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THE ENTREPRENEURS REPORT

PRIVATE COMPANY FINANCING TRENDS

From the Wilson Sonsini Database:

FINANCING TRENDS FOR 1H 2024



Key Features and Developments in This Report

Valuations Remain Below Recent Highs

Valuations continue to struggle across all stages of the start-up lifecycle from Seed through Series C and later. Early-stage valuations showed little change compared to Q1. Later stage valuations were up on the year but are well below the highs seen 2-3 years ago.

See [p. 3](#)

Fundraise Amounts Offer a Ray of Hope for Later Stage Companies

After two years of small rounds, some Series C and later companies are now seeing larger investment amounts. Raise sizes are mixed at other stages, suggesting an improving but still somewhat muted appetite for investments at earlier stages.

See [p. 4](#)

A Look at Recent Amendments to Delaware's Corporate Law

The world of venture capital was upended earlier this year when the Delaware Court of Chancery concluded that some stockholder agreement provisions granting stockholders (such as VCs) certain governance rights were invalid. Our Delaware corporate governance team summarizes recent changes to Delaware law intended to remedy this issue.

See [p. 11](#)

Becki DeGraw Featured on "This Week in Startups" Podcast

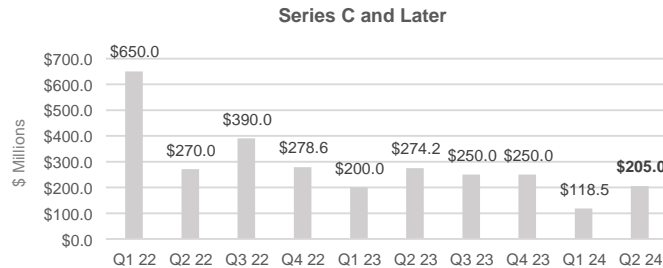
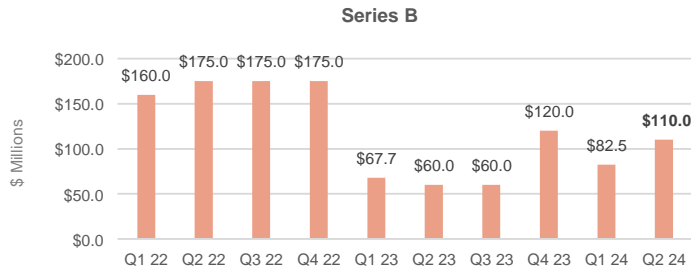
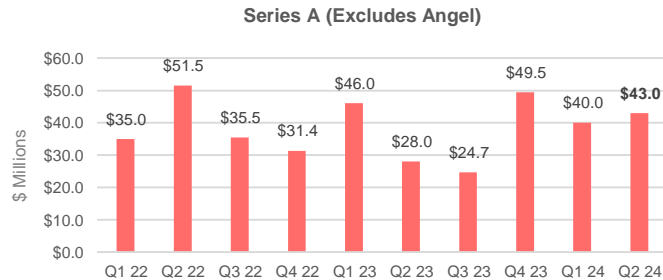
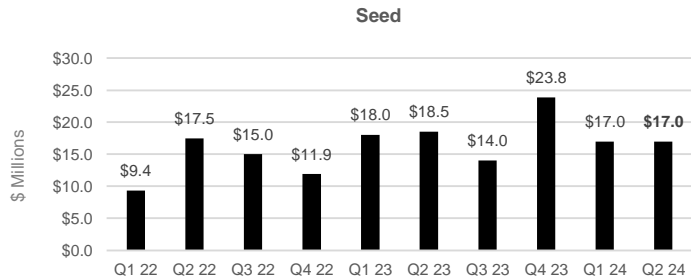
Wilson Sonsini partner and co-leader of the firm's emerging companies and venture capital practice Becki DeGraw joins "This Week in Startups" podcast host Jason Calacanis, who covers startups, tech, markets, media, and the latest topics in business and technology.

See [p. 12](#)

THE ENTREPRENEURS REPORT: PRIVATE COMPANY FINANCING TRENDS

PRE-MONEY MEDIAN VALUATIONS*

Valuations Have Yet to Bounce Back



After ending 2023 on a high note, early-stage valuations have remained in a holding pattern for much of 2024.

