WILSON SONSINI | EMERGING COMPANIES AND VENTURE CAPITAL

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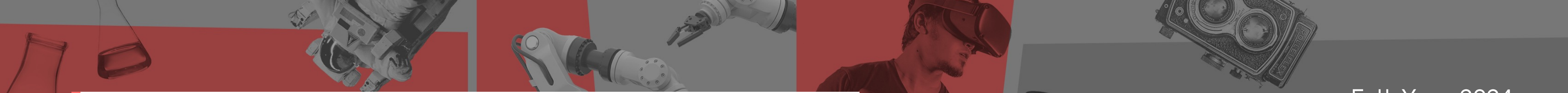
THE ENTREPRENEURS REPORT

PRIVATE COMPANY FINANCING TRENDS

From the Wilson Sonsini Database:

FINANCING TRENDS FULL-YEAR 2024



Key Features and Developments in This Report

Amy Caiazza Discusses Crypto and Fintech in 2025

Wilson Sonsini partner Amy Caiazza is featured in our latest Market Perspective segment. As the leader of Wilson Sonsini's fintech and financial services group, Amy offers thoughts on the recent crypto boom and the regulatory environment of 2025.

See p. 3

Series B Valuations Drop

Early-stage valuations remained relatively stable throughout 2024, while Series B companies experienced a decline in median valuations to their lowest point in over a year. Late-stage companies concluded the year with the highest valuations since early 2022.

See p. 5

Down Rounds and Pay-to-Plays Remain Common

Both down rounds and pay-to-plays were prevalent in 2024, reflecting the ongoing struggles faced by many later-stage companies. Conversely, other terms advantageous to investors, such as participating preferred liquidation preferences, seem to be falling out of favor.

See p. 7

Mixed Results for Notes and SAFEs

Both pre-Seed and post-Seed convertible note funding amounts hit five-year lows. Conversely, 2024's SAFE rounds were larger than 2023, but have yet to return to the levels seen several years ago.

See p. 9

Market Perspective with Wilson Sonsini's Amy Caiazza

Amy Caiazza is a securities, fintech, and blockchain partner in Wilson Sonsini Goodrich & Rosati's Washington, D.C., office and is the leader of the firm's fintech and financial services group. She advises clients on regulatory and transactional matters involving the securities and commodities laws.

You work with a lot of companies and investors in the blockchain and cryptocurrency space. Given the recent boom in the price of bitcoin, are there any trends the fintech industry that entrepreneurs should be aware of?

In my practice, we are seeing more attention to the use of crypto in fintech platforms as both an investment opportunity (by wealthtech and decentralized finance platforms, for example) and as a payment mechanism. There is a lot of competition building in the industry, including among start-ups. This is catalyzed by the anticipation of congressional and regulatory actions that could clarify how companies can more clearly comply with financial regulations in this space and lessen regulatory risks.

Are you anticipating any regulatory changes from the Trump administration that may affect cryptocurrency and fintech start-ups?

100%. Congress is poised to adopt new legislation regulating crypto generally and stablecoins in particular. The SEC has set up a task force that will make important recommended changes to its regulation, and the task force's chair has outlined initial areas of focus. We also expect change in regulations affecting wealthtech and similar companies outside the crypto industry, including guidance on the use of artificial intelligence. Many VCs are involved in advocacy around these potential changes.

How do you envision the relationship between traditional financial institutions and fintech companies evolving over the next several years?

There has been a lot more recent interest in innovation generally and crypto, in particular, by traditional financial institutions, which we expect will result in those institutions licensing or purchasing the technology developed by fintech and crypto start-ups, perhaps leading to an uptick in mergers and acquisitions activity. As one example, our firm recently represented Featurespace, an AI payments start-up, in a merger with Visa. More successful transactions of this type could, in turn, result in more investment in the space but will also bring in more competition for investor dollars.

What are some common pitfalls you see fintech start-ups facing, and how can they avoid these challenges to achieve sustainable growth?

Fintech start-ups often underestimate the complexity of regulatory requirements and fail to establish a compliance plan from the outset. Launching without a thorough understanding of the heavily regulated financial services landscape can lead to severe legal complications that often come up around IPOs or during due diligence in venture capital or merger and acquisition transactions. To avoid these challenges, start-ups should prioritize understanding regulations, engage legal experts early, establish a robust compliance framework, remain adaptable to regulatory changes, and proactively prepare for investor scrutiny.

neuron

Wilson Sonsini's Neuron platform modernizes the way you collaborate with your legal team, so you can focus on what matters: growing your business.

