

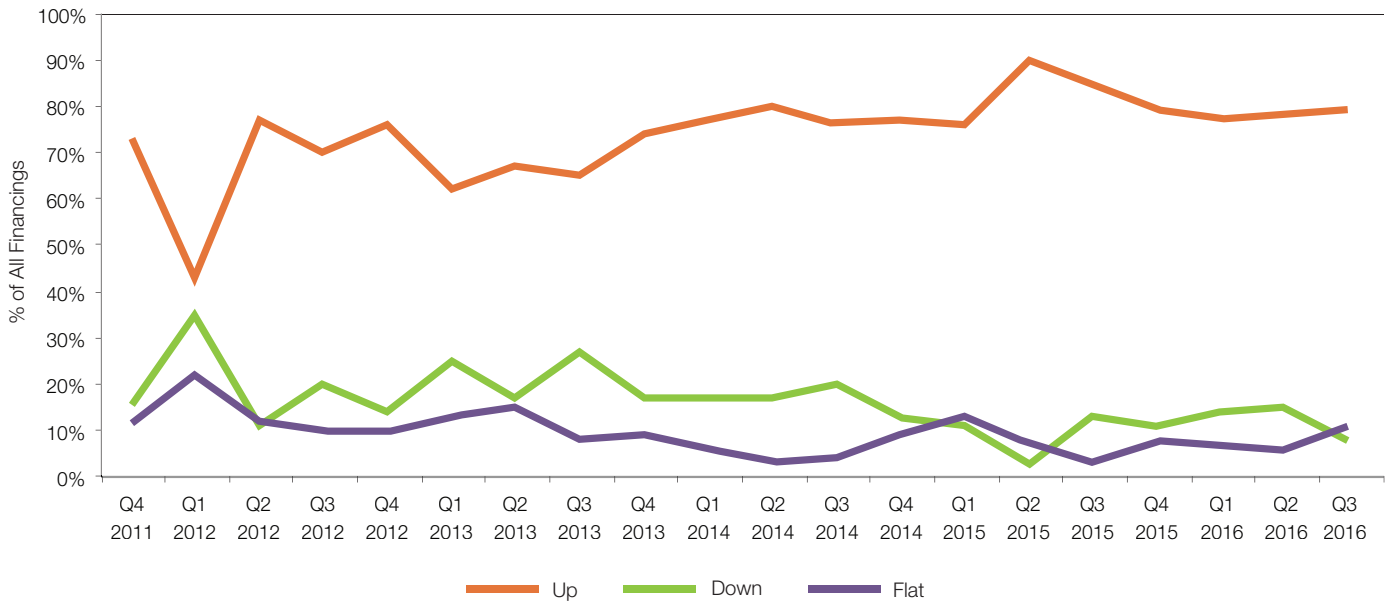
# THE ENTREPRENEURS REPORT

## Private Company Financing Trends

Q3 2016

### From the WSGR Database: Financing Trends for Q3 2016

Up and Down Rounds by Quarter



#### IN THIS ISSUE

**Financing Trends for Q3 2016**..... Pages 1-6

**Private Company Financing Deal Terms**..... Page 4

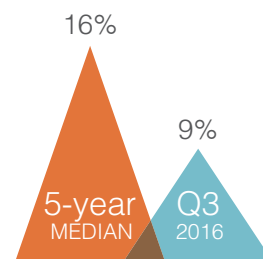
**Bridge Loans**..... Page 5

**Bridge Loans - Deal Terms**..... Page 6

The third quarter of 2016 featured the reversal of several trends seen earlier in the year, most notably in pre-money valuations, which increased substantially for all rounds. The gain in pre-money valuations also drove a decline in the percentage of down rounds for the quarter, which fell to 9%, the lowest share in more than a year and far below the five-year median (from Q4 2011 through Q3 2016) of 16%. If these strong valuations continue through the fourth quarter, 2016 cumulative pre-money valuations may catch up to those of 2015. In addition, median dollar amounts raised are on track to exceed those of 2015 for all but Series C and later rounds.

