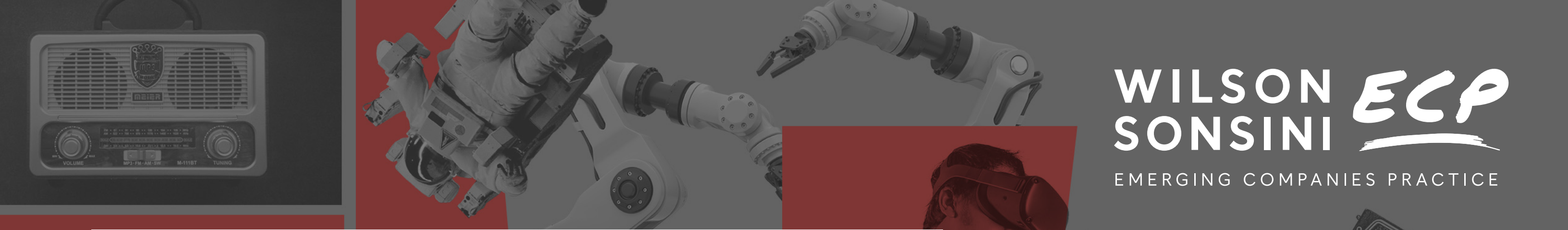

WILSON SONSINI ECP

EMERGING COMPANIES PRACTICE

THE ENTREPRENEURS REPORT
PRIVATE COMPANY FINANCING TRENDS

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Full-Year 2022

Key Developments in This Report:

The percentage of down-round financings in Q4 2022 rose to levels not seen since the global financial crisis in 2007-2008.

Median pre-money valuations in Q4 2022 show a downward trend.

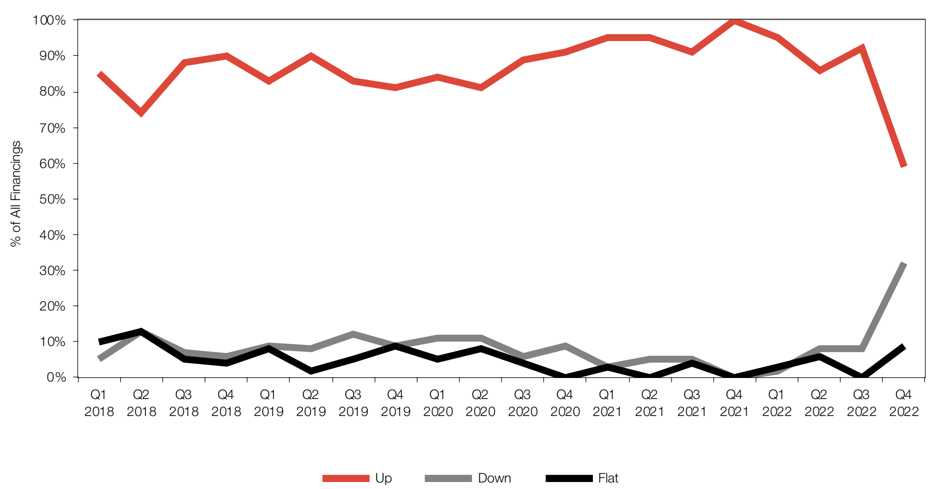
Deal terms are becoming increasingly investor-favorable as down rounds bring out more pay-to-plays, senior liquidation preferences, and participating preferred stock.

Companies and investors are turning to convertible notes and SAFEs while waiting out turbulent equity markets.

In This Issue

From the Wilson Sonsini Database: Financing Trends for Full-Year 2022

Up and Down Rounds by Quarter



Although 2022 started out fairly strong for the venture capital market, with Q1 maintaining high valuations and amounts raised across all financings, by Q4 the share of down rounds increased sharply, accounting for 32% of Series B and later financings. This dramatic shift was accompanied by notable adjustments in key deal terms in down rounds, which became more investor-friendly.

