Co-founder Equity

How do nascent companies divide equity among founders?

A crucial conversation

Founding a company is an intense experience. It takes imagination and exhaustive effort to turn an idea into a full-fledged business—which is why the majority of new companies have multiple co-founders.

But how should co-founders think about splitting their ownership? While there are a hundred factors to take into account when deciding how to divide up equity, founders are in the dark when it comes to how other companies are tackling this problem.

Carta's research team dug into our expansive data set of new companies to create that context. We identified more than 18,000 founders from nearly 8,000 companies and investigated how they split equity. Crucially, we only looked at data from before these companies had raised any funding.

Settling on a founder split can require some difficult conversations but the upside is clear. Founding teams who split evenly by default, avoiding these tough discussions, are almost 3x more likely to have unhappy co-founders.

We hope this analysis can help ground your conversations in market-based benchmarks, making it more likely that everyone in your founding team feels valued as you begin building.

Carta's co-founder data set

All companies incorporated from Jan 1, 2019 to Sep 1, 2021

18,228 founders

7,764 companies

21 industries

Defining a founder

There are more than 1.5 million equity holders on Carta's platform—so we needed to create strict parameters to find our founder-only data set. All companies included in this report were incorporated on or after Jan 1, 2019. Only 17 companies had six or more founders and are not included below.

We classify equity holders as founders if they have either of these criteria:

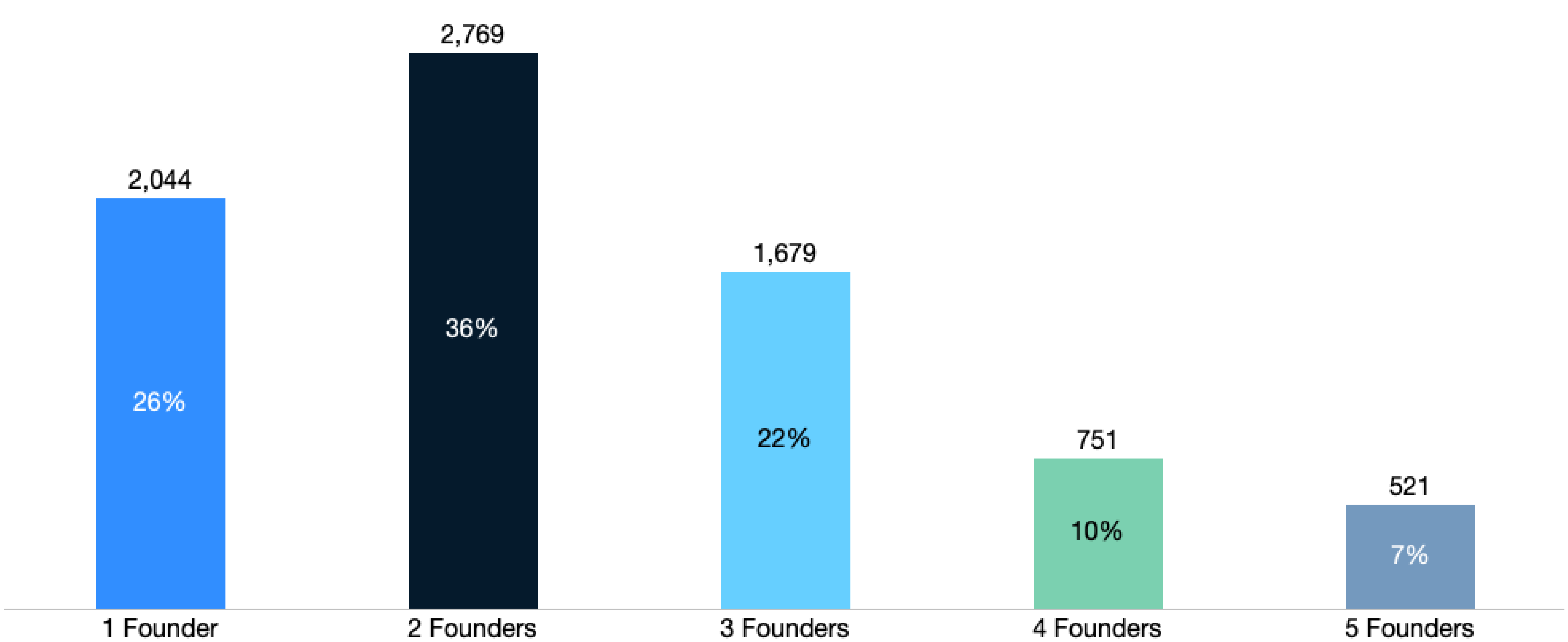
- Named as a founder within the Carta platform
- Granted shares within a share class named "founder shares"

