A GUIDE FOR RAISING CAPITAL FROM VC/PE FUNDS

For Tanzania Private Sector

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ACRONYM

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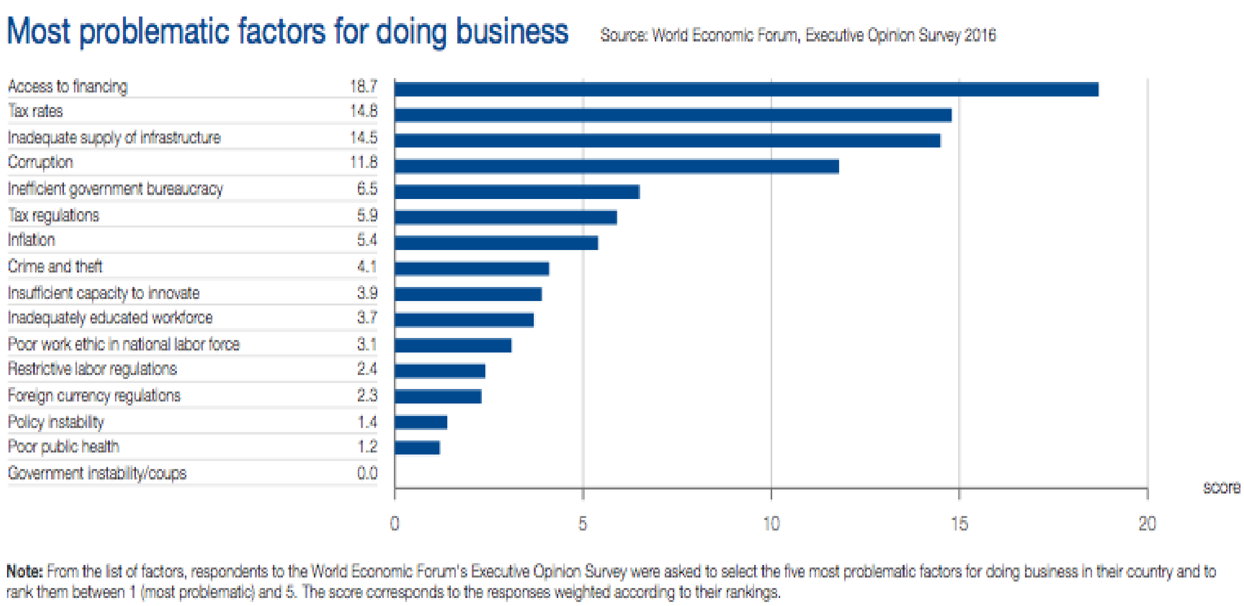
PE	-	Private Equity
VC	-	Venture Capital
SMEs	-	Small and Medium Enterprises
M&A	-	Mergers & Acquisitions
IPO	-	Initial Public Offering
AVCA	-	Africa Venture Capital Association
TFDA	-	Tanzania Foods and Drugs Authority
TBS	-	Tanzania Bureau of Standards
BRELA	-	Business Registration and Licensing Authority
TRA	-	Tanzania Revenue Authority
EBITDA	-	Earnings Before Interest, Taxes, Depreciation and Amortization
ROI	-	Return on Investment

PREFACE

Access to finance has remained to be among the major challenges of starting and growing a business in Tanzania, and the challenge is even greater for small and medium enterprises.

The Africa Competiveness Report of 2017 published by the World Economic Forum in collaboration with the World Bank and African Development Bank indicates that Access to Finance is the number one problematic factor in doing business in Tanzania.

The chart below, extracted from the report, shows that Access to Finance scores 18.7.



Tanzania boats to have more than 50 banks, hundreds of microfinance companies, and thousands of savings and credit schemes, but all these together have failed to address the funding gap that majority of businesses face in Tanzania, albeit the factors within some businesses which categorize them as risky borrowers.

We have also seen other initiatives that came at rescue to help businesses, as alternative sources of finance, some of these include local and international grants and awards, government special funding schemes, and Islamic banking which offers interest-free loans.

But the issue of private equity and Venture capital has not been featured so well in the funding ecosystem in Tanzania, and has not received a serious attention as alternative sources of finance for growing SMEs in the country.

One of the factors that have been discovered is the low understanding of how this type of funding works, how can it be accessed, and any other costs associated with it.

Tanzania Venture Capital Network has been established to promote the growth and development of private equity industry in Tanzania in all of its forms that include venture capital and angel investors.

This Guide has been prepared as among other initiatives to educate the private sector in Tanzania in understanding how Private equity/Venture Capital works and how they can access this type of funding.

Private equity is used in this guide to mean all of its forms that include venture capital and angel investor.

DISCLAIMER:

This guide should not be taken as a professional guide for raising capital; a company that seeks to do so is strongly advised to seek professional help.

This guide is not very detailed, this is because the purpose of it is to give a general understand of private equity and how it works, forthcoming publications will dwell more deeply on specific issues for a more specific guide.

Tanzania Venture Capital Network is responsible for any errors in the guide.

1 TANZANIA VENTURE CAPITAL NETWORK

Tanzania Venture Capital Network is a not-for-profit initiative established to promote the growth and development of private equity and Venture capital industry in Tanzania.

The network carries out various activities for creating awareness, knowledge, data, intelligence, advocacy, and organize events and networking for promoting the industry growth.

Our main objectives include;

- To create awareness on the importance of private equity and venture capital industry for country's economic development
- To create a network which will bring together different industry players regularly
- To conduct activities that will help build knowledge and awareness to local businesses on all matters on PE and VC industry
- To help PE and VC funds find and execute more deals in Tanzania
- To conduct research and publish industry information and insights regularly
- To advocate for a better business environment needed by PE and VC players to establish and operate their businesses in country
- To promote the growth of homegrown VC funds and Angel investors by advocating for the necessary legal and regulatory framework.

