Overview

A capitalization table ("cap table") lists the capital structure of a company, but current and pro forma for the current round of investment capital. It enables the investor to see the impact of both valuation and future rounds on his/her investment, and allows the investor to project expected multiples upon exit.

The cap table consists of a series of columns with new columns added for each round of investment. The shares issued in previous rounds carry forward in their same amounts, but their percentage interest changes as new shares are issued.

The cap table can get quite complicated as additional rounds of investment, convertible notes, warrants and other instruments are contemplated. The company or its counsel will maintain the official cap table. But angels often build their own pro forma cap table as part of the due diligence process.

Model Overview

The attached spreadsheet is a simple cap table model designed to allow the angel to quickly assess the cap structure of the company. It is divided into three sections:

- **Common stock**: Typically this lists founders’ shares, other common shares issued (typically to family and friends), and a provision for stock options.

- **Investor rounds**: The simple table provides for two investor rounds at two different valuations.

- **Exit**: this allows the angel to estimate the multiple he or she might receive under the proposed capitalization structure, given a hypothetical exit value.

Model Variables

The model has a variables section at its top. Each variable is color coded to the cell where the variable appears in the model.

- **Founders’ shares** and other common stock. Because this is typically known by the time the company is seeking outside investors, you list the common shareholders by name in column A and their shareholdings in column B. At this stage the common shareholders will own 100% of the company.
• **Stock option provision.** Most angels require there be a provision for stock options in place before they value the company and make their investment. Enter the number of shares to be allocated to the stock option pool in the variables section. Once this is entered the model will compute the revised percentage ownership between the common shareholder and the stock option pool.

• **Round 1 offering.** This is typically proforma and is based upon the valuation agreed upon by the company and the Round 1 investors. The angel may use this section to forecast the impact of different valuations. Enter the agreed upon pre-money valuation and the total contemplated raise are entered as variables. The model will compute the price per share of this round based upon the pre-money valuation and the previous shares issued. The percentage interests of the common shareholders and option holders will drop to account for the dilution caused by round one.

• **Round 2 offering.** This is hypothetical and allows the angel to estimate the amount of the next round and the expected pre-money valuation. These amounts are entered as variables. The model will compute the price per share of this round based upon the pre-money valuation and the previous shares issued. The percentage interests of the common shareholders, option holders and Round one shareholders will drop to account for the dilution caused by round two.

• **Exit Value.** This is hypothetical and allows the angel to estimate the return on investment expressed as a multiple of that investment for both Round one and Round two.

**Discussion**

In the attached model, assuming:

1. 400,000 shares of common stock are issued.
2. The stock option pool is 100,000 shares.
3. The first investor round is a raise of $250,000 on a pre-money valuation of $750,000
4. The second investor round is a raise of $1,000,000 on a pre-money valuation of $3,000,000
5. And the company is sold for $20,000,000 net of all expenses.

Then

1. The Round one investors will receive $3,750,000 or 15 times their investment of $250,000.
2. The Round two investors will receive $5,000,000 or 5 times their investment of $1,000,000

3. The common shareholders will receive $11,250,000