

The logo for Fenwick, consisting of the word "FENWICK" in a bold, white, sans-serif font. The background of the top half of the page is a dark blue, abstract graphic featuring a grid of thin white lines and several glowing, multi-colored (orange, yellow, blue) vertical bars and lines that resemble a data visualization or a stylized financial chart.

FENWICK

Silicon Valley
Venture Capital Survey
Second Quarter 2020

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Second Quarter 2020

Cynthia Clarfield Hess, Mark Leahy and Khang Tran

Background

Our survey analyzed the terms of 203 venture financings closed in the second quarter of 2020 by companies headquartered in Silicon Valley. The Q2 2020 survey is the first to analyze a full quarter of results since the COVID-19 pandemic caused widespread business disruptions. It follows our [April 2020](#) and [May 2020](#) Silicon Valley Venture Capital Flash Reports, special interim monthly reports tracking the venture capital environment during the pandemic.

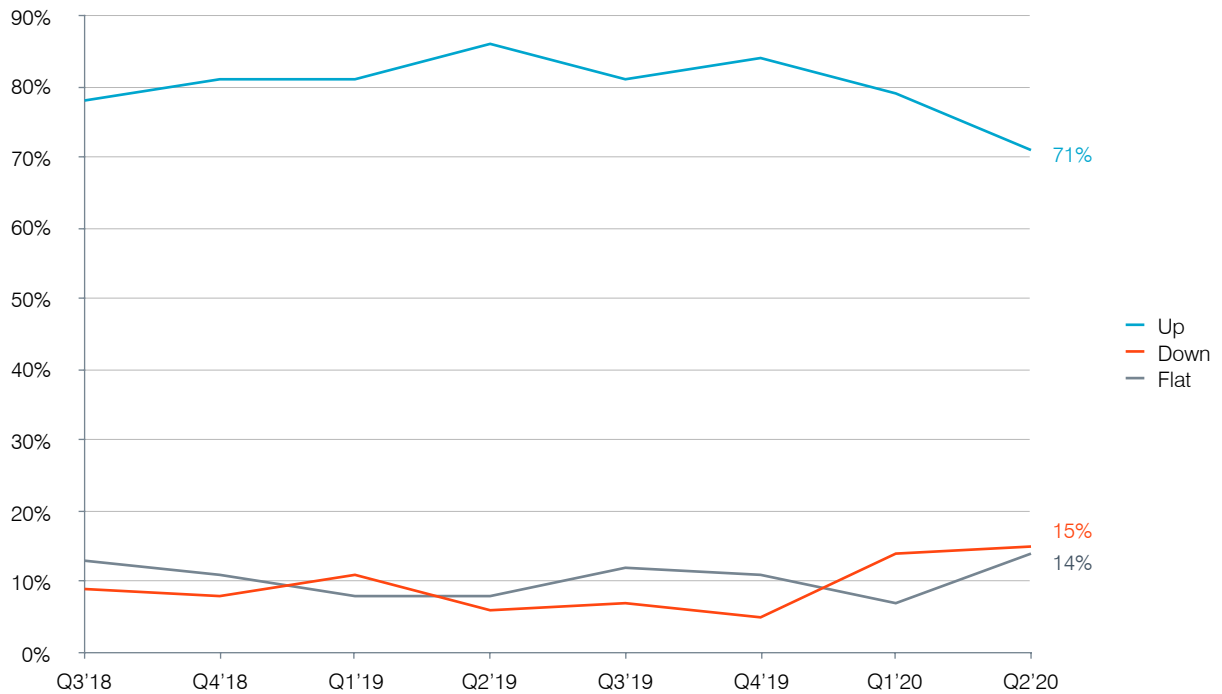
Overview of Fenwick & West Results

Valuation results declined sharply from pre-pandemic peak levels.

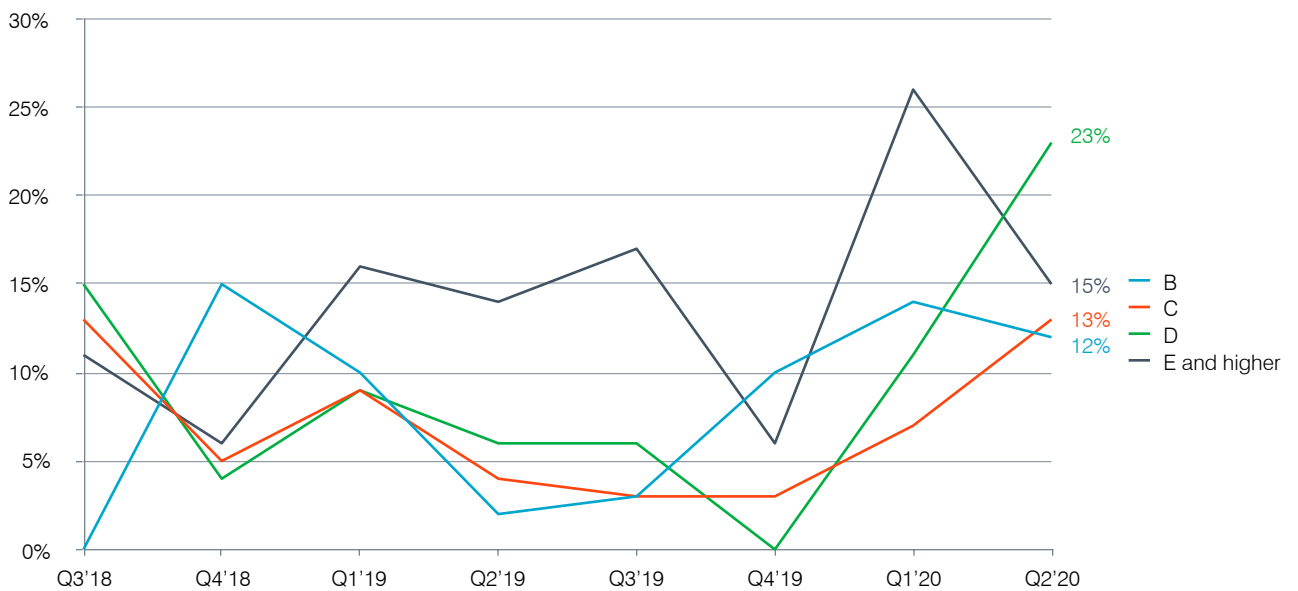
- Up rounds exceeded down rounds 71% to 15%, with 14% flat in Q2, a decline from Q1 when up rounds exceeded down rounds 79% to 14%, with 7% flat. The percentage of up rounds was the lowest, and the percentage of flat rounds was the highest, since Q4 2016. Meanwhile, the percentage of down rounds was the highest since Q4 2017.
- The Fenwick & West Venture Capital Barometer™ showed the average price increase declining considerably to 51% in Q2, compared with 93% in the prior quarter and a record 142% in Q4 2019.
- The median price increase for financings was 26% in Q2, a decline from 54% in the prior quarter and a record 76% in Q4 2019.
- Valuation results across all series of financings declined in Q2 from the prior quarter. Series B financing rounds recorded the strongest valuation results in the quarter and also weakened from the prior quarter by the least amount, while the valuation results for Series C financing rounds experienced the greatest declines.
- The internet/digital media industry recorded the strongest valuation results in Q2, followed closely by the software industry. Nevertheless, valuation results across all industries weakened in Q2 compared with the prior quarter, with the hardware industry experiencing the greatest declines in valuation results.

