Start Up in ICT

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Equity

Ownership / Equity

Corporations are owned by shareholders who invest money in the business by buying shares of stock. The concept of **ownership** refers to legal control over a business. It gives the owner the legal right to make certain business decisions.

The portion of the corporation they own depends on the percentage of stock they hold.

For example, if a corporation has issued 100 shares of stock, and you own 30 shares, you own 30 percent of the company.

Equity: "the value of the shares issued by a company." "one's degree of ownership in any asset after all debts associated with that asset are paid off."

Source: google et al

Who gets them?

- **Initial Founders**
- **Key Advisors**
- **Investors**
- **Key Employees**

Most important: there is not a fixed rule, every startup team will need to figure out how to structure equity and related rules since equity is one of the main "value" drivers in this stage.

1. Initial Team

"Easily **60%** of the the time a startup founders end up in court boils down to **equity distribution issues**."

Matthew Rossetti
Sentient Law, Startup Attormey

Common Criteria

- Even Split – no hassles
- “Future” split: forecast on the time / effort that one is going to provide to the company in the foreseeable future
- “Blackjack” Split: time / effort / impact that one is going to provide to the company right now without any implication for the future.
- Shares equal to that person’s at risk **early contribution** (relationships, extra time, supplies, equipment, facilities, time, money, ideas…).
- (…and remember, founders are the few **crucial key people** in your startup, not only friends and valuable people who would like to take a ride…)

Examples of a founder "Early Contribution"

- Having a solid grasp on the market / need / problem.
- Having the "idea" of the solution – existing patent?
- Who defines the most successful product/service features?
- Contributing most of the "initial development"
- Managing the initial development or the development team
- Participating? Full time? Part time?
- Fundraising capabilities, networking, etc.
- Being a pivotal figure in company initial launch and traction
- Being a pivotal figures in creating company initial revenues
- Has in his/her PC, updates & manages the "day-by-day" budget and p&l excel file
- Pays for basic initial expenses (ie business cards)
- Faces the most difficult pitches and talks to investors
- Has a grasp with your market, customers, influencers, early evangelists…

2. Advisors

Given the young and often unexperienced trait of most startup founders, Advisors are an amazing and extremely valuable source of support for startups.

Some of them may dedicate a share of their time in exchange of a small portion of the equity.

Key benefits: Crucial Know-how, Door Opening, …

3. Investors

Especially at the stage of founding, there is not a general rule on the % of the company to be given to the **initial** investors, nor to their nature (FFF, seed investors, etc.).

At the same way, at the stage of founding it is where the process of valuating your startup may be more difficult.

A good advice: as always, **get out of the building**! Which, in this context, boils down to: **talk to your peers!**

4. Key Employees

(not to be confused with co-founders, btw)

Initial startup money is often not enough to find the high value key employees needed in early stages.

This is where the company shares may offer a valuable tool.

Most important, as a side effect, these employees may and will not feel as employees-only and they will but a lot of extra effort to make your venture successful, since it’s, in part, **their** venture too!