Formations

Begin Your Start-Up's Legal Journey

Frictionless Incorporations: Efficient, hassle-free entity formations

Collaborative Workflows: Enjoy automation without sacrificing personalized advice

Unparalleled Accessibility: Access workflows and documentation anytime, anywhere

General Corporate

Level Up Your Legal Game

Hassle-Free SAFE Financings: Issue SAFEs in just a few clicks, getting you funded faster

Service Provider Onboardings: Hire employees and consultants in all 50 states to easily expand your team

Single Source of Truth: Stay diligence-ready with our organized document repository

Commercial and Revenue

World-Class Legal Services with AI-Powered Precision

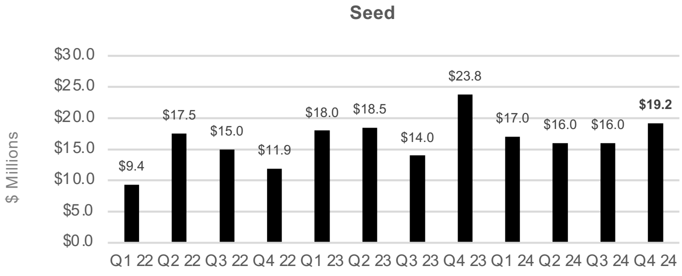
Plug-and-Play: Create and review of commercial agreements, with no fine-tuning required

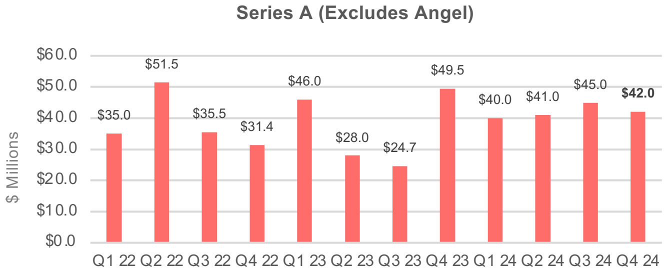
AI-Assisted Contract Review: AI efficiency coupled with Wilson Sonsini expertise simplifies contracting and increases speed-to-revenue

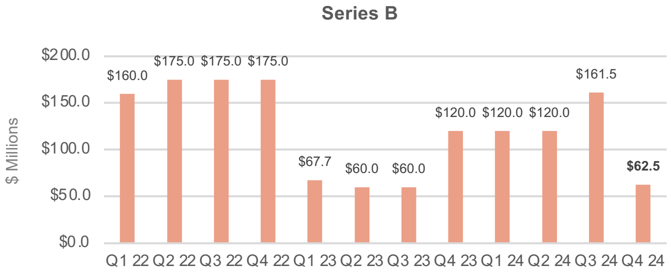
Fixed-Fee Offering: Predictable fixed-fee pricing to make your budgeting easier

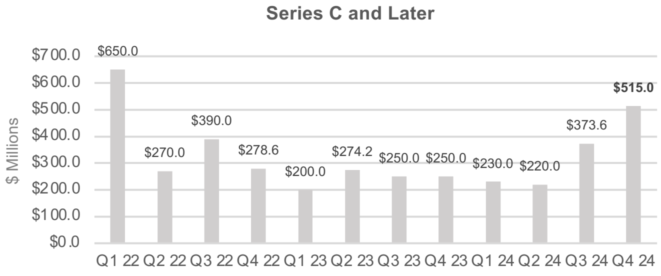
PRE-MONEY MEDIAN VALUATIONS*

Mixed Valuations Close Out 2024









Early-stage valuations were relatively steady throughout 2024, with Seed valuations slightly increasing and Series A slightly decreasing quarter over quarter.

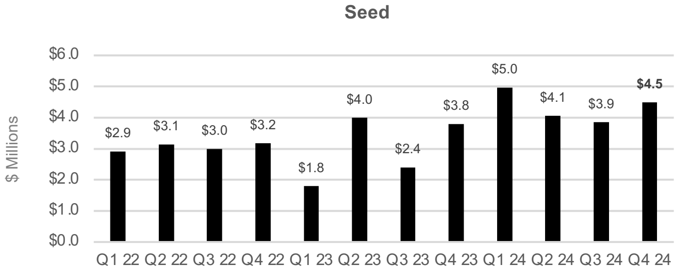
In contrast, the median valuation for Series B companies dropped to the lowest level in over a year. It may be premature to suggest reading this drop as an indicator that 2025 will be a rough year for Series B companies, but we will be closely watching this stage in coming quarters.

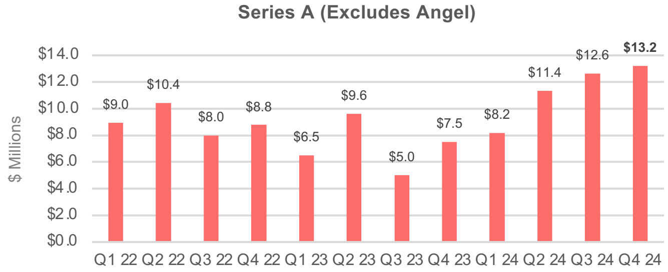
On the other hand, Series C and later companies finished 2024 on a high note with the highest median valuation since early 2022.

