Inside baseball:
The founder's guide to funding health and science organizations

Andy Coravos
Former Co-Founder/CEO
HumanFirst

Rachel Katz
Former Co-Founder/CEO
Able Health

ASTERA

April 2025

Table of Contents

Table of Contents (cont.)

How to share and adapt *The Founder's Guide to Funding Health & Science Organizations* in your work

Please use the following attribution when sharing and adapting:

Inside Baseball: The Founder's Guide to Funding Health & Science Organizations is licenced under: Attribution-ShareAlike 4.0 International (CC BY-SA 4.0)

You are free to:

- ***Share***—copy and redistribute the material in any medium or format
- ***Adapt***—remix, transform, and build upon the material for any purpose, even commercially.

This license is acceptable for Free Cultural Works. The licensor cannot revoke these freedoms as long as you follow the license terms.

Under the following terms:

- ***Attribution***—You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.
- ***ShareAlike***—If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original (CC BY-SA 4.0). This license must be maintained on any derivative works, including a link back to the original handbook.

This license must be maintained on any derivative works, including a link back to the original handbook.

Please include the following statement in your license:
"Source: Content derived from astera.org"

These insights are gathered from experience and interviews from a moment in time, and the market is always changing. If you think information here needs to be expanded or updated, get in touch at info@astera.org.

Introduction

Why we're here

So you're starting a healthcare or sciences company. You've spent late nights ideating and crafting, you believe strongly in your mission. And now you need...money.

We've been there. It can be formidable.

Most fundraising guides are written by lawyers or VCs and often focus narrowly on venture capital. We are founders who have raised venture and non-venture capital, built companies, and sold them to public companies. We want to share what we wish we'd known earlier.

This guide is for founders in science, healthcare, biotech, and adjacent spaces, whether you're building software, a therapeutic, a research platform, or something novel. Here, you can expect to find:

- A funding guide that focuses on helping you find the right funding at the right time, without a bias towards one type of capital. Maybe venture is the best fit, or private equity, or strategics, or grants, or...perhaps...revenue!

- Real talk about how funding and exit strategy often determine the fate of a business, even (and sometimes especially) for mission-oriented businesses. Money can feel like a less interesting topic when you're here to save lives or reverse climate change. We're going to stare that topic right in the face.

Who we are

We're Rachel Katz and Andrea (Andy) Coravos, two founders who've had time since our exits to reflect back on our journeys.

Rachel co-founded Able Health, which focused on value-based care and was acquired by Health Catalyst (NASDAQ: HCAT). Andy co-founded HumanFirst, which was acquired by ICON plc (NASDAQ: ICLR). Along the way, Andy also launched a nonprofit to support parts of the mission that didn't quite fit the venture model — something we've seen many science companies do when one entity can't do it all.

In writing this guide, we also interviewed a number of founders we respect deeply. We stand on the shoulders of giants and hope to pass along what we've learned to the next generation of builders.

Do health and sciences companies need special funding?

This is a guide for health and science founders. Does industry actually matter when it comes to fundraising? The answer is: kind of.

The mechanics of venture capital such as dilution, deal terms, and structures can be surprisingly consistent whether you're building an AI drug discovery platform, an ambient scribe for doctors, a social media tool, or a fitness app. But there are a few key differences for health and science companies:

- They often have access to a broader mix of funding sources: grants, partnerships, philanthropic capital, and more.
- Many require larger amounts of capital and longer timelines to hit critical milestones.

Another common difference: founders in this space often come from academic or technical backgrounds and may underestimate the importance of momentum and narrative. Your science or technology is essential and how you tell the story, and the sense of inevitability you create, can matter even more. Often successful fundraising isn't just about logic; it's about trust, your vision and your ability to manage the inertia of the process.

We wrote this guide as a toolbox, not a rulebook. Take what fits your situation and leave the rest. To that end, we've structured the book with two entry points:

- If you're a scientist or operator still figuring out entity type and the basics of funding, start with Part 0: Entity and Capital Foundations.
- If you're already clear on structure and ready to explore fundraising strategy, jump to Part 1.

Let's dive in.

PART 0: ENTITY AND CAPITAL FOUNDATIONS

Chapter 1: Finding the right start for your idea

When you're early in the life of a new idea, something juicy and radical and technically cool, you may want to just start *building*. In fact, that's common advice in the VC world: *just build it*! And in some cases, that's right. However, not every idea makes sense for the VC model, and the incentives behind that advice are worth examining.

The venture capital model depends on a high volume of ambitious founders swinging for the fences. VCs expect most of their bets to fail, as long as some investments deliver outsized returns that 'return the fund', meaning that one or two massively successful companies will pay back the entire fund many times over. This model puts pressure on each company they invest in to scale in a way that delivers these outsized returns, which doesn't always align with what's best for you, your business, or your mission.

A company or organization based on a different model or aiming for a different outcome might be more financially meaningful for you, more aligned with your values, and more sustainable in the long run. Yet many founders feel this VC-applied pressure to raise more and grow faster than their business needs, only to get stuck when the market shifts. That correction can be painful, and for many, avoidable.

Before you incorporate, raise capital, or even choose a co-founder, it's worth pausing to make a few foundational decisions. These early choices, especially around your entity type and funding path, will shape everything that follows. Your legal structure determines which types of funding you can access. That, in turn, affects your growth trajectory, hiring plans, product strategy, and potential outcomes.

Not every idea needs to become a billion-dollar company. But every idea deserves a thoughtful structure and funding approach that fits.

Start by asking: *What are you actually trying to do?* Are you aiming to commercialize a product, share a new scientific insight, build infrastructure for the field, or something else entirely? Your intent will guide your structure. Some ideas are best advanced through nonprofit models, academic collaborations, or open-source ecosystems rather than a traditional VC-backed startup.

Next, consider your capital needs. How much will it take to reach your next major milestone whether that's a data readout, regulatory clearance, or working prototype? That number will help you figure out whether you should pursue grants, venture capital, philanthropic funding, strategic partners, or early customer revenue. Each type of capital has a different level of fit for each stage of growth. Being deliberate here will save you

time and control of the organization.

Then, choose the right entity type. Your legal structure will shape key aspects of your business, such as which investors you can raise from, how you handle taxes, and who owns your IP. VCs typically require a Delaware C-Corp. Grantmakers and foundations may prefer nonprofits or university affiliations. Hybrid models like Public Benefit Corporations or LLCs can offer a middle ground, with their own pros and cons. We'll go deeper into this in Chapter 3.

There are a few other foundational topics we *won't* cover in detail in this guide, but are worth flagging early. If your work involves sensitive data you'll want to think ahead about compliance. HIPAA, GDPR, and data-sharing frameworks can become real bottlenecks if ignored. The same goes for IP strategy. It's not just *whether* to file a patent, it's *when* and *why*. Should you protect your work with a patent? Publish it? Open source it? Keep it as a trade secret? These choices influence your competitiveness, fundraising appeal, and potential collaborations.

In the chapters ahead, we'll help you get grounded in your **capital needs** and **legal entity structures**, so you can avoid costly pivots later. Although you don't need to figure everything out right away, having a thoughtful starting point will give you more clarity, more leverage, and a much stronger foundation to build on.

Chapter 2: Types of capital

As a founder, you'll likely use a mix of capital strategies over the life of your organization. You can picture yourself in the future saying: *"We're funding our next phase of R&D with a combination of NIH grants and a strategic investor from industry!"*

Being fluent in these options and intentional about when and how to use them can dramatically affect both your **runway** (the amount of time you can continue operating before running out of money) and your long-term control.

Dilutive capital is funding that requires giving up equity ownership (like venture capital), while **non-dilutive capital** provides funding without affecting ownership.

TYPES OF STARTUP CAPITAL: DILUTIVE VS. NON-DILUTIVE

Type of capital	Dilutive?	Description
Customer revenue / prepayments	No	Earned through sales, pilots, or upfront commitments from customers
Grants	No	Non-repayable funding from government agencies or foundations
Debt	No	Borrowed money (e.g., loans, revenue-based financing); must be repaid
Strategic / philanthropic capital	Sometimes	May be dilutive (equity stake) or non-dilutive (gift or program-related investment); depends on structure
Equity capital	Yes	Selling ownership (shares) to VCs, angels, or other investors

Here are some pros and cons to consider for each of these capital types:

- **Customer revenue** is the most sustainable and strategic form of capital and gives you good feedback on product market fit.
- **Grants** are "free" money but can come with strings, like dictating your research focus, or causing reporting burdens.
- **Debt** is non-dilutive, but comes with repayment obligations and sometimes restrictive conditions on how you run the business.
- **Strategic/philanthropic capital** can be either dilutive or non-dilutive, and can be structured as equity, grants or recoverable donations. This type of capital sometimes comes with reporting requirements or other obligations.
- **Equity capital** always reduces ownership but usually offers significant operational flexibility and no repayment obligations.

Not all capital is available (or smart) at every stage. Match the tool to the task:

- At a high level, *use debt* when you're confident in cash flow (e.g., revenue) or hitting milestones soon
- Use equity when you're still validating or scaling with uncertainty

Next we will discuss entity and tax status, which can affect the type of capital you have access to. Then we will turn to non-dilutive strategies, and, finally, dilutive strategies.

Chapter 3: Choosing your entity and tax status

Your legal entity type isn't just a paperwork decision. It shapes your access to capital, how you govern the organization, and how you deliver on your mission. While it's possible to convert later, the entity you start with can either unlock or limit funding options, so it's worth choosing intentionally.

For-profit structures are the default for most equity-backed companies.

The most common choice is the **Delaware C-Corporation**, which most venture capitalists require because it aligns with their return model and offers clear governance rules.

An **LLC** can be more flexible and tax-efficient early on especially for service businesses, licensing entities, or solo founders. It is possible to convert to a C-Corp later to raise institutional capital.

A **Public Benefit Corporation (PBC)** is a specific legal entity type that changes the traditional corporate legal framework. Normally, boards are legally required to prioritize shareholder returns above all else. However, PBCs give boards and management legal protection to make decisions that serve their stated mission, even if those decisions might *not* maximize short-term profits. So for instance, if your PBC board chooses to keep prices affordable for patients instead of maximizing revenue, they're legally covered from shareholder lawsuits.
Nonprofit and **public-good structures** open doors to more sources of funding: grants, philanthropic capital, and public sector partnerships.

- A traditional **501(c)(3)** nonprofit can own IP, hire teams, and spin out companies
- If you're not ready to incorporate, you might start under a **fiscal sponsor**, which is an umbrella organization that provides legal and financial infrastructure.
- There are also **hybrid models**, such as nonprofits with for-profit subsidiaries, or vice versa.
- A notable new structure is the **Focused Research Organization (FRO)**. More on this in Chapter 6.

Here is an outline of how your legal entity, and funders might vary based on your goal:

Goal	Entity fit	Capital fit
Commercialization	C-Corp / LLC / PBC	VC, PE, strategic partners, licensing revenue
Open science / field-wide adoption	Nonprofit, FRO	Grants, philanthropy, impact funds
Public infrastructure (e.g. models, datasets)	FRO, nonprofit, hybrid	Institutional grants, fiscal sponsors, donations
Hybrid (protect core, open periphery)	C-Corp + foundation (or C-Corp with open -core model	Both VC + mission-aligned funders

TIP FOR FOUNDERS

"Impact" can be about monetization, scientific dissemination, community use, public health improvement, or platform enablement. It's up to you to define for your organization. Each of these might call for different funding, partnerships, and legal strategies.

CASE STUDY

OpenAI's hybrid structure: a case study in funding, control, and mission

OpenAI's evolution offers a case study in how early structural decisions can shape a venture's long-term funding, control, and public trust.

Original structure: OpenAI began in 2015 as a 501c3 nonprofit with a mission to build safe and broadly beneficial artificial general intelligence (AGI). This nonprofit status helped attract early philanthropic support and top technical talent aligned with the mission.

Transition to a "capped-profit" model: In 2019, OpenAI created a new structure called OpenAI LP to raise money from investors. It's a for-profit model, but with a twist: investor returns are capped (originally at 100x), and anything beyond that goes back to the nonprofit to support its mission. The nonprofit, OpenAI Inc., stayed in control of the overall organization. This setup let OpenAI bring in billions in funding while trying to stay aligned with its original public-interest goals. They've also said future rounds might have lower return caps as the company grows.

Recent governance and legal structure update: In 2023, OpenAI converted its commercial subsidiary (OpenAI Global LLC) into a Public Benefit Corporation (PBC), a structure that legally requires the entity to balance public benefit with profit. While the nonprofit board of OpenAI Inc. still maintains governance control over the LP, this change reflects a formal commitment to mission-aligned commercialization.

Other AI labs like Anthropic and xAI have also adopted hybrid governance models, which combine for-profit capital structures with nonprofit-style or mission-aligned oversight.

Implications: OpenAI's structure enabled it to raise billions from Microsoft and other investors while retaining nominal nonprofit control. But it also sparked confusion and controversy over who ultimately controls the company, what the incentives are, and how mission and monetization interact. These tensions came to a head during a board shakeup in late 2023, which raised broader questions about the alignment between nonprofit governance and commercial growth.

For science and health founders, OpenAI's path highlights a few key takeaways:

- Your initial structure may not be permanent, but it will shape your capital path, culture, and constraints.
- Transparency around governance and economic rights becomes critical — especially if you combine open science or public missions with commercial models.
- A key strategic question: If this works, who benefits? And who controls what happens next?

TIP FOR FOUNDERS

Write down your theory of impact in plain language. Ask:

- Who are you trying to help?
- How will your idea reach them?
- What role (if any) do you want markets and investors to play?
- Is your goal a product, a tool, a paper, a community, or a standard?

