Q3 2020

WILSON SONSINI

THE ENTREPRENEURS REPORT
Private Company Financing Trends

An Interview with Dr. Wasim Malik of Iaso Ventures

Wilson Sonsini Goodrich & Rosati partner Mark Solakian recently interviewed Dr. Wasim Malik, the managing partner at Boston-based Iaso Ventures, the nation's first sector-focused neuroscience and mental health venture capital firm. Wasim oversees Iaso Ventures' overall strategy, investments, and partnerships. Below is a selection of highlights from their conversation.

Mark: Could you provide us with a bit of background on Iaso Ventures?

Wasim: We launched the firm last year in response to the market gap

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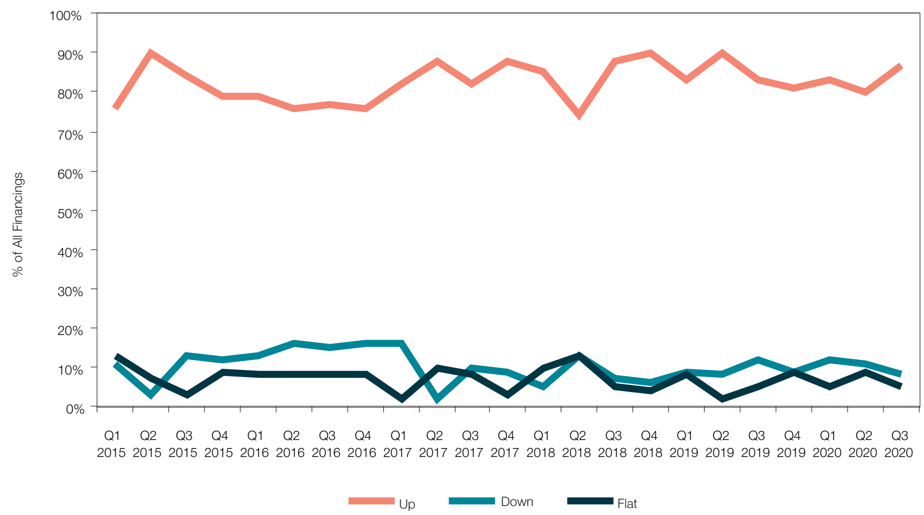
From the Wilson Sonsini Database: Financing Trends for Q3 2020

Up and Down Rounds by Quarter



The business disruptions and market volatility associated with the COVID-19 pandemic persisted through the third quarter of 2020, but even so, deal volume for venture financings was healthy. Up rounds increased to 87% of Series B and later financings, reflecting the health of the venture market, notwithstanding economic and political uncertainty. Modest declines in median pre-money valuations and amounts raised reflected a retreat from the record highs seen earlier in the year, but generally remained high compared to 2019 medians, although the pre-money valuations of Series Seed rounds stumbled somewhat.

Pre-Seed bridge loan median amounts raised remained steady in Q3 2020. On the other hand, the median amount raised in post-Seed bridge loans declined substantially, resulting in a low not seen since Q4 2018, likely as a result of the availability of priced equity rounds.

Up and Down Rounds

The proportion of up-round financings increased in Q3 2020, rising from 80%

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of Series B and later financings in Q2 to 87% of such financings in the quarter. Meanwhile, the share of down-round financings decreased, from 11% in Q2 to 8% in Q3. Flat rounds also decreased slightly, from 9% of financings in Q2 to 5% in Q3.

