

Example of finance term sheets essay

[Business](#), [Company](#)



Introduction

A venture capital is a financial intermediary whereby it takes funds from investor and makes investments in equities especially in portfolio companies. Normally, they are structured as limited partnerships with the capitalists becoming the general partners of the fund. The investor acts as the limited partner. The venture capitals have five main traits: they only invest their funds in private corporations, they act as financial intermediaries, they monitor the companies they invest in, and funds are used for the company's internal growth. Normally, the venture capitalists are involved in investing, monitoring and exiting (Metrick, 2007).

An investment starts with the capitalist's prospects for new investment opportunities and this does not stop until the investment contract is underwritten and signed. A term sheet is prepared for making the preliminary offers. The term sheet outlines the valuation, security type and control rights of the proposition made and this is to inform the investors. Once the choice is made the final processes and procedures are made for the final contract formation and the final closing is made.

The monitoring process starts after the investment is made which involves the VC participates in the company activities through board meetings, recruitments and maintaining a flow of advice. This is an opportunity for the investments made to gain value and comparative advantages (Metrick, 2007).

Exiting is the process which involves the venture capitalist returning the investments money back to their owners at an added value and so much experience, skills, and strategies (Gompers et al, 2004).

1. After a portfolio company has an IPO, the VCs are free to sell their stock in this company in the public market.

Answer: true

2. After a portfolio company has an IPO, the VCs are free to sell their stock in this company in the public market.

Answer

The exiting procedure as stated above is one that requires a lot of experience, knowledge, skills and an exit strategy. The venture capitalist is under obligations made by the contract to the investor and the company they invest in and so this step is normally done by doing consultations with investment bankers. From experience and historical reports many venture capitalists are able to make very rewarding exits when capitals issue IPOs. The possibility of the company the capitalist has made the investment issuing an IPO is one among very other few exit strategies for exit such as selling the proportion of investment to another company (Metrick, 2007).

Answer 3

The 6, 000, 000 shares is equivalent to 25% of the shares at post financing at a cost of \$6, 000, 000. To find the original policy price we get the number of shares during the pre-financing period which is:

$$0.25 * 1800000 = 4,500,000 \text{ shares}$$

For the same number of shares = 4, 500, 000 for 6, 000, 000 = \$0.75 which is the original purchase price.

The aggregate price is therefore $1 + 0.75 = 1.75/2$
\$0.875 which is the aggregate price

Aggregate price is the number of times the shares purchased and the original purchase price. The aggregate purchase price is calculated from the original price since it is the number of shares purchased times the original purchase price.

Original purchase price determines how many shares the venture capitalist gets. It is the original price per share which is used to calculate the number of shares the capitalist gets from the overall share percentage of issued shares. They are stated in the capitalization table as well as the investors involved in the transaction. All investor information such as the amounts of funds they have invested the number of the shares that have been issued for each transaction and lastly the number and value of shares outstanding as fully diluted shares. The pre-financing valuation and post financing valuation is done as stated in the capitalization table and the percentage of the securities the capitalist owns can be calculated (Metrick, 2007).

Normally, the venture capitalist only holds the preferred stock which is valued at different prices and procedures from common stock. This nature of these stocks makes them require restrictions from the securities exchange commission and securities Act of 1933. The information on the ownership of the shares is displayed on the capitalization table before and after financing. Included is also the percentages of stock the employees of the corporation own which are referred to as options as they provide incentives for the employee compensations. A certain percentage of the diluted shares include

these stock options and they are not normally issued in the early financing rounds (Ortgiese, 2007).

Restricted Stock during Private Purchase

Restricted stocks are those acquired through direct or indirect means in public or private companies. They may also be acquired through private offering like in our case of venture capitals since they neither are nor acknowledged or registered with the SEC. They can only be acquired by merging with corporations, stock options exercises, purchasing bonus shares, or if one is to be compensated for services (Ortgiese, 2007).

This nature of these stocks and securities makes them get restriction on how they are sold. Their sale will be dependent on the manner of acquisitions and when this was done. In our case the stocks are purchased through a contractual agreement and since the venture capitalist will is restricted by the contract agreement the time is limited with the agreement. The contractual agreement also restricts the resale of the stock (Gompers et al, 2004)..

The reasons why they are restricted are because they are first of all restricted by law. The Rule 144 of the Securities Act of 1933. First, this law demands that the securities be registered with the securities exchange commission (SEC). This should be done before they are offered for sale; this is only exempted if the transaction or the stocks themselves are legally not subject to this registration. The individual different from the underwriter and the issuer, has an intention to sell the securities after purchase, an underwriter could be deemed to him and under this act he is exempt from (Ortgiese, 2007).

In conclusion, other restrictions to these private securities arise from the guidelines set by the securities exchange commission (SEC). One of these restrictions is the time to which a person is the time through which a person can conduct a resale of securities purchased. These regulations regulate the processes of both private and public sale of securities to affiliates of companies who want purchase the resale securities. Rule 144 allows the non affiliate of a portfolio company to resell the stocks restricted after six months without any limitation or resale process. The six month holding period of stocks is allowed without further sale volume restrictions (Gompers et al, 2004).

References

Metrick, A. (2007). Venture capital and the finance of innovation. Hoboken, NJ: Wiley. Gompers, Paul, and Josh Lerner, (2004), The Venture Capital Cycle, New York: MIT press.

Ortgiese, Jens (2007), Value Added by Venture Capital Firms. New York: Eula publishing