



[Date]

Passion Capital Term Sheet for [Non-Hipster Limited]

We, Passion Capital, want to invest money in your company, [Non-Hipster].

Structure of Funding

We're making you an offer of a £[] investment as all or part of your seed round. Our investment will be for []% of the ownership in your company at a post-money valuation of £[]. That means we assume the total round size will be £[]. If you choose to take more or less than that, we're happy to discuss it, but, in any event, we expect our ownership and post-money valuation not to change. Your company will issue to us a new series of ordinary shares which will have the same rights as your existing ordinary shares other than a simple preference on the distribution of cash in the event things don't work out as well as we all hope – see 'Liquidation Preference' below.

Option Pool

Our offer assumes that you already have or will set up an employee share option pool (typically an EMI option scheme in the UK), so that our ownership is "fully-diluted" after accounting for that option pool. We think you'll need at least a 10% option pool after the investment round in order to hire some key management team members and senior people. To make this really clear, see the attached table to see how this looks with actual shareholding and ownership percentages after the investment.

If you don't already have an EMI option scheme set up, we will pay for this for you once we are shareholders if you're happy to use a law firm or online provider that we have agreed a fixed preferential rate with.

Conditions to Close

Before we sign the paperwork and transfer our money, we have to do some basic due diligence on the company and also on you, the founders. This includes anti-money laundering checks and having you complete a Founder's Questionnaire. We also want to see that all of the company's relevant employees and freelancers have signed employment or similar contracts which make it clear that the company owns all of the intellectual property that's been created for the business you're building. This protects you as shareholders, as well as us.

At the same time, if you haven't already done so, you should also do a bit of due diligence on us. For example, speak to some of our existing founders and get a feel for what they think of us. We'd be glad to make introductions if it helps.

Estimated Closing Date

We'll use our standard legal agreements which you should review, preferably with a lawyer to help (and again, maybe also speak to a couple of founders who will have seen and agreed to the same docs). We hope that we can wrap this all up and finish the investment round with signed paperwork and money in your account no later than 4 weeks from today, [date].

Documentation and Warranties

It's worth mentioning that our standard investment docs (available on our website [here](#)) include some "warranties". These are assurances that you give to us that the business we're investing in is what you say it is. We limit our right to claim so that it's only against the company, not the founders, and the amount can't be more than the amount we're investing, but we do expect you to take this process seriously.

Liquidation Preference

We're not asking for any complex preference rights (see pointers here <http://bit.ly/128Fxx2>), but we do ask for a so-called simple 1x liquidation preference. This means that if the company is



sold, we'll get the higher of either the amount of our investment **or** our ownership percentage of the sale value. In the worst case if the company is wound down with very little left, then anything left would be distributed to us as and anyone else who has invested on the same basis.

Important Decisions

We're here to support you, not to interfere in your day-to-day business operations, but we do have a list of decisions that we believe should be approved by either our appointed director or a majority of the investors. This includes issuing new shares, raising new finance, selling the business, etc. You can see the full list in the appendix.

Pre-emption Rights

We think all shareholders, including the founders, should have the right to invest in future financing rounds to avoid being diluted. This doesn't mean shareholders are required to put more money in, but if they want to and are able to, they have that right to maintain their ownership in any future funding round.

Right of First Refusal and Co-Sale

If any shareholder wants to sell their shares to someone else, we and other investors have the option to buy those shares on the same terms or to sell our own shares, again on the same terms. These rights help keep all the shareholders aligned.

Drag-Along

If shareholders, which of course includes you, owning more than 50% of the shares in the company want to sell their shares (typically to accept an acquisition offer) then, as long as the board and a majority of the investors approve it, all other shareholders must also sell their shares. This protects all shareholders from, say, one small, stubborn shareholder refusing to sell their shares in an acquisition offer and blocking a deal everyone else wants to see happen.

