

# EQUITY FINANCING TERMS AND TERM SHEETS

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# 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.

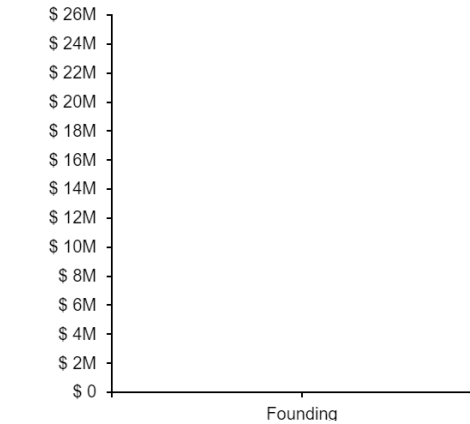
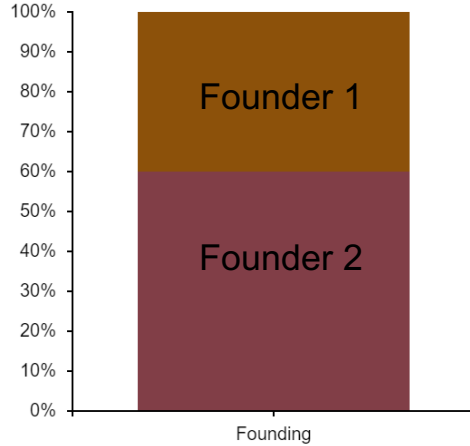
#### THE OFFERING

