

Raising Business Angel Investment Insights for Entrepreneurs



Helping entrepreneurs take that first leap

HBAN Halo
Business
Angel
Network

HBAN is a joint initiative of
Enterprise Ireland & InterTradelreland

 **ENTERPRISE
IRELAND**
where innovation means business

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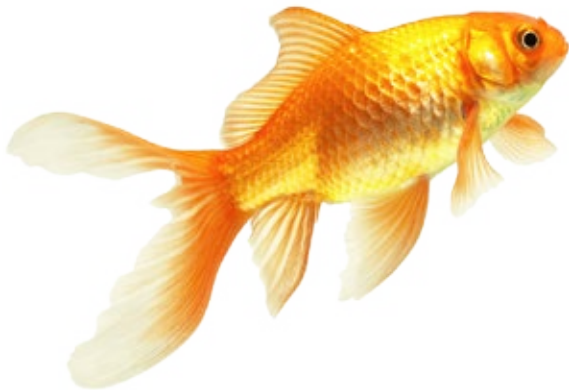
About Halo Business Angel Network (HBAN)

HBAN is a joint initiative of InterTrade Ireland and Enterprise Ireland, dedicated to the all-island promotion of business angel investment.

The HBAN umbrella group supports the early stage entrepreneurial community across the island of Ireland and actively works to increase the number of angel investors investing in early stage companies. The all-island umbrella group works on a regional basis to support the formation of new angel networks and works with existing angel networks to develop their capability and capacity, and across a range of industry sectors. HBAN also acts as a voice to Government, stakeholders, business and the media to promote the interests and needs of the wider angel investment community. HBAN is managed by Dublin BIC in partnership with the regional Irish BICs in Cork, Galway & Waterford. HBAN works in partnership with Halo NI & InvestNI in Northern Ireland. Further information is available at: www.hban.org

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This booklet was created by HBAN with the kind assistance of Bob McGowan Smyth of Intertradelreland



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1. Executive summary

This guide has been prepared to demystify the equity raising process for entrepreneurs. Raising external equity is very different to raising other types of finance.

The following tips are developed further in this guide:

- The relationship between investor and entrepreneur is like a marriage but one with a planned divorce;
 - Starting building the relationship early, ideally before you need any money;
 - Undertake due diligence on your potential investor and find out what is attractive to them;
 - Make sure that every contact with a potential investor addresses the top three investment criteria (management, exit and revenue potential) in some form;
 - The best exit is a trade sale for cash...it usually maximises value for all shareholders;
 - The revenue potential of your company must demonstrate a scalable business that is capable of producing significant returns for an investor;
 - The best business plans have a great executive summary – the point of an executive summary is to succinctly sell the investment opportunity, not to just describe the business;
 - A compelling and fully costed business plan is essential;
 - Be on top of, and understand, the numbers;
 - Founders should have ideally had made or intend to make a cash equity investment in the company, i.e. have 'skin in the game';
 - Have a realistic valuation expectation – the investor has to make an attractive return on their investment;
 - An equity deal is not just about the headline valuation; and
 - An apparently attractive high valuation can be undermined by high liquidation preference multiples.
- Raising external equity is rewarding and worthwhile if it accelerates the growth of your business. If an external investor is getting an attractive return then you are likely to be getting an even better return.
- This is a win-win.

2. Introduction

This guide has been prepared to demystify the equity raising process. It has a particular focus on what entrepreneurs should look out for when raising equity from business angel investors.

Equity capital

Equity capital in this Guide refers to equity invested in unquoted private companies¹. It is not a loan, it is an investment.

The investor buys shares in your company in exchange for a cash injection. It is unsecured and is permanent capital in your company. The investor shares the risks and rewards with you.

Equity capital accelerates growth, adds credibility and inspires confidence amongst customers, suppliers, staff and other funders.

Business angel investors

Business angel investors are high net worth individuals who provide smaller amounts of finance (€25,000 to €250,000) at an earlier stage than many venture capital funds are able to invest. They are increasingly investing alongside the seed venture capital funds on the island.

Angels usually contribute much more than pure cash – they often have industry knowledge and contacts that they pass on to entrepreneurs. Angels will often take non-executive board positions in the companies in which they invest.

The importance of business angels to the equity capital industry has grown significantly in recent years.

With the recent formation and growth of angel syndicates², equity from business angels is becoming more and more important to the equity capital industry in Ireland and Northern Ireland.

¹ Investors usually only invest in limited liability companies so that having a limited company is a pre-requisite to raising investment. Investors do not invest in sole traders or partnerships with unlimited liability.

² More than one private investor investing in a company

3. Equity raising process

Raising equity from an external investor is an all-consuming exercise for you as an entrepreneur.

You have to be prepared to put in considerable effort into the process: before, during and after the actual deal is done.

'A marriage with a planned divorce'

The equity process can be described as a marriage although a marriage with a difference, one with a planned divorce (the exit). Therefore, the level of commitment to this business relationship is high.

Investors are likely to want to join the board of directors of your company and take an active part in the development of the business. You will need to welcome this participation.

Since their investment is unsecured, an investor needs to become very comfortable with the people they are backing.

'Dating' process

The process starts, to borrow the marriage analogy, with the 'dating' process. This is about the entrepreneur building a robust business relationship with the investor.

Like the real dating process, attractiveness helps builds relationships whilst 'neediness' usually does the opposite. Ironically, when you actively ask for money from an investor, it can come across as 'needy'.

When you go into a meeting with an investor seeking money, you will often come out with advice instead. It might be that if you go into a meeting with an investor seeking advice, you may come out with money. The former approach may be considered 'needy' whilst the latter is more attractive.

This means that the equity raising process is not like raising debt, e.g. a mortgage for a house purchase, which is more mechanistic.

Understanding what makes your proposition attractive and not 'needy' is key to securing an investment.

Tip: start the process of relationship building well ahead of when you need to raise the money

Understanding what an investor finds attractive

Like any relationship, it is essential that you understand what a particular investor finds attractive.

They all have different views so that just because one investor declines to invest in your company, it does not mean that you will be unsuccessful.

This guide will help you get inside the investor's head and help you identify what an investor wants.

A typical angel investment process



Source: OECD (2011a), summarised from ACA, EBAN and Tech Coast Angel materials^{3,4}

³ Intellectual property

⁴ A term sheet outlines the main terms of a proposed investment including amount and percentage shareholding for the investor(s)

Investor due diligence

Investors will undertake due diligence on your company prior to deciding to invest. Due diligence is a process that verifies and confirms statements and views about a business and its prospects.

Tip: You should also undertake due diligence on the potential investor, checking out their record of support or otherwise...

This may be a challenge since angel investors do not generally have a website or publicly available information. However, this is a small Island and someone should know them...do your homework on potential investors and attract the best ones into your company.

