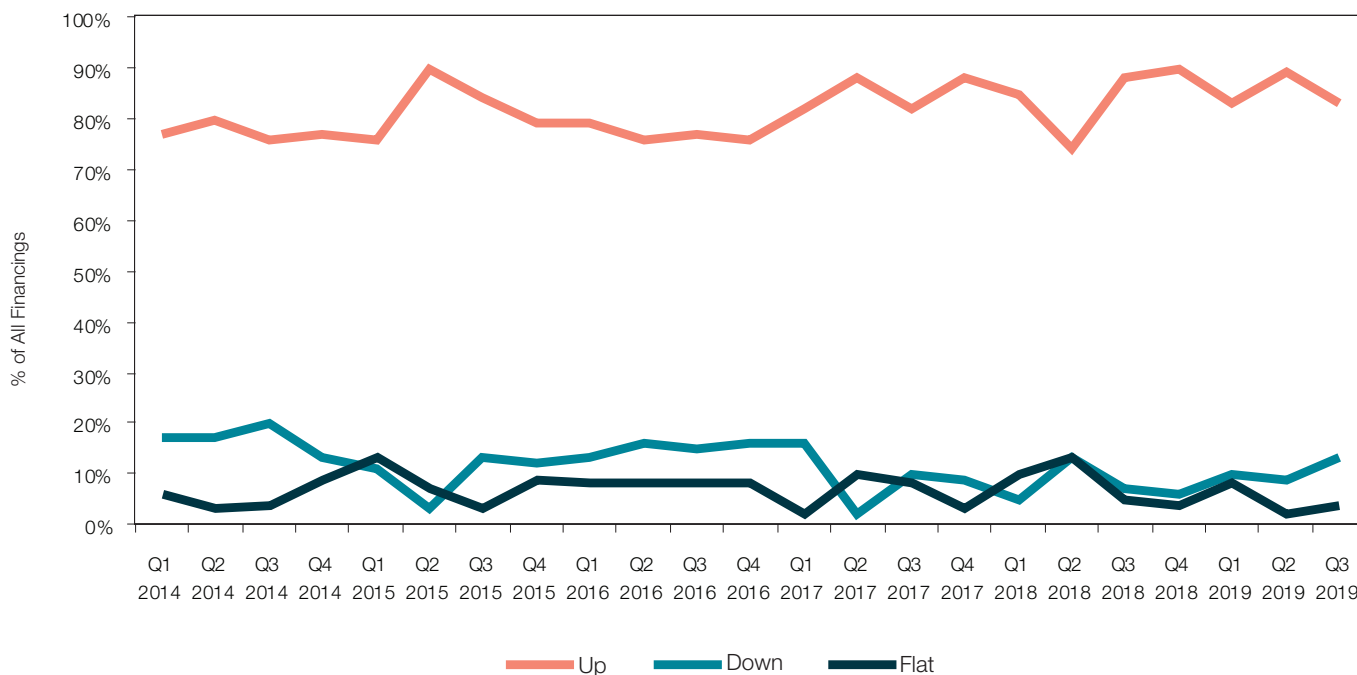


**THE ENTREPRENEURS REPORT**  
Private Company Financing Trends

From the Wilson Sonsini Database:  
**Financing Trends for Q3 2019**

Up and Down Rounds by Quarter



**In This Issue**

**Financing Trends for Q3 2019** ..... Pages 1-6

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

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

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

Compared to the record-setting valuations and amounts raised in Q2 2019, deal sizes and valuations in Q3 2019 seem lackluster, but when considered in relation to earlier quarters, the median values show that market conditions for venture funding remained strong in the third quarter of 2019. Nonetheless, the decline in median amounts raised is notable. Series C and later financings took the largest hit, with the Q3 2019 median amount raised tumbling to less than

half of that of the prior quarter. Is this the beginning of the long-anticipated slowdown in late stage, high valuation deals?

In contrast, for convertible note financings, the median amount raised in post-Seed bridge loans in Q3 2019 increased nearly threefold from Q2 2019, although the median amount raised in pre-Seed bridges fell modestly from the prior quarter. The increase in amounts raised in late stage bridge loans may

THE ENTREPRENEURS REPORT: Private Company Financing Trends

reflect companies preparing for expected future fundraising challenges.

