

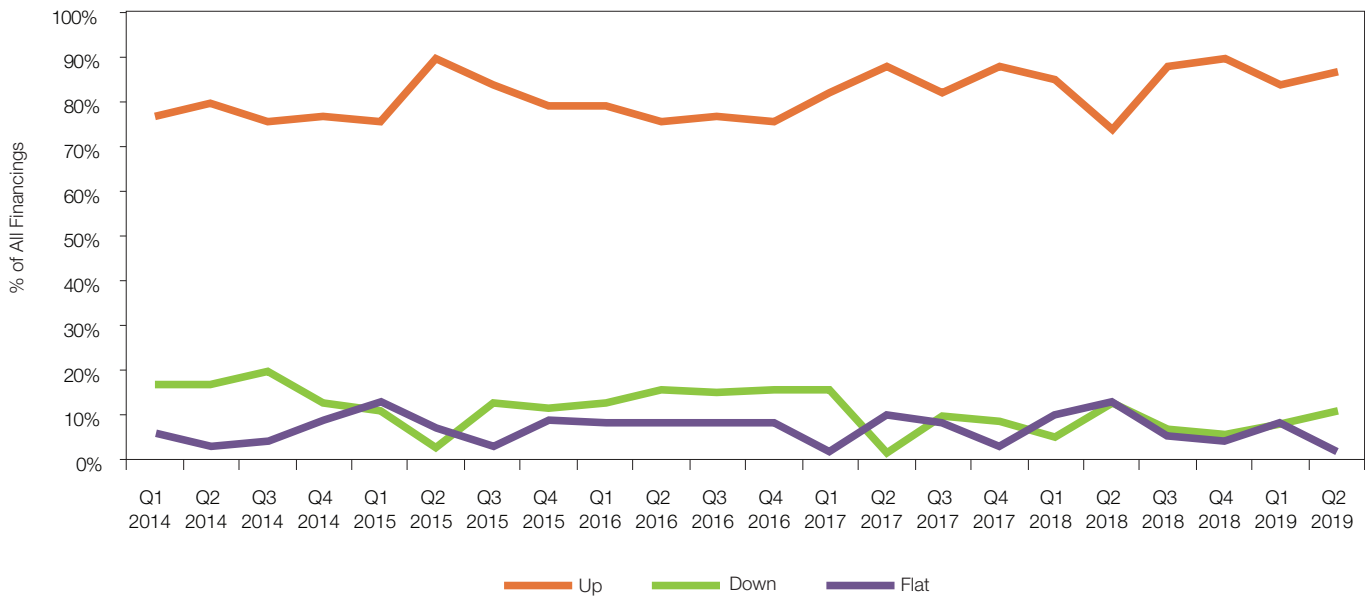
# THE ENTREPRENEURS REPORT

## Private Company Financing Trends

1H 2019

### From the WSGR Database: Financing Trends for 1H 2019

Up and Down Rounds by Quarter



#### IN THIS ISSUE

- Financing Trends for Q1 2019**..... Pages 1-6
- Private Company Financing Deal Terms**..... Page 4
- Bridge Loans**..... Page 5
- Bridge Loans - Deal Terms**..... Page 6

Larger deal sizes returned in the second quarter of 2019 following a modest cooldown in Q1 2019, with Q2 2019 median valuations and amounts raised in many cases exceeding those of full-year 2018. Valuations were up across the board, with Series A, Series B, and Series C and later financings each reaching five-year highs. Median amounts raised also showed impressive growth; in particular, the median amount raised for Q2 2019 Series C and later financings was more than twice the full-year 2018 figure. The proportion of up rounds saw a healthy

increase from the previous quarter, while down rounds became slightly more prevalent and flat rounds markedly less common.

Bridge loans did not reflect the same trend. Q2 median amounts raised declined from the prior quarter for each of pre- and post-Seed bridge loans. Notably, the pre-Seed median amount raised declined to \$0.35 million, a low not seen since Q3 2017. More pre-Seed loans had lower interest rates than in prior years.

