

Strictly private and confidential

Not to be disclosed or distributed to third parties

Draft ●

Indicative Term Sheet

For use on Series A round

We are pleased to present our proposal for an investment in ● (the "**Company**").

1. Investment

1.1 You have told us that the Company's proposed business plan calls for an equity injection of £● . Of this amount, funds managed by us (the "**Funds**") will provide £● alongside investment by other venture capital funds[, high-net worth individuals] or financial institutions (together the "**Investors**"). [We will act as lead equity investor.]

1.2 The investment will be at a fully diluted pre-money valuation of £● , including employee share options (both granted or committed) equal to ●% of the [equity shares in issue immediately following completion][equity shares in issue immediately prior to completion][fully diluted equity]. The investment will represent a ●% shareholding for the Investors on a fully diluted basis, following an expansion of the share option pool as detailed in paragraph 2.4. The current capitalisation of the Company is set out in Part I of Appendix 1 and the capitalisation of the Company after this proposed funding is set out in Part 2 of Appendix 1.

1.3 The investment will be made in the form of convertible participating series A shares ("**Series A Shares**") at a price of £● per Series A Share (the "**Original Issue Price**") the terms of which are set out in Appendix 2.

1.4 [The investment will be made in full at completion.]

[The investment will be staged with ●% being invested at completion (the "**First Tranche**") and ●% being invested subsequently (the "**Second Tranche**"). [The Investors will have the right, but not the obligation, to subscribe for the Second Tranche at the same price per share as the First Tranche at any time.] [Provided the performance milestones set out in Part 1 of Appendix 7 and the remaining conditions set out in Part 2 of Appendix 7 have been met or waived by [the Investors][the Investors holding ●% of the Series A Shares (the "**Investor Majority**")], the Second Tranche shall be invested by the Investors.]

1.5 The proceeds from the investment must be used for the Company's working capital requirements [in particular ●].

2. Conditions of investment

2.1 The investment is conditional on negotiation of definitive legal documents, satisfactory completion of due diligence and approval by our Investment Committee.

2.2 Satisfactory completion of due diligence will include:

- (a) Conclusion of our commercial due diligence [including ●]
- (b) References from customers and partners
- (c) Market and technology review by an independent third party

- (d) Management references
 - (e) Review of current trading and forecasts for the next ● – ● months
 - (f) Review of existing and/or proposed management service contracts
 - (g) Review of the Company's financial history and current financial situation by our advisors including, a review of the last set of audited accounts and the latest set of monthly management accounts prior to completion of our investment
 - (h) Full legal review of the Company by our lawyers, focusing particularly on ownership of all necessary intellectual property and benefit of all key commercial contracts
- 2.3 [The Company must secure additional institutional co-investment of at least £● on identical terms [from other venture capital funds or similar organisations acceptable to us]. We will not underwrite the total funding sought nor guarantee the securing of co-investors.]
- 2.4 The share option pool will be increased [prior to the investment] to represent ●% of the equity shares on [completion][a fully diluted basis]. These extra share options will be reserved for new employees and will have an exercise price equal to the Original Issue Price [or may be exercised at a discount to that price subject to consent from the relevant tax authority and the Investor Director]. [Following grant, these options will vest quarterly over a ● year period, [subject to a minimum employment of ● year].
- 2.5 The investment must comply with the money laundering regulations and rules of the Financial Conduct Authority.

3. **[Good leaver/bad leaver provisions]**

Ordinary Shares in the Company (the "**Ordinary Shares**") held by [INSERT NAMES OF FOUNDERS] (the "**Founders**") [and [INSERT NAMES OF RELEVANT EMPLOYEES]] will be subject to [vesting rights] [and good leaver/bad leaver provisions] as summarised in Appendix 3.]

