Redeemable Equity

TL;DR

Redeemable equity is an equity investment where the investee company agrees to buy back or redeem investors' shares over time through dividends tied to revenues or free cash flow.

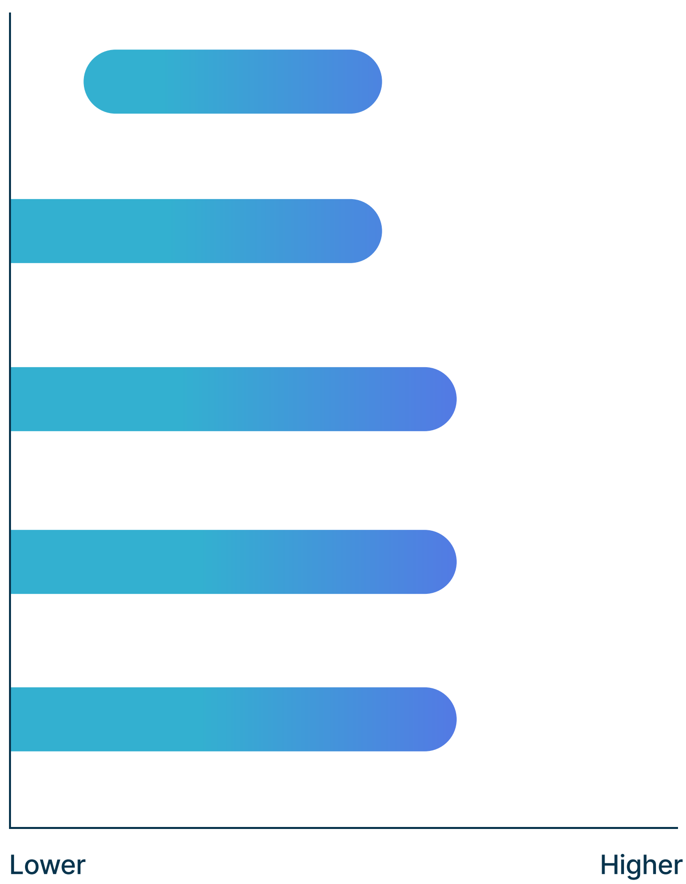
Business stage supported
Ranging from pre-revenue/idea stage businesses (low) to mature stage/ acquisition stage businesses (high)

Cost to entrepreneur
An approximate measure of the blended short and long term costs a business may incur as a result of this capital type

Risk for investors
Representing the downside risk in worst case scenarios of default on repayment obligations

Potential return for investors
The greatest potential income an investor capital provider could earn by deploying funds with this product method

Liquidity for investors
Ranging from lowest liquidity (capital providers wait a while to receive repayment from their investment) to high liquidity (repayment begins immediately and is fully repaid quickly)



What is redeemable equity?

Redeemable equity, also known as an equity buyback, is a type of revenue-based investing (RBI) capital product designed and used by VC firms like Indie.vc, Exponential Creativity Ventures, and Purpose Ventures. It allows funders to invest in early-stage businesses that do not yet have recurring revenues but are projecting high growth in the future. Redeemable equity investors are able to capture potential upside in these businesses, but also create visibility around liquidity and return with the timeframe of their investment. For early stage founders, redeemable equity gives them the opportunity to repurchase some or all of the shares they have sold at early stages of their companies' growth, giving them more optionality around their future funding plans than traditional equity, which requires continued equity fundraising and exponential growth.

Redeemable equity investing begins like a typical equity deal—with an investor purchasing shares of a company for a mutually agreed upon price. As part of this deal, the company agrees to gradually repurchase (i.e. redeem) some predetermined portion of these shares via regular payments of a fixed share of revenues (typically 3-10%) or free cash flow at a fixed multiple of the shares' original purchase price (typically 2-5x).

