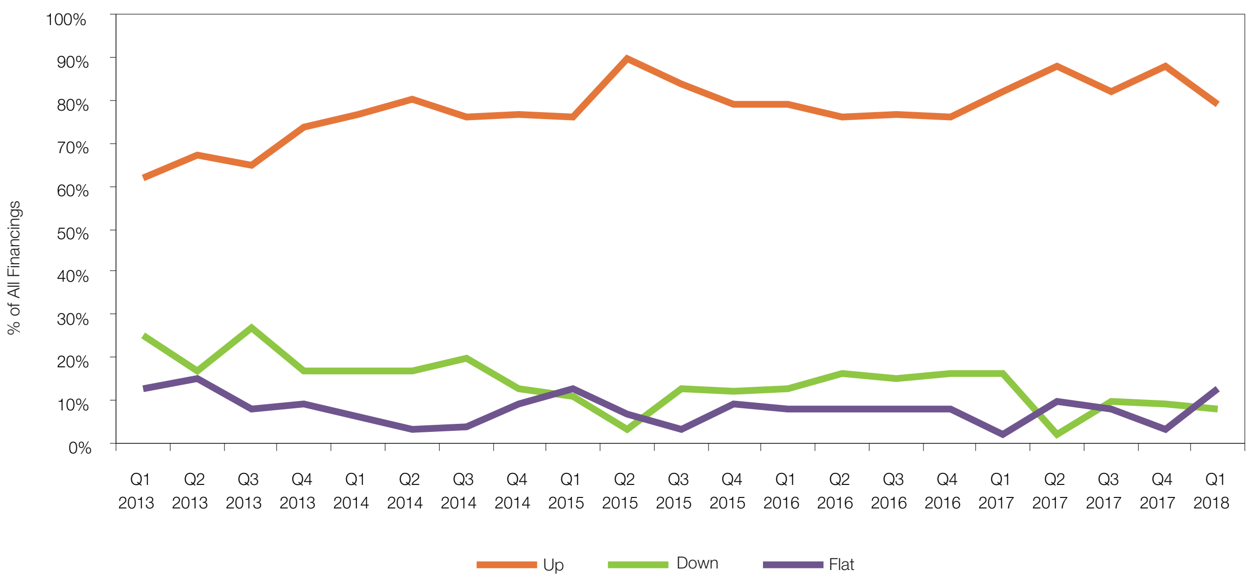
Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

# THE ENTREPRENEURS REPORT
## Private Company Financing Trends

Q1 2018

# From the WSGR Database: Financing Trends for Q1 2018

### Up and Down Rounds by Quarter




## IN THIS ISSUE

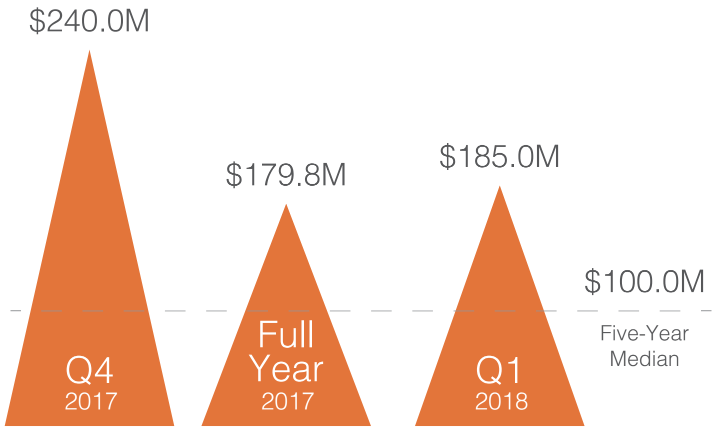


While venture financing valuations and deal sizes were down in the first quarter of 2018 from the record-breaking levels of 2017, they remained high by historical standards. In Q1 2018, the percentage of up rounds for Series B and later financings declined, and median pre-money valuations and amounts raised in Series B and later financings fell moderately. However, in Q1 early-stage financings, there were slight increases in median pre-money valuation and amount raised. Notably, and consistent with what has been reported elsewhere, deal counts continued to decline in Q1 2018, following a trend toward a fewer number of deals, even as the deal amounts are on average larger.

