

FENWICK



Silicon Valley Venture Capital Survey

Fourth Quarter 2022

Silicon Valley Venture Capital Survey – Fourth Quarter 2022

Background

Our survey analyzed the terms of 169 venture financings closed in the fourth quarter of 2022 by companies headquartered in Silicon Valley.

Summary

The Q4 2022 data is consistent with what we would have expected. The terms are getting less attractive for companies, with the increase in valuations for a round of financing compared to the prior round going down, and an increase in senior liquidation preferences.

Despite a more challenging fundraising environment, more than 77% of companies receiving venture financing across industries in Q4 did so in an up round. However, they did so at far less of a price change increase (the 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), with a median price change across industries dropping from 98% in Q3 to 57% in Q4. The Fenwick Venture Capital Barometer™, measuring the average percentage share price change between rounds, dropped from 122% in Q3 2022 to 87% in Q4 2022. This is returning closer to our long-term average of 74%, after climbing to over 253% in Q1 2022.

Key Findings

Volume Drops, Funding Mix Shifts Towards Earlier Stage

The total number of venture financings in Q4 2022 (169) declined 14% from Q3 2022 (196). This is the lowest level of financings we have reported on since Q4 2016, which saw 136 financings, and well below the high-water mark of 358 financings in Q2 2021.

There was a notable uptick in Series A financings, from 44% of all financings in Q3 2022 to 58% in Q4 2022. The percentage of Series A financings in Q4 more than doubled from the same quarter last year, which was 24%.

Extension Rounds Start Trending

Extension rounds, which add new funding from existing or new investors under the same terms as the previous financing round, are increasing. Of the 10 Series E+ financings rounds in Q4 2022, two were extension rounds. Overall, there were 10 extension rounds out of the 71 Series B through E+ rounds, equating to 14%, which is higher than we have seen in previous quarters.

Down Rounds Hit Later-Stage Companies

For the first time in 2022, Series E+ companies seeking funding faced down rounds, impacting 30% of these companies in Q4. Series D down rounds more than doubled from Q3 to Q4 in 2022, from 8% to 17%. Down rounds for Series B and C companies remained below 6% in Q4.

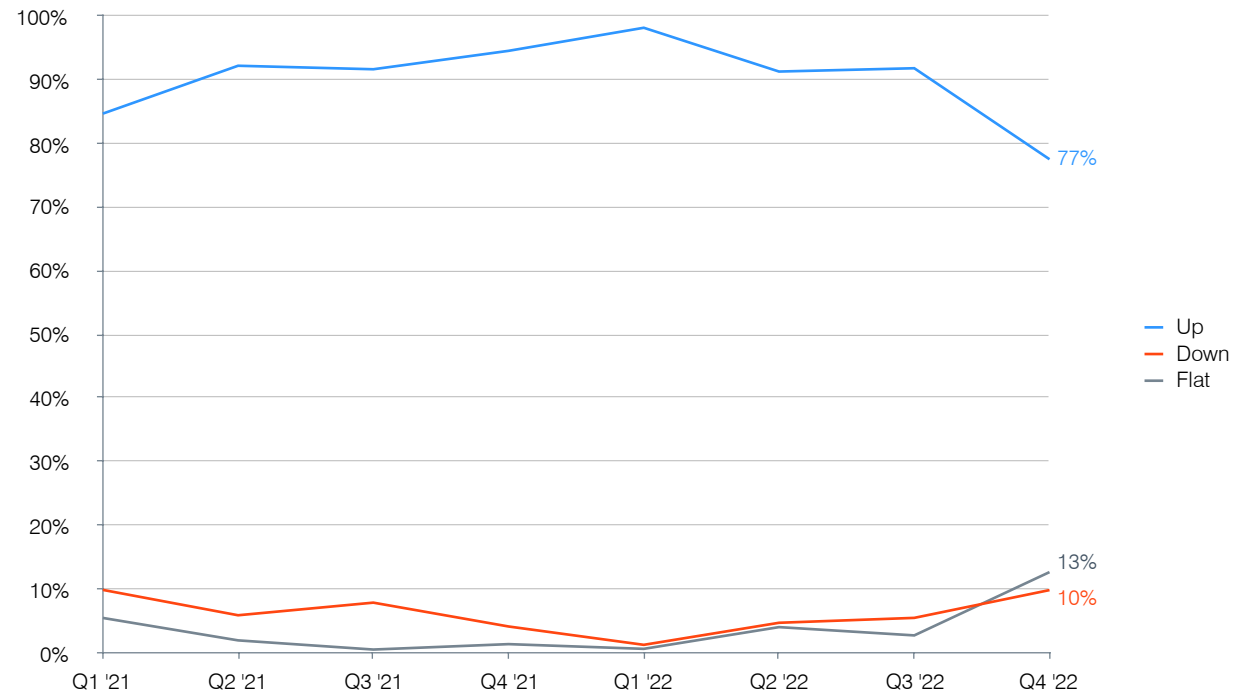
Lower Investor Confidence Indicated by Senior Liquidation Preferences

Senior liquidation preferences for Series D and E+ financings jumped in Q4, impacting half of all financings in each category—a 100% increase for Series E+ and a 250% increase for Series D from Q4 2021.

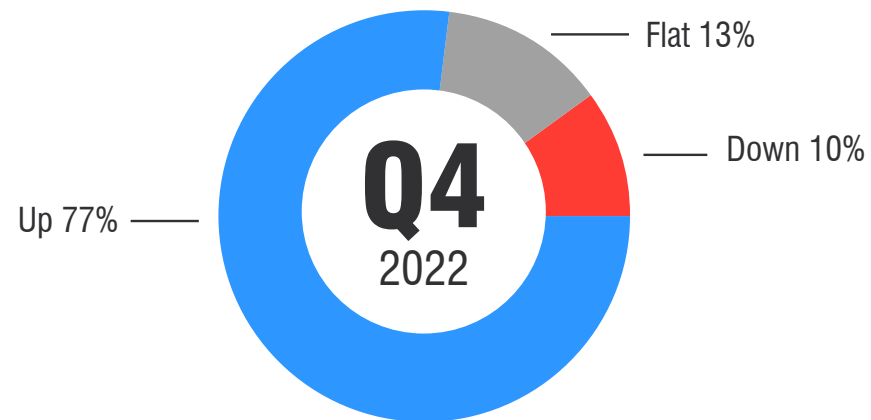
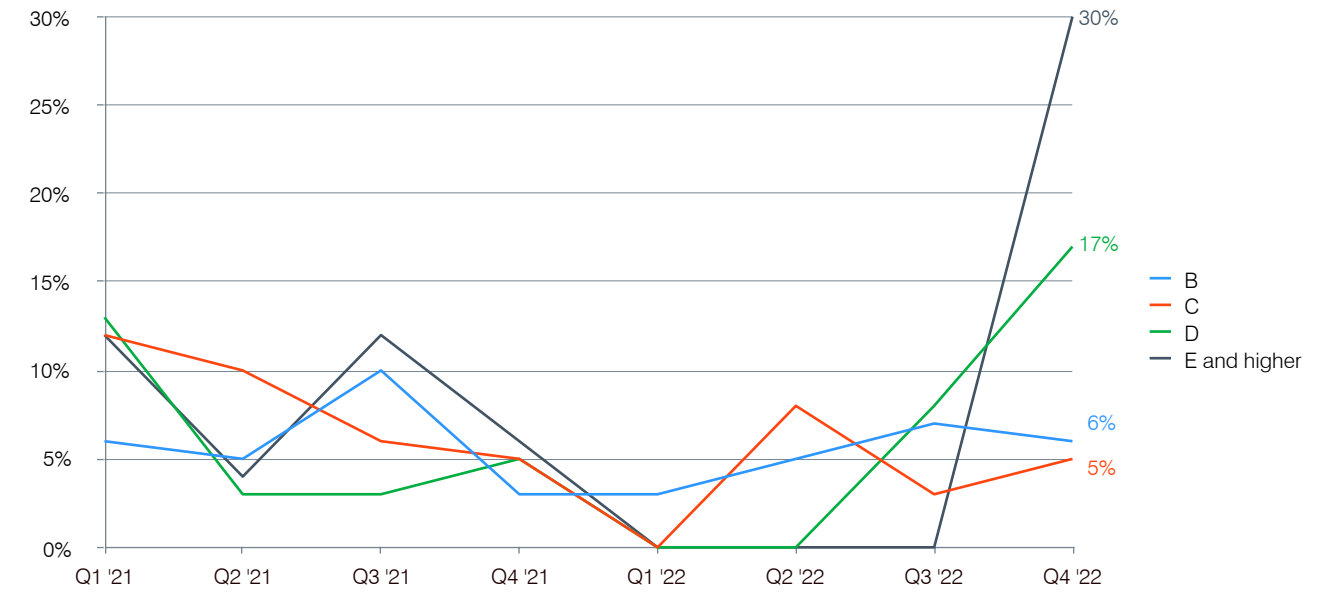
Fenwick Data on Valuations

