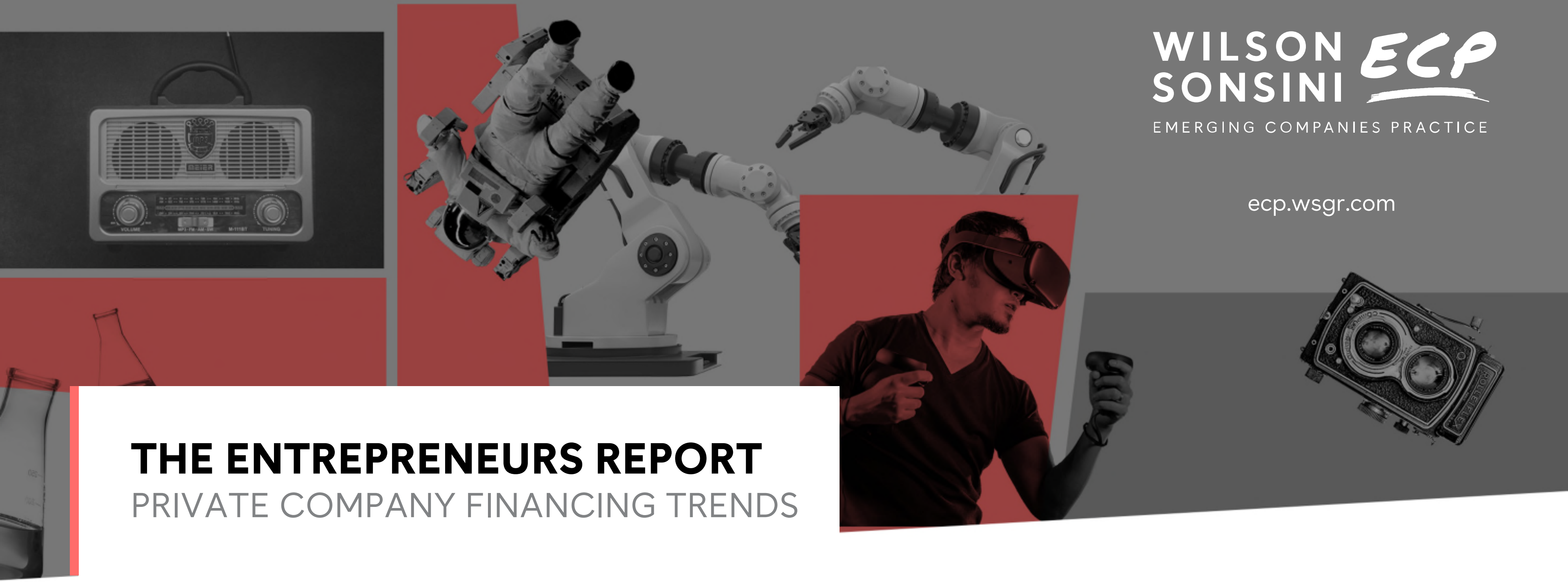

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THE ENTREPRENEURS REPORT

PRIVATE COMPANY FINANCING TRENDS

From the Wilson Sonsini Database:

FINANCING TRENDS FOR 1H 2023

Key Developments in This Report

Later-Stage Valuations Rebound Slightly

Q2 2023 saw median pre-money valuations for Series B, C, and later companies rise marginally over the previous quarter. A return to the peak valuations of 2021-22 remains far off, however, with current valuations for Series C or later companies tracking at just over 50% of all-time highs. This suggests that more mature private companies will continue to struggle to secure high valuations. Improvement is likely only when IPO demand strengthens.

See p. 4

Seed and Series A Raise Amounts Return to All-Time Highs

While early-stage valuations declined in Q2 2023, the median amount of cash raised through preferred stock financings in the dataset increased and surpassed the recent highs seen in 2022. A variety of potential factors may be causing this increase, including economic optimism, renewed interest in verticals such as artificial intelligence, and investment by growth funds deploying capital earlier while later-stage activity is low.

See p. 6

Up Rounds Make a Comeback

In Q2 2023, after witnessing an increase in down rounds for the previous two quarters, the overall percentage of down rounds in the dataset decreased. However, the current prevalence of down and flat rounds remains above the levels of the past few years, suggesting that some start-ups are having difficulty raising follow-on capital on favorable terms.

See p. 9

Convertible Notes Bounce Back

Q2 2023 saw a marked increase in median amounts raised via convertible note financings by both pre-seed and post-seed companies. While the amounts raised per round show some signs of recovery, many note investors are still demanding higher interest rates and shorter maturity periods.

See p. 11

Market Perspective with Wilson Sonsini's **Salil Gandhi**

Salil Gandhi is co-chair of Wilson Sonsini's emerging companies practice and is based in the firm's New York office. Salil focuses on corporate and securities law and specializes in the representation of emerging growth companies throughout their life cycles, particularly in the life sciences and technology sectors.

Salil also counsels venture capital funds and other private equity funds on structuring and executing investment transactions ranging from angel to control investments, as well as portfolio dispositions. As an entrepreneur, Salil previously served as head of content acquisition and director of business and legal affairs at an internet content distribution start-up.

Halfway through 2023, the broader U.S. economy seems to be in a better spot than many predicted at the beginning of the year. Are you and your start-up clients sharing the optimism?

