

Waterfall modeling

carta

**A complete guide for
deal teams, CFOs, and
legal advisors**

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What is waterfall modeling?

Waterfall modeling is a financial exercise used by investors and their portfolio companies to determine how proceeds are distributed among equity holders during a liquidity event, such as an acquisition.

Venture capital and private equity investment firms typically build waterfall models to predict the value of returns for their portfolio company investments. These models can be based on a number of variables, including the type of equity held, the timing of a potential exit, and the valuation of each company at the time of exit. Upon a liquidity event, some unitholders in LLCs (or stockholders in corporations) may receive a larger return than others depending on the company's valuation and liquidation structure; some may receive no return at all.

Most LLC operating agreements—or certificates of incorporation for C-corporations—define a clear pecking order for how different types of unitholders will be paid out in such an exit event. This payout structure is called waterfall analysis or an exit waterfall, because of how distributions “spill over” from one class of unitholder to the next, moving down the cap table.

The complexity of a particular waterfall model depends on a number of factors, but is strongly related to the complexity of a company's cap table.

For fund managers and CFOs, waterfall models also underpin the day-to-day work of fund accounting, capital calls, and distributions. When these models live in the same system as your fund administration and investor reporting, it's easier to keep capital accounts, distribution schedules, and scenario analysis aligned over the full life of the fund.

Simple waterfall modeling

The waterfall for a company with a simple cap table—one in which all equity holders own the same type of equity, with no preferences for any holder—can be thought of as a fraction. The numerator of that fraction represents the exit value of the company after repayment of debt and other obligations (i.e. the equity value), while the denominator represents the number of outstanding units.

$$\frac{\text{Exit value - Debt}}{\text{Number of outstanding units}}$$
$$\frac{\$1.5\text{B}}{12\text{M}}$$
$$= \$125$$

For example, a simple cap table for an LLC would have no profits interests units (PIU) with a **liquidation threshold** greater than \$0, no required return of **capital contributions**, and none of the liquidation rights and preferences that are typically associated with preferred units.

If we assume there are only 12 million ordinary units—or common stock for C-corporations—on an LLC's cap table, and the equity value upon an exit is \$1.5 billion, then the entire waterfall analysis in this example would be \$1.5 billion divided by 12 million ordinary units, resulting in a payout of \$125 per unit.

Most waterfall modeling is not this simple. We will introduce participating preferred units in the next example to demonstrate our first of seven levels of waterfall complexity.

Throughout this paper, we will use an LLC cap table with units and unitholders. While all of the examples are also applicable to stockholders at corporations, [reach out to us](#) with any specific questions, or for a customized example.

Capitalization rights and preferences

Capitalization

Let's set the stage by introducing the cap table displayed in **Exhibit A**. (Note: For helpful definitions of the bolded terms throughout, check out the [glossary](#)).

■ EXHIBIT A

Capitalization	Preferred	Preferred Prime	Ordinary
Units Outstanding	6M	6M	12M
Capital Contribution (Per Unit)	\$25	\$50	—
Total Capital Contribution	\$150M	\$300M	—
Liquidation Threshold	—	—	—

You'll notice that 50% of the company's capital structure is equally represented by Preferred and Preferred Prime unitholders. Preferred and Preferred Prime unitholders each hold six million units—12 million units total—and there are 24 million **units outstanding**.

For this example, we will assume Preferred unitholders contributed \$150 million for their six million units (\$25 per unit) and Preferred Prime unitholders contributed \$300 million for their six million units (\$50 per unit). The **total capital contributions** equal \$450 million (\$150 million + \$300 million). We will assume that Ordinary unitholders did not contribute capital.

There are many explanations for why Preferred and Preferred Prime unitholders paid different amounts per unit, but more likely than not, Preferred Prime unitholders invested at a later stage in the company's lifecycle (and when the company had a higher valuation) than Preferred unitholders, similar to investing in a [Series A](#) versus a [Series Seed](#) fundraising round.

Rights and preferences

Participating unitholders

We will assume that Preferred and Preferred Prime are both **participating unitholders**, also referred to as having “participation rights.” Participation rights allow these investors to receive their initial investments back first upon a liquidity event.

After their capital contributions are returned, the participating unitholders will then share any remaining profits alongside the ordinary (common) unitholders, according to their proportional share. Remaining profits are often distributed **pro rata**, on an **as-converted** basis. This just means the distributions are proportional to the participating unitholder’s share of ownership if their preferred shares were converted into common shares.

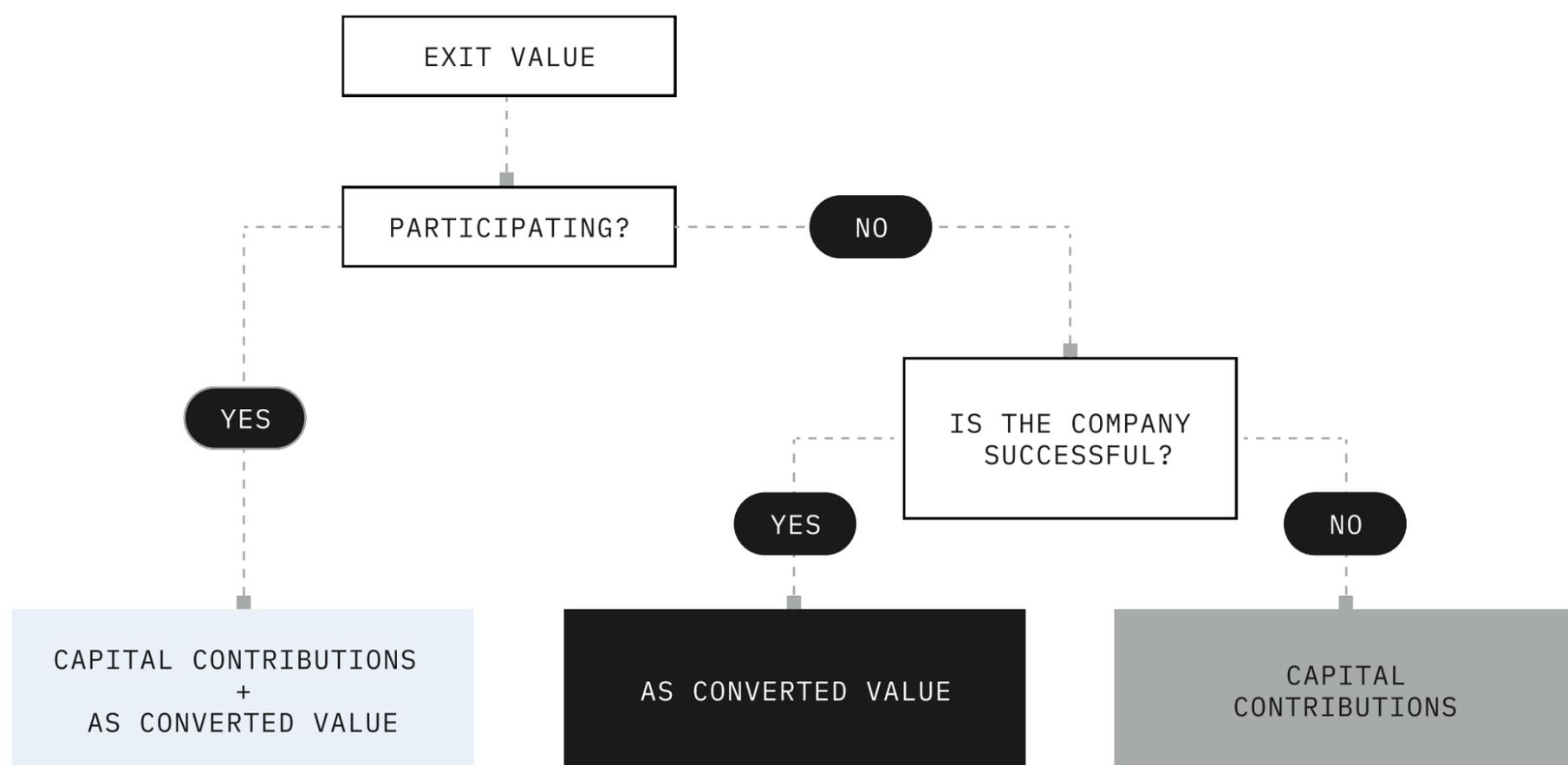
Participation is more common in private equity than venture capital and provides an additional layer of security and potential upside for investors, ensuring they recover their initial investment and share in any additional profits.

