2021

Deal Points Report: Venture Capital Financings

By Michael Grantmyre, Natalie Munroe, Ryan Unruch, David Jamieson, André Perey

OSLER

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Introduction

Welcome to Osler, Hoskin & Harcourt LLP's inaugural annual comprehensive report on venture capital and growth equity financing transactions in the emerging and high growth companies ecosystem: the *Deal Points Report: Venture Capital Financings*.

The *Deal Points Report* synthesizes data from 332 venture capital and growth equity preferred share financings completed by Osler from 2019 to 2021, representing more than US$5.68 billion in total transaction value. It is important to note that these 332 financings represent, as a random sample, only a portion of Osler's significant overall financing deal volume which is a contributing factor in our ability to produce the *Deal Points Report*. During 2019 to 2021, Osler represented clients in the emerging and high growth companies space in 763 financing transactions with an aggregate deal value of approximately US$10.57 billion.

The *Deal Points Report* is unique within the market as it draws on both publicly available data, as well as Osler's confidential anonymized data sources, to deliver deeper access to comprehensive financing-related data. Osler has undertaken publishing the *Deal Points Report* as we believe this data should be available to all stakeholders within the emerging and high growth companies ecosystem. To accomplish this, the *Deal Points Report* includes, in addition to publicly available information, financing-related data extracted from non-public sources such as term sheets, subscription agreements, shareholders agreements and secondary sale transaction documents. And because all data presented in the *Deal Points Report* is from financings completed by Osler, its authors are able to interpret and contextualize raw data inputs, with the benefit of first-hand exposure to these financings, in a way that enhances the production of meaningful insights and reliable data.

The *Deal Points Report* also provides a unique opportunity to profile some of Osler's clients and tell their unique and inspiring stories. We are truly grateful for the support and trust of these clients, and all of Osler's clients. We are proud to be a part of their story, which in turn is part of a much bigger story – the growth and exceptional success of the emerging and high growth companies ecosystem across Canada, an ecosystem that continues to create jobs, innovation and economic growth across the country and attracts significant amounts of domestic and international investment.

Finally, there are many data points that we feel are relevant to the market and important to track, but which did not make it into this year's *Deal Points Report*. We will seek to refresh the content and data points that are tracked in future releases of the *Deal Points Report*. In the meantime, please do not hesitate to reach out to any of the lawyers in our Emerging and High Growth Companies Group in our offices across Canada to discuss the findings in this *Deal Points Report*. We also welcome requests to present additional data points that may be of interest in future versions of the *Deal Points Report*. To submit a request, please contact us at emergingcompanies@osler.com.

In addition to our *Deal Points Report*, we are also pleased to share the success stories of our clients who represent some of the most innovative companies in Canada. At Osler, we represent entrepreneurs and emerging and growth stage companies that cover a broad spectrum of knowledge-based industries, supporting them through the stages of their lifecycle and providing legal advice on a wide range of issues and requirements along the way. Read our emerging and high growth clients' success stories.

Highlights from the *Deal Points Report*

- There was a marginal decline in series A financings which is consistent with findings from other Canadian reports, such as those prepared by the Canadian Venture Capital and Private Equity Association (CVCA) and CPE Analytics.
- While 2020 saw a material increase in Series Seed and Series A financings and fewer Series B and later stage financings, the data for 2021 shows significant increases in Series B and other later stage financings, with only marginal declines in Series Seed and Series A financings.
- Companies in the Information Technology industry (including artificial intelligence, blockchain, adtech, edtech and cybersecurity) made up over 39% of all companies raising a financing round covered by the *Deal Points Report*, with Consumer / Retail based companies having the second highest concentration of financings, representing 19% of the financings covered by the *Deal Points Report*.
- Ontario and British Columbia have the highest concentration of companies raising a financing round – representing, respectively, 58.7% and 18.2% of all Canadian companies included in the *Deal Points Report*. This is consistent with the recent Year-End 2021 – Canadian VC & PE Market Overview released by the CVCA, which highlights a high concentration of investments in emerging and high growth companies located in Ontario and British Columbia.

- Steady increase in the number of companies founded by women at the seed financing stage covered by the *Deal Points Report* from 13.5% in 2019 to 20.5% in 2021, and overall representation of women founded companies in approximately 15% of all financings covered by the *Deal Points Report*.
- Pricing direction for financings – Up, Down and Flat rounds –generally aligned with U.S. reports, such as Fenwick's Silicon Valley Venture Capital Survey [PDF] and Wilson Sonsini's The Entrepreneurs Report [PDF]. In our *Deal Points Report*, 88.2% of financings covered were Up Rounds, with only a minority of transactions (7.2%) being Down Rounds.
- Valuations for companies in the Information Technology industry (including artificial intelligence, blockchain, adtech, edtech and cybersecurity) represented significant valuation increases between financings of, on average, 235%.
- The overall timing to close a financing, measured from the date a term sheet is executed until the initial closing date of the financing has steadily declined from 2019 to 2021, from 62 days to 52 days, likely due to the increasing trend towards "standardization" of financing transaction terms and intense investor competition in 2021, resulting in a desire to move as quickly as possible from term sheet execution to closing. At the same time, the average duration of exclusivity provisions in financings covered by the *Deal Points Report* ranged from 42 to 47 days, depending on the round of financing.
- Where a financing had multiple closings, 69% of funds invested in the round were funded at the initial closings.
- Over 95% of financings covered by the *Deal Points Report* used documentation based on the CVCA model financing agreements.
- Secondary transactions were very common in post-Series Seed stage financings, with almost 50% of all Series B financings including a secondary component. Preferred Shares were the most common type of equity sold in secondary transactions (which includes instances in which common shares are exchanged for preferred shares, as discussed further below). At the same time, fewer secondary transactions involved an amalgamation structure in 2021, as compared to 2020 and 2019 (as discussed further below).
- Financing terms between 2019 and 2021 are reflective of the continued move towards pari passu liquidation preferences, no participation rights, broad-based weighted average anti-dilution, no redemption rights and non-cumulative dividends as Canadian financing terms continue to align with U.S. financing terms on account of the high levels of U.S. investment in Canadian financings and companies and investors increasingly adopting these terms as part of a "best practices" approach to financings.
- Data relating to preferred director, common director and independent director board representation shows a trend towards a greater proportion of preferred director representation in later stages of financings. In early stage companies, the data reflects a larger proportion of non-preferred directors in Series Seed and Series A financings, typically representing greater consolidation of founder and common shareholder control in these companies.

Steady increase in the number of companies founded by women at the seed financing stage covered by the *Deal Points Report* from 13.5% in 2019 to 20.5% in 2021.

Methodology and background

Please note the following with respect to the methodology and background underpinning the *Deal Points Report*:

- The *Deal Points Report* consists of a review of 332 preferred share financings, from Series Seed financings through to Series D financings and beyond completed by Osler between 2019 and 2021 – these preferred share financings include a small representation (approximately 8%) of transactions which involve a U.S. company in instances where a Canadian office of Osler was engaged in the transaction. Common share financing transactions and transactions resulting in the issuance of convertible securities (like SAFEs or convertible promissory notes) were excluded.
- The total value of all initial investment across all financings reported on in the *Deal Points Report* was US$5.14 billion. The total value of initial investment, plus follow-on investment, across all financings reported on in the *Deal Points Report* was US$5.68 billion.
- Of the financing transactions included in the *Deal Points Report*, Osler was company counsel in 71.9% of these financing transactions and investor counsel in 28.1% of these financings.
- Of the financing transactions referred to above, Osler collected and anonymized data from both public and non-public financing documents, including term sheets, articles, subscription agreements, shareholders agreements and secondary sale transaction documents.
- The *Deal Points Report* is broken out into four sections, with a view to coherently organizing the findings: General Overview, Valuation and Investment Intelligence, Financing Structure Intelligence and Financing Terms Intelligence.
- The *Deal Points Report* does not attempt to filter out data which does not squarely fit within the construct of a "typical preferred share financing transaction." It is our belief that an unfiltered and unbiased perspective of deal terms and trends should be presented to the reader. In instances where we believe that one or more transactions significantly skew the data in the *Deal Points Report*, we have indicated as much for the reader's benefit.
- All dollar amounts reported on in the *Deal Points Report* were converted into USD based on the applicable foreign exchange rate published by the Bank of Canada as of closing date of the applicable financing. To the extent that the closing date of a financing transaction occurred on a holiday, the applicable dollar amount reported on in the *Deal Points Report* was converted into USD based on the applicable foreign exchange rate published by the Bank of Canada on the next business day.

The total value of all initial investment across all financings reported on in the *Deal Points Report* was US$5.14 billion.

About Osler, Hoskin & Harcourt LLP's Emerging and High Growth Companies Group Practice

The Emerging and High Growth Companies Group at Osler is composed of individuals who are passionate about entrepreneurship and fostering the growth of early and growth stage ventures. Ranked Band 1 in Chambers Canada and located in offices across the country, including Toronto, Vancouver, Montréal, Ottawa and Calgary, our team members are eager to share their experience and insight with emerging companies to help maximize their development and ensure long-term success.

We represent entrepreneurs and emerging and growth stage companies nationwide from a broad spectrum of knowledge-based industries, supporting them from incubation through their growth trajectory, as well as the venture capital funds, growth equity and private equity funds that finance them. We provide legal advice on the wide range of issues and legal requirements that emerging and high growth ventures face, from corporate and tax structuring and fundraising and shareholder agreements to intellectual property strategies and employment- and compensation-related matters – all of which require a deep understanding of the market and expert counsel.

Osler acts for more than 1,000 early, growth and late-stage ventures and venture investors across Canada, United States and around the world. In the last four years, we have acted on more than 810 angel, venture and private equity financings. In 2021, despite the effects of COVID-19 on the fundraising landscape, Osler advised on 272 deals with more than CAD$7.82 billion raised by emerging and high growth companies, many of which are showcased in the data forming the basis for this report.

