# Matrix to reconcile the interests of the start-up and the investor

| | Company Interest | Investor Interest | |
|---|---|---|---|
| | **Interest (Clause 1.2.1)** | | |
| Interest | Simple non-compounding interest only repayable at Maturity date | Compounding (i.e. interest is due on the interest generated over a 12-month period) /OR/ the simple non-compounding interest is paid annually by the Company | The standard version provides for a simple non-compounding interest (only) repayable at Maturity Date. The mechanism has been chosen for the sake of simplicity and safeguarding the cash of the Company. Striking a balance with the Investor will in such event most likely result in a higher interest percentage (as opposed to a compounding interest).<br><br>Alternatives that could also lead to a balanced result, could be to agree on a lower interest percentage while:<br>(i) keeping a simple non-compounding interest which is to be repaid annually; or<br>(ii) including a compounding interest. |
| | **Interest**<br>- no annual cash out<br>- no interest on interest (keep the amount as low as possible) | **Interest**<br>- generate a larger amount (compounding)<br>- or annual payment so the repaid interest can be deployed otherwise / de-risking | |
| | **Conversion mechanism (Clause 2.2)** | | |
| Mandatory v. right | Mandatory (in certain circumstances) or at the election of the Company | Right for the Investor | The standard version provides for:<br>(i) a mandatory conversion upon the occurrence of a Qualified Financing;<br>(ii) a voluntary conversion upon the occurrence of an Exit (if not exercised such right lapses);<br>(iii)a voluntary conversion at Maturity Date.<br><br>Furthermore, conversion is in all instances into an already existing class of shares (avoiding discussions with the investor on the rights and obligations attached to the shares).<br><br>The discount applied in the event of a Qualified Financing can be higher than in the event of an Exit. An alternative feature to be considered that could also lead to a balanced result is, mandatory conversion upon the Maturity Date but which would spark a valuation discussion upfront and impacts the 'plug-and-play' character.<br><br>The entitlement to (subscribe to) any anti-dilution or indemnification rights whether contractual or under the form of a security, could be considered |
| Pricing | At the valuation of the most senior class of shares of the Company at the moment of the conversion and/or including a valuation cap | At a discount and/or making use of a valuation floor | |
| Moment | Conversion at any time | Conversion at the election of the Investor | |
| Type of securities | An existing class of shares | A tailor-made class of shares whereby the Investor can negotiate on all rights and obligations attached to such shares and entitlement to anti-dilution or indemnification rights | |
| | Interest<br>- mandatory conversion so no cash out<br>- a conversion at the actual valuation (and / or with a valuation cap)<br>- avoid discussion on valuation as to safeguard a smooth process | Interest<br>- flexibility for the Investor to decide upon conversion and the type of security<br>- a favourable conversion rate / valuation (i.e. discount and/or valuation floor) | |
| | **Other** | | |
| Voluntary early repayment (not provided for) | Yes | No | The standard version does not provide for voluntary early repayment provisions as it is not customary in this type of agreement. |
| | Interest<br>- the Company controls whether to repay or convert when it knows that a Conversion Event is looming (creates a possibility of arbitration)<br>- the Company is in full control of the repayment | Interest<br>- risk of arbitration (see interest of Company)<br>- may want a reinvestment fee included | |
| Cap on mezzanine/convertible debt | Yes | No | The standard version does not provide for such a cap on mezzanine/convertible debt imposed upon the Company. |
| | Interest<br>- The Company wants full flexibility in attracting financing. | Interest<br>- The Investor wants to have a view on the potential dilution he could face. | |



SYNDICATE ONE