BROOKSTREET
EQUITY PARTNERS LLP

PE Leader of the Year | Niche UK PE House of the Year | Best UK Commercially Motivated PE | Industry 4.0 Portfolio | DraxFuture40 Investor

Brookstreet **2.0**

Investor Term Sheets Unveiled: The Art of Deal-Making & Negotiating the Zone of Possible Agreement (ZOPA)

Webcast 3: March 12, 2025

Series: ***Connecting the Dots of Today | Building the Future of Tomorrow***
#ConnectingTheDots

In Collaboration with PRAXI Network (FORTH)

praxi
help-forward network

Overview

Brookstreet

Digital Transformation

- Focus on AI & 4IR
- Software as a Service
- Integrated IoT
- Patentable Innovations

Green Transition

- Up Geo-Secure Energy
- Drive Sustainability
- Address Climate Crisis
- Boost Circular Economy

Longevity Investments

- HealthSpan (Living Well)
- LifeSpan (Living Long)
- Wellness & Performance
- Age-Tech / Med-Tech

Scale Up Investments

- Series A/B Focus
- Transparent Cash Flows
- Global Institutional Co-Investors
- PRI Governance

About Us

Brookstreet was one of the first investors to integrate Artificial Intelligence (AI) Commercial Due Diligence, Talent DNA and ESG Rankings into its processes. "Brookstreet 2.0" unites a distinguished team of Ivy League and Oxbridge PEVC fund managers, McKinsey consultants, M&A bankers, Founders, and CEOs, on an AI-and KPI enhanced institutional investment platform, offering "Precision in Asymmetry".

Our Difference

- Global Deal Flow
- World Class Co-Investors
- AI Technical Due Diligence
- Commercial Due Diligence
- Expert Network & Ecosystem
- Thematic Investments
- Dual Returns Strategy
- Trusted Administrator ($2.5TN AUM)
- Governance & Sustainability
- Brookstreet AI Intelligence
- United Nations PRI Signatory

Source: Brookstreet

BROOKSTREET EQUITY PARTNERS LLP

praxi help-forward network

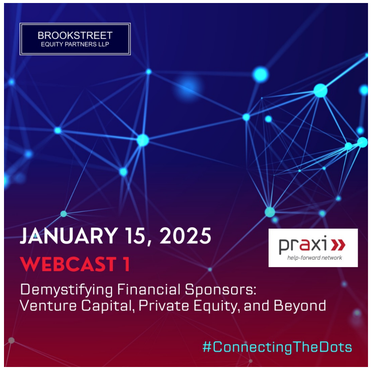
Our Journey

Pitch Competition

Applications are open [Link]

