



Silicon Valley  
Venture Capital Survey  
Third Quarter 2017

First Look

# Silicon Valley Venture Capital Survey

## Third Quarter 2017



FENWICK  
& WEST

### First Look

Cynthia Clarfield Hess, Mark Leahy and Khang Tran

This quarter we are giving you, our readers, a “First Look” that allows us to provide you the top line trends for venture capital financings of Silicon Valley companies in Q3 more quickly. This “First Look” report will be followed in several weeks with a more in-depth “Full Analysis” that will provide a broader perspective and include coverage of venture capital financings in other geographies drawing on data from a variety of industry reports.

### Background

We analyzed the terms of 183 venture financings closed in the third quarter of 2017 by companies headquartered in Silicon Valley.

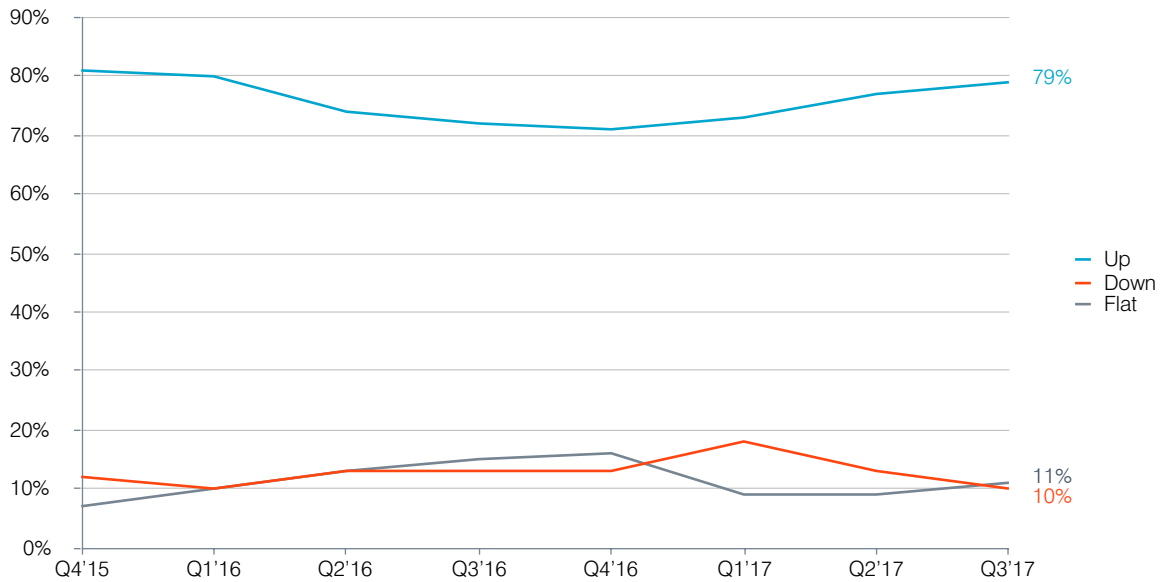
### Overview of Fenwick & West Results

Valuation results increased substantially in Q3 2017, which followed two quarters of modest increases. Overall, valuation metrics are well above their historical average, although still off from the highs recorded in mid-2015.

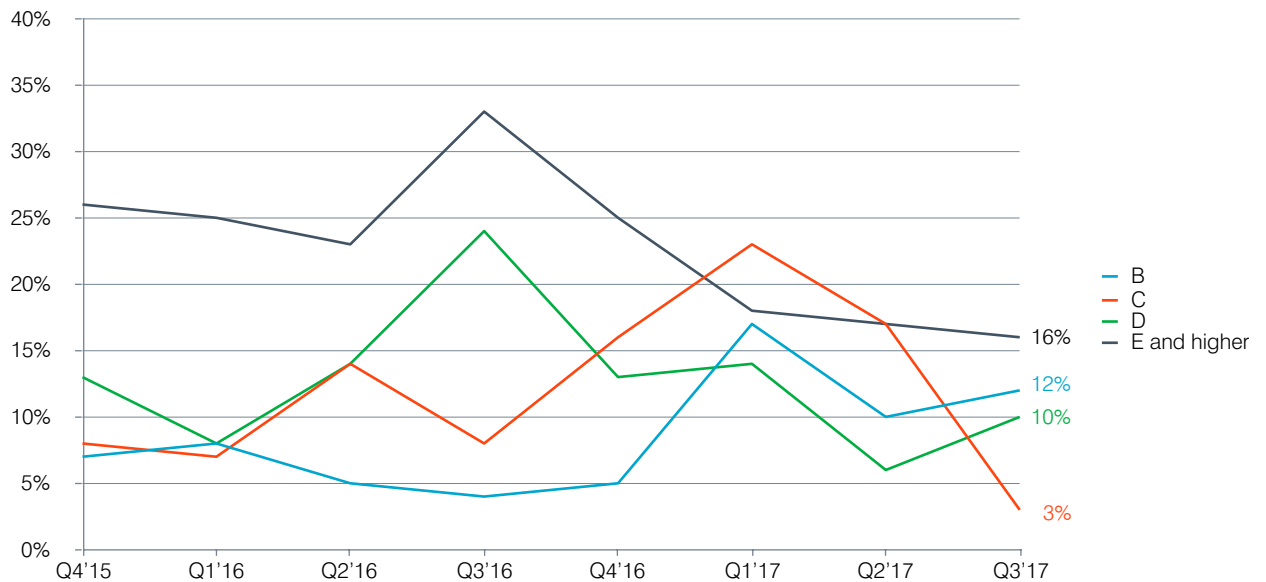
- Up rounds exceeded down rounds 79% to 10%, with 11% flat. This was an increase from Q2 2017 when up rounds exceeded down rounds 77% to 13%, with 10% flat. This was the highest percentage of up rounds and the lowest percentage of down rounds since Q1 2016.
- The Fenwick & West Venture Capital Barometer™ showed an average price increase in Q3 2017 of 80%, an increase from 64% recorded in Q2 and the highest average price increase recorded since Q3 2015. Series B, C and D rounds all recorded stronger valuation results compared to the prior quarter while the average price increase for Series E+ rounds declined considerably from 55% in Q2 to 19% in Q3.
- The median price increase of financings in Q3 2017 was 46%, an increase from 30% in Q2 and the highest median price increase since Q3 2015.
- In contrast to the prior quarter when its valuation metrics lagged those of the other industries, the life sciences industry recorded the strongest valuation results in Q3 2017. The hardware and software industries also recorded strong valuation metrics in Q3, although the valuation results for the software industry were modestly weaker than the elevated results recorded by the industry in the prior quarter. The internet/digital media industry recorded a lower average price increase compared to the prior quarter; however, the median price increase was significantly higher.

