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Venture Monitor

1Q 2019



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COUNSEL TO GREAT COMPANIES

Solium

Deal value reaches \$32.6B
across 1,853 deals

Page 4

Six acquisitions over \$650M
contribute to robust quarterly
exit value

Page 30

Proportion of new VC
funds sized above \$250M
continues to grow

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The definitive review of the US venture capital ecosystem



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Executive summary

After the largest year on record for venture investment in 2018, it was safe to wonder if 2019 would start off slower than the heady levels reached last year. Any thoughts of a venture slowdown were quickly dashed by the first quarter of the new year, as 2019 picked up right where 2018 left off with \$32.6 billion of capital investment recorded in 1Q. The trend that has emerged in the venture industry over the last few years of fewer, larger venture deals continued unabated in 1Q and in fact accelerated, with deal numbers continuing to shrink even as investment levels maintained their 2018 pace. While the recent trend of high levels of investment slowed slightly in the life sciences sector, investment is still robust, and the successful IPO market for VC-backed life sciences companies over the last few quarters continues to give positive momentum to the sector. Finally, this edition of the Venture Monitor features a new dataset exploring investment in female-founded companies, which accounted for 2.2% of total VC deal value and 5.5% of total VC deal count in 1Q 2019.

Once upon a time, a \$100 million investment round was a rarity. Now \$100 million rounds have become almost a daily occurrence, a trend that continued in the first quarter of 2019. While certain companies are able to attract even larger investment rounds faster than ever before, the continued reduction in deal count does invite the worry among some investors of “haves and have nots” in the startup ecosystem. That said, for entrepreneurs who can secure these deals, capital has perhaps never before been so readily accessible. While this is great for entrepreneurs, it also puts pressure on venture investors around proper due diligence and poses the question of whether it is more important to invest speedily to access competitive rounds, or complete thorough analysis before investing.

This high level of investment and increasing valuations over the past several years have resulted in companies continuing to stay private longer. As a result, more LP capital in venture funds is locked up in unrealized gains which has led to overallocation issues for some LPs. Despite this trend, annual fundraising hit an all-time high in 2018 as distributions have been strong and as net cash flows from VC funds to LPs have been positive each year since 2012. Furthermore, the slew of VC-backed IPOs coming up in 2019 will likely create significant liquidity for LPs, allowing them to reinvest in venture funds to then support the next wave of startups.

With the conclusion of the government shutdown and with public markets stabilizing after a rocky end to 2018, a torrent of anticipated VC-backed IPOs kicked off in the first quarter, with Lyft’s IPO leading the way with a \$24.0 billion pre-money valuation at time of IPO. Many more VC-backed unicorns are expected to go public soon, including Uber, Slack, Airbnb, Pinterest and Postmates. In fact, 20 VC-backed companies are currently in IPO registration. The next six months of VC-backed IPO activity has the potential to be very strong, funneling billions back to venture firms and their LPs, which will likely refuel the industry with capital commitments for years to come. One other impact of all these IPOs is a potential exodus of talent that eventually leaves to start new companies. The myriad startups founded by the “PayPal mafia” are an example of this trend. And [a recent survey](#) from First Round Capital reported that when asked which US-based company will spin out the next generation of notable founders, the highest percentage of respondents named Uber.

Another point of interest as 2019 starts is what new, dynamic sectors are capturing venture investors’ attention. As huge flows of capital pour into the core software and SaaS companies, many VCs are looking to emerging sectors that are less congested with investments. Some areas to watch include cybersecurity, robotics, the applications of artificial intelligence & machine learning (AI & ML), next-generation infrastructure, fintech, healthtech and traditional industries ripe for disruption. In the life sciences sector, cancer treatments, gene therapy and rare diseases continue to garner interest, while there has been some resurgence in neuroscience and medtech. The intersection of digital and biology could also be an area that sees attention in 2019.

The impact of two major policy issues on the venture industry will also be critical to how 2019 shapes up: foreign investment (i.e. the Foreign Investment Risk Review Modernization Act, also known as FIRRMA) and immigration. FIRRMA and the foreign investment regulations that have come out of it are already introducing friction into both the GP-LP relationship and the way US VCs and startups interact with foreign co-investors, according to NVCA. So far, the new regulations and restrictions seem to be workable for the industry, but as more regulations are introduced, they could push away more foreign co-investors, which would substantially reduce the capital available to US startups. As NVCA has stated before and maintains, the immigration policy of the Trump administration will likely continue to negatively affect new company formation in the US, as many of the best and brightest entrepreneurs from around the world face barriers here and increasingly have options to start their companies in countries with more welcoming policies. VC is a global business, and public policies that position the US as the best place for an entrepreneur to start and grow their company are critical for the health of the ecosystem.

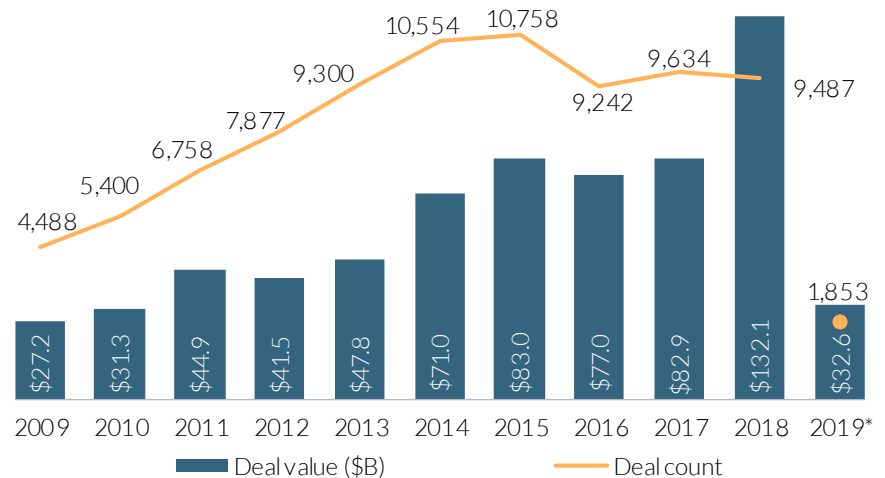
Overview

With \$32.6 billion invested in US VC in 1Q, 2019 is poised to rival 2018's record capital invested. While deal volume was on a slightly sluggish pace through 1Q, consistent late-stage dealflow has contributed to increased investment. Further highlights from the report include:

- After setting an all-time high in 2018, VC investment remained strong in 1Q 2019.
- Larger deals continue to drive elevated total deal value.
- Valuations again have climbed to unprecedented levels.
- Fundraising cooled but appears primed to accelerate throughout the year.
- Outlier IPOs are poised to buoy exit value throughout the year.

Capital invested stays strong, despite tepid deal volume

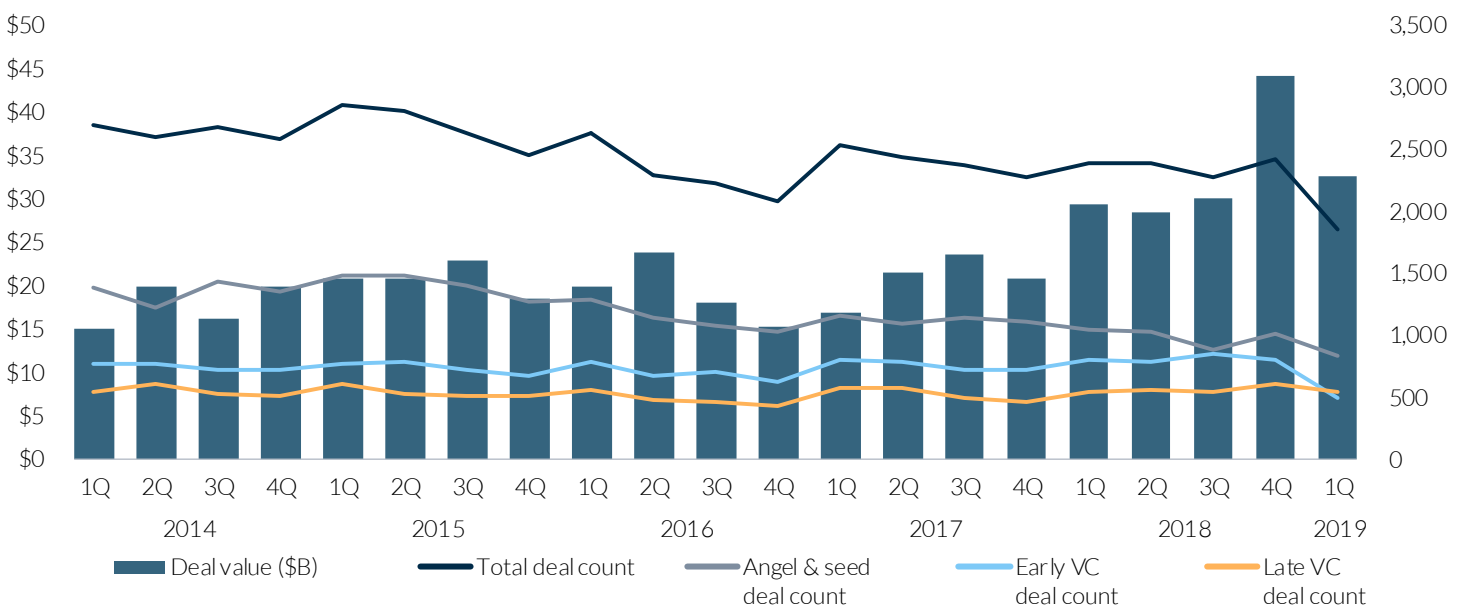
US VC deal activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

1Q is the second-highest recorded quarterly capital investment total in the last decade

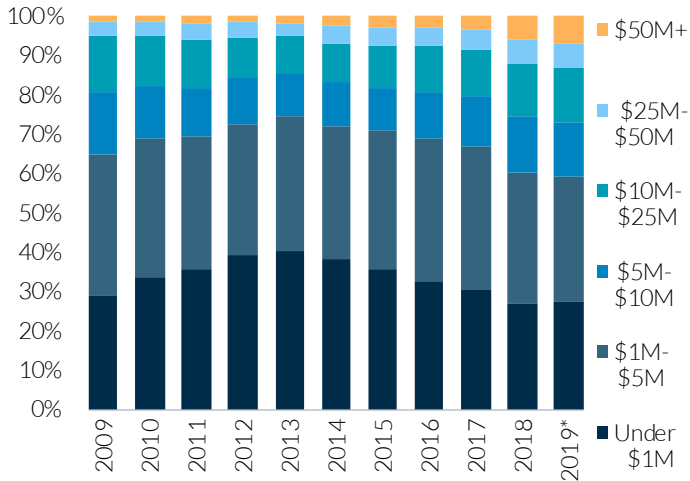
US VC deal activity



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Proportion of deals in each size bucket holds steady from end of 2018

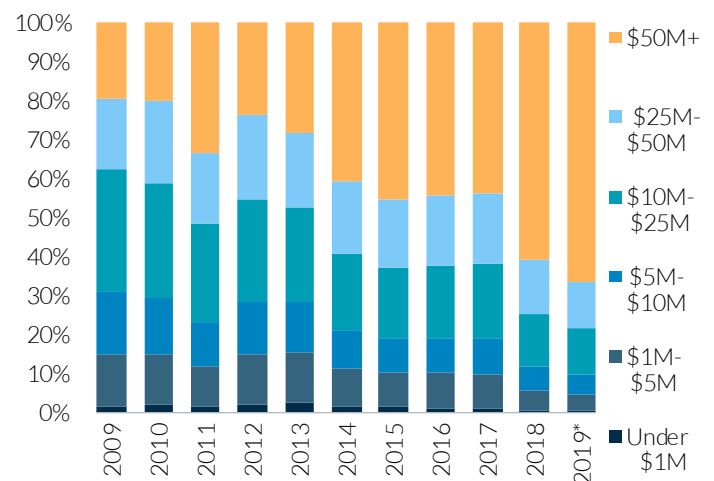
US VC deals (#) by size



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\$50 million+ deals continue to take more share of total deal value

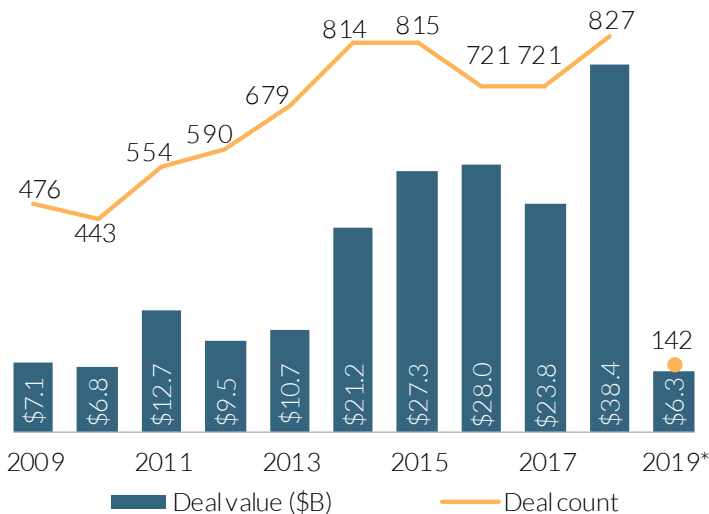
US VC deals (\$) by size



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PE participation cools in 1Q deals

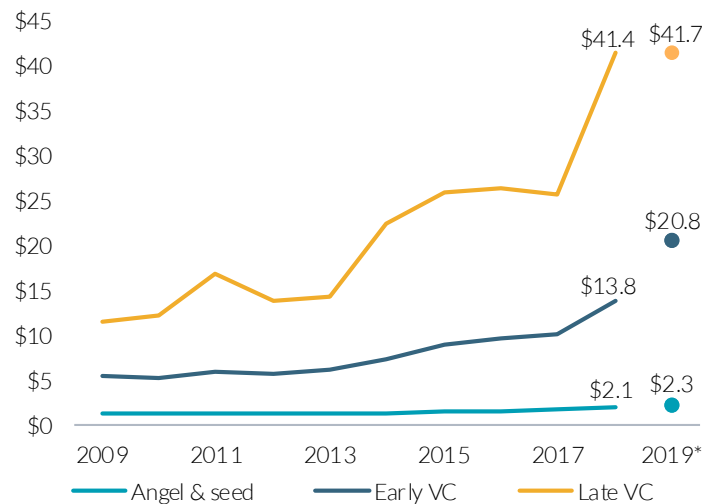
US VC deal activity with PE investor participation



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Average late-stage deal size plateaus

Average US VC deal sizes (\$M) by stage



PitchBook-NVCA Venture Monitor
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Angel, seed & first financings

Angel & seed deal value in the first quarter reached \$1.9 billion, matching the quarterly average over the past two years. While deal count is down broadly, the angel & seed stage has seen the greatest decline, with the annual count falling 44.2% between 2015 and 2018. Quarterly transaction activity has nearly halved from a peak of 1,483 deals in 1Q 2015 to 828 in 1Q 2019. One factor contributing to the downturn is that startups face steeper expectations for maturity from investors even at the angel & seed stage, so capital is being concentrated in fewer but more-developed startups. Despite the decline, capital invested has remained at an elevated level as angel & seed investors place ever-larger bets on the most-favored startups. Additionally, many startups are tapping alternative sources of capital, such as crowdfunding or skipping straight to an institutional round, instead of pursuing an angel or seed round.

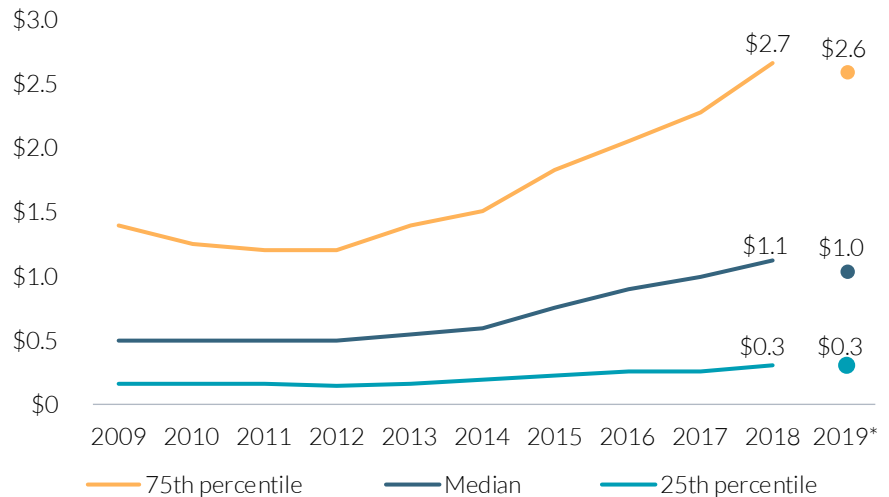
As investors are writing larger checks at the angel & seed stage, we have observed median deal size steadily climb, having doubled from a nadir of \$500,000 in 2012 to \$1.0 million in 1Q 2019. Likewise, median pre-money valuation of angel & seed rounds has climbed to \$7.5 million,

up from \$3.7 million in 2012. With more absolute capital available at the angel & seed stage, outstanding startups have been able to increase valuations without sacrificing more equity, including those outside of the Bay Area.