Time to investment

You should allow a year from planning to completion of an equity investment.

Deals can and have been done much quicker than this. A typical time frame is three to six months.

However, allowing a lengthy time period will help you. You do not want to be in a position where you need funding urgently and would be on the 'back foot' when negotiating the terms of the investment - being 'needy' will put off an investor.

The exit

The relationship ends with the exit. The different types of exit are discussed in the next section.

Vendor warranties on an exit

One issue to consider on exit is vendor warranties.

Warranties are legal statements that confirm certain issues⁵ are true as far as the warrantor knows. The vendors are usually expected to give warranties on a sale to a third party.

It primarily falls on you although investors are increasingly expected to join you in giving warranties. This can be a cause for some conflict between investors and entrepreneurs.

The issue is sometimes addressed by putting some of the sale proceeds into an escrow account⁶ for a limited time period⁷ to cover any claims against the warranties and/or taking out warranty insurance although the latter can be expensive and hard to obtain cover.

⁵ For example: the company is not facing any legal action or that debtors will be realised, etc.

⁶ This is a bank account usually jointly controlled by the purchasers' and vendors' solicitors

⁷ Time periods vary from six months to two years, even longer for tax warranties

4. Top three investment criteria

A survey⁸ amongst venture capital investors revealed the top three criteria that are used in assessing the attractiveness of a proposition. Business angel investors are probably no different.

The top three criteria arising from the survey⁹ were:

1. Management team;
2. Exit opportunity; and
3. Revenue potential.

Tip: make sure that every contact with a potential investor addresses the top three investment criteria in some form

From the above, it is worth noting that venture capital investors are not overly focused on what the company does (the product or service is not in the top three criteria). They are interested in how they will make money from their investment.

Whilst business angel investors tend to focus more on what the company does and aim to add their relevant domain experience to the opportunity, the 'sell' is not a 'product sell' but a 'commercial opportunity sell'. Entrepreneurs often miss this point as they are passionate about their product.

⁸ InterTradeIreland, May 2011, survey of venture capital fund managers on the Island

⁹ Health warning: some investors do take a different view on the top criteria - it is worth finding what is attractive to any particular investor with whom you are talking

Management team

This is the number one, most important criterion for investors. People (investors) invest in people.

Question: how well would you need to know someone before you gave them €100,000 of your own money?

Investors spend a great deal of time becoming comfortable with the management team and the business. They will assess your knowledge of the market, the opportunity and your ability to execute the business plan. The management team's track record will be assessed.

Using advisors and/or non-executive directors will add further credibility to your proposition.

A management team consists of more than one person - investors do not usually back one-man bands.

They usually also avoid family businesses with family members (husbands, wives, brothers, sisters, etc.) being actively involved in the management of the business. Investors do not want to add the potential for family relationship breakdown to their list of risks.

Investors like to see at least the core of a developed management team. Early stage businesses in particular often do not have a full time team.

Therefore your business plan needs to address how you plan to fill the gaps in the management team as the business grows and develops.

Exit potential

This is another critical criterion, the second most important.

It is important to recognise that investors want to make as much money as possible from their investment. That is the business that they are in.

Typically an investor will seek to invest at €1 per share and sell at €7 or more per share. Whilst that is the usual aim, outcomes can be lower than this.

Most investors invest for a capital gain at the end of the investment. They do not want to be locked into a company 'forever'. Venture capital funds have a typical life of ten years so that they must make and realise their investments in that time frame. Business angels do not have the same constraints but they still wish to realise their investment, typically in a five year time frame.

Consequently investors seek capital plays rather than income plays (e.g. annual dividends).

Tip: the best exit is a trade sale for cash...it usually maximises value for all shareholders

There are three main investor exits. They are a share buyback, an Initial Public Offering ('IPO') and a trade sale.

- **A share buyback** is where the company or the other shareholders buy the investor's shares. It is the most unattractive option as it will lead to the investor and the other shareholders being in serious conflict at exit: the investor wants the company to be valued as high as possible whilst the other shareholders will want the company valuation to be as low as possible. Share buybacks do happen but are not preferred at the outset by investors;
- An **IPO** is listing the company's shares on a recognised stock exchange and, in theory, the investor is free to sell its shares on the open market. However, selling a significant amount of shares in a relatively young thinly-traded¹⁰ public company is likely to have a hugely negative impact on its share price (it will bomb!) and is, therefore, usually not a cash exit for investors; and
- Usually the best exit option to maximise investment sale proceeds is a **trade sale for cash**, where all shareholders exit at the same time as the entire company is sold to a third party (usually another corporate). This alignment of interest means everyone wins and is in stark contrast to the share buyback mentioned earlier. The business plan should mention any mergers and acquisitions (M&A) activity in your industry that would give some substance to the trade sale aspiration.

Other exits exist (such as secondary buy-outs¹¹, management buy-outs (MBOs) and liquidation (both solvent and insolvent)) but the one that maximises value for all is the trade sale.

¹⁰ Thinly traded means that the volumes of shares traded each day is low compared to the number of shares in issue

¹¹ Secondary buy-out: where another investor buys the existing investor's shares

Revenue potential

This is the third most important criterion.

The revenue potential needs to demonstrate that the business is scalable; scalable enough to yield a significant return for an investor.

Anything that you identify that demonstrates this is important:

1. The scale of existing orders and sales funnel¹²;
2. The size of the market – it needs to be big enough (usually involving international sales) to build a significant business; and
3. Evidence of any other business in the industry showing similar growth to the growth that is being planned.

Tip: the revenue potential of the company must demonstrate a scalable business that is capable of producing significant returns for an investor

¹² Also known as the sales pipeline

5. Company executive summary

The executive summary is the most important part of any business plan.

It should be prepared last and should summarise the main points of the investment proposal to potential investors. It is the hook that should attract your attention and get you to want to read further.

Tip: The best business plans have a great executive summary – the point of an executive summary is to succinctly sell the investment opportunity, not to just describe the business

Ideally the executive summary should be no longer than one to two pages long. The summary should set out clearly and concisely the main aims and purpose of the business. It should answer basic questions in a clear, concise and punchy manner.

The summary should address the issues clearly upon which the decision to invest will be made. If, after reading the executive summary, an investor understands what the business is about and is keen to know more, then the summary has done its job.

The critical points of the financial projections should be addressed in the summary – breakeven points, maximum funding requirements, etc.

It should set out the key strengths of the business be it management, product benefits or market sector. It should detail whether any events such as product licensing or regulatory approval are necessary in order for the business to succeed. It should also address the key risk factors of the proposed venture.

