

THE ENTREPRENEURS REPORT

Private Company Financing Trends

An Interview with Benedict Evans

Wilson Sonsini Goodrich & Rosati partner Stacy Kim recently had a conversation with Benedict Evans, a London-based independent analyst and a venture partner at Mosaic Ventures and Entrepreneur First. Benedict has spent 20 years analyzing the mobile, digital media, and technology industries, and has worked in equity research, strategy, consulting, and venture capital. Below is a selection of highlights from their discussion.

Stacy: Benedict, thank you so much for agreeing to be interviewed for *The Entrepreneurs Report*. We'd like to learn a little bit about you for the benefit of our audience. You have been analyzing trends in technology

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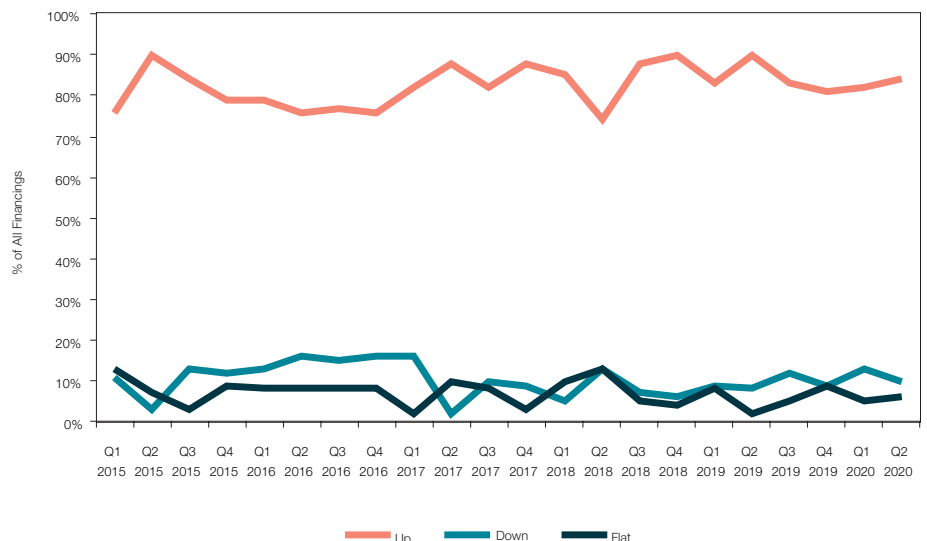
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From the Wilson Sonsini Database: Financing Trends for 1H 2020

Up and Down Rounds by Quarter



The second quarter of 2020 began amid significant business disruptions and market volatility associated with the COVID-19 pandemic. The potential impact on the U.S. venture market remains far from predictable, with some forecasting a downturn similar to that experienced during the 2000 dot-com crash and the 2008 recession. Mirroring the public markets, such predictions were not borne out in the Q2 2020 venture capital market, which remained strong by historical standards.

According to other sources of aggregated market data, deal volume did dip in Q2 2020, with fewer

financings closed than in prior quarters. Yet, median pre-money valuations increased substantially, with all stages of financings reaching five-year highs. Median amounts raised in Q2 2020 also ticked up for all but Series C and later financings, with the relative share of up rounds remaining steady compared to prior quarters. Bridge loans reflected a similar trend. Q2 2020 median amounts raised increased from the prior quarter for both pre- and post-Seed bridge loans.

Up and Down Rounds

Up-round financings were somewhat more prevalent in Q2 2020, increasing

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from 82% of all Series B and later financings in Q1 to 84% of such financings in Q2. The share of down-round financings in the quarter fell from 13% in Q1 2020 to 10% in Q2. Flat rounds remained steady in Q2 2020, constituting 6% of financings, compared to 5% in Q1.

Valuations

Median pre-money valuations across all stages of financing increased in Q2 2020, reaching the highest median valuations of the last five years. The median pre-money valuation for Series Seed financings was \$12.0 million in Q2 2020, up from \$9.0 million in Q1. Series A median valuations nudged up to \$33.8 million in Q2 2020 from \$30.0 million in Q1. Most notably, the median pre-money

Median pre-money valuations increased substantially in Q2 2020, with all stages of financings reaching five-year highs

valuation for Series B rounds soared to \$105.0 million, compared to \$36.0 million in Q1 2020.