The network focuses on five (5) main thematic areas namely;

a. Training
b. Events and networking
c. Information and knowledge sharing
d. Industry research
e. Advocacy

For more details, please visit www.tvcan.org

2 WHAT IS PRIVATE EQUITY AND VENTURE CAPITAL

Private equity is a form of financing, which is invested directly into a company, in an exchange of share ownership in the invested company. It is an institutionalized form of investment where a group of fund management experts called general partners; form a limited partnership with a group called limited partners, forming a PE/VC fund.

Limited partners are normally institutional investors and high-net worth individuals. The institutional investors include pension funds, investment banks, family houses, insurance companies, endowment funds, fund of funds, and so on.

This type of finance is only new in Tanzania, and relatively across Africa, but it dates back many years ago, and got more popular and momentum from 1970s.

The word private equity is sometimes used interchangeably with venture capital, but there are technical differences among the two.

a. Private equity

This is a private investment targeting more mature companies, invest larger amounts, and tend to take bigger ownership in companies they invest. Sometimes they may take up to 100% through buy-out.

b. Venture capital

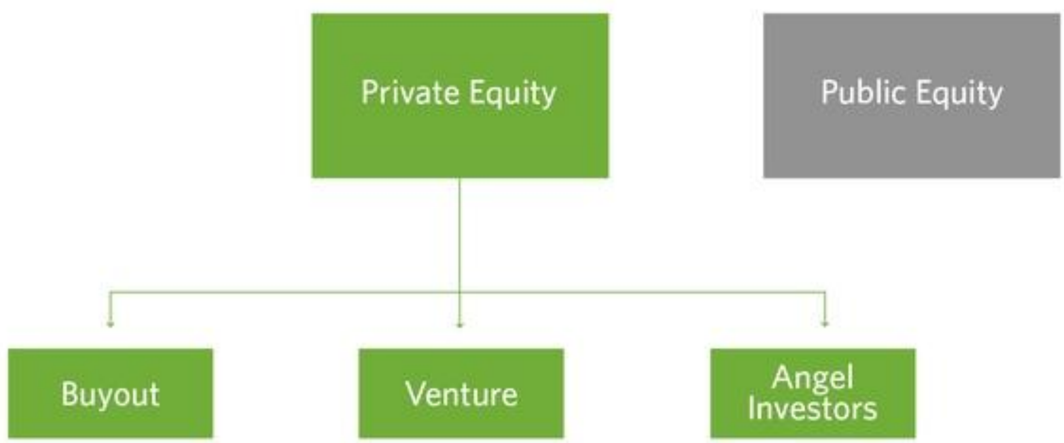
Venture capital on the other hand, is a sub-set of private equity, which focuses on early stage, emerging, and growing SMEs, with investment commitment ranging from as low as USD 150,000 to as high as USD 25m, with average investment size of USD 1m to 5m.

c. Angel investors

Are private investors, usually high net worthy individuals, who provide private funding normally for seed capital and earl stage start-ups in exchange of equity ownership, and sometimes through convertible debt.

They can invest even from as low as USD 50,000 upwards.

So typically, private equity would take a form of a buy-out, or venture capital, or or angel investors.



3 HOW DOES VENTURE CAPITAL WORK?

A venture capital fund is set up by two parties, as stated earlier, which are general partners and limited partners.

General partners are normally individuals with expertise and track record in the issues of private equity, corporate finance, investment or banking, who come together to form a fund, normally committing a small amount of their own investments into the fund.

They go to institutional investors inviting them to invest into their fund, and hence forming a structure known as limited partnership.

In simple terms, limited partners invest into a venture capital fund, and general partners manage the fund.

Venture capital works in the following process;

Stage I: Forming a Fund

This involves doing all the research about the fund they want to set up, documentation, deciding where will it be domiciled, where will it invest, which sectors it will focus on, and starting a road show of approaching potential investors. A fund is normally set up for a specific lifetime, after which it will be liquidated for investors to redeem their investments.

Stage II: Fundraising

At this stage, the fund will meet all potential institutional investors it has listed, making all pitches and negotiations, until when the funding process is closed, ready for investing now.

Stage III: Making investment

At this stage, the VC fund will start seeking investment deals from different sources, a process called deal sourcing/deal origination. Deals can be sourced through intermediaries, accelerators, funding events, live pitch sessions, etc.

At this stage, once an opportunity has been sourced, the fund will conduct all necessary investment processes that include due diligence, valuation, etc. many deals fall out at this stage, as many SMEs fail to pass the due diligence process.

Stage IV: Post-Investment

Once investment has been committed to your company, the VC firm will continue to monitor its investments throughout the investment period. To effectively monitor their investments in your company, they would normally take a board seat and probably hiring a financial controller, and other key management key positions, when felt necessary.

Stage V: Exit

A venture capital fund would normally invest in your company for a certain period of time, say between 4 to 7 years, and later exit. When exiting, is when the fund liquidates its investments. Exits can be done in different ways that include trade sale, buy-back, M&A, or IPO.