Webcast 1: Demystifying Financial Sponsors

January 15, 2025



- Understand Who to Pitch

Webcast 2: Mastering the Pitch

February 12, 2025

- Understand How to Pitch

Webcast 3: Investor Termsheets Revealed

March 12, 2025

- Understand How to Read T&Cs & Negotiate

Live Competition

April 8, 2025

- Put Theory in Practice

© Slides

BROOKSTREET
EQUITY PARTNERS LLP

praxi
help-forward network

Pathway

ZOPA

To Negotiate a Deal.
You Need to Understand

1. Your Valuation
2. The Elements of your Term Sheet
3. The Zone of Possible Agreement

Simplified Illustrative Selection Process

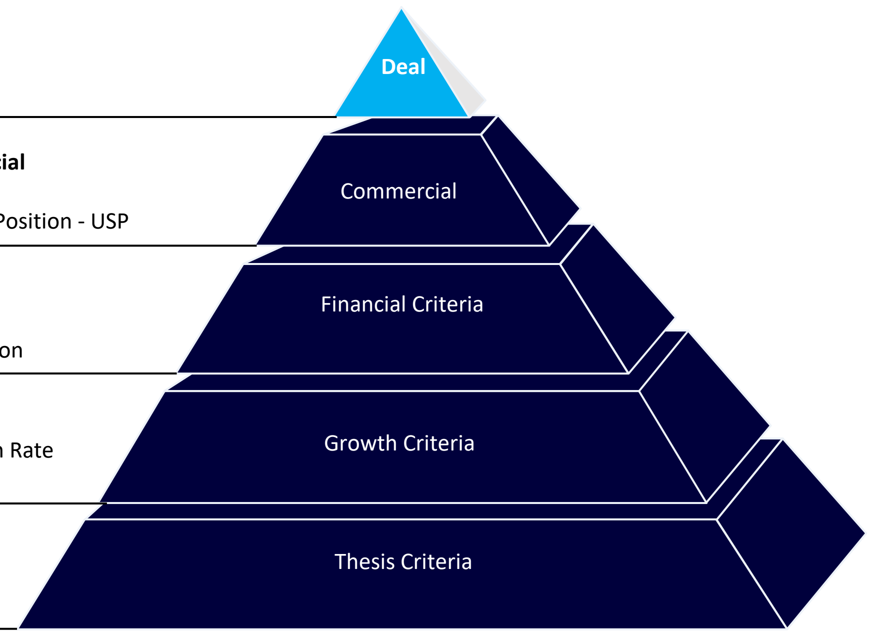
4th Fit
- Board
- Management
- Founder

3rd Company Commercial
- Innovative
- Defensible Market Position - USP

2nd Financials
- Healthy Margins
- Clear Cash Conversion

1st Growth
- Positive YoY Growth Rate
- Size of the Market

Thesis Criteria
- Revenue or Sector



BROOKSTREET
EQUITY PARTNERS LLP

Agenda

Section

- Valuation
- Term Sheets
- The Zone of Possible Agreement
- Take Away Readings

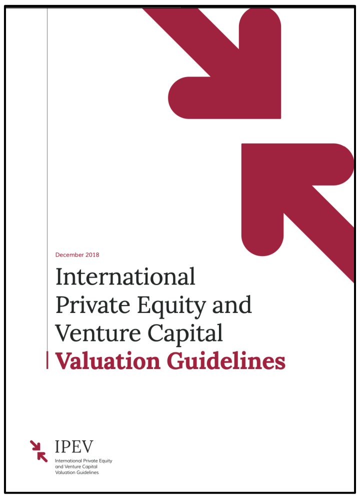
Valuation

IPEV Valuation Guidelines

IPEV

International Private Equity and Venture Capital Valuation Guidelines

Framework



Sample of the IPEV Guidelines Book

The Valuer will select the Valuation Technique that is the most appropriate and consequently make valuation adjustments on the basis of their informed and experienced judgement. This will include consideration of factors such as:

- the relative applicability of the techniques used given the nature of the industry and current market conditions;
- the quality and reliability of the data used in each Valuation Technique;
- the comparability of Enterprise or transaction data;
- the stage of development of the Enterprise;
- the ability of the Enterprise to generate maintainable profits or positive cashflow;
- any additional considerations unique to the Enterprise; and
- the results of testing (calibrating) techniques and inputs to replicate the entry price of the Investment. (**Note**: at subsequent Measurement Dates the calibrated Valuation Techniques should be used with updated inputs reflecting then current market conditions. See also section I 2.6).

3.3 Selecting the Appropriate Valuation Technique

3.3 The Valuer should use one or more of the following Valuation Techniques as of each Measurement Date, taking into account Market Participant assumptions as to how Value would be determined:

A. Market Approach
   a. Multiples (3.4)
   b. Industry Valuation Benchmarks (3.5)
   c. Available Market Prices (3.6)
B. Income Approach
   a. Discounted Cash Flows (3.7, 3.8)
C. Replacement Cost Approach
   a. Net Assets (3.9)

The Price of a Recent Investment, if resulting from an orderly transaction, generally represents Fair Value as of the transaction date. At subsequent Measurement Dates, the Price of a Recent Investment may be an appropriate starting point for estimating Fair Value. However, adequate consideration must be given to the current facts and circumstances, including, but not limited to, changes in the market or changes in the performance of the Investee Company.

Inputs to Valuation Techniques should be calibrated to the Price of a Recent Investment, to the extent appropriate (3.10).

The **International Private Equity and Venture Capital Valuation (IPEV) Guidelines** provide a standardized framework for valuing private companies, ensuring consistency across investors, regulators, and fund managers. Since private companies lack a public stock price, IPEV defines three primary valuation methods:

- **Market Approach:** Values a company by comparing it to similar businesses or recent transactions.
- **Income Approach:** Assesses value based on projected future cash flows, discounted to present value.
- **Cost Approach:** Determines value based on replacement costs (i.e., the cost to recreate the asset or business).

Valuation

Traditional Valuation Methods

For more material, come to Webcast 4 (Valuation)

Market Valuation

- Trading Comps
  - Used for Minority Investments & IPOs
  - Does not include control premium
- Transaction Comps
  - Used for Trade Exits Mainly
  - Can include control premium (if Take Over)

Cash Flow (Intrinsic Valuation)

- DCF Method
  - Focuses in Price Used by Trade and Buyout Funds
    - NPV
      - Uses WACC constant
    - APV
      - Used when capital structure varies
      - Can include exotics (Options)
      - Can feed to LBO
      - Can be used for NOLs (Tax Shields) Net Operating Losses
  - LBO
    - Used mainly by Buyout Funds or where you have layers of debt
      Focuses on IRR after repaying tranches of Debt

- **VC Investments** → Focus on Comps
- **Buyouts** → Focus on Cash Flow
- **Trade Exit** → Focus on Synergies

Others

- Venture Capital Method
  - Quick and easy back of the envelope
- Industry Specific (REITS/FIG)
- Synergy Models
  - PortCo of Fund Bolt On
  - Trade Buyers
    - Cost Synergies
    - Revenue Synergies
- Real Options Methods
  - Theoretically sound RARELY USED
    - Binomial Option Pricing Model
    - Black-Scholes Model
    - Decision Tree Analysis Model

Agenda

Section

- Valuation
- Term Sheets
- The Zone of Possible Agreement
- Take Away Readings

Term Sheets

Introduction

Type	Description	Notes
Term Sheet **(Pre Ample to an Investment Agreement)**	• A document which outlines the key financial and other terms of a proposed investment. • A Term Sheet will usually contain certain conditions which need to be met before the investment is completed and these are known as conditions precedent	• Not legally binding - except certain clauses – commonly those dealing with confidentiality, exclusivity and sometimes costs • The provisions of a Term Sheet will be included in one or more of the subscription agreement, shareholders' agreement and articles of association. • The more detailed the Term Sheet, the fewer the issues which will need to be agreed upon during the drafting process.
Shareholders Agreement **(or Investor Rights Agreement)**	• Will usually contain investor protections, including consent right, rights to board representation and non-compete restrictions.	• Sets the rights for investors. The provisions in this Agreement will hopefully be used as the basis for corresponding provisions on subsequent funding rounds.
Articles of Association	• The Articles of Association will include the rights attaching to the various share classes, the procedures for the issue and transfer of shares and the holding of shareholder and board meetings.	• Some of the protective provisions in the Shareholders' Agreement may instead be contained (or indeed) repeated in the Articles of Association. • The decision to include terms in one or both of these documents may be jurisdiction-specific, based primarily on company law restrictions (e.g. some Continental European jurisdictions limit the rights that can be attached to clauses in the Articles of Association), enforceability concerns (the investor protections can be difficult to enforce in some Continental European jurisdictions) and confidentiality concerns (Articles of Association typically must be filed as a public document with a relevant company registry while the other investment documents can often be kept confidential).

