



Cofounders
Capital



launch
CHAPEL HILL

Financing Startups
- An Overview -

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Agenda

- Intro
- Different Forms of (Venture) Financing
- Financing Round & Vehicle Overview
- Important terms in your venture funding
- Cap Tables
- Why you should get a lawyer
- How to find investors
- What investors need to invest

Intro

Note: a heavy software focus



- North Carolina's most active VC
- B2B Software, seed stage investments
- \$500k-\$1.5m initial checks for pre- or at-revenue ventures
- Very hands-on investors

Financing Options & Players



Grants, Prizes, etc.



Angels



Venture Capital & Private Equity

earlier stage

later stage



Debt

Financing Round Overview

Introducing: [The SaaS Napkin](#)

	„PRE-SEED“	SEED	SERIES A	SERIES B	SERIES C
AMOUNT	\$200-500K	\$500k - \$2.5M	\$5-12M	\$10-40M	\$20M+
VALUATION	\$1-3M	\$2-6M	\$10-40M	\$30-200M	\$80M+
INVESTORS	Friends & Family, Angels	Angels, Micro VCs	VCs	VCs	VCs, PE
TEAM	Smart, committed guys/girls with relevant expertise/skills	Founder/Market Fit, e.g. enterprise sales DNA for elephant hunters; product/design DNA for rabbit hunters; strong tech for API companies.	No „star“ VPs yet Often good director-level hires Proven ability to attract & manage great people	Experienced leaders in most functions Proven ability to recruit senior people	Complete senior management team
PRODUCT/MARKET FIT	Market research indicates strong need for the product	Strong indications of Product/Market Fit from early customers or pilot users	Clear PMF and increasing evidence of PMF in larger market →		
TECH	Strong tech co-founders with relevant experience	Proven ability to move fast & break things ... with emphasis on moving fast :) Starting to think about scalability and to put in place processes	Proven ability to attract and manage great engineers Product scales, but still breaks once in a while Continued high product development velocity	Excellent tech leadership. Product doesn't break and meets SLAs; three to four 24 availability Product meets security, compliance and disaster recovery requirements of enterprise tech buyers.	
MRR *	—	~ \$0-50K	~ \$100-250K	~ \$400k - \$1.2M	+ \$1M
TRACTION	Potentially: Growing waiting	4 pre-monetization: Growing	Got from 0 to \$100k MRR	Growing > 2.5x y/y	Growing > 3x y/y

Important: This changes; is subject to your industry, your geography, and investors

Financing Vehicles

Priced Equity

- Clear Ownership %
- Based on valuation & investment amount
- Common for professional investors
- Control & Information Terms (besides other economic terms: option pool, liquidation preferences, dividends)

Convertible Note

- Debt initially with defined ways it can or has to convert into equity
- Important terms include: interest rate, valuation discount, valuation cap (change of control kicker)

SAFE

- Similar to convertible note in that it is a “simple agreement for future equity” but it is not in fact debt
- A quick / easy agreement, common on the west coast

Important Terms

- Investment Amount (incl. min / max)
- Valuation
 - But that is not the only important economic term:
 - Option Pool
 - Liquidation Preference
 - Dividends
- Board Composition
- Founder Vesting
- Redemption Rights, Pro-rata Rights, Information Rights
- Fees
- No Shop / Time to close

[NVCA Model
Term Sheet](#)

Cap Tables

Holder of Securities	Common Stock		Series Seed Preferred Stock	Series Seed II Preferred Stock	Ownership on a Fully-Diluted Basis	
	Shares	Options	Shares	Shares	Shares	%
Founder 1	400,000				400,000	29.57%
Founder 2	400,000				400,000	29.57%
Investor 1			200,000		200,000	14.78%
Investor 2				150,000	150,000	11.09%
Employee 1		15,000			15,000	1.11%
Employee 2		10,000			10,000	0.74%
Options Available for Grant		177,921			177,921	13.15%
TOTALS	800,000	202,921	200,000	150,000	1,352,921	100.00%

Cap Tables – Employee Stock Options

Vesting:

- 4-year vesting (cliff after one year) is standard
 - That means if you would let someone go in their first year, they never get equity
- Acceleration typical for founders & key employees: "double trigger acceleration"
- Advisor vesting typically quicker

Grant Sizes:

	Pre-Seed		Pre-Series A	
	Total	Equity	Total	Equity
	(\$000s)	(%)	(\$000s)	(%)
CEO	–	–	150-200	5-10
CTO	80-120	5-10	125-200	4-8
VPs	70-100	3-5	90-150	2-4
Dir-level	70-100	3-5	90-120	2-4
Others				
VP, Sales	120-150	1-3	150-200	1-3
VP, Engineering	90-150	2-4	100-180	1-3
VP, Operations	70-90	2-4	90-120	1-3
VP, Finance	70-100	2-4	90-120	1-2
Director	60-90	0.5-1	80-100	0.25-0.5
Field Sales	110-130	0.1	120-150	0.05
Mktg. Manager	50-80	0.2	70-120	0.1
Senior Engineer	80-120	0.2	90-140	0.1
Junior Engineer	70-95	0.1	75-105	0.05
Web Designer	45-65	0.1	50-70	0.05
Inside Sales	55-75	0.05	60-80	0.025
Office Manager	40-60	0.025	40-70	0.01

Level and base salary
Director
75%
33%
33%
for 'default' grant level Junior
\$100k \$60k
0.45% 0.15%
\$90k \$50k
0.45% 0.05%

Lawyers

- 100% worth their cost in a financing!
- Make sure company is “cleaned up”
- Make sure you are not getting into structures that could prevent future rounds or exits
- Get a feel for what’s normal in the market!
- But: make sure it’s a startup / venture financing law firm!

How to find investors

1. Start talking to some and ask to refer you to two others (if not a fit for them)
2. Talk to other entrepreneurs and see who invested in them
3. Crunchbase (and Pitchbook – although expensive...)

What to look for in investors:

- Fit their “hard criteria” if they have any
- Make sure they are active before you sink too much time
- You will need to talk to a lot (20, 30, up to 100...) and it will likely take 4-6 months to close on an investment

What investors need to invest

Typically....:

- A full-time team
- Incorporated as a Corporation (plus some other legal set up – IP Transfer, restrictive covenants, etc)
- A plan (even if it's “strong opinions, loosely held”)
- And the rest really is up to each individual investor

Appendix

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