FENWICK & WEST

Silicon Valley
Venture Capital Survey
First Quarter 2017

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Cynthia Clarfield Hess, Mark Leahy and Khang Tran

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Background

We analyzed the terms of 191 venture financings closed in the first quarter of 2017 by companies headquartered in Silicon Valley.

Overview of Fenwick & West Results

Venture valuations showed small improvements in 1Q17 compared to the prior quarter and valuation metrics are now generally flat with their 13 year averages after having fallen from all-time highs in mid-2015.

- Up rounds exceeded down rounds 73% to 18%, with 9% flat. Both the percentage of up rounds and the percentage of down rounds increased from 4Q16 when up rounds exceeded down rounds 70% to 14%, with 16% flat.

- The Fenwick & West Venture Capital Barometer™ showed an average price increase in 1Q17 of 54%, a slight increase from the 51% recorded in 4Q16 and below the historical average of 56%. The average price increase for Series B and C rounds declined from 107% and 41% in 4Q16 to 75% and 35% in 1Q17, while the average price increase for Series D and E+ rounds increased from 16% and -1% in 4Q16 to 45% and 60% in 1Q17.

- The median price increase of financings in 1Q17 was 29%, which represented a small increase from the 27% in 4Q16 after previously having declined for 6 straight quarters.

- The hardware and "other"[1] industries recorded the strongest valuation results in 1Q17, with the Barometer increasing from 50% and -5% in 4Q16 to 81% and 69% in 1Q17 and the median price increase increasing from 0% and 0% in 4Q16 to 38% and 59% in 1Q17. The life sciences and software industries both recorded weakening valuation results in 1Q17, with the average and median price increases declining and the number of down rounds increasing in 1Q17. The internet/digital media industry recorded a higher average price increase in 1Q17, but the median price increase declined and the number of down rounds increased in 1Q17.

- The use of investor-favorable deal terms, including multiple liquidation preferences, participation rights and cumulative dividends, increased in 1Q17.

1 Consists primarily of venture-backed food, personal care and alternative energy companies.

Overview of Other Industry Data

The U.S. venture environment improved marginally in 1Q17 compared to 4Q16, but remain well below peak levels of the past few years.

- 1Q17 saw an uptick in the amount of capital invested compared to 4Q1, but the pace of investments was flat.
- While the number of venture-backed U.S. IPOs declined slightly in 1Q17 from 4Q16, the amount raised in the quarter from these IPOs was the highest total since 2Q12.
- The number of acquisitions of U.S. venture-backed companies declined in 1Q17 after a spike in U.S. M&A activity in 2016; however, the overall value of the M&A deals in 1Q17 was relatively unchanged from 4Q16.
- Although down from the same period last year, venture capital fundraising remained strong in 1Q17 notwithstanding the absence of mega-funds that closed in the quarter.
- Venture capitalist sentiment improved marginally in 1Q17 from 4Q16, and remains above the 13-year average.

Venture Capital Investment

U.S. venture capital investment activity in 1Q17 saw an uptick in dollars invested from 4Q16, but the pace of investments was relatively unchanged. While investment activity in 1Q17 was significantly lower than peak levels over the past few years, it is in line with historical norms and indicates a return to a more healthy and disciplined level of investment activity.

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

Comparison between 1Q17 and 4Q16:

Down Rounds	1Q17 ($Billions)	4Q16 ($Billions)	Difference %	1Q17 Deals	4Q16 Deals	Difference %
VentureSource [1]	$14.5	$10.6	37%	1,032	868	19%
PitchBook-NVCA [2]	$16.5	$14.3	16%	1,808	1,898	-5%
MoneyTree [3]	$13.9	$12.0	15%	1,104	1,085	2%
Average	**$15.0**	**$12.3**	**22%**	**1,315**	**1,284**	**2%**

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

Comparison between 1Q17 and 1Q16:

Down Rounds	1Q17 ($Billions)	1Q16 ($Billions)	Difference %	1Q17 Deals	1Q16 Deals	Difference %
VentureSource	$14.5	$13.6	7%	1,032	989	4%
PitchBook-NVCA	$16.5	$18.7	-12%	1,808	2,383	-24%
MoneyTree	$13.9	$15.7	-12%	1,104	1,301	-15%
Average	**$15.0**	**$16.0**	**-6%**	**1,315**	**1,558**	**-16%**

According to Pitchbook-NVCA, and coming amid anticipation of increased exit activity, late stage venture capital investment activity increased during 1Q17 with $9.4 billion invested across 432 financings compared to $7.4 billion invested across 375 financings in 4Q16. Meanwhile, seed and early stage investment activity saw the greatest decline in the number of financings, although the amount invested was flat. Similarly, MoneyTree noted that later stage investment deal share climbed to an eight quarter high of 11% in 1Q17, while early stage and seed stage investment deals share fell to an eight quarter low of 24% and 25%. In contrast, VentureSource reported an increase in seed round investment deal share from 6% in 4Q16 to 10% in 1Q17. In addition, of the 191 venture financings closed in 1Q17 that we analyzed, 29% were Series A financings, the highest percentage since we began the survey in 2004, and 18% were Series B financings, the lowest percentage since 2Q12. The percentages of Series C, D and E+ financings in 1Q17 were relatively unchanged from 4Q16.

Investments into information technology and consumer services declined in 1Q17, comprising 32% and 19% of the total number of financings and 23% and 16% of the invested capital in 1Q17 according to VentureSource, down from 36% and 20% of the total number of financings and 27% and 25% of the invested capital in 4Q16. Healthcare allocation trended up from 21% of the total number of financings and 24% of the invested capital in 4Q16 to 24% of the total number of financings and 36% of the invested capital in 1Q17. MoneyTree similarly reported a rise in healthcare financing deal share from 12% in 4Q16 to 17% in 1Q17, a two-year high, while internet financing deal share fell from 46% in 4Q16 to a two-year low of 44% in 1Q17. Additionally, life sciences investment activity in terms of overall deal percentage approached a seven-year high in 1Q17 according to Pitchbook-NVCA.

IPO Activity

There were 7 venture-backed U.S. IPOs in 1Q17 according to VentureSource. While this represented a small decline from the 8 venture-backed IPOs in 4Q16, the amount raised increased substantially from $694 million raised in 4Q16 to $4 billion raised in 1Q17, which was the highest total since 2Q12. The large increase in the amount raised was driven by technology IPOs, including the $3.4 billion IPO of Snap, which was one of the largest IPOs of the past five years. In contrast, life sciences companies continued to experience a slowdown in IPO activity after peaking in 2014. After a disappointing IPO market in 2016, the over 12% rise in the Nasdaq from November 9, 2016 to the end of 1Q17 and the strong performance of 2016 IPO stocks provide a positive backdrop for IPOs in 2017.

Merger and Acquisition Activity

U.S. M&A deal volume decreased in 1Q17, with VentureSource reporting a decline in the number of acquisitions of U.S. venture-backed companies from 203 in 4Q16 to 154 in 1Q17, although the overall value of the deals was relatively unchanged. The number of acquisitions of U.S. venture-backed companies in 1Q17 represents a return to 2014-2015 levels after a spike in U.S. M&A activity in 2016. Meanwhile, the $151 million average deal value in 1Q17, in large part attributable to the $3.7 billion acquisition of AppDynamics by Cisco Systems, reflects the trend over the past few years towards larger deals. Acquisitions of IT companies continued to lead the way, constituting 37% of the total number of deals and 39% of the overall value of the deals in 1Q17. Given the sizable cash hordes of public technology companies, the technology industry should continue to see high M&A rates despite the higher valuations.

