

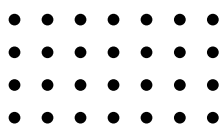


MoE's
INNOVATION CELL
(GOVERNMENT OF INDIA)

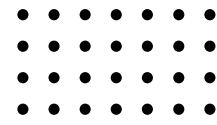


Dilution and its Impact on Founders

"When growth shrinks your share –
understanding equity dilution."












What is Dilution?



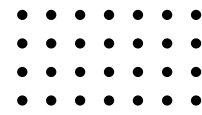
Dilution occurs when a company issues new shares, reducing the ownership percentage of existing shareholders, including founders.

- Happens when a company issues new shares.
- Existing shareholders' ownership % decreases.
- Common during fundraising or stock option grants.
- Affects founders, early investors, and employees.

Stock Dilution

 Pros		 Cons
 Capital infusion		 Ownership decrease
 Growth opportunities		 Value dilution
 Attracts investors		 Founder impact

Why Does Dilution Happen?



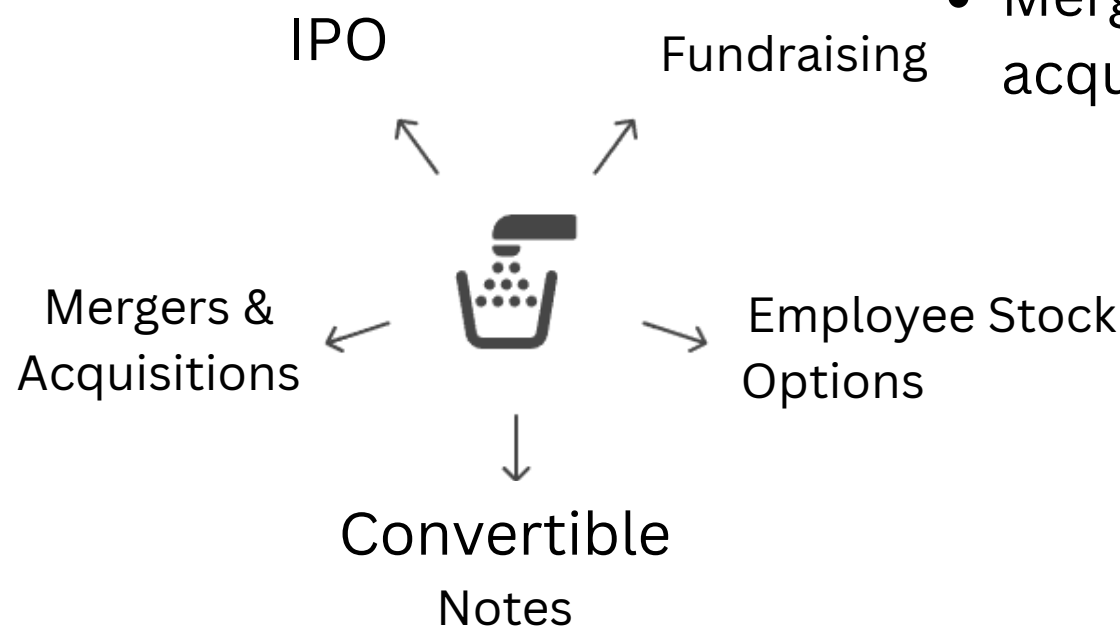
Clarity Wins Capital

KEEP IT SHARP, SIMPLE & STORY-DRIVEN

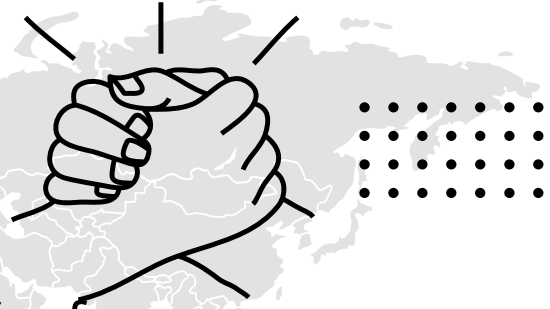


- Raising capital through funding rounds
- Issuing stock options to employees
- Convertible securities converting to equity
- Mergers, acquisitions, or IPOs

