Capdesk: Leading the Equity Revolution

Christian Gabriel, the 31-year-old co-founder and CEO of Capdesk, an equity management platform that offers transparency and liquidity of equity stakes for privately-held companies, was re-visiting the lounge area of his WeWork Shoreditch office in London to get another shot of espresso. He had just finished his back-to-back meetings with various management teams and the sales team, and was due in for a meeting with the board as they prepared for another fundraising round.

Since receiving his first seed funding at age 24, his product ideas and vision for the company had evolved several times. His current ambition was to build a private stock exchange that rivals the scale and activity of public markets, and to make equity ownership of private companies accessible to all. Prior to the pandemic in 2019, Capdesk had received a nine-figure acquisition offer. What would be the next stage in the evolution of his company? Would it join the ranks of other unicorns?

Christian Gabriel

Gabriel was born in Copenhagen, Denmark. During his formidable years, his family moved several times between Sydney, Australia and Denmark. This changing environment helped him develop the ability to learn and adapt quickly, which combined with his intellectual curiosity, would prove to be a valuable asset later on.

In 2012, he enrolled in University of Copenhagen to study computer science and communication. Channelling his innate energy and his curiosity, he started a networking incubator called Creative Copenhagen, which would gather local businesses and startups together. He started to identify with the entrepreneurs and developed meaningful relationships.

> *"I didn't have any agenda at this point. I just liked the people and I was learning a lot, and tried to help them if I can, often for free. It was more fun than playing in the park or watching Netflix. For me, it's was like experiencing the runner's high."*

During this time, various crowdfunding platforms (e.g., Kickstarter) were popping up, and he got to know a Swedish crowdfunding platform company called FundedByMe (see Exhibit 1). FundedByMe would help businesses raise capital from the crowd by marketing the company profile (product, people, business model) on its platform, and selling shares. Each investor would pay 50-100 Euros to own a small equity stake in the business. When the funding target was reached (e.g., 50,000 Euros), the business typically would have hundreds of shareholders, and FundedbyMe would earn a commission.

In the Autumn of 2014, Gabriel joined FundedByMe as the Danish Country Manager to run its day to day operation. Over the next couple of years, he enjoyed moderate success while being a fulltime student.

The "Spark" Moment

Not having a finance background, one day Gabriel asked a simple question: Where are all the shares that we sold?

Each time an investor invested money, Gabriel logged the investor's address, email, contact number, the amount invested, shares given out, and the date, etc. So the shares were "in the spreadsheets."

But managing equity of hundreds using arbitrary spreadsheets in such a non-transparent fashion takes a lot of time to maintain and come with high risk of human error. Moreover, it's hard for both a company and its (hundreds of) investors to check the status of ownership information in real time. For example, if a company does additional funding round later, the equity status of all early investors must be updated on the spreadsheet.

> *"I felt like a crazy person that works for a crazy company that raises money from crazy people."*

Getting Started

Gabriel embarked on the journey to develop a backend platform that performs the complex financial calculations and enable people to easily check their equity real time. In January 2015, Gabriel joined forces with his friend Casper Arboll, who also worked at FundedbyMe.

> *"Our aim was initially to digitize equity in unlisted companies and automate the equity management process."*

Using his computer science background, Gabriel developed a minimum viable product (MVP) or an early prototype called Flok. It was a great mock up that looked complete on the outside, but it didn't have the database and didn't work. Nevertheless, Gabriel and Arboll started selling (for free) the 1-pager right away to crowdfunding platform and crowdfunded businesses and were successful in enrolling clients. The clients would provide their complaints about Flok, and Gabriel would use them as opportunity to improve it.

Early Seed Fundraising Round

Gabriel and Arboll felt that they had identified a product-market fit and that Flok was getting traction in the market. In March 2015 they pitched their business idea and their prototype to a serial angel investor, Nicolaj Hojer Nielsen, who was also a finance lecturer at Copenhagen Business School, where Casper Arboll was studying at the time for a business degree.

Nielsen agreed to invest if professional developers were on the team, and introduced them to Mikkel Boje and Martin Damhus, co-owners of a software consultancy called AccurateIT that develops software solutions for large companies. Not having the money to pay them, Gabriel instead convinced them to join their team by offering 15% of company, in return for overseeing the development of the MVP platform.

