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Thread: Discussion Board Wrap-Up-Evaluating Term Sheets **Posted Date:** November 23, 2023 6:29 AM
Status: Published

Post: Discussion Board Wrap-Up-Evaluating Term Sheets

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- Universal MobileApps has just received two competitive term sheets that would give them the funding to fully develop their product. The term sheets differ in many ways: payout in a sale, liquidation or IPO, dilution, consequences of a “down round” subsequent to this round, control, board of directors and other important matters.
 - What items should the entrepreneurs focus most carefully on?
 - How do various terms impact their return if the company does well?
 - What is missing from these term sheets?
 - If they run into trouble, how would they fare under each of the offers?
 - With only a few days before the term sheets expire, what should they do?

Terms to Focus On

- Valuation and Ownership Share
- Investment Size and Source
- Type of Security and Liquidation Preference
- Conversion Terms
- Anti-Dilution Provisions
- Employee Stock Option Pool
- Corporate Governance (Protective Provisions)

Terms That Impact a “Good” Outcome

- Founders Fare Better Under the Top Gun Term Sheet
- Let’s review Table

How Will They Fare in a “Down” Round?

- Founders suffer more dilution under Red Barron’s Terms
 - Anti-dilution
 - Full ratchet
- Red Barron’s “pay-to-play provides benefits to founders
- Top Gun gives the company more flexibility with debt allowance under \$500k

Comparison of Terms

Item	Top Gun	Preference
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Pre-money valuation	\$5M	Red Barron
Investor Equity Share	48.5%	Top Gun
Founders' Equity (diluted)	26.48%	Red Barron
Employee Pool	25%	Red Barron
Investment Amount	\$4M	
Split Round	No	Top Gun
Security Type	Convertible Preferred	Top Gun
Liquidation Preference	1X	Top Gun
Participation	No	Top Gun
Dividends	8% annual, pari passu A & B Preferred	Red Barron
Automatic Conversion	\$40M offer price, Pre-\$ value of \$300M, 50% approval	Top Gun
Conversion Rate	1:1	Equal
Anti-Dilution	Weighted Average	Top Gun
Board Composition	1 of 3 chosen by investors	Top Gun

What Should They Do?

- Model potential outcomes: Top Gun Term Sheet is preferable for the company
 - Financially more attractive in upside and downside outcomes
 - No second investor required
 - One Board Seat
 - Better liquidation values
- Founder Perspective may be different
 - Employee option pool could decrease founder ownership
 - Could have higher payout with Red Barron

(Post is Read)