Although there is still a high degree of uncertainty in the market, I believe there is an increased chance that deal activity will continue to pick up as we head into the end of the year. While down over 2022, early-stage investing has continued throughout 2023 and has been more resilient than the later stages. Lately, we are seeing an increased number of deals in the early rounds. In contrast, the later stages continue to be soft compared to the last three years. However, there are a few reasons to believe that activity will improve. Most notably, IPOs are slowly starting to come back, providing exits for these later-stage companies. Second, a number of these start-ups raised large rounds 12-18 months ago and will need to come back to the private markets this fall. We believe this will lead to greater activity.

How are later-stage companies navigating the investment landscape?

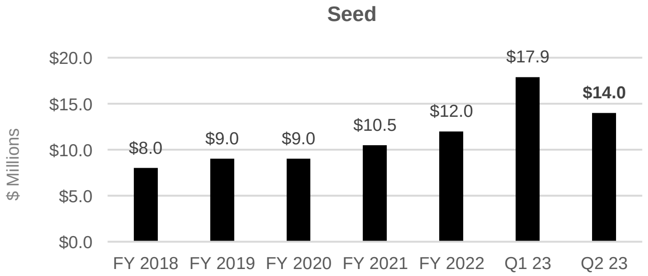
With IPOs continuing to be out of reach for most later-stage companies in the technology and life sciences sectors, we are seeing clients refocusing their efforts on streamlining operations with a new emphasis on profitability. Given the general need for cash, companies are also exploring alternative financing options or strategic mergers and acquisitions. Many companies with positive cash flow, however, are well-positioned to ride out the current environment and are finding ways to sustain growth that do not require new venture capital money.

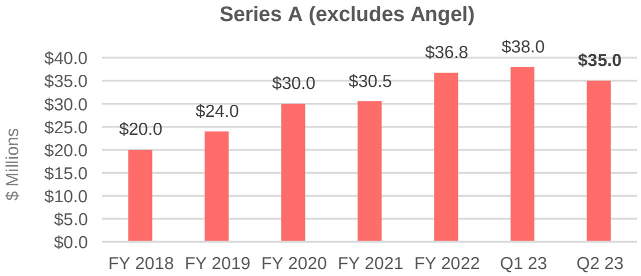
You're based in New York. What unique circumstances are your clients facing there?

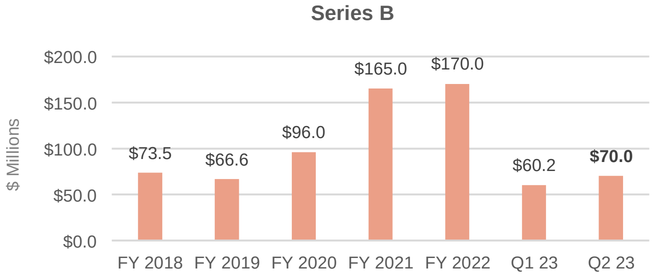
The New York start-up scene continues to grow and mature, including growth in fintech, digital health, and other East Coast industries, but it has not been immune to the tightened venture capital environment seen nationally. The hottest market both in New York and across the country has been the artificial intelligence and machine learning sector. In addition, recent issues in the banking sector have created some interesting opportunities for smaller players in the fintech space, but companies focused on crypto and blockchain continue to struggle.

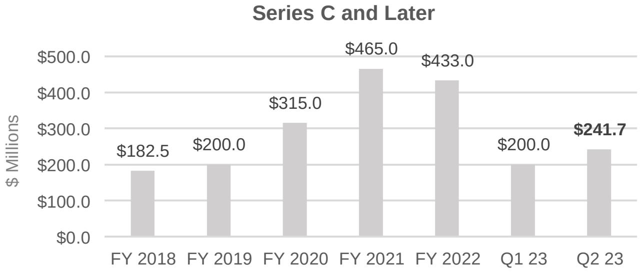
PRE-MONEY MEDIAN VALUATIONS

Later-Stage Valuations Rebound Slightly







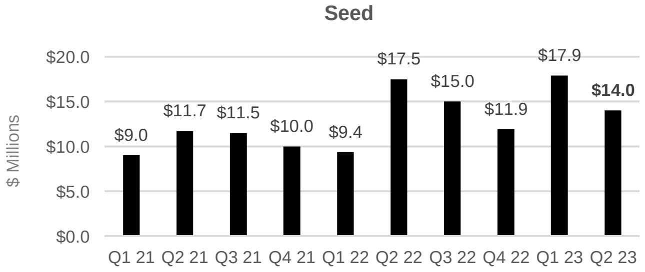


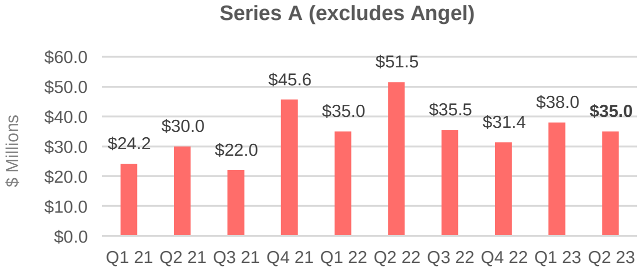
In Q2 2023, following a record first quarter, median valuations in Seed and Series A rounds experienced a decline. However, they still stand higher than pre-pandemic levels.

