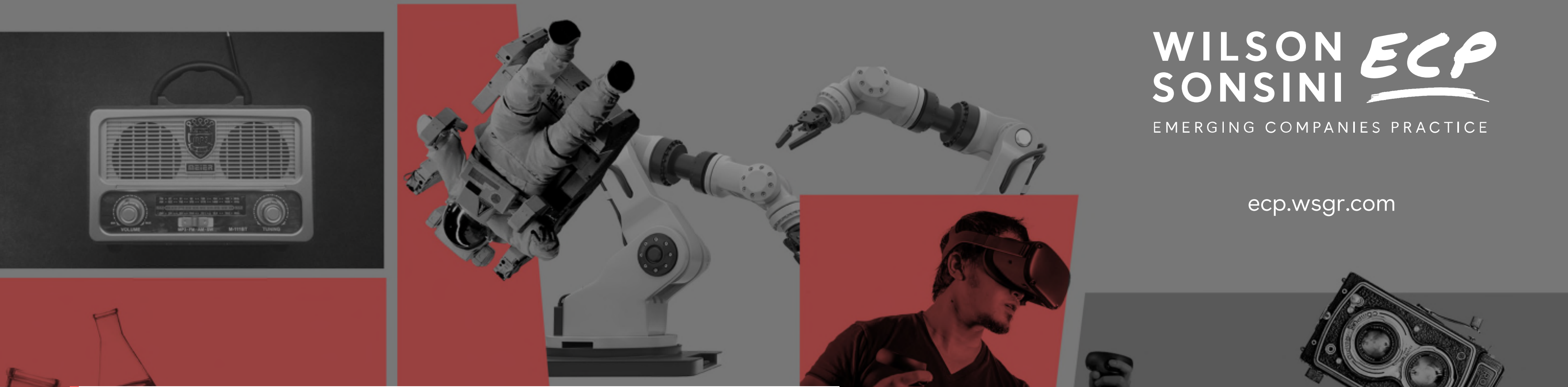

WILSON SONSINI ECP

EMERGING COMPANIES PRACTICE

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THE ENTREPRENEURS REPORT

PRIVATE COMPANY FINANCING TRENDS

From the Wilson Sonsini Database:

FINANCING TRENDS FOR FULL-YEAR 2023

Key Developments in This Report

Seed and Series A Valuations End 2023 at All-Time Highs

Ending 2023 on a positive note, Seed and Series A valuations hit record peaks in Q4. Seed valuations are starting to look like Series A valuations five years ago and hint that the upward trend might continue into 2024. However, despite early-stage surges, Series C and later valuations remained relatively flat throughout 2023.

See p. 4

Fundraise Amounts Finish the Year Up Across the Board

Despite considerable variability in 2023, fundraise amounts across all stages finished the year with quarter-over-quarter increases. Record raise amounts for Seed and Series A, along with an upward trend for later rounds, suggest a tepid but positive outlook for 2024 fundraise amounts.

See p. 5

Investors Continue to Receive Favorable Deal Terms

The prevalence of down rounds remains above historical levels but may have peaked in 2022. Any shift toward investor-favorable terms in 2023 was largely confined to down rounds.

See p. 6

Convertible Notes Demand Higher Interest Rates and Reduced Maturity Periods

Even in the age of SAFEs, convertible notes remain popular and Q4 2023 saw the highest median raise amounts for notes for the year. Significantly, the trend toward shorter maturity periods, particularly in the pre-Seed stage, highlighted investors' expectations of follow-on equity rounds in 2024.

See p. 8

Seth Helfgott

Ed Yip

2024 VENTURE OUTLOOK

Wilson Sonsini's **Seth Helfgott** in Conversation with Norwest's **Edward Yip**

Seth Helfgott is a partner in the SOMA office of Wilson Sonsini, where he focuses on corporate and securities law, including start-ups, venture capital transactions, mergers and acquisitions, and corporate governance matters.

Ed Yip joined Norwest Venture Partners in 2012 to partner with founders who are building the next generation of companies in the consumer internet space. As a partner, he makes Seed-, early-, and late-stage investments in a range of areas including commerce, marketplaces, hardware-enabled services, and fintech.

SH: Valuations remain near historic highs for early-stage start-ups while many later-stage companies are facing depressed valuations and down-rounds. Do you expect these trends to continue in 2024?

EY: Cautiously optimistic, [but] we still think that the mid- to late-stage venture market is going to be slow. The valuation reckoning for companies that raised large growth rounds in 2020-2021 will accelerate and we'll see more recaps, down rounds, etc., this year. There will still be good companies that will raise mid/late-stage rounds and with all the money on the sidelines remaining, they'll raise large rounds at high valuations. However, that stage of the market will overall still be slow. The early stage (pre-Seed, Seed, Series A) side of the market will be active, and valuations will continue to come down here (excluding AI companies). We're continually active on the growth equity side of our business (EBITDA profitable companies) and continue to see opportunities there.

SH: You focus on consumer-facing companies. What challenges and opportunities do you anticipate in that space this year?

EY: Consumer is still a challenged sector. User acquisition continues to be expensive and performance marketing consumer acquisition costs will rise with mature platforms and increasing big brand budgets. With the market now emphasizing profitability, direct-to-consumer companies are finding it increasingly difficult to grow and gain marketing leverage to prove a path to profitability. Successful consumer companies will have strong organic, word-of-mouth growth potential, network effects, high retention/repeat usage, high product margins, and omnichannel platforms (digital and offline). However, there are reasons for optimism in the space. GenZ and GenAlpha consumers are growing as a larger share of the market and have different product preferences as opposed to older generations. We'll begin to see "updated" applications and utilities that reflect this shift. Also, the next generation of consumer companies will likely find ways to leverage cheaper growth from newer social platforms.

SH: Many start-ups raised their last round of capital in 2021 or 2022. How are you advising founders approaching the end of their runway?

EY: It definitely depends on the growth profile. If growth has been strong and efficiency has been improving, there is still a lot of venture money on the sidelines looking to invest. Valuation multiples may come down as investors are more focused on public multiples in the later stage, but the top-tier companies will be able to raise. Companies that haven't grown into their valuations should start thinking early about plan B – either an internal raise, building a deeper relationship with potential acquirers, or better yet – push for profitability so you can control your own destiny.

SH: What advice do you have for entrepreneurs hoping to raise their first round of venture capital this year?

EY: The seed market is still healthy and active, so a lot of the same advice applies. Focus on a problem/space that you're deeply passionate about and have experience in, make sure it's a big Total Addressable Market (so that if it works it can drive big venture returns), and have a strong and detailed product vision so there's a business model that has potential for high margins, retention, and operational leverage over time.

