

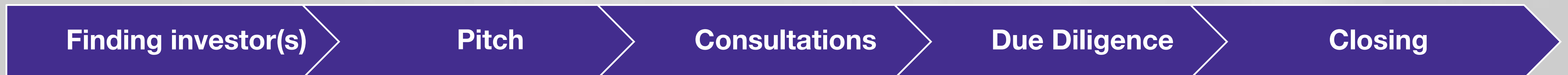
Term Sheet

- What is a Term Sheet
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What is a Term Sheet?

- **Term Sheet** is a **non-binding** document between founder(s) and investor(s) that outlines basic terms and conditions of an investment
- It does **not guarantee** an investment. It serves as a basis for **further discussions** and **more detailed legally binding documents** (i.e investment agreement, shareholders agreement, share purchase agreement).
- In the process of raising an investment Term Sheet is formed after successful consultations between founder(s) and (lead) investor(s). Usually, it is agreed upon **before due diligence**.

Raising an investment



↑
Term Sheet

Main components of a Term Sheet

➤ Investment specific information:

- **Investment size** - amount of money that investor(s) allocate to the company with the expectation of a positive return
- **Equity distribution** – different parties' ownership share of the company
- **Value of the company** – company's total value, estimated cost to purchase company
- **Capital structure** - mix of debt and equity used to finance company's assets and operations

➤ Shares:

- **Liquidation preference** - clause in a contract that dictates the payout order in case of a corporate liquidation
- **Dilution** – company's issuance of additional stock that results in a decrease in existing stockholders' ownership percentage of that company.
- **Pre-emption** – the right to purchase a company's new shares before they are offered to anyone else
- **Founder vesting** - a process by which founder “earns” stock over a period of time depending on performance and commitment
- **Tag along and drag along** - tag-along rights give minority shareholders negotiating rights in the event of a sale, drag-along rights force the minority shareholders to accept whatever deal is negotiated by majority shareholders.

➤ Other agreed terms:

- **Board seats** – executive committee that jointly supervises activities of an organization
- **Closing conditions** – events that must take place or tasks that must be completed before the transaction the agreement provides for can be consummated
- **Confidentiality** – keeping sensitive information private; non-disclosure of sensitive information

The specific contents and conditions of the Term Sheet differ from transaction to transaction

FAQ 1/2

Q: Can the term sheet phase be skipped and can a round be closed without it?

A: Yes, but it is recommended to have at least something like a term sheet, since it serves as a warrant that all parties understand the main terms of the round in the same way.

Q: Should all the investors sign the term sheet?

A: Not necessarily, but it is recommended to have some written confirmation that the investor has understood the terms of the round and what is the planned sum of investment. Sometimes the term sheet serves as good validation of investor commitment.

Q: Who prepares a term sheet?

A: Usually, the (lead) investor prepares the term sheet for the startup, but it is also possible that a startup prepares a basic term sheet to outline the basic conditions of an investment.

FAQ 2/2

Q: What is the timeline from Term Sheet to funding?

A: The timeline varies from deal to deal, but tends to be longer with bigger investments. Next steps include the Due Diligence as well as compiling and signing the investment documents. For early stage companies this process can take 2-3 months.

Q: Should the startup hire a lawyer to compile the term sheet?

A: Usually, it is a good idea to involve a legal specialist, when negotiating the terms. However, if you are using model documents commonly used in your country and you feel confident in the terminology then you may opt out of involving a lawyer.

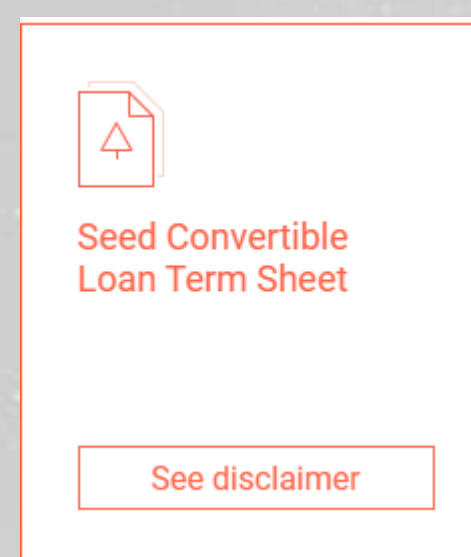
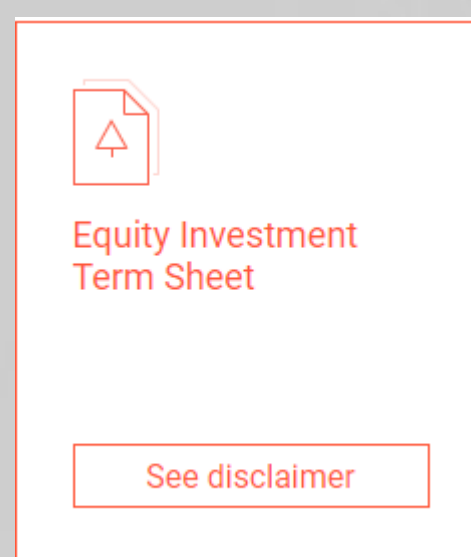
Q: Do you sign a term sheet in each funding round?

A: Usually, a term sheet is signed at each funding round.

Term Sheet templates

➤ Startup Estonia

- Equity investment Term Sheet
- Seed convertible loan Term Sheet



➤ FiBAN

- Documents available to FiBAN members

➤ Seriesseed

- Two Term Sheet templates

➤ StartupTools

- Seed investment Term Sheet

➤ EBAN

- Template Term Sheet for ordinary shares

➤ Y Combinator

- SAFE

➤ NVCA (USA)

- Term Sheet

Sources

- New Nordic Leads training materials
- [Investopedia 1](#)
- [Corporate Finance Institute](#)
- [Investopedia 2](#)
- [CFA Institute](#)
- [Investopedia 3](#)
- [Investopedia 4](#)
- [SynVestCapital](#)
- [Strictly Business 1](#)
- [Strictly Business 2](#)
- [Investopedia 5](#)
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