CONVERTIBLE LOAN

A convertible loan is a loan with an option to convert into equity, into shares. The investor, in the loan agreement treated as "lender", lends money to the company, the borrower, receiving in exchange an option to convert its investment into equity or receive the money back, if certain contractual conditions are met.

What are the benefits of convertible loans?

Greater agility in closing the round, compared to other investment modalities.

Pricing flexibility as there is no obligation to define a valuation for the company.

Simplicity due to low costs, for example and because they are cheaper and more agile rounds.

Possibility of investors joining the cap table later, after the transformation into a corporation (sociedade por ações) for the moment when the company is more mature and financially viable*.

What are the main terms?

Nominal value:

The amount initially contributed by the investor that will be used to define the number of shares that will be converted in the future. The contribution may depend on certain requirements conditioned to the achievement of certain goals by the company, either in installments or in cash.

Interest and monetary restatement:

As it is an instrument initially intended for the purpose of converting interest in the borrower, interest rates are usually low, aiming only to ensure that the credit does not depreciate over time.

Due date:

It is the moment when the borrower owes the payment, either in the conversion or even in the redemption, if that is the option. In the case of conversion, payment is made in shares, according to valuation or mathematical formula originally negotiated between the parties.

Conversion:

Este é o principal tópico da lista. A conversão depende da ocorrência de algum evento, como o vencimento ou a realização de uma rodada qualificada. Nestas circunstâncias, a conversão pode ser automática, independendo da aprovação da investidora, ou facultativa, que depende do consentimento da investidora.

Qualified Investment Round:

A qualifying round is a contribution made by one or more investors, generally greater than a pre-defined minimum amount, which is carried out with the direct purchase of shares.

Valuation:

It represents the value understood as "fair" of the company through an agreement between the parties on the investment date. This is not always used as a method of evaluation.

Discount:

An investor incentive, the discount is a percentage applied to the valuation of the qualified round that guarantees the investor, holder of the convertible loan, better conditions for new investors. The rate is usually 10% to 30%.

*One of the main reasons for its popularity is the limitation to the inclusion of corporations in the Simples Nacional, a regime widely adopted by startups.