

Example Investment Scenario:

Investment Amount: \$5,000 Investment Vehicle: Convertible Note

Terms:

- 20% discount on the next priced round
- 18-month maturity
- 5% interest rate
- \$5 million valuation cap

Scenario: Let's say Kaizen Health raises a Series A round 18 months after your investment at a \$10 million valuation, with shares priced at \$1 per share.

Here's how your investment would convert:

1. Accrued Interest: $\$5,000 \times 5\% \times 1.5 \text{ years} = \375 Total value: $\$5,000 + \$375 = \$5,375$
2. Conversion price: The lower of: a) \$1 per share with a 20% discount: \$0.80 per share b) \$5 million valuation cap price: \$0.50 per share In this case, the valuation cap gives you the better deal.
3. Shares received: $\$5,375 / \$0.50 = 10,750$ shares
4. Value of your shares at Series A: $10,750 \text{ shares} \times \$1 \text{ per share} = \$10,750$

In this scenario, your \$5,000 investment would turn into \$10,750 worth of shares, representing a 115% return in 18 months.

Important Notes:

1. This is a hypothetical scenario. Actual returns can vary significantly and depend on future funding rounds and company performance.
2. Startups are high-risk investments. There's always a possibility of losing your entire investment.
3. The convertible note structure protects your investment by giving you the best possible price when converting to equity.
4. As an early investor, you're positioned to potentially benefit from future growth if the company succeeds.