Causes of Stock Dilution



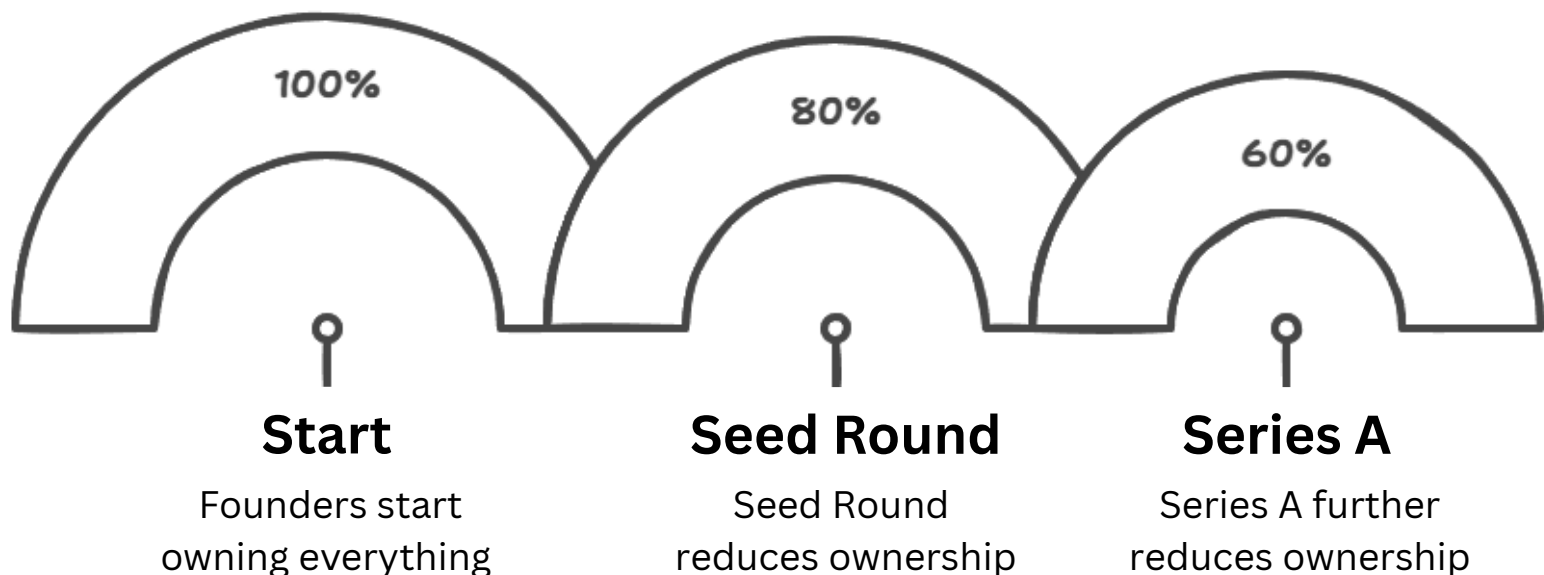
Founder Dilution Over Time



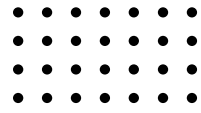
- Founders start owning 100% of their company
- Seed and Series A rounds dilute ownership by 20-25% per round
- By later rounds, founders may own less than 30%
- Despite dilution, company valuation usually grows, increasing overall equity value

"How founder ownership changes through funding rounds"

Founder Ownership Dilution Over Time



Managing Dilution Effectively



Plan Fundraising Strategically

- Only raise the capital you truly need to reach the next milestone.
- Time funding rounds for higher valuations to reduce equity given up.

Optimize Employee Equity Pools

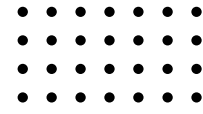
- Set option pools based on realistic hiring plans to avoid excessive dilution.
- Balance incentives with ownership preservation to keep founders and investors aligned.