#### Up and Down Rounds

Down rounds fell to their lowest percentage of overall deals in several quarters, representing 9% of post-Series A financings in Q3 2016, as compared to 16% in Q2, while flat rounds increased



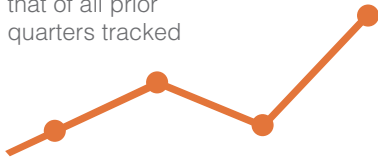
**Down Rounds**  
The percentage of down rounds in Q3 2016 was the lowest share in over a year and far below the five-year median

(Continued on page 2)

**Median Valuation for Series A and Seed financings**

The median valuation for Series A and Seed financings exceeded that of all prior quarters tracked

**\$15M**

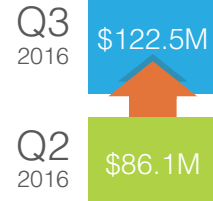


from 7% in Q2 to 12% in Q3. Seventy-nine percent of all financings were up rounds in Q3 2016, only slightly more than in Q2, and four percentage points above their five-year median of 75%.

**Valuations**

Pre-money valuations rose to nearly match the five-year highs of Q2 2015, with the median valuation for Series A and Seed financings exceeding that of all prior quarters tracked, at \$15.0 million—well above the five-year median of \$8.0 million. The median pre-money valuation for Series B rounds remained strong at \$40.0 million—less than the historic high median of \$53.5 million seen in Q2 2015, but more than the five-year median of \$30.0 million. The median pre-money valuation for Series C and later deals spiked to \$122.5 million

from \$86.1 million in Q2 2016, a number exceeded only twice in the last five years (\$178.0 million in Q2 2015 and \$160.0 million in Q3 2015).



