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TECHNOLOGY MAY-RATHON

Seed Financing Structures for Digital Health Companies

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June 30, 2021

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Presenters

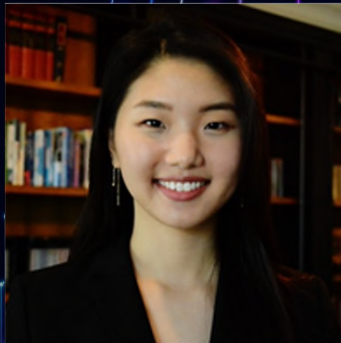


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Overview

- I. Market Trends in Digital Health Company Financings
- II. What is a Seed Financing?
- III. Considerations in Structuring a Seed Financing
- IV. Seed Financing Deal Structures
- V. Common Stock Deals
- VI. Series Seed Preferred Stock Deals
- VII. Convertible Debt Deals
- VIII. SAFE Deals
- IX. Questions

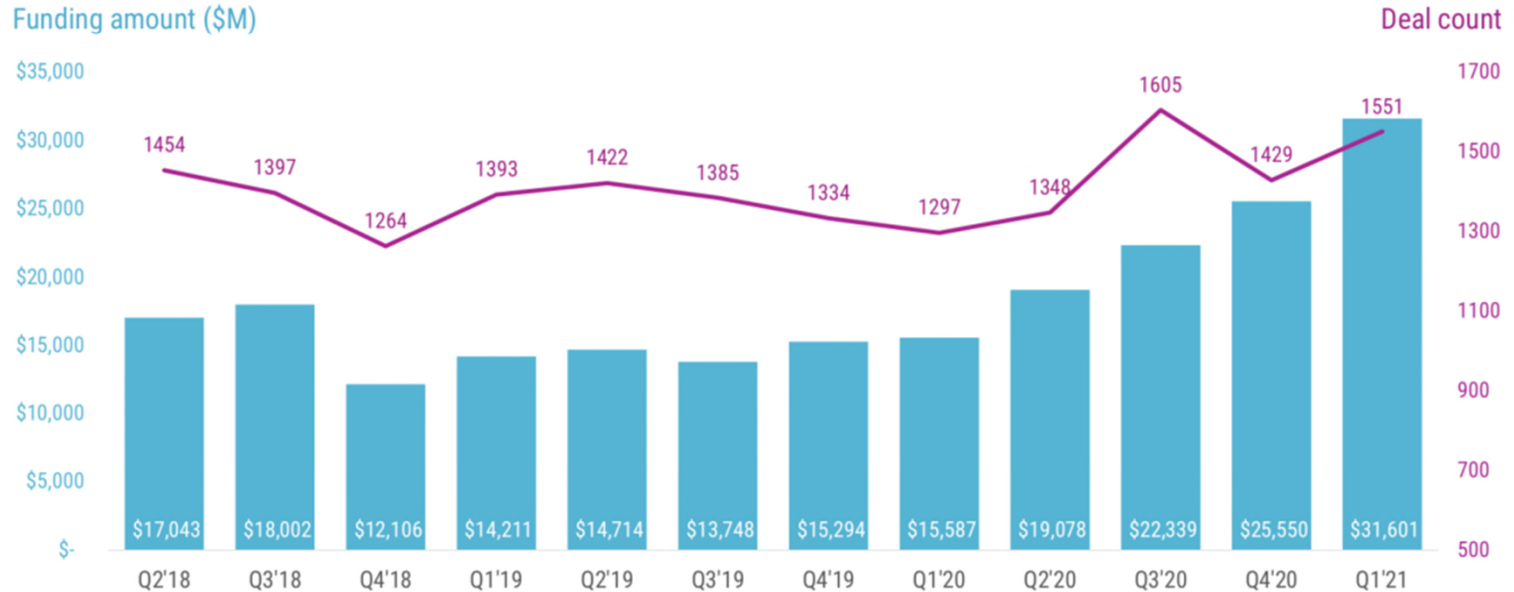
The background features a dark blue space filled with numerous vertical lines of varying heights, each topped with a small, glowing dot in shades of blue, purple, and red. These lines are connected at the base by a series of horizontal, wavy lines that create a sense of depth and movement, resembling a digital terrain or a data visualization. The overall effect is that of a high-tech, data-driven environment.

