



The Rising Tide Program

Introduction to Capitalization Tables

Marianne Hudson and Kevin Learned
August , 2016

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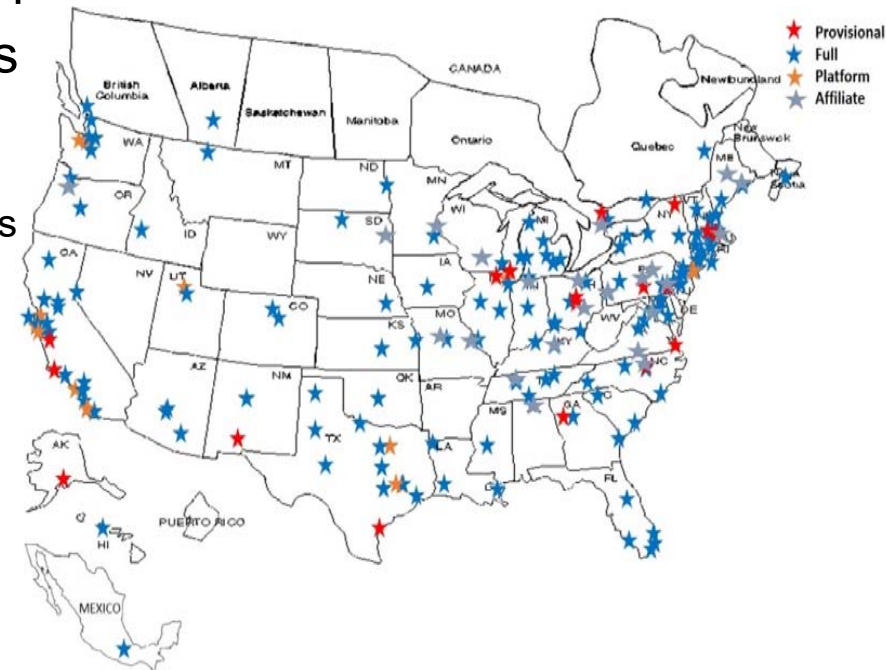


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Angel Capital Association

- Mission: Fuel the success of angel groups and accredited individuals active in in the early-stage landscape
- World's largest trade group for angel investors
 - 220+ angel groups
 - 13,000 accredited investors
 - Voice of accredited individuals, portals, and family offices
- 50 US states + Canada
- Research/ education partner



The Rising Tide Program

Rising Tide Education Program

Founding Members:



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Support by:



The Rising Tide Program



Library of Education for Angels

- Programs via www.angelcapitalassociation.org/new-angels
- 20 minute videos, 1-hour webinars, and related Forbes articles
- Stepping stones of angel investing:
 - Portfolio strategy
 - Term sheets
 - Valuation
 - Due diligence
 - Reading financial statements
 - And now understanding cap tables

OUR SPEAKER



KEVIN LEARNED

- Angel investor
- Co-founder of four angel funds and Boise Angel Alliance
- Board of Angel Capital Association
- Founding Director, Venture College at Boise State University
- Former CPA
- Entrepreneur and CEO
- Professor of Entrepreneurship
- Loon Creek Capital Group

Topics We'll Explore in This Video

- What is a capitalization table (cap table)?
- Simple cap table model illustration
 - Understand impact of valuation and future rounds on angels' investment
 - Project expected multiples upon exit
- The Excel file I'm using will be available to you to download along with instructions

What is a Cap Table?

- Lists the capital structure of a company
 - Current
 - Pro forma for the current round
 - Pro forma for future rounds
 - Pro forma exit
- It enables the investor to see the impact of
 - Valuation
 - Future rounds
- Allows the investor to project multiples upon exit.

