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Advice about Term Sheets

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David Frankel, Founding Partner at Altirah Capital, discusses term sheets and how to structure a venture capital deal. Frankel suggests that when raising money an entrepreneur should 1) Favor VCs with simple term sheets, 2) Retain an experienced startup lawyer and 3) Explore any unfamiliar terms.

Transcript

We're in a position of we have over 20 companies in our portfolio.. Generally ones that we've seeded - our partners include the likes of Bain, IDG, Bessemer, Sequoia Capital - and I have to say that in dealing with those top tier firms, I have not seen a very very complicated term sheet.. The interesting thing is by the time they've decided to invest, you tend to see a relatively simple term sheet.. The other thing I would say unequivocally is make sure that you get an experienced early stage lawyer.. Don't go and get someone who your folks or your uncle has said that's a really really great lawyer, a very experienced guy.. Make sure that your legal advisers are early stage deal venture guys because there's so much muscle memory.. There's so much of the little stuff and having someone that's conversant with the tricks of their trade is really important.. If you don't understand the effect of a particular term - so if it's a financial term which you haven't modeled out simply on a spreadsheet and you don't understand what's the meaning - it's probably not good for you.. That's true of life.. This is a contract where you really should sweat the details..

You should understand what those terms mean, particularly when you're dealing with venture capitalists and professional investors, bear in mind that this is what they do.. They put out more term sheets and they do more deals than you who receive term sheets.. Generally, the document that will come to you on the first round is skewed and biased in their favor.. So, check out your terms...