Key elements

The key elements are:

- 1. The Opener:** start with the most convincing statement of why you have a great idea. Often this is about the uniqueness of your solution to address a big problem. Keep it specific and not woolly. If you are already working with world class people, companies or founders that have done it before then mention them here;
- 2. The Problem:** explain clearly the pain point (could be current or emerging) being experienced by your customers that you are proposing to solve. This gives the context to establishing your value proposition;
- 3. The Solution:** state what you are offering to whom. Is it software, hardware/product, service or a combination? Do not use acronyms but explain in plain language what you have that provides a compelling solution to the problem identified. You may need to explain how you fit into the value chain or distribution channels and why the players in your industry will be keen to work with you. If you have customers and revenue then state that clearly. If not then state when you will;

- 4. The Market Opportunity:** explain the market (segmentation, size in value, growth, drivers and influences, how many customers and competitors). Targeting a reasonable percentage of a well-defined growing market will be more compelling than a micro percentage of a very large mature market. Make sure that any values stated are about the target addressable market in which you are operating;
- 5. Competitive Advantage:** Who is your competition? If you believe there isn't then there is no market for their solution. As a minimum you are competing with the way business is currently being done. Someone, somewhere in the world, is probably doing what you are proposing to do. So, you need to state clearly what your sustainable competitive advantage is. 'First mover advantage' as a sole competitive advantage rarely convinces investors; you need to state clearly the unique benefits and advantages;
- 6. The Business Model:** state how you are going to generate revenue and from whom. You need to demonstrate how your model is scalable and how (what metrics? – customers, licences, units, revenues, margins) the business will be assessed. State what levels will be reached in three to five years;
- 7. The Management Team:** the number one criterion used by investors. Explain why your team is destined to succeed. Avoid summary CVs – relate individual team member's experience to the factors that will make the business flourish. Name drop big branded companies that any of team has worked for if you can;
- 8. The Reward:** the summary financial projections need to demonstrate that a significant return will be achieved for your investors' capital. If these are not believable then everything that you have done is wasted. You should show, in summary form, three to five years revenue, overheads, losses/profits, cash balances and headcount – in some cases, it may make sense to include a key driver like number of customers or units shipped; and
- 9. The Funding Requirement:** state how much you are raising now. This should be enough money to enable you to reach the next significant milestone. If there will be a future funding round then give an indication of the scale of that round.

The executive summary should not be an extended contents page. It should engage the reader and encourage them to read more. It has to convey the message of the business idea concisely and clearly, missing nothing out and adding nothing new in. It is exactly what it says – it is a concise summary of the business plan.

An executive summary can also be very useful when you wish to give someone with limited time a flavour of your business. A brief, punchy executive summary that grabs the attention could lead to an investment or, indeed, any beneficial business relationship.

A one page flyer, based on the executive summary, can be a useful 'teaser' document to send to potential investors. The format of a sample Investment Summary used by HBAN is included in the Appendix A.

6. Business plan

Elements of a business plan

1. Executive Summary
2. Corporate Information
3. Product/Service Description
4. Market Analysis
5. Competitive Analysis
6. Sales & Marketing
7. Finance

Tip: A compelling and fully costed business plan is essential.

Investors recognise that the outcome may be different, particularly so in 'start-up-land'¹³. However, it remains important to write down plans and goals.

There are plenty of standard business plan templates available. Some of these take the form of a series of questions that the promoter answers and, quite honestly, they look exactly like a set of answers. Sometimes the promoters even leave the questions in as well...not impressive...

It is better to use a methodological approach to preparing the business plan, perhaps using a tool like the Business Cube to answer the fundamental questions.

The Business Cube¹⁴ uses a set of related topical questions that, when considered, come together to complete a section of the plan.

Other methodologies and templates are available including a business plan template from the Dublin

Business Innovation Centre¹⁵.

A well thought through business plan makes for a credible proposition as it demonstrates careful consideration has been given to the business and its plans for growth.

¹⁴ More information on the Business Cube: <http://www.intertradeireland.com/media/InterTradeIrelandBusinessPlanningCubeGuide.pdf>

¹⁵ Visit www.dbic.ie for further information

¹³ New young companies in the early stages of development

7. Funding requirements

Most companies lose money in the early years - this is not unusual.

More recently, the cost of building a business has fallen so that the funding requirements should not be as high as they used to be.

Historical trading information

Standard financial information in the business plan would be summary historical profit and loss accounts and balance sheets for the years of trading to date, if available, with a brief commentary on them.

Detailed accounts should be included in the business plan appendices.

Financial projections

The business plan should include projected profit and loss accounts and projected balance sheets along with cash flow statements. Again, these should be summarised in the main text of the business plan along with a commentary.

Projections need to be realistic and stated monthly for the first year and either quarterly or annually after that (detailed projections should be included in the business plan appendices).

Crucially, the assumptions underlining the projections need to be clearly stated.

Tip: It is important that the company's management team understand and be on top of the finances.

This does not mean that the CEO needs to become an accountant but it is vital that when questioned on the numbers, the CEO and management team are able to know what is being asked and to satisfy the investor that they are on top of the numbers.

Professional help with projections

It is worthwhile for entrepreneurs getting professional assistance from an accountant to prepare financial reports and the projections but entrepreneurs still need to know what they mean.

How much to raise?

With an early stage company, a rule of thumb would be to raise 18 months' worth of cash. This provides 12 months to achieve whatever milestones are required to support a further funding round and another six months to raise that funding round.

This ideal may be too high and, therefore, is not always possible to raise. However it can be a useful target.

Costs are generally known but future revenue is not guaranteed so that any formula used to calculate

monthly cash burn¹⁶ should give some assurance that the amount being raised will last 18 months.

Therefore, the definition of one month's cash burn is:

Gross costs per month less secured-only revenue¹⁷ per month

¹⁶ Cash burn refers to the amount of cash being used by a business

¹⁷ Cash received from customers

Use of funds table

You should clearly state for what the money being sought will be used.

An application of funds table like the following would benefit your proposition:

Use of funds	€000s ¹⁸
Development costs	250
Working capital	100
Business development	200
Capital expenditure	150
Headroom (contingency)	150
Total	€850

Source of funds table

Equally you should also have a source of funds table like the following.

Tip: Investors rarely want to 100% fund a business and will take comfort from other funders.

Source of funds	€000s ¹⁹	Status
Promoters	250	Committed
External equity – private investors	250	Pitching
External equity – Enterprise Ireland	250	Subject to matching
Government agency – grant	50	Subject to others
Bank debt	50	Credit committee
Total	€850	

Both of these tables' totals should equal.

Investors will want promoters to have 'skin in the game' with a cash equity investment in the company. Founders working for nothing or low salaries are 'givens' for young companies and will be reflected in the company's valuation.