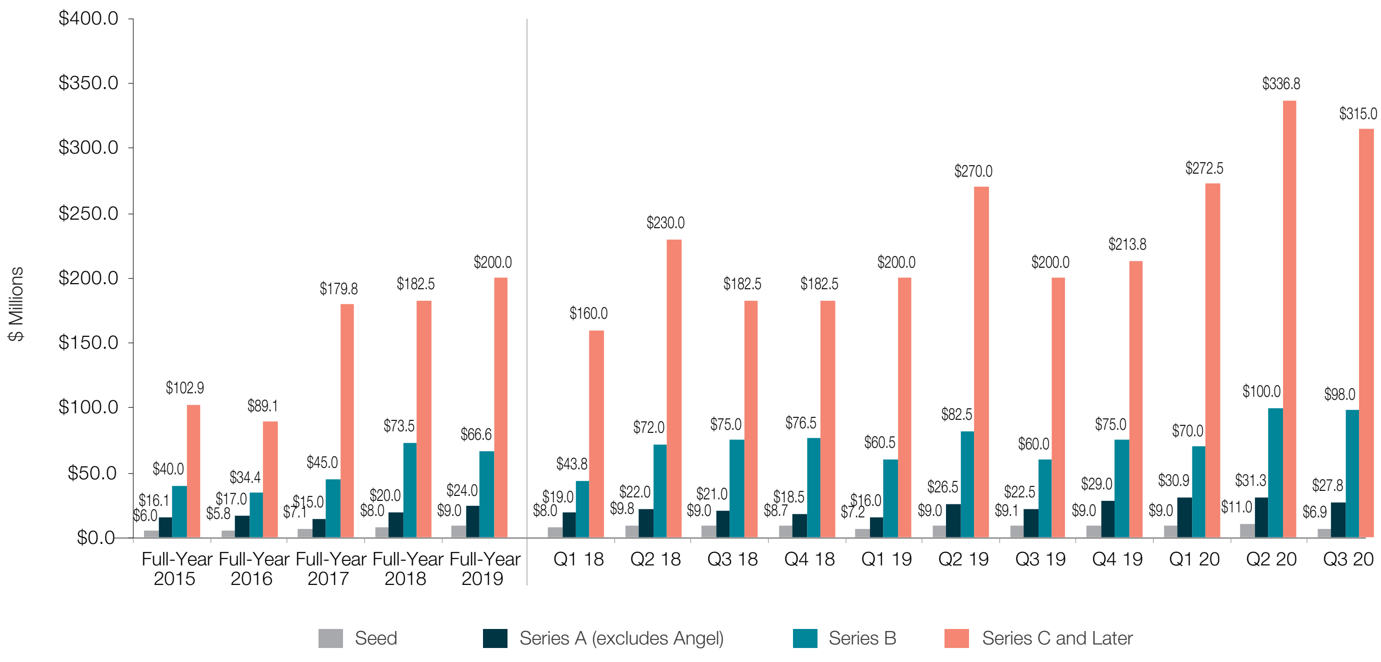
Valuations

Median pre-money valuations for Series A and later financings in Q3 2020 retreated somewhat from the record highs reached in Q2 2020, but equaled or exceeded the quarterly medians of 2019 and remained well above five-year medians. Pre-money valuations of Series Seed financings, however, declined substantially, with the median falling from $11.0 million in Q2 to $6.9 million in Q3—a low not seen since Q4 2017.

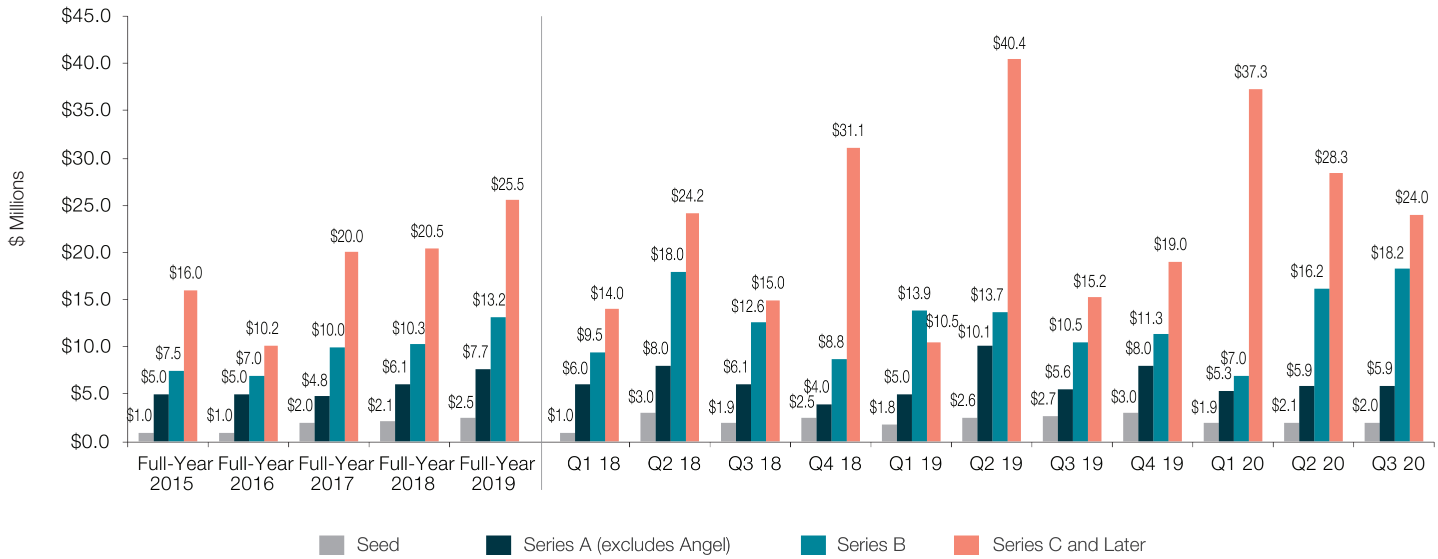
The median Series A pre-money valuation slipped slightly, from $31.3 million in Q2 to $27.8 million in Q3. Series B valuations remained strong, with the median pre-money valuation nearly matching the high of $100.0 million reached in Q2, landing at $98.0 million in Q3. The median pre-money valuation for Series C and later deals declined from the all-time high of $336.8 million reached in Q2 to $315.0 million in Q3, representing the second-highest quarterly median for Series C and later rounds.

Median amounts raised in Q3 2020 remained at the highs of the prior quarter for all but Series C and later rounds. The median amount raised for Series Seed financings was stable at $2.0 million in Q3, compared to $2.1 million in Q2. The median amount raised for Series A financings remained the same in Q3, at $5.9 million. The median amount raised in Series B financings increased slightly, from $16.2 million in Q2 to $18.2 million in Q3, the highest quarterly median in the last five years.

Median Pre-Money Valuation



Median Amount Raised – Equity Financings



The median amount raised in Series C and later financings dipped from $28.3 million in Q2 to $24.0 million in Q3, just slightly below the 2019 full-year median of $25.5 million.

Deal Terms – Preferred

Sixty-four percent of all post-Series A rounds used *pari passu* liquidation preferences in Q1-Q3 2020, aligning closely with the 63% having such preferences in full-year 2019. Looking only at down rounds, those with senior liquidation preferences decreased significantly, from 63% in 2019 to 46% in Q1-Q3 2020; meanwhile, the percentage of down rounds with *pari passu* preferences increased from 37% in 2019 to 54% in Q1-Q3 2020.

The percentage of financings with no participation increased slightly, from 85% in 2019 to 88% in Q1-Q3 2020. Dividends were less prevalent in Q1-Q3 2020, with 48% of financings including dividends, compared to 61% in 2019.

