



Silicon Valley
Venture Capital Survey
First Quarter 2019

Full Analysis

Silicon Valley Venture Capital Survey

First Quarter 2019



FENWICK
& WEST

Full Analysis

Cynthia Clarfield Hess, Mark Leahy and Khang Tran

Background

We analyzed the terms of 185 venture financings closed in the first quarter of 2019 by companies headquartered in Silicon Valley. We found that valuation results continued to be strong, with the average price increase in Q1 slightly lower than in the prior quarter, though still substantially higher than the historical average. The internet/digital media software industry recorded the strongest valuation results.

Overview of Fenwick & West Results

Valuation results continued to be strong in the first quarter of 2019, but declined moderately from the three-year highs of the prior quarter.

- Up rounds exceeded down rounds 81% to 11%, with 8% flat in Q1 2019, a moderate increase in the percentage of down rounds compared to the prior quarter when up rounds exceeded down rounds 81% to 8%, with 11% flat.
- The Fenwick & West Venture Capital Barometer™ showed an average price increase in Q1 2019 of 75%, a decline from the 85% recorded in the prior quarter, but still substantially higher than the historical average of 58%.
- Despite the decline in the average price increase, the median price increase of financings rose from 52% in Q4 2018 to 56% in Q1 2019, the highest median price increase since Q2 2015.
- Moderately weaker valuation results compared to the prior quarter were recorded across each series of financing.
- The internet/digital media software industry recorded the strongest valuation results in Q1 2019, with an average price increase of 102%, up from 68% in the prior quarter, and a median price increase of 96%, up from 56% in the prior quarter. The software industry had the next strongest valuation results in the quarter despite recording the greatest decline in average price increase compared to the prior quarter. The hardware and life sciences industry also recorded weaker valuation results in Q1 compared to the prior quarter.

Overview of Other Industry Data

The U.S. venture environment remained strong in the first quarter of 2019, but weakened compared to the elevated levels of the prior quarter. Deal activity in the quarter continued the downward trend observed over the past several years.

- Both the pace of investments and the amount of capital invested declined from Q4 2018 to Q1 2019. Compared to the year-ago period, the pace of investments declined in Q1, but the amount of capital invested was up.
- Later stage investments continued to represent the lowest deal share, but the highest share of the invested capital in Q1. Meanwhile, seed-stage investment deal allocation declined in Q1 to the lowest percentage since Q3 2010.
- The internet sector continued to receive the greatest share of investments, followed by the healthcare sector and the mobile and telecommunications sector.
- San Francisco (North Bay Area) again took in the largest share of investments in Q1 in terms of both deal volume and invested capital, followed by the New York Metro area. The New England area moved ahead of Silicon Valley (South Bay Area) in Q1 in terms of deal share, but the region's invested capital allocation placed the region fourth behind Silicon Valley (South Bay Area) by that measure.
- U.S. venture-backed IPO activity in Q1 was down from the prior quarter with the lowest number of IPOs since Q3 2017, although the amount raised in IPOs was up compared to the prior quarter.
- The number of acquisitions of U.S. venture-backed companies in Q1 was down from the prior quarter and represented the lowest M&A deal volume in a quarter since Q3 2017.
- Venture capital fundraising cooled off from the record-breaking levels of 2018 to start the year.

Venture Capital Investment

U.S. venture capital investment deal flow in Q1 2019 declined compared to both the prior quarter and the year-ago period. The total dollar value of the financings in Q1 also declined compared to the record levels of the prior quarter, but was higher compared to the year-ago period.

A summary of results published by three leading providers of venture data is below:

Comparison between Q1 2019 and Q4 2018:

| | Q1 2019 (\$Billion) | Q4 2018 (\$Billion) | Difference % | Q1 2019 Deals | Q4 2018 Deals | Difference % |
|-----------------------------|------------------------|------------------------|-----------------|------------------|------------------|-----------------|
| VentureSource ¹ | \$31.5 | \$42.8 | -26% | 1,234 | 1,432 | -14% |
| PitchBook-NVCA ² | \$32.6 | \$44.1 | -26% | 1,853 | 2,425 | -24% |
| MoneyTree ³ | \$24.7 | \$38.7 | -36% | 1,279 | 1,328 | -4% |
| Average | \$29.6 | \$41.9 | -29% | 1,455 | 1,728 | -16% |

Comparison between Q1 2019 and Q1 2018:

| | Q1 2019 (\$Billion) | Q1 2018 (\$Billion) | Difference % | Q1 2019 Deals | Q1 2018 Deals | Difference % |
|-----------------------------|------------------------|------------------------|-----------------|------------------|------------------|-----------------|
| VentureSource ¹ | \$31.5 | \$27.4 | 15% | 1,234 | 1,598 | -22.8% |
| PitchBook-NVCA ² | \$32.6 | \$29.5 | 11% | 1,853 | 2,391 | -23% |
| MoneyTree ³ | \$24.7 | \$22.9 | 8% | 1,279 | 1,524 | -16% |
| Average | \$29.6 | \$26.6 | 11% | 1,455 | 1,838 | -21% |

¹ Dow Jones VentureSource ("VentureSource")

² PitchBook-NVCA Venture Monitor ("PitchBook-NVCA")

³ PwC/CB Insights MoneyTree™ Report ("MoneyTree")

The trend over the last several years of increasing concentration of investment dollars into a fewer number of companies continued unabated in the first quarter of the new year. According to VentureSource, the median amount invested per financing round by venture capitalists or venture capital-type investors (i.e., those making equity investments in early-stage companies from a fund with multiple limited partners) was \$8.5 million in Q1 2019, up from \$8.0 million in Q4 2018 and the highest median investment amount since Q4 2000. Second rounds recorded the greatest increase in the median investment amount in Q1 compared to the prior quarter, increasing from \$10.0 million in Q4 2018 to 11.0 million in Q1 2019. Later and seed rounds also recorded greater median investment amounts in Q1 compared to the prior quarter, while first rounds recorded a decrease.

According to MoneyTree, there were 46 mega-rounds (financings that raised \$100 million or more) in Q1 2019, down from 51 mega-rounds in Q4 2018. The aggregate amount raised in mega-rounds declined by an even greater percentage from \$24.7 billion in Q4 2018 to \$11.1 billion in Q1 2019, and mega-round financing activity accounted for 45% of all U.S. venture funding in Q1, down from a record 64% in the prior quarter. In addition, the quarter saw 10 new U.S. VC-backed companies reach unicorn status (private companies with a valuation of at least \$1 billion), substantially lower than the 21 new U.S. unicorns in the prior quarter. However, with the addition of these new unicorns, the U.S. unicorn count now stands at a record 147.

According to MoneyTree, seed and early-stage (Series A) investment deal allocations (i.e., share of the total number of deals) were down slightly from 25% and 27%, respectively, in Q4 2018 to 24% and 26%, respectively, in Q1 2019. The 24% was the lowest seed deal allocation since Q3 2010. Conversely, later stage (Series D and E+) investment deal allocation was up slightly from 10% in Q4 2018 to 11% in Q1 2019.

Later stage investments continued to represent the highest share of the invested capital at 41% in Q1, a jump from 26% in the prior quarter and the highest percentage since Q3 2017. Seed, early-stage and expansion-stage (Series B and C) investments also recorded increases in invested capital allocation, while the invested capital allocation of investments not associated with any stage in a company's funding history declined.

The internet sector again received the greatest share of investments in Q1 2019 according to MoneyTree, comprising 44% of the total number of deals, down from 45% in the prior quarter, and 43% of the aggregate invested capital, up significantly from 24% in the prior quarter. The healthcare sector saw the second highest level of investment activity in the quarter at 14% of the total deal count, unchanged from the prior quarter, and 17% of the total invested capital, up from 11% in the prior quarter, followed by the mobile and telecommunications sector at 12% of the total deal count, unchanged from the prior quarter, and 11% of the invested capital, up from 9% in the prior quarter.

