

Morgan Lewis

STARTUP & ACCELERATE

**Corporate Venture Capital Trends for Financing
High Growth Emerging Companies**

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Presenters



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Overview

In this survey, we track investment trends as the market slowed for CVC financings. **We also analyze a survey of key economic terms of the largest Q2 2024 venture capital investments in which CVC programs either led the round or participated as significant or anchor investors.**

PitchBook: Q2 2024 Deals

Companies	Deal Date	Deal Type	Deal Size	Post Valuation	Current Financing Status	Primary Industry Code
xAI	26-Jun-2024	Early Stage VC	6,000.00	24,000.00	Venture Capital-Backed	Business/Productivity Software
EvolutionaryScale	25-Jun-2024	Seed Round	142.00		Venture Capital-Backed	Discovery Tools (Healthcare)
Radiology Partners	24-Jun-2024	PE Growth/Expansion	772.53		Private Equity-Backed	Laboratory Services (Healthcare)
AlphaSense	11-Jun-2024	Later Stage VC	650.00	4,000.00	Venture Capital-Backed	Media and Information Services (B2B)
EnerVenue	05-Jun-2024	Early Stage VC	308.15		Venture Capital-Backed	Electrical Equipment
Oishii	04-Jun-2024	Later Stage VC	144.00	544.00	Venture Capital-Backed	Horticulture
Scale AI	21-May-2024	Later Stage VC	1,000.00	14,000.00	Venture Capital-Backed	Business/Productivity Software
Figma	17-May-2024	Later Stage VC	415.75	12,500.00	Venture Capital-Backed	Multimedia and Design Software
Sigma	16-May-2024	Later Stage VC	254.00	1,824.00	Venture Capital-Backed	Business/Productivity Software
Vercel	16-May-2024	Later Stage VC	250.00	3,250.00	Venture Capital-Backed	Software Development Applications
Wiz	07-May-2024	Later Stage VC	1,000.00	12,000.00	Venture Capital-Backed	Network Management Software
BridgeBio Oncology Therapeutics	02-May-2024	Later Stage VC	200.00		Venture Capital-Backed	Drug Discovery
Corelight	30-Apr-2024	Later Stage VC	150.00	900.00	Venture Capital-Backed	Network Management Software
Island	30-Apr-2024	Later Stage VC	175.00	3,000.00	Venture Capital-Backed	Business/Productivity Software
Blackrock Neurotech	29-Apr-2024	Buyout/LBO	200.00	200.00	Venture Capital-Backed	Monitoring Equipment
Cerevance	25-Apr-2024	Later Stage VC	163.00		Venture Capital-Backed	Drug Discovery
Cidara Therapeutics (NAS: CDTX)	24-Apr-2024	PIPE	240.00		Formerly VC-backed	Biotechnology
Cullinan Oncology (NAS: CGEM)	18-Apr-2024	PIPE	280.00		Formerly VC-backed	Drug Discovery
Rivos	16-Apr-2024	Early Stage VC	250.00		Venture Capital-Backed	General Purpose Semiconductors
PayJoy	10-Apr-2024	Later Stage VC	360.00	650.00	Venture Capital-Backed	Consumer Finance
Cyera	09-Apr-2024	Later Stage VC	300.00	1,500.00	Venture Capital-Backed	Network Management Software
Monad Labs	09-Apr-2024	Early Stage VC	225.00	3,000.00	Venture Capital-Backed	Software Development Applications
Metsera	03-Apr-2024	Early Stage VC	350.00		Venture Capital-Backed	Biotechnology
Pointsbet Holdings (North America Operations)	03-Apr-2024	Buyout/LBO	225.00	225.00	Private Equity-Backed	Casinos and Gaming
Avenzo	02-Apr-2024	Early Stage VC	223.35	320.00	Venture Capital-Backed	Drug Discovery

Key Economic Terms of CVC Deals

- We focused our survey on the following deal terms typically negotiated between companies and investors:
 - Valuation
 - Liquidation preference
 - Participation rights
 - Dividend
 - Redemption rights
 - Protective provisions
 - “Pay-to-play” provisions
- Below is our discussion of what we observed in CVC deals with respect to these deal terms.

