**EQUITY INVESTMENT TERM SHEET DATED [**⚫**]**

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| **Company** | [name], ID No.: [⚫], with its registered office at [⚫]. |
| **Founder[s]** | Following founder[s] and current shareholder[s] of the Company: [insert]. |
| **Investor 1** | [name], ID No.: [⚫], with its registered office at [⚫] making an investment of [CZK/EUR] [*insert*] (**Investment 1**). |
| **Investor 2** | [name], ID No.: [⚫], with its registered office at [⚫]making an investment of [CZK/EUR] [*insert*] (**Investment 2**). |
| **Structure of the investment** | Total size of the equity investments by the Investors shall be [CZK/EUR] [*insert*] (the **Investments**) consisting of Investment 1 and Investment 2 and it shall be provided by way of (i) a monetary contribution to the registered capital of the Company (in Czech *peněžitý vklad*); and (ii) a monetary contribution outside of the registered capital of the Company (in Czech *příplatek*). |
| **Cap Table** | The Company’s capital structure before and after the closing is set forth below. |
| **Purpose** | The Investments will be used only for the developing the Company’s business[[1]](#footnote-1). |
| **New Shares** | In exchange for the Investments, the Company shall issue new shares (in Czech *podíly*) expressed as a percentage or fraction of the Company's registered capital as set out in the Cap Table. |
| **Estimated signing date** | [*insert date*] |
| **Warranties** | The Equity Investment Agreement will include representations and warranties provided by the Company and the Founder[s] customary for the size and industry of the Company and the Investments. |
| **Withdrawal by the Company and contractual penalty** | If the default of all Investments amounts to at least [insert][[2]](#footnote-2) %, the Company shall have the right to withdraw from the Equity Investment Agreement with respect to all Investors. If the Company withdraws for such Investor default, the Company shall have the right to claim from each defaulting Investor a contractual penalty of [20]% of the Investment that such defaulting Investor has agreed to make. |
| **Post-Closing Obligations[[3]](#footnote-3)** | [*To be inserted*]  |
| **Anti-dilution protection** | The Investors shall be protected against dilution of their Investments by increase in the Investor's shares by an amount which shall be calculated applying [broad-based weighted-average ratchet / full ratchet / narrow-based weighted average ratchet anti-dilution protection]. |
| **Investor Majority and Investor Majority Matters** | The Investor Majority means Investors who hold at least [50]% of all shares held by the Investors. Prior approval of the Investor Majority is required in particular: [*insert*][[4]](#footnote-4) |
| **Pre-emptive (priority) right** | All shareholders shall have a priority pro rata right to participate in subsequent funding rounds of the Company (i.e., to subscribe for new shares issued in the subsequent funding under the same conditions offered to new investors to maintain the size of their shareholding prior to the subsequent funding round). |
| **Right of First Refusal** | All shareholders shall have a pro rata right to acquire share of the Company or part thereof which is proposed to be transferred to a third party on the same terms and conditions (including price) as such share is being offered to a third party. |
| **Drag-along right** | If the Investor Majority and the Founder Majority (the **Drag Along Majority**) wish to accept an offer to sell all (100%) shares of the Company to a third party, then the Drag Along Majority shall have the right to require, that all the other Company’s shareholders sell all of their shares on the same terms and conditions. |
| **Tag-along Right** | The shareholders shall have a co-sale right such that if a Founder wishes to sell its share or part thereof, the other shareholders shall have the opportunity to sell a pro rata proportion of their shares simultaneously with the transferring Founder and under the same terms and conditions of such a transfer. |
| **Reverse Vesting** | The vesting period for the Founders’ Shares shall be [*number*] years from the Effective date as set out in the Shareholders’ Agreement (the **Effective** **Date**). [25] % of Founders’ Shares shall vest on the first anniversary of the Effective Date. The remaining [75] % shall vest monthly in equal instalments over the following [remaining period] years (the **Vesting Period**). |
| **Good Leaver and Bad Leaver** | If the Founder voluntarily resigns or its professional relationship towards the Company is terminated for cause (which will be specified in the Shareholders’ Agreement) during the Vesting Period, the Founder becomes a Bad Leaver and [the Investors on the pro rata basis to their Shares or in any other proportion as may be agreed between the Investors / all the other Shareholders on the pro rata basis to their Shares or in any other proportion as may be agreed between such Shareholders] (the **Entitled Acquirer**) shall have the right to acquire all Shares from such Founder either for [CZK/EUR] [1] or for the purchase price determined by the Entitled Acquirer.The Founder becomes a Good Leaver if it’s professional relationship towards the Company is terminated in circumstances where the Founder is not a Bad Leaver. In such case, the Entitled Acquirer shall have the right to acquire from such Founder:a) all of the Founder’s unvested Shares for CZK [CZK/EUR] [1] or for the purchase price determined by the Entitled Acquirer, as elected by the Entitled Acquirer; and b) all of the Founder’s vested Shares against the payment of a purchase price equal to the fair value for such Shares. |
| **Executive directors** | The Company shall have [*number*] Executive Directors. The Executive Directors shall be appointed or elected as follows [*insert*]. The Executive Directors shall represent the Company [each individually / each individually except for legal acts a value of which exceeds [amount] |
| **Information rights** | The Investor shall receive information about the Company’s business operations and performance. The Shareholders’ Agreement shall set out detailed provisions on the Investors’ Information rights [including right to appoint and revoke a non-voting observer to the Executive Directors]. |
| **Non-compete and Non-solicitation obligation** | For the protection of the Investors’ investment under the Investment Equity Agreement, each Founder undertakes, during the period while the relevant Founder is a Shareholder [and for a period of [*insert*] months after the Founder ceases to be a Shareholder] not to compete with the Company or solicit employees/suppliers/customers of the Company.  |
| **[Exclusivity]** | The Company and the Founders agree not to discuss, negotiate or accept any proposals regarding the sale of Shares, financing of the Company by equity, debt or otherwise or disposal of material assets of the Company for [number] days from the date of this Term sheet.  |
| **Confidentiality** | The Company and the Investor agree to treat this term sheet and information related to its content confidentially and not to distribute or disclose its existence or contents to any other persons without the prior consent of the other party, except as required to its shareholders and professional advisors. |
| **Costs** | [Each of the Investors, Founder[s] and the Company shall bear its own costs incurred in respect of the conclusion of this term sheet and the Equity Investment Agreement and Shareholders’ Agreement.] OR [The Company and the Founder[s] shall bear its own costs incurred in respect of the conclusion of this term sheet and the Equity Investment Agreement and Shareholders’ Agreement and the Company shall reimburse the Investor(s) after the provision of the Investment(s) reasonable legal fees and costs incurred by each Investor in respect of the conclusion of this term sheet and the Equity Investment Agreement and Shareholders’ Agreement up to a maximum aggregate amount of [EUR/CZK ⚫]]. |
| **Non-binding effect** | This term sheet is intended solely as a basis for further discussion and does not constitute legally binding obligations except for the terms “**Confidentiality**”, “**Costs**” and “**Governing law and disputes**” which are intended to be legally binding on the Company, the Founder[s], and the Investor. |
| **Governing law and disputes** | This term sheet and the Equity Investment Agreement and Shareholders’ Agreement shall be governed and construed in accordance with the laws of the Czech Republic. Any dispute arising out of this term sheet and the quity Investment Agreement and Shareholders’ Agreementwill be finally decided by the Czech courts.[[5]](#footnote-5) |