Then work backward to match the right entity structure, IP model, and funding strategy. We'll dive deeper into those questions in the next few chapters.

PART I: FUNDING HEALTH AND SCIENCE ORGANIZATIONS

Chapter 4: Starting with your exit — how investors get paid

Before we go deeper into what *kind* of capital is right for your company, it's worth understanding how capital providers get paid back because that's the game they're playing. If you understand their incentives, you can match (or avoid) them more intentionally.

Let's start with the basics of how returns work in a **for-profit company**, and why it matters when deciding between debt, equity, or something in between.

DEBT GETS PAID FIRST

Debt is the cleanest to understand. A loan (or note) has a set amount, an interest rate, and often a timeline for repayment. If your company is sold (or winds down), lenders get paid before anyone else — before equity holders, before founders, before employees. People refer to debt as first in the "payout stack."

EQUITY INVESTORS AND SHAREHOLDERS GET PAID DURING AN "EXIT"

Equity investors such as angels, VCs, strategic investors own a piece of your company. They only get paid when something happens to that ownership stake. This is usually

called an **exit**, and it can happen in a few different ways:
Common exit paths:

- **M&A (Merger or Acquisition)**: Your company is sold to another company, usually for cash, stock, or a mix
- **IPO (Initial Public Offering)**: Your company goes public, and shares start trading on the open market
- **Secondary sales**: Some investors (and occasionally founders or employees) sell their shares to other investors privately, before a formal exit
- **Buybacks**: Occasionally, the company itself buys back shares, though this is rare at early stages

TIP FOR FOUNDERS, RE: M&A

Whether it's called a "merger" or "acquisition" often comes down to ego. If both companies are the same size, it's a *merger*. If one is clearly the buyer and one the seller, it's an *acquisition*. Either way, your company gets absorbed into the other company.

IPO ≠ INSTANT RICHES FOR BIOTECH AND DEEP R&D COMPANIES

Let's talk a little more about Initial Public Offerings (IPOs), particularly in biotech. An IPO is when a private company becomes publicly traded on a stock exchange, like NASDAQ or the NYSE. It's a major milestone: the company gets access to public capital markets, and financials go under public scrutiny. IPOs can unlock liquidity for investors and employees (stake in the company turns into actual money), but they also come with pressure to perform quarter-by-quarter.

The IPO is known as the moment when everyone "gets rich" because their equity shares in the company can now be sold directly for cash. But in the biotech and deep R&D sectors, the IPO is just another financing round. The company hasn't yet generated revenue, may even be pre-data, and is raising capital from public markets to fund expensive, high-risk clinical trials or other research. In these scenarios, the existing investors, management team, and employees are typically *not* able to sell shares at IPO, and the newly raised capital goes straight into operations.

TIP FOR FOUNDERS

For many biotechs, the real "exit" is being acquired by a top pharma company, not going public.

VC AND PE: SIMILAR PRIVATE INVESTMENT GAME, DIFFERENT GOALS

One subtle but important distinction: both venture capital (VC) and private equity (PE)

are types of **private investment**. The difference is in stage and return expectations:

- **VCs** need huge wins. They're hoping for one company in their portfolio to return 100x, with a few others at 10x or 3x. Most will go to zero, and that is fine with them, it is part of their strategy.
- **PE firms** typically target 3-5x returns per investment with more predictable outcomes. Traditional PE focuses on stable, cash-flowing businesses, while growth-stage PE may target higher returns (5-10x). None are expected to go to zero.
- **Late-stage VC** and **growth-stage PE** sometimes compete for the same deals. But their return expectations and strategies can be different.

Why this matters: if your company is tracking toward "good but not great" by VC standards, you might get less attention or fewer resources. If you want to sell your VC-backed company for a 3x return, a VC might decide that's not worth it and block the acquisition (if they have that power) in hopes that you'll go another round and get to 100x.

Chapter 5: The best capital is revenue

This advice is pretty simple: if you can sell your product and services to customers and make money, that is the best option. No one owns part of your company; you don't have to pay anyone back. And best of all, you are getting validation that your product is something people want to pay for.

IS ALL THIS MONEY TALK MAKING YOU UNEASY?

Many science or mission-oriented founders feel uncomfortable or disinterested talking about 100x exits when their focus is on building a great product or completely changing an industry. We have felt that way too. But equity investors are modeling your company's payout the moment they write the check.
We're putting this early in the guide because you can't align incentives if you don't understand them. Knowing how investors get paid helps you choose the right ones and avoid painful misalignment down the line.

Of course, getting revenue from day one is no easy task. Sometimes this happens when a product is spun out of a research effort, say for example when a hospital has been using a product in a research capacity and becomes a paying customer shortly after incorporation.

Another way founders get early revenue is through consulting, pilot studies, or small-scale software tools. Maybe you don't actually have your software product yet, but you can do a similar analysis in a spreadsheet manually and charge for it right off the bat. Maybe the founders put some savings into the company in this early stage. This is often

called **bootstrapping** — when scrappy founders fund through revenue and savings from day 1.

The advantages here are obvious: full control and no dilution. The financial constraints can also lead to extreme focus and efficient execution. Revenue also does not prevent future venture or other funding, and only increases your appeal and leverage.

There are also tradeoffs, and (as with everything in this guide), you need to consider the specifics of *your* company, not the next gal's. Bootstrapped companies can be slower to scale and have fewer resources for big bets. If your company's success depends on executing a massive bet quickly (for example, a bet that's triggered by a regulatory change or a new publicly available technology) then you probably won't get there by bootstrapping. Highly capital intensive companies, like many in biotech, are almost impossible to bootstrap.

TIP FOR FOUNDERS

- Consider "services as a wedge": short-term revenue that funds long-term product development
- Use LOIs (Letters of Intent) and paid pilots to test early customer demand
- Revenue doesn't preclude fundraising — it can improve your leverage with investors

CASE STUDY

OpenBCI, a for-profit building open-source deep tech

Over twelve years, Conor Russomanno built OpenBCI into a successful deep tech hardware company with almost no institutional venture capital, distributing over 40,000 tools for low-cost neuroscience research and development to over 100 countries, bringing brain-computer interface (BCI) out of the labs and into the real world. "We're atypical as a company, because we're 12 years old. But I still consider us a startup," Russomanno explains.

TAKING A DIVERSIFIED CAPITAL STRATEGY

OpenBCI's funding demonstrates strategic sequencing across multiple sources. "One thing that has helped us succeed is diversifying our sources of capital," Russomanno notes. The company began with a DARPA subcontract, then launched two successful Kickstarter campaigns, raising close to $500,000. The first campaign alone brought in $215,438 from 947 backers who wanted open source brain-computer interfaces.

This customer-driven approach built sustainable margins for reinvestment. "We set our margins high enough that we had extra money to then go make more products," Russomanno explains. Strategic partnerships followed, including an R&D contract with Valve that "probably may have saved OpenBCI at the start of COVID." The company now operates with millions in revenue and 12 full-time employees and a couple contractors, plus recent government contracts (including a big Air Force award through 2026).

TAKING A BET ON A FOR-PROFIT OPEN SOURCE MODEL

Rather than creating a nonprofit, OpenBCI shows how mission-driven work succeeds within a for-profit framework. "A lot of people ask me, 'how did you build an open source for-profit business?'" Russomanno reflects. "I tell them that it *is* possible." The company monetizes its work through hardware sales, documentation, and software subscriptions, while maintaining open-source roots. This approach lets OpenBCI control its destiny while serving research communities' needs for accessible brain-computer interface tools.

BUILDING TOWARDS STRATEGIC PARTNERSHIPS AND R&D REVENUE

Current work includes sophisticated research partnerships, such as a closed-loop BCI project with the Air Force involving "immersive VR and tasks to induce foundation models for stress, attention and nausea." The company has also developed Galea, which integrates EEG, EMG, EDA, PPG, and eye-tracking into a single headset, and began shipping in August 2024.

A CAPITAL APPROACH THAT MAINTAINS CONTROL

After twelve years of bootstrapping, OpenBCI recently began exploring traditional investment. "We have taken capital from angels and a few institutional VCs and family offices on a SAFE, but never a priced round. But it's definitely on the radar," Russomanno notes, from a position of strength rather than necessity.

"I take pride in the fact that at OpenBCI we still control our destiny. The stakeholders of the company, the employees, and the customers really have the greatest influence over what we're building," he explains.

OpenBCI's path challenges assumptions that hardware companies must immediately pursue venture capital. Through customer revenue, strategic partnerships, grants, and sustainable business models, the company built a foundation that positions them well for future growth, whether through continued bootstrapping or eventual institutional investment.

Chapter 6: Capital you don't have to repay — grants and non-profit models

For health and science organizations, there's an alphabet soup of non-dilutive capital sources that don't require repayment, ranging from SBIRs, STTRs, I-Corps, ARPA-H, BARDA, DARPA, to DoD. There is also a growing number of philanthropically funded mechanisms to accelerate research. These funds don't require you to give up equity or commit to repaying a loan, which can make them especially valuable in the early stages of building a company.

But many founders decide that grants aren't worth it. That's because grants often come with time consuming reporting requirements, academic-style timelines, and scope creep that can nudge your product away from its original goal. As one biotech services founder who raised over $100M put it, "We got the SBIR phase I and II and it was about $2M. But our business needed $100M. So in retrospect we probably shouldn't have spent time on it." Saying no to a prestigious grant and a million dollars can be hard, but sometimes taking the grant is just too costly. It's important to make an honest evaluation of which path best fits your idea.

Some founders find that grants only become worth it at later stages, once you have enough proof points to win higher value grants and the team to execute on them. "Early on, we avoided grants because the reporting burden was too high and we didn't have the team to manage it," recounted one founder. "Now that we've scaled and have more infrastructure, we're looking at non-dilutive capital differently. Government grants can meaningfully extend our runway without more dilution. We're even hiring a firm to help us go after them."

One new model is completely rethinking the way that deep science gets funded: the **Focused Research Organization (FRO)**. The FRO is a new kind of nonprofit R&D entity built to tackle scientific challenges that require a bigger team than available in academia and are too early or uncertain for startups. FROs operate like startups with full-time technical teams and dedicated operations, but focus on producing public-good infrastructure like tools, datasets, or platforms. FRO funding is time-bound and does not need to be repaid.

Key features of FROs:

- **Mission-driven:** Each FRO is built around a singular, well-scoped scientific or technical goal.
- **Time-bound:** Designed to operate for 3-7 years with a clear transition plan for the FRO assets and team once the mission is complete, whether that's winding down or spinning out into a new for-profit or non-profit organization.
- **Execution-focused:** Structured like a startup with dedicated teams, clear milestones, and high accountability.
- **Public-good outputs:** The goal isn't financial return but widely usable outputs (e.g., open-source tools, molecular datasets, new measurement standards, or validated experimental platforms).

FROs aim to fill a critical gap in the R&D ecosystem by enabling bold, coordinated projects that fall between the cracks of academia, industry, and government.

CASE STUDY

Forest Neurotech, a Focused Research Organization (FRO)

FOREST NEUROTECH'S CHALLENGE

Forest Neurotech is developing minimally invasive brain implants using scalable silicon chip technology (MEMS transducers & CMOS "system-on-chip" integrated circuits), a project that sits uncomfortably between traditional funding models. The technology requires tens to hundreds of millions in investment before it could reasonably expect a return on investment. It faced high technical risk (~half of experts were uncertain whether it would work). Even now, with much of the tech de-risked, it still operates amid nascent scientific understanding of the neurological dysfunction that results in psychiatric and cognitive disorders.

WHY CHOOSE THE FRO MODEL?

For Forest, the FRO structure offered critical advantages: substantial upfront funding – primarily from philanthropic donors – without the pressure for immediate commercial returns, and an IP management approach focused on maximizing public benefit rather than restricting technology to specific use cases that would satisfy investors.

But as Sumner Norman, Forest Neurotech's CEO, explains: "If your idea is even kind of well fit to being done in traditional academic or VC backed institutions, it probably is better fit to be done in those." The FRO is not a place for a startup to find product-market fit, Norman warned, because the operating model has significant differences from startup models.

FROs OPERATE DIFFERENTLY FROM STARTUPS

Forest Neurotech operates with startup-like urgency but fundamentally different constraints and incentives. The organization is time-constrained rather than capital-constrained, with a five-year window to achieve technical milestones. This creates a unique dynamic with many implications for running the organization, for example with speed of hiring: "You have to hire your most difficult hires out of the gate as fast as possible," Norman said, "and then you reach the upper bound of how much burn you can sustain, and you slow down."

The compensation structure also differs markedly from startups. As Norman notes: "There's no equity. You are not going to become super wealthy running an FRO. The team gets paid well, but there's no massive upside." This mission-driven approach attracts talent focused on scientific impact rather than financial returns. This can be a great filter, but it can also make hiring slow or more difficult in domains where salaries and equity compensation is high.

(CONT. ON NEXT PAGE)

CASE STUDY (CONT.)

IMPACT AND TRANSITION AFTER THE FRO TIME PERIOD ENDS

Forest Neurotech manages intellectual property licensing through an independent impact committee that determines how to maximize public benefit — whether through open-source releases, licensing, or something else. The sole purpose of this board is to determine the licensing strategy that fulfills and maximizes the public good mission of each FRO.

After five years, the project ends, by design. "Every FRO has a transition plan. And every FRO's transition plan looks different," Norman explains, with options including spinning out technologies into startups, converting to permanent nonprofit status, or returning innovations to academic settings.

A BROADER TEST CASE FOR FROs

If successful, Forest Neurotech could demonstrate that minimally invasive brain interfaces are technically feasible, potentially unlocking new subfields within neurotechnology. The project represents a critical test of whether the FRO model can tackle high-risk, high-reward technical challenges that traditional funding mechanisms cannot address, establishing a pathway for developing scientific infrastructure that serves the entire research ecosystem.