Valuation

- The survey covers a wide range of financing transactions during Q2 2024, from early to late stage financings.
- **Of the MLB transactions we reviewed that disclosed prior valuations, we noted that approximately 50% of the transactions involved higher valuations from the prior round, while the other 50% had lower valuations from the prior round.**
- **Compared to Q1, this represented an overall decrease in the number of deals with higher valuations, reflecting a slower fundraising environment and an increase in down rounds.**
- **The exception continues to be for AI financings which continued to outpace the market.**
- **Significant AI financings during the quarter included financing rounds for xAI and Scale AI.**

Liquidation Preference

- While preferred stockholders receive preferential treatment on distribution over common stockholders in the event of liquidation, the liquidation preference among different series of preferred stock is often a negotiated term. The later-round preferred stockholders may request a senior ranking over prior-round preferred stockholders, while earlier investors may insist on equal (or pari passu) treatment with new investors.
- **Based on our review, 100% of the transactions included a 1x liquidation preference which was pari passu with the prior preferred round, meaning that the new round investors do not include a senior preference to the prior preferred round. These results were the same as from the Q1 survey, indicating that in terms of liquidation preference, companies have been able to continue to hold the line on providing seniority to new investors in the liquidation stack.**

Participating Preferred

- With “non-participating” preferred stock, the preferred stockholders are entitled to receive only the amount of their preference (typically the amount paid for the stock). With “participating” preferred stock, preferred stockholders are entitled to receive their preference amount first in a liquidation event (plus accrued and unpaid dividends), with any remaining proceeds being divided among holders of common stock and preferred stock on an as-converted basis.
- **Based on our review, 100% of the transactions involved “non-participating” preferred stock. These results were the same as with Q1, indicating that “non-participating” preferred remains the market standard even as the market has been more investor favorable.**

Cumulative Dividend

- If dividends are cumulative, dividends accrue and accumulate at a specified rate whether or not declared by the board. Upon conversion of the preferred stock, cumulative dividends would convert into additional common stock, which would increase the investors' percentage ownership interest in the company above their original investment.
- **Based on our review, approximately 67% of the transactions did not provide for cumulative dividend provisions, while the remaining 33% included cumulative dividends. Compared to Q1, this represented a slight increase in cumulative dividends. Later stage financings and mezzanine rounds tend to include cumulative dividends as private equity investors often prefer to fix a baseline rate of return. In Q2, there was a higher concentration of later stage financings which would explain the increase in cumulative dividend provisions.**

Redemption Rights

- Redemption rights allow investors to force the company, in specified circumstances, to redeem their shares at cost, and in some cases, cost plus a small guaranteed rate of return.
- **Based on our review, none of the transactions included any form of redemption rights. This represented a decrease from Q1 but given that redemption rights are fairly rare in venture financings versus private equity deals generally, this was not a significant change.**

Protective Provisions

- Protective provisions provide preferred stockholders with special approval rights with respect to certain matters of particular significance to their investment in addition to class or series voting rights that may exist under relevant state corporate laws. These matters may include liquidation and sale of the company, amendment of charter or bylaws, changes in board size, and authorization of issuance of other preferred stock. An often-negotiated point is whether the new series of preferred stock should vote together as a single class with the prior series of preferred stock, or have a separate approval right specific to the new series.
- **Based on our review, approximately 83% of the transactions included voting rights only as a single class together with other series of preferred stock. Compared to Q1, this represented an increase in voting rights only as a preferred single class, indicating that notwithstanding the softer deal environment, companies have been able to hold the line on having to grant new investors a separate vote.**

“Pay-to-Play” Provisions

- A “pay-to-play” provision requires that investors participate in a later financing in order to retain their antidilution or other special rights. A pay-to-play is not a standard term in most VC financings and typically will come into play only in down-rounds. **We did not observe any pay-to-play provisions in the transactions we reviewed.**

Profiles

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E. John Park focuses his practice on debt and equity offerings, public securities offerings, recapitalizations, and mergers and acquisitions (M&A). He assists clients at every stage of the business cycle, from initial company formation, venture capital financings, and M&A, to initial public offerings (IPOs), public company reporting, and general corporate counseling. In addition, John represents acquirers and targets in public-private and private-private business combination transactions. John focuses primarily on technology companies across various sectors, including artificial intelligence, automotive and mobility, cybersecurity, fintech, semiconductor, and software, as well as biotechnology companies.

