



# SIMPLE TERM SHEET

## 1 Purpose

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This term sheet is for an early-stage investment in a company by a venture capital or angel investor, with special shares that get paid first if the company is sold or closed.

## 2 Overview

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The term sheet outlines key terms of the investment in [XYZ] Limited by [the Investor]. It's not a final agreement, except for parts marked as binding.

## 3 Company

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The business receiving the investment. It's identified by its legal name, like [XYZ] Limited, to specify which company the term sheet refers to.

## 4 Founder

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The person or people who started the company. They may keep different or equal shares and continue to have important roles in the business.

## 5 Investor

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The individual or group providing money to the company. This could be a single person or multiple investors working together to fund the startup.

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## 6 Investment Amount

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How much money the investor will give you. "The investor will give you €100,000 for your business."

## 7 Investment Instrument

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The way the investor owns part of your company. "The investor might get shares now or a note that converts into shares later."

## 8 Valuation

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How much your company is worth before the investment. "Your company is worth €1 million before the investor puts in money."

## 9 Conversion

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The investor can change their special shares into regular shares later. "The investor can swap their shares for regular shares if the company grows."

## 10 Liquidation Preference

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If the company is sold or closes, the investor gets their money back first. "If your company is sold for €500,000, the investor gets their €100,000 back first."

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## 11 Anti-dilution

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Protection Against Losing Value. Keeps the investor's ownership percentage safe if new shares are sold at a lower price.

## 12 Redemption

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Buyback Rights. The investor can ask to get their money back after a few years. "After 5 years, the investor can ask for their €100,000 back."

## 13 Dividend

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Profit Sharing. The investor gets a share of the company's profits. "The investor gets part of the profit when the company does well."

## 14 Voting

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Voting Power. The investor can help make big decisions in the company. "The investor can vote on important company decisions, like hiring a new CEO."

## 15 Pre-Conditions

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Conditions to Close the Deal. Things that must happen before the investment is completed. "The investor checks your company records before giving the money."

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## 16 Documentation & Warranties

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Promises and Guarantees. You promise certain things about your company are true. "You promise that your product works as you described."

## 17 Use of Proceeds

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How to Use the Money. Rules on how the money should be spent. "The money should be used for growing the business, not for personal things."

## 18 Board

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Board Seat. The investor gets to have someone on your company's board. "The investor can choose one person to be on your board of directors."

## 19 Investor Consent

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Permission Needed. Certain actions need the investor's approval. "You need the investor's OK to sell any big assets of the company."

## 20 Information Rights

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Information Sharing. The investor gets regular updates about the company. "You send the investor monthly reports about how the company is doing."

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## 21 Restrictive Covenants

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Non-Compete Agreement. Rules that stop you from starting a similar business. "You agree not to start a new company that competes with your current one."

## 22 ESOP

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Employee Shares. Shares that you set aside to give to your employees as a reward. "You give some shares to your key team members to keep them motivated."

## 23 Reverse Vesting

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Earning Shares Back. Founders earn back their shares over time to ensure they stay with the company. "You earn your shares back over three years to make sure you stay committed."

## 24 Pre-Emption Rights

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First Dibs on New Shares. The investor gets the first chance to buy any new shares. "If you issue new shares, the investor gets to buy them first."

## 25 Tag Along

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Follow-Along Rights. Smaller shareholders can sell their shares if a big shareholder sells theirs. "If a major shareholder sells, you can sell yours too on the same terms."

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## 26 Drag Along

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Sell-Along Rights. If most shareholders decide to sell the company, everyone must sell. "If most shareholders want to sell, you have to sell your shares too."

## 27 Costs

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Who Pays Costs. Decides who pays the costs of making the investment happen. "The company agrees to pay the investor's legal fees, up to €5,000."

## 28 Non-binding

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This term sheet is not legally binding, except for sections on "Exclusivity," "Confidentiality," "Counterparts," and "Law and Jurisdiction." Final contracts must be signed.

## 29 Exclusivity

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Exclusive Talks. You agree not to talk to other investors for a certain time. "You won't look for other investors for 45 days while this deal is finalized."

## 30 Confidentiality

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Keep Things Private. All details and talks stay secret. "You won't share any details of this deal with others."

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## 31 Counterparts

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Multiple Signatures. The agreement can be signed in different copies or formats. "You and the investor can sign different copies, and it still counts."

## 32 Law and Jurisdiction

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Which Laws Apply. Sets which country's rules apply if there's a problem. "If there's a dispute, it will be handled under country's law."

## 33 Expiry

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Expiration Date. The agreement must be signed by a certain date or it expires. "If this agreement isn't signed by the end of the month, it's no longer valid."

## 34 Appendix

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Extra details or tables that support the term sheet, like a breakdown of the company's shares. "A table showing who owns how many shares in the company."

## 35 Signature

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The part where both the founder and investor sign to show they agree with the terms. "Both parties sign here to confirm they understand and accept these terms."





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# PLAIN LANG UAGE

## **Legal Language Can Be Difficult**

I find legal language always difficult. I have spent many sleepless nights trying to understand their jargon and how it affects my company.

## **Purpose of This Document**

This document doesn't cover everything, but it should help you easily understand what the subtitles and paragraphs mean.

## **A Simple, Easy-to-Read Version**

That's why I created a simple, easy-to-read version.

## **Important Disclaimer**

You should definitely work with a founder-friendly lawyer to understand the details. This is not legal advice or a formal explanation. This document is simply an explanation from a startup friend.