



Preparing for your exit:

GEARING UP & GETTING OUT



TABLE OF CONTENTS

1 Introduction

2 Chapter 1: Basecamp

What it means to think about stock ownership

4 Chapter 2: Inspection

What it means to think about transparency and audits

7 Chapter 3: Gearing up

The tools that take you to the top

8 Chapter 4: Summit

Determining your goals

9 Conclusion



INTRODUCTION

Like scaling an icy mountain summit, the business ownership journey is challenging and rewarding—especially for those who learn from their own missteps and the lessons of their predecessors. The trek from formation to the peak of the mountain may be an uphill climb, and business owners can only hope the course they've charted leads to the top.

What is at the peak of this journey? A public listing? Acquisition by another enterprise? The path from base to summit is unique to every business, but important mile markers can help businesses understand the role of ownership and investment along that journey to prepare for the ultimate goal: creating life-changing wealth for you, your shareholders, and your employees.

Preparing for your exit: Gearing up and getting out will provide a bird's-eye view of these markers to help business owners understand how to craft the travelogue of their journey to the top, whatever that may be.

The narrative guides and climbing partners—and the map of this asset from those who've gone before—will include a comprehensive discussion about how an established organization can use employee share plans across an ownership life cycle to reach the top of their mountain with sure footing.



CHAPTER ONE

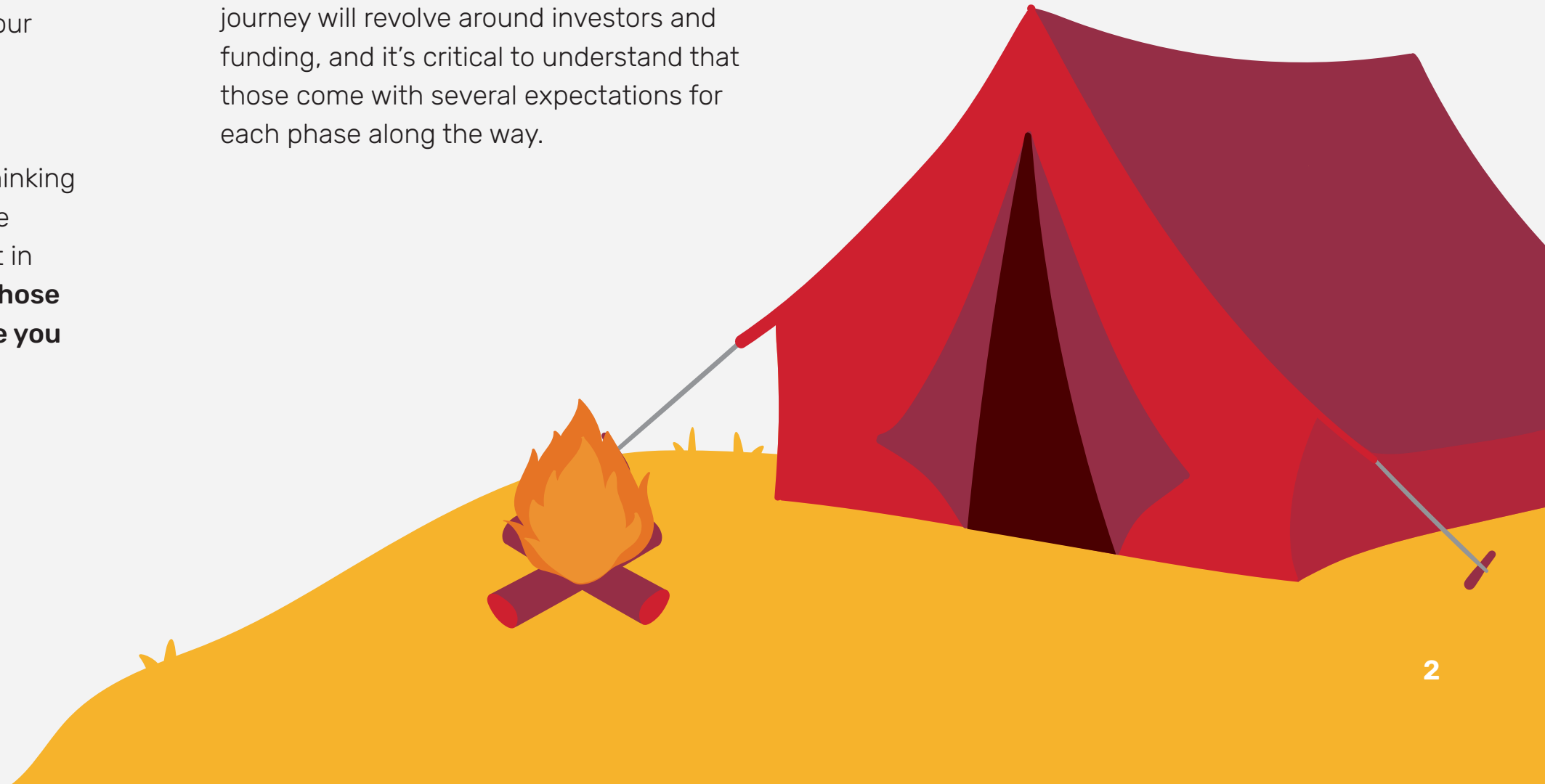
BASECAMP—WHAT IT MEANS TO THINK ABOUT STOCK OWNERSHIP

The journey to the top of the mountain is a journey of choices, each one leading to the next, with your company searching for the right footholds and crevasses to make your way up the trail.

As you form a business, you most likely aren't thinking far into the future—at that point, it's all about the challenges and opportunities that show up right in front of you. **Predictions, goals, blueprints ... those will come with the experience and knowledge you gain along the way.**

You'll need to be as prepared as possible for that journey, however, not only with tools and information but with the wisdom to know what to do with them as well.

As a private company, much of your financial journey will revolve around investors and funding, and it's critical to understand that those come with several expectations for each phase along the way.



