DEAL FLOW 5.0

European Venture Capital Deal Term Review 2024–25

orrick

RECOGNIZED FOR INNOVATION IN DATA-ENHANCED KNOWLEDGE

FT INNOVATIVE LAWYERS EUROPE 2024

DEAL TERM REVIEW 2024–25

EUROPEAN VENTURE CAPITAL

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EUROPEAN VENTURE CAPITAL

A Blueprint to Smarter Negotiations: Data-Driven Insights for Financing Success

In Europe's fast-evolving venture capital landscape, shifting deal terms and evolving trends are transforming the way startups and investors navigate the market. Investors and high-growth tech companies need sharp, reliable analysis to stay ahead of the game.

Orrick's Deal Flow 5.0 report provides the groundbreaking solution. Delivering in-depth analysis of venture financing deal term trends across Europe, it also offers unparalleled comparative insights from the U.S. Recognized by industry experts as a flagship thought-leadership piece, the report equips startups and investors with unique, actionable, and data-driven insights, empowering them to make informed decisions with confidence.

For over nine years, Orrick has been Europe's leading venture capital law firm (*PitchBook*), **consistently closing more deals than any other firm**. This extensive deal activity grants us access to **the largest data pool in the industry**, making Deal Flow 5.0 more insightful than any other report that has since attempted to follow it. By analyzing this data, we present prevailing deal term trends within the context of broader market developments. Our approach is supported by a collaborative team of tech company lawyers from the UK, Germany, Italy, France and the U.S., alongside innovators from Orrick Labs, ensuring comprehensive and forward-looking insights.

Behind the scenes of Orrick's Deal Flow 5.0 is Orrick's intuitive, interactive Deal Flow dashboard, honored at the 2024 *Financial Times* Innovative Lawyers Europe Awards. Our pioneering in-house technologies and processes enable us to analyze hundreds of venture capital and growth equity investments each year. The dashboard provides Orrick attorneys with real time insights into evolving market trends as they negotiate deals, while informing this report. **The aim is to foster reasoned negotiations and achieve rapid agreement between parties, facilitating startup growth while appropriately enabling and protecting all parties involved.**

Deal Flow 5.0 provides a deep dive into five years of venture capital deal data, analyzing **over 80 decision factors** and more than **10,000 data points**. This data-driven approach empowers clients to make strategic decisions with confidence, backed by tailored, commercially astute advice—simply put, they can put time and effort into what matters most, instead of getting tied up in inefficient (costly) negotiations.

We hope you enjoy this fifth anniversary edition of Deal Flow. These insights aim to promote further growth in the tech ecosystem, inspiring innovation and supporting the next generation of market leaders. The future is bright, and we are excited to see how today's investments shape tomorrow's breakthroughs.

On behalf of Team Orrick,

Jamie Moore

Orrick Partner –
Technology Companies Group, London

A Word from the Dealmakers

"In today's fast-paced business environment, data and insights are crucial for companies to stay ahead of the curve. They provide a competitive edge by enabling informed decision-making, identifying new opportunities, and driving innovation. Companies in the ecosystem that leverage data and insights effectively are well-positioned to thrive and succeed. We are grateful for the unique insights provided by a one-of-a-kind report such as Deal Flow and look forward to further iterations."

Furqan Alamgir, CEO of Connexin

"Deal Flow is a crucial navigational guide for founders. It offers a comprehensive, insightful, and data-driven exploration of early-stage investing in Europe and confirms many of the realities we are experiencing in the market. The report sheds light on the current investment climate, evolving deal terms, and alternative financing options for startups.

It demonstrates the power of data-driven insights in empowering founders to make informed decisions and position their startups for future challenges and opportunities."

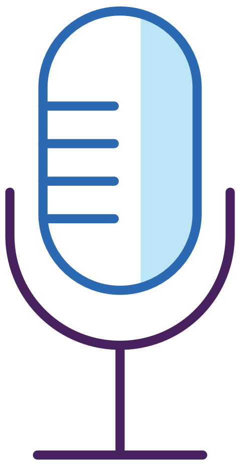
Baris Ozaydinli, CEO of Scooch

"As an investor, staying on top of market trends and deal terms is essential for strategic decision-making. Orrick's Deal Flow report provides a unique perspective on the European VC landscape, turning complex data into actionable insights. This enables us to identify opportunities and anticipate market shifts, allowing us to confidently support founders dedicated to social impact, thereby fostering innovation and growth that is changing the world for the better."

Kirsten Connell, Partner at Octopus Ventures

"Data-driven fundraising strategies empower founders. By leveraging excellent resources like the Deal Flow report, which help with transparency around deal terms, founders (and investors) can set realistic expectations, negotiate from a position of strength, and ultimately lead to better outcomes"

Glen Waters, Head of Early-Stage Tech and Life Sciences at HSBC Innovation Banking



EUROPEAN VENTURE CAPITAL

European Tech Deal Terms: Five Things We Learned in 2024

In 2024, despite political and regulatory challenges, Europe's talent pool reached new heights, even amid funding shortages. Venture capital investment in European startups hit over $52B, aligning with the market's long-term growth despite being lower than 2023 and the peaks of 2021 and 2022. The future looks promising, with signs of stability and potential for impressive growth if pro-innovation policies persist.

To understand the factors driving these shifts in the landscape and their effect on deal terms, Orrick used new and improved in-house technologies to analyze over 375 venture capital and growth equity investments completed by our clients in Europe last year.

Here are five key things we learned:

1. **Market stabilization led to a modest rebalancing of investment terms.**

- Investment levels dropped by **15%** in 2024, from $61.8B to $52.4B. However, this still represents **long-term market growth and stabilization**, supported by increased average deal sizes and a rise in secondary and majority transactions, over the last ten years.
- In 2023, the Seed stage of the market saw a surge, prompting heightened scrutiny, with over **95%** of deals requiring more stringent consent regimes. By 2024, as companies matured, these requirements eased, leading to **stronger Series A+ performances**. Consent matters were streamlined to align with the British Private Equity & Venture Capital Association (BVCA) model form, and the merging of an investor majority threshold (across stages) was introduced earlier in company growth cycles. This shift fostered a consent regime that encouraged growth and innovation, moving away from restrictive practices.
- Founders were only required to stand behind warranties in **29%** of venture deals in the UK, down from **39%** in 2023, due to increased adoption of the new BVCA model form documents. This aligns more closely with the U.S. approach of using tailored warranty packs for information sharing rather than risk allocation, **potentially accelerating future deal-making**.

We analyzed over
375
Venture Financing Deals
IN 2024
totaling
$7.1B+
ACROSS EUROPE

Ranked
#1 PitchBook FY 2024
VC Law Firm in Europe
FOR 9 YEARS IN A ROW

Completing significantly more deals than any other law firm in Europe.

Despite a somewhat reduced level of deal making in the broader market, Team Orrick significantly increased its market share and remains at the forefront of the evolution of the market.

- **Investor information rights** (annual, quarterly and monthly) remained important for monitoring portfolio companies, often driven by LPs. However, there was increased flexibility and reduced administrative burden as these rights became more commonly limited to investors with a minimum percentage shareholding.
- Lead investor board appointment rights remained vital at early stages, with over **80%** of venture transactions granting these rights. Meanwhile, **founder protections increased**, with over **90%** receiving founder board appointment rights. From Series B onwards as junior investors became more accustomed with relinquishing their seats on subsequent rounds.
- Companies expanded option pools, with over **70% of equity financings including a top-up** (compared to < 40% in 2023), reflecting a stronger European talent pool, improved valuations and a focus on hiring and scaling.

2. We saw signs of improvement to deal volume and size.

- The average size of **investor-side venture deals** significantly **increased** by **66%**, although the average size of **company-side venture deals declined** by **3%**.
- However, Europe's **growth-stage funding remains limited**, with only 0.01% of $9T in pension assets allocated to local venture capital, pushing companies to seek investment from non-European sources, particularly the U.S.[1]

3. ASAs and SAFEs outpaced debt.

- Increased early-stage activity and stronger financial performance in Series A+ companies spurred some interesting changes to alternative financing methods and fundraising strategies.
- European **debt providers demanded equity-like terms** (more than 41% of deals granting lenders with pre-emption rights) and greater economic incentives (67% of deals requiring a 2 or 3x exit premium), prompting **companies to favor extension rounds over debt**, often with pre-agreed valuation increases.
- ASAs and SAFEs, quicker and less intrusive than debt, accounted for **63%** of combined "convertible" deals in 2024.
- Modest improvements to economic conditions **boosted confidence in convertibles** as a means of financing, with conversion price discounts **lower than 20%** being the norm, compared to 20-30%+ in 2023.

4. Secondary transactions significantly increased.

- Tax changes and limited public market access drove investors to focus on existing portfolios, boosting secondary and majority transactions. Over **30%** of financing rounds we advised were stand-alone secondary financing rounds or rounds that included a secondary component.
- Founders **accessed secondary transactions earlier**, with some occurring as early as Series A.

5. There was strong demand across SaaS, DeepTech, AI and FinTech.

- **SaaS & Platforms** represented **21%** of financings, down from 31% in 2023.
- **DeepTech** held **23%** of our deal portfolio, up 8% from 2023.
- Deals with an **AI** and **ML** component maintained a **33%** share of financings, consistent with 2023.
- **FinTech** accounted for **16%** of financings in 2024 rising from 12% in 2023.

1. 2024 State of European Tech

Broader Market Trends

The market reached a **new equilibrium** in 2024, marked by steady growth and resilience. Europe continues to strengthen its global position, investing in a diverse talent pool and reaffirming that tech and innovation remain key drivers of economic progress.

Despite political and regulatory uncertainty, Europe's core pillars—**talent, capital, and ambition**—are thriving. Once considered uncommon, $B+ companies are now a prominent feature across nearly every European economy. The UK, Germany, and France have led this momentum, securing a combined **$250B in funding over the past decade**, with the UK nearing $150B alone.[2] Some of our findings on broader market trends align with The State of European Tech, the most comprehensive data-driven analysis of the region's tech sector. We are proud to partner with Atomico on this report and grateful for their continued efforts in shaping this industry-leading analysis.

We hope Deal Flow 5.0 provides founders, investors, and tech leaders with valuable insights from our analysis of the deals and financings we supported in 2024. As the fifth anniversary edition, this report serves as a benchmark for sustained growth and market evolution. We are proud to amplify the voices of the tech community's most innovative minds while driving progress and delivering market-leading results.

Behind the Numbers

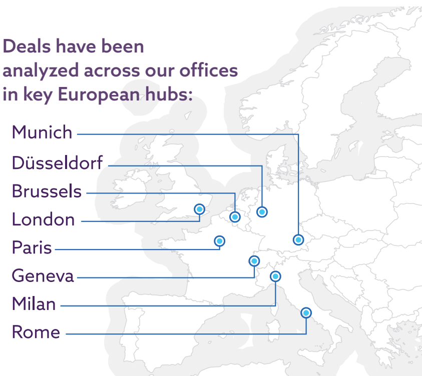
orrick labs

Our Orrick Labs team, with help from our attorneys, designed and utilized a proprietary tool, the Deal Flow Dashboard, to automate the collection of European deal data. That helped produce real-time, unique and data-driven insights into some of the most diverse and innovative high-growth companies and investors. It also allowed us to compare current market trends against the rich data we have collected over the past five years and beyond. Orrick's Deal Flow dashboard was recognized at the **2024 Financial Times Innovative Lawyers Europe Awards**.

orrick.ai

Orrick.ai represents the firm's cutting-edge leap into integrating artificial intelligence into our legal services. With AI, Orrick is revolutionizing the way our teams handle legal documents, predict case outcomes and streamline routine tasks. This tech-forward approach allows us to offer quicker, more accurate legal insights and frees up our lawyers to focus on high-level strategic work. Through automation, advanced analytics and smart contract management, Orrick.ai is setting a new standard for efficiency and client service in the legal industry.

Deals have been analyzed across our offices in key European hubs:



And provided comparative analysis to U.S. trends.

2. 2024 State of European Tech

DEAL TERM REVIEW 2024–25
EUROPEAN VENTURE CAPITAL

Contents

Deal Term Definitions

As the industry evolves, so does our commitment to clarity and insight. In this fifth edition of Deal Flow, we've added a comprehensive glossary to help you navigate the expanding world of tech and venture. Whether you're decoding jargon, simplifying paperwork, or exploring legal and business resources, our glossary is here to support your growth. Please refer to pages 41 to 44 to view the definitions and learn more.

SECTOR COLOUR KEY USED THROUGHOUT THIS REPORT

- **Blockchain & FinTech** includes BaaS, Blockchain, Crypto, Digital Currency, InsurTech and NFTs.
- **Cyber, Data & Privacy** includes Big Data, Compliance, Cybersecurity, Data Analytics, Data Centers, Data Privacy, IoT and Risk Management.
- **DeepTech** includes AI & Machine Learning, AR, Communications, Image Recognition Technology, IT, QuantumTech, Semiconductors, SpaceTech and VoiceTech.
- **Energy & Infrastructure** includes AgTech, Aviation, CleanTech, Climate Tech, Electric Vehicles, Mobility, Renewable Energy, Sustainability, Telecoms, TransportTech and Utilities.
- **Health** includes Biopharmaceutical, BioTech, HealthTech, Life Sciences and MedTech.
- **Marketplaces** includes E-Commerce, Fashion, Food & Drink, FoodTech, Media, Manufacturing, PetTech and Retail.
- **SaaS & Platforms** includes Cloud-based Solutions, EdTech, Enterprise Software, Gaming, HR, MarTech, Online Hosting Platforms, PropTech, Real Estate and Software.

