

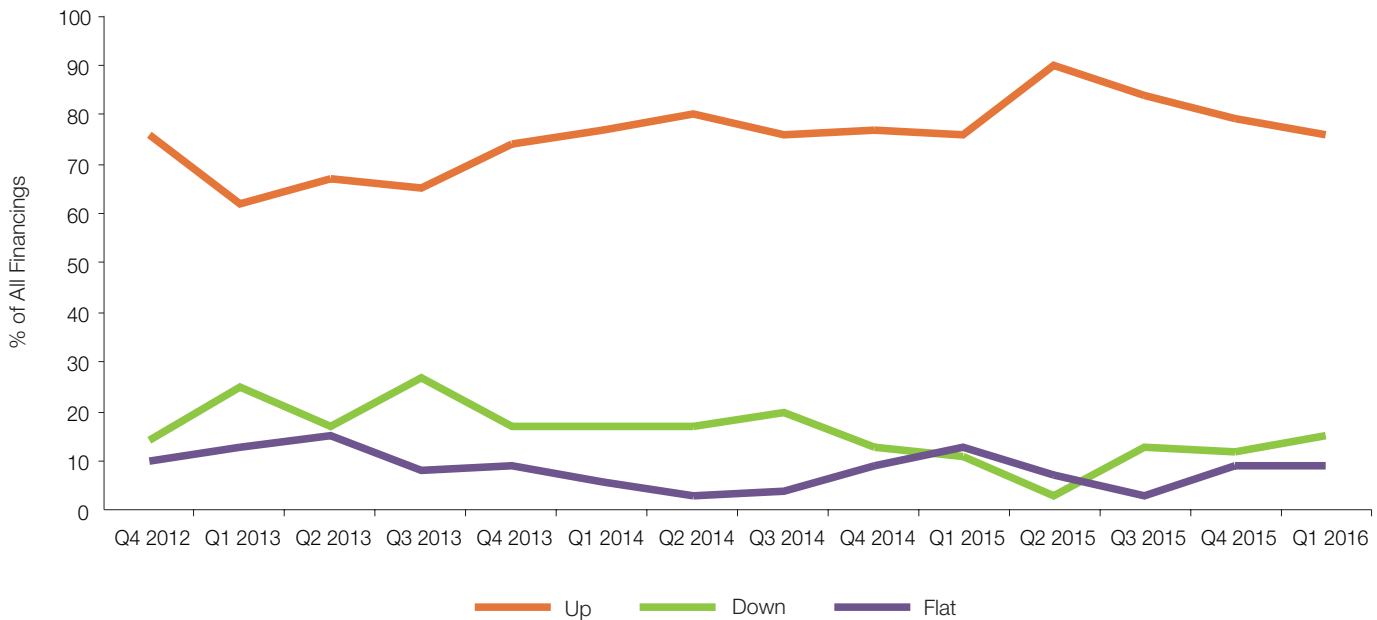
THE ENTREPRENEURS REPORT

Private Company Financing Trends

Q1 2016

From the WSGR Database: Financing Trends for Q1 2016

Up and Down Rounds by Quarter - Equity Financings



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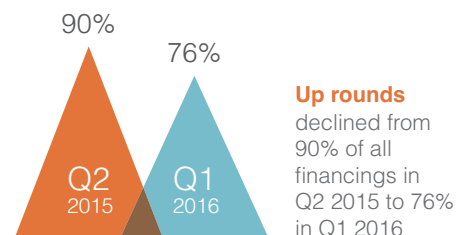
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The first quarter of 2016 saw a continued slowdown in venture activity and correspondingly less favorable terms for venture-backed companies. The percentage of up rounds for venture-backed companies continued to decline in Q1 2016, and companies raised funds in amounts and at valuations that were lower than in Q4 2015. While early-stage rounds were affected only modestly, the decline was particularly sharp for Series C and later rounds, where both amounts raised and valuations dropped significantly from 2015 levels. Importantly, however, valuations did not decline below those of 2013 and 2014.

Up and Down Rounds

Up rounds as a proportion of total financings continued to decline from the peak of 90% set in Q2 2015, returning to the 76% level of Q1 2015. Down rounds



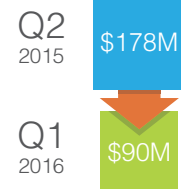
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comprised 15% of total financings, their highest level since they reached 20% in Q3 2014. The number of flat rounds remained at 9%, the same as in Q4 2015.