**CAP TABLE**

[model Cap Table to be inserted]

**SIGNATURES**

1. NOTE TO DRAFT: Consider specifying in more detail in case the Loan is agreed to be provided for a specific purpose (e.g. development of a demo version, particular talent acquisition, etc.). [↑](#footnote-ref-1)
2. NOTE TO DRAFT: The relevant percentage should be high enough for it to be generally understood that the investment round has failed, for example, due to the Company not having collected sufficient funds to finance its intended business plan or otherwise. [↑](#footnote-ref-2)
3. NOTE TO DRAFT: The purpose of the post-closing obligations is to make the Company and the Founders address issues found in the course of the due diligence (or otherwise) that are important enough that they should be fixed but that are not important enough to be necessarily added as Conditions Precedent or to be otherwise necessarily fixed before Closing. For any issues that are not important enough to be addressed before Closing but that are easy to fix, it might make sense to address these already before the signing of this agreement so as to keep the list of post-closing obligations as short as possible. [↑](#footnote-ref-3)
4. NOTE TO DRAFT: Terms Sheet may include demonstrative list of the matters for which it is necessary to obtain Investor Majority’s consent. The full catalogue of Investor Majority Matters is included in the Shareholders’ Agreement on <https://czechstartupdocs.com/> [↑](#footnote-ref-4)
5. NOTE TO DRAFT: It is also possible to include an arbitration clause and subject a dispute to arbitration proceedings. The main benefits of the arbitration proceedings are that the proceedings and results are confidential, a dispute is decided in a single instance, and it is usually less formal and swifter. In addition, enforcement of an award abroad is easy. You can choose between various arbitration courts which will have impact on costs. To choose the Arbitration Court attached to the Czech Chamber of Commerce and the Agricultural Chamber of the Czech Republic it is possible to replace the text as follows: “All disputes arising from this term sheet and Equity Investment Agreement and Shareholders’ Agreement and/or in connection with it shall be finally decided with the Arbitration Court attached to the Czech Chamber of Commerce and the Agricultural Chamber of the Czech Republic according to its Rules by three arbitrators in accordance with the Rules of that Arbitration Court. The proceedings shall be conducted in [Czech/English] language and the seat of arbitration shall be Prague, Czech Republic.” Alternatively, it is also possible to establish jurisdiction of a particular court, such as the District Court of Prague 1 or the Municipal Court in Prague being the court of first instance (based on subject matter of the dispute). [↑](#footnote-ref-5)