



Term Sheets for Advanced and Financing Rounds

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Introduction

The Speaker

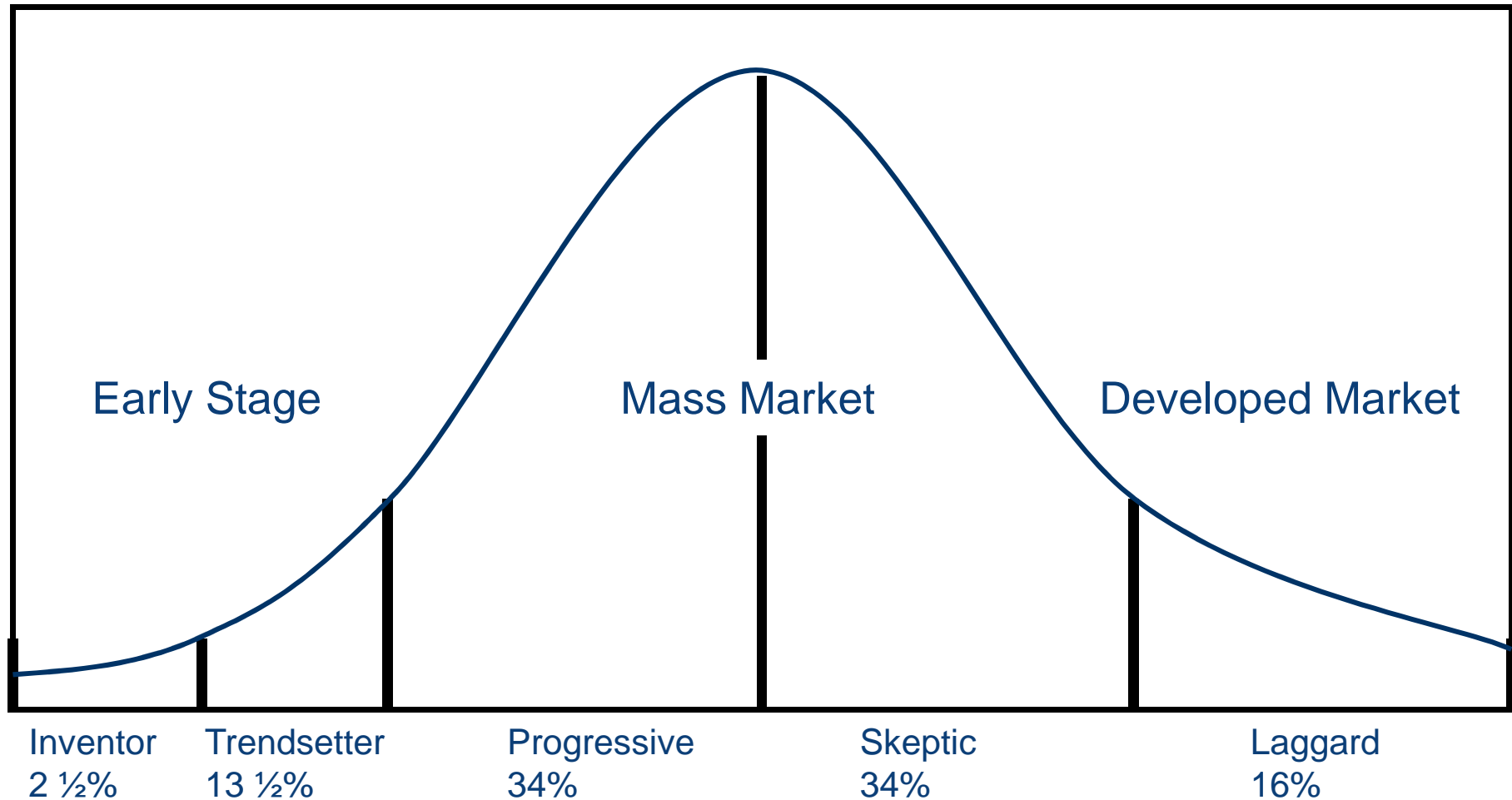
Handout – Term Sheet Template

Raise your voice!