**Up and Down Rounds**

The proportion of up round financings declined in Q3 2019, decreasing from 89% in Q2 to 83% of Series B and later financings in the quarter. The share of down round financings increased, from 9% in Q2 2019 to 13% in Q3. Flat rounds also increased slightly from 2% of financings in Q2 2019 to 4% in Q3.

**Valuations**

Median pre-money valuations for Series A and later financings in Q3 2019

retreated slightly from the record highs reached in Q2 2019, but remained well above five-year medians. The median pre-money valuation for Series Seed financings remained steady in Q3 2019 at \$9.0 million, while the median Series A valuation fell from \$27.0 million in Q2 2019 to \$24.0 million in Q3. The median pre-money valuation for Series B rounds also backed off the historic high of \$80.0 million reached in Q2 2019, but the Q3 median of \$62.7 million remained in line with that of Q1 2019.

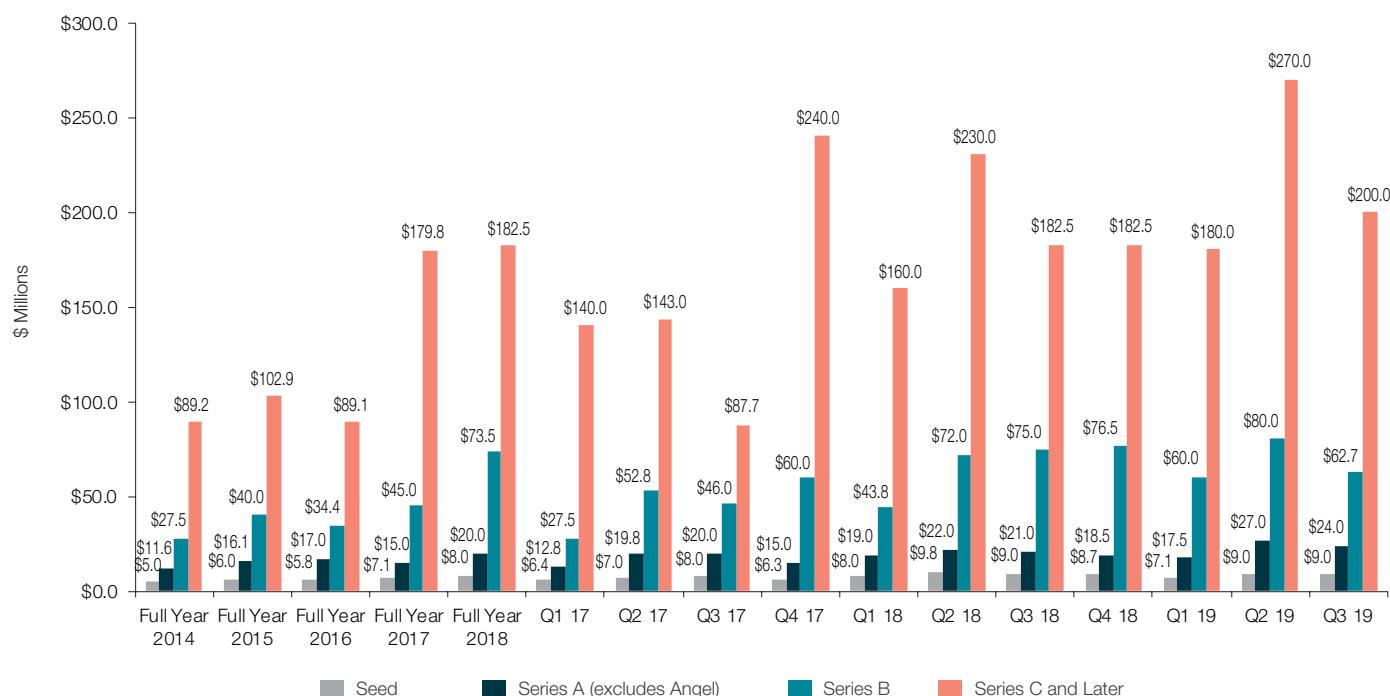
The median pre-money valuation for Series C and later deals declined from the high reached in Q2 2019 of \$270.0

million to \$200.0 million in Q3, still exceeding the full-year 2018 median of \$182.5 million.