Price Change

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



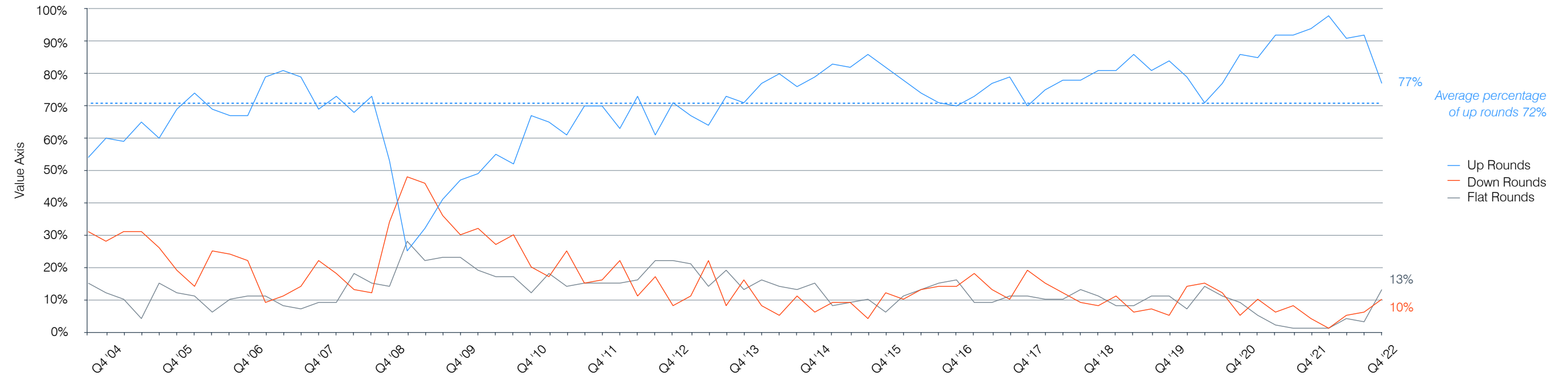
PERCENTAGE OF **DOWN ROUNDS** BROKEN OUT BY SERIES



Price Change

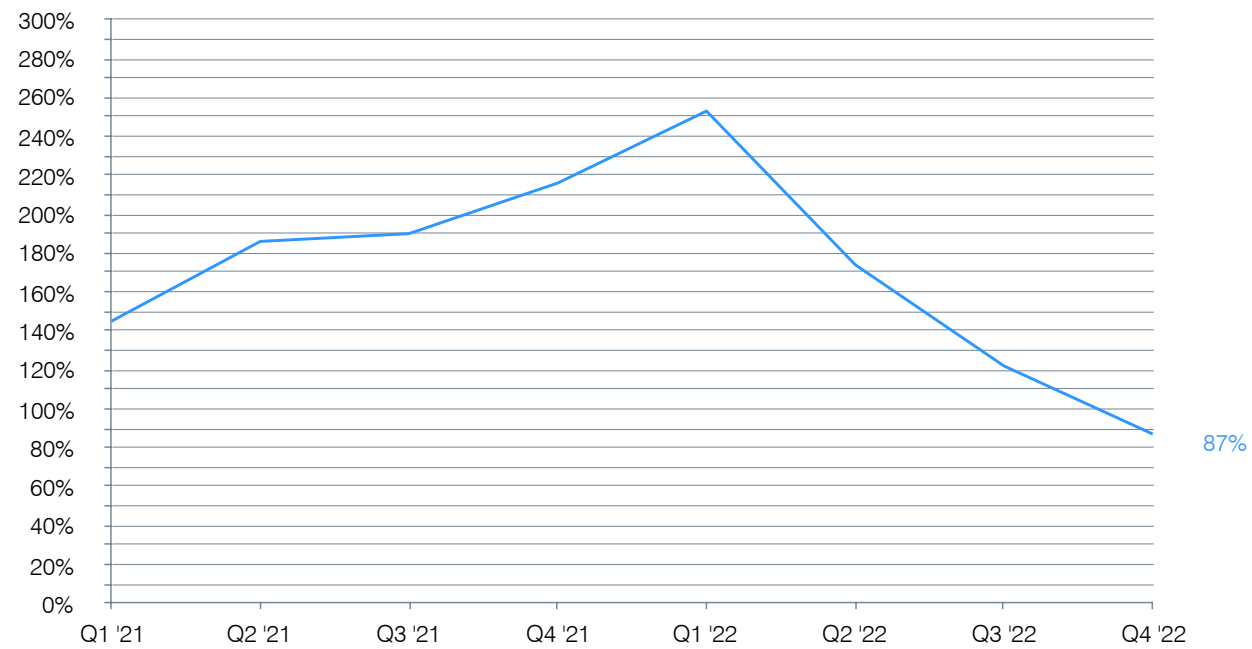
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EXPANDED PRICE CHANGE GRAPH—DIRECTION OF PRICE CHANGES WITH POST-SERIES A FINANCINGS COMPARED TO THE COMPANIES' PREVIOUS ROUND

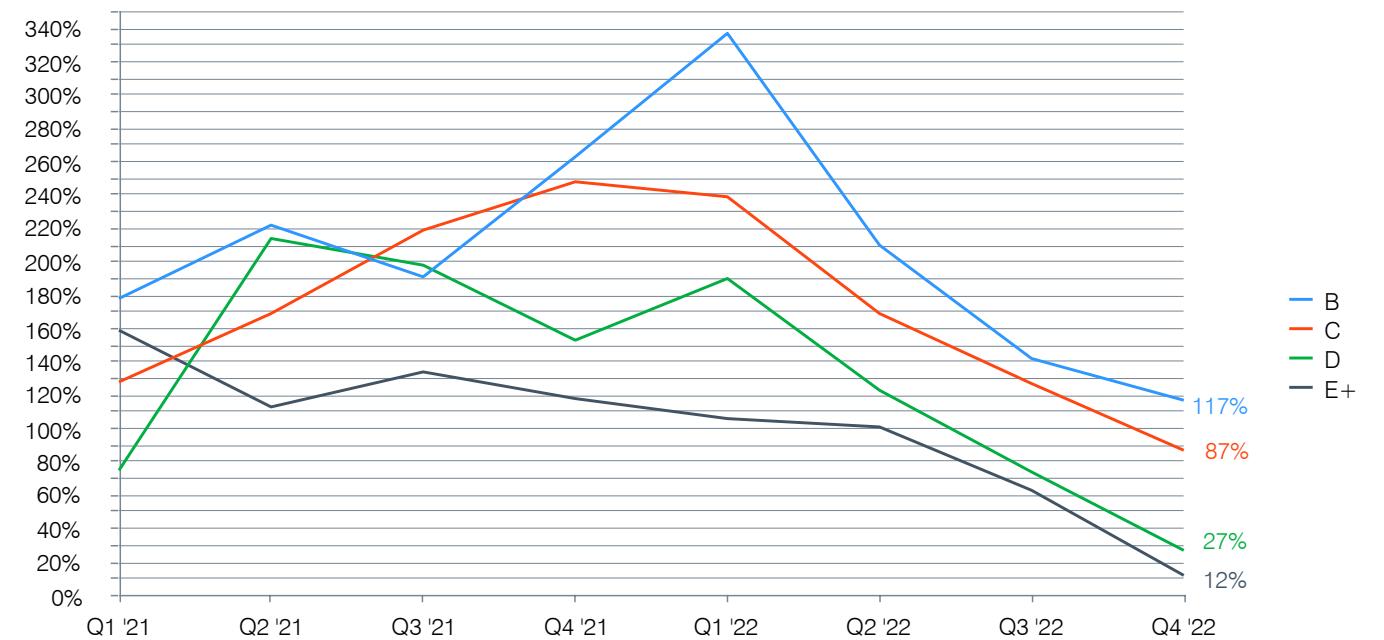


The Fenwick Venture Capital Barometer™

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.



