The Rise of Co-founder Prenups: Report 2023

Contents

Ifty Nasir

Co-founder and CEO at Vestd

Over **800,000** new companies incorporated last year - a record breaking year for the UK.

Sadly though, an enormous percentage of these will fail simply because of co-founder conflict.

Conflict often arises if responsibilities and goals are not crystal clear, or if somebody takes rewards from the business that they just haven't earned.

All of the above can be nipped in the bud with co-founder prenups (also known as **Agile Partnerships™**). With a prenup, everybody gets what they deserve and more to the point, everybody is invested and incentivised to make the business succeed.

Little wonder then, that the UK is in the midst of a major revolution. Last year, we saw a **500% rise in the numbers of startups establishing co-founder prenups.**

Find out why and perhaps be inspired to think about what your own conditions might be over the following pages.

What is a co-founder prenup?

Co-founder prenups are a way of sharing your equity fairly, so that all future rewards are earned by the recipient - most commonly through specific goals or loyalty.

At their simplest, co-founder prenups (also known as 'conditional equity' or 'Agile Partnerships') are a way of dividing future company gains fairly.

For a couple of reasons, it is best to link these future rewards to measurable and specific goals. For example:

'Jack gets 40% over a four year vesting period, if he stays in his role for that period.'

Or,

'Elaine gets 40% if she maintains a customer churn rate below X% over two years.'

This system effectively eliminates the risk that Jack or Elaine could leave with chunks of equity without holding up their end of the bargain.

Agile Partnerships are also intensely motivating and keep everybody racing towards the same goals.

> For these two reasons, it's a good idea to strike up an Agile Partnership right from day dot.

The odds...

"I'm sure a handshake will be totally fine."

Optimism is great, but seriously, you need a contract that sets everything out clearly.

In the first flush of startup excitement, nobody wants to think about equity management. This is especially the case if said co-founders happen to be mates. What could go wrong?

Well, according to the experts, **a lot**.

Noam Wasserman, the Dean of Yeshiva University states that **65%** of startups fail due to co-founder conflict.

Additionally, Icehouse Ventures revealed that even amongst the startups that succeed, that **35%** lose a co-founder within ten years.

This echoes reports that **20%** of startups entering the Y Combinator accelerator programme collapse within 9-12 months because of co-founder issues.

And, if that wasn't horrifying enough, a recent study by the University of Pennsylviania showed that a two person team is nearly **twice** as likely to dissolve their business as a solo entrepreneur.

The odds are, well...not great.

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Too many people jump into business with a friend and don’t tie future rewards to performance, delivery or milestones (like length of time with a company). This initial optimism can cause intense problems down the line, especially as the business develops monetary value. A handshake really isn’t enough.

- Ifty Nasir, founder and CEO of Vestd

Co-founder prenups skyrocket!

Protecting the dream, inspiring the team.

Vestd introduced Agile Partnerships back in 2021 and since then, take-up has risen by **500%**.

Most of this growth was modest and steady, but in Oct 2022, we saw a huge **(125%) spike in sign-ups**.

And aside from a post-Christmas dip, we've seen an overall upward trajectory.

We've actually seen more Agile Partnerships established in Q1 of this year than we did in the whole of last year.

This could be downplayed as 'new product popularity' but Agile Partnerships have a precedent in growth shares, and these too, have exploded in popularity...

What's the story with growth shares?

Growth shares are a type of share that usually come with strings attached (e.g. '25% of Hassan's shares will vest each year for four years - a quarter for each year he stays with the company. After these four years, he will be able to sell his stock if he chooses to.')

Sometimes called 'hurdle shares', growth shares are issued at a hurdle rate. That hurdle is typically based on the company's current share price plus a small premium, what we call the 'hope value'. The shareholder can only benefit once that hurdle has been exceeded.

Get to know growth shares.

Crazy growth

Growth shares are commonly used to share equity with conditions attached (they are often the type of shares used in an Agile Partnership), and for this reason, they are often given to senior level early hires such as co-founders. They are also often used to reward others in key roles, such as consultants and Non-Executive Directors.

We've seen continual gains in this area too.

Over the past twelve months, growth share plans have increased by nearly **100%** when compared to the previous year, and they are up by **253% on five years ago**.

This adds to the picture being painted by co-founder prenup figures, demonstrating that the business world is becoming **increasingly savvy** when it comes to **motivation and reward**.

Why is this happening?

British entrepreneurs are waking up to the power of equity at lightning speed. But what has caused this recent surge in numbers?

Unease to expertise

When the economy shows signs of instability, businesses become risk-averse. In the financial world, this is known as the '**flight-to-safety**' effect but the impacts can be seen at an individual level too.

During times of economic downturn for example, people will save more and seek to reduce their exposure to future financial stress.

Vestd's spike in Agile Partnership plans coincided with a period of enormous financial insecurity for the UK.

On top of the 'cost of living crisis', the second half of 2022 also saw Boris Johnson formally leave office and the Queen - a symbol of national constancy - pass away. All of these events added to the atmosphere of crisis that enveloped the UK in the latter half of 2022.

