



Silicon Valley
Venture Capital Survey
Fourth Quarter 2017

First Look

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FENWICK
& WEST

First Look

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Background

We analyzed the terms of 190 venture financings closed in the fourth quarter of 2017 by companies headquartered in Silicon Valley.

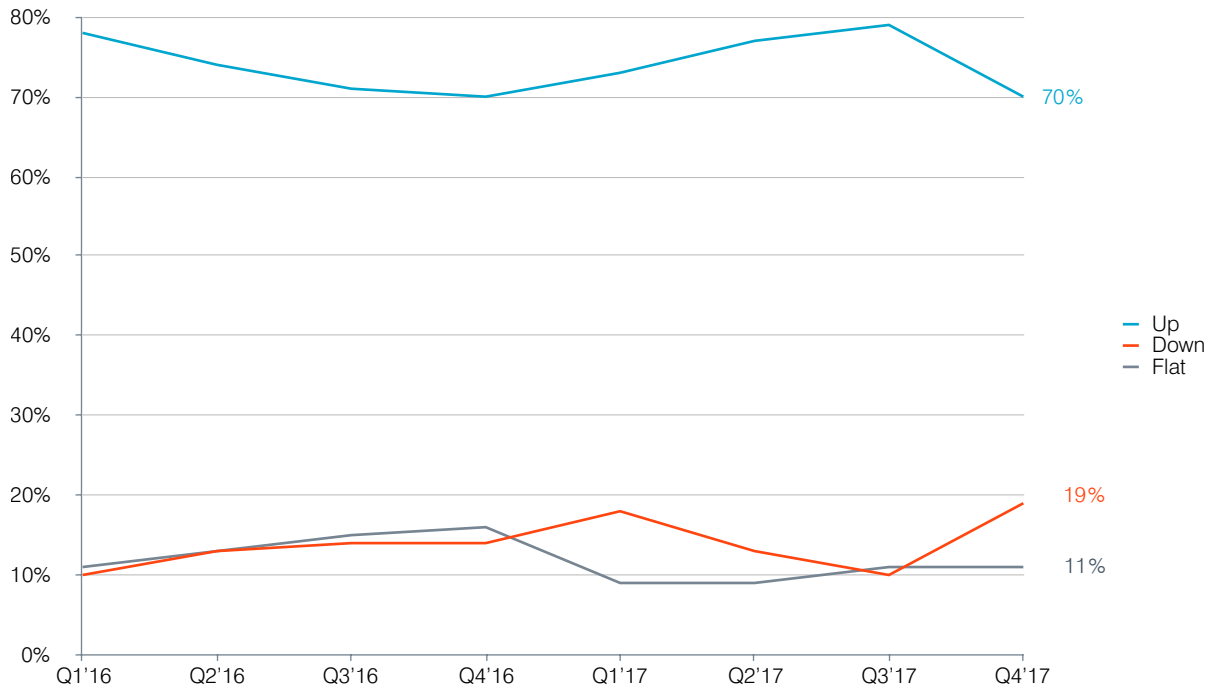
Overview of Fenwick & West Results

Valuation results continued to be strong in Q4 2017, but the percentage price increases declined moderately compared to the prior quarter, following three consecutive quarters of increases.

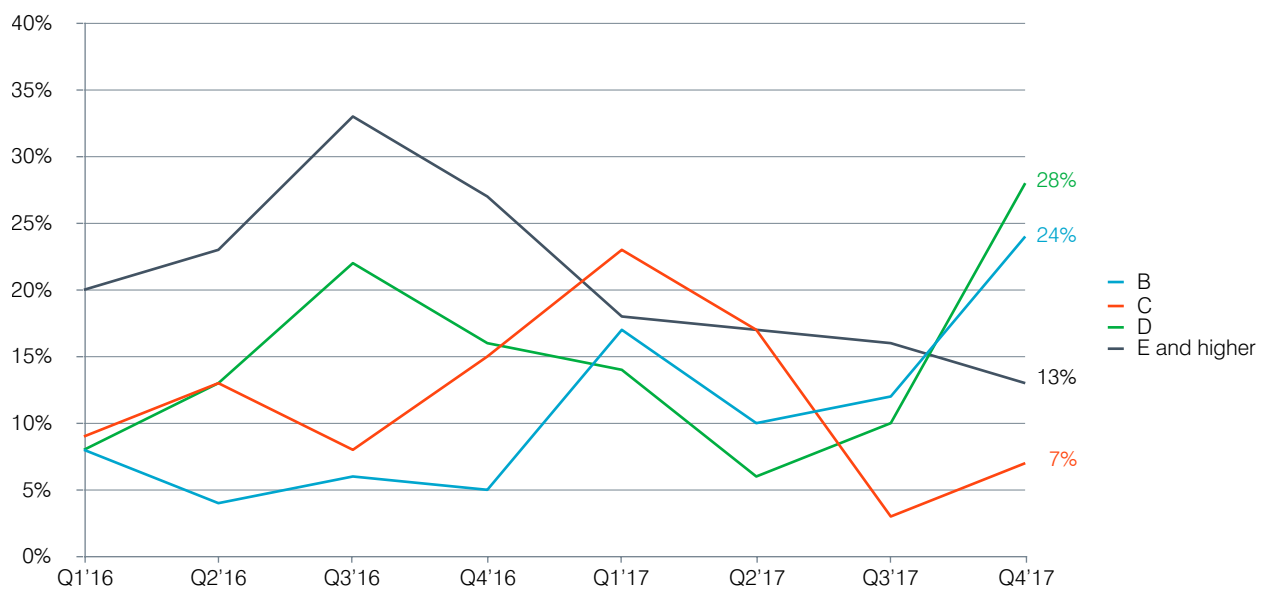
- Up rounds exceeded down rounds 70% to 19%, with 11% flat in Q4 2017, a decrease from Q3 when up rounds exceeded down rounds 79% to 10%, with 11% flat. This was the lowest percentage of up rounds since Q4 2016 and the highest percentage of down rounds since Q2 2013.
- The Fenwick & West Venture Capital Barometer™ showed an average price increase in Q4 2017 of 74%, a decrease from the 80% recorded in Q3 and the first quarter in 2017 in which the average percentage price increase had decreased compared to the prior quarter.
- The median price increase of financings in Q4 2017 was 42%, a decrease from the 46% in Q3. This was also the first quarter in 2017 in which the median price increase had decreased compared to the prior quarter.
- The internet/digital media industry recorded the strongest valuation results in Q4 2017 compared to the other industries, with an average price increase of 179% and a median price increase of 51%, both up from the prior quarter. The software industry also recorded strong valuation results in Q4, though moderately weaker compared to Q3. The life sciences and hardware industries recorded the weakest valuation metrics in Q4.
- Series D financings recorded the weakest valuation results in Q4 2017 compared to the other financing rounds, with the highest percentage of down rounds and the lowest average and median price increases of all the financing rounds. The valuation metrics for Series D financings in Q4 also declined sharply compared to the prior quarter. In contrast, the valuation results for Series E+ financings in Q4 improved moderately compared to the prior quarter.

