

SOCIAL
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MASTERCLASS



**UNDERSTANDING
TERM SHEETS &
CASH FLOWS**



SPICE ROUTE
FINANCE





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WHAT IS A TERM SHEET?



- A term sheet is a non-binding agreement that lays out the basic framework for a much more comprehensive legally binding agreement.
- It will generally outline the following:

The amount of money being sought

The term of the investment

The percentage of ownership that the investor will have in the company

- Typically, companies will request term sheets from investors only when they are extremely close to completing a funding round and want to lock in terms before seeking additional investor commitments.



COMMON TERMS IN A TERM SHEET

- 1 Type of instrument: equity, CCPS, CCD, Convertible Note
- 2 Validity of the term sheet: They have to be signed under a certain time frame
- 3 Valuation (pre and post money): The investor and founder must agree on this
- 4 Valuation cap or floor: These protect the investors
- 5 Discounts: benefit of lesser valuation in the next round.
- 6 Liquidation preferences: Guarantee a return on exit
- 7 Tag along rights: When lead investor exiting by way of sale, other shareholders can tag
- 8 Voting rights: Allows investors to participate in company management
- 9 Drag along clauses: Lead investors will have the right to drag the minority shareholders

MODES OF FUNDING

Instrument	Convertible Notes and Convertible Debentures	Equity	Grant	Debt	Revenue Based Financing
Use Case	Ideation, Testing, Market Study, Initial traction, MVP	For strategic scaling, early working capital and team buildup, PMF	For new product development, Pilot, Proof of concept, Prototype	For working capital, Bridge funding	Increase your runway during the scale up phase.

THE DUE DILIGENCE PROCESS



There are 3 stages to a diligence processes:

Business Due Diligence

This validates the business model, GTM strategy, and includes a SWOT analysis.

Financial Due Diligence

This validates the company's financial position and whether they have been compliant with all financial regulations applicable to them.

Legal Due Diligence

If the results of the business and financial due diligence are favourable, the investor's legal team will conduct a legal review of the deal.

Once these practices have concluded, and the results are favourable, you can expect to receive funds.

FUNDRAISING FUNDAMENTALS



- Figure out the right story for your startup
- Be a great storyteller
- Find the right investors
- Get organized and be prepared, always be DD ready
- Know how much money do you actually need
- Link funding with milestones
- Incorporate a company before talking to an investor
- Don't dilute more than 10% in each stage of your startup

Stage	Typical Funding	Typical Valuation
Idea	\$50K	\$500K
Idea + Strong Team	Upto \$250K	Upto \$1 Mn
Demo + Prototype	\$500K	Upto \$5 Mn
Validated Product and Initial Traction	\$1 Mn	Upto \$10 Mn

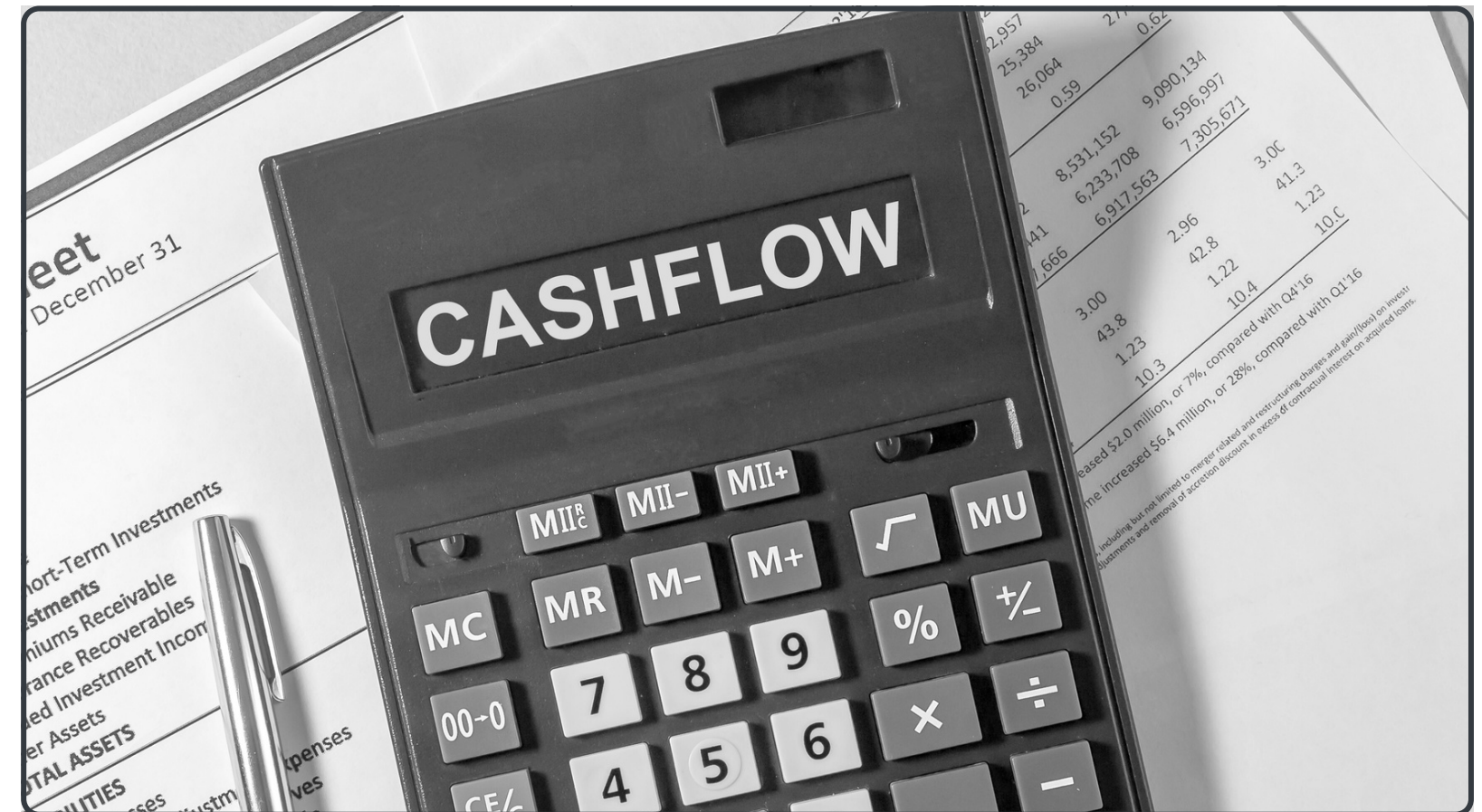


WHY ARE CASH FLOWS IMPORTANT



THE IMPORTANCE OF CASH FLOWS

- Cash flows are the most robust metric of a company's financial performance.
- Cash flows dictate the quality of earnings
- If cash incomes are a small proportion of earnings - the quality of earnings is poor.
- Investor returns are dependent on cash flows



All in all- managing cash flows is extremely important

CASH FLOW FORECASTS



- A cash flow forecast keeps track of the cash income and expenditure of an organization.
- With a cash flow forecast, you can ascertain how much cash you will require over time.
- Investors also gain more confidence in the investment decision with a cash flow forecast.





THANK YOU

KNOW YOUR MENTOR

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