Lyft and Uber dominate the headlines, but mobility tech has been an increasingly popular vertical at the angel & seed stage as new entrants continue to emerge. One of the most prominent deals from 1Q was a \$37.0 million investment into

Angel & seed deal size flattens in 1Q against six-year climb

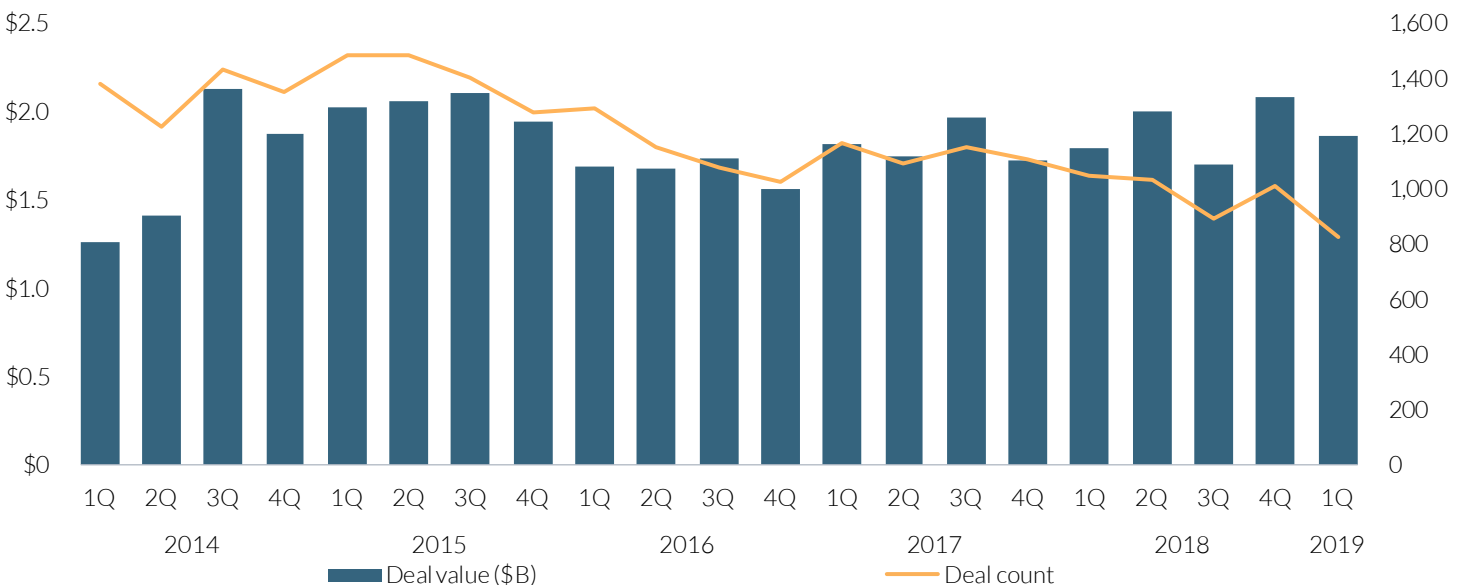
Range of US angel & seed deal sizes (\$M)



PitchBook-NVCA Venture Monitor
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1Q total capital raised holds steady despite slip in deal count

US angel & seed deal activity



PitchBook-NVCA Venture Monitor

Wheels, a bikesharing company based in West Hollywood. Wheels is attempting to differentiate from micro-mobility competitors with pedal-free electric "bikes," essentially electric scooters with seats aimed at improving rider stability and comfort as well as removable batteries to maximize bikes in circulation. Additionally, Wheels offers a pay-to-maintain plan popularized by e-scooter company Bird in which the company pays independent contractors to relocate bikes to centralized hubs, a strategy designed to help the company scale. This deal is 35.7x larger than the median deal size in 1Q and highlights the intense investor interest in the mobility space, even at the angel & seed stage.

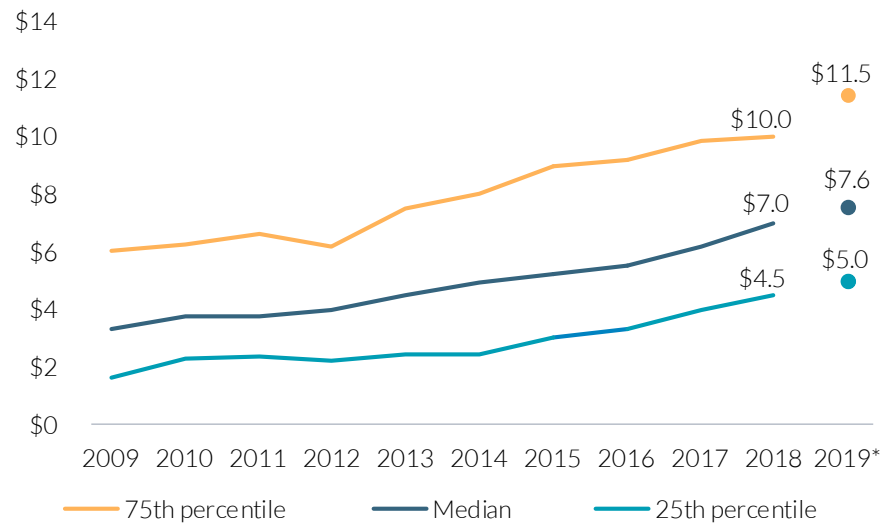
The second-largest seed deal of the quarter was a \$10.1 million investment into logistics software firm CargoSense, based in Reston, VA. This deal was priced at a \$7.9 million pre-money valuation giving investors an estimated 47.9% ownership stake in the firm. Selling such a high percentage of ownership at such an early stage is abnormal yet possible for angel & seed stage ventures. The logistics industry has seen increased venture investment over the past eight years due to the magnified importance of fast and reliable delivery as well as the sizable opportunities for cost savings and optimization.

Innovation in the real estate space has also proliferated, as investors look to benefit from the modernization of an established industry. Livly, a software development startup helping property managers monetize unused space and digitally manage properties, drew the third-largest seed deal of the quarter, receiving a \$10

million investment. Real estate technology has seen heightened activity over the past six years. The most-well-known real estate technology firm of late is shared office lessor WeWork, although there are many startups raising VC to address problems across the industry, with 88 angel & seed deals in the vertical closed in 2018 alone.

Angel & seed pre-money valuations climb YoY

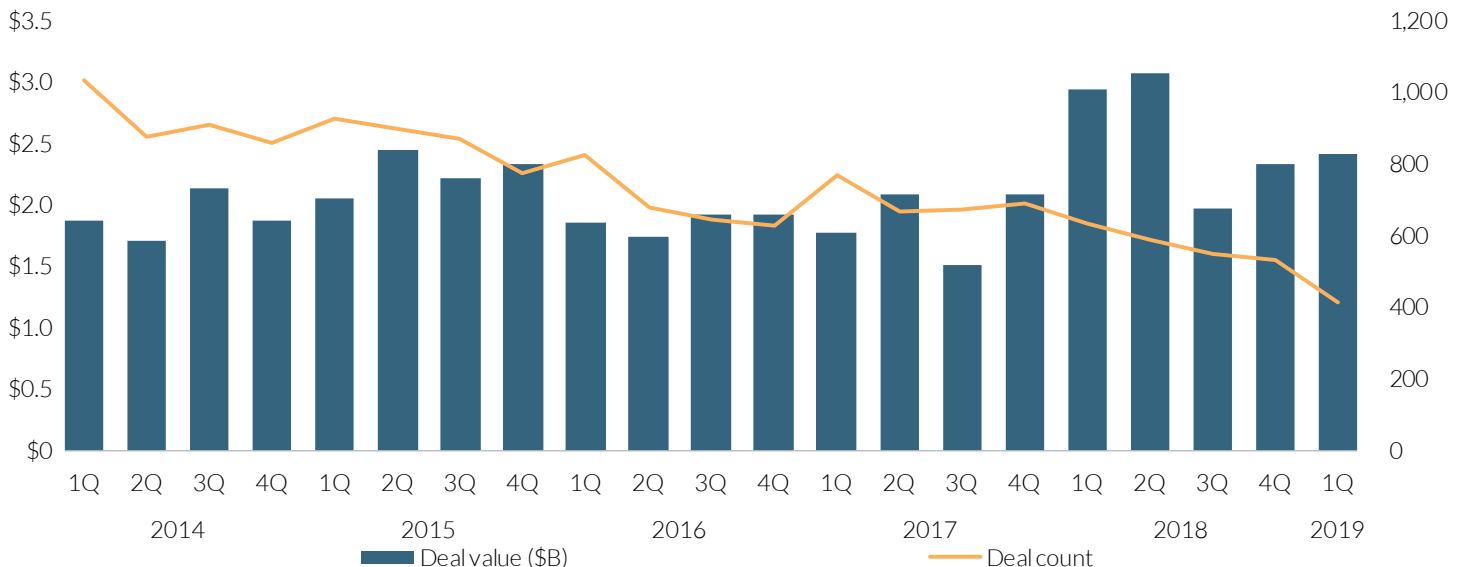
Range of angel & seed pre-money valuations (\$M)



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First-time VC deals see fewer yet larger rounds

US first-time VC deal activity



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Early-stage VC

Early-stage VC saw strong capital investment in 1Q 2019, with \$9.3 billion going toward early-stage startups. The median size of early-stage VC financings grew 36.0% YoY to \$8.2 million, and we expect activity to continue climbing in tandem with swelling deal sizes. One reason for the rise in valuations and round sizes is the increased prevalence of mega-funds (VC funds over \$500 million) investing in the early stage. With a record 22 US mega-funds closed in 2018, VCs are harnessing LP demand for the asset class to raise ever-larger funds that enable them to place unprecedented bets on early-stage ventures. Funding at this stage looks set to increase even more given recent news of SoftBank raising a \$500 million “Acceleration Fund” to invest in early-stage ventures.

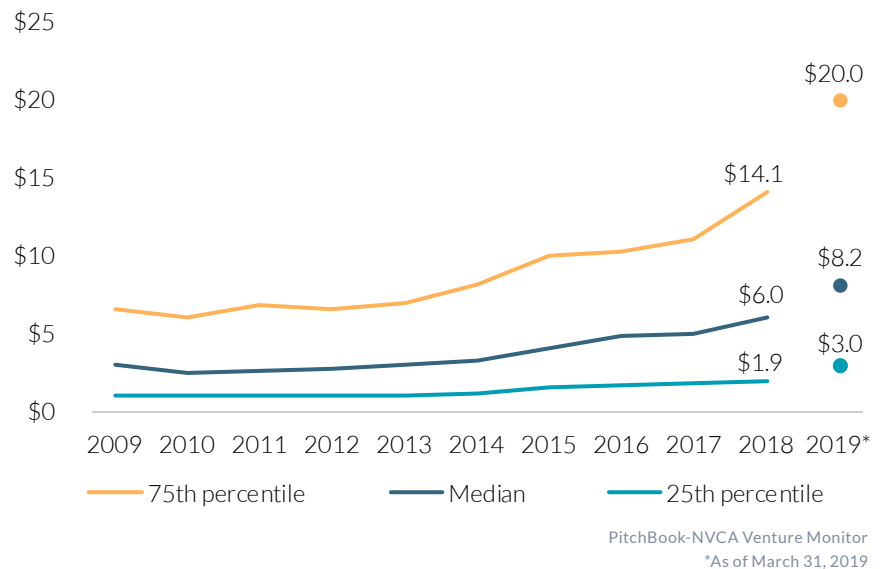
We’ve observed 487 completed deals in 1Q, a slow start to 2019 following an upward progression over the past decade. 1Q saw a sizable increase in the proportion of large deals, with 41.9% of deals sized \$10 million or greater, making up 90.0% of early-stage capital invested. Additionally, 1Q saw 15 early stage mega-rounds (deals of \$100M+), pacing to nearly double the 2018 annual count of

36 deals. In addition to elevated levels of fundraising and dry powder, the growth in deal sizes is also likely driven by some knock-on effects at the angel & seed stage, where we have seen similar trendlines.

The largest two deals of the quarter were secured by firms utilizing AI & ML to address mobility. Nuro, a delivery robotics company out of Mountain View, raised \$940 million in funding from SoftBank.

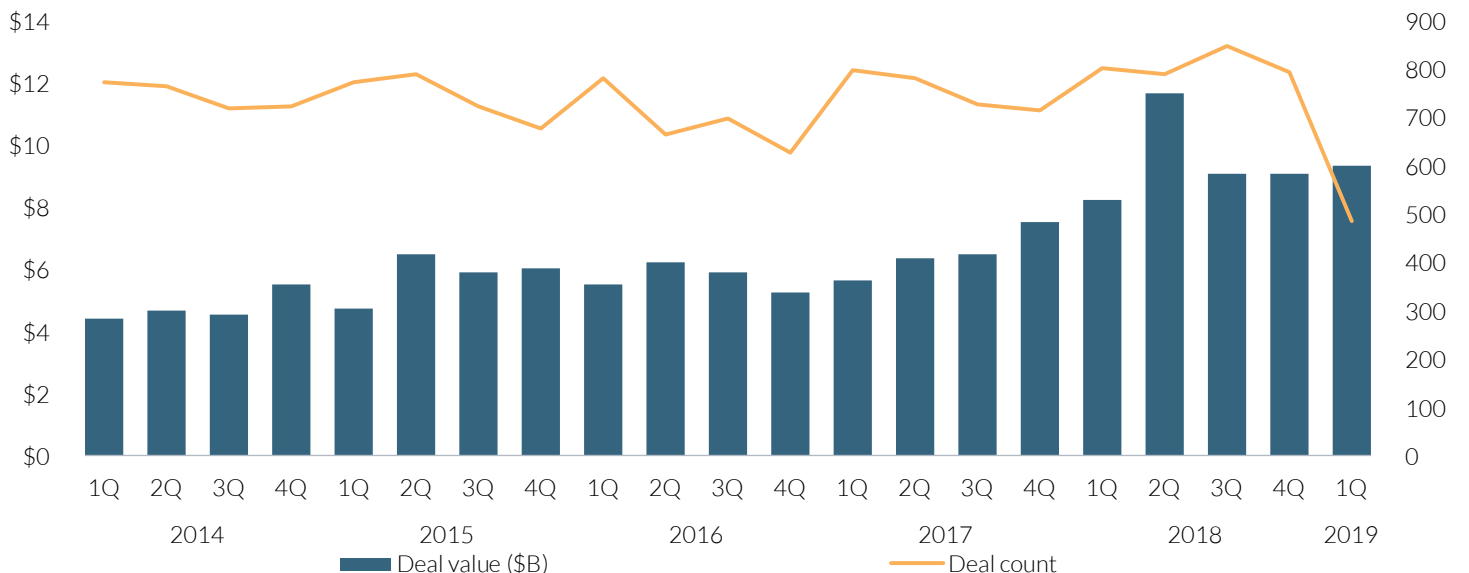
Early-stage median deal size jumps 36% in 1Q

Range of US early-stage deal sizes (\$M)



Early-stage deal value remains strong but has receded from decade peak in 2Q 2018

US early-stage VC deal activity



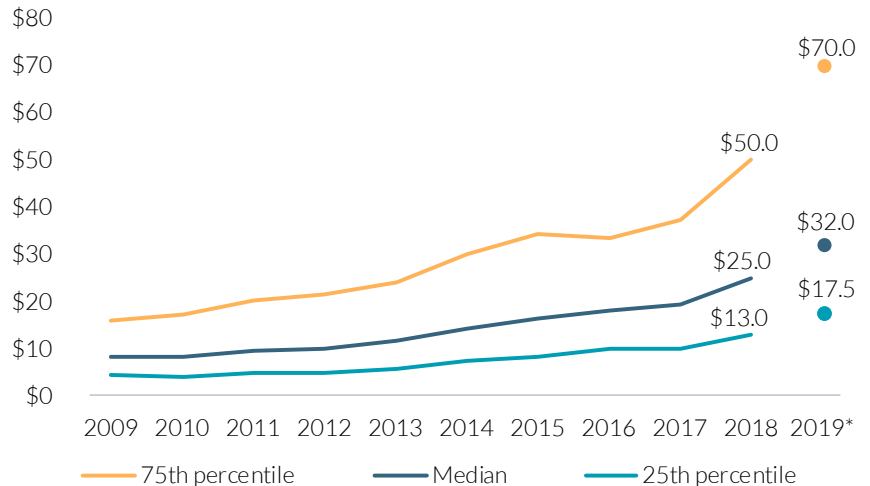
The startup has partnered with Kroger grocery stores to pilot autonomous grocery delivery in two geographies: Scottsdale and Houston. Nuro recently petitioned the US National Highway Traffic Safety Administration for approval to launch up to 5,000 of its next-generation vehicles on the road over the next two years. Nuro is the most high-profile company in an assemblage of new delivery robotics startups, including Amazon's delivery robot Scout, Starship Technologies and Postmates' Serve.

Palo Alto-based Aurora raised the second-largest early-stage round this quarter, closing on \$530 million to develop self-driving technologies. Sequoia Capital led the round with participation from Amazon and others. The investment highlights Amazon's increasing focus on autonomous driving, which could be used to optimize logistics fleets or compete against the other large US technology companies such as Google and Apple that have been investing into the space, while Amazon Web Services could be utilized for the massive data-processing requirements of autonomous driving. Autonomous driving startups are attracting a significant share of investment in venture markets as VCs, major auto corporations and technology companies race to develop or acquire commercially viable solutions.