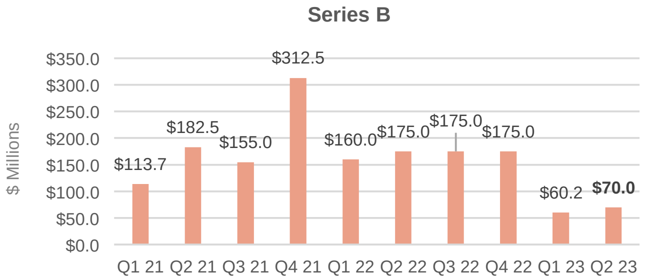
Later-stage companies raising funding in Series B or subsequent rounds witnessed a slight uptick in valuations, but these figures remain significantly below the peaks of 2021 and 2022.

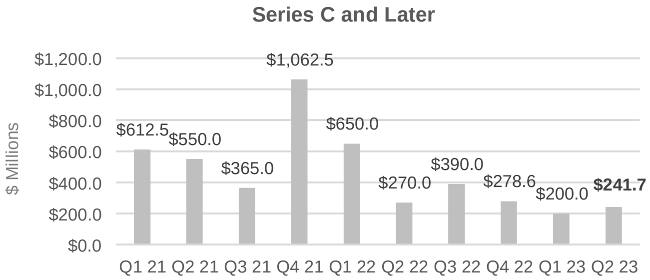
PRE-MONEY MEDIAN VALUATIONS

Quarterly Comparisons Suggest a Continuation of Existing Valuation Trends









In Q2 2023, valuations for both early- and later-stage companies largely stayed consistent with recent quarterly trends.

Series B valuations, however, extend the first quarter's recent drop, and remain significantly lower than the median valuations observed in 2021 and 2022.

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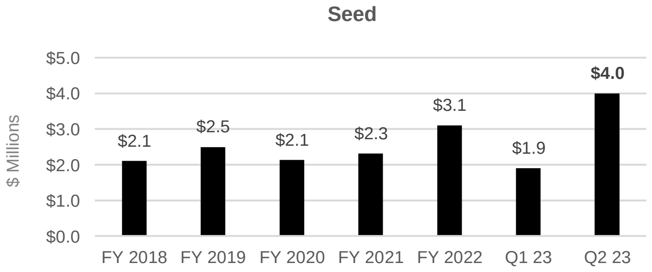
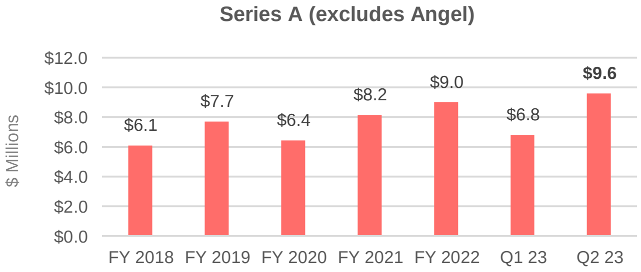
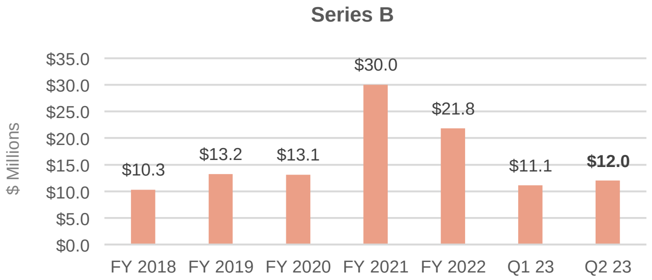
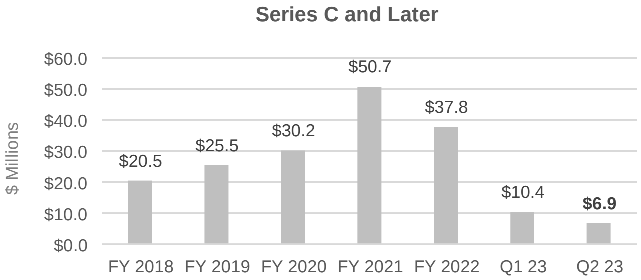
EQUITY FUNDRAISE MEDIAN AMOUNTS

Seed and Series A Raise Amounts Return to All-Time Highs







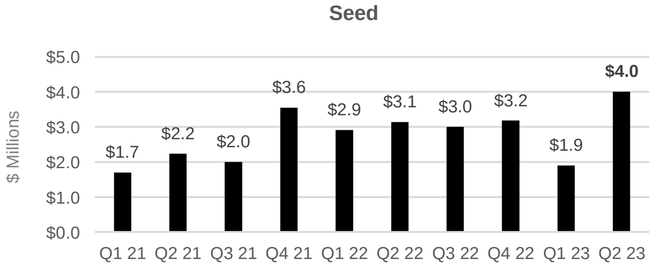


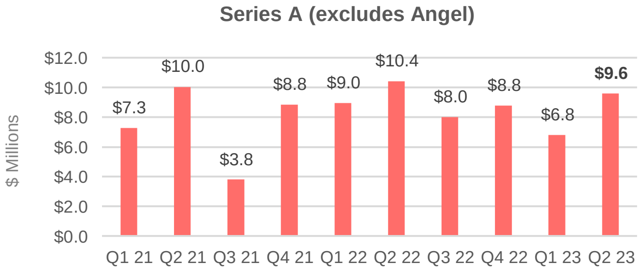
Median cash raise amounts for Seed and Series A companies rebounded after a decline in Q1 2023.