Fenwick & West Data on Valuation

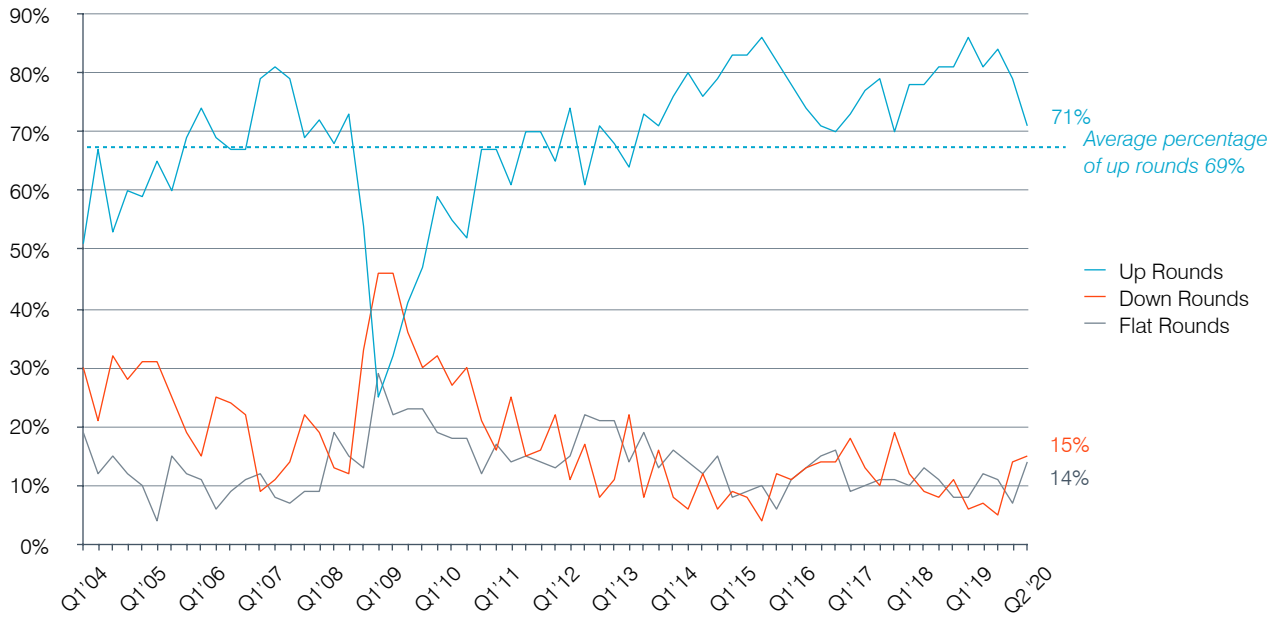
PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing were as follows:



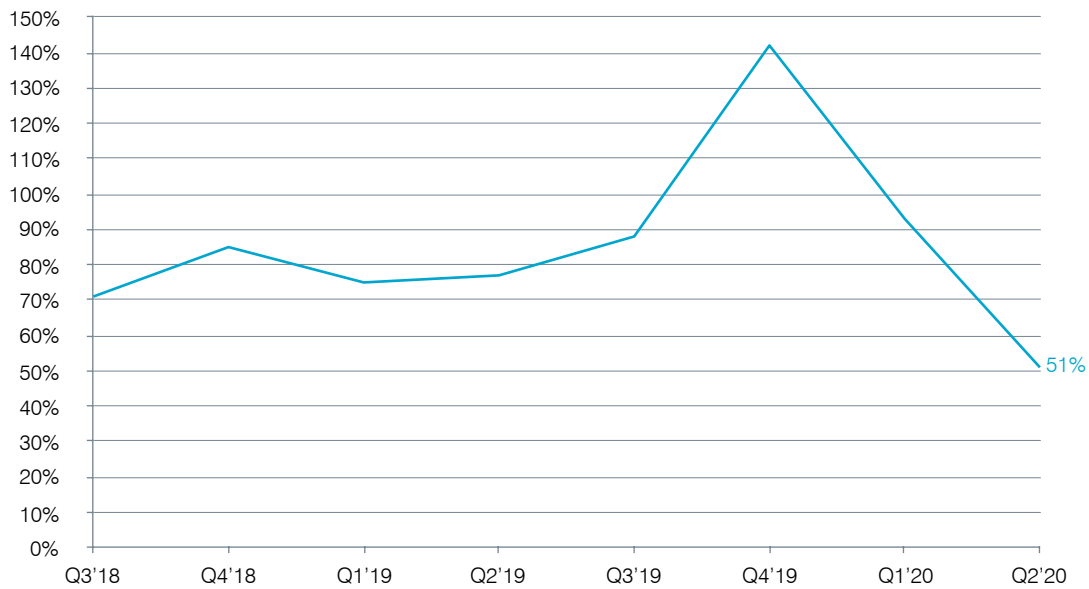
The percentage of **DOWN ROUNDS** by series were as follows:



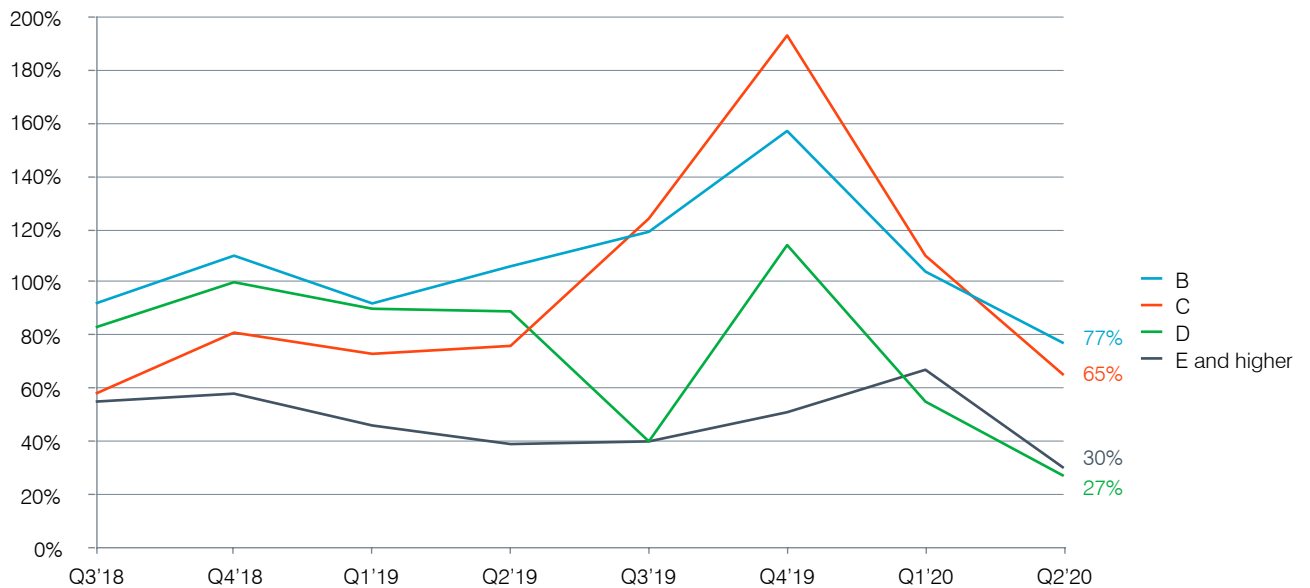
EXPANDED PRICE CHANGE GRAPH—Below is the direction of price changes for each quarter since 2004.



THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (magnitude of price change) — 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) were included, and results were not weighted for the amount raised in a financing.



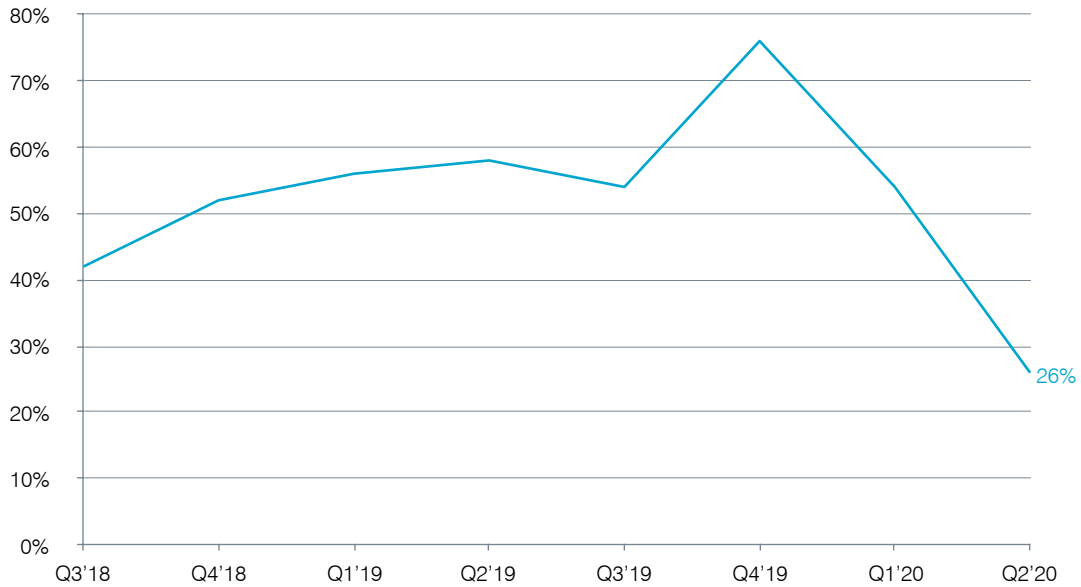
The Barometer results by series were as follows:



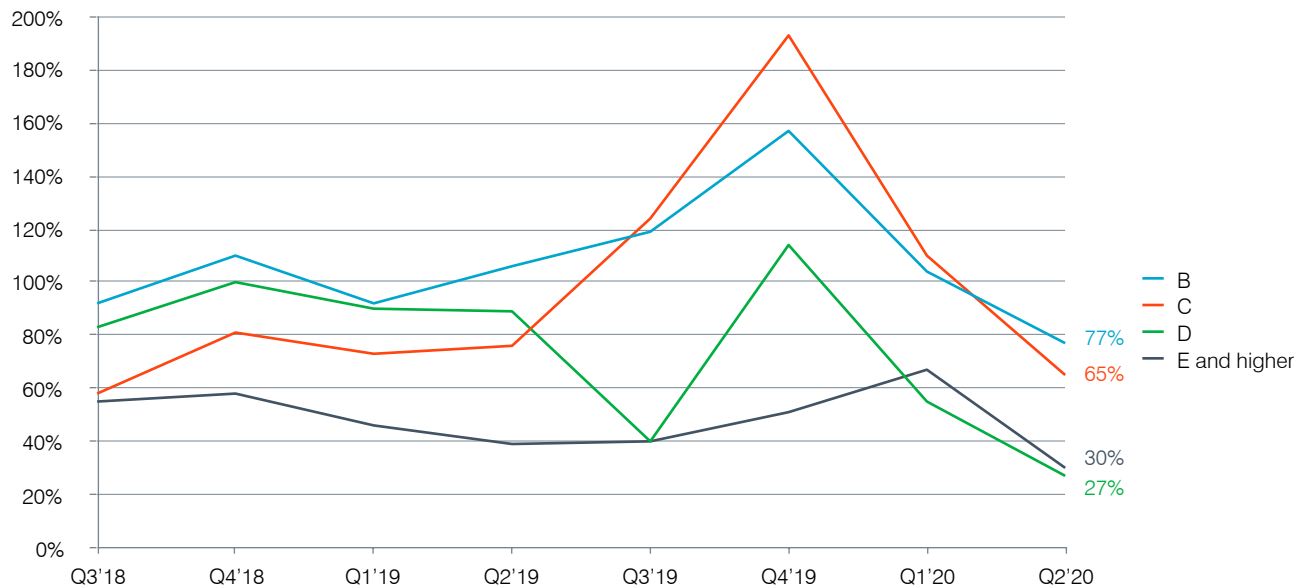
EXPANDED BAROMETER GRAPH—Below is the average percentage price change for each quarter since we began calculating this metric in 2004.



MEDIAN PERCENTAGE PRICE CHANGE—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) were included, and results were not weighted for the amount raised in the financing. Please note that this is different from the Barometer, which is based on average percentage price change.



The median price change results by series were as follows:



EXPANDED MEDIAN PRICE CHANGE GRAPH— 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 illustrates 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 were excluded as they have no previous rounds to compare.

Industry	Up Rounds	Down Rounds	Flat Rounds	Barometer	Median Price Change	Number of Financings
Software	78%	10%	12%	71%	45%	69
Hardware	60%	20%	20%	1%	7%	10
Life Sciences	60%	19%	21%	26%	6%	42
Internet/Digital Media	86%	10%	5%	82%	44%	21
Other	56%	31%	13%	22%	5%	16
Total all Industries	71%	15%	14%	51%	26%	158

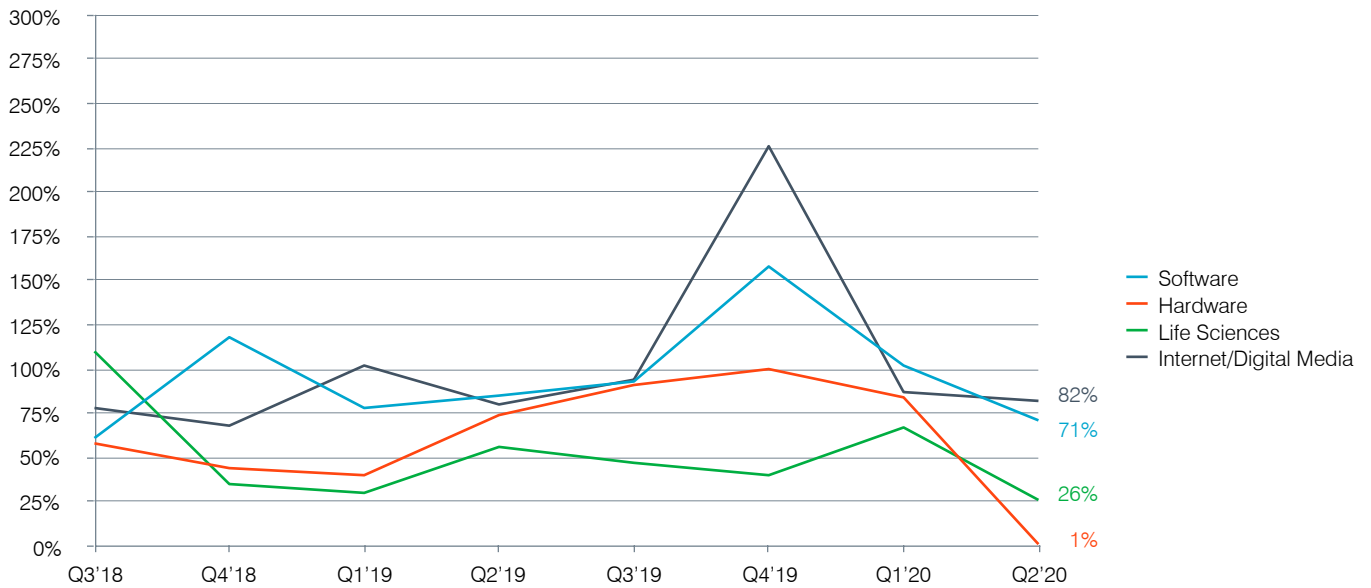
DOWN ROUND RESULTS BY INDUSTRY—The table below illustrates the percentage of “down rounds,” by industry groups, for each of the past eight quarters.