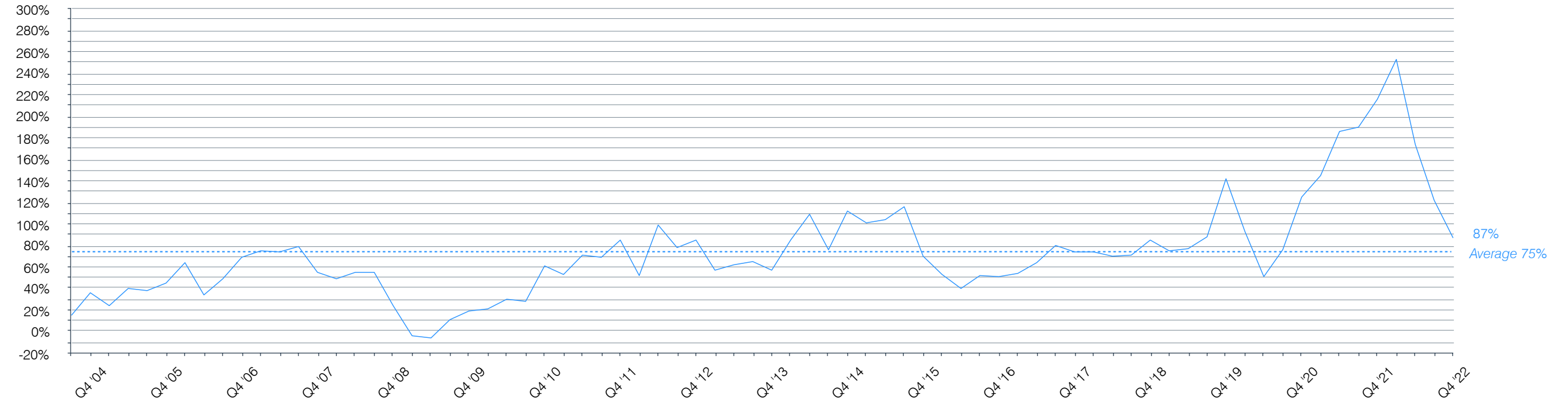
BAROMETER RESULTS BY SERIES



The Fenwick Venture Capital Barometer™

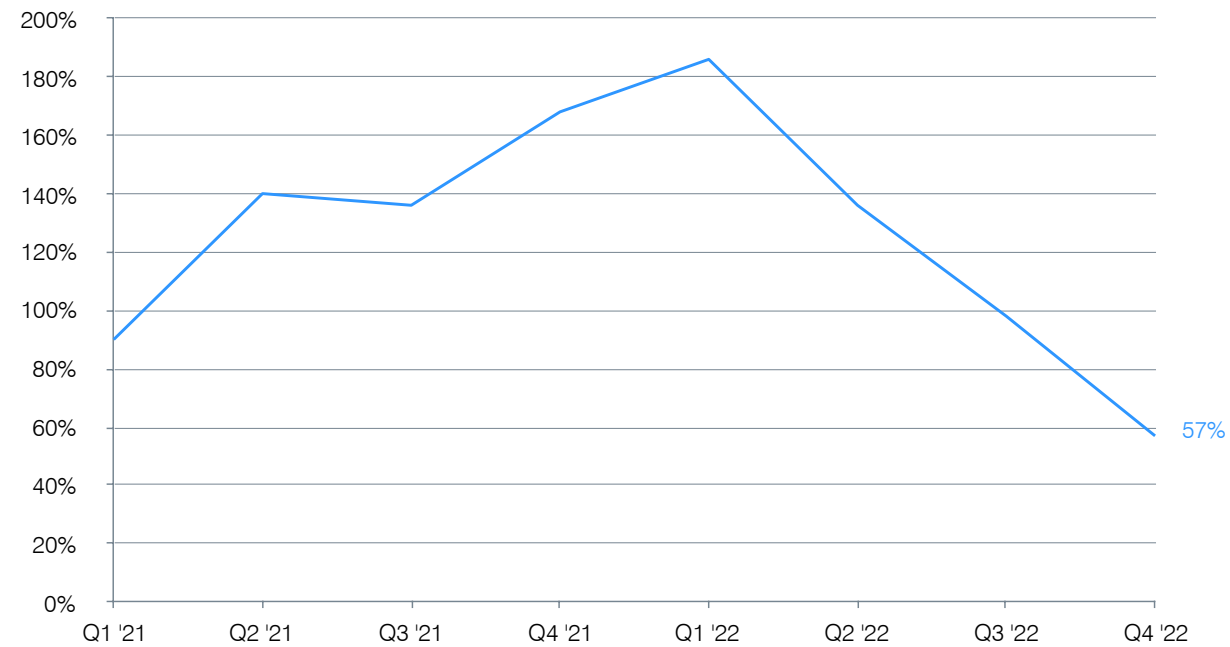
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EXPANDED FENWICK VENTURE CAPITAL BAROMETER™—DIRECTION OF PRICE CHANGES WITH POST-SERIES A FINANCINGS COMPARED TO THE COMPANIES' PREVIOUS ROUND

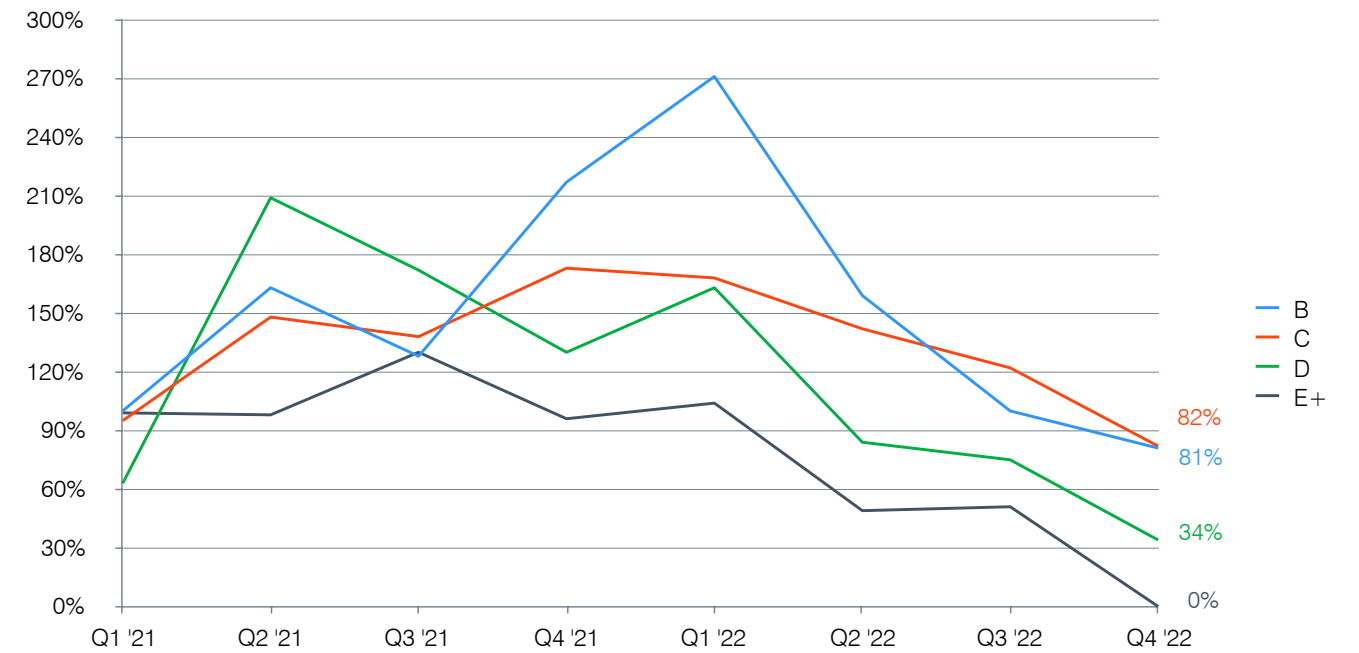


Median Percentage Price Change

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.



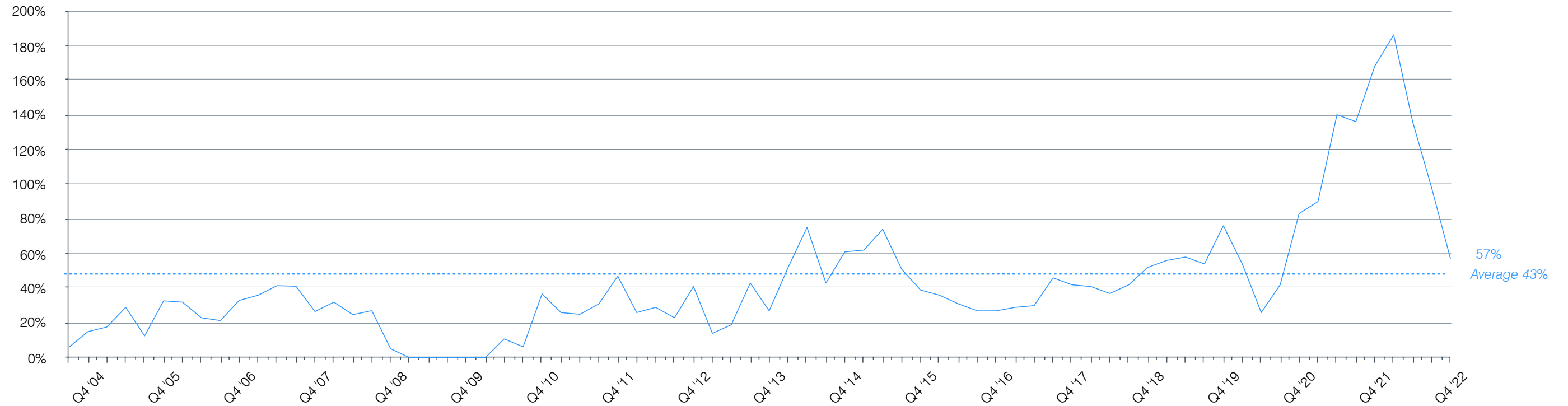
MEDIAN PRICE CHANGE RESULTS BY SERIES



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	85%	4%	11%	73%	69%	27
Hardware	71%	14%	14%	76%	15%	7
Life Sciences	65%	15%	20%	81%	44%	20
Internet/Digital Media	71%	14%	14%	62%	49%	7
Other	90%	10%	0%	161%	104%	10
Total, All Industries	77%	10%	13%	87%	57%	71

