FENWICK & WEST

Silicon Valley Venture Capital Survey Second Quarter 2017

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Second Quarter 2017

Cynthia Clarfield Hess, Mark Leahy and Khang Tran

Background

We analyzed the terms of 208 venture financings closed in the second quarter of 2017 by companies headquartered in Silicon Valley.

Overview of Fenwick & West Results

After a period of decline in 2016 that followed a very strong 2014-2015, the improvements in venture valuations that began in Q1 2017 continued in Q2. Overall, while still considerably off from all-time highs in mid-2015, valuation metrics are now marginally higher than their 13 year averages.

- Up rounds exceeded down rounds 77% to 13%, with 10% flat. This was an increase from Q1 2017 when up rounds exceeded down rounds 73% to 18%, with 9% flat. The percentage of down rounds decreased across all financing rounds.

- The Fenwick & West Venture Capital Barometer™ showed an average price increase in Q2 2017 of 64%, an increase from the 54% recorded in Q1 and above the historical average of 56%. In contrast to Q1 2017 when earlier stage rounds recorded weaker valuation results and later stage rounds recorded stronger valuation results compared to the prior quarter, the average price increases for Series B and C rounds increased in Q2 while the average price increases for Series D and E+ rounds decreased.

- The median price increase of financings in Q2 2017 was 30%, which represented a small increase from the 29% in Q1 and the second consecutive quarter of modest increase after previously having declined for 6 straight quarters.

- The software industry, which recorded substantial improvements in valuation metrics, had the strongest valuation results in Q2 2017, followed by the hardware and internet/digital media industries, both of which recorded moderately weaker valuation metrics. The life sciences industry recorded a considerable decline in valuation metrics.

- The use of multiple liquidation preferences and participation rights declined in Q2 2017. The percentage of financings with multiple liquidation preferences was the lowest since Q4 2014 and the percentage of financings with participation rights was the lowest in the history of the survey.

Overview of Other Industry Data

The U.S. venture environment continued to improve marginally in the second quarter of 2017, though activity was still well below peak levels of the past few years, while the exit environment remained challenging.

- Although the pace of investments was flat, the amount of capital invested increased substantially from Q1 to Q2 of 2017.
- Q2 2017 saw an increase in the number of venture-backed U.S. IPOs compared to Q1, although the amount raised in the quarter from these IPOs declined.
- The number of acquisitions of U.S. venture-backed companies in 2017 and the value of these deals continued to decline in Q2 from Q1.
- Venture capital fundraising during the first half of 2017 was off pace from 2016, but the number of first-time funds closed is on pace for the highest annual amount raised in the past decade.
- Venture capitalist sentiment sharply declined in Q2 2017 from Q1.

Venture Capital Investment

While U.S. venture capital investment deal flow in Q2 2017 remained relatively flat compared to Q1, the growth rate of investments in dollar terms accelerated. Still, investment activity in Q2 was marginally lower than the same period last year and remained significantly below the peak levels of 2015.

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

Comparison between Q2 and Q1 2017:

	Q2 2017 ($Billions)	Q1 2017 ($Billions)	Difference %	Q2 2017 Deals	Q1 2017 Deals	Difference %
VentureSource[1]	$17.4	$15.5	13%	1,082	1,078	0.4%
PitchBook-NVCA[2]	$21.8	$16.0	36%	1,963	1,954	0.5%
MoneyTree[3]	$18.4	$14.4	27%	1,152	1,206	-4%
Average	**$19.2**	**$15.3**	**25%**	**1,399**	**1,413**	**-1%**

[1] Dow Jones VentureSource (“VentureSource”)
[2] PitchBook-NVCA Venture Monitor (“Pitchbook-NVCA”)
[3] PwC/CB Insights MoneyTree™ Report (“MoneyTree”)

Comparison between Q2 2017 and Q2 2016:

	Q2 2017 ($Billions)	Q2 2016 ($Billions)	Difference %	Q2 2017 Deals	Q2 2016 Deals	Difference %
VentureSource	$17.4	$17.1	2%	1,082	989	9%
PitchBook-NVCA	$21.8	$23.0	-5%	1,963	2,162	-9%
MoneyTree	$18.4	$20.1	-9%	1,152	1,260	-9%
Average	**$19.2**	**$20.0**	**-4%**	**1,399**	**1,470**	**-5%**

According to Moneytree, seed/angel investment deal allocation dipped to a two-year low of 22% in Q2 2017 from 29% in Q1. In contrast, early stage (Series A) investment deal allocation increased to a two-year high of 28% in Q2 2017 from 24% in Q1. Later stage (Series D and E+) investment deal allocation was unchanged at 11%. The median amount invested per financing round increased from $5 million in Q1 2017 to $7.3 million in Q2 according to VentureSource. Later stage rounds saw the greatest increase in median round size, increasing from $12.8 million in Q1 2017 to $20.7 million in Q2. The number of financings that raised $100 million or more increased from 18 in Q1 2017 to a two-year high of 31 in Q2, according to MoneyTree. In addition, nine new VC-backed companied reached unicorn status (a valuation of at least $1 billion) in Q2 2017, up from just three in Q1.

After having declined in Q1 2017 from the prior quarter, investments into information technology and consumer services increased in Q2, comprising 29% and 24% of the invested capital in Q2 2017, according to VentureSource, up from 23% and 15% of the invested capital in Q1. Healthcare allocation, on the other hand, declined from 36% of the invested capital in Q1 2017 to 23% of the invested capital in Q2. MoneyTree similarly reported a dip in healthcare financing deal share from 16% in Q1 2017, which was a two-year high, to 14% in Q2, while consumer products and services deal share increased from 2% in Q1 2017 to 4% in Q2. Internet financing deal share remained at 44%.

IPO Activity

There were 18 venture-backed U.S. IPOs in Q2 2017 according to VentureSource, an increase from seven venture-backed IPOs in Q1 and 11 venture-backed IPOs in Q2 2016. However, the amount raised in the IPOs declined from $4 billion in Q1 2017, which included the $3.4 billion IPO of Snap, to $1.8 billion in Q2.

Merger and Acquisition Activity

U.S. M&A deal volume decreased in Q2 2017, with VentureSource reporting a decline in the number of acquisitions of U.S. venture-backed companies from 163 in Q1 2017 and 152 in Q2 2016 to 142 in Q2 2017. The overall value of these deals also declined from $26.1 billion in Q1 2017 and $25.2 billion in Q2 2016 to $19.2 billion in Q2 2017.

