Term Sheet

Regarding the proposed investment in [Company] (the “Company”)

This Term Sheet explains the (non-exhaustive) main terms of the proposed investment in the Company. All sections of this Term Sheet are non-binding with the exception of the section “Binding conditions”. No legally binding obligations or rights are obtained until signing of the Investment Agreement (IA) and Shareholders Agreement (SHA).

Explanation: the term sheet is ‘non-binding’ i.e. not a binding legal agreement to execute the investment. All parties can cancel this agreement at any time and are not bound to its conditions, except for the conditions described in the “Binding conditions” section (costs, exclusivity and confidentiality) and the applicable law of this agreement.

Investment

Arches Capital I FGR (represented and managed by Arches Capital Management B.V.) is looking to invest € [X] in an equity deal with a post-money valuation of € [Y] according to the capitalization table found in (attached) Schedule 1.

Explanation: this section makes clear what amount Arches Capital is looking to invest and at what valuation. Arches Capital only invests in equity deals and not in CLAs (convertibles loan agreements) or SAFEs (simple agreement for future equity), so that is explicitly stated. Arches Capital invests through a pooled investment vehicle, called a ‘Fonds voor Gemene Rekening’ (FGR), so all the participating members of Arches Capital are pooled together as “one line on the cap table”.
The post-money valuation is the pre-money valuation plus the investment amount. If the investment amount is not yet fixed, we will present a pre-money valuation. In order to be crystal clear we describe the before and after situation in a capitalization table depicting the (economic) shareholder structure on a fully diluted basis.

Arches Capital rights

In return for the significant minority share interest Arches Capital expects to have the following rights attached to its shares:

1. **One-Tier Board**: the Company will establish a one-tier board. Arches Capital shall have the right to appoint and dismiss one (1) non-executive board member. [Founder 1], [Founder 2] (as executive board members) and [Arches Capital lead] (as non-executive board member) will reside on the board.

Explanation: we prefer to work with a one-tier board. There are three common board structures for corporate governance in the Netherlands.
First of all, a Board of Directors (Dutch: “Raad van Commissarissen” or “RvC”), which is well-defined in the Dutch Commercial Code. This structure works well for large corporations, where there is a distance between the board and management.
Second, an Advisory Board (Dutch: “Raad van Advies” or “RvA”), which allows advisors to be close to the start-up. This structure lacks a legal and formal framework in the Dutch Commercial Code, which can lead to unclear actions, responsibilities and (unexpected) liabilities of advisors to the company.
That is why we prefer the third structure: the one-tier Board. The one-tier board is clearly described in the Dutch Commercial Code and it allows for close, valuable and efficient collaboration between the executive and non-executive board members.

2. **Shareholders Agreement (SHA)**: The shareholders agreement will contain standard venture capital clauses that need to be signed by all shareholders, including, but not limited to:
   - The right of Arches Capital to participate for twice the pro-rata share in following financing rounds of the Company.

Explanation: we would like to participate in following rounds for (at least) twice out pro-rata share to not dilute our share and beyond this to provide confidence in the growth of the company by looking to do (rule of thumb: at least half of) the next financing round.

- A one-time (1x) non-participating liquidation preference.

Explanation: this liquidation preference provides a 'down-side protection' for Arches Capital. In case of an exit (sale or liquidation), Arches Capital may choose to call its liquidation preference and receive from the proceeds of the event up to (max) 1x the initial investment before distributions to other shareholders are made. Any remainder of the proceeds is then divided amongst the other shareholders (not Arches Capital). If the liquidation preference is not called by Arches Capital all shareholders will receive their pro-rata share of the proceeds.
Arches Capital chooses <u>not</u> to use a 'participating preference' in which it would always first receive a multiple (commonly seen are 1x-3x) of the initial investment before the remainder of the proceeds is distributed pro-rata to all shareholders (including Arches Capital), since we consider that too strict und unfair.
Calculatory example: Arches Capital invested EUR 500k and owns all preference shares representing 20% of all shares outstanding. The founders own all ordinary shares, representing 80% of all shares outstanding. Exit proceeds are divided as follows:

1) *1x liquidation preference: EUR 500k to Arches Capital*
2) *Catch-up: EUR 2,000k to the founders*
3) *All proceeds above EUR 2,500k in a 20% / 80% split*

So, if exit proceeds in the calculatory example are below EUR 2,500k Arches Capital would use its liquidation preference and if exit proceeds are above EUR 2,500k Arches Capital would share in 20% of the proceeds.

- Broad-based Weighted Average anti-dilution rights in case of a future down-round.