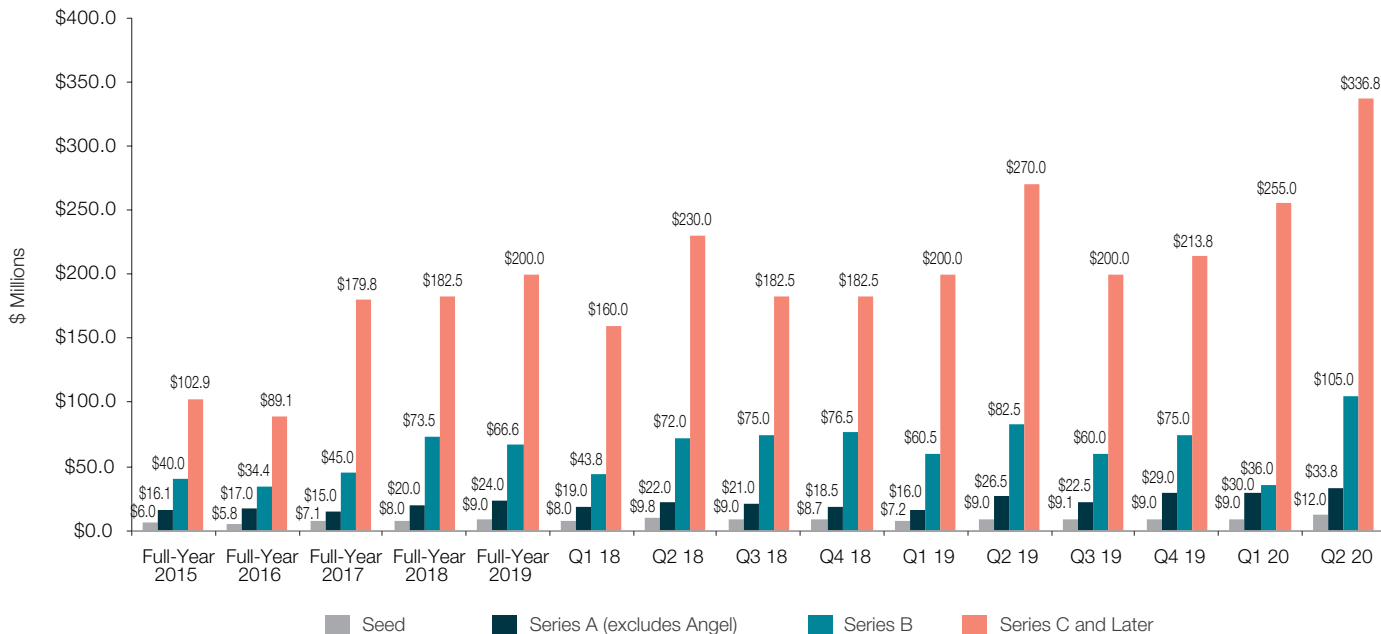
The Q2 2020 median pre-money valuation for Series C and later financings also saw impressive gains, growing from \$255.0 million in Q1 2020 to \$336.8 million in Q2, far exceeding the 2019 full-year median of \$200.0 million

and marking the highest quarterly median since Wilson Sonsini started tracking this data.

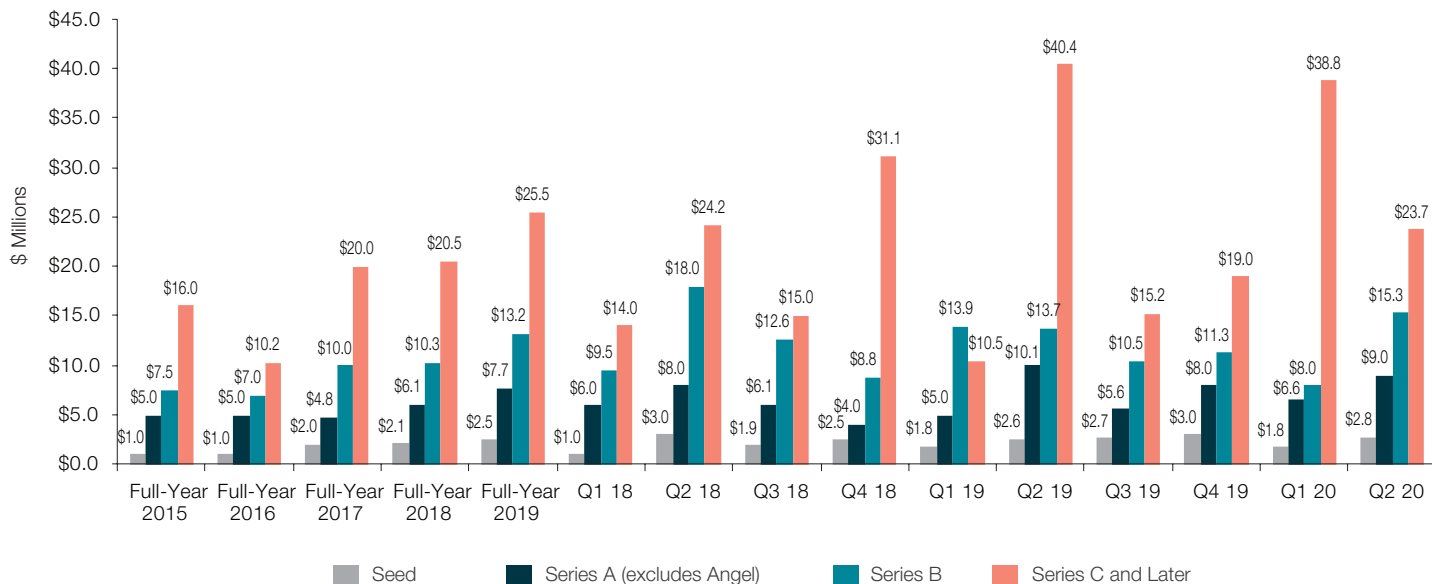
Amounts Raised

Median amounts raised in Q2 2020 also showed increases, although inconsistently among financing rounds. The median amount raised for Series Seed financings in Q2 2020 was \$2.8 million, notably higher than Q1's \$1.8 million. The median amount raised for Series A financings also increased, from \$6.6 million in Q1 2020 to \$9.0 million in Q2. The Series B median amount raised nearly doubled in Q2 2020, coming in at \$15.3 million as compared to an \$8.0 million median amount raised in Q1.