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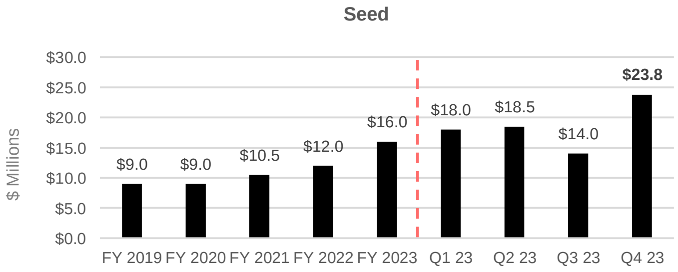
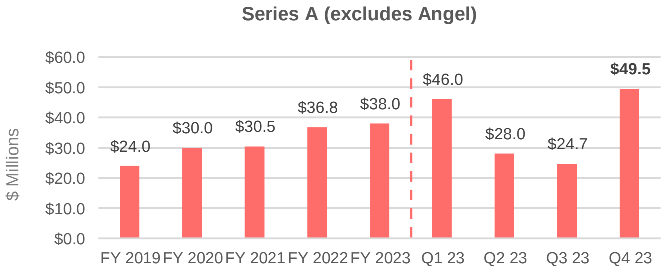
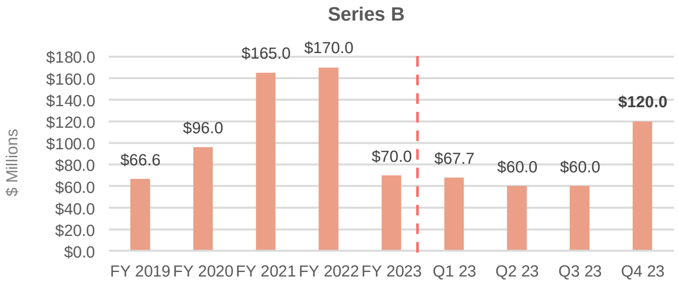
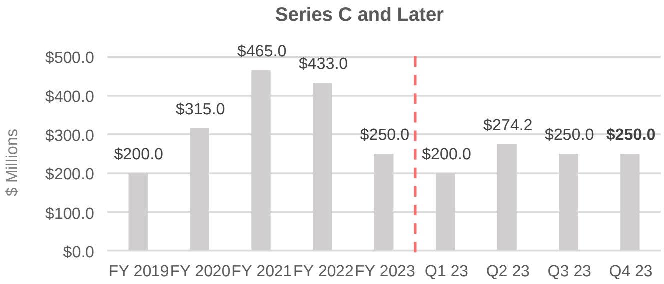
PRE-MONEY MEDIAN VALUATIONS*

Seed and Series A Valuations End 2023 at All-Time Highs









Driven in part by investors hoping to buy a piece of the next big artificial intelligence start-up, median Seed valuations shot up to nearly $24 million in Q4 2023.

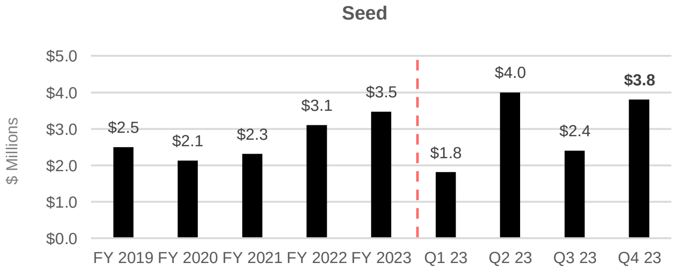
Current Seed valuations are starting to look a lot like Series A valuations from 2019, a trend that could continue into 2024 as firms look to deploy more sidelined dry powder into early-stage companies.

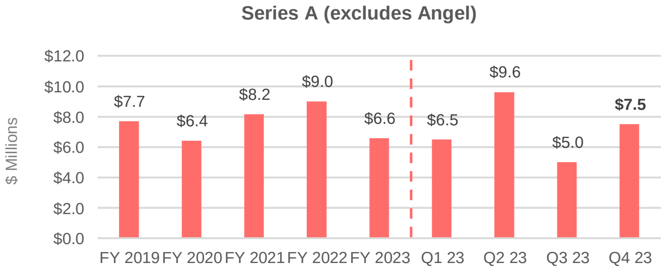
Valuations were also up in Q4 2023 at the Series A and Series B stages while Series C and later valuations were mostly flat throughout 2023, a trend that is likely to continue until IPOs become a more viable exit possibility for later-stage technology companies.

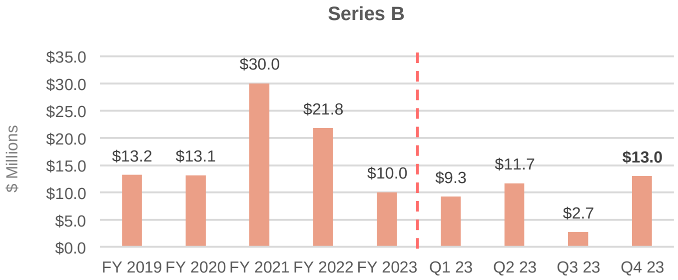
* For a quarter-by-quarter breakdown of pre-money median valuations dating back to Q1 2021, see the Appendix on page 15.

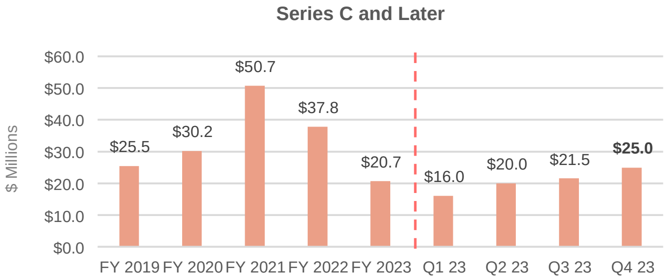
EQUITY FUNDRAISE MEDIAN AMOUNTS*

Fundraise Amounts Finish the Year Up Across the Board







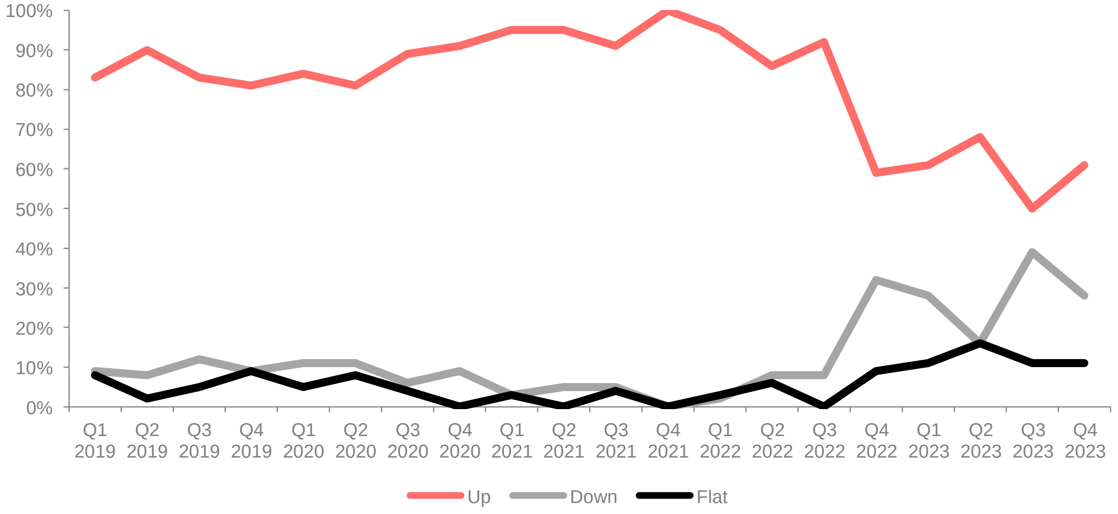


Raise amounts in 2023 fluctuated widely, with a couple of quarterly all-time highs (Seed and Series A in Q2 2023) alongside lows not seen since 2019 (Series B in Q3 2023 and Series C and later in Q1 2023). However, raise amounts at all stages managed to end the year with quarter-over-quarter increases.