STAGE VI: Distribution

This is when the fund finishes its lifetime and distributes the investment returns to both limited partners and general partners. Prevailing returns sought by institutional investors range between 12% to 25%, and there are rare cases when the fund achieves more return than that

<u>The figure below summarizes the process from when the fund is set to when it is liquidated</u>

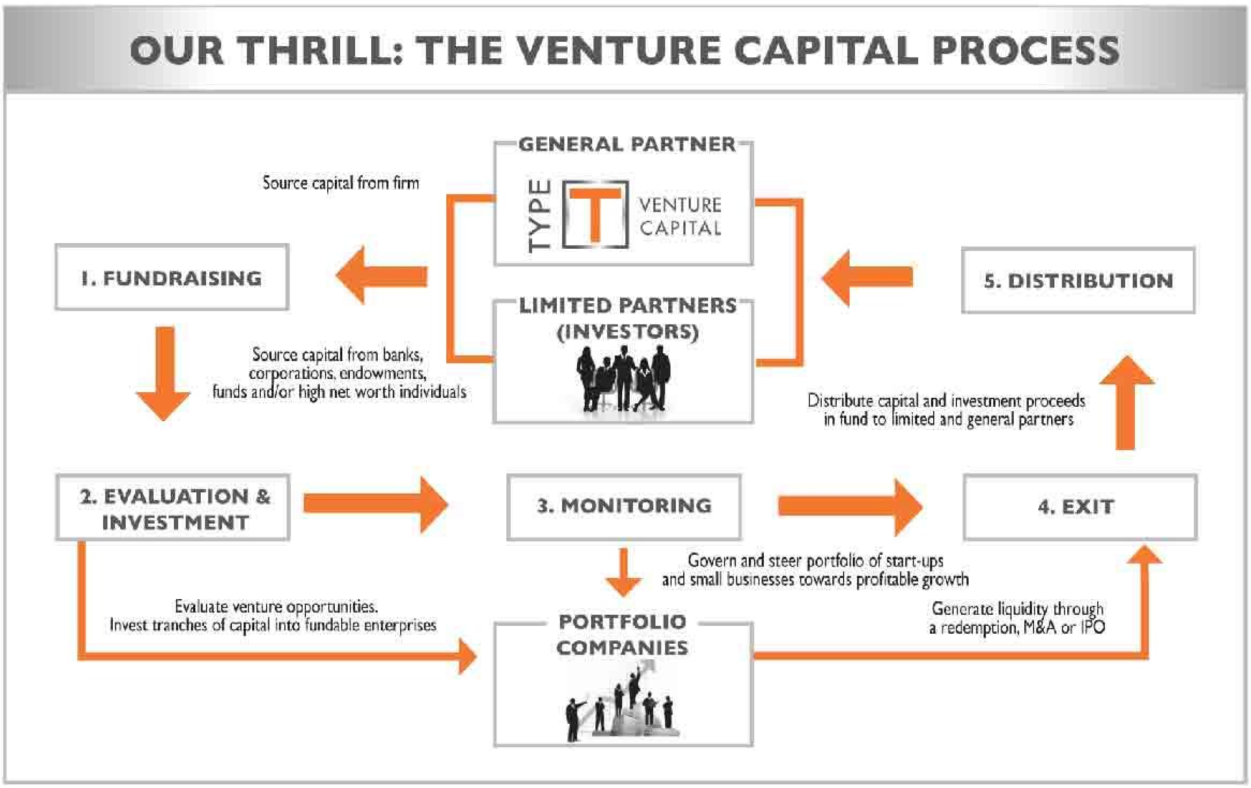


Image Courtesy: ttvc.ca/wp-content/uploads/2013/01/Venture-Capital-Process-Infograph.gif

4 HOW DO VENTURE CAPITAL FUNDS SELECT COMPANIES ?

As indicated in the previous part, once the VC fund has closed its fundraising round, will start making investments into companies, your company in this case, commonly referred to as portfolio companies or investees.

There is no universal set of criteria that all VC funds must use when selecting which company to invest in; this differs from fund to fund.

However, there are common criteria that majority, if not all, of VC funds would look into a company before making the investment decision.

Some of these are summarised in the table below;

SN	CRITERIA	DESCRIPTION
1	Deal size	This is a size of investment your company is seeking to raise from a VC. Each VC will have amount brackets, from minimum to maximum they can invest per transaction. This is also known as ticket size. So when you are approaching any VC, you need to know their preferred deal size. That's why you hear a VC is looking for companies with minimum funding requirement of USD 1m, below which they would rarely invest.
2	Scalability	Remember that VC firm needs to return the money with an investment return to their investors. So they would want to invest in a business that has the potential to scale, and help them make more money when exiting.