Pre-money valuations declined across all financings in Q4 2022, except for Series B, which maintained the same median pre-money valuation for three consecutive quarters. Early-stage median amounts raised in Q4 2022 increased moderately, but the Series B median decreased. The median amount raised in Series C financings in Q4 2022 held steady compared to the prior quarter. Despite the declines of the year's final quarter, pre-money valuations and amounts raised in full-year 2022 remained strong compared to historical standards, particularly for early-stage equity financings.

The full-year 2022 median amount raised in SAFE financings fell slightly from that of 2021, but the median amount raised in pre- and post-Seed convertible note financings reached five-year highs.

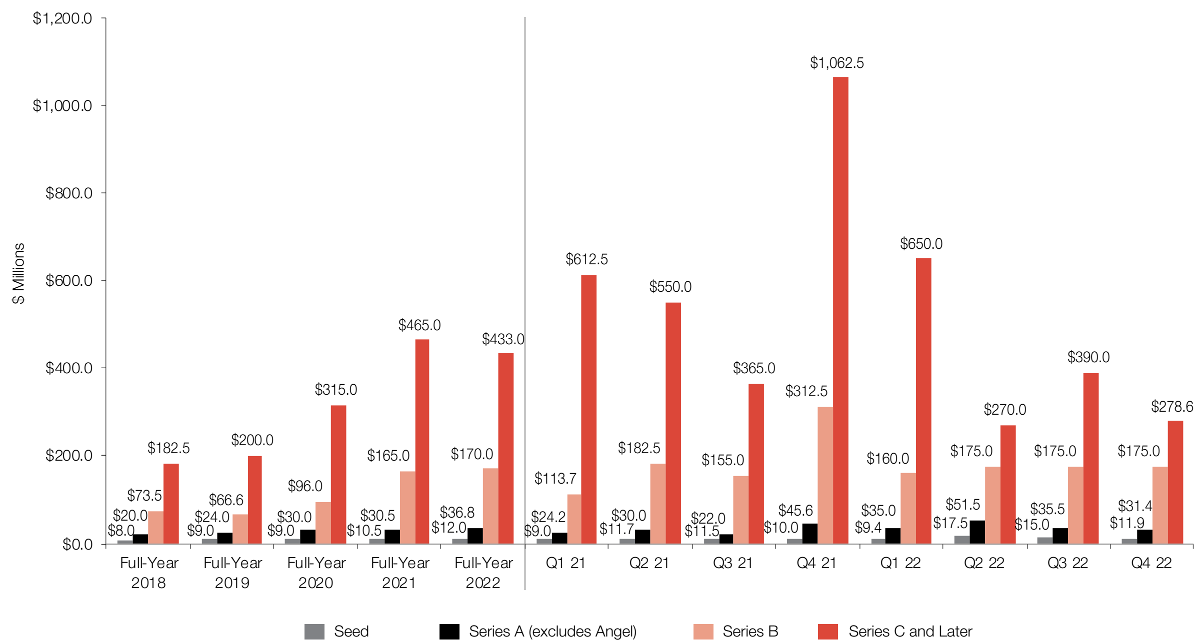
Up and Down Rounds

Down rounds became more prevalent in Q4 2022, accounting for 32% of Series B

Continued on page 2...

Continued from Page 1

Median Pre-Money Valuation



and later financings, compared to 8% in Q3—the largest quarterly share of down rounds in 10 years. Consequently, up rounds saw a substantial decline to 59% in Q4, compared to 92% in Q3, and flat rounds resurfaced at 9% of financings in Q4. Full-year 2022 had less dramatic results, with up rounds landing at 87% of Series B and later financings, and down and flat rounds landing at 9% and 4%, respectively.

Valuations

The median pre-money valuation for Series Seed financings declined from $15.0 million in Q3 2022 to $11.9 million in Q4. The Series A median pre-money valuation also decreased, from $35.5 million in Q3 2022 to $31.4 million in Q4. Nevertheless, full-year 2022 median pre-money valuations for both Series Seed and Series A financings reached new highs at $12.0 million and $36.8 million, respectively.

The Q4 2022 Series B median pre-money valuation remained unchanged at $175.0 million for the third consecutive quarter. The Series B full-year 2022 median pre-money valuation exceeded previous years at $170.0 million.

