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 FOR Q1 2024

ANNOUNCEMENT: Wilson Sonsini Adds AI-Enabled, Fixed-Fee Commercial Contract Offering to Neuron Platform

Earlier this month, Wilson Sonsini introduced an attorney-supervised, AI-enabled commercial contracting offering for cloud services companies. Behind the fixed-fee offering is an AI agent tested by Wilson Sonsini supporting the review of the firm's commercial contracts attorneys. The commercial offering is the newest addition to Neuron, Wilson Sonsini's next-generation proprietary software platform that supports our attorneys in streamlining, automating, and digitizing the typical legal processes along a start-up's journey—from formation to exit.

Addressing Client Pain Points

Wilson Sonsini designed this offering to enable clients to benefit from the firm's expertise in customizing and negotiating commercial agreements, which are of vital importance to cloud services companies that rely heavily on such agreements to conduct business with their customers. With over 40% of in-house counsel at technology companies stating that contract-related tasks occupy more than half of their day, contract review is a major pain point for clients. Wilson Sonsini's new Neuron commercial offering provides a turnkey solution. Combining commercial contracting with breakthrough AI agent technology, Neuron allows clients to enter into agreements faster, more accurately, and at predictable prices.

AI Efficiency with Wilson Sonsini Quality

The commercial offering's AI review feature is driven by a proprietary playbook, and produces highly accurate and explainable revisions to commercial contracts. The AI agent is designed to aid the Wilson Sonsini attorneys who ultimately review each contract, in keeping with Neuron's "lawyer-in-the-loop" model. "We handle some of the most complex and strategic commercial contracting issues for our clients. With the application of this groundbreaking technology, we want to bring that same expertise to clients sooner in their lifecycles and help with the immediate challenges of getting to revenue," said Jamie Clessuras, the leader of Wilson Sonsini's Technology Transactions Department. "The Neuron fixed-fee commercial offering makes it easy for subscribing clients to negotiate quality agreements quickly based on the firm's extensive technology transactions experience, all with predictable cost."

Click here to read the full announcement and learn more.

Key Features and Developments in This Report

Celebrating Asian American and Pacific Islander Heritage Month

In a compelling interview, Wilson Sonsini partner Salil Gandhi talks with **Notable's Robin Li**. They delve into the influence of Li's identity and personal experiences on her career trajectory and explore the changing landscape of Asian American & Pacific Islander representation in the tech and venture capital sectors.

See p. 4

Valuations Show Mixed Signs of Recovery

Early 2024 saw mixed signals in early-stage valuations, following notable highs in the previous year. Seed valuations matched the previous year's median, but showed a quarter-over-quarter drop compared to Q4 2023, while Series A and B valuations displayed slight increases over two consecutive quarters.

See p. 6

Fundraise Amounts Up Across All Stages for Third Consecutive Quarter

Despite mixed valuations, signs show that the substantial reserves of dry powder from 2022 and 2023 are starting to come off the sidelines. This is evidenced by the consecutive increases in fundraising amounts across all stages, with Series C and later stages hitting a two-year fundraising peak.

See p. 7

Should Businesses Stop Incorporating in Delaware?

We address Elon Musk's recent X (formerly Twitter) post stating, "Never incorporate your company in the state of Delaware," after the Delaware Court of Chancery rescinded his compensation package at Tesla. The discussion explores Delaware's continued dominance as the preferred state of incorporation for businesses despite emerging debates questioning its status.

See p.14

Salil Gandhi

Robin Li

Celebrating Asian American & Pacific Islander Heritage Month

Wilson Sonsini's **Salil Gandhi** in Conversation with Notable's **Robin Li**

Salil Gandhi is co-chair of Wilson Sonsini's emerging companies practice and is based in the firm's New York office. Salil focuses on corporate and securities law and specializes in the representation of emerging growth companies throughout their life cycles, particularly in the life sciences and technology sectors.

Robin Li is Vice President of Investor Relations and Capital Formation at Notable Capital (formerly known as GGV Capital).

SG: How have your identity and personal experiences played a role in your career?

RL: Interestingly, at the beginning of my career, my identity didn't play a substantial role in how I navigated my work. Diversity, Equity and Inclusion (DEI) initiatives weren't as prevalent, and I wasn't necessarily grouped into a specific demographic. It's notable that 19% of Limited Partners still exclude Asian Americans from DEI initiatives, although there's been a slight improvement recently. It's often left to the entrepreneurial community to take the initiative to fill in the diversity gap.

SG: Given that it's Asian American & Pacific Islander (AAPI) Heritage Month, what can you tell us about the current state of AAPI representation in tech and venture capital, and how that may have changed throughout your time in the space?

RL: A recent study by the Association of Asian American Investment Managers revealed that in venture capital only 2.6% of firms, 3.3% of funds, and 2.9% of Assets Under Management are AAPI owned, which is alarmingly low. On the other hand, these funds are usually high performers, with over 50% of AAPI-owned VC funds achieving top-quartile performance. While there are more and more AAPI individuals working as junior VCs, the number of AAPI General Partners is significantly lower. There's also a prominent issue of AAPI promotion within funds being a difficult path. The reasons for this are unclear, but I believe that mentoring coupled with additional skills training would be beneficial. We recently held our first AAPI-focused event for General Partners and Limited Partners, which aimed at creating more cohesion and bringing the broader community together across various partners in the ecosystem.

SG: This year's AAPI theme is "Advancing Leaders Through Innovation." What innovative strategies or initiatives should be employed to improve AAPI representation among founders and investor leadership?

RL: I think one of the vital strategies that need to be considered is the allocation of a learning and development budget. However, it's essential to acknowledge that the burden of implementing these initiatives shouldn't just fall on individuals. It requires the collective effort of the entire startup and VC ecosystem.

Celebrating Asian American & Pacific Islander Heritage Month (cont.)

SG: From your perspective, what are some unique strengths or insights that AAPI investors and founders bring to the tech industry?

RL: From my vantage point, AAPI investors and founders enrich the tech industry with their diverse perspectives and experiences. Many are first- or second-generation immigrants, which contributes to a breadth of cultures and experiences represented within the community. This diversity fosters a unique bond among us. Additionally, we often perceive a much broader customer base, which helps ensure that we're not overlooking specific customer segments.

SG: What particular challenges do AAPI founders and investors face and what strategies would you recommend to overcome them?