Tip: Founders should have ideally had made or intend to make a cash equity investment in the company, i.e. have 'skin in the game'

¹⁸ The figures are illustrative only and do not represent a recommended use of funds allocation – this will vary with each different business

¹⁹ Again, the figures are illustrative only and do not represent a recommended source of funds allocation – this will vary with each different business and whether the company is in Ireland or Northern Ireland

8. Valuation and terms of investment

Valuing young companies is very challenging and is very much an art rather than a science.

The valuation needs to be low enough to ensure you can achieve an attractive return. It needs to be high enough to keep existing shareholders incentivised.

Valuing a company is how an equity deal is 'priced'. Valuation is not the only issue – the terms of an investment are also important.

Degree of influence

An investor will want to have influence, supported by its percentage equity stake, in a company. Therefore, low percentages of the equity on offer are unlikely to attract an investor.

Many equity deals are for between 20% and 40% of the equity with 25% to 30% being common.

Tip: Have a realistic valuation expectation – the investor has to make an attractive return on his investment

Valuation multiples/metrics

Where there is revenue and/or profits, various multiples or metrics can be applied to establish a valuation.

These metrics can also be applied to future revenue and/or profits and discounted back to today's value.

Examples include:

- A multiple of recurring revenue;
- A multiple of EBITDA²⁰;
- A multiple of profit after tax; and
- A value for every active user/customer.

Investors are very interested in the potential future value as discussed earlier in the Exit section. Therefore, any multiples and metrics arising from companies being sold in your industry are important to highlight if available.

Studying companies sold in your industry may reveal what multiples are relevant. Public companies have to disclose transaction details but private companies do not. As a result, gaining close examples to your company may be a challenge.

²⁰ EBITDA – earnings before interest, tax, depreciation and amortisation

However, knowing something about this is likely to impress on an investor that you understand their needs.

A simplistic example of a valuation based on future profitability is set out in the table below.

Valuation based on future value – illustration only €000s²¹

Future EBITDA	3,000
Multiple ²² – say	4
Future enterprise value ²³	12,000
Future debt – say	2,000
Future equity value ²⁴	10,000
Return required – say	10 times
Therefore, value today	1,000
Equity amount sought – say	300
Therefore, equity stake required (300/1000)	30%

In this example, the valuation of €1 million is the post-money valuation, i.e. the value after your cash investment is made.

The pre-money valuation (i.e. the value of the company's equity prior to your investment) is, therefore, €700,000.

Terms of investment

The principal terms and conditions of an equity investment are usually stated in a term sheet (see Appendix B for a sample HBAN term sheet).

Tip: An equity deal is not just about the headline valuation

Valuation is important but the other terms of an investment are important too.

Investment terms and conditions include the following:

- Amount and use of investment;
- Percentage ownership;
- Equity and debt structure;
- Dividend and interest (if applicable) rights;
- Voting rights;
- Management incentive schemes;
- Exit arrangements;
- Management changes;
- Investor board representation;
- Investor veto rights;
- Reporting requirements and consequence of failure;
- Costs and confidentiality; and
- Steps to closing.

Legal agreements

It is essential that the terms of an investors investment are outlined in appropriate legal agreements.

The principal legal agreements are:

- Investment agreement (sometimes called a shareholders agreement);
- Articles of association (as amended); and
- Directors' service agreements

Liquidation preference

A term to watch out for is a liquidation preference.

Despite its name, this is not exclusively about when the company goes into liquidation.

In this case 'liquidation' refers to any liquidity event (e.g. when any of the exit mechanisms discussed earlier occurs or when the company goes into liquidation).

There are two types of liquidation preference:

- 'Soft' liquidation preference²⁵: on a liquidity event, the holder of shares having a soft liquidation preference will have the right to receive the higher of their money back or the percentage shareholding that they hold in the company;
- 'Hard' liquidation preference²⁶: on a liquidity event, the holder of shares having a hard liquidation preference will have the right to receive their money back plus the percentage shareholding that they hold in the company.

As an entrepreneur, if a liquidation preference is being sought then a soft liquidation preference is better for you.

The following table illustrates how each works. As the exit proceeds increase, the effective percentage of total proceeds attributable to the investor will fall. Therefore, whilst a liquidation preference can increase the investors' share of the proceeds, it generally considered to be a downside mechanism by investors as it attempts to return at least the original amount invested.

²¹ The figures are illustrative only and do not represent any preferred outcome – this will vary with each different business

²² The potential multiple is specific to a particular industry and a company's stage of development – multiples can be lower or higher than the four in this example

²³ Enterprise value is the value of company (i.e. before the deduction of debt)

²⁴ Equity value is the value of the entire issued share capital of the company and is the value attributable to shareholders

²⁵ 'Soft' liquidation preference is not a term in general use but is used here for convenience

²⁶ 'Hard' liquidation preference is not a term in general use but is used here for convenience. This type of liquidation preference is commonly called a 'double dip'

€2,000 investment	No liquidation preference €000s ²⁷	'Soft' liquidation preference €000s ²⁸	'Hard' Liquidation preference €000s ²⁹
Equity exit – total proceeds	3,000	3,000	3,000
Liquidation preference (1X)	Nil	2,000	2,000
Proceeds after preference	3,000	1,000	1,000
Investor's share – say 50% ³⁰	1,500	Nil	500
Total investor proceeds	1,500	2,000	2,500
Investor proceeds as a % of total proceeds	50%	66.7%	83.3%

As the table implies, the liquidation preference may be higher than 1X (one times investment). Deals have been completed at 2X, 3X, 4X and higher.

Tip: An apparently attractive high valuation can be undermined by high liquidation preference multiples.

Instruments – types of shares

Cash is invested in a company through one or more financial instruments. A financial instrument is the form that an investment takes.

If you are investing under a government tax incentive scheme then the instrument type you can use may be restricted so that seeking professional tax advice before completing a deal would be essential if you are investing in this way.

²⁷ The figures are illustrative only

²⁸ Again, the figures are illustrative only

²⁹ Once again, the figures are illustrative only

³⁰ This assumes that the investor has a 50% equity stake

The principal instruments are:

Ordinary shares

This is the most basic form of shareholding in a company. Ordinary shares receive any dividends and exit proceeds after all creditors, debt and other share classes are paid. The amount received per share is pro-rata to the total number of ordinary shares in issue.

The total number of ordinary shares that you hold divided by the total ordinary shares in issue gives your percentage ownership of the company.

Preference shares

Preference shares provide the holder with a preference to dividends and exit proceeds over ordinary shareholders. This preference is usually fixed although a variable element can be used.

Preferred ordinary shares

Venture capitalists use this type of share to provide the benefits of ordinary shares and preference shares in one instrument.

Liquidation preference rights (see above) are usually provided for in preferred ordinary shares.

Convertible loans

Cash can be invested as a loan that can be converted, usually at the holder's option, into shares (usually ordinary shares) at some point in the future. The loan can also carry an interest rate although any payment of interest is usually rolled up to a future date.

