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1/33: So you want to be a top performing #VC investor. Here are six exercises you can practice as you evaluate #startups that will hone your skills, establish frameworks, and help identify great investments.

Read on if you're interested:



2/33: Exercise 1: Describe the company's magical experience

After reading a deck or hearing a pitch, can you easily articulate who their perfect customer is and how they'd interact with the company's product/service in a perfect manner?

3/33: Only after you understand the experience that a company is trying to create can you evaluate it against currently available options. If the new experience is truly magical and differentiated then it might be worth your time.

4/33: If the experience is only slightly better than options that are readily available in the marketplace today, then the company better have a significant distribution or cost advantage that defines their “reason for existence”.

5/33: When a company is creating a magical experience for a broad audience AND they have distribution and/or cost advantage then you should lean in hard. The best of the best investments are designed to win on multiple dimensions.

6/33: Exercise 2: Evaluate the learning efficiency of the company

VCs back businesses that have yet to be fully de-risked so learning matters. If the assumptions around the key drivers of a business prove to be true then an investment should produce great returns.

7/33: A great exercise to ask when evaluating an investment decision is: “How much is the company going to learn for how much money and how quickly?”

Why this matters: The more a company can learn between capital raises the better the investment opportunity.

8/33: The learning-per-dollar-invested ratio determines how quickly enterprise value will accrete if the company is on the right track. If the data suggests that the assumptions aren’t correct then adjustments can happen quickly and before a lot of money has been invested.

9/33: For really early stage companies, raw runway matters because no startup has the superpower to accelerate time (and therefore learnings). High burn and/or short runway caps how much a startup can be de-risked per dollar invested.

10/33: One of the most important questions I ask is: “What is the business likely to look like at cash-out minus 4 months?” This is when they’ll need to start their fundraise process so you can compare this to what the business looks like today to gauge their pace of learning.

11/33: Exercise 3: Can you answer the “why now” question?

Great investments typically ride external waves of innovation/emerging mega trends. The best investments appear to have timed their launches perfectly.

12/33: If all the raw materials necessary to build a business have been present for years but the business hasn’t been built yet, then you should dig in and understand why. Usually there are good answers that matter a lot.

13/33: Your antenna should be raised if major regulatory changes upend an industry or new technologies, channels or data are available for the first time and a startup’s business plan is built to take advantage of these changes.

14/33: Major disruptive trends or technologies fuel innovation and allow for new companies to emerge that have the potential to dominate their ecosystems given time and capital.

15/33: A mental trap to avoid: If your investment thesis is reliant on the “fact” that big companies are full of stupid people and the startup you’re evaluating is full of smart people (and therefore they’ll win) then you might as well burn your money.

16/33: Big companies typically act methodically and drive internal change at a snail's pace so innovation is difficult for them. But they're chock full of talent and they don't gloss over amazing business opportunities forever.

17/33: The challenge for startups is to crack the code on their value prop, user experience, business model and capture market share before incumbents wake up. Speed and unity of focus are a startup's main advantages, not smarts.

18/33: Exercise 4: Try to understand the startup using back of the envelope math

Financial models can be very complex and are chock full of assumptions, but back of the envelop math can cut through the clutter and help you understand what you're being asked to believe.

19/33: It's not difficult to estimate critical drivers of a business and use these estimates to lay out a series of "do I believe" questions. Your estimates only need to be directional because you're looking to string together a series of "I believe" or "I don't believe" answers.

20/33: For instance, if you think acquiring a customer will cost roughly $X, do you believe that they will generate $X of contribution margin in the 1st year to allow for a sub-1 year payback? Will they generate 2X in 2 years? 3X in 3 years? Contribution profiles matter.

21/33: For instance, if it will take X transactions to contribute enough margin to overcome fixed costs, do you think the startup can generate 2X at scale? 5X? 10X? You don't want to invest in a business that uses up half its transaction volume to overcome fixed costs!

22/33: For instance, if you look at a startup's projected growth curve, does it require you to believe that the startup is going to make improvements across multiple key drivers? If so, by how much? Have they identified how they'll drive the improvements? Are you convinced?

23/33: Exercise 5: Spend time to really understand the team

Spending time with the leadership team of a startup (especially the Founders) helps you get a sense of who they are. Remember: Yellow flags during diligence will often turn into red flags post investment.

24/33: The more time you can spend with the key leaders the better sense you'll get of who they are, what motivates them, what their super-powers are, and whether they'll be able to grow as quickly as the startup will need them to.

25/33: A test: Would a younger version of you be excited to work for a member of the Founding team? If not, why not? The leadership team needs to be able to attract, motivate and retain talent so this test is really important.

26/33: Another test: If you were busy and the Founder pinged you, would you be excited to drop what you're doing and talk to them? I use this test because if the answer is "no" or "maybe" then I won't invest. Life's too short to back Founders you don't want to spend time with.

27/33: Another test: If the Founder showed up at a random event with strangers, how do you think he/she would behave? Dominating conversations and bragging about his/her startup? Listening to other people's stories? Standing alone in a corner? These things matter!

28/33: Exercise 6: Look for difficult accomplishments

Every startup has to overcome obstacles on their journey so it's important to find signs that they know how to accomplish challenging tasks.

29/33: A good question to ask yourself in diligence: "Is there anything that the team has accomplished that a business at their stage or size shouldn't have been able to accomplish?" Great startups should be able to tell you at least one story that borders on the unbelievable!

30/33: Did they get a big customer to abandon a more established competitor? Did they convince a known heavy-hitter to join their team? Did they get licenses that only more established businesses typically get? Were they almost out of money and pulled off a miracle?

31/33: Another question to probe in diligence: "How did the Leadership team react when they learned that something wasn't right?" There are precisely zero great businesses that on day 1 articulated a strategy that was 100% on point and from there was flawlessly executed.

32/33: Did they have to replace a C-Suite Executive? Did they have to wind down a major originations channel or partnership after pouring money and effort into it? Did they have to revamp their value proposition and pricing? Did they have to re-architect their infrastructure?

33/33: The TL;DR: Don't be lazy and ascribe to a "team and TAM is everything" mindset. If you want to spot the best opportunities, build the mental frameworks and have the curiosity to look for signs and portents that you've spotted something that could be special!