Navigating a Term Sheet

HARVARD BUSINESS SCHOOL

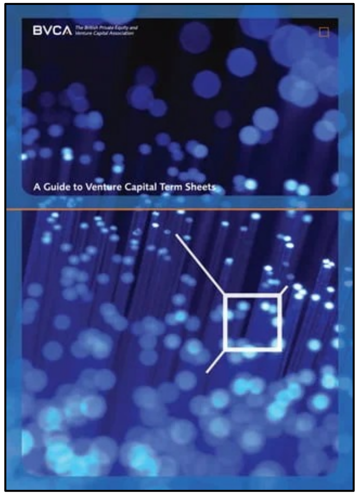
Understanding the Content	• Define key elements: **investment amount, valuation, form of investment, stock options, board representation, and rights & responsibilities**. • Ensure alignment with your business needs and investment goals.
Study the Terms & Conditions	• Key terms include **valuation, preferred stock, liquidation preferences, protective provisions, and pro rata rights**. • These terms protect both you and investors, shaping governance and decision-making.
Consult a Lawyer	• Work with a legal expert specializing in your industry to **navigate complexities** and protect your interests. • A well-structured term sheet simplifies the drafting of legally binding agreements.
Prepare to Negotiate	• Identify which elements of the term sheet matter most and communicate your preferences before issuing the document. • Create competitive tension by researching, networking, and engaging with investors while **focusing on key factors that impact your desired outcome.**

Term Sheets

Guide to Term Sheets

Studying the Terms & Conditions

Framework



II What is a Term Sheet?

A Term Sheet is a document which outlines the key financial and other terms of a proposed investment. Investors use a Term Sheet as a basis for drafting the investment documents. With the exception of certain clauses – commonly those dealing with confidentiality, exclusivity and sometimes costs – provisions of a Term Sheet are not usually intended to be legally binding. In addition to being subject to negotiation of the legal documentation, a Term Sheet will usually contain certain conditions which need to be met before the investment is completed and these are known as *conditions precedent* (see paragraph 26, Section IV).

If a company seeks to raise venture capital in the UK the principal documents needed for an investment round are generally a *Subscription Agreement, a Shareholders' or Investors' Rights Agreement* (frequently these are combined into a single Subscription and Shareholders' Agreement or *Investment Agreement*) and *Articles of Association*. The provisions of a Term Sheet will be included in these documents.

The Subscription Agreement will usually contain details of the investment round, including number and class of shares subscribed for, payment terms and *representations and warranties* (see paragraph 13, Section IV) about the condition of the company. These representations and warranties will be qualified by a *disclosure letter* and supporting documents that specifically set out any issues that the founders believe the investors should know prior to the *completion* of the investment.

III The investment process

In order to help explain some of the concepts that will be contained in this Guide this section follows a company through several stages of its life cycle from establishment to its Series A funding round. **This example should not be taken as representing a standard process or representing typical valuations or percentage ownerships. At each stage each case will be different and will need to be handled on an individual basis.**

'*NewCo*' is a company spun out from an academic institution to exploit *intellectual property* developed by the scientist (the founder) whilst working as an employee of that institution. The academic institution has agreed to transfer (assign) its ownership rights in the intellectual property rights (IPR) to NewCo in return for a 50% shareholding in the business. It has also agreed that the founder who has carried out the research that led to the creation of the IPR should own the other 50% through a holding of *founder shares* (see paragraph 9, Section IV). The capital structure of NewCo is as set out in Box 1.

Box 1. Capital structure for NewCo following establishment of the company and assignment of intellectual property

Start-up	Number of ordinary shares	Cash or cash equivalent invested at £1 per share
Founder	50	£50
Institution	50	£50
Undiluted share capital	100	

Sample of the BVCA: A Guide to Venture Capital Term Sheet

The **BVCA Guide to Term Sheets** provides a standardized framework for structuring **venture capital and private equity investments.**

- **Investment Terms:** Defines the amount, valuation, and type of investment (equity, convertible notes, etc.).
- **Governance & Control:** Covers board composition, voting rights, and decision-making processes.
- **Investor Protections:** Includes anti-dilution clauses, liquidation preferences, and drag-along/tag-along rights.
- **Exit Provisions:** Details options for liquidity, including IPOs, trade sales, and secondary sales.

Term Sheets

Understanding the Term Sheet

bvca

What is a Term Sheet?

- A **non-binding agreement** outlining key terms and conditions of an investment. Can be revised post due diligence or during contract.
- Acts as a **blueprint** for drafting legally binding agreements.
- Once agreed upon, a final **binding contract** is created based on its terms

Agreed Terms for:

- **Control** – Governance rights, board representation, and decision-making power
- **Valuation** – Pre-money and post-money valuation of the company
- **Liquidity / Exit Strategy** – Investor exit options, including IPOs, acquisitions, or secondary salaries
- **Risk / Down-Side protection** – Safeguard measures for investors

What is included in a Term Sheet?