Venture Capital Fundraising

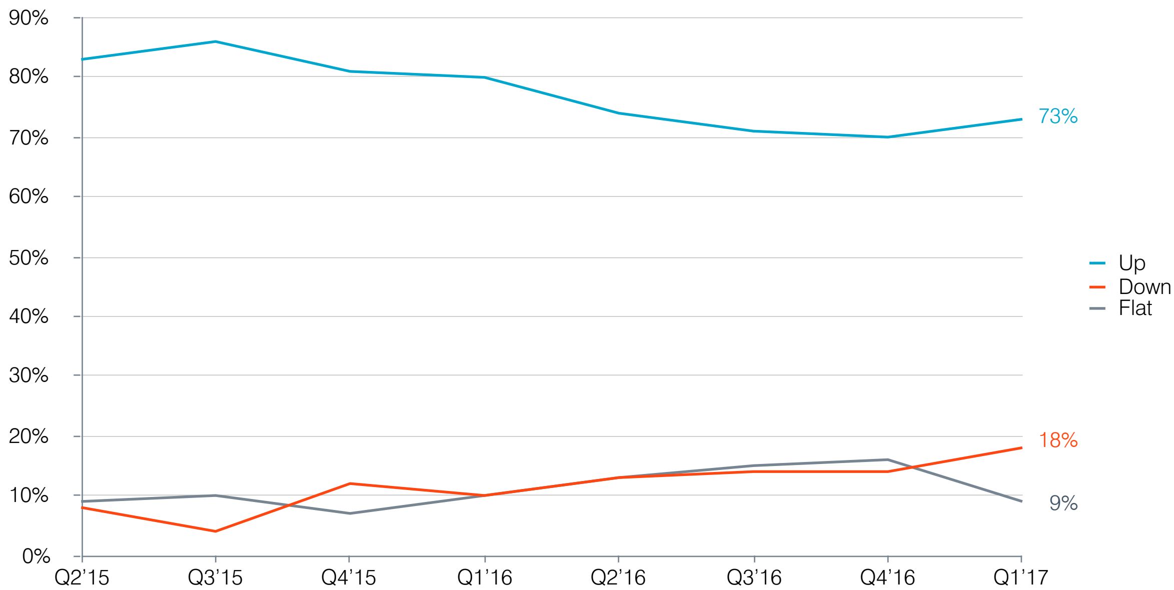
Venture capitalists raised $7.9 billion in 1Q17 according to the Pitchbook-NVCA VentureMonitor, an increase from the $7.2 billion raised in 4Q16, but down from the $10.3 billion raised in 1Q16. The number of funds closed declined to 58 in 1Q17 from 66 in 4Q16 and 70 in 1Q16, although the nine first-time funds closed during 1Q17 was the most in the last five quarters. There was a notable absence of mega-funds (fund size of more than $1 billion) that closed in 1Q17 after a number of prominent VCs raised mega-funds in 2016, with only two of the 58 funds that closed in 1Q17 valued at more than $500 million and none valued at more than $1 billion. At the other end of the spectrum, the number of microfunds (fund size of less than $50 million) that closed in 1Q17 also declined. The strong fundraising numbers in 1Q17 bodes well for VC fundraising activity during the remainder of 2017; however, the limited number of established VCs still on tap to raise large funds likely means less money overall will be raised in 2017 than in 2016.

Venture Capital Sentiment

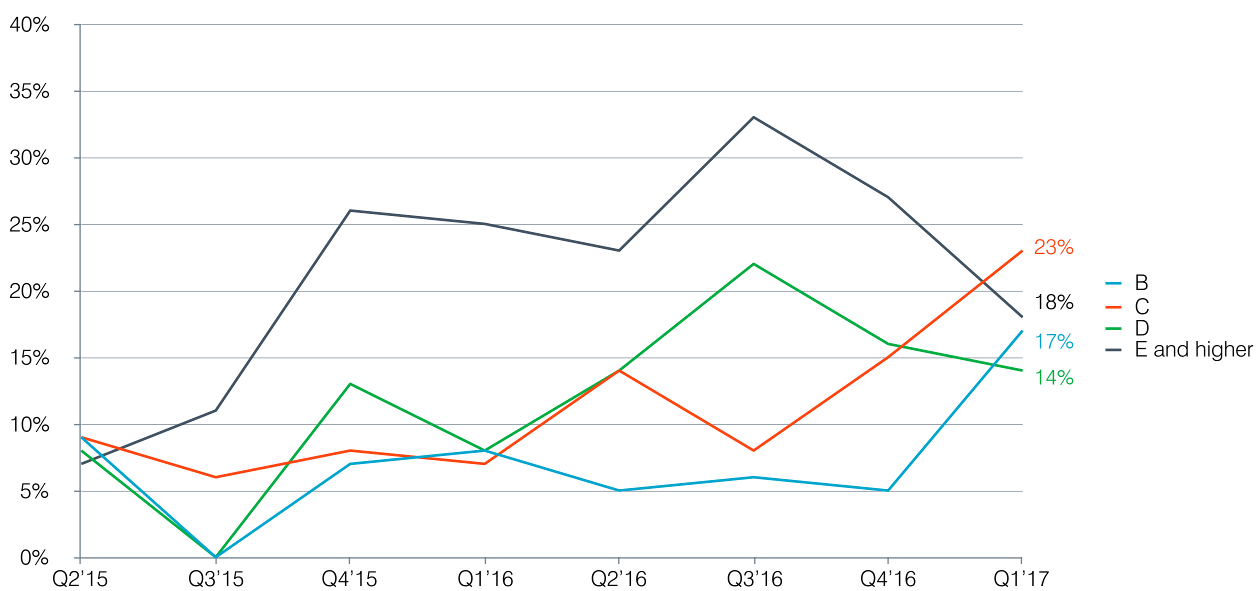
The Silicon Valley Venture Capitalists Confidence Index® by Professor Mark Cannice at the University of San Francisco reported a slight improvement in the confidence level of Silicon Valley venture capitalists from 3.81 (on a 5 point scale, with 5 indicating high confidence and 1 indicating low confidence) registered in 4Q16 to 3.83 registered in 1Q17. Although VC confidence was little changed from the prior quarter, and remains above the 13-year average of 3.72, the issues emphasized in 1Q17 shifted from the macro issues that were the focus in 4Q16, particularly political uncertainty related to the U.S. election and various international issues, to more traditional venture issues, such as the rate of innovation, new market opportunities, and better exit expectations.

Fenwick & West Data on Valuation

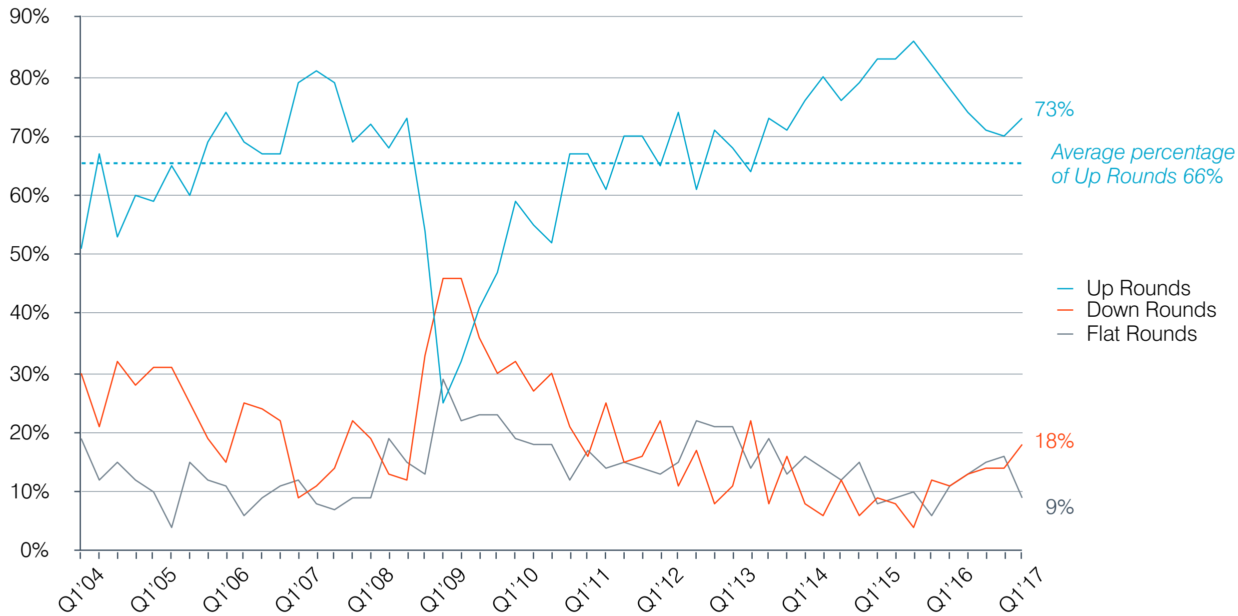
PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