Market Trends in Digital Health Company Financings

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Healthcare funding hit a new high in Q1'21

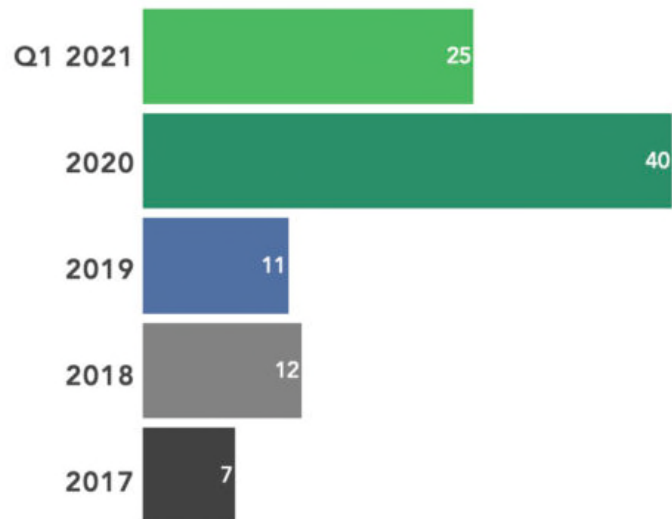
Quarterly global healthcare funding and deal count, Q2'18 – Q1'21



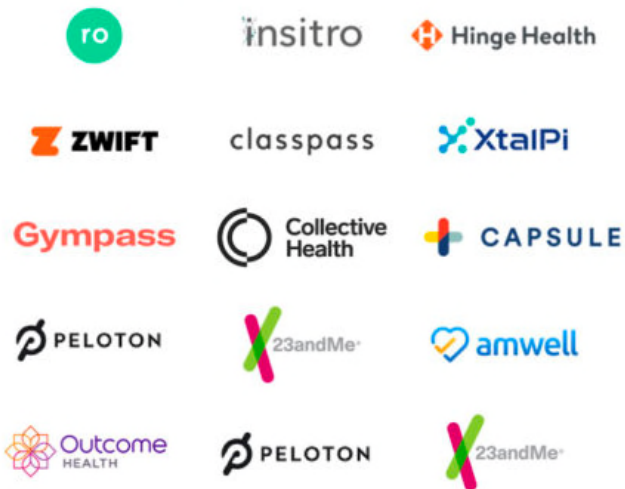
25 \$100M+ mega deals accounted for two-thirds of total Q1 2021 funding

NUMBER OF MEGA DEALS (\$100M+)

2017–Q1 2021



TOP THREE FUNDED MEGA DEALS



MEGA DEALS AS A % OF TOTAL FUNDING



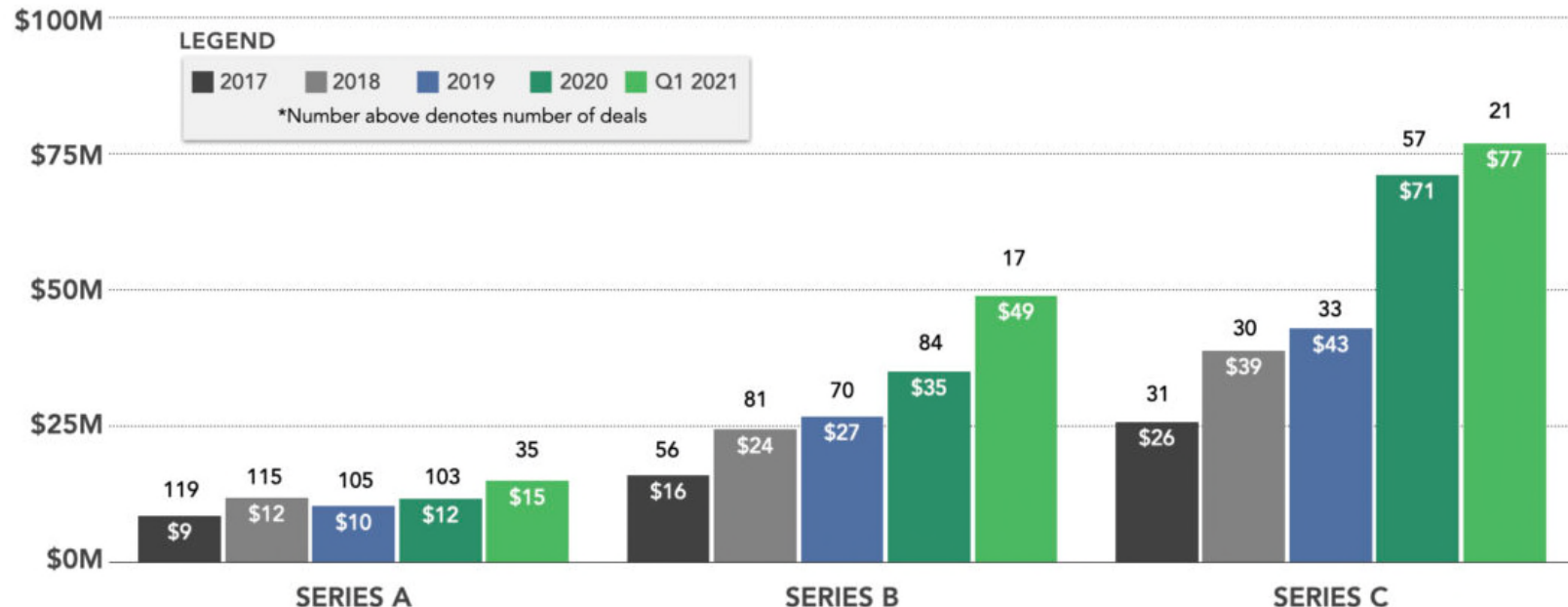
Source: Rock Health Digital Health Venture Funding Database and Analysis, data through March 31, 2021