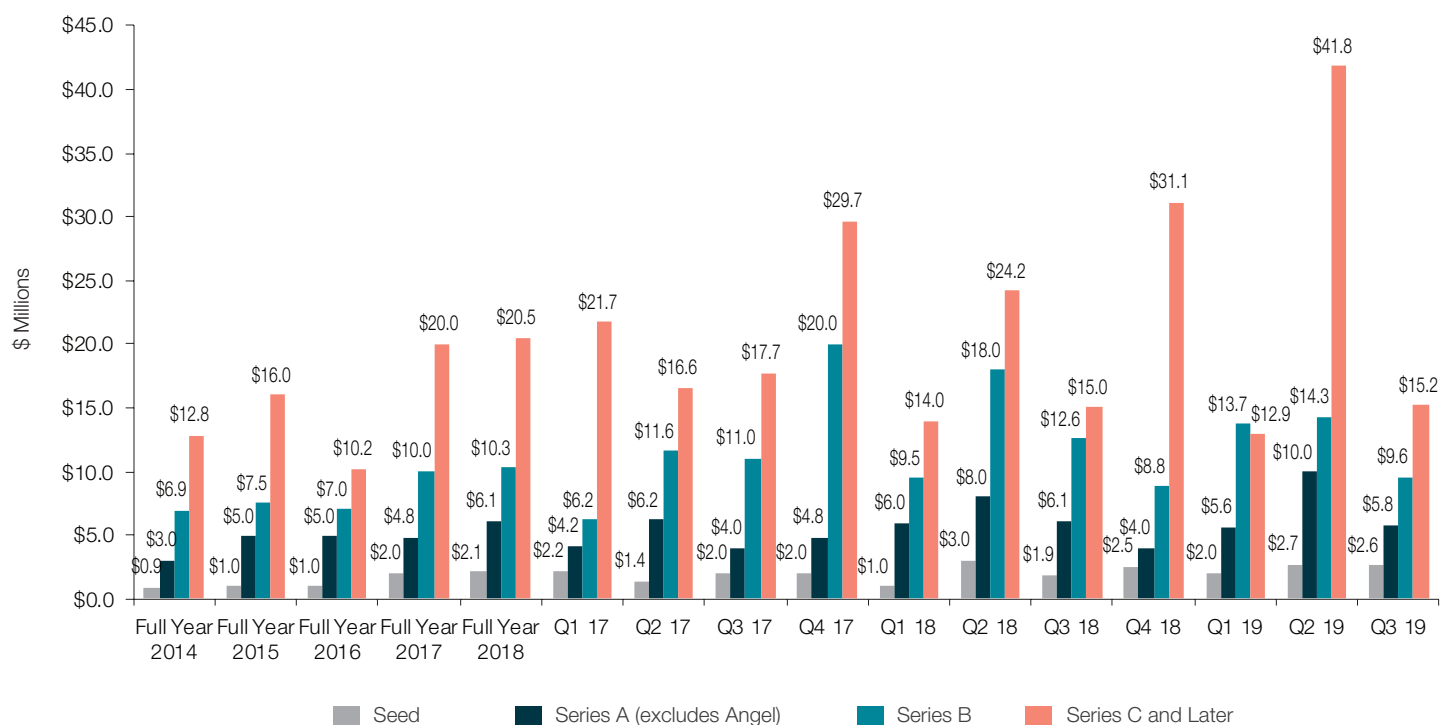
**Amounts Raised**

Median amounts raised fell for all rounds in Q3 2019. The median amount raised for Series Seed financings declined slightly from \$2.7 million in Q2 2019 to \$2.6 million in Q3. The median amount raised for Series A financings fell significantly from Q2's record high of \$10.0 million to \$5.8 million in Q3, closer to the median seen in Q1 2019 of \$5.6 million. The median amount raised in Series B financings retreated from

**Median Pre-Money Valuation**



## Median Amount Raised – Equity Financings



\$14.3 million in Q2 2019 to \$9.6 million in Q3 2019, the lowest median quarter of 2019 so far, but surpassing the Q4 2018 median of \$8.8 million.

The Q3 2019 median amount raised in Series C and later financings fell sharply from the high of \$41.8 million in Q2 2019 to \$15.2 million in Q3. Nonetheless, the quarter median remained higher than the Q1 2019 median of \$12.9 million.