Finally, real estate technology also proved to be a popular sector for early-stage ventures, with Knock raising \$400 million to develop a real estate trading platform. The firm allows current homeowners to simplify the process of selling their current home and buying another. The real estate sector is mature and ripe for technological innovation as buyers and sellers both seek a simpler and more transparent process. We expect to see continued elevated levels of investment in real estate startups across stages as entrepreneurs attempt to address longstanding frictions through the implementation of technology and innovative business models.

Favorable conditions help foster elevated early stage valuations

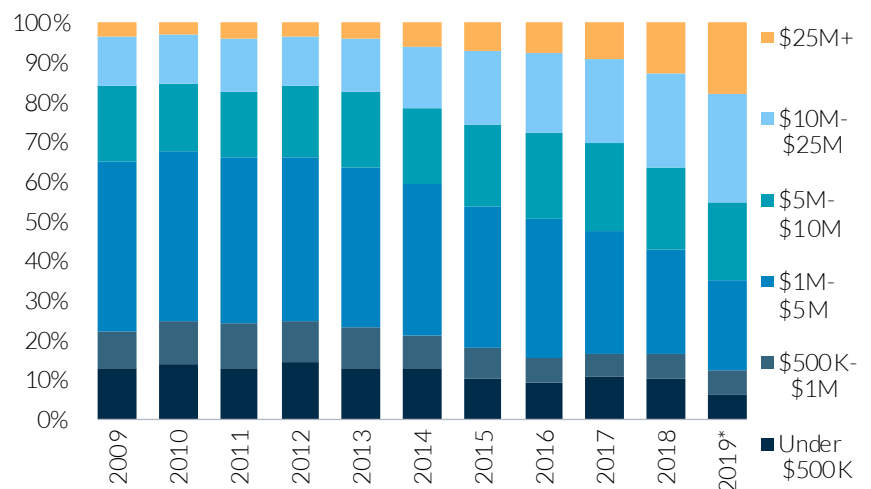
Range of US early-stage VC pre-money valuations (\$M)



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*As of March 31, 2019

\$10M+ deals' proportion of total volume has doubled since 2014

US early-stage VC deals (#) by size



PitchBook-NVCA Venture Monitor
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Late-stage VC

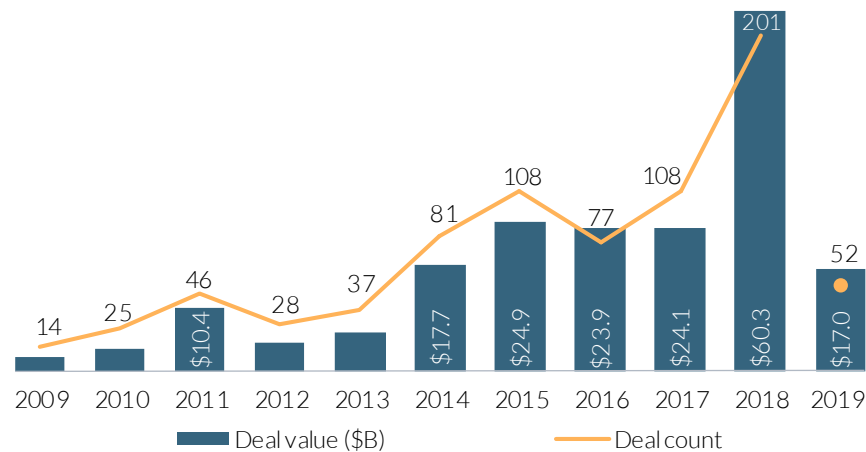
Capital continues to flow into the late stage in droves, with \$21.4 billion invested across 538 deals in 1Q 2019—the second consecutive quarter in which late-stage capital investment surpassed \$20 billion. Robust mega-deal (\$100 million+ for VC) activity contributed an outsized 61.8% of total late-stage deal value in 1Q, up from 60.3% in 2018. Mega-rounds, sometimes referred to as “private IPOs,” have gone from a rarity to an integral part of the late stage. While slightly off the breakneck pace for mega-deal volume in 2018, 36 late-stage mega-deals were completed in 1Q, confirming elevated demand for these financings from investors and companies alike.

The convergence of the private and public markets continued in 1Q 2019, with more than four VC mega-deals closing for every VC-backed IPO. While on the surface there may seem to be a dichotomy between the public and private markets, we find deals in both to be increasingly similar. Companies at the latest stage are able to raise comparable sums of capital in either venue and have the choice of operating in their preferred market by weighing liquidity against transparency. For instance, the two largest deals in the quarter,

raised by The We Company, the parent company of WeWork, and Flexport, were both over \$1 billion. Deals of this size are large even by public market standards, but they have become feasible in both markets with the entry of more venture financing from traditional and nontraditional players such as mutual funds and sovereign wealth funds.

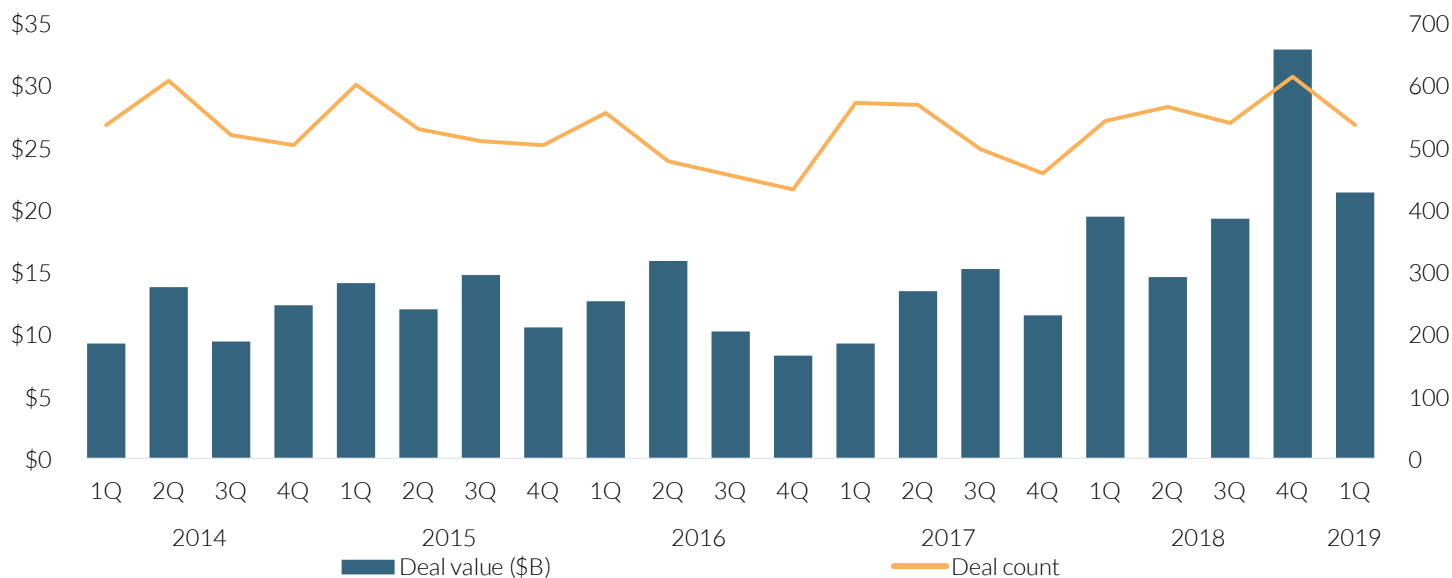
Series D+ rounds were the one area where we saw a material decline in the median age of companies in 1Q, falling from 8.7 to 8.2 years, which is still old by historical standards. This is likely a welcome development for VC investors and a trend we see holding throughout the year. With a host of older, larger unicorns poised to exit through the

Mega-deals remain prominent during 1Q
US VC mega-deal activity



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Capital investment still pouring into late-stage
US late-stage VC deal activity



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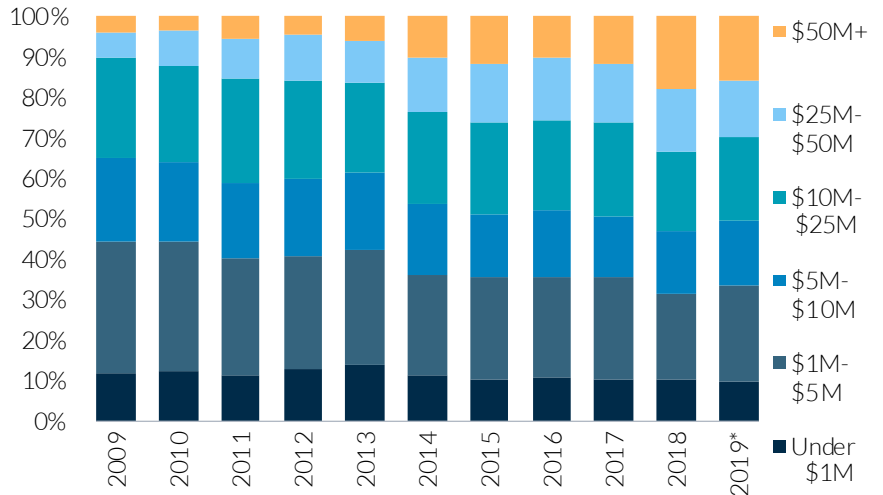
rest of 2019, we expect to see 2019 median age remain lower as those companies with longer-than-average hold times move out of the dataset.

The idea that value creation has shifted from public to private markets has become an increasingly important topic for the late stage. Valuations at the latest stage advanced even further in the first quarter, proving there was still room to grow even over the historically inflated levels of the preceding years. The median Series D+ pre-money valuation in 1Q was \$345.0 million, a 6.2% jump over 2018's median of \$325.0 million. This represents a significant deceleration in valuation growth from the near 54% level recorded in the past two years. This may simply be a healthy cooling for late-stage companies, however, given the exponential explosion of valuations is not sustainable over the long term. Unchecked valuation growth can cause issues for rounds raised at higher multiples, putting more pressure on investors' returns as well as on companies to justify those valuations.

While the median valuation tells a lot of the story, data illustrating the top and bottom quartiles helps to highlight the diversity of dealmaking in this group. For the first time ever in 1Q 2019, the top quartile pre-money valuation for Series D+ financings topped \$1 billion, a new milestone and a reminder of how unicorns are becoming much more common. On the other side of the coin, the bottom quartile came in at \$111.8 million, illustrating the breadth that this stage encompasses. Although mega-deals and unicorn valuations get most of the attention, these smaller and more traditional VC financings are still very much alive and still dominate the deal counts in the late stage.

Even with the rise in mega-rounds, smaller late-stage activity shows persistence

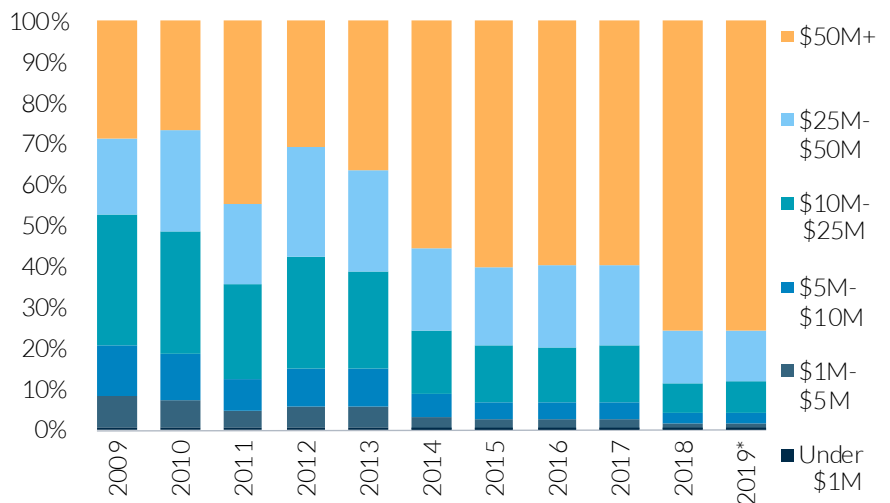
US late-stage VC deals (#) by size



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Largest deals drive outsized portion of capital investment

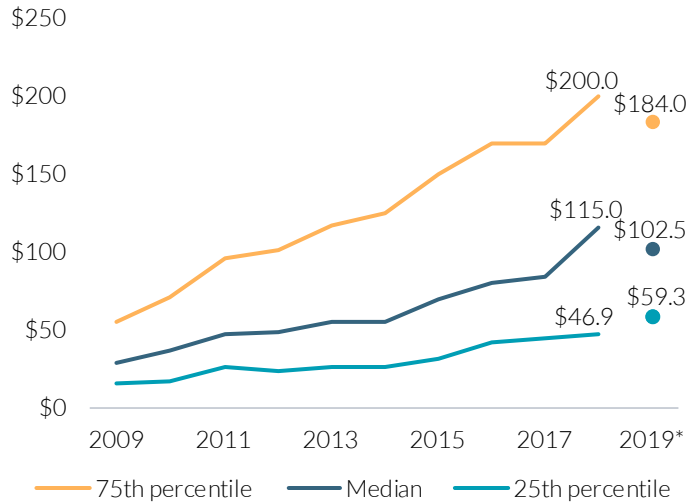
US late-stage VC deals (\$) by size



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Series C pre-money valuations temper but remain elevated

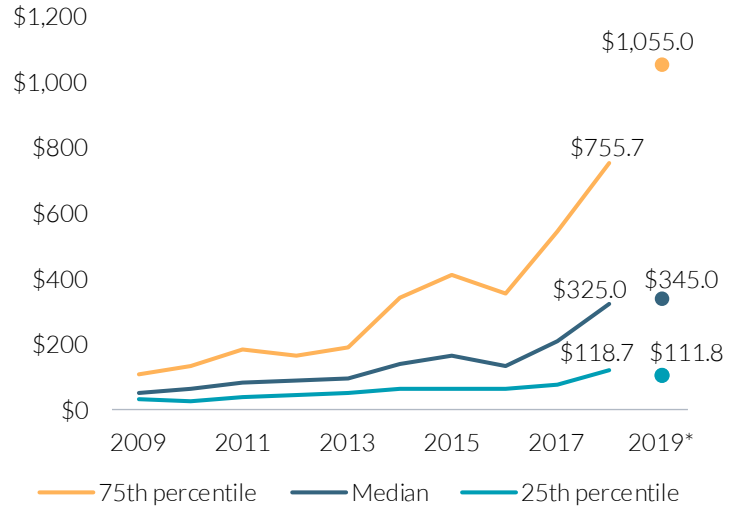
Range of US Series C pre-money valuations (\$M)



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Top quartile Series D+ pre-money valuation tops \$1B for first time

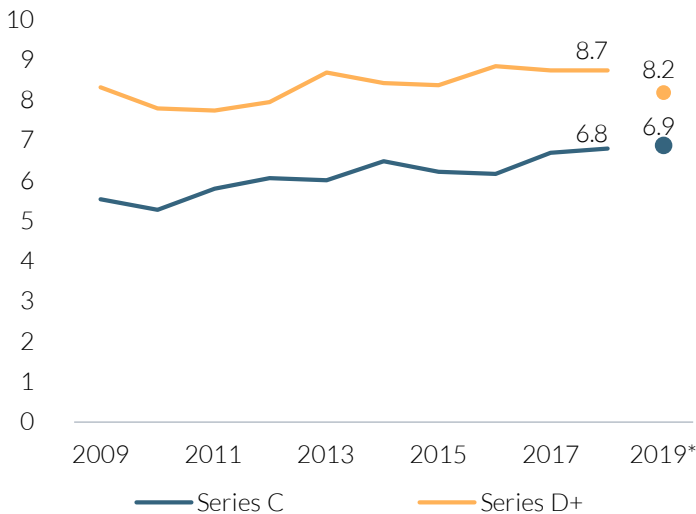
Range of US Series D+ pre-money valuations (\$M)



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Series D+ median age dips in 1Q

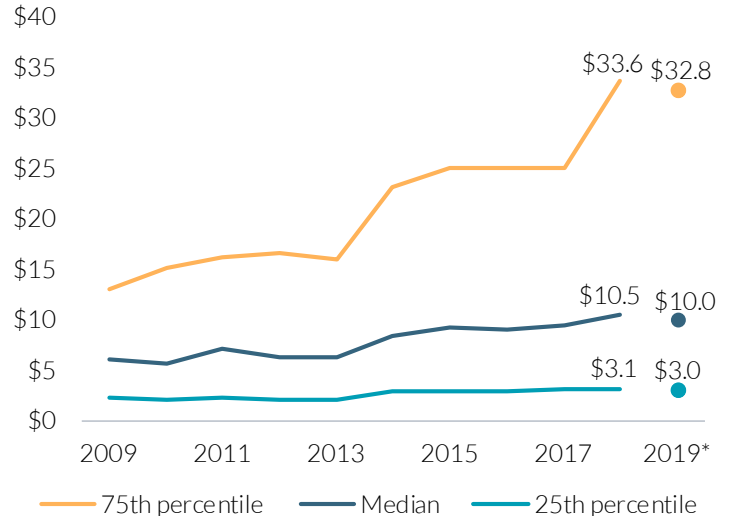
Median age (years) for US late-stage VC companies



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Late-stage deal size growth stagnates in 1Q

Range of US late-stage VC deal sizes (\$M)



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SVB: The early-stage venture landscape

Q&A: Claire Lee talks early-stage venture

How is the fundraising environment shaping up for early-stage companies this year?