The basis of conversion (i.e. valuation of the company) can be set at a later date. For example, the valuation used by a future equity funding round (sometimes at a discount to compensate for the 'early risk' taken by the investor) could form the basis for the conversion.

Anti-dilution protection

Particularly in the case of an agreed high valuation, you can seek anti-dilution protection if there is a future 'down round'.

A 'down round' is where a subsequent valuation per share is lower than the previous valuation. In case this, anti-dilution protection re-prices the previous round to the new round's valuation and you will receive extra shares (at a nil or nominal price) as compensation.

Drag and tag provisions

These provisions apply where shares are being sold post investment. Usually drag and tag provisions go hand-in-hand.

A **drag provision** compels other shareholders to sell their shares at the same price as the selling shareholders.

For example, 51% of shareholders wish to sell their shares to a third party and as long as 51% is at or

higher than the trigger level³¹ then the remaining shareholders can be compelled to sell on the same terms and conditions.

A **tag provision** provides other shareholders with the ability to sell their shares at the same price as the selling shareholders.

For example, 51% of shareholders wish to sell their shares to a third party and as long as 51% is at or higher than the trigger level then the remaining shareholders can join the selling shareholders and can sell their shares on the same terms and conditions.

³¹ The trigger can be any agreed percentage

9. Tax Incentives for Business Angels & Entrepreneurs

Unlike many countries around the world, both Ireland and Northern Ireland have tax incentives for individuals making investments in private companies. It usually falls to the company to ensure that appropriate approvals are sought, granted and the necessary certificates are issued to investors.

Summary of the principal schemes (as at October 2015)

	Ireland	Northern Ireland
Scheme name	Employment and Investment Incentive ('EII')	Enterprise Investment Scheme ('EIS') and Seed EIS ('SEIS')
Max investment(s) attracting relief in any one tax year	€50,000	£1 million (£100k SEIS)
Min investment attracting relief	€250	None (£500 before 6 April 2012)
Relief available on	New ordinary shares only	New ordinary shares only but may carry very limited preferential dividend rights
Maximum shareholding by any one investor	30%	30%
Maximum investment by all investors in one company	€5 million subject to €5 million in any one year	£5 million in total in any 12 month period
Initial income tax relief rate	30%	30% (50% for SEIS)
Minimum shareholding period	Four years	Three years
Further income tax relief if employment created after three years	10%	None

Investor requirements	<ul style="list-style-type: none"> Resident in State for tax year Not connected to the company 	<ul style="list-style-type: none"> Individuals tax resident in UK Not connected with the company
Company requirements	<ul style="list-style-type: none"> Micro or SME incorporated in the State or European Economic Area State Complies with EU General Block Exemption Rules (unlisted SME, less than 7 years trading, with some limited exceptions) Resident in State or other EEA State and carrying on business in the State Most trading activities are allowed but there are exclusions Qualifies for tax clearance cert 	<ul style="list-style-type: none"> UK resident private company or company listed on AIM or PLUS Markets Gross assets less than £15 million prior to share issue and less than 250 employees (lower for SEIS) Most trades qualify but some do not
Capital gains tax ('CGT') and loss relief	Gains taxed but capital losses not allowable for CGT purposes	Gains are free of CGT and any losses (less income tax relief given) is an allowable loss for income tax

Note: this is a brief summary of the tax incentives and provided for guidance only. The above schemes and rates are subject to change. There are detailed provisions (available from each Revenue's website) that should be considered before investing under these schemes. Specific tax advice should be sought in all instances.

Seed Enterprise Investment Scheme ('SEIS')

In Northern Ireland, there is also tax relief available under SEIS. It is designed to help small, early stage companies raise funds from the issuing new ordinary shares. It complements EIS summarised above and the same rules generally apply.

Income tax relief is given at 50% on a maximum annual investment of £100,000. The Company must have fewer than 25 employees and no more than £200,000 in gross assets. The Company may not receive more than £150,000 under SEIS.

Capital gains can be rolled into investments such that it is theoretically possible for investors to only be risking approximately 20 pence in the Pound.

EIS and SEIS across the border

UK investors can take advantage of EIS and SEIS when investing in any other EU country in some circumstances. In essence the company in which investment is being placed must have a presence in the UK. Professional advice is particularly important for investments of this type.

Overview of the SURE Scheme (ROI)

This new Start Up Relief for Entrepreneurs (SURE) replaces Seed Capital relief. It could be relevant to an employee, an unemployed person or a person made redundant recently who has mainly paid tax under PAYE and is interested in starting their own business. They may be entitled to avail of a refund of up to 41% tax paid in previous years if they invest their own funds by way of shares in a qualifying new company and satisfy other conditions. The minimum investment is €250 and the maximum is €100,000 p.a.

Further detailed information

Legislation relating to such tax incentives changes from time to time and further detailed information can be found by searching one of the following two websites:

❑ If you are tax resident in Ireland:
www.revenue.ie; or

❑ If you are tax resident in Northern Ireland:
www.hmrc.gov.uk.

Separate tax advice should be sought about specific circumstances.

10. Conclusion

Raising external equity is very different to raising other types of finance.

Here is a reminder of the tips:

- The relationship between investor and entrepreneur is like a marriage but one with a planned divorce;
- Founders should have ideally had made or intend to make a cash equity investment in the company, i.e. have 'skin in the game';
- Starting building the relationship early, ideally before you need any money;
- Have a realistic valuation expectation – the investor has to make an attractive return on their investment;
- Undertake due diligence on your potential investor and find out what is attractive to them;
- An equity deal is not just about the headline valuation; and
- Make sure that every contact with a potential investor addresses the top three investment criteria (management, exit and revenue potential) in some form;
- An apparently attractive high valuation can be undermined by high liquidation preference multiples.
- The best exit is a trade sale for cash...it usually maximises value for all shareholders;
- Raising external equity is rewarding and worthwhile if it accelerates the growth of your business. If an external investor is getting an attractive return then you are likely to be getting an even better return.
- The revenue potential of your company must demonstrate a scalable business that is capable of producing significant returns for an investor;
- This is a win-win.
- The best business plans have a great executive summary – the point of an executive summary is to succinctly sell the investment opportunity, not to just describe the business;
- Now, you are equipped to raise equity capital.
- A compelling and fully costed business plan is essential;
- Be on top of, and understand, the numbers;

APPENDIX A

One page investment summary example

Company Profile: Attractive Company Limited

Company:	Attractive Company Ltd
Stage of Development:	Start-Up
Investment Required:	€750,000
Sector:	Technology-Software
Skills Sought:	Finance; Marketing
Revenues:	2012: €213,000 2013: €2,475,000 2014: €6,511,000

P&L Summary			
	2012	2013	2014
Total Sales COS & Overheads	xxx xxx	xxx xxx	xxx xxx
EBITDA	xxx	xxx	xxx
Margin	-	xx%	xx%
Employees	10	17	24

One Line Pitch: Attractive Company Limited (ACL) is seeking equity funding of €750,000 for sales & marketing expansion and for the hiring of key staff to build an affiliate network for international sales.

