

The Preference Stack Wipeout

Founder Horror Stories #3
Presented by MZF Protocol

Why 2x participating preferred killed a \$75M deal"



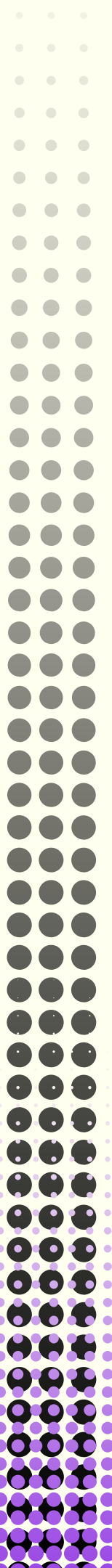
The Impossible Math

**\$100M exit = \$0
for founders**

Key Facts

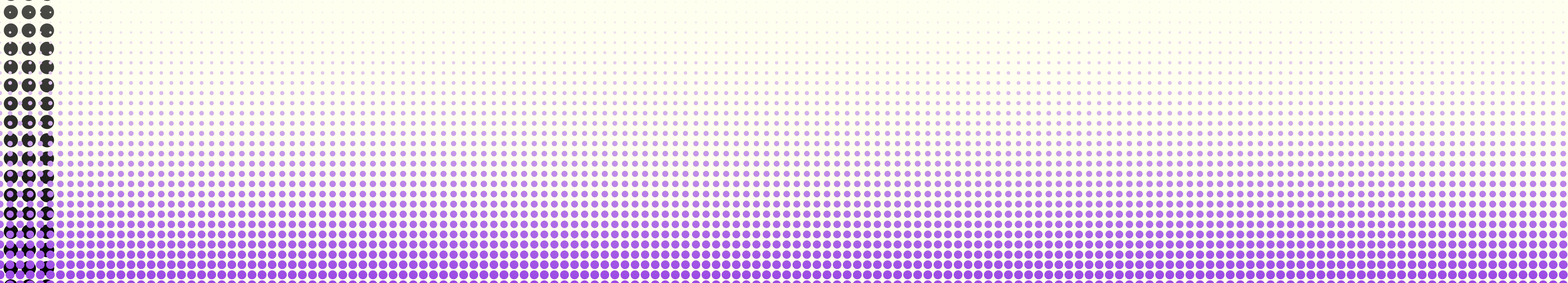
- 7 years building the company
- 5 funding rounds
- \$150M total raised
- \$100M acquisition offer
- Founders walked away with nothing





The Funding Journey

**Each round added to
the preference stack**

- Seed: \$2M
 - Series A: \$8M
 - Series B: \$15M
 - Series C: \$25M
 - Series D: \$100M
 - Total preferences: \$150M
- 

The Brutal Reality

When preferences exceed exit value

- Sale price: \$100M
- Liquidation preferences: \$150M
- Shortfall: \$50M
- Common shareholders: \$0
- Investors: Still lost money

The Preference Waterfall

How the money flows in an exit

1. Debt Repayment

Debt is repaid first in the hierarchy.

2. Liquidation Preferences

Investors receive their preferences before common shareholders.

3. Common Shareholders

Last in line, they often receive nothing.

4. Founders' Returns

If nothing left → founders get \$0

The Dilution Effect

How founder ownership disappeared

- Started with: 80% ownership
- After 5 rounds: 15% ownership
- But preferences came first
- Ownership % became meaningless
- Common stock = last in line

The Alternative Reality

What if they'd raised less?