WHO SHOULD CONSIDER THE FRO MODEL?

If you're a founder, PI, or funder with a bold infrastructure idea that's too capital-intensive and team-based for a university lab, but too early to justify a company, then a FRO may be the right fit. Some signs:

- The output is a public good, not a product
- The timeline is 3-7 years
- You need engineers and operators, not just PIs
- The project doesn't neatly map to traditional grant cycles

NOTE: NOT ALL PHILANTHROPIC MONEY IS NON-DILUTIVE

Not all philanthropic or mission-driven dollars are grants. Some organizations such as Pivotal Ventures (founded by Melinda French Gates) or Omidyar Network participate in both dilutive and non-dilutive models. These could take the form of:

- **Catalytic first-loss capital** (e.g. funding designed to de-risk a project and crowd in other funders)
- **Equity investments** or **convertible grants**
- **Program-related investments** (PRIs, e.g., investments a foundation can in a for-profit for equity while maintaining a tax-exempt status)

If you're speaking with a philanthropic organization, ask whether their funding is structured as a grant, an investment, or something hybrid. Don't assume based on their nonprofit status.

We'll go deeper into these hybrid forms of mission-aligned but dilutive capital in Chapter 9. Additional non-dilutive and "gap" funding resources are listed in the appendix.

PART II: DILUTIVE CAPITAL AND DEAL STRUCTURES

In this part, we will focus on **private investment**, which spans across angel investors, VC, PE, strategic, and mission-aligned capital.

Chapter 7: Understanding investor structure and process

UNPACKING INVESTOR PROCESSES AND DECISION-MAKING

It's crucial to understand how different investors actually make decisions and move through their processes. Many founders hesitate to ask detailed process questions, worried they'll seem pushy or transactional. The reality is the opposite — experienced investors expect these questions and respect founders who ask them.

As Lisa Marrone from Pivotal Ventures explains: "It's totally expected for founders to ask the investor they're pitching what the investor's process is. Is this the first meeting of many? What are those future meetings? Who decides? How long is that going to take?"

Questions worth asking

While rapport is important, don't let relationship-building overshadow the operational intelligence you need to gather to run an effective fundraise. These questions aren't just helpful; they're essential for coordinating your timeline and avoiding surprises:

- What's your funding process and timeline?
- Do you lead or follow?
- What check size do you typically write?
- What stage are you in your fund's lifecycle?

The answers to these questions can help you manage expectations, coordinate your fundraising timeline, and most importantly, ensure you're talking to the right investors at the right time.

YOUR INVESTOR'S FUNDING CYCLE (AND HOW IT COULD AFFECT YOU)

When you're raising capital, it's easy to think of investors as simply writing checks. But behind every firm is its own funding cycle (and its own set of pressures). Understanding how that cycle works can give you a major advantage as a founder.

Most funds raise capital from their own investors, called **Limited Partners (LPs)**, which are typically pension funds, endowments, family offices, or wealthy individuals. As one investor put it: "You follow the trail and eventually you get to the big pool of money,

which is largely pension funds, billionaires, and sovereign wealth funds."

The people running the investment fund, known as **General Partners (GPs)**, are responsible for investing that capital, growing it, and ultimately returning more than they raised (often 3-10x+) within a specific timeframe, usually 10 years.

HOW FUND TIMING CAN AFFECT HOW AN INVESTOR THINKS ABOUT YOUR DEAL

This matters because most funds follow a predictable rhythm that changes the incentives for how they work with their portfolio companies. In the first 2-3 years, GPs are in active investing mode, building out the portfolio. By years 4-7, they're focused on supporting existing companies and making follow-on investments. In the later years, they shift into harvesting mode, helping companies exit via acquisition or IPO so they can return capital to their LPs.

The timing of your investor's fund lifecycle affects how they show up. If you're one of the early investments in a new fund, they may have more appetite for risk and more attention to give. If you're coming in during year 6 or 7, they may be more cautious — they're under pressure to start showing returns, and that might affect how they think about your timeline or next raise.

TIP FOR FOUNDERS

We encourage you to feel empowered to directly ask investors about their fund (and even research this yourself online before your first meeting). Here are some sample questions to ask:

- Which fund is this investment coming from?
- What year of the fund are you in?
- How much of your fund is reserved for follow-ons?
- Who are your LPs, and how do they think about return timelines?

Understanding these dynamics can help you pick better-aligned investors, manage expectations, and navigate long-term relationships with more clarity and confidence.

WHY YOUR CHECK SIZE RELATIVE TO FUND SIZE MATTERS

Beyond fund timing, your relative importance in a fund's portfolio affects the attention and support you'll receive. As one founder anonymously shared: "We were a $2 million check in their billion-dollar fund. I was shocked and happy they even continued to respond to our emails, to be perfectly honest. It could be a pro or a con, and founders should understand these dynamics."

If your $5M raise represents 10% of their $50M fund, you'll get significant attention (and pressure). If you're a small check in a billion-dollar fund, expect less hands-on support

unless you become a breakout success.

ALTERNATIVE TIMELINES: EVERGREEN FUNDS AND PATIENT CAPITAL

Not all investors follow the traditional 10-year fund cycle. Some operate **evergreen funds** that continuously recycle returns and invest without fixed timelines. This structure is common with family offices, corporate VCs, and philanthropic capital.

Other investors operate outside the fund model entirely. Most angel investors invest their own money (unless they are large enough, like solo VC Elad Gil, to raise their own fund). Family offices manage wealth for a single family, and corporate VCs often invest directly from company balance sheets rather than separate funds.

These investors are frequently called **"patient capital"** because they're not constrained by the multi-year fund cycles that pressure traditional VCs to return capital to LPs on a fixed timeline. This can translate to more flexible timelines for your company's growth and exit — a significant advantage for science and healthcare companies that often need longer development cycles. We'll explore these alternative capital sources in more detail in Chapter 9.

INVESTOR TIMELINE VARIATIONS BY TYPE

Why does timing matter so much? Different types of investors move at dramatically different speeds. Understanding these patterns can help you sequence your conversations strategically. You might want to start with faster-moving investors to build momentum, or prioritize slower ones if you need their specific expertise or validation.

Here's how different investor types typically move from first meeting to money in the bank:

Investor type	Timing	Considerations
Angel investors	Fastest: 1-2 weeks	Can often write checks after a single meeting Minimal due diligence (often rely on lead investor) Simple decision-making process
Small VC firms	Fast: 1-3 weeks	Partners make decisions directly Streamlined internal processes (can skip formal partner meetings)

Mid to large VC firms	Medium: 2-6 weeks	Multiple meetings required (initial, healthcare team, full partnership) More formal processes but still relatively quick *Example*: a16z might have first meeting, then healthcare team meeting, then broader partnership committee meeting
Mission-aligned capital	Medium-Slow: 3-8 weeks	Often will be a follow-on investor who accepts lead terms but with extra requirements Might require operational due diligence (e.g., if mission reporting required)
Corporate VC	Slowest: 2-6+ months	Often brings deals to business units Complex internal approval processes Multiple stakeholders and longer decision cycles

Understanding these timelines helps you orchestrate your fundraise more effectively. You might choose to raise from a large VC firm to set favorable terms, then fill out the round with mission-aligned or strategic investors. Or if speed is critical, you might focus primarily on angels and smaller VC firms that can move quickly.

We'll dive deeper into each of these investor types later in this guide (Chapters 8 and 9), but this timing framework gives you the foundation to plan your fundraising sequence and manage expectations with each type of investor.

THE FUNDRAISING PROCESS: FROM FIRST MEETING TO MONEY IN THE BANK

Let's break down what actually happens during each stage of fundraising. Understanding this process helps you manage timing and maintain competitive dynamics in your round — what investors and founders might refer to as 'healthy competitive tension.'

This becomes especially critical when your original plan changes. Maybe your dream lead investor passes, or a key strategic investor needs more time for internal approvals. In these situations, you'll need to quickly pivot your strategy: speeding up conversations with backup options, slowing down impatient investors, or creatively sequencing different investor types to maintain momentum. The founders who navigate these pivots successfully are usually the ones who understand each investor's internal process and can orchestrate the timing accordingly.

Stage	Sample activities	Angel or small VC timeline	Corporate VC timleine
Initial conversations	**Intro or Outreach:** You meet a VC via warm intro, networking, or cold outreach **First Meeting:** This is often a ~30–60 minute pitch (live or virtual). It's about your story, team, market, product, and early traction	1-2 weeks	2-4 weeks
Partner meetings	**Internal Discussion:** If there's interest, the associate or partner brings your deal to the partnership **Follow-Up Materials:** They may ask for a data room, customer intros, financial model, or tech deep dive **Partner Meeting:** You present to all partners — usually a high-stakes meeting. If successful, this leads to a term sheet	1 week or skipped entirely *Angels and small VC can write a check after the first meeting if they have conviction—they are the 'partners'.*	2-4 weeks
Term sheet	A **non-binding document** outlining key deal terms: • Valuation and investment amount • Board structure and governance rights • Liquidation preferences, pro rata rights, etc. Once signed, it's standard (but not guaranteed) that the deal will close. See Chapter 8 for more information here.	Same day to a few days	1-2 weeks
Due diligence	**Legal Diligence:** Cap table, incorporation docs, IP assignments, contracts, employment agreements **Financial Diligence:** Past and projected financials, accounting **Tech Diligence** (if relevant): Codebase review, security, or regulatory compliance	1-2 weeks or minimal *This is often skipped with angels (who don't lead the round). DD is more often conducted by your lead.*	2-6+ weeks depending on complexity
Closing & money in the bank	**Definitive Agreements:** Lawyers draft and negotiate closing docs **Signatures & Wire Transfer:** Once signed, funds are wired, usually within a few days **Post-Close:** You update the cap table, file any required forms, and announce the round (optional)	1-3 days after docs signed	1-2 weeks after docs signed

As one former founder turned investor explained: "When we raised from traditional VCs, we got the term sheet, signed it, lawyers talked to lawyers, and three weeks later the money was wired. With mission-aligned capital, there's often additional operational due diligence (like background checks and other requirements) that can extend the timeline."

TIP FOR FOUNDERS

Your job as a founder is to control timing and "load the horses" — getting all your conversations in the same stage. A signed deal is better than a perfect deal, and there are no perfect deals.

Chapter 8: Venture Capital — terms and tradeoffs

A quick legal note before we get into legal terms and tradeoffs: We wrote this guide in plain language to make these concepts accessible, but we're founders, not lawyers. This is general information about common funding structures, and it is not legal advice for your specific situation.

Laws vary by state and country, and every company's circumstances are different. Always talk with a qualified lawyer before making decisions about entity structure, investment terms, or other legal matters. Trust us, it's worth the legal fees to get this right.

PRICED VS. UNPRICED ROUNDS

Early-stage fundraising typically falls into two categories:

Priced rounds involve setting a specific valuation for your company and selling equity at that price. The most common form is **preferred stock**, which comes with specific rights and privileges for investors. This type of deal structure provides clarity but involves higher legal costs and more complex governance (often including a formal board).

Unpriced rounds delay setting a specific valuation, using instruments like a **SAFE**[1] (simple agreement for future equity) or **convertible notes** that convert to equity at your next priced round. Unpriced rounds offer flexibility and speed but can create unexpected dilution if not managed carefully (see an example calculation below).

In health and science companies, both priced and unpriced approaches are common and we'll talk in broad generalizations when you might want one or the other, but as always your situation can be unique.

[1]Editorial note: Throughout this guide, we use "SAFE" in all caps, following common industry convention. However, we've noted that Y Combinator, the creator of the SAFE, now refers to it in lowercase ("safe").

Many seed-stage companies in health and science prefer SAFEs or convertible notes for their first institutional capital, transitioning to a priced round for Series A when they have more data to support a valuation. This approach lets you move quickly early on while preserving flexibility. When you do decide to put a formal board in place, it limits your options and usually locks you into the VC fundraising path. Funding rounds, acquisitions, option pool increases, and many other big decisions now have to be approved by a board.

> "The first thing we did was raise about $750,000 in what we called a "pre-seed round." All we had was a PowerPoint. The goal of that round was to build the first version of the system and actually have customers and revenue. Then we went and raised our seed, $5 million, still on a SAFE"
>
> — Biotech founder who raised $100M+ in venture capital and grants

As one biotech services CEO put it, "one of the big decisions is whether you're gonna go down a path where you raise multiple venture rounds, build a board, and are a venture-backed company with venture incentives, or if it's more where you raise just multiple rounds on SAFEs and never build a board and have total freedom."

Importantly, the fundraising dynamic is different for each of these two types. With **unpriced rounds** (e.g., when you use a SAFE), the *founder is in control (not the investor)* and sets the valuation cap (more caps in the next section). With **priced rounds**, the founder is running a competitive process where investors bid on valuation and have the first pen to set the terms.

TIP FOR FOUNDERS

If you're unsure whether you'll hit your fundraising target, use unpriced instruments (like SAFEs) instead of priced rounds. With priced rounds, raising less than planned means higher dilution for you. Unpriced instruments protect you from this risk.

CHOOSING YOUR UNPRICED INSTRUMENT: SAFE VS. CONVERTIBLE NOTE

SAFEs and convertible notes both allow you to raise capital without immediately setting a valuation, and they have important differences:

Convertible note

- Structured as debt that converts to equity
- Include interest rates and maturity dates
- Can create pressure to raise a priced round before maturity
- More familiar to some "traditional" (read: old school) health and science investors

SAFE (simple agreements for future equity)

- Created by Y Combinator in 2013 to simplify early-stage funding
- No interest rate or maturity date
- Convert to equity when you raise a priced round
- Slightly simpler and cheaper to implement

The convertible note was originally repurposed from standard debt instruments to facilitate early investment, with no one ever expecting the debt would be paid back. But as one Series A healthcare founder explained: "The debt was lingering there in the document, and the SAFE fixed that." This history is important to understand because convertible notes create actual debt obligations that technically could be called on, even if that's not the intention. SAFEs eliminate this risk.

