



Template seed investment term sheet

User notes

This is a simple term sheet for use when a start-up is raising capital from seed investors in Southeast Asia. It sets out the terms agreed between the company and the investors prior to preparing the formal agreements. Generally in this type of capital raising the formal agreements will be a subscription agreement - see the template *seed subscription agreement* - and a shareholders' agreement - see the template *seed shareholders' agreement*. 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 by seed investors – these types of investments can often be relatively informal and may not always include the investor protection provisions required by professional investors on larger series A investment rounds.

applicable law

This document is intended for use by companies domiciled in Southeast Asia. Because the laws in each Southeast Asian country are different, you should have the document reviewed by a local lawyer. We have suggested (as a placeholder) that the document be subject to Singapore law as this is the most common domicile of tech companies raising capital in Southeast Asia, and Singapore is well respected as a legal jurisdiction.

using this template

The **User Notes** and the statements in the footer below (all marked in red) are included to assist in the preparation of 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 ensure that all square brackets have been deleted.

If you delete any clauses or schedules, remember to cross reference check the document.

SEED INVESTMENT TERM SHEET

FOR THE ISSUE OF ORDINARY SHARES
BY *[INSERT NAME OF COMPANY]*
(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 and there will be no obligation to issue or subscribe for shares in the Company until binding investment documentation 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**).

Investors: *[Insert names of Investors]* (**Investors**).

Amount of investment: ***[User note: The pre-money valuation is the agreed valuation of the Company prior to receipt of the Investment Amount.]***

The Investors propose to invest an aggregate amount of \$*[insert aggregate amount to be invested]* (**Investment Amount**) by way of subscription for ordinary shares in the Company (**Subscription Shares**) *[at a pre-money valuation of \$[insert pre-money valuation]]*, for an equity share of *[to insert]*% on a fully-diluted basis.

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.

Conditions: *[Insert any conditions to the investment]*.

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: ***[User note: We have suggested that the Investors need to maintain a minimum aggregate shareholding in the Company in order to retain a director appointment right. 10-15% is most common.]***

The Board will consist of up to *[insert]* directors, consisting of:

- ▲ *[two]* director[s] appointed by the *[existing shareholders/founders]*; and

- ▲ while the Investors hold, in aggregate, at least [insert]% of the shares in the Company, [one] director appointed by the Investors [*holding a majority of the Subscription Shares*].

No directors' fees will be payable.

Pre-emptive rights on share issues

[User note: Pre-emptive rights mean that the Company must offer all new shares to existing shareholders (in proportion to their existing shareholdings) before those shares can be offered to any third party. The Company may want to consider granting these rights to the Investors only (to reduce the number of waivers required as part of future funding rounds).]

Subject to customary exceptions, the Company will offer all future issues of equity securities (shares, options, convertible notes etc.) to [*the shareholders*] pro rata to their existing shareholdings. To the extent that one or more [*shareholders*] do not wish to participate, then the shortfall will be offered to the accepting [*shareholders*] on a pro rata basis.

Right of first refusal on share transfers (ROFR)

[User note: A right of first refusal means that if a shareholder wants to sell existing shares to a third party, they must first offer those shares to the existing shareholders (in proportion to their existing shareholdings).]

If a shareholder wishes to sell shares, the other shareholders will have a pro rata right of first refusal to buy those shares and a right to buy any of those shares that the other shareholders do not agree to buy. If the shareholders do not elect to buy all of those shares, the selling shareholder will have the right, for a limited period, to sell the shares to a third party on terms and conditions that are no more favourable to a third party buyer.

[Drag along:

[User note: Drag-along rights apply where a super-majority of shareholders wish to sell their shares in the Company. Those selling shareholders are able to force the remaining minority to also sell their shares, on the same terms and to the same buyer. 75% is the typical starting point for the trigger of a drag-along right. It may still make sense to vary this percentage of course, depending on the particular shareholdings of the Company.]

Drag-along rights will apply where shareholders 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).]

[Co-sale:

[User note: Co-sale rights entitle minority shareholders to sell their shares if a large enough shareholding in the Company is being sold. 50% is the typical starting point, on the basis that a change in control is the logical trigger for providing minority shareholders with a right to exit the Company.]

Co-sale 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).]

Voting and investor consent:

Approval of the Investor Director or, if not appointed, Investors holding a majority of the Subscription Shares, is required to approve:

- ▲ any transaction or arrangement in which the Company acquires or disposes of assets, rights or interests, or incurs obligations or liabilities, not specifically identified in the then current Business Plan, the value of which is greater than \$[insert amount];
- ▲ the borrowing of any money or any change to the Company's borrowing facilities of greater than \$[insert amount], the provision of any guarantee, indemnity or other contingent commitment or the grant of any security over the business or assets of the Company, other than in the ordinary course of the Company's business (including security interests arising by operation of law);
- ▲ any transactions with a related party of the Company or any director or shareholder of the Company, other than on arms' length terms and in the ordinary course of the Company's business;
- ▲ the cessation of any material business operation of the Company or any material change in the principal activity of the Business;
- ▲ any change to the constitution (if applicable) of the Company which materially affects the Investors' rights or which changes the composition of the Board; and
- ▲ all changes in borrowing facilities or capital structure of the Company, or the giving by the Company of any security interest (other than security interests arising by operation of law), or any guarantee or indemnity.

Warranties

[User note: Seed investors often want to include founders as warrantors in addition to the Company. This provides greater comfort that relevant issues have been fully disclosed, as investors will be able to bring warranty claims against the founders as well as against the Company. Note that this is a personal risk and a potential liability to each of the warranting founders.]

The Company [and the Founders] will give warranties to the Investors that are customary for a seed investment.

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] 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

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

Signature of director

Print full name of director

Date

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 Investors' investment OR fill out the tables below.]

Shareholder Name	Number of Ordinary Shares	Percentage Shareholding
Immediately prior to the issue of Subscription Shares to the Investors:		
[insert]	[insert]	[insert]
Immediately after the issue of Subscription Shares to the Investors:		
[insert]	[insert]	[insert]