Fundraising & Deal Structure: Considerations for Crypto Startups

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Startup Financing

**FINANCIAL CAPITAL**
Investment money used to hire people, build products and services

**PRODUCTION CAPITAL**
The value of those products and services

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Three Objectives for Crypto Apps

OBJECTIVE 1
BUILD A PRODUCT
PEOPLE WANT

OBJECTIVE 2
BUILD A
COMMUNITY

OBJECTIVE 3
GIVE OWNERSHIP
TO THE COMMUNITY
What’s Different About Fundraising for Crypto?

TRADITIONAL STARTUP

SEED → SERIES A → SERIES B → SERIES C → SERIES D

Product → Community (Network Effects) → Growth

CRYPTO STARTUP

SEED → SERIES A

Community Ownership and Operation
Deal Structure
How Should Crypto Founders Structure Deals?
How Should Crypto Founders Structure Deals?
What’s Different About Fundraising for Crypto?
Example: Equity Investment With Token Rights

- $1M invested by VC
- 20% of equity for VC
- 80% of equity for the team

Total Equity Valuation: $5M

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Example: Equity Investment With Token Rights

- **$5M** EQUITY VALUATION
  - 20% VC
  - 80% TEAM

- COMPANY
  - NETWORK
  - 20% VC
  - 80% TEAM
Network Ownership

$5M EQUITY VALUATION

- 20% VC
- 80% TEAM

COMPANY

$10M TNV (TOTAL NETWORK VALUATION)

- 10% VC
- 40% TEAM
- 50% COMMUNITY

NETWORK

50% Investors & Team

50% Community

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Network Ownership

$5M EQUITY VALUATION

20% VC
80% TEAM

COMPANY

$20M TNV (TOTAL NETWORK VALUATION)

25% Investors & Team
20% TEAM
75% COMMUNITY

NETWORK

75% Community

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Takeaways: Equity With Option for Tokens
Network Monetary Policy
Productive Tokens Offset Dilution
Productive Inflation
Productive Inflation

INVESTOR

COMMUNITY OWNER AND OPERATOR
Evolution of Financial Capital for Crypto Startups

**Crowdfunding**
- Top 10 Biggest Crowdfunding Events in History were ICOs
- Regulatory Issues
- Distraction from Product Development

**Crypto Hedge Funds**
- Short Term Returns
- Focused on trading
- Not as Easily Aligned with Founders

**Crypto Venture Capital**
- Committed Capital
- Aligned for the Long Term
- Specialized in:
  - Network Participation
  - Token Custody
  - Valuation Methodology
  - Deal Structure
Takeaways

Fundraising in Crypto

- Understand how crypto fundraising is different from a traditional startup
- Have a clear plan of how you get there
- Your early community is critical in bootstrapping the network