While SAFEs have become increasingly popular for their simplicity, some health and sciences founders still use convertible notes, particularly when working with strategic investors or more traditional healthcare VCs.

When using SAFEs or convertible notes, two key terms determine how these instruments convert to equity: caps and discounts.

- The **Cap** is the maximum valuation at which your SAFE or note will convert, regardless of the actual valuation of your next round. For example, if you raise with a $10M cap and your next round is at a $20M pre-money valuation, your SAFE investors convert as if the valuation were still $10M, effectively getting twice as many shares. That's the reward they get for taking an early bet on you.
- **Discount** offers early investors a percentage discount on the price per share in your next round, typically ranging from 10-25%. For example, with a 20% discount, if new investors pay $1.00 per share, your SAFE investors would pay $0.80 per share.

TIP FOR FOUNDERS

Health and science founders frequently set caps too conservatively, undervaluing their companies out of caution or inexperience. Don't do this! While you want terms that allow you to close quickly, setting a cap too low reduces your flexibility and increases dilution unnecessarily down the line.

CHOOSING THE BEST SAFE FOR YOUR SITUATION

Y Combinator, the creator of the SAFE, provides free templates for three types of SAFEs at https://www.ycombinator.com/documents:

- SAFE: Valuation Cap, no Discount
- SAFE: Discount, no Valuation Cap
- SAFE: MFN, no Valuation Cap, no Discount

Here's a general framework for thinking about these three instruments. Treat this section as guidance rather than rigid rules, since every situation is unique:

You would use a **valuation cap** when raising a standard round (pre-seed, seed), where you have a reasonable sense of your company's value.

Choose a **discount** when you're doing a smaller raise between formal rounds (perhaps letting in a few strategic friends-and-family investors early), where it's genuinely too early to set a meaningful valuation but you want to reward early risk-taking with better conversion terms. Be aware when using a discount-only SAFE — it generally arises if the company is very hot or the investors are unsophisticated.

The **MFN (Most Favored Nation)** option is rarely used and generally not recommended, as it essentially gives early investors the right to match any future investor's terms. This can significantly reduce your ability to attract new funding, because it limits your flexibility to offer competitive terms to later investors.

Of note, YC used to have a template with both a valuation cap and discount. However, they removed this fourth type of SAFE template from their website in recent years. Investors may ask to have both cap and discount (and this would protect them more). You might see this more often with East Coast investors who are stereotypically more conservative (more on east vs west coast investor mindsets later in this chapter).

There are a couple of scenarios when you'd use an **uncapped, no discount note**, but it's rare.

PRICE DISCOVERY: USE THE RIGHT TOOL FOR THE JOB

If you're unsure of your company's value and want to do price discovery, avoid SAFEs altogether and use a priced round instead. Here's why: When you raise multiple SAFE rounds with different caps (e.g., $500K on a $5M cap, then $300K on an $8M cap because you think the first was too low), you're accidentally doing price discovery through SAFEs and it creates a cap table nightmare. You want to avoid having a "multi-cap" round. Your future self will thank us.

You end up with investors converting at different ratios when your Series A happens,

complex dilution calculations, and confusion for everyone involved. This complexity is actually why Y Combinator introduced the post-money safe (more on this in the next section) to provide more certainty around ownership percentages, though it didn't solve the underlying multi-cap problem. If you want to test the market and "bid up the price," be intentional about it: use a priced round where everyone gets the same price per share and you can cleanly negotiate valuation with each investor.

TIP FOR FOUNDERS

Keep your SAFEs simple and standard.

- Use Y Combinator's SAFE templates even if you're not in YC, and push investors for "no edits" since you're offering standard market terms
- The goal of a SAFE is speed and simplicity; maintaining "no edits" minimizes negotiations and keeps legal costs low
- Try to avoid having a 'multi-cap' round if you can

PRE-MONEY VS. POST-MONEY VALUATION

Understanding the difference between pre-money and post-money valuation is crucial for accurately calculating dilution.

Pre-money valuation is your company's value *before* the new investment.

Post-money valuation is your company's value *after* the new investment (pre-money valuation + the amount raised).
For example, if you raise $2 million at an $8 million pre-money valuation:

- Your post-money valuation is $10 million
- Investors own 20% ($2M ÷ $10M)
- Existing shareholders own 80% ($8M ÷ $10M)

This distinction is particularly important when dealing with SAFEs or convertible notes, since there are pre-money SAFEs and post-money SAFEs.

The key difference is that with **pre-money** SAFEs, adding more investors doesn't affect existing SAFE holders' ownership. However, with **post-money** SAFEs, adding more investors dilutes everyone, including existing SAFE holders.

As the healthcare founder explained: "I planned to raise $2M on a $10M pre-money valuation, but we ended up raising $3M because it was oversubscribed and I wanted to add a few more dream investors. With a post-money SAFE, that would have been 30% dilution ($3M ÷ $10M post). But with pre-money, we only had 23% dilution ($3M ÷ $13M post) because the extra million expanded our post-money valuation."

- **Post-money scenario:** $3M raised on $10M post = **30%** dilution

- **Pre-money scenario:** $3M raised on $10M pre = **23%** dilution

That's a big difference in company ownership for just $1M extra raised in a round.

For founders, pre-money SAFEs are more favorable because they allow you to add more investors without increasing dilution from earlier SAFEs. However, this can create uncertainty for investors about their final ownership percentage.

TIP FOR FOUNDERS

Pre-money valuation frameworks can be more favorable to founders in terms of dilution. However, they can be more challenging to calculate and can led to confusion, and so post-money has become more standard.

Notably, Y Combinator introduced post-money SAFEs in 2018 to address investor uncertainty about ownership percentages in pre-money SAFEs (source), and the market has largely adopted post-money as the standard, though both forms remain available if you talk with your lawyer, who should have the older YC template.

FUNDRAISING BASICS: STAGE AND DILUTION BENCHMARKS

A fundraising round is a period of time when you seek capital from investors, usually aligned with specific company milestones. For health and science companies, the expectations at each stage have some typical characteristics.

At the **seed stage**, investors primarily bet on your team, technology, and early signals of value. For sciences and health companies, these signals might include:

- Initial data showing your approach works
- Strategic partnerships with healthcare organizations or pharma companies
- Regulatory strategy (and perhaps initial progress)
- Early user adoption or pilot agreements

Most seed rounds range from $2-6 million, though this varies widely based on your specific vertical and capital needs. "At this stage," said one founder who has raised a seed and series A over $10m, "you can often raise a few million with a powerpoint deck, some fancy founder and advisor backgrounds, and investor momentum. Very rarely do you need revenue until you get to the Series A."

By **Series A**, investors expect to see proof of product-market fit and a clear path to scale. In the sciences and healthcare, this often translates to:

- Compelling evidence your product works
- Clear market demand (paying customers or strong user growth)
- A scalable business model

- Early signs of market adoption

Series A rounds typically range from $10-40 million, with the specific amount dependent on your capital needs to reach the next significant milestone. Notably, biotech rounds are an exception and they can be much larger.

In both seed and A rounds VCs tend to emphasize **customer validation** over technical progress. This can be counterintuitive to technical and scientific founders. "Investors really don't care about technical prototyping and progress and will care much more about customer validation," said one founder who raised over $100M for a biotech hardware and services business.

In contrast to biotech, software companies have historically been expected to demonstrate customer validation through measurable market traction by the time they raise a Series A - whether that's revenue, user growth, engagement metrics, or proven demand signals. However, the specific metrics that matter most depend heavily on whether you're building pure SaaS or tech-enabled services.

For SaaS: The traditional benchmark was '$1 million in ARR', but recently the threshold has been around $500k ARR, as rounds get preempted and happen earlier, according to Craft Ventures. However, as investor Villi Iltchev argues, "I continue to be surprised by the guidance towards this shallow milestone [of $1M ARR] as I find that it actually offers little insight into a startup's preparedness for a Series A." Beyond revenue, investors often focus on growth efficiency, retention rates, unit economics, and customer engagement metrics.

For tech-enabled services: For companies that blend software with human-delivered services, the metrics shift significantly. As Bessemer Venture Partners notes, "the recurring nature of the revenue may vary, so it's not always appropriate to use a run rate to evaluate the business". Instead, investors often focus on unit economics improvement over time, outcome validation (proving financial and clinical ROI), and revenue quality over pure growth velocity.

For gen AI companies: We saw this wild tweet from a16z just before we clicked publish on this handbook, where they shared that the median B2B company is going from $0 to $2.1M ARR in year 1, while the median B2C company is going $0 to $4.2M. A reminder to stay close to the market so you have a sense of how VCs are benchmarking your progress.

TIP FOR FOUNDERS

The "right" metrics vary significantly by business model and market context. Whether you're in established SaaS markets, creating new product categories, or selling complex enterprise solutions, take time to research metrics specific to your vertical rather than relying on generic benchmarks.

Once you've prepared your company story and gathered your key metrics, it's time to determine how much to raise and at what valuation. But how should you approach these numbers? Here's excellent data from Carta outlining typical valuations, cash raised and dilution at seed through series C. (Keep in mind that this data include all types of companies, not just health and science).

Startup fundraising cheatsheet

25th / 50th / 75th percentile benchmarks for key metrics in Q4 2024
Data: 1,466 US venture rounds raised by startups on Carta in Q4 2024

	Venture round	*Percentile*	*Post-money val cap*	*Cash raised*	*Dilution**
SAFE Rounds	**Pre-Seed** $500k-$1.9M	25th Pct 50th Pct 75th Pct	$8.0M $11M $18.0M	$0.6M $1.0M $1.3M	6.9% 10.1% 15.3%
	Seed on SAFE $2M-$4.9M	25th Pct 50th Pct 75th Pct	$14.0M $18M $25.0M	$2.4M $2.8M $3.7M	14.5% 18.3% 26.4%

	Venture round	*Percentile*	*Post-money val cap*	*Cash raised*	*Dilution**
Priced Equity Rounds	**Priced Seed**	25th Pct 50th Pct 75th Pct	$11.0M $19.2M $29.6M	$2.0M $3.7M $6.0M	15.0% 20.0% 25.0%
	Series A	25th Pct 50th Pct 75th Pct	$33.3M $58.9M $938M	$5.4M $12.0M $18.5M	12.3% 20.0% 24.0%
	Series B	25th Pct 50th Pct 75th Pct	$62.5M $129.8M $235.4M	$6.7M $20.0M $36.3M	8.7% 15.0% 20.9%
	Series C	25th Pct 50th Pct 75th Pct	$120.9M $250.3M $649.8M	$9.9M $36.5M $75.0M	6.1% 10.9% 18.5%

*Dilution calculated independently for each round. can't simply read across the rows

Source: carta.com/data

©2025 ESHARES INC., D/B/A CARTA INC. ("CARTA"). ALL RIGHTS RESERVED.

TIP FOR FOUNDERS

"The standard dilution target is around 20% per round, which means you're typically selling about one-fifth of your company in each major fundraising event," said a founder who raised a pre-seed, seed, and series A – and this has been echoed in a number of our founder interviews.

The math works roughly like this: If you **raise $2 million** at a **$8 million pre-money valuation**, you then have a **$10 million post-money valuation**, and you've **diluted by 20%** ($2M ÷ $10M = 20%).

This is important, because in some instances it doesn't really matter how much you raise, generally VCs are always looking to dilute around 20%. Sometimes if you're really early and it's risky they might take more (see the Carta data above) or if there's a lot of competition to get into the round then it can be less. But often it doesn't get to be below 15% or lower until your Series B and beyond. If you get that range earlier either you had a very competitive round or you're raising from a sub-tier VC.

Because of this "20% dilution per round" investor rule of thumb, there's a clever game you can play during fundraising with a VC firm to improve your valuation by changing ("refining") how much you raise mid-way through the negotiation. We'll discuss this "valuation dance" tactic further in Chapter 13.

HOW MUCH TO RAISE (AND WHY)

In healthcare and life sciences, how much you need to raise depends on your specific milestones. Rather than thinking in terms of arbitrary timeframes like "18 months of runway," think about what proof points you need to hit in order to significantly de-risk your company (in other words, further prove that it will succeed) and position yourself for the next round.

For example:

- A diagnostic company might need to reach analytical validation
- A digital health company might need to complete a pilot with a major health system
- A therapeutic company might need to reach IND-enabling studies

Your raise should cover the costs to achieve these milestones, plus a buffer (typically 20-30% more than you think you need) for unexpected challenges or opportunities. "When investors asked me how much I needed to raise," said one founder who raised $15M through her Series A, "I always thought it was an odd question, because I needed to know what they wanted me to prove between now and the next round. But they often wouldn't tell me. So, I made a very simple financial model, and because I had a software company the top line was a simple guess of revenue during that round, and then expenses were mostly G&A since engineering was my biggest cost."

A financial model may seem intimidating, but you don't have to build one that would make your banker friends at Goldman proud. The basic elements are your estimates for costs and revenues. On the cost side, this will help you think through hiring, technical infrastructure, and other cost categories in detail. On the revenue side, you'll think through your products and price points, what deals are likely to close, and what experiments you'll run.

Remember, these are just best guesses. Don't get caught up in getting it exactly right. If a blank spreadsheet is overwhelming, you can describe your business to Claude or Chat-GPT and ask it to generate a list of common cost buckets.

