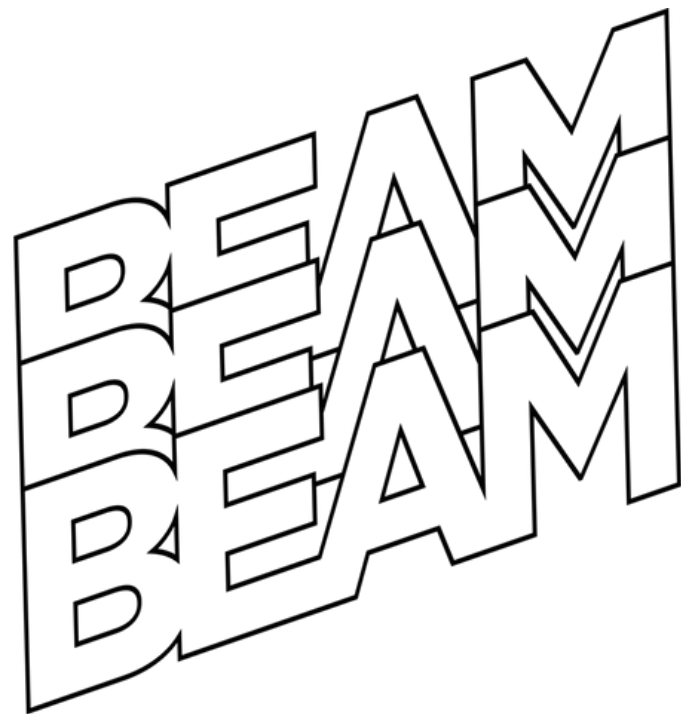


# MANAGING FOUNDER DILUTION



TRIPLE BEAM ADVISORS

How to keep more ownership of your business in order to maximize your generational wealth creation capacity.



DEVAN MCLAREN

PARTNER, TRIPLE BEAM ADVISORS

# Disclosure

The information provided in this webinar does not, and is not intended to, constitute legal advice; instead, all such information is for general educational and informational purposes only. Information in this webinar may not constitute the most up-to-date legal or other information. This information may contain data or references third party content. Such data or references are solely for the convenience of the audience; the speakers do not recommend or endorse the contents of any third party content.

The audience of this webinar should contact their attorney to obtain advice with respect to any particular legal matter. No reader should act or refrain from acting on the basis of information in this white paper without first seeking legal advice from counsel in the relevant jurisdiction. Only your individual attorney can provide assurances that the information contained herein – and your interpretation of it – is applicable or appropriate to your particular situation. Access to this webinar and any resources contained therein do not create an attorney-client relationship between the audience and any authors, contributors, contributing law firms, or anyone else.

All liability with respect to actions taken or not taken based on the contents of this site are hereby expressly disclaimed. The content on this webinar is provided “as is;” no representations are made that the content is error-free.

Federal law in the United States presently prohibits the use, possession, cultivation and distribution of cannabis currently scheduled as a Schedule 1 drug. Nothing contained in this webinar is intended to assist in any way with violation of applicable law.

# BUSINESS PLANS & ASSUMPTIONS

**In this workshop, you will learn:**

- Capital Strategies: How to secure financing for your business.
- Understanding Dilution: Learn its meaning and implications.
- Equity vs. Debt: Key differences between financing options.
- Ownership Impacts: Explore financial effects of ownership.
- Key Terms:
- Ownership Management: A perspective on handling ownership effectively.
- Business Valuation: Methods to assess your business's value.

# Managing Founder Dilution

**How to Bring  
Money into your  
Business**

# Managing Founder Dilution

## How to Bring Money into your Business

- Leverage Ownership: Use ownership to drive growth.
- Maximize Wealth: Retain ownership to build generational wealth.

# Managing Founder Dilution

## How to Bring Money into your Business

- Financing Options: Understand diverse ways to raise money for your business.
- Two Main Structures:
  - Equity Financing: Dilutive.
  - Debt Financing: Non-dilutive.

# Managing Founder Dilution

## How to Bring Money into your Business

- Hybrid Financing: Preferred equity and convertible debt combine qualities of debt and equity (details later).
- Key Takeaway: Financing options include dilutive (equity) and non-dilutive (debt).
- Value & Risks: Each option has unique benefits and risks for founders.

