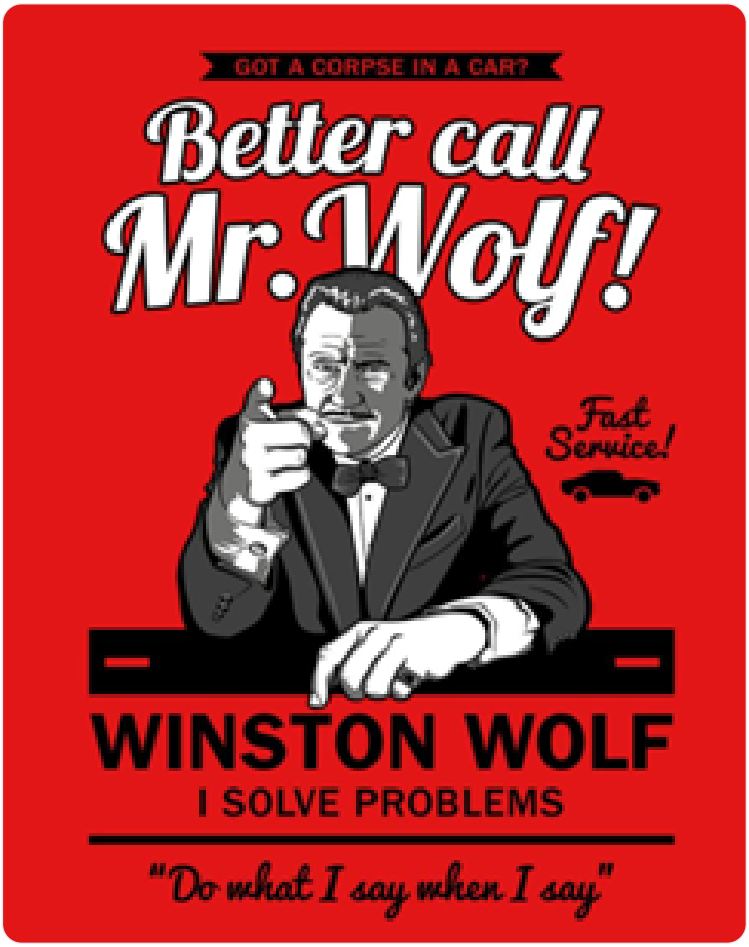
4/17: Great Founders are made of strong stuff and take setbacks in stride. So when anti-proof shows up, Founders treat it like any other challenge that needs to be dealt with. They study it. They internalize it. And then they adjust their business to overcome it.

5/17: But fundraising is all about selling the future vision and potential economic outcome of a business to an investor, and in this context positive proof and anti-proof play critical roles. They anchor the narrative and set the context for diligence.

6/17: Positive proof is evidence of de-risking and confirmation that the prize is worth the effort. Anti-proof is evidence that the business is more difficult to build than anticipated and brings into question whether the projected outcome is even possible.

7/17: And to an investor, positive proof and anti-proof aren't equals. One piece of anti-proof could kick off a stream of additional questions. Or it could drastically impact deal terms. Or even worse, it could be the convenient excuse for an investor to walk away.

8/17: So when a startup I'm advising wants to raise money, I always ask them: "Are there any asterisks?". The truth is that some businesses sell themselves or only need a little massaging to be believed while some businesses need Mr. Wolf to fix.



9/17: Navigating an asterisk with potential investors can be tricky depending on the severity of the anti-proof behind it. So when an asterisk exists, I spend a lot of time with a Founder diagnosing how it's likely going to impact the fundraise process.

10/17: If the anti-proof is relatively minor, much of the help I give centers around fitting the asterisk into the narrative in the cleanest way possible, explaining the asterisk with as much clarity as possible, and building the case that the asterisk will be in the past soon.

11/17: Sometimes investors have to step in and have “investor to investor” conversations to clear up confusion around minor asterisks. This works well when investors know and trust each other. But it can backfire if an investor has a reputation for being a shyster.

12/17: Examples of relatively minor anti-proof:

Growth slowed for a few months but is bouncing back

CAC increased for a few quarters but has started to come down

Churn is higher than expected for older vintages but under control for newer vintages

13/17: But sometimes the anti-proof is extremely damaging and could torpedo a fundraise. Figuring out a “Plan B” might be better than going to market with a tough story, especially if the business is also quickly running out of cash.

14/17: A common “Plan B” is to work with existing investors to bridge the company/give the Founder enough time to deal with the damaging anti-proof. Fixing the underlying issue and putting it in the past always helps. Adding additional positive proof doesn’t hurt either.

15/17: Another common “Plan B” is to reduce burn and extend runway long enough to deal with the damaging anti-proof. Sometimes this isn’t possible, but it should be on the table if the business is burning cash and needs to fix a fundamental issue.

16/17: Examples of damaging anti-proof:

A major enterprise client churned/attrition is spiking

Customer engagement has been falling

Margins are decreasing but the forecast assumes a bounce back

CAC has been increasing and paybacks are now in uncomfortable territory

17/17: The TL;DR: Look out for anti-proof and be honest about how damaging it is when it shows up. Do what you can to wipe it out. Always be prepared to explain it with clarity and precision. And if the anti-proof is severe, work with your existing investors on “Plan B”.

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