The use of redemption rights increased moderately, being included in 20% of Q1-Q3 2020 financings, up from 14% in 2019.

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 Emerging Companies section of the firm's website, www.wsgr.com.

Private Company Financing Deal Terms (Wilson Sonsini Deals)[1]

	2015 All Rounds[2]	2016 All Rounds[2]	2017 All Rounds[2]	2018 All Rounds[2]	2019 All Rounds[2]	Q1-Q3 2020 All Rounds[2]	2015 Up Rounds[3]	2016 Up Rounds[3]	2017 Up Rounds[3]	2018 Up Rounds[3]	2019 Up Rounds[3]	Q1-Q3 2020 Up Rounds[3]	2015 Down Rounds[3]	2016 Down Rounds[3]	2017 Down Rounds[3]	2018 Down Rounds[3]	2019 Down Rounds[3]	Q1-Q3 2020 Down Rounds[3]
Liquidation Preferences - Series B and Later																		
Senior	33%	38%	35%	31%	35%	34%	31%	36%	31%	28%	30%	32%	35%	41%	63%	36%	63%	46%
Pari Passu with Other Preferred	62%	57%	62%	69%	63%	64%	66%	62%	66%	72%	68%	67%	53%	45%	38%	64%	37%	54%
Junior	1%	1%	0%	0%	1%	0%	1%	0%	0%	0%	1%	0%	0%	5%	0%	0%	0%	0%
Complex	3%	4%	3%	0%	2%	2%	1%	2%	4%	0%	2%	1%	12%	9%	0%	0%	0%	0%
Participating vs. Non-participating																		
Participating - Cap	8%	9%	6%	5%	5%	4%	11%	10%	7%	5%	5%	6%	12%	22%	31%	7%	5%	0%
Participating - No Cap	11%	11%	10%	7%	10%	8%	12%	13%	11%	7%	12%	8%	35%	4%	19%	14%	32%	21%
Non-participating	81%	81%	84%	88%	85%	88%	77%	77%	82%	88%	83%	86%	53%	74%	50%	79%	63%	79%
Dividends																		
Yes, Cumulative	3%	6%	7%	7%	5%	8%	3%	7%	9%	9%	6%	11%	24%	22%	13%	23%	11%	21%
Yes, Non-cumulative	82%	73%	78%	61%	56%	40%	86%	78%	78%	62%	67%	37%	76%	70%	81%	69%	79%	29%
None	15%	21%	16%	32%	39%	51%	11%	15%	13%	29%	28%	52%	0%	9%	6%	8%	11%	50%
Anti-dilution Provisions																		
Weighted Average - Broad	80%	92%	94%	94%	94%	94%	86%	92%	96%	94%	99%	97%	75%	91%	100%	100%	89%	71%
Weighted Average - Narrow	13%	1%	2%	2%	0%	1%	12%	1%	1%	3%	0%	2%	19%	0%	0%	0%	5%	7%
Ratchet	1%	1%	0%	0%	0%	1%	1%	2%	0%	0%	0%	0%	0%	0%	0%	0%	5%	7%
Other (Including Blend)	1%	3%	1%	1%	1%	1%	1%	3%	1%	1%	0%	1%	0%	9%	0%	0%	0%	0%
None	5%	3%	3%	3%	4%	3%	1%	2%	1%	2%	1%	0%	6%	0%	0%	0%	0%	14%
Pay to Play - Series B and Later																		
Applicable to This Financing	5%	5%	2%	4%	2%	4%	3%	3%	2%	1%	1%	4%	18%	9%	6%	0%	16%	8%
Applicable to Future Financings	1%	1%	0%	1%	1%	1%	0%	1%	0%	1%	1%	0%	12%	0%	0%	0%	0%	8%
None	94%	94%	98%	95%	97%	95%	97%	96%	98%	97%	99%	96%	71%	91%	94%	100%	84%	85%
Redemption																		
Investor Option	13%	11%	12%	8%	11%	17%	19%	20%	19%	10%	14%	13%	12%	9%	20%	14%	21%	31%
Mandatory	2%	2%	7%	1%	3%	3%	3%	3%	9%	3%	3%	2%	0%	0%	0%	0%	5%	0%
None	85%	87%	81%	91%	86%	79%	78%	77%	72%	87%	82%	85%	88%	91%	80%	86%	74%	69%

[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, 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 remained steady in Q3 2020 at $0.50 million, compared to $0.51 million in Q2. In contrast, the median amount raised in post-Seed bridges decreased dramatically, from $3.93 million in Q2 to $1.50 million in Q3, a low not seen since Q4 2018.

Deal Terms – Bridge Loans

The percentage of pre-Seed bridge loans with maturity periods of 12 or more months increased from 87% in 2019 to 89% in Q1-Q3 2020, with 85% of loans having interest rates below 8%, as compared to 87% in 2019. The percentage of pre-Seed bridge loans subordinated to other debt declined significantly, from 27% in 2019 to 15% in Q1-Q3 2020. The number of pre-Seed bridge loans that are convertible to equity at discounted prices increased from 68% in 2019 to 81% in Q1-Q3 2020, and the number of such convertible loans receiving a discount rate of 20% or more on conversion also increased, from 81% in 2019 to 88% in Q1-Q3 2020.