# Managing Founder Dilution

**What is Dilution?**

# Dilutive vs Non-Dilutive Financing

Venture Capital Investors utilize the most “dilutive” or expensive capital possible.

# What is dilution? & why will you need to raise money?

When you founded your startup, you and your co-founders likely received 100% of your company's shares. With each round of funding, new shares are created for investors.

## **For example:**

### **Before fundraise:**

Owner: 10M shares / 100% ownership

Investor: 0 shares / \$100k

Business: No valuation

### **After fundraise:**

Owner: 10M shares / 80% ownership / \$10M

Investor: 2.5M shares / 20% ownership / \$2.5M

Business: \$12.5M valuation

# What is dilution?

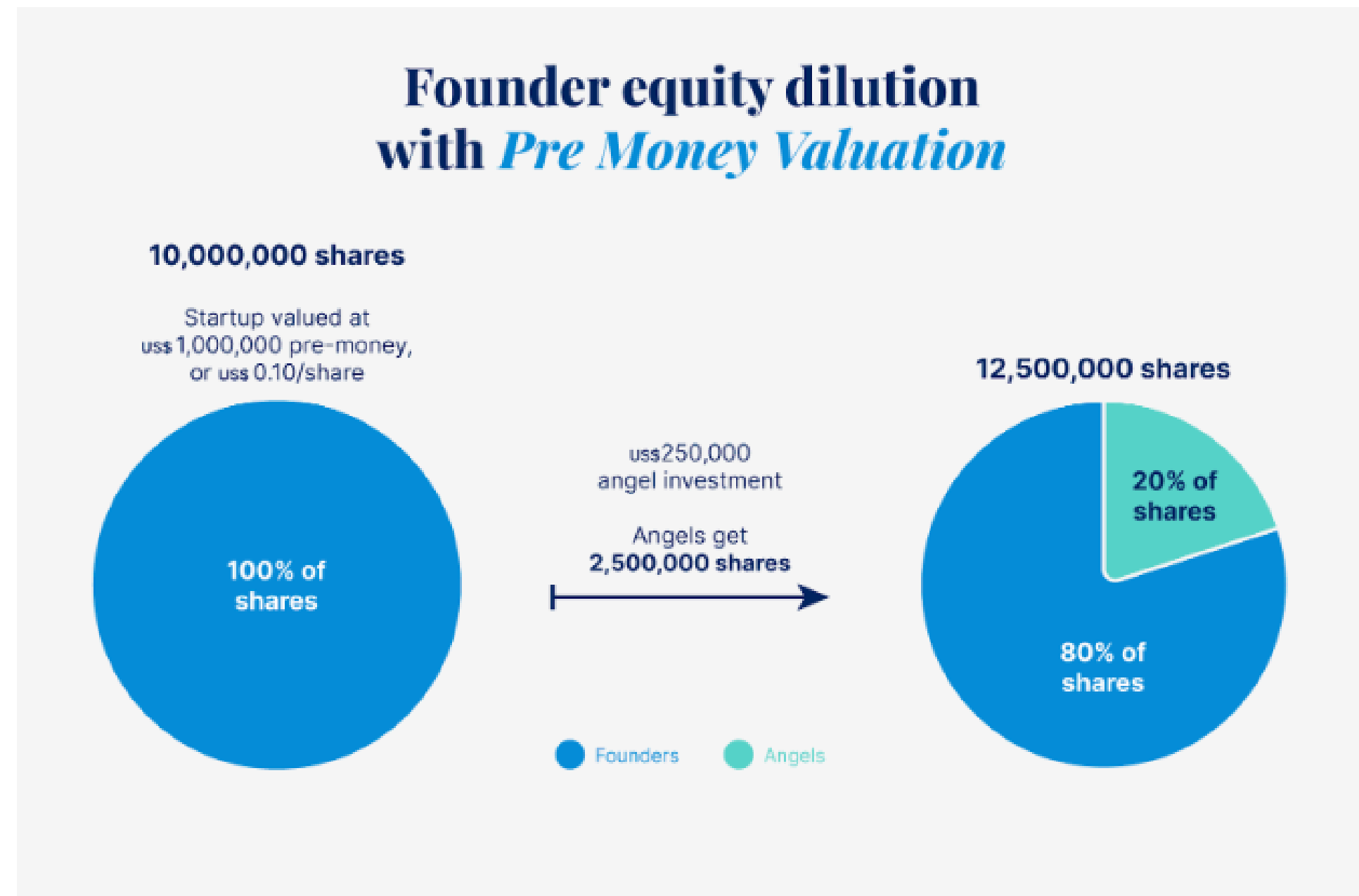


Image source: <https://www.latitud.com/en/blog/founder-equity-dilution>

# What is dilution? & why will you need to raise money?

## Important Considerations

- Aligned Incentives: Selling equity aligns financial partners' success with business growth.
- Loss of Control: Sold shares are no longer your property and can be resold unless restricted by agreement.
- Choose Partners Wisely: Partial ownership impacts control; be cautious about equity distribution.
- Understanding Dilution: Adding shares reduces ownership percentage (e.g., 10M shares + 2.5M = 80% ownership).

# Managing Founder Dilution

## Dilutive vs Non-Dilutive Financing

<b>Dilutive Financing</b>	<b>Non Dilutive Financing</b>
<ul style="list-style-type: none"><li>• <b>Sell ownership in your business.</b></li><li>• <b>Investors share risks and rewards.</b></li><li>• <b>Long-term cost could be significant if your business grows.</b></li><li>• <b>Great for aligned incentives and major growth initiatives.</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Borrow money without giving up ownership.</b></li><li>• <b>Requires repayment with interest.</b></li><li>• <b>Risk of losing assets if unable to repay.</b></li><li>• <b>Ideal for short-term needs like fulfilling invoices.</b></li></ul>

# Managing Founder Dilution

**Why is ownership  
important?**

# Why is ownership important?

## LLC vs. C-Corp: Dividends and Structure

LLC	C-Corp
<ul style="list-style-type: none"><li>• <b>Pass-through taxation: business income taxed as personal income.</b></li><li>• <b>Ideal for small businesses with no plans to raise external capital.</b></li><li>• <b>Tax-efficient for individual owners.</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Corporate taxes paid at the business level.</b></li><li>• <b>Dividends taxed as capital gains for shareholders.</b></li><li>• <b>Preferred by investors (VCs, high-net-worth individuals) due to share class flexibility.</b></li></ul>