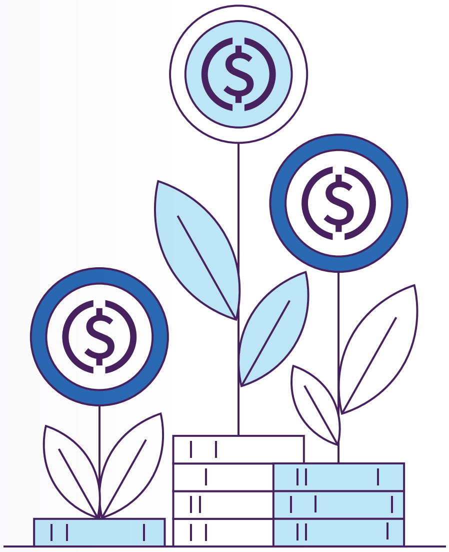
- Deal values all in U.S.$ using GBP/USD fx rate of 1.2473 based on Bank of England FX Rates of 27 January 2025

View from the Market

- 2024 saw a **stabilization** in investment levels for Europe-based startups. This leveling-off suggests a continued adjustment following the exceptionally high activity of previous years, contributing to a more balanced and sustainable financial environment.
- Although funding decreased by 15% compared to 2023, with **$52.4B** invested, 2024 still maintained investment levels above pre-pandemic figures, including those of 2020.
- Despite being less than half of the market peak in 2021, Europe's startups secured **16%** of global venture capital,[3] reflecting a resilient market position.
- With approximately $11.3B of "dry powder" raised by VC firms in the UK and $31B across Europe in 2024,[4] the region enters 2025 with **substantial uncommitted capital**, indicating potential for increased investment. While caution remains due to economic and political challenges, newer funds are ready to deploy capital actively, supported by additional sources like pension and international investments.
- After a decline in 2023, venture debt financing reached **record levels** in 2024, with **$4.7B raised** in the first three quarters, representing a record **14%** of total VC funding.[5] This mirrors the U.S. market, which saw venture debt value hit a new record of $46B last year.[6]
- Indicating brighter prospects, 2024 saw a modest increase in European unicorns, with 14 startups reaching a billion-dollar valuation. Europe now accounts for **14%** of the 1,200+ unicorns globally.
- Health emerged as the **most funded sector in Europe** in 2024, surpassing FinTech and Energy. Health startups attracted $10.8B in investment, followed closely by Energy at $9.4B and SaaS at $9.3B. FinTechs raised $8.7B last year.[7] We deep dive on Health and Climate Tech later in this report.
- **AI maintained a strong presence** in Europe, securing approximately 9% of global AI funding.[8] AI/ML dominated sub-$5M funding rounds, capturing **23%** of all such investments.[9]

Over
$52B
Investment in European Tech
IN 2024

Health
surpasses FinTech and Energy



3. Dealroom, Venture Wrapped 2024
4. Forbes, Jam Tomorrow: Will Dry Powder Boost European VC Investment? 22 January 2025
5. 2024 State of European Tech
6. CNN, Startups Turn to Venture Debt as VC Funding Drops 47%, Reaching Record Highs in 2024, 10 March 2025
7. Dealroom Europe Guide
8. Crunchbase Q4 2024 Europe Funding Report, 13 January 2025
9. 2024 State of European Tech

DEAL TERM REVIEW 2024–25
KEY INSIGHTS

A View from Orrick

Orrick helped raise over **$7.1B** for European startups in 2024.

Our teams are strategically located in the **UK**, **Germany**, and **France**—the top three countries consistently attracting the most VC investment in Europe. We also have a presence in **Italy**, another leading national ecosystem on the continent.

Here are some key insights from our teams across the region.

A Word from...

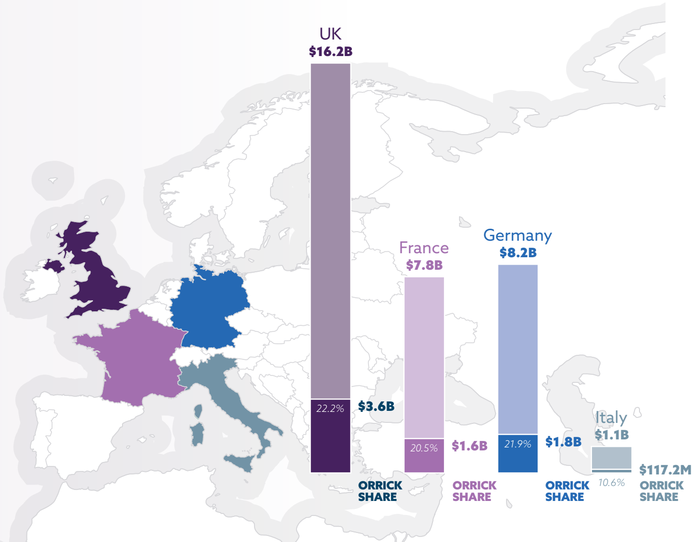
The UK

- Although far from booming, the market steadied in 2024, **returning to deal volumes reminiscent of 2019**. It may be difficult to adjust perspective after the highs of 2021/22 and the lows of 2023, but this represented a strong return to the ecosystem for venture-backed early and growth stage companies, with promising hints to the years ahead.
- London **remained a key hub**, showing resilience and renewed confidence, largely driven by the AI sector's momentum and an uptick in overseas investments into UK companies.
- Established companies, accelerators and universities continued to produce **first time and repeat founders**, as entrepreneurship grew in its scope and scale with founders and early employees able to look to other success stories as a reference point for what may be possible.
- Access to capital for early-stage companies continued to flow (albeit with increased scrutiny on pre-investment diligence), but later-stage companies continued to struggle to secure readily available capital on favorable terms as venture funds were less willing to write big tickets unless there was clear room for growth. This has led later-stage companies to **increase focus on profitability** and perhaps look at **venture debt as an alternative** source of financing.

Total capital raised in Europe and Orrick's share of deals*

Total Capital Raised in Europe in 2024	$52.4B
Orrick Total Aggregate European Deal Value*	$7.1B

(*inclusive of regions outside of the four key markets listed below)



Europe totals based on 2024 Dealroom data. Orrick results are representative of data received by our European offices located in the UK (London), France (Paris), Germany (Düsseldorf and Munich) and Italy (Milan and Rome).

Over
375
VC DEALS COMPLETED ACROSS EUROPE IN 2024

Completing significantly more deals than any other law firm in Europe for 9 years in a row.

KEY INSIGHTS

France

- France's startup and innovation landscape showed resilience in 2024, overcoming global economic and national political challenges, with a notable boost from AI investments. French startups raised **€7.1B** in venture funding, slightly up from €6.8B in 2023, though below the €11.8B of 2022.[10] Notably, France surpassed Berlin in late-stage funding rounds for the first time.
- **AI dominated the scene**, accounting for 22% of total funding.[11] Key players include Mistral AI, valued at €6B within a year of its founding, and Poolside, an AI-powered software tool that achieved unicorn status in 2024.[12]
- The French government's **proactive policies**, such as the "Tibi" program, significantly **bolstered the tech ecosystem**. This initiative saw €7B pledged by 28 institutional investors to support tech-focused funds through 2026.[13] Bpifrance, the state-backed investment bank, continued its crucial role, investing in over 4,700 tech companies and supporting more than 130 venture capital funds since its establishment.[14]
- Beyond AI, sectors like Energy & Infrastructure, FinTech, and SaaS **attracted substantial investments**. GreenTech startups raised €4B in 2024, reflecting France's focus on sustainability. FinTech companies secured €3.5B, focusing on digital payments, blockchain technologies, and neobanking solutions.[15] SaaS funding increased by **24%** compared to 2023, highlighting the demand for innovative business solutions.[16]

Germany

- Germany's VC ecosystem showed **renewed stability** in 2024, with a strong finish in deal numbers, marking it as the **third strongest year** after 2021 and 2022.
- In line with general market trends, 2024 was the **second strongest year for our practice** in terms of startup formations in Germany, again following the peak in 2021.
- Reflecting industry trends, the majority of financings we advised in 2024 were concentrated in the DeepTech (including AI), Energy & Infrastructure and SaaS sectors. Our practice observed significantly more early-stage financings compared to later-stage ones, consistent with overall market developments.
- Deal terms continued to favor investors, although overall, we would still qualify **deal terms in the German market as balanced**.
- In early-stage financing rounds, the **1x non-participating liquidation preference** and **broad-based anti-dilution protection** remained predominant.
- Later-stage financings saw a shift towards **more investor-friendly terms**, such as 3-5x (or even higher) liquidation preferences, floating valuations, warrants and pay-to-play provisions, in particular in the case of (internal) bridge financings. We also observed that investors are increasingly willing to implement "pay-to-play" structures, resulting in cap table restructurings and the downgrading of existing preferred share classes.
- **Control terms**, particularly protective provisions and information/reporting requirements, continued to be more stringent than in the years of 2021/2022.
- The growing trend among German startups, especially in DeepTech (including AI), to establish **U.S./German holding structures** to access early financing rounds in the U.S. continued.

10. TechCrunch: Venture funding remains stable in France thanks to AI startups, 14 January 2025
11. Dealroom Data, accessed 6 March 2025
12. The Times: Europe's answer to OpenAI launched in 2023. Now it's worth €6bn, 29 July 2024
13. Sifted: France secures €109bn AI investment to counter Stargate and U.S. tech dominance
14. Chambers & Partners Venture Capital 2024 Report
15. Stats and Market Insights: France Startup Ecosystem in 2025: A Year of Resilience and Transformation, 22 January 2025
16. Dealroom Data, accessed 6 March 2025

DEAL TERM REVIEW 2024–25
KEY INSIGHTS

Italy

- Italy experienced a **significant surge in venture capital investments** in 2024, up **31%** on 2023, reaching $1.1B.
- Q3 alone saw €524M raised (jumping from €226M in Q2), highlighting **robust market growth** and **increased investor confidence** in the Italian startup ecosystem.
- The **number of investment rounds increased**, with 417 rounds in 2024, compared to 319 in 2023, indicating a **consistent flow of opportunities**.
- Despite this stability, the **increase in investment size** per round underscores a strong commitment to promising ventures, reflecting growing confidence in the market's potential.
- While **DeepTech** had the most deals and **Life Sciences** received the highest amount invested, the **Smart City sector emerged as a new vertical leader**, attracting the highest investments and rounds (securing €207M across 13 rounds in Q3). This **emphasizes a growing focus on urban innovation**.
- Italian startups are proving to be **top performers on the global stage**, attracting significant investments that showcase their potential and ability to drive innovation across various fields.
- **AI investments**, while currently below EU and U.S. averages, are expected to grow significantly, underscoring AI's strategic importance in Italy's innovation landscape.
- This growth reflects a broader trend towards sustainable and technologically advanced urban environments, addressing modern urban challenges.

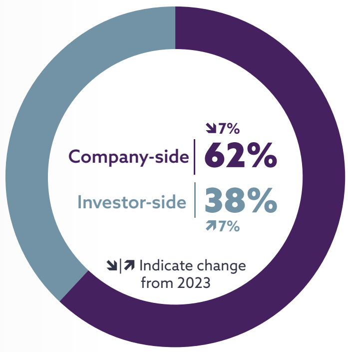
We remain optimistic about what lies ahead. Please refer to pages 37 to 40 to read our predictions for 2025.

DEAL TERM REVIEW 2024–25
KEY INSIGHTS

Overview of our Deals

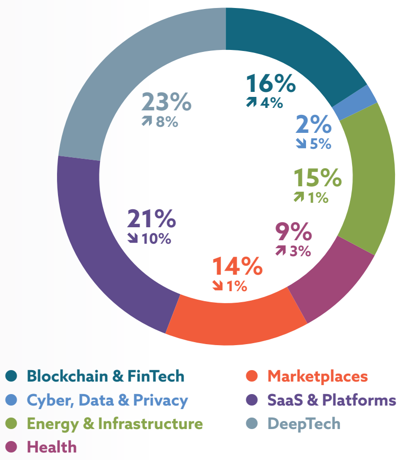
- After the notable increase in company-side mandates in 2023, in 2024, we saw a 7% decrease (to **62%** of all transactions we advised) in company-side mandates. Despite this decrease (which followed a three-year year-on-year increase), company-side mandates continued to represent the majority of our client portfolio.
- The majority of our deals fell within the **DeepTech (23%)**, **SaaS & Platforms (21%)** and **Blockchain & FinTech (16%)** space, which **collectively represented 60% of all transactions**.
- While the aggregate value of European venture capital deals dropped from $61.8B to $52.4B, this still represented a stabilization of the market as later-stage financings returned, and the **value invested into Series A companies almost tripled**.
- Average deal size dropped only by **9%** in our company-side venture deals as early-stage financings continued to prevail in the market, while average deal size increased by **58%** in our investor-side venture deals.
- We also saw a **marked increase in the number of secondary transactions** within our portfolio in 2024, with **22%** of all equity financings including a secondary component, with this being most pronounced in later-stage financings (Series B and beyond), as founders and existing investors sought some liquidity.

Total Deals

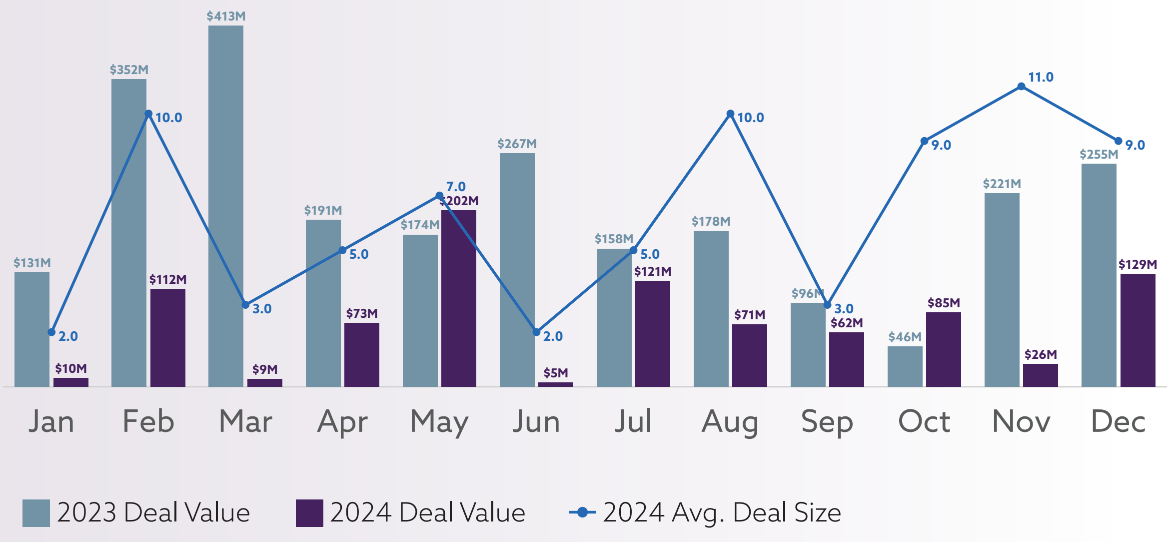


Venture financings and Convertible Loan Notes (CLNs) combined

Total Sectors



Aggregate Deal Value 2024



Sector Spotlight

Climate Tech: A Market in Transition

Climate tech investment across Europe and North America in 2024 demonstrated **resilience and adaptability**, even as the broader market experienced a natural recalibration from the peak deal activity of 2021. Although deal count has decreased by a third year-over-year, with approximately 1,300 climate tech deals closing in 2024 compared to an average of about 1,900 in the previous three years, this aligns with expected market-wide adjustments and reflects a **strategic focus on quality over quantity**. Deal value experienced a moderate decline of 15%, reflecting the year-over-year decreases observed since 2021.