In April 2015, Nielsen agreed to invest £25,000 of seed funding for 10% of the business.

> *"we had received £25K from Nicolaj, and our company's pre-money valuation was around £250K, which I remember being crazily high at the time."*

Gabriel, 24 years old at the time, was ecstatic with the offer and got to work straightaway.

Surviving the First Year

> *"Once you get money, the race is on. Equity fundraising is very common in tech space, and the first year is your most vulnerable year. Surviving the first year was our goal."*

There are various metrics that investors look for to validate product-market fit and valuation. The metric is not revenue (especially in the seed stage), but one that shows traction in the market. The metric Nielsen was looking for was the number of investor signups, specifically, he gave them the target of signing up 1,000 investors, which is a number that roughly translated to tripling the company's valuation.

To increase the chance of achieving target, Gabriel and Arboll decided to take no founder salary[1], and pay no engineering salary (Boje and Damhus were working for 15% shares). With this arrangement, the £25k seed investment bought Gabriel and the team 8 months of runway (See Exhibit 2).

> *"This was really tight. We would aim to launch the product after 3 months. Then, start working on sales in month 4. Deliver all the results after 6 months, so as to give us the rest of time to fundraise. But if we were successful, it meant that the company's valuation would be £750k, which was very exciting"*

By August 2015, they had a prototype ready for testing, which they named Capdesk, which became the name of the company.

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[1] In Denmark, there is the Entrepreneurship Graduate Grant, which provides the eligible applicants approximately £1,000/month post-tax, which is slightly less than the national unemployment benefit.

Gabriel was never the one to wait for the product to be developed. He started cold calling potential clients immediately to sell Capdesk. He would give away the service for free, and ensure smooth onboarding experience for the clients. On the phone, Gabriel would often repeat the phrases:

> *"Use this, it's free. Won't cost you anything, ever! I'll do all the dirty work for you!"*

Gabriel and Arboll would travel often from city to city to meet potential clients in person and walk them through the Capdesk solutions. They even helped babysit a client's daughter so that she could finish running a workshop, and enrolled in a cocktail-making class of another client to talk to him.

> *"I didn't expect to be successful. I did all this at the time because it was fun. I loved working with Mikel and Martin and learning new things. I wasn't afraid of failing, because there is not much risk in terms of money. And I was only 24 years old, so had plenty of time."*

The hard work paid off. Within one month from bankruptcy, they had signed up 8 crowdfunding platforms, and had around 1,200 investors signed up to their platform. This impressed Nielsen and his friends in the FinTech investment community.

Formidable Years of Capdesk

> *"By January 2016, we had no funding left. We had a sort of functioning MVP that showed some promise, some companies were using it, but it was really shit."*

Gabriel and Arboll wanted to continue developing their platform and to scale their current business model. Since hiring developers was prohibitively expensive, Gabriel offered Bohe and Damhus bigger equity to become equal co-founders of Capdesk. They agreed, but decided to join Capdesk full time in July 2016 to fulfil their obligations to its current clients at AccurateIT before closing it down.

Gabriel and Arboll went back to Neilsen to ask for additional funding. Their past result and future commitment convinced Neilson and another angel investor to jointly invest a further £150k funding into Capdesk.

> *"This was one of the best decisions I made. I had 2 brilliant developers for free, and now we had 1 year runway!"*

Move to London

In February 2016, Gabriel relocated to London, where he felt he could get more crowdfunding platforms, crowdfunded businesses, and investors to sign up to his platform. He set up Capdesk in the office building of WeWork, and started cold calling potential clients. Again, he offered the Capdesk service for free, and he quickly got many companies and investors committed to using Capdesk.

In April 2016, Gabriel received his first acquisition offer of around £1m from a large crowdfunding platform. Gabriel turn it down because his partners Boje and Damhus have not even started yet, but the offer was a validation of Capdesk's previous valuation, and that it was on the right path.

First Major Pivot

In July 2016, Boje and Damhus officially joined Gabriel in London full time. The first thing they proposed was to rebuild the platform they had built earlier. They pointed out that it was not built to scale, and that they didn't want to invest their careers in it.

> *"Initially, I was like, 'I just spent 6 months getting the product-market fit in the UK, and we're going to rebuild the product? Are you kidding me?' But, I realized this could be a good opportunity to re-evaluate what we wanted to do long term."*

After long discussions and research, Gabriel and team were forced into a new vision. They would foresee that in the future the majority of investment made by the investment community will be in private companies instead of listed companies (see Exhibit 3).

