



Silicon Valley
Venture Capital Survey
Third Quarter 2019

Full Analysis

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FENWICK
& WEST

Full Analysis

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Background

We analyzed the terms of 189 venture financings closed in the third quarter of 2019 by companies headquartered in Silicon Valley. The quarter recorded the highest average price increase since mid-2015. The software and internet/digital media industries were again the industries with the two strongest valuation results in the quarter.

Overview of Fenwick & West Results

Valuation results remained strong in Q3 2019, but, aside from a spike in the average price increase in the quarter, have largely plateaued in 2019.

- Up rounds exceeded down rounds 81% to 7%, with 12% flat in Q3 2019, a decline from Q2 2019 when up rounds exceeded down rounds 86% to 6%, with 8% flat.
- The Fenwick & West Venture Capital Barometer™ showed an average price increase in Q3 of 88%, an increase from the 77% recorded in the prior quarter, and the highest average price increase since Q3 2015.
- Following four consecutive quarters of increases, the median price increase of financings declined moderately from 58% in Q2 to 54% in Q3.
- Similar to the prior quarter, valuation results for Series B and C financings were stronger compared to the prior quarter, while valuation results for Series D and E financing rounds weakened further.
- The software and internet/digital media industries both recorded stronger valuation results in Q3 compared to the prior quarter and were again the industries with the two strongest valuation results in the quarter. The hardware industry recorded a considerably higher average price increase in Q3 compared to the prior quarter, while the median price increase for the industry declined. The valuation results for the life sciences industry in Q3 lagged those for the other industries and declined compared to the prior quarter.

Overview of Other Industry Data

The United States venture environment remains robust through the first three quarters of 2019, but has retreated from the peak levels recorded in 2018. In particular, the third quarter of 2019 saw a

significant decline in venture capital investment activity compared to the prior quarter and the year ago period.

- The pace of investments and the amount of capital invested in Q3 2019 U.S.-wide were both down appreciably compared to the prior quarter and the year ago period.
- Despite the decline in deal volume and aggregate deal value, median deal size increased in Q3 to the highest median amount since Q4 2000.
- Later-stage invested capital allocation recorded the greatest gain compared to the prior quarter. Seed-stage deal share and percentage of total invested capital also recorded modest gains in the quarter.
- The internet sector continued to receive the greatest share of investments, followed by the healthcare sector and the mobile and telecommunications sector.
- The San Francisco Bay Area (including Silicon Valley) took in the largest share of investments in Q3 in terms of both deal volume and aggregate invested capital, followed by the New York metro and Los Angeles areas.
- U.S. venture-backed IPO activity declined in Q3 after a surge in activity in the prior quarter. Nevertheless, the aggregate amount raised in IPOs in the quarter ranked as the second highest in the last seven years.
- Venture capital fundraising in 2019, while still strong, has been off pace from the record-breaking levels of 2018. The fundraising timeline has also extended with the average and median time to close a fund increasing in 2019 after having declined over the past several years.

Venture Capital Investment

U.S. venture capital investment deal volume and aggregate deal value in Q3 2019 were down appreciably compared to the prior quarter and the year ago period. A summary of results published by three leading providers of venture data is below:

Comparison between Q3 2019 and Q2 2019:

	Q3 2019	Q2 2019	Difference	Q3 2019	Q2 2019	Difference
	(\$Billion)	(\$Billion)	%	Deals	Deals	%
VentureSource ¹	\$27.5	\$33.1	-17%	1,295	1,504	-14%
PitchBook-NVCA ²	\$28.2	\$34.1	-17%	2,265	2,810	-19%
MoneyTree ³	\$26.0	\$30.4	-15%	1,304	1,555	-16%
Average	\$27.2	\$32.5	-16%	1,621	1,956	-17%

Comparison between Q3 2019 and Q3 2018:

	Q3 2019 (\$Billion)	Q3 2018 (\$Billion)	Difference %	Q3 2019 Deals	Q3 2018 Deals	Difference %
VentureSource ¹	\$27.5	\$33.0	-17%	1,295	1,600	-19.1%
PitchBook-NVCA ²	\$28.2	\$31.8	-11%	2,265	2,377	-5%
MoneyTree ³	\$26.0	\$29.5	-12%	1,304	1,528	-15%
Average	\$27.2	\$31.4	-13%	1,621	1,835	-12%

¹ Dow Jones VentureSource ("VentureSource")

² PitchBook-NVCA Venture Monitor ("PitchBook-NVCA")

³ PwC/CB Insights MoneyTree™ Report ("MoneyTree")

According to VentureSource, the median amount invested per financing round by venture capitalists or venture capital-type investors (i.e., those making equity investments in early-stage companies from a fund with multiple limited partners) was \$10 million in Q3 2019, up from \$9 million in Q2 2019 and the highest median investment amount since Q4 2000. Seed and first rounds recorded greater median investment amounts in Q3 compared to the prior quarter, while the median investment amounts for later-stage and second rounds in Q3 were down moderately and flat, respectively, compared to the prior quarter.

According to MoneyTree, there were 55 mega-rounds (financings that raised \$100 million or more) in Q3 2019, down from the record 67 mega-rounds in Q2 2019. The aggregate amount raised in mega-rounds also declined moderately from \$13.9 billion (representing 46% of total funding) in Q2 to \$12.7 billion (representing 49% of total funding) in Q3. In addition, the quarter saw 17 new U.S. venture capital-backed companies reach unicorn status (private companies with a valuation of at least \$1 billion), down from 20 new U.S. unicorns in the prior quarter. With the addition of these new unicorns, the U.S. unicorn count now stands at a record 180 with a record aggregate valuation of \$621.2 billion.

According to MoneyTree, seed-stage and early stage (Series A) investment deal allocations (i.e., share of the total number of deals) increased moderately from 23% and 27%, respectively, Q2 2019 to 25% and 28%, respectively, in Q3 2019. Expansion stage (Series B and C) and later-stage (Series D and E+) deal allocations were flat compared to the prior quarter at 22% and 10%, respectively, while other stage deal allocation declined moderately from 17% in Q2 to 15% in Q3. Later-stage invested capital allocation (i.e., share of the total invested capital) recorded the greatest gain compared to the prior quarter, increasing from 36% in Q2 to 41% in Q3. Seed-stage invested capital allocation also recorded a modest increase, while early stage and expansion-stage invested capital allocations declined moderately.

The internet sector again received by far the greatest share of investments in Q3 2019 according to MoneyTree, comprising 41% of the total number of deals, down from 44% in the prior quarter, and 39% of the aggregate invested capital, down slightly from 41% in the prior quarter. The healthcare sector saw the second-highest level of investment activity in the quarter at 14% of the total deal

count, down slightly from 15% in the prior quarter, and 19% of the total invested capital, up from 16% in the prior quarter, followed by the mobile and telecommunications sector at 12% of the total deal count, flat compared to the prior quarter, and 11% of the invested capital, up slightly from 10% in the prior quarter.

Regionally, the San Francisco Bay Area (including Silicon Valley) yet again took in the largest share of investments in Q3 2019 at 30% of the total number of deals, down slightly from 31% in the prior quarter, and 44% of the aggregate invested capital, down from 47% in the prior quarter, according to MoneyTree. Investments in the New York metro area-based companies in Q3 saw the second highest level of investment activity at 15% of deal share, flat compared to the prior quarter, and 17% of the aggregate invested capital, down from 14% in Q2. The Los Angeles area overtook New England to come in third in Q3 at 7% of deal share, flat compared to the prior quarter, and 9% of the aggregate invested capital, up moderately from 7% in Q2. The New England area came in fourth with 7% of both the total deal count and the aggregated invested capital, both also flat compared to the prior quarter.