Regionally, San Francisco (North Bay Area) continued to take in the largest share of investments in Q1 2019 at 29% of the aggregate invested capital, down from 51% in the prior quarter, and 18% of the total number of deals, down slightly from 19% in the prior quarter, according to MoneyTree. Investments into New York Metro area-based companies in Q1 saw the second highest level of investment activity at 18% of the aggregate invested capital, up substantially from 5% in the prior quarter, and 16% of the deal share, up from 13% in the prior quarter. Meanwhile, although the deal share of Silicon Valley (South Bay Area) declined moderately from 11% in Q4 2018 to 9% in Q1 2019, the region's invested capital allocation increased from 14% in Q1 2018 to 18% in Q1 2019. The New England area moved ahead of Silicon Valley (South Bay Area) into third place in Q1 in terms of deal share at 10%, unchanged from the prior quarter, but remained behind Silicon Valley (South Bay Area) in terms of invested capital at 11% in Q1, up from 7% in the prior quarter.

IPO Activity

According to VentureSource, there were 10 U.S. venture-backed initial public offerings in Q1 2019, down from 14 IPOs in the prior quarter and the lowest number of IPOs in a quarter since Q3 2017. However, owing in large part to the \$2.3 billion raise by Lyft, the aggregate amount raised in IPOs in the quarter increased to \$3.3 billion in Q1 from \$2.4 billion in the prior quarter.

The healthcare industry again made up a majority of the IPO count with 8 IPOs in Q1, down from 10 in the prior quarter. The median time from initial equity funding to IPO declined from 5.7 years in Q4 2018 to 4.7 years in Q1 2019. In contrast, the median equity amount raised prior to IPO increased from \$140.3 million in Q4 2018 to \$160.3 million in Q1 2019, and the median pre-IPO valuation increased from \$325.5 million in Q4 2018 to \$451.0 million in Q1 2019.

Merger and Acquisition Activity

There were 173 acquisitions of U.S. venture-backed companies in Q1 2019, according to VentureSource, down from 191 M&A deals in Q4 2018 and the lowest M&A deal volume since Q3 2017. In contrast to the decline in deal volume, the median deal value increased from \$150.0 million in Q4 2018 to \$153.5 million in Q1 2019, the highest median deal value in over 20 years.

The IT industry saw the greatest amount of M&A deal activity with 70 deals in Q1 2019, down from 77 deals in Q4 2018, although the aggregate value of these deals rose to \$14.1 billion in Q1 from \$10.6 billion in the prior quarter. The business and financial services industry were next with 41 deals for an aggregate of \$5.6 billion in Q1, down from 44 deals for an aggregate of \$15.7 billion in the prior quarter, followed by the consumer services industry with 29 deals for an aggregate of \$4.4 billion.

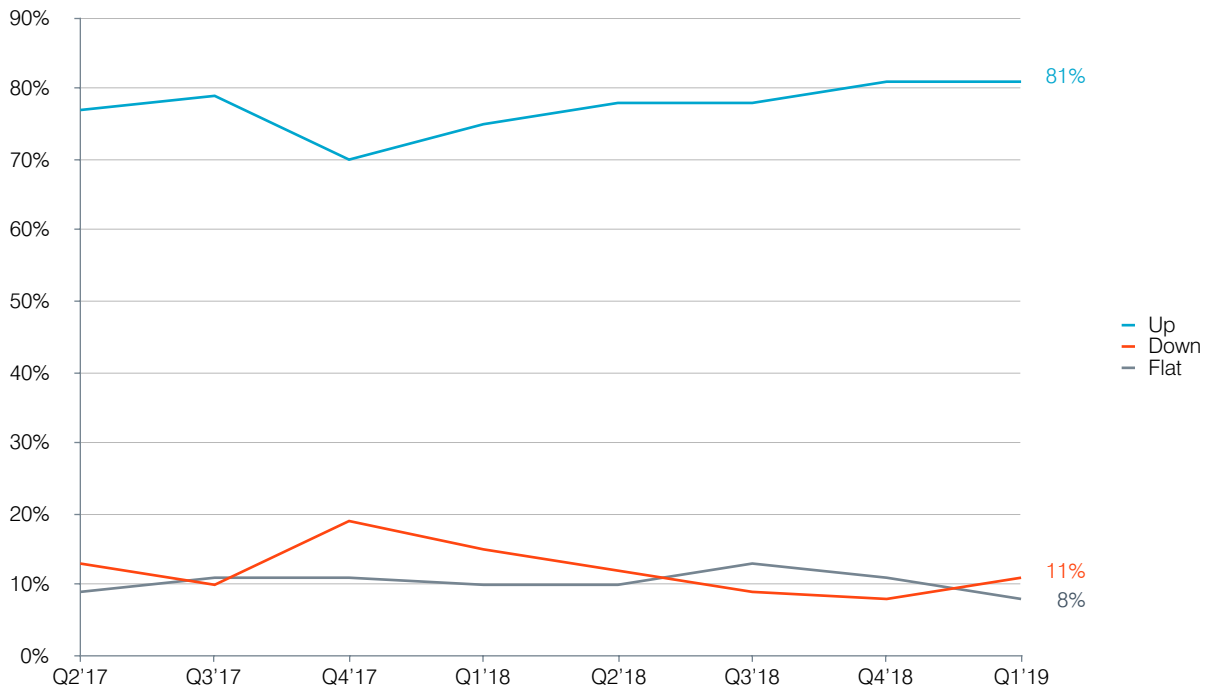
The median equity amount raised prior to acquisition declined from \$14.5 million in Q4 2018 to \$10.2 billion in Q1 2019, the lowest median amount since Q2 2016. In contrast, the median time from initial equity funding to acquisition increased slightly from 5.4 years in Q4 2018 to 5.7 years in Q1 2019.

Venture Capital Fundraising

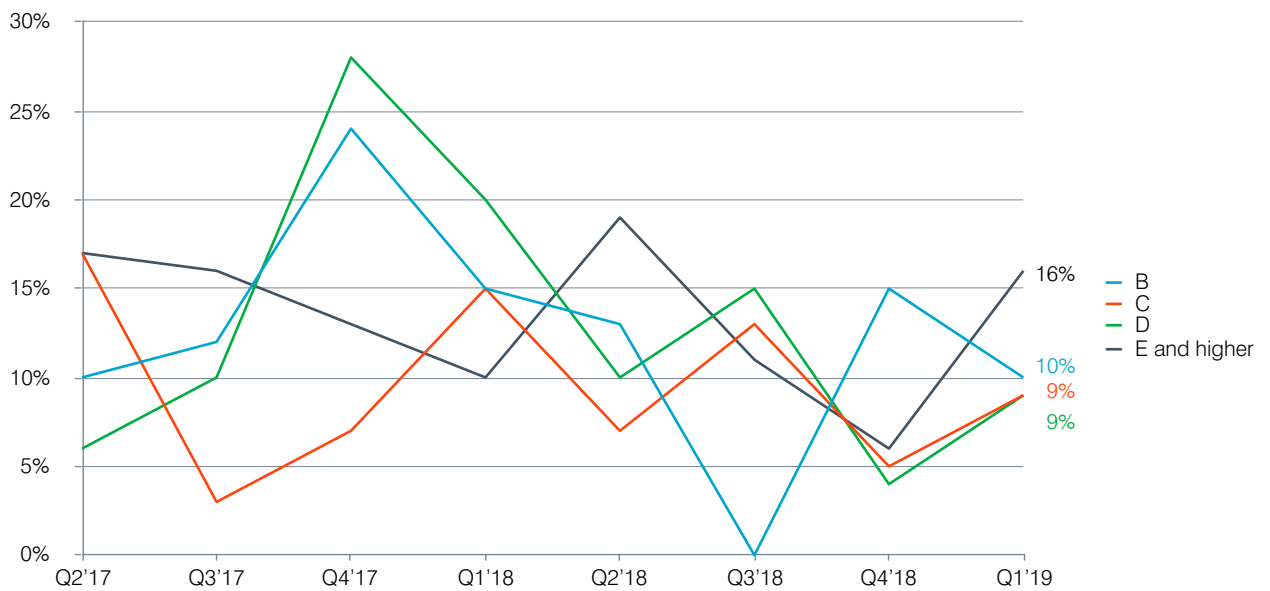
According to PitchBook-NVCA, venture capital fundraising cooled off from the record-breaking levels of 2018 to start the year with \$9.6 billion raised across 37 funds in Q1 2019. Despite the slowdown, the trend of raising larger funds to keep pace with growing VC deal sizes continued in Q1 with the closing of six mega-funds (fund size of more than \$1 billion) in the quarter. Average and median fund sizes have increased from \$217.3 million and \$79.6 million, respectively, in 2018 to \$258.6 million and \$103.3 million, respectively, in Q1 2019. The highest growth in proportion of funds in Q1 came from funds in the \$250 million to \$500 million range.

