Silicon Valley Venture Capital Survey
Fourth Quarter 2014

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Fenwick
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Background

We analyzed the terms of 150 venture financings closed in the fourth quarter of 2014 by companies headquartered in Silicon Valley.

Overview of Fenwick & West Results

Valuation results continued very strong in 4Q14.

- Up rounds exceeded down rounds 79% to 6%, with 15% flat. This was an increase from 3Q14 when up rounds exceeded down rounds 76% to 12%, with 12% flat.
- The Fenwick & West Venture Capital Barometer™ showed an average price increase in 4Q14 of 115%, an increase over the 79% recorded in 3Q14, and the highest amount recorded since we began calculating this statistic in 2005.
- The median price increase of financings in 4Q14 was 61%, an increase from the 43% registered in 3Q14.
- The software industry again led all industries with 50% of the deals and the highest median price increase, while internet/digital media had the second largest percentage of deals and the highest average price increase and highest percentage of up rounds. The hardware industry also had very good returns and the life science industry had solid returns.
- We note that the valuation strength was seen across series, and that investor favorable terms such as senior liquidation preference were used relatively infrequently.

Overview of Other Industry Data

The U.S. venture ecosystem in general had a very strong 4Q14 and full year 2014. Venture investments (in dollars), the number of venture backed IPOs and proceeds from the acquisition of venture backed companies all hit their highest annual levels since 2000. That said, there are some aspects that bear noting.

- Venture investment (in dollars) in 4Q14 and full year 2014 hit its highest levels since 2000. But the number of deals was basically flat for both time periods, indicating that the increased investment is going into larger rounds, not more companies. Many of those large rounds are late stage rounds that might have been public fundings in previous economic cycles when companies went public earlier.
- The number of venture backed IPOs increased slightly in 4Q14, and significantly for the full year 2014, which had the highest number of IPOs since 2000. However, most of the IPOs for both periods were life science companies, and in January 2015 seven of the eight venture backed IPOs were in the life sciences industry.
- Venture valuations continued to increase, but the public market was not as frothy.
- M&A provided substantial proceeds in both 4Q14 and full year 2014, with 2014 proceeds the highest since 2000. But the number of deals declined in 4Q14 and was up only modestly for the full year.

- The amount raised by venture funds declined in 4Q14, but increased significantly for the full year, hitting its highest level since 2007. The number of funds raising money increased noticeably for the quarter and the year, with 2014 having the largest number of funds raising money since 2001. The top 3% of funds raised over one-third of the money.
- The percentage of U.S. venture investment coming from corporate VCs in 2014 reached its highest level since 2001. However, the percentage declined each quarter of 2014.
- The crowdfunding sector is continuing to grow and innovate, and its effect on the venture ecosystem and potential for disruption appears to be increasing.
- **Conclusion:** The companies that are at the lead in creating significant new industries or disrupting old industries are receiving huge venture investments at very high valuations, but the exuberance is selective. Compared to the dot-com years, far fewer companies are being funded or going public, venture funds are raising less money, and the public markets are much more discerning.

- **Venture Capital Investment**

Venture capital investment in U.S. companies (in dollar terms) increased significantly in both 4Q14 and for the full year of 2014. However, the number of venture deals was effectively flat for both the quarter and the year, as deal size increased. A summary of the results published by three leading providers of venture data is below.

4Q14 Investing into Venture Backed U.S. Companies

	4Q14 ($Billions)	3Q14[1] ($Billions)	Difference %	4Q14 Deals	3Q14[1] Deals	Difference %
VentureSource[2]	$13.8	$11.0	25%	814	899	-9.5%
Money Tree[3]	$14.8	$9.9	49%	1,109	1,023	8.4%
CBI[4]	$13.5	$9.8	38%	884	878	0%
Average	$14.0	$10.2	37%	936	933	0%

[1] As reported October 2014

[2] Dow Jones VentureSource (“VentureSource”)

[3] The PWC/NVCA MoneyTree™ Report based on data from Thomson Reuters (“MoneyTree”)

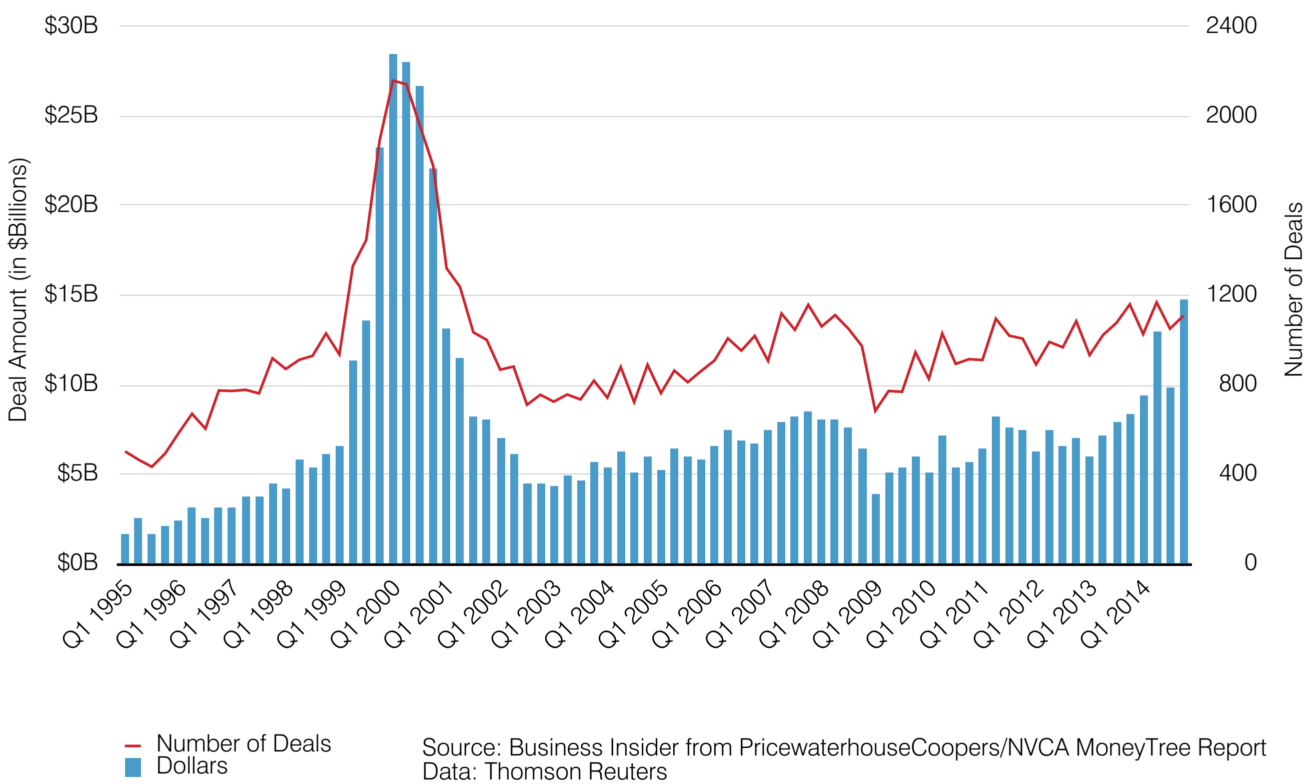
[4] CB Insights (“CBI”)

Full Year 2014 Investing into Venture Backed U.S. Companies

	2014 ($Billions)	2013 ($Billions)	Difference %	2014 Deals	2013 Deals	Difference %
VentureSource	$52	$35	47%	3,682	3,837	-4%
Money Tree	$48	$30	61%	4,356	4,193	4%
CBI	$47	$29	62%	3,617	3,354	8%
Average	$49	$31	58%	3,885	3,795	2%

As indicated in the chart below, investment levels in 4Q14 were the highest since the "dot-com bubble" years of 1999-2000. Note, however, that the amounts in the chart are not inflation adjusted, and that the current trend of companies staying private longer has likely resulted in more later stage venture financings than would have been seen in the past, when companies went public quicker and obtained later stage financing from the public markets.

