

# THE ENTREPRENEURS REPORT

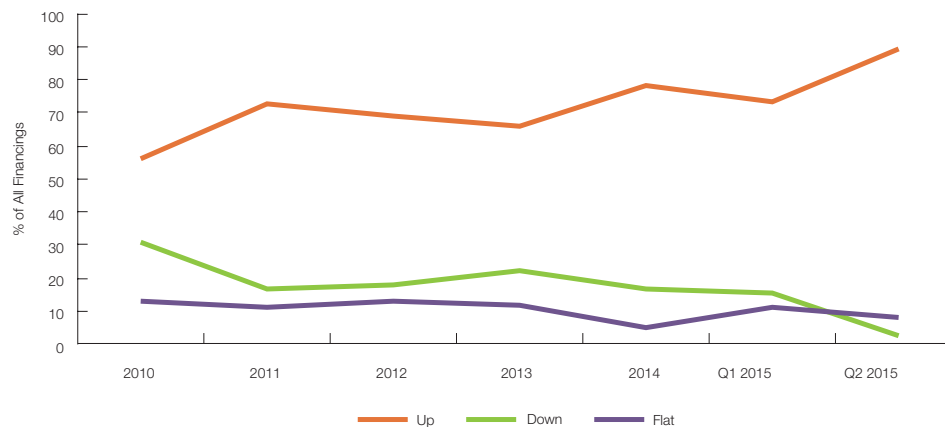
## Private Company Financing Trends

1H 2015

### From the WSGR Database: Financing Trends for Q2 2015

As we reported in Q1 2015, venture money is continuing to shift to a smaller number of large deals, which is causing surges in both the percentage of deals that are up rounds (which remained quite high in Q2) and pre-money valuations. Notably, valuations of companies in later-round deals reached levels in Q2 not seen since before the Great Recession. Market conditions remain extremely founder-favorable, as noted in the other terms described below.

#### Up and Down Rounds by Year - Equity Financings



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#### Up and Down Rounds

Up rounds rose to 89% of all Series B and later financings in Q2 2015. Meanwhile, down rounds dwindled to a mere 3% of such deals, and flat rounds remained relatively steady at 11%. The percentage of down-round Series B and later financings remained lower than any period since 2007.

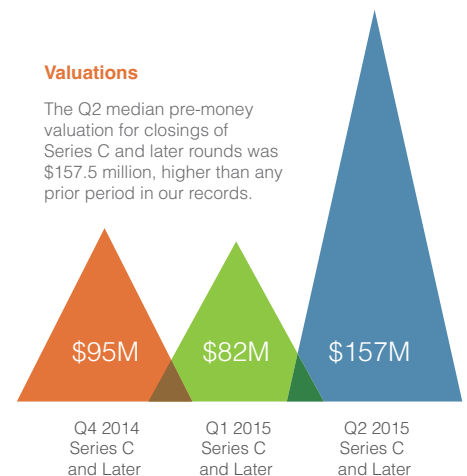
#### Valuations

The Q2 2015 median pre-money valuation for closings of Seed and Series A deals backed by venture and corporate strategic investors dropped to \$8.0 million, which