Fenwick & West Data on Valuation

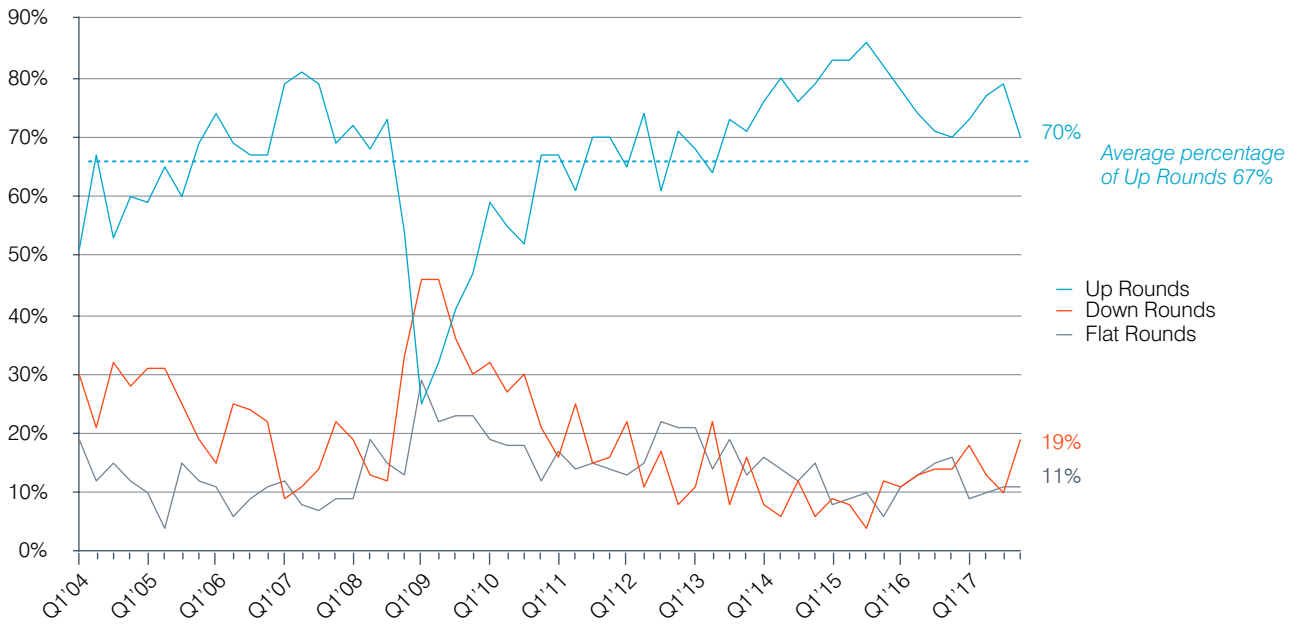
PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



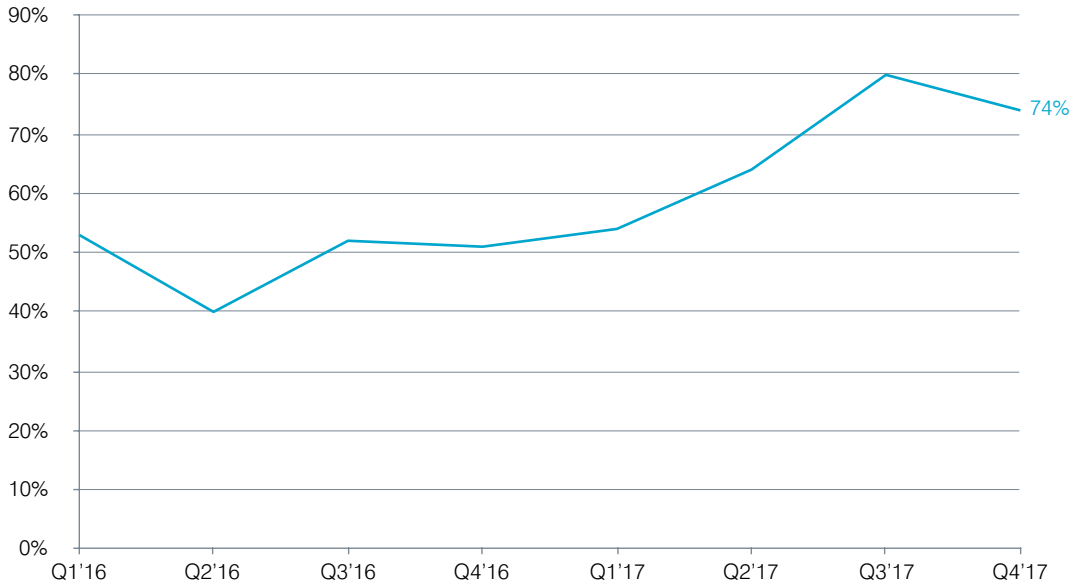
The percentage of **DOWN ROUNDS** by series were as follows:



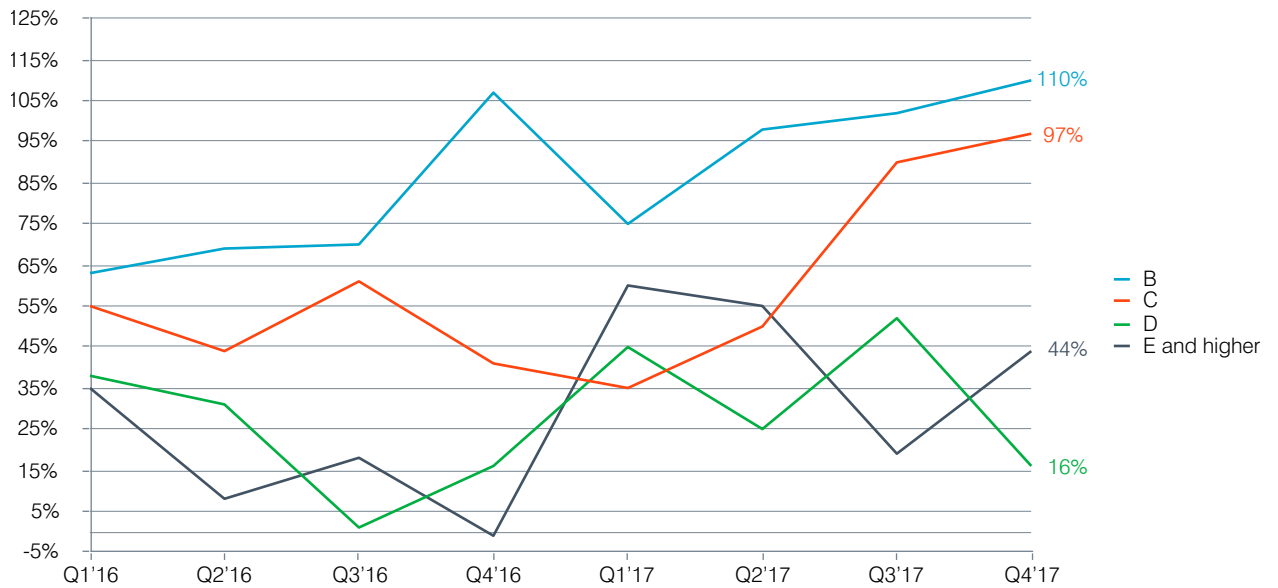
EXPANDED PRICE CHANGE GRAPH — Set forth below is the direction of price changes for each quarter since 2004.



THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (magnitude of price change) — Set forth below is the average percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the average, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in a financing.



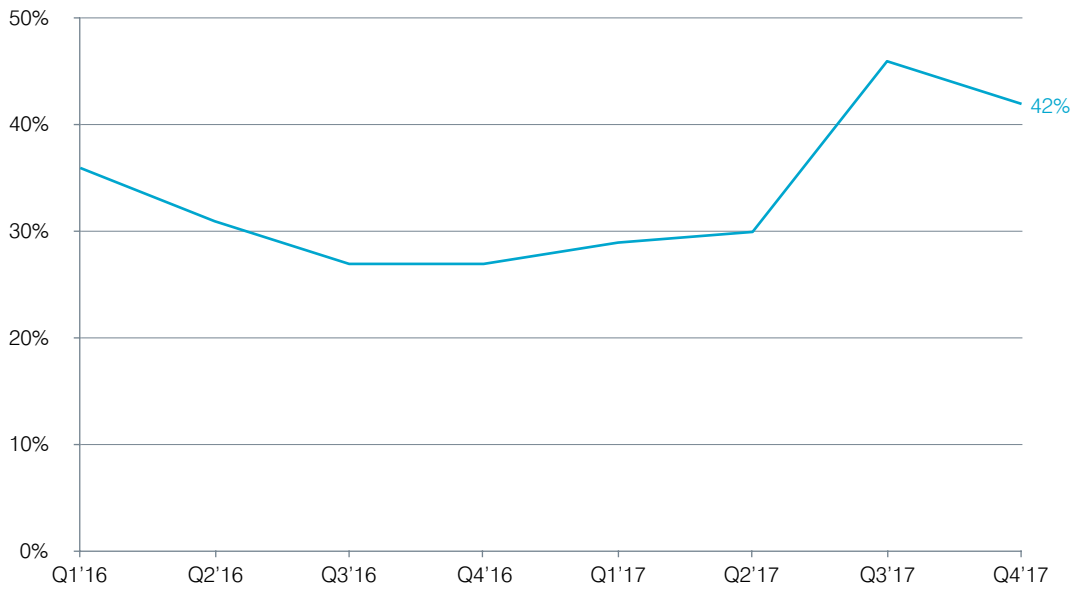
The Barometer results by series are as follows:



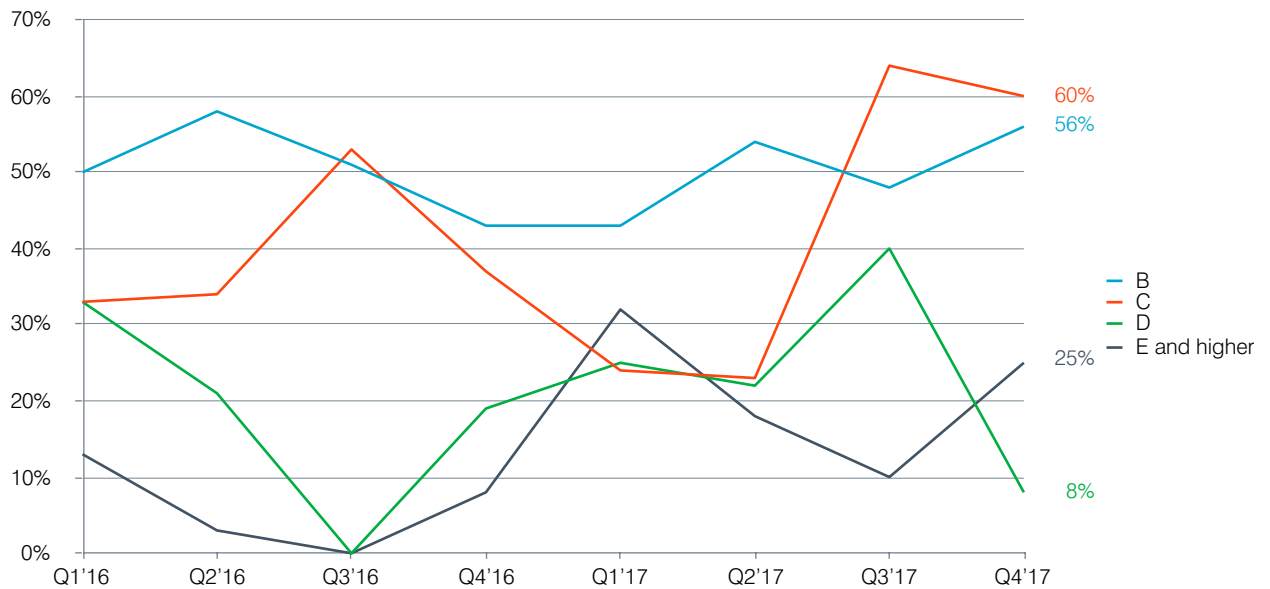
EXPANDED BAROMETER GRAPH — Set forth below is the average percentage price change for each quarter since we began calculating this metric in 2004.



