OCTOBER 2026

PLAYBOOK

Raising Venture Capital: A Standard of Practice for Early-Stage Tough Tech Founders

THE ENGINE

Raising Venture Capital: A Standard of Practice for Early-Stage Tough Tech Founders

Tough Tech companies take longer to build, carry more technical risk, and often need more capital before they reach revenue than software companies do. Many generalist investors are still learning how to evaluate them. Founders who understand how venture capital works, and whether it fits their business, raise on better terms and spend less time on investors who were never going to commit. This standard of practice is not a substitute for advice from your board, counsel, or experienced investors on your specific raise. It is a practical reference drawn from The Engine's work with Tough Tech founders, built to help you decide whether venture is the right path and run a disciplined raise if it is.

Who This Is For

Without a clear plan, founders can raise on the wrong terms or spend months with investors who will never commit. This playbook explains how VCs evaluate Tough Tech, so you can decide whether venture fits and run a disciplined raise if it does.

Built for pre-Series A founders and proto-founders deciding whether venture fits or preparing for their first institutional raise, and the advisors and board members who support them.

How to Use This Guide

Start with the diagnostic. Part 1 helps you decide whether venture capital is the right fit for your company. Part 2 checks whether your raise is ready to start. The practices after that cover the raise itself, from planning and materials through investor relationships, round structure, and post-close updates. Each practice stands on its own, so go to the one that matches where you are. The appendices hold checklists for diligence and launch, plus key do's and don'ts.

About the Authors

This standard of practice was written by Liz Sisson, Director of Operations & Startup Success, and Christina Chang, Executive in Residence, at The Engine. Both bring venture capital experience to their work with Tough Tech founders.

Liz was previously COO and GP at Third Sphere, an early-stage fund investing in pre-seed climate and infrastructure startups. There she led diligence, deal flow, and fund fundraising, and she managed the BMW/MINI accelerator URBAN-X. As a Fellow at Harvard's Belfer Center, she researched how venture capital evaluates early-stage startups.

Christina has deployed hundreds of millions of dollars into climate tech, most recently as a Partner at Lowercarbon Capital. She previously designed moonshot R&D programs as a Fellow at ARPA-E and began her career as a founder and inventor. She holds a PhD in Chemistry from Harvard.

The Engine is a nonprofit incubator and accelerator dedicated to providing early-stage Tough Tech companies with the critical infrastructure, programs, and ecosystem they need to thrive. Our mission is to support and accelerate Tough Tech companies solving the world's most challenging problems as they move from research breakthrough to commercial impact. Learn more at engine.xyz.

Overview

Tough Tech is different from software. Your development cycles are longer, your technical risk is higher, and many generalist investors will take time to catch up to what you are building. And the founders who learn to fundraise in this category get to build some of the most impactful companies in the world.

This document is a guide for Tough Tech founders raising venture capital. Venture capitalists (VCs) need to believe your company can return their entire fund within their fund time horizon. If their fund size is $200M , they are looking for companies who can command a valuation of 10-100x that $200M, and do so within a time frame that competes with other investment options (e.g., software/AI startups; S&P500).

A good benchmark rule-of-thumb that encapsulates this math is that each investment a VC makes must be capable of returning the fund (“RTF”). In the case of a $200M fund, RTF means reaching about $100M+ in annual revenue and a $1B+ valuation within 7-10 years (a typical fund horizon). This math shapes how a VC reads everything else: your raise size, milestones, and the story you tell about scale. If this doesn’t describe your business, you might want to take a look at funding for slower or smaller scaling paths, such as grants, alternative capital, and revenue.

As a VC evaluates whether an investment can RTF, they'll ask a lot of questions, in whatever order their process dictates. In our experience, though, three of them are where Tough Tech startups most often fail fast:

- Is this the right team to actually build this venture?
- Is there (or or will there be eventually) a huge market for this technology?
- Is this technology/innovation uniquely equipped to win that market now?

Fundraising is a process, not an event. It’s a campaign with phases, a pipeline, and a rhythm, closer to running a sales process than delivering a pitch. Not to mention that most raises run for months, not weeks. How many months depends on a number of factors: a warm network, clear traction, and a hot market can close a round in a month; a large fundraise, high risk, or a cold market can stretch it past a year. Whatever the length, the work starts well before the fundraise kicks off.

Venture is a small, trust-based industry, and the relationships you build before you need anything are the most authentic. A conversation without an ask lets an investor

watch you execute on what you said last time, which is the one thing no pitch can fully demonstrate. Such a conversation also lets them give you their “win” conditions without pressure. Ideally, by the time you launch, your Tier 1 investor meetings aren’t introductions.

Fundraising is one of the most psychologically difficult things a founder does. You’ll hear “No” far more often than “Yes”, and you’ll get conflicting feedback on the same day from people who are equally smart and equally confident.

The feedback worth weighing is the kind that comes from investors who clearly understand what you do, who invest in your category and stage, and who point at something specific. Some feedback is noise. In our experience, it’s best to ask who's saying it, determine whether they were a real fit, and judge whether you're hearing the same thing from more than one credible source.

A few habits show up in founders who come through the process well: not tying their identity to the outcome of the fundraise, building a pipeline big enough so no one conversation feels like everything, and never fully stopping building the company.

The Diagnostic

Here are two sets of questions you want to ask yourself before you start to fundraise. A “no” — or any hesitation — tells you where the work is.