Company

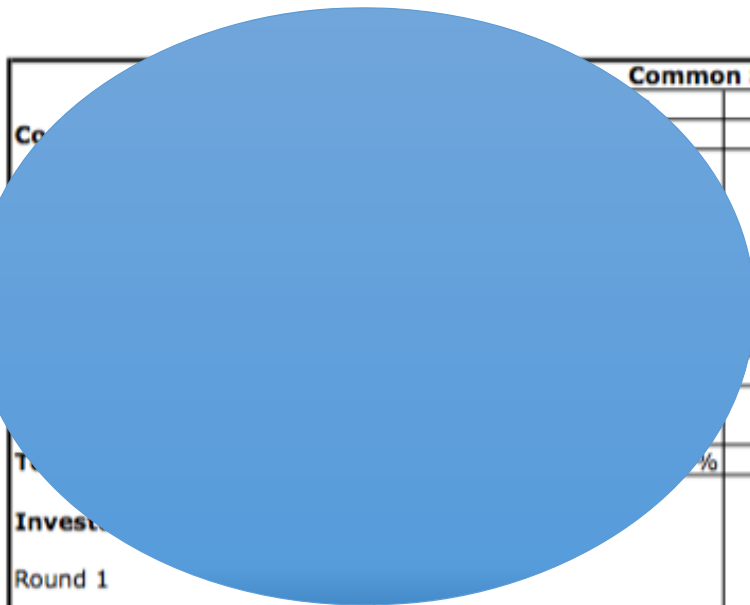
Common	Common Stock				Investor Rounds					
	Founders' Shares		Stock Options		Round 1			Round 2		
	Shares	%	Shares	%	\$	Shares	%	\$	Shares	%
<u>Founders</u>										
Founder 1	300,000	75.0%	300,000	60.0%		300,000	45.0%		300,000	33.8%
Founder 2	100,000	25.0%	100,000	20.0%		100,000	15.0%		100,000	11.3%
Total Founders	400,000	100.0%	400,000	80.0%		400,000	60.0%		400,000	45.0%
<u>Stock Options</u>										
			100,000	20.0%		100,000	15.0%		100,000	11.3%
Total Common	400,000	100.0%	500,000	100.0%		500,000	75.0%		500,000	56.3%
Investor Rounds										
<u>Round 1</u>					\$250,000	166,667	25.0%		166,667	18.8%
Total Round 1					\$250,000	166,667	25.0%		166,667	18.8%
<u>Round 2</u>								\$1,000,000	222,222	25.0%
Total Round 2								\$1,000,000	222,222	25.0%
Total Investor Rounds					\$250,000	166,667	25.0%	\$1,000,000	388,889	43.8%
Total	400,000	100.0%	500,000	100.0%	\$250,000	666,667	100.0%	\$1,000,000	888,889	100.0%
Pre-money Valuation					\$750,000	\$	1.50	\$3,000,000	\$	4.50
Post-money Valuation					\$1,000,000	\$	1.50	\$4,000,000	\$	4.50

When and Who?

- Entrepreneur's attorney will keep "official" cap table.
- I always prepare my own proforma table at the beginning of due diligence. Allows me to see and negotiate:
 - Impact of stock options
 - Impact of valuations
 - Impact of future raises
 - Project possible exit multiples on my investment
- If the table isn't satisfactory, no need to go further with due diligence

Company

Company	Common Stock		Investor Rounds							
	Stock Options		Round 1			Round 2				
	Shares	%	\$	Shares	%	\$	Shares	%		
	300,000	60.0%		300,000	45.0%		300,000	33.8%		
	100,000	20.0%		100,000	15.0%		100,000	11.3%		
	400,000	80.0%		400,000	60.0%		400,000	45.0%		
	100,000	20.0%		100,000	15.0%		100,000	11.3%		
	500,000	100.0%		500,000	75.0%		500,000	56.3%		
Investor										
Round 1			\$250,000	166,667	25.0%		166,667	18.8%		
<u>Total Round 1</u>			\$250,000	166,667	25.0%		166,667	18.8%		
Round 2						\$1,000,000	222,222	25.0%		
<u>Total Round 2</u>						\$1,000,000	222,222	25.0%		
Total Investor Rounds			\$250,000	166,667	25.0%	\$1,000,000	388,889	43.8%		
Total	400,000	100.0%	500,000	100.0%	\$250,000	666,667	100.0%	\$1,000,000	888,889	100.0%
Pre-money Valuation			\$750,000	\$	1.50	\$3,000,000	\$	4.50		
Post-money Valuation			\$1,000,000	\$	1.50	\$4,000,000	\$	4.50		

