**Additional Notes to help you fill in the Term Sheet**

**What is the Anti-Dilution clause?**

This clause ensures that the Investor is not adversely affected if money is subsequently raised at a discount to the price paid by the Investor for their shares.

The broad based weighted average anti-dilution adjustment is the most common approach to anti-dilution protection and calculates the conversion rate/price considering the price and the amount of money previously raised as well as the price and amount of money being raised in the subsequent dilutive financing.

However, in some circumstances it may be appropriate to have what is known as a "full price ratchet" – the effect of which is re-pricing the original investment to the same price paid per share in the down/discount round.

**How to fill in the clause “Liquidation preferences”?**

A liquidation preference serves two purposes (i) it gives an Investor a “first right” to any cash available to shareholders in the event of a liquidation or “deemed liquidation” of the Company and (ii) sets out the priority of payments in such an event. The liquidation preference is payable, not only on a liquidation or winding up of the Company, but also on certain other “deemed liquidation” events, such as an acquisition of the Company or the sale of all or substantially all of its assets.

You should also note that some Investors, will also require the liquidation preference to “pay-out” (usually by the further issue of shares) on an IPO. This should be resisted if it appears in the term sheet or in the definitive legal documents. The amount of the liquidation preference is a function of risk. Typically, the amount of the liquidation preference is the amount invested by the Investor. For example, if the preferred shares were issued for $3.00 per share, a holder of one preferred share will receive $3.00 per share prior to any payments to the ordinary shareholders (a “x1 preference”). If the valuation is considered too high or the Company is inherently risky a higher multiple may be used.

**What does having “pre-emptive rights on issue and transfer of shares” mean?**

This means that existing shareholders will get the first opportunity to buy any shares that the Company issues or that a shareholder sells.

**Other key Term Sheet clauses with explanations**