Further afield, Elon Musk's Twitter drama continued to dominate the business titles as he reneged on his deal to buy the social media colossus. The saga was a clear demonstration of the importance of having clear and binding agreements in place.

It's reasonable to hypothesise that all of the above contributed to the Q3 2022 uptick and the Q1 2023 surge in co-founder prenups.

Put simply, founders everywhere are (sensibly) getting their ducks in a row.

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While it’s hard to pinpoint a cause for the significant uptick in cofounder prenups, it’s possible that there’s a number of contributing factors.

Founder prenups can help manage expectations and ensure that imbalances in contribution to the business are acknowledged in advance.

There are several reasons why co-founders may be seeking these arrangements.

The instability of the UK, whether economic, political, or social, could be a motivating factor. Recent years have seen economic uncertainties and global challenges such as the COVID-19 pandemic, which could be driving co-founders to get their houses in order before embarking on a new venture.

Starting and running a business is incredibly difficult, and having a partner can be both beneficial and daunting. By setting out the terms of their partnership early on, co-founders can hopefully avoid conflicts and focus on creating innovative businesses.

In my experience, it can be hugely impactful for mental health starting a business on your own, and having a partner and a founder prenup can alleviate some of the stress and uncertainty.

Rob Dance

CEO and Founder of ROCK, one of the UKs largest technology consultancies | **www.rock.co.uk**

Case Study One

Ben Bennet – Second Voice Pro

Watch Ben's story here.

Based in Brighton, Second Voice Pro builds startup sales teams for early stage businesses.

Bootstrapping a startup to success can be an uphill struggle, but Second-Voice Pro's co-founder Ben Bennet recognised the power of the prenup, "we really needed to incentivize individuals to to take control of their part of the process" he said, "in order to build a solid foundation from which we could grow".

Getting everybody aligned and primed for success.

Ben knew that he wanted to reward other key hires with growth shares via his prenup, and that he wanted a simple way to manage his equity. Vestd had everything he needed.

"It's literally a few clicks of a button"

Ben set up his shares with milestones and time based vesting periods so that everybody earns their shares fairly.

"It's just saved me a hell of a lot of time, headaches, stress and money. It's been really valuable to get Vestd set up from the outset."

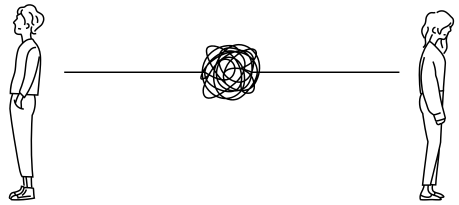
"...And all of the documents go to the right people in the right order and then off to be filed...it's almost like, click this button once and forget about it."

"That was phenomenal. The whole process is just bulletproof."

Case Study Two

The Friend

(Identifying details have been changed to protect the guilty)



Watch Tom's story here.

Tom and James had been in the same circle for years so starting a business together was a no-brainer. They set out with the best of intentions and absolutely no prenup whatsoever. What could possibly go wrong?

"We had a lot of successes, a lot of wins" muses Tom, thinking back on the early period of his venture with James, "but over time, people's motivations can naturally change..."

No safety net

"When we set the business up, I was very naive and we didn't have good corporate governance in place" he remembers.

"My co-founder decided that he didn't want to have an active role within the business, but he wanted to withdraw the same amount they had always withdrawn." Without any form of prenup in place, Tom was fully exposed to his co-founder's exploitation of business resources.

"There was no safety net, no safeguards to protect the business."

The beginning of the end

"When my business partner decided he wanted to work part time on the business," Tom said, "I continued to operate and just found it completely demotivating."

Losing everything

Ultimately, Tom lost his business and his friendship.

"The last time I spoke to him was when he had put the business into insolvency proceedings. I lost all my life savings basically off the back of sorting it all out."

"There is no relationship now."

What next?

> “Time is the wisest counsellor of all.” - Pericles

Luckily, you don’t have to learn from your own mistakes. You can learn from **these** instead.

Or, if you’d like to see an eerie prediction of things that could come to pass, take a look at **this**.

To avoid all of the above, why not book a free, no-obligation chat with a member of our team **here**.

We can help you to maximise the uses of your equity and get you easily and affordably set up.

Always remember, **#CofounderPrenups** protect the dream and inspire the team.

So what are you waiting for?

Vestd: share scheme specialists

Vestd is the UK's first and only regulated share scheme platform for SMEs. Thousands of customers use Vestd to manage equity rewards, company admin and much more.

“ Customer Testimonial

Jim Jensen
Propellernet

“It was a combination of extremely knowledgeable support and really simple and intuitive technology. Vestd massively simplified the whole share scheme process for everyone involved.”

Why Vestd?

- Guided setup and five-star support
- Two-way integration with Companies House
- Issue shares and options in seconds
- 100% accurate real-time cap table
- Personal dashboards for all shareholders
- Future scenario modelling
- Intuitive scheme designer
- CoSec tools

And much more!

Discover how you could unlock people-powered growth. Book a free, no-obligation consultation with a share scheme specialist.

Talk to the experts