Fenwick & West Data on Valuation

PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



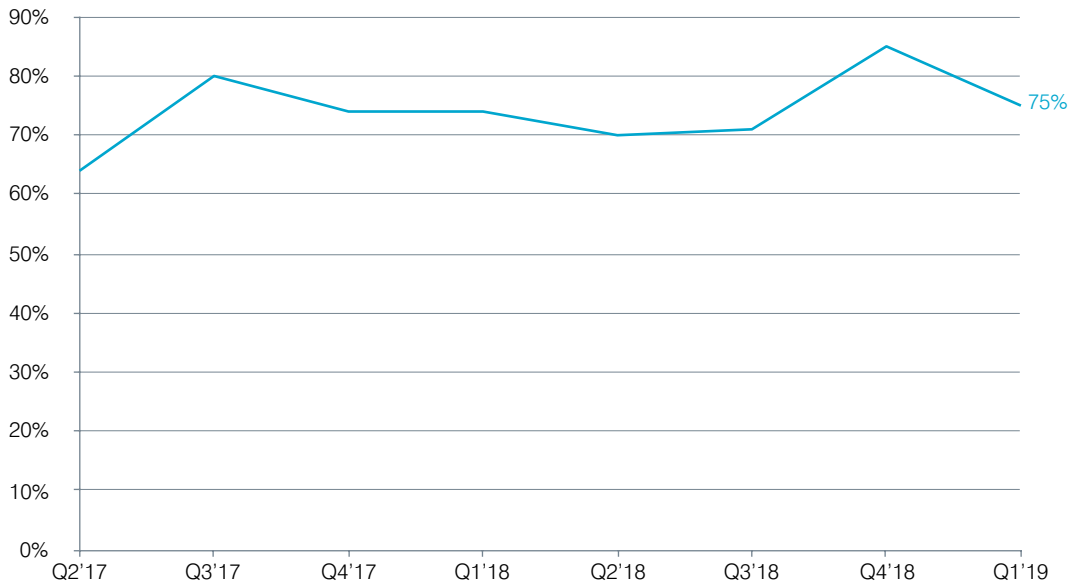
The percentage of **DOWN ROUNDS** by series were as follows:



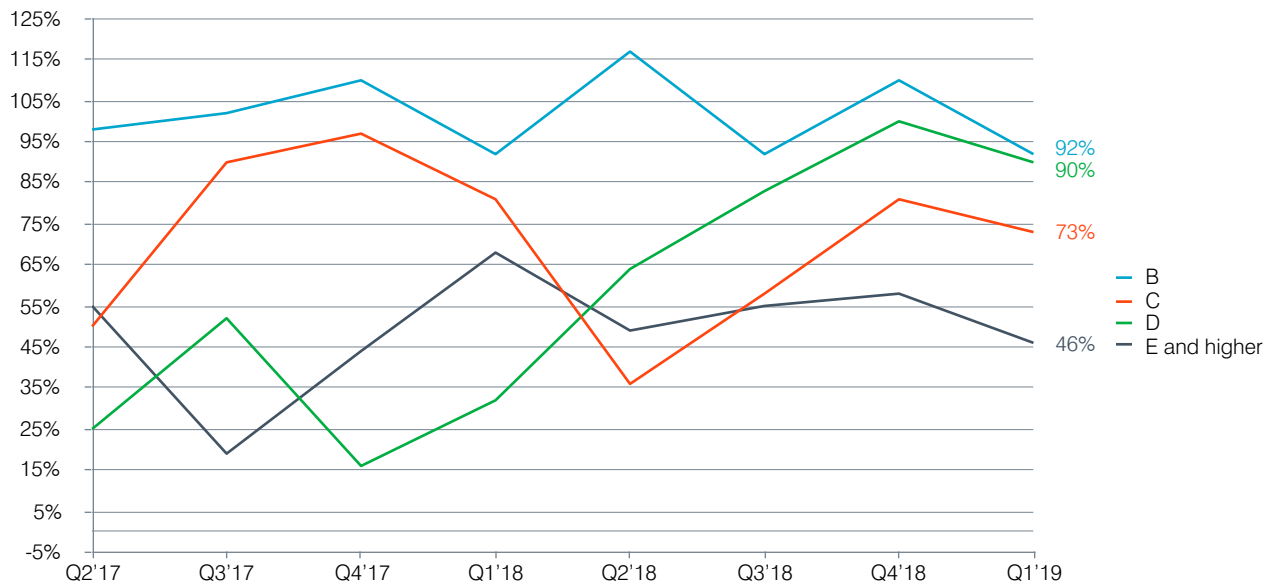
EXPANDED PRICE CHANGE GRAPH—Below is the direction of price changes for each quarter since 2004.



THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (magnitude of price change)—Below is the average percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the average, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in a financing.



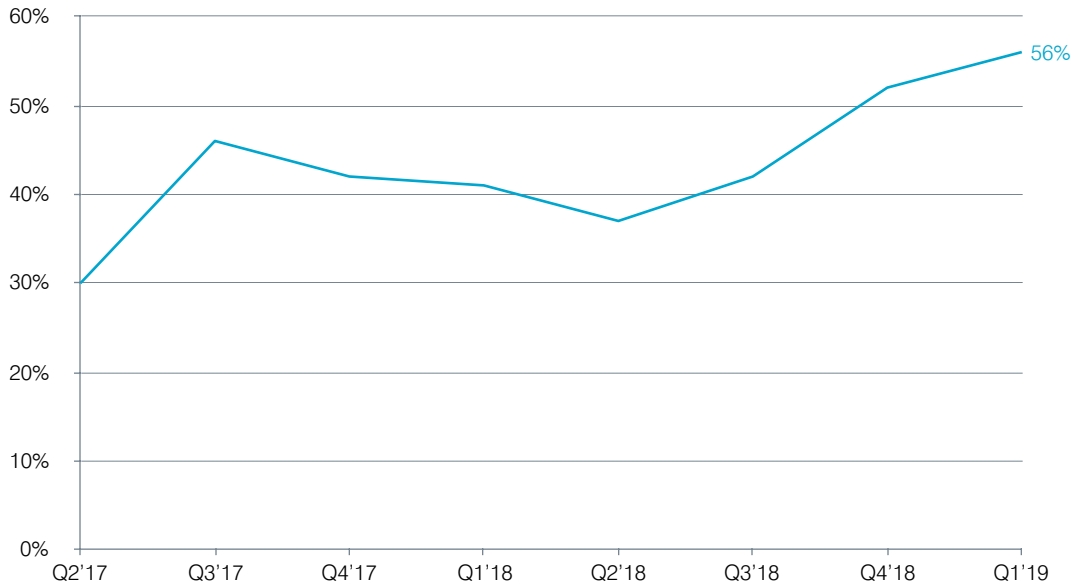
The Barometer results by series are as follows:



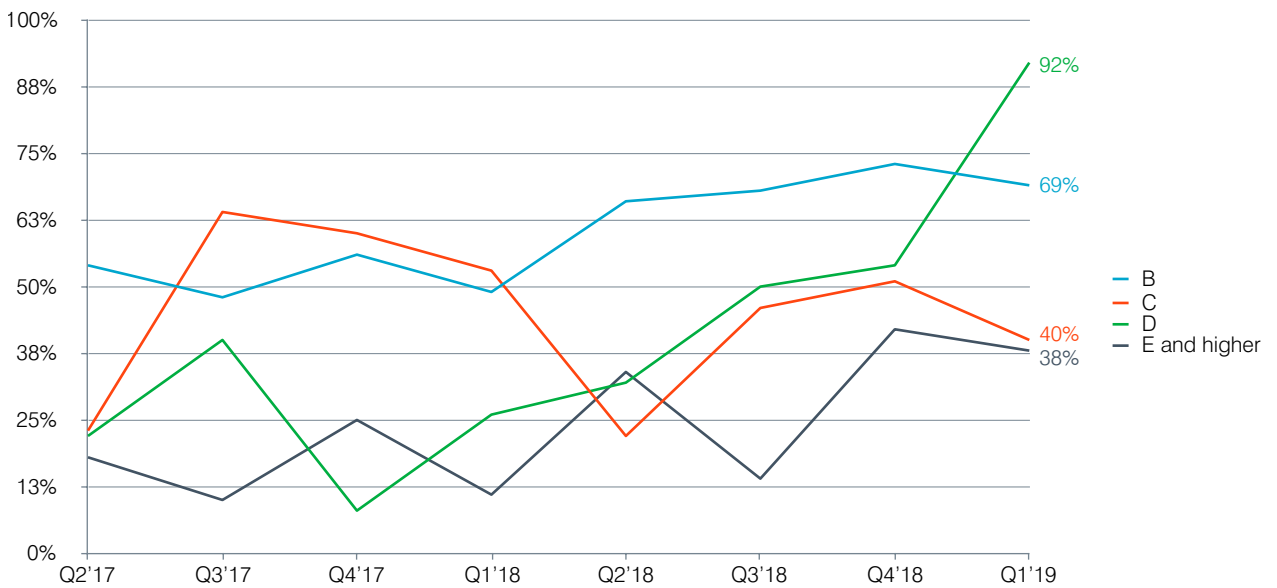
EXPANDED BAROMETER GRAPH—Below is the average percentage price change for each quarter since we began calculating this metric in 2004.