Whether the whiplash will continue into 2024 remains to be seen, but later-stage companies may find comfort in the slow but consistent increase in Series C and later raise amounts over the last four quarters.

* For a quarter-by-quarter breakdown of equity fundraise median amounts dating back to Q1 2021, see the Appendix on page 15.

Down Rounds Decrease but Still Make Up Nearly 30% of Transactions



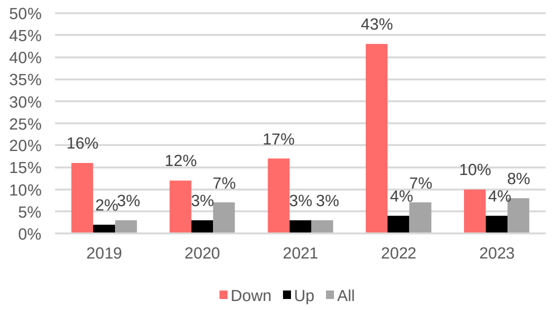
2023 was a bit of a rollercoaster ride for those tracking down round trends. After a worrisome Q3, which saw down rounds making up nearly 40% of transactions, the percentage of companies raising an up round in Q4 increased slightly but remains well below 2021 levels.

For now, the prevalence of up, flat, and down rounds at the end of 2023 is looking very similar to the landscape in Q4 2022. Whether this trend continues into 2024 will likely depend on whether Seed- and Series A-stage companies that were fortunate enough to raise money recently in 2022 and 2023 are able to maintain enough momentum to justify increasing valuations.

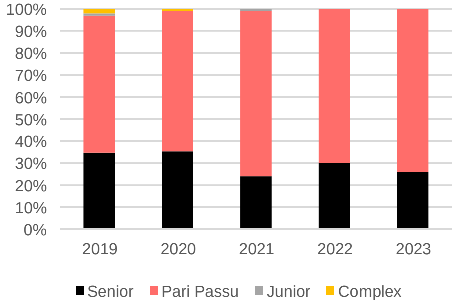
EQUITY FINANCING DEAL TERMS*

Some Investor-Friendly Terms Remain Common but Are Mostly Limited to Down Rounds

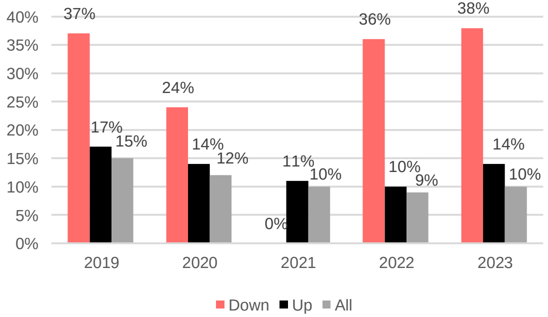
Deals with Pay to Play
(Series B and Later Financings)



Liquidation Preferences
(Series B and Later Financings)



Participating Liquidation
(All Preferred Stock Financings)



After a somewhat dramatic increase in investor-favorable terms in 2022, this year started with an open question of whether this trend would solidify into a more investor-favorable "new normal" with respect to equity deal terms. 2023 data indicates, however, that any industry-wide shift remains mostly limited to down rounds. Participating preferred stock, which provides more potential upside for investors when a company does well, continues to be a common feature of down round investments, but remains relatively rare in up and flat rounds.

Conversely, "pay to plays," a feature which can dilute or adversely affect existing investors that decline to invest additional capital, were less common even in 2023's down rounds after reaching record levels in 2022.

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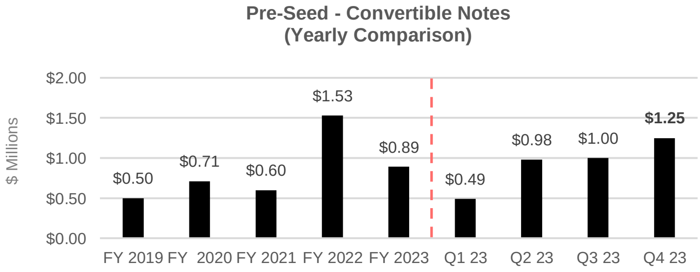
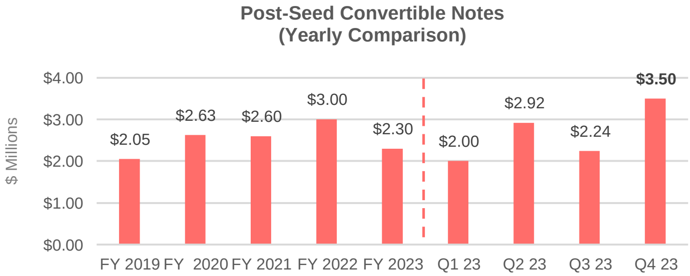
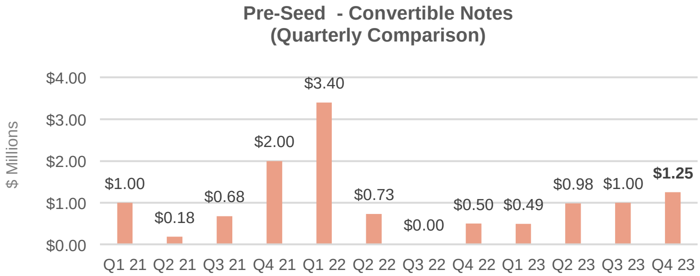
* For a more detailed summary of private company financing deal terms, see the Appendix on page 23.

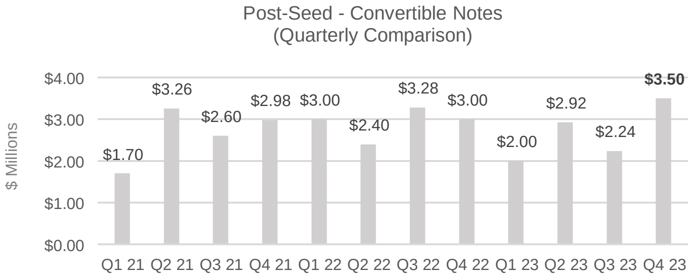
CONVERTIBLE NOTE MEDIAN RAISE AMOUNTS

Pre-Seed and Post-Seed Convertible Notes Raises Trend Upwards









As SAFEs have become more common over the past decade, some commentators predicted that convertible notes would soon fall out of favor with investors and be supplanted by the simpler SAFE as the preferred non-equity investment instrument for bridge rounds.