**Up and Down Rounds**

Up round financings were more prevalent in Q2 2019, increasing to 87% of all Series B and later financings in the quarter from 84% in Q1. The share of down round financings in the quarter went up slightly, to 11% in Q2 2019 from 8% in Q1 2019. Flat rounds were rare in Q2 2019, constituting just 2% of financings, down from 8% in Q1.

**Valuations**

The median pre-money valuation for Series Seed financings was \$9.0 million in Q2

2019, an increase from \$7.1 million in Q1 2019. Series A valuations climbed from \$16.0 million in Q1 2019 to \$26.0 million in Q2 2019, the highest figure in the last five years. The median pre-money valuation for Series B rounds increased to \$85.0 million, surpassing the previous five-year quarterly high of \$76.5 million in Q4 2018.

The Q2 2019 median pre-money valuation for Series C and later financings saw the largest increase, growing from \$144.0 million in Q1 2019 to \$255.0 million in Q2, far exceeding the 2018 full-year median

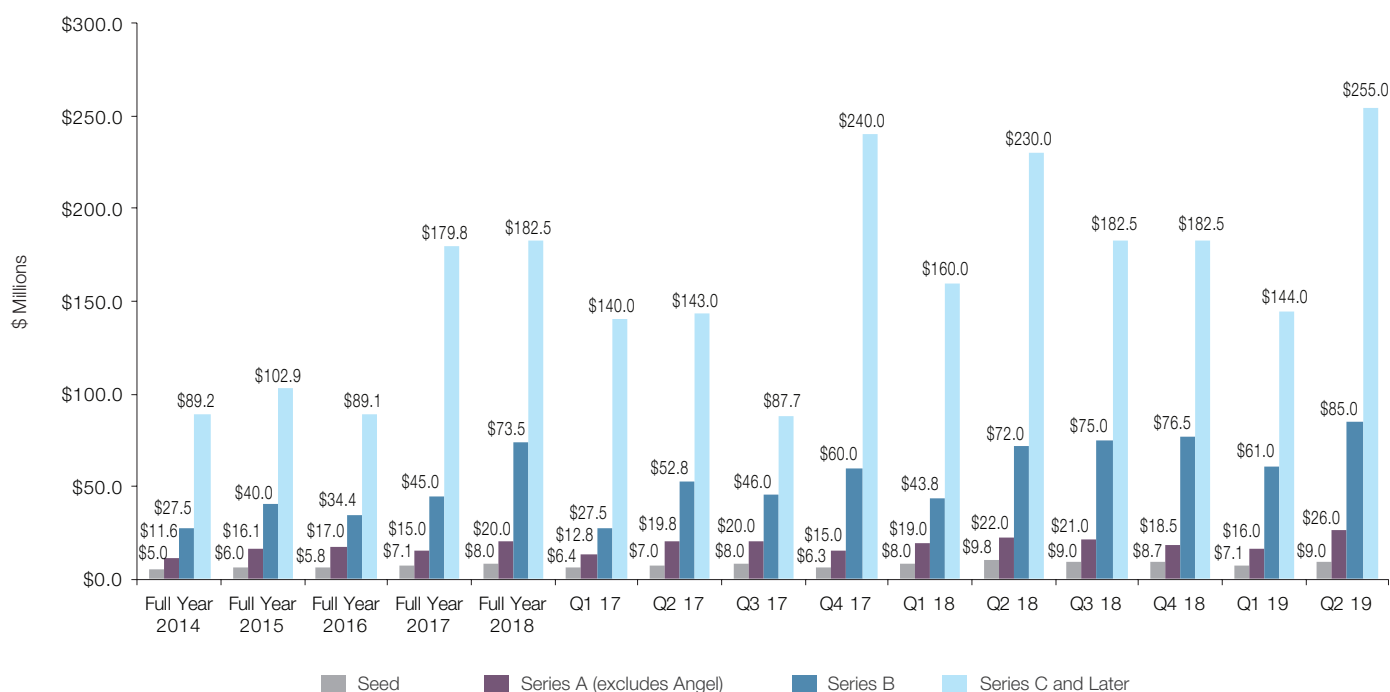
of \$182.5 million and marking the highest quarterly median of the last five years.