Business Summary: ACL provides cost effective solutions to customers with a well understood need. Using the cloud, customers experience benefits faster and more efficiently than other solutions on the market.

Present Position: The product has been developed and has undergone pilots in Ireland. The system is fully functional in Ireland and the UK and a new property can be switched on within a week.

IPR Position/Strategy: ACL has developed its own software and owns the IP. The intention is to establish and grow the ACL brand rapidly in its key markets.

Financial Information (EUR): Customer pays €50 per month for entry-level system. The target number of customers will rise from 340 in 2012 to 4,088 in 2014.

Sales & Marketing: ACL will focus on its target customers with Ireland, UK and USA being targeted initially. For larger customers there will be a direct sales approach with a list of prospects identified and engagement already progressing. Two experienced senior industry experts will be hired. For smaller customers ACL will conduct an extensive marketing campaign.

Target Market: The Opportunity
There are 12,000 customers in the UK, 55,000 in the US and 900 in Ireland. In Europe, there are over 132,000 customers. Additional opportunities exist in other international markets.

Management & Shareholding:
John Experienced, Founder & CEO: 25 years' experience in global sales & service management with BigCo. Founder of innovation consultancy, working internationally on customer-experience projects in multiple sectors.
Joe Brains, CTO: Over 20 years' experience on CRM and mobile projects working with private and public organisations.
Mary Smith, COO: Over 25 years' experience in ramping and running technology businesses.

APPENDIX B

Sample term sheet³² (no values)

This sample term sheet and accompanying guidance notes are for guidance only and neither HBAN nor Alan O'Driscoll of Flynn O'Driscoll (who has prepared this sample term sheet for HBAN) shall have any responsibility or liability for actions taken based on the information contained in this document or any loss or damage arising out of use of this document.

Flynn O'Driscoll (www.fod.ie) is a business law firm focused on achieving practical business solutions for its corporate and private clients, with a particular focus on the angel, start up and venture capital sectors.

This sample term sheet is prepared on the assumption that the investment will be a straightforward equity investment for the same class of share as the promoters, and it does not contain any provisions dealing with investment by way of convertible loan notes or subscription for different classes of shares with enhanced/differing rights.

DRAFT - SUBJECT TO CONTRACT TERM SHEET ([NAME] Limited "the Company")

Proposed investments in the Company by [Investor1] [Company] Limited [Name] of [address] [The lead investor(s)], [Investor2] & [Investor3], (each an **"Investor"** and together the **"Investors"**)³³. [The lead investor(s) shall be authorised to represent the interest of the investors collectively in relation to the Company.]

³² This sample term sheet was prepared in compliance with Irish law. Northern Ireland law is similar but there are some differences, particularly around tax relief for individuals making investments in private companies.

³³ It is common for angel syndicates to use a nominee company for the investment which would hold the legal ownership of the investment shares with the beneficial ownership and interest in the shares at all times held by the individual investors.

1. Details of Proposed Investments

Investment Amounts: [NUMBER] to be invested by [NAME], €[NUMBER] to be invested by [NAME], €[NUMBER] to be invested by [NAME] and €[NUMBER] to be invested by [NAME].

Investment Instrument: [The investment by [NAME] will be by way of subscription for [NUMBER] [ordinary] shares of €[NUMBER] each in the capital of the Company ("Shares"), subscribed for at a premium of €[NUMBER] per Share.]

Valuation / Ownership: The pre-money valuation (per the Company's own valuation) is €[NUMBER]. The post-money valuation is therefore €[NUMBER] [, excluding the intended ESOP.]

The investment of €[NUMBER] will correspond to [NUMBER]% (excluding interest) ownership of the Company[, allowing for the intended 10% ESOP]).

Please see the attached Appendix containing a proposed capitalisation table for further detail.

[Additional Investment: A further investment of up to €[NUMBER] in aggregate, will be considered by each of the Investors at their discretion, at the agreed pre money valuation of €[NUMBER] (or such lower valuation at which the Company may be raising capital at that time) , but subject to the Company making satisfactory progress and in particular achieving the following milestones within the 12 month period from completion of the investment:

[Milestones to be inserted].

Some or all of the above milestones may be waived by the Investors in their sole discretion.

The Company shall not be required to accept any such additional investment where no funding is required by the Company to achieve its agreed business targets. However should further funding be required by the Company at any time up until the [two] year anniversary of completion of the investment, the first €[NUMBER] of such funding (or part thereof) may be provided by some or all of the Investors in their absolute discretion. This further investment shall split between the Investors pro rata by the amount of their investment or as otherwise agreed by the Investors. Where there is a funding requirement for in aggregate in excess of €[NUMBER] and the investors have invested in aggregate €[NUMBER] any such additional amount may be raised by the Company at the highest possible valuation achievable in the market.

Investment Pre-Conditions:

- Investors to be satisfied with personal references.
- Completion by the Investors of satisfactory financial due diligence (general examination of the Company's audited accounts and management accounts).
- Completion by the Investors of satisfactory legal due diligence (compliance audit of taxation, company law and other relevant legal matters).
- Satisfactory bank facilities to be confirmed.
- Management emoluments and employments to be agreed.
- Employment and consultancy contracts are in place for [NAMES] (the "Promoters"), and are on market terms that are satisfactory to an Investor Majority and the Promoters.

2. Rights attaching to the Shares

Pari Passu: The Shares shall rank pari passu with one another in all respects.

Voting: The holders of the Shares will be entitled to receive notice of and attend and vote at general meetings of the Company. One Share shall carry one vote.

Dividends: The holders of the Shares shall be entitled to receive any dividends declared pro rata in relation to the number of Shares held.

Redemption: The Shares shall not be redeemable.

Conversion: The Shares shall not be convertible.

Return of Capital: On a liquidation, winding up or dissolution of the Company, the Investors shall be entitled to receive an amount equal to the amount paid up on such Shares. If, after such distributions, the Company still has assets remaining, the holders of Shares will receive the proceeds of such assets pro rata to the number of Shares held.

- Keyman insurance in the sum of €[NUMBER] (payable to the Company) to be put in place in respect of the relevant Promoters, in each case on terms satisfactory to the Investors.
- The Investors to be satisfied that (i) the Company has in place acceptable proprietary information and invention assignment agreements with all relevant employees, as well as acceptable post-termination restrictive covenants (non-compete and non-solicitation agreements): and (ii) that none of the Promoters are subject to any non-compete restrictions.
- The Company to adopt a business plan in an agreed form in advance of completion.
- The existing shareholders of the Company waiving any and all pre-emption rights which any of them may have in relation to the subscription for and the allotment/issue of the Shares.
- The Investors to be satisfied that the Company owns or is licensed to use all intellectual property intended to be exploited by the Company in the proposed business.
- Investment Committee approval of each Investor.