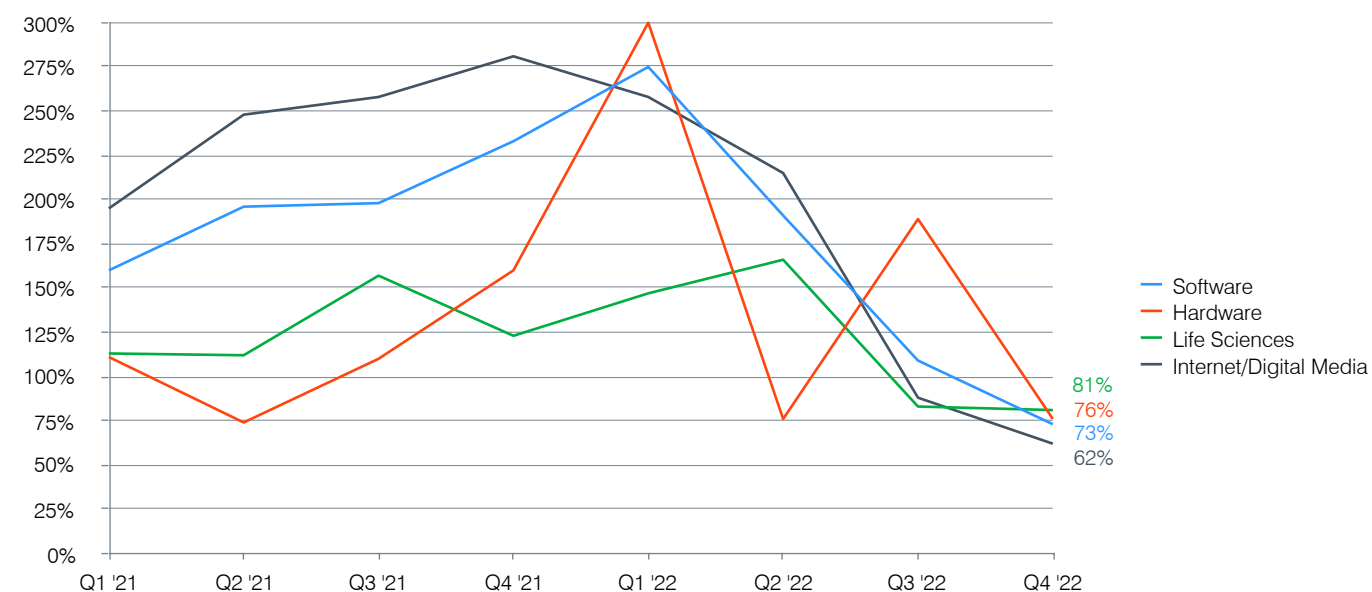
DOWN ROUND RESULTS BY INDUSTRY—PERCENT OF DOWN ROUNDS EACH QUARTER, BROKEN OUT BY INDUSTRY

Down Rounds	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22
Software	7%	6%	4%	2%	0%	5%	9%	4%
Hardware	22%	13%	27%	18%	0%	14%	9%	14%
Life Sciences	11%	4%	14%	10%	8%	0%	0%	15%
Internet/Digital Media	8%	6%	0%	0%	0%	0%	0%	14%
Other	10%	7%	10%	0%	0%	6%	0%	10%
Total, All Industries	10%	6%	8%	4%	1%	5%	6%	10%

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	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22
Software	160%	196%	198%	233%	275%	191%	109%	73%
Hardware	111%	74%	110%	160%	300%	76%	189%	76%
Life Sciences	113%	112%	157%	123%	147%	166%	83%	81%
Internet/Digital Media	195%	248%	258%	281%	258%	215%	88%	62%
Other	115%	304%	166%	211%	263%	143%	213%	161%
Total, All Industries	145%	186%	190%	216%	253%	174%	122%	87%

GRAPHICAL REPRESENTATION OF THE ABOVE DATA



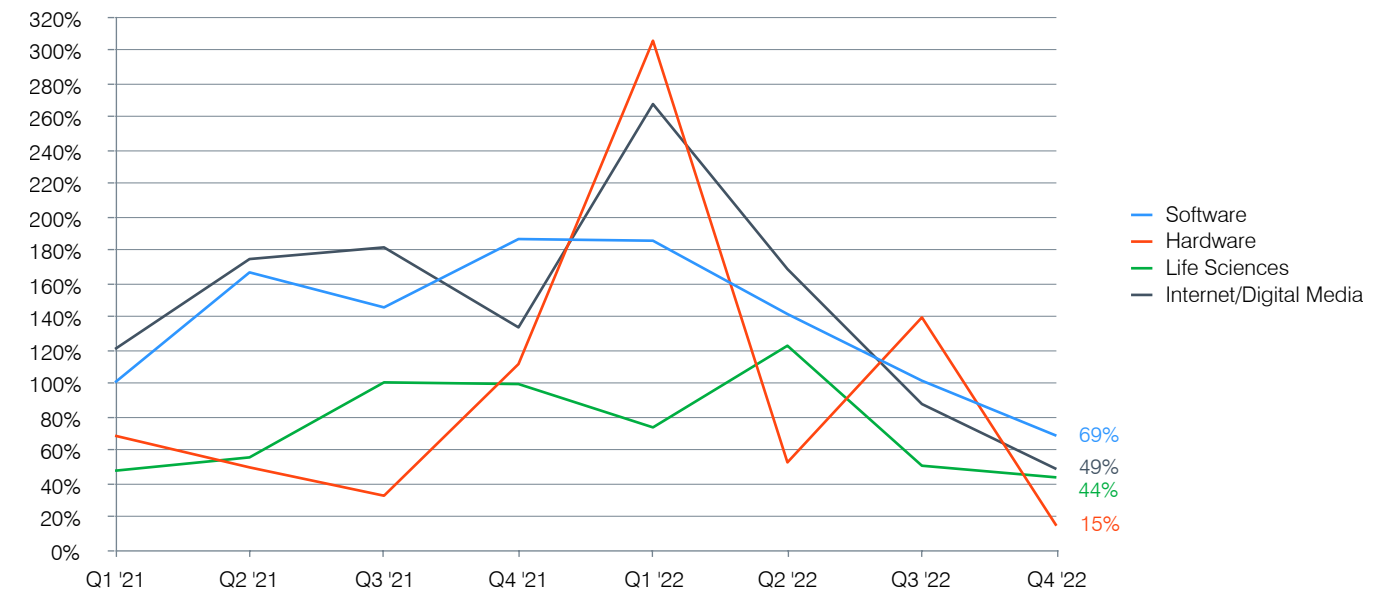
Industry Results

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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	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22
Software	101%	167%	146%	187%	186%	142%	102%	69%
Hardware	69%	50%	33%	112%	306%	53%	140%	15%
Life Sciences	48%	56%	101%	100%	74%	123%	51%	44%
Internet/Digital Media	121%	175%	182%	134%	268%	169%	88%	49%
Other	110%	260%	123%	203%	123%	105%	174%	104%
Total, All Industries	90%	140%	136%	168%	186%	136%	98%	57%

