

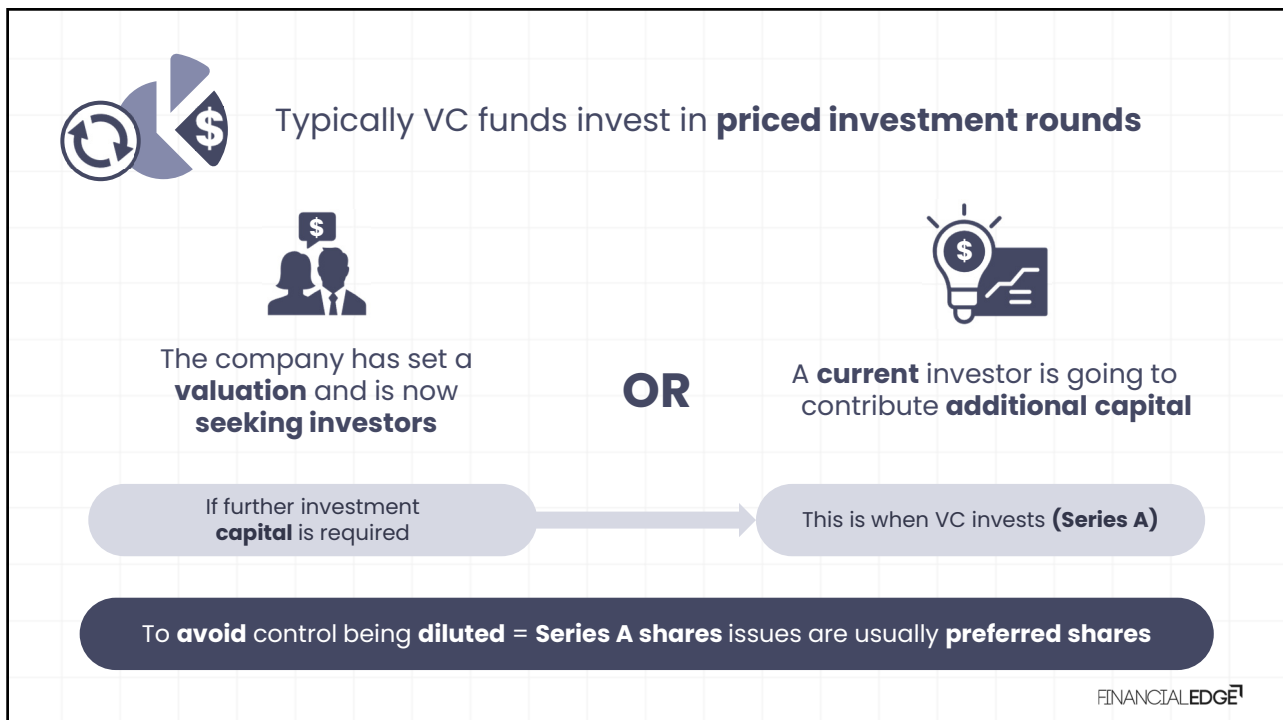
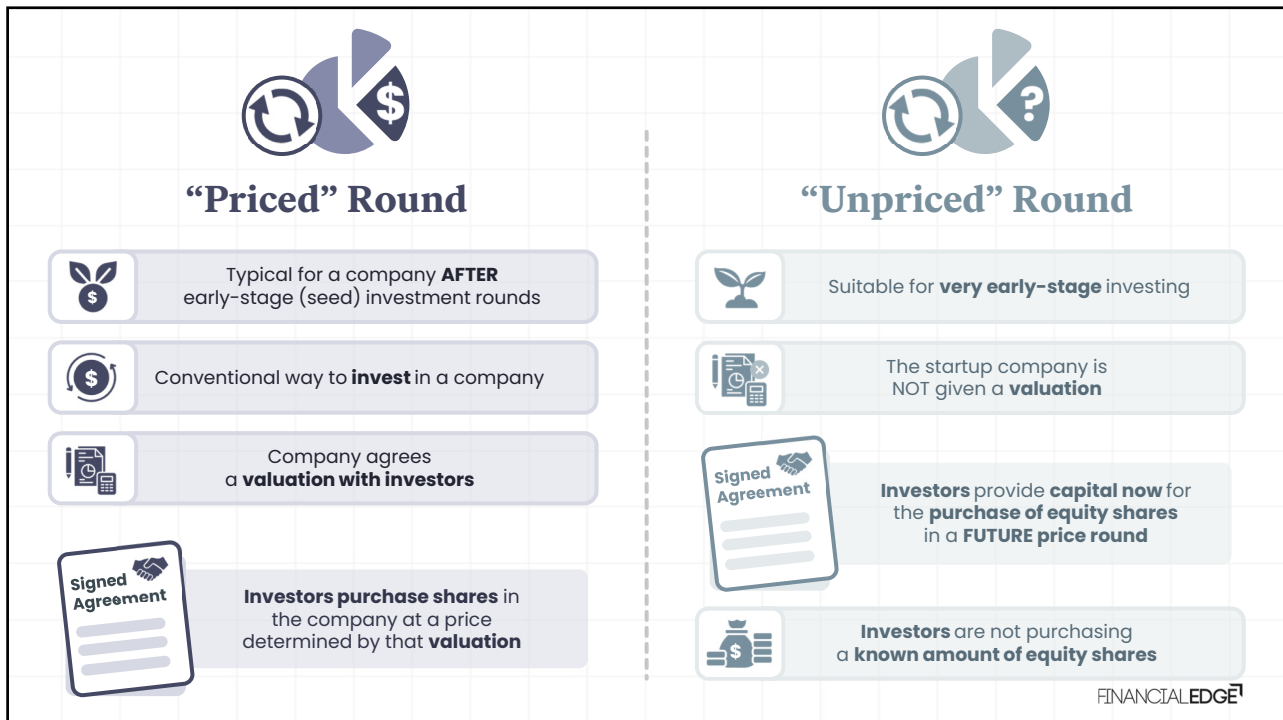


Venture Investing: Forms of Consideration & Term Sheets

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“Priced” vs “Unpriced” Investment Rounds

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Startup companies may **raise more** than one **priced round of preferred shares**



Shares of **preferred stock** are issued and **ranked in a series**



Example: **Series A, Series B, Series C** etc.

