PitchBook

VC Valuations Report

2017
1H

PitchBook

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The PitchBook Platform

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Valuations not showing signs of decline

Key Takeaways

- Companies are entering each stage further into their lifecycle as investors look for more developed business to invest in, consequently contributing to higher valuations.
- Despite the significant pullback by nontraditional investors, the record venture fundraising coupled with high dry powder levels has ensured plenty of capital is available for late-stage companies, which has caused exits to be pushed out and valuations to rise.
- Participation rates are falling at all stages, keeping VC more founder-friendly, at least at the early stage. Late-stage investors, particularly those in unicorn rounds, have looked to mitigate risk through other means such as ratchets or higher liquidation preferences.

VC valuations are still rising, with every stage currently seeing decade-high medians. While unsurprising, the continued growth over the past year-plus comes contrary to the unrest over high valuations in 2015 and early 2016. With figures growing higher, it is clear that the discourse over valuations then was prompted by lofty price tags bestowed on companies deemed unworthy by many. As a result, we've seen companies enter each stage later in their lifecycle, a shift assisted by increasing capital efficiency at each stage and higher round sizes that can sustain robust growth.

We hope this report is useful in your practice. As always, feel free to send any questions or comments to reports@pitchbook.com.

KYLE STANFORD

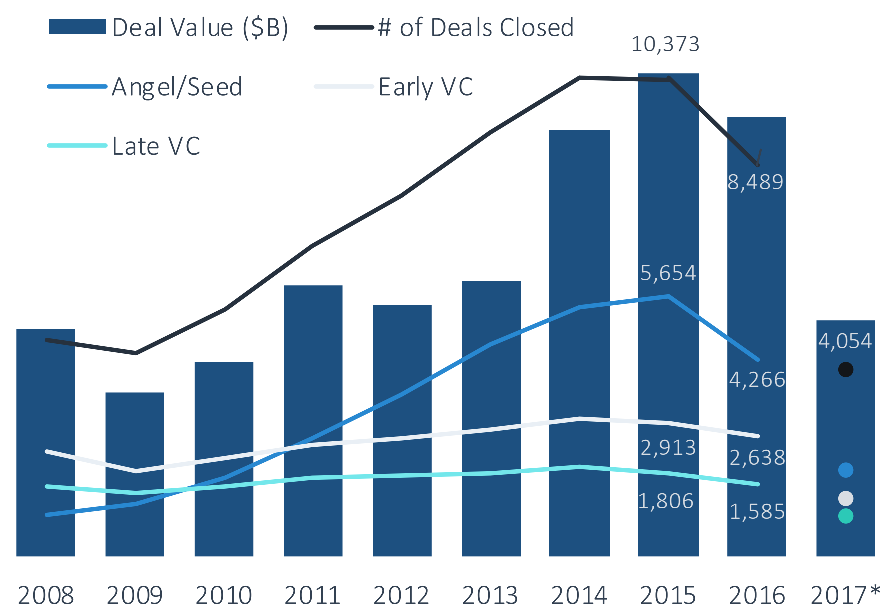
Analyst

Valuations continue to climb

Overview

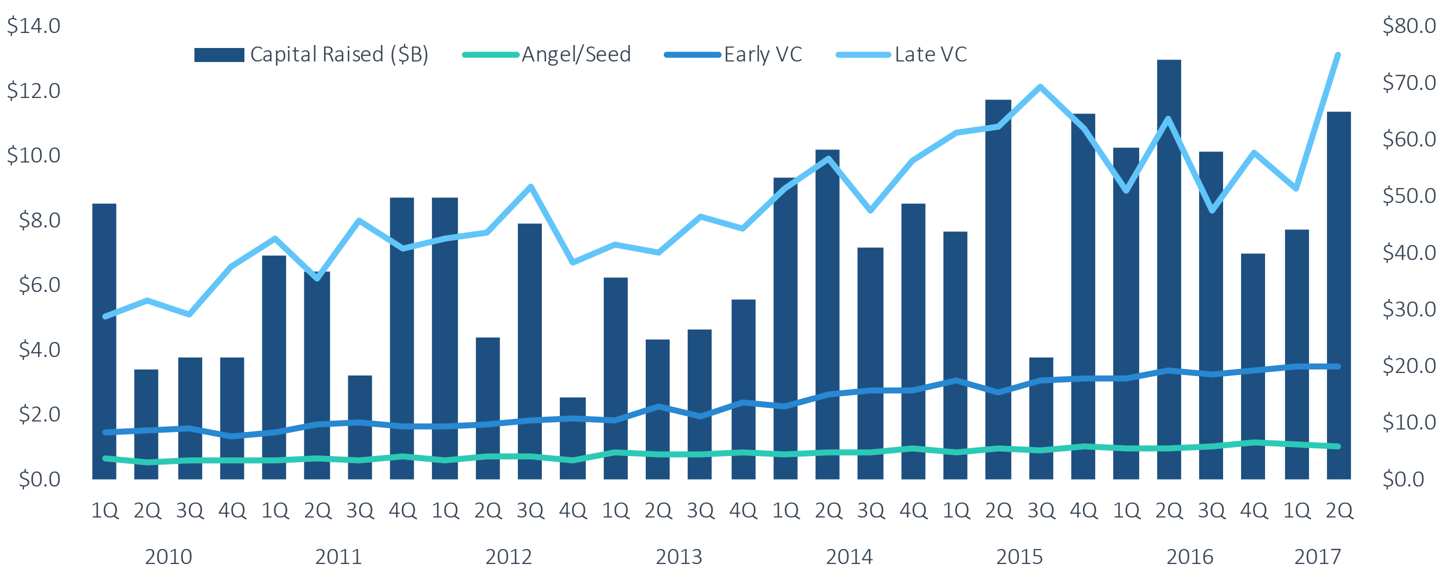
