Morgan Lewis

Q1 2025

CORPORATE VENTURE CAPITAL SURVEY

OVERVIEW

Our first quarter 2025 corporate venture capital (CVC) survey indicators demonstrate challenging market conditions, but with valuations increasing in surveyed transactions. In this survey, we track investment trends as the market picked up for CVC financings. We also analyze a survey of key economic terms related to the largest Q1 2025 venture capital investments in which CVC programs either led the round or participated as significant or anchor investors.

KEY TERMS

We focused our survey on the following deal terms typically negotiated between companies and investors:

- **Valuation**
- **Liquidation Preference**
- **Participating Preferred**
- **Dividends**
- **Redemption Rights**
- **Protective Provisions**
- **"Pay-to-Play" Provisions**

VALUATION

The survey covers a wide range of financing transactions during Q1 2025, from early- to late-stage financings. Of the Morgan Lewis transactions we reviewed, 100% reflected an up round, with higher valuations compared to the companies' previous financing rounds. This remained the same compared to Q4 2024.

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 of Q1 2025 transactions, 100% of deals included a 1x liquidation preference. 60% of new preferred stock ranked pari passu with earlier series—marking a shift from Q4 2024, when 70% of deals granted seniority to new investors—suggesting increased leverage for investors.

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 a pro rata basis.

Based on our review, 100% of the Q1 2025 transactions involved non-participating preferred stock, consistent with Q4 2024, suggesting that non-participating preferred continues to be the default treatment for most financings, in particular for early rounds.

DIVIDENDS

If dividends are cumulative, dividends accrue and accumulate at a specified rate, whether declared by the board or not. 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, 10% of the Q1 2025 transactions included cumulative dividend provisions. This reflects a slight shift from Q4 2024, when all transactions provided for noncumulative dividends.

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, one Q1 2025 transaction included redemption rights—marking a departure from Q4 2024, when no deals included redemption features. This suggests a weaker investment environment as investors are demanding redemption rights, which are not typically included in venture financings.

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 the 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 series approval right specific to the new series.

Based on our review, 20% of the Q1 2025 transactions provided the new preferred series with voting rights as a separate series, marking a shift from Q4 2024, when 100% of transactions followed single-class voting across all the preferreds. This suggests that investors had greater leverage in Q4 2024 in negotiating separate series approval rights for the new series of preferred stock.

'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 comes into play only in down rounds. We observed one Q1 2025 transaction that included a pay-to-play provision, indicating that some investors are anticipating a slower financing market and adopting pay-to-play provisions in response.

SUMMARY

While the economic terms of each investment are unique based on the facts and circumstances of the companies and investors participating, our Q1 2025 analysis indicates continued strength in the venture financing market, with valuations increasing across all surveyed transactions.

Despite this momentum, there was a weakening in market conditions as we observed a slight uptick in investor-friendly terms—20% of the financings required that the new preferred series had a separate series approval right over the prior preferred, and 10% of the transactions included cumulative dividends. Overall, while valuations continued to rise, the persistence of enhanced investor protections signals that investors remain focused on downside protection.

Morgan Lewis

At Morgan Lewis, we’re always ready to respond to the needs of our clients and craft powerful solutions for them.

Connect with us

www.morganlewis.com

061825_ 251202