**Amounts Raised**

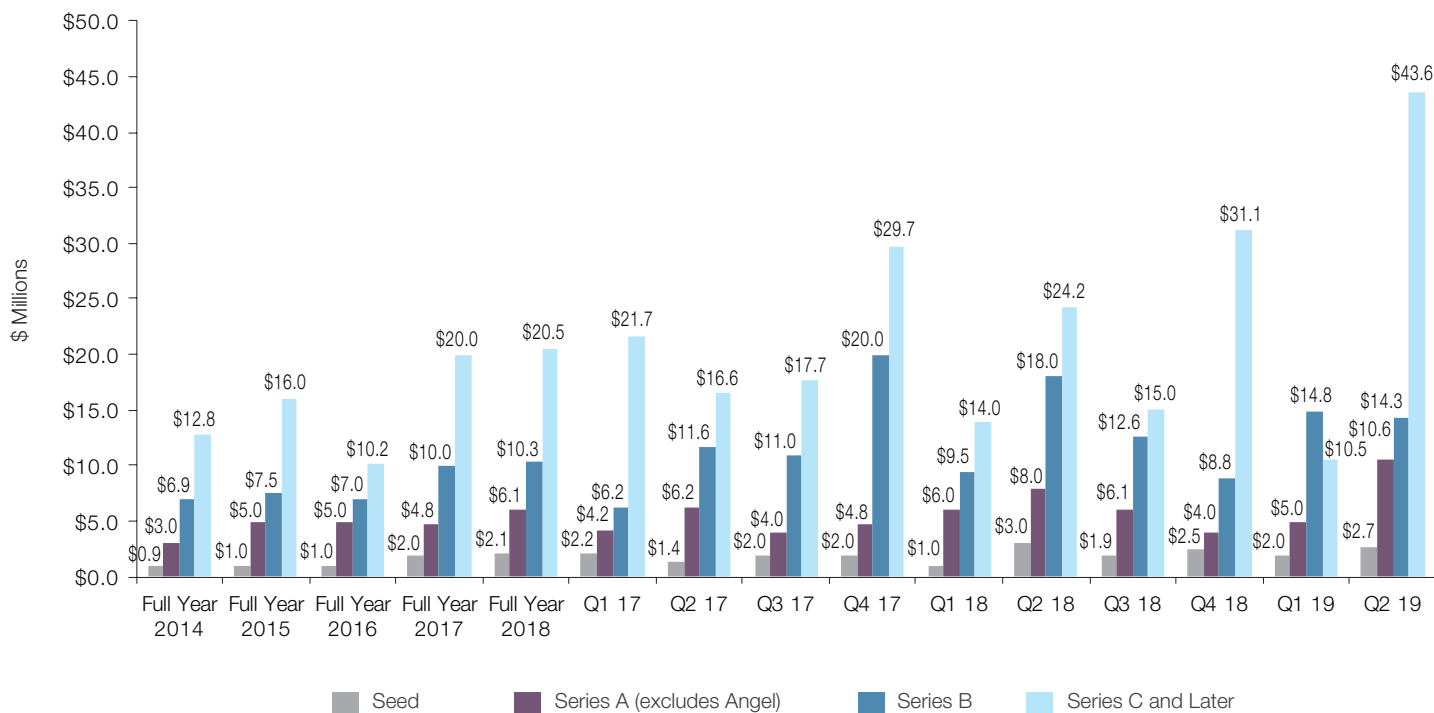
The median amount raised for Series Seed financings in Q2 2019 was \$2.7 million, slightly higher than Q1's \$2.0 million.