We also classify equity holders as founders if they have all of these criteria:

- A total ownership stake over 5%
- Shares issued before the first financing round
- Shares that were among the first five securities issued
- Shares have not been transferred/repurchased, or converted
- Shareholder name is individual, not institutional

Founding team distribution

Number of companies by founding team size | total companies: 7,764



Founding team variance

Before deciding on equity distribution, a more pressing question looms: How many founders does this business need? While there is no “correct” answer, certain industries do cluster around different size founding teams.

For instance, in the biotech and medical devices industries, founder teams of three or more make up more than half of all new companies.

Founding team size by industry

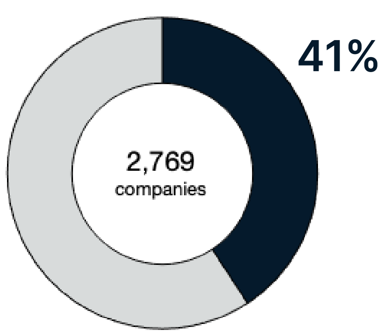
Industry	Founding team size: 1 founder	2 founders	3+ founders	Company #
BIOTECH / PHARMA	15%	26%	59%	423
MEDICAL DEVICES	25%	25%	51%	146
HARDWARE & ELECTRONICS	19%	35%	46%	253
TELECOM	29%	25%	46%	72
SOCIAL MEDIA	29%	31%	40%	223
ADTECH	34%	27%	40%	139
FINTECH	25%	36%	39%	676
DATA AI / ANALYTICS	24%	37%	39%	391
NUCLEAR / RENEWABLES	23%	38%	39%	109
CYBERSECURITY	28%	33%	38%	165
ECOMMERCE	29%	33%	38%	124
HEALTHCARE TECH	26%	37%	37%	576
GAMING	24%	39%	37%	225
SAAS	24%	40%	36%	1,537
MARKETPLACE	33%	31%	36%	379
FOOD PRODUCTS	31%	35%	34%	239
EDTECH	31%	36%	33%	215
LOGISTICS	22%	46%	32%	95
ERP / HR SOFTWARE	33%	35%	31%	105
CONSUMER SERVICES	34%	35%	30%	99
APP ENTERPRISE SOFTWARE	34%	38%	29%	185

1 founder 2 founders 3+ founders

Equal equity splits

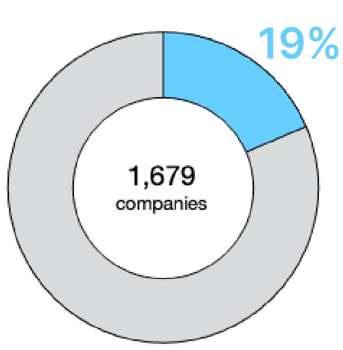
Some teams do end up dividing equity equally among all co-founders, whether by default or following a long discussion. However, equal splits are in the minority within two-founder teams, and they become rarer still as the number of founders on a team increases. This pattern holds true across major VC markets like California and New York, as well as in less-developed startup ecosystems.

Equal equity frequency by founding team size



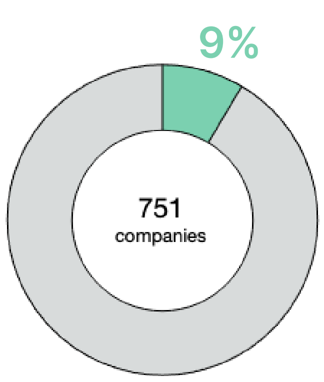
Two-founder companies

The split is equal in 41% of all two-founder companies.



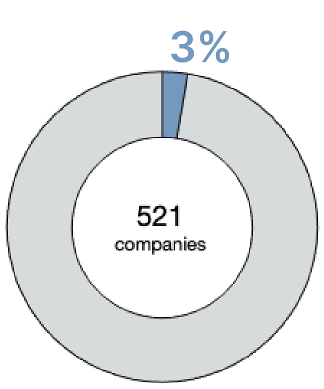
Three-founder companies

The split is equal in 19% of three-founder companies.



