HSBC Innovation Banking

# Venture Capital Term Sheet Guide 2025

A Commercial Guide to VC Term Sheets

Lead Author:

**Glen Waters, Head of Early Stage Tech & Life Sciences**

HSBC Innovation Banking

# Foreword

We are delighted to present the third edition of our annual **Term Sheet Guide**. Building on the success of previous years, this edition is our biggest yet and provides deeper insights into the evolving landscape of Venture Capital (VC) term sheets, equipping founders and investors with fresh data, key trends, and commercial perspectives on market norms and negotiation strategies.

**The 2024 data** in this guide shows **increasing structure in later-stage rounds**, often translating into more investor-friendly terms. **Seed and Series A remains robust**, while **AI** is still leading the agenda. Encouragingly, the **UK's world-class Life Sciences sector**[1] continues to attract significant global investment, reaffirming its position as a magnet for capital.

## Demystifying VC Term Sheets

While term sheets are often described as 'market standard,' the reality is that their terms can vary significantly depending on **market conditions, industry trends, startup stage, and investor preferences**. These documents—setting out the key terms of a proposed investment—are typically loaded with legal jargon, making them complex and, at times, opaque for founders.

To increase transparency and define what is truly 'standard' in today's market, we have analysed **588 anonymised, final and completed, signed term sheets**—agreements that formed the basis of binding investment agreements (not simply template or pre-negotiated term sheets). This represents a record **38% increase in participation** compared to last year, including 532 term sheets to UK HQ companies. Notably, this UK dataset represents approximately **one-third of all equity term sheets for investments over £0.5m in 2024**[1], making this guide an authoritative insights into what is truly 'market standard' for venture deals today.

Our research was conducted in-house through a survey of **leading UK and international law firms** specialising in venture deals, in collaboration with industry stakeholders including the **British Private Equity & Venture Capital Association (BVCA)**, which recently launched revised model form documentation. Each law firm submitted anonymised data from completed deals. Covering investment rounds from **Seed to Series C+**, the analysis tracks **year-over-year and quarter-over-quarter shifts in key terms**, offering a **granular, up-to-date** snapshot of market norms and on how the venture landscape continues to evolve.

## Empowering Founders with Data

This guide serves as a '1 stop-shop' **practical resource** for founders, investors, and the broader VC ecosystem by providing:

- **An independent view** of what is considered 'market standard' for term sheets at different funding stages and across various investor types;
- A detailed analysis of how evolving **market conditions have shaped term sheet provisions**, backed by robust data and insights; and
- **A commercial perspective** on key negotiation points, along with **actionable tips** for founders navigating investment discussions.

Beyond equity term sheets, the Guide also includes **an overview of venture debt terms**, reflecting the increasing role of non-dilutive funding as founders seek ways to extend runway while preserving equity.

This year's edition also includes findings from a **separate HSBC Innovation Banking investor market sentiment and term sheet pulse survey**, providing insights into potential developments in 2025.

## A Practical Guide for the Ecosystem

The guide is structured in two parts:

1. **An executive summary**, distilling key insights and takeaways from our survey; and
2. **A comprehensive "how-to" guide**, offering detailed explanations of key term sheet clauses and negotiation strategies.

This guide is part of our broader commitment to supporting founders through our **Founder Success programme,** which includes actionable content, events, and hands-on guidance. Think of us as your **trusted partner**— backed by the strength and global reach of HSBC's platform.

We hope this guide helps founders and early-stage businesses navigate term sheets with confidence. We welcome your feedback and look forward to engaging with you on our upcoming initiatives.

Glen Waters
Head of Early Stage Tech & Life Sciences
glen.waters@hsbc.com
Mob: +44 (0) 7950 324018
London
LinkedIn

Christopher Cipirski
Senior Vice President
christopher.cipirski@hsbc.com

Emily Wood
Early Stage Banking
Senior Vice President
emily.wood@hsbc.com

1 Pitchbook as of March 2025.

# A big thank you to the law firms and partners who participated in the HSBC Innovation Banking 2025 term sheet survey!

**27**
Legal participants

**588**
Completed term sheets

**£7.6bn**
Aggregate investment value

Bird & Bird
COVINGTON
fieldfisher
Founders Law
CMS
DENTONS
Browne Jacobson
Cooley
EVERSHEDS SUTHERLAND
fladgate

GOODWIN
HAYNES BOONE
ignition law
HERBERT SMITH FREEHILLS
MARRIOTT HARRISON
fox williams
HARBOTTLE & LEWIS
HUMPHREYS LAW

MBM ENTREPRENEURIAL BUSINESS LAWYERS
orrick
Seven Legal
SHERIDANS
TaylorWessing
SHOOSMITHS
Mishcon de Reya
Osborne Clarke
withersworldwide

Partners
bvca Invested in a better future
carta
Capsule

# Comments from the innovation community (1 of 2)

**Antoine Moyroud**
Partner,
Lightspeed

"Understanding term sheets and their associated legal wording is one of the most underappreciated skills. This is especially true from early stage founders across Europe where, even for operators who have had experience in venture-backed businesses, the understanding of these terms are still limited. HSBC Innovation Banking has done a great job of articulating the different parts of the term sheet puzzle with this guide and it will hopefully serve as an additional valuable resource for founders when discussing financing events with investors."

**Ashley Abrahams**
Head of Origination,
Guinness Ventures

"Alongside Atomico's State of the Market guide the HSBC Innovation Banking Term Sheet Guide is one of the key go to resources for the ecosystem. Don't go into a term sheet negotiation blind. This guide breaks down every element of a standard investor term sheet—what's normal and what should be challenged. I often share the HSBC Innovation Banking term sheet guide with Founders when discussing potential investments into their companies. It clearly lays out the current market standard, making it a brilliant resource for our industry."

**Carolyn Dawson OBE**
CEO,
Founders Forum Group

"Navigating the fundraising process can be daunting, especially for early-stage founders. This latest term sheet guide by HSBC Innovation Banking provides practical, founder-focused insights that demystify key terms, empower entrepreneurs to negotiate with confidence and encourage transparency across the startup ecosystem with market data."

**Check Warner**
Co-Founding Partner,
Ada Ventures

"Guides like these are critical. There is a big information imbalance between founders and investors – particularly first-time founders and particularly those that don't have the connections or peer networks to sense-check terms with. HSBC Innovation Banking's Term Sheet Guide levels the playing field for founders, empowering them with the data to make informed decisions about investment offers they receive. This guide is also valuable for the investors, ensuring that the terms they are offering companies are fair and equitable."

**Chris Adelsbach**
Partner,
Outrun Ventures

"I love the transparency of this guide by HSBC Innovation Banking, mainly because I dislike it when investors and lawyers who negotiate regularly, try to convince founders to acquiesce by stating, "you need to accept because these are the market standards" and then have no data to prove that this is so. This is a pretty elementary negotiation tactic but, with data, both investor and founder can agree, line by line, what is indeed "market." HSBC Innovation Banking's guide goes some way to help founders to engage in fairer negotiations with their investors and their investors' lawyers!"

**Chris Smith**
Managing Partner,
Playfair Capital

"Receiving a term sheet is an important milestone for every founder building a venture backed startup. But excitement can soon turn to fear - what do all these terms mean? Which ones should I negotiate and what are the parameters? Am I getting a good deal? This guide is the perfect primer to enable you to get up to speed quickly and come to term sheet negotiations armed with the latest data and insights to make sure you get the best deal for you and your company."

**Chris Tottman**
Partner, Notion Capital &
Founder, Included VC

"This is an incredible piece of research by Glen and the team from HSBC Innovation Banking. The vast majority of Founders are first timers and perhaps have never signed a TS before. Having HSBC Innovation Banking's research and the right support to hand is incredibly valuable as they land and negotiate offers."

**Dan Bowyer**
Partner,
SuperSeed

"Much changed in the last melt down. We saw economics & control swing significantly with not so founder friendly terms becoming more popular as investors slowed pace and backed away from risk. Some of that inertia is yet to wash through, however, now we have AI, a focus on self-reliance, plus a renewed spring in the investors' step - with more cash than ever before that needs somewhere to go. This guide from HSBC Innovation Banking is incredibly valuable to feel the market pulse and for founders to spot future trends and flow of capital. Insight into a side of the business that founders rarely get to see. And to be frank they're all that matter really. They're the ones building the future."

**Gerard Grech CBE**
Managing Director, Founders
at the University of Cambridge
& Founder, Tech Nation

"This data-driven guide from HSBC Innovation Banking makes essential reading given latest macroeconomic indicators. Among many points, it highlights AI and science's growing role in the UK's innovation economy, providing founders, investors, and policymakers with critical insights to harness this momentum. As AI investment accelerates, understanding these trends will be key to shaping strategies that drive competitiveness, and long-term economic growth across the UK, especially in AI clusters like London and Cambridge."

# Comments from the innovation community (2 of 2)

**Michael Moore**
Chief Executive,
BVCA

"Having a set of standard, industry recognised, model documents so widely available allows start-up founders to save both time and capital. You can see this play out in the decline in use of founder warranties since their removal from the BVCA's model documents in 2023. We will continue to work with the industry to develop the documents and provide them at no cost, so founders and investors focus on what they do best."

**Pam Garside,**
Chair,
Cambridge Angels

"This data-led guide provides valuable insights for our angel community. We are always looking for information on valuation and sector trends and it has proven to be a great help."

**Reece Chowdhry**
Founding Partner,
Concept Ventures

"As a founder embarking on a 10-year journey with a venture capitalist, understanding the terms you're signing onto and the market standard is crucial. This guide shines a much-needed spotlight on the often hazy realm of VC terms. Had I possessed this invaluable resource when I was sitting on the other side of the table, I would have been better equipped to navigate the complexities of the VC world."

**Rhian Saleh**
General Counsel and
General Partner,
Phoenix Court

"Access to this detailed, data-driven guide will help the VC ecosystem to make informed decisions. Visibility on market norms empowers founders to negotiate confidently and secure capital on terms that are aligned with the company's long-term objectives, whilst encouraging investors to promote consistent, equitable terms; this reduces friction in negotiations and supports more collaborative partnerships. We believe a pragmatic approach to term sheets, balancing parties' economic and decision-making interests, creates the foundation for durable, high-impact companies."

**Roderick Beer**
Managing Director,
UKBAA

"At the UKBAA, we're excited about the positive impacts of the HSBC Innovation Banking VC Term Sheet Guide 2025. This guide is packed with insights that help Angel Investors make smart decisions and understand VC term sheets better. Understanding typical investment sizes and ownership % helps Angel Investors get a clear picture of what to expect in terms of dilution and stakes at later funding rounds, emphasising the importance of pre-money valuation and looking at the full capitalisation table, including options, warrants, and convertible instruments. I am pleased to see the guide indicating a robust, buoyant venture industry for the year ahead."

**Rubén Domínguez Ibar**
VC Investor,
Itnig

"VCs know term sheets inside out. Founders? Not so much. That's why they often negotiate at a disadvantage. HSBC Innovation Banking analysed 588 term sheets from 27 law firms, exposing how deals really get done. For the 400,000 founders and VCs in my audience, for Itnig's investments, and my own as an angel—this kind of transparency is rare and super useful. Big institutions almost never open their data like this. A must-read for anyone raising or investing in 2025."

**Tom Wehmeier**
Partner,
Atomico

"These findings underscore the continued strength of our ecosystem at the early stage, and the first few months of 2025 make clear there's now real momentum at the growth stage and in exits too. In recent months we've also seen growing political recognition of the crucial role of technology founders in driving economic growth and innovation. Now there's an urgent need to create the best conditions for these entrepreneurs to thrive. By demystifying VC term sheets and providing detailed insights to guide decisions, this guide will help make our ecosystem easier for founders to navigate."

**Triin Linamagi**
Founding Partner,
Sie Ventures

"Access to term sheet benchmarks in Venture Capital empower founders with transparency, helping them understand market norms, negotiate fair terms, and avoid unfavourable clauses. In a fundraising landscape where knowledge is leverage, these insights level the playing field between investors and entrepreneurs."

**Vanessa Vasquez**
Head of Legal,
Seedcamp

"Participating in more than 50 investments annually, we witness the emergence of our own micro-economy within the European startup landscape. Through meticulous analysis of our data, we ensure equitable terms for both founders and investors. This guide offers an extensive and transparent dataset, empowering us and our founders when raising their early investment rounds. It serves as a valuable tool for benchmarking within the ever-changing early-stage market."

# HSBC Innovation Banking: we are at the heart of the innovation economy and are your trusted strategic partner

"We offer more than commercial banking services. We have the expertise, agility and connections that high-growth innovation, private equity, and venture capital businesses need to accelerate their growth. Our purpose is to support founders, firms and funds as they evolve by focusing on three key areas that empower them with everything, they need to reshape our world.

The team at HSBC Innovation Banking and I are excited about the prospects for UK innovation in 2025 and beyond, and we look forward to working with ecosystem partners across the country to help realise the UK's incredible potential. Our flagship term sheet guide has become a must read for founders, investors, lawyers and operators across the ecosystem and we're proud of how this helps educates and impacts future conversations around deals."

**Simon Bumfrey, CEO, HSBC Innovation Banking UK**

We work with the most innovative, equity-funded businesses and their investors across all life stages, within the technology, life sciences and health care sectors

## Specialist people

- Dedicated Relationship Manager
- Deep sector and life-stage expertise
- Long-standing relationships

## Bespoke solutions

- Banking that scales with you
- Solutions designed specifically for innovation
- Gateway into the broader strength, stability and international reach of the HSBC platform

## Connecting the innovation economy

- Investing in inclusive innovation
- Making meaningful connections
- Delivering real thought leadership
- Hosting ecosystem events

# HSBC Innovation Banking VC term sheet guide contents



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# Executive Summary

**Section 2**

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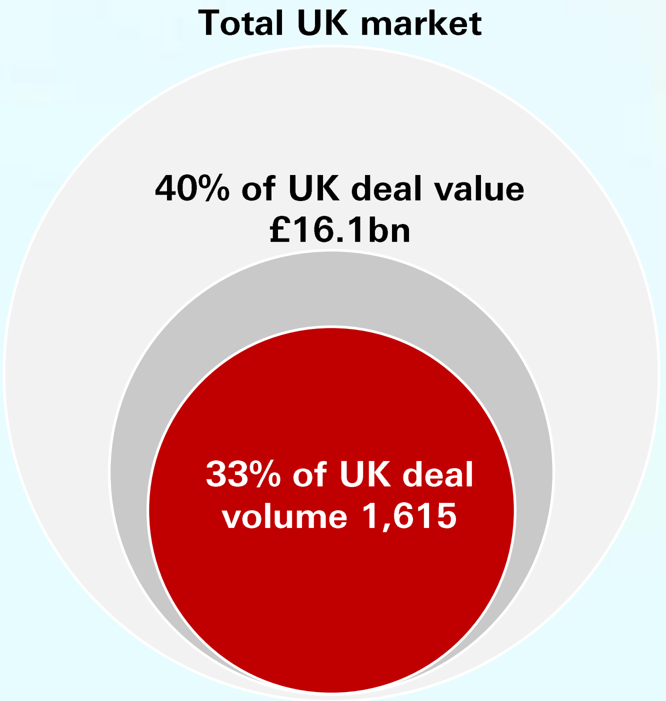
# Our independent Term Sheet Guide is based on a comprehensive data set derived from venture deals, representing 33% the UK VC market by deal volume and 40% by investment value, based on the surveyed term sheets

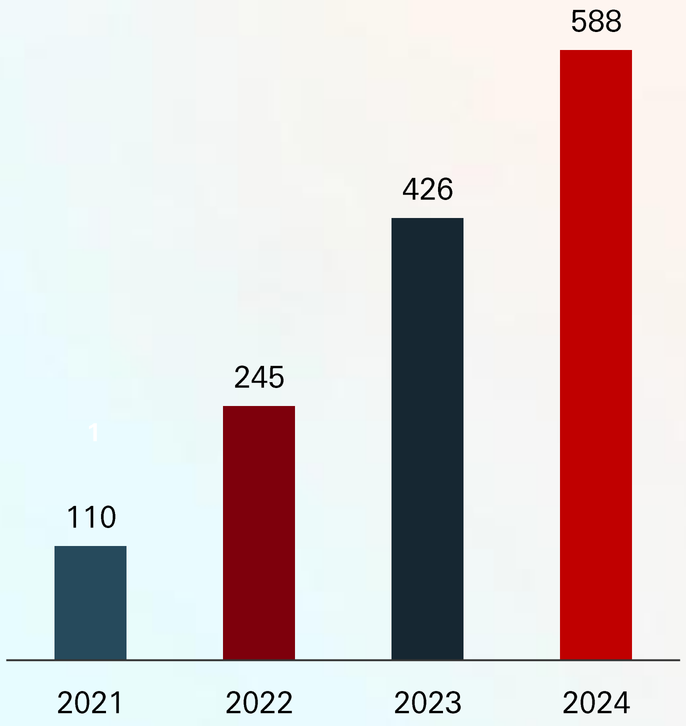
## The survey captures a significant portion of UK VC activity

Term sheet surveyed as a % of total UK Venture Capital activity in 2024[1]



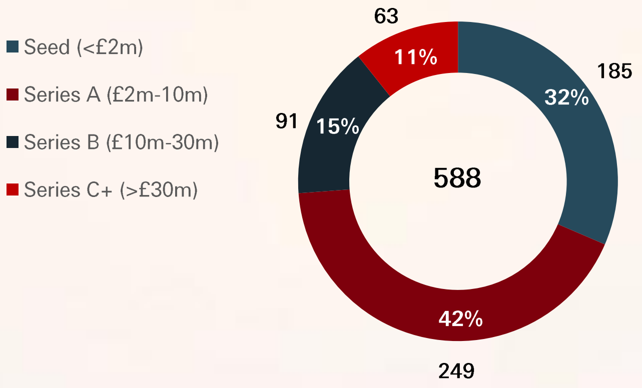

## Record participation increased by 38% in 2024

# term sheets analysed in survey year




## Comprehensive review of the entire VC investment ecosystem

Term sheets by investment stage / size




Note: For the purposes of this guide, investment sizes have been labelled as: **Seed (up to £2m), Series A (£2.01m-£10m), Series B (£10.01m-£30m) and Series C+ (£30m+).**

For simplicity of this guide, these investment sizes may not always reflect the stage of maturity of the term sheet issued (e.g. **Verdiva-Bio completed a Series A round of £327m – the largest Series A deal in 2024).**

1 Calculated as % of term sheets for UK-headquartered companies (532 out of 588 by volume and £6.4bn out of £7.6bn value total term sheets) compared against the UK Venture Capital market (completed VC deals >£0.5m in 2024) of 1,615 transactions and £16.1bn of deal value, source Pitchbook as of March 2024.

# Founders and investors adapting to new term sheet structure dynamics
# Term sheet survey findings and recap of 2024

## 2024 UK VC market activity in context

- After a turbulent 2022-2023, **VC funding into UK companies stabilised in 2024;** UK companies raised approximately £16bn[1] from VC deals, broadly in-line with 2023. 2024 began strongly, with UK VC funding in H1 2024 up 18% compared to H1 2023[1], driven by megarounds such as Wayve's £820m Series C[1] and Monzo's £500m Series I[1]. Activity slowed in H2 2024 influenced by geopolitical tensions and election cycles in both the UK and US.
- Encouragingly**, UK VC firms saw a significant uptick in fundraising,** with General Partner commitments rising 59% compared to 2023[1]. Notable raises included **over £1bn** each by Atomico and Balderton Capital – a positive signal of confidence in the long-term potential of the UK Tech and Life Sciences scene.
- **Public markets & M&A exists remained muted**, limiting return distributions to investors. However, we observed selective private M&A picking up towards the end of 2024 and looking ahead, sentiment for M&A and IPO activity is growing more optimistic.

## 2024 term sheet dynamics

- Our analysis of the term sheet data reveals a **notable increase in the volume of later-stage VC deals exceeding £30m** (classified in our guide as Series C+), increasing from **7% in 2023 to 11% of surveyed term sheets in 2024**. As deal volumes at Series C+ has grown, terms have become more structured and investor friendly. For example, participating preference shares were included in 15% of deals, more than doubling from 7% in 2023. At the same time, average valuations have come down – reflecting a recalibration in growth stage investing.
- The UK VC ecosystem continues to evolve, and founders and investors have adapted creatively to tighter capital conditions. Many companies deferred raises in 2022-2023 and/or did internal rounds, are now returning to market under pressure to close rounds. While **Limited Partners increasingly demand improved returns**, leading VCs to implement enhanced downside protections, in growth-stage deals to safeguard against risks and ensure more favourable exit multiples.
- **Seed and Series A funding stages continue to demonstrate resilience**, with many early-stage VC firms doubling down at the early stage, where risk adjusted returns are more favourable. The UK saw a boom in specialist pre-Seed and Seed funds in 2022 before the market slowdown hit. These funds have continued to deploy capital, even as later stage firms were pulling back.
- **US HQ investors** have also **become increasingly active in UK early-stage startups**, **while large European funds** such as EQT Ventures, Forbion, Cherry Ventures and Lakestar are also **deploying capital into the UK later stage growth companies**, reflecting confidence in the UK ecosystem's depth and maturity.
- Upon reviewing the quarterly survey data, no significant trends were identified.

## 2024 term sheet sector trends

- In 2024, **AI[2] and Life Science & BioTech have nearly doubled their share of surveyed term sheets to 26%, up from 15% in 2023:**
  - AI's prominence is underscored by term sheets in this sector rising to 14% of total volume from 9% in 2023, with investment value increasing from 9% to 20%;
  - **Will there be a VC hangover in AI?** Currently a competitive hot sector and therefore investors are issuing more founder friendly terms, e.g. non-participating seen in 95% of AI term sheets. There are also significantly higher founder vesting and leaver provisions in AI term sheets which reflect the earlier stage of maturity of these companies; and
  - **Life Sciences & BioTech have also seen significant growth, doubling to 12% of term sheets from 6% in 2023**, alongside a notable rise in board representation (as academic founders are supplemented by experienced business advisers), while higher participating preference shares were seen in this sector driven by sector's capital intensity, higher risk and longer exit horizons.
- **FinTech rebounded to 12% of term sheets from 10% in 2023**, with recent UK interest rates cuts improving investor sentiment and confidence in the sector, alongside more realistic valuation expectations.

## 2025 outlook

- **Entering 2025, we believe we are witnessing the start of a renewed VC and PE investment cycle** that we expect to gain momentum through the year based on i) a more stable operating environment for companies (notwithstanding the recent market volatility, including tariff concerns); ii) strong thematic drivers such as AI, ClimateTech and Life Sciences; iii) healthy investor activity at early- and growth- stage, including from overseas capital; iv) higher levels of exists and capital distributions,
- **The positive outlook for 2025 is reinforced by our investor pulse survey of 52 VCs[3]**, which indicates that c65% of investors hold an optimistic perspective on the overall market. Notably, over 50% of respondents anticipate increasing their investment activity this year, with AI unsurprisingly the sector investors are most bullish on.

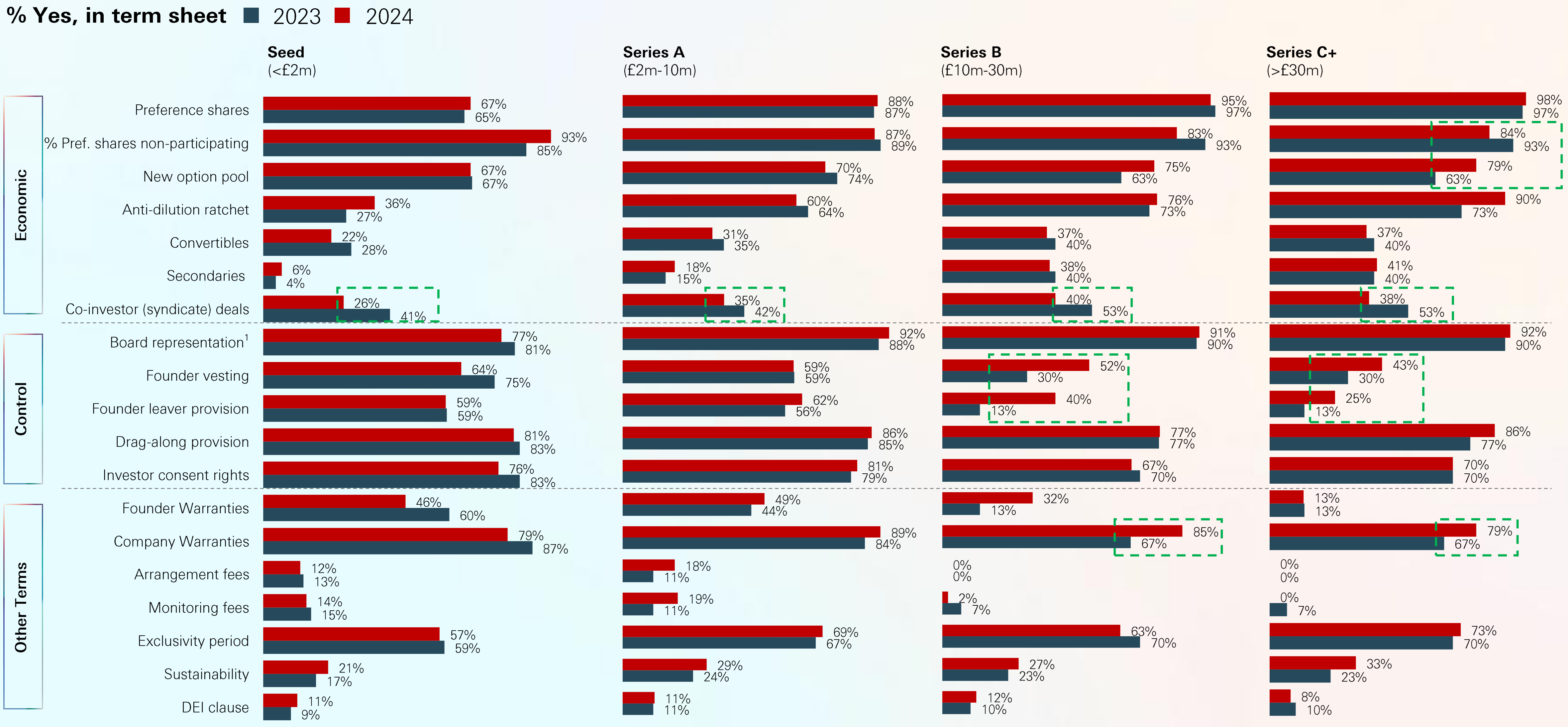
1 Pitchbook as of March 2025 and HSBC Innovation Banking and Dealroom UK Innovation 2025 Forward Look Report as of January 2025.
2 AI defined as companies focused exclusively on "pure AI" (tools and technologies that cover two key business models: Generative AI and Large Language Models (LLMs). Enabling AI has been classified in the sector it relates to (e.g. Enterprise Software or CleanTech). Survey sector classification defined as the primary end market or consumer.
3 HSBC Innovation Banking UK VC Investor Market Pulse survey. 52 leading VC investors in the UK were surveyed between the period 4 March and 14 March 2025 (further insights can be found in this guide).

# Term sheet survey in numbers: 5 key take-aways

| | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| **1** **Seed surging – competitive, founder-friendly deals:** Seed investment has surged to 32% of term sheets, up from 14% in 2021, as sophisticated and international investors increasingly engage at earlier stages. This trend is driving a competitive market characterised by less structure and more founder-friendly terms. | 32% | 29% | 24% | 14% |
| **2** **Investor risk appetite rising at later stage – but at a cost of more structure and lower valuations:** Investment tickets sizes £30m+ (Series C+) rose to 11% of term sheets, up from 7% in 2023 – evidence of increasing investor appetite for later-stage risk. However, these deals are being executed on average at lower valuations and on more structured, investor friendly terms, with strengthened downside protections and down-round safeguards. | 11% | 7% | 11% | 10% |
| **3** **Cross-border capital drives growth stage deals; UK investors drive Seed and Series A deal:** c.80% of late stage (Series C+, £30m) deals into UK HQ companies were led by cross-border investors, compared to 51% in 2023. This increase was driven by European investors. Note, 70% of Seed investments and 59% of Series A were led by UK-based investors, highlighting the split dynamic (also known as the "scale-up-gap") between domestic support at the early stage and international capital driving growth rounds. | 80% | 51% | Not surveyed | Not surveyed |
| **4** **Elevated investor industry concentration – AI[1], Life Sciences and FinTech lead:** Investor focus has intensified around AI, Life Sciences & BioTech and FinTech sectors, which represented 38% of surveyed term sheets in 2024, up from 25% in 2023. This reflects increased concentration of capital into sectors with strong macro-economic tailwinds, sectors where the UK excels and the potential for outsized returns. | 38% | 25% | 30% | 22% |
| **5** **Less syndication, bigger cheques:** Deal syndication decreased to 33% from 42% in 2023. This trend reflects heightened competition for high-quality deals and deployment pressure, with VCs increasingly writing larger cheques independently to secure allocations and put capital to work. | 33% | 42% | 35% | 49% |

1 AI defined as companies focused exclusively on "pure AI" (tools and technologies that cover two key business models: Generative AI and Large Language Models (LLMs). Enabling AI has been classified in the sector it relates to (e.g. Enterprise Software or CleanTech). Survey sector classification defined as the primary end market or consumer.

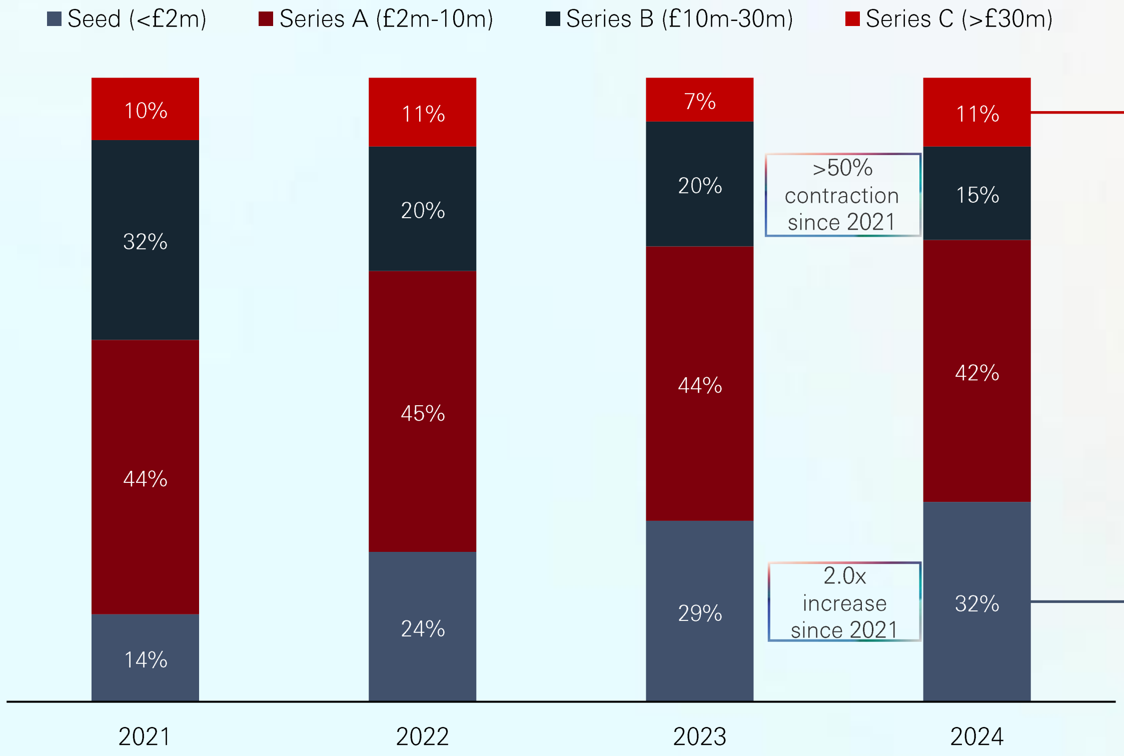
# A market standard term sheet:
# What did a "typical" VC term sheet by stage look like in 2024 vs 2023?




1 Board representation excluding observer.

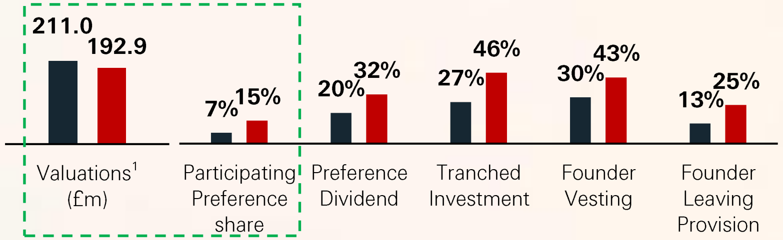
# Seed and Series A deals remained stable in 2024 at c.75% of term sheets issued, with a notable increase in the volume of Series C+ (>£30m) deals from 7% to 11%. Albeit these Series C+ deals were at lower valuations with higher levels of participating pref. share structures (i.e. investor-friendly terms)

## Term sheets by investment stage %




**Investor risk appetite is on the rise, reflected in an increase in later-stage deals; however, these transactions are occurring at lower valuations and with more structured and aggressive terms**

Comparison of select Series C+ valuation and terms in 2024 vs 2023:

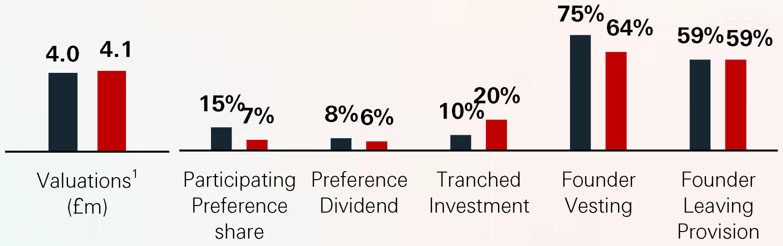



**Implications for founders / management**

- Increased investor-friendly structure
- Strengthened downside and down-round protection

**Seed investment has risen significantly to 32% of term sheets, up from 14% in 2021, as sophisticated and international investors increasingly engage at earlier stages**

Comparison of select Seed valuation and terms in 2024 vs 2023:




**Implications for founders**

- More sophisticated investors engaging earlier
- Competitive market - less structure and more founder friendly terms

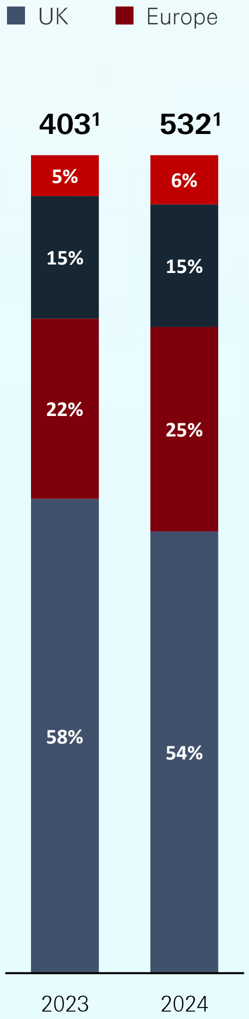
**Reece Chowdhry**
Founding Partner,
Concept Ventures

"The Seed stage continues to be an increasingly attractive place for multi-stage funds to invest. The risk-reward ratio and price of investing at the Series A stage compared to the Seed stage encourage these multi-stage funds to enter early. Particularly, US funds have been aggressively entering the Seed stage in Europe and this has continued in 2024. I have personally witnessed the growing difficulty for local European funds to compete at the Seed stage. I refer to this phenomenon as the "crowded middle."

1 UK VC Median post-money valuation (across all sectors) £m as of Pitchbook, March 2025.

# UK Seed benefiting from US HQ'd investors, while European investors increasingly dominate later-stage rounds (Series B and C+). This shift at the later-stage is driven by the expansion of growth capital funds, which enable participation in later-stage rounds and reflect a strong appetite for UK innovation champions

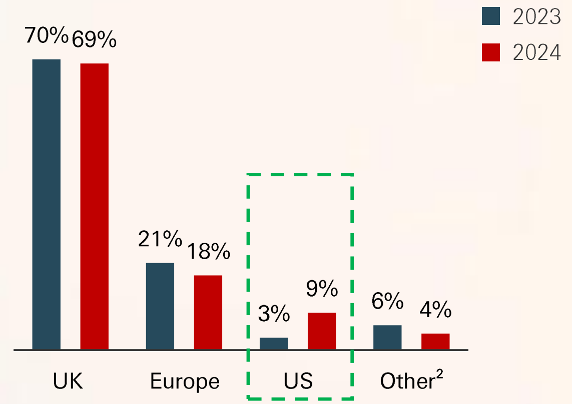
## Term sheet – lead investor HQ location




**The UK scale-up-gap**
European & US investors dominate UK Series C+ deals indicative of the "scale-up" gap in the UK venture ecosystem. The UK VC ecosystem is well-capitalised at Seed and Series A but there is less domestic capital available for £30m+ cheques, with many UK funds capping out at Series B, leaving a funding gap for later stage companies seeking to scale.