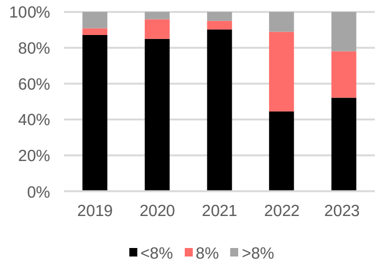
Such predictions appear to be premature, with convertible notes making up 48.5% of bridge rounds in 2023 (compared with 43% in 2022).

Both pre-Seed and post-Seed convertible notes ended 2023 on a high note, although pre-Seed raise amounts remain well below the peak of late 2021/early 2022.

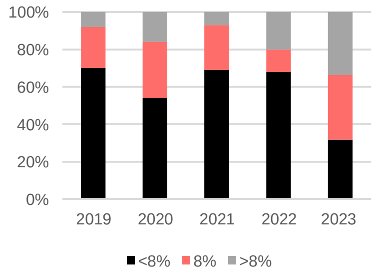
CONVERTIBLE NOTE DEAL TERMS*

Note Interest Rates Are Up, Maturity Periods Are Down

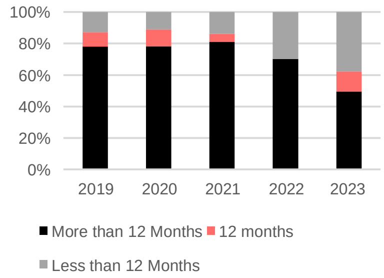
Pre-Seed Convertible Note Interest Rates



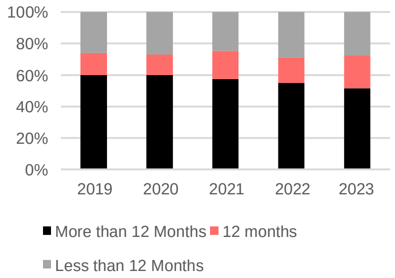
Post-Seed Convertible Note Interest Rates



Pre-Seed Convertible Note Maturity Periods



Post-Seed Convertible Note Maturity Periods



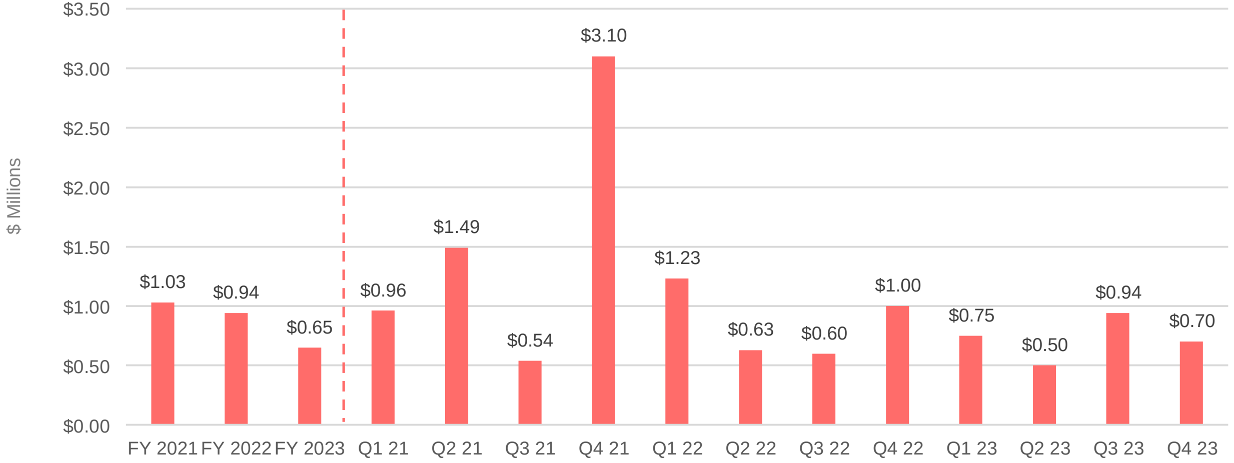
Maintaining the trend that started with the Federal Reserve's interest rate increases in March 2022, 48% of pre-Seed and 68% of post-Seed convertible notes had higher-than-typical interest rates of 8% or higher in 2023. While note interest rates are not directly correlated to the federal funds rate and are perhaps better seen as a proxy for an investor's risk tolerance, start-ups should watch closely to see if the Federal Reserve's anticipated 2024 rate decreases result in any relaxation of aggressive interest rate terms this year.

The shift towards shorter maturity periods for convertible note rounds continues but in 2023 was more pronounced at the early pre-Seed stage, where roughly half of notes had maturity dates of 12 months or less. The message to young companies is clear: investors are expecting swift progress toward an equity round, often within a year or less of a pre-Seed investment.

* For a more detailed summary of convertible note deal terms, see the Appendix on page 24.

SAFEs

SAFE Median Raise Amounts Remain Under $1 Million



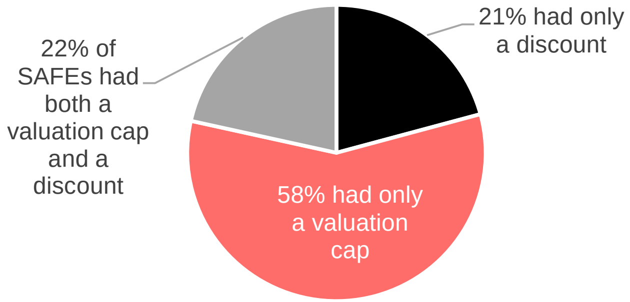
The median amount raised in SAFE financings in Q4 2023 decreased to $700,000 and remained at or below $1 million for the seventh consecutive quarter.

Despite the larger SAFE rounds seen a couple of years ago, SAFEs have returned to their pre-pandemic status as a tool generally limited to very early-stage funds and angel investors.

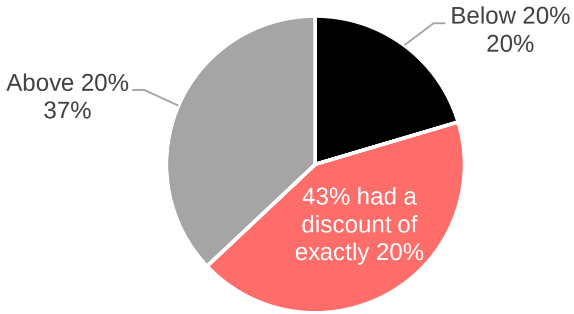
SAFEs

SAFE Investors Stick to Standard Terms

Valuation Caps and Discounts



Discount Rates



In 2023, SAFE terms remained largely in line with those seen in 2022, with a few minor variations. Forty-three percent of 2023 SAFEs included a discount, a negligible increase from 38% in 2022. Meanwhile, valuation caps were incorporated in 80% of SAFEs, down from 90% in 2022, with a median valuation cap of $15 million. The minor decrease in valuation caps is a data point to watch going into 2024 and may suggest growing investor uncertainty around early-stage valuations.