Explanation: anti-dilution provisions in venture capital transactions are protective clauses that prevent investors from unfairly losing ownership in case of down-rounds (offering shares at a lower price than had been sold for in previous financing round). There are two options in anti-dilution provisions: 'weighted average' (with two flavours: 'broad-based' and 'narrow-based') or 'full ratchet'. The latter, the least favourite for the entrepreneur, has become uncommon in venture capital. Broad-based weighted average is our preferred option because it is the most founder-friendly provision and most commonly used.

- Tag along rights for all shareholders in case of a sale of 5% or more of the shares.

Explanation: these rights guarantee that all shareholders can 'tag along' with a sale of more than 5% of the shares. Tag along rights can be viewed as co-sale rights. When one party sells more than 5 percent of their shares for a certain price, the other shareholders are also entitled to sell X percentage for the same price.

- Drag along rights with Qualified Majority (to be determined based on the cap table, but shall at least include the consenting vote of Arches Capital).

Explanation: these rights guarantee that other shareholders can be 'dragged along' with a partial or whole sale of the company, which is important for companies to not let minority shareholders obstruct or blow up a good deal. Drag along rights are used to force a minority investor to accept a third party offer. It should at least include the consenting vote of Arches Capital.

- Good / Early / Bad leaver including 4 years reverse-vesting for founders and key personnel.

Explanation: this mandatory clause for start-up founders and key personnel is to safeguard continuity of the company, while still describing ways for founders (or key team members) to leave the company for any reason. This provision is one every well-organized company should have amongst their founders. The good / early / bad leaver provision defines, when a founder leaves the company, what will happen to his/her shareholdings. As the impact of a leave may diminish over time, the clause has a 'reverse vesting', meaning that a smaller amount is (mandated to be) transferable upon leaving.

- Approval from Arches Capital appointed non-executive board member and/or Qualified Majority for certain decisions, including, but not limited to:
  a. changes to rights attached to Arches Capital shares;
  b. budget;
  c. expenditure thresholds;
  d. key personnel.

Explanation: we seek minority shareholdings (leaving a majority stake with the founder or key team members as long as practically possible) in companies and therefore we require some extra mandate on decisions concerning the Company and our stake. Basically these come down to 4 points. First, we would like to have approval on changes to our rights both financial and non-financial. Second, if the budget is approved, the entrepreneurs can execute their plans. Third, if any significant expense is done outside the budget, this will require approval. Finally, we would like to be involved and have a vote on key personnel that is hired.

- The right to receive (financial) information.

Explanation: Arches Capital will appoint a lead investor (to be installed as non-executive board member), who should have access to all relevant (financial) information. We expect that the company does some form of monthly closing. Entrepreneurs will provide Arches Capital with relevant information, including light-weight monthly financial updates on key metrics (through a small form and/or through a dashboard) and accompanying voice-over on these financial updates.

- Restrictive covenants (non-compete / non-solicitation) for the Founders for a period of 2 years after departure.

Explanation: the non-compete clause protects the business interests and prevents founders from working for competitors or from starting a similar enterprise after resigning for a period of 2 years. The same period applies for the non-solicitation clause that forbids the founders to contact clients after leaving the company. This clause is included to protect the Company and to retain its competitive advantage.

- Establish and monitor policies on diversity and sustainability of the company.

Explanation: Arches Capital highly values policies related to diversity and sustainability. The pursuit of diversity is not just about doing the right thing, but a diverse workforce can drive better outcomes that can enhance business growth and brand reputation too.

- Arches Capital will invoice € 500 per year for services rendered.

Explanation: Arches Capital offers their portfolio companies all kind of services that enhance performance of your team, extend the network of the Company and are simply good fun. These services include but are not limited to all kind of workshops and events with our investors and portfolio companies. To cover for these expenses we will invoice a yearly fee.

- An Employee Incentive Plan (EIP) (by means of SAR rights) will be created for [X]% of the total equity (fully diluted) pre-closing. Reservations will be made for (future) key employees.

Explanation: Arches Capital highly values the importance of an EIP for the growth of a company and reaching their goals. Not only will these plans attract, engage and retain talent, it will also motivate and stimulate of sense of ownership in your workforce. Therefore, we have included this clause in which we secure a percentage of the total equity for (future) key employees. The EIP will be executed by means of Stock Appreciation Rights (SAR). SARs are not certificates or shares in the company, but a claim against the company that is linked to the increasing value of the company and it shares.

- Non-executive board member i.e. [Arches Capital lead] will be compensated with:
  a. € 7,500 in cash (yearly); or
  b. € 3,750 in cash and € 3,750 in SARs pursuant to the EIP; or
  c. € 7,500 in SARs pursuant to the EIP.

Explanation: the non-executive board member that will provide advice and support to the company and represent the interests of Arches Capital will be compensated for his time and efforts. It is up to the Company to decide how the compensation of the board member will take place.

