Twitter Thread by Eloho Omame



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I want to see African founders win.

$5B African VC in 2021. ■■■

But as Africa gets “hotter”, I think we’ll see more problems with broken early-stage cap tables given the volume of pre-seed (~80%) and number of first-time founders.

Here are some signs of a broken cap table:

1. Excessive founder dilution.

You’ve given up too much equity too soon. You’re on track to be a minority shareholder by Series A and successive rounds make you nervous. But your startup needs capital.

Series B/C/D investors worry that you’re too diluted to stay motivated.

2. Passive investors own meaningful chunks of your equity.

They’re possibly opportunistic angels or advisors that came in early. They’re free riders - adding little value to your journey but taking up space on the cap table. They’re not very helpful or responsive.

3. Misaligned investors own meaningful chunks of your equity.

They’re probably institutions but they don’t necessarily share your vision. They were aligned, engaged and responsive to start with. But they may have shifted focus along the way…maybe Africa became less “hot”.

4. Your institutional investors are not a stage fit.

They’re PE/SME not VC and own 50% (or close enough to that) of your equity. They place demands on you that are more suited to later-stage startups. Like audited financials or quarterly boards at the pre-seed stage.

5. Your investors are not experienced with startups/VC.

They insisted on (and you conceded to) unusual control provisions like ring-fenced capital (eg for “advisors”) or to be co-signatories to your bank accounts. They didn’t use a standard SAFE/overloaded the side letter.

As excitement heats up, the best advice I think experienced founders & investors can offer first-time founders is to be discerning.

Be thoughtful about who’s on your cap table and why.

Your equity is precious. Give it to people you can work with into the long-term.

Good luck!