As a complement to the Wilson Sonsini deal data contained in this report, the firm recently analyzed more than 300 SAFEs issued in 2023 and found that 98% of those SAFEs were on a variant of Y-Combinator's form of SAFE. This may explain why SAFE terms, unlike those of convertible notes, remain somewhat standardized and have not materially shifted to become more investor-favorable over the past two years.

The Corporate Transparency Act's Beneficial Ownership Information Reporting Requirements

The U.S. Department of the Treasury's Financial Crimes Enforcement Network's (FinCEN's) regulations on Beneficial Ownership Information Reporting Requirements (BOI Requirements) went into effect on January 1, 2024. This set of regulations constitutes a significant change by requiring companies to affirmatively disclose beneficial ownership information to FinCEN. It is intended to better enable law enforcement to investigate crime by minimizing anonymous business activity.

When Must a Report Be Filed?

Reporting *companies created or registered before January 1, 2024*, have until January 1, 2025, to comply with these regulations. FinCEN has indicated it will provide additional guidance in the coming months, which may clarify some of the obligations under these reporting requirements. Additionally, the obligation to file updated reports does not begin until the initial report has been filed.

Reporting companies *created or registered in 2024* will have 90 calendar days after creation or registration, as applicable, to comply.

For more information on the BOI regulations, continue reading or please contact Wilson Sonsini attorneys at CTA@wsgr.com.

The Corporate Transparency Act's Beneficial Ownership Information Reporting Requirements (Cont.)

Which Entities Are Required to Report?

Reporting Companies are nonexempt domestic and foreign entities that meet one of the following definitions:

- **Domestic Reporting Companies:** LLCs, corporations, and other entities created by filing a document with a secretary of state or similar office under state or tribal law
- **Foreign Reporting Companies:** Entities formed under the laws of a foreign country and registered to do business in any state or tribal jurisdiction by filing a document with a secretary of state or similar office under state or tribal law
- **Sole proprietorships, certain trusts, and general partnerships** are generally not created by filing a document with a secretary of state or similar office, and thus are not required to file

Which Entities Are Exempt?

While the general definitions of "domestic reporting company" and "foreign reporting company" are extremely broad, FinCEN has provided 23 enumerated exemptions will exclude a large number of businesses from the filing requirements. For example:

- Securities reporting issuers (i.e., public companies)
- "Large operating companies," which are entities that (a) employ more than 20 full-time employees in the U.S., (b) reported more than $5,000,000 in gross receipts or sales to the IRS in the previous year (excluding gross receipts or sales from sources outside the U.S.), and (c) have an operating presence at a physical office within the U.S.
- Investment advisers, venture capital fund advisers, investment companies, and money services businesses
- Domestic pooled investment vehicles that are operated or advised by a bank, credit union, registered broker-dealer, registered investment company or investment adviser, or venture capital fund adviser

The Corporate Transparency Act's Beneficial Ownership Information Reporting Requirements (Cont.)

What Information Must Be Reported?

Reporting companies are required to file an initial report with FinCEN that contains the following information about the reporting company:

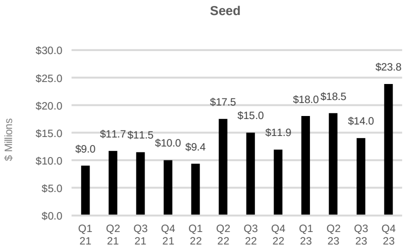
- full legal name
- any trade name or d/b/a name
- current address (principal place of business street address for U.S. reporting companies, and street address of the primary U.S. location for all other companies)
- state, tribal, or foreign jurisdiction of formation
- for foreign reporting companies, the state or tribal jurisdiction where the company is registered
- the IRS taxpayer identification number (TIN), including an employer identification number (EIN).

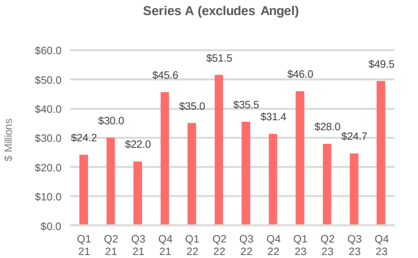
In addition, the initial report must include information about each "beneficial owner" of the reporting company, which is any individual who, directly or indirectly either:

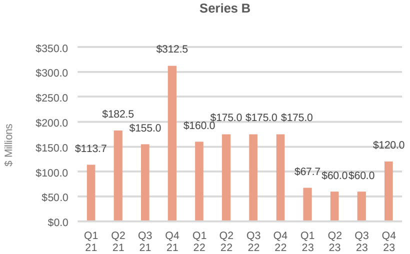
- Owns or controls at least 25% of the ownership interests of a reporting company (assuming the exercise of granted options); or
- Directly or indirectly exercises substantial control over the reporting company by:
  - Serving as a senior officer (including President, CEO, CFO, COO, GC, or other officer who performs similar function);
  - Holding authority to appoint/remove any senior officer or a majority of directors (or similar body);
  - Directing, determining or having substantial influence over important decisions (e.g., strategic decisions re: business activities; major investments or expenditures; issuing equity; incurring significant debt; approving operating budget; sale, lease mortgage, transfer or principal assets; geographic focus); or
  - Holds any other form of substantial control.

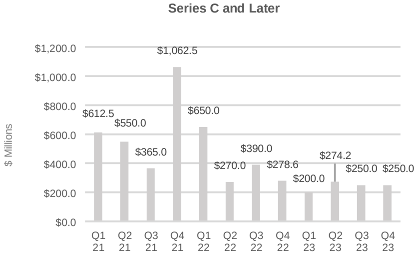
Appendix – A Quarterly Look-Back on Equity Valuations and Raise Amounts