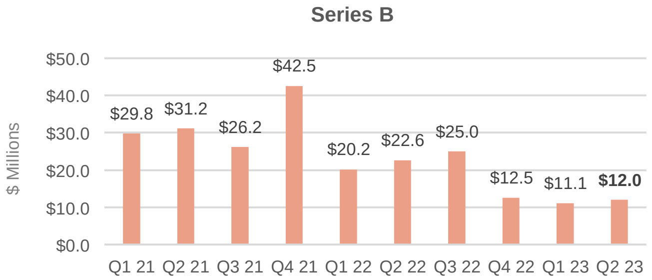
Later-stage start-ups, however, are still facing challenges in raising significant capital. Median figures demonstrate that Series C and later round sizes are at their lowest point in the past five years.

EQUITY FUNDRAISE MEDIAN AMOUNTS

Series C Raise Amounts Decline for Fifth Consecutive Quarter







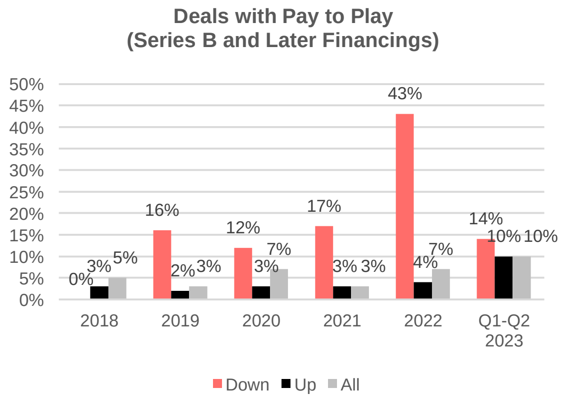
Quarterly trends indicate that Seed and Series A funding amounts remain resilient after a lackluster Q1 2023.

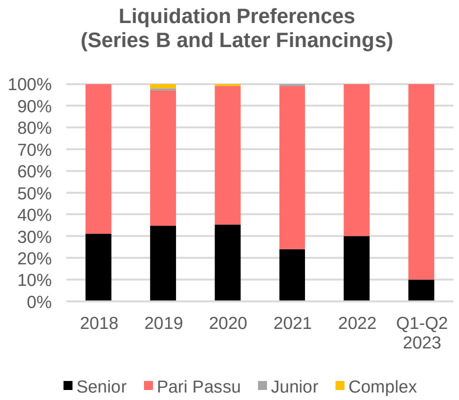
Series B start-ups managed to fundraise at levels consistent with the previous two quarters.

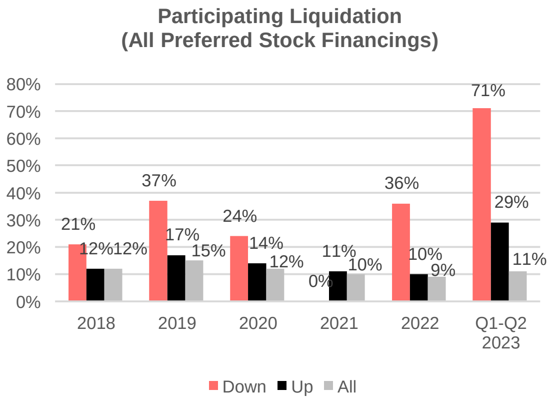
However, median raise amounts for Series C and later companies declined for the fifth consecutive quarter.