<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

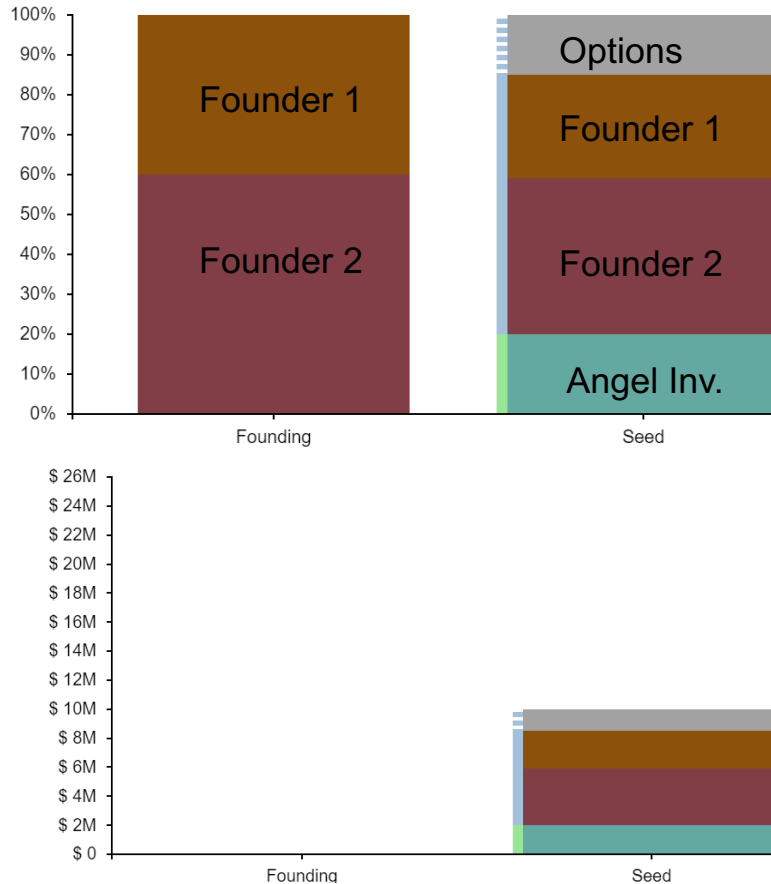


Source: Ventr Dealer

**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

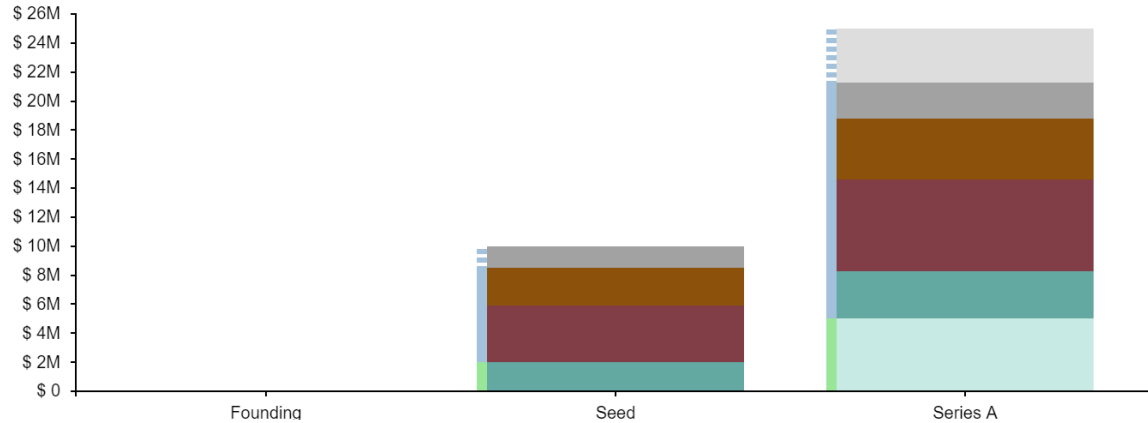
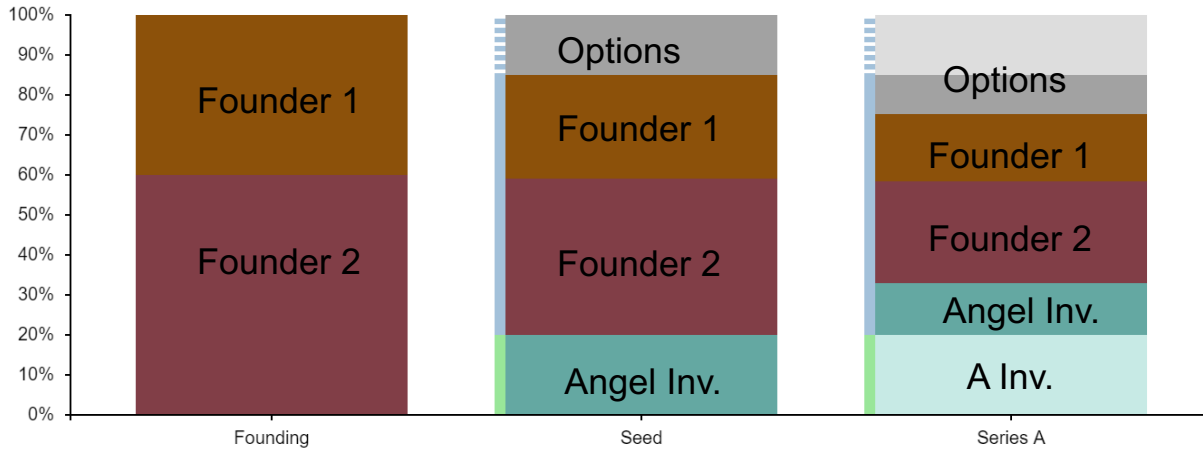
Option Pool = 15% (1.5M Post)  
Options valued post-money  
Created pre-money

