

EQUITY FINANCING TERMS AND TERM SHEETS

Professor Ethan Mollick

 @emollick

Equity financing

- Term sheet is the offer you get from a VC
- Basic ideas of dilution, preferences, etc.

DX TECHNOLOGIES

MEMORANDUM OF TERMS

This Memorandum of Terms represents only the current thinking of the parties with respect to certain of the major issues relating to the proposed private offering and does not constitute a legally binding agreement. This Memorandum of Terms does not constitute an offer to sell or a solicitation of an offer to buy securities in any state where the offer or sale is not permitted.

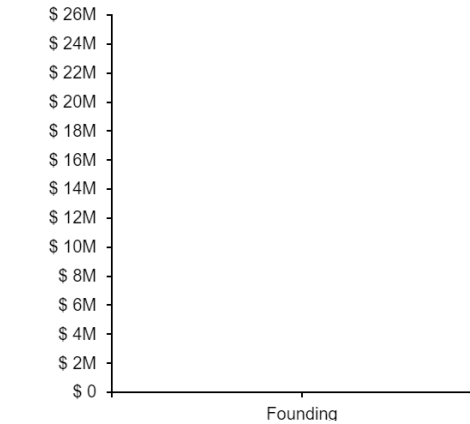
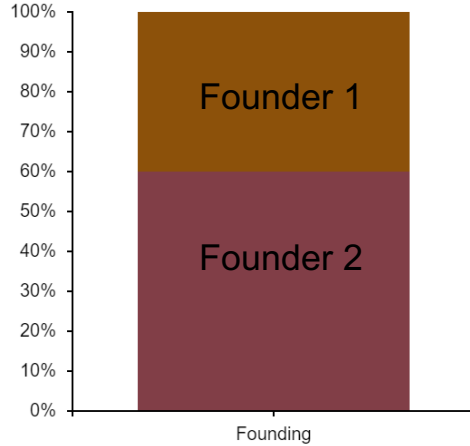
THE OFFERING

<i>Issuer:</i>	DX Technologies, a Delaware corporation (the “ <i>Company</i> ”)
<i>Securities:</i>	Series A Preferred Stock (the “ <i>Series A Preferred</i> ”)
<i>Valuation of the Company:</i>	\$3,000,000 pre-money
<i>Amount of the offering:</i>	Up to \$1,500,000
<i>Consideration:</i>	Cash
<i>Number of securities:</i>	1,500,000 shares
<i>Price per share:</i>	\$1.00
<i>Investors:</i>	Angel Ad-Ventures or affiliated entities, and other investors acceptable to the Company.
<i>Capitalization changes:</i>	Shares of Darla Xavier will not be diluted.
<i>Anticipated closing date:</i>	Initial closing on or before June 30, 2015, with one or more additional closings within 60 days thereafter.