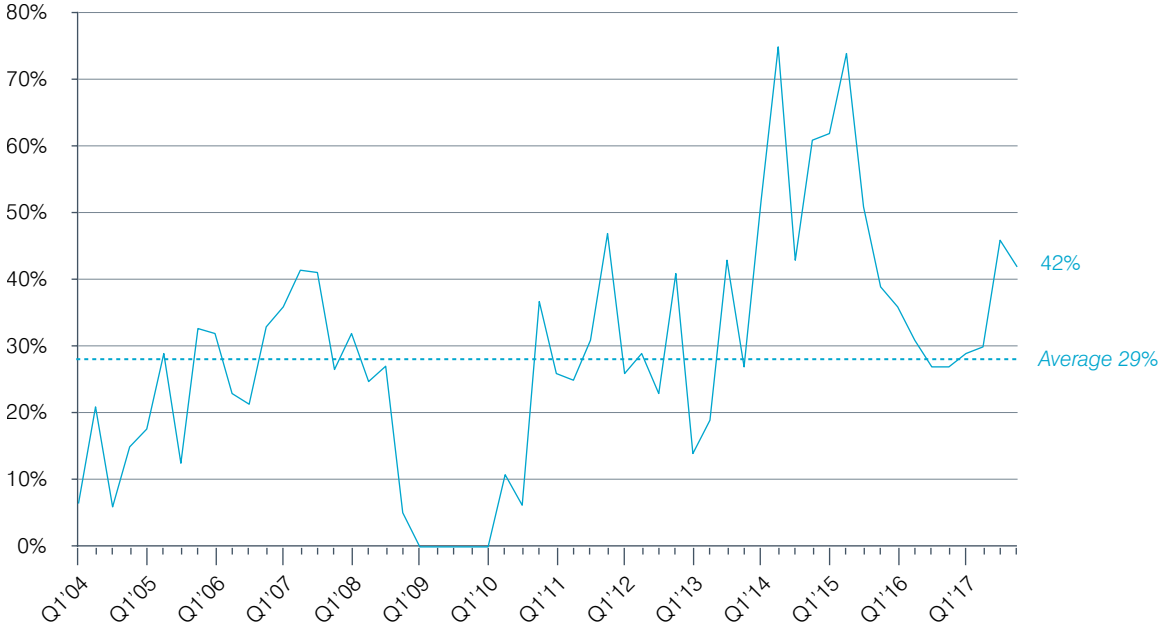
MEDIAN PERCENTAGE PRICE CHANGE— Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in the financing. Please note that this is different than the Barometer, which is based on average percentage price change.



MEDIAN PERCENTAGE PRICE CHANGE BY SERIES.



EXPANDED MEDIAN PRICE CHANGE GRAPH— Set forth 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 sets forth 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 are excluded as they have no previous rounds to compare.

Industry	Up Rounds	Down Rounds	Flat Rounds	Average Price Change	Median Price Change	Number of Financings
Software	70%	18%	11%	62%	37%	61
Hardware	56%	28%	17%	40%	13%	18
Life Science	63%	21%	16%	31%	24%	19
Internet/Digital Media	81%	14%	5%	179%	51%	21
Other	81%	13%	6%	73%	63%	16
Total all Industries	70%	19%	11%	74%	42%	135

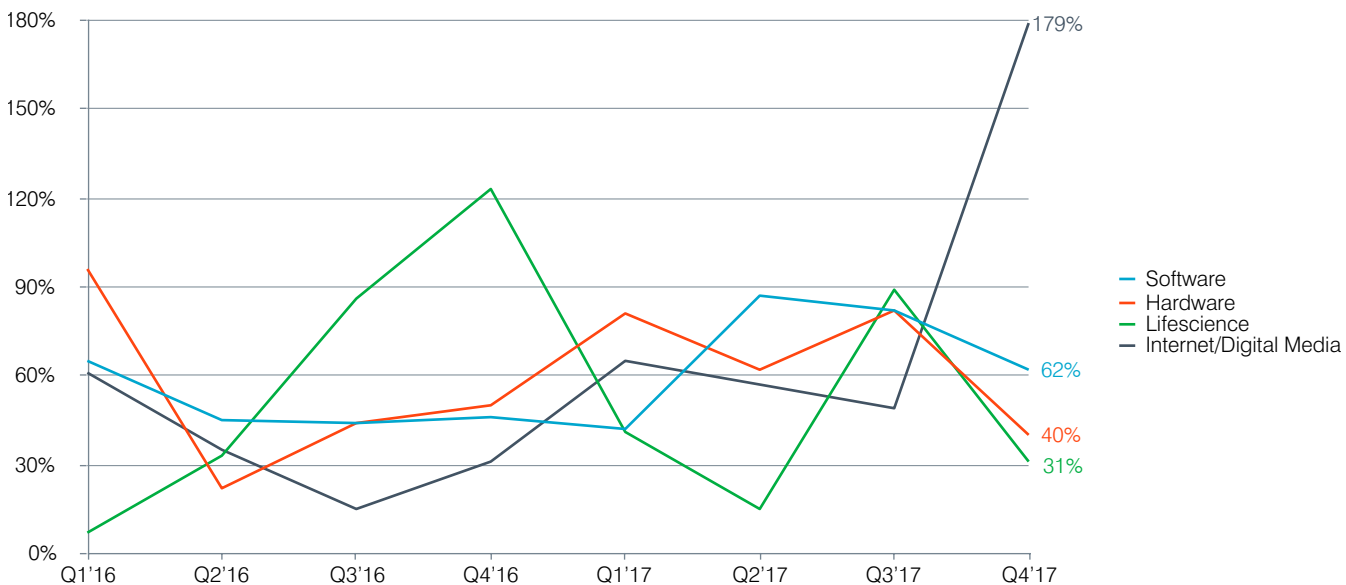
DOWN ROUND RESULTS BY INDUSTRY — The table below sets forth the percentage of “down rounds,” by industry groups, for each of the past eight quarters.

Down Rounds	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
Software	7%	13%	14%	13%	20%	14%	10%	18%
Hardware	18%	15%	8%	18%	18%	17%	8%	28%
Life Science	17%	13%	18%	13%	17%	16%	9%	21%
Internet/Digital Media	10%	13%	20%	15%	24%	11%	8%	14%
Other	0%	8%	0%	17%	0%	8%	15%	13%
Total all Industries	10%	13%	14%	14%	18%	13%	10%	19%

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

Industry	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
Software	65%	45%	44%	46%	42%	87%	82%	62%
Hardware	96%	22%	44%	50%	81%	62%	82%	40%
Life Science	7%	33%	86%	123%	41%	15%	89%	31%
Internet/Digital Media	61%	35%	15%	31%	65%	57%	49%	179%
Other	16%	56%	78%	-5%	69%	43%	107%	73%
Total all Industries	53%	40%	52%	51%	54%	64%	80%	74%

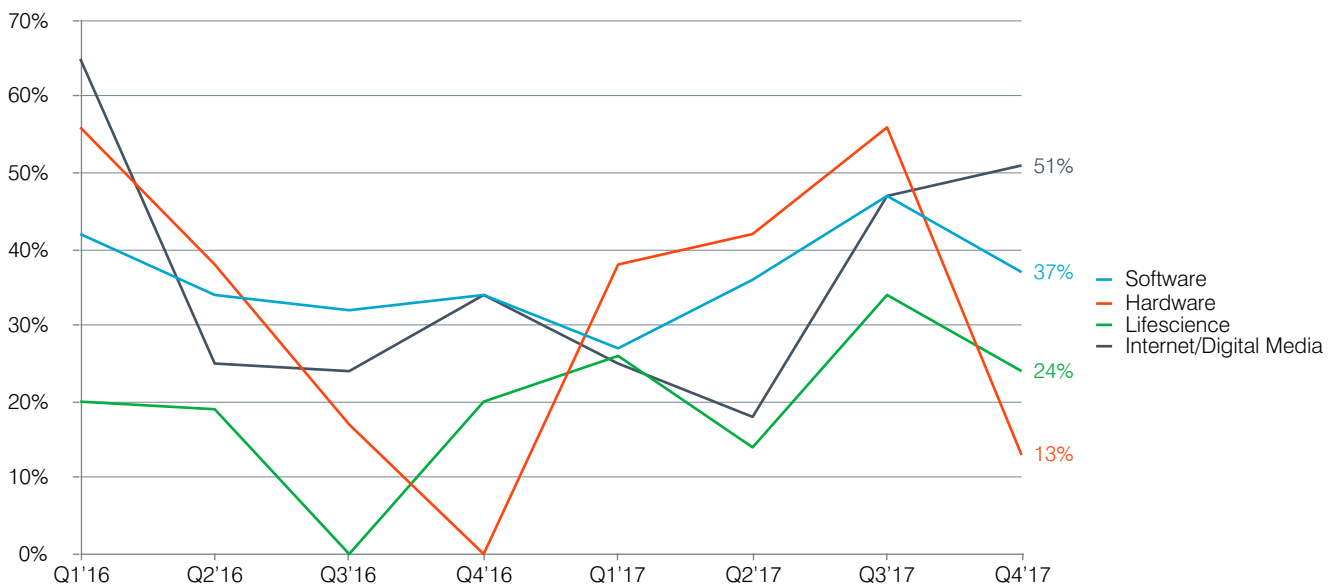
A graphical representation of the above is below.