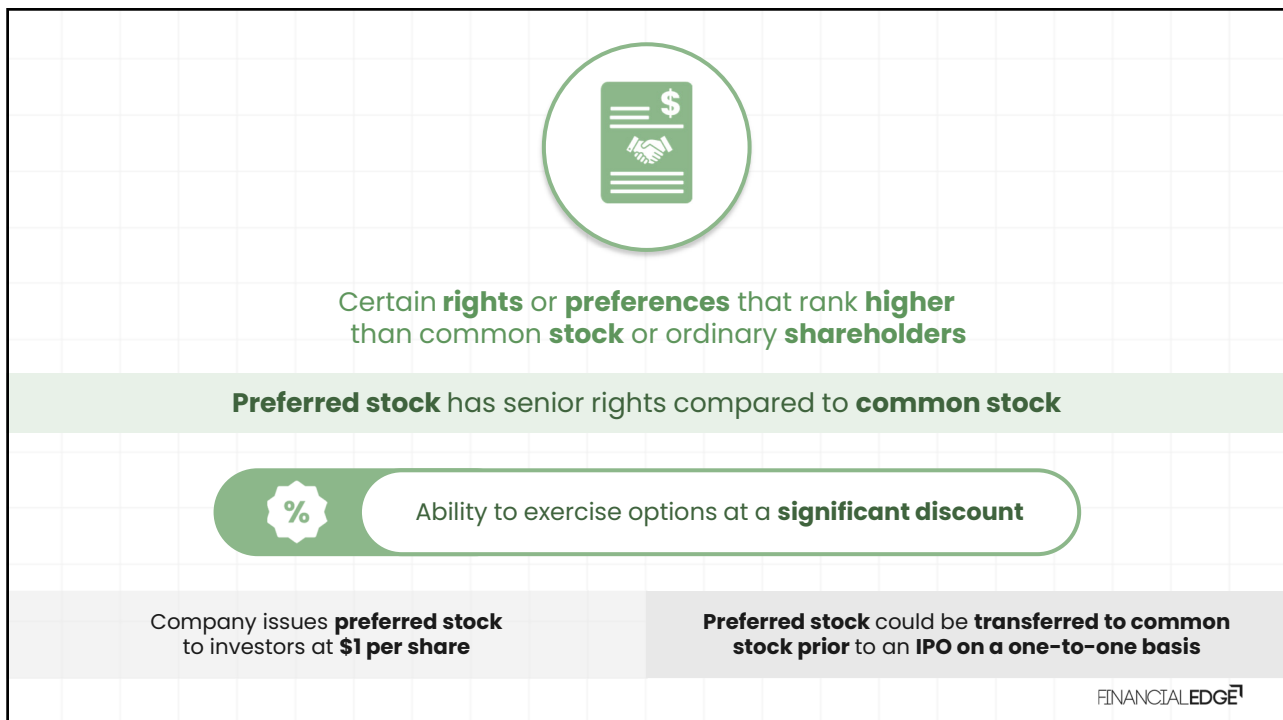
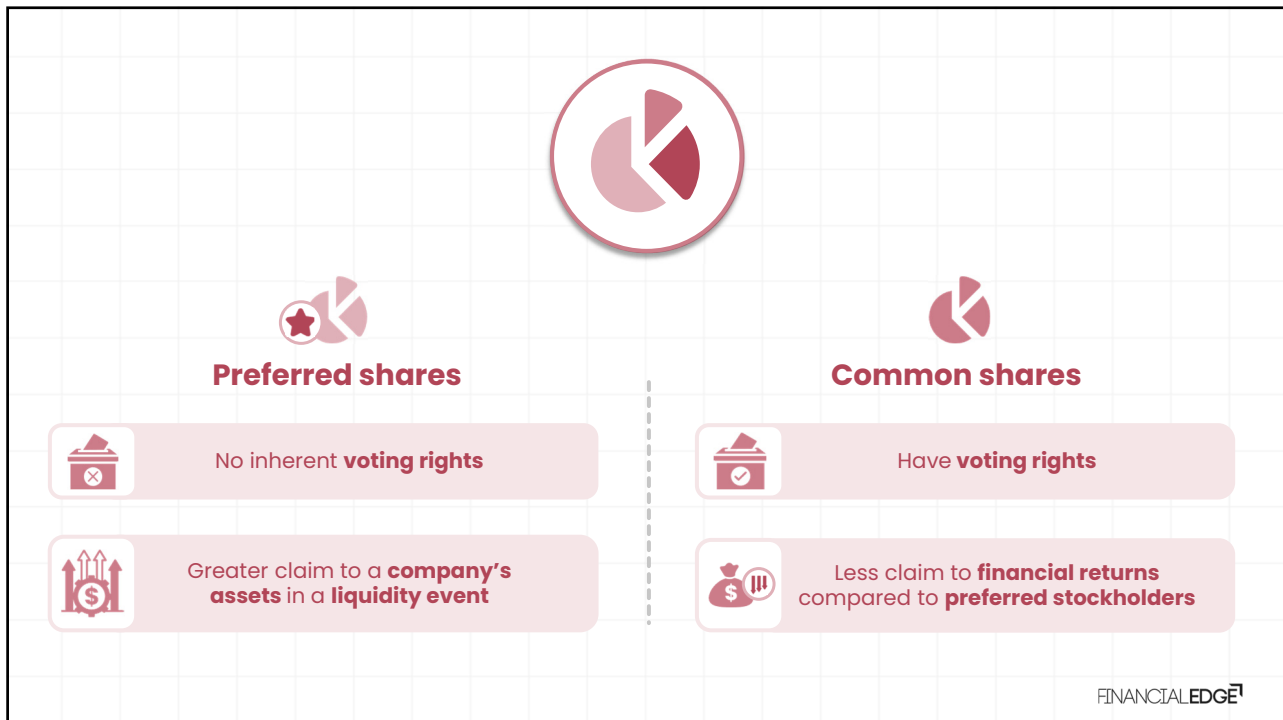


The Series A preferred stock Investors have some of the most favorable rights because it is the **first group of preferred shares issued**

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Preference and Common Shares

