1.1 SAFE (SIMPLE AGREEMENT FOR FUTURE EQUITY)

Brief Description

The Simple Agreement for Future Equity ("SAFE") is a financing instrument used in early-stage funding and seed funding and resembles the dynamics of a convertible note without having the intricacies that a convertible debt instrument would entail. Via a SAFE the investor receives the right to purchase the shares of a company in a future round of equity, subject to pre-defined conditions set ex-ante in the agreement.

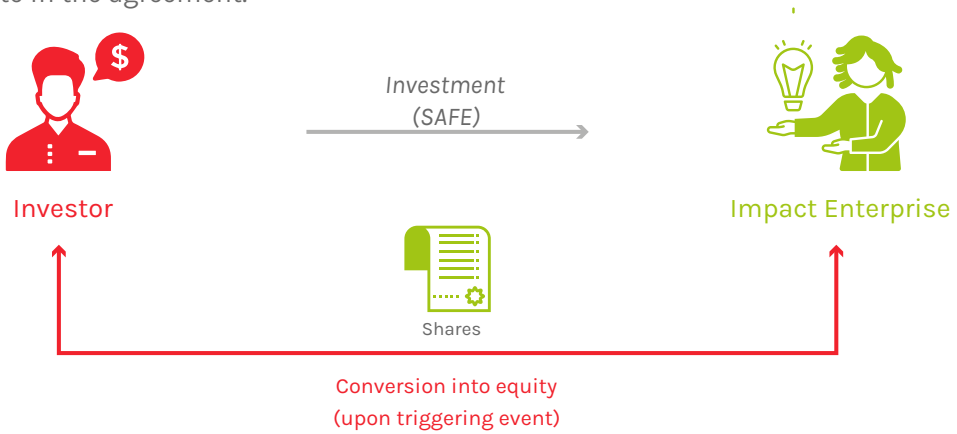


Figure 1.2 – "SAFE", source: Roots of Impact.

Purpose/Fit	Flexible, quick and simple source of funding in unpriced[14] seed rounds
Can replace	Debt – convertible notes
Risk/Return Profile	High Risk/High Return
Enterprise Lifecyle	Seed stage
Maturity	n/a – it is linked to the equity funding round (or dissolution event, or another triggering event)

14 Unpriced in this context means that there is no company valuation that would allow to calculate the company share investors would get for a certain amount of investment.

Defining Criteria

1. **Liquidity event or triggering event:** A specific event triggering conversion into equity. The most common event is an equity funding round (it is usually a Series A financing, i.e. when the company provides equity shares to the investors for the first time). Another triggering event could be a trade sale, which is the sale of the overall business, or a part of it, to another company.

2. **Dissolution event:** In the case of the company going out of business, the SAFE investor is entitled to receive its purchase amount or any other agreed amount back.

3. **Discount rate:** It allows the SAFE investor to convert to equity at a discounted price in the course of a subsequent round of financing. Discount rates typically range between 10% and 25%, and the discount factor is calculated as follows: [100 – discount rate]%.

4. **Valuation Cap:** Upon raising funds above a certain threshold, it allows the SAFE investor to convert at the cap share price. The valuation cap works as a ceiling on the valuation that will be used to calculate the conversion price for the SAFE investors, who are entitled to convert at the lower of the valuation cap or the price, in the subsequent financing.

5. **Pro-rata rights or participation rights:** They entitle the SAFE investors, during subsequent rounds of funding, to invest additional funds in order to maintain their ownership percentage and avoid dilution.

Variants and Optional features

- The triggering event can also be linked to a change of control, an M&A, or other predefined circumstances.

- The valuation cap can be applied to pre or post money valuation.

- Most favoured nation provision ("MFN"): in case of multiple issues of SAFE, the company has to inform all the SAFE investors about each new additional issuance and enable them to check whether the terms are preferable. For instance, if

a valuation cap or discount is introduced in the new round of SAFE, then the previous holders are entitled to amend their SAFE to reflect the new terms.

