Portfolio Media. Inc. | 111 West 19th Street, 5th Floor | New York, NY 10011 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Venture Financing In Early-Stage Deals Continues To Cool

By **Tom Zanki**

Law360, New York (November 2, 2016, 3:29 PM EDT) -- Investment in venture-backed companies declined slightly across all but late-stage deals, according to third quarter data released Tuesday by Cooley LLP that reviewed transactions on which the firm specifically advised, consistent with a recent cooldown in venture funding after years of breakneck growth.

Cooley, which specializes in representing early-stage life sciences and technology companies, said that it advised 143 disclosable deals that raised more than $1.7 billion in the third quarter. That was down from 154 second quarter deals guided by the firm that netted about $1.8 billion.

The long-term drop is considerably steeper. As recently as the first quarter of 2016, Cooley advised deals totaling $4 billion. Venture capital attorneys have said that compared with historic levels, funding remains healthy but the boom of the past few years was bound to cool.

In terms of valuations, Cooley said there was a decrease in median pre-money valuations across all stages, with a notable exception for Series D+ transactions, which represent late-stage deals.

The firm added that a small number of large financings in the third quarter drove the average median pre-money valuation for Series D+ deals to $718 million, a level not seen in more than seven years. Three Series D+ transactions had valuations of more than $1 billion, Cooley said.

Cooley also noted earlier rounds contain fewer deals with drag-along features — in which majority shareholders can force minority shareholders to join in the sale of a company — but such features increased in later round deals. Acquisitions, as well as initial public offerings, are common exit paths for venture capital investors.

“We’ll continue to monitor this trend,” Cooley said in its report.

Life sciences companies also appear to be getting a larger share of funding. When separating by industry, Cooley reported that among deals with valuations of more than $100 million, life sciences deals in that category rose from 14 percent in the first quarter to 28 percent in the third quarter. Technology deals fell slightly by comparison, down from 29 percent in the first quarter to 23 percent in the third quarter.

The reports adds to recent data showing that private valuations are cooling in the once sizzling startup community, particularly for technology firms in Silicon Valley. To many observers, the increasingly sober climate represents a healthy shift that will force private companies to focus more attention on running their businesses efficiently rather than coveting yet another lofty funding round.

“The boards and management teams recognize it's not in the best interest to keep raising money at an unprecedented pace,” Cooley LLP partner Jim Fulton said after Cooley released its second quarter report. “It's time to actually get a return on equity.”

--Editing by Stephen Berg.