RL: AAPI founders and investors often encounter a lack of visibility and recognition, which can be combatted by fostering greater awareness about their contributions in the industry. Unifying across the wide range of communities within the AAPI umbrella is also a challenge due to cultural differences. Interestingly, recent challenges have actually promoted unity across specific subgroups, such as the Chinese and Korean communities, etc. I believe that increasing the visibility of AAPI individuals in the tech industry will go a long way in breaking down stereotypes and promoting a better understanding of our community's diversity and strengths.

SG: You co-founded an AAPI Community & Directory for founders, investors, and operators. Could you tell us more about this initiative?

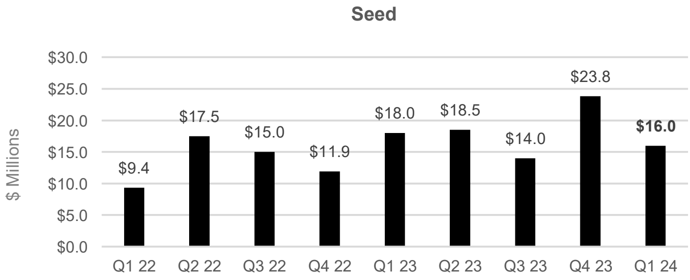
RL: The initiative is aimed at connecting founders, investors, and operators within the AAPI community. As of now, we have around 1,700 founder and investor members, with about 30-40% of these members being actively involved in our Slack community. The community regularly engages in our in-person activities and events held across the country. The initiative started as an event that was organized around Lunar New Year. Seeing this enthusiastic response, we recognized an opportunity and launched a Slack workspace. The community operates on a volunteer basis and we have a small vetting process to ensure the quality of our network. With the growth of our network, we've seen some offshoots start their own activities like self-organized hikes and dinners in areas like San Francisco and New York. Our focus is on making it driven by the community. The initiative is still in its early stages, and I am excited to see it expand.

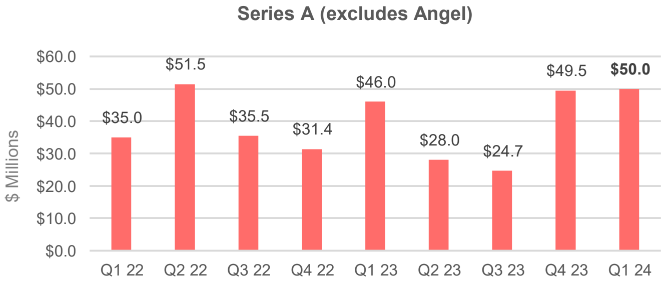
SG: Are there any other resources or networks currently available to support AAPI founders and investors? Are there any gaps in these resources that need to be addressed?

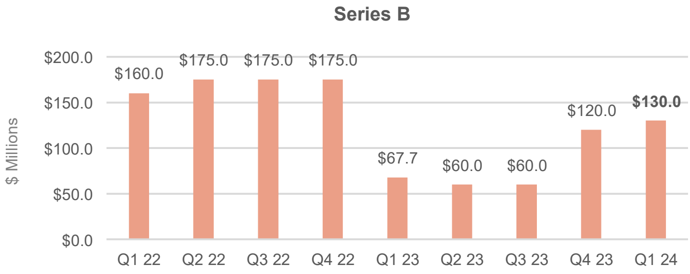
RL: Association of Asian American Investment Managers, The Asian American Foundation, ACE NextGen, and Asian Hustle Network are all great resources.

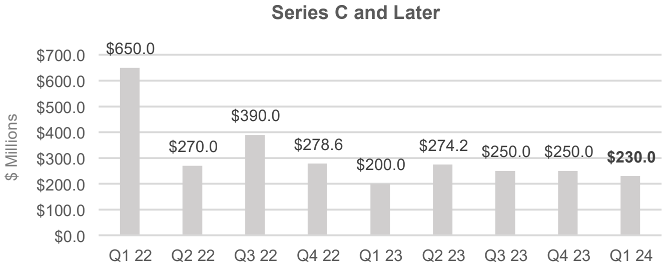
PRE-MONEY MEDIAN VALUATIONS*

Early-Stage Valuations Show Mixed Start to 2024









After ending 2023 on a high note, early-stage valuations in Q1 2024 offered mixed signals.

Although median Seed valuations matched 2023's yearly median of $16M, 2024 started with a quarter-over-quarter drop when compared with the previous quarter.

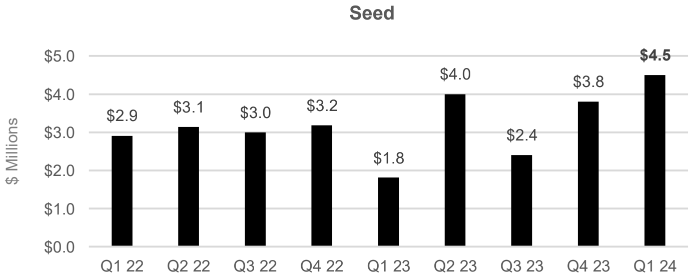
Series A and Series B valuations fared better, posting slight increases for the second consecutive quarter.

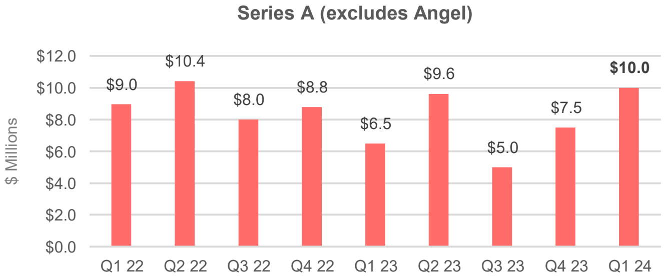
Founders hoping that recent tech IPOs will bolster later-stage valuations will need to wait at least another quarter to see much of a trickle-down effect.

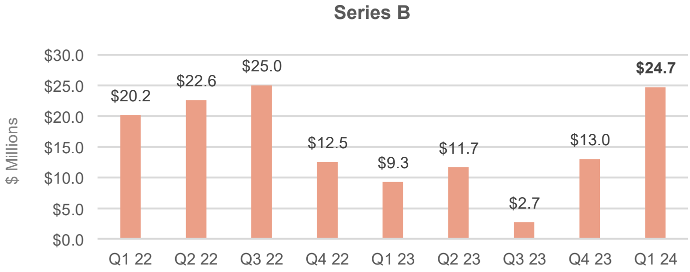
* For a yearly breakdown of pre-money median valuations dating back to 2019, see the Appendix on page 20.

