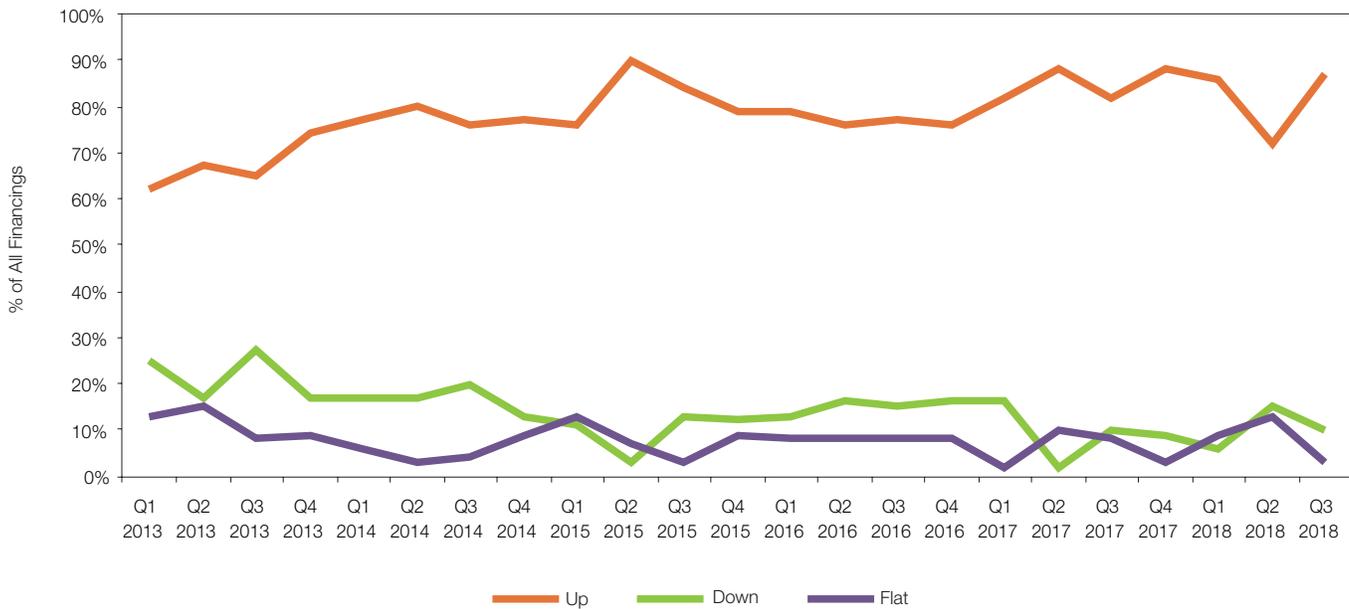


THE ENTREPRENEURS REPORT
Private Company Financing Trends

Q3 2018

From the WSGR Database:
Financing Trends for Q1-Q3 2018

Up and Down Rounds by Quarter



IN THIS ISSUE

Financing Trends for Q1-Q3 2018..... Pages 1-6

Private Company Financing Deal Terms Page 4

Bridge Loans..... Page 5

Bridge Loans – Deal Terms..... Page 6

Market conditions for venture funding remained very strong in the third quarter of 2018. Deal size and pre-money valuations across all equity rounds decreased slightly but still remained high by historical standards. Median pre-money valuations inched down across the board in Q3 2018. The decline in median amounts raised was more significant, with Series B financings taking the most significant hit, and with the median size falling nearly 50% from the prior quarter. However,

more post-Series A financings were up rounds, reversing the decline seen in the first half of 2018.

The median amount raised in post-Seed bridge loans in Q3 2018 also declined from Q2 2018; however, the median amount raised in pre-Seed bridges ticked up modestly from the prior quarter. The percentage of both pre- and post-Seed bridges having maturity periods of 12 or more months also increased to levels

not seen since 2013 and 2014, perhaps indicating expectations that it may take longer to raise next equity rounds.

Up and Down Rounds

The proportion of up round financings rebounded in Q3 2018, increasing from 72% in Q2 to 87% of Series B and later financings in the quarter. The share of down round financings decreased, from 15% in Q2 2018 to 10% in Q3 2018. Flat rounds were also less common in Q3 2018, decreasing from 13% of financings in Q2 2018 to only 3% in Q3.

