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PLAYBOOK FOR FOUNDERS

Term Sheet & Co.

How to choose between **equity, convertible loan and participation rights**, and which **ten terms** decide whether a contract is founder-friendly.



WITH
10
KEY TERMS

#GIVINGFORWARD · NOVEMBER 2026

An angel wants to invest.
Send your own contract.

YOUR NEXT STEP

Here is our contract for your review. We can walk you through each paragraph in a call or you just let me know if you have any questions. OK for you?

Look professional.

Investors may be inexperienced or lazy. **Show them you are the opposite.**

Minimize friction.

Make it as easy as possible to **follow through** with their commitment.

Avoid bad terms.

You start with **your best terms**. Investor contracts often hide clauses you don’t know.

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PART 1

Three ways to accept an investment.

Equity investment, convertible loan agreement (CLA) or participation rights (Genussrechte), a modern alternative. Compare them from your side and from the investor’s side.

Equity | Convertible loan | Participation rights | 9 dimensions

COMPARISON · STRUCTURE

What you get: ownership, flexibility and valuation.

	Equity investment	Convertible loan (CLA)	Participation rights
Ownership	SHARES Direct equity in the form of shares.	FUTURE EQUITY Right to convert the loan into equity later.	PARTICIPATION RIGHTS Economically like a shareholder: dividends, exit and liquidation proceeds.
Funding flexibility	LIMITED Typical for large rounds, less for small amounts.	HIGH Bridge to a larger round or fund smaller amounts.	HIGH Close investors at any time, also with small tickets.
Valuation	FIXED At the time of investment.	DEFERRED To a future round. Often with a cap, risks remain.	PER INVESTOR Terms are set individually for each closing.

Participation rights (Genussrechte) as offered e.g. by the platform beel. Investors are in your cap table, not in the commercial register.

COMPARISON · EFFORT

What it costs you: money, time and complexity.

	Equity investment	Convertible loan (CLA)	Participation rights
Cost	HIGH Legal fees, notary and registering the capital increase.	MEDIUM Lower upfront legal costs, complex conversion terms.	MEDIUM Platform subscription plus a fee per investment.
Time to execution	LONG Weeks to months for regulatory and admin steps.	SHORT Signed on the spot when both sides accept.	SHORT No notary. Investors sign and pay digitally in minutes.
Legal complexity	HIGH Shareholder approval, notary and corporate law.	MEDIUM A loan agreement, no immediate change of shareholders.	LOW Standardized contracts, one-time shareholder agreement, no register entry.

Participation rights (Genussrechte) as offered e.g. by the platform beel. Investors are in your cap table, not in the commercial register.

COMPARISON · INVESTOR VIEW

What investors see: rights, appeal and scalability.

	Equity investment	Convertible loan (CLA)	Participation rights
Investor rights	FULL Voting, dividends and general meetings.	LIMITED No voting or dividends until conversion.	ECONOMIC Like a shareholder economically, no voting rights by default.
Attractiveness	HIGH Traditional and widely understood.	HIGH Flexible, valuation risk deferred.	MEDIUM No shares and no voting rights, new to some investors.
Scalability	LOW Many equity investors become cumbersome.	MEDIUM Simple early on, complex at conversion.	HIGH Cap table stays simple, regardless of the number of investors.

Participation rights (Genussrechte) as offered e.g. by the platform beel. Investors are in your cap table, not in the commercial register.

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PART 2

Ten terms you need to understand.

What each term means, an example and when it is founder-friendly.

- Cap
- Discount
- Pro rata
- Liquidation preference
- Drag-along
- Tag-along
- Option pool
- Vesting
- Anti-dilution
- Warranties

The investor converts at the more favorable valuation.

Valuation cap

The **maximum valuation** at which a CLA converts into equity.

EXAMPLE

A €4m pre-money cap: a €400k loan converts into **9.1% post-money**, even at a higher company valuation.

FOUNDER-FRIENDLY IF

the cap is **high**. It reduces dilution upon conversion.

Discount rate

The **percentage discount** on the valuation of the next round.

EXAMPLE

A 20% discount on a €5m round: CLA investors convert at **€4m** and get more shares per euro.

FOUNDER-FRIENDLY IF

the discount is **lower**. 20% is quasi market standard.

Only cap **or** discount is applied: whichever gives the lower valuation.

Two rights that matter to every investor.

Pro rata rights

The right to **keep the ownership percentage** in future rounds.

EXAMPLE

An investor with 10% may invest further to keep the 10% stake.

FOUNDER-FRIENDLY IF

optional, at fair market valuation and with an **expiration date**.

Liquidation preference

Who gets what in an **exit or liquidation**. Non-participating: the investor gets **either** the investment (plus agreed returns) **or** the share by ownership, never both.

EXAMPLE

1x: the investor gets the €200k back before others share the proceeds.

FOUNDER-FRIENDLY IF

limited to **1x** and **non-participating**.

Fairly standard, and important to both sides.

Drag-along rights

The majority can **force minority shareholders to sell**, so they cannot block a sale of the company.

EXAMPLE

Investors can force a sale if **75%** of shareholders approve.

FOUNDER-FRIENDLY IF

the conditions are **clearly defined** to protect you in an exit.

Tag-along rights

Minority shareholders can **join a sale** of a majority shareholder on the same terms.

EXAMPLE

A majority investor sells 60% of the company. Founders with 10% can sell **6%** (10% of 60%) to the same buyer.

FOUNDER-FRIENDLY IF

it protects your ability to **sell alongside** major investors.

Equity for your team and for yourself.

Employee option pool

Reserves equity for **employee options**, usually diluting existing shareholders.

EXAMPLE

After the investment the GmbH has 31,250 shares. 3,472 (virtual) shares are added for employees: **10% of 34,722**.

FOUNDER-FRIENDLY IF

the pool is created **post-investment**, not diluting only the pre-investment shareholders.

Founder vesting

Founders **earn their equity over time**. It protects investors if a founder leaves early.

EXAMPLE

25% vest per year over 4 years. A founder who leaves after 1 year keeps **25%**.

FOUNDER-FRIENDLY IF

a reasonable timeline, e.g. **4 years with a 1-year cliff**.

Anti-dilution: prefer the broad-based weighted average.

Broad-based weighted average

Adjusts the investor's conversion price to the **weighted average** of old and new share price. Minimizes dilution.

EXAMPLE

A new round prices shares at €200 (down from €500). The investor's price might be adjusted to a **€300 average**.

FOUNDER-FRIENDLY IF

this formula is used. It **minimizes the dilution impact** compared to full ratchet.

Full ratchet

Resets the investor's conversion price entirely to the **lowest price** of the new round.

EXAMPLE

Same round: the investor's price drops to **€200**, with much more dilution for you.

The devil is in the details: read every word.

MAXIMUM RISK

“Without any qualification”: the guarantee is unlimited and independent of what the guarantor knows. Maximum liability risk for you.

FOUNDER-FRIENDLY

“To the best knowledge”: subjective and limited to current knowledge, with no active duty to investigate.

FREE CONTRACT TEMPLATES

The Business Angel association **BAND** and the **Startup-Verband** created templates that are widely accepted among business angels: standardsinstitute.de/en/standard-documents

REMEMBER

Send your own contract, and understand every word of it.

You stay in charge of the process, start with the best terms and make it easy for investors to follow through. This guide is no legal advice: let a lawyer check your contract.

#GIVINGFORWARD

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