## 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.



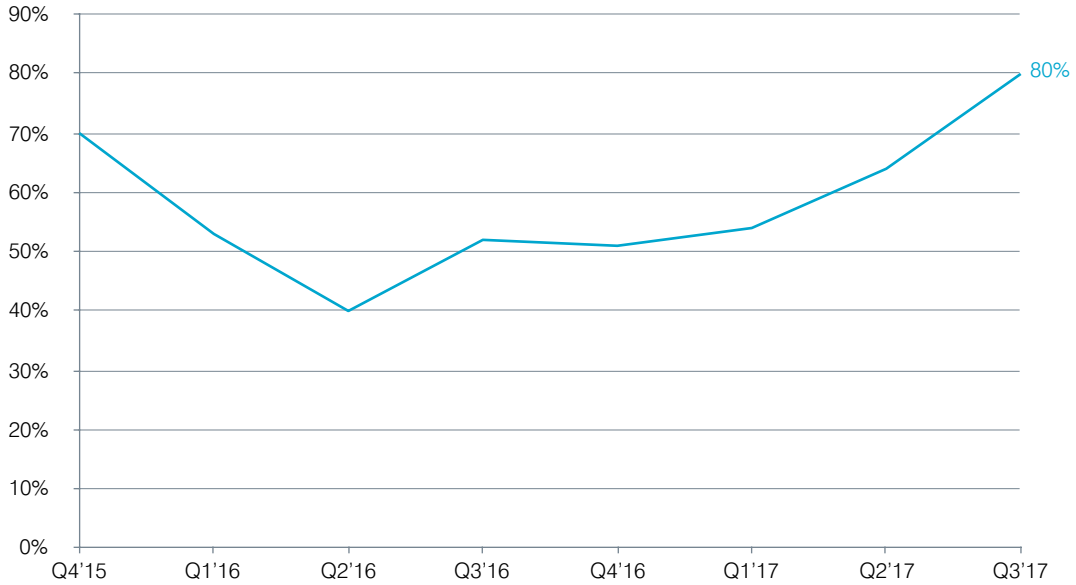
The percentage of **DOWN ROUNDS** by series were as follows:



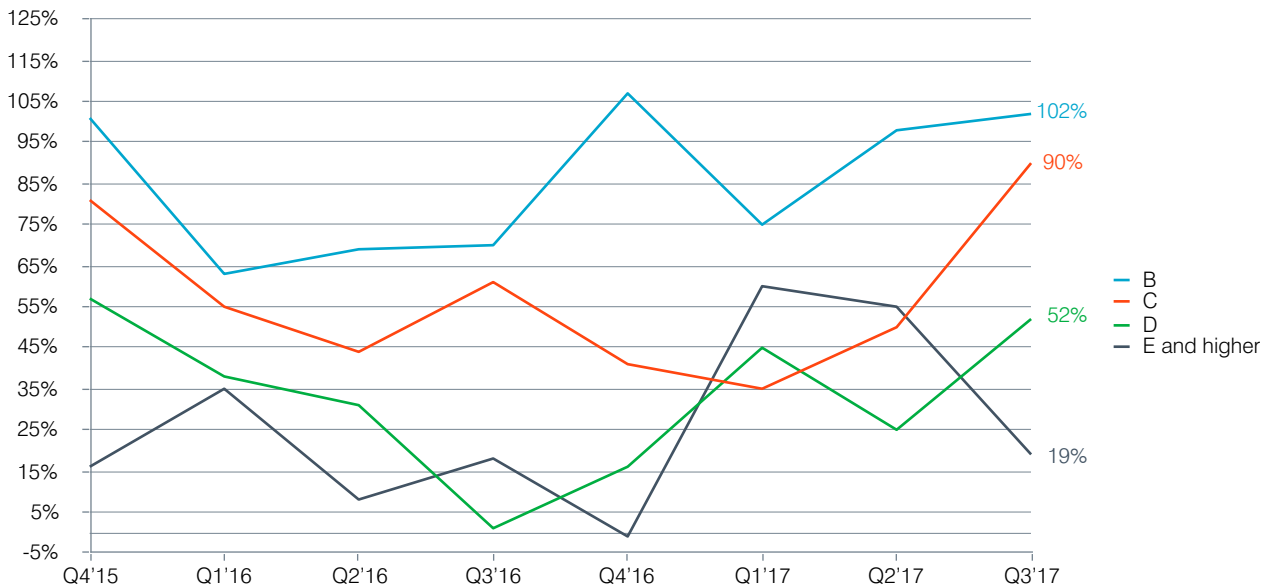
**EXPANDED PRICE CHANGE GRAPH**—Set forth below is the direction of price changes for each quarter since 2004.



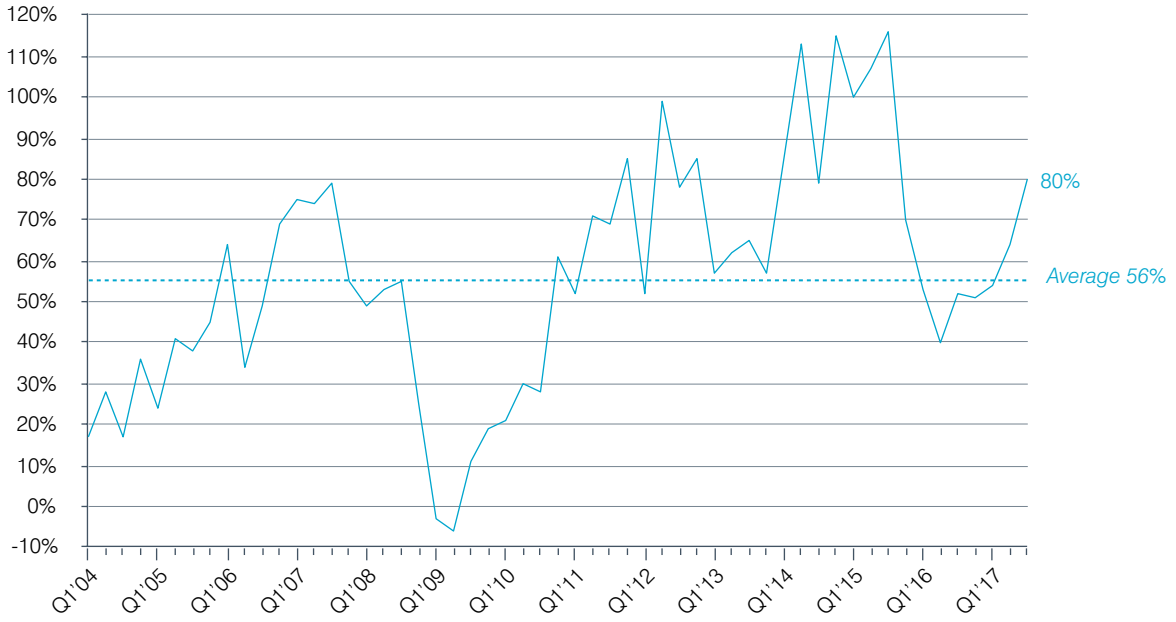
**THE FENWICK & WEST VENTURE CAPITAL BAROMETER™** (magnitude of price change) — Set forth below is the average percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing.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