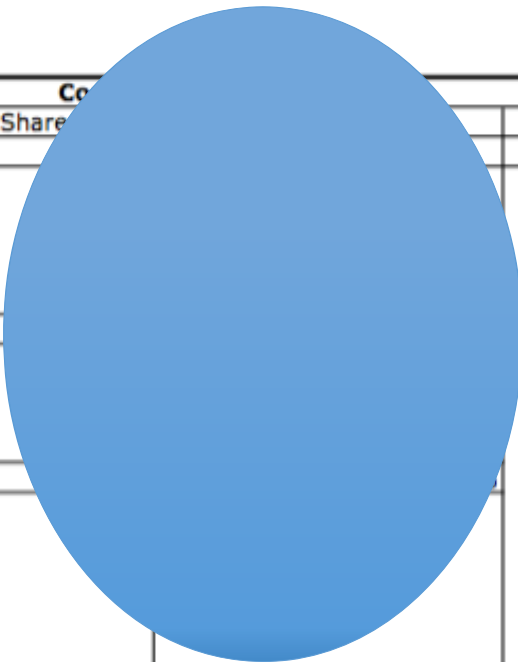


Step 1: List Common (Founders' Stock)

Common	Founders' Shares	
	Shares	%
<u>Founders</u>		
Founder 1	300,000	75.0%
Founder 2	100,000	25.0%
<u>Total Founders</u>	400,000	100.0%
<u>Stock Options</u>		
Total Common	400,000	100.0%

Company

	Company		Investor Rounds					
	Founders' Shares	Shares	Round 1	Round 1	Round 2	Round 2		
			\$	Shares	%	\$	Shares	%
Common								
<u>Founders</u>								
Founder 1	300,000			300,000	45.0%		300,000	33.8%
Founder 2	100,000			100,000	15.0%		100,000	11.3%
Total Founders	400,000			400,000	60.0%		400,000	45.0%
Stock Options				100,000	15.0%		100,000	11.3%
Total Common	400,000			500,000	75.0%		500,000	56.3%
Investor Rounds								
Round 1			\$250,000	166,667	25.0%		166,667	18.8%
Total Round 1			\$250,000	166,667	25.0%		166,667	18.8%
Round 2						\$1,000,000	222,222	25.0%
Total Round 2						\$1,000,000	222,222	25.0%
Total Investor Rounds			\$250,000	166,667	25.0%	\$1,000,000	388,889	43.8%
Total	400,000	100.0%	\$250,000	666,667	100.0%	\$1,000,000	888,889	100.0%
Pre-money Valuation			\$750,000	\$	1.50	\$3,000,000	\$	4.50
Post-money Valuation			\$1,000,000	\$	1.50	\$4,000,000	\$	4.50



Step 2: Provide for Options

Company					
Pro Forma Capitalization Table			Variables		
Prepared by Yourname					
Date			Stk Options	100,000	
			Common Stock		
			Founders' Shares		Stock Options
Common	Shares	%	Shares	%	
<u>Founders</u>					
Founder 1	300,000	75.0%	300,000	60.0%	
Founder 2	100,000	25.0%	100,000	20.0%	
Total Founders	400,000	100.0%	400,000	80.0%	
<u>Stock Options</u>					
			100,000	20.0%	
Total Common	400,000	100.0%	500,000	100.0%	