### Up and Down Rounds

Up rounds fell as a percentage of all deals in Q1 2018, constituting 79% of Series B and later financings versus 88% in Q4 2017. Down rounds represented 8% of financings in Q1 2018, down slightly from 9% in Q4 2017. Flat rounds were somewhat more prevalent in Q1 2018 as compared to recent quarters, constituting 13% of Q1 2018 financings.

(Continued on page 2)

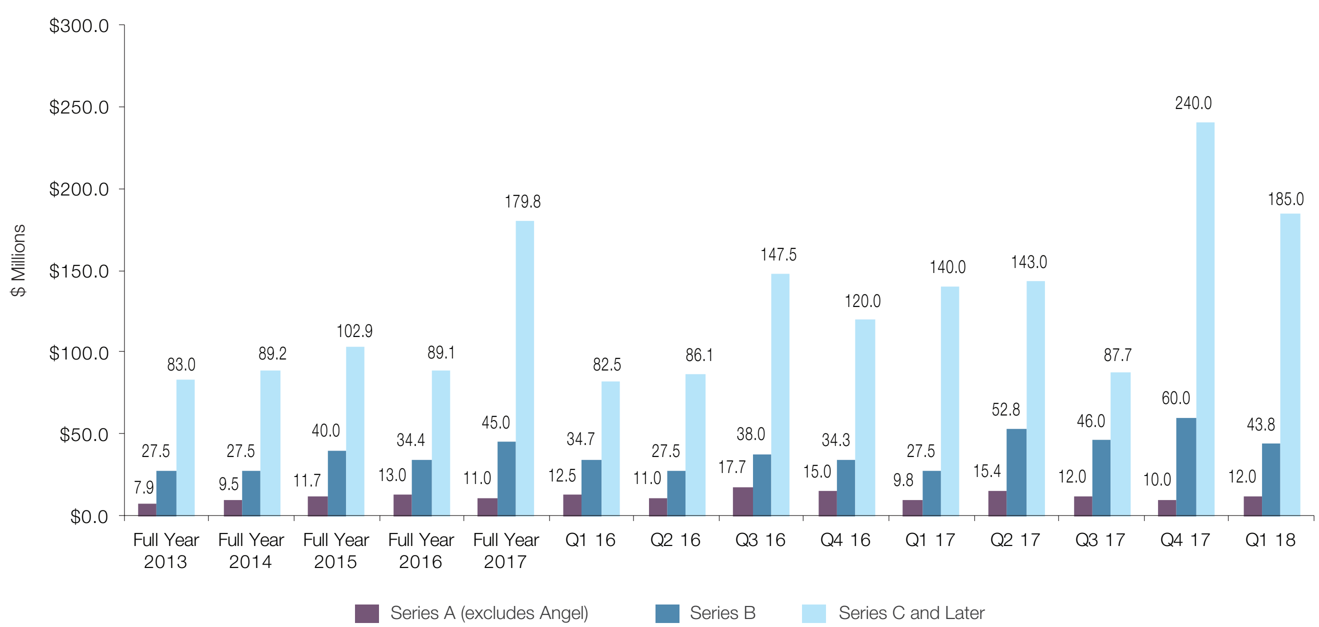



**The median pre-money valuation in Q1 2018 for Series C and later deals** was lower than the all-time high median of $240.0 million reached in Q4 2017, though still higher than the full-year 2017 median of $179.8 million, and far above the five-year median of $100.0 million.