The median pre-money valuation of Series C and later financings decreased from $390.0 million in Q3 2022 to $278.6 million in Q4. The full-year 2022 median pre-money valuation for Series C and later financings decreased from the prior high of $465.0 million in full-year 2021 to $433.0 million, but remained the second-highest full-year median to date.

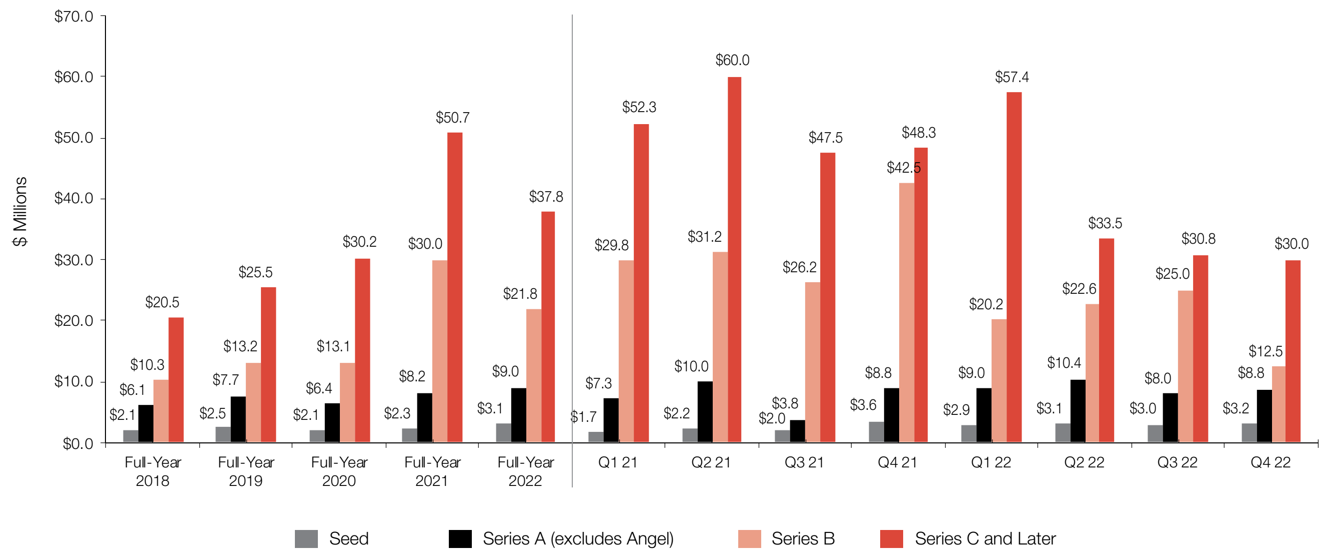
Amounts Raised

The median amount raised in Series Seed financings increased from $3.0 million in Q3 2022 to $3.2 million in Q4. The median amount raised in Series A financings increased from $8.0 million in Q3 2022 to $8.8 million in Q4, matching Q4 2021. The full-year 2022 Series Seed and Series A median amounts raised were $3.1 million and $9.0 million, respectively—the highest Series Seed and Series A full-year median amounts raised that we have recorded.

The median amount raised in Series B financings dropped from $25.0 million in Q3 2022 to $12.5 million in Q4. The full-year 2022 Series B median amount raised also fell, from $30.0 million in 2021 to $21.8 million in 2022, but still marked the second-highest full-year Series B median amount raised to date.

The Q4 2022 median amount raised in Series C and later financings held steady at $30.0 million, compared to $30.8 million in Q3—falling short of the full-year 2022 Series C and later median amount raised of $37.8 million, but still the second-highest Series C and later full-year median amount raised to date.

Median Amount Raised – Equity Financings



Deal Terms – Preferred

Overall, deal terms of up rounds continued to be company-favorable in 2022. Among post-Series A financings, 70% had *pari passu* liquidation preferences in 2022, down from 75% in 2021. The percentage of financings with non-participating preferred remained steady at 91% in 2022, compared to 90% in 2021. Broad-based weighted average anti-dilution remained stable at 98% in 2022, compared to 97% in 2021. The inclusion of redemption provisions dipped slightly, from 10% in 2021 to 8% in 2022.

