

FENWICK



Silicon Valley Venture Capital Survey

Third Quarter 2023

Silicon Valley Venture Capital Survey – Third Quarter 2023

Background

Our survey analyzed the terms of 188 venture financings closed in the third quarter of 2023 by companies headquartered in Silicon Valley.

Summary

Third-quarter Bay Area venture capital financings reached the highest number in the past 12 months (188), including the most Series A financings (100) since Q2 2021. However, Q3 was notably consistent with the prior quarter, aside from select data points.

The Fenwick Venture Capital Barometer™, measuring the average percentage share price change between rounds, has remained consistent since Q4 2022 (84% in Q3 2023).

Key Findings

Early-Stage Financings Lead Growth, Series D Drops

Series A and Series B (100 and 47 respectively) comprised 78% of all Q3 financings. Series D financings dropped 56% quarter to quarter, from 16 in Q2 to seven in Q3. This contrasts with Q2 when Series D financings increased 167% from Q1.

Down Rounds Keep Growing

The percentage of down rounds continues to climb, from 1% of all financings in Q1 2022 to 13% in Q3 2023. This is the highest percentage of down-round financings since Q1 2020, when they jumped to 14% around the onset of the COVID-19 pandemic. Series E+ financings were impacted the most, with 22% of companies facing down rounds. Hardware companies represented the greatest percentage of down rounds in Q3, at 27%.

Median Price Change Drop for Series C, D Rounds

Series C- and D-round median share price changes dropped precipitously between rounds, from a 49% median increase for Series C financings in Q2 to a 10% median increase in Q3, and from a 36% median increase for Series D financings in Q2 to 9% in Q3.

Terms More Protective of New Investors

Senior liquidation preferences climbed from 0% in Q2 to 11% in Q3, indicating deal terms have become more protective of new investors.

Pay-to-Play Provisions Drop

The share of financings that included pay-to-play provisions providing for conversion of non-participating investors' preferred stock into common stock or shadow preferred stock dropped to 2% in Q3, following five quarters of growth.

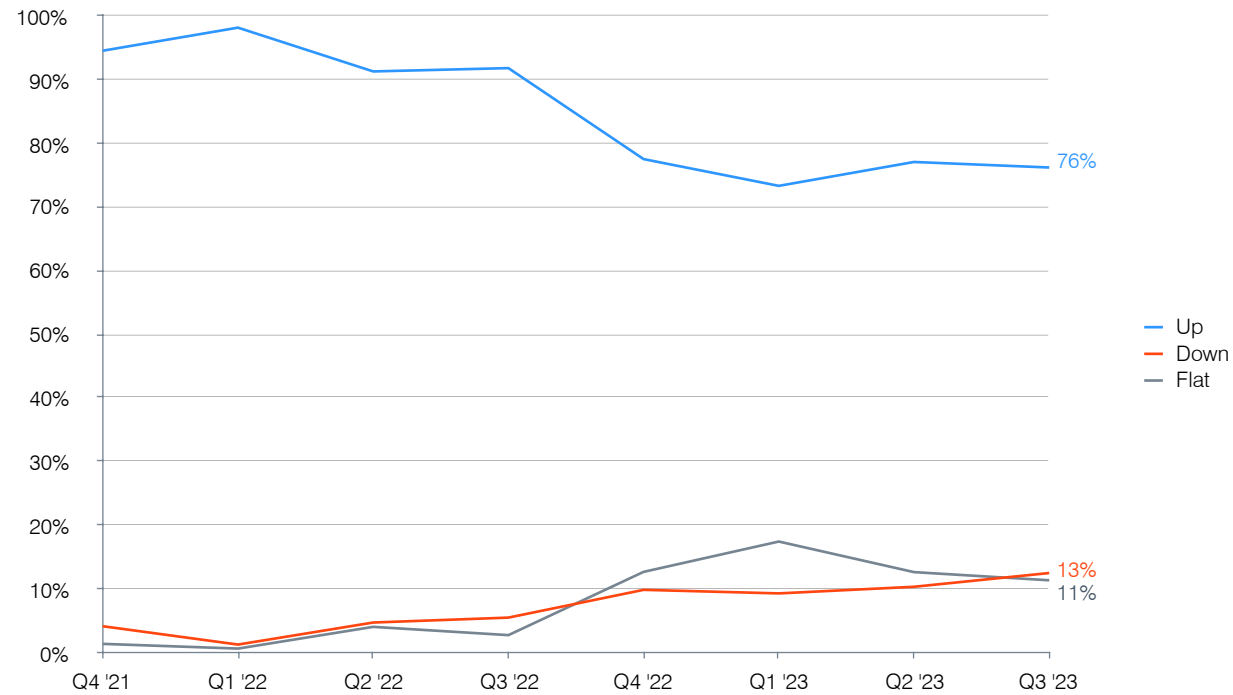
Fundraising Environment Remains Difficult

Although pay-to-play provisions are down, the fundraising environment remains challenging, as evidenced by an increase in corporate restructurings (7% of all financings in Q3), the increase in down rounds and other key markers.

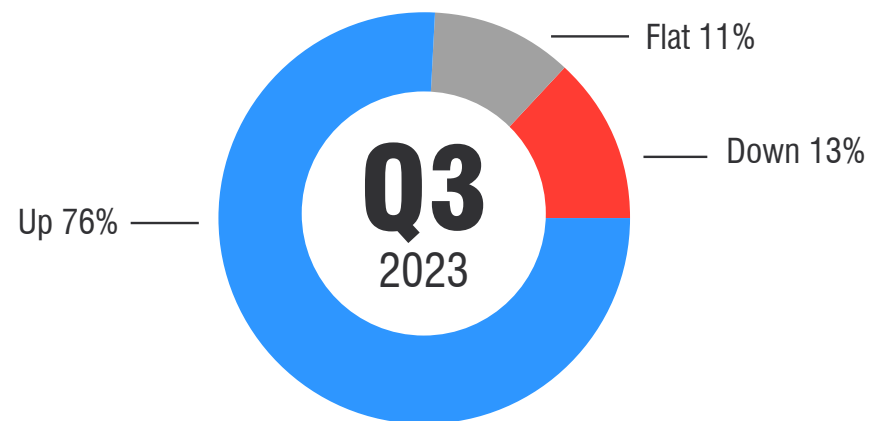
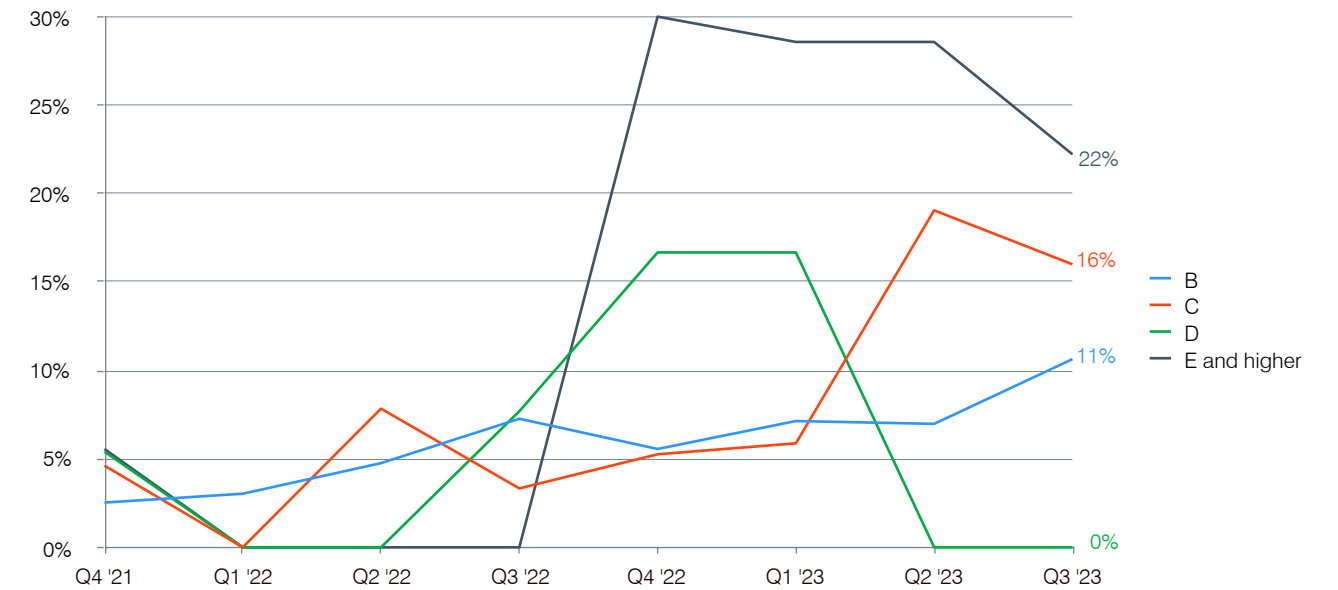
Fenwick Data on Valuations

