

THE ENTREPRENEURS REPORT

Private Company Financing Trends

Raising Early-Stage U.S. Capital as a UK/European Company

By Daniel Glazer and Amanda Pollard

Last year was a record year for U.S. investment into the UK and Europe. In 2019, U.S. investors infused nearly \$10 billion into UK and European tech companies (up nearly threefold since 2015) and participated in 19% of UK and European financings (up from 9% in 2015).¹

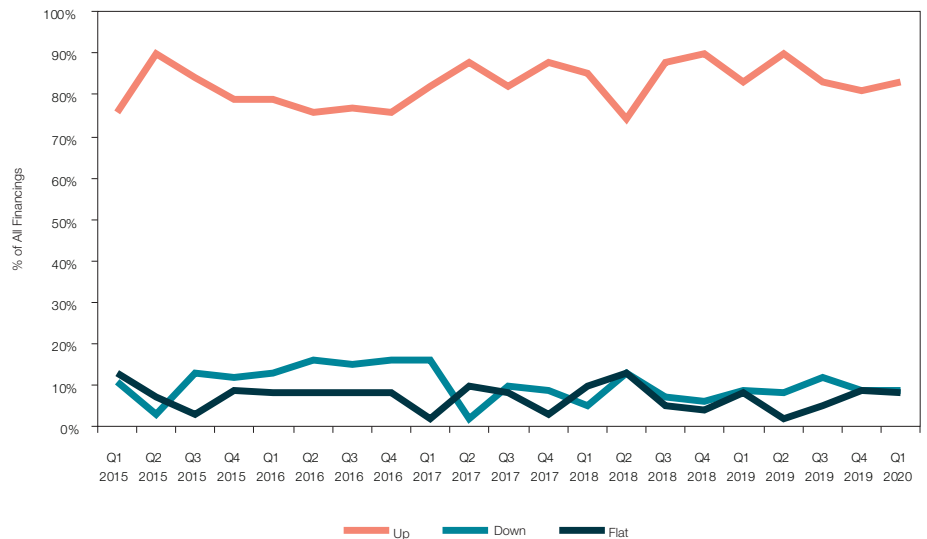
With these numbers as a backdrop, we are regularly asked by UK and European tech companies if they should look to the U.S. for their next fundraise. While we have seen increasing numbers of UK/European

¹ See Atomico's 2019 State of European Tech report at <https://2019.stateofeuropeantech.com/chapter/investors/article/investors/>.

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From the Wilson Sonsini Database: Financing Trends for Q1 2020

Up and Down Rounds by Quarter



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The COVID-19 pandemic has caused—and will continue to cause—much uncertainty in the worldwide financial markets. We expect to see substantial declines in the coming months in the number and aggregate dollar value of venture financings, similar to the declines during the dot-com crash in the early 2000s and during the 2008 financial crisis. We are already beginning to see in early Q2 more investor-favorable terms, in particular reduced valuations. Additionally, we expect that many venture-backed companies that need to raise money in 2020 will be forced to do so from

existing investors in down-round financings. Please see our recent alert titled “[Navigating Down-Round Financings](#)” for more information on this topic.

Yet, because the pandemic did not begin to have a dramatic impact on the United States until the last few weeks of Q1, the market remained strong by historical standards, even though the first quarter displayed some cooling off, in terms of amounts raised across early rounds. Most companies that signed term sheets for venture financings in March were able to close their financings on

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the originally negotiated terms in late March or early April. Series C and later financings saw impressive growth in both median pre-money valuation and amount raised in Q1 2020, continuing the historic highs of 2019. In addition, up rounds remained steady. Looking ahead, we expect Q2 2020 to more accurately reflect the adverse effect of the COVID-19 pandemic on private financings.

Up and Down Rounds

Up rounds represented 83% of Series

B and later financings in Q1 2020, a marginal increase from their 81% share in Q4 2019. Down rounds remained flat at 9%, while flat rounds fell slightly, from 9% of Series B and later financings in Q4 2019 to 8% in Q1 2020.