# Why is ownership important?

Ownership will dictate:

1. Dividend distributions
2. Distributions upon liquidity events

- Example: You sell 10% of your business for \$100k to complete your build-out and finance initial operations expenses. In a year's time, you are at \$5M+ in sales per year and generating over \$1M in profit. Now because someone gave you \$100k one time, you will have to share with them 10% of the profits this year and the investor has 5x their initial investment.
- Devil's Advocate: Would you have been able to grow your company as quickly without that seed capital? What was the risk the investor took on your company in a highly regulated market?

# Why is ownership important?

## Making Smart Investment Decisions

- Evaluate Offers: Compare bids to maximize value.
- Protect Ownership: Keep control and equity.
- Watch Hidden Costs: Avoid overburdening terms.
- Seek Synergies: Prioritize strategic value, not just cash.
- Consult Advisors: Get expert guidance on decisions.

# Managing Founder Dilution

## Frequently Used Terms

# Frequently Used Terms

## Pre-Money & Post-Money SAFEs

- Pre Money Valuation – \$2.5M/\$10M sell 25% of your business
- Post Money Valuation – \$2.5M/\$12.5M sell 20% of your business

## Pro-Rata Rights

- Ability to continue to participate in owning a certain percentage of your business
- Don't give pro-rata rights to everyone. Limit them to your lead investor and a few other big investors if needed. Secondly, try to make them expire after the next round, so you get more flexibility in the future.

# Frequently Used Terms

## Employee Stock Pools & Ownership Plans

- Set aside ownership pools early and allow employees to own via stock options or other less dilutive method
- Keep in mind, all options should have **vesting schedules**

# Frequently Used Terms

## SAFE Agreements

- What is a SAFE?: Raise money now without valuing your business.
- Valuation Cap: Sets a fixed price for future equity.
- Discount: Investors get equity at a reduced price.

# Frequently Used Terms

## Hybrid instruments/Convertible Debt

- What is it?: A mix of debt and equity.
- Investors earn interest like a loan.
- They can convert the loan into company shares later.