IPO Activity

According to VentureSource, there were 19 U.S. venture-backed initial public offerings in Q3 2019, down from 32 IPOs in Q2 2019. The aggregate amount raised in IPOs also declined sharply from the record \$14 billion in Q2, when Uber alone raised \$8.1 billion, to \$6 billion in Q3. Nevertheless, the aggregate amount raised in IPOs in Q3 ranked as the second highest in the last seven years.

As has often been the case over the past few years, the healthcare industry made up a majority of the IPO count with 11 IPOs in Q3 2019, down from 20 in the prior quarter, while the IT industry was next with three IPOs in the quarter. The consumer goods industry had the two largest IPOs in the quarter, raising an aggregate of \$2.5 billion (representing 42% of the aggregate amount raised in IPOs in the quarter).

The median time from initial equity funding to IPO declined from 7.2 years in Q2 2019 to 6.3 years in Q3 2019; however, the median equity amount raised prior to IPO and the median pre-IPO valuation both increased sharply from \$155.2 million and \$485.3 million, respectively, in Q2, to \$225.2 million and \$646.3 million, respectively, in Q3.

Merger and Acquisition Activity

There were 163 acquisitions of U.S. venture-backed companies in Q3 2019, according to VentureSource, down from 200 M&A deals in Q2 2019, and the lowest M&A deal volume since Q2 2015. The aggregate M&A deal value also declined from \$35.1 billion in Q2 to \$26.9 billion in Q3, the lowest aggregate M&A deal value since Q4 2017.

The IT industry saw the greatest amount of M&A deal activity with 68 deals at an aggregate value of \$11.9 billion in Q3 2019, down from 86 deals at an aggregate value of \$14.7 billion in Q2 2019. The business and services industry was next with 37 deals at an aggregate value of \$4.6 billion in Q3, down from 49 deals at an aggregate value of \$6.3 billion in the prior quarter, followed by the

healthcare industry with 27 deals at an aggregate value of \$3.8 billion in Q3, down from 30 deals at an aggregate value of \$6.3 billion in the prior quarter.

The median time from initial equity funding to acquisition declined from 5.6 years in Q2 2019 to 4.8 years in Q3 2019, the least median time since Q2 2016. Similarly, the median equity amount raised prior to acquisition declined from \$19.2 million in Q2 to \$11.5 million in Q3.

Venture Capital Fundraising

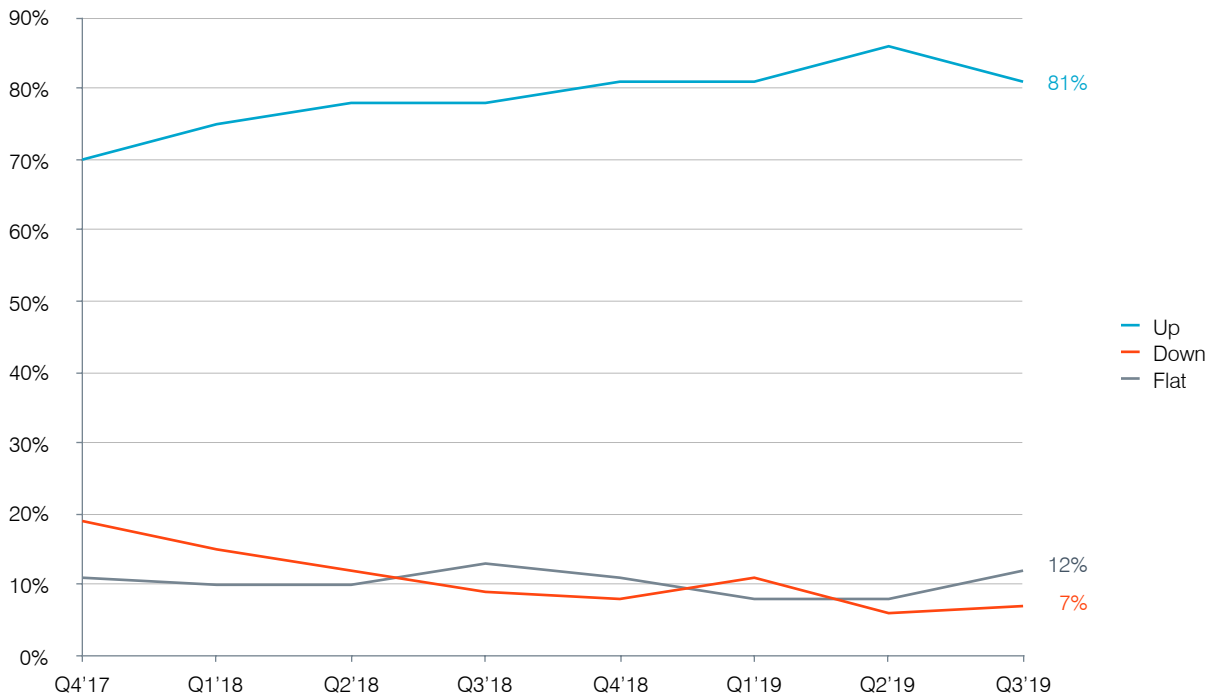
According to PitchBook-NVCA, venture capital fundraising activity is heading towards another strong year in 2019, but has been off pace from the record-breaking levels of 2018. Through the first three quarters of the year, \$29.6 billion has been raised across 162 funds, compared to \$56.8 billion raised across 290 funds in all of 2018.

The trend of raising larger funds to keep pace with growing VC deal sizes has largely continued in 2019, with the closing of 15 mega-funds (fund size of more than \$500 million) through the first three quarters of 2019. Meanwhile, the proportion of VC funds under \$50 million has continued to decline to the lowest level in over 10 years with only 54 such funds closed thus far in 2019. Average fund size was down from \$207.4 million in 2018 to \$182.7 million in 2019 to date after having increased sharply over the past several years, while median fund size was up moderately from \$75.9 million in 2018 to \$83.4 million thus far in 2019, the highest median amount since 2008.

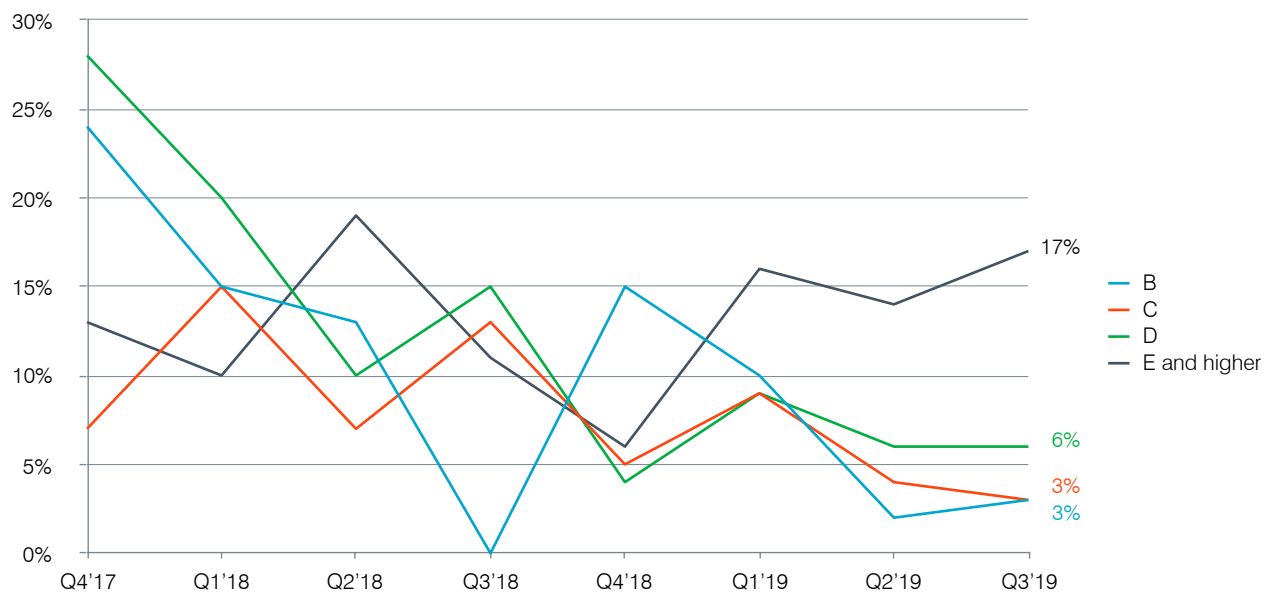
After having declined over the past few years, average and median time to close a fund was up from 13.7 months and 12 months, respectively, in 2018 to 16.9 months and 12.9 months, respectively, in the first three quarters of 2019.