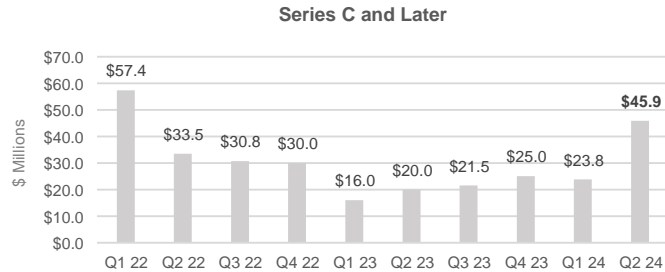
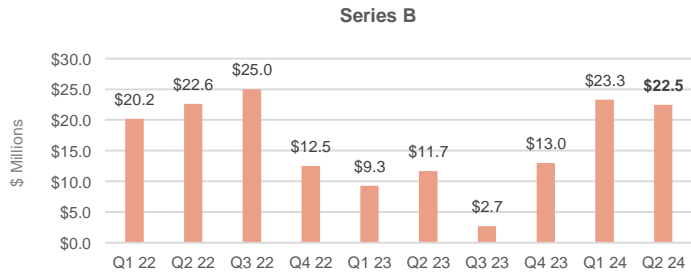
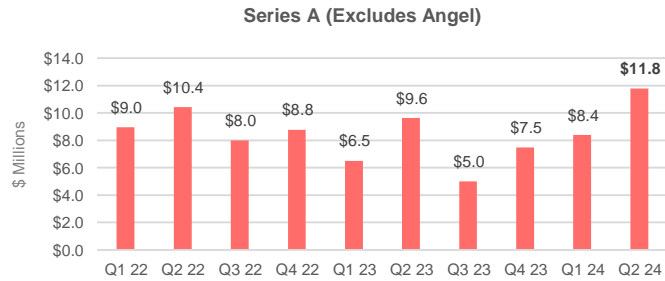
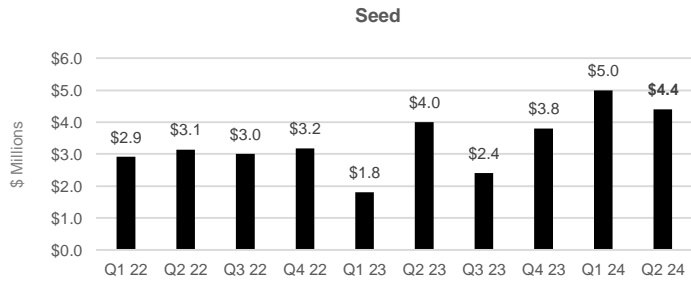
Seed and Series A valuations were flat and slightly up, respectively, quarter-over-quarter. Series B and later valuations fared a bit better when compared to Q1 2024 but remain well below the highs seen several years ago.

Looking ahead to the end of 2024 and early 2025, recent [IPO transactions](#) may offer some hope to later stage companies that public markets are thawing.