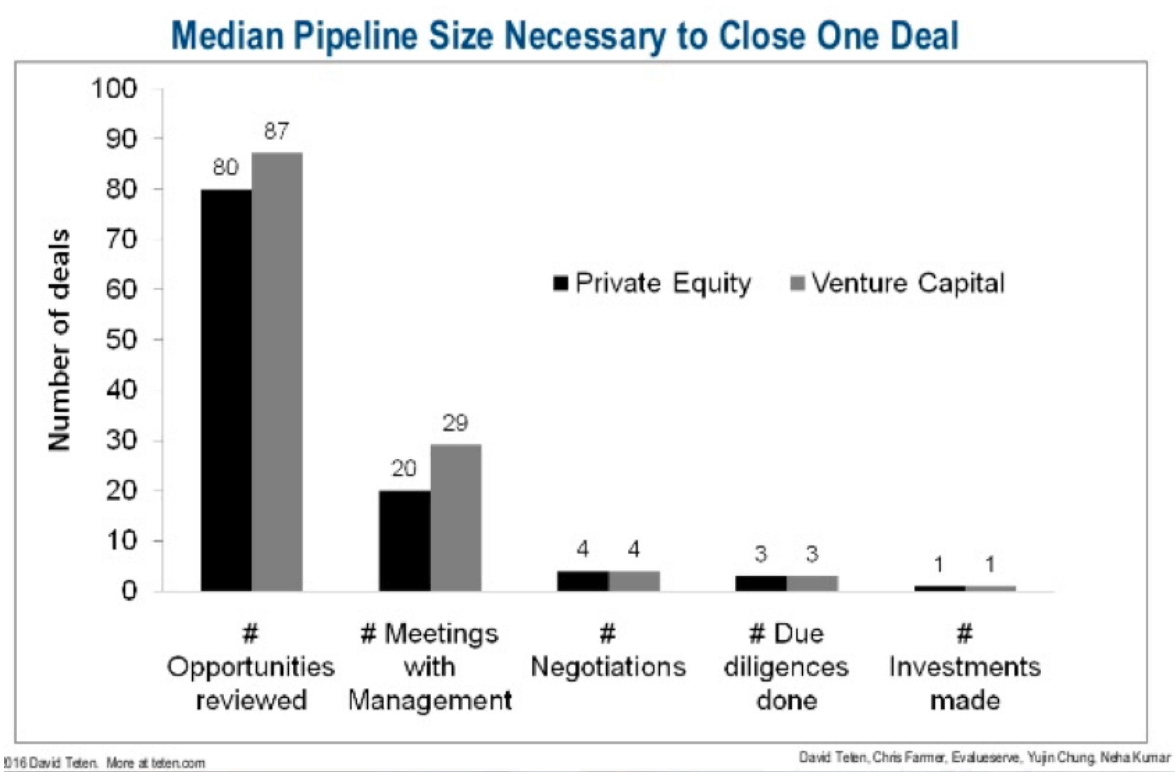
2	Team/Management	As you may hear from some VC firms, that they invest in people. VC funds are very concerned with the people behind the company. As these are the engine of driving the growth and value of the company, not mentioning protecting their investments. VCs will asses the capabilities, passion, and experience of the company's founder and the team behind.
3	"Skin in the game"	No VC would invest in an idea. You need to develop your business idea, executes it, invest your little money you have, grow it, generate some revenue, and then go see them. This is one of the reasons that a VC would only invest in growth companies. Companies that have already demonstrated their business model, tested it in the market, grow the revenue, and now in need of additional capital to breakthrough the next growth level.
4	Formalization and legal compliance	No VC will invest in a company that exists outside the legal system of the country. VC fund would not want to be surprised by some non-compliance issues that might render the closure of the company they have invested in. They would comprehensively look at this during due diligence
5	Industry fundamentals	VCs will invest in an industry/sector where they see future potential. They would want to invest in a business whose industry is growing, have high barriers of entry, and can generate the desirable returns.

6	Unique proposition	VCs would want to see how do you differentiate yourself from the market. What is your competitive advantage over other competitors in your industry? And this doesn't mean for you to be unique only, but also difficult for competitors to replicate your model.
7	Supporting documentation	The VCs would want to known how you are planning to use their money, and how you are currently operating and managing your own money. Any business that fails to manage own money would rarely attract investors' money. This inquiry will need to be supported by solid documents such as audited accounts, business plan, cash flow projections, etc.
8	Potential exit	As stated earlier, VCs would finally exit your company. But they would want to what's the potential for the exit? Can they find a buyer? These are important questions that a VC would ask before selecting your company.

5 WHAT IS THE FUNDING/INVESTMENT PROCESS?

Getting VCs money takes time, and it involves a thorough process that that you must be aware of before deciding going for this option. It would take less time to raise debt from a commercial bank than it would to raise capital from a VC.

A study titled "Best Practices by Private Equity Funds in Deal Origination" by David Teten, indicates that out of 87 deals reviewed by VCS, only one will be selected. This is shown on the graph below where companies will be filtered across the deal review process



Let's look at some of the processes that a VC would take in order to invest in and finally exit from your company.

5.1 Step 1: Deal Origination

This is the initial stage where VCs would search for potential deals that they can invest in, at this stage, your company and others who are looking for VC money are termed as investment prospects.

A VC would carry out this in many options some of which include;

- In-house/direct sourcing
- **Sell-side intermediaries.** These are normally consulting firms, legal firms, audit firms, banks, and other industry practitioners in the market who understand about Venture Capital and have access to potential businesses. Example of this is SSC Consulting in Tanzania (www.ssc.co.tz)
- Buy –side intermediary – An example of this SSC Consulting in Tanzania
- Industry network/conferences
- Word of mouth
- Professional relationships

5.2 Stage 2: Screening

At this stage, the VC fund would screen all the deals received from origination. This is a preliminary screening where a VC fund would reject the deal outright. This would happen when the business does not qualify even for minimal requirements for VC investment. For deals that go through this stage will then go for evaluation, which is a more detailed process.

5.3 Stage 3: Evaluation

At this stage, the VC will dwell more on your company and analyse deeply some of the critical elements of your business. The scope of evaluation would also differ from VC to VC, but generally, a VC evaluation would look at the following key metrics

SN	METRIC	EVALUATION
1	Management	• Expertise • Experience • Passion • Willingness to dilute the company
2	Market	• Size of the market and potential for growth • What drives the market (key market drivers) • Competition landscape • Pricing • Unique proposition • Etc.
3	Financials	• Margin analysis (comparable to industry norms) • Cost structure • Break even • Revenue model and profitability potential • Return on investment
4	Risk	• Risk exposures • Regulatory issues

		• Worst case scenarios • Market risks • Etc.

5.4 Stage 4: Due Diligence

This is the most critical and rigorous process where a VC determines whether they will invest in your company or not. The assumption is, investing in your company is risky, so it is important to identify such risks and determine whether they can and how they will be mitigated.

The process involves;

- Reviewing all company's documents
- Extensive legal and financial review
- Interviewing your customers, suppliers, and other business partners
- Interviewing competitors, industry experts, former employees, etc.
- The VC will also check between what you said and what is in the documentation

5.5 Stage 5: Term Sheet

Term sheet is a document that stipulates terms and conditions of the investment that the VC will make to your company.

Term sheet tends to cover three main issues namely funding terms, corporate & management mandate, and liquidation conditions.

It is important for a company to seek legal help before making any decisions as proposed on the Term sheet, as the document contains some legal terms that might not be easy for you to understand.

