LTSE EQUITY

2022 Future of Equity Report

LTSE EQUITY

Executive Summary

Fueled by emerging trends in non-dilutive funding and new approaches to startup governance, LTSE Equity conducted research earlier this year to learn how founders are approaching their equity choices and strategies today. This report is based on our recent survey that included input from more than 450 first-time and serial founders.

Key findings and trends include the following:

- Founders are increasingly pursuing diverse funding sources, not just traditional equity.
- A good number of founders regret having at least one of their investors in their cap table and as a result are critically assessing what types of investors to avoid, or include, next time.
- Two years of pandemic experience has affected founders at every level. Many are learning to cope with shifting valuations.
- More than half say they are struggling to develop an equity strategy for the company, even as many founders feel confident in their personal equity setup.
- Mixed-gender founding teams feel more confident about their equity strategies than do all-male founders, and they work to adjust allocations to share more equity across all employees.

Introduction

A common approach in research is to extrapolate answers by looking at past trends — for example, the history of a startup in terms of fundraising or cap tables. But we are living in incredibly fluid and volatile times right now, and what we wanted to uncover could not be found by studying the past. The trends we see regarding access to non-dilutive funding and new approaches to governance led us to conduct fresh research among several hundred startups.

For methodology, please see page 33.

In particular, we wanted to learn how founders are attempting to navigate three major forces and trends:

The great resignation (our survey question: ***Has your mindset around employee equity changed after COVID-19 and the hiring trends of the last two years?***)

The rise of alternative sources of non-dilutive funding (our survey question: ***What kinds of funding are you currently looking for? brought about by COVID-19?***)

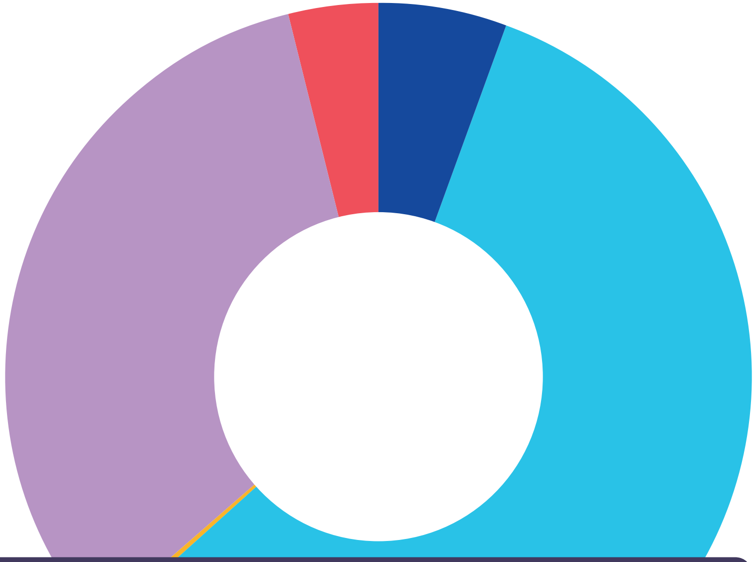
The economic, operational and other systemic shifts that have resulted from the disruptions of COVID-19 (our survey question: ***Does your current valuation reflect opportunities or challenges brought about by COVID-19?)***

These three forces encapsulate some of the biggest shifts in equity and fundraising strategy in years. How founders are responding to them affects not only their own positions, but those of their employees, the VCs backing them, and the startup ecosystem as a whole. They also raise questions about how founders aim to serve their employees — and what the future holds for both employee and founder equity.

Our ongoing quest is to help make equity more equitable for all parties, so it's imperative that we understand the trends in employee and investor equity — and specifically who will benefit from these trends in equity management.

Our methodology involved reaching a mix of first-time and serial founders and mixed- gender founding teams across all stages of funding. Here's a snapshot of our 480 respondents reflecting these characteristics.

Q1 What's the gender composition of your founding team?



Gender composition

The survey includes a good number of mixed-gender teams. We wanted to explore this question because of historical trends for the fundraising efforts of women founders.

Answered: 480
Skipped: 0

Answer Choices	Responses %	# of Respondents
All-female founding team	5.63%	27
All-male founding team	57.92%	278
All-nonbinary founding team	0.21%	1
Mixed gender team	32.50%	156
Prefer not to say	3.75%	18
Total		480

Q2 Are you a first time founder?

First-time and serial founders

The survey responses feature a nearly even mix of serial and first-time founders.

Answered: 480
Skipped: 0

Answer Choices	Responses %	# of Respondents
Yes	47.92%	230
No	52.08%	250
Total		480

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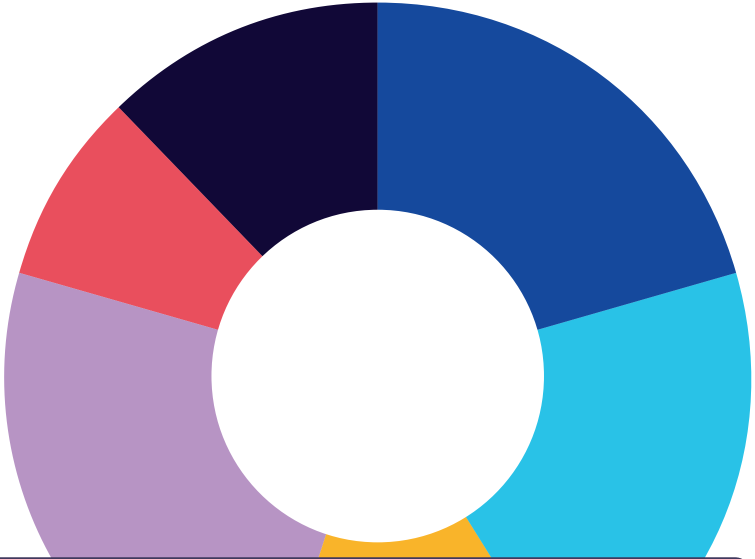
Q3 How much funding have you raised in USD?