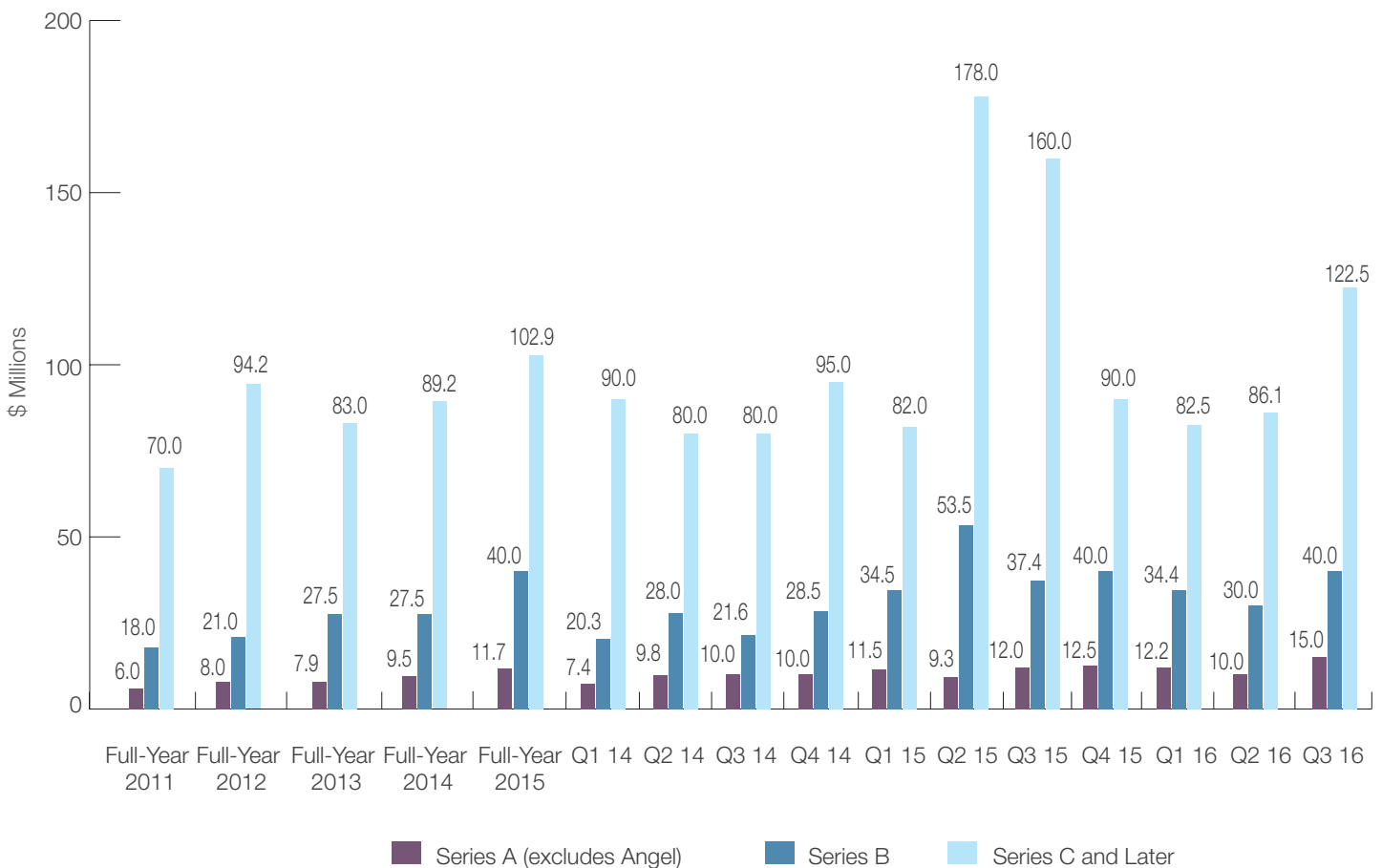
**Median pre-money valuation**

for Series C and later deals increased dramatically from Q2 to Q3 2016

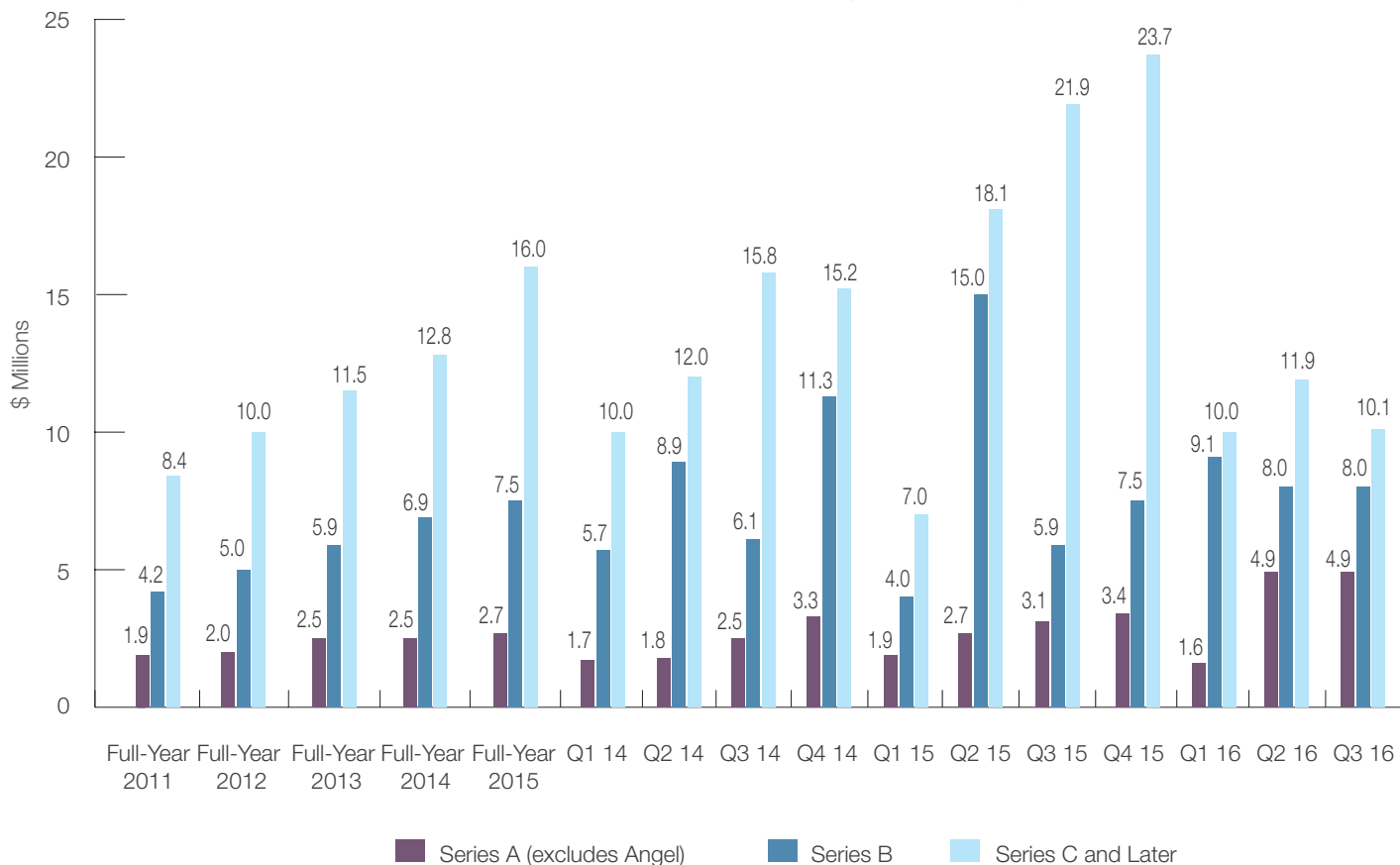
**Amounts Raised**

The \$4.9 million median amount raised in Series A and Seed transactions in Q3 2016

**Median Pre-Money Valuation**



### Median Amount Raised – Equity Financings



duplicated the median amount in Q2, with the two quarters representing the highest medians of the past five years. The median amount raised in Series B financings in Q3 2016 also duplicated the median amount in Q2, at \$8.0 million. In contrast, the median amount raised in Series C and later transactions fell from \$11.9 million in Q2 2016 to \$10.1 million in Q3, nearly matching the Q1 median and well below the 2015 median of \$15.0 million. The somewhat lower median amounts raised for Series C and later transactions so far this year may reflect strategic decisions by private companies to avoid raising relatively large amounts of money at late-stage valuations that are meaningfully below the peaks reached in late 2015.

#### Deal Terms – Preferred

The use of senior liquidation preferences rose in Series B and later rounds, increasing modestly from 33% of all such rounds in 2015 to 41% in Q1-Q3 2016. Down rounds show the most dramatic increase, with senior liquidation preferences jumping from 35% of such rounds in 2015 to 53% of such rounds in Q1-Q3 2016. Meanwhile, *pari passu* liquidation preferences in down rounds dropped from 53% in 2015 to 33% in Q1-Q3 2016.

The percentage of financings having a liquidation preference with participation remained constant for all financings at 18%. The proportion of down rounds with participating liquidation preferences, however, remained at a low of 20% for

Q1-Q3 2016. This may be a statistical anomaly resulting from the small number of down rounds so far this year, or it may reflect decisions to forgo such rights in transactions where prior rounds also lacked such rights.

Investors received broad-based, anti-dilution protection in 93% of all deals so far in 2016.

