

You Can Build a \$100 Million Startup and Still Walk Away With Nothing. Here's How to Protect Yourself.

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Key Takeaways

- Even a fast-growing, high-valuation startup can leave founders with nothing if they don't understand how the exit waterfall determines who gets paid first.
- Learn how to protect your equity, negotiate smarter funding terms and structure your company so your hard work actually pays off.

In 2023, my company, UNest, looked like a success story. We had over 700,000 users, a \$120 million valuation and several promising M&A conversations underway. I had spent five years building a product I believed in – a financial platform that helped families save and invest for their children's future.

On paper, everything pointed to a strong, profitable next chapter.

Then the Silicon Valley Bank collapse changed everything. Practically overnight, the market froze, our M&A talks paused and access to capital vanished. During that uncertain stretch, I had a call with our lenders that would completely change how I understood startup outcomes – and, ultimately, how I think every founder should approach funding.

That conversation introduced me to the exit waterfall – the framework that determines who gets paid when a company sells or restructures. I realized something few founders learn until it's too late: you can build a successful company and still walk away with nothing.

Because in the exit waterfall, structure is strategy.

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What the exit waterfall really means

Most founders assume their reward is proportional to how hard they've worked or how much equity they own. In reality, your payout depends on where you sit in the waterfall – the hierarchy of who gets paid when money comes in.

Here's how it typically works: debt holders get paid first, then preferred shareholders (usually investors) and only after that come common shareholders – the founders and employees. So even if you own 20% of your company, if investors and lenders are owed more than the sale price, your stake could be worth nothing.

It was a difficult realization. Even if our M&A deal had closed, the structure meant that the return for my team would have been minimal. Value on paper doesn't always translate to value in hand.

How founders can protect themselves

If you're a founder reading this, you don't have to learn this lesson the hard way. There are ways to protect yourself – and your team – from being wiped out when the exit waterfall starts flowing.

1. Model your exit scenarios early

You don't need a finance degree to do this. Run a few simple models: what happens if you sell for \$10 million, \$50 million or \$100 million? Include debt, liquidation preferences and dilution. If you're last in every scenario, fix your structure before it's too late.

2. Negotiate liquidation preferences

Liquidation preferences determine whether investors get their money back before you do – and how many times over. Push for 1x non-participating preferred. Anything beyond that means your investors get paid twice: once for their capital, and again from your upside.

3. Be cautious with venture debt

Venture debt can seem like growth capital, but it often becomes a trap. If you can't clearly see how you'll repay or refinance it, don't take it. Lenders sit at the top of the waterfall – they get paid first and can seize control long before you realize what's happening.

4. Keep a clean, transparent cap table

Who you take money from matters as much as how much you raise. A clean, mission-aligned cap table gives you flexibility and leverage. Avoid scattered SAFE notes, side deals and overly complex structures.

5. Invest in great legal counsel

Strong legal advice isn't optional – it's protection. A good startup attorney will walk you through each clause and model your payout under different outcomes. That clarity can save you from financial loss and regret later.

6. Maintain leverage

If you raise money when you're desperate, you lose power. Bootstrap longer if you can. Explore strategic partnerships or revenue-based financing. Investors respect founders who have options.

7. Guard your control rights

Don't give up board or voting control too early. Those rights determine who decides *when* and *how* your company exits.

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What I tell founders now

Many founders think they can't push back. They think they should be grateful just to get funded. But that's how the system stays unbalanced.

Financial and funding literacy is founder power. The more you understand your cap table, your debt and your exit waterfall, the harder it is for anyone to take advantage of you.

You can't control the market – but you *can* control your understanding and your outcome.

Learn your structure. Model your scenarios. Negotiate your terms. Because in the end, the deal you sign determines whether you're building wealth or just working for someone else.

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