FENWICK & WEST

Silicon Valley Venture Capital Survey Second Quarter 2019

Full Analysis

Silicon Valley Venture Capital Survey
Second Quarter 2019

FENWICK & WEST

Full Analysis

Cynthia Clarfield Hess, Mark Leahy and Khang Tran

Background

We analyzed the terms of 215 venture financings closed in the second quarter of 2019 by companies headquartered in Silicon Valley. The quarter showed the highest percentage of up rounds since 2004, when we first started publishing this report, and the strongest rise in median price increases since mid-2015.

Overview of Fenwick & West Results

Valuation results were strong and improved moderately in the second quarter of 2019 after posting a decline in the prior quarter.

- Up rounds exceeded down rounds 86% to 6%, with 8% flat in Q2 2019, an increase from Q1 2019 when up rounds exceeded down rounds 81% to 11%, with 8% flat. This was the highest percentage of up rounds in a quarter since we began calculating valuation metrics in 2004.
- The Fenwick & West Venture Capital Barometer™ showed an average price increase in Q2 of 77%, a moderate increase from the 75% recorded in the prior quarter.
- The median price increase of financings rose from 56% in Q1 to 58% in Q2, the highest median price increase since Q2 2015.
- Series B and C financings recorded stronger valuation results compared to the prior quarter, while valuation results for Series D and E financing rounds weakened.
- The software industry recorded the strongest valuation results in Q2, with an average price increase of 85%, up from 78% in the prior quarter, and a median price increase of 68%, up moderately from 66% in the prior quarter.
- The internet/digital media software industry recorded the next strongest valuation results in Q2, with an average price increase of 80% and a median price increase of 60%, though both metrics were down from the prior quarter. The hardware and life sciences industries both recorded considerably stronger valuation results in Q2 compared to the prior quarter, with an average price increase of 74% and 56%, respectively, up from 40% and 30%, respectively, in the prior quarter, and a median price increase of 48% and 43%, respectively, up from 32% and 9%, respectively, in the prior quarter.

Overview of Other Industry Data

The United States venture environment has remained strong through the first half of 2019, but has come down from the peak levels recorded at the end of 2018. Exit activity surged in the second quarter, with the highest number of IPOs since Q2 2015 and the greatest aggregate amount raised in more than 10 years. Acquisition deal volume and aggregate deal value also increased in Q2 compared to the previous quarter.

- The pace of investments and the amount of capital invested in Q2 2019 U.S.-wide were relatively flat compared to the prior quarter. Compared to the year ago period, the pace of investments declined in Q2, but the amount of capital invested increased.
- Median deal size increased in Q2 to the highest median amount since Q4 2000.
- Seed-stage deal share fell to the lowest level since Q3 2010. Later stage investment activity declined in terms of deal share and percentage of total invested capital in Q2, but still accounted for the highest share of the invested capital over the least number of deals.
- The internet sector continued to receive the greatest share of investments, followed by the healthcare sector and the mobile and telecommunications sectors.
- The San Francisco Bay Area (including the Silicon Valley) took in the largest share of investments in Q2 in terms of both deal volume and aggregate invested capital, followed by the New York Metro and New England areas. Investments in San Francisco Bay Area-based companies increased in Q2, while investments in New York Metro area- and New England area-based companies declined.
- U.S. venture-backed IPO activity surged in Q2, with the most IPOs in a quarter since Q2 2015 and the greatest aggregate amount raised in more than 10 years. Acquisition deal volume and aggregate deal value also increased in Q2 compared to the prior quarter.
- Venture capital fundraising in 2019, while still strong, has been off pace from the record-breaking levels of 2018.

Venture Capital Investment

U.S. venture capital investment deal volume and aggregate deal value in Q2 2019 were relatively flat compared to the prior quarter. Compared to the year ago period, deal volume was down, while aggregate deal value was up.

A summary of results published by three leading providers of venture data is below:

Comparison between Q2 2019 and Q1 2019:

	Q2 2019 ($Billion)	Q1 2019 ($Billion)	Difference %	Q2 2019 Deals	Q1 2019 Deals	Difference %
VentureSource[1]	$31.6	$32.1	-1%	1,416	1,324	7%
PitchBook-NVCA[2]	$31.5	$34.5	-9%	2,338	2,530	-8%
MoneyTree[3]	$28.7	$26.2	10%	1,409	1,362	3%
Average	$30.6	$30.9	-1%	1,721	1,739	-1%

Comparison between Q2 2019 and Q2 2018:

	Q2 2019 ($Billion)	Q2 2018 ($Billion)	Difference %	Q2 2019 Deals	Q2 2018 Deals	Difference %
VentureSource[1]	$31.6	$30.0	5%	1,416	1,651	-14.2%
PitchBook-NVCA[2]	$31.5	$29.5	7%	2,338	2,451	-5%
MoneyTree[3]	$28.7	$24.6	17%	1,409	1,683	-16%
Average	$30.6	$28.1	9%	1,721	1,928	-11%

[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 $10.0 million in Q2 2019, up from $8.0 million in Q1 2019 and the highest median investment amount since Q4 2000. Seed, first and later stage rounds all recorded greater median investment amounts in Q2 compared to the prior quarter, while the median investment amount for second rounds in Q2 was flat compared to the prior quarter. Similarly, MoneyTree reported a 26% increase in median deal size in Q2, with Series D and Series E+ rounds recording the greatest increases.

According to MoneyTree, there were a record 64 mega-rounds (financings that raised $100 million or more) in Q2 2019, up from 48 mega-rounds in Q1 2019. However, the aggregate amount raised in mega-rounds increased only moderately from $11.9 billion (representing 46% of total funding) in Q1 to $13.4 billion (representing 50% of total funding) in Q2, well below the record $24.7 billion (representing 61% of total funding) raised in mega-rounds in Q4 2018. In addition, the quarter saw 19 new U.S. venture capital-backed companies reach unicorn status (private companies with a valuation of at least $1 billion), up from 16 new U.S. unicorns in the prior quarter and not far off from the record 22 new U.S. unicorns in Q4 2018. With the addition of these new unicorns, the U.S. unicorn count now stands at a record 167, although the aggregate U.S. unicorn valuation fell from a record high of $603.3 billion in Q1 to $552.9 billion in Q2.

According to MoneyTree, seed stage investment deal allocation (i.e., share of the total number of deals) fell from 26.4% in Q1 2019 to 23.1% in Q2 2019, the lowest seed stage deal allocation since Q3 2010. Early stage (Series A) and later stage (Series D and E+) deal allocations declined moderately from 26.8% and 10.8%, respectively, in Q1 to 26.2% and 10.4%, respectively, in Q2. Conversely, expansion stage (Series B and C) deal allocation increased from 21.2 in Q1 to 24.2% in Q2, the highest expansion stage deal allocation since Q3 2011. Later stage invested capital allocation (i.e., share of the total invested capital) declined from 42.2% in Q1 to 37.4% in Q2, although later stage investments continued to represent the greatest share of the invested capital. Seed stage and early stage invested capital allocations also declined from 3.7% and 15.1%, respectively, in Q1 to 2.2% and 13.6%, respectively, in Q2. Meanwhile, expansion stage invested capital allocation increased from 32.0% in Q1 to 33.2% in Q2.

The internet sector again received by far the greatest share of investments in Q2 2019, according to MoneyTree, comprising 44.0% of the total number of deals, up slightly from 43.2% in the prior quarter, and 41.9% of the aggregate invested capital, down slightly from 42.9% in the prior quarter. The healthcare sector saw the second highest level of investment activity in the quarter at 15.7% of the total deal count, up moderately from 14.0% in the prior quarter, and 15.9% of the total invested capital, down slightly from 16.8% in the prior quarter, followed by the mobile and telecommunications sector at 11.9% of the total deal count, up slightly from the prior quarter, and 10.7% of the invested capital, down slightly from the prior quarter.