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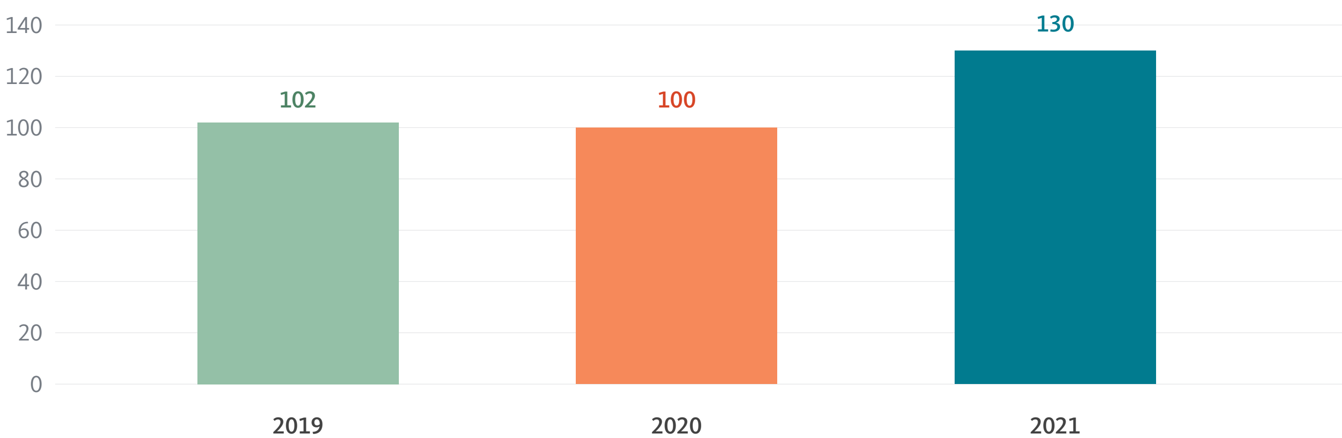
General overview

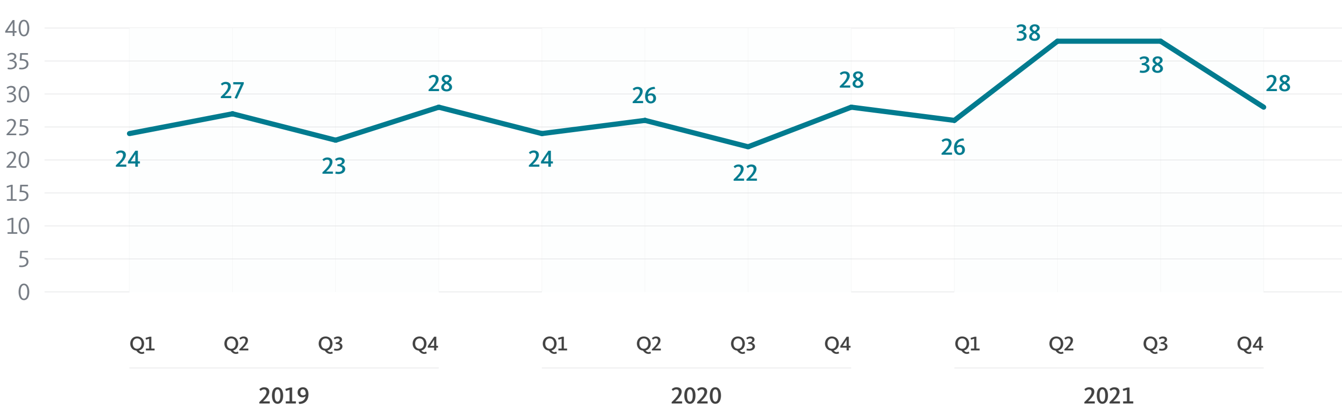
Total financings

The number of financings included in the *Deal Points Report*.



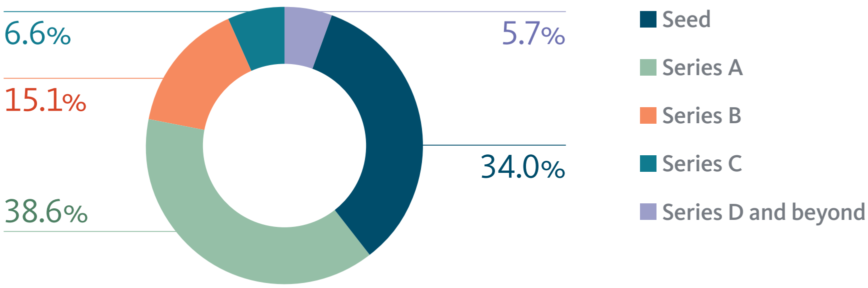
Total financings, by quarter

The number of financings included in the *Deal Points Report*, by quarter.



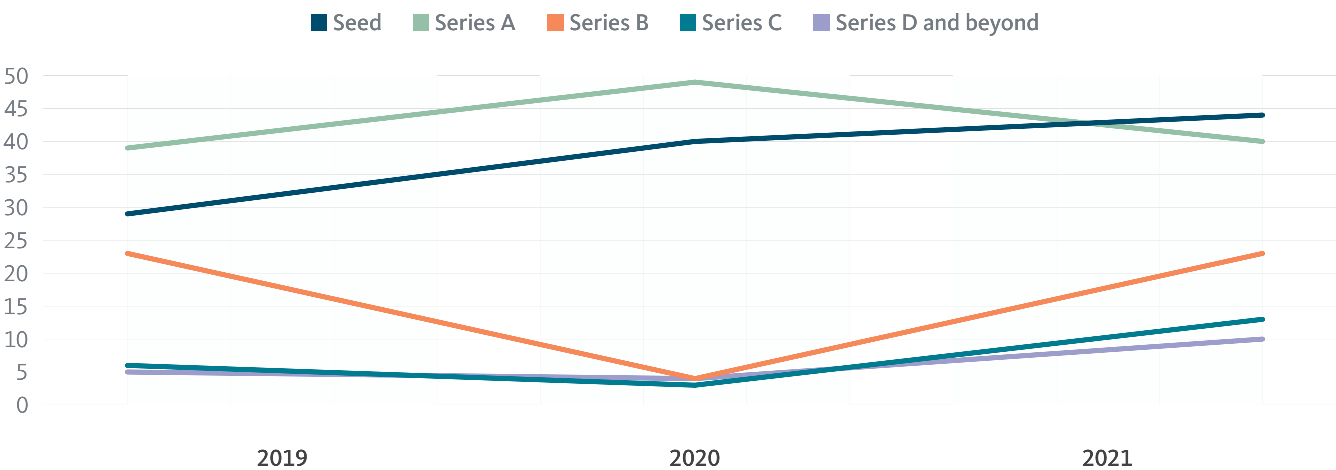
Representation of financings, by series

The overall representation of financings included in the *Deal Points Report*, by series of financing (i.e., Series Seed, Series A, Series B, Series C and Series D and beyond).



Number of financings, by year and series

The overall representation of financings included in the *Deal Points Report*, by year and series of financing.



Location of companies

The location of companies for Canadian financings included in the *Deal Points Report*, expressed as a percentage.

Province	Ontario	Québec	British Columbia	Atlantic Provinces	Manitoba	Saskatchewan	Alberta
Percentage of issuers	58.7%	12.8%	18.2%	1.6%	0.8%	2.1%	5.8%

Financing transactions by Osler, Hoskin & Harcourt LLP, by office

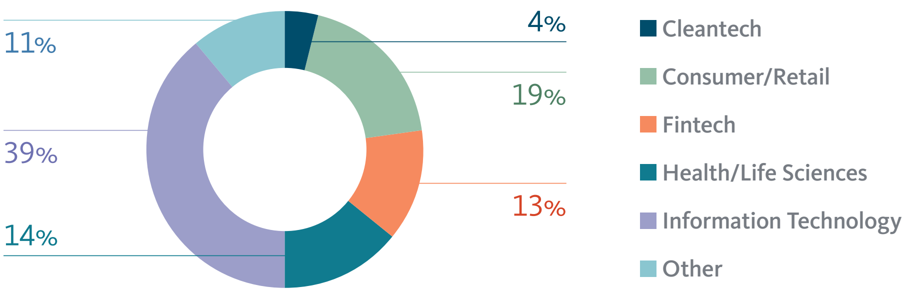
With a truly national practice, the map below reflects Osler's consistent role in acting as a trusted advisor to support financing transactions across Canada. From 2019 to 2021, Osler advised on 353 financing transaction across its offices. For purposes of the infographic below, each office was counted for every financing that it assisted with which resulted in some double counting where multiple offices of Osler were involved in the same financing included in the *Deal Points Report*.

Number of deals and percentage growth from 2019 to 2021 by office

Company distribution by industry

Distribution of companies across the following industries for financings included in the *Deal Points Report*:

- Cleantech
- Consumer/Retail (including robotics, supply chain, logistics and consumer retail)
- Fintech
- Health/Life Sciences
- Information Technology (including artificial intelligence, blockchain, adtech, edtech and cybersecurity)
- Other (industries which do not reasonably fit within the foregoing industry categories)



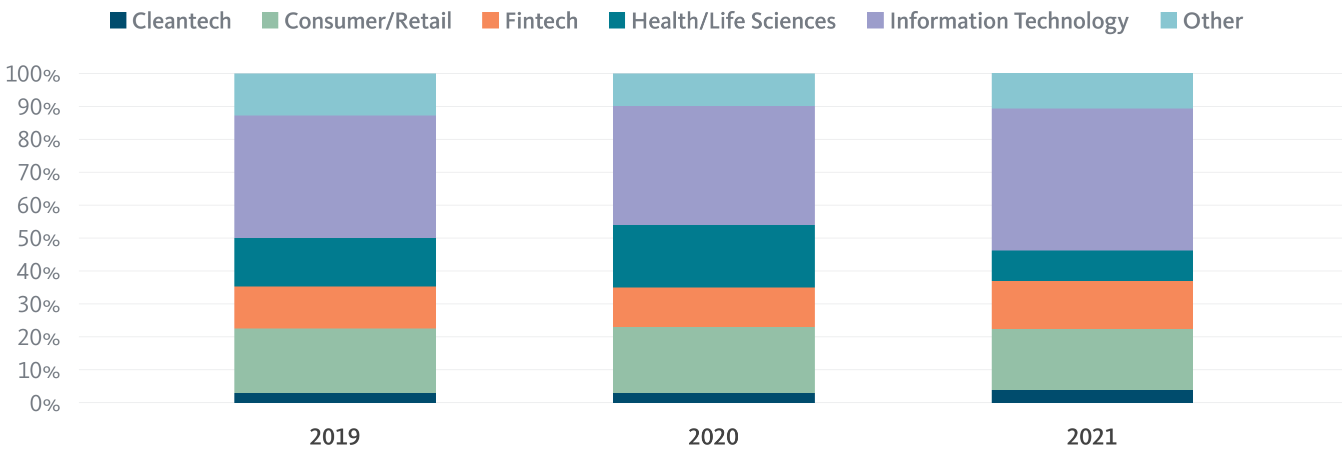
Location of companies based on industry

The location of Canadian companies, by industry, for financings included in the *Deal Points Report*, expressed as a percentage of all Canadian companies included in the *Deal Points Report*.

Company province	Cleantech	Consumer / Retail	Fintech	Health / Life Sciences	Information Technology	Other
Alberta		0.7%	1.0%		3.7%	0.7%
British Columbia	0.7%	2.0%	2.0%	2.3%	8.4%	0.7%
Manitoba		0.7%				
New Brunswick						0.3%
Nova Scotia					1.0%	
Ontario	2.3%	11.7%	9.1%	10.1%	24.8%	3.7%
Québec	0.7%	2.0%	1.3%	2.3%	3.0%	1.7%
Saskatchewan		1.7%	0.7%			0.7%

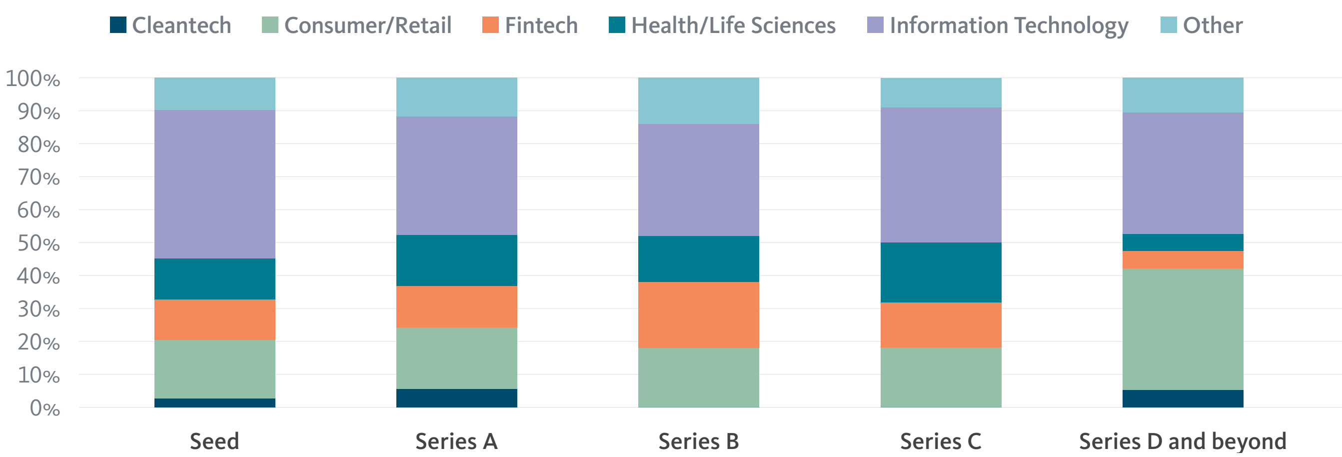
Companies by industry, by year

The overall representation of company industries for financings included in the *Deal Points Report*.