1. **Valuation** – Pre-money and post-money valuation,
2. **Investment Amount** – The capital being injected into the company.
3. **Equity Stake** – The percentage of ownership the investor will receive
4. **Voting Rights** – Defines investor influence over corporate decisions, board representation, and reserved matters.
5. **Liquidation Preference** – Specifies how proceeds are distributed in the event of a company sale, liquidation, or dissolution.
6. **Anti-Dilution Protection** – Mechanisms to protect investors from equity dilution in future funding rounds.
7. **Investor Commitments** – Any obligations or conditions investors must fulfil post-investment.
8. **Exit Rights** – Outlines investor exit strategies, such as IPOs, buybacks, or trade sales.
9. **Option Pool** – A reserve of equity set aside for future employees, typically reducing the founders' post-investment ownership.

© Slides

Term Sheets

Types of Investor Protections

Examples

bvca

Type	Sample of implicated terms	Examples
Shareholding / Ownership	• Type of shares (term 1) • Redemption rights and put options (term 4) • Tag-along rights (term 11) • Drag-along rights (term 12) • Enhanced voting rights (term 14) • Conversion rights (term 6 and 7) • Anti-dilution rights (term 8) • Pre-emption rights (term 9) • Liquidation preferences (term 4)	• No shares may be sold by either family or investor(s) without first being offered to other party • Drag-along and tag-along rights to apply. In the event of any offer being below agreed formula price, investor(s) has right to match • Having agreed end-date for admission of to a recognised stock exchange, if date passes investor (s) has right to 'put' shares at agreed price or 'acquire' shares at agreed (probably lower) price • With budgets being agreed in advance, failure to meet such budgets results in an increase in voting rights of the investor and/or the right to 'put'/ 'acquire' shares • Possible reorganisation of capital structure • Liquidation preferences can be applied to qualified exits (such as an IPO)
Valuation and Milestones	• Pre/post money valuation, tranches, rachets (term 2)	• Pre-post money valuation structures and payment terms.
Funding of business	• Dividend rights (term 3) • Enhanced voting right (term 14) • Step-In rights (term 27)	• Veto over significant asset /CAPEX purchases • Veto over issue of new shares/granting of options/purchase of own shares, etc. • Veto over changing borrowing powers/entering new facilities • Dividend policy to be agreed • Use (or not) of surplus funds to be agreed
Day-to-Day ops	• Protective provisions (term 15) • Information rights (17) • Transaction and monitoring fees (Term 22)	• Veto over CEO appointment • Veto over all hires over (say) €100,000 • Right to all management accounts, budgets, etc. plus direct access to CFO • Right to appoint external accountants/consultants in event of failure to meet budgets, etc.
Board rights	• Representation rights (term 13) • Board right (term 16) • Condition precedent (term)	• Guaranteed representation • Equal number of directors as • Independent 3rd party chairman

© Slides

Term Sheets

Key Terms Introduction

Examples

Term	Description	Notes
1. **Type of shares, loan stock, and preferred share classes**	• Private equity investors will normally only subscribe to a preferred class of shares, which requires additional rights	• If a preferred share class already exists at the time of an investment round, the new round of investors will typically create a new series of preferred shares to distinguish the rights (voting, financial, etc.) that attach to their preferred series from those that attach to all prior series of shares. Distinguishing the rights enjoyed by different series are usually based on different company valuations and circumstances and, consequently, have different risk profiles. • In some Continental European jurisdictions, there are restrictions on the types of different share classes permissible. This can be compensated for to an extent by creating special rights for certain shareholders in the investment documentation.
2. **Valuation and Milestones**		
A. **Pre-money valuation**	• The pre-money valuation is used to determine the price per share to be paid by investors upon completion of the new investment round (the purchase price).	• Capital investors will agree on a pre-money valuation before the new investment round. • The purchase price is calculated by dividing the pre-money valuation by the fully diluted number of shares before completion.
B. **Fully diluted shares**	• Fully diluted includes shares that have been issued by the company under any arrangements that can be exercised under a contingent claim.	• Includes employee option schemes, pools, and other shares that the company might be required to issue via options, warrants, convertible debt, or other commitments.
C. **Post-money valuation**	• This includes the valuation of the company immediately following capital injection.	• Includes the investment proceeds from the new round of funding.
D. **Tranches**	• Often, capital investors will not invest the full amount at once. Instead, they invest in tranches, subject to specific technical and/or commercial targets (milestones) being met.	• Milestones are set in the Subscription Agreement. - Failing a milestone does not automatically mean no further funding, but investors may renegotiate terms.
E. **Ratchet equity**	• A ratchet adjusts the respective shareholdings of investors and owners based on company performance or exit returns (exit ratchet).	• Like tranches, ratchets help bridge valuation gaps and offer incentives for strong returns. - Ratchets are complex and must be carefully structured due to tax issues and potential conflicts of interest among shareholders.

© Slides

Term Sheets

Key Terms Continued 1/7

Examples

Term	Description	Notes
3. Dividend rights	• Dividends may or may not be permitted. • Dividend protection for preferred classes. • Use of cumulative dividends. • Pro-rata share of ordinary share dividend. • Preferred participation. • Escalating dividend provisions if the company cannot achieve exit for the investor.	• In aggressive growth phases, the investor may prohibit payment (overriding Veto) on dividends to all shareholder classes for a limited time. • A common way to prevent a company from being obliged to pay dividends while growing is to provide investors with a share class that has a preferential, cumulative dividend. • Cumulative dividends are usually fixed at a percentage of the purchase price paid for each preferred share. • The company may be restricted from paying dividends to other shareholders until the dividend is fully paid to preferred shareholders. This typically lasts until an exit or a contingent trigger event, effectively preventing any other dividend payments until then. • If preferred shares are converted into ordinary shares, investors typically expect all accumulated dividends to be paid or capitalized into ordinary shares upon conversion. • In addition to a dividend preference, investors often require preferred shares to participate in any distributions on ordinary shares. This means preferred shareholders receive a pro-rata share of any dividends paid to ordinary shareholders on top of their preferred dividends. This prevents companies from declaring a small dividend to preferred holders while issuing a much larger dividend to ordinary shareholders. • In some jurisdictions, escalating dividend provisions can be used to encourage companies to work toward an exit and help investors recover part of their investment if the company fails. If an exit is not achieved within a specified period, the company must declare and pay cumulative dividends to preferred shareholders at increasing rates each year.