Similar to traditional debt financing, investors intend to collect monthly, quarterly, or annual dividend payments. Rather than payments set at an interest rate, these dividends are flexible (as they need to be declared by the company) and affordable (as the company can only declare them if there are sufficient retained earnings to pay the dividend). If the company's growth slows down, then these dividends will be lower; if the company's growth is higher, then the shares are redeemed more quickly. Dividends are declared until the investor receives the 2x to 5x return cap. Many investors using redeemable equity keep a percentage of the shares outstanding, or residual ownership, in order to participate in any significant upside in the future.

Redeemable equity blends features of bank debt and venture capital, and founders should expect the cost of capital to fall within that range. Redeemable equity is less dilutive, growth capital that can bridge the path to cheaper sources of capital and sustainable profitability for both pre-revenue and revenue-generating companies that do not fit the traditional VC model.

What are the typical characteristics of redeemable equity?

- Structured as a convertible note or preferred equity
- Dividends are calculated as a set percentage of revenue (typically 3-10%) or Free Cash Flow
- Dividends continue until a set dollar amount has been paid back, usually 2-5x the amount of the investment (return cap or total obligation)
- Initial ownership stake of 5-15% that businesses can redeem or buy back from investors through revenue-based payments
- Residual ownership stake that investors maintain following the redemption

Capital Product Fit

When is redeemable equity a <u>*good*</u> fit for businesses?

Profitability: Businesses do not need to be profitable, but investors like to see a path to profitability within 3-5 years.

Annual Revenue Growth: 50%+	**Gross Margins:** 40%+

Financials: Many investors look for at least one year of financial statements, although this capital product can be used with very early stage startups as well.

Sustainable Growth Focus: Founders focused on building real businesses with actual sales and sustainable growth rates instead of a growth-at-all-costs approach.

When is redeemable equity ***not*** a fit for businesses?

Heavy R&D: Businesses that are capital intensive and require a large amount of upfront funding to build large-scale projects or bring breakthrough technology to market.

Blitzscalers: Businesses that require rapid growth to take over an entire market or create a new market and need large amounts of VC funding to scale. These "Blitzscalers" typically focus on speed and growth over cash flow and profits.

Fundraisers: Founders always focused on raising the next round of funding for their businesses. Investors want to write checks to builders, not fundraisers, and do not want to have to spend a lot of time convincing founders not to take the traditional VC funding path.

Misaligned Cap Table: If founders have raised $5M+ in traditional VC funding, then their existing investors most likely will be focused on raising another VC round at a larger valuation. Redeemable equity investors do not want to compete with the different return and fundraising expectations of prior or potential co-investors. On the debt side, investors do not like to navigate a crowded and complex cap table with a bunch of lenders who are more senior to them and have expensive rates and warrants.

Why would founders want to ***choose*** redeemable equity?

Preserve Equity & More Control: Founders maintain more ownership and control over their business than traditional VC. Investors typically do not take a board seat.

Flexible Payment Schedule: Redeemable equity allows companies to use dividends to redeem shares from investors. These dividends payments are based on revenues or free cash flow. Dividends can only be declared when a company has sufficient cash on hand to pay the dividend, so they can not force a company into bankruptcy.

No Restrictive Covenants: Unlike traditional bank loans, redeemable equity typically does not require the borrower to agree to any restrictive covenants where the borrower must manage their business in a specific way, such as maintaining minimum liquidity levels or hitting revenue milestones. For example, venture debt lenders will require borrowers to also agree to stock warrants for upside participation in exit scenarios. Factoring or merchant cash advances also come with more restrictions and need to be paid daily or weekly compared to monthly or quarterly for redeemable equity.

Cheaper than VC: Redeemable equity is often cheaper for founders than selling preferred equity to VCs. Founders may believe that traditional equity costs less with no expected payments until an exit, but redeemable equity is most likely cheaper over the long run on both total dollar amount and IRR basis. Redeemable equity investors cap their investment at a 2-5x return instead of aiming for 10x+ returns like VCs.