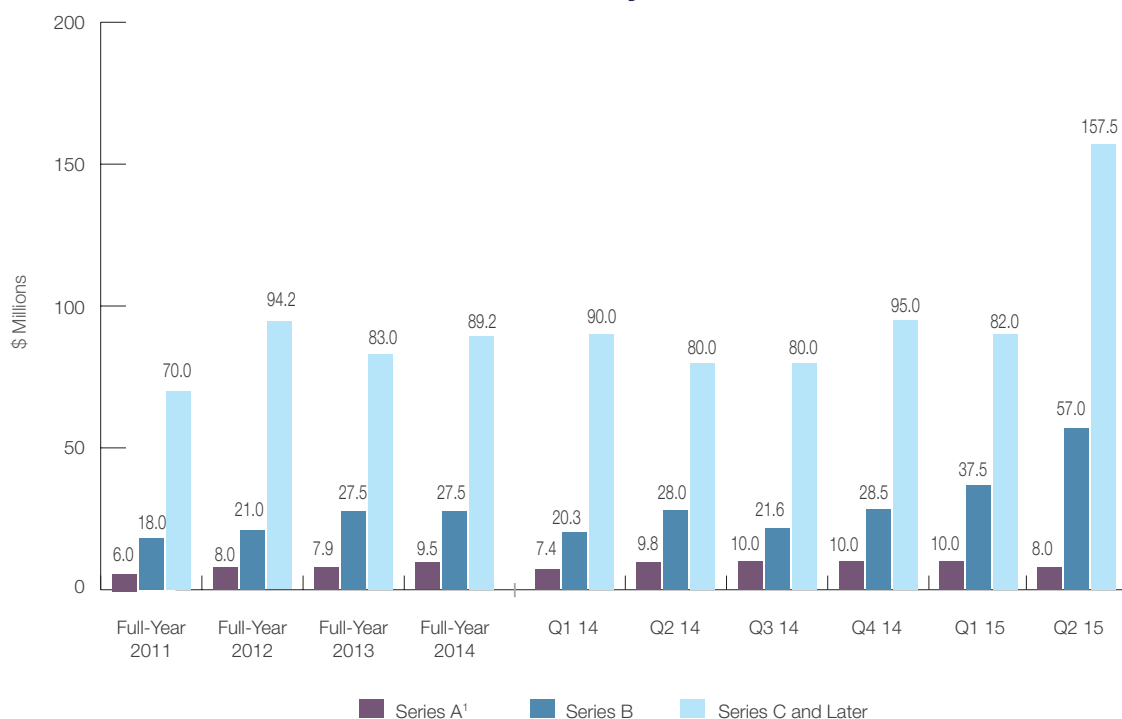
is lower than the 2014 median for such deals, but similar to the figures for 2012 and 2013. The Q2 median pre-money

#### Valuations

The Q2 median pre-money valuation for closings of Series C and later rounds was \$157.5 million, higher than any prior period in our records.



## Median Pre-Money Valuations



valuation for closings of Series B deals climbed to \$57.0 million, substantially higher than in any quarter since 2007. The median pre-money valuation for Series C and later rounds was \$157.5 million, much higher than in any prior period in our records. See the article “Increasing Valuations of Late-Stage Deals” on

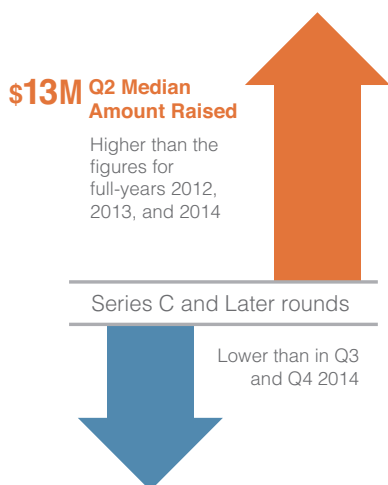
page 7 for a more detailed analysis of this surge in late-stage valuations.

### Amounts Raised

The Q2 2015 Series A and Series B median amounts raised rose to \$3.2 million and \$11.5 million, respectively; these totals are among the highest levels seen in the past four years. For Series C and later rounds, the median amount raised in Q2 closings increased to \$13.0 million, lower than in Q3 and Q4 2014 but higher than the figures for full-years 2012, 2013, and 2014.

friendly market. These trends continued in 1H 2015, with cumulative dividends used in just 3% of all rounds and non-participating preferred increasing to 79% of all rounds. In addition, the use of senior liquidation rights declined, constituting only 30% of all rounds and 26% of up rounds. Please note that we are not reporting metrics for down rounds in the first half of 2015, as so few down rounds occurred during the period that any metrics are likely to be unreliable.

Data on deal terms such as liquidation preferences, dividends, and others are set forth in the table on page 4. 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 Entrepreneurial Services section of the firm's website at [www.wsgr.com](http://www.wsgr.com).

