**TERM SHEET**

**For Convertible Note financing of [x]**

[month year]

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| This document (**Term Sheet**) summarises the principal terms of the proposed convertible note financing (**Convertible Note Round**) of [x] Limited (the **Company**) by certain Investors. This Term Sheet is for discussion purposes only and (subject to paragraph 23 below) is not binding on the Company or on any Investor, and there will be no obligation on an Investor to make any loan or issue or subscribe for equity in the Company until a binding Convertible Note Agreement has been agreed to and executed by the Company and that Investor. Unless indicated otherwise, all references to money amounts in this Term Sheet are to New Zealand dollars. This Term Sheet does not constitute either an offer to sell or an offer to purchase securities. | | | |
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|  | *Company* | [x] Limited | |
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|  | *Founders* | [full names of founders] |  |
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|  | *Investor(s)* | [Lead Investor name] (the **Lead Investor**)  The other investors (if any) entering into this Term Sheet (together with the Lead Investor, the **Investor(s)**) | |
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|  | *Type of security* | Convertible note (each a Convertible Note) | |
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|  | *Amount of financing* | $[x] by the Lead Investor  Up to an aggregate amount of $[x] from all Investors (including the Lead Investor)  (each Investor’s aggregate amount of financing being that Investor’s **Purchase Amount**) | |
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|  | *Maturity date* | Two years from the date of this term sheet (the **Maturity Date**) | |
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|  | *Interest rate* | 5% | |
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|  | *Investment in one lump sum* | The Convertible Note will be drawn down in one lump sum following execution of the Convertible Note Agreement. | |
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|  | *Conversion* | *Conversion on equity financing:* In the event of an equity financing by the Company where the Company issues preference shares of any class (a **Qualified Financing**), the Company will on request from the holder of the Convertible Note (**Noteholder**) issue to the Noteholder a number of preference shares in the Company (the same class as the preference shares issued to the investors investing new money in the Company in connection with the Qualified Financing) (the **New Preference Shares**) equal to that Noteholder’s Purchase Amount (plus accrued interest) divided by either: (1) the price per share equal to [$valuation cap] (the Valuation Cap) divided by the issued share capital of the Company immediately prior to the Qualified Financing; or (2) the product of the price per share of the New Preference Shares multiplied by [80%], whichever calculation results in a greater number of preference shares being issued to the Noteholder. The preference shares issued to the Noteholder must be issued on the same terms and conditions as the New Preference Shares (including the terms in any agreement between the new investors and the Company or any shareholders in the Company). | |
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|  | *Prepayment* | At any time prior to Conversion the Company may prepay the financing together with a payment equivalent to [x]% interest per annum on the amount of the financing. | |
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|  | *Liquidity Event* | If there is a change of control of the Company or the Company’s initial public offering of ordinary shares in its capital (a **Liquidity Event**), the Noteholder may, at its option, bring forward the Maturity Date to a date no more than five, and no less than two business days before the change of control or IPO, in which event such Noteholder will be deemed to have elected to convert their Convertible Notes to ordinary shares in accordance with paragraph 9 above. If a Noteholder fails to exercise such option immediately prior to completion of the Liquidity Event it shall automatically receive from the Company a number of Ordinary Shares equal to two (2) times its Purchase Amount divided by the price per Ordinary Share established by the Liquidity Event. | |
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|  | *Dissolution Event* | If there is a (i) voluntary termination of operations; (ii) a general assignment for the benefit of the Company’s creditors; or (iii) any other liquidation, dissolution or winding up of the Company (excluding a Liquidity Event), whether voluntary or involuntary, the Maturity Date will be deemed to be brought forward to the date of such termination of operations, assignment, or other winding up event, and the Purchase Amounts of all Investors (plus accrued interest) will be paid (pro rata among all Investors on a non-participating basis) prior and in preference to any distribution of any of the assets of the Company to the shareholders of the Company. | |
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|  | *Pro rata right to invest* | Prior to conversion of their Convertible Notes, the Investors will be entitled to participate pro-rata (on a fully-diluted basis) in any future issues of shares of any class. | |
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|  | *Observer Rights* | The Lead Investor will be entitled to receive notice of (and the papers relating to) all board meetings and to attend such meetings as an observer, but not to vote at such meetings. | |
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|  | *Investor protections* | The written consent of the Investor(s) will be required to approve certain actions including (without limitation):   1. any amendment to the constitution of the Company; 2. the issue of new shares, options, or convertible securities; 3. the approval of any material change to the budget or business plan; 4. the acquisition or disposal of any material asset outside the ordinary course of business. | |
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|  | *Not a shareholder* | Until their Convertible Notes have converted to equity in accordance with their terms, the Noteholders will not be treated as shareholders of the Company. | |
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|  | *Non-transferable* | The Convertible Notes are not transferable without the prior written consent of the Company; provided however that the rights of the Noteholder may be assigned to an affiliated entity on prior written notice to the Company. | |
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|  | *Exclusivity* | The Lead Investor will have the exclusive right to be the lead investor in the Convertible Note Round until [date] (the **Exclusivity Period**) and the Company and Founders will consult in good faith with the Lead Investor before entering into discussions during the Exclusivity Period with any other potential investor with a view to that potential investor becoming the lead investor in the Convertible Note Round. | |
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|  | *Conditions* | The investment is conditional on:  The Lead Investor being reasonably satisfied with the outcome of its due diligence investigations of the Company within [5 days] of the date of this Term Sheet.  The Company holding at least 10% of its post-money shares in an unallocated employee share option plan (ESOP).  The Lead Investor providing evidence reasonably satisfactory to the Company that the Lead Investor is a “wholesale investor” for the purposes of the Financial Markets Conduct Act 2013. | |
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|  | *Closing date* | The parties agree to work towards the closing of the Lead Investor's investment in the Convertible Note Round occurring on or before 15 working days following the date of this term sheet. | |
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|  | *Legal fees and expenses* | Subject to the Lead Investor becoming a Noteholder, the Company will bear all reasonable out of pocket costs incurred by the Investors associated with the Convertible Note Round (including all legal costs associated with the review of the transaction documents, and all reasonable third party out of pocket expenses incurred by the Lead Investor associated with due diligence) up to a maximum aggregate amount for all Investors of $10,000 plus GST. | |
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|  | *Confidentiality and announcements* | No party will disclose (a) this Term Sheet or any details regarding the proposed investment in the Company by the Lead Investor or (b) any confidential information of the Company which comes into its possession in connection with an Investor's proposed investment in the Company as contemplated in this Term Sheet, to any third party without the written consent of the relevant Investor (for disclosures by the Company) or the Company (for disclosures by an Investor) in respect of such disclosure.  The Investors hereby consent to the Company and/or the Founders disclosing this Term Sheet to:   1. the proposed members of the Company's advisory board; and 2. the Company's legal, tax and other professional advisors.   The Lead Investor further consents to the Company and/or the Founders disclosing this Term Sheet (with the Lead Investor's identity redacted) to other potential Investors in the Convertible Note Round. | |
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|  | Non-binding | Paragraphs 18 and 21 to 23 of this Term Sheet are binding on the parties. All other parts of this Term Sheet are non-binding and subject to the parties entering into formal documentation. | |