Scenario: Only \$50M raised

Same \$100M exit

Preferences: \$50M

Remaining: \$50M for common

Founders: Actual payout

Protection Strategy

How to avoid the preference trap

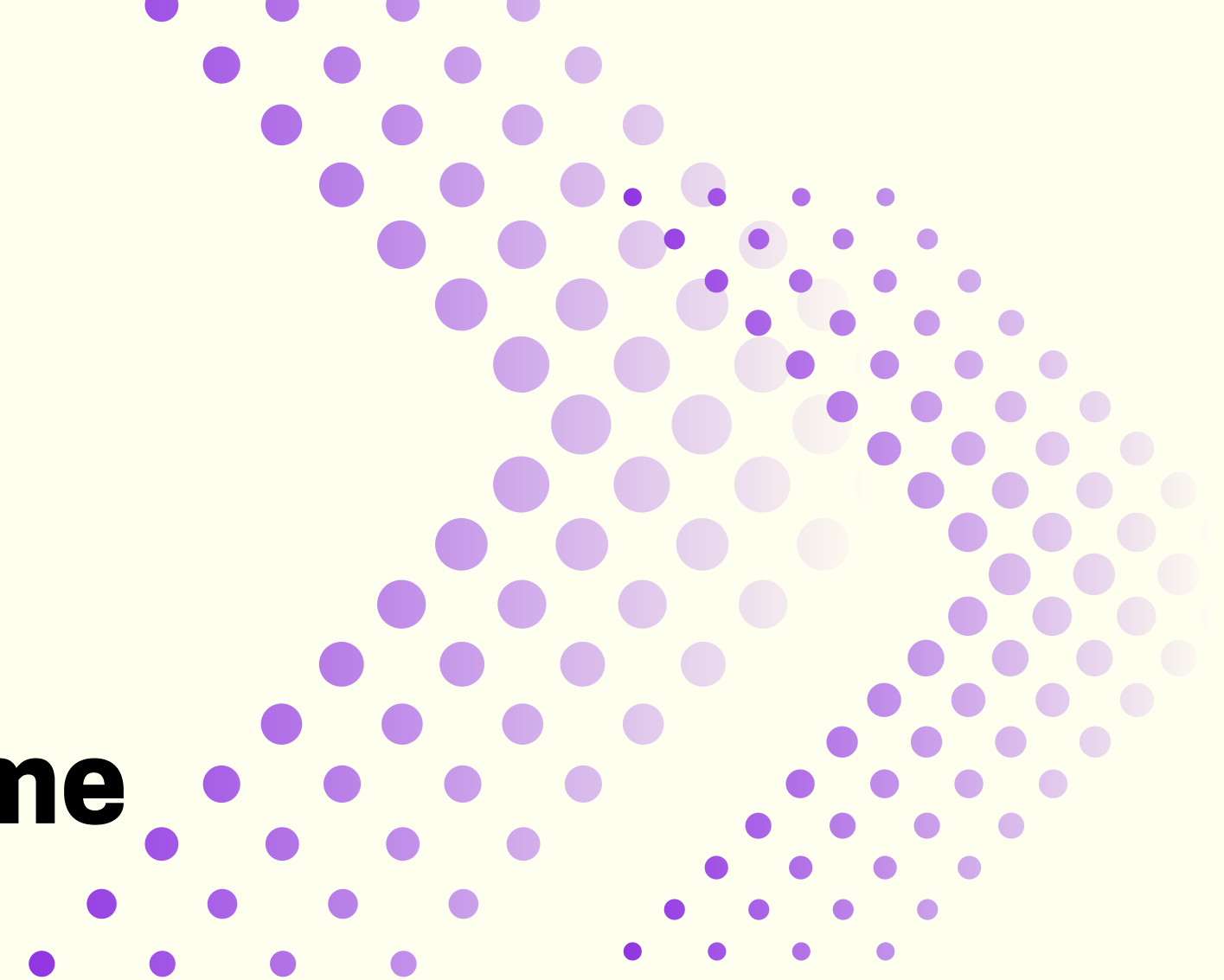
- Model exit scenarios before each round
- Consider smaller rounds at lower valuations
- Negotiate conversion thresholds
- Understand your waterfall position



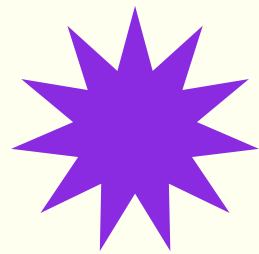
The Hard Truth

More money raised $\neq$ better outcome

- Each round adds to preference stack
- Higher valuations create higher bars
- Sometimes less is more
- Know your exit math

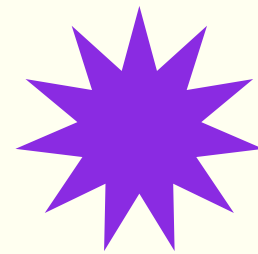


Want to learn more about the smarter path to Pre-TGE startup funding?



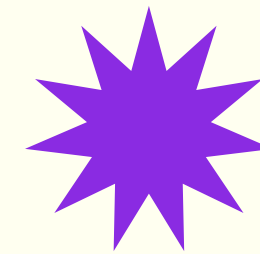
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