Valuations

The Q1 2016 median pre-money valuation for venture-backed Series Seed and A rounds was \$12.4 million, slightly lower than in Q4 2015 but higher than the full-year 2015 figure. The Q1 2016 median pre-money valuation for Series B rounds was \$34.3 million, down substantially from the

\$40.0 million figure for both Q4 2015 and full-year 2015. Meanwhile, the Q1 2016 median pre-money valuation for Series C and later rounds was \$90.0 million, the same as Q4 2015 but down from \$102.9 million for full-year 2015.



Median pre-money valuation for Series C and later rounds declined from \$178 million in Q2 2015 to \$90 million in Q1 2016

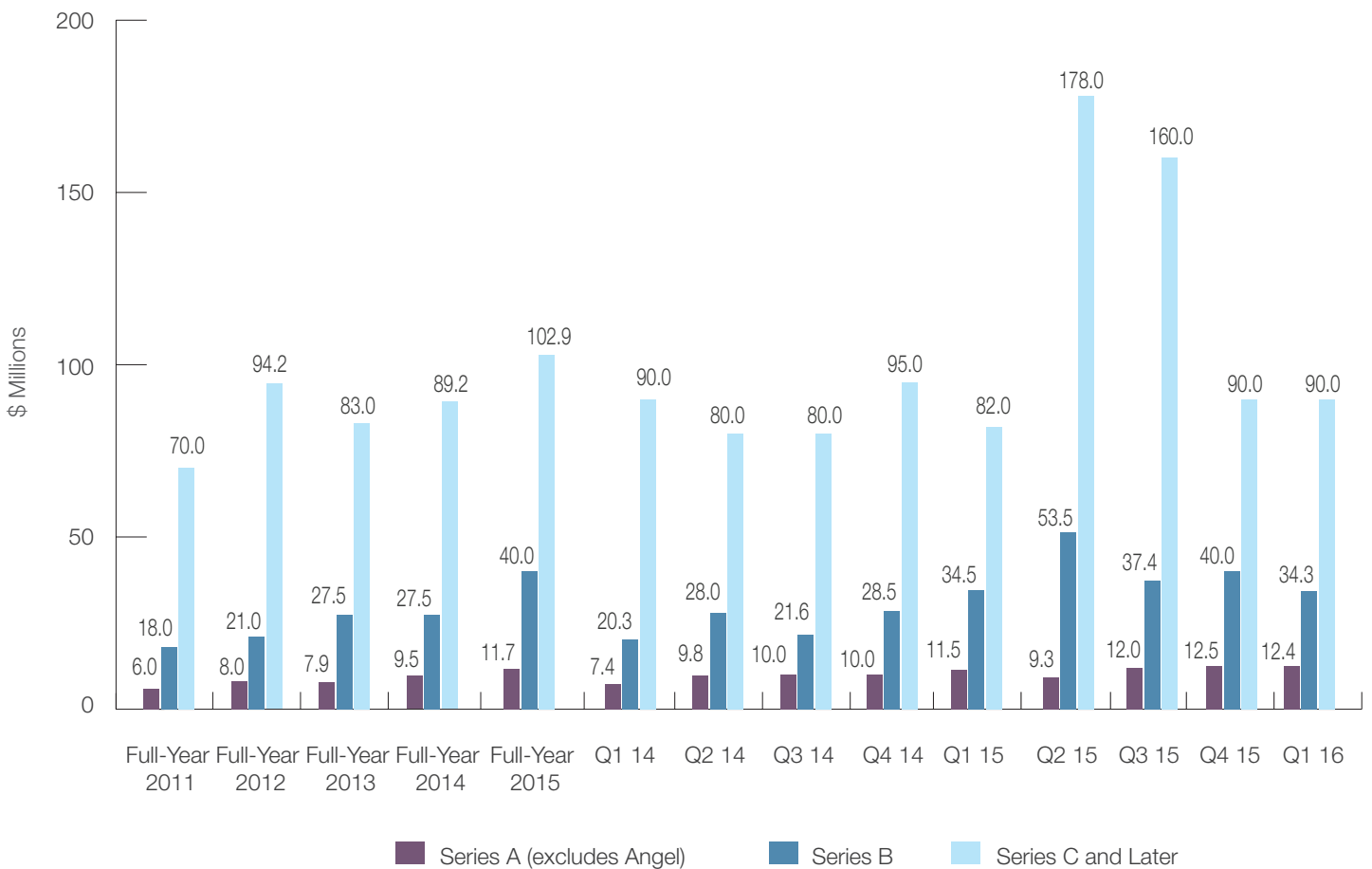
Amounts Raised

Seed and Series A deals raised less money on average in Q1 2016 than during the prior quarter. Specifically, the median amount raised dropped by nearly \$1 million, from \$3.4 million in Q4 2015 to

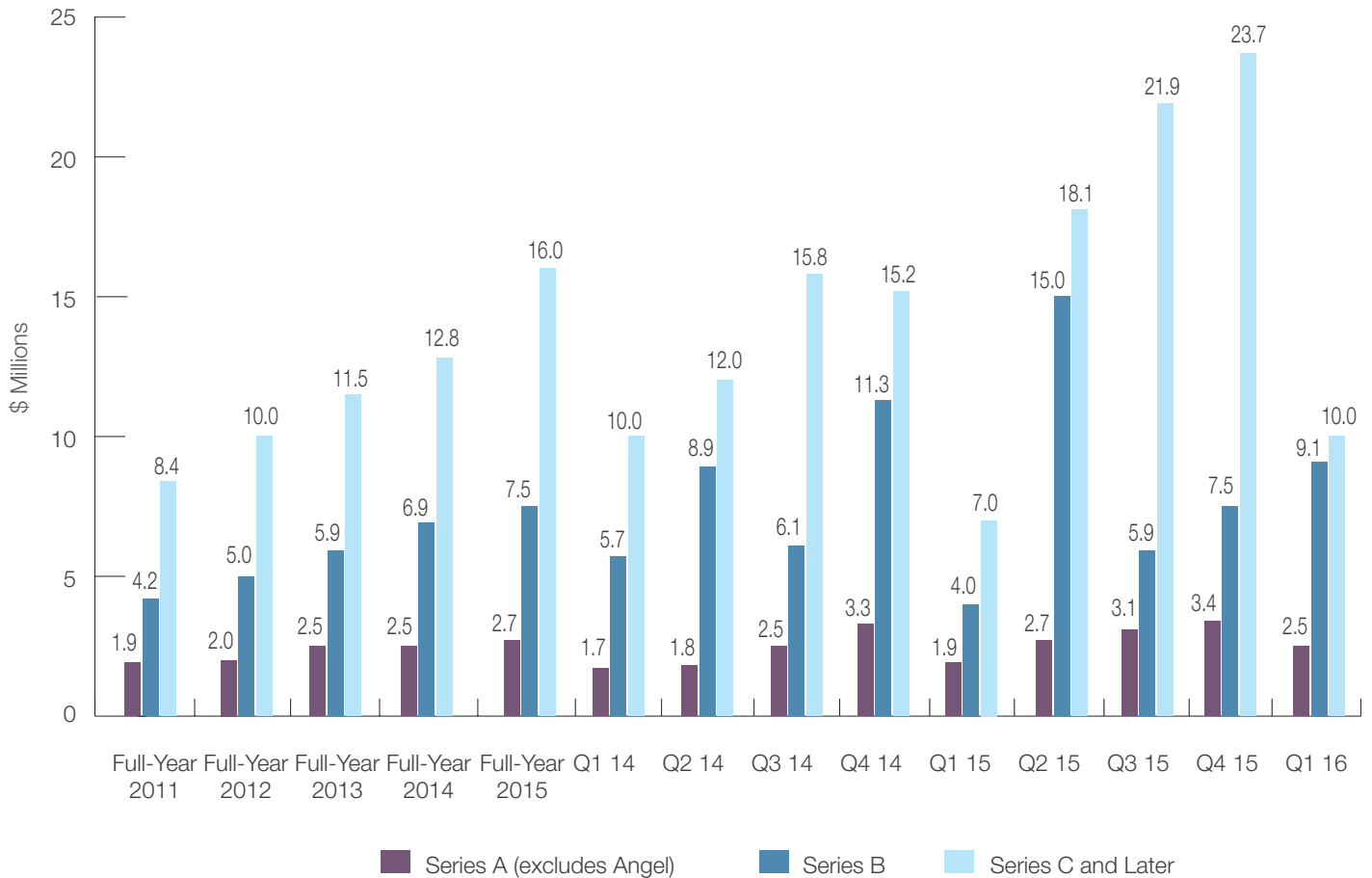
\$2.5 million in Q1 2016—a figure more consistent with recent full-year median funding levels.