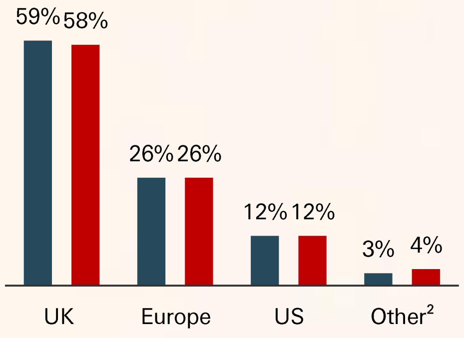
## Seed stage (<£2m) lead investor HQ location

2023: 115 2024: 167



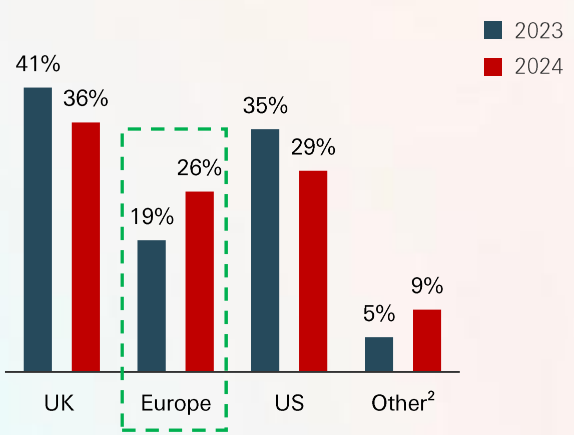

## Series A (£2m-£10m) lead investor HQ location

2023: 179 2024: 230



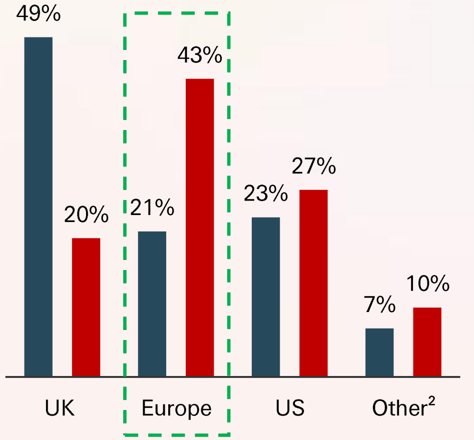

## Series B (£10m-£30m) stage lead investor HQ location

2023: 80 2024: 84




## Series C+ (>£30m) lead investor HQ location

2023: 29 2024: 51

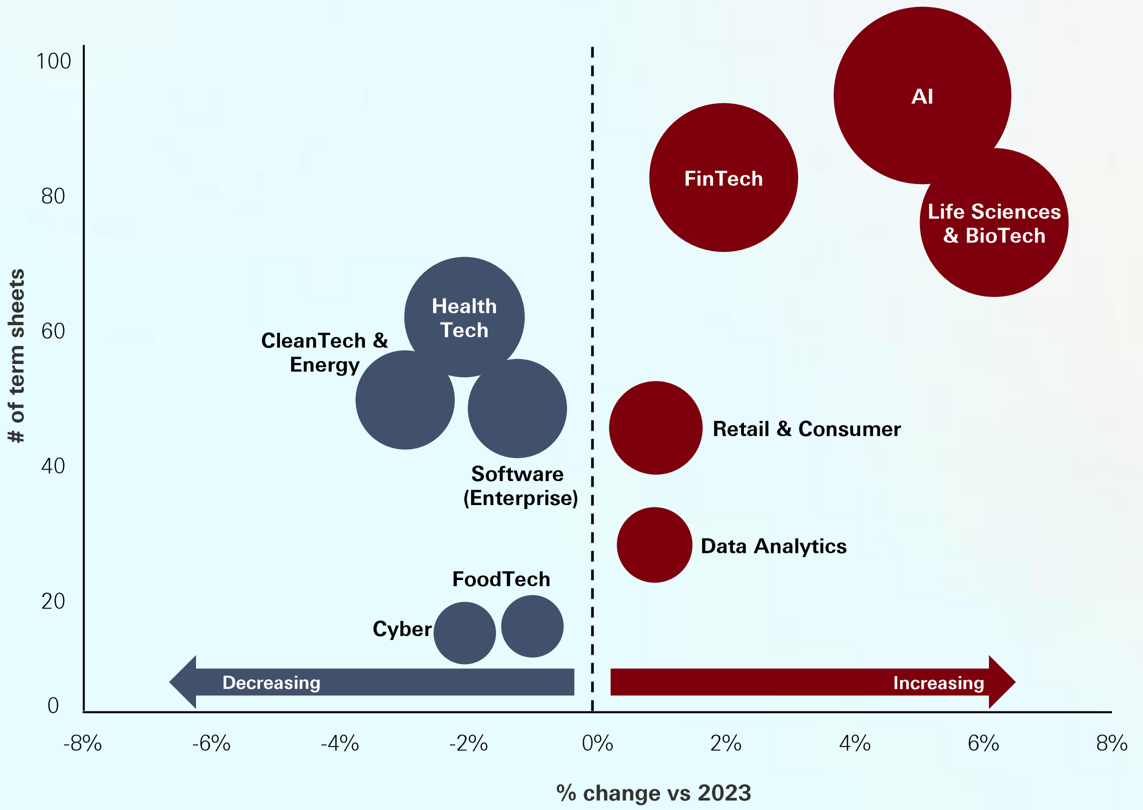



Note: The term "lead investor HQ location" refers to the location of the parent company's headquarters, rather than the location of its investment office/branch.
1 UK headquartered companies only, in 2024 represented 90% of VC term sheet survey responses (532 out of 588 term sheets).
2 "Other" refers to investors in the Middle East, Africa and Asia.

# AI, FinTech and Life Sciences & BioTech increased to c.40% of term sheets surveyed in 2024, while CleanTech and Energy and Cyber saw a modest decline

## Top 10 sectors by # term sheets and YoY % change

**Size of bubble represents % size of total**




**AI sector definition**
AI defined as companies focused exclusively on "pure AI" (tools and technologies that cover two key business models: Generative AI and Large Language Models (LLMs). Enabling AI has been classified in the sector it relates to (e.g. Enterprise Software or CleanTech). Survey sector classification defined as the primary end market or consumer.

## Top 10 sectors 2024 - 2022

**Sorted by 2024 % number of term sheets**

| | 2022 % | 2023 % | 2024 % | 2024 vs 2023 ppt% change |
|---|---|---|---|---|
| AI | 4% | 9% | 14% | +5% |
| Life Sciences & BioTech | 10% | 6% | 12% | +6% |
| FinTech | 16% | 10% | 12% | +2% |
| HealthTech | 12% | 12% | 10% | (2%) |
| CleanTech & Energy | 6% | 10% | 8% | (2%) |
| Software - Enterprise | 9% | 8% | 7% | (1%) |
| Retail & Consumer | 6% | 6% | 7% | +1% |
| Data analytics | 5% | 4% | 5% | +1% |
| FoodTech | 0% | 3% | 2% | (1%) |
| Cyber | 4% | 4% | 2% | (2%) |
| **Top 10 % Total** | 72% | 72% | 79% | +7% |
| **Other[1] % Total** | 28% | 28% | 21% | (7%) |

**Dan Bowyer**
Partner,
SuperSeed

"No surprise AI is big on the agenda, but what is great to is that we're world leading at Life Sciences and BioTech here in Europe. I hope we lean more in and absolutely own it. It's an extremely exciting time to be in startup, in the UK."

**Dan Chaplin**
Partner,
Dawn Capital

"The activity and ambition of European entrepreneurs to improve our societies and working lives continues with a surge in term sheets focused on transformative technologies in AI and Life Sciences, and the ongoing reshaping of Financial Services."

1 "Other" refers to industry sectors that fall outside the top 10 based on the number of term sheets. This category includes the following sectors, listed in alphabetical order: AdTech (1.2%), AgTech (0.3%), Blockchain (1.2%), Crypto (0.7%), Digital (1.9%), EdTech (0.5%), Esports/Gaming (1.4%), Government (0.0%), Hardware (1.7%), IoT (0.7%), Marketplace (1.2%), Media (2.2%), NanoTech (0.2%), Real Estate/PropTech (1.4%), Robotics (0.7%), Social Impact (1.4%), Software – Non-Enterprise (0.6%), SpaceTech (0.9%), Telecoms (0.2%), Transportation (2.2%), VR & AR (0.3%) and WearableTech (0.2%).

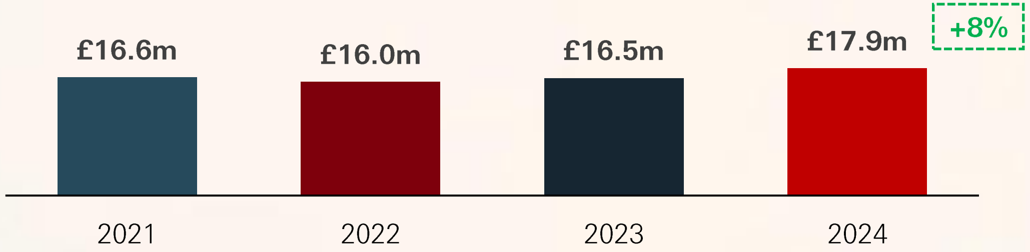
# There has been an uptick in Seed and Series A valuations; however, Series C+ valuations experienced a further decline in 2024

**Pitchbook UK VC Median post-money valuation and average investment size (across all sectors) £m**

## Seed (<£2m investment size)


| | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| Valuation comparison[2] | | | | |
| AI[2] | £3.3m | £4.1m | £4.0m | £4.3m |
| All sectors ex. AI[2] | £3.2m | £3.8m | £3.9m | £4.0m |
| Avg. investment size | £0.58m | £0.59m | £0.63m | £0.65m |

## Series A (£2m – 10m investment size)

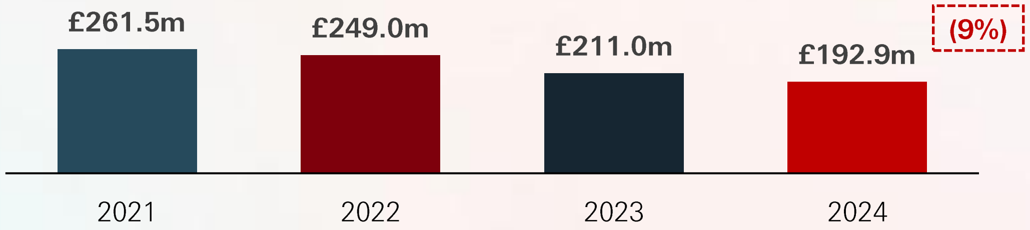



| | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| AI[2] | £17.4m | £18.2m | £16.7m | £17.0m |
| All sectors ex. AI[2] | £16.4m | £15.7m | £16.5m | £18.1m |
| Avg. investment size | £4.3m | £4.4m | £4.4m | £4.6m |

## Series B (£20m – 30m investment size)


| | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| Valuation comparison[2] | | | | |
| AI[2] | £57.8m | £66.8m | £52.5m | £62.3m |
| All sectors ex. AI[2] | £55.7m | £59.6m | £57.3m | £54.0m |
| Avg. investment size | £17.3m | £17.5m | £17.2m | £16.9m |

## Series C (>£30m investment size)




| | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| AI[2] | £227.1m | £234.1m | £255.3m | £201.7m |
| All sectors ex. AI[2] | £265.4m | £249.0m | £179.2m | £191.2m |
| Avg. investment size | £91.2m | £88.6m | £83.0m | £93.4m |

Source: Pitchbook as of March 2025.
1 Number of completed investment (deals) where deal size >£0.5m.
2 Median post-money valuations for AI (defined as startups focused exclusively on "pure AI" sector), alongside a comparative analysis of all other sectors (technology and life sciences) excluding AI.

# Investors are increasingly allocating larger investment amounts to higher growth sectors characterised by elevated pre-money valuations

## Illustrative - top 15 sectors by pre-money valuation and investment size £m[1]

Average pre-money valuation[1] £m

**Higher valuation**
High growth potential and strong market demand and competitions between investors.

**Sarah Blagden**
Professor of Experimental Oncology, University of Oxford & CEO and Co-Founder, Prenostics

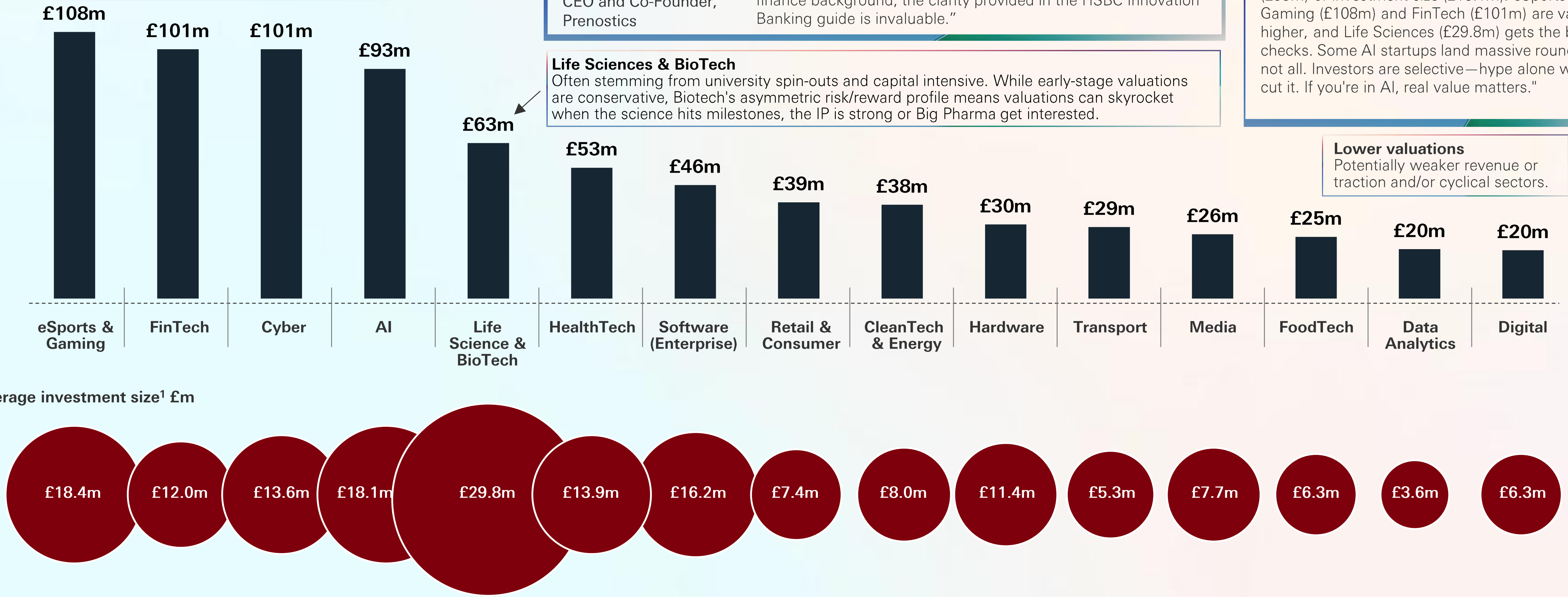
"This guide is an invaluable resource for founders, providing much needed transparency on market standards and bringing everything into one place. We used the practical guidance provided in last year's guide on our fundraising journey and it was a very useful reference guide – especially for negotiations. For life science founders, many of whom do not come from a finance background, the clarity provided in the HSBC Innovation Banking guide is invaluable."

**Rubén Domínguez Ibar**
VC Investor, Itnig

"Funny how the media makes it seem like all the big money is in AI, yet it's not leading in valuations (£93m) or investment size (£18.1m). eSports & Gaming (£108m) and FinTech (£101m) are valued higher, and Life Sciences (£29.8m) gets the biggest checks. Some AI startups land massive rounds, but not all. Investors are selective—hype alone won't cut it. If you're in AI, real value matters."

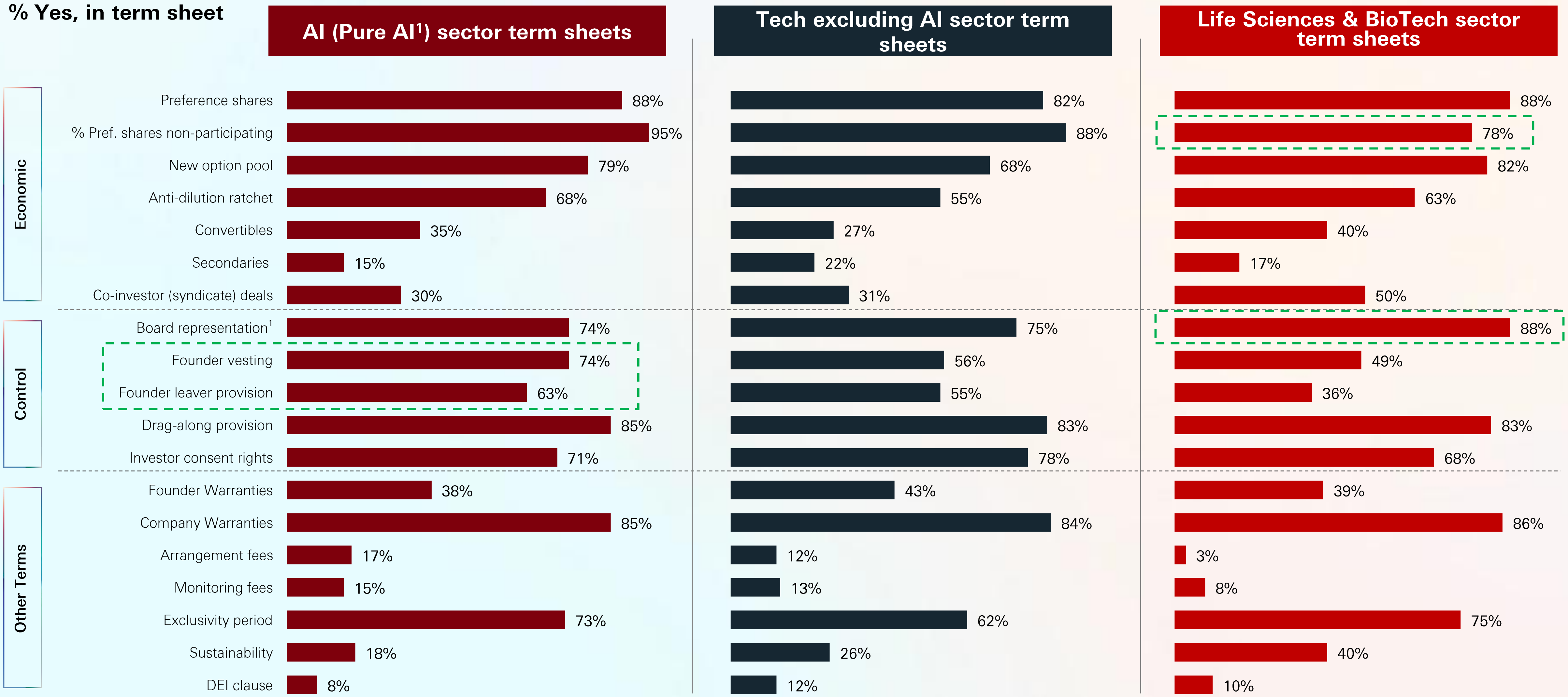
**Life Sciences & BioTech**
Often stemming from university spin-outs and capital intensive. While early-stage valuations are conservative, Biotech's asymmetric risk/reward profile means valuations can skyrocket when the science hits milestones, the IP is strong or Big Pharma get interested.

**Lower valuations**
Potentially weaker revenue or traction and/or cyclical sectors.




Note: AI defined as companies focused exclusively on "pure AI" (tools and technologies that cover two key business models: Generative AI and Large Language Models (LLMs). Enabling AI has been classified in the sector it relates to (e.g. Enterprise Software or CleanTech). Survey sector classification defined as the primary end market or consumer.
1 Arithmetic mean average is used for pre-money valuations and investment size.

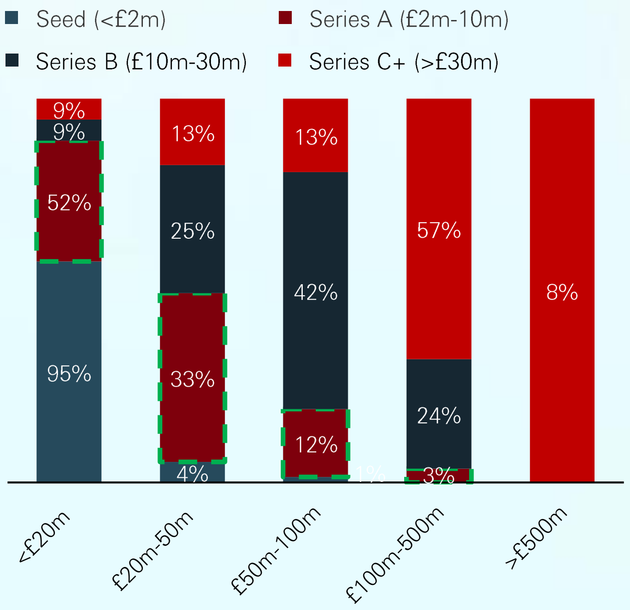
# Will there be a VC hangover in AI? Currently, this sector is exceptionally competitive - therefore investors are issuing more founder friendly terms, non-participating seen in 95% of term sheets. There are also significantly higher founder vesting and leaver provisions which reflect the earlier stage of maturity of these companies, where vesting is more prevalent



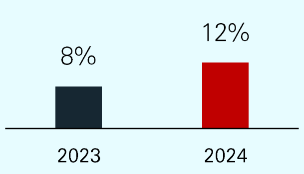

1 AI defined as companies focused exclusively on "pure AI" (tools and technologies that cover two key business models: Generative AI and Large Language Models (LLMs). Enabling AI has been classified in the sector it relates to (e.g. Enterprise Software or CleanTech). Survey sector classification defined as the primary end market or consumer.

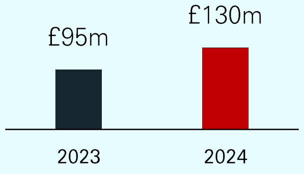
# Series A investments are increasing in both valuation and investment size – 12% (31) Series A terms sheets featured pre-money valuations >£50m vs 8% (15) in 2023

## Pre-money valuation indicated in term sheet by stage (where disclosed)




## Material increase in number and valuations of Series A in 2024

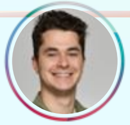



## Series A investments in >£50m pre-money valuation increase to 31 term sheets surveyed in 2024, up from 15 in 2023. The investments were relatively evenly distributed across a broad range of industry, with simple non-participating preference shares seen

The top 15 Series A investments >£50m pre-valuation out of 31 surveyed in 2024 (sorted by pre-money valuation)

| | Industry | Pre-money valuation | Investor type | Preference share | Preference share participating | Liquidation multiple |
|---|---|---|---|---|---|---|
| Term sheet 1 | Fintech | £800m - £850m | CVC | N | N/A (Ordinary) | N/A |
| Term sheet 2 | Fintech | £450m - £500m | VC | Y | N | 1x |
| Term sheet 3 | AI | £300m - £350m | VC | Y | Y | 1x |
| Term sheet 4 | Cleantech & Energy | £250m - £300m | VCT | N | N/A (Ordinary) | N/A |
| Term sheet 5 | Marketplaces | £150m - £200m | CVC | N | N/A (Ordinary) | N/A |
| Term sheet 6 | Fintech | £150m - £200m | VC | Y | N | 1x |
| Term sheet 7 | Cleantech & Energy | £150m - £200m | CVC | Y | N | 1x |
| Term sheet 8 | Fintech | £100m - £150m | CVC | Y | N | 1x |
| Term sheet 9 | HealthTech | £70m - £80m | CVC | Y | N | 1x |
| Term sheet 10 | Retail & Consumer | £70m - £80m | VC | Y | N | 1x |
| Term sheet 11 | IoT | £70m - £80m | VC | Y | N | 2x |
| Term sheet 12 | Fintech | £70m - £80m | VC | Y | N | 1x |
| Term sheet 13 | Retail & Consumer | £70m - £80m | VC | Y | N | 1x |
| Term sheet 14 | Real estate | £70m - £80m | VC | Y | N | 1x |
| Term sheet 15 | Cyber | £70m - £80m | VC | Y | N | 1x |



**Antoine Moyroud**
Partner,
Lightspeed

"Participating structures of more than 1x liquidation multiples should only be considered as a last resort option when the company hasn't been able to show strong enough results to catalyse enough "traditional" investor interest. At early stage, it should be a big no-no as it reflects a misalignment of incentives with investors who are heavily optimizing for downside protection. That being said, any funding enabling founders to successfully take their company towards their next milestones and granting them "another shot at goal" should be considered. Founders should clearly understand the implications of these non-market terms as they will heavily affect the founder's outcomes in the event of an acquisition or exit."

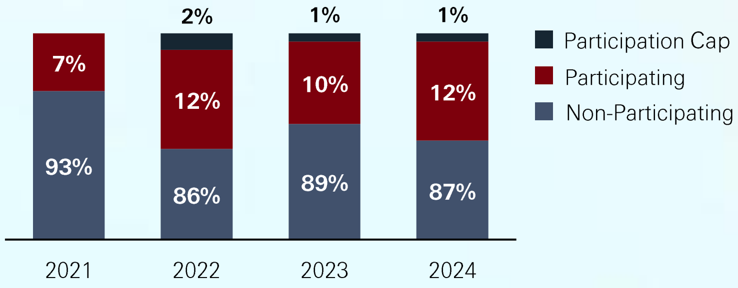
## **Economics**: The shift in participating preference reflects more aggressive terms at the Series C+ stage. A significant reduction in co-investments may indicate heightened competition for opportunities and deployment pressure, compelling VCs to write larger independent checks to deploy their funds

### Investment structure

**Preference shares, % Yes**

**84%** **77%** **83%** **84%**

### Where liquidation preference, % type




**Ashley Abrahams**
Head of Origination,
Guinness Ventures

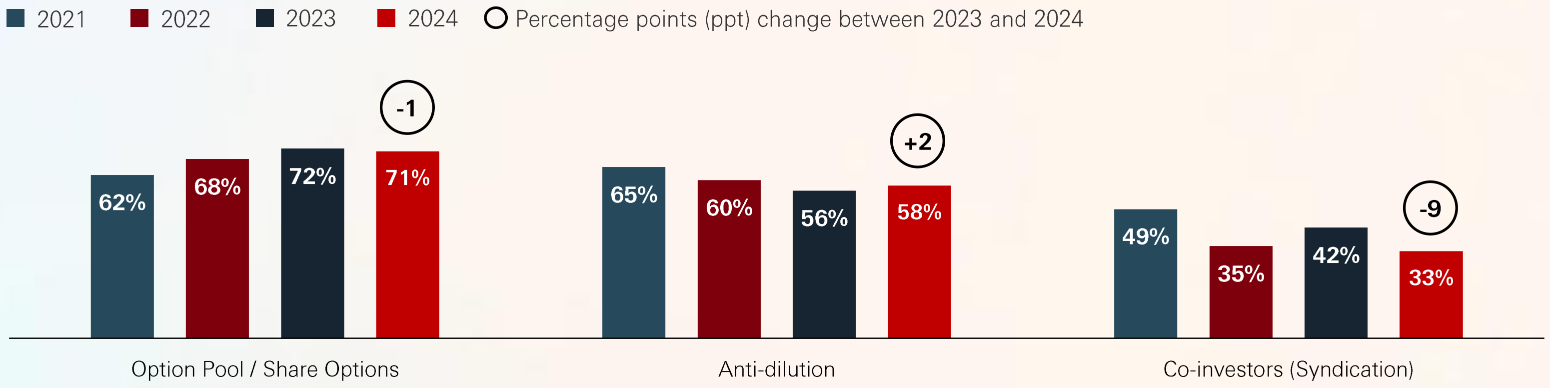
"Valuation and preferred shares are frequently linked and it can be helpful to think of them as a sliding scale – the higher the initial valuation vs comparable businesses, the more likely there will be a preference share proposed and, if valuation is materially above market comparables, it might be more than 1x. This serves to continue to align investor and founder interests – investors may take more certainty of a lower return at the expense of greater share of the upside. It is important to ensure both founders and investors are aligned in long term objectives and the structure reflects this – having too high a valuation or non-standard preference can cause problems later on for both parties. Usually, a lower valuation and cleaner structure is better in the long run for all parties, this is where exit waterfall analysis is helpful."

carta

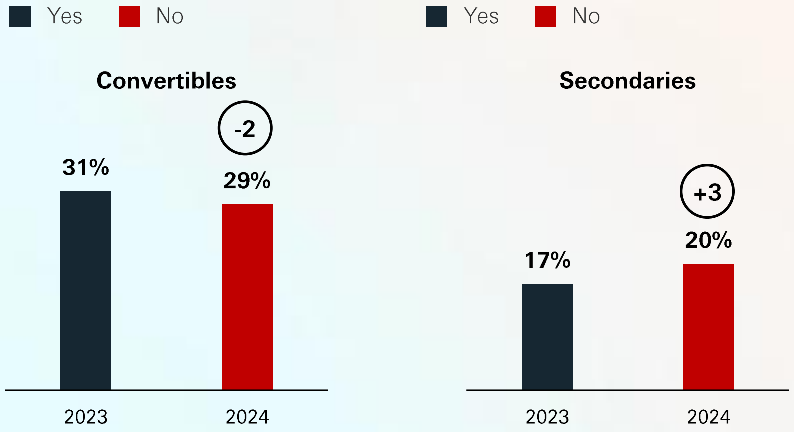
For the release of the Term Sheet Guide 2025, Carta have created a **free exit simulator tool for the UK market – see here** (exit waterfall discussed later).

### Other economic terms included in term sheet

**Last 4 years survey results % Yes**




**Survey results % Yes**




Convertibles triggered as part of the round (i.e. existing investors converting alongside new equity investors)

**Rodney Appiah**
Managing Partner,
Cornerstone VC

"Convertibles remain a useful tool for founders, particularly in an environment where raising capital at a valuation acceptable to founders and existing investors is taking longer. By extending the cash runway without re-visiting the valuation of the business, founders are afforded more time to achieve their milestones and maintain trading momentum."

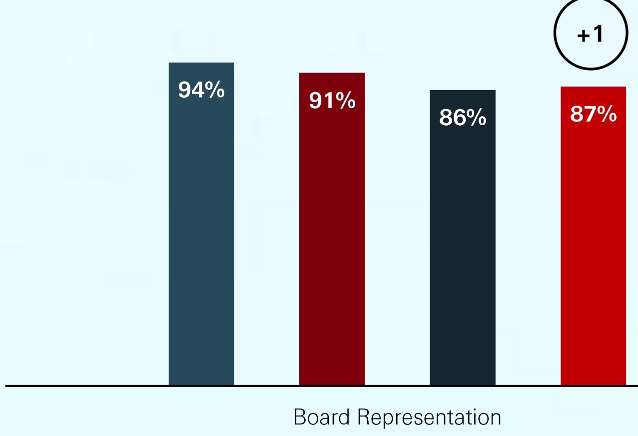
# **Control**: Founders should consider the balance of control terms vs economics when negotiating the term sheet; board representation is typically seen once institutional investors are involved and founders need to carefully consider board dynamics, investor consents and founder vesting conditions

## Control term included in term sheet

**Last 4 years survey results % Yes**

■ 2021 ■ 2022 ■ 2023 ■ 2024

○ Percentage points (ppt) change between 2023 and 2024

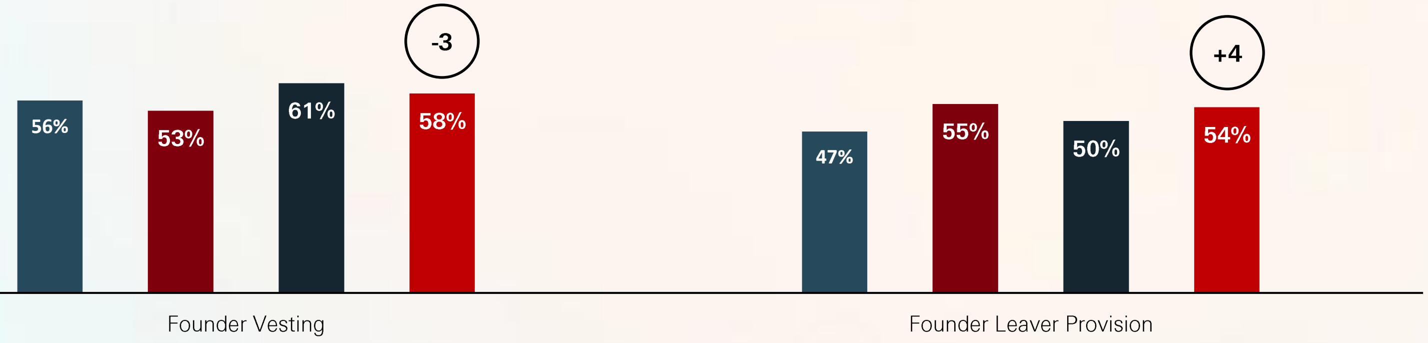


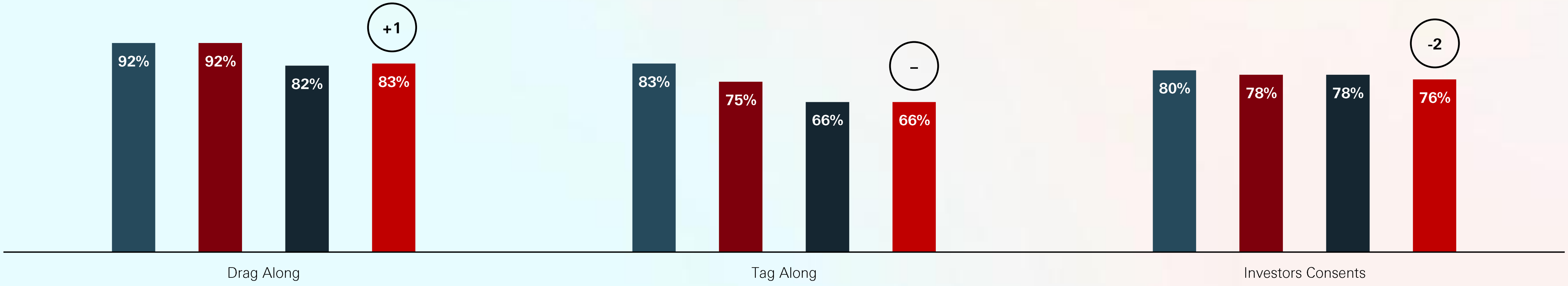

**Dan Bowyer**
Partner,
SuperSeed

"There are only a handful of real gotchas in any term sheet but in essence the key is to understand that the energy must be in balance. Many founders I work with at first draft act like it's my way or the highway until I remind them. Great VCs will protect not only their interest, but the startup's and the team's into the future, as that's just smart business."

**Helen Murphy**
Co-Founder and CEO,
Opply

"Work with investors who want to help you understand term sheets, if they're unwilling to help, think about how unhelpful they'll be as investors too! Never sign if you don't fully get it, time scales are often there just to add pressure. And don't scrimp on lawyers, you'll end up paying for it later."



# **Other terms:** Founders' warranties included in less than half of term sheets due to the new BVCA model documents specifying company-only warranties. Increase in arrangement and monitoring fees, which are present in a minority of term sheets and most prevalent in EIS and VCT because of their fund structure

## Other terms included in term sheet

**Last 4 years survey results % Yes**

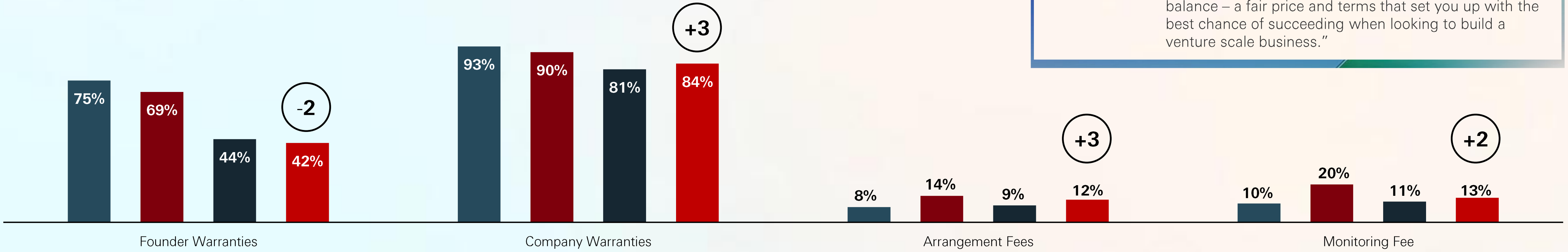
- 2021
- 2022
- 2023
- 2024
- Percentage points (ppt) change between 2023 and 2024

**Michiel Smith**
Angel Investor,
Apollo Informal
Investment

"It's great to see fewer term sheets requiring founder warranties, it makes deals cheaper and easier to get done for founders and a positive shift towards more founder-friendly terms."

