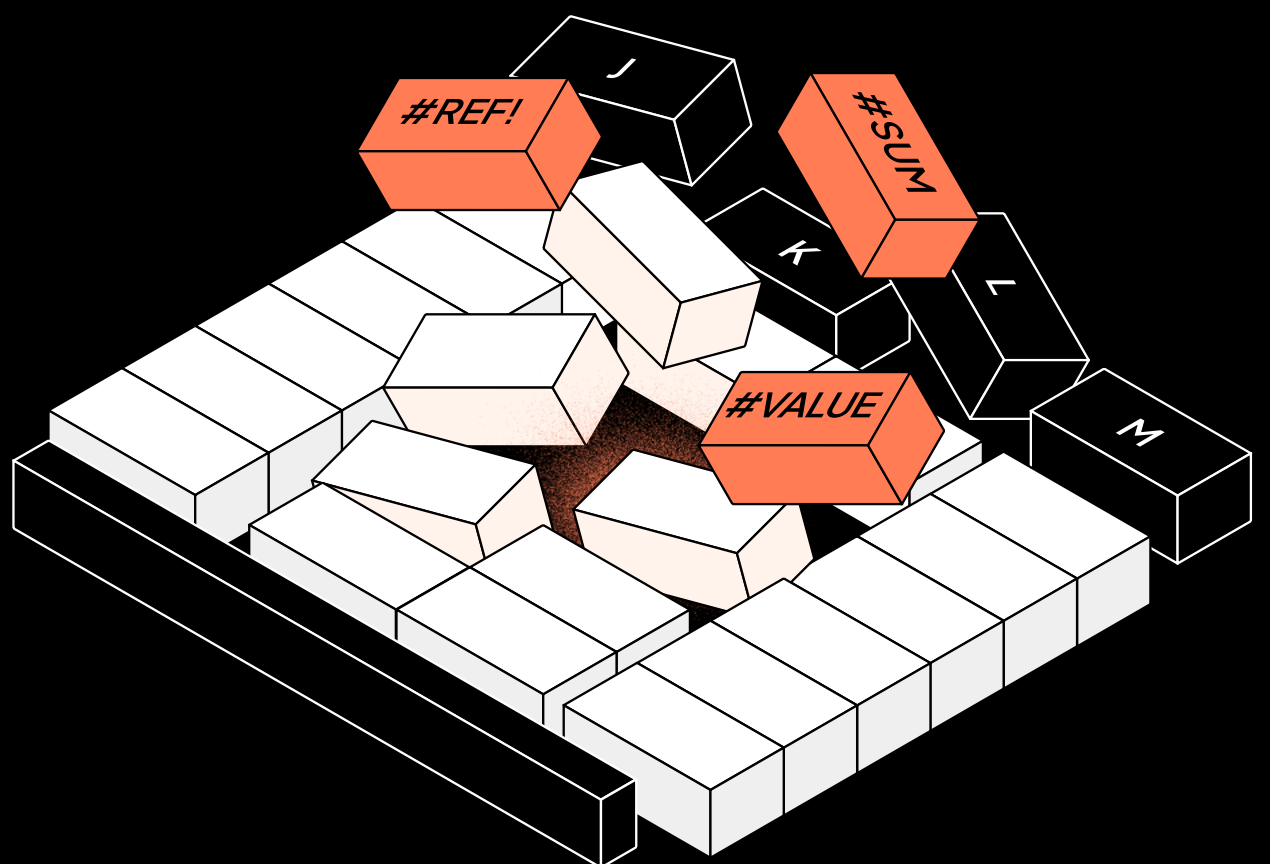


The investor-ready scorecard: Stress-test your LLC's equity management

A guide for finance and legal leaders, from early-stage founder-operators to experienced portco teams, focused on building cap tables and waterfalls that are investment-ready, withstand investor scrutiny, and help you make a compelling case to secure private equity sponsorship.



