

Your cap table tells investors *more than your deck.*

It reveals how you think about ownership, how you've structured relationships, and whether the business can survive the journey ahead. Seven red flags experienced investors check first — often before reading a single slide.

7

RED FLAGS

Pre-DD

WHEN INVESTORS LOOK

Structural

NOT COSMETIC

Before they read your deck, they open your cap table.

Most of these issues trace back to early decisions made without context. None of them are fatal. All of them are noticed.

01 Equal founder splits.

THE RED FLAG

50/50. 33/33/33. When every founder holds exactly the same equity, it tells investors nobody had the difficult conversation about who contributes what. Equal splits often signal avoidance rather than resolution.

WHAT THE INVESTOR READS

If they can't negotiate equity among themselves, how will they handle hard decisions under pressure?

THE FIX

Equity should reflect contribution, risk, and role. Use a framework like Slicing Pie or hold an honest conversation about full-time commitment, domain expertise, and who brought the idea. Unequal does not mean unfair.

02 No vesting schedule on founder shares.

THE RED FLAG

All founder shares fully owned from day one. If a co-founder walks after six months, they leave with 40 percent of the company and no further contribution. The remaining team is stuck.

WHAT THE INVESTOR READS

This is a ticking time bomb. One departure and the cap table becomes unrecoverable.

THE FIX

Standard four-year vesting with a one-year cliff, applied to every founder — including the CEO. Most GCC investors will not proceed without this. It protects everyone, including the founders themselves.

03 Too many advisors with too much equity.

THE RED FLAG

Five to eight advisors each holding 1–3 percent. Combined, advisors own 10–15 percent of the company and contribute little beyond an initial introduction or a handful of calls.

WHAT THE INVESTOR READS

They gave equity away to anyone who offered advice early on. They don't understand the value of their own cap table.

THE FIX

Advisors should typically receive 0.25–0.5 percent on a two-year vest with clear deliverables. If an advisor isn't actively opening doors or contributing expertise monthly, renegotiate or buy back the equity.

04 Dead equity from departed members.

THE RED FLAG

A former co-founder, early employee, or friends-and-family investor holds significant equity but is no longer involved. The shares sit there, diluting everyone, with no mechanism to recover them.

WHAT THE INVESTOR READS

Who is this person with 15 percent and no role? This becomes a problem at every future round.

THE FIX

This is why vesting matters. For existing dead equity, negotiate a buyback or restructure before you raise. Investors will ask about every name on the cap table — have a clean answer for each one.

05 Messy convertibles and stacked SAFEs.

THE RED FLAG

Multiple SAFEs or convertible notes at different caps, different terms, and different triggers. Nobody — including the founders — can clearly explain what the cap table looks like post-conversion.

WHAT THE INVESTOR READS

If they can't model their own dilution, we'll find surprises in due diligence.

THE FIX

Build a pro-forma cap table that models every scenario: what happens when each SAFE converts, what fully-diluted ownership looks like, and who sits where after the round. If you can't build this yourself, get help before you raise.

06

Investor-unfriendly terms from early rounds.

THE RED FLAG

An early angel or family investor negotiated aggressive terms: anti-dilution clauses, liquidation preferences, board seats, or veto rights that are disproportionate to their investment size.

WHAT THE INVESTOR READS

We'd be investing behind someone with outsized control. That's a structural risk we can't price away.

THE FIX

Before approaching institutional investors, review every term sheet and side letter from previous rounds. Renegotiate or sunset problematic clauses. A clean structure is worth more than the awkward conversation costs.

07

No ESOP or option pool reserved.

THE RED FLAG

Zero equity set aside for future employees. The founders plan to "figure it out later." Investors read this as either future resistance to dilution when it's time to hire, or a company that can't attract talent.

WHAT THE INVESTOR READS

They haven't thought about the team they need to build. Hiring will be a constant fight.

THE FIX

Reserve 10–15 percent for an employee option pool before you raise. Investors will often ask you to expand it anyway — but zero shows a lack of planning. It's one of the simplest things to fix and one of the most noticed.

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