TERMS OF THE PREFERRED

<i>Dividends:</i>	<i>Dividend rate:</i> 8%
	<i>Cumulation:</i> Noncumulative

How dilutive funding works

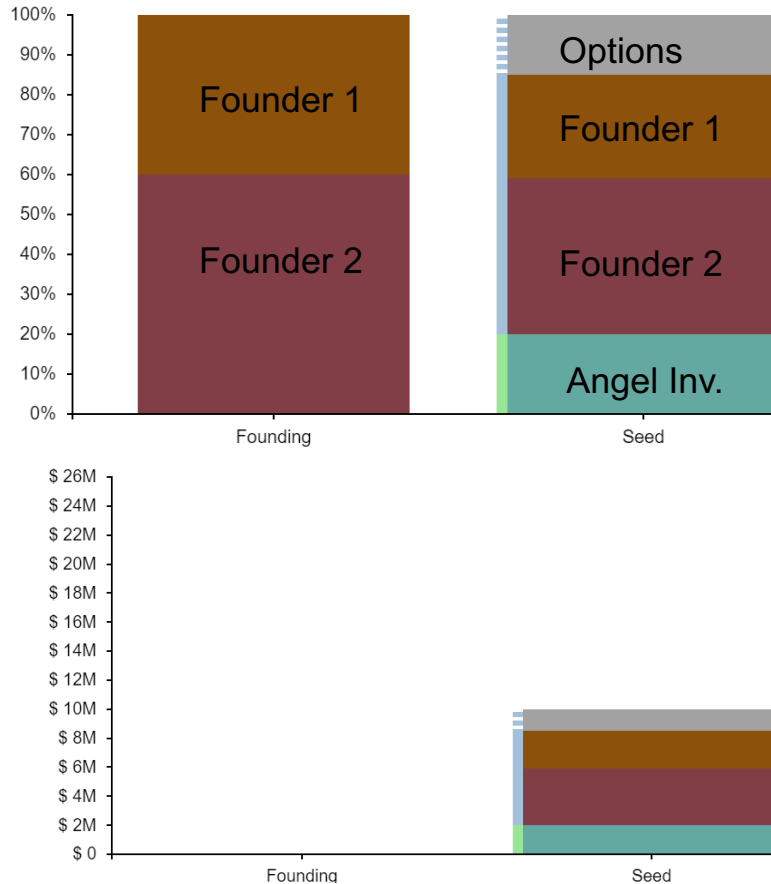


Source: Ventr Dealer

Founding
Company has **no valuation**

Founder 1: 40%
Founder 2: 60%

How dilutive funding works



Seed Round

\$2M Invest + \$8M Pre-money =
\$10M Post-money Valuation

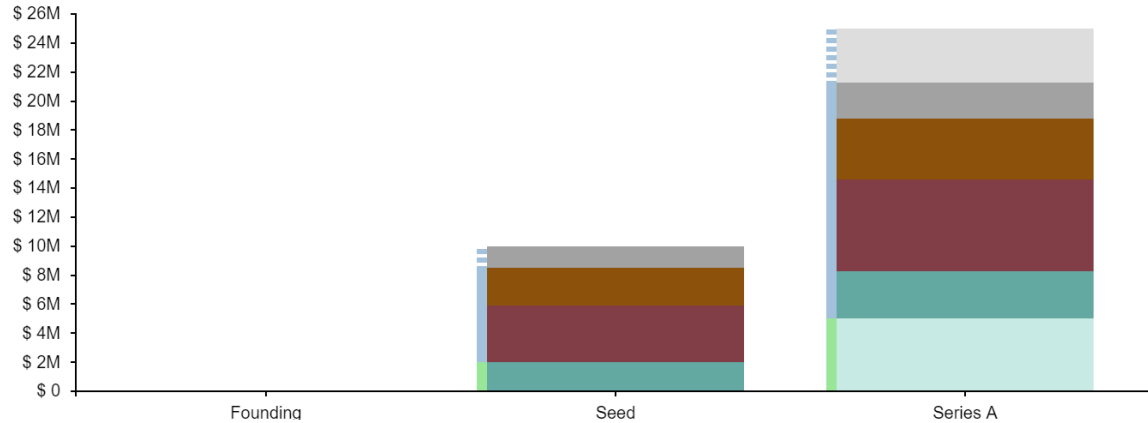
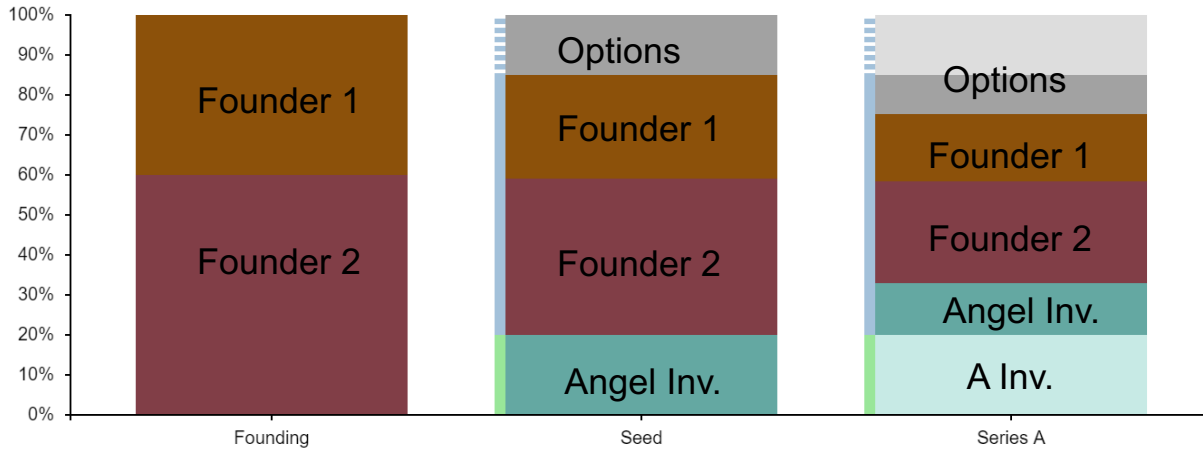
Option Pool = 15% (1.5M Post)
Options valued post-money
Created pre-money