Venture Capital Fundraising

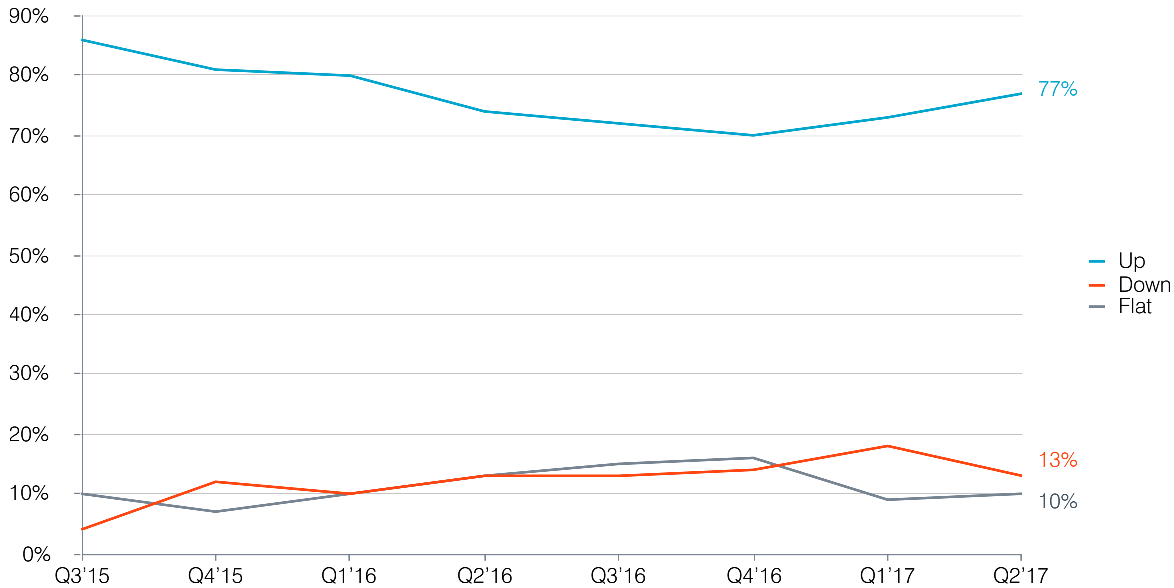
Venture capitalists raised $19.1 billion in the first half of 2017, including $11.4 billion in Q2 2017, according to the Pitchbook-NVCA VentureMonitor. While 2017 venture capital fundraising is off pace from 2016 in terms of amount raised and number of funds closed, the number of first-time funds closed is on pace for the highest annual amount raised in the past decade. There was only one mega-fund (defined as a fund size of more than $1 billion) and seven other funds valued at more than $500 million that closed during the first half of 2017 after a number of prominent VCs raised large funds in 2016. At the other end of the spectrum, the number of microfunds (defined as a fund size of less than $50 million) that closed in the first half of 2017 also declined.

Venture Capital Sentiment

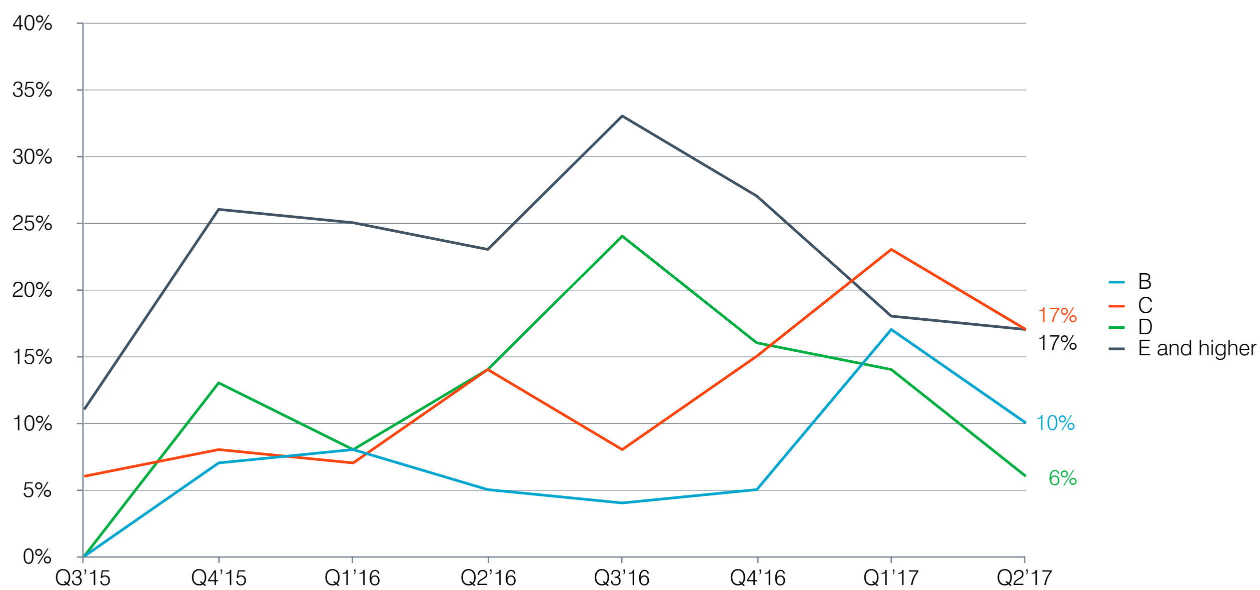
The Silicon Valley Venture Capitalists Confidence Index® by Professor Mark Cannice at the University of San Francisco reported a sharp decline in the confidence level of Silicon Valley venture capitalists from 3.83 (on a 5 point scale, with 5 indicating high confidence and 1 indicating low confidence) registered in Q1 2017 to 3.52 registered in Q2, which was also below the 13.5-year average of 3.72. The decline in confidence appears to have been driven primarily by an uncertain macro environment, including potential new immigration constraints, high costs of living in innovation centers and general political uncertainty. Besides these macro issues, other drivers of the decline include continued high late-stage valuations and an exit market that has not been as strong as had been expected.

Fenwick & West Data on Valuation

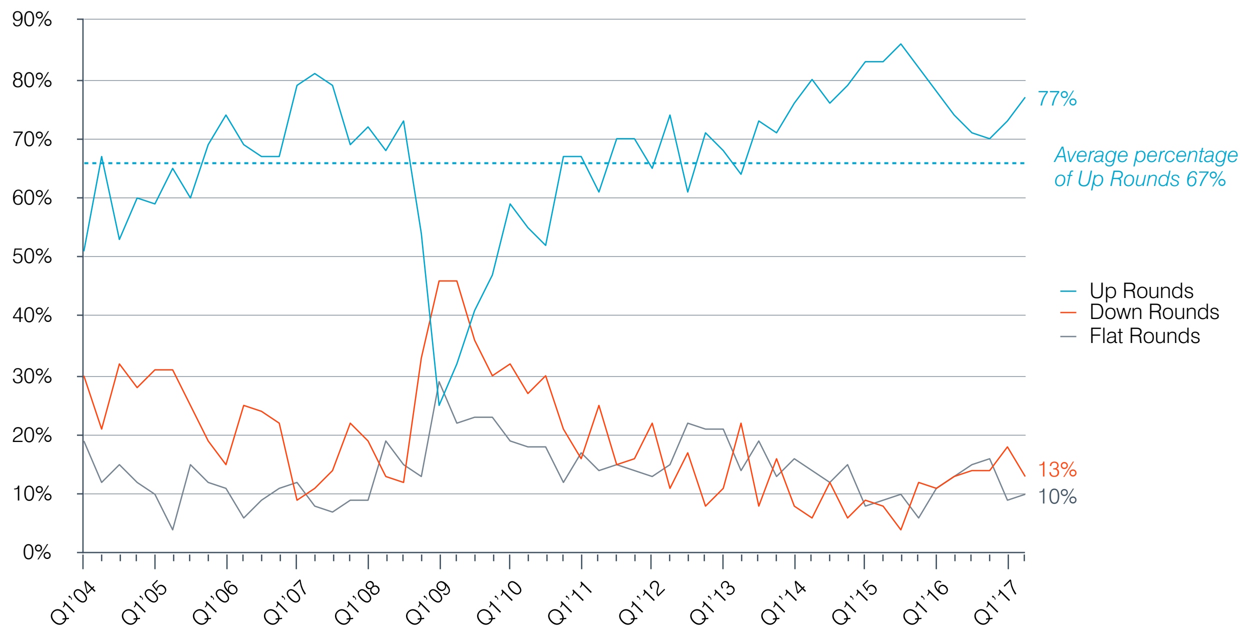
PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



