

Cap Table & Term Sheets Learning Session

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About

- Founded the first startup accelerator in Canada, Bootup Labs, back in 2007, led to Startup Visa
- Full Stack, a small seed fund for 2 years
- Open Angel, a Vancouver-centric angel group
- Common Docs at NACO
- Advisor, #ehlist member, supporter of Canadian founders & funders
- Currently: Co-founder of Fission, a dev tools company
<https://fission.codes>

SAAS FUNDING IN 2019

| | SEED | SERIES A | SERIES B |
|------------------|--|---|--|
| ARR | ~ \$0-0.2M | ~ \$1-1.5M | ~ \$3-5M |
| ARR GROWTH (y/y) | N/A IF PRE-REVENUE, OTHERWISE ~3x | ~ 3x | ~ 2.5x |
| VALUATION | ~ \$4-11M | ~ \$15-40M | ~ \$50-140M |
| ROUND SIZE | ~ \$1-4M | ~ \$5-14M | ~ \$15-40M |
| TEAM | <p>OUTSTANDING TEAM WITH STRONG PRODUCT SENSE</p> <p>STRONG DOMAIN EXPERTISE + UNIQUE INSIGHTS</p> <p>EXCELLENT FOUNDER/MARKET FIT</p> | <p>VISIONARY LEADERSHIP; CAN GET PEOPLE ON THEIR SIDE</p> <p>TEAM HAS STRONG REASON WHY THEY WILL WIN</p> | <p>CAN HANDLE 20x THE SIZE OF TODAY</p> <p>PROVEN ABILITY TO RECRUIT HIRED 1-2 EXCELLENT VPS</p> |
| PRODUCT/MARKET | <p>PRODUCT IS LOVED BY EARLY USERS</p> <p>STRONG ENGAGEMENT + STICKINESS</p> | <p>CLEAR EVIDENCE OF PMF (HIGH USAGE, LOW CHURN)</p> <p>STRONG CUSTOMER REFERENCES</p> <p>COMPELLING "WHY NOW"</p> <p>LARGE TAM</p> | <p>INCREASING EVIDENCE OF STRONG PRODUCT/MARKET FIT IN A HUGE MARKET</p> |

What does it take to raise capital, in SaaS, in 2019?
 — Christoph Janz, Point Nine Capital

Early Stage Funding

- **Pre-Seed: < \$500K**
 - SAFE (this stage doesn't really exist in Canada, maybe call it F&F)
- **Seed: > \$500K to \$2+ M**
 - SAFE, Convertible Note, Pref Shares CVCA docs
- **Series A: \$4M++**
 - Preferred Shares

What Investors Want

- Investment Deck
 - Team / Market / Solution (+ Proprietary Tech or Distribution)
- Use of Proceeds (aka Budget for 12 months)
 - Hiring plan, sales & marketing “hypotheses”
- User Model
 - Bottom up growth model
- Cap Table
 - Including scenario for next round

What is a cap table?

- Aka “capitalization table”
- Record of all the major shareholders of a company, percentage ownership, and what people paid for various shares over time
- Employee share options are documented here as well

Love your Cap Table

- Equity is like sh*t – keep it piled in one place and it stinks, spread it around and good things grow
 - Reward advisors, early employees
- Use your cap table to plan where you need to get to in terms of team, traction & timing
- 20% max dilution at each stage

I was told there would be no math...

- **\$300K Seed 1 Round (Common Equity)**
 - \$25K / month burn x 12 months (or 6 months at \$40K)
 - 25% dilution target == \$900K Pre / \$1.2M post
- **\$800K Seed 2 Round (Convertible Note)**
 - \$60K / month burn x 12 months
- **\$1.5M Series A (Pref Shares)**
 - \$120K / month burn x 12 months
 - 25% dilution target == 7.7M pre / \$9.2M post

Osler

- I've worked with Justin (and Mark) for a long time, across 2 or 3 different firms
- Shannon has been working with me at Fission for the past year

Raising from Friends and Family

- Getting even one investor that is not a friend or family can give you someone to negotiate with more fairly
- For small investments (and for employee shares), consider a voting trust

How do you pick cap for a SAFE?

- Rule of thumb: your cap is the FLOOR of what you want to raise your next round at
- E.g. if you want to raise \$2M in your next round, 20% dilution, then you would raise at a FLOOR of \$8M pre
- So: current SAFE would be \$8M post cap, 20% discount

Founder Questions

- **Safes, cap tables, corporate structure for investment in Canada vs international investors**

- **Considerations when raising minimum necessary for ~ 12 months runway for founders**
 - Pay founders. What do you need? \$60-75KCAD annual
 - Make a budget / use of proceeds and have investors work on it with you
 - ~\$40K/month burn comes together pretty quickly, \$500KCAD for 12 months

- Discuss pros/cons of stacking additional SAFE rounds rather than doing a priced round subsequent to a SAFE assuming the round is >\$1M and thus enough capital at risk and to pay for lawyers to negotiate what are typically pretty standard shareholder docs.