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Agreeing a VC Term Sheet

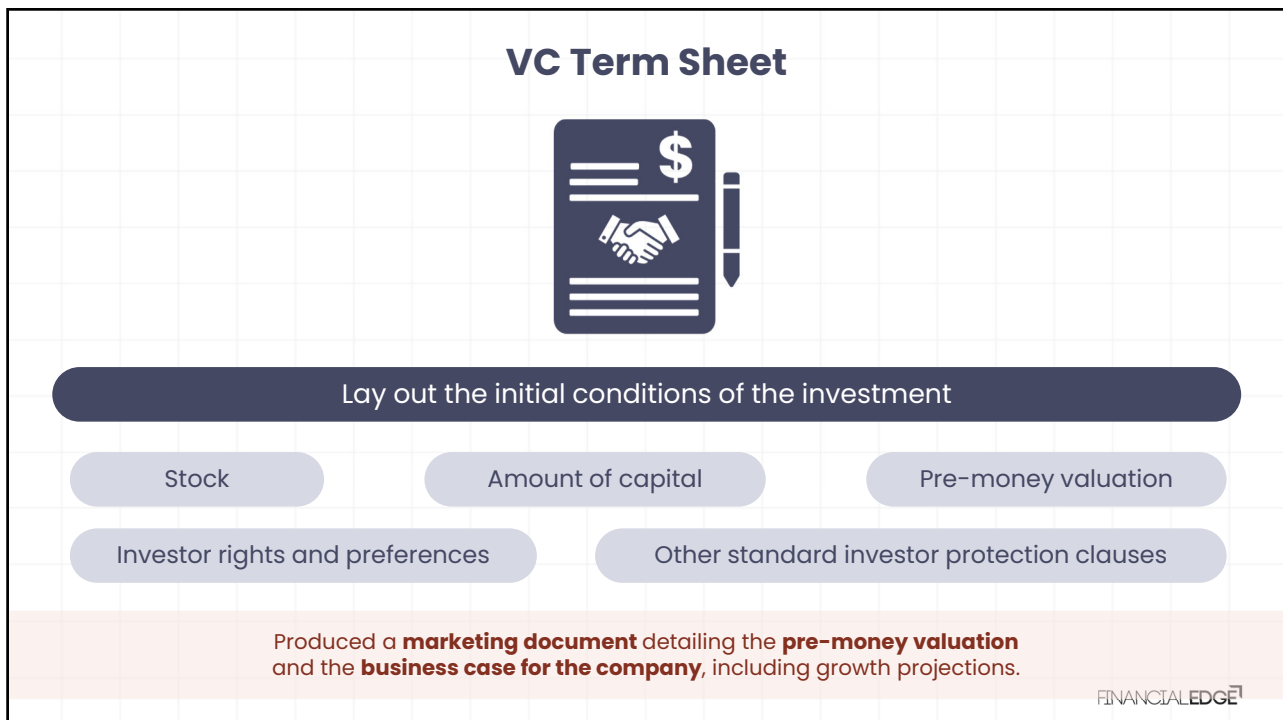
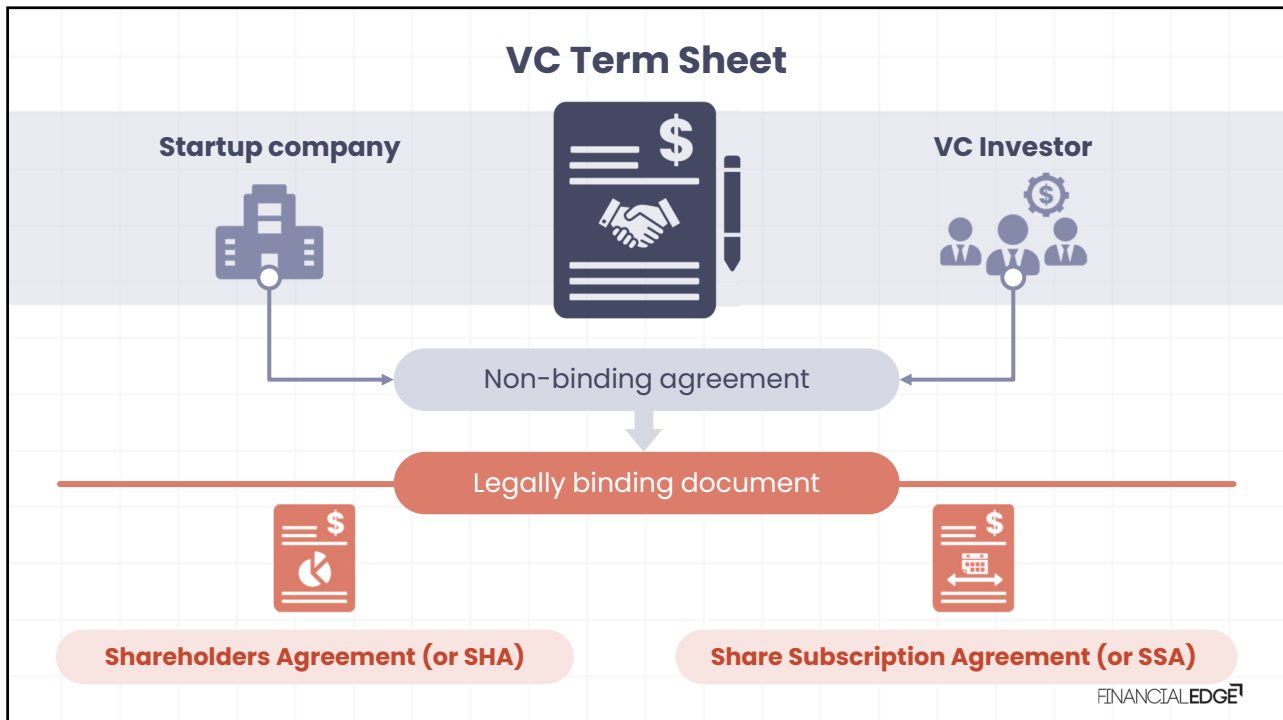
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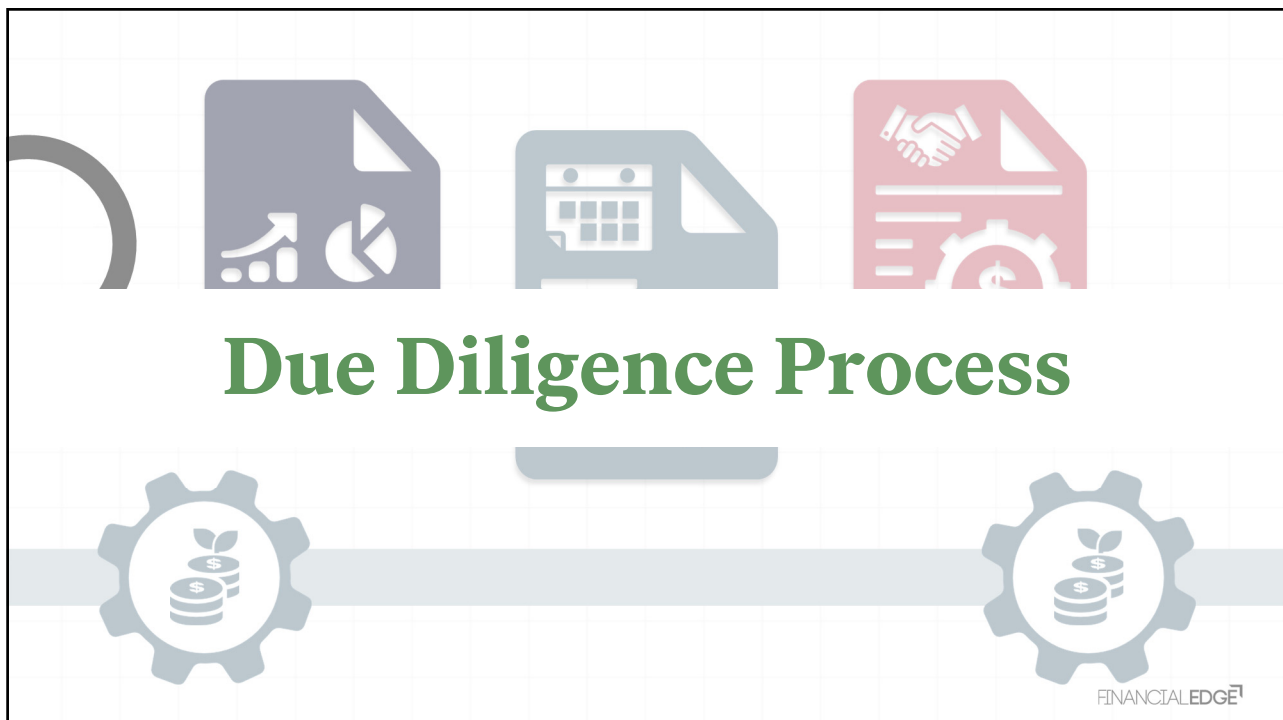
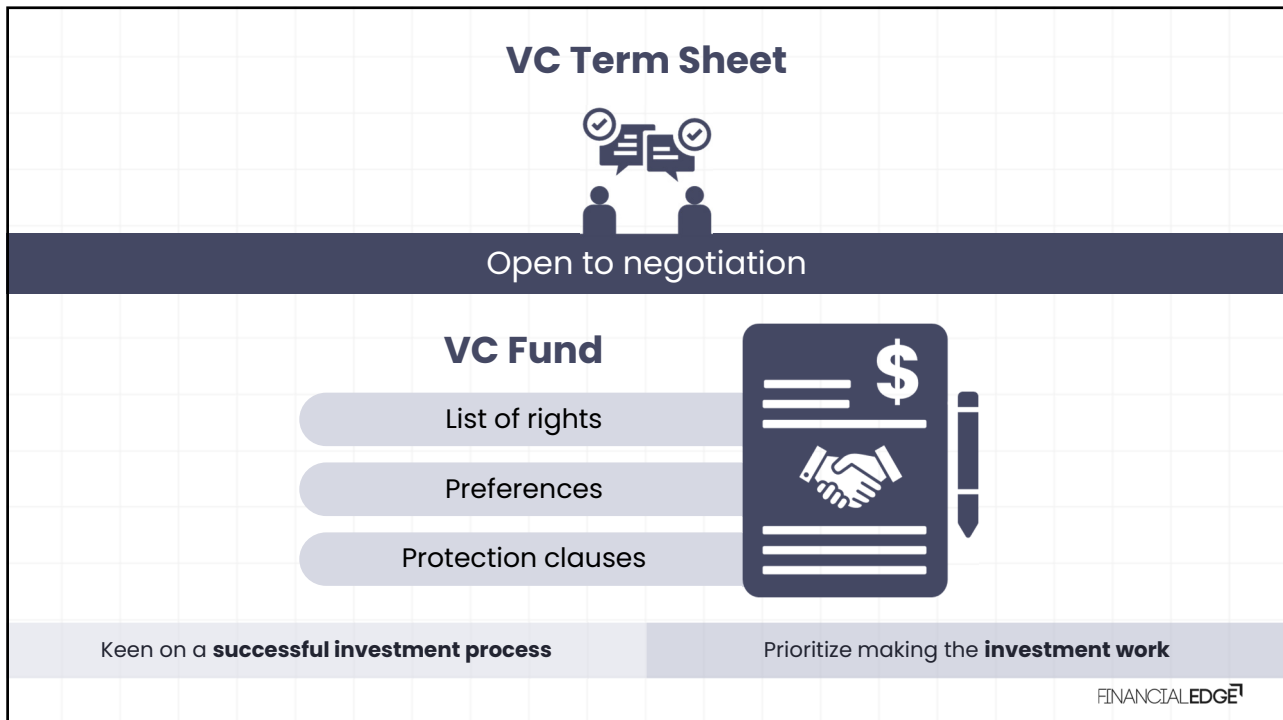
Series A Raising Process

The **Startup** company will speak to a number of **VC Funds** to market their company's ideas and **attract investment**

If there is interest on both sides they will begin to **negotiate** and agree to the terms of **the VC Fund's capital investment**

**Startup****Investors**FINANCIALEDGE⁷





Due Diligence Process



VC Funds must assess the **potential risks and rewards** of investing in a startup



Due diligence is a **detailed examination** of the **company's financials**

Demand for their product

Ability to compete

Ownership of their ideas

Careful check of the company's Capitalization Table

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Due Diligence Process



VC Funds must assess the **potential risks and rewards** of investing in a startup



Due diligence is a **detailed examination** of the **company's financials**



Macro issues
impacting a company



Internal operations
and financials



Financial reporting
system may be slow

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Early-Stage Company Due Diligence Process



Startups have less substantial **evidence** to demonstrate their **value**

Harder for a VC Fund to become **comfortable**



Identify potential risks



Rewards of investing

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Early-Stage Company Due Diligence Process



VC Analysts look at **key aspects** of **start up businesses** and **potential growth** of the company