Orrick's European climate tech deals in 2024 showcased a strong commitment to nurturing innovation, with nearly **60%** of investments at the Seed stage or earlier. This contrasts with the U.S., where **40%** of deals were early-stage, highlighting **Europe's supportive environment for emerging ideas and technologies**.

Despite market fluctuations, **climate tech remains a key focus**, attracting nearly one in every five investment dollars in Europe—more than double the rate in the U.S. A significant portion of Europe's largest direct investments came from government entities, whereas in the U.S., large corporations and corporate venture funds played a more active role. While U.S. policies may be less favorable to climate tech compared to those in Europe, growing energy demands—driven by data centers and increasing pressure on the grid—as well as the push for energy independence, are likely to sustain momentum for innovation globally.

With climate tech and sustainability becoming more politicized, particularly following a landmark election year, the sector is likely to **continue facing turbulent conditions**. However, the fundamental drivers of climate innovation remain strong, pointing to continued investment and growth opportunities ahead.

Innovating Health: Evolving Trends and Challenges

Life Sciences and HealthTech are merging high-impact technologies to tackle large-scale challenges. This sector **continues to attract investors**, with 2025 set to build on 2024's momentum. Innovations in AI, biotech, and digital health promise **financial returns and societal impact**, shaping the future of healthcare.

Investment Trends: U.S. vs. Europe

In 2024, global VC investment in Life Sciences and HealthTech surged, with **notable differences between the U.S. and Europe**.[17] **The U.S. saw strong early-stage funding**, with Seed and Series A deals making up **40%** of healthcare investments.[18] The U.S. market is known for backing high-risk, high-reward ventures, as investors aim to gain early access to disruptive technologies with the potential for major market impact.

Europe, however, is more selective. Investors prefer startups with clear value propositions, proven business models and robust clinical data. The **UK led European investments**, raising **$2.3B** in 2024, marking it as the **fastest-growing sector** for VC funding.[19]

17. Wall Street Journal: Late-Stage Investors Seek to Bring Medtech Startups to the Home Stretch, 1 August 2024
18. SVB's 2025 Healthcare Investments and Exits report
19. Tech.Eu: Health tech and life sciences lead the way for UK VC investment in Q3, 15 October 2024

DEAL TERM REVIEW 2024–25 SECTOR SPOTLIGHT

AI's Impact

AI is revolutionizing Life Sciences and HealthTech, advancing drug discovery and healthcare operations. Venture capital investment in healthcare increased to **$23B** in 2024, up from $20B in 2023, fueled by the rapid adoption of AI technologies.[20] It's accelerating R&D in biotech, streamlining trial design, optimizing patient matching and accelerating data analysis.[21] HealthTech startups leveraging AI are attracting significant investment due to its potential to reduce costs and improve accuracy in drug development.

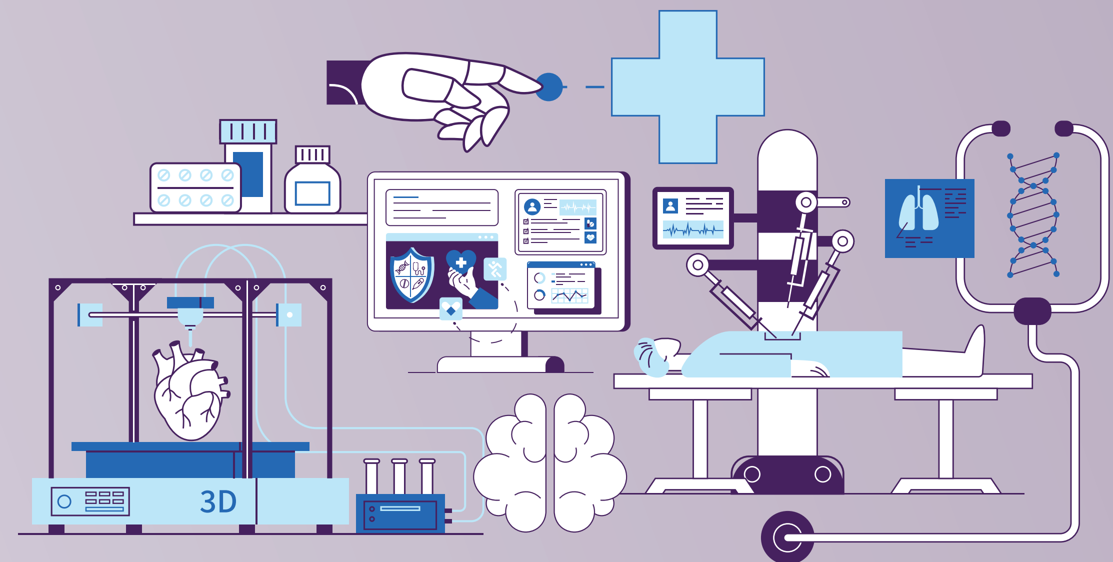
Administrative AI, which streamlines operations such as billing, scheduling and revenue cycle management is set to accelerate[22] due to its efficiency and cost-saving benefits, taking over routine, repetitive tasks like sorting, filing, and processing documents.

AI-driven clinical decision support, like diagnostics and personalized treatments, **faces regulatory challenges**. Healthcare providers and regulatory bodies demand high standards of accuracy and safety, which can slow down adoption.[23] While this sector remains a promising area for the future, current funding trends indicate that **investors prioritize AI solutions with clear, quantifiable returns on investment**.

The Rise of Personalized Medicine, Telemedicine, and Digital Health

The shift toward personalized medicine is projected to grow to a $167B market by 2031[24] as we seek **more precise, efficient and accessible healthcare**. Advances in genomics and biomarker research are fueling the growth of personalized medicine, allowing therapies to be tailored to individual genetic profiles. This approach enhances treatment efficacy and improves patient outcomes, making companies in this space attractive to investors seeking effective and **targeted healthcare solutions**.

Telemedicine and digital health platforms are also on the rise, with their adoption expected to continue expanding. Investors are drawn to technologies that improve patient access to care, enhance clinical outcomes, and reduce costs.[25] The shift toward digital health solutions aligns with industry trends that prioritize **convenience, efficiency and scalability**. Startups offering innovative digital healthcare solutions, such as remote monitoring, AI-driven diagnostics, and virtual consultations, are well-positioned to attract VC interest.



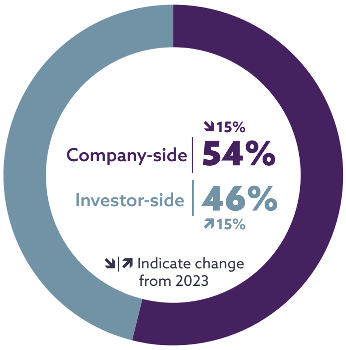
20. SVB's 2025 Healthcare Investments and Exits Report
21. TechTarget: How AI is revolutionizing clinical trials, drug development, 24 Feb 2025
22. Logix Built Solutions Limited: Using AI to Optimize Patient Care and Boost Healthcare Revenue, 9 December 2024
23. SVB's 2024 Future of Healthtech Report
24. The Future of Commerce: 2025 life sciences trends: Reducing complexity, improving healthcare
25. The Silver Lining: IPO Trends in Technology and Life Sciences in 2025, 8 January 2025

1 DEAL TERM REVIEW 2024–25
VENTURE FINANCINGS

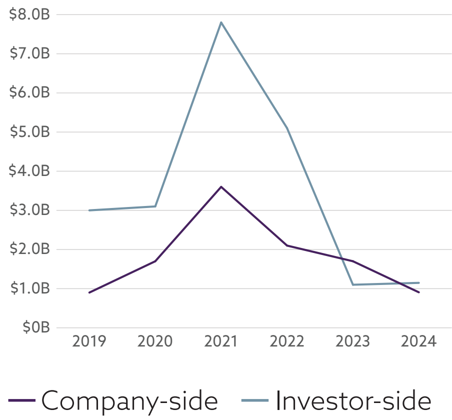
This data looks at our closed European venture financings raised by and on behalf of startups and high-growth companies.

Company vs. Investor

- The continued prevalence of our company-side mandates is indicative of:
  - **the focus on convertibles and similar instruments**, such as SAFEs and ASAs, has remained as founders seek to delay agreeing a valuation in the current market;
  - **companies requiring quicker fundraising**, often via bridge rounds (including convertible financings) that provide financial support to companies in the interim period between priced rounds; and
  - **early-stage financings** continued to represent a significant portion of our portfolio both in terms of deal value and volume, as **later-stage companies looked to alternative avenues for financing** (which could provide greater scale) where needed or held tight until market confidence returned to drive up valuations and avoid down rounds.
- In 2024, we observed a promising rise in investor-side mandates across the European venture market, as market confidence rebounded and stability returned. Investor-side mandates accounted for **46%** of our portfolio, marking a **15%** increase from 2023.
- Despite the recent years of market volatility and uncertainty, investors are still holding onto $31B in available capital, or "dry powder."[26] As we look ahead to 2025, we anticipate that investors will adopt a more optimistic perspective on the venture market, leading to increased deployment of this capital.



Venture financings only (excludes convertible financings)

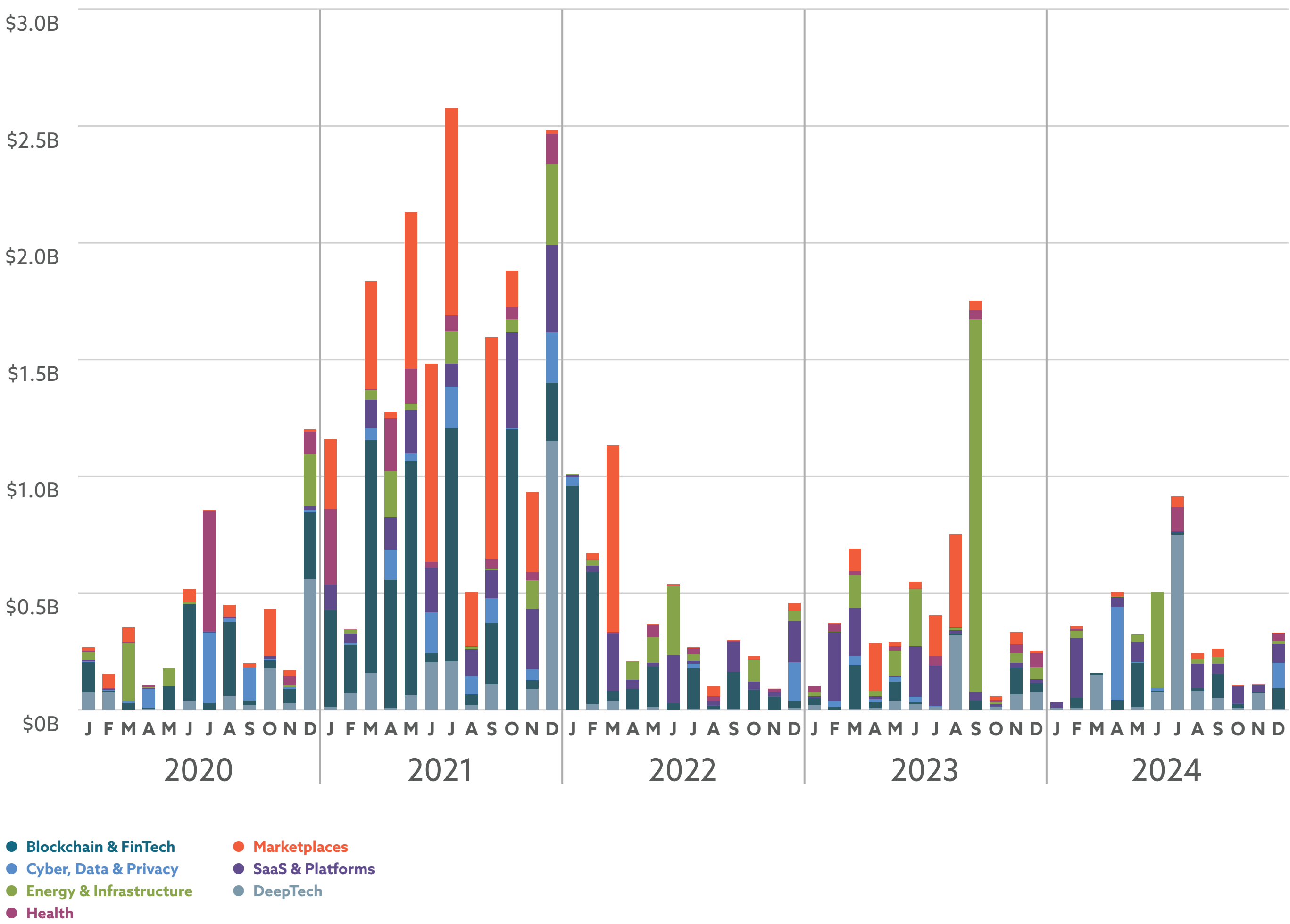


Aggregate Deal Size and Volume

- There was a noticeable spike in July and August and again in November and December, as investors re-evaluated the dry-powder they have left to invest at the mid and end-of-year. We also saw marked increases in average deal value in those months, with a **121%** increase in average deal value in July and **436%** increase in December compared to November, as investors looked forward to 2025.
- Throughout 2023 and 2024 we have seen a plateau in deal activity. Although we still saw a slight uptick in deal volume in August and throughout November and December, these spikes were not as pronounced as those we have seen in prior years.
- **DeepTech** (including AI) and **SaaS & Platforms** have continued to be strong sectors over the last 5 years, with **Blockchain & FinTech** and **Marketplaces** seeing a slow decline. **FinTech** made a resurgence in 2024.

