SF EDUCATION

Convertibles and priced equity rounds in early-stage VC deals

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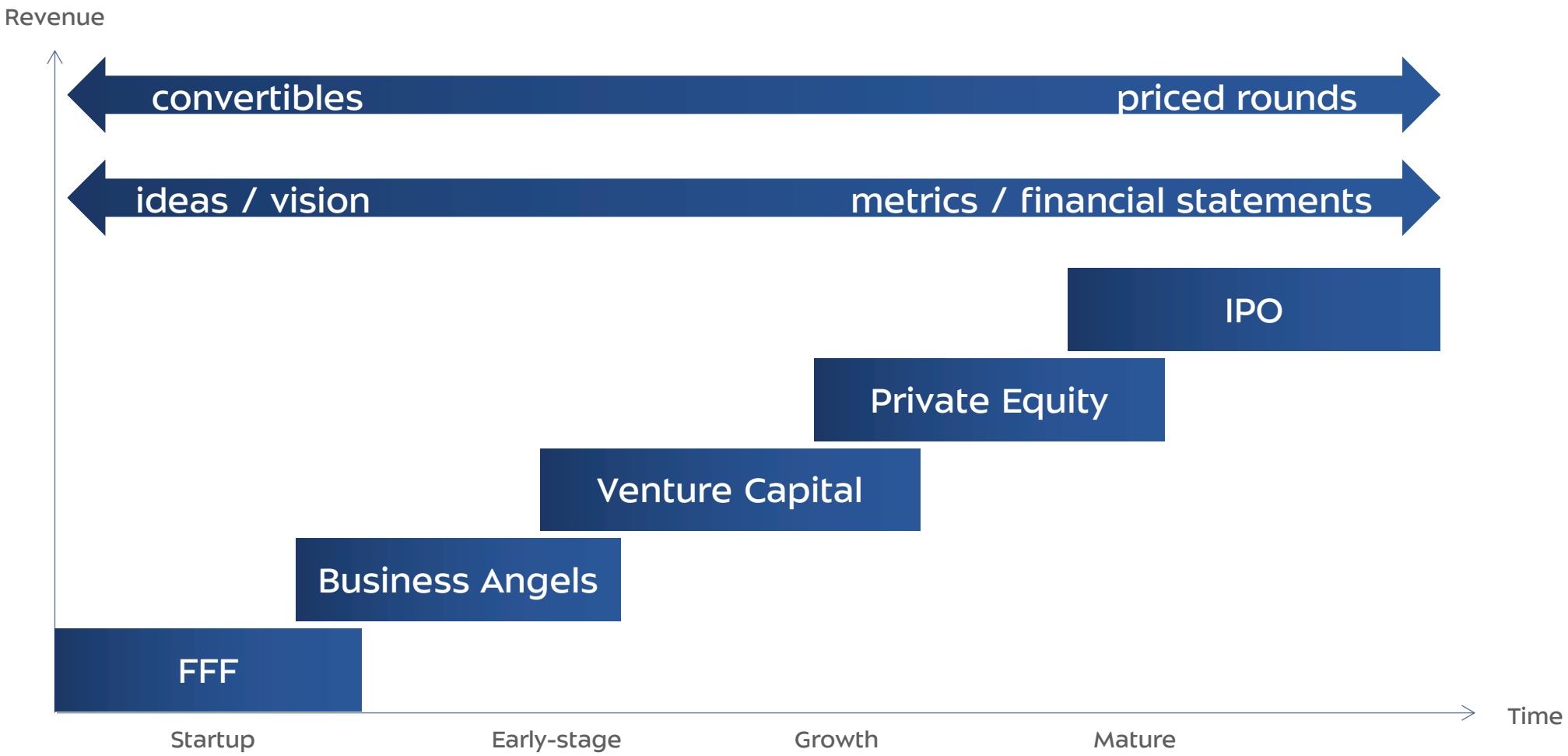
Ex-Investment Director UFG Private Equity



Agenda

- Company lifecycle and funding options
- Why use convertibles?
- Convertibles types and their differences
- What is SAFE? Structure and key terms
- Examples

Company lifecycle



Why use convertibles?

