



RAISING CAPITAL SEMINAR SERIES



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Today's presenter

JD Geneser, CPA, LWBJ

JD Geneser, CPA is a senior partner and shareholder at LWBJ. JD delivers more than 30 years of leadership experience in business and financial operations. He has held executive positions in both private and publicly traded companies.

JD focuses on capital raising, mergers, acquisitions, dispositions, due diligence and operational and financial consulting services. He has assisted and advised in equity transactions in excess of \$1 billion.

JD serves as a member of the Greater Des Moines Partnership Entrepreneurial Advisory Council, Start-up City Des Moines, an advisor and sponsor of Plains angels and a member and advisor for the Technology Association of Iowa.

JD is a graduate of the University of Notre Dame and holds series 7, 24, 63, 79 and 99 securities licenses.



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AGENDA



- **Module 1:** The Fundraising Journey: Steps to Raising Capital
 - Oct. 7 from 8:30 – 11:30 a.m.
- **Module 2:** The Pitch: Telling Your Story
 - Oct. 7 from 1 – 4:30 p.m.
- **Module 3:** The Proforma: Building a Strong Financial Model
 - Oct. 14 from 8:30 – 11:30 a.m.
- **Module 4:** The Cap Table: Who Owns Your Company
 - Oct. 21 from 8:30 – 11:30 a.m.
- **Module 5:** The Term Sheet: The Details Matter
 - Oct. 28 from 8:30 – 11:30 a.m.



RAISING CAPITAL SEMINAR SERIES

Module 4: The Cap Table: Who Owns Your Company

Oct. 21, 2020



Capitalization Table

- A “cap table” is a list of your company’s securities (stocks, options, warrants, etc.)
- Cap table tells you “who owns what.”
- Your cap table must always be current to make good decisions.
- There is no “right” way to format your cap table.
- Keep it simple and organized.
- Tailor your cap table to your corporate documents.
- Cap table will be a powerful planning tool for future capital raises.

Keeping it Updated

- Keep cap table current at all times.
- Will be required by investors in due diligence.
- Assists you in making good decisions quickly.
 - Run scenarios on pre-money valuation, on new financing or future rounds of financing
 - Analyze dilution impact of different sizes of financing round
 - Impact of option pool or granting of specific amount of options to a new hire

Common Terms

- Shares / Units
 - Corporation – shares
 - LLC - units
- Rounds / Series - defines specific financing event
 - Founders
 - Friends and family
 - Seed
 - Series A...

Common Terms

- Pre money – valuation prior to financing round
- Post money – valuation after financing round
 - Pre-money valuation of \$4,000,000
 - Raise \$1,000,000
 - Post money = \$5,000,000
 - \$1,000,000 investment represents 20% equity ownership
 - $\$1,000,000 / \$5,000,000 = 20 \%$

Common Terms

- Recapitalization / down round
- Options / warrants
- Preferred / common
- Liquidation preferences
- Waterfall analysis

Investors

- Accredited – income / net worth test
- Friends and family
- Angel / high net-worth individual
- Seed funds
- Family offices
- Strategic
- Institutional / venture capital

Capitalization Table

Today we will:

- Present 5 rounds of capitalization for a fictitious company.
- Show each round's impact on ownership percentages.
- After the 5 rounds, present 3 different exit scenarios and the impact of capital returned to investors / founders.

Founders

- Three founders of SaaS Systems, Inc.
 - Amy, Bill & Chris
- Each contributes capital and intellectual property to the company.
- Each is issued 200,000 shares of common stock.
- They retain a good securities attorney to create the initial organizational documents and to issue the three stock certificates.

Capitalization Table Founders

SaaS Systems, Inc		
Proforma Cap Table		
Full Diluted Basis		
Founders	Founders	
	Shares	% of Total
Amy	200,000	33.33%
Bill	200,000	33.33%
Chris	200,000	33.33%
Total	600,000	100%

Friends & Family Round

- Product development continues for several months.
- They decide they need to bring on more resources to complete development and testing.
- They further decide to begin initial marketing campaign to create awareness.
- SaaS Systems decides to raise \$250,000 from their friends and family to complete development of prototype and begin initial market awareness campaign.

