#startupindia UpGrad

Summary

Term Sheet & Post-Term Sheet

One of the first legal documents signed between investor and founders is a term sheet. It is important to understand the key terms and clauses contained in a term sheet. Because they can define the control you and your investor will have over your company.

What is a Term Sheet

A term sheet is not a formal contract but a **letter of intent** which primarily says that the investor has agreed to funding in principle. After it is signed, the investors perform various kinds of **diligences** to further evaluate a business to see the sustainability of their funding.

Components of a Term Sheet

A sample term sheet is attached here which also defines the key terms and clauses:

Term Sheet

This memorandum of terms ("**Term Sheet**") represents only the current thinking of the parties with respect to certain of the major issues relating to the proposed private offering by the Company (as defined below) and does not constitute a legally binding agreement.

1	**Investors**	Tetris Partners
2	**Company**	Go Roomz
3	**Founders**	Mr. X
4	**Existing Investors**	Mr. Y, Z
5	**Investment Amount**	Money invested into the business
6	**Valuation**	Value of the company pegged down by investors before the funding round.
7	**Conditions Precedent**	Conditions to be met before funding arrives.
8	**Anti-Dilution**	In case of company value going down, the investors are given extra shares because of the risk to their investment.
9	**Affirmative Rights**	Company rights which require Investor's approval
10	**ROFR & ROFO**	ROFR – Right of First Refusal – If the founder decides to sell his/her shares and is quoted a certain price from a 3rd Party, the founder has to first offer to investor at same price and if he/she declines then only can the founder go to a 3rd party. ROFO – Right of First Offer – If the founder is looking to sell shares, he will first have to go to investor and the investor will quote a price for

		those shares. If the founder agrees with that, he can sell them to investor else he can go to the market for a better offer.
11	**Tag Along**	If the founder decides to sell his shares, the investor has right to tag along, on a pro-rata basis and sell his shares too in a commensurate amount.
12	**Drag Along**	If the investor receives an offer from 3rd party to buy up X% shares of a company and the investors owns less then X% then the investor has the right to buy remaining shares to make up the X% and sell to 3rd party.
13	**Liquidation Preference**	Defines the distribution of profits among shareholders in case of any liquidation event.
14	**Representations & Warranties**	Representation of the day-to-day running of the business before the investor came in.
15	**Exclusivity**	Prevents a founder from approaching other investors when one investor has agreed funding in principle.

Post Term Sheet Signing

Once the term sheet has been signed, investors do various kinds of diligences to further evaluate the business. These include:

1. Business
2. Legal
3. Financial
4. Forensic

Once this is done, investor and founders agree on **Conditions Precedent** (Tasks to be completed by company before subject to which funding gets completed) and **Conditions Subsequent** (Tasks to be completed by company after funding is received).

Beyond all this, founders and investors agree on **Shareholders Agreement** (SHA) and **Share subscription Agreement** (SSA) which lays out the term sheet agreements in legal language and all this leads to closing the deal with investors.

You should be able to:

At the end of this session, you should be able to:

- Understand all major components of a term sheet
- Take a decision on specific items of a term sheet when you receive funding
- Chart out a term sheet with the help of a lawyer