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Startups that have clean narratives and “up-and-to-the-right” results can generally raise capital with minimal friction.

But a fundraise takes on an entirely different form when a startup has “asterisks” that complicate the story.

Unfortunately, asterisks are now the norm!🧵👇

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.

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 feels good while anti-proof hurts.

And anti-proof always adds doubt. Always!

So, it's important to internalize that fundraising is about selling the future vision and potential economic outcome of a startup to an Investor.

In this context, positive proof and anti-proof play critical roles. They anchor the narrative and set the context for diligence.

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.

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 drastically impact deal terms.

And in today’s brutal market, it’s commonly the convenient excuse for an Investor to walk away.

So when a startup wants to raise money, I ask: “Are there any asterisks?”

And for startups raising recently, the answer has almost universally been “yes” given the changes in market conditions and how startups have refactored their plans as a result.

Sometimes Investors have to step in and have “Investor to Investor” conversations to clear up confusion around asterisks. This can work when Investors know and trust each other.

But it can backfire if an Investor doesn’t voluntarily surface the problems a startup is facing.

Examples of common asterisks that are easy to explain:

✅Growth has slowed due to marketing cuts but the unit economics of the customers being onboarded have improved.

✅Burn was high but has been dramatically reduced through a major reduction in headcount.

But sometimes the anti-proof is damaging and makes an external fundraise impossible. Existing Investors commonly become the only possible lifeline.

Startups with complex stories need to generate enough positive proof to offset their anti-proof before raising from new Investors!

Examples of damaging anti-proof:

❌Marginal unit economics paired with significant marketing spend

❌Worsening market conditions that negatively impact the near and medium term outlook

❌A plan that burns through large amounts of capital for a very long time

TL;DR: Look out for anti-proof and be honest about how damaging it is when it shows up. Be prepared to explain it with clarity and precision.

And if the anti-proof is severe, work with your existing Investors on “Plan B” before attempting to raise from new Investors.

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