# Managing Founder Dilution

**Managing  
your ownership**

# Managing your ownership

## Maximizing Ownership

- Raise funds later for higher valuation and less dilution.
- Leverage assets like licenses or branding for cash.
- Start small with funding and increase caps as you grow.
- Use non-dilutive options to retain equity.

# Managing your ownership

## Protecting Your Interests

- Vet investors to ensure alignment and value-add.
- Use non-dilutive funding for clear revenue needs.
- Research and negotiate carefully in venture funding.
- Prioritize strategic partners and smart financing.

# Managing your ownership

Understand your valuation potential

- Cannabis valuation basics
  - Average License valuation = Total Market size / number of licenses
  - Your license valuation = number of license in local region, attractiveness of location, etc.

CAURD licensees will be able to have up to 3 locations\*

# Managing your ownership

Understand your valuation potential

- Small business valuation basics
  - Seller's Discretionary Earnings (SDE) = Your salary + net income of the business
  - Businesses with <\$1M SDE and not growing 25-50% YoY are valued at a 3-5x multiple of that number
  - Business with >\$1M SDE and growing 25-50% YoY can get 5-10x
  - Revenue multiples are unlikely unless you are growing 400% YoY+

# Managing your ownership

## Case Study:

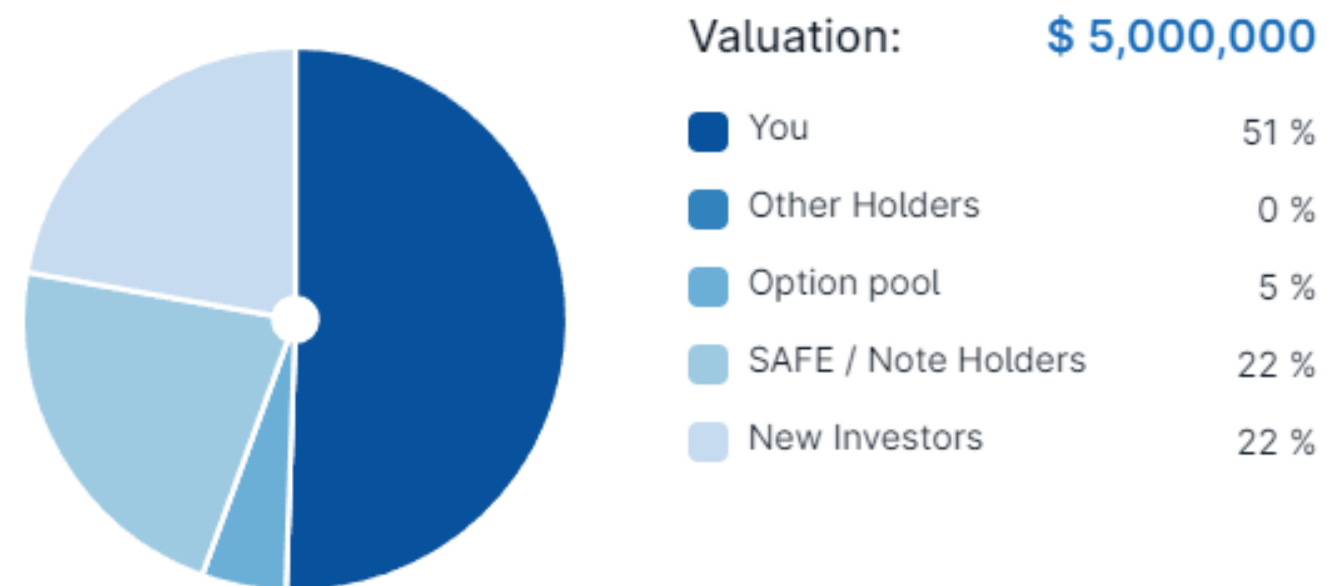
- Amy is the sole justice-involved individual in the CAURD applicant, she invested \$500k of her own savings into the business
- She put aside 5% of her equity for employee options, owning the other 95%
- She raised a \$1.5M Convertible note to fund opening expenses (25% Discount, 5M Cap)
- One year into operations her store needs \$2M in extra capital to invest in delivery and marketing...