Companies by industry, by series

The overall representation of various company industries for financings included in the *Deal Points Report*, based on series of financing.



Breakdown of women founders

The breakdown of issuers included in the *Deal Points Report* with one or more women founders for all companies included in the *Deal Points Report* and for seed stage companies included in the *Deal Points Report*. Women founded companies represented 15% of all companies included in the *Deal Points Report*.

15%	85%
Yes	No

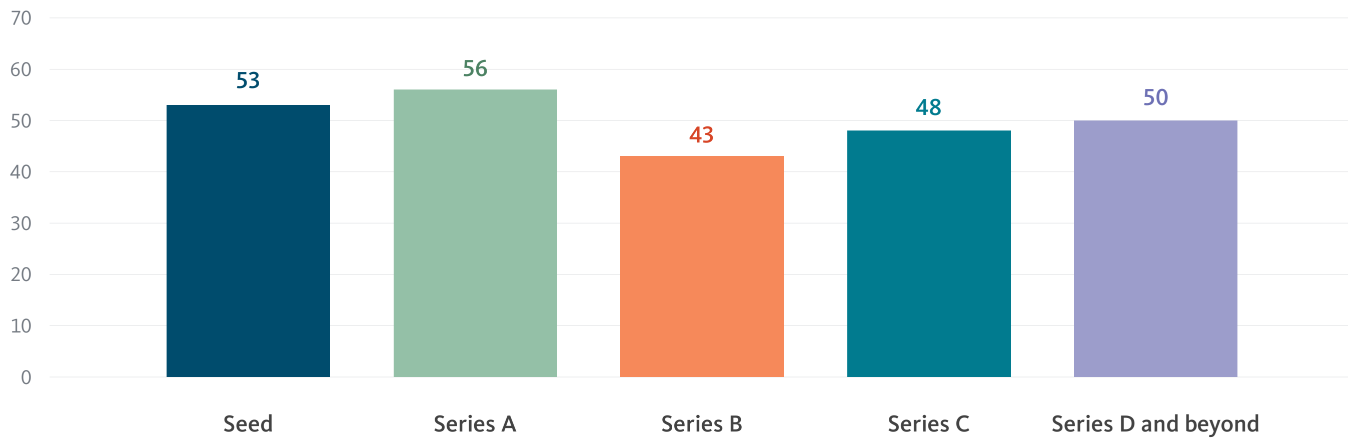
However, the data shows that, between 2019 and 2021, the representation of women founded companies at the seed financing stage grew from 13.5% of all companies included in the *Deal Points Report* to 20.5% of all such companies. We believe that observing changes to the participation of women founded companies at the seed financing stage is a good marker for tracking progress in the participation of women in the emerging and high growth companies ecosystem.

13.5%	20.5%
2019	2021

In order to help shine a light on the success, stories and journey of women founders, Osler has launched its Women in Emerging and High Growth Companies Leadership Series. Learn more about the webinar series which is available live and on-demand.

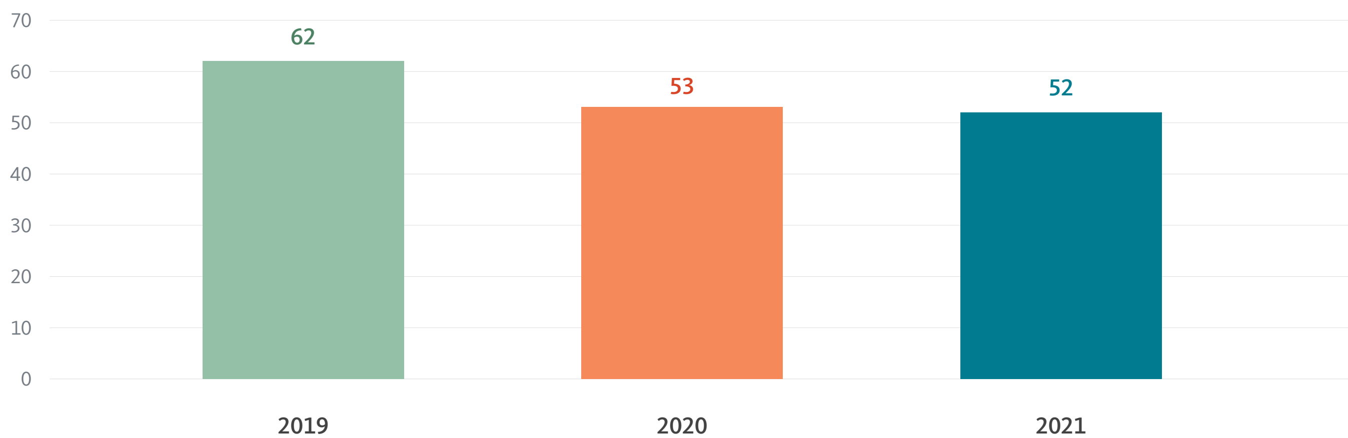
Median time between term sheet signing date and financing closing date

Median time, in days, between the date on which a term sheet was signed and the initial closing of the related financing. Consistent with expectations, later stage financings tended to take less time to close than earlier stage financings, in large part due to the common practice of largely maintaining terms and document structures from prior rounds of financing, with only necessary changes to the terms required by the incoming lead investor(s).



Median time between term sheet signing date and financing closing date, by year

Median time, in days, between the date on which a term sheet was signed and the related financing was completed, reflected on a yearly basis. The downward trend in the timing between term sheet signing date and the completion of the relevant financing expressed below is likely on account of the increasing trend towards "standardization" of financing transaction terms and intense investor competition in 2021, resulting in a desire to move as quickly as possible from term sheet execution to closing.



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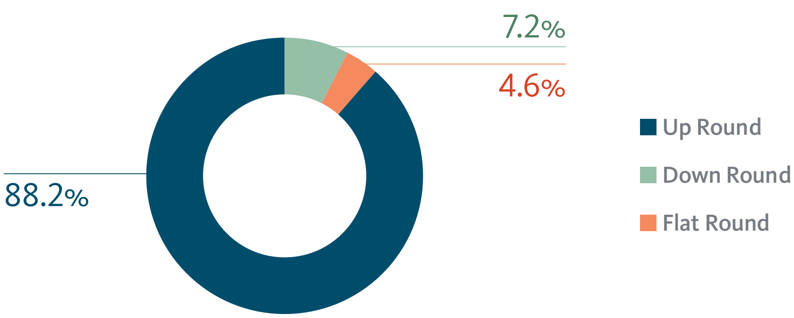
Valuation and investment intelligence

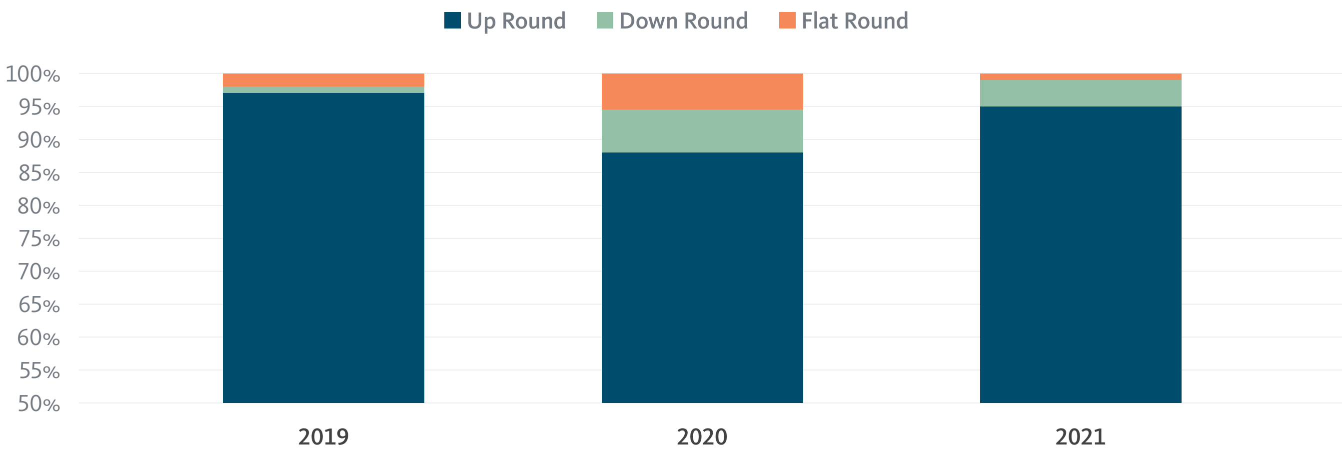
Valuation for financings

For financings included in the *Deal Points Report*, the chart shows the breakdown of valuation direction for same reflected as Up Round, Down Round and Flat Round. The data presented below is generally aligned with Fenwick's Silicon Valley Venture Capital Survey [PDF] and Wilson Sonsini's The Entrepreneurs Report [PDF].



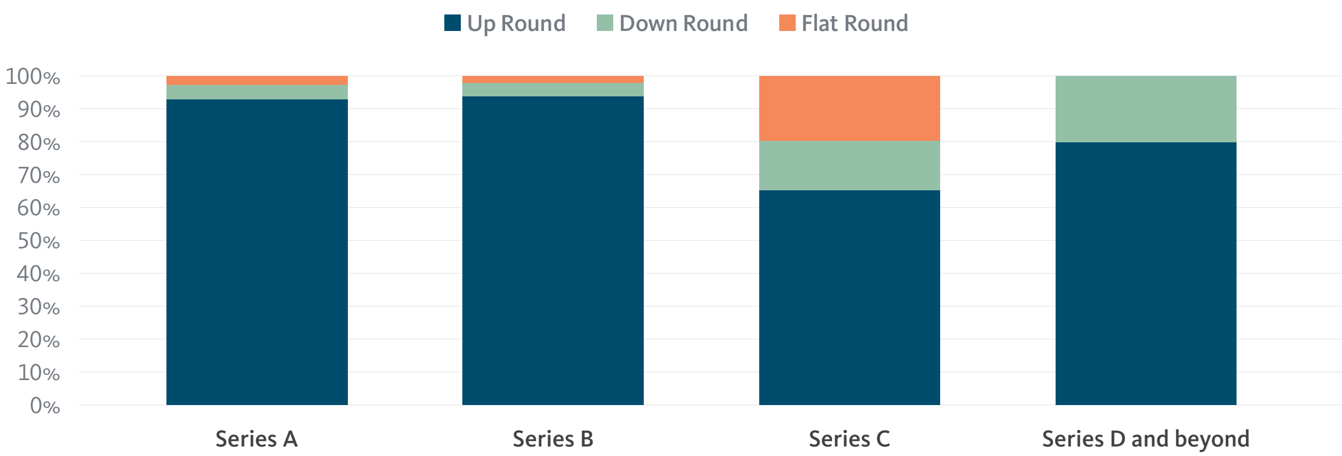
Valuation for financings, by year

For financings included in the *Deal Points Report* for which data was available, the breakdown, by year, of valuation direction is reflected as Up Round, Down Round and Flat Round. Based on a review of the data, which is reflected in the chart below, 2020, particularly in Q1 and Q2 of 2020, saw a greater number of down and flat rounds compared to 2019 which we expect has some correlation to the general uncertainty in financial markets and other pressures facing companies during the onset of the COVID-19 pandemic. While the data for 2021 reflects general pricing recovery, it is clear that some companies still faced pricing pressures for various reasons (including, likely, due to the continuing challenges presented by the COVID-19 pandemic).



