

# Term Sheet Decoder

Plain English explanations for every clause that matters. No lawyer needed for this part.

## What is a term sheet?

A term sheet is a non-binding document that outlines the key terms of an investment. It is not the final legal document — that comes later. But the terms set here usually make it into the final docs. Read every line. Negotiate before you sign the term sheet, not after.

## VALUATION TERMS

### Pre-money Valuation

<b>Plain English</b>	The value of your company BEFORE the new investment comes in.
<b>How it works</b>	If pre-money is ■10 Cr and investor puts in ■2 Cr, your company is now worth ■12 Cr (post-money). Your ownership got diluted.
<b>Watch out for</b>	<i>Watch out for: Investors sometimes anchor on pre-money to look generous while negotiating other terms that hurt you more.</i>

### Post-money Valuation

<b>Plain English</b>	Pre-money valuation + new investment amount.
<b>How it works</b>	Post-money = Pre-money + Investment. Your ownership % = Your shares / Total shares after investment.
<b>Watch out for</b>	<i>Simple math but founders often get confused during negotiations. Know this number cold.</i>

### Fully Diluted Shares

<b>Plain English</b>	Total shares including all options, warrants, convertible notes — everything that COULD become equity.
<b>How it works</b>	Investors calculate their ownership on fully diluted basis. Founders often calculate on issued shares only. This creates confusion. Always use fully diluted.
<b>Watch out for</b>	<i>Make sure your ESOP pool is included in this calculation before the investment, not after — otherwise it dilutes you, not the investor.</i>

## INVESTMENT STRUCTURE

### Equity Round

<b>Plain English</b>	Investor gets shares directly in exchange for money.
<b>How it works</b>	Clean and simple. Most Series A and above are equity rounds.
<b>Watch out for</b>	<i>Know: Preference shares vs ordinary shares. Most investors take preference shares.</i>

## SAFE (Simple Agreement for Future Equity)

<b>Plain English</b>	Investor gives money now, gets shares later at the next priced round.
<b>How it works</b>	Common at seed stage in India. No valuation needed now. The valuation cap and discount determine how many shares they get later.
<b>Watch out for</b>	<i>The valuation cap is the most important number in a SAFE. Negotiate it hard.</i>

## Convertible Note

<b>Plain English</b>	A loan that converts to equity at the next round.
<b>How it works</b>	Has interest rate and maturity date. If no next round happens by maturity, you owe the money back. SAFEs are usually better for founders.
<b>Watch out for</b>	<i>Watch out for: High interest rates and short maturity dates. Both create pressure.</i>

## INVESTOR RIGHTS

### Pro-rata Rights

<b>Plain English</b>	Investor's right to invest in future rounds to maintain their ownership percentage.
<b>How it works</b>	If they own 10% now, they can invest enough in the next round to stay at 10%.
<b>Watch out for</b>	<i>Usually fine to give. Becomes problematic if too many investors have pro-rata and they all exercise — limits room for new investors.</i>

### Liquidation Preference

<b>Plain English</b>	Investor gets paid back first when the company is sold or shuts down.
<b>How it works</b>	1x non-participating: Investor gets their money back first, then participates in remaining proceeds proportionally. Fair. 1x participating: Investor gets money back AND participates in remaining proceeds. Expensive for founders. 2x or higher: Investor gets 2x their money before anyone else sees a rupee. Very expensive.
<b>Watch out for</b>	<i>Non-participating 1x is market standard and reasonable. Push back on anything else.</i>

### Anti-dilution

<b>Plain English</b>	Protects investor if you raise a future round at a lower valuation (down round).
<b>How it works</b>	Full ratchet: Very aggressive. Investor gets repriced to the new lower price. Very bad for founders. Broad-based weighted average: Industry standard. Adjusts conversion price based on a formula. Reasonable.
<b>Watch out for</b>	<i>Insist on broad-based weighted average. Reject full ratchet.</i>

## CONTROL TERMS

### Board Composition

<b>Plain English</b>	Who sits on the board and votes on major decisions.
<b>How it works</b>	Typical for seed: 2 founders, 1 investor. Series A: 2 founders, 2 investors, 1 independent. Watch for investors wanting majority board control early.
<b>Watch out for</b>	<i>Founder control is most important in early stages. Once you lose board majority it is very hard to get back.</i>

### Protective Provisions (Veto Rights)

<b>Plain English</b>	Investor can block certain decisions even without board majority.
<b>How it works</b>	Standard protections: Sale of company, new equity issuance, taking on significant debt, changing company charter. Non-standard (watch out): Hiring/firing executives, entering new markets, budget approvals above a threshold.
<b>Watch out for</b>	<i>Standard protective provisions are fine. Operational vetos are red flags — they signal a controlling investor.</i>

### Drag-along Rights

<b>Plain English</b>	If majority shareholders want to sell the company, minority shareholders must also sell.
<b>How it works</b>	Protects against a minority holder blocking an acquisition that most shareholders want.
<b>Watch out for</b>	<i>Make sure drag-along requires founder approval or a supermajority. You don't want to be forced into a sale you don't want.</i>

## FOUNDER TERMS

### Vesting Schedule

<b>Plain English</b>	You earn your own shares over time. Standard: 4 years with 1 year cliff.
<b>How it works</b>	1 year cliff means you get 25% of your shares at month 12. Then 1/48th per month for the next 3 years. Protects all parties if a founder leaves early.
<b>Watch out for</b>	<i>Negotiate for acceleration on acquisition — if company is sold, your unvested shares should vest immediately (single trigger) or on termination after acquisition (double trigger).</i>

### Right of First Refusal (ROFR)

<b>Plain English</b>	If a founder wants to sell shares, company and/or investors get the right to buy them first.
<b>How it works</b>	Standard and reasonable. Means secondary sales require approval.
<b>Watch out for</b>	<i>Make sure the process is time-limited — you don't want your ability to sell shares stuck in a long ROFR process.</i>

## Non-compete

<b>Plain English</b>	You cannot start a competing company for a period after leaving.
<b>How it works</b>	12 months is standard. 24 months is aggressive. Anything longer is a red flag.
<b>Watch out for</b>	<i>Enforceable in some jurisdictions, not all. Get legal advice specific to your state.</i>

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## The Bottom Line

Most term sheet negotiation is about valuation and liquidation preference. Get those two right and the rest is manageable. Always get a lawyer to review the final legal documents — this guide is for understanding, not legal advice.

*Questions? [sastavc.com](http://sastavc.com) — we don't give legal advice but we do know what most of these terms actually mean in practice.*