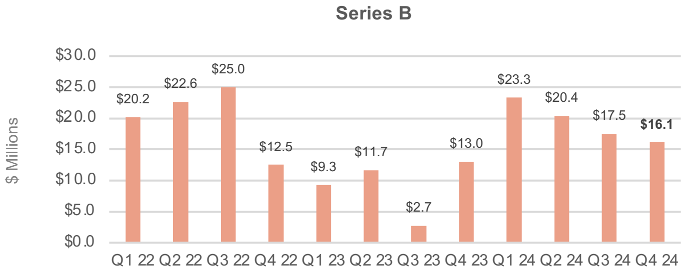
* For a yearly breakdown of pre-money median valuations dating back to 2020, see the Appendix on page 13.

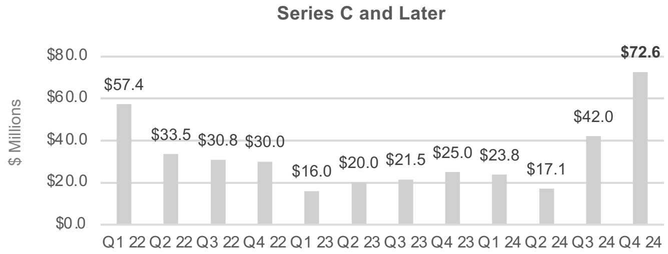
EQUITY FUNDRAISE MEDIAN AMOUNTS*

Fundraise Amounts Indicate Investor Optimism









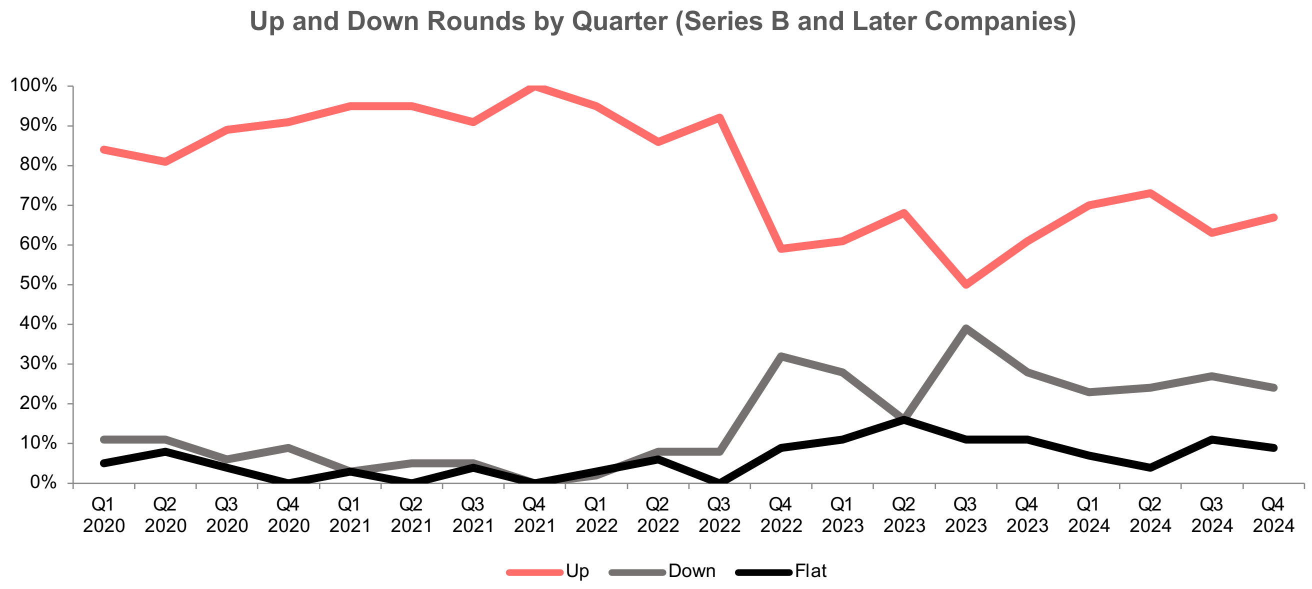
Venture deals that closed toward the end of 2024 show that many investors are still willing to invest large amounts into early-stage companies. Both Series Seed and Series A median fundraise amounts ended the year at or near record highs.

However, Series B companies struggled to justify large fundraising rounds with medians declining for the third consecutive quarter.

Will 2025 finally be the year that tech IPOs return? Higher valuations and round sizes for Series C and later companies provide entrepreneurs and investors with reasons to be hopeful.

* For a yearly breakdown of equity fundraise median amounts dating back to 2020, see the Appendix on page 13.