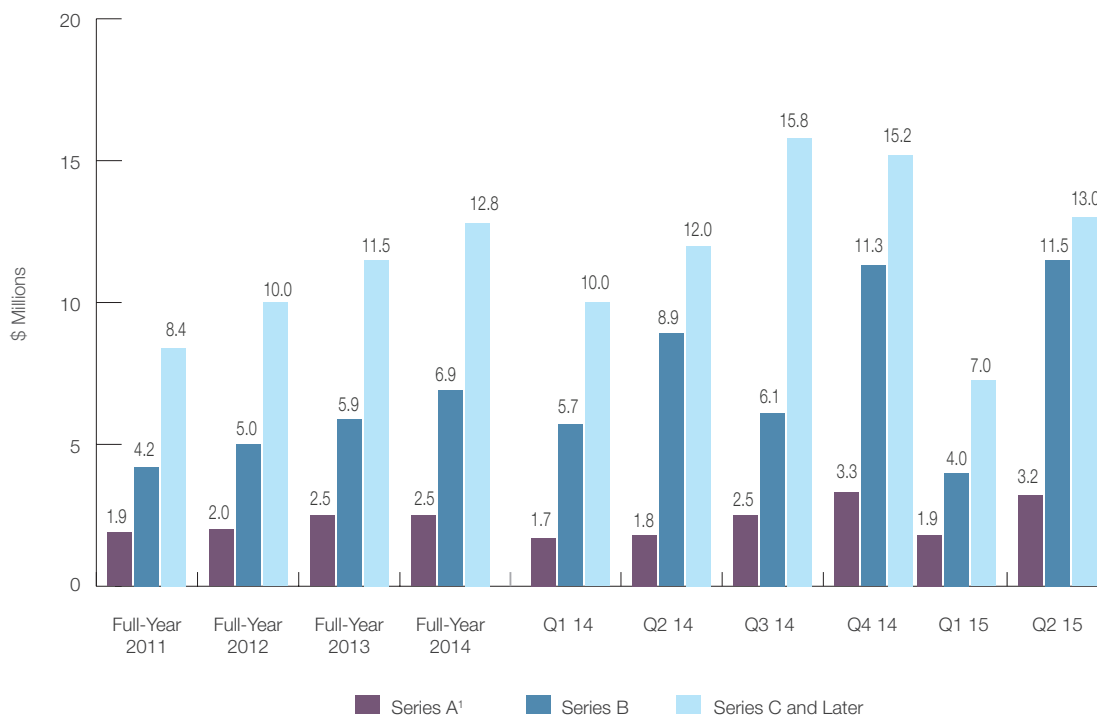


### Deal Terms

In our report on Q1 2015 deal terms, we noted that increases in the use of non-cumulative dividends and non-participating preferred suggested a strong, founder-

<sup>1</sup> Seed rounds are included in this category, but we exclude Angel-backed Series A and seed rounds.

## Median Amount Raised – Equity Financings



## WSGR Ranked No. 1 for Q2 2015 Venture Financings

Dow Jones VentureSource recently ranked Wilson Sonsini Goodrich & Rosati as the leading law firm for U.S. venture financings in the second quarter of 2015. Specifically, its legal rankings for Q2 2015 issuer-side venture financing deals ranked WSGR ahead of all other firms by the total number of rounds of equity financing raised on behalf of clients. The firm is credited as legal advisor in 57 rounds of financing, while its nearest competitor advised on 44 rounds of financing. According to VentureSource, WSGR ranked first for Q2 2015 issuer-side U.S. deals in the following industries:



Business and  
financial  
services



Clean  
technology  
(tie)



Communications  
and networking  
(tie)



Consumer  
goods



Healthcare



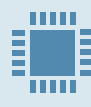
Industrial  
goods and  
materials



Information  
technology



Medical  
devices and  
equipment



Semiconductors  
(tie)



Software

<sup>1</sup> Seed rounds are included in this category, but we exclude Angel-backed Series A and seed rounds.