3. **Representations and Warranties**: limited representations and warranties will be given by the Company and the current shareholders of the Company.

Explanation: we expect all information to be provided to Arches Capital to be honest, clear and complete. A disclosure letter will be asked from the entrepreneurs to clarify any issues.

Conditions precedent

Before the investment is executed, agreements are signed and money is transferred, basic due diligence investigation (a.o. technical, legal, financial, tax and team DD) needs to be done on the company and also on you, the founders. Furthermore, we need to agree on the business and financial plan (that will be attached to this Term Sheet and further documentation for investment). Other prerequisites and topics that need to be covered for closing:

1. There are no (expected) material changes in market conditions.
2. Approval is given by the Investment Committee of Arches Capital.
3. Company and Arches Capital have reached agreement on Shareholders Agreement (SHA) and Investment Agreement (IA).
4. No debts other than the debt documented in the budget (Schedule 2) and with the exception of accounts payable in the ordinary course of business.
5. All IP related to the Company will be owned by (and if necessary, transferred to) the Company prior to closing.
6. Management agreements of founders and key personnel must contain clauses on IP transfer, non-solicitation and non-compete; unless agreed otherwise the founders will be fully dedicated to the Company only and allocate substantially of their time to the Company.

Timeline

We expect that within 4 weeks after signing this Term Sheet, we will share the results of the limited due diligence investigation conducted and draft documents for the SHA, IA, articles of association and other related documents.

We strive to close this transaction before [Date].

Binding conditions

Costs

All reasonable third-party fees and expenses made by Arches Capital in the finalization of the Transaction will be borne by and invoiced directly to the Company:

- If the transaction does not materialize: a maximum of EUR 5.000.
- If the transaction does materialize: a maximum of EUR 15.000.

Neither the Company nor any person or entity acting on behalf of the Company has agreed to pay a commission, finder's fee or similar payment in connection with the Transaction or any matter related hereto to any person or entity.

Explanation: to commit to the transaction we will need to perform due diligence on a number of areas (legal, technology, market/commercial and financial), the outcomes of which will strengthen the business plan and improve its success. Although done right, it is our goal to limit the cost of these activities to a minimum, by keeping a standard closing process (as you are experiencing by reading this document). We can provide a reliable break-down for expected costs for due diligence and closing. We do not expect the total amount, which includes due diligences, drafting, signing and notarize deeds for closing, to be higher than EUR 15.000. Anything above that number will be at our cost.

We however do not want entrepreneurs to be able to walk away from their commitment without any consequences. Therefore the Company will bear a maximum of EUR 5.000 for costs already incurred, when the deal does not materialize. Of course the amount is based on actual costs made.

Any additional or non-standard work that has to be executed or contracted in favor of the company or other shareholders (such as setting up new holding companies, conversion of loans or shares, merging or splitting companies, advisory services), which may be prerequisite but not directly related to Arches Capital's acquisition of shares, will be contracted by the Company itself, treated separately and do not form part of the above mentioned due diligence and closing costs

Exclusivity
Arches Capital and Company are bound to an exclusivity period. The exclusivity period for this Term Sheet will last from the Company's signing date (see signature page) until the [Date]. During this period, the Company will not seek other investment opportunities, refrain from meetings or entering negotiations with other investors, or share any documents (legal, financial, business, or otherwise) about the Company, Arches Capital or this current investment opportunity, without the explicit prior consent of Arches Capital.

If the Company receives any offers, solicitations, information requests, or otherwise, Arches Capital will be informed immediately and Company will forward any materials (such as emails, letters, or documents).

Explanation: the exclusivity period allows Arches Capital to perform Due Diligence and thus not seek any other investments.

Confidentiality
This Term Sheet and the negotiation process with Arches Capital are confidential and may not be disclosed to any third party, without explicit prior consent from Arches Capital. An exception is made for the existing shareholders and the Company's directors, senior executive officers, advisors and legal counsel: in this case Arches Capital will be informed of the disclosure and these third parties will be informed and bound by the Company to full confidentiality and embargo.

No angel investors (members) of Arches Capital are to be contacted directly by the Company.

The confidentiality period will last for two years after the Company's signing date.

Applicable Law
This Term Sheet is governed by Dutch law.

If you agree with this Term Sheet, please confirm by signing before [Date]. If you do not sign this Term Sheet before that date, this offer is withdrawn, and the Term Sheet will be invalid.

Confirmed and agreed on behalf of the Company and its shareholders

Date: ____________	Date: ____________
Company	**Arches Capital I FGR**
____________	____________
Signature	*Signature*
____________	____________
Full Name	*Full Name*
____________	____________
Title	*Title*

Schedule 1: Capitalization Table
Schedule 2: Budget and Business Plan