1. Funding now, equity later
2. No long negotiations. In priced rounds closing could take 3-12 months
3. Simpler deal terms
4. Fast (high resolution fundraising)
5. No dilution -> More control (no decision-making power to investors)

Convertible note vs SAFE

	Convertibles	
	Convertible note	**SAFE**
Interest	✅	⛔
Maturity Date	✅	⛔
Example	$100 investment at 10% for 2 years	$100 investment

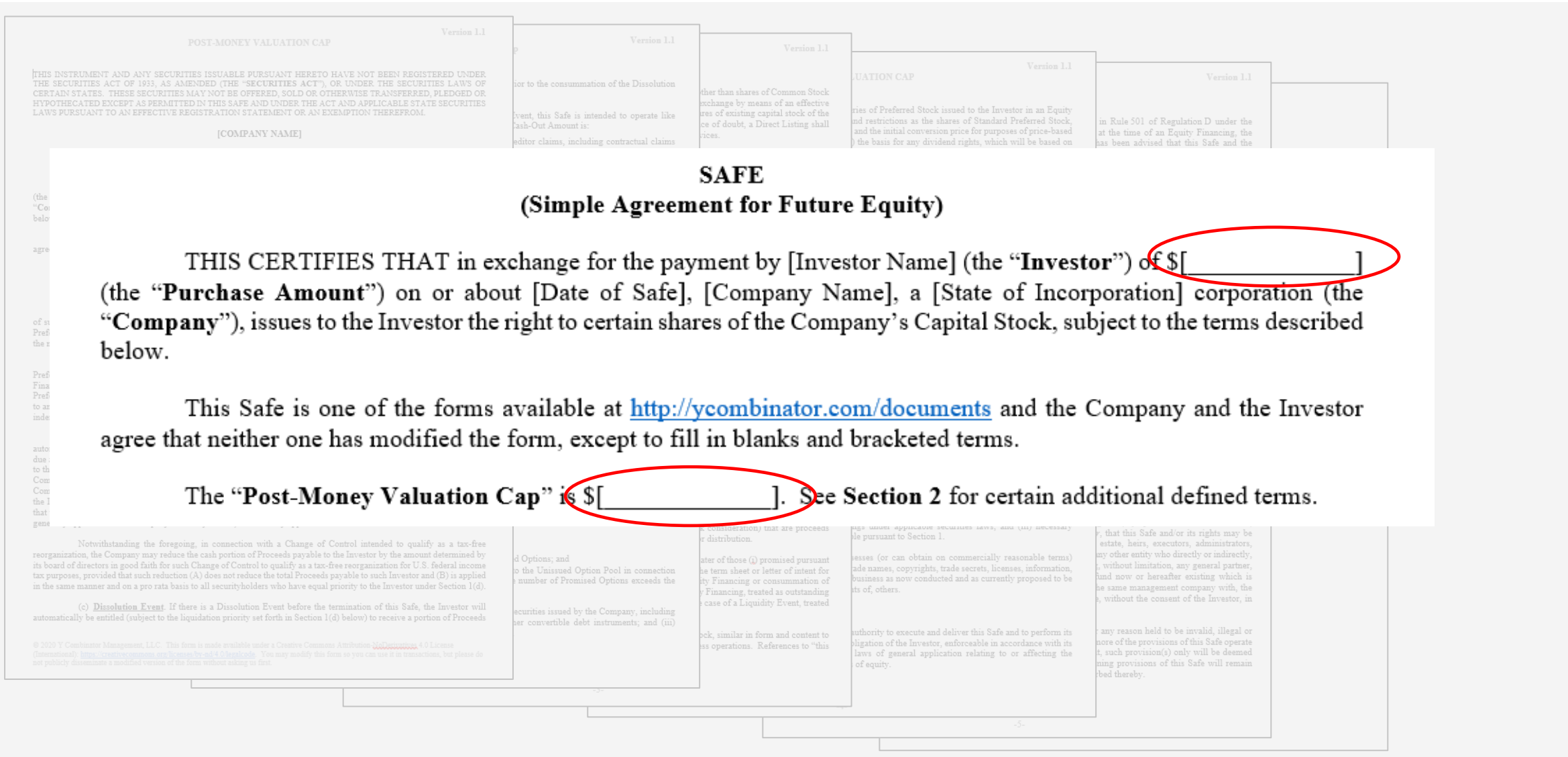
What is SAFE?

