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We're guessing you came this far because you are interested in joining us! But you may be wondering ***"What is a SAFE investment?"*** *Read on to get the breakdown and if you still have questions, please reach out via our contact information. Thank you!*

A SAFE grants an investor the right to obtain equity at a future date if the startup sells shares in a future financing. It has been historically used by top startups in Silicon Valley raising money from accredited angel investors.

Early-stage startups use SAFEs to delay the difficult task of figuring out how much a startup is worth. It's also a much cheaper and simpler contract than priced equity rounds, which may require months of negotiation and upwards of 30 pages of legalese costing tens of thousands of dollars.

The number of shares you will receive is determined at the next priced financing when professional investors – typically venture capitalists – set the price for preferred stock. Then, calculated by using the Valuation Cap and sometimes the Discount Rate, your SAFE converts into shares at a lower price than the venture capitalists paid, since you invested earlier.

The **Valuation Cap** is the most important term in this security. It puts a maximum price on the price of the stock - the lower the price, the more shares you will get. If you invest in a startup with a valuation cap of $8 million, and they later raise at a $20 million Pre-Money Valuation, the amount of stock you'll get will be priced off the $8 million number. But, if the next investors value the company at $4 million, that will be your price.

This is where the **Discount Rate** comes in. If the company is valued at less than the original valuation cap, the discount rate will be applied to early investors who came in under a SAFE agreement. This ensures you receive preferred pricing.

Unlike a Convertible Note, a SAFE is not a loan. As such, it does not accrue interest, have a maturity date, or have a legal obligation to be paid back. This makes it a simpler and cheaper way to finance a startup, and it typically better aligns with the intention of most early-stage equity investors who never intended to be lenders.

Attribute	SAFE	C-Note
Convertible Security	✓	✓
Discount	✓	✓
Valuation Cap	✓	✓
SEC Characterization	like a warrant	debt
Future Conversion	post-money	pre-money
Term (Maturity Date)		✓
Interest Rate		✓

What is a Convertible Note?

A convertible note is an unsecured loan that *converts to stock* at some point in the future. They are one the most popular forms of seed-stage startup investing because of their history, although the SAFE is rapidly becoming more prevalent as well.

Convertible notes are also useful because they delay the difficult task of figuring out how much the startup is worth. The number of shares you receive is determined at the next qualified financing (typically $1 million), when venture capitalists set the price for preferred stock. Then, calculated by using the Valuation Cap, Discount Rate, and Interest Rate, your loan converts into shares at a lower price than the venture capitalists paid, since you invested earlier.

If the startup does not raise another round of funding, the note becomes due at the maturity date, typically in 18-24 months. Convertible notes, however, are rarely repaid in cash. Instead, the note usually converts to equity at a pre-set target price.

The discount and interest rates have a relatively minor impact on future returns. The most important term to focus on – which can greatly impact the price of your future shares – is the Valuation Cap. This is usually set between $3 to $20 million, depending on how "hot" the startup is.