

## The Importance of the Term Sheet

The value of the term sheet shouldn't be overlooked. From buyers and sellers to advisors and intermediaries, the term sheet is often used before the creation of an actual purchase or sale agreement. That stated, it is important that the term sheet is actually explained in detail. Let's take a closer look at its importance.



### **What is a Term Sheet?**

Even though term sheets are quite important, they are rarely mentioned in books about the M&A process. In the book, *Streetwise Selling Your Business* by Russ Robb, a term sheet is defined as, “Stating a price range with a basic structure of the deal and whether or not it includes real estate.”

Another way of looking at a term sheet, according to attorney and author Jean Sifleet, is that a term sheet serves to answer to four key questions: Who? What? Where? And How Much?

### **Creating the Right Environment**

A good term sheet can help keep negotiations on target and everyone focused on what is important. Sifleet warns against advisors, accountants and lawyers who rely heavily on boilerplate documents as well as those who adopt extreme positions or employ adversarial tactics. The main goal should be to maintain a “win-win” environment.

At the end of the day, if a buyer and a seller have a verbal agreement on price and terms, then it is important to put that agreement down on paper. Using the information can lead to a more formalized letter of intent. The term sheet functions to help both parties, as well as their respective advisors, begin to shape a deal, taking it from verbal discussions to the next level.

## Make Sure Your Term Sheet Has the Right Components

In the end, a term sheet is basically a preliminary proposal containing a variety of key information. The term sheet outlines the price, as well as the terms and any major considerations. Major considerations can include everything from consulting and employment agreements to covenants not to compete.

Term sheets are a valuable tool and when used in a judicious fashion, they can yield impressive results and help to streamline the buying and selling process. Through the proper use of term sheets, an array of misunderstandings can be avoided and this, in turn, can help increase the chances of successfully finalizing a deal.

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