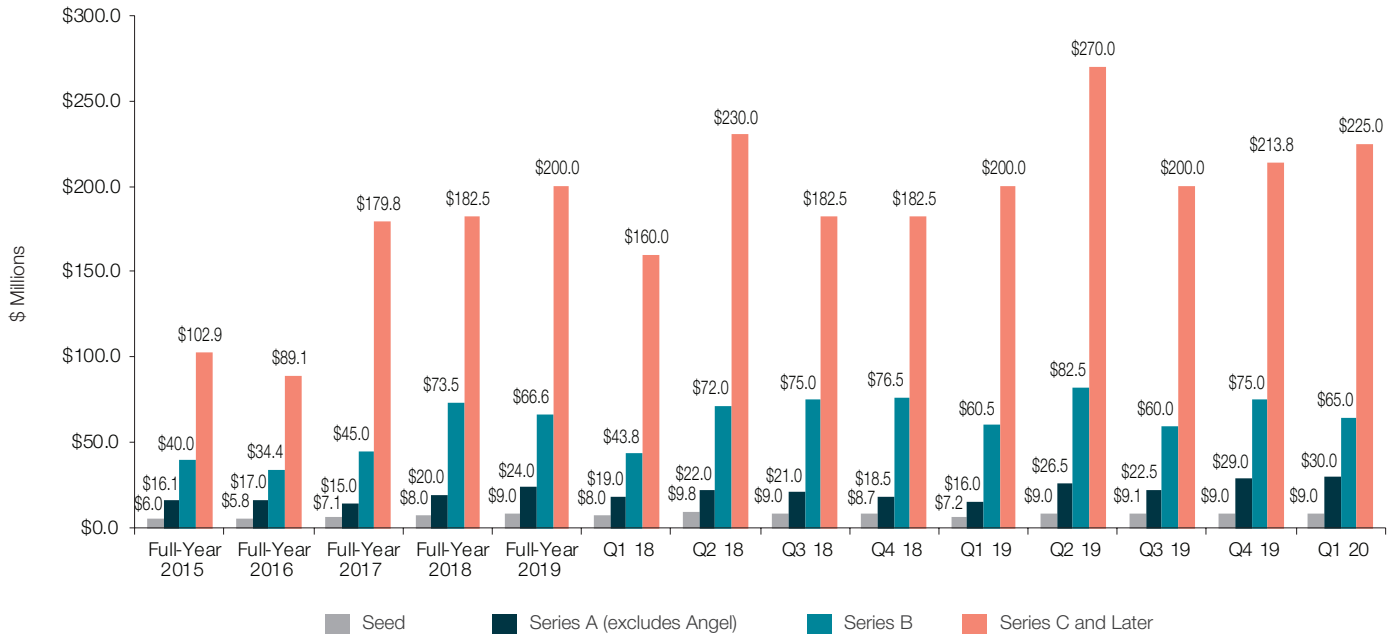
Valuations

The median pre-money valuation for Series Seed financings was \$9.0 million in Q1 2020, the same as Q4 2019, while Series A valuations increased slightly, from \$29.0 million in Q4 2019 to \$30.0

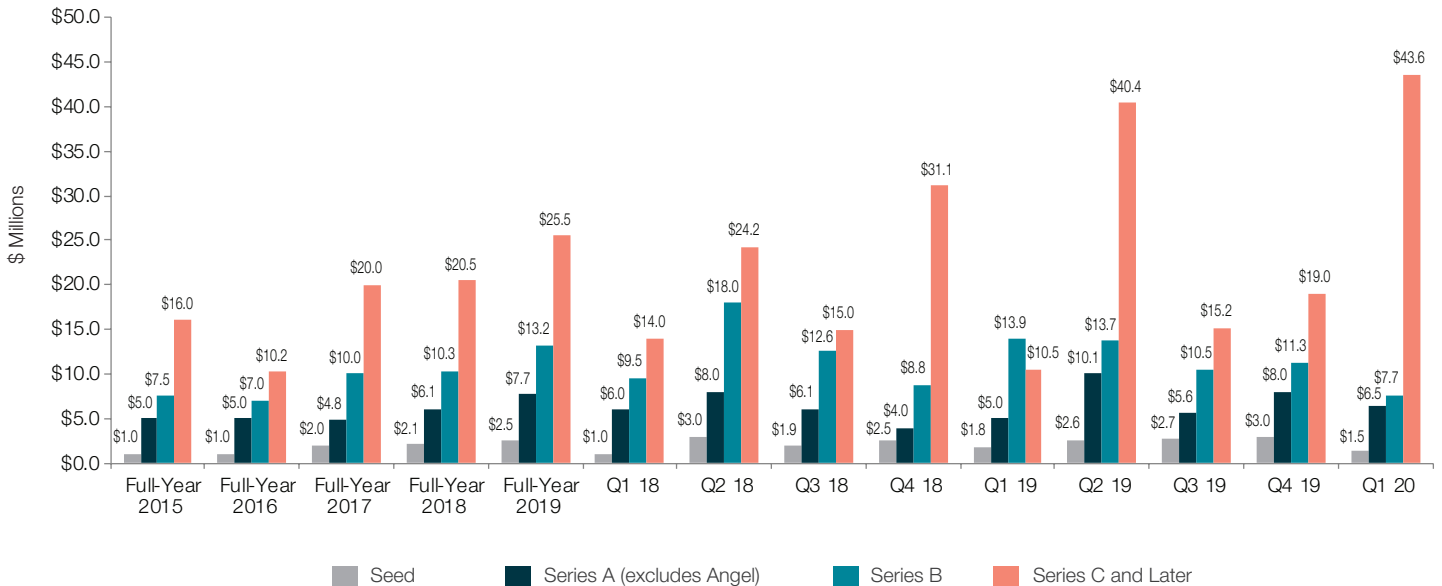
million in Q1 2020. The median pre-money valuation for Series B rounds declined from \$75.0 million to \$65.0 million over the same period, falling just short of the full-year 2019 median of \$66.6 million.

The median pre-money valuation for Series C and later financings grew from \$213.8 million in Q4 2019 to \$225.0 million in Q1 2020, remaining above the full-year 2019 median of \$200.0 million.