EQUITY FINANCING DEAL TERMS*

Economic Terms More Favorable to New Investors



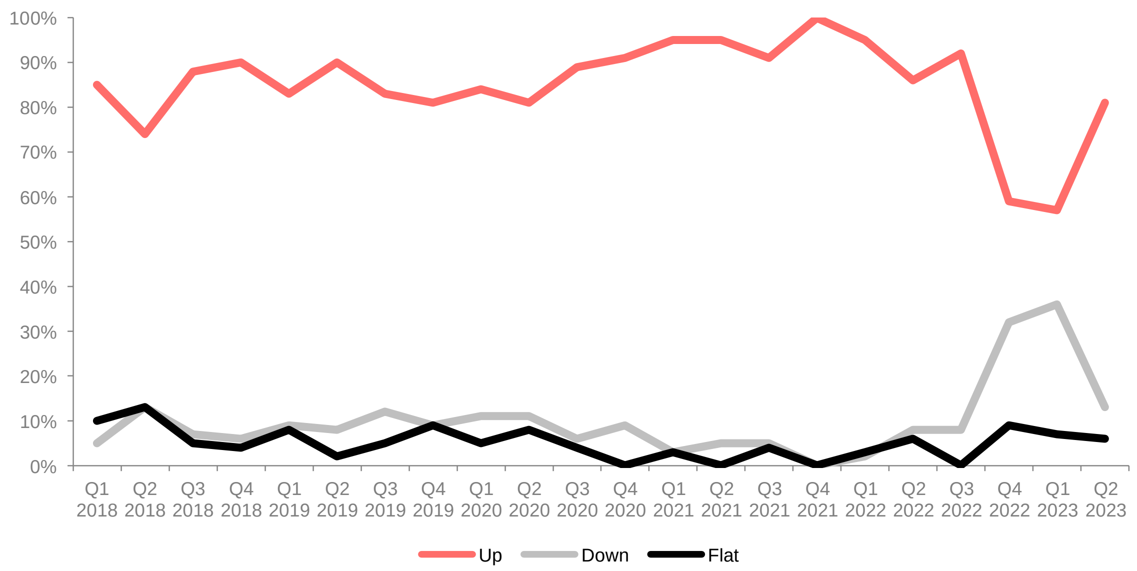




In Q2 2023, VCs continued to seek the investor-favorable deal terms that became more common in 2022 and Q1 2023. *Pari Passu* remains the dominant liquidation preference provision, but the number of companies issuing *participating* preferred stock continues to rise, with the investor-friendly term employed in two-thirds of 2023 down rounds. Additionally, 1 in 10 Series B or later financings now have a pay-to-play element, indicating that many companies are facing challenges in securing follow-on capital from current investors.

* For a more detailed summary of private company financing deal terms, see the Appendix on page 15.

Up Rounds Make a Comeback



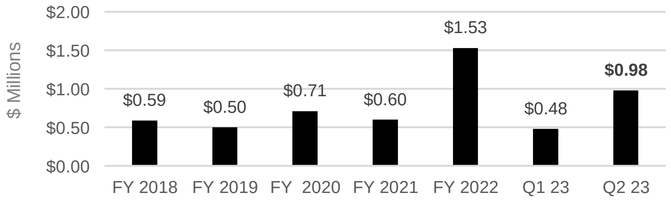
After notable increases over the past two quarters, the overall percentages of down and flat rounds declined in the latest quarter, with 81% of fundraising companies securing an up round in Q2 2023.

However, the decline in later-stage funding amounts, combined with limited IPO opportunities and business downturns, suggests that many recently minted unicorns may need to raise more money in the near term, possibly leading to a higher prevalence of flat and down rounds in the coming quarters.

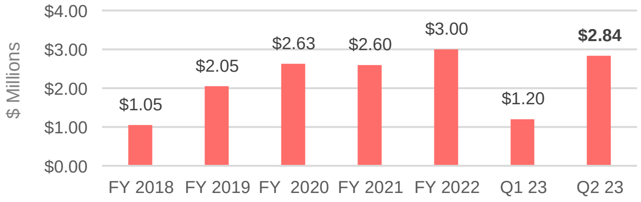
CONVERTIBLE NOTE MEDIAN RAISE AMOUNTS

Investors Tighten the Purse Strings

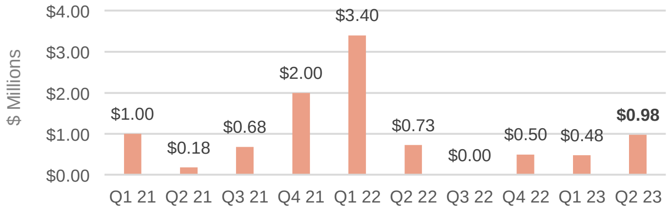
Pre-Seed Convertible Notes (Yearly Comparison)



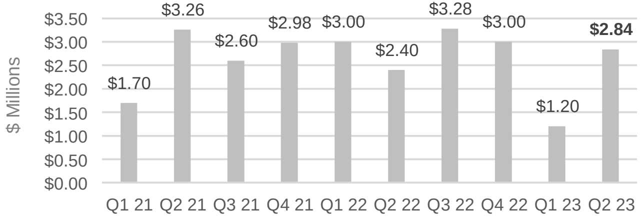
Post-Seed Convertible Notes (Yearly Comparison)



Pre-Seed Convertible Notes (Quarterly Comparison)



Post-Seed Convertible Notes (Quarterly Comparison)

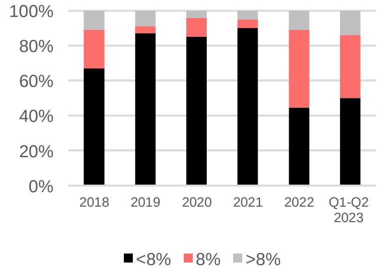


In contrast to the increase in cash raised through Seed-stage equity financings, the median amounts raised in both pre- and post-Seed convertible note financings remain below 2022 levels.

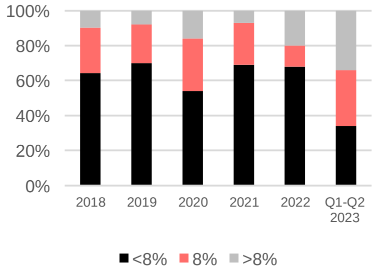
CONVERTIBLE NOTE DEAL TERMS*

Interest Rates Are Still Up, Maturity Periods Are Down

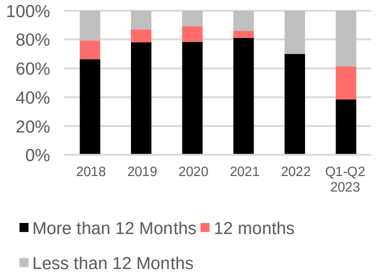
Pre-Seed Convertible Note Interest Rates



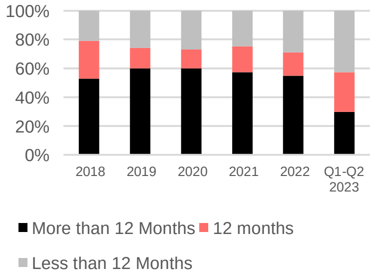
Post-Seed Convertible Note Interest Rates



Pre-Seed Convertible Note Maturity Periods



Post-Seed Convertible Note Maturity Periods



As anticipated due to the Federal Reserve's ongoing interest rate hikes, current convertible note interest rates are high compared to recent years. In 2023 thus far, 50% of pre-Seed and 66% of post-Seed convertible notes carry interest rates of 8% or higher.