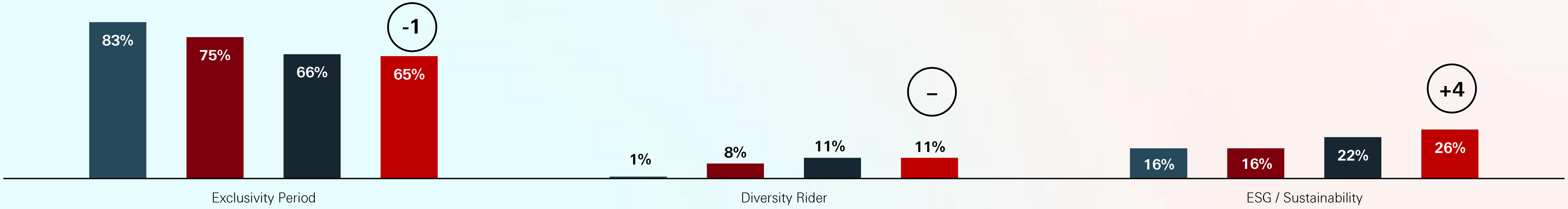
**Adam French**
Partner,
Antler

"There has never been a better time to become a tech founder in the UK, and we're seeing record numbers of new founders entering the market. This report reflects the scale of the opportunity across the early-stage ecosystem in the UK and rightly shines a light on the importance of term sheets. I've seen founders get dazzled by a high valuation only to give up too much control, and it can come back to haunt them. The best term sheets strike a balance – a fair price and terms that set you up with the best chance of succeeding when looking to build a venture scale business."




Exclusivity was specified in 65% of term sheets typically ranging from a few weeks to 90+ days. Where the exclusivity period was specified, 87% of the periods were 60 days or less, which is in-line with 2023

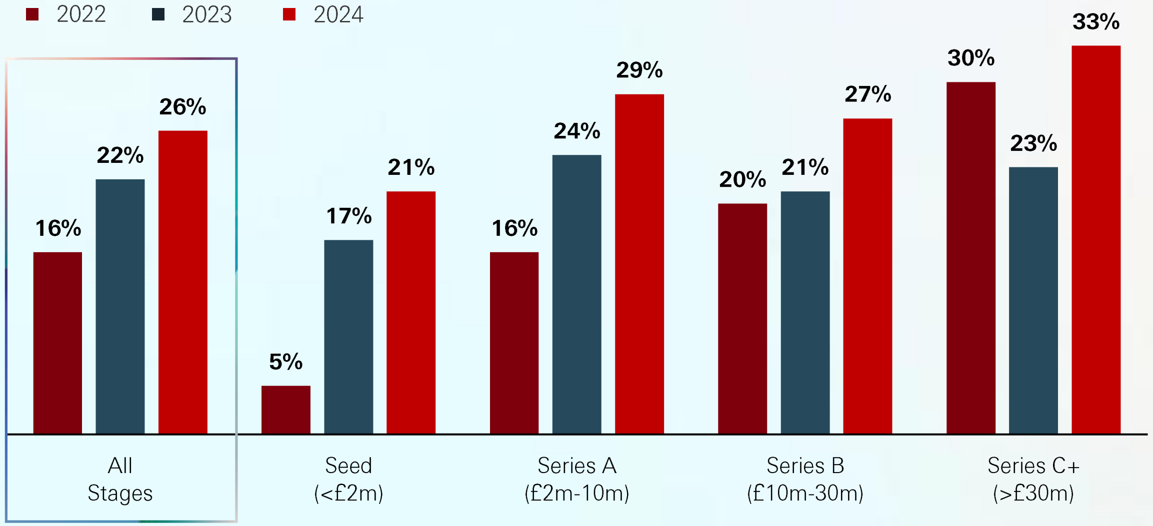
See overleaf for detailed view of Diversity Rider (DE&I) and ESG / Sustainability



# ESG / Sustainability clauses saw a 4ppt increase to 26% of term sheets in 2024. It will be interesting to observe how 2025 unfolds considering the recent US pullback on ESG and DE&I initiatives

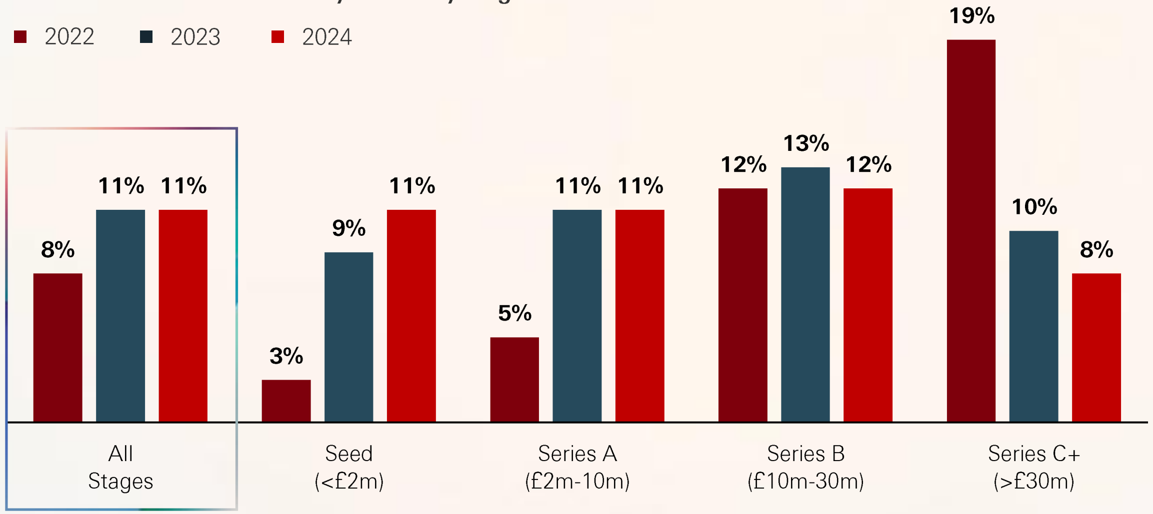
## Inclusion of an ESG / Sustainability clause in a term sheet has increased in 2024

**% term sheets with an ESG / Sustainability clause**




## DE&I rider clause included - this term refers to term sheets that include a diversity rider clause that expects the investee company to integrate inclusive DE&I practices and policies

**% term sheets with a diversity clause by stage**




**Hannah Leach**
Partner, Antler & Exec Chair, VentureESG

"It's encouraging to see that ESG-related term sheet clauses are increasingly being used - and at each stage of investment - as a way of ensuring a company's commitment to building more sustainable business practices. What we hope is wrapped around this, is a VC firm's integration of ESG in investment decision-making and post-investment portfolio support, otherwise term sheet clause usage is merely optics."

**Pippa Gawley**
Managing Partner, Zero Carbon

"At Zero Carbon, we invest at pre-seed, so we balance the importance of sustainability governance with founder bandwidth. Our term sheets include standard clauses for annual sustainability reporting, and require policies aligned with the EU Taxonomy, a DE&I policy, and an ESG policy. If these aren't in place, we help founders implement them post-close."

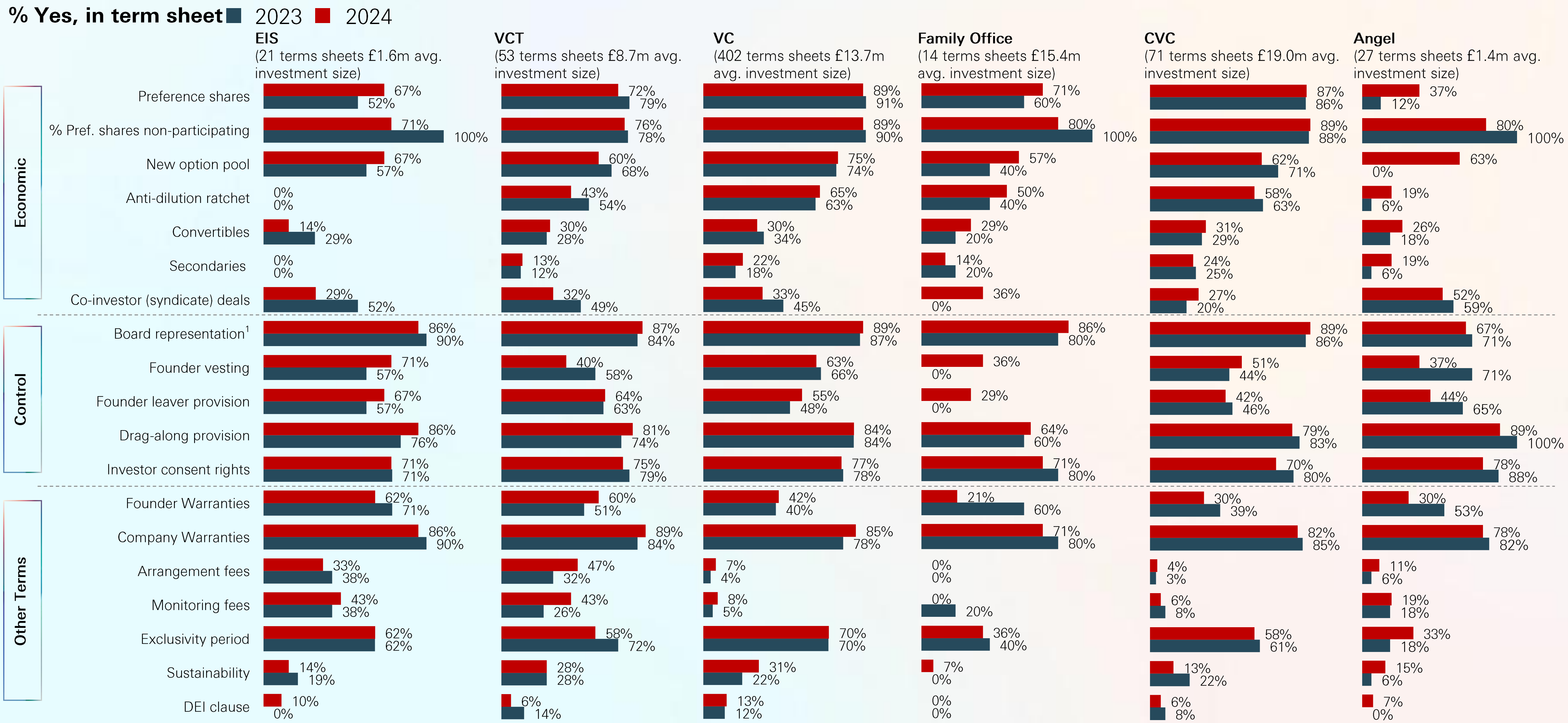
**Check Warner**
Co-Founding Partner, Ada Ventures

"It is encouraging to see the steady increase in the number of rounds which include an ESG / sustainability rider. However, it is notable that proportion including a DEI rider has remained flat at 11%. At a time where the statistics for the % of funding going to diverse founders is at its lowest level in recent years, it's more important than ever that investors use their influence to support founders in setting up the infrastructure, policies and incentives to create diverse and inclusive companies."

**Meghan Stevenson-Krausz**
Co-CEO, Diversity VC

"While it's concerning to see diversity riders decline at later stages, the increase at Seed stage signals a shift toward embedding inclusivity from day one. This early momentum is critical – companies that prioritize DEI from inception are better positioned for long-term success. VCs must not only sustain but strengthen these commitments as companies grow, ensuring diversity and inclusion remain a core part of venture-backed businesses at every stage."

# Investor by type - key take-aways from the survey 2024 vs 2023




Note: Technically, EIS funds do not issue preference shares, however from a commercial perspective (due to HMRC rules) EIS investors typically receive ordinary shares, although ordinary shares (e.g. 'A ordinary', 'B ordinary') that have some characteristics of preference shares (i.e. liquidation priority) can be issued. This is often a route taken by more sophisticated EIS fund investors. In the analysis, in this guide EIS liquidation priority has been classified as preferred shares.
As noted elsewhere in this guide, several terms are found in long-form document rather than the term sheet.
1 Board representation excluding observer.

HSBC Innovation Banking

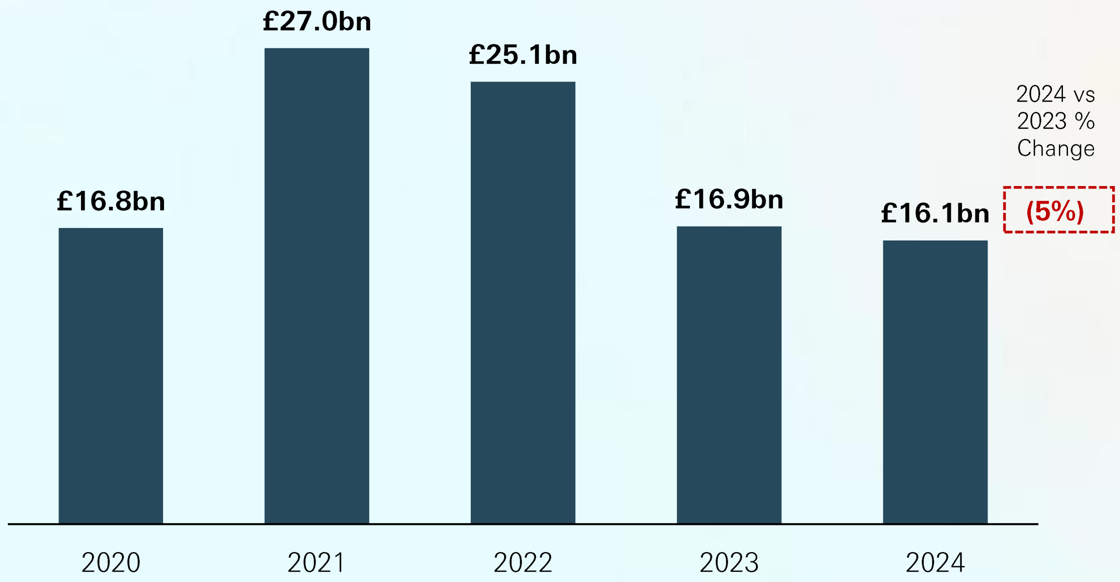
# 2025 Outlook and Investor Survey

**Section 3**

# Signs of recovery in UK VC, with funding stabilising in 2024 at £16.1bn. There was a notable increase in funds raised by VCs in 2024, up 59% year-over-year, a positive indicator for investment in 2025...

**UK VC term sheet investment stabilised in 2024. Deal volumes declined more significantly (16%) than investment value (5%), reflecting investor continued focus on quality assets over quantity**

### UK VC investment value (funding)[1] £bn: 2020-2024

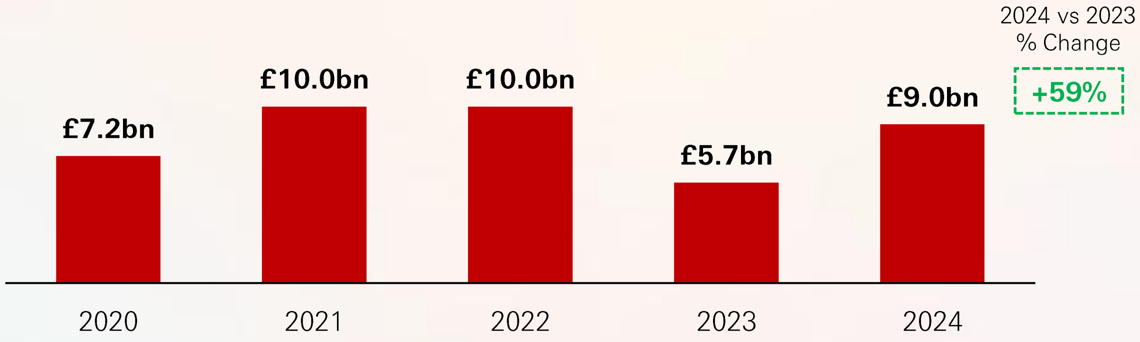



| # Completed deals[3] >£0.5m | 2020 | 2021 | 2022 | 2023 | 2024 | |
|---|---|---|---|---|---|---|
| | 2,404 | 2,730 | 2,650 | 1,920 | 1,615 | (16%) |

**Looking forward, funds raised by VCs, a key indicator of investment activity, saw a substantial increase (59%) in 2024 vs 2023. This encouraging trend suggests a positive outlook for investment in 2025, as firms prepare to deploy their capital**

### UK VC firms fundraising activity[2] £bn: 2020-2024

VC firms fundraising - important to note that angel investors, corporate venture capital (CVC) and family office investors do not engage in fundraising in the same way and, therefore, are excluded from these capital raise figures

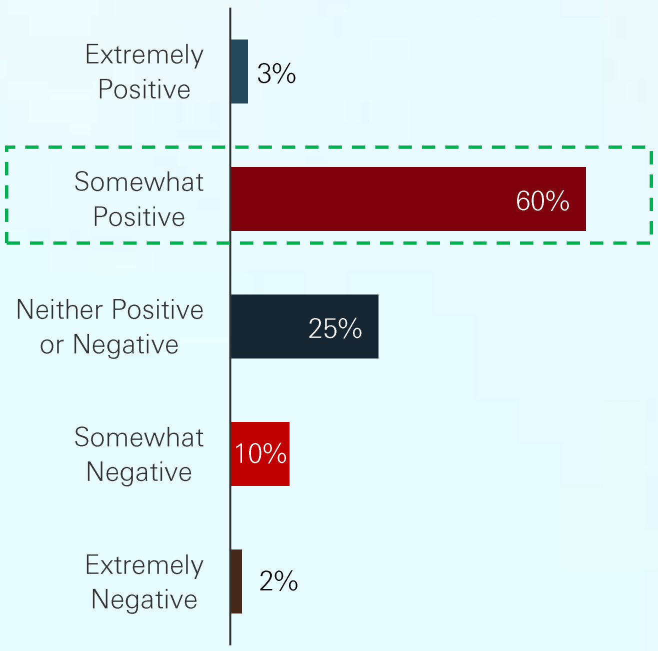



| UK VC dry powder[1] £bn | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| | £18.7bn | £17.1bn | £24.2bn | £20.0bn | £20.6bn |

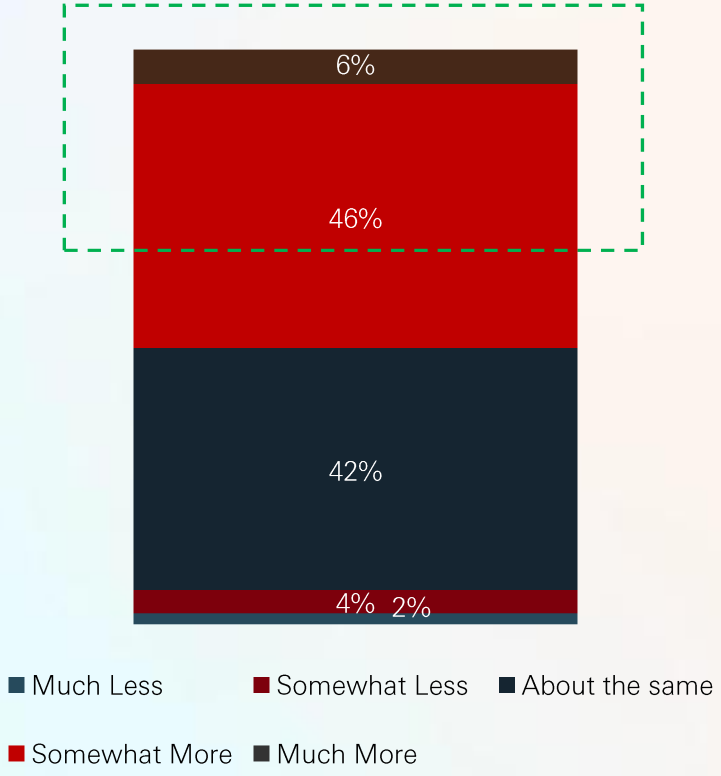
1 Pitchbook as of March 2025.
2 HSBC Innovation Banking and Dealroom UK Innovation 2025 Forward Look Report as of January 2025.
3 Number of completed investment (deals) where deal size >£0.5m.

## ...the positive outlook for 2025 is reinforced by our investor pulse survey of 52 VCs, which indicates that c65% of investors hold an optimistic perspective on the overall market. Notably, over 50% of respondents anticipate increasing their investment activity this year, with AI unsurprisingly the sector investors are most bullish on

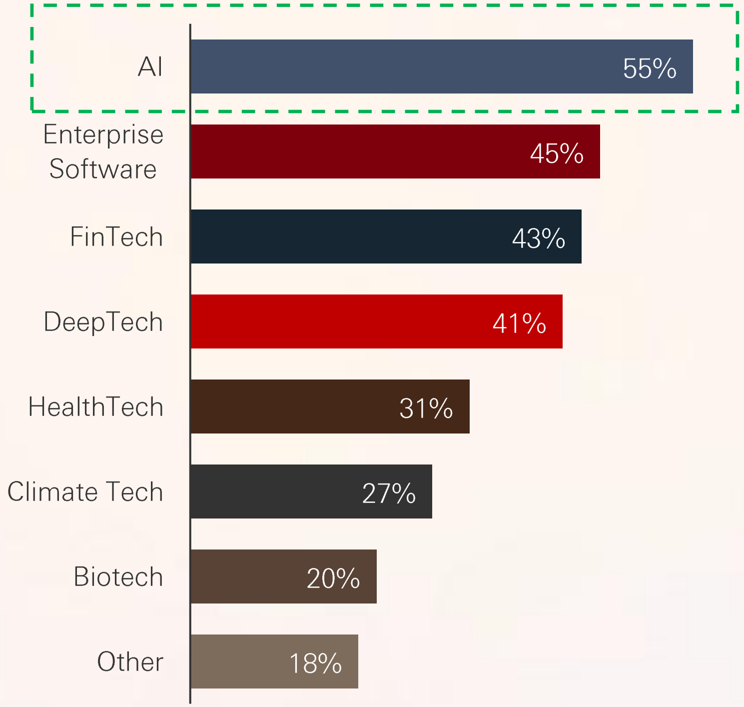
### HSBC Innovation Banking's separate UK VC Investor Market Pulse survey (Q1 2025) – extract of results




**Question to investors:** What is your view on the general outlook for UK VC activity in 2025 vs 2024?




**Question to investors:** Do you expect an increase in the number of equity investments you will make in 2025 vs 2024?

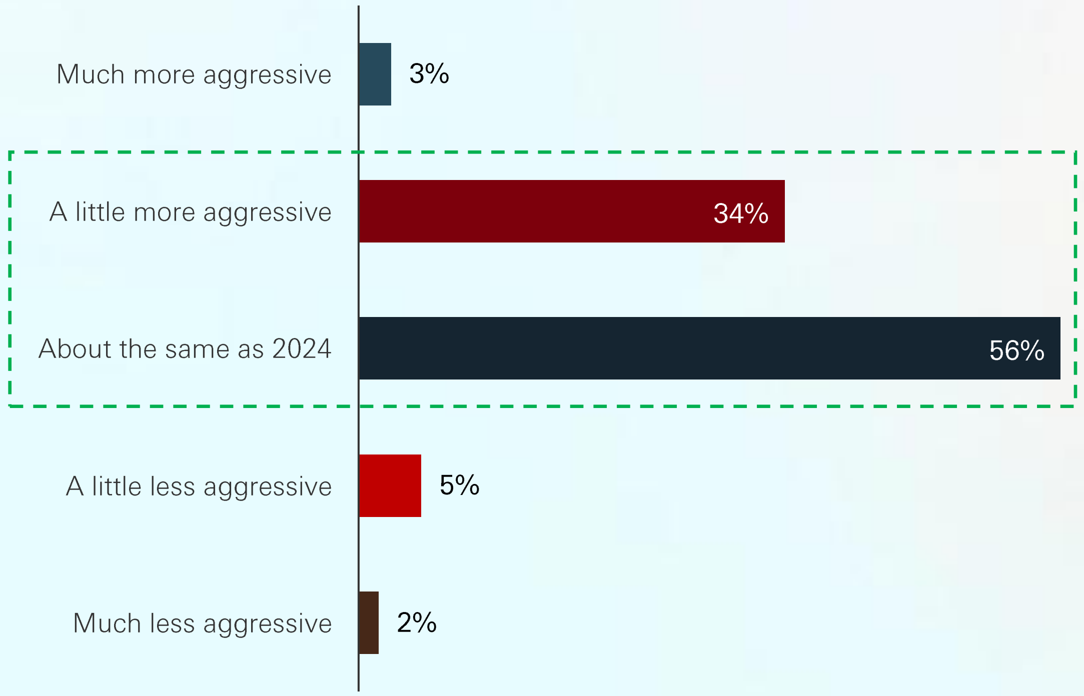



**Question to investors:** What sectors are you most bullish on this year? (answers can be more than one sector)

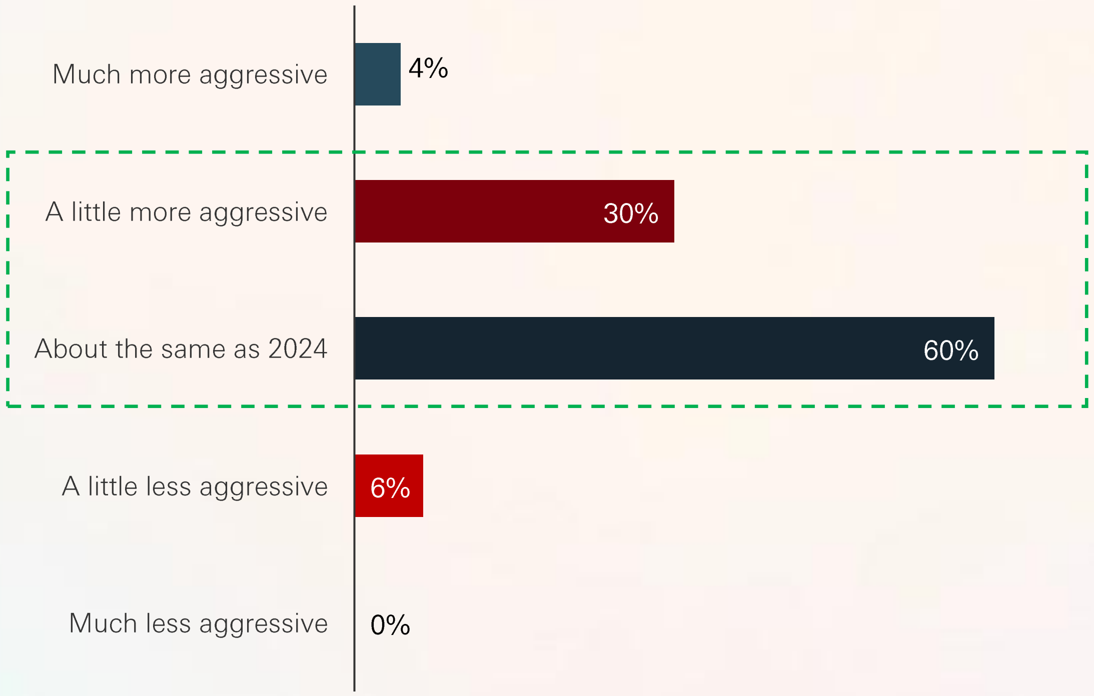
Source: HSBC Innovation Banking UK VC Investor Market Pulse survey. 52 leading VC investors in the UK were surveyed between the period 4 March and 14 March 2025.

# 90% of investors expect founder valuations to be in-line or slightly more aggressive in 2025. 60% of investors anticipate term sheet structures will be similar to those in 2024, a further 30% believe that they will become more investor-friendly

**HSBC Innovation Banking's separate UK VC Investor Market Pulse survey (Q1 2025) – extract of results**




**Question to investors:** In your recent experience negotiating term sheets, have you observed a shift in **founder expectations** regarding valuations?




**Question to investors:** From an **investor's perspective**, how do you anticipate term sheet structures will evolve in 2025 compared to 2024?

Source: HSBC Innovation Banking UK VC Investor Market Pulse survey. 52 leading VC investors in the UK were surveyed between the period 4 March and 14 March 2025.

# Detailed Guide – Term Sheet Analysis

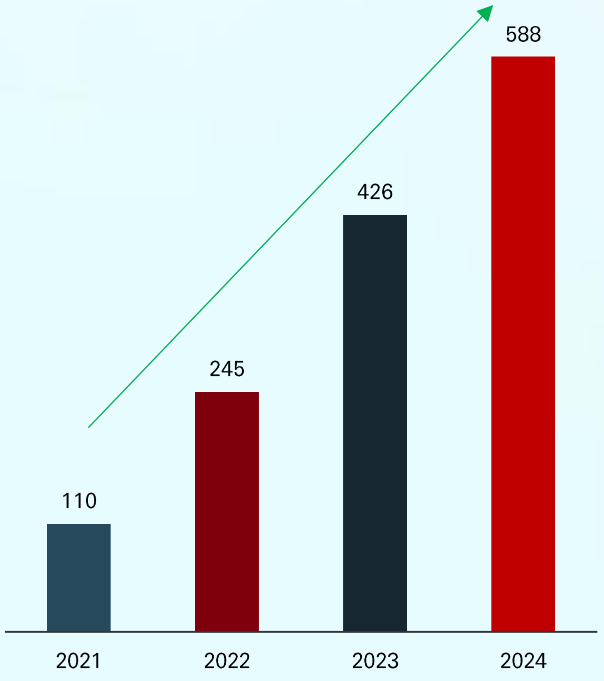
**Section 4**

# Overview of Term Sheets and Survey

HSBC Innovation Banking

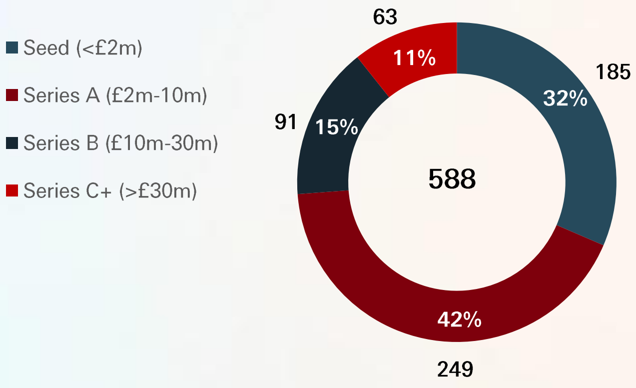
# **HSBC Innovation Banking** – 588 VC term sheets sampled from 27 law firms

**Record participation (+38%) in the HSBC Innovation Banking 2024 term sheet survey**

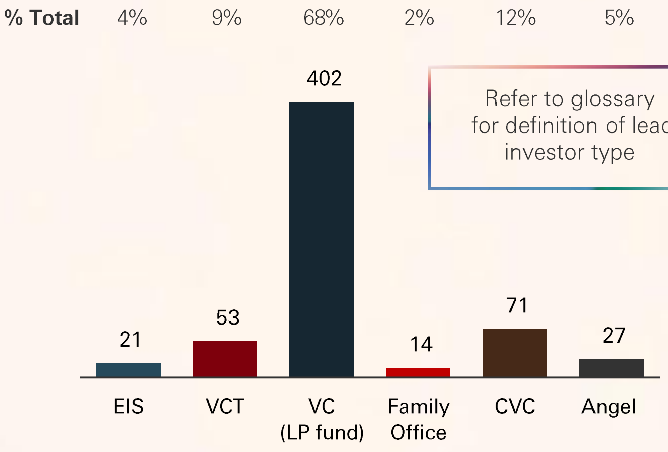



**# term sheets analysed in survey year**

## Term sheets by investment stage / size

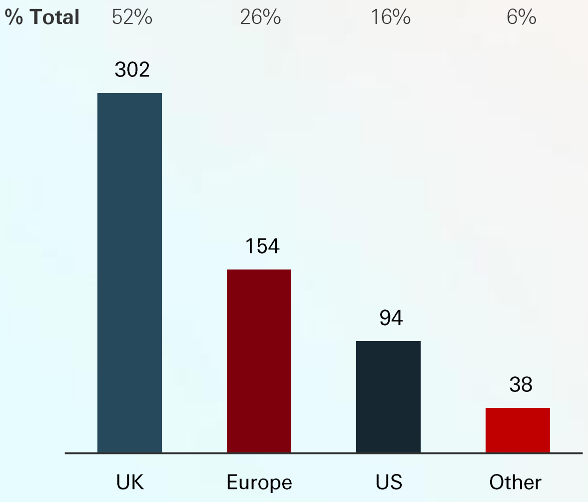



## Term sheets by type of lead investor

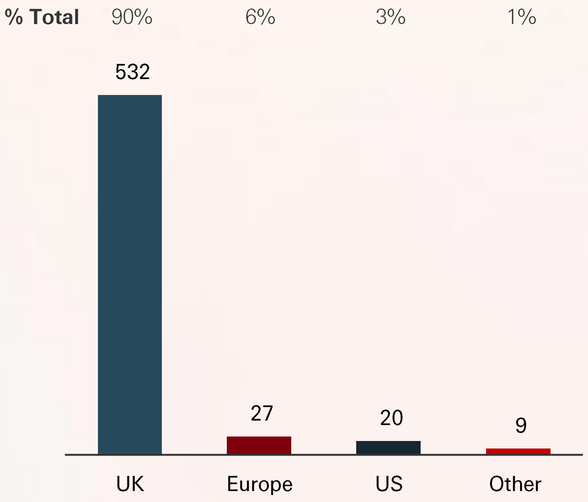



Refer to glossary for definition of lead investor type

## Term sheets by lead investor location




## Term sheets by company HQ location




Note: "Other" refers to investors in the Middle East, Africa and Asia.

# Illustrative VC investment process and the role of the term sheet

**01**
**Reach out to investors.** Build investor relationships in advance of a fundraise / **Get warm introductions** to investors

**02**
**Pitch deck shared**

**03**
**Pitching** to investors & follow up meetings

**04**
VC investment committee **('IC') meeting**

**05**
**Term sheet issued, negotiated and signed**

**06**
**Due diligence and investment agreements** (or 'long-form' documents) (articles of association, shareholders agreement and subscription agreement)

**07**
**Final IC meeting** (some investors have 'wrap-up' IC meeting post DD)

**08** 3-12 months
**Funds raised** and **money in bank**

**Vanessa Vasquez**
Head of Legal,
Seedcamp

"Engaging a 'good lawyer' isn't just a choice—it's a vital investment for any business navigating the complexities of the legal landscape. Beyond bolstering your company's credibility, the impact of expert legal guidance extends to significant time and cost savings in the long run. Opting for shortcuts over quality and experienced counsel may detrimentally affect the company's future prospects. In mature startup ecosystems where access to experienced legal firms is abundant, prioritizing top-tier legal representation is paramount. Ultimately, adept legal counsel not only secures your present but also strategically prepares you for the future, ensuring every aspect of your business rests on solid legal foundations."

## Entrepreneur's perspective

The timeframe and complexity of raising funds depend on the stage and sector of the business and the team running it. As a general rule of thumb, a typical raise takes 6 months from 1st meeting through due diligence ('DD') to money in the bank. A very quick raise may take 3 months (founders with strong networks or prior exits) and a long raise (first time founders, those without warm introductions or later stage businesses) may take 9-12 months.

Once the decision to invest is made at the investment committee stage ('IC'), the lead investor (the VC providing the largest quantum of funding) will usually issue a term sheet.

A **term sheet is a deal blueprint**. While not legally binding, once signed, the term sheet serves as the basis for the long-form investment documentation of the fundraise. There are some clauses that are legally binding on signing the term sheet, such as an exclusivity period (i.e., where you are not permitted for a period to speak to other investors while the investor is doing their due diligence), confidentiality and sometimes the associated due diligence ('DD') costs.

That's why, in addition to having a **good lawyer** who understands the VC process to represent you, it is crucial that you have a working understanding of the key concepts and terminology used, as it will help you to negotiate effectively.

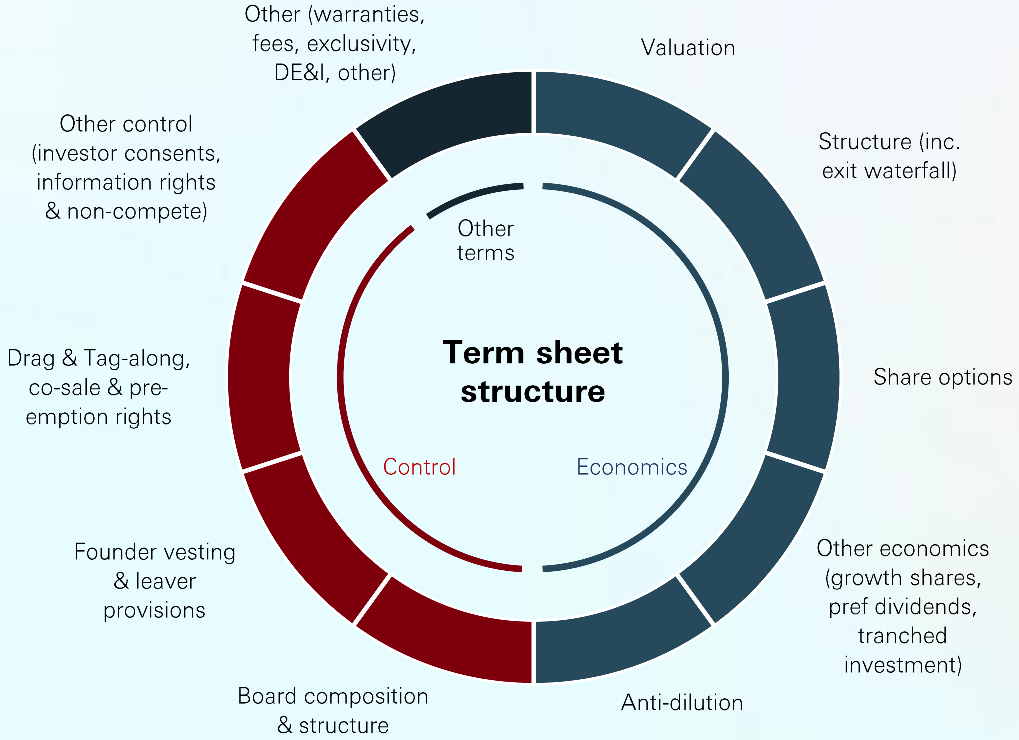
**Fred Soneya**
Co-Founder and General Partner,
Haatch

"The average marriage lasts about eight years, (sad stat), yet the founder-investor relationship can often extend even longer. Unlike marriages, however, these partnerships are built on legal agreements that shape the trajectory of companies and determine outcomes for all stakeholders. HSBC Innovation Banking's guide demystifies the complexities of term sheets, providing founders and investors with the clarity and transparency needed to build lasting, successful partnerships."

