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RECENT DEVELOPMENTS IN PRIVATE COMPANY FINANCING TRENDS

An uncertain global economic outlook in 2022 and fears of an impending recession translated into fewer venture financings than 2021, but the decrease was not evenly distributed among all companies and sectors, and bright spots suggest potential for 2023.

By Lianna Whittleton *

Amidst a global economy affected by fears of increasing armed conflict, interest rates, and inflation, it is unsurprising that venture capital funding was down in 2022. As those headwinds increased over the course of the year, fundraising activity correspondingly slowed quarter over quarter as the overall markets cooled.[1] The reduced activity was more pronounced among later-stage companies, which completed fewer transactions, while earlier stage companies maintained consistent valuations, median raise sizes, and deal frequency as in prior years.

However, while the $288 billion deployed by venture investors in the U.S. in 2022 was significantly lower than the peak funding environment that defined 2021, it still exceeded the total funding amounts in prior years.[2] In addition, while macroeconomic concerns generated significant discussion regarding expectations of the return of down round financings and investor-favorable terms, those transactions and provisions did not materialize to the extent anticipated. Down round activity did increase in the third quarter of 2022 but continued to represent a very small percentage of overall transaction volume. Instead, the vast majority of equity financings were completed at a valuation higher than the company's previous equity round.[3]

EARLIER STAGE FINANCING ACTIVITY

Earlier stage financing activity remained stable and was not significantly affected by global uncertainty and macroeconomic factors. Angel and seed round financings continued to occur at similar pre-money

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[1] PitchBook, *New data reveals the full extent of US VC declines in 2022*, January 7, 2023, *available at* https://pitchbook.com/newsletter/new-data-reveals-the-full-extent-of-us-vc-declines-in-2022.

[2] *Ibid.*

[3] Wilson Sonsini Goodrich & Rosati, Professional Corporation, *The Entrepreneur's Report – Private Company Financing Trends, Q3 2022*, November 9, 2022, *available at* https://www.wsgr.com/en/insights/q3-2022-entrepreneurs-report.html at 2.

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