Fund may be experienced in a **certain sector**

Artificial Intelligence

Bio-tech

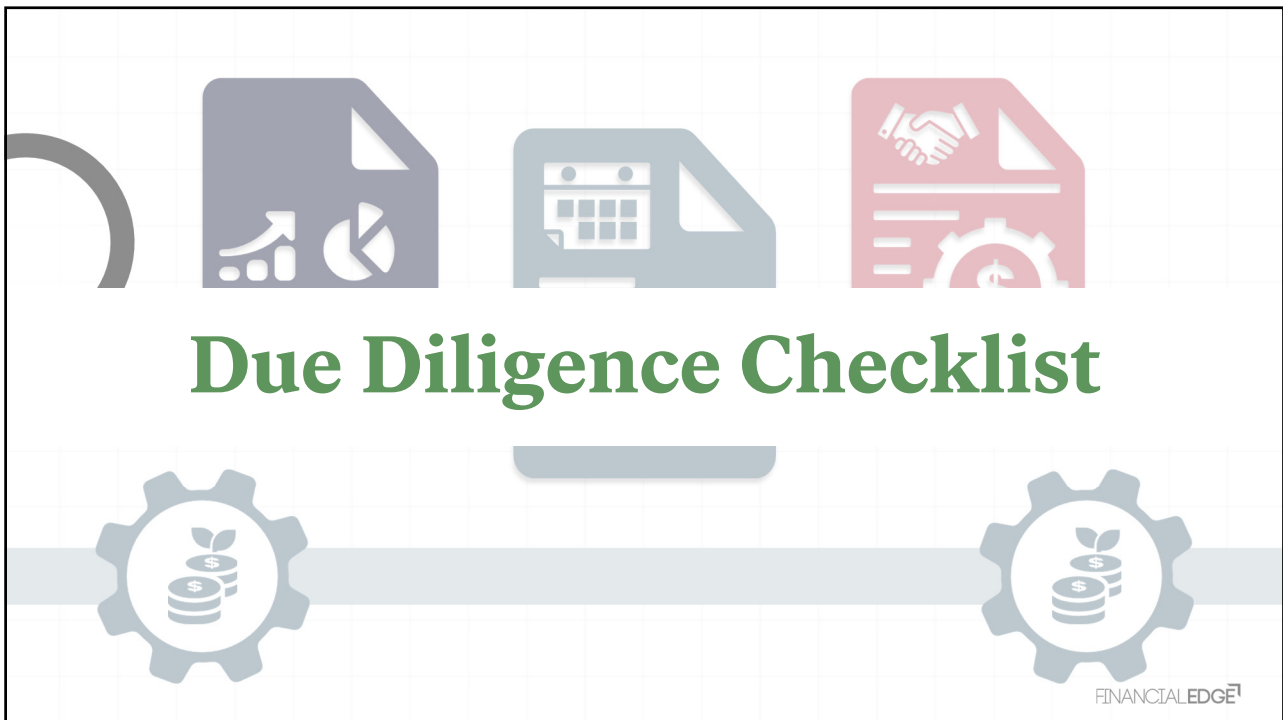


Targeting investment at companies at a **certain stage** in its **growth**

Expanding distribution or production

Add significant scale to the company

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A due diligence checklist for VC Funds would include reviewing and evaluating any available data in the following areas:





Financial History, Performance, Metrics

Company is delivering **growth** and **profitability**,
in line with its targets

Projections:

Examine the company's future growth targets and
making sure they are viable

Third Party Vendors and Supplier's Agreements:

Ensuring that pre-signed agreements do not in any way
impede future growth of the company



Legal and Intellectual Property

VC funds will need to confirm what a prospective
investment company **owns** and the **rights attached**

Assessment of Regulatory Risks:

It will also need to be family with the regulatory risks
within the sector or area of business

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Market Assessment, Size and Growth Metrics, Competitive Landscape, Sales Volume, Product Pricing

A deep dive on the targeted **marketplace** of
the company, including **prospective growth**.

This would include looking at:

Demand

Price dynamics

Competitive landscape



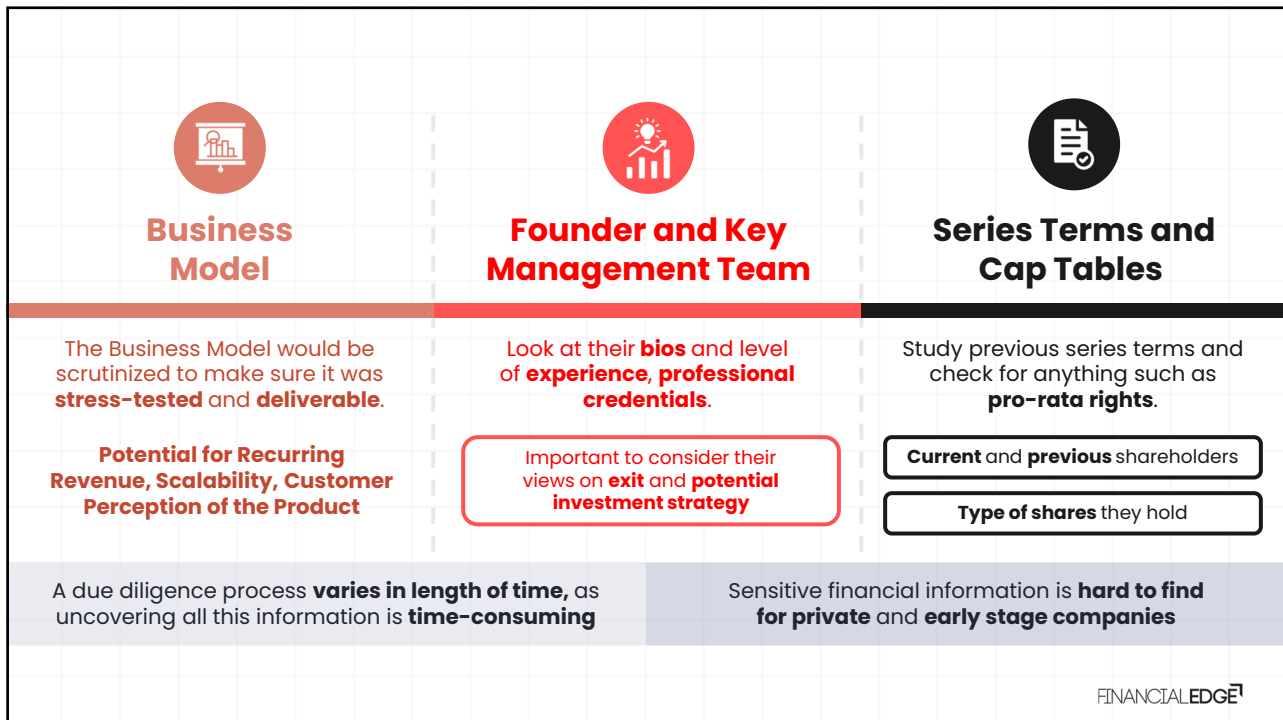
Product Evaluation, Technology Assessment, Level Of Differentiation

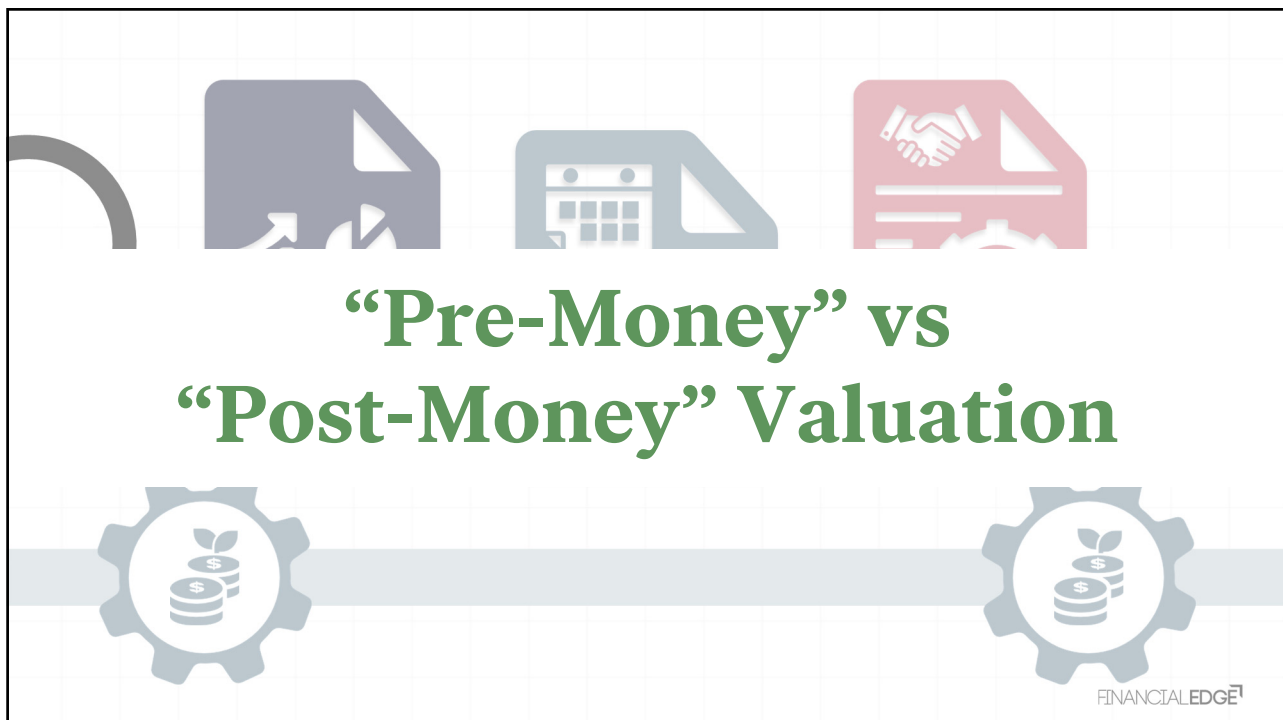
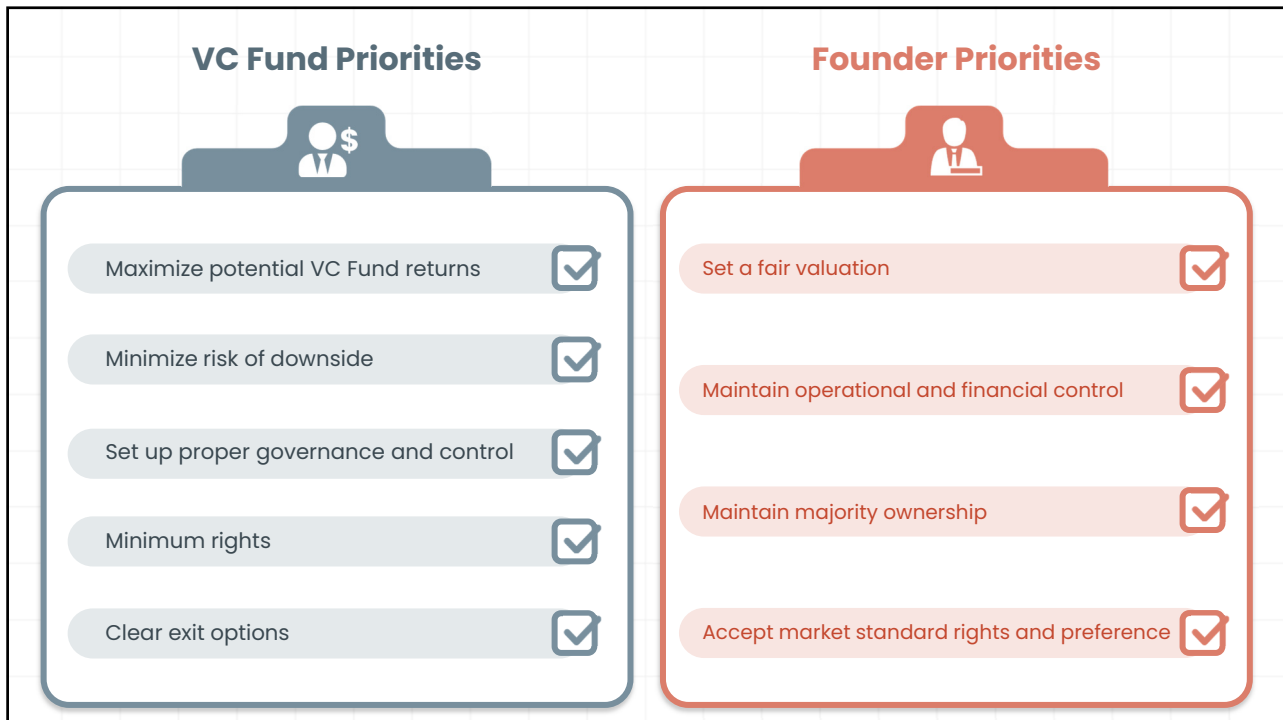
VC analysts would seek to compare
the **company's products** and
technology to alternative:

Providers

Competitors

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Important Concept in Early-Stage Investing



Pre-Money

The **value** of a **startup company** **prior** to the round of capital raised.

Valuation is derived based on a **revenue multiple**



Post-Money

The **value** of the **startup company** **after** the round is complete.

If there are **seed investors** with **various discounts** and **valuation cap provisions**, the first **priced round "post-money"** could be **higher**

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Example



Pre-Money Valuation

\$7.5m



Capital Raise

\$10m



Post-Money Valuation

\$17.5m

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Key Terms of a “Priced Round” - Information Rights

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Information Rights



Liquidation Preference



No Shop Clause



Drag-along Rights



Anti-dilution



Tag-along Rights



Board Rights and Voting Rights



Exit Options



Founder Vesting

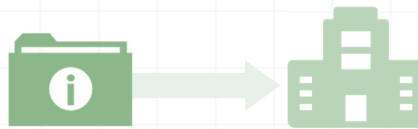


Dividends

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Information Rights

Gives the **VC fund** and other **investors** the **right** to get certain **information from the startup**



Financial statements

Financial plan update

Monthly sales update

Allows VC fund to create and monitor:

Key metrics

Performance indicators

Provide clarity:

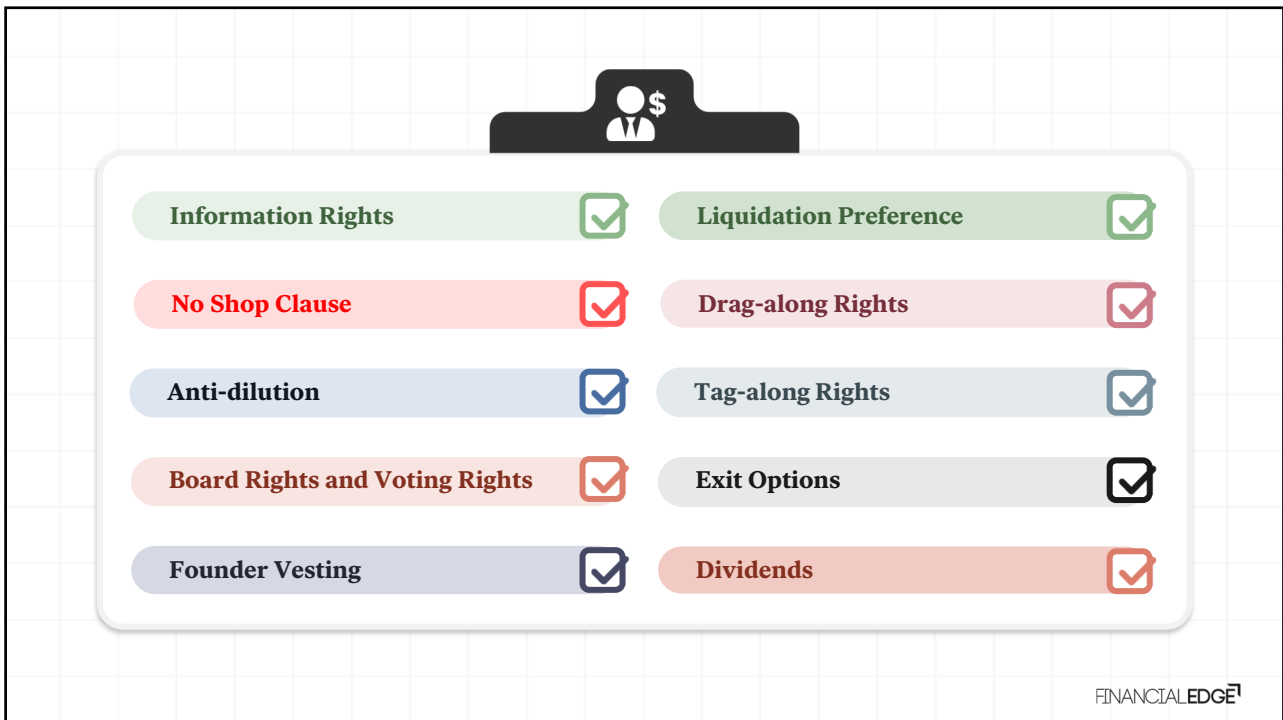
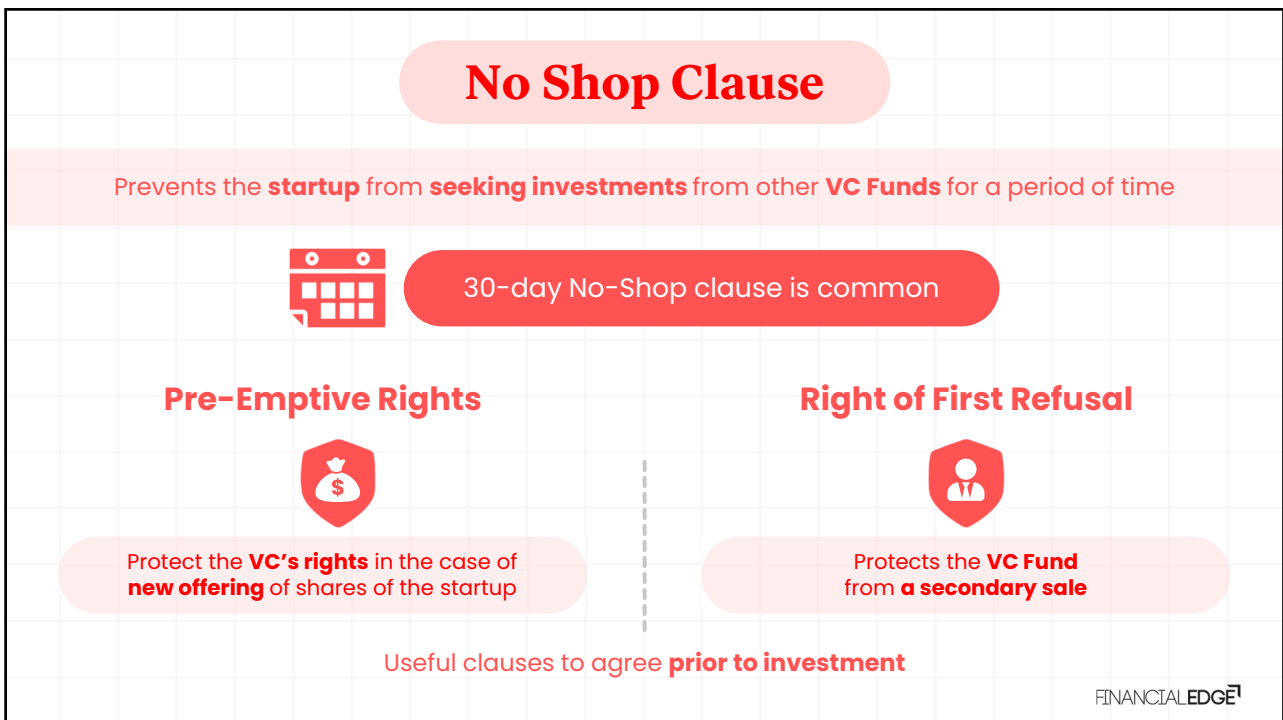
Future rounds of capital