Series A, B, and C deal sizes continue to trend up through Q1 2021

AVERAGE SIZE OF FUNDING ROUND, BY SERIES

2017–Q1 2021



Note: Series D-F deals are excluded in this analysis, given that they represent a huge swath of heterogeneous, late-stage deals that lump together a wide range of deals. The purpose of this analysis is to show the trends in early- to mid-stage deals.
Source: Rock Health Digital Health Venture Funding Database and Analysis, data through March 31, 2021

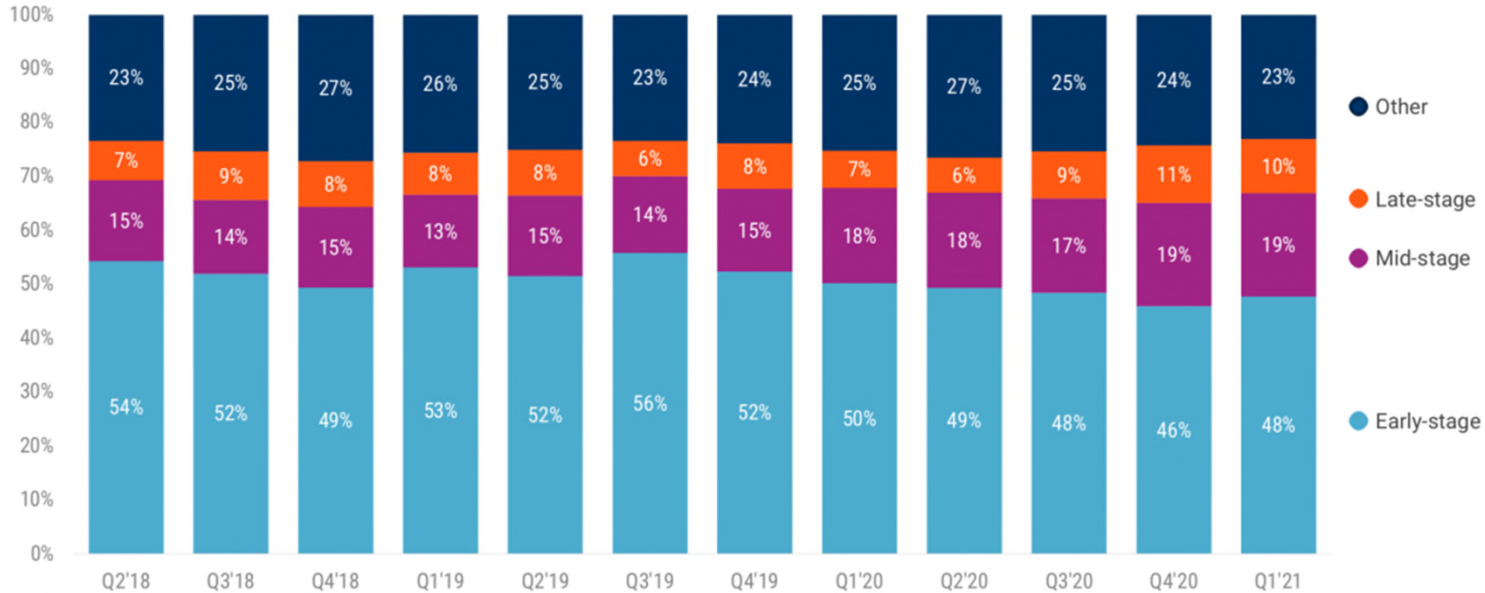
PRESENTATION © 2021 ROCK HEALTH



HEALTHCARE INVESTMENT TRENDS

Q1'21 saw a slight uptick in early-stage deals

Percentage share of global healthcare deals by stage, Q2'18 – Q1'21



Note: "Early-stage" includes convertible note, angel, seed, and Series A rounds. "Mid-stage" includes Series B and Series C rounds. "Late-stage" includes Series D, Series E+, growth equity, and private equity rounds. "Other" includes unattributed and corporate minority rounds.

What is a Seed Financing?



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Seed Financing

Means Different Things to Different People

Not a term of art

Size of the Rise

\$250,000 to \$1,000,000 +

Stage of the Company

Post formation and Pre-Series A

Types of Investors

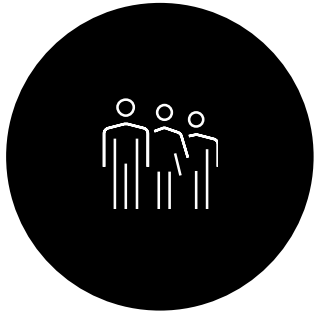
4 Fs of Early Stage Startup Financing, Plus Angels and Seed Stage VCs

Considerations in Structuring Seed Financings

The background of the slide is a dark, abstract digital landscape. It features a grid of glowing lines in shades of blue, purple, and red, which appear to be receding into the distance, creating a sense of depth and perspective. The lines are interspersed with small, bright dots of the same colors, resembling a data visualization or a network diagram.

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Considerations in Structured Seed Financings



Who are the Investors and What are their Preferences?



How Much Capital is Being Invested?



What are the Costs?



What is the Timing?