Communicate and Negotiate Clearly

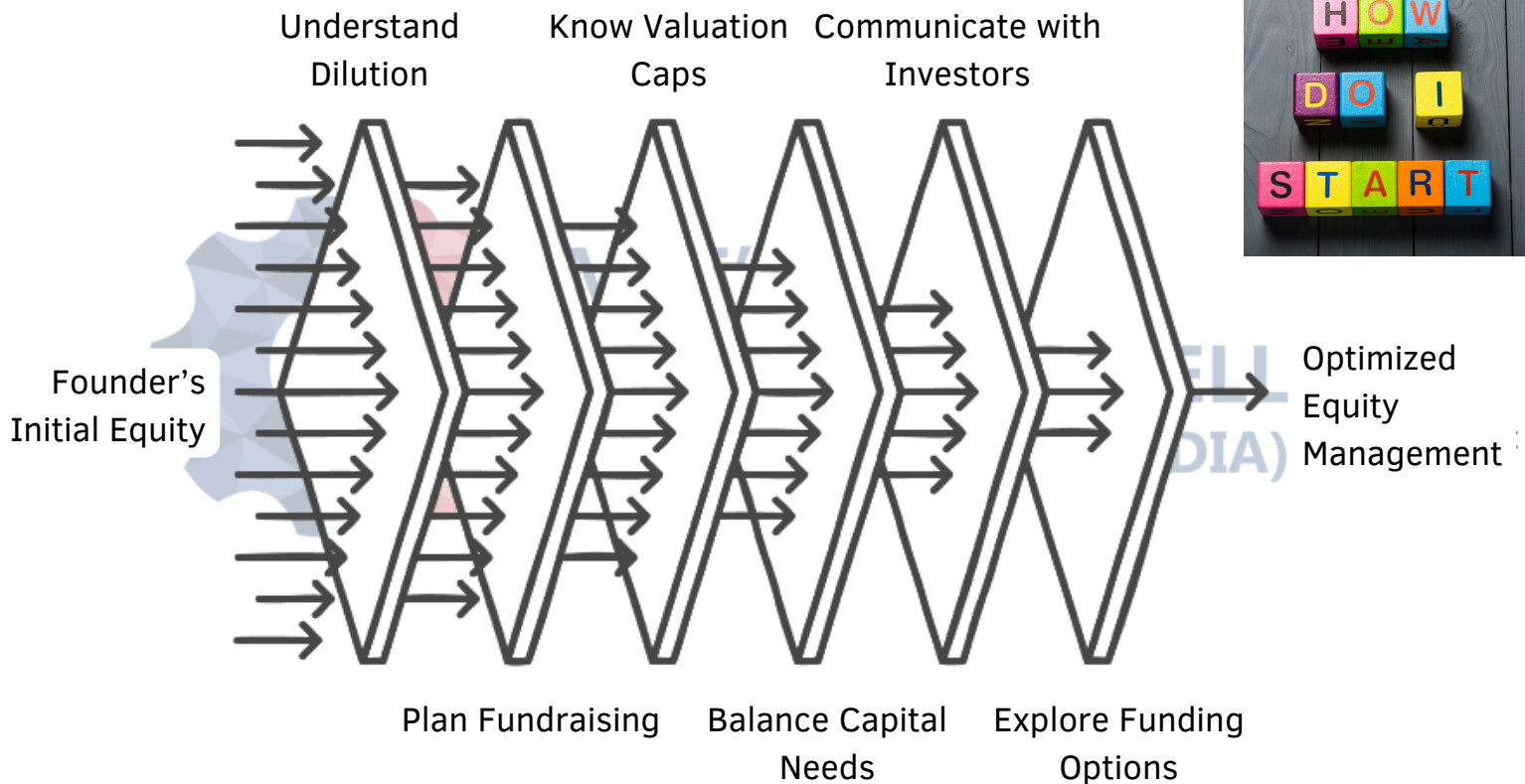
- Be transparent with shareholders about dilution impacts and benefits.
- Negotiate valuation caps, discounts, and terms carefully to protect ownership.



Key Takeaways for Founders



Founder's Equity Management Funnel



- Dilution is a natural part of startup growth
- Protecting ownership ensures control and motivation
- Balance raising capital with minimizing dilution
- Plan fundraising rounds strategically to maximize company value
- Seek expert advice to navigate complex equity decision