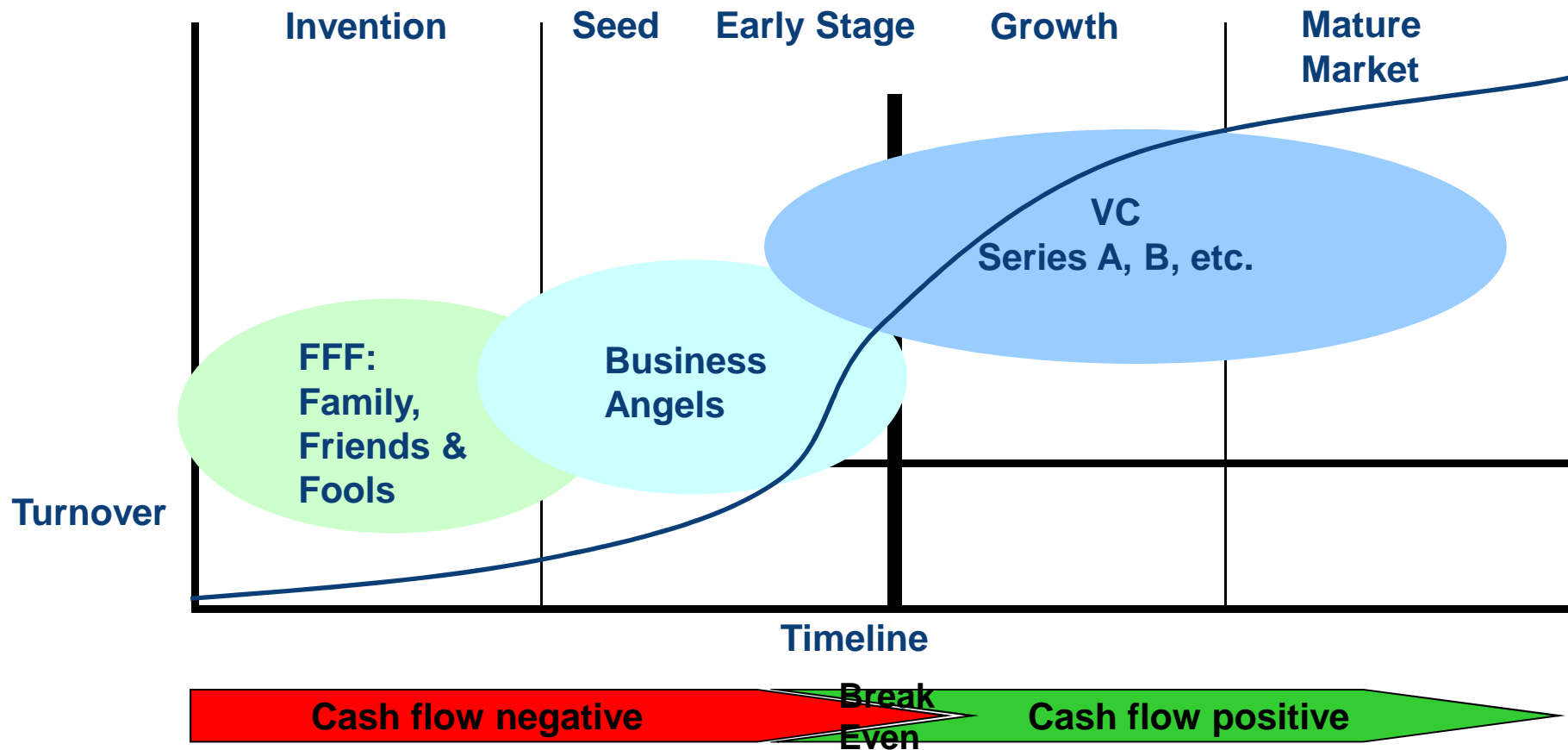
Agenda

1. The Big Picture
2. Purpose / Importance of a Term Sheet
3. Usual Content of a Term Sheet
4. Value Drivers
5. Questions / Discussion

The Big (Development) Picture (I)



The Big (Turnover) Picture (II)