Investment into Venture Backed U.S. Companies

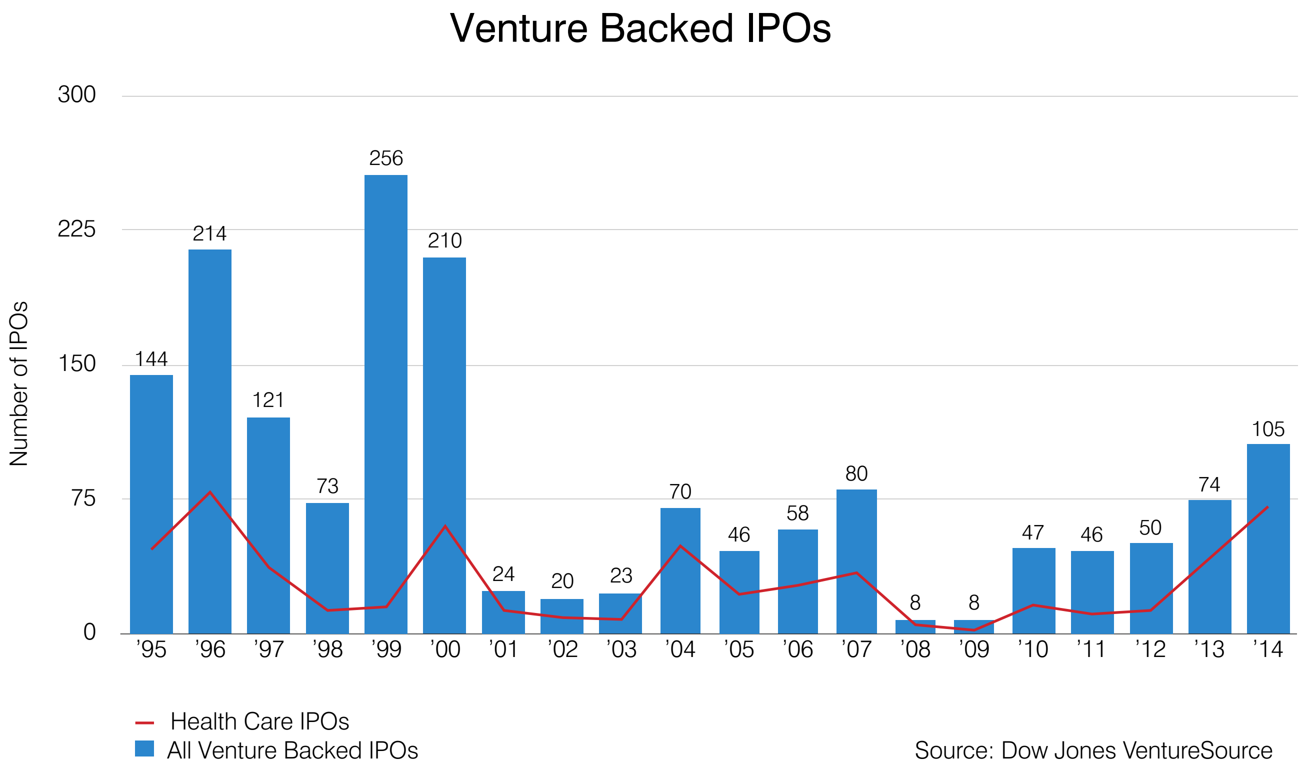


Source: Business Insider from PricewaterhouseCoopers/NVCA MoneyTree Report
Data: Thomson Reuters

Software companies received 41% of total venture investment in 2014, the highest percentage since at least 1995, with internet specific companies receiving 25% and life science companies receiving 18%, according to the MoneyTree. There were over 40 deals in 2014 that raised over $100 million.

- **IPO Activity**

There were 21 venture backed U.S. IPOs raising $3 billion in 4Q14, basically flat with the 22 IPOs in 3Q14, but a significant increase from the $1.3 billion raised in 3Q14, according to VentureSource. For the full year 2014 there were 105 venture back IPOs raising $9.2 billion, a 42% and 12% increase respectively from the 74 IPOs raising $8.2 billion in 2013.



Similarly Thomson Reuters and the NVCA ("Thomson/NVCA") reported an 18% increase in the number of IPOs and a 68% increase in the amount raised in 4Q14 compared to 3Q14, and a 42% increase in IPOs and a 39% increase in the amount raised in 2014 compared to 2013.

Tech IPOs Mixed, Life Science Strong

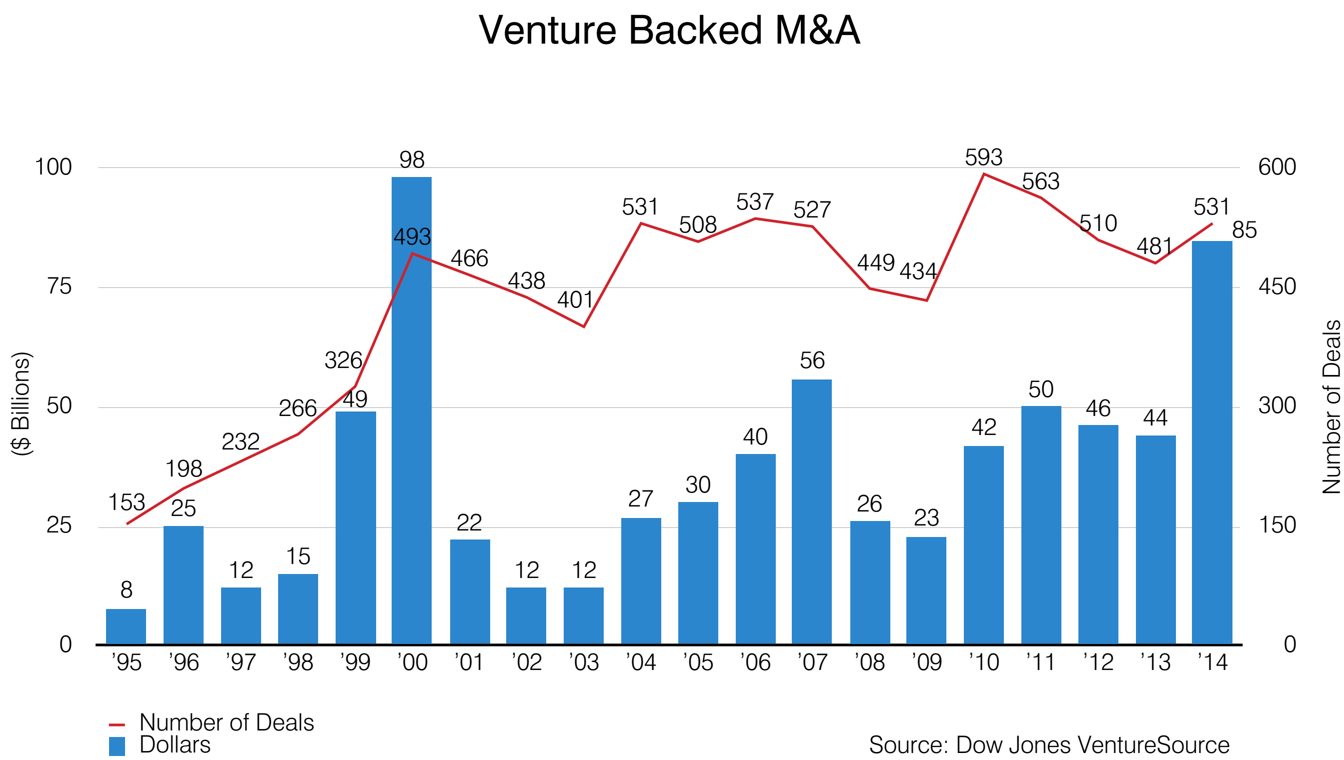
For the second year in a row, biotech companies accounted for a majority of the IPOs in 2014, totaling 59 deals, the sector's largest number of IPOs since at least 1994. Life science companies in general accounted for 70% of 2014 venture backed IPOs and 60% (16) of 4Q14 IPOs. However tech companies, with only ten 4Q14 IPOs, raised $2.4 billion, compared to $1.7 billion for the 16 life science companies.

The public markets generally do not appear to be deferring to venture capital valuations in pricing IPOs, nor providing public tech companies with exuberant valuations. For example, the recent New Relic, Hortonworks and Box IPOs all priced below their most recent venture round price, and large tech companies like Google, Apple, Microsoft and IBM were all trading at forward P/Es below the average of the S&P 500, per Yahoo Finance. The Thomson Post-Venture Capital Index, which measures the change in stock price of venture backed companies that went public over the past ten years, was down 15% in 2014, compared to Nasdaq which was up 13%.

- **Merger and Acquisition Activity**

  There were 102 acquisitions of venture backed companies for a total of $32.3 billion in 4Q14, a 60% increase in dollar volume but a 23% decline in deal volume from 3Q14 (as reported in October 2014[1]), according to VentureSource. If the $19 billion WhatsApp acquisition, which closed in 4Q14, was excluded, the dollar volume of 4Q14 M&A would have declined 34% from 3Q14.