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

Median % Price Change	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
Software	42%	34%	32%	34%	27%	36%	47%	37%
Hardware	56%	38%	17%	0%	38%	42%	56%	13%
Life Science	20%	19%	0%	20%	26%	14%	34%	24%
Internet/Digital Media	65%	25%	24%	34%	25%	18%	47%	51%
Other	2%	39%	53%	0%	59%	44%	18%	63%
Total all Industries	36%	31%	27%	27%	29%	30%	46%	42%

A graphical representation of the above is below.

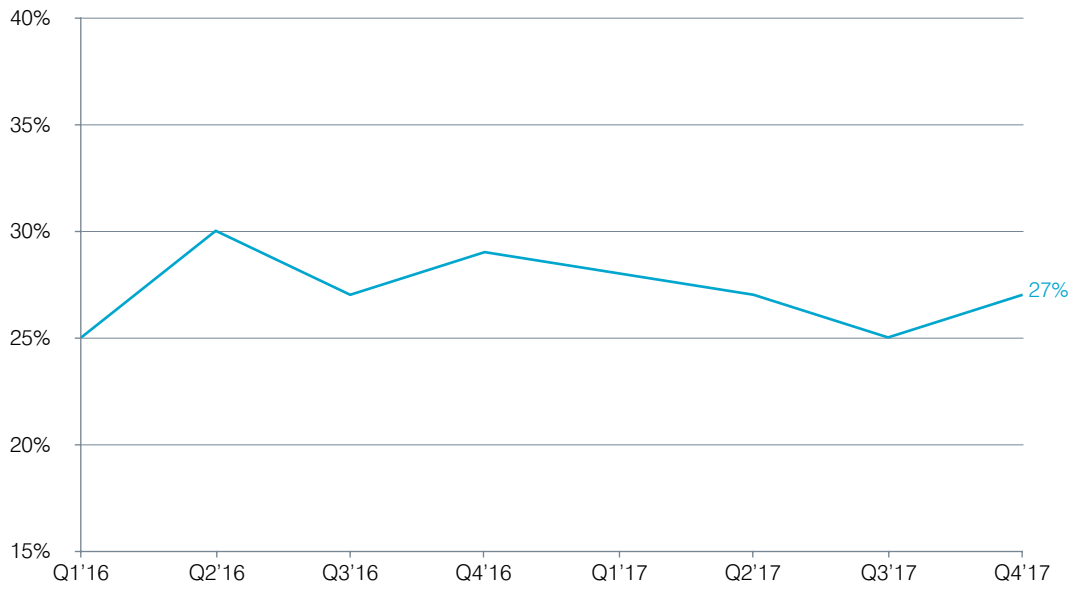


FINANCING ROUND—This quarter’s financings broke down by series according to the chart below.

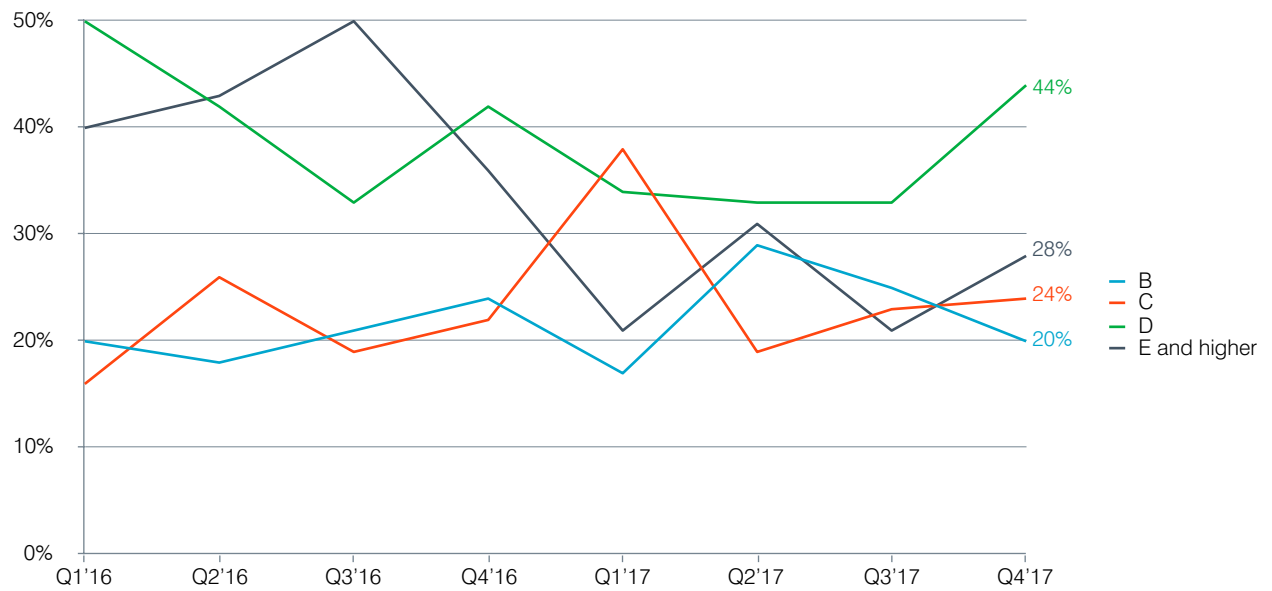
Series	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17
Series A	22%	21%	26%	22%	29%	28%	27%	29%
Series B	27%	23%	32%	28%	18%	23%	32%	26%
Series C	29%	24%	17%	20%	20%	23%	19%	15%
Series D	8%	12%	12%	14%	15%	9%	11%	13%
Series E and Higher	14%	21%	12%	16%	17%	17%	10%	17%

