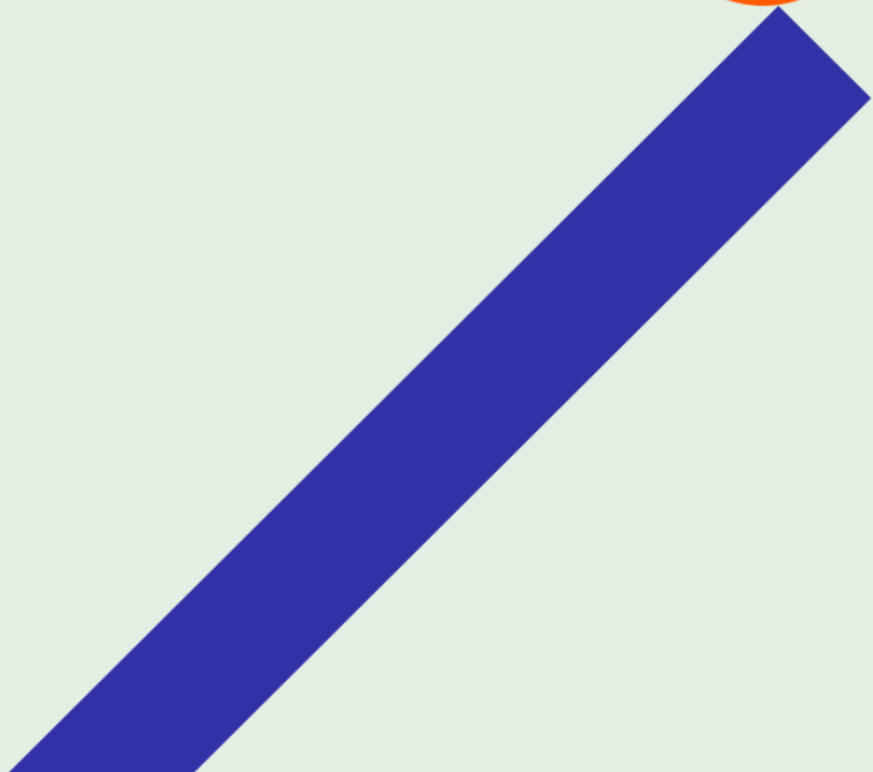




AirTree

Seed Stage Term Sheet

AirTree Ventures | Open Source VC



Hello founders,

We're big believers in anything that makes the murky world of VC more transparent. We also know that anything that saves founders time and money when raising is a win/win for everyone. That's why we've decided to open source our standard seed stage term sheet and publish it as a resource for founders. You can also find it [here](#).

This is the template we use for all our seed deals. It's a plain vanilla, straight-up-the-fairway term sheet, with all the standard terms you would expect to see from Valley funds.

We're hoping this is helpful to founders in a few different ways:

1) Vanilla terms. We want to standardise around a set of vanilla terms that make the most sense for seed-stage founders.

When we invest in your company, we want to make sure you're well set up for future rounds—this means making sure there's nothing strange in the term sheet. We've all seen bad behaviour from investors, and there's plenty of funky terms out there that have caused lots of harm to Aussie startups in the past. We're talking about things like tranching investments, multiple liquidation preferences, ratchet provisions, super pro-rata rights etc. We think it's important to do everything we can to eliminate these sorts of terms from the seed stage landscape in Australia. There may be a place for non-standard terms in later rounds, but a typical seed deal here should have the same vanilla terms you'd expect to see in the Valley.

2) Plain English (Hallelujah...). If you're negotiating your first term sheet, there's probably a bunch of stuff in there that you haven't seen before. The language used in most VC term sheets is bloody confusing. In some cases, founders don't fully understand the terms they're signing up for. This seems crazy to us; we want our founders to understand everything before we go into business together. To help, we've included some notes (in plain English) to explain each term.

3) Saving time & money. You've just raised a bunch of money; the last thing you want to do is spend 6 weeks negotiating docs and \$50k on lawyers. More vanilla terms = faster close = less billable hours from the lawyers = more money & time to spend on the business.

