

FOUNDERS ISSUE #55: THE DATA ROOM STRATEGY

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What's Below in Issue #55:

- A look into how to strategize your data room sharing
- Data behind the cyclicity of VC deals
- Free startup resources
- Premium startup resources

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THE DATA ROOM STRATEGY

"Can you send us your data room?"

Famous last words from the fundraising processes. It sounds great – they want to learn more – but 2 weeks later you'll be running in circles wondering why they haven't contacted you yet. What happened? Weren't they interested?

Maybe, but probably not. The hardest problem VCs face is telling founders no without offending them. While your current company may not be a winner, they want to maintain the relationship so that if your next company is a winner, the relationship is warm, and you will be happy to pitch to them. An easy way to push away a founder without offending them is by dragging out the process and then slowly dropping them. Asking for a data room is an easy way since they can do due diligence for a few weeks and then say they don't think it will be a fit.

However, this is a GOOD case. Very often VCs are looking for market data. Unlike public markets where the price of companies and company details are publicly available, the startup market is very opaque. To know how companies within a sector are operating and pricing, they need to meet with all the startups and collect their data. The VC may be only meeting with you and asking for your data room so they can compare it to all your competitors that they did the same thing with.

It is an unfortunate reality. However, some strategies should and should not be tried.

What Not to Do:

- **Don't ask for a NDA!** VCs hate when founders ask them to sign one. It creates too many legal problems for them. If they don't like your startup but want to invest in your competitor (for completely legitimate reasons), they don't want you to sue them for sharing your secrets with your competitor. I have yet to find a VC that is willing to sign one. Most will just reject your meeting without listening to you. This applies to most startups pre-Series B.
- **Don't avoid the data room!** We've heard some advocates for having no data room at all and only sending investors the exact information they ask for. We don't recommend this either since it creates a sense of hiding information or being unorganized. There is a generally accepted idea that startups should have data rooms for VCs to look at. The expectation is that they are comprehensive and organized.

Yet, how do you avoid VCs from taking your data or ghosting you?

This starts with the realization that VCs are searching for great startups just as hard as you are looking for VCs. They have capital that needs to be deployed and letting a good startup slip away would be a disaster for their reputation and potentially fund performance. Great founders with great companies carry much more power in the process than they think.

Investors will always make time for a company they believe is a winner. If you feel ghosted, then they probably don't want to invest in you. It is not worth chasing them to "change their mind." Just accept it and move to the next investor.

For this reason, at Thunder, we recommend a different strategy for fundraising.

Best Practices:

1. **Have a well-organized data room.** It is very difficult to fundraise without one. VCs expect to see one along the way, and avoiding one will just create more friction and hurt the relationship.
2. **Don't share all the data upfront.** You should have a complete and comprehensive data room, but it does not need to be shared in full on the first request. Create a teaser data room that has some important KPIs, and extended deck, a demo of the product, and a simplified projection model just showing the final numbers, not the assumptions. This will allow VCs to get a better idea of what your potential is without fully exposing yourself.
3. **Give more data as the deal progresses.** The only way to know if a VC is interested in your startup is by having follow-up meetings. No matter what they tell you in an email, they are not interested unless they have a follow-up meeting. The best way to monitor what you provide them is by asking for a follow-up meeting to go over the information they requested. They won't invest anyway if they don't want to meet. Don't waste your time or share your data in hopes they change their mind. Just move to the next investor. If they do agree to meet, then provide data representative to the stage of the deal you are in. Early on, you should not share sensitive data, but if you're pitching to the investment committee, then they have proved their interest enough to see most of the data room.
4. **Be open to saying no.** It feels very difficult for most founders since they don't want to risk a potential investor relationship. Yet, every healthy relationship has boundaries, and these are no different. Founders should know in advance what they can and cannot share and make sure it is reasonable. It is NOT reasonable to hide basic P/L statements, but it is reasonable to hide client names.
 1. When you tell the investor you cannot share the data, explain to them that you want to build a relationship with them first before diving deeper into the data. A good investor should understand and respect your boundaries.
 2. Having a proxy for the sensitive data is very helpful. Creating data sets based on your actual data but hiding sensitive data can allow the investors to do diligence without compromising the company's integrity.

VC interactions are intimidating for most founders since the future of their startup is on the line. However, a founder needs to know they have much more power in the fundraising processes than they think. They need to know when a VC is serious and when they are just pushing you away or taking your data – and engage in a way that protects the integrity of the company.

Relevant Articles to Data Room Strategy

- Why you should never have a data room — the most counter-intuitive fund-raising advice you'll ever get - [Medium](#)
- 4 Things To Consider Before Sharing Data With VCs - [Startup Grind](#)
- What Should be in a Startup's Data Room? - [Visible VC](#)

Data Corner



Seasonality of VC Deals

If you are wondering when the best time to fundraise is, then this chart isn't the best news. While there is generally very little cyclicity in VC, the data does show that December generally has the highest VC activity followed by March - May. However, it should also be noted that the amount of activity per month varies drastically year over year and therefore founders should fundraise when it is best for their company. Don't focus too much on what month it is.

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Premium Resources

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Jason Kirby

Read On

Founders Issue #51: Master the Warm Intro Using Thunder

2024: The founder shortage
The startup ecosystem will suffer in 2024, as 2023 founder levels **plunge 47%**

Founders Issue #53: How Much Should a Founder Pay Themselves

Founders Issue #56: Carta's Shining Moment



Thunder is a tech-enabled investment bank that uses AI to identify relevant deals within the Thunder network and makes warm intros via email on behalf of accredited investors, family offices, and VCs to founders & GPs that are actively raising or investing venture capital.

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