Fenwick & West Data on Valuation

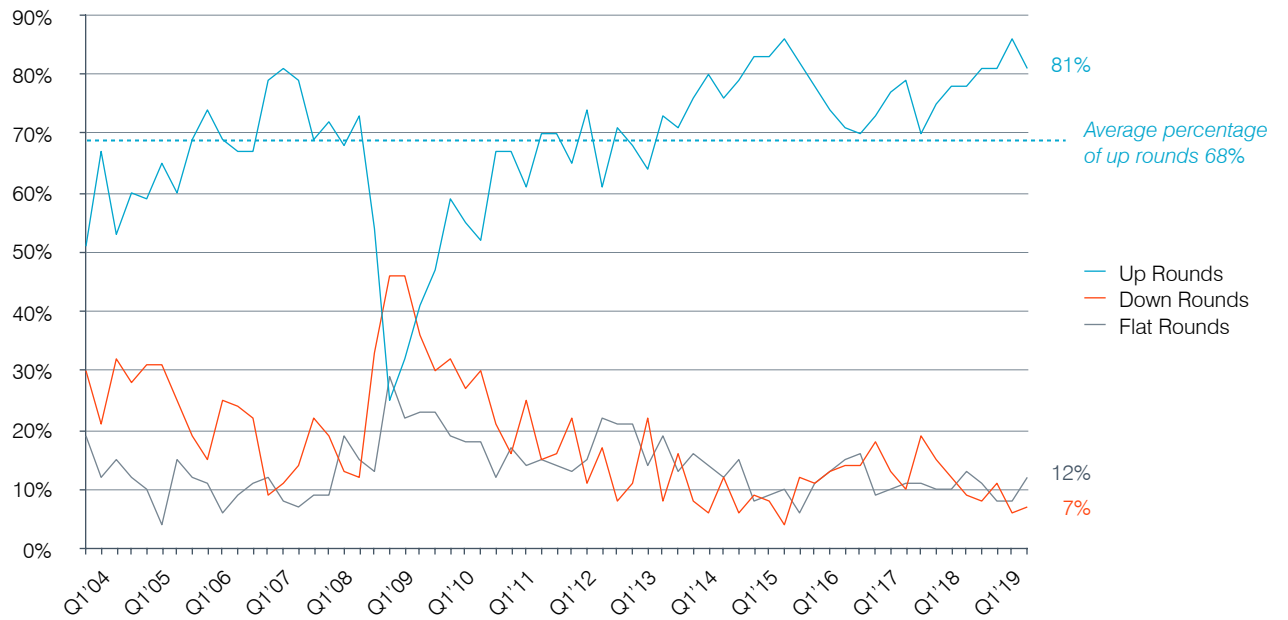
PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing is as follows:



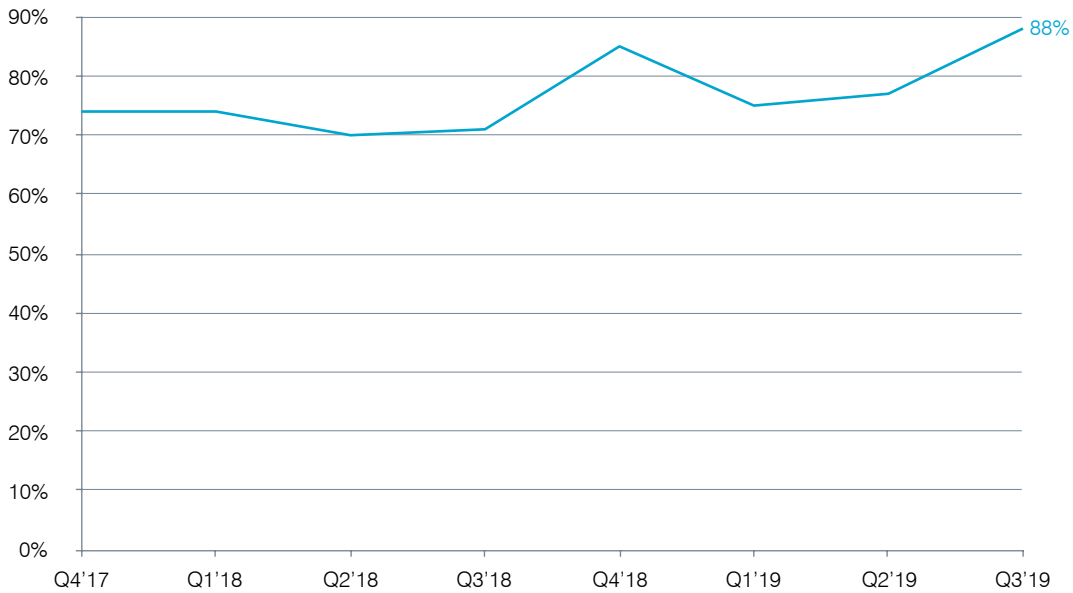
The percentage of **DOWN ROUNDS** by series were as follows:



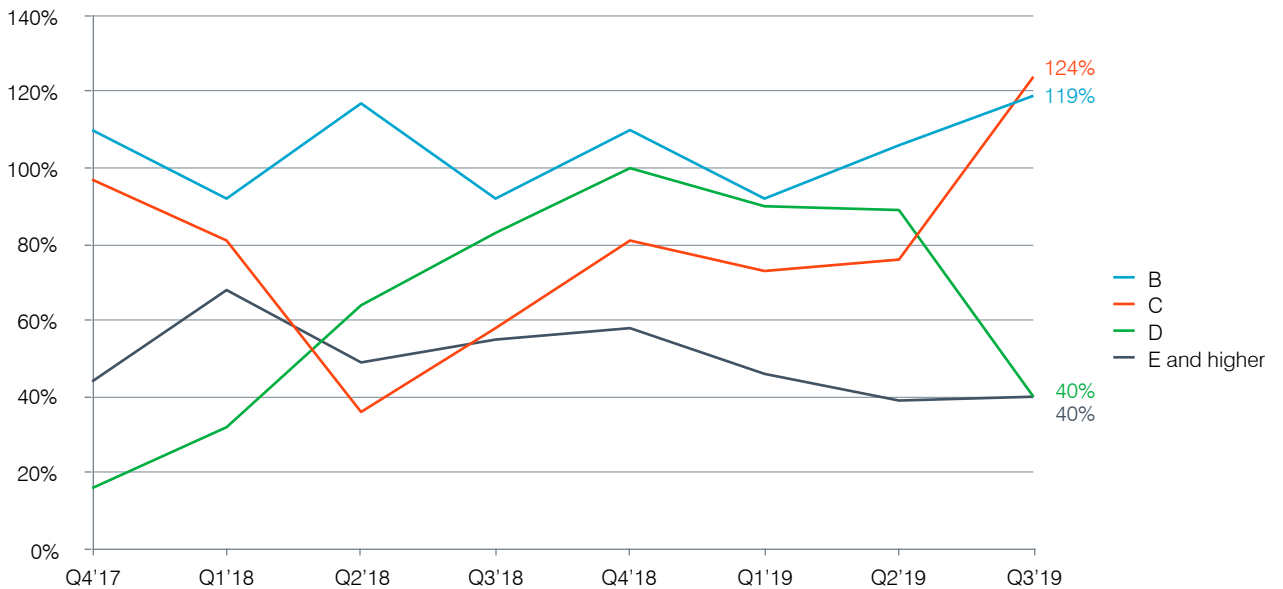
EXPANDED PRICE CHANGE GRAPH—Below is the direction of price changes for each quarter since 2004.