Term Sheets

Key Terms Continued 2/7

Examples

Term	Description	Notes
4. Liquidation preferences	• In the event the company is liquidated or subject to a deemed liquidation, the preferred shareholders will receive a certain amount of the proceeds before any other shareholders. • Expressed in (x) times of preference, e.g., 1x or 2x liquidation preference.	• Liquidation preference applies not just to liquidation but also mergers, acquisitions, asset sales, or IPOs. • Remaining proceeds are shared in either of the following ways: ➢ A) Pro-rata, according to % shareholding. Preference shares are considered full participation, meaning after receiving the preference amount, they still participate in sharing the remaining proceeds. ➢ B) After payment of the liquidation preference amount, ordinary shareholders "catch up" by receiving an equivalent amount of equity to match what was paid to preference shareholders.
5. Redemption rights and put option	• The right to demand, under certain conditions, that the company buys back its own shares from its investors at fixed prices.	• Used when an exit hasn't occurred within a set timeframe. • If redemption is denied, investors may gain stronger rights (e.g., voting power). • Not allowed or limited in some European jurisdictions. • Helps investors recover funds if no successful exit happens. • Can be used to prevent quick share disposal. • Investors may negotiate a right to sell shares back at a fixed price.

Term Sheets

Key Terms Continued 3/7

Examples

Term	Description	Notes
6. Conversion rights	• Where capital investors hold a preferred class of shares and it is permitted to convert these to ordinary shares, they generally require the right to convert them at any time, at an initial conversion ratio of 1:1. • Conversion is normally delayed until exit so that investors can avoid losing the rights attached to the preferred class of shares.	• The conversion ratio may be adjusted for structural changes or anti-dilution protection. In case of dilution, investors may choose or be required to convert before a liquidity event (trade sale, IPO).
7. **Automatic conversion clauses of share class / series**	• In most cases, investors will be required to convert all of their shares into ordinary shares prior to a company listing its shares on a publicly traded exchange	• Investors often require an automatic conversion mechanism for all share classes before an IPO, ensuring liquidity after lock-up periods. • They set predefined criteria for a Qualified IPO, such as listing on major exchanges, underwriting by recognized firms, and meeting valuation and fundraising thresholds. Without these, preferred shareholders risk losing rights if shares are listed at a low value on a minor exchange.
8. Anti-dilution (price-protection)	• Protects investors if new shares are issued at a lower valuation than their initial investment (down round).	• Protection is applied via formulas, including ‘ratchet’ (maintains ownership percentage) and ‘weighted average’ (adjusted ownership). Methods include conversion ratio adjustments, issuing new shares, or granting options.
9. **Management shares (or Owner Shares)**	• Investors want key management to stay to execute the business plan.	• Share price upon departure depends on whether the manager is a ‘good’ or ‘bad’ leaver. • Vesting schedules may be required to incentivize retention. • Accelerated vesting may be allowed.

Term Sheets

Key Terms Continued 4/7

Examples

Term	Description	Notes
10. **Pre-emption rights (on new share issues)**	• Investors have the right to maintain their percentage stake in future share offerings under the same terms as others.	• The conversion ratio may be adjusted for structural changes or anti-dilution protection. In case of dilution, investors may choose or be required to convert before a liquidity event (trade sale, IPO).
11. **Right of first refusal, co-sale, and tag-along rights**	• Investors may have the right to buy shares before they are sold to third parties. • ROFR, co-sale, and tag-along rights help investors control share transfers.	• Shareholders must offer shares to existing investors before selling to outsiders. • Certain exceptions exist (e.g., transfers to family, trusts, or within an investor group). • Co-sale and tag-along rights allow minority investors to sell alongside major shareholders.
12. **Drag-along (or bring-along) rights**	• If a certain percentage of shareholders agree to sell, all shareholders must participate.	• Ensures full company sales without holdouts. • Investors may include exceptions to avoid being forced into a sale.
13. **Representations and Warranties**	• Investment or Subscription Agreement terms where owners and managers provide assurances about the company's past and present condition.	• Helps investors assess risk before investing. • Covers legal compliance, debts, and asset ownership. • Breach may allow claims for damages or contract termination.