Investment Documents: The investments will be made on foot of a Share Subscription Agreement between the Investors, the Company and its existing shareholders a new constitution of the Company.

A non-exhaustive and non-binding indication of some of the matters to be provided for in these documents is set out in the remaining provisions of this Term Sheet.

3. Investor Protections and Other Terms

Use of Proceeds: The Company shall use the monies subscribed by the Investors solely for the purposes of the Company's business as outlined in the revised Business Plan and other financial budgets approved from time to time by the Board.

Warranties: The Investors shall be afforded the following warranty protection:

Full joint and several warranties from the Company and the Company's shareholders in relation to its share capital structure, business plan, liabilities, capacity, title to premises etc.

Personal liability of promoters to be capped at [two times] annual remuneration.

General warranties survive until the [second] anniversary of Completion.

Warranties in relation to capacity and title are unlimited; taxation warranties survive until the fifth anniversary of completion of the investment.

Board Matters: Subject to the Investors together continuing to hold Shares which would equate to at least 5% of the Company's issued voting share capital, the Investors shall each have the right to nominate one person to act as director of the Company (the "Investor Directors"), but should they indicate an intention not to do so they shall instead each be entitled to appoint an observer to the board.

[The Company will appoint an additional director with strong industry contacts three months from investment completion.]

The number of directors shall not exceed [NUMBER].

There shall be at least [NUMBER] board meetings per year. The quorum for board meetings shall be [NUMBER], which must include the Investor Director (for so long as there is an Investor Director). The chairman [shall/shall not] have a casting vote.

[Investors' Fees: A monitoring fee of €[NUMBER] (plus VAT) per annum shall in aggregate be payable to [NAMES] [(split pro rata by the amount of their investment)].]

[A management fee of [NUMBER]% of the sum invested by [NAME] (plus VAT where applicable) per annum shall be payable to [NAME].]

The first year's fees (which will be in respect of the period from completion to 31 December) are payable on completion of the investment. Subsequent years' fees are payable in advance on 1 January of the year to which they relate.]

Conduct of Business: The Company shall enter into the following covenants regarding the conduct of its business:

The Company shall carry on its business in an effective and business-like manner in accordance with the revised adopted Business Plan and to its commercial advantage.

Any action undertaken by the Company will be done in the ordinary course of business and in contemplation of the direct benefit of the Company.

If any intellectual property right is established as a result of the work carried out by or for the Company, the intellectual property shall be owned by the Company and the Company shall not alienate, assign, part with the possession or otherwise dispose of the intellectual property without the prior written consent of the Investors.

Investor Consent Matters: The Share Subscription Agreement will set out a list of actions/matters which the Company shall not undertake without the prior written consent of a majority in value of the Investors subscribed in respect of the Shares ("Investor Majority"). The list will include (but will not be limited to) the matters listed in the Schedule to this Term Sheet.

Investor Information Rights: The Company shall provide the Investors with audited accounts annually within 90 days of year-end and monthly management accounts within 15 days of month-end, plus such other financial information as the Investors may from time to time request.

Restrictive Covenants: The Promoters shall be required to enter into customary non-compete and similar restrictive covenants for the benefit of the Company and the Investors. Such covenants will enter into force on completion of the investment and continue for two years after the date on which the relevant Promoter ceases to be a shareholder in the Company. Where reasonable Promoters existing interests shall be carved out and no Promoter shall be precluded from seeking alternative employment in their chosen fields provided it is not in direct competition with the business of the Company.

Down Round Provisions: The parties agree that where the issue price for any shares in the Company issued after the issue of the Investor shares, is lower than the price at which the Investor shares are issued, being €[NUMBER] per share, ("Down Round") then the Company shall issue to each Investor for cash at par or subject to compliance with the Companies Acts by way of bonus shares, such number of additional ordinary shares as is required to maintain the percentage which that Investor's shares represented to the total issued equity share capital of the Company, immediately prior to the issue of shares constituting the Down Round.

[Exit Preference: In the event of a: (i) sale; (ii) listing; or (iii) exclusive license or other disposal of substantially all of the equity or assets of the company, the Investors shall be entitled to receive the higher of:

(a) the amount of [•] being the amount invested by the investors plus any declared but unpaid dividends; or

(b) the investors' pro rata share (based on their proportionate ownership of shares) of such assets or proceeds.]

4. Share Capital and Related Matters

Share Transfers: The following shall apply to any proposed share transfers:

- **Promoter lock-in:** none of the Promoters may transfer any shares without the prior written consent of an Investor Majority.
- **Offer-round:** on any proposed transfer of shares by a shareholder, the proposing transferor will be required to observe a standard offer-round procedure. This will not apply to intra-group or inter-portfolio transfers by an Investor.
- **Tag-along:** a shareholder (other than with Investor Majority consent) who receives an offer for any of his shares may not accept such offer unless he procures from the intending purchaser an offer on the same terms for the corresponding proportion of the shares held by each Investor.
- **Drag-along:** if an offer is received for control of the Company, and the holders of not less than [75]% of the issued share capital of the Company (including the Investors) should wish to accept the offer, such holders may require all other holders of shares in the Company to sell to the intending purchaser on the same terms.
- **Breach of Agreement:** a material breach by a shareholder of the Investment Agreement may result in mandatory share transfer.
- **Share Issues:** Standard pre-emption rights in favour of existing shareholders will apply on any allotment of new shares (or convertible securities) by the Company.
- **[Creation of ESOP Pool:** An Employee Share Option Plan pool, representing [10]% of the Company's share capital, will be created for the allocation of options and/or shares to management and employees.]

- [Vesting - The shares held by the Promoters shall be subject to a [2/3] year quarterly.
- **Promoters' Shares³⁴:** reverse vesting schedule (i.e. such that shares vest quarterly over [8/12] quarters from the completion of the investment).
- Any Promoter who ceases to be a fulltime employee of or consultant to the Company at any time during the [three]-year vesting period must transfer all of his then unvested shares back to the Company (or the other shareholders, as the board shall direct).
- If the Promoter is a good leaver (i.e. his departure is due to death, disability, or unfair dismissal), he will receive fair value for those of his shares which he is required to transfer.
- If the Promoter is a bad leaver (i.e. his departure is due to any reason other than death or disability), he will receive nominal value (or fair value if this is lower) for those of his shares which he is required to transfer.]