Rights and preferences (CONTINUED)

Non-participation

The alternative to participation, or “**non-participation**,” declares that investors will receive the greater of either (1) their capital contribution, or (2) the amount they would receive if they converted their preferred units into ordinary units.

Participation rights are typically better for the investor because they give the unitholder more options to achieve the best possible payout. Participation affords the investor **both (1) and (2)**, whereas non-participation affords **either (1) or (2)**. With non-participation, if the company is successful, the investor will go with path (2) and convert into ordinary units for a greater upside. If the company is unsuccessful, the investor will go with path (1), and hopefully recoup their initial capital contribution, plus any required return embedded in the original shareholder agreement, if any.



Example 1: Participation

We will begin the participating preferred waterfall modeling with a practical example, which will continue for each component of the waterfall. This practical example (shown within the blue boxes) will only apply to the first example, which goes into greater depth than the others.

Imagine that 12 individuals got together to build a dam. This dam was financed by 12 investors, and created a lake that holds 1,500 gallons of water. The lake sits above a cliff, and when the dam breaks, all of the lake's water will cascade down the cliff, creating a waterfall.

Referring to Exhibit A:

- The 12 individuals who built the dam represent the 12 million Ordinary unitholders
- The 12 investors who financed the dam represent the six million Preferred unitholders and the six million Preferred Prime unitholders
- The lake represents the company
- The 1,500 gallons of water represent a \$1.5 billion exit value
- The dam breaking represents an exit event for the company

And the waterfall represents, well, the waterfall.

Exhibit B displays the waterfall analysis for the cap table in **Exhibit A**, assuming the company were to exit for an equity value of \$1.5 billion. In other words, if the unitholders in **Exhibit A** were paid out \$1.5 billion, then **Exhibit B** displays the order in which those unitholders would be paid per the company's operating agreement.

Example 1: Participation (CONTINUED)

■ EXHIBIT B

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary
\$0M	\$450M	\$450M	\$450M	Preferred and Preferred Prime Capital Contributions	33%	67%	—
\$450M	Infinity	Infinity	\$1.05B	All Units Pro Rata	25%	25%	50%
					\$150M	\$300M	—
					\$262.5M	\$262.5M	\$525M
				Unit Class Value	\$412.5M	\$562.5M	\$525M
				Per Unit Value	\$68.75	\$93.75	\$43.75

Example 1: Participation (CONTINUED)

Breakpoints

Each row marked by a “**description**” in the waterfall represents a **breakpoint** in the model. A new breakpoint is created whenever a payment is satisfied (for example, when all capital contributions have been returned), or a new payment is triggered (for example, a PIU’s threshold is cleared and in-the-money).

The dam breaks! The 1,500 gallons of water begin cascading over the cliff and down the waterfall, flowing over several ledges. Water pools on each ledge before continuing to flow down to the ledges below.

As mentioned earlier, the 1,500 gallons of water represent the \$1.5 billion exit value, and the dam breaking represents an exit event. Each ledge represents a breakpoint.

There are only two ledges in **Exhibit B**, therefore the second ledge (“All Units Pro Rata”) is the bottom of the waterfall; any remaining proceeds would be distributed pro rata to all unitholders.

From, To, and Delta

Moving to the “**from**” and “**to**” columns, if the company exits for an equity value between \$0 and \$450 million (which is the total capital contribution), then \$450 million (i.e. the “**delta**,” which is the difference between the “to” and the “from”) will be paid to satisfy the Preferred and Preferred Prime capital contributions.

At this point, all capital contributions have been returned. Any remaining proceeds will be distributed to Ordinary, Preferred, and Preferred Prime unitholders, pro rata, as displayed by the “to” and “delta” in the second breakpoint.

Example 1: Participation (CONTINUED)

Upon examination of the waterfall, we find that not all ledges are created equal; some ledges hold more water than others.

The “delta” in the table above represents the total gallons of water that each ledge (i.e. each breakpoint) can hold. The “from” column represents the total gallons of water pooled on the preceding ledges. The “to” column represents the total gallons of water pooled on the preceding ledges, plus the breakpoint being examined (i.e. “from” plus “delta”).

The first ledge in **Exhibit B** can hold 450 gallons of water (i.e. “delta”), and there were no preceding ledges (i.e. “from”), so 450 total gallons of water have pooled on this ledge plus any preceding ledges (i.e. “to”).

Value in tier

The “**value in tier**” column represents the proceeds that are available to distribute within a particular breakpoint, with a lower bound of \$0 if there is nothing available to distribute, and an upper bound equal to the Delta.

Given an equity value of \$1.5 billion, and provided that \$450 million of capital contributions are required to be returned at the beginning of the waterfall, the first breakpoint’s value in tier is \$450 million.

As stated earlier, all capital contributions were returned following the first breakpoint, so any remaining proceeds will be distributed to all units, pro rata, on an as-converted basis. Accordingly, given that \$450 million of the \$1.5 billion has already been repaid, \$1.05 billion will be distributed to all units, pro rata, in the second breakpoint.

Example 1: Participation (CONTINUED)

Looking at **Exhibit B**, if 450 gallons of water have pooled on the first ledge plus any preceding ledges (see the first “to” or second “from”), and there were 1,500 total gallons of water in the lake, then there are 1,050 gallons of water that will cascade down to the second ledge.