Answered: 480
Skipped: 0

Answer Choices	Responses %	# of Respondents
<$50k	20.63%	99
$50,000-$499,000	20.63%	99
$500,000-$999,000	13.75%	66
$1M-$4.9M	24.58%	118
$5M-$9.9M	8.33%	40
$10M+	12.08%	58
Total		480

Exploring the major themes

Trend # 1

Founders are diversifying funding sources; they are also assessing previous funders critically to avoid future mistakes.

Founders at all stages are considering and pursuing new kinds of funding such as Special Purpose Vehicles (SPVs) and equity crowdfunds. And post-funding, a full 25% founders express regret about at least one of their initial investors.

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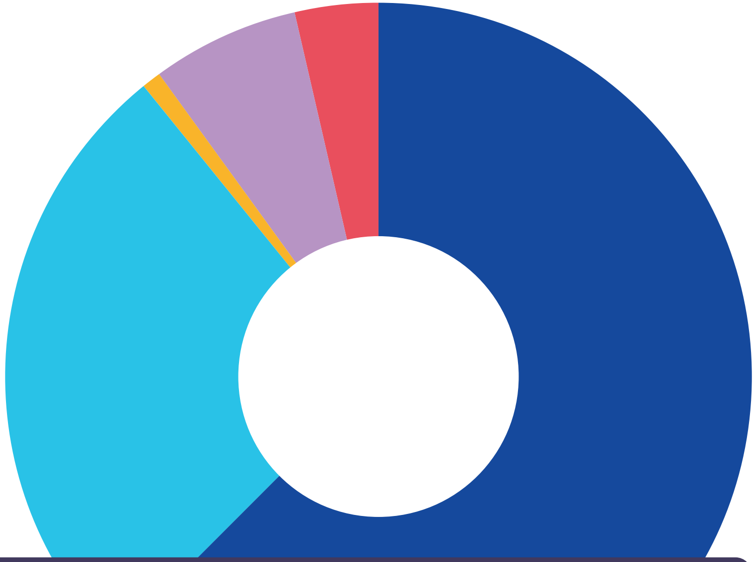
Q4 What kinds of funding are you currently looking for?



Answered: 478
Skipped: 2

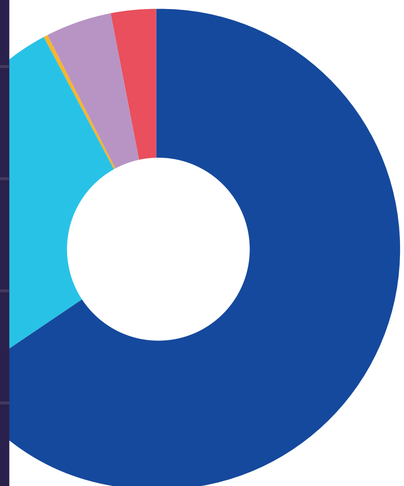
Answer Choices	Responses %	# of Respondents
Equity fundraising	83.89%	401
Non-dilutive funding	35.77%	171
Other (not specified)	1.05%	5
None	8.37%	40
Other (specified as ICOs, convertible debt, and crowdfunding equity)	4.81%	23

*Respondents were able to choose more than one option.

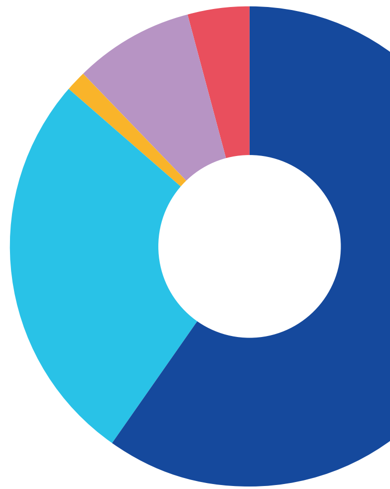
Q4 What kinds of funding are you currently looking for?

Answer Choices	Responses % # of Respondents
Equity fundraising	87.34% 200
Non-dilutive Funding	35.37% 81
Other (not specified)	0.44% 1
None	5.68% 13
Other (specified, see page 8)	3.93% 9

First-time founder



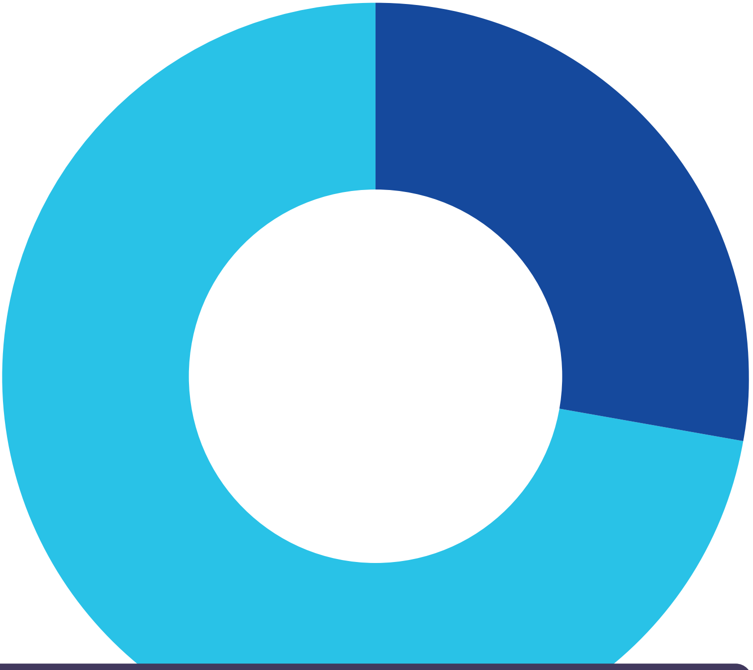
Multi-time founder



Answer Choices	Responses % # of Respondents
Equity fundraising	80.72% 201
Non-dilutive funding	36.14% 90
Other (not specified)	1.61% 4
None	10.84% 27
Other (specified, see page 8)	5.62% 14

Answered: 478
Skipped: 2

*Respondents were able to choose more than one option.