Part One: Is Venture the Right Fit?

1. Starting today, do you have enough runway to survive a fundraise that takes longer than you expect, without the last months of cash shaping your terms?
2. Have you deeply evaluated non-dilutive funding opportunities such as DOE, DOD/W, SBIR/STTR, state and philanthropic programs and found they aren’t a fit?

3. Have you pursued and evaluated being customer-funded, e.g., have you pursued creative paths to early revenue?
4. Would venture capital buy you the speed you need but can't get another way?
5. Can you answer all three of these questions with conviction: 1) Is the market huge now (or likely to be in the future)? 2) Is this technology uniquely equipped to win that market now? 3) Given what this company fundamentally has to do to win, do these founders spike in exactly that?
6. Are you and your co-founders aligned on your equity split, the amount to raise, the valuation floor, dilution that's acceptable, and the type of investor you want on the cap table?

Part Two: Is The Raise Ready to Start?

7. Do you have a strong techno-economic analysis (TEA) that demonstrates a deep understanding of the product and market and showcases your right-to-win even with technical misses?
8. Have you hit significant milestones that show 'this is working' across all major risk categories: team, technology, product, and commercial?
9. Do you know the specific milestones across those categories that this capital must fund to hit the next inflection point? And does this amount get you there with a margin?
10. Could you email your deck to an investor tonight and have it move them from curious to convinced without you in the room?
11. Do you know your numbers cold – burn, runway, margins, raise amount, valuation range, and dilution – for every round from now until exit?
12. Is there external proof that this is working beyond just the story – contracts, customer discovery, technical validation?
13. Do you have a long, tiered list of named investors (individuals and their firms), each with a written reason they're a fit (or not)? At the early stages that's often 100+ names.
14. For a significant tranche of the individuals on that list, would you want them across the table in a difficult conversation when things are going badly?

Practice One: Please the Raise as a Campaign, Not an Event

Most fundraises run for several months, and often the better part of a year. Whatever your timeline, the investor calendar has quiet zones worth planning around: Thanksgiving through New Year, and most of July and August.

Phase	Activities & milestones
Pre-Raise (Months 1–2)	Finalize materials, build investor list, consider traction and tech milestones, set raise target, prepare team for CEO availability shift, map out your network of contacts to activate for connections to investors
Soft Launch (Months 2–3)	Warm intros to 2nd/3rd-tier investors, practice pitches, refine narrative, gather feedback
Active Raise (Months 3–6)	Full outreach, 80–100 meetings, collect soft commits, build momentum toward a lead. (Note: this number can be lower if meetings are of high quality; quality beats quantity)
Diligence & Close (Months 5–8)	Data room open, term sheet negotiation, legal docs, final close
Post-Close (Month 8+)	Announce publicly or stay in stealth depending on your strategy, onboard investors, first investor update, return to building and hiring

CEO Time Commitment

Investors expect the CEO to be their main point of contact and to be able to answer any question about the business. A co-founder can support specific meetings, but the CEO owns the raise. During the active phase it tends to take essentially all of their time.

Things CEOs do to make room:

- Delegate day-to-day operations or science to a co-founder or senior team lead
- Slow non-critical hiring and operations during the active raise
- Set a weekly rhythm: outreach Mon/Tue, meetings Wed/Thu, follow-ups ASAP during the week (investors read your speed as a positive signal), or Fri at the latest
- Brief the full team before launching, so expectations are set and morale is protected

What a well-run raise tends to look like:

- A defined start, a target close, and targeted company milestones settled before the first email goes out.
- Someone other than the CEO is visibly running the company day to day, with the team already expecting it.
- Investor relationships that predate the raise by several months. Conversations without needing money are very trust-building for both parties.

WATCH FOR

- Launching on thin cash. Investors can read your runway in both your urgency and your literal financials. If you can't walk away, you've lost the negotiation before it starts. The pro move is to launch with more cushion than you think you need. At least nine months of runway is a good benchmark. Less than that and you might face a crunch.
- Treating the raise as something you'll fit around your real job. During the active phase, it *is* the job.
- Launching during a dead zone. In August and over the winter holidays, replies come back at wildly different speeds, so the raise loses its competitive tension and drags — and a raise that looks long reads badly. Also, it's worth remembering that silence itself isn't rejection.

TRY THIS

- Work backward from your cash-out date: subtract nine months, and that's your latest safe launch window.
- If that date has already passed, your first move is cutting costs to extend the runway, not polishing slides.

Practice Two: Build Materials that Stand Alone

Decks get forwarded, screenshotted, pasted into an internal memo, and skimmed on a phone in 10 seconds by an investor who has never heard of you. Build for that reader (no voice track needed).

Start with the spine, not the slides

The most common way to lose a month is to build your narrative in a slide template. Design is the last 20% of the work. The first 80% is the argument, and it's cheaper to fix in a text doc.

A spine is your whole deck written as one sentence per slide, in order, in a doc. Not a title, not a topic; rather, a full declarative sentence stating the claim that slide has to prove. "Progress to date" is a topic. "Eight months after incorporating, we've checked off every milestone" is a claim. Ideally, you make a very specific claim, i.e., one nobody else in your sector can make. If a slide's sentence isn't a claim, your deck is going to blend in with the thousands of decks investors pass on.