**Sanzhar Taizhan,** Founder and CEO, TaiSan
"Our team has found the term sheet guide super useful and leveraged our position in front of our investors during negotiation. It really helped us to protect our reasoning about number of clauses and eliminate any potential problems for our team."

# Term sheet overview: Term sheets usually consist of three elements 1) economics of the deal (the economic rights of shareholders) 2) control (who is involved in key decisions and to what extent) and 3) other items for consideration, such as deal fees and period of exclusivity

## Term sheet structure




**Ashley Abrahams**
Head of Origination,
Guinness Ventures

"Spend the time getting the term sheet right & fleshing out all the big points early on – the economics & the emotive control points (leaver provisions, consent matters). It makes the investment process much smoother, easier, & cheaper for all involved and ensures everyone gets off on the right foot rather than immediately after what could otherwise be long and painful negotiations!"

**BVCA (British Venture Capital Association) Model Form Documents For Early Stage Investments (link here)**

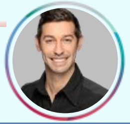
- The BVCA updated its standardised **'model documents**' for early-stage VC investments in Feb 2025, with the aim of promoting industry-standard UK legal documentation so investors and entrepreneurs, focus on deal-specific maters, saving time and money for both parties. This includes a new **"Summary of Terms"** for the **term sheet stage**, alongside long-form documents including Subscription Agreement, Shareholders' Agreement and Articles of Association.
- These documents have been drafted for use on a **Series A funding round** and historically have been widely used throughout the UK venture ecosystem. **Extracts from the new Summary of Terms can be found through this guide, with the full version of the Summary of Terms set out in the Appendix.**
- **Seed Investment:** The BVCA notes these model documents "are not suitable for Seed funding round" which typically utilise shorter form documents with are either replaced or updated for a Series A round. Albeit at Seed funding the suite of documents required will vary significantly based on specific circumstances (e.g. a £20k investment would need much less detail than a £1m equity round with multiple investors including institutional VC investors). This would be more akin to a Series A round in terms of documentation required.
- The **UKBAA's (UK Business Angels Association)** is due to issue a model term sheet template in Q2 2025 for angel deals to reflects the findings from HSBC Innovation Banking's Term Sheet Guide and the latest terms in the BVCA model documents. This will support alignment across the funding stages, smoothing the investment journey for founders from pre-seed and beyond.

## Entrepreneur's perspective

- Term sheets typically range from 1 to 10+ pages which try to define the terms of the proposed deal as accurately as possible. While not legally binding, it will be difficult to renegotiate terms at a later date, so spend time focusing on terms that are most important to you (deal killers) and ensure your position is considered and reasonable. This helps to avoid misunderstandings and confusion later in the deal process and sets out how the investor relationship will operate post-deal.
- A fair term sheet is good for everyone. By negotiating well i.e. being flexible and not taking every initial point but also not arguing every single point without good reason – you build credibility with the VC. If you have lots of leverage (e.g. multiple term sheets and VCs interested) you will have more negotiating power. Utilise experts, partners/advisors and lawyers to help.

# HSBC Innovation Banking's one page term sheet checklist for founders: It is important to recognise that you may not be able to negotiate every term in the term sheet provided by your investor. Therefore, it is advisable to invest time upfront in identifying the terms that are most critical to your company's success

| VC Term | What to expect in negotiations | Further information in our guide | Your prioritisation / ranking |
|---|---|---|---|
| **Investment Size** | The more investment you take, the more equity you'll need to relinquish | p39 | |
| **Valuation** | This represents the current estimated value of your company; a higher valuation will result in a lower percentage of equity that you will need to relinquish. Make sure you consider both the pre-money and post-money valuation of the offer | p39 | |
| **Liquidation Preference** | This provision protects investors in the event of a negative liquidity event and is typically set at non-participating at 1x (participating preference i.e. "double-dip" is seen as aggressive) | p41-43 | |
| **Option Pool** | The shares of a company that have been specifically allocated to attract or retain talent. Consider the size of the option pool for future hires and if this included in the pre-money or post-money valuation | p44-45 | |
| **Anti-Dilution Rights** | In the event of a future down round these protect the investors value, when new shares are issued to the new investors at a lower price the incumbent investors have a right to receive additional share at no or minimal cost | p46 | |
| **Dividends** | These dividends may not always be paid and typically vary between 2% and 20%. "Cumulative" dividends can pose a financial challenge at exit and should be considered as part of the exit waterfall analysis. While "non-cumulative" dividends are generally more favourable as they not carried forward to the next year if they not paid out | p47 | |
| **Board** | VCs typically require a seat on the board, with one seat allocated for investors and two for the founders typically being standard practice at the early-stage | p50 | |
| **Investor Consents** | Essentially, these are veto rights that investors hold over certain actions taken by the company to safeguard their economic interests as minority investors or preferred shareholders | p55 | |
| **Vesting** | A shorter time frame and a lower vesting amount is generally more advantageous to founders | p51 | |
| **Swamping Rights** | An investor may want some form of "swamping rights" which means they can take control of the board after a material breach of founders or material underperformance of a company | p50 | |
| **Drag Along** | Selling the company requires a majority vote from the board, preferred shareholders, and shareholders holding X% or more of the stock | p53 | |



Glen Waters
Head of Early Stage Tech & Life Sciences, HSBC Innovation Banking

"At the Seed stage - there is a prime opportunity to establish deal terms that will pave way for the best terms in the future. I hope this guide, as well as getting a good lawyer, will empower founders to position themselves for long term success."

HSBC Innovation Banking

# Term sheets – Survey results summary (by year)

**588 term sheets surveyed. % that responded Yes, to the following terms**

## Economic

| | 2021 | 2022 | 2023 | 2024 | YoY %Δ |
|---|---|---|---|---|---|
| **Investment Structure** | | | | | |
| Preference share | 84% | 77% | 83% | 84% | +1% |
| **Where liquidation preference:** | | | | | |
| Non-participating | 93% | 86% | 89% | 87% | (2%) |
| Participating | 7% | 12% | 10% | 12% | +2% |
| Participation cap | 0% | 2% | 1% | 0% | (1%) |
| Share options | 62% | 68% | 72% | 71% | (1%) |
| Anti-dilution | 65% | 60% | 56% | 58% | +2% |
| Tranched Investment | 22% | 19% | 17% | 24% | +7% |
| Co-investors (Syndication) | 49% | 35% | 42% | 33% | (9%) |
| Preference dividend | 12% | 20% | 9% | 12% | +3% |
| Growth shares | 5% | 9% | 3% | 4% | +1% |

## Control

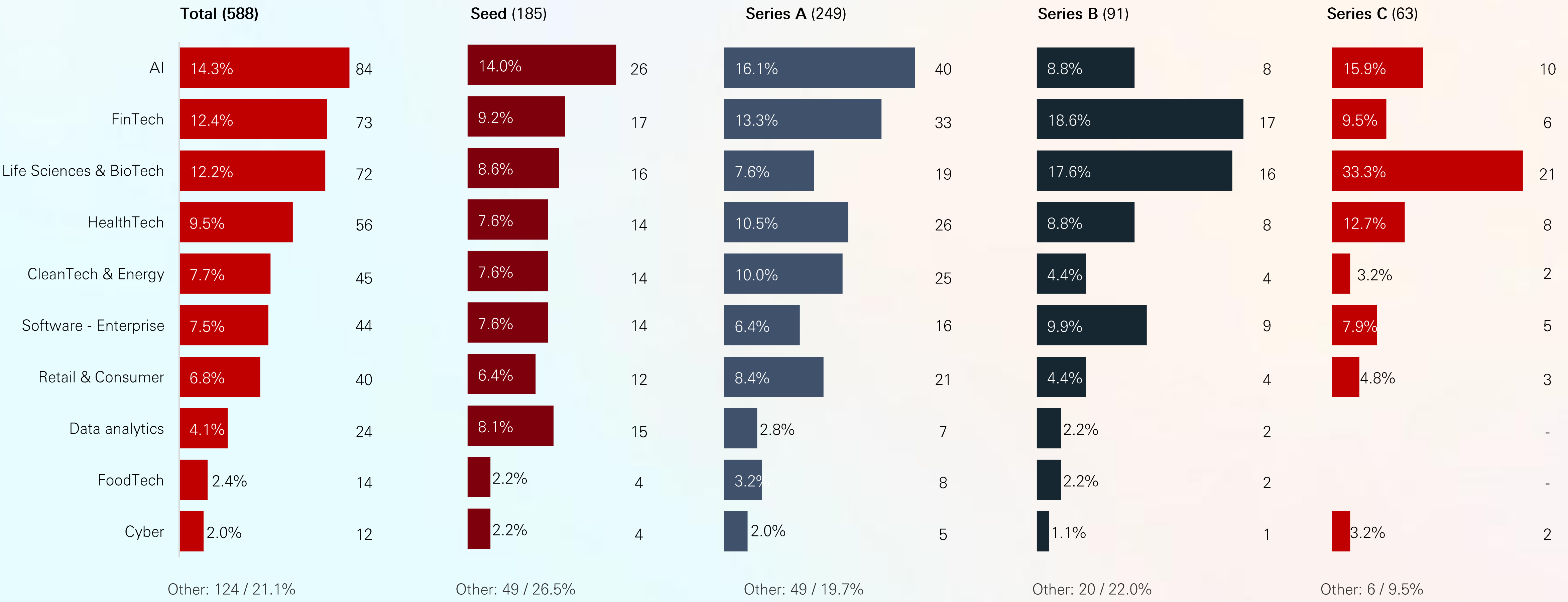
| | 2021 | 2022 | 2023 | 2024 | YoY %Δ |
|---|---|---|---|---|---|
| Board Representation[1] | 94% | 91% | 86% | 87% | +1% |
| Founder Vesting | 56% | 53% | 61% | 58% | (3%) |
| Founder Leaver provision | 47% | 55% | 50% | 54% | +4% |
| Drag along | 92% | 92% | 82% | 83% | +1% |
| Tag along | 83% | 75% | 66% | 66% | 0% |
| Co-sale | 67% | 67% | 63% | 63% | 0% |
| Investor consents | 80% | 78% | 78% | 76% | (2%) |
| Restrictive Covenant | 49% | 39% | 32% | 36% | +4% |

## Other Terms

| | 2021 | 2022 | 2023 | 2024 | YoY %Δ |
|---|---|---|---|---|---|
| Founder Warranties | 75% | 69% | 44% | 42% | (2%) |
| Company Warranties | 93% | 90% | 81% | 84% | +3% |
| Monitoring Fee | 10% | 20% | 11% | 13% | +2% |
| Arrangement Fees | 8% | 14% | 9% | 12% | +3% |
| Exclusivity Period | 83% | 75% | 66% | 65% | (1%) |
| Diversity Rider | 1% | 8% | 11% | 11% | 0% |
| ESG / Sustainability | 16% | 16% | 22% | 26% | +4% |
| D&O Insurance | Not surveyed | Not surveyed | 30% | 27% | (3%) |
| Key Person Insurance | Not surveyed | Not surveyed | 18% | 17% | (1%) |

Note: As noted elsewhere in this guide, several terms are found in long-form document rather than the term sheet.
1 Board representation excluding observer.

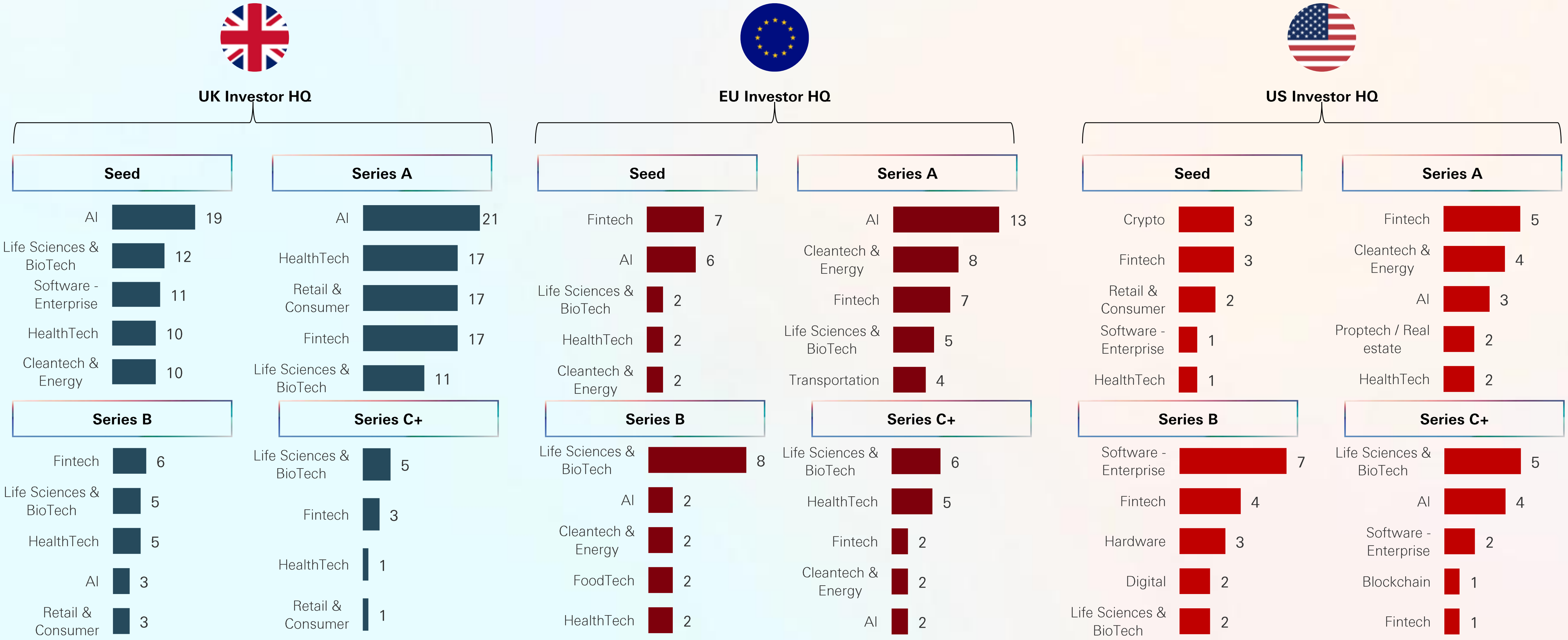
# Term sheets – Top 10 sector split by total and by investment stage




Note: AI defined as companies focused exclusively on "pure AI" (tools and technologies that cover two key business models: Generative AI and Large Language Models (LLMs). Enabling AI has been classified in the sector it relates to (e.g. Enterprise Software or CleanTech). Survey sector classification defined as the primary end market or consumer.
Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).
1 "Other" refers to industry sectors that fall outside the top 10 based on the number of term sheets. This category includes the following sectors, listed in alphabetical order: AdTech (1.2%), AgTech (0.3%), Blockchain (1.2%), Crypto (0.7%), Digital (1.9%), EdTech (0.5%), Esports/Gaming (1.4%), Government (0.0%), Hardware (1.7%), IoT (0.7%), Marketplace (1.2%), Media (2.2%), NanoTech (0.2%), Real Estate/PropTech (1.4%), Robotics (0.7%), Social Impact (1.4%), Software – Non-Enterprise (0.6%), SpaceTech (0.9%), Telecoms (0.2%), Transportation (2.2%), VR & AR (0.3%) and WearableTech (0.2%).

# Term sheets – Top 5 sectors attracting investor interest, categorised by region and stage of investment (based on the number of term sheets)

## Number of term sheets issued by UK, European and US investors into UK-HQ'd companies, by sector




Note: The term "lead investor HQ location" refers to the location of the parent company's headquarters, rather than the location of its investment office/branch.
AI defined as companies focused exclusively on "pure AI" (tools and technologies that cover two key business models: Generative AI and Large Language Models (LLMs). Enabling AI has been classified in the sector it relates to (e.g. Enterprise Software or CleanTech). Survey sector classification defined as the primary end market or consumer.
Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).

# Economics of VC Term Sheets

HSBC Innovation Banking

# Pre-money valuation

- Valuation and associated dilution is probably the most important and heavily negotiated commercial term in a term sheet. It determines the % ownership of the company the investors are buying with their investment. This will directly impact how much money the founders, employees with equity and investors will get on an exit.
- The term sheet will include an **investment/valuation section**, which states what an investor believes the company is worth. The term sheet will include both a **pre-money** (how much the company is worth before this funding round) and **post-money** (how much the company is worth including the latest proposed current funding investment) valuation.

**Extract from BVCA model form document – Investment/valuation (Subscription Price):**

"The per share issue price of the Series A Shares (the "Subscription Price", the "Preference Amount" and the "Starting Price") [will] / [is anticipated to] be [£/$][●] per Series A Share, based upon a pre-money valuation of [£/$][●] on a Fully Diluted basis.

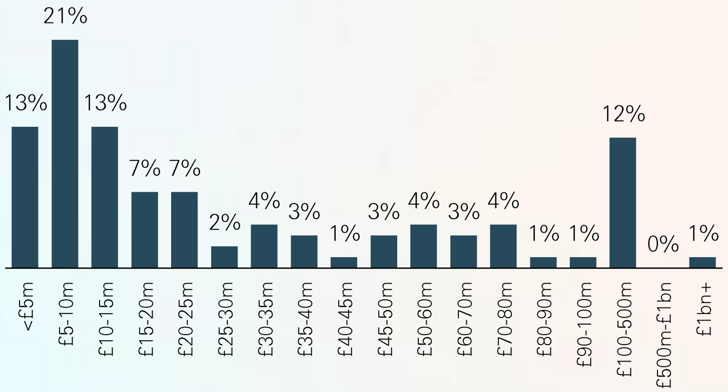
"Fully Diluted" includes the current ESOP (as defined below) [(and the increase to the ESOP contemplated by this Term Sheet)], any other outstanding options or warrants, and any outstanding convertible loan notes, ASAs, SAFEs or similar instruments."

## Entrepreneur's perspective

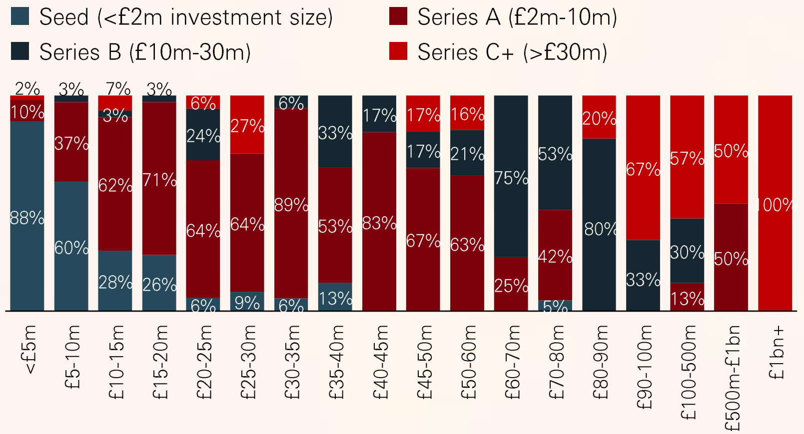
- Valuation is a commercial term, not a legal one. Sometimes, a lower valuation with a better structure (see overleaf) and terms can lead to better outcomes for entrepreneurs.
- A lower valuation from a respected investor who can really help scale the business may also be a better deal than one from a less-respected investor

## VC (LP fund structure) and CVCs offered pre-money valuations ranging from <£5m to >£1bn in the survey

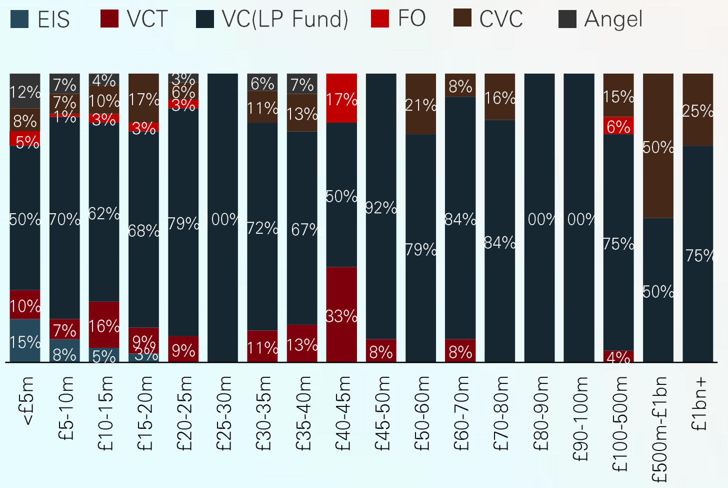
### Pre-money valuation indicated in term sheet




### Pre-money valuation indicated in term sheet by stage




### Pre-money valuation indicated in term sheet by investor type




**Taos Edmondson**
Partner,
DMG Ventures

"Founders can fixate on achieving the highest valuation when it comes to term sheet negotiation, and it's easy to understand why. However, you should pay just as much attention to other terms. The valuation also needs to be sustainable. As you scale, our company's valuation will be increasingly based on a revenue multiple; you should look ahead to what your next round might reasonably look like and work backwards to arrive at a reasonable valuation today."

Note: Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).

# **Investment structure:** ordinary vs preference shares

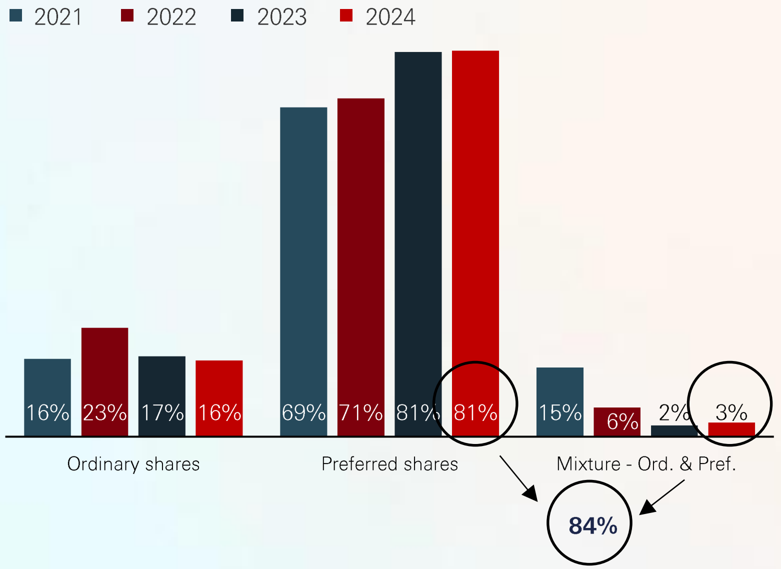
- **Ordinary shares,** which typically have equal voting and distribution rights on an exit, are the share class most companies start out with, and which founders often own.
- VC investors often receive **preference shares** in the companies they invest in. These typically rank ahead of ordinary shares in both economic and control rights.
- Private market preferred shares are different from those issued in public markets. VC investors are typically minority shareholders, but with preference shares they can assert a level of control over the company, and limit their financial exposure.
- The rights attaching to preference shares will be set out in the term sheet. For investors some of the key benefits of preferred shares include:
  - **Liquidation preferences:** See overleaf;
  - **Anti-dilution rights:** These protect the investors' investment value in the event of a down round (see later); and
  - **Voting rights:** Preferred shareholders in public companies tend not to have voting rights, while private investors can negotiate for similar voting rights to ordinary shareholders, and elect members to the Board.

**Hector Mason**
General Partner,
Episode 1 Ventures

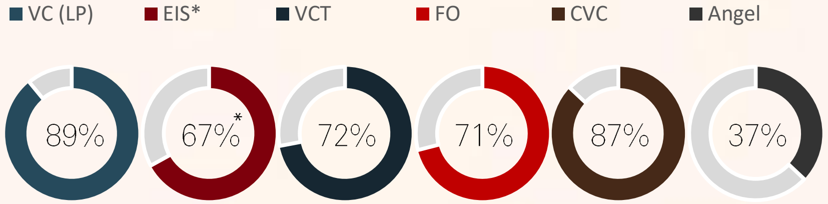
"Founders should be wary of accepting deal structure in return for a higher valuation. If things don't go to plan, you can find yourself in a tricky situation and you may regret your prior decision to take the higher valuation. It's sad when founders don't do well from a sizable exit and this is often the cause."

## 84% (81% straight preference shares) of term sheets issued in 2024 included preference shares, in-line with 2023 (81%)

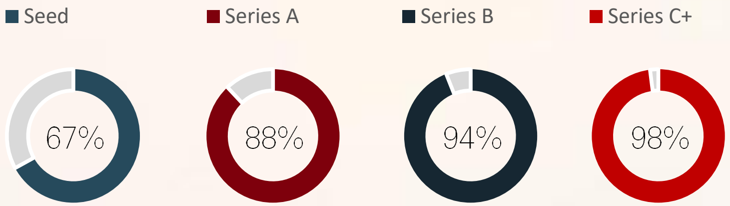
### Ordinary vs preference shares: 2024 - 2021




### Preferred shares[1] by investor type: 2024




### Preferred Shares[1] by Stage: 2024




## Entrepreneur's perspective

- Private investors will typically expect to be issued a preference share, especially from Series A onwards. 81% of term sheets assessed included a straight preference and a further 3% had preference shares included alongside ordinary shares.
- Not all preferred shares are created equal. Investors at different funding rounds may have preferred shares with different rights, while investors in later rounds may look to renegotiate the privileges of earlier investors.

**Helen Murphy**
Co-Founder and CEO,
Opply

"This guide is a must-read for founders (especially when raising your first round). Your term sheet sets the foundation for future rounds, as often investor down the line don't create many new terms, just adapt the ones in play— make sure you understand the important terms e.g. Preference vs. ordinary shares and liquidation preferences of 1x, 2x, 3x, can define your exit—know the difference."

Note: Technically, EIS funds do not issue preference shares, however from a commercial perspective (due to HMRC rules) EIS investors typically receive ordinary shares, although ordinary shares (e.g. 'A ordinary', 'B ordinary') that have some characteristics of preference shares (i.e. liquidation priority) can be issued. This is often a route taken by more sophisticated EIS fund investors. In the analysis, in this guide EIS liquidation priority has been classified as preferred shares.
1 Preferred shares highlighted in the pie charts above represent the combination of both straight preferred shares and where the preferred shares were also included in the investment structure alongside ordinary shares (i.e. 'mixture – ord & pref').

- After agreeing on the company's valuation, the liquidation preference attaching to the preference shares is the next most important economic term in the term sheet.
- The **liquidation preference** determines the order in which proceeds are paid out on a liquidity event e.g. sale or winding up. This provides downside protection as it allows the holders of the preferred share (typically investors) to be paid first when proceeds are being distributed.
- There are two components to the liquidation preference: 1) the **participation** and 2) the **multiple.**

**1. Participation**

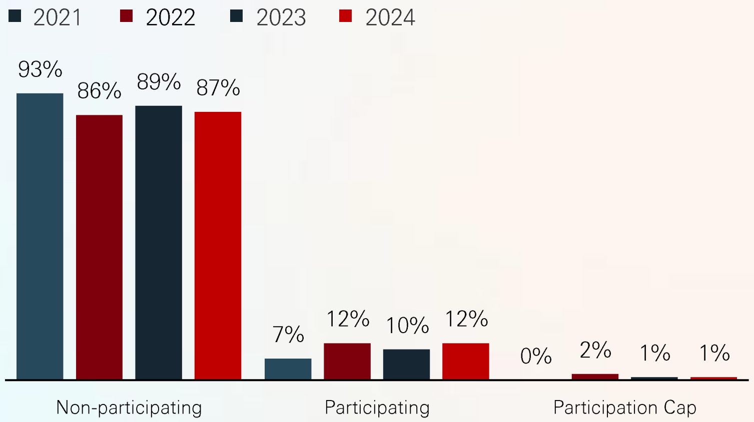
- **Non-participating:** On a liquidity event the investor has the option of i) the amount invested multiplied by the liquidation multiple (plus any unpaid dividends) or ii) to convert the preference shares into ordinary shares and participate as an ordinary shareholder.
- **Participating preferred** (i.e. the 'double dip'): On a liquidity event the investor i) receives the amount they invested multiplied by the liquidation multiple before anything is available for distribution to the ordinary shareholders and ii) the investor then receives their pro-rata distribution of the remaining proceeds alongside the ordinary shareholders.
- **Participation cap:** This option places a cap on the total amount of exit proceeds the investor can receive under the liquidation preference. Under this scenario the investor has an option to convert their preferred shares to ordinary shares without a cap, if the exit is large enough to give a better return.

## Entrepreneur's perspective

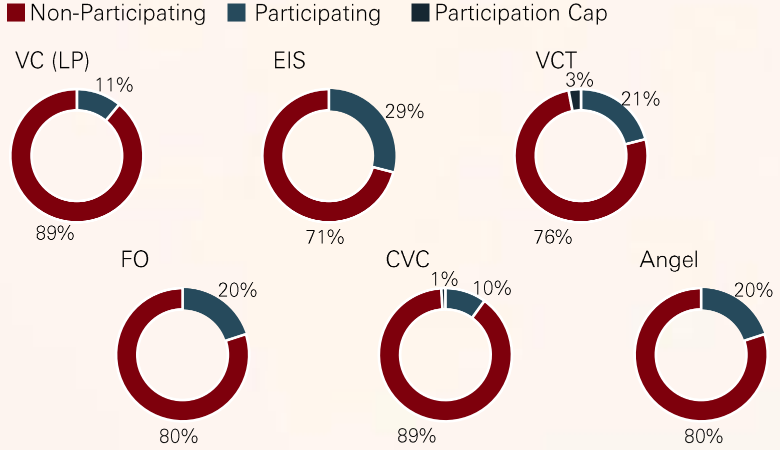
- Due to HMRC rules EIS investors will typically receive ordinary shares, although ordinary shares (e.g. 'A ordinary', 'B ordinary') that have some characteristics of preference shares (i.e. priority) can be issued. This is often a route taken by more sophisticated EIS fund investors.

**87% (2023: 89%) of preference shares were non-participating. 1.0x liquidation multiple was the most common multiple for both non-participating and participating structures**

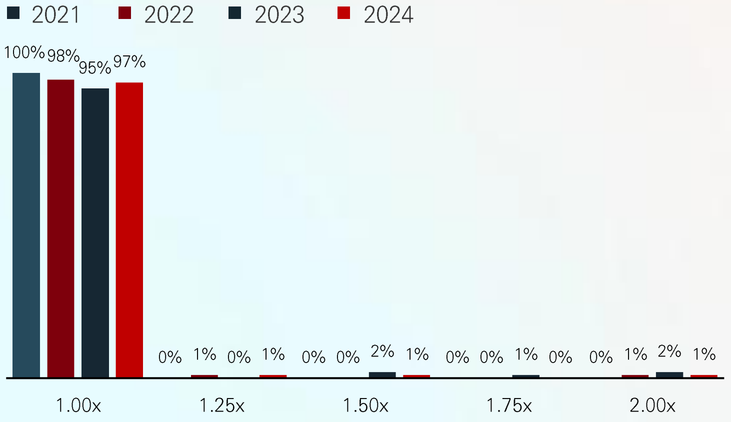
### Preference shares – type



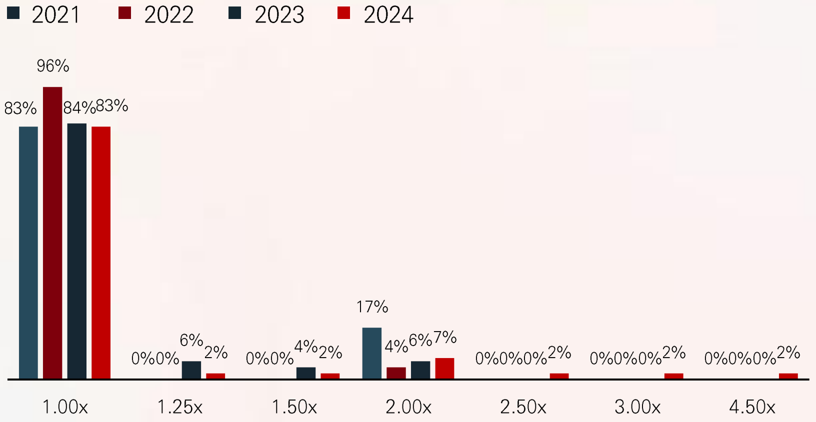

### Non-participating and participating by type of investor




### Liquidation multiple on non-participating preference shares




### Liquidation multiple on participating preference shares



# Liquidation preferences
(2 of 3)

**2. Multiple**

- Liquidation preferences have a multiple attached (e.g. 1x, 2x). This means the preferred shareholder gets one (1x) or two times (2x) (and so on) their original investment amount back before the shareholders below them in the priority stack.

The liquidation preference **priority stack** in the term sheet sets out the order in which the preferred shareholders get paid out on exit. As a company raises a new round, later investors may want their own rights and benefits, which could be superior to the earlier investors.

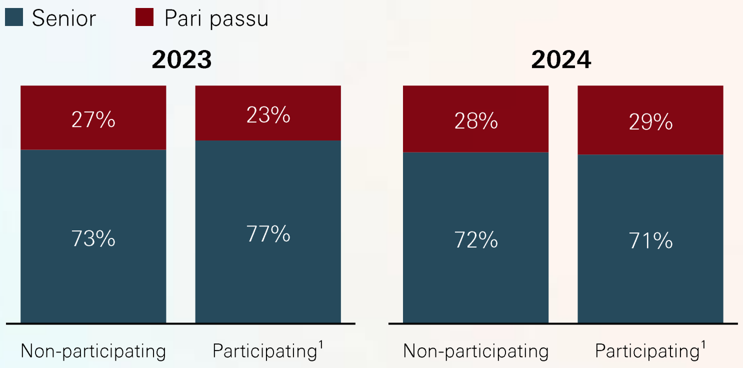
- **Senior:** Liquidation preferences are ranked in order from the latest to the earliest round. This may mean earlier investors are more at risk of receiving a small return or nothing at all; and
- **Pari passu:** Investors from all funding rounds are considered equal and receive proceeds in proportion to their investment amount.

## Entrepreneur's perspective

- A 1.0x, non-participating liquidation preference is the most founder/shareholder friendly. It gives the investor protection against lower exits and is fairer for all shareholders at higher exit valuations.
- When founders insist on a valuation that is too high for an investor, one way an investor can still do the deal and ensure their anticipated fund returns at exit are acceptable, is by utilising a participating structure. Founders should carefully consider whether a lower valuation with a simpler structure today may lead to better long-term returns.
- When negotiating a term sheet ensure the investor includes a **cap table** in the term sheet itself. Be sure you (or ask your lawyer or advisor) create an **exit waterfall** (also known as the "liquidation waterfall") that takes the cap table and evaluates the distribution of proceeds to the different shareholder classes, different liquidation preferences and priority stake during a liquidity event at different exit scenarios.
- For the release of the Term Sheet Guide 2025, Carta have created a **free exit simulator tool for the UK market – see here** (exit waterfall discussed later).

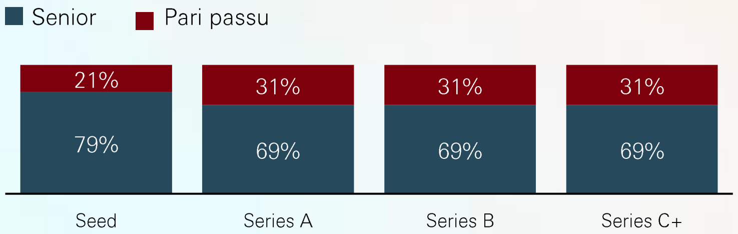
**Senior priority stack prevalent in both non-participating (72%) & participating (71%) preferred shares. For early investors this may mean they are at risk of receiving a small return or nothing at all**

### Split by participating / non-participating

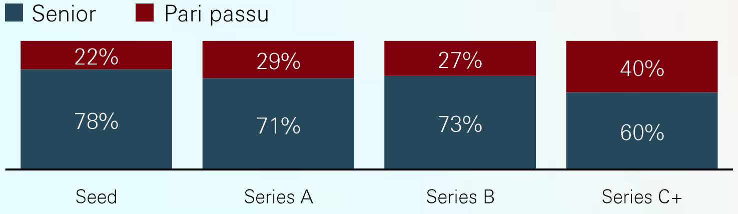



### Split by stage

**Non-participating**




**Participating[1]**




1 Participating includes Participation Cap.

**Extract from BVCA model form document – Participating Preference:**

"Upon liquidation of the Company, the Preferred Shareholders will receive in preference to all other shareholders an amount in respect of each Preferred Share equal to [● times] the Issue Price (the "Liquidation Preference"), plus all accrued but unpaid dividends. To the extent that the Company has assets remaining after the distribution of that amount, the Preferred Shareholders will participate with the holders of Ordinary Shares pro rata to the number of shares held on an as converted basis".