  For the full year of 2014 there were 531 acquisitions for $85 billion, an 18% and 107% increase respectively over the 449 acquisitions and $41 billion raised in 2013 (the dollar increase would have been 61% without WhatsApp). The amount of acquisition proceeds was the highest since 2000 by a large amount.



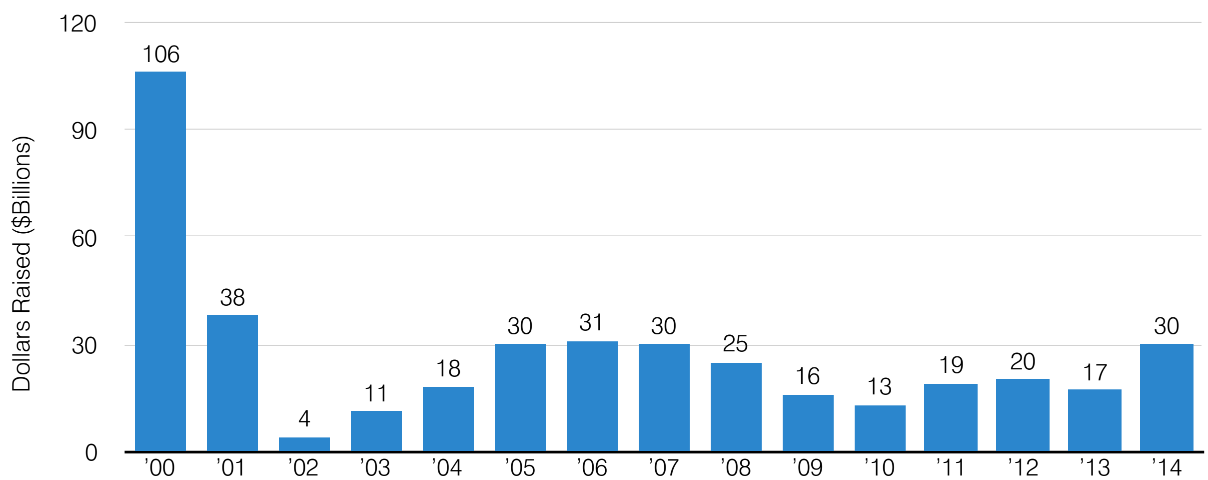
Similarly, Thomson/NVCA reported 95 acquisitions in 4Q14, a 20% decrease from 3Q14, and 445 acquisitions in all of 2014, a 16% increase over 2013.

- **Venture Capital Fundraising**

  U.S. venture funds raised $5.6 billion in 75 funds in 4Q14, an 8% decline in dollars and a 25% increase in funds compared to the $6.1 billion raised by 60 funds in 3Q14 (as reported in October 2014[1]), according to Thomson/NVCA. For the entire year, $30 billion was raised by 254 funds, a 69% increase in dollars and a 23% increase in number of funds from the $17.7 billion raised by 207 funds in 2013. However, fundraising dollars declined in every quarter of 2014 (Q1 - $10B, Q2 - $8B, Q3 - $6.2B, Q4 - $5.6B).

  Similarly, VentureSource reported $33 billion raised by 332 funds in 2014, a 62% increase in dollars and a 27% increase in funds over 2013.

U.S. Venture Capital Fundraising



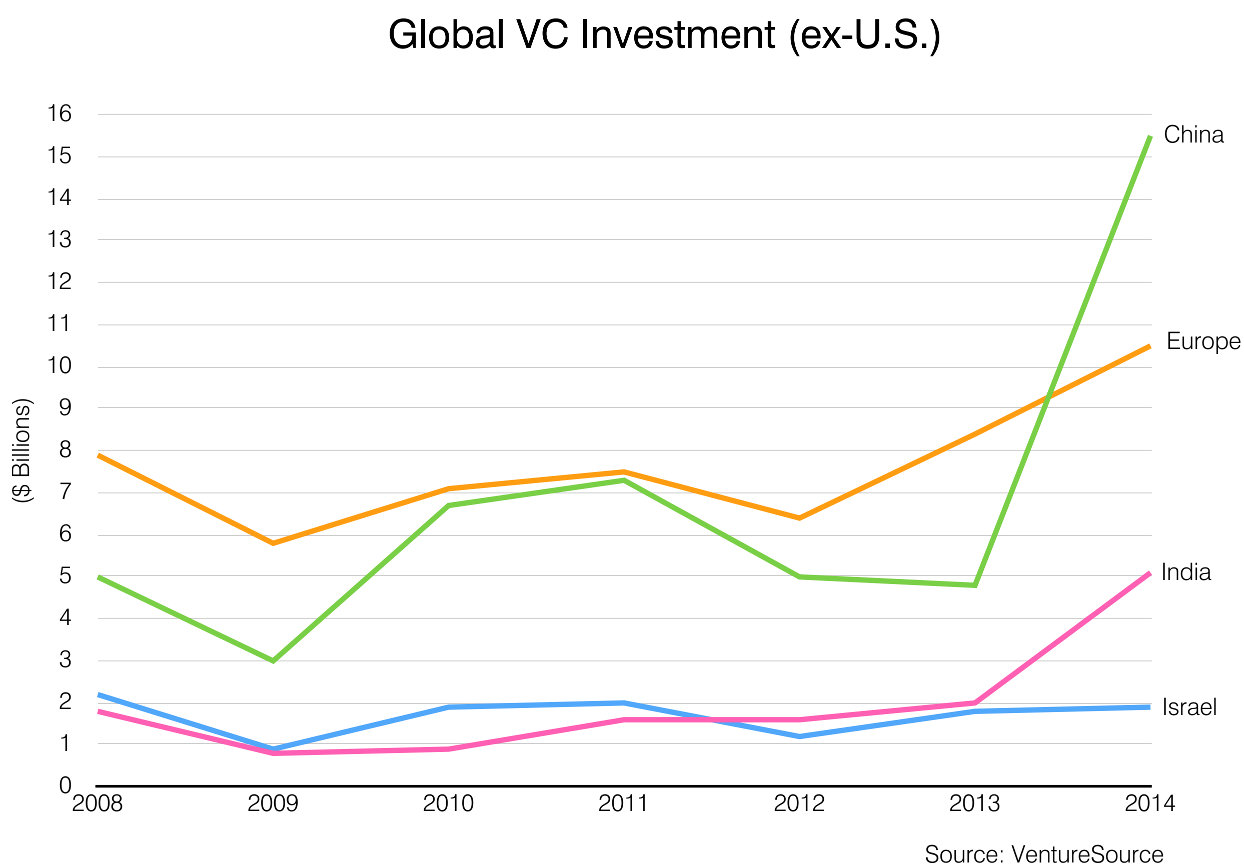
Source: Thomson Reuters/NVCA

Fundraising is following a barbell pattern, with approximately 100 of the funds closed in 2014 being less than $50M, a 180% increase over 2013, according to CBI, and with eight $1 billion or larger funds accounting for over one third of the total funds raised during the year, according to VentureWire.

Note that amounts reported to be raised by U.S. venture funds do not include amounts raised by other types of investment entities, such as corporate venture, mutual and hedge funds, sovereign wealth funds, non-U.S. venture firms and seed funds, which also invest to varying degrees in venture backed companies.