Then read the spine top to bottom with nothing else in front of you. It should read as one continuous argument, with each sentence flowing to the next.

Workshop the spine, not the deck. A sentence is cheap to change; a built slide is expensive; which is one reason why founders get stuck with materials that don't support their pitch well, defending arguments they should have abandoned. Plan on several passes with people who will tell you what isn't working, especially folks outside your field. Ask them to be brutally honest.

Pro tip: AI can be very useful in making your deck but make sure a trusted human gives you feedback.

Make the deck work without you in the room

Assume each slide gets two seconds to capture an investor's attention and communicate one message at a glance.

That five-second budget is why slide titles should be sentences, not labels. "Technology" tells the reader nothing. "Our proprietary graphene oxide membranes filter instead of boiling, reducing energy use by up to 90%." is the slide in one line — everything underneath it is evidence for that one sentence.

Build in redundancy via multiple channels. What you say out loud, what's on the slide in text, what's on the slide visually, and what's in the model should be the same number. This strategy brings along a first-time reader in multiple modalities, which is crucial for skimmability.

Write against the curse of knowledge. The dominant failure in technical decks is that you can no longer imagine not knowing what you know. Jargon, unexplained acronyms, and units nobody outside your subfield uses read as: *This person can't explain their own work*." The fix isn't dumbing down, it's watching a real human who doesn't share your background read the draft and noting where they slow down and ask questions. Their confusion is data.

Prefer the concrete. "Enables a scalable decarbonization solution" is a sentence about nothing. And, it's generic because anyone can say it. "Cuts energy use per ton of iron by 40%" is a sentence about the world. And, it's specific and closer to something only you can say.

Cut noise so the signal survives. Everything on a slide competes for the same attention: gradients, stock photography, a third color that means nothing, and logos of companies you had one call with. The test for any element is which claim does this support? If there's no clear answer, then delete it.

Steer into the objections. The risk you're avoiding is one they've already thought of. Naming it with a mitigation reads as command of the problem, and omitting it reads as hoping nobody asks. Your top two or three risks belong in the main deck, not only in the appendix.

Make sure it does still sound like you! A deck engineered by AI collapses when you present it. The principles above are constraints on clarity, not a house style. If you're funny, be funny. If you're precise and unadorned, be precise and unadorned. Investors are underwriting a person, and they want to be able to hear one.

Two decks for two different jobs

Many founders end up with multiple decks that do different jobs. All your decks should carry enough detail to work – at least at a very high level – without a voice track.

Full Deck: (10–15 slides)

It should move someone from absolute zero to wanting to take a first call. Pay particular attention to what truly sets you apart : your unique value proposition. Use <15-20 words per slide.

Slide	What to include
Title slide	Name, logo, one-line summary, contact info
Problem	What problems are you solving? Why does it matter?
Vision	Big picture of the company and what the world will look like when you're successful and at scale. Desired end state/impact.
Solution [incumbent vs yours]	What is the current state of the art? Why is it insufficient? What is your solution? How is it different? Do you have IP?
Technical Deep Dive	How does your solution work? What is the status of the technology? What validation do you have today (e.g., proof of principle, key data, prototype)? Why can't others do what you do?
Market/Impact Opportunity	How much revenue/impact is likely to be reached with your solution? How do you know?
Business Model	How will you generate revenue? What are the stages of the business on the way to this approach?
Technical Roadmap	What is your process for technology development? How does timing align between those and other key aspects including regulatory, BD, team, and financing?
Team + Advisors	Who is on your founding team? Advisors? What experience do they have that will help your team succeed?
Traction	What traction has your team had to date for your startup? How do we know your customer wants or needs this?
Your fundraise ask & Projected Use of Funds	Map the raise amount to milestones across Team, Technology, Product, and Commercial. Answer the question "What does this money unlock?"

Appendix (back of deck or data room)

Topic	What to Include
IP & Patents	Patent filings, licensing agreements, pending applications
Detailed Financials	Cash flow model, headcount plan, detailed assumptions (full P&L not required here; can be in data room)
Technical Deep Dive	Detailed specs, test data, methodology, lab results, third-party validation

Regulatory Pathway	Filing status, approval timeline, agency relationships, compliance roadmap
Manufacturing & Supply Chain	Bill of materials, key suppliers, contract manufacturers, cost reduction roadmap
Market Research	Detailed bottom-up model, industry data sources, procurement budget references
Team Bios	Full CVs, publications, patents held, advisory board bios
FAQ's	Answers to questions you've gotten from investors, if they don't fit into the above

Deck #2: (8–10 slides)

The very streamlined live version for 5-minute pitches on stage and demo days with lots of folks in the audience. It likely has the same arc as the full deck. But, it has much less text since your voice track carries all the verbal information. You don't actually want the audience reading much, which would take away from your verbal pitch. Trim each slide to its essential point.

What healthy looks like

- Every number in the deck, the model, and your mouth agrees.
- The internal FAQ doc gets updated after every meeting with questions you weren't ready for.

WATCH FOR

- A text-dense deck. Small fonts.
- Validation-by-logo: unknown accelerators, pitch-contest wins, and pay-to-play press can read as negative signals, not traction. If you are doing too much, it might tell an investor you are distracted.
- Your deck looks just like everyone else's deck and/or very AI-generated.

