Twitter Thread by Jason Choi

Jason Choi
@mrjasonchoi

As the DeFi bull market continues, some brutally honest tips for new founders fundraising in crypto.

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> Equity/ownership is a force. Getting it in the hands of the right people generously will drive alignment and execution.
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> It is a joyful and serious responsibility \U0001f332
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> — Joey Santoro (@Joey__Santoro) January 21, 2021

1/ The discount you offer to strategic investors is both to account for the risk of an unlaunched product, but also as compensation for continued value add and support.

So make sure you know the investor will support you and not leave you on read once the docs are signed!

2/ Having someone on your cap table/ token allocation is as important as hiring.

You wouldn't hire someone just because they are influencers on Twitter- you do your reference checks and find evidence of value add from other companies the investor has invested in.

3/ Don't trust, verify.

Many investors will promise you the world when they're trying to get on your cap table.

Talk to founders they backed to see how much of it is bullshit. Ask them about how the investor was there for them during hard times.

4/ Don't just go for "name brand" funds because you want the brand.

Sure, it's great validation, but optimize for fit, not vanity.

However, I do think many well-known VCs are good actors, especially those with roots in successful trad VCs. They have a rep for a reason!

5/ But sometimes it's economics, not malice.

e.g. if you're raising a $500K round and you approach a $500M fund and offer them $250K, do you expect the fund to be economically incentivized to spare much resources on you?

Size correctly, but *don't* give away too much.

6/ In crypto, because of the short time to liquidity vs. traditional venture, some funds will arb the strategic discounts and dump on retails once vesting completes.

They reckon - hey, if everything is trading at $100M+ and you're raising at $10M, that's an easy 10x for me.

7/ The worst of these will get in the SAFT, and then flip it OTC before vesting is complete at a discount to market price but massive premium to where they got in.

e.g. They get in at $10M val but locked for 2 years, market trades at $100M, so they flip it for $60M.

8/ Typically this is a contractual breach under the standard SAFT so their allocation can be legally revoked.

You should also rely on your other investors to find out who these funds are, and encourage your peers to blacklist them from all future raises. Help clean up the space.

9/ Usually, VC funds with long fund lives (5-10 years) don't think this way and may hold your investment until the entire thesis plays out.

So check to see what the fund mandate of your investor is!

However - a massive caveat here...

7/ Liquid funds (meaning they are less prone to holding an investment for say 5 years+) can be massively value-add as well.

In fact, liquid funds can often do things that VC fund structures typically don't allow, esp in DeFi - e.g. providing liquidity on your platform on day 1.

8/ All in all - because of the promise of quickly actualizable gains, there are many misalignments in incentives in crypto.

But for every bad actor there is an investor who stakes their reputation, career, and personal capital to push the space forward.

9/ "VCs are all parasites" is often a narrative pushed by those who didn't have a chance to work with great investors, or those who don't have an intimate understanding of the nuances of this messy industry.

10/ If you want to just give away allocations, you'd probably get more retail money just doing a public raise .

If raising a venture round, remember that the relationship *begins* at the finalization of the docs.

11/ Give periodic updates to your venture investors, and don't hide problems from them!

Investor update calls are not sales pitches - it doesn't have to all be rosy. We're already sold on the vision. Now we want to know what you're struggling with, so we can help.

13/ At the end of the day as @Joey__Santoro says in his original tweet - it's all about incentive alignment.

Ask yourself what you need from investors besides capital, and verify whether they have done this, then hold them accountable.