4. **Terms of investment**

- 4.1 The Company and the Founders will provide the Investors with customary representations and warranties examples of which are set out in Appendix 4 and the Founders will provide the Investors with customary non-competition, non-solicitation and confidentiality undertakings.
- 4.2 The board of directors of the Company (the "**Board**") will have a maximum of ● directors. For so long as [INSERT NAME OF INVESTOR] holds at least ●% of the issued share capital of the Company it will have the right [to appoint one director (the "**Investor Director**") [and][or][a non-voting observer to the Board]]. The composition of the Board on completion will be ●. There will be a minimum of ● board meetings each year.
- 4.3 The Investor Majority or [the consent of [all][at least ● of the Investor Directors] (the "**Investor Director Consent**") will be required for certain key decisions, examples of which are set out in Appendix 5.
- 4.4 The Founders and the Company will undertake certain matters to the Investors, examples of which are set out in Appendix 8.
- 4.5 [The Company will form a Remuneration Committee [and an Audit Committee] upon completion and [INSERT NAME] will be the chairman [of both].]

- 4.6 The Company will have an obligation to supply normal financial and operational information about the Company to the Investors.
- 4.7 The Investors and the existing shareholders will have rights to acquire and sell shares as outlined in Appendix 6.
- 4.8 [In the event of an initial public offering of the Company's shares on a US stock exchange the Investors shall be entitled to registration rights customary in transactions of this type (including two demand rights and unlimited shelf and piggy-back rights), with the expenses paid by the Company]
- 4.9 The key members of the management team will be required to sign service agreements which include customary provisions for non-disclosure, non-competition, non-solicitation, confidentiality, assignment of intellectual property rights, and termination.
- 4.10 [Within [●] months of completion,] [Before completion,] the Company must obtain key man and critical illness insurance, naming the Company as beneficiary on the lives of ● and ● for an amount of £● and director and officer liability insurance, both in a form acceptable to the Investors.
- 4.11 [The Company will agree to pay to the Investors an annual, index-linked monitoring fee of £● per annum plus VAT, charged quarterly in advance, plus reasonable out of pocket expenses in respect of each Investor Director.]
- 4.12 [The Company and the Investors will bear their own costs in relation to the investment save that the Company will contribute an aggregate of £● to the investment appraisal and legal costs of the Investor.] [In addition, on completion, the Company will pay to us a transaction fee of £● plus VAT].

5. Confidentiality

- 5.1 This Term Sheet is written on the basis that its contents and existence are confidential and will not (except with the agreement in writing of the Investors and the Company or in order to comply with any statutory or stock exchange or other regulatory requirements) be revealed by the Investors, the Company or the Founders to any third party or be the subject of any announcement.
- 5.2 The Investors and the Company agree that they will enter into a non-disclosure agreement before the Investors begin their due diligence investigations.

6. Applicable law

This letter (and any dispute or claim relating to it or its subject matter (including non-contractual claims)) is governed by English law and on acceptance the parties submit to the non-exclusive jurisdiction of the courts of England and Wales.

7. Expiry date

The Founders and the Company are requested to confirm their acceptance of the terms of our proposal within 14 days of the date of this letter, failing which our proposal will lapse.

8. Exclusivity

In consideration of the Investors expending time and professional and other fees (the "**Costs**") in progressing this offer the Founders and the Company agree and undertake that they will not directly or indirectly until the earlier of the expiry of ● days from the date of acceptance of the terms of this proposal or the date that the Investors notify the

Company of their intention not to proceed with this proposal (the "**Period**") solicit, directly or indirectly, further offers for the purchase and/or subscription of shares in the Company (or any part thereof) or any material part of the business, assets or undertakings of the Company or enter into or continue to seek negotiations with any party other than the Investors in connection with such matters.

The Founders and the Company agree and undertake to inform the Investors immediately of the identity of any third party who contacts the Founders or the Company with a view to the sale of any interest in the shares of the Company or any part of the business of the Company.