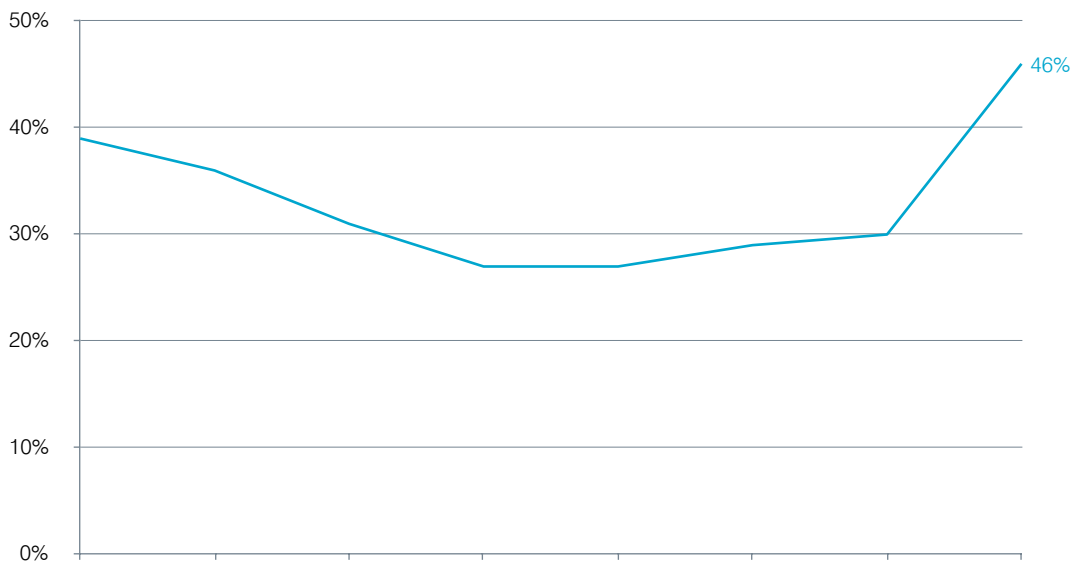
The Barometer results by series are as follows:



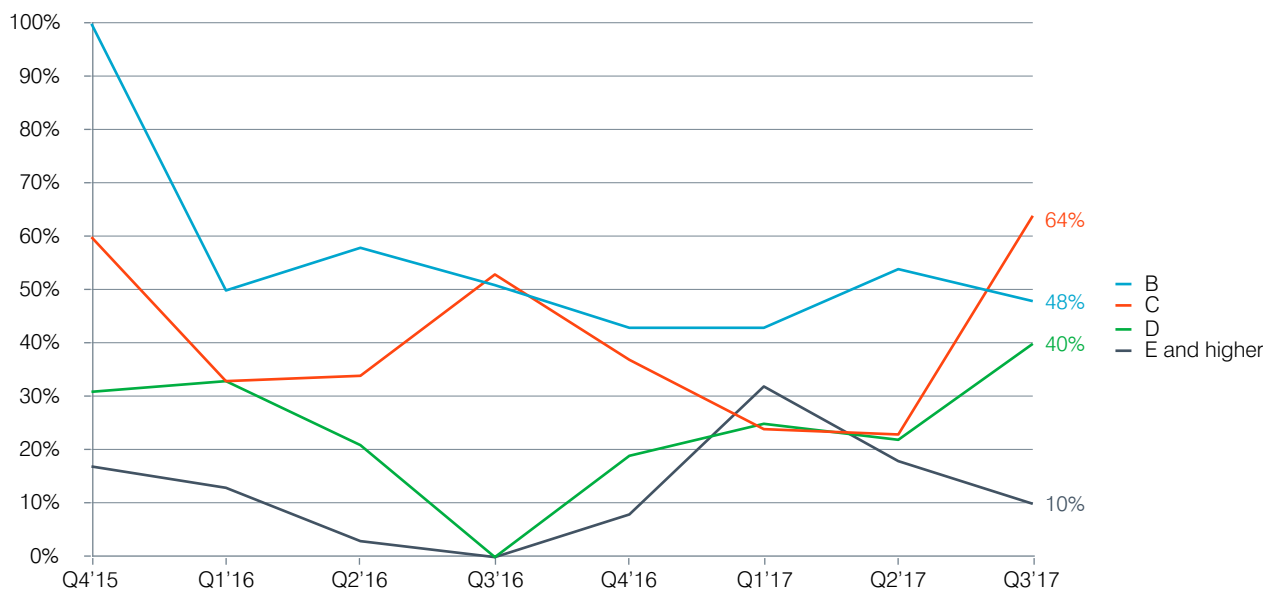
**EXPANDED BAROMETER GRAPH** — Set forth below is the average percentage price change for each quarter since we began calculating this metric in 2004.



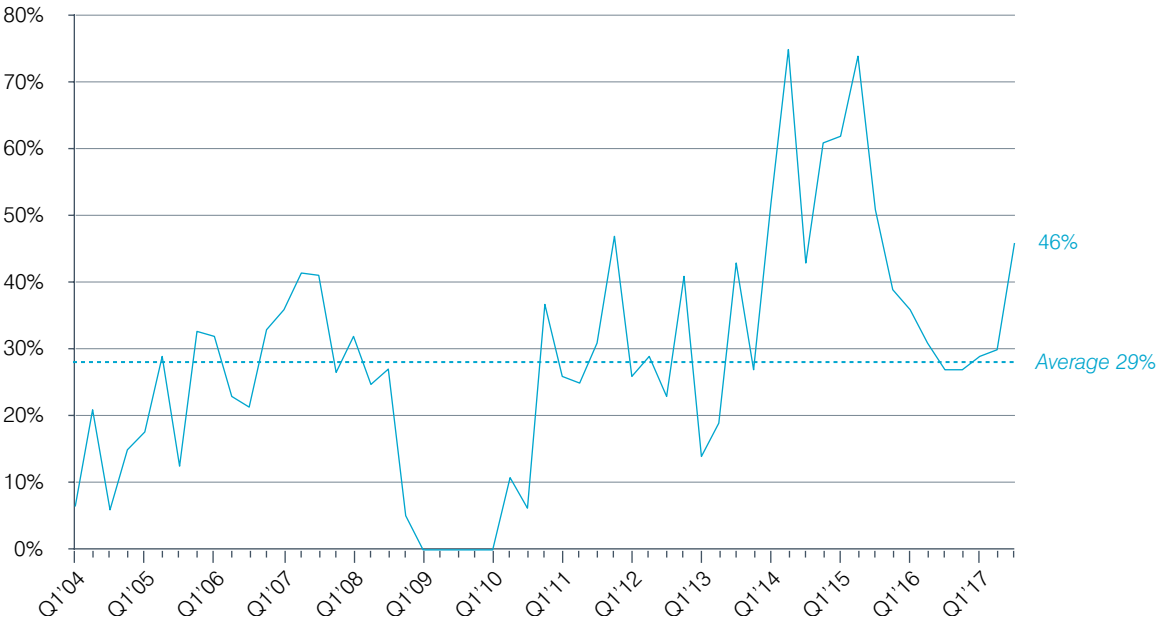
**MEDIAN PERCENTAGE PRICE CHANGE** — Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (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.

