INVESTORS / FUNDRAISING INSTRUMENTS

Term Sheet — Lead Investor, Priced Equity Round

A priced-round term sheet from the lead investor's side, annotated for what is negotiable.

Summary of Terms

A priced equity round term sheet from the lead investor's side, for a seed or Series A financing. Annotated to show what each clause actually protects, and where it sits on the standard–aggressive–founder-friendly spectrum — a lead investor should know which of their own asks are market and which are a genuine reach before the conversation starts.

Pre-Money Valuation

E.g., USD 12,000,000 pre-money on a USD 3,000,000 new investment (USD 15,000,000 post-money). Sets the price per share for this round and the resulting ownership percentage for every party.

> WHAT IT PROTECTS This single number is the basis every other dollar figure in the round derives from — option pool sizing, dilution, and every future round's starting point all reference back to it.

> NEGOTIABLE Almost always the most actively negotiated term. Anchor to comparable recent rounds in the same sector and stage, not to the founder's or investor's preferred number in isolation.

Share Class

Investors receive a new class of Preferred Stock (e.g., “Series Seed Preferred” or “Series A Preferred”), carrying rights senior to the Common Stock held by founders and employees, as set out in the remaining clauses below.

`Standard`

> WHAT IT PROTECTS The preferred class structure is what makes every downstream protection — liquidation preference, protective provisions, anti-dilution — possible; without a distinct share class, none of the remaining terms have a mechanism to attach to.

Liquidation Preference

1× non-participating preferred: on a sale or liquidation, preferred holders receive the greater of (a) their original investment back, or (b) what they would receive by converting to common stock and sharing pro rata — not both.

`1× non-participating: standard` `Participating preferred: aggressive`
`Sub-1× or no preference: founder-friendly, rare`

> WHAT IT PROTECTS Ensures the investor is not left worse off than a common shareholder in a modest exit, without also

entitling them to double-dip (preference *and* a pro rata share) as participating preferred would.

NEGOTIABLE 1× non-participating is the market standard at seed and Series A in most US markets today; participating preferred is a real ask in weaker markets or distressed rounds, and should be treated as a genuine deviation from market, not a default opening position.

Anti-Dilution Protection

Broad-based weighted average anti-dilution: if the Company issues stock in a future down round, the conversion price of this round's preferred stock adjusts downward using a formula that accounts for both the size of the new issuance and the size of the existing capitalization.

`Broad-based weighted average: standard` `Full ratchet: aggressive` `No anti-dilution: founder-friendly, unusual`

WHAT IT PROTECTS Protects the investor's effective price per share if the Company later raises at a lower valuation — broad-based weighted average is a proportionate adjustment; full ratchet resets the investor's price to the new, lower round's price entirely, which is a materially larger transfer of value from founders and other shareholders.

NEGOTIABLE Broad-based weighted average is standard and rarely contested. Full ratchet is a real red flag if proposed at seed or Series A — it is far more common (and more defensible) in a distressed later-stage financing.

Pro Rata Rights

Major investors (typically those investing above a defined threshold) have the right, but not the obligation, to purchase their pro rata share of future financing rounds to maintain their ownership percentage.

`Standard`

WHAT IT PROTECTS Lets the lead investor defend their ownership percentage in a company performing well, rather than being diluted out of a winning position by later, larger rounds.

Board Composition

E.g., a five-member board: two seats held by founders, one seat held by the lead investor, one independent seat mutually agreed, one seat currently unallocated.

`One investor seat, founder majority or parity: standard at seed/Series A`
`Investor board control: aggressive at this stage`
`No investor board seat, information rights only: founder-friendly`

WHAT IT PROTECTS Gives the lead investor a direct, ongoing view into major company decisions and a formal voice in governance, distinct from the narrower veto rights in the protective provisions below.

NEGOTIABLE Board composition is one of the terms most correlated with round size and lead check size — a smaller check reasonably comes with observer rights rather than a full board seat.

Protective Provisions

Preferred stockholder approval (as a separate class vote) is required before the Company may: amend its charter or bylaws in a manner adverse to preferred stock; issue new stock senior to or on parity with this round; incur debt above a defined threshold; sell the company or substantially all its assets; increase or decrease the size of the board; or pay dividends.

`The list above, with reasonable dollar thresholds: standard`

`A long list with very low thresholds, or approval rights over ordinary hiring/spending decisions: aggressive`

> `WHAT IT PROTECTS` Gives preferred holders a veto over the specific major decisions most likely to affect the value of their investment, without giving them day-to-day operating control of the business.

> `NEGOTIABLE` The list of items is fairly standardized across the market; the negotiable variable is usually the dollar thresholds (e.g., what debt level requires approval), not whether the category of protection exists at all.

Right of First Refusal (ROFR)

Before a founder may sell or transfer their shares to a third party, the Company and then the investors have the right to purchase those shares on the same terms first.

`Standard`

> `WHAT IT PROTECTS` Prevents founder shares from ending up with an unknown or unwanted third party without the Company and existing investors having a first opportunity to control who joins the cap table.

Drag-Along Rights

If holders of a defined majority of the Company's stock (typically including a majority of both common and preferred, voting together or as separately required classes) approve a sale of the Company, all remaining shareholders are required to vote in favor of and participate in that sale on the same terms.

`Majority of common and preferred required: standard`

`Preferred-only majority can drag common holders: aggressive`

> `WHAT IT PROTECTS` Prevents a small minority of shareholders from blocking a sale the majority has approved — without it, a single holdout can stall or kill an otherwise-agreed exit.

> `NEGOTIABLE` Requiring approval from a majority of common stock as well as preferred (not preferred alone) is the more founder-protective and more common structure; a preferred-only drag is a real deviation worth naming explicitly if proposed.

Reading This Term Sheet

Every clause here is doing one of two jobs: setting the economics of the round (valuation, liquidation preference, anti-dilution, pro rata) or setting the governance of the company going forward (board composition, protective provisions, ROFR, drag-along). A lead investor negotiating from a position of market awareness pushes hardest on the economics terms that are genuinely standard practice, and treats any ask outside that standard range — participating preferred, full ratchet, investor board control at this stage — as a deliberate, name-it-explicitly deviation rather than a routine opening position.

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