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

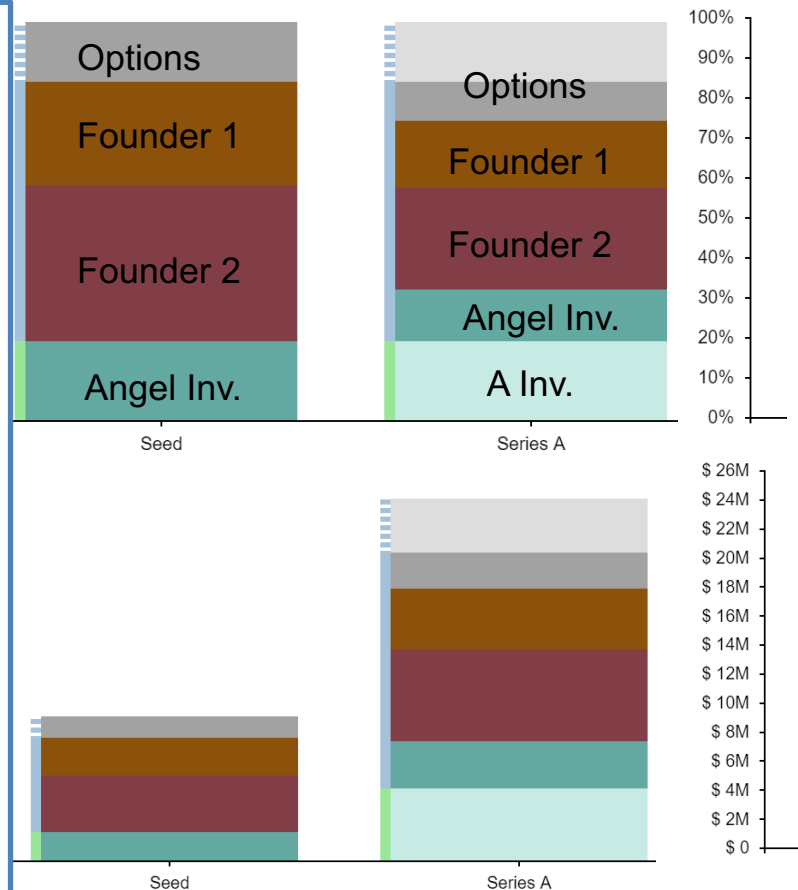
### Diluted Ownership

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

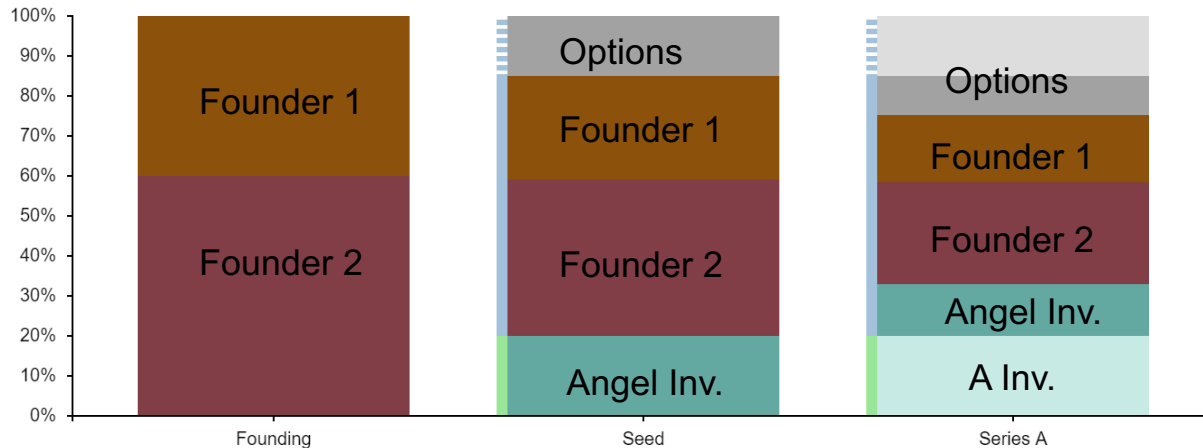
Founder 2: 39% → 25.4%  
(\$3.9M → \$6.35M)

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

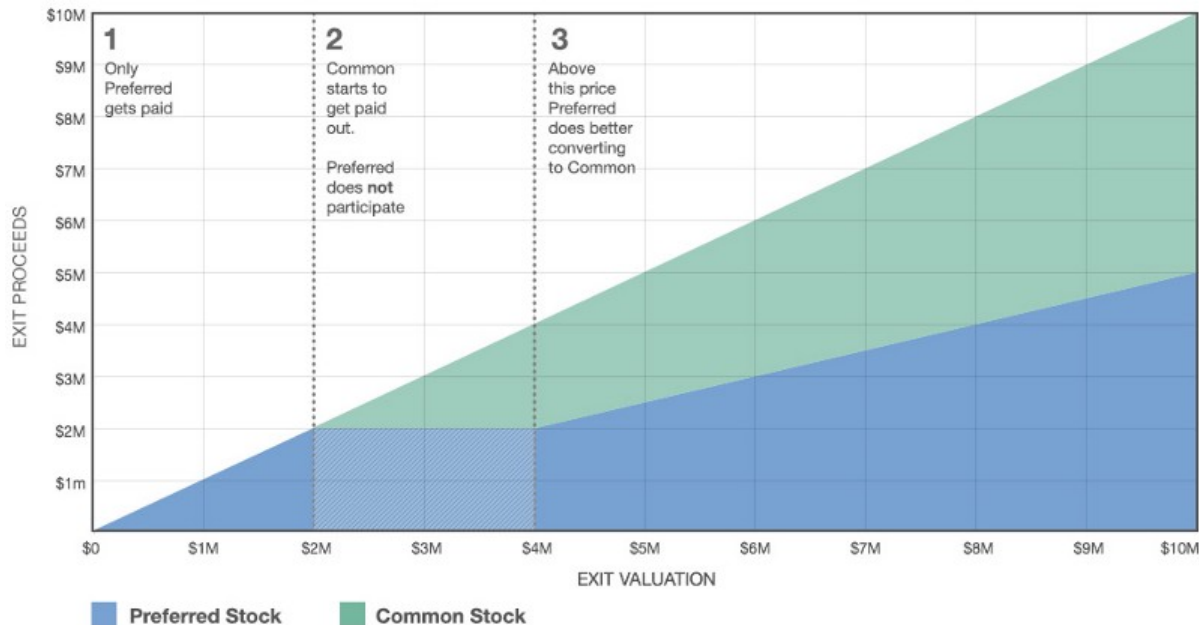
This is a small A-round! Syndicates

- 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!





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