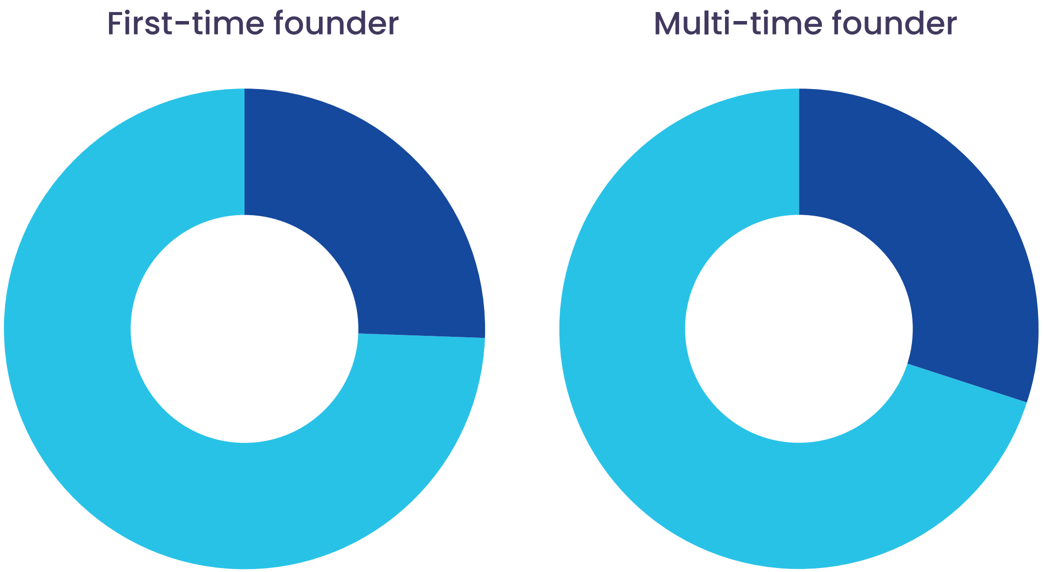


Q5 Are there any investors that you regret putting on your cap table?

Answered: 478
Skipped: 2

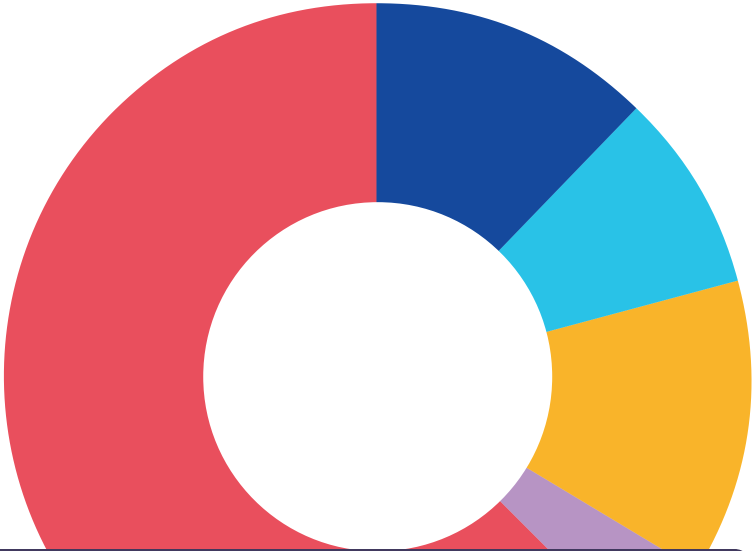
Answer Choices	Responses %	# of Respondents
Yes. There are investors I regret giving equity to.	28.03%	134
No. I don't regret putting any of my investors on my cap table	71.97%	344
Total		478

Q5 Are there any investors that you regret putting on your cap table?



Answered: 478
Skipped: 2

	Yes. There are investors I regret giving equity to.		No. I don't regret putting any of my investors on my cap table		Total
First-time founder	Responses % # of Respondents	25.76% 59	Responses % # of Respondents	74.24% 170	47.91% 229
Multi-time founder	Responses % # of Respondents	30.12% 75	Responses % # of Respondents	69.88% 174	52.09% 249
Total		134		344	478

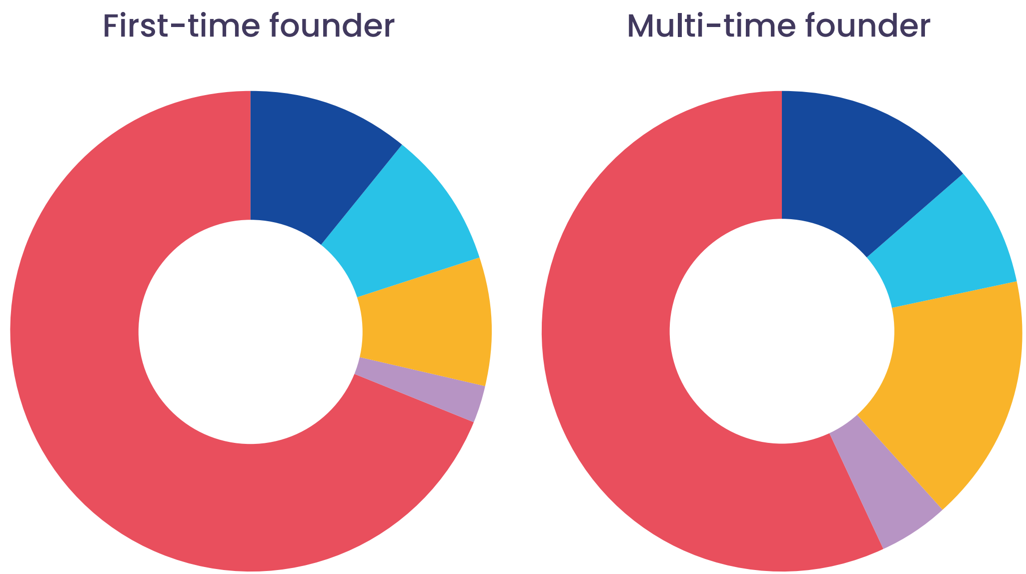


Q6 Have you considered fundraising through an SPV or are you considering an SPV in the next year?