The median amount raised in Series B financings was \$9.1 million, more than in some recent quarters and well above

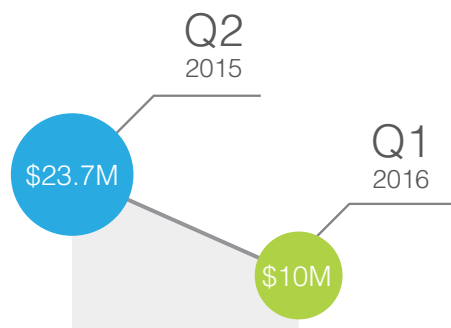
Median Pre-Money Valuations



Median Amount Raised – Equity Financings



recent full-year medians. However, the Q1 2016 median amount raised for Series C and later deals fell sharply to \$10.0 million from \$23.7 million in Q4 2015, and the Q1 figure was also significantly lower than the full-year medians for 2015, 2014, and 2013 of \$16.0 million, \$12.8 million, and \$11.5 million, respectively.



Median amount raised for Series C and later rounds declined from \$23.7 million in Q4 2015 to \$10 million in Q1 2016

Deal Terms – Preferred

The use of senior liquidation preferences increased for all post-Series A rounds, reaching 42%. This reversed a several-year decline in the use of such preferences. Similarly, the use of participating preferred

stock reversed a recent decline by increasing modestly to 22% of all deals. Most of this increase was in deals with capped participation rights.

Data on deal terms such as liquidation preferences, dividends, and others are set forth in the table below. To see how the terms tracked in the table can be used in the context of a financing, we encourage you to draft a term sheet using our automated Term Sheet Generator, which is available in the Start-Ups and Venture Capital section of the firm’s website at www.wsgr.com.

Private Company Financing Deal Terms (WSGR Deals)¹

	2013 All Rounds ²	2014 All Rounds ²	2015 All Rounds ²	Q1 2016 All Rounds ²	2013 Up Rounds ³	2014 Up Rounds ³	2015 Up Rounds ³	Q1 2016 Up Rounds ³	2013 Down Rounds ³	2014 Down Rounds ³	2015 Down Rounds ³	Q1 2016 Down Rounds ⁴
Liquidation Preferences - Series B and Later												
Senior	41%	40%	33%	42%	38%	32%	31%	38%	47%	68%	35%	N/A
<i>Pari Passu</i> with Other Preferred	55%	56%	62%	55%	60%	64%	66%	58%	37%	21%	53%	N/A
Junior	0%	0%	1%	0%	0%	0%	1%	0%	0%	0%	0%	N/A
Complex	3%	2%	3%	3%	2%	2%	1%	4%	11%	5%	12%	N/A
Not Applicable	1%	3%	1%	0%	0%	2%	1%	0%	5%	5%	0%	N/A
Participating vs. Non-participating												
Participating - Cap	18%	12%	8%	10%	20%	14%	11%	17%	23%	13%	12%	N/A
Participating - No Cap	12%	14%	11%	12%	10%	11%	12%	13%	30%	32%	35%	N/A
Non-participating	70%	74%	81%	78%	69%	76%	77%	71%	48%	55%	53%	N/A
Dividends												
Yes, Cumulative	12%	13%	3%	7%	12%	11%	3%	8%	13%	24%	24%	N/A
Yes, Non-cumulative	74%	72%	82%	74%	79%	74%	86%	83%	79%	71%	76%	N/A
None	14%	15%	15%	19%	9%	15%	11%	8%	8%	5%	0%	N/A
Anti-dilution Provisions												
Weighted Average - Broad	90%	85%	80%	90%	94%	90%	86%	92%	95%	92%	75%	N/A
Weighted Average - Narrow	3%	9%	13%	3%	3%	6%	12%	4%	0%	5%	19%	N/A
Ratchet	1%	1%	1%	1%	0%	1%	1%	0%	3%	0%	0%	N/A
Other (Including Blend)	1%	1%	1%	3%	1%	1%	1%	0%	0%	0%	0%	N/A
None	5%	4%	5%	3%	2%	2%	1%	4%	3%	3%	6%	N/A
Pay to Play - Series B and Later												
Applicable to This Financing	5%	4%	5%	6%	1%	1%	3%	0%	15%	16%	18%	N/A
Applicable to Future Financings	1%	0%	1%	3%	1%	0%	0%	0%	0%	0%	12%	N/A
None	95%	96%	94%	91%	98%	99%	97%	100%	85%	84%	71%	N/A
Redemption												
Investor Option	19%	17%	13%	12%	20%	22%	19%	25%	33%	24%	12%	N/A
Mandatory	1%	3%	2%	1%	2%	3%	3%	4%	0%	3%	0%	N/A
None	80%	80%	85%	87%	78%	75%	78%	71%	67%	74%	88%	N/A