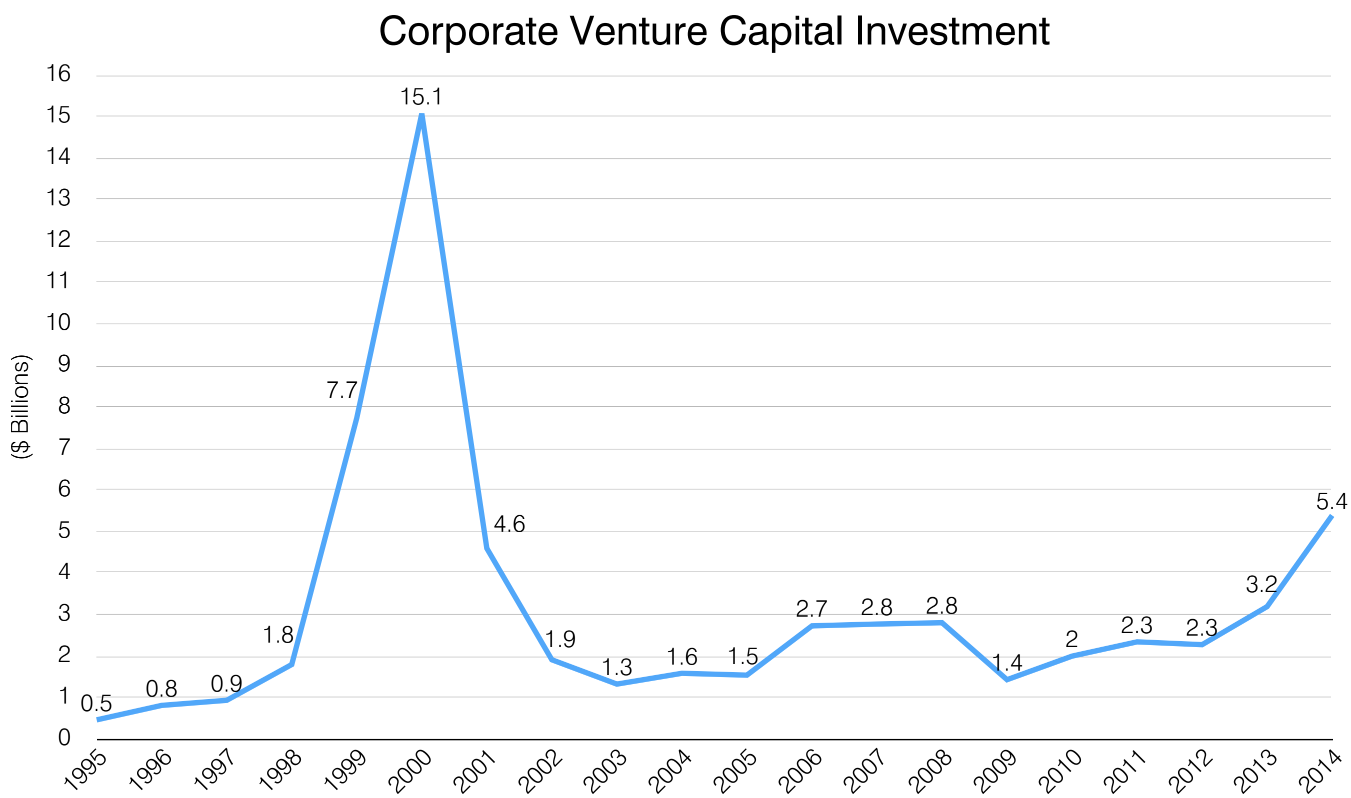
- **Global Venture Investing**

  Global venture investing has been increasing, with the U.S. receiving by far the largest amount of total investment, although that percentage has been declining modestly in recent years to about 64% in 2014. China surpassed Europe in 2014 for second place, with India ascending. It will be interesting to see what effect, if any, the new draft Foreign Investment Law released by the Chinese Ministry of Commerce will have on venture investment in China.



- **Corporate Venture Investing**

  Corporate venture capital ("CVC") groups invested more money in 2014 ($5.4 billion) than in any year since 2000 (which had a huge $15 billion investment), and was a larger percentage of total VC investment (11%) than in any year since 2001 (11.2%) according to the MoneyTree. However, the percentage of CVC investment declined each quarter of 2014, with 4Q14 at 9.8%.



Source: MoneyTree

  The life science industry had its highest percent of CVC (13%) and total dollar investment ($1.1 billion) since at least 1995.

  Over the past five years, the number of corporate venture units worldwide has doubled to 1100, and 25 of the 30 companies that comprise the Dow Jones have a venture fund, according to the Economist based on data from Global Corporate Venturing.

- **Accelerators**

  As the accelerator industry grows, it is challenging but important to have good information on the industry to evaluate the success of the industry in general, and specific accelerators in particular.

  At the big picture level, Seed-DB reports that they are tracking 225 accelerators worldwide, and that these accelerators have assisted 4264 companies which have gone on to raise a total of $7.2 billion and returned $3.3 billion in 243 exits. Of course many of these accelerators and companies are relatively young and have not had much chance to raise significant funds, much less exit. It will be interesting to follow the results over time.

More detailed information is available about Techstars, which is one of the largest and most transparent accelerators. The Wall Street Journal reports, based on analysis from the Venture Capital Dispatch, that for companies that went through the Techstar program from 2007-2010 (which would give the companies a reasonable amount of time to mature), 37% are still active, 33% have failed and 30% were acquired.

The Seed Accelerator Ranking Project is working to evaluate the success and rank individual accelerators.

The task of comparing accelerators may become harder as accelerators evolve and differentiate. Techstars, for example, is offering a new program that focuses more on later stage companies, and another program that has stronger corporate involvement and allows start-ups to embed themselves for part of the program in companies like Disney, Qualcomm, the Mayo Clinic, Barclays and Sprint, according to Fortune.

- **Crowdfunding**

AngelList reported that over $100 million was raised by 243 start ups in 2014, with 110 active syndicates. And AngelList continues to innovate, as Fortune reports that it is considering a financial ETF type product targeting institutional investors who are interested in seed investing but have not had the opportunity to date to do so, because of the lack of scale and size of prior seed investment opportunities.

AngelList and crowdfunding in general pose an interesting challenge for venture capitalists, as they appear to be developing as a potential competitor, as well as a source of deal flow.

Crowdfunding is also growing outside the U.S., where start-up funding may be less available. The World Bank estimates that the global crowdfunding market is projected to reach $93 billion by 2025, with a significant percentage in China.

This past year concluded without the SEC adopting rules allowing equity crowdfunding sites to accept participation from non-accredited investors. This is an area where balancing investor protection and investment efficiency is difficult, and according to Crowdfund Insider, Congress may choose to step in to provide further guidance to the SEC.

- **Miscellaneous**

As the college football season has ended, we thought we'd share Pitchbook's analysis of how the major football conferences (and the Ivy league) have compared, based on the number of venture deals closed by CEOs who are alums of each conferences' undergraduate program.

In short, the Pac 12 led, followed by the Ivy League, Big Ten, ACC, Big 12 and SEC, by number of financings. The Ivies and Big Ten, and SEC and Big 12, would have flipped position if based on dollar volume. The Pac 12, Ivies, Big Ten and ACC all had SaaS as their largest industry focus while the Big 12's largest industry was life science and the SEC's largest industry was mobile.

- **Venture Capital Sentiment**

  The Silicon Valley Venture Capitalist Confidence Index by Professor Mark Cannice at the University of San Francisco (the “Cannice Report”) reported that the confidence level of Silicon Valley venture capitalists in 4Q14 was 3.93, a slight increase from the 3.89 posted in 3Q14 and above the 11-year survey average of 3.72. Venture capitalists noted the strong exit, investment and fundraising environments, and the breadth of innovation and entrepreneurial opportunities, but expressed concern over valuations and possible macroeconomic risks.

- **Venture Capital Returns**

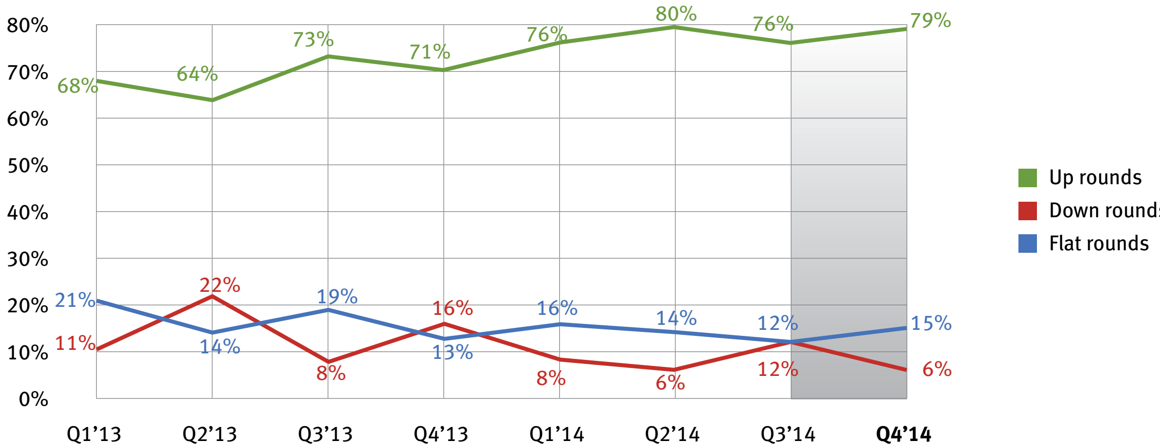
  Cambridge Associates reported that the value of its venture capital index increased by 2.4% in 3Q14 (4Q14 results have not been publicly released) which exceeded the Nasdaq increase of 1.9%. More generally, the VC index has now surpassed Nasdaq for the past year, as well as the 10-year time frame and beyond, but lags Nasdaq in the 3 and 5-year time frames.

