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DES MOINES, IOWA



Raising Capital Seminar

March 25, 2019



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RAISING CAPITAL SEMINAR

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**GREATER DES MOINES
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Term Sheet

Joe Leo



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Simple Company Led Term Sheet

- See handout in Appendix

Term Sheet

The term sheet is the document that outlines the basic terms by which an investor (angel or venture capital investor) will make a financial investment in your company.

Term Sheet Includes

- Financial terms
 - Amount raised
 - Pricing / valuation
- Investor preferences / rights
 - Dividends
 - Liquidation
 - Anti-dilution
- Corporate governance
 - Board seats
 - Voting / approval rights
 - Information rights

Valuation / Pricing

- Pre-money Valuation
 - Value of a company prior to investment or financing
- Post-money Valuation
 - Value of a company after an investment has been made.
This value is equal to the sum of the pre-money valuation and the amount of new financing received.

Liquidation Preference

- Determines the payout order in case of a corporate liquidation and / or sale of the company
- Investors often make it a condition for their investment that they receive their investment money back first before other shareholders

Option Pool

- Pool of shares available to be granted
- Average pool approximates 10% of outstanding shares
- Employee is granted a certain amount of shares that vest over a period of time, priced at today's share price

Most investors require that the pool be established prior to their investment so as to not be diluted by the option pool.

Key Employees

- Founders salaries - influx of cash can alter the incentives and behavior in a company, including such major items as founder compensation as well as minor items like benefits
- Term sheets may dictate how much or if the founder can give themselves as a raise
- May include a requirement that founders vest their equity

Board / Governance

- New money means new bosses / governance
- If no board exists, term sheet will call for its establishment
- Term sheet will outline number of board seats required by new investors into this round
- Generally 1 seat based upon 5 member board
- Negotiable

Preferred Shareholder Protective Provisions

- Preferred shareholder approval required for *fundamental* transactions
- Carefully consider the list and thresholds
- Blocking versus affirmative rights
- Minimum ownership requirement?

Management and Information Rights

- Major investors want or require certain rights
- Financial statements, budget, tax returns, etc.
- Carefully consider the list
 - Balance need with interference

Matters Requiring Preferred Director Approval

- Preferred director approval required for certain *operational* decisions
- Carefully consider the list and board makeup
- Blocking versus affirmative rights
- Minimum ownership requirement?

Right of First Refusal (ROFR) and Co-Sale

- ROFR typically runs to company and certain (all?) investors
- Consider which shares are covered by ROFR
- Consider which shares are benefitted by co-sale
- Minimum ownership requirement?

Drag-Along and Tag-Along Rights

Drag Along

- Requires shareholders to vote in favor of specified events – generally exit transactions
- Consider balance of power

Tag Along

- Provides minority interest(s) with protection
- Allows the minority owners to sell a pro rata amount of shares in a sale initiated by the majority
- Designed to prevent majority from stranding the minority in the company

Term Sheet - Control

- Right to participate in future rounds

Term Sheet - Control

- All The Rest
 - Intellectual Property / Assignment of Inventions
 - Confidentiality and Restrictive Covenants
 - Employment Agreements