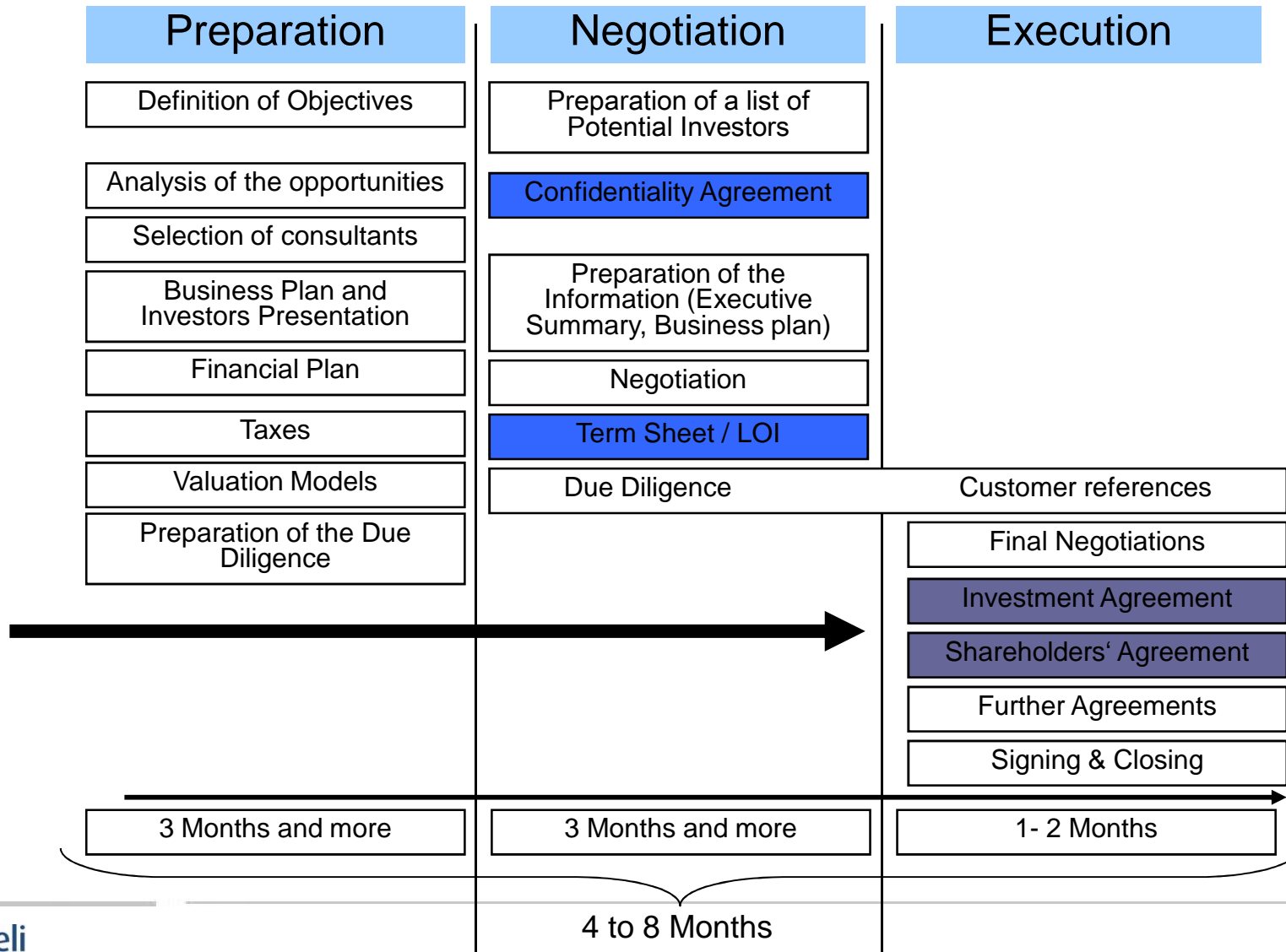


The Big (Financing) Picture (III)

Who finances?



The Big (Transaction) Picture (IV)



2) Purpose / Importance of a Term Sheet

1. Fixing the key figures and clauses for the investment and shareholders' agreement
2. Ruling the negotiation procedure (time schedule, exclusivity, costs etc.)
3. Legal: tentative agreement, i.e., agreement to conclude a contract (art. 22 SCO) – not binding unless otherwise agreed.
4. In practice: virtually binding nature; sound justification needed for deviation from term sheet.

3) Usual Content of a Term Sheet (I)

1. Term Sheet

2. Negotiations / Due Diligence

3.1 Investment Agreement

Rules about
- the amount
- the preconditions and
- the protection
of the investment

3.2 Shareholders Agreement

Rules about the relationship
between the investor(s) and the
other shareholders after the
investment

3) Usual Content of a Term Sheet (II)

Investment Agreement Issues

Parties: Company, Investor(s), Founders,
Existing Shareholders

Invested amount / tranches; funding type

Share price and type of shares

Cap table; pre- and post-money valuation

Use of the invested proceeds

Milestones / Business Plan

Employee Stock Option Plan (ESOP)

Representations and Warranties

Conditions Precedent

(Escrow for shares / share certificates)

3) Usual Content of a Term Sheet (III)

Shareholders Agreement Issues

Composition of Board / Management

Information Requirements

Voting rights / Qualified Majorities

General Transfer Restrictions / Right of First Refusal

Preference Rights (Dividend, Subscription, Liquidation,

Exit provisions (Tag- and Drag-along, IPO, Purchase Options)

Conversion of Preferred Shares

Anti-Dilution Protection

Non-competition / non-solicitation

Funding / Financial Matters

Related Party Transactions

3) Usual Content of a Term Sheet (IV)

Procedural and General Aspects

Timing

Applicable Law

Costs / Break-up Fee

Jurisdiction / Arbitration Clause

Exclusivity

Binding / Non-Binding Effect

Confidentiality

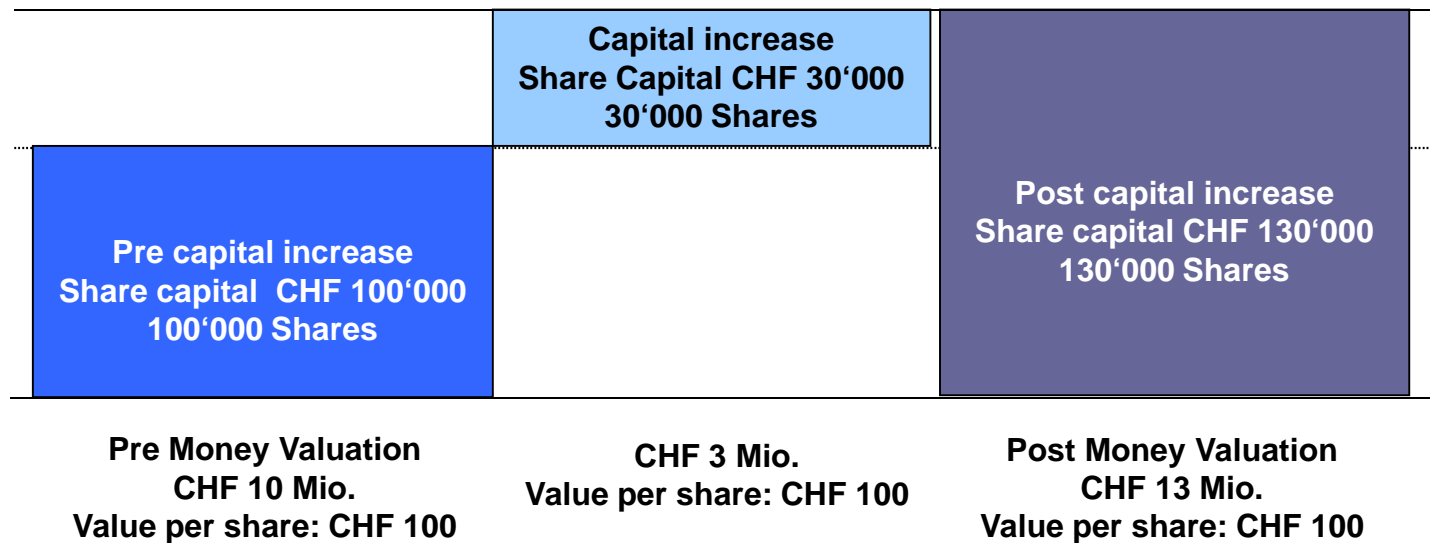
4) Value Drivers

- Pre Money Valuation
- Size of Investment Round
- Size of ESOP
- Allocation of ESOP
- Liquidation Preference
- Anti Dilution Protection
- Representations & Warranties
- Milestones