<b>Industry</b>	<b>Up Rounds</b>	<b>Down Rounds</b>	<b>Flat Rounds</b>	<b>Average Price Change</b>	<b>Median Price Change</b>	<b>Number of Financings</b>
Software	82%	10%	8%	82%	47%	61
Hardware	69%	8%	23%	82%	56%	13
Life Science	83%	9%	9%	89%	34%	23
Internet/Digital Media	83%	8%	8%	49%	47%	24
Other	62%	15%	23%	107%	18%	13
<b>Total all Industries</b>	<b>79%</b>	<b>10%</b>	<b>11%</b>	<b>80%</b>	<b>46%</b>	<b>134</b>

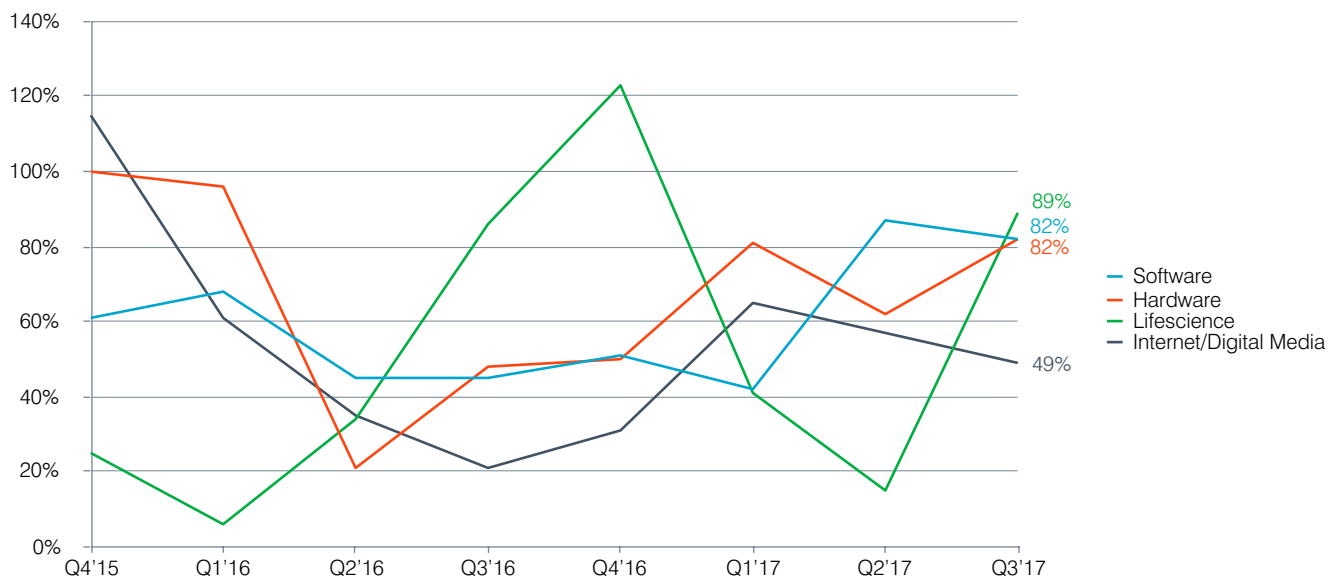
**DOWN ROUND RESULTS BY INDUSTRY**— The table below sets forth the percentage of “down rounds,” by industry groups, for each of the past eight quarters.

<b>Down Rounds</b>	<b>Q4'15</b>	<b>Q1'16</b>	<b>Q2'16</b>	<b>Q3'16</b>	<b>Q4'16</b>	<b>Q1'17</b>	<b>Q2'17</b>	<b>Q3'17</b>
Software	10%	6%	14%	15%	10%	20%	14%	10%
Hardware	18%	20%	16%	8%	18%	18%	17%	8%
Life Science	25%	19%	13%	18%	13%	17%	16%	9%
Internet/Digital Media	6%	10%	13%	14%	16%	24%	11%	8%
Other	11%	0%	8%	0%	17%	0%	8%	15%
<b>Total all Industries</b>	<b>12%</b>	<b>10%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>18%</b>	<b>13%</b>	<b>10%</b>

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

Barometer	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Software	61%	68%	45%	45%	51%	42%	87%	82%
Hardware	100%	96%	21%	48%	50%	81%	62%	82%
Life Science	25%	6%	34%	86%	123%	41%	15%	89%
Internet/Digital Media	115%	61%	35%	21%	31%	65%	57%	49%
Other	33%	19%	56%	78%	-5%	69%	43%	107%
<b>Total all Industries</b>	<b>69%</b>	<b>55%</b>	<b>39%</b>	<b>54%</b>	<b>54%</b>	<b>54%</b>	<b>64%</b>	<b>80%</b>