Private Company Financing Deal Terms (WSGR Deals)<sup>1</sup>

	2012 All Rounds <sup>2</sup>	2013 All Rounds <sup>2</sup>	2014 All Rounds <sup>2</sup>	1H 2015 All Rounds <sup>2</sup>	2012 Up Rounds <sup>3</sup>	2013 Up Rounds <sup>3</sup>	2014 Up Rounds <sup>3</sup>	1H 2015 Up Rounds <sup>3</sup>	2012 Down Rounds <sup>3</sup>	2013 Down Rounds <sup>3</sup>	2014 Down Rounds <sup>3</sup>	1H 2015 <sup>4</sup> Down Rounds <sup>3</sup>
<b>Liquidation Preferences - Series B and Later</b>												
Senior	37%	41%	40%	30%	30%	38%	32%	26%	56%	47%	68%	N/A
<i>Pari Passu</i> with Other Preferred	58%	55%	56%	62%	67%	60%	64%	69%	39%	37%	21%	N/A
Junior	0%	0%	0%	3%	0%	0%	0%	2%	0%	0%	0%	N/A
Complex	2%	3%	2%	5%	2%	2%	2%	4%	0%	11%	5%	N/A
Not Applicable	3%	1%	3%	0%	1%	0%	2%	0%	5%	5%	5%	N/A
<b>Participating vs. Non-participating</b>												
Participating - Cap	14%	18%	12%	12%	13%	20%	14%	15%	17%	23%	13%	N/A
Participating - No Cap	19%	12%	14%	9%	20%	10%	11%	11%	41%	30%	32%	N/A
Non-participating	67%	70%	74%	79%	67%	69%	76%	74%	41%	48%	55%	N/A
<b>Dividends</b>												
Yes, Cumulative	9%	12%	13%	3%	10%	12%	11%	2%	12%	13%	24%	N/A
Yes, Non-cumulative	78%	74%	72%	83%	81%	79%	74%	89%	78%	79%	71%	N/A
None	13%	14%	15%	14%	9%	9%	15%	9%	10%	8%	5%	N/A
<b>Anti-dilution Provisions</b>												
Weighted Average - Broad	86%	90%	85%	79%	90%	94%	90%	87%	85%	95%	92%	N/A
Weighted Average - Narrow	3%	3%	9%	13%	3%	3%	6%	11%	5%	0%	5%	N/A
Ratchet	2%	1%	1%	1%	2%	0%	1%	0%	8%	3%	0%	N/A
Other (Including Blend)	2%	1%	1%	1%	2%	1%	1%	2%	3%	0%	0%	N/A
None	6%	5%	4%	6%	3%	2%	2%	0%	0%	3%	3%	N/A
<b>Pay to Play - Series B and Later</b>												
Applicable to This Financing	5%	5%	4%	6%	1%	1%	1%	2%	23%	15%	16%	N/A
Applicable to Future Financings	3%	1%	0%	2%	3%	1%	0%	0%	3%	0%	0%	N/A
None	92%	95%	96%	92%	96%	98%	99%	98%	74%	85%	84%	N/A
<b>Redemption</b>												
Investor Option	22%	19%	17%	12%	23%	20%	22%	17%	35%	33%	24%	N/A
Mandatory	1%	1%	3%	1%	1%	2%	3%	4%	3%	0%	3%	N/A
None	77%	80%	80%	87%	76%	78%	75%	79%	63%	67%	74%	N/A

<sup>1</sup> We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note that the numbers do not always add up to 100% due to rounding.<sup>2</sup> Includes flat rounds and, unless otherwise indicated, Series A rounds.<sup>3</sup> 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.<sup>4</sup> Due to the small number of down rounds in 1H 2015, we did not calculate the deal term percentages in this category.

## Bridge Loans

The Q2 2015 median amount raised in pre-Series A bridge financings was \$0.43 million, substantially higher than the Q1 2015 median, but nearly equal to the \$0.45 million median for full-year 2014. The equivalent figure for post-Series A loans dropped from \$1.75 million in Q1 2015 to \$1.09 million in Q2 2015.

**Interest rates.** Annual interest rates of less than 8% for pre-Series A loans are the most common, with 77% of such loans in 1H 2015 falling into that category—down from the figure we reported for Q1, but up from 72% for full-year 2014. Rates below 8% were the most popular for post-Series A bridge loans as well; they were used in 56% of such deals in 1H 2015, nearly the same figure reported for Q1.

**Maturities.** The percentage of pre-Series A loans having maturities of less than one year was 16% in 1H 2015—not as strong as the figure reported for Q1, but still higher than the figure of 12% for full-year 2014. We continue to believe that this decline in the length of maturities for early-stage companies may represent a shared belief among investors that successful companies will find equity financing relatively quickly.