Median Pre-Money Valuation



Median Amount Raised – Equity Financings



Amounts Raised

Median amounts raised declined for all but Series C rounds in Q1 2020. The median amount raised for Series Seed financings in Q1 2020 was \$1.5 million, half of the Q4 2019 median of \$3.0 million. The median amount raised for Series A financings also fell, from \$8.0 million in Q4 2019 to \$6.5 million in Q1 2020, but was still above Q3 2019’s median of \$5.6 million. Series B rounds saw a similar decrease, with the median amount raised falling from \$11.3 million in Q4 2019 to \$7.7 million in Q1 2020, the lowest quarterly median in the last five years.

Series C and later financings was the only category that saw an increase in median amount raised in Q1 2020.

The median amount raised for such financings shot up from \$19.0 million in Q4 2019 to \$43.6 million in Q1 2020, the highest quarterly median in the last five years, although not far off from the Q2 2019 median of \$40.4 million.

Deal Terms—Preferred

Senior liquidation preferences in Q1 2020 Series B and later rounds remained steady at 34%, compared to 35% in 2019. *Pari passu* liquidation preferences increased from 63% of Series B and later rounds in 2019 to 66% of such rounds in Q1 2020.

The percentage of financings having a liquidation preference with participation decreased slightly, from 15% in 2019 to 13% in Q1 2020.

Fewer financings provided dividends in Q1 2020 than in prior years, with 42% offering dividends, as compared to 61% of financings in 2019. The use of pay to play in Series B and later rounds increased from 3% in 2019 to 10% in Q1 2020—the highest of the last five years.

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 Emerging Companies section of the firm’s website at www.wsg.com.

THE ENTREPRENEURS REPORT: Private Company Financing Trends

Private Company Financing Deal Terms (Wilson Sonsini Deals)¹

	2015 All Rounds ²	2016 All Rounds ²	2017 All Rounds ²	2018 All Rounds ²	2019 All Rounds ²	Q1 2020 All Rounds ²	2015 Up Rounds ³	2016 Up Rounds ³	2017 Up Rounds ³	2018 Up Rounds ³	2019 Up Rounds ³	Q1 2020 Up Rounds ³	2015 Down Rounds ³	2016 Down Rounds ³	2017 Down Rounds ³	2018 Down Rounds ³	2019 Down Rounds ³	Q1 2020 Down Rounds ⁴
Liquidation Preferences - Series B and Later																		
Senior	33%	38%	35%	31%	35%	34%	31%	36%	31%	28%	30%	34%	35%	41%	63%	36%	63%	N/A
<i>Pari Passu</i> with Other Preferred	62%	57%	62%	69%	63%	66%	66%	62%	66%	72%	68%	66%	53%	45%	38%	64%	37%	N/A
Junior	1%	1%	0%	0%	1%	0%	1%	0%	0%	0%	1%	0%	0%	5%	0%	0%	0%	N/A
Complex	3%	4%	3%	0%	2%	0%	1%	2%	4%	0%	2%	0%	12%	9%	0%	0%	0%	N/A
Participating vs. Non-participating																		
Participating - Cap	8%	9%	6%	5%	5%	1%	11%	10%	7%	5%	5%	0%	12%	22%	31%	7%	5%	N/A
Participating - No Cap	11%	11%	10%	7%	10%	12%	12%	13%	11%	7%	12%	16%	35%	4%	19%	14%	32%	N/A
Non-participating	81%	81%	84%	88%	85%	87%	77%	77%	82%	88%	83%	84%	53%	74%	50%	79%	63%	N/A
Dividends																		
Yes, Cumulative	3%	6%	7%	7%	5%	10%	3%	7%	9%	9%	6%	13%	24%	22%	13%	23%	11%	N/A
Yes, Non-cumulative	82%	73%	78%	61%	56%	32%	86%	78%	78%	62%	67%	21%	76%	70%	81%	69%	79%	N/A
None	15%	21%	16%	32%	39%	58%	11%	15%	13%	29%	28%	67%	0%	9%	6%	8%	11%	N/A
Anti-dilution Provisions																		
Weighted Average - Broad	80%	92%	94%	94%	94%	96%	86%	92%	96%	94%	99%	100%	75%	91%	100%	100%	89%	N/A
Weighted Average - Narrow	13%	1%	2%	2%	0%	0%	12%	1%	1%	3%	0%	0%	19%	0%	0%	0%	5%	N/A
Ratchet	1%	1%	0%	0%	0%	0%	1%	2%	0%	0%	0%	0%	0%	0%	0%	0%	5%	N/A
Other (Including Blend)	1%	3%	1%	1%	1%	1%	1%	3%	1%	1%	0%	0%	0%	9%	0%	0%	0%	N/A
None	5%	3%	3%	3%	4%	3%	1%	2%	1%	2%	1%	0%	6%	0%	0%	0%	0%	N/A
Pay to Play - Series B and Later																		
Applicable to This Financing	5%	5%	2%	4%	2%	7%	3%	3%	2%	1%	1%	8%	18%	9%	6%	0%	16%	N/A
Applicable to Future Financings	1%	1%	0%	1%	1%	3%	0%	1%	0%	1%	1%	0%	12%	0%	0%	0%	0%	N/A
None	94%	94%	98%	95%	97%	90%	97%	96%	98%	97%	99%	92%	71%	91%	94%	100%	84%	N/A
Redemption																		
Investor Option	13%	11%	12%	8%	11%	11%	19%	20%	19%	10%	14%	13%	12%	9%	20%	14%	21%	N/A
Mandatory	2%	2%	7%	1%	3%	3%	3%	3%	9%	3%	3%	0%	0%	0%	0%	0%	5%	N/A
None	85%	87%	81%	91%	86%	86%	78%	77%	72%	87%	82%	88%	88%	91%	80%	86%	74%	N/A

¹We 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.²Includes flat rounds and, unless otherwise indicated, Series A rounds.³Note 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.⁴Due to the small number of down rounds in Q1 2020, we did not calculate the deal term percentages in this category.

