Workshop: Term Sheet Deep Dive

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Greg Moran, Co-Founder & CEO @Zoomcar
Workshop Objectives

In this workshop, we will discuss key terms that are typically seen in a Convertible Promissory Note or Stock Purchase Agreement (SPA) as part of angel and venture capital investments.

We will be looking at Zoomcar, one of VentureSouq’s most high profile portfolio companies, as a case study and closely examine:

1. The terms of the convertible note we originally invested in
2. The term sheet of the series A preferred stock, which our note converted into
## Types of Investors

<table>
<thead>
<tr>
<th></th>
<th>Friends &amp; Family</th>
<th>Angels</th>
<th>VC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $500K</td>
<td>![Bag of Money]</td>
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<tr>
<td>$500K - $1.5MM</td>
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<td>$1.5MM&lt;</td>
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Greg has dedicated his entire career to sustainable development across the globe. Over the past six years, he worked in various financial, operational, and strategic roles within the international energy and infrastructure sectors. During this time, he was involved with projects on six continents, totaling over $12 billion.

Greg previously worked with Fieldstone Private Capital Group, Cerberus Capital, International Power and the City of New York.
At the time of the bridge financing by VSQ:

- 1st and only 100% self-drive focused car rental company in India
- Individuals could book cars to rent by the hour, day, week, or month
- ‘ZipCar of India’
- Hyperlocal distribution model with vehicles located in convenient areas
- Fleet of 100 vehicles across 13 locations in Bangalore
- All relevant government permits/licenses secured
KPIs & Investment Opportunity

- Annualized rev run rate of ~$1M (~40% MoM growth)
- Revenue growing faster than vehicle fleet size
- ~1,000 bookings/month
- Fleet utilization of ~60%
- Repeat users comprise ~40% of all users
- Marketing spend of <5% of total revenues
- Average ticket size of ~$75
- Gross margins of ~65%
- Unit net margins of ~15% per vehicle

Investment Opportunity

$1.2 million convertible note offering in order to:

- Continue expanding vehicle fleet size (75-100 cars)
- Develop additional tech stack
- Continue building out core team (technology, analytics, product)
What is a Convertible Note?

**Equity**
- Shares in the company
  - Participate in the **full upside** of the company
  - Company has no **repayment obligation**
- Valuation established at the time of investment
- Valuation linked to:
  - Robustness of team & strategy
  - Performance
  - Stage
  - Supply & demand
- **Financial terms**: dividends, dilution, liquidation
- **Contractual terms**: voting rights, board rights, right to participate in future rounds

**Convertible note**
- Common for raises < $1m
- Simple note purchase agreement entered between each investor and the company
- Structured as debt until it converts into equity
- Standardized, fast & inexpensive
- Duration, interest rate, repayment terms, maturity, not typically secured by any collateral
- Defers valuation and other key terms to the next round
  - Converts into equity at a discount to valuation set in the next round or valuation cap
- Cons: uncertainty of final value, lack of control over the equity terms you will get at conversion

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**Standardization of Financing Documents**

**SAFE (Simple Agreement for Future Equity)**

- YCombinator/opensource
- 4 types, no equity version
- No maturity, no interest (not a debt instrument)
- No minimum threshold to financing round
- Cap & Discount
- Transfer Rights: affiliates of the investor only

**KISS (Keep It Simple Security)**

- 500Startups/opensource
- Available equity version
- Maturity of 18 months, Interest at 5%
- Min financing round: $1MM
- Cap & Discount
- Transfer Rights: anyone, anytime
# Convertible Note: Preferred Terms

<table>
<thead>
<tr>
<th>Terms</th>
<th>Company Preferred Position</th>
<th>Investor Preferred Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepayment</td>
<td>Flexibility</td>
<td>Consent to prepay</td>
</tr>
<tr>
<td>Discount</td>
<td>0%</td>
<td>25%+</td>
</tr>
<tr>
<td>Valuation Cap</td>
<td>None</td>
<td>Preferred</td>
</tr>
<tr>
<td>Conversion</td>
<td>Automatic</td>
<td>Investor Choice</td>
</tr>
<tr>
<td>Interest</td>
<td>As low as possible</td>
<td>10%+</td>
</tr>
<tr>
<td>Maturity</td>
<td>&gt; 2 years</td>
<td>&lt; 1 year</td>
</tr>
<tr>
<td>Default</td>
<td>Long cure periods and work-out</td>
<td>Immediate repayment</td>
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**Zoom Convertible Note**

**Key Features included:**

**Prepayment Terms** – none (without investor consent)

**Discount** – 2% monthly (capped at 24%)

**Conversion Terms & Procedure** – Qualified Financing (automatic) or Corporate Transaction (investor choice) or Non-Qualified Financing (majority in interest of investors can convert)

**Interest** – 5% (accrues and payable at maturity/conversion)

**Maturity** – approx. 2 years

**Events of Default** – immediate prepayment (e.g. breach of reps/warranties)
Post Investment

- Zoom expanded and put raised funds to use

- **Sequoia invested in a series A round 8 months after we did**: our principal and interest converted into the same series A preferred stock that Sequoia purchased at a discount to the price they paid

- There was the **opportunity for us to exit** but we all stayed in

**Implications of this conversion for the investor:**

- The price of our investment crystalized
- Discount – convertible note investors rewarded for risk
## Series A: Preferred Terms

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<tr>
<th>Terms</th>
<th>Company Preferred Position</th>
<th>Investor Preferred Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Seat</td>
<td>None</td>
<td>Yes</td>
</tr>
<tr>
<td>Reserved Matters / Protective Provisions</td>
<td>Short and narrow list of provisions</td>
<td>Longer and broader list of provisions</td>
</tr>
<tr>
<td>Liquidation Preferences</td>
<td>Founders prefer no liquidation preference</td>
<td>&gt; 1x</td>
</tr>
<tr>
<td>Anti-dilution preferences</td>
<td>None</td>
<td>Standard language</td>
</tr>
<tr>
<td>ROFR (transfer)</td>
<td>Company vs. Founders</td>
<td>Yes</td>
</tr>
<tr>
<td>Pro-rata rights (new capital raised)</td>
<td>None or limited to larger investors</td>
<td>Full pro-rata rights</td>
</tr>
<tr>
<td>Tag-along rights</td>
<td>Key stockholders – No</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Zoom Series A Term Sheet

- Board seat - *so long as Sequoia continued to hold a certain number of preferred stock*
- Reserved matters/protection provisions:
  - Dissolution/winding up of the company
  - Amendment to the by-laws
  - Issuance of new securities/shares
- Liquidation preference – 1x
- Anti-dilution provisions – sale of securities below series A price
- Conversion into common stock on closing of IPO
- Information rights
- ROFR on proposed transfer of any shares in favour of company (and then investors)
- Pro rata rights on new capital raised – for investors holding certain # of shares
- Co-sale/tag-along rights – right to tag along on Key Holder sale
What Happens if and when there is an Exit

- **IPO**
  - Preferred stock converts into common shares (1:1)
  - Common shares are listed
  - Stockholders receive listing/underwriter price for each share sold

- **Trade sale**
  - Financial or strategic buyer makes an offer to buy the shares of Zoomcar
  - Stockholders receive agreed purchase price for each share sold
THANK YOU