Morgan Lewis

Q4 2024

# CORPORATE VENTURE CAPITAL SURVEY

# OVERVIEW

Indicators in our fourth quarter 2024 corporate venture capital (CVC) survey demonstrate a slow yet steady CVC investor rate with a stabilizing venture financing market, according to Pitchbook data. In this survey, we track investment trends for CVC financings as well as analyze a survey of key economic terms of the largest Q4 2024 venture capital investments in which CVC programs either led the round or participated as significant or anchor investors.

## KEY TERMS

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

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

## VALUATION

**The survey covers a wide range of financing transactions during Q4 2024, from early- to late-stage financings.** Of the Morgan Lewis transactions we reviewed that disclosed prior valuations, we noted that 100% of the transactions involved higher valuations from the prior round. This remained the same compared with Q3.

## LIQUIDATION PREFERENCE

While preferred stockholders receive preferential treatment on distribution over common stockholders in the event of liquidation, the liquidation preference among different series of preferred stock is often a negotiated term. The later-round preferred stockholders may request a senior ranking over prior-round preferred stockholders, while earlier investors may insist on equal (or pari passu) treatment with new investors.

Based on our review, 100% of the transactions included a 1x liquidation preference. In 70% of the transactions, the new investors' preferred stock ranked senior to prior-round preferred stockholders, while 30% had pari passu treatment. These results were the same as the Q3 survey, indicating that in terms of liquidation preference companies have been able to continue to hold the line on providing seniority to new investors in the liquidation stack.

## PARTICIPATING PREFERRED

With "non-participating" preferred stock, the preferred stockholders are entitled to receive only the amount of their preference (typically the amount paid for the stock). With "participating" preferred stock, preferred stockholders are entitled to receive their preference amount first in a liquidation event (plus accrued and unpaid dividends), with any remaining proceeds being divided among holders of common stock and preferred stock on a pro rata basis.

Based on our review, 100% of the transactions involved "non-participating" preferred stock. These results were higher than Q3.

## DIVIDEND

If dividends are cumulative, they will accrue and accumulate at a specified rate whether or not declared by the board. Upon conversion of the preferred stock, cumulative dividends would convert into additional common stock, which would increase the investors' percentage ownership interest in the company above their original investment.

Based on our review, 100% of the transactions did not provide for cumulative dividend provisions. This was the same as Q3.

## REDEMPTION RIGHTS

Redemption rights allow investors to force the company, in specified circumstances, to redeem their shares at cost or, in some cases, cost plus a small guaranteed rate of return.

Based on our review, none of the transactions included any form of redemption rights. This was the same as Q3, but given that redemption rights are fairly rare in venture financings versus private equity deals generally, this was not a surprising metric.

## PROTECTIVE PROVISIONS

Protective provisions provide preferred stockholders with special approval rights with respect to certain matters of particular significance to their investment in addition to class or series voting rights that may exist under relevant state corporate laws. These matters may include liquidation and sale of the company, amendment of charter or bylaws, changes in board size, and authorization of issuance of other preferred stock. An often-negotiated point is whether the new series of preferred stock should vote together as a single class with the prior series of preferred stock or have a separate approval right specific to the new series.

Based on our review, 100% of the transactions included voting rights only as a single class together with other series of preferred stock. This was the same as Q3.

## 'PAY-TO-PLAY' PROVISIONS

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

## SUMMARY

While the economic terms of each investment are unique based on the facts and circumstances of the companies and investors participating, our Q4 2024 analysis indicates a stabilizing venture financing market, with valuations increasing across all surveyed transactions.

Despite this recovery, key deal terms remained unchanged from prior quarters—1x liquidation preferences, non-participating preferred stock, and single-class voting rights remained standard, while cumulative dividends, redemption rights, and pay-to-play provisions were absent. Overall, while valuations improved, financing terms remained steady, reflecting continued investor leverage to negotiate favorable investor terms.

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