Four-founder companies

The split is equal in 9% of four-founder companies.



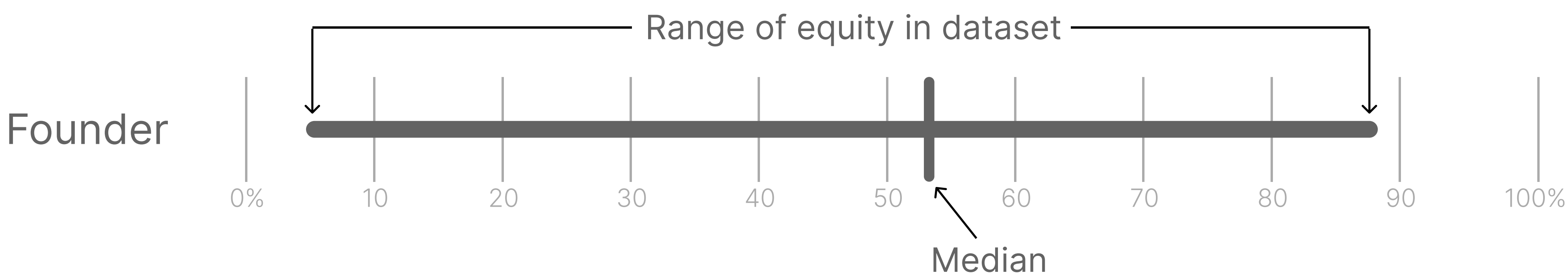
Five-founder companies

The split is equal in 3% of five-founder companies.

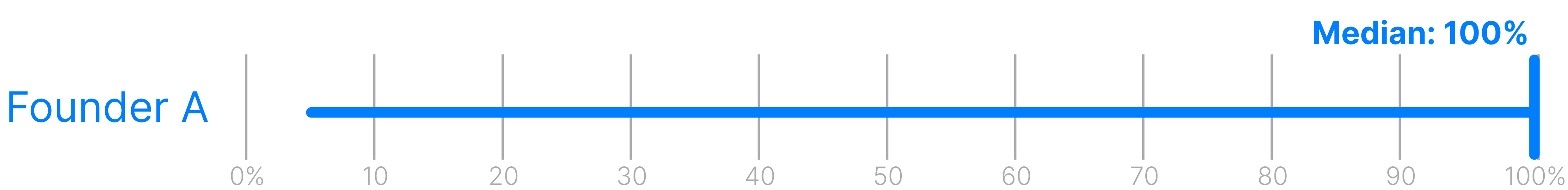
Median equity by founder

So what do founding teams *actually* end up doing? Across the major funding team sizes, there is a consistent pattern: Companies will usually grant one founder an outsize portion of the total equity. This unequal distribution gives the team (and outside investors) a clear sense of who will ultimately make strategic decisions for the business.

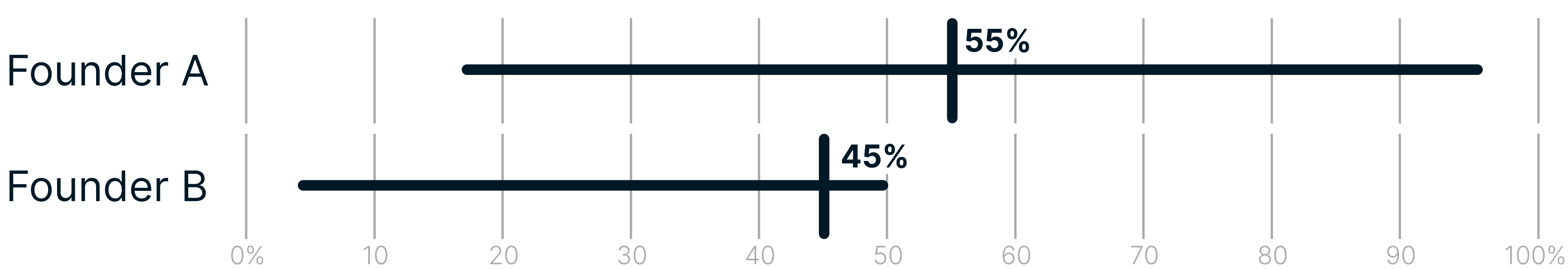
We've charted the equity distribution for each founding team size below:



Single founder | 26% of all companies



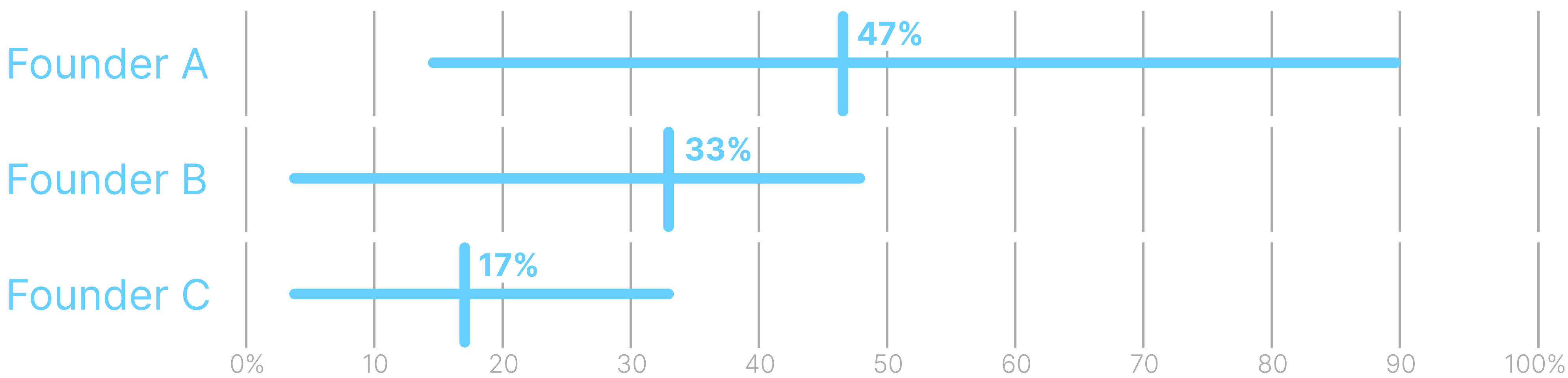
Two founders | 36% of all companies



A plurality of companies in our data have two-person founding teams. Typically, one founder will have majority control, even if the two co-founders' overall stakes are relatively similar.

Median equity by founder

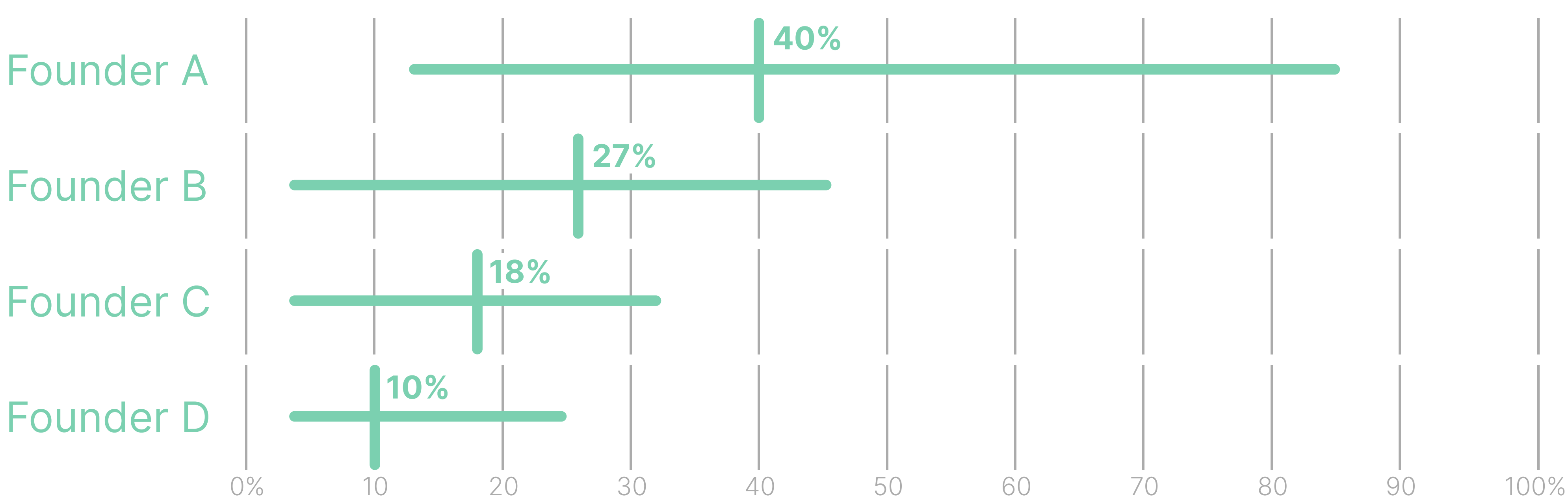
Three founders | 22% of all companies



Three-founder companies exhibit a strong preference for the outsize, or pillar, founder. However, the median pillar founder in these teams does not have majority control. This may be a nudge to encourage collaborative decision-making.

