

Venture Capital Term Ranking

Rank these components of the typical VC term sheet 1-9 to see how you should work to structure your deal with a prospective VC investor.

You won't be able to negotiate all these points, so identify terms that are most important and focus on those.

VC Term	Rank
Investment amount The more funding you take, the more equity you'll need to relinquish	
Valuation This is the current estimated value of your company; the higher the valuation the lower the percentage of equity you'll need to relinquish	
Liquidation Preference This protects investors in case of a negative liquidity event, it is usually set a 1X	
Dividends These may or may not be paid – they vary from 5-15%; “cumulative” dividends can present a financial hurdle at exit, “non-cumulative” are better	
(continued)	

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VC Term	Rank
Conversion The ratio is usually 1-to-1, preferred stock to common; It happens automatically at an IPO and when approved by preferred stockholders	
Voting Rights The majority of preferred stockholders are those usually given authority to change any rights or number of shares, declare or pay a dividend, change the number of directors, or dissolve or sell the company	
Drag Along Selling the company requires a majority vote of the board, preferred stockholders, and those who hold 1% of more of the stock	
Board VCs will need a seat on the board and 1 seat for investors and 2 for the founders is typical	
Vesting The shorter the time period, the better	

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