Some of the key terms used in term sheet are shown on the table below;

SN	TERM USED	DESCRIPTION
1	Liquidation preference	This means that in the case of exit, when capital has to be divided among shareholders, the owners of shares with liquidation preferences will receive their money first.
2	Anti-dilution rights	These are rights protecting the investors in a current round from future down-rounds of investments (when the valuation is lower than the one on the previous round)
3	Pro-rata rights	These are rights that allow the existing shareholders to have a first call on newly issued stocks up to the amount needed to prevent dilution. This means that the existing shareholders will preserve the same percentage of the total number of shares regardless of the shares issued
4	Redemption rights	This is a way of protection for investors that give them the right to ask to redeem the shares after certain period of time by asking the company to buy them back at the original purchase price plus dividends. This is done as a way to protect the investors from being stuck with a company that is not likely to exit soon.
5	Founders shares vesting	This is a situation where you give back your shares and you accrue the right to own them over time, it almost

		similar to employee stock option. A VC would give you vesting in a situation where they believe in your business more than you.
6	Valuation	The company's valuation determines the percentage of the company the VC will own. This guides on who owns what and how much cash each shareholder receives when the company sells. Valuation is normally expressed in terms of pre-money and post-money values. • The pre-money valuation is the company's valuation before the new investment. • The post-money is simply equal to the pre-money valuation plus the amount of the new investment. It is common that the founder's basic objective is to maximize the amount of capital investment while minimizing dilution. This has in many times happened to be a deal-breaker. **<u>Example:</u>** • If investors believe the company is worth \$4M, and they want to invest \$1M, your pre-money is \$4M and your post-money is \$5M: • **Post-money = \$4M pre-money + \$1M investment** • The \$1M investment gives investors 20% of the

		company: • **Investor ownership = $1M investment / $5M post-money**
7	Participation rights	VCs would also use the term "double dipping," meaning the same thing. Participation rights let preferred shareholders get their money back before anyone else, and then also participate fully (pro-rata) in any remaining proceeds.
8	Preference shares	These are shares with special rights that ordinary shareholders do not have.

5.6 Stage 6: Post-Investment

Once all that is done, the VC and the company will go to final negotiations, paper work, and finally disbursements are made.

At this stage, VCs will continue to monitor their investments, by conducting and participating in various activities

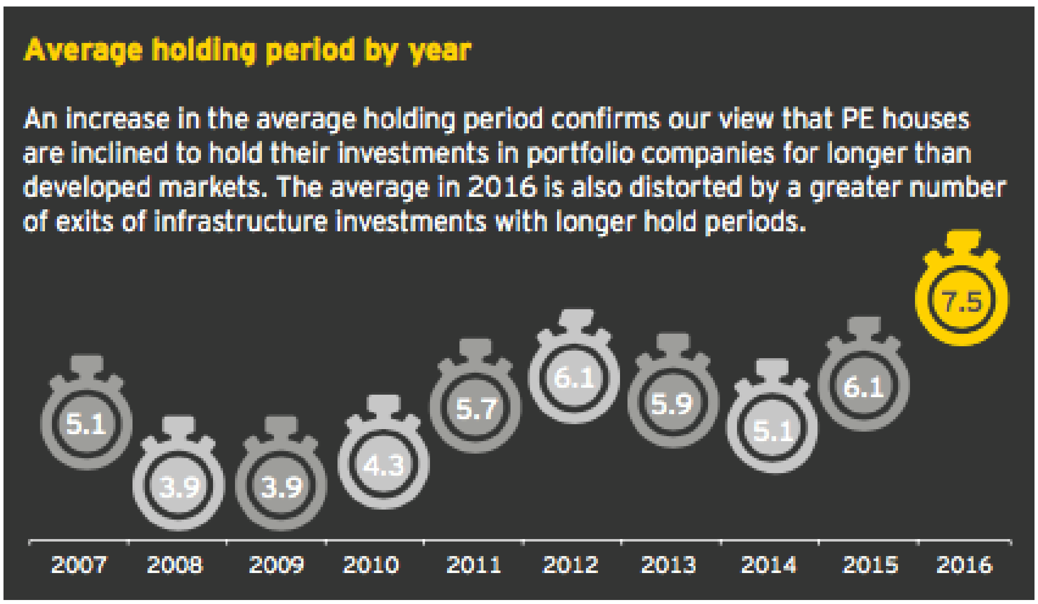
It is estimated that VCs would spend more than 60% of their time on post-investment activities, focusing on two main activities;

a. **Investment monitoring** – Protecting their investment interests
b. **Technical support** – Advisory, strategic influences, linking the company with important networks, shaping up the management, etc.

5.7 Stage 7: Exit

The final process of the VC will now be exiting your company, it is a way of them cashing out their on their investment. Reaching this stage will range between 3 to 7 years, depending on the VC preference investment horizon and the business sector, some sectors will require longer holding period.

According to a study published by AVCA and EY in 2017, it was indicated that in 2016, PE houses average holding in Africa was 7.5 years, as shown in the graph below;



