

Module 105: Structuring Deals and Term Sheets – Course Description

Description

This module will show you how to structure investment deals to maximize the value created and to protect your returns from any adverse events.

Overview

A term sheet lays the groundwork for ensuring that the parties involved in an investment transaction are in agreement on most major aspects of the deal, thereby precluding the possibility of a misunderstanding. Because investment terms, company valuation, and the longer-term implications of investment terms are not “one size fits all”, it is important that investors understand the definition of terms and their application in each distinct deal. This module will give an in-depth treatment of all the terms and conditions (T&Cs) that can form the basis of a term sheet and subsequent investment deal. It will provide students with an understanding of the purpose of these T&Cs and their appropriate use in structuring deals to maximize return and minimize risk.

Learning Objectives

By the end of this module the student will be able to:

- Describe the effect of a term sheet
- Explain the purpose of individual terms and conditions on any term sheet
- Create new terms and conditions to address any specific risk
- Justify to an entrepreneur the inclusion of specific terms and conditions in a deal
- Describe how a term sheet is developed into more formal deal documentation.

Prerequisites

Students should have ideally completed modules 103, and 106 or have relevant or direct experience as an angel investor.

Pedagogy

A mix of panel discussions, case studies, and instructor-led group discussions will predominate the methods used in this module.

Detailed topics

This module will cover:

- Investment form: common shares, preferred shares, convertibles, SAFEs and hybrid structures
- Maximizing the upside
- Preventing missteps
- Mitigating the downside
- Ensuring an exit
- Worst-case scenarios
- Common terms and conditions
- Controversial terms and conditions
- Routine boilerplate terms and conditions
- Strategies that backfire
- The deal structuring process
- Post-investment governance
- Key documents: term sheet, subscription agreement, shareholder agreement.

Assignments

Online self-assessment exercises will confirm the ability of independent studies students to (1) read and understand a term sheet, (2), compare a given term sheet to the current norms in their region and sector, (3) design a set of terms and conditions to protect the investor in the case of venture failure, and (4) design a set of terms and conditions to ensure a timely exit with a good return on investment.

Schedule

One four-hour session with a panel of industry experts. Offered regionally once each year as a single session, but multiple sessions based on demand.

Student Prep Work

Students may wish to bring a term sheet from a recent deal.