[By accepting this offer the Founders and the Company confirm that if:

- (a) they withdraw from negotiations with the Investors during the Period unless the Investors propose material terms which are not in this Term Sheet or which materially differ from any in the Term Sheet; or
- (b) if they breach the exclusivity provisions in paragraph 8[; or
- (c) if the Investors decide not to proceed with this offer due to a materially adverse fact or circumstance [which exists today but] of which the Investors become aware during this Period,]

then the Company and the Founders undertake to pay to the Investors:

- (i) the sum of £● (such sum being a genuine pre-estimate of the loss to the Investors in the event that this offer does not proceed); and
- (ii) to the extent not recovered under paragraph (i) above the Costs incurred by the Investors in relation to this proposal:

provided that under no circumstances shall the Company and the Founders be obliged to pay the Investors more than £● under this paragraph 8]

Each of the undertakings referred to in this paragraph 8 shall be read and construed independently so that if any undertaking is held to be invalid or unenforceable for any reason the remaining undertakings shall continue to apply.

9. No intention to create legal relations

Except for the provisions of each of paragraphs 5 to 10, which are intended to create legally binding obligations between the parties, this Term Sheet sets out indicative terms on which we would be prepared to make an investment in the Company and will not give rise to any contract between us.

10. Exclusion of representations and warranties

By accepting this proposal you acknowledge that you have not relied on any representation or warranty on our part or entered into any other agreement with us in connection with the provision of funding by the Investors.

11. BVCA model documents

The investment documents shall be based upon the BVCA's model documents.

To confirm your acceptance of the terms of this proposal please sign and date the duplicate copy of this Term Sheet and return it to us.

[On copy]

To: [INSERT NAME OF INVESTOR]

We hereby acknowledge and accept the terms of the above Term Sheet. We confirm that we grant you a ● day period of exclusivity from the date of acceptance and that in the event that we subsequently withdraw from the transaction, in accordance with paragraph 8 of the Term Sheet, we will reimburse to you on demand a sum equal to all the external professional costs and expenses incurred by you up to the date of our withdrawal subject to the maximum amount specified in paragraph 8.

.....

Signed by [

for and on behalf of [] Limited date

..... date

[Founder]

..... date

[Founder]

..... date

[Founder]

APPENDIX 1

Capitalisation table

Part 1

[current capitalisation]

Part 2

[post funding capitalisation]

APPENDIX 2

Rights attaching to Series A Shares

1. The Series A Shares will vote with Ordinary Shares as a single class on all matters, other than those referred to in Appendix 5.
2. [The Series A Shares will have a fixed cumulative cash preferential dividend of ●% per annum [starting on ● 20●●] (the "**Preference Dividend**") to be paid [on a Corporate Transaction, IPO or conversion of the Series A Shares]/[in [four] equal instalments on ●, ●, and ● in each year]/[on ● in every year], [on the winding up of the Company] or [on redemption of the Series A Shares]. Any other dividends or distributions will be payable to all shareholders on a pro rata basis.]
3. [If the Company undertakes a transaction or series of transactions involving a transfer or licensing of some or all of the rights in relation to some or all of the assets of the Company as a result of which the Company has profits available for distribution the Company will, with Investor Majority Consent, pay to the equity shares a dividend (a "**Special Dividend**") equal to the amount of such profits which shall be distributed as set out in paragraph 4.]
4. Upon liquidation of the Company, the Series A Shareholders will receive in preference to all other shareholders an amount in respect of each Series A Share equal to [● times] the Original Issue Price (the "**Liquidation Preference**"), plus all accrued but unpaid dividends. [The holders of Ordinary Shares will also be entitled to recover an amount per Ordinary Share equal to the amount paid up on those Ordinary Shares.] To the extent that the Company has assets remaining after the distribution of that amount, the Series A Shareholders will participate with the holders of Ordinary Shares pro rata to the number of shares held on an as converted basis.
5. Sale of all or substantially all of the assets of the Company or a sale of shares involving a change in control (each, a "**Corporate Transaction**") will be treated in the same way as a liquidation and the proceeds of sale will be distributed as set out in paragraph 3. [If the holders of Series A Shares have received any Special Dividend it shall be set off against their Liquidation Preference.]
6. [An initial public offering "**IPO**" will be treated in the same way as a liquidation. The Company will issue to each holder of Series A Shares that number (if any) of Ordinary Shares so that the proportion which the Ordinary Shares held by that shareholder bears to the fully diluted share capital following completion of all such issues and the conversion of the Series A Shares will be equal to the proportion which the proceeds that that shareholder would have been entitled to receive on a sale on that date would bear to the valuation of the Company at that date.]
7. The Series A Shares:
 - (a) may be converted into an equivalent number of Ordinary Shares by their holders at any time;
 - (b) shall convert automatically if requested by the Investor Majority; and
 - (c) will be converted automatically into an equivalent number of Ordinary Shares upon an IPO: (i) at a net offering price per share of at least [● times] the Original Issue Price (after adjusting for any recapitalisation events) and (ii) resulting in net aggregate proceeds to the Company of not less than £●.