THE ENTREPRENEURS REPORT: PRIVATE COMPANY FINANCING TRENDS

EQUITY FUNDRAISE MEDIAN AMOUNTS*

Fundraise Amounts Remain Strong Across All Stages

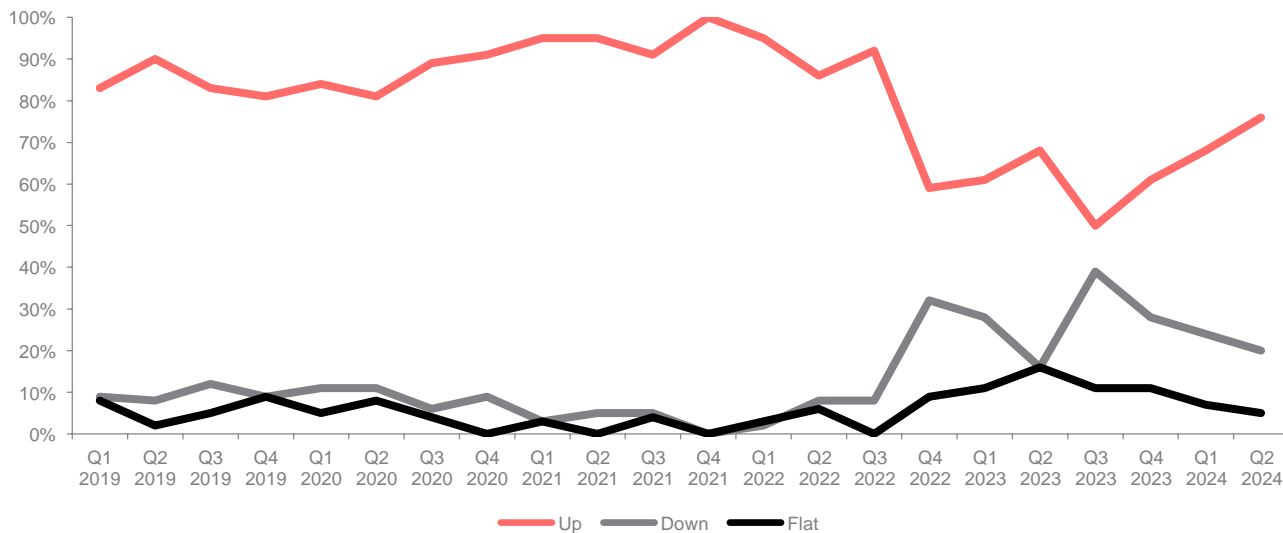


As the venture capital market started to slow down a couple of years ago, many [advised pre-IPO companies](#) to weather the downturn by focusing on cost-cutting, revenue growth, and profitability. Those later-stage companies that successfully followed this advice may finally be seeing their efforts pay off, as evidenced by Series C and later fundraising amounts hitting levels not seen since early 2022.

Earlier-stage companies have also been able to command higher amounts, with Seed and Series A raises being potentially on track for a record year.

Down Rounds Continue to Recede

Up and Down Rounds by Quarter (Series B and Later Companies)



For the first time in 18 months, less than a quarter of Series B and later equity transactions involved down or flat pricing. This trend is additional evidence that growth investors are now focusing on healthy start-ups and are moving away from propping up distressed companies that struggle to justify earlier valuations.

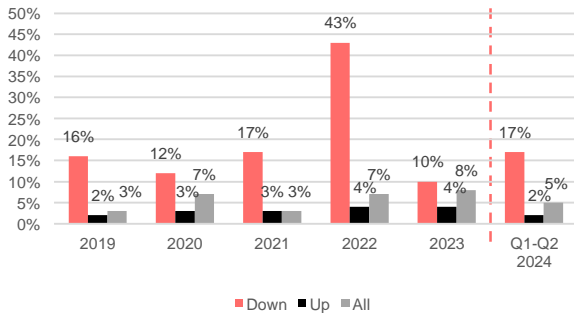
If the trend continues, the breakdown of up, down, and flat rounds could return to historical levels as soon as the end of 2024.

THE ENTREPRENEURS REPORT: PRIVATE COMPANY FINANCING TRENDS

EQUITY FINANCING DEAL TERMS*

Investor-Friendly Terms Remain Popular

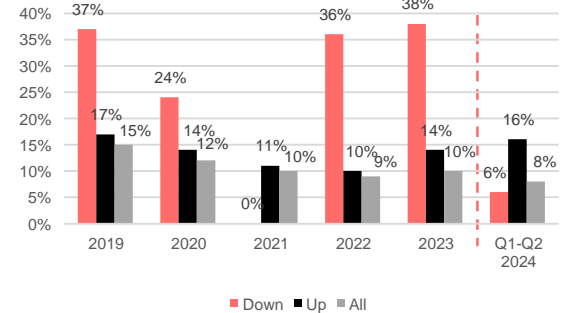
Deals with Pay to Play
(Series B and Later Financings)



Liquidation Preferences
(Series B and Later Financings)



Participating Liquidation
(All Preferred Stock Financings)



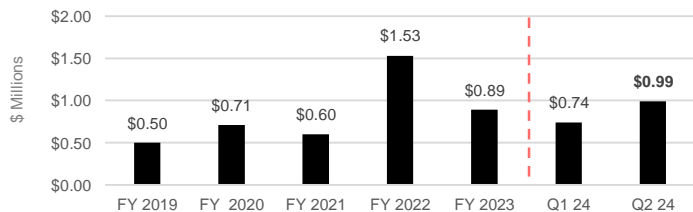
Down rounds have represented a decreasing percentage of equity transactions over the past few quarters. Among those down round transactions, however, 17% included a pay-to-play element, which is up compared to 2023. Pay-to-plays can dilute or adversely affect existing investors that choose not to invest further and are often an indication that a company is particularly distressed.

Even some up rounds are not immune to more investor-favorable terms. Slightly increased compared to recent years, 16% of up rounds included participating liquidation preferences, which can provide more potential upside for investors in successful exits.