- **Term Sheets - how to balance company 'requirements' with investor requirements**

- The important and value of modelling out following rounds of investment as a guide to thinking and negotiating in the current round?
 - Yes! Your next round, and what milestones you need to hit to enable you to raise that round, and what your budget and timeline is to make that, are all something you need to consider

- **Post Money Valuation Caps - how best to set them.**

- How should an angel writing the first cheque to a startup think about?
- Any readily available sources on deal data for early-stage investments?

- I want to learn more about SAFE and how does a Cap Table look like when we raise based on SAFE ?
- Raised investment from Family and Friends in different entity earlier. Want to reflect same on the Cap Table of new entity (basis current valuation less discount %). How should we put it on the Cap Table when we go to VC now? What is the tax implication on us (and investor) if they are on the CCPS-Compulsory Convertible preference stock (or SAFE) basis?

- Specifically interested in post-money SAFE's as we're looking at doing a round with them and haven't used them before. Relative merits for Co/In if next round is convertible vs priced?

- **SAFEs and priced rounds, road to series Eh**

- **1. Differences between Canadian and American SAFEs.**
- **2. How to calculate dilution?**

- How to setup SAFEs?
- How to explain SAFEs to others (i.e. friends & families)?
- What should founders be most wary of?

- 1. A comparison of the 4 YC safes from both founder and investor perspective:
 - Safe: Valuation Cap, no Discount
 - Safe: Discount, no Valuation Cap
 - Safe: Valuation Cap and Discount
 - Safe: MFN, no Valuation Cap, no Discount
- 2. Do you know of a cap table simulator that I can use to do what-if analysis for multiple safes followed by priced round, for each of the above flavors and at different valuation and discounts?

- **What if a term sheet for a pre round insists on resetting reverse vesting for founders?**

Tools

- Captable.IO <https://captable.io>
 - Captable Convertible Note Demos <https://captable.io/company/8/convertible-notes>
- Founded <https://founded.co>
- Join us July 22nd for an interview with Founded, and demo of the platform

Cap Table Spreadsheets

- Simplified Company Formation
- Multiple round “Ed Levinson”
- Get the templates templates.venturescouts.ca

Venture Scouts

- There are no formal scout programs in Canada
 - Make a template, solve the legal issues
- Build the next generation of investors and founders – education, diversity & inclusion, geographic diversity
 - Founders investing in founders, learning more about investing that helps their own company, go on to make more angel investments
- Gathering interest, debating about a micro fund
 - \$2M = 200 \$10K investments, 50 scouts x 4 investments
 - Join the LinkedIn Group <http://linkedin.venturescouts.ca>

Thank you!
Boris Mann @bmann

Pre Money SAFE

- Late 2013 <https://www.ycombinator.com/documents>
- “Our first safe was a “pre-money” safe, because at the time of its introduction, startups were raising smaller amounts of money in advance of raising a priced round of financing (typically, a Series A Preferred Stock round). The safe was a simple and fast way to get that first money into the company, and the concept was that holders of safes were merely early investors in that future priced round.”

Post Money SAFE

- Sept 2018 <https://www.ycombinator.com/documents>
- “But early stage fundraising evolved in the years following the introduction of the original safe, and now startups are raising much larger amounts of money as a first “seed” round of financing. While safes are being used for these seed rounds, these rounds are really better considered as wholly separate financings, rather than “bridges” into later priced rounds.
- So our updated safes are “post-money” safes. By “post-money,” we mean that safe holder ownership is measured after (post) all the safe money is accounted for - which is its own round now - but still before (pre) the new money in the priced round that converts and dilutes the safes (usually the Series A, but sometimes Series Seed). The post-money safe has what we think is a huge advantage for both founders and investors - the ability to calculate immediately and precisely how much ownership of the company has been sold. It’s critically important for founders to understand how much dilution is caused by each safe they sell, just as it is fair for investors to know how much ownership of the company they have purchased.”

Liquidation Pref Example

- 50% of a company for \$5M, for \$10M post money
- Sells for \$20M
 - Pref shares get \$5M out
 - then 1x of \$5M (for \$10M)
 - Remaining is \$10M, of which pref shares get 50%, or \$5M (\$15M total)

How do I split equity with cofounders?

- <http://foundrs.com/> is an interesting tool to walk through
- **Also: Reverse vesting for founders**
 - Founders shares are granted immediately, reverse vesting clauses in the Shareholders Agreement describe how founders keep / give back those shares over time
 - vs. when your company is valued, you give out options, which are granted (vest) over time