Valuations

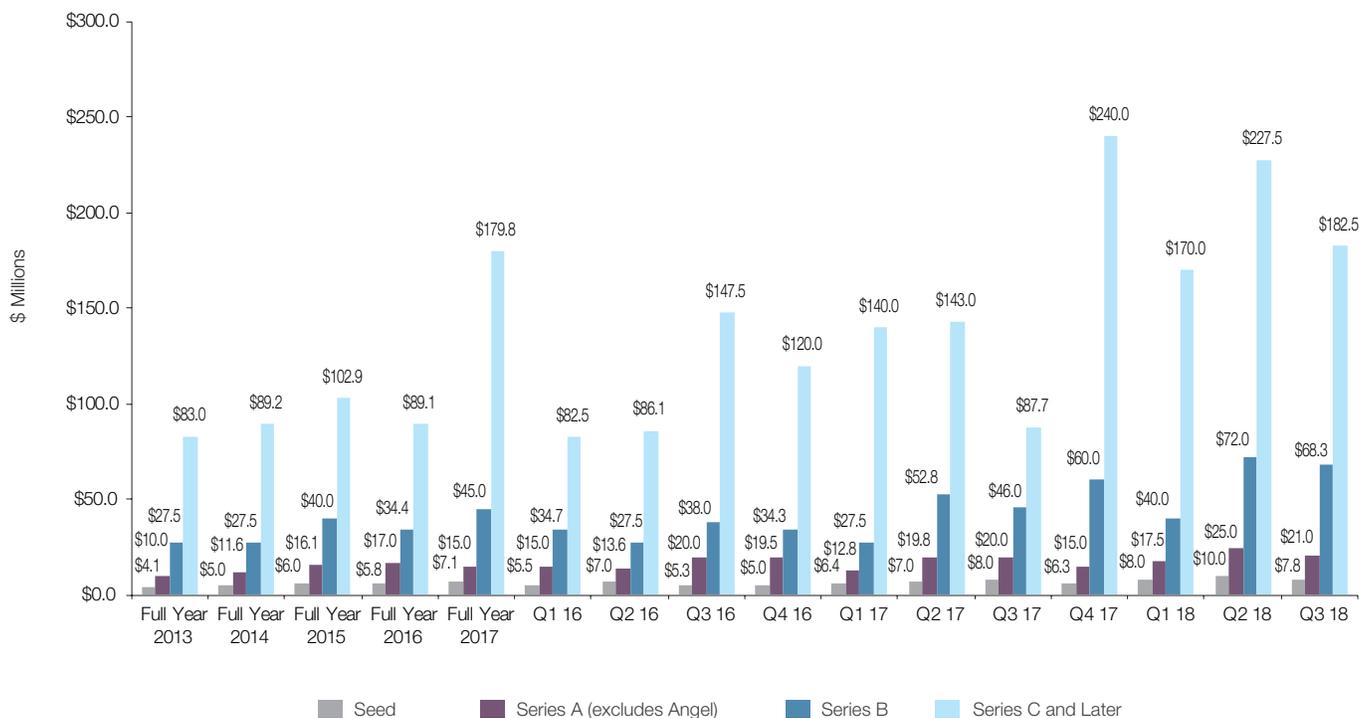
Median pre-money valuations for Series Seed and Series A financings in Q3 retreated slightly from the record highs reached in Q2 2018, but remained well above five-year medians. Median pre-money valuations for Series Seed financings dropped from \$10.0 million in Q2 2018 to \$7.8 million in Q3, while median Series A valuations fell from \$25.0 million in Q2 to \$21.0 million in Q3. The median pre-money valuation for Series B rounds also backed off the historic high of \$72.0 million reached in Q2 2018 but still

came in at a strong \$68.3 million in Q3, making it the second-highest quarter for Series B pre-money valuations in the past six years. The median pre-money valuation for Series C and later deals declined from the near-high reached in Q2 2018 of \$227.5 million to \$182.5 million in Q3, only slightly exceeding the full-year 2017 median of \$179.8 million, but well above the five-year median of \$110.8 million.