The median amount raised for Series A financings doubled from \$5.0 million in Q1 2019 to \$10.6 million in Q2 2019. The Series B median amount raised remained stable in Q2 2019, coming in at \$14.3 million, comparable to \$14.8 million in Q1.

**Median Pre-Money Valuation**



### Median Amount Raised – Equity Financings



The Q2 2019 median amount raised in Series C and later financings hit a five-year high at \$43.6 million, an impressive recovery from the prior quarter, which had a median of \$10.5 million.

#### Deal Terms—Preferred

Similar to full-year 2018, 71% of post-Series A rounds used *pari passu* liquidation preferences in 1H 2019, with senior liquidation preferences decreasing from 31% of all such rounds in 2018 to 26% in 1H 2019, the lowest share of the past five

years. The percentage of down rounds with senior liquidation preferences increased dramatically, from 36% in 2018 to 56% in 1H 2019. The percentage of down rounds with *pari passu* preferences fell from 64% in 2018 to 44% in 1H 2019.

The percentage of financings with no participation decreased slightly from 88% in 2018 to 86% in 1H 2019. The use of redemption rights increased, with 15% of 1H 2019 financings including redemption rights, up from 9% in 2018.

Data on deal terms such as liquidation preferences, dividends, and others are set forth in the table on the following page. 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](http://www.wsgr.com).

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

	2014 All Rounds <sup>2</sup>	2015 All Rounds <sup>2</sup>	2016 All Rounds <sup>2</sup>	2017 All Rounds <sup>2</sup>	2018 All Rounds <sup>2</sup>	1H 2019 All Rounds <sup>2</sup>	2014 Up Rounds <sup>3</sup>	2015 Up Rounds <sup>3</sup>	2016 Up Rounds <sup>3</sup>	2017 Up Rounds <sup>3</sup>	2018 Up Rounds <sup>3</sup>	1H 2019 Up Rounds <sup>3</sup>	2014 Down Rounds <sup>3</sup>	2015 Down Rounds <sup>3</sup>	2016 Down Rounds <sup>3</sup>	2017 Down Rounds <sup>3</sup>	2018 Down Rounds <sup>3</sup>	1H 2019 <sup>4</sup> Down Rounds <sup>3</sup>
<b>Liquidation Preferences - Series B and Later</b>																		
Senior	40%	33%	38%	35%	31%	26%	32%	31%	36%	31%	28%	22%	68%	35%	41%	63%	36%	56%
<i>Pari Passu</i> with Other Preferred	56%	62%	57%	62%	69%	71%	64%	66%	62%	66%	72%	74%	21%	53%	45%	38%	64%	44%
Junior	0%	1%	1%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	5%	0%	0%	0%
Complex	2%	3%	4%	3%	0%	3%	2%	1%	2%	4%	0%	4%	5%	12%	9%	0%	0%	0%
Not Applicable	3%	1%	0%	0%	0%	0%	2%	1%	0%	0%	0%	0%	5%	0%	0%	0%	0%	0%
<b>Participating vs. Non-participating</b>																		
Participating - Cap	12%	8%	9%	6%	5%	6%	14%	11%	10%	7%	5%	4%	13%	12%	22%	31%	7%	11%
Participating - No Cap	14%	11%	11%	10%	7%	8%	11%	12%	13%	11%	7%	8%	32%	35%	4%	19%	14%	33%
Non-participating	74%	81%	81%	84%	88%	86%	76%	77%	77%	82%	88%	88%	55%	53%	74%	50%	79%	56%
<b>Dividends</b>																		
Yes, Cumulative	13%	3%	6%	7%	7%	5%	11%	3%	7%	9%	9%	7%	24%	24%	22%	13%	23%	11%
Yes, Non-cumulative	72%	82%	73%	78%	61%	62%	74%	86%	78%	78%	62%	69%	71%	76%	70%	81%	69%	89%
None	15%	15%	21%	16%	32%	33%	15%	11%	15%	13%	29%	24%	5%	0%	9%	6%	8%	0%
<b>Anti-dilution Provisions</b>																		
Weighted Average - Broad	85%	80%	92%	94%	94%	93%	90%	86%	92%	96%	94%	100%	92%	75%	91%	100%	100%	78%
Weighted Average - Narrow	9%	13%	1%	2%	2%	0%	6%	12%	1%	1%	3%	0%	5%	19%	0%	0%	0%	11%
Ratchet	1%	1%	1%	0%	0%	1%	1%	1%	2%	0%	0%	0%	0%	0%	0%	0%	0%	11%
Other (Including Blend)	1%	1%	3%	1%	1%	1%	1%	1%	3%	1%	1%	0%	0%	0%	9%	0%	0%	0%
None	4%	5%	3%	3%	3%	4%	2%	1%	2%	1%	2%	0%	3%	6%	0%	0%	0%	0%
<b>Pay to Play - Series B and Later</b>																		
Applicable to This Financing	4%	5%	5%	2%	4%	1%	1%	3%	3%	2%	1%	0%	16%	18%	9%	6%	0%	11%
Applicable to Future Financings	0%	1%	1%	0%	1%	0%	0%	0%	1%	0%	1%	0%	0%	12%	0%	0%	0%	0%
None	96%	94%	94%	98%	95%	99%	99%	97%	96%	98%	97%	100%	84%	71%	91%	94%	100%	89%
<b>Redemption</b>																		
Investor Option	17%	13%	11%	12%	8%	12%	22%	19%	20%	19%	10%	15%	24%	12%	9%	20%	14%	44%
Mandatory	3%	2%	2%	7%	1%	3%	3%	3%	3%	9%	3%	4%	3%	0%	0%	0%	0%	0%
None	80%	85%	87%	81%	91%	85%	75%	78%	77%	72%	87%	80%	74%	88%	91%	80%	86%	56%