Regionally, the San Francisco Bay Area (including the Silicon Valley) again took in the largest share of investments in Q2 2019 at 31.5% of the total number of deals, up from 27.9% in the prior quarter, and 48.3% of the aggregate invested capital, up from 47.1% in the prior quarter, according to MoneyTree. Investments into New York Metro area-based companies in Q2 saw the second highest level of investment activity at 15.3% of deal share, down from 17.2% in Q1, and 14.5% of the aggregate invested capital, down from 17.2% in Q1. The New England area came in third place in Q2, but also saw its share of investments decline in the quarter from 9.6% of deal share in Q1 to 8.0% in Q2 and 11.3% of the aggregate invested capital in Q1 to 7.8% in Q2. The Los Angeles area was fourth in Q2, with 6.3% of deal share, up from 5.5% in Q1, and 5.7% of the aggregate invested capital, down slightly from 6.0% in Q1.

IPO Activity

According to VentureSource, there were 31 U.S. venture-backed initial public offerings in Q2 2019, up sharply from 10 IPOs in the prior quarter and the most IPOs in a quarter since Q2 2015. Owing in large part to the $8.1 billion raise by Uber, the aggregate amount raised in IPOs jumped from $3.3 billion in Q1 to $13.9 billion in Q2. Even excluding Uber's offering, the aggregate amount raised in IPOs in Q2 would have ranked as the highest in the last seven years.

The healthcare industry again made up a majority of the IPO count with 19 IPOs in Q2 2019, up from eight in the prior quarter, while the information technology and consumer services industries each had five IPOs in the quarter.

The median time from initial equity funding to IPO increased from 4.7 years in Q1 to 7.3 years in Q2. The median equity amount raised prior to IPO decreased from $160.3 million in Q1 to $156.8 million in Q2, while the median pre-IPO valuation increased from $451.0 million in Q1 to $500.3 million in Q2, the highest median pre-IPO valuation since Q4 2011.

Merger and Acquisition Activity

There were 198 acquisitions of U.S. venture-backed companies in Q2 2019, according to VentureSource, up from 176 M&A deals in Q1 2019 and the highest M&A deal volume since Q4 2010. The aggregate M&A deal value also increased from $27.7 billion in Q1 to $34.5 billion in Q2.

The IT industry saw the greatest amount of M&A deal activity with 86 deals at an aggregate value of $15.7 billion in Q2 2019, up from 71 deals at an aggregate value of $13.1 billion in Q1 2019. The business and services industry was next in terms of M&A deal volume with 48 deals in Q2, up from 40 deals in the prior quarter, followed by the healthcare industry with 30 deals in Q2, up from 23 deals in the prior quarter. In terms of M&A deal value, the healthcare industry came in second in Q2 at $6.9 billion, up from $5.8 billion in the prior quarter, followed by the business and financial services industry at $5.4 billion, up from $3.0 billion in the prior quarter.

The median time from initial equity funding to acquisition in Q2 2019 was unchanged from the prior quarter at 5.7 years. While the median M&A deal value declined from $151.3 million in Q1 to $112.5 million in Q2, the median equity amount raised prior to acquisition jumped from $10.2 million in Q1 to $19.7 million in Q2, the highest median amount since Q1 2014.

Venture Capital Fundraising

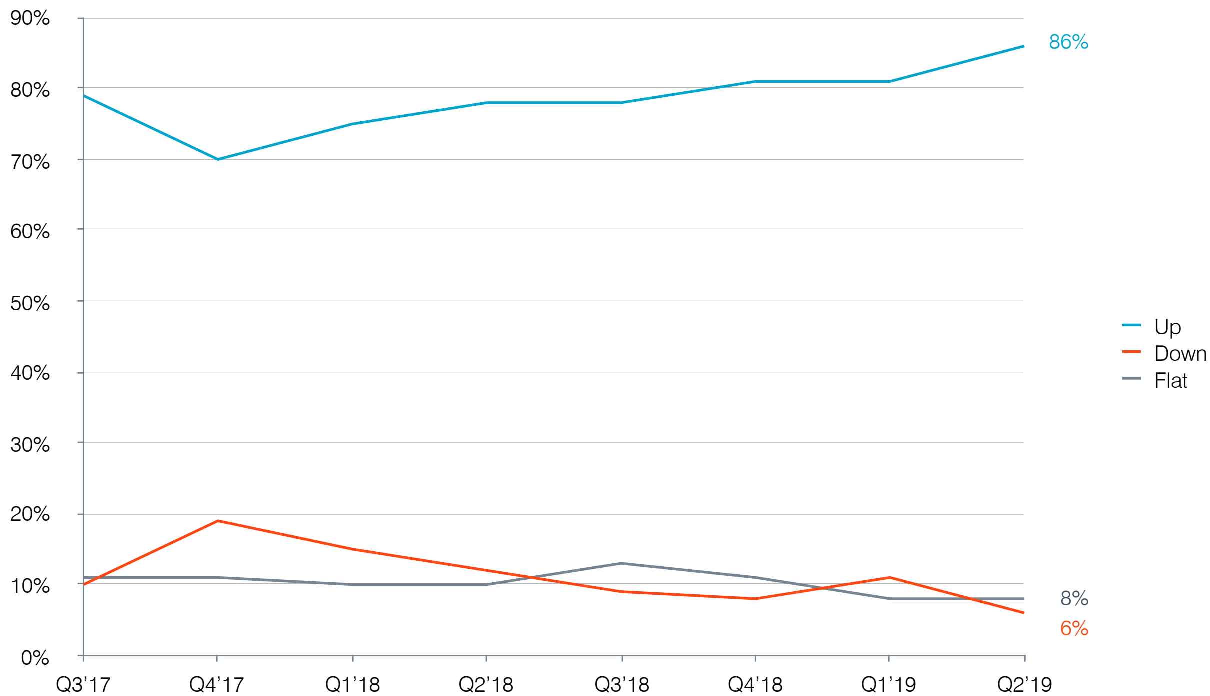
According to PitchBook-NVCA, venture capital fundraising in 2019 has been off pace from the record-breaking levels of 2018. Through the first half of the year, $20.6 billion has been raised across 103 funds, compared to $53.5 billion raised across 273 funds in all of 2018.

The trend of raising larger funds to keep pace with growing VC deal sizes largely continued through the first half of 2019, with the closing of nine mega-funds (fund size of more than $500 million). Meanwhile, the proportion of VC funds under $50 million has continued to decline to the lowest level in over 10 years. Average fund size was down slightly from $207 million in 2018 to $202 million in the first half of 2019 after having increased sharply over the past several years. Median fund size was up moderately from $75 million in 2018 to $81 million in the first half of 2019, the highest median amount in over 10 years.

