

# 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                 | Companies 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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