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Key Terms of a “Priced Round” - No Shop Clause



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Key Terms of a “Priced Round” - Anti-Dilution

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Information Rights



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Exit Options



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Dividends

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Anti-Dilution

Common provision in the **VC term sheet**



Protect **early-stage investors** from **dilution** in their **ownership**

“Down Round”

Startup raises capital at a **lower pre-money valuation** it has done previously

1.5m

1.25m

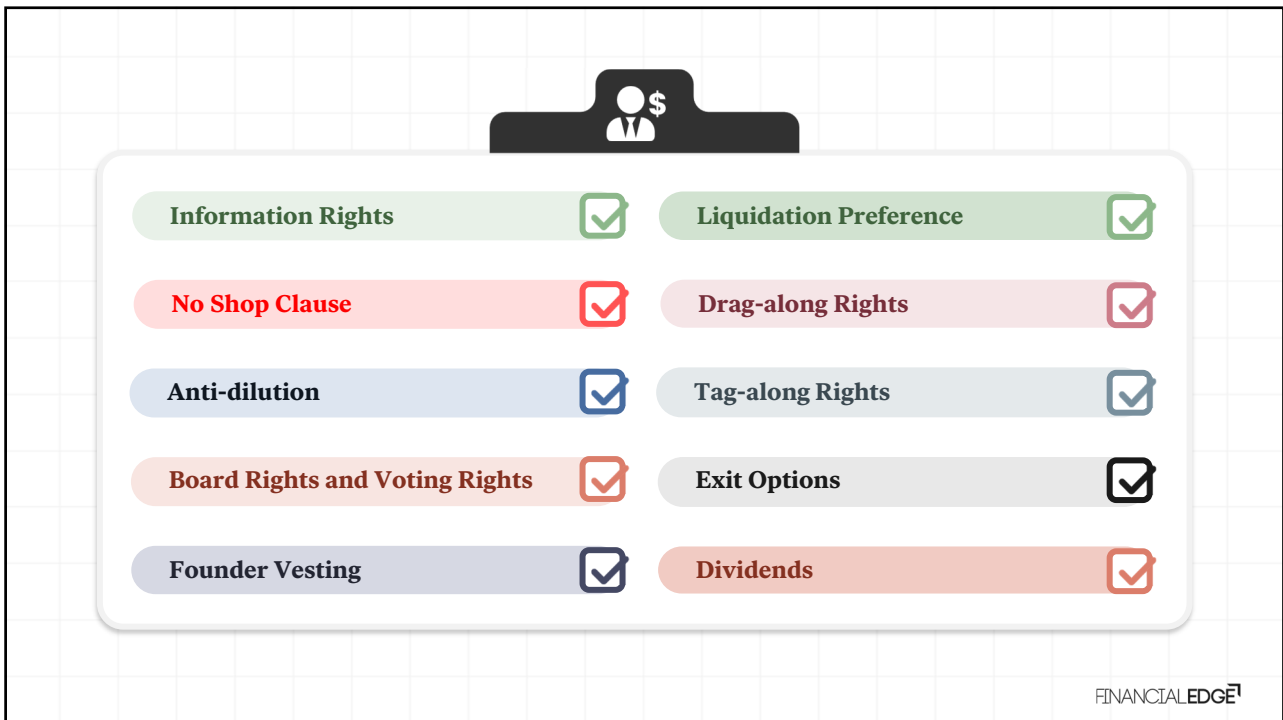
This suggests the business is **not growing in line** with its **strategy**

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Key Terms of a “Priced Round” - Board Rights and Voting Rights



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Board Rights and Voting Rights

Granted to **VC Funds** when
voting on **certain issues facing the company**



Right to issue
more shares



Electing/removing/
replacing directors



Recruitment of
senior executives



Dividend policy

Clause where there will be a **nominee director** on the **board** (**member** or **observer**)

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Key Terms of a “Priced Round” - Founder Vesting

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Information Rights



Liquidation Preference



No Shop Clause



Drag-along Rights



Anti-dilution



Tag-along Rights



Board Rights and Voting Rights



Exit Options



Founder Vesting



Dividends

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Founder Vesting

Outlines when and how **founders** (and key employees) **"earn"** legal rights to their **stock options** or **warrants**



Incentivize founders & key employees:

Stay with the startup



Protect startups

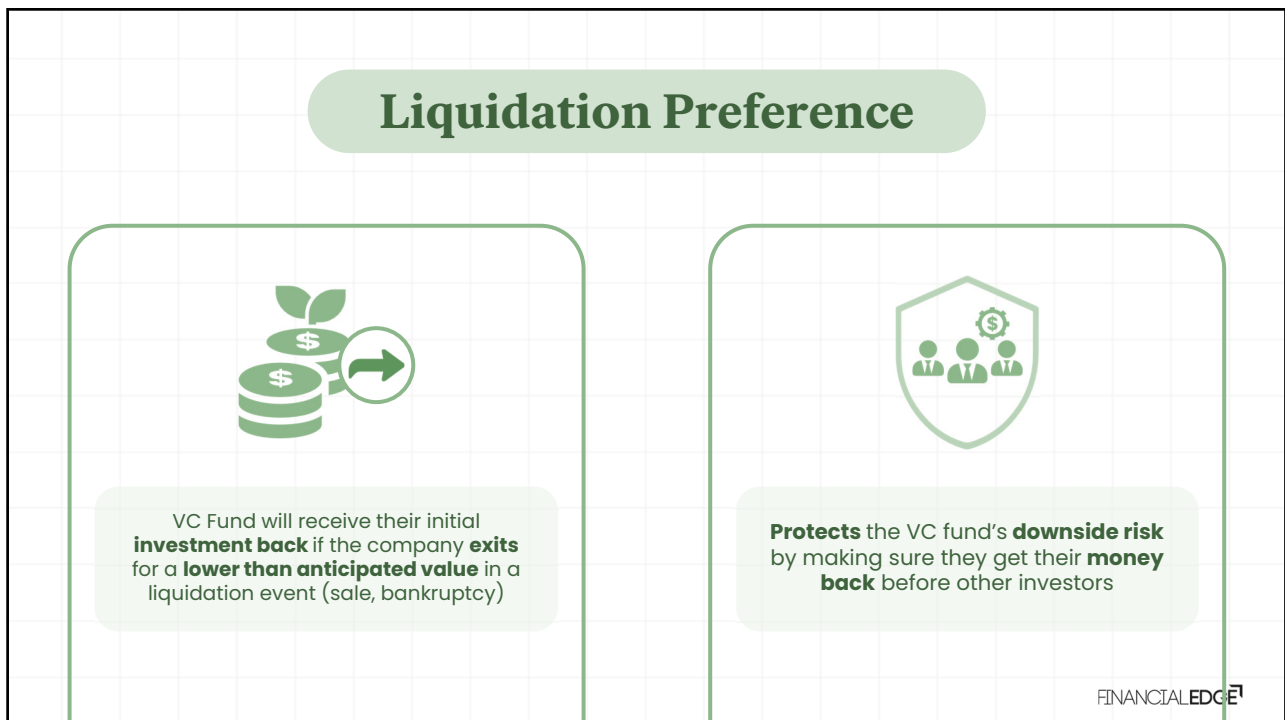
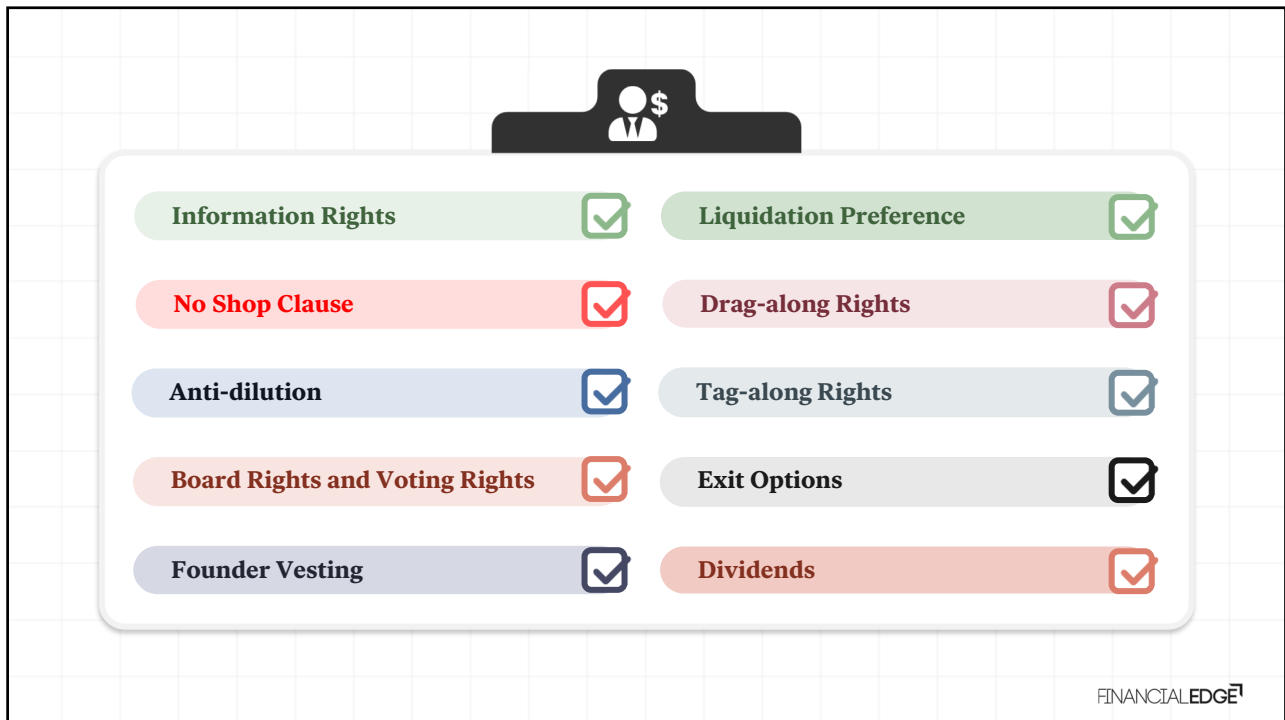