Fundraising Optionality: Founders do not need to follow the VC funding path of raising larger follow-on rounds of dilutive equity capital. Redeemable equity offers cheaper, less dilutive growth capital that can enable businesses to scale and eventually raise VC funding or access cheaper bank debt. It provides founders the optionality to pursue the funding journey that makes the most sense for their business.

Access to Capital: Redeemable equity is more accessible for underrepresented founders because the underwriting process is based on the company's revenue, margins, and other financials, not the owner's credit score, income, or personal real estate assets. Traditional debt financing continues to use outdated and discriminatory lending practices that limit access to capital and increase the cost of capital for underrepresented founders. Redeemable equity has improved the investment process with a more inclusive underwriting approach.

What should businesses *look out for* with redeemable equity?

Less Predictable Payment Schedule: Dividends fluctuate with the profitability of the company, which can provide flexibility for founders, but also can be harder to predict for financial projections than traditional loans with fixed monthly payments. Redeemable equity has a variable interest rate instead of a fixed interest rate.

More Expensive than Bank Loans: Most founders seek redeemable equity because they cannot access bank loans or VC. Redeemable equity usually costs between 15% and 30% IRR compared to bank loans at <10% IRR and VC at 50%+ IRR. If revenue or free cash flow grows quickly, then the dividend payments expected will also do so. This leads to a shorter payback period but also a higher cost of capital. Founders need to be comfortable with the fixed return cap or total obligation, regardless of their revenue growth rate.

Gross Margins > % of Revenue: Founders need to be comfortable giving up the percentage of revenue to pay back the investment. Gross margins need to be sufficiently high enough to support the financing costs or else the investment will start to reduce the growth potential of the business.

Terms

What do investors typically *charge* businesses for redeemable equity?

Investment Size (Purchase Amount): Typically $50K to $3M check sizes
This is the total amount invested in the round.

Initial Ownership (Equity): 5-15%
Subject to redemption

Residual Ownership (Equity): 0-50% of the original shares purchase or initial ownership

Redemption: 3-7% (though it can go as high as 10% of revenue or 10-50% of Free Cash Flow

- This is the percentage of revenue or free cash flow that founders will pay for redeeming the investor's shares. These payments are structured as dividends that need to be declared by the company. Each redemption reduces the investor's ownership and increases the founder's ownership. This allows founders to repurchase 50-100% of the investor's ownership percentage via redemption payments until they redeem a multiple of the investment amount (return cap or total obligation).

- As discussed below, one of the key outstanding tax issues with redeemable equity is the reclassification issue—i.e., the outstanding possibility that the IRS would reclassify a redeemable equity investment as a debt investment, thus requiring the investor to pay ordinary income tax on the "interest" received over and above the principle. Although we do not have clear guidance on this topic, creating required payments, similar to a debt instrument, increases the likelihood of this happening. For this reason, the draft term sheet included in this playbook and the discussion in this chapter clearly labels the redemption payments as dividends that are declared by the company.

Return Cap (Total Payment or Total Obligation): 2x to 5x purchase amount

Dividend Schedule: Monthly or quarterly or annually

Grace Period (Redemption Start Date): Investors generally include either a time-based grace period (i.e. 6-36 months) or one that is linked to a revenue or free cash flow milestone.

- This is the date founders should begin declaring the dividends to repurchase investors shares. As discussed above, it is important to note that dividends cannot be legally declared if the company does not have sufficient retained earnings to pay the dividend.

- If the company has a failed redemption, which investors term as a specific number of redemption payments that have not been made, investors can choose to make the entire total obligation due and payable, convert the total obligation into debt with warrants, or renegotiate the terms of the deal.

Personal Guarantee: None

Financial Reporting: The investor has financial data access to the company's financial statements, including monthly balance sheet (plus YTD), monthly cash flow statements (plus YTD), monthly bank reconciliation report, monthly bank statements, and monthly compliance certification—certifying the information delivered.

Board Seats: None

FAQs

How expensive is redeemable equity?