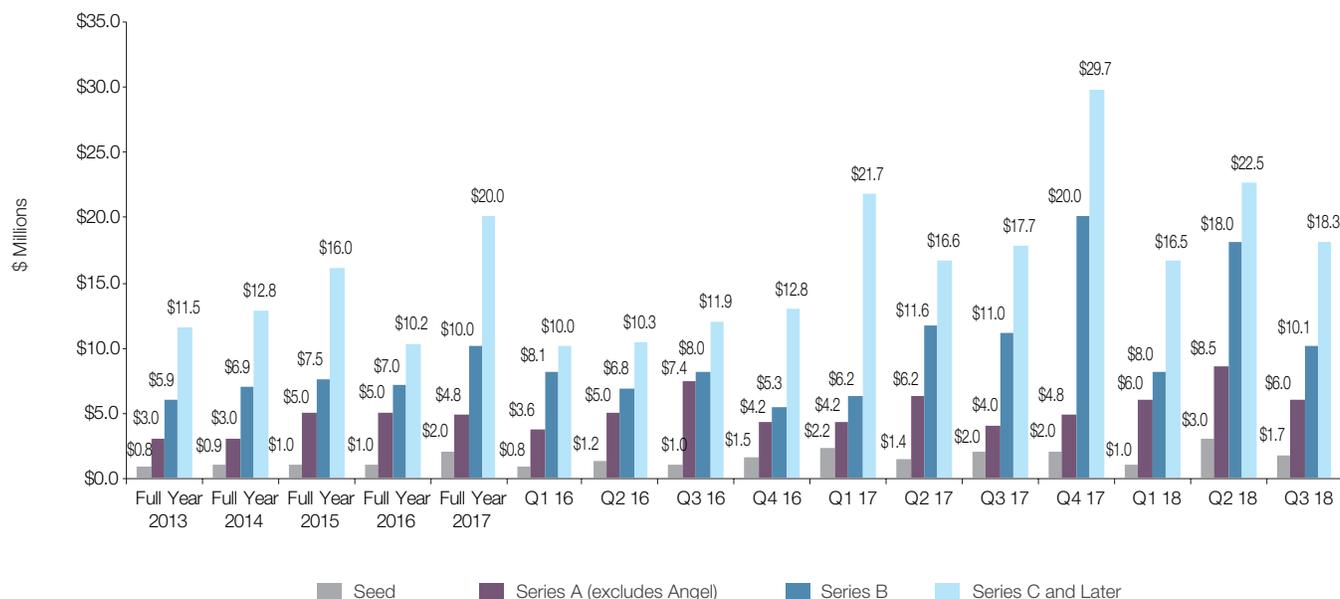
Amounts Raised

Median amounts raised for Series Seed and Series A financings in Q3 2018 fell

Median Pre-Money Valuation



Median Amount Raised – Equity Financings



from Q2’s record highs to amounts closer to those seen in Q1 2018, declining from \$3.0 million and \$8.5 million, respectively, in Q2 to \$1.7 million and \$6.0 million, respectively, in Q3 2018. The median amount raised in Series B financings fell sharply from \$18.0 million in Q2 2018 to \$10.1 million in Q3, but still remained above the full-year 2017 median of \$10.0 million.

The median amount raised in Series C and later financings in Q3 2018 decreased modestly, from \$22.5 million in Q2 2018 to \$18.3 million in Q3, slightly below the full-year 2017 median of \$20.0 million, but exceeding the five-year median of \$15.0 million.

Deal Terms – Preferred

Nearly 70% of post-Series A rounds used *pari passu* liquidation preferences in Q1-Q3 2018, the highest percentage in the past five years. The percentage of down rounds with senior liquidation preferences dropped dramatically, from 63% in 2017 to 25% in Q1-Q3 2018; meanwhile, the percentage of down rounds with *pari passu* preferences nearly doubled, from 38% in 2017 to 75% in Q1-Q3 2018.

The percentage of financings with no participation increased slightly from 84% in 2017 to 86% in Q1-Q3 2018, but the total represents a higher percentage than in any of the prior four full years.