26. Forbes, Jam Tomorrow: Will Dry Powder Boost European VC Investment? 22 January 2025

Aggregate Deal Value: Five-Year Look Back



* *Representative weighting of transactions—not reflective of actual number of transactions completed.*

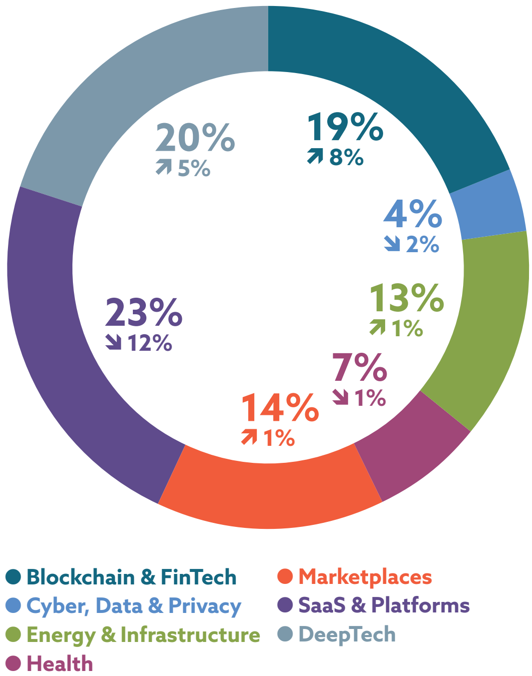
Sectors

SaaS & Platforms: This sector continued to lead with the largest share (**23%**) of our VC deals last year, highlighting the ongoing demand for software solutions across diverse industries. The scalability of SaaS models, combined with recurring revenue streams, makes them attractive to investors looking for long-term, stable growth. Investors are particularly interested in SaaS platforms that incorporate AI, automation, and data analytics, which are critical for businesses to stay competitive in an increasingly digital-first world.

DeepTech: With a **5%** increase in its share, breakthrough technologies such as AI, machine learning, and quantum computing accounted for **20%** of our venture financing portfolio in 2024—the second-largest share. When combined with convertible financings, DeepTech surpassed SaaS to claim the top spot, representing **23%** of all our deals. Read more about developments in this sector in our Spotlight section.

Blockchain & FinTech: After experiencing the largest drop in 2023, FinTech investments regained momentum in 2024, increasing by 8% to account for **19%** of the funding we raised. This trend mirrors the broader market, where European FinTech investment rose by **10%** in 2024, indicating renewed confidence in one of the continent's leading tech sectors.

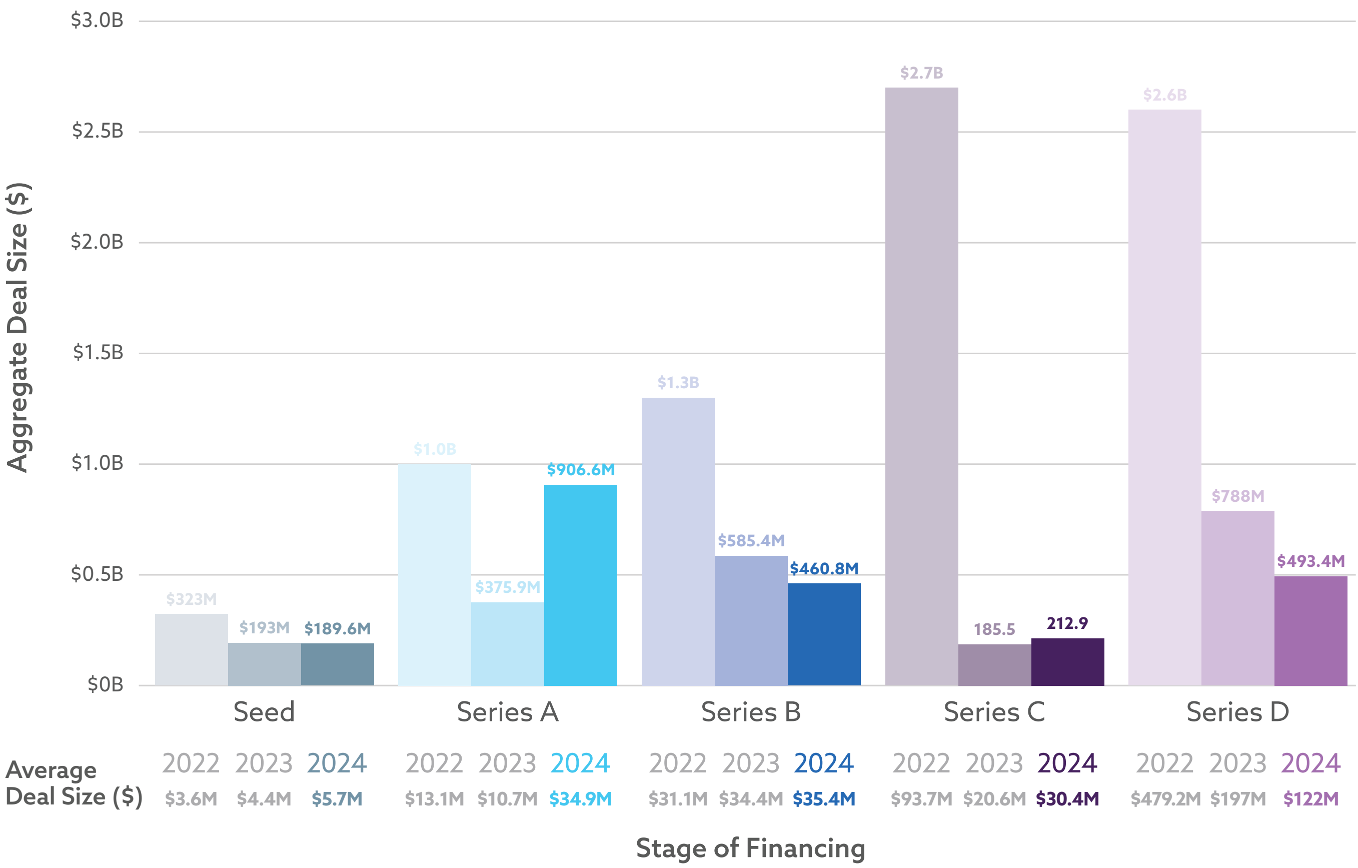
Energy & Infrastructure: As the global push toward sustainability and energy transition intensifies, Energy and Infrastructure themed investments (including Climate Tech) account for a significant portion of VC funding across Europe, representing **13%** of our venture capital deals. We delve deeper into the Climate Tech sector earlier in this report.



Venture financings only (excludes convertible financings)

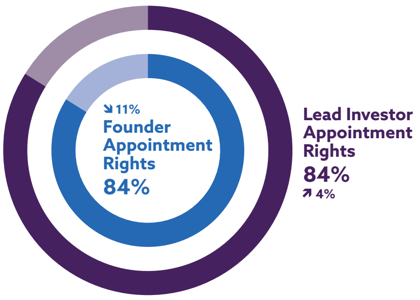
Rounds by Aggregate Deal Value

- We have seen the **market stabilize in 2024**, following significant drops in aggregate deal value across all stages throughout 2023.
- We saw a large number of the Seed stage companies which emerged in 2023 raise sizeable Series A rounds in this 2024 market, with **aggregate deal value at Series A markedly increasing from $375.9M to $906.6M**.
- While there were no significant increases in aggregate deal value across stages (other than at Series A), 2024 saw **spikes in the average deals size across most stages**, most noticeably at **Series A (with a 225% increase on 2023 figures)**, demonstrating that investor confidence in the Seed-stage companies that raised throughout 2022 and 2023 continued into their Series A rounds in 2024.



This section looks at the specific deal terms across venture financings, including rights, preferences and protections for companies, founders and investors.

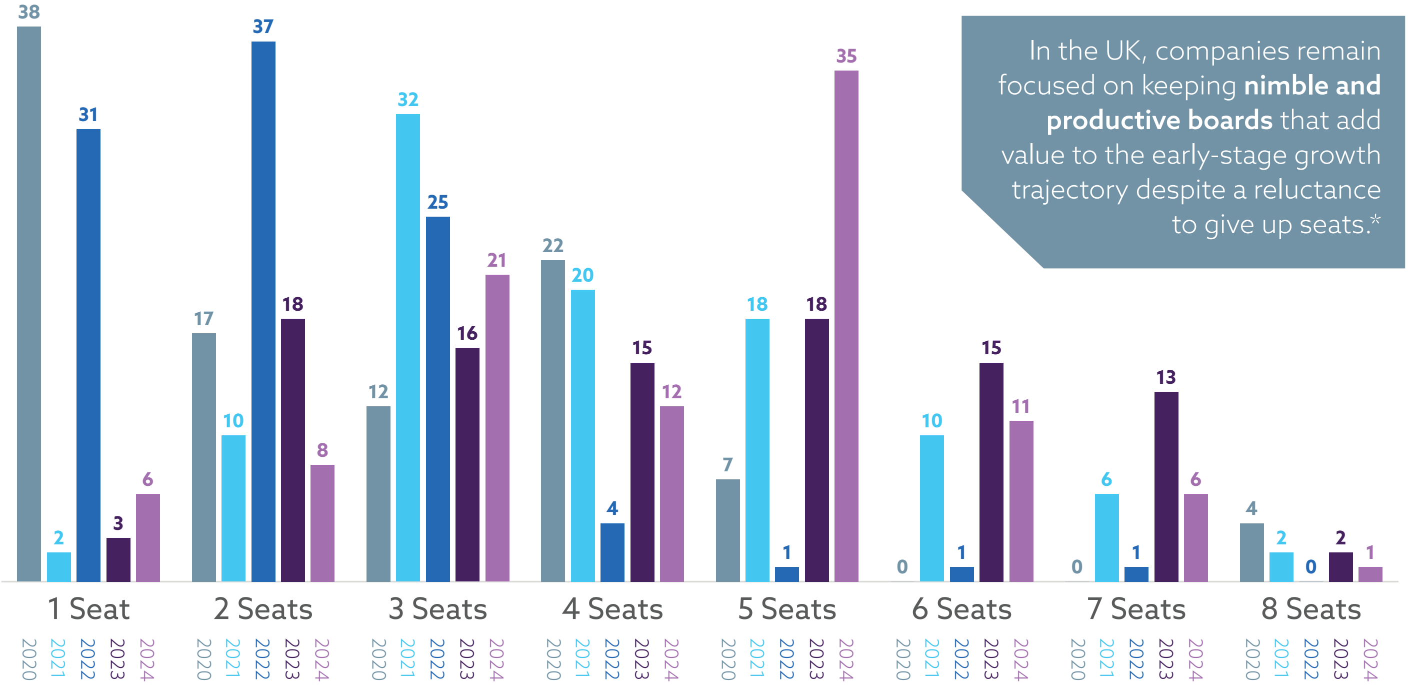
Board Rights



% of deals including Founder and/or Lead Investor board appointment rights.

- In 2024, we saw founders being able to appoint two directors (in total) on average, which was the same as 2023, suggesting that **companies continue to value and lean on founder input**. This trend continued in later rounds through the company's growth.
- Investors continued to take up board observer seats as part of financing rounds, with **56% of all deals including board observer rights** for investors. This is reflective of investors wanting to have more oversight on the day-to-day management of their portfolio companies and reflective of investors resisting their removal of board presence in later rounds (even where their director appointment right falls away with dilution in subsequent rounds).
- Investors continued to request **both a director appointment and an observer appointment right** more often than not (in **53%** of deals).
- On the whole, investors kept their board protections for longer despite new money from external sources, with investors in later rounds also asking for more seats (and representation) on the board.

Number of Board Seats



In the UK, companies remain focused on keeping **nimble and productive boards** that add value to the early-stage growth trajectory despite a reluctance to give up seats.*

** Unlike UK Boards, in Continental Europe the concept of a Board tends to refer to an advisory (purely supervisory) body, which tends to be bigger, usually 3-5 voting members up until Series B and potentially even bigger beyond with the founders often losing the majority on the advisory board around that time as well. In the UK, advisory boards are unusual, so references to the "Board" are to a governing (decision-making) Board, which Founders are keen to keep nimble.*

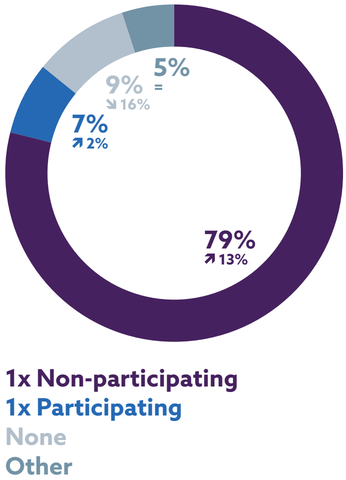
1 DEAL TERM REVIEW 2024–25
VENTURE FINANCINGS

Preferences, Protections and Rights

Liquidation Preferences

- After a 16% drop in the prevalence of **1x non-participating liquidation preference** in 2023, 2024 saw the return of the 1x non-participating liquidation preference in **79%** of financings, with other constructs seen in 2023 (including different multiples and participation) falling away as stability returned to the market.
- As the number of Pre-Seed and Seed financings (as a proportion of all financings we saw) re-calibrated, the **percentage of financing rounds with no liquidation preference (typically being those earlier stage rounds) dropped by 16%**.
- Of the transactions that did have a liquidation preference (being **91%** of all transactions), **7%** of transactions included a participating liquidation preference (in most cases incorporating a "**burn-off**" once certain thresholds had been met) and **5%** of transactions included another construct multiple.

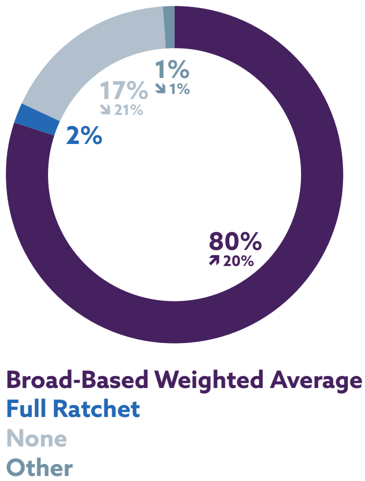
Liquidation Preferences



Anti-Dilution Price Protection

- With the increase in later-stage financing rounds also came the return of the **broad-based weighted average anti-dilution protection**, with **80%** of all financings including such protection.
- While a large percentage of transactions in 2023 did not include any anti-dilution protection (namely due to the sizeable portion of early-stage financings seen that year, where anti-dilution protection is less common), **financings with no anti-dilution protection formed only 17% of financings** in 2024 (a 21% drop).
- **Almost all** transactions which included any anti-dilution protection this year still used the **traditional broad-based weighted average**. The majority of deals that did not feature anti-dilution protection remained (as was the case in 2023) at the early/Seed stage.

