Insert Date

**Term Sheet**

| **Item** | | **Details** |
| --- | --- | --- |
|  | **Proposed Transaction** | This term sheet (**Term Sheet**) summarizes the principal terms of a proposed investment by the Investor into the Company (**Proposed Transaction**). |
|  | **Parties** | {insert the name and identification number of the Company raising funds. The Identification number depends on the country. In the US it is the EIN, in Australia, it is the ABN or ACN} (**Company**)  {insert the name and identification number of the Investor} (**Investor**) |
|  | **Expiry Date** | This term sheet expires on {insert date}. |
|  | **Investment** | The Investor will invest ${insert} for {insert}% of the fully diluted capital of the Company, calculated on the basis of the pre-money valuation of the Company set out in paragraph 6, and on the basis the Investor will hold that percentage of the issued capital of the Company once all shares under the employee share scheme referred to in paragraph 8 have been fully issued post completion. |
|  | **Round size** | The size of the round will be ${insert}. |
|  | **Valuation** | The pre-money valuation of the Company is ${insert}. |
|  | **Class of shares** | The Investor will be issued with Seed Preference Shares on the following terms:   1. Liquidation Preference{insert your liquidation preferences. Please check our Powerpoint document “Venture Capital 101” for more details on how to fill in some of the key clauses of the Term Sheet} 2. Conversion – Upon conversion, each Seed Preference Share will convert automatically to one ordinary share; 3. Anti-dilution – If, prior to the conversion of any Seed Preference Shares, the Company issues Shares at a price less than that paid by the holder of Seed Preference Shares, the conversion rate/price will be subject to a broad based weighted average anti-dilution adjustment 4. Dividends – The Seed Preference Shares will have the same rights to dividends as ordinary shares. |
|  | **Employee Share Scheme** | The Company will implement an employee share scheme, with ordinary shares equating to {insert}% of the fully diluted capital of the Company to be issued post-closing of the Proposed Transaction. The employee share scheme will be used to retain and incentivize existing key staff and new hires. |
|  | **Cap table** | A pro forma capitalization table showing the fully diluted capital of the Company on completion of the Proposed Transaction is set out in Schedule 1. |
|  | **Timetable** | The parties will use reasonable endeavors to enter into a subscription agreement within {insert} business days following the execution of this Term Sheet. During the period between execution of this Term Sheet and the execution of the subscription agreement, the Investor will conduct further due diligence on the Company and may during that time, by notice to the Company, advise the Company that it does not intend to proceed with the Proposed Transaction.  Completion of the Proposed Transaction will occur within {insert} business days after the subscription agreement is executed. |
|  | **Key provisions in subscription agreement** | The subscription agreement will:   1. include standard warranties to be given by the Company and founders; 2. require the Company and its shareholders to enter into a shareholders agreement; and 3. require the founder to enter into a deed of assignment under which it assigns all intellectual property related to the business to the Company. |
|  | **Key provisions in shareholders agreement** | The shareholders agreement will:   1. provide that the founder may appoint a director while it holds {50}% or more of the shares; 2. provide that the holders of the Seed Preference Shares may appoint a director while they hold shares; 3. provide that the board of the Company will be initially constituted as follows:  * {insert} – appointed by {insert} * {insert} – appointed by {insert}  1. provide that critical business decisions such as those set out in Schedule 2 may not be made without the approval of a Required Resolution (being a resolution of {75}% or more of the directors, provided that the director appointed by the holders of the Seed Preference Shares must be in favor of the decision); 2. include pre-emptive rights on issue and transfer of shares; 3. include a drag along right if the holders of at least {75}% of the issued shares accept an offer to buy their shares (which must include a majority of the holders of the Seed Preference Shares); 4. include tag along rights if the holders of at least {50}% of the issues shares accept an offer to buy their shares; 5. provide for {50}% of the founder’s shares to vest over a {insert} year period; 6. include a right to buy back the shares of any founder who is a bad leaver at {50}% of fair market value; 7. include a standard restraint applying to all shareholders other than the Investor. |
|  | **Exclusivity** | The Company must negotiate exclusively with the Investor for {insert} business days following the execution of this Term Sheet (**Exclusivity Period**). During the Exclusivity Period, the Company must not solicit or respond to enquiries relating to the proposed investment or a licensing transaction in the Company (other than as approved by the Investor), nor shop these terms to any other person or organization. |
|  | **Confidentiality** | The contents of this Term Sheet and the fact that the Investor is considering entering into the Proposed Transaction is strictly confidential to the Investor and may not be disclosed by the Company to anyone other than the Company’s partners, shareholders, directors, employee and professional advisers who have a need to know the information during their duties, and only under terms of strict confidentiality. |
|  | **Enforceability** | Except for sections 13 (exclusivity), 14 (confidentiality), 15 (enforceability), 16 (costs) and 17 (governing law) which are legally binding on the parties, the terms in this Term Sheet express current intentions only, are not intended to be legally binding or to give rise to legal rights or obligations and are subject to the negotiation and execution of definitive transaction documents.  Nothing in this Term Sheet creates, or is intended to create, any fiduciary relationship or gives rise to any duty of care by any party to another. |
|  | **Costs** | The Company will bear all the Investor’s third-party expenses following execution of this Term Sheet including but not limited to expenses relating to the negotiation and preparation of the definitive documentation required for the Proposed Transaction, up to a maximum of ${insert}, plus VAT. |
|  | **Governing law** | The binding provisions of this Term Sheet are governed by the laws of {insert the relevant state} and each party submits to the exclusive jurisdiction of the courts of that jurisdiction. |