The use of redemption rights decreased dramatically, accounting for just 6% of Q1-Q3 2018 financings, down from 19% in 2017. The significant drop in the number of deals with redemption rights reflects the continuing leverage that companies have to dictate terms in a strong market.

Data on deal terms such as liquidation preferences, dividends, and others are set forth in the table below. To see how the terms tracked in the table can be used in the context of a financing, we encourage you to draft a term sheet using our automated Term Sheet Generator, which is available in the Start-Ups and Venture Capital section of the firm’s website at www.wsgr.com.

Private Company Financing Deal Terms (WSGR Deals)¹

	2013 All Rounds ²	2014 All Rounds ²	2015 All Rounds ²	2016 All Rounds ²	2017 All Rounds ²	Q1-Q3 2018 All Rounds ²	2013 Up Rounds ³	2014 Up Rounds ³	2015 Up Rounds ³	2016 Up Rounds ³	2017 Up Rounds ³	Q1-Q3 2018 Up Rounds ³	2013 Down Rounds ³	2014 Down Rounds ³	2015 Down Rounds ³	2016 Down Rounds ³	2017 Down Rounds ³	Q1-Q3 2018 Down Rounds ³
Liquidation Preferences - Series B and Later																		
Senior	41%	40%	33%	38%	35%	31%	38%	32%	31%	36%	31%	29%	47%	68%	35%	41%	63%	25%
<i>Pari Passu</i> with Other Preferred	55%	56%	62%	57%	62%	69%	60%	64%	66%	62%	66%	71%	37%	21%	53%	45%	38%	75%
Junior	0%	0%	1%	1%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	5%	0%	0%
Complex	3%	2%	3%	4%	3%	0%	2%	2%	1%	2%	4%	0%	11%	5%	12%	9%	0%	0%
Not Applicable	1%	3%	1%	0%	0%	0%	0%	2%	1%	0%	0%	0%	5%	5%	0%	0%	0%	0%
Participating vs. Non-participating																		
Participating - Cap	18%	12%	8%	9%	6%	4%	20%	14%	11%	10%	7%	5%	23%	13%	12%	22%	31%	0%
Participating - No Cap	12%	14%	11%	11%	10%	10%	10%	11%	12%	13%	11%	9%	30%	32%	35%	4%	19%	17%
Non-participating	70%	74%	81%	81%	84%	86%	69%	76%	77%	77%	82%	86%	48%	55%	53%	74%	50%	83%
Dividends																		
Yes, Cumulative	12%	13%	3%	6%	7%	7%	12%	11%	3%	7%	9%	8%	13%	24%	24%	22%	13%	27%
Yes, Non-cumulative	74%	72%	82%	73%	78%	64%	79%	74%	86%	78%	78%	66%	79%	71%	76%	70%	81%	64%
None	14%	15%	15%	21%	16%	29%	9%	15%	11%	15%	13%	26%	8%	5%	0%	9%	6%	9%
Anti-dilution Provisions																		
Weighted Average - Broad	90%	85%	80%	92%	94%	94%	94%	90%	86%	92%	96%	93%	95%	92%	75%	91%	100%	100%
Weighted Average - Narrow	3%	9%	13%	1%	2%	2%	3%	6%	12%	1%	1%	3%	0%	5%	19%	0%	0%	0%
Ratchet	1%	1%	1%	1%	0%	0%	0%	1%	1%	2%	0%	0%	3%	0%	0%	0%	0%	0%
Other (Including Blend)	1%	1%	1%	3%	1%	1%	2%	1%	1%	3%	1%	0%	0%	0%	0%	9%	0%	0%
None	5%	4%	5%	3%	3%	4%	8%	2%	1%	2%	1%	3%	3%	3%	6%	0%	0%	0%
Pay to Play - Series B and Later																		
Applicable to This Financing	5%	4%	5%	5%	2%	4%	1%	1%	3%	3%	2%	1%	15%	16%	18%	9%	6%	0%
Applicable to Future Financings	1%	0%	1%	1%	0%	2%	1%	0%	0%	1%	0%	2%	0%	0%	12%	0%	0%	0%
None	95%	96%	94%	94%	98%	94%	98%	99%	97%	96%	98%	96%	85%	84%	71%	91%	94%	100%
Redemption																		
Investor Option	19%	17%	13%	11%	12%	5%	20%	22%	19%	20%	19%	8%	33%	24%	12%	9%	20%	8%
Mandatory	1%	3%	2%	2%	7%	1%	2%	3%	3%	3%	9%	2%	0%	3%	0%	0%	0%	0%
None	80%	80%	85%	87%	81%	94%	78%	75%	78%	77%	72%	90%	67%	74%	88%	91%	80%	92%

¹ We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note the numbers do not always add up to 100% due to rounding.

