FUNDRAISING IN SINGAPORE: A QUICK GUIDE

PROUDLY PRESENTED BY: FOUNDERS DOC · Eugene Thuraisingam LLP

IMPORTANT THINGS TO PREPARE:

1. METRICS
2. A PLAN
3. DATA

Metrics: How would you track your growth? Depending on the nature of your business, this could range from user acquisitions or actual revenue growth.

A Plan: Compile the financial data so that you're ready to present. Examples of standard info include P&L statements, financial forecasts and your cap table. It is helpful to build a financial model that projects your 1-2 years of spend.

Data: How much do you intend to raise at this stage and at what valuation? Don't over-dilute yourself – equity is cheap now, maybe not later.

TIMELINE:*

6-12 MONTHS BEFORE RAISING

PREPARATION PHASE

- Devise your overall strategy for fundraising and build a network of investor contacts.
- Prepare a teaser deck, an NDA and an information memorandum. The teaser deck can contain headline financial figures but should not contain confidential data.

1-2 MONTHS BEFORE RAISING

START PITCHING

- Circulate your teaser deck to potential investors. If you receive a positive response, send across an NDA for potential investors to sign, before sending the full information memorandum through a controlled platform such as Docsend or Digify (if confidential).
- Refine the investment deck as investors provide feedback along the way. Expect rejections but don't lose faith. Secure a cornerstone investor to get more traction.

2 WEEKS BEFORE RAISING

SECURING THE DEAL

- To secure investor interest, circulate a term sheet to finalise the legal terms. Hire a lawyer (preferably through Founders Doc 😊) – know what you're signing before signing it. From a commercial perspective, it's difficult to detract from the terms once the term sheet is signed unless you have a strong negotiating position.
- Sign the term sheet and let the lawyers do the work.

Congrats! You secured a term sheet.

1-6 MONTHS POST-SIGNING

CLOSING YOUR INVESTMENT ROUND

- Prior to closing, the investor's lawyers typically perform basic due diligence by asking a set of questions about your business. Don't panic, this is 100% normal.
- Between the signing of transaction documents and the closing of the deal (ie. when the $$ comes in), there may be some conditions precedents (CPs) that investors require eg. registering / transferring IP, updating employment contracts etc. Depending on the number of CPs, this could take 1-6 months.

*Note that this timeline is merely indicative – the actual timeline may vary.

OVERVIEW:
KEY LEGAL DOCUMENTS FOR FUNDRAISING

PRELIMINARY DOCUMENTS

Non-Disclosure Agreement

To be sent after an investor expresses interest in your teaser deck. The non-disclosure agreement basically states that the investor should keep the information received in respect of your company confidential.

Term Sheet

A term sheet is generally seen as a non-legally binding document.

That said, it is an important document in the fundraising process that, when signed, indicates that parties are serious about the investment round. Sign this short document to secure investor interests - whilst parties are negotiating the finer details in the definitive documents.

FUNDRAISING DOCUMENTS

Subscription Agreement

This sets out the mechanics and terms of the investment, the conditions to be satisfied before closing, and any representation, warranty and indemnity to be given to the investors by the company or founders (or both). Depending on the size of the round, some investors may wish to sign a subscription letter instead of a subscription agreement, to shorten the negotiation process.

SAFE or KISS Document

SAFE: A basic form of SAFE, which stands for Simple Agreement for Future Equity. The SAFE document is a form of start-up seed financing instrument that has been popularised by the American seed money start-up accelerator, Y Combinator. The template SAFE produced by Y Combinator should be tailored for compliance with Singapore laws and local market standards.

KISS: A basic form of KISS, which stands for Keep It Simple Securities agreement. The KISS document is a form of start-up seed financing instrument that has been popularised by the venture capital firm 500 Startups, as an alternative to the SAFE instrument. The KISS document is available in debt or equity forms.

Convertible Loan Notes

In the startup context, convertible loan notes refer to debt securities issued by startups to raise capital from investors. Investors have the option of converting their notes into shares in the company in the future at a preferred valuation, instead of receiving their principal and interests at maturity.

OTHER GOVERNANCE DOCUMENTS

Shareholders Agreement

An agreement entered into by all or some of the shareholders of the company, including the founders and the key investors. This document regulates the relationship amongst the shareholders, sets out the terms governing the issuance and transfer of shares, as well as the governance of the company.

Constitution (Updated)

This is a publicly available document filed with ACRA. We recommend keeping out confidential information in the Constitution, given that everyone has access to it.