The percentage of post-Seed bridge loans with maturity periods of 12 or more months increased from 74% in 2019 to 78% in Q1-Q3 2020, with 51% of loans having interest rates below 8%, as compared to 70% in 2019. The percentage of Q1-Q3 2020 post-Seed bridge loans subordinated to other debt remained the same as 2019 (49%). The same share (96%) of post-Seed bridge loans were convertible into equity in Q1-Q3 2020, but the percentage of those subject to a price cap decreased, from 51% in 2019 to 33% in Q1-Q3 2020. The number of pre-Seed bridge loans that are convertible to equity at discounted prices slipped from 81% in 2019 to 74% in Q1-Q3 2020, and the number of such convertible loans receiving a discount rate of 20% or more on conversion also decreased, from 73% in 2019 to 71% in Q1-Q3 2020.

Median Amount Raised – Bridge Loans

Bridge Loans – Deal Terms (Wilson Sonsini Deals)[1]

Bridge Loans	2015 Pre-Seed	2016 Pre-Seed	2017 Pre-Seed	2018 Pre-Seed	2019 Pre-Seed	Q1-Q3 2020 Pre-Seed	2015 Post-Seed	2016 Post-Seed	2017 Post-Seed	2018 Post-Seed	2019 Post-Seed	Q1-Q3 2020 Post-Seed
Interest rate less than 8%	74%	76%	75%	67%	87%	85%	54%	52%	56%	65%	70%	51%
Interest rate at 8%	19%	19%	17%	22%	4%	12%	33%	30%	27%	25%	22%	37%
Interest rate greater than 8%	7%	5%	8%	11%	9%	3%	13%	17%	17%	10%	8%	12%
Maturity less than 12 months	17%	17%	22%	21%	13%	11%	34%	29%	41%	21%	26%	21%
Maturity at 12 months	9%	5%	8%	13%	9%	9%	8%	23%	19%	26%	14%	15%
Maturity more than 12 months	74%	78%	69%	67%	78%	80%	58%	49%	41%	53%	60%	63%
Debt is subordinated to other debt	15%	20%	28%	23%	27%	15%	38%	45%	33%	47%	49%	49%
Loan includes warrants[2]	3%	8%	0%	4%	2%	0%	25%	17%	16%	18%	8%	8%
Warrant coverage less than 25%	100%	80%	N/A	0%	100%	N/A	47%	23%	43%	33%	80%	60%
Warrant coverage at 25%	0%	0%	N/A	0%	0%	N/A	7%	15%	14%	11%	0%	0%
Warrant coverage greater than 25%	0%	20%	N/A	100%	0%	N/A	47%	62%	43%	56%	20%	40%
Principal is convertible into equity[3]	93%	97%	97%	90%	96%	94%	86%	92%	92%	87%	96%	96%
Conversion rate subject to price cap[4]	64%	79%	74%	69%	69%	69%	26%	29%	34%	25%	51%	33%
Conversion to equity at discounted price[5]	78%	82%	89%	83%	68%	81%	71%	74%	76%	85%	81%	74%
Discount on conversion less than 20%	11%	12%	16%	23%	18%	12%	25%	25%	20%	20%	27%	29%
Discount on conversion at 20%	73%	76%	74%	60%	63%	69%	47%	49%	50%	48%	57%	40%
Discount on conversion greater than 20%	16%	12%	10%	17%	18%	19%	27%	26%	30%	33%	16%	31%
Conversion to equity at same price as other investors	18%	13%	3%	14%	12%	9%	25%	19%	24%	6%	11%	20%

[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] 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. Of the 2019 post-Seed bridges with warrants, 71% also had a discount on conversion into equity. Of the Q1-Q3 2020 post-Seed bridges with warrants, 25% also had a discount on conversion into equity.

[3] 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 2019 pre-Seed convertible bridges, 100% had automatic conversion. Of the Q1-Q3 2020 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 2019 post-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. Of the Q1-Q3 2020 post-Seed convertible bridges, 92% had automatic conversion and 8% 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 2019 median dollar threshold for a qualified financing in pre- and post-Seed bridges was $3M and $8M, respectively. The Q1-Q3 2020 median dollar threshold for a qualified financing in pre- and post-Seed bridges was $3M and $10M, respectively.

[4] 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 2019 median price cap in pre- and post-Seed bridges was $9M and $35M, respectively. The Q1-Q3 2020 median price cap in pre- and post-Seed bridges was $8M and $50M, respectively.

[5] 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 2019 post-Seed bridges that had a discount on conversion into equity, 7% had warrants. Of the Q1-Q3 2020 post-Seed bridges that had a discount on conversion into equity, 3% had warrants.

An Interview with Dr. Wasim Malik of Iaso Ventures

(continued from page 1)

we noticed related to innovation and early-stage investments in the neuroscience and mental health space. In contrast with generalist investment firms, our strategy revolves around an investor-operator team with deep sector expertise and an innovation ecosystem comprising value-add strategic partners. I am also delighted about the strategic partnership Iaso Ventures has with Wilson Sonsini.

Mark: What was your personal interest in neuroscience, and what drew you to it in your career?

Wasim: Many of us are intrigued and inspired by the mysteries that remain unsolved in whatever age we happen to be born in. For me, the brain represents the next major frontier for exploration and discovery. In my journey through academic training and working in various industry sectors, from telecommunications and software to healthcare, I concluded that the brain and mind have defied human understanding through the eons. Demystifying the brain was something that would motivate me to get out of bed in the morning, so it seemed appropriate to turn this interest into a career.

The human genome project really was when we turned the corner in our understanding of genetics. We have not hit a similar milestone in neuroscience yet; therefore, our understanding of the brain remains rudimentary at best. Even the most basic innovations in brain science can greatly impact human society. This important knowledge gap and the opportunity for social and business impact made it an easy decision for me to jump headfirst into neuroscience innovation and investing.