Valuation for financings, by series

For financings included in the *Deal Points Report* for which data was available, the breakdown, by series, of valuation direction is reflected as Up Round, Down Round and Flat Round. The data reflected below indicates that most of the down and flat rounds occurred in later stage companies. This aligns with our expectations given that companies completing later stage financings are more susceptible to market pressures that impact their financial and customer metrics, which in turn influences investor demand and valuations. Taken together with the data presented in the preceding chart above (Valuation for financings, by year), which shows that the number of down and flat rounds increased during the COVID-19 pandemic, it is likely that the COVID-19 pandemic had a more prominent effect on later stage companies and the metrics upon which valuations for these companies were based.



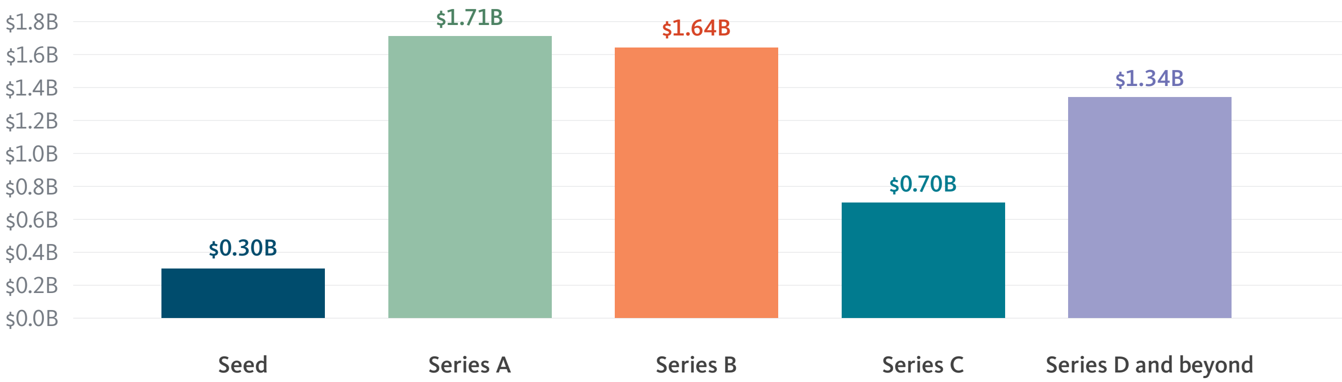
Valuation increases by industry

Average percentage increases in valuations between financings in the industries listed below for financings included in the *Deal Points Report* between 2019 and 2021, based on company industry. Please note that the valuation increases for cleantech financings is calculated based on a small number of financings and so the results are not necessarily indicative of a reliable trend.

Industry	Cleantech	Consumer / Retail	Fintech	Health / Life Sciences	Information Technology	Other
Average percentage increase in valuations	260%	165%	228%	116%	235%	108%

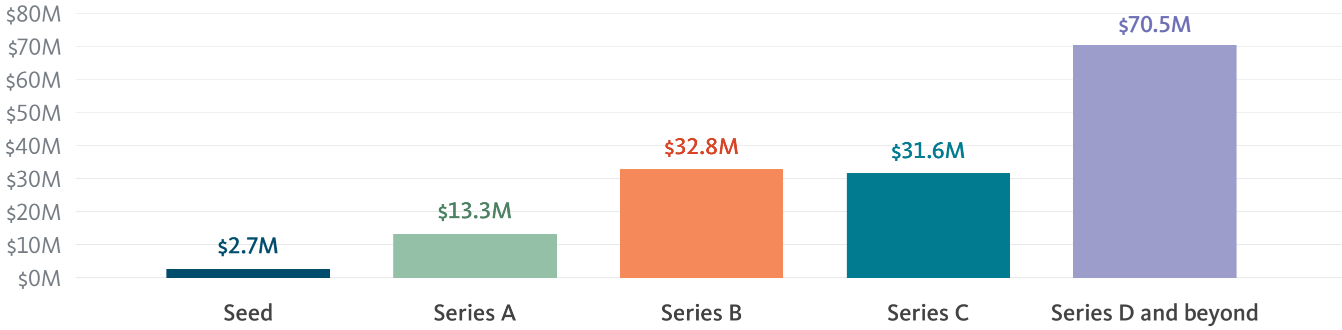
Total investment amount, by series

The total investment amount in U.S. dollars (including for any initial closing and follow-on investment for that same transaction) for financings included in the *Deal Points Report,* based on series of financing.



Average investment amount, by series

The average investment amount (including for any initial closing and follow-on investment for that same transaction) for financings included in the *Deal Points Report,* based on series of financing.



Osler's Emerging and High Growth Companies Group

We support companies through the stages of their lifecycle, providing legal advice on a wide range of issues.

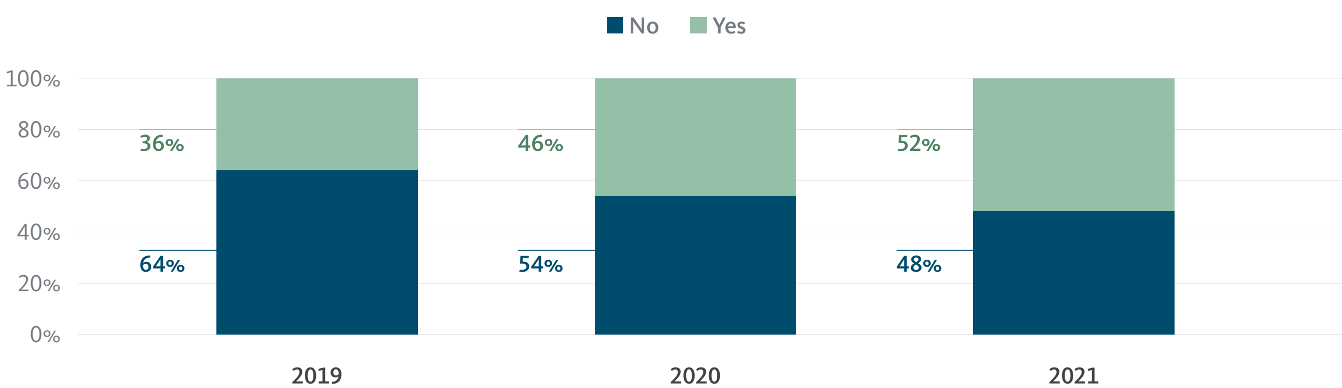
Learn how Osler can help your company grow

3

Financing structure intelligence

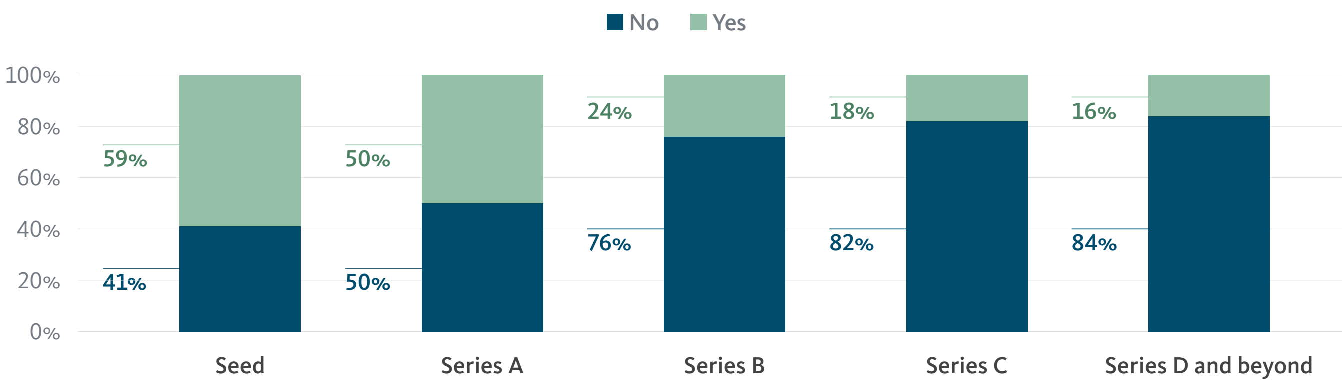
Conversion of convertible securities (such as Simple Agreements for Future Equity (SAFEs) or convertible notes) in connection with financings, by year

The proportion of financings in which a convertible instrument (such as a SAFE or convertible note) converted in connection with financings included in the *Deal Points Report*, by year. As the below data suggests, the conversion of convertible instruments, like SAFEs, has been and continues to be a fairly common feature of venture financings. The data presented in the next chart of this *Deal Points Report* will elaborate on certain nuances related to series of financing.



Conversion of convertible securities (such as SAFEs or convertible notes) in connection with financings, by series

The proportion of financings in which a convertible instrument (such as a SAFE or convertible not) converted in connection with financings included in the *Deal Points Report*, based on series of financing. Generally, the data below is consistent with expectations, in that convertible instruments tend to be issued prior to, and convert in connection with, earlier stages of financings of companies. As the data shows, it becomes less common for convertible instruments to be issued and convert into financings after the company's Series A where the company is usually further along in its corporate lifecycle.



Minimum investment required to be invested at the initial closing of the financing

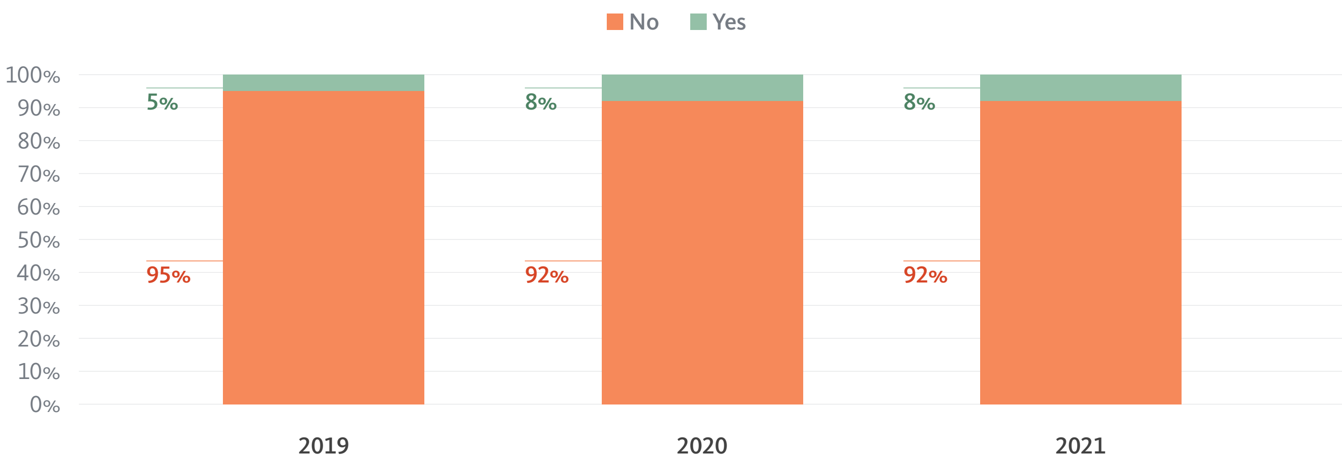
The percentage of financings included in the *Deal Points Report* in which the term sheet, or transaction documents, included a provision expressly requiring that the company raise a minimum amount of combined proceeds from both the lead investor and syndicate for the financing, prior to an initial closing.