### Deal Terms—Preferred

Sixty-three percent of post-Series A rounds used *pari passu* liquidation

preferences in Q1-Q3 2019, as compared to 69% in full year 2018. The percentage of down rounds with senior liquidation preferences increased dramatically, from 36% in 2018 to 63% in Q1-Q3 2019; meanwhile, the percentage of down rounds with *pari passu* preferences fell from 64% in 2018 to 38% in Q1-Q3 2019.

The percentage of financings with no participation decreased slightly from 88% in 2018 to 86% in Q1-Q3 2019. The use of redemption rights increased moderately, accounting for 18% of Q1-Q3 2019 financings, up from 13% in 2018.

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 Emerging Companies section of the firm's website: [www.wsgr.com](http://www.wsgr.com).

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

	2014 All Rounds <sup>2</sup>	2015 All Rounds <sup>2</sup>	2016 All Rounds <sup>2</sup>	2017 All Rounds <sup>2</sup>	2018 All Rounds <sup>2</sup>	Q1-Q3 2019 All Rounds <sup>2</sup>	2014 Up Rounds <sup>3</sup>	2015 Up Rounds <sup>3</sup>	2016 Up Rounds <sup>3</sup>	2017 Up Rounds <sup>3</sup>	2018 Up Rounds <sup>3</sup>	Q1-Q3 2019 Up Rounds <sup>3</sup>	2014 Down Rounds <sup>3</sup>	2015 Down Rounds <sup>3</sup>	2016 Down Rounds <sup>3</sup>	2017 Down Rounds <sup>3</sup>	2018 Down Rounds <sup>3</sup>	Q1-Q3 2019 Down Rounds <sup>3</sup>
<b>Liquidation Preferences - Series B and Later</b>																		
Senior	40%	33%	38%	35%	31%	34%	32%	31%	36%	31%	28%	29%	68%	35%	41%	63%	36%	63%
<i>Pari Passu</i> with Other Preferred	56%	62%	57%	62%	69%	63%	64%	66%	62%	66%	72%	68%	21%	53%	45%	38%	64%	38%
Junior	0%	1%	1%	0%	0%	1%	0%	1%	0%	0%	0%	1%	0%	0%	5%	0%	0%	0%
Complex	2%	3%	4%	3%	0%	2%	2%	1%	2%	4%	0%	2%	5%	12%	9%	0%	0%	0%
Not Applicable	3%	1%	0%	0%	0%	0%	2%	1%	0%	0%	0%	0%	5%	0%	0%	0%	0%	0%
<b>Participating vs. Non-participating</b>																		
Participating - Cap	12%	8%	9%	6%	5%	5%	14%	11%	10%	7%	5%	4%	13%	12%	22%	31%	7%	6%
Participating - No Cap	14%	11%	11%	10%	7%	10%	11%	12%	13%	11%	7%	10%	32%	35%	4%	19%	14%	38%
Non-participating	74%	81%	81%	84%	88%	86%	76%	77%	77%	82%	88%	86%	55%	53%	74%	50%	79%	56%
<b>Dividends</b>																		
Yes, Cumulative	13%	3%	6%	7%	7%	5%	11%	3%	7%	9%	9%	7%	24%	24%	22%	13%	23%	13%
Yes, Non-cumulative	72%	82%	73%	78%	61%	59%	74%	86%	78%	78%	62%	66%	71%	76%	70%	81%	69%	81%
None	15%	15%	21%	16%	32%	36%	15%	11%	15%	13%	29%	28%	5%	0%	9%	6%	8%	6%
<b>Anti-dilution Provisions</b>																		
Weighted Average - Broad	85%	80%	92%	94%	94%	94%	90%	86%	92%	96%	94%	99%	92%	75%	91%	100%	100%	88%
Weighted Average - Narrow	9%	13%	1%	2%	2%	0%	6%	12%	1%	1%	3%	0%	5%	19%	0%	0%	0%	6%
Ratchet	1%	1%	1%	0%	0%	1%	1%	1%	2%	0%	0%	0%	0%	0%	0%	0%	0%	6%
Other (Including Blend)	1%	1%	3%	1%	1%	1%	1%	1%	3%	1%	1%	0%	0%	0%	9%	0%	0%	0%
None	4%	5%	3%	3%	3%	4%	2%	1%	2%	1%	2%	1%	3%	6%	0%	0%	0%	0%
<b>Pay to Play - Series B and Later</b>																		
Applicable to This Financing	4%	5%	5%	2%	4%	1%	1%	3%	3%	2%	1%	0%	16%	18%	9%	6%	0%	13%
Applicable to Future Financings	0%	1%	1%	0%	1%	1%	0%	0%	1%	0%	1%	1%	0%	12%	0%	0%	0%	0%
None	96%	94%	94%	98%	95%	98%	99%	97%	96%	98%	97%	99%	84%	71%	91%	94%	100%	88%
<b>Redemption</b>																		
Investor Option	17%	13%	11%	12%	8%	11%	22%	19%	20%	19%	10%	15%	24%	12%	9%	20%	14%	25%
Mandatory	3%	2%	2%	7%	1%	2%	3%	3%	3%	9%	3%	3%	3%	0%	0%	0%	0%	0%
None	80%	85%	87%	81%	91%	87%	75%	78%	77%	72%	87%	82%	74%	88%	91%	80%	86%	75%