Answered: 477
Skipped: 3

Answer Choices	Responses %	# of Respondents
Yes. I have considered fundraising through an SPV in the past.	12.37%	59
Yes. I have fundraised through an SPV in the past.	8.60%	41
Yes. I am considering an SPV in the next year.	12.79%	61
Yes. I plan to use an SPV in the next year.	3.77%	18
No. I have not considered or am currently considering an SPV.	62.47%	298
Total		477

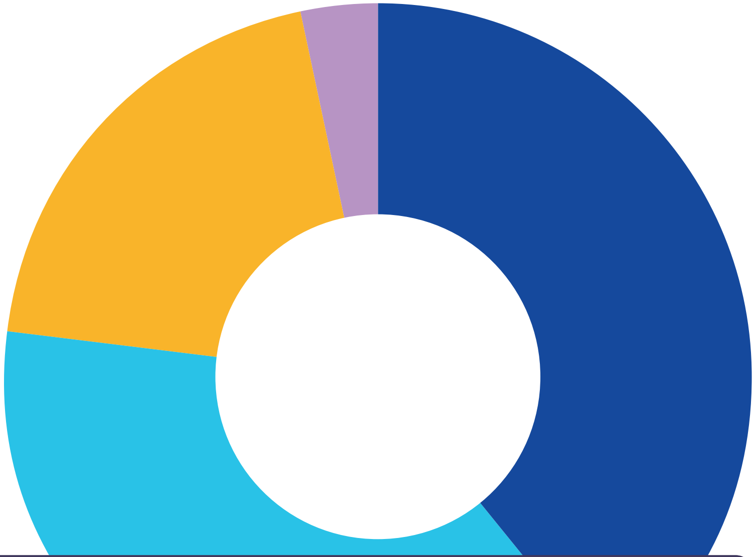
Q6 Have you considered fundraising through an SPV or are you considering an SPV in the next year?



Answered: 477
Skipped: 3

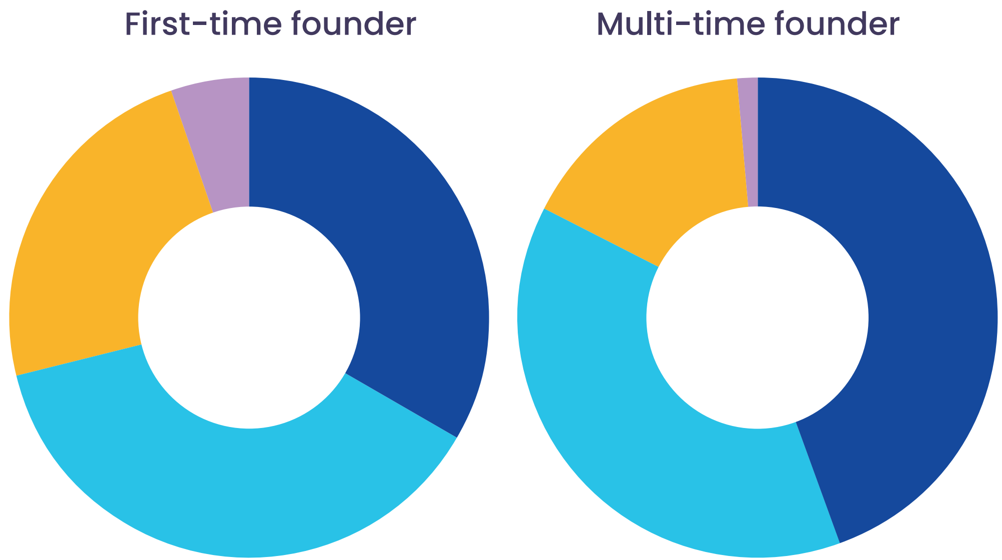
	Yes. I have considered fundraising through an SPV in the past.	Yes. I have fundraised through an SPV in the past.	Yes. I am considering an SPV in the next year.	Yes. I plan to use an SPV in the next year.	No. I have not considered or am currently considering an SPV.	
First-time founder	10.87% 25	9.13% 21	8.70% 20	2.61% 6	68.70% 158	48.22% 230
Multi-time founder	13.77% 34	8.10% 20	16.60% 41	4.86% 12	56.68% 140	51.78% 247
Total	59	41	61	18	298	477

Q7 How well do you feel you understand your company's cap table?



Answered: 477
Skipped: 3

	Answer Choices	Responses %	# of Respondents
■	I understand it very well - I could manage our cap table without any assistance.	39.20%	187
■	I understand it somewhat well - I may need some minor assistance, but overall I feel that I have a good understanding.	37.95%	181
■	I have a basic understanding. - I understand it enough to fundraise and offer equity compensation at a basic level.	19.71%	94
■	I don't understand how my cap table works.	3.14%	15
	Total		477



Q7 How well do you feel you understand your company's cap table?

Answered: 477
Skipped: 3

	I understand it very well - I could manage our cap table without any assistance.	I understand it somewhat well - I may need some minor assistance, but overall I feel that I have a good understanding.	I have a basic understanding. - I understand it enough to fundraise and offer equity compensation at a basic level.	I don't understand how my cap table works.	
First-time founder	33.48% 77	37.83% 87	23.48% 54	5.22% 12	48.22% 230
Multi-time founder	44.53% 110	38.06% 94	16.19% 40	1.21% 3	51.78% 247
Total	187	181	94	15	477

Clearly, experience pays off. Repeat founders have raised more money than first-time founders. They are also more confident about the mechanics of cap tables, and are more aware of SPVs and alternative funding sources outside of traditional equity. Equally important: experienced founders have had time to process any regret about their previous investors, and their confidence makes them more willing to experiment with other forms of funding that may put them ahead of first-time founders.