We hope this is a useful resource for founders. We welcome thoughts/feedback – community@airtree.vc

AirTree Ventures

Seed Stage Investment Term Sheet

| | | |
|------------------------|---|-------------|
| Company | [insert name] (" Company ") | |
| Investment & Valuation | AirTree Ventures (" AirTree ") | A\$[insert] |
| | Minimum round size | A\$[insert] |
| | Maximum round size | A\$[insert] |
| | Pre-Money Valuation | A\$[insert] |
| | Price Per Share | A\$[insert] |
| | The price per share is based on the Pre-Money Valuation divided by the fully diluted capitalisation of the Company immediately prior to the investment, which includes the post-money ESOP allocation top up. | |
| Closing | On or before [insert] | |
| Security[1] | Series Seed Preference Shares (terms substantially as in AIC standard documents) (" Preference Shares "). | |
| Pro-forma Cap Table | As set out in Schedule 1. | |
| Board[2] | One member at the direction of AirTree, (" Investor Director "). AirTree to have board observer rights if it doesn't elect to appoint a director. | |
| Founder Vesting[3] | Founder equity to be on four-year monthly vesting schedule with a one-year cliff. Bad leaver provision applies if founder leaves due to fraud, breach of contract/restrictive covenant or similar and triggers forfeiture of all unvested shares and buy-back of vested shares for 50% of fair market value. No share transfers by founders except for estate planning during the vesting period. | |

| | |
|--|---|
| ESOP ^[4] | [10-15]% unallocated ESOP, per Schedule 1. Unless otherwise agreed, ESOP grants to have four-year monthly vesting with one-year cliff. |
| Liquidation Preference & Anti-dilution ^[5] | Non-participating, 1X liquidation preference. Standard, broad-based weighted average anti-dilution protection. |
| Investor protections ^[6] | Approval of Investor Director and/or the holder(s) of a majority of the Preference Shares required for standard protective provisions. |
| Pro Rata, ROFR & Co-Sale ^[7] | AirTree will have a pro rata right to invest in future capital raisings and a pro rata right in respect of any permitted transfers of shares, each of which may be taken up by its affiliates (i.e. other funds managed by AirTree). Standard drag along and tag along provisions. Drag along provisions only apply on transfers that have the approval of holders of at least [70]% of the issued shares in the Company (and including the holder(s) of a majority of Preference Shares). |
| Information Rights ^[8] | AirTree to have customary inspection and financial information rights (including annual, quarterly and monthly accounts, budgets and business plans and board papers), as well as view only access to the books & records of the Company and any financial information reasonably required to comply with our regulatory obligations as an ESVCLP fund. |
| Reps & Warranties ^[9] | Substantially as set out in the AIC standard documents with adjustments for matters arising out of diligence. |
| Inclusion | We strive to invest in companies that are consciously working to create a diverse leadership team – one that’s inclusive across gender, ethnicity, age, sexual orientation, disabilities and national origins. While we would never impose hiring decisions, we aim to reduce the potential impact of unconscious bias for key C-Level and senior roles within a Company. We therefore ask that each portfolio |

| | |
|---|--|
| | <p>company include an “inclusion rule” in its HR policies so that at least one woman and/or member of a population currently underrepresented within the company shall be formally interviewed for any open executive position.</p> <p>We’ve also made a commitment to try and bring at least one angel investor from an underrepresented group with relevant experience on to the cap table alongside us, although this will obviously be subject to your approval.</p> |
| Sustainability | <p>We strive to invest in companies that are committed to fostering environmental awareness and responsibility. The Company shall, within six months following closing, adopt an Environmental Policy that incorporates the six key objectives outlined here.</p> |
| Closing Conditions ^[10] | <p>Standard conditions to closing, including satisfactory completion of any remaining commercial and legal due diligence including bankruptcy, educational qualifications and police checks on founders. All employees and founders to sign IP assignment agreements.</p> |
| Exclusivity ^[11] | <p>For a period of 30 days, the Company shall not solicit offers from or negotiate with other parties for any financing.</p> |
| Legal ^[12] | <p>Legal documents to be substantially based on AIC standard documents. Company to pay AirTree legal costs up to a cap of \$[15]k.</p> |

The existence of this proposal and its terms are confidential, and may not be disclosed to a third party except as may be necessary to complete the financing. Except for the immediately preceding sentence and the last two paragraphs of the table above, which the parties agree are legally binding, this proposal is an expression of intention only and does not constitute a legally binding agreement.