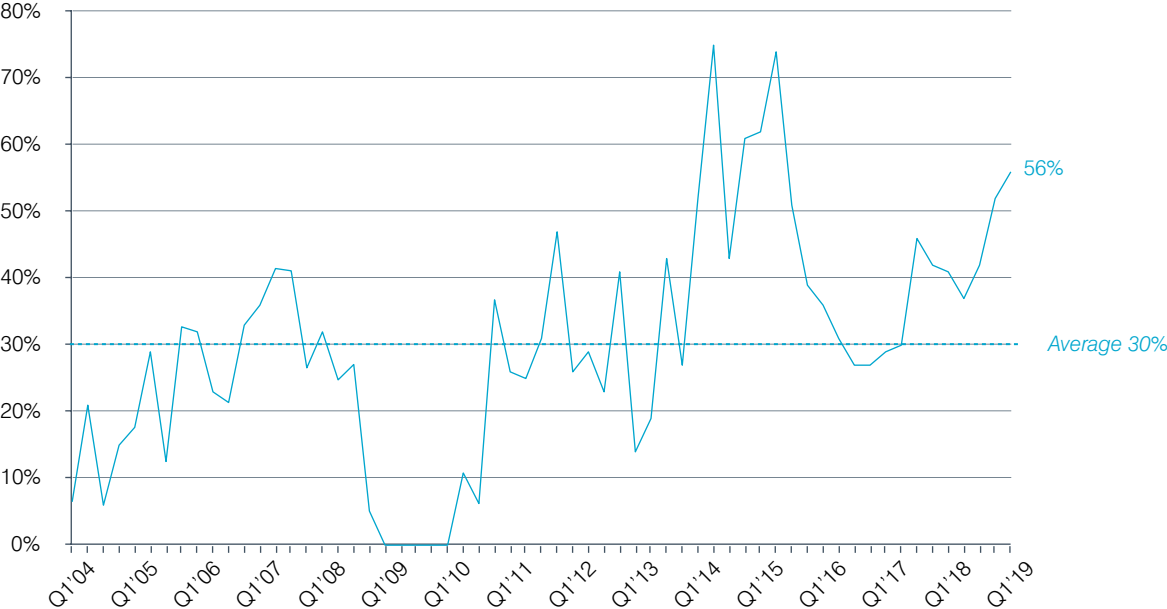
MEDIAN PERCENTAGE PRICE CHANGE—Below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in the financing. Please note that this is different from the Barometer, which is based on average percentage price change.



MEDIAN PERCENTAGE PRICE CHANGE BY SERIES.



EXPANDED MEDIAN PRICE CHANGE GRAPH— Below is the median percentage price change for each quarter since we began calculating this metric in 2004.



RESULTS BY INDUSTRY FOR DIRECTION OF PRICE CHANGES AND AVERAGE AND MEDIAN

PRICE CHANGES—The table below illustrates the direction of price changes, and average and median price change results, for companies receiving financing in this quarter, compared to their previous round, by industry group. Companies receiving Series A financings are excluded as they have no previous rounds to compare.

| Industry | Up Rounds | Down Rounds | Flat Rounds | Average Price Change | Median Price Change | Number of Financings |
|-----------------------------|----------------------|------------------------|------------------------|---------------------------------|--------------------------------|---------------------------------|
| Software | 83% | 12% | 5% | 78% | 66% | 58 |
| Hardware | 91% | 0% | 9% | 40% | 32% | 11 |
| Life Sciences | 55% | 27% | 18% | 30% | 9% | 22 |
| Internet/Digital Media | 84% | 5% | 11% | 102% | 96% | 19 |
| Other | 100% | 0% | 0% | 120% | 69% | 16 |
| Total all Industries | 81% | 11% | 8% | 75% | 56% | 126 |

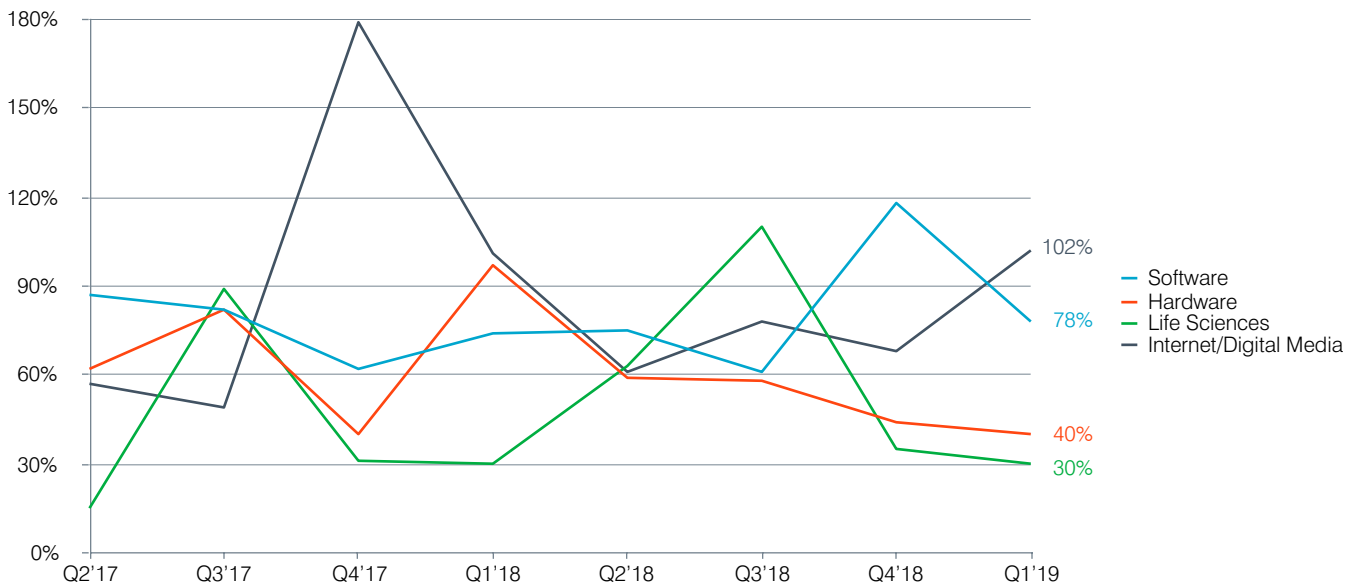
DOWN ROUND RESULTS BY INDUSTRY—The table below illustrates the percentage of “down rounds,” by industry groups, for each of the past eight quarters.

| Down Rounds | Q2'17 | Q3'17 | Q4'17 | Q1'18 | Q2'18 | Q3'18 | Q4'18 | Q1'19 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Software | 14% | 10% | 18% | 16% | 14% | 11% | 3% | 12% |
| Hardware | 17% | 8% | 28% | 10% | 5% | 14% | 26% | 0% |
| Life Sciences | 16% | 9% | 21% | 16% | 10% | 5% | 11% | 27% |
| Internet/Digital Media | 11% | 8% | 14% | 17% | 16% | 5% | 13% | 5% |
| Other | 8% | 15% | 13% | 0% | 16% | 5% | 0% | 0% |
| Total all Industries | 13% | 10% | 19% | 15% | 12% | 9% | 8% | 11% |

