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Preparing your cap table for fundraising

Avoid costly cap table errors by making sure you have a single, accurate source of truth to share with investors and lawyers as you fundraise – now and in the future.

The problem with spreadsheets

Managing your cap table on Excel is a manual and error-prone task. If anything changes and you don't send the updated cap table to your lawyer, or vice versa, there's no longer a single source of truth.

The impact of a messy cap table

Keeping your cap table in order is crucial. Incomplete or inaccurate data can affect important business decisions, due diligence discussions with investors and even the price of your next round.

The cost of fixing mistakes

Rushing to resolve cap table errors ahead of raising capital can be costly. Your company could rack up thousands of pounds in legal fees trying to reconcile different versions of its cap table.

Set the record straight

A tidy cap table can help you make informed decisions when fundraising, putting you in a better position to negotiate with investors. Here are some best practices for managing your cap table efficiently and compliantly:

1 Clean up the cap table

This refers to everything that sits on the cap table itself – including stakeholder and ownership details (such as the type of security, ownership percentage and investment date), the size of your option pool and the number of outstanding shares.

2 Keep up-to-date records

Some of your company ownership information is not stored on the cap table, but you still need to keep an accurate record of it. This includes company registers, investor and board rights, the terms attached to different share classes and general provisions like tag-along or drag-along clauses.

3 Speak to a legal expert

Lawyers are like doctors for your cap table: they can fix mistakes and even prevent errors from happening in the first place. As you prepare to fundraise and grow your business, finding an equity management solution that complements your lawyer's expertise will set you up for success.

Common cap table red flags

A lawyer's view of the cap table

To avoid any equity management mishaps, it's important to stay on top of the economics and control of your cap table. Below are some common pitfalls to watch out for and a potential workaround for each situation, as recommended by Fran Spooner, Partner at Marriott Harrison LLP.

Founder incentives

Problem: If a founder gives away more than 20–25% of their company at the seed stage, they might lose motivation as well as majority control. An unequal co-founder equity split might also raise a red flag.

Solution: You could issue share options or growth shares to the under-allocated founder. While growth shares offer greater flexibility, they're more complex and expensive to issue than options.

Investor control

Problem: The control that an investor has over your company is disproportionate to the amount of capital they've invested (note that control is not equivalent to percentage ownership).

Solution: You might want to consider renegotiating the deal terms previously agreed with that investor. A legal document template like the BVCA Model Shareholders' Agreement could be useful in this situation.

Dead equity

Problem: "Dead equity" refers to company shares held by individuals who are no longer actively contributing to the growth of the business, such as early employees, advisors or exited founders.

Solution: To resolve this issue, you could buy back dead equity and redistribute it. Limiting the rights of minority shareholders (i.e. with <5% ownership) could help you avoid this problem in the first place.

Option pool setup

Problem: There are several option pool scenarios that may cause issues in the future – for instance, setting up a pool that's too small and then exhausting it too quickly.

Solution: Expanding your option pool at a later date is possible, although it can be an administrative burden. Topping up the pool also risks diluting existing shareholders, so it's important to keep track of how much equity you're allocating from the start.

Visit carta.com to find out how you can future-proof your cap table.