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

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

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

⁴ Due to the small number of down rounds in Q1 2016, we did not calculate the deal term percentages in this category.

Bridge Loans

The median amount raised in pre-Series A bridge financings increased slightly from \$0.16 million in Q4 2015 to \$0.23 million in Q1 2016, though this figure remains well below the \$0.62 million recorded in Q3 2015 and the full-year figures for the past five years. The median amount raised in post-Series A bridge financings, however, soared from \$1.2 million in Q4 2015 to \$2.0 million in Q1 2016, higher than at any time in the past five years. This significant increase is perhaps an indication that in a more difficult funding environment,

more companies are choosing to raise interim financings from existing investors in order to postpone fundraising from new investors.

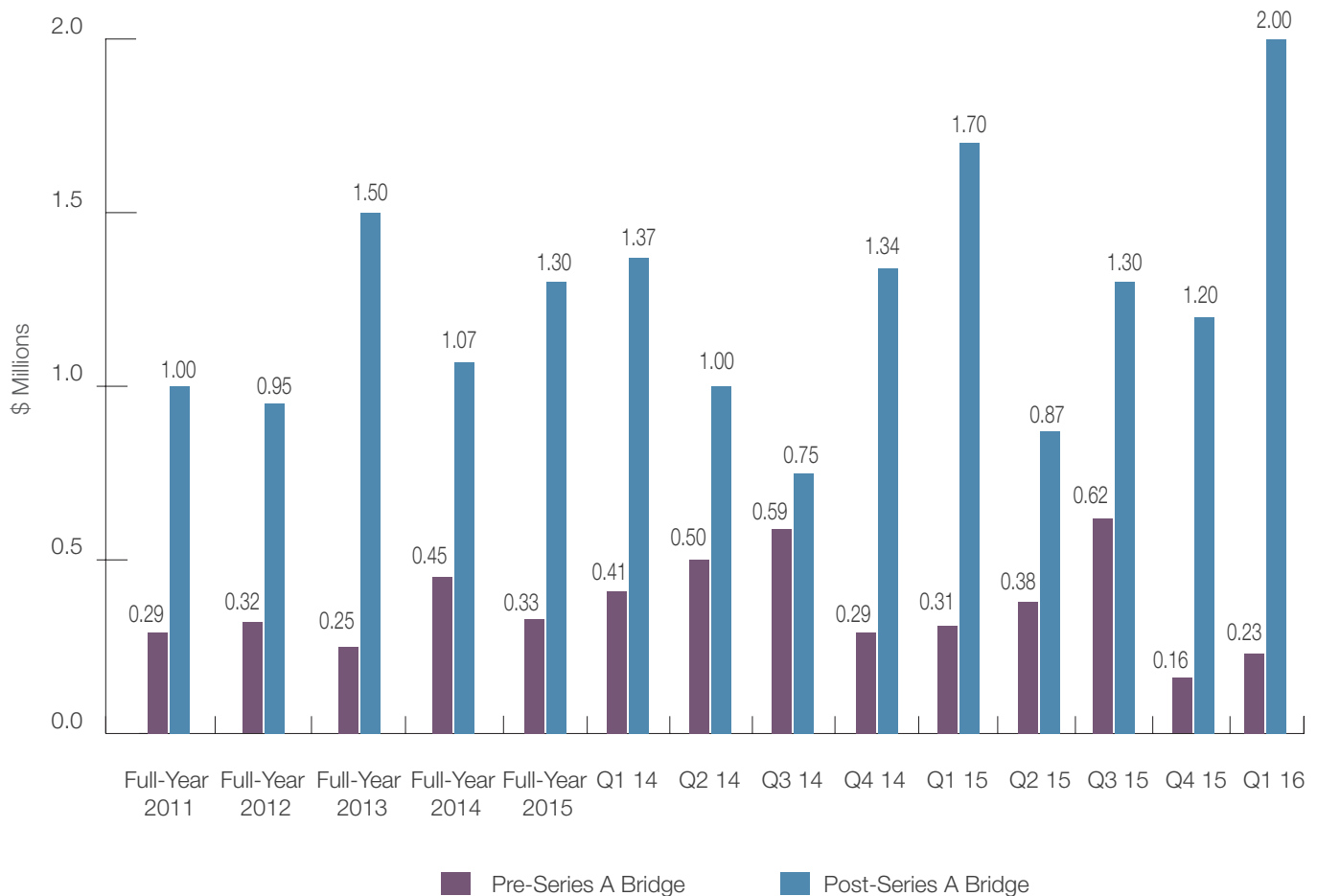
Deal Terms for Bridge Loans

Interest rates climbed somewhat for bridge loans, most strongly for post-Series A loans, where the number of deals with interest rates above 8% rose from 13% of loans for full-year 2015 to 24% for Q1 2016. All pre-Series A loans in the first quarter had maturities of more than 12 months. Maturities of post-Series A loans

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.

also rose overall, with the percentage of such debt having a maturity of 12 months or less declining from 34% for 2015 to 9% for Q1 2016.

Median Amount Raised – Bridge Loans



Bridge Loans – Deal Terms (WSGR Deals)¹

Bridge Loans	2013 Pre-Series A	2014 Pre-Series A	2015 Pre-Series A	Q1 2016 Pre-Series A	2013 Post-Series A	2014 Post-Series A	2015 Post-Series A	Q1 2016 Post-Series A
Interest rate less than 8%	70%	72%	74%	67%	46%	43%	54%	52%