7.2% Yes

92.8% No

Minimum investment required to be invested at the initial closing of the financing, by year

The percentage of financings included in the *Deal Points Report* in which the term sheet, or transaction documents, included a provision expressly requiring that the company raise a minimum amount of combined proceeds from both the lead investor and syndicate for the financing, prior to an initial closing, by year. The data shows that minimum investment commitments are generally atypical, even during the height of the COVID-19 Pandemic in 2020 where concern from lead investors regarding the ability of a company to completely syndicate a round of financing (particularly for rounds with valuations that were agreed to immediately before the COVID-19 Pandemic) may have made terms such as these more common.



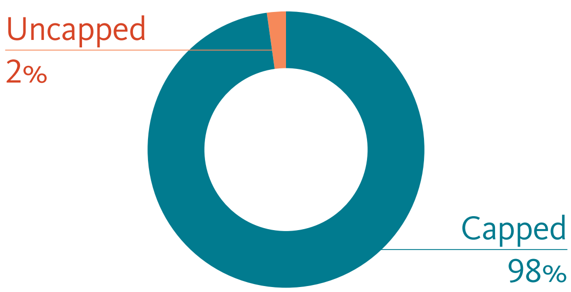
Company covering investor fees in connection with the financing; capped vs. uncapped

Of the financings included in the *Deal Points Report*, the overwhelming majority required the company to cover all or a portion of the investor fees. Of those financings where investor fees were covered, the vast majority of such financings placed a dollar cap on the amount of reimbursable fees.

88.9% Yes

11.1% No

Are fees capped?



Financings with multiple closings

For financings included in the *Deal Points Report*, shown below is where the financing included multiple closings, the allocation of the applicable round's proceeds between the initial closing and subsequent closing(s). The results are consistent with what would be expected, in that the majority of the proceeds invested in a financing round are funded at the initial closing.

74.1% One

25.9% Multiple

Financings with multiple closings, allocation of proceeds

For financings included in the *Deal Points Report*, where the financing included multiple closings, the allocation of the applicable round's proceeds between the initial closing and subsequent closing. The results are consistent with what would be expected, in that the majority of the proceeds invested in a financing round are funded at the initial closing.

69%	31%
Initial Closing	Follow-on

Use of CVCA / NVCA based forms of principal agreements in financings

For financings included in the *Deal Points Report*, the proportion of those financings which utilized transaction materials based on the CVCA / National Venture Capital Association (NVCA) model financing documentation. The data is consistent with our expectations in that market practice has shifted to relying on the CVCA / NVCA model financing agreements, with only a small minority of companies continuing to transact on non-CVCA / NVCA documentation.

95.5%	4.5%
Yes	No

Existence of secondary transactions in financings

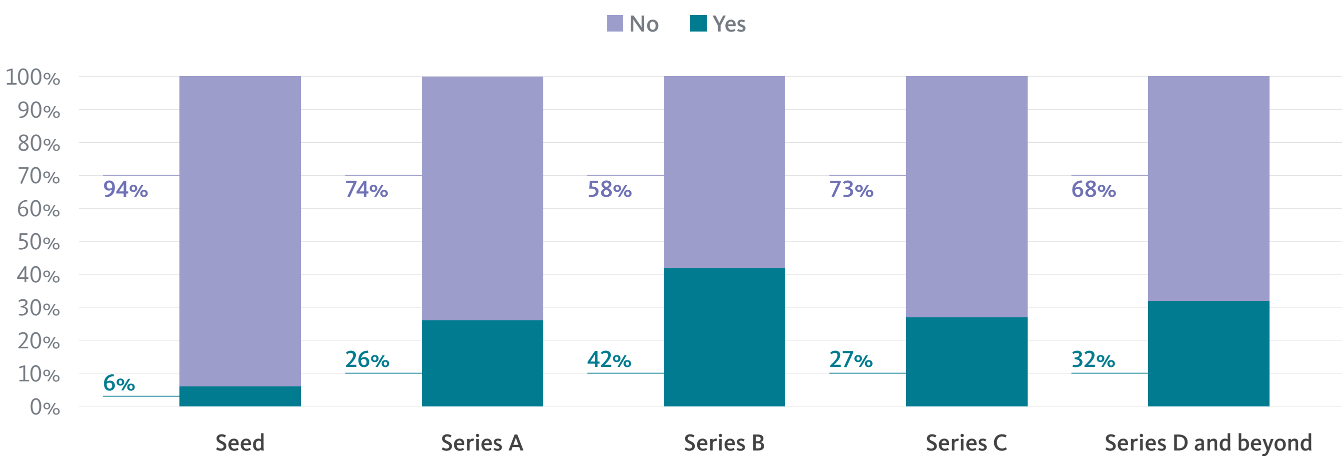
For financings included in the *Deal Points Report*, the proportion of those financings which included a secondary transaction. Secondary transactions typically occur at the same time that a company completes a financing, and allows existing shareholders (including founders), to sell a portion of their existing equity to new or existing investors in order to obtain some liquidity.

22%	78%
Yes	No

Existence of secondary transactions in financings, by series

For financings included in the *Deal Points Report*, the proportion of those financings which included a secondary transaction, by series of financing. The results of the data below are consistent with expectations in that secondary transactions become more common at and following the Series A stage, where

- companies are gaining traction in their market
- the founder and management team have generated meaningful value in the company, giving investors confidence in existing (and future) realizable value of the company's existing and outstanding equity
- particularly with respect to founder teams, employee shareholders have been historically underpaid in order to continue to drive revenue back into the business in order to scale, and investors seek to compensate these shareholders through the provision of liquidity opportunities.

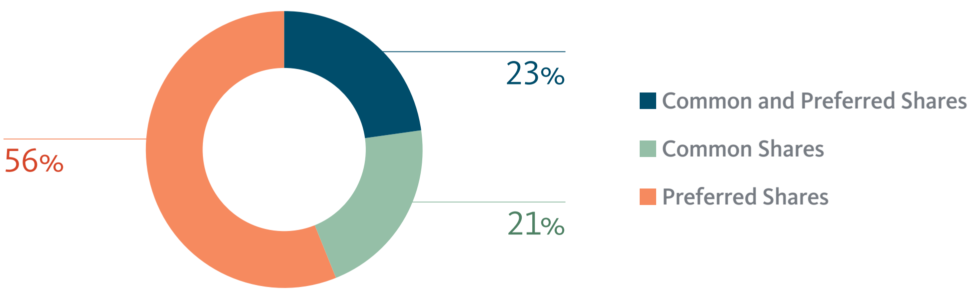


Type of equity sold in secondary transactions in financings

For financings included in the *Deal Points Report* that include a secondary transaction, a percentage breakdown of the type of equity sold in these secondary transactions is shown below. Based on the data, results show that preferred shares make up 56% of all equity sold in secondary transactions covered by the *Deal Points Report*. The preferred shares referred to in the chart include:

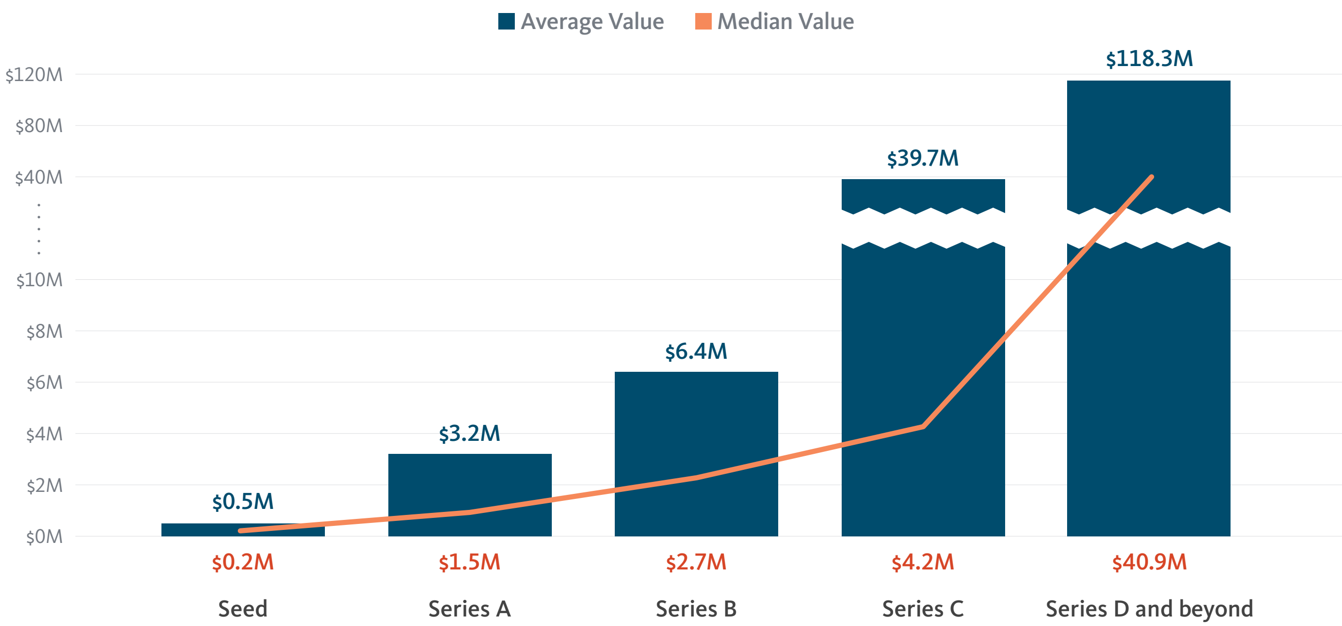
- preferred shares initially held by a selling shareholder
- common shares that are, prior to the closing of the secondary, exchanged for preferred shares.

The process through which the aforementioned common shares are exchanged for preferred shares is customarily referred to as an "up-vert". As indicated below, while the sale of only common shares by a selling shareholder to new and existing investors is the least common occurrence, it is by no means uncommon.



Average and median dollar amount of secondary transactions in financings, by series

The chart below shows financings included in the *Deal Points Report* that include a secondary transaction, and the average and median dollar amount of those secondary transactions by series of financing. The data is reflective of the increase in outsized secondary purchase amounts in financings included in the *Deal Points Report* data set. While these numbers are ultimately skewed by a handful of later stage financing secondaries, the important take-away from the data is that later stage secondary transactions saw significant payments to existing shareholders, particularly in 2020 and 2021.