Example:

Financing Round Series A

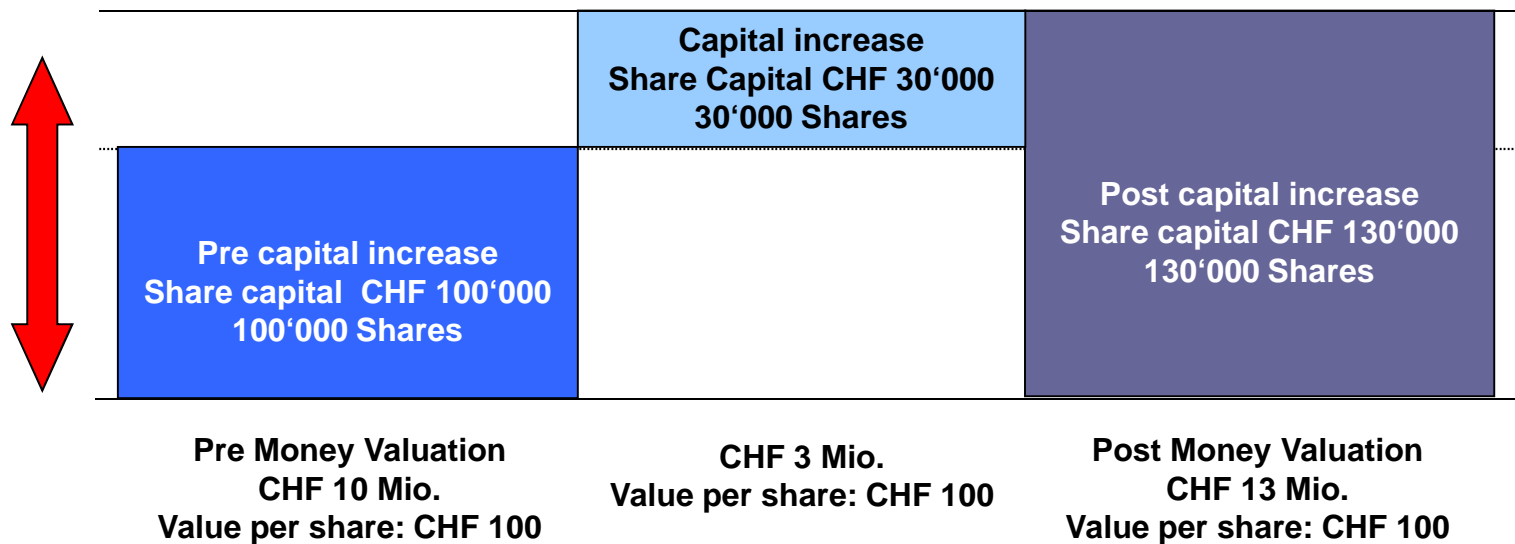
- Pre Money Valuation (fully diluted) CHF 10 Mio.
- Number of existing shares: 100'000
- Number of newly issued shares: 30'000
- New share capital including agio: CHF 3 Mio.
- Value per share pre and post transaction remains the same: CHF 100



Pre Money Valuation

Rule of Thumb:
The lower the PM valuation,
the greater the dilution.