The increase in down rounds in 2022 presented some investor-friendly shifts not seen in the last five years. Among post-Series A down rounds, 64% had senior liquidation preferences in 2022, compared to 50% in 2021. The percentage of down-round financings with participating preferred without a cap increased from 0% in 2021 to 36% in 2022. Pay-to-play provisions also became more prevalent in down rounds, increasing from 17% in 2021 to 43% in 2022.

Further detailed data on deal terms are set forth in the table on page 4.

SAFE Financings

Raising money on Simple Agreements for Future Equity (SAFEs) is popular among emerging companies due to their simple, largely company-favorable terms.

The median amount raised in SAFE financings fell slightly, from $1.03 million in full-year 2021 to $0.94 million in full-year 2022. The Q4 2022 median amount raised in SAFE financings trended upward to $1.00 million, compared to $0.60 million in Q3. In 2022, 38% of SAFE financings included a discount, and the median discount was 20%. Valuation caps were included in 90% of SAFEs, up from 86% in 2021, and the median valuation cap was $20.0 million. Among 2022 SAFEs, 28% included both a valuation cap and a discount, and 23% included a "Most Favored Nation" clause, compared to 15% in 2021, suggesting that an increasing number of investors anticipate that the early-stage landscape could become more investor-favorable in the coming year.

> **"As companies face challenges in raising additional rounds of financings, we are seeing an increase in investor-favorable deal terms."**
>
> ***–Yoichiro Taku, Wilson Sonsini partner and Emerging Companies Practice co-chair***

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

	2018 All Rounds[2]	2019 All Rounds[2]	2020 All Rounds[2]	2021 All Rounds[2]	2022 All Rounds[2]	2018 Up Rounds[3]	2019 Up Rounds[3]	2020 Up Rounds[3]	2021 Up Rounds[3]	2022 Up Rounds[3]	2018 Down Rounds[3]	2019 Down Rounds[3]	2020 Down Rounds[3]	2021 Down Rounds[3]	2022 Down Rounds[3]
Liquidation Preferences - Series B and Later															
Senior	31%	35%	35%	24%	30%	28%	30%	32%	23%	26%	36%	63%	56%	50%	64%
Pari Passu with Other Preferred	69%	63%	63%	75%	70%	72%	68%	67%	76%	74%	64%	37%	44%	50%	36%
Junior	0%	1%	0%	1%	0%	0%	1%	0%	1%	0%	0%	0%	0%	0%	0%
Complex	0%	2%	1%	0%	0%	0%	2%	1%	0%	0%	0%	0%	0%	0%	0%
Participating vs. Non-participating															
Participating - Cap	5%	5%	4%	4%	3%	5%	5%	6%	4%	3%	7%	5%	0%	0%	0%
Participating - No Cap	7%	10%	8%	6%	6%	7%	12%	8%	7%	7%	14%	32%	24%	0%	36%
Non-participating	88%	85%	88%	90%	91%	88%	83%	86%	89%	90%	79%	63%	76%	100%	64%
Dividends															
Yes, Cumulative	7%	5%	10%[4]	5%	6%	9%	6%	10%[4]	6%	8%	23%	11%	25%[4]	0%	8%
Yes, Non-cumulative	61%	56%	79%[4]	56%	51%	62%	67%	83%[4]	65%	57%	69%	79%	69%[4]	57%	58%
None	32%	39%	10%[4]	39%	43%	29%	28%	7%[4]	29%	35%	8%	11%	6%[4]	43%	33%
Anti-dilution Provisions															
Weighted Average - Broad	94%	94%	95%	97%	98%	94%	99%	98%	98%	99%	100%	89%	76%	100%	100%
Weighted Average - Narrow	2%	0%	1%	1%	0%	3%	0%	2%	1%	0%	0%	5%	6%	0%	0%
Ratchet	0%	0%	1%	1%	1%	0%	0%	0%	1%	1%	0%	5%	6%	0%	0%
Other (Including Blend)	1%	1%	1%	0%	0%	1%	0%	1%	1%	0%	0%	0%	0%	0%	0%
None	3%	4%	2%	1%	1%	2%	1%	0%	0%	0%	0%	0%	12%	0%	0%
Pay to Play - Series B and Later															
Yes, Pay to Play	5%	3%	7%	3%	7%	3%	2%	3%	3%	4%	0%	16%	12%	17%	43%
None	95%	97%	93%	97%	93%	97%	98%	97%	97%	96%	100%	84%	88%	83%	57%
Redemption															
Yes, Redemption	9%	14%	13%	10%	8%	13%	17%	10%	15%	12%	14%	26%	25%	17%	7%
None	91%	86%	88%	90%	92%	87%	82%	90%	86%	89%	86%	74%	75%	83%	93%