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

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

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

### Bridge Loans

The median amount raised in pre-Seed bridges decreased slightly in Q3 2019, from \$0.43 million in Q2 2019 to \$0.38 million in Q3. In contrast, the median amount raised in post-Seed bridges increased dramatically from \$1.58 million in Q2 2019 to \$4.25 million in Q3, which is the highest median amount raised in the last five years.

### Deal Terms—Bridge Loans

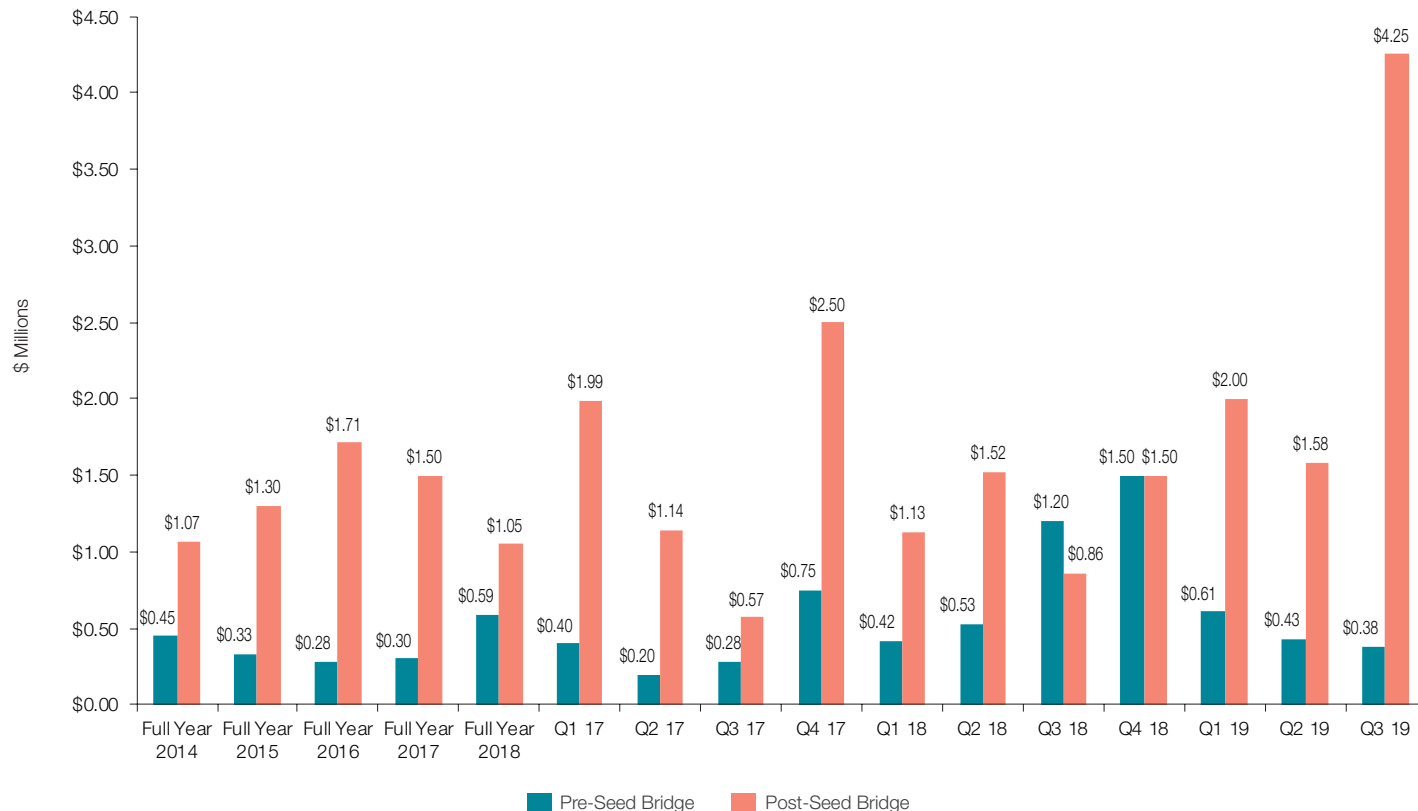
The percentage of pre-Seed loans with maturity periods of 12 or more months increased from 80% in 2018 to 87% in Q1-Q3 2019, with 13% of loans having