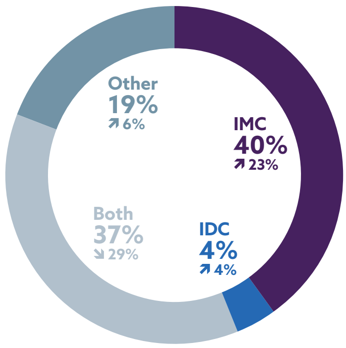
Anti-Dilution Protection



Rights

- Overall, **91%** of deals included **consent rights** and of those transactions that had a consent regime: investor majority consent (IMC) only (**40%**), investor director consent (IDC) only (**4%**), both (**37%**) and other (**19%**). Increasingly, later-stage deals transitioned to a blended IMC regime, avoiding stacked or tiered consents. To see how these terms apply in practical scenarios, refer to our case studies on pages 29-30.
- Similarly, we saw a **shift in later-stages** to having a **simple majority threshold (50% plus one) or 75% or more for drag-along**, *i.e.*, not requiring "stacked consents" from junior preference classes, with an **even greater** number of deals at all stages (and specifically later stages) including a drag-along threshold greater than **50%**.
- The vast majority of our deals have **drag-along rights (95%)**. Compared to 2023, in 2024, we saw a **decrease in the number of deals which included a founder veto**, especially at the earlier-stages (down from **64%** at Seed in 2023 to **30%** in 2024).

Rights



Information Rights

% of total deals in each round

- All deals include Information Rights (delivery of information and preparation of reports) on an annual basis. In addition, the majority of deals also feature Information Rights on a quarterly and monthly basis.

ESG

- We have seen a meaningful percentage of transactions at each stage now incorporate **ESG provisions (an 8% increase from 2023)**, with the highest proportion of deals being at Series B and above. This is not surprising given the **growing trend among European institutional investors to track ESG metrics** within their portfolio companies, which is quickly becoming a requirement of respected funds or a regulatory requirement in some cases.
- This is further impacted by the increase in fundraising in the Climate Tech (**Energy**) sector, where ESG-focused/conscious funds are more likely to be investing.

Option Pool

- Following a marked decrease in the number of financings in 2023 which included a **top up to the option pool** (less than 40%), 2024 saw an increase to **57%**. This is consistent with market trends and demonstrates increased market confidence, with hiring decisions shifting up the priority list of companies across all stages (particularly Seed through to Series B).
- The top-up to the option pool is being included in the pre-money, avoiding dilution to incoming investors, in **79%** of transactions which included an option pool top-up.
- In 2021, we saw **unallocated option pools** being slightly higher (>10%) as companies were more bullish with their hiring agendas. In 2022 and continuing in 2023 and 2024, we saw the unallocated option pool percentages drop to 5-10%, which is more reflective of pre-2021 market conditions.
- We saw the inclusion of an option pool top-up at later stages (Series B and beyond) increase significantly as compared to 2023, as founders moved away from the more frugal approach of the last few years and re-focused on team growth.

Warranties

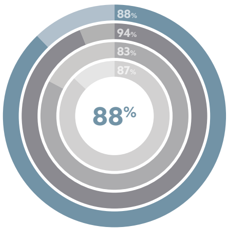
- In the UK, although we saw the market move away from **founder-backed warranties in 2021**, we have continued to see founder-backed warranties creep back into transactions as **investors shifted back** to requiring founders to stand behind the warranties on investment rounds (with **29%** of transactions including founder-backed warranties) with the understanding that they fully engage with the disclosure process and provide investors with the information they need to assess their investment.
- The rationale here is largely flawed and goes against the position introduced in the updated BVCA model forms, which feature company-only warranties (tailored for proper disclosure).
- In Germany, this observation held true particularly in the early stages, where most investors insisted on founder-backed warranties (**74%** at Seed).

1 DEAL TERM REVIEW 2024–25
VENTURE FINANCINGS

Four-Year Look Back

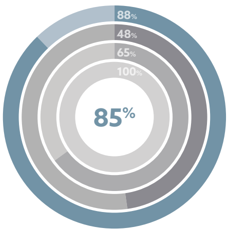
Seed

LIQUIDATION PREFERENCES



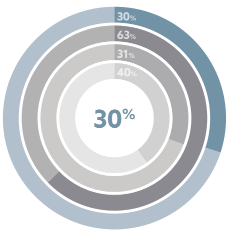
6% did not have a liquidation preference; of those that did have a preference, **4%** 1x participating preference and **88%** 1x non-participating.

ANTI-DILUTION PROTECTIONS



12% had no AD protection, **85%** had broad-based AD protection.

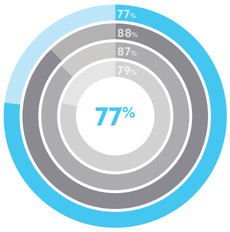
DRAG-ALONG RIGHTS



30% of deals where the drag-along threshold includes a founder veto.

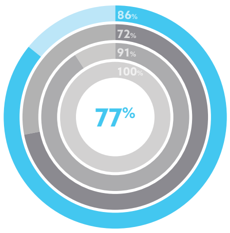
Series A

LIQUIDATION PREFERENCES



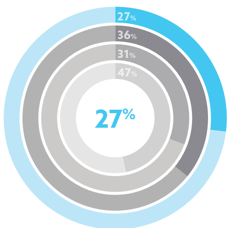
5% did not have a liquidation preference; of those that did have a preference, **77%** 1x non-participating and **12%** 1x participating.

ANTI-DILUTION PROTECTIONS



14% had no AD protection, **77%** had broad-based AD protection, and **9%** included full ratchet or other AD.

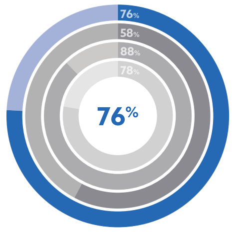
DRAG-ALONG RIGHTS



27% of deals where the drag-along threshold includes a founder veto.

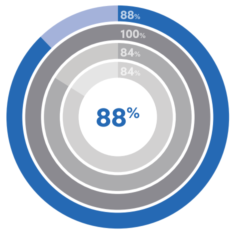
Series B

LIQUIDATION PREFERENCES



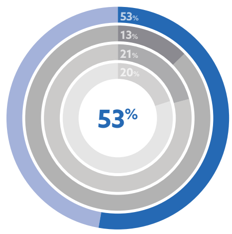
12% did not have a liquidation preference; of those that did have a preference, **76%** 1x non-participating and **12%** 1x participating.

ANTI-DILUTION PROTECTIONS



88% of Series B deals included broad-based weighted average AD.

DRAG-ALONG RIGHTS



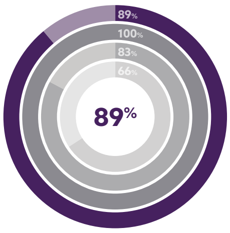
53% of deals where the drag-along threshold includes a founder veto.

1 DEAL TERM REVIEW 2024–25
VENTURE FINANCINGS

Four-Year Look Back

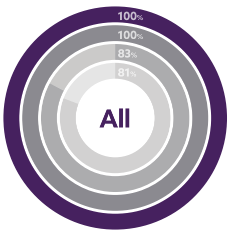
Series C

LIQUIDATION PREFERENCES



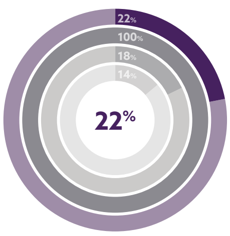
11% did not have a liquidation preference, with all deals with a liquidation preference having a 1x non-participating preference.

ANTI-DILUTION PROTECTIONS



All Series C deals included broad-based weighted average AD.

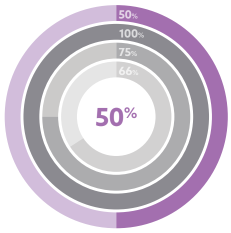
DRAG-ALONG RIGHTS



22% of deals where the drag-along threshold includes a founder veto.

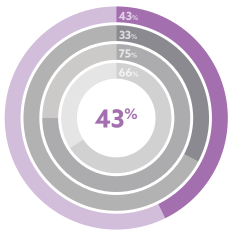
Series D and Beyond

LIQUIDATION PREFERENCES



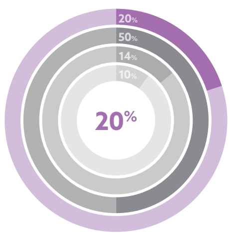
29% did not have a liquidation preference; of those that did have a preference, **50%** 1x non-participating and **7%** 1x participating.

ANTI-DILUTION PROTECTIONS



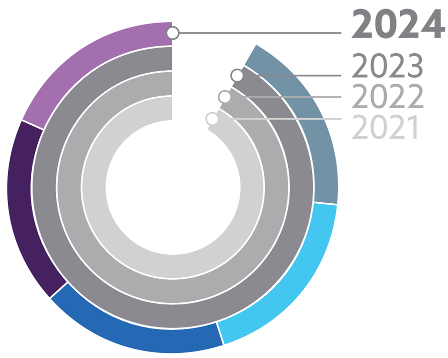
57% had no AD protection, **43%** had broad-based AD protection.

DRAG-ALONG RIGHTS



20% of deals where the drag-along threshold includes a founder veto.

Key



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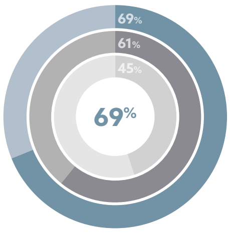
DEAL TERM REVIEW 2024–25
VENTURE FINANCINGS

Three-Year Look Back

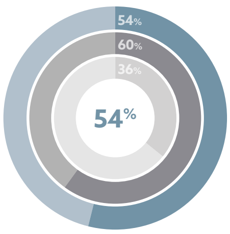
Seed

BOARD OF DIRECTORS



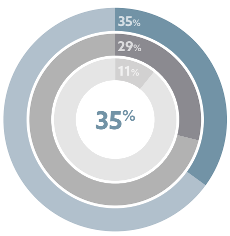
Ranged from **1 to 7** seats. Over **69%** of Seed deals had **3 or 5** Board members.

OBSERVER RIGHTS



54% had a lead investor observer right, such right sitting alongside a board appointment right in half of the transactions we advised on.

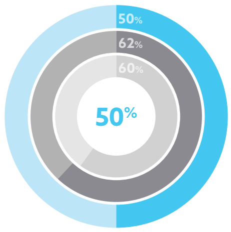
ESG



35% of deals have ESG undertakings.

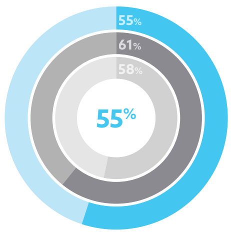
Series A

BOARD OF DIRECTORS



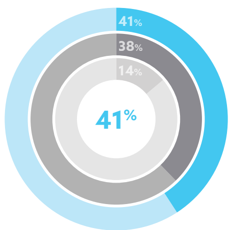
Ranged from **1 to 7** seats. **50%** of Series A deals had 5 Board members.

OBSERVER RIGHTS



55% had a lead investors observer right, such right sitting alongside a board appointment right in half of the transactions we advised on.

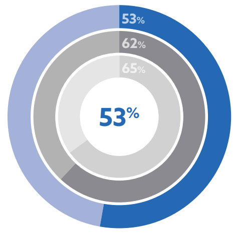
ESG



41% of deals have ESG undertakings.

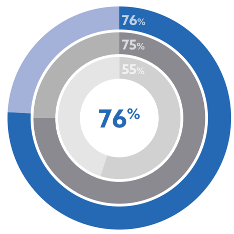
Series B

BOARD OF DIRECTORS



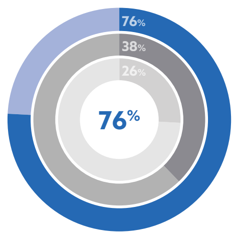
Ranged from **1 to 9** seats. Over **53%** of Series B deals had **4 or 5** Board members.

OBSERVER RIGHTS



76% had a lead investors observer right, such right **almost always** sitting alongside a board appointment right.

ESG



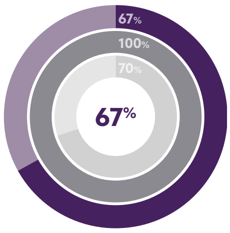
76% of deals have ESG undertakings.

1 DEAL TERM REVIEW 2024–25
VENTURE FINANCINGS

Three-Year Look Back

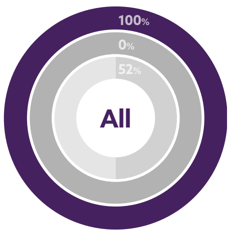
Series C

BOARD OF DIRECTORS



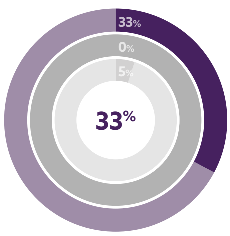
Ranged from **5 to 8** seats. Over **67%** of Series C deals had **5 or 6** Board members.

OBSERVER RIGHTS



All of the Series C deals included observer appointment rights, such right **almost always** sitting alonfside a board appointment right.

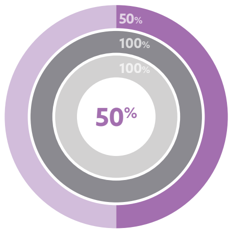
ESG



33% of the Series C deals included ESG provisions.

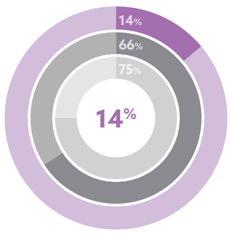
Series D and Beyond

BOARD OF DIRECTORS



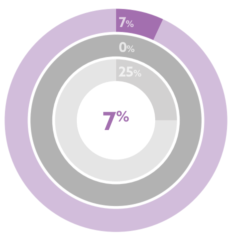
Ranged from **0 to 7** seats. Over **50%** of Series D+ deals had **4 or 5** Board members.

OBSERVER RIGHTS



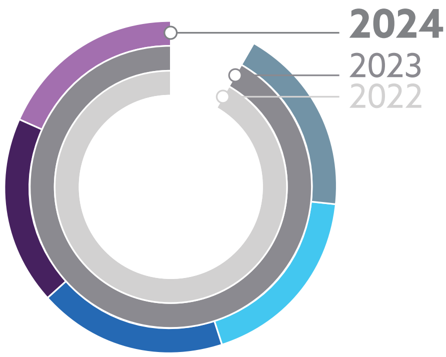
14% had a lead investors observer right, such right.

ESG



7% of these deals had a top-up to the option-pool as part of the transaction.