Common	Common Stock				Investor Rounds		
	Founders' Shares		Stock Options		\$	Round 2	
	Shares	%	Shares	%		Shares	%
Founders							
Founder 1	300,000	75.0%	300,000	60.0%		300,000	33.8%
Founder 2	100,000	25.0%	100,000	20.0%		100,000	11.3%
Total Founders	400,000	100.0%	400,000	80.0%		400,000	45.0%
Stock Options			100,000	20.0%		100,000	11.3%
Total Common	400,000	100.0%	500,000	100.0%		500,000	56.3%
Investor Rounds							
Round 1						166,667	18.8%
Total Round 1						166,667	18.8%
Round 2					\$1,000,000	222,222	25.0%
Total Round 2					\$1,000,000	222,222	25.0%
Total Investor Rounds					\$1,000,000	388,889	43.8%
Total	400,000	100.0%	500,000	100.0%	\$1,000,000	888,889	100.0%
Pre-money Valuation					\$3,000,000	\$	4.50
Post-money Valuation					\$4,000,000	\$	4.50

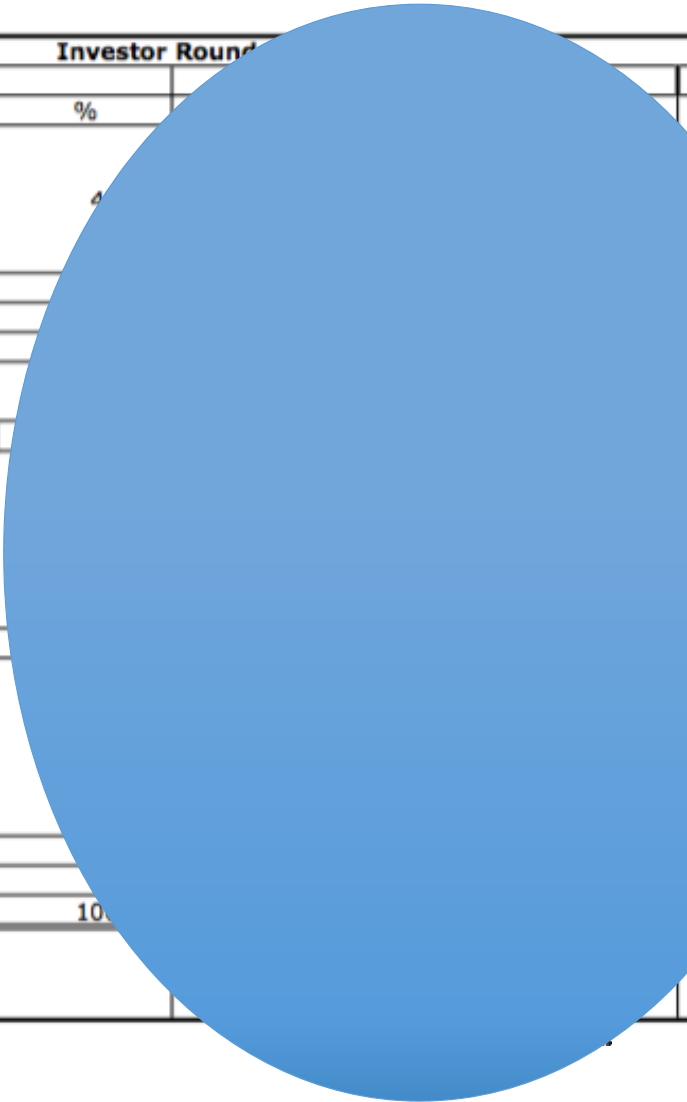
Step 3: Enter Current Investor Round

Company							
Pro Forma Capitalization Table				Variables			
Prepared by Yourname				Stk Options	100,000	Round 1 Premoney Valuation	\$750,000
Date						Round 1 Raise	\$250,000
		Common Stock		Investor Rounds			
Common	Founders' Shares		Stock Options		Round 1		
	Shares	%	Shares	%	\$	Shares	%
Founders							
Founder 1	300,000	75.0%	300,000	60.0%		300,000	45.0%
Founder 2	100,000	25.0%	100,000	20.0%		100,000	15.0%
Total Founders	400,000	100.0%	400,000	80.0%		400,000	60.0%
Stock Options			100,000	20.0%		100,000	15.0%
Total Common	400,000	100.0%	500,000	100.0%		500,000	75.0%
Investor Rounds							
Round 1					\$250,000	166,667	25.0%
Total Round 1					\$250,000	166,667	25.0%
Round 2							
Total Round 2							
Total Investor Rounds					\$250,000	166,667	25.0%
Total	400,000	100.0%	500,000	100.0%	\$250,000	666,667	100.0%
Pre-money Valuation					\$750,000	\$	1.50
Post-money Valuation					\$1,000,000	\$	1.50