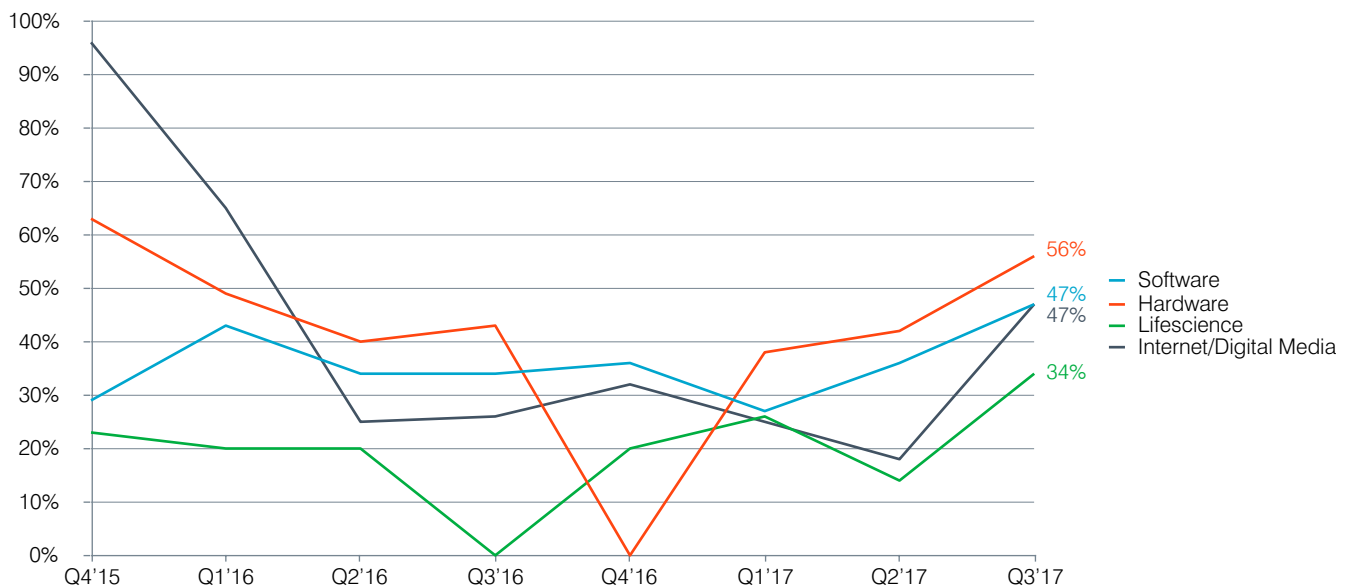
A graphical representation of the above is below.



**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	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Software	29%	43%	34%	34%	36%	27%	36%	47%
Hardware	63%	49%	40%	43%	0%	38%	42%	56%
Life Science	23%	20%	20%	0%	20%	26%	14%	34%
Internet/Digital Media	96%	65%	25%	26%	32%	25%	18%	47%
Other	38%	9%	39%	53%	0%	59%	44%	18%
<b>Total all Industries</b>	<b>39%</b>	<b>37%</b>	<b>31%</b>	<b>28%</b>	<b>28%</b>	<b>29%</b>	<b>30%</b>	<b>46%</b>

A graphical representation of the above is below.

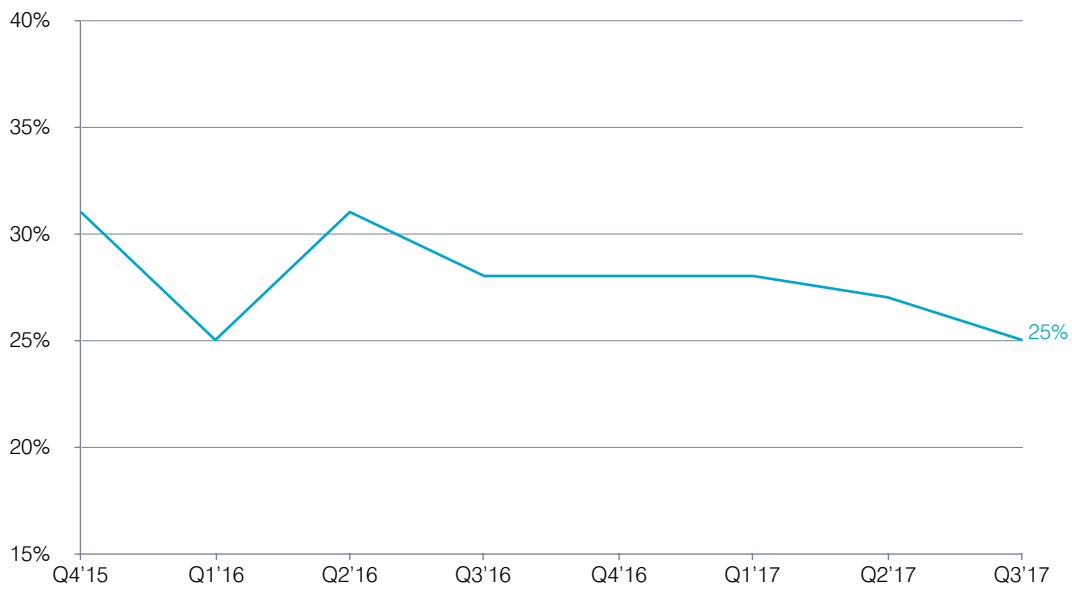


**FINANCING ROUND** — This quarter's financings broke down by series according to the chart below.

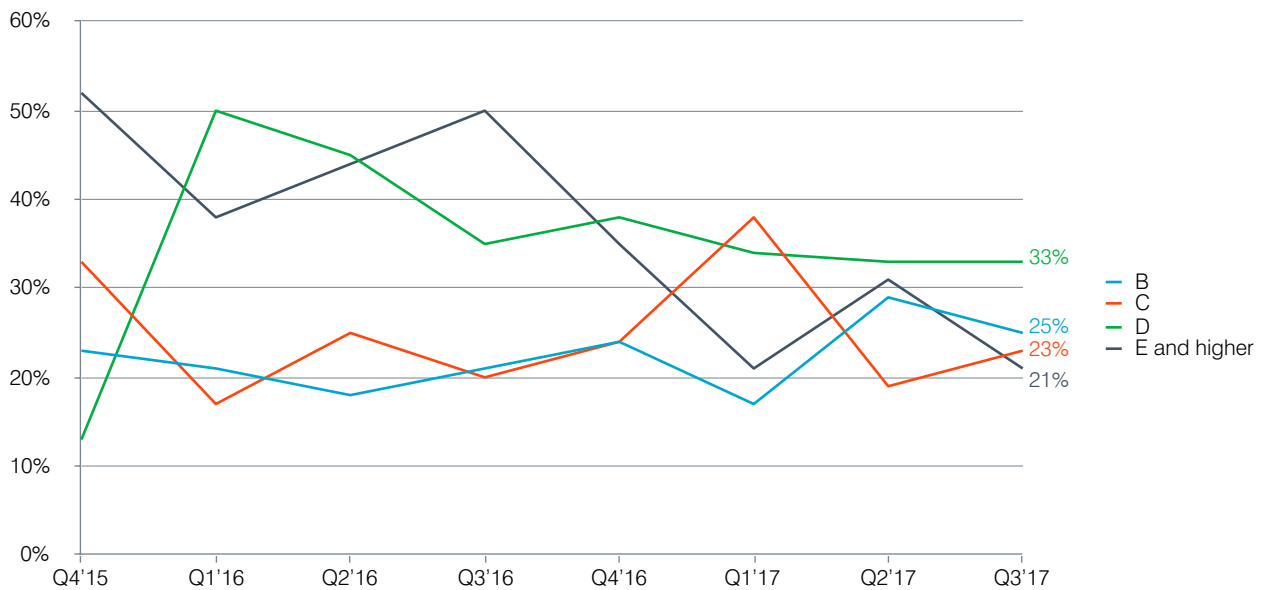
Series	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Series A	27%	23%	20%	24%	21%	29%	28%	27%
Series B	21%	28%	24%	33%	30%	18%	23%	32%
Series C	25%	29%	24%	18%	20%	20%	23%	19%
Series D	11%	9%	12%	12%	13%	15%	9%	11%
Series E and Higher	16%	11%	21%	13%	16%	17%	17%	10%