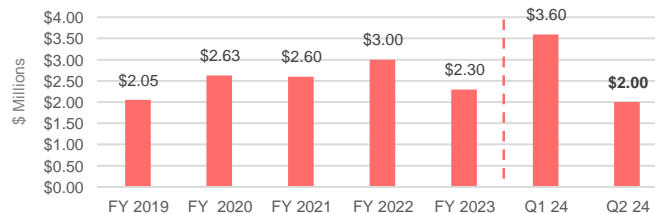
CONVERTIBLE NOTE MEDIAN RAISE AMOUNTS

Pre-Seed Notes Maintain Momentum While Post-Seed Raise Amounts Drop

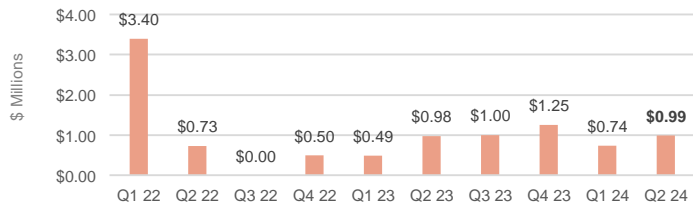
Pre-Seed - Convertible Notes
(Yearly Comparison)



Post-Seed - Convertible Notes
(Yearly Comparison)



Pre-Seed - Convertible Notes
(Quarterly Comparison)



Post-Seed - Convertible Notes
(Quarterly Comparison)



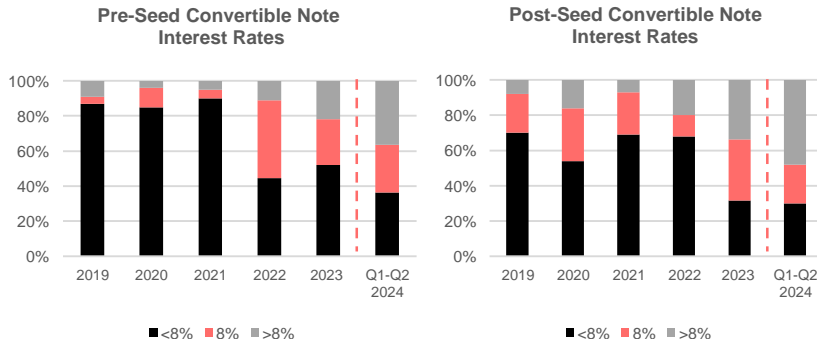
Like recent SAFE [trends](#), median pre-Seed convertible note raise amounts increased in Q2 2024, approaching \$1 million, suggesting healthy VC appetites for very early-stage investments.

Post-Seed raise amounts, on the other hand, dropped to the lowest figures seen in over a year. This contrasts with Series A raise amounts, which are trending towards record highs. Some degree of self-selection might explain the divergent trends between note and equity financings. Thriving post-Seed companies have been able to ask for larger and larger equity rounds, while investors in promising yet still struggling start-ups are opting to invest just enough through bridge notes to keep those companies viable in the near-term.