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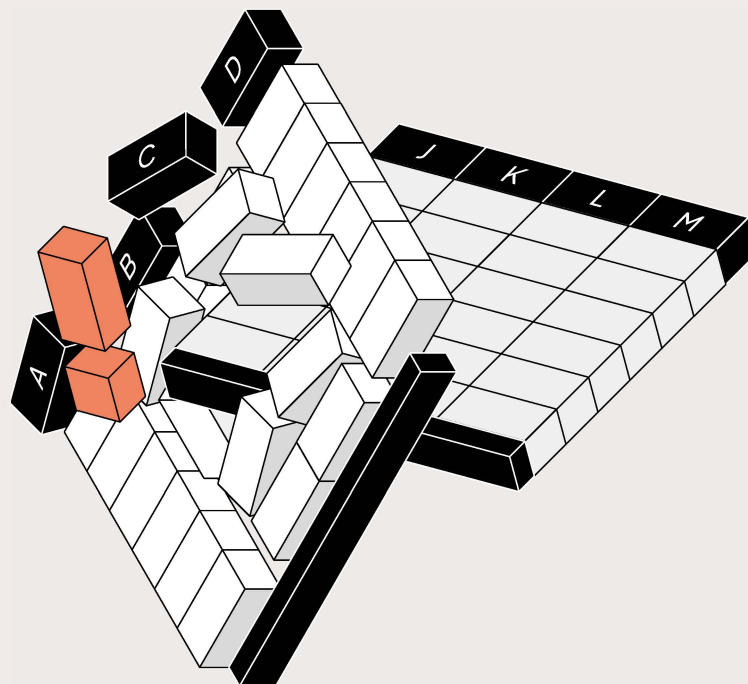
Executive summary

Your cap table and waterfall model represent one of the first tests your company may face under PE-sponsor scrutiny.

Yet for many LLCs, critical equity data lives in disconnected spreadsheets that are often fragile, opaque, and prone to logic breakdowns when it matters most: during an investor's due diligence or when you're competing for capital.

This guide is your hands-on, diagnostic toolkit to assess the operational, legal, and financial risks buried in your current cap table and waterfall. With checklists built directly from Carta's experience helping to fix thousands of spreadsheets for PE-backed companies, you'll pressure-test your models, flag red zones that can kill a deal, and benchmark your investor readiness against industry standards.

Be prepared to make a stronger, more credible case for your business, and increase your odds of a successful major transaction through cap table health and readiness. An efficient and streamlined diligence process can enable your team to focus on what matters the most: Negotiating deal terms that are optimal for both you and investors.



USE THIS GUIDE TO:

- Diagnose your current equity records, even if they haven't been reviewed externally, so you can understand what investors will expect
- Spot the red flags hidden in disconnected spreadsheets
- Understand how your models will (or won't) behave under funding, exit, or restructure scenarios
- Walk away with a clear investor readiness score and roadmap forward
- Learn why end-to-end integration is a key part of your growth plan

Who this guide is for

Whether you're managing this yourself, partnering with legal counsel, or working closely with your private equity sponsor, the same question applies: **Can your cap table and waterfall hold up under pressure from investor scrutiny?**

So, we've designed this investor readiness guide for a wide range of leaders:



Early-stage operators

The early-stage operators preparing for their first outside investment, looking to modernize systems before sponsors start asking hard questions.



Operators

Operators anticipating due diligence from potential sponsors, while still managing equity in fragmented spreadsheets.



Family-run businesses

Family-run businesses dealing with records from legacy legal counsel.



Default owners

Those who have become the default owners of the cap table, because no one else stepped in.



Finance leads

Finance leads sharing responsibility with multiple stakeholders.

Whether you're working towards audit readiness or just preparing for investor transparency for the first time, this is your framework to catch the red flags, close the reconciliation gaps, and boost investor trust in your outputs.

Why precision in your equity modeling matters: The high-stakes truth about cap tables and waterfalls