Q1 2023's trend of investors pushing for shorter maturity periods continued into Q2. Now, 61% of pre-Seed and 71% of post-Seed notes mature in 12 months or less. While convertible notes are seldom called for repayment at maturity, an approaching maturity date places pressure on companies to complete a preferred stock financing to convert the notes.

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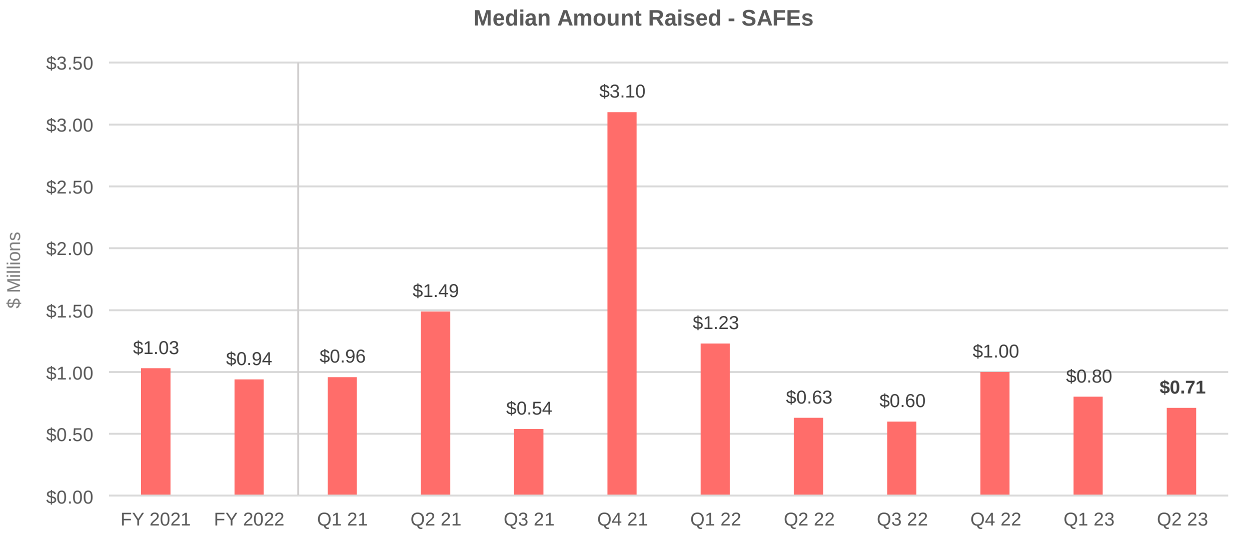
* For a more detailed summary of convertible note deal terms, see the Appendix on page 16.

SAFEs

Median Raise Amounts Continue to Decline



In Q2 2023, the median amount raised in SAFE financings stayed at or below $1 million for the fifth consecutive quarter.

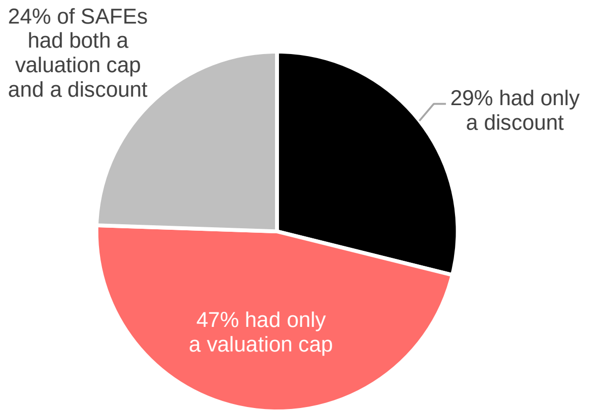
This was a slight decrease from Q1 2023, indicating that early-stage companies continue to struggle in securing the multi-million-dollar pre-Seed SAFE rounds common in 2021.

Echoing the trend of shorter maturity periods in convertible notes, some companies raising SAFE rounds may be willing to accept less money now in hopes that an economic “soft landing” could result in the ability to raise a favorable equity round in the near-to-mid term.

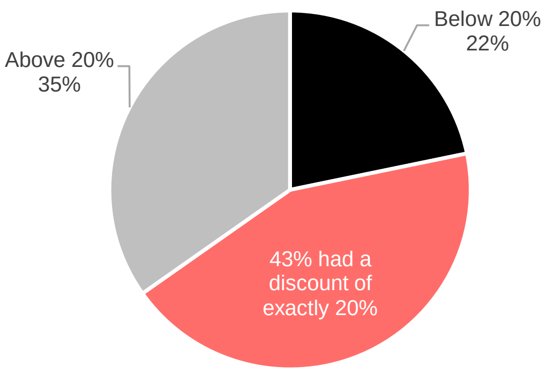
SAFEs

Investors Stick to Standard Terms

Valuation Caps and Discounts



Discount Rates



SAFEs remain a favorite fundraising tool among emerging companies due to their straightforward and uniform terms. With some slight variations, SAFE terms in 1H 2023 remained largely consistent with 2022. In 1H 2023, approximately 53% of SAFEs included a discount, up from 38% in 2022. Valuation caps were included in 71% of SAFEs, down from 90% in 2022, with a median valuation cap of $18 million.