[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 financings and, unless otherwise indicated, Series A financings.
[3] Note that the All Financings metrics include flat financings and, in certain cases, Series A financings as well. Consequently, metrics in the All Financings 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.

Convertible Notes

The full-year 2022 median amount raised in pre- and post-Seed convertible note financings was $1.53 million and $3.00 million, respectively—both the highest full-year medians to date. The Q4 2022 median amount raised in pre-Seed convertible note financings fell modestly to $0.50 million, compared to $0.73 million in Q2 (there were no pre-Seed convertible notes in Q3). The median amount raised in post-Seed convertible note financings also decreased slightly, from $3.28 million in Q3 to $3.00 million in Q4.

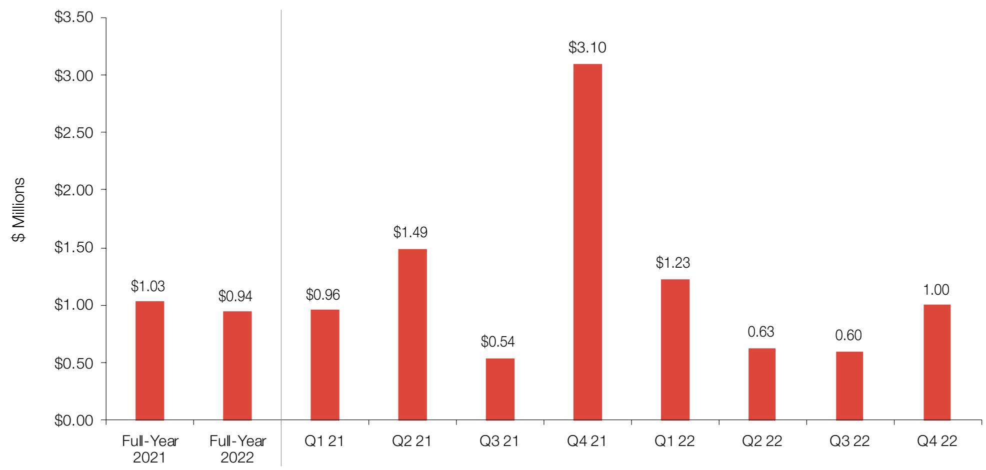
Deal Terms – Convertible Notes

Pre-Seed convertible notes had shorter maturity periods in 2022, with 30% having maturity periods of less than 12 months, up from 14% in 2021. Not surprisingly, given the Federal Reserve's actions in 2022, interest rates increased, with 55% of convertible notes having interest rates at 8% or higher, compared to 10% of convertible notes in 2021. Among pre-Seed convertible note financings that closed in 2022, 50% included a discount on conversion to equity, a significant decline from 75% in 2021.