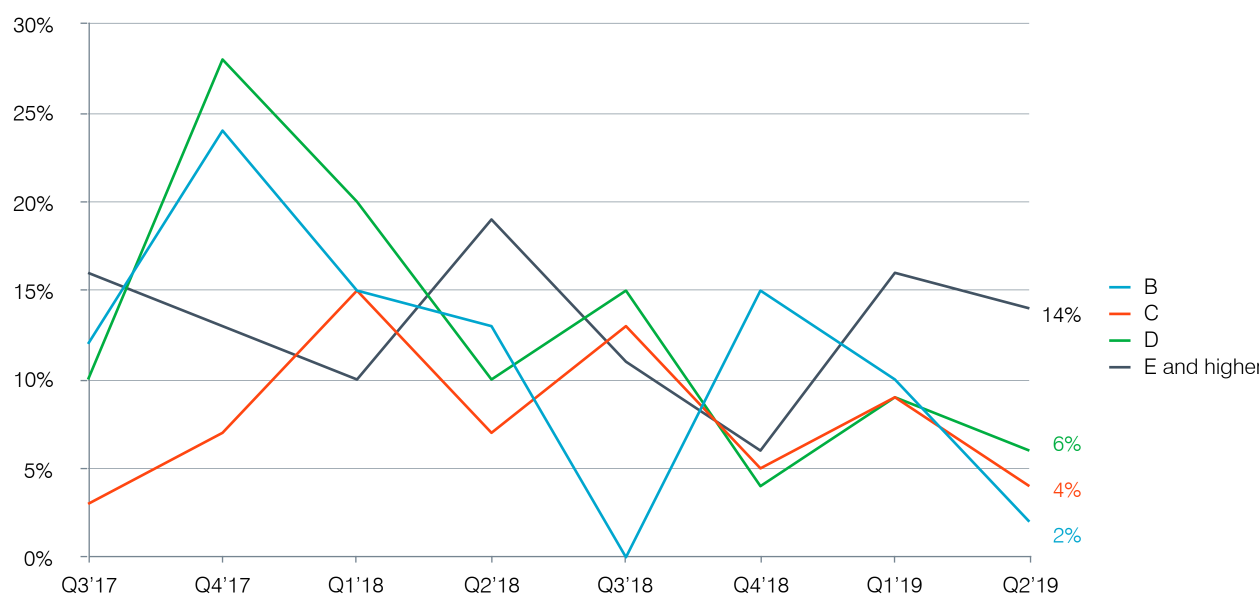
After having declined over the past few years, average and median time to close a fund was up from 12.9 months and 12.0 months, respectively, in 2018 to 20.5 months and 15.0 months, respectively, in the first half of 2019.

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.

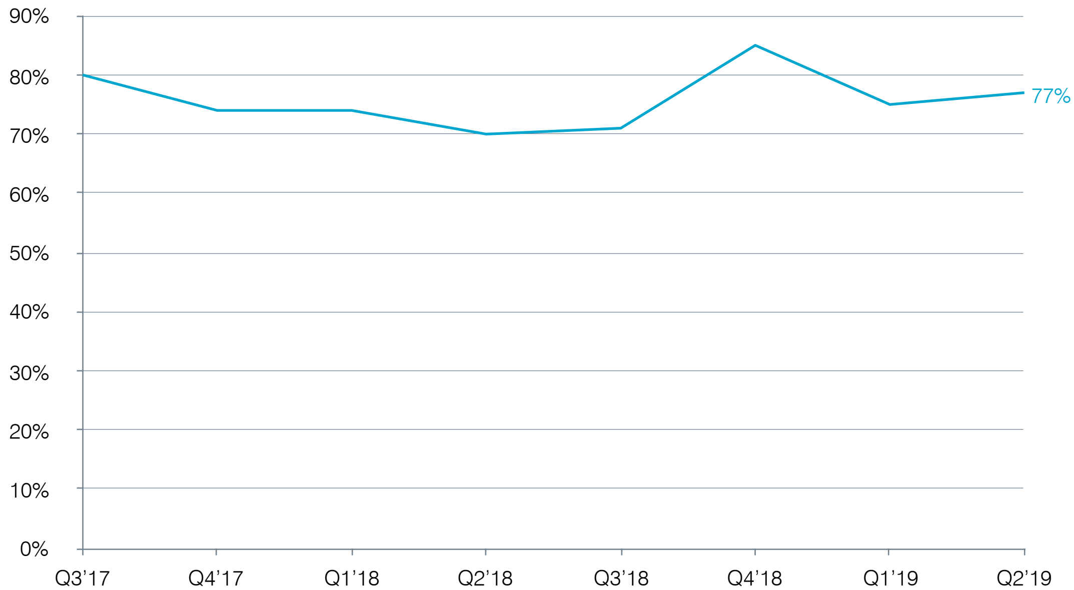


The percentage of **DOWN ROUNDS** by series were as follows:

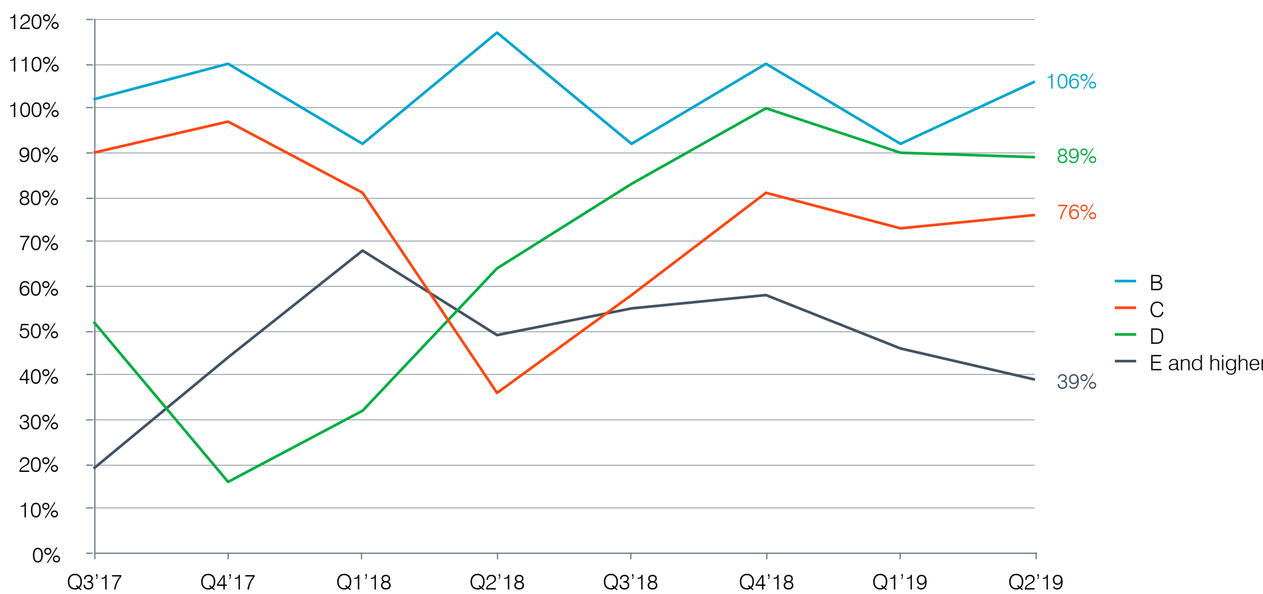


EXPANDED PRICE CHANGE GRAPH—Below is the direction of price changes for each quarter since 2004.

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.

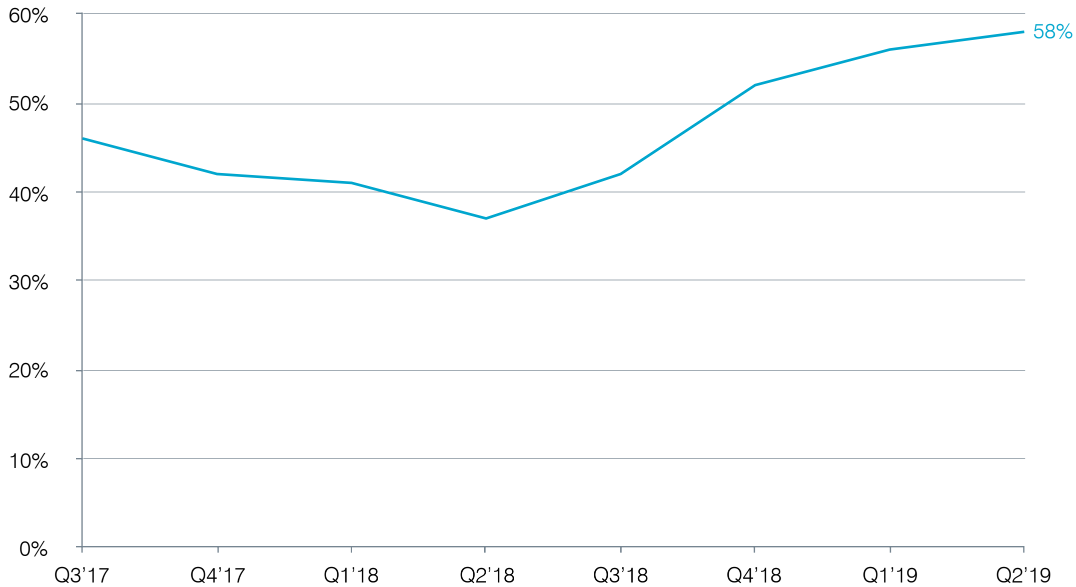


The Barometer results by series are as follows:

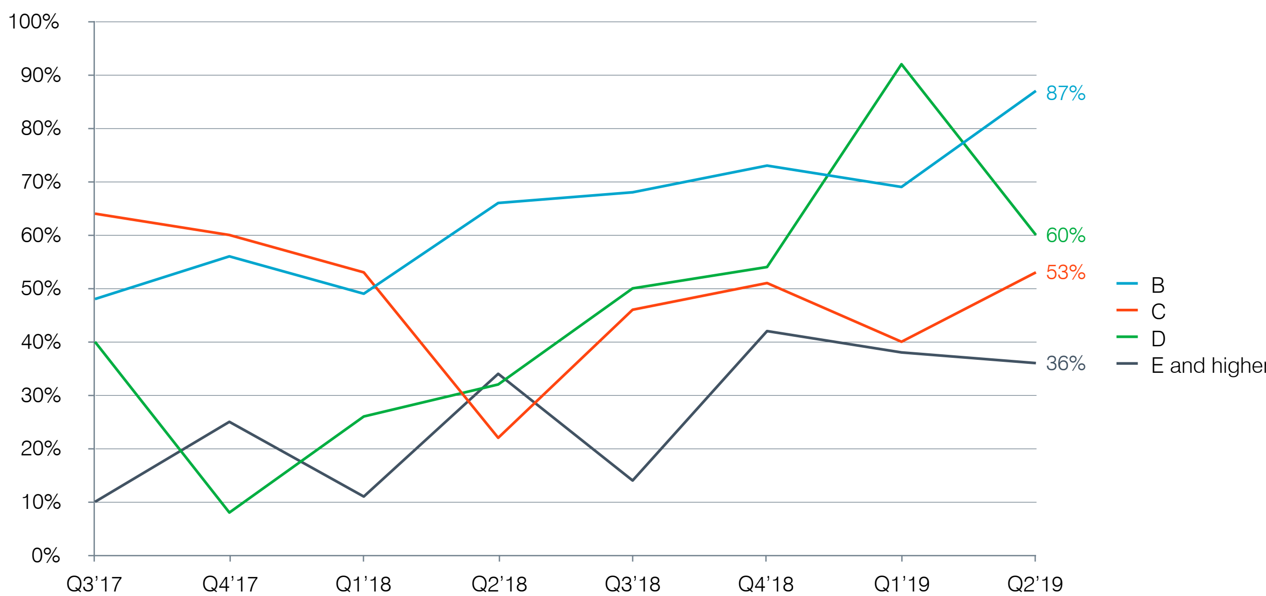


EXPANDED BAROMETER GRAPH — Below is the average percentage price change for each quarter since we began calculating this metric in 2004.

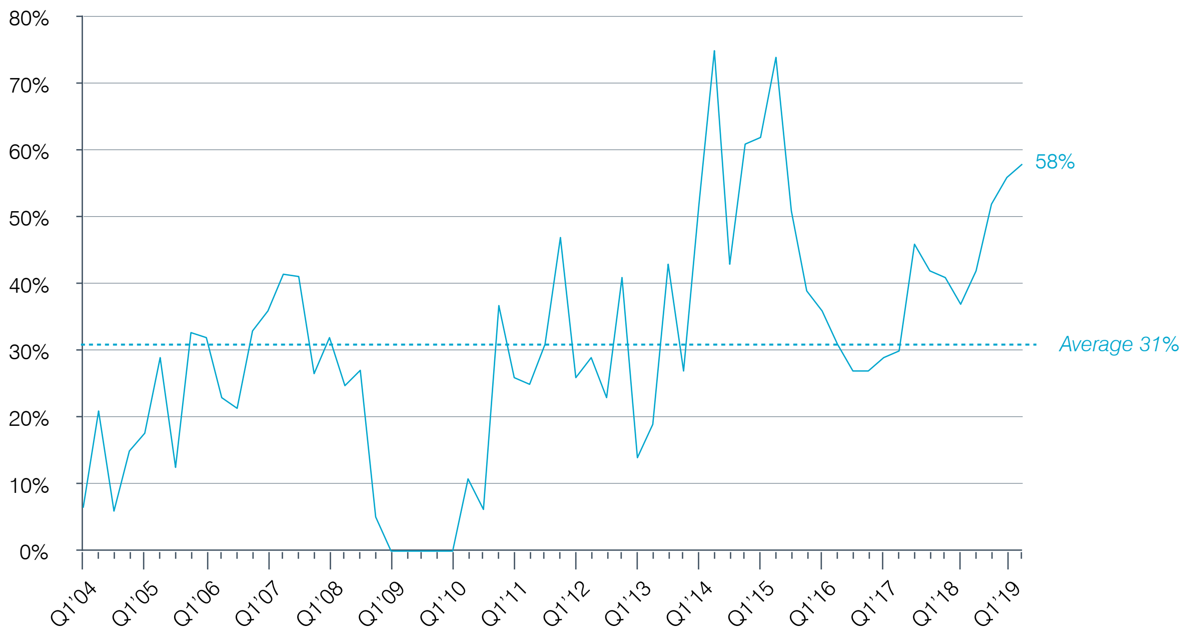
MEDIAN PERCENTAGE PRICE CHANGE—Below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, down and flat) 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	89%	7%	4%	85%	68%	72
Hardware	100%	0%	0%	74%	48%	17
Life Sciences	83%	4%	13%	56%	43%	23
Internet/Digital Media	81%	9%	9%	80%	60%	32
Other	73%	7%	20%	67%	60%	15
Total all Industries	**86%**	**6%**	**8%**	**77%**	**58%**	**159**

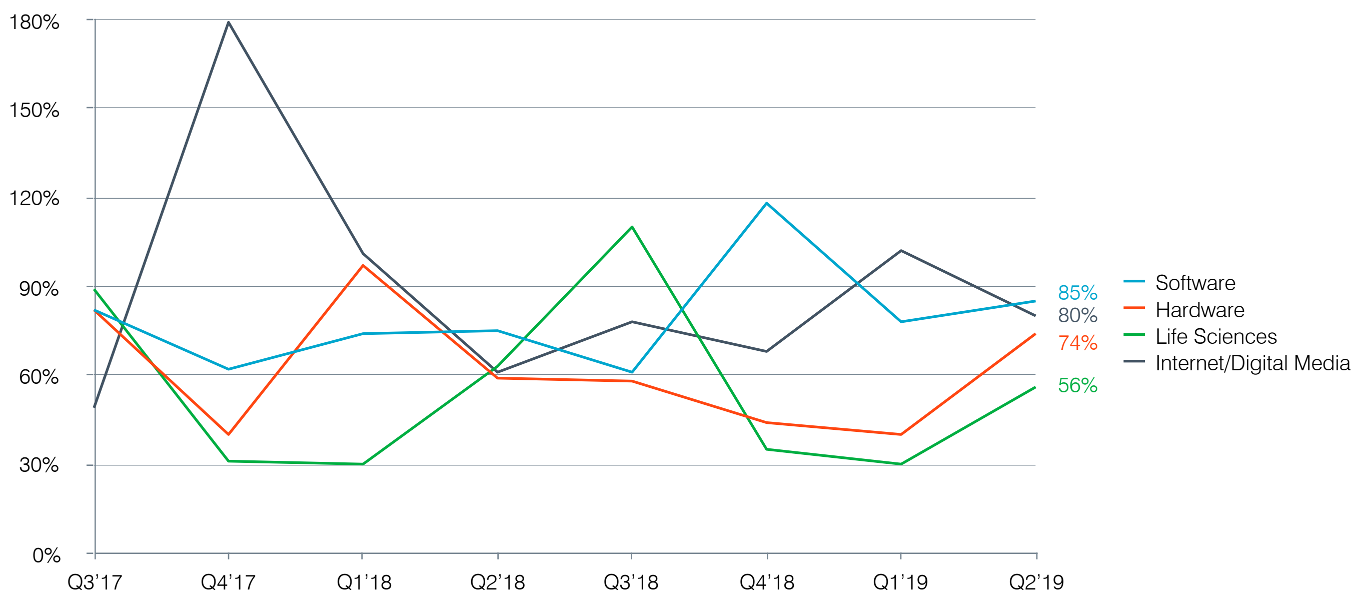
DOWN ROUND RESULTS BY INDUSTRY — The table below illustrates the percentage of "down rounds," by industry groups, for each of the past eight quarters.