² Includes flat rounds and, unless otherwise indicated, Series A rounds.

³ Note that the All Rounds metrics include flat rounds and, in certain cases, Series A financings as well. Consequently, metrics in the All Rounds column may be outside the ranges bounded by the Up Rounds and Down Rounds columns, which will not include such transactions.

Median Amount Raised – Bridge Loans



Bridge Loans

The median amount raised in pre-Seed bridges increased slightly in Q3 2018, rising from \$0.34 million in Q2 2018 to \$0.43 million in Q3. In contrast, the median amount raised in post-Seed bridges fell from \$1.61 million in Q2 2018 to \$1.00 million in Q3, which was lower than both the full-year 2017 median of \$1.50 million and the five-year median of \$1.28 million.

Deal Terms – Bridge Loans

The percentage of pre-Seed loans with maturity periods of 12 or more months increased from 77% in 2017 to 96% in Q1-

Q3 2018, with 23% of loans having interest rates of at least 8%, as compared to 25% in 2017. The percentage of pre-Seed bridge loans subordinated to other debt fell from 28% in 2017 to 13% in Q1-Q3 2018. Although the number of pre-Seed bridge loans that are convertible to equity at discounted prices increased slightly from 89% in 2017 to 91% in Q1-Q3 2018, the number of such convertible loans receiving a discount rate of 20% or more on conversion fell, from 84% in 2017 to 75% in Q1-Q3 2018.

The percentage of post-Seed loans with maturity periods of 12 or more months increased from 60% in 2017 to 76% in Q1-

Q3 2018, with 42% of loans having interest rates of at least 8%, as compared to 44% in 2017. The percentage of post-Seed bridge loans subordinated to other debt rose from 33% in 2017 to 55% in Q1-Q3 2018. More post-Seed bridge financings had warrants in Q1-Q3 2018 than in 2017, increasing from 16% in 2017 to 24% in Q1-Q3 2018, most (71%) of which had warrant coverage greater than 25%. The percentage of post-Seed bridge loans convertible to equity remained steady at 92% in Q1-Q3 2018, although the percentage of those subject to a price cap decreased modestly, from 34% in 2017 to 21% in Q1-Q3 2018.

Bridge Loans – Deal Terms (WSGR Deals)¹

Bridge Loans	2013 Pre-Seed	2014 Pre-Seed	2015 Pre-Seed	2016 Pre-Seed	2017 Pre-Seed	Q1-Q3 2018 Pre-Seed	2013 Post-Seed	2014 Post-Seed	2015 Post-Seed	2016 Post-Seed	2017 Post-Seed	Q1-Q3 2018 Post-Seed
Interest rate less than 8%	70%	72%	74%	76%	75%	77%	46%	43%	54%	52%	56%	58%
Interest rate at 8%	29%	22%	19%	19%	17%	18%	34%	42%	33%	30%	27%	31%
Interest rate greater than 8%	1%	6%	7%	5%	8%	5%	20%	15%	13%	17%	17%	11%
Maturity less than 12 months	3%	12%	17%	17%	22%	4%	29%	24%	34%	29%	41%	24%
Maturity at 12 months	19%	16%	9%	5%	8%	9%	38%	39%	8%	23%	19%	26%
Maturity more than 12 months	78%	71%	74%	78%	69%	87%	33%	37%	58%	49%	41%	50%
Debt is subordinated to other debt	25%	22%	15%	20%	28%	13%	56%	48%	38%	45%	33%	55%
Loan includes warrants ²	4%	5%	3%	8%	0%	5%	34%	19%	25%	17%	16%	24%
Warrant coverage less than 25%	0%	20%	100%	80%	N/A	0%	50%	69%	47%	23%	43%	29%
Warrant coverage at 25%	0%	0%	0%	0%	N/A	0%	12%	0%	7%	15%	14%	14%
Warrant coverage greater than 25%	100%	80%	0%	20%	N/A	100%	38%	31%	47%	62%	43%	57%
Principal is convertible into equity ³	100%	98%	93%	97%	97%	100%	94%	94%	86%	92%	92%	92%
Conversion rate subject to price cap ⁴	68%	67%	64%	79%	74%	74%	14%	23%	26%	29%	34%	21%
Conversion to equity at discounted price ⁵	91%	81%	78%	82%	89%	91%	59%	73%	71%	74%	76%	88%
Discount on conversion less than 20%	17%	10%	11%	12%	16%	25%	16%	25%	25%	25%	20%	10%
Discount on conversion at 20%	60%	72%	73%	76%	74%	60%	46%	44%	47%	49%	50%	50%
Discount on conversion greater than 20%	22%	17%	16%	12%	10%	15%	38%	32%	27%	26%	30%	40%
Conversion to equity at same price as other investors	9%	16%	18%	13%	3%	5%	35%	24%	25%	19%	24%	6%