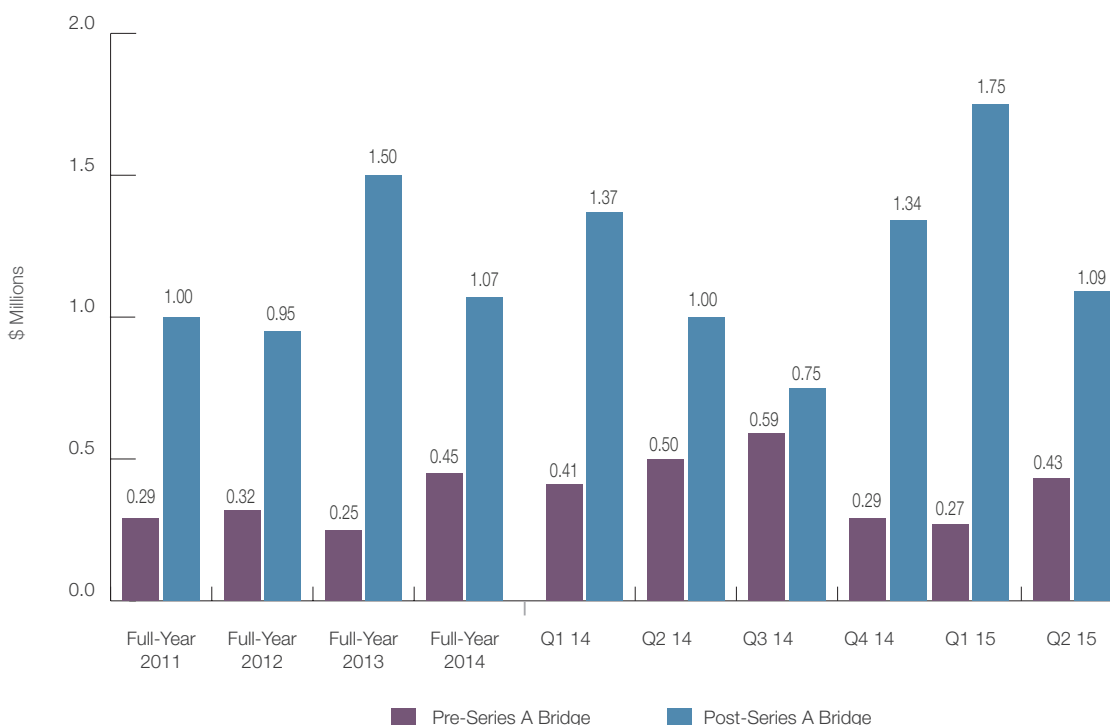
For post-Series A loans, the percentage of these lower maturities also increased, from 24% in 2014 to 38% in 1H 2015. However, there was also an increase in longer maturities, with loans of more than 12 months rising from 37% to 54% (at the expense of maturities of exactly one year). This may indicate that investors believe that financing opportunities for later-stage

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.

companies will remain strong for an extended period.

**Warrants.** The decline in the use of warrants also suggests a founder-favorable market, as well as a continuing desire to simplify transaction documentation. None of the pre-Series A loans in 1H 2015 carried warrants, and only 20% of post-Series A loans had them.

## Median Amount Raised – Bridge Loans





Bridge Loans – Deal Terms (WSGR Deals)<sup>1</sup>

Bridge Loans	2012 Pre- Series A	2013 Pre- Series A	2014 Pre- Series A	1H 2015 Pre- Series A	2012 Post- Series A	2013 Post- Series A	2014 Post- Series A	1H 2015 Post- Series A
Interest rate less than 8%	64%	70%	72%	77%	44%	46%	43%	56%
Interest rate at 8%	30%	29%	22%	23%	41%	34%	42%	40%
Interest rate greater than 8%	5%	1%	6%	0%	15%	20%	15%	4%
Maturity less than 12 months	8%	3%	12%	16%	34%	29%	24%	38%
Maturity at 12 months	30%	19%	16%	9%	36%	38%	39%	8%
Maturity more than 12 months	62%	78%	71%	75%	30%	33%	37%	54%
Debt is subordinated to other debt	13%	25%	22%	13%	39%	56%	48%	44%
Loan includes warrants <sup>2</sup>	8%	4%	5%	0%	32%	34%	19%	20%
Warrant coverage less than 25%	20%	0%	20%	N/A	42%	50%	69%	75%
Warrant coverage at 25%	40%	0%	0%	N/A	33%	12%	0%	25%
Warrant coverage greater than 25%	20%	100%	80%	N/A	14%	38%	31%	0%
Warrant coverage described as variable or "other"	20%	0%	0%	N/A	12%	0%	0%	0%
Principal is convertible into equity <sup>3</sup>	99%	100%	98%	97%	97%	94%	94%	92%
Conversion rate subject to price cap	65%	68%	67%	72%	24%	14%	23%	16%
Conversion to equity at discounted price <sup>4</sup>	79%	91%	81%	72%	52%	59%	73%	75%
Discount on conversion less than 20%	17%	17%	10%	10%	15%	16%	25%	18%
Discount on conversion at 20%	54%	60%	72%	67%	46%	46%	44%	47%
Discount on conversion greater than 20%	29%	22%	17%	24%	39%	38%	32%	35%
Conversion to equity at same price as other investors	12%	9%	16%	28%	38%	35%	24%	25%