Bridge Loans

The median amount raised for pre-Seed bridge loans decreased from \$0.60 million in Q4 2019 to \$0.45 million in Q1 2020. Post-Seed bridges raised more dollars in Q1 2020, with the median amount raised climbing to \$2.50 million, higher than the Q4 2019 and full-year 2019 medians of \$2.30 million and \$2.05 million, respectively.

Deal Terms—Bridge Loans

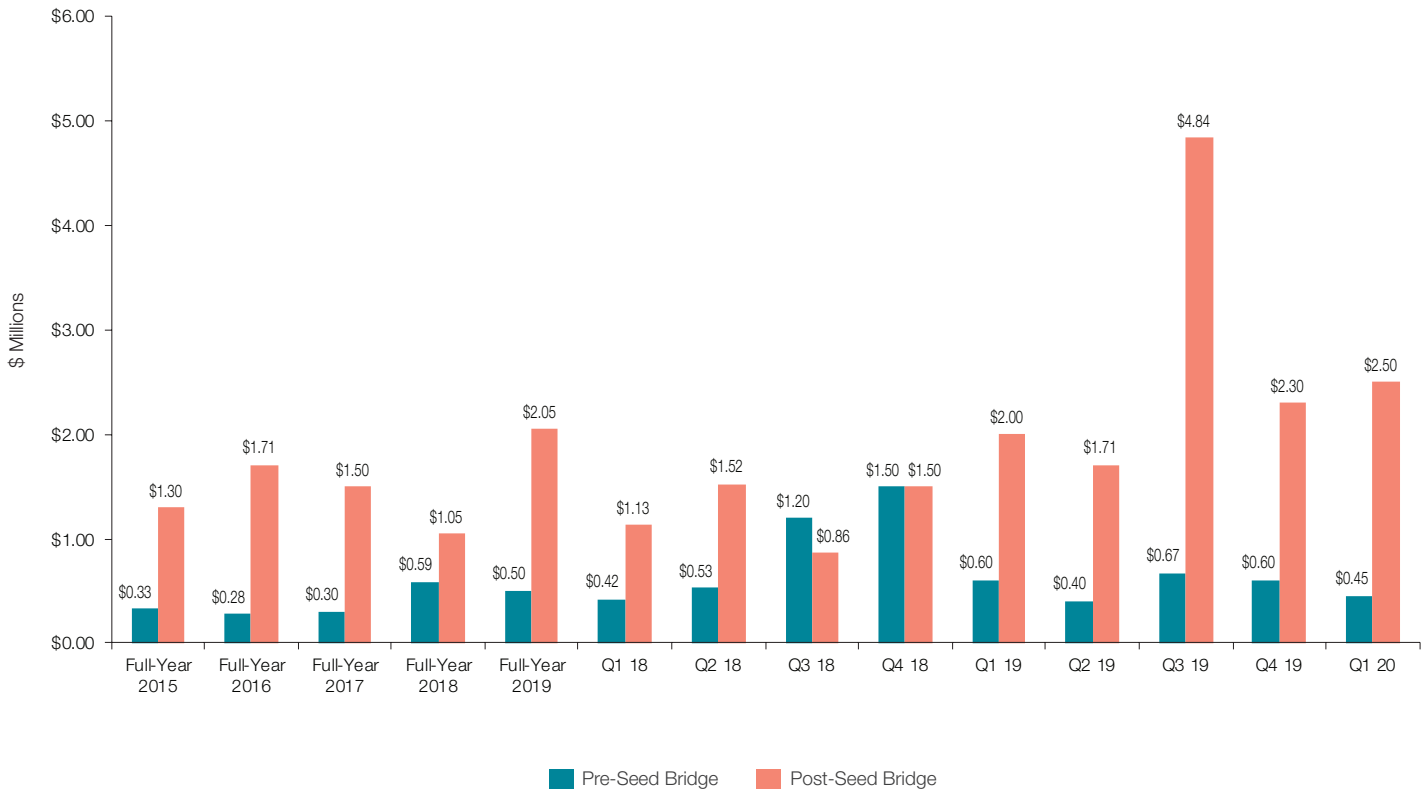
Pre-Seed bridge loan interest rates fell in Q1 2020, with 100% of loans having

interest rates of 8% or less—a moderate increase from 91% of such loans in 2019. On the other hand, post-Seed bridge loan interest rates increased in Q1 2020, with 14% of such loans having an interest rate greater than 8%, as compared to 8% of such loans in 2019.

