

CONVERTIBLE P-NOTE

Valuation Cap - Example

A cap on the next round valuation applicable to the seed investor's conversion rate.

Example: a Company issues a \$1 million convertible P-Note with no discount and no cap.

Subsequently, the Company obtains Series A financing at \$20 million valuation. The loan would convert such that the investor would own 5% of the shares [= \$1 million loan / \$20 million valuation].

In contrast, if the P-note had a \$5 million cap on valuation, the \$1 million loan would convert such that the investor would own 20% of the shares [= \$1 million loan / \$5 million valuation].

Although still popular, valuation caps seem to be trending down somewhat. The Report indicates that only 55% of convertible loan deals contained caps in 2015, nearly a 20% drop from the 74% that featured them the year before.