EQUITY FUNDRAISE MEDIAN AMOUNTS*

Fundraise Amounts Increase Across All Stages for the Third Consecutive Quarter







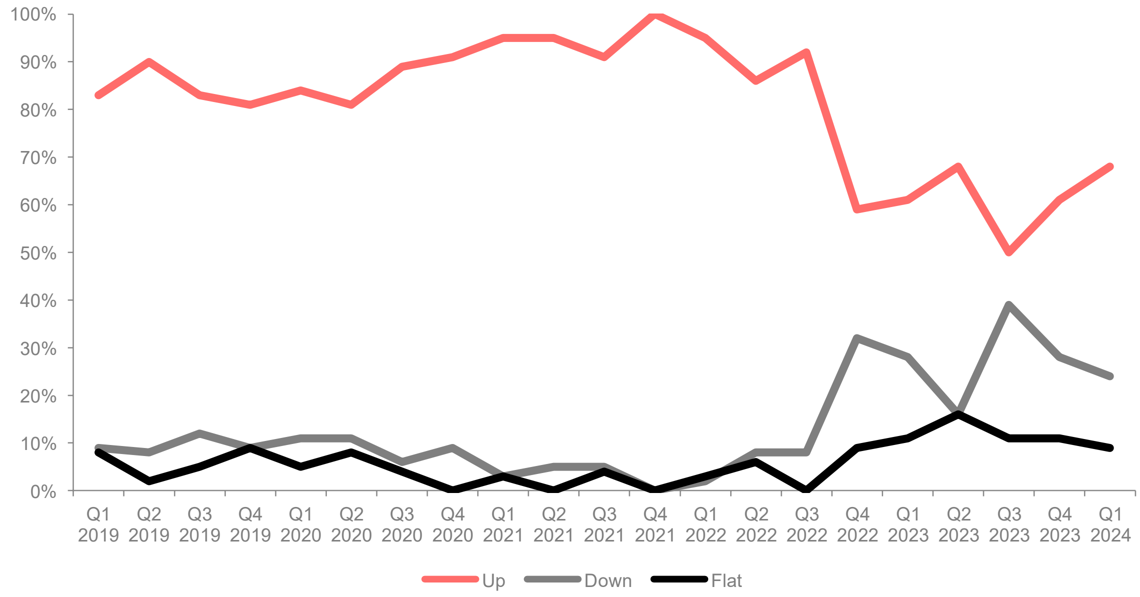
Are the record levels of VC dry powder that accumulated through 2022 and 2023 finally coming off the sidelines? While valuations remain mixed, elevated fundraise amounts suggest that VCs are making bigger bets on quality companies.

Median raise amounts have increased across all levels from Seed through Series C and later for at least three consecutive quarters.

Series C and later, in particular, had a very strong showing in terms of fundraise amounts, reaching a two-year high.

* For a quarter-by-quarter breakdown of equity fundraise median amounts dating back to Q1 2021, see the Appendix on page 20.

Up Rounds Increase Slightly, Remain Well Below Historical Levels

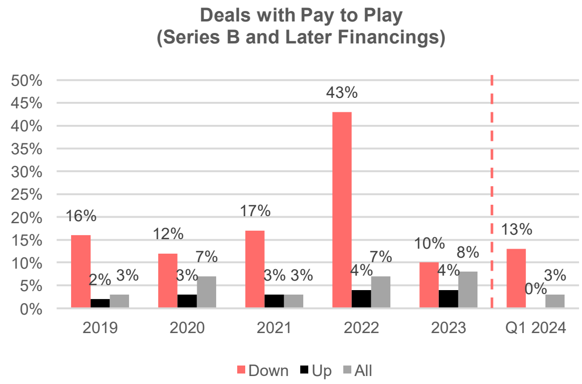


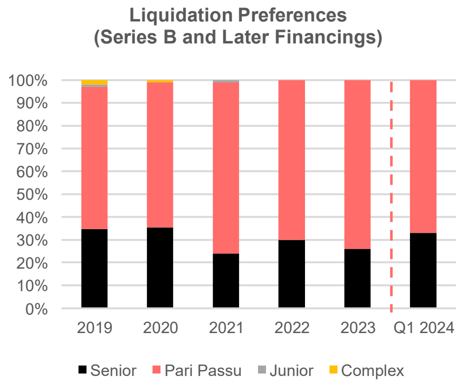
At the end of 2022, the frequency of distressed flat and down rounds jumped to about 40% of all priced equity rounds, a figure not seen in over a decade. At the time, some commentators feared that the number of down rounds would continue to increase as the economy seemed to be heading towards recession, while others predicted that the downturn would be short-lived and the prevalence of down rounds would soon drop back to historical levels.

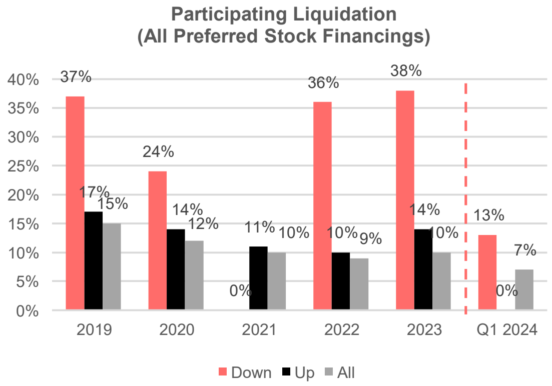
In hindsight, the reality has been somewhere between these two predictions, with the number of up rounds fluctuating between 50% and 70% of priced fundraises for the last six quarters. Q1 2024 continued the trend with down and flat rounds constituting a bit more than 30% of all priced rounds, but showing a slight decrease compared to the previous quarter.

EQUITY FINANCING DEAL TERMS*

Some Investor-Friendly Terms Remain Common but Are Mostly Limited to Down Rounds







In Q1 2024, the landscape of equity deal terms continued to evolve. Pay-to-plays, which can dilute or adversely affect existing investors that choose not to invest further, were included in only 13% of down rounds. This figure reflects a decrease from the high of 2022, when down rounds were less prevalent but more than a third had a pay-to-play element. However, not all trends pointed toward a less challenging fundraising environment. The prevalence of senior liquidation preferences, which grant specific investors priority during a liquidation event, increased slightly from 26% in 2023 to 33% in Q1 2024.

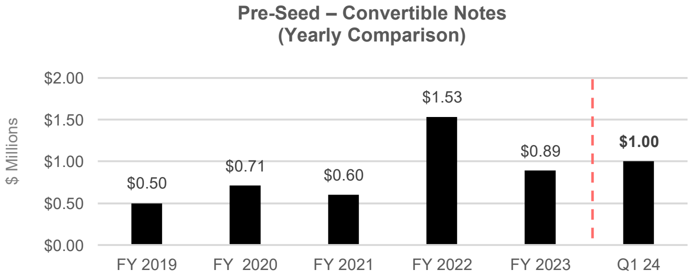
On the other hand, the use of participating liquidation preferences, which can provide more potential upside for investors in successful exits, appeared to decrease significantly in down rounds. This investor-friendly term was featured in just 13% of down rounds in Q1 2024, compared to a high of 38% in 2023.