Down Rounds Bounce Back

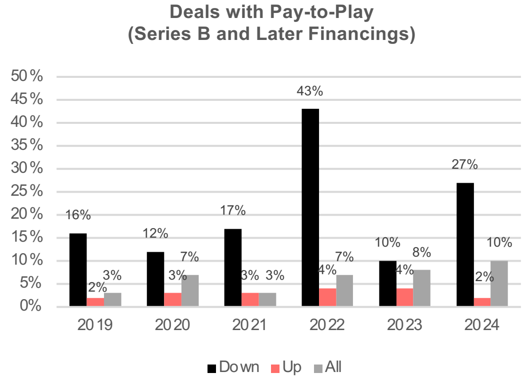


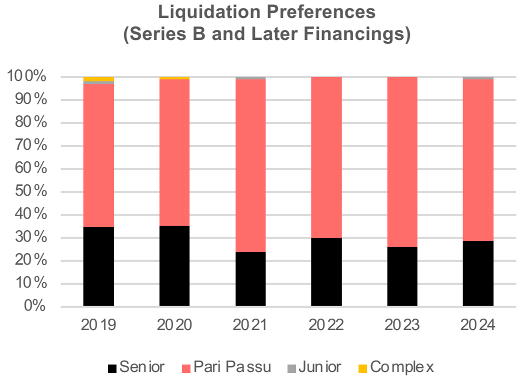
Down and flat rounds continue to be a prominent fixture in today's venture capital landscape. Q4 2024 saw down or flat rounds in roughly a third of Series B and later funding rounds, which was consistent with the year overall (33% of relevant 2024 deals had down or flat terms).

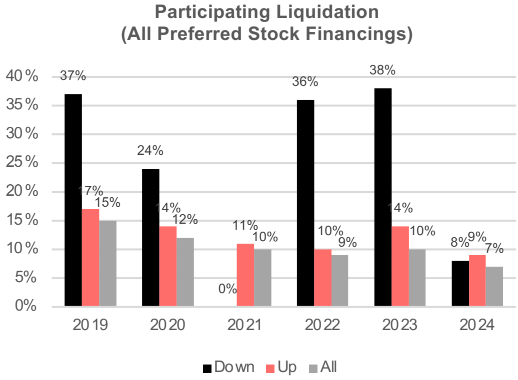
The percentage of companies managing to raise an up round in 2024 was somewhat higher than 2023 (68% in 2024 compared with 61% in 2023). However, with both valuations and fundraise amounts struggling at the Series B level, it is likely that a significant minority of companies will still need to pursue down rounds to secure capital in 2025.

EQUITY FINANCING DEAL TERMS*

Pay-to-Plays Remain a Popular Tool



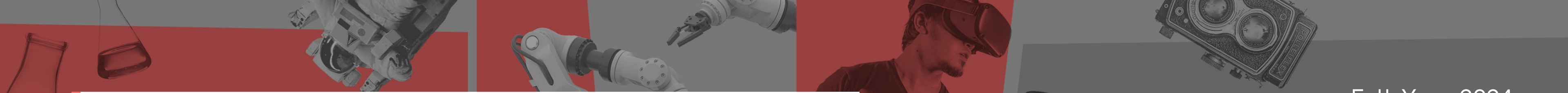




Pay-to-plays, which can dilute or adversely affect existing investors who choose not to invest further, were a feature in more than a quarter of all down rounds in 2024, a significantly higher percentage than 2023. Conversely, participating liquidation preferences, which traditionally also have been a common down round term, were utilized in just 8% of down rounds in 2024.

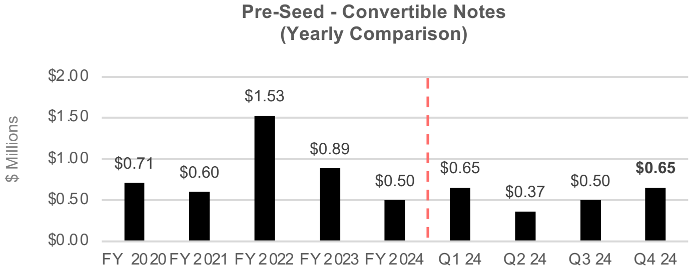
Senior liquidation preferences were up slightly over 2023 but remain consistent with historical figures.

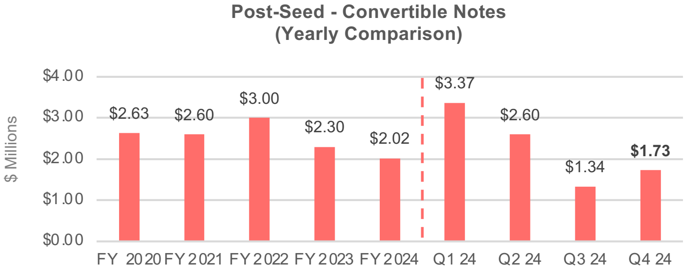
* For a more detailed summary of private company financing deal terms, see the Appendix on page 14.

