

# Adapted from a true story....

## STARTUP!

You founded a startup in 2015 and now want to **raise capital** in order to take the business to the next level.

## STAGE OF BUSINESS

You and your team have been working endless hours to take the company from milestone to milestone. You have been **generating revenue** and are expected to be profitable by 2017.



## AT MATURITY DATE

Series A **was not raised at maturity** because your company is now profitable enough. There is no further agreement for the valuation of the company without a subsequent round of founding.

## PROBLEM

Although you agree to buy back the investor's equity based on your own valuation, the investor believes that his equity is worth more.

## CONSEQUENCES

At this stage, the investor believes that the current value of the company is superior to what you claim.

This entails a greater profit gained from the sale of his company, meaning a higher value of that equity.

There is no agreed way of calculating the valuation of the company before hand, and no valuation cap.



## INITIAL INVESTMENT

An investor is interested in your venture and decides to invest **\$300K** using a **Convertible Note** with a 12-month **maturity date** and a 25% **discount rate**.

## TERM SHEET

Excited to raise money, you and the investor begin to establish the terms of investment.

The terms state that the note **converts to common equity** if **Series A was not raised** at maturity, but does not address the **value of equity** that it will convert into.

## DISPUTE

The investor wants out, and wants his money back. As there is no qualified financing round, the note converts into **common equity shares**. Consequently, the investor asks that you buy back the shares.

## THREAT

You decline, and the investor threatens legal action against you.



## ISSUE COULD'VE BEEN AVOIDED

With an agreed **valuation cap** beforehand.

## THIS COULD BE YOU!

The above could have easily happened to anyone. The need for legal documentation is not often apparent until the relationship falls apart.

