# HTGF's standard investment model: Example

High-Tech Gründerfonds

## Example

*Please note:*
*The following scenarios are only examples that serve to compare the financing options. The example is based on the assumption of the company's value increasing.*

Two founders establish a technology company and require seed financing. The following text outlines a scenario of seed and follow-on financing in line with the standard HTGF model.

### Based on two founders with 50% stakes each

Under its standard model, HTGF invests €600,000 in the form of a (subordinated) convertible loan and receives a nominal 15% stake (par value is generally €1 per share) in return. The company does not undergo a valuation. The loan is treated as equity from a legal perspective due to it being subordinated. The annual interest rate on the loan is 6%. Compound interest is not accrued. Furthermore, in follow-on financing rounds HTGF has the option to convert its loan into equity so as to prevent HTGF's stake from being diluted (explanation provided further down the text).

### Using the following example, how does a HTGF investment affect the company's ownership structure?

HTGF recognises the technology company's potential and invests in the firm using its standard model:

## Cap table when HTGF grants loan:

| | Founding of company prior to HTGF investment | After HTGF investment |
|---|---|---|
| Stake in absolute terms | 100.00 % | 100 .00% |
| Founder A | 50.00 % | 42.50 % |
| Founder B | 50 .00% | 42.50 % |
| HTGF | | 15.00 % |

With the help of the investment, the company develops its business in the next 12-18 months and its value increases. The company requires further €1 million in new financing round to fund growth and finds a venture-capital investor.

Investor A invests €1 million in the company in a Series A round, at a pre-money valuation of €4 million. A €1 million investment gives the company a post-money valuation of €5 million, which results in a 20% stake in the company's share capital for the new investor.

The founders and HTGF each have to part with 20% of their stakes, reducing the founders' individual stakes from 42.5% to 34% and HTGF's stake from 15% to 12%. However, this only serves as an interim calculation, as HTGF's dilution protection agreement takes effect and HTGF subscribes to as many shares at the €4 million valuation as the new investor until its stake is back at 15%.

As the purchase price, HTGF converts €176,480 out of the loan and interest accrued into capital reserves. The financing round is worth €1,176,480 overall, with a €1 million gain in liquidity and a €176,480 reduction in the loan / interest.

## Cap table for Series A:

| | | | | |
|---|---|---|---|---|
| Without HTGF's „dilution protection" the ownership structure would be as follows | | | | |
| Theoretical ownership structure following Investor A's investment | | HTGF subscribes €176,480 into equity capital. In return, HTGF subscribes for further 3% shares. | Anteile nach Wandlung | |
| Founder A | 34.00 % | | Founder A | 32.50 % |
| Founder B | 34.00 % | | Founder B | 32.50 % |
| HTGF | 12.00 % | | HTGF | 15.00 % |
| Investor A | 20.00 % | | Investor A | 20.00 % |
| Total | 100.00 % | | Total | 100.00 % |
| HTGF loan:<br>600.000 € + interest | | | HTGF loan:<br>(600.000 € + interest) -176.480 | |

Conversion

*Note:*
*The interim values "without dilution protection" serve only as an illustration and do not actually materialize, as the conversion by HTGF and Investor A's investment occur simultaneously.*

The technology company develops its business with the help of the investment and achieves a further increase in value. An additional €2 million in capital is required. Let us assume that the company's value following the financing is €8 million.

Investor B now invests €2 million in the company. With a post-money company valuation of €8 million, all previous investors have to part with a combined 25% stake in the company (€2 million investment / €8 million company valuation = 25%). In this instance, HTGF converts additional portions of the loan and interest and receives shares from the founders despite the conversion of €352,960 due to the higher company valuation.

| Without HTGF's „dilution protection“ the ownership structure would be as follows | | | | |
|---|---|---|---|---|
| Investor B invests €2 million | | HTGF converts €352,960 and its stake therefore returns to 15% | Stakes following the conversion | |
| Founder A | 24.38 % | | Founder A | 22.94 % |
| Founder B | 24.38 % | | Founder B | 22.94 % |
| HTGF | 11.25 % | | HTGF | 15.00 % |
| Investor A | 15.00 % | | Investor A | 14.12 % |
| Investor B | 25.00 % | | Investor B | 25.00 % |
| Total | 100.00 % | | Total | 100.00 % |
| HTGF loan:<br><br>(600.000 € + interest)<br>-176.480 € | | | HTGF loan:<br><br>(600.000 € + interest)<br>-176.480 - 352.960 € | |

Conversion

*Note: The interim values "without dilution protection" serve only as an illustration and do not actually materialize, as the conversion by HTGF and Investor B's investment occur simultaneously.*

Despite the fact that the founders' stakes have decreased as the company has developed, the value of their stakes has increased substantially through the positive development of the company made possible by the investments. Calculation of value development with positive company development and valuations as described above:

| | Founding of company | After Investor A takes a stake | After Investor B takes a stake |
|---|---|---|---|
| **Value** | **€ 1,000,000** | **€ 4,000,000** | **€ 8,000,000** |
| Founder A+B | € 1,000,000 | € 2,600,000 | € 3,670,400 |
| less loan | | € 423,520 | € 70,560 |
| Value of founders' | € 1,000,000 | € 2,176,480 | € 3,599,840 |

Interest is not taken into account in this presentation.