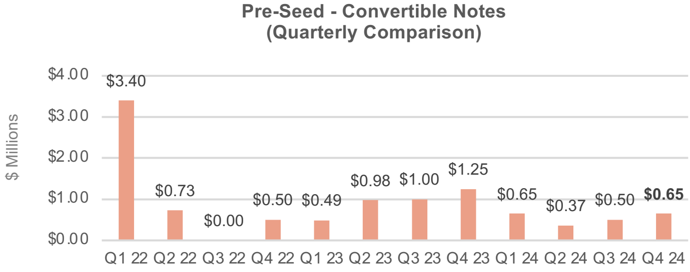


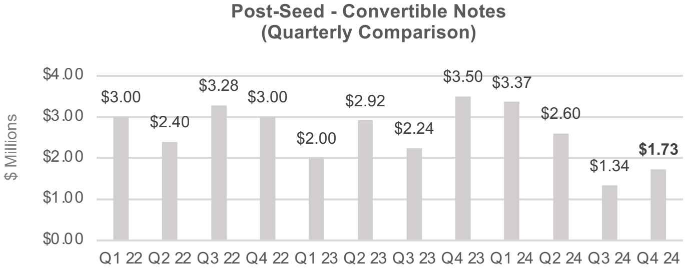
CONVERTIBLE NOTE MEDIAN RAISE AMOUNTS

A Lackluster Quarter for Convertible Note Raise Amounts









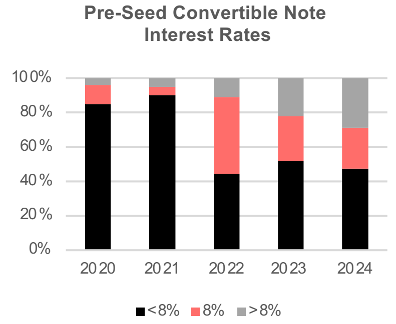
Despite slight increases from Q3 to Q4 2024, the median amounts raised in both pre-Seed and post-Seed convertible note funding rounds for 2024 overall were the lowest seen in over five years.

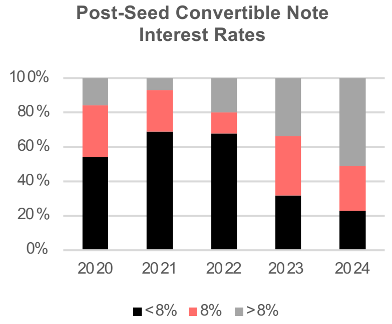
In contrast, funding amounts for Seed and Series A equity rounds have consistently remained above pre-pandemic levels. For pre-Seed companies, this discrepancy may indicate a more cautious investment climate, where early-stage investors are preferring slightly more established companies with proven business models over higher-risk early-stage ventures. Thriving post-Seed companies can secure larger equity rounds, while struggling start-ups are often only able to through bridge notes to sustain operations short-term.

CONVERTIBLE NOTE DEAL TERMS*

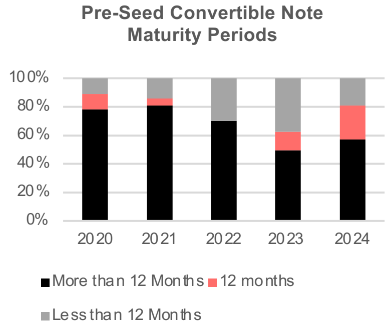
Note Interest Rates Are Up, Maturity Periods Are Down

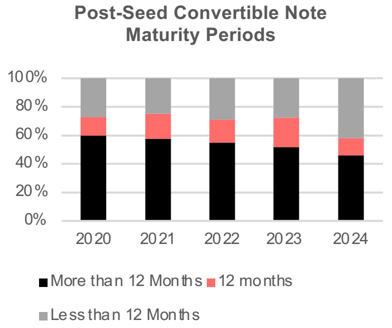
Interest Rates





Maturity Periods





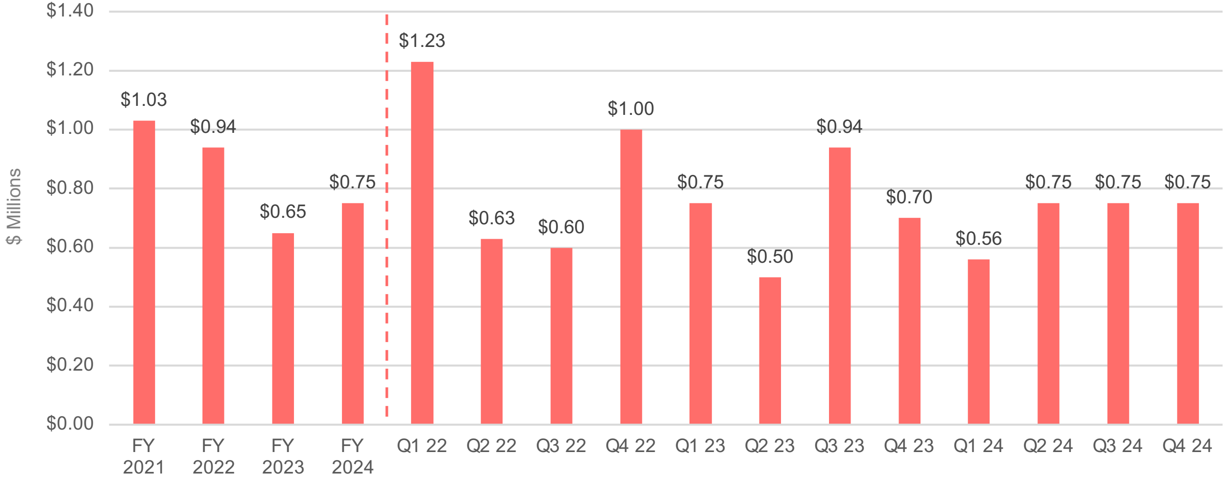
A year ago, we suggested that the anticipated 2024 drop in the U.S. federal funds rate could result in the relaxation of higher convertible note interest rate terms. The federal funds rate was indeed lowered several times over the course of the year, but a corresponding drop in interest rates for convertible notes has not materialized. Rates for both pre-Seed and post-Seed notes were higher in 2024 than the previous year, with a majority of post-Seed notes carrying a rate of more than 8% for the first time since we started collecting this data.