Use of amalgamation structures in secondary transactions

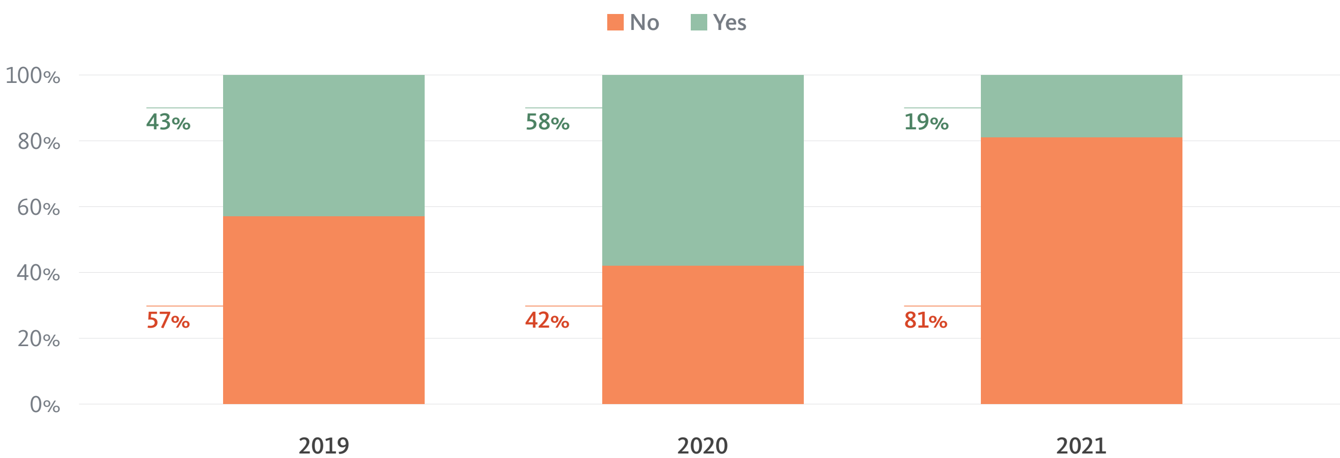
For financings included in the *Deal Points Report* that include a secondary transaction, the proportion of those transactions that rely on an amalgamation structure is shown below. In context of a secondary transaction, a selling shareholder will generally be selling shares of the company to new and existing investors that have an initial cost base and paid up capital, on a per share basis, which is lower than the price being paid for those shares in the secondary transaction. This mis-match can potentially result in undesirable tax implications for the investor in certain types of exit transactions. As a result, some investors may request that the secondary be completed using an amalgamation structure, which allows the investors to end up with shares with an initial cost base and paid up capital, on a per share basis, which is equal to the price paid by such investor for the secondary shares. The structure requires the secondary investors to initially purchase shares of an "investco" entity, which in turn uses the subscription proceeds to purchase the secondary shares. Following the purchase of the secondary shares by "investco", "investco" amalgamates with the company. The use of the amalgamation structure is intended to help eliminate the "mis-match" referred to above (and the resulting tax complications).

34% Yes

66% No

Use of amalgamation structures in secondary transactions, by year

For financings included in the *Deal Points Report* that include a secondary transaction, the proportion of those transactions that rely on an amalgamation structure, by year. The results below indicate that the year 2021 saw a sharp drop in instances where an amalgamation structure was used, potentially signalling less investor apprehension regarding the potential tax implications referred to in the prior chart.



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4

Financing terms intelligence

Financings which provide for a senior ranking liquidation preference

For financings included in the *Deal Points Report*, the proportion of those financings which included a senior ranking liquidation preference in favour of the holders of preferred shares. A senior ranking liquidation preference is the right of a holder of preferred shares to receive at least the original price per preferred share paid by the investor for those preferred shares, or some multiple thereof based on the rights associated with the preferred shares, prior to and in preference to subordinate classes of shares of the company in the context of a sale of the company and a distribution of those sale proceeds to the shareholders of the company. Subordinate classes of shares include common shares but, on occasion, may sometimes include other junior ranking classes of preferred shares. The results below are consistent with expectations in that senior ranking liquidation preferences are a common feature of all venture financings.

100%

of deals had 'Senior Ranking Liquidation Preference'

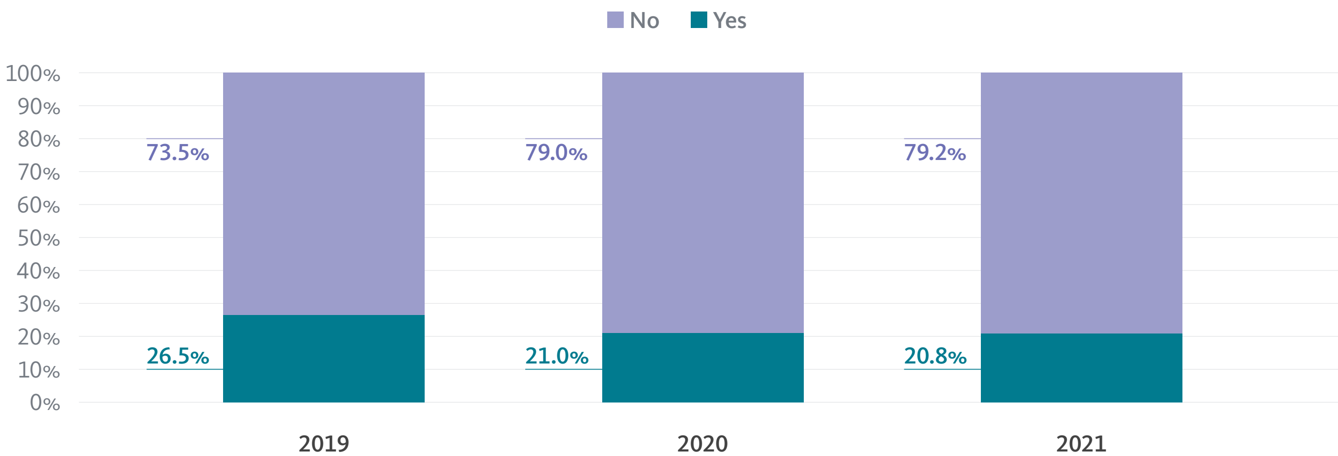
Financings which provide for a senior ranking liquidation preference; multiple senior ranking liquidation preferences

For financings included in the *Deal Points Report*, the proportion of those financings which included multiple senior ranking liquidation preferences in favour of the holders of preferred shares is shown below. As indicated above, it is sometimes the case that certain classes of preferred shares provide for a senior ranking liquidation preference that not only ranks ahead of the outstanding common shares, but also other classes of preferred shares – this concept is referred to as multiple senior liquidation preferences. For example, a newly issued class of series A preferred shares may rank senior in liquidation preference to the existing series seed preferred shares and common shares, whereas the series seed preferred shares are only senior in liquidation preference to the common shares. Put another way, in a scenario in which the senior ranking liquidation preferences are triggered, the foregoing example implies that, upon a sale of the company (where it is not beneficial for the holders of preferred shares to convert down to common shares), the holders of series A preferred shares would receive their liquidation preference in first priority, followed by the holders of series seed preferred shares, with any residual value then being split amongst the holders of common shares.

22.6%	77.4%
Yes	No

Financings which provide for a senior ranking liquidation preference; multiple senior ranking liquidation preferences, by year

For financings included in the *Deal Points Report*, the chart below shows the proportion of those financings which included multiple senior ranking liquidation preference in favour of the holders of preferred shares, by year. The data below is consistent with our experience that, between 2019 and 2021, financings involving multiple senior ranking liquidation preferences are becoming less common as companies and investors continue to move away from this practice.



Financings with participating preferred shares

For financings included in the *Deal Points Report*, the proportion of those financings which included participating preferred shares is indicated below. Participating preferred shares are a type of preferred share that, in the context of sale or liquidation of a company, gives investors rights to receive both their liquidation preference (which is generally the original issue price of the applicable preferred share, or some multiple of such amount) as well as the right to receive, alongside the holders of common shares of the company, the investor's pro rata portion of the remaining value in the company (on an as-converted basis) following the payment of the aforementioned liquidation preference. The results below are consistent with expectations, in that participating preferred shares are generally atypical.

8.4% Yes

91.6% No

Financings with cumulative vs. non-cumulative dividends

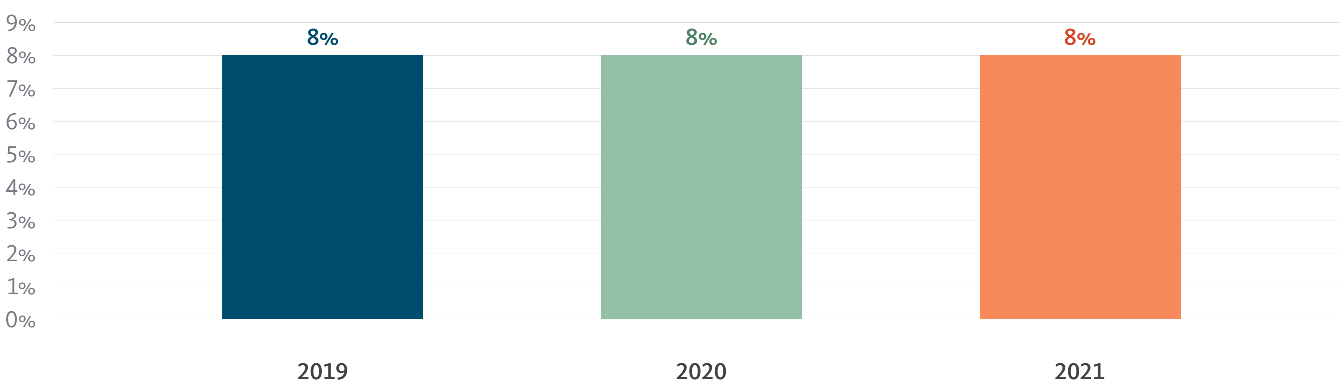
For financings included in the *Deal Points Report*, the proportion of those financings which included rights to cumulative and non-cumulative dividends is highlighted below. Cumulative dividends refer to dividends that accrue at a specified rate on a class or series of shares, regardless of whether or not the company actually declares dividends on those shares and generally carry a right to receive those accrued dividends in priority to one or more other classes or series of shares of the company. Non-cumulative dividends, by contrast, refers to dividends which do not have any amount accruing to the applicable class or series of shares and are simply paid out, if, as and when declared by the board of directors and in such amounts as is determined by the board of directors. The results below are consistent with expectations, in that cumulative dividends are uncommon in venture financing transactions.

9.9%
Cumulative

90.1%
Non-cumulative

Financings with cumulative dividends; mode accrual rate

For financings included in the *Deal Points Report* which included rights to cumulative dividends, the chart below shows the most commonly used dividend rate (the mode). It indicates that the most commonly used dividend rate, for those financings where cumulative dividend entitlements were present, was 8%.



Financings which include rights to anti-dilution protection

For financings included in the *Deal Points Report*, see below for the proportion of those financings which included rights of anti-dilution protection in favour of the investor against future financings at a price below that paid by an investor in the current financing round. Anti-dilution rights are usually included in a company's share terms and are triggered when a company issues new equity at a price per share that is lower than the original issue price paid by the investors in the current financing round. As preferred shares of a venture backed company are almost always convertible into common shares, anti-dilution rights adjust the conversion ratio that determines the number of common shares that each preferred share converts into. When anti-dilution protections are triggered, the conversion ratio is adjusted, with the result that each preferred share held by the investor will be convertible into a larger number of common shares. Importantly, anti-dilution rights do not result in issuing additional preferred shares to the investor at the time of being triggered, nor do they seek to provide any other recourse, beyond what is described above, for an investor as a result of issuances of new shares by the company at a price per share that is less than what the existing investors paid. The results provided in the chart below are consistent with expectation, in that the presence of price based anti-dilution provisions are ubiquitous in venture financings.