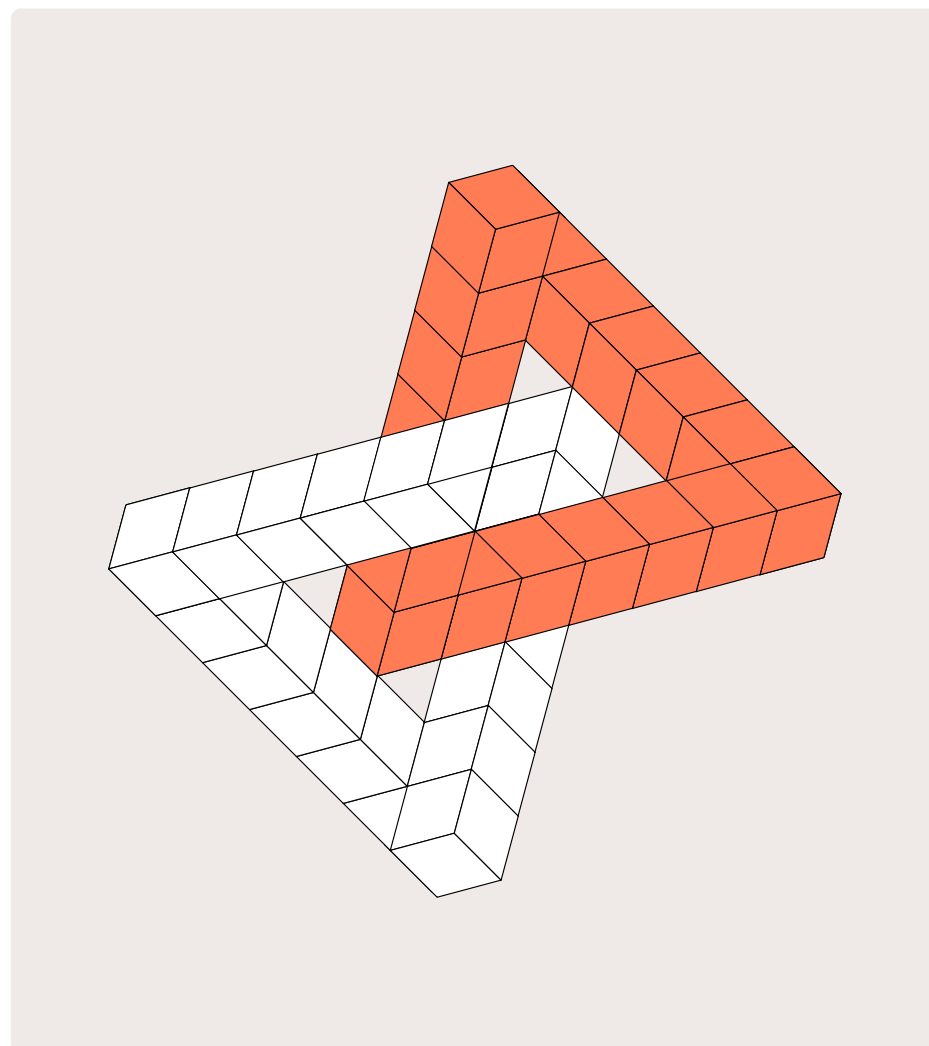
At Carta, we've seen all kinds of messes.
(And cleaned them up.)

Many of Carta's LLC clients arrive with inherited cap tables and waterfall spreadsheets that no one else can decipher. Some are handed down from past employees, while others were built under deal pressure, with logic that only works for one scenario (if any).

Even among well-managed portcos, Carta experts find broken models hiding in mission-critical spreadsheets. These errors don't always show up in your own QA. But they can, and do, get caught. That leads to lost momentum, delayed payouts, added legal costs, and damaged credibility.

Cap table fragmentation is a hidden credibility risk

As a portco finance and legal leader, you're expected to have precision under pressure. But if you're wrangling a cap table in Excel and a waterfall model built by an associate who's already moved on from your deal team, you may be leaving investors second-guessing the accuracy of your cap table data. As a result, deals slow down or evaporate, trust disappears, your team is left scrambling, and you may risk legal exposure.



Sponsors expect clarity, not confusion

With their low tolerance for ambiguity and keen eye for structure, clarity, and internal control, would-be PE sponsors expect a clean equity model that gives them confidence that other areas of your financial portfolio are similarly well-prepared. A disorganized equity model signals broader risk...and can slow down deals that drive value.

This guide is your toolkit to get in front of those risks. We'll point you to the common red flags Carta's implementation and delivery teams see every day: the disconnected spreadsheets, formula errors, logic mismatches, and incomplete scenarios that fracture the foundation of your company's equity model.

Use our pressure-tested framework to spot red flags in your cap table and waterfalls, align models, and give PE investors the confidence they demand.

The investor readiness scorecard

Use these checklists to uncover the disconnects, logic gaps, and fragility buried in your current setup.

Check “Yes” or “No” for each item you feel confident about. Leave it unchecked if you’re unsure, if this checkpoint is managed by someone else, or if you’ve never tested this item under pressure.