Redeemable equity is often cheaper than traditional equity, but more expensive than bank loans. It typically costs 15% to 30% IRR compared to <10% for bank loans and 50%+ for VC.

What are the tax implications of redeemable equity for investors?

Redeemable equity is an equity-like product with debt-like features. Given the smaller size of the emerging redeemable equity space and innovative design, there is still no clear guidance from the IRS on how it should be taxed. However, most redeemable equity investors have treated their investments as equity, not debt. Therefore, taxable investors, including family offices and high net worth individuals, will have their gains taxed at their capital gains rate.

There is reclassification risk where the IRS reclassifies a redeemable equity investment as debt, which would require investors to pay ordinary income tax instead of capital gains tax.

What are the legal considerations of redeemable equity for investors?

If structured correctly, redeemable equity instruments can mitigate some of the tax and regulatory issues presented by revenue-based loan instruments. With this mitigation comes additional complexity and potentially upfront costs, as redeemable equity agreements can have more clauses to negotiate than traditional equity investments. This is because, unlike traditional equity investments, redeemable equity agreements are doing two deals in one (i.e., taking the money in and defining the economic terms of repayment).

How does the Indie.vc term sheet differ from the redeemable equity term sheet in this playbook?

Since 2018, fund managers have adopted and iterated on the open-sourced Indie.vc term sheet. We consider the Indie.vc term sheet to be a redeemable equity product; however, there are some major differences between the Indie.vc term sheet and the redeemable equity term sheet in this playbook. The Indie.vc term sheet is structured as a convertible note with the investor receiving rights to the investee company's shares and several types of conversion events. This playbook's term sheet is structured more closely to preferred equity, with the investor receiving the investee company's shares upfront at investment, and takes a more conservative approach by avoiding mandatory redemption payments. Also, the Indie.vc term sheet does not need the company to be profitable before receiving redemption payments, unlike this playbook's term sheet.

Redeemable Equity Case Studies

Capacity CEO & Founding Partner: Jonathan Bragdon

Overview

Capacity Capital (Capacity) is a redeemable equity fund that provides growth capital to local, revenue-generating businesses in Chattanooga, Tennessee and the Southeast. Launched in 2020 after experience working with hundreds of small businesses engaged with CO.STARTERS and Credo, Capacity is led by serial entrepreneur and solo GP Jonathan Bragdon.

Prior to Capacity, Bragdon was the co-founding partner at the management consulting company Credo, based in Chattanooga. Credo helps companies build better cities by connecting businesses that care about their community with financial and social capital, effective resources, and guidance. He has served on the boards of local ecosystem organizations CreateHere, Chattanooga Technology Council, and Chattanooga Chamber of Commerce. He also has actively engaged with other local impact organizations including CO.LAB, GigTank, UTC Entrepreneur Forum, Seed Project, Chattanooga Renaissance Fund, LAUNCH Chattanooga, and Chattanooga 2.0. Bragdon is a serial entrepreneur who was previously the co-founder at Very, Foresight.io, ReadyCart (acquired by Grapevine Inc.), Stork, Your Secret Weapon, and Tricycle Inc (acquired by Shaw Industries).

Capacity was launched to prove its model in Chattanooga with this initial pilot fund and then scale nationally by providing a playbook for other ecosystems.

Capacity is targeting $1.5M for its first fund with over $500K raised from the Kauffman Foundation and Rockefeller Foundation as of June 2022.

Investment Strategy

Capacity will primarily invest in revenue-generating companies led by underestimated entrepreneurs in Chattanooga and opportunistically across the rest of the US. The team will make revenue-based investments of $50K to $200K in 15+ companies. Capacity will invest in SaaS, light manufacturing, or service companies that hire locally and meaningfully impact their communities. It targets companies with $200K to $500K in annual revenues and expects to grow them to at least $1M after three years. The fund is targeting a 15% net IRR and 2.0 net MOIC over its seven-year life.