Fenwick & West Data on Legal Terms

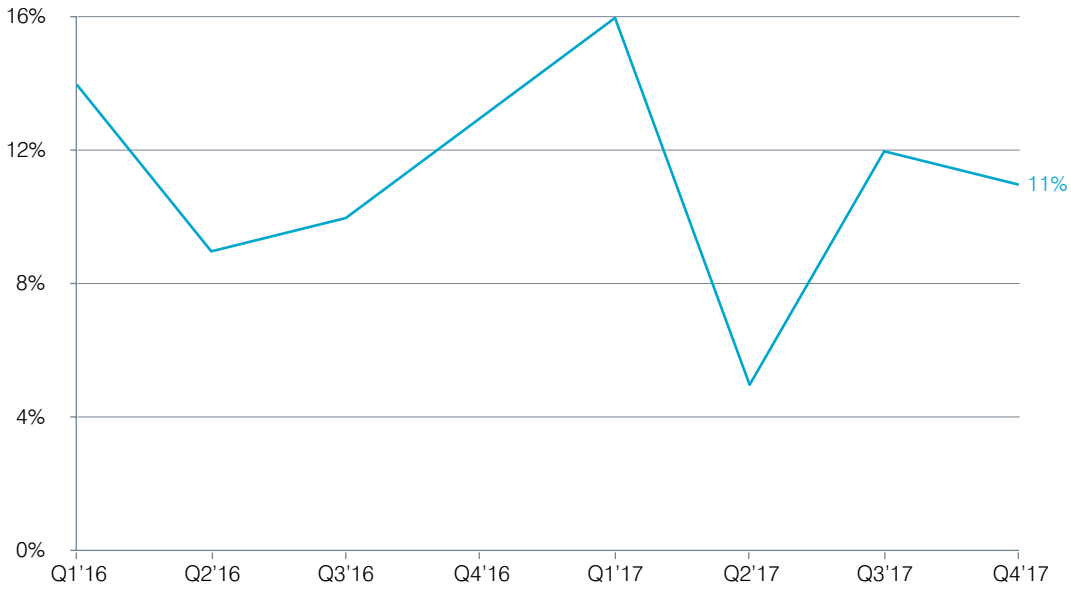
LIQUIDATION PREFERENCE — Senior liquidation preferences were used in the following percentages of financings.



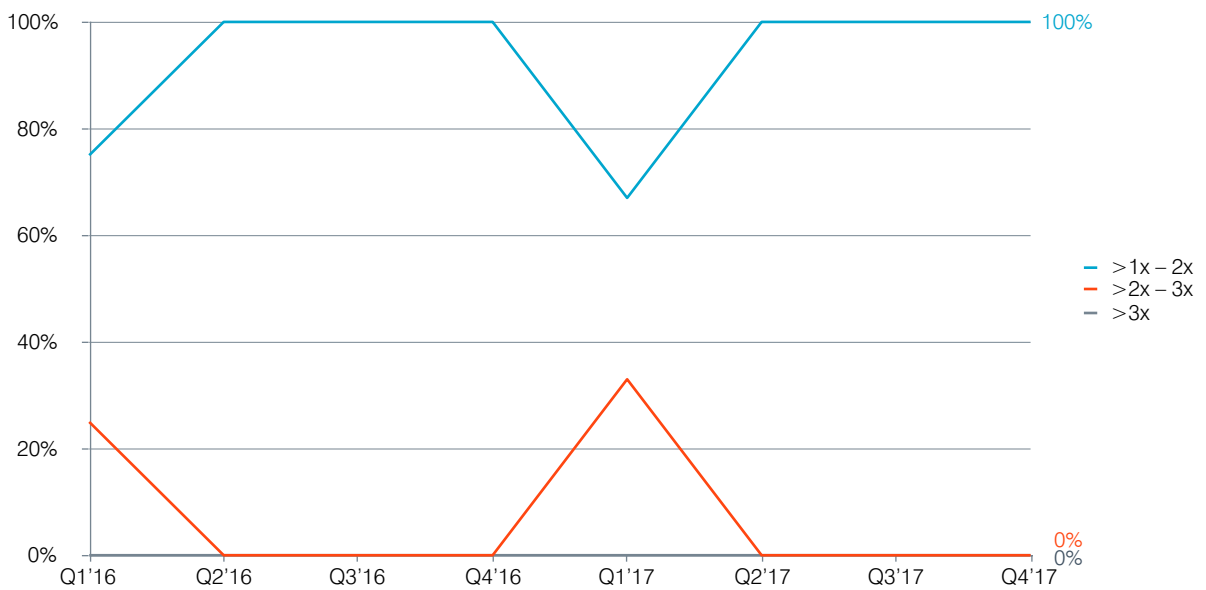
The percentage of senior liquidation preference by series was as follows:



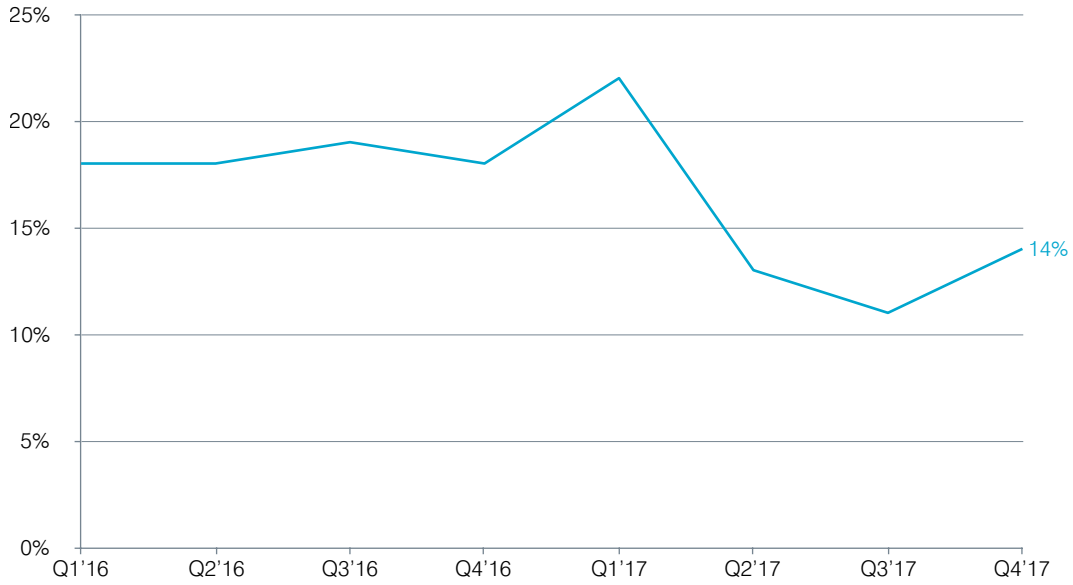
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



