Next up, we're going to talk about the differences between convertible debt and early-stage deals and late-stage deals.

Clint: When are times when a startup company can raise convertible debt?

Brad: You often see convertible debt at the beginning of the life of a company. The first financing, the seed financing, or the pre-venture financing. You also see convertible debt later in the life of the company. Oftentimes, as a bridge.

In fact, historically these convertible debt financings are called "bridge financings." It's a bridge to the next round of equity and financing. You might have a situation where you've raised some money, you have some venture capital investors, and you've made some progress. You haven't quite made progress to the next round, or the market dynamics are such that it's hard to raise money at that particular point in time, or you try to raise money and you have an unsuccessful fundraise.

Oftentimes, existing investors, rather than doing what's called an "inside round," where they invest and set the terms for your next round of financing. What will happen is your existing investors will do a convertible debt round or a bridge financing.

A common cliché is that you only want to do bridge financings as an investor when it's a bridge to somewhere. The bridge financings that actually don't go anywhere got called "pier financings" after a while. They should be called "gang plank" financing. Essentially, financings that don't really get you to the next venture financing is a bad kind of bridge financing. The good kind of bridge financing is one where you raise a couple of million dollars, or $5 million, or maybe even more from your existing investors on a path to getting you to that next round of equity financing.

Clint: In these bridge financings, are the terms similar to what they are in the early stage? Is there a discount, a cap, and these kinds of things?

Brad: Oftentimes, the terms in these bridge financings are very similar. All the stuff we talked about earlier holds true. Although, you'll often see more aggressive terms in terms of the equity features or the additional economics associated with the bridge financing.

You'll see a bigger discount, or you'll see more warrants, or you'll see a bigger multiple on the exit. Instead of a two times multiple you might see a three times, four times, or even a five times multiple. The existing investors are not pricing your financing. They’re trying to preserve as much upside as they can while still giving you the capital that lets you get to the next round.