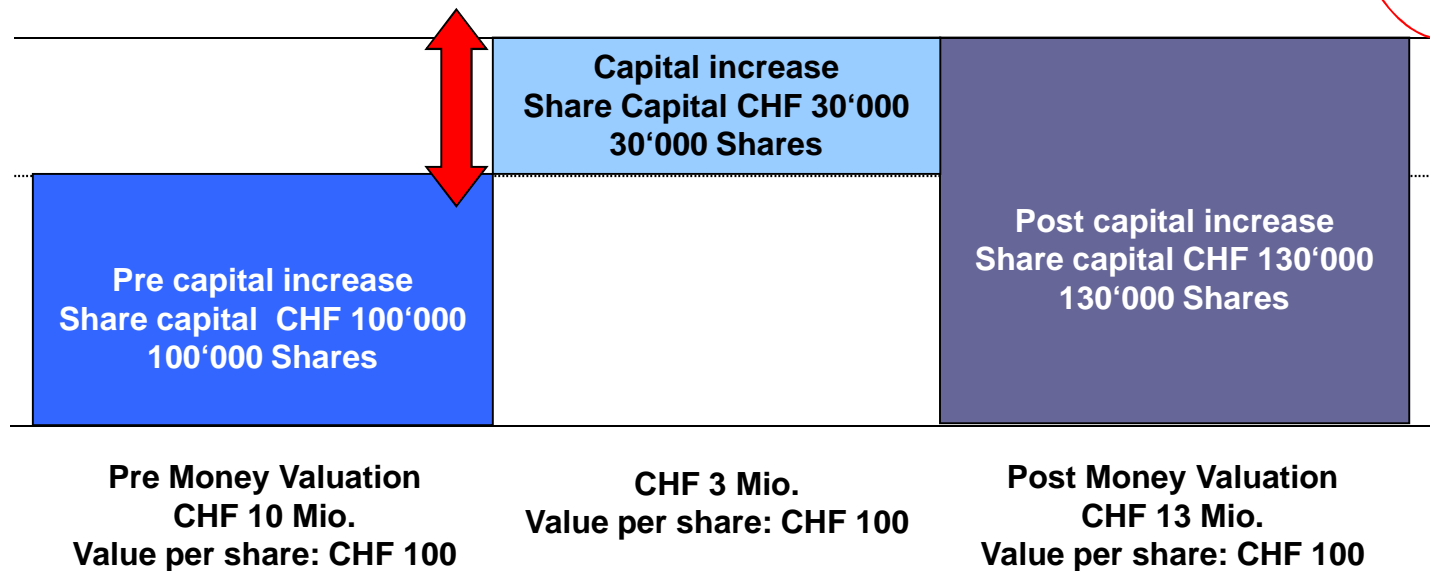
Pre Money	# Shares	Value per Share	Investment Series A	# Shares Series A	Total	Shareholdings		
						Pre	Post	Dilution
10'000'000	100'000	100	3'000'000	30'000	130'000	100.00%	76.92%	23.08%
4'000'000	100'000	40	3'000'000	75'000	175'000	100.00%	57.14%	42.86%
6'000'000	100'000	60	3'000'000	50'000	150'000	100.00%	66.67%	33.33%
8'000'000	100'000	80	3'000'000	37'500	137'500	100.00%	72.73%	27.27%
12'000'000	100'000	120	3'000'000	25'000	125'000	100.00%	80.00%	20.00%
20'000'000	100'000	200	3'000'000	15'000	115'000	100.00%	86.96%	13.04%



Size of Investment Round

Rule of Thumb:
The greater the size of IR,
the greater the dilution.

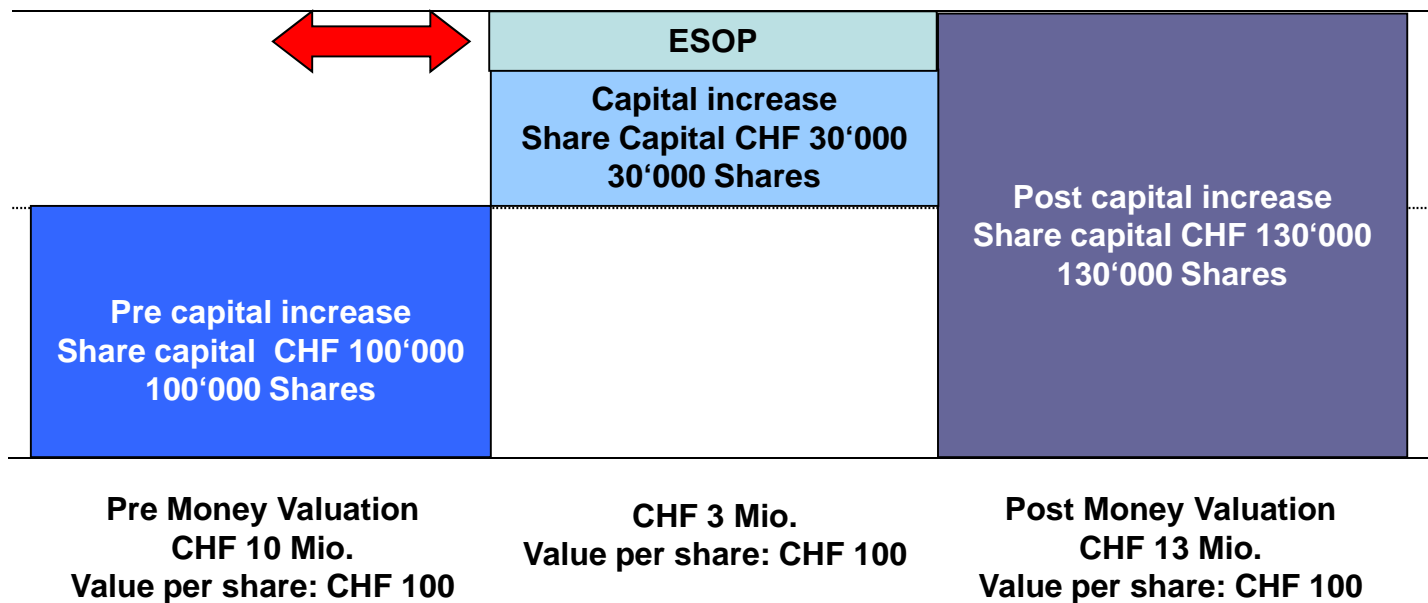
Pre Money	# Shares	Value per Share	Investment Series A	# Shares Series A	Total	Shareholdings		
						Pre	Post	Dilution
10'000'000	100'000	100	1'000'000	10'000	110'000	100.00%	90.91%	9.09%
10'000'000	100'000	100	2'000'000	20'000	120'000	100.00%	83.33%	16.67%
10'000'000	100'000	100	3'000'000	30'000	130'000	100.00%	76.92%	23.08%
10'000'000	100'000	100	4'000'000	40'000	140'000	100.00%	71.43%	28.57%
10'000'000	100'000	100	5'000'000	50'000	150'000	100.00%	66.67%	33.33%
10'000'000	100'000	100	6'000'000	60'000	160'000	100.00%	62.50%	37.50%