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

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

Industry	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Software	82%	62%	74%	75%	61%	118%	78%	85%
Hardware	82%	40%	97%	59%	58%	44%	40%	74%
Life Sciences	89%	31%	30%	63%	110%	35%	30%	56%
Internet/Digital Media	49%	179%	101%	61%	78%	68%	102%	80%
Other	107%	73%	72%	81%	70%	90%	120%	67%
Total all Industries	**80%**	**74%**	**74%**	**70%**	**71%**	**85%**	**75%**	**77%**

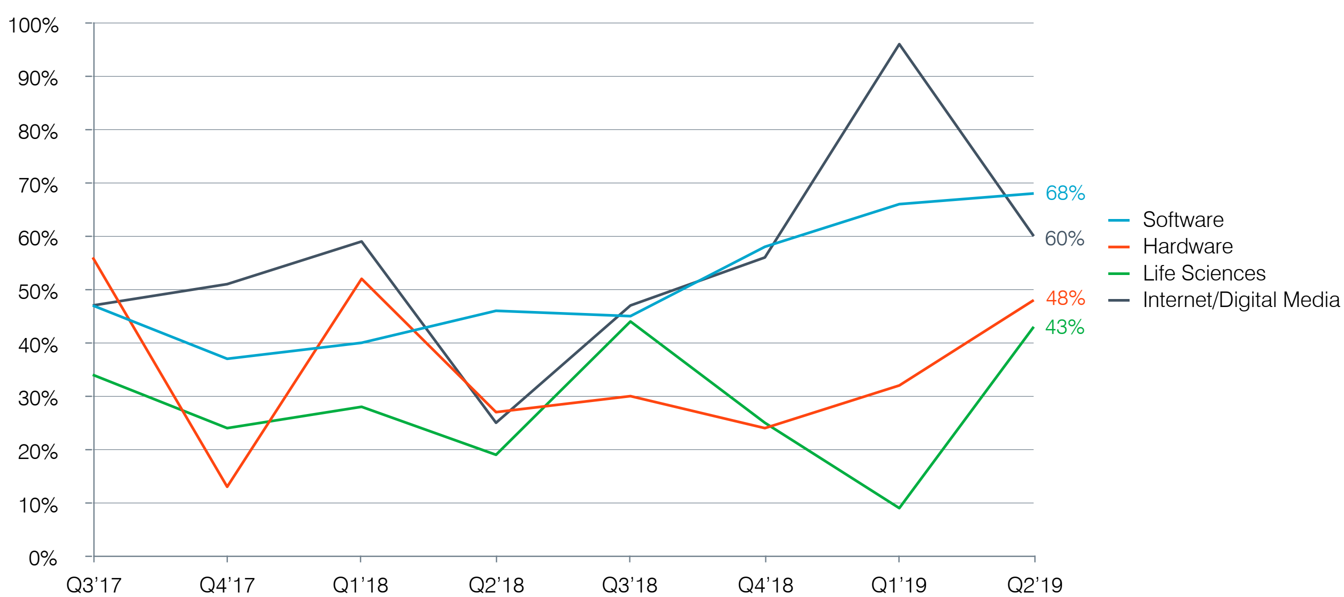
A graphical representation of the above data is below.



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 different than the Barometer, which is based on average percentage price change.

Median % Price Change	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Software	47%	37%	40%	46%	45%	58%	66%	68%
Hardware	56%	13%	52%	27%	30%	24%	32%	48%
Life Sciences	34%	24%	28%	19%	44%	25%	9%	43%
Internet/Digital Media	47%	51%	59%	25%	47%	56%	96%	60%
Other	18%	63%	35%	53%	37%	48%	69%	60%
Total all Industries	**46%**	**42%**	**41%**	**37%**	**42%**	**52%**	**56%**	**58%**

A graphical representation of the above data is below.

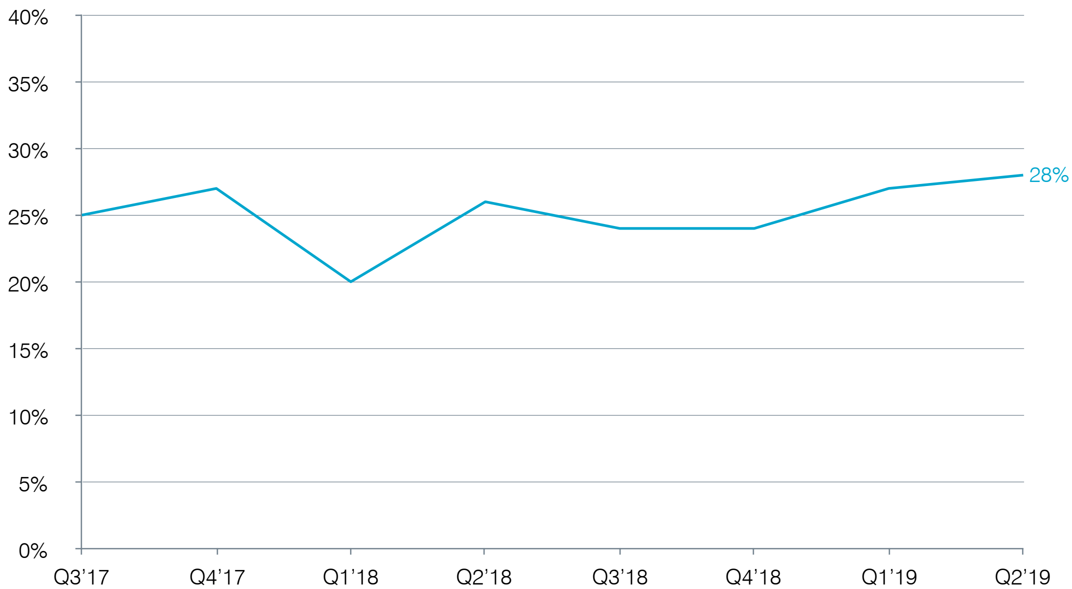


FINANCING ROUND—This quarter's financings broke down by series according to the chart below.