GRAPHICAL REPRESENTATION OF THE DATA ON THE LEFT



Financing Rounds

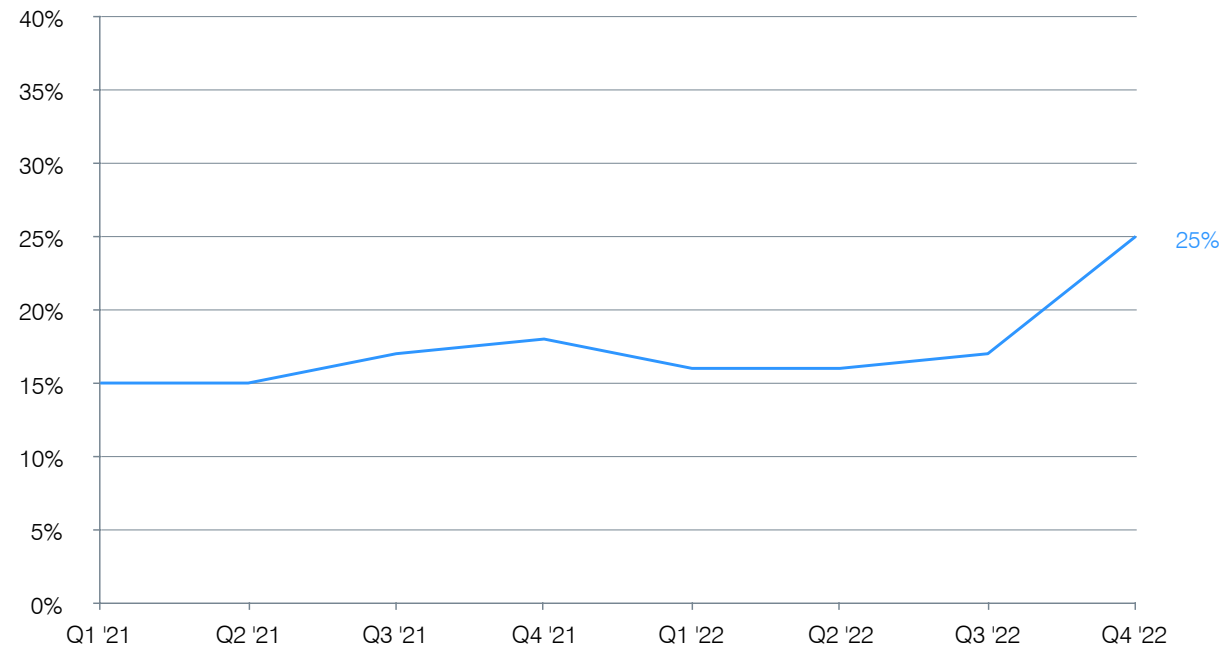
FINANCING ROUND—PERCENTAGE OF TOTAL FINANCINGS BROKEN DOWN BY SERIES

Series	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22
Series A	30%	29%	27%	24%	28%	24%	44%	58%
Series B	27%	31%	28%	28%	30%	32%	28%	21%
Series C	16%	17%	20%	23%	22%	26%	15%	11%
Series D	12%	9%	12%	13%	8%	10%	7%	4%
Series E+	16%	14%	13%	13%	12%	8%	6%	6%