Source: AVCA/EY

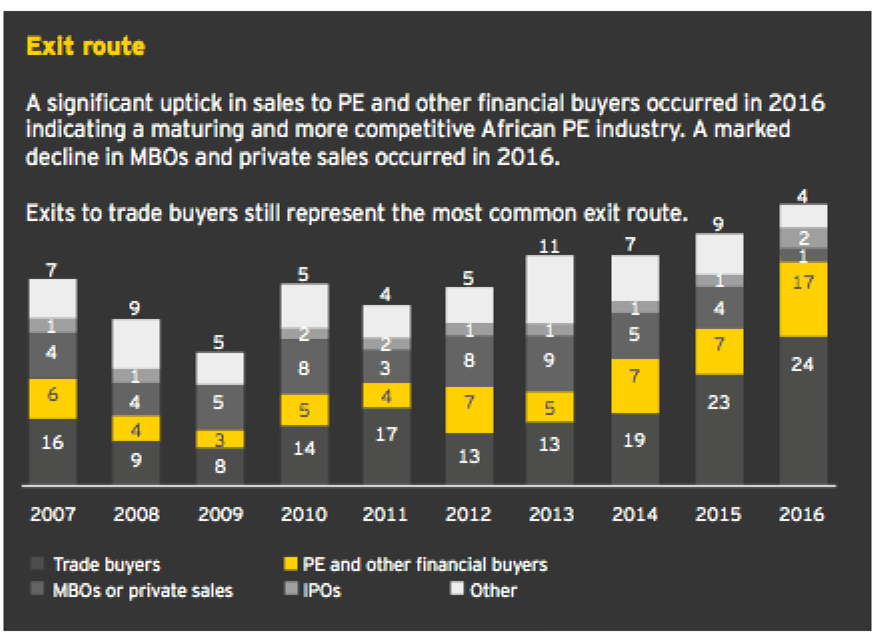
Different exit options will be used for the VC to exit, the common ones include;

a. **Buy-back option** – With this option, company will buy back its shares from the VC. Principally, VCs get their money back directly from the company instead of getting from new investors

b. **Trade sale** – This is the most common exist strategy in Africa, it is a business-to-business sale, instead of selling the shares to the public. This can be done by selling the shares to a company in the same industry or to a company interested in the underlying intellectual rights that your company owns.
c. **IPO** – This is the decision of the VC selling the shares to the public through a stock exchange. Despite this being rare in Africa and in none in Tanzania as yet. Despite having low uptake, taking the company public will help to build more stronger governance structures in the portfolio company. In Tanzania, VC can exit either through the main DSE market or via EGM.
d. **Mergers & Acquisitions** – also known as M&A, These are rare exit options in Africa. With this option, your company is 100% acquired or merged with another bigger company, practically in similar business or industry

According to AVCA, Africa experienced a total of 48 exist in 2016, with 42% of total exits happening in South Africa.

In exit options, trade sale was the biggest accounting for 24 out of 48 exits, with IPO exits increase from 1 in 2015 to 2 in 2016, as shown in the graph below;



Source: AVCA/EY

6 HOW TO PREPARE YOURSELF TO BE INVESTOR'S READY?

After looking at what VCs look for in a company before they invest, and their rigorous investment process, it is assumed that Tanzanian companies would now understand the key preparations they need to make before reaching out for VC money.

This part looks, briefly, at some of the key areas that a local company needs to look into before approaching the VC, for making necessary preparations and adjustments.

Necessary preparations you need to make are summarized in the table here below;

SN	AREA OF FOCUS	DESCRIPTION
1	Formalization & compliance	No VC will invest in a company that is not compliant with legal and regulatory framework of the country. To operate a formal business in Tanzania you at least need to be registered with BRELA, TRA, and having a business license. And if you are in certain sectors such as agro-processing, you will still need to comply with other respective regulatory frameworks such as TFDA, TBS, etc. - You need to know that during due diligence, the VC will crosscheck with all these, including asking for Tax clearance certificate form the taxman.
2	Team	As much as VCs will be much interested in the company's founder, his/her vision, and their understanding of the business, they will also want to see how the founder is building a strong team for support. You need to have a team of qualified people who can support your business growth
3	Business model	VCs will not invest in a business that has limited growth potential. VCs want to see a business that is resilient, has strong revenue model, and can be scaled up. So when building your company for VC funding at a later stage, put all these into consideration.

4	Skin in the game	This is a popular metaphor used in the VC industry. VCs want to see you investing your money before going asking theirs. -You can't just show up with a business plan and showing strong feelings that your idea is brilliant. The fact of the matter is, anyone can come up with a good idea, but the difference is with those who invest the little they have, take the risk, test the business model, and prove themselves that they can attract outside money
5	Understanding the key numbers	Even the VCs understand that you as a business owner can't be conversant with every aspect of the business. But you need to understand the basic financial metrics of your business. You must be aware of metrics such as ROI, Break even point, Profit margin, EBITDA, market conversion rates, tax rates in your industry, etc.
6	Ready to be diluted	One of the major challenges facing Tanzanian companies in raising VC money is their reluctance to sell shares, known as dilution. VC works in a way that you get the money in exchange of share ownership in your company. So whenever you plan to raise money from VC, you should as well be ready to release some shares in your company. And it varies from VC to VC; majority would only want minority shareholding.
7	Documentation	Raising capital from VC will go hand in hand with right and sufficient documentation that will allow them to assess you and analyse your business. Some of the must-have documents include; • The business plan • Audited accounts • Necessary contracts (whenever applicable) • Cash flow projections • Information memorandum • Etc.

7 WHAT FINANCING INSTRUMENTS DO VCs USE

It is a common practice and understanding that VCs will always use equity financing instrument to finance your business.

This is not always the case, however; VCs can use equity and other instruments in the same transaction. Lets look at these instruments in a nutshell;

a. **Equity** – this is an instrument where capital is raised by the company in exchange of shares issued to investors. VC fund can use 100% equity to finance the whole transaction.
b. **Quasi- equity** – This is a type of debt that has some characteristics of equity. This type of debt can have features such as being unsecured, have flexible repayment options, and so forth. Some of these could include mezzanine and junior debt
c. **Convertible debt** – This is a type of debt where the company borrows the money with the intention of converting that debt into equity at a future date.