These responses lead us to offer some advice to first-time founders: Don't opt for traditional funding simply out of fear of having no other options. It can be overly simplistic to assume that a startup only has two choices: to bootstrap or raise funding in exchange for equity. More funding options are available today, so it's a good time to get smart about comparing options for your business. Recently, for example, new approaches have emerged, such as ICOs and even equity crowdfunding. ProFunder, the first U.S. equity crowdfunding platform, launched in 2011, and alternative sources of equity such as Clearco began in 2015. Recently, more and more of these companies have offered startups different solutions to growth, and founders are recognizing their value. First-time founders not thinking about non-dilutive funding should know that many experienced founders are exploring it — and consider following their lead.

"Revenue-based financing has seen a rapid rise in popularity as the cost of capital decreases for founders. As the world's largest e-commerce investor, we're proud to have played a small part in fueling the growth of entrepreneurs without forcing them to give up their hard earned equity. When human biases are removed, we all win, creating long-term wealth for underserved communities, simply by judging a business by metrics rather than where you went to school"

Michele Romanow
CEO and Co-Founder of Clearco

Another significant finding: over 25% of founders in our study say they regret having at least one of their investors in their cap table. It's clear from the variety of funding approaches that founders are looking for — particularly among the high percentage looking for non-dilutive sources — that some founders are no longer content to only raise money from investors. Now founders have a greater opportunity today to raise the kind of capital and bring in the kind of investors that will do right by the company in the long-term.

"Investing long term is what we at Techstars do and aligns with what LTSE is looking to accomplish for companies all over the world. This study shines light on the importance of consciously creating long-term value and what we should be paying attention to as an industry when shaping the entrepreneurial ecosystem and creating generational wealth."

Mairi-Jane Fox, PhD.
ESG Techstars

Trend #2

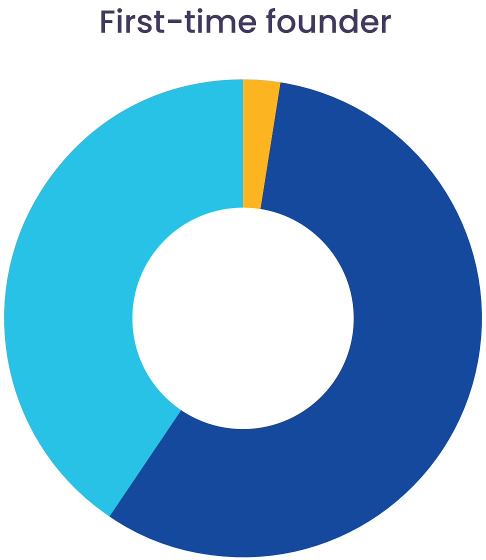
The complexities of the pandemic have affected all founders, many of whom are dealing with shifting valuations. And among repeat founders who care about their personal equity, they also struggle with an overall equity strategy.

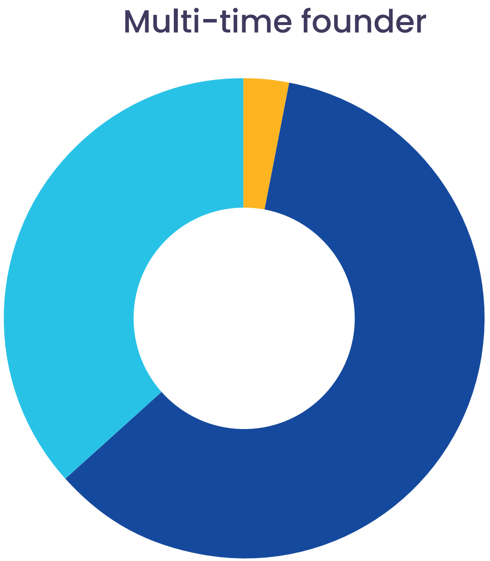
We might have expected repeat founders to do better during the long battle with COVID-19, but the unique nature of this global pandemic forced both first-time and repeat founders to shift around their company's valuation. In addition, we learned that repeat founders (whose experience we might have assumed would help them address equity questions with greater sophistication), struggled to understand their company's equity strategy holistically. More than 70% of founders indicated that they would like to prioritize their personal equity — but over half of those say they don't know how to maintain their founder equity as they incorporate it into the startup's greater equity strategy.

Q8 Does your current company valuation reflect any challenges and opportunities created by the pandemic?

Answered: 480
Skipped: 8

Answer Choices	Responses %	# of Respondents
N/A	2.92%	14
Yes	58.75%	282
No	38.33%	184
Total		480





Q8 Does your current company valuation reflect any challenges and opportunities created by the pandemic?

Answered: 480
Skipped: 0

	N/A	Yes	No	Total
First-time founder	2.61% 6	56.96% 131	40.43% 93	47.92% 230
Multi-time founder	3.20% 8	60.40% 151	36.40% 91	52.08% 250
Total	14	282	184	480

Q9 Has your mindset around employee equity changed after COVID-19 and the hiring trends of the last two years?