Pre-Money Median Valuations

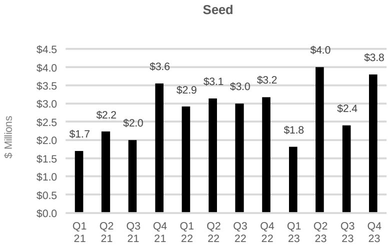


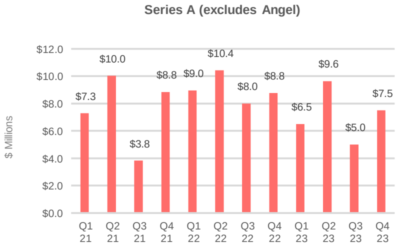


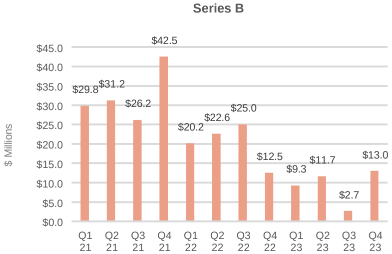


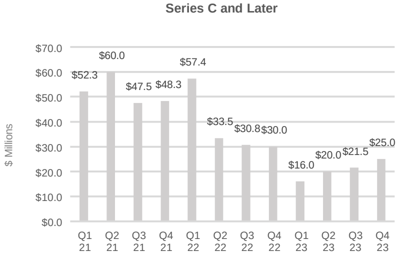


Equity Fundraise Median Amounts





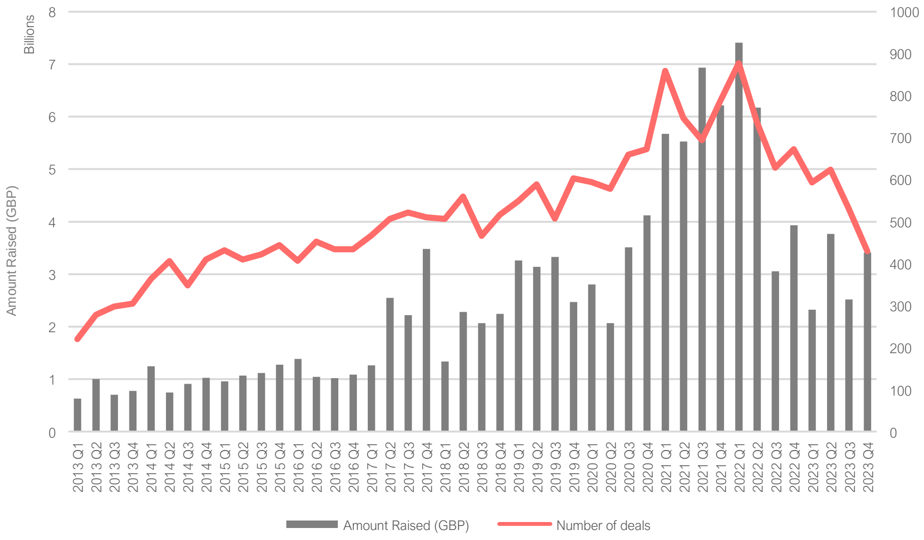




UK Equity Investment Market Update, 2023

Beauhurst

Number of Deals and Amount Raised



Deals announced in 2023: 2,179
Deals announced in 2022: 2,917
-25% since 2022

£12 billion invested in 2023
£20.6 billion invested in 2022
-42% since 2022

Methodology

Data for the report was collected by Beauhurst and finalised on 26 January 2024. The report looks at all announced equity investments received by private companies headquartered in the UK, in all sectors. Equity rounds are found by monitoring thousands of investment sources; Beauhurst also maintains relationships with hundreds of investors to receive information about their portfolio companies. In this context, equity investment refers to the issuance and sale of new shares by a company to fund its growth.

To be included in the analysis, an investment must be:

- Dated between 1 January 2013 and 31 December 2023
- Publicly announced
- Some form of equity investment
- Secured by a non-listed UK company

The following types of companies are not covered in this report:

- Non-UK companies
- Purely not-for-profit companies
- Companies whose shares have been listed on a stock exchange
- Companies that are majority-owned by a fund or another company
- “Project companies,” like those formed to create a film, stage play, solar farm, or to undertake a property project

UK Equity Investment Market Update, 2023
(CONT.)

Beauhurst

Key Findings

Investment continued to decline, with £12 billion invested into private UK companies throughout 2023, across 2,179 announced equity rounds.

Faith in early-stage companies and start-ups remained—over 80% of deals were Seed and venture companies.

There were 11 gigadeals and 26 megadeals throughout 2023.

- Equity investment was at its lowest since 2018
- London secured 48% of deals
- Scotland had 6% of deals, with the East of Scotland taking 3.5%
- There was a decline in deals across most sectors

Headline Funding Figures

2021 set a high standard, and it's been difficult to live up to that record-breaking year since. The equity investment market saw a decline in 2022, and this has continued into 2023. It might not be the news we were hoping for, but there's still backing for early-stage companies—and from looking at the data, it's likely that sectors such as cleantech, SaaS, and AI will see significant investment in 2024.

Across the year, we've seen fluctuations in the number of deals closed. Like in 2022, most of the deals were signed in the last half, but the drop off was significantly higher—and we saw a lower number of deals in Q1 2023 than we would normally. Just 593 deals were signed in Q1 2023 compared with the 878 deals signed in Q1 2022. This could reflect the uncertainty of the UK economic landscape. As change seems to be inevitable, investors aren't sure if now is the right time to invest, or hold back.

One thing is clear, with elections in 50 countries this year, we're likely to see more change in the new year.

Regional Trends

It comes as no surprise that London has, once again, secured the top spot, with 1,040 deals made in the capital. This accounts for 48% of the total deals in 2023. The South East (198) made up 9% of the year's deals, followed by the East of England (146) at 6.7%. This closely reflects 2022 numbers, where London secured 49% of deals. Scotland accounted for 6% of all the deals, with the East of Scotland (76) securing 3.5% — a marginal difference from last year, where Scottish deals amounted to 6.3% of the total. There was a drop in Aberdeen deals, from 24 in 2022 to only six deals secured in 2023.

Wales (64) made 2.9% of all deals, and Northern Ireland (23) had 1% of deals. This isn't a significant difference from previous years, as Northern Ireland remains at approximately 1% of deals secured since 2021.

UK Equity Investment Market Update, 2023 (CONT.)

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Stages of Evolution

Equity investment decreased slightly for Seed-stage companies in 2023 but the number of deals remains the second-highest recorded, behind only 2022. There were 831 fundraisings for Seed companies in 2023, down from 1027 in 2022, but this remains greater than the 724 fundraisings in 2021. Prior to 2021, the record number of deals was 428, so the numbers look promising for Seed. Venture companies had the most deals, but this number also declined marginally from 2022, from 1,154 fundraisings to 906.

The largest amount invested was in growth companies—totalling £3.9 billion. Despite this, growth firms also had the biggest decrease in the amount invested, declining over 50%. Established companies also saw a decline, dropping from £4.1 billion invested to £2.8 billion.

Overall, the most invested-in “stage of evolution,” by number of fundraisings, was venture at 42%, followed by Seed at 38%, illustrating there’s still faith in start-ups and early-stage companies in the UK market.

Sectors

As an unpredictable macroeconomic state remains, we continue to see a decline across all sectors in 2023, as we did in 2022.

Blockchain had a huge surge in investment in 2021 and 2022, going from £132 million invested in 2020 to £557 million in 2021. However, there’s been a decrease in investment in 2023—with £399 million of capital put into blockchain, and 82 deals secured. Has blockchain seen its moment in the sun? Some would argue no, with the rise of global investment into DeFi (decentralised finance). According to Statista, the global blockchain technology market is expected to grow from $5.9 billion to $1,235 billion by 2030.