8. On conversion of the Series A Shares all accrued but unpaid dividends must be paid. If the Company does not have sufficient profits available for distribution to pay the unpaid dividends they will remain outstanding as a debt.
9. The Series A Shares will have a [full ratchet]/[broad-based weighted-average]/ [narrow-based weighted-average] anti-dilution protection in the case of any new issue of shares at a price below the Original Issue Price (after adjusting for any recapitalisation events) other than share issues which are not subject to pre-emption rights. This anti-dilution protection will operate by the issue of [Series A] [Ordinary] Shares at par through a capitalisation of share premium account.
10. [If the Company makes a subsequent issue of shares in which the Investors are entitled to participate and an Investor elects not to do so (i.e. does not wish to pay to play) for at least [50]% of its allocation that Investor will lose its right to participate in the issue of shares and its anti-dilution right in respect of any Series A Shares it holds.]

APPENDIX 3

Rights attaching to Ordinary Shares held by the Founders [and employees]

1. Subject to paragraph 3 below, the Ordinary Shares held by the [Founders][employees] will vest equally on a [quarterly/monthly] basis over a • year period save that if a Founder ceases to be employed or engaged by the Company within 12 months no Ordinary Shares shall vest.
2. If [a Founder][an employee] ceases to be an employee of the Company [those Ordinary Shares which have not vested] [all those Ordinary Shares] will convert into deferred shares in the Company (the "**Deferred Shares**"). The Deferred Shares will have no right to receive a dividend, minimal rights to capital and will be non-voting. The Company will have the right to purchase back the Deferred Shares for an aggregate purchase price of £0.01 at any time.
3. In the event of [a Founder][an employee] ceasing to be an employee of the Company within a period of [] years starting on the date of commencement of his employment with the Company, [all of his shares][his unvested shares] must be offered for sale:
 - (a) where the relevant employee shareholder is a Bad Leaver, at the lower of market value and the nominal value of the shares; and
 - (b) where the relevant employee shareholder is a Good Leaver, at the market value of the shares.

The shares must be offered for sale in the following priority:

- (c) to any person approved by the Board and the Investor Majority and/or;
 - (d) to the Company.
4. [Unless otherwise determined by the Board, including the Investor Director] "**Good Leaver**" means any employee shareholder who is not a Bad Leaver. "**Bad Leaver**" means any employee shareholder who ceases to be an employee as a result of voluntary resignation or dismissal for cause (being lawful termination by the Company).

APPENDIX 4

Proposed warranties

The Investors will require the following items to be warranted by the Founders and the Company:

- Status of the Company
- Latest available audited accounts
- Management accounts covering the period from latest audited accounts to completion of the proposed investment
- Position since audited accounts date
- Business plan
- Ownership of assets and HP liabilities
- Employment contracts
- Intellectual property
- No outstanding liabilities to executives
- Pension plan
- No litigation pending or threatened
- No breaches of existing or recent contracts
- Register of members correct/no other share issues committed
- Insurance policies up to date
- Loans/guarantees
- Taxation
- Property leasehold — terms/rights/obligations.

The above items are not comprehensive and are only intended to provide a guide to the warranties that are likely to be included in the Subscription and Shareholders Agreement. In particular, additional items may require warranting following due diligence. The objective of these and other warranties will be to ensure that Founders and the Company have provided the Investors with accurate information on matters upon which the Investors have based their investment decision.