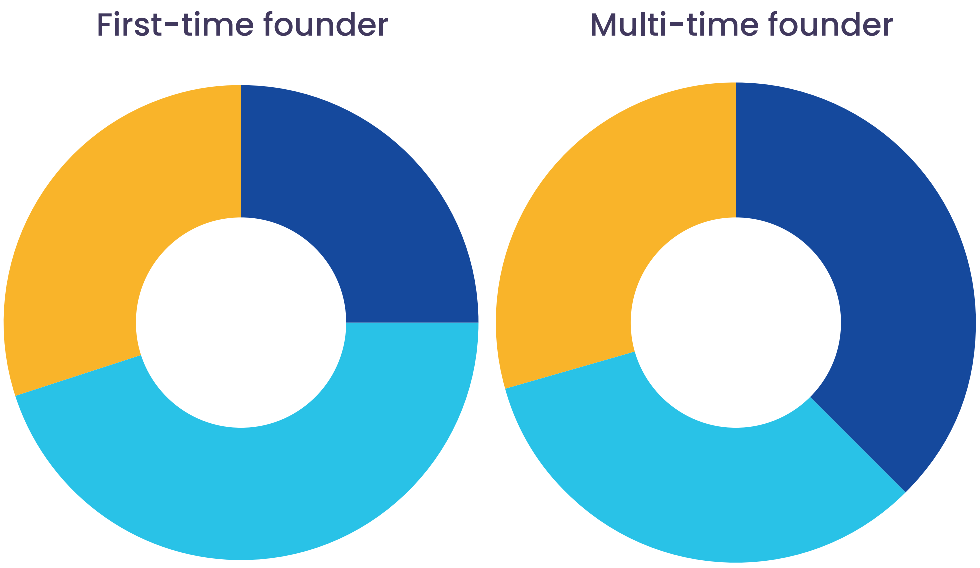
Answered: 480
Skipped: 0

Answer Choices	Responses %	# of Respondents
Yes. I plan on saving more of my equity for current and future employees.	32.71%	157
Yes. I am changing my equity plan in other ways.	13.54%	65
No. I am sticking to my original equity management plan.	53.75%	258
Total		480

Q10 Is your personal liquidity important to your fundraising strategy?

Answered: 479
Skipped: 2

Answer Choices	Responses %	# of Respondents
Yes. It's part of my fundraising strategy.	31.59%	151
It's important to me, but I don't know how to incorporate it into my strategy.	38.70%	185
No. It is not important to my fundraising strategy.	29.71%	142
Total		478



Q10 Is your personal liquidity important to your fundraising strategy?

Answered: 477
Skipped: 3

	Yes. It's part of my fundraising strategy.	It's important to me, but I don't know how to incorporate it into my strategy.	No. It is not important to my fundraising strategy.	
First-time founder	25.22% 58	44.78% 103	30.00% 69	48.12% 230
Multi-time founder	37.50% 93	33.06% 82	29.44% 73	51.88% 248
Total	151	185	142	478

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When it comes to equity, our data confirms what has been a long-standing assumption: repeat founders have had the experience of managing and building their equity in a startup environment. That experience has helped them prioritize their personal liquidity amid the startup's broader equity and fundraising strategy. Without that experience, first-time founders struggle to understand how to prioritize their own personal equity within their company's equity strategy. It's a bit of a black box to them, and it can be difficult to find unbiased resources for guidance.

Once they set their option pool, however, both first-time and repeat founders behave similarly: most stick with it, and one in three are setting aside options for more future awards. This may be a direct result of the effects of COVID-19: founders may need to save more equity for employees and teams given all the upheaval in work life; and attempting to stem the tide of the great resignation. Keeping the status quo for option pools may also point to a gap among founders: they may not fully understand how to pivot their option strategy when necessary.

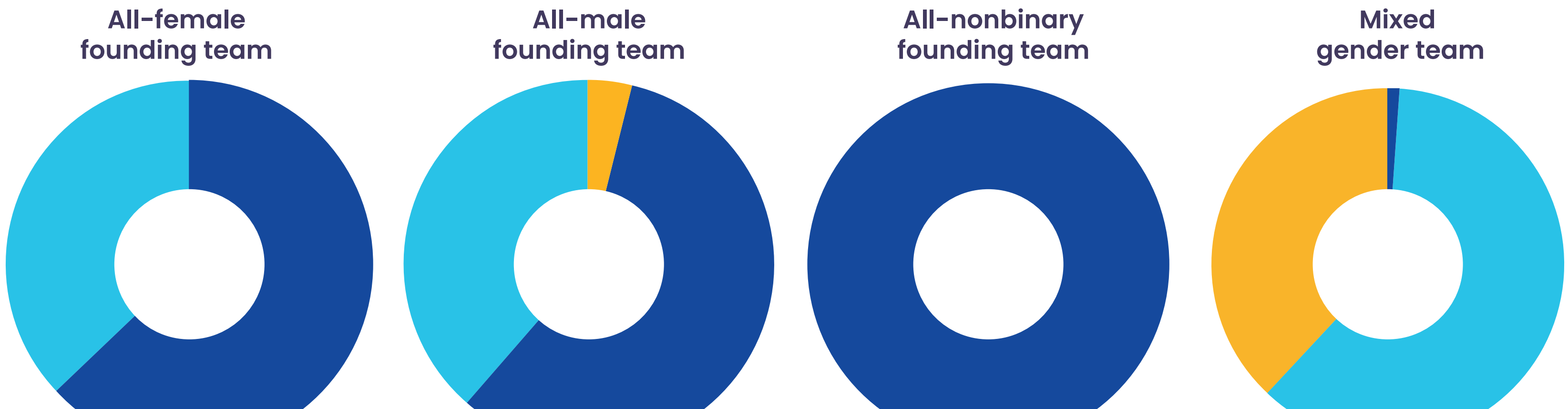
"The future of equity has never been more malleable. Seeing that only 55% of founders who care about their personal equity don't have the knowledge to incorporate a personal liquidity plan in place, it can be assumed that there are other tactics and strategies that founders have yet to learn. I see this as a world of possibility. A world where founders understand their equity as well as they understand their product is the only way we will get more equitable companies, where everyone wins, not just the executives. In order to get there, we will need a massive amount of education from all stakeholders involved, because an industry with a better understanding of its ownership is one that is far better off than otherwise. I am excited to see what the next generation of founders build, and how they share the upside by learning from past mistakes. The future is bright, diverse, and equitable."

Matt Sherman
Founder at Seedscout

Trend #3

Mixed-gender teams feel more confident about their fundraising abilities, and have raised more money than either all-male or all-female teams.