> *"There is huge dry powder in the order of trillions in the investment community. With more VCs, companies are going to have larger funding rounds, and VCs will hold the firms to keep them private longer, and the blur between public and private will increase."*

Capdesk embarked on a major pivot. Instead of developing platforms for crowdfunding platforms and its investors, it would develop one for fast growing start-ups and scale ups to manage their equity. The rest of 2016 was dedicated to making new product and generating new customers.

As usual, Gabriel focused on selling and marketing the product to potential clients, while the product was still being developed.

> *"Most of the company's cap table was pretty messy, and they were desperate for liquidity. We realized we can help them with both!"*

The aim of Capdesk was to maximize users, so Gabriel would sell the platform for a marginal fee. He was able to generate thousands of new clients. In May 2017, after validating the product-market fit and demonstrating market traction, Capdesk received its first venture funding of 1m Euros from a VC firm in Denmark, Seed Capital. In June 2017, Capdesk launched a new scalable platform called Rhino, and by January 2018, many of UK's exciting startups and scale-ups (e.g., Love Crafts, Secrete Escape, Nutmeg, etc.) have become customers of Capdesk.

Second Pivot: Employee Share Plan

In March 2018, to manage the growing clientele, Capdesk hired its first employee (first of many that would happen). This event sparked another natural pivot.

Gabriel learned that many private firms would like to give equity options to their employees to improve retention and their commitment to the company. Capdesk therefore created the Employee Share Plan, a platform that can enable private companies to easily give equity to their employees, and the employees can see their equity value in a transparent manner.

> *"In hindsight, this was the perfect pivot. Now we were suddenly a purpose-driven company out to 'democratize' equity and make it accessible to all, not just the Silicon Valley elites. This made us an important company, which was super important for hiring people and going mainstream."*

With the new platform, their target customer base expanded to include retail investors and private companies.

Third Pivot: Subscription Model

Up to this point, Capdesk was generating no revenue. Its aim was to sign up clients on the Capdesk platform for free to create large secondary market. Its revenue model was to cash in on the liquidity it provided, by charging clients a fee based on transactions, much like a public exchange.

In January 2019, the UK-based VC Fuel ventures argued that Capdesk could earn significant revenue already by adopting a subscription model for each retail investor. The VC offered to invest £1.5m if Capdesk agreed to adopt its revenue model.

Running out of money again, Capdesk took the deal and began to implement it. Capdesk hired a professional sales team that was very good at closing deals, and within a few months, started to generate a respectable monthly revenue (approx. £40k).

The fast change was not without side effect. In April 2019, the co-founder Arboll decided to leave the firm, as his role became redundant.

> *"It was an awkward step, but a transition that had to be made."*

Arboll would be compensated well later on, as we will see.

Stepping into the Limelight

In early 2019 (February to March), there was a huge surge in venture funding and Capdesk's competitors in the US began making significant headlines. Carta was valued at over $1b and achieved the unicorn status. Shareworks was also acquired by Morgan Stanley for about $1b (See Exhibit 4).

Being the only equity management platform in the EU at the time, in March 2019, Capdesk also received a nine-figure acquisition offer, this time from a major European exchange. Gabriel turned down the offer, but it was another great validation that their pivot was the right decision.

In July 2019, Capdesk was featured in *Economist*.[2] The article brought to public awareness that managing the cap tables using secretive spreadsheets and legal documents by the firm's accountants has become untenable and that "equity managers" have become indispensable component of today's start-up ecosystem

> *"They essentially coined the term 'equity manager', and from this point, the equity management space really became a thing."*

In November 2019, Capdesk was invited to a Web Summit Conference in Lisbon, an important annual technology conference, where emerging tech companies and venture capital investors network. Out of thousands of companies, Capdesk was voted by investors as the "most popular startup" that they would like to talk to and invest in.

By December 2019, they achieved a five-fold increase in revenue compared to the beginning of the year. They hired more sales people, who were upselling and selling more and better, and moved into a bigger office. They also had received two generous termsheets from eager investors, and it seemed only a matter of time until Capdesk achieves its unicorn status itself.