APPENDIX 5

Proposed covenants

1. Investor consents

The prior written approval of the Investor Majority will be required to:

- Change the share capital
- Amend Articles of Association
- Pay any dividends
- Acquire any new business, shares or other securities
- Permit a sale or IPO of the Company
- Wind up the Company
- Enter into any guarantee or indemnity in respect of the obligation of a third party
- Grant any superior registration rights to those granted to the Investors
- Adopt a budget
- Sell or deal with assets other than in ordinary course of business

2. Board consent

The [consent of the Investor Director][the Investor Director Consent] will be required to:

- Incur development or capital expenditure outside the annual budget
- Dispose of any asset of a capital nature having a book or market value greater than £●
- Make any change of trade/business
- Create or close any subsidiaries / joint ventures/ consortiums / partnerships / branches
- Any act or thing other than in ordinary course of business
- Any change of auditor/accounting reference date/accounting policies/bank
- Change the annual budget
- Agree any borrowings, loans, advances or credit outside the annual budget
- Any appointment of an employee or consultant or variation of terms where emoluments exceed £● or more than 3 months' notice required

- Appoint or remove directors to/from the board of the Company or any subsidiary companies
- Create charges
- Conduct any material litigation
- Implement any variation to the Company's pension arrangements
- Acquire real estate and other real estate-related matters
- Enter into any arrangement with any director or shareholder of the Company or any subsidiary companies
- Enter into any transaction otherwise than on arm's length terms
- Amend any material supply or distribution agreement
- Enter into any material long term contract

Materiality and other financial limits for the above to be discussed. The above items are not comprehensive and are only intended to provide a guide to the consent items that are likely to be included in the Subscription and Shareholders Agreement.

APPENDIX 6

Conditions of issue and transfer of shares

1. [Investors will have a right of first refusal on any new issue of shares of any class.]
[Investors will have the right to participate with the holders of Ordinary Shares in any new issue of shares of any class pro rata to their holding of shares (determined on an as converted basis).]
2. Investors will have a right of first refusal to acquire any Series A Shares which are proposed to be transferred. Holders of Ordinary Shares will have a right of first refusal to acquire any Ordinary Shares which are proposed to be transferred, unless an Employee Trust wishes to acquire such shares, with any Ordinary Shares not taken up in such offer being offered to the holders of [Series A Shares][equity shares]. There will be customary permitted transfers, including transfers by Investors to affiliated funds.
3. [No Ordinary Shares can be sold without the prior consent of the Investor Majority.]
4. [All Shareholders] [The Investors] will have co-sale rights such that if any Founder [or employee] has an opportunity to sell [any of his shares] [shares exceeding ●% of the issued share capital], the other shareholders must be given the opportunity to sell a pro rata proportion of the number of shares being sold by the Founder [or employee] on the same terms and at the same price.
5. All Shareholders will have rights such that if any shareholder has an opportunity to sell any or all of its shares, the effect of which would result in a change of control of the Company, the other shareholders must be given the opportunity to sell all of their shares on the same terms and at the same price.
6. If holders of at least ●% of the Series A Shares [and Ordinary Shares] agree to sell their shares, there will be drag along rights so that all remaining shareholders and option holders will be required to sell on the same terms, provided that the dragged shareholders will not be required to provide to the purchaser any representations or warranties except as to title or to agree to any other terms.

APPENDIX 7

Part 1

Performance milestones

Part 2

Other conditions to Second Tranche

1. In the [reasonable] opinion of [an Investor Majority][the Investors] there has been no material adverse change in the financial position or prospects of the Company since completion of the First Tranche.
2. Each of the Founders continuing to be employed or engaged by the Company.

APPENDIX 8

Undertakings

1. The Company shall maintain in effect for the benefit of the Company the keyman policies for [].
2. The Company shall take out insurances satisfactory to the Investors.
3. The Company shall take all such reasonable action as may be required of it by the Investors to protect its assets.
4. All new business opportunities relevant to the Company shall only be taken up through the Company or a wholly owned subsidiary.
5. New employees engaged by the Company shall not bring with them intellectual property belonging to third parties.
6. The Company shall convene and hold at short notice a general meeting of the Company when requested by the Investors.
7. The Company shall enter into an election under section 431(1) of ITEPA jointly with each of the relevant Managers.