As venture activity ramped up through 2014 and into 2015, valuations soared relative to where they were immediately following the financial crisis. From 2009 to 2015, the median late-stage pre-money valuation more than doubled to almost $64 million, and early-stage and seed valuations have grown nearly each year during that time. Several factors combined to create this—one being simply the industry's regrowth after the financial crisis—but the heavy fundraising by VCs and heightened investment by nontraditional investors has contributed to an unprecedented growth in cap table valuations. While hedge funds and mutual funds have pulled back their activity over the past two years, VCs have raised more capital over the past four years than in any

US VC activity



Source: PitchBook
*As of 6/30/2017

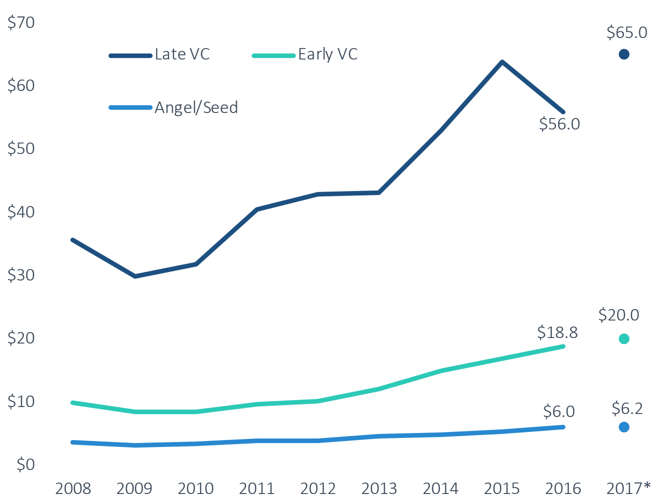
US VC fundraising and median pre-money valuations ($M)



Source: PitchBook
*As of 6/30/2017

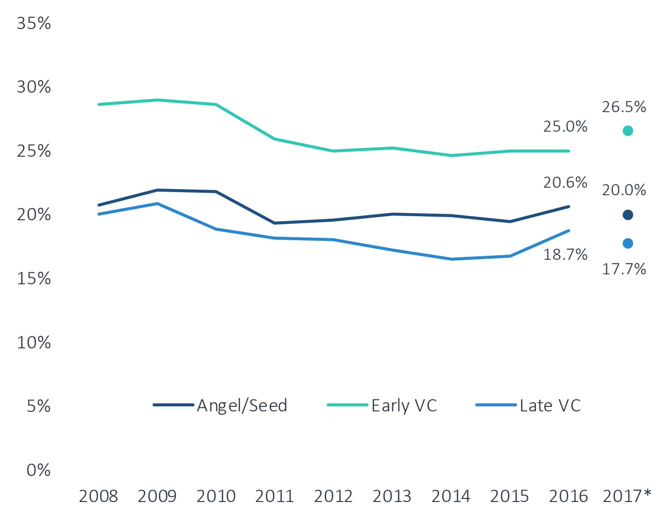
similar period ($129.4 billion). It was thought that valuations might come down as activity declined from the back half of 2015 to this year, but that hasn't been the case, as capital continues to be available across all stages at record levels. The median late-stage pre-money valuation reached $65 million during 1H, the highest figure we have tracked, while early-stage and seed valuations have each reached high-water marks of their own. Onetime unicorn Jawbone is selling off its assets, highlighting the precariousness of holding a position in VC-backed companies too long, as well as showing that a large valuation doesn't mean a company is infallible. The continued valuation increases are situations of many inputs. For one, companies are coming into each stage older. We've noticed a trend of companies able to either bootstrap or sustain themselves for longer before raising follow-on funding. This results in a set of older and more developed companies raising capital, which in turn typically comes attached with a higher valuation. The median pre-money valuation for first-time