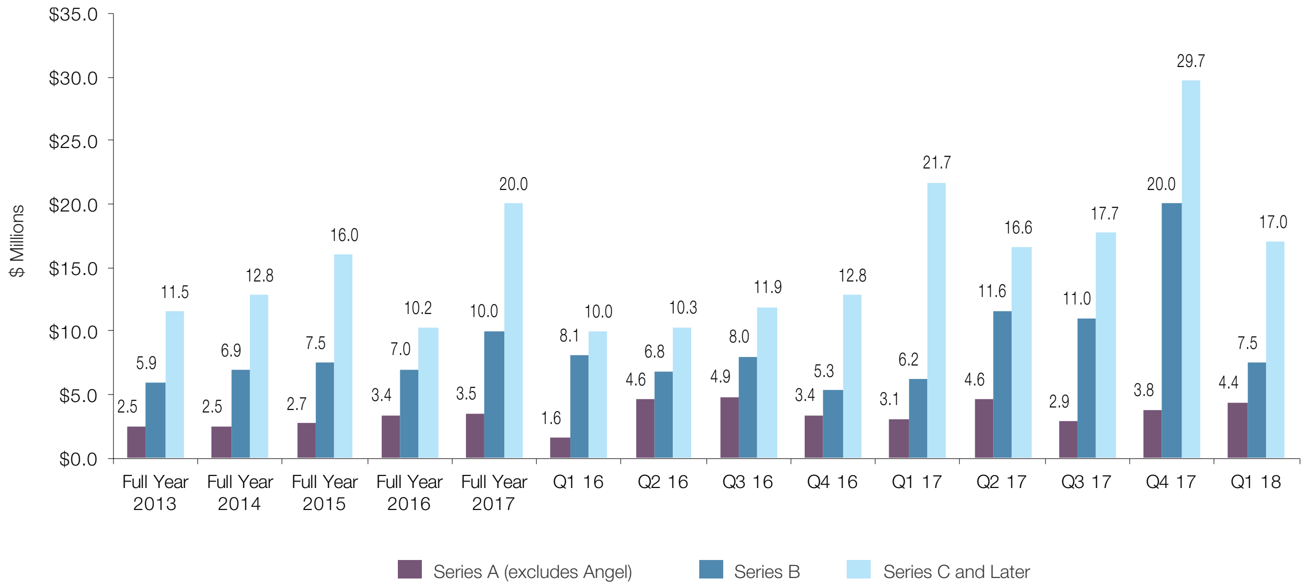
## Valuations

Early-stage valuations ticked up slightly in Q1 2018, with the median pre-money valuation for Seed and Series A financings increasing to $12.0 million from $10.0 million in Q4 2017. That increase was not mirrored in the median pre-money valuations for later rounds. The median pre-money valuation for Series B rounds decreased to $43.8 million in Q1 2018 from $60.0 million in Q4 2017. Similarly, the $185.0 million pre-money valuation in Q1 2018 for Series C and later deals was lower than the all-time high median of $240.0 million reached in Q4 2017, though still higher than the full-year 2017 median of $179.8 million, and far above the five-year median of $100.0 million.

## Median Pre-Money Valuation



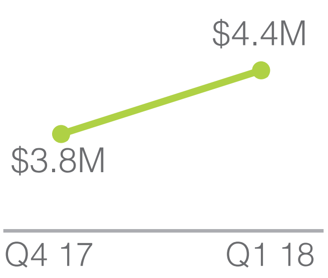
## Median Amount Raised – Equity Financings




### Amounts Raised

For Seed and Series A rounds, the median amount raised in Q1 2018 rose to $4.4 million from $3.8 million in Q4 2017, topping the full-year median high of $3.5 million reached last year. The median amount raised in Series B financings in Q1 2018 fell to $7.5 million from the all-time high of $20.0 million reached in Q4 2017. The median amount raised in Series C and later financings likewise retreated from Q4 2017's historic high of $29.7 million to $17.0 million in Q1 2018, but remained above the five-year median of $14.6 million.

**For Seed and Series A rounds** the median amount raised in Q1 2018 rose to $4.4 million from $3.8 million in Q4 2017, topping the full-year median high of $3.5 million reached last year.




### Deal Terms – Preferred

Senior liquidation preferences in post-Series A rounds were less common in Q1 2018, decreasing from 35% of all such rounds in 2017 to 28% in Q1 2018, the lowest percentage seen in the past five years. *Pari passu* liquidation preferences increased to 72% of post-Series A rounds in Q1 2018 from 62% in 2017, the highest percentage seen in the past five years.

The percentage of financings having a liquidation preference with participation dipped slightly in Q1 2018, to 14% from 16% of financings in 2017 and 20% in 2016.