TRY THIS

1. Send your email deck to one friendly investor with no context. Ask them to tell you, in one sentence, what the company does and why now. If their answer misses, the deck isn't done.
2. See if you can condense each slide to ~15 words each. Less is more.

Practice Three: Build Investor Relationships Early and Track Them in a Pipeline

Building the investor list several months ahead of launch gives the time for relationships to mature. A list of 100 well-calibrated names tends to yield about half that many first meetings. Consider diversity in funds as you build your list while factoring in funds' breadth and depth of knowledge. Different fund archetypes (and sizes) view companies and potential deal-breakers differently, so make sure you have fund speciality, geographic location, size, and more represented on your wishlist.

Tier	Who they are
Tier 1: Dream investors	Best-fit funds and angels with warm relationships or strong mutual connections and high conviction on your sector
Tier 2: Strong fits	Good thesis match, possibly reachable via warm intro; may lack an existing relationship or a well-known brand
Tier 3: Practice targets	Investors you'd take money from but who are less of a good fit. Useful for early pitch feedback before approaching Tier 1
Do Not Contact	Investors with poor reputations or who are a terrible fit for some other reason

Where to find them

- Founder network — other founders are the best source of warm intros
- Crunchbase, Tracxn, and PitchBook; filtered by stage, thesis, geography, and recent activity
- Thematic fit: investors who've backed companies in your sector or model
- Ask in every meeting: "Who else should we be talking to?"
- AI-generated and hand-refined lists; event and conference RSVP lists

List hygiene

- Keep the list realistic by only including investors who've actually deployed capital in the last 12 months.
- Note the right contact at each firm; principals and associates are underrated entry points who can advocate for you at investment committee

- Flag anyone who's backed a direct competitor, and consider that before you share sensitive information with them. Sometimes investors take a portfolio approach, and having backed someone in your sector is a positive signal of their interest in the space. Worth clarifying with each investor of a competitor where they stand on this.

Tracking

Dozens of conversations will blur together without a CRM or structured sheet updated after every interaction. Google Sheets, Notion, and Airtable all have free tiers that can work well for your CRM. These cloud tools might be better than a standalone Excel that lives on your hard drive, since you should plan to share your live CRM with your supporters – e.g., angels, current investors, accelerator staff – so that they can help track the intro's they have made, or add investors to your list.

Stage	Definition
Target	Identified; no outreach yet. Note fit rationale and tier
Intro Requested	Warm intro or cold email sent; awaiting response
First Meeting Scheduled / Done	Initial screen completed; gathering interest signals
Active Conversations	Interest expressed; follow-ups underway; sharing materials, answering questions
Active Diligence	Detailed questions; data room review
Soft Commit	Verbal or email commitment received; terms not signed
Hard Commit / Closed	Docs signed and/or wire received
On Hold	Ghosting, wants more growth, or waiting for FOMO. Note reason and set a follow-up date
Pass	Declined to offer to invest.

What to log after each meeting

- Date, attendees, and format
- Key questions and concerns
- Signals of interest or concern (tone, not just words)
- The agreed next step and timeline
- Any investors they offered to introduce you to
- Pass reason (if they passed): Patterns across passes are signal for refining your pitch (or business). Log this in the CRM (not just the individual meeting notes)

    - Bucket these so you can do statistics on them. E.g., ‘not a thesis fit’ ‘too early’ ‘too late’, ‘too much tech risk’, ‘too much commercial risk’, etc.

What healthy looks like

- Every name on the list has a tier, a fit rationale, and a next action with a date
- The pipeline sheet is updated the same day as every meeting
- No meeting ends without an explicit next step; even “add me to your update list” counts

WATCH FOR

- Sharing sensitive technical details with investors who’ve backed a direct competitor or who might waste your time. Try to build trust before sharing.
- A list padded with famous funds or investors that haven’t done a deal at your stage or in your sector in many years

TRY THIS

1. Before launch, pressure-test the funnel math: 100 names → ~70 warm outreach emails → 40 meetings → a couple term sheets. If your list is just 40 names, you still have work to do unless the 40 are very high quality, warm names.

2. A helpful goal is to get each investor to a Y/N decision as soon as possible, ideally within a couple weeks from start of active conversation to decision. Fill the pipeline until you have 12 active conversations. As folks progress or move out of the pipeline, keep refilling so you’re always at 12 active conversations. A goal is to have enough contenders to get multiple term sheets simultaneously.

See Appendix 2 for a Pre-launch checklist.

Practice Four: Make Every Meeting Earn The Next One

Fundraising is a conversation, not a presentation. The goal of diligence meetings are not to close, but rather to advance the relationship one pipeline stage.

Getting the meeting runs on warm intros. Cold emails and LinkedIn can work, but they convert far worse. Get a double-opt-in intro, and make it effortless for your connector:

```
Intro blurb format:
[Company] is [one-sentence description]. [Founder name] and team
previously [relevant credential]. We have [key traction signal] and
are raising [amount] to [milestone]. Deck here: [link].

Keep it under 5 sentences. Include a deck link.
```

In the meeting:

- Be ready either way: ask “want me to pull up the deck?” If you pitch live, keep it to 8–10 minutes max
- Know your numbers cold: margins, raise amount, valuation range, runway, burn, use of proceeds
- If you’re a technical CEO, practice the business side of the pitch. If you’re not, know your science.
- Consider your audience and, where applicable, simplify the technology explanation for non-technical investors
- Before you leave, confirm the next step and timeline explicitly. Don’t fake hype to create FOMO.