Here's a real recent example for one simple seed-stage healthcare software business:

EXAMPLE SEED STAGE COSTS

1. **Headcount & Personnel Costs**
   - Executive Team (e.g., CEO, COO, CTO)
   - Engineering & Product (e.g., VP of Engineering, Backend Engineer, Data Scientist, Integrations Engineer)
   - Customer Operations (e.g., Project Manager, Customer Success)
   - Sales & Business Development (e.g., Sales Lead)
2. **Infrastructure, Cloud, & Software**
   - Cloud Compute & Storage
   - Platform-as-a-Service (Paas)
   - Developer Tools & Software Licenses (e.g., logging, monitoring)
   - Sales & Business Development (e.g., Sales Lead)
3. **Clinical Validation & Regulatory (Healthcare-Specific)**
   - FDA Submission Fees
   - Quality Assurance & Documentation
   - Regulatory Consultants
4. **Compliance (e.g., HIPAA, SOC2)**
   - Compliance Software
   - Compliance Consultants
   - SOC2 Certification
5. **Sales & Marketing**
   - Sales Enablement Materials
   - Industry Conferences (tickets, travel)
   - Conference Booth Costs
   - Content Development
   - Public Relations & Media Placement
   - Branding & Website Development
   - Sales Travel
6. **Insurance, Legal, & General Administration**
   - Legal Services (e.g., IP, licensing, contracts)
   - Fractional CFO Services
   - Business Insurance (general liability, E&O, cyber, umbrella)
   - Workers' Compensation Insurance
   - State & Entity Filings
7. **Facilities, Office, & Equipment**
   - Office Rent or Remote Work Stipends
   - Employee Hardware & Equipment
   - SaaS Tools (e.g., Zoom, Asana, Slack, Notion)
8. **Miscellaneous / Contingency**
   - General Buffer for Unexpected Costs (20-30% range)

You'll probably want to have an **internal** financial model for you and your management to get a sense of how much you're raising and where you're spending it. You also might share a simplified version of this **externally** for your investors.

This type of modelling helps you do the best you can to land on the right number for your fundraise, which is important since there's significant risk in both under-raising and over-raising.

Under-raising risks:

- Running out of capital before reaching key milestones
- Forcing a round where the company's valuation is flat or down, which will result in unfavorable terms, like higher-than-necessary dilution and/or reductions in founder control
- Creating unnecessary distraction of fundraising when you want to be focused on executing your business idea

Over-raising risks:

- Setting valuation expectations too high for your next round. This is a big one: consider whether you will be able to do enough with the initial money to raise at a much higher valuation in the next round
- Creating pressure for premature scaling
- Diluting founders more than necessary if you raise more at a lower valuation

OTHER KEY TERMS TO WATCH

Beyond valuation and basic structure, there are several other terms that can significantly impact your fundraising and company trajectory.

Liquidation Preference: This determines what investors receive in an exit before common shareholders (founders and employees) get anything. The standard is a '1x non-participating preference,' meaning investors get their money back first, then automatically receive whichever is greater: (a) 1x their original investment, or (b) their pro-rata share of proceeds as if they had converted to common stock. This structure protects investors' downside while still letting founders capture most of the upside in successful exits.

What's market vs. what's not:

- **1x non-participating** = Standard and founder-friendly. This is what you'll see in most deals and what most VCs expect.
- **1x participating** = Less common, but still within market range (around 5-10% of deals according to data from Carta, and dropping in popularity the past few years). Investors get their money back AND their pro-rata share of remaining proceeds. Note that participating preferred often includes a cap (e.g., 'participating up to 3x'), after which it converts to non-participating. This significantly reduces founder returns in successful exits.

- **Multiple preferences (2x, 3x, etc.)** = Red flag. These are typically only seen in distressed situations, down rounds, or when founders have very weak negotiating positions. Push back hard on these.

This will matter to you because in a 1x non-participating structure, if your company sells for 10x the Series A valuation, investors will convert and take their ownership percentage rather than just getting 1x back. In participating preferred, they'd get 1x back PLUS their ownership percentage of the remaining proceeds, essentially "double dipping" and taking a much larger slice of your exit.

Right of First Refusal (ROFR): A ROFR gives existing investors the right to purchase shares (usually from founders, employees, or early investors) before those shares can be sold to a third party. This is fundamentally different from **pro rata rights**, which govern whether investors can participate in new fundraising rounds to maintain their ownership. ROFRs apply to secondary transactions, not primary capital raises.

While it's common for investors to request a ROFR on **secondary sales** (especially at later stages), a ROFR on **primary fundraising rounds** (e.g., your in your seed or Series A) is not market and should be avoided. Strategic or corporate investors sometimes push for ROFRs to gain deal control, but granting them can make future fundraising significantly harder. ROFERs can deter new investors, reducing competitive tension, and giving one party too much leverage.

TIP FOR EARLY-STAGE FOUNDERS

It's best to resist ROFRs and offer standard pro rata rights instead.

Pro Rata Rights: These allow investors to maintain their percentage ownership in future rounds by ensuring that they will be able to invest more money at the higher valuation. This is standard and generally reasonable, particularly for life sciences and healthcare companies that may need multiple rounds to reach maturity.

Most Favored Nation (MFN): This ensures that if you give better terms to other investors in the same financing round, this investor automatically receives those same better terms. MFN typically applies within a single round, not across different funding rounds. MFNs are not standard and you should try to avoid them.

Information rights are contractual provisions that give investors access to regular updates and financial data, even if they don't hold board seats or voting power. Common examples include:

- **Financial reporting:** Monthly or quarterly financial statements, annual budgets, cash flow forecasts
- **Operational updates:** Key metrics, KPIs, and major business developments
- **Legal or corporate updates:** Notices of board meetings (even without attendance

rights), material contracts, litigation, IP developments
- **Strategic information:** Business plans, executive hiring, major partnerships
- **Inspection rights:** In some cases, the right to visit facilities or review books and records with notice

At first, these rights may seem harmless. "I thought, 'I have nothing to hide,'" reflected one founder whose startup was later acquired by a public company. "But it's really important to hold your ground on not doing side letters, which is where information rights often show up."

Why? Because managing multiple flavors of investor rights quickly becomes a logistical mess, and a lot for a startup CEO to track and manage.

> "If you have to follow up on various terms like information rights across 40+ investors, it's a nightmare. You end up sending out tiered investor updates, holding back information from some, and over-disclosing to others. And if you go public or get acquired, those extra rights (especially from tiny checks) can make diligence and disclosures much harder."
>
> — Healthcare founder who sold to a public company

If you're under pressure to grant special terms, limit them to your lead investor only. This avoids the complexity of managing who has side deals and who doesn't. As one founder who managed over 10 advisor relationships before a successful exit explained, "Aspirationally, I wanted to give all my investors pro-rata rights, but I also knew that it could squeeze my rounds in the future and leave less room for new capital. I gave them only to our lead at seed. When we had an oversubscribed Series A, I chose to offer pro-rata to everyone, but it was my choice [to do that], and I wasn't contractually obligated."

YC follows a similar approach to streamline documentation. For example, the YC post-money SAFE doesn't include pro-rata rights in the main agreement. If an investor wants them, it's negotiated separately via a side letter.

If an investor asks for a side letter, you can turn it into a negotiation lever: "We only offer side letters to our lead. If you're interested in a lead check, happy to discuss those terms."

Sometimes investors will claim that their LPs "require" side letters. This isn't always the full story. One founder shared:

> "One of our investors said their LPs required it. But the truth is, they almost always make exceptions when they want into a hot round. Maybe only 80% of their portfolio needs to sign them. We ended up avoiding all side letters except the one we gave our lead."

Remember that this landscape evolves quickly. Resources like Y Combinator regularly publish updated market data on current term sheet norms. For instance, they recently highlighted warrant coverage and cumulative dividends as additional terms to watch. More importantly, make sure you've already established a relationship with a good startup lawyer who can help you navigate these complexities before negotiations begin.

TIP FOR FOUNDERS

- Keep your SAFEs clean. Multiple caps = messy cap table.
- Push for 1x non-participating liquidation preference — it's standard.
- Minimize side letters
- Keep watching for market trends to help you in negotiations

SECONDARY SALES: TAKING MONEY OFF THE TABLE

If you're in a negotiating position where you might be able to get a secondary, congrats! **Secondary sales** allow founders and employees to sell some of their existing shares to investors, rather than the company issuing new shares. This provides personal liquidity without diluting the company or affecting ownership percentages among remaining shareholders. Secondaries typically happen when your round is oversubscribed and investor demand exceeds your fundraising target — instead of raising more primary capital, investors buy shares directly from you or early employees.

TIP FOR FOUNDERS

The psychology of how you present a secondary sale dramatically affects investor reception. Saying "I want to pull out $600K (or $1M)" can come across like you're cashing out or lack confidence. But saying "I'm looking to sell 1-3% of my shares" (even if it's the same dollar amount) sounds like sophisticated portfolio management. Secondary sales work best when investor demand is high and you have leverage. If you're struggling to fill your primary round, asking for a secondary will backfire. However, when investors are competing for allocation, buying your shares becomes another way for them to get exposure to your company's growth.

Remember that secondaries don't bring new capital into the business, so make sure your primary fundraising needs are met first.

ADVANCED CAP TABLE INNOVATIONS: FOUNDER PREFERRED (FF) SHARES AND DUAL-CLASS STRUCTURES

There are several cap table innovations that founders use to maintain control or gain early liquidity, and they come with trade-offs. FF shares and dual class structures are spicy and controversial topics that come up in founder whisper networks, so we'd be remiss not to mention them. However, before implementing anything, you should ensure you talk with your lawyer about your thought process and situation.

Founder Preferred (FF) shares are a special class of stock that behaves like common stock but automatically converts to preferred stock when sold to investors in a financing round. This allows founders to potentially gain early liquidity while addressing tax complications that could arise when selling common stock at preferred prices (ask your lawyer for more details). You'll want to set these up at company inception before any money comes in. Most of your stock will still be common — only a small percentage would be FF shares. However, FF shares often don't have liquidation preferences unless negotiated, so they don't protect you on the downside.

Dual-class share structures are another innovation that allows founders to maintain voting control even when owning a minority of total shares. Tech companies like Meta/Facebook have used these structures, where founders hold shares with 10-20+ votes per share compared to 1 vote for public shares. These sorts of innovations are controversial — some investors and governance experts argue they reduce accountability to shareholders. Notably, some recent multi-billion dollar tech IPOs have switched back to single-class structures, showing how market acceptance can shift over time. Again, we're not going to get into details here and if you want to learn more talk with counsel.

TIP FOR FOUNDERS

Too much "innovation" on a cap table can spook institutional investors, so careful consideration is essential. Talk with experienced startup counsel and successful founder friends about what's currently market standard, and ensure the benefits outweigh the cap table complexity for your specific situation.

BOARD CONSTRUCTION AND ADVISORS VS. INVESTORS

Board construction has a big influence in health and science companies, where governance can influence everything from regulatory strategy to commercial partnerships.

At the seed stage:

Avoid forming a formal board if you can. Keeping things informal preserves flexibility and simplifies decision-making while you're still finding your footing. If investors push for board representation, consider offering board observer rights instead. These provide visibility without voting power.

At Series A:

By the time you raise a Series A, most health and science companies establish a formal board. There are several ways to structure it, but two common and founder-friendly setups are the three- and five-person boards:

- **Three-person:** 2 management seats (typically filled by founders and executives), 1 seat for lead investor
- **Five-person:** 3 management seats, 1 seat for the lead investor, 1 independent seat, ideally with relevant industry expertise

"I like having a five-person board where management gets three seats, and I filled all three as the founder," shared a healthcare founder who raised multiple rounds. "And then we did one independent, and that one independent saved me a lot of navigating [investor relationships]."

Another biotech founder who raised over $100M preferred the smaller structure: "I liked sticking to three people at Series A, it kept it simple."

The key principle is to keep an odd number of seats and maintain more founder/management seats than investor seats. As you raise new rounds, consider adding one founder and one investor seat to maintain that balance.

Board Observer Seats:

Board observers can be a useful tool during negotiations. They give investors visibility without handing over governance control. Generally, founders we spoke to felt that good board observers could be a positive asset, in some cases backing up the founder and offering valuable advice in times of conflict. Board observers usually play the same role as board members in meeting–asking questions and engaging in the material–the only difference is that they don't vote.

ADVISORS VS. INVESTORS: SEPARATING CAPITAL FROM EXPERTISE

A common pitfall for health and science founders is conflating investors with advisors. While VCs may present themselves as industry experts, their core role is capital allocation (not operational guidance). "Don't confuse the venture person for the industry expert," warned one founder after a successful exit. "To get allocation, so many VCs blur that line and claim, 'We really know this stuff.' But that's not their role."

This distinction is particularly important in health and science, where deep technical and regulatory expertise is critical. Instead of relying on your VC for this guidance, consider these alternatives:

1. **Create a formal advisor network** with modest equity compensation (typically around 0.5-1% for early advisors providing ~20 hours/month of work)
2. **Add true industry experts to your board** as independents
3. **Establish scientific or clinical advisory boards** separate from your governance board

Remember, VCs are first and foremost in the business of pattern-matching and capital allocation. While they can provide valuable network connections and general guidance, relying on them for deep industry expertise often leads to disappointment or, worse — misalignment.

HOW MUCH EQUITY SHOULD YOU GIVE AN ADVISOR?