**Amy wants to do a priced round to raise the \$2M, how many shares can she sell while maintaining her 51% equity?**

# Managing your ownership

## Case Study:

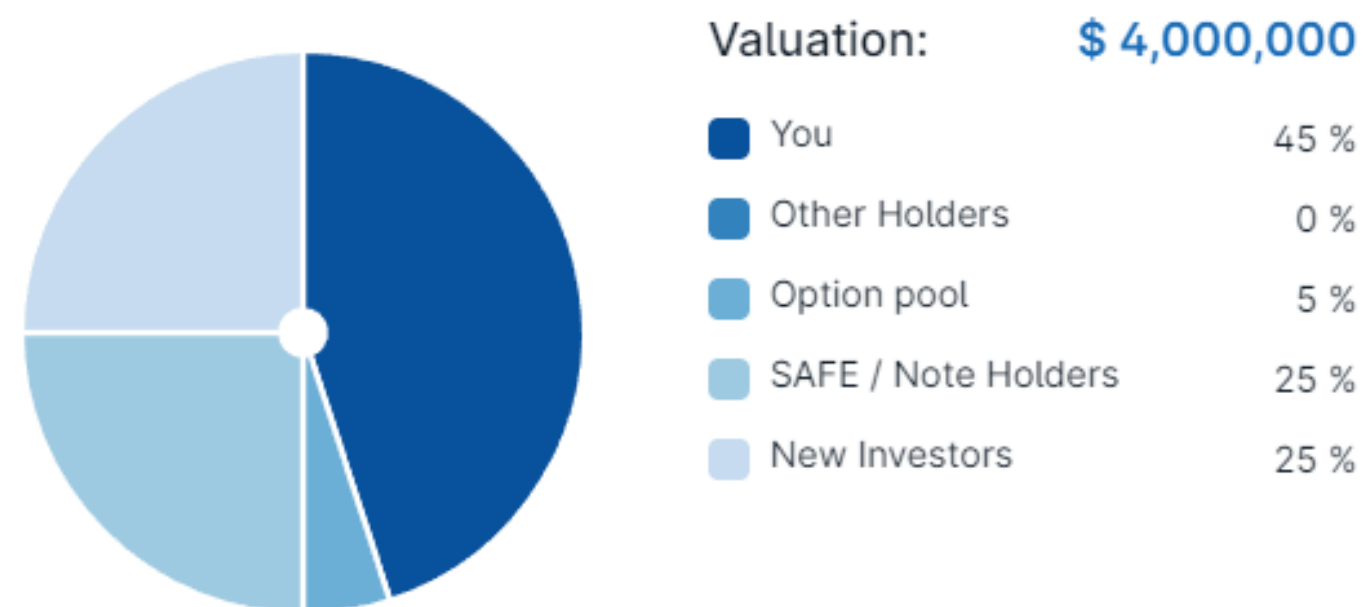
- If Amy can justify a \$5M pre-money valuation for her business, with a 5% option pool, then after raising her \$2M her cap table will look like this:



# Managing your ownership

## Case Study:

- BUT, if Amy can't convince prospective investors that it's worth \$5M, she will be diluted below her 51% requirement. Amy has to find another way to pursue her business growth strategy



# Key terms

<b>Section</b>	<b>Description</b>
<b>The Two Key Financing Structures</b>	Equity (dilutive) vs. debt (non-dilutive) financing and their risks/benefits.
<b>Dilution and Ownership Management</b>	The importance of balancing growth needs with retaining control.
<b>Equity Financing Considerations</b>	Align incentives with investors; choose partners carefully.
<b>Non-Dilutive Financing</b>	Retain ownership but manage debt repayment risks.
<b>Employee Stock Ownership Plans</b>	Use stock pools to incentivize and align employee goals.
<b>Valuation Essentials</b>	Pre/post-money valuation, pro-rata rights, and liquidity preferences are key for negotiations.
<b>Hybrid Financing Instruments</b>	Convertible debt offers flexible valuation and repayment options.
<b>Business Valuation</b>	Assess value carefully; avoid restrictive investment terms.

# Managing Founder Dilution

## Helpful Tools

# Helpful Tools

- [Captable.io](#)
- [Carta - SAFE and Convertible Note Calculator](#)
- [SAFE template - by Meadow from Ycombinator for cannabis](#)

Drop us a line

**DEVAN MCLAREN**

Devan@Triplebeamadvisors.com



# Q&A

**raise your virtual hand 🙋**

**when asked to unmute, start by saying where  
you're located and the name of your business**