

The Rising Tide Program

Introduction to Capitalization Tables

Marianne Hudson and Kevin Learned August, 2016

Support by:

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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







Rising Tide Education Program

Founding Members:





Education Partners:





Support by:

KAUFFMAN
The Foundation of Entrepreneurship



Library of Education for Angels

- Programs via <u>www.angelcapitalassociation.org/new-angels</u>
- 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

					Comp	July				
		Commo					Investor	Rounds		
l -	Founders' S	hares	Stock Opt	tions		Round 1			Round 2	
Common	Shares	%	Shares	%	\$	Shares	%	\$	Shares	%
.1										
Founders	1	J	1	,	1		ļ			
Founder 1	300,000	75.0%	300,000	60.0%	1	300,000	45.0%	1	300,000	33.8%
Founder 2	100,000	25.0%	100,000	20.0%		100,000	15.0%	1	100,000	11.3%
					1					
Total Founders	400,000	100.0%	400,000	80.0%	I I	400,000	60.0%	1 [400,000	45.0%
								1		
Stock Options	1	Г	100,000	20.0%	1	100,000	15.0%	1	100,000	11.3%
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Total Common	400,000	100.0%	500,000	100.0%	1 [500,000	75.0%		500,000	56.3%
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Investor Rounds	1	J	1	,	1					
	1	J	1	,	1					
Round 1	1	J	1	,	\$250,000	166,667	25.0%	1	166,667	18.8%
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Total Round 1	1	J	1	,	\$250,000	166,667	25.0%	1 .	166,667	18.8%
	1	J	1	,				1		
Round 2	1	J	1	,	1		ļ	\$1,000,000	222,222	25.0%
	1	J	1	,	1					
.]	1	J	1	,	1					
Total Round 2	1	J	1	,	1			\$1,000,000	222,222	25.0%
	1	J	1	,						
Total Investor Rounds	1	J	1	,	\$250,000	166,667	25.0%	\$1,000,000	388,889	43.8%
, 	L									
Total	400,000	100.0%	500,000	100.0%	\$250,000	666,667	100.0%	\$1,000,000	888,889	100.0%
.1										
Pre-money Valuation					\$750,000	\$ 1.50		\$3,000,000	\$ 4.50	
Post-money Valuation					\$1,000,000			\$4,000,000		
		-								

THE TABLES HERE

ANGEL CAPITAL ASSOCIATION

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



					Come					
		Commor	Stock		Comp	pany	Investor	Rounds		
		Commo	Stock Opt	ions		Round 1	111703101	Rounds	Round 2	
Co			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%
			100,000	20.070		100,000	15.0%	-	100,000	11.5%
		1			_			_		
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•										
Invest										
Round 1					\$250,000	166,667	25.0%		166,667	18.8%
Total Bound 1				-	#350,000	166 667	35.00/	-	166 667	18.8%
Total Round 1				ŀ	\$250,000	166,667	25.0%	-	166,667	18.8%
Round 2								\$1,000,000	222,222	25.0%
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Total Round 2							ŀ	\$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%
L										
Pre-money Valuation					\$750,000			\$3,000,000	\$ 4.50	
Post-money Valuation	IIWV I IVW				\$1,000,000	\$ 1.50		\$4,000,000	\$ 4.50	4555545554

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ANGEL CAPITAL ASSOCIATION

Step 1: List Common (Founders' Stock)

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



					Comp	pany				
		Co					Investor	Rounds		
I.	Founders' S	Share				Round 1			Round 2	
Common	Shares	_		4	\$\$	Shares	%	\$	Shares	%
Founders Founder 1 Founder 2	300,000 100,000					300,000 100,000	45.0% 15.0%		300,000 100,000	33.8% 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			4	[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 Post-money Valuation					\$750,000 \$1,000,000			\$3,000,000 \$4,000,000	\$ 4.50 \$ 4.50	

The Rising True Program

ANCEL CARREL APPOINTMENT

Step 2: Provide for Options

Company				
Pro Forma Capit	alization Tal	ole	Varia	ables
Prepared by You	ırname			
Date			Stk Options	100,000
		Commo	n Stock	
	Founders	s' Shares	Stock C	ptions
Common	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%
Stock Options			100,000	20.0%
Total Common	400,000	100.0%	500,000	100.0%



		Commo				Investor	Rounds		
1	Founders' S		Stock Opt					Round 2	
Common	Shares	%	Shares	%			\$	Shares	%
.]					·				
Founders	(J	I						
Founder 1	300,000	75.0%	300,000	60.0		6		300,000	33.8%
Founder 2	100,000	25.0%	100,000	20.				100,000	11.3%
							1		
Total Founders	400,000	100.0%	400,000	8/			<u> </u>	400,000	45.0%
Stock Options	(ſ	100,000					100,000	11.3%
	(ľ					_		
	(J	I						
Total Common	400,000	100.0%	500,000				-	500,000	56.3%
							_		
Investor Rounds	(J	I						
	(J	I						
Round 1		J	I					166,667	18.8%
		J	I						
.]		J	I						
Total Round 1		J	I				-	166,667	18.8%
12121112112		J	I				-		
Round 2		J	I				\$1,000,000	222,222	25.0%
1100110		J	I				42,000,000		
		J	I						
Total Round 2		J	I				\$1,000,000	222,222	25.0%
TOTAL NOTING E	(J	I				\$1,000,000	ELLILLE	
Total Investor Rounds		J	I			<i>/</i> 6	\$1,000,000	388,889	43.8%
Total Antostor Rounce		J	I			<u> </u>	\$1,000,000	500,005	4510.0
Total	400,000	100.0%	500,000	100.0%		7.0%	\$1,000,000	888,889	100.0%
1000	400,000	100.075	500,000	100.075		7.0 /5.	\$1,000,000	000,000	100.0.0
Bro maney Valuation	1	1	T.	1			±3 000 000	4 50	
Pre-money Valuation				,	1 44		\$3,000,000	\$ 4.50	
Post-money Valuation					\$1,0		\$4,000,000	\$ 4.50	
1110 1 (101119)	11401109	,, 4,,,,						ANGEL CAPITAL /	ASSOCIATION