It can be hard to know how much equity to offer an advisor, especially early on when they have a big name and your company is still unproven. One founder who worked with more than 10 advisors before exiting shared:

> *'I used the Founder / Advisor Standard Template (FAST) Framework to keep things clean. It lets advisors opt into a tier of involvement, and that helps shift the dynamic from "founder making up a number" to offering a clear market benchmark.' (Source: https://fi.co/fast)*

That founder also shared a practical legal tip:

> *"Your lawyer will probably recommend using FAST for benchmarking only. Draft your own agreement with a fixed number of shares (not a percentage!) since percentages can get legally messy and confusing down the line."*

TIP FOR FOUNDERS

- Don't confuse expertise in investing with expertise in company building.
- Build a board that helps you grow, not just governs you.
- Use market equity benchmarks (FAST for advisors, Pave for employees)

Note: Market data moves fast. Always verify current benchmarks before equity conversations — even this handbook will become outdated. When in doubt, ask recent founders in your space what they're seeing, and check when the data has been refreshed (e.g., Pave has regular data refreshes while comparatively FAST does not).

DISTILLING STEREOTYPES: EAST VS. WEST COAST VC FUNDRAISING MODELS

We want to dive into a few stereotypes about raising money from East versus West

Coast VCs because this topic will often come up in whisper network conversations between founders and VCs. There's some truth in these stories but also remember that individual investors may not reflect their firm's stereotype, and many firms have evolved significantly in the past few years.

An East-West cultural divide

Five to ten years ago, there was a stronger geographical split between East and West Coast VC firms. Your investor's zip code often predicted how they thought about risk, control, and founder roles. This often had a more significant impact for health and science companies, which were more often funded by the East Coast, while software companies were more often funded by the West. That has softened, especially as software and AI are now embedded throughout all industries and the competition for high-growth companies has heated up. Let's dive into the history first.

East Coast VCs (Boston, New York) historically brought a pragmatic, finance-savvy approach. They emphasized business fundamentals like revenue, unit economics, and early traction. These firms were often more conservative (read: lower) with valuations, influenced heavily by biotech, fintech, and enterprise B2B investing cultures. They liked to diligence hard before writing checks. For founders, this meant more emphasis on go-to-market strategy and financial models even at seed stage, clearer proof points needed, and slower processes with multiple partner meetings.

Firms that historically and more stereotypically followed this approach included Battery Ventures (Boston), Bessemer Venture Partners (Boston/NY), and General Catalyst (Boston), which focused more on fintech and consumer tech, and more biotech-oriented firms like Flagship Pioneering, Third Rock Ventures, and Atlas Venture.

West Coast VCs (San Francisco, Menlo Park, Palo Alto) historically had an optimistic, "swing-for-the-fences" mentality. They were more tolerant of ambiguity and technical risk, preferring big, bold, potentially world-changing ideas. These investors were generally comfortable with pre-revenue or even pre-product companies and favored founder vision and storytelling over traction. For founders, this meant getting credit for ambition and narrative even without traction, pitches that leaned on the "dream," and term sheets that could come faster if the thesis resonated.

Firms that stereotypically followed this approach included Sequoia Capital, Andreessen Horowitz (a16z), Benchmark, Founders Fund. For the first few funds, these focused on consumer tech and SaaS, and more recently put attention on the "bio meets software" (e.g., synthetic biology, platform companies) angle.

HOW THESE MODELS IMPACTED HEALTH AND SCIENCE COMPANIES

These cultural differences created two approaches, especially for biotechs:

The East Coast *"Built by VC" Model*: Firms would ideate on companies internally and bring in scientists as co-founders or advisors. The founding scientist often wasn't

expected to be CEO. Instead, a professional CEO (often ex-Big Pharma) was inserted early, sometimes before the Series A even closed. The fund led the science and set key milestones. While this provided structure and expertise, founders sometimes experienced loss of control early on, less autonomy in shaping company direction, and perception of risk of becoming marginalized in their own company.

The West Coast *"Founder-Led" Model*: These firms showed comfort with founder-led science companies, even if the founder was a first-time CEO. There was an emphasis on storytelling, platform potential, and software-bio convergence, plus greater willingness to experiment with novel operating structures. However, founders could find themselves underprepared for regulatory complexities, facing high valuations that were hard to grow into, and getting less operational support when hitting walls.

HOW THE 'WEST COAST MODEL' WON

Empirically, the West Coast model became the default. Inspired likely by the Zuckerberg-Bezos-Page-Brin-Collison playbooks, founder-CEO became the expected path. Even traditionally East Coast firms started adopting more "founder-friendly" approaches. Also as deals became more competitive and valuations increased, diligence requirements often decreased along with less emphasis on operating metrics.

You can see this in how bicoastal firms like a16z, General Catalyst, and Lux Capital operate today: the majority of firms are much more stereotypically "West Coast" in their approach, even when writing checks from Boston or NY offices. Many of these firms became bicoastal precisely because they became more successful, raised bigger funds, and wanted to access more founders across geographies.

A VALUATION REALITY CHECK

But we've noticed that founders have recently started to open up about those hot rounds: high valuations can become golden handcuffs. When you raise at high multiples based on vision and potential rather than proven metrics, your next round needs to justify explosive growth. Miss those milestones? Welcome to down-round territory.

One founder we spoke with put it bluntly: "As a service company, I shouldn't be raising that much money with a huge valuation. I'm gonna have to pay that back ultimately, and the market isn't looking like it will support that high of a valuation for the next round."

A QUIET RECONSIDERATION

We've heard a quiet trend while interviewing: some science founders have been questioning whether being CEO is actually what they want. One said: "people often think the East Coast VC model for biotech marginalizes the founder, but I'm starting to swing the other direction. Is a scientist with no work experience actually equipped to run a biotech? I don't think I was personally. But I'm here now as CEO and I have to figure it out. We haven't grown as fast as I wish we could."

Depending on the context, there could be wisdom in having more experienced operators take the lead with commercial and business partnerships with pharma and biotech while you focus on the science, especially if you're right out of school with no deal experience. Maybe getting help from someone who has been there before and is able to move quickly commercially and operationally is better than struggling because you're spending time on sales and HR (which perhaps you hate) instead of R&D (your zone of genius).

Another reflected: "Had I known what I was going to go through, I would have hired a CEO immediately. I'd rather focus on the science rather than on fundraising and HR. At the time, I felt like I was not 'betting on myself' if I didn't take the CEO role, but I don't think that's true anymore."

Successful founders today are asking: What role lets me thrive? There's a middle path emerging where you can still maintain a big founder equity stake while bringing in operational and commercial expertise. Just because you can be CEO doesn't mean you should be (or have to be). And just because you aren't CEO doesn't mean you lose control of your board (more on this in Chapter 8).

Choose your investors (and your valuation) based on what kind of founder you want to be and what you think you can reasonably achieve, not what other people say you should want or pressure the company to the highest possible valuation, which could box out your business from future options (more on exit pathways in Chapter 14).

Chapter 9: Strategic, mission-aligned, and patient capital

In this chapter, we explore forms of equity capital that operate outside traditional venture structures. Some of these investors are motivated by strategic alignment, others by impact, and many offer longer time horizons than a typical VC or PE fund.

We will loosely use the categories of institutions (such as pharma companies and foundations) and individuals (such as angels or operator-investors) to help articulate the differences, though in practice, the lines often blur. A family office might behave like a foundation. A corporate VC might act more like a traditional fund. What matters most is how each capital source aligns with your goals as a founder.

We'll cover two broad types of funders:

- **Strategic institutional capital:** from pharma companies, health systems, CROs, or corporate venture funds
- **Independent mission-aligned capital:** from angels, family offices, emerging managers, and philanthropic investors

Both can be useful alternatives or complements to traditional VC or PE. They can help fund longer development timelines, unlock strategic relationships, or provide early validation in the market. But they also come with different expectations and risks.

STRATEGIC CAPITAL FROM INSTITUTIONS

Strategic capital refers to funding from organizations that are commercially or technically aligned with your work. This could be a pharmaceutical company like Merck or J&J that wants to co-develop a therapy, a health system like Kaiser that wants access to your diagnostic, or a CRO like IQVIA that sees potential in your platform. This kind of capital may come as a direct equity investment, a licensing agreement, a joint venture, or a hybrid structure.

Strategic investor conversations can take divergent paths. For Andy, co-author of this guide and founder of HumanFirst, initial conversations with ICON's partnerships team started around a research collaboration and peer-reviewed paper, and then turned into potential investment in the company's Series B, but ultimately led to them acquiring HumanFirst to build out ICON's outcome measures platform.

Strategic funding can be a powerful unlock. It can provide early validation, access to proprietary channels, or a fast path to commercialization. These partners may also bring credibility in a risk-averse sector, and they often care more about the long-term usefulness of your product than about quarterly growth metrics. For a founder trying to break into the biopharma or healthcare ecosystem, a single strategic relationship can open many doors.

But strategic capital also has real risks. These investors may want exclusivity, IP rights, or veto power over future deals. What looks like a helpful partnership today can later become a red flag if a competitor wants to acquire your business. A single strategic investor tied too closely to your platform may scare off their competitors.

> "We talked to several strategics but decided not to take their money. Instead, we used their interest to show traction and bring in more founder-aligned and traditional VC capital."
>
> — Founder of a Series A biotech company

This is a common approach. Some companies actively engage with strategic partners during fundraising, collect expressions of interest, and then use those conversations to raise institutional capital with better terms and more flexibility. This kind of strategic interest can be a powerful fundraising tool, even if you decide not to convert those partnerships into equity investments.

Strategic capital vs. corporate venture capital (CVC)

Many large health and science companies like J&J and Novartis operate both corporate venture arms and internal business development functions. These groups may be housed in different parts of the organization and operate under different mandates.

Understanding who you are talking to (and what their goals are) is essential.

Feature	Strategic capital	Corporate VC (CVC)
Where it lives	Business or R&D unit	Separate venture fund
Primary goal	Product or commercial fit	Financial return
Return expectations	Moderate	Competitive with VC norms
Deal structure	Equity, co-dev, licensing	Equity only
Risk profile	Narrower, focused bets	Broader, exploratory bets

TIP FOR FOUNDERS

If the capital is coming from a business unit, it may be slower but more deeply committed. If it is coming from a corporate VC, it may be faster and more flexible, but still subject to broader portfolio dynamics.

Dilutive investments from philanthropic organizations

Philanthropic funders can use special structures to act like more standard return-seeking investors. **Program-Related Investments (PRIs)** and **Mission-Related Investments (MRIs)** allow private foundations like the Gates or Ford Foundation to make equity or loan investments in companies aligned with their charitable mission. PRIs count toward a foundation's annual IRS distribution requirements and are expected to return at or below market rate, which makes them a flexible tool for foundations that want to support innovation without taking ownership of a company's direction. MRIs, by contrast, are made from a foundation's endowment and are expected to generate returns while still advancing the foundation's mission.

- **PRIs:** Most impact-focused, with extensive reporting requirements
- **MRIs:** Middle ground between impact and returns
- **Straight investment capital:** Traditional equity structure

If you're considering these structures, the investor should share their standard reporting template upfront so you can decide if the requirements align with your capacity.

MISSION-ALIGNED CAPITAL FROM INDEPENDENT INVESTORS

Not all impact-oriented capital comes from foundations. Increasingly, **angels**, **family offices**, and **'impact' investors** (often an **'emerging manager'**, someone who is raising or managing one of their first few funds, typically Fund I) are stepping in to fund science and health companies with a long view. These investors may be former founders, scientists, physicians, or operators. They often have a personal connection to the problem and are motivated by more than financial return.

Also of note, all these terms can be hot buttons. Fund managers may not want to call it concessionary, as it risks branding them as less rigorous or skilled investors, even though the return profiles of the companies they back may indeed be lower than other sectors like pure play software. The point is, you should ask who funds them and what they care about — and it can be hard to put some of these investors and their incentives in a box.

"If you're a founder raising from a fund in deep tech or science, it's helpful to understand who a fund's investors are, because it can indicate whether or not there's strong mutual fit," reflected Wes Panek at Astera Institute. "Most traditional LPs can't or won't understand this space, so if a fund has raised from them, they may compare your growth to software companies, which might push you in the wrong direction at the wrong pace. If a fund's LPs are more mission oriented, they may have atypically onerous reporting requirements on the impact of your work. This is why fit is everything."

What unites this group is that they are investing independently. They may write smaller checks than traditional VC firms, but they often bring deeper expertise or sector fluency. Their timelines can be more flexible. Their expectations for control and governance are often lighter (good for the founder!). And because they are not managing institutional funds, they may have more room to support infrastructure, open science, or other non-traditional business models.

These investors are often referred to as **'patient capital'** (which we first described in Chapter 7). They understand that healthcare and scientific breakthroughs take time. They may not expect you to raise every 12 months or to pursue unicorn outcomes. Instead, they may back you based on a clear thesis and a belief that the work deserves to exist.

> "Some of the best people on my cap table were smaller angels or emerging managers who cared deeply about my industry. They read all the investor updates and would get me connected to relevant customers or advisor relationships. They punched well above their check size."
>
> — Software founder focused on clinical trials

SIDE LETTERS AND INFORMATION RIGHTS FOR MISSION-ALIGNED CAPITAL

While we generally recommend avoiding side letters, there are common exceptions with corporate VCs, family offices, and any investment group with a prominent brand name. Name and likeness rights are typically reasonable when investors have public profiles or represent well-known entities.

As one mission-aligned investor explains: "We have a side letter that every founder signs. Given who we represent, it covers use of name and likeness, which is fair. But if a side letter has terms that dramatically increase reporting burdens or meeting requirements, that's worth pushing back on."

DON'T ASSUME "IMPACT" HAS TO MEAN CONCESSIONARY

Not all mission-aligned investors offer below-market terms. Many are returns-seeking while also tracking impact metrics. However, be wary of investors who use "impact" as justification for offering unfavorable terms without good reason. There's a difference between investors who understand that mission-driven companies may prioritize different metrics or timelines, versus those who simply expect concessionary terms because you're doing good in the world.