Non-Participating preference (most common form of liquidation preference):

"The Series A Shares will carry a one times (1x) non-participating liquidation preference on a liquidation, distribution of assets or share / asset sale of the Company, whereby the holders of Series A Shares will be entitled to receive, in priority to other share classes, an amount per Series A Share equal to the greater of (i) the Preference Amount (together with any arrears and subject to customary adjustments) and (ii) the amount that would be received if the Series A Shares were converted into Ordinary Shares immediately prior to such distribution and such distribution made pro-rata among the holders of the shares in the capital of the Company (excluding deferred and treasury shares) (being the "equity shares").

[The liquidation preference will be structured in a manner consistent with the EIS/VCT provisions.]"

Edwin Chan
Managing Director,
Carta

"Waterfall structures play a vital role in investments by determining how returns are allocated, prioritizing distributions, and managing risk. They ensure that capital flows efficiently, align incentives for both the GP and LPs, and distribute profits strategically. Understanding these structures and being able to calculate them accurately and in a timely manner is key to monitoring portfolio performance and making informed financial decisions."

# Liquidation preferences – Examples (3 of 3)

## Non-participating

- On a liquidity event the investor has the option of i) the amount invested multiplied by the liquidation multiple (plus any unpaid dividends) or ii) to convert the preference shares into ordinary shares & participate as an ordinary shareholder.

**Example 1: Investor has invested £2m for 50% of the company & has a 1x non-participating preference**

- Investment amount: **£2m**
- Preferred equity: **50%**
- Ordinary equity: **50%**
- Liquidation preference: **1x**
- Participation: **No**
- **Exit proceeds: £10m**

Total exit proceeds: £10m

| Pro rata – convert preferred to ordinary equity £5m | Ordinary (Founders) equity at 50% - £5m |
|---|---|
| 1x liquidation preference would result in only £2m return so investor would convert to ordinary shares and the investor gets a portion of the proceeds based on their pro-rate % ownership (50%) i.e. £5m | Founders also gets 50% of the exit proceeds i.e. £5m |

**Example 2: Investor has invested £2m for 50% of the company & has a 1x non-participating preference**

- Investment amount: **£2m**
- Preferred equity: **50%**
- Ordinary equity: **50%**
- Liquidation preference: **1x**
- Participation: **No**
- **Exit proceeds: £3m**

Total exit proceeds: £3m

| 1x liquidation preference: £2m | Ordinary (Founders) equity at 50% - £1m |
|---|---|
| Exercising the 1x liquidation preference would result in £2m of the exit proceeds v converting into ordinary equity which would result in only £1.5m of the exit proceeds – therefore the investor would not convert and take the liquidation preference | Exit proceeds for the founder reduced to £1m (the residual amount) because of investor exercising their liquidation preference |

## Participating preferred (i.e. the 'double dip')

- On a liquidity event the investor:
  1) receives the amount they invested multiplied by the liquidation multiple before anything is available for distribution to the ordinary shareholders; and
  2) the investor then receives their pro-rata distribution of the remaining proceeds alongside the ordinary shareholders.

**Example 3: Investor has invested £2m for 50% of the company & has a 1x participating preference**

- Investment amount: **£2m**
- Preferred equity: **50%**
- Ordinary equity: **50%**
- Liquidation preference: **1x**
- **Participation: Yes**
- Exit proceeds: **£10m**

Total exit proceeds: £10m

| 1x participation liquidation preference: £2m | Participation as ordinary shareholder at 50%: £4m | Ordinary (Founders) equity: £4m |
|---|---|---|
| Investor exercises participation liquidation preference | Investor 'double dips' and receives proportion (50%) of remaining exit proceeds (£8m) therefore £4m | Ordinary shareholders receive remainder (in this case 40%, albeit own 50%) |

# Share options
(1 of 2)

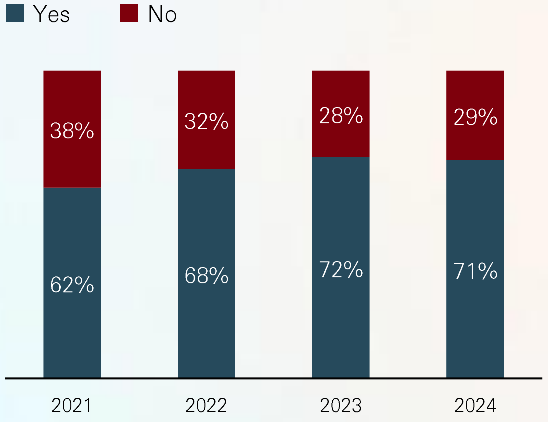
- The share option pool is shares of the company that have been specifically allocated as incentives to attract or retain and/or hire talent.
- Often, potential investors want to see that a sufficient option pool is available, but the option pool does not usually come into focus until the end of the negotiation.
- Creating an option pool results in dilution for the shareholders and directly impacts the price per share (i.e. valuation). When an investor calculates valuation, they act as if the options have been issued (i.e. 'fully diluted' basis) – even though the new option pool shares have not actually been issued.
- There are two ways to calculate the option pool:
- **1) Pre-money:** When an investor calculates the pre-money valuation, they assume the pool has been created before the assumed investment round occurs. This way the new investors avoid any dilution and only the existing shareholders get diluted (i.e. it lowers the effective pre-money valuation). This is known as the **'option pool shuffle'**; and
- **2) Post-money:** The option pool is calculated in the post-money valuation, meaning both the existing shareholders and the incoming investor get diluted (i.e. no impact on the pre-money valuation) (see earlier exit waterfall).

**Toyosi Ogedengbe**
Principal,
Ascension

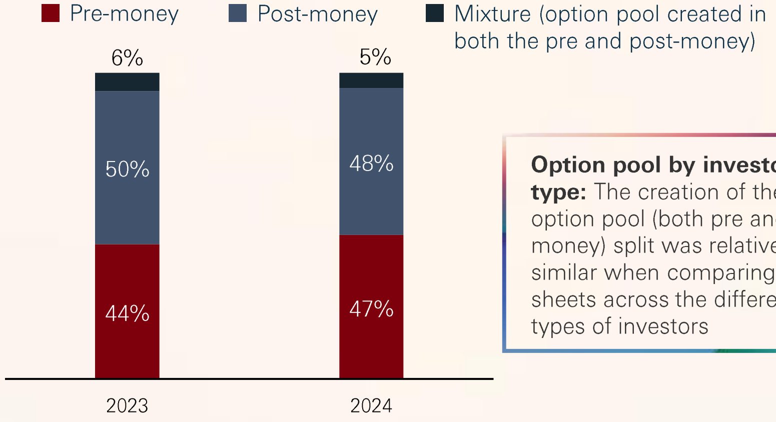
"When negotiating a term sheet, founders should not view share options as a cost but as an investment in incentivising their team to drive the company's vision. Thoughtfully structured options can attract and retain top talent, aligning interests towards long-term value creation."

## A new option pool/top up to the existing pool was seen in 71% of term sheets and 48% of these were calculated in the post-money

### New option pool created / top-up

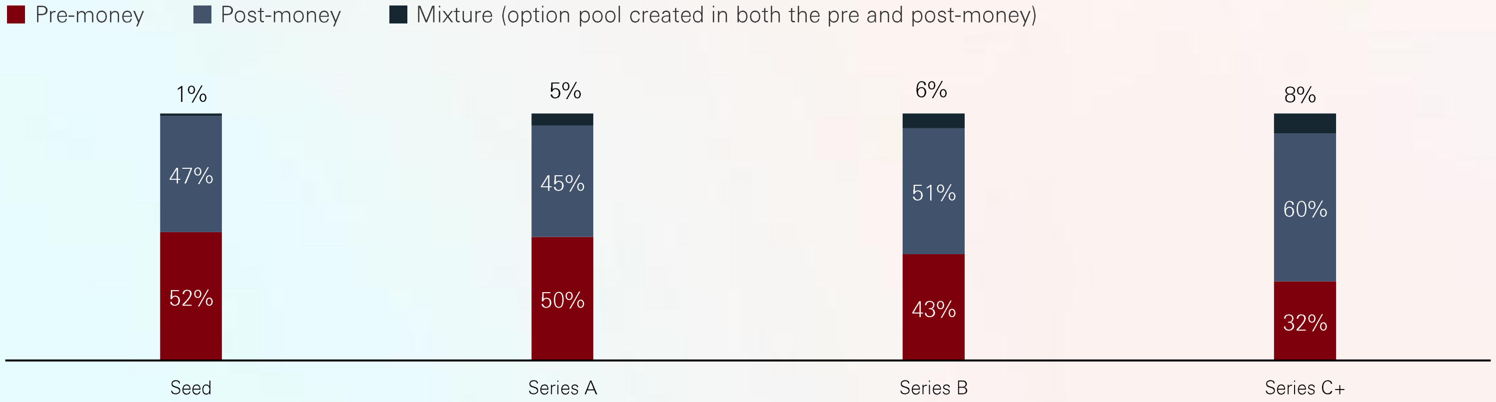



### Where option pool calculated: pre or post money




**Option pool by investor type:** The creation of the option pool (both pre and post money) split was relatively similar when comparing term sheets across the different types of investors

### Where option pool calculated: Pre or post money by stage, 2024



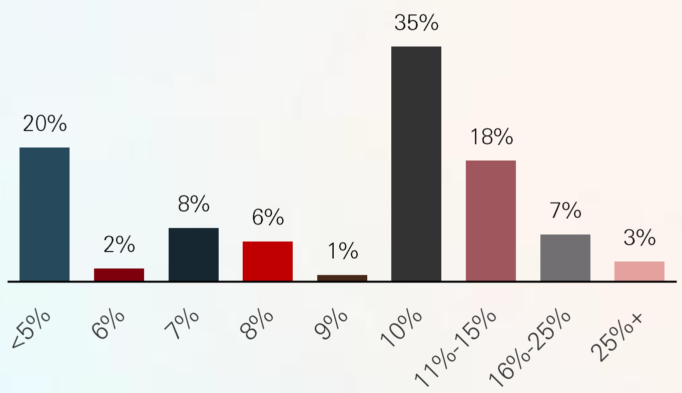

Note: Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).

**Extract from BVCA model form document – Share Option Pool:**

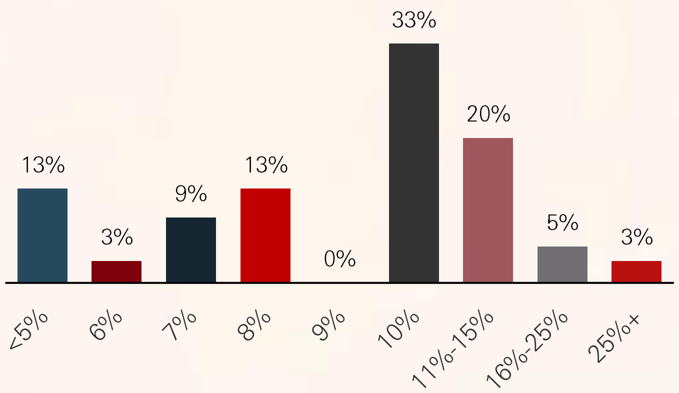
"The Company currently maintains an employee share option pool ("ESOP") comprising [●] ordinary shares of £[●] each "Ordinary Shares"), of which: [●] have been granted, [●] have been allocated and/or promised to employees, directors and consultants and [●] remain unallocated and available for grant[, as shown in the capitalisation table set out in Schedule 1].2 On Completion, the ESOP will be increased by an additional [●] Ordinary Shares [such that post-Completion the total ESOP will represent [●]% of the Fully Diluted Share capital] [such that post-Completion the total unallocated portion of the ESOP will represent [●]% of the Fully Diluted Share capital]."

## A 10% option pool was the most common size pool irrespective whether the pool was calculated in the pre or post-money

### Size of new option pool: pre-money (%)




### Size of new option pool: post-money (%)




## Entrepreneur's perspective

- An option pool dilutes both the founders and investors and is therefore a negotiation point. If a company already has a sizeable option pool in advance of a funding round, these share options should be considered in the investors' view of valuation.
- Founders need to be aware of the 'option pool shuffle' and its impact on dilution (create an exit waterfall analysis as discussed earlier). If the option pool is calculated in the pre-money valuation, founders get diluted twice: firstly by the option pool shuffle and again when the newly-issued shares become part of the actual funding round.
- In the US the option pool is typically calculated in the pre-money valuation, meaning dilution comes from the founders. In the UK, it is much more varied, and both calculation methodologies are often used. The key for both investors and founders is to reach common ground on how the pool should be treated and calculated. Founders need to have well thought out plans (e.g. a comprehensive hiring plan).
- They should also understand what happens to unvested share options when an employee leaves the company: does it get reallocated, or does it get reabsorbed by all existing shareholders or certain shareholders?

Note: Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).

# Anti-dilution

**Anti-dilution provisions** protect the investors' investment value in the event of a **future down round**, where new shares are issued to new investors at a lower price, the incumbent investors have the right to receive additional shares at no or a minimal cost to compensate them for their dilution.

## Types of anti-dilution ratchets

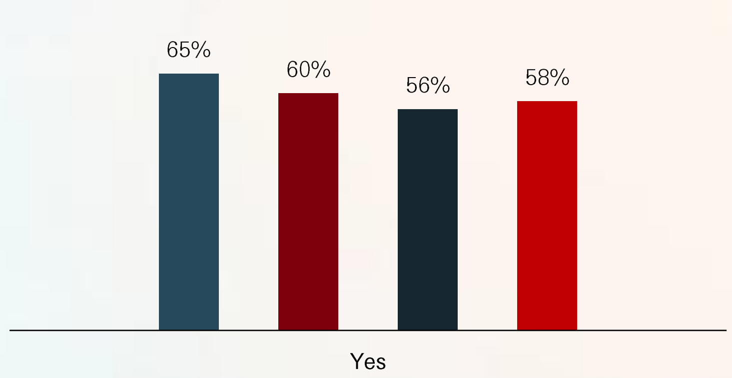
| | |
|---|---|
| **Weighted average anti-dilution** | • A "weighted average" ratchet anti-dilution provision can be "narrow based" (only the actual number of shares in issue are taken into account) or "broad based" (both the shares in issue and any outstanding options are taken into account).<br>• A broad based weighted average is the most common form of anti-dilution right agreed to and most favourable to the other shareholders as it results in the least dilution on a down round.<br>• It takes into account the lower-priced issuance, not just the actual valuation. |
| **Full ratchet based anti-dilution** ('investor friendly') | • "Full ratchet" anti-dilution provision means that if the company issues shares at a price lower than the price for the series with the full ratchet provision, then the earlier round price is effectively reduced to the price of the new issuance.<br>• A Full ratchet adjustment is the most aggressive form of anti-dilution provision. It provides the greatest protection to the Investor and has the greatest negative impact on the founders, employees and ordinary shareholders |

**Extract from BVCA model form document – Anti-Dilution Protection**

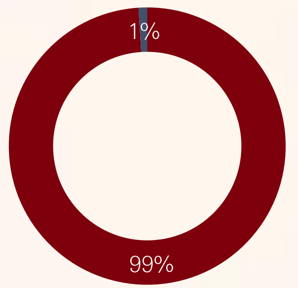
"[Save for EIS/VCT Investors,] The Series A Shares shall carry standard broad-based weighted average anti-dilution protection in respect of a new issue of securities (save for those issues exempted from pre-emption as detailed below under the Pre-emption on new issuance section) at a price per security below Starting Price (subject to customary adjustment).
[The Series A Shares held by EIS/VCT Investors shall be excluded from the anti-dilution protection.]"

## 58% of term sheets included an anti-dilution provision for preferred shares and the weighted average methodology was typical

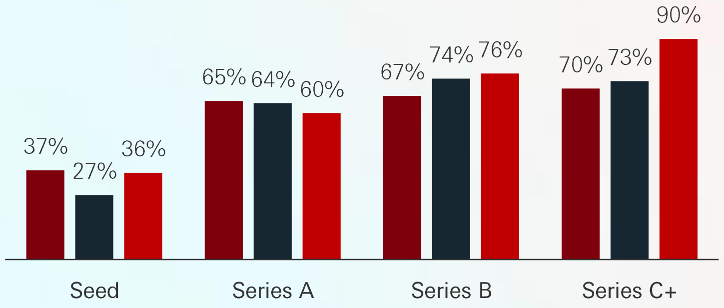
### Anti-dilution clause in term sheet




### Type of anti-dilution ratchet in term sheet (where specified) 2024




### Anti-dilution clause in term sheet by investment stage




**Reece Chowdhry**
Founding Partner,
Concept Ventures

"Over the last few years, VC late-stage portfolios have experienced a significant downturn, sparking renewed interest in Anti-dilution. However, it's important to note that only 58% of VC investors actually include this term in the term sheet, as reported. Personally, I am not a fan of Anti-dilution because it can create a misalignment between investors who have it and those who don't. Ultimately, it can be negotiated away, especially considering that the high % of funds do not utilize it and it is primarily common at the late stage. For founders, it is a great sense check to determine if a fund is founder-friendly right from the start of their negotiation".

Note: Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).

# Other economic terms

**Extract from a typical Series A term sheet :**

**Tranched Investment:**

"The investment will be staged with £● being invested at initial completion ("Completion") and £● being invested at second completion ("Second Completion"). Second Completion will be subject to customary conditions, including (without limitation) (i) achievement and/or waiver of the milestones detailed in schedule ● to the satisfaction of [the Investors]/[the holders of ●% of the Preferred Shares], (ii) there having been (in the [reasonable] opinion of [the Investors]/[the holders of ●% of the Preferred Shares]) no material adverse change in the financial position or prospects of the Company and no material breach of the definitive investment documents or the Founder service agreements by the Company and/or a Founder, and (iii) the Founders continuing to be employed or engaged by the Company".

**Extract from a typical Series A term sheet :**

**Preference Dividend**

"Each Preferred Share will have a fixed cumulative cash preferential dividend of ●% per annum [starting on ● 20●● ] (the "Preference Dividend") to be paid [on a Exit or conversion of the Preferred Shares]/[in [four] equal instalments on ●, ●, and ● in each year]/[on ● in every year], [on the winding up of the Company] or [on redemption of the Preferred Shares]. Any other dividends or distributions will be payable to all shareholders on a pro rata basis."

## 24% (17% in 2023)

### Tranched investment

24% of transactions (17% in 2023) involved tranched investment, typically where the tranched funding is based on agreed milestones.

## 12% (9% in 2023)

### Preference dividend

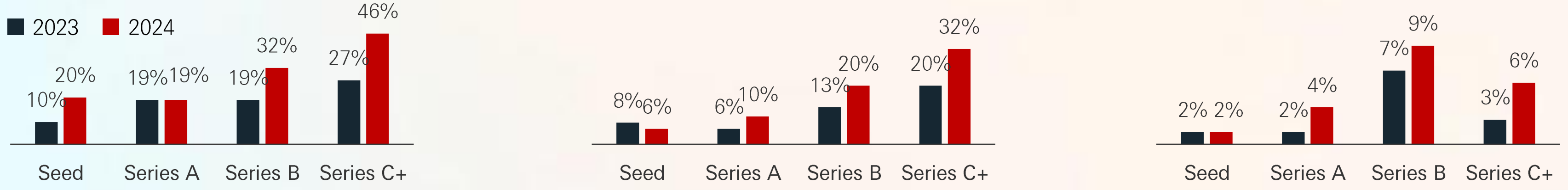
12% of transactions (9% in 2023) involved preference dividends. Where there was a preference dividend – the % coupon rate, where specified in the term sheet, ranged between 2%-20%. Where type of preference dividend was specified, 41% were cumulative and 59% non-cumulative in 2024.

## 4% (3% in 2023)

### Growth shares

4% of transactions (3% in 2023) included growth shares. Growth shares are a special class of share that have a 'hurdle': they only have value if the price per share is above the hurdle. They can be issued to key management, employees etc.

### Other economic terms included in term sheet – split by stage




### Entrepreneur's perspective

- Tranched investment is more typical in sectors such as life sciences, where milestone payments are received for passing a hurdle (e.g. clinical stage of a new drug development).
- In other types of business, milestone investment can lead to goal misalignment, particularly at the early stage, as the originally milestones that were thought to be important, may no longer be relevant as the market evolves.
- Disputes can arise whether a company has achieved its milestones, especially if the terms are complex.
- If the investment is tranched, negotiate that future tranches are at a higher valuation to reflect growth in the business.

- Early stage venture businesses are usually not in the financial position to pay out a dividend; growing a business requires a reinvestment of cash.
- On an exit, any unpaid dividends owed to the investor will be included in the exit proceeds paid out to the investor, providing an additional benefit. This should be calculated as part of the **exit waterfall analysis.**
- There are two types of dividend, **non-cumulative** and **cumulative.** Non-cumulative dividends are more founder friendly, as they do not carry forward to the next year if they are not paid out, whereas cumulative dividends roll-up and form part of the proceeds distributed to the investor on a liquidation event.

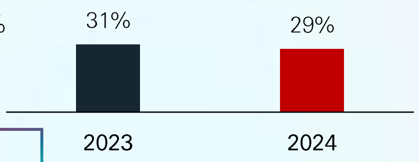
- Growth shares can be used to incentivise founders/key management on a 'big exit'. Founders/ management should look to negotiate to have growth shares included, especially if there is a participating preference included as part of the deal terms and calculate them as part of the exit waterfall analysis.

Note: Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).

# Convertibles, Secondaries and Co-Investors (Syndicate) deals

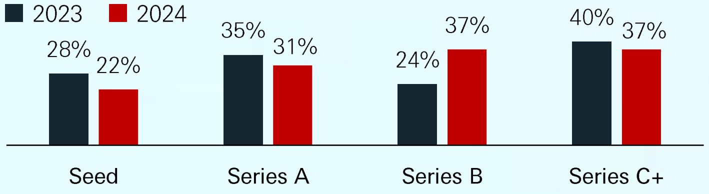
## Convertibles

Included in term sheet, Yes %




Convertibles triggered as part of the round (i.e. existing investors alongside new equity investors)

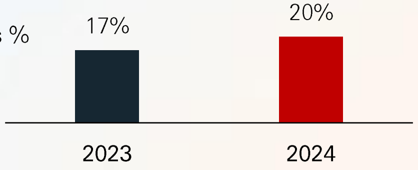
### Included in term sheet – split by stage



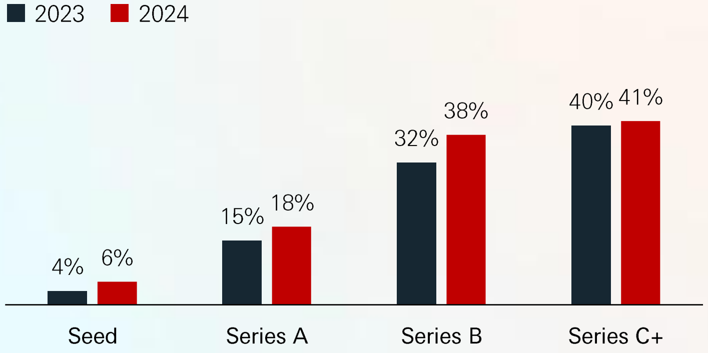

- **Convertible debt/note** is a debt instrument that an investor issues to a company with the intent it will convert later to equity (and not be paid back as a standard bank loan would be). When founders issue a convertible note, all parties typically assume the startup will be raising additional funding rounds. Typical features of a convertible note include:
- **Delayed valuation**: Convertible debt provides a method to raise money without putting a valuation on the company at the time the convertible note is issued;
- **Interest** typically accrues over the term of the note, at a negotiated rate, and gets added to note when it converts to the new class of shares negotiated at the next investment round;
- **Conversion** typically happens on a 'trigger event', usually when the company raises its next round, meaning a pre-money valuation for the company is established or at a predefined date (maturity date) with an agreed upon valuation at this date; and
- **Discount rate:** The convertible note typically carries a 15%-25% discount rate, entitling the note holder to buy newly valued equity at the discount rate.

## Secondaries

Included in term sheet, Yes %



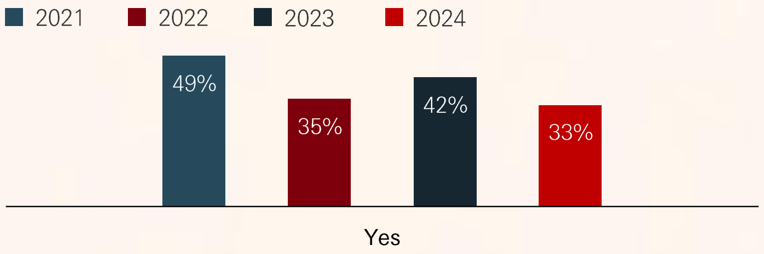

### Included in term sheet – split by stage



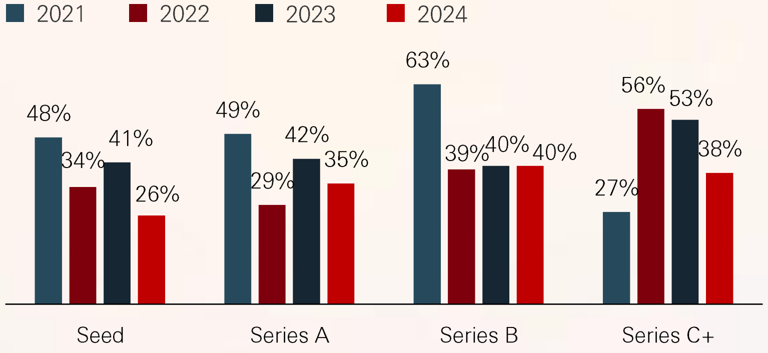

- A "secondary" sale is when a shareholder (typically one of the founders or an early employee or an early investor) of a private company sells his or her shares to another buyer (instead of primary capital/shares being raised/issued).
- A secondary usually (though not always) happens at later-stage (Series B and C+) investments, when the startup has achieved significant revenue or traction, on the way to an IPO or a major sale. A secondary allows a founder, who has put 'blood, sweat and tears into the business' to de-risk slightly and 'take some money off the table'.

## Co-investors (Syndication)

Included in term sheet last 4 years (2021-2024)




### Split by investment stage




- While some VCs invest individually, many invest with other VCs as part of a "syndicate". The syndicate includes any investor purchasing equity in the company.
- Most syndicates have a lead investor, who will typically take the role of negotiating the term sheet clause for the entire syndicate.
- A syndicate allows VCs to share risks, particularly in a volatile market, and can also provide an opportunity for greater success by increased deal flow / number of investments.

Note: Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).

# Control Terms

HSBC Innovation Banking

# The Board

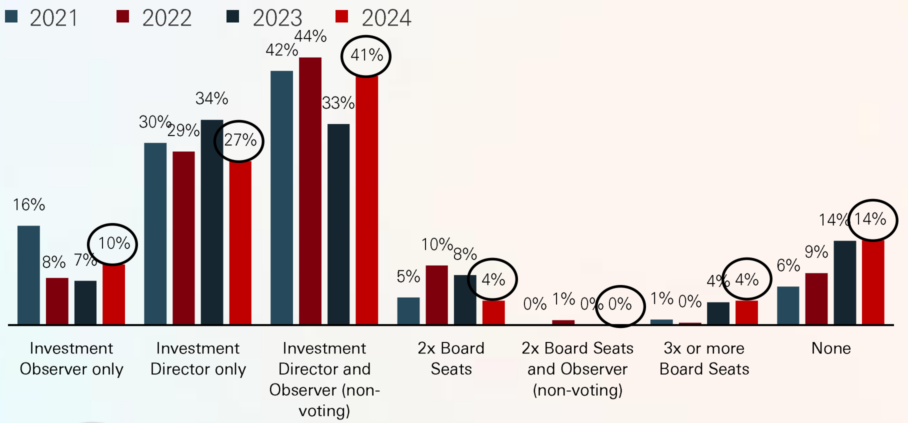
- Representation at the level and the procedures for electing the Board of Directors ('BoD') is one of the key control mechanisms included on term sheets. Entrepreneurs should carefully consider the appropriate balance of Board composition.
- VCs will typically require an investor director Board seat from Series A. If there are several investors in a round, they may agree that the lead investor takes the Board seat between themselves, or they may each require a Board seat. Investors may also require a Board observer seat: these are non-voting, but entitle the member to attend Board meetings and can also cover for the investor director (e.g. holidays).
- At the early stage founders / management typically retain control of the Board, while investors usually have investor consent rights (discussed later).
- VCs may also want some form of **'swamping rights'**, which means that they can take control of the Board in the event of a material breach by the founders or material underperformance of the company. This term is deemed 'aggressive' and founders should seek to avoid this where possible.
- VCs will often insist that founders remain on the Board if there is a service requirement.

**Extract from BVCA model form document – Board Appointment Rights**

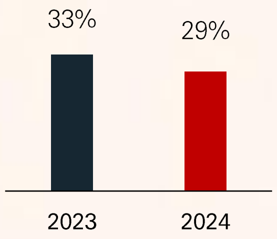
"The [Lead Investor], for so long as it (together with its permitted transferees) continues to hold not less than [[xx]% of the equity shares]/ [[●] equity shares] shall have the right to: Appoint one Director (the "Investor Director") to the Board; [and Appoint one observer (the "Observer") the Board.] [Each Founder] [The Founders], for so long as they remain employed by and/or engaged as a consultant to the Company or a member of the Company's group [and, together with their permitted transferees continue to hold not less than [[xx]% of the equity shares]/ [[●] equity shares] shall have the right to appoint themselves as a Director (the "Founder Director"). [The CEO appointed by the Board from time to time shall be a director.] Following Completion, the Board shall comprise: the Founder Director[s]; the Investor Director; [INSERT OTHER DIRECTORS.] [[●] will resign from the Board at or prior to Completion.]"

## 76% (86% if including observer-only seat) of term sheets had an investor representation on the Board. This is broadly in line with 2023 (79%; 86% if include observer-only seat).

### Board appointment of investors



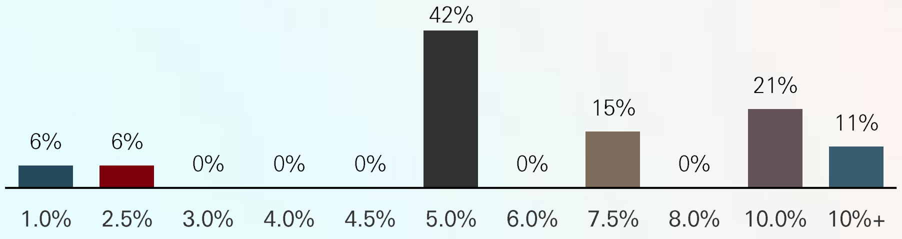

### Minimum shareholding (issued voting share capital) specified for board appointment, Yes%




Taos Edmondson
Partner,
DMG Ventures

"Board composition is an often-overlooked element of the term sheet. By giving board seats away profligately today, you could end up with too many people on your board in a few years' time."

### Minimum shareholding required to have an investor board seat (where specified)




## Entrepreneur's perspective

- From Series A onwards it is standard for investors to want a Board seat. Ensure that you can work with whoever is elected to the Board, as they play a crucial role the direction of the company.
- Remember to carefully consider the role of Board observers. Although observers don't have voting rights, they are at meetings and can influence the discussion.
- As the company scales, anticipate later funding rounds and consider what the Board may look like. You want to avoid smaller investors in later rounds having greater control than their economic interest. The Board composition is likely to be renegotiated at each round but including a minimum threshold % to qualify for Board representation in the term sheet is helpful (the guide suggests the market is **5% of the issued voting share capital).**
- Consider the wording and rationale for swamping rights carefully and make sure you understand the situations in which this may occur.

# Founder vesting

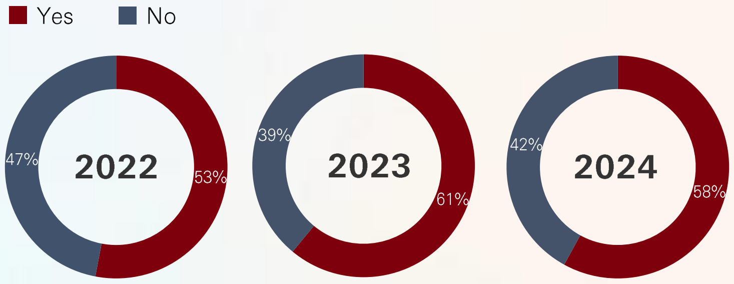
- Founder (or key management) vesting is the process by which founder shares are earned back over a period of time following a fundraise.
- Founders will often have a different vesting provision from other employees.
- If the founder leaves the company before the end of the vesting period, then the vesting formula applies and they only receive a % of the shares (i.e. the 'unvested' shares have not been 'earned' and are lost). The VC can use 'unvested' shares to attract replacement hires.
- Many entrepreneurs view vesting as a way for VCs to control them and as a backward step – especially if they have been working in the business for some time at below-market salary. From the VCs point of view, they are investing in the founder/ management team (especially in earlier rounds) and they want to ensure the team's long-term is commitment to the business. VCs see vesting as a way of creating value alignment because it encourages the founder/ management team to stay with the company for a significant period of time or to exit, where most of the shares, if not all, will be vested.
- The key points to consider on vesting include:
- 1) The % of **founder shares vested on day 1** and what the remaining % is to vest;
- 2) **Vesting methodology and period:** Typically calculated straight line, monthly (or quarterly or annually), or 'cliff', where shares are partially (or fully) vested on a specified date, and then usually with monthly straight-line vesting thereafter; and
- **Good/bad leaver provision** (see overleaf).

**Extract from BVCA model form document – Vesting:**

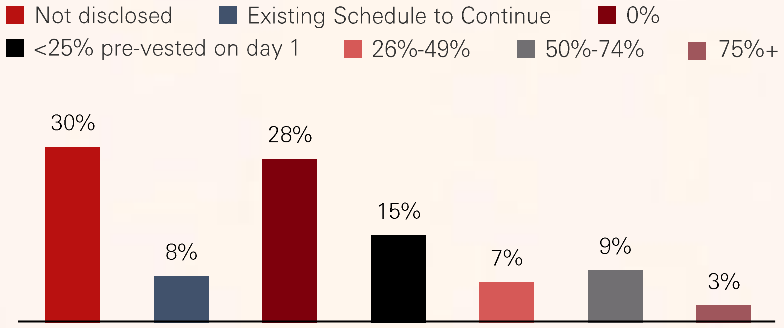
"The equity shares held by a Founder [and/or Service Provider] and their permitted transferees ("Relevant Shares") shall be subject to a reverse vesting schedule whereby the Relevant Shares shall vest in [48] equal monthly instalments (the "Relevant Period") [, subject to an initial one year cliff period,] from [Commencement Date] up to the date their employment and/or consultancy with the Company or a member of the Company's group terminates [or, if earlier when they [give or are given notice to] terminate such employment or consultancy (the "Effective Termination Date")."

## 58% of term sheets included founder vesting down from 61% in 2023

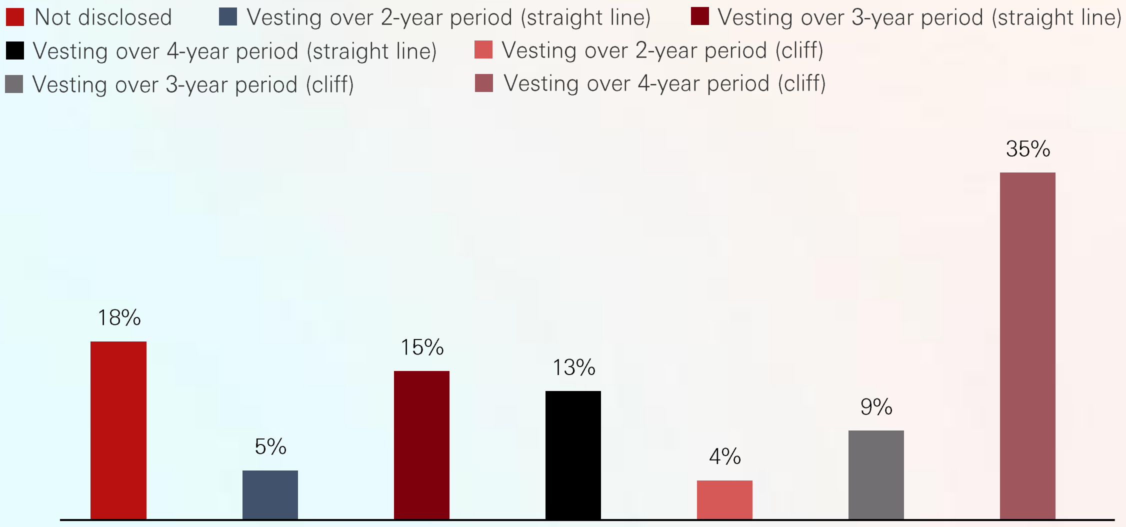
### Founder vesting specified in the term sheet




### Founder shares vested on day 1 (where specified)




### Vesting time period and method for founder shares not pre-vested (where specified)




## Entrepreneur's perspective

- 42% of term sheets were silent on the emotive clause of founder vesting. You should negotiate founder vesting in the term sheet: do not wait until the long-form documents.
- The % of the shares to be vested on day 1, particularly if the founder can demonstrate that they have built real value, is a key negotiation point.