Median Pre-Money Valuation



Median Amount Raised – Equity Financings

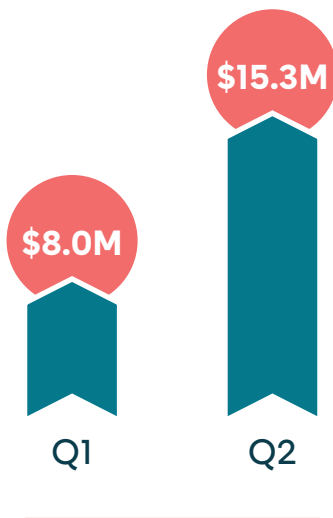


In contrast, the Q2 2020 median amount raised in Series C and later financings fell from \$38.8 million in Q1 2020 to \$23.7 million in Q2, just slightly below the full-year 2019 median of \$25.5 million.

Deal Terms – Preferred

Sixty-seven percent of post-Series A rounds had *pari passu* liquidation preferences in 1H 2020, compared to 63% in 2019.

The percentage of financings with no participation increased slightly from 85% in 2019 to 89% in 1H 2020. Fewer financings had dividends in 1H 2020, with the share dropping from 61% in



The Series B median amount raised nearly doubled from Q1 to Q2 2020

2019 to 44% in 1H 2020. Pay-to-play provisions became slightly more popular in 1H 2020, increasing from 3% in 2019 to 8% in 1H 2020. The use of redemption rights also increased slightly, with 17% of 1H 2020 financings including redemption rights, up from 14% in 2019.

Data on deal terms such as liquidation preferences, dividends, and others are set forth in the table on page 4. To see how the terms tracked in the table can be used in the context of a financing, we encourage you to draft a term sheet using our automated Term Sheet Generator, which is available in the [Emerging Companies](#) section of the firm’s website at www.wsg.com.

THE ENTREPRENEURS REPORT: Private Company Financing Trends

Private Company Financing Deal Terms (Wilson Sonsini Deals)¹

	2015 All Rounds ²	2016 All Rounds ²	2017 All Rounds ²	2018 All Rounds ²	2019 All Rounds ²	1H 2020 All Rounds ²	2015 Up Rounds ³	2016 Up Rounds ³	2017 Up Rounds ³	2018 Up Rounds ³	2019 Up Rounds ³	1H 2020 Up Rounds ³	2015 Down Rounds ³	2016 Down Rounds ³	2017 Down Rounds ³	2018 Down Rounds ³	2019 Down Rounds ³	1H 2020 Down Rounds ³
Liquidation Preferences - Series B and Later																		
Senior	33%	38%	35%	31%	35%	32%	31%	36%	31%	28%	30%	31%	35%	41%	63%	36%	63%	40%
<i>Pari Passu</i> with Other Preferred	62%	57%	62%	69%	63%	67%	66%	62%	66%	72%	68%	68%	53%	45%	38%	64%	37%	60%
Junior	1%	1%	0%	0%	1%	0%	1%	0%	0%	0%	1%	0%	0%	5%	0%	0%	0%	0%
Complex	3%	4%	3%	0%	2%	1%	1%	2%	4%	0%	2%	1%	12%	9%	0%	0%	0%	0%
Participating vs. Non-participating																		
Participating - Cap	8%	9%	6%	5%	5%	2%	11%	10%	7%	5%	5%	4%	12%	22%	31%	7%	5%	0%
Participating - No Cap	11%	11%	10%	7%	10%	9%	12%	13%	11%	7%	12%	9%	35%	4%	19%	14%	32%	20%
Non-participating	81%	81%	84%	88%	85%	89%	77%	77%	82%	88%	83%	87%	53%	74%	50%	79%	63%	80%
Dividends																		
Yes, Cumulative	3%	6%	7%	7%	5%	8%	3%	7%	9%	9%	6%	9%	24%	22%	13%	23%	11%	20%
Yes, Non-cumulative	82%	73%	78%	61%	56%	36%	86%	78%	78%	62%	67%	30%	76%	70%	81%	69%	79%	30%
None	15%	21%	16%	32%	39%	56%	11%	15%	13%	29%	28%	61%	0%	9%	6%	8%	11%	50%
Anti-dilution Provisions																		
Weighted Average - Broad	80%	92%	94%	94%	94%	93%	86%	92%	96%	94%	99%	96%	75%	91%	100%	100%	89%	70%
Weighted Average - Narrow	13%	1%	2%	2%	0%	1%	12%	1%	1%	3%	0%	2%	19%	0%	0%	0%	5%	0%
Ratchet	1%	1%	0%	0%	0%	1%	1%	2%	0%	0%	0%	0%	0%	0%	0%	0%	5%	10%
Other (Including Blend)	1%	3%	1%	1%	1%	1%	1%	3%	1%	1%	0%	2%	0%	9%	0%	0%	0%	0%
None	5%	3%	3%	3%	4%	3%	1%	2%	1%	2%	1%	0%	6%	0%	0%	0%	0%	20%
Pay to Play - Series B and Later																		
Applicable to This Financing	5%	5%	2%	4%	2%	7%	3%	3%	2%	1%	1%	7%	18%	9%	6%	0%	16%	10%
Applicable to Future Financings	1%	1%	0%	1%	1%	1%	0%	1%	0%	1%	1%	0%	12%	0%	0%	0%	0%	10%
None	94%	94%	98%	95%	97%	92%	97%	96%	98%	97%	99%	93%	71%	91%	94%	100%	84%	80%
Redemption																		
Investor Option	13%	11%	12%	8%	11%	14%	19%	20%	19%	10%	14%	12%	12%	9%	20%	14%	21%	33%
Mandatory	2%	2%	7%	1%	3%	3%	3%	3%	9%	3%	3%	2%	0%	0%	0%	0%	5%	0%
None	85%	87%	81%	91%	86%	83%	78%	77%	72%	87%	82%	86%	88%	91%	80%	86%	74%	67%