Key

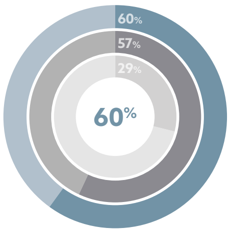


1 DEAL TERM REVIEW 2024–25
VENTURE FINANCINGS

Three-Year Look Back

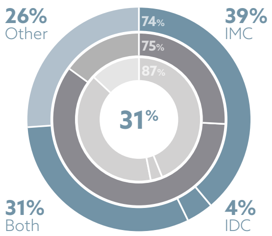
Seed

OPTION POOL



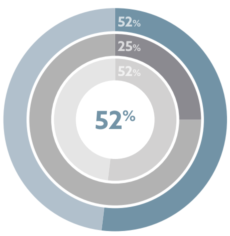
60% of these deals had a top-up to the option-pool as part of the transaction.

CONSENT RIGHTS



IMC (39%)
IDC (4%)
both (31%)
other (26%)

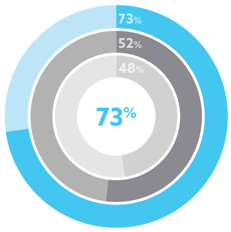
WARRANTIES



52% of deals founders stood behind the warranties.

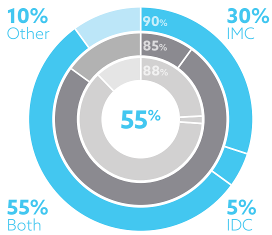
Series A

OPTION POOL



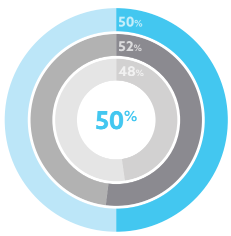
73% of these deals had a top-up to the option-pool as part of the transaction.

CONSENT RIGHTS



IMC (30%)
IDC (5%)
both (55%)
other (10%)

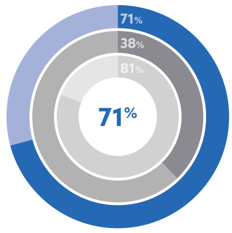
WARRANTIES



50% of deals founders stood behind the warranties.

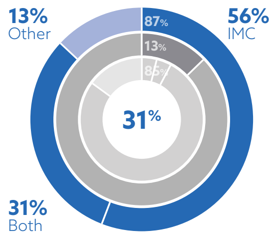
Series B

OPTION POOL



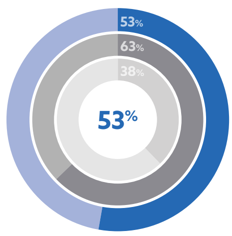
71% of these deals had a top-up to the option-pool as part of the transaction.

CONSENT RIGHTS



IMC (56%)
both (31%)
other (13%)

WARRANTIES



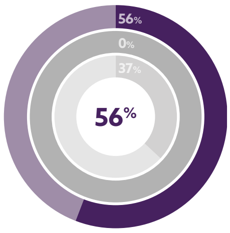
53% of deals founders stood behind the warranties.

1 DEAL TERM REVIEW 2024–25
VENTURE FINANCINGS

Three-Year Look Back

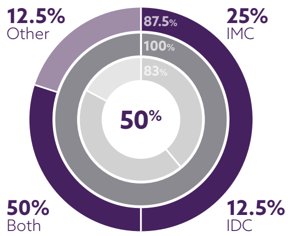
Series C

OPTION POOL



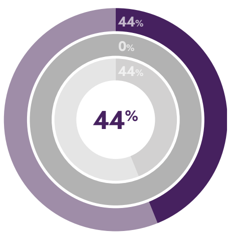
56% of the Series C deals included an option pool top-up.

CONSENT RIGHTS



IMC (25%)
IDC (12.5%)
both (50%)
other (12.5%)

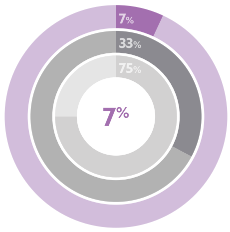
WARRANTIES



44% of deals founders stood behind the warranties.

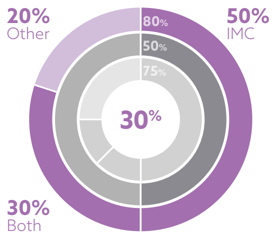
Series D and Beyond

OPTION POOL



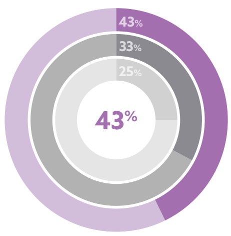
7% of these deals had a top-up to the option-pool as part of the transaction.

CONSENT RIGHTS



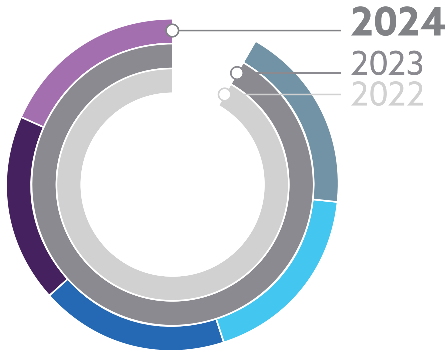
IMC (50%)
both (30%)
other (20%)

WARRANTIES



43% of deals founders stood behind the warranties.

Key



CASE STUDY #1

Departing Founders – The Good, the Bad and the Risks of Broad/Narrow Definitions

Orrick guided a promising tech startup through a complex founder departure. This case highlights the crucial need to carefully consider leaver provisions when incorporating them into a company's articles of association, ensuring that the interests of the company and the investors (which are aligned in this case) and the founders are appropriately protected from the start.

When a founder departs, the company and its investors often seek to limit the founder's control, while the founder will want to retain control and benefit economically from their shares. These differing interests mean leaver provisions can become a contentious point.

In this case, the departing founder's shares were subject to leaver provisions, with monthly vesting over a four-year period with a one-year cliff (see our definitions section for more on vesting). According to the company's articles, a "Good Leaver" would retain all vested shares (with the unvested portion converted into deferred shares (which have no economic or voting rights)). However, a "Bad Leaver" forfeited all of their shares which would be converted into deferred shares, vested or not. Due to the significant implications, the definitions of "Good Leaver" and "Bad Leaver" are usually heavily negotiated.

The departing founder was initially deemed a Good Leaver following their resignation and, therefore, would retain over 45% of their shares, with the rest converted into deferred shares.

Given the severe implications of being a Bad Leaver, this is typically limited to serious situations such as fraud and gross misconduct. Here, the definition also included "a Good Leaver, but who subsequently becomes a Bad Leaver by virtue of the company subsequently discovering that they were a Bad Leaver at the time of departure."

After reviewing our Deal Flow data on leaver provisions and the proposed definitions of Good and Bad Leavers, Orrick negotiated the inclusion of a limb (iii) in the definition of Bad Leaver. This would mean that a founder who was dismissed as a Good Leaver but who would have been considered a Bad Leaver if certain information was known by the company at the time of their departure could later be reclassified as a Bad Leaver. In this case, following the founder's departure, the company received a claims form, alleging that the founder had been fraudulent and/or had committed deliberate acts of dishonesty. As such, based on the negotiation of limb (iii) of the Bad Leaver definition, the company was able to determine that the founder was, in fact, a Bad Leaver and claw back their shares by converting them into deferred shares.

This case underscores the importance of carefully defining "Good Leaver" and "Bad Leaver" terms. A narrow Bad Leaver definition could have hindered the company's ability to reclaim shares, while an overly broad definition might unfairly penalize founders. These terms should be carefully negotiated and clearly defined while relationships remain amicable.

CASE STUDY #2

Investor Consents – Balancing Investor Protection and Growth

This case looks at the approach to consent regimes during the different stages of a company's lifecycle. Orrick assisted a high-growth tech company through each of its financings and its eventual exit. The company's financings occurred in quick succession, each at a significantly higher valuation than the previous.

In the early stages, the company faced the challenge of managing layered investor consent regimes. Layered investor consent regimes are a consequence of investor groups at each financing stage requesting their own consent rights, resulting in, for example, Series A consent matters layered on top of existing Seed consent matters which are themselves layered on top of existing Pre-Seed consent matters.

While these layers provided necessary protection for investors, they also created administrative burdens and potential growth restrictions due to conflicting investor priorities.

By looking at our Deal Flow data, we could see that consent regimes were now being consolidated into a single investor consent regime (covering investors from across the current and prior financing rounds) rather than layering multiple consent regimes on top of each other. Orrick leveraged our insights to help the company restructure and streamline its governance regime by treating all investors as a cohesive group.

As the company grows, this more fluid "investor majority" concept can change to reflect the new composition of the investor group. The power of early-stage investors slowly diminishes as the company raises new rounds of financing and brings new investors onto its cap table and within the investor majority construct.

This case highlights the critical need to design a flexible governance structure from the outset (with its future progression in mind) to ensure that there will be no significant barriers to its growth and eventual exit. While it's essential to offer investors a degree of control to protect their interests, companies must ensure that consent regimes do not impede daily operations or long-term development. Early consideration of governance can prevent barriers to growth and pave the way for a successful exit.

CASE STUDY #3

Board Appointment Rights – Avoiding Governance Pitfalls

This case considers the importance of drafting appropriate board rights to ensure a company is not required to retain investor directors on its board for an unlimited period of time. This is an important consideration for clients as lead investors have a board appointment right in 84% of UK deals.

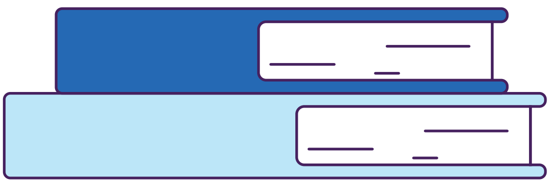
Orrick stepped in to advise a B2C e-commerce company, a company that had originally worked with another law firm to shape its board structure in the early stages of its growth, as it prepared for its upcoming financing round.

During a crucial financing round, one of the company's early-stage investors became obstructive during negotiations, refusing to participate in the round and instead pushing for a premature liquidity event for the company. The investor (an individual) held a board seat and had the power to block day-to-day decision making of the company and, in turn, the upcoming round of financing.

Upon reviewing the documentation prepared by the company's previous counsel, Orrick identified that the investor director's board appointment right was not tied to that investor retaining a minimum shareholding percentage and did not include an obligation on the investor director to resign to the extent their shareholding fell below that percentage.

Orrick devised a creative strategy to remove the investor director from the board, minimizing their disruptive influence over the company and its proposed financing round. This solution, while effective, highlighted the additional time and costs incurred by the company due to the initial oversight in governance drafting.

This case emphasizes the necessity of carefully drafting governance structures. Companies should ensure that board seats are reserved for value-add investors and that board appointment rights are contingent on specific thresholds. An investor director should be required to resign when such thresholds are no longer achieved. This approach not only protects the company's interests but also ensures flexibility and efficiency in decision-making.



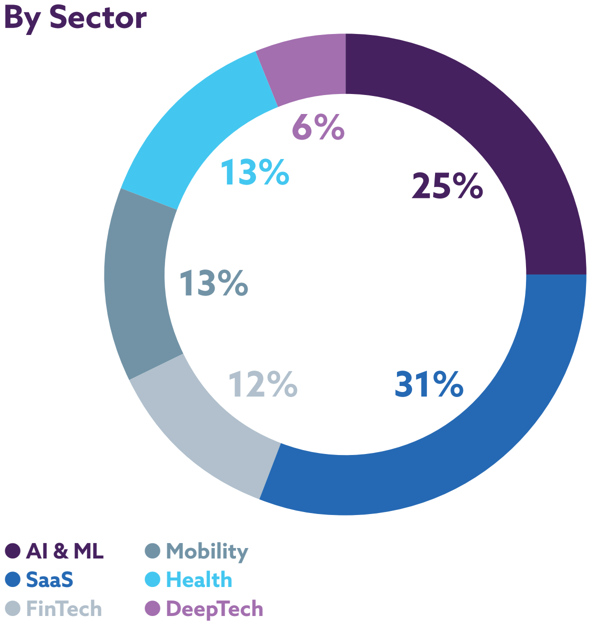
3 DEAL TERM REVIEW 2024–25
VENTURE DEBT

This data looks at our closed 2024 venture debt financings. Venture debt will not typically rely on the revenue of the business or the working capital assets of the borrower, but instead is traditionally aligned with the equity of the borrower and relies on equity capital to fund the continued growth of the company and to service debt repayments.

Trends

- Orrick's cross-border venture debt practice has seen a **notable uptick in the volume, size and value of venture debt deals** in 2024, following a dip in venture debt in 2023 due to rising interest rates and cautious investor sentiment. Globally, Orrick advised on debt transactions with an aggregate transaction value of $295M in 2024 alone and expects this figure will grow over 2025 if equity markets continue to contract.
- The year 2024 has also seen **increased competition between lenders**, with new funds and banks breaking into the European market, including venture debt funds from the U.S. taking a leap across the pond as well as more traditional European banks taking the leap into venture debt. This increased competition has also led borrowers to shop around and refinance existing venture debt in place in order to benefit from more advantageous terms. We predict this trend to continue in 2025.

By Sector



Key Takeaways

- **Interest Rates.** There were no dramatic changes in pricing, as global and UK interest rates held steady between **10-13%** per annum. Interest rates on fixed rate loans tended to be on the mid-high end of the expected spectrum. We have seen floating rate loans with a floor on loans, but the majority remain fixed rate loans. Monthly interest periods remain the norm.
- **Prepayment Penalties.** Although a regular feature in venture debt financings, borrowers have heavily negotiated the prepayment and end of loan fees. Although lenders have retained these concepts, we have seen a wider variation of fees applicable and with prepayment being ratcheted down over the life of the loan.
- **Board Observer Rights.** Board observer rights are now not unusual in the venture debt market. We have witnessed a number of borrowers rejecting this request at first instance and, in certain instances, borrowers have negotiated that board observer rights fall away when certain KPIs/milestones are met. This remained a heavily negotiated feature in venture debt.
- **Delayed Draw Loans.** We have seen an increase in delayed draw loans which are accessible by the borrower subject to certain extension conditions being met, generally linked to the financial performance of the borrower (e.g. debt to outstanding annual recurring revenue). Separately, we have also seen an increase in the extension of the interest-only period subject to certain conditions being met which are also linked to the financial performance of the borrower.

- **Minimum Cash Covenants.** Lenders are increasingly monitoring loans through minimum cash covenant and minimum cash runways, with a corresponding requirement to raise equity should the minimum cash covenant be breached. Venture debt providers also continue to remain very focused on any cash leakage outside of the security and guarantee net.
- **Warrants.** Warrants continue to be a preferred approach among lenders, offering potential equity upside through participation in successful exits. Their complexity, nevertheless, means they can take time to negotiate: there is not yet a standardized form of warrant instrument and lenders have developed their own individual approaches to warrant terms. The area that receives particular focus is, understandably, the determination of the "strike price"—the threshold above which lenders capture exit returns. The strike price would typically have been anchored to a proximate equity financing round, but lenders are increasingly looking to agree provisions for adjusting and repricing the strike price to lower amounts to maximize potential returns across various scenarios.