The abundance of capital prevails, though it remains concentrated in a handful of cities and sectors. While US VC investment hit a record high of \$132.1 billion invested in 2018, about 65% went into larger and late-stage deals. First financings declined.

That said, it is a founder-friendly fundraising environment. SVB clients illustrated this: One-third of our clients that raised a Series A in 2018 were formed within a year of that raise, and the majority of the remaining two-thirds formed within two years.

PitchBook data shows valuations increased steadily over the past five years. The 2018 median seed-stage pre-money valuation was \$7 million, up from \$4.2 million in 2013. The median Series A pre-money valuation hit a record \$20 million in 2018, up from \$8.6 million in 2013. With valuations holding firm, the leverage still lies with founders. Investors are competing for a smaller number of potential “category winners,” with many preferring to double down on existing portfolio companies.

What are the major sources of capital at the early stage?

Myriad emerging managers, micro VCs, sovereign wealth funds, family offices, hedge funds and PE firms coming downstream and record-high corporate participation mean these founders have a lot of choice. All of these investors mean founders have a lot of choices. Family offices and corporates are playing a much larger role. SVB focuses on both of these channels, facilitating access to early-stage and growth-stage companies. Historically, corporates have favored late-stage investments and acquisitions.

Today, more are experimenting with incubation, launching sandbox environments and co-working spaces. Verizon's 5G Labs is a good example. It starts with community development and education, then blends that with targeted

accelerator programs, venture investment and prototyping, engaging entrepreneurs in seven US cities to start companies that take advantage of the “network of tomorrow.” Corporate venture is the new R&D.

Along with equity dollars, are seed-stage companies accessing debt finance?

Companies with substantial seed equity that want to postpone raising a Series A may access financing solutions through SVB's partnership with Lighter Capital, which has a fintech lending platform providing early-stage startups with up to \$3 million in a fraction of the time it takes to raise from traditional sources. The Lighter platform pulls in 6,500 data points to analyze applicants, using proprietary algorithms to determine a credit rating and data science to predict a startup's revenue growth with 97% accuracy on average.

Are accelerators and incubators still the best way to get started?

It is estimated that two-thirds to three-quarters of startups do not go through an accelerator or incubator. The boom in new accelerators has ended. Some models have failed. Others are growing. Y Combinator just graduated its largest cohort to date—200 companies. YC companies benefit from the platform as a distribution channel for them to acquire early customers quickly and at a low cost, which allows for much-faster product development and higher follow-on valuations.

In the life sciences and healthcare sector, the Johnson & Johnson incubator, JLABS, operates in several US cities, Canada and now China. Overall, we expect to see more consolidation. As competition for high-quality deal flow increases, some investors are turning to scout programs or university accelerators, such as StartX. The data speaks for itself. 84% of the startups are still thriving or have been acquired. StartX companies are 2.5x more likely to reach \$100M+ valuations and 60% more likely to raise a Series A compared with industry benchmarks. On the flip side, in March, I met a serial entrepreneur from New Zealand sitting at the intersection of agritech and AI who has been able to bootstrap up to this point. Newly acquired seed funding from a large Japanese corporate will allow him set up a base



Claire Lee is the Head of the Early Stage Practice at SVB, dedicated to working with founders, entrepreneurs and pre-Series A startups

in California, with the goal of bringing intelligent robotics to growers and farmers.

Outside Silicon Valley, is there more activity within early stage?

Capital globally is increasingly focused around niche verticals, which is good for cities such as Detroit, now a center for automotive tech. Techstars placed its Mobility program there, in partnership with auto giants Ford and Honda.

Steve Case started the “Rise of the Rest” initiative to give more exposure to entrepreneurs outside the major metropolitan areas. During a recent segment on 60 Minutes, Case shared that 75% of US VC went to four regions in three states: New York, Boston, Los Angeles and the San Francisco Bay Area.

The Center for American Entrepreneurship warns that the US' dominance of startup and VC activity is being challenged by the rapid ascent of cities in Asia and Europe. The US remains the clear global leader, but the rest of the world is catching up.

Take fintech for example. New York and San Francisco are home to the majority of the 20 US fintech unicorns, but increasingly we see startups from London, Singapore, Hong Kong, Australia, Nigeria and Shanghai raising real venture money. Digital transformation in financial services is driving large-scale investor demand.

Endeavor Global operates in high-growth entrepreneurial centers in 30 countries. The Endeavor Catalyst fund to date has made

more than 90 investments in 24 markets, concentrated in Latin America and the Middle East. One of these, Dubai-based ridesharing company Careem, was just acquired by Uber. In December, I joined Endeavor's investor selection panel in Cape Town, South Africa, where 12 global entrepreneurs pitched the panel for a coveted spot in the next cohort. I'm now an early customer of a company founded by an entrepreneur from Detroit (who ships beautiful house plants directly from the nursery), and I also purchased hardware that alleviates jet lag, designed by two eastern Europeans who met at university in Rotterdam, Netherlands.

Capital aside, what other factors could have a negative impact on early-stage founders?

Capital may not be the single largest issue in places such as Silicon Valley and New York—at least for now—but human capital is turning into a major obstacle for many. Finding the right team members to hire is often more difficult than finding the right check.

In SVB's 2019 Startup Outlook report, 91% of startups say finding skilled workers is challenging, compared with 76% who say fundraising is a challenge. This is consistent across startups in the UK, China and Canada. Entrepreneurs seldom speak with one voice, but this common issue of access to skilled talent could pose a risk to innovation.

I'm worried there is insufficient focus on "the future of work." For instance, are we educating young people about the right things? I'm also concerned for skilled immigration. NVCA's general counsel, Jeff Farrah, penned a recent TechCrunch opinion piece that questions the wisdom of decisions that could require companies to get special licenses for immigrants working on certain technologies. NVCA is hosting VCs-to-DC in June to bring a delegation of investors to Washington, DC; we invite people to engage in dialogue with policymakers. More representation makes the conversation stronger.

On that topic, is there greater diversity among founders and funders now?

The area of gender diversity is disappointing. I call it the "single-digit club." Only 2% of global VC goes to female founders, and approximately 9% of GPs at US VC firms are female, up from 6%. When it reaches parity, we can celebrate.

In SVB's Women in Technology Leadership 2019 report, our clients in the US, UK, China and Canada report that 72% of startups have no women on the founding team, 44% have no women in an executive position and 60% have no women on the board. I truly believe that diversity improves performance. Groups comprising one singular constituency are riskier and generate poorer financial returns. We know that firms are working on this issue. I'm pleased to see Melinda Gates' fund Pivotal Ventures invest in Ellevest and All Raise, and I am encouraged to see more investors take a stand by mandating operating standards and ethical practices tied to their investment dollars. In turn, I believe these companies will find it easier to attract top talent, increasing their probability of success.

How life sciences accelerators drive innovation

How valuable are accelerators for life sciences and healthcare startups? A new Silicon Valley Bank analysis finds that one in four (23%) life sciences and healthcare startups that raised at least \$4 million in 2017 and 2018 is currently or has been involved with an accelerator or incubator.

Surprising to some, the analysis suggests that accelerators and incubators do play a significant role by providing early-stage support and sometimes a follow-on round.

The level of significance depends somewhat on the subsector. Here is the breakdown by subsector based on the 2017–2018 data: biopharma 21%, medical device 27%, digital health 36% and diagnostic/tools (Dx/tools) 46%. By comparison, about 33% of all US startups that successfully raise Series A funding go through an accelerator or incubator.

Beyond financing, startups tend to seek different benefits from an accelerator or incubator, also depending on the subsector. For example, young biopharma and Dx/tools companies value access

to physical resources, primarily state-of-the-art labs and equipment. Medical device startups benefit from opportunities to collaborate with their peers on next-generation ideas. Digital health companies typically find joining an accelerator to be a useful way to build a network across sectors and industries, including consumer internet.

Overall, life sciences and healthcare startups are remaining in accelerators longer to take advantage of community support, talent and resources and, as a result, may become more attractive investments. For example, LabCentral and JLABS (the Johnson & Johnson incubator) house several companies that have closed Series A rounds.

While there may be fewer new accelerators overall, the most successful ones are expanding to new locales beyond the established hubs in California and Massachusetts. JLABS, launched several years ago in San Diego, now has more than 100 active companies in San Diego, Houston and New York and has even expanded to China and Canada. BioLabs has been on a tear in the past year, opening offices in Philadelphia, Princeton, Durham and Los Angeles and a second office in Boston. Techstars is partnering with UnitedHealthcare for a new Minneapolis



Ben Johnson is the national leader of SVB's Early Stage Life Science Practice, which represents the interests of pre-Series A life sciences startups.

accelerator, due to open later in 2019 with 10 companies. The focus is on innovations in payer and care provider services involving digital health & wellness solutions.

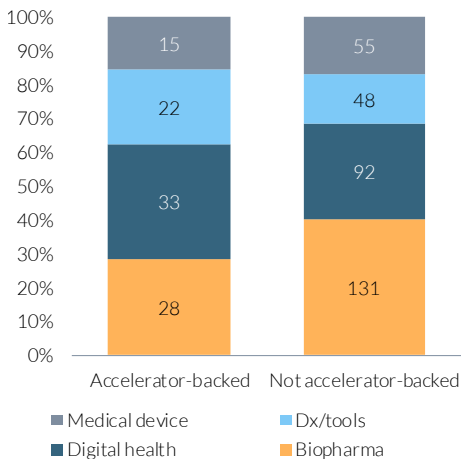
Finally, we're seeing increased interest in global acceleration, with Medtronic's recent announcement of a medical device accelerator in Shanghai.

As accelerators and incubators are drawing life sciences and healthcare startups to some new locations, we are also seeing a correlated rise

in first-time funding sources in those places. For example, New York, Pennsylvania and Texas have a relatively high number of new life sciences and healthcare companies.

Accelerators play a significant role in LS

US VC LS & HC companies (#) with more than \$4M raised by accelerator backing and subsector*



PitchBook-SVB Analysis
*2017 to February 2019

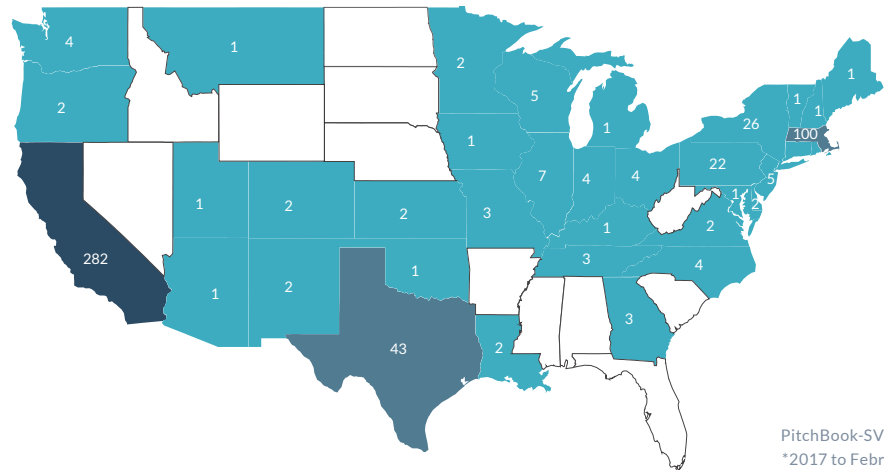
These are the ingredients for growing a healthy ecosystem. Cities and states are encouraging new activity to help spur their innovation ecosystems and create jobs. IndieBio, based in San Francisco, is expanding to New York City for its second location later this year. The accelerator is receiving a \$25 million inducement from New York state. Separately, New York City property

owners are outfitting buildings for cutting-edge lab spaces.

In some cases, life sciences and healthcare accelerators hold the promise to help a region's ecosystem grow in size and impact by extending the broader culture of innovation and promoting new sources of economic development.

New LS & HC companies are forming outside of CA & MA hubs

Accelerator-backed US portfolio companies (#) by StartX, YC, J Labs & QB3



PitchBook-SVB Analysis
*2017 to February 2019

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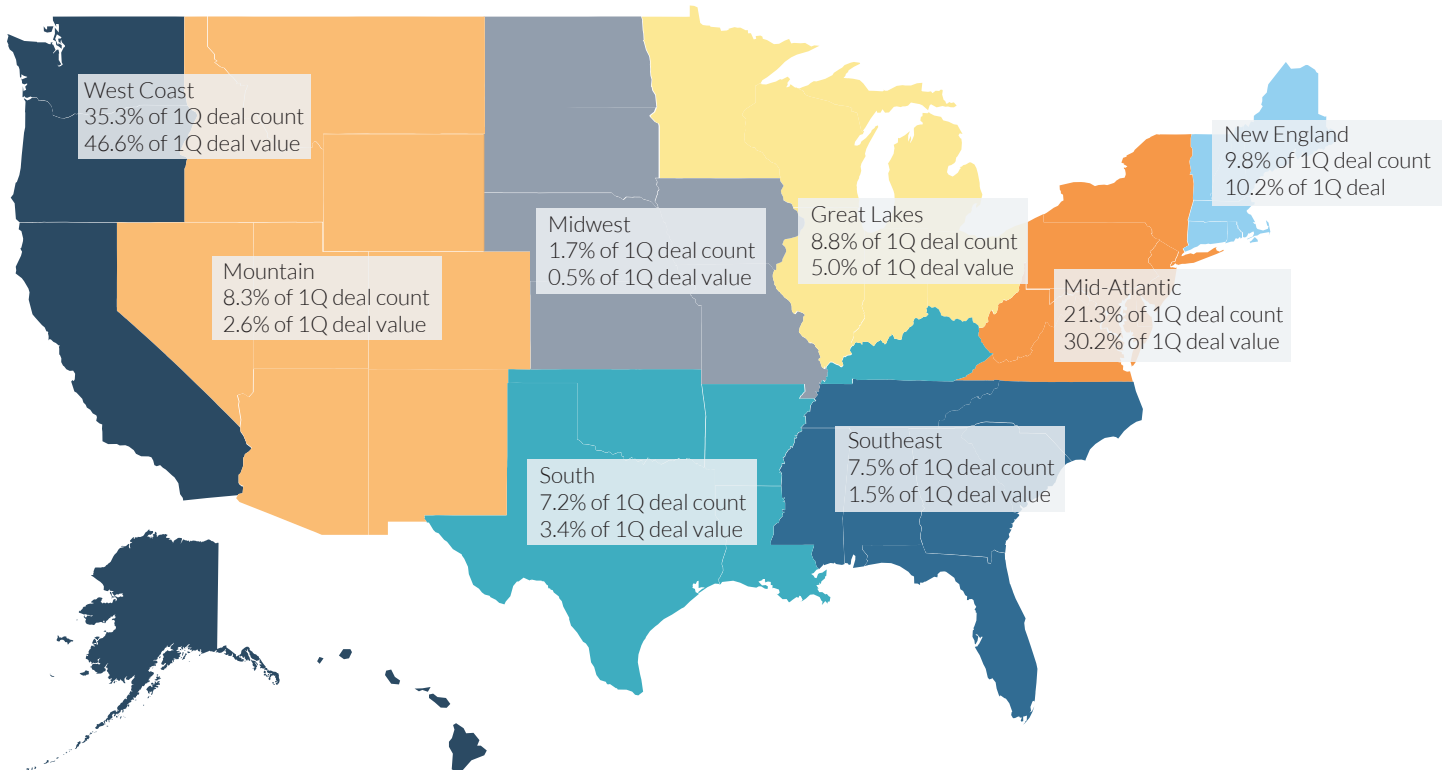
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Deals by region

Mid-Atlantic region sees share of capital investment rise above 30%

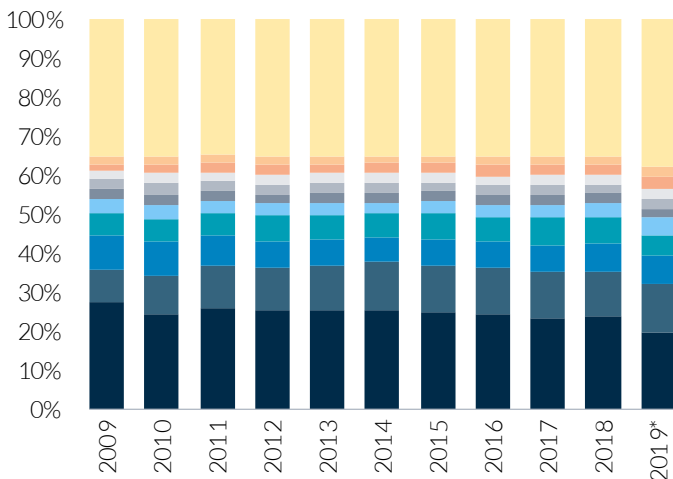
US VC deals by region



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

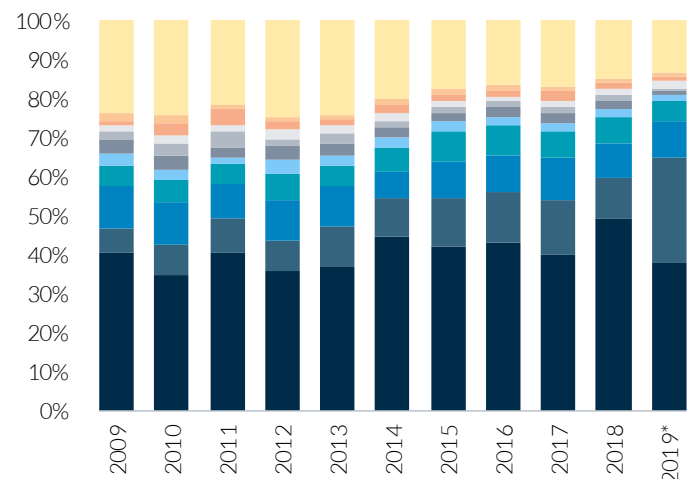
VC activity outside of Bay Area takes share of deal volume in 1Q