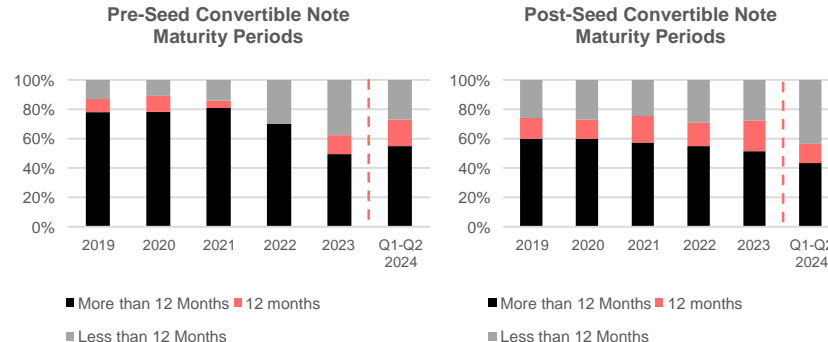
CONVERTIBLE NOTE DEAL TERMS*

Note Interest Rates Are Up, Maturity Periods Are Down

Interest Rates



Maturity Periods

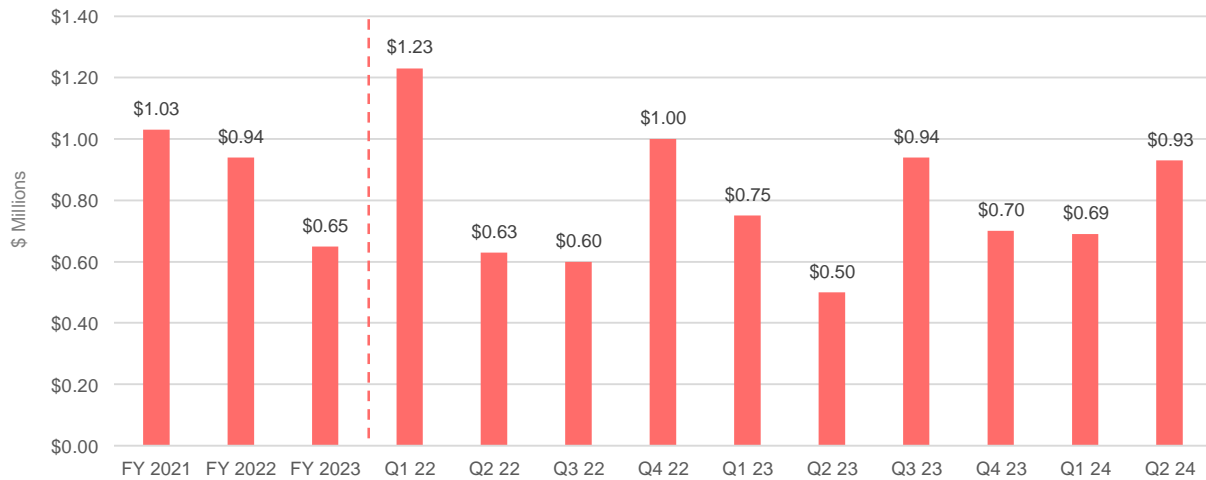


Mirroring interest rate trends persistent in other sectors of the economy, 36% of pre-Seed and 30% of post-Seed convertible notes had higher-than-typical interest rates of more than 8% in 1H 2024. While note interest rates are not directly correlated to the federal funds rate and are perhaps better seen as a proxy for an investor's risk tolerance, start-ups should continue to watch closely to see if the Federal Reserve's anticipated Q3 rate cuts result in any relaxation of higher convertible note interest rate terms in Q3 and Q4 2024.

The shift towards shorter maturity periods for convertible note rounds continues but was more pronounced in 1H 2024 at the post-Seed stage, where most notes (57%) had maturity dates of 12 months or less. This indicates that note investors continue to expect of quick progress towards an equity round or exit.

SAFEs

SAFE Median Raise Amounts Increase, Remain Under \$1 Million

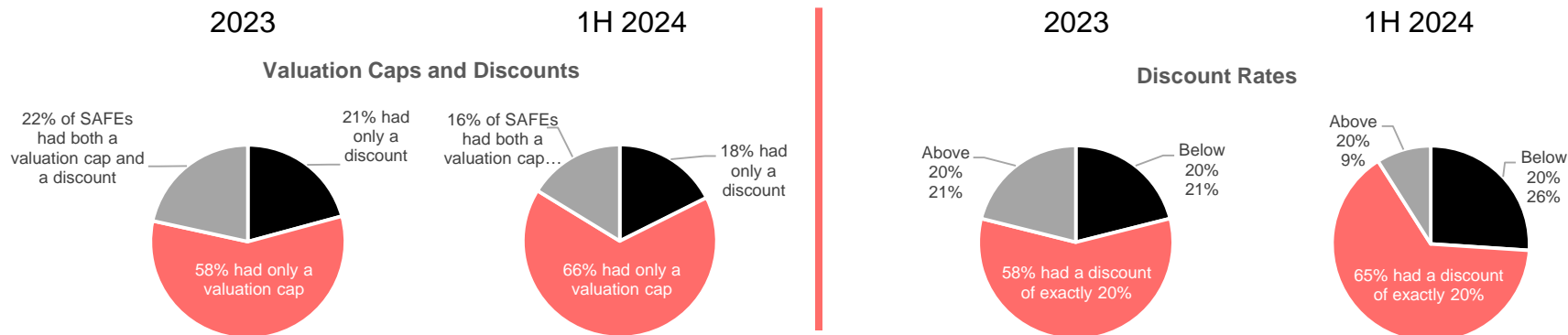


The median amount raised in SAFE financings in Q2 2024 increased slightly to \$930,000 but remains at or below \$1 million for the ninth consecutive quarter.