Simple
Agreement
for
Future
Equity

SAFE structure

1. Key deal Terms
    a) how much? *(+ potential side letter)*
    b) and at what price?
2. Events. How to proceed in a case of:
    a) equity financing
    b) liquidity event
    c) dissolution event
3. Definitions – definition of all terms used in the agreement
4. Company Representations
    a) standard reps and warranties
5. Investor Representations
    a) standard reps and warranties
6. Miscellaneous
    a) Legal wording that has to be here

SAFE structure



SAFE
(Simple Agreement for Future Equity)

THIS CERTIFIES THAT in exchange for the payment by [Investor Name] (the "**Investor**") of $[_____] (the "**Purchase Amount**") on or about [Date of Safe], [Company Name], a [State of Incorporation] corporation (the "**Company**"), issues to the Investor the right to certain shares of the Company's Capital Stock, subject to the terms described below.

This Safe is one of the forms available at http://ycombinator.com/documents and the Company and the Investor agree that neither one has modified the form, except to fill in blanks and bracketed terms.

The "**Post-Money Valuation Cap**" is $[_____]. See **Section 2** for certain additional defined terms.

Valuations

1. Valuation Cap, no Discount
2. Discount, no Valuation Cap
3. MFN (Most Favorite Nation) clause, no Discount, no Valuation Cap

SAFE TYPES

	Pre money SAFE	Post money SAFE
Outstanding shares of Capital Stock	Included	Included
Outstanding Options	Included	Included
Promised Options	Included*	Included
Unissued Option Pool	Included	Included
Option Pool Increase	Included	Excluded
Safes, convertible notes and other similar convertibles	Excluded	Included

Example 1 – post-money SAFEs only

NoName Inc. (the "Company") raised $1,000,000 from two investors

- Investor A purchased a $200,000 safe at a $4m postmoney valuation cap safe
- Investor B purchased an $800,000 safe at an $8m post-money valuation cap and has a pro-rata side letter

The Company signed a Series A term sheet

- 5m round
- at a pre-money valuation of $15m,
- option pool representing 10% of the fully-diluted post-closing capitalization
- Investor C, the lead investor, will be investing $4m

Example 1 – post-money SAFEs only

	Before the round					
	Common stock	Preferred stock	Stock Plan	Total Securities	Outstanding Ownership	Fully diluted ownership
Founder	9 250 000			9 250 000	93,4%	92,5%
Options Outstanding			300 000	300 000	3,0%	3,0%
Promised Options			350 000	350 000	3,5%	3,5%
Investor A						
Investor B						
Investor B'						
Investor C						
Other Investors						
Total Outstanding	9 250 000	-	650 000	9 900 000	100%	99,0%
Options Available			100 000	100 000		1,0%
New Options						
Total Available	9 250 000	-	750 000	10 000 000		100,0%

Example 1 – post-money SAFEs only

	SAFEs conversion					
	Common stock	Preferred stock	Stock Plan	Total Securities	Outstanding Ownership	Fully diluted ownership
Founder	9 250 000			9 250 000	79,3%	78,63%
Options Outstanding			300 000	300 000	2,6%	2,55%
Promised Options			350 000	350 000	3,0%	2,98%
Investor A		588 235		588 235	5,0%	5,00%
Investor B		1 176 471		1 176 471	10,1%	10,00%
Investor B'						
Investor C						
Other Investors						
Total Outstanding	9 250 000	1 764 706	650 000	11 664 706	100,0%	99,15%
Options Available			100 000	100 000		0,85%
New Options						
Total Available	9 250 000	1 764 706	750 000	11 764 706		100,00%