US VC deals (#) by metro



Capital investment concentrates further in top three metros

US VC deals (\$) by metro



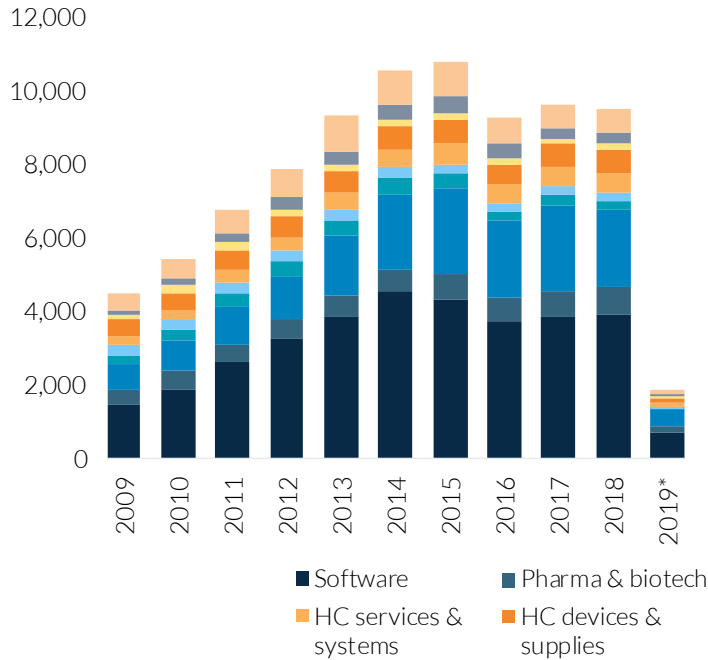
■ Bay Area metro ■ New York metro ■ Boston metro ■ Los Angeles metro ■ Seattle metro ■ San Diego metro
■ Washington, DC metro ■ Austin metro ■ Chicago metro ■ Philadelphia metro ■ Other

PitchBook-NVCA Venture Monitor
*As of March 31, 2019

Deals by sector

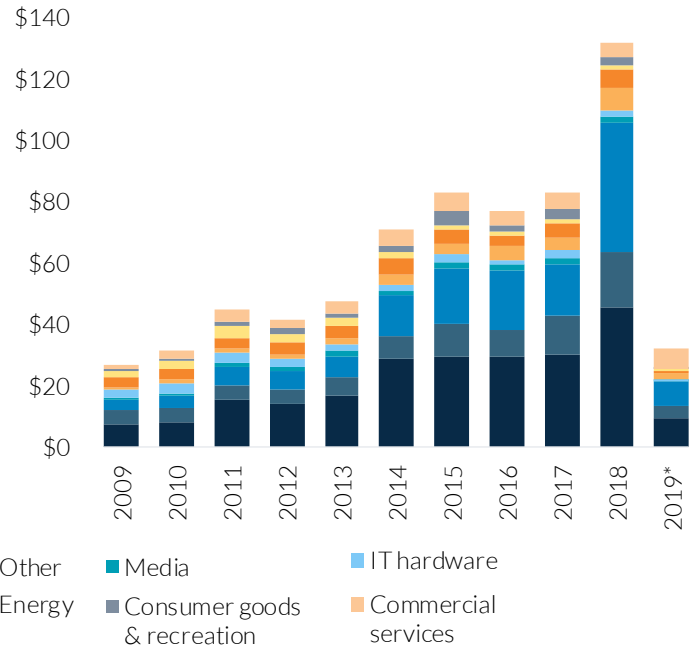
Deal count off to slow start across all sectors

US VC deals (#) by sector



Commercial services investment surges on back of outsized deals

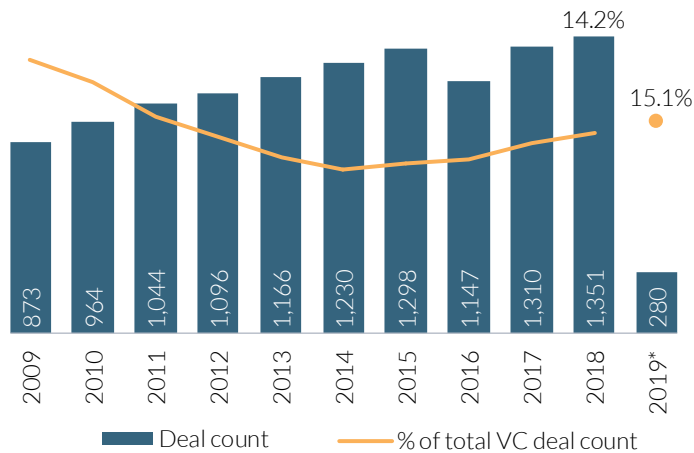
US VC deals (\$B) by sector



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

Life sciences deal count off last year's pace but ticks higher as percent of total deals

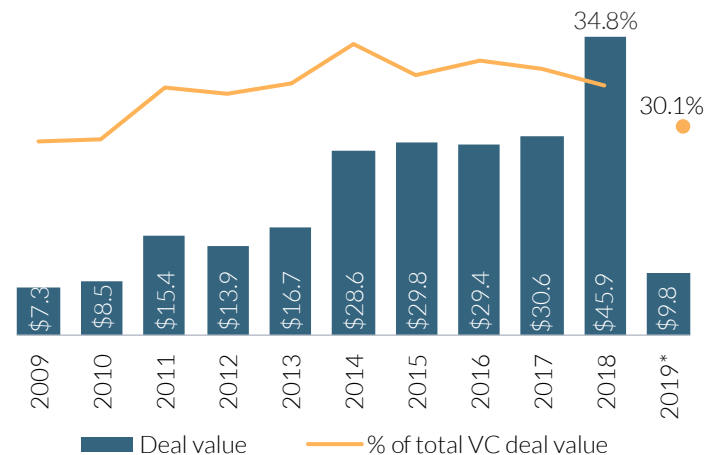
Life sciences deals (#) as proportion of total US VC deal count



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

Software deal volume cools in 1Q

Software deals (\$B) as proportion of total US VC deal value



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

Solium: Avoiding common cap table pitfalls

Cap table issues can cause companies to fail to hire or retain key talent. In severe scenarios, companies can fail to raise necessary funding or complete acquisitions. There are ways to avoid common cap-table pitfalls to allow founder and investor focus on business growth. Common issues and their respective solutions include:

Lack of vesting

For those not fully versed in equity terminology, vesting ensures that an individual must do something to keep (or exercise) their shares.

Typically the vesting schedule stipulates that an individual must remain with the company for a certain amount of time. For example, if an individual is granted 10,000 shares that vest each year for five years, then that individual would gain the right to keep 2,000 shares a year until the grant is fully vested after five years. If they left after two years, 6,000 shares would return to the company. If a company fails to apply vesting to this scenario, the individual could leave just after starting and still retain full ownership.

Vesting should be prioritized for several reasons, chiefly the following three:

1. It retains top talent and incentivizes holders to stick around and stay engaged until their shares are fully vested.
2. For an early-stage company, investors are often investing in the founders. They know the company may not have inherent value, but they're betting on people. Vesting ensures talent is retained or a significant amount of equity opens up to bring in others. It can help decrease risk and make a company more appealing to investors.
3. Many generally tend to exclude themselves when applying vesting. While founder vesting may not make sense when there's only one founder, vesting should definitely apply to multiple founders.

Documentation

Anytime you offer people equity in your company, you need to formalize the process with a binding, detailed agreement. Offers should be expressed as a set number of shares, never a percent range, especially one contingent on ambiguous timing. Never formalizing offers creates legal exposure. Granting stock or stock options is officially done with an agreement defining particulars, signed by both parties.

These types of conversations happen regularly, and when discussing a relationship in broad strokes, sometimes staying at a high level is necessary. That said, it is critical that verbal agreements are then quickly documented to ensure commitment to particulars. It's important those formal agreements are put in place before work begins. Legal fees can definitely add up, especially early on when budgets are extremely tight, but ironically, it's during that early period when most of the worst and most-costly mistakes are made. Many law firms will defer fees for early-stage companies so they can still provide excellent service upfront, and the company can pay when it is in a better position to do so.

Maintain a single, official cap table

Competing equity records exacerbate issues with documenting everything correctly and can cause different employees to make false promises based on bad or incomplete data. This pitfall has a simple solution: Ditch the spreadsheets. Using a spreadsheet to manage your cap table is the number one cause of competing equity records.

Know what you don't know

Founders don't necessarily need to become experts in equity management, but they should know when to dig deeper and avoid a compliance problem down the line. In closing, here are common compliance issues:



Matt Stapleton is leader of the Shareworks for Startups solution within the global private markets team at Solium. Matt and his team are focused on helping early-stage companies support growth by managing cap tables and stock options.

- **83(b) election:** When granting restricted common stock, employees have a tax election to file within 30 days of that grant. The IRS is strict about the filing deadline.
- **ASC 718:** This is a US requirement to show an expense on your P&L for equity granted to employees. If you have or will soon have employee equity and audited financials, ensure your finance team is prepared to handle this requirement.
- **Rule 701:** Up to a point, Rule 701 allows a company to grant equity and not tell the federal government about them. If you get anywhere close to granting \$1 million in equity a year, make sure your law firm is on top of Rule 701.
- **ISO 100k limit:** This is a bit of an oversimplification, but if a company is granting ISO option grants and gives an individual a grant that can be exercised for more than \$100,000 of stock, that limit needs to be clarified with said individuals.
- **409A valuations:** Your company should engage a firm to complete this valuation prior to issuing stock options. It is used only for tax purposes to set the strike price, but a company can quickly get in trouble if it ignores this IRS regulation.

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Spotlight: Mobility tech

After gaining traction for several years, mobility tech has been thrust back into the spotlight early in 2019 thanks to the upcoming IPOs of Lyft and Uber. The strong demand both companies have received from public equity investors has validated VC backing for shared mobility applications, the future of which could be influenced by how these two companies perform on the public markets, given their differentiated business models. As we've covered in a [previous analyst note](#), we believe the rivals present two fundamentally different investment propositions—with the former representing an investment into the US ridesharing industry and with the latter representing an investment into a global, bundled, Mobility-as-a-Service (MaaS) platform.

We remain more confident in Lyft given its more focused business model, but we recognize the growth potential for Uber's business. Bundling can create a source of competitive advantage for mobility companies. By being the one-stop shop for urban transportation as well as auxiliary services, MaaS companies gain access to additional users and can scale more quickly. Just as many ecommerce shoppers rely on Amazon for much of their shopping needs, commuters of the future could rely on a

MaaS platform for finding multiple modes of transportation, from ridesharing to public transportation to delivery.

Uber's ambitions were on display in the first quarter, via its \$3.1 billion acquisition of Careem. We believe this acquisition is representative of Uber's continued strategy of providing a global MaaS solution, as it gives the company expanded scale and increased access to international markets ahead of its forthcoming IPO. Uber continues to target international markets such as the Middle East as well as auxiliary services beyond ridesharing such as micro-mobility and food delivery as its next wave of growth. We believe consolidation also helps Uber pave the way for increased margins from its international business—something with which the company has struggled as it battles for market share with competitively priced local ridesharing companies.

While diversifying its revenue streams will help Uber generate more top-line growth, we believe the near-term impact could be negative to margins. Moreover, although Uber has the resources to significantly disrupt markets such as food delivery, micro-mobility and freight brokerage, investing in these spaces creates additional

uncertainty for investors when valuing the combined business, especially when compared to a more pure-play ridesharing provider such as Lyft.

We believe Lyft was eager to list ahead of Uber so as not to be burdened by the dominant ridesharing player's likely lower valuation multiple and associated scrutiny surrounding its slowing growth profile, numerous corporate controversies and somewhat unfocused future growth strategies.

Lyft presents a much cleaner growth story to investors wary of Uber's forays into lower-margin international markets and other untested markets such as food delivery. Moreover, while Uber's core ridesharing bookings growth is slowing, Lyft's revenue growth is robust, helping the company recently achieve nearly 40% market share in the US, up from 35% last year (to the detriment of Uber).

Predictably, investor demand for Lyft was ravenous prior to the IPO, resulting in the initial price range to be raised to \$72 per share from an initial range of \$62 to \$68.

Comparing company profiles

	Uber	Lyft
Total capital raised to date	\$19.9B	\$4.9B
Valuation at last financing round	\$72.0B	\$24.0B
Valuation at date of IPO	\$76.0B-\$120.0B (anticipated)	\$24.3B
Top investors	SoftBank, Benchmark Capital	Rakuten, Andreessen Horowitz, GM, Fidelity

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*As of March 31, 2019

Shared mobility

While Lyft and Uber garner much of the attention in mobility, the space can be decomposed into six distinct segments, with shared mobility representing one of the fastest-growing areas.

What is shared mobility?

Shared mobility companies utilize shared assets to revolutionize how people move. Companies in this space can be further segmented into the following categories: ridesharing, carsharing, micro-mobility (bikesharing and scooter sharing) and smart transit. VC-backed companies in this space compete with existing mobility solutions such as car ownership, taxis, rental cars and public transportation.

Dominance of shared mobility

Attracted by the fast growth and disruptive nature of ridesharing, carsharing and micro-mobility startups, investors have deployed more venture dollars to shared mobility than any other segment within our transportation technology coverage. This dominance transcends company age, as shared mobility investing is prominent across both early-stage and late-stage venture deals.

Shifting to later-stage spending

In 2016, the majority of VC deals within the shared mobility space went toward early-stage deals. By 2018, that trend has reversed, with the vast majority of deals going toward late-stage capital raises as shared mobility companies have rapidly achieved scale and matured.

The rise of micro-mobility

Deal flow in micro-mobility accelerated in 2018 as venture investors shifted capital toward fast-growing bikesharing and scooter sharing startups such as Lime, Bird, Spin and Skip. This category was further bolstered by corporate investment in the space, with Uber's acquisition of JUMP and investment in Lime's latest financing round; Lyft's acquisition of Motivate, the operator of Citi Bikes; and Ford's acquisition

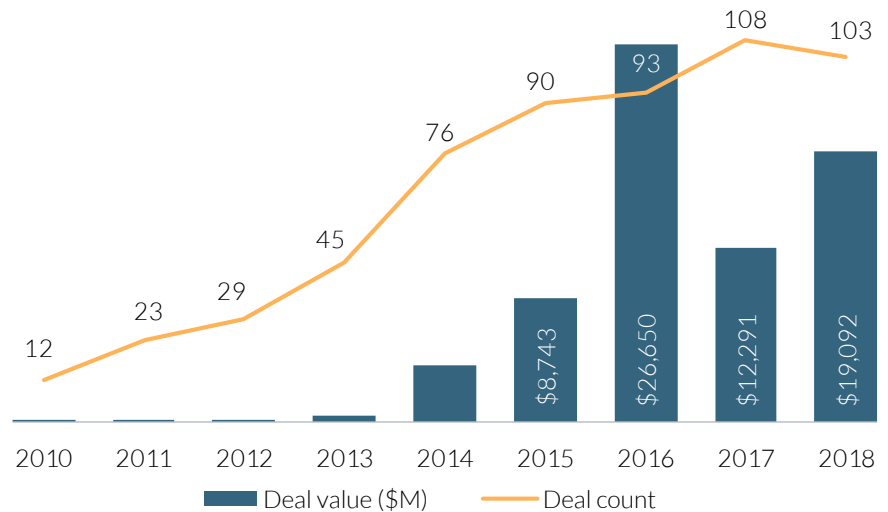
of Spin. Notable deals in the space in 1Q include both established players such as Lime's \$310 million fundraising from GV as well as upstarts such as Wheels, a bikesharing company that closed on a \$37.0 million investment. Although the incumbents are large and extremely well-funded, the space is still nascent enough that new entrants continue to emerge.

More on mobility

For more of our in-depth thoughts on emerging startups and trends within the mobility and transportation technology space, please see our recently released [mobility market segmentation](#).