Mark: Iaso Ventures is a new fund and you have a unique model. You call it the Iaso Ventures Studio. Tell us about the studio model, how it works, how it differs from other models, and any other unique attributes.

Wasim: The venture studio model is not a new invention—it goes back 25 years and has been performing well in building high-value start-ups, especially in the tech industry. Rather than providing only investment dollars or hands-off advisory, the studio model pairs up entrepreneurs with experienced operators to roll up their sleeves and co-create new ventures. The success of the studio model can be seen in the recent IPO of Snowflake—the largest software IPO to date. Snowflake was started at Sutter Hill Ventures' studio. The attraction for investors is obvious, because the returns are far higher than when achieved only with a "lazy-money" approach.

At Iaso, we have adopted the studio model to work with early-stage companies in a hands-on way to help them grow and reach the next value inflection point at an accelerated pace. We also identify market gaps through our extensive landscape analysis, opportunistically ideating and creating new ventures from the ground up. My belief is that this model brings the real value-add the market requires, particularly in specialty markets such as neuroscience, where domain expertise makes all the difference.

Mark: What are you looking for in your portfolio companies? And what are some of the qualities that you have seen in successful portfolio companies?

Wasim: Like most investors, we follow a structured and disciplined deal analysis and due diligence process. Some of the key factors are the differentiated technology that a company has developed, the robustness of the intellectual property, and the approach to the regulatory and reimbursement environment.

But perhaps most importantly, we like to look at the team. As early-stage investors, we really invest in teams that are capable of executing, have a track record of innovation and achievement, and are able to perform nimbly under ever-changing market conditions. We even have an in-house organizational psychologist and leadership coach to assess the start-up team dynamics, build upon strengths, and fill any gaps.

We also pay serious attention to the question "Who cares?" Often, we see exciting new technologies, but the market may not be ready, the pathway to commercialization may not be clear, or the journey of identifying customers and creating initial traction may not have started. In those cases, we really like to sit down with our entrepreneurs and figure out who should care and how to make them care.

Mark: How does Iaso Ventures fit into the overall life sciences ecosystem in Boston, and more broadly, throughout the U.S. or internationally?

Wasim: We are fortunate to be headquartered in Boston, the global headquarters for life sciences innovation, with the highest concentration of biopharma companies and some of the world's top research powerhouses. This ecosystem provides the best opportunities and resources to build great companies by sourcing technology from top-tier schools, working with well-regarded KOLs, and leveraging a dense cluster of strategics and investors. The Iaso Ventures team spans the major innovation hubs across the U.S. and has cultivated robust international connections.

Mark: As you look ahead, do you envision any expansion to your industry scope for additional or different vectors that could be of interest?

Wasim: Iaso Ventures is charting out a bold agenda to imagine the future of neuroscience and lay out the infrastructure to enable that future. We are philosophically inspired by what the World Economic Forum refers to as the "Fourth Industrial Revolution," where the boundaries between the biological, physical, and digital realms are blurred.

By embracing this transformative vision, we are expanding our mission to push the envelope at the intersection of healthcare and technology as it applies to neuroscience and mental health. As part of this exercise, we see the world of innovation through the lens of restructuring traditional business models with extensive horizontal and vertical integration.

When applied to the future outlook for venture, we expect that these moving tectonic plates will give rise to unforeseen cross-industry partnerships and exit pathways. As a recent example, we saw that Boston-based Control Labs, a start-up with roots in medtech, was acquired by Facebook for potential use in future human-computer interaction technology.

Mark: Are you seeing any sectors that might be more attractive due to the current state of the market or other drivers?

Wasim: It is no surprise that the healthcare market has experienced massive growth during the pandemic. Certain healthtech applications have seen a significant uptick, prominent among them digital technologies for telehealth, now being used both for care delivery at home and for virtual clinical trials. We expect these industry trends will only grow in the coming years.

In the medium term, we foresee great potential for expansion across the tech-enabled healthcare services spectrum, especially in digital diagnostics and therapeutics. We can also see the switch from sick care to preventive care, although these are still early days.

Mark: Do you have any concerns about the market and risk factors related to the pandemic?

Wasim: The most significant risk during the pandemic has been the ability to raise capital and maintain sufficient runway. We've seen some degree of correction and consolidation in the private markets. In the early days of the pandemic, investors mostly directed their dry powder toward existing investments rather than making new bets. I read about predictions that 70 percent of start-ups would collapse, but that did not happen. Many overestimated the effects that the pandemic would have on capital markets, as it is typical for capital markets to overreact, but because of various factors, private markets have more or less remained stable.

In the healthcare and life sciences industry, some of the risk factors remain the same as before—primarily due to big bets being made on new, game-changing technology platforms or disease-modifying therapeutics. Overall, the pandemic hasn't increased the venture market risk profile. In fact, historical data suggests that during recessions, public equities can be up to 13 times riskier than private equity, which can partly be attributed to the long time horizon and consequent stability of VC/PE investments.

Mark: Do you see behavioral health issues developing as an impending crisis? What's your take on why it's a growing concern?

Wasim: Currently, one in every five individuals globally suffers from a mental health issue. Several factors suggest that there will be an increase in the mental health crisis. One reason is that we've succeeded in prolonging life, so we have an aging population, and corresponding age-related diseases and quality-of-life issues. An aging population means higher prevalence of dementia, for example, and higher cost of elder care. There has been a significant rise in behavioral health issues such as addiction, depression, and anxiety, especially among teens and millennials, which can be attributed to increased isolation and the lack of social connectedness. The pandemic has only exacerbated these challenges.