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| **Signed** for and on behalf of **[Lead Investor]**: |  |  |
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| *Signed*  Name:  Position: |  |  |
| **Signed** by **[Founder]**: |  | **Signed** by **[Founder]**: |
|  |  |  |
| *Signed* |  | *Signed* |
|  |  |  |

**FREQUENTLY ASKED QUESTIONS**

* **What round of investment is this term sheet designed for?**

This is designed for the angel/pre-seed round. See the following link for a fuller description of that stage: <https://hillfarrance.com/bringing-parity/>

* **What is the nature of the investment?**

This term sheet anticipates the investment will be by way of convertible note in a New Zealand limited liability company under the Companies Act 1993. This is a debt instrument which converts into preference shares in the company on a certain event – most notably an equity round.

Ordinary shares typically carry a right to:

* Vote;
* A dividend;
* A share in the surplus assets of the company in a liquidation.

Preference shares typically carry all the rights of ordinary shares and a preferred right over ordinary shares to surplus assets of the company in a liquidation.

* **What does a lead investor do?**

The lead investor is the first and often the largest investor in the round. The lead investor will lead the recruitment and selection of other investors into that round. Typically the lead investor will be the most involved investor in your business in its early stages.

* **Is this term sheet suitable for a Investor 1 Resident Visa Acceptable Investments as at 1 March 2021?**

No – as this term sheet is for debt in a New Zealand company it will not qualify as an “acceptable investment” for the purposes of the Investor 1 or 2 Resident Visa.