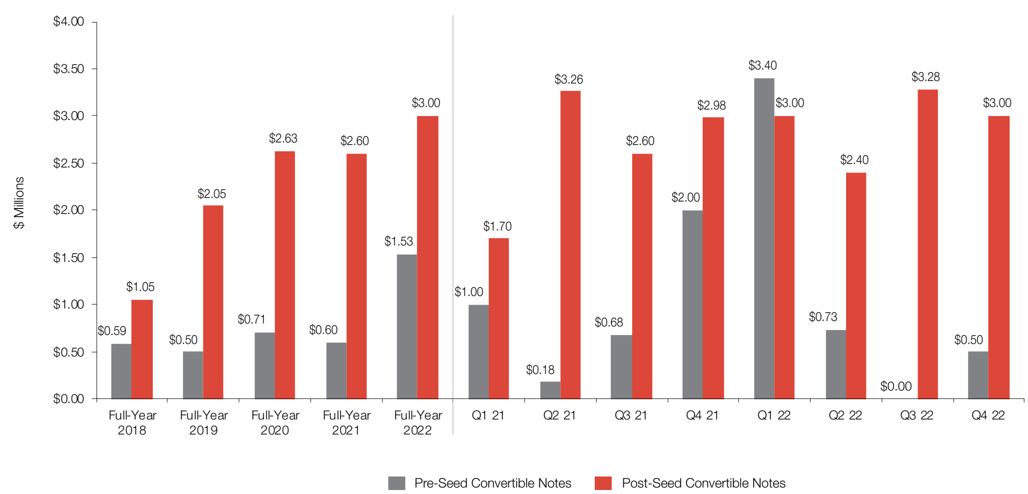
Post-Seed convertible notes also had shorter maturity periods in 2022, with 29% having maturity periods of less than 12 months, slightly up from 25% in 2021, and with 20% of loans having interest rates greater than 8% in 2022, as compared to 7% in 2021. The percentage of post-Seed convertible notes subordinated to other debt decreased from 48% in 2021 to 41% in 2022. The use of post-Seed convertible notes increased 63% between 2021 and 2022, indicating that many companies are turning to convertible notes as a way to avoid or delay down or flat equity financings.

Of the post-Seed convertible notes closed in 2022, 78% include a discount, up from 70% in 2021, but the number of such convertible notes with a discount of 20% or more on conversion decreased slightly, from 79% in 2021 to 71% in 2022.

Median Amount Raised – SAFE Financings



Median Amount Raised – Convertible Notes



Convertible Notes – Deal Terms (Wilson Sonsini Deals)[1]

Convertible Notes	2018 Pre-Seed	2019 Pre-Seed	2020 Pre-Seed	2021 Pre-Seed	2022 Pre-Seed	2018 Post-Seed	2019 Post-Seed	2020 Post-Seed	2021 Post-Seed	2022 Post-Seed
Interest rate less than 8%	67%	87%	85%	90%	44%	65%	70%	54%	69%	68%
Interest rate at 8%	22%	4%	11%	5%	44%	25%	22%	30%	24%	12%
Interest rate greater than 8%	11%	9%	4%	5%	11%	10%	8%	16%	7%	20%
Maturity less than 12 months	21%	13%	11%	14%	30%	21%	26%	27%	25%	29%
Maturity at 12 months	13%	9%	11%	5%	0%	26%	14%	13%	18%	16%
Maturity more than 12 months	67%	78%	79%	81%	70%	53%	60%	60%	58%	55%
Debt is subordinated to other debt	23%	27%	13%	14%	40%	47%	49%	46%	48%	41%
Note includes warrants[2]	4%	2%	4%	0%	0%	18%	8%	12%	6%	20%
Warrant coverage less than 25%	0%	100%	100%	N/A	N/A	33%	80%	67%	0%	11%
Warrant coverage at 25%	0%	0%	0%	N/A	N/A	11%	0%	0%	0%	0%
Warrant coverage greater than 25%	100%	0%	0%	N/A	N/A	56%	20%	33%	100%	89%
Automatic conversion into equity on qualified financing[3]	98%	100%	100%	100%	100%	96%	96%	92%	96%	93%
Voluntary conversion into equity on qualified financing[3]	2%	0%	0%	0%	0%	4%	4%	8%	4%	7%
Conversion rate subject to price cap[4]	69%	69%	68%	71%	56%	25%	51%	36%	52%	32%
Conversion to equity at discounted price[5]	83%	68%	78%	75%	50%	85%	81%	79%	70%	78%
Discount on conversion less than 20%	23%	18%	11%	20%	40%	20%	27%	25%	21%	29%
Discount on conversion at 20%	60%	63%	69%	60%	20%	48%	57%	46%	63%	39%
Discount on conversion greater than 20%	17%	18%	20%	20%	40%	33%	16%	29%	16%	32%
Conversion to equity at same price as other investors	14%	12%	13%	15%	30%	6%	11%	17%	25%	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. "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 2018 post-Seed convertible notes with warrants, 45% also had a discount on conversion into equity. 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.