If there had been only 400 gallons in the lake, then all of the water would have been caught on the first ledge, that ledge would only be about 90% full (400 gallons / 450 gallons), and there would be no water left for the second ledge.

Percentage distributions

Moving to the right side of the “description” column, these percentages represent the percentage of the value in tier that is paid to each unit class in that breakpoint.

For example, Preferred unitholders have a capital contribution of \$150 million, and Preferred Prime unitholders have a capital contribution of \$300 million (as discussed earlier). Accordingly, of the \$450 million capital contribution that must be repaid to Preferred and Preferred Prime unitholders, 33% ($\$150 \text{ million} / \450 million) will go to Preferred unitholders, and 67% ($\$300 \text{ million} / \450 million) will go to Preferred Prime unitholders.

The percentages associated with the repayment of capital contributions are called **dollar-weighted percentages**, because they are calculated based on the total dollar amount of capital contributions. While the dollar-weighted percentages only represent one breakpoint in this example, depending on the **seniority** of capital contributions they could represent a greater number of breakpoints in other examples.

For instance, if the operating agreement required that Preferred Prime’s capital contributions were paid before Preferred’s capital contributions (i.e. **stacked preferences**), that would have warranted two breakpoints with dollar-weighted percentages. In **Exhibit B** above, Preferred and Preferred Prime units are pari-passu, meaning all preferred shareholders in a company have equal distribution rights during a liquidation event.

Example 1: Participation (CONTINUED)

All percentages after the dollar-weighted percentages are called **unit-weighted percentages**, because they are calculated based on unit counts. These are typically calculated pro rata.

For example, Preferred and Preferred Prime unitholders both have six million units, while Ordinary unitholders have 12 million units (as discussed earlier). Accordingly, of the 24 million units, 25% (six million / 24 million) each goes to Preferred and Preferred Prime unitholders, while the remaining 50% (12 million / 24 million) goes to Ordinary unitholders.

Upon examination of the ledges, we find that each ledge has craters that fill with water. Just like the ledges themselves, not all craters are created equal; some craters hold more water than others.

The first ledge in **Exhibit B** has two craters; one takes up about a third of the ledge (i.e. Preferred) and the other accounts for two thirds of the ledge (i.e. Preferred Prime).

The second ledge in **Exhibit B** has three craters; two take up about one fourth of the ledge (i.e. Preferred and Preferred Prime), and the other takes up about half of the ledge (i.e. Ordinary).

Example 1: Participation (CONTINUED)

Dollar distributions

The dollar distributions—located below the percentage distributions—are simply the result of multiplying the value in tier by the percentage distribution for that corresponding breakpoint, as shown in **Exhibit C**.

$$\text{Dollar distribution} = \text{Value in tier} \times \text{Percentage distribution}$$

■ EXHIBIT C

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary
\$0M	\$450M	\$450M	\$450M (a)	Preferred and Preferred Prime Capital Contributions	33% (b)	67% (c)	—
\$450M	Infinity	Infinity	\$1.05B (d)	All Units Pro Rata	25% (e)	25% (f)	50% (g)
					\$150M (a) x (b)	\$300M (a) x (c)	—
					\$262.5M (d) x (e)	\$262.5M (d) x (f)	\$525M (d) x (g)
				Unit Class Value	\$412.5M	\$562.5M	\$525M
				Per Unit Value	\$68.75	\$93.75	\$43.75

Example 1: Participation (CONTINUED)

The smaller crater on the first ledge from **Exhibit B** holds 150 gallons of water (i.e. Preferred), whereas the larger crater on the first ledge holds 300 gallons of water (i.e. Preferred Prime). Together, these two craters hold all 450 gallons on the first ledge (i.e. the “delta”).

The two smaller craters on the second ledge in **Exhibit B** each hold about 263 gallons of water (i.e. Preferred and Preferred Prime), whereas the bigger crater on the second ledge holds 525 gallons of water (i.e. Ordinary). Together, these craters hold the 1,050 gallons on the second ledge.

Combined, the first and second ledges hold all 1,500 gallons of water (i.e. the exit value).

Example 1: Participation (CONTINUED)

Unit class value

The **unit class value**—located below the dollar distributions—represents the total payout per unit class in each breakpoint, as shown in **Exhibit D** below.

■ EXHIBIT D

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary
\$0M	\$450M	\$450M	\$450M	Preferred and Preferred Prime Capital Contributions	33%	67%	—
\$450M	Infinity	Infinity	\$1.05B	All Units Pro Rata	25%	25%	50%
					\$150M (a)	\$300M (c)	—
					\$262.5M (b)	\$262.5M (d)	\$525M (e)
				Unit Class Value	\$412.5M (a) + (b)	\$562.5M (c) + (d)	\$525M (e)
				Per Unit Value	\$68.75	\$93.75	\$43.75

Example 1: Participation (CONTINUED)

By measuring the water in the craters assigned to each unit class, we can determine the total gallons of water received by each unit class (Preferred, Preferred Prime, and Ordinary).

Preferred unitholder's two craters hold about 413 gallons, Preferred Prime's two craters hold about 563 gallons, and Ordinary's crater holds about 525 gallons.

Combined, all units hold 1,500 total gallons of water.

Per unit value

The **per unit value**—located below the unit class value—represents the unit class value divided by the number of units in that class, as shown in **Exhibit E** below.

$$\text{Per unit value} = \frac{\text{Unit class value}}{\# \text{ of units per class}}$$

EXHIBIT E

	Preferred	Preferred Prime	Ordinary
Units Class Value (a)	\$412.5M	\$562.5M	\$525M
Unit Outstanding (b)	6M	6M	12M
Per Unit Value (a)/(b)	\$68.75	\$93.75	\$43.75

Example 1: Participation (CONTINUED)

Eventually, the 12 individuals who built the dam to create the lake and the 12 investors who financed it return, tired and very thirsty.

Half of the investors take from the Preferred unitholder's two craters, and each investor drinks about 69 gallons of water (413 gallons / six investors). The Preferred investors each contributed 25 gallons to the original lake, so they are pleased to see their water grow by 175%.

The other half of the investors take from Preferred Prime unitholder's two craters, and each investor drinks about 94 gallons of water (563 gallons / six investors). The Preferred Prime investors each contributed 50 gallons to the original lake, so they are pleased to see their water grow by about 88%.

Finally, the 12 individuals who built the dam take from the Ordinary unitholder's crater and each drinks about 44 gallons of water (525 gallons / 12 builders).

You'll notice that each Preferred unit is worth exactly \$25 more than each Ordinary unit, and each Preferred Prime unit is worth exactly \$50 more than each Ordinary unit. As noted earlier, participation rights allow investors to receive their capital contributions before participating alongside Ordinary unitholders.

This means that on a per unit basis, participating preferred unitholders receive both their capital contribution, plus the amount they would have received if they had converted their holdings into Ordinary units.