Effective Valuation
\$2M + \$1.5M Opt + \$6.5M =
\$10M Post-money Valuation

Diluted Ownership

Founder 1: 40% → 26%
(\$2.6M)
Founder 2: 60% → 39%
(\$3.9M)
Angel: 20% (\$2M)

How dilutive funding works



How dilutive funding works

A Round

\$5M Invest + \$20M Pre-money =
\$25M Post

New Option Pool = 15%
\$3.75M in new options

Effective Valuation
\$5M + \$3.7M Opt + \$16.3M =
\$25M Post

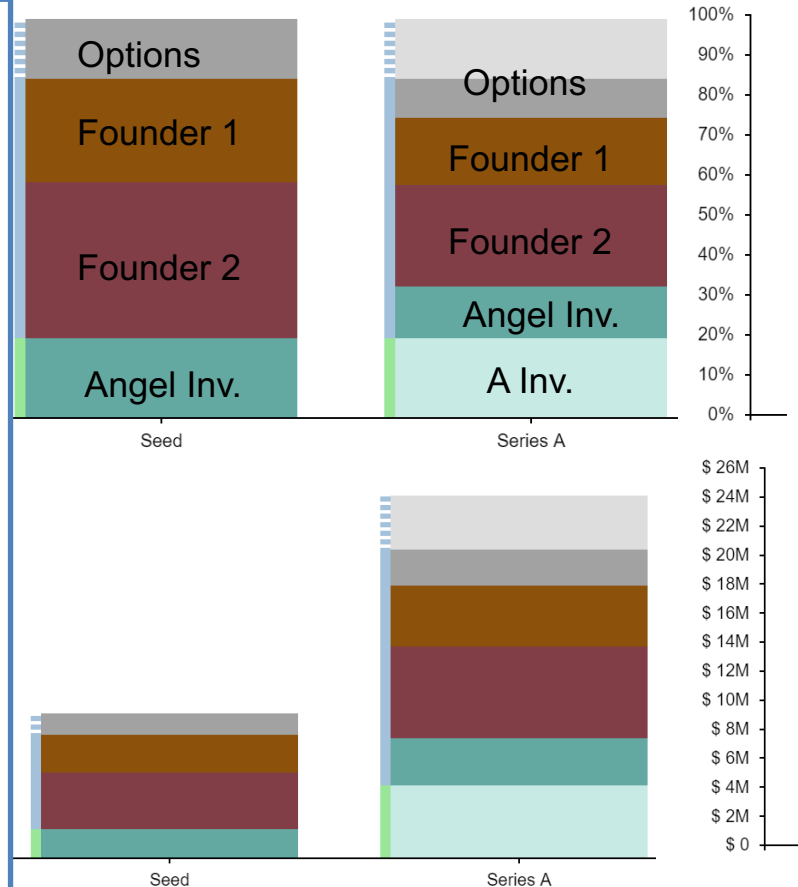
Diluted Ownership

Founder 1: 26% → 16.9%
(\$2.6M → \$4.2M)