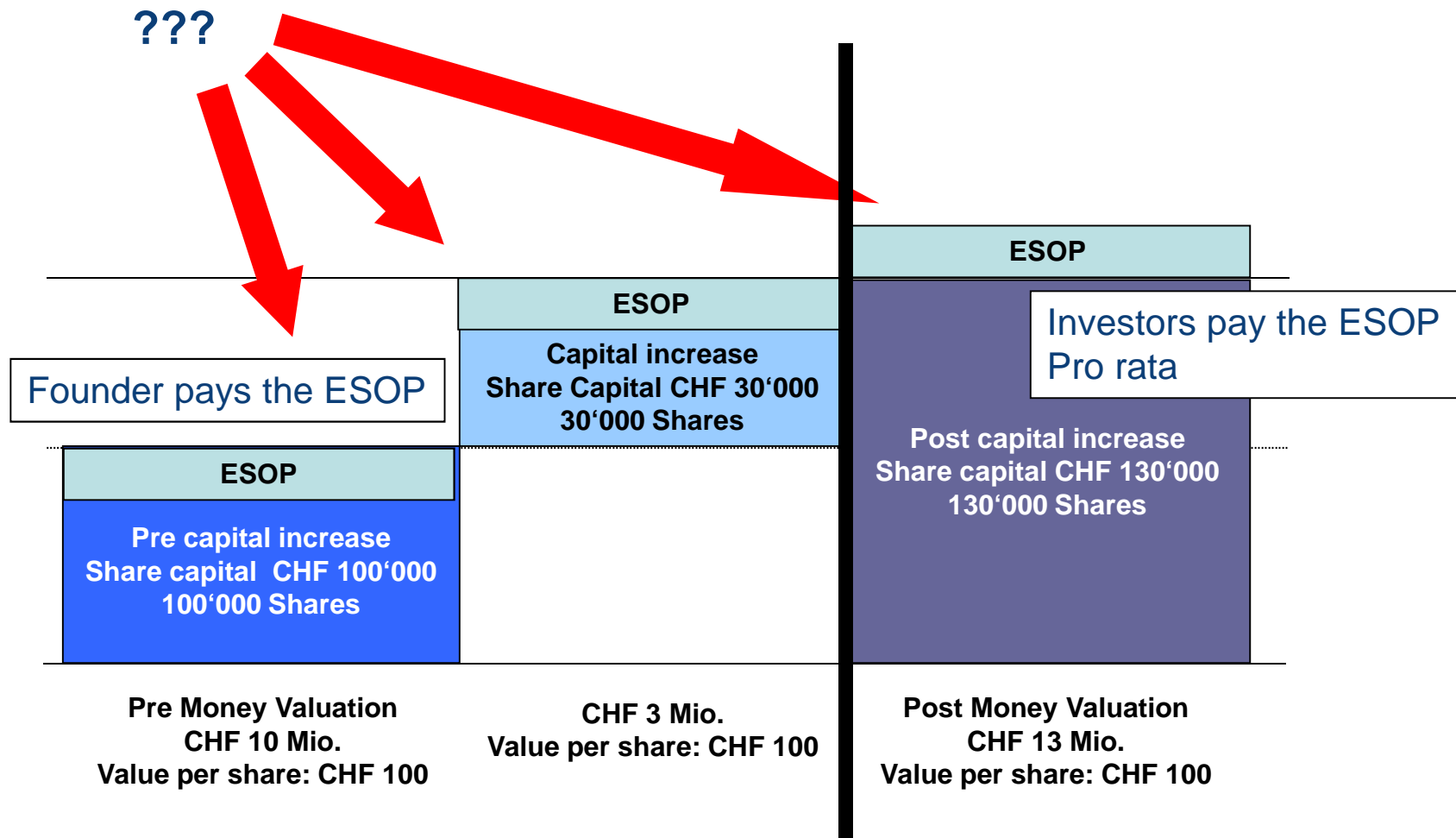
Size of ESOP

Rule of Thumb:
The greater the size of ESOP, the greater the dilution.

Pre Money	# Shares	Value per Share	Investment Series A	# Shares Series A	Total	Size ESOP Post	# Shares ESOP	# Shares	Dilution Total
10'000'000	100'000	100	3'000'000	30'000	130'000	6%	8'298	138298	27.69%
10'000'000	100'000	100	3'000'000	30'000	130'000	8%	11'304	141304	29.23%
10'000'000	100'000	100	3'000'000	30'000	130'000	10%	14'444	144444	30.77%
10'000'000	100'000	100	3'000'000	30'000	130'000	12%	17'727	147727	32.31%
10'000'000	100'000	100	3'000'000	30'000	130'000	14%	21'163	151163	33.85%
10'000'000	100'000	100	3'000'000	30'000	130'000	16%	24'762	154762	35.38%