[3] The 2018 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $3M and $5M, respectively. The 2019 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $4M and $8M, respectively. The 2020 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $3M and $10M, respectively. The 2021 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $4M and $10M, respectively. The 2022 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $7M and $10M, respectively.

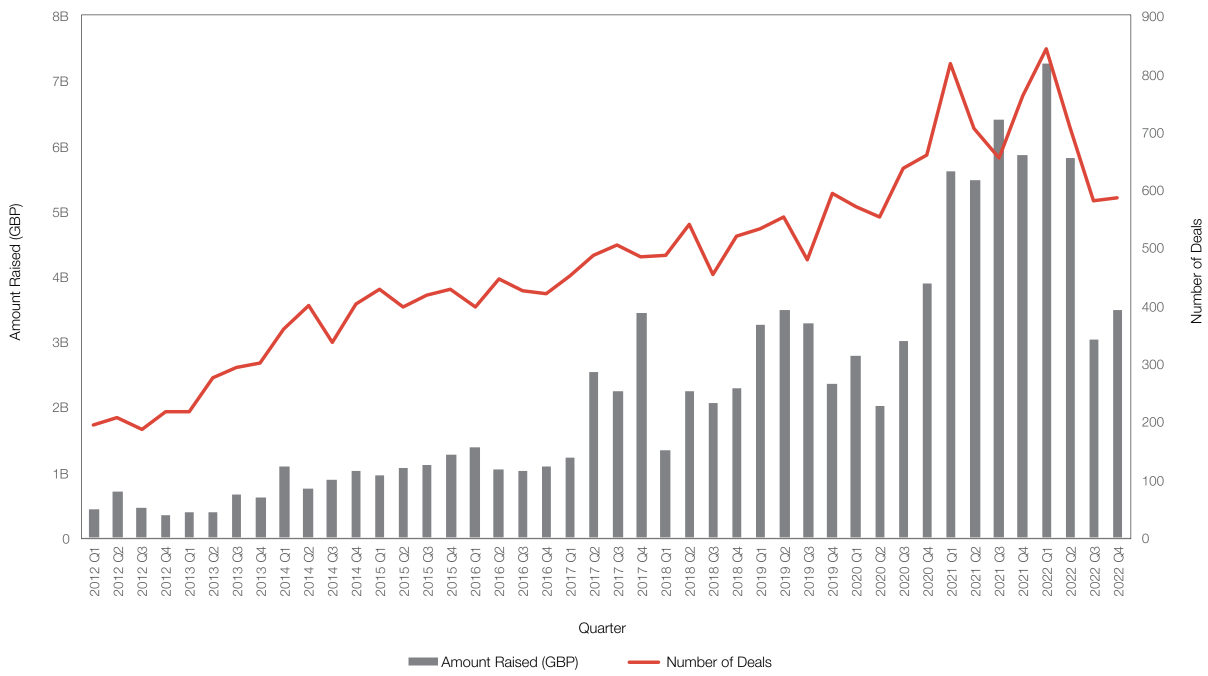
[4] The 2018 median price cap in pre- and post-Seed convertible notes was $8M and $40M, respectively. The 2019 median price cap in pre- and post-Seed convertible notes was $9M and $35M, respectively. The 2020 median price cap in pre- and post-Seed convertible notes was $8M and $47M, respectively. The 2021 median price cap in pre- and post-Seed convertible notes was $12M and $47M, respectively. The 2022 median price cap in pre- and post-Seed convertible notes was $35M and $50M, respectively.