Fewer financings provided dividends in Q1 2018 than in prior years, with 73% offering dividends, as compared to 85% of financings in 2017. The use of redemption rights decreased as well, accounting for just 3% of Q1 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 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 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 2018 Down Rounds[4] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Liquidation Preferences - Series B and Later** | | | | | | | | | | | | | | | | | | |
| Senior | 41% | 40% | 33% | 38% | 35% | 28% | 38% | 32% | 31% | 36% | 31% | 32% | 47% | 68% | 35% | 41% | 63% | N/A |
| *Pari Passu* with Other Preferred | 55% | 56% | 62% | 57% | 62% | 72% | 60% | 64% | 66% | 62% | 66% | 68% | 37% | 21% | 53% | 45% | 38% | N/A |
| Junior | 0% | 0% | 1% | 1% | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 0% | N/A |
| Complex | 3% | 2% | 3% | 4% | 3% | 0% | 2% | 2% | 1% | 2% | 4% | 0% | 11% | 5% | 12% | 9% | 0% | N/A |
| Not Applicable | 1% | 3% | 1% | 0% | 0% | 0% | 0% | 2% | 1% | 0% | 0% | 0% | 5% | 5% | 0% | 0% | 0% | N/A |
| **Participating vs. Non-participating** | | | | | | | | | | | | | | | | | | |
| Participating - Cap | 18% | 12% | 8% | 9% | 6% | 3% | 20% | 14% | 11% | 10% | 7% | 5% | 23% | 13% | 12% | 22% | 31% | N/A |
| Participating - No Cap | 12% | 14% | 11% | 11% | 10% | 11% | 10% | 11% | 12% | 13% | 11% | 11% | 30% | 32% | 35% | 4% | 19% | N/A |
| Non-participating | 70% | 74% | 81% | 81% | 84% | 85% | 69% | 76% | 77% | 77% | 82% | 84% | 48% | 55% | 53% | 74% | 50% | N/A |
| **Dividends** | | | | | | | | | | | | | | | | | | |
| Yes, Cumulative | 12% | 13% | 3% | 6% | 7% | 10% | 12% | 11% | 3% | 7% | 9% | 11% | 13% | 24% | 24% | 22% | 13% | N/A |
| Yes, Non-cumulative | 74% | 72% | 82% | 73% | 78% | 63% | 79% | 74% | 86% | 78% | 78% | 74% | 79% | 71% | 76% | 70% | 81% | N/A |
| None | 14% | 15% | 15% | 21% | 16% | 27% | 9% | 15% | 11% | 15% | 13% | 16% | 8% | 5% | 0% | 9% | 6% | N/A |
| **Anti-dilution Provisions** | | | | | | | | | | | | | | | | | | |
| Weighted Average - Broad | 90% | 85% | 80% | 92% | 94% | 88% | 94% | 90% | 86% | 92% | 96% | 95% | 95% | 92% | 75% | 91% | 100% | N/A |
| Weighted Average - Narrow | 3% | 9% | 13% | 1% | 2% | 3% | 3% | 6% | 12% | 1% | 1% | 5% | 0% | 5% | 19% | 0% | 0% | N/A |
| Ratchet | 1% | 1% | 1% | 1% | 0% | 0% | 0% | 1% | 1% | 2% | 0% | 0% | 3% | 0% | 0% | 0% | 0% | N/A |
| Other (Including Blend) | 1% | 1% | 1% | 3% | 1% | 2% | 1% | 1% | 1% | 3% | 1% | 0% | 0% | 0% | 0% | 9% | 0% | N/A |
| None | 5% | 4% | 5% | 3% | 3% | 8% | 2% | 2% | 1% | 2% | 1% | 0% | 3% | 3% | 6% | 0% | 0% | N/A |
| **Pay to Play - Series B and Later** | | | | | | | | | | | | | | | | | | |
| Applicable to This Financing | 5% | 4% | 5% | 5% | 2% | 4% | 1% | 1% | 3% | 3% | 2% | 0% | 15% | 16% | 18% | 9% | 6% | N/A |
| Applicable to Future Financings | 1% | 0% | 1% | 1% | 0% | 0% | 1% | 0% | 0% | 1% | 0% | 0% | 0% | 0% | 12% | 0% | 0% | N/A |
| None | 95% | 96% | 94% | 94% | 98% | 96% | 98% | 99% | 97% | 96% | 98% | 100% | 85% | 84% | 71% | 91% | 94% | N/A |
| **Redemption** | | | | | | | | | | | | | | | | | | |
| Investor Option | 19% | 17% | 13% | 11% | 12% | 3% | 20% | 22% | 19% | 20% | 19% | 5% | 33% | 24% | 12% | 9% | 20% | N/A |
| Mandatory | 1% | 3% | 2% | 2% | 7% | 0% | 2% | 3% | 3% | 3% | 9% | 0% | 0% | 3% | 0% | 0% | 0% | N/A |
| None | 80% | 80% | 85% | 87% | 81% | 97% | 78% | 75% | 78% | 77% | 72% | 95% | 67% | 74% | 88% | 91% | 80% | N/A |

