HOW STARTUP FUNDING WORKS
A HYPOTHETICAL STARTUP GOES FROM IDEA TO IPO

IPO [Initial Public Offering]

money raised

$235,000,000

at $2.6 billion valuation

100 % of
NOTHING

is a lot less than
17% of a
BIG COMPANY...

$2,000,000

at $4 million valuation

$200,000

at $1 million valuation

FAMILY AND FRIENDS

SERIES A

some more series of funding

how you get it

what you give

founder

100%

founder 1

37.5%

uncle

5%

option pool

20%

founder 2

37.5%

option pool

20%

founder 1

37.5%

option pool

20%

founder 2

37.5%

option pool

20%

option pool? Stock set aside for future employees.

what everyone does

YOU

start the company.

CO-FOUNDER

does half of the work.

FRIENDS AND FAMILY

invests before anyone else at the lowest price.

ANGEL INVESTORS

has at least $1,000,000 or $200,000 annually - is an accredited investor. Invests her own money.

VENTURE CAPITALISTS

persuades other people to put money in his fund. Invests that money, starting at $500,000.

EARLY EMPLOYEES

gambles on your company by accepting low salary plus some stock.

INVESTMENT BANKERS

does IPO paperwork and sells a lot of your stock, getting 7% of the whole IPO for it.

ANYONE

after your company does the IPO, anyone in the world can become your investor.

FundersondFounders.com

sources: paulgraham.com/startupfunding.html, bloomberg.com