Down Rounds	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Software	11%	3%	12%	7%	9%	6%	13%	10%
Hardware	14%	26%	0%	0%	7%	8%	29%	20%
Life Sciences	5%	11%	27%	4%	0%	0%	25%	19%
Internet/Digital Media	5%	13%	5%	9%	8%	9%	0%	10%
Other	5%	0%	0%	7%	7%	0%	6%	31%
Total all Industries	9%	8%	11%	6%	7%	5%	14%	15%

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

Industry	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Software	61%	118%	78%	85%	93%	158%	102%	71%
Hardware	58%	44%	40%	74%	91%	100%	84%	1%
Life Sciences	110%	35%	30%	56%	47%	40%	67%	26%
Internet/Digital Media	78%	68%	102%	80%	94%	226%	87%	82%
Other	70%	90%	120%	67%	93%	109%	115%	22%
Total all Industries	71%	85%	75%	77%	88%	142%	93%	51%

A graphical representation of the above data is below.

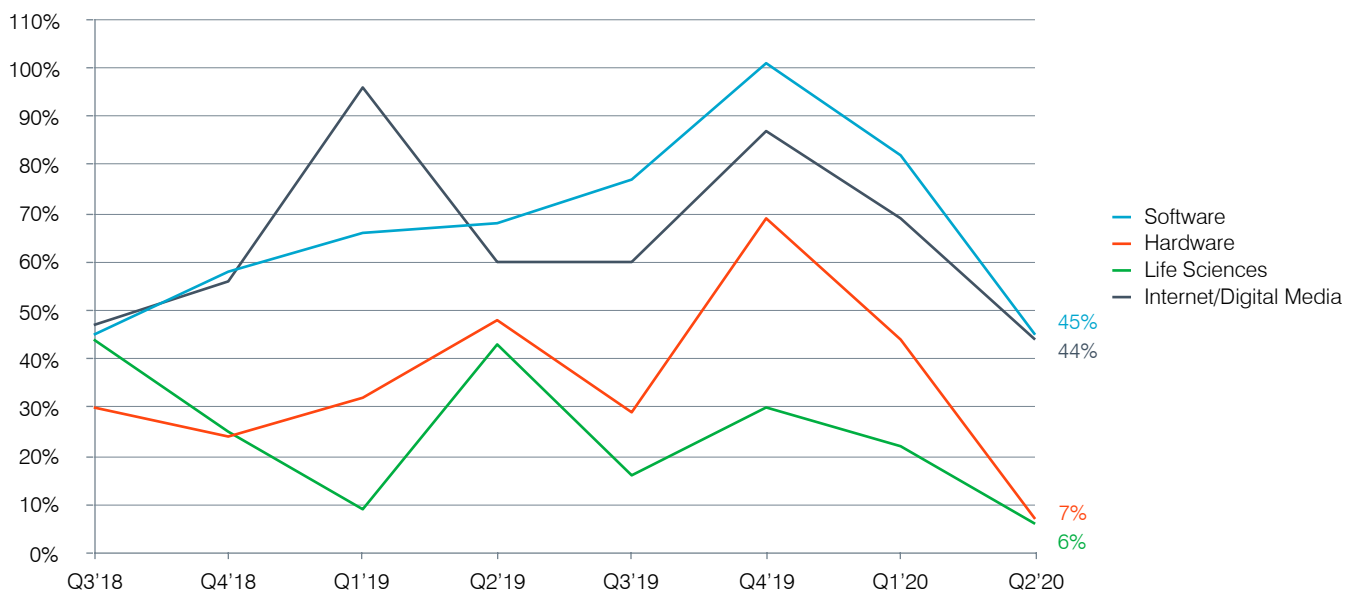


MEDIAN PERCENTAGE PRICE CHANGE RESULTS BY INDUSTRY — The table below illustrates the median percentage price change results by industry group for each of the last eight quarters. Please note that this is different than the Barometer, which is based on average percentage price change.

Median % Price

Change	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Software	45%	58%	66%	68%	77%	101%	82%	45%
Hardware	30%	24%	32%	48%	29%	69%	44%	7%
Life Sciences	44%	25%	9%	43%	16%	30%	22%	6%
Internet/Digital Media	47%	56%	96%	60%	60%	87%	69%	44%
Other	37%	48%	69%	60%	29%	114%	68%	5%
Total all Industries	42%	52%	56%	58%	54%	76%	54%	26%

A graphical representation of the above data is below.

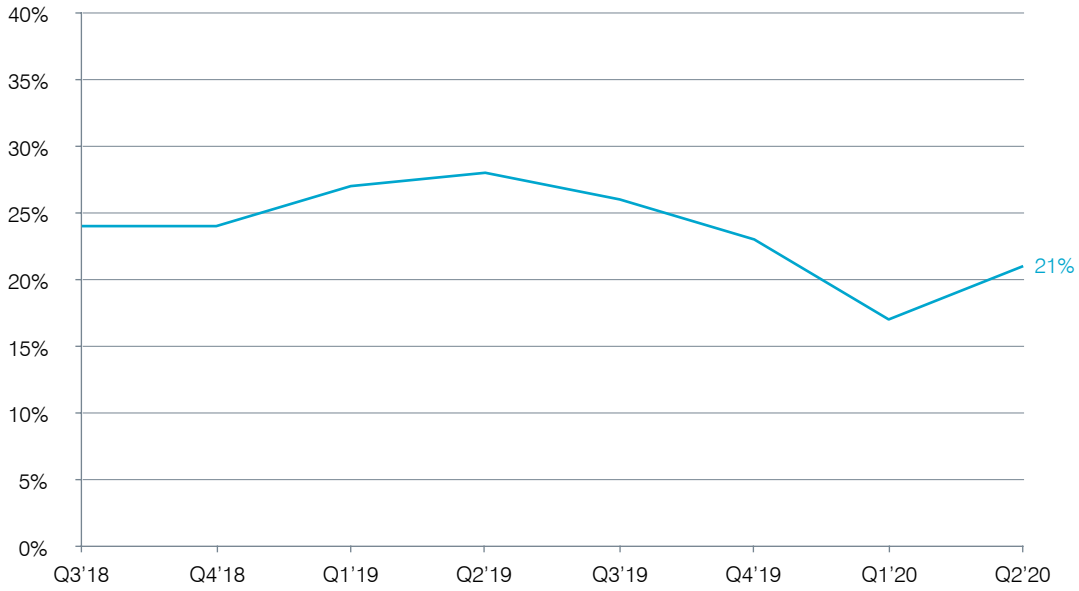


FINANCING ROUND—This quarter's financings broken down by series were as follows:

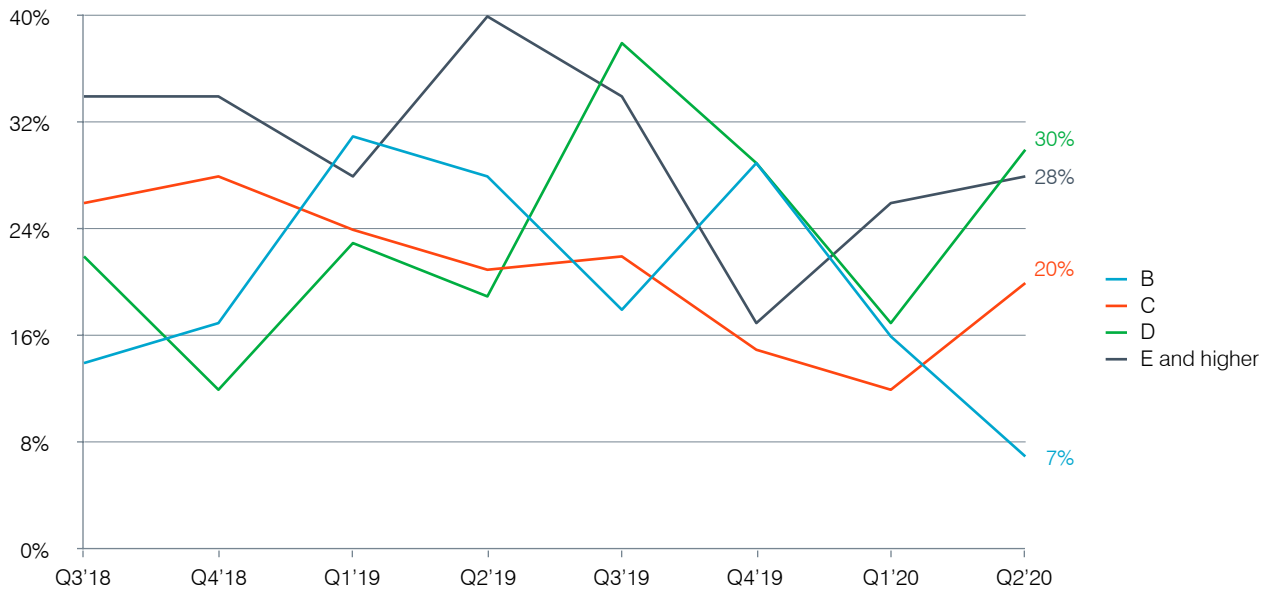
Series	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Series A	27%	31%	32%	26%	35%	39%	40%	22%
Series B	20%	20%	21%	25%	21%	22%	24%	21%
Series C	18%	18%	18%	22%	17%	18%	17%	20%
Series D	13%	11%	12%	7%	8%	11%	8%	15%
Series E and Higher	22%	20%	17%	20%	19%	10%	11%	23%

Fenwick & West Data on Legal Terms

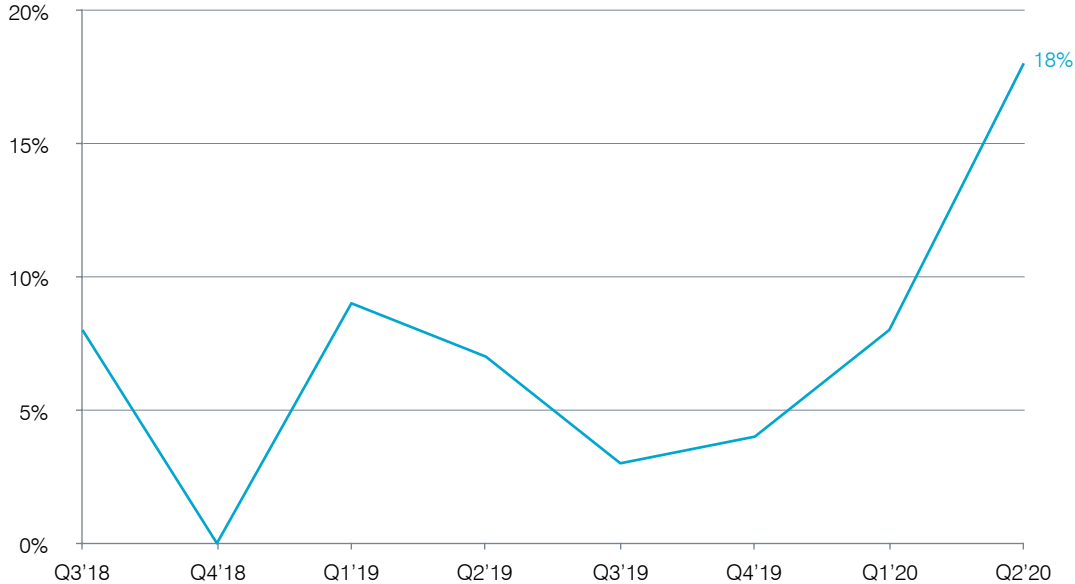
LIQUIDATION PREFERENCE—Senior liquidation preferences were used in the following percentages of financings.



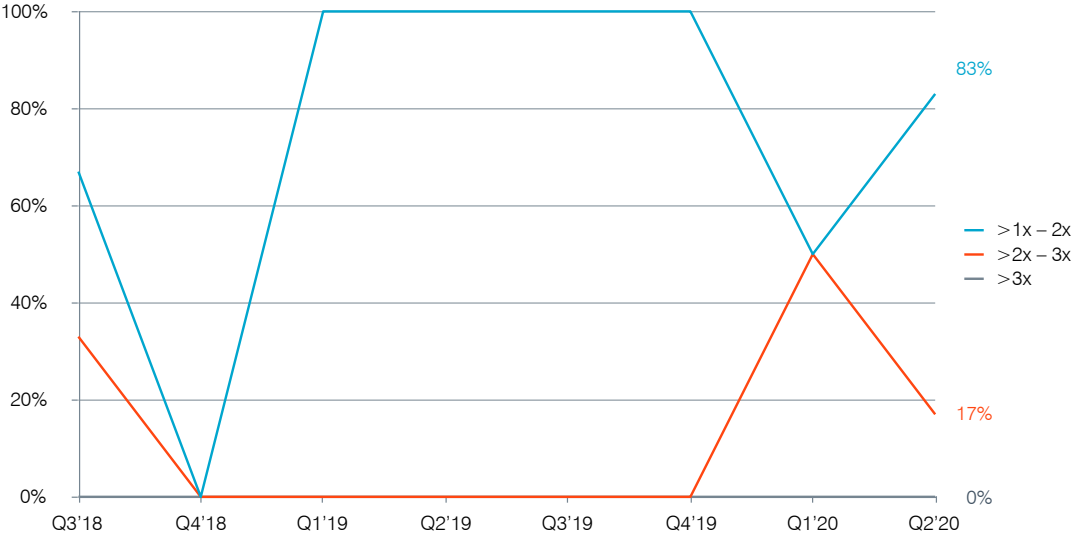
The percentage of senior liquidation preference by series was as follows:



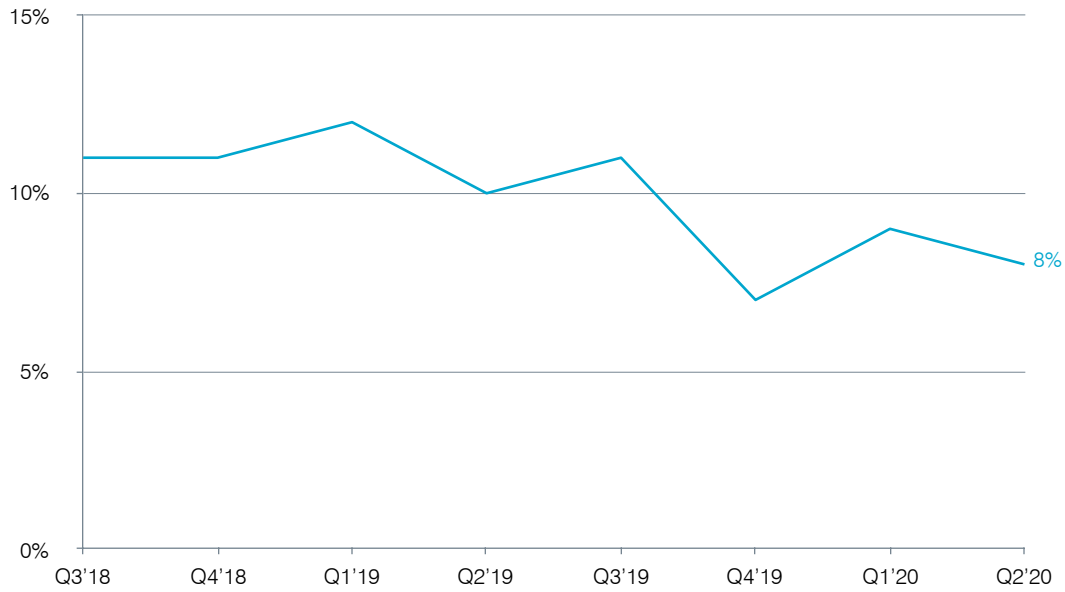
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences was as follows:



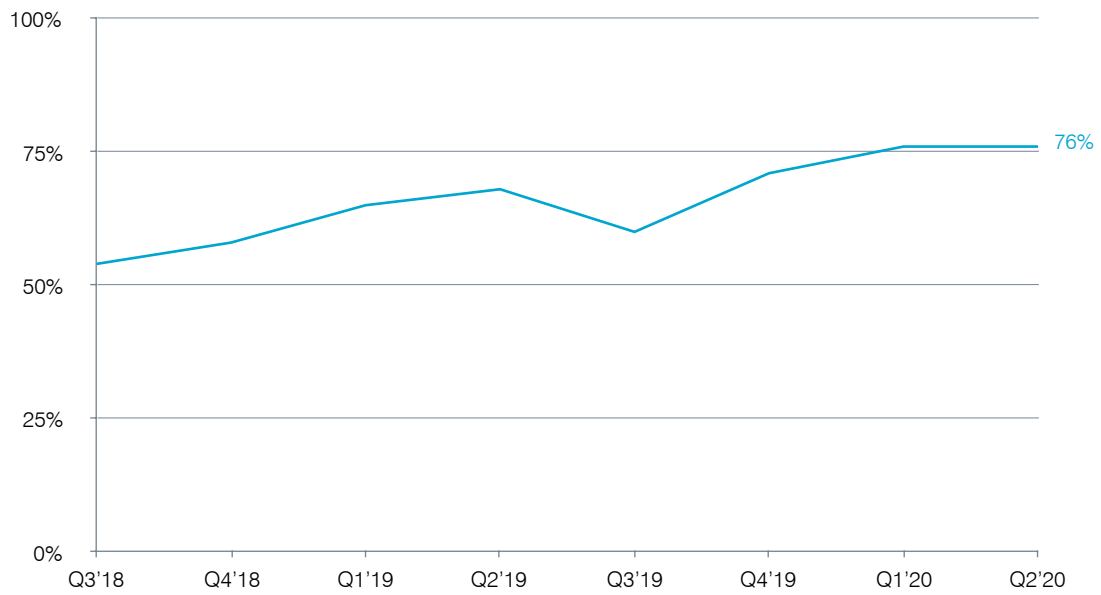
Of the senior liquidation preferences that were multiple preferences, the ranges of the multiples broke down as follows:



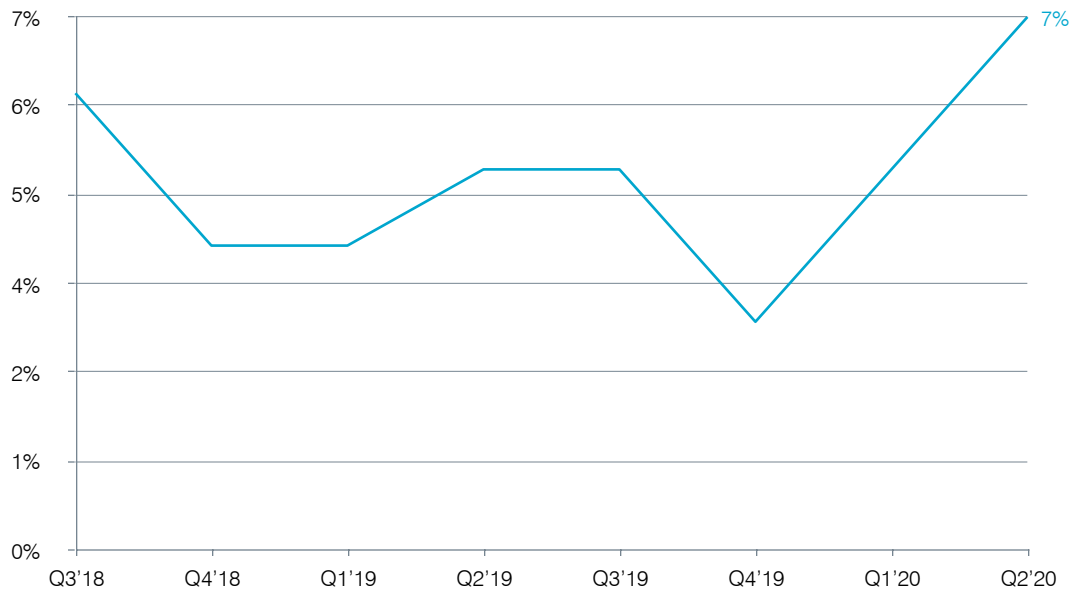
PARTICIPATION IN LIQUIDATION — The percentages of financings that provided for participation were as follows:



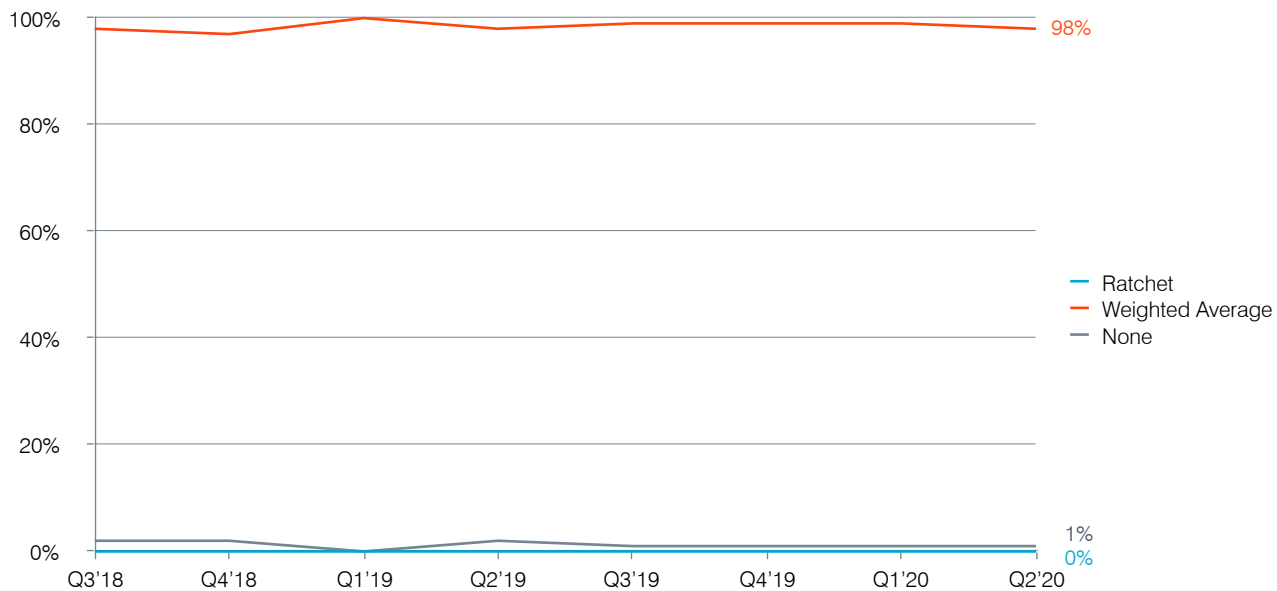
Of the financings that had participation, the percentages that were not capped were as follows:



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

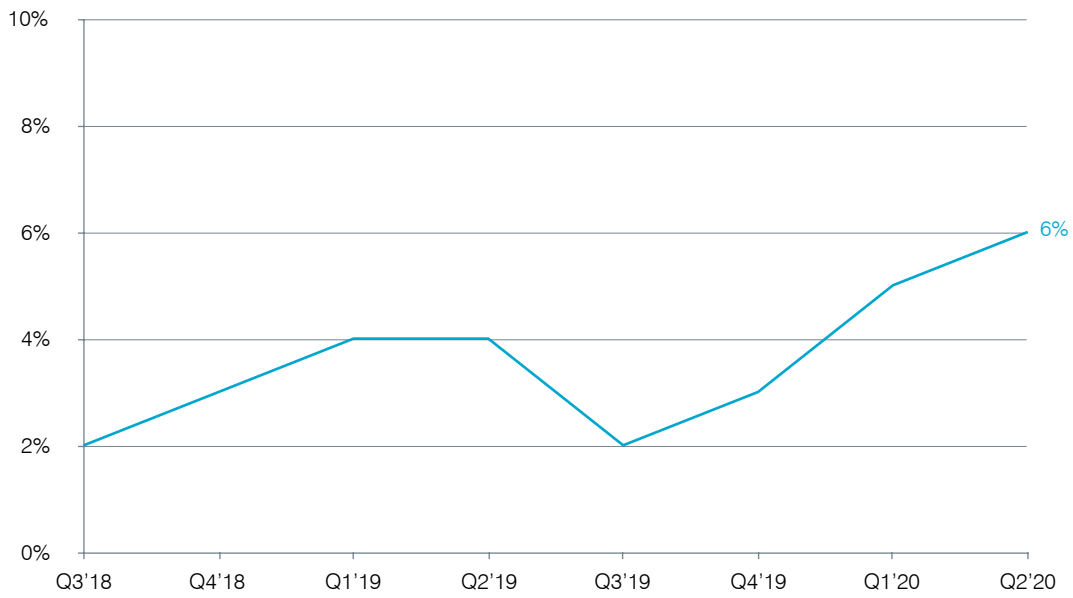


ANTIDILUTION PROVISIONS –The uses of (non-IPO) antidilution provisions in the financings were as follows:

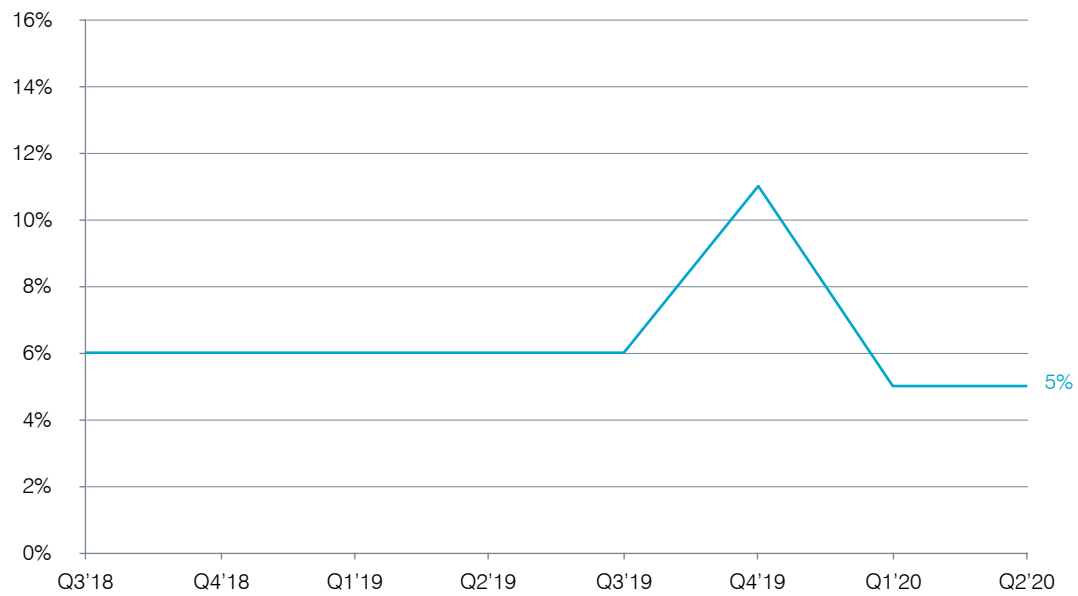


Please note that the chart above only applies to non-IPO antidilution provisions. In other words, the chart refers to antidilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include antidilution provisions designed to protect against an IPO at a price below the price paid by the venture investor (e.g., an IPO ratchet).