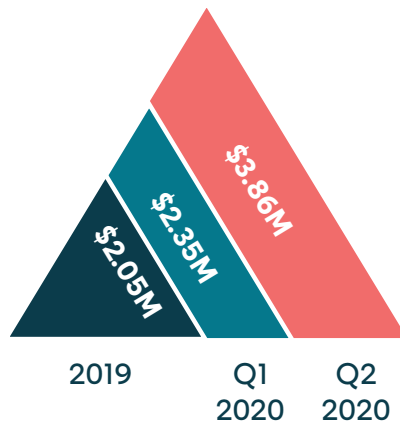
¹We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note the numbers do not always add up to 100% due to rounding.²Includes flat rounds and, unless otherwise indicated, Series A rounds.³Note that the All Rounds metrics include flat rounds and, in certain cases, Series A financings as well. Consequently, metrics in the All Rounds column may be outside the ranges bounded by the Up Rounds and Down Rounds columns, which will not include such transactions.

Bridge Loans

The median amount raised in pre-Seed bridges increased from \$0.50 million in Q1 2020 to \$0.83 million in Q2. The median amount raised in post-Seed bridges also grew, from \$2.35 million in Q1 2020 to \$3.86 million in Q2, substantially above the full-year 2019 median of \$2.05 million.

Deal Terms – Bridge Loans

The percentage of pre-Seed loans with maturity periods of 12 or more months increased from 87% in 2019 to 93% in 1H 2020. The proportion of higher-interest rate loans (at least 8%) also increased slightly, from 13% in 2019 to 16% in 1H 2020. The percentage of pre-Seed bridge loans that are convertible to equity at discounted prices increased modestly from 68% in 2019 to 72% in 1H 2020, and the percentage of such convertible loans receiving a discount rate of 20% or more on conversion also increased, from 81% in 2019 to 95% in 1H 2020.



The median amount raised in post-Seed bridges grew significantly from Q1 to Q2 2020, with both amounts well above the full-year 2019 median

The percentage of 1H 2020 post-Seed loans with maturity periods of 12 or more months remained flat at 74%, with 44% of loans having interest rates of at least 8%, as compared to 30% in 2019. The percentage of 1H 2020 post-Seed bridge loans subordinated to other debt also remained flat at 49%. More post-Seed bridge financings had warrants in 1H 2020 than in 2019, with the percentage increasing slightly from 8% in 2019 to 12% in 1H 2020, most of which (60%) had warrant coverage of less than 25%. Only 30% of 1H 2020 post-Seed bridges were subject to a price cap, compared to 51% in 2019. The percentage of post-Seed bridge loans that are convertible to equity at discounted prices declined from 81% in 2019 to 70% in 1H 2020, and the percentage of such convertible loans receiving a discount rate of 20% or more on conversion ticked up slightly, from 73% in 2019 to 75% in 1H 2020.

Median Amount Raised – Bridge Loans



Bridge Loans - Deal Terms (Wilson Sonsini Deals)¹

Bridge Loans	2015 Pre-Seed	2016 Pre-Seed	2017 Pre-Seed	2018 Pre-Seed	2019 Pre-Seed	1H 2020 Pre-Seed	2015 Post-Seed	2016 Post-Seed	2017 Post-Seed	2018 Post-Seed	2019 Post-Seed	1H 2020 Post-Seed
Interest rate less than 8%	74%	76%	75%	67%	87%	84%	54%	52%	56%	65%	70%	56%
Interest rate at 8%	19%	19%	17%	22%	4%	12%	33%	30%	27%	25%	22%	30%
Interest rate greater than 8%	7%	5%	8%	11%	9%	4%	13%	17%	17%	10%	8%	14%
Maturity less than 12 months	17%	17%	22%	21%	13%	8%	34%	29%	41%	21%	26%	26%
Maturity at 12 months	9%	5%	8%	13%	9%	12%	8%	23%	19%	26%	14%	14%
Maturity more than 12 months	74%	78%	69%	67%	78%	81%	58%	49%	41%	53%	60%	60%
Debt is subordinated to other debt	15%	20%	28%	23%	27%	12%	38%	45%	33%	47%	49%	49%
Loan includes warrants ²	3%	8%	0%	4%	2%	4%	25%	17%	16%	18%	8%	12%
Warrant coverage less than 25%	100%	80%	N/A	0%	100%	100%	47%	23%	43%	33%	80%	60%
Warrant coverage at 25%	0%	0%	N/A	0%	0%	0%	7%	15%	14%	11%	0%	0%
Warrant coverage greater than 25%	0%	20%	N/A	100%	0%	0%	47%	62%	43%	56%	20%	40%
Principal is convertible into equity ³	93%	97%	97%	90%	96%	100%	86%	92%	92%	87%	96%	93%
Conversion rate subject to price cap ⁴	64%	79%	74%	69%	69%	58%	26%	29%	34%	25%	51%	30%
Conversion to equity at discounted price ⁵	78%	82%	89%	83%	68%	72%	71%	74%	76%	85%	81%	70%
Discount on conversion less than 20%	11%	12%	16%	23%	18%	6%	25%	25%	20%	20%	27%	25%
Discount on conversion at 20%	73%	76%	74%	60%	63%	78%	47%	49%	50%	48%	57%	46%
Discount on conversion greater than 20%	16%	12%	10%	17%	18%	17%	27%	26%	30%	33%	16%	29%
Conversion to equity at same price as other investors	18%	13%	3%	14%	12%	16%	25%	19%	24%	6%	11%	20%