Step 3: Enter Current Investor Round

Company							
Pro Forma Capitalization	Table				Variables		
Prepared by Yourname					Round 1 Prem		\$750,000
Date			Stk Options	100,000	Round 1 Raise	e <u> </u>	\$250,000
		Commo	on Stock		In	vestor Round	ls
	Founders'	Shares	Stock O	otions		Round 1	
Common	Shares	%	Shares	%	\$	Shares	%
<u>Founders</u>							
Founder 1	300,000	75.0%		60.0%		300,000	45.0%
Founder 2	100,000	25.0%	100,000	20.0%		100,000	15.0%
<u>Total Founders</u>	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	



Com	nanv
COIII	Pany

					COIII	Jany		
		Commo					Investor Ro	und
	Founders' S		Stock Opt			Round 1		
Common	Shares	%	Shares	%	\$	Shares	%	
Founders								
Founder 1	300,000	75.0%	300,000	60.0%		300,000	9	
Founder 2	100,000	25.0%	100,000	20.0%		100,000		
Total Foundary	400.000	100.00/	400 000	90.004	1	400.000		
Total Founders	400,000	100.0%	400,000	80.0%	ı	400,000	- /	
Stock Options		ŀ	100,000	20.0%		100,000	- /	
Stock Options		1	100,000	20.076		100,000		
Total Common	400,000	100.0%	500,000	100.0%	1	500,000		
					,			
Investor Rounds								
Round 1					\$250,000	166,667		
Total Bound 4					+350,000	166.667		
Total Round 1					\$250,000	166,667		
Round 2								
Rodild 2								
Total Round 2								
Total Investor Rounds				1	\$250,000	166,667		
Total	400,000	100.0%	500,000	100.0%	\$250,000	666,667	10	
Pre-money Valuation					\$750,000			
Post-money Valuation					\$1,000,000	\$ 1.50		
1110 1 (101119								

Step 4: Enter Expected Second Round

Company										
Pro Forma Capitalization	Table					Varia				
Prepared by Yourname					Round 1 Prem					
Date			Stk Options	100,000	Round 1 Raise	9	\$250,000	Round 2 Rais	e	\$1,000,000
		Commo	on Stock				Investor	Rounds		
	Founders'	Shares	Stock Or	otions		Round 1			Round 2	
Common	Shares	%	Shares	%	\$	Shares	%	\$	Shares	%
<u>Founders</u>										
Founder 1	300,000	75.0%	300,000	60.0%		300,000	45.0%	S	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			\$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

	1998 star to 197	Var	iables	11 10 00 00 00 00 00
	Round 1 Premoney Valuation	\$750,000	Round 2 Premoney valuate	\$3,000,000 E
Stk Options	100,000 Round 1 Raise	\$250,000	Round 2 Raise	\$1,000,000

000

	2	Common	Stock				Investor	Rounds		
	Founders' S	hares	Stock Opt	tions		Round 1			Round 2	
Common	Shares	%	Shares	%	\$	Shares	%	\$	Shares	%
Founders	100000000000000000000000000000000000000	1.000		F10000 1000					GET HEET	
Founder 1	300,000	75.0%	300,000	60.0%		300,000	45.0%		300,000	33
Founder 2	100,000	25.0%	100,000	20.0%		100,000	15.0%		100,000	1
Total Founders	400,000	100.0%	400,000	80.0%		400,000	60.0%	[400,000	4
Stock Options		F	100,000	20.0%	=	100,000	15.0%		100,000	-
Total Common	400,000	100.0%	500,000	100.0%		500,000	75.0%		500,000	
Investor Rounds										
Round 1					\$250,000	166,667	25.0%		166,667	:
Total Round 1					\$250,000	166,667	25.0%	:	166,667	1
Round 2								\$1,000,000	222,222	25
Total Round 2								\$1,000,000	222,222	25.
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	1	1			\$750,000 \$			\$3,000,000	\$ 4.50	
Post-money Valuation					\$1,000,000	1.50		\$4,000,000	\$ 4.50	13

Step 5: Enter Expected Exit Value

Company												
Pro Forma Capitalization Table			Variables									
Prepared by Yourname					Round 1 Pren	noney Valuati	\$750,000	Round 2 Pren	noney valua	\$3,000,000	Exit Value	\$20,000,000
Date			Stk Options	100,000	Round 1 Raise	e	\$250,000	Round 2 Rais	e	\$1,000,000		
	Comn			non Stock		Investor Rounds					Exit	
	Founders'	' Shares	Stock Options		Round 1				Round 2		\$20,000,000	Multiple
Common	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%	\$6,750,000	
Founder 2	100,000	25.0%	100,000	20.0%		100,000	15.0%		100,000	11.3%	\$2,250,000	
<u>Total Founders</u>	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											*/===/==	
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 Round 2								\$1,000,000	222,222	25.078	\$3,000,000	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