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Nick Howe counsels clients on a wide variety of business law matters, focusing on public and private mergers and acquisitions (including spinoffs and other divestitures, joint ventures, strategic investments, and recapitalizations), private equity, venture capital investments, corporate reorganizations and restructurings, and general corporate and securities law matters.

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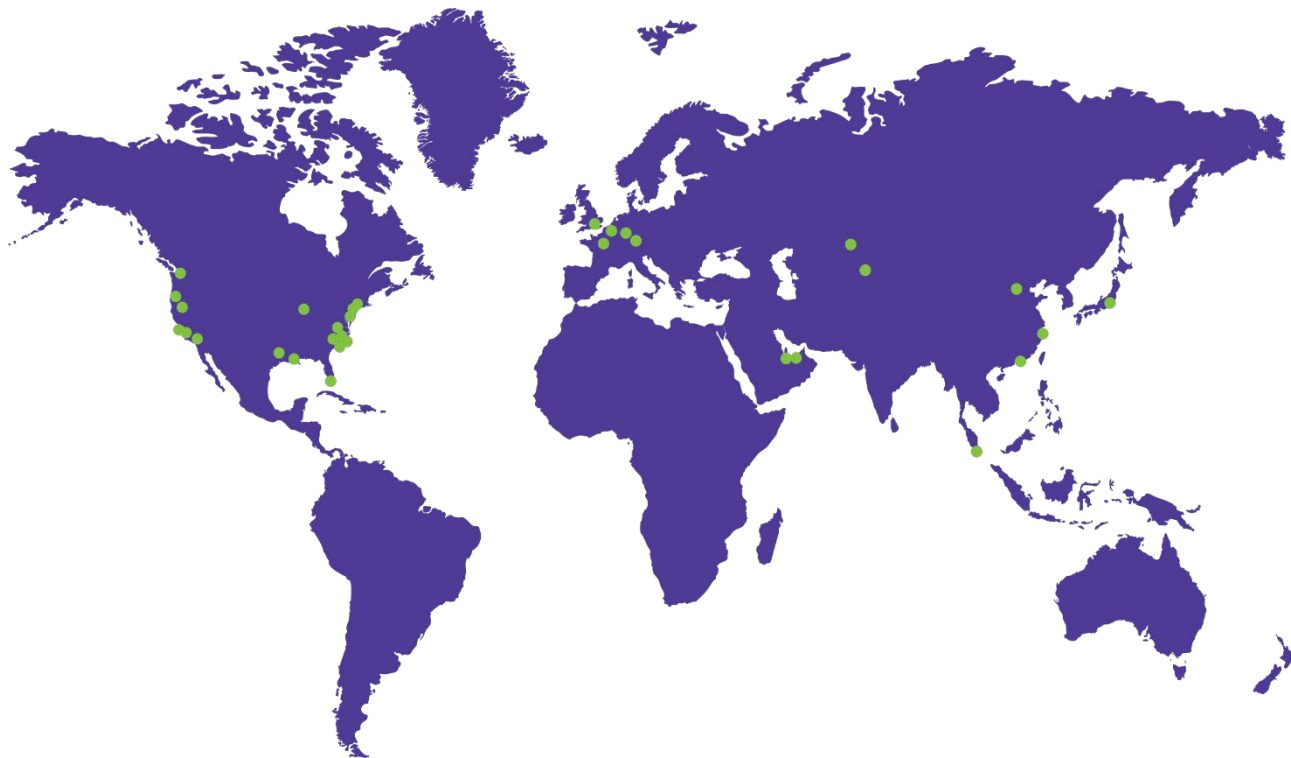
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