Example 2: Non-participation

In the previous example, we covered participation, which affords investors both (1) their capital contribution, and (2) the amount they would receive if they converted their preferred units into ordinary units. Next, we will take a look at non-participation, wherein investors will receive the greater of either (1) or (2).

Non-participating preferred

We will continue using the cap table displayed in **Exhibit A** and an equity value of \$1.5 billion, but we will now assume that Preferred and Preferred Prime unitholders are both non-participating, as displayed by the waterfall in **Exhibit F**.

■ EXHIBIT F

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary
\$0M	\$450M	\$450M	\$450M	Preferred and Preferred Prime Capital Contributions	33%	67%	—
\$450M	\$750M	\$300M (a)	\$300M	Ordinary Participates	—	—	100%
\$750M (b)	\$1.2B	\$450M (c)	\$450M	Preferred Converts to Ordinary	33%	—	67% (d)
\$1.2B (e)	Infinity	Infinity	\$300M	Preferred Prime Converts to Ordinary	25%	25%	50%
					\$150M	\$300M	—
					—	—	\$300M
					\$150M	—	\$300M
					\$75M	\$75M	\$150M
				Unit Class Value	\$375M	\$375M	\$750M
				Per Unit Value	\$62.50	\$62.50	\$62.50

Example 2: Non-participation

Preferred and Preferred Prime capital contributions

You'll notice that Preferred and Preferred Prime unitholders will first receive their total capital contributions of \$450 million at the first breakpoint. However, at the second breakpoint, Ordinary unitholders now participate alone, then they participate pro rata with Preferred unitholders at the third breakpoint. Finally, they participate pro rata with Preferred and Preferred Prime at the fourth breakpoint.

What is the change between this waterfall (**Exhibit F**) and the last one (**Exhibit B**)?

As discussed earlier, participation affords investors both (1) their capital contribution, and (2) the amount they would receive if they converted their preferred units into ordinary units. However, under non-participation, as shown in this example, investors will receive the greater of either (1) or (2). With non-participation, if the company is successful, the investor will go with path (2) and convert into ordinary units for a greater upside.

Preferred converts to Ordinary

Once the company exits at an equity value that will pay Ordinary units above the per unit investment made by Preferred (i.e. \$25), Preferred investors will say something along the lines of "I want to convert into ordinary units and get paid more!"

Accordingly, once Ordinary units are paid a total of \$300 million (\$25 x 12 million Ordinary units), as shown by **(a)**, then Preferred will convert into Ordinary units, and participate pro rata alongside Ordinary. At that time, the implied equity value of the company will be \$750 million, as shown by **(b)**, which is calculated by summing the \$450 million capital contribution to Preferred and Preferred Prime, and the \$300 million distribution to Ordinary.

Example 2: Non-participation (CONTINUED)

Preferred Prime converts to Ordinary

Similarly, once the company exits at an equity value that will pay Ordinary units at or above the per unit investment made by Preferred Prime (i.e. \$50), Preferred Prime investors will convert into Ordinary units.

Once the Ordinary units are paid an additional \$300 million, as calculated by multiplying **(c)** and **(d)**—or by multiplying 12 million Ordinary units by the additional \$25 to get a total payout of \$50 per unit—then Preferred Prime will convert into Ordinary units, and participate pro rata alongside Ordinary and Preferred.

At that time, the implied equity value of the company will be \$1.2 billion, as shown by **(e)**, which is calculated by summing the \$450 million capital contribution to Preferred and Preferred Prime, the \$300 million distribution to Ordinary, and the \$450 million distribution to Preferred and Ordinary, as shown by **(c)**. At the equity value of \$1.2 billion, both Preferred and Preferred Prime would convert into Ordinary units.

You may be wondering how **(c)** was calculated. As mentioned earlier, after the second breakpoint, an additional \$25 per unit was necessary in the third breakpoint to get a total payout of \$50 per unit to Ordinary; once Ordinary was distributed at or above \$50 million per unit, Preferred Prime would convert at the fourth breakpoint. However, as documented in the “description,” Preferred units already converted into Ordinary units at the third breakpoint. Accordingly, it was necessary to pay an additional \$25 per unit to both Ordinary and Preferred units, equating to \$450 million [(12 million Ordinary units + six million Preferred units) x \$25].

Per unit values

Unlike the participation example in **Exhibit B**, Preferred, Preferred Prime, and Ordinary are equivalent on a per-unit basis. As discussed, non-participation declares that investors will receive the greater of either (1) their capital contribution, or (2) the amount they would receive if they converted their preferred units into ordinary units.

Example 3: Adjusted pro rata distributions

Both the participating preferred and non-participating examples assumed pro rata distributions for all unit-weighted percentages. Next, we will take a look at adjusted pro rata distributions, as described below.

Adjusted pro rata

We will continue using the cap table displayed in **Exhibit A** and an equity value of \$1.5 billion, but we will now—as a result of negotiations between the company and investors—assume that Preferred Prime is allowed to “steal” the unit-weighted percentage for Preferred until Preferred Prime unitholders have received two times their capital contribution. We will also revert back to participation, as reflected in **Exhibit B**.

The aforementioned waterfall representing adjusted pro rata distributions is displayed in **Exhibit G**.

EXHIBIT G

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary
\$0M	\$450M	\$450M	\$450M	Preferred and Preferred Prime Capital Contributions	33%	67%	—
\$450M	\$1.05B	\$600M (c)	\$600M	Preferred Prime Participates 2X Capital Contributions (a)	— (a)	50% (b)	50%
\$1.05B (d)	Infinity	Infinity	\$450M	All Units Pro Rata	25%	25%	50%
					\$150M	\$300M	—
					—	\$300M	\$300M (f)
					\$112.5M	\$112.5M	\$225M (e)
				Unit Class Value	\$262.5M	\$712.5M	\$525M
				Per Unit Value	\$43.75	\$118.75	\$43.75

Example 3: Adjusted pro rata distributions (CONTINUED)

Preferred and Preferred Prime capital contributions

Preferred and Preferred Prime unitholders will receive their total capital contributions of \$450 million at the first breakpoint. However, during the second breakpoint, Ordinary unitholders participate alongside Preferred Prime unitholders, but their participation is not pro rata. At the third breakpoint, Ordinary unitholders will participate pro rata with Preferred and Preferred Prime.

What is the change between this waterfall (**Exhibit G**) and our original example (**Exhibit B**)? As discussed earlier, Preferred Prime unitholders are allowed to “steal” the unit-weighted percentage from Preferred unitholders until the Preferred Prime unitholders have received two times their capital contribution. Accordingly, the 25% pro rata distribution to Preferred unitholders that would have replaced **(a)** in **Exhibit G** is now added to the 25% pro rata distribution to Preferred Prime. The resulting total distribution to Preferred Prime unitholders is 50% at the second breakpoint, as shown in **(b)**.