Investor interest in shared mobility remains elevated

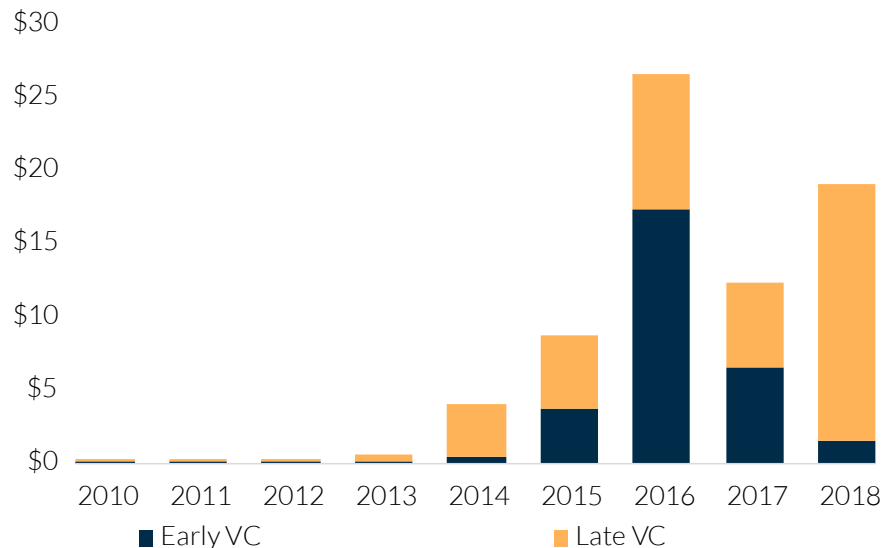
US VC shared mobility deal activity



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*As of December 31, 2018

Outsized late-stage activity dominated 2018 capital investment

Shared mobility deals (\$B) by stage

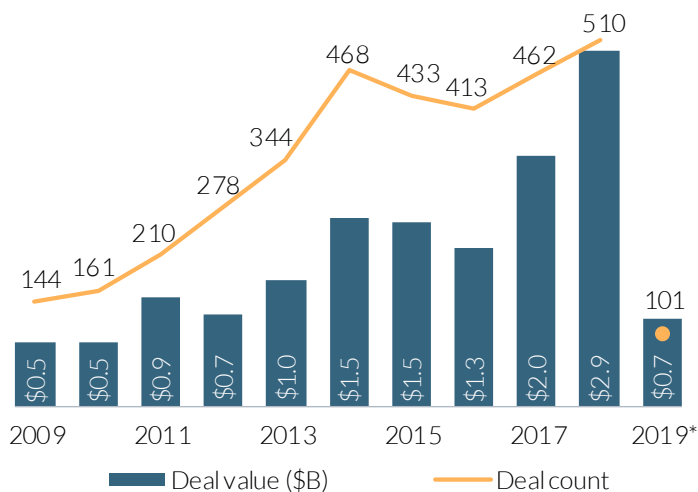


PitchBook-NVCA Venture Monitor
*As of December 31, 2018

Female founders

Capital investment into female-founded businesses held steady in 1Q

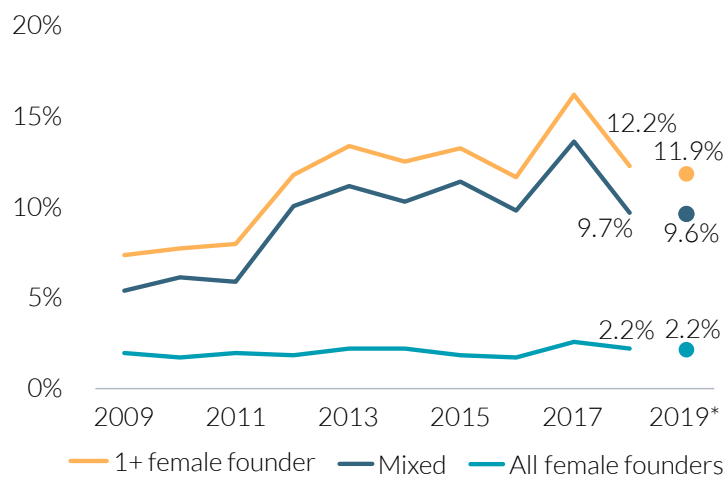
US VC deal activity for female-founded companies



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

Percentage of total VC to female founders stagnates

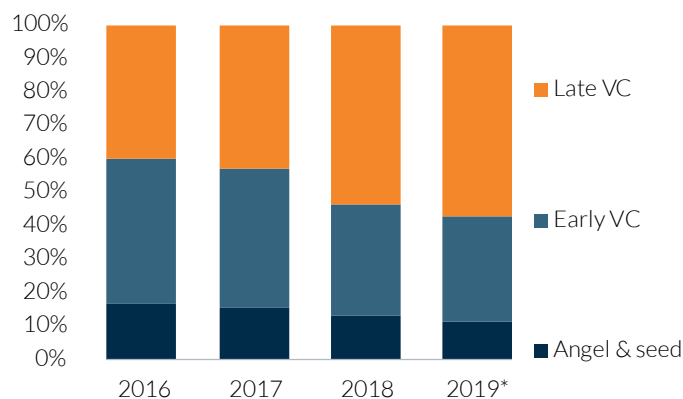
Female-founded companies as proportion of total US VC deals (\$)



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

Late-stage deals becoming more common

US VC deals (\$) for companies with all female founders by stage



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

Historical venture hubs generate most investment in female founders

Top 5 US metros by capital raised (\$B) for companies with all female founders (2006 through 1Q 2019)

MSA	Capital raised
Bay Area metro	\$4.5
New York metro	\$3.3
Boston metro	\$1.3
Los Angeles metro	\$1.0
Durham metro	\$0.5

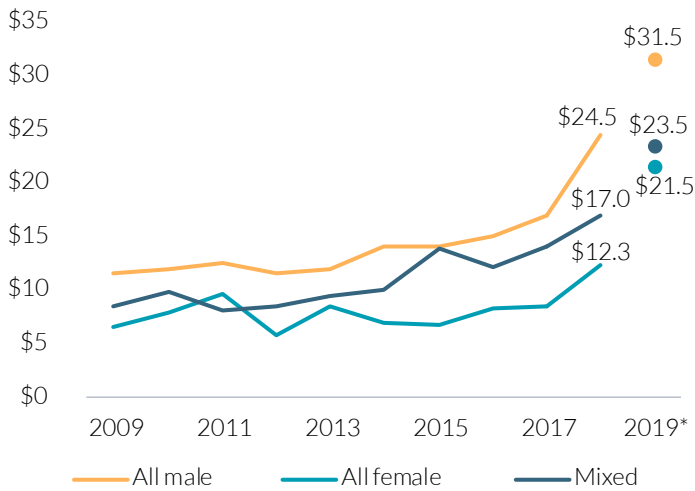
Top 5 US metros by deal count for companies with all female founders (2006 through 1Q 2019)

MSA	Deal count
Bay Area metro	761
New York metro	726
Los Angeles metro	301
Boston metro	237
Seattle metro	161

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Valuations across all types of founding teams are on the rise

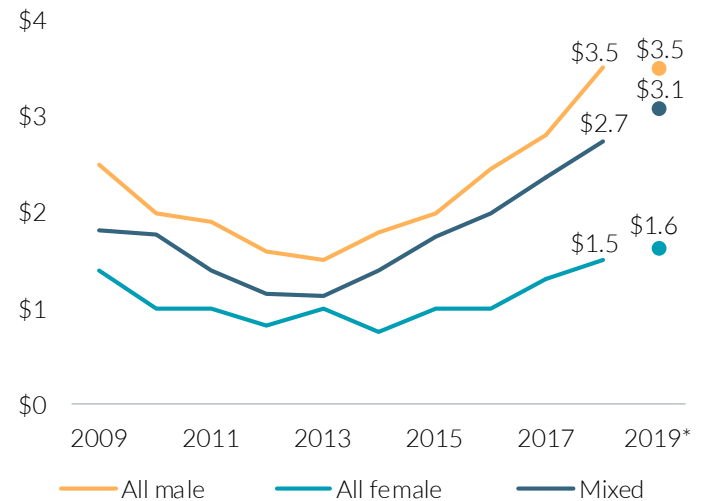
Median pre-money valuation (\$M) by founder gender



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Deal sizes also continuing growth trajectory

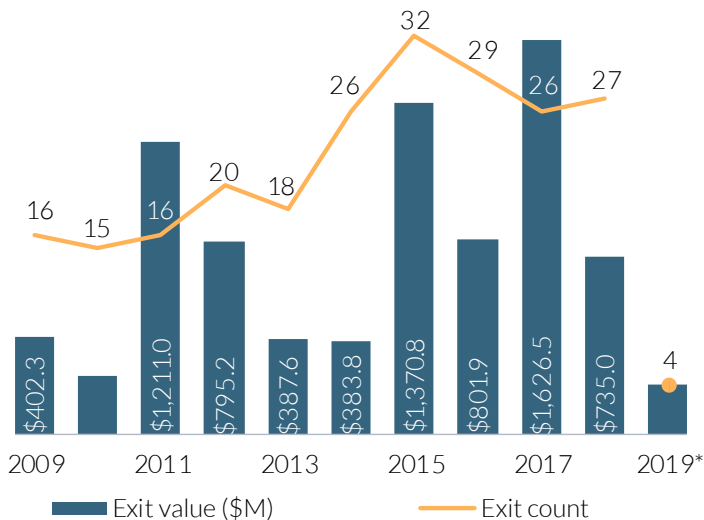
Median US VC deal sizes (\$M) by founder gender



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Tepid start to the year for female-founded exit volume

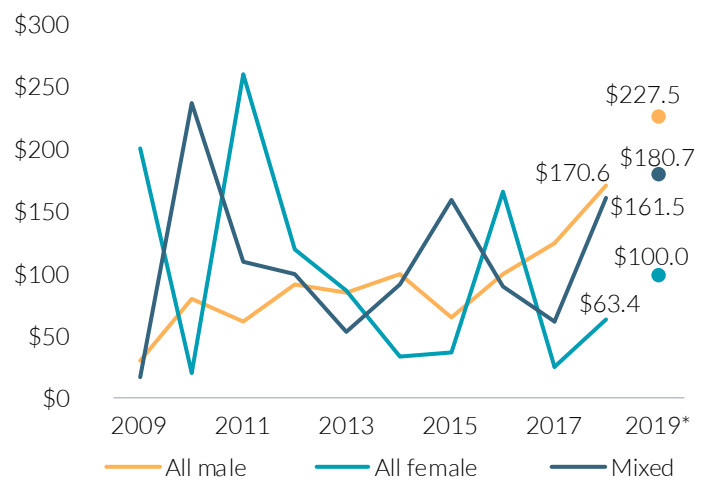
US VC exit activity for female-founded companies



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Exit sizes trending higher for female founders

Median VC exit sizes (\$M) by founder gender



PitchBook-NVCA Venture Monitor
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Corporate VC

Corporate VC (CVC) investors participated in 316 venture deals in 1Q 2019, totaling \$19.4 billion, maintaining momentum from the rapid growth of 2018. Additionally, CVC activity as a share of overall VC activity set a new high, increasing from 52.7% of deal value in 2018 to 59.6% in 1Q 2019. The doubling of this figure over the past six years is a knock-on effect of CVC investors increasingly taking part in large rounds at later stages and contributing to the trend of VC-backed companies staying private for longer than they have historically.

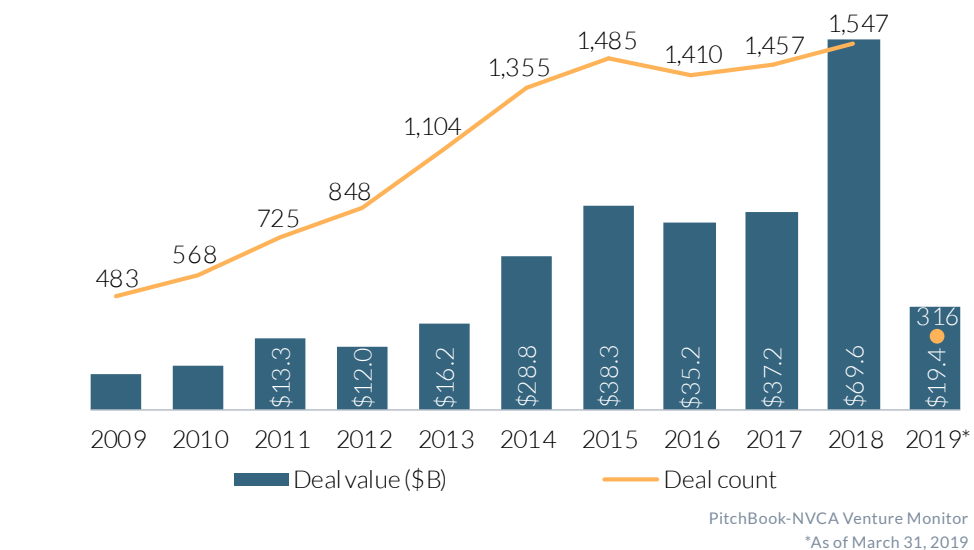
40.8% of CVC-backed deals in 1Q 2019 were \$25 million or larger. These transactions totaled \$17.8 million and contributed 91.8% of VC investment dollars during the quarter. Both figures represent record levels if annualized and continue a trend of growing deal sizes. In line with this trend, late-stage deals comprised the highest proportion of CVC deal flow since 2Q 2013. The increase in the proportion of late-stage rounds demonstrates the willingness of CVC investors to accept higher valuations for companies with both strategic and financial value propositions.

Median pre-money valuations for CVC-backed deals were up 58% over 2018, soaring to \$70 million. This reflects both an increased proportion of large late-stage deals and higher early-stage valuations. Even though deal pricing is rapidly increasing, CVC investors can realize ancillary benefits from their portfolio companies beyond a financial return, including trend spotting, product development collaboration and M&A pipeline development. As a result, they may be less price sensitive than independent VCs that are singularly focused on delivering returns to external LPs. Due to their ability to pay a premium for potential strategic returns, CVC investors may be driving some of the increased deal sizes and valuations throughout the VC market.

Growth in deal sizes was driven by leading corporate investors SoftBank, Amazon and Alphabet, who are supporting disruptive business models in a range of industries. These three conglomerates participated

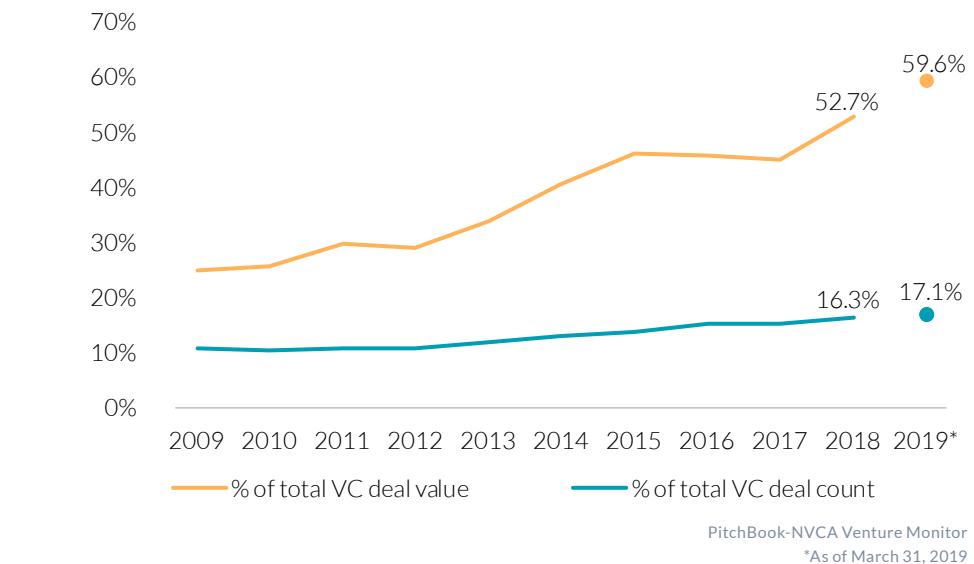
Recent explosion in CVC activity continued early in 2019

US VC deal activity with CVC participation



Deals with CVC investors continue to represent over 50% of VC deal value

Deals with CVC participation as proportion of total US VC



in the five largest CVC deals of the quarter and 12% of CVC deals overall. SoftBank alone participated in \$8.1 billion of deals in 1Q, nearly equaling its total for all of 2018, including \$1.0 billion for Flexport, a freight logistics platform, and \$5.0 billion for The We Company. Although SoftBank has deployed around 70% of its Vision Fund

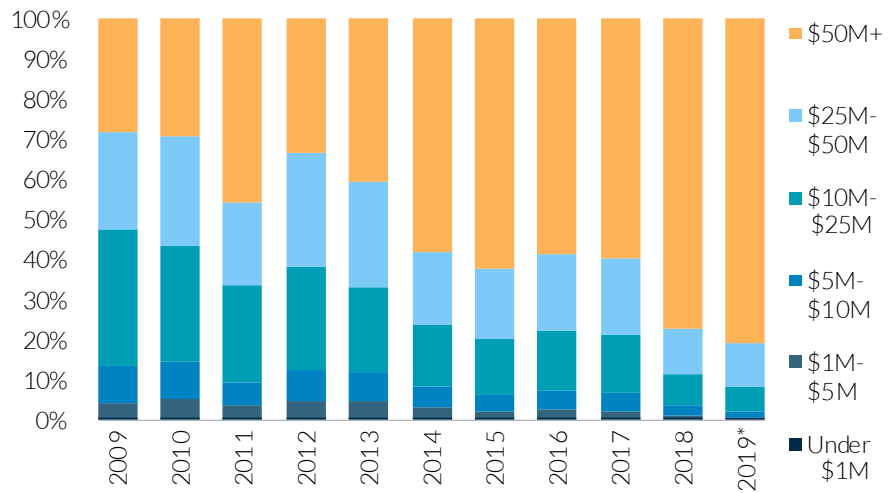
I, a successor fund is being raised and it can also invest from its balance sheet. With all these options, the firm should be able to deploy capital at this rate on an ongoing basis, supporting continued increases in deal sizes and proportion of CVC contributions to the VC market.