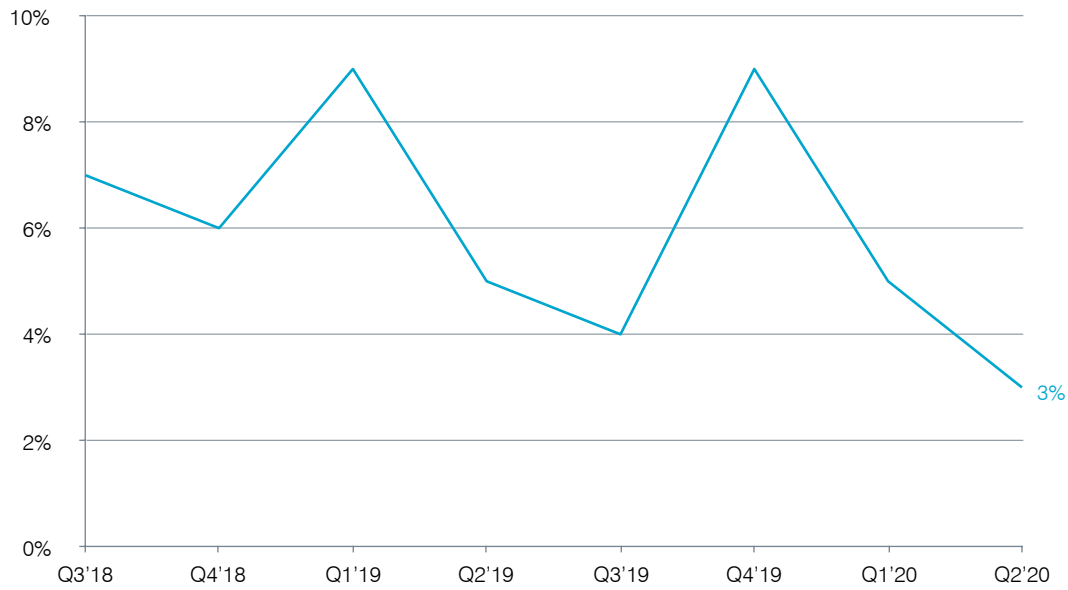
PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:



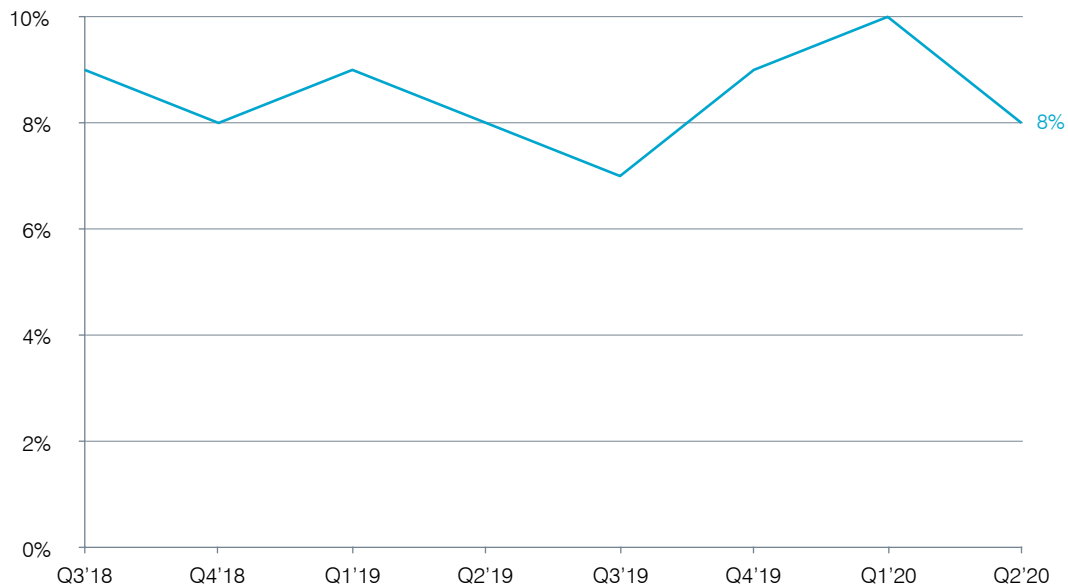
REDEMPTION – The percentages of financings providing for mandatory redemption or redemption at the option of the investor were as follows:



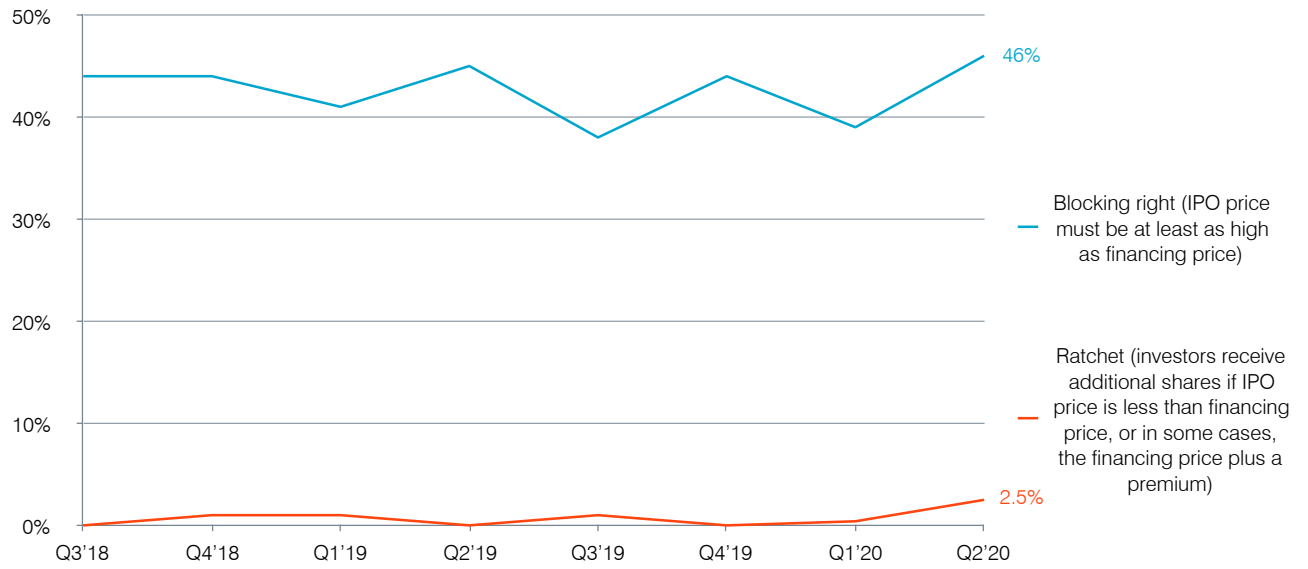
CORPORATE REORGANIZATIONS – The percentages of post-Series A financings involving a corporate reorganization (i.e. reverse splits or conversion of shares into another series or classes of shares) were as follows:



DUAL-CLASS COMMON STOCK – The percentages of financings with dual-class common stock structures, where there is one class of common stock with more votes per share than the other class, were as follows:



IPO DOWNSIDE PROTECTIONS – The percentages of financings with IPO downside protections were as follows:



About our Survey

The Fenwick & West 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/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 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 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. Recognized as among the best corporate lawyers by *Chambers USA*, 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, provides 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.

Contact/Sign Up Information

For additional information about this report please contact Cynthia Hess at 650.335.7238; chess@fenwick.com or Mark Leahy at 650.335.7682; mleahy@fenwick.com at Fenwick & West.

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

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