

How To Read a Cap Table



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An important part of being a venture capitalist is performing diligence on new investments. One of the most basic forms of diligence is a review of a company's cap table.

Many new to venture investing have questions about what a cap table is and the purpose it serves. In this Venture 101 piece, we'll explore its importance, how to read it, and what a seasoned venture capitalist looks for in a cap table when judging the potential of an investment.

What Is a Cap Table

Cap table is shorthand for capitalization table. Simply put, it's a document that outlines what parties have an ownership stake in a venture and what the terms of their ownership are, including:¹

- Voting rights
- Rights to purchase future equity
- Vesting schedules
- Voting percentages
- Purchase price

¹ Tech Crunch, [6 considerations for managing your cap table](#), Jared Verzello, October 23, 2019

Why Are Cap Tables Important



The cap table of an early-stage company is likely to be simpler than one of a growth-stage company, naturally becoming more complex as the company evolves. However, no matter how simple or complex a cap table may be, it serves the important role of helping founders and their teams make critical decisions about the management of their company.

The data on the cap table can impact areas such as these:²

- Soliciting required stockholder approvals
- Issuing grants to new hires
- Raising additional rounds of financing
- Determining the order in which shareholders are paid at exit



² Tech Crunch, [6 considerations for managing your cap table](#), Jared Verzello, October 23, 2019



How Is a Cap Table Calculated

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When a lead investor sets terms for an investment into a company, they typically work on a document called a term sheet. This is when a decision is made about the “pre-money valuation” of the company (the value of a company before it goes public or receives other funding or financing)³ and how much money will be raised during the funding round.

Once the term sheet is defined, all the calculations on the cap table build off one another using the formulas below.⁴

- **Post-Money Valuation** = Pre-Money Valuation + Total Investment Amount
- **Price-Per-Share** = Pre-Money Valuation / Pre-Money Shares*
*Shares or units, depending on the venture's corporate structure
- **Post-Money Shares** = Post Money Valuation/ Price-Per-Share
- **Investor Percent Ownership** = Investor Shares / Post-Money Shares

Below is a simple cap table that links to a sheet that shows the formulas and the answer:

First Round of Funding

Pre-Money Valuation	\$ 3,000,000
Amount Raised:	\$ 1,000,000
Post-Money Valuation	\$ 4,000,000
% of Ownership Being Sold	25%
Initial Outstanding Shares	6,000,000
Post-Investment Shares	8,000,000
Shares Being Sold	2,000,000

	\$ Invested	Common Shares	Preferred Shares	Price-per-Share	% Ownership
Founding Team	N/A	6,000,000	N/A	N/A	75.00%
Investor X	\$ 500,000	N/A	1,000,000	\$ 0.50	12.50%
Investor Y	\$ 300,000	N/A	600,000	\$ 0.50	7.50%
Investor Z	\$ 200,000	N/A	400,000	\$ 0.50	5.00%

*The Full Ratchet, A Simple Capitalization Table, <https://fullratchet.net/a-simple-capitalization-table>

3 Investopedia, [Pre-Money Valuation](#), Will Kenton, Updated May 27, 2021

4 Hyde Park Angels, [How to Read and Understand a Cap Table](#), Hyde Park Angels, Medium, Sept 15, 2015



What Other Information Does a Cap Table Include



There is no set of specific content that is required to be included in a cap table, but there are some common elements that most companies include:⁵

- The name and role of shareholders
- The security and share class the shareholder owns, like common or preferred stock
- The quantity, dollar value, and percentage of fully diluted shares for each shareholder
- The details and dates of each funding round
- Total number of authorized shares, including employee stock options and incentives



⁵ Diligent Equity, [Understanding Cap Tables for Start-ups](#), June 6, 2019



What Do VCs Look For in a Cap Table



“ If org charts are about people power, cap tables are about money power.⁶ ”

The detail of a cap table's structure is only part of the story. It can powerfully illustrate a venture's growth potential or signal its risks. Seasoned VCs know specifically what to look for in a cap table when evaluating investments.

Mike Collins, Chief Executive Officer at Alumni Ventures, points to these elements he typically looks for:

- **Who are the major shareholders**, and what special powers or rights do they have?
- **Patterns**. Have the insiders or lead investors leaned in or leaned out as the company has progressed?
- **Preference waterfall**. Who gets out, and in what order?
- **Downside protections** in case things get tough
- **Management stake and incentives**
- **Minority shareholder rights and protections**

Many VCs also want to ensure that founders still own enough of their company to set them up for future success. Having enough equity in reserves gives startups important tools to attract great employees and bring new investors into future rounds. Investors also want to know that the founder has a significant stake in the success of the venture to ensure that they stay motivated.⁷

⁶ Diligent Equity, [Understanding Cap Tables for Start-ups](#), June 6, 2019

⁷ Silicon Valley Bank, [How to Tell the Story of Your Startup's Cap Table](#)



Capping It Off

If regularly breaking down the details of a cap table isn't of interest to you, we get it. You can trust that our investment teams are doing that on your behalf. But if you love opportunities to exercise your venture muscles, we invite you to dig in by reviewing the due diligence material made available when [reviewing a Syndication opportunity](#) to put your knowledge to the test. Look for more [101 articles from Alumni Ventures](#) in the near future.

* Alumni Ventures Syndications are private investment opportunities in single asset funds, which give you a chance to gain exposure to specific private companies in which AV Funds will also be investing. Opportunity availability is governed by Alumni Ventures management based on member preference, calendar, availability, allocation, and other factors.



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