PERSPECTIVES — INVESTOR READINESS

Term Sheet Decoded

A plain-language walkthrough of the provisions that matter most.

GUIDE

AMOR FATI GROUP

INVESTOR READINESS

A term sheet is a short document that determines outcomes years before they happen. Most of its real economic weight sits in a handful of provisions that receive far less founder attention than valuation does.

01 Valuation

Pre-money valuation gets the most attention and, on its own, tells you the least. The number that matters is the fully diluted post-money figure — after the option pool top-up, after the new investment, after any existing convertible instruments convert. Two term sheets with identical headline valuations can produce meaningfully different founder ownership once the pool and conversion mechanics are applied.

- [ ] **Confirm whether the option pool is added before or after the stated pre-money valuation**
  A pool "created" pre-money is effectively funded entirely by existing shareholders — it dilutes founders, not the incoming investor.

02 Liquidation Preference

This determines who gets paid first, and how much, when the company is sold or liquidated — before any remaining proceeds are shared pro rata with common shareholders.

Structure	What it means
1x non-participating	Investor receives the greater of their investment back or their pro rata share — standard, founder-favorable
1x participating	Investor receives their investment back, then also participates pro rata in the remainder — meaningfully more expensive for founders in a modest exit
Multiple (2x, 3x)	Investor receives a multiple of their investment before anyone else is paid — uncommon in healthy markets, a signal worth scrutinizing when present

03 Anti-Dilution Protection

Protects the investor's ownership percentage if a future round prices lower than the current one (a "down round"). The mechanism matters far more than whether the protection exists at all.

Broad-based weighted average — the standard, market mechanism. Adjusts the investor's conversion price modestly, accounting for the size of the new round relative to the company's total capitalization.

Full ratchet — resets the investor's conversion price to the new, lower price entirely, regardless of round size. Materially more punitive to founders and earlier investors, and a term worth negotiating hard against.

04 Board Composition

Board seats determine who controls the decisions that matter most — hiring and firing executives, approving future financings, and approving a sale of the company. The number of seats matters less than who holds the tie-breaking vote as the board grows across future rounds.

- [ ] **Understand the board's composition after this round and after the next one, not just today**
- [ ] **Clarify whether independent directors are truly independent, or nominated by the lead investor**

05 Protective Provisions

A list of actions the company cannot take without investor consent — issuing new equity, taking on debt above a threshold, changing the size of the board, selling the company. These are standard in some form, but the breadth of the list and the threshold for triggering them vary enormously between term sheets, and a broad list can functionally hand control to a minority investor.

A NOTE ON NEGOTIATION

Very few founders successfully renegotiate valuation once a term sheet is signed. Far more successfully renegotiate the liquidation preference structure, anti-dilution mechanism, and protective provision scope — because these are the terms investors expect to discuss, and the terms most founders never ask about.

This guide simplifies mechanics that are genuinely more complex in specific instruments and jurisdictions. It is not a substitute for review by qualified securities counsel before signing.