

[name] (the “**Company**”)

[OPTIONAL: **SERIES [INSERT]]**¹ **CONVERTIBLE LOAN TERM SHEET DATED [date]**

Financing	Convertible loans (the “ Loans ”) by the following investors (the “ Investors ”) • [name] will provide EUR [amount] • [name] will provide EUR [amount] • [repeat as appropriate]
Discount	[insert agreed discount] ² %
Interest	A simple interest at the rate of [insert] ³ % per annum
Investor Majority	The investors whose outstanding amounts of loans represent more than [50]% of aggregate outstanding amount of all loans granted in the current convertible financing round ⁴
Maturity Date	[insert] ⁵
Maturity Valuation	EUR [insert] ⁶

¹ NOTE TO DRAFT: If the Company intends to enter into separate agreements with each single investor or each separate group of investors, but all such investments are part of one and the same convertible financing round, then it is advisable to tie all agreements together for purposes of allowing amendments by Investor Majority and otherwise referring to the agreements of a particular financing round. This can be done by including a common reference to certain series, such as Series 2020A, 2020B or something of that nature.

² NOTE TO DRAFT: This reflects the discount offered to convertible loan investors as a benefit compared to the subsequent equity investors to recognize the added risk taken by convertible loan investors by investing earlier in the Company. A typical discount off the price paid by the subsequent equity investors would be 15-25% (in which case the Discount Rate would be 85%-75%). Discounts may be higher in investments with more perceived risk, either because the Loan may have a longer maturity or because of the specific circumstances of the Company. IMPORTANT NOTE: Offering a discount is an optional not a mandatory term of the Convertible Loan Agreement. If no discount is offered, this paragraph “Discount Rate” should be removed and the appropriate changes should be made in paragraphs “Conversion at Qualified Financing” and “Conversion or repayment upon liquidity event”.

³ NOTE TO DRAFT: This is the annual rate which accrues on the Loan until it is repaid or converted. The typical market rate is somewhere between 5-15%.

⁴ NOTE TO DRAFT: To avoid administrative challenges and “holdout” problems associated with trying to amend outstanding Loans (to extend their Maturity Date or otherwise), Loans usually incorporate a “majority rules” provision through which the persons holding an agreed majority of the principal amount of all outstanding Loans may agree to amendments that would be binding on all the investors of the relevant convertible financing round. See also paragraph “Documentation”.

⁵ NOTE TO DRAFT: This is the date on which the Company is required to repay the Loan unless it is converted – see Section 5.1. Setting this date is a way to set expectations for the investors as to the likely final date for closing the next equity financing round. As a general rule, a later Maturity Date is better for the Company. Typically, the Maturity Date is 12-24 months of the Signing Date.

⁶ NOTE TO DRAFT: This is the valuation at which the Loan will be converted into equity at Maturity Date if the Loan has not been converted or repaid before that and the Investors elect the conversion instead of repayment. Some companies and investors use the Valuation Cap here, but there are no well-established rules for the determination of this amount.

Qualified Financing Threshold	EUR [insert] ⁷
Valuation Cap	EUR [insert] ⁸
Conversion at Qualified Financing	Upon the closing of an equity financing round with gross proceeds of not less than the Qualified Financing Threshold (the “ Qualified Financing ”) or any other equity financing round elected to be treated as Qualified Financing by the Investor Majority, the principal amount of loan with accrued interest (the “ Outstanding Debt ”) shall be converted into Shares of most senior class issued in the Qualified Financing at the conversion price equal to the lesser of (a) (100%-Discount) multiplied by the lowest price per share in the Qualified Financing and (b) an amount obtained by dividing the Valuation Cap by the fully diluted share capital of the Company before Qualified Financing (excluding the Loans).
Conversion or repayment upon liquidity event	Upon the voluntary dissolution, transfer (or exclusive license) of substantially all the assets of the Company or transfer of control over the Company (the “Liquidity Event”) the Outstanding Debt shall, at the election of each Investor, be either (a) converted into Shares of most senior class then outstanding at the conversion price equal to the lesser of (i) (100%-Discount) multiplied by the value/price of shares of the Company in the Liquidity Event and (ii) an amount obtained by dividing the Valuation Cap by the fully diluted share capital of the Company before Liquidity Event (excluding the Loans) or; (b) repaid to the Investor.
Maturity date conversion or repayment	If the Maturity Date arrives before the conversion or repayment of Outstanding Debt in accordance with above, the Outstanding Debt shall, at the election of the Investor Majority, be either: (a) converted into Shares of most senior class then outstanding at the conversion price equal to the amount obtained by dividing (i) the Maturity Valuation by (ii) the fully diluted share capital of the Company prior to the Maturity Date (excluding the Loans) or

⁷ NOTE TO DRAFT: This is the minimum amount of new cash that must be raised in the equity financing round in order to trigger automatic conversion of Loans (see paragraph “Conversion at Qualified Financing”). The reason for including such threshold amount is that convertible loan investors want to make sure that they only give up their loanholder status (and the additional protection it may afford as compared to a shareholder) at a time in which the Company has demonstrated that it is healthier and more sustainable, i.e. to protect the Investors from having their Loans converted to equity in a financing that leaves the Company inadequately capitalized. Such threshold amount also ensures that the equity financing causing conversion is a “true” financing and not a sham financing designed to force the Loans to convert into terms that are not favorable. However, the threshold amount shouldn’t be set so high that the Company risks having the Loans not convert in the next equity financing round.