Capacity Capital will target companies with the following investment criteria:

Location: Operate and hire locally and actively involved in local communities

Sectors: SaaS, light manufacturing, and services

Metrics: Limited collateral, <$1M in revenue, predictable & repeatable revenue model, with a line-of-sight to double in 12-18 months

Founders/Owners: Overlooked and underestimated founders seeking financial and social capital, and who want to maintain control and optionality

Employment: Opportunity to add local workers as revenue grows

Capacity believes great, regular businesses build better cities and contribute more than high-risk startups. Businesses with stability and steady growth create more value through long-term growth than startups focused on disruption and "hockey stick" growth. They believe these small businesses can generate better risk-adjusted returns from a balanced RBI portfolio than a traditional VC portfolio—doing so by delivering mostly 1.5-4.0x investments with limited losses over seven years compared to the rare 10x, a few 3-5x, several 1x, and mostly 0x investments over 10+ years. Additionally, Capacity expects to generate private equity-like returns by unlocking value for underestimated companies and leveraging its local and national networks.

Redeemable Equity

Capacity offers a redeemable equity product, inspired by Indie.vc's term sheet, for small businesses. Bragdon wanted to bring innovative capital to close a major capital gap for underfunded businesses in his Chattanooga community and the Southeast. Local entrepreneurs typically found it difficult to receive loans from banks due to low collateral assets, and difficult to receive VC investment due to lower growth and limited exit potential.

Capacity's redeemable equity approach enables the fund to hedge risk in economic downturns for small businesses. The redeemable equity structure has more predictable liquidity due to its revenue share component than the traditional VC approach, while maintaining upside opportunity with equity. Startups and investors playing the VC game rely on raising larger and larger equity rounds at higher valuations, but there are still no realizations. Even if revenues stay flat or slightly dip, Capacity will have realizations that can be recycled or distributed to LPs.

Access to Local Capital

Prior to launch in 2020, Capacity Capital met with 60+ investors nationwide to learn more about revenue-based finance tools and partnered with Benwood Foundation, Credo, and LAUNCH Chattanooga for additional research into this model. Capacity believes redeemable equity is the best investment model to scale underestimated, revenue-generating businesses that are more likely to grow and hire locally in overlooked communities. Redeemable equity terms are more flexible than debt and provide greater liquidity than equity while better aligning founders and investors. Capacity thinks investing in disconnected local businesses is what it takes to build cities where a workforce is developed, living wages are increased, communities are connected, and long-term wealth is created for more people.

Track Record

Fund I (2020, $1.5M target): Capacity has invested $805K in 10 portfolio companies as of Q2 2022. Six companies are already making revenue-based payments to Capacity and have produced a 0.2x realized MOIC. The rest of the portfolio companies are expected to start making revenue-based payments in the next six months. The fund is in line to produce a 2x MOIC including upcoming revenue-based payments and a 2.4x MOIC including upcoming revenue-based payments and equity investments.

Portfolio companies include:

BARQUE (Chattanooga, TN) is a locally owned and operated neighborhood BBQ restaurant.

Dolly Monroe (Tampa, FL) provides training and certification for estheticians.

Logic Products (Fairfield, IA) offers effective nontoxic products made with natural ingredients that are safe for children, people, pets, and the environment.

ZOE Angling Group (Chattanooga, TN) designs and distributes ethically sourced fishing goods and transforms lives through its supply chain

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Omega Digital Solutions (Maryville, TN) is a fully remote, cloud-native company that strives to turn complicated business problems into simple solutions using right-sized technology.

Surv (Newport, RI), formerly Rent Sons, connects young adult workers with community members in need of moving, landscaping, junk removal, painting, and other odd jobs.

Watauga Butchery (Vilas, NC) is a custom meat processor that offers butchery and packing services with commercial and retail quality packaging.

WYRE Technology (Chattanooga, TN) is a security-focused managed service provider for nonenterprise companies.