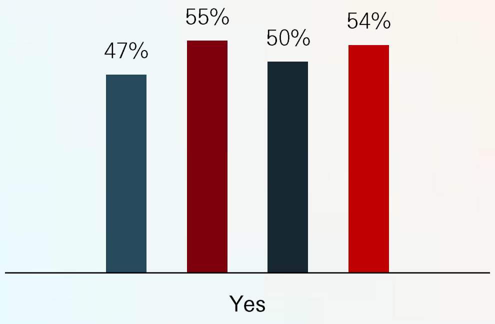
# Leaver provision

- Companies use leaver provisions to define what happens to founders' and employees' equity when they leave the business.
- **'Good leaver'** and **'bad leaver'** clauses should be used as part of robust equity planning. There is a wide variety of ways that leaver provisions can be constructed.
- Typically, leavers are classified as:
  - **Good leavers:** Examples include ill-health, death, unfair dismal, retirement, voluntarily resigning after a certain period of time. Often this covers everything that is not a Bad Leaver.
  - **Bad leavers:** Voluntary resigning**,** dismissal for 'cause'; examples include gross misconduct, criminal activity, fraud, breach of their restrictive covenants etc. Bad leavers typically lose all their vested stock and get nothing.
  - **Intermediate leavers:** In some deals, where Good Leaver is a narrow set of circumstances, there is a further definition of an intermediate leaver, which may cover anything which is not a Good Leaver or Bad Leaver event.
- **So what happens to each type of leaver?** This is up for negotiation but typically one of the following applies:
  - The leaver keeps all their vested shares (unvested portion of shares may become vested);
  - Some (typically where a good or intermediate leaver) or all of the leaver's shares (typically a bad leaver) convert into worthless, deferred shares; and
  - The leaver's shares are purchased by the company, with the price dependent on the category of leaver (e.g. fair market value (good leaver) v nominal value (bad leaver)).

## Only 54% of term sheets included a leaver provision clause. Where they were not included, these were typically negotiated post term sheet, in the shareholders agreement

### Founder Leaver Provisions specified in the term sheet

2021 2022 2023 2024

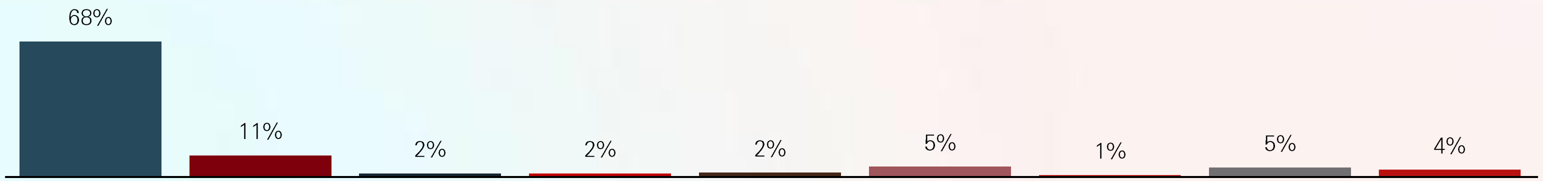



### Entrepreneur's perspective

- Often, the leaver provision is not specified in the term sheet (only mentioned in 54% of term sheets analysed) and are rather dealt with in the long form documents. However, given how emotive leaver provisions can be, we recommend these should be negotiated at the term sheet stage.
- Every deal is unique. Good/bad leaver clauses should reflect the founder's business/personal circumstances. This ensures that if the founder does leave the business an appropriate retention/allocation of shares is received.
- The new BVCA model long-form documents are generally more investor friendly than previous documents and the standard approach is where founders who are *good leavers* will lose their unvested shares but not their vested shares but founders who are *bad leavers* will lose all their shares.
- Typically, as the term sheet and the associated long form documents are put forward by the investor's lawyers, they are likely to include the standard investor friendly wording and they will also usually want to define a bad leaver as anyone who is not a good leaver. Founders should look to negotiate on these points and put forward the specific circumstances and definition of a bad leaver: by definition, anyone else then becomes a good leaver (or intermediate if applicable) as well as the approach to vesting.

### Founder leaver provisions definitions – where specified in the term sheet

Good/bad leaver | Good/Intermediate/bad leaver mix | Good/intermediate/bad/very bad leaver mix | Good/bad/very bad leaver mix | Good/voluntary/forced/bad leaver mix | Bad leaver only | Strict leaver – no differentiation between good or bad | Yes, "as per current legal documents" | Other



# Drag, tag-along and co-sale

- **Drag-along rights** give the majority shareholder(s) the ability to force the minority shareholders to sell the business on equal terms if an acceptable acquisition offer is received.
- Drag-along exists because in many cases the acquiring company wants to own 100% of the target company. It also comes into play if the investors have a deadline to complete the sale.
- Defining 'majority shareholders' and class of shareholders is key in triggering the drag provision. Investors may require a simple majority of the preferred shareholders that includes the ordinary shareholders (whereby the trigger threshold is determined by treating preferred shareholders as if they converted to ordinary shares). It is common for the % of shareholder consent to be negotiated.
- **Tag-along rights** give minority shareholders protection by giving them the right to tag-along with the larger shareholders in a sale of their shares on the same terms (subject to liquidation preferences).
- **Co-sales rights** require a shareholder (usually ordinary shareholders) to allow the investor the opportunity to participate in the sale of shares in proportion to the number of shares held by them before selling any ordinary shares to a third party (but after going through the ROFR – see overleaf).

**Extract from BVCA model form document – Drag-along:**

"If [the Board and] the holders of [a majority] of the equity shares (including an Investor Majority) agree to sell their shares to a proposed purchaser, they shall have the right to compel the other shareholders to sell their shares to the proposed purchaser on the basis of customary drag-along provisions. The drag-along shall provide that dragged shareholders (including any Investors) may be required to participate in certain contribution obligations, including (without limitation) any price adjustment mechanisms or liabilities in respect of warranties and undertakings in the sale agreement, provided such provisions apply to all selling shareholders on a pari passu basis. No dragged shareholder shall be required to make any warranties concerning the affairs of the Company nor agree to any restrictive covenants or similar undertakings [(save in the case of a Service Provider)]."

## 83% and 66% of terms sheets respectively had a drag-along and tag-along provision

### Drag-along

**83% (82% in 2023)**

**83%** (488) of term sheets included a drag-along clause (82% in 2023).

In the 83% of term sheets where there was a drag-along right, there was a minimum shareholder requirement to enforce the drag-along specified in **47% (230) term sheets.** This ranged from 50% to 85%, with **75%** the most common (29% where specified), followed by **51%** (25% where specified).

### Tag-along

**66% (66% in 2023)**

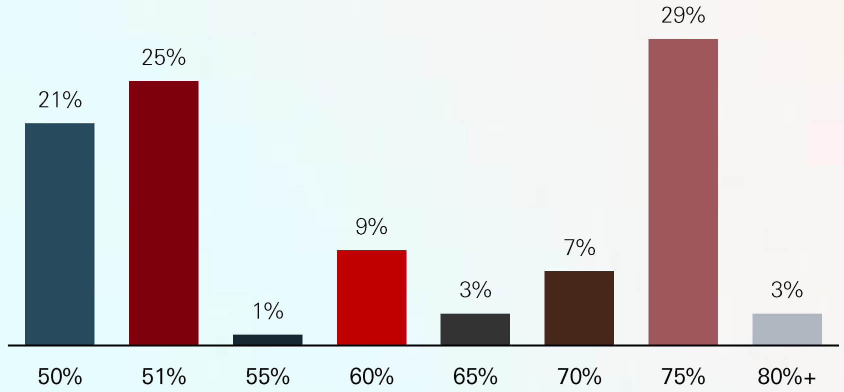
**66%** (386) of term sheets included a tag-along clause (66% in 2023).

### Co-sale

**63% (63% in 2023)**

**63%** (371) of term sheets included a co-sale clause (63% in 2023).

### Drag-along provision min shareholder requirements where specified, and excluding other (not straight forward % vote)




### Entrepreneur's perspective

- Drag-along provisions increase the likelihood of a successful exit but entrepreneurs should be aware they increase investors' control rights over their business.
- Not all drag-along rights are equal – there are a number of key terms that should be negotiated including:
  - **Minimum shareholder threshold:** Consider the shareholder base and assess what is a sensible block of shareholders required to exercise the drag;
  - **Minimum price:** Consider if you want to set a minimum exit price, potentially with the preferred shareholders' liquidation preference as a basis; and
  - **Time period:** Consider including a time period from which the drag-along period can be exercised from.

# Pre-emption rights – ROFO and ROFR

- Pre-emption rights give existing shareholders the obligation-free right to buy more shares on a future fundraising or event before they are offered to third parties.
- There are 2 main types of pre-emption rights:
- **Right of First Offer ('ROFO')** relates to the issue of new shares created as part of a new funding round. ROFO (aka pre-emption rights on issue) holders have the right to make an offer for new shares being issued, usually on a pro-rata basis and on no less favourable terms before they are offered to third parties; and
- **Right of First Refusal ('ROFR')** relate to the sale of existing shares. ROFR shareholders are free to seek offers from third parties but they must first be offered to the investor (or other shareholders) on a pro-rata basis, typically on no less favourable terms, before any shares are sold.

**Extract from BVCA model form document – Pre-emption on Transfer / RoFR**

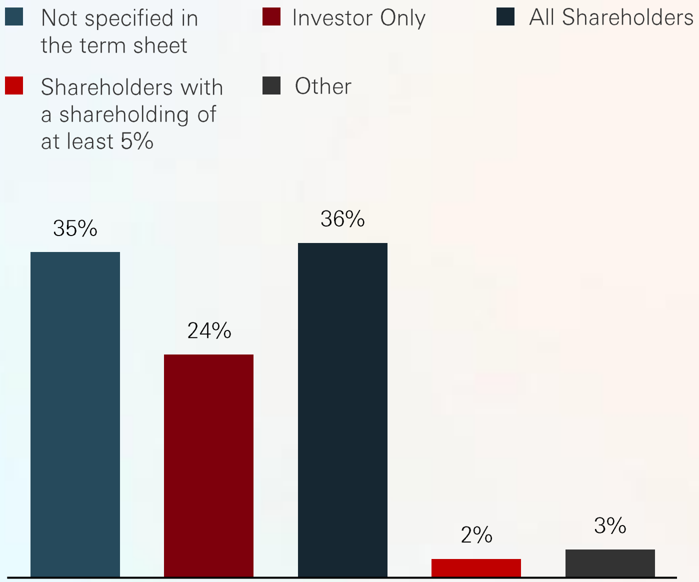
"Each [equity shareholder]/[Investor]/[Major Investor] will have a right of first refusal ("RoFR") to acquire any shares which are proposed to be transferred ("Sale Shares")[, subject to the following priority rights: If the Sale Shares are Series A Shares, the Company shall offer them to the other holders of Series A Shares; and If the Sale Shares are Ordinary Shares, the Company shall offer them to [the other holders of Series A Shares]/[the other equity shareholders].]

The RoFR will not apply to a category of customary permitted transfers, including (without limitation) any transfer of shares approved by the board of directors of the Company from time to time (the "Board") (with Investor [Majority]/[Director] Consent).

["Anti-gamesmanship" protection will also apply in respect of the RoFR.]"

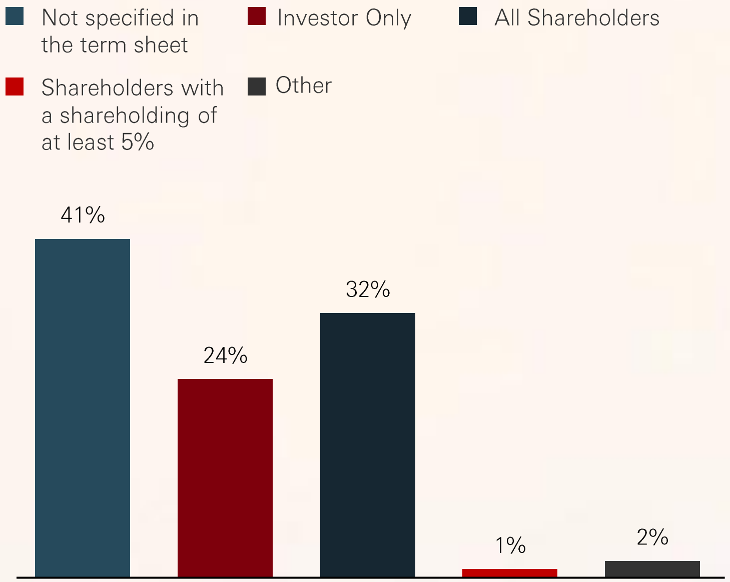
## ROFO and ROFR pre-emption rights were specified in 65% and 59% of term sheets respectively

### Right of first offer ('ROFO')




**65% (382)** term sheets had a ROFO, and where there was a ROFO it typically applied to all shareholders (36%; 210 of all terms sheets) or just the investors (24%; 139 term sheets).

### Right of first refusal ('ROFR')




**59% (349)** term sheets had a ROFO, and where there was a ROFR it typically applied to all shareholders (32%; 188 of all terms sheets) or just the investors (24%; 139 of all term sheets).

## Entrepreneur's perspective

- ROFO and ROFR terms are a standard part of most VC deals but terms can differ greatly from deal to deal. In practice, investors may waive their pre-emption rights in order for a new financing round to complete.
- Be aware that a ROFR may limit the common shareholders flexibility and liquidity, as a potential investor/acquirer may be less interested in negotiating a deal knowing that the stake may be offered to the ROFR holders first.

# Other control terms

**Extract from BVCA model form document – Investor Consents Matters**

"The consent of the holders of at least [●]% of the Series A Shares in issue from time to time ("Investor Majority Consent") shall be required to effect any of the matters specified in part 1 of Schedule [1][2].

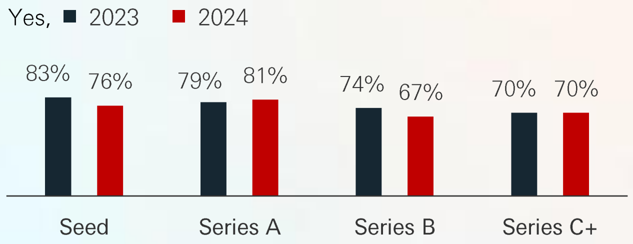
The consent of [the Investor Director] ("Investor Director Consent") shall be required to effect any of the matters specified in part 2 of Schedule [1][2]."

## Investor consents

**76% (78% in 2023)**

76% of transactions (78% in 2023. 78% in 2022) included investor consent rights. These are effectively veto rights that investors have on certain actions by the company to protect their economic interests as minority investors/ preferred shareholders. While these are heavily negotiated, the items included have become largely standardised.

### Investor consents term included in term sheet – split by stage




### Entrepreneur's perspective

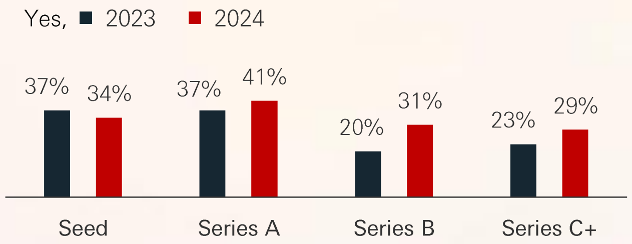
- Ensure the **investor consents** are fair and that the limits are practical. Veto rights should not impact day-to-day operational business activities (e.g. requiring approval for a junior hires, or small capex).
- Establish what consents require Board approval versus investor director (usually on the Board) approval versus those which require the investor company approval.
- Ensure the duration of the **restrictive covenants** is not too onerous and that the clause(s) are drafted in a way that is not overly restrictive, exhaustive, or ambiguous.

## Restrictive covenants

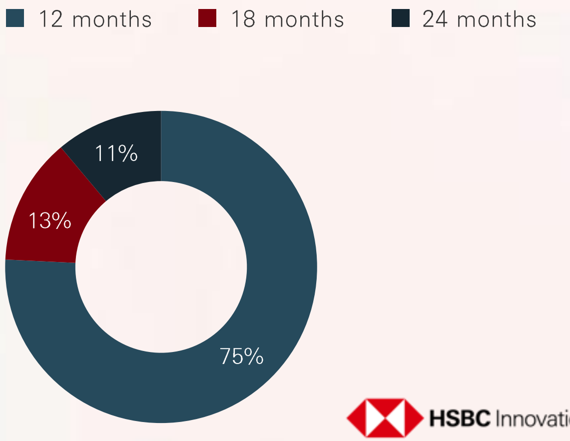
**36% (32% in 2023)**

36% of term sheets (32% in 2023, 39% in 2022) included restrictive covenants (non-compete). Non-compete clauses were instead typically negotiated post term sheet as part of the long form documents. These covenants prevent founders/key management from poaching key employees, customers, suppliers or from general competition against the company for a period of time or as long as shares are held.

### Restrictive covenants term included in term sheet – split by stage




### Duration of restrictive covenants, in 2024




Note: Series stage breakdown by investment size: Seed (<£2m), Series A (£2m-10m), Series B (£10m-30m), Series C+ (>£30m).

# Other Terms

# Warranties – founder/key management

- Warranties are basically promises made to the investor by the founder and/or the company about the state of the business.
- The warranties will typically consist of a series of boiler plate representations that are made specific by the founders/key management for each deal. If the representation turns out to be wrong, then the warrantors could potentially be subject to a breach of warranties claim to compensate the investor for their loss (usually subject to agreed financial limits e.g. multiple of salary, amount invested if company warranty and time periods).
- In 2023, the BVCA introduced revised long form model documents which for warranties are much more founder friendly featuring company only warranties, as opposed to both founder and company warranties. **This brings the UK more in line with US where founder warranties are not standard,**

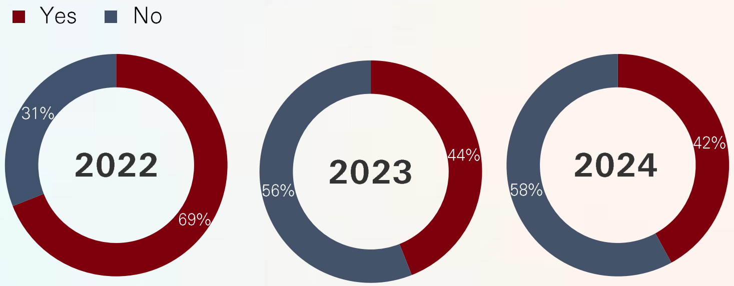
**Extract from a typical Series A term sheet – Founder obligations**

"Are subject to customary restrictive covenants (non-competition, non-solicitation of personnel, non-solicitation of customers, suppliers and other counterparties, and non-disparagement) for a period of ● months starting on the date they cease to be a Service Provider.

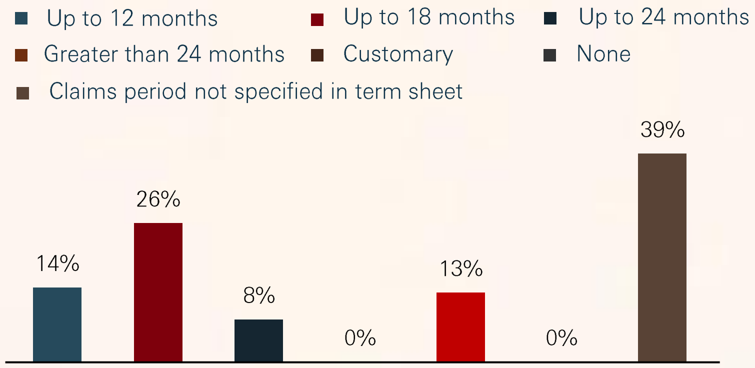
In addition, each Founder shall provide standard intellectual property undertakings in respect of any intellectual property developed by them whilst they are a Service Provider."

## Founders were required to stand behind warranties in 42% of term sheets, in-line with 2023 but down significantly from 69% in 2022, as the revised 2023 BVCA model long form documents (revised again in 2025) only included company-only warranties

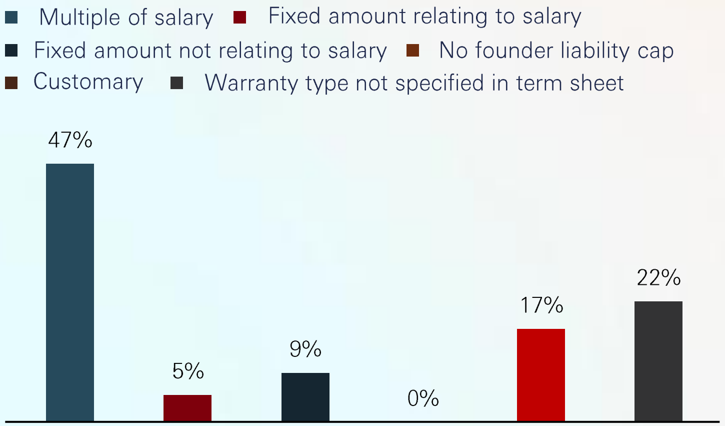
### A) Founder/management warranties



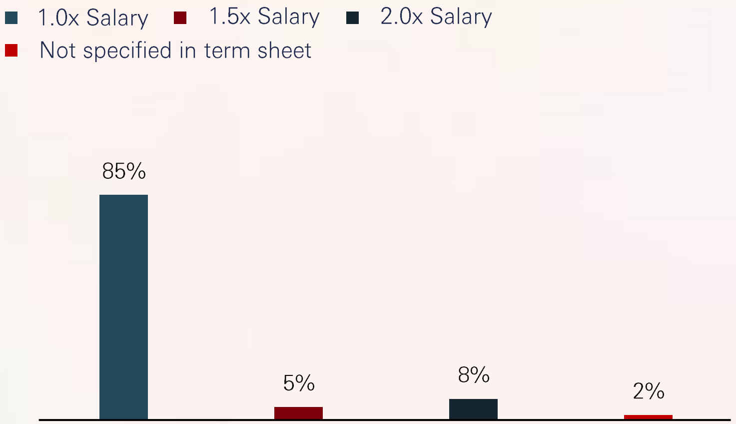

### B) Warranty claims period




### C) Warranty type




### D) Warranty amount where multiple of salary



# Warranties – company

**Extract from BVCA model form document – Warranties & limitations**

The Company will give customary warranties to the Investors on the Execution Date. The warranties will be based substantially on the warranty schedule set out in the model form BVCA subscription agreement, subject to such additions or amendments as may be agreed as part of the Lead Investor's due diligence. [This will include customary US taxation warranties to be made to any US Investors and customary EIS/VCT warranties to be made to any EIS/VCT Investors.] The Company's liability under the warranties will be limited as follows:

- **Aggregate Liability Cap**: an amount equal to the investment amount [and amounts invested under the Equity Securities Agreements];
- **Claim Period**: [18] months following the Execution Date; and
- **Disclosure**: there will be no general disclosure of any data room prepared by the Company in connection with the Proposed Financing.

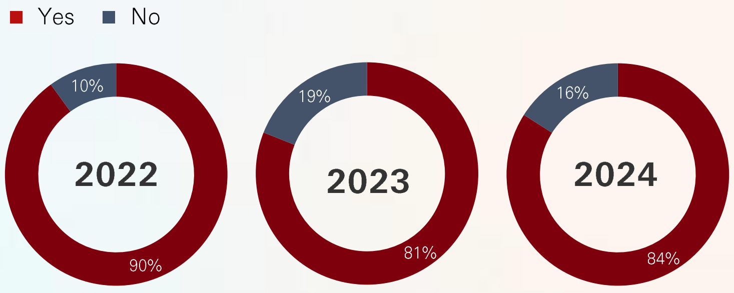
No warranty claim may be brought against the Company without the prior written consent of [the Lead Investor]/[the holders of [●]% of the Series A Shares].

## Entrepreneur's perspective

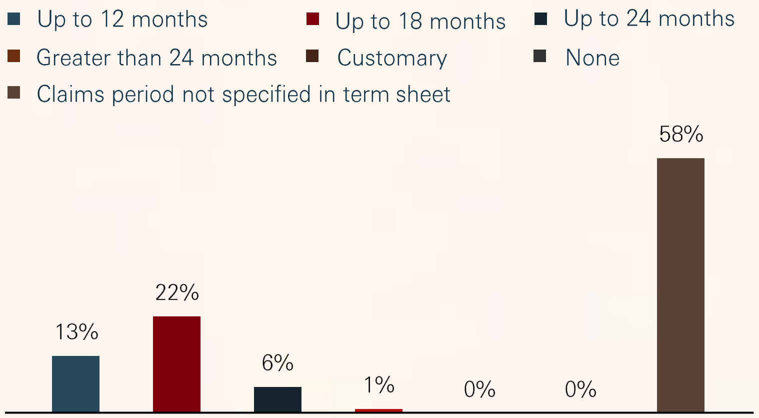
- The disclosure burden for Seed/Series A companies (and their founders/management team if there is a founder warranty included) should be relatively limited given the short history of most companies at this stage of maturity, while it is likely to be more material for later stage companies.

## 84% of term sheets had a company warranties clause, up slightly from 81% in 2023

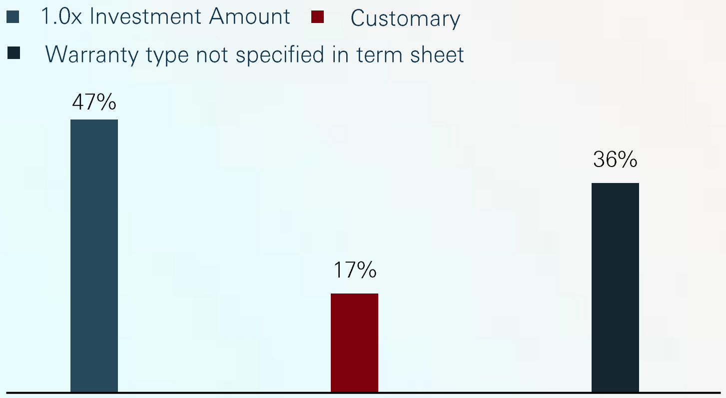
### A) Company warranties




### B) Warranty claims period




### C) Company liability – warranty type



# Arrangement fees and deal fees

There are 2 main types of fees associated with raising VC money:

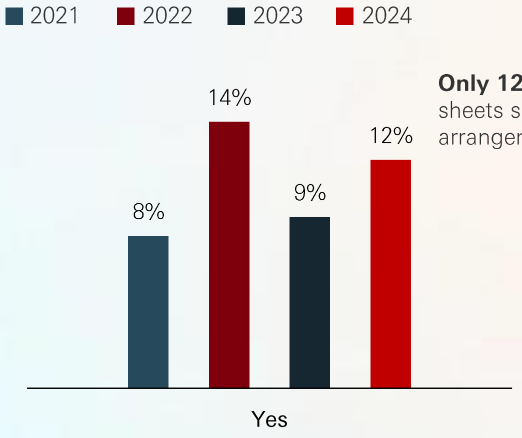
1. **Arrangement fees:** This is a one-off fee typically charged by a VC to cover the general costs of setting up th investment including deal fees. Arrangement fees can vary depending on the VC firm and the specific type of investment, but it is typically a % of the amount invested and is paid by the investee company from the proceeds received.
2. **Specific deal fees:** In addition to any arrangement fee, the term sheet may also specify deal fees such as legal costs, due diligence costs, etc. These costs are typically charged based on the third party costs incurred by the investor, and are paid by the investee company from the proceeds received.

Rodney Appiah
Managing Partner, Cornerstone VC

"Arrangement fees continue to be relatively uncommon, even amongst EIS and VCT funds. I think this is partly due to the proliferation of emerging managers choosing not to charge fees in an effort to be viewed as founder friendly, removing a barrier to securing a competitive opportunity. Founders should always consider whether the level of fees being charged is appropriate, are being capped, and ideally represent no more than 5% of the total round. Founders should also not lose sight of the fact that arrangement and deal fees are one off rather than recurring in nature like monitoring fees."

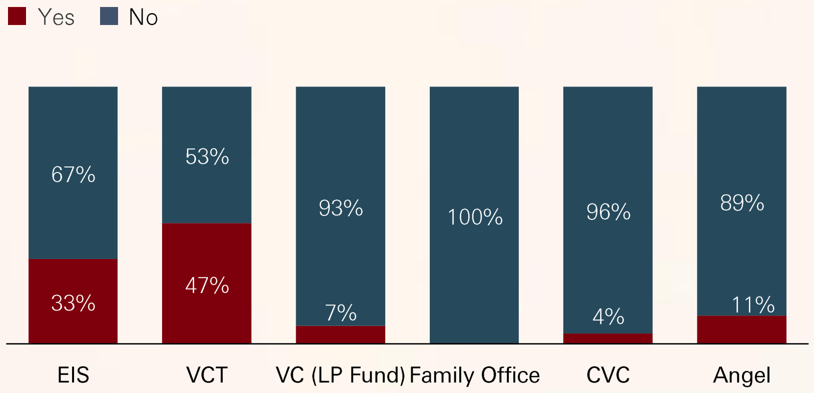
## Arrangement fees are typically only seen in deals from EIS (33%) and VCT investors (47%), due to their fund structures and where there was an arrangement fee 2.0-3.0% was most common

### A) Arrangement fee included in term sheet

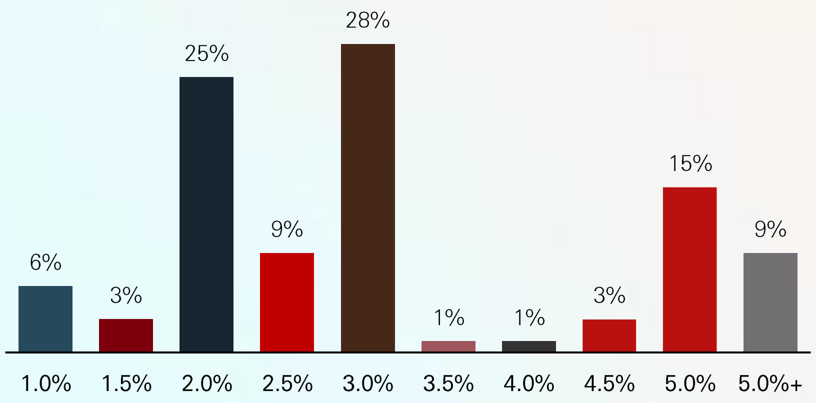



**Only 12%** only of total term sheets sampled included an arrangement fee in 2024.

### B) Arrangement fee included in term sheet by investor type




### C) Arrangement fee (% of sum invested)




### Entrepreneur's perspective

- It is important to carefully review the term sheet and understand all of the proposed fees. A success-based 'arrangement fee' is not common in VC investment. Consider this in your deal negotiations.
- If a term sheet has specific deal fees (e.g. third-party commercial, legal due diligence), try to put a cap on these fees so that you are protected if the deal does not happen.
- If fees are being charged and these are non-negotiable by the investor, negotiate for the investment amount to be **grossed up for the fees so the full proceeds before deal fees are received**.

# Monitoring fees

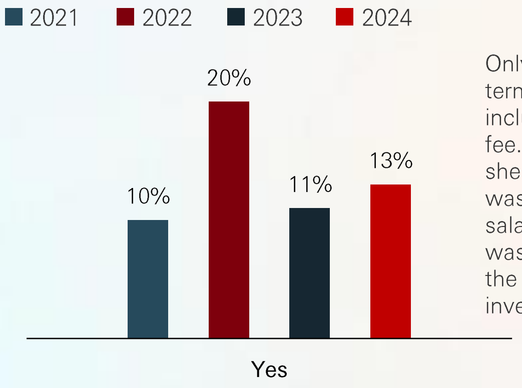
- **Monitoring fees (or 'Board fees')** are charges the VC makes on the portfolio company to cover the costs of monitoring and managing the investment over time.
- The fees are typically based on an annual salary for the Board representatives or as a % of the total amount invested.

Fred Soneya
Co-Founder and General Partner, Haatch

"As the guide shows, investors often charge fees either upfront at the point of investment, on an ongoing basis—or sometimes both. Founders need to assess what value they're actually getting for these costs. Legal fees that cover the investment docs can add real value for everyone around the table by ensuring solid governance and protection. But if a fee just serves to boost the fund manager's bottom line without a clear benefit to the company, founders should question it hard and make sure it's justified."

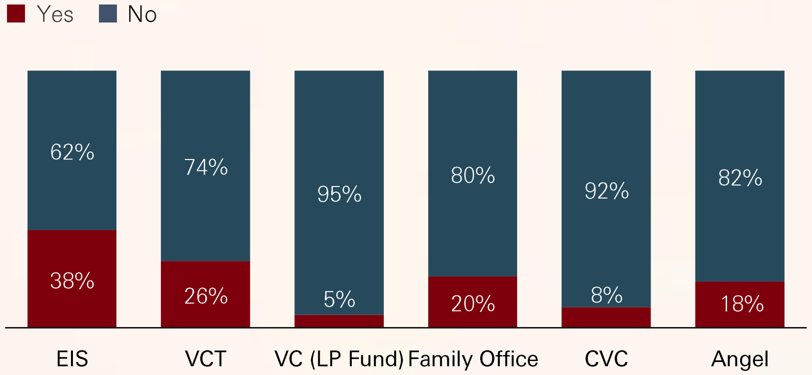
## 11% (46) of term sheets included a monitoring fee and these are most prevalent in EIS (38%) and VCT (26%) deals due to nature of their fund structures

### A) Monitoring fee included in term sheet

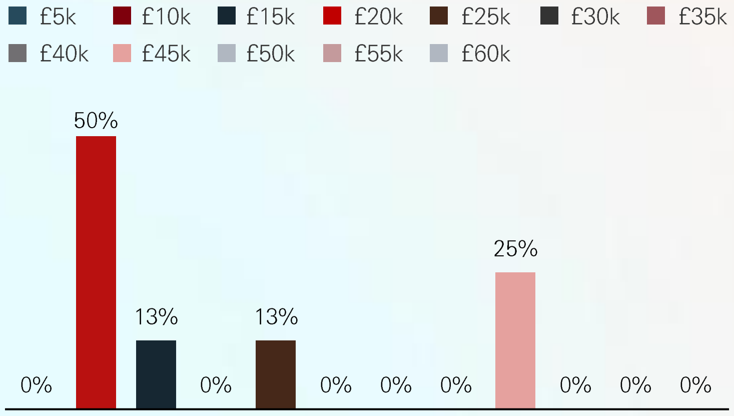



Only **13%** (74) of total term sheets sampled included a monitoring fee. Of the 74 term term sheets, 12% (9) the fee was based on an annual salary and 88% (65) was based on a % of the total amount invested.

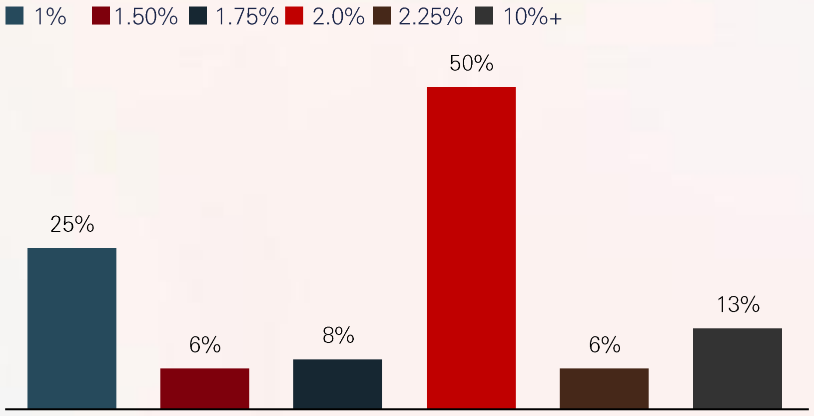
### B) Monitoring fee included in term sheet by investor type




### C) Monitoring fee – where based on annual salary




### D) Monitoring fee – where based on % of total amount invested



# Exclusivity period

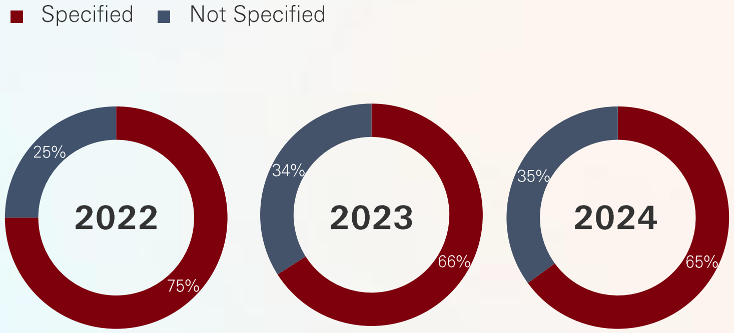
- The exclusivity period (or "non-shop clause") is a standard condition in VC term sheets that is usually legally binding and requires that you do not talk to other investors for a specific period while the investor is doing their due diligence. The exclusivity period is typically between a few weeks and 90 days.