If the trends continue, SAFE raise amounts for 2024 may finish the year ahead of 2023, offering some hope for pre-Seed founders working towards an equity round in 2025.

SAFEs (Simple Agreement for Future Equity)

SAFE Investors Stick to Standard Terms



1H 2024's SAFE structures were consistent with those seen over the past few years. About 34% of SAFEs so far this year included a discount, down slightly from 43% in 2023 and 38% in 2022. Meanwhile, valuation caps were incorporated in 82% of SAFEs, consistent with 2023, which saw valuation caps in 80% of SAFEs. 73.5% of SAFEs utilized the newer [post-money structure](#). The median valuation cap was \$16 million, up from 2023's \$15 million. Among post-money SAFEs, the median valuation cap for 1H 2024 was slightly higher at \$17 million.

For much of the SAFE's decade-long history, the default discount rate has been 20%. 2023 deviated somewhat from the status quo, with 41% of SAFE discount rates landing above or below 20%. This may have reflected the uncertainty in the market with higher discount rates in particular being required by investors in exchange for higher perceived risk. So far in 2024 discount rates have smoothed out somewhat from last year, with nearly two-thirds of discount rates settling at the standard 20%.

Significant Amendments to the Delaware General Corporation Law Take Effect

On August 1, 2024, an extensive and important set of amendments to the Delaware General Corporation Law (the DGCL) took effect. The amendments, which apply both prospectively and retrospectively, were largely intended to address several recent Delaware Court of Chancery decisions that many practitioners considered inconsistent with prevailing market practice. Our previous client alert detailing the proposal of these DGCL amendments is available [here](#).

Of particular note to venture-backed start-ups and their investors, the DGCL amendments provide that companies and stockholders can enter into stockholder agreements conferring, among other things, governance rights upon stockholders and obligations upon the corporation. These amendments address concerns raised in the recent case of *West Palm Beach Firefighters' Pension Fund v. Moelis & Co.*, where the Court of Chancery determined that a stockholder agreement that provided a large stockholder with an array of consent rights and governance rights outside of the certificate of incorporation infringed on the board's obligation to oversee the company in governance matters. Our previous client alert detailing that case is available [here](#). The DGCL amendments provide that, outside of the certificate of incorporation, a corporation can enter into agreements with current or prospective stockholders giving stockholders consent rights or specifying that the corporation, stockholders, or directors will take certain actions or refrain from taking certain actions.

A full summary of the amendments is available [here](#).

For more information on this or any related matter, please contact any member of Wilson Sonsini's [corporate governance](#) or [corporate governance litigation](#) practices.

Wilson Sonsini's Becki DeGraw Appears on the Latest "This Week in Startups" Podcast



Wilson Sonsini partner and co-leader of the firm's emerging companies and venture capital practice [Becki DeGraw](#) joins Jason Calacanis on the "This Week In Startups" podcast. In the latest edition of Startup Legal Basics, they break down the current state of startup funding (0:37), anti-dilution provisions (7:11), re-incentivizing management teams (16:23), and much more! Check out the discussion [here](#) or wherever you get your podcasts.

