

Understanding the Law Squared x Angel loop Term Sheet

Law Squared and Angel Loop have collaborated to provide businesses with an open source Term Sheet specifically for angel or seed round investment. This example term sheet is designed to educate founders on the types of terms that angel investors will often request from founders during an angel investment round. As Law Squared has worked with many founders, accelerators, incubators and investors, this Term Sheet aims to balance the often competing interests of founders and investors.

In working with Angel Loop, this Term Sheet has been prepared to provide the relevant risk protections that angel investors commonly require. The terms you will find in this document are balanced, commercially sound, fair for startups and their founders, and suitable for use in Australia between Australian parties. Before you begin negotiations with angel investors, it is important to become familiar with the types of terms in the term sheet and how such terms will impact you and your business.

This Term Sheet is for guidance only and founders should negotiate terms to best suit their business. We recommend seeking legal and accounting advice before signing any term sheet to ensure that you understand its terms and the effect such terms will have on your business.

There are a number of term sheets available online, however, unfortunately, many of these examples contain terms that significantly favour the investor over than founders. These term sheets do not foster a positive, constructive rapport amongst all stakeholders in the transaction - particularly for founders - who are less likely to have access to the necessary resources compared to their investor counterpart.

What is an Open Source Term Sheet?

This open source term sheet is made freely available to anyone in the startup community, courtesy of Angel Loop and Law Squared. This document is not designed for founders to complete themselves, but rather to provide you with an idea of what types of terms you can expect from angel investors and guidance on those terms.

Each relationship with an angel investor is unique and we do not recommend that you use this term sheet as a one-size-fits-all template. Rather, this term sheet should be used as a tool to help you engage in robust negotiations with prospective angel investors about their investment in your business.

What should I expect to see in the open-source term sheet?

Given the term sheet has been drafted between Angel Loop (on behalf of the investors) and Law Squared (on behalf of the founders) you can expect some key features that are made to make the negotiation easier and save you time:

1. the terms of the document are variable, so you have room to adjust and change the terms to suit your circumstances;
2. we have indicated which items of the term sheet usually form part of the negotiations and included comments to guide you through this process; and

- we have attached a glossary of terms to assist you in interpreting common terms and provide you with confidence in the negotiation process.

Can I use this term sheet as a guide for any investment round?

Unfortunately, no. Because this Term Sheet was prepared in collaboration with Angel Loop, it was specifically designed to be used as a guide to Seed/Angel level investment (fundraising between \$200,000 & \$2M). Therefore, this term sheet is **not** designed for early stage fundraising in a family and friends round nor is it suitable for a Series A or above, as the terms can vary significantly between different types of investment rounds.

We recommend you consult with a lawyer and financial advisor to have bespoke advice and terms prepared for any investment round, as well as assistance in the negotiation of those terms.

The Law Squared team can provide you with the documents and advice you need to appropriately navigate all fundraising rounds.

Guide to different types of investment rounds:

Funding round stage	Idea	Co-Founder	Family, Friends and Fans	Seed Round	Series A and above
What you have	Your Idea	+ MVP	+ Some customers	+ Some revenue	+ Valuation of \$4M+
People involved	You start the company	+ Co-Founder shares some work with you	+ Family, Friends and Fans invest low amounts early	+ Angel Investors have at least \$1M-\$2M and invests their own money.	+ Venture Capitalists, Employees
Amount of money raised	Under \$15,000	Under \$15,000	\$15,000 to \$200,000	\$200,000-\$2M	Over \$2M
Should you use this term sheet?	No	No	No	Yes	No

I am ready to raise my Seed/Angel Round. Is there anything else I should check?

Most angel investors will need you to be ready for an investment, or close to it. For our purposes, your startup’s readiness means that you will have some essential legal documents in order. You also need to ensure that you are in the right corporate structure, you have finalised any previous rounds of investment, tidied up your cap table and updated ASIC to ensure you are starting the investment round from a solid base.

We also recommend you have the following legal documents completed or prepared in readiness for the investment:

- Subscription Agreement
- Shareholders Agreement
- Employment Agreement



- IP Assignment Agreement

If you want to ensure your business is starting from a solid base and that you have all the legal documents in place or ready for the investment, reach out to the team at Law Squared and we can chat about the steps to get these in place and our fixed fee *investment audit package* to ensure you're ready to start pitching to angel investors.