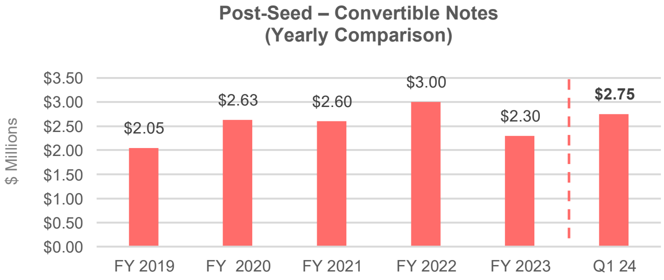
Going forward, it remains to be seen whether these trends represent temporary shifts or signify more fundamental changes in the equity deal landscape.

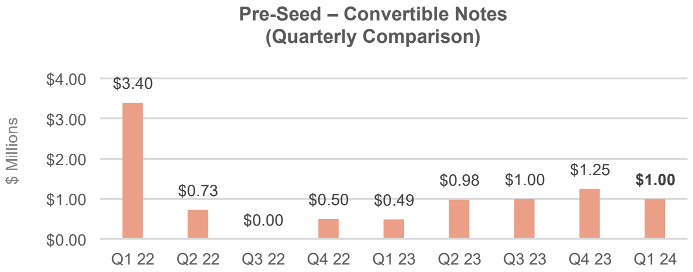
* For a more detailed summary of private company financing deal terms, see the Appendix on page 21.

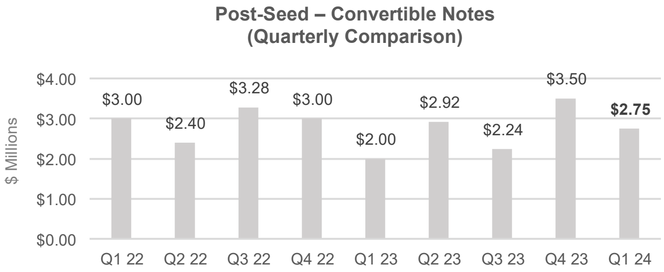
CONVERTIBLE NOTE MEDIAN RAISE AMOUNTS

Pre-Seed and Post-Seed Convertible Notes Raises Trend Upwards







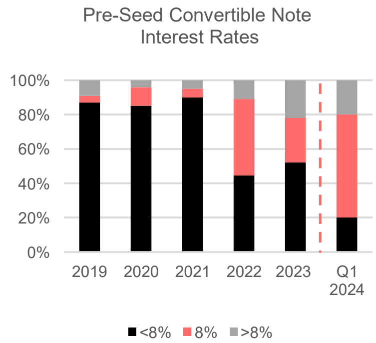


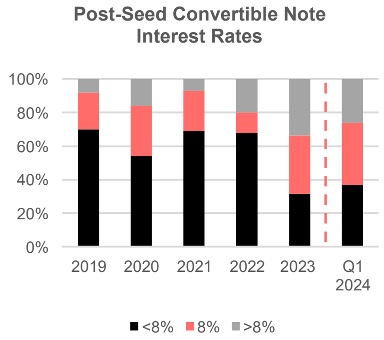
In contrast to the upward trend observed in equity financings, the amounts raised from convertible notes have fluctuated over recent quarters. Q1 2024 saw a marginal decrease in median amounts raised for both pre-Seed and post-Seed convertible notes.

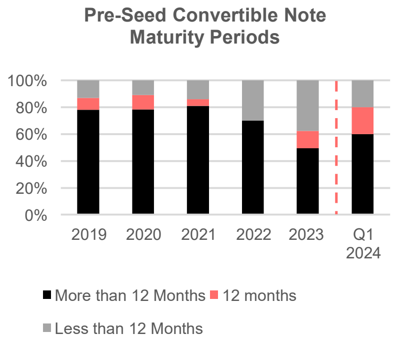
Some degree of self-selection might explain the divergent trends between note and equity financings. Thriving start-ups are increasingly able to argue the case for equity rounds, and investors are more and more willing to invest larger amounts into these companies. On the other side, struggling start-ups are delaying equity rounds, with investors remaining cautious, often investing just enough through bridge notes to keep the companies viable.

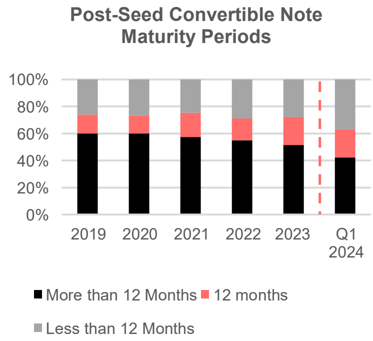
CONVERTIBLE NOTE DEAL TERMS*

Note Interest Rates Are Up, Maturity Periods Are Down









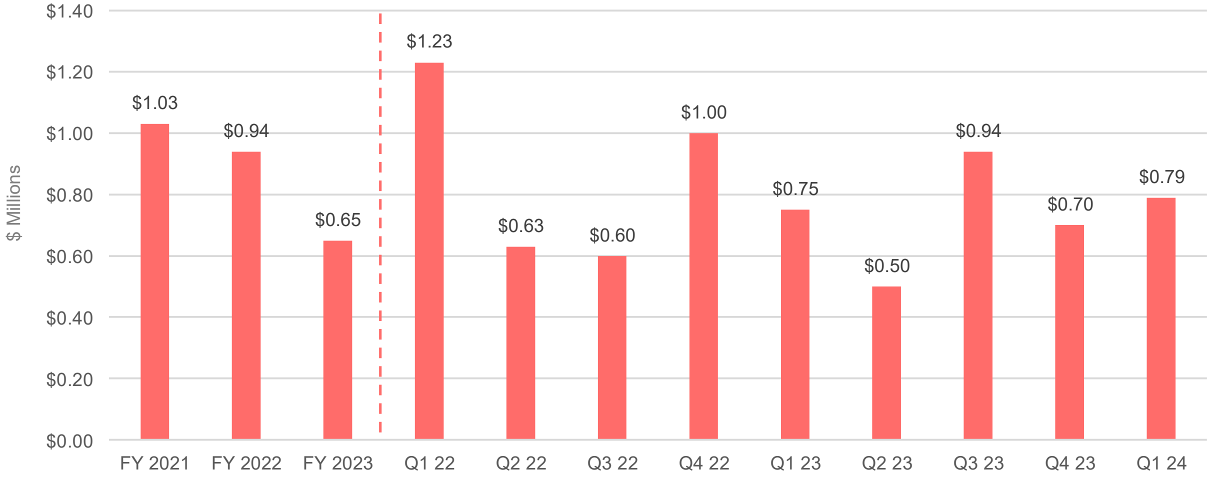
Maintaining the trend that started with the Federal Reserve's interest rate increases in March 2022, 80% of pre-Seed and 63% of post-Seed convertible notes had higher-than-typical interest rates of 8% or more in Q1 2024. While note interest rates are not directly correlated to the federal funds rate and are perhaps better seen as a proxy for an investor's risk tolerance, start-ups should continue to watch closely to see if the Federal Reserve's future anticipated rate decreases result in any relaxation of aggressive interest rate terms later this year.