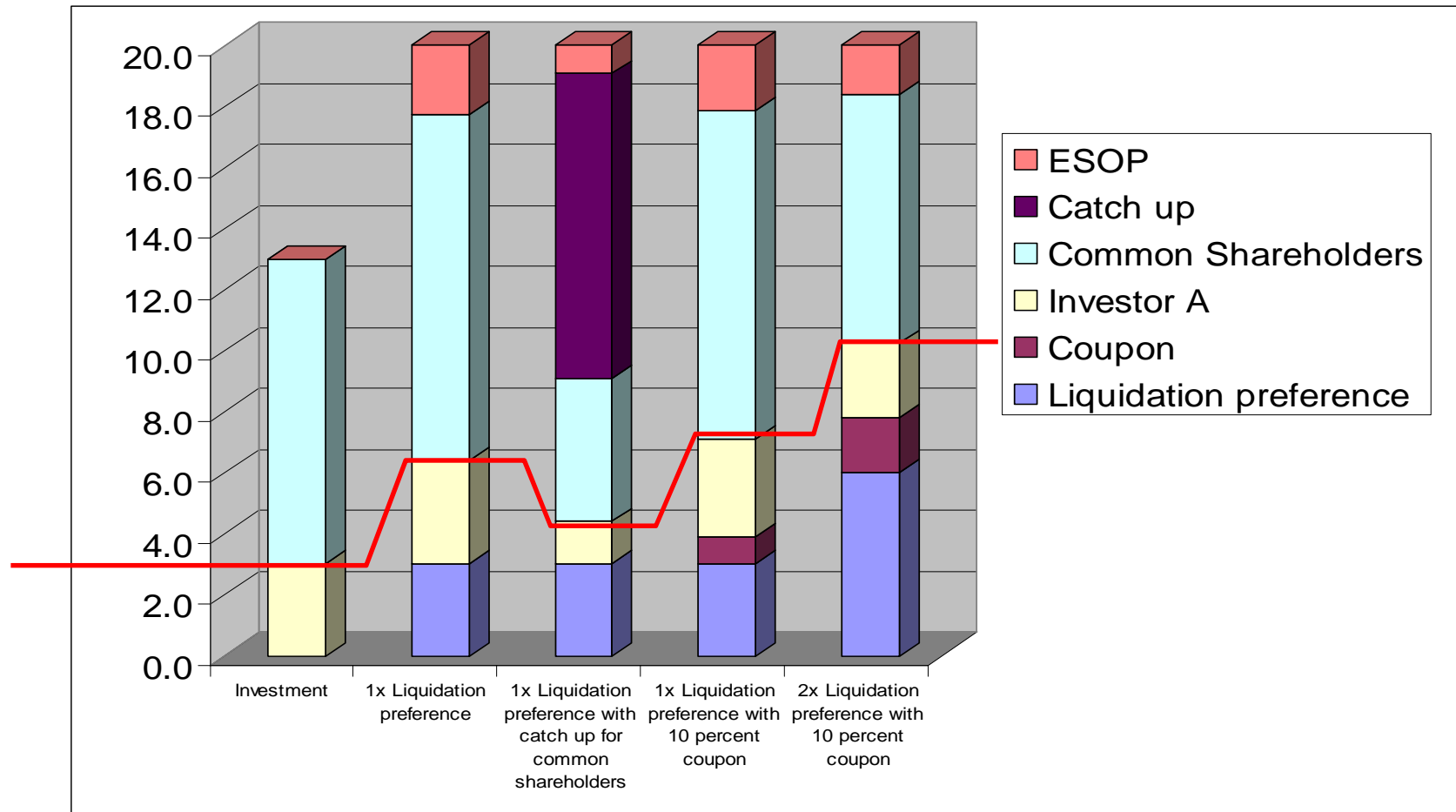
Allocation of ESOP



Liquidation Preference (1)

- Investor receives before common shareholder his investment as liquidation proceed or dividend
- Pre Money Valuation (fully diluted) CHF 10 Mio.
- Number of existing shares: 150'000
 - Founders/Common shareholders: 100'000 (i.e., 66.66%)
 - ESOP 20'000 (i.e., 13.34%)
 - Investor Series A: 30'000 (i.e., 20%); Investment amount CHF 3 Mio.
- Exit after 3 years
- Exit value: CHF 20 Mio.
- Structure of Liquidation Preferences
 - 1x liquidation preference
 - 1x liquidation preference with catch up for common shareholders
 - 1x liquidation preference with 10% coupon
 - 2x liquidation preference with 10% coupon

Liquidation Preference (2)



Liquidation Preference (3) - Analysis

A Round: Investors A 3 m Sh: 20%	1 x Liq. Pref: Investors 6.4 m Return 113%	1 x Liq. Pref w/ catch up: Investors 4.4 m Return 46%	1 x Liq. Pref w/ 10% ^c : Investors 7.1 m Return 136%	2 x Liq. Pref w/ 10% ^c : Investors 10.2 m Return 240%
Common 10 m Sh: 66.66%	Common 11.3 m Return 13% (since Round series A)	Common 14.7 m Return 47% (since Round series A)	Common 10.7 m Return 7% (since Round series A)	Common 8.1 m Return -19% (since Round series A)
ESOP 2 m Sh: 13.34%	ESOP 2.3 m	ESOP 0.9 m	ESOP 2.1 m	ESOP 1.6 m

Anti Dilution Protection

- Protection of Investor A in case of a future down round
- Full ratchet/weighted average
- Down round:
 - Pre Money Valuation Series B (fully diluted) CHF 5 Mio.
 - Number of existing shares:
 - 100'000 Common
 - 30'000 Series A
 - 20'000 ESOP
 - New share capital including agio: CHF 3 Mio.