Price Change

PRICE CHANGE—DIRECTION OF PRICE CHANGES WITH POST-SERIES A FINANCINGS COMPARED TO THE COMPANIES' PREVIOUS ROUND



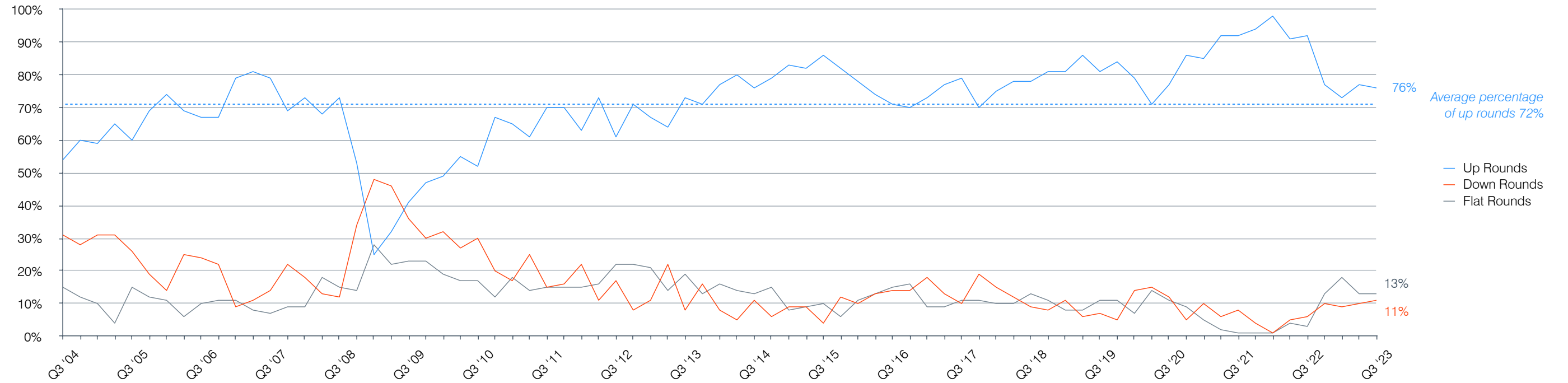
PERCENTAGE OF **DOWN ROUNDS** BROKEN OUT BY SERIES



Price Change

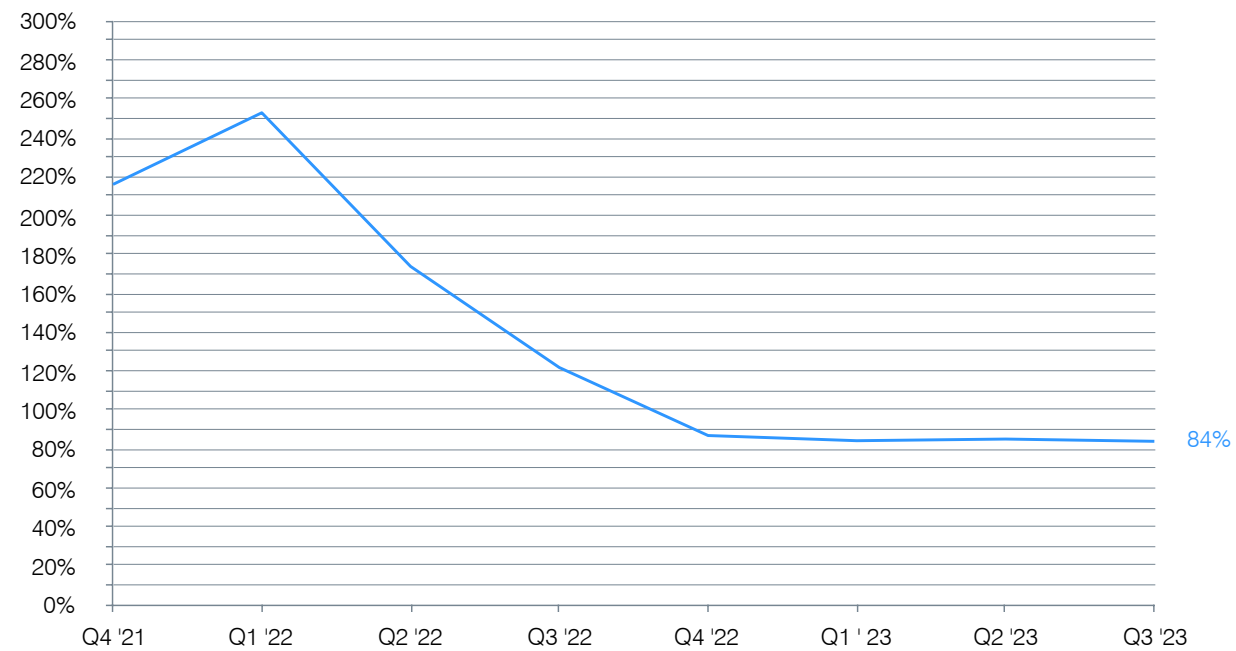
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EXPANDED PRICE CHANGE GRAPH—DIRECTION OF PRICE CHANGES WITH POST-SERIES A FINANCINGS COMPARED TO THE COMPANIES' PREVIOUS ROUND



The Fenwick Venture Capital Barometer™

MAGNITUDE OF PRICE CHANGE—AVERAGE PERCENTAGE CHANGE BETWEEN THE PRICE PER SHARE AT WHICH COMPANIES RAISED FUNDS IN A QUARTER AND THE PRICE PER SHARE AT WHICH THE COMPANIES RAISED FUNDS IN THEIR PRIOR ROUND OF FINANCING. CALCULATION INCLUDES ALL ROUNDS (UP, DOWN AND FLAT). RESULTS ARE NOT WEIGHTED BASED ON AMOUNT RAISED IN THE FINANCING.