The shift towards shorter maturity periods for convertible note rounds continues but in Q1 2024 was more pronounced at the post-Seed stage, where a majority of notes (58%) had maturity dates of 12 months or less. The message to post-Seed companies is clear: Investors are still expecting swift progress toward an equity round or exit.

* For a more detailed summary of convertible note deal terms, see the Appendix on page 22.

SAFEs

SAFE Median Raise Amounts Remain Under $1 Million

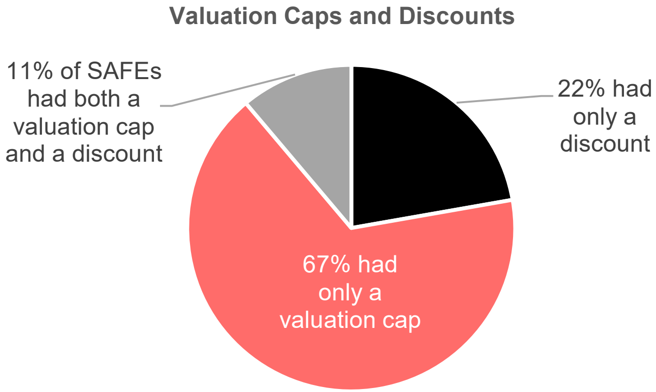


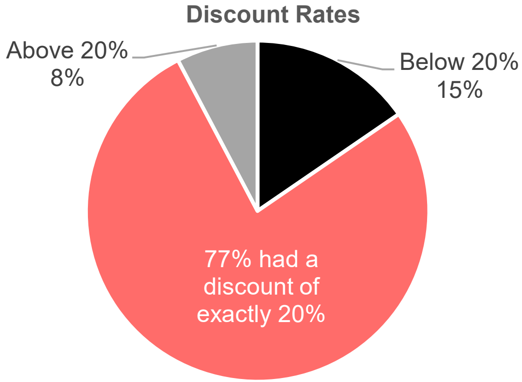
The median amount raised in SAFE financings in Q1 2024 increased slightly to $790,000, but remains at or below $1 million for the eighth consecutive quarter.

Despite the larger SAFE rounds seen in 2022, SAFEs have largely returned to their pre-pandemic status as a tool generally limited to early-stage funds and angel investors.

SAFEs

SAFE Investors Stick to Standard Terms





Q1 2024's SAFE terms were similar to those seen over the past few years. About 33% of SAFEs so far this year included a discount, down slightly from 43% in 2023 and 38% in 2022. Meanwhile, valuation caps were incorporated in 78% of SAFEs, consistent with 2023, which saw valuation caps in 80% of SAFEs. The median valuation cap was $20 million, up from 2023's $15 million.

Along with an increase in the prevalence of SAFEs with only a valuation cap (67% versus 58% last year), the jump in valuation cap dollar values is another indication that many early-stage start-ups are successfully negotiating better terms. The breakdown between various discount rates also remains consistent with 2023.

Delaware's Status as the Favored Corporate Home: Reflections and Considerations

In recent months, a conversation has emerged as to whether Delaware should remain the favored state of incorporation for business entities. In a recent client advisory, we provided our reflections on that question and various factors that entrepreneurs, investors, and companies should consider when weighing incorporation in Delaware against incorporation in another state. The sheer number of entities formed in Delaware reflects its dominance in this area. In 2022, more than 313,650 entities were formed in the state of Delaware, resulting in more than 1.9 million entities total in Delaware. Delaware also continues to be the state of incorporation for nearly 68.2% of the Fortune 500, 65% of the S&P 500, and approximately 79% of all U.S. initial public offerings in calendar year 2022.

Why Is Delaware in Question?

In the conversations that we have had with clients, businesspeople, and others in the corporate bar, we have heard the following reasons given for reconsidering incorporation in Delaware:

- A growing number of cases that have addressed technical issues, in the M&A context and elsewhere, and reached unexpected results in a manner that has impacted corporate structuring and transaction planning
- A perception that Delaware judges have in several opinions adopted an increasingly suspicious or negative tone toward corporate boards and management, and toward the corporate bar
- The challenges that the case law can pose for companies with influential founders or significant stockholders, the process mechanisms that such companies are expected to use, and the remedies that have been reached in those cases
- A sense that Delaware judges can be skeptical of the governance of venture-backed private companies and many Silicon Valley-based companies
- The increasingly active, and successful, plaintiffs' bar in both technical and fiduciary claims, which can leave boards and management with the sense that they are planning around "gotcha" litigation driven by plaintiffs' lawyers more than those lawyers' individual clients

Delaware's Status as the Favored Corporate Home: Reflections and Considerations (cont.)