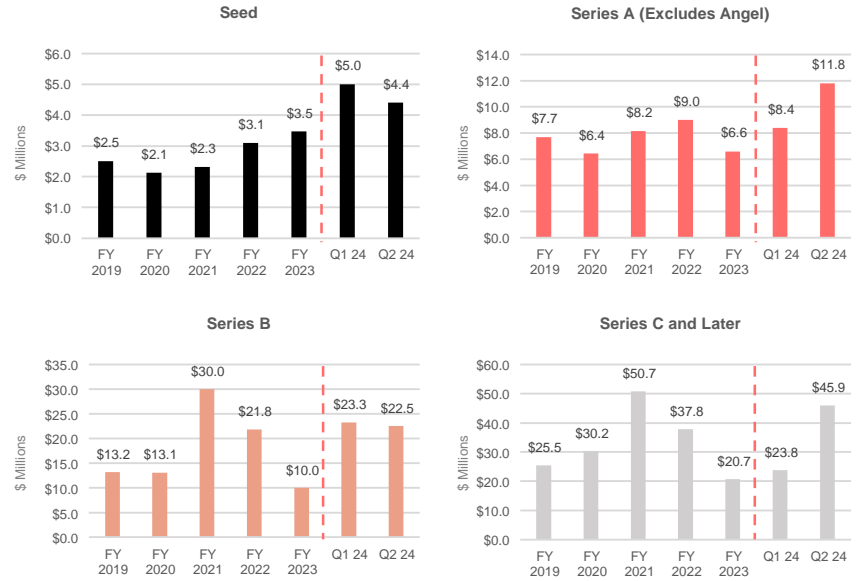
THE ENTREPRENEURS REPORT: PRIVATE COMPANY FINANCING TRENDS

Appendix - A Yearly Look-Back on Equity Valuations and Raise Amounts

Pre-Money Median Valuations



Equity Fundraise Median Amounts



THE ENTREPRENEURS REPORT: PRIVATE COMPANY FINANCING TRENDS

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	Q1-Q2 2024 All Rounds ²	2019 Up Rounds ³	2020 Up Rounds ³	2021 Up Rounds ³	2022 Up Rounds ³	2023 Up Rounds ³	Q1-Q2 2024 Up Rounds ³	2019 Down Rounds ³	2020 Down Rounds ³	2021 Down Rounds ³	2022 Down Rounds ³	2023 Down Rounds ³	Q1-Q2 2024 Down Rounds ³
Liquidation Preferences - Series B and Later																		
Senior	35%	35%	24%	30%	26%	28%	30%	32%	23%	26%	20%	16%	63%	56%	50%	64%	38%	67%
<i>Pari Passu</i> with Other Preferred	63%	63%	75%	70%	74%	72%	68%	67%	76%	74%	80%	84%	37%	44%	50%	36%	62%	33%
Junior	1%	0%	1%	0%	0%	0%	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Complex	2%	1%	0%	0%	0%	0%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Participating vs. Non-Participating																		
Participating - Cap	5%	4%	4%	3%	2%	5%	5%	6%	4%	3%	4%	14%	5%	0%	0%	0%	14%	0%
Participating - No Cap	10%	8%	6%	6%	8%	3%	12%	8%	7%	7%	10%	2%	32%	24%	0%	36%	24%	6%
Non-Participating	85%	88%	90%	91%	90%	92%	83%	86%	89%	90%	85%	84%	63%	76%	100%	64%	62%	94%
Dividends																		
Yes, Cumulative	5%	10% ⁴	5%	6%	3%	3%	6%	10% ⁴	6%	8%	6%	6%	11%	25% ⁴	0%	8%	0%	0%
Yes, Non-Cumulative	56%	79% ⁴	56%	51%	46%	40%	67%	83% ⁴	65%	57%	53%	42%	79%	69% ⁴	57%	58%	65%	71%
None	39%	10% ⁴	39%	43%	51%	57%	28%	7% ⁴	29%	35%	40%	52%	11%	6% ⁴	43%	33%	35%	29%
Anti-Dilution Provisions																		
Weighted Average - Broad	94%	95%	97%	98%	98%	96%	99%	98%	98%	99%	100%	93%	89%	76%	100%	100%	95%	100%
Weighted Average - Narrow	0%	1%	1%	0%	1%	0%	0%	2%	1%	0%	0%	0%	5%	6%	0%	0%	5%	0%
Ratchet	0%	1%	1%	1%	0%	0%	0%	0%	1%	1%	0%	0%	5%	6%	0%	0%	0%	0%
Other (Including Blend)	1%	1%	0%	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
None	4%	2%	1%	1%	2%	4%	1%	0%	0%	0%	0%	7%	0%	12%	0%	0%	0%	0%
Pay to Play - Series B and Later																		
Yes, Pay-to-Play	3%	7%	3%	7%	8%	5%	2%	3%	3%	4%	4%	2%	16%	12%	17%	43%	10%	17%
None	97%	93%	97%	93%	92%	95%	98%	97%	97%	96%	96%	98%	84%	88%	83%	57%	90%	83%
Redemption																		
Yes, Redemption	14%	13%	10%	8%	5%	10%	17%	10%	15%	12%	4%	16%	26%	25%	17%	7%	15%	6%
None	86%	88%	90%	92%	95%	90%	82%	90%	86%	89%	96%	84%	74%	75%	83%	93%	86%	94%

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.