Cultural Pivot during Crisis

In early 2020, however, the COVID pandemic broke out and things quickly turned south. Suddenly no investors were willing to invest in risky startups.

> *"The termsheets were ripped up and I suddenly found myself, again, a few months away from bankruptcy. All that success the year before for nothing."*

In March 2020, Gabriel decided a change in culture of the company was necessary.

> *"I made a speech that we're not aiming to be a unicorn. Unicorns grow too fast and ultimately starve. Instead, we want to be a camel that endures! We will be resilient and cost efficient."*

From this point on, rather than going for ambitious expansion, they focused on developing a positive workplace culture. They were the first to adopt remote working practices and encouraged team-first culture.[3] On the product side, they returned to their fundamental goal of providing liquidity for private companies. Capdesk raised £550k more from investors and focused on developing the secondary market platform that would enable seamless transactions of private equity in a private secondary market.

[2] Whose unicorn is this? New firms help startups keep track of their owners. *Economist*. July 9, 2019

[3] They were accredited by Flexa Careers as a "Truly Flexible Employer."

To uphold their resilient growth strategy, Capdesk partnered with *Seedrs,* a crowdfunding marketplace where firms can list their shares, to launch its secondary market platform. The sellers can list their equity of private company on *Seedrs*, which would utilize the Capdesk platform to execute the transaction. Using the platform, Arboll was able to cash out his stake.

By end of 2020, Capdesk was voted as one of the best Top 50 London startup to work for by Startups Magazine.

Scaling up

In 2021, the investment community re-emerged from inactivity. Capdesk was successful in raising £5m from Fidelity Ventures and Middlegame Ventures in a series A extension round to scale up their earlier successes.

They listed an innovative bike company on their platform to help them gain liquidity. Their secondary market platform was becoming more active, and Capdesk's transaction fee revenue started to increase. By the end of 2021, its monthly revenue was well over £100k.

Capdesk began its expansion into Germany to replicate the successes they had in the UK and in Denmark. In Europe, every country has very complex legal frameworks around equity ownership, and their goal was to tackle them, one at a time.

> *"We want to become the new NASDAQ of Europe for private companies."*

Conclusion

As Gabriel reflected on facing the early stage uncertainty of finding product-market fit to recent challenges of scaling up, he came to appreciate the evolution of his company and the valuable experiences he derived from it.

> *"Constantly learning and adapting is the entrepreneur's journey, and I really love that."*

With his mind re-focused with the help of the espresso shot during the brief respite, he rushed into the elevator for his next meeting, eager to continue on the next leg of his journey.

Exhibit 1: Crowdfunding Platforms

KICKSTARTER

HQ: Brooklyn, New York

Launched: April 2009

Crowdfunds projects listed on the platform. The funders are offered tangible rewards or experiences, e.g., ability to enjoy the product. This model has its roots in the subscription model of arts patronage, where artists would go directly to their audiences to fund their work.

INDIEGOGO

HQ: San Francisco, CA

Launched: January 2008

The platform allows people to solicit funds for an idea, charity, or start-up business. The donors, investors, or customers who are willing to help to fund a project or product can donate and receive a gift, rather than an equity stake in the company.

SEEDRS

HQ: London, UK

Launched July 2012

Equity crowdfunding platform, which allows investors to buy and sell shares of unlisted companies.

crowdcube

HQ: Exeter, UK

Launched February 2011.

Equity-based crowd funding platform that pools individual's investments, and allows entrepreneurs to secure funding directly from the general public and bypass business "angel" investors and banks.

FundedByMe

HQ: Stochholm, Sweden

Founded: March 2011.

Platform providing equity crowdfunding opportunity for entrepreneurs, as well as investment opportunity for private investors.

Exhibit 2: Calculating your runway

Investor typically provides a milestone to achieve with the funding. The milestones are various metrics or measures that investors look for that validates a product-market fit exists. The metric is not revenue (especially in the seed stage), but one that shows traction in the market. This could be letters of intent from customers, users, launch of product, revenue numbers, usage, number of paying customers. Meeting that milestone within the funding round is critical to attract future investment.