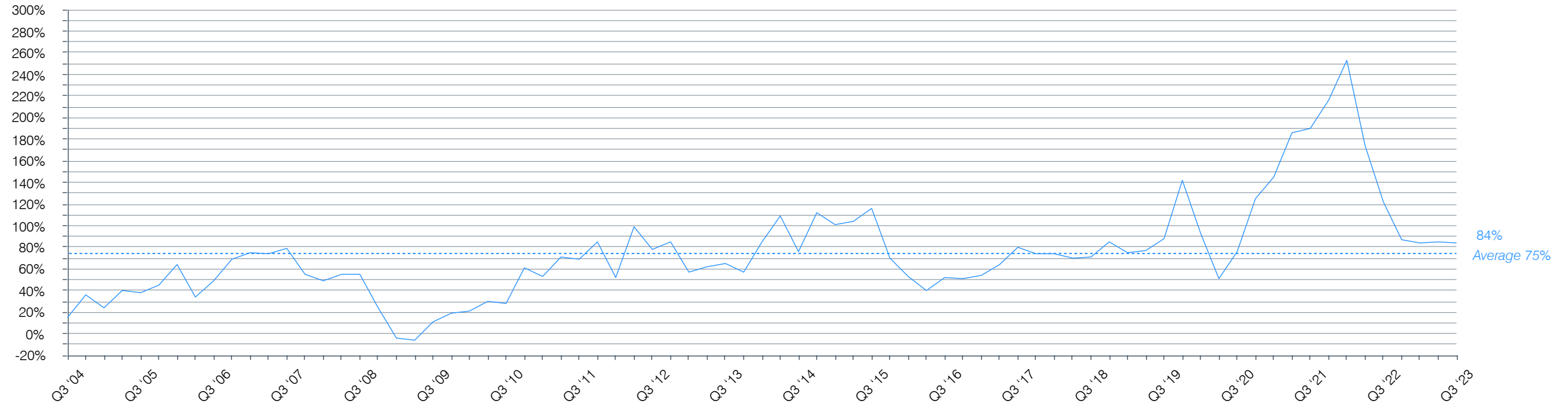
BAROMETER RESULTS BY SERIES



The Fenwick Venture Capital Barometer™

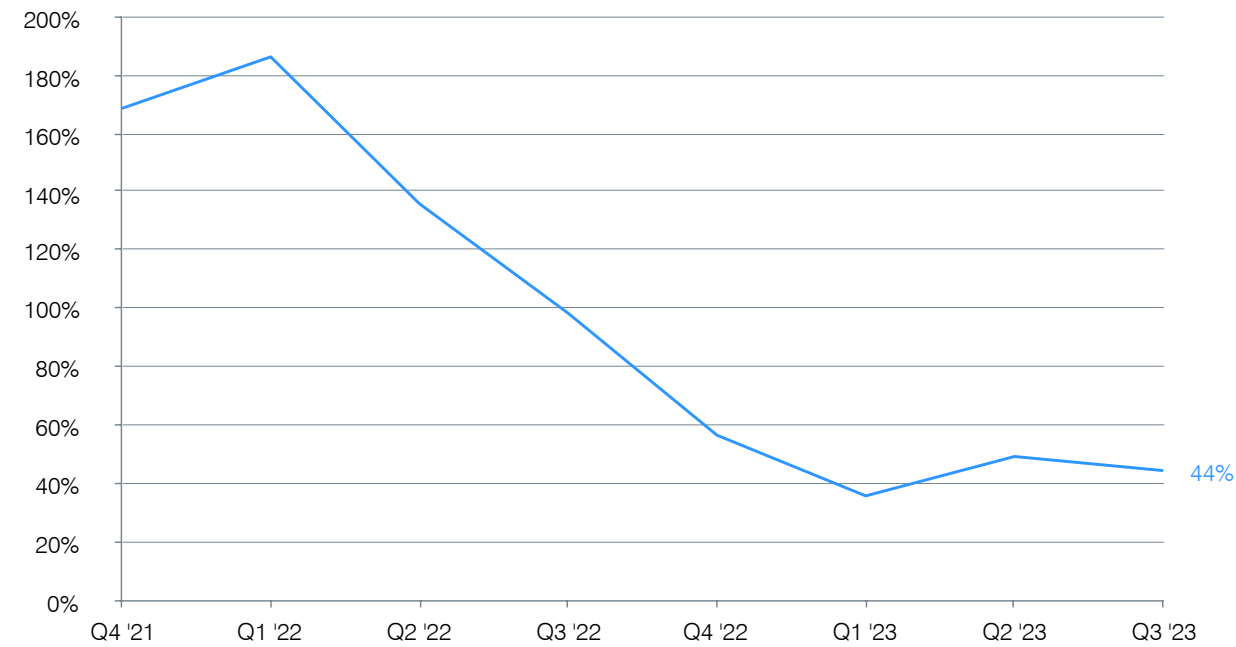
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EXPANDED FENWICK VENTURE CAPITAL BAROMETER™—DIRECTION OF PRICE CHANGES WITH POST-SERIES A FINANCINGS COMPARED TO THE COMPANIES' PREVIOUS ROUND

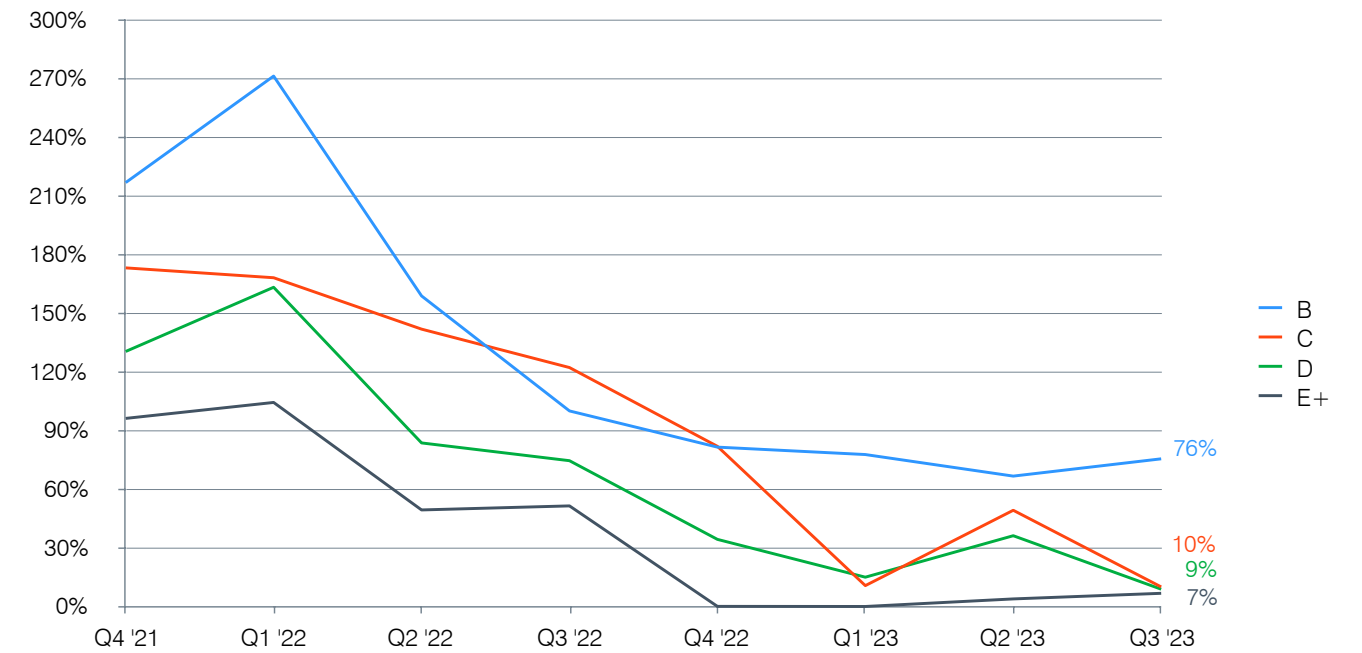


Median Percentage Price Change

MEDIAN PERCENTAGE PRICE CHANGE—MEDIAN PERCENTAGE CHANGE BETWEEN THE PRICE PER SHARE AT WHICH COMPANIES RAISED FUNDS IN A QUARTER AND THE PRICE PER SHARE AT WHICH COMPANIES RAISED FUNDS IN THEIR PRIOR ROUND OF FINANCING. CALCULATION INCLUDES ALL ROUNDS (UP, DOWN AND FLAT). RESULTS ARE NOT WEIGHTED BASED ON AMOUNT RAISED IN THE FINANCING.



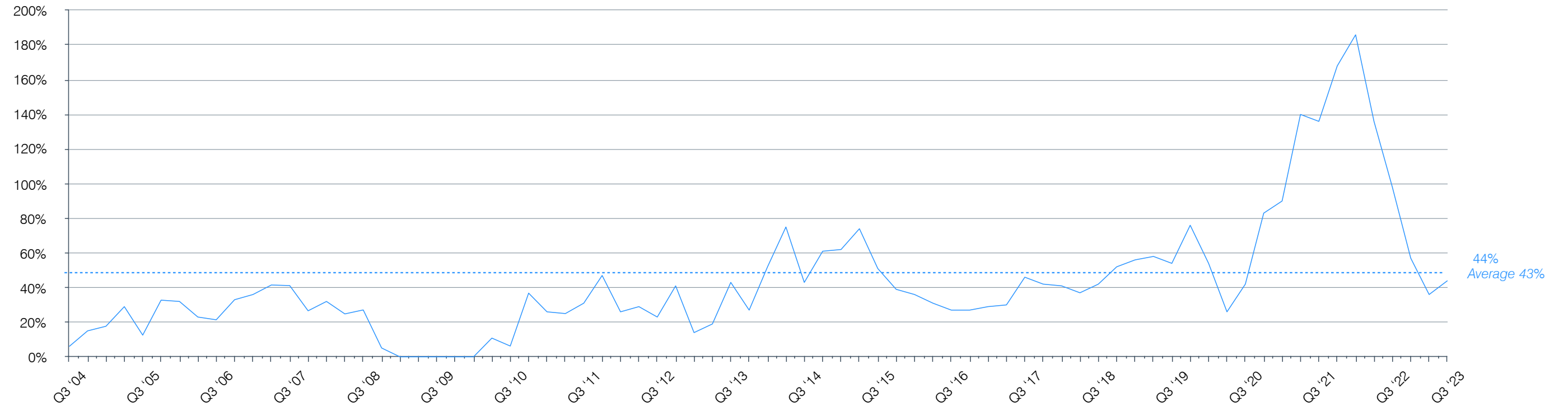
MEDIAN PRICE CHANGE RESULTS BY SERIES



Median Percentage Price Change

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EXPANDED MEDIAN PRICE CHANGE GRAPH—MEDIAN PERCENTAGE PRICE CHANGE FOR EACH QUARTER SINCE WE BEGAN CALCULATING THIS METRIC IN 2004



Industry Results

AGGREGATE INDUSTRY RESULTS FOR QUARTER—RESULTS BROKEN DOWN BY COMPANIES' INDUSTRY FOR POST-SERIES A FINANCINGS

- DIRECTION OF PRICE CHANGES COMPARED TO THE PRIOR ROUND OF FINANCING (UP, DOWN AND FLAT)
- AVERAGE PERCENTAGE CHANGE IN PRICE PER SHARE WHEN COMPANIES RAISED FUNDS COMPARED TO THE PRIOR ROUND OF FINANCING
- MEDIAN PERCENTAGE CHANGE IN PRICE PER SHARE WHEN COMPANIES RAISED FUNDS COMPARED TO THE PRIOR ROUND OF FINANCING

Industry	Up Rounds	Down Rounds	Flat Rounds	Barometer	Median Price Change	Post-Series A Financings
Software	78%	7%	16%	101%	57%	45
Hardware	73%	27%	0%	89%	32%	11
Life Sciences	71%	18%	12%	38%	20%	17
Internet/Digital Media	88%	13%	0%	140%	65%	8
Other	71%	14%	14%	13%	8%	7
Total, All Industries	76%	13%	11%	84%	44%	88