- Linking financial rewards to the achievement of impact, for example reducing the discount rate or increasing the valuation - see “Examples of relevant terms” below.
- Examples of SAFE structures:
  - SAFE with valuation cap but no discount (most common)
  - SAFE with no valuation cap but with discount
  - SAFE with both valuation cap and discount

PRACTICAL APPLICATION

Benefits and Considerations, Capital Providers

Benefits	Considerations
Valuation cap sets a maximum conversion price, protecting the investor’s entry price if the company’s value rises before conversion	Unlike a convertible note, no interest accrues and there is no repayment before conversion, so the investor receives no interim return
Discount rate offers some compensation for early-stage risk	No control rights, board seat, or veto rights during a standard SAFE period
Fast and cheap to execute relative to a priced round or convertible note	No recovery priority in a bankruptcy scenario, however they are ranked before common shareholders
Pro-rata rights, if included, protect the investor’s stake in later rounds	If no triggering event occurs, conversion may never happen

Benefits and Considerations, Enterprises

Benefits	Considerations
Access to capital at a stage where a priced valuation would be premature or difficult to quantify	Final dilution is unknown until conversion, complicating cap table planning
Low legal cost and fast execution relative to convertible notes or priced equity	Stacking multiple SAFEs without careful tracking can create unexpected cumulative dilution
Unlike a convertible note, no repayment obligation or interest accrual, preserving cash during early growth	If no triggering event occurs, terms may need renegotiation
No fixed maturity date, removing repayment or conversion deadline pressure	

Selection Criteria Checklist

Use to test whether a SAFE is a good fit for a given deal.

- ☐ **Pre-valuation stage** — company’s value is genuinely hard to price, a priced round would be premature.
- ☐ **Credible conversion trigger** — a near-term priced round or other trigger is realistically expected.
- ☐ **Investor accepts deferred return** — capital provider is comfortable with no maturity and no interim interest.
- ☐ **Local legal enforceability** — SAFE is recognised locally, or an adapted template exists.
- ☐ **Manageable cap table** — cumulative dilution from all SAFEs issued stays at a level the founders and existing shareholders can accept.

- **No control demands** — investor does not require voting or board rights in the interim. Information rights can be granted through a side letter.

Common Pitfalls

1. Stacking multiple SAFEs from different investors without tracking cumulative dilution.
2. Issuing SAFEs to multiple investors on different terms without properly settling the MFN provisions[15], causing disputes over conversion price later.
3. Assuming enforceability in a jurisdiction where SAFEs aren't legally tested, without adapting terms with local counsel.

Examples of Relevant Terms

As formulated in a contract; bracketed values are illustrative and negotiable.

Discount Factor/ Price	The Discount Factor is (80%). The Discount Price is the price per share of the Standard Preferred Stock sold in the Equity Financing multiplied by the Discount Factor.
Conversion Price	The Conversion Price means either (i) the SAFE Price or (ii) the Discount Price, whichever calculation results in a greater number of shares of SAFE Preferred Stock, where SAFE Preferred Stock means the shares of Preferred Stock issued to the SAFE investor in an Equity Financing, having identical rights, privileges, preferences and restrictions as the shares of Standard Preferred Stock, other than with respect to (i) the per share liquidation preference and the conversion price for purposes of price-based anti-dilution protection, which will be equal to the Conversion Price; and (ii) the basis for any dividend rights, which will be based on the Conversion Price.
SAFE Price	SAFE Price means the price per share equal to the Valuation Cap divided by the Company Capitalisation.
Valuation Cap	The (Post-Money) Valuation Cap is (USD 5,000,000)
MFN Amendment Provision	If the Company issues any Subsequent Convertible Securities prior to termination of this SAFE, the Company will promptly provide the Investor with written notice thereof. In the event the Investor determines that the terms of the Subsequent Convertible Securities are preferable to the terms of this instrument, the Investor will notify the Company in writing. Promptly after receipt of such written notice from the Investor, the Company agrees to amend and restate this instrument to be identical to the instrument(s) evidencing the Subsequent Convertible Securities.
Optional: Link to Impact Performance	The pre-agreed discount rate of (20%) is reduced by (1%) for every (1,000 units of social outcomes) achieved by the Company up to a discount rate of (0%). Alternatively: The pre-defined valuation cap of (USD 5,000,000) increases by (USD 10,000) for every (1,000 units of social outcomes) achieved by the company up to a valuation cap of (USD 8,000,000).