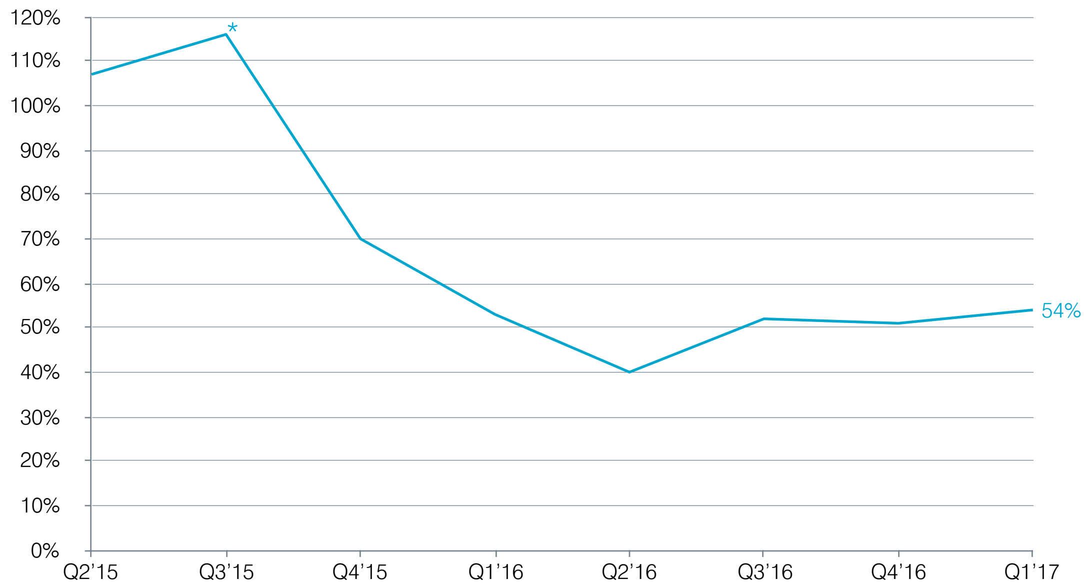
The percentage of **DOWN ROUNDS** by series were as follows:



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

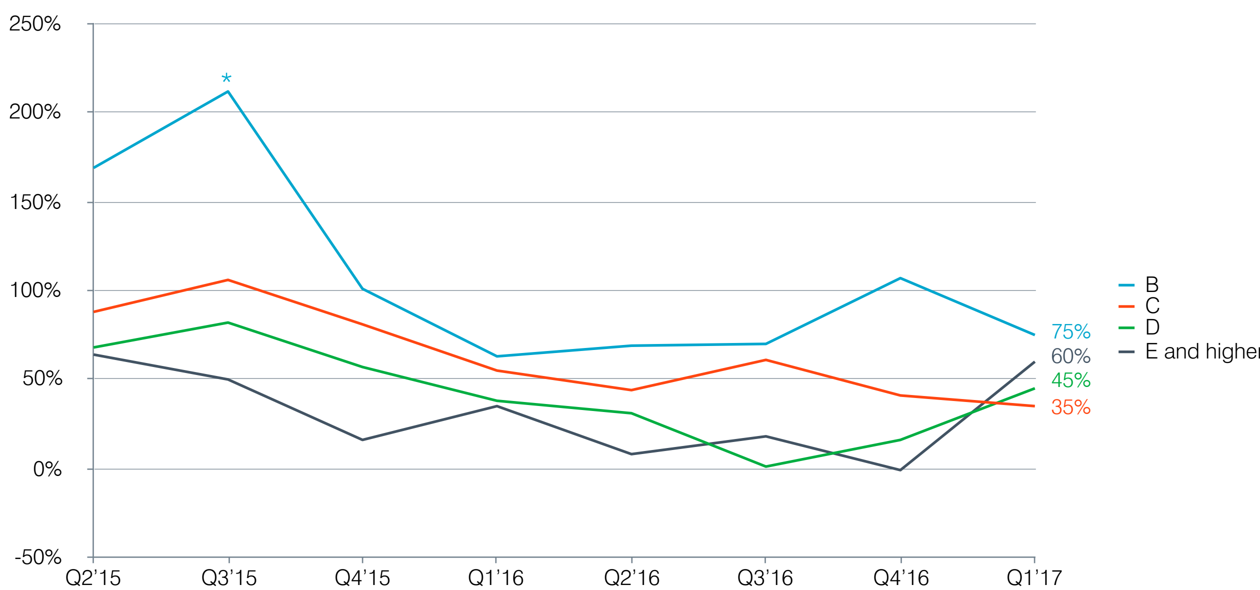


THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (magnitude of price change)—Set forth below is the <u>average</u> percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing.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



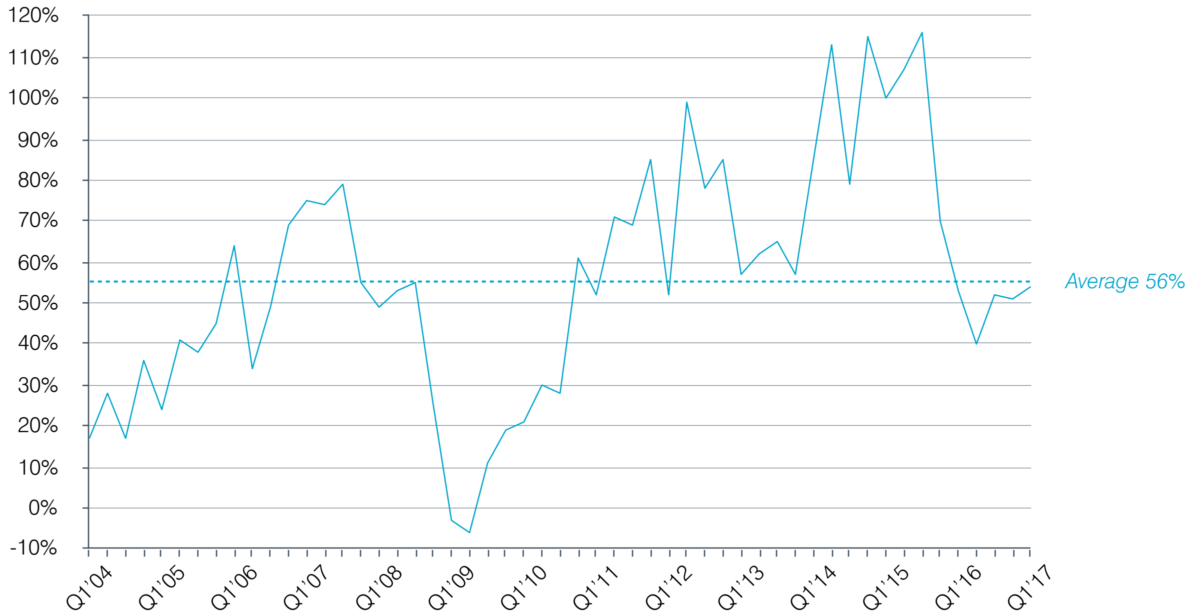
* One company had an over 3000% up round in 3Q15. If this financing was excluded, the Barometer result for 3Q15 would have been 93%.