Interest rate at 8%	29%	22%	19%	22%	34%	42%	33%	24%
Interest rate greater than 8%	1%	6%	7%	11%	20%	15%	13%	24%
Maturity less than 12 months	3%	12%	17%	0%	29%	24%	34%	9%
Maturity at 12 months	19%	16%	9%	0%	38%	39%	8%	30%
Maturity more than 12 months	78%	71%	74%	100%	33%	37%	58%	61%
Debt is subordinated to other debt	25%	22%	15%	38%	56%	48%	38%	39%
Loan includes warrants ²	4%	5%	3%	13%	34%	19%	25%	32%
Warrant coverage less than 25%	0%	20%	100%	N/A	50%	69%	47%	50%
Warrant coverage at 25%	0%	0%	0%	N/A	12%	0%	7%	0%
Warrant coverage greater than 25%	100%	80%	0%	N/A	38%	31%	47%	50%
Principal is convertible into equity ³	100%	98%	93%	89%	94%	94%	86%	83%
Conversion rate subject to price cap	68%	67%	64%	75%	14%	23%	26%	14%
Conversion to equity at discounted price ⁴	91%	81%	78%	75%	59%	73%	71%	63%
Discount on conversion less than 20%	17%	10%	11%	50%	16%	25%	25%	42%
Discount on conversion at 20%	60%	72%	73%	50%	46%	44%	47%	42%
Discount on conversion greater than 20%	22%	17%	16%	0%	38%	32%	27%	17%
Conversion to equity at same price as other investors	9%	16%	18%	25%	35%	24%	25%	26%

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

² Of the 2013 pre-Series A bridges that had warrants, 33% also had a discount on conversion into equity. 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 2016 post-Series A bridges with warrants, 14% also had a discount on conversion into equity.

³ This includes notes that provide for voluntary as well as automatic conversion.

⁴ Of the 2013 pre-Series A bridges that had a discount on conversion into equity, 2% also had warrants. 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 2016 post-Series A bridges that had a discount on conversion into equity, 8% 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.



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