Friends & Family Round

- They put together initial financial forecast and presentation to share with friends and family.
- Even though they are early stage, they feel that their product suite has significant opportunity.
- They establish a pre-money valuation of \$1,000,000. Post money of \$1,250,000.
- After multiple meetings and conversations, Amy's uncle Charlie decides to fund the entire amount.

Capitalization Table Friends & Family Round

SaaS Systems, Inc							
Proforma Cap Table							
Full Diluted Basis							
Founders				Friends & Family			
		Shares	% of Total	Pre Money Value	Investment at \$ 1.67	Shares	% of Total
Founders							
Amy		200,000	33.33%			200,000	26.68%
Bill		200,000	33.33%			200,000	26.68%
Chris		200,000	33.33%			200,000	26.68%
Friends & Family							
Charlie					250,000	149,701	19.97%
Total		600,000	100%	1,000,000	250,000	749,701	100%
				Value	\$ 1,000,000	\$ 1,250,000	
				Shares	600,000	\$ 749,701	
				Price/Shar	1.67	1.67	

Option Pool

- The founders identify a key hire that they want to bring into the company.
- They discover she will not join the company without some equity incentive.
- They meet with their attorney to establish an employee option plan for key hires.
- They decide to allocate 10% ownership opportunity to the option plan.
- The key hire joins the team and receives options, which will vest over a three-year period.

Capitalization Table Option Pool

SaaS Systems, Inc							
Proforma Cap Table							
Full Diluted Basis							
		Founders		Friends & Family			
		Shares	% of Total	Pre Money Value	Investment at \$ 1.67	Shares	% of Total
Founders							
Amy		200,000	33.33%			200,000	23.96%
Bill		200,000	33.33%			200,000	23.96%
Chris		200,000	33.33%			200,000	23.96%
Friends & Family							
Charlie					250,000	149,701	17.93%
Options						85,000	10.18%
Total		600,000	100%	1,000,000	250,000	834,701	100%
				Value	\$ 1,000,000	\$ 1,250,000	
				Shares	600,000	\$ 834,701	
				Price/Shar	1.67		

Seed Round

- Technical issues with the product platform persist and the development timeline has been extended. While significant progress has been made, SaaS Systems is running out of money.
- They now have a staff of 5 and need to bring on more resources.
- They decide to raise a seed round of financing for product completion and working capital.
- Plains Angels agrees to invest \$500,000 at a pre-money valuation of \$2,500,000. Post money \$3M.

Capitalization Table Seed Round

	Founders			Friends & Family					Seed Round			
	Shares	% of Total		Pre Money Value	Investment at \$ 1.67	Shares	% of Total		Pre Money Value	Investment at \$ 3	Shares	% of Total
Founders												
Amy	200,000	33.33%				200,000	23.96%				200,000	19.97%
Bill	200,000	33.33%				200,000	23.96%				200,000	19.97%
Chris	200,000	33.33%				200,000	23.96%				200,000	19.97%
Friends & Family												
Charlie					250,000	149,701	17.93%				149,701	14.95%
Seed Round												
Plains Angels										500,000	166,667	16.64%
Options						85,000	10.18%				85,000	8.49%
Total	600,000	100%		1,000,000	250,000	834,701	100%		2,500,000	500,000	1,001,367	100%
			Value	\$ 1,000,000	\$ 1,250,000				\$ 2,500,000	\$ 3,000,000		
			Shares	600,000	\$ 834,701				834,701	\$ 1,001,367		
			Price/Share	1.67					3.00	3.00		

Series A

- Product development has been completed and the beta was successful.
- They released the product and within 18 months had annualized recurring revenues in excess of \$1,000,000.
- They need substantial capital to scale out operations and launch nationwide. They now have a staff of 14 people and growing.