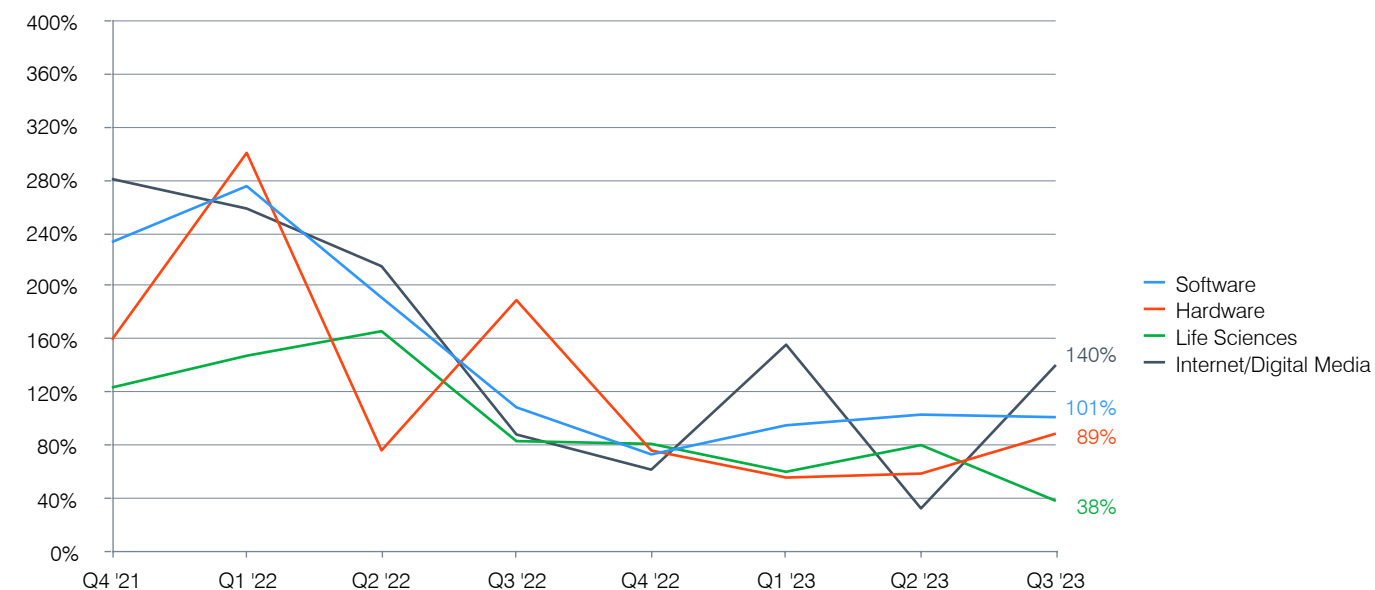
DOWN ROUND RESULTS BY INDUSTRY—PERCENT OF DOWN ROUNDS EACH QUARTER, BROKEN OUT BY INDUSTRY

Down Rounds	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23
Software	2%	0%	5%	9%	4%	6%	7%	7%
Hardware	18%	0%	14%	9%	14%	0%	0%	27%
Life Sciences	10%	8%	0%	0%	15%	15%	8%	18%
Internet/Digital Media	0%	0%	0%	0%	14%	14%	40%	13%
Other	0%	0%	6%	0%	10%	25%	9%	14%
Total, All Industries	4%	1%	5%	6%	10%	9%	10%	13%

BAROMETER RESULTS BY INDUSTRY—AVERAGE PERCENTAGE CHANGE IN PRICE PER SHARE WHEN COMPANIES RAISED FUNDS COMPARED TO THE PRIOR ROUND OF FINANCING, BROKEN OUT BY INDUSTRY

Industry	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23
Software	233%	275%	191%	109%	73%	95%	103%	101%
Hardware	160%	300%	76%	189%	76%	56%	59%	89%
Life Sciences	123%	147%	166%	83%	81%	60%	80%	38%
Internet/Digital Media	281%	258%	215%	88%	62%	156%	32%	140%
Other	211%	263%	143%	213%	161%	87%	87%	13%
Total, All Industries	216%	253%	174%	122%	87%	84%	85%	84%

GRAPHICAL REPRESENTATION OF THE ABOVE DATA



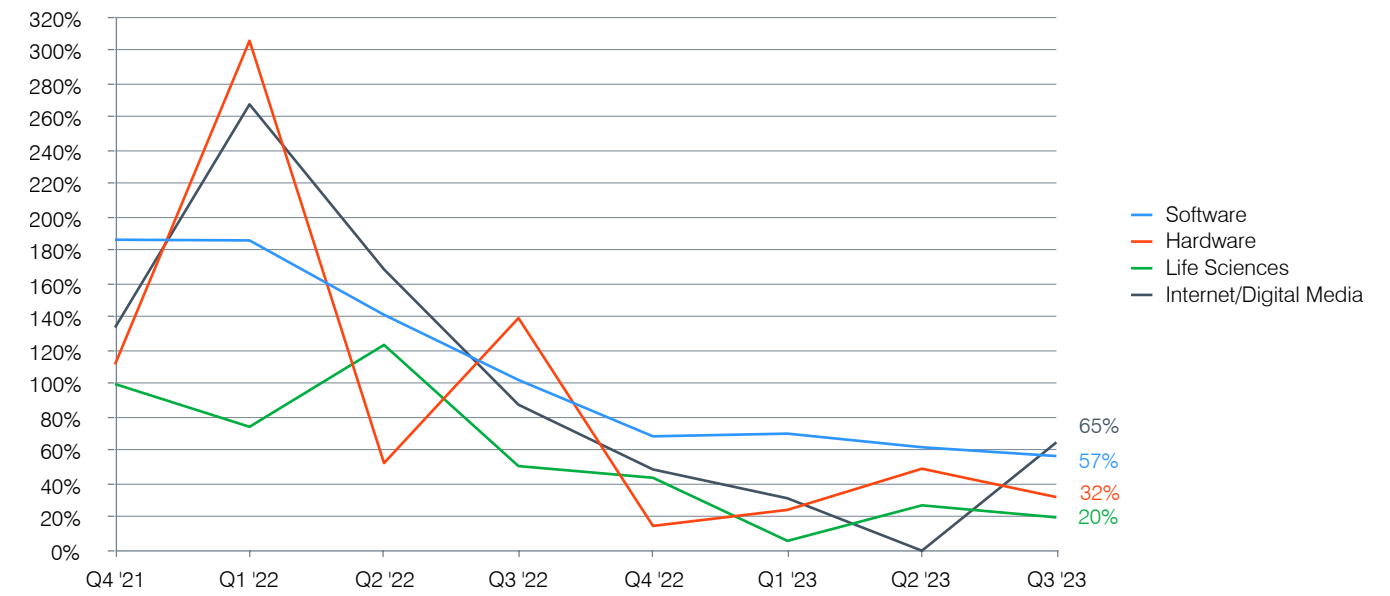
Industry Results

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MEDIAN PERCENTAGE PRICE CHANGE BY INDUSTRY—MEDIAN PERCENTAGE CHANGE IN PRICE PER SHARE WHEN COMPANIES RAISED FUNDS COMPARED TO THE PRIOR ROUND OF FINANCING, BROKEN OUT BY INDUSTRY

Median % Price Change	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23
Software	187%	186%	142%	102%	69%	70%	62%	57%
Hardware	112%	306%	53%	140%	15%	24%	49%	32%
Life Sciences	100%	74%	123%	51%	44%	6%	27%	20%
Internet/Digital Media	134%	268%	169%	88%	49%	31%	0%	65%
Other	203%	123%	105%	174%	104%	61%	67%	8%
Total, All Industries	168%	186%	136%	98%	57%	36%	49%	44%