Commercial services composed an increased proportion of capital invested at 31.9% in 1Q due to SoftBank's investments in The We Company and FlexPort. Transportation was a secondary theme to commercial services in 1Q. The "Other" category comprises 27.1% of capital invested, led by mega-rounds in mobility. Autonomous driving companies raised \$2.3 billion in deals including CVC investors with technology parent companies, such as Amazon and Intel Capital, as well as CVCs with automotive parent companies, such as Toyota AI Ventures and BMW i Ventures. Beyond autonomous driving, micro-mobility platform Lime raised \$310 million led by Alphabet's GV and SpaceX raised \$500 million from a syndicate including Alphabet. The transportation industry should attract continued CVC investment in coming quarters due to high demand from automotive original equipment manufacturers for technology partnerships and additional investment opportunities in autonomous driving.

Beyond SoftBank, US corporations are investing in innovation at their highest rate in over a decade. Average R&D expenditure for technology adjacent S&P 500 companies increased by 24% in 4Q 2018 QoQ, the highest increase since the global financial crisis (GFC). This outstanding quarter after a flat year of R&D expenditure growth drove 16% YoY growth in 2018, also the highest since the GFC. CVC programs tend to complement internal R&D spending, according to academic research, suggesting that corporations increase CVC investment along with internal R&D.¹ An example of increased innovation investment can be seen in Amazon's leadership of a \$700 million round for Rivian, a manufacturer of autonomous electric vehicles, marking the largest VC investment led by Amazon. CVC activity levels would be threatened by a prolonged market downturn, which would likely force cuts to innovation spending. In the near term, we believe corporations will continue to view CVC as an extension of their R&D function and contribute to increased deal sizes and valuations in the VC market.

CVC increases concentration in \$50M+ rounds

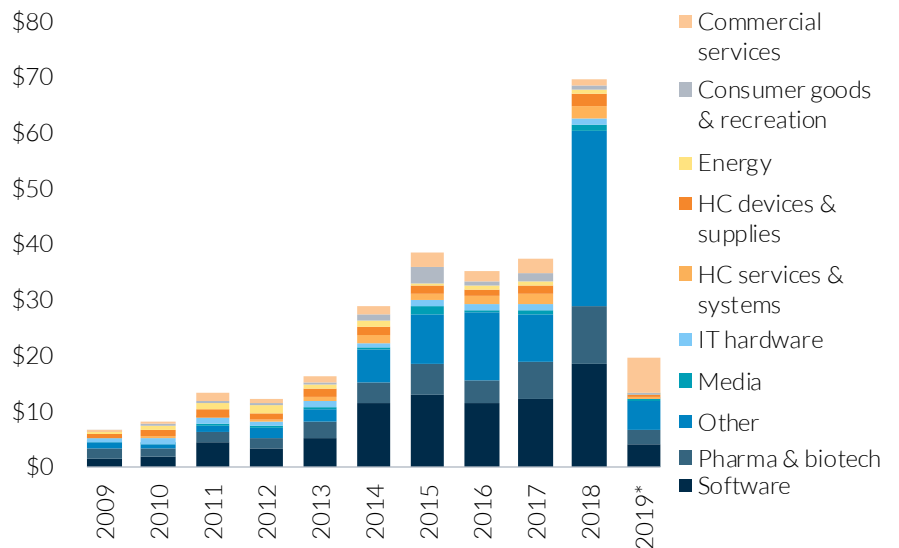
US VC deals (\$) with CVC participation by size



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*As of March 31, 2019

Commercial services and transportation deals comprise nearly 50% of 1Q deal flow

US VC deals (\$B) with CVC participation by sector



PitchBook-NVCA Venture Monitor
*As of March 31, 2019

1: "How Transparent Are Firms About Their Corporate Venture Capital Investments?," Sophia J. W. Hamm, Michael J. Jung & Min Park, 2018

Perkins Coie: Navigating late-stage financings

Q&A: Buddy Arnheim discusses the nuances of late-stage transactions in the current environment

From the perspective of your practice in working with late-stage companies currently conducting a large financing, what are key hurdles often encountered given the current environment and attributes of the company?

Billion-dollar-plus valuations have scaled up to a startling degree in the past several years for financings ranging in size from hundreds of millions to billions. Some transactions can close very quickly with remarkably innocuous terms (e.g. no special liquidation preference or voting rights), but we've also seen very complicated terms be finalized. There isn't always a rhyme or reason for the structure of these deals.

Early-stage investors that are overallocated to the company—and are happy to be, given the company's success—are looking to maintain said exposure given the company's growth prospects. Consequently, we are seeing some of those firms create opportunity funds to reinvest and maintain their share of ownership. We've also seen early-stage investors cash out a portion of their ownership in certain late-stage financings and realize a healthy return.

From a terms standpoint, if those deals are also highly structured, the focus tends to be on downside protection on the off chance the company is acquired before it accesses public markets for equity. We have also observed floors for what the preferred investment is converted into in the event of a public offering (i.e. if the IPO isn't at a certain valuation, the ownership portion is adjusted). Those two matters tend to make up the bulk of the work during complex late-stage deals. Interestingly, there's not much governance control. Financial reporting, however, is a matter of keen interest. There's an expectation that annual financials

are now audited, monthly updates are available and access to operating budget is open.

To the extent additional capital is to be raised or even in the public markets, late-stage investors will also ask for preemptive rights to inject capital in future financings. Also, if there is secondary liquidity posed as an option, they often wish to ensure they are able to capture liquidity with minimal constraints.

Is there much difference between rounds depending on the types of firms participating, say, between deals with family offices versus sovereign wealth funds or the like?

The institutional investors tend to request or even insist upon more structures than the private investors, e.g. family offices. That's a generalization, and isn't always the case, but by and large, institutional investors lead the rounds, and private players join in and consequently react to terms more commonly. The rate of insistence varies; companies with momentum in their fundraising can push back at times, others have to comply.

In terms of downside protections you mentioned earlier, have there been any significant shifts based on the type of liquidity event contemplated, e.g. M&A versus IPO?

We used to discuss only two exit options: M&A and IPOs. Now, we discuss a third: secondary transactions. The secondaries market has matured to an extent that some liquidity can be available. The general expectation for the most prominent companies—the unicorns—is that fewer of them will be acquired simply due to their size. Inevitably, more attention is paid to taking the company public, and once the equity is floated, there will be support. While that process is underway, however, investors also focus on how they may access secondary liquidity along the way, prior to the listing.



Buddy Arnheim, co-chair of Perkins Coie's Emerging Companies & Venture Capital group, focuses his practice on representing emerging growth companies, VC funds and other early-stage investors.

Liquidation preference is the primary mechanism in the realm of downside protections. The range of strength for liquidation preferences can vary from guaranteed percentage of return to simple downside protection in the case of acquisition. All of the iterations are fairly well known, as is the inevitability that once a company debuts, those protections disappear. If an IPO is the expected path for liquidity, the mechanisms we see most often are stock conversions from preferred to common, with varying ratios based on predetermined IPO pricings. An annual return in terms of conversion can be built in quite frequently, which also translates to a pressure on the company to go public. The longer it stays private, the more its stock converts. If the value of the IPO is below a certain threshold, the ratio often depends on how short it fell of the benchmark.

Is there any discussion around how much control the current managing team may retain in the exit or during the financing?

There are a handful of companies where the founding team has been able to maintain voting control, even after transitioning to public life.

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But those are anomalies. The approaches used to achieve or maintain that control can vary, but one mechanism is often codification by the founders early in the company's life in structuring the cap table, essentially in such a way they can hold a majority control for the foreseeable future. Retaining that control is largely dependent on fundraising success. As a company is maturing, there are also ways to take a standard voting structure and transfer it to a small concentration of ownership, via the creation of a second class of common stock that can be issued to future employees and investors to convert. If done early enough, owners of the prior class can retain more voting power. Most of the companies with which we work rarely have these types of control situations.

Have you seen problematic areas during these large, late-stage financings that should be addressed more frequently, in your opinion?

Let's start with concentrated control. A legal structure can definitely convey and maintain control, but from a governance standpoint, I'm not convinced those structures always convey sufficient objectivity and other necessary features for companies of that size, especially as they gear up to go public. Accordingly, we have to ensure in the case of concentrated control that all parties are apprised of the potential ramifications. It's an open, ongoing debate as to whether it's a scenario that sets a business up for good corporate governance.

Regarding economic terms, we've been in a remarkable market for a decade-plus now. We've seen some volatility, but no crash on the scale of 2001 or 2008. Consequently there has been some numbing to the true extent of the impact that some of the downside protections utilized could exert on existing stockholders. Should a recession occur—or a dramatic market correction—the impact of the downside protections will be startling. It's all intangible and hard to anticipate until it happens, but it's worth noting that in those prior years, we didn't see a similar extent of all these large, late-stage rounds.

Have you seen any disparities in these transactions based on the specific sector niche of the company conducting the fundraising?

Sectors vary in favor. Sometimes for good reasons. Sometimes for less rational motives. Reversion to the mean is always expected by investors, in this environment. A few companies can continue to defy that reversion to the mean, however, even if the underlying sector is going through significant change. For example, when consumer internet companies are experiencing very quick, inexpensive user growth, they can defy usual revenue multiples, as investors look to prior examples in that sector. However, in other sectors, if leading companies in a given sector are experiencing troubles, even a new company that is recording strong YoY growth in revenues can have trouble casting off that general perception of negativity and see their valuations suppressed. Currently, robotics and space are enjoying plenty of attention, and the few companies performing well in that arena are commanding a lot of investor interest; gaming, on the other hand, has seen quite a few companies do well but isn't drawing quite as much attention. The trend can tend to be cyclical.

Are there any other nuances to the above that you'd like to expand upon?

The path to liquidity is increasingly elongated. Back in the 1990s, it was much easier to tap public capital after tens of millions in revenue. Now, companies have to achieve a much-higher degree of maturity before going public. A new category of investment has emerged as a result—this late-stage, venture growth arena—to fuel those companies. Every week, we see a financing in the hundreds of millions get consummated; that used to be quite rare. But this isn't necessarily inflation, as those companies are also tackling huge markets.

As a consequence, though, the secondaries market will continue to evolve, as employees' main incentive remains equity, and they need the option for liquidity. Last but not least, players have come and gone in the late-stage market, from public mutual funds to hedge funds. Capital sources will continue to fluctuate, essentially, as the late-stage market evolves as its own new category.

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Exits

The exit market retained some of its momentum from 2018 through the first quarter of 2019, as exit value came in at \$46.7 billion across 137 deals. While slightly lagging last year's pace in terms of exit volume, outsized liquidity events drove quarterly exit value higher. Acquisitions were an especially bright spot in 1Q, propelling the highest quarterly value since 4Q 2014, which was buoyed by Facebook's acquisition of WhatsApp. A group of large acquisitions, rather than a single transaction, helped to carry exit value in 1Q 2019, with six deals closing over \$650 million.

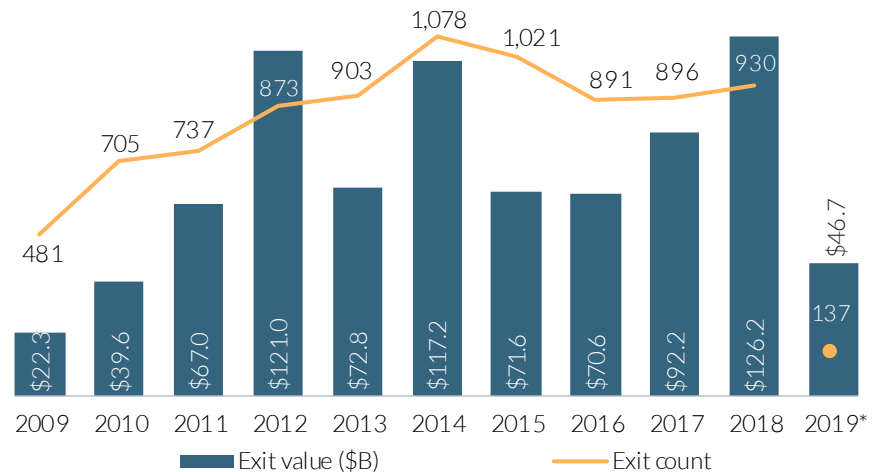
Leading the pack was SAP's acquisition of Qualtrics for \$8 billion, an extension of the strength we've seen in enterprise software deals over the past few quarters. It also marks another acquisition in the final hour before the company's planned IPO at a significant valuation premium over the expected offering valuation. With a full stable of potentially large IPOs in the coming year, this could become more common as corporations get a closer look at these tenured VC-backed companies and try to get a better price than what the company might eventually trade for in the public markets.

Speaking of IPOs, the US government shutdown contributed to a slow first quarter for VC-backed public listings. 1Q is typically the quietest quarter of the year for IPOs but with only 12 public listings closing in 1Q 2019, this year has been exceptionally tepid out of the gate. Healthcare businesses notched 9 out of the 12 IPOs during the quarter led by Alector, a developer of drugs to combat neurodegeneration, which debuted at valuation over \$1 billion.

Outshining all other activity in the quarter, 1Q 2019 also saw ridesharing giant Lyft complete its IPO. This deal on its own, which valued the company at \$21.7 billion pre-money, was nearly greater than all other exits in the quarter combined. As the first ridesharing IPO and the first of the current group of private businesses valued over \$10 billion to go public, the outcome of this offering will be heavily scrutinized. However, through the first

Lyft IPO sets 2019 on pace for record exit value

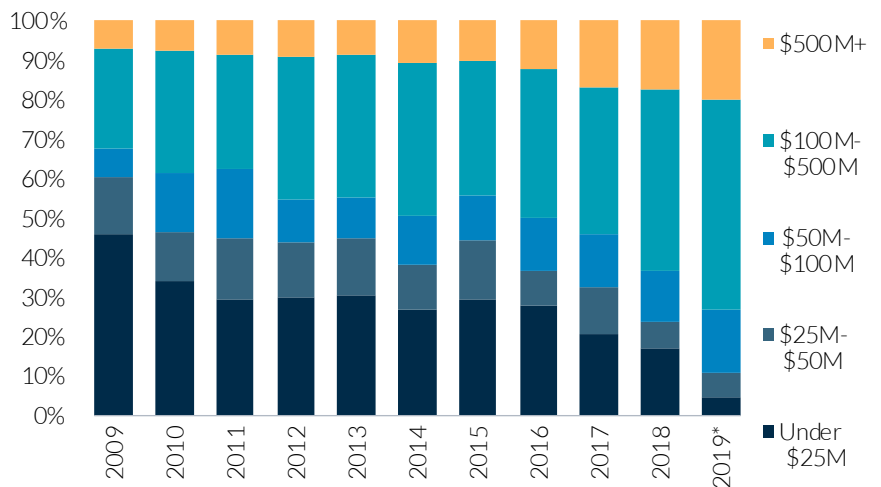
US VC exit activity



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\$100M+ exits proliferate, on pace for new decade-high share of exits

US VC exits (#) by size



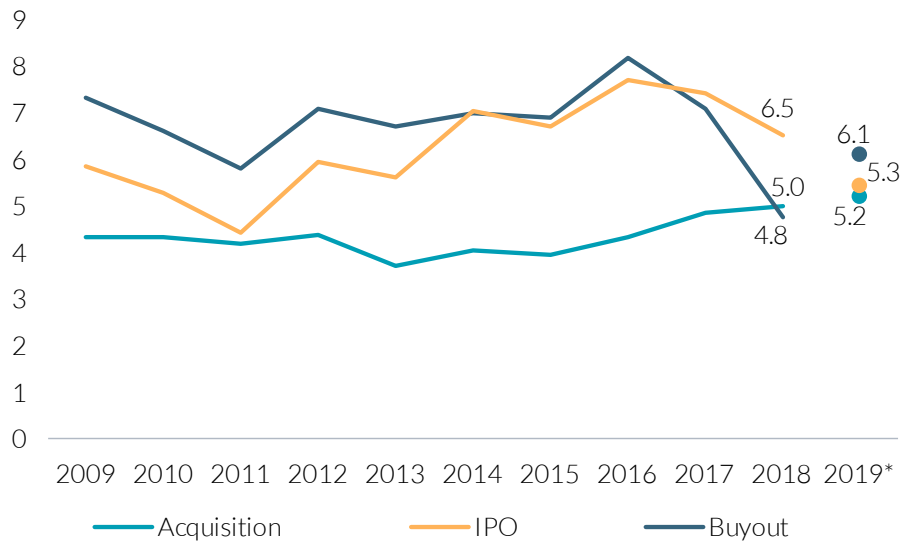
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few days of trading, results have been less than ideal, especially for investors in the IPO or thereafter as the price has fallen steadily in the open market after opening 21.2% above its IPO price. While the offering priced at 1.43x the company's last private valuation, shares closed below the \$72 IPO price on just the second day of trading, a symbolically negative move, potentially damaging internal morale and tempering the unbridled demand for some of the upcoming large VC-backed IPOs. The longer-term performance of Lyft is more important than the first few days of trading as interested parties will be able to quantify how these buzzworthy companies fare as their growth prospects change and profitability becomes more important.

