# How to Decode a Term Sheet Right

**Economic Times, 18th June 2015**

http://economictimes.indiatimes.com/small-biz/startups/how-to-decode-a-term-sheet-right/articleshow/47713814.cms

Making sense of numbers is a tough ask for most entrepreneurs dealing with term sheets, angel investors or venture capitalists for the first time.

A mass of jargon and figures, term sheets can confound even those who are pros at the game. But learning to read a term sheet and the fine print within is vital to sealing a great deal.

"Each and every word should be understood 100% by the entrepreneur. Both parties should take care not to creep in any clause in the shareholder's agreement which is not mentioned in the term sheet," said Sunil K Goyal, cofounder of YourNest Angel fund and an early investor in Zipdial, which got acquired by Twitter for about $35 million in January, this year.

Entrepreneurs should also be careful of terms such as 'Put Option' in the term sheet. "Often opportunistic investors tend to insert a 'Put Option' that requires an entrepreneur to return their entire investment from their personal savings, if the company is unable to provide any exit, after five years. Founders should never agree to such clauses," said Harshad Lahoti, cofounder at ah! ventures, a deal making platform.

Angel investors advise founders to retain board control in early stages. 'Private Matters' - a fine print inserted at the end of the term sheet also requires a close study. It controls all CXO level hiring, change in business strategy, creation of any subsidiary. Even if a founder plans to take a home loan, above a certain limit, Private Matters section governs this decision.

"Entrepreneurs have to be aware of the clauses relating to dilution, VC's rate of returns and ratcheting, which is change in dilution based on a startup's performance," said Satyen Kothari - co-founder & managing director at Citrus Pay. Anti dilution is a future financing event that gets triggered in scenarios where future funding rounds is at a valuation lower than current round.

Payment gateway solutions provider Citrus Pay has raised about $7.5 million in two rounds of financing from investors such as e-Context Asia, Beenos Asia and Sequoia Capital.

Founders should make sure there is complete alignment between startup's long-term view and the investor's expectations. "An entrepreneur has to ensure that liquidation is exactly 1X preferred non-participation, and that there is no double-dipping," advises Kothari. Liquidation preference determines the amount of money that holders of preference shares will get in case the company is liquidated or merged.

Experts also advise removing or reducing the exclusivity period. Many investors try to lock the promoters that if they sign a term sheet, they cannot talk to anyone else for a specific period. It typically varies from 45 day to 90 days.

"Depending on the need of the company, founders should either look to eliminate this clause or reduce it to 15-20 days," advises Navin Kumar Rungta, founder of legal compliance firm eLagaan.