Other considerations

- Geography. West Coast relationships are built informally; e.g., coffee, walks, a pay-it-forward intro culture. Those investors want the grand vision and big risk. East Coast investors (Boston, NYC), on the other hand, tend to be a bit more methodical and want more de-risking (though Boston’s hard tech cluster is unusually comfortable with long timelines).
- Practice. Before going live with Tier 1, run at least two rounds of practice pitches with friendly investors, advisors, or cohort peers.
- Format. Prep a 5–8 minute pitch, 10-minute Q&A, and structured feedback.
- Record. When you can; you’ll catch filler words, pacing issues, and unclear slides you’d otherwise miss.
- Update. After each session, update the materials and your internal FAQ doc.

Soft commits

A soft commit is a verbal or email statement of intent to invest. It is not binding. Track it and welcome it, but do not bank on it until documents are signed.

- When you get one that is a follow-on soft commit, ask: “Is it okay if I include you in our soft circle when talking to other investors?”

    - Once you're 50% soft-circled, follow up with everyone pending. This is when genuine FOMO kicks in.
- When you get one that is a lead-check soft commit, ask: "What is your process and timeline to IC/term sheet" and communicate that timeline to everyone else in your pipeline.

What healthy looks like

- Warm intros are your default channel, and your connectors have a blurb they can forward in ten seconds
- You leave every meeting with a next step, a timeline, and an updated stage in the pipeline tracker sheet
- Your pitch has been recorded (when talking with friendlies) and reviewed until the business story and the science story are equally fluent
    - Review your pitch video with no audio on; this will let you see your body language, the level of confidence that's communicated and all the non-verbal cues you're providing
    - Review your pitch audio with no video; assess areas that need work on clarity, delivery, and sections that need work
- Respecting a quick "No" from an investor. Better to get clarity fast than a dragged-out process that leads to nothing
- Your goal is to get to a "Yes" from the right people for the right reasons. or get to a "No" as fast as possible.

WATCH FOR

- Deflecting questions to a co-founder or advisor in the room. The CEO fields the hard ones and the team should be complementing, amplifying, bolstering that with details, not arguing in front of investors.
- Manufactured FOMO. Faked round dynamics never go well. There are many ways they get verified. And if it comes out later, the round can unravel before wiring.

TRY THIS

- After your next three meetings, write down every question you couldn't answer crisply.
- If the same question appears twice, the answer belongs in the deck, not just the FAQ

Practice Five: Structure the Round Deliberately

- Treat headline median size raises skeptically given software and AI's outsized influence. These industries' rounds tend to carry a large premium that inflates the averages and skews these figures.
- Expect that your valuation will be based on milestones and the market of comparable *non-AI and software* deep tech deals. Keep in mind that your traction currency is pilots, test data, nondilutive funding, founders' experience and strategic commitments, not ARR.
- Instrument choice follows stage, strategy, and round size.
    - For small, early fundraises – e.g., from angels and/or early-stage funds – a Simple Agreement for Future Equity (SAFE) can be useful because it's fast, cheap, and doesn't require significant governance setup. Historically, we have seen SAFEs often be first money in (below $2M ish).
    - Many rounds larger than $5M are priced equity, because institutional leads want ownership, information rights, and a board seat. (Carta, 1984 Ventures).

Term Sheets

When a term sheet arrives, know these five terms before you respond to anything:

Term	What it means
Valuation	Pre-money determines how much of the company you're selling. A $2M raise on an $8M pre means selling 20%. Model against your cap table before agreeing
Liquidation Preference	Who gets paid first in an exit. 1x non-participating is standard and founder-friendly; anything higher, or participating preferred, deserves scrutiny because it can dramatically reduce founder proceeds in a modest exit
Board Composition	It is standard for lead investors to take a board seat in any round beyond a pre-seed. Most investors will be observers. Who controls the board matters as much as who controls the cap table. Understand exactly what seats are requested, at what stage, and what that means for decision-making

Pro-Rata Rights	The right to participate in future rounds to maintain ownership. Standard and generally fine at seed; understand the obligation it creates
Protective Provisions	Investor veto rights over certain decisions. Standard lists are reasonable; an unusually long one is a flag to discuss with your lawyer

Term Sheet Guidelines

- Never respond to a term sheet without legal counsel
- Research startup-specialized lawyers *before* you think you need one, and before the first term sheet, side letter, or equity promise to anyone. First-time founders often engage lawyers too late and pay for it in rushed negotiations and preventable mistakes. Many lawyers allow you to defer payment until the round closes.
- Ask experienced founders in similar industries for recommendations

What healthy looks like

- You come into the negotiation understanding recent comparable deals, and where the market lands you, and remember that investors respond to reasons about the value of *your* business
- You've modeled dilution through every round until exit, not just this round
- Counsel was engaged before the first term sheet existed

WATCH FOR

- Valuation expectations with no basis in milestones or the company's value. Investors read this as naivete.
- Participating preferred or >1x preferences waved through because you didn't want to seem difficult
- SAFE stacking without modeling conversion. The dilution is real; it's just deferred.

TRY THIS

Build a one-page dilution table of all your rounds between now and exit.