While this sounds ominous, there are also reasons to rejoice. Policy changes, such as the Mental Health Parity Act, have enabled greater access to mental health services. There is a shift toward new pricing models, such as for therapeutic development for rare diseases, which makes it possible to develop new cures in an economically viable way. Value-based reimbursement models are shifting focus toward healthcare outcomes and prevention-based approaches, promoting population health initiatives.

Mark: What industries do you see advancing in 2021, or in the next five to 10 years? Where do you think the next big disruption will occur?

Wasim: In 2021 and beyond, we expect to see advances in more game-changing platforms for therapeutic development. Increased interest in gene editing and stem cell technologies, for example, has spawned vigorous R&D activity. New approaches are being developed for the medical use of naturally existing substances or their synthetic equivalents, such as psychedelic medicines for treating depression and PTSD. And finally, we notice a focus on connected health platforms for patients, caregivers, and providers, which can improve workflow and ultimately increase the productivity of the overall healthcare system and, in the end, improve patient care and quality of life.

Mark: Do you see signals that deal flow is trending upward?

Wasim: In neuroscience and mental health, deal flow has continued to increase significantly in the last few years. When we first started Iaso Ventures, we were concerned about both the quality and quantity of deal flow. However, our timing coincided perfectly with the upswing in the market interest in neuroscience as a sector, resulting in rich deal activity. Alongside, we see robust interest from investors in this specific sector, both for its societal impact and the potential of outsized returns.

Mark: Thinking globally, what geographic markets are you and your portfolio companies most interested in?

Wasim: Brain health is of course a global issue. It's fair to say it affects emerging markets as much as it affects us here in the U.S., opening up global scaling opportunities. We're also seeing great innovation in neuroscience and mental health in many geographies around the world, such as Israel, Canada, Japan, and certain other countries. In recent weeks, there have been announcements about launching a multibillion-dollar global initiative to promote mental health.

Mark: Are there any new developments with Iaso Ventures you'd like to share?

Wasim: In our quest to build bridges with global and especially emerging markets, we're actively expanding our geographical footprint by leveraging our international networks. This will help us cast a bigger net for deal sourcing, allow our start-ups to access global markets, and open up opportunities for global scaling. We will be announcing several international partnerships in the coming months.

In addition to an all-star core team that I am most proud of, we are building a stellar advisory group to establish Iaso Ventures at the forefront of thought leadership both in neuroscience R&D and in emerging business models that can support fast-paced innovation.

Mark: As managing director of a fund, an investor, and with regard to your portfolio companies, how do you plan to apply a diversity and inclusion initiative?

Wasim: I am proud to restate our commitment to promoting equal opportunity and ensuring that the core values of diversity and inclusivity are reflected in our team and portfolio composition. By bringing these issues to the forefront, the Black Lives Matter movement earlier this year has provided tailwind to our efforts. We plan to continue our mission of boosting minority and women's representation in the venture industry. As an immigrant and minority founder myself, I am acutely aware of the many hurdles faced by women and people of color in the venture industry. Through specific firm-wide initiatives, we are taking steps to correct these societal imbalances and promote underrepresented communities as founders, investors, and executives. I want to point out that this focus on equitable representation does not come at a price to our investors. On the contrary, diversity of backgrounds and experiences is known to boost the potential for much higher returns.

Mark: What is it like being an investor during the pandemic?

Wasim: Somewhat counterintuitively, the pandemic is the best time for investing in start-ups aiming to solve real business problems with an eye on generating traction and profitability. Historically, funds with vintage in down-market years have consistently outperformed. The reason is that market corrections bring valuations down to realistic levels, promote a survival-of-the-fittest environment, and make available larger talent pools.

The timing could not be better for a neuroscience-focused fund. There are now multiple large studies linking COVID-19 to increased incidence of neurological disorders as well as mental health issues. Iaso Ventures is therefore uniquely positioned to invest in market segments at the cusp of rapid expansion due to the pandemic.

Mark: What is your view on the utility of the scientific advisory board from the perspective of the CEO or CFO, board, and investors?

Wasim: The team is one of the foremost things we evaluate in our investment decisions. The scientific advisory board is a critically important segment of the team, especially in life sciences and healthtech start-ups. We talked earlier about the role our firm's location plays in our business strategy. In the East Coast healthcare and life sciences investment market, we tend to be evidence-based and data-driven. We pay attention to the composition of the scientific advisory board, the complementarities of the individuals involved, the ability of those individuals to identify and capture opportunities nimbly, and the ability to adapt in light of new discoveries or challenges along the way.

Mark: What kinds of questions are you asked most often by entrepreneurs?

Wasim: People that aren't shy about asking questions and are capable of active listening make good entrepreneurs. The most naïve questions are the best ones, as new directions of inquiry can promote outside-the-box thinking and generate paradigm-shifting insights. Candid feedback—and tough love where needed—coupled with the ability to pivot quickly and pivot often, can spell the difference between roaring success and crash-and-burn situations.

I usually advise early-stage entrepreneurs to not be fixated on the uniqueness of their idea or the coolness of their technology, but instead to focus on the business model and the path to profitability. To turn your question around, the question I most often ask of entrepreneurs is, "So what?"

Mark: Do you have any additional advice for new entrepreneurs?

Wasim: A core tenet of entrepreneurship is that it takes a village. My advice for new entrepreneurs is to build a team around themselves that falls in place like pieces of a puzzle. Once you surround yourself with people smarter than yourself, "constructive collisions" start to take place, which generate bold ideas and launch great companies. It's important to surround yourself with differing opinions and encourage disagreement.