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Appendix - Convertible Notes - Deal Terms (Wilson Sonsini Deals)

Convertible Notes ¹	2019	2020	2021	2022	2023	Q1-Q2 2024	2019	2020	2021	2022	2023	Q1-Q2 2024
	Pre-Seed	Pre-Seed	Pre-Seed	Pre-Seed	Pre-Seed	Pre-Seed	Post-Seed	Post-Seed	Post-Seed	Post-Seed	Post-Seed	Post-Seed
Interest rate less than 8%	87%	85%	90%	44%	52%	36%	70%	54%	69%	68%	32%	30%
Interest rate at 8%	4%	11%	5%	44%	26%	27%	22%	30%	24%	12%	35%	22%
Interest rate greater than 8%	9%	4%	5%	11%	22%	36%	8%	16%	7%	20%	34%	48%
Maturity less than 12 months	13%	11%	14%	30%	38%	27%	26%	27%	25%	29%	28%	44%
Maturity 12 months	9%	11%	5%	0%	13%	18%	14%	13%	18%	16%	21%	13%
Maturity more than 12 months	78%	79%	81%	70%	50%	55%	60%	60%	58%	55%	52%	44%
Debt is subordinated to other debt	27%	13%	14%	40%	17%	20%	49%	46%	48%	41%	39%	44%
Loan includes warrants ²	2%	4%	0%	0%	0%	0%	8%	12%	6%	20%	22%	15%
Warrant coverage less than 25%	100%	100%	N/A	N/A	N/A	N/A	80%	67%	0%	11%	45%	67%
Warrant coverage at 25%	0%	0%	N/A	N/A	N/A	N/A	0%	0%	0%	0%	0%	0%
Warrant coverage greater than 25%	0%	0%	N/A	N/A	N/A	N/A	20%	33%	100%	89%	55%	33%
Automatic conversion into equity on qualified financing ³	100%	100%	100%	100%	92%	89%	96%	92%	96%	93%	88%	93%
Voluntary conversion into equity on qualified financing ³	0%	0%	0%	0%	8%	11%	4%	8%	4%	7%	12%	7%
Conversion rate subject to price cap ⁴	69%	68%	71%	56%	54%	56%	51%	36%	52%	32%	47%	49%
Conversion to equity at discounted price ⁵	68%	78%	75%	50%	88%	78%	81%	79%	70%	78%	80%	87%
Conversion to equity at same price as other investors	12%	13%	15%	30%	8%	22%	11%	17%	25%	20%	10%	13%
Discount on conversion less than 20%	18%	11%	20%	40%	14%	29%	27%	25%	21%	29%	18%	12%
Discount on conversion at 20%	63%	69%	60%	20%	48%	29%	57%	46%	63%	39%	55%	50%
Discount on conversion greater than 20%	18%	20%	20%	40%	38%	43%	16%	29%	16%	32%	27%	38%

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, 59% also had a discount on conversion into equity. Of the Q1-Q2 2024 post-Seed convertible notes with warrants, 63% 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 \$4 million and \$8 million, respectively. The 2020 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was \$5 million and \$10 million, respectively. The 2021 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was \$4 million and \$10 million, respectively. The 2022 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was \$7 million and \$10 million, respectively. The 2023 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was \$5 million and \$10 million, respectively. The Q1-Q2 2024 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was \$5 million and \$15 million, respectively.

⁴ The 2019 median price cap in pre- and post-Seed convertible notes was \$9 million and \$35 million, respectively. The 2020 median price cap in pre- and post-Seed convertible notes was \$8 million and \$47 million, respectively. The 2021 median price cap in pre- and post-Seed convertible notes was \$12 million and \$47 million, respectively. The 2022 median price cap in pre- and post-Seed convertible notes was \$35 million and \$50 million, respectively. The 2023 median price cap in pre- and post-Seed convertible notes was \$20 million and \$45 million, respectively. The Q1-Q2 2024 median price cap in pre- and post-Seed convertible notes was \$11 million and \$22 million, 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, 3% 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. Of the Q1-Q2 2024 post-Seed convertible notes that had a discount on conversion into equity, 15% 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.

THE ENTREPRENEURS REPORT: PRIVATE COMPANY FINANCING TRENDS

Enjoying *The Entrepreneurs Report*? We are always looking for ways to make the data more useful for our readers. If there is anything that you would like us to address in a future report, please reach out to Scott Baird at sbaird@wsgr.com.

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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. To learn more about Wilson Sonsini's full suite of services for entrepreneurs and early-stage companies, please visit the emerging companies section of wsgr.com.

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