Glossary of Terms

We're here to help – here is a glossary of terms for the words and phrases you'll find in the term sheet:

- **Bad Leaver** definitions can vary significantly, and often means a person who ceases to be engaged by the Company (whether as a Shareholder, Director, Founder or employee) as a result of his or her resignation within two years, OR a person who ceases to be engaged by the company as a result of termination by the Company with cause, including because he or she has committed any of the following:
 - fraud;
 - an indictable criminal offence;
 - a breach of a Restrictive Covenant; or
 - a material breach of his or her employment, contractor or consulting agreement with the Company.
- **Capitalisation cable (cap table):** Outlines the company's percentages of ownership, equity dilution, and value of shares in the investment round.
- **Class of shares:** Shares can be issued under different classes, and each class will have different rights (such as voting rights, value, order of payout, dividends etc), examples of classes of shares include Ordinary Shares and Preference Shares
- **Company constitution:** The legal document that governs the running of a Company and acts as a contract between the company and its directors, company secretary and members. A constitution is often provided upon incorporation.
- **Condition:** Conditions are prerequisite terms which must be met and satisfied or waived by the party which they benefit, before the investment round can be completed. For example, a condition may be that all Founders assign their intellectual property to the Company, this gives investors confidence that the relevant intellectual property is owned by, and can be commercialised by the Company.
- **Conversion:** An event where a Preference Share is converted to an Ordinary Share.
- **Drag along right:** This allows a majority of shareholders to force other shareholders to sell their shares in the event a third party makes an offer to buy all shares in the Company.
- **Fully diluted capital:** The combined total of all Ordinary Shares and other share classes issued by the company.
- **Intellectual Property (IP) deed of assignment:** is a document outlining the ownership of IP, to establish which legal entity holds the rights to the company's IP. Often founders, contractors and employees are required to enter into one of these documents to assign their IP rights to the Company.
- **Liquidation Preference:** In a situation where the company is wound up or sold, this preference sets out the order and amounts by which shareholders are paid out.
 - The holders of Preference Shares will receive back only the amount that they paid on their shares before any other shareholder receives any proceeds; or

- if the value of the Company has increased, holders of the Preference Shares can elect to convert their Preference Shares to Ordinary Shares and participate as ordinary shareholders.
- **Pre-emptive rights:** This means that existing shareholders will get the first opportunity to buy any shares (based on the number held) that the Company issues or that are sold by a shareholder.
- **Quorum:** Minimum number of voting directors or shareholders that must be present when a board or shareholder meeting is arranged.
- **Resolution:** A board or shareholders decision to take certain action, which has usually been voted on in a board or shareholders' meeting.
- **Restraint/Restrictive Covenant:** A restraint prevents a shareholder/founder/employee from competing with the Company or from soliciting the Company's customers or staff for a period of time, in a defined area. The intention is to protect the Company and all other shareholders.
- **Founders' Share buy -back:** This allows the Company to forcibly buyback a founder's shares if they are a Bad Leaver.
- **Ordinary Shares:** An ordinary share is the most common share type and gives the shareholder the right to vote on matters put before all of the shareholders of the company and receive dividends issued to ordinary shareholders. The weight of a particular shareholders' vote will usually depend on the ownership percentage that they have in the company.
- **Preference Shares:** A holder of a Preference Shares is given preferential treatment over the holders of Ordinary Shares. For example, a Preference Shareholder will have a priority right to be repaid if the company becomes insolvent. Preference Shares may also carry fixed dividend payments. References to 'Seed Preference Shares' in the Term Sheet are references to Preference Shares that will be issued in the seed fundraising round.
- **Shareholders agreement:** Is a company document that contains terms that regulate the relationship between shareholders, ownership of shares, decision making powers, appointments of directors and general protection for the shareholders including the selling or issuance of shares.
- **Subscription agreement:** Is the transactional document that includes the Investor's application to purchase shares in the Company and the terms that govern how those shares are issued.
- **Tag along right:** Where a third party makes an offer to the majority of shareholders to purchase their shares in the company, the Tag along right allows minority shareholders to ensure that their shares will also be sold to that third party on the same terms.
- **Term sheet:** Summarises key terms of an investment and is usually a non-binding document.
- **Valuation and share price:** the value which investors determine (or agree) that your Company is worth at the time of investment and subsequently, the value of each share.
 - **Pre-money:** Value of a company before the investment occurs.
 - **Post-money:** Value of a company after investment occurs
 - **Price per share:** The monetary value of each share being issued in the investment round.

- **Written satisfaction or waiver:** Confirmation in writing from a party that they either are satisfied that a Condition has been met or waive their rights to that Condition.

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