Cap Table Test (Arbor)

Answers to the Cap Table Test should be submitted in a model in Microsoft Excel. Please review the whole test, including assumptions made, before starting.

A Company is raising a Series A financing. The current capitalization table is shown below.

Investor	Common	Seed	Options
Founder 1	400,000		
Founder 2	400,000		
Brandon		100,000	
Stephanie		100,000	
Frankie		50,000	
Marie		50,000	
Other Series Seed		100,000	
ESOP (Allocated)			75,000
ESOP (Unallocated)			50,000

Series Seed shares were 1.5x participating preferred shares. After the Series Seed the post-money valuation was $25M. Assume the Series Seed was completed on 1/1/2020.

Question 1: How much did each investor invest in the Series Seed? Assume option pool was established in the pre-money and no convertible notes converted in the round.

After the Series Seed, the Company raised additional capital in the form of convertible notes. As such, there are four outstanding convertible notes which will convert into the Series A round.

Convertible Note 1 -- Investment date of 6/1/2020, $500k Stephanie, $500k Brandon, cap of $25M, 20% discount, 3% non-compounding annual interest

Convertible Note 2 -- Investment date of 12/1/2020, $1M Stephanie, $1.25M Brandon, $500k Marie, cap of $35M, 20% discount, 3% compounding annual interest

Convertible Note 3 -- Investment date of 4/1/2021, $500k Stephanie, $500k Frankie, cap of $40M, 15% discount, 5% non-compounding annual interest

Convertible Note 4 -- Investment date of 10/1/2021, $750k Marie, $250k New Investor (TechVC), cap of $40M, 10% discount, 5% non-compounding annual interest

Question 2: Frankie is hoping to own 10% of the company following the Series A. Write a formula that determines the pre-money valuation required, depending on the amount raised from other

Series A investors. Assume no more options are added and that Frankie was the only convertible note investor (ignore CN 1, 2 & 4 and other investors in CN 3).

Series A Financing Details

The Company is raising a Series A financing in April 2022 at a pre-money valuation of $45M.

Investment Structure:

- Stephanie will invest such that her total ownership following the round is exactly 15%
- Brandon will invest $1.5M in new money
- Marie will invest $1M in new money
- TechVC will invest $2M in new money
- NewCo Ventures (new investor) will invest $3M

Total raise will be determined by Stephanie's required investment to achieve her 15% target

An unallocated ESOP of 10% will be established in the pre-money.

Note Conversion Mechanics:

- All notes convert at the Series A price ($45M pre-money ÷ pre-money shares outstanding)
- Note 1 converts into Series A-1 shares (1x participating, pari passu with Series A)
- Note 2 converts into Series A-2 shares (1x participating, pari passu with Series A)
- Note 3 converts into Series A-3 shares (1x participating, pari passu with Series A)
- Note 4 converts into Series A-4 shares (1x participating, pari passu with Series A)
- All Series A, A-1, A-2, A-3, A-4 shares are senior to Series Seed

Question 3: Calculate the dollar amount Stephanie must invest in the Series A to achieve exactly 15% ownership post-round.

Question 4: Create a cap table in Excel modeling the new round with the conversion of the notes in the pre-money.

Question 5: Create a cap table modeling the new round with the conversion of the notes in the post-money.

Series B Financing

The Company will raise one additional round before an exit in October 2023. The Series B will have a pre-money valuation of $30M and a raise of $5M.

Series B Structure:

- TechVC will invest $2M
- Existing investors (Series A and later) will invest their pro rata based on their Series A+ preferred ownership percentage
- Any remaining amount will be filled by a new investor (Growth Partners)
- **Note:** Use the actual Series A raise amount calculated in Question 3 for all subsequent calculations

Anti-Dilution Provisions:

- Series A+ shares have weighted-average broad-based anti-dilution protection
- Broad-based includes: Common, Series Seed, Series A+, and all outstanding options in the denominator
- Formula: New Conversion Price = Old Conversion Price × [(A + B) ÷ (A + C)]
    - Where: A = shares outstanding before new issue, B = consideration received ÷ old conversion price, C = new shares issued

Question 6: Calculate the anti-dilution adjustment for Series A+ shares and create the post-Series B cap table.

Additional Assumptions Made:

1. **Interest Calculations:** Interest accrues from investment date to Series A closing (April 1, 2022)
2. **Conversion Priority:** Notes convert using the better of cap/discount vs. Series A price
3. **Option Pool:** The 10% ESOP is calculated as 10% of the post-money, pre-Series A share count
4. **Pro Rata Rights:** Calculated based on preferred ownership percentage (Series A+ only)
5. **Liquidation Preferences:** All preferred series participate until they receive their preference + accrued dividends, then participate pro rata
6. **Fractional Shares:** Round to nearest whole share for final calculations