Company

	Common Stock				Investor Rounds		
	Founders' Shares		Stock Options			Round 1	
	Shares	%	Shares	%	\$	Shares	%
Common							
<u>Founders</u>							
Founder 1	300,000	75.0%	300,000	60.0%		300,000	40.0%
Founder 2	100,000	25.0%	100,000	20.0%		100,000	13.3%
Total Founders	400,000	100.0%	400,000	80.0%		400,000	53.3%
<u>Stock Options</u>							
			100,000	20.0%		100,000	13.3%
Total Common	400,000	100.0%	500,000	100.0%		500,000	66.7%
Investor Rounds							
Round 1					\$250,000	166,667	22.2%
Total Round 1					\$250,000	166,667	22.2%
Round 2							
Total Round 2							
Total Investor Rounds					\$250,000	166,667	22.2%
Total	400,000	100.0%	500,000	100.0%	\$250,000	666,667	100.0%
Pre-money Valuation					\$750,000	\$	1.50
Post-money Valuation					\$1,000,000	\$	1.50

THE FOUNDER'S FIRST PROGRAM



Step 4: Enter Expected Second Round

Company				Variables							
Pro Forma Capitalization Table											
Prepared by Yourname				Stk Options		Round 1 Premoney Valuation		Round 2 Premoney valuation			
Date				100,000		\$750,000		\$3,000,000			
				Round 1 Raise		\$250,000		Round 2 Raise			
								\$1,000,000			
				Common Stock				Investor Rounds			
		Founders' Shares		Stock Options		Round 1		Round 2			
Common		Shares	%	Shares	%	\$	Shares	%	\$	Shares	%
Founders											
Founder 1		300,000	75.0%	300,000	60.0%		300,000	45.0%		300,000	33.8%
Founder 2		100,000	25.0%	100,000	20.0%		100,000	15.0%		100,000	11.3%
Total Founders		400,000	100.0%	400,000	80.0%		400,000	60.0%		400,000	45.0%
Stock Options				100,000	20.0%		100,000	15.0%		100,000	11.3%
Total Common		400,000	100.0%	500,000	100.0%		500,000	75.0%		500,000	56.3%
Investor Rounds											
Round 1						\$250,000	166,667	25.0%		166,667	18.8%
Total Round 1						\$250,000	166,667	25.0%		166,667	18.8%
Round 2									\$1,000,000	222,222	25.0%
Total Round 2									\$1,000,000	222,222	25.0%
Total Investor Rounds						\$250,000	166,667	25.0%	\$1,000,000	388,889	43.8%
Total		400,000	100.0%	500,000	100.0%	\$250,000	666,667	100.0%	\$1,000,000	888,889	100.0%
Pre-money Valuation						\$750,000	\$ 1.50		\$3,000,000	\$ 4.50	
Post-money Valuation						\$1,000,000	\$ 1.50		\$4,000,000	\$ 4.50	

Company
 Pro Forma Capitalization Table
 Prepared by Yourname
 Date

		Variables			
		Round 1 Premoney Valuation	\$750,000	Round 2 Premoney valuation	\$3,000,000
Stk Options	100,000	Round 1 Raise	\$250,000	Round 2 Raise	\$1,000,000