Example 1 – post-money SAFEs only

	Round A					
	Common stock	Preferred stock	Stock Plan	Total Securities	Outstanding Ownership	Fully diluted ownership
Founder	9 250 000			9 250 000	57,3%	51,54%
Options Outstanding			300 000	300 000	1,9%	1,67%
Promised Options			350 000	350 000	2,2%	1,95%
Investor A		588 235		588 235	3,6%	3,28%
Investor B		1 176 471		1 176 471	7,3%	6,56%
Investor B'				448 643	2,8%	2,50%
Investor C				3 589 140	22,2%	20,00%
Other Investors				448 643	2,8%	2,50%
Total Outstanding				16 151 131	100,0%	90,00%
Options Available New Options				1 794 570		10,00%
Total Available				17 945 701		100,00%

Example 2 – pre- and post-money SAFEs

NoName Inc. (the "Company") raised $1,000,000 from two investors

- Investor A purchased a $200,000 safe at a $3.8m premoney valuation cap safe
- Investor B purchased an $800,000 safe at an $8m post-money valuation cap and has a pro-rata side letter

The Company signed a Series A term sheet

- 5m round
- at a pre-money valuation of $15m,
- option pool representing 10% of the fully-diluted post-closing capitalization
- Investor C, the lead investor, will be investing $4m

Example 2 – pre- and post-money SAFEs

	Before the round					
	Common stock	Preferred stock	Stock Plan	Total Securities	Outstanding Ownership	Fully diluted ownership
Founder	9 250 000			9 250 000	93,4%	92,5%
Options Outstanding			300 000	300 000	3,0%	3,0%
Promised Options			350 000	350 000	3,5%	3,5%
Investor A						
Investor B						
Investor B'						
Investor C						
Other Investors						
Total Outstanding	9 250 000	-	650 000	9 900 000	100%	99,0%
Options Available			100 000	100 000		1,0%
New Options						
Total Available	9 250 000	-	750 000	10 000 000		100,0%

Example 2 – pre and post money SAFEs

				SAFE		
	Common stock	Preferred stock	Stock Plan	Total Securities	Outstanding Ownership	Fully diluted ownership
Founder	9 250 000			9 250 000	79,1%	78,42%
Options Outstanding			300 000	300 000	2,6%	2,54%
Promised Options			350 000	350 000	3,0%	2,97%
Investor A		615 751		615 751	5,3%	5,22%
Investor B		1 179 528		1 179 528	10,1%	10,00%
Investor B'						
Investor C						
Investor D						
Total Outstanding	9 250 000	1 795 279	650 000	11 695 279	100,0%	99,2%
Options Available			100 000	100 000		0,85%
New Options						
Total Available	9 250 000	1 795 279	750 000	11 795 279		100,00%

Example 2 – pre and post money SAFEs

	Round A					
	Common stock	Preferred stock	Stock Plan	Total Securities	Outstanding Ownership	Fully diluted ownership
Founder	9 250 000			9 250 000	57,1%	51,41%
Options Outstanding			300 000	300 000	1,9%	1,67%
Promised Options			350 000	350 000	2,2%	1,95%
Investor A		615 751		615 751	3,8%	3,42%
Investor B		1 179 528		1 179 528	7,3%	6,56%
Investor B'		449 818		449 818	2,8%	2,50%
Investor C		3 598 548		3 598 548	22,2%	20,00%
Investor D		449 818		449 818	2,8%	2,50%
Total Outstanding				16 193 464	100,0%	90,00%
Options Available			100 000	100 000		0,56%
New Options			1 699 274	1 699 274		9,44%
Total Available				17 992 738		100,00%

Example 1 vs Example 2

	POST MONEY		PRE and POST MONEY	
	Outstanding Ownership	Fully diluted ownership	Outstanding Ownership	Fully diluted ownership
Founder	57,27%	51,54%	57,12%	51,41%
Options Outstanding	1,86%	1,67%	1,85%	1,67%
Promised Options	2,17%	1,95%	2,16%	1,95%
Investor A	3,64%	3,28%	3,80%	3,42%
Investor B	7,28%	6,56%	7,28%	6,56%
Investor B'	2,78%	2,50%	2,78%	2,50%
Investor C	22,22%	20,00%	22,22%	20,00%
Other Investors	2,78%	2,50%	2,78%	2,50%
Total Outstanding	100,00%	90,00%	100,00%	90,00%
Options Available		10,00%		0,56%
New Options				9,44%
Total Available		100,00%		100,00%

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Благодарим за внимание!

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