

# Term Sheet

Month XX, 20XX

We, Elevate Ventures, Ltd., want to invest money in your company, [Non-Hipster].

## Structure of Financing

We're making you an offer of a \$ ( ) investment in your \_\_\_ round. This investment will be for [ ] % of the ownership in your company. Your company will issue to us the same type of common shares that you already have.

## Option Pool

Our offer assumes that you've already or will set up an employee stock option pool before we invest, so that our ownership is "fully-diluted" after accounting for that option pool. We think you'll need at least a % option pool after the investment round to hire some key management team members and senior people. To make this really clear, see the attached table to see how this looks with actual shareholding and ownership percentages after the investment.

## Conditions to Close

Before we sign any paperwork and transfer our funds, we must do some final due diligence on the company and also on you, the founders.

At the same time, if you haven't already done so, you should also do a bit of due diligence on us. For example, speak to some of our existing founders and get a feel for what they think of us. We'd be glad to make introductions if it helps.

## Estimated Closing Date

We'll use our standard legal agreements which you should review, preferably with a lawyer to help (maybe also speak to a couple of founders who will have seen and agreed to the same docs). We hope that we can wrap this all up and finish the investment round with signed paperwork and money in your account no later than 4 weeks from today, [date].

## Documentation and Warranties

It's worth mentioning that our standard investment docs will include some "representations and warranties". These are assurances that you give to us that the business we're investing in is what you say it is. Normally investors have the right to financial claims against the founders if they've misrepresented the business, but we limit our right to claim so that it's only against the company, not the founders, and the amount can't be more than the amount we're investing.

## Liquidation Preference

We're not asking for any complex preference rights, but we do ask for a so-called simple 1x liquidation preference. This means that if the company is sold, we'll get the higher of either the amount of our investment or our ownership percentage of the sale value. In the worst case if the company is wound down with very little left, then anything left would be distributed to us as the investor.

## Important Decisions

We're here to support you and not to interfere in your day-to-day business operations, but we do have a list of decisions that we believe should be approved by a majority of the investors. This includes

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issuing new shares, raising new finance, selling the business, etc. You can see the full list [here](#).

## **Pre-emption Rights**

We think all shareholders, including the founders, should have the right to invest in future financing rounds to avoid being diluted. This doesn't mean shareholders have to put more money in, but if they want to and are able to, they have that right to maintain their ownership in any future funding round.

## **Right of First Refusal and Co-Sale**

If any shareholder wants to sell their shares to someone else, we and other investors have the option to buy those shares on the same terms or to sell our own shares, again on the same terms.

## **Drag-Along**

If shareholders, which of course includes you, owning more than 50% of the shares in the company want to sell their shares (typically to accept an acquisition offer) then, as long as the board and a majority of the investors approve it, all other shareholders must also sell their shares. This protects all shareholders from, say, one small, stubborn shareholder refusing to sell their shares in an acquisition offer and blocking a deal everyone else wants to see happen.

## **Restrictive Covenants**

We don't want any of you to start a competitive business or to leave and take team members with you to another business even if it's not competitive. That's not why we are investing in the company and your co-founders wouldn't be very happy with you either. These restrictions apply for as long as you're employed by the company or hold at least 10% in equity and for 1 year after that.

## **Founder Shares**

Even after our investment, you the founders will normally own the majority of the shares in the company. However, our nightmare scenario is that we invest and then the day after you skip off to Timbuktu and we're stuck as shareholders. It may sound far-fetched, but it happens. We are fundamentally investing in you and your co-founders for the long haul and we expect you to have the same view. Making your shares subject to reverse vesting protects us and your co-founders if one of you changes your mind. Your shares will be earned monthly over 3 years meaning, for example, that if you give up on the team after 12 months, the company has the right to buy back two-thirds of your shares from you.

## **Board of Directors**

We think you should control your board, but we generally like to have a seat too. We don't take board control. Sometimes it makes sense for us just to have a less formal observer, non-voting seat.

## **Information Rights**

We'd like to get regular status updates from you in whatever format makes most sense for us all. For our own fund reporting purposes, we'll need quarterly financial reports from you.

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## Expenses

You pay for your legal costs and we pay ours. We don't see why we'd invest cash in your business only for some of it to come straight back out to pay our legal bills. We see whatever this deal costs us as our cost of doing business.

## Exclusivity

If we both sign this term sheet, it means we'll all be putting time and effort into completing the investment over the next 4 weeks. We don't want you to keep pitching to other investors potentially to replace us during that period. If you decide to switch to another investor in that period and it's not because we've done anything wrong, then we might charge you for our costs.

## Confidentiality

We trust your judgement in deciding who to talk to about this offer and when. This is a non-binding offer and things can unfortunately always fall through, so it's really not in your interest nor ours to pre-announce anything until it's done.

## Non-binding Effect

This document isn't legally binding but we're still very excited about it and the prospect of working with you. We hope you'll decide relatively quickly on whether or not you want to move forward with us. Obviously, it's a big decision so don't take it lightly, but time is your most valuable asset right now and the quicker we move forward and get cash into the company, the quicker you'll be able to focus on taking the next step for your business.

This offer remains open until we email you to tell you that we've moved on.

## Acceptance

If you're happy with all of this, sign below, or just tell us so in an email reply.  
Thanks for giving us the chance to pitch to you!

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Offered by

[Partner]

Elevate Ventures, Ltd.

[Date]

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Signed and accepted above by

Name: \_\_\_\_\_

Company: \_\_\_\_\_

Date: \_\_\_\_\_