Three-founder companies are most common in the biotech, medical devices, and hardware industries, suggesting that startups in more heavily regulated industries have a preference for larger founding teams.

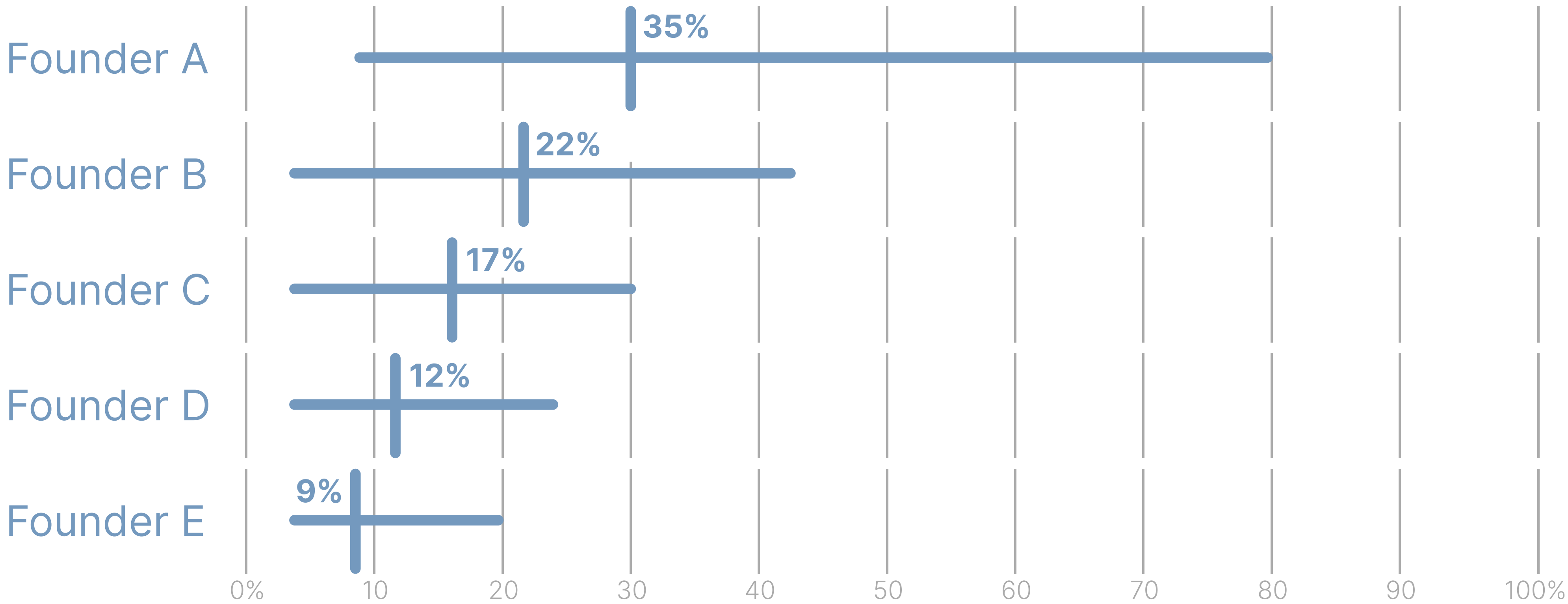
Four founders | 10% of all companies



Four-founder companies again show a marked preference for one pillar founder. That preference has become stronger in recent years. For example, the median equity for a pillar founder ("Founder A") stands at 42% for companies incorporated so far in 2021, up from 39% in 2020.

Median equity by founder

Five founders | 7% of all companies



After the pillar founder, the gap between founding team member equity narrows slightly within five-founder companies. Founding teams of this size are becoming less common—only 4% of companies incorporated in 2021 have five founders.

Divide and conquer

There are many ways to divide the equity pie among a group of co-founders. What's clear from Carta's data is that a strong majority of founding teams **choose to split equity unequally (81% overall)**.