99.1%	0.9%
Yes	No

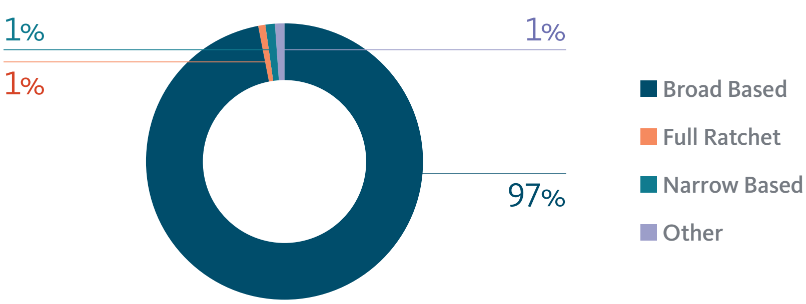
Financings which include rights to anti-dilution protection; types of anti-dilution protection

For financings included in the *Deal Points Report*, the proportion of those financings which included anti-dilution protections in favour of the investor, broken out to reflect:

- broad-based weighted average anti-dilution
- narrow based weighted average anti-dilution
- full ratchet anti-dilution
- other (for example, where the share terms of a class of shares of the company provided for both broad-based weighted average anti-dilution rights and full ratchet anti-dilution rights)

Generally speaking, broad-based weighted average anti-dilution rights result in the least amount of adjustment to the conversion ratio of preferred shares to common shares referred to in the preceding chart's description, whereas as narrow-based weighted average anti-dilution results in a more significant adjustment to this conversion ratio (ie. it is more favourable to investors than a broad-based weighted average anti-dilution adjustment right). A full ratchet anti-dilution right results in the most significant adjustment to the conversion ratio of preferred shares to common shares and essentially results in an outcome whereby the preferred shares held by the investor are convertible into that number of common shares as is equal to the number of preferred shares that would have been acquired by the investor had they been able to purchase those preferred shares at the lower price per share offered by the company in the financing which triggered the full ratchet anti-dilution right. Full-ratchet anti-dilution rights are the least favourable rights to the existing shareholder base of an company (and the founders in particular).

As indicated below, non-broad-based weighted average anti-dilution rights are uncommon in venture financings.

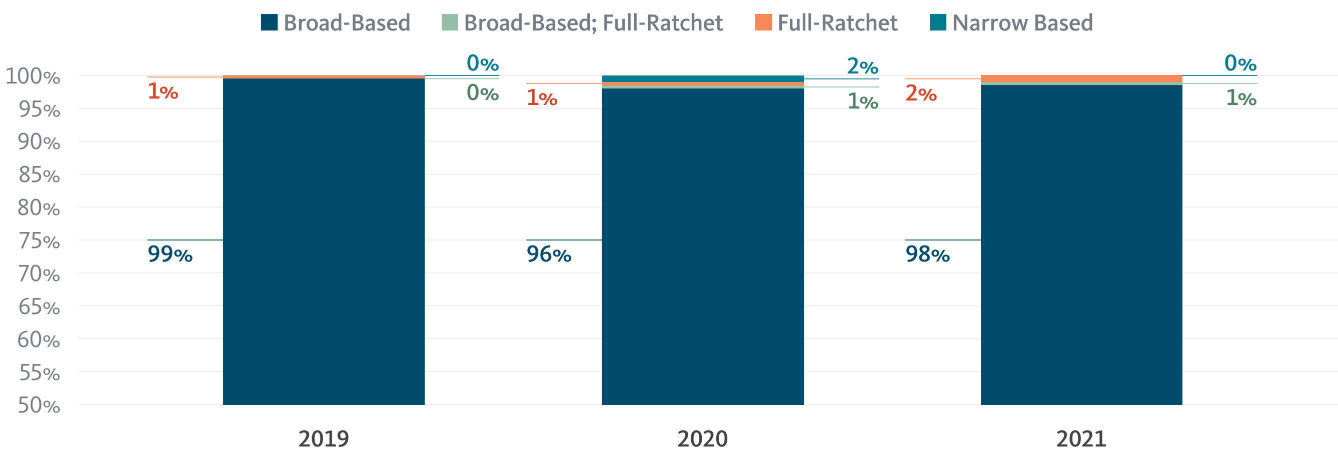


Note: For a detailed description of the different types of anti-dilution protections, read startupblog's [Anti-Dilution Provisions For Preferred Stock] post.

Financings which include rights to anti-dilution protection; types of anti-dilution protection by year

For financings included in the *Deal Points Report*, the proportion of those financings which included rights of anti-dilution protection in favour of the investor, are broken out by year to reflect:

- broad-based weighted average anti-dilution rights
- narrow based weighted average anti-dilution rights
- full ratchet anti-dilution rights
- other (for example, where the share terms of the company provided for both broad-based weighted average anti-dilution and full ratchet anti-dilution)



Note: Percentages do not add to 100 due to rounding

Financings with automatic conversion rights on an initial public offering

For financings included in the *Deal Points Report*, see below for the proportion of those financings which included provisions for the automatic conversion of outstanding preferred shares into common shares upon the occurrence of an initial public offering of the company. The data presented is consistent with expectations in that almost all venture financings provide for the automatic conversion of all preferred shares into common shares upon the occurrence of an initial public offering of the company. Please note that there are also other common automatic conversion triggering events not included in this release of the *Deal Points Report*, including:

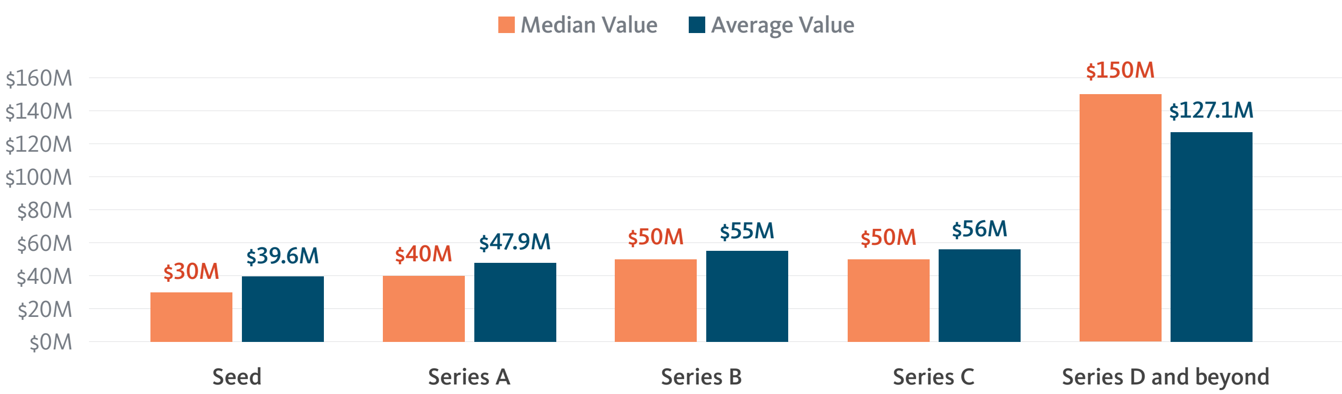
- transactions utilizing special purpose acquisition companies
- direct listings
- preferred shareholder votes

98.8%	1.2%
Yes	No

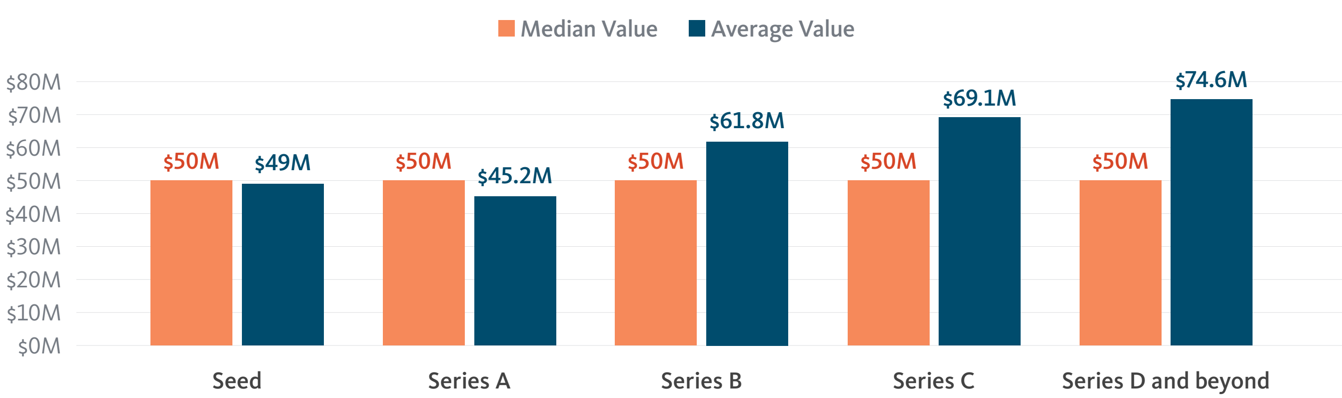
Financings with automatic conversion rights on an initial public offering; median and average qualified initial public offerings values by series

For financings included in the *Deal Points Report* which include provisions for the automatic conversion of outstanding preferred shares into common shares upon the occurrence of an initial public offering of a company, see the chart below. These provisions typically require that the applicable initial public offering raise a minimum amount of gross proceeds in order to trigger such automatic conversion (an initial public offering meeting this minimum requirement is typically referred to as a "qualified initial public offering"). The charts show the median and average for gross proceeds in CAD and USD denominated financings that include a qualified initial public offering concept, by series of financing. Please note that articles for financing transactions may also provide that, in addition to meeting a minimum threshold of gross proceeds received, the shares of the company subject to the initial public offering must also be issued at a price that represents a certain multiple of the original issue price of the most recently issued class or series of preferred shares.

Median and averages values for CAD denominated deals (in Canadian dollars)



Median and averages values for USD denominated deals (in U.S. dollars)



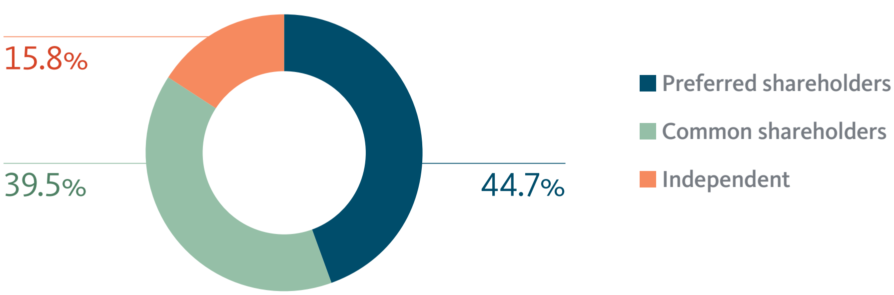
Financings with redemption rights

For financings included in the *Deal Points Report*, the proportion of those financings which included rights of redemption is shown below. Redemption rights are rights associateds with preferred shares that entitle the holder of those shares to exercise their right to require the company to purchase, for cancellation, those shares at a pre-defined price. Generally speaking, redemption rights become exercisable following a specific period of time after the holder acquires the applicable preferred shares. The results of the chart below are consistent with expectations, in that redemption rights are generally uncommon in venture financing transactions.