A full 100% of pre-Seed bridge loans had maturity periods of 12 months or more in Q1 2020, up from 87% in 2019. Meanwhile, 64% of Q1 2020 post-Seed bridge loans had maturity periods of 12 months or more, down from 74% in 2019.

The percentage of pre-Seed bridge loans that were convertible to equity at a discounted price slipped from 68% in 2019 to 63% in Q1 2020, of which all were convertible at a discount rate of 20% or more on conversion. The percentage of post-Seed bridge loans that were convertible to equity at a discounted price also decreased, from 81% in 2019 to 69% in Q1 2020, with 78% of those receiving a discount rate of 20% or more on conversion.

Median Amount Raised – Bridge Loans



Bridge Loans - Deal Terms (Wilson Sonsini Deals)¹

Bridge Loans	2015 Pre-Seed	2016 Pre-Seed	2017 Pre-Seed	2018 Pre-Seed	2019 Pre-Seed	Q1 2020 Pre-Seed	2015 Post-Seed	2016 Post-Seed	2017 Post-Seed	2018 Post-Seed	2019 Post-Seed	Q1 2020 Post-Seed
Interest rate less than 8%	74%	76%	75%	67%	87%	88%	54%	52%	56%	65%	70%	57%
Interest rate at 8%	19%	19%	17%	22%	4%	13%	33%	30%	27%	25%	22%	29%
Interest rate greater than 8%	7%	5%	8%	11%	9%	0%	13%	17%	17%	10%	8%	14%
Maturity less than 12 months	17%	17%	22%	21%	13%	0%	34%	29%	41%	21%	26%	36%
Maturity at 12 months	9%	5%	8%	13%	9%	0%	8%	23%	19%	26%	14%	14%
Maturity more than 12 months	74%	78%	69%	67%	78%	100%	58%	49%	41%	53%	60%	50%
Debt is subordinated to other debt	15%	20%	28%	23%	27%	25%	38%	45%	33%	47%	49%	71%
Loan includes warrants ²	3%	8%	0%	4%	2%	0%	25%	17%	16%	18%	8%	0%
Warrant coverage less than 25%	100%	80%	N/A	0%	100%	N/A	47%	23%	43%	33%	80%	N/A
Warrant coverage at 25%	0%	0%	N/A	0%	0%	N/A	7%	15%	14%	11%	0%	N/A
Warrant coverage greater than 25%	0%	20%	N/A	100%	0%	N/A	47%	62%	43%	56%	20%	N/A
Principal is convertible into equity ³	93%	97%	97%	90%	96%	100%	86%	92%	92%	87%	96%	93%
Conversion rate subject to price cap ⁴	64%	79%	74%	69%	69%	75%	26%	29%	34%	25%	51%	36%
Conversion to equity at discounted price ⁵	78%	82%	89%	83%	68%	63%	71%	74%	76%	85%	81%	69%
Discount on conversion less than 20%	11%	12%	16%	23%	18%	0%	25%	25%	20%	20%	27%	22%
Discount on conversion at 20%	73%	76%	74%	60%	63%	80%	47%	49%	50%	48%	57%	67%
Discount on conversion greater than 20%	16%	12%	10%	17%	18%	20%	27%	26%	30%	33%	16%	11%
Conversion to equity at same price as other investors	18%	13%	3%	14%	12%	0%	25%	19%	24%	6%	11%	23%

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 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 2018 post-Seed bridges with warrants, 45% also had a discount on conversion into equity. Of the 2019 post-Seed bridges with warrants, 71% also had a discount on conversion into equity. There were no post-Seed bridges with warrants in Q1 2020.

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 2018 pre-Seed convertible bridges, 98% had automatic conversion and 2% had voluntary conversion. Of the 2019 pre-Seed convertible bridges, 100% had automatic conversion. Of the Q1 2020 pre-Seed convertible bridges, 100% had automatic 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 2018 post-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. Of the 2019 post-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. Of the Q1 2020 post-Seed convertible bridges, 100% had automatic 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 2018 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$3M and \$5M, respectively. The 2019 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$3M and \$8M, respectively. The Q1 2020 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$2M and \$8M, 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 2018 median price cap in pre- and post-Seed bridges was \$8M and \$40M, respectively. The 2019 median price cap in pre- and post-Seed bridges was \$9M and \$35M, respectively. The Q1 2020 median price cap in pre- and post-Seed bridges was \$4M and \$30M, respectively.

⁵ 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 2018 post-Seed bridges that had a discount on conversion into equity, 11% also had warrants. Of the 2019 post-Seed bridges that had a discount on conversion into equity, 7% had warrants. Of the Q1 2020 post-Seed bridges that had a discount on conversion into equity, 0% had warrants.

Raising Early-Stage U.S. Capital as a UK/European Company

(continued from page 1)

growth capital financings led by American investors—and more and more American investors interested in meeting growth-stage UK/European companies—we have not been able to say the same about Seed and Series A financings and companies. In the UK and Europe, it has generally been our experience that Seed financings tend to be local, Series A financings tend to be regional or national, and Series B financings and beyond tend to be global. In other words, the earlier-stage the company, the more important it is that its lead investors are nearby.

To confirm our anecdotal experiences (at least with respect to UK companies and U.S. investors), we partnered with UK data provider Beauhurst to determine how often U.S. venture capital funds with no UK/European operations are leading the Seed and Series A financings of UK companies with no U.S. operations.