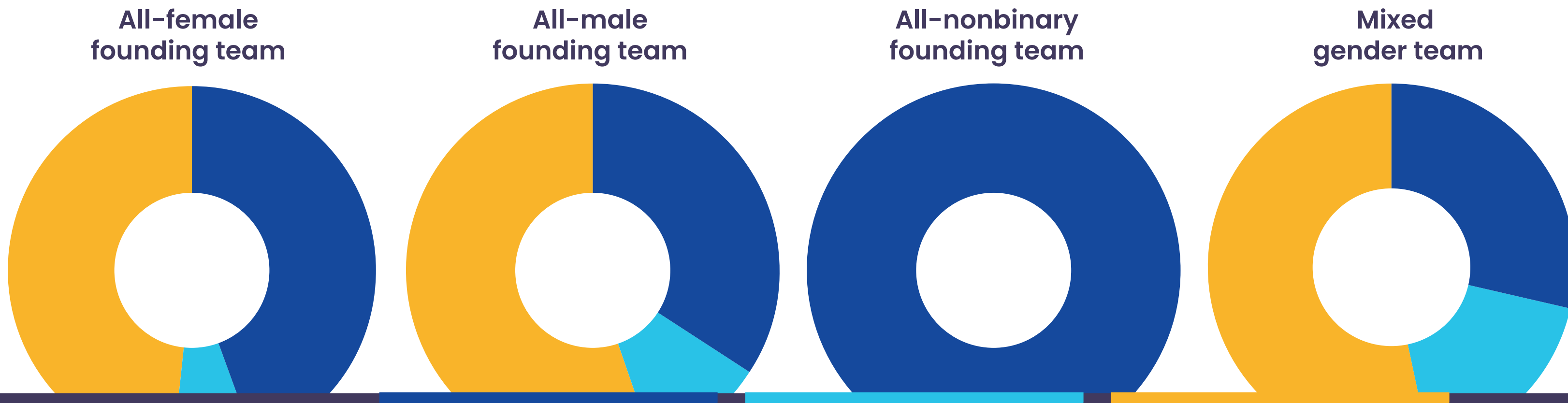
Q8 Does your current company valuation reflect any challenges and opportunities created by the pandemic?



	N/A	Yes	No	Total
All-female founding team	0.00% - 0	62.96% - 17	37.04% - 10	5.84% - 27
All-male founding team	3.96% - 11	57.55% - 160	38.49% - 107	60.17% - 278
All-nonbinary founding team	0.00% - 0	100.00% - 1	0.00% - 0	0.22% - 1
Mixed gender team	1.28% - 2	60.90% - 95	37.82% - 59	33.77% - 156
Total Respondents	13	273	176	462

Answered: 462 / Skipped: 0

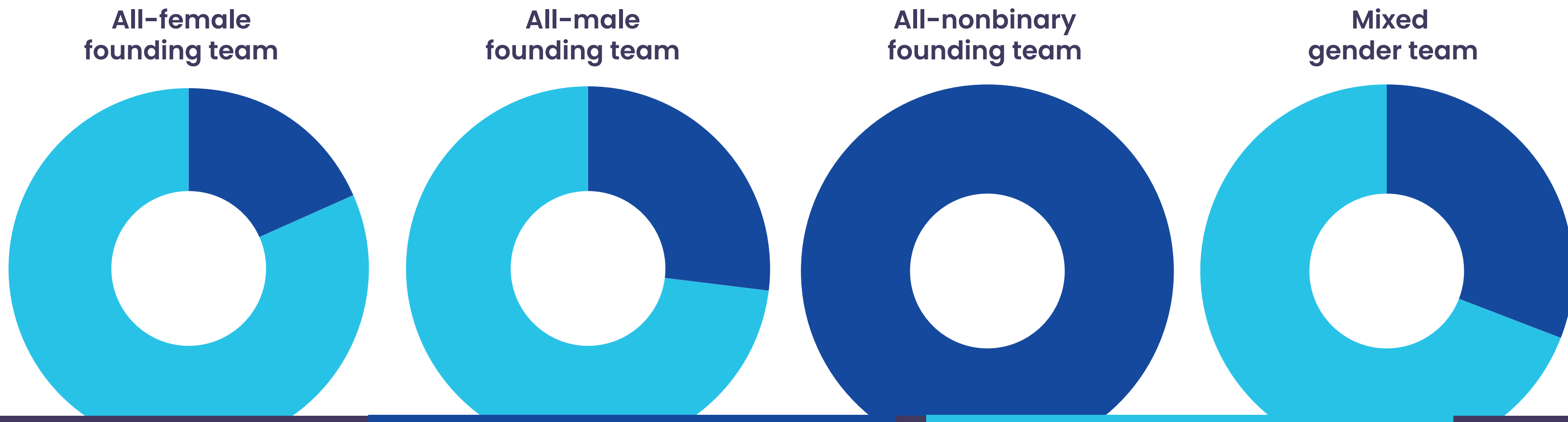
Q9 Has your mindset around employee equity changed after COVID-19 and the hiring trends of the last two years?



	Yes. I plan on saving more of my equity for current and future employees.	Yes. I am changing my equity plan in other ways.	No. I am sticking to my original equity management plan.	Total
All-female founding team	44.44% - 12	7.41% - 2	48.15% - 13	5.84% - 27
All-male founding team	34.17% - 95	10.79% - 30	55.04% - 153	60.17% - 278
All-nonbinary founding team	0.00% - 0	100.00% - 1	0.00% - 0	0.22% - 1
Mixed gender team	28.85% - 45	17.95% - 28	53.21% - 83	33.77% - 156
Total Respondents	152	61	249	462