CASE STUDY: LEADING EDUCATION SERVICES ENTERPRISE, BANGLADESH

Instrument	Simple Agreement for Future Equity (SAFE), modified for Bangladesh
Company	Leading Education Services Enterprise
Sector	Education Services
Investor	LCMA Ventures
Deal Figures	Illustrative only; actual deal terms are not disclosed

The Challenge

The education services enterprise is one of Bangladesh's leading edtech platforms. Like most early-stage ventures, it needed growth capital before it had a solid

15 See Variants and Options section for definition

revenue history for founders and investors to agree on a valuation. A fully priced equity round would have taken months of negotiation and legal work.

How the Deal Works

The enterprise closed an investment from LCMA Ventures using a modified SAFE. Unlike a convertible note, a SAFE carries no interest and no maturity date. The investor provides cash today and receives shares upon a conversion event in the future, when the company raises a priced investment round. The founders can start using the provided investment immediately to scale the business.

Two terms protect the early investor for taking the earliest risk:

- **Valuation Cap:** the maximum valuation at which the SAFE converts.
- **Discount:** a percentage discount on the share price of the next priced round.

At conversion, the SAFE investor gets whichever price is lower.

Illustrative Worked Results

The figures below are illustrative and do not reflect the enterprise's actual terms.

In this example, Leading Education Services Enterprise raised a USD 500,000 SAFE from LCMA Ventures, with a USD 3 million valuation cap and a 20% discount. At that point the enterprise had 4 million founder shares outstanding, held by the founders, and its cap table was as follows.

Shareholder	Shares	Ownership
Founders (Combined)	4,000,000	100%
SAFE Investor (LCMA Ventures)	No shares until conversion	0%

Sixteen months later, the enterprise raised its Series A, in which a new investor committed USD 1 million at a USD 4 million pre-money valuation.

With 4 million founder shares outstanding, the Series A price was calculated at USD 1.00 per share (USD 4 million / 4 million shares). The SAFE converts at the lowest of the three prices below.

Conversion Price Test	Calculation	Price per Share
Series A Price	USD 4m / 4m shares	USD 1.00
Discount Price	USD 1.00 x (1 - 20%)	USD 0.80
Cap Price	USD 3m / 4m shares	USD 0.75
SAFE Converts at (Lowest)		USD 0.75

The SAFE converts into 666,667 shares (USD 500,000 / USD 0.75). The Series A investor receives 1,000,000 shares (USD 1,000,000 / USD 1.00).

Cap Table After Series A: How SAFE Terms Shift Ownership

After the Series A, the enterprise's cap table reflected the SAFE terms as shown below. With both the USD 3 million cap and the 20% discount, the founders hold 70.6%, the SAFE investor 11.8% and the Series A investor 17.6%. The table compares this outcome with the same round under two alternative sets of terms.

Scenario	Founders (Combined)	SAFE Investor	Series A Investor
No Cap, No Discount	72.7%	9.1%	18.2%
20% Discount Only	71.1%	11.1%	17.8%
USD 3M Cap + 20% Discount	70.6%	11.8%	17.6%

Assumption: the USD 4 million pre-money valuation counts founder shares only, so SAFE conversion shares dilute the investor as well as the founders. Most investors will instead insist the pre-money includes SAFE conversion, which pushes all SAFE dilution onto the founders. This is the single most negotiated point at conversion.

Lessons Learned

- **Speed and Cost:** a SAFE allows a founder to close early-stage funding in weeks rather than months, which matters in markets with few active seed investors.
- **Dilution Is Deferred, Not Avoided:** the final extent of dilution is unknown until conversion. Founders should model the outcome under several valuation cap and discount rate scenarios before signing, particularly where more than one SAFE is outstanding.
- **Local Legal Fit:** SAFEs were designed under US company law, so their terms need to be checked against local rules before use. Conversion mechanics, share issuance approvals and foreign investment rules can differ between countries and may require local legal review, which is why SAFEs used outside the US are typically modified.

Other external case studies and additional resources about SAFE can be found **here.**