Series A

- They hire an advisor and launch a Series A round to raise \$2,500,000.
- After 4+ months of pitches and meetings with venture capital firms they receive a term sheet from VC Ventures:
 - \$2,500,000 preferred stock
 - 10% dividends non-compounding
 - \$7,500,000 pre-money valuation
 - Liquidation preference of 1X
 - Governance restrictions

Capitalization Table Series A

		Friends & Family				Seed Round				Series A			
		Pre Money	Investment at	Shares	% of Total	Pre Money	Investment at	Shares	% of Total	Pre Money	Investment at	Shares	% of Total
		Value	\$ 1.67			Value	\$ 3.00			Value	\$ 7.49		
Founders													
Amy				200,000	23.96%			200,000	19.97%			200,000	14.98%
Bill				200,000	23.96%			200,000	19.97%			200,000	14.98%
Chris				200,000	23.96%			200,000	19.97%			200,000	14.98%
Friends & Family													
Charlie			250,000	149,701	17.93%			149,701	14.95%			149,701	11.21%
Seed Round													
Plains Angels							500,000	166,667	16.64%			166,667	12.48%
Series A													
VC Ventures											2,500,000	333,778	25.00%
Options				85,000	10.18%			85,000	8.49%			85,000	6.37%
Total		1,000,000	250,000	834,701	100%	2,500,000	500,000	1,001,367	100%	7,500,000	2,500,000	1,335,146	100%
	Value	\$ 1,000,000	\$ 1,250,000			\$ 2,500,000	\$ 3,000,000			\$ 7,500,000	\$ 10,000,000		
	Shares	600,000	\$ 834,701			834,701	\$ 1,001,367			1,001,367	\$ 1,335,146		
	Price/Share	1.67				3.00	3.00			7.49	7.49		

Recapitalization / Down Round

- SaaS Systems initial traction did not lead to nationwide market acceptance.
- Many larger companies moved downstream and developed comparable products that could be deployed much faster with their resources.
- SaaS Systems was getting squeezed on pricing and margins began to erode.
- They needed more capital to position the company for vertical product growth and ultimately seek an exit.

Recapitalization / Down Round

- SaaS Systems negotiated with VC Ventures (Series A) to fund the company through the product suite enhancements and seeking an exit with an industry competitor.
- SaaS Systems was revalued from the post Series A valuation of \$10,000,000 to \$5,000,000.
- VC Ventures agreed to fund another \$2,000,000 at the same terms as their Series A investment.

Cap Table - Recapitalization / Down Round

SaaS Systems, Inc Proforma Cap Table Fully Diluted Basis			Series A				Recap			
	Shares	% of Total	Pre Money Value	Investment at \$ 7.49	Shares	% of Total	Pre Money Value	Investment at \$ 3.74	Shares	% of Total
Founders										
Amy	200,000	19.97%			200,000	14.98%			200,000	10.70%
Bill	200,000	19.97%			200,000	14.98%			200,000	10.70%
Chris	200,000	19.97%			200,000	14.98%			200,000	10.70%
Friends & Family										
Charlie	149,701	14.95%			149,701	11.21%			149,701	8.01%
Seed Round										
Plains Angels	166,667	16.64%			166,667	12.48%			166,667	8.91%
Series A										
VC Ventures				2,500,000	333,778	25.00%			333,778	17.85%
Recap / Down Round										
VC Ventures								2,000,000	534,759	28.60%
Options	85,000	8.49%			85,000	6.37%			85,000	4.55%
Total	1,001,367	100%	7,500,000	2,500,000	1,335,146	100%	5,000,000	2,000,000	1,869,905	100%
			\$ 7,500,000	\$ 10,000,000			\$ 5,000,000	\$ 7,000,000		
			1,001,367	\$ 1,335,146			1,335,146	\$ 1,869,905		
			7.49	7.49			3.74	3.74		

Sale of Company Scenario #1

- Product refinements and customer growth in a few key markets segments led to a larger competitor offering to buy SaaS Systems for \$17,500,000.
- All employee options had been issued and will be exercised at the close.
- The close came approximately one year after the down round and 2 years after Series A. Resulting in accrued dividends of \$700,000 due to VC Ventures.