**Extract from BVCA model form document – Exclusivity**

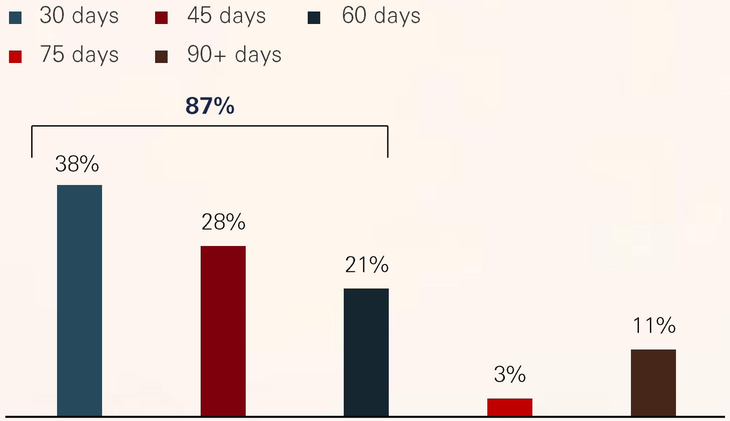
The Founder[s] and the Company undertake to the [Lead] Investor[s] that they will not directly or indirectly until the earlier of [●] or the date that the Lead Investor notifies the Company of its intention not to proceed with this proposal (the "Period") solicit, directly or indirectly, further offers for the purchase and/or subscription of shares in the Company (or any part thereof) or any material part of the business, assets or undertakings of the Company or enter into or continue to seek negotiations with any party other than the Investors in connection with such matters provided that the Founder[s] and the Company may, during the Period, solicit offers for the subscription or purchase of shares in the Company solely for the purpose of securing participation from additional Investors.

## Exclusivity was specified in 65% of term sheets typically ranging from a few weeks to 90+ days. Where the exclusivity period was specified, 87% (86% in 2023) of the periods were 60 days or less

### Exclusivity period specified in 65% (381) of term sheets




### Duration of exclusivity period where specified




## Entrepreneur's perspective

- Every company is unique and different, and the exclusivity period should be specific to the deal – ensure the exclusivity period length is not too long.
- Understand the conditions that could result in the investor no longer continuing with the transaction. Ensure you understand why there are any penalties, and make sure that the exclusivity period doesn't continue if the investor terminates.

# DE&I & Sustainability (1 of 2)

- In an effort to further advance DE&I efforts and increase the representation of underrepresented minority groups, term sheets for a number of years now have started to include a diversity rider clause that expects the investee company to integrate inclusive DE&I practices and policies.
- Similarly, for sustainability, term sheets are starting to include clauses where the investor expects companies to include ESG as part of their core purpose and to measure their impact.

**Extract from BVCA model document – Shareholders Agreement — DE&I & sustainability**

**ESG**

Within [six] months from Completion, the Company shall:

(a) adopt a climate policy in a form approved by an Investor Majority, as defined by measuring the Company's emissions footprint, and setting clear actions and steps to achieve climate neutral operations by [2030] at the latest through reductions where reasonably possible and offsetting what is not reduced;

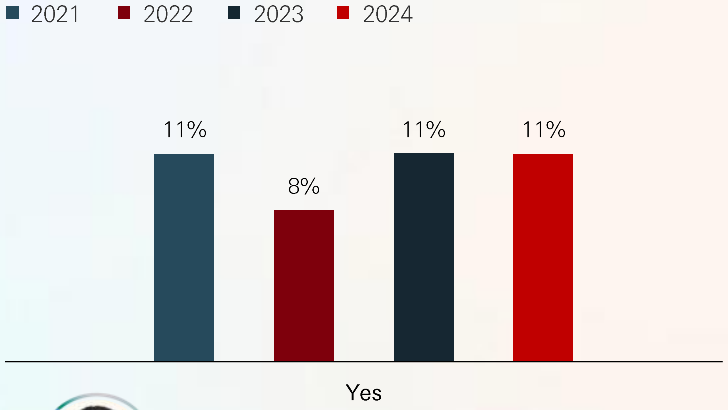
(b) adopt a diversity and inclusion policy in a form approved by an Investor Majority, which means ensuring that the Company is totally inclusive across gender, ethnicity, age, sexual orientation, disabilities, socio-economic background and national origins;

(c) evaluate and implement best practices (for a company at this stage and level of resources) of its business activities with respect to Environment, Social and Governance (ESG) aspects. This includes the Company's internal practices including but not limited to sustainability and climate risk reporting, external impact of the business model, services/products including but not limited to carbon equivalent emissions.

Such policies and practices will be discussed with and reported to the Board, including the Investor Director to an extent which allows for the Investors to be compliant with applicable regulations and its reporting obligations towards their investors. The Company shall disclose results and progress on (a), (b) and (c) annually. The Investors will support the management with the above-mentioned commitments.

## 11% (64 term sheets) of 2024 term sheets included a diversity rider clause, in-line with 2023

### Diversity rider clause included in term sheet




**Diversity, Equity & Inclusion**

- **E.g. 1:** [Name of investor] expects investee companies to integrate inclusive DEI policies and practices. [Name of investor] supports its investee companies in this approach.
- **E.g. 2:** [Name of investor] is committed to diversity and inclusion across our team & our portfolio. We therefore expect you to demonstrate an equally strong commitment in/among your workplace and workforce. This entails tracking and promoting D&I,in a meaningful way, particularly as part of recruitment, retention and promotion practices.

**Andy Ayim MBE**
CEO,
Angel Investing School

"With diversity in tech, I encourage Venture Capitalists to think 10x not 10%. The data on the lack of funding to diverse founding teams is not something the UK economy scan be proud of. However, these types of terms are a great start in redefining shareholder value to build shared awareness that great founders can come from anywhere and generate great returns."

**Triin Linamagi**
Founding Partner,
Sie Ventures

"The small rise in diversity riders at the Seed stage is an encouraging sign that investors are prioritising inclusivity earlier in the funding journey, but we have a long way to go. While diversity is gaining traction in early-stage deals, it is not yet a deeply entrenched principle throughout the entire funding lifecycle. Founders and boards must take an active role in embedding diversity into governance, hiring, and decision-making, rather than treating it as a box to check in the early fundraising stages. The data signals progress but also highlights the need for sustained effort to make diversity a lasting pillar of venture-backed businesses."

**Sophie Winwood**
Co-Founder & CEO,
Unlock VC

"This guide is exactly what our ecosystem needs right now – cutting through the noise to deliver real clarity on term sheet structures in today's challenging market. What's particularly valuable isn't just the snapshot of where we are, but the forward-looking perspective on where negotiations are heading.

The data-driven approach means founders can enter discussions with confidence rather than uncertainty, while investors can benchmark against market standards. I'm especially fired up to see proper attention given to DE&I riders and sustainability clauses – these aren't just "nice to haves" but critical components of building resilient, future-proof companies. In the current VC climate, having resources that make negotiations more transparent and productive isn't just helpful – it's essential."

# DE&I & Sustainability (2 of 2)

**Extract from BVCA model document – Shareholders Agreement –– DE&I & sustainability (continued)**

**ESG**

2. Sustainability Impact Plan

(a) Within six months from Completion, the Company shall in collaboration with the Investors prepare and thereafter maintain in effect a policy and plan on how to define, measure and report on the sustainability impact of the Company's technology ("Sustainability Impact Plan") in a form approved by an Investor Majority.

(b) Management of the Company shall hereinafter and on a regular basis evaluate the Sustainability Impact Plan and suggest to the Board reasonable actions to be taken to ensure the Sustainability Impact Plan is sufficiently implemented and followed by the Company. Management of the Company shall report to the Board bi-annually on any measures taken by the Company and on the actual sustainability impact of its technology as measured pursuant to the Sustainability Impact Plan. Management of the Company shall include the defined impact metrics in the Company's KPI reports. The Company will share the bi-annual reports with the Investors before the end of February and end of August, respectively.

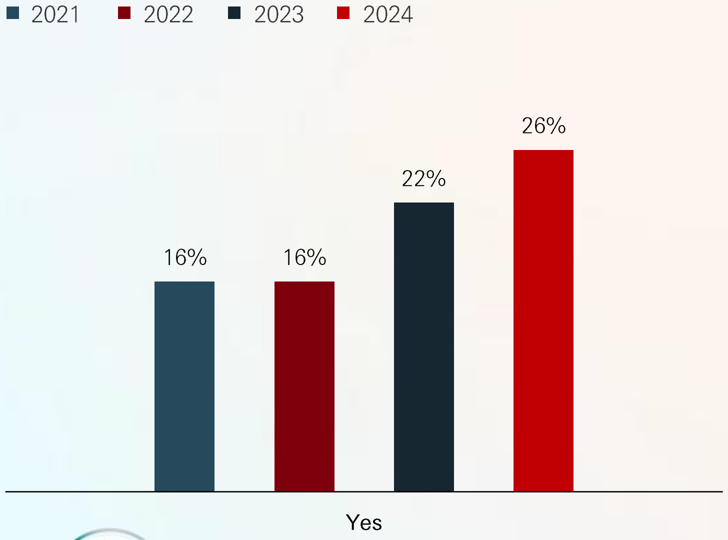
(c) The Board shall discuss the Sustainability Impact Plan at least once a year, and management shall hereinafter update the Company's Sustainability Impact Plan where necessary.]

**Jacqueline Björklund**
Head of Legal & Compliance,
Pale Blue Dot

"Sustainability clauses, practices and standards are increasing in numbers and variations in parallel to increased stakeholder interest on the subject. It is extremely valuable to compare notes and streamline the increase of ESG considerations to reduce friction for founders and develop transparent best practices in the VC community."

## 26% (155 term sheets) of 2024 term sheets included a sustainability/impact clause up from 22% in 2023

### Sustainability clause included in term sheet




### Example of term sheet clauses:

| | |
|---|---|
| **Impact / ESG** | • **E.g. 1:** [Name of investor] expects investee companies to integrate social and environmental impact deeply into their core purpose and business model, and to measure that impact. [Name of investor] supports its investee companies in this approach.<br>• **E.g. 2:** After Closing, supported by [name of investor] wherever possible, the Company shall: - within 6 months, adopt a professional ESG reporting tool, - establish ESG best practices with respect to its business activities, and - mutually agree with [name of investor] a set of ESG targets that it intends to reach until the Series [ ] round. |

**Sebastian Peck**
Partner,
KOMPAS VC

"In venture capital, both founders and investors have every incentive to incur minimal transaction costs. Standardising the terms and legal documents underpinning transactions are critical to achieve this goal. Especially for first time founders, deciphering VC term sheets can be a daunting task. And of course, the industry is evolving, and with it what constitutes market norms. One area where such norms are still evolving are sustainability or ESG provisions. Funds that fall under the EU's Sustainable Finance Disclosure Regulation require fund managers to integrate different levels of sustainability provisions into their investment strategies, depending on whether they are certified as Article 6, 8, or 9. Especially for early-stage investments, VC funds usually have to walk a fine line to adhere to their mandate while being pragmatic about the ESG reporting requirements for early-stage companies as long as they are convinced that there is long-term alignment between founders and investors. The HSBC guide is an excellent snapshot of the state of the industry and also provides some useful examples of ESG clauses typically found in VC term sheets. This makes it an invaluable resource for the startup and investor community alike."

### Making sure your business is 'raise ready'

VC investors are paying closer attention to insurance due diligence. This is due to a greater awareness of emerging risks. Investors are particularly focused on risk that affect a startup's ability to scale, block future funding, or even put them on the wrong side of regulatory compliance. High-profile disputes have highlighted that strong risk management isn't optional.

The right insurance protects both the business and its backers. Investors are focusing on key areas:

- **Directors & Officers (D&O) insurance** – Shields board members (often including investors) from liability.
- **Key Person insurance** – Mitigates the financial risk of losing a founder or critical leader.
- **Cyber liability insurance** – Ensures resilience against cyber threats, now essential with rising data breaches and regulatory fines.
- **Intellectual Property (IP) insurance** – Safeguards innovation and prevents legal setbacks.

This shift signals a more mature VC ecosystem—one that values resilience as much as ambition. For startups, getting the right coverage isn't just about managing risk. It's about proving they're investment-ready.

Daniel Barrett-Nembhard
Director of Legal,
MMC Ventures

"As startups prepare for future funding rounds, comprehensive insurance coverage becomes a critical governance factor. VCs (and the LPs which back them) increasingly scrutinise risk management as a sign of operational maturity. We issue term sheets with specific insurance requirements around D&O, key-man and increasingly - given today's climate - cyber. Inadequate coverage is a diligence risk factor which can delay deals and, where material risks are identified, increase exposure to liability at company and/or founder level. Getting insurance right early demonstrates to VCs that founders understand the importance of protecting their business interests both now and in the future as the company scales."

**Capsule's recommended insurance limits – understanding the right level of cover at different growth stages.**

#### Directors & Officers (D&O) Insurance

- **VC Perspective:** Protects board members (including investors) from personal liability.
- **Business protection:** Attracts strong leadership and reassures investors.

#### Key Person Insurance

- **VC Perspective:** Startups rely on key individuals—losing them can destabilise the business.
- **Business protection:** Covers operational disruptions and replacement costs.

#### Cyber Liability Insurance

- **VC Perspective:** Cyberattacks can cripple tech startups, leading to major losses.
- **Business protection:** Ensures resilience against cyber threats.

#### Intellectual Property (IP) Insurance

- **VC Perspective:** Startups depend on IP, and legal disputes can be costly.
- **Business protection:** Critical for innovative startups to prevent legal disputes from stalling growth.

Capsule

#### Directors' & Officers' Liability

| Industry | £0-5m raised | £6-20m | £21-60m | £61-100m | £101-250m |
|---|---|---|---|---|---|
| **Non-regulated** | £1m | £2m | £3m | £5m | £10m |
| **Regulated** | £1m | £3m | £5m | £5m+ | £10m+ |

#### Key Person and Critical Illness Protection

| | £0-1m revenue | £1-5m | £5-25m | £25-50m | £50m+ |
|---|---|---|---|---|---|
| Life insurance | £200k | £200k | £300k | £500k | £1m+ |
| Life insurance + critical illness | £200k | £200k | £300k | £500k | £1m+ |

#### Cyber Liability and Professional Indemnity

| Industry | £0-1m revenue | £1-5m | £5-25m | £25-50m | £50m+ |
|---|---|---|---|---|---|
| B2B | £1m | £2m | £3m | £5m | £10m |
| B2C | £1m | £2m | £5m | £5m | £10m+ |

#### Intellectual Property (IP)

| £0-5m revenue | £5-25m | £25-100m | £100m+ |
|---|---|---|---|
| £1m | £1m-£2m | £2-£5m | £3m-£5m |

These guidelines are general in nature and may not be right for your business. Please refer to the T&Cs of any policies offered or purchased. Insurance products offered are subject to application and underwriting requirements.

# Venture Debt

**Section 5**

HSBC Innovation Banking

# **Venture debt** can be a meaningful component of a company's overall capital strategy – driving value for founders, employees, and investors

- **Venture debt** is commonly deployed to **extend runway** and drive **organic growth** typically for loss-making, equity-backed businesses. The loan can provide a high-growth company with months/quarters of cash runway between equity rounds. The additional capital supports the borrower in reaching the material milestones that will attract new equity at favourable terms/valuations. Venture debt can also be deployed for inorganic growth like M&A. However, it should **be avoided in cases of a last-resort funding source for an underperforming business or thought of as bridging loan**.
- Venture debt can be an attractive capital source thanks to its **flexible structure** (e.g. no covenants) and is typically a lower cost of capital to equity. When used appropriately, **a venture debt loan minimises dilution** for founders, employees and investors, thereby enhancing exit potential of all players. A balanced approach to debt vs equity capital is important to consider. It is important for a company to avoid overleveraging a business at an early stage as debt ultimate has to be repaid and a large debt balance could present hurdles for future fundraises (i.e. prospective investors can be hesitant to invest in a company in which a material amount of proceeds will be used for debt repayment).
- There are two primary providers, **venture debt banks** and **venture debt funds, their typical characteristics are**:

## Venture debt: Banks

- **Primary funding source:** balance sheet capital.
- **Cost:** Low.
- **Control:** Will not take a board position
- **Scalability:** Low-High; dependent upon the size of the institution. Banks can also scale other forms of financing through various life stages (ex: working capital, guarantees, acquisition financing, overdrafts).
- **Structural terms:** Low-Medium flexibility.
- **Other:**
  - Banks have the ability to leverage their balance sheet to provide multiple forms of financing to blend structure, cost, and use case from a single provider.

## Venture debt: Venture debt funds

- **Primary Funding Source:** private fund (i.e., LP) or other vehicles like a Business Development Company ("BDC"). A BDC is a public, evergreen fund designed to invest in small-medium-size companies.
- **Cost:** High; funds must meet investor hurdle rates.
- **Control:** Will often take a board observer seat
- **Scalability:** Low – High; depending upon size and maturity of the fund. Will often focus on a particular life stage
- **Structural Terms:** Medium – High flexibility.
- **Other:**
  - Funds may require board seat;
  - Funds cannot provide multiple forms of financing like working capital. This would require multiple lenders (i.e., bank).

## Venture debt overview

### Structural Terms

- **Size/Commitment:** £1m-£75m+ Dependent upon a variety of key factors including total equity raised, scale, and financial profile (growth, KPIs, etc.), among others.
- **Total Maturity:** 36-48 months.
- **Interest-Only Period:** Period in which a borrower only pays interest on the drawn amount, not principal. Timeframe ranges from 6-24 months for early/growth stage companies. Top performing growth/later stage business can access more flexible structures, including extended interest periods in the range of 24-36+ months.
- **Amortisation/Repayment:** Period following Interest-Only in which the drawn loan amounts are repaid in increments. This can range from 30-36 months for early/growth stage venture debt where Interest-Only is 6-18 months. For top performing growth/later stage companies, there is typically a shorter Amortisation period or bullet repayment at Maturity.

### Economic Terms

- **Loan Fee:** 1.00%-2.00% of Commitment.
- **Interest Rate:** 8.00%-14.00%.
- **Final Payment:** 1.00%-4.00%+ of Drawn Commitment.
- **Early Repayment:** Varies from 1-4%. May also include all future interest that would have been due if the loan remained outstanding to maturity (known as "full metal jacket").
- **Warrant:** This is the option for the lender to purchase equity at a future date (typically upon exit). Warrants can be outlined based on Fully Diluted Ownership or Warrant Coverage (defined as the value of the warrant relative to the loan size). Warrants can range based on Commitment, debt structure, industry and business stage.

# HSBC Innovation Banking Biographies

**Section 6**

HSBC Innovation Banking

# HSBC Innovation Banking biographies

**Simon Bumfrey**
CEO, HSBC Innovation Banking UK
Mob: +44 (0) 7590 467080
simon.bumfrey@hsbc.com
London

Simon Bumfrey is CEO, HSBC Innovation Banking UK and is responsible for leading, developing and scaling the Bank's business across the UK and Nordics. HSBC Innovation Banking is a full-service UK subsidiary Bank with all local operations and functions under Simon's leadership.

Simon previously held the role of Head of Technology and Life Sciences for HSBC Innovation Banking UK & Nordics. He was responsible for client relationship and debt structuring teams focused on fast growth innovation businesses, from early-stage, venture capital–backed companies, to those that are publicly listed and private equity–owned.

Simon has spent more than 35 years working in commercial banking, with the last 25 years focused on the technology, media and telecommunication sectors. Before joining HSBC Innovation Banking in 2017, he led teams at Barclays Bank, Bank of Ireland and Lloyds Banking Group. While at Barclays, he expanded his expertise into global markets by managing credit risk for clients in Africa, the Caribbean and Middle East.

Simon works out of London and frequently spends time with clients and investors across the ecosystem.

He sits on The Scale Up Institute and Gender Index Advisory Boards. He is also the executive sponsor of Innovation Banking's Gender Equality Employee Resource Group.

**Glen Waters**
Head of Early-Stage Tech & Life Sciences
Mob: +44 (0) 7950 324018
glen.waters@hsbc.com
London

Glen is Head of the Early-Stage Tech & Life Sciences team at HSBC Innovation Banking where he focuses on partnering with the most ambitious tech and life science entrepreneurs on their growth journey (Pre-Seed to Series A). This involves providing banking, tools and value add services (connections, knowledge and insights and networking events) to help entrepreneurs increase their chase of success.

Glen has 20+ years of experience, which includes working on 150+ transactions in the PE and VC space, mainly with private emerging tech businesses looking to acquire, exit or raise finance.

Prior to joining HSBC Innovation Banking, Glen founded, built and led the PwC Raise Ventures proposition for 5 years, which helped high-growth startups raise Seed-Series B equity funding of between £1m-£30m. He also spent 10+ years at PwC, leading Financial Due Diligence teams in the mid-market TMT sectors.

Glen is a Chartered Accountant, has been a CFO and board advisor to a number of early-stage businesses and is currently a board advisor to a non-profit organisation the Cancer Vaccine Coalition.

# HSBC Innovation Banking – Early Stage Tech and Life Sciences Banking team

A dedicated team of deep sector experts:

**Alan Tang**
Seed
alan1.tang@hsbc.com

**Alex Threipland**
Head of Relationship Management
alexander.threipland@hsbc.com

**Amy Li**
Climate Tech
amy.x.li@hsbc.com

**Ashley Foster**
HealthTech & Life Sciences
ashley.foster@hsbc.com

**Davide Bommarito**
Life Sciences
Davide.bommarito@hsbc.com

**Dwayne Thomas**
Climate Tech & Enterprise Software
dwayne.thomas@hsbc.com

**Divya Khurana**
Seed Specialist
divya.khurana@hsbc.com

**Dominic Honmong**
Frontier Tech
dominic.honmong@hsbc.com

**Emily Wood**
Ecosystem & Founder Success
emily.wood@hsbc.com

**George Illsley**
FX Advisor
george.illsley@hsbc.com

**Glen Waters**
Head of Early-Stage Banking Team
glen.waters@hsbc.com

**Jamie Whitcroft**
Head of Ecosystem Coverage
jamie.whitcroft@hsbc.com

**Kofi Siaw**
Ecosystem Coverage & Events
kofi.siaw@hsbc.com

**Lauren Mathurin**
Consumer Tech
lauren.mathurin@hsbc.com

**Naim Malik**
Treasury & Product Advisor
naim.malikt@hsbc.com

**Oliver Vagg**
Ecosystem Coverage
oliver.vagg@hsbc.com

**Patty Supradit**
Treasury & Product Advisor
patty.supradit@hsbc.com

**Radhika Patel**
Relationship Advisor
radhika.patel@hsbc.com

**Raquel Velarde**
Frontier & Consumer Tech
raquel.velarde@hsbc.com

**Ryan Clements**
Enterprise Software
ryan.clements@hsbc.com

**Shamik Parekh**
HealthTech
shamik.parekh@hsbc.com

**Greg Brown**
Head of Investor Coverage
greg.brown@hsbc.com

Note: Greg is Head of Investor Coverage team and covers investors across all stages.

# Survey Participants Biographies

**Section 7**

HSBC Innovation Banking

## Bird & Bird

**Mark Rundall**
Partner

Mark is a partner at Bird & Bird, based in London. He specialises in venture capital, focusing on the financing of high-growth organisations. Acting for top-tier investors and high growth companies, Mark's transactional experience includes advising in respect of companies at all stages of their life-cycle: from their incorporation and commercial set-up, to scale-up and all the way through to exit and beyond.

**Struan Penwarden**
Partner

Struan is Head of Venture Capital at Bird & Bird, focusing on domestic and international corporate transactions for emerging and high-growth companies and the investors in and lenders to those companies. As well as venture equity Struan is recognised as one of the leading practitioners in the venture/growth debt arena in Europe.

**Adam Meisels**
Partner

Adam is a partner in the Corporate team, based in London. Adam advises clients on a range of corporate transactions with a particular focus on Venture Capital and Mergers & Acquisitions, predominantly involving technology companies. Adam advises high growth companies at all stages of their lifecycles, from incorporation to exit, on equity financing rounds and other corporate matters. Similarly, on the investor side, Adam acts for a range of early and late/growth stage VC funds, corporates and other institutional investors on their financial and strategic investments into high growth companies.

## Browne Jacobson

**Jon Snade**
Partner

Jon is a partner in the London office of UK and Ireland firm Browne Jacobson. Jon is Head of the UK and Ireland Venture Capital and High Growth team at the firm, which stands out for its expertise in advising investors and expanding, innovative companies on their domestic and cross-border venture capital and angel-led financing rounds, guiding clients all the way through to exit. Jon also co-leads the firm's Venture Debt team.

## CMS

**Anthony Waller**
Partner

Anthony is a partner in the Corporate/M&A Team at CMS London. Anthony deals with all aspects of corporate work, including private company and business acquisitions and disposals, public takeovers, schemes of arrangement, fundraisings, venture capital investments and IPOs, joint ventures and reorganisations. Anthony works alongside the firm's international Corporate team. Anthony has advised clients in the TMC sector for many years, advising established international companies on a variety of transactions and public company issues.

**Sam Pout**
Partner

Sam is a partner in the CMS Transactions team in London and a member of our Corporate Technology sector. With expertise in a wide range of corporate matters across the Technology, Media and Gambling sectors including investments, joint ventures and mergers and acquisitions, Sam advises a variety of clients (entrepreneurs/start-ups, established management teams, investment houses and large corporates) across all aspects of the corporate lifecycle; from initial investment rounds, through to more complex fundraising and, ultimately, company disposals/exits.

## Cooley

**Aaron Archer**
Partner

Aaron is a partner in Cooley's London emerging companies and venture capital practice. Aaron provides a pragmatic, hands-on approach to helping high-growth – often disruptive – companies and investors navigate through a company's life cycle, from initial structuring through exit and beyond. Aaron advises on all the various types and stages of financings, M&A, and general corporate governance and advisory issues.

**Eric Davison**
Partner

Eric is a partner in Cooley's UK emerging companies and venture capital team. Eric advises high-growth technology companies and their investors on private financings, M&A and strategic and corporate governance matters. Eric also represents private technology companies at all stages, from inception through to sale/initial public offering, and in a range of sectors, with a particular focus on artificial intelligence (AI) and fintech companies.

# Survey participants' biographies (2 of 5)

## COVINGTON

**James Halstead**
Partner

James is a managing partner of Covington's London office and a member of the Corporate Practice. James is recognised by his clients for his expertise in handling complex transactions. Clients include international pharmaceutical and tech companies, as well as leading venture and growth capital investment funds active in these sectors together with their portfolio companies. James is focused on transactions concerning the development of, and realization of value in, new technologies. James has substantive experience in sell and buy-side M&A transactions and regularly advises on fund raisings.

## DENTONS

**Joseph Altendorff**
Partner

Joseph is recognized by clients as being "outstanding and technically excellent"; "clearly marked out for the very top of the profession"; and having an "incredible dedication, superb attention to detail and, best of all, humanity and genuine care for our business and our people". Legal 500 ranks him as a "leading individual" for venture capital and a "name to note" for M&A. Joseph has led cross-border investment and M&A teams in more than 100 jurisdictions. Joseph's broad experience of corporate growth helps clients capitalize on evolving trends in the marketplace – whether by raising finance, investing, acquiring or selling targets, or teaming with the right strategic partner.

**Joseph Collingwood**
Partner

Joseph is recognised by clients as being "unwaveringly positive and calm... The person you want on your team to get the deal done" and "trustworthy, responsive and pragmatic", and noted that what "made Joe unique in my mind is his ability to explain to the executives the key issues that needed clarity in order to facilitate a deal". Legal 500 ranks him as a "Next Generation Partner" for both venture capital and M&A. Dual qualified in California, Joseph advises founders, high-growth companies and investors throughout the investment cycle, with a particular focus on cross-border and international transactions.

## EVERSHEDS SUTHERLAND

**Jon Gill**
Partner

Jon is a partner in our Corporate team specialising in venture capital, private equity and M&A transactions in the TMT sector. Jon advises high growth companies and entrepreneurs on equity fundraisings across the full lifecycle, from seed to Series A, through to later stage growth rounds and exit. Jon also advises venture capital funds and private equity investors on platform investments, bolt-on acquisitions and the realisation of value on exit.

## fieldfisher

**Tom Ward**
Partner

Tom is Co-head of Fieldfisher's Emerging Company and Venture Capital (ECVC) group. Fieldfisher's ECVC team advise high growth companies and investment funds predominantly in the technology and life sciences sectors on a range of domestic and cross border venture capital and growth equity transactions.

**Thomas Colmer**
Partner

Thomas is Co-head of Fieldfisher's Emerging Company and Venture Capital (ECVC) group. Fieldfisher's ECVC team advise high growth companies and investment funds predominantly in the technology and life sciences sectors on a range of domestic and cross border venture capital and growth equity transactions.

## fladgate

**Howard Watt**
Partner

Howard is a corporate transactional partner at London law firm Fladgate LLP. Howard has a particular focus on UK and European venture capital. Howard's practice is built on providing commercial, pragmatic advice and efficient deal execution to all players in the European venture capital ecosystem.

**Janine Suttie**
Partner

Janine is a corporate transactional partner, focused on venture capital, providing dynamic, pragmatic advice and effective deal execution to investors, founders and companies within the venture capital ecosystem. Janine has extensive experience in providing strategic counsel to investors and companies within the venture and growth capital sectors. Janine has a passion for helping entrepreneurs and investors build iconic global businesses and expertise spans the entire investment lifecycle from early/seed stage investments through Series A–G to ultimate exit.

## Founders Law

**Tom Bohills**
Founder

In 2019, Tom founded Founders Law which provides a full service, bespoke in-house legal resource to high growth companies across the UK and Europe. In 2020, following the rapid growth of the firm, Tom was shortlisted by the Law Society as 'Solicitor of the Year – Private Practice' and 'Sole Practitioner of the Year'. In 2022, following a strategic investment, Founders Law became part of the wider Founders Forum group.

## fox williams

**Bryan Shaw**
Partner

Bryan is a partner in Fox Williams' corporate team, specialising in venture capital, private equity and tech M&A. Bryan Shaw regularly advises entrepreneurs, scale-ups/fast growing companies (usually in the tech/digital or financial services sectors) and investors along the equity fundraising journey through to exit. Bryan also advises a range of corporate clients in various M&A, private equity and venture capital transactions.

## GOODWIN

**Adam Thatcher**
Partner

Adam is a partner in Goodwin's Technology and Life Sciences groups. Adam advises growth companies and investors on a broad range of corporate matters, through every stage of the corporate life cycle, with a particular focus on venture capital financings and M&A transactions. Adam has been recognized for his venture capital and corporate work by the following industry publications: Adam has also been a speaker at various UK technology-focused accelerators and venture capital conferences and has written several articles and blog posts on financings.

## HAYNES BOONE

**Andrew Pannell**
Partner

Andrew is a Partner in the London office of Haynes Boone specialising in advising venture capital, private equity and corporate clients. Andrew has deep experience representing venture capital managers, family offices, CVCs and HNWs on a broad range of matters, including venture and growth capital, private equity investments, M&A/exits, direct and indirect investments, secondary transactions and cross-border reorganisations.

## HARBOTTLE & LEWIS

**Tom Macleod**
Partner

Tom is a Partner and Co-Head of the Venture Capital practice at Harbottle & Lewis. Tom advises founders, growing entrepreneurial businesses, venture capital funds and angel investors on a broad range of corporate matters including acquisitions and disposals, exits, all forms of financing rounds (S/EIS, venture capital, venture debt, VCT, growth capital), joint ventures, corporate restructurings and share incentivisation schemes.

**Rosie Marston**
Senior Associate

Rosie is a senior associate in the firm's venture capital practice. Rosie's practice focuses on supporting startups and investors in the venture capital ecosystem. Rosie has extensive experience advising on a wide range of corporate transactions, including venture capital and growth stage fundraisings, mergers and acquisitions, shareholder arrangements, early stage SEIS/EIS investments, convertible instruments (including ASAs, SAFEs and convertible loans), founder disputes, share incentive schemes (including EMI options), joint ventures and corporate reorganisations.

## HERBERT SMITH FREEHILLS

**Dylan Doran Kennett**
Partner

Dylan is a partner at Herbert Smith Freehills where he co-leads its Venture and Growth Capital practice, and co-heads its Sports group. Dylan has a wealth of experience in venture and growth equity transactions, as well as private equity, domestic and cross-border M&A. Dylan has taken a number of high-growth companies 'global' advising on 'land and expand' strategy – through new jurisdictions, business lines or acquisitive entries into new markets. Dylan acts on both sides of the investment dialogue, advising both company-side and investor-side (whether institutional or strategic), as well as joint ventures and other collaborative transactions.

## HUMPHREYS LAW

**Henry Humphreys**
Managing Partner

Henry is a corporate lawyer by training and Managing Partner at Humphreys Law, the law firm he founded in 2017. Henry has a wealth of experience advising on early to late stage venture capital fundraisings, on all the different formulations of management buy-outs (acting for funds and management teams) and on cross border mergers and acquisitions (buy and sell-side).

## ignition law

**Alex McPherson**
Founder

Alex set up Ignition Law in 2015, which is now a high-growth full-service law firm that has worked with many thousands of start-ups, scale-ups and entrepreneurial clients, to provide pragmatic and cost-effective legal services in a community-minded and ethical way.

**Karishma Naravene**
Senior Consultant

Karishma has several years' experience in advising companies, partnerships and financial institutions on a range of transactions like acquisitions and disposals, joint ventures, capital raising, corporate structure and providing general corporate advice.

## MARRIOTT HARRISON

**David Strong**
Partner

David is a partner and head of VC at Marriott Harrison, recognised for his expertise in the venture capital and technology sectors. Dylan works closely with institutional investors, corporates, founders and management teams, including a number of the leading technology focused VCs in the UK, on a wide range of corporate matters including financings and exits.

**Frances Spooner**
Partner

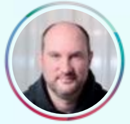
Frances is a Partner in the Corporate team at Marriott Harrison and a VC specialist lawyer, has deep experience in both VC and M&A transactions, and has spent time on secondment at VC funds. Recognised as a Next Generation Partner for VC by Legal 500 UK, Frances understands what start-ups and investors want from their legal advisers. Frances is building her practice with a focus on supporting female founders and working with tech companies and investors in the social impact/purpose and sustainability space.

## MBM ENTREPRENEURIAL BUSINESS LAWYERS

**Michael Arnott**
Partner

Michael is a Partner and Head of the London office of MBM Commercial – an entrepreneurial law firm with a focus on helping FOUNDERS to start-up, scale up, and go global, and INVESTORS to raise capital, make debt and equity investments and exit. Michael acts as a trusted adviser to early-stage companies, PE/VC investors and funds. Michael regularly helps early-stage businesses in their business journey, ensuring that they are primed for fundraising and business expansion.

## Mishcon de Reya



**Chris Keen**
Partner

Chris is the head of the Emerging Companies team at Mishcon. Chris' expertise is in working with technology companies, entrepreneurs, and the people who invest in them, from the beginning of their journeys right the way through to exit. Chris advises his clients on a full range of corporate and commercial matters, specializing in venture capital and angel investments, technology transfer transactions including corporate and academic spin-outs, equity incentives, and more. Chris is one of the most active lawyers in the UK venture capital ecosystem and is described as having "a better knowledge of the sector than anyone else".

**Hayley Cross**
Partner

Hayley is a Partner in the Corporate department, with a specific focus on working with emerging, innovative companies and those who invest in them. Hayley supports companies throughout the early stages of their life cycle, starting with incorporation and shareholder arrangements, to raising investment at seed stage and throughout. Hayley also works with a number of VC firms advising on their seed to Series A/B investments into emerging companies. Hayley specialises in advising on venture capital transactions and has played a pivotal role in building the Emerging Companies team.

## orrick

**Jamie Moore**
Partner

Jamie is a partner in Orrick's powerhouse Tech practice, ranked No. 1 for venture capital in Europe for the past 8 years (PitchBook FY 2023). Jamie's practice specialises in venture capital with significant experience spanning over 14 years in advising start-ups through to unicorns, focussing particularly on disruptive technologies and innovation (he is best known for his experience in FinTech and AI investments). Jamie acts for both early and late-stage companies in intellectual property rich sectors and those who invest in them. Jamie also spearheads the report Orrick Deal Flow to review and opine on market standard terms and trends for European term sheets.

## Osborne Clarke

**Mathias Loertscher**
Partner

Mathias is a Partner and advises on M&A, venture and growth capital fundraisings, joint ventures, corporate reorganisations and corporate governance, primarily in the Technology sector. Mathias has advised on a large variety of corporate transactions and has worked with businesses operating in, amongst other areas, Fintech; enterprise SaaS; digital media; e-commerce and consumer internet; video games; cybersecurity; digital transformation consulting; IT services; and advertising and marketing services.

**Robert Wood**
Partner

Rob is a Partner in the corporate practice and advises investors, management teams and companies on all aspects of the private equity market, focusing on venture and growth capital transactions, private equity buyouts, buy-and-build projects and exits. Robert has particular expertise in advising on complex transactions involving investor syndicates. Much of Rob's work focuses on the Tech, Media and Comms sector, particularly on high-growth companies trying to bring the latest technology to market.

## Seven Legal

**Bill Cogan**
Founder

Bill is a dual-qualified lawyer, admitted as a Solicitor in England & Wales and an Attorney-at-Law in New York, following a master's degree from the University of California, Berkeley. With over 15 years of legal and advisory experience, Bill has focused his career on advising early stage fast growth companies in the UK and US as a lawyer, advisor and investor. As the Founder of Seven Legal, his expertise lies in aligning legal guidance with business strategy to support clients in navigating complex regulatory and commercial landscapes.