Preferred Prime receives two times capital contributions

Preferred Prime unitholders already received their capital contribution of \$300 million at the first breakpoint, which means they are required to receive an additional \$300 million at the second breakpoint. If Preferred Prime unitholders will receive 50% of their distributions at the second breakpoint, then the distribution required at that breakpoint for Preferred Prime unitholders to receive an additional \$300 million must be \$600 million ($\$300 \text{ million} / 50\%$), as shown by **(c)** in **Exhibit G**.

Example 3: Adjusted pro rata distributions (CONTINUED)

All units pro rata

Remember: A breakpoint is created whenever a payment is satisfied (for example, when all capital contributions have been returned), or a new payment is triggered (for example, a PIU's threshold is cleared into-the-money). Accordingly, once Preferred Prime unitholders have received two times their capital contribution, their payment will be satisfied and we can move on to the third breakpoint.

At this time, the implied equity value of the company will be \$1.05 billion, as shown by **(d)** in **Exhibit G**, which is calculated by adding both the \$450 million capital contribution to Preferred and Preferred Prime unitholders and the \$600 million distribution to Ordinary and Preferred Prime unitholders. At the equity value of \$1.05 billion, all units would participate.

Per unit values

Each Preferred unitholder's payout is worth the same as each Ordinary unitholder's payout, which is also equal to the Preferred unitholder's per unit capital contribution (i.e. \$25) plus \$18.75. The \$18.75 is the per unit payout based on the pro rata distribution in the final breakpoint. For example, \$225 million [the value of **(e)**] divided by 12 million ordinary units.

The remaining \$25 for Preferred unitholders comes from Preferred unitholder's capital contribution at the first breakpoint, and the remaining \$25 for Ordinary unitholders comes from the second breakpoint, as calculated by \$300 million [the value of **(f)**] divided by 12 million Ordinary units. Given that Preferred and Ordinary unitholders both received \$25 per unit prior to the pro rata distribution at the final breakpoint, their per unit payouts are equivalent.

Each Preferred Prime unit is worth two times its capital contribution plus \$18.75. As discussed earlier, the \$18.75 is simply the per unit payout based on the pro rata distribution in the final breakpoint. Given that Preferred Prime unitholders were able to receive two times their capital contribution prior to the pro rata distribution in the final breakpoint, their payment encompasses the remaining \$100 of the total \$118.75 per unit payout.

Example 4: Profits interests with a per-unit threshold

The preceding three examples reflected preferred units and ordinary units, which are both forms of capital interests. A **capital interest** is a type of equity under which the member of the LLC contributes capital to the LLC and has an ownership interest.

Next we will introduce **profits interests**, which do not represent ownership in an LLC. Instead, profits interests represent claims to the future appreciation of value for an LLC based on the profits interests' "liquidation threshold."

Profits interests with a per-unit threshold

We will add two groups of profits interests units (PIU) to the cap table, both with a per-unit threshold, as displayed in **Exhibit H**.

■ EXHIBIT H

Capitalization	Preferred	Preferred Prime	Ordinary	Profits Interests (\$10)	Profits Interests (\$20)
Unit Outstanding	6M	6M	12M	3M	3M
Capital Contribution (Per Unit)	\$25	\$50	—	—	—
Total Capital Contribution	\$150M	\$300M	—	—	—
Liquidation Threshold	—	—	—	\$10	\$20

Example 4: Profits interests with a per-unit threshold (CONTINUED)

Liquidation thresholds

Profit interests are assigned a liquidation threshold on their grant date, which is typically equal to the proportional equity value of the underlying LLC. The liquidation threshold is oftentimes referred to as the **distribution threshold** or **hurdle threshold**.

This threshold is set at a level such that the profits interests would be entitled to \$0 of the LLC's exit proceeds if the LLC were to hypothetically "liquidate" on the profits interests' grant date. This is unlike a capital interest, in which the unit holder is immediately entitled to exit proceeds on their grant date (subject to other rights and preferences).

Profits interests vs. capital interests

If the recipient of an LLC interest only has a right to share in the appreciation of the LLC's value growth after their grant date, the interest is a profits interest. If the recipient of the interest has a right to share in all of the LLC's value, not just the growth after the grant date, the interest is a capital interest. The liquidation threshold serves to avoid the unintended reclassification of a profits interest into a capital interest.

An LLC issuing PIUs must first determine the company's value to establish a liquidation threshold for the profits interests on their grant date, and the LLC must keep an accounting of that value for the benefit of existing PIU holders.

Example 4: Profits interests with a per-unit threshold (CONTINUED)

Profits interests waterfall with a per unit threshold

Exhibit I below displays the waterfall for the cap table in **Exhibit H**, with a consistent equity value of \$1.5 billion.

■ EXHIBIT I

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary	Profits Interests (\$10)	Profits Interests (\$20)
\$0M	\$450M	\$450M	\$450M	Preferred and Preferred Prime Capital Contributions	33%	67%	—	—	—
\$450M	\$690M	\$240M (a)	\$240M	Ordinary, Preferred and Preferred Prime Participates	25%	25%	50%	—	—
\$690M (b)	\$960M	\$270M	\$270M	Profits Interests with a \$10 Threshold Participates	22%	22%	44%	11%	—
\$960M	Infinity	Infinity	\$540M	Profits Interests with a \$20 Threshold Participates	20%	20%	40%	10%	10%
					\$150M	\$300M	—	—	—
					\$60M	\$60M	\$120M	—	—
					\$60M	\$60M	\$120M	\$30M	—
					\$108M	\$108M	\$216M	\$54M	\$54M
				Unit Class Value	\$378M	\$528M	\$456M	\$84M	\$54M
				Per Unit Value	\$63.00	\$88.00	\$38.00	\$28.00	\$18.00

Example 4: Profits interests with a per-unit threshold (CONTINUED)

Preferred and Preferred Prime capital contributions

Preferred and Preferred Prime unitholders will first receive their total capital contributions of \$450 million at the first breakpoint. Then at the second breakpoint, Preferred, Preferred Prime, and Ordinary unitholders will participate pro rata.

Profits interests with a \$10 threshold participates

To determine the total distribution required in the second breakpoint—if the liquidation threshold was set at \$10 per unit at the time of the profits interest grant—we can multiply \$10 by the number of units participating in that breakpoint, or 24 million (six million Preferred + six million Preferred Prime + 12 million Ordinary), for a total distribution of \$240 million, as shown by **(a)**.

Once the company exits at an equity value that will pay Ordinary units at or above \$10 per unit (i.e. the lowest liquidation threshold), the profits interests with a liquidation threshold of \$10 will participate at the third breakpoint.

At this time, the implied equity value of the company will be \$690 million, as shown by **(b)** [\$450 million capital contribution to Preferred and Preferred Prime + \$240 million distribution to Preferred, Preferred Prime, and Ordinary].

Example 4: Profits interests with a per-unit threshold (CONTINUED)

Profits interests with a \$20 threshold participates

Similarly, once the company exits with an equity value that will pay Ordinary units at or above \$20 per unit (i.e. the second lowest liquidation threshold), the profits interests with a liquidation threshold of \$20 will participate in the fourth breakpoint, and thereafter all units would participate in any remaining distributions.

