The Structure of a Startup Accelerator

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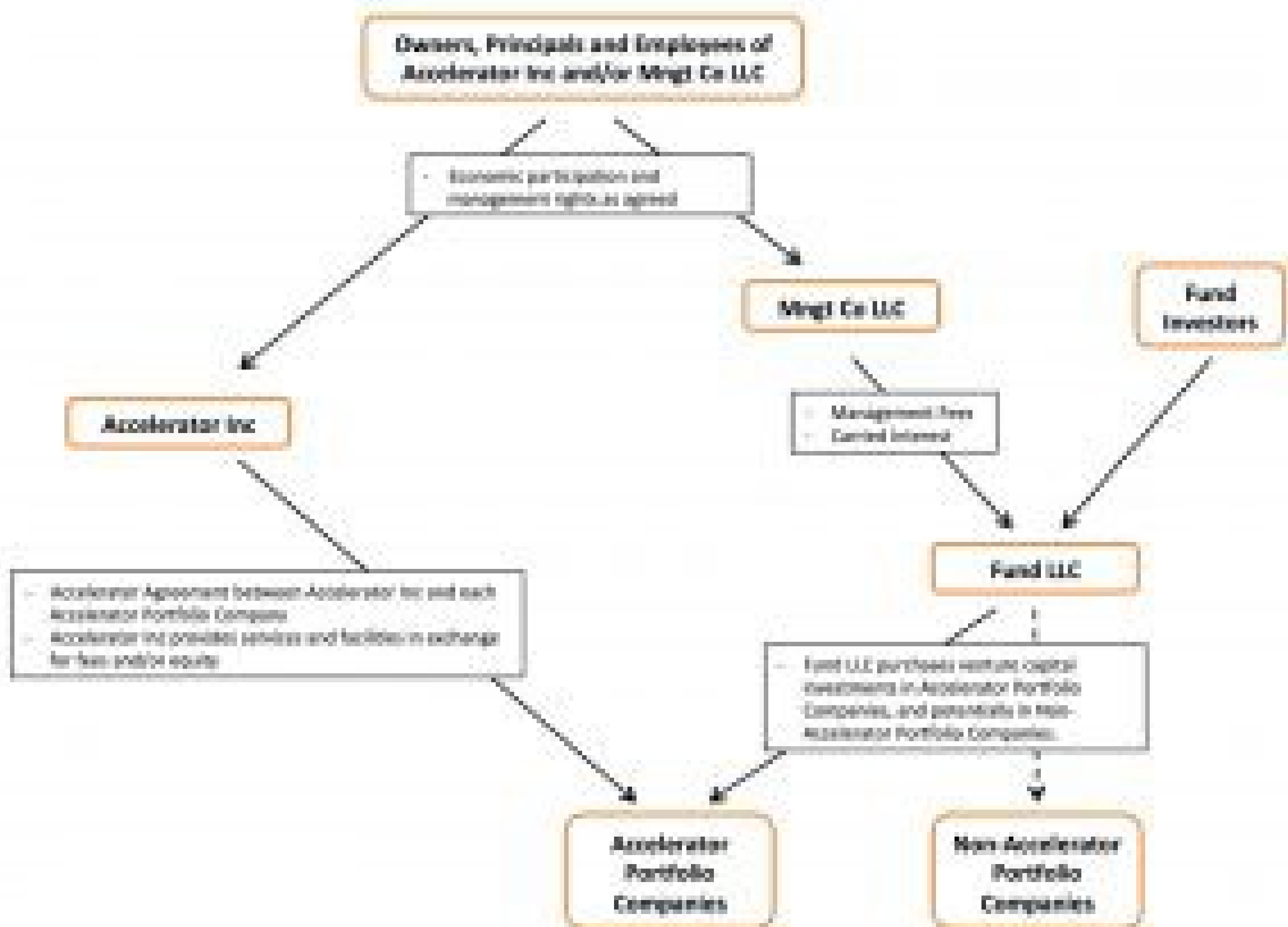
Over the last ten years, accelerators have become increasingly popular as startup launch and seed funding vehicles. Accelerators are programs that provide their companies — or cohorts — with:

- seed investment;
- connections with their network of customers, investors or partners;
- mentorship and instruction;
- office space, usually; and
- follow-on investment, in many cases.

Accelerators can be very general (in that they are open to all startups), or they can be focused on a particular niche, like healthtech, agritech or blockchain. While some emphasize mentorship and might not invest, most accelerators will take equity for a relatively small investment ($50,000 to $100,000), much of which is returned to the program through the payment of program fees. Accelerators will often align themselves with investment funds that provide the seed money and follow-on capital, and any well-advised accelerator will structure those separate functions carefully for both tax and securities law purposes. A well-designed accelerator will have a structure that resembles the following:



Although this structure may look complex, it effectively separates the three businesses at play in an accelerator: the accelerator services business, the investment business and the investment management business. Not only does each function possess a different risk and reward profile, but it may also have different participants and constituents. Because of these different functions and risks, the accelerator model will have separate entities and contractual relationships.

This article was written by Roger Royse before joining Haynes and Boone.