We found that:

- UK-based companies raised approximately **2,800 Seed and Series A rounds** in 2018 and 2019 combined.
- Among those rounds raised by UK companies that had not yet launched U.S. operations prior to the financing (i.e., by opening a U.S. office and staffing it through local hires or seconded UK employees), only **52 of those 2,800 Seed and Series A rounds** (1.8%) were led by U.S.-based venture capital funds

who did not have an office in the UK or elsewhere in Europe.

With few exceptions, U.S. investors who do not have UK operations tend to lead Seed or Series A rounds only after a UK company has established a U.S. presence and developed a strong “U.S. story.” Stated another way: typically, U.S. fundraising follows U.S. commercialization and operational expansion, not the other way around.

This result is logical, albeit perhaps unexpected, given the media focus over the past few years on increasing levels of U.S. investment into the UK and elsewhere in Europe. Many early-stage investors look to leverage their expertise and network to shape and guide a portfolio company’s growth; that is often their competitive advantage as investors. This is much easier to do when at least a portion of the company’s executive team is near the investor (either because the company has expanded to the U.S. or the investor has opened an office in the UK or Europe). Further, early-stage U.S. investors generally focus on building U.S. companies. Asking them to lead an early-stage financing for a non-U.S. company that has not yet demonstrated the extent to which it is likely to succeed in the U.S. adds significantly more risk to the investment.

While the exceptions mentioned above tend to be situation-specific (e.g., a repeat founder that has a pre-existing relationship with a U.S. fund), there are a few trends worth noting. Participating

in a high-quality U.S.-based accelerator can help establish credibility and lead to connections with U.S. investors that result in early-stage U.S.-led financings. Certain industry verticals also tend to have more international reach at an earlier stage. For example, biotech investors tend to have deep scientific subject-matter expertise that is less impacted by geography, and biotech companies account for nearly 25% of the 52 U.S./UK rounds referenced above. In addition, fintech companies periodically prove to be an exception, given the close relationship and synergies between the London and New York financial communities; companies in this sector comprise nearly 20% of the 52 U.S./UK rounds.

Notably, the 52 U.S./UK financing rounds referenced above were completed prior to the impact of COVID-19. With travel restrictions limiting the ability of UK-based companies to meet with U.S.-based investors, we anticipate that UK Seed and Series A rounds led by U.S. VC investors will be even more rare in 2020.



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Beauhurst

UK Equity Investment: Q1 2020

Introduction

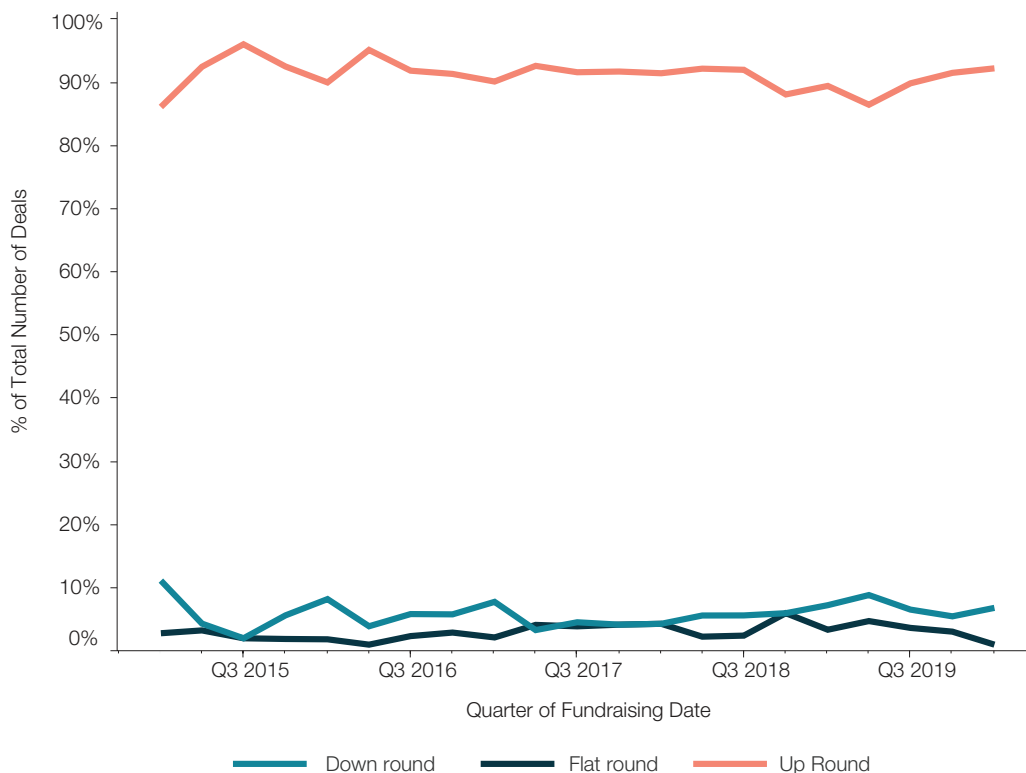
The year 2020 has a lot to live up to in terms of equity investment into UK companies. Last year saw the largest amount ever invested into high-growth companies in the UK, and the largest median pre-money valuation ever recorded.