## SHERIDANS

**Nick Crabtree**
Partner

Nick is a Partner in the Corporate and Venture Capital Groups. Nick specialises in venture capital. Nick advises on a full range of corporate transactions involving early-stage and venture-backed companies, including investments, acquisitions, joint ventures and commercial transactions, and exits. Nick's practice centres around technology-focussed fast-growth companies, spanning a variety of sectors. Nick advises companies, founders, and institutional and individual investors, through the company lifecycle from inception, funding and growth to exit. Nick has particular expertise in venture-backed M&A transactions.

## SHOOSMITHS

**Alistair Hammerton**
Partner

Alistair's main focus is on venture and growth capital transactions and is one of the most active venture capital lawyers in the UK advising both investors and investee businesses at different stages of the investment cycle. Alistair works across various sectors including financial services, technology, energy and life sciences businesses.

## TaylorWessing

**Ian Moore**
Partner

Ian advises a range of high growth companies, investors and entrepreneurs and has a particular interest in the technology, consumer and life sciences sectors. He also advises US and European investors with their investments into exciting UK companies. Ian is recognised as particularly experienced in technology transactions and ranked in the legal directories for specialising in venture capital and is part of Taylor Wessing's 'tier 1' venture capital practice.

## withersworldwide

**Phil Robinson**
Partner

Phil is a partner in the corporate team, advising entrepreneurs, companies and investors in the technology and venture capital space. Phil has significant experience helping founders and companies scale, advising on both strategy and execution as they prepare for and undertake funding rounds from pre-seed to Series A and beyond all the way to exit. Phil also acts for angel syndicates, family offices and VCs both in respect of direct investments and advising their portfolio companies.

# Contributors' biographies

**Michael Moore**
Chief Executive

Michael Moore is Chief Executive of the British Private Equity and Venture Capital Association. Michael and his colleagues are focused on supporting the development of the private capital industry, as it invests in thousands of businesses and supports millions of jobs across the UK. As policymakers work on the competitiveness of the UK's investment climate, Michael is confident that private equity and venture capital will continue to create significant public value through investment in growth, innovation and people.

**Nick Richards**
Head of Business Development

Nick heads up Carta Europe's Business Development team bringing his expertise working as VC and LP.

**Roderick Beer**
Managing Director

Roderick's career spans over 15 years of managing, founding and growing angel groups and investment platforms that have collectively deployed over £100m of equity investment in more than 500 startup and scaleup businesses. He started his career at Beer & Partners, one of the first and largest angel groups in the UK, and later helped form and grow a corporate finance firm as their COO. He is now the Managing Director of the UK Business Angels Association, the trade body for angel and early-stage investing, representing over 200 organisations and 18,000 investors around the UK that collectively deploy over £1bn p.a. in early-stage businesses.

**Liam Green**
COO and Co-Founder

Liam's team are the proactive insurance partner to more than 1000 clients from Seed to IPO. Liam was previously Underwriting Director at Kingsbridge where he managed 70k clients and £40m in GWP.

**Kit Lewin**
Head of Partnerships

Kit leads Capsule's relationships with investors and partners across the UK venture ecosystem. Capsule directly insure over 30 of the UKs leading early-stage VC funds, alongside specialist support for VC backed companies across Fintech, MedTech, SaaS, AI, Consumer, Climate & Deeptech.

# Glossary

**Section 8**

HSBC Innovation Banking

# Glossary: (1 of 2)

## Terms and investor definitions for founders

| | |
|---|---|
| **Anti-dilution ratchet** | a provision that applies the lowest sale price as the adjusted option price or conversion ratio for existing shareholders or any shares of common stock sold by a company after the issuing of an option (or convertible security) |
| **Board composition** | terms relating to the makeup of the company's board of directors |
| **Cap (Capitalisation) table** | a table that outlines a company's percentages of ownership, equity dilution, and value of equity in each round of investment |
| **Cliff** | a period in the vesting schedule during which the employee does not accumulate any ownership |
| **Closing conditions** | conditions that must be met for the investment to be completed |
| **Common stock** | stock typically held by founders and employees, offering basic voting rights but less protection compared to preferred stock |
| **Confidentiality agreement** | an agreement to protect sensitive company information during negotiations |
| **Convertible note** | a short-term debt that converts into equity, usually in conjunction with a future financing round |
| **Dilution** | the reduction in the percentage of existing shareholders’ ownership in a company when it issues new shares of stock |
| **Dividend rights** | specifies whether investors receive dividends, the conditions under which dividends are paid, and the priority of payment in relation to different class of stock |
| **Down round** | a scenario where the value of a business at a time of investment is below the value of the same business during a previous period or financing round |
| **Drag-along** | rights that give the majority shareholder(s) the ability to force the minority shareholders to sell the business on equal term |
| **Due Diligence (abbreviated as DD)** | the exercise of care taken before entering into an agreement or contract with another party |


| | |
|---|---|
| **Anti-dilution ratchet** | a provision that applies the lowest sale price as the adjusted option price or conversion ratio for existing shareholders or any shares of common stock sold by a company after the issuing of an option (or convertible security) |
| **Board composition** | terms relating to the makeup of the company's board of directors |
| **Cap (Capitalisation) table** | a table that outlines a company's percentages of ownership, equity dilution, and value of equity in each round of investment |


| | |
|---|---|
| **Equity** | represents ownership in the company, usually in the form of stock |
| **ESG** | abbreviation for Environment, Society and Governance; a key metric to assess companies beyond financial performance |
| **Exclusivity period** | a restriction that limits engagement with other investors during due diligence |
| **Exercise price** | the price at which an option holder can purchase shares |
| **Exit strategy** | the investors plan for realising a return on their investment typically through a sale or IPO |
| **Founder vesting** | the process by which founder shares are earned back over a period following a fundraise |
| **Full ratchet (of dilution)** | an anti-dilution provision that requires early investors be compensated for any dilution in their ownership caused by future rounds of fundraising |
| **Indemnification** | provisions that protect the company directors and officers from certain legal risks |
| **Liquidation preference** | a condition that determines the order in which proceeds are paid out on a liquidity event e.g. sale or winding up |
| **Liquidity event** | an action or process that allows owners and investors of a private company to cash out some or all their illiquid shares or assets |
| **Non-solicit clause** | clauses that restrict founders from starting or working for competing businesses or soliciting employees or customers |
| **Option pool** | shares of a company that have been specifically allocated to attract or retain talent |
| **Ordinary shares** | the standard share class when a company starts out, which typically have equal voting and distribution rights on exit |

# Glossary: (2 of 2)

## Terms and investor definitions for founders

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|---|---|
| **Participation rights** | rights that allow investors to retain their pro-rata share of ownership by participating in subsequent funding rounds |
| **Post-money valuation** | a company's estimated worth after outside financing and/or capital injections are added to its balance sheet |
| **Pre-money valuation** | the equity value of a company before it receives the cash from a round of financing it is undertaking |
| **Pre-emption rights** | the right of existing shareholders to purchase additional shares in future fundraising rounds to maintain their ownership percentages |
| **Preference dividend** | fixed dividends received from Preferred stocks |
| **Preference shares (stock)** | a special class of share offering distinct advantages to those purchasing |
| **Priority stack** | the rank or order in which the preferred shareholders get paid out on exit |
| **Representation and warranties** | statements made by the company about its status, operations and financial health |
| **Right of first refusal (ROFR)** | the right to purchase shares before they are offered to a third party |
| **Runway** | projected amount of time a business can last without getting more external funding |
| **SAFE** | an agreement between an investor and a company that provides rights to the investor for future equity in the company |
| **Participation rights** | rights that allow investors to retain their pro-rata share of ownership by participating in subsequent funding rounds |
| **Post-money valuation** | a company's estimated worth after outside financing and/or capital injections are added to its balance sheet |

| | |
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| **Tag along** | rights that protect minority shareholders by giving them the right to tag-along with the larger shareholders in a sale of their shares on the same terms |
| **Tranched investment** | segments of securities, usually debt instruments, that are divided by risk, maturity, or other characteristics to appeal to different investors |
| **Venture debt** | a type of loan for startups that have raised venture capital, based on the company's growth potential, VC investors, and market |
| **Voting rights** | details the voting power attached to different classes of shares, including decisions on corporate governance and other critical matters |
| **Investors** | |
| **Angel** | an individual who provides capital to a startup company, usually in exchange for ownership equity in the company |
| **Corporate Venture Capital (CVCs)** | are venture arms of corporates that invest corporate funds in external start-up firms |
| **Enterprise Investment Scheme (EIS)** | tax advantageous funds where the capital is sourced from private investors |
| **Family Office** | are funds that serve the needs of a family or multiple families |
| **Lead investor** | the investor one who initiates the venture capital in a financial arrangement who usually has the highest share of the capital offered |
| **VC (LP Fund)** | venture capital funds backed by limited partner investors (e.g. pension funds, university endowments) |
| **Venture Capital Trust (VCT) funds** | a publicly listed, closed-end fund that allows individual investors to gain access to venture capital markets via capital markets |

# BVCA Summary of Model Document

**Section 9**

**Michael Moore**
**Chief Executive, BVCA**

"The BVCA's model documents promote industry-standard legal terms in the UK, so investors & entrepreneurs can focus on deal-specific matters. This helps save time and money and we encourage people to adopt these documents as the starting point for their investments."

bvca
Invested in a better future

HSBC Innovation Banking

This document provides a summary of the February 2025 versions of the BVCA model form documents. It is intended to be a resource to help parties understand the terms and conditions set out in the documents and inform transaction negotiations at the term sheet stage. The summary is laid out in a form that may be used as a term sheet, but is not intended to be a pro-forma term sheet for all transactions using the model form documents. It is recognised that in practice the form and scope of the transaction term sheet will be determined by the lead investor(s), and consequently that most term sheets will in a different form to this summary and may be significantly shorter. Parties should consider each transaction in context of current conditions and the nature of the transaction. The alternatives provided herein should not be construed as an endorsement of current "market" norms, which evolve over time, but rather to reflect the material provisions in the model documents.

**1. Subscription Terms**

| | |
|---|---|
| **Company** | [●], a private limited company incorporated under the laws of [●] with company number [●] (the "**Company**"). |
| **Security** | Newly created class of Series A preferred shares of £[●] each in the capital of the Company ("**Series A Shares**"). |
| **Investors** | [●] (the "**[Lead] Investor**").<br><br>One or more existing shareholders, and/or new investors acceptable to the Company [and the [Lead Investor / New Shares Majority]] (each, with the Lead Investor [and each Equity Securities Holder (as defined below)], an "**Investor**" and together the "**Investors**").<br><br>[[●] is a "**US Investor**".] [and] [[●] is an "**EIS/VCT Investor**".] |
| **Founder[s]** | [●] |
| **Subscription Price** | The per share issue price of the Series A Shares (the "**Subscription Price**", the "**Preference Amount**" and the "**Starting Price**") [will] / [is anticipated to] be [£/$][●] per Series A Share, based upon a pre-money valuation of [£/$][●] on a Fully Diluted basis.<br><br>"**Fully Diluted**" includes the current ESOP (as defined below) [(and the increase to the ESOP contemplated by this Term Sheet)], any other outstanding options or warrants, and any outstanding convertible loan notes, ASAs, SAFEs or similar instruments.] |

| | |
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| **Share Option Pool** | The Company currently maintains an employee share option pool ("**ESOP**") comprising [●] ordinary shares of £[●] each "**Ordinary Shares**"), of which: [●] have been granted, [●] have been allocated and/or promised to employees, directors and consultants and [●] remain unallocated and available for grant[, as shown in the capitalisation table set out in Schedule 1].<br><br>On Completion, the ESOP will be increased by an additional [●] Ordinary Shares [such that post-Completion the total ESOP will represent [●]% of the Fully Diluted Share capital] [such that post-Completion the total unallocated portion of the ESOP will represent [●]% of the Fully Diluted Share capital]. [This increase shall be included within the pre-money valuation of the Company]. |
| **Investment Amounts** | [Lead] Investor: [£/$][●] on completion<br><br>Other Investors: [£/$][●] on completion<br><br>Additional Investors that have been approved by the Company [and the [Lead Investor / New Shares Majority]]: [up to] [£/$] [●]may be raised by subscription for Series A Shares within [●] business days after the date of the subscription agreement (the "**Execution Date**") ("**Additional New Shares**")].<br><br>[The Proposed Financing shall be split between two completions, allocated among the Investors as follows:<br><br><u>Initial Completion</u> |
| **Investor** | **Investment amount** |
| [●] | [●]<br><br>Second Completion |
| **Investor** | **Investment amount** |
| [●] | [●] |

**1 Note:** The price per share may not be calculable at the term sheet stage as the full capitalisation table may not be available. The key relevant facts are the investment size and resulting post-money ownership, however. Parties to consider omitting specific price per share until the full capitalisation is determined.
**2 Note:** The detailed capitalisation table may not be available during initial negotiations. Parties to consider omitting.

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| **Initial Completion** | The targeted Execution Date is [●], after which the Investors will have [●] business days to remit their subscription funds and complete their [initial] subscription for Series A Shares in accordance with the terms of the subscription agreement.<br>[The minimum aggregate investment size is [£/$][●], which amount shall constitute the threshold of subscriptions required for initial completion ("**Completion**").]<br>In the event an Investor defaults on their subscription, the Series A Shares due to be issued to the defaulting Investor(s) may be issued by the Company [as Additional New Shares]/[to one or more additional Investors approved by the Company [and the [Lead Investor / New Shares Majority]]]. |
| **[Second Completion]** | Second Completion will be subject to customary conditions, including (without limitation) (i) achievement and/or waiver of the milestones detailed in schedule 3 to the satisfaction of [the Investors]/[the holders of [●]% of the Series A Shares], (ii) there having been (in the [reasonable] opinion of [the Investors]/[the holders of [●]% of the Series A Shares]) no material adverse change in the financial position or prospects of the Company and no material breach of the definitive investment documents or the Founder service agreements by the Company and/or a Founder, and (iii) the Founder[s] continuing to be Service Providers (which has the meaning given in **"Good and Bad Leaver"** in section 3 (Founder obligations) below). |
| **[Equity Securities Agreements and Equity Securities Holders]** | The following [CLNs (convertible loan notes)], [SAFEs (simple agreements for future equity)], [ASAs (advance subscription agreements)] of the Company (**"Equity Securities Agreements"**) will, on Completion, convert into [Series A Shares] [at the following discounts to the Subscription Price]/[at the following [pre-money] valuation caps]:<br><br>[All Equity Securities Holders will be [required/expected] to sign the subscription agreement and the shareholders' agreement.]<br>[The number of [Series A Shares] to be issued to each Equity Securities Holder is shown in the capitalisation table set out in schedule 1.] |

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| **Warranties & limitations** | The Company will give customary warranties to the Investors on the Execution Date.<br>The warranties will be based substantially on the warranty schedule set out in the model form BVCA subscription agreement, subject to such additions or amendments as may be agreed as part of the Lead Investor's due diligence. [This will include customary US taxation warranties to be made to any US Investors and customary EIS/VCT warranties to be made to any EIS/VCT Investors.]<br>The Company's liability under the warranties will be limited as follows:<br>• **Aggregate Liability Cap:** an amount equal to the investment amount [and amounts invested under the Equity Securities Agreements];<br>• **Claim Period:** [18] months following the Execution Date; and<br>• **Disclosure:** there will be no general disclosure of any data room prepared by the Company in connection with the Proposed Financing.<br>No warranty claim may be brought against the Company without the prior written consent of [the Lead Investor]/[the holders of [●]% of the Series A Shares].<br>[On Second Completion, the Company will give a limited suite of warranties covering share capital, authority and limited financial matters, subject to the same limitations as detailed above.]<br>[Each US Investor will give customary warranties to the Company concerning its status and position under the United States Securities Act of 1933.] |

## 2 Terms of the Series A Shares

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| **Liquidation Preference** | The Series A Shares will carry a one times (1x) non-participating liquidation preference on a liquidation, distribution of assets or share / asset sale of the Company, whereby the holders of Series A Shares will be entitled to receive, in priority to other share classes, an amount per Series A Share equal to the greater of (i) the Preference Amount (together with any arrears and subject to customary adjustments) and (ii) the amount that would be received if the Series A Shares were converted into Ordinary Shares immediately prior to such distribution and such distribution made pro-rata among the holders of the shares in the capital of the Company (excluding deferred and treasury shares) (being the "**equity shares**").<br><br>[The liquidation preference will be structured in a manner consistent with the EIS/VCT provisions.] |
| **Conversion** | The Series A Shares will convert into Ordinary Shares on a one-for-one basis (without need for further shareholder resolution or class consent) as follows:<br>• voluntarily at the election of each holder [other than EIS/VCT Investors];<br>• automatically at the election of an Investor Majority (as defined below); and<br>• automatically upon the occurrence of an IPO (on a designated exchange) ("**IPO**") in which the net aggregate subscription amount in respect of new Ordinary Shares issued at the time of the IPO is not less than [£/$][●] at an issue price per Ordinary Share of at least [£/$][●] / [[●] times the Starting Price. |
| **Voting** | [Subject to standard EIS/VCT caps,] The Series A Shares shall rank pari passu with the Company's other classes of equity share in respect of voting rights and shall carry one vote per share on a show of hands. |
| **Dividends** | [Subject to standard EIS/VCT caps,] Any profits available for distribution which the Board [with Investor Majority Consent] resolves to distribute in a financial year shall be distributed (after a nominal distribution to deferred shareholders, if any) among the holders of all equity shares on a pari passu basis. |
| **Variation of class rights** | The rights attaching to any class of share in the capital of the Company may only be varied or abrogated with the prior written consent of the holders of [a majority] of the issued shares of that class [(provided that classes treated in a proportionate manner shall be aggregated for the purpose of any such vote.]<br><br>This will not apply to the automatic conversion of the Series A Shares in the circumstances specified above (under the Conversion section) and the conversion of a leaver's shares into deferred shares in accordance with the Company's articles. |
| **Anti-Dilution Protection** | [Save for EIS/VCT Investors,] The Series A Shares shall carry standard broad-based weighted average anti-dilution protection in respect of a new issue of securities (save for those issues exempted from pre-emption as detailed below under the Pre-emption on new issuance section) at a price per security below Starting Price (subject to customary adjustment).<br><br>[The Series A Shares held by EIS/VCT Investors shall be excluded from the anti-dilution protection.] |
| **Pre-emption on new issuance** | [A "**Major Investor**" will be any Investor that continues to hold at least [●]% of the [Series A Shares in issue from time to time] [the Equity Shares from time to time].]<br><br>Unless otherwise agreed by Investor Majority Consent (as defined below), each [Major] Investor will have the right to participate in any new issue of securities of any class pro-rata to their holding of equity shares [(on [an issued share / a Fully Diluted] basis)].<br><br>Pre-emption rights will be subject to customary exceptions, including (without limitation) (a) option awards under the ESOP (and shares issued on the exercise thereof), (b) shares issued in consideration of an acquisition [approved by an Investor Majority] and (c) shares issued as a result of a bonus issue or re-organisation [approved by an Investor Majority].<br><br>[If the pre-emption rights of a [Major] Investor are disapplied by Investor Majority Consent, "anti-gamesmanship" protection shall apply [such that any securities subsequently proposed to be taken up by the waiving [Major] Investor(s) must be offered to all [Major] Investors on a pro-rata basis].] ] |

| | |
|---|---|
| **Pre-emption on transfer / RoFR** | Each [equity shareholder]/[Investor]/[Major Investor] will have a right of first refusal ("**RoFR**") to acquire any shares which are proposed to be transferred ("**Sale Shares**")[, subject to the following priority rights:<br>• If the Sale Shares are Series A Shares, the Company shall offer them to the other holders of Series A Shares; and<br>• If the Sale Shares are Ordinary Shares, the Company shall offer them to [the other holders of Series A Shares]/[the other equity shareholders].]<br>The RoFR will not apply to a category of customary permitted transfers, including (without limitation) any transfer of shares approved by the board of directors of the Company from time to time (the "**Board**") (with Investor [Majority]/[Director] Consent).<br>["Anti-gamesmanship" protection will also apply in respect of the RoFR.] |
| **Drag-along** | If [the Board and] the holders of [a majority] of the equity shares (including an Investor Majority) agree to sell their shares to a proposed purchaser, they shall have the right to compel the other shareholders to sell their shares to the proposed purchaser on the basis of customary drag-along provisions.<br>The drag-along shall provide that dragged shareholders (including any Investors) may be required to participate in certain contribution obligations, including (without limitation) any price adjustment mechanisms or liabilities in respect of warranties and undertakings in the sale agreement, provided such provisions apply to all selling shareholders on a pari passu basis.<br>No dragged shareholder shall be required to make any warranties concerning the affairs of the Company nor agree to any restrictive covenants or similar undertakings [(save in the case of a Service Provider)]. |
| **Tag-along** | Subject to customary exceptions and permitted transfers [(other than where the Board exercises its general discretion to approve a transfer as a permitted transfer)], if a shareholder proposes to transfer any equity shares which would result in the proposed acquirer controlling the Company, the proposed seller shall be required to make an offer to the remaining shareholders to acquire their shares on terms that are no less favourable than the terms of the proposed sale by such acquirer. |

| | |
|---|---|
| **Co-sale rights** | Subject to customary exceptions and permitted transfers, the [Major] Investors shall have standard co-sale rights in respect of any transfer of [more than [●]% of the] equity shares by [a Founder]/[or a Service Provider].<br>The Board (with Investor [Majority]/[Director] Consent) shall be entitled to determine that these rights shall not apply in respect of a specified transfer. |
| **IPO Lock-up** | All shareholders (including the Investors) shall be subject to a customary IPO lock-up of up to 180 days following the IPO (as determined by the Board) and shall additionally undertake, to the extent required by the Company's underwriters, to enter into a separate lock-up agreement on an IPO[ provided that each director and shareholders holding more than 1% of issued shares enter into a lock-up agreement on terms that are no less onerous [and any release or waiver of obligation under such lock-up agreements also apply to any lock-up agreement entered into by the other shareholders]]. |
| **New Holding Company Re-organisation** | All shareholders (including the Investors) shall provide customary undertakings to facilitate a new holding company re-organisation approved by the Board with Investor Majority Consent.<br>The undertakings shall not apply to a Major Investor if, in consultation with the Board and/or as determined by an independent expert (if necessary in the event of disagreement), it is determined such Major Investor (or a limited partner / participant / shareholder of such Major Investor) would be subject to any taxation or required to make any tax filings.<br>[Any new holding company that is to be created for the purposes of these undertakings shall be incorporated as an entity that is classified as a corporation for US federal income tax purposes]. |

| 3. Founder obligations | |
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| **Non-competition / solicitation restriction** | Each Founder shall be subject to customary restrictive covenants (non-competition, non-solicitation of personnel, non-solicitation of customers, suppliers and other counterparties, and non-disparagement) for a period of [●] months starting on the date they cease to be a Service Provider.<br><br>In addition, each Founder shall provide standard intellectual property undertakings in respect of any intellectual property developed by them whilst they are a Service Provider. |
| **Good and Bad Leaver** | A "**Bad Leaver**" shall be any person who ceases to be an employee and/or consultant (including, without limitation, in the capacity of a non-executive director) of the Company or a member of the Company's group (a "**Service Provider**") as a consequence of that person:<br><br>• being dismissed as a Service Provider for gross misconduct, fraud, dishonesty or being convicted of any criminal offence (other than a road traffic offence which is not punishable by a custodial sentence) [or any grounds which entitle the Company to summarily dismiss or immediately terminate the Service Provider's employment, office, consultancy or engagement as a Service Provider], or as a consequence of that person's resignation in such circumstances; or<br><br>• after ceasing to be a Service Provider, committing a material breach of any non-compete obligations owed to the Company under the shareholders' agreement and/or their employment agreement.<br><br>A "**Good Leaver**" shall be any person who is not a Bad Leaver and shall include when the Board [(including Investor Director Consent)] determines that a person is not a Bad Leaver. |

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| **Reverse vesting** | The equity shares held by a Founder [and/or Service Provider] and their permitted transferees ("**Relevant Shares**") shall be subject to a reverse vesting schedule whereby the Relevant Shares shall vest in [48] equal monthly instalments (the "**Relevant Period**") [, subject to an initial one year cliff period,] from [Commencement Date] up to the date their employment and/or consultancy with the Company or a member of the Company's group terminates [or, if earlier when they [give or are given notice to] terminate such employment or consultancy (the "**Effective Termination Date**").<br><br>In the event a Founder [and/or Service Provider] is a Good Leaver during the Relevant Period, they shall be entitled to retain their vested shares and their unvested shares shall automatically convert into deferred shares (having de minimis economic value) on a one-for-one basis as from the Effective Termination Date.<br><br>In the event a Founder [and/or Service Provider] is a Bad Leaver [during the Relevant Period], all of their Relevant Shares shall automatically convert into worthless deferred shares on a one-for-one basis as from the Effective Termination Date.<br><br>Any vested shares retained by a Founder [and/or Service Provider] following the Effective Termination Date shall have their voting rights suspended. |
| **Transfers by Founder(s)** | The Founder[s] may not transfer their shares without the prior written consent of the Board acting with [Investor Director Consent]/[Investor Majority Consent]. |

| 4. Governance and shareholder matters | |
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| **Board appointment rights** | The [Lead Investor], for so long as it (together with its permitted transferees) continues to hold not less than [[xx]% of the equity shares]/ [[●] equity shares] shall have the right to:<br>• Appoint one Director (the "**Investor Director**") to the Board; [and<br>• Appoint one observer (the "**Observer**") the Board.]<br>[Each Founder] [The Founders], for so long as they remain employed by and/or engaged as a consultant to the Company or a member of the Company's group [and, together with their permitted transferees continue to hold not less than [[xx]% of the equity shares]/ [[●] equity shares] shall have the right to appoint themselves as a Director (the "**Founder Director**").<br>[The CEO appointed by the Board from time to time shall be a director.]<br>Following Completion, the Board shall comprise:<br>• the Founder Director[s];<br>• the Investor Director;<br>• [INSERT OTHER DIRECTORS.]<br>[[●] will resign from the Board at or prior to Completion.] |
| **Proceedings of the Board** | The quorum for meetings of the Board shall be [two] directors [which must include at least one Investor Director (if appointed and unless the Investor Director has waived the requirement in advance of the meeting)].<br>[Board meetings shall take place at intervals of no more than [●] [months]/[weeks] and at least [●] meetings shall take place annually.] |
| **Consent Matters** | The consent of the holders of at least [●]% of the Series A Shares in issue from time to time ("**Investor Majority Consent**") shall be required to effect any of the matters specified in part 1 of Schedule [1][2].<br>The consent of [the Investor Director] ("**Investor Director Consent**") shall be required to effect any of the matters specified in part 2 of Schedule [1][2]. |

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| **Information Rights** | The Company will have an obligation to supply customary financial and operational information about the Company to the [Major] Investors, including (without limitation):<br>• [monthly]/[quarterly] management accounts to be delivered within [21] days after the end of each [month]/[quarter];<br>• annual budget to the delivered at least 30 days prior to the end of the preceding financial year; and<br>• [audited] accounts of the Company to be delivered within [four] months of the accounting period to which such audited accounts relate.<br>In addition, each [Major] Investor shall be provided with such information concerning the Company and its business as they may reasonably request from time to time.<br>There shall be standard inspection rights if the Company does not comply with any of these requirements. |
| **Amendments to articles of association** | Each shareholder (including, for the avoidance of doubt, the Investors) shall undertake to exercise all voting rights and powers of control available to them to vote in favour of any amendment to the articles of association of the Company approved by (i) the Board, (ii) a majority of the holders of equity shares, (iii) an Investor Majority.<br>The undertaking shall be subject to (A) any contractual consents necessary under the shareholders' agreement being obtained, (B) the consent of any shareholder upon whom new obligations are being imposed, or whose express named contractual rights are being varied, being obtained and (C) the [majority] consent of any disproportionately impacted class of share being obtained.<br>The Company shall be constituted as agent for and on behalf of each shareholder (including, for the avoidance of doubt, the Investors) for the purposes of securing the undertaking. |
| **Variation and termination of the shareholders' agreement** | Any variation and/or termination to the shareholders' agreement approved by (i) the Company, (ii) the holders of a majority of the equity shares, (iii) an Investor Majority [and (iv) [the Founders that are Service Providers]], shall be binding upon all parties to the shareholders' agreement.<br>If any change(s) to the shareholders' agreement (A) would impose any new obligations on a party and/or vary an express contractual right of a party in respect of their board rights, information rights or US tax covenants[, or (B) amend the Major Investor threshold] or (C) would adversely impact the [Major] Investors otherwise than on a pari passu basis, then the prior written consent of the affected party/parties will be required. |

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| **[Business undertakings** | The Company and the Founders shall provide customary business undertakings to the Investors, including (without limitation) in respect of [data protection legislation compliance [and audit]], [ESG] and [Sustainability]].] |
| **[Registration Rights]** | [The Investors shall be entitled to registration rights [on terms of the model registration rights agreement currently available from the BVCA], to include two demand registration rights commencing six months after the IPO, unlimited shelf and piggy-back rights and unlimited Form S-3 or Form F-3 registrations after IPO.] |
| **[Tax Covenants]** | [The US Investors shall be entitled to customary CFC and PFIC tax covenants [(on the terms currently published by the BVCA)] intended to protect the US Investors from suffering adverse tax consequences as a result of changes to the Company's status and activities.]<br><br>[The EIS/VCT Investors shall be entitled to customary EIS/VCT covenants [(on the terms currently published by the BVCA)] intended to protect the EIS/VCT Investors from loss of any EIS/VCT tax reliefs claimed on their investment.] |
| **[Management Rights Letter]** | The Company will enter into a standard form management rights letter with [US Investor] in connection with the Proposed Investment. This will be substantially on the terms currently published by the NVCA [(or otherwise on standard terms required to maintain VCOC status for ERISA purposes)] and shall provide for the consultation by [US Investor] with management of the Company on significant issues, including access to books, records and facilities of the Company, as well as board visitation rights. |

**5. Conditions & General terms**

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| **Conditions** | The following matters shall be addressed prior to the Execution Date:<br>• negotiation of definitive legal documents;<br>• satisfactory completion of due diligence (including anti-money laundering, KYC checks and FCA regulatory compliance checks);<br>• receipt by the [Lead] Investor[s] of an agreed form business plan, management accounts (covering the period since the last filed accounts) and last statutory accounts;<br>• [[D&O]/[Keyman Insurance] of up to [●] being in place to the satisfaction of the Lead Investor];<br>• [entry into [new]/[amended] Founder service agreements to the satisfaction of the Lead Investor;]<br>• [delivery to the [Lead] Investor[s] of intellectual property assignments from [each] [Founder]/ [employee]/ [consultant] of the Company;]<br>• [receipt by the EIS/VCT Investors of [advance assurance from HMRC] / [a tax or legal opinion] that the Proposed Financing will qualify for EIS/VCT tax reliefs;]<br>• [final approval by the Lead Investor's Investment Committee; and]<br>• [entry into of an indemnification agreement with the Investor Director.]<br>[INSERT OTHERS]. |
| **Documentation** | Counsel to the [Company] / [Lead] Investor[s] will prepare the first drafts of the investment documents, which shall be based on the Model Documents currently published by the BVCA (being the February 2025 versions, as updated). |
| **Expiry Date** | The Company and the [Lead] Investor[s] are requested to confirm their acceptance of this Term Sheet by [●], failing which the proposal set out in this Term Sheet will lapse. |

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| **Confidentiality** | The parties agree that this Term Sheet, its existence and the terms set out in this Term Sheet are confidential [and none of the parties shall at any time prior to the execution of definitive legal documentation, whether before or after the termination of this Term Sheet, without the written consent of the Company and the [Lead] Investor[s], divulge or permit its officers, employees, agents or advisors to share with any person the existence, terms and conditions of this Term Sheet, except as required to its limited partners / shareholders, its professional advisors and, in the case of the Company, for the purpose of securing participation from additional Investors.]. |
| **Exclusivity** | The Founder[s] and the Company undertake to the [Lead] Investor[s] that they will not directly or indirectly until the earlier of [●] or the date that the Lead Investor notifies the Company of its intention not to proceed with this proposal (the "Period") solicit, directly or indirectly, further offers for the purchase and/or subscription of shares in the Company (or any part thereof) or any material part of the business, assets or undertakings of the Company or enter into or continue to seek negotiations with any party other than the Investors in connection with such matters provided that the Founder[s] and the Company may, during the Period, solicit offers for the subscription or purchase of shares in the Company solely for the purpose of securing participation from additional Investors. |
| **Fees & Expenses** | Each party shall bear its own costs in connection with the Proposed Financing [save that the Company will, at Completion, reimburse the Lead Investor in respect of reasonable legal costs incurred by the Lead Investor in connection with the Proposed Financing up to an aggregate of [£/$][●] (plus VAT and disbursements).] |
| **Governing Law & Jurisdiction** | This Term Sheet and any dispute arising out of or in connection with it, its formal requirements or its subject matter or formation (including non-contractual disputes) is governed by, and shall be construed in accordance with, English law.<br>The parties hereby submit to the exclusive jurisdiction of the High Court of England and Wales in relation to any matter, dispute or claim arising out of or in connection with this Term Sheet. |

[COMPANY NAME]:
Signature:
Name:
Date:

[LEAD INVESTOR NAME]
Signature:
Name:
Date:

[FOUNDER NAME]
Signature:
Name:
Date:

## SCHEDULE 1 - CAPITALISATION TABLE

## Schedule 2: Consent Matters

### Part 1: Summary of matters requiring Investor Majority Consent

**1. Fundraising and Share capital**

a) Alter share capital

b) Issue any shares or rights to subscribe for shares (save under any share option plan(s).

c) Permit disposals of shares other than in accordance with the shareholders' agreement or articles of association.

d) Directly or indirectly issue any tokens in any form whatsoever.

**2. Share Option Plan(s)**

a) [Adopt or amend any share option plan of the Company.]

b) Increase the share option pool.

**3. Distributions**

a) Propose or pay any dividend or propose or make any other distribution.

**4. Acquisitions and Disposals**

a) Acquire or dispose of any interest in another undertaking.

b) Dispose of the whole or part of the undertaking of the Company.

c) Permit the disposal of shares in the Company amounting to a sale of the Company or IPO ("Exit").

d) Enter into any right of first refusal in relation to an Exit.

**5. Insolvency**

a) Permit the Company to cease to carry on its business.

b) Wind up the Company.

c) Place the Company into administration.

d) Propose or enter into any arrangement, scheme, moratorium, compromise or composition with its creditors; or

e) Invite the appointment of a receiver or administrative receiver.

**6. Amendments to the Articles**

a) [Adopt or amend any share option plan of the Company.]

**Note:** This schedule is a summary of the matters requiring either Investor Majority Consent or Investor Director Consent under the Shareholders Agreement, rather than the full text and detail of all the matters requiring such consent.

## Schedule 2: Consent Matters (continued)

### Part 2: Matters requiring Investor Director Consent

**1. Share option plan awards**

a) Grant any options [to a Founder of member of senior management]/[in excess of [●] [Ordinary Shares] pursuant to the Company's share incentive plan(s).

b) Authorise non-standard vesting in respect of an option award.

c) Permit the acceleration of any vesting with respect to an option award.

**2. Proceedings of the Board**

a) Transact any Board business outside the agenda for the Board meeting.

b) Increase the maximum number of directors.

c) [Vary the agreed frequency of Board meetings.]

d) Engage any broker or professional advisor to provide any services for an Exit.

e) Establish or approve the terms of reference for any [remuneration] [audit] [other] committee of the Board.

**3. Business**

a) Make any material change to the nature of the Business or do any act or thing outside the ordinary course of the Business.

**4. Accounts and expenditure**

a) Approve the Company's annual budget and cash flow forecast and/or business plan in respect of each financial year.

b) Incur material capital expenditure outside the annual budget.

c) Dispose of any asset of capital nature having a material book or market value greater than £[●].

**5. Employment**

a) Hire employees with remuneration exceeding £[●] per annum (or increase / vary the total remuneration of any employee or consultant to more than £[●] per annum) or on whose contract is terminable on more than three months' notice.

b) Vary the terms of engagement of any Founder or senior executive.

**6. Loans and charges**

a) Make any loan or advance or give any credit (other than in the ordinary course of business) or make any guarantee.

b) Permit the creation of or suffer to subsist any encumbrance over its assets.

c) Factor any of its debts, borrow monies or accept credit (outside the ordinary course of business).

**7. Adherence Agreements**

a) Permit any change in shareholdings without the new shareholder entering into an adherence agreement [save where shares are issued under the share option plan(s)].

**8. Litigation**

a) Conduct any litigation material to the Company.

**9. Contracts and related party transactions**

a) Subject to customary exceptions, enter into or vary any transaction or arrangement with, or for the benefit of any director, shareholder or connected person of any director or shareholder.

**Note:** This schedule is a summary of the matters requiring either Investor Majority Consent or Investor Director Consent under the Shareholders Agreement, rather than the full text and detail of all the matters requiring such consent.

# Thank you

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