



Term Sheets

Angel One Investors

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Presentation Outline

- (1) General information on term sheets
- (2) Basic investment structures
- (3) Three key provisions in a “Convertible Preferred” term sheet / transaction:
 - (a) Dividends and Liquidation Preference
 - (b) Protection Provisions
 - (c) Representations and Warranties

General Information

Definition: a term sheet, or letter of intent, is a statement of the proposed term and conditions in connection with a proposed investment.

It generally runs 1 – 5 pages long

- They are non-binding (with exception of confidentiality, exclusivity or expense provisions)
- Investors can walk away if the due diligence is not satisfactory
- If the deal does not close at the late stages, usually the target company has to pay the fees (legal and other) incurred to date

Investment Structure

Angels generally invest in one of three types of securities

- Common shares
- Convertible preferred shares
- Convertible debt / debenture

Investment Structure

- Common Shares
 - Are residual value shares of the same class issued to a start up's founders
- Preferred Shares
 - Are shares that include a liquidation preference over common shares and are convertible into residual value common shares
 - Parties will fix a valuation on the start-up corporation before investment, and this sets the price of the investment

Investment Structure

- Convertible Debt/Debenture
 - Involves the investors loaning money to the company with the loan amount being convertible into equity shares
 - Parties can defer fixing a valuation of the company until a future date
 - Lenders can convert at a 10% to 25% discount



Key Provisions

Convertible Preferred

Dividends and Liquidation Preference

- Dividend alternatives:
 - Investor entitlement to annual per share non-cumulative dividends equal to a percentage of initial price
 - Investor entitlement to annual per share cumulative dividends equal to a percentage of initial price on (a) redemption or (b) liquidation
 - If, as and when declared by the board

(1) Dividends and Liquidation Preference

- Liquidation Preference:
 - Proceeds payable to Investor in the event of liquidation, dissolution or winding up of the Corporation
 - Three alternatives:
 - (i) Non-participating preferred investors
 - (ii) Full participating preferred investors
 - (iii) Cap on preferred participation rights

(2) Protective Provisions

- Optional Conversion – where investor get their return
- Anti-dilution protection if future offering at lower valuation
 - Broad-based weighted average
 - Full Ratchet
 - No anti-dilution protection
- Automatic Conversion

(2) Protective Provisions

- Shareholders' Agreement
 - In addition to board consent, a required majority consent of preferred shareholders for various matters
 - Redemption rights (one form of exit)
 - Pre-emptive rights to maintain proportionate ownership if future financing
 - Co-sale, Tag-along and Drag-along provisions
 - Election of Directors

(3) Representations and Warranties

- Review of full sample set of Reps & War to be included in subscription agreement
- Whether the founders will give Reps & War in addition to the TargetCo
- Ensure that the disclosure schedules are complete and up to date

The background features two large, overlapping, curved shapes that resemble metallic or polished silver. One shape is on the left, curving upwards and to the right. The other is on the right, curving downwards and to the left. They meet in the center, creating a sense of depth and movement.

Q & A

Thank-you

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