Answered: 462 / Skipped: 0

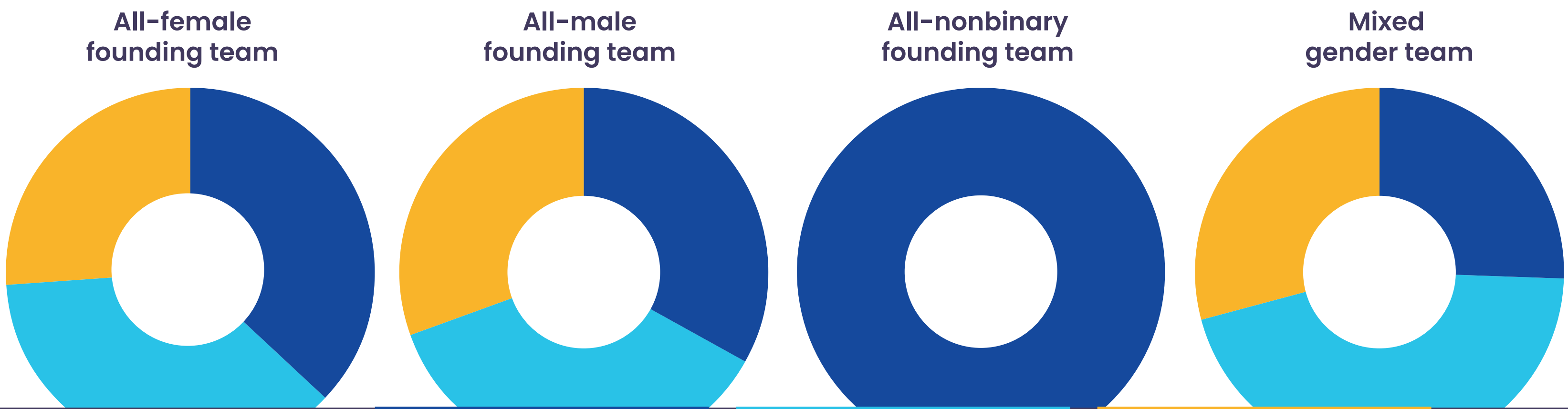
Q5 Are there any investors that you regret putting on your cap table?



	Yes. There are investors I regret giving equity to.	No. I don't regret putting any of my investors on my cap table.	Total
All-female founding team	18.52% - 5	81.48% - 22	5.87% - 27
All-male founding team	27.08% - 75	72.92% - 202	60.22% - 277
All-nonbinary founding team	100.00% - 1	0.00% - 0	0.22% - 1
Mixed gender team	30.97% - 48	69.03% - 107	33.70% - 155
Total Respondents	129	331	460

Answered: 460 / Skipped: 2

Q10 Is your personal liquidity important to your fundraising strategy?



	Yes. It's part of my fundraising strategy.	It's important to me but I don't know how to incorporate it into my strategy.	No. It is not important to my fundraising strategy.	Total
All female founding team	37.04% - 10	37.04% - 10	25.93% - 7	5.87% - 27
All male founding team	33.21% - 92	36.46% - 101	30.32% - 84	60.22% - 277
All nonbinary founding team	100.00% - 1	0.00% - 0	0.00% - 0	0.22% - 1
Mixed gender team	25.81% - 40	45.16% - 70	29.03% - 45	33.70% - 155
Total Respondents	143	181	136	460

Answered: 460 / Skipped: 2

Q7 How well do you feel you understand your company's cap table?

	I understand it very well - I could manage our cap table without any assistance.	I understand it somewhat well - I may need some minor assistance, but overall I feel that I have a good understanding.	I have a basic understanding - I understand it enough to fundraise and offer equity compensation at a basic level.	I dont understand how my cap table works.	Total
All-female founding team	25.93% - 7	48.15% - 13	22.22% - 6	3.70% - 1	5.88% - 27
All-male founding team	40.58% - 112	34.42% - 95	22.10% - 61	2.90% - 8	60.13% - 276
All-nonbinary founding team	100.00% - 1	0.00% - 0	0.00% - 0	0.00% - 0	0.22% - 1
Mixed gender team	37.42% - 58	43.87% - 68	15.48% - 24	3.23% - 5	33.77% - 155
Total Respondents	178	176	91	14	459

Answered: 459 / Skipped: 3

Historically, women-led founding teams have been more cautious about a high run rate, which is why female founding teams say they plan to save more equity for the future for their employees than male founding teams. After a dismal year in funding for women founders, it's easy to see why they may choose bootstrapping over venture money: right now they want to spend time cultivating their team (and pay them more). And perhaps this is an indicator of hard-won knowledge: repeat founders opt more for mixed-gender teams.

"Diverse founding teams have proven that setting an early culture with equitable leadership opportunities can cement a company's market position as an employer of choice. With this in mind, Rise and Barclays have made a strong commitment to bring more women into entrepreneurship, because we believe that the best way of thinking differently is by encouraging diversity."

Brian Luciani
Head of Rise New York, created by Barclays

Conclusion

Given the massive uncertainties many businesses have faced over the last two years, and continue to face, this report is perhaps the most important one we've conducted to date.

When it comes to equity strategies, decisions and practices that founders set early on have a snowball effect on the future of their companies. The investors they bring on now may become board members; founders are carefully taking a look at the governance implications their equity strategy has on the company's long-term future. And when founders have access to the right tools, they invest better and make smarter decisions for the long term.

LTSE was designed to provide the infrastructure companies need to reach their truest ambitions, which is why we built an equity management tool called LTSE Equity. This tool can help founders better model a variety of fundraising scenarios, involve their employees (present and future) in their equity strategy, and help founders to focus on strategic growth decisions that reflect the company's core mission.

We constantly keep a pulse on how founders reward all of their stakeholders to learn more about the pressures they face, such as recent repercussions from COVID-19, and opportunities that emerge, such as new forms of funding that are becoming more prominent. More fundamentally, the shift we are here to address is that business is moving from the old idea that "employees serve the company" to a better long-term notion: that founders serve the employees and all of the company's different stakeholders. The long-term perspective that shift brings gives us optimism about the future of business and society.

Methodology

For a two-week period (January 19-February 9, 2022) we sent this survey to LTSE Equity customers, email subscribers, and asked our partners (who inclu-de VCs, founder organizations and fellow B2B SaaS companies) to share across their channels. We kept the survey data anonymous in our calculations. The survey was online for two weeks through SurveyMonkey (now called Momentive). We received 480 total responses.