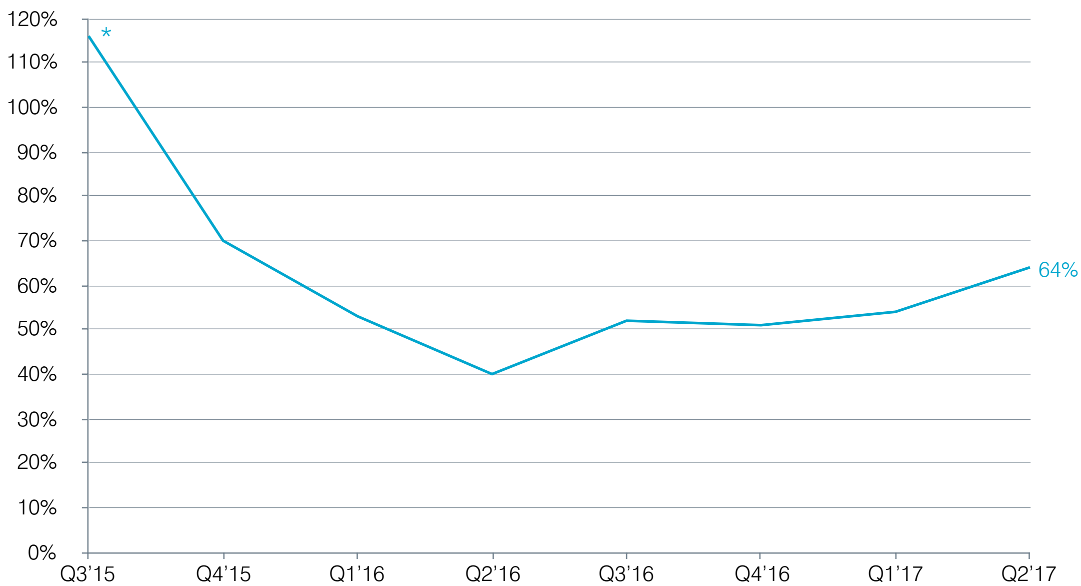
The percentage of **DOWN ROUNDS** by series were as follows:



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

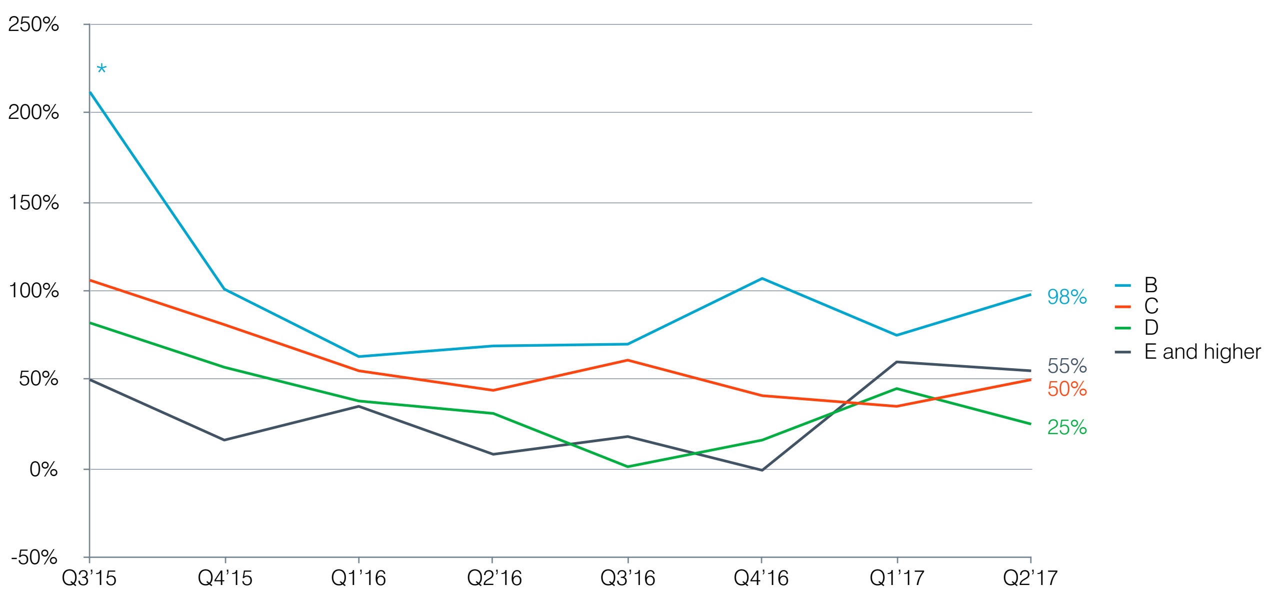


THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (magnitude of price change) — Set forth below is the average percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing.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



* One company had an over 3000% up round in Q3 2015. If this financing was excluded, the Barometer result for Q3 2015 would have been 93%.

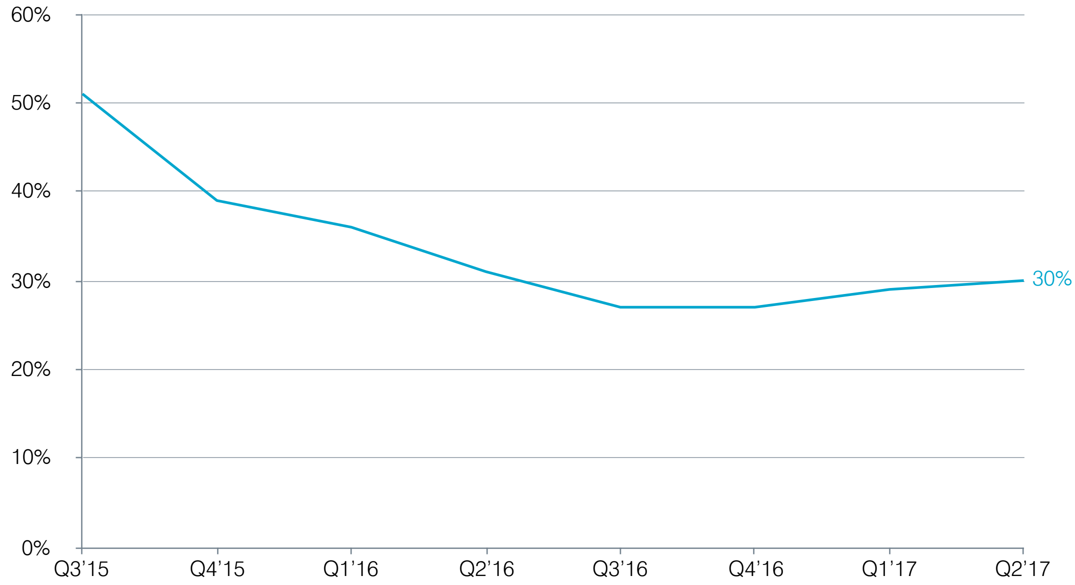
The Barometer results by series are as follows:



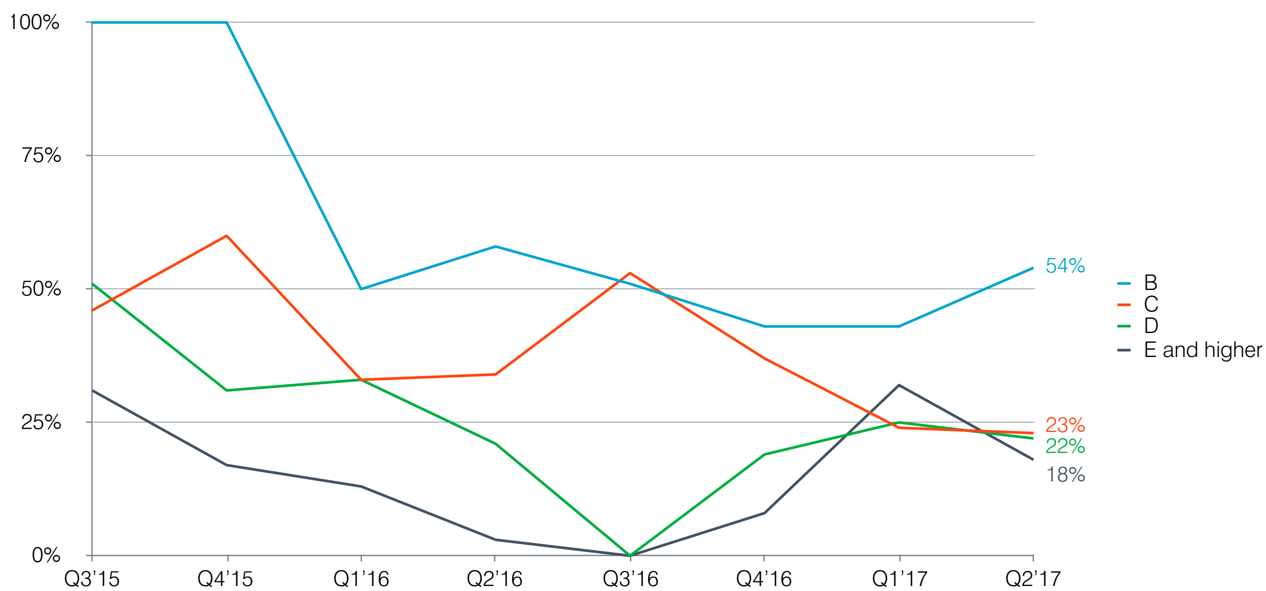
* Please note that the above-mentioned over 3000% up round financing in Q3 2015 was a Series B round. If this financing was excluded, the Barometer result for Series B rounds in Q3 2015 would have been 132%.

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

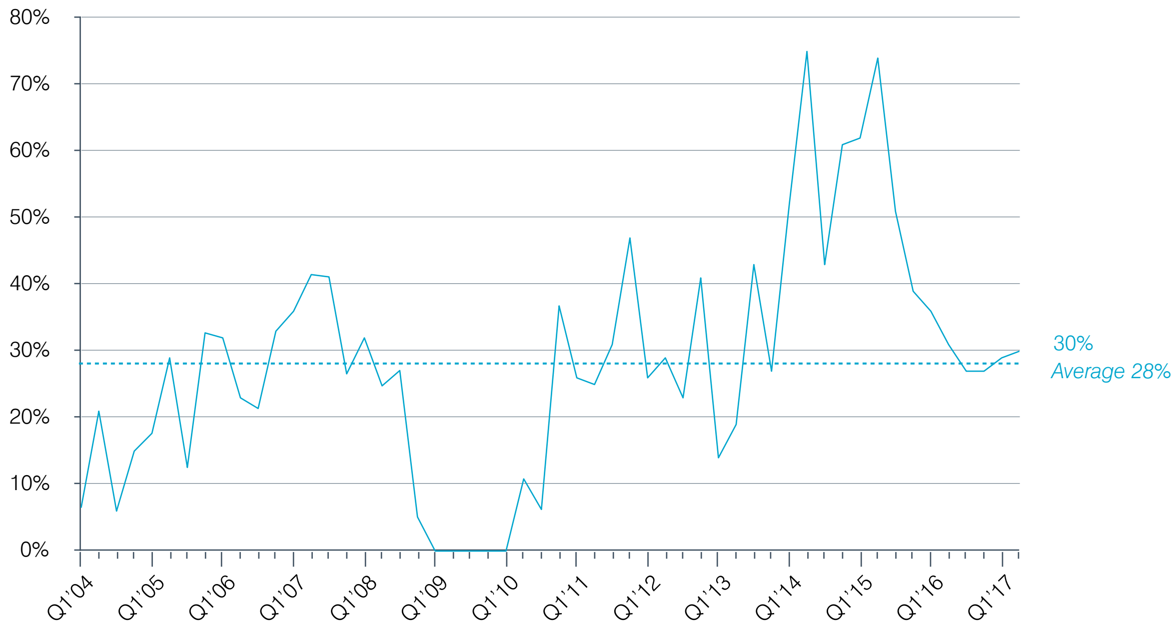
MEDIAN PERCENTAGE PRICE CHANGE—Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, down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



MEDIAN PERCENTAGE PRICE CHANGE BY SERIES.



EXPANDED MEDIAN PRICE CHANGE GRAPH—Set forth 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 sets forth 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	78%	14%	8%	87%	36%	64
Hardware	83%	17%	0%	62%	42%	18
Life Science	58%	16%	26%	15%	14%	19
Internet/Digital Media	84%	11%	5%	57%	18%	37
Other	75%	8%	17%	43%	44%	12
Total all Industries	**77%**	**13%**	**9%**	**64%**	**30%**	**150**

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

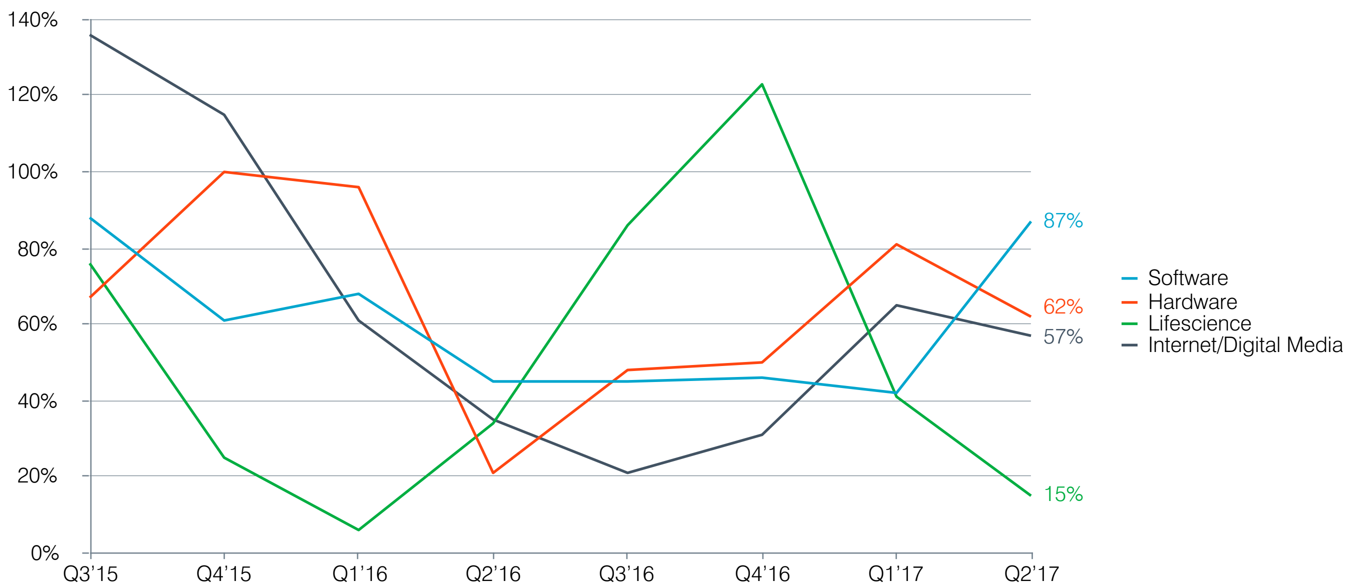
Down Rounds	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
Software	6%	10%	6%	14%	15%	13%	20%	14%
Hardware	0%	18%	20%	16%	8%	18%	18%	17%
Life Science	6%	25%	19%	13%	18%	13%	17%	16%
Internet/Digital Media	4%	6%	10%	13%	14%	15%	24%	11%
Other	0%	11%	0%	8%	0%	17%	0%	8%
Total all Industries	**4%**	**12%**	**10%**	**13%**	**13%**	**14%**	**18%**	**13%**

