TEMPLATE INVESTMENT TERM SHEET – USER NOTES

This is a simple term sheet for use when a company is raising capital from seed investors. It sets out the terms agreed between the company and the investor prior to preparing the formal agreements. Generally in this type of fund raising the formal agreements will be a subscription agreement – see the template subscription agreement in the fund raising section - and, if necessary, a shareholders' agreement and new constitution – see our template constitution and shareholders' agreement in the governance section. The term sheet is not legally binding (other than the confidentiality obligations in part B); it simply sets out the terms agreed in relation to an investment.

There are no standard terms that apply to investment from seed investors – these types of investments can often be relatively informal and may not include the investor protection provisions required by professional investors or formal investor groups such as angel groups. Most NZ angel groups use the (investor-friendly) NZVIF standard term sheet (available on NZVIF's website: http://www.nzvif.co.nz/seed-co-investment-information.html) and professional investors will have their own form of term sheet.

Under New Zealand securities legislation, a company may not issue (or offer to issue) shares, options or other securities without providing detailed disclosure information to the new shareholders unless it is satisfied that an exception to the information disclosure requirements of the Financial Markets Conduct Act 2013 applies in relation to that offer or issue.

See our **NZ securities law – tech company capital raising guide** in the resources section of our website for an explanation of the relevant exclusions. A company must ensure that an exclusion applies before it offers to issue, or issues, shares.

USING THIS TEMPLATE

The ***User Notes*** and the statements in the footer (all marked in red) are included to assist you to prepare this document. They are for reference only. You should delete all user notes and the statements in the footer from the final form of your document.

The use of [*square brackets*] around black text means that:

- the requested details need to be inserted
- there are different options for you to consider within a clause
- the whole clause is optional and you need to consider whether to include it, based on the company's circumstances and the user notes.

Before finalising your document, check for all square brackets to ensure you have considered the relevant option and deleted the brackets.

If you delete any clause or schedule, remember to cross reference check the document.

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TERM SHEET

FOR THE ISSUE OF ORDINARY SHARES
BY [*INSERT NAME OF COMPANY*] LIMITED
(COMPANY)

This document (**Term Sheet**) summarises the principal terms of a proposed investment in the Company (**Investment**). This Term Sheet is not legally binding except for the terms stated in part B of this Term Sheet and there will be no obligation to issue or subscribe for shares in the Company until a binding investment agreement is signed by the parties.

PART A: INVESTMENT TERMS (NON-BINDING)	
Business:	The business of the Company is [*insert a description of the Company's business*] (**Business**).
Investor:	[*Insert name of Investor*] (**Investor**).
Amount of investment:	The Investor proposes to invest $[*insert aggregate amount to be invested*] (**Investment Amount**) by way of subscription for ordinary shares in the Company (**Shares**) [*at a pre money valuation of $[insert pre-money valuation]*], for an equity share of [*to insert*]%. ***[User note: The pre-money valuation is the agreed valuation of the company prior to receipt of the investment amount.]***
Capital structure:	The capitalisation of the Company immediately prior to investment and after investment of the Investment Amount will be as set out in the capitalisation table attached as the appendix to this Term Sheet.
Condition:	The issue of Shares to the Investor is conditional on the Company being satisfied that an exception to the information disclosure requirements of the Financial Markets Conduct Act 2013 applies in relation to the issue of the Shares. ***[User note: Please see "NZ securities law – tech company capital raising" guide for an explanation of the relevant exceptions. A company must ensure that an exception applies before it offers to issue, or issues, shares.]***

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PART A: INVESTMENT TERMS (NON-BINDING)	
Anticipated completion date:	Completion of the Investment is to occur following the completion of formal legal documentation, anticipated to be approximately [*30*] days after the date of this Term Sheet.
[*Board:*	*[While the Investor holds at least [[insert]% of the shares in the Company,] the Board will consist of up to [insert] directors, consisting of:* • *[two] director[s] appointed by the existing shareholders.* • *[one] director appointed by the Investor.* *No directors' fees will be payable.*]
Pre-emptive rights and drag and tag along:	In addition to usual pre-emptive rights: • drag-along rights will apply where shareholder(s) wish to sell 75% or more of the Shares in the Company to a third party (so that the Shareholders selling their Shares may require the other Shareholders to sell all of their Shares on the same terms); and • tag-along rights will apply where shareholder(s) wish to sell more than 50% of the Shares in the Company to a third party (so that the shareholder(s) wishing to sell must procure the buyer to make a binding offer to buy the Shares of the other Shareholders who wish to sell on the same terms). **[*User note:*** • ***Drag-along rights entitle a specified majority of shareholders to force the remaining (minority) shareholders to sell their shares if a major shareholding in the Company is to be sold. The existing shareholders will benefit from having drag-along rights (as minority shareholders will not be able to prevent a sale of the Company).*** • ***Tag-along rights entitle minority shareholders to sell their shares if a major shareholding in the Company is to be sold. It is reasonable for an investor to have the benefit of the tag-along right so it can participate in a sale by the majority.*** • ***Pre-emptive rights (meaning the obligation on shareholders to offer their shares to existing shareholders before selling them to a third party) and tag and drag along rights should be included in the Company's constitution. See the template***

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PART A: INVESTMENT TERMS (NON-BINDING)	
	constitution in the governance section of the templates page of our website.]
PART B: LEGALLY BINDING TERMS	
Confidentiality:	The contents of this Term Sheet, and the fact that one has been issued, may only be disclosed by the Company to its shareholders, directors, advisers and potential investors or other person(s) approved by the Investors (on a need to know basis).

To confirm your acceptance of this Term Sheet, please sign and date the duplicate of this Term Sheet and return it to me.

[***User note: Use the following signature block if the Investor is a company.***]

SIGNED for and on behalf of [***INSERT NAME OF COMPANY***] **LIMITED** by:)
)

Signature of director

Print full name of director

Date

[***User note: Use the following signature block if the Investor is an individual.***]

SIGNED by [***INSERT NAME OF INDIVIDUAL***]:)
)

Signature

Date

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[User note: If the Investor is a trust, each trustee of that trust will need to sign this term sheet. Use the following signature block for each trustee of that trust.]

SIGNED by **[*INSERT NAME OF TRUSTEE*]** as trustee of the **[*INSERT NAME OF TRUST*]**:)
)
)

Signature of [*Insert name of trustee*]

Date

SIGNED for and on behalf of **[*INSERT NAME OF COMPANY*] LIMITED** by:)
)

Signature of director

Print full name of director

Date

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APPENDIX 1

CAPITALISATION TABLE

[User note: Insert here a capitalisation table of the Company showing the shareholders and the number and percentage of shares held by each shareholder immediately prior to and after the Investor's investment OR fill out the tables below.]

SHAREHOLDER NAME	NUMBER OF SHARES	PERCENTAGE SHAREHOLDING
Immediately prior to the issue of Shares to the Investor:		
Immediately after the issue of Shares to the Investor:		

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