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) are included, and results are not weighted for the amount raised in a financing.



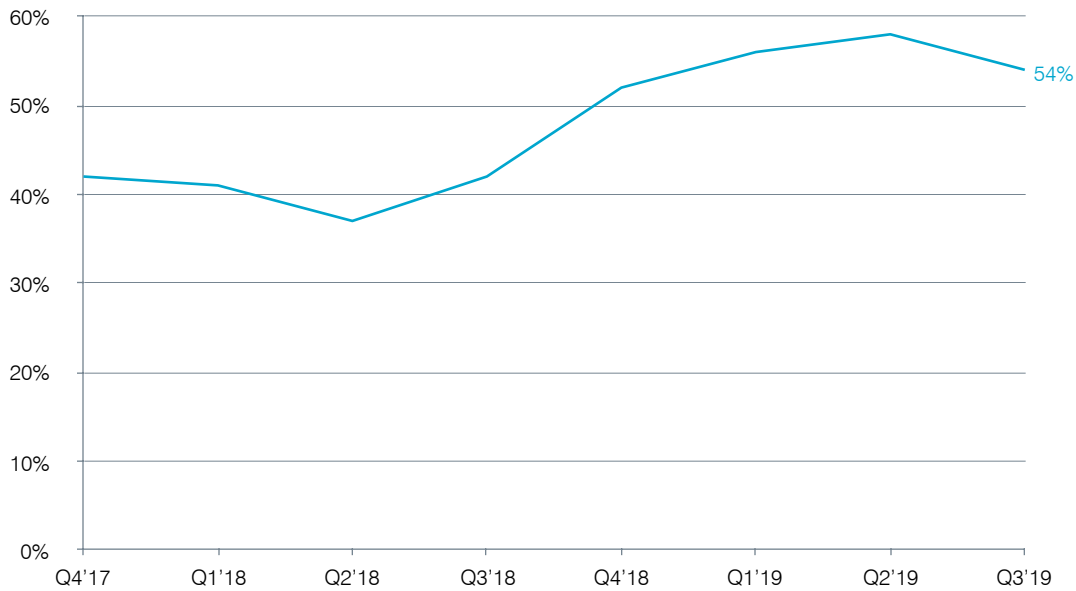
The Barometer results by series are as follows:



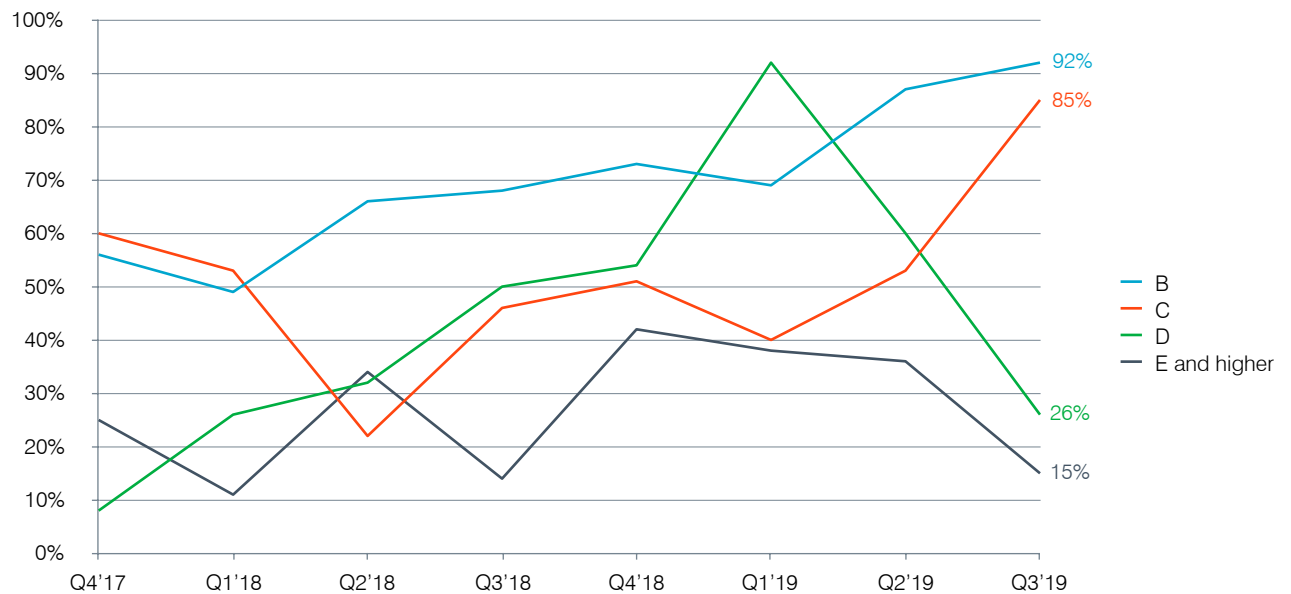
EXPANDED BAROMETER GRAPH—Below is the average percentage price change for each quarter since we began calculating this metric in 2004.



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) are included, and results are 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.



MEDIAN PERCENTAGE PRICE CHANGE BY SERIES.



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 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	81%	9%	9%	93%	77%	54
Hardware	93%	7%	0%	91%	29%	15
Life Sciences	67%	0%	33%	47%	16%	15
Internet/Digital Media	88%	8%	4%	94%	60%	24
Other	73%	7%	20%	93%	29%	15
Total all Industries	81%	7%	12%	88%	54%	123

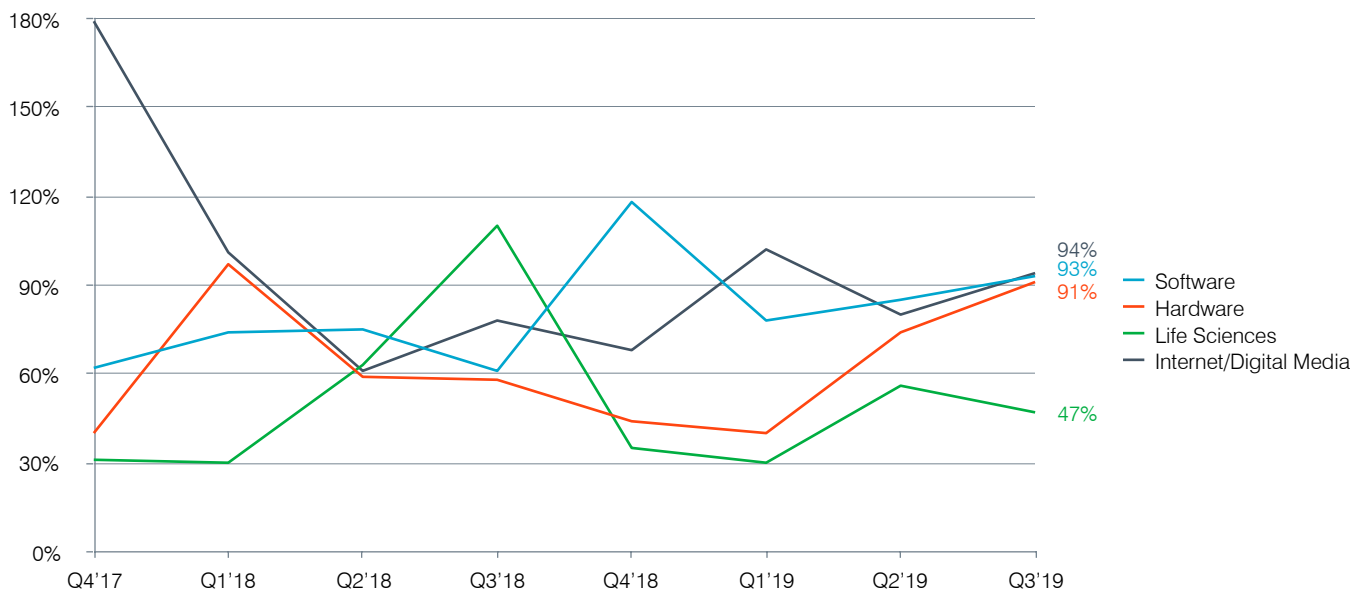
DOWN ROUND RESULTS BY INDUSTRY—The table below illustrates the percentage of “down rounds,” by industry groups, for each of the past eight quarters.