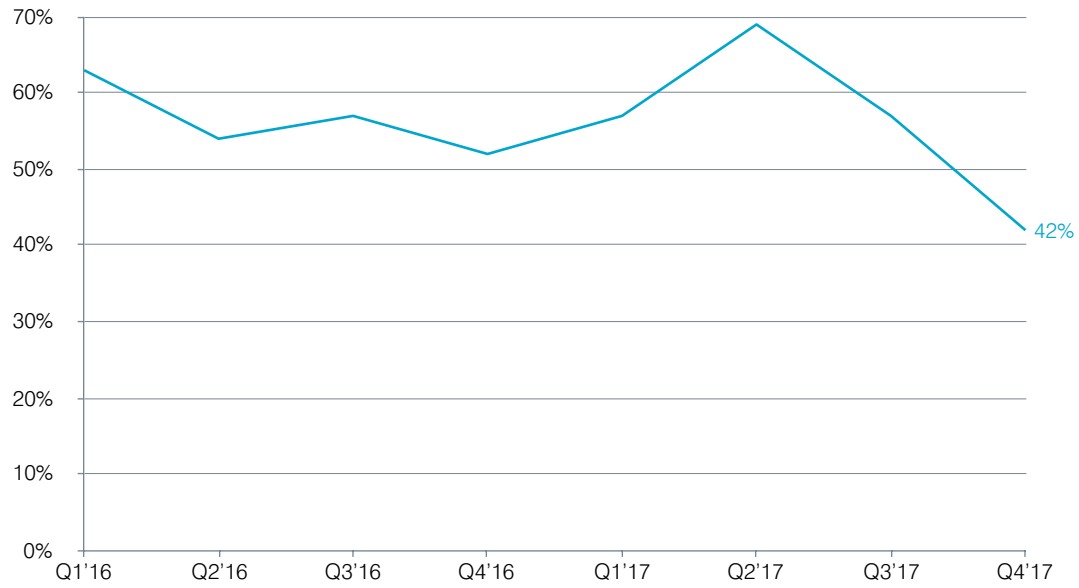
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



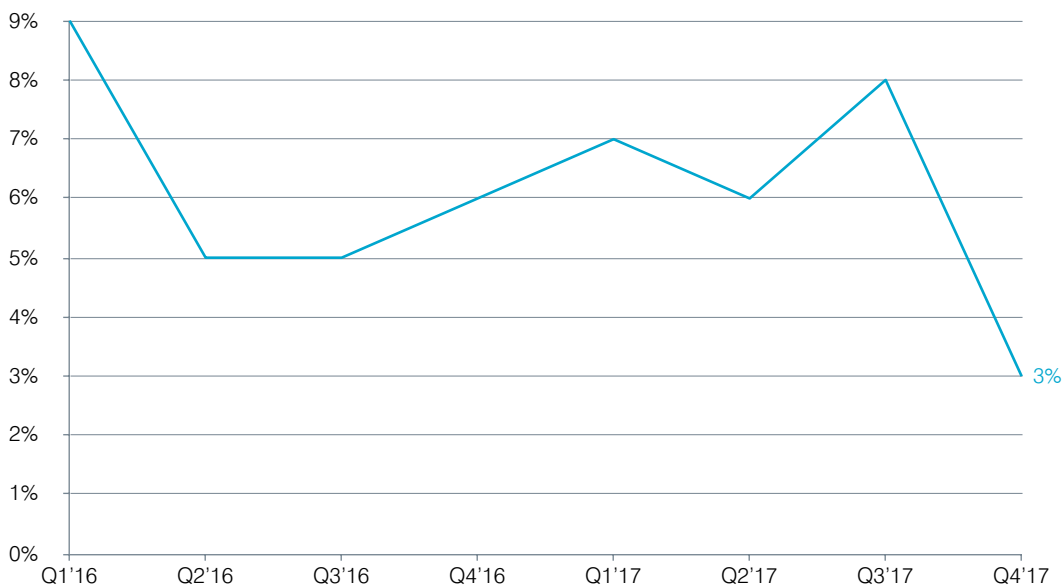
PARTICIPATION IN LIQUIDATION — The percentages of financings that provided for participation were as follows:



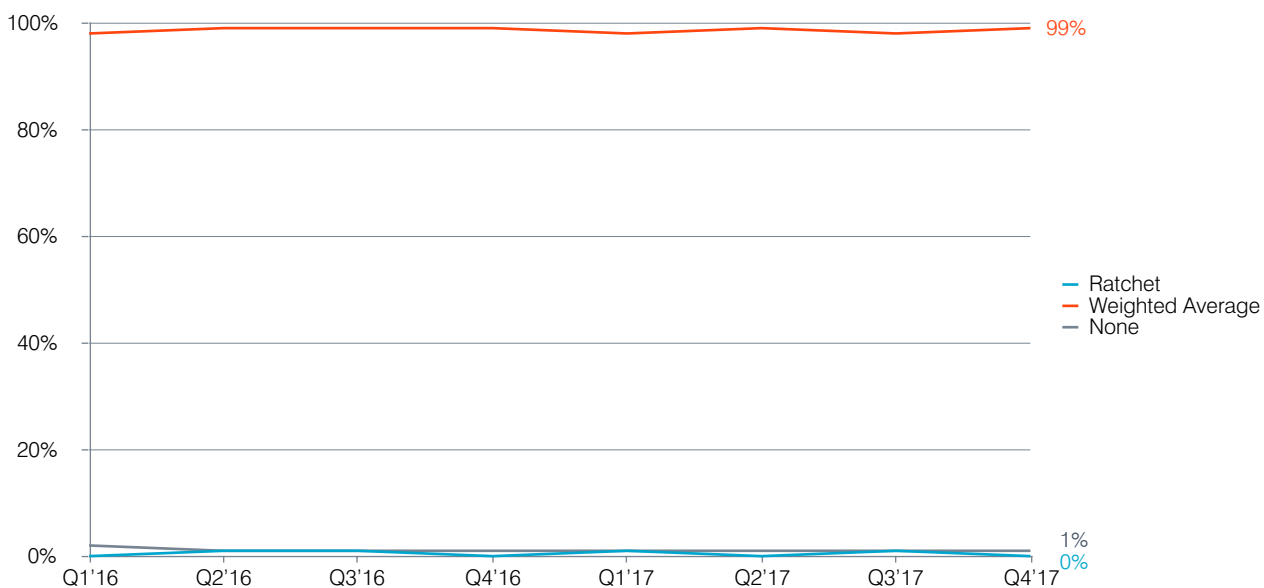
Of the financings that had participation, the percentages that were not capped were as follows:



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

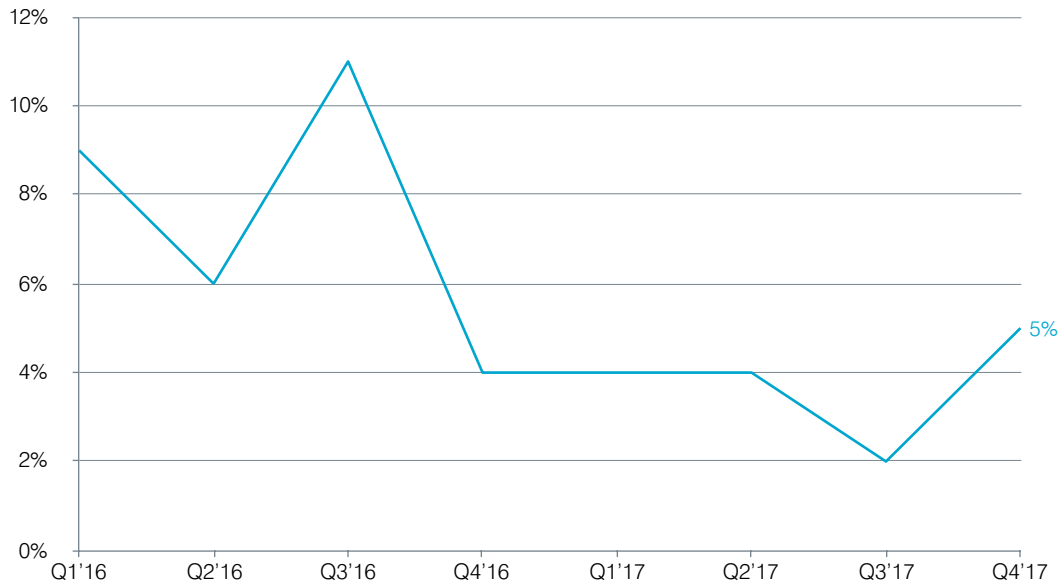


ANTIDILUTION PROVISIONS –The uses of (non-IPO) antidilution provisions in the financings were as follows:

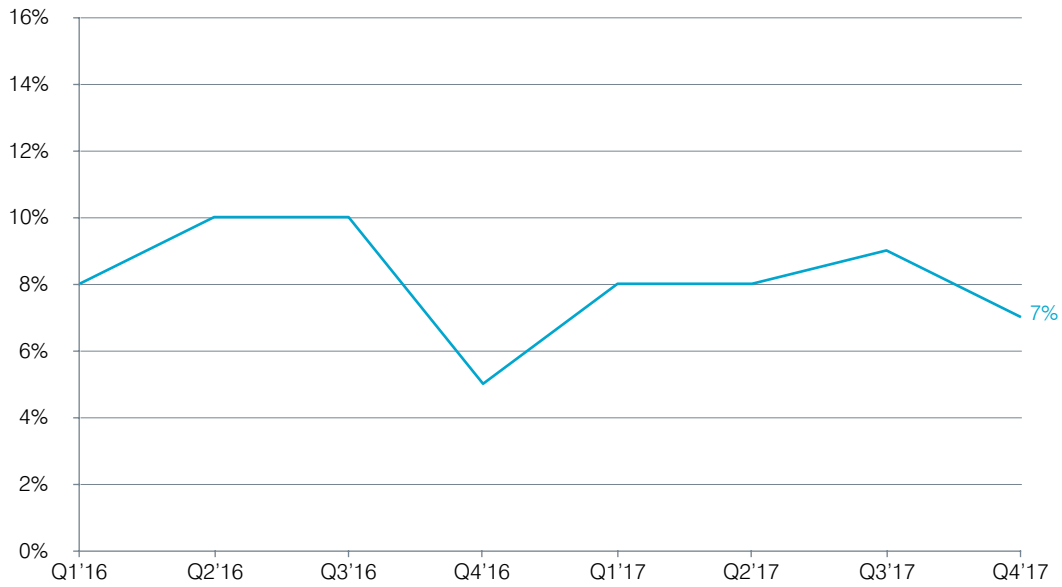


Please note that the chart above only applies to non-IPO anti-dilution provisions. In other words, the chart refers to anti-dilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include anti-dilution provisions designed to protect against an IPO at a price below the price paid by the venture investor (e.g., an IPO ratchet), because those provisions are generally only negotiated/included in very late stage, high value deals. We believe it would not be useful to provide a percentage of all financings that have IPO anti-dilution provisions, because it will provide a result that is artificially low. An analysis of IPO anti-dilution provisions is included in our Unicorn Survey, which by its nature is focused on late stage, high value deals.

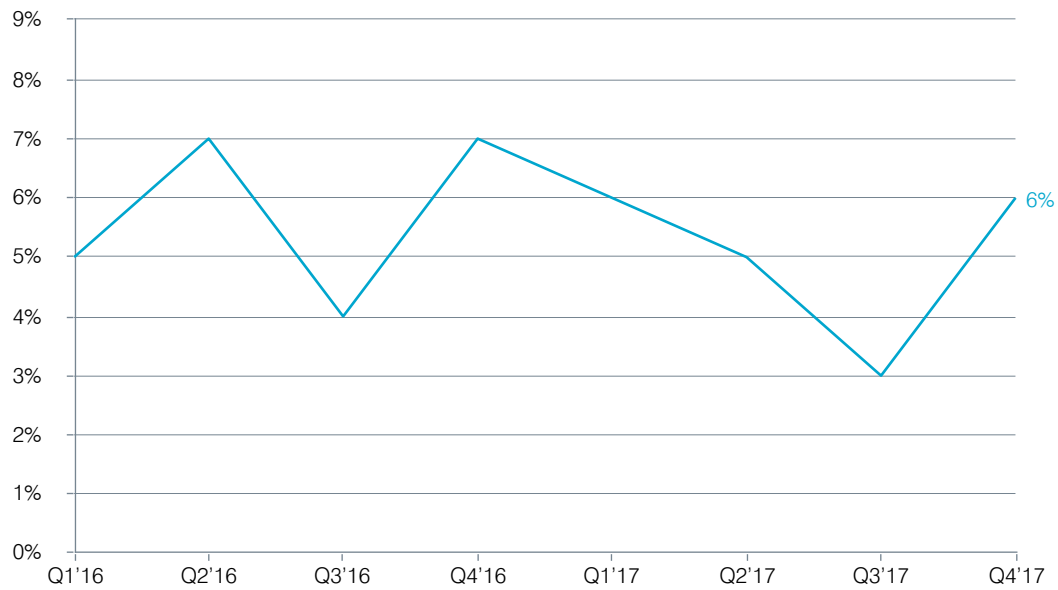
PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:



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:



About our Survey

The Fenwick & West Venture Capital Survey was first published in the first quarter of 2002 and has been published every quarter since then. Its goal is to provide information to the global entrepreneurial and venture community on the terms of venture financings in Silicon Valley.

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 towards or overly representative of financings in which our firm is involved. We believe that this approach, compared to only reporting on deals handled by a specific firm, provides a more statistically valid and larger dataset.

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. In her 25 plus years as a corporate attorney, 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, focuses on providing 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.

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