The Barometer results by series are as follows:

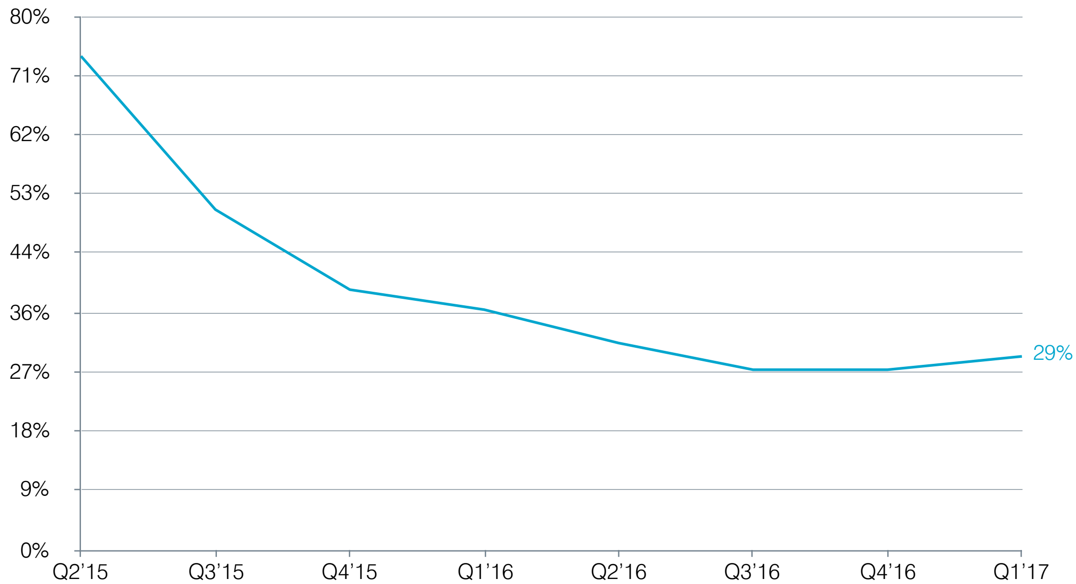


* Please note that the above-mentioned over 3000% up round financing in 3Q15 was a Series B round. If this financing was excluded, the Barometer result for Series B rounds in 3Q15 would have been 132%.

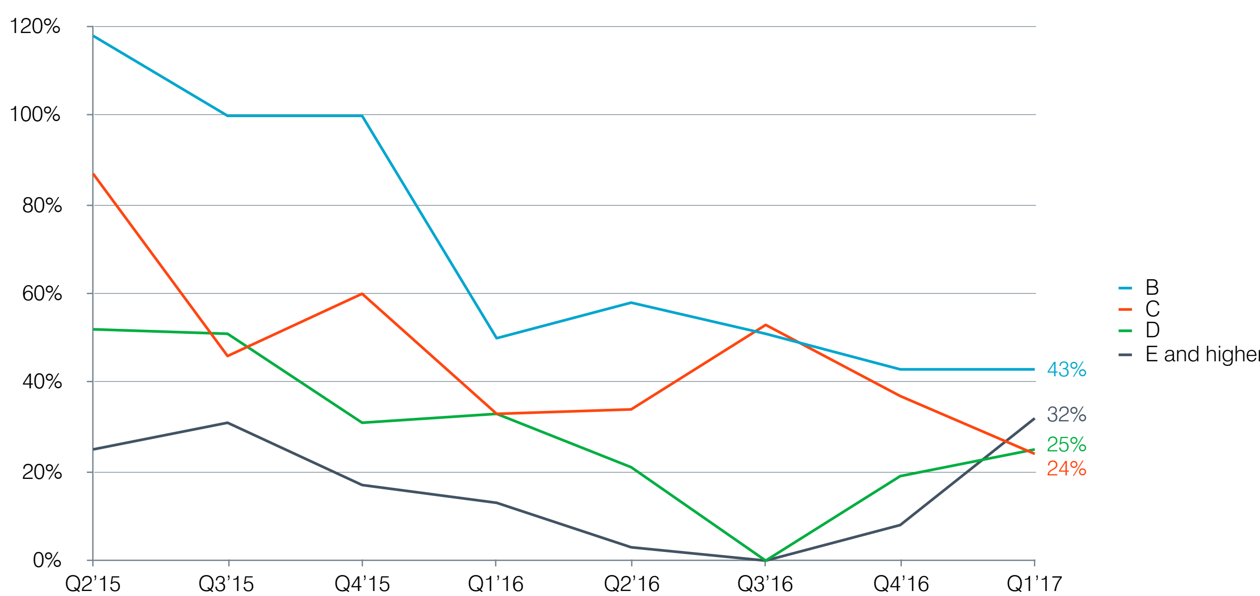
EXPANDED BAROMETER GRAPH—Set forth below is the average percentage price change for each quarter since we began calculating this metric in 2004.



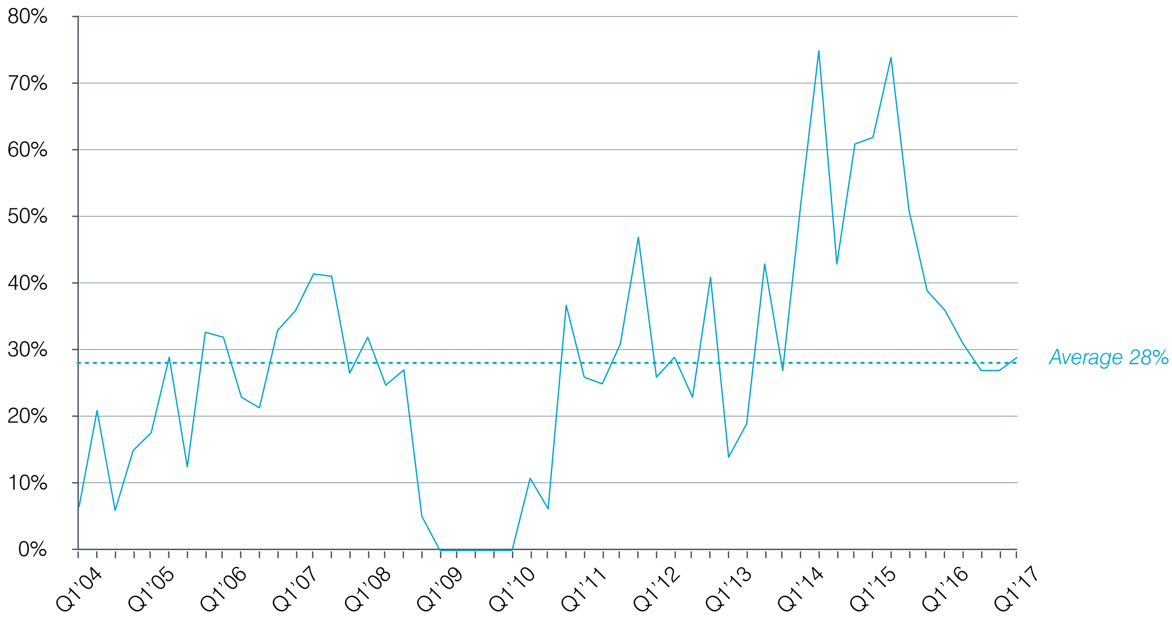
MEDIAN PERCENTAGE PRICE CHANGE—Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, down 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	71%	20%	10%	42%	27%	51
Hardware	76%	18%	6%	81%	38%	17
Life Science	66%	17%	17%	41%	26%	29
Internet/Digital Media	72%	24%	3%	65%	25%	29
Other	100%	0%	0%	69%	59%	10
Total all Industries	**73%**	**18%**	**9%**	**54%**	**29%**	**136**

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.