Mark: What are the qualities you look for with respect to your outside attorneys, and what do you encourage entrepreneurs to look for when selecting counsel?

Wasim: It goes without saying that having specific expertise within one's industry is a core requirement, but perhaps even more importantly, personal chemistry and trust are critical. Selecting counsel is part of the journey of building a business that lasts for years and years, so the selection of legal partners should be thoughtful.

It is advisable to look at the track record of any legal or other partner an entrepreneur chooses to work with, and develop a comfort level that the partner has relevant subject-specific expertise and a broad market footprint. That often translates into working with firms that are highly reputed within the specific industry, have a global presence, and offer full-service capabilities that can address any sphere of legal needs as they arise. Outstanding law firms such as Wilson Sonsini, which are known for their entrepreneurial DNA and for going to bat for their start-up clients, are the ideal partners for entrepreneurs.

Prior to becoming the managing partner at Iaso Ventures, Dr. Wasim Malik served as chief digital strategist at Roivant Sciences, a global biopharma company. He also served on the faculty at Harvard Medical School and Massachusetts General Hospital, where he built a research program on tech-enabled clinical research in neuroscience, anesthesia, and critical care. In addition, Dr. Malik taught entrepreneurship, neuroscience, and machine learning at MIT, and served on the visiting faculty at Brown University. He received a Ph.D. in electrical engineering from Oxford, postdoctoral training in neuroscience from MIT, and finance education in venture capital and private equity from Harvard Business School.

Learn more about Iaso Ventures and Dr. Malik at https://iasoventures.com/.

Mark Solakian is a founding partner of Wilson Sonsini's Boston office. He has more than 20 years of experience working with private and public companies, both as external and in-house general counsel focused on advising early- and late-stage life sciences and technology companies. Mark has an extensive background in venture capital financings, technology transactions, strategic alliances, corporate governance, mergers and acquisitions, and public and private equity and debt offerings.

To learn more about Mark, visit his attorney bio at https://www.wsgr.com/mark-solakian.

Beauhurst

UK Equity Investment: Q3 2020

Introduction

Investment in 2020 got off to a flying start, with £2.96B invested over 488 deals in Q1, building on a record-breaking 2019. But this quickly stalled with the bleak uncertainty of the coronavirus pandemic and the subsequent lockdown measures in March.

As we've all borne witness to over the past nine months, statistical models and data projections can only do so much. Now, at the end of Q3, we have a more solid understanding of the conditions we're living in, as well as overall investor sentiment.

The Big Picture

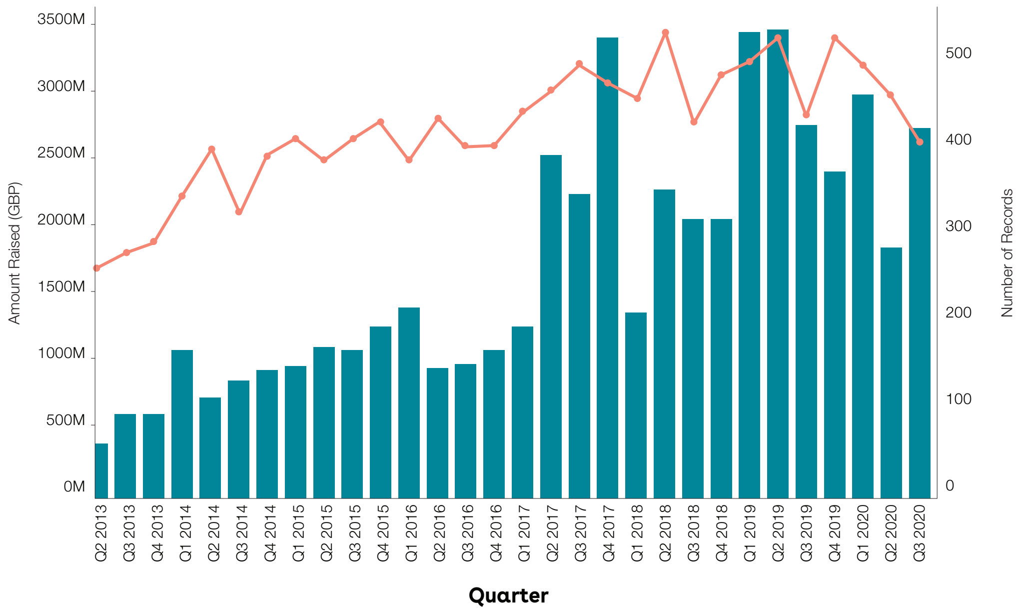
UK private companies secured £2.7B in equity investment in Q3 2020, marking a 48% increase from Q2 2020 and just a 1% drop from Q3 2019. Investors are still pumping significant cash into the start-up economy, no doubt facilitated by the UK Government's Future Fund, which was announced in April to support innovative companies.

This capital has, however, been deployed over fewer rounds than previous quarters. Just 402 investments were completed in Q3 2020, a 12% drop from the previous quarter and a 7% drop from Q3 2019. Quarterly fluctuations in investment figures are normal, but this three-quarter-long drop in deal numbers is the most prolonged on record.