Down Rounds	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Software	18%	16%	14%	11%	3%	12%	7%	9%
Hardware	28%	10%	5%	14%	26%	0%	0%	7%
Life Sciences	21%	16%	10%	5%	11%	27%	4%	0%
Internet/Digital Media	14%	17%	16%	5%	13%	5%	9%	8%
Other	13%	0%	16%	5%	0%	0%	7%	7%
Total all Industries	19%	15%	12%	9%	8%	11%	6%	7%

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

Industry	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Software	62%	74%	75%	61%	118%	78%	85%	93%
Hardware	40%	97%	59%	58%	44%	40%	74%	91%
Life Sciences	31%	30%	63%	110%	35%	30%	56%	47%
Internet/Digital Media	179%	101%	61%	78%	68%	102%	80%	94%
Other	73%	72%	81%	70%	90%	120%	67%	93%
Total all Industries	74%	74%	70%	71%	85%	75%	77%	88%

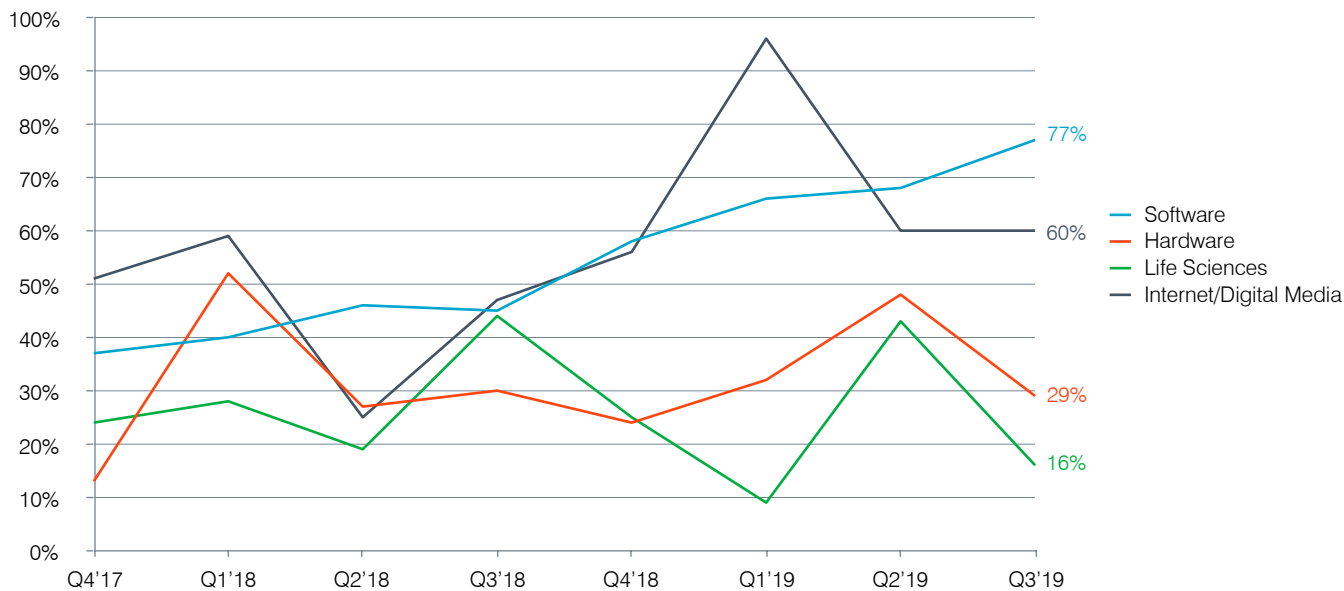
A graphical representation of the above data is below.



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	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Software	37%	40%	46%	45%	58%	66%	68%	77%
Hardware	13%	52%	27%	30%	24%	32%	48%	29%
Life Sciences	24%	28%	19%	44%	25%	9%	43%	16%
Internet/Digital Media	51%	59%	25%	47%	56%	96%	60%	60%
Other	63%	35%	53%	37%	48%	69%	60%	29%
Total all Industries	42%	41%	37%	42%	52%	56%	58%	54%

A graphical representation of the above data is below.

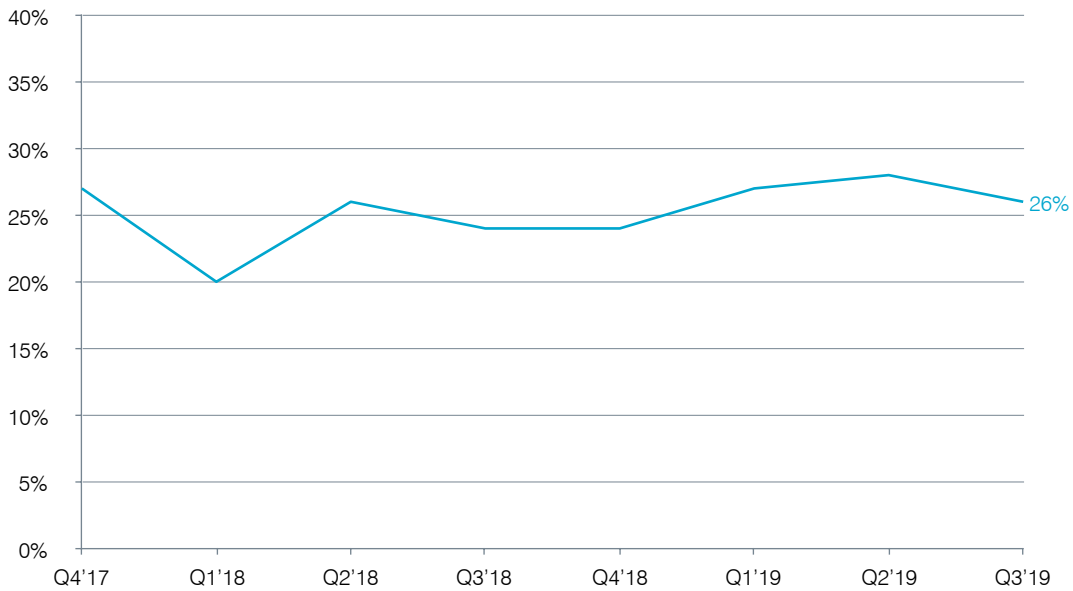


FINANCING ROUND—This quarter's financings broken down by series are as follows:

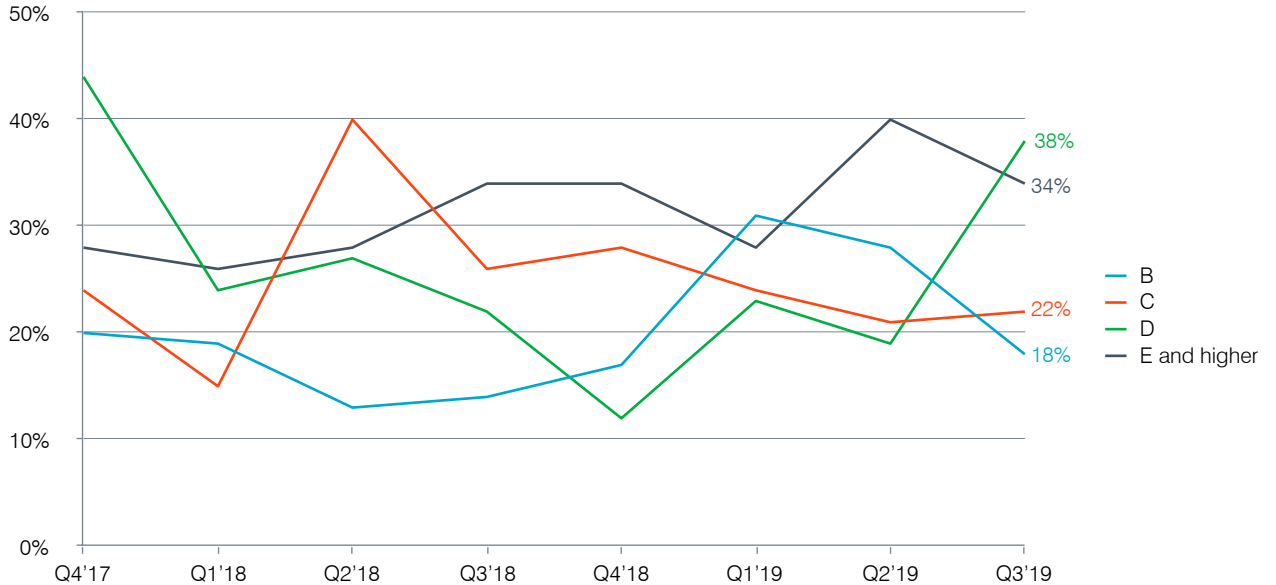
Series	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Series A	29%	25%	24%	27%	31%	32%	26%	35%
Series B	26%	27%	24%	20%	20%	21%	25%	21%
Series C	15%	21%	19%	18%	18%	18%	22%	17%
Series D	13%	13%	13%	13%	11%	12%	7%	8%
Series E and Higher	17%	16%	19%	22%	20%	17%	20%	19%

Fenwick & West Data on Legal Terms

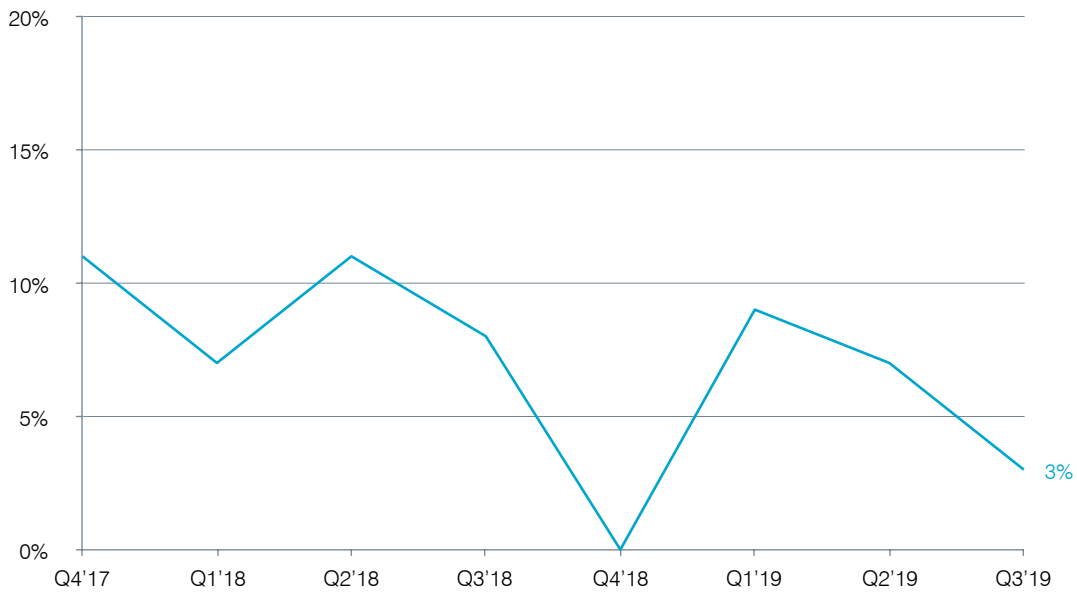
LIQUIDATION PREFERENCE — Senior liquidation preferences were used in the following percentages of financings.



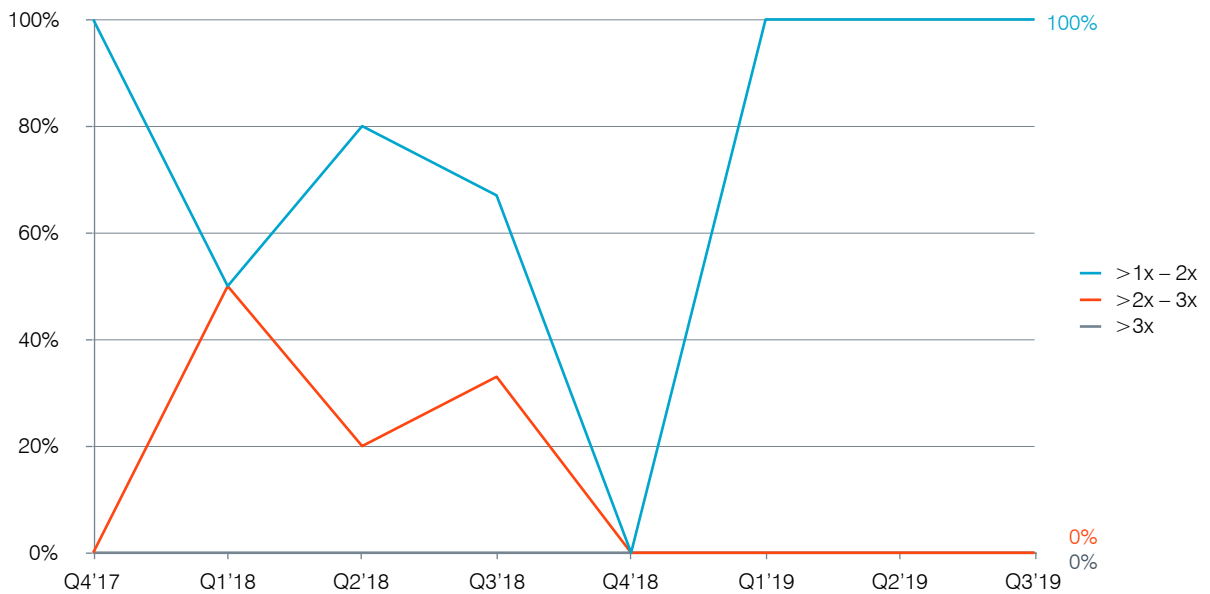
The percentage of senior liquidation preference by series was as follows:



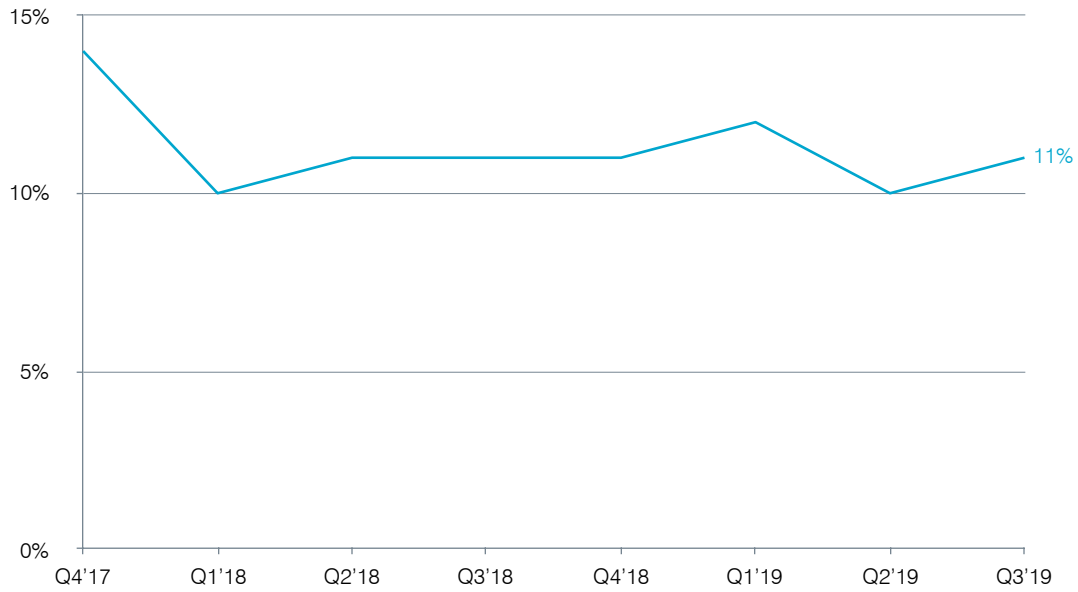
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences was as follows:



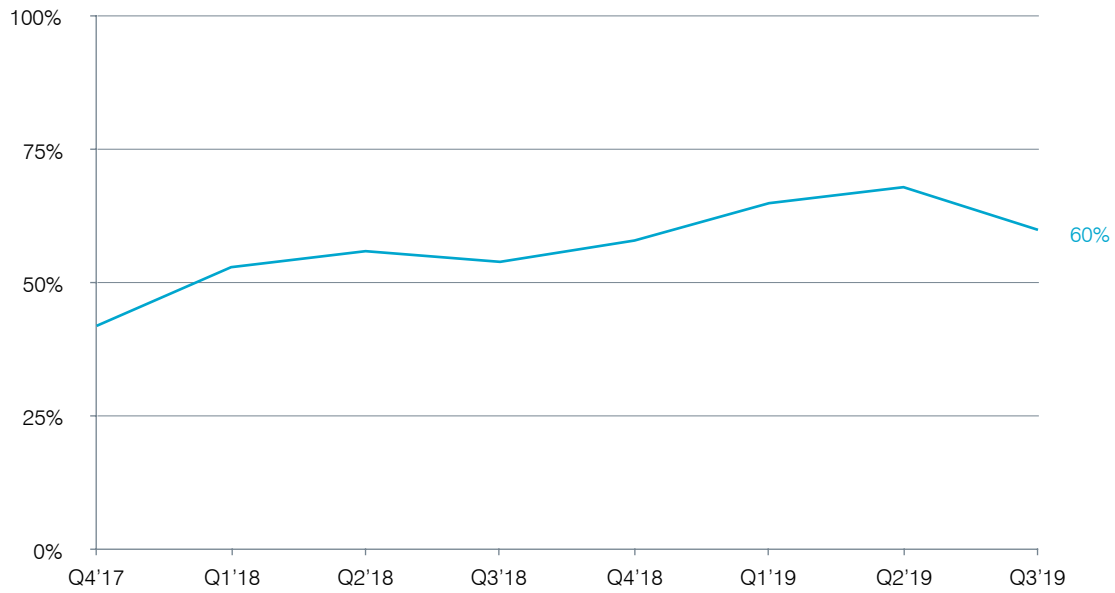
Of the senior liquidation preferences that were multiple preferences, the ranges of the multiples broke down as follows:



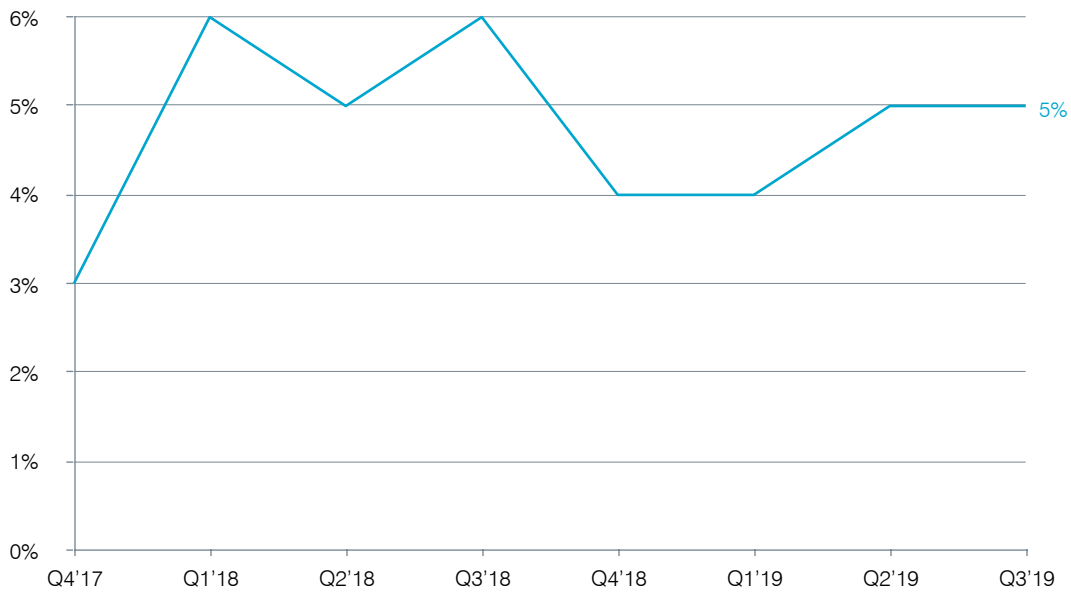
PARTICIPATION IN LIQUIDATION — The percentages of financings that provided for participation were as follows:



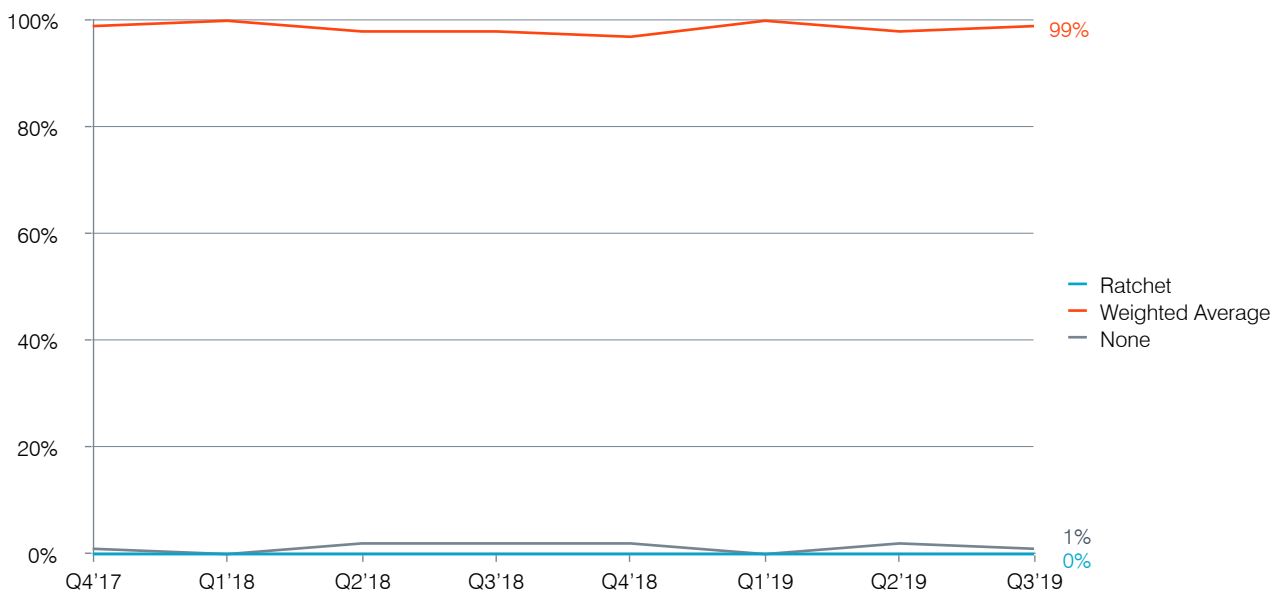
Of the financings that had participation, the percentages that were not capped were as follows:



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

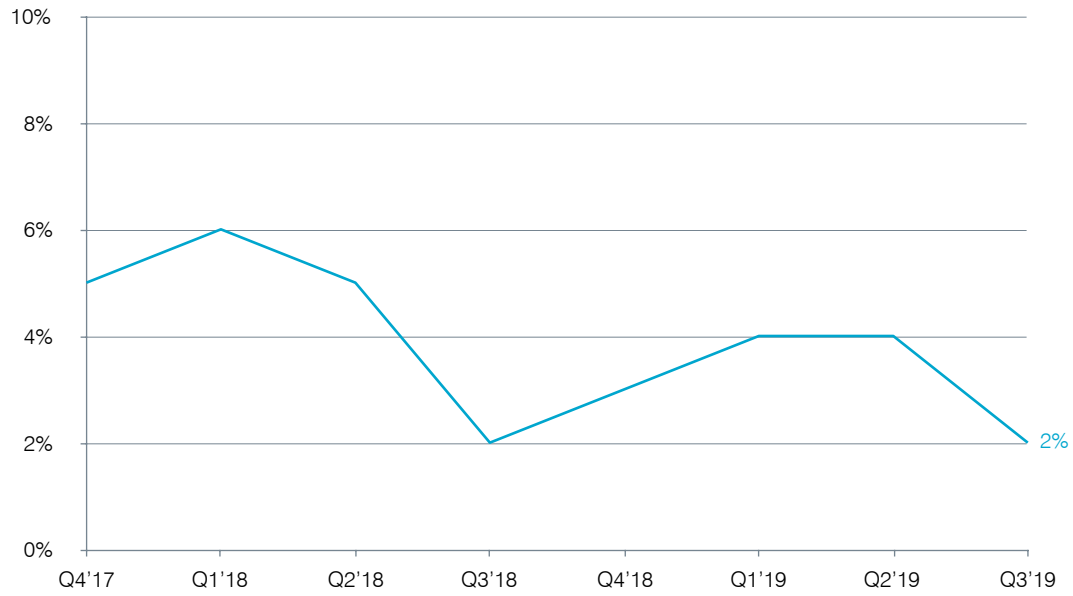


ANTIDILUTION PROVISIONS –The uses of (non-IPO) antidilution provisions in the financings were as follows:

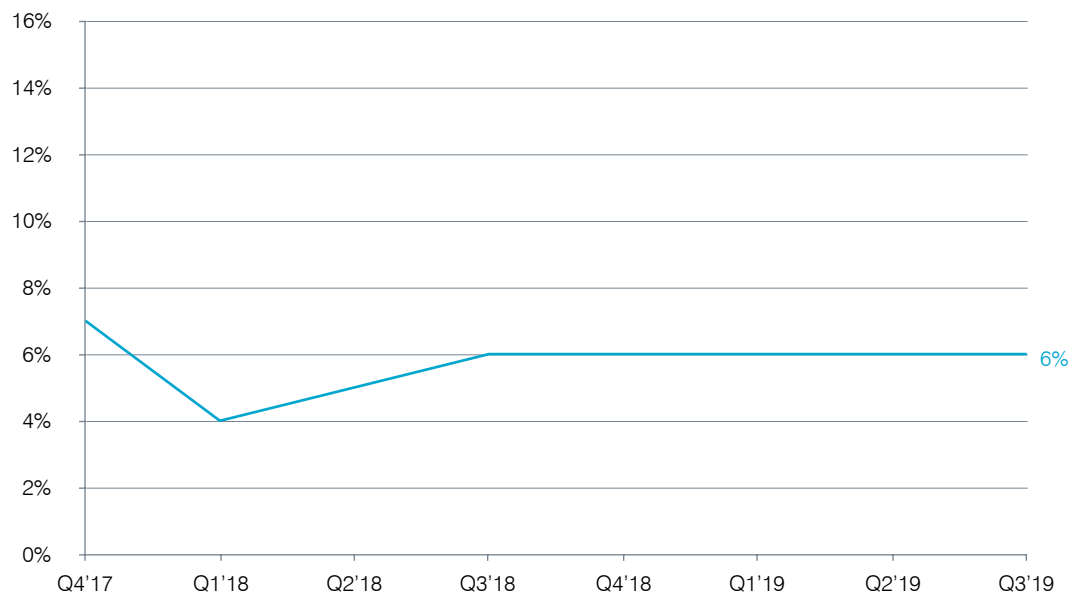


Please note that the chart above only applies to non-IPO anti-dilution provisions. In other words, the chart refers to anti-dilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include anti-dilution provisions designed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

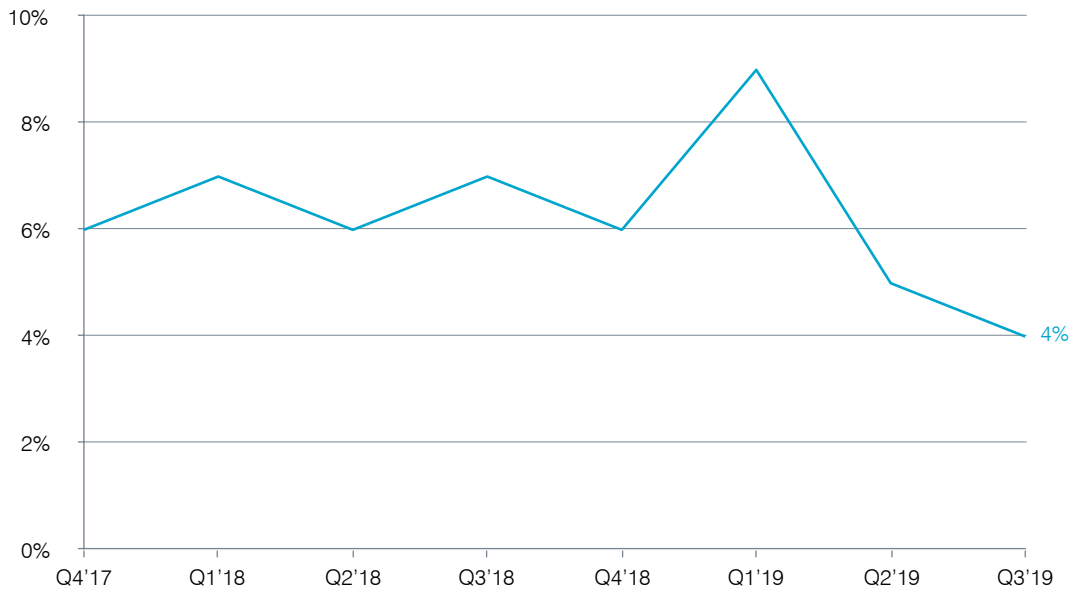
PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:



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 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

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