Cooley

Venture Financing Report

Q2 2016 - Investment Climate Cools

Q&A with Aydin Senkut

Aydin Senkut, founder and managing director of Felicis Ventures, sat down with us to discuss his view on the state of VC investing.

On down rounds: "The best way to counter [down rounds] is for companies to be a lot more hawkish on cash management."

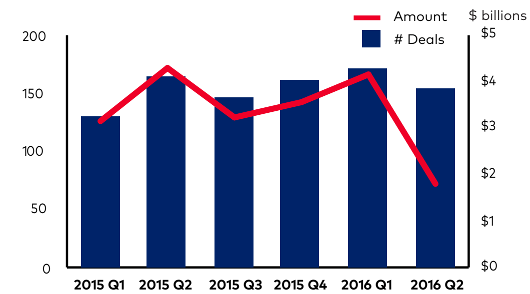
On deal terms: "The most dangerous takeaway is for every founder to think that they are one of those few companies that can dictate terms even under these circumstances and this market."

On exits: "The IPO market is going to be better than what people think right now."

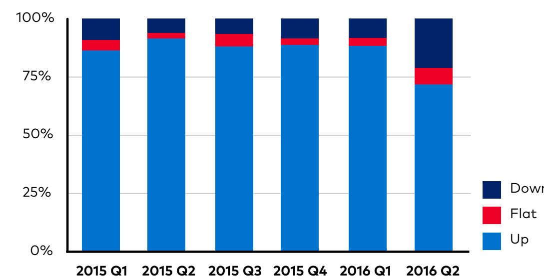
Read Cooley's full Q&A with Aydin Senkut on Cooley GO. www.cooleygo.com

Overall financing activity in the second quarter of 2016 slowed noticeably from prior quarters. In Q2 2016, Cooley handled 154 disclosable deals, representing more than $1.8 billion of invested capital. Invested capital decreased by 57% from the prior quarter, mainly due to fewer large, later stage transactions. We have found aggregate dollars raised to be highly dependent on a handful of the largest deals of the quarter, and so we would not necessarily expect that the decline in aggregate dollars raised is an indicator of a comparable decline in the overall market. Of particular note was the increase in down rounds during the quarter. In Q2 2016, 21% of all transactions were down rounds, almost a 3x increase from prior quarters and a level not seen since 2011. It will be of particular interest to see if this becomes a trend in future quarters. Median pre-money valuations declined in both Series A and Series D+ transactions, with a significant decrease seen in later stage deals. This points

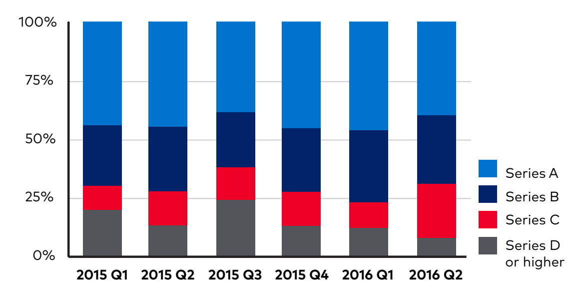
Total Deal Volume and Aggregate Dollars Raised



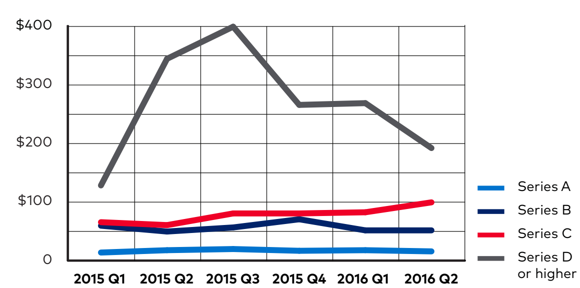
Up, Down and Flat Rounds



Deal Breakdown by Series



Median Pre-Money Valuation



to a more challenging investment environment for many "unicorn" companies.

Deal terms during the quarter mirrored the cooling financing trends. The utilization of drag-along provisions increased to 96% of all Q2 transactions, a level not seen since 2008. Additionally, the data pointed to an increase in transactions with liquidation preferences of greater than 1x, compared to prior quarters. This is another signal of growing investor caution in the current environment.

For more venture financing trends, view our interactive data visualization on Cooley GO: **www.cooleygo.com/trends**

About The Cooley Venture Financing Report. This quarterly summary provides data reflecting Cooley's experience in venture capital financing terms and trends. Information is taken from a subset of the transactions in which Cooley served as counsel to either the issuing company or investors. For more information regarding this report, please contact the Cooley attorneys listed below.

About Cooley. Cooley's attorneys solve legal issues for entrepreneurs, investors, financial institutions and established companies. Clients partner with Cooley on transformative deals, complex IP and regulatory matters, and bet-the-company litigation, often where innovation meets the law.

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