¹ We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note the numbers do not always add up to 100% due to rounding.

² Of the 2015 post-Seed bridges with warrants, 58% also had a discount on conversion into equity. Of the 2016 post-Seed bridges with warrants, 33% also had a discount on conversion into equity. Of the 2017 post-Seed bridges with warrants, 60% also had a discount on conversion into equity. Of the 2018 post-Seed bridges with warrants, 45% also had a discount on conversion into equity. Of the 2019 post-Seed bridges with warrants, 71% also had a discount on conversion into equity. Of the 1H 2020 post-Seed bridges with warrants, 20% also had a discount on conversion into equity.

³ Of the 2016 pre-Seed convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the 2017 pre-Seed convertible bridges, 94% had automatic conversion and 6% had voluntary conversion. Of the 2018 pre-Seed convertible bridges, 98% had automatic conversion and 2% had voluntary conversion. Of the 2019 pre-Seed convertible bridges, 100% had automatic conversion. Of the 1H 2020 pre-Seed convertible bridges, 100% had automatic conversion. Of the 2016 post-Seed convertible bridges, 97% had automatic conversion and 3% had voluntary conversion. Of the 2017 post-Seed convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the 2018 post-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. Of the 2019 post-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. Of the 1H 2020 post-Seed convertible bridges, 88% had automatic conversion and 12% had voluntary conversion. The 2016 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$1M and \$5M, respectively. The 2017 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$2M and \$10M, respectively. The 2018 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$3M and \$5M, respectively. The 2019 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$3M and \$8M, respectively. The 1H 2020 median dollar threshold for a qualified financing in pre- and post-Seed bridges was \$3M and \$10M, respectively.

⁴ The 2016 median price cap in pre- and post-Seed bridges was \$6M and \$25M, respectively. The 2017 median price cap in pre- and post-Seed bridges was \$10M and \$25M, respectively. The 2018 median price cap in pre- and post-Seed bridges was \$8M and \$40M, respectively. The 2019 median price cap in pre- and post-Seed bridges was \$9M and \$35M, respectively. The 1H 2020 median price cap in pre- and post-Seed bridges was \$8M and \$50M, respectively.

⁵ Of the 2015 post-Seed bridges that had a discount on conversion into equity, 21% also had warrants. Of the 2016 post-Seed bridges that had a discount on conversion into equity, 8% also had warrants. Of the 2017 post-Seed bridges that had a discount on conversion into equity, 13% also had warrants. Of the 2018 post-Seed bridges that had a discount on conversion into equity, 11% also had warrants. Of the 2019 post-Seed bridges that had a discount on conversion into equity, 7% had warrants. Of the 1H 2020 post-Seed bridges that had a discount on conversion into equity, 4% had warrants.

An Interview with Benedict Evans

(continued from page 1)

for the past 20 years, most notably in mobile and digital media. What sparked your interest in technology, and in these areas in particular?

Benedict: [I chose to focus on] dynamic and interesting sectors that are changing all the time, and where there are interesting questions to ask. I've spent most of my career looking at media and telephones and technology. There was a time when mobile operators were interesting, now they're not interesting. They've connected everybody, so there's nothing exciting there. Then, there was a time when smartphones were exciting, amazing, and dynamic, and that's what was changing. Now, everyone has a smartphone—four billion people have one, so the questions change. So, the answer to the question is: Where are the most interesting, dynamic, and exciting changes happening at the moment?

You grew up in the UK, then moved to Silicon Valley. What drew you to the U.S.?

That came after quite a long time; I only moved there about six years ago. I was considering what I wanted to do next in my career, while thinking about the skills that I had and the most useful places to apply them. I was looking at start-ups—specifically software start-ups—which seemed like an interesting next step and Andreessen Horowitz had a model that seemed like it would fit that quite well.

While you were at Andreessen Horowitz, you were a partner and worked with technology companies in the U.S. You recently returned to London. What brought you back and how has the transition gone for you?

Silicon Valley was a great place to be to connect with technology companies, but after six years, it was just time to do something else. Professionally and personally, Silicon Valley is an acquired taste and a particular kind of place to work and live. I wanted to bring my son up in [London] and also wanted him to grow up close to my family.