9.0%	91.0%
Yes	No

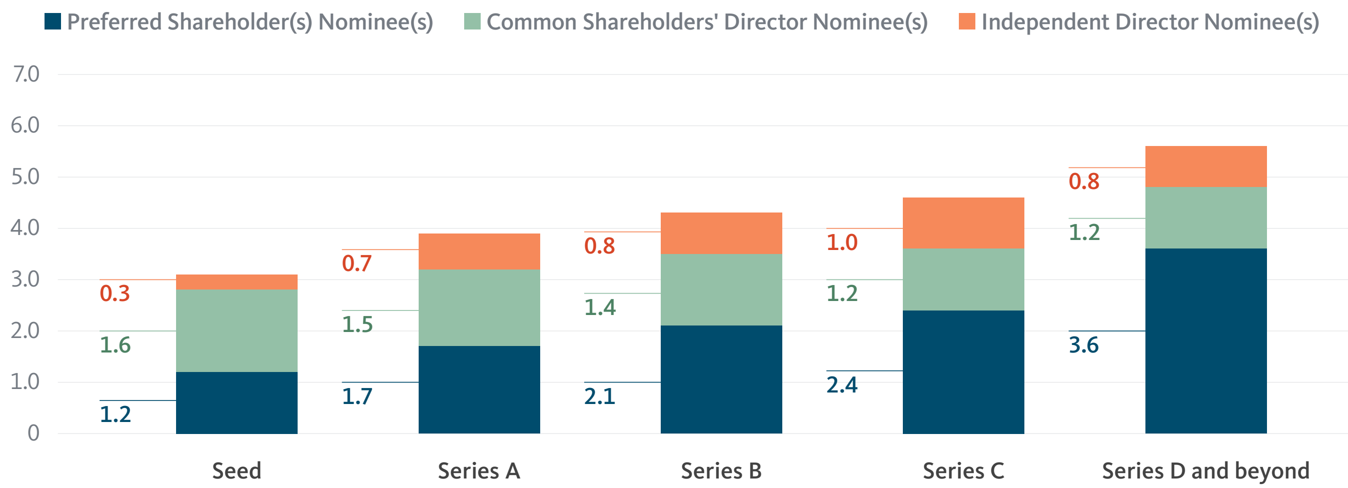
Board representation

For financings included in the *Deal Points Report*, see below for the average breakdown of board composition as between common directors, preferred directors and independent directors. The average size of the board of directors for financings reviewed in connection with the *Deal Points Report* was 4.7 directors. Additionally, 219 of the 332 financings reviewed in connection with the *Deal Points Report* showed that the then acting Chief Executive Officer (or President) was allocated a board seat.



Board representation, by series

For financings included in the *Deal Points Report*, indicated below is the breakdown of board composition, as between common directors, preferred directors and independent directors, by series. Please note that, as would be expected, there were a smaller number of Series D and beyond financings reviewed in the *Deal Points Report*. Of these particular late stage financings, one of the reviewed financings, which is excluded from the data presented below, included six common director seats. Had this particular financing been included in the chart below, the number of common directors would increase from 1.2 to 1.4. Accordingly, this particular financing was excluded from the chart, but we felt that it was nevertheless important to note this exclusion.



Board observer rights in financings

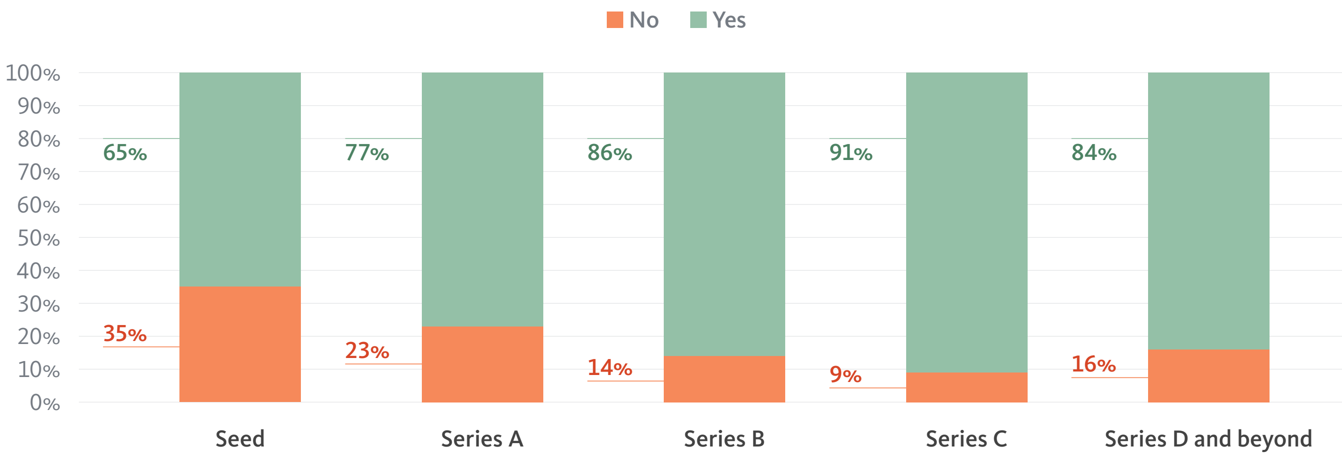
For financings included in the *Deal Points Report*, the proportion of those financings which included rights of the investors to designate a board observer is shown below. A board observer is an individual designee of an investor who is entitled to attend meetings of the board of directors of a company in a non-voting capacity and, subject to certain limitations such as the overriding need to protect sensitive commercial information and trade secrets or solicitor client privilege, receive all materials provided to the board of directors by the company. The concept of a board observer is contractual in nature and is not reflective of a particular right in the corporate statutes in Canada. As such, certain material investors and the company will negotiate certain rights related to board observers in the context of a financing.

75.6% Yes

24.4% No

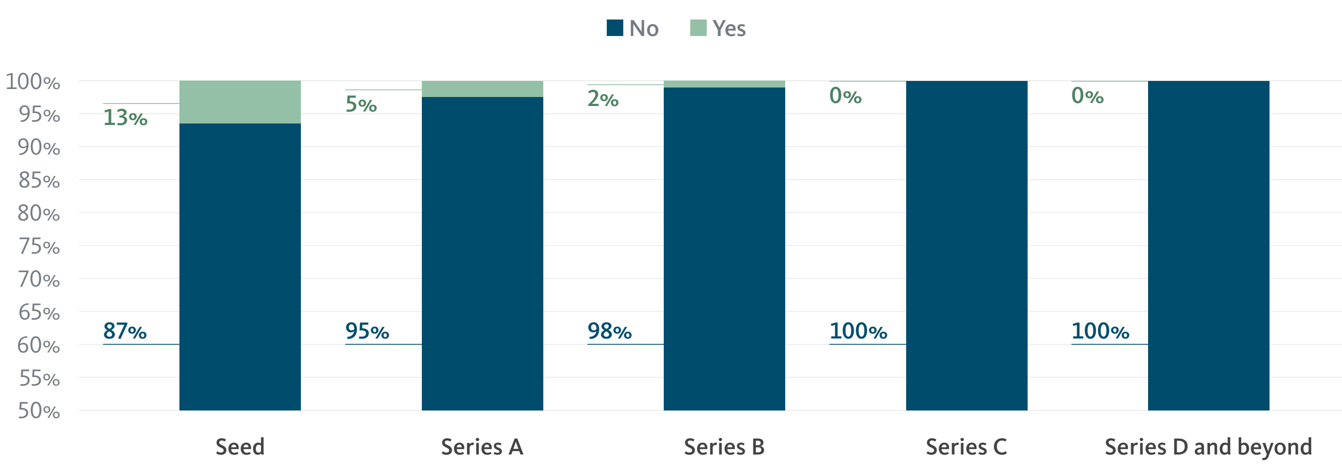
Board observer rights in financings, by series

For financings included in the *Deal Points Report*, the chart shows the proportion of those financings which included rights of the investors to designate a board observer, by series of financing.



Reverse vesting

For financings included in the *Deal Points Report*, the chart below shows the breakdown of instances where founders were requested to reset all or a portion of the reverse vesting schedule applicable to the founders, or put in place a new reverse vesting arrangement if not already in place at the time, by series. Note that the numbers below ultimately under-report instances in which founders are asked to agree to reverse vesting arrangements given that they only address a scenario in which a term sheet explicitly calls for resetting or implementation of founder vesting arrangements. The numbers below do not include instances in which this type of term is not included in the term sheet but nevertheless is part of the financing or where acceptable reverse vesting arrangements are already in place at the time of the financing. As a general practice, we see reverse vesting arrangements for early stage companies as a common feature. The data below is helpful, in that it indicates that resetting or implementation of reverse vesting arrangements is concentrated in earlier stages of financings.



Financings with exclusivity provision

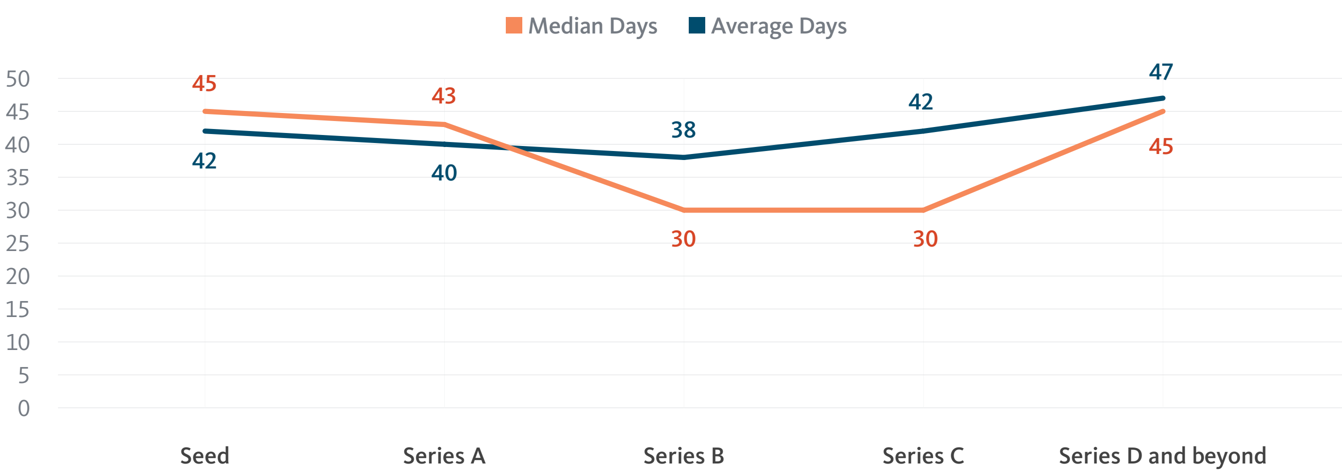
For financings included in the *Deal Points Report,* shown below is the proportion of those financings which included exclusivity rights in favour of the lead investor(s) at the term sheet stage.

81%
Yes

19%
No

Financings with exclusivity provision; average and median duration by series

For financings included in the *Deal Points Report,* the chart illustrates the average and median durations of exclusivity rights in favour of the lead investor(s) at the term sheet stage by series of financing.



We gratefully acknowledge the help of our Osler Works – Transactional (OWT) team and our 2021 summer students – Joaquin Arias, Kiana Blake, Hunter Carlson, Sam Dobbin, Olivier Dufrasne-Desbiens, Flora Juma, Madison Kerr, Rebecca Orsini, D'Antal Sampson, Jake Wildman-Sisk, Sarah Wiley and Matthew Zvan. Their contributions were critical in the completion of this report.

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