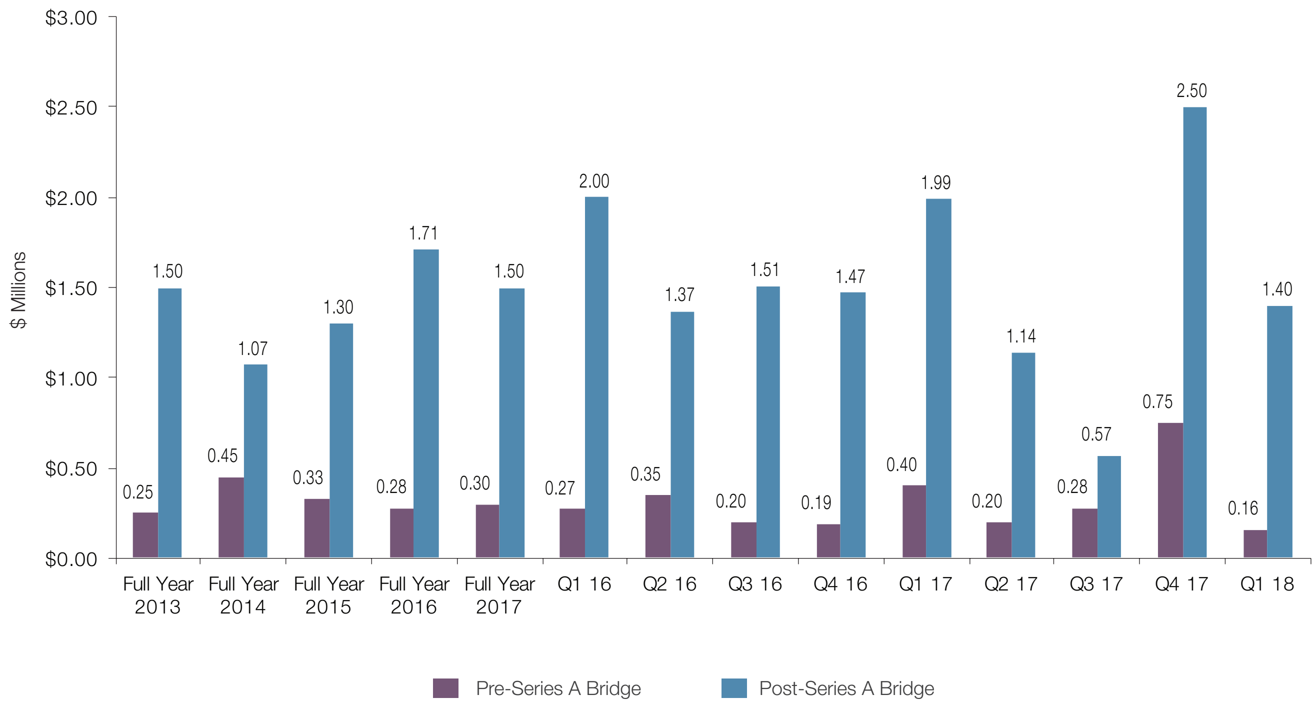
[1] We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note that the numbers do not always add up to 100% due to rounding.

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

[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] Due to the small number of down rounds in Q1 2018, we did not calculate the deal term percentages in this category.

## Median Amount Raised – Bridge Loans




### Bridge Loans

The median amounts raised for bridge loans fell sharply for both pre- and post-Series A deals in Q1 2018. The median amount raised for pre-Series A bridge loans dropped to just $0.16 million, matching Q4 2015 for the lowest median quarterly amount raised of the past five years. Post-Series A bridges also raised fewer dollars, with the median amount raised declining to $1.40 million, far lower than the $2.50 million median of Q4 2017, though still close to the full-year 2017 median of $1.50 million.

Q1 2018 $0.16M

Q4 2015 $0.16M

**Median amount raised for pre-Series A bridge loans** dropped to just $0.16 million, matching Q4 2015 for the lowest median quarterly amount raised of the past five years.