Since 2013, you've authored a weekly newsletter in which you write about and analyze trends in technology. How did this newsletter come to be?

I was having lunch with a friend who is also a former analyst and we were talking about new topics that were emerging and I kept mentioning things he hadn't seen. He was in business development at a large financial services company, and said he was too busy with work to keep up with everything. He said, "You should do a newsletter."

Newsletters were very old, traditional tactics in investment banking and equity research. Email newsletters went back even before the internet, in fact. But at the time my friend asked me about doing one, people had forgotten about them. So, I started a newsletter a week or two later and its audience has grown ever since. Now there is another wave of newsletters that have come about, but at the time it was a relatively unusual thing to do.

How much time goes into putting together the newsletter?

I'm always looking at everything anyway, so in a sense, it's my notebook. I suppose actually doing it takes about two or three hours each week. It was a lot easier to do when my son was going

to bed at six o'clock than now, when he's *not* going to bed at six o'clock.

In your newsletter, you respond to what's been covered in the news and you write thought pieces about technology trends. Can you tell us about your process—specifically how you filter through the 24-hour news cycle and select topics for your pieces?

Well, I'm impatient and easily bored. I'm always curious and thinking about what's next. And particularly in technology, the point at which you understand something is generally the point at which the topic isn't really that interesting anymore—it's become well understood, or it's become boring. The interesting and important questions are to follow what leads to somewhere else, where we don't have all the answers yet.

If you look through my newsletters since the beginning—and we're now at 330-340 issues—the focus has changed a lot over time. There was a time when the newsletter was all about mobile and social, and now it's not. That's not interesting anymore. It happened. Apple and Google won. Apps won. Facebook won. Next question.

I'm always asking, "What are the interesting questions right now?" What are significant and important strategic developments, as opposed to the usual firehose of press releases and products? There would have been a point when I would have talked about a new smartphone. And now I say, "So what? It's a new smartphone. They're all the same." There would have been a time when I would have talked about what Apple was doing in the App Store, or what Facebook was doing in messaging,

and now it's really boring. The all-important questions are somewhere else.

I can understand that. When I started my career about 15 years ago, the type of companies I worked with included accelerators and nanotechnology, then social media and digital media, and now it's e-commerce platforms and AI-backed companies. I've tried to stay up with the waves and trends.

You recently joined both Mosaic Ventures and Entrepreneur First as a venture partner. Can you tell us about what you do as a venture partner and how you help each organization deliver their value proposition of investing in inspiring and ambitious entrepreneurs?

Since moving back to London at the beginning of 2020, I've been doing a lot of things. For example, I'm doing freelance projects, some consulting, and talking with a lot of people around this space. I'm also spending a day or two a week with Mosaic and a couple of days each month with Entrepreneur First. At both, I'm helping by talking to their [respective groups] about how entrepreneurs function, how the investment process works, and how you think about those ideas. Entrepreneurs First and Mosaic operate in different parts of the market, so there's no real conflict there.

The intellectual process of venture capital investing is to look at something and not think about all the reasons it might not work. But, *could* it work, and if it did, what might that be? And, are these entrepreneurs that can make that happen? Everything else will flow after that.

The process is a willing suspension of disbelief, because there are always lots of reasons why it wouldn't work. If it was obvious and easy, then it would not be only two people and a PowerPoint—

lots of people would be doing it and there would not be a huge opportunity. So, instead you think, *could* it work? What will that take? Could these people make that happen?

What advice do you have for entrepreneurs who are looking to work with organizations like Mosaic Ventures, Entrepreneur First, or Andreessen Horowitz about how to create a company, perhaps for the first time?

There are many different kinds of companies and different kinds of opportunities, and those in turn come with different financing needs, amongst many other things. Venture capital is a financing model that fits a certain type of company pursuing a certain type of opportunity. And there are many others. Venture capital as an economic model is designed for very high-risk, potentially very high-reward companies. It is designed for companies that are rocket ships, and there are lots of other kinds of companies. And so, I think the first thing you have to understand is, what kind of opportunity exists and what kind of company am I going to build? Am I going to build something I am going to own? And pass on to my employees or my family in 20 years' time, a £5 million business? Or am I going to build something that I hope millions or hundreds of millions of people are going to use, and it's going to be a £1 billion business that creates tens of thousands of jobs? That's a different kind of conversation. Those are different kinds of businesses. You have to know what sort of business you're building. What are the questions that matter? Are the questions that matter software questions, graphic design questions, bag questions, mattress questions, or restaurant questions? What kind of company is it? To say "start-up" doesn't really mean anything. *Every* company was a start-up once. So that's one question.

The second question, which is one we obviously think about at Mosaic, as well as at Andreessen Horowitz—and this is a second answer to your question—is that making the *company* is a completely separate job than making the software or making the product. And as the company grows, the entrepreneur's job is no longer making the product, it's making the *company*. Working out how you grow into that, whether that's something you want to do, whether that's what the company you're building is going to become, is also hugely important.

Let's talk about industry trends and recent macro developments. What concerns you most about the market? For example, are you concerned about Brexit or the effects of COVID-19? Are you concerned that they will have a lasting impact on the ability of technology companies to obtain funding?