## Fenwick & West Data on Legal Terms

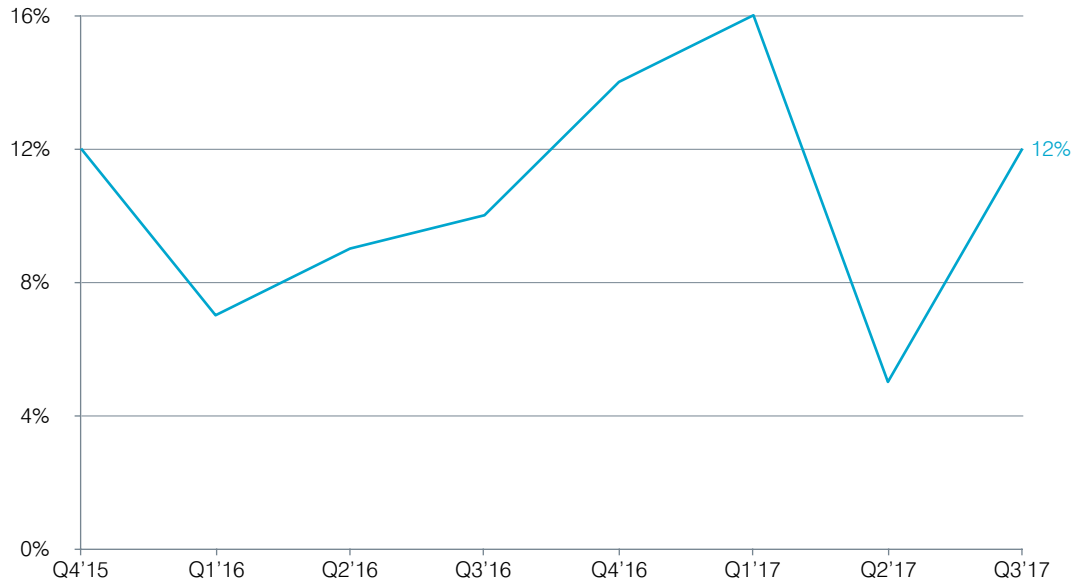
**LIQUIDATION PREFERENCE** — Senior liquidation preferences were used in the following percentages of financings.



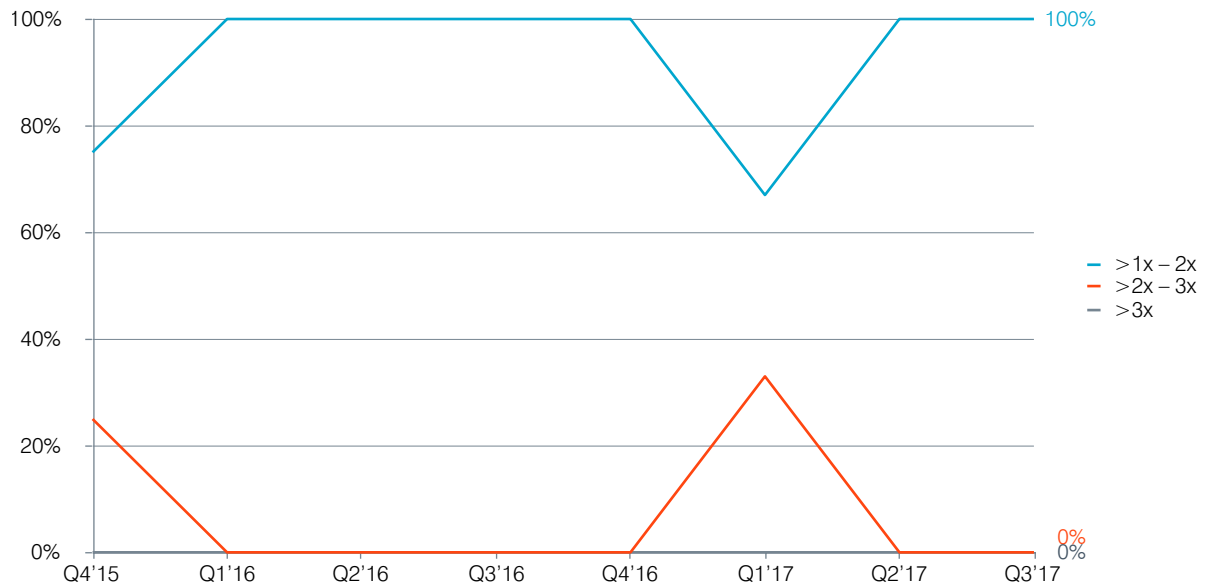
The percentage of senior liquidation preference by series was as follows:



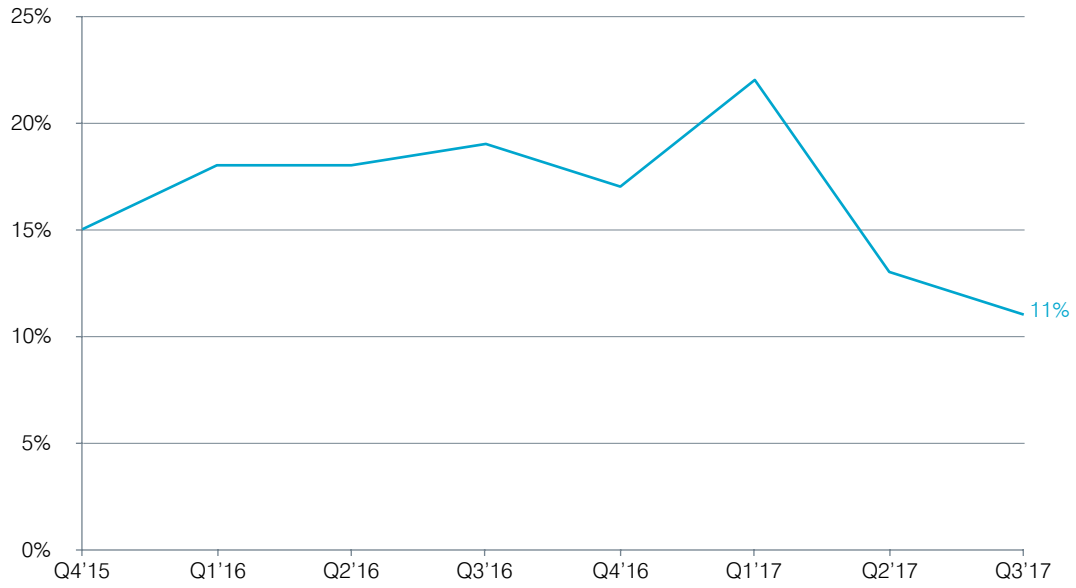
**MULTIPLE LIQUIDATION PREFERENCES** — The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