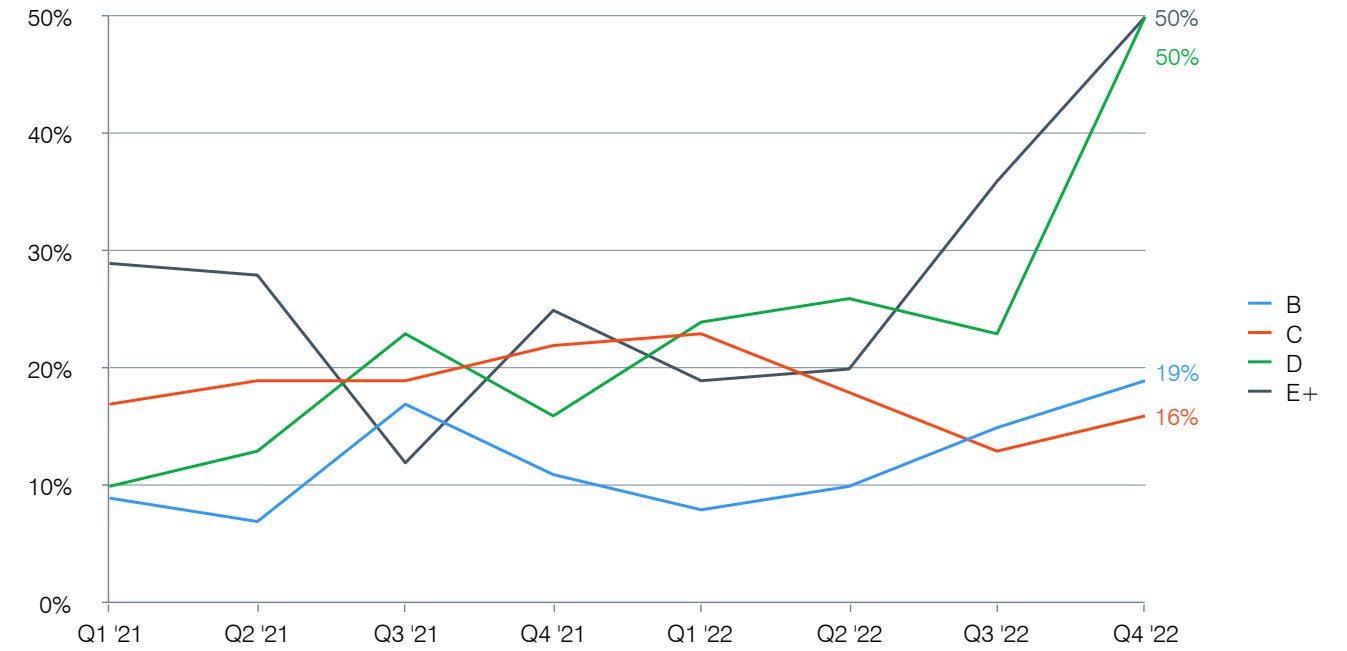
Fenwick Data on Legal Terms

Liquidation

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



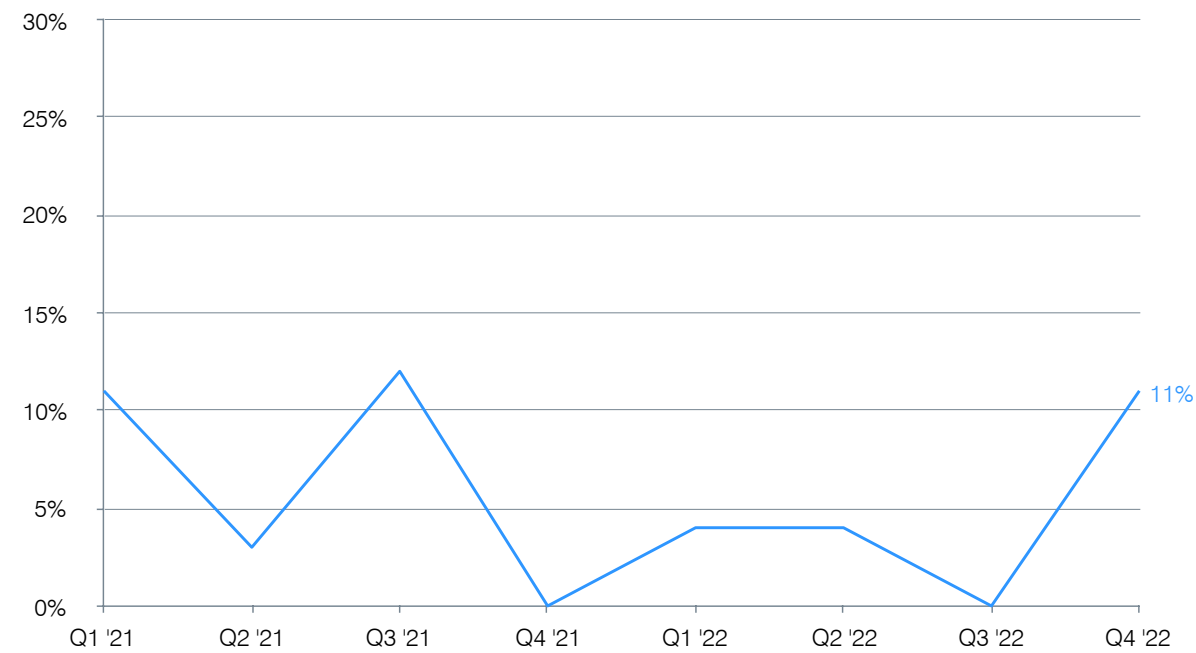
PERCENTAGE OF SENIOR LIQUIDATION PREFERENCES BY SERIES



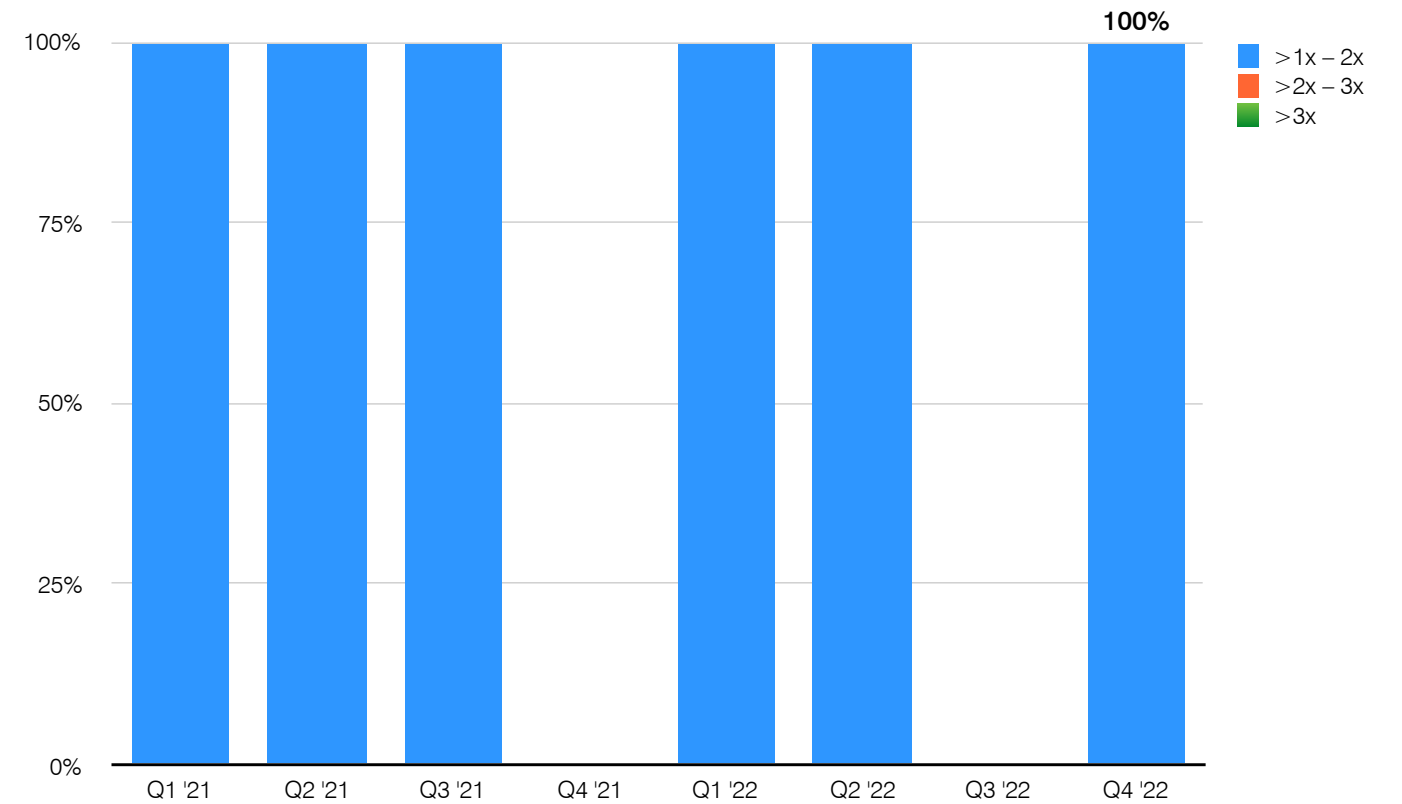
Liquidation

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



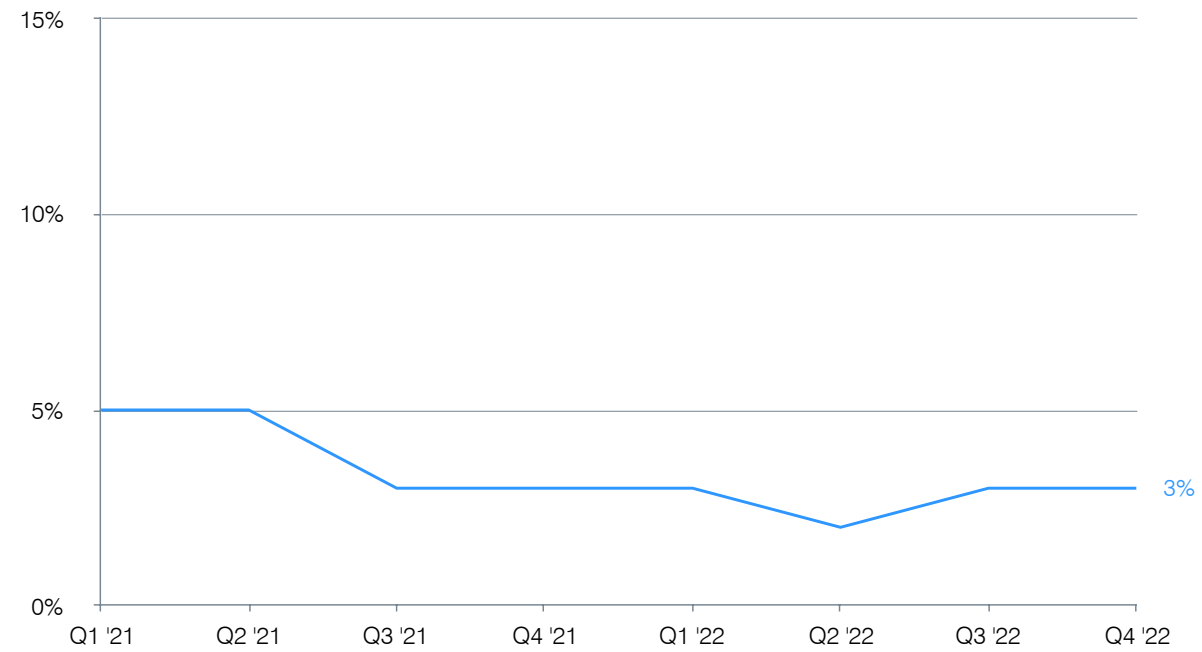
RANGE OF MULTIPLES—PERCENTAGE OF FINANCINGS WITH A SENIOR LIQUIDATION PREFERENCE THAT INCLUDED A MULTIPLE WITHIN THE SPECIFIED RANGE