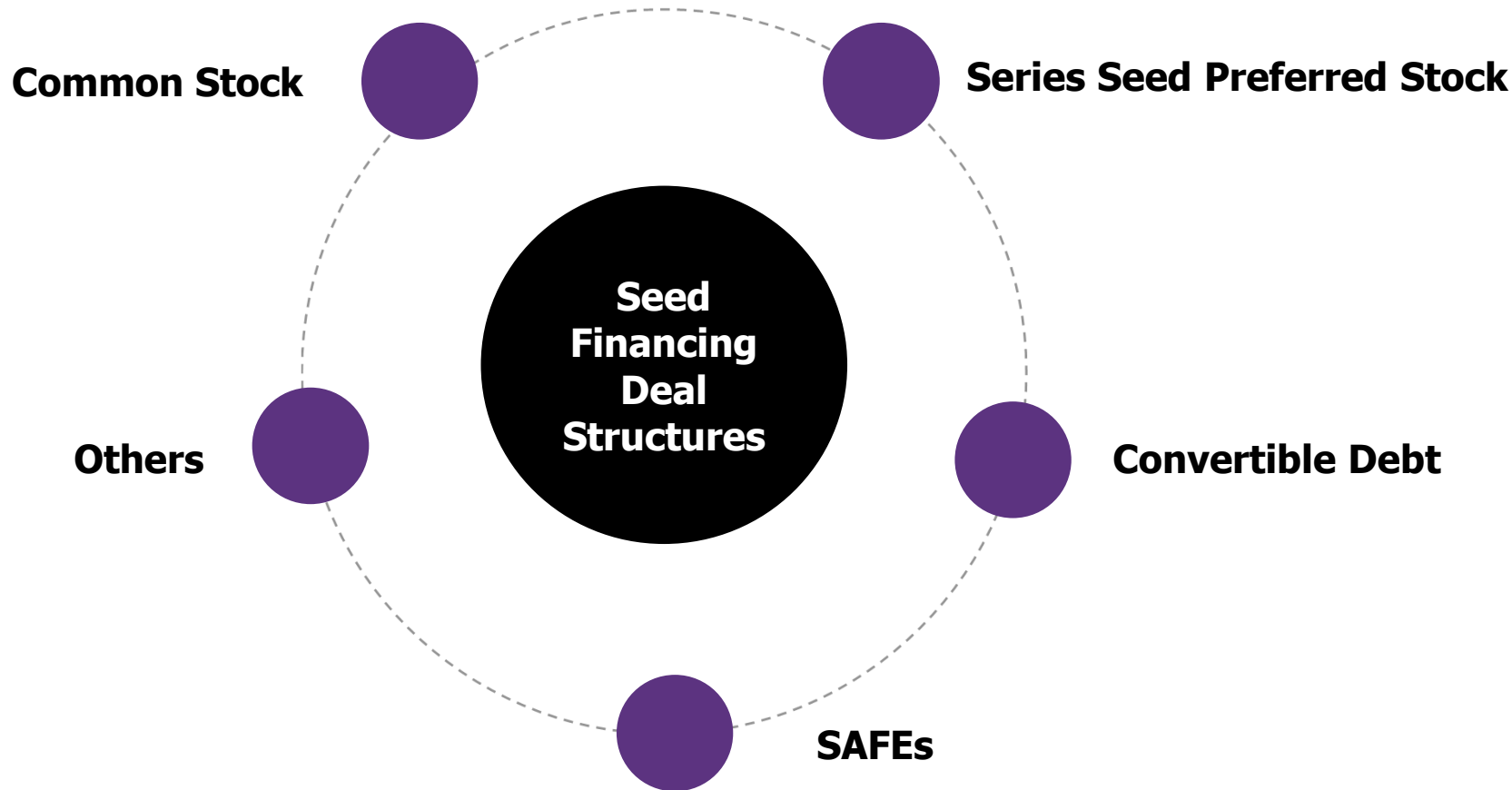


Any Specific Considerations?

Seed Financing Deal Structures

The background of the slide is a dark, abstract digital landscape. It features a dense field of vertical lines of varying heights, each topped with a small, glowing dot. The lines and dots are primarily in shades of blue, purple, and red, creating a vibrant, futuristic aesthetic. The lines appear to recede into the distance, giving a sense of depth and perspective.

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Common Stock

What is It?

- Most basic form of equity

What are the Terms?

- Generally, to elect directors, receive any dividends, share in any proceeds upon liquidation
- Generally, no special “investor-style” rights

What are the Advantages?

- Low transaction costs
- From the company’s perspective, investors have very limited economic and control rights

What are the Disadvantages?

- From the investor’s perspective, investors have very limited economic and control rights

When is it Used?

- Founder financings
- Maybe friends and family financings

Series Seed Preferred Stock

What is It?

- A “special” form of equity

What are the Terms?

- Liquidation Preference, Dividends, Pre-emptive Rights, Board Representation, Protective Provisions, Information Rights, Access Rights, and More

What are the Advantages?

- From the investor’s perspective, a negotiated set of specific economic and control rights
- From the company’s perspective, the ability to attract smart money

What are the Disadvantages?

- Higher transaction costs
- Longer time to closing

When is it Used?

- Venture capital financings
- Sophisticated angel financings

Convertible Debt

What is It?

- A debt security that may convert into an equity security

What are the Terms?

- Principal Amount, Interest Rate, Maturity Date, Discount, Valuation Cap
- Conversion Features (Qualified Financing, Non-Qualified Financing, Change of Control, Maturity)

What are the Advantages?

- Punts the valuation conversation, if no Valuation Cap
- Low transaction costs
- Shorter time to closing

What are the Disadvantages?

- From the investor's perspective, their stockholder rights are not yet set
- From the company's perspective, the debt could mature and become due and payable

When is it Used?

- Very Often (especially in smaller raises and earlier raises)

SAFEs

What is It?

- “Simple” Agreement for Future Equity

What are the Terms?

- Similar to a note with no interest of maturity

What are the Advantages?

- Theoretically low transaction costs
- Theoretically shorter time to closing

What are the Disadvantages?

- From the investor’s perspective, an irrevocable commitment of capital with a hope of fair treatment in the future

When is it Used?

