

Participating Preferences Now Appear in 31% of Growth Term Sheets

A new Yanne Capital research paper finds participating preferences have more than doubled since Q1 2024, when they appeared in only 14% of Series B.

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The headline valuation is the least informative number on a 2026 term sheet. Participating preferences, liquidation multiples, cumulative dividends have all roughly doubled or tripled in frequency”

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/EINPresswire.com/ -- Participating preferences appeared in 31 percent of Series B and Series C term sheets in the first quarter of 2026, against 14 percent two years earlier, according to a new Yanne Capital research paper on the lower middle market capital outlook for the second half of 2026. Headline valuations have held roughly flat, but the structural terms behind them have moved decisively against the founder.

The Repricing Is Happening Below the Headline

Across live mandates the Yanne Capital desk is running this quarter, the pattern is consistent: sponsors are conceding

on pre-money and taking it back everywhere else on the term sheet. The number a founder sees on the first page of the deck is not the number that will govern the exit waterfall, and boards that anchor on headline valuation are systematically underweighting the economic transfer taking place in the fine print.

The firm's read is that five of the six variables on a growth-stage term sheet have moved against the company since Q1 2024. Participating preferences now appear in 31 percent of Series B and C rounds against 14 percent two years ago. Liquidation multiples above 1x show up in 19 percent of growth-stage rounds against 7 percent. Cumulative dividends appear in 28 percent of rounds against 9 percent. Pay-to-play language, which was a negotiated point in 2023, is now standard drafting.

The compression is visible in check size as well. Median Series B round size fell to USD 31M in Q1 2026 from USD 41M in Q1 2024, a 24 percent contraction, per PitchBook US Venture Deal Terms. The market is not closed. It is repricing risk through structure while holding the marketing number stable.

The LP Rotation Is Duration-Driven, Not Rate-Driven

The most consequential argument in the paper is that the rotation of institutional capital out of growth equity and into private credit will not reverse on a single Fed cutting cycle. Endowments and family offices spent 2022 through 2024 absorbing an asset-liability mismatch that private credit solved directly, at floating-rate senior secured yields clearing between SOFR + 525 and SOFR + 700. Once an allocator has rebuilt a liability-matched book at those spreads, a 100 basis point move in the front end does not rebuild the case for a ten-year lockup in growth equity.

The magnitude of the rotation is now unambiguous. Growth equity fund closings raised USD 38B in 2025 against USD 91B in 2021, while private credit fund closings raised USD 217B in 2025 against USD 134B in 2021. Growth equity is a smaller pool by more than half. Private credit is larger by more than 60 percent. That is not a cyclical tilt.

Yanne Capital's view is that the reversal, when it comes, will not be driven by monetary policy. It will require growth equity to demonstrate distributable cash to LPs, which in turn requires either a functioning IPO window or scaled strategic M&A. Absent one of those two channels reopening, the tightening remains structural for the next 12 to 18 months.

The IPO Window Is Open at a Fraction of Its 2021 Width

The public markets are the release valve the private markets are waiting on, and that valve is currently operating at roughly 41 percent of the 2021 peak by IPO count and 28 percent by aggregate proceeds. US growth-stage IPO volume in the first half of 2026 reached 23 priced deals with USD 18B in aggregate proceeds, against 56 deals and USD 64B in the first half of 2021, per Bloomberg ECM.

The desk's expectation is that the window widens meaningfully in Q4 2026, but concentrated in three verticals: vertical AI, defense technology, and healthcare technology. Companies outside those categories should not build a capital plan around a 2026 IPO. They should build a capital plan that reaches 2027 without needing one.

For companies with an eight to twelve quarter runway question, the paper argues that solving for the IPO is the wrong frame. Solving for optionality across four exit paths, including strategic sale, is the correct frame.

Strategic and Sovereign Capital Are the Underused Channel

The re-emergence of strategic capital is the single largest change in the growth-stage supply curve that the desk has observed in this cycle, and it remains underrepresented in most founders' processes. Corporate venture arms, sovereign-linked vehicles, and family office direct programs together now account for roughly 38 percent of US growth-stage equity. Sovereign and

quasi-sovereign deployment alone reached USD 47B in 2025 against USD 22B in 2021.

The corresponding shift is visible in strategic M&A. Acquisition activity for US technology and healthcare targets between USD 100M and USD 600M in enterprise value rose 31 percent year over year by count in the first half of 2026, with median revenue multiples holding within 8 percent of 2024 levels. The strategics are paying, and the multiples have not collapsed. What has changed is that founders who assumed a priced primary round was the default path are discovering that a strategic conversation, run in parallel, produces cleaner economics.

Yanne Capital's position is that the highest-value work in the current market is running these channels concurrently rather than sequentially. A founder who tests a priced primary, a structured primary, a secondary or recap, and a strategic transaction inside the same 90-day window compresses time to close by four to six weeks and clears on materially better terms.

The Framework for Founders Ninety Days From a Capital Event

The paper closes with a decision framework the firm uses with its own mandates. Four options are real in 2026: a priced primary, a structured primary with explicit downside protection, a secondary or recapitalization, and a strategic transaction. The structured primary is the most underused of the four. A clean structured round at a headline price 10 to 15 percent above the priced-round comparable will often produce a better outcome for common at realistic exit prices than a priced round carrying a participating preference and an elevated liquidation multiple.

The desk's guidance to founders is to price for clearing rather than headline maximization. The companies that do so close four to six weeks faster, on cleaner documents, and preserve more of the exit waterfall for founders and employees. In a market where the terms below the headline are moving twice as fast as the headline itself, the fastest close on the cleanest paper is the correct objective.

"The headline valuation is the least informative number on a 2026 term sheet. Participating preferences, liquidation multiples, and cumulative dividends have all roughly doubled or tripled in frequency since 2024, and that is where the real repricing is occurring. Founders who understand this are choosing structure deliberately rather than accepting it as a hidden cost of a marketing number." said Alex Ozdemir, Managing Partner, Yanne Capital.

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