"I See Dead Companies": CFIUS Aims an FAQ at the Venture Capital Model and Start-Ups in the "Critical Technology" Sector

One of the bigger surprises in the history of the Committee on Foreign Investment in the United States (CFIUS) began to unfold in May 2023, when CFIUS posted a new Q&A on the FAQ section of the CFIUS website. The FAQ effectively announced a seemingly technical change to its understanding of the definition of "completion date," triggering an avalanche of law firm advisories, some questioning the intent and/or wisdom of the new definition.

A few months later, it is clear CFIUS intends to enforce the change seemingly sought through the issuance of that FAQ—we're aware of many private CFIUS communications warning of such enforcement. That, in turn, may create significant obstacles for precisely the entities CFIUS is apparently trying to protect—start-ups in "critical technology" sectors trying to raise enough capital to become successful commercial enterprises.

Wilson Sonsini recently issued an alert on this development that discusses why these actions by CFIUS are surprising, the practical way the FAQ alters the "completion date," and how the change may undermine the fundraising efforts of critical technology companies.

The full alert is available here.

Appendix – Private Company Financing Deal Terms (Wilson Sonsini Deals)

	2018 All Rounds[2]	2019 All Rounds[2]	2020 All Rounds[2]	2021 All Rounds[2]	2022 All Rounds[2]	Q1-Q2 2023 All Rounds[2]	2018 Up Rounds[3]	2019 Up Rounds[3]	2020 Up Rounds[3]	2021 Up Rounds[3]	2022 Up Rounds[3]	Q1-Q2 2023 Up Rounds[3]	2018 Down Rounds[3]	2019 Down Rounds[3]	2020 Down Rounds[3]	2021 Down Rounds[3]	2022 Down Rounds[3]	Q1-Q2 2023 Down Rounds[3]
Liquidation Preferences - Series B and Later																		
Senior	31%	35%	35%	24%	30%	10%	28%	30%	32%	23%	26%	10%	36%	63%	56%	50%	64%	14%
Pari Passu with Other Preferred	69%	63%	63%	75%	70%	90%	72%	68%	67%	76%	74%	90%	64%	37%	44%	50%	36%	86%
Junior	0%	1%	0%	1%	0%	0%	0%	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Complex	0%	2%	1%	0%	0%	0%	0%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Participating vs. Non-participating																		
Participating - Cap	5%	5%	4%	4%	3%	3%	5%	5%	6%	4%	3%	10%	7%	5%	0%	0%	0%	14%
Participating - No Cap	7%	10%	8%	6%	6%	8%	7%	12%	8%	7%	7%	19%	14%	32%	24%	0%	36%	57%
Non-participating	88%	85%	88%	90%	91%	89%	88%	83%	86%	89%	90%	71%	79%	63%	76%	100%	64%	29%
Dividends																		
Yes, Cumulative	7%	5%	10%[4]	5%	6%	5%	9%	6%	10%[4]	6%	8%	5%	23%	11%	25%[4]	0%	8%	0%
Yes, Non-Cumulative	61%	56%	79%[4]	56%	51%	47%	62%	67%	83%[4]	65%	57%	48%	69%	79%	69%[4]	57%	58%	86%
None	32%	39%	10%[4]	39%	43%	48%	29%	28%	7%[4]	29%	35%	48%	8%	11%	6%[4]	43%	33%	14%
Anti-dilution Provisions																		
Weighted Average - Broad	94%	94%	95%	97%	98%	97%	94%	99%	98%	98%	99%	100%	100%	89%	76%	100%	100%	86%
Weighted Average - Narrow	2%	0%	1%	1%	0%	1%	3%	0%	2%	1%	0%	0%	0%	5%	6%	0%	0%	14%
Ratchet	0%	0%	1%	1%	1%	0%	0%	0%	0%	1%	1%	0%	0%	5%	6%	0%	0%	0%
Other (Including Blend)	1%	1%	1%	0%	0%	0%	1%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%
None	3%	4%	2%	1%	1%	2%	2%	1%	0%	0%	0%	0%	0%	0%	12%	0%	0%	0%
Pay to Play - Series B and Later																		
Yes, Pay to Play	5%	3%	7%	3%	7%	10%	3%	2%	3%	3%	4%	10%	0%	16%	12%	17%	43%	14%
None	95%	97%	93%	97%	93%	90%	97%	98%	97%	97%	96%	90%	100%	84%	88%	83%	57%	86%
Redemption																		
Yes, Redemption	9%	14%	13%	10%	8%	6%	13%	17%	10%	15%	12%	5%	14%	26%	25%	17%	7%	29%
None	91%	86%	88%	90%	92%	94%	87%	82%	90%	86%	89%	95%	86%	74%	75%	83%	93%	71%

[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.
[4] The 2020 increase in the number of transactions reported as including dividends resulted in part from a change to our reporting methodology.