[5] Of the 2018 post-Seed convertible notes that had a discount on conversion into equity, 11% also had warrants. 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, 7% 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.

Beauhurst

UK Equity Investment Update, Q4 2022

Number of Deals and Amount Raised



After a disappointing third quarter for the UK equity market, Q4 2022 saw a small (<1%) increase in announced deal numbers, landing on 587. It was still, however, the worst-performing Q4 we've seen since 2018. The amount invested during the quarter was up 15% from Q3, reaching £3.51B, but again far below previous years.

Overall, there was a significant decline in UK equity investment activity in 2022. In total, 2,722 equity rounds were announced during the year, marking a 7% drop in deal volume since 2021. These equity rounds amounted to £19.7B worth of investment, down 16% from 2021's record levels. This included 88 megadeals (equity rounds worth £50M+), of which 40 were £100M+ gigadeals.

First-Time Fundraisings Are Few and Far Between

While every stage of evolution was impacted by the Q3 2022 decline in investment, late-stage deals recovered somewhat in Q4. The number of equity rounds secured by established-stage companies increased by 28%, with 32 deals announced during the quarter. Growth-stage companies saw a similar (29%) increase, with 76 deals announced in Q4.

In contrast, the number of venture-stage equity rounds declined 3% from Q3 to Q4, to 233 deals. While seed start-ups were still the most likely stage company to secure announced equity funding during the quarter, the number of equity rounds they secured fell to 246, down 5% from Q3.

Meanwhile, the number of companies securing first-time equity rounds decreased for the third quarter in a row—and is down 33% since Q4 2021—as investors opted to double down on their existing portfolios and lower-risk opportunities.

A Strong End to the Year for Life Sciences

In more positive news, the artificial intelligence, cleantech, and life sciences sectors all saw more announced equity deals in Q4 than in Q3. After plummeting in Q3, the number of announced equity investments into life sciences companies doubled to 46—the sector's strongest quarter since Q3 2021.

Fintech investment, on the other hand, continued to fall throughout 2022. With just 55 fintech deals announced in Q4 (compared to 99 deals in Q1), the UK's top-performing tech sector dropped into second place behind AI.

Male Founders Continue to Raise the Lion's Share of Funding

Only 9% of announced equity investments went to companies with all-female founding teams in 2022. In comparison, 18% went to mixed-gender teams, and a disappointing 73% went to all-male founding teams. Looking at deal value, 15p of every £1 went to businesses with at least one female founder—compared to 85p of every £1 going to all-male founding teams. On the whole, we're seeing little year-over-year improvement with respect to the gender gap.

Crowdfunders Surpass Angels Once Again

Due to a surge in Q1 investment activity, individual business angels saw the smallest decline in deal numbers in 2022. In Q4, however, it was one of the only investor types to reduce its deal volume, from 133 announced equity rounds in Q3 to 118 in Q4 (an 11% decline). In contrast, the number of equity rounds involving private equity and venture capital funds increased from 256 to 272 (+6%), while the number of crowdfunding deals increased from 123 to 137 (+11%).

Regional Inequalities Remain

While many regions saw investment decline in Q4, the East Midlands secured a record 21 deals during the quarter. The West Midlands had 25 deals, on par with Q1 2021's peak. In Northern Ireland, deal numbers increased by 225%, from just four rounds in Q3 to 13 in Q4. Traditional disparities remain, however, as businesses headquartered in London secured more than 50% of announced equity rounds throughout the year, and 69% of all pounds invested.

Looking to the Future

It's important to look at the decline in 2022 equity investment in the context of what an extraordinary year 2021 was. Unprecedented economic stimulus measures, deals delayed from 2020 due to COVID-19, and a low interest-rate environment created the conditions for a record-breaking year. With that in mind, this latest downward trend could be interpreted as a correction of sorts. Despite the current macroeconomic headwinds, we remain cautiously optimistic for the year ahead.

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 45,000 high-growth private companies in the UK, many of which are solving global problems and pioneering new technology.

www.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 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.

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