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 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>

	2013 All Rounds <sup>2</sup>	2014 All Rounds <sup>2</sup>	2015 All Rounds <sup>2</sup>	Q1-Q3 2016 All Rounds <sup>2</sup>	2013 Up Rounds <sup>3</sup>	2014 Up Rounds <sup>3</sup>	2015 Up Rounds <sup>3</sup>	Q1-Q3 2016 Up Rounds <sup>3</sup>	2013 Down Rounds <sup>3</sup>	2014 Down Rounds <sup>3</sup>	2015 Down Rounds <sup>3</sup>	Q1-Q3 2016 Down Rounds <sup>3</sup>
<b>Liquidation Preferences - Series B and Later</b>												
Senior	41%	40%	33%	41%	38%	32%	31%	35%	47%	68%	35%	53%
<i>Pari Passu</i> with Other Preferred	55%	56%	62%	54%	60%	64%	66%	62%	37%	21%	53%	33%
Junior	0%	0%	1%	1%	0%	0%	1%	0%	0%	0%	0%	0%
Complex	3%	2%	3%	4%	2%	2%	1%	2%	11%	5%	12%	13%
Not Applicable	1%	3%	1%	0%	0%	2%	1%	0%	5%	5%	0%	0%
<b>Participating vs. Non-participating</b>												
Participating - Cap	18%	12%	8%	8%	20%	14%	11%	13%	23%	13%	12%	13%
Participating - No Cap	12%	14%	11%	10%	10%	11%	12%	11%	30%	32%	35%	7%
Non-participating	70%	74%	81%	81%	69%	76%	77%	77%	48%	55%	53%	80%
<b>Dividends</b>												
Yes, Cumulative	12%	13%	3%	6%	12%	11%	3%	9%	13%	24%	24%	20%
Yes, Non-cumulative	74%	72%	82%	72%	79%	74%	86%	76%	79%	71%	76%	73%
None	14%	15%	15%	22%	9%	15%	11%	15%	8%	5%	0%	7%
<b>Anti-dilution Provisions</b>												
Weighted Average - Broad	90%	85%	80%	93%	94%	90%	86%	92%	95%	92%	75%	93%
Weighted Average - Narrow	3%	9%	13%	1%	3%	6%	12%	1%	0%	5%	19%	0%
Ratchet	1%	1%	1%	1%	0%	1%	1%	2%	3%	0%	0%	0%
Other (Including Blend)	1%	1%	1%	2%	1%	1%	1%	2%	0%	0%	0%	7%
None	5%	4%	5%	3%	2%	2%	1%	2%	3%	3%	6%	0%
<b>Pay to Play - Series B and Later</b>												
Applicable to This Financing	5%	4%	5%	8%	1%	1%	3%	4%	15%	16%	18%	13%
Applicable to Future Financings	1%	0%	1%	2%	1%	0%	0%	1%	0%	0%	12%	0%
None	95%	96%	94%	91%	98%	99%	97%	95%	85%	84%	71%	87%
<b>Redemption</b>												
Investor Option	19%	17%	13%	11%	20%	22%	19%	21%	33%	24%	12%	14%
Mandatory	1%	3%	2%	3%	2%	3%	3%	4%	0%	3%	0%	0%
None	80%	80%	85%	87%	78%	75%	78%	75%	67%	74%	88%	86%

<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 that 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 for pre-Series A loans was \$0.32 million in Q3 2016, the same as in Q2, while the median amount raised for post-Series A loans dropped from \$2.0 million in Q1 2016 and \$1.8 million in Q2 to \$1.1 million in Q3.

**Deal Terms – Bridge Loans**

Only 4% of pre-Series A loans have had interest rates greater than 8% so far in 2016. For post-Series A loans, rates above 8% climbed from 13% of deals in 2015 to 18% of deals in Q1-Q3 2016,