⁸ NOTE TO DRAFT: This is the maximum valuation at which the Loan will convert into equity, regardless of the valuation agreed by the Company and the subsequent equity investors. Although this Valuation Cap is not a “valuation,” investors and companies may look at this amount as an indication for either current or potential future valuation. IMPORTANT NOTE: Including a valuation cap is an optional not a mandatory term of the Convertible Loan Agreement (although it is becoming more common). The total size of the convertible financing round and the Valuation Cap are two variables that each can have a significant impact on the ownership position of the convertible loan investors following the conversion of the Loan, and the two variables together have a magnifying effect. Therefore, the founders must run through a sensitivity analysis when trying to determine how much to raise and where to set the Valuation Cap.

(b) repaid to the Investors⁹.

Additional Investor rights¹⁰

Each Investor[OPTIONAL: that has granted Loan in the amount of at least EUR [insert]] shall have information rights, pro rata participation rights [and MFN rights]¹¹ as defined in model convertible loan agreement available at www.startupestonia.ee.

Closing conditions and estimated signing

Customary conditions to closing, including satisfactory completion of due diligence by the Investors. Estimated signing date is [30] days after signing this term sheet.

Documentation

Definitive agreements will be based on the model convertible loan agreement available at www.startupestonia.ee. Amendments in definitive agreements may be made with Investor Majority approval.

Non-binding effect

This term sheet is intended solely as a basis for further discussion and does not constitute legally binding obligations¹².

Governing law and disputes

Estonian law will govern this term sheet. Any dispute arising out of this term sheet will be finally settled in the courts of Estonia with the Harju County Court being the court of first instance.

⁹ NOTE TO DRAFT: This subparagraph (b) gives the Investors the right to demand the repayment of principal and accrued interest after the Maturity Date (similarly to traditional loans). But the reality for the Company is that in most cases where the Loan has not been converted by the Maturity Date, the Company probably does not have the money to cover the repayment obligation. Therefore, the parties could consider/negotiate removing the repayment option under this subparagraph (b) altogether and agree that the Loan will be automatically converted at the price based on the Valuation Floor.

¹⁰ NOTE TO DRAFT: The Company should consider whether the rights included in this Section - information rights, right to participate in next equity round and MFN (if included) – should be given to each and any investor participating in the convertible financing or only to those investors who make a significant contribution to the round (so-called Major Investors).

¹¹ NOTE TO DRAFT: An MFN (most favoured nation) clause allows the convertible loan investor to elect to inherit any more favorable terms that are offered to any subsequent investors following such original investor's investment and prior to a next equity round. The inclusion of an MFN clause may be considered, above all, in case each single investor participating in a convertible financing round enters into a term sheet (and a separate agreement) with the Company and the investor's investment is among the first investments in such round and/or the terms of this agreement are relatively Company-friendly (e.g. no valuation cap or discount) and the investor is concerned that more investor-friendly terms may be offered to subsequent investors. However, the inclusion of such a clause restricts the Company's fundraising activities and creates additional administrative burden. Therefore, please consult with an attorney or lawyer before including this clause.

¹² NOTE TO DRAFT: Depending on the size and the specifics of the convertible financing round, the investors may want to include also exclusivity and confidentiality provisions, which, if included, are normally intended to be binding on the Company and the Founders. In such a case, this clause needs to be amended as appropriate.

Acknowledged and agreed by signing below or digitally.

THE COMPANY:

Name: **[Name]**, incorporated under the laws of [country], registry code [insert]

Signature: _____

Represented by: [name]

Title [title]

Address: [address]

E-mail: [e-mail address]

THE FOUNDER(S):

Name: **[Name]**, a citizen of [country], identity code [insert]

Signature: _____

Address: [address]

E-mail: [e-mail address]

Name: **[Name]**, a citizen of [country], identity code [insert]

Signature: _____

Address: [address]

E-mail: [e-mail address]

THE INVESTOR(S):

Name: **[Name]**, incorporated under the laws of [country], registry code [insert]

Signature: _____

Represented by: [name]

Title [title]

Address: [address]

E-mail: [e-mail address]

Name: **[Name]**, a citizen of [country], identity code [insert]

Signature: _____

Address: [address]

E-mail: [e-mail address]