Convertible Equity Term Sheet

Seedrs convertible investments use exactly the same nominee structure, and go through the exactly the same due diligence process, as Seedrs equity investments. For more information on the structure and due diligence process, please see our Term Sheet for equity investments.

But, because Seedrs convertibles are a different type of investment to Seedrs equity, the investment process and documentation are different. This convertible term sheet summarises the differences between convertible and "normal" equity investments and sets out the key terms of the documentation. This is a non-binding document meant for guidance only, and is subject to change.

DIFFERENCE FROM EQUITY

How is a convertible different from "normal" equity?

Rather than shares being issued as soon as the investment in the company is made, shares are issued at a later date. Effectively investors are pre-paying for their shares. Unlike traditional convertible notes the Seedrs convertible does not contain a loan element, and there are no interest payments or a repayment requirement.

Why would an investor invest in a convertible?

In return for pre-paying for the shares of a company, an investor is given a discount on the price of the shares issued on "conversion" of their investment. This means they get more shares for their money than others who invest at the time of the conversion.

What triggers the "conversion" of the investment?

The Seedrs investors' pre-payments convert to shares in the company on the occurrence of one of the "trigger events" specified in the Deferred Subscription Agreement. The intention is for the trigger to be the company's next equity fundraise but, in the event that doesn't happen, the trigger will be a longstop date, an IPO or a trade sale, or the winding-up of the company.

Why would entrepreneurs fundraise using a convertible?

For later stage companies which are between fundraising rounds, a convertible serves as a useful way of raising bridge finance. You don't need to establish a valuation at the time of the convertible (which avoids affecting discussions with potential investors in the next round).

Can a convertible be SEIS or EIS eligible?

If the investment in the company would be SEIS or EIS eligible as a Seedrs equity investment, it will not lose that eligibility by being a Seedrs convertible. The Seedrs convertible has been carefully structured with this in mind.

DOCUMENTATION

What documentation does the Seedrs convertible use?

The investment is made using our Deferred Subscription Agreement. This has most of the same key terms as our Subscription Agreement and Shareholder Agreement for Seedrs equity investments (e.g. Warranties, Information Rights, Consent Rights and Options). Once the conversion is triggered, the Deferred Subscription Agreement will be replaced by separate investment documentation, which will be different depending on the nature of the trigger. As a starting point and in the absence of other documentation being put in place, we would expect our regular Subscription Agreement and Shareholder Agreement to apply on conversion.

KEY TERMS

Discount and Valuation Cap

The “discount” is the percentage by which the price of the shares issued to convertible investors will be discounted from the price of the other shares issued at that time. The “cap” is the deemed valuation of the company for the purpose of calculating the price of shares issued to convertible investors (so that, if the valuation exceeds the cap, the price of their shares is capped). The discount and cap will be decided by you when creating your Seedrs campaign.

Fundraising or Sale Trigger

As noted above, convertibles are generally used when there is another round of equity fundraising on the horizon, which will trigger the issue of shares to the convertible investors. However, it may be that the company is subject to a trade sale or an IPO, in which case that would be the trigger instead.

Longstop Date

The longstop date is a date by which you would have expected the fundraising trigger to have occurred. If the fundraising hasn’t occurred by that date, conversion will happen anyway, but the share price will be calculated based on the price of shares previously issued.

Winding-Up Trigger

Hopefully this won’t happen, but in the event the company ceases its business before the next fundraise, sale, IPO, or the longstop date, conversion will take place immediately before the winding-up of the company and the convertible investors will be treated the same as the other shareholders of the company.

If you have any questions or would like to learn more about our investment structure
or terms in more detail, just drop us a line at support@seedrs.com