Appendix – Convertible Notes – Deal Terms (Wilson Sonsini Deals)

Convertible Notes[1]	2018 Pre-Seed	2019 Pre-Seed	2020 Pre-Seed	2021 Pre-Seed	2022 Pre-Seed	Q1-Q2 2023 Pre-Seed	2018 Post-Seed	2019 Post-Seed	2020 Post-Seed	2021 Post-Seed	2022 Post-Seed	Q1-Q2 2023 Post-Seed
Interest rate less than 8%	67%	87%	85%	90%	44%	50%	65%	70%	54%	69%	68%	34%
Interest rate at 8%	22%	4%	11%	5%	44%	36%	25%	22%	30%	24%	12%	32%
Interest rate greater than 8%	11%	9%	4%	5%	11%	14%	10%	8%	16%	7%	20%	34%
Maturity less than 12 months	21%	13%	11%	14%	30%	38%	21%	26%	27%	25%	29%	30%
Maturity 12 months	13%	9%	11%	5%	0%	23%	26%	14%	13%	18%	16%	28%
Maturity more than 12 months	67%	78%	79%	81%	70%	38%	53%	60%	60%	58%	55%	43%
Debt is subordinated to other debt	23%	27%	13%	14%	40%	36%	47%	49%	46%	48%	41%	35%
Loan includes warrants[2]	4%	2%	4%	0%	0%	0%	18%	8%	12%	6%	20%	17%
Warrant coverage less than 25%	0%	100%	100%	N/A	N/A	N/A	33%	80%	67%	0%	11%	60%
Warrant coverage at 25%	0%	0%	0%	N/A	N/A	N/A	11%	0%	0%	0%	0%	0%
Warrant coverage greater than 25%	100%	0%	0%	N/A	N/A	N/A	56%	20%	33%	100%	89%	40%
Automatic conversion into equity on qualified financing[3]	98%	100%	100%	100%	100%	86%	96%	96%	92%	96%	93%	81%
Voluntary conversion into equity on qualified financing[3]	2%	0%	0%	0%	0%	14%	4%	4%	8%	4%	7%	19%
Conversion rate subject to price cap[4]	69%	69%	68%	71%	56%	50%	25%	51%	36%	52%	32%	36%
Conversion to equity at discounted price[5]	83%	68%	78%	75%	50%	93%	85%	81%	79%	70%	78%	70%
Conversion to equity at same price as other investors	14%	12%	13%	15%	30%	7%	6%	11%	17%	25%	20%	16%
Discount on conversion less than 20%	23%	18%	11%	20%	40%	22%	20%	27%	25%	21%	29%	10%
Discount on conversion at 20%	60%	63%	69%	60%	20%	56%	48%	57%	46%	63%	39%	50%
Discount on conversion greater than 20%	17%	18%	20%	20%	40%	22%	33%	16%	29%	16%	32%	40%

[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. Pre-Seed refers to convertible notes issued prior to the first preferred stock financing. Post-Seed refers to convertible notes issued after the first preferred stock financing.

[2] Of the 2018 post-Seed convertible notes with warrants, 45% also had a discount on conversion into equity. Of the 2019 post-Seed convertible notes with warrants, 71% also had a discount on conversion into equity. Of the 2020 post-Seed convertible notes with warrants, 44% also had a discount on conversion into equity. Of the 2021 post-Seed convertible notes with warrants, 100% also had a discount on conversion into equity. Of the 2022 post-Seed convertible notes with warrants, 59% also had a discount on conversion into equity. Of the Q1-Q2 2023 post-Seed convertible notes with warrants, 50% also had a discount on conversion into equity.

[3] The 2018 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $3M and $5M, respectively. The 2019 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $4M and $8M, respectively. The 2020 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $3M and $10M, respectively. The 2021 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $4M and $10M, respectively. The 2022 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $7M and $10M, respectively. The Q1-Q2 2023 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $5M and $10M, respectively.

[4] The 2018 median price cap in pre- and post-Seed convertible notes was $8M and $40M, respectively. The 2019 median price cap in pre- and post-Seed convertible notes was $9M and $35M, respectively. The 2020 median price cap in pre- and post-Seed convertible notes was $8M and $47M, respectively. The 2021 median price cap i2 pre- and post-Seed convertible notes was $12M and $47M, respectively. The 2022 median price cap in pre- and post-Seed convertible notes was $35M and $50M, respectively. The Q1-Q3 2023 median price cap in pre- and post-Seed convertible notes was $15M and $38M, respectively.

[5] Of the 2018 post-Seed convertible notes that had a discount on conversion into equity, 11% also had warrants. Of the 2019 post-Seed convertible notes that had a discount on conversion into equity, 7% had warrants. Of the 2020 post-Seed convertible notes that had a discount on conversion into equity, 7% had warrants. Of the 2021 post-Seed convertible notes that had a discount on conversion into equity, 3% had warrants. Of the 2022 post-Seed convertible notes that had a discount on conversion into equity, 17% had warrants. Of the Q1-Q2 2023 post-Seed convertible notes that had a discount on conversion into equity, 13% had warrants.

Wilson Sonsini Methodology

- The Up/Down/Flat analysis is based on Wilson Sonsini 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 financing 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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