

URL: <https://ecorner.stanford.edu/clips/building-values-into-a-term-sheet/>

Obvious Ventures co-founder and managing director James Joaquin explains how a non-binding addendum to a traditional term sheet can help founders and investors align on values and avoid future conflicts.



Transcript

- Roll the clock back in time, both Evan and I 00:00:07,480 are repeat founders where we've raised a lot of venture capital for startups that we've led earlier in our career and we both found that you know, raising money from investors.. We were very shy about talking about the mission and purpose of the company because we at least had the perception and I think it was also the reality back then investors didn't want to hear it.. Maybe they viewed it as a negative.. They wanted to hear about what's your cap versus LTV and what are your unit economics and just you know the numbers and if you agree with our thesis that hey these new kinds of purpose-driven startups are actually gonna deliver better numbers.. Well, then the purpose is really important and so with that insight.. we looked at how the partnership between an entrepreneur and investor starts and it really begins at the term sheet.. It's the earliest document where you're starting to codify.. How an investor and a set of founders are gonna work together and there's probably a hundred years of legal work, that's gone into a term sheet and it codifies two things, economics and control.. Those are really the two components of a term sheet.. How much am I investing at what valuation? What percentage do I own and then the control stuff is like, what kind of shareholder rights do I have? And do I get a board seat and you know, all of that and now all of that stuff is really important, but what we said is, maybe there's a third leg to the stool and that's about mission and purpose and values, so that we have alignment, so the world positive term sheet is like an addendum that you add to a legal investment term sheet and it's not legally binding it's not meant to have teeth..

It's meant to drive alignment and understanding and we ask when we have co-investors in a financing, we asked them to just initial the world positive term sheet and our template has things like.. How are the founders going to approach sustainability? Maybe, they want to spend a little bit more in their supply chain to make it carbon neutral and maybe they want to put that intention on paper to make sure that their investors are aligned with that.. How are our founders gonna approach diversity, diversity on their management team, diversity on their board? Is that something that's of critical importance to them? Maybe they should make sure they have alignment with their investor before they go on a, you know, 10 to 12 year journey with that VC on their board.. I think it's really important to really codify those values and so we ask our founders to write that down and I think it's been a raging success.. We've had other firms tell us that they've used it Kimbal Musk who runs a food in Boulder, Colorado got so excited about it, that he used it with his investors and obvious is not an investor in his business, but he's a friend of the firm and got and it put the world positive term sheet into practice and one of

the examples I opened with incredible health that labor marketplace, the founder Iman Abuzeid she's a very, very practical entrepreneur.. She was so busy, you know trying to build the service launch it.. She said, "James, I don't have time for this." And I really pleaded with her and her co-founder Rome and I said, "look I guarantee you, this will be time well spent." And they took the time and by filling out the template, it actually helped them codify their mission, their core values.. She now says, it's the best thing she ever did.. It helped her with recruiting.. It's helped her with retention of her leadership team..

So it became like just a part of the DNA of the company.. So you can tell I'm very.... I get very excited that I think that was a great piece of work that my team and I crafted and we use it to this day...