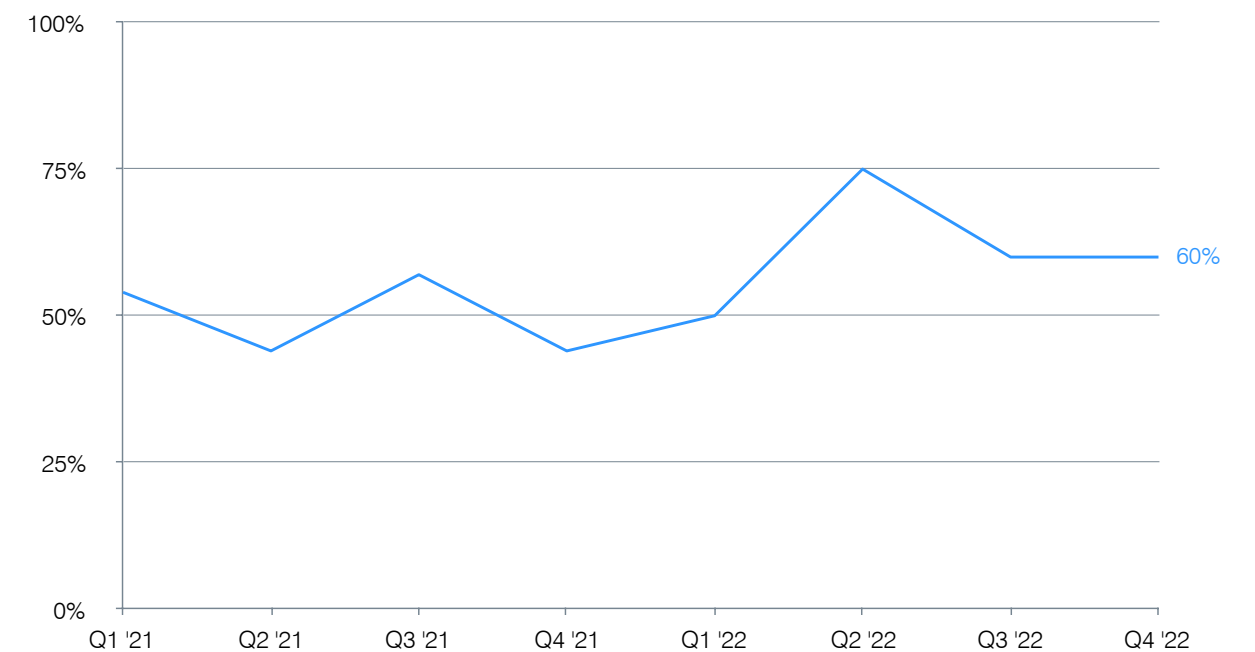
Liquidation

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

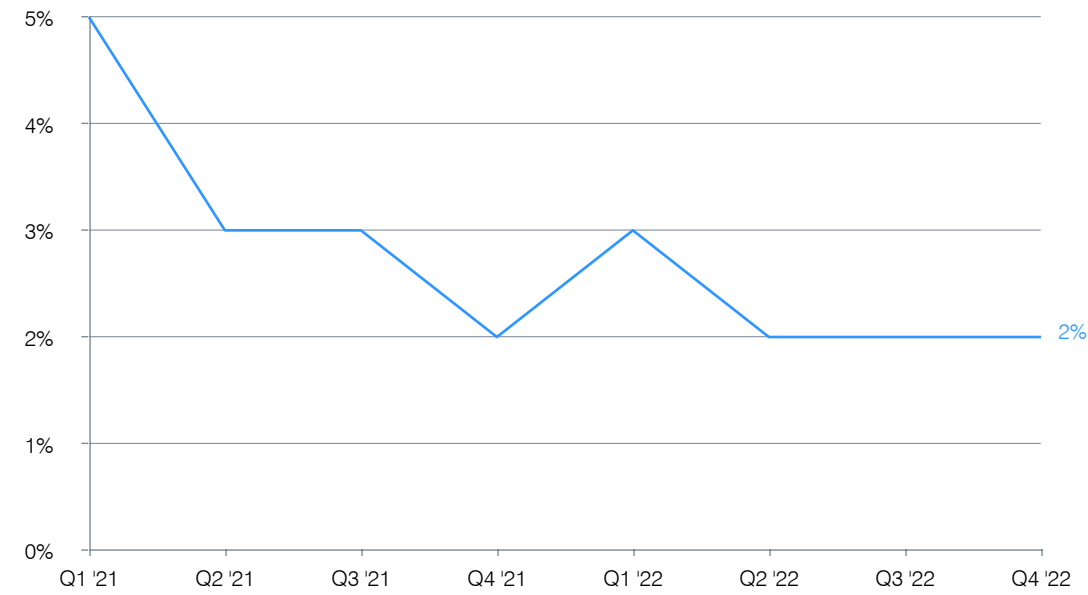


NO CAPPED PARTICIPATION IN LIQUIDATION—PERCENTAGE OF FINANCINGS THAT PROVIDED FOR PARTICIPATION IN LIQUIDATION THAT WERE NOT CAPPED (INCLUDES ALL SERIES A THROUGH E+)

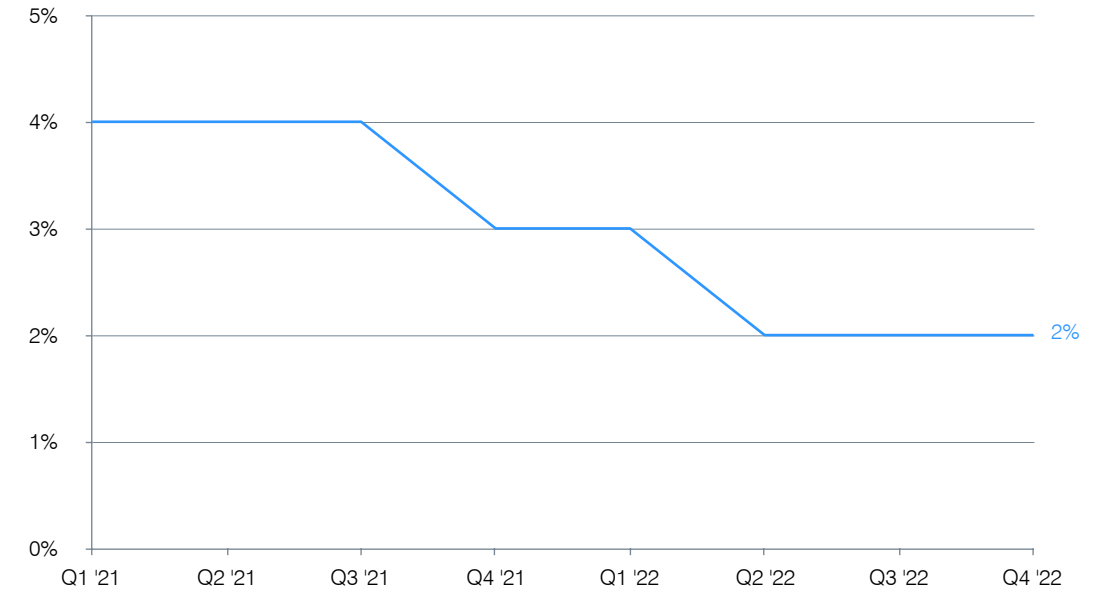


Other Terms

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



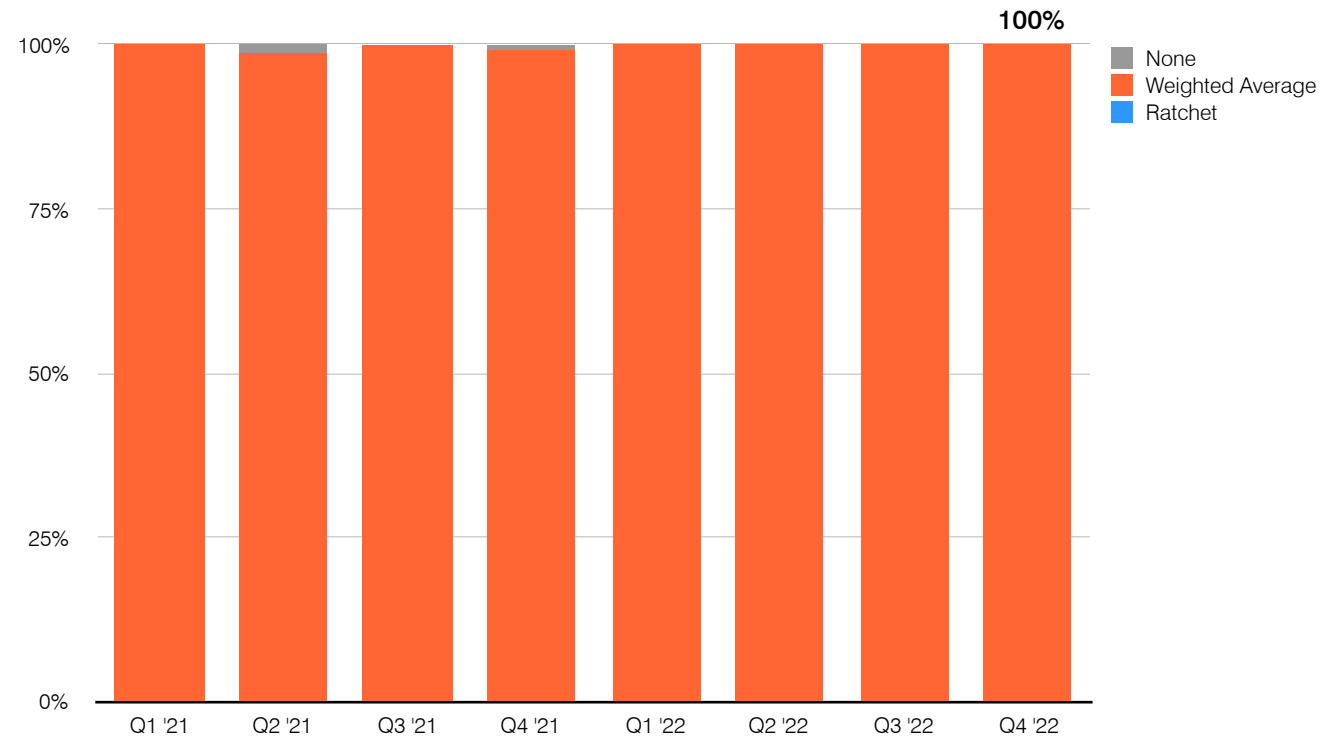
REDEMPTION—PERCENTAGE OF FINANCINGS THAT PROVIDED FOR MANDATORY REDEMPTION OR REDEMPTION AT THE OPTION OF THE INVESTOR (INCLUDES ALL ROUNDS SERIES A THROUGH E+)