Common	Common Stock				Investor Rounds					
	Founders' Shares		Stock Options		Round 1			Round 2		
	Shares	%	Shares	%	\$	Shares	%	\$	Shares	%
Founders										
Founder 1	300,000	75.0%	300,000	60.0%		300,000	45.0%		300,000	33.3%
Founder 2	100,000	25.0%	100,000	20.0%		100,000	15.0%		100,000	11.1%
Total Founders	400,000	100.0%	400,000	80.0%		400,000	60.0%		400,000	44.4%
Stock Options			100,000	20.0%		100,000	15.0%		100,000	11.1%
Total Common	400,000	100.0%	500,000	100.0%		500,000	75.0%		500,000	55.5%
Investor Rounds										
Round 1					\$250,000	166,667	25.0%		166,667	18.5%
Total Round 1					\$250,000	166,667	25.0%		166,667	18.5%
Round 2								\$1,000,000	222,222	25.0%
Total Round 2								\$1,000,000	222,222	25.0%
Total Investor Rounds					\$250,000	166,667	25.0%	\$1,000,000	388,889	43.8%
Total	400,000	100.0%	500,000	100.0%	\$250,000	666,667	100.0%	\$1,000,000	888,889	100.0%
Pre-money Valuation					\$750,000	\$ 1.50		\$3,000,000	\$ 4.50	
Post-money Valuation					\$1,000,000	\$ 1.50		\$4,000,000	\$ 4.50	

Step 5: Enter Expected Exit Value

Company		Variables											
Pro Forma Capitalization Table													
Prepared by Yourname													
Date		Stk Options	100,000	Round 1 Premoney Valuation	\$750,000	Round 2 Premoney valuation	\$3,000,000	Exit Value	\$20,000,000				
				Round 1 Raise	\$250,000	Round 2 Raise	\$1,000,000						
		Common Stock				Investor Rounds					Exit		
		Founders' Shares		Stock Options		Round 1			Round 2		\$20,000,000 Multiple		
Common		Shares	%	Shares	%	\$	Shares	%	\$	Shares	%		
Founders													
Founder 1		300,000	75.0%	300,000	60.0%		300,000	45.0%		300,000	33.8%	\$6,750,000	
Founder 2		100,000	25.0%	100,000	20.0%		100,000	15.0%		100,000	11.3%	\$2,250,000	
Total Founders		400,000	100.0%	400,000	80.0%		400,000	60.0%		400,000	45.0%	\$9,000,000	
Stock Options				100,000	20.0%		100,000	15.0%		100,000	11.3%	\$2,250,000	
Total Common		400,000	100.0%	500,000	100.0%		500,000	75.0%		500,000	56.3%	\$11,250,000	
Investor Rounds													
Round 1						\$250,000	166,667	25.0%		166,667	18.8%	\$3,750,000	
Total Round 1						\$250,000	166,667	25.0%		166,667	18.8%	\$3,750,000	15.0
Round 2									\$1,000,000	222,222	25.0%	\$5,000,000	
Total Round 2									\$1,000,000	222,222	25.0%	\$5,000,000	5.0
Total Investor Rounds						\$250,000	166,667	25.0%	\$1,000,000	388,889	43.8%	\$8,750,000	
Total		400,000	100.0%	500,000	100.0%	\$250,000	666,667	100.0%	\$1,000,000	888,889	100.0%	\$20,000,000	
Pre-money Valuation						\$750,000	\$	1.50	\$3,000,000	\$	4.50		
Post-money Valuation						\$1,000,000	\$	1.50	\$4,000,000	\$	4.50		

Interpreting the Model: If...

- 1. 400,000 shares of common stock.
- 2. 100,000 share stock option pool.
- 3. First round is
 - Raise \$250,000
 - Pre-money \$750,000
- 4. Second round is
 - Raise \$1,000,000
 - Pre-money \$3,000,000
- 5. Exit \$20,000,000 net.

Interpreting the Model: Then...

- First round of \$250,000
 - Receives \$3,750,000
 - 15X
- Second round of \$1,000,000
 - Receives \$5,000,000
 - 5X

If you would like a copy of the Excel spreadsheet

Email kevin@looncreekcapital.com

I'll be happy to send you a copy of the Excel file and a short memo on how to use the file

Learn More About Cap Tables

- ACA Webinar on September 14, 2016 – Noon to 1:00 pm Eastern
- **The Basics of Cap Tables**
- Instructor: Trevor Chaplick, Greenberg Traurig
- Free registration via www.angelcapitalassociation.org/webinars
- On live program, you can ask questions
- Also archived for future viewing