We're clearly in an unprecedented period of social, cultural, political, and indeed, economic shock. On a very mechanistic level, venture capital raises funds on a 10-year view. So, the money is in the fund. And they are investing with a view to exit in eight to 10 years. It's sort of a paradox; on one hand, venture capital is about these amazing companies that are created incredibly quickly, but on the other hand, venture is actually the longest capital there is. That's one answer.

The other answer is that people are trying to work out what all of this means for companies, particularly companies in certain sectors. It's not a good time to start a travel company. It is a good time to start a remote work company.

Thinking back to 2008, a lot of systemically important companies were created then. Airbnb was created then. Uber was created then. WhatsApp was created then. There's clearly a large

amount of pain, dislocation, shock, and of course, individual tragedy happening. But I don't think there's a fundamental change in the ability to create companies as a consequence of this; in fact, it's kind of the reverse. There were a lot of plans that were already happening that then accelerated as a consequence of this.

The same thing, in a sense, for Brexit. We're still working out what the consequences of that look like.

What industries do you see advancing in 2020 or within the next five to 10 years because of all these macroeconomic changes? For instance, in the aftermath of 2008, some great disruptor companies were created. What industries do you think are going to emerge from this?

First, everything that was already happening is getting accelerated. So, we are going to see a wave of consumer e-commerce companies, a wave of remote work companies, the continuing migration of enterprise software to the cloud, and so on.

There's also a period of forced experiment, in that we're forced to try things that we might not have thought we'd do before. So, for example, in health care and education, that means the adoption of remote access, which wasn't on the agenda and was forced to happen very quickly. We'll see how much that sticks.

At the head of my career, people often said, "Remember, most people aren't doing that, most people don't have broadband, most people don't have 3G, many people don't have smartphones." Now, 90 percent of the people in the UK are online, and 85 percent of American teenagers have an iPhone. So, the default has flipped from "most people don't have that" to "almost everybody does have that, and almost everyone is willing to do that online."

The stat that we keep coming back to: In 2017, 40 percent of new relationships in the U.S. started online. Online dating went from being kind of a joke with a stigma attached to it, to an absolutely basic part of the world that we live in.

In the next 10 to 20 years, all of this will be a systemically important and basic part of daily life. When Bill Gates was on every magazine cover, Microsoft sold accounting tools to big companies. Tech industries were very small. Technology was exciting and new, and it got a lot of attention, but it actually wasn't a very big industry relative to the rest of the economy.

Today, most of the top 10 biggest companies on the stock market are tech companies. Everybody is online. Everyone is looking at their stock all day, every day. Technology went from being one amongst many industries to being one that's systemically important to absolutely everybody. We've been dealing with some of the negative consequences of that in the last couple of years. But I think what you'll also see is every part of life will get touched by software—whether that's dating, getting a job, getting groceries, or deciding where to go for dinner. Somebody will look at every task that you encounter in your daily life and think of some way to change that using software.

You've mentioned how larger happenings have accelerated trends in technology. Is there a particular sector where you think we'll see the next big disruption?

One general observation is that everything that has happened to media is happening to retail. In the media, newspapers and magazines are bundles with fixed costs, and the bundle is based on some kind of physical-world asset. When you go online, that physical-world asset loses its value and that physical aggregation doesn't mean anything anymore. Consumers can go

direct and just buy the bit that they want. That happened to record labels, then it happened to newspapers and magazines, and now it's happening to physical retail. That is, you don't need to go to the department store to get anything anymore; you don't have to be in the physical-world shop to get that thing. We're at the beginning of that great unbundling, and we'll work out what that looks like. We're seeing that happen in a very accelerated way now, as we are with TV, particularly in the U.S. The cable bundle is finally unlocking. So, those are the two obvious sectors: retail and TV.

What about regional markets? Are there certain geographical areas that interest you?

There has been a lot of attention directed to the Chinese internet lately. Having been around for a while, it reminds me a great deal of the way people used to talk about the Japanese mobile internet in 1999, 2000, 2001. At that time, Japan was the only place that had a mobile internet that anyone was using. They had a packet switched network, they had phones with color screens, games, cameras, and little app stores. It was all quite exciting and there were millions of people using it.

There were two problems with it. First, no one outside of Japan could actually use it. That is, you couldn't *see* it. The only way to see it and use the services was to go to Japan and be able to read Japanese. Most of the people who were getting excited about this had never actually seen or used the products. So, you'd hear about it third- and fourth-hand and everything got garbled. You could make up any old nonsense and people would believe you. The second problem was that it turned out to have very little predictive value because when mobile internet was finally available outside Japan, it didn't look anything like that. People tried to do that outside of Japan, but it didn't work. And the

iPhone doesn't work anything like the way Japanese mobile internet was working.

It's the same thing now. "Oh, there is exciting stuff happening on the internet in China." Well, first of all, I can't use the product. I don't speak Chinese. I'm not in China, and that's the only way I can actually use the product to understand it. So, it gets very garbled. And second, I'm not sure how much predictive value that has. It's a little bit like—I don't know if you've seen *Monocle* magazine—reading some article about this great department store in Germany or this great grocery store in Germany. You say, "Wow, that sounds really cool, so does that mean all grocery stores are going to look like that?" No, because the market structure in Germany is different from the market structure in France, which is different from the market structure in the UK. That's just how it works in Germany.