Cleantech has seen a slight decline since 2022, from 270 deals and £2 million invested, to 243 deals and £1.9 billion invested in 2023. It remains one of the most funded sectors, and could continue to grow as the UK government works towards net zero. The government also announced in February 2024 that they want to accelerate the rollout of EV charge points in the UK—meaning businesses will receive larger grants for EV charge point installations. Field, who specialises in creating renewable energy, ranked fourth in our biggest deals of the year. This demonstrates the investment into cleantech that’s already taking place. There’s also been significant investment into clean energy generation, which we speak about in The Sustainable Business Movement.

UK Equity Investment Market Update, 2023 (CONT.)

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As more people started working remotely, digital security boomed in 2020 and 2021. Since then, investment into digital security has dropped off—and is now the lowest it's been since 2018, with just 55 fundraisings and £363 million raised.

Fintech had another downtick, decreasing 37% in the number of deals since The Deal 2022, raising £1.8 billion compared to 2021's height of £7 billion. Life Sciences followed suit—with £1.1 billion invested in 2023 compared to £1.8 billion in 2022.

From looking at our selected sectors, it's evident that there's a decline in investment across most industries. However, there are some positives. SaaS remains strong, and took a lion's share of the deals—23% (502 deals). The sector hit a similar percentage in 2022, with 22.3% (650 deals) in the UK, whilst globally the SaaS market also looks strong. According to Statista, the revenue in the SaaS segment will hit $344 billion by 2027, with an annual growth rate of 7.9%.

The year 2022 broke records for AI, with an unprecedented amount invested (£2.9 billion)—a trend that hasn't lasted as investment sinks to its lowest since 2018. This might not be owing to less interest in AI, and is more likely a reflection of the current market conditions. In fact, with the rise of generative AI, we're likely to see more investment in artificial intelligence. Google's SGE update is at the forefront of change—and other companies may follow suit and incorporate generative AI into their product or service.

ESG Data

In 2023, we introduced ESG (Environmental, Social and Governance) data to the Beauhurst platform, making it easier to search for companies that uphold these values.

Investment in ESG companies had been steadily increasing until 2022, and now we're beginning to see a decrease. In 2023, there were 729 fundraisings for companies that hit one or more of our ESG indicators—and £4.3 billion invested. This is a 17% decrease in the number of deals from 2022, which might sound significant but it comes as no surprise in light of the economic downturn.

As we see more companies value ESG, due to the government's "carbon zero by 2050" promise, we could see an uptick in investment here again.

UK Equity Investment Market Update, 2023

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Founder Gender

Similar to last year, the majority of deals went to all-men founded companies (72.6% of companies). In 2023, we saw a marginal increase of 0.3% in funding for all-women founded companies and while only a small increase, it's still record-breaking support for women entrepreneurs. We've seen a 1.8% increase in the last decade, meaning with this continued trajectory, we could be well over 10% by 2033.

Companies with majority women founders saw the lowest investment in both number of deals and amount invested, at just 1%. Companies with majority men founders followed at 6%.

Our numbers here are based on only companies where gender is known (1,670 companies out of 1,898).

Deal Sizes

Unsurprisingly, we've seen a decline in megadeals (rounds worth £50-100 million) and gigadeals (rounds worth £100 million+) in 2023. There were 11 gigadeals and 26 megadeals in 2023, meaning gigadeals accounted for just 0.5% of all deals made in 2023, and megadeals were just 1.1%.

However, we've still seen an increase in mega and gigadeals compared to 2013 (just three megadeals, and no gigadeals)—showing that although there was less investment in the past year, we've still come a long way in the past decade. It raises the question: where will we be in another 10 years? In theory, we could see more and more £50 million+ deals.

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Biggest Deals of the Quarter

These are our biggest deals in 2023, ordered from 10 to 1:

10) Atom
Amount raised: £100 million
Deal date: 02 November 2023
Location: North East
Sector: Business Banking, Finance

Atom has developed a digital-exclusive retail banking solution.

9) Quantexa
Amount raised: £104 million
Deal date: 03 April 2023
Location: London
Sector: Analytics, Insights, Tools

Quantexa has leveraged big data and artificial intelligence to create a decision intelligence platform.

8) Ascend
Amount raised: £105 million
Deal date: 09 May 2023
Location: London
Sector: Pharmaceuticals, Research

Ascend specialises in biotechnology research, with a focus on cell and gene therapy manufacturing.

7) CMR Surgical
Amount raised: £134 million
Deal date: 20 September 2023
Location: East of England
Sector: Analytics, Insights, Tools, Medical

CMR Surgical designs robotic medical devices for surgical procedures and is developing a surgical data platform.

6) Castore
Amount raised: £145 million
Deal date: 29 November 2023
Location: North West
Sector: Retail

Castore creates and markets sportswear for consumers while also providing kits and uniforms to professional athletes and sports teams.

5) Pragmatic
Amount raised: £162 million
Deal date: 06 December 2023
Location: East of England
Sector: Electrical Manufacturing

Pragmatic produces semiconductors intended for use in mass-market consumer goods and smart packaging applications.

4) Field
Amount raised: £200 million
Deal date: 25 July 2023
Location: London
Sector: Clean Energy

Field's primary goal is to construct renewable energy infrastructure, with a particular emphasis on energy storage solutions.

3) SumUp
Amount raised: £244 million
Deal date: 11 December 2023
Location: London
Sector: Mobile Apps, Payment Processing

SumUp specialises in creating payment processing systems, which encompass card reader devices, enabling merchants to handle payments both online and in physical stores.

2) Octopus Group
Amount raised: £632 million
Deal date: 18 December 2023
Location: London
Sector: Energy, Banking

Octopus Group provides a diverse array of services spanning the finance, energy, and real estate sectors.

1) Howden Group Holdings
Amount raised: £1.17 billion
Deal date: 24 April 2023
Location: London
Sector: Insurance

Howden Group Holdings manages several enterprises that offer international insurance brokerage and underwriting services.

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Valuations

High-confidence, pre-money valuations

In our valuations section, we looked at Beauhurst's proprietary data on deal valuations. There were 928 announced deals this year for which we could calculate a high-confidence valuation. The median pre-money, high-confidence valuation for 2023 was £8.5 million—over £2 million higher than in 2022 where the median high-confidence valuation was £6.4 million.

All pre-money valuations

The median pre-money valuation for seed companies rose from £2.8 million to £2.9 million from 2022 to 2023. However, this was the only pre-money valuation that increased—most significantly, growth-stage decreased by 37.3%. The median valuation for venture businesses was £8.7 million down from £9.2 million—and established companies saw an 11% decrease in valuation.

Regionally, things look more positive, with increases in valuations across all regions apart from Scotland, which only had a minor decline of 2.5%. It's promising to see such high growth levels across the UK. But we must bear in mind, this could be an inflation effect, and that some companies may have used convertible bonds which could inflate or obscure the numbers. The median pre-money valuation for Northern Ireland grew by 46%, followed by Wales increasing 17%.

The median pre-money valuation in London remained the strongest, like we've seen in previous years.