BAROMETER RESULTS BY INDUSTRY—The table below sets forth Barometer results by industry group for each of the last eight quarters.

| Industry | Q2'17 | Q3'17 | Q4'17 | Q1'18 | Q2'18 | Q3'18 | Q4'18 | Q1'19 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Software | 87% | 82% | 62% | 74% | 75% | 61% | 118% | 78% |
| Hardware | 62% | 82% | 40% | 97% | 59% | 58% | 44% | 40% |
| Life Sciences | 15% | 89% | 31% | 30% | 63% | 110% | 35% | 30% |
| Internet/Digital Media | 57% | 49% | 179% | 101% | 61% | 78% | 68% | 102% |
| Other | 43% | 107% | 73% | 72% | 81% | 70% | 90% | 120% |
| Total all Industries | 64% | 80% | 74% | 74% | 70% | 71% | 85% | 75% |

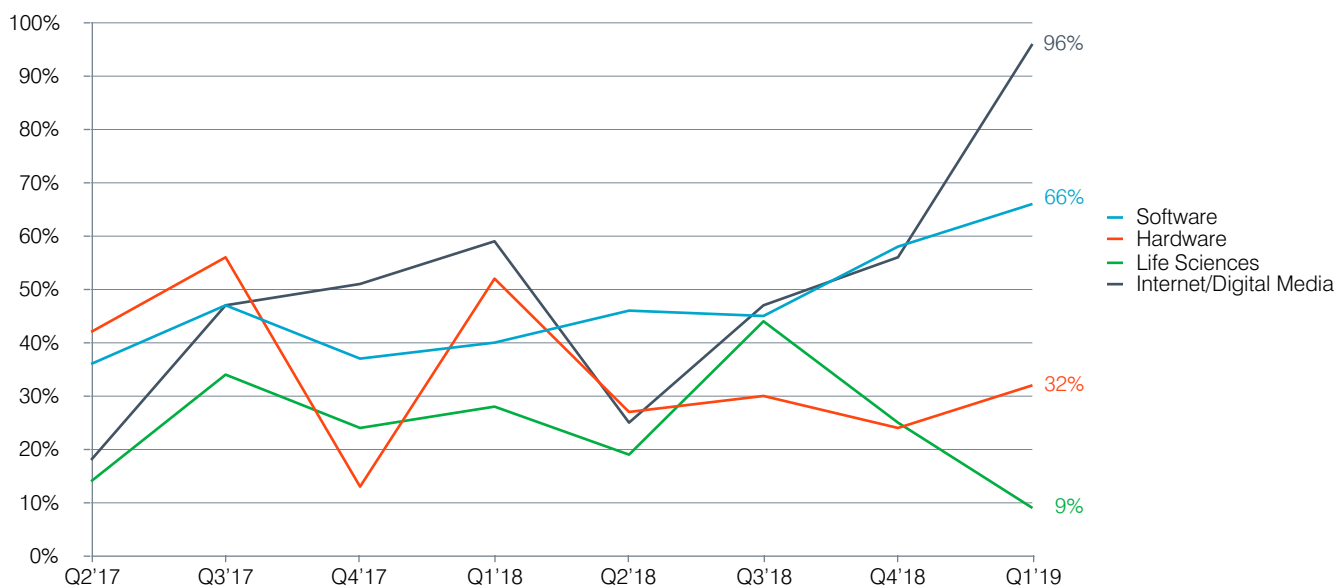
A graphical representation of the above data is below.



MEDIAN PERCENTAGE PRICE CHANGE RESULTS BY INDUSTRY — The table below illustrates the median percentage price change results by industry group for each of the last eight quarters. Please note that this is different than the Barometer, which is based on average percentage price change.

| Median % Price Change | Q2'17 | Q3'17 | Q4'17 | Q1'18 | Q2'18 | Q3'18 | Q4'18 | Q1'19 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Software | 36% | 47% | 37% | 40% | 46% | 45% | 58% | 66% |
| Hardware | 42% | 56% | 13% | 52% | 27% | 30% | 24% | 32% |
| Life Sciences | 14% | 34% | 24% | 28% | 19% | 44% | 25% | 9% |
| Internet/Digital Media | 18% | 47% | 51% | 59% | 25% | 47% | 56% | 96% |
| Other | 44% | 18% | 63% | 35% | 53% | 37% | 48% | 69% |
| Total all Industries | 30% | 46% | 42% | 41% | 37% | 42% | 52% | 56% |

A graphical representation of the above data is below.

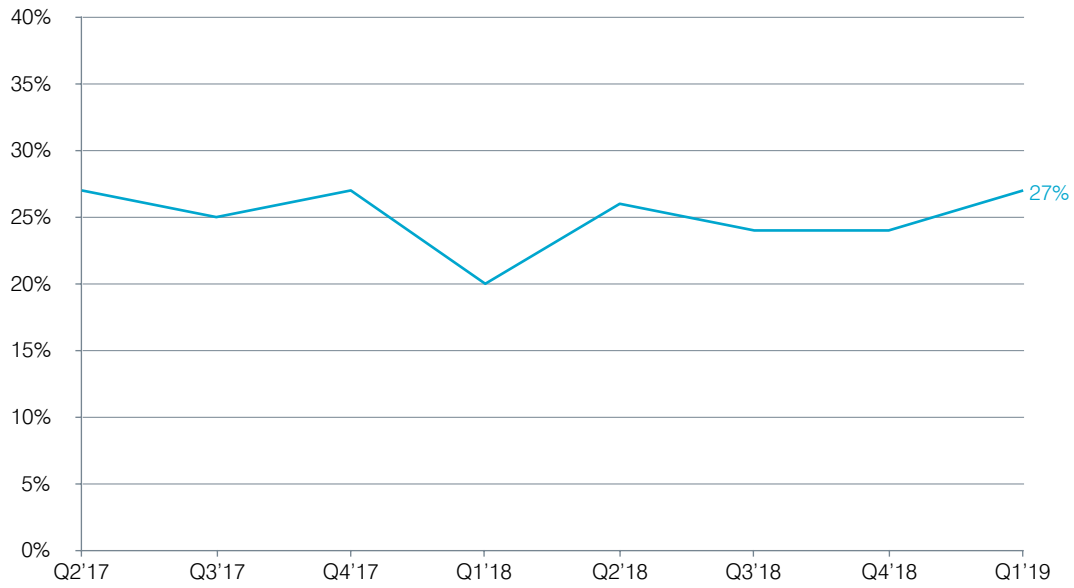


FINANCING ROUND—This quarter's financings broke down by series according to the chart below.

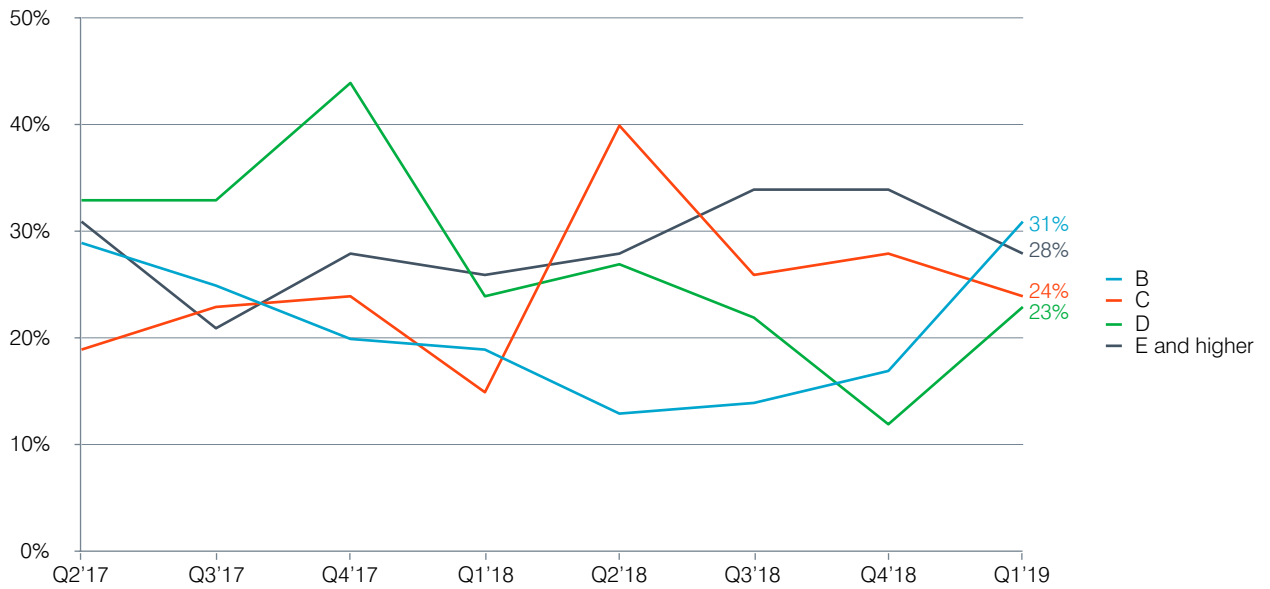
| Series | Q2'17 | Q3'17 | Q4'17 | Q1'18 | Q2'18 | Q3'18 | Q4'18 | Q1'19 |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Series A | 28% | 27% | 29% | 25% | 24% | 27% | 31% | 32% |
| Series B | 23% | 32% | 26% | 27% | 24% | 20% | 20% | 21% |
| Series C | 23% | 19% | 15% | 21% | 19% | 18% | 18% | 18% |
| Series D | 9% | 11% | 13% | 13% | 13% | 13% | 11% | 12% |
| Series E and Higher | 17% | 10% | 17% | 16% | 19% | 22% | 20% | 17% |