As I hear all this talk about, "this is what's happening in China," I think there's all sorts of things that are interesting there. Is that predictive? I think what you're really seeing is the end of the American internet. There was a point in time when basically everything in tech got created in the U.S., which meant that everything got created in Silicon Valley. A little bit in New York, but mostly Silicon Valley. Now there are more smartphones in China than in the U.S., Western Europe, and Japan combined. So, now software gets created everywhere and innovation happens everywhere. It's not that it's the Chinese ecosystem, it's just that there's innovation outside of the U.S. now. There's software innovation outside of the U.S. now.

On that point, do you see any differences in tech start-ups that launch in the U.S. versus the UK or China? Or are there no real differences because, as you've

mentioned, innovation is happening everywhere?

Innovation is happening everywhere, but the kinds of companies that people try and create are different. The U.S. has this huge domestic market, which shapes the kind of companies you can create, as does China. China has a ferocious, competitive market in which anything that seems to be working gets 50 copies immediately, which doesn't quite happen in the same way in the U.S. and Europe. At one point, there were 800 apps claiming to do live streaming video commerce in China. But in the U.S., there were five.

So, first-to-market is clearly important in China.

Well, it's not even first-to-market. There's just a voracious scramble of competition and totally relentless copying of anything that seems to be working, and the market structure is usually different. Because what tends to happen outside of the U.S. is you get a single winner in each category. So, Google won search. Facebook won social. That's not quite how it works in China, which tends to have more horizontal competition, so there's three or four big companies, then perhaps a dozen companies on the next level down, and they're all competing with each other on four or five different fronts. The market structure, market environment, and competitive environment tends to be different.

What is the state of London's start-up tech ecosystem? How would you say it compares to others that you've seen?

Silicon Valley is still the global cluster. The concentration of talent, capital, and pure resources in Silicon Valley is still unmatched anywhere else in the world. But the start-up scene in Europe is vastly bigger than it was 10 years ago—it used to be one or two companies that

people would always mention. Europe has definitely moved beyond that, and now it has become much more of a normal thing for people to create start-ups. And probably half of the interesting European companies are in the UK. We're still seeing the consequences of that now. We don't quite have all the characteristics of the start-up ecosystem and the venture circles that operate in a fully developed ecosystem, but Europeans are much further along than they were five years ago.

Is there anything that's surprised you about industries or different geographic ecosystems that you didn't expect?

Actually, I aim to be surprised all the time. I'm always looking for things I didn't know or understand, and working out how I *can* understand those. I'm always focused on the question of, "What is it that's interesting and surprising in that?" I think I'd be failing if I was not surprised all the time. That's the purpose of an analyst—you're always trying to find that answer that you did not make.

What parts of the ecosystem here in the UK need the most maturing? You spoke about the promotional or commercial maturity and selling a vision to investors.

I think that's a process, so I can't point to a specific need. When people talk about the strengths of the Silicon Valley ecosystem, one common thing that emerges is the sheer number of people who have been at a big, successful company and seen it done repeatedly—it's middle management. It's not those in their 20s who are hungry and want to do it. It's those entrepreneurs in their 30s who are on the team, at five companies, and have seen it done, and either they led that team or they're ready to do it again. That concentration is rather unparalleled to Silicon Valley.

As to founders, what are the things that you look for? Are there any consistencies or certain characteristics that you look for that might give you predictive value for success?

When you take a view that a start-up is likely to work, you are—particularly at an early stage—making a bet on habit, because the thing that ends up working is probably not exactly what they picked—it will be slightly different or in some adjacent space. In a start-up, it's a bit of a discovery process and experiment. So, you're believing that those founders are going to be able to pull this thing into existence out of thin air, through force of will.

Then, you need to believe that they're attacking some problem that in some sense is very big and valuable. They don't have to get that all worked out right, but that has to be the target. They don't have to have all the answers, but you have to have the impression that they're going to be able to work out the answers.

The founders' ability to make it happen, right?

They have to be pursuing a big and important opportunity. It may not be clear whether that is a big opportunity or not, but it can sometimes be very obvious that it's not a big market. If you are building a company whose job it is to sell something to large book publishers, for a hundred grand a time, well, there are only five big book publishers. So, I know that's not a big opportunity. But if in the end it has the chance to be a big opportunity, they have to be the founders that you think can create that.

Last question: What are the top events that you look forward to attending each year, if any? And are there any new events that you're planning to attend, if not in 2020, given the outbreak and what's been happening, then in 2021?

There are two key events in consumer technology: Mobile World Congress in Barcelona and CES in Las Vegas. Mobile World Congress has over time become

more of a telecoms than a technology conference. CES is probably the main event, where you see the entire global outfit of the consumer electronics industry, but then there are all sorts of smaller events that are more valuable, like the “Brilliant Minds” event in Stockholm. I presented at an event in Davos at the beginning of 2020 that was interesting. There are things you go to in order to see, and then there are things you go to in order to talk. You go to CES to see, but you go to Brilliant Minds to talk to people.

Conferences and speaker events are bundles, meaning that there are people on stage, there's talking to people in hallways, there's talking to people at parties, and then there's possibly a trade show. You might go to the trade show and not the conference. What's valuable can differ [for different people who decide to attend and participate].

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