> "Venture debt volumes in 2024 mirrored the relatively soft equity markets. Take up continues to be strongest from founders and boards that have prior experience of debt funding. Use cases included M&A, as capital expansion on top of an equity round and strengthening the balance sheet to secure large enterprise sales."
>
> *Sonya Iovieno*, Head of Venture Growth at HSBC Innovation Banking

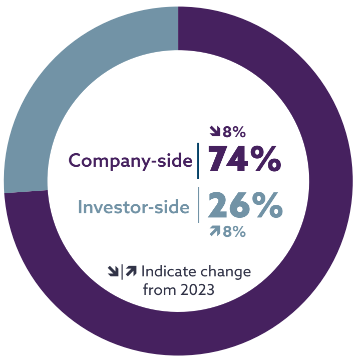
4 DEAL TERM REVIEW 2024–25
SAFES, ASAS and CONVERTIBLE DEBT

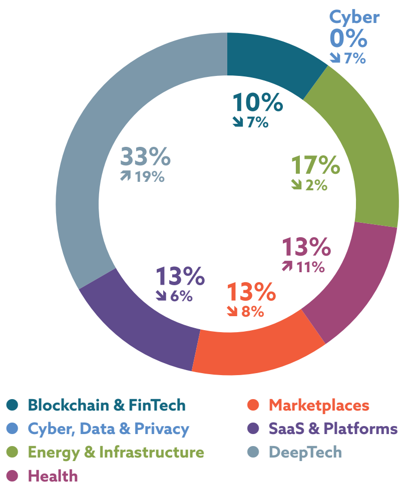
This data looks at our closed 2024 convertible financing rounds undertaken by startups and high-growth companies. For the purposes of this section, we have grouped data relating to simple agreements for future equity (SAFEs), advance subscription agreements (ASAs) and conventional convertible loan notes (CLNs).

Convertible securities such as SAFEs, ASAs and CLNs remained prevalent throughout 2024 after becoming increasingly common as a result of market uncertainty throughout 2022 and 2023. Such securities provide companies with short-term capital, often used to bridge the gap to the company's next priced round.

Aggregate Number of Convertible Financing Deals

- In 2022 and again in 2023, we saw a **notable increase in the number of convertible financings** from 2021. While convertible financings in 2022 represented 17% of the financing rounds in our portfolio, this percentage increased further (to **23%**) in 2023 and a small increase again (to **33%**) in 2024. This was due, in part, to the continued difficulty in establishing valuations for private companies in a changing economic and political global environment, the reluctance of VCs to deploy capital in financing new ventures (rather than existing portfolio companies), and the fact that convertible financings are **quicker and cheaper to execute** as compared to priced rounds, resulting in **faster access to capital for companies in a time of need**.
- Although we have seen the market begin to stabilize in 2024, some founders have stayed reluctant to agree to lower valuations for their businesses. As convertible financings bypass the need for fixed valuations (though parties may still agree on a valuation cap, *i.e.*, valuation considerations cannot be completely ignored), their **"popularity" has grown among founders and investors**, who have used this form of financing as a **bridge to their next equity financing round**.
- As the timeframes between priced rounds increased, the size of convertible financing rounds increased even further (**10x** since 2021) to enable founders and startups to withstand these longer periods of scarce capital.





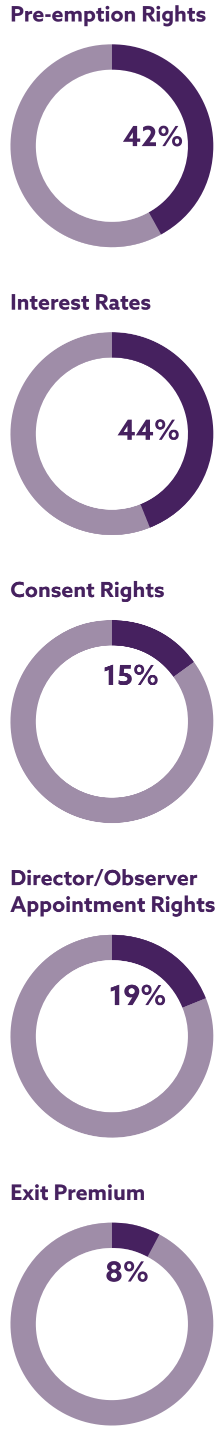
4 DEAL TERM REVIEW 2024–25

SAFES, ASAS and CONVERTIBLE DEBT

- In the same breath, interest rates (in the context of CLNs where interest rates become more relevant) have also increased with **65%** of the convertible rounds where interest is applied having an interest rate of **8% or higher** (only slightly lower than the already high numbers in 2023).
- The increase in the proportion of convertible financings, coupled with the increase in the number of extension financing rounds by existing investors was a hallmark of the 2023 funding landscape, particularly for later-stage companies where new capital was not as readily available as for early-stage Series Seed companies, and this trend continued throughout 2024.

Investor Protections

- 2024 also saw investors requesting rights, such as pre-emption, for the period prior to conversion, which would typically only be afforded to actual shareholders (**42%** of all convertible financings), as investors sought out some of the protections/rights they would have received as shareholders in a priced round given the increased use by founders of this form of financing. This remained mostly in the context of SAFE financings (as is more traditional in the United States, following the Y Combinator standard forms), giving the investor the right to participate in the company's next equity financing round.
- Only **15%** (down from **42%** in 2023) of the convertible financings included **consent rights for the investors**. This was a return to more company-friendly terms, where convertible investors have not traditionally obtained consent rights on their convertible investment as they are not equity shareholders at the time of the investment. Despite this, and for similar reasons as the shift in approach to pre-emption rights, convertible investors continued to request **information rights** in **49%** of convertible financings (a **26%** increase from 2023).
- **19%** of the convertible financings we saw in 2024 (only a **3%** decrease from 2023) **included either director or observer appointment rights for the convertible investors**, which is a continued indication that being able to accurately **track and influence company performance and decisions** even in the context of convertible financings remains at the forefront of investors' minds.
- We continued to see big discounts being given on convertible financings, ranging between **20%–40%**, with the upper end being a noticeable uplift from the upper end in 2021 (which was closer to **20%**) and even higher than the heights of 2023 (at **33%**) and, with most convertible financings, applying a discount of **20%** or higher.



A VIEW FROM ACROSS THE POND

Data

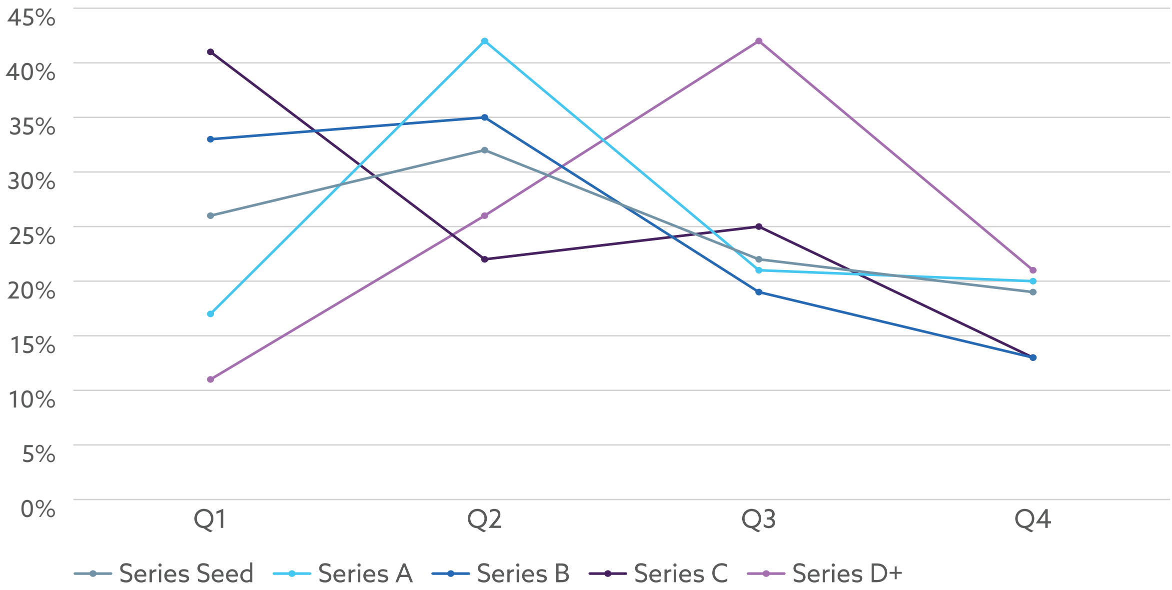
Stage	Average Deal Value
Series Seed	$5,9M
Series A	$19,1M
Series B	$142,4M
Series C	$111,1M
Series D+	$205,2M

A Word from the U.S.

2024 marked the **maturation and stabilization** of trends initiated by VC funding contraction that started in late 2022:

- **AI startups** remained the star of the show and **drove up deal sizes, valuations** and **M&A exits** in 2024. The trend looks to continue into 2025 and spread beyond core and core-adjacent technology to a broader ecosystem of emergent business models.
- Runways shortened, liquidity needs mounted and valuations remained tepid. Consequently, we saw **increased down-round financings** and **recapitalizations**. These transactions took the form of:
  - **reducing or eliminating existing liquidation preferences** (via automatic conversion of preferred stock to common stock);
  - **reverse stock splits** on outstanding shares to "cram down" existing, and stockholders on a post-money basis;
  - **pay-to-play mechanics**, where participating investors exchange their converted preferred shares for shares of a new series of preferred stock to recapture the liquidation preference of their converted preferred shares.
- **Late-stage deal activity declined** for the third straight year, although deal sizes and pre-money valuations increased year over year across all stages and series of financings.
- Although there was a record-setting number of VC-backed companies with a $500M+ valuation or higher in 2024, the number of **$500M+ exits remained low** compared to the mark set in 2021.
- Many **early-stage companies continued to rely on Simple Agreements for Future Equity (SAFE) financings and convertible note financings** in lieu of priced rounds with set valuations. The standard form of Y Combinator "Post-Money" SAFE continues to be the market standard for SAFE financings.
- The number of **early-stage deals** (Pre-Seed to Series B) meaningfully **outnumbered** the number of financings for more **mature companies** (Series C to Series F+).
- For priced rounds, the market standard economic **terms for investors were friendlier to companies and founders in 2024** relative to 2023. We saw a return to the norm of a 1x non-participating liquidation preference and the absence of any specific dividend rights.

2024 U.S. Venture Deal Activity by Series and Quarter



Predictions

- Economic and political signals in the U.S. forecast an **increase in venture activity for technology companies** in 2025, building from the deal activity and pre-money valuation increases experienced at nearly all stages (Pre-Seed to late stage) in 2024 and the gradual thawing of the capital markets.
- We predict that both **U.S. venture capital fund investments into European companies** and the **expansion of European startup company into the U.S. market** will continue to **increase in 2025** and surpass 2024 levels.
- Although we predict that the overall number of financing transactions will increase in 2025 relative to 2024, we anticipate that **post-Series A companies** will continue to experience **challenges in raising new financings** from non-insider investors and at higher valuations relative to their priced rounds prior to late-2022.
- At the time of publication, the sitting U.S. government was signaling and issuing a wide range of policy changes—many pro-innovation, including massive AI infrastructure support. The new administration was also recruiting senior team members with deep knowledge of innovation and tech. All of this may create opportunity, but the market in the meantime will have to navigate a period of **regulatory and enforcement uncertainty**.
- We predict that U.S. venture capital funds will materially increase investments in new portfolio companies in 2025 relative to 2024 in part due to **continued enthusiasm for AI companies** and anticipated decreases in U.S. interest rates.
- Despite the potential for continued fundraising challenges in the U.S. market, we predict that the **shift back towards more standard and founder-friendly economic venture financing terms** (*i.e.*, 1x non-participating liquidation preference) will continue in 2025.

PREDICTIONS FOR 2025

UK

- The strong **demand for secondaries** throughout 2024, as investors sought to realize some returns, **should slow in 2025** as investors become more bullish on the potential for growth, driven by the increase in economic and political certainty.
- While access to capital is easing at the early stages of the market, it will remain difficult for later stage companies to raise capital unless they can demonstrate a clear and substantial path to further growth. Where that is not possible, we expect to see **an uptick in M&A activity and consolidation in the market** as corporates and private equity funds look to consolidate across markets. These companies are rich sources of technology, customers and employees—if they cannot continue to grow at pace then the entrepreneurs within them may look for an exit opportunity.
- Disruptive technologies like **generative AI** and **quantum computing** will continue to transform the market. These new technologies will accelerate the pace, of innovation, leading to a raft of **new and exciting companies** and development.
- The fundraising process will continue to become more efficient and standardized, driven by the **increasing maturity of the companies**, **investors** and **advisors** in the market. In an increasingly globalized market for technology, it is vital to work with people who see the big picture and can draw on a wide range of experience in order to achieve the best outcome for you.