Sometimes impact can involve legitimate trade-offs — longer timelines, different exit paths, or prioritizing mission over maximum returns. But not every investor asking for concessionary terms is acting in good faith. Some can be exploitative, expecting discounts simply because you're mission-driven.

One founder shared anonymously: "An impact-focused investor offered me a low valuation and when I pushed back, they said 'Well, I'm an impact investor.' But they hadn't made any case for why my company was riskier or had different fundamentals. They just seemed to expect I'd accept worse terms because of my mission."

TIP FOR FOUNDERS

Make sure you're betting on yourself and checking for true alignment. If the terms feel exploitative rather than reflective of your actual business model, call it out.

FINAL THOUGHTS ON MISSION-ALIGNED CAPITAL

Strategic and mission-aligned capital offer an alternative to the typical VC treadmill. They can buy you time, open strategic doors, and bring in investors who are aligned with your goals. But they require careful structuring. Make sure you understand not only where the money comes from, but what expectations come with it.

Founders in healthcare and science are often asked to build in complex, regulated environments with long timelines and uncertain paths. Finding the right capital partners

(e.g. those who understand the terrain and believe in the mission) can be the difference between a good idea that never takes off and a world-changing company that gets built.

Chapter 10: Types of health science companies and their funding patterns

At a high-level there's a few types of science companies and they have different capital needs.

- **SaaS/software-forward:** Often bootstrapped, revenue-generating early, or seeded with VC
- **Asset-heavy biotech/platforms:** Typically require staged raises aligned to scientific milestones
- **Services businesses:** Usually bootstrapped or PE-backed; often not a VC fit
- **Data/IP licensors:** May monetize through licensing, royalties, or spinouts
- **Hybrids:** Combine elements above (e.g., software platform that generates internal drug assets)

Here's some considerations as you think about different company types:

Company type	Description	Typical funding sources	Key challenges	Common exit paths
SaaS / Software-forward	Lean, fast-cycle businesses with clear go-to-market paths; often revenue-generating early.	Bootstrapped, Seed VC, Early Revenue	Crowded markets, low switching costs	Acquisition by tech or healthtech companies, sometimes IPO
Therapeutics / Platform biotech	Asset-heavy models with long timelines and binary risk; milestone-driven development.	Venture Capital (staged rounds), Strategic/Pharma	High burn, long validation timelines	Acquisition by pharma, IPO if data is strong
Services	Cash-efficient businesses that provide services; often overlooked by VCs but profitable.	Bootstrapped, Private Equity, Strategic Partners	Not always scalable or VC-aligned	Acquisition by larger service firms or strategics
IP licensing / Data commercialization	Leverage proprietary data or IP for royalties or licensing; often undervalued by traditional VCs.	Licensing Deals, Royalties, Corporate Partnerships	Hard to value; misaligned with traditional VC timelines	Spinouts, royalty streams, asset sales
Hybrids	Combine multiple business types (e.g., SaaS + therapeutics); challenging to fund without a clear lead story.	Mixed; requires careful narrative for VC or hybrid capital	Hard to explain; investors may not know how to underwrite it	Depends on lead model; often eventual acquisition

TIP FOR FOUNDERS

- **Align your funding strategy with your business model.** Services, SaaS, and therapeutics all have different capital intensity and exit paths.
- **Avoid distorting your pitch to fit a funding narrative.** Don't describe your services business as a software product just to appeal to VCs.
- **If you're building a hybrid (e.g., biotech + SaaS), be thoughtful.** Only pitch both if you've validated them independently.
- **Know your primary buyer type and what they need to see.** Different funders (VCs, PE, strategics, grantmakers) have different diligence filters and return expectations.

Chapter 11: When venture capital isn't a fit

In Silicon Valley and beyond, venture capital is often treated as the default funding path. But for many healthcare and science companies, it's not the right fit, and in some cases, taking venture can steer a company into misalignment or failure.

Carolyn Witte, founding CEO of women's health platform, Tia, which has raised nearly $200M, and Leslie Schrock, managing editor at Second Opinion Media, outline 'a framework for fit' where they encourage founders to ask seven questions around topics like market size, growth potential, differentiation, timing and founder fit. If working through the questions leads you to think "yes, my company is venture-scale" then you can have more confidence in that path. However:

> If you're leaning toward no—or you're not sure yet... That's ok! That's not a red flag. It might mean you're building a great business that simply isn't a fit for the venture model right now (or maybe ever).
>
> — Carolyn Witte and Leslie Schrock

VC requires speed, scale, and a clear exit path. It can be a powerful accelerant, but only for companies built to grow in a specific way. If your idea is better suited to patient development, infrastructure building, public-good impact, or steady-state revenue, it's worth asking if VC is the wrong tool.
Venture may *not* be a good fit if:

- You need long timelines or regulatory validation before market traction
- You want to retain control or grow at a sustainable pace

- You're building infrastructure, open tools, or platforms for others (see FRO pathway in Chapter 6)
- Your goal is financial stability or impact and not a (literal) billion-dollar exit

Risks of "VC by default"

- **Loss of control:** Investors may steer toward bigger exits, even when they're not in your interest.
- **Governance friction:** Boards, liquidation preferences, and legal terms lock in growth assumptions.
- **Misaligned incentives:** VC funds need power-law returns. Most companies don't deliver them—and aren't meant to. And you're stuck in a decent, but not fast-enough growing company, where all the return will go to the investors and not to the team who has spent years building it (see: zombie company that is still running, but can't exit).

If you're going to raise venture, do it with open eyes. And if you're not, know that you're in good company. It's OK to walk away from VC if it doesn't fit. The path you choose should serve your mission, not someone else's portfolio strategy.

We'll talk about alternatives exit paths for founders who choose to raise either small amounts of VC or none at all in Chapter 14.

PART III: BLOCKING AND TACKLING YOUR ROUND

Chapter 12: Tools for building momentum during fundraising

TOOLS FOR BUILDING MOMENTUM

Creating and maintaining momentum is perhaps the most underappreciated skill in fundraising, especially for health and science founders with strong technical backgrounds but less experience in the dynamics of negotiation. Here are some key strategies to build and manage momentum.

ASK FOR ADVICE, GET MONEY — ASK FOR MONEY, GET ADVICE

The psychology behind this ask-for-advice (but not money) approach is powerful:

- When you lead with funding needs, investors can get skeptical
- When you seek advice, investors become collaborative partners
- Once investors have contributed intellectually, they become more invested emotionally

But here's the deeper psychology: investors are terrified of being the chump who said yes to a deal that everyone else already passed on. They don't want to explain to their partners why they backed a company that's been "shopped around" and rejected by peer firms. The best deals from an investor's perspective are ones they (seemingly) 'discovered', where they can preempt the round and look smart for finding hidden gems.

As the founder, you can manufacture this feeling of exclusivity, even if you desperately need funding. Reach out with a casual, relationship-building message like: "I'm thinking through [specific challenge] and would value your perspective. I'm not currently fundraising, but likely will in 2-3 months." This establishes you as thoughtful rather than desperately shopping your company, while giving them first access to an exclusive opportunity.

The timeline illusion is crucial. Even if you need money now, creating the perception of expansive time allows you to accelerate once you have that first term sheet from an investor who believes they 'preempted' you.

THE MEMO APPROACH

Instead of leading with a pitch deck (which signals you're actively fundraising), you could use a Word or Google Doc memo outlining your market thesis, approach, and vision. As one founder explained: "The memo should have all your thoughts about the market, company, and competition. It's everything you would have in the deck, but in prose. It can add extra credibility because it signals: 'I'm too busy building this company to make a polished McKinsey-level PowerPoint deck, but I've thoughtfully considered what's happening in my market and product'."

There's a hidden benefit: VCs have to write internal memos anyway when making investments, so you're doing their work for them. This positions you as seeking collaboration, not just capital. The best outcome? Finding a VC you like who edits your memo after meeting with you, creating investment engagement before you're 'officially raising'. When you later create your pitch deck, you can use their language — the same words they'll use to pitch you internally to their partnership.

From meeting to term sheet

The most effective approach combines these strategies:

1. Meet VCs without "fundraising", instead you're sharing your thinking
2. Collaborate on a memo that articulates your vision
3. Quietly secure a term sheet from one investor who's leaned into your collaboration
4. Create urgency with all the other investors who have been slower to collaborate: "I thought we'd raise in 6-9 months, but I just got a term sheet. I want to move fast now."

Once you have that first term sheet, the dynamics shift completely. The hardest part is always getting the first one.

THE HIERARCHY OF INTRODUCTIONS TO INVESTORS

Not all introductions are created equal, and the quality of your intro can make or break your fundraising process. "The person who makes the warm intro can have a big impact on how likely an investor is to schedule the pitch meeting quickly," explains Lisa Marrone from Pivotal Ventures. "Founders should be aware of this hierarchy."

Understanding and leveraging this hierarchy can dramatically improve your chances of getting meetings with the right investors — and ultimately, funding:

- **Tier 1 (Best): Successful founder from their portfolio.** The gold standard is a warm introduction from a founder they've backed who has been successful
- **Tier 2 (Strong): Any respected founder.** A warm intro from any founder they respect, whether in their portfolio or not
- **Tier 3 (Good): Existing investors in your round.** Investors who are already committed to your round and are making introductions

- **Tier 4 (Neutral): Downstream investors.** An investor who is structurally unable to invest in your current round (such as an earlier-stage investor or angel introducing you to a later-stage fund)
- **Tier 5 (Avoid): Investors who passed.** Never use an investor who could participate but has chosen not to. This creates very bad signaling. The exception is when funds are structurally restricted, like a seed-only fund introducing you for Series A

As Lisa explains: "I can't tell you the number of pitch meetings I have where at the end (after we've already passed), the founder asks, 'Can you think of other investors I should speak to?' Even if I could help, it's setting you up for failure."

TIP FOR FOUNDERS

If you don't have tier 1 or 2 introductions, focus on building relationships before you need them, or consider the "ask for advice" approach (building relationships by seeking input rather than money directly). But take all of this with a grain of salt, because sometimes the best intro can come from unexpected places — so be open to that too.

LEAD VS. FOLLOW-ON INVESTOR DYNAMICS

Understanding who leads your round versus who follows is crucial for managing timing and expectations.

- **Lead investors** set the terms, conduct primary due diligence, and often take board seats. They can move quickly because they're driving the process.
- **Follow-on investors** typically accept the lead's terms but may have their own requirements. Corporate VCs and mission-aligned investors often fall into this category, which is why they can take longer even after you have a lead.

What happens if you want someone in the round but don't have a lead yet? Most sophisticated follow-on investors prefer to wait for a lead to be secured, though some will commit conditionally. You might structure this as a first close (lead investor) and second close (follow-on investors) to accommodate different timelines.

DUE DILIGENCE EXPECTATIONS FOR EARLY STAGE INVESTMENTS

Due diligence (DD) is generally light in early stages (seed/Series A) and becomes more intensive later. Most angel investors don't conduct formal DD, relying instead on the lead investor.

However, as one angel investor learned the hard way: "I trusted a founder I knew well, but it turned out his co-founder had a wire fraud conviction that was easily discoverable online. A simple background check would have caught this. While most angels skip DD, some basic research is still important, especially if it's an all angel round with no lead."

Mission-aligned and corporate investors often conduct additional operational due diligence, including background checks, even on follow-on investments.

AN "ACCIDENTAL" POWER MOVE

Sometimes asking the right question can completely change the dynamic. One founder discovered this accidentally: "I asked an investor 'What's your smallest check size?' When I said this, they figured out my deal was going to be oversubscribed and I was cutting back allocation. They replied, 'We can't do our smallest check size. Here's a term sheet.' The question changed the entire dynamic of the meeting."

This worked because it signaled scarcity and demand — two powerful momentum builders.

MANAGING PRO RATA AND FOLLOW-ON SIGNALS

Pay attention to how often your potential investors actually follow on with their portfolio companies. Some prominent VCs invest in many seed companies but only follow on with 20% for Series A. If you're not in that 20%, it can create negative signaling for your next round.

Ask: "Of the companies you invested in at seed stage, what percentage did you invest in for Series A?" This helps you understand their true commitment level and potential signaling risks.

TIP FOR FOUNDERS

Consider whether taking money from investors who rarely follow on is worth the potential signaling risk, especially from well-known firms where a "pass" on your Series A could be particularly damaging.

EXTENSIONS AND BRIDGE ROUNDS

Even with strong momentum, you might need additional capital between planned rounds. How you position this matters tremendously.

Avoid these terms:

- "Seed extension" (signals you failed to hit milestones)
- "Bridge round" (suggests you're barely staying afloat)

Instead, position it as:

- "We're opening up a note for people to preempt the A"
- "Strategic capital ahead of Series A"
- "Additional capacity for accelerated growth"

"Never call it a seed extension, because that signals you are not able to get to the A," advised one founder. "What you can do is you can open up a note that will take away allocation in the A. You say, 'Hey, just for friends and family, opening a note so you can get in early.' And that's your seed extension/bridge to future institutional funding."

Chapter 13: Negotiation strategies during fundraising

Many health and science founders come from academic or clinical backgrounds where the norms of negotiation differ significantly from venture capital. These strategies can help bridge that gap.

THE VALUATION DANCE

Avoid leading with how much you're raising in early investor conversations. Naming a number too early can unintentionally anchor expectations around valuation. For example, if you say you're raising $10 million, many investors will quietly assume a $50M post-money valuation ($40M pre) because they'll do a quick rule-of-thumb calculation based on the typical 20% dilution per round (see the Carta data in Chapter 8 for dilution benchmarks by stage).