¹ We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note the numbers do not always add up to 100% due to rounding.

² Of the 2013 post-Seed bridges with warrants, 24% also had a discount on conversion into equity. Of the 2014 post-Seed bridges with warrants, 38% also had a discount on conversion into equity. Of the 2015 post-Seed bridges with warrants, 58% also had a discount on conversion into equity. Of the 2016 post-Seed bridges with warrants, 33% also had a discount on conversion into equity. Of the 2017 post-Seed bridges with warrants, 60% also had a discount on conversion into equity. Of the Q1-Q3 2018 post-Seed bridges with warrants, 55% also had a discount on conversion into equity.

³ Of the 2016 pre-Seed convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the 2017 pre-Seed convertible bridges, 94% had automatic conversion and 6% had voluntary conversion. Of the Q1-Q3 2018 pre-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. Of the 2016 post-Seed convertible bridges, 97% had automatic conversion and 3% had voluntary conversion. Of the 2017 post-Seed convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the Q1-Q3 2018 post-Seed convertible bridges, 94% had automatic conversion and 6% had voluntary conversion. The 2016 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$1M and \$5M, respectively. The 2017 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$2M and \$10M, respectively. The Q1-Q3 2018 median dollar threshold for a qualified financing in pre- and post-Seed bridges were \$3M and \$5M, respectively.

⁴ The 2016 median price cap in pre- and post-Seed bridges was \$6M and \$25M, respectively. The 2017 median price cap in pre- and post-Seed bridges was \$10M and \$25M, respectively. The Q1-Q3 2018 median price cap in pre- and post-Seed bridges was \$8M and \$20M, respectively.

⁵ Of the 2013 post-Seed bridges that had a discount on conversion into equity, 15% also had warrants. Of the 2014 post-Seed bridges that had a discount on conversion into equity, 10% also had warrants. Of the 2015 post-Seed bridges that had a discount on conversion into equity, 21% also had warrants. Of the 2016 post-Seed bridges that had a discount on conversion into equity, 8% also had warrants. Of the 2017 post-Seed bridges that had a discount on conversion into equity, 13% also had warrants. Of the Q1-Q3 2018 post-Seed bridges that had a discount on conversion into equity, 17% also had warrants.

WSGR Methodology

- The Up/Down/Flat analysis is based on WSGR deals having an initial closing in the period reported to ensure that the data clearly reflects current trends.
- The median pre-money valuation is calculated based on the pre-money valuation given at the time of the initial closing of the round. If the issuer has a closing in a subsequent quarter, the original pre-money valuation is used in the calculation of the median for that quarter as well.
- A substantial percentage of deals have multiple closings that span fiscal quarters. The median amount raised is calculated based on the aggregate amount raised in the reported quarter.

This report is based on detailed deal data provided by the firm's corporate and securities attorneys and analyzed by the firm's Knowledge Management department.

For purposes of the statistics and charts in this report, our database includes venture financing transactions in which Wilson Sonsini Goodrich & Rosati represented either the company or one or more of the investors.



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