Restrictive Covenants

We don't want any of the founders to start a competitive business or to leave and take team members with you to another business even if it's not competitive. This protects our investment as well as your co-founders. These restrictions apply for as long as you're employed by the company and for 1 year after that.

Founder Shares

Even after our investment, you the founders will normally own the majority of the shares in the company. However, our nightmare scenario is that we invest and then the day after you skip off to Timbuktu and we're stuck as shareholders. It may sound far-fetched, but it's happened. We are fundamentally investing in you and your co-founders for the long haul and we expect you to have the same view. Making your shares subject to reverse vesting protects us and your co-founders if one of you changes your mind. Your shares will be earned monthly over 3 years meaning, for example, that if you give up on the team after 12 months, the company has the right to buy back two-thirds of your shares from you.

Board of Directors

We think you should control your board, but we generally like to have a seat too. We don't take board control. Sometimes it makes sense for us just to have a less formal observer, non-voting seat.

Information Rights

We'd like to get regular status updates from you in whatever format makes most sense for us all. For our own fund and regulatory reporting purposes we'll need monthly updates from you, plus quarterly updates including financial summaries, annual accounts and, over time, copies of the key legal documents from all of your future funding rounds.



Expenses

You pay for your legal costs and we pay ours. We don't see why we'd invest cash in your business only for some of it to come straight back out in order to pay our legal bills. We see whatever this deal costs us as our cost of doing business.

Exclusivity

If we both sign this term sheet, it means we'll all be putting time and effort into completing the investment over the next 4 weeks. We don't want you to keep pitching to other investors potentially to replace us during that period, although obviously we may agree it makes sense to keep pitching for additional co-investors or angels. If you decide to switch to another lead investor in that period and it's not because we've done anything wrong, then we might charge you for our costs.

Confidentiality

We trust your judgement in deciding who to talk to about this offer and when. This is a non-binding offer and things can unfortunately always fall through, so it's really not in your interest nor ours to pre-announce anything until it's done.

Non-binding Effect

This document isn't legally binding but we're still pretty excited about it and the prospect of working with you.

Expiry

We hope you'll decide relatively quickly on whether or not you want to move ahead with us. Obviously it's a big decision so don't take it lightly, but time is your most valuable asset right now and the quicker we move forward and get cash into the company, the quicker you'll be able to focus on building a great business. This offer remains open until we email you to tell you that we've moved on, which we generally do after a few days without hearing back from you.

Acceptance

If you're happy with all of this, sign below, or just tell us so in an email reply.

Thanks for giving us the chance to pitch to you!

Offered by
[Partner]
Passion Capital
[Date]

Signed and accepted above by

Name: -----

Company: -----

Date: -----

Appendix

Important decisions requiring approval by a majority of investors:

- (a) changing the share rights or creating new classes of shares
- (b) the company buying back any shares
- (c) issuing any new shares or options (other than under the company's option scheme and within commercial parameters approved by the investor director) or crypto assets
- (d) increasing the size of the option pool
- (e) paying a dividend to shareholders
- (f) buying another company or selling a subsidiary of the company
- (g) agreeing to sell the company or its business or core assets or floating the company on a stock exchange
- (h) ceasing trading or winding up the company (whilst solvent)
- (i) putting the company into administration
- (j) amending the company's articles of association

Important decisions requiring approval of the Passion board director:

- (a) granting options outside of the agreed option grant programme
- (b) changing the number of board directors
- (c) making board decisions on matters not on the agenda
- (d) changing the nature of your business
- (e) approving your annual budget or business plan
- (f) materially exceeding your spending estimates in your budget (subject to reasonable thresholds)
- (g) making key decisions around senior hires
- (h) hiring, firing and varying arrangements with any director
- (i) lending money, otherwise than in the normal course of business
- (j) giving any guarantees

- (k) charging or mortgaging company assets
- (l) borrowing money, otherwise than in the normal course of business (excepting debt in place at the time we invest)
- (m) conducting material litigation
- (n) entering into arrangements that are not at arm's length, such as with other directors or shareholders