

Equity and Convertible funding





ESN
EUROPEAN
STARTUP NETWORK

Equity and Convertibles notes

Agenda

- Equity round
- Convertible notes

Equity round

- Investor will get equity from your company
- It's a "priced round"
- Shareholder agreement
- Can be longer

Convertible note/loan

- At time of issuing, it's a debt
- Not in your capital
- No right of governance

When use convertible note

- Pre-seed
- Early seed
- Bridge funding

Main points for convertible note

- Valuation CAP/Floor (Post or Pre-money)
- Maturity and conversion conditions
- Discount
- Multiple (IRR) if early exit

Attention points of a convertible note

- Tax Shelter
- CAP on pre or post-money and how it converts
- CAP gives a valuation
- Discussions about “key” problems for later, good?

Goals of a convertible note

- Convert in equity
- Test an idea or bridge a gap
- Make a quick investment (shorter legal documents)

« Trick »

- Maturity valuation => 1,5X/2X higher than CAP

Equity rounds

Different types of shares

Different types of shares

- Common Shares
 - As percentage of ownership
- Non-participating
 - Investor wants his money back until post-money
- Participating
 - Investor wants his money back and then pro-rata

Different types of shares

- Cap non-participating
 - Investor wants his money back until post-money and until a certain amount
- Cap participating
 - Investor wants his money back and then pro-rata until a certain amount
- Both are normally used combined with shares without cap

Different types of shares

- Non-participating (X time or IRR)
 - Investor wants (x-time) his money back until post-money
- Cap participating (X time or IRR)
 - Investor wants (x-time) his money back and then pro-rata
- Multiple is really aggressive, IRR can but understandable but not ideal (x-time)

Different types of shares

- Carve-Out

- Pro-rata until certain percentage of exit (15-25%)
- Then participating

Convertibles

Different types of notes

Different types of convertibles

- Without Discount
 - Normal dilution for everybody, same valuation
- Discount on Post-Money
 - POST \Rightarrow 1,25M€
 - For note Holder \Rightarrow 25% discount on 1,25M€
 - $50 / (1,25\text{M€} * 0,75)$

Different types of convertibles

- Discounton Pre-Money

- Pre-Money => 750k€
- Conversion : $50\text{k€} / (750\text{k€} * 0,75)$
- AVOID THAT!

- CAP on Pre-Money

- CAP => 500k€
- Conversion : $50\text{k€} / 500\text{k€}$
- Note holder was a "co-founder" => extra dilution => $(50/500) * 0,6$

Different types of convertible (Dollar invested)

- Dollar invested without
 - Normal dilution for everybody, same valuation
- Dollar invested with discount
 - POST => 1,3M€ (Pre + note + Investment)
 - For note Holder => 25% discount on 1,3M€
 - $50 / (1,3M€ * 0,75)$

Different types of convertibles (Dollar invested)

- Dollar invested CAP
 - CAP => 1M€
 - Conversion : 50k€/1M€
 - No extra dilution
 - Post-Money : 1,3M€



Different types of convertibles (Percentage ownership)

- Percentage Ownership without dilution
 - Normal dilution
- Percentage ownership with discount
 - As with discount Post-Money
- Percentage ownership with CAP
 - CAP => 1M€
 - Conversion : 50k€/1M€
 - Post-Money : 1,25M€

Any Questions?

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