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

<sup>2</sup>Includes flat rounds and, unless otherwise indicated, Series A rounds.

<sup>3</sup>Note that the All Rounds metrics include flat rounds and, in certain cases, Series A financings as well. Consequently, metrics in the All Rounds column may be outside the ranges bounded by the Up Rounds and Down Rounds columns, which will not include such transactions.

**Bridge Loans**

The median amount raised in pre-Seed bridges declined from \$0.71 million in Q1 2019 to \$0.35 million in Q2. The median amount raised in post-Seed bridges also decreased, from \$2.00 million in Q1 2019 to \$1.50 million in Q2, matching the median of full-year 2018.

**Deal Terms—Bridge Loans**

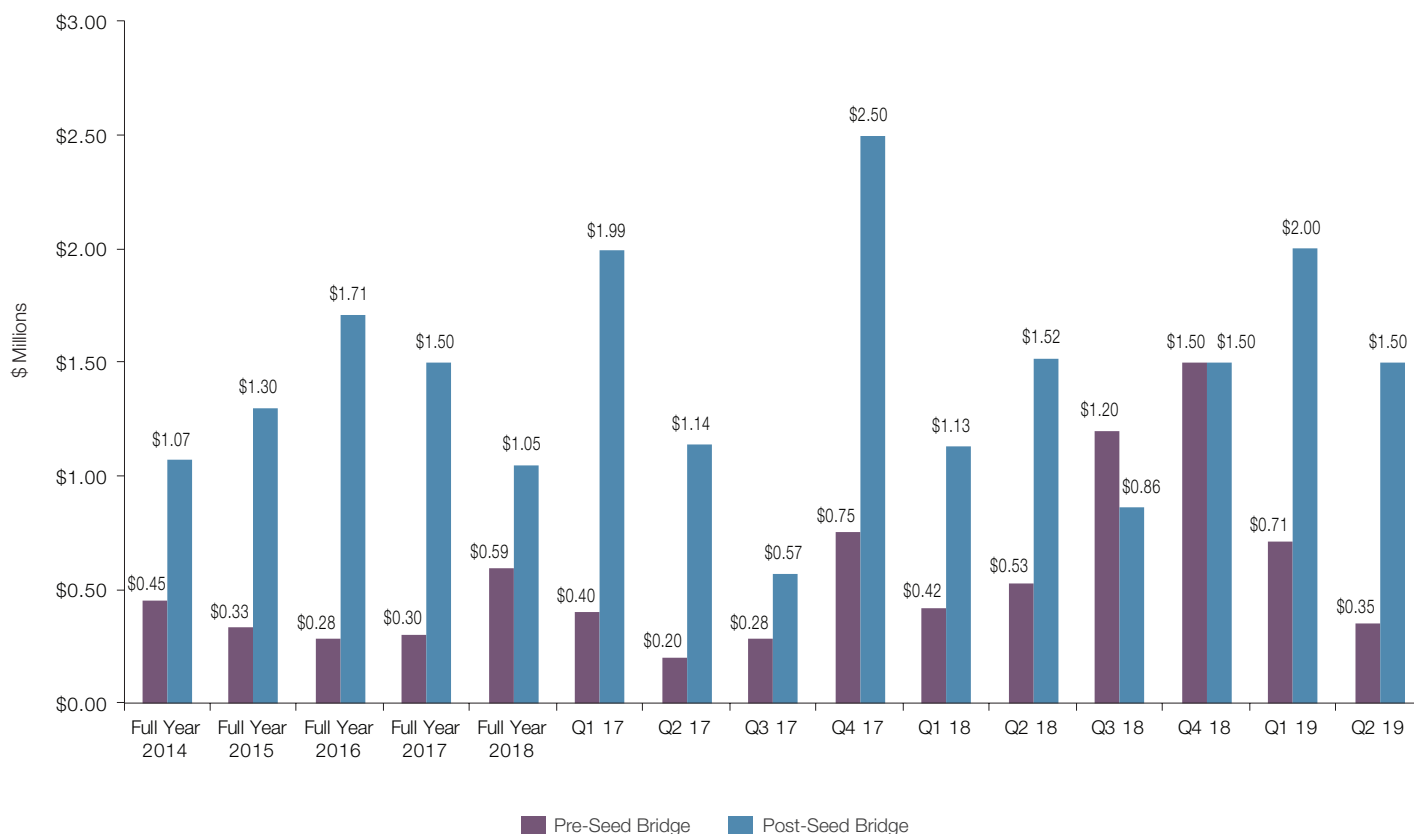
The percentage of pre-Seed loans with maturity periods of 12 or more months increased to 95% in 1H 2019 from 80% in 2018, while the proportion of higher-interest rate loans (at least 8%) fell sharply to 15% in 1H 2019 from 33% in 2018.

The percentage of pre-Seed bridge loans subordinated to other debt dipped from 23% in 2018 to 20% in 1H 2019. The number of pre-Seed bridge loans that are convertible to equity at discounted prices increased modestly from 83% in 2018 to 89% in 1H 2019, and the number of such convertible loans receiving a discount rate of 20% or more on conversion also increased, from 77% in 2018 to 87% in 1H 2019.

The percentage of post-Seed loans with maturity periods of 12 or more months decreased from 79% in 2018 to 70% in 1H 2019, with 38% of loans having interest rates of at least 8%, as compared

to 35% in 2018. The percentage of post-Seed bridge loans subordinated to other debt increased from 47% in 2018 to 59% in 1H 2019. Fewer post-Seed bridge financings had warrants in 1H 2019 than in 2018, decreasing slightly from 18% in 2018 to 15% in 1H 2019, most of which (80%) had warrant coverage of less than 25%. The percentage of post-Seed bridge loans that are convertible to equity ticked up from 87% in 2018 to 94% in 1H 2019 and 44% of those loans were subject to a price cap in 1H 2019, compared to 25% in 2018.