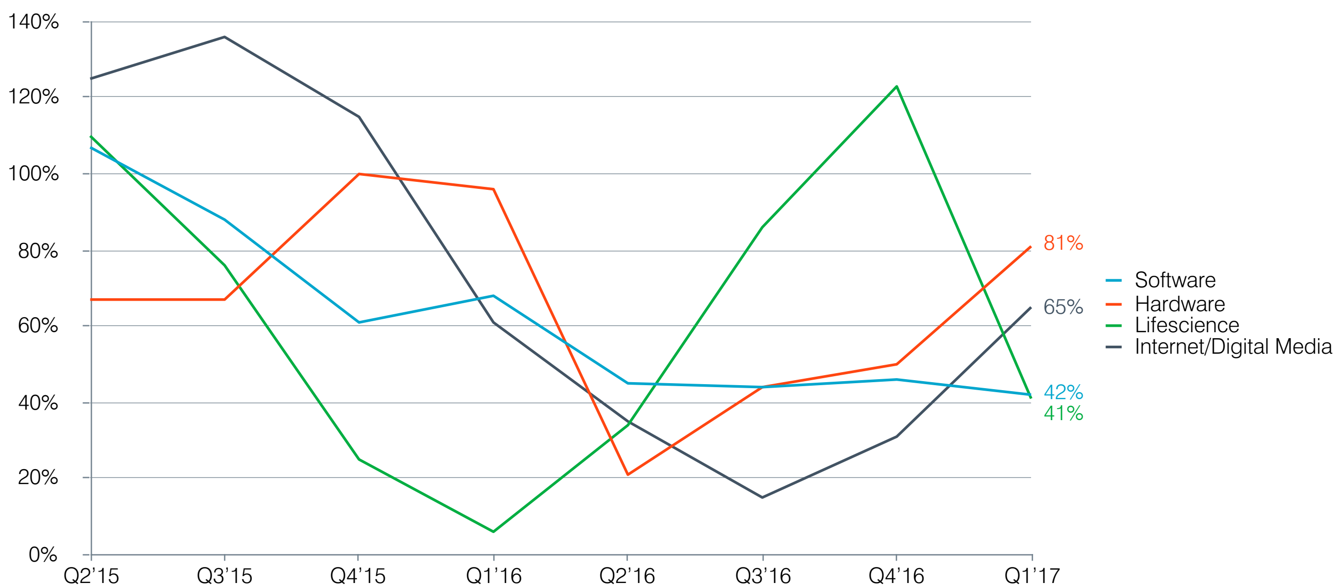
Down Rounds	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
Software	3%	6%	10%	6%	14%	14%	13%	20%
Hardware	25%	0%	18%	20%	16%	8%	18%	18%
Life Science	12%	6%	25%	19%	13%	18%	13%	17%
Internet/Digital Media	9%	4%	6%	10%	13%	20%	15%	24%
Other	11%	0%	11%	0%	8%	0%	17%	0%
Total all Industries	**8%**	**4%**	**12%**	**10%**	**13%**	**14%**	**14%**	**18%**

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

Barometer	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
Software	107%	88%	61%	68%	45%	44%	46%	42%
Hardware	67%	67%	100%	96%	21%	44%	50%	81%
Life Science	110%	76%	25%	6%	34%	86%	123%	41%
Internet/Digital Media	125%	136%	115%	61%	35%	15%	31%	65%
Other	108%	509%*	33%	19%	56%	78%	-5%	69%
Total all Industries	**107%**	**116%**	**69%**	**55%**	**39%**	**52%**	**51%**	**54%**

* If the above-mentioned over 3000% up round financing in 3Q15 was excluded, the Barometer results for companies in the "Other" industry group and for all reviewed companies in 3Q15 would have been 47% and 93%, respectively.

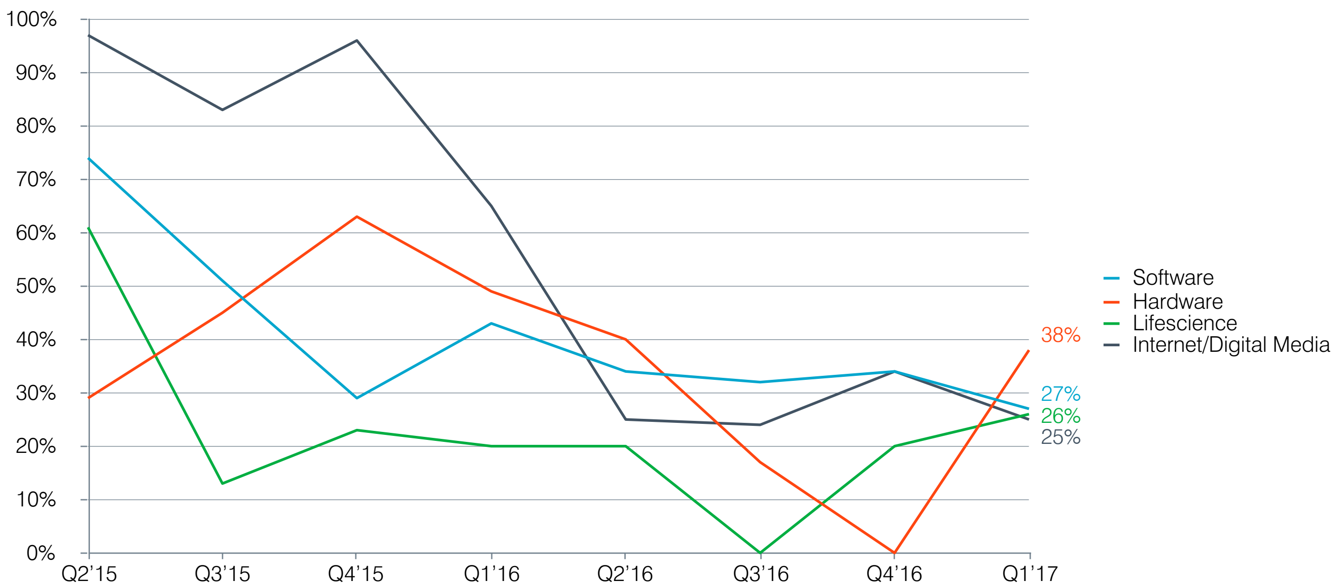
A graphical representation of the above is below.



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	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
Software	74%	51%	29%	43%	34%	32%	34%	27%
Hardware	29%	45%	63%	49%	40%	17%	0%	38%
Life Science	61%	13%	23%	20%	20%	0%	20%	26%
Internet/Digital Media	97%	83%	96%	65%	25%	24%	34%	25%
Other	77%	36%	38%	9%	39%	53%	0%	59%
Total all Industries	**74%**	**51%**	**39%**	**37%**	**31%**	**27%**	**27%**	**29%**

A graphical representation of the above is below.

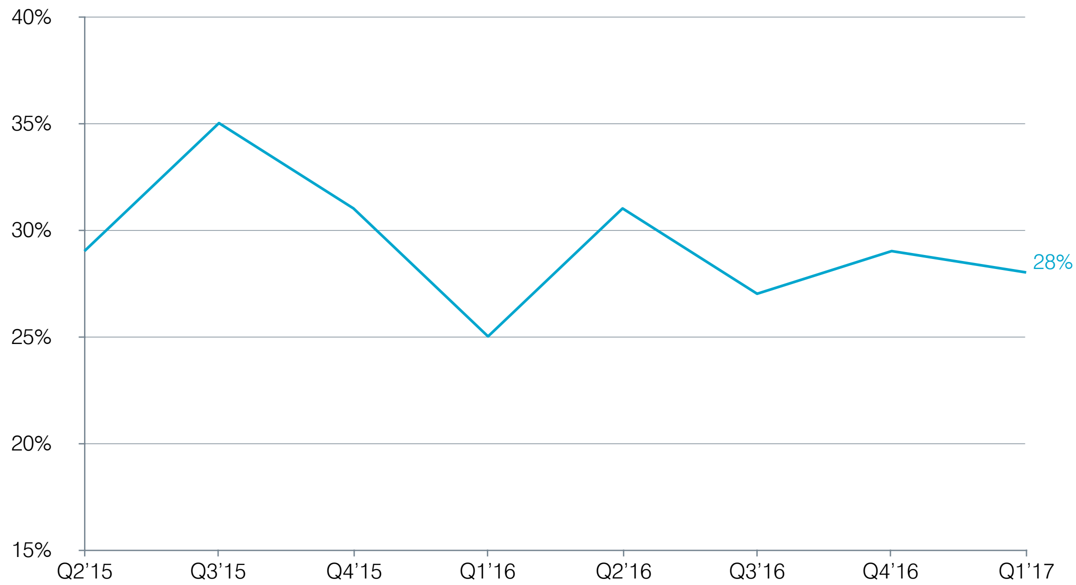


FINANCING ROUND—This quarter's financings broke down by series according to the chart below.