The shift towards shorter maturity periods for convertible note rounds also continued in 2024 but was more pronounced in the post-Seed stage, where 42% had maturity periods of less than 12 months, compared with 28% in 2023. This indicates that note investors continue to expect post-Seed companies to make quick progress towards an equity round or exit.

* For a more detailed summary of convertible note deal terms, see the Appendix on page 15.

SAFEs (Simple Agreements for Future Equity)

SAFE Median Raise Flat for Another Quarter, Remain Under $1 Million

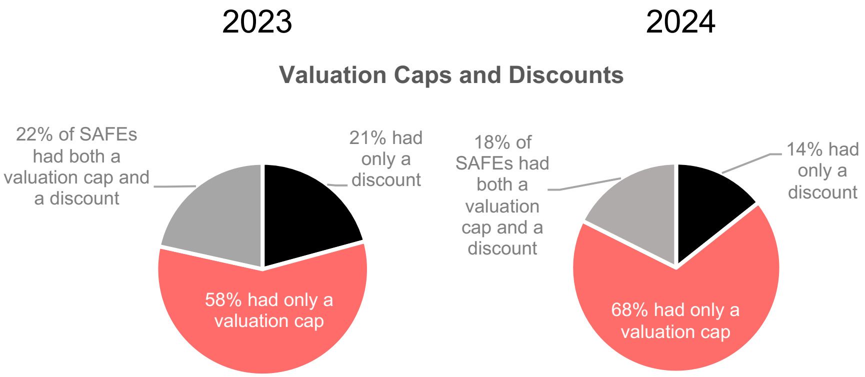


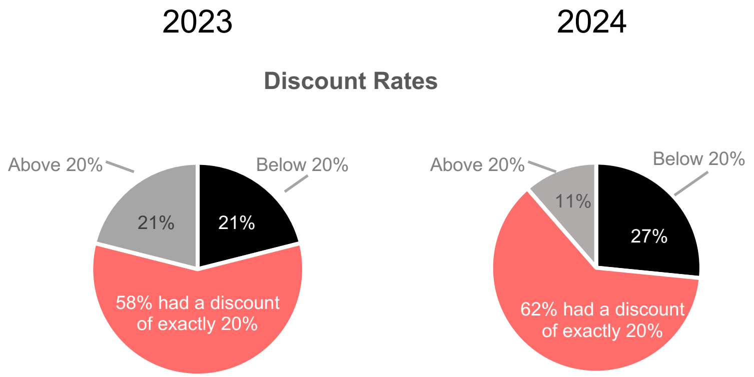
The median amount raised in SAFE financings seems to have settled at $750,000 for 2024 and remains at or below $1 million for the eleventh consecutive quarter.

SAFE raise amounts for 2024 finished the year slightly ahead of 2023, offering some hope for pre-Seed founders working towards an equity round in 2025.

SAFEs (Simple Agreements for Future Equity)

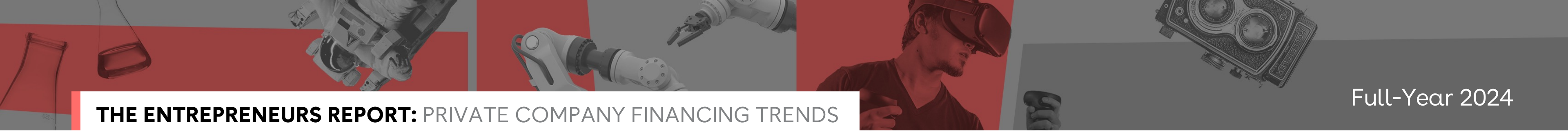
SAFE Investors Stick to Standard Terms





2024's SAFE structures were largely consistent with those seen over the past few years. About 32% of SAFEs in 2024 included a discount, a slight decrease from 43% in 2023 and 38% in 2022. Meanwhile, valuation caps were incorporated in 86% of SAFEs, a bit higher than 2023, which saw valuation caps in 80% of SAFEs. Seventy-six percent of SAFEs utilized the newer post-money structure. The median valuation cap was $16 million, a slight increase from 2023.