CHAPTER ONE

What's important to note about later funding rounds is that investors want to know they are working with a company that has a handle on their financials and good corporate governance. Angel investors might understand some gaps in knowledge, but if a Series A, B, or C investor asks about your cap table or their investment, and you can't provide that information readily (or it is inaccurate), that will seriously shake their confidence.

These realities become more pronounced as different potential exits emerge for you and your business leadership. Are you planning to go public? Will a larger company move in to acquire your business? Are you considering an exit by selling to current management and employees as a 100% employee-owned enterprise? Has a private equity firm been knocking on your door?

A cap table will be one of the first things anyone considering a transaction will request. Sending a spreadsheet or taking too long can sink the entire deal.

Seed Funding

At this stage, your organization is just starting to think of offering equity for funding from angel investors or other venture capitalists. Investors are putting money down on what they think is a business they can believe in, whether financially or ideologically.

Series A Funding

Once your business has a foundation—whether that is through a user base, dependable revenue, or meeting or exceeding key KPIs—you can move towards Series A funding. More importantly here, the passion and excitement that drove seed funding aren't necessarily enough to carry you over this mile marker, where investors will expect a solid business plan with ideas for expanding services or offering revolutionary new products.

Simply put, at this stage, those around you will expect that you know where you are going and how you are going to get there.

Series B Funding

You're out of development and into expansion. It isn't about getting your feet under you anymore—it's committing to the path laid out in Series A and bringing on the investors you need to meet those demands, whether in labor, growth, or product development.

Series C+ Funding

At this point, you're well on your way. Investors are looking to grab a sure thing and get big returns without taking on a lot of risk for a journey that may not go anywhere. This doesn't mean your business is bulletproof, but it does mean that wherever you are going is well within sight.

Most investors are focused on how to scale your business for a smooth, rapid ascent.