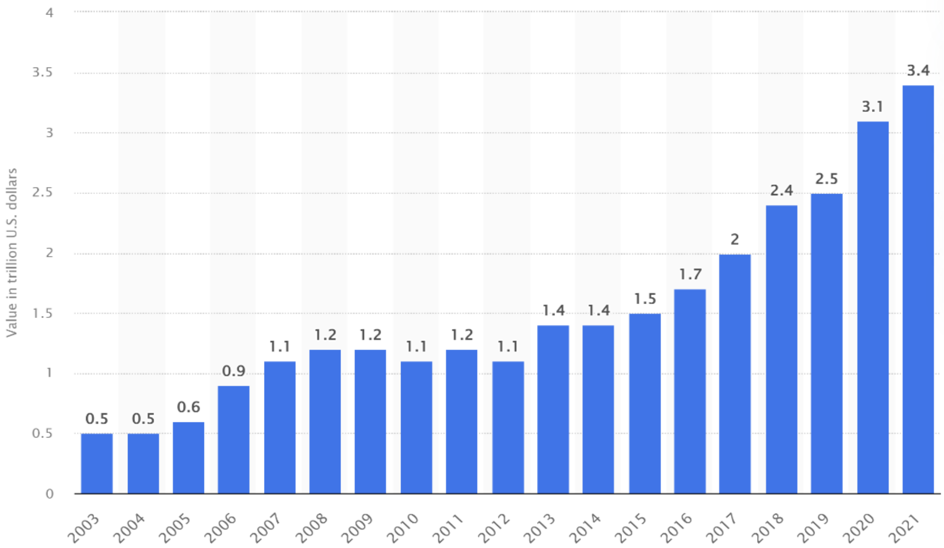
Understanding how much time the funding buys you, i.e., runway, is critical for start-up survival. The following formula is useful:

(people * monthly salary + other) * month runway = funding.

To maximize the chance of meeting the milestone, and to account for buffer of 3-6 months for subsequent fundraise rounds, it is usually a good idea to maximize the runway. Capdesk received seed funding of £25k. The founders did not take any salary and did not pay any engineering salary. Therefore, accounting for minimal “other” monthly expense (which includes equipment, travel expenses, subsistence, and rent), Capdesk was able to afford approximately 8 months of runway.

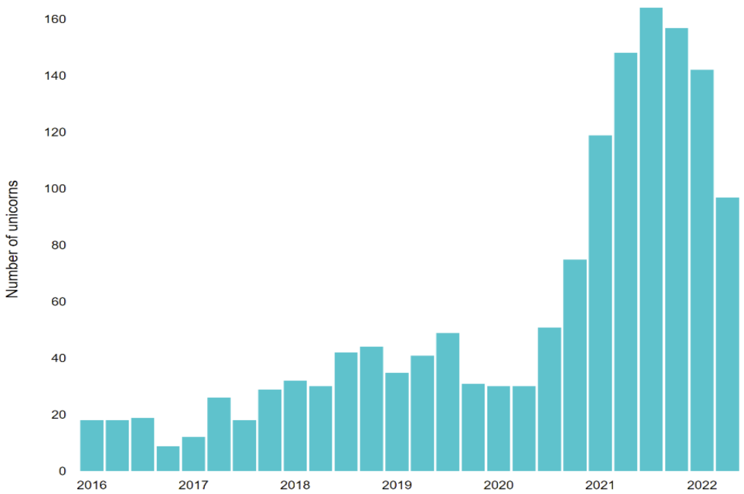
Exhibit 3: Increasing amount of Dry Powder and number of Unicorns

Dry powder indicates the money raised by venture capitalists (VC's) that are not being used. The magnitude of dry powder is in the trillions of dollars, and is increasing.



Value of Dry Powder in trillions USD (Source: Statista)

Unicorns are private companies whose valuation exceeds $1bn. Unicorns are no longer rare, and the herd exceeds 1000 globally and is growing.



Number of unicorns created globally each quarter (Source: pitchbook.com)

Exhibit 4: Equity Management Platforms

Equity management platforms manages capitalization tables by digitizing paper stock certificates along with stock options, warrants, and derivatives to help companies, investors, and employees manage their equity, and provides a real-time picture of company ownership.

HQ: San Francisco, CA.

In 2020, series F funding round valued the company at $3.1bn.

HQ: Calgary, Alberta, Canada

In Feb 2019, Morgan Stanley acquired Shareworks for approximately $900m.

Founded: 2016

HQ: London, UK

Founded: 2017

HQ: Zurich, Switzerland