Employee Share Option Plan (ESOP)

An employee share option plan where certain employees, advisors and/or consultants are granted a right to acquire shares that is exercisable after certain performance milestones or vesting period are satisfied.

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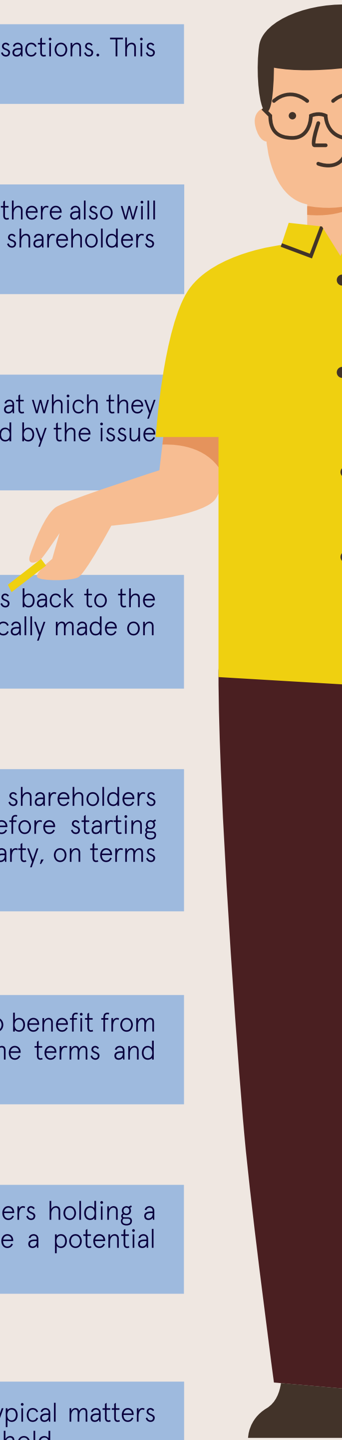
OVERVIEW:
KEY LEGAL TERMS YOU SHOULD BE AWARE OF



VETO RIGHTS:

Investors will want veto rights over certain company actions, e.g. future share issues, related party transactions. This means you would need investor consent for those actions.

CONVERSION RIGHTS:

Investors holding preference shares may convert these shares to ordinary shares. This a general right but there also will be certain events which cause automatic conversion (e.g. IPO or where a majority of the preference shareholders agree).

ANTI-DILUTION RIGHTS:

Anti-dilution rights protect investors when new shares are issued at a price which is lower than the price at which they invested (a down round). This protection operates to compensate investors for the dilutive impact caused by the issue of shares at the lower valuation.

RIGHT-OF-FIRST-REFUSAL (ROFR)

A contractual obligation of a shareholder to offer to sell its equity to the other holders, or sometimes back to the company, after receiving a bona fide offer from a third party to buy that equity stake. This offer is typically made on substantially the same terms as those offered by the third party

RIGHT-OF-FIRST-OFFER (ROFO)

A contractual obligation that requires a shareholder to offer to sell some or all of the shares to existing shareholders before offering to sell it to third parties. The seller is obliged to try and reach an agreement before starting negotiations with a third party. The selling holder usually has a limited period of time to sell to a third party, on terms no more favourable than those offered to the right holder.

TAG-ALONG RIGHTS

If a shareholder wishes to sell shares that are the subject of a tag-along right, the other shareholders who benefit from this right can require that the purchaser buy an equivalent percentage of their shares on the same terms and conditions.

DRAG-ALONG RIGHTS

A drag-along right requires all shareholders to sell their shares to a potential purchaser if shareholders holding a certain percentage of the shares agree to sell to that purchaser. These rights are important where a potential purchaser is seeking to buy 100% of the shares of the company.

RESERVED MATTERS

A list of highly important matters that cannot be executed without the approval of the key parties. Typical matters include, commencing litigation, liquidation of the company and obtaining a loan exceeding a certain threshold.

THANK YOU!

Congratulations on making it to the end of this guide! We hope that you are able to gain proper insights into the legal start-up process.

Please note that this document serves as a guideline; and it should be construed as such. Due to the complexity of a fundraising process, this document does not provide for every eventuality that you may face during your fundraising. When in doubt, you should consult a lawyer - such as from Founders Doc!

This document is prepared by Rachel Wong and Ryan Foo; and is the property of Founders Doc & Eugene Thuraisingam LLP