Investors

As always, the top investors of the year were private equity and venture capital firms, participating in 871 deals in 2023. This was down from last year but correlated with the number of overall fundraisings and accounted for 40% of all deals.

Crowdfunding accounted for 373 rounds, remaining popular. Crowdfunding has gained popularity over the past 10 years—soaring from just £18.1 million in total fundraising value generated through crowdfunding in 2013 to £432 million raised last year. However, as we've seen throughout this report, 2021 was crowdfunding's best year, with £811 million raised.

Angel networks backed 219 rounds in 2023, raising a total of £458 million, though not all networks announce the deals they back. As we see angel investors putting money into high-growth companies, we're likely to see a continuation of Seed and venture-stage companies taking a higher share of overall deals.

However, things could change as new financial thresholds for sophisticated investors and High Net Worth Individuals (HNWIs) were implemented on 31 January 2024. HNWIs now need to earn £170,000 (up from £100,000) if they want to become an angel investor. This will make it harder for angels to receive deal flow if they don't meet these criteria, and it's a change that will disproportionately affect women investors.

UK Equity Investment Market Update, 2023 (CONT.)

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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 45,000 high-growth private companies in the UK, many of which are solving global problems and pioneering new technology. www.beauhurst.com

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

	2019 All Rounds[2]	2020 All Rounds[2]	2021 All Rounds[2]	2022 All Rounds[2]	2023 All Rounds[2]	2019 Up Rounds[3]	2020 Up Rounds[3]	2021 Up Rounds[3]	2022 Up Rounds[3]	2023 Up Rounds[3]	2019 Down Rounds[3]	2020 Down Rounds[3]	2021 Down Rounds[3]	2022 Down Rounds[3]	2023 Down Rounds[3]
Liquidation Preferences - Series B and Later															
Senior	35%	35%	24%	30%	26%	30%	32%	23%	26%	20%	63%	56%	50%	64%	38%
Pari Passu with Other Preferred	63%	63%	75%	70%	74%	68%	67%	76%	74%	80%	37%	44%	50%	36%	62%
Junior	1%	0%	1%	0%	0%	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%
Complex	2%	1%	0%	0%	0%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Participating vs. Non-Participating															
Participating - Cap	5%	4%	4%	3%	2%	5%	6%	4%	3%	4%	5%	0%	0%	0%	14%
Participating - No Cap	10%	8%	6%	6%	8%	12%	8%	7%	7%	10%	32%	24%	0%	36%	24%
Non-Participating	85%	88%	90%	91%	90%	83%	86%	89%	90%	85%	63%	76%	100%	64%	62%
Dividends															
Yes, Cumulative	5%	10%[4]	5%	6%	3%	6%	10%[4]	6%	8%	6%	11%	25%[4]	0%	8%	0%
Yes, Non-Cumulative	56%	79%[4]	56%	51%	46%	67%	83%[4]	65%	57%	53%	79%	69%[4]	57%	58%	65%
None	39%	10%[4]	39%	43%	51%	28%	7%[4]	29%	35%	40%	11%	6%[4]	43%	33%	35%
Anti-Dilution Provisions															
Weighted Average - Broad	94%	95%	97%	98%	98%	99%	98%	98%	99%	100%	89%	76%	100%	100%	95%
Weighted Average - Narrow	0%	1%	1%	0%	1%	0%	2%	1%	0%	0%	5%	6%	0%	0%	5%
Ratchet	0%	1%	1%	1%	0%	0%	0%	1%	1%	0%	5%	6%	0%	0%	0%
Other (Including Blend)	1%	1%	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%
None	4%	2%	1%	1%	2%	1%	0%	0%	0%	0%	0%	12%	0%	0%	0%
Pay to Play - Series B and Later															
Yes, Pay to Play	3%	7%	3%	7%	8%	2%	3%	3%	4%	4%	16%	12%	17%	43%	10%
None	97%	93%	97%	93%	92%	98%	97%	97%	96%	96%	84%	88%	83%	57%	90%
Redemption															
Yes, Redemption	14%	13%	10%	8%	5%	17%	10%	15%	12%	4%	26%	25%	17%	7%	15%
None	86%	88%	90%	92%	95%	82%	90%	86%	89%	96%	74%	75%	83%	93%	86%

[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, Seed and 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	2020 Pre-Seed	2021 Pre-Seed	2022 Pre-Seed	2023 Pre-Seed	2019 Post-Seed	2020 Post-Seed	2021 Post-Seed	2022 Post-Seed	2023 Post-Seed
Interest rate less than 8%	87%	85%	90%	44%	52%	70%	54%	69%	68%	32%
Interest rate at 8%	4%	11%	5%	44%	26%	22%	30%	24%	12%	35%
Interest rate greater than 8%	9%	4%	5%	11%	22%	8%	16%	7%	20%	34%
Maturity less than 12 months	13%	11%	14%	30%	38%	26%	27%	25%	29%	28%
Maturity 12 months	9%	11%	5%	0%	13%	14%	13%	18%	16%	21%
Maturity more than 12 months	78%	79%	81%	70%	50%	60%	60%	58%	55%	52%
Debt is subordinated to other debt	27%	13%	14%	40%	17%	49%	46%	48%	41%	39%
Loan includes warrants[2]	2%	4%	0%	0%	100%	8%	12%	6%	20%	22%
Warrant coverage less than 25%	100%	100%	N/A	N/A	N/A	80%	67%	0%	11%	45%
Warrant coverage at 25%	0%	0%	N/A	N/A	N/A	0%	0%	0%	0%	0%
Warrant coverage greater than 25%	0%	0%	N/A	N/A	N/A	20%	33%	100%	89%	55%
Automatic conversion into equity on qualified financing[3]	100%	100%	100%	100%	92%	96%	92%	96%	93%	88%
Voluntary conversion into equity on qualified financing[3]	0%	0%	0%	0%	8%	4%	8%	4%	7%	12%
Conversion rate subject to price cap[4]	69%	68%	71%	56%	54%	51%	36%	52%	32%	47%
Conversion to equity at discounted price[5]	68%	78%	75%	50%	88%	81%	79%	70%	78%	80%
Conversion to equity at same price as other investors	12%	13%	15%	30%	8%	11%	17%	25%	20%	10%
Discount on conversion less than 20%	18%	11%	20%	40%	14%	27%	25%	21%	29%	18%
Discount on conversion at 20%	63%	69%	60%	20%	48%	57%	46%	63%	39%	55%
Discount on conversion greater than 20%	18%	20%	20%	40%	38%	16%	29%	16%	32%	27%

[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 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 2023 post-Seed convertible notes with warrants, 55% also had a discount on conversion into equity.

[3] 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 2023 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $5M and $10M, respectively.

[4] 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 in 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 2023 median price cap in pre- and post-Seed convertible notes was $20M and $45M, respectively.

[5] 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 2023 post-Seed convertible notes that had a discount on conversion into equity, 16% 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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For more information on the current venture capital climate, please contact any member of Wilson Sonsini Goodrich & Rosati's emerging companies practice.
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