- **Nasdaq**

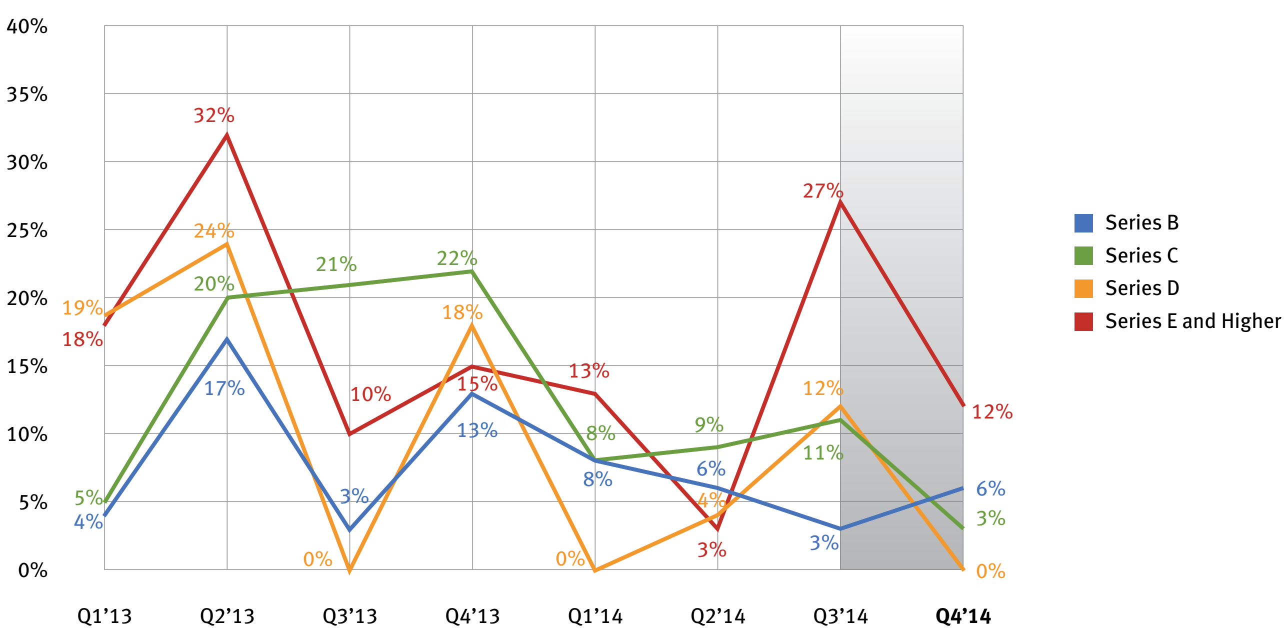
  Nasdaq increased 5.6% in 4Q14 and 13.8% for all of 2014, and has been flat in 1Q15 through February 4, 2015.

Fenwick & West Data on Valuation

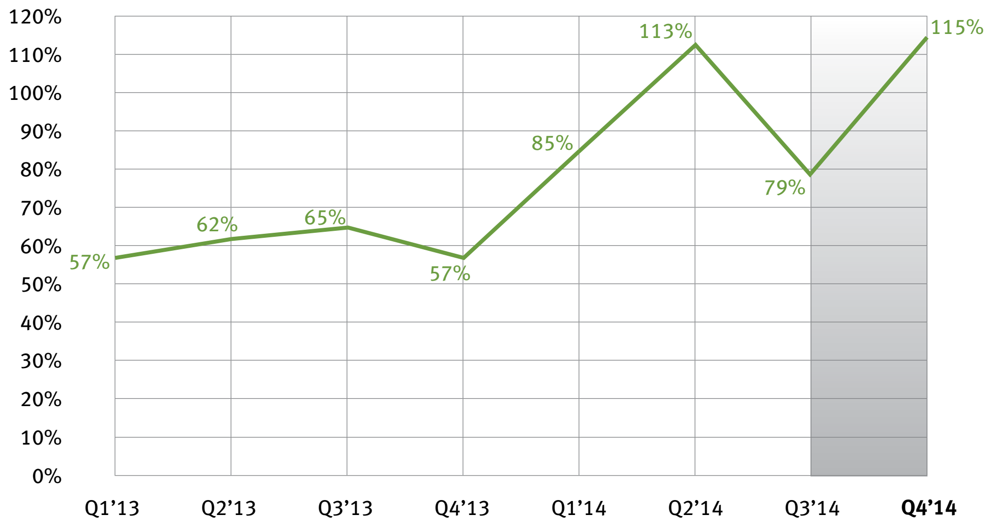
PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



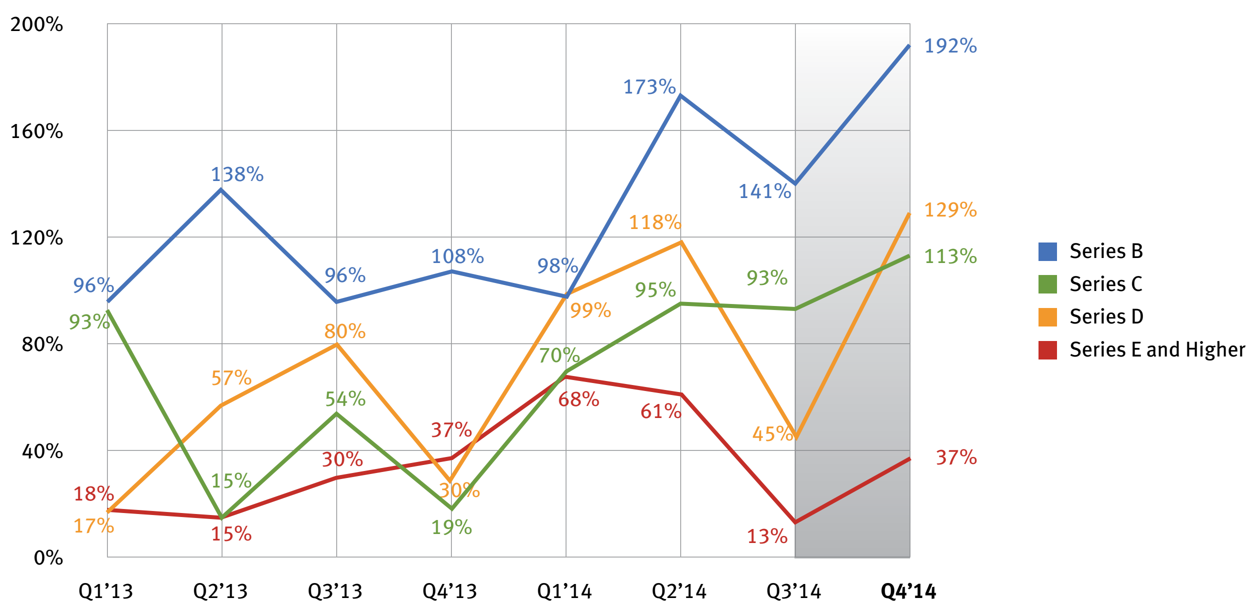
The percentage of down rounds by series were as follows:



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.



The Barometer results by series are as follows:



RESULTS BY INDUSTRY FOR PRICE CHANGES AND FENWICK & WEST VENTURE CAPITAL BAROMETER™ — The table below sets forth the direction of price changes and Barometer results for companies receiving financing in 4Q14, 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	Barometer	Number of Financings
Software	84%	7%	9%	134%	55
Hardware	75%	6%	19%	61%	16
Life Science	56%	6%	38%	39%	16
Internet/Digital Media	89%	6%	5%	178%	18
Cleantech	100%	0%	0%	149%	2
Other	50%	0%	50%	17%	2
Total all Industries	**79%**	**15%**	**6%**	**115%**	**109**