Why Delaware Has Maintained Dominance

In assessing the ongoing utility of Delaware corporate law, it is important to understand what has historically given rise to Delaware's prominence and what will undoubtedly keep Delaware in use for many business entities for years to come. The reasons for Delaware's prominence are multi-faceted and interrelated:

- A talented, responsive, and knowledgeable judiciary
- An up-to-date and carefully considered statute
- Developed case law
- A nimble and user-friendly Secretary of State's Office
- Delaware law's flexibility
- Delaware's sophisticated bar and Delaware law as a known currency

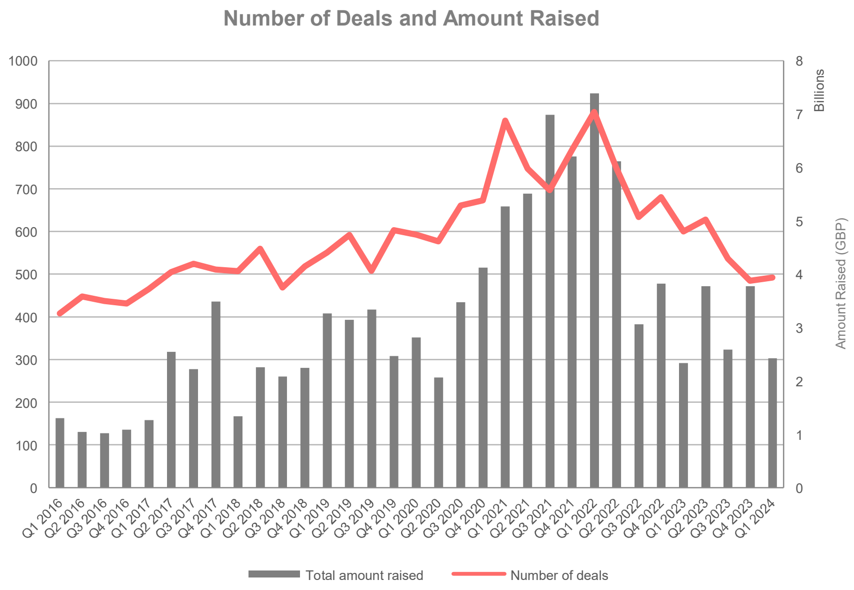
Consideration of Other States

For companies, entrepreneurs, and investors considering incorporation in other states, it is important to understand the substance of the corporate law in those states and the landscape of their courts. Our advisory considers two states—Nevada and Texas—that have received more attention of late, as well as California, where many companies are headquartered. Other states, such as New York, which has an established corporate bar and court system, may also be deserving of consideration.

Click here to read the full advisory, which includes a discussion on the differences that may exist across states that are most frequently mentioned as alternatives to Delaware.

UK Equity Market Update, Q1 2024

Beauhurst



492 deals completed (up 1.4% from Q4 2023, down 18% from Q1 2023)

£2.42 billion invested (down 36% from Q4 2023, up 3.7% from Q1 2023)

Methodology

Data for the report was collected by Beauhurst and finalised on 26 January 2024. The report looks at all announced equity investments received by private companies headquartered in the UK, in all sectors. Equity rounds are found by monitoring thousands of investment sources; Beauhurst also maintains relationships with hundreds of investors to receive information about their portfolio companies. In this context, equity investment refers to the issuance and sale of new shares by a company to fund its growth.

Data for this report was finalised on 22 April 2023.

To be included in the analysis, an investment must be:

- Dated between 1 January 2016 and 31 March 2024
- Publicly announced
- Some form of equity investment
- Secured by a non-listed UK company

Headline Funding Figures

The total amount raised this Q1 (£2.42 billion) was significantly lower than Q4 2023 (£3.77 billion) — 36% lower. At first glance this might indicate a downward trajectory for 2024, but the amount is similar to the amount invested in Q1 2023 (£2.34 billion).

UK Equity Market Update, Q1 2024 (cont.)

Beauhurst

Time will tell whether investment volume will increase in Q2 2024 as it did in 2023; throughout the eight years Beauhurst has been tracking this data, we've frequently seen Q1 as the lowest quarter for investment (aside from a particularly high Q1 2022). This quarter's result is therefore not a sure-fire indicator of a wider downturn in investment.

It may also indicate, as we've seen more and more in our recent analysis, that investors are opting to hold back on investments at this time. And, as we discussed in our yearly version of this report, The Deal 2023, this uncertainty could be attributed to the 50 global elections being held in 2024, and their influence on the global markets.

Regional Trends

In Q1 2024, high-growth companies in Scotland participated in 31 fundraising deals, equating to 6.4% of all deals. This corresponds to our findings in Q4 2023, where Scotland secured 31 deals. What's more impressive is the amount secured (£224 million), which works out as 9.4% of the amount invested across the UK. This is the highest amount invested outside of London and the South East — the two regions which typically have the highest investment.

London secured 47.1% of deals (227) and 59.9% of the total amount invested. The South East and the East of England follow behind securing 11.8% (£282 million) and 8.9% (£189 million) of total investment, respectively. The large amount of investment into the East of England could be because of its proximity to London. As well as having Cambridgeshire located in this area — there are 149 active academic spinouts hailing from the University of Cambridge and likely many young entrepreneurs receiving funding here.

Northern Ireland secured five deals, 1% of Q1 2024 deals and 1.2% of the total amount invested. This follows the typical pattern for Northern Ireland, which secured seven deals in Q4 2023.

Deal Sizes

The mean deal size for Q1 2024 was £4.92 million, significantly higher than Q1 2023 (£3.89 million), but still considerably lower than that in Q4 2023 (£7.78 million).

Aside from Q4 2023, we've seen a reasonably consistent mean deal size of around £4-6 million since the post-pandemic investment boom, which saw mean deal sizes peak at £10 million in Q3 2021. This average size is consistent with those in 2019 and 2020, possibly indicating a consistent return to the previous "status quo" for deal sizes. However, with the Q4 2023 outlier, it'll become clearer at the end of 2024 if this is the case or if the average amount invested will rise again later in the year.

Biggest Deals of Q1 2024

Gigadeal = £100 million or more

Megadeal = £50 million or more

So far in 2024, we've seen six megadeals and one gigadeal. Monzo secured the gigadeal for £339 million.

UK Equity Market Update, Q1 2024 (cont.)

Beauhurst

Seven Biggest Deals of Q1 2024

7) ElevenLabs

Amount: £65.2 million
Deal Date: 8 January 2024
Location: London
Industry: Software

ElevenLabs raised £62.9 million in January 2024. The company has developed an AI tool that automatically translates audio and video content into different languages. It launched in 2022 and since then has raised a total of £79.5 million, as well as attended the Disney Accelerator.

6) hyperexponential
Amount: £65.2 million
Deal Date: 8 January 2024
Location: London
Industry: Software, financial services

hyperexponential develops pricing software for insurers. It secured £57 million in January 2024 and has been featured on two high-growth lists since 2020.

5) Storegga

Amount: £65.2 million
Deal Date: 8 January 2024
Location: London
Industry: Renewable energy

Storegga specialises in renewable energy technology, focusing on carbon capture, carbon reduction, and the transportation of stored carbon. The company aims to help the private sector transition to a sustainable future. Storegga has hit two of Beauhurst's ESG Signals: clean & renewable energy and green infrastructure & building.