### Deal Terms – Bridge Loans

Bridge loan interest rates rose in Q1 2018, with 50% of both pre- and post-Series A bridge loans having interest rates of 8% or greater – a significant increase from the corresponding 25% and 44% figures in 2017. Maturity periods increased significantly as well. Eighty-three percent of both pre-Series A and post-Series A bridge loans had maturity periods of more than 12 months in Q1 2018, up from 69% of pre-Series A loans and 41% of post-Series A loans in 2017. All Q1 bridge loans were convertible; 75% of pre-Series A loans and all post-Series A loans received a discount rate of 20% or more on conversion.

## Bridge Loans – Deal Terms (WSGR Deals)[1]

| Bridge Loans | 2013 Pre-Series A | 2014 Pre-Series A | 2015 Pre-Series A | 2016 Pre-Series A | 2017 Pre-Series A | Q1 2018 Pre-Series A | 2013 Post-Series A | 2014 Post-Series A | 2015 Post-Series A | 2016 Post-Series A | 2017 Post-Series A | Q1 2018 Post-Series A |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest rate less than 8% | 70% | 72% | 74% | 76% | 75% | 50% | 46% | 43% | 54% | 52% | 56% | 50% |
| Interest rate at 8% | 29% | 22% | 19% | 19% | 17% | 50% | 34% | 42% | 33% | 30% | 27% | 17% |
| Interest rate greater than 8% | 1% | 6% | 7% | 5% | 8% | 0% | 20% | 15% | 13% | 17% | 17% | 33% |
| Maturity less than 12 months | 3% | 12% | 17% | 17% | 22% | 0% | 29% | 24% | 34% | 29% | 41% | 17% |
| Maturity at 12 months | 19% | 16% | 9% | 5% | 8% | 17% | 38% | 39% | 8% | 23% | 19% | 0% |
| Maturity more than 12 months | 78% | 71% | 74% | 78% | 69% | 83% | 33% | 37% | 58% | 49% | 41% | 83% |
| Debt is subordinated to other debt | 25% | 22% | 15% | 20% | 28% | 17% | 56% | 48% | 38% | 45% | 33% | 50% |
| Loan includes warrants[2] | 4% | 5% | 3% | 8% | 0% | 17% | 34% | 19% | 25% | 17% | 16% | 17% |
| Warrant coverage less than 25% | 0% | 20% | 100% | 80% | N/A | 0% | 50% | 69% | 47% | 23% | 43% | 0% |
| Warrant coverage at 25% | 0% | 0% | 0% | 0% | N/A | 0% | 12% | 0% | 7% | 15% | 14% | 0% |
| Warrant coverage greater than 25% | 100% | 80% | 0% | 20% | N/A | 100% | 38% | 31% | 47% | 62% | 43% | 100% |
| Principal is convertible into equity[3] | 100% | 98% | 93% | 97% | 97% | 100% | 94% | 94% | 86% | 92% | 92% | 100% |
| Conversion rate subject to price cap[4] | 68% | 67% | 64% | 79% | 74% | 67% | 14% | 23% | 26% | 29% | 34% | 17% |
| Conversion to equity at discounted price[5] | 91% | 81% | 78% | 82% | 89% | 67% | 59% | 73% | 71% | 74% | 76% | 83% |
| Discount on conversion less than 20% | 17% | 10% | 11% | 12% | 16% | 25% | 16% | 25% | 25% | 25% | 20% | 0% |
| Discount on conversion at 20% | 60% | 72% | 73% | 76% | 74% | 50% | 46% | 44% | 47% | 49% | 50% | 80% |
| Discount on conversion greater than 20% | 22% | 17% | 16% | 12% | 10% | 25% | 38% | 32% | 27% | 26% | 30% | 20% |
| Conversion to equity at same price as other investors | 9% | 16% | 18% | 13% | 3% | 17% | 35% | 24% | 25% | 19% | 24% | 17% |

[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 that the numbers do not always add up to 100% due to rounding.

[2] 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. Of the 2015 post-Series A bridges with warrants, 58% also had a discount on conversion into equity. Of the 2016 post-Series A bridges with warrants, 33% also had a discount on conversion into equity. Of the 2017 post-Series A bridges with warrants, 60% also had a discount on conversion into equity. Due to the small number of post-Series A bridges with warrants in Q1 2018, we did not do the comparison.