To determine the total distribution required in the third breakpoint, we can multiply the additional \$10 required to get a total Ordinary unitholder payout of \$20 per unit by the number of units (27 million) participating in that breakpoint.

$$(\$20 \text{ threshold} - \$10 \text{ threshold}) \times (6\text{M Preferred} + 6\text{M Preferred Prime} + 12\text{M Ordinary} + 3\text{M Profits Interests}) = \$270\text{M}$$

Per unit values

Similar to the original waterfall (**Exhibit B**), each Preferred unit is worth exactly \$25 more than each Ordinary unit, and each Preferred Prime unit is worth exactly \$50 more than each Ordinary unit.

Additionally, the premium on one Ordinary unit relative to one PIU is equal to the liquidation threshold of the respective PIU.

For example: \$38 minus \$28 equals \$10, and \$38 minus \$18 equals \$20. Similar to a stock option—or most versions of phantom units—Ordinary units must receive a per unit distribution equal to the profits interests liquidation threshold before the PIU can participate.

Typically, clearance for the per-unit liquidation threshold is tied to ordinary unitholders' distributions, which begin receiving distributions after the return of capital contributions, as shown in **Exhibit I**. However, sometimes, companies will begin clearing liquidation thresholds during the return of capital contributions.

Although unusual, in those situations, the payout to PIUs would no longer be reconciled with that of an option because ordinary units cannot participate during the return of capital contributions.

Example 5: Profits interests with an overall threshold

The previous example displayed profits interests units with a per-unit liquidation threshold. Next, we'll look at profits interest with an overall liquidation threshold, which is more common.

We will adjust our earlier cap table from **Exhibit H** to reflect overall liquidation thresholds, as displayed in **Exhibit J**.

■ EXHIBIT J

Capitalization	Preferred	Preferred Prime	Ordinary	Profits Interests (\$300M)	Profits Interests (\$600M)
Unit Outstanding	6M	6M	12M	3M	3M
Capital Contribution (Per Unit)	\$25	\$50	—	—	—
Total Capital Contribution	\$150M	\$300M	—	—	—
Liquidation Threshold	—	—	—	\$300M	\$600M

Exhibit K below displays the waterfall for the cap table in **Exhibit J**, with a consistent equity value of \$1.5 billion.

Example 5: Profits interests with an overall threshold (CONTINUED)

■ EXHIBIT K

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary	Profits Interests (\$300M)	Profits Interests (\$600M)
\$0M	\$450M	\$450M (b)	\$450M	Preferred and Preferred Prime Capital Contributions	33%	67%	—	—	—
\$450M	\$600M	\$150M (c)	\$150M	Ordinary, Preferred, Preferred Prime, and Profits Interests with a \$300M Threshold Participates (a)	22%	22%	44% (d)	11%	—
\$600M	Infinity	Infinity	\$900M	Profits Interests with a \$600M Threshold Participates	20%	20%	40%	10%	10%
					\$150M	\$300M	—	—	—
					\$33.3M	\$33.3M	\$66.7M	\$16.7M	—
					\$180M	\$180M	\$360M	\$90M	\$90M
				Unit Class Value	\$363.3M	\$513.3M	\$426.7M	\$106.7M	\$90M
				Per Unit Value	\$60.56	\$85.56	\$35.56	\$35.56	\$30.00

Example 5: Profits interests with an overall threshold (CONTINUED)

Profits interests with a \$300M threshold participates

PIUs with a \$300 million liquidation threshold participate immediately at the second breakpoint alongside Preferred, Preferred Prime, and Ordinary unitholders, as shown by **(a)**. This is because their liquidation threshold of \$300 million has already been cleared by the total capital contributions of \$450 million received by Preferred and Preferred Prime unitholders at the first breakpoint, as shown by **(b)**.

Although, in theory, these PIUs could slice into the distribution during the \$450 million return of capital contributions, that would be unusual; capital contributions are typically contractually obligated to be paid out first—similar to debt—without interference.

Profits interests with a \$600M threshold participates

Following the second breakpoint, we need to determine when the PIUs with a \$600 million liquidation threshold will participate. The answer is simple—they will participate when a total of \$600 million has been distributed to other equity holders. Accordingly, **(c)** is calculated as the \$600 million liquidation threshold minus the \$450 million total capital contribution already returned to Preferred and Preferred Prime unitholders.

Example 5: Profits interests with an overall threshold (CONTINUED)

Per unit values

As expected, each Preferred unitholder's payout is worth exactly \$25 more than each Ordinary unitholder's, and each Preferred Prime unitholder's payout is worth exactly \$50 more than each Ordinary unitholder's payout.

Additionally, each Ordinary unitholder's payout is equal to each profits interests unitholder's payout with a liquidation threshold of \$300 million. As discussed earlier, these profits interests unitholders participated immediately during the second breakpoint alongside Preferred, Preferred Prime, and Ordinary unitholders because their liquidation threshold had already been cleared following the first breakpoint.

Each Ordinary unitholder's payout is worth \$5.56 more than each profits interests unitholder's payout with a liquidation threshold of \$600M. This is because Ordinary received \$5.56 per unit prior to the \$600M liquidation threshold being cleared. This is calculated by multiplying **(c)** x **(d)**, and dividing the result by the 12 million Ordinary units.

$$\$150\text{M} \times 44\%^* = \$67\text{M}$$

$$\frac{\$67\text{M}}{12\text{M Ordinary}} = \$5.56$$

* Values have been rounded for illustrative purposes.

Example 5: Profits interests with an overall threshold (CONTINUED)

Profits interests units with a liquidation threshold below total capital contributions

If total capital contributions—plus any required return embedded in the original shareholder agreement—is greater than a profits interests unitholder’s liquidation threshold, then that PIUs payout should be equivalent to that of an ordinary unit (it’s as if the PIU’s liquidation threshold were \$0). Accordingly, it is possible that a PIU's expected payout will merge toward that of an ordinary unit over time.

For example, imagine a company that has not yet raised capital issues PIUs with a liquidation threshold of \$10 million alongside ordinary units. If the company eventually exits for a value above \$10 million, the ordinary units would receive \$10 million and any remaining value would be split pro rata between the profits interests and ordinary units.

If a few years go by and the company successfully closes a \$15 million Series Seed, then the \$15 million would exceed the \$10 million liquidation threshold. At that point, if the company exited, the PIUs payout would now be equivalent to ordinary units. Both the profits interests and ordinary units would participate together, immediately following the return of Series Seed’s \$15 million capital contributions.

Example 6: Profits interests with a catch-up provision

If you don't like the idea of profits interests units being worth less than ordinary units—or if you at least would like all PIUs to have the same payout regardless of liquidation threshold—then you'll enjoy the next type of unit, often awarded to executives or other high-level employees: Profits interests with a catch-up provision.