Fenwick & West Data on Legal Terms

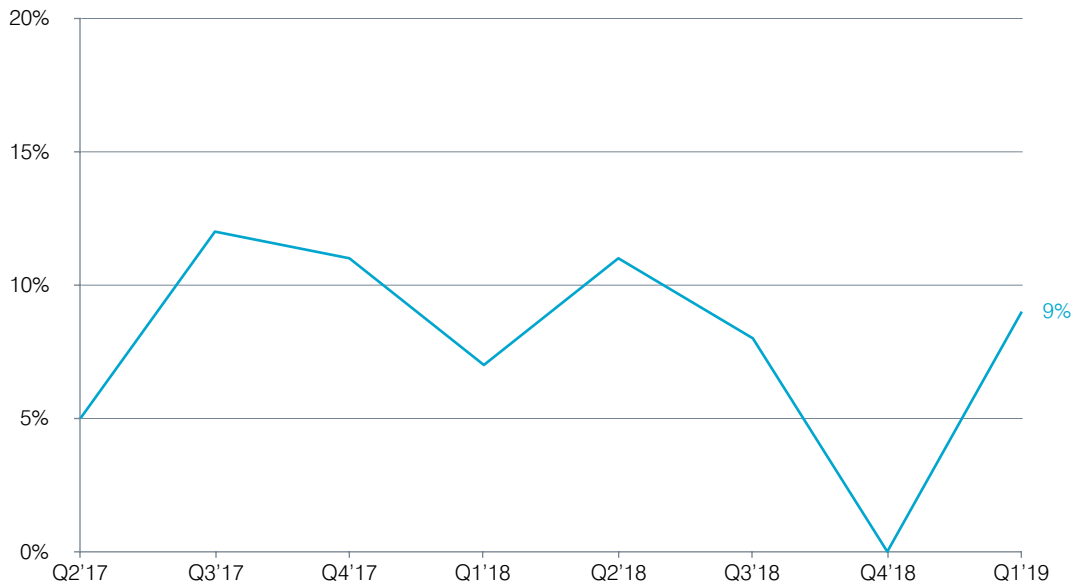
LIQUIDATION PREFERENCE — Senior liquidation preferences were used in the following percentages of financings.



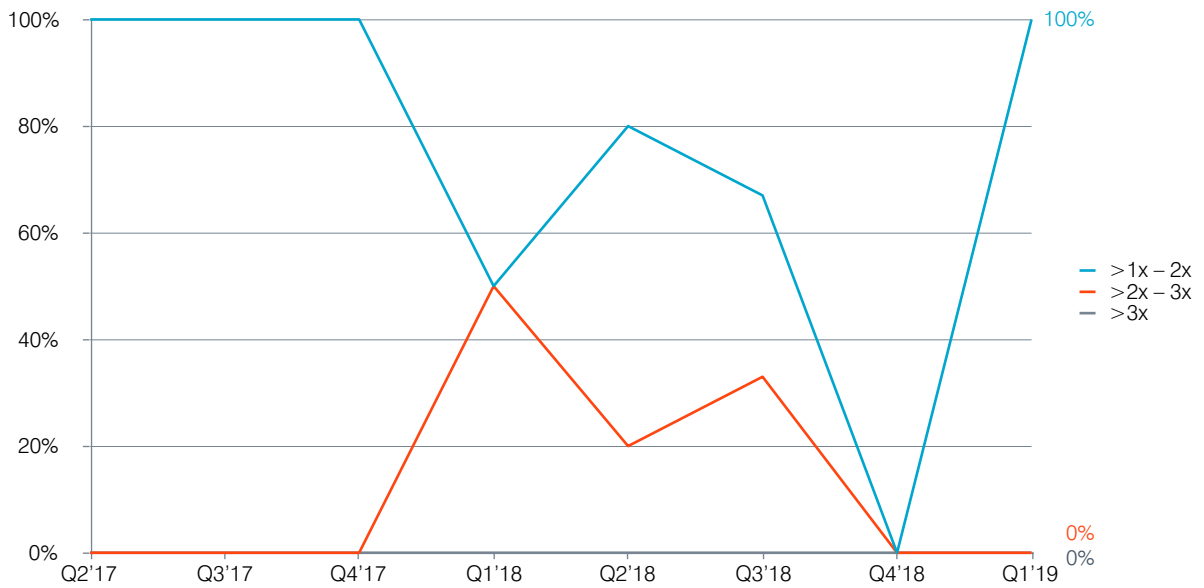
The percentage of senior liquidation preference by series was as follows:



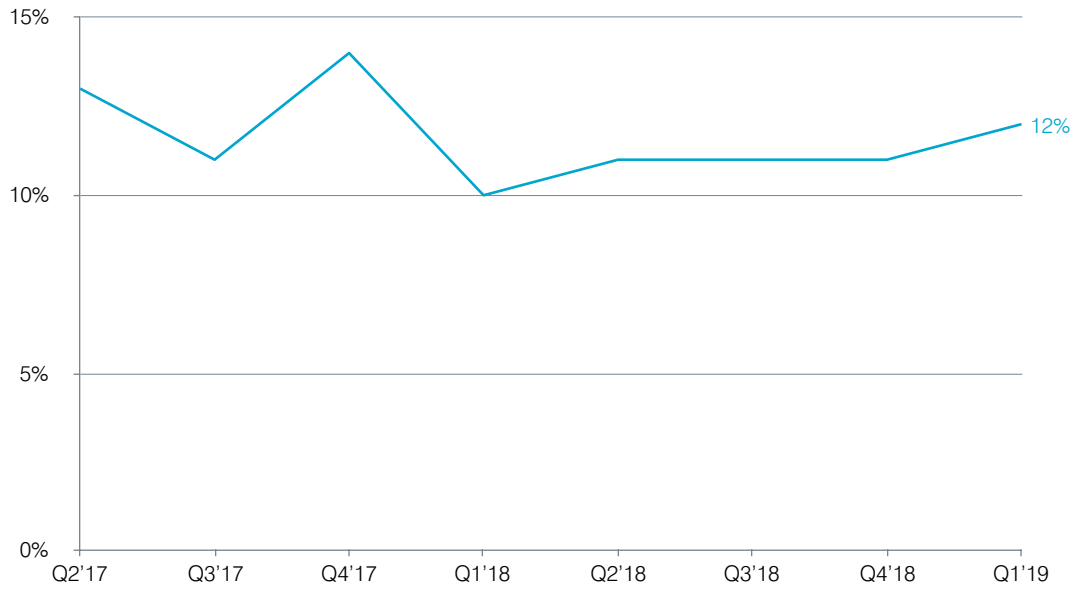
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences was as follows:



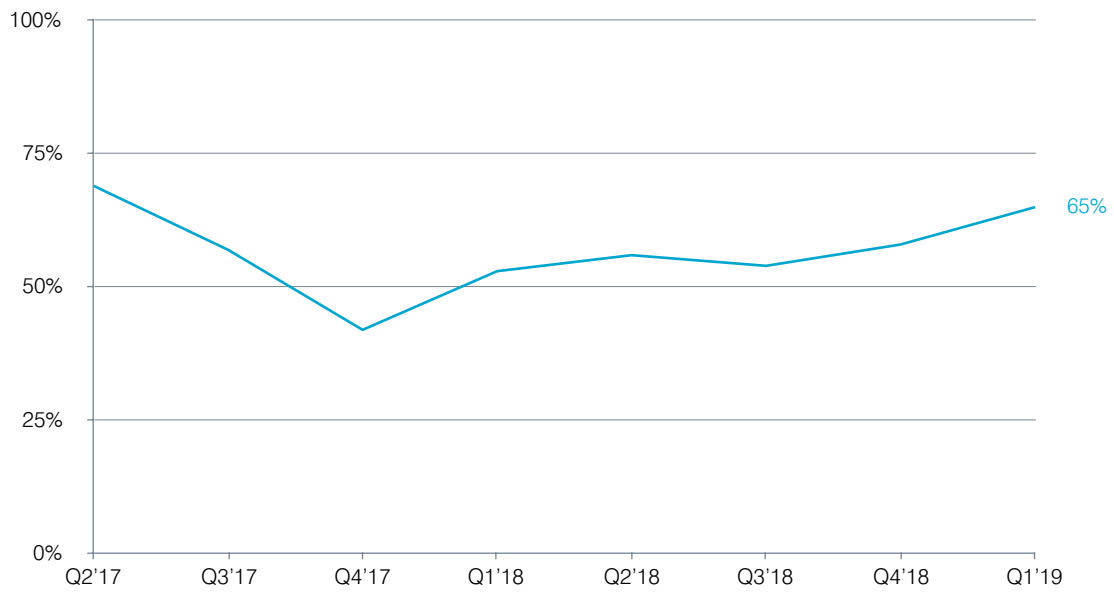
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



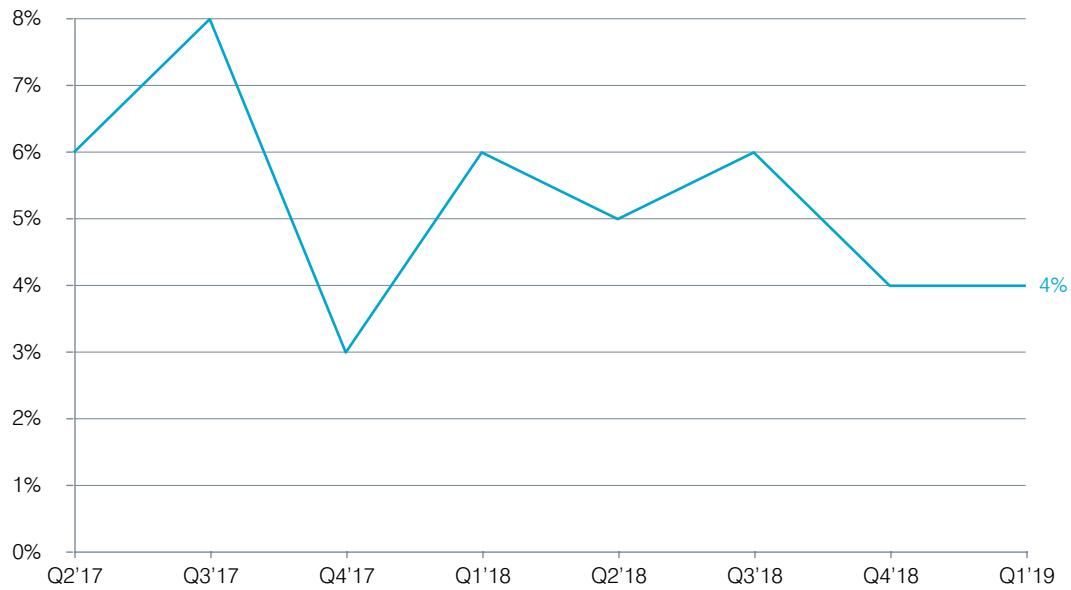
PARTICIPATION IN LIQUIDATION — The percentages of financings that provided for participation were as follows:



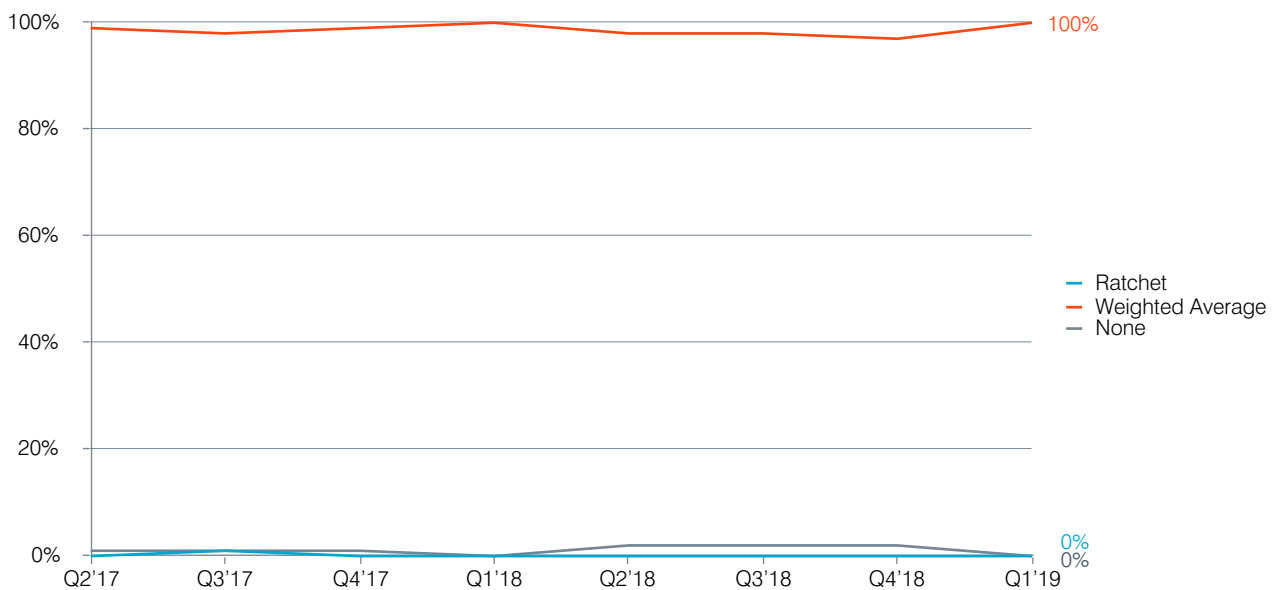
Of the financings that had participation, the percentages that were not capped were as follows:



CUMULATIVE DIVIDENDS – Cumulative dividends were provided for in the following percentages of financings:

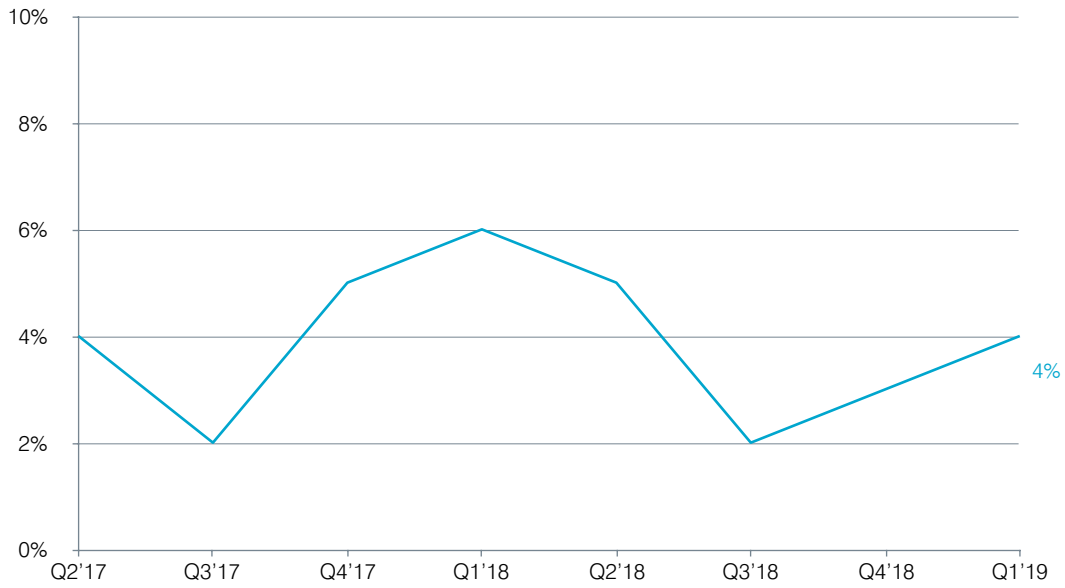


ANTIDILUTION PROVISIONS –The uses of (non-IPO) antidilution provisions in the financings were as follows:

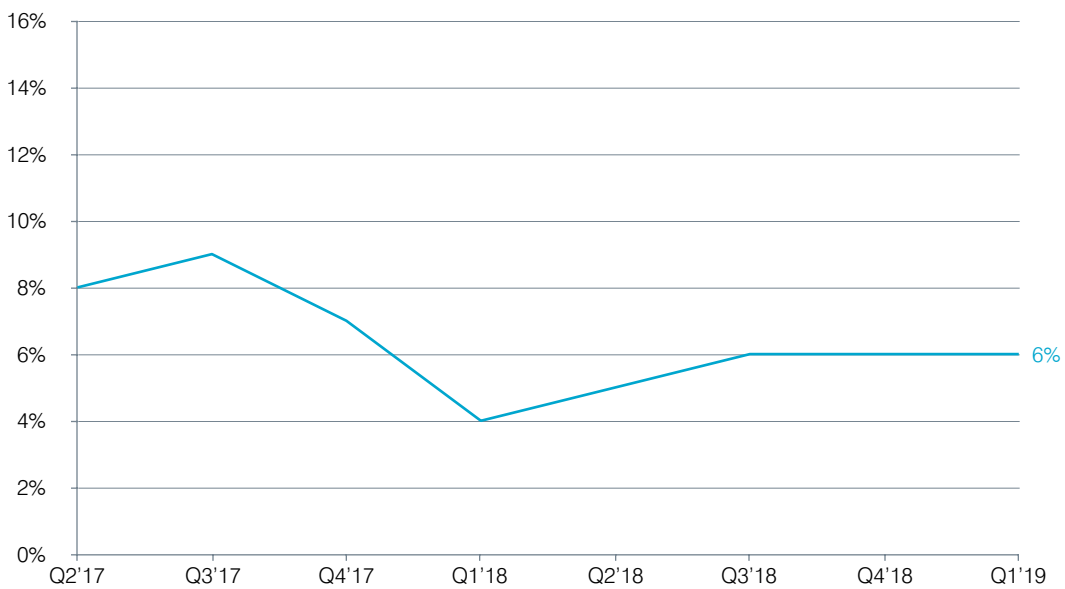


Please note that the chart above only applies to non-IPO anti-dilution provisions. In other words, the chart refers to anti-dilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include anti-dilution provisions designed to protect against an IPO at a price below the price paid by the venture investor (e.g., an IPO ratchet), because those provisions are generally only negotiated/included in very late-stage, high-value deals. We believe it would not be useful to provide a percentage of all financings that have IPO anti-dilution provisions, because it will provide a result that is artificially low. An analysis of IPO anti-dilution provisions is included in our Unicorn Survey, which by its nature is focused on late-stage, high-value deals.

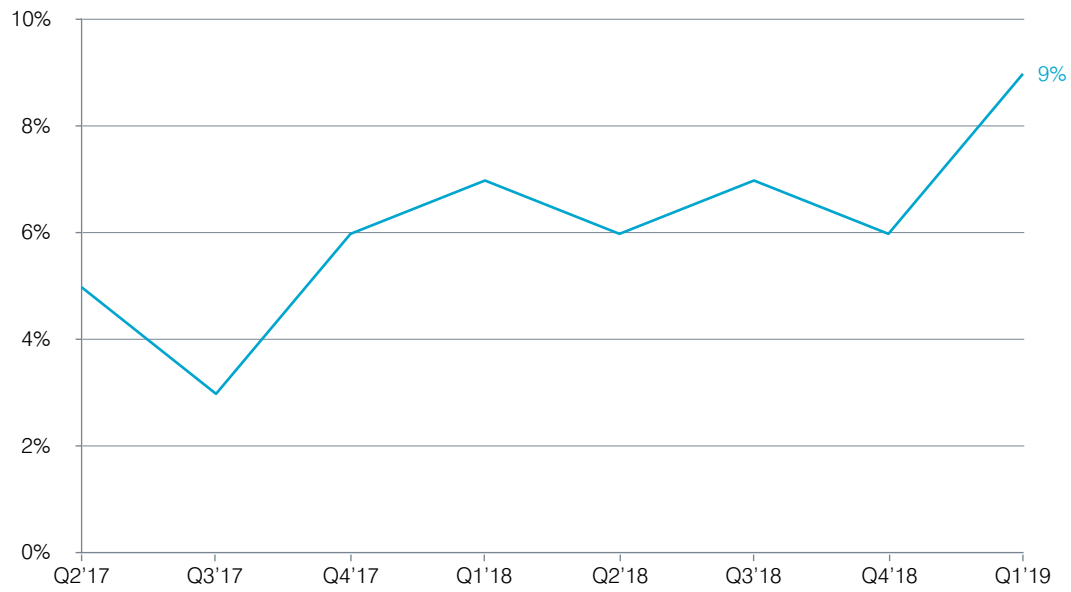
PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:



REDEMPTION – The percentages of financings providing for mandatory redemption or redemption at the option of the investor were as follows:



CORPORATE REORGANIZATIONS – The percentages of post-Series A financings involving a corporate reorganization (i.e. reverse splits or conversion of shares into another series or classes of shares) were as follows:



About our Survey

The Fenwick & West Venture Capital Survey has been published quarterly since the first quarter of 2002. Its goal is to provide information to the global entrepreneurial and venture community on the terms of venture financings in Silicon Valley.

The survey is available to all, without charge, by signing up at www.fenwick.com/vcsurvey/sign-up. We are pleased to be a source of information to entrepreneurs, investors, educators, students, journalists and government officials.

Our analysis of Silicon Valley financings is based on independent data collection performed by our lawyers and paralegals, and is not skewed toward or overly representative of financings in which our firm is involved. We believe that this approach, compared to only reporting on deals handled by a specific firm, provides a more statistically valid and larger dataset.

For purposes of determining whether a company is based in "Silicon Valley" we use the area code of the corporate headquarters. The area codes included are 650, 408, 415, 510, 925, 916, 707, 831 and 209.

Note on Methodology

When interpreting the Barometer results please bear in mind that the results reflect the average price increase of companies raising money in a given quarter compared to their prior round of financing, which was on average about 18 months prior. By definition the Barometer does not include companies that do not do follow-on financings (which may be because they went out of business, were acquired or went public). Accordingly we believe that our results are most valuable for identifying trends in the venture environment, as opposed to calculating absolute venture returns. Please also note that our calculations are not "dollar weighted," i.e. all venture rounds are treated equally, regardless of size.

About the Authors



[Cynthia Clarfield Hess](#) is Co-Chair of Fenwick's Startup and Venture Capital Group. In her 25 plus years as a corporate attorney, Cindy has counseled technology companies on a broad range of corporate transactional matters, from formation matters and venture capital financings to mergers and acquisitions and public offerings, representing both companies and underwriters. She has worked with a wide range of high-technology clients— from established technology stalwarts to emerging companies developing disruptive technologies, which include some of the hottest and most innovative companies in the mobile, SaaS and social media spaces.



[Mark Leahy](#), Co-Chair of Fenwick's Startup and Venture Capital Group and a seasoned advisor to technology companies on a broad range of corporate transactional matters, focuses on providing legal solutions that advance his clients' business objectives. His practice focuses on venture capital financings, corporate governance, mergers and acquisitions, and public offerings. His expertise spans a wide range of technologies, including software, semiconductor, internet/e-commerce, and data management and storage.



[Khang Tran](#) supports the firm's knowledge management efforts by collecting and sharing knowledge and expertise across the firm, which in turn, is leveraged to improve the quality of legal services to the firm's clients.

Contact/Sign Up Information

For additional information about this report please contact Cynthia Hess at 650.335.7238; chess@fenwick.com or Mark Leahy at 650.335.7682; mleahy@fenwick.com at Fenwick & West.

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