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Key Terms of a “Priced Round” - Liquidation Preference



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Liquidation Preference



Exit

A sale whereby all the **current shareholders** are **bought out**



VC Fund **sells its stake** to another VC Fund with **different expertise**



Unlock growth in the company



IPO

(Initial Public Offering)

A series of **stringent steps** to be followed so the company could list on the **Stock Market**



Allows shareholders the opportunity to **sell their shares to new buyers**



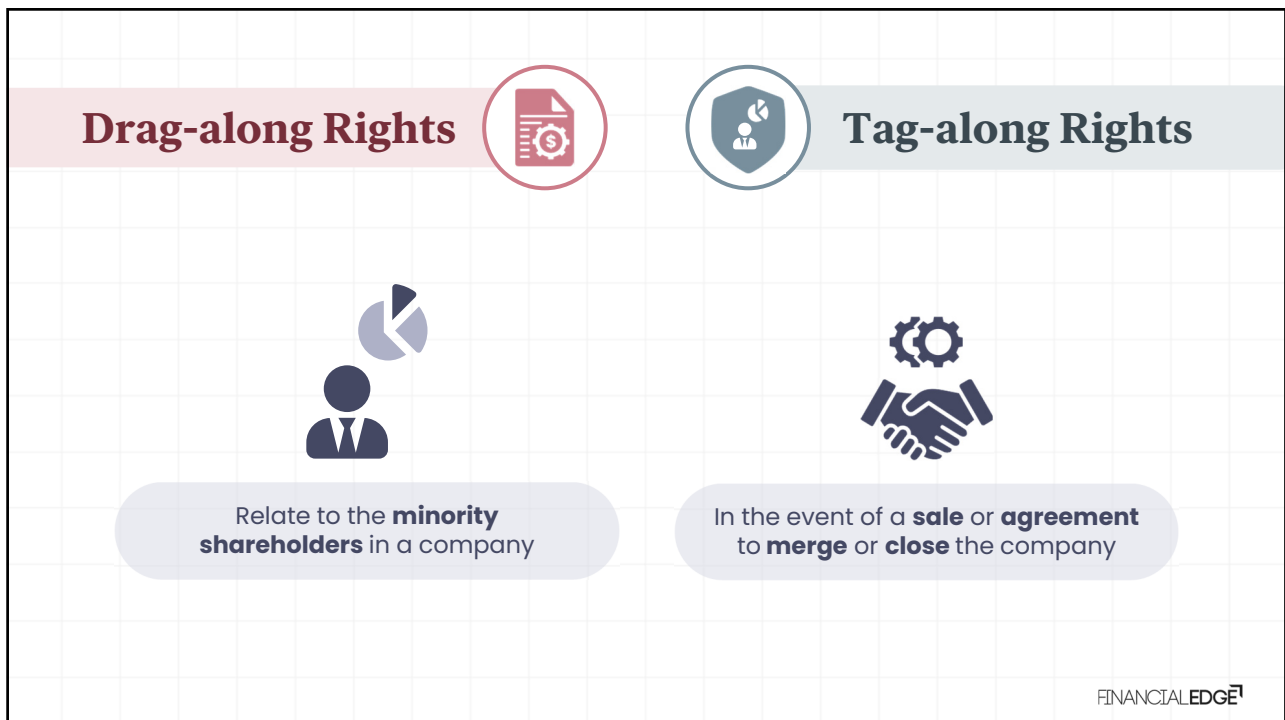
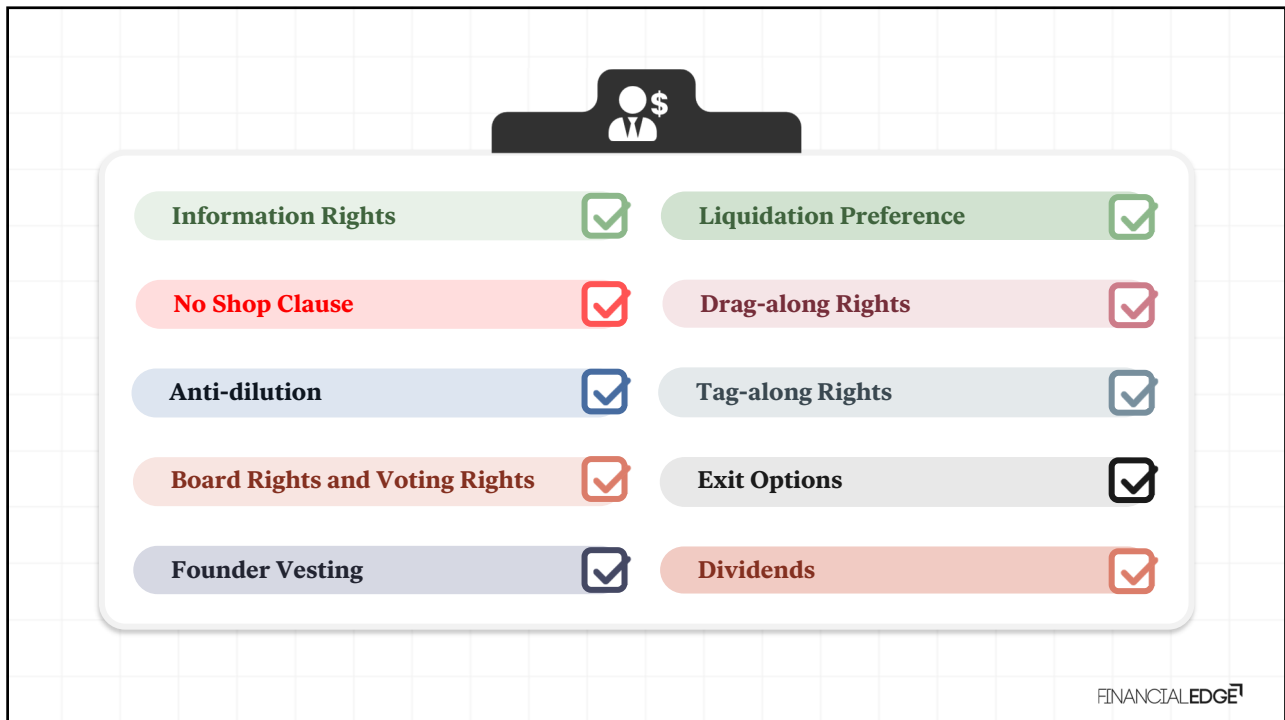
Allows the shares to be **traded** on the **open market**