Generally speaking, when **catch-up provisions** are assigned to profits interests units, the PIUs are paid out as if the liquidation threshold is \$0. This can be seen in **Exhibit L**, which continues to use the cap table from **Exhibit J** and has an equity value of \$1.5 billion.

EXHIBIT L

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary	Profits Interests (\$300M)	Profits Interests (\$600M)
\$0M	\$450M	\$450M	\$450M	Preferred and Preferred Prime Capital Contributions	33%	67%	—	—	—
\$450M	\$600M	\$150M (d)	\$150M	Ordinary, Preferred, Preferred Prime, and Profits Interests with a \$300M Threshold Participates	22%	22%	44% (e)	11%	—
\$600M (c)	\$616.7M	\$16.7M (b)	\$16.7M	Profits Interests with a \$600M Threshold Catch-Up (a)	—	—	—	—	100%
\$616.7M	Infinity	Infinity	\$883.3M	All Units Pro Rata	20%	20%	40%	10%	10%
					\$150M	\$300M	—	—	—
					\$33.3M	\$33.3M	\$66.7M	\$16.7M	—
					—	—	—	—	\$16.7M
					\$176.7M	\$176.7M	\$353.3M	\$88.3M	\$88.3M
				Unit Class Value	\$360M	\$510M	\$420M	\$105M	\$105M
				Per Unit Value	\$60.00	\$85.00	\$35.00	\$35.00	\$35.00

Example 6: Profits interests with a catch-up provision (CONTINUED)

Profits interests with a \$600M threshold catch-up

Relative to **Exhibit K**, there are now four breakpoints (a new breakpoint is added before the final pro rata distribution). The third breakpoint—illustrated by **(a)** in **Exhibit L**— represents PIUs with a liquidation threshold of \$600 million, catching up to what was paid to Ordinary units in the second breakpoint. The catch-up provision in the third breakpoint essentially represents what the profits interests would have received if their liquidation threshold were \$0.

The value of the catch-up provision is \$16.7 million, as shown by **(b)**. Please note, this catch-up payment to profits interests units with a liquidation threshold of \$600 million is only paid out once the liquidation threshold is cleared, as shown by **(c)**.

You may be wondering how **(b)** was calculated. **(B)** represents what the profits interests unitholders with a liquidation threshold would have received if their liquidation threshold were \$0. Accordingly, if we multiply \$150M **(d)** by 44% **(e)**, that will determine the total payout to Ordinary unitholders (about \$67 million) before the \$600 million liquidation threshold was cleared.

$$\$150\text{M} \times 44\% = \$67\text{M}$$

$$\frac{\$67\text{M}}{12\text{M Ordinary}} = \$5.56$$

If we divide that by the 12 million Ordinary units, the resulting payout is about \$5.56 to each Ordinary unit before the \$600 million liquidation threshold is cleared.

$$\$5.56 \times 3\text{M PIUs } (\$600\text{M threshold}) = \$16.7\text{M}$$

That means, if the liquidation threshold had been \$0, those profits interests unitholders would have also received \$5.56 per unit. But if we then multiply \$5.56 by the three million profits interest units with a liquidation threshold of \$600 million, that equates to a catch-up payment of \$16.7 million, as shown by **(b)**.

Example 6: Profits interests with a catch-up provision (CONTINUED)

Catch-up provisions

Catch-up provisions can be relatively bespoke. For example, in **Exhibit L**, the pro rata distribution that begins in the second breakpoint is effectively “paused” once the \$600 million liquidation threshold is cleared (only to restart once the catch-up payment was satisfied).

In other instances, the pro rata distributions may not pause and, alternatively, the catch-up payment may trigger and settle alongside the pro rata distribution—potentially at an accelerated pace. This would still create a third breakpoint; however, that breakpoint would not have been distributed 100% to profits interests with a \$600 million liquidation threshold. Alternatively, the catch-up payment would be distributed pro rata to all unit classes.

Per unit values

Each Preferred unit is worth exactly \$25 more than each Ordinary unit, and each Preferred Prime unit is worth exactly \$50 more than each Ordinary unit. Each Ordinary unit is equal to each profits interests unit with a liquidation threshold of \$300 million. However, due to the catch-up provision, each Ordinary unit is also equal to each profits interests unit with a liquidation threshold of \$600 million, given that catch-up provisions allow a PIU to be paid an amount as if its liquidation threshold had been \$0, effectively catching-up to the payout of ordinary units.

Example 7: Vesting based on MOIC

None of the preceding examples have considered any form of vesting, the process of earning an asset either over time or based on the company's performance. In our final example, we will explore performance-based vesting; specifically, performance based on a multiple of invested capital (MOIC).

We will continue using the cap table displayed in **Exhibit J** and an equity value of \$1.5 billion, but we will now assume that Ordinary unitholders do not vest until Preferred Prime unitholders have received a MOIC of two times, as shown in **Exhibit M**.

EXHIBIT M

From	To	Delta	Value in tier	Description	Preferred	Preferred Prime	Ordinary	Profits Interests (\$300M)	Profits Interests (\$600M)
\$0M	\$450M	\$450M (a)	\$450M	Preferred and Preferred Prime Capital Contributions	33%	67%	—	—	—
\$450M	\$600M	\$150M (b)	\$150M	Preferred, Preferred Prime, and Profits Interests with a \$300M Threshold Participates	40%	40%	—	20% (h)	—
\$600M	\$1.32M	\$720M (c)	\$720M	Profits Interests with a \$600M Threshold Participates	33%	33% (g)	—	17%	17%
\$1.32B	Infinity	Infinity	\$180M	Preferred Prime MOIC of 2X Achieved; Ordinary Participants (d)	20%	20%	40%	10%	10%
					\$150M	\$300M (e)	—	—	—
					\$60M	\$60M (f)	—	\$30M	—
					\$240M	\$240M	—	\$120M	\$120M
					\$36M	\$36M	\$72M	\$18M	\$18M
				Unit Class Value	\$486M	\$636M	\$72M	\$168M	\$138M
				Per Unit Value	\$81.00	\$106.00	\$6.00	\$56.00	\$46.00

* It is important to note that this type of performance-based vesting would usually be applied to a class of phantom units. We applied performance-based vesting to the existing Ordinary units for the sake of simplicity.

Example 7: Vesting based on MOIC (CONTINUED)

In the first breakpoint, Preferred and Preferred Prime unitholders will receive their total capital contributions of \$450 million, as shown by **(a)**.

Then, in the second breakpoint, an additional \$150 million is paid out, triggering the \$600 million liquidation threshold, as shown by **(b)**.

Preferred, Preferred Prime, and both profits interest unitholders can then participate in the third breakpoint until Preferred Prime's MOIC of two times is achieved. The MOIC stipulations require a distribution of \$720 million in the third breakpoint, as shown by **(c)**.