Instead, try a more flexible framing. One founder suggested this tip for an investor conversation:

> *"If I raise amount A (say $10M), I can accomplish milestone X. But if I raise amount B (say $12M), I can accomplish milestones X+Y. What do you think we should go for?"*

This invites a collaborative conversation with the investor and subtly conveys a valuation range. In this example, $10M on a 20% dilution implies a $50M post-money valuation, while $12M implies $60M post. But here's the trick: if you later decide you can achieve both X and Y with just $10M, you've effectively positioned yourself to raise less capital at a higher valuation without ever explicitly asking for it. A founder who successfully raised her Series A using this method reflected:

> *"I learned this 'A+B tactic' from one of my lawyers, and I had a few powerpoint slides of what $A and $B would be. All three VCs who gave us term sheets eventually picked B for the raise amount, and later on as my lawyer friend outlined, I was able to show them I could do X+Y with only raising $A. This helped me raise a smaller round and a higher, but reasonable, valuation — and thus less dilution."*

Investors are often happy to support a bigger raise because the top investors have what's called **dry powder**, which is capital that's already committed to their fund but not yet deployed into companies. They're incentivized 'to put that money to work', so suggesting a larger raise (which helps them) can help nudge the valuation up, even if you don't end up taking the full amount.

TIP FOR FOUNDERS

- If an investor asks you how much you're raising, remember you're also signaling a valuation (even if you don't realize this because of the 20% dilution rule of thumb)
- Always know if you're raising pre- or post- money when discussing valuations
    - If an investor says, "We're planning to value the company at $40M," and hasn't specified pre- or post-money, you can ask, "Oh, you mean pre-money, right?" This reframes their number more favorably for you, creating room for your raise on top (e.g., $10M on $40M pre means a $50M post).

PROMOTION VS. PREVENTION QUESTIONS

Science and healthcare founders often don't have training in negotiation, and gender can further disadvantage women in fundraising roles. Research from Harvard Business Review has shown that investors tend to ask men promotion-focused questions (centered on opportunity and upside), but are more likely to ask women prevention-focused questions (centered on risk and downside). This framing can significantly influence how a company is perceived and funded.

A **promotion** question might be:
"What could this turn into?"
This gives the founder space to paint a visionary picture.

A **prevention** question might be:
"Is this a niche company?"
This puts the founder on the defensive, requiring them to justify their ambition or market size.

VCs frame questions in two different ways

Promotional questions focus on potential gains, whereas prevention questions focus on potential losses. VCs tend to ask the former of men and the latter of women.

Topic	Promotion	Prevention
Customers	**Acquisition** Example question: "How do you want to acquire customer?"	**Retention** Example question: "How many daily and monthly active users do you have?"
Income statement	**Sales** "How do you plan to monetize this?"	**Margins** "How long will it take you to break even?"
Market	**Size** "Do you think that your target market is a growing one?"	**Share** "Is it a defensible business wherein other people can't come into the space to take share?"
Projections	**Growth** "What major milestones are you targeting for this year?"	**Stability** "How predictable are your future cash flows?"
Strategy	**Vision** "What's the brand vision?"	**Execution** "Are you planning to Turing test this?"
Management	**Entrepreneur** "Can you tell us a bit about yourself?"	**Team** "How much of this are you actually doing in-house?"

Source: Dana Kanze, Laura Huang, Mark A. Conley, and E. Tory Higgins for Harvard Business Review

One founder described handling a particularly dismissive moment during a partner meeting, when an investor asked if she was building a "lifestyle business", which is often used pejoratively to describe businesses that generate modest revenue without aiming for massive scale.

> "I was offended that he asked me this in front of the partnership. There's so many ways to respond. Should I be dismissive? Should I redirect? At the time I told him: "I worked at a major PE firm. Do you think I'd walk into a full-partner VC pitch not understanding the fundamentals of what I'm signing up for? No, this isn't a lifestyle business. Next question."

That clear redirection in part helped secure a $10M+ Series A term sheet. While not everyone will choose that tone, learning to recognize and reframe prevention questions is a critical skill.

REFRAMING: TURN PREVENTION INTO PROMOTION

The good news? You can reframe a prevention question into a promotion-style answer. In fact, a study in the *Academy of Management Journal* found that founders who reframed prevention questions this way were rated more highly than those who received promotion questions to begin with.

Some examples:

- If asked, *"How long will it take to break even?"* (prevention), reframe with: *"We're on track to break even in [time], and here's the revenue strategy driving that."*
- If asked, *"Is this a defensible business?"* (prevention), reframe with: *"Yes, and here's how we plan to grow market share in a fast-expanding category."*

By answering defensively framed questions with opportunity-driven responses, you can take control of the narrative and reinforce your vision, regardless of the question's intent. For more negotiation tips, check out Laura's book Edge: Turning Adversity into Advantage.

Chapter 14: Special considerations around exit paths and redefining success

In healthcare and sciences, not every win ends in a billion-dollar IPO. Viable exit paths include acquisition, licensing or royalty monetization, dual-use commercialization (e.g., public health and defense), and even early profit-taking through sustainable revenue. These options can offer meaningful outcomes for founders, especially when aligned with their own goals and risk tolerance. The key is recognizing that founder-fit matters: your version of success may look very different from what traditional VCs reward, and that's not just okay — it can be a strategic advantage.

GETTING OFF THE TREADMILL: WHAT SUCCESS CAN LOOK LIKE

Despite what prominent VCs might suggest, success takes many forms beyond the unicorn path. There are some other exit paths to keep in mind.

Define what "enough" looks like for you and your team. Not every win has to be a unicorn. You can get a life-changing outcome both financially and operationally without "swinging for the fences" — when we talked to founders we heard these stories repeatedly.

For most healthcare and life sciences companies, the path to success includes one of these scenarios:

1. **The Early Exit (2-3x Returns):** Many successful founders eventually realize their company isn't an ideal fit for the venture model. Co-author Rachel Katz realized early in her health tech business that it wasn't going to be a unicorn, but it could still be a good product. She stopped raising money after $2.6M, never raised a series A, and never had a board. Instead, she focused on revenue and sustainable growth. As a result, she was able to sell the company for $27 million, land the product in a long-term home within a larger platform, and earn solid returns for investors, management, and the team. This would not have been possible if she had raised more money. The takeaway? Venture is a tool for a specific type of business with a specific set of goals. If that's not what you're building, that's not a flaw. It's a design decision.

2. **Early Profitability Path:** Some healthcare companies focus on reaching profitability after seed funding, rather than raising successive venture rounds. This approach preserves control and can be particularly effective for companies with specialized products that target sustainable — rather than explosive — growth.

3. **The Strategic Partnership:** For many life sciences companies, strategic partnerships with larger pharmaceutical or healthcare companies can provide better outcomes than those obtained through venture funding. One founder leveraged her company's strategic value to secure an acquisition that benefited all stakeholders, even though it wasn't the "unicorn" outcome VCs typically seek.

TIP FOR FOUNDERS

As you start to learn about your company, look at the degree to which it fits in the venture world. You can benefit yourself and your early investors by taking a close look, and if you catch it at the right time, you can still have a good outcome even if you decide this isn't a unicorn company or that you don't want to take it there. There is absolutely no shame in that!

ALTERNATIVE PATHS ARE VALID (AND SUCCESSFUL)

Some companies raise early money and then opt out. Others bootstrap, grow with revenue, or fund R&D through grants or strategic partners. These paths rarely make headlines, but many founders we spoke with built profitable, mission-aligned businesses without ever raising a Series A.

TIP FOR FOUNDERS

- Define your "enough" and build toward it.
- Understand how your capital path affects your exit options.
- Stay open to paths that are right-sized, not just right-hyped.

PART IV: CONCLUSION

If you've made it this far, you already know this isn't your average fundraising guide. We didn't write this for a quick exit, a flashy PR round, or to make VCs feel comfortable. We wrote this for you, the founder who is building in the hardest, most meaningful parts of the world: health, science, and systems that matter to humanity.

You may be commercializing a diagnostic, scaling a software platform, exploring a new therapeutic modality, or building infrastructure that doesn't fit into any traditional category. Whatever it is, the core truth holds: your early decisions about entity, capital, and partners will shape the trajectory of everything that follows.

We built this guide to help you see that funding science isn't binary. It's not "raise or die." There are grants and strategic partners. There are patient angels and emerging managers. There are customers who pay, philanthropists who back bold visions, and new structures like FROs that exist precisely because the old system didn't work.

We wanted to give you tools, not rules. We've provided frameworks for investment terms and board structures. We hope you've also found advice on rethinking what success looks like, how to walk away from misaligned capital, and why "just build it" might not always be the smartest move.

We've also tried to name the pressure: the treadmill of venture, the performative traction metrics, the conversations where you're asked prevention questions instead of promotion questions. We've seen founders quietly contort their missions to fit capital that doesn't serve them. We hope this guide helps you do the opposite: to build what's needed, and find the right fuel to support that work.

Remember: *You started the company, you get to make your own playbook.*

Many successful founders that we talked with shared a consistent sentiment: the best capital is the one that aligns with your mission, your business model, and your timeline. Not just the one that's easiest to access.

You might need to raise $100M to make a difference or you might not. You definitely don't have to IPO to win. You'll need a structure and a capital stack that matches the problem you're trying to solve.

We stand on the shoulders of many who helped us get here. Now we're passing those lessons forward. Keep going. We're rooting for you.

— Rachel & Andy

Additional Resources

FUNDRAISING TOOLS AND LEGAL FRAMEWORKS

- **Y Combinator's SAFE Financing Documents**
  Templates and explanations for pre- and post-money SAFEs.
  www.ycombinator.com/documents

- **Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist**
  By Brad Feld and Jason Mendelson
  A definitive guide to term sheets, VC structures, and negotiation
  Available on Amazon

- **Holloway Guide to Raising Venture Capital**
  A comprehensive handbook with input from 60+ founders and investors. Covers pitching, term sheets, equity structures, and more.
  https://www.holloway.com/g/venture-capital/about

STRATEGY AND NEGOTIATION

- **"Should vs. Must" by Elle Luna**
  A creative framework for navigating career decisions and personal calling.
  Medium Essay

- **Never Split the Difference by Chris Voss**
  A former FBI negotiator offers practical negotiation strategies that apply to fundraising and beyond.
  Available on Amazon

- **Harvard Business Review: "Male and Female Entrepreneurs Get Asked Different Questions by VCs**
  "Important reading on how gendered questions influence fundraising outcomes.
  hbr.org/2017/06/male-and-female-entrepreneurs-get-asked-different-questions-by-vcs

ALTERNATIVE FUNDING MODELS AND INSTITUTIONAL INNOVATION

- **CTVC: The Sophisticating Climate Capital Stack**
  A helpful framework for understanding catalytic, blended, and mission-aligned capital (applies beyond climate)
  ctvc.co/the-sophisticating-climate-capital-stack

- **Overedge Catalog by Samuel Arbesman**
  A curated collection of emerging research institutions at the intersection of academia, tech startups, and philanthropy
  arbesman.net/overedge

- **Convergent Research Gap Map**
  An interactive tool for exploring R&D bottlenecks and mid-scale infrastructure needs in science
  gap-map.org

- **NIH SBIR/STTR Programs**
  sbir.nih.gov

- **NSF I-Corps**
  new.nsf.gov/funding/initiatives/i-corps

Acknowledgements

We extend our heartfelt gratitude to the many individuals who contributed to this work through their insights, feedback, and support. For their invaluable conversations and perspectives over the years, we thank **Elliot Cohen**, **Michael Esquivel**, **Lisa Marrone**, **Sumner Norman**, **Wes Panek**, **Brian C. Patterson**, **Will Patrick**, **Conor Russomanno**, **Zach Weinberg**, **Carolyn Witte** and many other founders who went 'on background' for their thoughtful engagement with our ideas over the years.

The editorial refinement of this work would not have been possible without **Christina Agapakis** and **Ramya Mahalingam**, whose careful attention to detail and clarity significantly enhanced the manuscript, and **Michela Caffrey** for skillful layout design.

The collective wisdom, expertise, and generosity of these individuals has profoundly shaped both this work and our thinking. Any shortcomings remain entirely our own.

Andy Coravos

Andrea (Andy) Coravos is the former CEO/Co-founder of HumanFirst, acquired by ICON plc (NASDAQ: ICLR) in 2024, where she led the development of the Atlas platform — the industry's most comprehensive intelligence system for AI-powered biomarkers and multi-modal technologies for clinical trials.

Her expertise spans across the technology, life sciences, and financial sectors. Andy previously served as Entrepreneur in Residence at the FDA's Digital Health Unit, shaping policies for software-as-a-medical device (SaMD) and AI/ML through the Pre-Cert program. Her career includes roles at McKinsey & Company and in private equity at KKR Capstone.

Andy has angel invested in 65+ companies, and following HumanFirst's transaction, she's been helping other founders navigate their M&A processes. Recently she's also been supporting the arts across documentary film, theatre, and graphic storytelling. She splits her time between Dublin, Ireland and Brooklyn, NY.

Rachel Katz

Rachel is the former Co-founder and CEO of Able Health, a healthcare technology company acquired by Health Catalyst (NASDAQ: HCAT) in 2020. At Able Health, she led the development and commercialization of a quality measurement platform that supports health systems in value-based care delivery. As SVP of Product Development at Health Catalyst, Rachel led the integration of Able Health into the Health Catalyst platform.

Rachel's current work focuses on advising startups and leading projects at the intersection of technology and care delivery. She previously held roles at McKinsey & Company and the World Economic Forum. Rachel was a Fulbright scholar in China, where she studied long distance trucking by hitchhiking over 6,000 miles with truck drivers.

A Brown University graduate, Rachel now lives in the best neighborhood in San Francisco–Bernal Heights. She is kept very busy by her two young kids.