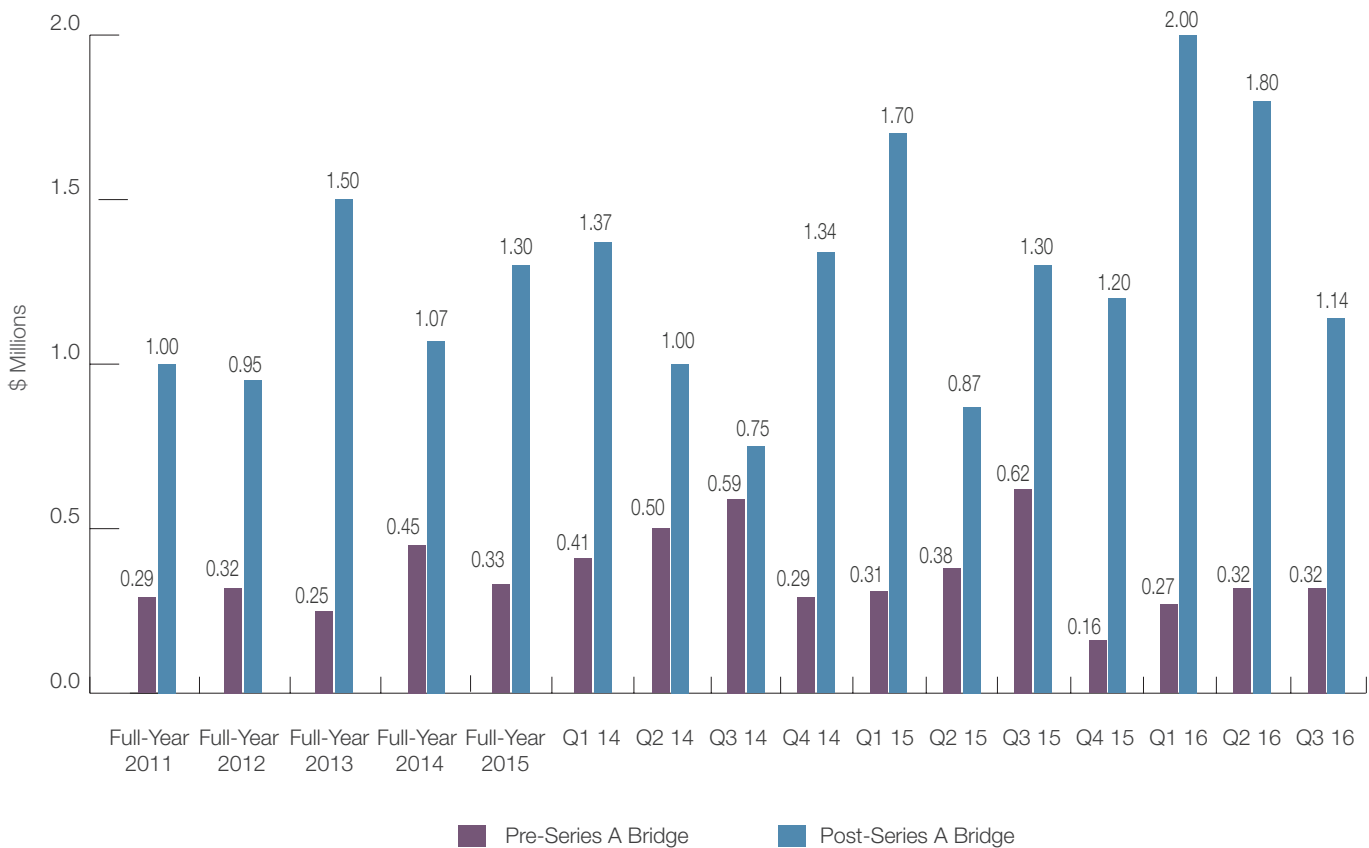
while 54% of such loans bore rates of less than 8%, consistent with what was seen in 2015.

Price caps and discounts upon conversion became more popular for pre-Series A bridge loans. Price caps increased from 64% of deals in 2015 to 83% of deals in Q1-Q3 2016, and discounts on conversion of pre-Series A loans also rose slightly, from 78% of deals in 2015 to 83% of deals in Q1-Q3 2016. On the other hand, the size of discounts dropped, with the percentage featuring a discount of over 20% declining from 16% of such loans in

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.