interest rates of at least 8%, as compared to 33% in 2018. The percentage of pre-Seed bridge loans subordinated to other debt remained steady at 24% in Q1-Q3 2019, as compared to 23% in 2018. The number of pre-Seed bridge loans that are convertible to equity at discounted prices also remained steady at 82% in Q1-Q3 2019, as compared to 83% in 2018, and the number of such convertible loans receiving a discount rate of 20% or more on conversion increased from 77% in 2018 to 84% in Q1-Q3 2019.

The percentage of post-Seed loans with maturity periods of 12 or more months decreased from 79% in 2018 to 75% in

Q1-Q3 2019, with 33% of loans having interest rates of at least 8%, as compared to 35% in 2018. The percentage of post-Seed bridge loans subordinated to other debt rose from 47% in 2018 to 58% in Q1-Q3 2019. Fewer post-Seed bridge financings had warrants in Q1-Q3 2019 than in 2018, decreasing from 18% in 2018 to 11% in Q1-Q3 2019, most (80%) of which had warrant coverage less than 25%. The percentage of post-Seed bridge loans convertible to equity increased from 87% in 2018 to 93% in Q1-Q3 2019, and the percentage of those subject to a price cap also increased, from 25% in 2018 to 44% in Q1-Q3 2019.

## Median Amount Raised – Bridge Loans



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

Bridge Loans	2014 Pre-Seed	2015 Pre-Seed	2016 Pre-Seed	2017 Pre-Seed	2018 Pre-Seed	Q1-Q3 2019 Pre-Seed	2014 Post-Seed	2015 Post-Seed	2016 Post-Seed	2017 Post-Seed	2018 Post-Seed	Q1-Q3 2019 Post-Seed
Interest rate less than 8%	72%	74%	76%	75%	67%	87%	43%	54%	52%	56%	65%	67%
Interest rate at 8%	22%	19%	19%	17%	22%	5%	42%	33%	30%	27%	25%	20%
Interest rate greater than 8%	6%	7%	5%	8%	11%	8%	15%	13%	17%	17%	10%	13%
Maturity less than 12 months	12%	17%	17%	22%	21%	14%	24%	34%	29%	41%	21%	26%
Maturity at 12 months	16%	9%	5%	8%	13%	11%	39%	8%	23%	19%	26%	19%
Maturity more than 12 months	71%	74%	78%	69%	67%	76%	37%	58%	49%	41%	53%	56%
Debt is subordinated to other debt	22%	15%	20%	28%	23%	24%	48%	38%	45%	33%	47%	58%
Loan includes warrants <sup>2</sup>	5%	3%	8%	0%	4%	0%	19%	25%	17%	16%	18%	11%
Warrant coverage less than 25%	20%	100%	80%	N/A	0%	N/A	69%	47%	23%	43%	33%	80%
Warrant coverage at 25%	0%	0%	0%	N/A	0%	N/A	0%	7%	15%	14%	11%	0%
Warrant coverage greater than 25%	80%	0%	20%	N/A	100%	N/A	31%	47%	62%	43%	56%	20%
Principal is convertible into equity <sup>3</sup>	98%	93%	97%	97%	90%	95%	94%	86%	92%	92%	87%	93%
Conversion rate subject to price cap <sup>4</sup>	67%	64%	79%	74%	69%	65%	23%	26%	29%	34%	25%	44%
Conversion to equity at discounted price <sup>5</sup>	81%	78%	82%	89%	83%	82%	73%	71%	74%	76%	85%	78%
Discount on conversion less than 20%	10%	11%	12%	16%	23%	15%	25%	25%	25%	20%	20%	23%
Discount on conversion at 20%	72%	73%	76%	74%	60%	65%	44%	47%	49%	50%	48%	59%
Discount on conversion greater than 20%	17%	16%	12%	10%	17%	19%	32%	27%	26%	30%	33%	18%
Conversion to equity at same price as other investors	16%	18%	13%	3%	14%	12%	24%	25%	19%	24%	6%	12%