Module 1: Cap table integrity audit

Integrity checkpoint	Yes	No
Basics		
Do you have an up-to-date capitalization summary that reflects the current ownership of your company?	☐	☐
Do you have a centralized source of truth (spreadsheet, software, or system) for tracking ownership that includes all types of equity (e.g., membership interests, profits interests, units, shares, etc.)?	☐	☐
Are your ownership classes clearly defined in your company’s governing documents (e.g., LLC Operating Agreement and/or amendments)?	☐	☐
Cap Table Management & Ownership		
Do you know who owns your company’s cap table, and can you identify the owner(s) responsible for managing the company’s overall equity ownership?	☐	☐
When it comes to cap table management, are HR, CFO teams, and/or legal counsel operating from a centralized source of truth?	☐	☐
Legal Traceability		
Can every ownership entry in your company’s cap table be traced back to a specific legal document (e.g., Purchase Agreement, Joinder Agreement, Grant Agreement, Accept Agreement, Transfer Agreement, etc.)?	☐	☐
Are all transactions (e.g., issuances, transfers, redemptions, cancellations) approved by an authorized body (e.g., Manager or Board) and documented with requisite consents?	☐	☐
Do you maintain executed copies of all equity-related legal docs that are organized by stakeholder and transaction?	☐	☐

Continued on next page

Integrity checkpoint	Yes	No
Equity Specifics		
Do you have any stakeholders on your company’s cap table that have more than one equity interest (e.g., a combination of common units, profits interests, or phantom equity)?	☐	☐
<i>If Yes, do these stakeholders have a unified profile that allows them to track their overall ownership in the company?</i>	☐	☐
If your company issued profits interests, are they properly reflected with a clear grant date, threshold value/hurdle, and vesting schedules?	☐	☐
Are all time-based and/or performance-based vesting provisions documented and tracked accurately?	☐	☐
Are forfeitures, terminations, and post-termination rights appropriately modeled and updated in the cap table?	☐	☐
Data Quality & Historical Accuracy		
Have all unit transactions (e.g., splits, conversions, cancellations, redemptions) been captured in a consistent, version-controlled manner?	☐	☐
Have legacy ownership changes (e.g., transfers from founding members or managers) been formally documented and reflected consistently?	☐	☐
Have you reconciled cap table changes with any internal tracking in accounting or HR teams?	☐	☐
Auditability		
Is there a record of changes made to the cap table, including who made edits and when?	☐	☐
Do you have a traceable audit trail for equity adjustments (e.g., manual overrides and backdated issuances)?	☐	☐
Has your cap table data been independently QA’d in the last year?	☐	☐
Bonus check: Are your cap table assumptions modeled by your own team, or were they inherited from a PE deal associate who hasn't touched them since the investment?	☐	☐
Red flag score (total Nos)		

Risk if unchecked:

Accurate unit classification is critical for robust financial modeling and equitable distributions. Misclassification, particularly with incentive units such as phantom equity or stock options, can compromise subsequent processes, resulting in inaccurate waterfall outputs and inequitable investor distributions. This can lead to legal complications and reputational damage. Meticulous recording and management of all unit types are essential for maintaining financial integrity and ensuring fair payouts.

Module 2: Waterfall logic and stress test

Waterfall logic checkpoint	Yes	No
Model Accuracy & Legal Consistency		
Do you have a current waterfall model that reflects your exact LLC agreement terms, including contribution return, preferred returns, catch-up provisions, MOIC, and IRR performance conditions?	☐	☐
Was your current waterfall custom-built based on your operating agreement, or inherited and adapted from a previous deal?	☐	☐
Have all unit types (including vesting interests and performance-based tranches) been accurately modeled in the waterfall logic?	☐	☐
Have you ensured that your waterfall avoids relying on multiple potentially error-prone, difficult-to-manage circular references or calculations?	☐	☐
Data Integrity & Synchronization		
Is your cap table up to date?	☐	☐
Does the model use the same source data as your cap table, or are they being maintained in separate silos?	☐	☐
Does your model account for any distributions that have been made?	☐	☐
Does your company operate from one waterfall model as its single source of truth for all stakeholders?	☐	☐
Pressure Testing		
Is there a record of changes made to the cap table, including who made edits and when?	☐	☐
Governance, Transparency, & Institutional Knowledge		
If your lawyer, CFO, or investor reviewed it today, could you explain every assumption, calculation, and clause it's based on?	☐	☐
Was the current model built and maintained by someone still at the organization?	☐	☐
Can multiple stakeholders understand and verify the logic, or is it mostly intelligible only to the person who built it?	☐	☐
Red flag score (total Nos)		



Risk if unchecked:

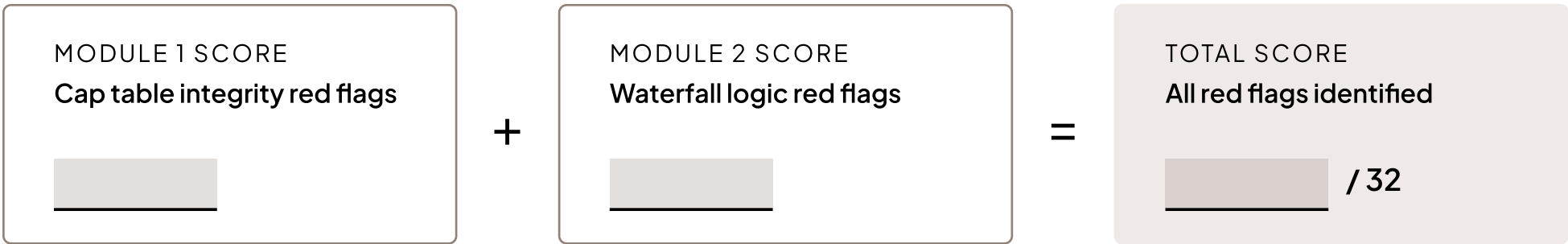
Conflicting assumptions, unmodeled edge cases, or Excel-lock-in (where only one person knows how it works) invite scrutiny, delay, and valuation risk during exits or audits.

CARTA WATCHPOINT:

When companies first come to Carta, many have built their own internal waterfall models in Excel, but they often would not pass audit scrutiny. Carta estimates that roughly 1 in 3 waterfall models built in Excel exhibit signs of simple user error. This could be down to mistakes as simple as broken formulas or a mistyped cell number.

Luckily, we’ve helped fix hundreds of waterfall models. Only Carta has the software and expertise to double-check every clause, class, and formula.

Your investor readiness score: How do you stack up?



Based on your score, here’s how we think things break down for you:



0–8: Low Risk

Nice — you’re largely set up for success to be a good strategic partner to PE sponsors. You’re likely working from a sound, well-integrated system, or you’ve been extremely diligent in modeling. A Carta scenario audit and clause-to-calculation match check can further protect you from scrutiny during a diligence cycle.



9–13: Moderate Risk

Let’s call this “functional but fragile.” Your systems may “work” for now but are likely tenuous, duplicated across departments, or not reviewable under pressure. During diligence, even minor inconsistencies can become major credibility risks, which may erode trust with sponsors.



14 or more: High Risk

You’re in the danger zone. Your cap table or waterfall is likely out of date, incomplete, or disconnected. Equity issuance, documentation, or waterfall logic likely contain audit-critical gaps that may lead models to collapse during your next pitch, capital event, tax audit, or sponsor review. Carta recommends urgent review.

The path forward

You probably found some red flags in this audit. You're not alone in this, but waiting has a cost. Most LLCs outgrow their spreadsheet systems long before they realize how exposed they've become.

The good news is, fixing this isn't on you alone.

Carta's valuation specialists and implementation managers have decades of industry experience. They've built, cleaned, corrected, and modeled thousands of equity and waterfall structures.

With Carta, your systems are agreement-aligned, scenario-ready, and audit-defensible.

WHEN YOU ONBOARD YOUR MODELS WITH CARTA:

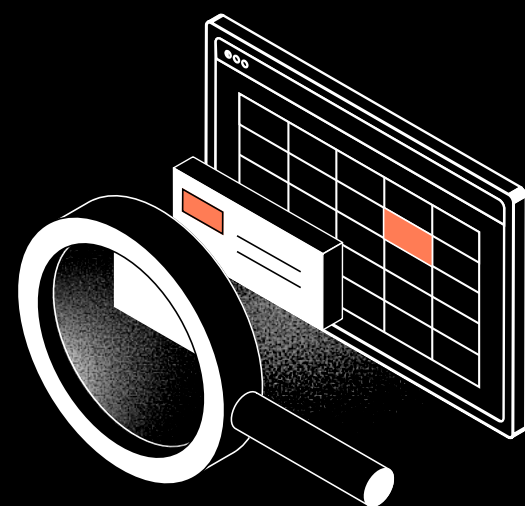
- We fully ingest and translate your legal docs into system-native logic
- Every unit class, holder profile, and vesting condition gets verified against your operating agreement
- Your current cap table is version-controlled, and dual-maintenance spreadsheets are consolidated
- Your waterfall is back-tested against actual events, QA'd by specialists, and synced to your equity source of truth automatically

Debrief your investor score with the experts

Sponsors don't wait for surprises. You can't either. Get a risk-scored audit and roadmap from Carta's LLC specialists before your next capital event.

Request a personalized demo to see how Carta's integrated LLC equity management system reconstructs and reconciles your records, and transforms disconnected spreadsheets into a powerful, investor-ready platform.

[Request a demo](#) →





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