

# Navigating a Co-founder Breakup: How to Not Kill Your Company

## An EWOR Checklist

Co-founder breakups are challenging and often emotional.

However, you can preserve the health of your startup and ensure fair treatment for all parties with a structured approach.

The EWOR Partners, drawing from their personal experience, have created this guideline to assist you in navigating this process and protect your cap table.

## Protecting the Cap Table

When a co-founder departs, the primary concern should be protecting the cap table, which ensures a balanced equity distribution that keeps the company appealing to investors and supports long-term growth.

A “broken cap table” – where equity is unevenly distributed – can deter investors and lower the company's overall value.

When negotiating equity with an exiting co-founder, ensure the outcome:

- Preserves sufficient equity for the remaining founders and stakeholders.
- Minimises undue advantage for the departing founder.

Below, we outline the essential steps needed to reach these objectives.

### 1 Reclaim Unvested Shares

Unvested shares should revert to the remaining founder(s) or the company.

This standard practice ensures the exiting co-founder does not retain undue equity, maintaining fairness and protecting the cap table.

### 2 Negotiate about Vested Shares

To protect the cap table, it can be worth negotiating about the vested shares.

When investors invest in early-stage companies, they pay for the expected value increase of the shares.

The price paid for a share in a startup pre-IPO is therefore not a fair reflection of the value of the startup at that point in time, but has future growth priced in.

As the departing co-founder will not be part of realising that growth, it can be justified to negotiate about vested shares.

There are three topics that you can negotiate about:

#### 1. The percentage of vested shared the exiting co-founder can keep

One option to ensure the exiting co-founder does not benefit from unrealized growth is reducing the equity stake they can keep.

#### 2. The price that will be paid for the shares

Another option is to limit the price they can receive per share.  
This is either done by setting a discount compared to the most recent valuation event at the time they want to sell their shares (common discounts valuing 30%) or by already agreeing on a price per share (i.e. the last valuation).

#### 3. The (timing of) buyback

Considering a buy-back agreement allows the company to repurchase the exiting co-founder's vested shares at a fixed price over a set period, typically three years.

This approach has the following benefits:

**Liquidity for the Departing Founder:**  
The exiting co-founder gains access to funds, enabling them to pursue their next venture or other opportunities.

**Flexibility for Remaining Stakeholders:**  
The buy-back option provides both the company and potential investors with the opportunity to increase their stakes, maintaining a balanced and healthier cap table.

In short, both strategies above prevent the exiting co-founder from benefitting disproportionately from unrealised growth, while safeguarding the equity structure for the remaining team.

### 3 Advisory Role Opportunity

A departing co-founder can be a valuable advisor, offering insights that few others can. Offering an advisory role, paired with a refreshed equity grant, can:

#### 1. Allow Continued Investment in the Company's Success

The former co-founder will remain invested in the company's success through their contributions as an advisor.

#### 2. Offer Reassurance to Investors:

This arrangement demonstrates to stakeholders that the co-founder is actively engaged and incentivised to support the company's growth.

To structure this effectively, align the advisory equity grant with the last funding round's strike price and implement a new vesting schedule.

This ties the co-founder's contributions to measurable outcomes, benefiting both the company and its stakeholders

## Proceed With Independent Legal Counsel

As a final note, formalising agreements and addressing potential conflicts of interest during your co-founder's departure require careful legal oversight.

To ensure fairness and clarity:

- Work with independent legal counsel mutually agreed upon by all parties.
- Retain the counsel on behalf of the company, ensuring the organisation's interests take precedence over those of individual stakeholders.

This approach sends a clear message to investors that the company's success is the top priority, instilling confidence in its long-term stability.

- ➔ For more nuanced or complex situations, consider consulting a legal advisor experienced in startup equity structures to ensure the agreement aligns with industry best practices and protects all parties involved.



## Your Co-Founder Breakup Checklist

### 1 Reclaim Unvested Shares

Ensure unvested shares revert to the company or remaining founders.

### 2 Negotiate About Vested Shares

- Decide on the percentage of vested shares the departing co-founder can keep.
- Set a price for the shares:
  - Offer a discounted rate.
  - Agree on a fixed price per share based on the most recent valuation.
- Establish a buyback agreement:
  - Define a timeline.
  - Ensure liquidity for the departing co-founder while protecting the cap table.

### 3 Offer an Advisory Role (Optional)

- Propose an advisory role with a refreshed equity grant.
- Align the equity grant with the last funding round's strike price.
- Implement a new vesting schedule tied to measurable contributions.

### 4 Proceed With Independent Legal Counsel

- Work with mutually agreed-upon independent legal counsel.
- Retain counsel on behalf of the company to prioritise organisational interests.
- Ensure all agreements are formalised and align with industry best practices.