Practice Six: Choose Your Investors as Carefully as They Choose You

Early founders frequently take the first check, and it's one of the costliest mistakes possible. Diligence them the way they diligence you by calling founders in their portfolio (and not just ones they have introduced you to), especially ones whose companies hit rough patches.

The test is simple: would you want this person across the table in a difficult conversation when things are not going well? Because that conversation will happen. A smaller round from the right investors will almost always be a better match and pick, than a larger round from the wrong ones.

Fundraising will surface endless conflicting opinions on your pitch, valuation, timing, and story. Demonstrate "coachability" by taking notes, looking for patterns, and treating 2-3 aligned investors raising the same concern as signals worth acting on.

Fundraising also has industry conventions; e.g., how rounds are structured, what terms are market, and how investors expect to be communicated with. Reinventing them costs time and credibility. There's room for creativity in how you tell your story and build momentum. Learn the rules well enough to know which ones you can bend, and keep conviction in what you're building while staying genuinely open to being wrong about the details.

Practice Seven: Keep Investors Close With Updates, Then Go Build

Regular, concise updates build trust and keep investors engaged between check-ins. They also demonstrate that you're executing, which is one of the strongest signals you can send during a raise – and after it.

Cadence:

- Monthly during the raise, to all active investors and warm prospects
- Quarterly post-close
- Milestone notes anytime something major lands: customers, product launch, partnership, key regulatory filing, macro shifts including policy or regulatory shifts

Investor Update Template

Section	What to include	Example
Greeting	Brief personalized intro; set the tone	"We hit a critical inflection point in our materials testing this quarter. Here's what it means for our timeline."
TLDR	2–4 bullets; readable alone	
Wins	Technical breakthroughs, test results, certifications, key hires, partnerships, pilots, grants	"Completed first successful charge-discharge cycle at target energy density. Awarded $XX NSF grant."
Challenges & Learnings	What slipped, why, what you're doing about it. Tough Tech timelines slip; investors expect honesty over spin	"Yield on batch 3 came in at X%, below target. Traced to [issue]. Adjusting for the next run."

Priorities Next Period	The 1–5 things you're focused on, specific enough to be held to	"Achieve X% yield on batch 4. Submit [filing]. Hire head of [function]."
Financials	Revenue/contract value, OpEx, cash, burn, runway vs. last period	"Runway to [Month/Year]. Burn up this quarter due to [equipment/headcount]."
Key Metrics	The 2–3 metrics that best reflect progress, with trend	Energy: cost per kWh, cycle life. Quantum: qubit count, error rate. Materials: yield, purity, cost per kg
Team	Headcount, key hires, departures	"Now XX strong. Welcomed [Name] as [Title], previously [Lab/Company]."
Customer & Field Validation	Pilots, advisory updates, field data — describe customers if you can't name them	"Pilot with large CA utility entering month 3, tracking X% above baseline."
Fundraising	If raising: amount soft-circled, target close, specific intro requests	"Raising $XM seed. $XM soft-circled. Looking for intros to [investor type]."
Asks	2–3 specific: intros, suppliers, regulatory guidance, lab access	"Connection to anyone who has navigated [FAA/DOE/FDA/DARPA]."
Shoutouts	Optional — recognize team, allies, investors or other stakeholders who went above and beyond	

Guidelines

- Keep updates organized. It matters less how many words, and more how readable or skimmable they are.
- Skip vanity metrics like press coverage unless tied to growth
- Always include asks because they convert the update from a report into a relationship tool
- Send to investors on the cap table and then modify it and send to investors who said they want to keep in touch.

After the close: it's not the finish line, it's the starting gun. In the first 30 days:

- Send a closing update: thank you, round details, and first 90-day priorities. Set the tone that you communicate proactively and execute on what you say.

- If you added board members, establish meeting cadence, format, and advance materials immediately. Consistency here builds trust faster than almost anything else.
- Start the update rhythm now; don't wait for good news. The first post-close update sets the template for everything after.
- Know your reporting obligations; some investors have information rights baked into their documents
- Stay focused on the business. The biggest post-close mistake is continuing to act like you're fundraising. You raised the money to build – so go build!

What healthy looks like

- The closing update ships within two weeks of the wire
    - make sure to sync on messaging and publicity timeline with your lead investor
- Board cadence, format, and materials are agreed before the first meeting
- Updates continue with the same honesty as during the raise — challenges included.

WATCH FOR

- Going dark after the close. The relationship you built during the raise depreciates fast without maintenance.
- Victory-lap syndrome: three months of announcements and conferences instead of milestones
- Skipping the first update because "nothing's happened yet." Something has: you've set priorities, so it helps to say them.

TRY THIS

Draft your first post-close update the week the round closes, while the 90-day priorities are sharpest. Every future update becomes a progress report against it.

Appendix One: Due Diligence and Data Room Checklist

Every investor will eventually ask for the same core set of materials. A few of them deserve your attention before anything else:

- Financial model: 12–24 month P&L, cash flow, headcount, clearly showing runway and assumptions. This really shows an investor how you think and plan.
- Technoeconomic Analysis: A model that demonstrates how your technology enables a price per unit, cost of goods sold, prices per process, or the equivalent, that is the core to your technology winning.
    - Tip: Activate's Techonomics is a great resource.
- Cap table: know your current equity pie before any term sheet conversation.
- Use of proceeds: a clear statement of how the funds you are raising will be spent (team hires, product development, pilot deployment) and what milestones they get you to.