2015 to 11% so far in 2016. Post-Series A bridge loans show little change for these terms compared to 2015.

**Median Amount Raised – Bridge Loans**



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

Bridge Loans	2013 Pre-Series A	2014 Pre-Series A	2015 Pre-Series A	Q1-Q3 2016 Pre-Series A	2013 Post-Series A	2014 Post-Series A	2015 Post-Series A	Q1-Q3 2016 Post-Series A
Interest rate less than 8%	70%	72%	74%	74%	46%	43%	54%	54%
Interest rate at 8%	29%	22%	19%	21%	34%	42%	33%	28%
Interest rate greater than 8%	1%	6%	7%	4%	20%	15%	13%	18%
Maturity less than 12 months	3%	12%	17%	13%	29%	24%	34%	24%
Maturity at 12 months	19%	16%	9%	7%	38%	39%	8%	26%
Maturity more than 12 months	78%	71%	74%	80%	33%	37%	58%	50%
Debt is subordinated to other debt	25%	22%	15%	20%	56%	48%	38%	45%
Loan includes warrants <sup>2</sup>	4%	5%	3%	4%	34%	19%	25%	22%
Warrant coverage less than 25%	0%	20%	100%	100%	50%	69%	47%	33%
Warrant coverage at 25%	0%	0%	0%	0%	12%	0%	7%	8%
Warrant coverage greater than 25%	100%	80%	0%	0%	38%	31%	47%	58%
Principal is convertible into equity <sup>3</sup>	100%	98%	93%	98%	94%	94%	86%	91%
Conversion rate subject to price cap	68%	67%	64%	83%	14%	23%	26%	27%
Conversion to equity at discounted price <sup>4</sup>	91%	81%	78%	83%	59%	73%	71%	72%
Discount on conversion less than 20%	17%	10%	11%	16%	16%	25%	25%	28%
Discount on conversion at 20%	60%	72%	73%	74%	46%	44%	47%	50%
Discount on conversion greater than 20%	22%	17%	16%	11%	38%	32%	27%	22%
Conversion to equity at same price as other investors	9%	16%	18%	15%	35%	24%	25%	19%

<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 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 Q1-Q3 2016 post-Series A bridges with warrants, 38% also had a discount on conversion into equity.

<sup>3</sup> This includes notes that provide for voluntary as well as automatic conversion.

<sup>4</sup> 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 Q1-Q3 2016 post-Series A bridges that had a discount on conversion into equity, 12% also 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.

## WSGR Ranked No. 1 for Q1-Q3 2016 Venture Financings

Dow Jones VentureSource and PitchBook recently ranked Wilson Sonsini Goodrich & Rosati as the leading law firm for U.S. venture financings in the first three quarters of 2016.

Dow Jones VentureSource's legal rankings for Q1-Q3 2016 issuer-side venture financing deals placed Wilson Sonsini Goodrich & Rosati ahead of all other firms by the total number of rounds of equity financing raised on behalf of clients. WSGR is credited as the legal advisor in 128 rounds of financing, while its nearest competitor advised on 97 rounds of financing.

According to VentureSource, WSGR ranked No. 1. for Q1-Q3 2016 issuer-side U.S. deals in the following industries: business and financial services, clean tech, communications and networking (tie), consumer services, healthcare, industrial goods and materials, information technology, medical devices and equipment, and software.

Separately, in PitchBook's Q3 2016 Venture Monitor report, the firm ranked No. 1. for the combined number of issuer- and investor-side venture deals completed in Q3 2016. WSGR also ranked No. 1 for early-stage financings during the same quarter.



### Past Editions of *The Entrepreneurs Report*

If you'd like to access any previous editions of *The Entrepreneurs Report*, you can find them on our website. Just visit [www.wsg.com](http://www.wsg.com) and select "Insight."



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 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](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.

© 2016 Wilson Sonsini Goodrich & Rosati, Professional Corporation. All rights reserved.