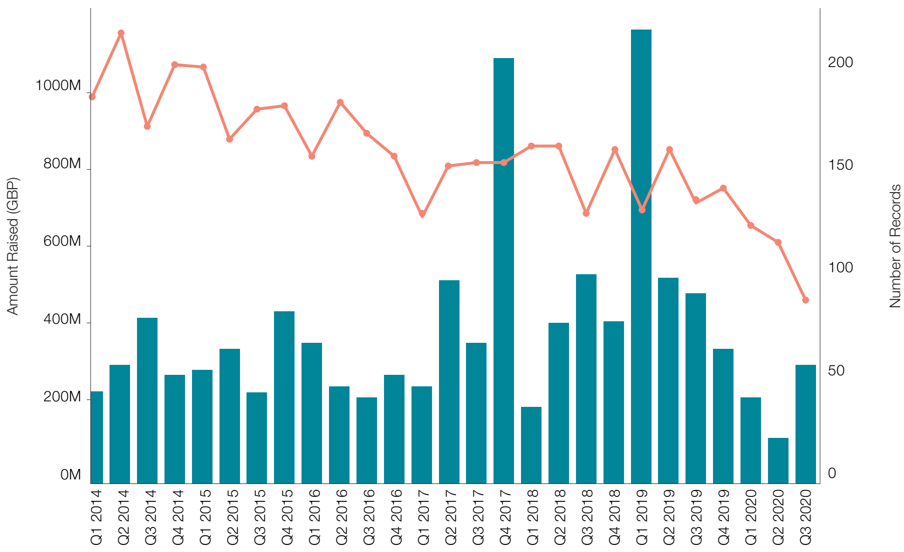
This, of course, means that the average deal size has increased in Q3. More and more capital is being allocated to later-stage and more stable ventures, which require—and are more able to take on—large sums of money. This is indicative of the maturing start-up market, with greater opportunities progressing into these later stages of growth. It may also be evidence of investors shoring up their existing portfolio companies, rather than backing speculative investments into new opportunities.

But this means that small sums of capital to help promising businesses get up and running are harder to come by. This trend has been apparent for the past several years, but it has been catalyzed by both the pandemic and unpredictable government measures that prevent businesses from operating normally.

Number and Amount Raised



First-Time Fundraising Number and Amount



Company Stages

Indeed, the number of seed-stage deals in Q3 dropped 20% from Q2 2020 and 6% from Q3 2019. Just £128M was invested into seed-stage businesses, the lowest amount since Q3 2017.

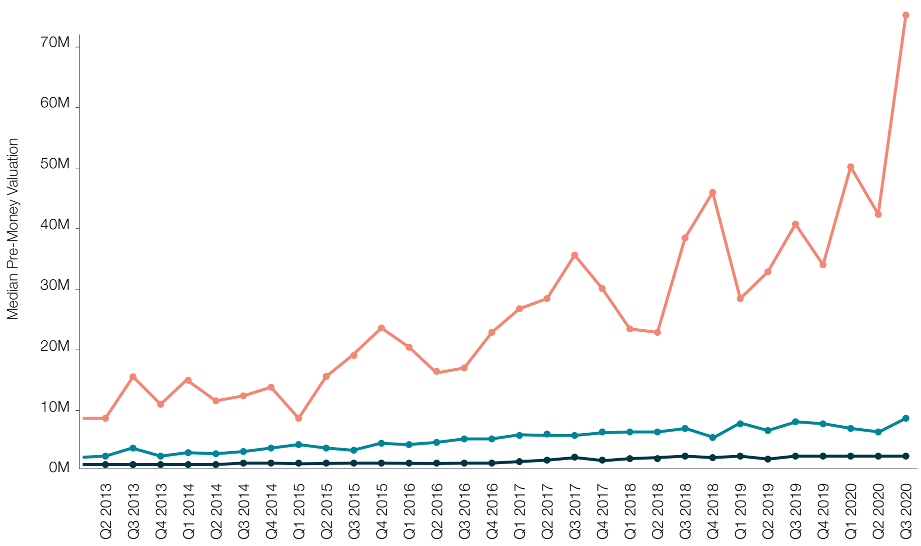
Perhaps most concerning is that first-time fundraising fell to a new low. Just 87 first-time raises were completed between July and September, marking a 59% decline from a high of 214 in Q2 2014. First-time rounds represented just 22% of all investments in Q3, compared with 31% in Q3 2019. The next generation of start-ups will be in jeopardy if this trend continues and they cannot access the support needed to survive their riskiest stages.

Valuations

At the beginning of the pandemic, we might have expected to see a drop in company valuations, as previously generous estimations would be "corrected" in a more cautious and cynical climate.

Although venture and growth-stage deals saw a dip in median valuations in Q2 2020, these were nothing out of the ordinary, with the rate of decline in keeping with other quarterly fluctuations. By Q3 2020, the story was positive. Both growth and venture-stage companies have had a record quarter for median pre-money valuations, at £74.8M and £8.73M, respectively. But it's important not to get too carried away by this figure. The additional £300B of quantitative easing announced by the government since March is certainly playing a part in driving up asset prices. The impact of bond buying has trickled down to riskier classes like venture capital.

Median Valuation



Conclusion

Overall, Q3 2020 seems to have been positive for UK investment—all things considered. Figures are down but certainly not out, with help from government stimuli.

There are, however, some warning signs, especially for those early-stage businesses that lack the runway to cope with another lockdown, and many won't survive. But this is to be expected in the midst of a global crisis. Our hope is that there will be a host of excited investors who are there to step in and rally around young start-ups once we're out the other side. That's unlikely to take place in Q4 2020, what with the resurgence of coronavirus through the winter months and different restrictions implemented in hot spots across the country. But only time—and good data—will tell how much of an impact this will have on investors.

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 30,000 high-growth private companies in the UK, many of which are solving global problems and pioneering new technology.

https://about.beauhurst.com/

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 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. 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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