**Median Amount Raised – Bridge Loans**



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

Bridge Loans	2014 Pre-Seed	2015 Pre-Seed	2016 Pre-Seed	2017 Pre-Seed	2018 Pre-Seed	1H 2019 Pre-Seed	2014 Post-Seed	2015 Post-Seed	2016 Post-Seed	2017 Post-Seed	2018 Post-Seed	1H 2019 Post-Seed
Interest rate less than 8%	72%	74%	76%	75%	67%	85%	43%	54%	52%	56%	65%	62%
Interest rate at 8%	22%	19%	19%	17%	22%	5%	42%	33%	30%	27%	25%	26%
Interest rate greater than 8%	6%	7%	5%	8%	11%	10%	15%	13%	17%	17%	10%	12%
Maturity less than 12 months	12%	17%	17%	22%	21%	5%	24%	34%	29%	41%	21%	30%
Maturity at 12 months	16%	9%	5%	8%	13%	10%	39%	8%	23%	19%	26%	15%
Maturity more than 12 months	71%	74%	78%	69%	67%	85%	37%	58%	49%	41%	53%	55%
Debt is subordinated to other debt	22%	15%	20%	28%	23%	20%	48%	38%	45%	33%	47%	59%
Loan includes warrants <sup>2</sup>	5%	3%	8%	0%	4%	0%	19%	25%	17%	16%	18%	15%
Warrant coverage less than 25%	20%	100%	80%	N/A	0%	N/A	69%	47%	23%	43%	33%	80%
Warrant coverage at 25%	0%	0%	0%	N/A	0%	N/A	0%	7%	15%	14%	11%	0%
Warrant coverage greater than 25%	80%	0%	20%	N/A	100%	N/A	31%	47%	62%	43%	56%	20%
Principal is convertible into equity <sup>3</sup>	98%	93%	97%	97%	90%	95%	94%	86%	92%	92%	87%	94%
Conversion rate subject to price cap <sup>4</sup>	67%	64%	79%	74%	69%	74%	23%	26%	29%	34%	25%	44%
Conversion to equity at discounted price <sup>5</sup>	81%	78%	82%	89%	83%	89%	73%	71%	74%	76%	85%	74%
Discount on conversion less than 20%	10%	11%	12%	16%	23%	13%	25%	25%	25%	20%	20%	23%
Discount on conversion at 20%	72%	73%	76%	74%	60%	67%	44%	47%	49%	50%	48%	64%
Discount on conversion greater than 20%	17%	16%	12%	10%	17%	20%	32%	27%	26%	30%	33%	14%
Conversion to equity at same price as other investors	16%	18%	13%	3%	14%	6%	24%	25%	19%	24%	6%	16%

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

<sup>2</sup> Of the 2014 post-Seed bridges with warrants, 38% also had a discount on conversion into equity. 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. There were no 1H 2019 post-Seed bridges with warrants.

<sup>3</sup> 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 1H 2019 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 1H 2019 post-Seed convertible bridges, 94% had automatic conversion and 6% had voluntary 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 1H 2019 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$3M and \$5M, respectively.

<sup>4</sup> 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 1H 2019 median price cap in pre- and post-Seed bridges was \$9M and \$35M, respectively.

<sup>5</sup> Of the 2014 post-Seed bridges that had a discount on conversion into equity, 10% also had warrants. 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 1H 2019 post-Seed bridges that had a discount on conversion into equity, 17% had warrants.

**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.

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.



Wilson Sonsini Goodrich & Rosati  
PROFESSIONAL CORPORATION

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

Austin Beijing Boston Brussels Hong Kong London 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 emerging companies practice. To learn more about WSGR's full suite of services for entrepreneurs and early-stage companies, please visit the emerging companies section of [wsgr.com](http://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](mailto:EntrepreneursReport@wsgr.com). There is no subscription fee.**

This communication is provided as a service to our clients and friends and is for informational purposes only. It is not intended to create an attorney-client relationship or constitute an advertisement, a solicitation, or professional advice as to any particular situation.

© 2019 Wilson Sonsini Goodrich & Rosati, Professional Corporation. All rights reserved.