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

<sup>2</sup> Of the 2014 post-Seed bridges with warrants, 38% also had a discount on conversion into equity. Of the 2015 post-Seed bridges with warrants, 58% also had a discount on conversion into equity. Of the 2016 post-Seed bridges with warrants, 33% also had a discount on conversion into equity. Of the 2017 post-Seed bridges with warrants, 60% also had a discount on conversion into equity. Of the 2018 post-Seed bridges with warrants, 45% also had a discount on conversion into equity. Of the Q1-Q3 2019 post-Seed bridges with warrants, 83% also had a discount on conversion into equity.

<sup>3</sup> Of the 2016 pre-Seed convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the 2017 pre-Seed convertible bridges, 94% had automatic conversion and 6% had voluntary conversion. Of the 2018 pre-Seed convertible bridges, 98% had automatic conversion and 2% had voluntary conversion. Of the Q1-Q3 2019 pre-Seed convertible bridges, 100% had automatic conversion. Of the 2016 post-Seed convertible bridges, 97% had automatic conversion and 3% had voluntary conversion. Of the 2017 post-Seed convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the 2018 post-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. Of the Q1-Q3 2019 post-Seed convertible bridges, 96% had automatic conversion and 4% 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 Q1-Q3 2019 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$3M and \$8M, respectively.

<sup>4</sup> The 2016 median price cap in pre- and post-Seed bridges was \$6M and \$25M, respectively. The 2017 median price cap in pre- and post-Seed bridges was \$10M and \$25M, respectively. The 2018 median price cap in pre- and post-Seed bridges was \$8M and \$40M, respectively. The Q1-Q3 2019 median price cap in pre- and post-Seed bridges was \$9M and \$35M, respectively.

<sup>5</sup> Of the 2014 post-Seed bridges that had a discount on conversion into equity, 10% also had warrants. Of the 2015 post-Seed bridges that had a discount on conversion into equity, 21% also had warrants. Of the 2016 post-Seed bridges that had a discount on conversion into equity, 8% also had warrants. Of the 2017 post-Seed bridges that had a discount on conversion into equity, 13% also had warrants. Of the 2018 post-Seed bridges that had a discount on conversion into equity, 11% also had warrants. Of the Q1-Q3 2019 post-Seed bridges that had a discount on conversion into equity, 13% had warrants.

**WSGR Methodology**

- The Up/Down/Flat analysis is based on WSGR deals having an initial closing in the period reported to ensure that the data clearly reflects current trends.
- The median pre-money valuation is calculated based on the pre-money valuation given at the time of the initial closing of the round. If the issuer has a closing in a subsequent quarter, the original pre-money valuation is used in the calculation of the median for that quarter as well.
- A substantial percentage of deals have multiple closings that span fiscal quarters. The median amount raised is calculated based on the aggregate amount raised in the reported quarter.

This report is based on detailed deal data provided by the firm's corporate and securities attorneys and analyzed by the firm's Knowledge Management department.

For purposes of the statistics and charts in this report, our database includes venture financing transactions in which Wilson Sonsini Goodrich & Rosati represented either the company or one or more of the investors.

# WILSON SONSINI

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

Austin Beijing Boston Brussels Hong Kong London Los Angeles New York Palo Alto San Diego San Francisco Seattle Shanghai Washington, DC Wilmington, DE

For more information on the current venture capital climate, please contact any member of Wilson Sonsini Goodrich & Rosati's emerging companies practice. To learn more about WSGR's full suite of services for entrepreneurs and early-stage companies, please visit the emerging companies section of [wsgr.com](http://wsgr.com).

**For more information about this report or if you wish to be included on the email subscription list, please contact [EntrepreneursReport@wsgr.com](mailto:EntrepreneursReport@wsgr.com).  
There is no subscription fee.**

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

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