© Slides

Term Sheets

Key Terms Continued 5/7

Examples

Term	Description	Notes
14. Voting rights	• Investors have specific voting rights attached to their share class.	• Preferred shares may have equal or greater voting rights than ordinary shares. • If conversion ratios change, voting power may be adjusted accordingly.
15. Protective provisions and consent rights (class rights)	• Investors may require consent rights on key company decisions.	• Covers actions like share changes, capital structure adjustments, M&A, major asset sales, winding up, debt incurrence, and management appointments. • Some decisions remain under the Board's authority but may require investor-appointed director approval. • Includes covenants on IP, fund usage, and insurance.
16. Board of directors and observing rights	• Investors may have rights to Board representation, remuneration, and audit committee roles.	• Governance structures must align with investor expectations. • Investment decisions and fund management may be separated to avoid conflicts of interest.
17. Information rights	• These contractually defined obligations typically include timely transmittal of audited annual financial statement, annual budgets, and unaudited monthly and quarterly financial statements.	• In certain jurisdictions a company is required to treat all shareholders equally, so that any information provided to one shareholder will have to be provide to all shareholders

© Slides

Term Sheets

Key Terms Continued 6/7

Examples

Term	Description	Notes
18. **Exit rights**	• Defines qualified exit (IPO or sale) ensuring investors get a minimum return. If such exit is not achieved, investors often build in structures which will allow them to withdraw some or all of the amount of their investment (see term 3 and 5)	• Liquidity events (e.g., trade sale, IPO) must meet certain thresholds to trigger exit. • May include a put option for investors or structured trade exits.
19. **Registration rights**	• Such rights are needed because securities can only be offered for public sale in the US (with certain exceptions) if they have first been registered with the Securities and Exchange Commission (SEC)	• Common in the US but not in Europe. • Unregistered shares have restricted trading, so investors may demand registration rights. • Includes “demand” and “piggy-back” rights for investors.
20. **Confidentiality, IP assignment, and non-compete agreements**	• Protects trade secrets, R&D ownership, and prevents management from joining competitors.	• Equally useful to the company and investor. i.e. company may require that the investor does not reveal trade secrets to portfolio companies.
21. **Employee share option plans**	• Investors can request 10%-20% of the share capital of the company to be reserved in an ESOP, creating an option pool for the inline management.	• The company will then be able to issue the shares under the plan without requiring further approval from the investors. Owners and other management with significant shareholdings may be excluded from participating in the ESOP.
22. **Transaction and monitoring fees**	• Capital investors are usually paid a fee by the company to cover internal and external costs incurred in connection with the investment process.	• **Almost all investors may require an annual monitoring fee to compensate for the level of their involvement with the investee company**, in addition to the usual compensation for travel and out-of-pocket expenses with relation to investment management. **They may also ask back all their legals plus transaction fee!**

Term Sheets

Key Terms Continued 7/7

Examples

Term	Description	Notes
23. **Confidentiality**	• All exchanges of confidential information between potential capital investors and the company need to be subject to a Confidentiality Agreement.	• This agreement should be executed as soon as discussions with the company about a potential investment begin. If this has not been done, then a confidentiality restriction should be included in the Term Sheet.
24. **Exclusivity**	• Once a Term Sheet is signed, capital investors will undertake various types of due diligence on the company (any or all of technical, commercial, legal, and financial). During this period, it is common for the investor to be in exclusivity.	• A breach of this obligation will result in the company and owners incurring a financial penalty.
25. **Enforceability**	• With the exception of clauses dealing with confidentiality, transaction fees, and exclusivity, the provisions of a signed Term Sheet will not be intended to be legally binding.	• It should, however, be noted that in some Continental European jurisdictions, there is an obligation to act in good faith when deciding not to proceed with an investment either at all or on the terms set out in the Term Sheet.
26. **Conditions precedent**	• A full list of conditions to be satisfied before investment will be included in the Term Sheet.	• Capital investment will usually be conditional on not only the negotiation of definitive legal documents but also the satisfactory completion of due diligence (and in cases Tax clearance) and approval by the Investment Committee of each of the capital investors.
27. **Step-in rights**	• A step in right allows the investor to take control of the company in order to avoid a likelihood of default	• Is a resort of last measure for the investor to take control of the company (temporarily or permanently) and avoid default. This can be triggered through several events (pre-agreed list) such as the company has working capital shortfalls and needs for additional funds to avoid cash flow solvency.

Term Sheets

Deal Structuring to Mitigate DD Risks

Examples

1. Earn-Out Clauses **& Milestone-Based Payments** – Ties part of the purchase price or investment to financial and operational performance, reducing overpayment risk.
2. Tranches **& Staged Financing** – Releases funding in phases based on hitting specific KPIs, ensuring capital is deployed efficiently while minimizing downside risk.
3. Convertible (CLNs) or Equity Instruments (SAFE Agreements) – Delays valuation until a later round, allowing risk-adjusted pricing based on future performance.
4. Liquidation Preferences & Downside Protection – Ensures investors recover their capital first in an exit or failure scenario, typically structured as **1-2x non-participating** or **participating preferences.** Understand this key difference (participating).
5. Anti-Dilution **Protection & Valuation Adjustments** – Safeguards investor equity in **down rounds** by adjusting ownership through **weighted-average or full-ratchet mechanisms**.
6. Board Composition, **Governance, & Voting Rights (think also ESG)** – Establishes board seats, veto rights, **and protective provisions** (e.g., limiting debt issuance, major spending, or strategic pivots without investor approval) to mitigate governance risks and avoids nepotism.
7. Drag-Along & Tag-Along Rights – Aligns investor and founder interests in exit scenarios by ensuring control over sale terms and protecting shareholders.
8. **Escrow &** Holdbacks **for Post-Deal Risks** – Withholds part of the payment to hedge against hidden liabilities, missed projections, or unforeseen regulatory issues.
9. Warranties**, Indemnities & Compliance (ESG & Regulatory)** – Ensures founders guarantee the accuracy of financials, legal compliance, and ESG commitments to shift liability for misrepresentation.
10. Right of First Refusal **(ROFR) &** Pro-Rata Rights – Protects investor ownership by granting priority in future funding rounds, preventing dilution and unwanted external influence.