5. [EIS Relief

The Company will provide confirmation that the investment in the Company will qualify for EIS relief.]

6. Exit

In the event of a sale of the Company the Investors shall not be required to give any warranties or indemnities in connection with such sale other than in respect of title to the shares being sold by each Investor and individually/ severally their ability and capacity to enter into any documents relating to any such sale.

³⁴ Reverse vesting may not always be appropriate particularly where the investee company is no longer a start-up or early stage company or where it has previously taken investment.

7. General

Non Binding: This Term Sheet creates no liabilities or obligations, except for the obligations set forth below in the paragraphs entitled "Confidentiality", "Exclusivity" [and "Break Fee"]. No party shall be otherwise bound unless and until definitive agreements are executed.

Confidentiality: The proposed investments outlined above are of the utmost confidentiality. Accordingly, neither the Company nor its directors or employees shall make any disclosure regarding the terms of this Term Sheet or the conduct or status of the negotiations in relation to this proposal unless it has first obtained written consent of the Investors (save as required by law or regulatory authorities). This paragraph is legally binding.

Exclusivity: By signing this Term Sheet, the Company undertakes that it shall not (either directly or indirectly) solicit offers or otherwise negotiate terms with any other investor or potential investor in the Company, or entertain any enquiries or proposals relating to such an investment, or make available any information for the purpose of such an investment for a period commencing on the date of signing hereof and expiring 30 days thereafter or such later date as the parties may agree by mutual consent. This paragraph is legally binding.

[Break Fee: On signing this Term Sheet, the Company will forward €[NUMBER] to the [INVESTOR NAME]'s appointed lawyers. If the Company declines to execute the transactions contemplated by this Term Sheet within [NUMBER] days of the date of signing this Term Sheet (or such longer period as the Investors (acting reasonably) may allow), these funds will be retained to cover legal and other costs. This paragraph is legally binding.]

Costs: The Investors' professional fees shall be [borne by the Company and paid at Completion]. Each Investor shall endeavour to ensure that the professional fees payable to its advisors do not exceed €[NUMBER] (plus VAT and disbursements).

Expiry: The non-binding indicative investment proposals set out in this Term Sheet shall expire at midnight on [DATE] if this Term Sheet has not by that time been signed on behalf of the Company by a duly authorised officer.

.....
Signed: For and on behalf of
[Insert Name of Syndicate/ Investors or the Nominee Company]

.....
Date:

.....
Signed: For and on behalf of
[Insert Name of Investee Company]

.....
Date: The above terms are agreed and accepted.

SCHEDULE**Indicative (Non-Exhaustive) List of Matters requiring Investor Consent**

The Company shall not (and shall procure that no Subsidiary shall) without the consent in writing of an Investor Majority:

1. except for the issue of validly created option shares pursuant to the Employee Share Option Plan, create or issue or agree to create or issue any share or loan capital or give or agree to give any option in respect of any share or loan capital, or purchase or redeem its own shares;
2. consolidate, sub-divide or alter any of the rights attaching to any of its issued shares or reduce its share capital or repay any amount standing to the credit of any share premium account or capital redemption reserve fund or capitalise any reserves or redeem or buy back any shares or otherwise reorganise its share capital in any way or create any new class of shares;
3. alter its Memorandum or Articles of Association or the Company's Constitution in any way;
4. register any transfer of shares other than in accordance with the Investment Agreement and the Articles;
5. enter into any contract or transaction whereby its business would be controlled otherwise than by the board of directors;
6. enter into any scheme of arrangement with its creditors or take steps to effect a members' voluntary winding-up;
7. permit Borrowings (as defined in the Investment Agreement) to exceed €50,000;
8. create, agree to create or suffer to exist any charge mortgage lien or other encumbrance on or over the whole or any part of its present or future undertaking or assets (including, without limitation, Intellectual Property);
9. make, give, enter into or incur a guarantee, indemnity, undertaking other material commitment on capital account or unusual liability outside the ordinary course of business;
10. establish a retirement, death, disability, benefit scheme or any share option, profit sharing or other employee incentive scheme;
11. dispose of any shares or otherwise reduce the percentage shareholding held by it in any companies nor whether by one transaction or by a number of transactions (whether related or not and whether at one time or over a period of time) sell, transfer, licence or otherwise dispose of the whole or any substantial or material part of its assets (including fixed assets) or undertaking;
12. dispose of or factor any of its book debts otherwise than to another of the Companies, other than in the ordinary course of business;
13. save in respect of transactions between any of the Company's Subsidiaries make any loan or advance in excess of €5,000 or permit the aggregate of all loans and advances made by it and all other companies to exceed at any time €10,000;

14. change its auditors or its financial year end or alter the basis of the accounting principles upon which its accounts have been consistently prepared for all prior years;
15. appoint its auditors to provide any non-audit services;
16. pass any resolution of its members in general meeting the effect of which would be to alter in any material way the nature of such company and/or its business as envisaged by this Agreement;
17. promote or otherwise acquire any Subsidiary;
18. acquire any proprietary or participating interest in any other business;
19. enter into any partnership or joint venture other than in the ordinary course of business;
20. pay or agree to pay any royalty or similar payment;
21. save as otherwise expressly provided herein, approve or pay any fees, pensions or emoluments to any director or former director of any of the Companies save such amounts as shall have been approved by the Board which shall be paid to persons by reason of their being or having been employees of the Companies;
22. employ any person at an annual basic salary of in excess of €50,000 with the exception of the CEO whose annual salary will not exceed €100,000;
23. appoint or remove any chairman, director or other senior executive;
24. delegate any powers under a power of attorney;
25. save as respects transactions between the Company and its Subsidiaries enter into any contract or transaction (written or unwritten) except in the ordinary course of its business and upon an arm's length and commercial basis;
26. declare or pay any dividends or other distributions in respect of any of its issued shares;
27. obtain a listing of the Company on any stock exchange;
28. transfer, assign, licence or otherwise dispose of any Intellectual Property rights of the Company and its Subsidiaries to any third party or accept a licence of Intellectual Property rights from any third party other than in the ordinary course of business;
29. make any other major decision which would materially affect the Companies (or any of them).

Appendix

Capital Structure before and After Completion

Part A: Capital Structure before Closing

Shareholder	Class of share	No. of shares	Issue Price	Shareholding
Founder 1			•	•%
Founder 2			•	•%
Founder 2			•	•%

Part B: Capital Structure After Closing

Shareholder	Class of share	No. of shares	Issue Price	Shareholding
Founder 1			•	•%
Founder 2			•	•%
Founder 3			•	•%
Investor 1			•	•%
Investor 2			•	•%
Investor 3			•	•%
ESOP			•	•%

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HBAN Investment Process Flowchart

Deals can take between 3-12 months to reach completion stage, the below flowchart illustrates the typical investment stages.



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