GRAPHICAL REPRESENTATION OF THE DATA ON THE LEFT



Financing Rounds

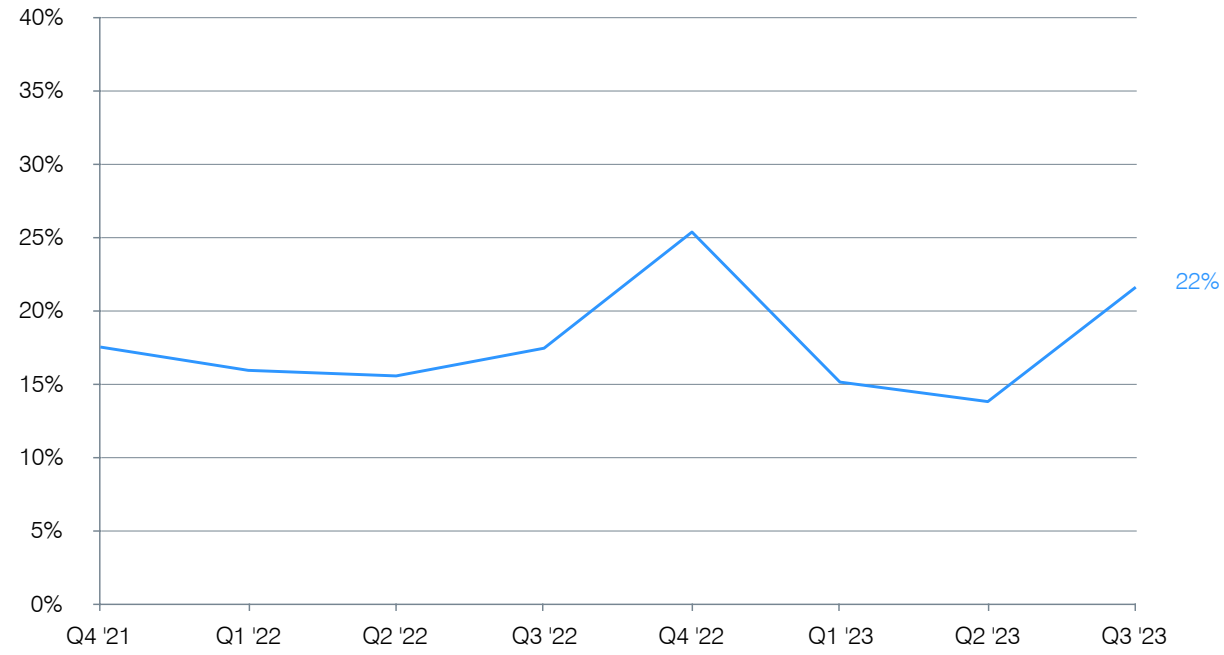
FINANCING ROUND—PERCENTAGE OF TOTAL FINANCINGS BROKEN DOWN BY SERIES

Series	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23
Series A	24%	28%	24%	44%	58%	51%	46%	53%
Series B	28%	30%	32%	28%	21%	32%	27%	25%
Series C	23%	22%	26%	15%	11%	10%	13%	13%
Series D	13%	8%	10%	7%	4%	3%	10%	4%
Series E+	13%	12%	8%	6%	6%	4%	4%	5%

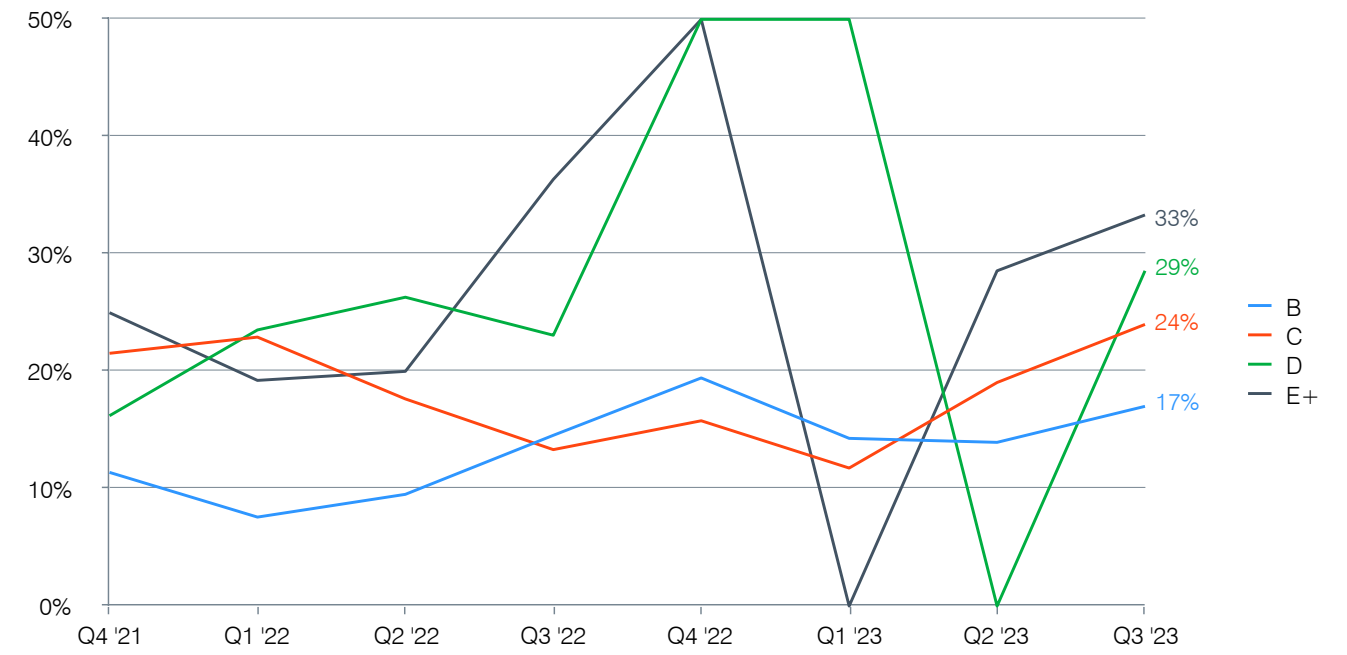
Fenwick Data on Legal Terms

Liquidation

SENIOR LIQUIDATION PREFERENCE—PERCENTAGE OF POST-SERIES A FINANCINGS WITH SENIOR LIQUIDATION PREFERENCE (LIMITED TO SERIES B THROUGH E+)



