

CROSSOVER FINANCING ROUNDS: PREPARING FOR PUBLIC MARKETS

IPO and Public Company Readiness Series
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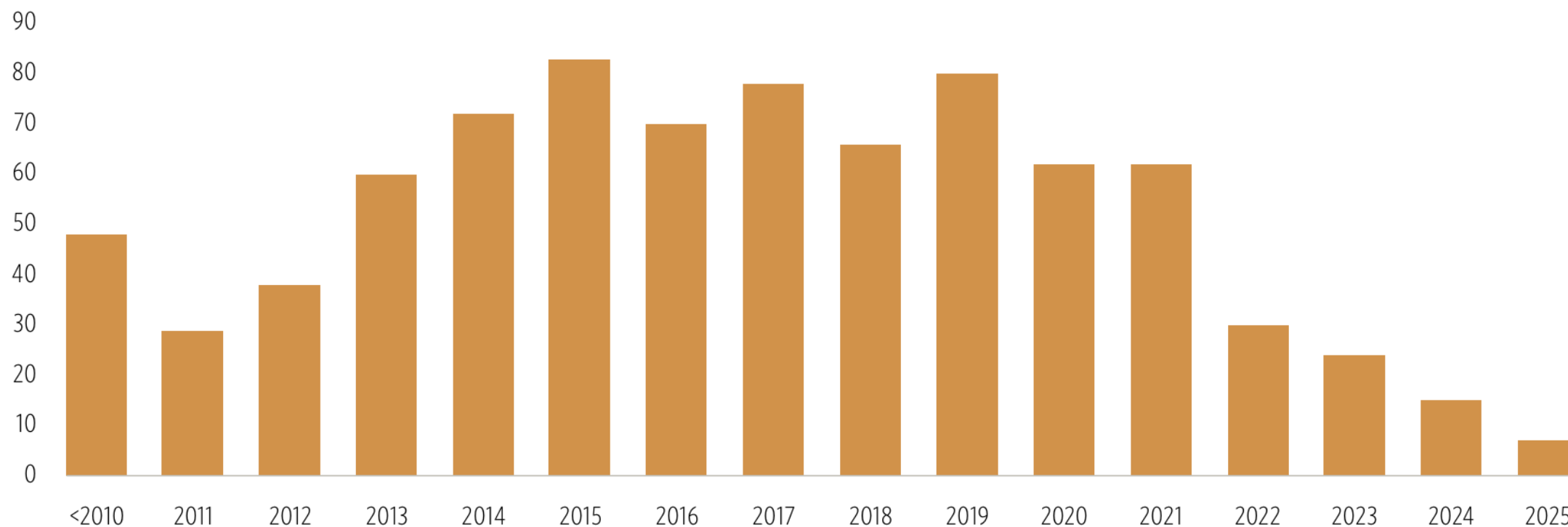
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Setting the Stage:

The Pre-IPO Financing Landscape

Over 40% of unicorns raised their first VC round over a decade ago

Unicorn count by first VC deal year



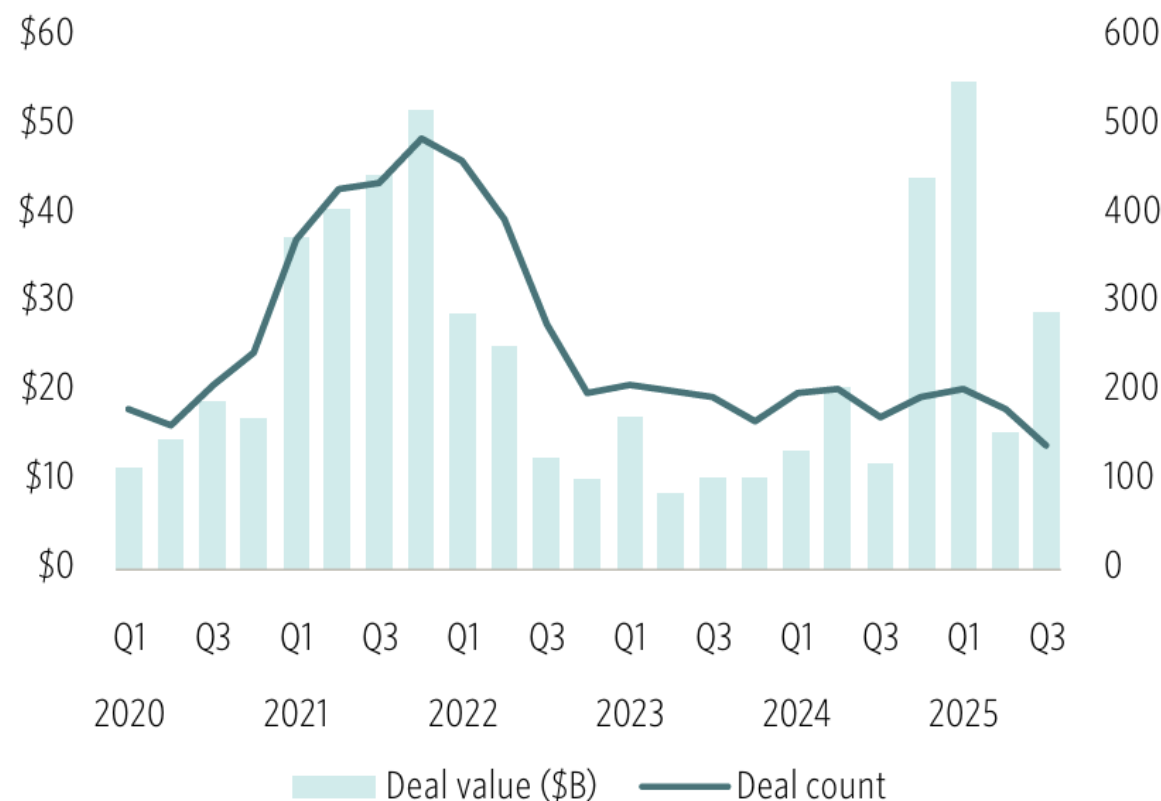
PitchBook-NVCA Venture Monitor • As of September 30, 2025

Setting the Stage:

The Pre-IPO Financing Landscape

Crossovers activity falls despite spate of megadeals in VC

VC deal activity with crossover investor participation by quarter

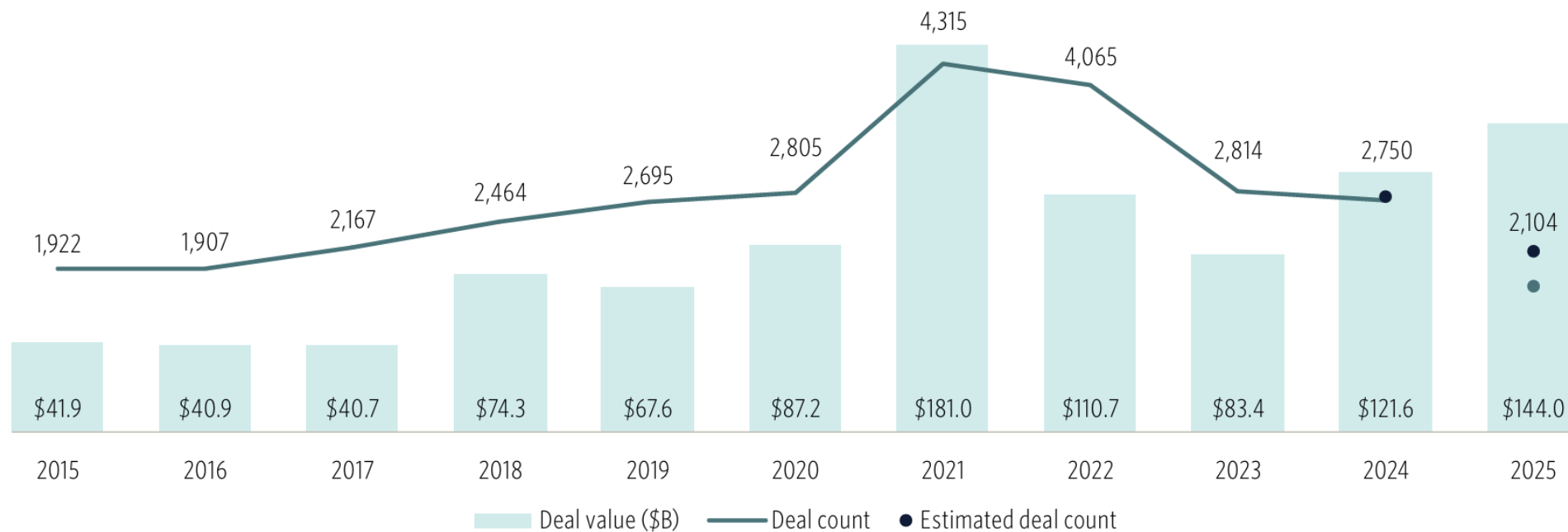


Setting the Stage:

The Pre-IPO Financing Landscape

CVC activity pacing roughly flat to 2024

VC deal activity with CVC participation



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What are Crossover Rounds?

Characteristic	Traditional Venture Round	Crossover Round
Investor Type	VC / Growth Equity	Public market funds
Timing	Mid to late stage	6-18 months pre-IPO
Valuation Method	Private metrics	Mix of private / public comparables
Objective	Scale growth	Continue to scale / Prepare for IPO

Why Pursue a Crossover Round?

Strategic Benefits

1. **Validation** – Institutional credibility before IPO
2. **Pricing Insight** – Benchmark for IPO valuation
3. **Readiness Catalyst** – Drives financial and governance discipline
4. **Market Relationships** – Builds rapport with future IPO investors and develops relationships with long term investors

Structuring the Crossover Round

- **Instruments** – Preferred stock or convertible instruments
- **Valuation** – Typically at a modest discount to expected IPO range, but an increase to latest private round to bridge gap between expected IPO range
- **Investor Rights** – Info rights, registration rights, observer rights, IPO participation rights
- **Governance** – Aligning crossover and VC expectations

Legal and Regulatory Considerations

SEC Compliance

- Use of **Reg D** or **Section 4(a)(2)**
- Accredited investor requirements
- Avoid “integration” with upcoming IPO
- Cheap Stock considerations

Legal and Regulatory Considerations

Disclosure & Insider Risks

- Managing **MNPI** (Material Nonpublic Information)
- Insider trading policies and NDAs
- Alignment of **lock-ups** and **registration rights**
- Negotiating **IPO participation rights**

Operational **Readiness for IPO**

- Governance upgrades (independent board, audit committee)
- Financial reporting (quarterly closes, GAAP audits)
- Internal controls (SOX 404 readiness)
- Investor relations & communications

Case Studies

Biotech Example

- Preclinical stage biotech company in I&I
- \$149M crossover round six months pre-IPO
- Mix of long-only and healthcare funds
- Oversubscribed crossover round led to upsized \$345 million IPO
- Crossover investors remaining among largest holders 3 years later

Case Studies

Technology Company

- Late-stage tech firm; \$2.5B crossover convertible note round
- Interest: Tiered to only accrue after expected date of IPO
- Conversion: Lower of (i) negotiated price (step up from prior round) or (ii) 85% of IPO price (discount increased over time).
- IPO valuation increased due to strong crossover signaling
- Crossover investors remaining among largest holders 4 years later

Key Takeaways

1. Treat crossover rounds as part of your **IPO strategy**, not just another funding event
2. Crossover financings should be structured **with the IPO in mind**
3. Strengthen **governance and communication** culture

QUESTIONS?

GIBSON DUNN

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