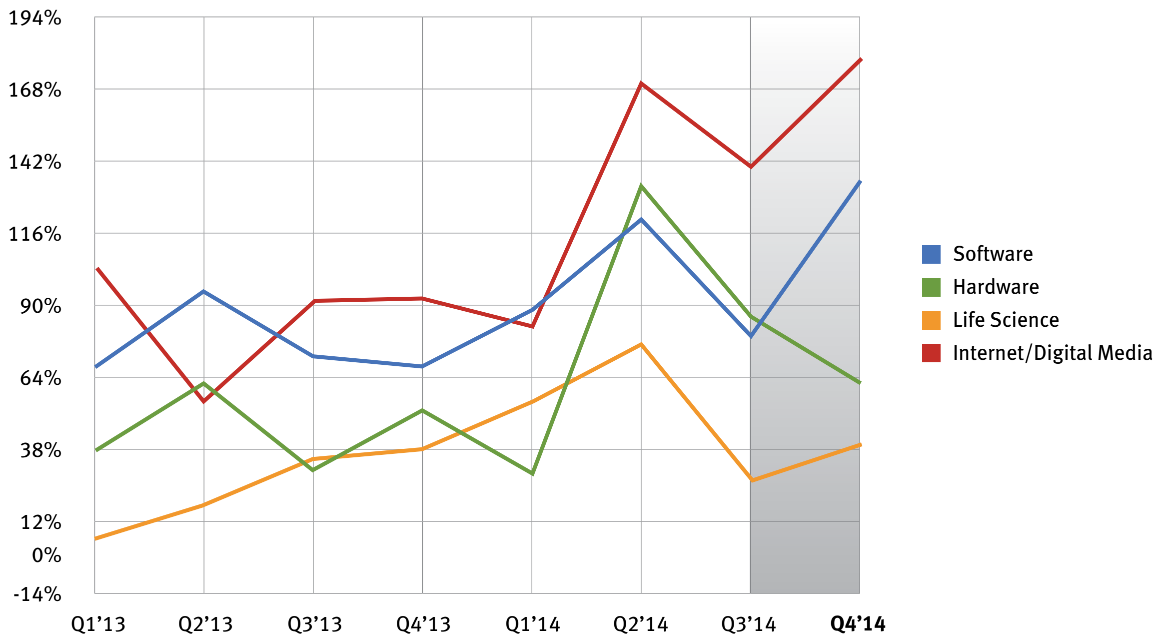
DOWN ROUND RESULTS BY INDUSTRY — The table below sets forth the percentage of "down rounds," by industry groups, for each of the past eight quarters.

Down Rounds	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14
Software	10%	20%	5%	15%	7%	8%	8%	7%
Hardware	0%	9%	20%	12%	10%	8%	8%	6%
Life Science	33%	30%	20%	13%	12%	0%	21%	6%
Internet/Digital Media	6%	16%	5%	15%	11%	8%	14%	6%
Cleantech	0%	100%	0%	50%	0%	0%	67%	0%
Other	0%	50%	25%	0%	0%	0%	11%	0%
Total all Industries	**11%**	**22%**	**8%**	**16%**	**8%**	**6%**	**12%**	**15%**

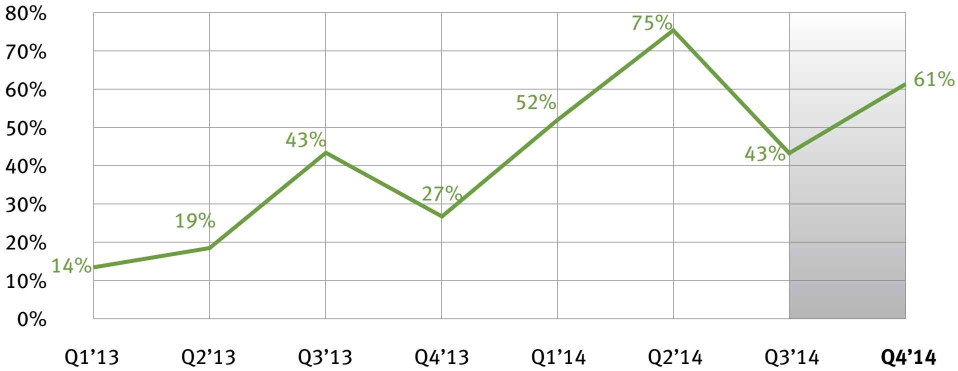
BAROMETER RESULTS BY INDUSTRY —The table below sets forth Barometer results by industry group for each of the last eight quarters.

Barometer	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14
Software	67%	95%	71%	68%	88%	120%	78%	134%
Hardware	38%	62%	30%	52%	29%	132%	85%	61%
Life Science	6%	20%	34%	38%	55%	75%	26%	39%
Internet/Digital Media	103%	56%	91%	92%	82%	169%	139%	178%
Cleantech	51%	-46%	15%	-2%	60%	26%	-47%	149%
Total all Industries	**57%**	**62%**	**64%**	**57%**	**85%**	**113%**	**79%**	**115%**

A graphical representation of the above is below.



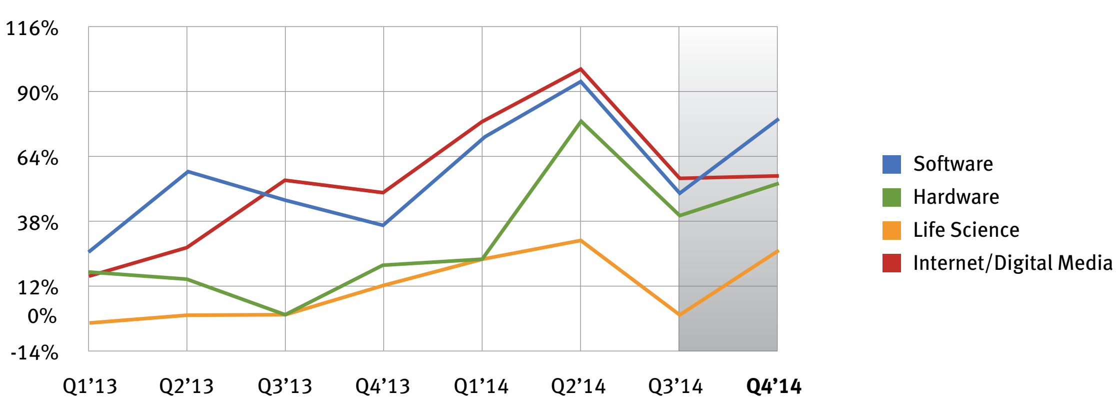
MEDIAN PERCENTAGE PRICE CHANGE — Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, 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 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.

Barometer	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14
Software	25%	58%	46%	36%	72%	94%	49%	79%
Hardware	17%	15%	0%	20%	23%	78%	40%	53%
Life Science	0%	0%	0%	12%	23%	30%	0%	26%
Internet/Digital Media	16%	28%	54%	50%	78%	99%	54%	56%
Cleantech	18%	-46%	0%	7%	28%	3%	-31%	149%
Total all Industries	**14%**	**19%**	**43%**	**27%**	**52%**	**75%**	**43%**	**61%**

A graphical representation of the above is below.

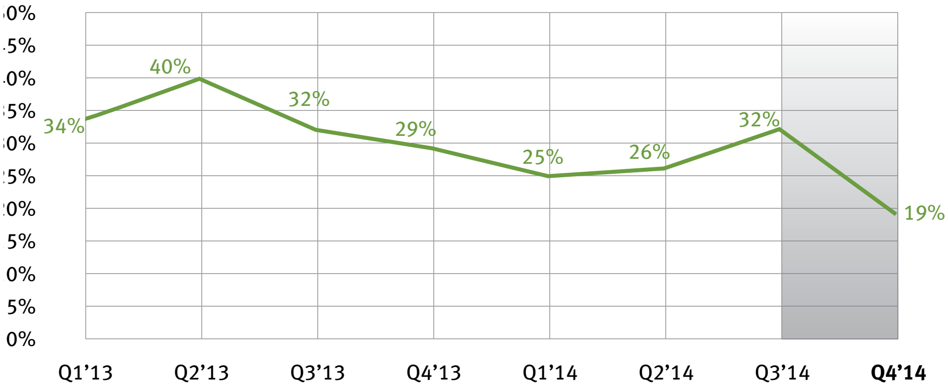


FINANCING ROUND — This quarter's financings broke down by series according to the chart below.