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. 2024 discount rates have smoothed out more from last year, with 62% of discount rates settling at the standard 20%.



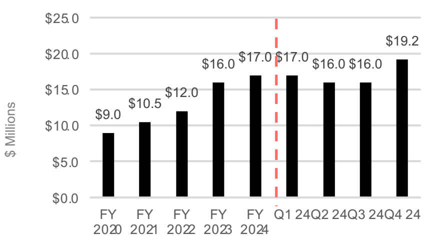
THE ENTREPRENEURS REPORT: PRIVATE COMPANY FINANCING TRENDS

Full-Year 2024

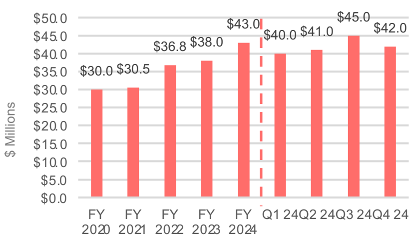
Appendix – A Yearly Look-Back on Equity Valuations and Raise Amounts

Pre-Money Median Valuations

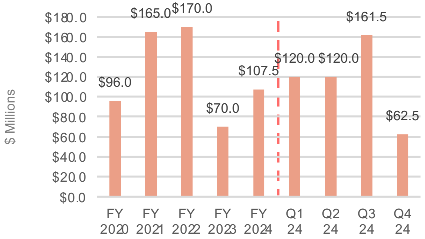
Seed



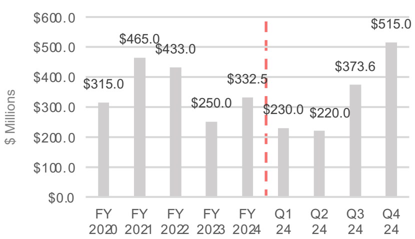
Series A (Excludes Angel)



Series B

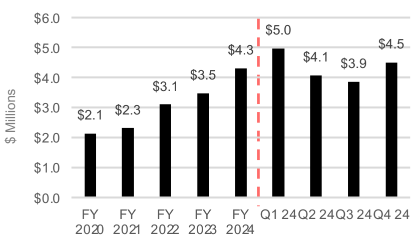


Series C and Later

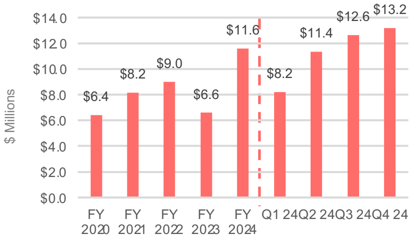


Equity Fundraise Median Amounts

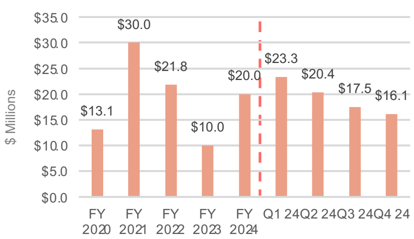
Seed



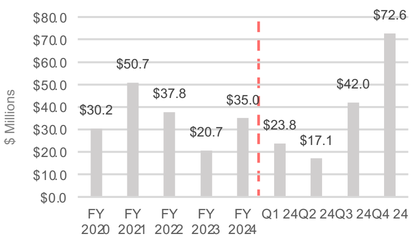
Series A (excludes Angel)



Series B



Series C and Later



Appendix – Private Company Financing Deal Terms (Wilson Sonsini Deals)