Effective deal structuring is a crucial tool in venture capital and private equity to mitigate risks associated with due diligence and valuation uncertainties. By integrating mechanisms such as **tranches, earn-outs, liquidation preferences, anti-dilution provisions, and governance safeguards**, investors can protect their capital while ensuring founders maintain the right incentives for growth. Additionally, **board control, ESG compliance, and exit strategies** play a vital role in reducing legal, operational, and financial risks. The above 10 strategies outline how structuring deals effectively can **enhance investor security, optimize risk-adjusted returns, and create alignment between stakeholders**.

© Slides

Agenda

Section

- Valuation
- Term Sheets
- **The Zone of Possible Agreement**
- Take Away Readings

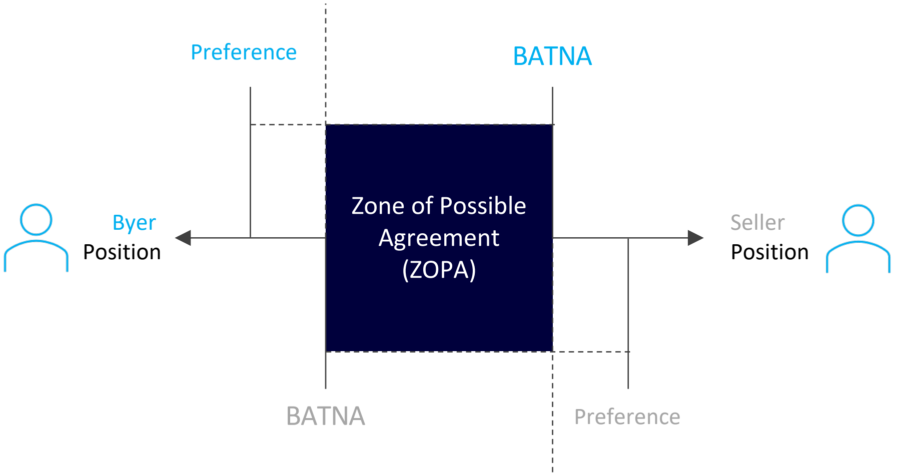
The Zone of Possible Agreement

ZOPA (& BATNA)

Life is shades of grey. Never be absolute (in family or in business).

HARVARD BUSINESS SCHOOL

Definition



BATNA: Best Alternative to a Negotiated Agreement

- ZOPA is the range in a negotiation where two or more parties can find mutual agreement, without breaching their BATNA!
- Within this zone, negotiators can collaborate toward a shared goal, incorporating elements of each party's interests to reach a potential agreement.
- It is also referred as the "bargaining range" or "bargaining zone".

Finding the Zone of Possible Agreement (ZOPA)

1. **Success Involves More Than Just Skill**
   - While strong negotiation skills matter, **luck and external factors also play a role**. Some counterparts may be firm, while others may offer more than expected. Focus on strategy but **accept that some elements are beyond your control**.
2. **Know Your Limits**
   - Understanding the **boundaries of the ZOPA** is crucial. Your **walkaway point** is the least favourable deal you'd accept. Identifying these limits helps you **push negotiations toward the best possible outcome** without going beyond what's reasonable.
3. **Negotiations Are Fluid**
   - The ZOPA **can expand, shrink, or disappear** as priorities shift. **Being adaptable** is key to maximizing your chances of reaching a favourable deal.
4. **You Can Influence the ZOPA**
   - Strategic persuasion and positioning **can shift how the other party perceives the ZOPA**, improving your chances of securing a better agreement.
5. **Preparation is Key**
   - **Well-prepared negotiators set clear expectations** and establish their walkaway point in advance. Since both sides have **uncertainty about each other's limits** **(Best Alternative To a Negotiated Agreement aka BATNA)**, negotiations involve a **series of offers and counteroffers** to test boundaries.

