

Dynamic Equity Implementation

Commercial Legal Services

Sector: Technology and Software Development
Enterprise Size: R1m+
Project Duration: 3 months

Introduction

Dynamic equity is a methodology for determining how equity is allocated in a start-up business and importantly how it is recovered (realised) when someone leaves the business. The dynamic-equity model protects the business and the individual participants by creating a fair split. Small adjustments to equity splits allow the shareholders to measure effort invested without arguments about keeping things fair.

Addison Comline's hands on drafting, organisational design and consulting expertise were highly regarded in winning this work.

Objective

Using models such as Discounted Cash Flow (DCF) valuations or Price: Earnings (PE) multiples won't work, because the business hasn't sold anything, let alone generated a sustainable profit. Hence, most entrepreneurs end up using a 'guesstimate' for allocating equity in their start-up.

In the absence of cashflow and profits, a number of questions invariably come up when entrepreneurs start to bring on new shareholders. The skilled technology player on the team may have the ability to build something but a new investor bringing in cash or a strong sales resource who wins those early clients could be even more valuable in the bigger scheme of things.

Participants make contributions of time, ideas, relationships, money, supplies and anything else required by the business. These contributions are essentially risk based predictions on the future profits or sale of the company. The value of the allocations is equal to the fair market value of the contribution. For instance, the value of time is equal to what one would otherwise get paid for similar work at a company who could pay (ie opportunity cost).

Our approach

Addison Comline makes use of a unique methodology that has been developed based on global best practices in conjunction with decades of experience. We make use of databases that are used in the Banking and Private Equity markets in the local markets concerned. Our core 'Ai' ® methodology has been continuously refined and we subject this methodology to independent review and rating on an annual basis.

Work performed

- Develop strategy in collaboration with the client.
- Drafted necessary agreements
- Provided 'Designated Officer' service

- Verify allocation and facilitate a quarterly meeting between participants to resolve any matters arising between meetings that require a formal meeting.
- Manage the dispute resolution process
- Provide independent advice and consultation on an ad hoc basis.
- Close-out' the Framework

Outcomes achieved

The key to managing this process is the involvement of somebody who understands the methodology and can help manage its implementation at key milestones in your business. If you are an entrepreneur and you are currently having discussions on how to split your equity, we would be happy to assist. The methodology and means of resolving the inevitable questions around fairness have been answered in the US, so it is just a matter of time before South Africa adopts similar techniques.

Client feedback

“ We highly recommend AddisonComline to business owners that are looking for strategic advice regarding a transaction or corporate restructuring process that will result in the best possible outcome for the business.”

For further insights and our services or visit www.addisoncomline.co.za

About Addison Comline

Addison Comline provides insight, advice and direction to senior executives, business owners and shareholders with an emphasis on high-impact, value-enhancing work that is clearly understood and supported by our clients. Our services include corporate finance, legal and business-owner solutions, for example share structures, incentive structuring and succession plans. Our custom designed solutions help clients achieve their business and financial goals.

Areas of expertise

Corporate finance

Providing access to funding sources, capital structuring solutions and enhancing investment decisions.

Legal services

Corporate & commercial legal services including contractual negotiation, drafting, vetting and management; M&A transactions; corporate structuring and corporate finance; private equity & Financial transactions; personal client estate structuring and wealth management and corporate governance.

Business-owner solutions and services

Advice, assistance and help for entrepreneurs and owners of business who require specialist solutions to enhance and realise sustainable value within their enterprise as well as for themselves.

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