Anti Dilution Adjustment – Full Ratchet

Pre Money	# Shares Common	# Shares Series A	# Shares ESOP	Total	Value p share	# New shares	Anti Dilution Adjustment
10'000'000	100'000	30'000	20'000	150'000	33.33	90'000	60'000

Common	100'000	33.33%
ESOP	20'000	6.67%
Series A	90'000	30.00%
Series B	90'000	30.00%
	300'000	100.00%

Significant dilution
Of common shareholders



Remarks:

Value per share new: CHF 33.33

Investor receives 60'000 shares

(Series A Investment of CHF 3 Mio. divided by the new share price of CHF 33.3 gives 90'000 of which 30'000 were already received)

Technically shares are either issued or transferred to Investor A

Anti Dilution Adjustment – Weighted Average

<i>Pre Money</i>	<i># Shares Common</i>	<i># Shares Series A</i>	<i># Shares ESOP</i>	<i>Total</i>	<i>Value p share</i>	<i># New shares</i>	<i>Anti Dilution Adjustment</i>
10'000'000	100'000	30'000	20'000	150'000	33.33	90'000	15'000

Common	100'000	39.22%
ESOP	20'000	7.84%
Series A	45'000	17.65%
Series B	90'000	35.29%
	255'000	100.00%

Remarks:

Value per share new: CHF 33.33

Weighted value per share:

$(CHF 100 + CHF 33.33) / 2 = 66.66$

Investor receives 15'000 shares

(Series A Investment of CHF 3 Mio. divided by the new share price of CHF 66.66 gives 45'000 of which 30'000 were already received)

Representations & Warranties

Milestones

- Company fails to meet milestones
- Company violates representations and warranties

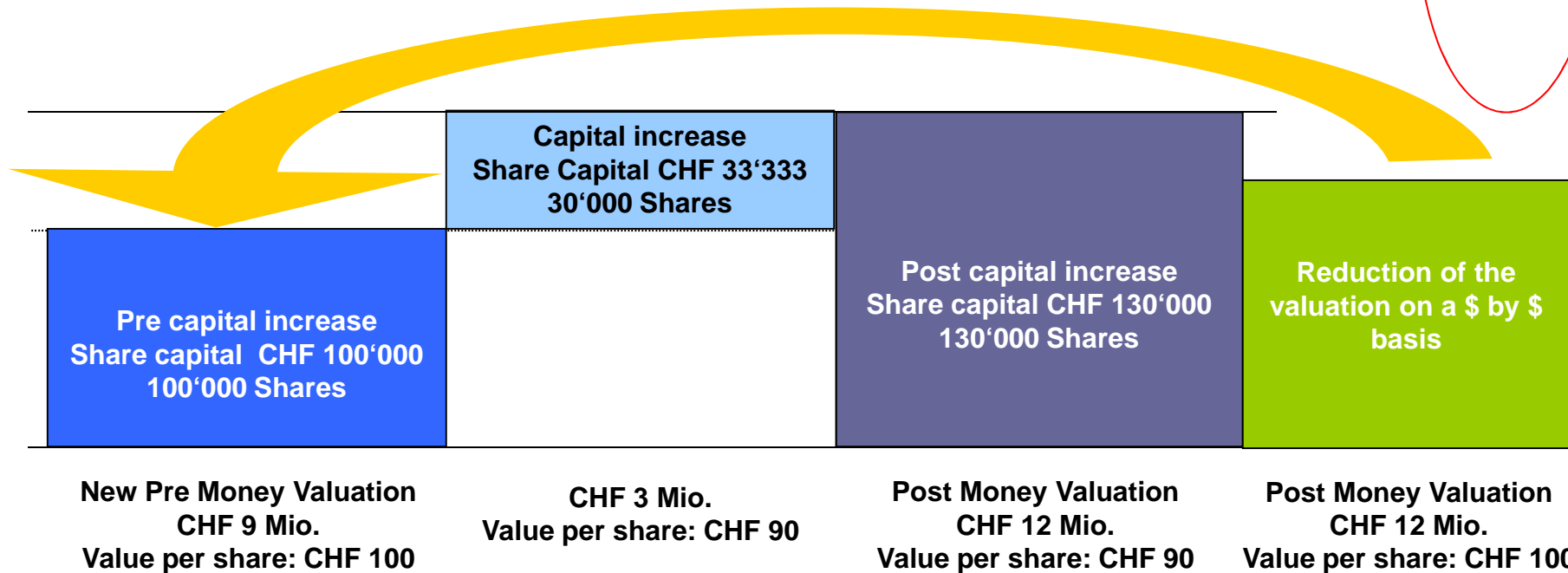
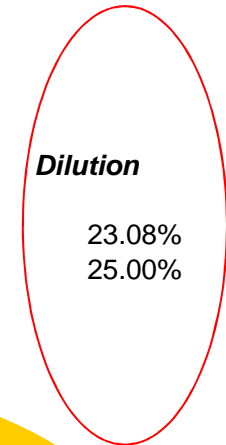


- Reduction of the valuation of the company and the value per share
- Shares will be either transferred or newly issued

Representations & Warranties

Milestones

	Pre Money	# Shares	Value per Share	Investment Series A	# Shares Series A	Total	Dilution
	10'000'000	100'000	100	3'000'000	30'000	130'000	23.08%
Damage of CHF 1 Mio.	9'000'000	100'000	90	3'000'000	33'333	133'333	25.00%



Any Questions?

Thanks.

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THANK YOU FOR YOUR ATTENDANCE!

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