PREDICTIONS FOR 2025

France

- 2025 is set to be a transformative year for France's venture capital and tech ecosystem, with **significant investments** and **strategic partnerships** focusing on AI and sustainable technologies. While challenges persist, coordinated efforts by the government and private sector position France favorably in the global tech arena.
- At the Paris AI Action Summit in February 2025, a **€109B investment plan** was unveiled to **significantly enhance France's AI infrastructure** and research capabilities.[27] This initiative includes contributions from international and domestic players such as the UAE, Brookfield Asset Management, and major French corporations, focusing on developing AI infrastructure, data centers, and energy projects.
- Early-stage funding will remain a primary focus, with **ample dry powder available for Seed and Series A investments**. Although more late-stage funds will be accessible, **investors will continue to prioritize cost control and profitability**, with unit economics as a key decision factor.
- Due diligence processes, while slightly relaxed in 2024, will remain critical and based on that cautious approach, potentially leading to valuation adjustments down the line.
- Alternative financing mechanisms like **venture debt will stay popular**,[28] with investors seeking to hedge risks through increased equity kickers.
- France must navigate an **unstable political context** and a **complex EU regulatory landscape**, which could impact confidence among founders and investors.[29]

27. Capacity Media: France secures €109bn AI investment to counter Stargate and U.S. tech dominance, 11 February 2025
28. Sifted: A record year: will the venture debt boom continue into 2025?, 17 December 2024
29. Sifted: Funding for French tech startups set to drop by 50% in the second half of 2024, 17 December 2024

PREDICTIONS FOR 2025

Germany

- The year 2025 has commenced with a **surge in deal activity in the DACH region**. We anticipate that the VC markets will continue with a much-heightened level of deal activity throughout 2025. Notably the recent interest cuts by ECB and FED promise to foster a favorable investment climate in 2025. Additionally, a significant amount of dry powder, such as from newly raised funds, is set for disbursement in 2025 and beyond.
- The German parliament has most recently approved an **unprecedented financing package** to improve GermanyPar's security and invest in **Energy & Infrastructure** with a total volume of more than €1T. While it will likely take some time for the effects of this stimulus to be felt in the wider economy, we expect **increased positive momentum** for start-ups and scale-ups in these sectors and already see this in Q1/2025 term sheets for start-ups in the defense and energy resilience spaces.
- As observed in 2024, we foresee a surge in exit transactions, predominantly takeovers, and consolidations throughout 2025. This trend will, particularly in the AI space, continue to be driven by a competitive race to harness unstructured sets of proprietary data.
- Contrary to our expectation, actual down-rounds were relatively rare in 2024, and existing investors continued to provide bridge financings, actively avoiding setting (unfavorable) price points. With the anticipated shift to a more favorable investment climate to continue in 2025, we expect investment terms to remain balanced, trending towards a more "**company-friendly**" setup without a significant paradigm shift.
- Lockups, founder vesting, protective provisions, and control rights are generally expected to continue in line with terms requested in 2023 and 2024.

PREDICTIONS FOR 2025

Italy

- Italy's venture capital ecosystem is projected to grow, with investments estimated between €1.4B and €1.7B in 2025, attracting both domestic and international investors.
- Efforts to **modernize the regulatory framework** governing venture capital in Italy are underway to create a **more investor-friendly environment**. These updates aim to support innovative entrepreneurs by **simplifying investment processes** and providing **tax incentives**. The goal is to ensure that legal frameworks are conducive to startup growth and bolster investor confidence. Such regulatory improvements are crucial for sustaining Italy's current growth trend, as they help remove barriers to investment and foster a more dynamic and competitive ecosystem.
- Robust investment is expected in **AI**, **SaaS**, and **Life Sciences**, driven by ongoing technological advancements. The renewed focus on Smart Cities highlights the demand for sustainable urban solutions, driving investments in technologies that improve living conditions and infrastructure.
- Italy seeks to enhance its competitive position by **increasing investment rounds** and attracting a **diverse investor base**, showcasing its potential at global forums.
- Organizations within the tech scene are playing a pivotal role in enhancing the investment landscape. They are implementing **strategic initiatives** to improve access to capital, provide mentorship, and foster collaboration within the ecosystem. These organizations advocate for better regulatory measures to support venture capital market growth, including lobbying for policy changes that benefit startups and investors. By collaborating with government bodies, industry stakeholders, and international partners, they aim to create a more supportive and dynamic environment for venture capital in Italy, ensuring the regulatory framework evolves with the ecosystem's needs.

DEAL TERM REVIEW 2024–25
DEFINITIONS

Anti-Dilution Protection	Provisions that protect investors from dilution in the event of future financing rounds at a lower valuation, often through mechanisms like weighted average or full ratchet.
ASA (Advanced Subscription Agreement)	An agreement where investors provide funds to a company in exchange for the right to receive shares in a future equity financing round.
Board	The group of individuals elected to represent shareholders and oversee the activities and direction of a company, including making major decisions and setting policies.
Board Rights	Rights granted to investors to appoint its own members to the company's board of directors, typically to ensure their interests are represented.
Bridge Round	A short-term financing round used to provide additional capital to a company between larger funding rounds, often through a convertible note or equity (often at the previous round's valuation).
Cap Table (Capitalization Table)	A detailed spreadsheet that outlines the ownership structure of a company as at a position in time, including the number of shares, class of shares, and the percentage ownership of each shareholder on both an issued and fully diluted basis.
Cliff	A period of time (typically 12 months) where, if a founder and/or employee subject to leaver provisions departs, then vesting will not apply such that they lose all of the shares subject to the leaver provisions.
Convertible	A type of financing instrument, such as a convertible note, that can be converted into equity at a later date, often in a future equity financing round.
Dilution	The reduction in ownership percentage of existing shareholders due to the issuance of new shares.
Down-round	A financing round in which the company raises capital at a lower valuation than in the previous round.
Drag-Along	A provision that allows majority shareholders to force minority shareholders to join in the sale of the company, ensuring that the sale can proceed smoothly.
Dry Powder	The amount of capital that venture capital firms or institutional investors have available to invest but have not yet deployed. It is often used to describe the financial capacity of investors to make new investments.

DEFINITIONS

ESG	Criteria used to evaluate a company's commitment to sustainable and ethical practices, which is becoming increasingly important to investors and regulatory bodies.
Exit Redemption Premium	An additional amount paid to investors upon the redemption of their investment, often used as an incentive for providing capital in convertible debt agreements.
Floating Valuation	A valuation mechanism where the valuation of the company is not fixed but is determined based on certain criteria or milestones, often used to avoid down-rounds.
Follow-on	Additional investments made by existing investors in subsequent financing rounds, often to support the continued growth and development of the portfolio company in which it has invested.
Founder Veto	A right that allows the founders to block certain decisions, even if they are approved by the majority of the board or shareholders. This is often included to protect the founders' vision and control over the company.
Information Rights	Rights granted to investors to receive regular updates on the company's financial status, business operations, and other key metrics, typically on an annual, monthly, and/or quarterly basis.
Internal Round	A financing round where the capital is raised primarily from existing investors rather than new investors.
Investor Director	A board member appointed by the lead investor or investor majority, typically to represent the interests of the investors in the portfolio company.
Investor Majority	A majority of the investors, often defined as those holding more than a certain percentage (typically 50%) of the shares or voting rights, who can make decisions on behalf of all investors.
IPO	The process of offering shares of a private company to the public in a new share issuance, allowing the company to raise capital from public investors.
Lead Investor	The primary investor in a financing round who often sets the terms of the investment and takes a more active role in the company, including board or observer representation.
Leaver Provisions	The provision/mechanism by which some or all of the shares held by the founders and/or employees of the company are put "at risk" of clawback in the event they depart from the company in certain scenarios.

DEFINITIONS

Liquidation Preference	The right of investors to receive their investment back (with a pre-determined multiple) before other shareholders in the event of a liquidation, a sale, or the dissolution of the company.
Liquidity Event	An event that allows investors to convert their equity into cash, such as an IPO, an acquisition, or the sale of the company.
Observer	An individual appointed by investors to attend board meetings and receive board materials without having voting rights, providing oversight and insights.
Option Pool	A reserve of company shares set aside for future issuance of options to employees, advisors, and board members as part of their compensation and benefits.
Option Pool Top-up	An increase in the number of shares reserved for future issuance of options to employees, advisors, and board members typically to attract and retain talent without causing dilution to existing shareholders.
Portfolio Company	A company that has received investment from a venture capital firm and/or institutional investor is part of the firm's or investor's investment portfolio.
Pre-Seed	The earliest stage of funding, typically provided to help a company develop its initial product and business model before seeking larger investments.
Protective Provisions	Specific rights granted to investors that require their approval for certain significant actions by the company, such as issuing new shares, selling the company, or changing the business plan. These rights are often included in a schedule to the investment agreements.
SAFE (Simple Agreement for Future Equity)	A financing agreement that provides the investor with the right to purchase equity in the company at a future date, typically during the next equity financing round.
Secondary	A transaction where existing shareholders sell their shares to new investors, providing liquidity to the sellers without raising new capital for the company. It is also a way for the company to re-structure its cap table.
Seed	The initial round of funding used to support early-stage business activities before scaling operations.

DEFINITIONS

Series A	The first significant round of venture capital financing, typically used to optimize product offerings and expand the user base.
Series B	The second round of financing, often used to scale the business, expand market reach, and improve operational infrastructure.
Series C	The third round of financing, typically used to prepare the company for an initial public offering (IPO) or to expand into new markets.
Series D	A later stage of financing, often used to further scale the business, enhance market penetration, or support acquisitions.
Series D+	Any subsequent rounds of financing beyond Series D, used to continue scaling the business or preparing for an exit event.
Tag-Along	A provision that allows minority shareholders to join in the sale of shares by majority shareholders, ensuring they can participate in any liquidity event.
Valuation Cap	A ceiling on the valuation at which convertible securities (like SAFEs or convertible notes) will convert into equity. It protects early investors by ensuring they receive a favorable conversion rate if the company's valuation increases significantly.
Venture Debt	A type of debt financing provided to venture-backed companies, typically used to extend the runway between equity financing rounds.
Vesting	Where an agreed proportion of founder and/or employee shares (determined by a vesting schedule and the circumstances under which such founder and/or employee departs) become "safe" from clawback under the leaver provisions.
Warranties	Representations, promises and assurances provided by the founders or the company regarding the state and general health of the business, often included in investment agreements to protect investors.

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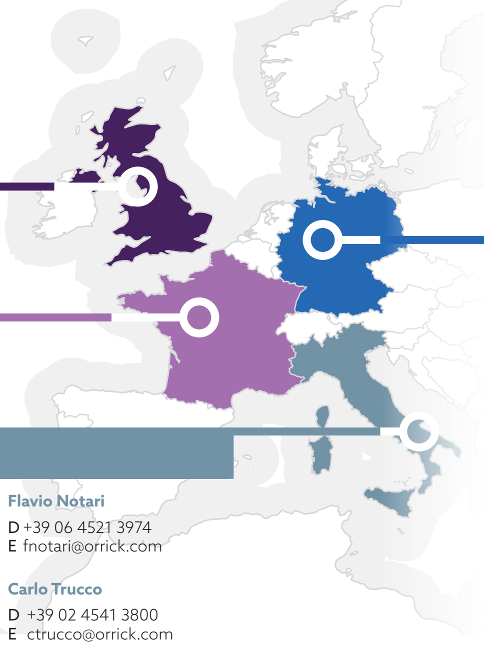

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Is your startup ready to take the next step on the entrepreneurial journey? Orrick's European Startup Health Check gauges your company's readiness for the next phase of growth.

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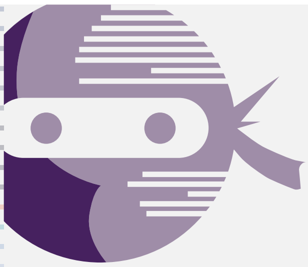

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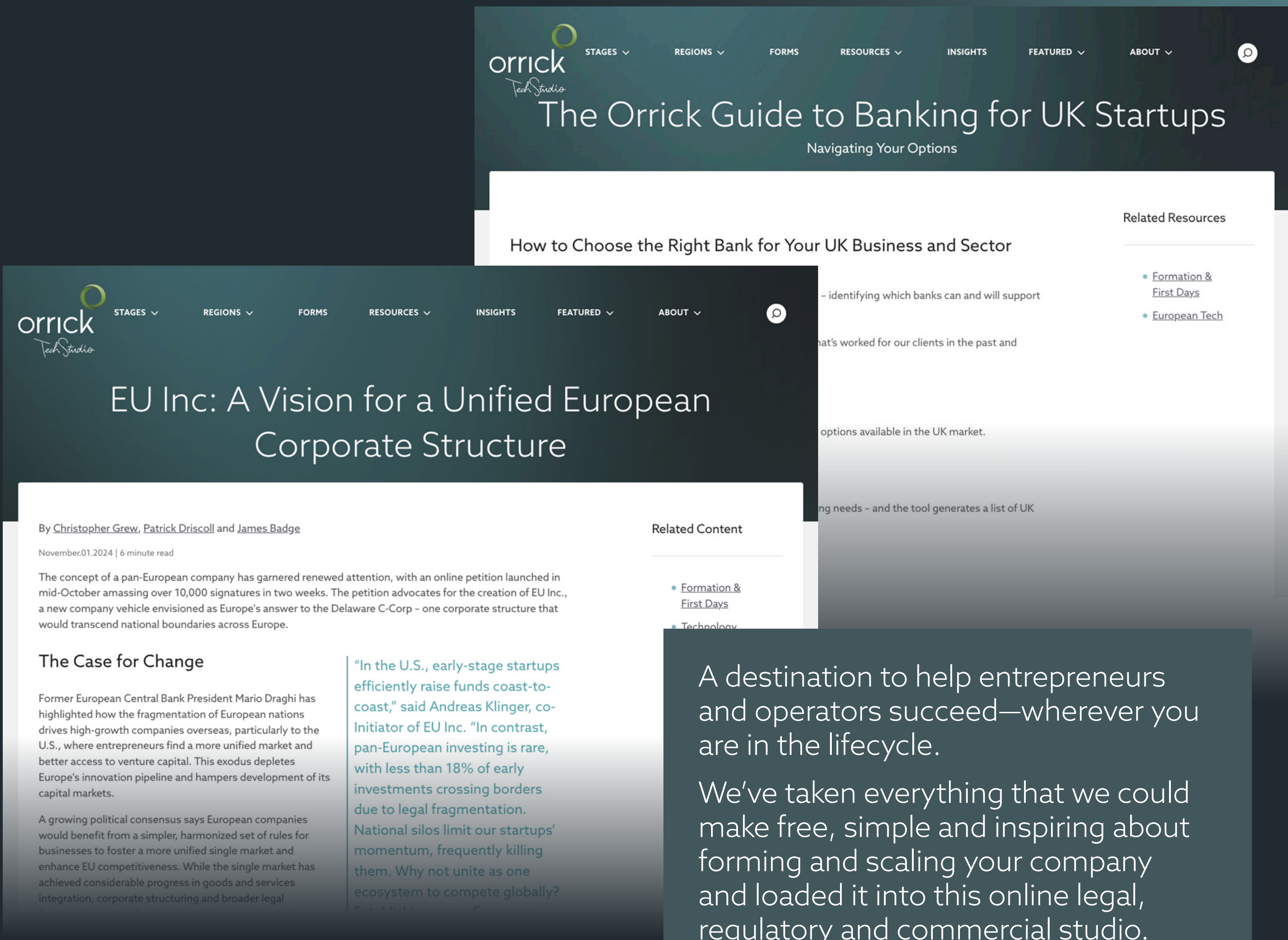

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