CHAPTER TWO

INSPECTION—WHAT IT MEANS TO THINK ABOUT TRANSPARENCY AND AUDITS

A quick note about cap tables as a legal and functional business record: **Every company has a cap table.**

Even if it is one person owning the company or it is an LLC, there should be a cap table documenting who owns what portion of the company (whether shares or units). As that model of ownership changes (adding or onboarding additional investors, expanding your employee stock plan, etc.), the cap table rapidly becomes much more complex.

The less you keep up with things, the harder it is to catch up ... in the case of growing enterprises, potentially to the tune of millions or billions of dollars, euros, or yen.

Unfortunately, too many executives still see their cap table as a glorified Excel spreadsheet and tend to use Excel as a solution for that purpose. But Excel can't account for the various layers of transparency, security, and availability that will be expected from your cap table as your company scales. With Excel, changes are not tracked, and calculation mistakes aren't monitored. If an employee or investor disputes ownership rights, a typo, a misplaced variable, or an accidental decimal point can cost millions.

Consider the following: **Roughly 40% of businesses preparing to go public aren't ready to do so.** As a company moves towards IPO, it needs to prepare to be publicly traded, with all the added complications that brings.



CHAPTER TWO

A well-organized business needs to have its house—and its ownership records—in order.

The costs of going public are enough to scare off plenty of business owners. According to Crunchbase, **just the legal and auditing fees for a \$100 million IPO can cost upwards of \$4 million**, all to help the company move all shareholder records to the registered transfer agent and prepare for complex regulations. Missing information, bad audit trails, and lost documentation all bottleneck into a process that doesn't have any wiggle room in terms of compliance.

And what happens when your organization hits that regulatory wall? You can go back to your source documents and hope you can successfully validate the information in your cap table. A misplaced decimal, a bad equation, or a handover between CFOs can fall into the cracks of the mountain, never to be found again. If you can't follow the rope line back to base, it could cost you tens or hundreds of thousands of dollars in forensic audits.

Even private companies, without the heavy compliance obligations of their public counterparts, still need ways to maintain transparency and effective auditing capabilities to show investors—both current and potential—and the IRS that everything is aboveboard.

Speaking of investors: No investor wants to write a check for a company without receiving some information about their investment. Companies that can't produce quick, accurate information about those investments or an accurate cap table damage their reputation. Remember, as a business evolves, investors expect to have faith in the professionalism of that business. If they can't get ready information or feedback on their investment, that shakes their faith in the expedition.

Institutional investors who are more likely to invest in your company as you grow require quarterly reports to maintain their obligations to their investors. They won't have time to wait while you get your records in order. You may also need to ask that investor for additional capital. If they don't know how many shares they purchased the first time around, they won't be as eager to write another check.

CHAPTER TWO

And, of course, there is the reality of employee stock options and talent retention. According to a 2018 study by Deloitte, **a full 69% of respondents** claimed that they used employee stock plans to attract and retain talent while aligning the interests of that talent with company goals. If employees don't understand the value of their equity and ownership, it's not going to be meaningful to them. It's difficult to then articulate their benefits or speak to their needs without some source of truth.

When traveling up the mountain, you must know the lay of the land—and that includes the rules of climbing. Want to go public? Your books better be in order. Preparing for an acquisition from a third party? Better know how your ownership and obligations play out, what you'll get in profit, and what you'll end up paying out in fees.

For example, a TechCrunch study shows that **employees with stock options in VC-backed startups paid \$11 billion in unnecessary taxes** simply because of when they exercised their options during their journey to IPO.

Tax laws, regulations, and professional processes are dense and difficult to parse, and you and your employees should have whatever resources you can to make the best decisions.

Cap tables aren't just a record. They are an artifact for business intelligence that supports informed decision-making—the compass that helps you make use of your business's trail map.



CHAPTER THREE

GEARING UP—THE TOOLS THAT TAKE YOU TO THE TOP

In many ways, what makes a cap table solution effective in pushing companies to the top of their mountains is the equipment used on the way.

That's because it isn't enough to just have the information on hand—you must be able to connect business processes, operations, and people across a cap table to make it useful.