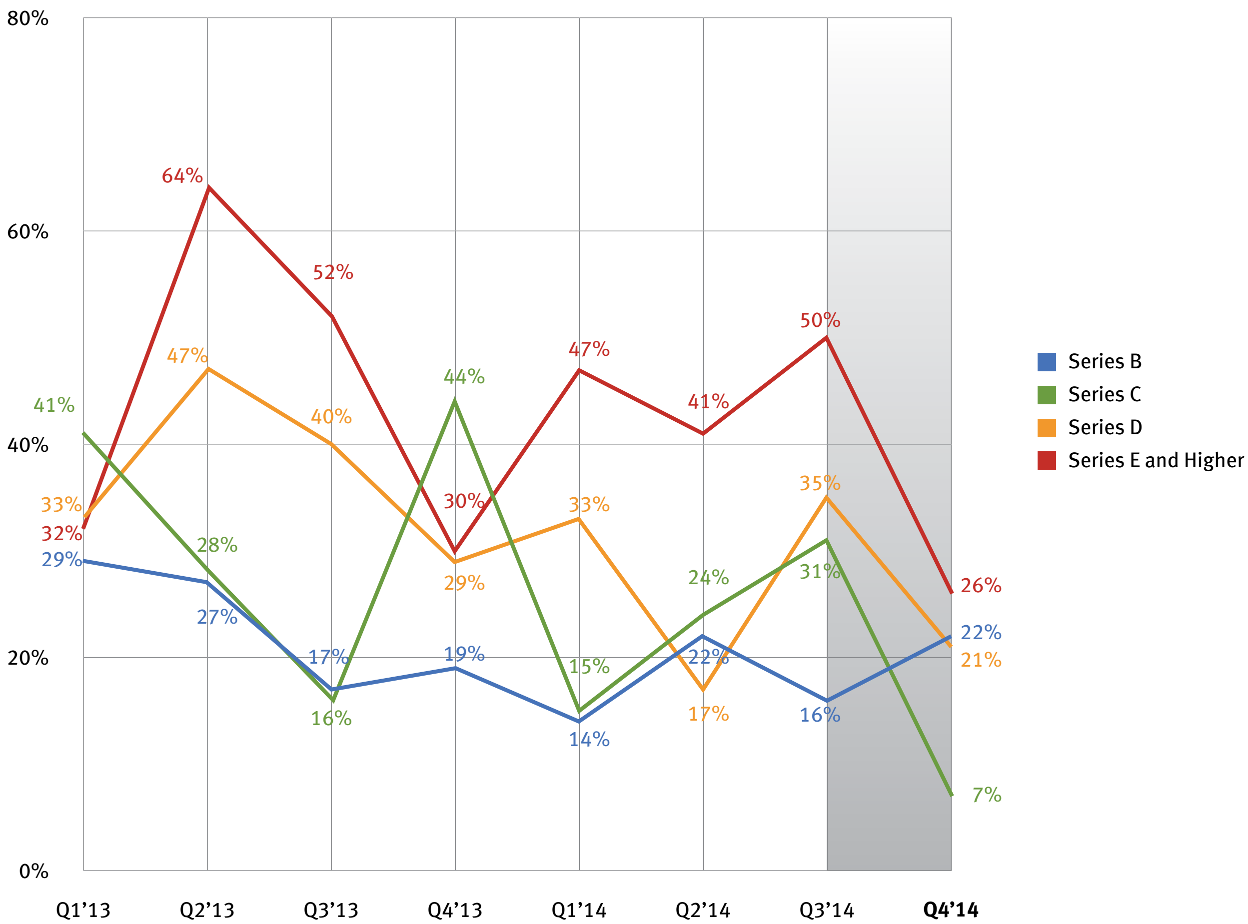
Series	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14
Series A	25%	24%	24%	24%	23%	23%	28%	27%
Series B	20%	24%	23%	26%	31%	21%	21%	21%
Series C	19%	20%	15%	14%	17%	26%	20%	19%
Series D	18%	14%	15%	14%	10%	13%	14%	10%
Series E and Higher	18%	18%	23%	22%	19%	17%	17%	23%

Fenwick & West Data on Legal Terms

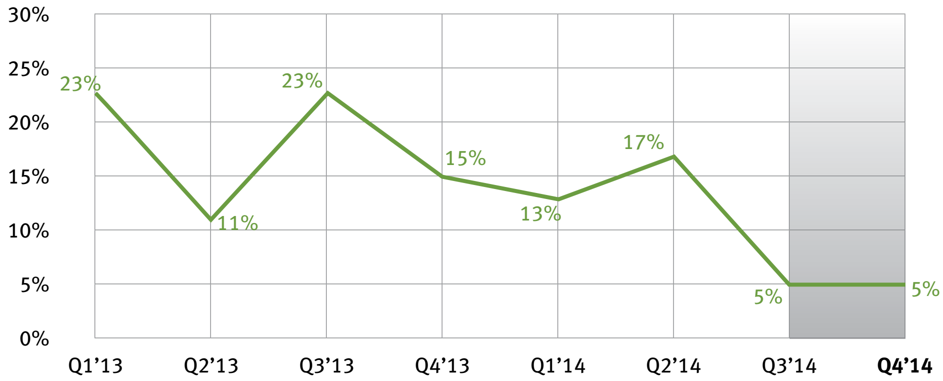
LIQUIDATION PREFERENCE—Senior liquidation preferences were used in the following percentages of financings.



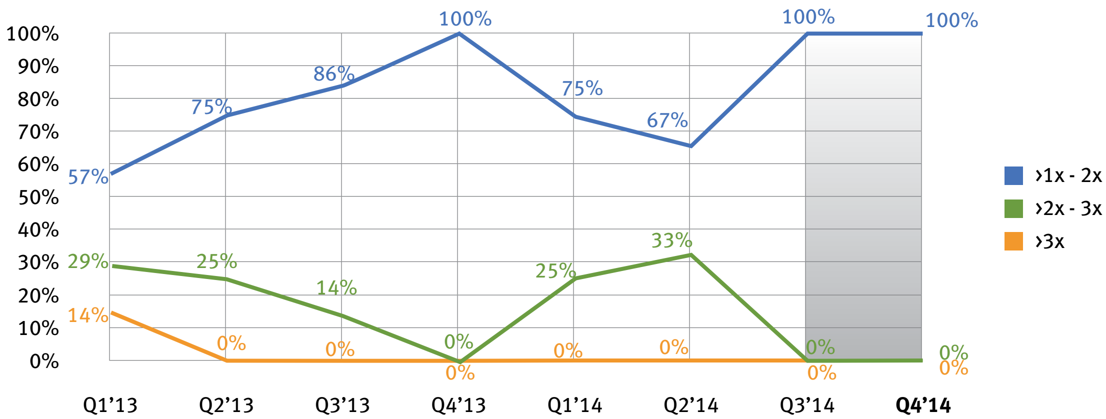
The percentage of senior liquidation preference by series was as follows:



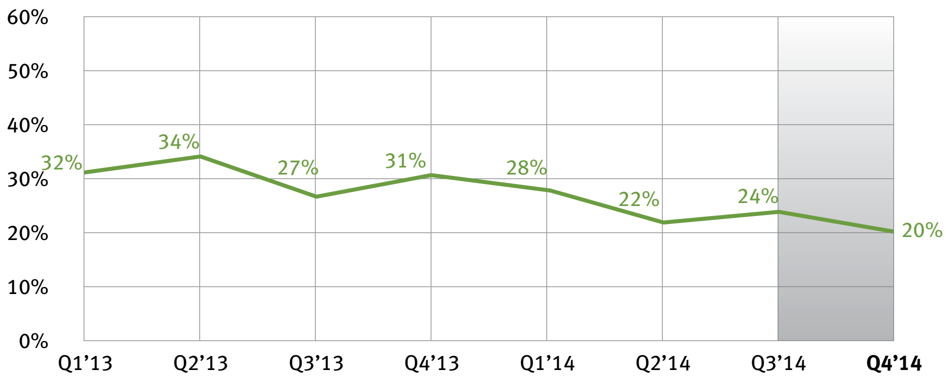
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



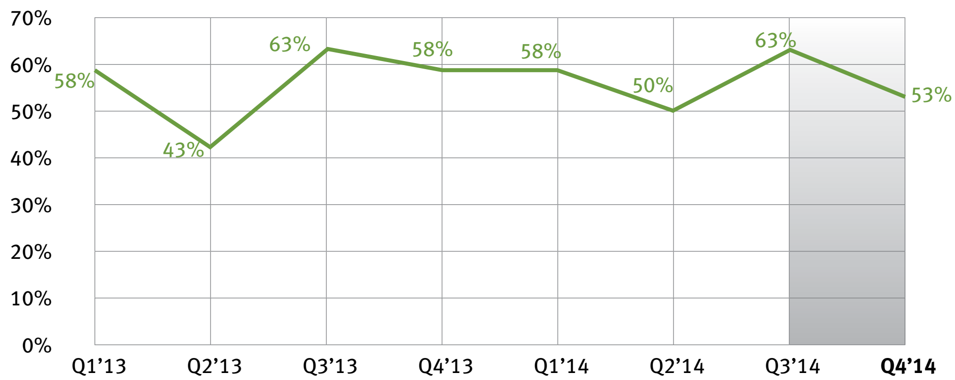
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