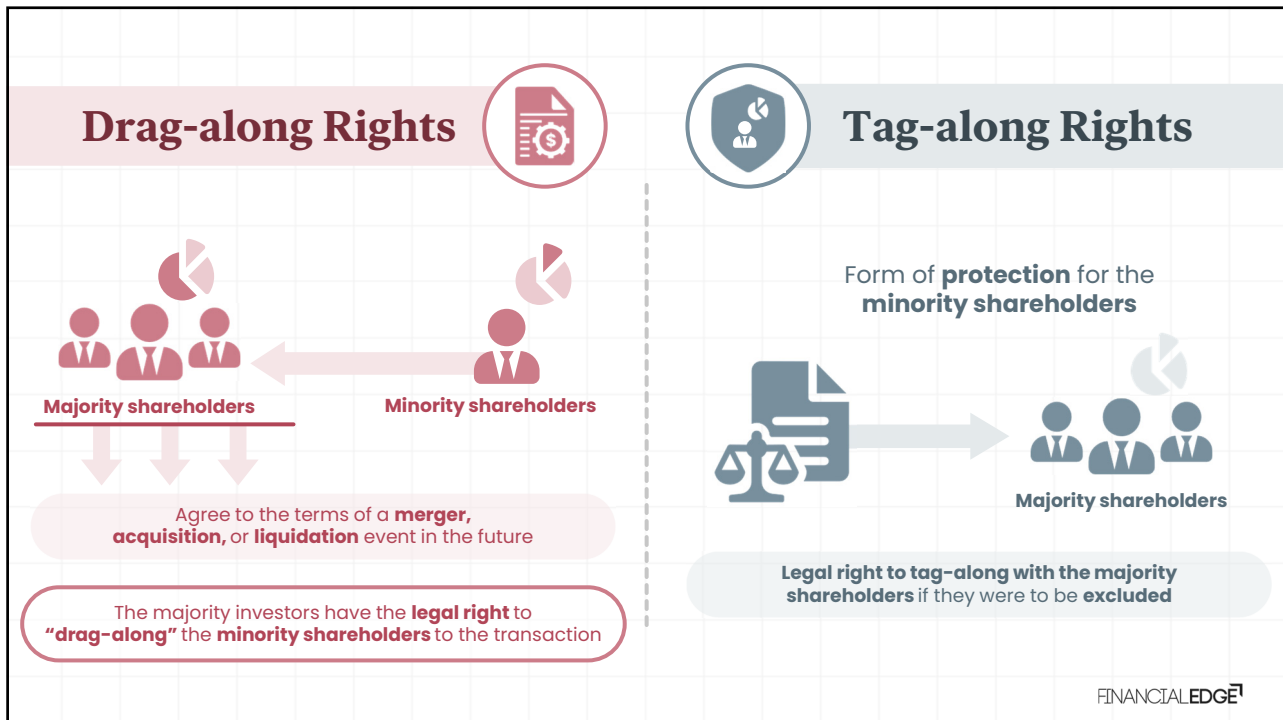
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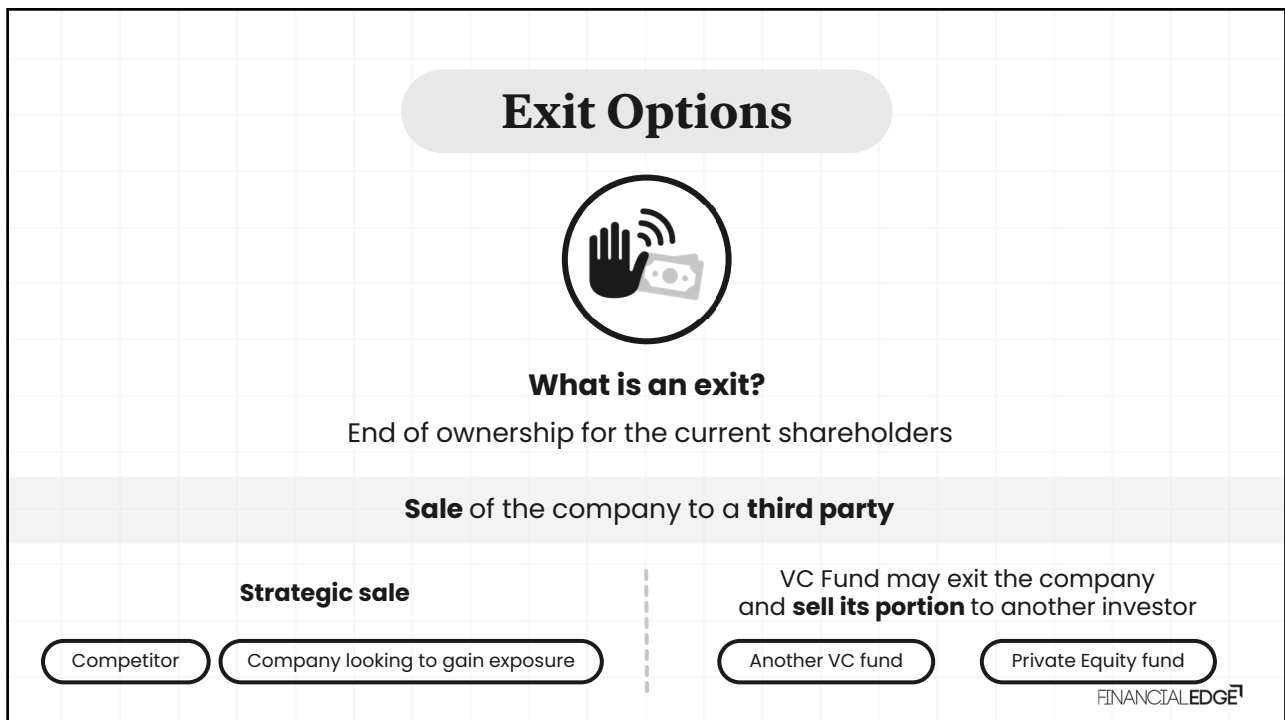
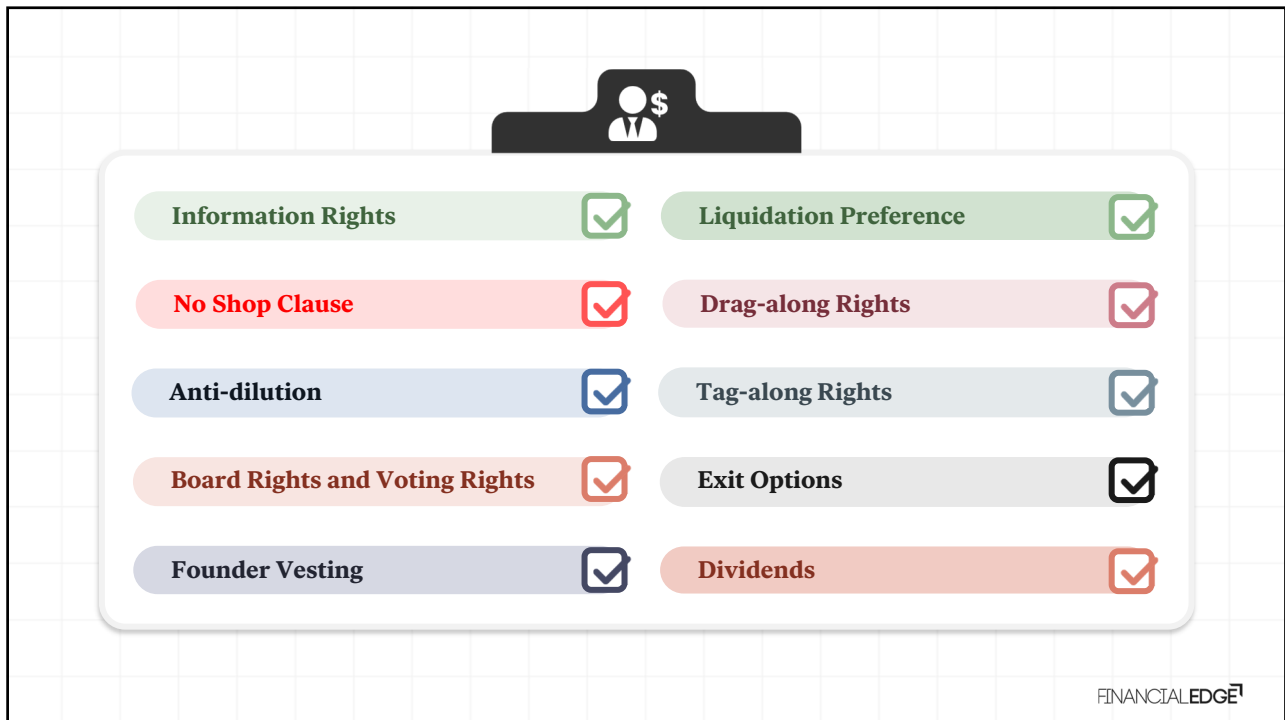
Key Terms of a “Priced Round” - Drag-along and Tag-along Rights



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Exit Options

Successful Exit

- ✓ Exit within timeframe of VC Fund's investment plan
- ✓ Achieve a high valuation at time of sale



VC Funds will **ALWAYS** have a planned exit time frame!

Unsuccessful Exit

- ✗ Slow, drawn out exit
- ✗ Outside planned timeframe of VC fund
- ✗ Company may go bankrupt so exit is forced
- ✗ Sale price may be lower than targeted
- ✗ Sale may be forced if unable to achieve planned growth

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Key Terms of a “Priced Round” - Dividends

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