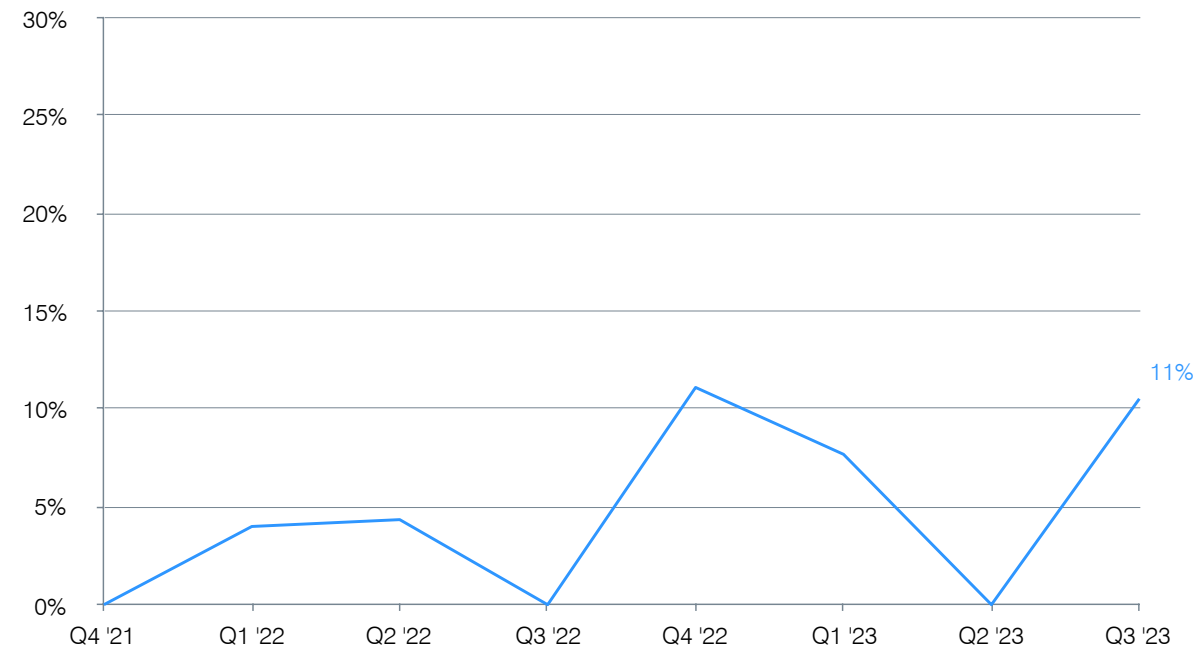
PERCENTAGE OF SENIOR LIQUIDATION PREFERENCES BY SERIES



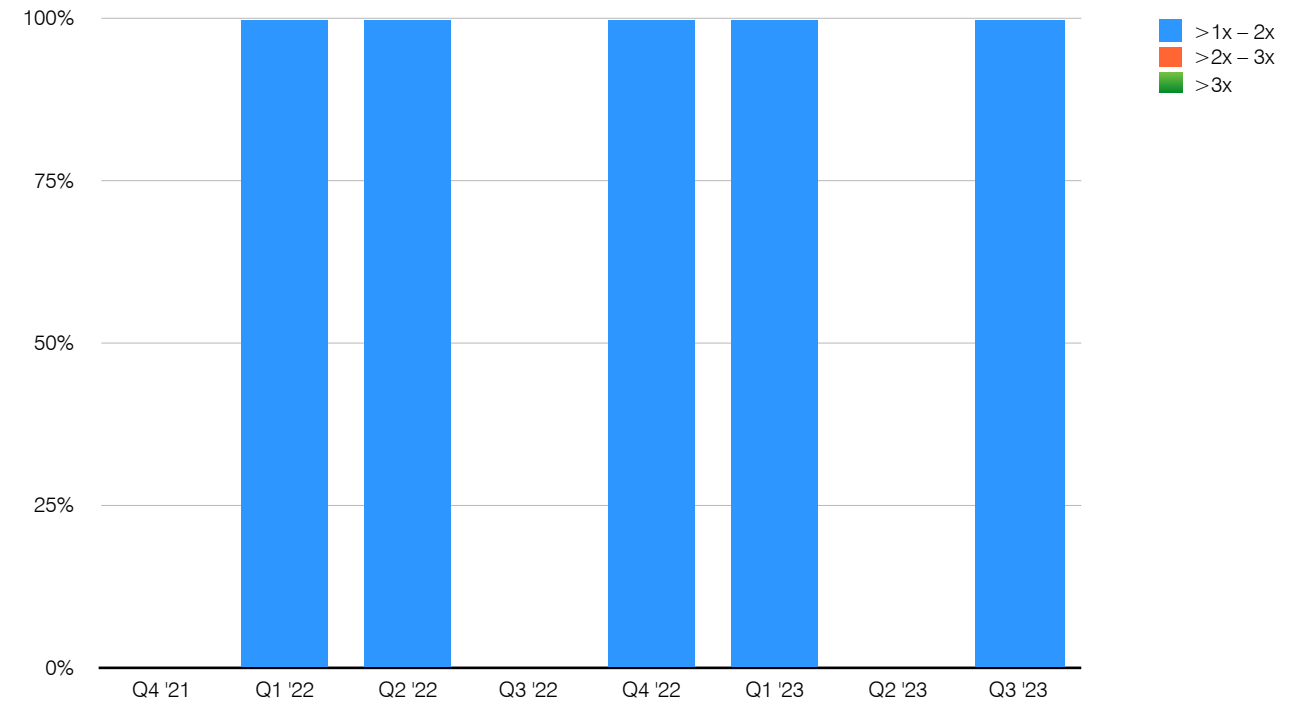
Liquidation

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SENIOR LIQUIDATION PREFERENCE WITH MULTIPLE—PERCENTAGE OF FINANCINGS WITH A SENIOR LIQUIDATION PREFERENCE THAT INCLUDED A MULTIPLE GREATER THAN ONE



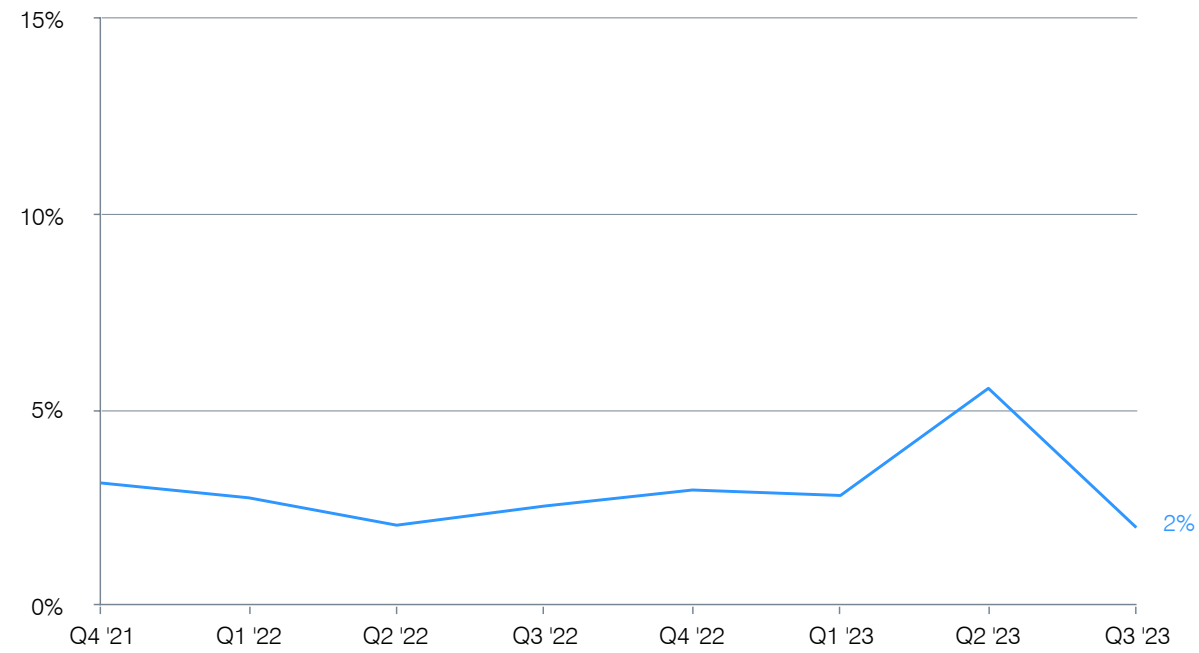
RANGE OF MULTIPLES—PERCENTAGE OF FINANCINGS WITH A SENIOR LIQUIDATION PREFERENCE THAT INCLUDED A MULTIPLE WITHIN THE SPECIFIED RANGE



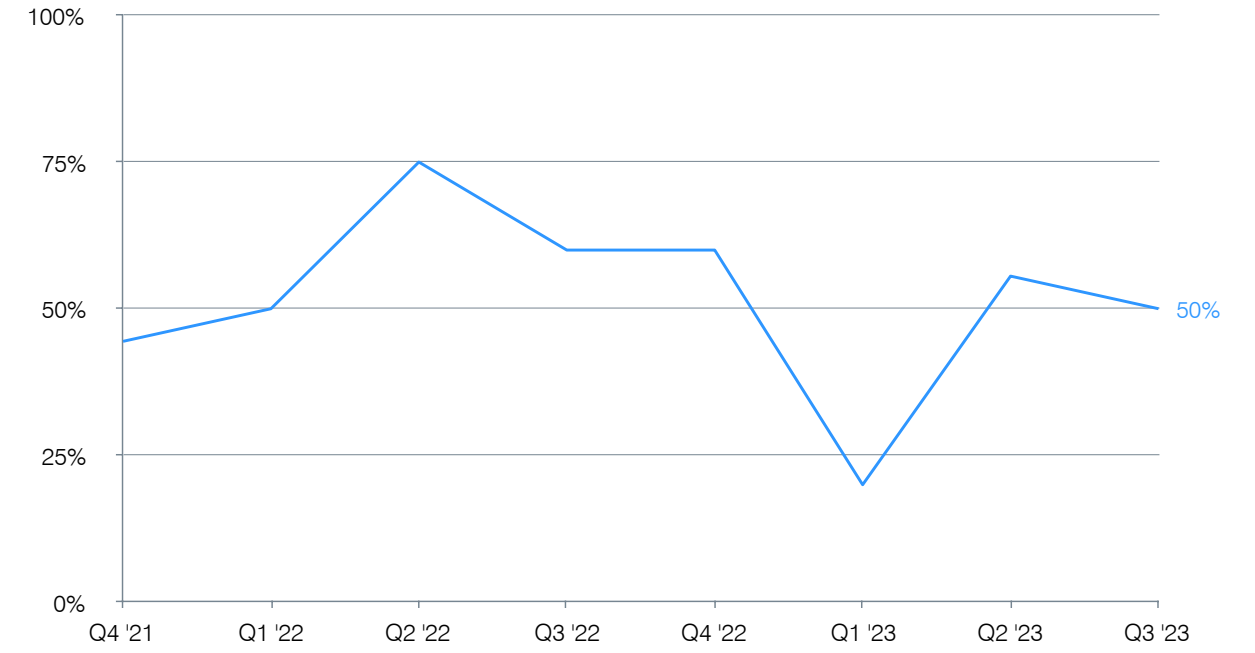
Liquidation

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PARTICIPATION IN LIQUIDATION—PERCENTAGE OF FINANCINGS THAT PROVIDED FOR PARTICIPATION IN LIQUIDATION (INCLUDES ALL SERIES A THROUGH E+)