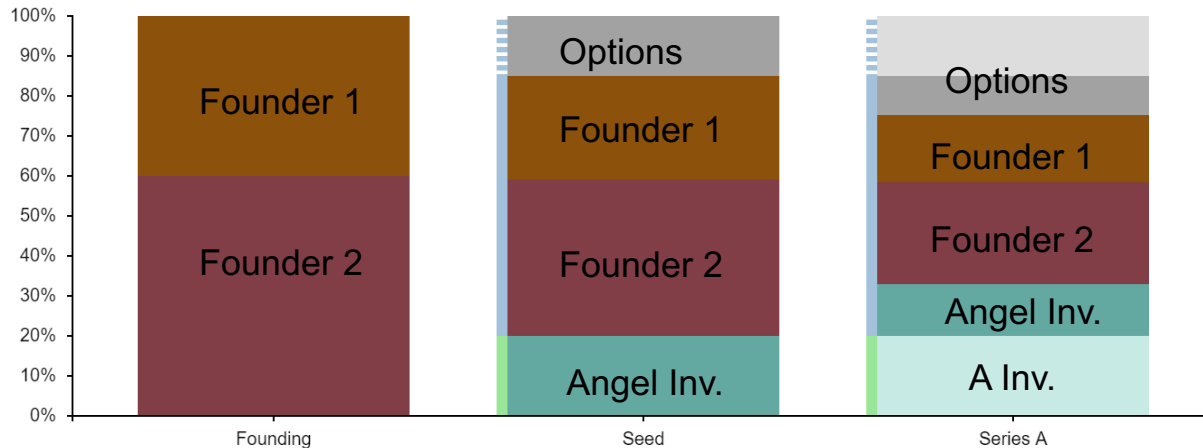
Founder 2: 39% → 25.4%
(\$3.9M → \$6.35M)

Angel: 13% (\$3.25M)

Value of company = +150%
Value to founders = +62%



How dilutive funding works



Missing Stuff

Friends and Family Round?

Convertible Debt/SAFE:

- *Loan that converts to equity at priced round
- *Has a cap and discount

Missing Stuff

This is a large seed round!

- Preferred shares/Pro-rata rights(?)
- Also maybe Convertible/SAFE

Missing Stuff

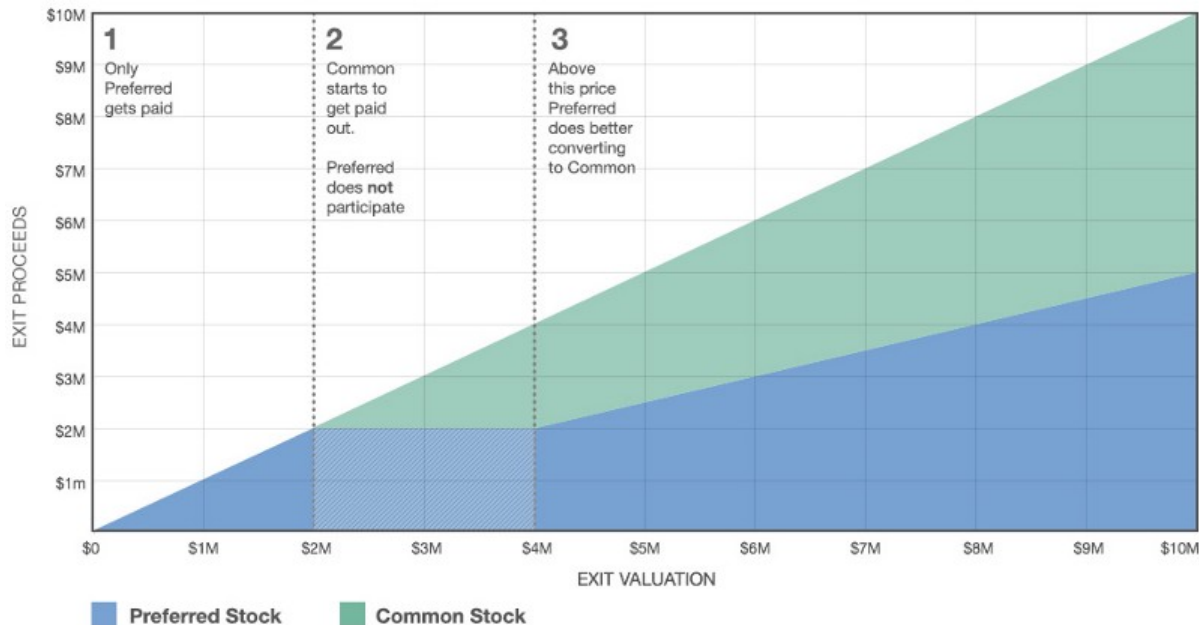
This is a small A-round! Syndicates

- Down round protection
- Control : Board seats, etc
- Liquidation Preferences

Liquidation preferences: major kinds

50/50 split with a VC...

1x preference, non-participating



Source: Captable.io

Term sheets

- Can be very complicated, and much is ruled by custom
- Good details in Venture Deals
- Get a good lawyer!





ONLINE