Recommended Workflow

Build your data room before you launch your raise, but hold off on sharing the link until you have a soft commit. Many founders tier access, unlocking more sensitive materials as an investor moves from soft commit to term sheet and beyond. A well-organized data room sends a strong signal, but an investor you've met once and haven't built trust with doesn't need to see everything about your company.

Open the data room with a short cover letter that orients the investor and explains how to navigate the materials. Lead each major section (market, technology, IP) with a brief memo that tells the story of that section and points the reader to the supporting files. Investors rarely read a data room front to back; the cover letter and section memos are what make the raw documents useful.

```
Recommended tool: Docsend, Notion, or Google Drive with view-only sharing
and link tracking.
```

Recommended Folder Structure

Organize the data room the way an investor will browse it; from the high-level story down to the supporting legal documents. The folder structure below maps to the detailed checklist that follows.

Folder	Contents
00 Cover Letter	A short orientation document explaining how the data room is organized and how to navigate the materials.
01 Overview + Pitch Deck	Short pitch deck, long pitch deck, pitch deck sources, appendix slide deck.

Folder	Contents
02 Corporate Documents	Incorporation documents, corporate agreements (bylaws, stockholder agreements), cap table, financing documents, board meeting minutes.
03 Market & Commercialization	Memo: Market & Commercialization; market overview; business model analysis; competitive landscape; business development pipeline/funnel; customer contracts and references.
04 Technology & Product	Memo: Technology Deep Dive; publications and white papers; technical documentation; supply chain analysis; scaling analysis; milestone analysis; regulatory approvals.
05 Financials	Historical financials, fundraising history, financial model and summary projections, technoeconomic analysis, use of proceeds.
06 Personnel	Current and future org charts, employment and contractor agreements, equity incentive plan, bios.
07 Intellectual Property	Memo on IP and IP strategy; patents and applications with status; trademarks, copyrights, and IP agreements.
08 Legal & Operations	Commercial contracts, leases, loan documents, insurance, litigation (if any), press coverage.

Detailed Checklist

Category	Documents
Formation	Certificate of Incorporation, Action of Sole Incorporator, Bylaws, Organization Meeting minutes, Founders Restricted Stock Purchase Agreement, Foreign Qualifications, Board Consent, Stockholders Consent Board Meeting Minutes (ongoing record of key board decisions)

Category	Documents
Financial Documents	Cap Table Financial Statements (historical P&L, balance sheet, and cash flow) Financial Projections and Models (12–24 month operating model with runway and assumptions, plus a 3–5 year summary forecast of revenue, expenses, and profitability) Fundraising History (timeline of prior raises — amounts, investor types, and use of funds) Use of Proceeds (how the funds being raised will be spent, e.g., team hires, product development, pilot deployment)
Financing Documents	Term Sheets from prior rounds, Form of Accredited Investor Questionnaire, Regulatory Filings (Reg D / State Blue Sky), Board Consents, Stockholder Consents Equity: Series Seed Preferred Stock Purchase Agreement, Amended & Restated Certificate of Incorporation, Stockholders Agreement (ROFR, IRA, Voting), Secretary Certificate, Officer Certificate SAFEs: SAFE Agreement with Risk Factors Convertible Notes: Convertible Note Purchase Agreement, Convertible Promissory Notes
Employment & Contractors	Form of Employee Agreement (including PIIA), Independent Contractor and Advisor Agreements, Severance Agreements if any, signed versions of all of the above, current org chart, future org chart (projected structure tied to use of proceeds and hiring plan), founder and key employee bios, advisory board list and agreements, background on any founding team departures if applicable
Equity Incentive Plan	Board Consent, Stockholder Consent, 409A Valuation, Equity Incentive Plan, Form of Stock Option Agreement, Stock Option Exercise Agreement, Notice of Stock Option Grant, Restricted Stock Agreement if applicable

Category	Documents
Intellectual Property	Memo on IP and IP Strategy (how the company protects its technology — patents, trade secrets, and IP roadmap; orients the reader to this section) Patent documents (US and international) with the status of each application and a summary of coverage, Trademark documents (US and international), Copyright documents (US and international), IP agreements (licensing, collaboration, etc.)
Technical & Product	Memo: Technology Deep Dive (the science or engineering behind the core technology, written for a technically literate investor; orients the reader to this section) Technical white papers, Publications (peer-reviewed or public research supporting technical claims), product roadmap, architecture overview or technical documentation, hardware specs or prototype documentation Scaling Analysis (path from prototype to commercial scale — costs, timelines, and barriers), Milestone Analysis (key past and future technical, commercial, and regulatory milestones with commentary on risk reduction and progress) Third-party audits or certifications, regulatory approvals or pending applications (FDA, FCC, EPA, etc.)
Market & Customer	Memo: Market & Commercialization (how the company plans to bring its product to market, build customers, and scale revenue; orients the reader to this section) Market Overview (target market size, trends, drivers, and segments), Business Model Analysis (pricing, cost structure, and revenue streams), Competitive landscape analysis Business Development Pipeline/Funnel (current and potential customer, partner, and pilot opportunities by stage — e.g., engaged, pilot, negotiation), customer reference list, signed customer contracts and LOIs, churn data and retention metrics
Operations	Supply Chain Analysis (assessment of sourcing, manufacturing, and vendor relationships, highlighting risks and dependencies), supply chain and key vendor agreements, manufacturing partners or contracts, any government contracts or grants received

