PERSPECTIVES — CAPITAL STRATEGY

Founder's Guide to Capital Formation

Equity, debt, and hybrid structures — and how to sequence rounds around them.

CAPITAL STRATEGY

Most founders default to equity because it's the instrument they've heard of most often, not because it's the one that fits their situation. Capital formation is a sequencing problem before it's a fundraising problem.

01 The Three Structures

Equity

Permanent capital in exchange for ownership. No repayment obligation, but it is the most expensive capital a company will ever raise — every dollar dilutes founders and existing holders permanently, and the return expected by an equity investor is priced accordingly. Appropriate when the company is pre-revenue or pre-profit, when the outcome is genuinely uncertain enough that a lender wouldn't underwrite it, or when the capital is funding something equity investors are specifically suited to value — a new market, a product line, a step-change in the business.

Debt

Capital that must be repaid, with interest, on a defined schedule, regardless of how the business performs. Appropriate once there is enough predictable cash flow or asset value to service it — inventory, receivables, equipment, or contracted revenue. Debt is cheaper than equity when it works and considerably less forgiving when it doesn't; the discipline it imposes is a feature for a company with the cash flow to support it; a liability for one that doesn't.

Hybrid Structures

Convertible notes, SAFEs, revenue-based financing, venture debt, preferred equity with debt-like protections. These exist because most financing decisions aren't a clean choice between equity and debt — they're a negotiation over who bears risk, when, and at what price. Hybrid instruments let that negotiation happen without forcing a valuation conversation before the company is ready to have one, or without handing over the governance rights a straight equity round would require.

02 Matching Structure to Stage

Stage	Typical fit	Why
Pre-revenue / concept	Equity, or convertible instruments	No cash flow to service debt; valuation is genuinely uncertain, which convertible structures accommodate better than a priced round
Early revenue, pre-profit	Equity, selectively paired with venture debt	Venture debt can extend runway between equity rounds without materially adding to dilution, once there's a lender willing to underwrite the trajectory
Revenue-generating, capital-intensive	Asset-based debt, revenue-based financing	Predictable cash flows or hard assets support debt service; equity becomes an expensive way to fund working capital
Profitable, growth-stage	Blend — growth equity for step-changes, debt for working capital	The business can now service debt for its ordinary operations, reserving equity for discrete, higher-risk growth initiatives

03 Sequencing Rounds

The most common sequencing error is raising the maximum amount the market will bear at each stage, rather than the amount the next milestone actually requires. Every round should be sized against a specific, credible inflection — enough capital to reach the next point where the company's valuation step-changes, plus a reasonable buffer, not a number chosen because it was available.

- [ ] **Define the milestone the round is funding before setting the amount**
  Product launch, regulatory clearance, a revenue threshold — something that changes how the next round is priced.
- [ ] **Size the raise to that milestone plus a genuine buffer, not to the maximum interest observed in the market**
- [ ] **Revisit instrument choice at every round — the right structure at seed is rarely the right structure at growth stage**
- [ ] **Preserve optionality on the next round by avoiding provisions today that constrain tomorrow's capital — aggressive anti-dilution, broad protective provisions, or participating preferred stacked too early**

OUR PERSPECTIVE

We work across equity, debt, and hybrid structures, and across financial and strategic capital, because the right answer for a given company is rarely a single instrument raised in isolation. The sequencing decision is often more consequential to long-term ownership and control than the terms of any individual round.

Capital formation is a multi-year exercise in preserving optionality while raising enough to hit the next real inflection point. The instrument matters less than the discipline behind the sequence.