- Incubator financings, very early financings, very small financings, West Coast deals

The background is a dark, abstract digital landscape. It features a grid of glowing lines that curve and ripple across the bottom, creating a sense of depth and movement. From these lines, numerous vertical beams of light extend upwards, each topped with a small, bright dot. The colors of the lines and dots are primarily blue, purple, and red, with some white highlights. The overall effect is that of a complex, interconnected network or data stream.

Questions?

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Biography



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Benjamin David Novak is an active angel investor in early stage technology companies located on the East Coast of the United States. In addition to being an angel investor, Ben is a Partner with Morgan Lewis where he represents technology companies, angel investors, venture capital funds, and private equity firms. He is an active member of the venture community, serving on numerous advisory boards and regularly speaking at tech events, judging venture conferences, and lecturing on technology, entrepreneurship, and investing at colleges and universities.

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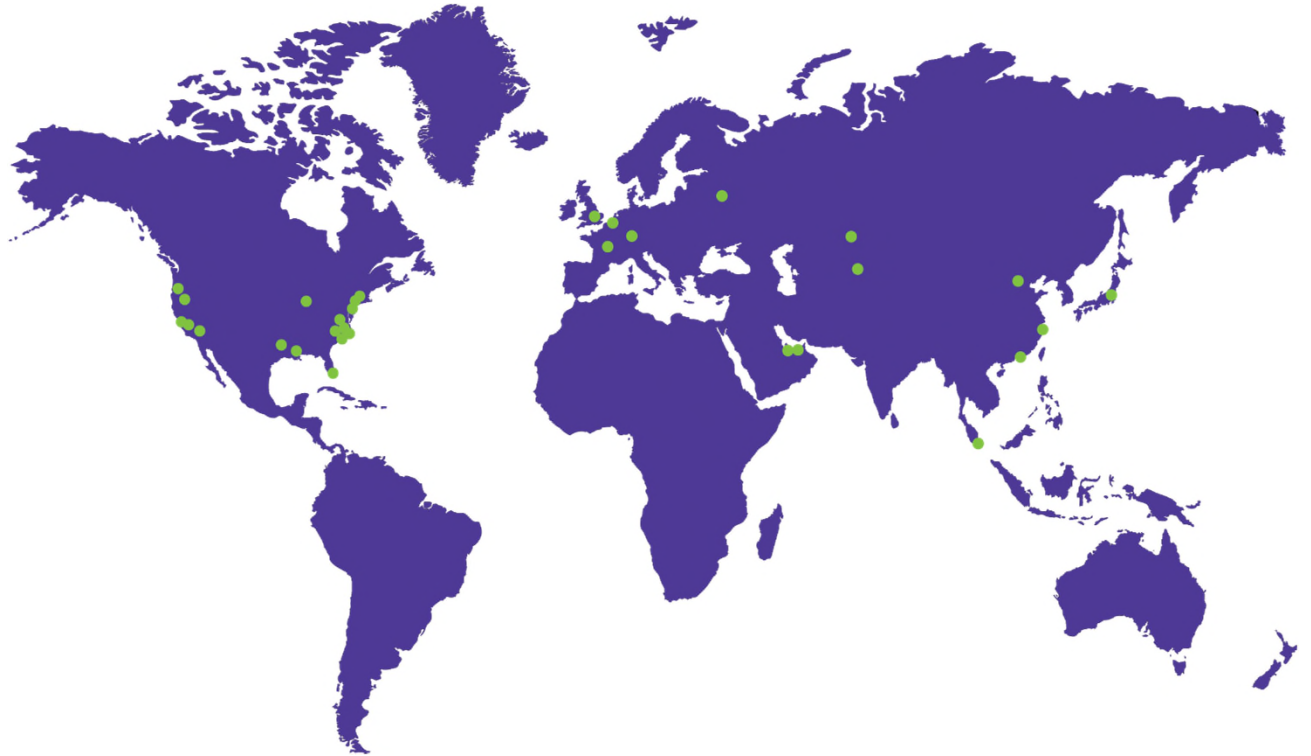
Jessica Lee counsels clients on diverse corporate transactions, including license, commercialization and collaboration agreements, mergers and acquisitions, joint ventures, and strategic partnerships. Other areas of work involve finance, restructuring, securities, and corporate governance. Her clients include emerging growth, technology, financial services, and life science companies.

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