Convertible debenture term sheet

What is in the term sheet, and what do employers need to know before they sign it? A term sheet is one of the most important documents an entrepreneur can ever design or sign. By this stage you have incorporated a ton of sweat equity, sharpened products, created a successful field deck and aced investor meetings. The rest of your life, the dreams you have for your startup baby, and how much you will enjoy the growth of this company will rely on these terms and what will happen next. ADVERTISING How you present your company through your field deck is really what got you this far with potential investors that you will be onboard. I recently covered a field deck template created by Silicon Valley legend Peter Thiel (see here). I also commented on the field deck from uber competitors who have raised over $400M (see here). The Importance of Acing the Term Sheet for Startups Unfortunately, they don't teach term sheets in school. With so many other tasks, many entrepreneurs can get to this point with virtually no understanding of what a term sheet looks like, what is and isn't a good standard or deal, and how to negotiate. It is wise to precede the game. Keep in mind your terms from the founders of the venture, and work strategically to optimize the outcome of these negotiations before you even throw or catch the scent of a check. Garage Startup reminds us of the ultimate goal to guide entrepreneurs when it comes to term sheets: you want to raise as much capital as possible, while giving up as much as possible from the company. To make sure that you haven't given up too much upside potential or assumed too much risk on the potential downside. Important Clauses for On the cover in Your Term Sheet Ads There are various term sheet formats out there today. That includes traditional equity fundraising terms sheets, conversion debt, KISS and SAFE documents. Be sure to master any type of instrument you will use. Here are the terms, clauses, and common factors you need to know and decide on at some point for all types of fundraising, and which you'll find in the National Venture Capital Association (NVCA) term sheet template. Who, What and How Many AD The main parts of this document outline the various angel companies or venture capital that participate in the round, how much they invest, and what they pay per share. It's all about valuation and percentage ownership. There are many high-profile horror stories of founders who have been ousted from their own companies. There's probably a lot more lurking under the table somewhere, experiencing soul-destroying consciousness they have no control over their efforts Again. Choosing the right investor is important. However, it is always smart to have documents that benefit you as much as possible, just in case they are not the people you think they are. Don't get stuck on the first or next check. Think of the big picture. You can do it. they are. ADVERTISING This is especially true with conversion debt and what valuation figures will be based on later. Option Pools It sets aside a pool of shares that will be available to employees or investors in the future. It may not seem to be a big deal right now. However, it can have an impact on valuations and will certainly take into account the dilution of stocks. As a founder you don't want to soak up all the dilution, without your investors experiencing the same impact. &Liquidation Ads; Participation This clause determines how much investors and preferred shareholders owe before anyone else when the company is sold. 1x preferences mean they get 100% of their money back before anyone else gets a dime. More than that means they will get more of their investment back. Participation rights can also give shareholders a choice of a percentage of any proceeds in exits on top of their investment returns. If you sell for $10 million, and they have a 1x liquidation preference and 30% participation rights, then if they invest $5 million, they get it back, plus another $1.5 million, leaving only $3.5 million for everyone to share. ADVERTISING Dividends Dividends may or may not increase. If they grow from scratch that money needs to be added to the investor's share of the proceeds from the sale. Be careful here, and who has the right to sue when dividend payments are correct. Terms of Protection One of the most well-known protection provisions is the anti-dilution clause. Make sure you understand the right to dilute the stock and the calculations used. AD Your Control Rights will likely have a number of board seats and appointments or a percentage of voting share class ownership. The main factor here is whether the majority of seats or shares are held by investors versus shareholders or founder-friendly members. It will determine who can actually make a decision, and decide whether you keep your job or not. While you don't want to give too much away, know that holding too much super-voting power can also be a major concern for potential investors. Ideally you will hold enough to protect your value and vision, while encouraging the maximum amount of investment from the best participants. ADVERTISING Summary It is important to note that term sheets are usually non-binding. In the end they act as a summary of the requirements to be drawn up by lawyers to close the financing round. One of the investment nightmares that tends to recur is when the founder receives a term sheet and thinks a deal is done. They started increasing spending, thinking the money would be transferred. I personally witnessed instances where a founder with a term sheet ultimately did not close the deal, and the founder had to close assumed that the money was already in place. Don't be one of these cases. Eligible financing is the minimum fundraising measure the company will achieve that will trigger the conversion. It's This a large amount of funding that signals the company's growth to a stage that investors are happy to be equity holders instead of creditors. The valuation limit, also known as the price limit or conversion limit, is the ceiling for the conversion price. This figure serves as a conversion price limit rather than the original valuation, which is often impossible in the early stages of a business with too few records and data available. The valuation limit price arrives by dividing the valuation limit by the number of shares outstanding at the relevant time. The discount rate is the percentage discount that will be applied in determining the conversion price. You should note that only lower than the price valuation limit and discounted price will apply. Due date. The duration of conversion records may vary widely - for example, 6 months for bridge financing to Series A financing for a longer period of time (for example, 5 years). The duration will have an impact on which types of investors can invest in notes - for example, some funds have a mandate not to invest in instruments such as debt with a duration beyond 12 months. On the other hand, angel investors have no such restrictions. The right flat pro is the right for investors to participate in eligible financing (i.e. buy additional equity with additional cash on eligible financing terms), up to an amount that when taken together with the converted equity from the convertible record, will result in the investor retaining the same percentage of ownership in the company. The pro rata right is often very important for more sophisticated seed investors because it gives them the right to follow their most successful investments and to potentially 'protect' their ownership shares during potential down-round (rounds are made at lower valuations than the previous round). However, it could also mean reducing flexibility in negotiating with investors at the next round and could lead to the renegotiation of these rights with previous investors to facilitate the next round. This clause is offered as an option in the Convertible Notes Instrument (if this right will be granted to all investors) or in the Convertible Note Subscription Letter (if you wish to maintain the flexibility to grant this right only to certain investors – for example depending on their investment level). Dividend payment. Investors in convertible notes are not shareholders and will not have the right to potential dividends paid prior to conversion. They will usually ask that no dividends be paid before conversion to ensure their investments grow the company and do not pay existing shareholders. This clause is offered as an option in the Convertible Notes Instrument that you can create in the Zegal application, where you can specify that the company will not any dividends until the convertible notes are converted. Converted. Converted.