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Note on Capitalization Tables for New Ventures: Figuring Out How Much Money Your Startup Needs, When You Should Raise It, and How Much It Will Cost

As startups and growth companies seek to raise outside financing, they typically begin the communication process with potential investors through their website, their elevator pitch, the executive summary, a polished investor and partner presentation, and probably a professionally prepared business plan. Once potential investors – whether they be individual angels or angel groups, venture capitalists or corporate strategic investors – show serious interest, it's important to be prepared to provide those prospective investors with, among other things, in-depth financial information.

In addition to the standard historical financial statements and five-year financial forecasts, potential investors and strategic partners need to understand your company's current *capital structure*. Capital is money paid into the company by founders, investors or lenders for the purpose of funding (capitalizing) the infrastructure and growth needs of the business. A company's capital structure (a.k.a. *cap structure*) is summarized in the business's balance sheet, where one can see the total amounts of long-term debt and shareholders' equity in the firm.

But the kind of summary-level capitalization data available in standard financial statements only describes the proverbial tip of the iceberg, and simply won't suffice for potential startup investors. They'll also want to see a comprehensive listing of the current company ownership, in what we'll call a *current capitalization table* (often shorthand to *capitalization table* or simply *cap table*). The cap table is typically incorporated in the company's business plan.

In this note, we'll take a look at what goes into preparing a current capitalization table. Next, we'll examine how an entrepreneurial team can go about planning the startup company's future capital requirements. And finally, we'll describe a tool that's useful for capital forecasting, the *capitalization planning table*.

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