8 EXAMPLES OF PE/VC DEALS IN TANZANIA

SN	NAME OF THE COMPANY	SIZE OF INVESTMENT (USD)	NAME OF THE INVESTOR
1	Kijenge Animal feeds	6 million	Fanisi
2	Chai Bora	Not available	Catalyst Principal Partners
3	DSM Corridor group	Not available	African Infrastructure Investment Managers (AIIM)
4	Off-grid electric	16m	Zouk capital Solar city Vulcan capital
5	Bayport financial services	100m	Helios Investment Partners
6	Zenufa Laboratories	Not available	Catalyst Principal Partners
7	NMB	Not available	Arise
8	CRDB		
9	ChemiCotex	Not available	Catalyst Principal Partners
10	EFFCO	Not available	Catalyst Principal Partners
11	Tanga Fresh	Not available	DOB Equity

12	Africado	Not available	Norfund
13	Alios Finance Tanzania Ltd	Not available	Norfund
14	TPS Dar es salaam (Serena hotel)	Not available	Norfund
15	Green resources	Not available	Norfund
16	Yara Fertilizer terminal Dar	Not available	Norfund

9. REFERENCES

1. Best Practices by Private Equity Funds in Deal Origination, David, Managing Partner, HOF Capital
2. How Venture Capitalist (VC) Firms Screen Deals, Mark J. Feldman
3. Term sheet: common terms & practices to be aware of : Stefani Bozadzhieva
4. The 2017 *How private equity investors create value* study is presented by EY and AVCA

Appendices I: Sample Term Sheet (For demonstration purposes only)

Corporation: [__________________]
TERM SHEET
Date: [______]

This Term Sheet represents the current understanding of the parties with respect to certain of the major issues relating to the proposed private offering and does not constitute a legally binding agreement. Except for the section entitled "Binding Terms" this summary does not constitute a legally binding obligation. Any other legally binding obligation will only be made pursuant to definitive agreements to be negotiated and executed by the parties. This Term Sheet does not constitute an offer to sell or a solicitation of an offer to buy securities in any jurisdiction where the offer or sale is not permitted.

THE OFFERING

Issuer:	[___________], a corporation incorporated under the laws of [*insert* (the "**Corporation**")
Securities:	Class A Preferred Shares (the **"Preferred"**)
Amount of the offering:	$[___________]
Price per share:	$[___________] per share (the "**Initial Price**"), based on a pre-money valuation of $[_______________] and the attached capitalization table (Appendix A).
Investor(s):	[___________] and other accredited investors, acceptable to the Corporation.
Closing date:	Initial closing on or before [___________]

TERMS OF THE PREFERRED

Liquidation preference:	Preferred will have the right to receive one times the Initial Price from proceeds on a liquidation of the Corporation with balance of proceeds paid to holders of Common Shares. A sale of the Corporation's assets, merger, reorganization or similar transaction will be treated as a liquidation of the Corporation.
Conversion:	The Preferred may be converted at any time, at the option of the holder, into Common Shares. The conversion rate will initially be 1:1, subject to customary adjustments for stock splits, stock dividends, etc.
Automatic conversion:	Each share of Preferred will automatically convert into common shares, at the then applicable conversion rate, upon (i) the closing of a firmly underwritten initial public offering of common shares ("IPO"), or (ii) the consent the holders of at least a majority of the then outstanding shares of Preferred.
General voting rights:	Each share of Preferred votes together with the Common Shares on all matters on an as converted basis, except as specifically noted herein or required by law.

SHAREHOLDERS AGREEMENT

Information rights:	The Corporation will provide to each holder of at least [______%] of Preferred ("Major Investors"), (i) unaudited annual financial statements and (ii) unaudited quarterly financial statements and an annual business plan. This right will terminate immediately prior to the Corporation's IPO or completion of a Sale Transaction (as defined below).
Protective provisions:	So long as any of the Preferred are outstanding, consent of majority of the then-outstanding Preferred will be required for any action that (i) amends the Articles of the Corporation if it would adversely alter the rights, preferences, privileges or powers of Preferred; (ii) changes the number of directors from current number; or (iii) approves any merger, asset sale, liquidation or other corporate reorganization or acquisition.
Pre-emptive rights (to maintain proportionate ownership):	Each of the Major Investors will have a right to purchase its *pro rata* share of any offering of new securities by the Corporation, subject to customary exceptions. This right will terminate immediately prior to the Corporation's IPO, a Sale Transaction or [_______] years after the date of Shareholders Agreement executed upon Closing.
Co-Sale Rights:	In the event that any shareholder ("Selling Party") proposes to sell their shares to a third party ("Third Party"), the Selling Party agrees not to make the sale unless Third Party includes an offer to purchase the shares of the Investors on the same terms. If Third Party has specified a maximum number of shares that they are willing to buy, then the Selling Party and interested Investors may sell their pro-rata share of the amount to be purchased by Third Party.

Election of directors:	Provision agreeing to elect the following individuals to the board (i) one representative designated by the holders of Preferred [___________] (the "**Investor Nominee**"); (ii) one representative designated by the Founders; and (iii) one representative designated by Common shareholders acceptable to the Investor Nominee and Founders.
Sale Transaction:	A "**Sale Transaction**" shall mean (i) any merger, amalgamation, reorganization, consolidation or other transaction involving the Corporation and any other corporation or other entity or person in which the persons who were the shareholders of the Corporation immediately prior to such merger, amalgamation, reorganization, consolidation or other transaction own less than fifty percent (50%) of the outstanding voting shares of the surviving or continuing entity after such merger, amalgamation, reorganization, consolidation or other transaction; (ii) the sale, exchange or transfer by the Corporation's shareholders, in a single transaction or series of related transactions, of all of the voting shares of the Corporation; or (iii) the sale of all or substantially all of the assets of the Corporation.