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

<sup>2</sup> Of the 2013 pre-Series A bridges that had warrants, 33% also had a discount on conversion into equity. Of the 2013 post-Series A bridges with warrants, 24% also had a discount on conversion into equity. Of the 2014 post-Series A bridges with warrants, 38% also had a discount on conversion into equity. Due to the small number of deals with warrants in 1H 2015, we did not do the comparison.

<sup>3</sup> This includes notes that provide for voluntary as well as automatic conversion.

<sup>4</sup> Of the 2013 pre-Series A bridges that had a discount on conversion into equity, 2% also had warrants. Of the 2013 post-Series A bridges that had a discount on conversion into equity, 15% also had warrants. Of the 2014 post-Series A bridges that had a discount on conversion into equity, 10% also had warrants. Of the 1H 2015 post-Series A bridges that had a discount on conversion into equity, 11% also had warrants.

**Conversion.** In the first half of 2015, provisions for conversion to equity at a discounted price constituted 72% of all pre-Series A convertible note financings, a decline from the figure of 81% for full-year 2014. For post-Series A bridge financings, the same figure remained nearly constant, at 75% of loans for 1H 2015 versus 73% for full-year 2014.

### Conversion Caps

Recently, we have had several clients ask us about price caps, or “conversion

Pre-Series A/Seed Convertible Bridge Loans (7/1/2014 to 6/30/2015)	All Deals with Conversion Caps on Valuation (\$M)	Conversion Caps on Valuation - Deals with Less than \$1M Total Amount Raised (\$M)
Median	5.60	5.00
Average	8.32	5.39

caps,” on pre-Series A bridge loans. A conversion cap fixes the maximum pre-money valuation at which the investors will convert their debt into equity. There is often both a conversion cap and a discount on conversion, in which case the debt will automatically convert at the price

that is more favorable to the investor. Over the past year, about 65% of such bridge loans have had a conversion cap. The table above shows the metrics for these caps. Note that these deals may also have discounts on the purchase of equity or carry warrants, or both.

## Increasing Valuations of Late-Stage Deals

While many commentators have observed recently that valuations for late-stage deals are increasing, the rise in median pre-money valuation for Series C and later deals from Q1 to Q2 2015 is still striking. Medians can conceal trends when the standard deviation for a data set is large, as is the case for late-stage deals. The consequence is that medians can occasionally jump substantially, as they have in our chart on page 2, where

the median for Series C and later deals increased from \$82.0 million to \$157.5 million between Q1 and Q2 2015. But our metrics are based on closings in a quarter, and thus include deals that had closings in prior quarters. As a result, even that jump does not fully reflect the significant increase in the number of deals with high valuations in Q2 2015.

The below chart shows the percentage of WSGR late-stage deals for the past 14 quarters by date of initial closing with pre-money valuations above and below \$100 million. It also shows the median valuation of such deals. Not only was there a substantially greater percentage of deals in Q2 2015 with valuations above \$100 million than during any other recent period, but the median valuation was even higher than in the chart on page 2.

**Pre-Money Valuations and Medians for Series C and Later Deals**  
(by Quarter of Initial Closing)



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#### 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.



Wilson Sonsini Goodrich & Rosati  
PROFESSIONAL CORPORATION

650 Page Mill Road, Palo Alto, California 94304-1050 | Phone 650-493-9300 | Fax 650-493-6811 | [www.wsgr.com](http://www.wsgr.com)

Austin Beijing Brussels Hong Kong Los Angeles New York Palo Alto San Diego San Francisco Seattle Shanghai Washington, DC Wilmington, DE

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