Sale of Company Scenario #1 Waterfall

SaaS Systems																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
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Sale of Company Scenario #2

- Customer growth did not materialize as expected. Product enhancements did attract a buyer that saw vertical opportunities to sell to their customer base.
- SaaS received an offer of \$8,000,000 for the company.
- All employee options had been issued and will be exercised at the close.
- The close came approximately one year after the down round and 2 years after Series A. Resulting in accrued dividends of \$700,000 due to VC Ventures.
- The liquidation preference of VC Ventures impacts distribution to shareholders.

Sale of Company Scenario #2 Waterfall

				Sale at \$8,000,000			
SaaS Systems							
Proforma Cap Table							
Fully Diluted Basis					Sale at \$8,000,000		
Sale of Company					Sales Proceeds	8,000,000	
	Shares	% of Total			Options Proceeds	141,950	
Founders							
Aaron	200,000	10.70%					
Bill	200,000	10.70%			Total Available	8,141,950	
Chris	200,000	10.70%					
Friends & Family					Series A & Recap - VC Ventures		
Charlie	149,701	8.01%			Preferred Dividends	700,000	
					Invested	4,500,000	
Seed							
Plains Angels	166,667	8.91%			Total to VC Ventures	5,200,000	
Series A							
VC Ventures	333,778	17.85%			Founders:		
					Aaron	587,587	
Down Round					Bill	587,587	
VC Ventures	534,759	28.60%			Chris	587,587	
					Charlie	439,810	
					Plains Angels	489,656	
Options	85,000	4.55%					
					Key Employees	249,724	
Total	1,869,905	100.00%			Total	8,141,950	
							3,781,791
					VC Ventures	5,200,000	
							63.87%



Sale of Company Scenario #3 WHAT IF ??

- Same scenario as #2, \$ 8,000,000 deal.....but WHAT IF the terms from VC Ventures were just a little different??
- What if the terms were not preferred stock but **participating** preferred stock with a 1X liquidations preference?

Sale of Company Scenario #3 WHAT IF ??

		Sale at \$8,000,000		
SaaS Systems				
Proforma Cap Table				
Fully Diluted Basis			Sale at \$8,000,000	
Sale of Company			Sales Proceeds	8,000,000
	Shares	% of Total	Options Proceeds	
Founders				
Aaron	200,000	10.70%		
Bill	200,000	10.70%	Total Available	8,000,000
Chris	200,000	10.70%		
Friends & Family			Series A & Recap - VC Ventures	
Charlie	149,701	8.01%	Preferred Dividends	700,000
			Invested	4,500,000
Seed				
Plains Angels	166,667	8.91%	Total	5,200,000
Series A				
VC Ventures	333,778	17.85%	Founders:	
			Aaron	313,742
Down Round			Bill	313,742
VC Ventures	534,759	28.60%	Chris	313,742
			Charlie	234,837
			Plains Angels	261,452
			VC Ventures	1,362,485
Options				
	85,000	4.55%	Key Employees	0
Total			Total	8,000,000
	1,869,905	100.00%		
	1.497402279			
			VC Ventures	6,562,485
				82.03%

Cap Table Summary

- Always keep it current.
- Assure that you have supporting legal documentation for every investor on the cap table.
- Cap tables show summary of ownership...not liquidation rights and percentages.
- Understand all terms when bringing on new investors.

All available Raising Capital Seminar resources can be found here: <https://bit.ly/2IPgl5v>

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Final Thoughts



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Thank You!

- Final thoughts
 - All content from these seminars is available
 - www.dsmpartnership.com/raisingcapital
 - Please complete our survey
 - Stay in touch
 - Plains Angels
 - www.plainsangels.com
 - Greater Des Moines Partnership
 - www.dsmpartnership.com
 - Mike Colwell
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