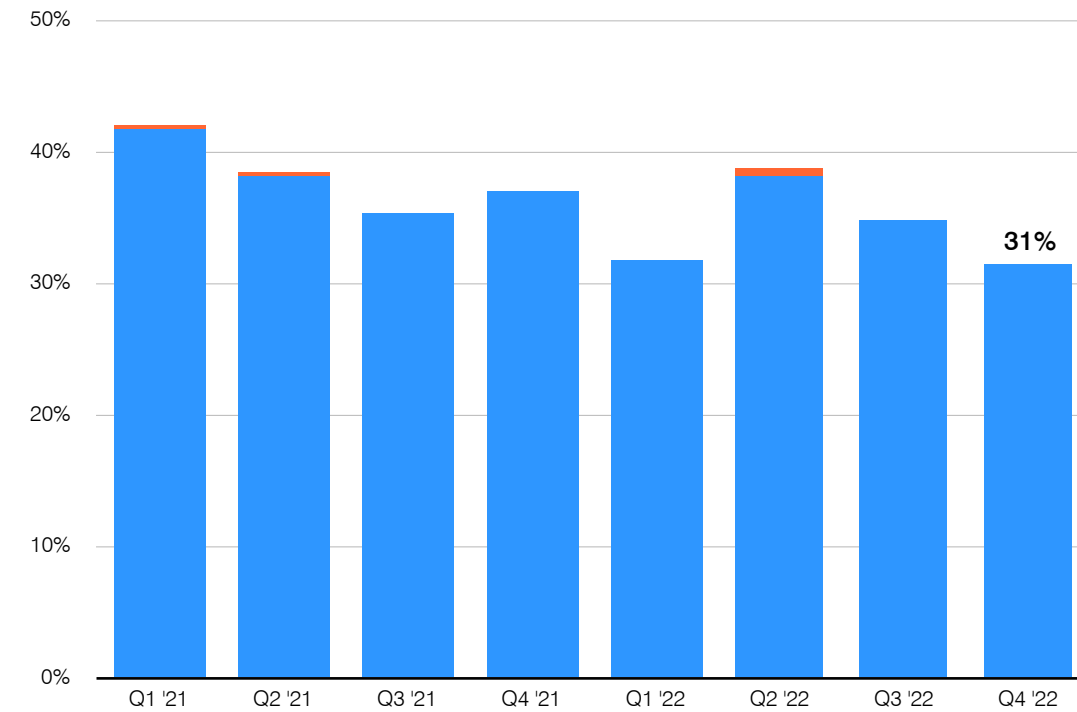
Other Terms

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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+)

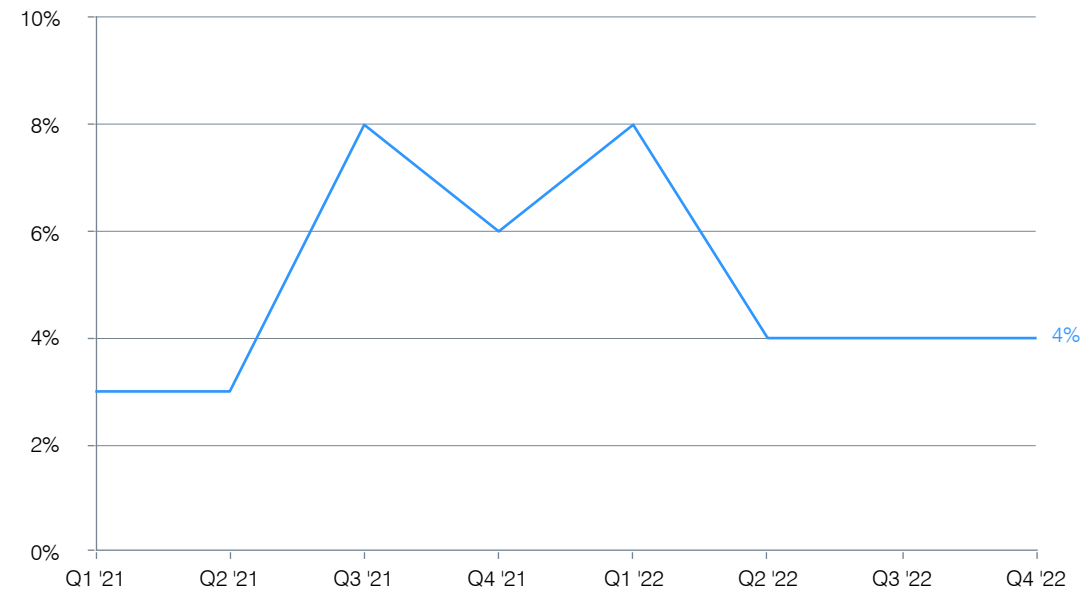


- Ratchet: Investors receive additional shares if IPO price is less than financing price or, in some cases, the financing price plus a premium
- Blocking Right: IPO price must be at least as high as financing price

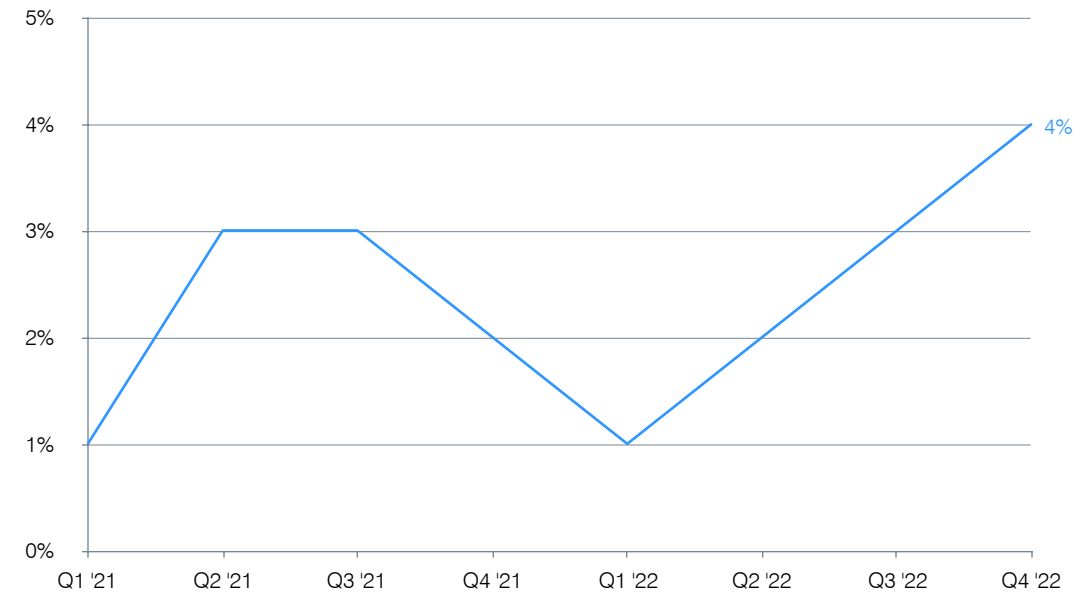
Other Terms

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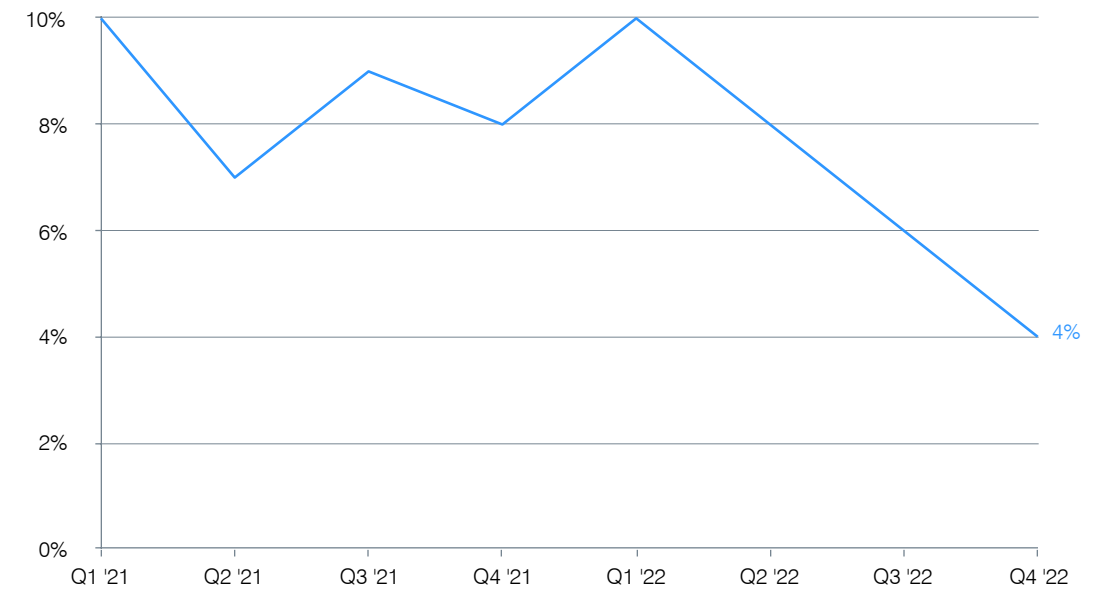
CORPORATE REORGANIZATION—PERCENTAGE OF FINANCINGS INVOLVING CORPORATE REORGANIZATION



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 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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