[3] Of the 2016 pre-Series A convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the 2017 pre-Series A convertible bridges, 94% had automatic conversion and 6% had voluntary conversion. Of the Q1 2018 pre-Series A convertible bridges, 100% had automatic conversion and 0% had voluntary conversion. Of the 2016 post-Series A convertible bridges, 97% had automatic conversion and 3% had voluntary conversion. Of the 2017 post-Series A convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the Q1 2018 post-Series A convertible bridges, 83% had automatic conversion and 17% had voluntary conversion. The 2016 median dollar threshold for a qualified financing in pre- and post-Series A bridges was $1M and $5M, respectively. The 2017 median dollar threshold for a qualified financing in pre- and post-Series A bridges was $2M and $10M, respectively. The Q1 2018 median dollar threshold for a qualified financing in pre- and post-Series A bridges was $4M and $5M, respectively.

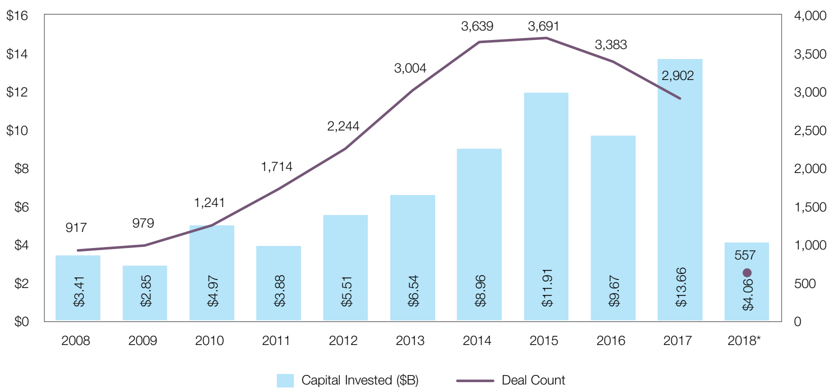
[4] The 2016 median price cap in pre- and post-Series A bridges was $6M and $25M, respectively. The 2017 median price cap in pre- and post-Series A bridges was $10M and $25M, respectively. The Q1 2018 median price cap in pre-Series A bridges was $9M. Due to the small number of post-Series A bridges with price caps in Q1 2018, we did not calculate the median.

[5] 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 2015 post-Series A bridges that had a discount on conversion into equity, 21% also had warrants. Of the 2016 post-Series A bridges that had a discount on conversion into equity, 8% also had warrants. Of the 2017 post-Series A bridges that had a discount on conversion into equity, 13% also had warrants. Due to the small number of post-Series A bridges with warrants in Q1 2018, we did not do the conversion.

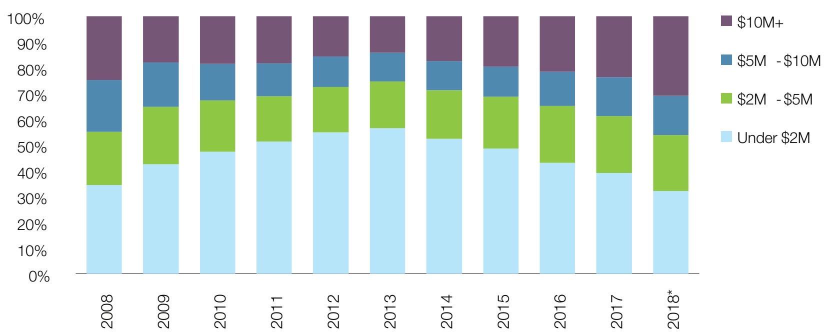
# The View from Across the Pond: A Data-Driven Comparison of European and U.S. Venture Capital Transactions

*By Daniel Glazer (Partner, New York) and Emily Nekimken (Associate, Palo Alto)*

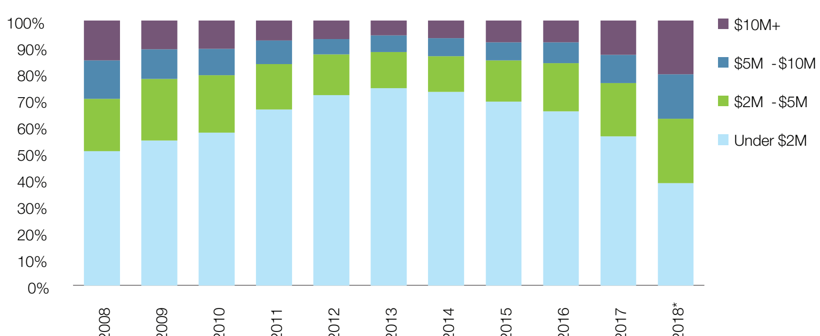
### European VC Deal Flow in Tech by Year:




### U.S. Deals in Tech By Size:




### Europe Deals in Tech by Size:




* Through 04/23/2018

PitchBook

Data sourced by PitchBook Data, premier provider of private capital market data.

**1. U.S. and European trends are broadly similar, but the changes are more pronounced in the U.S.**

Over the past several years, the U.S. and European venture capital markets have both seen increases in deal sizes and a drop in the number of deals. However, the changes in the European markets have been much more subtle and the venture capital market is still much smaller than in the U.S. Venture capital funds in the U.S. have been able to raise significantly larger amounts than European funds—U.S. venture capital funds are, on average, three times larger than European venture capital funds. Furthermore, U.S. funds raise, on average, 60-70% of the global venture capital raised.

Meanwhile, later stage private equity funds and crossover funds that traditionally invested only in public companies have dramatically increased their investments in late-stage private companies. With more funds available than ever before in both Europe and the U.S. for investment in private technology companies, we expect these trends to continue in both markets at least until there is a significant correction in the broader capital markets.

**2. In Europe, there are fewer deals but more money overall than in prior years.**

In 2017 there were 2,902 venture deals reported in Europe, which was significantly down from a total of 3,383 deals in 2016 and 3,691 deals in 2015. However, the total amount invested increased significantly, with $13.66 billion raised in 2017, up from $9.67 billion in 2016 and $11.91 billion in 2015. This trend of fewer, larger deals has become even more pronounced in recent years, signaling a maturation of the European venture finance ecosystem.

**3. A larger percentage of European deals are smaller sized than in the U.S.**

Fewer than 40% of U.S. venture capital deals raised under $2.0 million in 2017. In Europe, however, 56% of deals raised under $2.0 million. Across both markets, the percentage of smaller deals has been decreasing, but the majority of European venture capital deals remain relatively early-stage.

4. **There has been a stark increase in the number of large deals in Europe.** Across both markets, the percentage of deals valued more than $10.0 million has continued to increase over the last several years, particularly in Europe. These large deals comprised only 8% of total deals in 2015 and 2016, but the percentage jumped to almost 13% of total deals in 2017 and 20% in the first quarter of 2018. There also has been an increase in the number of deals between $5.0 million to $10.0 million, which made up 17% of the deals in the first quarter of 2018 and 11% of deals in 2017, up from roughly 7% in 2015 and 2016. The U.S. market also has seen a steady increase in the percentage of large deals, but the increase has not been as dramatic over the last year.

5. **Average deal size and pre-money valuation are materially lower in Europe versus the U.S. This gap is even larger when compared solely with the West Coast of the U.S.** European deal sizes and pre-money valuations are much lower than in the U.S. In 2017, despite an increase in European deal size, the average U.S. West Coast deal was more than twice as large as the average European deal at every stage of investment. In 2017, median deal sizes for early-stage transactions were nearly three times as large in the U.S. as compared to Europe and late-stage deals in the U.S. were 1.4 times the size of late-stage deals in Europe.

These differences also are apparent in median pre-money valuations. In 2017, U.S. pre-money valuations were 2.6 times higher for seed-stage deals, 4.2 times higher for early-stage deals, and 5.8 times higher for late-stage deals. These multiples are even higher when compared only against West Coast deals, with multiples of 2.8 times, 4.9 times and 7.4 times, respectively.

---

**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.
- For purposes of this report, Series Seed transactions are included with Series A transactions.

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.

WSGR

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

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

For more information on the current venture capital climate, please contact any member of Wilson Sonsini Goodrich & Rosati's start-ups and venture capital practice. To learn more about WSGR's full suite of services for entrepreneurs and early-stage companies, please visit the start-ups and venture capital section of wsgr.com.

**For more information about this report or if you wish to be included on the email subscription list, please contact EntrepreneursReport@wsgr.com. There is no subscription fee.**