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

Barometer	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
Software	88%	61%	68%	45%	45%	46%	42%	87%
Hardware	67%	100%	96%	21%	48%	50%	81%	62%
Life Science	76%	25%	6%	34%	86%	123%	41%	15%
Internet/Digital Media	136%	115%	61%	35%	21%	31%	65%	57%
Other	509%	33%	19%	56%	78%	-5%	69%	43%
Total all Industries	**116%**	**69%**	**55%**	**39%**	**54%**	**51%**	**54%**	**64%**

* If the above-mentioned over 3000% up round financing in Q3 2015 was excluded, the Barometer results for companies in the "Other" industry group and for all reviewed companies in Q3 2015 would have been 47% and 93%, respectively.

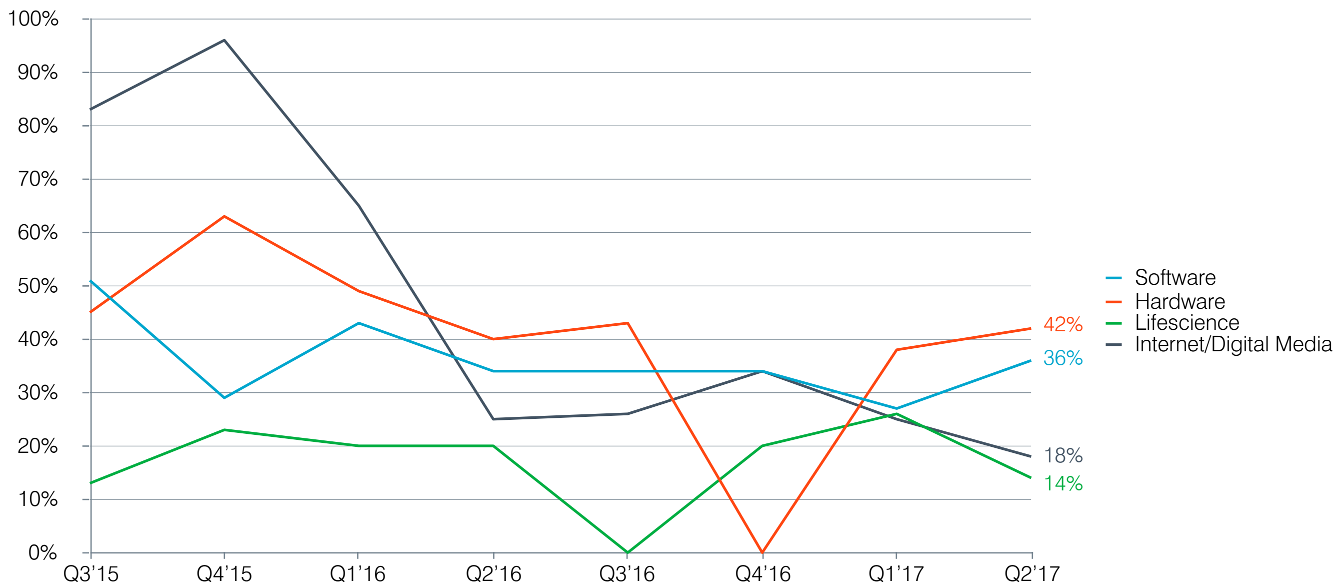
A graphical representation of the above is below.



MEDIAN PERCENTAGE PRICE CHANGE RESULTS BY INDUSTRY —The table below sets forth 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	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
Software	51%	29%	43%	34%	34%	34%	27%	36%
Hardware	45%	63%	49%	40%	43%	0%	38%	42%
Life Science	13%	23%	20%	20%	0%	20%	26%	14%
Internet/Digital Media	83%	96%	65%	25%	26%	34%	25%	18%
Other	36%	38%	9%	39%	53%	0%	59%	44%
Total all Industries	**51%**	**39%**	**37%**	**31%**	**28%**	**27%**	**29%**	**30%**

A graphical representation of the above is below.

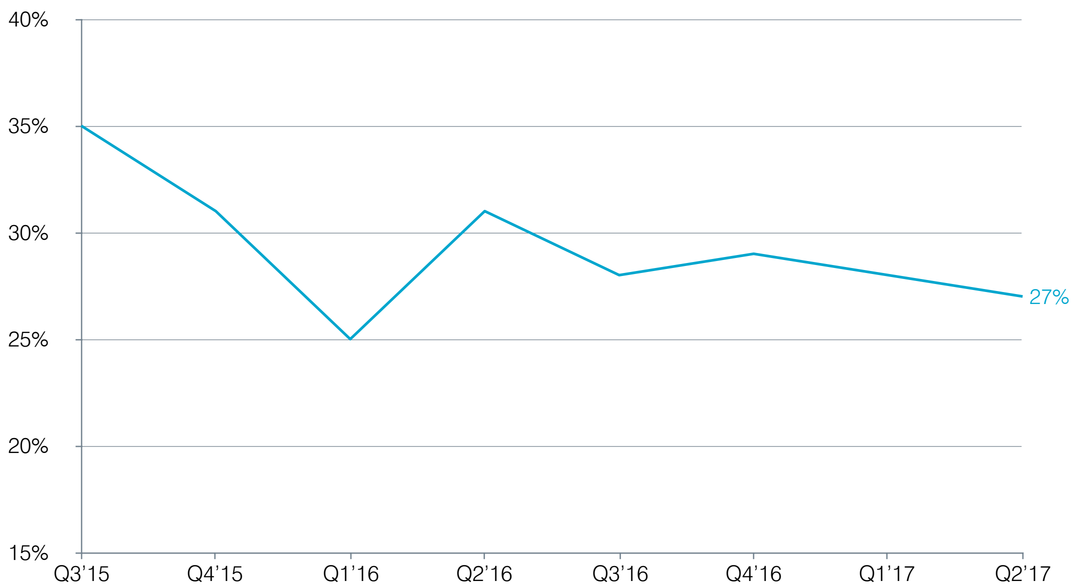


FINANCING ROUND—This quarter's financings broke down by series according to the chart below.