Category	Documents
Real Estate	Office and lab lease agreements
Loan Documents	Promissory notes, bank loan documents, security agreements, agreements relating to secured equipment or inventory if applicable
Commercial Contracts	Board Consents, executed contracts and amendments
Investor Relations	Pitch materials: Short Pitch Deck (10–12 slides for quick review), Long Pitch Deck (for deeper discussions), Pitch Deck Sources (references and backup data validating deck claims), Appendix Slide Deck (supplementary slides answering expected questions — e.g., tech architecture, customer pipeline, regulatory pathway) Investor updates (past 3–6 months), FAQ document, any existing investor agreements (side letters, pro-rata rights, information rights)
Press & References	Notable press coverage, customer references, investor references, professional references
Insurance	COI
Litigation	If applicable

Definitions

Brief descriptions of the narrative and analytical documents in the checklist, for founders unfamiliar with the terms.

Data Room Cover Letter: Explains the orientation to the data room and how to navigate the materials.

Short Pitch Deck: A concise, high-level overview of the company's story, market opportunity, technology, and traction. This deck is designed for quick investor review (10–12 slides).

Long Pitch Deck: A more detailed presentation covering the company's vision, science, market, business model, team, and financials. This deck is used in deeper investor discussions.

Pitch Deck Sources: References and backup data that validate claims in the pitch decks (e.g., market data, scientific findings, benchmarking reports).

Appendix Slide Deck: Supplementary slides not in the main deck, used to answer expected questions (e.g., tech architecture, customer pipeline, regulatory pathway).

Board Meeting Minutes: Records of key decisions made by the board of directors, reflecting the company's strategic direction and governance.

Memo: Market & Commercialization: Concise summary explaining how the company plans to bring its product to market, build customers, and scale revenue; explains how to navigate this section of the data room.

Market Overview: Summary of the target market size, trends, drivers, and segments relevant to the company's offering.

Business Model Analysis: Breakdown of how the company makes money — pricing, cost structure, and revenue streams.

Competitive Landscape: Map of existing and emerging competitors, including how the company differentiates itself.

Business Development Pipeline/Funnel: Overview of current and potential customer, partner, or pilot opportunities; often shown as stages (e.g., engaged, pilot, negotiation).

Memo: Technology Deep Dive: Detailed explanation of the science or engineering behind the core technology; written for a technically literate investor to explain how to navigate this section of the data room.

Publications: Peer-reviewed or public research papers that validate or support the company's technical claims.

Supply Chain Analysis: Assessment of sourcing, manufacturing, and vendor relationships, highlighting risks and dependencies.

Scaling Analysis: Strategy for how the company will move from prototype to commercial scale, including costs, timelines, and barriers.

Milestone Analysis: Key past and future milestones (technical, commercial, regulatory) with commentary on risk reduction and progress.

*Historical Financial*s: Actual financial statements showing past performance; typically profit & loss, balance sheet, and cash flow.

Fundraising History: Timeline and summary of previous capital raises, such as amounts raised, investor types, and use of funds.

Summary Financial Projections: 3–5 year forecast of revenue, expenses, and profitability which is used to show growth expectations.

Use of Proceeds: How the company plans to spend the funds raised (e.g., team hires, product development, pilot deployment).

Current Organization Chart: Visual of the team's current structure; i.e., who does what and who reports to whom.

Future Organization Chart: Projected org structure as the company grows, often tied to use of proceeds and hiring plans.

Memo on IP and IP Strategy: Overview of how the company protects its technology, such as patents, trade secrets, and IP roadmap. It also explains how to navigate this section of the data room.

Patents & Applications: List and status of granted patents and pending applications with summaries of coverage.

Appendix Two: Pre-Launch Checklist

Complete all items before initiating active investor outreach

Item	Owner / Status
Email deck finalized and reviewed by advisors or friendly investors	
Presentation deck finalized and reviewed	
Financial model complete (12-24 months)	
Use of proceeds mapped to milestones	
Cap table modeled for this round and next	
Data room organized and access-controlled	
Investor list built (150+ names, tiered)	
Internal CRM or tracking sheet set up	

Legal counsel engaged	
Team briefed on CEO availability shift	
Monthly investor update template ready	
Website and LinkedIn profiles current	
Company blurb in a forwardable email for double opt in intros	
An internal FAQ doc to track questions received by friendly investors	

Appendix Three: Key Do's and Dont's

Do	Don't
Start building investor relationships 3–6 months before you need to raise	Wait until you're desperate for cash to begin outreach
Lead with traction — customers and validation are the strongest signal	Lead with vision alone if you have real traction to show
Be direct and confirm next steps at every meeting	Leave meetings without a clear next step or ask
Send concise, honest monthly investor updates	Go dark between check-ins or only reach out when you need something
Model your cap table before accepting any term sheet	Accept terms without understanding dilution across future rounds
Prioritize warm intros through founders, investors, and advisors	Rely on cold outreach as your primary source of meetings
Maintain momentum by communicating real soft-commit progress	Share premature or inflated round dynamics to manufacture FOMO

Written by Liz Sisson and Mick Emmett
Edited by Christina Chang, Evan Haas, and Julie Zhang