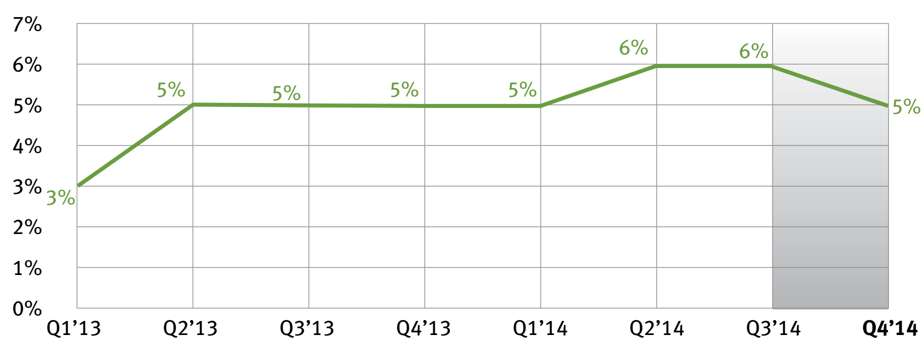
PARTICIPATION IN LIQUIDATION —The percentages of financings that provided for participation were as follows:



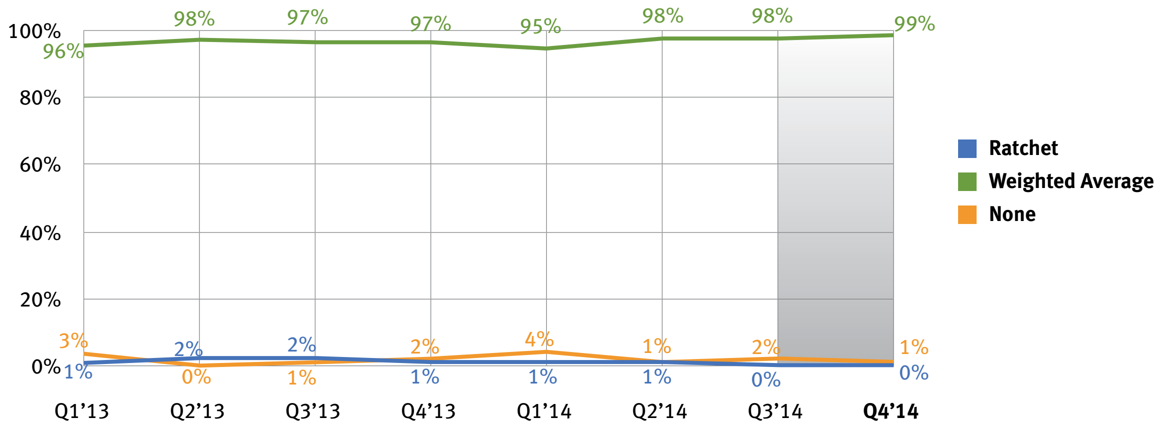
Of the financings that had participation, the percentages that were not capped were as follows:



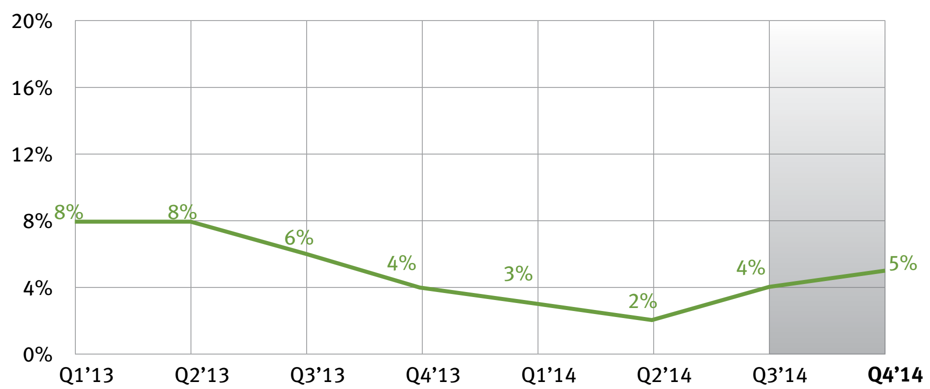
CUMULATIVE DIVIDENDS – Cumulative dividends were provided for in the following percentages of financings:



ANTIDILUTION PROVISIONS –The uses of antidilution provisions in the financings were as follows:

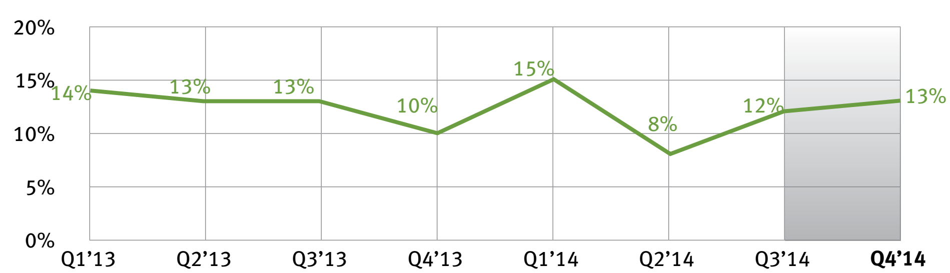


PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:

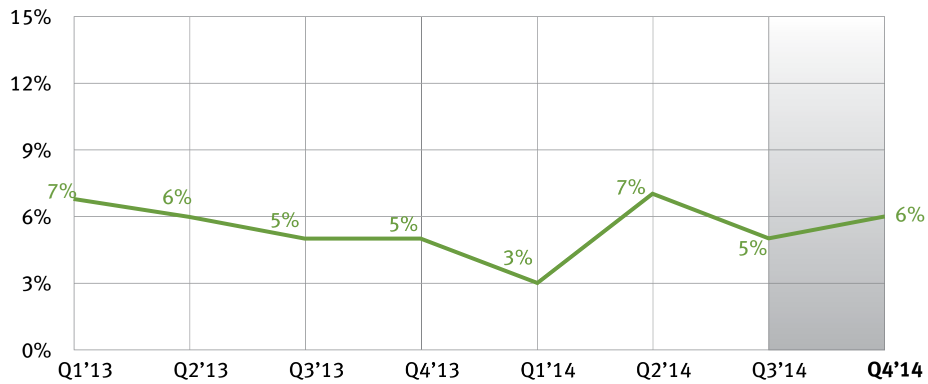


Note that anecdotal evidence indicates that companies are increasingly using contractual "pull up" provisions instead of charter based "pay to play" provisions. These two types of provisions have similar economic effect but are implemented differently. The above information includes some, but likely not all, pull up provisions, and accordingly may understate the use of these provisions.

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:



- **Footnote**

[1] When comparing current period results to prior period results based on third party data (e.g., amounts invested by venture capitalists, amount of M&A proceeds, etc.), we use the prior period results initially published by the third party for the period, not the results that have been updated with additional information over time, to provide better comparability with the current period published results. For example, when comparing fourth quarter results to third quarter results, we use the initially published third quarter results, typically provided in October, not the updated results that are typically provided in January of the following year. Such situations are set forth in our report with a parenthetical as to the date the information was initially reported.

- **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, as well as trends in the overall U.S. venture environment.

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.

The survey consists of two different information sources — (i) our own analysis of deals done in Silicon Valley, including information on both valuations and legal terms, and (ii) an analysis of third party data on overall trends in the U.S. venture environment.

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.

We aim to publish our survey approximately six weeks after the end of each quarter, to allow time for the major third party sources of information on the nationwide venture environment to publish their results, so that we can analyze and report on the larger trends that might not be apparent in individual reports.

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. Although this is somewhat geographically broader than "Silicon Valley" we use this definition to comport with the definition used by Dow Jones in defining the San Francisco Bay Area.

- **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 in general 12 to 18 months prior. Given that venture capitalists (and their investors) generally look for at least a 20% IRR to justify the risk that they are taking, and that by definition we are not taking into account those companies that were unable to raise a new financing (and that likely resulted in a loss to investors), a Barometer increase in the 40% or so range should be considered average. Please also note that our calculations are not "dollar weighted," i.e. all venture rounds are treated equally, regardless of size.

We provide links to third party reports where possible, to provide our readers with more detailed information if desired. In this regard we would like to expressly thank the Venture Capital Journal, VentureWire and PeHUB for providing our readers access to links that would otherwise be behind their "paywall."

- **Disclaimer**

- **Contact/Sign Up Information**

For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@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.