Once they've chosen a split that makes sense for their business, most co-founders also create a vesting schedule for their equity stakes. Provisioning equity grants over two, three, or four years is a good practice to make sure the business is protected against the unexpected—such as an acrimonious split between founders.

Whatever the final division, having a serious conversation about equity is a key moment in the lifecycle of a successful startup.

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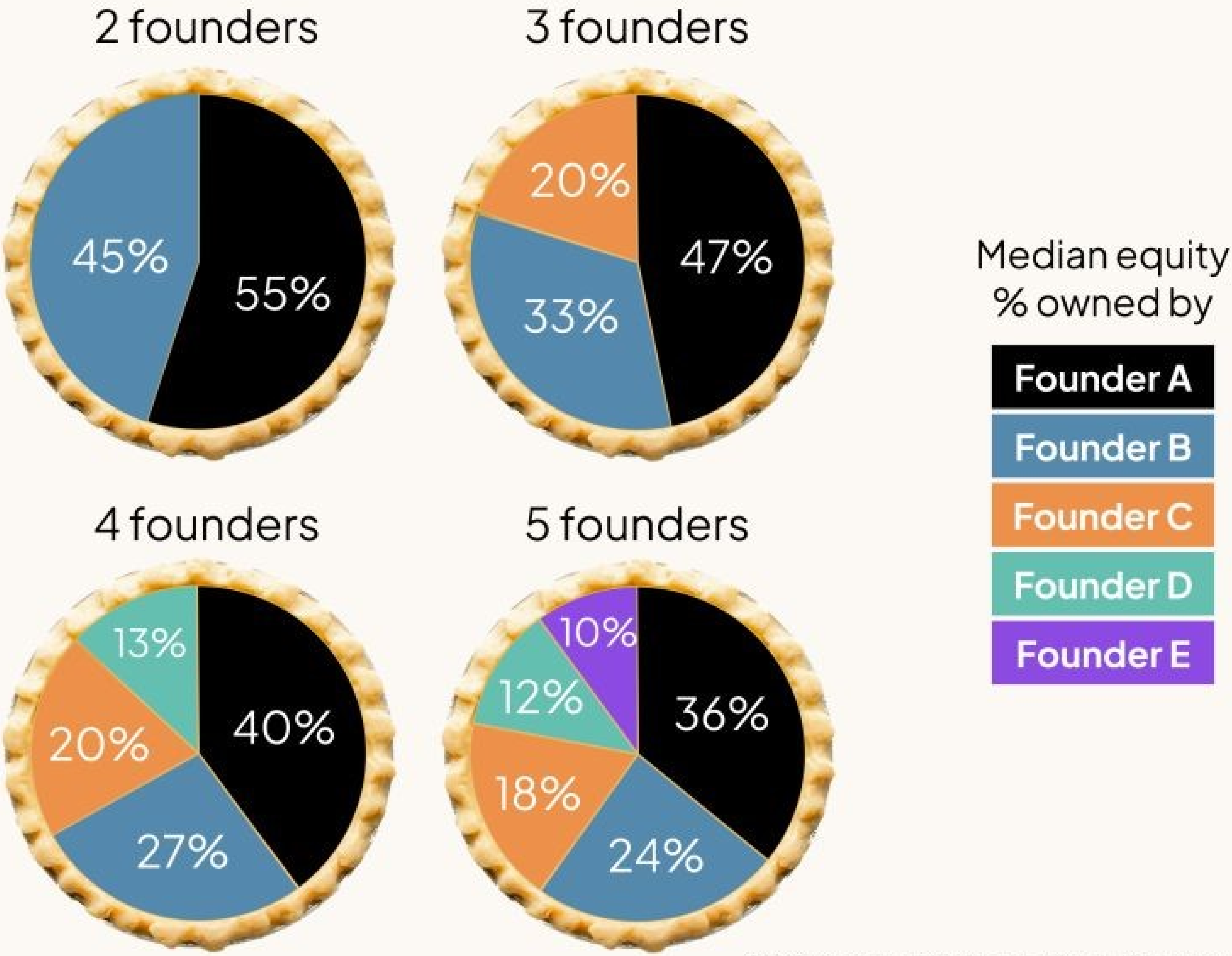
Splitting the co-founder equity pie

How do co-founders cut up their ownership?

Date: 8,509 US companies on Carta | Equity split % **before any fundraising or ESOP**



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