UK companies secured £2.89B¹ in equity investment in Q1 2020, a decline of 14% from the same quarter in 2019. The proportion of down rounds increased compared to Q4 2019, but not outside the bounds of inter-quarter volatility. With the global COVID-19 pandemic starting to unfold during this quarter, a change in valuation dynamics was to be expected. However, pre-money valuations grew by

an unprecedented amount in this first quarter, with the median reaching £6M across all companies, a third larger than the annual median of 2019. This was largely driven by the huge valuations seen at Series C rounds and later, and illustrates the significant value that UK companies represent to investors.

¹ Please note that Beauhurst uses the exchange rate between currencies on the day of the transaction. As a general reference point, according to Bloomberg, on April 1, 2020, £1 was equivalent to US\$1.2371.

Up and Down Rounds by Quarter (2015 - Q1 2020)

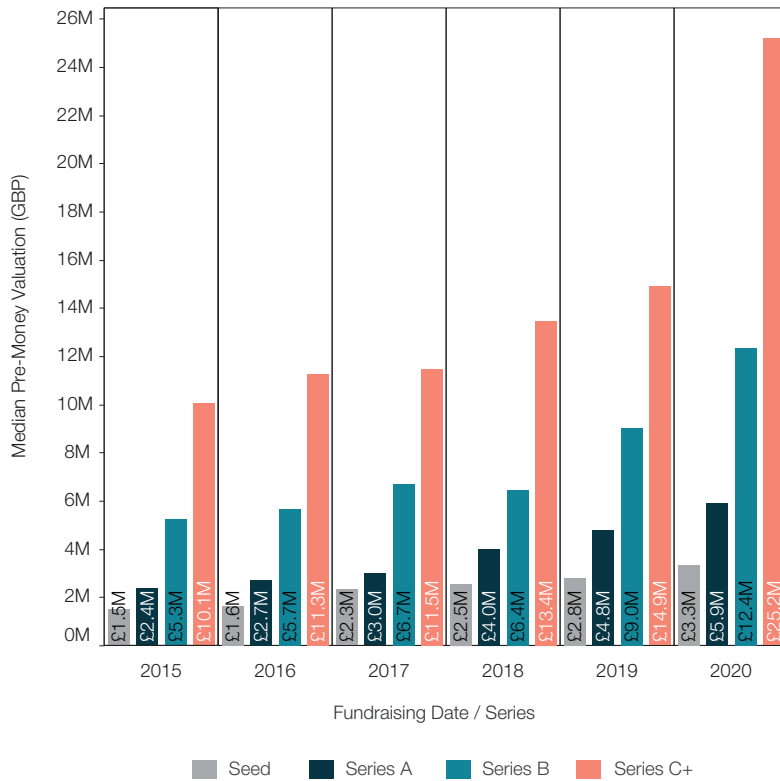


Ninety-two percent of equity deals in Q1 2020 secured a higher valuation for the company than previous rounds, an improvement from a low of 86% in Q2 2019. However, the proportion of up rounds has largely stagnated in growth

since Q4 2019, while the proportion of down rounds increased this quarter. Down rounds constituted almost 7% of all deals in Q1 2020, compared to 5% in Q4 2019.

Note: We classified an “up round” as one with at least 5% growth in valuation between rounds, and a “down round” as one with at least a 5% decline in valuation. Only deals where a valuation could be calculated were included.

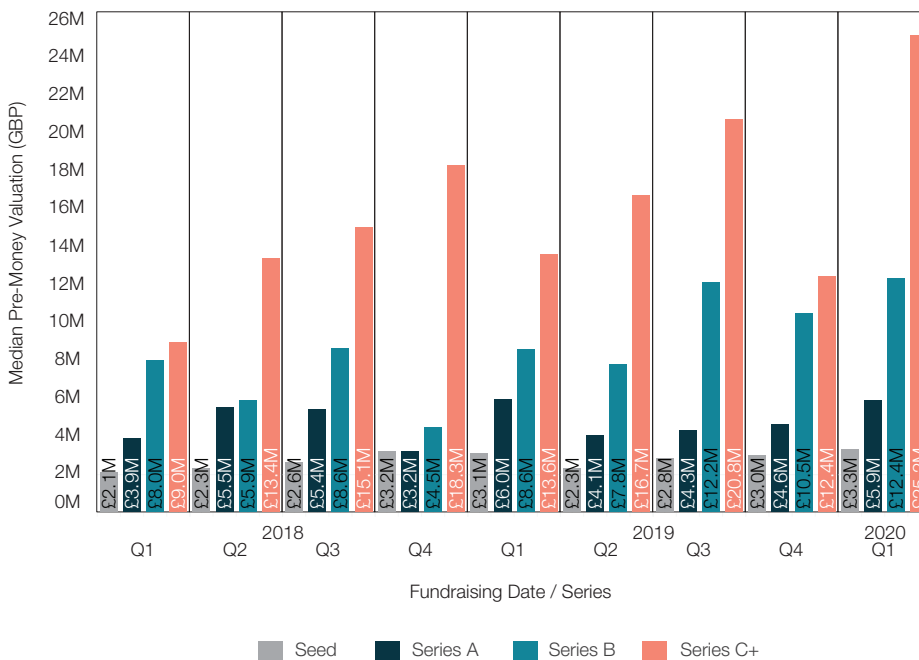
Median Pre-Money Valuation by Deal Series (Annual Totals 2015 - Q1 2020)



The median pre-money valuation has increased across all Series between the full-year figures for 2019 and Q1 2020. Seed deals saw an 18% increase, Series A deals saw a 23% increase, Series B deals saw a 38% increase, and, most notably, Series C+ deals saw a 70% increase.