|  |  |  |
| --- | --- | --- |
| **Executed** by{insert} |  |  |
| Signature of Director |  | Signature of Director/Secretary |
| Print name of Director |  | Print name of Director/Secretary |

|  |  |  |
| --- | --- | --- |
| **Executed** by{insert} |  |  |
| Signature of Director |  | Signature of Director/Secretary |
| Print name of Director |  | Print name of Director/Secretary |

**Schedule 1 – Fully diluted cap table**

|  |  |  |  |
| --- | --- | --- | --- |
| **Shareholder** | **Class of shares** | **Number of shares** | **Fully Diluted Percentage** |
| {insert} | {insert} | {insert} | {insert} |
| {insert} | {insert} | {insert} | {insert} |
| Unallocated Employee Share Scheme | Ordinary Shares | {insert} | {insert} |
| Investor | Seed Preference Shares | {insert} | {insert} |
| **TOTAL** | **N/A** | {insert} | **100%** |

**Schedule 2 – Decisions requiring the approval of Required Resolution**

* + - 1. (**business plan**) adopt a business plan for the group and vary that business plan;
      2. (**employees**) appoint or remove or materially change the terms of engagement of the founder and key executives or any other employee with a total remuneration package in excess of ${100,000} per annum, or pay any such person a bonus;
      3. (**board composition**) appoint a director or otherwise alter the structure of the board other than in accordance with the Shareholders Agreement;
      4. (**employee equity scheme**) adopt or vary the terms of any employee share scheme and issue any securities under that employee share scheme;
      5. (**accounts**) the approval of the monthly and annual statutory accounts of any group company;
      6. (**accounting practices**) any change to the accounting practices and policies of any group company;
      7. (**change of business**) make a material change in the nature of the group’s business;
      8. (**issuing securities**) issue of securities, other than an excluded issue;
      9. (**new class of securities**) create any class of shares with rights that are superior to the rights of the Seed Preference Shares;
      10. (**restructure**) any restructuring involving the Company or any subsidiaries, including creation of a trust, trustee, subsidiary or branch of the Company or any subsidiaries;
      11. (**dividends**) declare, make or pay a dividend;
      12. (**administration**) appoint an external administrator, liquidator or receiver;
      13. (**partnership**) enter into (or terminate) any material partnership, joint venture, profit-sharing agreement, technology license or collaboration;
      14. (**capital expenditure**) incur capital expenditure of more than ${insert} in a financial year;
      15. (**financial indebtedness**) incur any financial indebtedness by the group which exceeds ${insert} (and for these purposes, “financial indebtedness” means any indebtedness, present or future, actual or contingent, in respect of money borrower or raised or any financial accommodation);
      16. (**encumbrances**) grant any security interest of any nature in respect of all or any material part of the Company’s undertaking, property, assets or the issuance of any guarantee in favor of the obligations of a third party; and
      17. (**Insurance**) enter into any D&O insurance policy for the board and the Company’s senior executives.