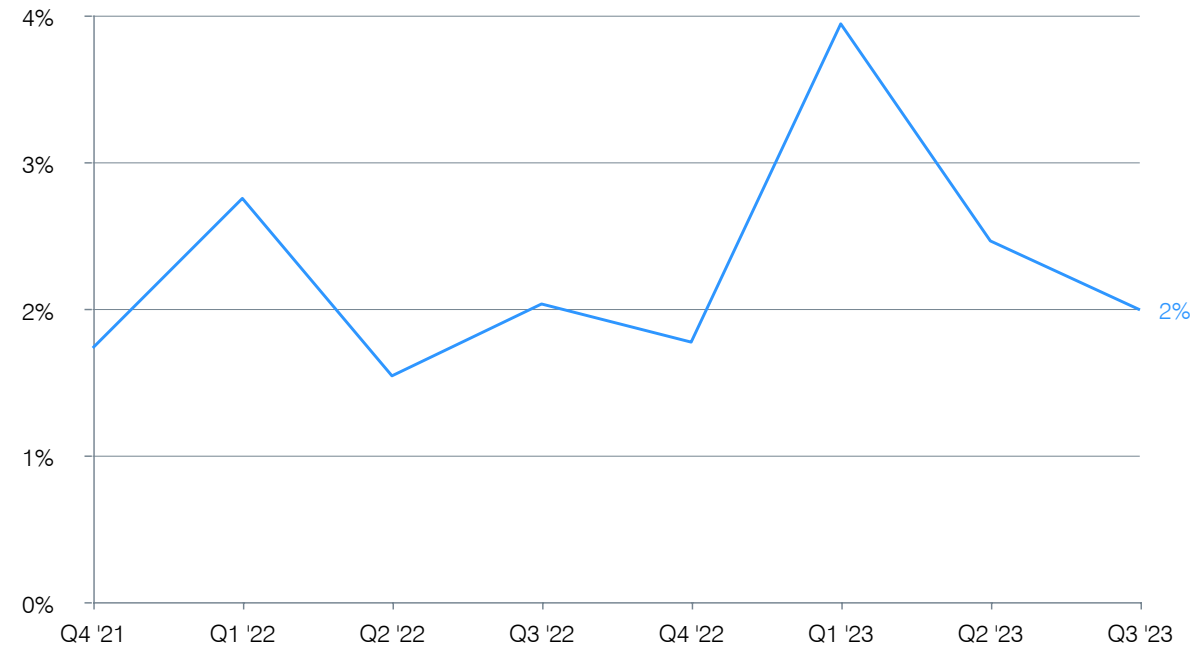


NO CAPPED PARTICIPATION IN LIQUIDATION—PERCENTAGE OF FINANCINGS THAT PROVIDED FOR PARTICIPATION IN LIQUIDATION THAT WERE NOT CAPPED (INCLUDES ALL SERIES A THROUGH E+)

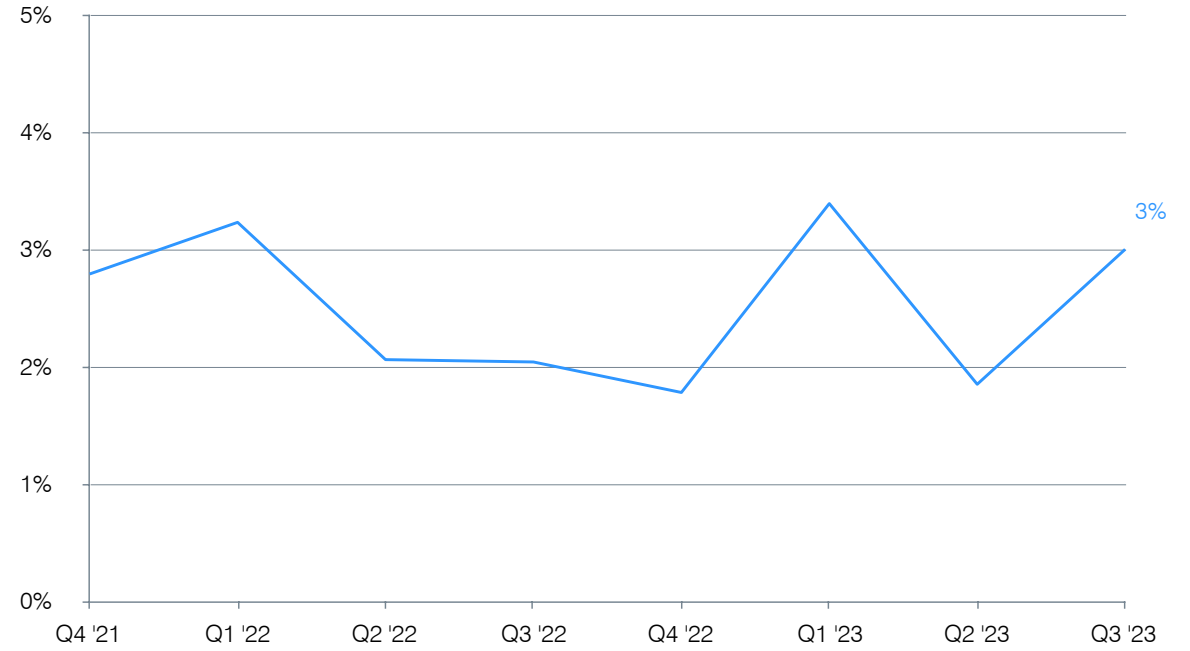


Other Terms

CUMULATIVE DIVIDENDS—PERCENTAGE OF FINANCINGS THAT INCLUDED CUMULATIVE DIVIDENDS (INCLUDES ALL ROUNDS SERIES A THROUGH E+)



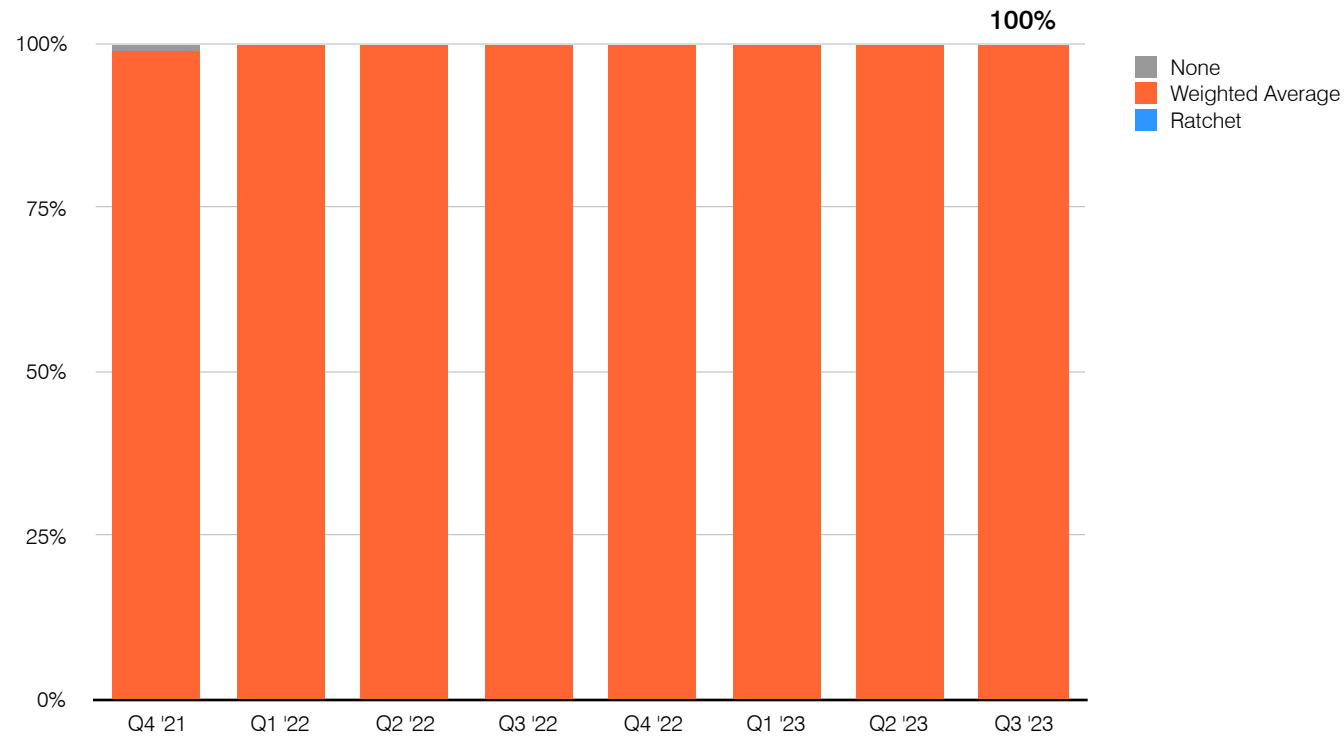
REDEMPTION—PERCENTAGE OF FINANCINGS THAT PROVIDED FOR MANDATORY REDEMPTION OR REDEMPTION AT THE OPTION OF THE INVESTOR (INCLUDES ALL ROUNDS SERIES A THROUGH E+)