OTHER MATTERS

Option pool:	The number of Common Shares reserved for issuance under the Corporation's stock option plan will be increased to equal [______%] shares outstanding after issuance of the Preferred to Investors.
Share purchase agreement:	The Corporation and Investors will enter into a share purchase agreement containing standard representations and warranties, with survival period of ______ years.
Founder matters:	Each Founder shall have transferred all relevant intellectual property to the Corporation, entered into an employment agreement with the Corporation and signed agreements with respect to voting and vesting their Founders shares over an agreed term of [_________] years, the terms of such agreements satisfactory to Investors prior to Closing Date. The vesting agreement will provide for full acceleration of vesting for all shares held by the Founders on the completion of an IPO or Sale Transaction.
Expenses and fees:	The Corporation will reimburse counsel to Investors for legal fees and disbursements, up to a maximum cap of [___________]
Expiration date:	These terms are valid until, and will expire on, [____________]
Binding Terms:	For a period of thirty days, the Corporation agrees not to solicit offers from other parties for any financing. Without the

consent of Investors, the Company will not disclose these terms to anyone other than officers, directors, key service providers, and other potential Investors in this financing.

This Term Sheet may be executed in counterparts, which together will constitute one document. Electronic signatures shall have the same legal effect as original signatures.

[*Insert CORPORATION NAME*]	**[*Insert NAME OF INVESTOR(s)*]**
______________________________	______________________________
Signature	*Signature*
______________________________	______________________________
Print name	*Print name*
______________________________	______________________________
Print title	*Print title*
______________________________	______________________________
Date	*Date*

Appendix to Term sheet: Capitalization Table

Shareholder Name	Common Shares	Options	Preferred Shares	Fully Diluted Shares	Pro-forma Fully Diluted Ownership %
Name Founder1	5,000,000	-	-	5,000,000	34.6%
Name Founder2	5,000,000	-	-	5,000,000	34.6%
Subtotal – Current Holdings	**10,000,000**	**-**	**-**	**10,000,000**	**n/a**
Investors	**-**	**-**	3,000,000	3,000,000	20.8%
Option pool	**-**	1,444,444	**-**	1,444,444	10.0%
Total – Proforma Holdings	**10,000,000**	**1,444,444**	**3,000,000**	**14,444,444**	**100%**

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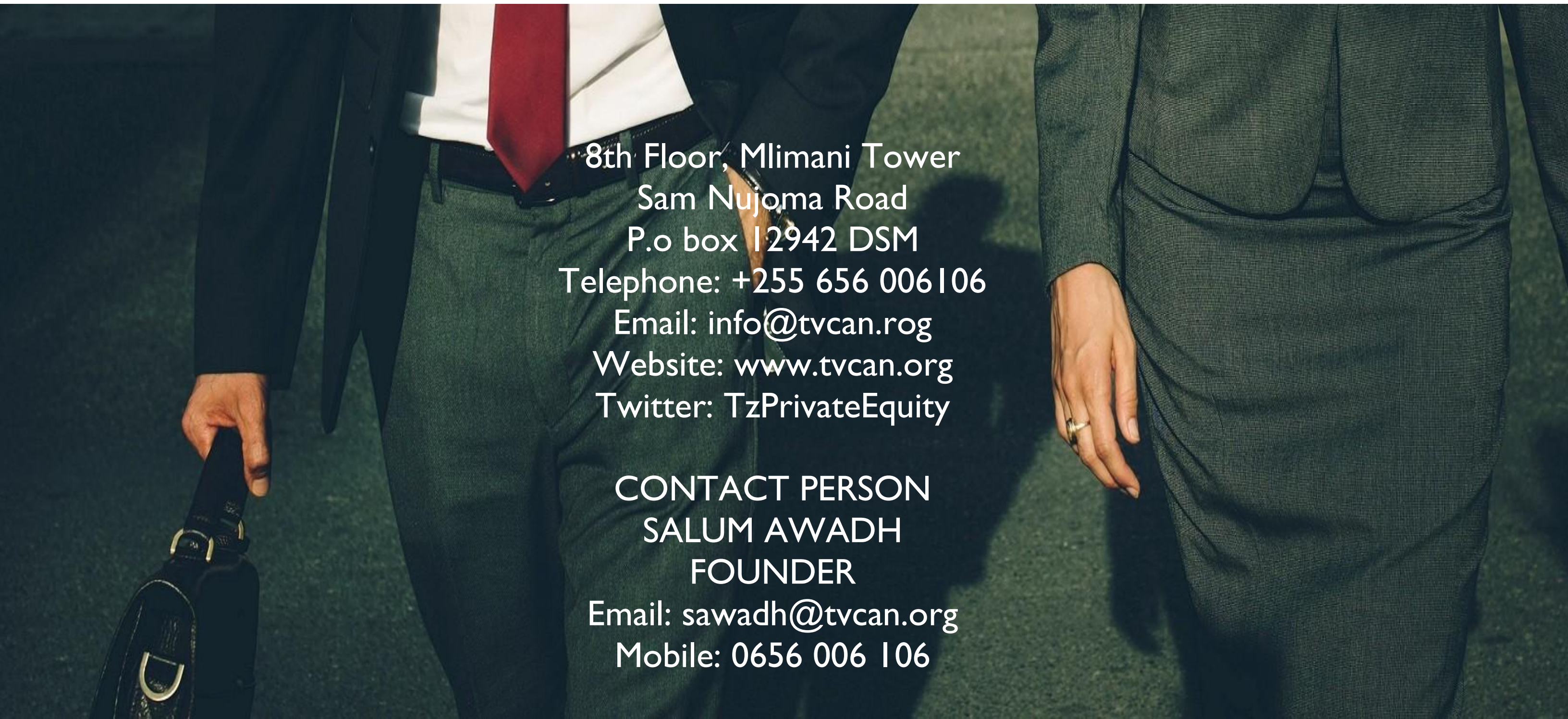

8th Floor, Mlimani Tower
Sam Nujoma Road
P.o box 12942 DSM
Telephone: +255 656 006106
Email: info@tvcan.rog
Website: www.tvcan.org
Twitter: TzPrivateEquity

CONTACT PERSON
SALUM AWADH
FOUNDER
Email: sawadh@tvcan.org
Mobile: 0656 006 106