EXERCISE
CONVERTIBLE DEBT FINANCINGS

Background

You're assigned to a team representing an early-stage startup that's planning to raise money. You're told the following:

- The company was formed about six months ago, and this is the first time that it's raising money from outside investors.
- The founders want to get a deal done quickly and keep negotiations (and legal fees) to a minimum.
- The founders want to keep as much control over day-to-day matters as possible.
- The founders aren't sure how to value the company at this early stage, plus they think that their company will be worth a lot more after they make just a bit more progress.
- One of the founders thinks that an equity round (e.g. a Series A round) would be a good option and the other wants to do a convertible note round.

The founders are coming in to discuss the above with the partner, who has asked for your help in preparing for the meeting.

Instructions

Come prepared to discuss the following:

- Which founder do you think is right and why? The one that wants to do an equity round or the one that wants to do a convertible note?
- How can the founders incentivize investors to come in at this early stage?
- What are the alternatives to equity rounds and convertible notes that the founders should be aware of?
- Assuming the founders go with a convertible note, what are the key features of a note that they should be aware of?

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