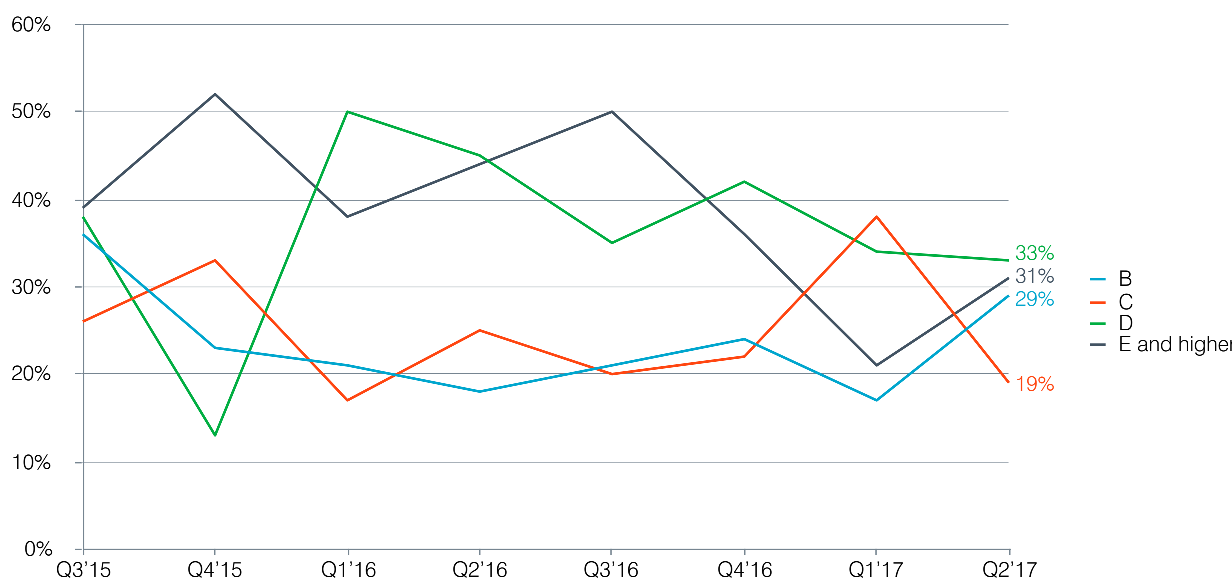
Series	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
Series A	23%	27%	23%	20%	24%	22%	29%	28%
Series B	22%	21%	28%	24%	33%	28%	18%	23%
Series C	19%	25%	29%	24%	18%	20%	20%	23%
Series D	14%	11%	9%	12%	12%	14%	15%	9%
Series E and Higher	22%	16%	11%	21%	13%	16%	17%	17%

Fenwick & West Data on Legal Terms

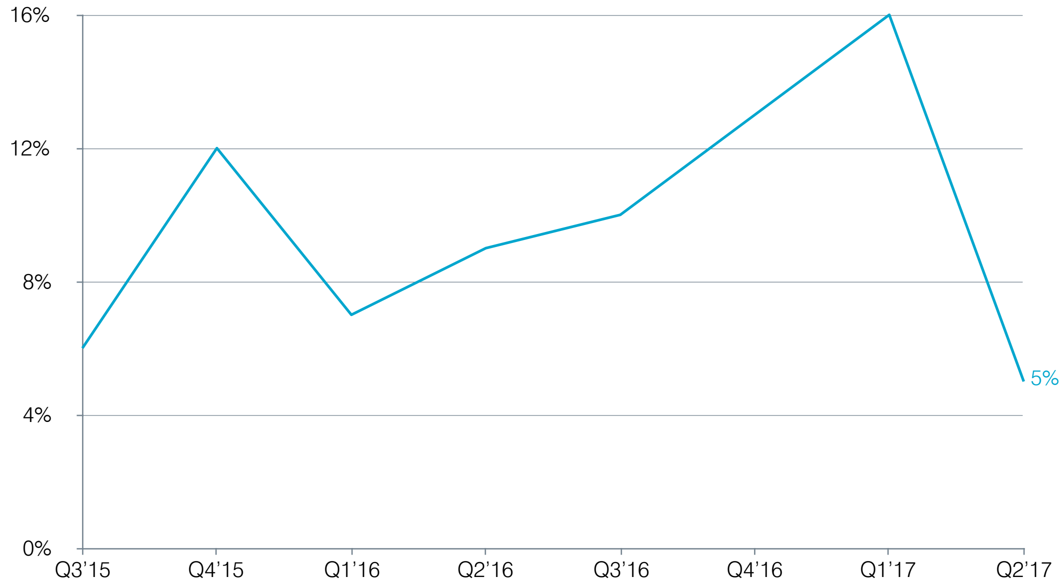
LIQUIDATION PREFERENCE—Senior liquidation preferences were used in the following percentages of financings.



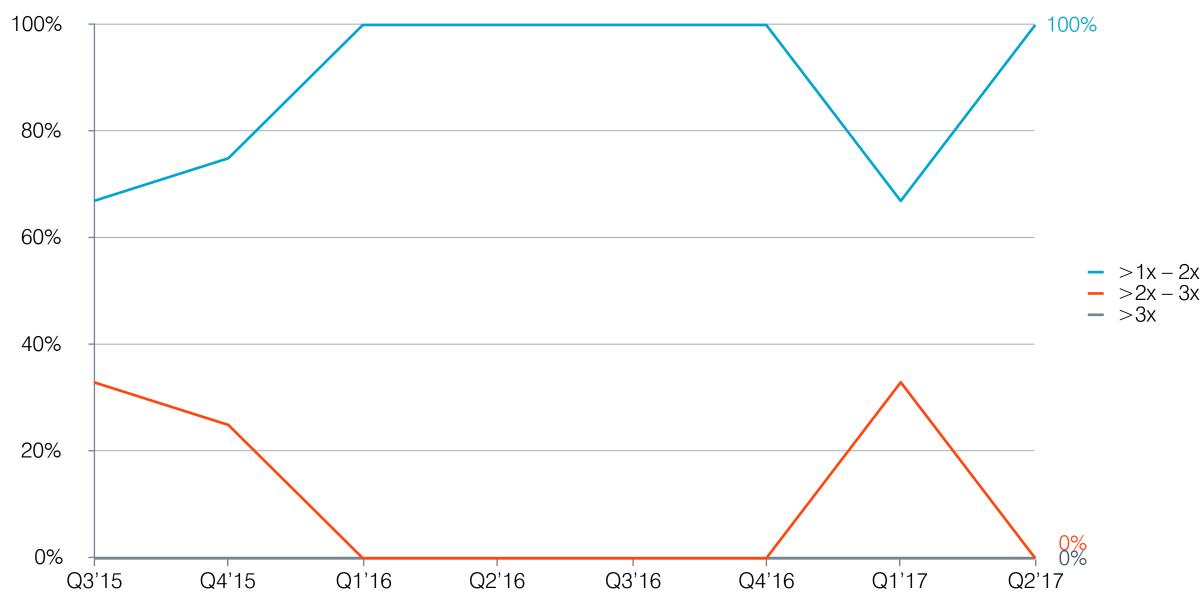
The percentage of senior liquidation preference by series was as follows:



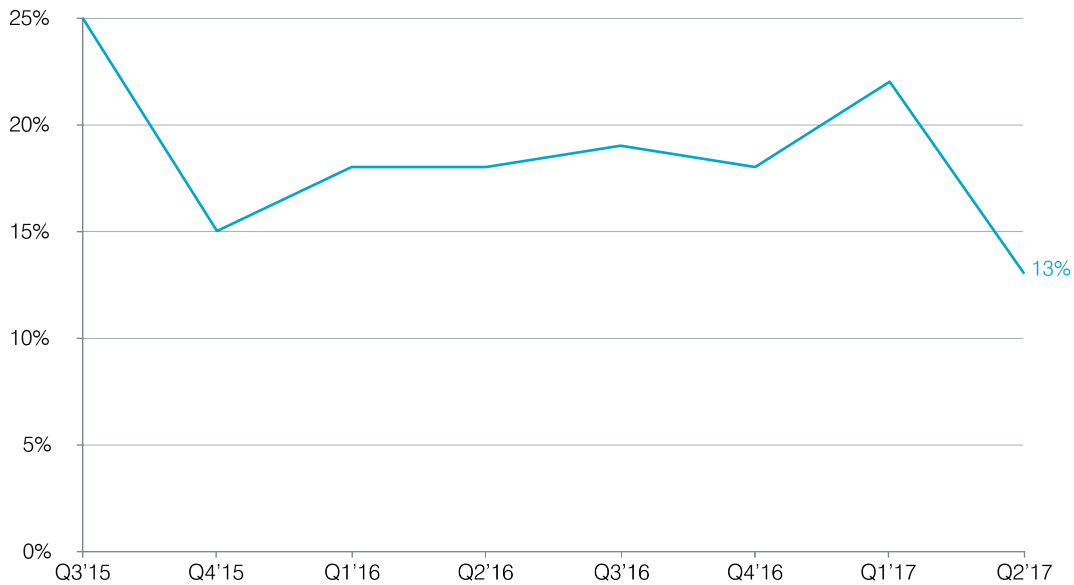
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



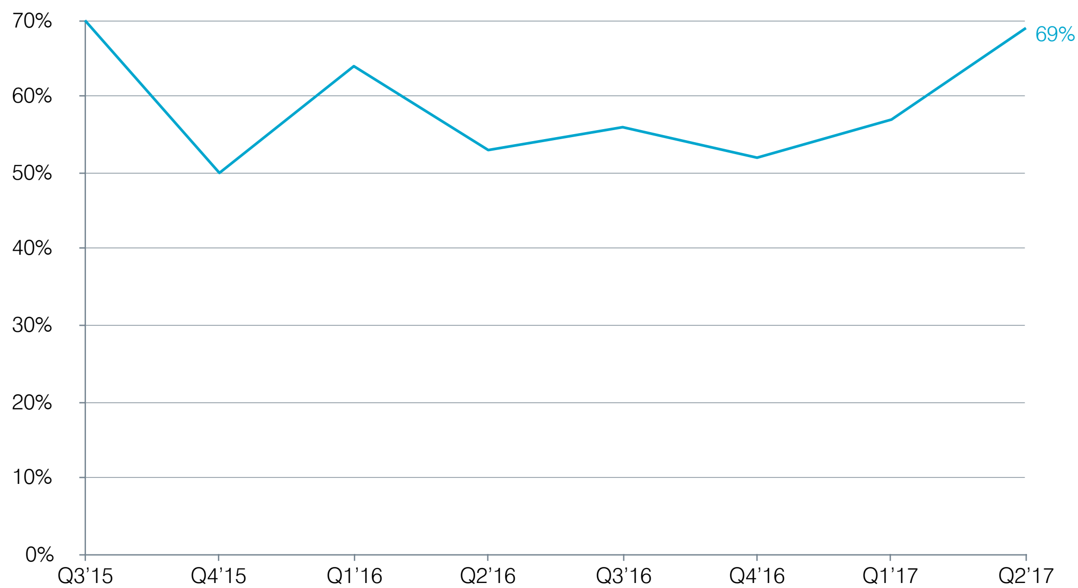
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



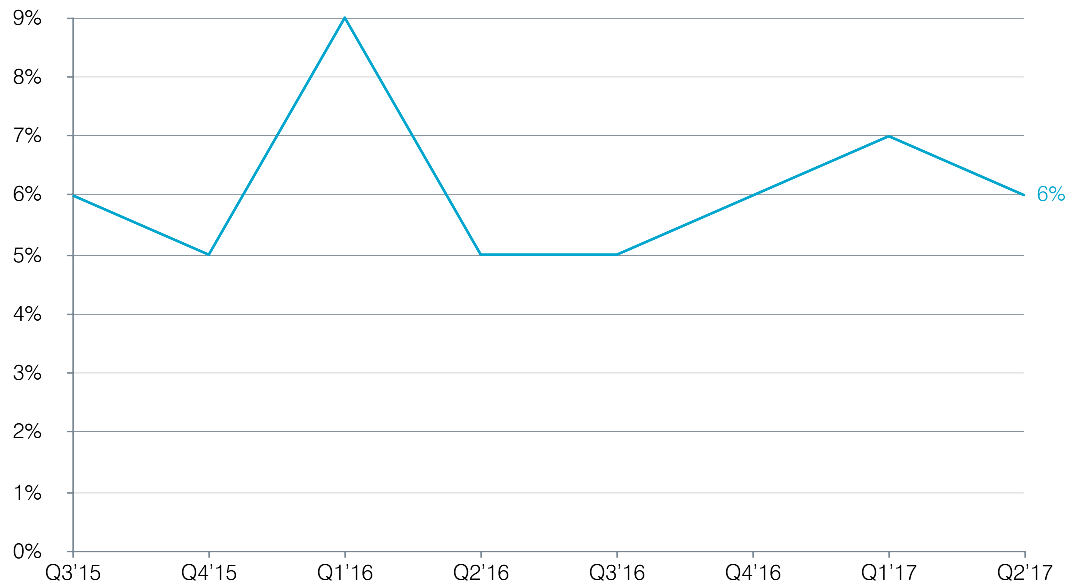
PARTICIPATION IN LIQUIDATION — The percentages of financings that provided for participation were as follows:



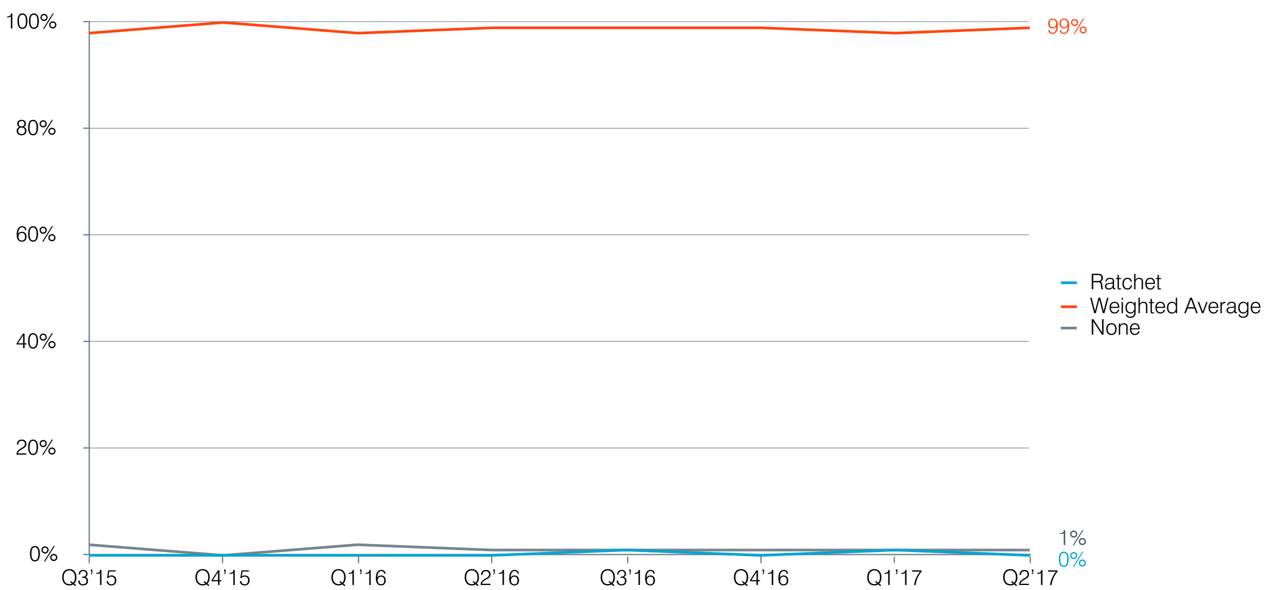
Of the financings that had participation, the percentages that were not capped were as follows:



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

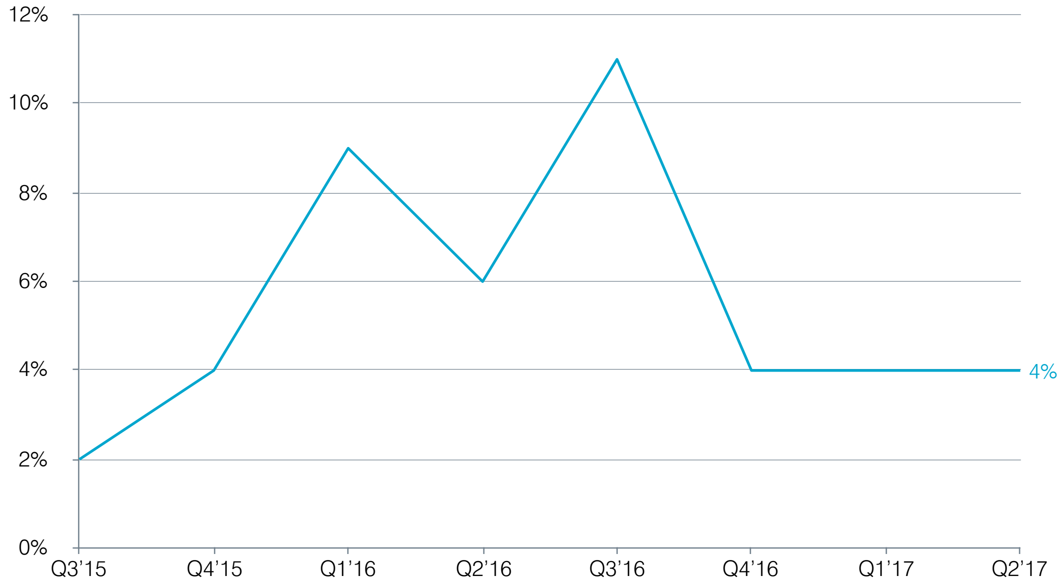


ANTIDILUTION PROVISIONS –The uses of (non-IPO) antidilution provisions in the financings were as follows:

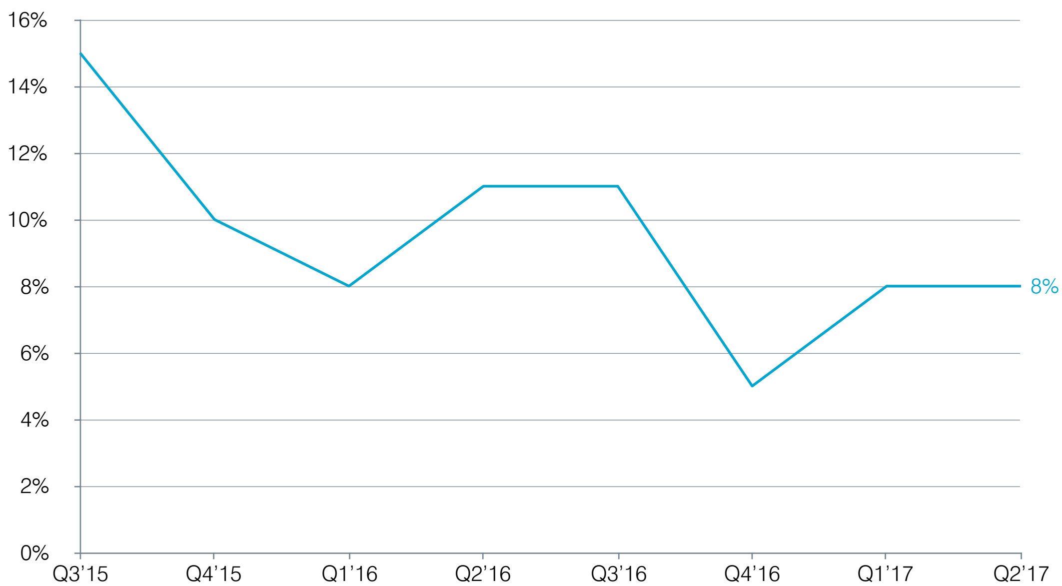


Please note that the chart above only applies to non-IPO anti-dilution provisions. In other words, the chart refers to anti-dilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include anti-dilution provisions designed 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.

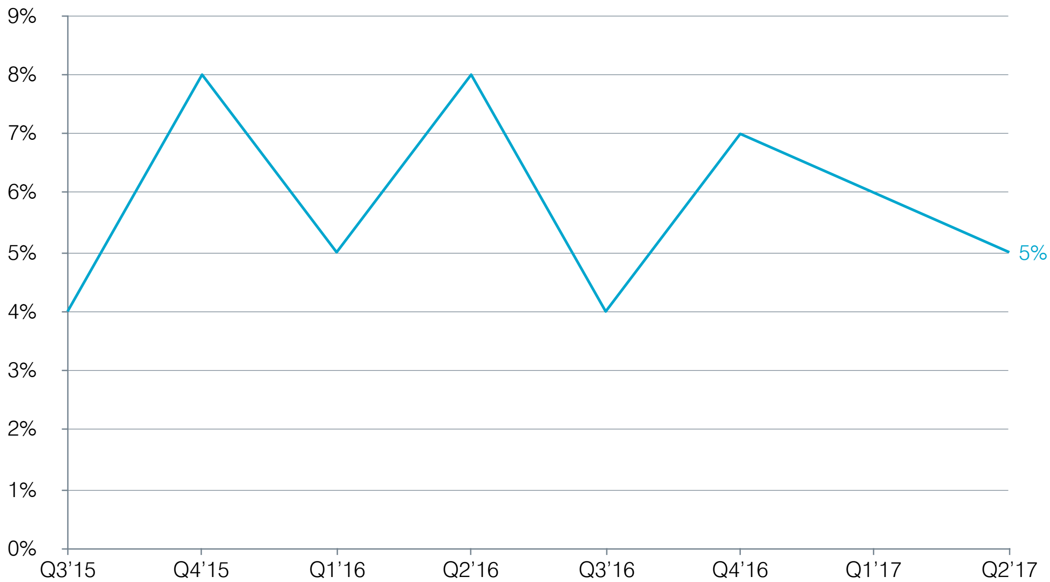
PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:



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 was first published in the first quarter of 2002 and has been published every quarter since then. 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 towards 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. As part of his role, Khang applies his experience as a practicing attorney in the firm's Corporate Group to develop and maintain their collection of standard forms and exemplar documents and wikis. In particular, Khang leads the Corporate Group's efforts to develop templates using automated document assembly software that not only reduces the time it takes to draft transactional documents, but also improves the quality of the documents by reducing the likelihood of human error. He also works as a liaison between the firm's information technology and other administrative departments and practicing attorneys in the firm's Corporate Group on initiatives to exploit information technology and other tools and services in addressing the firm's knowledge management needs.

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.

To view the most recent survey please visit fenwick.com/vcsurvey. To be placed on an email list for future editions of this survey please visit fenwick.com/vcsurvey/sign-up.

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