© Slides

Agenda

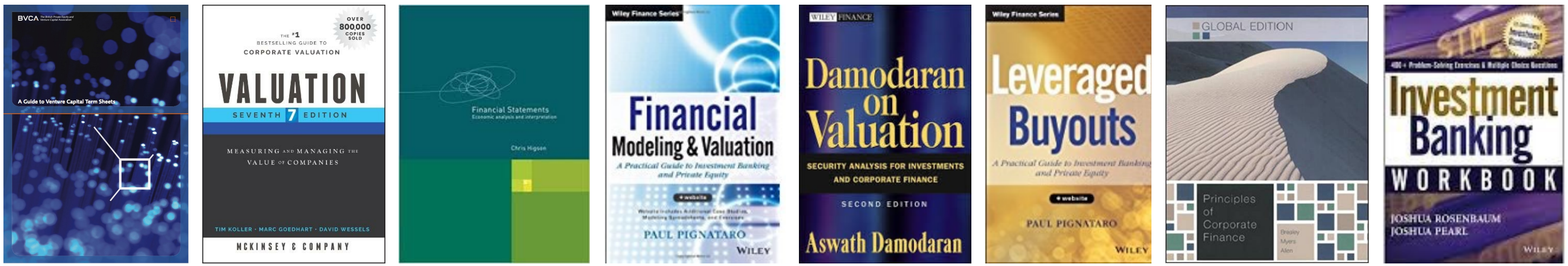
Section

- Valuation
- Term Sheets
- The Zone of Possible Agreement
- Take Away Readings

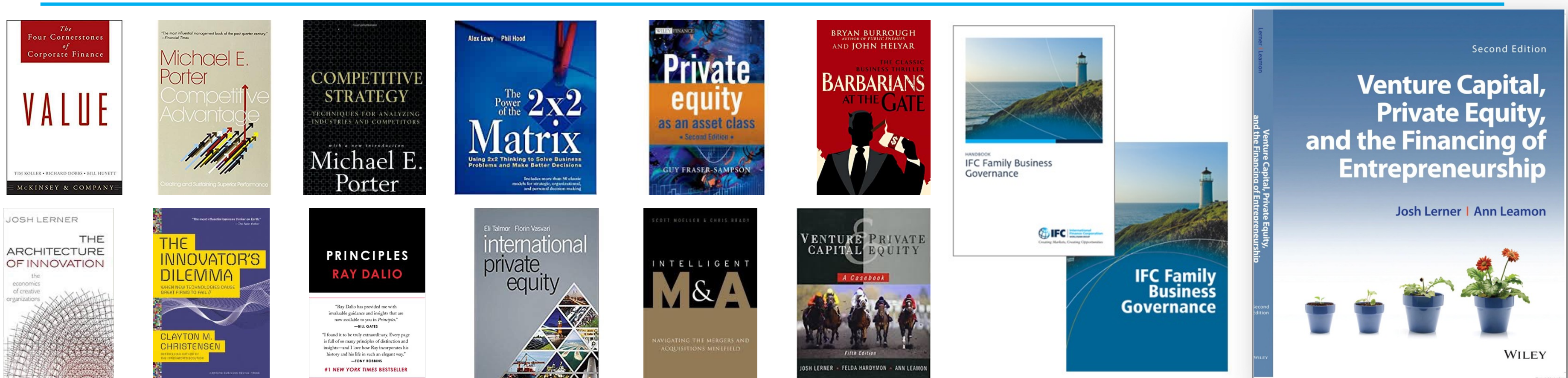
Take Away

PE/VC Readings

Technical Readings



Recommended



© Slides

Disclaimer

The material contained herein is draft and confidential and proprietary to Brookstreet Equity Partners LLP ("Brookstreet") and, accordingly, this material is not to be reproduced in whole or in part or used for any purpose except as authorized by Brookstreet and is to be treated as strictly confidential and not disclosed directly or indirectly to any other person, firm or entity. Please note the material and its contents have not been verified by Brookstreet and no express or implied warranty as to the accuracy or completeness of such information is made by Brookstreet or any other party nor does Brookstreet nor any other person, to the maximum extent permitted by law, neither accept any responsibility or liability whatsoever for any direct or indirect loss howsoever arising from any use of this document or its draft contents or otherwise arising in connection therewith. Nothing contained herein is, or shall be, relied upon as a promise or representation as to the future. The contents of this document are subject to corrections or change at any time and do not constitute marketing or promotion material. Nothing in this document should be treated as advice relating to legal, taxation or investment matters and you are advised to consult your own professional advisors concerning any potential acquisition, holding or disposal of any Fund interests or other investments.

This information does not constitute or form any part of, and should not be construed as, an offer, an invitation, an advertisement or any other solicitation, an advice or recommendation to purchase or subscribe to sell or the solicitation of an offer to buy any securities in any jurisdiction. If the distribution of this document in or to persons in a jurisdiction is restricted by law, anyone in possession this document should inform himself/herself about, and observe any such restrictions; any offering will only be made by means of a private placement memorandum or other appropriate materials that will contain detailed information about the securities to be offered, the issuer and management and is subject to the risk factors, conflicts of interest, securities law restrictions and other qualifications and limitations described therein; no sales will be made, and no commitments to purchase securities will be accepted, and no money is being solicited or will be accepted, until such materials are made available to investors; and any indications of interest from prospective investors in response to this presentation involves no obligation or commitment of any kind. Front page image is digitally enhanced. No reliance may be placed for any purpose whatsoever on the draft information, statements or opinions contained in this document, and no liability is accepted for any such draft information, statements or opinions. This document is for discussion purposes only. It is not an information placement memorandum and does not constitute marketing activity. No person falling outside the programme is allowed to view this presentation or treat this document as constituting a promotion to him or her.

© Brookstreet Equity Partners LLP 2025
www.brookstreetequity.com

Brookstreet Equity Partners LLP UK
Member of the British Private Equity & Venture Capital Association (BVCA)
Registered and Regulated by the UK's Financial Conduct Authority (FCA)
United-Nations Principles for Responsible Investment Signatory (PRI)

No part of this presentation should be copied or distributed without prior written permission by Brookstreet Equity Partners LLP.

Brookstreet Equity Partners LLP UK is a limited liability partnership, registered in England and Wales. Registered Number OC413126.
Registered Office: 42 Berkeley Square, Mayfair, London W1J 5AW, England.
All other Brookstreet locations, including worldwide offices, or any affiliates, constitute representation offices.

Contact

Requests for further information can be addressed to:

LONDON

ATHENS

PARIS

NEW YORK

Brookstreet Equity Partners LLP
Registered Headquarters
42 Berkeley Square
Mayfair
London W1J 5AW
England
Email: info@brookstreetequity.com

© Brookstreet Equity Partners LLP 2025
www.brookstreetequity.com

Brookstreet Equity Partners LLP UK
Member of the British Private Equity & Venture Capital Association (BVCA)
Registered and Regulated by the UK's Financial Conduct Authority (FCA)
United-Nations Principles for Responsible Investment Signatory (PRI)

No part of this presentation should be copied or distributed without prior written permission by Brookstreet Equity Partners LLP.

Brookstreet Equity Partners LLP UK is a limited liability partnership, registered in England and Wales. Registered Number OC413126.
Registered Office: 42 Berkeley Square, Mayfair, London W1J 5AW, England.
All other Brookstreet locations, including worldwide offices, or any affiliates, constitute representation offices.