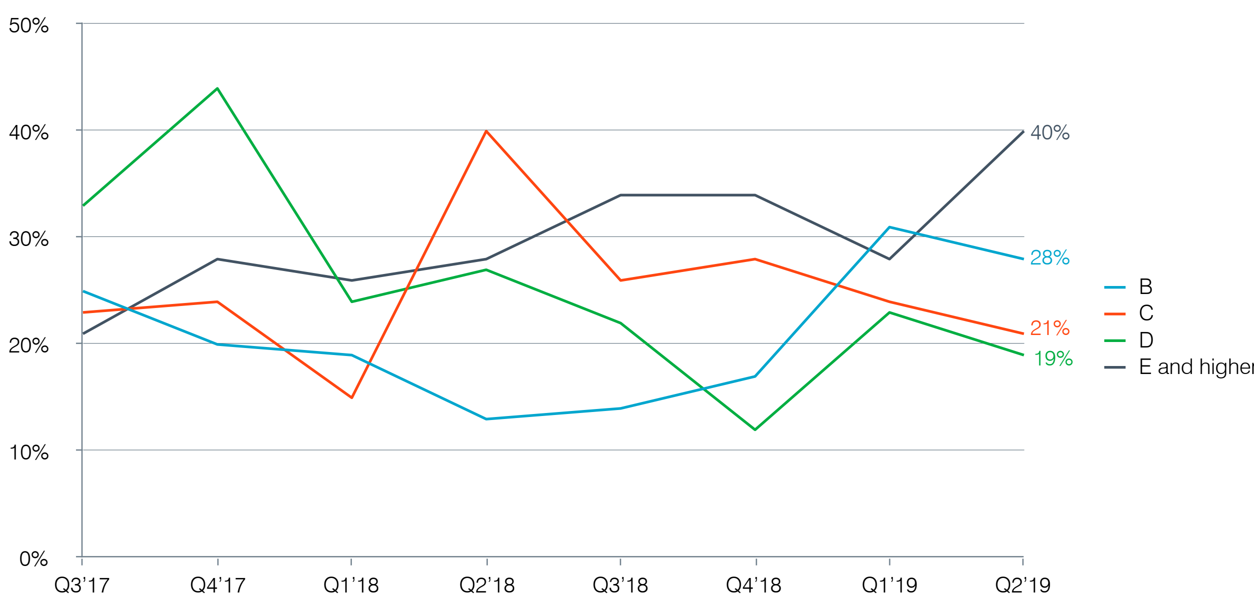
Series	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Series A	27%	29%	25%	24%	27%	31%	32%	26%
Series B	32%	26%	27%	24%	20%	20%	21%	25%
Series C	19%	15%	21%	19%	18%	18%	18%	22%
Series D	11%	13%	13%	13%	13%	11%	12%	7%
Series E and Higher	10%	17%	16%	19%	22%	20%	17%	20%

Fenwick & West Data on Legal Terms

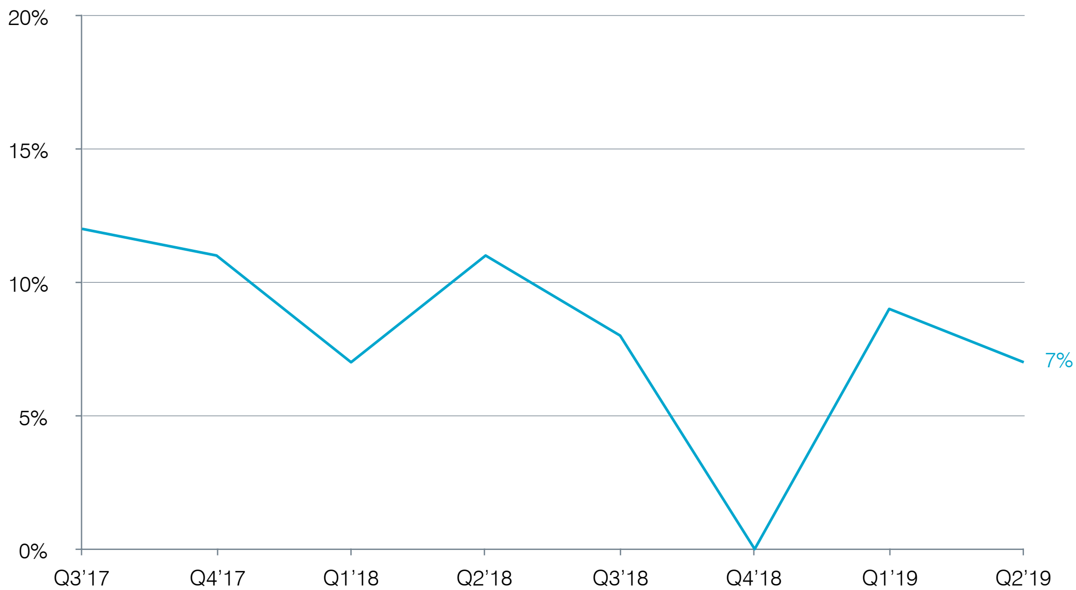
LIQUIDATION PREFERENCE—Senior liquidation preferences were used in the following percentages of financings.



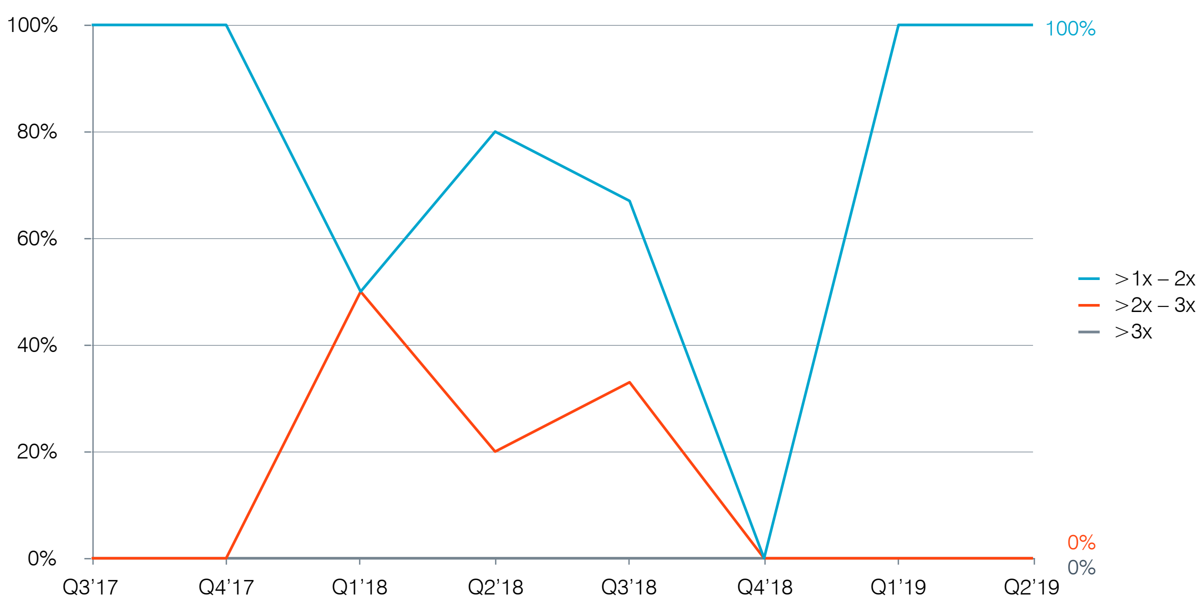
The percentage of senior liquidation preference by series was as follows:



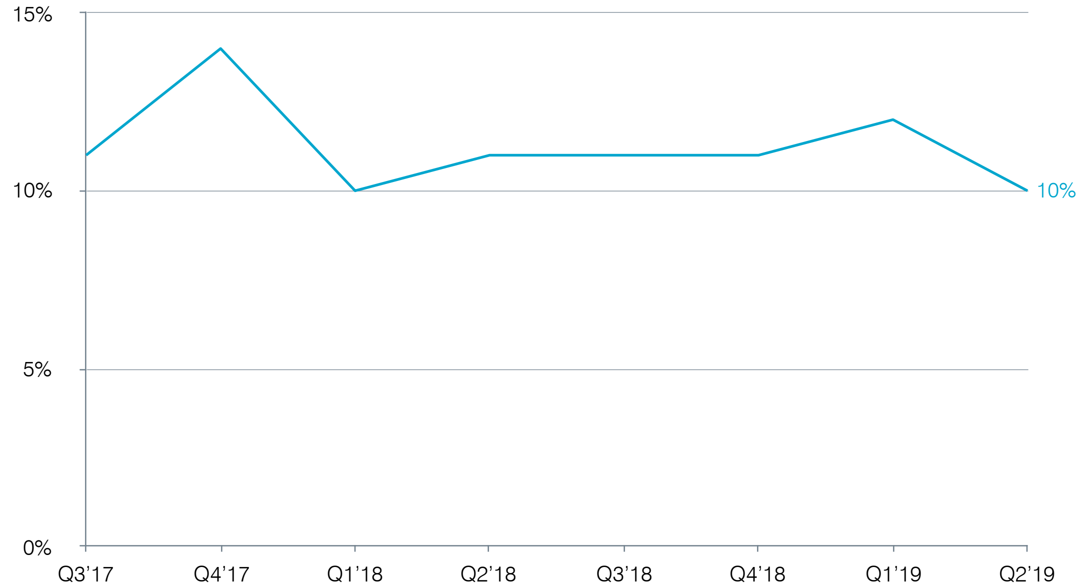
MULTIPLE LIQUIDATION PREFERENCES — The percentage of senior liquidation preferences that were multiple liquidation preferences was as follows:



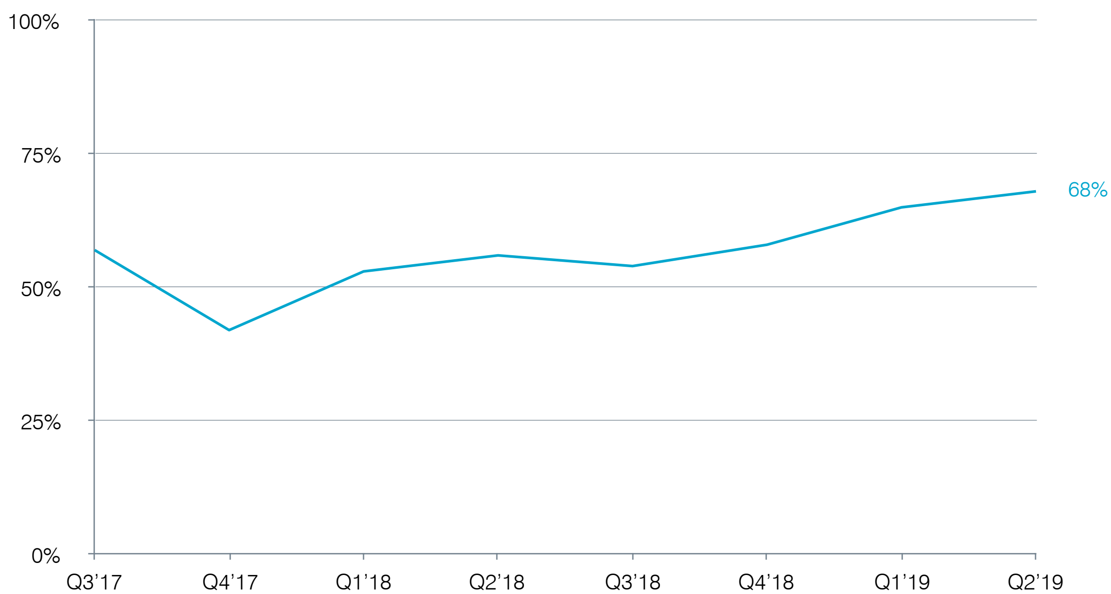
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



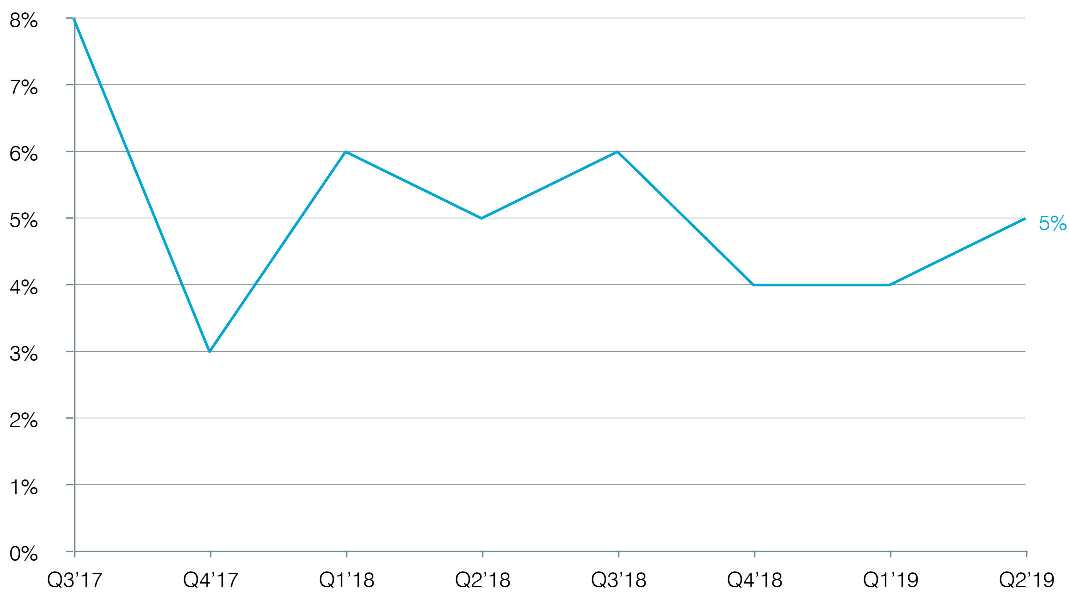
PARTICIPATION IN LIQUIDATION — The percentages of financings that provided for participation were as follows:



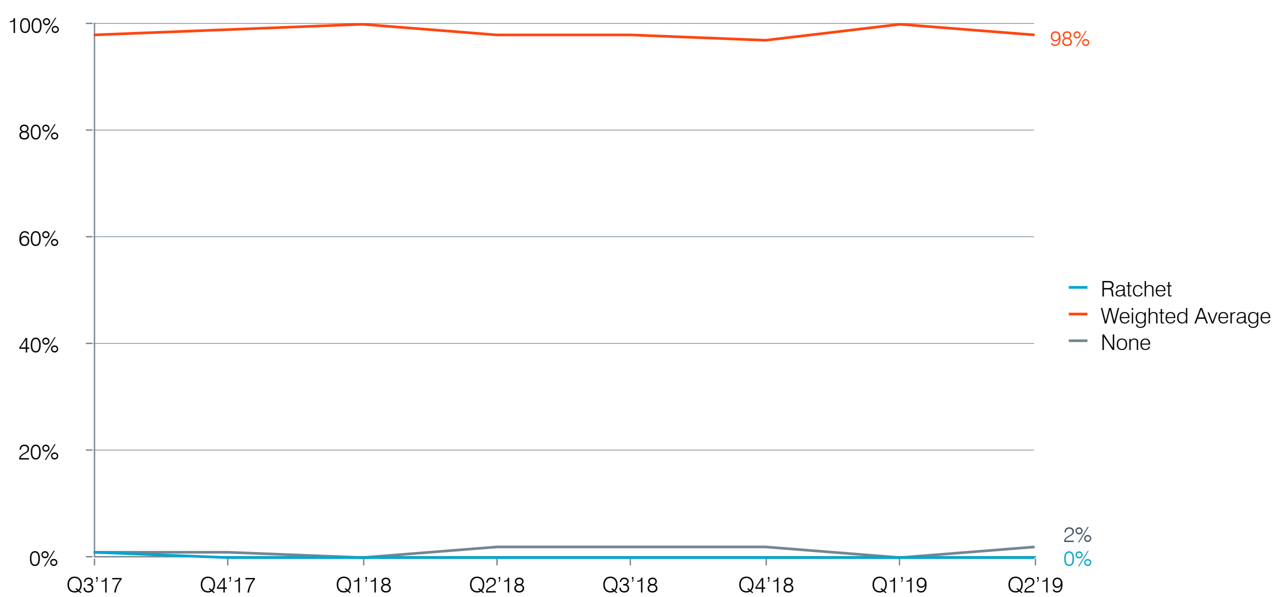
Of the financings that had participation, the percentages that were not capped were as follows:



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

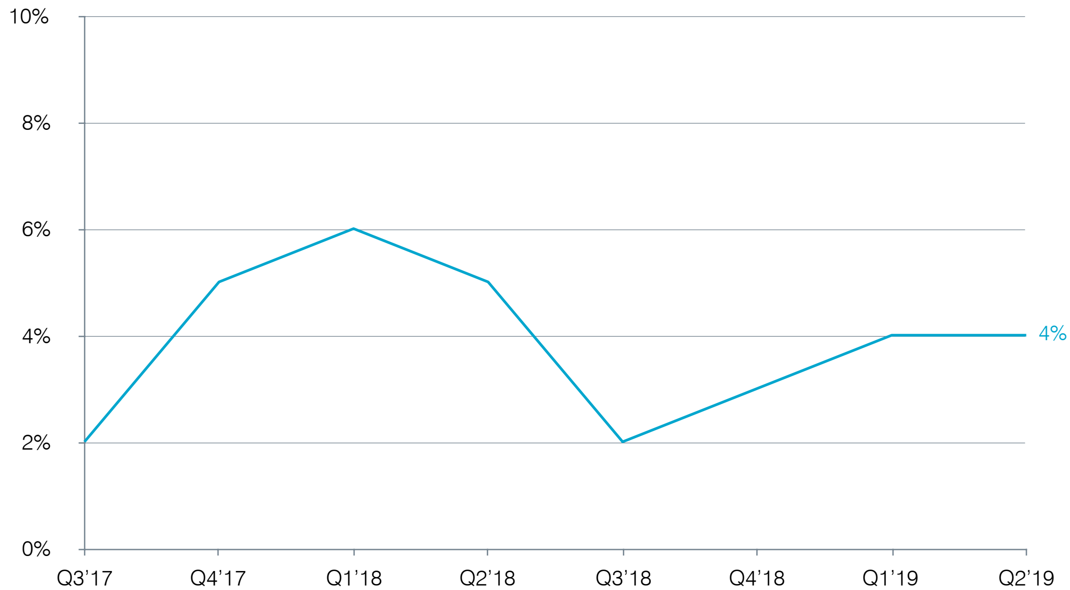


ANTIDILUTION PROVISIONS –The uses of (non-IPO) antidilution provisions in the financings were as follows:

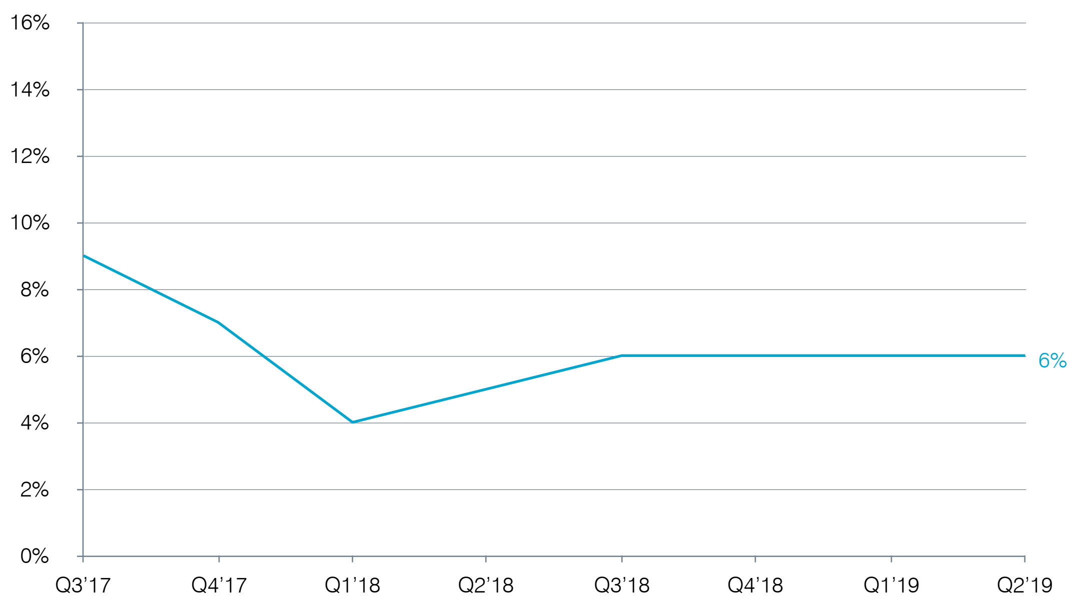


Please note that the chart above only applies to non-IPO anti-dilution provisions. In other words, the chart refers to anti-dilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include anti-dilution provisions designed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

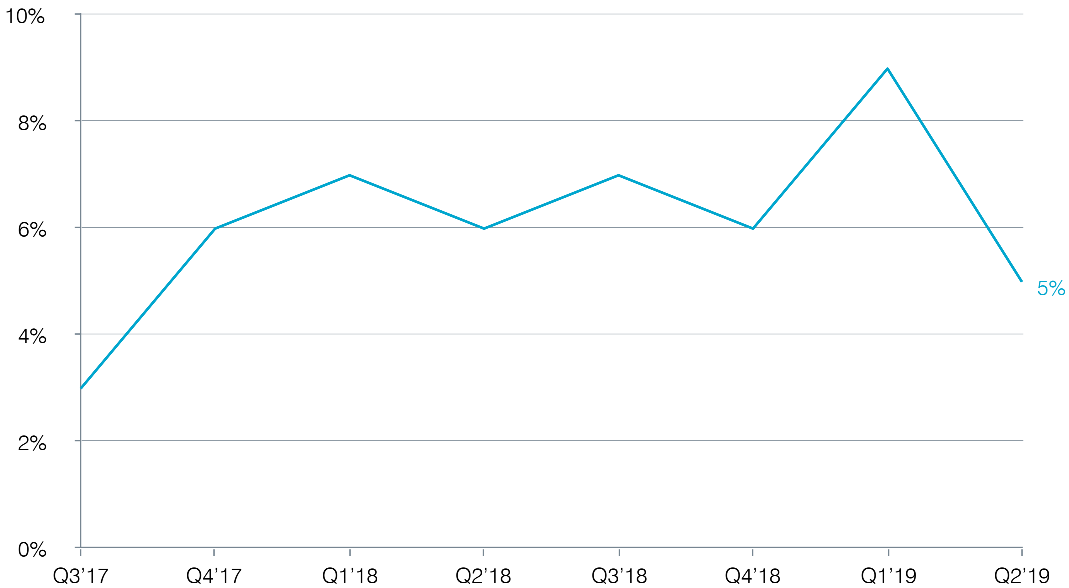
PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:



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 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. 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.

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

Disclaimer

The preparation of the information contained herein involves assumptions, compilations and analysis, and there can be no assurance that the information provided herein is error-free. Neither Fenwick & West LLP nor any of its partners, associates, staff or agents shall have any liability for any information contained herein, including any errors or incompleteness. The contents of this report are not intended, and should not be considered, as legal advice or opinion. To the extent that any views on the venture environment or other matters are expressed in this survey, they are the views of the authors only, and not Fenwick & West LLP.

FENWICK & WEST

FENWICK.COM