4) Tokamak Energy
Amount: £76.5 million
Deal Date: 8 January 2024
Location: Oxfordshire
Industry: Renewable energy, nuclear energy

Based in Oxfordshire, Tokamak Energy is an academic spinout of the Culham Centre for Fusion Energy. The company develops fusion technologies in hopes of advancing the development of large-scale clean energy production. It has hit three of our Innovation Signals and our clean & renewable energy ESG Signal.

3) Rocco Forte Hotels
Amount: £86.2 million
Deal Date: 17 January 2024
Location: London
Industry: Hotels

Rocco Forte Hotels runs a chain of luxury hotels, from England to Italy and Russia. Since its incorporation in 1996, it has featured on seven high-growth lists including Fast Track International Track 200, Fast Track Top Track 250, and Top 100 - Britain's Fastest Growing Businesses. It has also hit Beauhurst's 20% scaleup Growth Signal.

2) Build A Rocket Boy
Amount: £87 million
Deal Date: 16 January 2024
Location: Edinburgh
Industry: Video games

This gaming company, headquartered in Edinburgh, has since expanded internationally with an office in Budapest. Build A Rocket Boy was founded by Leslie Benzies, former president of Rockstar Games subsidiary Rockstar North — and has filed one patent for its VR gaming software.

1) Monzo
Amount: £339 million
Deal Date: 5 March 2024
Location: London
Industry: Banking

Monzo has quickly become one of the world's leading challenger banks and a household name. First marketed as a great card to use abroad, Monzo has now expanded into an extensive offering that includes borrowing and investment options.

UK Equity Market Update, Q1 2024 (cont.)

Beauhurst

About the Authors

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Lily is a content associate and professional writer. She is responsible for content creation at Beauhurst and specialises in both creative and analytical writing. Prior to this, she worked as an SEO content writer and completed an M.A. in creative writing.

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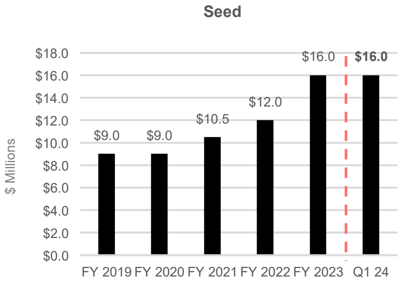
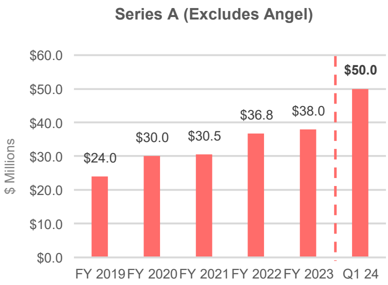
About Beauhurst

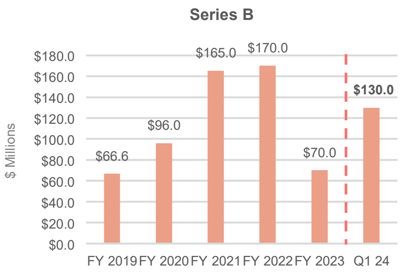
Beauhurst is a searchable database of the UK's high-growth companies. We report on all equity fundraisings in the United Kingdom, both those announced in the press and those that go unannounced. Alongside this, we track all grants awarded to UK companies, as well as their financial accounts, key people, 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

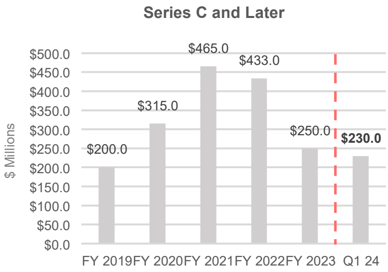
Appendix – A Yearly Look-Back on Equity Valuations and Raise Amounts