The Lyft example also shows the effect that outliers have on the exits dataset and what we might expect from the rest of the year. With filings or IPO plans in place for Uber, Pinterest, Zoom and many others, it appears these large private technology companies still view the liquidity environment as favorable. However, this rush to exit could also signal some concern that the window to exit VC backing is closing. We still believe there is adequate demand for these technology offerings, as one of our predictions for 2019 was that IPO's proportion of exit value would set a new decade high on the back of these outlier exits. The figure as of 1Q is 53.6%, slightly lower than the 72.3% record set in 2012, but examining the current backlog, we are still confident in this view.

Median time to acquisition trends higher in 1Q

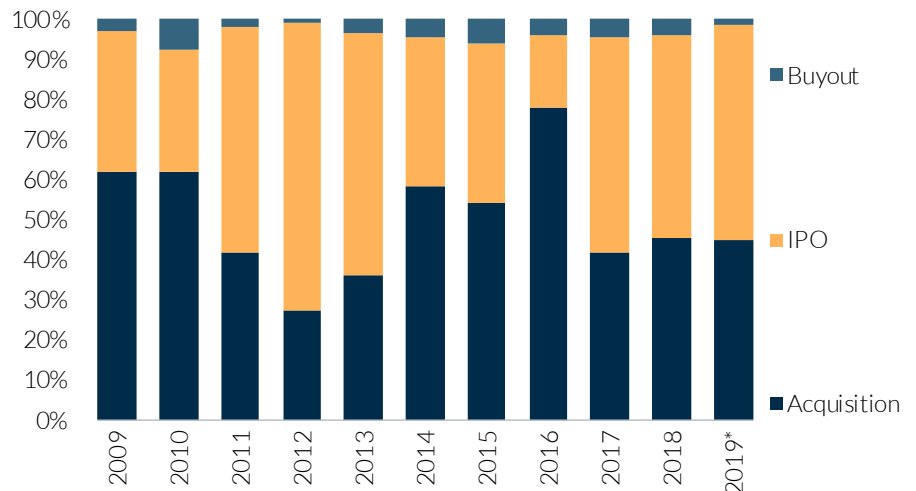
Median time (years) to exit for US VC companies by exit type



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IPOs proportion of exit value continues to hover around 50%

US VC exits (\$) by type



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Fundraising

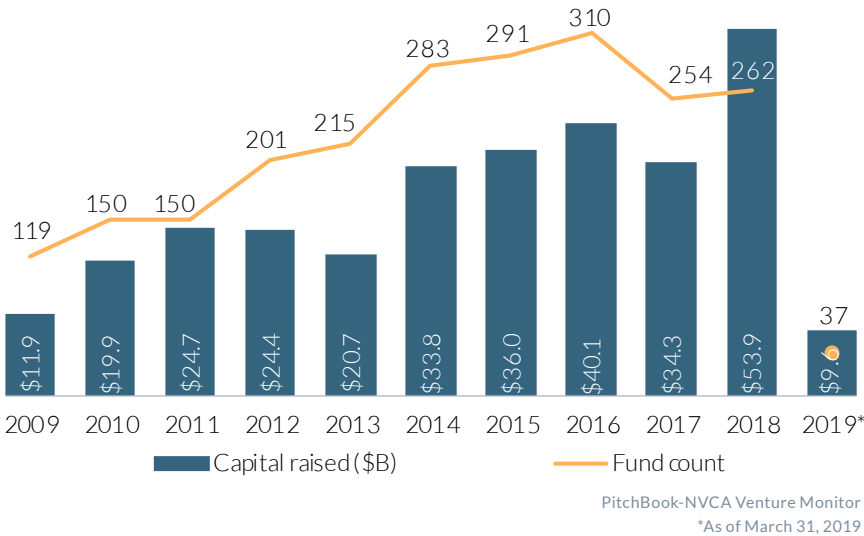
VC funds have raised \$9.6 billion across 37 vehicles in 1Q, as the record-breaking activity from 2018 cooled early in the year; however, 2018 marked the fifth consecutive year VC fundraising surpassed \$30 billion, and we still think the outlook is strong for 2019. Several prominent firms, including Khosla Ventures, Andreessen Horowitz, New Enterprise Associates and Vivo Capital, are on the road with new vehicles seeking at least \$1 billion—and we expect more firms throughout the year to launch fundraises with ambitious targets. We expect that capital raised will remain robust in 2019 even if fund count drops relative to 2018.

Despite the slowdown, 1Q 2019 continued 2018’s trend of the VC mega-fund. Perhaps in an effort to adequately compete with SoftBank Group’s Vision Fund I and forthcoming Vision Fund II, six VC mega-funds closed in 1Q 2019, all based in Silicon Valley and headlined by Technology Crossover Ventures’ \$3 billion TCV X. With this vehicle, TCV intends to funnel checks of over \$100 million into late-stage technology firms. Silicon Valley-based VC firm Accel also raised \$1.3 billion for two VC vehicles: a new flagship fund, Accel XIV, and a follow-on fund for portfolio companies called Accel Leaders Fund II. The new Leaders Fund may benefit existing Accel portfolio companies including Bird, Deliveroo, CrowdStrike and Checkr.

The rise of mega-funds marks a shift in venture investment strategy toward funding startups in industries conducive to a blitzscaling strategy, wherein a single company has the potential to dominate the market. In this strategy, exemplified by SoftBank’s Vision Fund, the focus is on identifying emerging or antiquated industries ready for disruption. Investors then choose a company within these industries to infuse with such massive quantities of capital that it comes to dominate the market and transform the industry. The prevalence of this strategy has led to an increase in median fund size from \$79.6 million in 2018 to \$103.3 million in 1Q 2019.

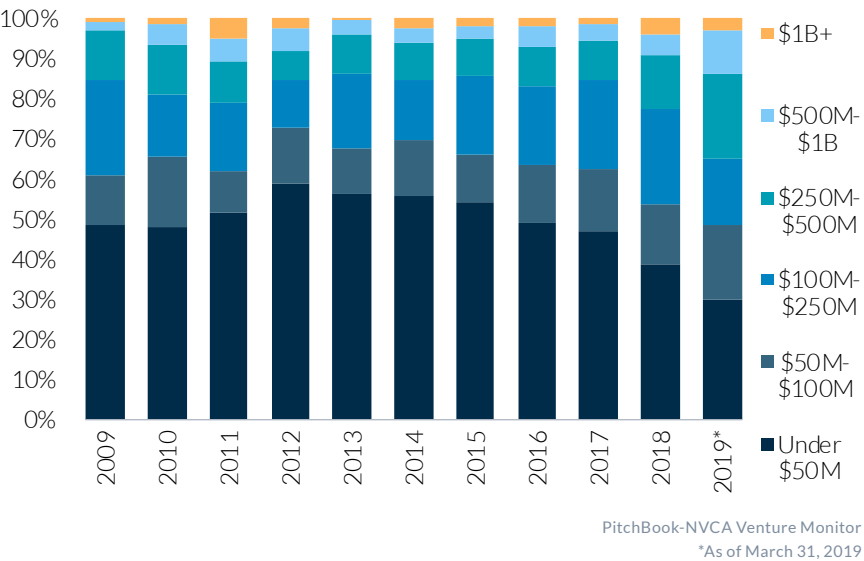
VC fundraising poised to sustain elevated levels in 2019 despite slow 1Q

US VC fundraising activity



\$250M+ funds continue to increase as proportion of funds raised

US VC fundraising (#) by size



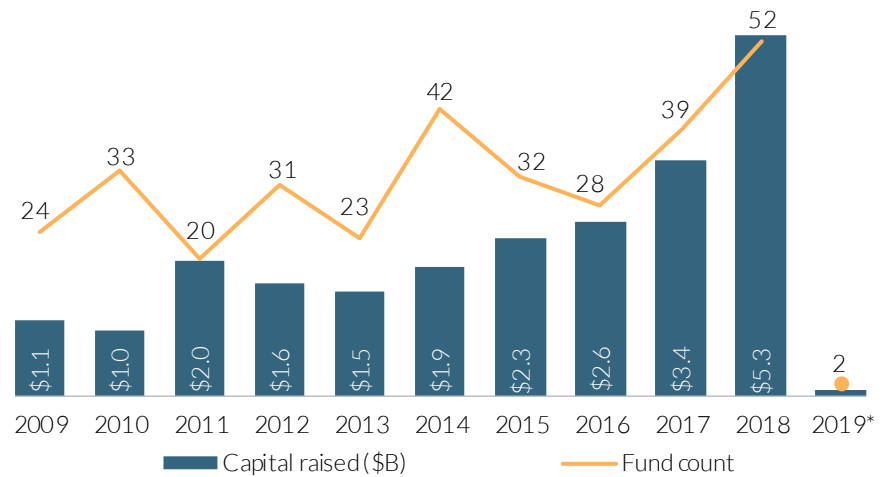
The highest growth in proportion of funds in 1Q 2019 came from funds sized \$250 million to \$500 million. From 2012 to 2017, these VC funds comprised less than 10% of disclosed fund volume. In 2018, however, funds of this size comprised 13.7% of funds raised and increased to 21.6% in 1Q 2019 across eight vehicles. As one example, Menlo Ventures raised just under \$500 million to invest in early-stage companies, focusing on Series B and C where the firm sees a gap in the market. This tier of funds may see continued expansion to support increased early-stage valuations.

First-time fund count slackened in 1Q 2019 after reaching a decade high in 2018. The quantity of first-time funds over \$50 million increased substantially in 2018, with the greatest uptick in the \$50 million to \$100 million range, climbing 57.1% YoY. The two first-time funds raised in 1Q 2019 were over \$30 million, but neither met 2018's median of \$80 million. While first-time funds have historically been a barometer of LP appetite for VC, the skyrocketing size of mega-funds may result in less capital supply for first-time funds.

Fund size step-up multiples have regressed toward historical norms after setting a record high in 2017. These multiples apply to successive funds within the same VC fund family, such as Accel's flagship fund family mentioned previously. 2015-2018 saw the median step-up multiple increase to at least 1.4x in three of four years, but 1Q saw a regression to 1.3x. TCV X achieved only a 1.2x size increase step-up multiple after raising \$500 million more than its previous flagship fund. Looking forward, New Enterprise Associates announced a 17th flagship with a 1.2x target step-up multiple, \$600 million more than its previous fund. This regression in step-up multiples indicates that large funds can achieve record absolute increases in size if not record step-ups. Because of these large absolute step-ups, mega-funds have become the driving force behind VC activity.

First-time fundraising begins year on slow note

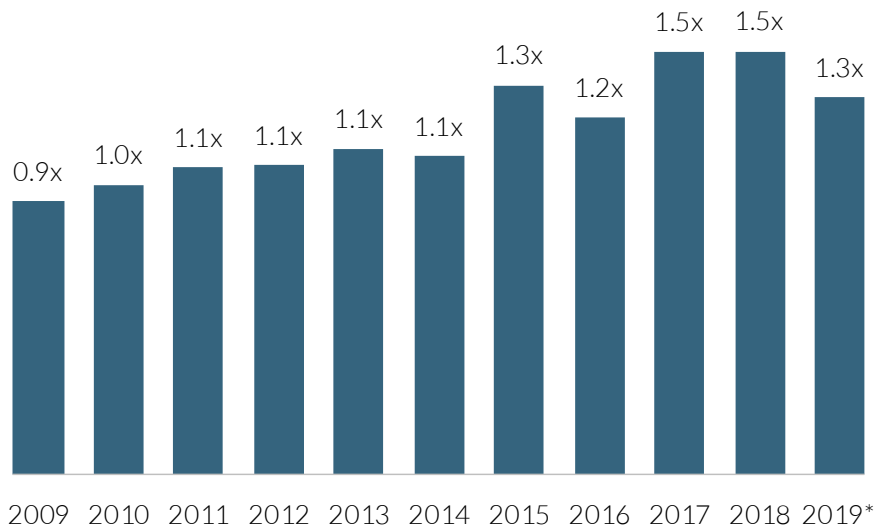
US VC first-time fundraising activity



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Median fund size step-up multiple reverts toward historic levels

Median US VC fund size step-up by close year



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1Q 2019 league tables

Most active investors angel & seed

1	Plug and Play Tech Center	11
1	Innovation Works	11
3	Village Global	7
3	ATX Venture Partners	7
3	Ben Franklin Technology Partners of Southeastern Pennsylvania	7
6	Connecticut Innovations	6
7	SOSV	5
7	Ulu Ventures	5
7	Y Combinator	5
7	Invest Michigan	5
11	M25	4
11	Alumni Ventures Group	4
11	Techstars	4
11	Social Starts	4
11	Keiretsu Forum	4
11	Right Side Capital Management	4
11	500 Startups	4
11	Capital Factory	4
19	Revel Partners	3
19	Pioneer Square Labs	3
19	Lerer Hippeau Ventures	3
19	Neotribe Ventures	3
19	Ubiquity Ventures	3
19	Founders Fund	3
19	Founder Collective	3
19	Access Venture Partners	3
19	Haystack	3
19	Crosslink Capital	3
19	First Round Capital	3
19	Cervin Ventures	3
19	Hatcher Plus	3
19	Joyance Partners	3

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Most active investors early stage

1	Keiretsu Forum	25
2	New Enterprise Associates	14
3	Kleiner Perkins	12
4	Y Combinator	9
4	SOSV	9
4	GV	9
7	Elevate Ventures	8
8	Plug and Play Tech Center	7
8	Alexandria Venture Investments	7
10	Khosla Ventures	6
10	Connecticut Innovations	6
10	Accel	6
10	Andreessen Horowitz	6
10	Ben Franklin Technology Partners of Southeastern Pennsylvania	6
10	Alumni Ventures Group	6
16	SV Angel	5
16	Lux Capital	5
16	Lightspeed Venture Partners	5
16	FundersClub	5
16	Norwest Venture Partners	5
16	Bessemer Venture Partners	5

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Most active investors late stage

1	Kleiner Perkins	18
2	GV	13
3	Sequoia Capital	11
3	New Enterprise Associates	11
5	Salesforce Ventures	10
5	Norwest Venture Partners	10
7	Keiretsu Forum	9
7	Bessemer Venture Partners	9
9	Sapphire Ventures	7
9	Index Ventures (UK)	7
9	Connecticut Innovations	7
9	Bain Capital Ventures	7
13	Scale Venture Partners	6
13	M12	6
13	Insight Partners	6
13	Coatue Management	6
13	Battery Ventures	6
13	Charles River Ventures	6
13	Alumni Ventures Group	6
20	Tiger Global Management	5
20	Shasta Ventures	5
20	IVP	5
20	GGV Capital	5
20	Lightspeed Venture Partners	5
20	General Catalyst	5
20	Canaan Partners	5

PitchBook-NVCA Venture Monitor

Methodology

Fundraising

We define VC funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional VC firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identifying as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund is domiciled; if that information is not explicitly known, the HQ country of the fund's general partner is used. Only funds based in the United States that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

Deals

We include equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, VC firms, corporate venture firms, and corporate investors. Investments received as part of an accelerator program are not included, however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US, with any reference to "metro" defined as the metropolitan statistical area (MSA).

Angel & seed: We define financings as angel rounds if there are no PE or VC firms involved in the company to date and we cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is for less than \$500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which we typically aggregate together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Late-stage: Rounds are generally classified as Series C or D or later (which we typically aggregate together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Growth equity: Rounds must include at least one investor tagged as growth/expansion, while deal size must either be \$15 million or more (although rounds of undisclosed size that meet all other criteria are included). In addition, the deal must be classified as growth/expansion or later-stage VC in the PitchBook Platform. If the financing is tagged as late-stage VC it is included regardless of industry. Also, if a company is tagged with any PitchBook vertical, excepting manufacturing and infrastructure, it is kept. Otherwise, the following industries are excluded from growth equity financing calculations: buildings and property, thrifts and mortgage finance, real estate investment trusts, and oil & gas equipment, utilities, exploration, production and refining. Lastly, the company in question must not have had an M&A event, buyout, or IPO completed prior to the round in question.

Corporate VC: Financings classified as corporate VC include rounds that saw both firms investing via established CVC arms or corporations making equity investments off balance sheets or whatever other non-CVC method actually employed. Rounds in VC-backed companies previously tagged as just corporate investments have been added into the dataset.

Capital efficiency score: Our capital efficiency score was calculated using companies that had completed an exit (IPO, M&A or PE Buyout) since 2006. The aggregate value of those exits, defined as the pre-money valuation of the exit, was then divided by the aggregate amount of VC that was invested into those companies during their time under VC backing to give a Multiple On Invested Capital (MOIC). After the average time to exit was calculated for each pool of companies, it was used to divide the MOIC figure and give us a capital efficiency score.

Exits

We include the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown. IPO value is based on the pre-money valuation of the company at its IPO price.

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The 411 on the PitchBook and National Venture Capital Association (NVCA) partnership

Why we teamed up

NVCA is recognized as the go-to organization for venture capital advocacy, and the statistics we release are the industry standard. PitchBook is the leading data software provider for venture capital professionals, serving more than 1,800 clients across the private market. Our partnership with PitchBook empowers us to unlock more insights on the venture ecosystem and better advocate for an ever-evolving industry.

Meet the PitchBook-NVCA Venture Monitor

A brand-new, quarterly report that details venture capital activity and delivers insights to inform your investment strategy. PitchBook's data will also bolster our year-in-review publication.



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