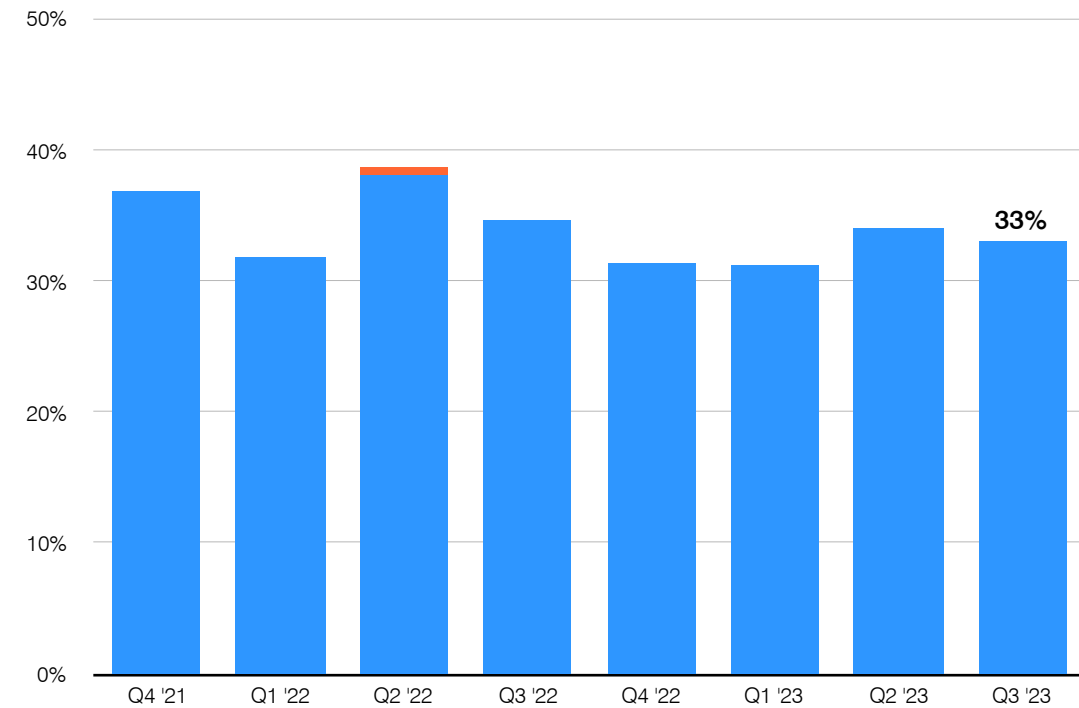
Other Terms

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NON-IPO ANTIDILUTION PROVISIONS—PERCENTAGE OF FINANCINGS THAT INCLUDED NON-IPO ANTIDILUTION PROVISIONS (INCLUDES ALL ROUNDS SERIES A THROUGH E+) FOCUSED ON NON-IPO ANTIDILUTION PROVISIONS THAT PROTECT THE INVESTOR AGAINST A FUTURE VENTURE FINANCING AT A PRICE BELOW WHAT THE INVESTOR PAID. DOES NOT REFLECT ANTIDILUTION PROVISIONS DESIGNED TO PROTECT AGAINST AN IPO AT A PRICE BELOW THE PRICE PAID BY THE VENTURE INVESTOR, SUCH AS AN IPO RATCHET.



IPO DOWNSIDE PROTECTIONS—PERCENTAGE OF FINANCINGS THAT INCLUDED IPO DOWNSIDE PROTECTIONS (INCLUDES ALL ROUNDS SERIES A THROUGH E+)

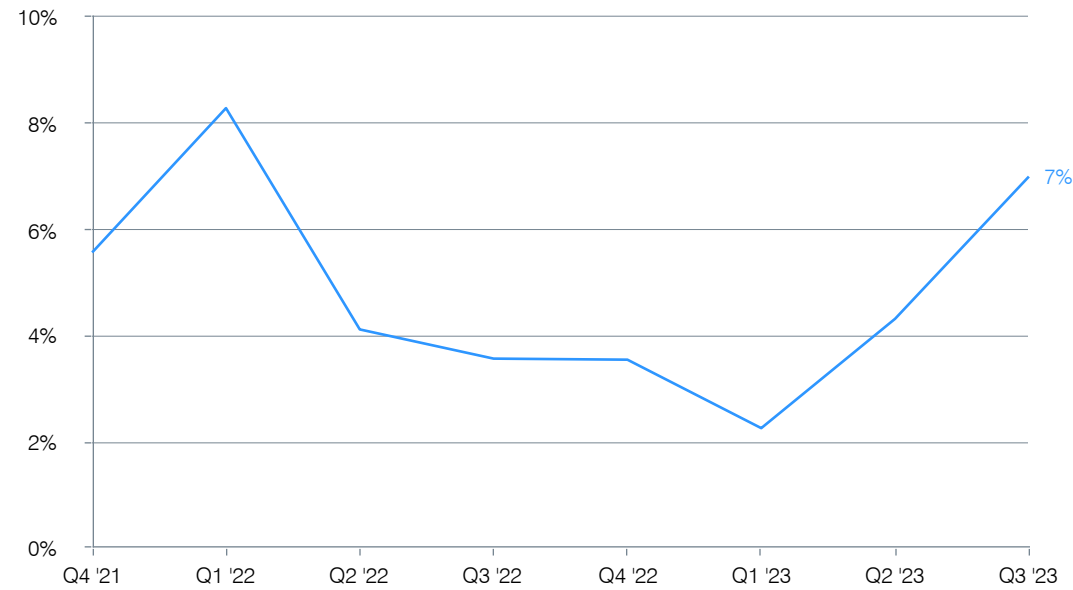


- Ratchet: Investors receive additional shares if IPO price is less than financing price or, in some cases, the financing price plus a premium
- Blocking Right: IPO price must be at least as high as financing price

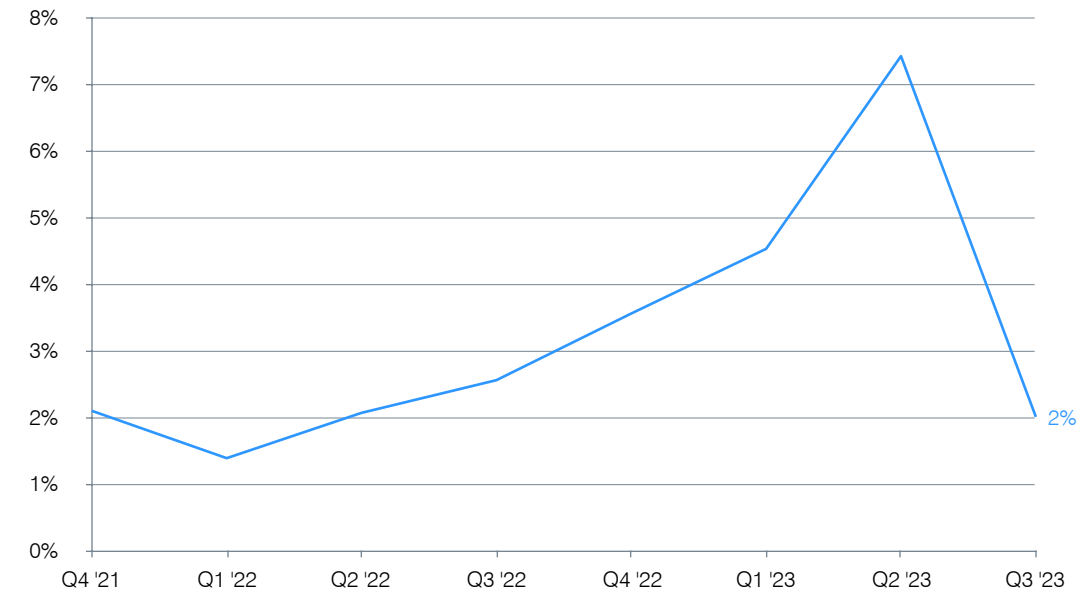
Other Terms

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CORPORATE REORGANIZATION—PERCENTAGE OF FINANCINGS INVOLVING CORPORATE REORGANIZATION



PAY-TO-PLAY PROVISIONS—PERCENTAGE OF FINANCINGS THAT INCLUDED PAY-TO-PLAY PROVISIONS PROVIDING FOR CONVERSION OF NON-PARTICIPATING INVESTORS' PREFERRED STOCK INTO COMMON STOCK OR SHADOW PREFERRED STOCK



DUAL-CLASS COMMON STOCK—PERCENTAGE OF FINANCINGS WITH DUAL-CLASS COMMON STOCK STRUCTURES WHERE ONE CLASS OF COMMON STOCK HOLDS MORE VOTES PER SHARE THAN THE OTHER CLASS



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“[The Fenwick team is] first class through and through. They are the best in the business for a fast-moving startup.”

–Chambers USA

Fenwick’s Startup & Venture Capital Team

For over 50 years, Fenwick has helped some of the world’s most recognized companies become, and remain, market leaders. From emerging enterprises to large public corporations, our clients are leaders in the technology and life sciences sectors and are fundamentally changing the world through rapid innovation. We currently represent 1,500+ VC-backed companies, including many of the world’s most notable and 80+ with valuations over \$1B. Our VC practice is ranked as one of the top in the U.S. by Dow Jones and *Chambers USA*, and Fenwick has advised on some of the largest venture capital financings in history.

Representative Venture-Backed Clients



About Our Survey

The Fenwick 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/subscribe. We are pleased to be a source of information for 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 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.

Disclaimer

The preparation of the information contained herein involves assumptions, compilations and analysis, and there can be no assurance that the information provided herein is error-free. Neither Fenwick & West LLP nor any of its partners, associates, staff or agents shall have any liability for any information contained herein, including any errors or incompleteness. The contents of this report are not intended, and should not be considered, as legal advice or opinion. To the extent that any views on the venture environment or other matters are expressed in this survey, they are the views of the authors only, and not Fenwick & West LLP.

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. 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.

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.

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 www.fenwick.com/subscribe.

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