Fund Structure

Management Company: Capacity Management, LLC (Tennessee LLC)

Fund: Capacity Capital, LP (Delaware LP)

Fund Type: Rule 506(b)	**GP:** Jonathan Bragdon

Fund Terms

Target Fund Size: $1.5M

GP Commitment: $50,000 (3.33% of target fund size)

Investment Period: 3 years from final close with up to 2 one-year extensions
Fund Life: 10 years from final close with up to 2 one-year extensions

Management Fee: 2.5% of committed capital during Investment Period; 1.5% of invested capital thereafter

Carried Interest: 20%	**Preferred Return**: None

Key Person: Jonathan Bragdon

More Reading & Listening

https://www.impactterms.org/covid-19-is-a-lesson-in-why-alternative-investment-structures-are-needed/

For more tools and resources, visit innovative.finance/resources.

GREATER COLORADO VENTURE FUND

GCVF Co-Founders (left to right): Jamie Finney, Cory Finney, and Marc Nager

Overview

Greater Colorado Venture Fund (GCVF) is a Colorado-based hybrid venture fund that provides seed-stage funding for rural Colorado startups. As one of the first VC funds explicitly investing in rural communities, GCVF is pioneering a new approach to unlock venture capital for rural America. In 2018, GCVF was founded by partners Marc Nager, Cory Finney, and Jamie Finney.

In 2018, GCVF won a bid for a “rural Colorado fund manager,” and with it an anchor investment from the State of Colorado Venture Capital Authority (VCA). Thereafter, they raised additional private capital, including from the Gates Family Foundation, to reach a $17.5M Fund I. The team also raised an operating capital grant from the EDA.

GCVF is currently raising a $25M Fund II with the same rural Colorado strategy.

Investment Strategy

GCVF invests in seed-stage companies headquartered in rural Colorado. GCVF uses a hybrid VC model by providing flexible financing for rural companies with a mix of equity and revenue-based redeemable equity. The team expects to invest in roughly 30 companies over a five-year investment period with 50% reserved for follow-on funding for Greater Colorado Venture Fund II (Fund II). They will write initial equity checks ranging from $250K to $500K, redeemable equity checks from $100K to $250K, and follow-on checks up to $1M. GCVF is targeting a 25% net IRR and 3.0 net MOIC for Fund II.

Hybrid VC Model for Rural America

The traditional VC model does not work in rural communities. GCVF designed a blended portfolio model with 90%+ equity for rapid growth startups and up to 10% redeemable equity for companies not likely to exit or not seeking an exit strategy but interested in growing profitability and maintaining ownership. The redeemable equity strategy enables GCVF to offset fees, recycle capital for future investments, and generate early liquidity for LPs.

GCVF offers traditional seed-stage equity and redeemable equity products for rural Colorado founders:

SAFE / Convertible Note: $450K average check size with 6-10% target ownership.

Preferred Equity: $450K average check size with 6-10% target ownership.

Redeemable Equity (Indie.vc v3): GCVF's typical RBI deal terms include: $200K average check size, paid back over 3-5 years up to a 3x return cap, 3-7% of gross revenue, and 25%+ IRR target.

GCVF Fund II plans to make roughly five redeemable equity investments of $150K on average and to cumulatively produce 25-40% IRR. They leveraged and updated the Indie.vc v3 term sheet that generates returns by collecting quarterly payments of 3-7% on gross revenue, with a grace period of 12-24 months, up to a predetermined return cap of 3x over three to five years. Additionally, they will take a 6-10% equity stake that companies can redeem via quarterly payments up to 90% of the original equity stake. For example, if GCVF takes a 10% equity stake, then the company may redeem 9% of the original 10%. This RBI approach unlocks early liquidity for the fund and allows GCVF to recycle up to 100% of invested capital during the five-year investment period, which can reduce the effective management fee from 2.3% to 1.5% for LPs.

For redeemable equity investments, GCVF will target companies with the following criteria: smaller exit size potential (i.e. unlikely to be a fund returner), profitable or clear path to profitability, high cash-flow business models, 60%+ margins, need investment capital less than 25% of gross revenue, and stable customer acquisition cost and margins.