	2020 All Rounds[2]	2021 All Rounds[2]	2022 All Rounds[2]	2023 All Rounds[2]	2024 All Rounds[2]	2020 Up Rounds[3]	2021 Up Rounds[3]	2022 Up Rounds[3]	2023 Up Rounds[3]	2024 Up Rounds[3]	2020 Down Rounds[3]	2021 Down Rounds[3]	2022 Down Rounds[3]	2023 Down Rounds[3]	2024 Down Rounds[3]
Liquidation Preferences - Series B and Later															
Senior	35%	24%	30%	26%	29%	32%	23%	26%	20%	13%	56%	50%	64%	38%	63%
Pari Passu with Other Preferred	63%	75%	70%	74%	71%	67%	76%	74%	80%	87%	44%	50%	36%	62%	35%
Junior	0%	1%	0%	0%	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%	2%
Complex	1%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Participating vs. Non-Participating															
Participating - Cap	4%	4%	3%	2%	3%	6%	4%	3%	4%	7%	0%	0%	0%	14%	2%
Participating - No Cap	8%	6%	6%	8%	4%	8%	7%	7%	10%	2%	24%	0%	36%	24%	6%
Non-Participating	88%	90%	91%	90%	93%	86%	89%	90%	85%	91%	76%	100%	64%	62%	92%
Dividends															
Yes, Cumulative	10%[4]	5%	6%	3%	4%	10%[4]	6%	8%	6%	7%	25%[4]	0%	8%	0%	2%
Yes, Non-Cumulative	79%[4]	56%	51%	46%	42%	83%[4]	65%	57%	53%	52%	69%[4]	57%	58%	65%	65%
None	10%[4]	39%	43%	51%	55%	7%[4]	29%	35%	40%	42%	6%[4]	43%	33%	35%	33%
Anti-Dilution Provisions															
Weighted Average - Broad	95%	97%	98%	98%	96%	98%	98%	99%	100%	94%	76%	100%	100%	95%	100%
Weighted Average - Narrow	1%	1%	0%	1%	0%	2%	1%	0%	0%	0%	6%	0%	0%	5%	0%
Ratchet	1%	1%	1%	0%	1%	0%	1%	1%	0%	0%	6%	0%	0%	0%	0%
Other (Including Blend)	1%	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%
None	2%	1%	1%	2%	3%	0%	0%	0%	0%	6%	12%	0%	0%	0%	0%
Pay-to-Play - Series B and Later															
Yes, Pay-to-Play	7%	3%	7%	8%	10%	3%	3%	4%	4%	2%	12%	17%	43%	10%	27%
None	93%	97%	93%	92%	90%	97%	97%	96%	96%	98%	88%	83%	57%	90%	73%
Redemption															
Yes, Redemption	13%	10%	8%	5%	8%	10%	15%	12%	4%	12%	25%	17%	7%	15%	4%
None	88%	90%	92%	95%	92%	90%	86%	89%	96%	88%	75%	83%	93%	86%	96%

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[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.

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

Convertible Notes[1]	2020 Pre-Seed	2021 Pre-Seed	2022 Pre-Seed	2023 Pre-Seed	2024 Pre-Seed	2020 Post-Seed	2021 Post-Seed	2022 Post-Seed	2023 Post-Seed	2024 Post-Seed
Interest rate less than 8%	85%	90%	44%	52%	48%	54%	69%	68%	32%	23%
Interest rate at 8%	11%	5%	44%	26%	24%	30%	24%	12%	35%	26%
Interest rate greater than 8%	4%	5%	11%	22%	29%	16%	7%	20%	34%	51%
Maturity less than 12 months	11%	14%	30%	38%	19%	27%	25%	29%	28%	42%
Maturity 12 months	11%	5%	0%	13%	24%	13%	18%	16%	21%	12%
Maturity more than 12 months	79%	81%	70%	50%	57%	60%	58%	55%	52%	46%
Debt is subordinated to other debt	13%	14%	40%	17%	25%	46%	48%	41%	39%	35%
Loan includes warrants[2]	4%	0%	0%	0%	0%	12%	6%	20%	22%	15%
Warrant coverage less than 25%	100%	N/A	N/A	N/A	N/A	67%	0%	11%	45%	50%
Warrant coverage at 25%	0%	N/A	N/A	N/A	N/A	0%	0%	0%	0%	0%
Warrant coverage greater than 25%	0%	N/A	N/A	N/A	N/A	33%	100%	89%	55%	50%
Automatic conversion into equity on qualified financing[3]	100%	100%	100%	92%	89%	92%	96%	93%	88%	96%
Voluntary conversion into equity on qualified financing[3]	0%	0%	0%	8%	11%	8%	4%	7%	12%	4%
Conversion rate subject to price cap[4]	68%	71%	56%	54%	50%	36%	52%	32%	47%	47%
Conversion to equity at discounted price[5]	78%	75%	50%	88%	78%	79%	70%	78%	80%	84%
Conversion to equity at same price as other investors	13%	15%	30%	8%	17%	17%	25%	20%	10%	8%
Discount on conversion less than 20%	11%	20%	40%	14%	36%	25%	21%	29%	18%	16%
Discount on conversion at 20%	69%	60%	20%	48%	36%	46%	63%	39%	55%	51%
Discount on conversion greater than 20%	20%	20%	40%	38%	29%	29%	16%	32%	27%	33%

[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 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, 55% also had a discount on conversion into equity. Of the 2024 post-Seed convertible notes with warrants, 69% also had a discount on conversion into equity.

[3] 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. The 2023 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $5M and $10M, respectively. The 2024 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $5M and $10M, respectively.

[4] 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. The 2023 median price cap in pre- and post-Seed convertible notes was $20M and $45M, respectively. The 2024 median price cap in pre- and post-Seed convertible notes was $11M and $28M, respectively.

[5] 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. Of the 2023 post-Seed convertible notes that had a discount on conversion into equity, 16% had warrants. Of the 2024 post-Seed convertible notes that had a discount on conversion into equity, 17% 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.

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