Schedule 1

Pro-forma Cap-Table: Fully Diluted

| Name | Class of shares | number of shares | % holding |
|------------------|-----------------|------------------|-----------|
| Founder 1 | Ord | | |
| Founder 2 | Ord | | |
| [insert] | [insert] | | |
| AirTree | Preference | | |
| Allocated ESOP | Ord | | |
| Unallocated ESOP | Ord | | [10-15]% |
| | | | 100% |

Signed by

[Company]:

.....
Signature of Director

.....
Signature of Director/Secretary

.....
Name

.....
Name

.....
Date

.....
Date

Signed by

AirTree Ventures Pty Ltd:

.....
Authorised Signatory

.....
Name

.....
Date

Notes (don't worry – they're in plain English)

[1] Security and terms

The terms of the securities and other agreements between us will be set out in a series of documents which will be substantially in the same form as the Australian Investment Council standard seed documents (which can be found [here](#)). The key paperwork will include a shareholders' agreement and a subscription deed, and may also include other documents depending on the specific situation.

[2] Board

We're here to support you to build a great business, and we generally find the best way for us to do that is by working together as part of the company's board. This offer assumes we'll have the right to appoint one board member, and we'll have discussed with you who from the AirTree team that would be. In some cases, it may not make sense for us to appoint a director straight away, in which case we'll have the right to appoint a board observer instead.

[3] Founder Vesting

The main reason we're investing at this stage is because we believe in you as founder(s). We're committed to helping you build a big, sustainable business – but we also need to make sure we're all on the same page with this. The worst-case scenario for us is to have the founders disappear to the Bahamas as soon as we hand over a check. This sounds crazy, but believe it or not, it does happen. Founder vesting is the best way to make sure that we're all in this for the long haul. The effect of this provision is that your shares will 'vest' monthly over a 4-year period, with the first 12 months' worth vesting in one go after the first year (the 'cliff'). If you leave the company before the end of the 4-year period, the company will have the right to repurchase any unvested shares.

Incidentally, when there's more than one founder this will also protect each of them from a situation where the other founder(s) decide to disappear with all their shares and leave you to do all the hard work. This is more common than you'd think, and it's why we always recommend having founder vesting - even if you aren't thinking about taking VC money.

[4] ESOP

This offer assumes you already have (or will be setting up) an employee stock option plan (an ESOP) to make sure there's enough options available to hire the best people you can find. We think a 10-15% ESOP is generally the right size for a seed stage company. Our offer assumes that this will be set up before we make our investment (i.e. 'pre-money') so that the ESOP pool will equal to 10-15% of the total outstanding shares in the company immediately after the investment (i.e. 'post-money'). To make the calculations crystal clear, we'll include a pro forma post-money cap table in Schedule 1.

Unless otherwise agreed, we would expect grants under the ESOP to also come with a standard four-year monthly vesting schedule and a one-year cliff. This is to make sure your new hires are committed to the Company and avoid the scenario where you issue a new employee with brand new options but then they leave for another company (or just stop showing up for work). It does happen and it sucks – but this is the best way to protect yourself.

[5] Liquidation Pref & Anti- dilution

We will be subscribing for non-participating preference shares that have a 1x liquidation preference and are convertible into ordinary shares. This means that when you sell the company (or IPO), we will be entitled to receive (in preference to the other shareholders) up to 1x our total investment amount.

This is partly to protect us from the fact that our valuation is almost always higher than what your company is “worth” at the time we invest. We’re buying into you, your future growth and vision. Let’s take an example: say we invest \$4m on a \$20m post money valuation (i.e. we own 20%). Two weeks later you get an offer from someone to buy the company for \$10m and you decide to take it. You walk away with \$8m (great outcome!) and we have to explain to our investors that we just lost them \$2m in 2 weeks (not fun). So really the liquidation preference is designed to give us some form of protection if the outcome isn’t as big as we’re all hoping for. Once the exit valuation gets to a certain point, it will make more sense for us to just convert our preference shares into ordinary shares, in which case we will just share in the sale proceeds in the same way as all the founders and employees.

