Venture capital term sheet decoder

A founder-friendly guide to the key terms in your first institutional investment

Raising capital from institutional investors is a major milestone. But term sheets can be dense with unfamiliar terminology. Here's a plain-English explanation of the core terms you're likely to see – and what they really mean for you and your business.

	Term	What it means	Why it matters
Deal economics	Valuation (pre/post-money)	The agreed value of the company before and after the investment.	Sets the % of equity the investor receives for their money.
	Investment amount	How much the investor is putting in.	Combined with valuation, this defines dilution.
	Capitalisation table	A breakdown of who owns what.	Founders must understand how equity is divided after the round.
	Option pool	Shares reserved for future hires. Often expanded pre-money.	Can cause unexpected dilution if not negotiated carefully.
Share rights & preferences	Preference (e.g. 1x non-participating)	Investors get their money back first on a sale, before proceeds go to others.	Affects how much founders receive in an exit.
	Participation rights	Allows investors to share in proceeds after getting their preference.	More investor-friendly; can significantly reduce founder returns.
	Liquidation events	Includes sale, IPO, or winding up.	Triggers investor preferences.
	Anti-dilution protection	Adjusts share price if future shares are issued at a lower price.	Protects investors; can dilute existing shareholders if not capped.
Control & governance	Board composition	Who sits on the Board and how they are appointed.	Investors often want a seat or observer rights.
	Reserved matters/investor consents	List of key decisions needing investor approval.	Can impact your ability to run the business freely.
	Founder vesting	Founder shares vest over time, as if they were employees.	Used to incentivise retention – but can reduce founder leverage.
	Drag along/tag along	Forces shareholders to sell (drag) or lets them join a sale (tag).	Important in any future sale – understand the balance of power.
Other key terms	Warranties/due diligence	Founders/company give assurances about the company's position.	Misstatements can lead to liability – take advice early.
	Legal & investor costs	Companys often expected to cover legal fees for the round.	Should be capped – and always negotiated up front.
	Conditions to completion	Steps required before funds are released (e.g. IP assignment).	Can delay closing if not prepared in advance.
	Exclusivity/no-shop	Founder agrees not to discuss competing offers for a period.	Common but time-limited; ensure it's not overly restrictive.

Final thoughts

Term sheets are usually non-binding, but they set the tone and structure for the final investment documents. Founders should:

- Focus on both valuation and terms – a “high valuation” isn’t always the best deal
- Understand the downstream implications (e.g. future rounds, exits)
- Seek advice before signing – leverage our experience to avoid common pitfalls

Let’s talk

If you’re considering your first institutional round, we’d be happy to review a term sheet, explain its commercial impact, and help you negotiate the right deal – not just the fastest one.

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