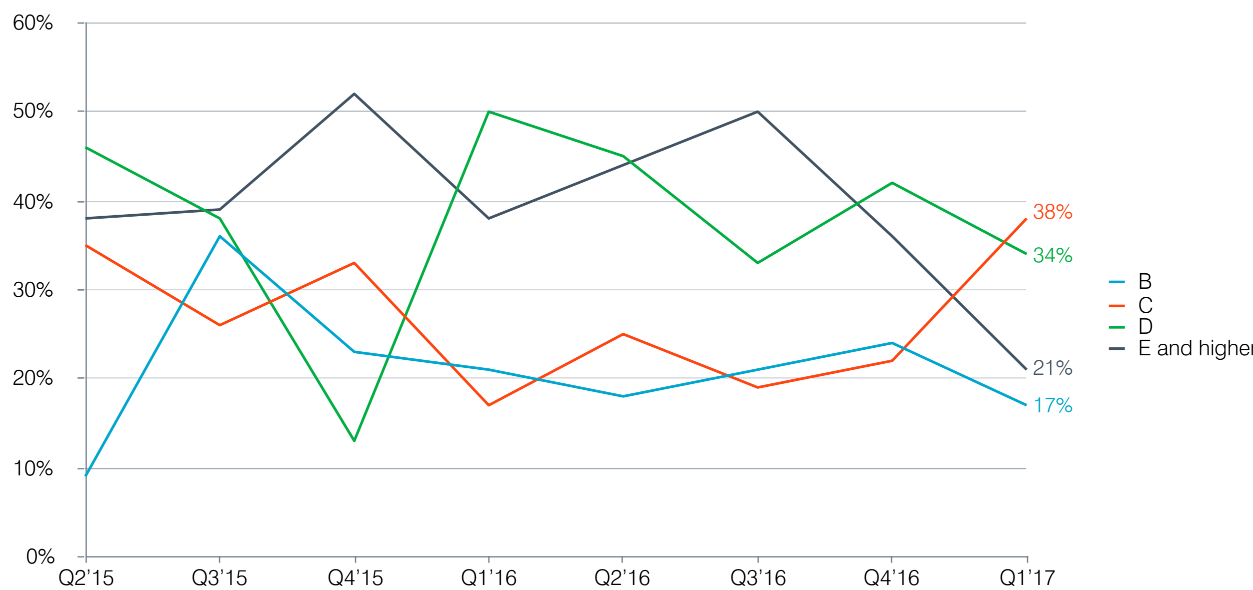
Series	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
Series A	18%	23%	27%	23%	20%	26%	22%	29%
Series B	28%	22%	21%	28%	24%	32%	28%	18%
Series C	20%	19%	25%	29%	24%	17%	20%	20%
Series D	16%	14%	11%	9%	12%	12%	14%	15%
Series E and Higher	17%	22%	16%	11%	21%	12%	16%	17%

Fenwick & West Data on Legal Terms

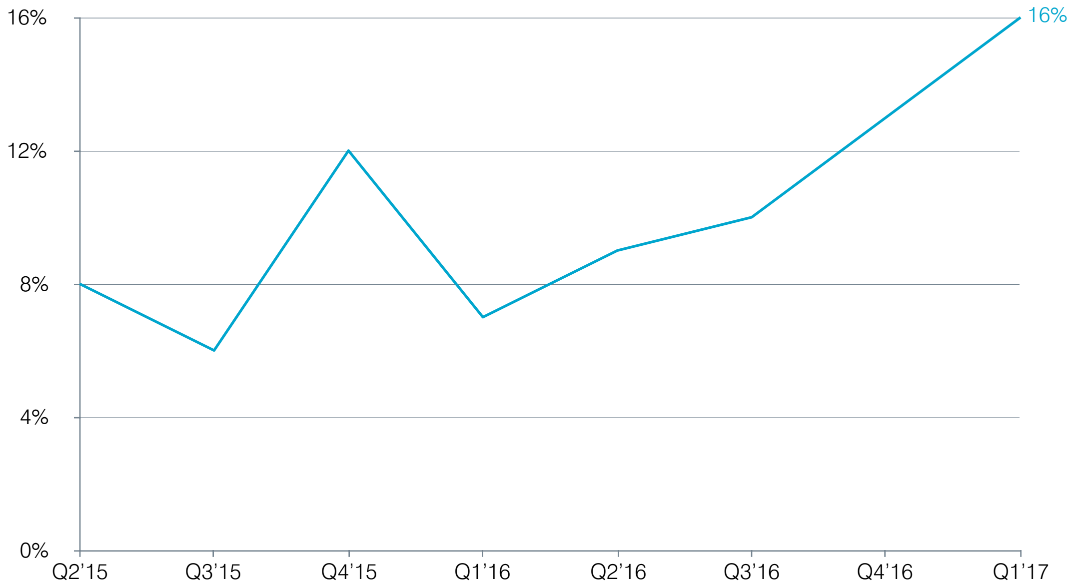
LIQUIDATION PREFERENCE—Senior liquidation preferences were used in the following percentages of financings.



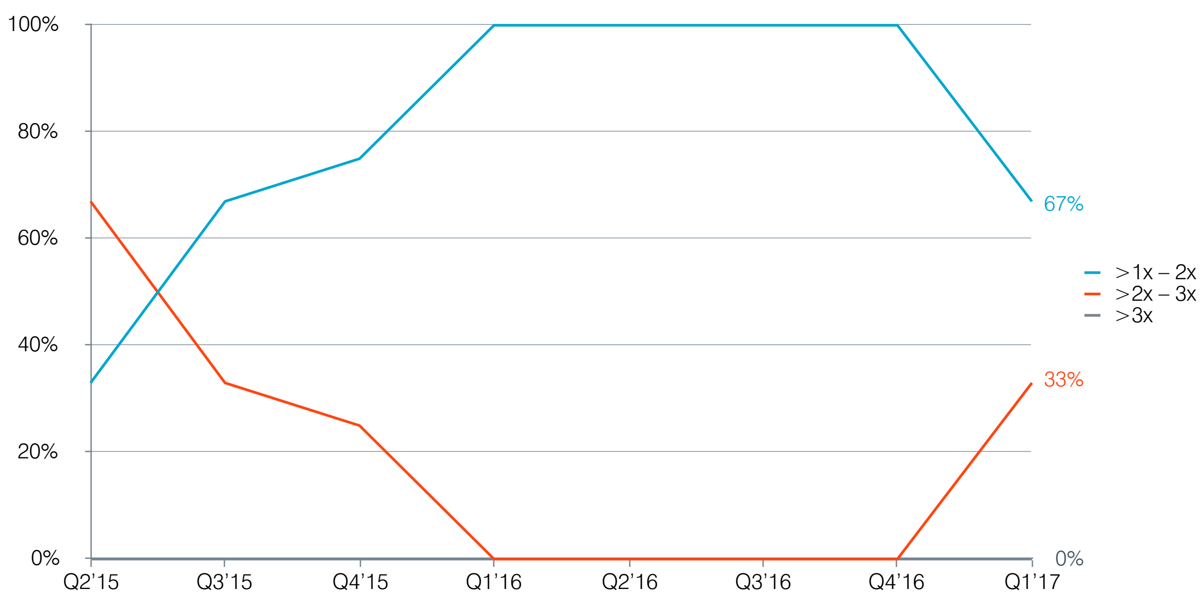
The percentage of senior liquidation preference by series was as follows:



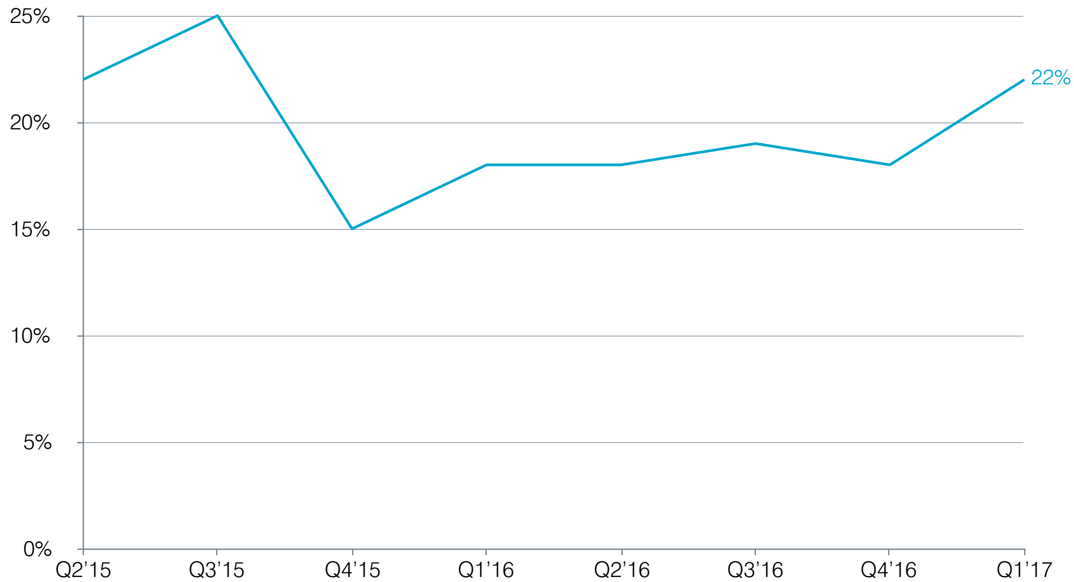
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



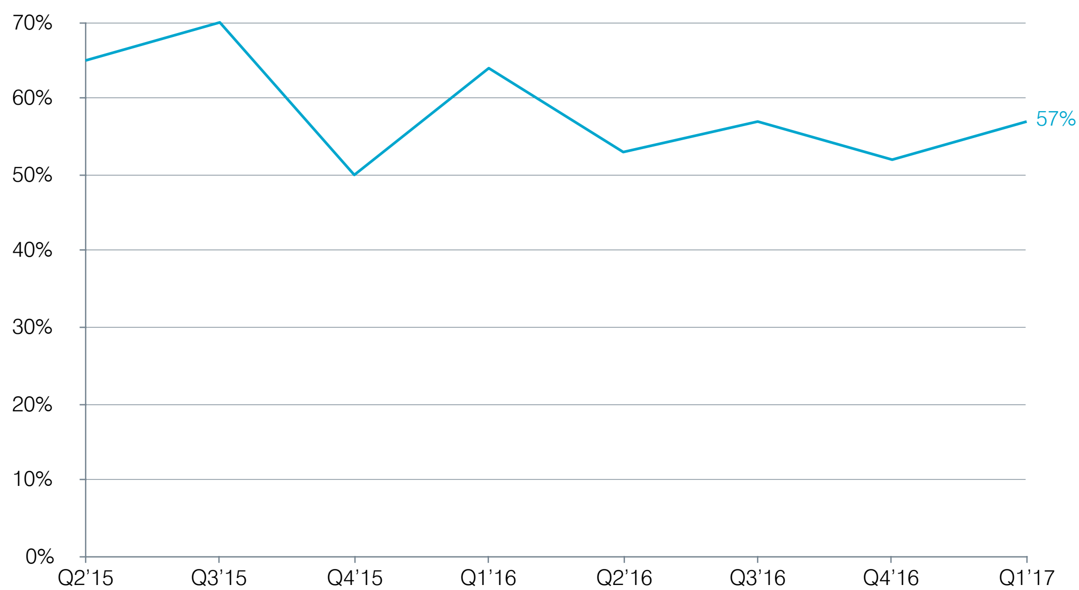
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



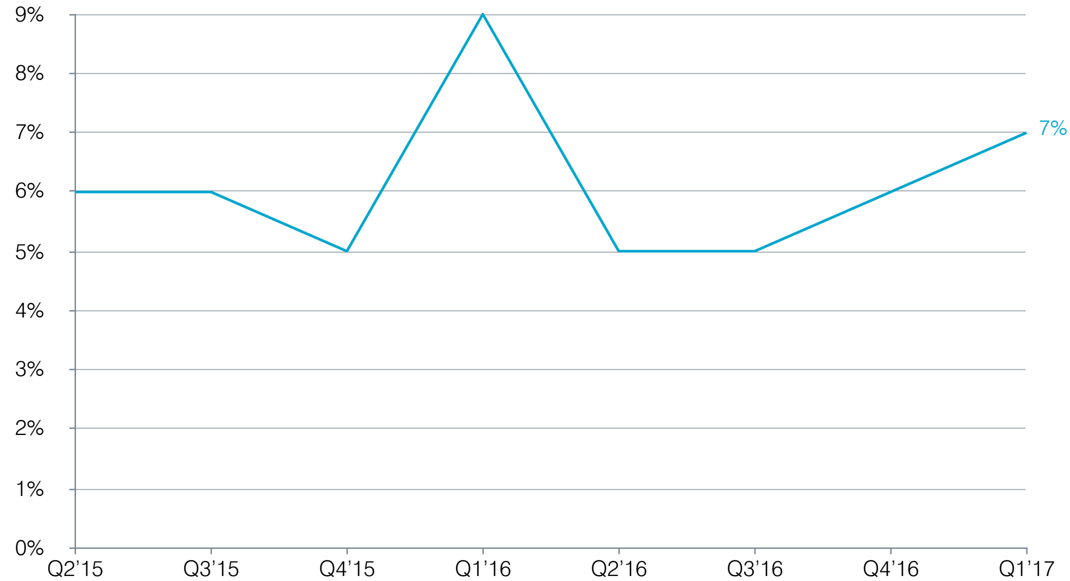
PARTICIPATION IN LIQUIDATION — The percentages of financings that provided for participation were as follows:



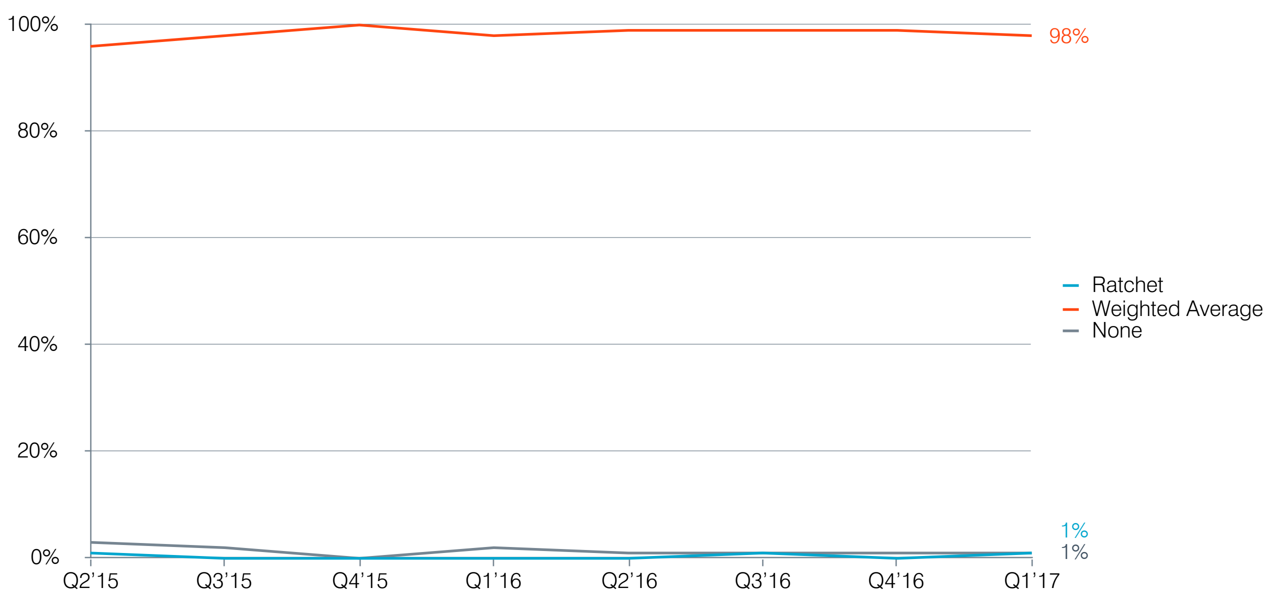
Of the financings that had participation, the percentages that were not capped were as follows:



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

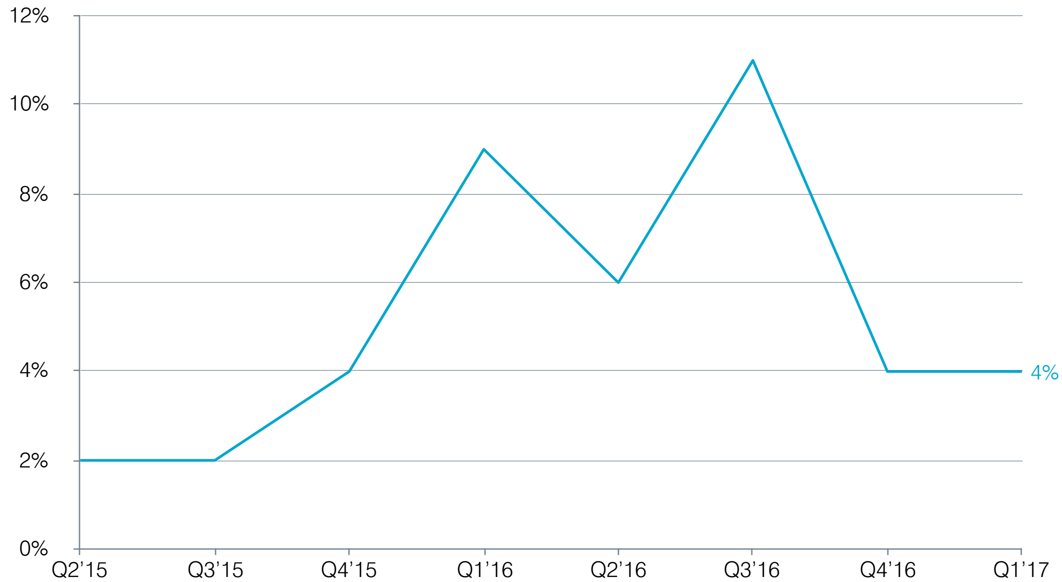


ANTIDILUTION PROVISIONS –The uses of (non-IPO) antidilution provisions in the financings were as follows:

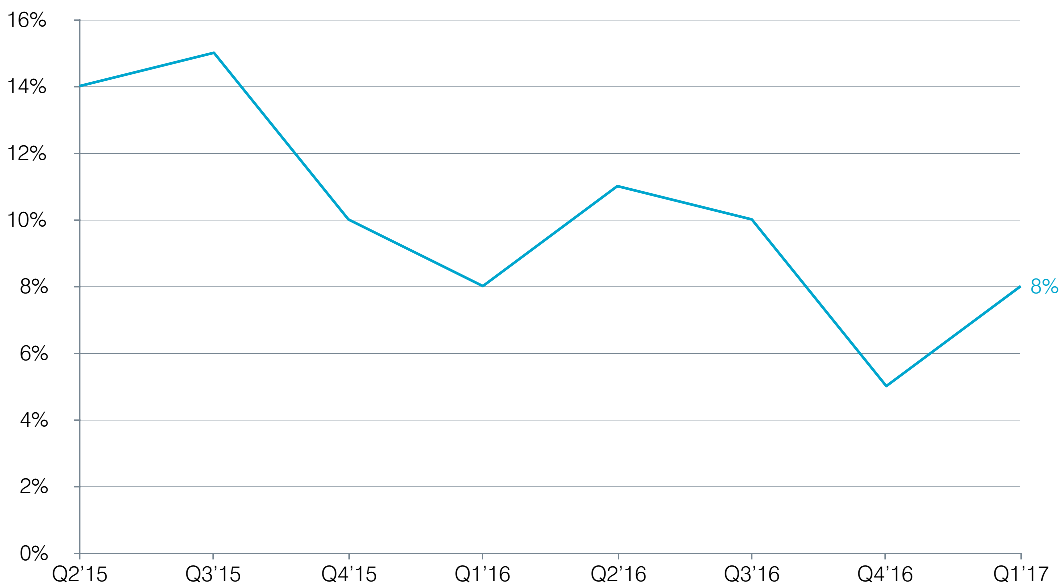


Please note that the chart above only applies to non-IPO anti-dilution provisions. In other words, the chart refers to anti-dilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include anti-dilution provisions designed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

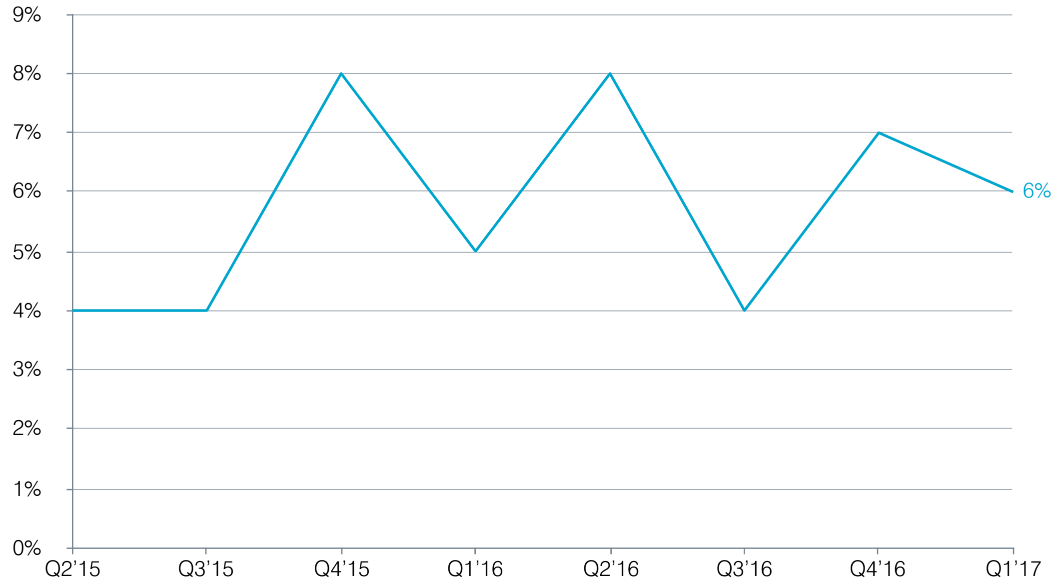
PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:



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.

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