Preferred Prime's MOIC is \$600 million and prior to the third breakpoint, Preferred Prime unitholders had received \$360M, as shown by \$300 million **(e)** plus \$60 million **(f)**:

$$(\$300M \times 2) = \$600M \text{ MOIC}$$

Accordingly, Preferred Prime is required to receive an additional distribution of \$240M prior to Ordinary participating:

$$\$600M - (\$300M + \$60M) = \$240M$$

Finally, \$240M / **(g)** equals \$720M—the delta required in the third breakpoint for Preferred Prime to receive its MOIC:

$$\frac{\$240M}{33\%*} = \$720M$$

Relative to **Exhibit L**, Ordinary unitholders no longer participate in the second breakpoint. Alternatively, Ordinary unitholders may participate in the fourth breakpoint, as shown by **(d)**.

* Values have been rounded for illustrative purposes.

Example 7: Vesting based on MOIC (CONTINUED)

Per unit values

Each Preferred Prime unit is worth exactly \$25 more than each Preferred unit, which is to be expected; MOIC-based vesting for Ordinary unitholders did not detract any distribution from Preferred unitholders.

The profits interests with a liquidation threshold of \$300 million are worth exactly \$50 more than Ordinary. Due to Preferred Prime's required MOIC of two times prior to Ordinary vesting, Preferred Prime was required to receive an additional payment of \$50 per unit—on top of the \$50 per unit received in the first breakpoint—distributed across the second and third breakpoints before Ordinary vested. While Ordinary did not participate in the second and third breakpoints, profits interests with a liquidation threshold of \$300 million did participate in those breakpoints.

Finally, if you calculate $[(b) \times (h)] /$ three million profits interests with a liquidation threshold of \$300M, you will derive \$10, which is the difference in payout between the two groups of profits interests units, and represents the value of a lesser threshold (i.e. \$300 million as opposed to \$600 million).

$$(\$150M \times 20\%) = \$30M$$

$$\frac{\$30M}{3M \text{ PIUs } (\$300M \text{ threshold})} = \$10$$

* Values have been rounded for illustrative purposes.

How Carta can help

In the seven complex examples in this guide, we took a simple cap table and imagined what liquidity distributions might look like for several different classes of unitholders.

Knowing the inner workings of waterfall analysis is important for understanding how different equity types and classes will affect the distribution of profits. But it doesn't mean you have to spend countless hours on modeling to envision every possible scenario. Let Carta's waterfall modeling software handle the complex models—so you can focus on your core business.

Because Carta waterfall modeling sits alongside Carta Fund Admin, your exit analysis can stay aligned with your fund accounting and LP reporting. As terms change or new scenarios emerge, you can update assumptions in one place and keep capital accounts, distribution schedules, and audit-ready records in sync.

This is part of how Carta is building the ERP for private markets: a connected system where equity data, fund operations, and investor communications share a common source of truth. For deal teams, CFOs, and legal advisors, that means fewer reconciliations, a clearer view of outcomes, and more time to focus on strategic decisions.

Run accurate, traceable models

Carta's waterfall engine runs off live cap table data and is configured to the company's operating agreement to calculate proceeds and payouts—keeping models accurate and traceable without spreadsheets.



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Glossary

Waterfall modeling	Waterfall modeling is a financial exercise used by companies and their investors to determine how proceeds are distributed among unitholders during a <u>liquidity event</u> , such as an acquisition.
Liquidation / distribution / hurdle threshold	The liquidation threshold is oftentimes referred to as the distribution threshold or hurdle threshold. This threshold is set at a level such that the profits interest would be entitled to \$0 of the LLC's exit proceeds if the LLC were to hypothetically "liquidate" on the profits interests' grant date. This is unlike a capital interest, in which the unit holder is immediately entitled to exit proceeds on their grant date (subject to other rights and preferences).
Capital contribution (per unit)	Per unit capital contribution is the total capital used to purchase all units in a specific unit class (i.e. Preferred), divided by the number of outstanding units in that class. Capital contributions represent how much each investor initially contributed on a per-unit basis.
Units outstanding	The total number of units that have been issued for each unit class.
Total capital contribution	The sum of capital contributed to purchase units outstanding for each unit class.
Participating unitholders	Also referred to as "participation." Participation allows investors to receive their capital contributions before participating alongside Ordinary unitholders pro-rata on an as-converted basis; participation is more common in private equity than venture capital.
Pro rata	Pro rata is a Latin term that loosely translates to "in proportion." It means every unitholder's distribution is proportional.
As-converted	As-converted assumes that all outstanding equity, such as preferred units, is converted into ordinary units. A <u>fully diluted cap table</u> is represented with this assumption, which displays the as-converted equivalent of a company's equity after adjusting for conversion ratios.

Glossary (CONTINUED)

Non-participation	The alternative to participation, “non-participation,” declares that investors will receive the greater of either (1) their capital contribution, or (2) the amount they would receive if they converted their preferred units into ordinary units.
Description	Each row marked by a “description” in the waterfall represents a breakpoint in the model.
Breakpoint	A new breakpoint is created whenever a payment is satisfied (for example, when all capital contributions have been returned), or a new payment is triggered (for example, a PIU’s threshold is cleared <u>into-the-money</u>).
From, To, and Delta	If the company exits for an equity value between \$0 (“from”) and \$450 million (“to”), then \$450 million (i.e. the “delta,” which is the difference between the “to” and the “from”) will be paid.
Value in tier	The value in tier represents the proceeds that are available to distribute within a particular breakpoint, with a lower bound of \$0 if there is nothing available to distribute, and an upper bound equal to the delta.
Dollar-weighted percentages	The percentages associated with the repayment of capital contributions are called dollar-weighted percentages, because they are calculated based on the total dollar amount of capital contributions.
Seniority and stacked preferences	If a company’s operating agreement requires that Preferred Prime’s capital contributions are paid before Preferred’s capital contributions, then Preferred Prime has seniority (i.e. stacked preferences) over Preferred.
Unit-weighted percentages	All percentages after the dollar-weighted percentages are called unit-weighted percentages because they are calculated based on unit counts. These are typically calculated pro rata.

Glossary (CONTINUED)

Unit class value	The total payout per unit class in each breakpoint.
Per unit value	Per unit value is the unit class value divided by the number of units outstanding in that unit class.
Capital interest	If the recipient of an LLC interest only has a right to share in the LLC's value on and after their grant date, their interest is a capital interest.
Profits interests	If the recipient of an LLC interest only has a right to share in the appreciation of the LLC's value growth after their grant date, their interest is a profits interest. The liquidation threshold assigned to the profits interests unit serves to avoid the unintended reclassification of a profits interest into a capital interest.
Catch-up provisions	In the context of profits interests, catch-up provisions provide profits interests with the amount they would have received if their liquidation threshold were \$0, effectively catching-up their payout to that of an Ordinary unit.

Additional resources

[Exit Simulation Template](#)

[LLC Blueprints](#)

[PE Blueprints](#)



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