Some of the critical tools to look for in a cap table provider include:

Blockchain Ledger

Control and transparency are critical for cap tables, and a private, managed blockchain is a perfect foundation to promote both. With a blockchain ledger, your organization has an immutable record of every transaction.

This means that any stock owned by any party has a record on this ledger—perfect to instill confidence in record keeping.

AI and Analytics

Administrative tasks around the cap table, including managing documents, automating important processes, and streamlining reporting and record keeping are critical in taking the burden of direct management off of your plate. AI-driven platforms can take the burden of these tasks and make them more efficient and accurate in the long run.

Consider a typical deal for employee equity. Once an agreement is made, documents must be drawn up, signed, stored, and maintained. A specialized AI can take that information and produce agreements, put them into a digital signature service, monitor for signatures, and store them into a secure vault without intervention, saving weeks or even months in the effort.

Modeling and Predictive Analytics

The biggest challenge with your cap table is that, if you don't understand it, that ignorance will bite you when you least expect it. Predictive analytics, often driven by AI, will provide insight into the direction of equity and ownership—how much do you own? How much is owed to investors? Over time, what happens to that valuation?

What is the payout based on different acquisition options or exit strategies? Predictive analytics can provide key insights into complex topics like IPO readiness or employee retention based on vesting schedules.

Secure Document Management

Stock ownership documents are hard to track. With a vault, stock owners can keep documents in place securely in one place without compromising access for business owners or employees.

White-Glove Service

You don't have to navigate this mountain alone. Many financial consultants and businesses have seen these processes before, sometimes dozens of times. Cap tables backed with expertise and experience will be critical in helping you make the right decisions the right way.

CHAPTER FOUR

SUMMIT-DETERMINING YOUR GOALS

The summit may be a clear, obvious goal—or it may come upon you suddenly when you least expect it. Few companies readily prepare for events like third-party acquisition the same way they would for, say, their public offering. In any type of exit or ownership strategy, however, readiness can make all the difference in achieving a successful result. This is what a robust cap table solution provides.

The truth is that you may have what you think are clear goals for moving forward. But without the critical business intelligence and knowledge that comes with an accurate, automated, and reliable cap table, it's hard to understand where you are, how far you've come, and what it will mean for you when you get where you are going.

Good Corporate Governance

You should know, on any given day, who owns your company, how much they own, and what their options are. There shouldn't be any surprises, especially when investors or potential buyers come knocking on the door. Surprises will most likely lead to long, unhappy falls after a long climb.

Accuracy and Audit Trails

Acquisitions or IPOs can happen extremely quickly, and backfilling corrections and forensic audits to meet those challenges is a terrible practice—and potentially a deal breaker. People make decisions based on data on hand, and if you don't have access to your best data, it should call into question the foundation of your goals.

Faith and Trustworthiness

It's hard to overstate the role faith plays in both business and mountain climbing. If you don't have faith in yourself and the people around you, then no one outside of your organization will give it to you. If someone wants to buy your enterprise or invest in your business and receives an incorrect cap table, it shakes their trust and confidence.



CONCLUSION

Astellra is a cloud-based cap table management solution geared toward helping businesses understand their equity and ownership structure from formation to exit.

Backed by experts with multiple years of experience, Astrella guides our clients to the top of their mountains with a combination of effective and powerful tools:

- Intuitive cap table data with waterfall and exit-scenario reporting tools at your fingertips
- Private blockchain ledger technology to provide a reliable and immutable record of all transactions for full transparency

- White-glove onboarding and consulting services to ensure that clients make the most of the platform and their financial decisions, from reporting and audits to best practices in cap table management
- AI-driven processes to streamline admin tasks

The journey is challenging, but you don't have to go it alone. Other businesses have climbed their own mountains, overcome their own hazards, and learned their own lessons.

With Astrella cap table management and white-glove services, you have an expert mountaineer with you the entire way.

Take full control of your equity ownership and drive your business to the top of the mountain.

Sign up for a free demo of the Astrella platform and meet one of our "ownership experts."

[GET YOUR FREE DEMO](#)