For the majority of the portfolio, GCVF will make 25+ equity investments in companies with the following criteria: significant exit potential (i.e. can be a fund returner), high-growth potential, and capital-efficient business models.

Overlooked Rural Founders

GCVF is targeting entrepreneurs in rural Colorado communities outside of the Front Range urban corridor (Fort Collins through Colorado Springs). They do not believe that opportunity is shared equally in Colorado and across the US. In Colorado, 83% of rural counties have median household incomes below the state average, and all of the state's distressed counties are considered rural. GCVF wants to create opportunities for underserved entrepreneurs and help build sustainable communities in rural Colorado. They will invest 100% of capital in rural areas in Colorado, of which at least 50% will go to companies in rural enterprise zones (EZ).

As of June 2022, 55% of Fund I's companies are located in rural EZs and account for 49% of invested capital. Two of the non-EZ companies, AGILE Space Industries and Revel, were located within two blocks of an EZ, and Ivy Camps is arguably the most rural portfolio company near the Fryingpan but receives mail in a non-EZ location. If included, these three companies increase the rural EZ rate to 67% and 70% of invested capital for Fund I.

The anchor LP Colorado VCA implemented investment criteria for Fund I via a Side Letter Agreement to only invest in rural Colorado-based businesses and to support job creation in rural communities.

Track Record

Fund I (2018, $17.5M): GCVF has invested $12.5M+ in 27 portfolio companies out of its 30 portfolio size target through Q2 2022. GCVF has recycled several early exits to pay for nine additional investments and deployed 105% of capital called, meaningfully improving returns and offsetting fees for their LPs. The fund generated a 1.8x TVPI, 0.7x DPI, and 29.8% net IRR as of Q2 2022.

Portfolio companies include:

AGILE Space Industries (Durango, CO) is an aerospace company that combines rapid propulsion development with on-site diagnostic testing to provide mission-optimized solutions.

Felt (Telluride, CO) makes handwritten cards for the next generation of working professionals. Glade (Breckenridge, CO) makes premium ski goggles, helmets, and glasses.

Marble Distilling Co. (Carbondale, CO) is a sustainable craft distillery and boutique luxury inn.

MUNIRevs (Dolores, CO) provides paperless automation for tax, licensing, and compliance for local governments. The company was acquired in 2021 by Austin-based GovOS.

REVER (Eagle, CO) is "Strava for motorcyclists" with an online tracking and community app. The company was acquired in 2020 by Comoto Holdings.

Western Rise (Telluride, CO) is a performance lifestyle apparel brand.

Fund II Structure

Management Company: Greater Colorado Venture Fund GP, LLC (Colorado LLC)

Fund: Greater Colorado Venture Fund II, LP (Delaware LP)

Fund Type: Rule 506(b)

GPs: Marc Nager and Cory Finney

Fund II Terms

Target Fund Size: $25M

GP Commitment: 0.5% of fund size

Investment Period: 5 years

Fund Life: 10 years with up to 2 years with GP consent, and then an additional 2 one-year extensions with LP consent

Management Fee: 2.5% of committed capital during investment period; 1.75% of committed capital thereafter

Carried Interest: 20%

Preferred Return: 1x to LPs

Key Persons: Marc Nager and Cory Finney

Glade Founder Curt Nichols

Overview

Glade makes premium goggles and helmets for skiers and snowboarders. Founded in 2016, the company is led by founder Curt Nichols with headquarters in Breckenridge, Colorado. Glade was a finalist startup in the inaugural 2020 Greater Colorado Pitch Series hosted by GCVF. This pitch event led to multiple follow-up conversations with GCVF and, eventually, a seed investment

Why Redeemable Equity?

Glade's founder bootstrapped the business for the first few years by reinvesting all profits into inventory for the next ski season. Glade launched with ski goggles, which are high margin products, but needed growth capital to launch new products, diversify marketing channels, and scale inventory. Prior to GCVF's redeemable equity investment, the company raised $150K in angel funding to expand its product offerings.