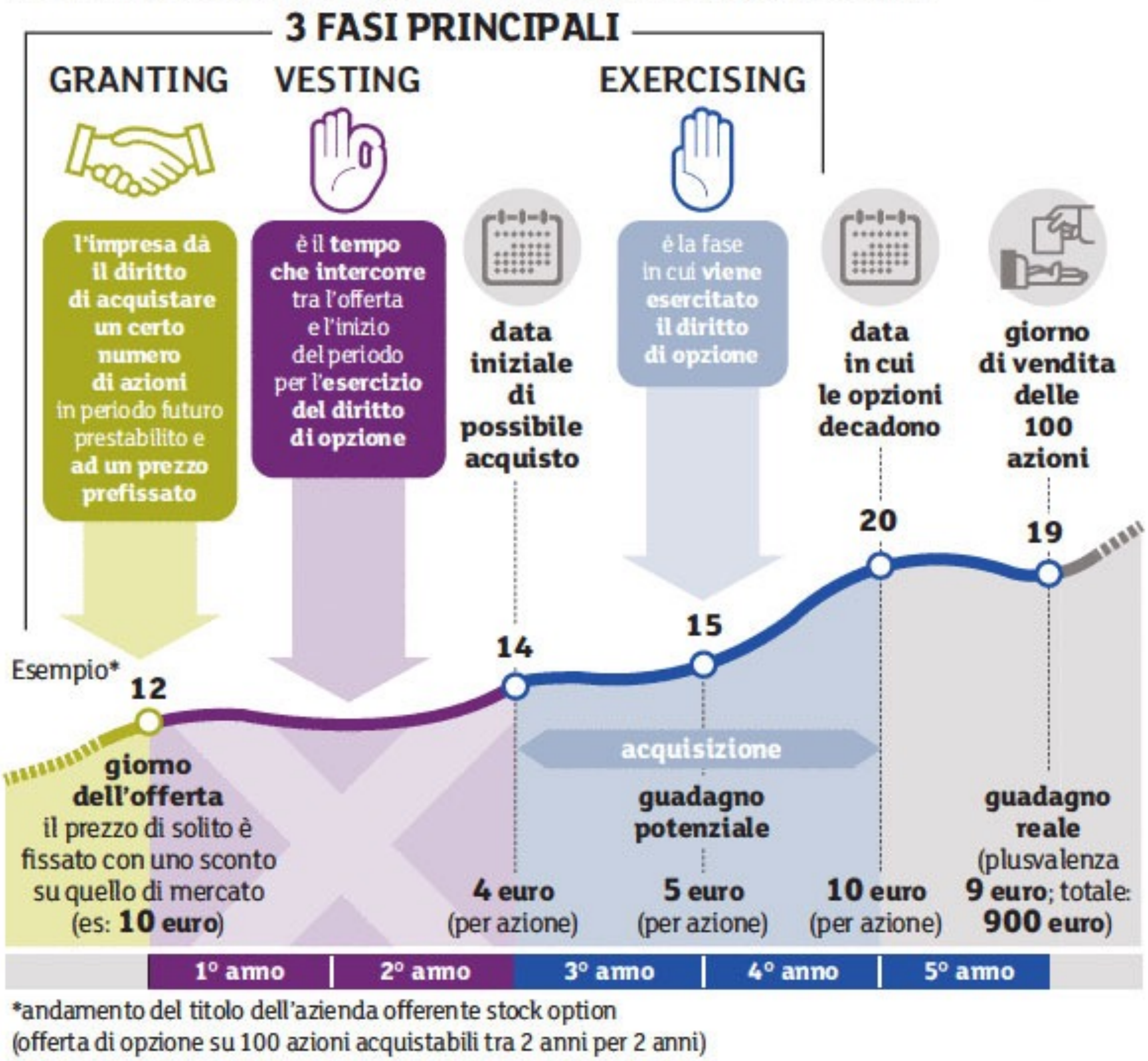
Stock options

Stock options are a tool that can compensate the difference between a talented figure market value and your compensation rate.

Most important, they are also a tool to boost that figure involvement and effort.

Vesting: additional mechanism which provides a long term motivator (and risk mitigator) in stock option management and will also provide to outside potential investors a clear picture of the company ownership/involvement strategy.

Process



Source: borsaitaliana.it

So... How does it work within your company?

There are two crucial documents.

- **Bylaws / Articles of Association (Statuto) (mandatory)**
    - Public (everybody can read it)
    - It applied to every shareholder, present and future
    - It states rules which are "by shareholder" and not nominal.
    - It needs to be written/signed by a notary.
- **Shareholders' Agreement (Patti Parasociali) (optional)**
    - Private and nominal.
    - Valid only between specific, well identified people, who sign the agreement personally.
    - Privately written and signed. No need for a notary.

When in conflict, Bylaws have the prevalence.

Typical Clauses

These are some very important clauses in shareholders' agreements (there are many...).

- **Put Option:** shareholder MUST be able to sell his/her stocks under condition X – or sell his/stock to specific shareholders.
- **Call Option:** shareholder MUST sell its stocks under condition X.
- **Drag Along:** specific shareholder can trigger the call option of other shareholder when selling his/her participation.
- **Tag Along:** specific shareholder can trigger his/her put option when other shareholders are selling their participation.

- **Lockup:** time a specific shareholder must stay within the company (or specific rules trigger).
- **Good Leaver:** what happens to a shareholder that MUST leave the company involuntarily.
- **Bad Leaver:** what happens to a shareholder that chooses to leave the company voluntarily.
- **Liquidation Preference:** applies to liquidation events (some shareholders have a better selling position having their investment liquidated before the actual division of company value).

Terms

- **Equity**: "the value of the shares issued by a company." "one's degree of ownership in any asset after all debts associated with that asset are paid off."
- **Fair Market Value**: "the current *value* of the shares."
- **Valutation**: "an estimation of something's worth, especially one carried out by a professional appraiser".
- **Shares**: "Shares outstanding is the total amount of shares that are held by all its shareholders."
- **Stock Option**: "a benefit in the form of an option given by a company to an employee to buy stock in the company at a discount or at a stated fixed price."
- **Vesting**: "Employees might be given equity in a firm but they must stay with the firm for a number of years before they are entitled to the full equity. This is a vesting provision."

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WhatsApp group

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