The preference shares will also have standard anti-dilution protections, which are designed to protect investors against a situation where a company issues equity at a lower valuation than in previous financing rounds (i.e. a ‘down round’). We use the standard ‘broad based weighted average’ method to calculate an adjustment to the effective purchase price of our shares. This method is very common in VC – and Brad Feld has a great explanation of it [here](#).

As with everything in here, these are all very standard Valley-style terms for early stage investors. No need to just take our word for it though - you can (and should) ask around to make sure.

[6] Investor protections

We’re here to support you, not to exercise control over the company. We’ll be sitting in the passenger seat helping wherever we can, but ultimately you’re in the driving seat and are responsible for making the day-to-day decisions for the business. That said, we are still accountable to our own investors, and so there’ll always be certain important matters where we need to protect ourselves, and so we ask that you get our consent first. Typically, these will be important matters like new fundraises, selling the business, approving the operating budget etc. Unless there are specific reasons not to, we’ll usually just stick to the standard investor veto matters set out in the AIC documents ([here](#)).

[7] Pro Rata, ROFR & Co-Sale

We're long term investors and so we want to be able to keep backing you in future rounds and maintain our pro rata ownership stake wherever possible. This is why we've asked for a pro-forma right to participate in future rounds.

We can't force you to sell the company to anyone, but if a shareholder does want to sell their shares to another party, we think it's fair that the other investors should have the option to either buy those shares first (on the same terms as the shareholder was anticipating selling them – this is called the Right of First Refusal, or ROFR) or to sell their own shares as well (again on the same terms - this is called the Tag-Along right).

If the board and a large majority of the shareholders (i.e. holders of 70% or more of the total shares, and including AirTree) all agree to sell their shares in the company (e.g. when there is an acquisition offer on the table), they will be able to require the other shareholders to sell on the same terms. This is called a Drag-Along right, and the idea is to give the majority of shareholders and the board the ability to sell the company without having some small but stubborn shareholders holding them ransom by refusing to accept.

[8] Information Rights

It's good practice to make sure you have high quality annual, quarterly and monthly accounts, budgets, business plans etc. We need this stuff to satisfy our own fund requirements, but even if you don't have third party investors, you should get into the habit of preparing these reports anyway. Once the total assets of the company are greater than AU\$10m, we will also need you to appoint auditors (this is a requirement under the Australian ESVCLP tax regime).

[9] Reps & Warranties

Our standard docs will include some 'reps and warranties' from the founders and the company itself which are basically just assurances that you give to us that the business we're investing in is what you say it is. Unless there are issues coming out of the due diligence that are out of the ordinary, we'll keep these as standard as possible. In most cases we'll just stick to the standard reps and warranties included in the AIC documents ([here](#)).

[10] Closing Conditions

Before we wire the money there'll be some standard legal diligence required to make sure things like the right company structure, constitutional documents, employment agreements etc are all in place. We may also need to make some reference calls on the founders from folk you've worked with in the past. It's usually our intention to have the substantive commercial due diligence completed before we sign a term sheet, but if there's any material commercial diligence we still have left to do, we will do our best to explain to you what this is.

[11] Exclusivity

When we sign a term sheet, we're committing loads of time and effort into making sure we get to closing as quickly as possible. We think it's pretty fair that you also commit yourself to the process, meaning you

agree not to entertain fundraising discussions with other parties for at least 30 days. If we can't get to a final deal by then, then of course you are free to negotiate with others.

[12] Legal Fees

Our lawyers are super familiar with the documents and process required to close a seed stage financing quickly and efficiently. They work with us on seed stage companies and are highly efficient as a result. The documents are uniform and reflect this term sheet and the AIC standards. It is almost always the case that, starting with our docs, the Company ends up having very low legal costs. For that reason, we think a \$[15]k fee cap is reasonable.