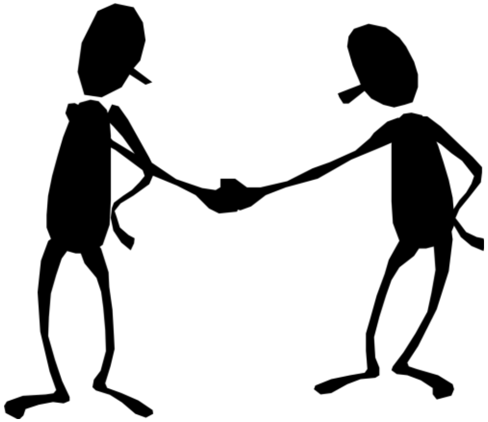
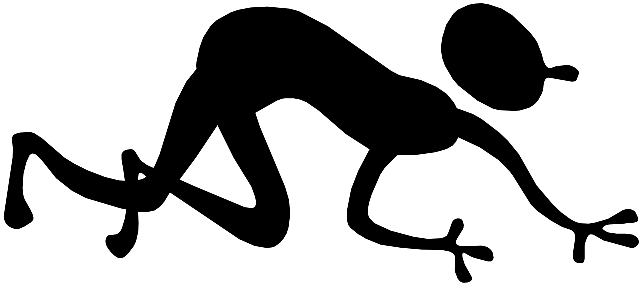
VENTURE CAPITAL MATH 101



EARLY STAGE FINANCING GOAL:

Try not to part with significant equity to get through this early stage …good rule of thumb is to try to sell less than 1/3 of the company in the first funding round.



HOW MUCH IS THE INVESTOR BUYING?

- Pre-Money Value + Investment = Post-Money Value

- Quick Math:

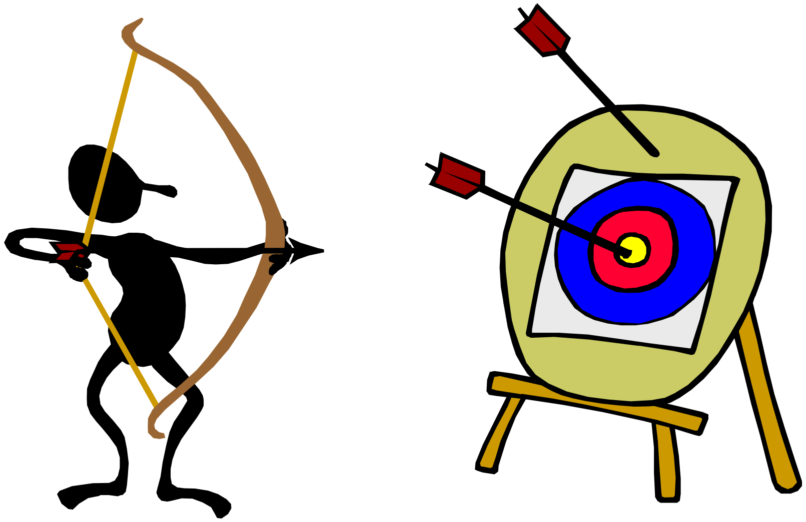
  An investment of $1,000,000 on a $2,000,000 “Pre Money Value” gives the investor 1/3 of your company

- What’s “Pre Money Value?”

  The value of your company before investment

HOW DO YOU CALCULATE PRE MONEY VALUE?

- Pre-Money Value is one of the most hotly-negotiated points in a term sheet…
  - Discounted Cash Flow Analysis?
  - Comparable Companies?
  - Throwing Darts?



DON'T FORGET ABOUT THE OPTION POOL!

- VC's invest only on a "fully-diluted" basis. For these purposes, all options, warrants and convertible notes are considered outstanding. Further, it is common to include as outstanding an option pool of 10% to 20%.

- What Does Full Dilution Really Mean?

  - If you bring in that $1,000,000 on a $2,000,000 pre-money value, but the investor requires you to set aside a 10% option pool, you're actually parting with 43% of the company—33% to the investor and 10% to the option pool

  - If your investor is willing to have the option pool set up AFTER her investment, you both share in the dilution for the option pool

More questions?

Ask Us:

Lori Hoberman
lori@hobermanlawgroup.com
646.844.4860

Nick Scannavino
nick@hobermanlawgroup.com
646.856.9962

Angela D. Loc
angela@hobermanlawgroup.com
646.844.4863