Pre-Money Median Valuations

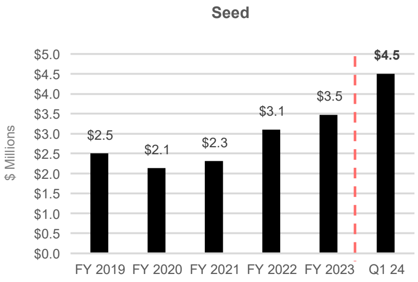


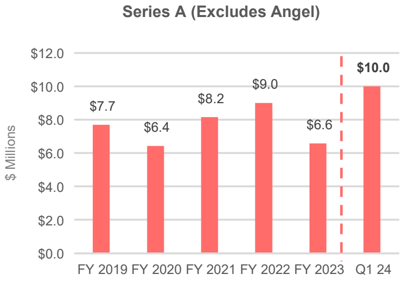


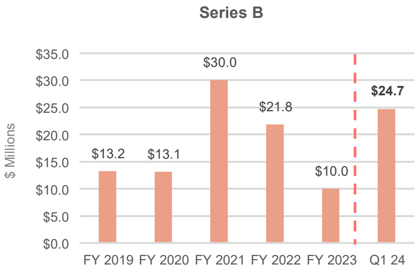


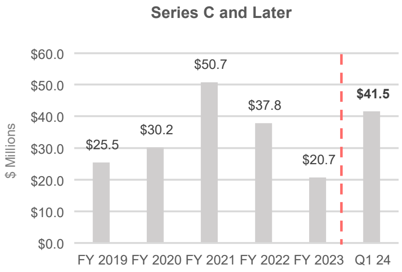


Equity Fundraise Median Amounts









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

	2019 All Rounds[2]	2020 All Rounds[2]	2021 All Rounds[2]	2022 All Rounds[2]	2023 All Rounds[2]	Q1 2024 All Rounds[2]	2019 Up Rounds[3]	2020 Up Rounds[3]	2021 Up Rounds[3]	2022 Up Rounds[3]	2023 Up Rounds[3]	Q1 2024 Up Rounds[3]	2019 Down Rounds[3]	2020 Down Rounds[3]	2021 Down Rounds[3]	2022 Down Rounds[3]	2023 Down Rounds[3]	Q1 2024 Down Rounds[3]
Liquidation Preferences - Series B and Later																		
Senior	35%	35%	24%	30%	26%	33%	30%	32%	23%	26%	20%	18%	63%	56%	50%	64%	38%	63%
Pari Passu with Other Preferred	63%	63%	75%	70%	74%	67%	68%	67%	76%	74%	80%	82%	37%	44%	50%	36%	62%	38%
Junior	1%	0%	1%	0%	0%	0%	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Complex	2%	1%	0%	0%	0%	0%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Participating vs. Non-Participating																		
Participating - Cap	5%	4%	4%	3%	2%	2%	5%	6%	4%	3%	4%	0%	5%	0%	0%	0%	14%	0%
Participating - No Cap	10%	8%	6%	6%	8%	5%	12%	8%	7%	7%	10%	0%	32%	24%	0%	36%	24%	13%
Non-Participating	85%	88%	90%	91%	90%	93%	83%	86%	89%	90%	85%	100%	63%	76%	100%	64%	62%	88%
Dividends																		
Yes, Cumulative	5%	10%[4]	5%	6%	3%	4%	6%	10%[4]	6%	8%	6%	10%	11%	25%[4]	0%	8%	0%	0%
Yes, Non-Cumulative	56%	79%[4]	56%	51%	46%	46%	67%	83%[4]	65%	57%	53%	30%	79%	69%[4]	57%	58%	65%	88%
None	39%	10%[4]	39%	43%	51%	50%	28%	7%[4]	29%	35%	40%	60%	11%	6%[4]	43%	33%	35%	13%
Anti-Dilution Provisions																		
Weighted Average - Broad	94%	95%	97%	98%	98%	94%	99%	98%	98%	99%	100%	86%	89%	76%	100%	100%	95%	100%
Weighted Average - Narrow	0%	1%	1%	0%	1%	0%	0%	2%	1%	0%	0%	0%	5%	6%	0%	0%	5%	0%
Ratchet	0%	1%	1%	1%	0%	0%	0%	0%	1%	1%	0%	0%	5%	6%	0%	0%	0%	0%
Other (Including Blend)	1%	1%	0%	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
None	4%	2%	1%	1%	2%	6%	1%	0%	0%	0%	0%	14%	0%	12%	0%	0%	0%	0%
Pay to Play - Series B and Later																		
Yes, Pay-to-Play	3%	7%	3%	7%	8%	3%	2%	3%	3%	4%	4%	0%	16%	12%	17%	43%	10%	13%
None	97%	93%	97%	93%	92%	97%	98%	97%	97%	96%	96%	100%	84%	88%	83%	57%	90%	88%
Redemption																		
Yes, Redemption	14%	13%	10%	8%	5%	10%	17%	10%	15%	12%	4%	14%	26%	25%	17%	7%	15%	0%
None	86%	88%	90%	92%	95%	90%	82%	90%	86%	89%	96%	86%	74%	75%	83%	93%	86%	100%

[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]	2018 Pre-Seed	2020 Pre-Seed	2021 Pre-Seed	2022 Pre-Seed	2023 Pre-Seed	Q1 2024 Pre-Seed	2019 Post-Seed	2020 Post-Seed	2021 Post-Seed	2022 Post-Seed	2023 Post-Seed	Q1 2024 Post-Seed
Interest rate less than 8%	87%	85%	90%	44%	52%	20%	70%	54%	69%	68%	32%	37%
Interest rate at 8%	4%	11%	5%	44%	26%	60%	22%	30%	24%	12%	35%	37%
Interest rate greater than 8%	9%	4%	5%	11%	22%	20%	8%	16%	7%	20%	34%	26%
Maturity less than 12 months	13%	11%	14%	30%	38%	20%	26%	27%	25%	29%	28%	37%
Maturity 12 months	9%	11%	5%	0%	13%	20%	14%	13%	18%	16%	21%	21%
Maturity more than 12 months	78%	79%	81%	70%	50%	60%	60%	60%	58%	55%	52%	42%
Debt is subordinated to other debt	27%	13%	14%	40%	17%	50%	49%	46%	48%	41%	39%	32%
Loan includes warrants[2]	2%	4%	0%	0%	0%	0%	8%	12%	6%	20%	22%	16%
Warrant coverage less than 25%	100%	100%	N/A	N/A	N/A	N/A	80%	67%	0%	11%	45%	50%
Warrant coverage at 25%	0%	0%	N/A	N/A	N/A	N/A	0%	0%	0%	0%	0%	0%
Warrant coverage greater than 25%	0%	0%	N/A	N/A	N/A	N/A	20%	33%	100%	89%	55%	50%
Automatic conversion into equity on qualified financing[3]	100%	100%	100%	100%	92%	75%	96%	92%	96%	93%	88%	94%
Voluntary conversion into equity on qualified financing[3]	0%	0%	0%	0%	8%	25%	4%	8%	4%	7%	12%	6%
Conversion rate subject to price cap[4]	69%	68%	71%	56%	54%	75%	51%	36%	52%	32%	47%	42%
Conversion to equity at discounted price[5]	68%	78%	75%	50%	88%	75%	81%	79%	70%	78%	80%	94%
Conversion to equity at same price as other investors	12%	13%	15%	30%	8%	25%	11%	17%	25%	20%	10%	6%
Discount on conversion less than 20%	18%	11%	20%	40%	14%	33%	27%	25%	21%	29%	18%	6%
Discount on conversion at 20%	63%	69%	60%	20%	48%	0%	57%	46%	63%	39%	55%	53%
Discount on conversion greater than 20%	18%	20%	20%	40%	38%	67%	16%	29%	16%	32%	27%	41%

[1] We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note the numbers do not always add up to 100% due to rounding. Pre-Seed refers to convertible notes issued prior to the first preferred stock financing. Post-Seed refers to convertible notes issued after the first preferred stock financing.
[2] Of the 2019 post-Seed convertible notes with warrants, 71% also had a discount on conversion into equity. Of the 2020 post-Seed convertible notes with warrants, 44% also had a discount on conversion into equity. Of the 2021 post-Seed convertible notes with warrants, 100% also had a discount on conversion into equity. Of the 2022 post-Seed convertible notes with warrants, 59% also had a discount on conversion into equity. Of the 2023 post-Seed convertible notes with warrants, 55% also had a discount on conversion into equity. Of the Q1 2024 post-Seed convertible notes with warrants, 33% also had a discount on conversion into equity.
[3] The 2019 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $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. The 2023 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $5M and $10M, respectively. The Q1 2024 median dollar threshold for a qualified financing in pre- and post-Seed convertible notes was $4M and $15M, respectively.
[4] 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. The 2023 median price cap in pre- and post-Seed convertible notes was $20M and $45M, respectively. The Q1 2024 median price cap in pre- and post-Seed convertible notes was $11M and $22M, respectively.
[5] Of the 2019 post-Seed convertible notes that had a discount on conversion into equity, 7% had warrants. Of the 2020 post-Seed convertible notes that had a discount on conversion into equity, 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 Q1 2024 post-Seed convertible notes that had a discount on conversion into equity, 6% 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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If you're a founder, entrepreneur, or venture capitalist, be sure to check out our digital hub for unparalleled access to a wide range of free legal resources, tools, and insights—including an FAQ section for founders! ecp.wsgr.com

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