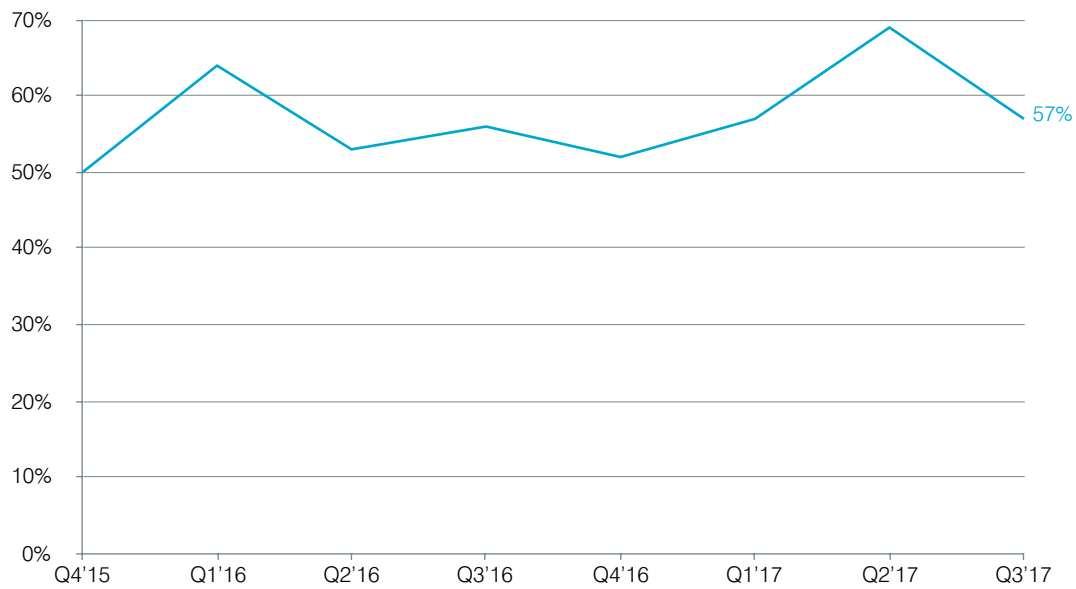
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



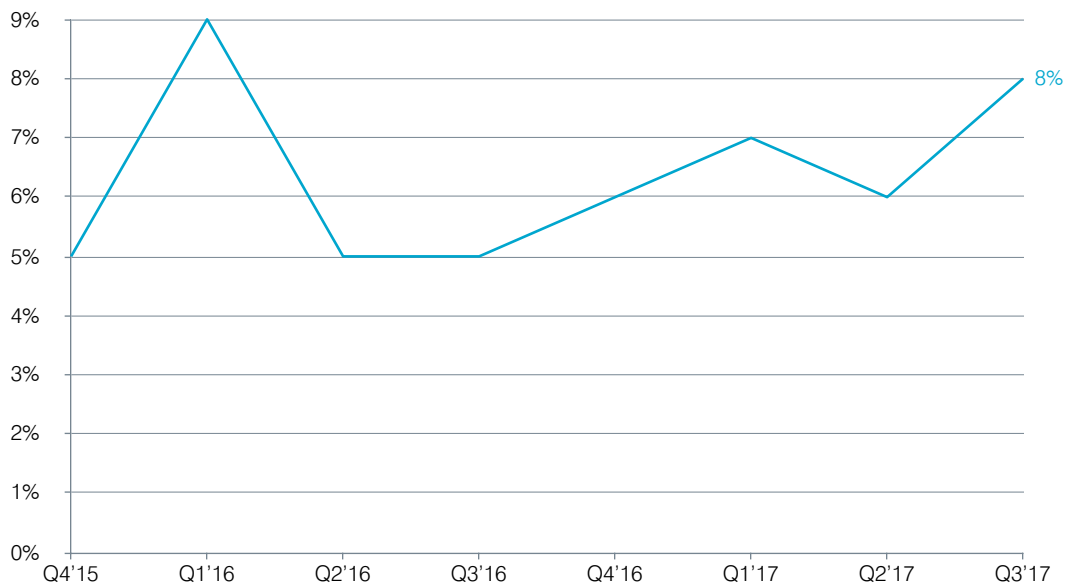
**PARTICIPATION IN LIQUIDATION** — The percentages of financings that provided for participation were as follows:



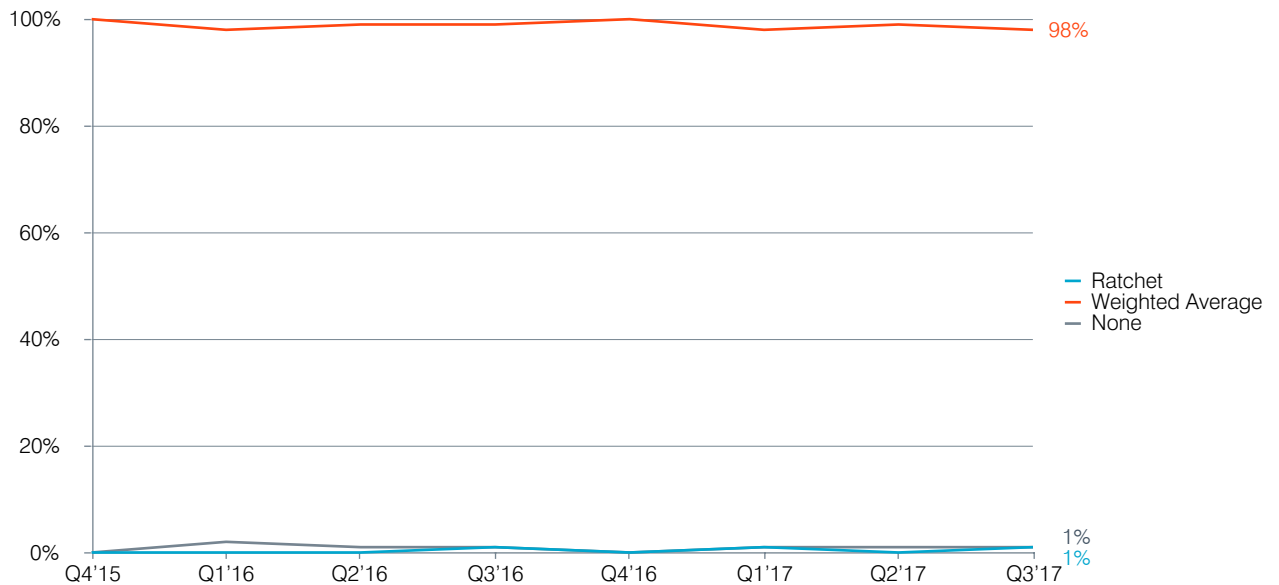
Of the financings that had participation, the percentages that were not capped were as follows:



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

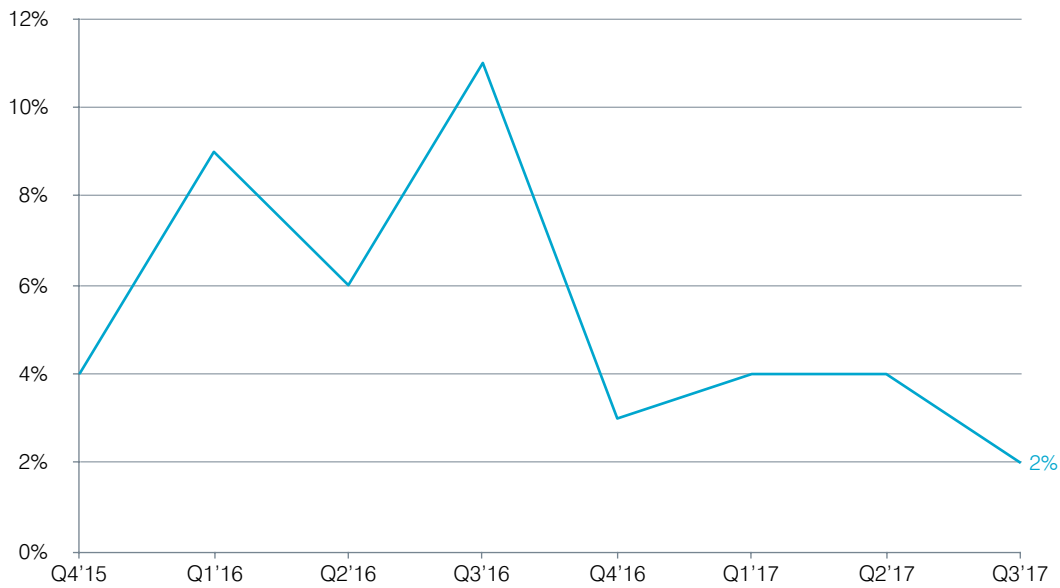


**ANTIDILUTION PROVISIONS** –The uses of (non-IPO) antidilution provisions in the financings were as follows:

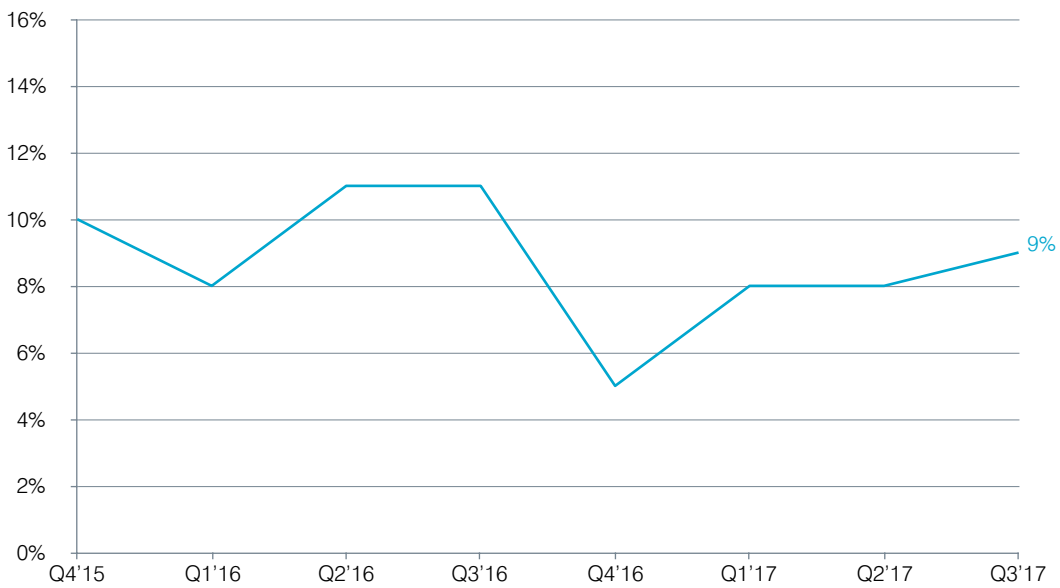


Please note that the chart above only applies to non-IPO anti-dilution provisions. In other words, the chart refers to anti-dilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include anti-dilution provisions designed 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:

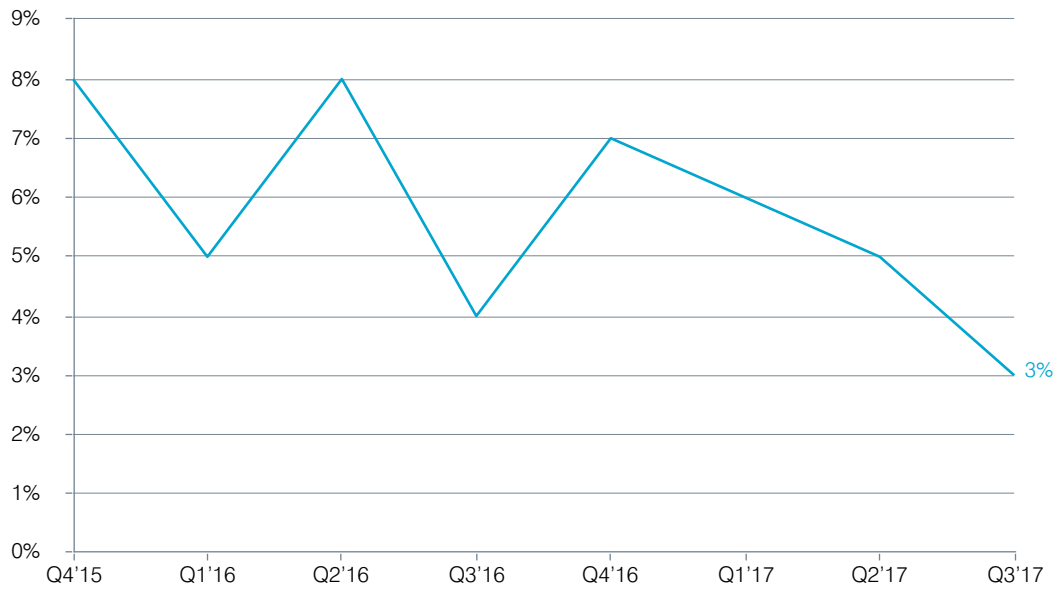


**REDEMPTION** – The percentages of financings providing for mandatory redemption or redemption at the option of the investor were as follows:





**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](http://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

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