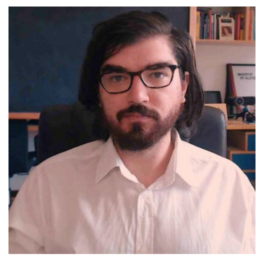
K-Notes: Simple Agreement for Future Equity (SAFE)

from Y Combinator

Take the Time to Review

In order to get a good deal, both for the startup and the investor, the SAFE agreement should be reviewed by an attorney. This takes time, which most startups don't want to do, but it is worth it.



"The valuation cap is really important. That's something that the startup and the investors must negotiate because it's a number that basically is going to define how diluted it's going to get for the founder."

Matias Vukusic

Startup Attorney

"We don't agree upon what is reasonable, especially considering that this document is interpreted in different jurisdictions."

KEY TAKEAWAYS

- **Beware of Alternate Versions**

  Because there are many versions of the Y Combinator SAFE agreement out there, you need to look closely to make sure the agreement you are working with is actually a SAFE agreement, and hasn't been modified with things like maturity dates.

- **Decide on Pre-Money or Post-Money**

  Pre-money valuation were part of the Y Combinator version in 2018. However, most investors prefer a post-money valuation, which comes with a downside for the startup. When negotiating, you'll need to know which is the best scenario for your startup.

- **Getting Valuation Right is Important**

  If valuation is too high, investors may not commit. If it's too low, your fundraising may suffer. Valuation depends on many things like what the busness model is, how much capital the startup has, business history, etc. Consider each factor when determining valuation.

- **Define What is Reasonable**

  Because this agreement can be interpreted in different jurisdictions, what is reasonable in one place may not be in another. The agreement needs to be specific in what is deemed reasonable.

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