While the median pre-money valuation has increased across the board in the first quarter of 2020, companies raising Series C and later rounds enjoyed a particularly large jump. The £25.2M median here is the largest on record for Series C+ deals, and also represents the largest-ever growth in median pre-money valuations between a first quarter and the preceding year.

Median Pre-Money Valuation by Deal Series (Quarterly Totals 2018 - Q1 2020)



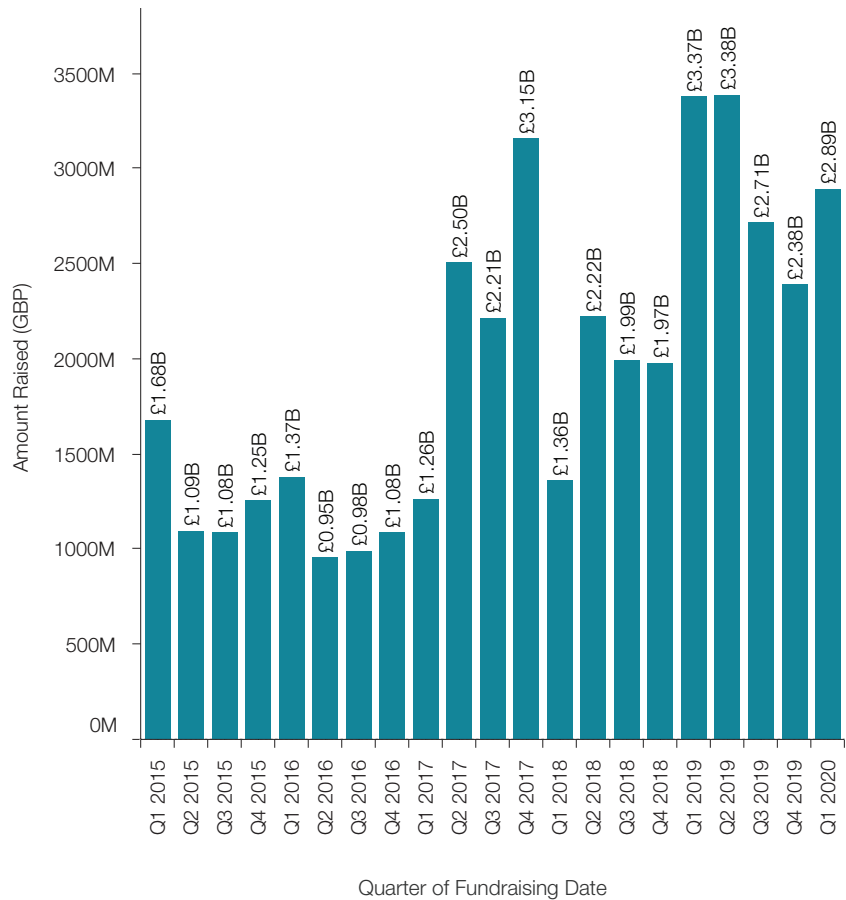
This increase of 70% over 2019's median values is largely due to negative growth in Q4 2019, where pre-money valuations in Series C and later rounds declined by 40% from the previous quarter.

Amount Invested in Equity (2015 - Q1 2020)

In the first quarter of 2020, £2.89B in equity investment was secured by UK companies in announced deals. Considering the burgeoning global crisis during this time, a decline of 14% from the most lucrative quarter on record (Q1 2019) isn't too bad. It also represents large growth (21%) from the amount invested in Q4 2019. This metric has been inflated by the large amounts raised through Series C and later deals, while companies raising at the Seed and Series A stages secured 15% and 23% less in equity in Q1 2020 compared to the previous quarter.

Conclusion

Equity investment and pre-money valuations showed resistance to the first impact of the COVID-19 crisis in the UK. With total investment down just 14% from the all-time record set in Q2 2019, UK companies still managed to secure an impressive amount of confidence from investors. While the quarter saw an increase in the proportion of down rounds, the vast majority of deals are up rounds, reflecting real growth in value for investors.



However, with the UK government announcing economic and social lockdown so close to the end of the quarter (on the 23rd of March), the real impact of the pandemic will be felt in Q2 of this year.

About Beauhurst

Beauhurst is a searchable database of the UK's high-growth companies. We report on all equity fundraisings in the United Kingdom, both those announced in the press and those that go unannounced. Alongside this, we track all grants awarded to UK companies, as well as their financial accounts, key people, accelerator attendances, university spinout events, management buy-ins, and more. Through this private research and data curation, we have built a database of more than 30,000 high-growth private companies in the UK, many of which are solving global problems and pioneering new technology.

<https://about.beauhurst.com/>

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 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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