However, Glade needed more funding for marketing spend, inventory, and product R&D. The company generated solid revenue for the 2019-20 season and sustainable and improving margins, but it did not have access to more affordable capital yet. GCVF offered flexible growth capital for Glade with its redeemable equity product. The founder needed $100K to $200K to scale but also wanted to maintain control and ownership over his business. Redeemable equity was a better fit than traditional VC funding for the founder's vision.

Post-investment, Glade has grown its team to three full-time employees and released a line of sunglasses, making it a year-round eyewear company. It produced 112% growth in YOY revenue for the 2021-22 season as of Q1 2022 and expects to expand its product offerings and headcount in marketing and operations next season.

Deal Performance

As of Q1 2022, Glade has made two quarterly revenue-based payments to GCVF since December 2021 and paid 27.2% of the 3x return cap. The investment has a 0.8x MOIC and 20.2% IRR from the first two payments, in line with VC return expectations, but does not need an IPO or M&A exit to generate liquidity for LPs. It is still too early in the investment lifecycle to meaningfully evaluate IRR performance. However, GCVF expects the deal to generate a 3x MOIC and 25%+ IRR over the next three to five years.

Term Sheet

Company: Glade Optics LLC (converted to C-corp)	
Investor: Greater Colorado Venture Fund I	
Investment or Purchase Date: September 16, 2020	
Investment or Purchase Amount: $100K	
Initial Ownership: 8%	**Residual Ownership:** 0.8%
Redemption Amount: 5% of Gross Revenue (as defined by GAAP)	
Repayment Cap: 3x ($300K)	
Grace Period or Redemption Start Date: 14 months + 14 days after purchase date (December 1, 2021)	
Payment Schedule: Quarterly	**Conversion Trigger:** $1M preferred equity round
Board Seat: None	

surv

Overview

Rhode Island-based Surv, formerly Rent Sons, connects young adult workers with community members in need of moving, landscaping, junk removal, painting, and other odd jobs. Its membership model allows workers to build long-term relationships with aging seniors. The company offers services in Rhode Island, Nashville, Wilmington, Charleston, and Jacksonville and generated $1.3M in revenue in 2021.

Why Redeemable Equity?

Surv needed access to friends and family capital, and its service-based business model did not fit VC criteria. As a startup, Surv did not generate enough revenue or have a long enough financial history to fit lending criteria. It was incredibly challenging for the startup team to access traditional sources of capital, and they had to seek alternative, less dilutive sources such as revenue-based financing. In 2020, Capacity provided critical seed capital by participating in the $1M pre-seed round with a $200K redeemable equity investment.

Surv used the pre-seed capital to expand into new markets along the East Coast, including Tennessee, and double its headcount. This capital unlocked meaningful revenue growth and the opportunity to raise a $2.5M community seed round on Wefunder. As of July 2022, SURV has raised $1.1M in commitments out of its $2.5M target preferred equity round at a $15M pre-money valuation. The company will continue to focus on sustainable growth instead of hyper growth to reduce cash needs and reinvest capital from its cash flow.

Deal Performance

As of Q2 2022, Surv has consistently made monthly revenue-based payments to Capacity since June 2021 and paid nearly 25% of the 2x return cap. The investment has a 0.5x MOIC, and Capacity expects it to produce a 2x MOIC via revenue-based payments while still maintaining 3.4% in equity upside for the rapid growth VC scenario.

Deal Terms & Performance

Company: Surv

Investor: Capacity Capital	**Investment Date:** March 2020

Investment Amount: $200K

Initial Ownership: 10%	**Residual Ownership:** 1%

Redemption Amount: 3.75% of gross revenue

Repayment Cap: 2.5x ($500K) reduced to 2x ($400K) following converted equity of 3.4% in January 2022

Grace Period: 3 months (deferred by 12 months during COVID)

Payment Schedule: Monthly

Conversion Trigger: $1M preferred equity round

Board Seat: None