Median valuation ($M) by stage



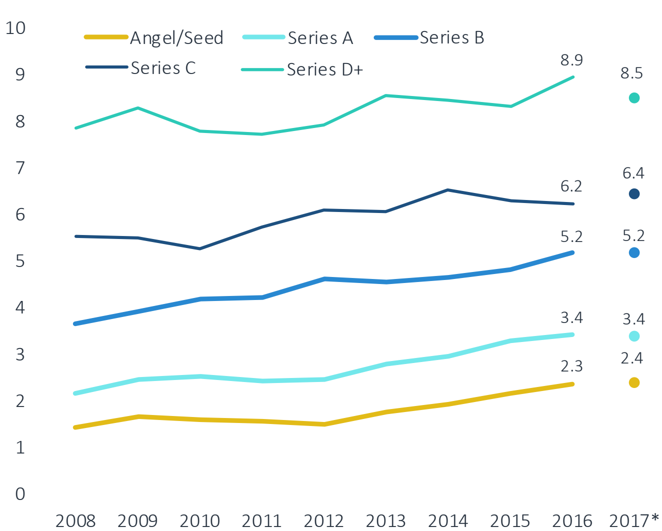
Source: PitchBook
*As of 6/30/2017

Median % acquired by stage



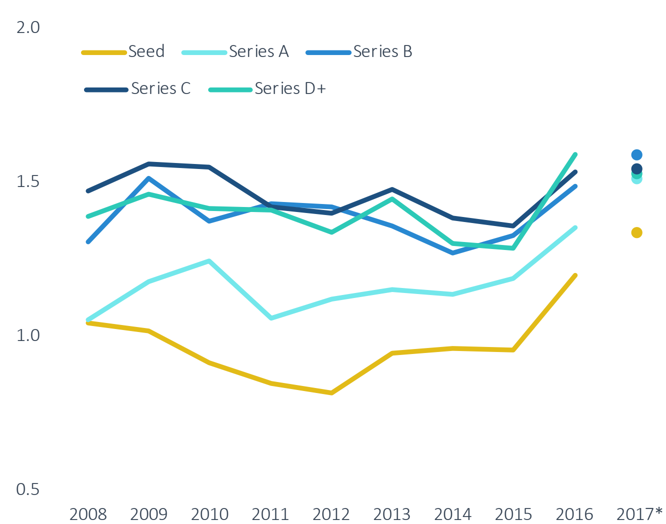
Source: PitchBook
*As of 6/30/2017

Median age (years) of US VC-backed startups by series



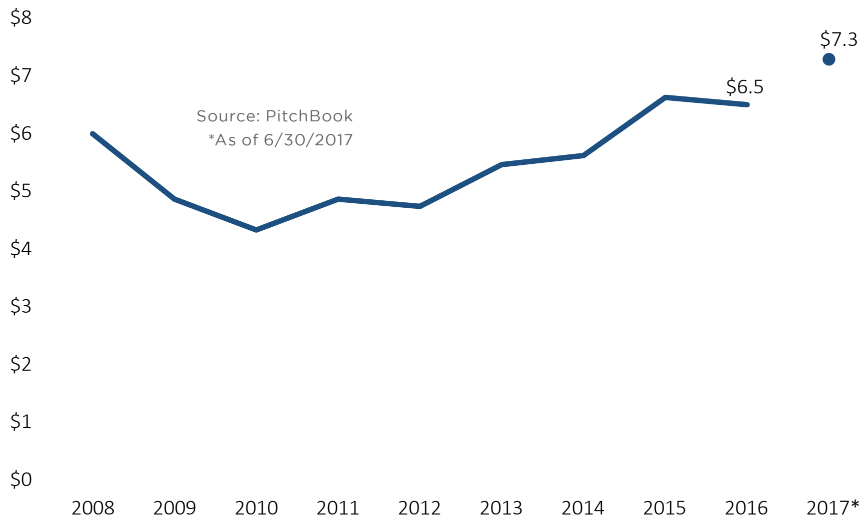
Source: PitchBook
*As of 6/30/2017

Median time (years) between rounds by series

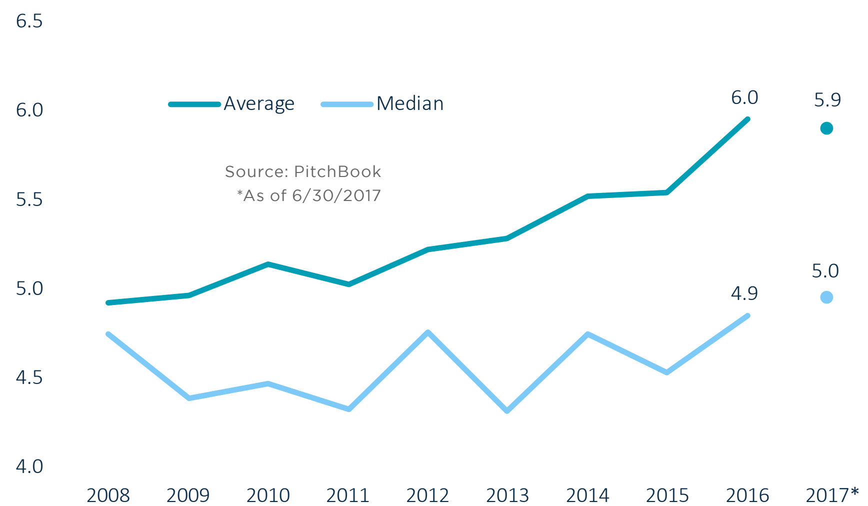


Source: PitchBook
*As of 6/30/2017

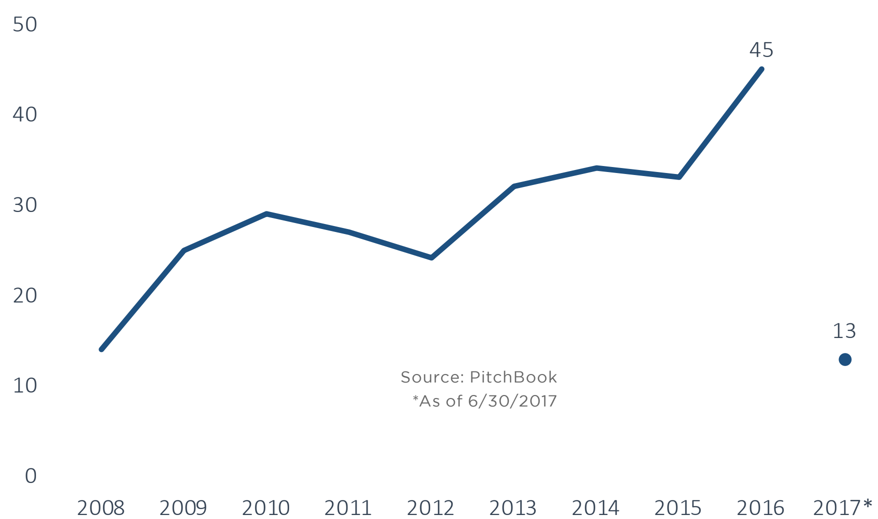
Median pre-money valuation ($M) for first VC rounds



Average and median time (years) to exit for US VC-backed companies



Number of companies to exit at lower valuation than last private round



financing rounds has crossed $7 million for the first time ever in 2017, with the mark sitting almost $3 million higher than in 2010. During that time, the median age of companies raising seed capital has grown close to 50% from just under 1.6 years to 2.4 years.

As we've noticed the median age of companies raising VC increase, round sizes have continued to grow accordingly. Further, the time between financings has also risen to nearly 1.5 years across all stages as a result of these larger round sizes. This trend, however, does come with positive effects, as startups are able to grow at a more sustainable pace, taking a balanced approach to growing their platform and maneuvering their product toward monetization.

Last, as we examine the landscape around valuations, we don't view the current slow exit market to be an item that will impact valuations. While the recent group of disappointing VC-backed IPOs could be concerning, the fact is that these companies have seen tremendous valuation growth since their first rounds of institutional funding. Further, despite the quantity of exits we've seen come to market at a discount to their last round of private funding, 2017 is pacing to see that trend come in precipitously lower relative to what we experienced in 2016.

Seed valuations slowly grow

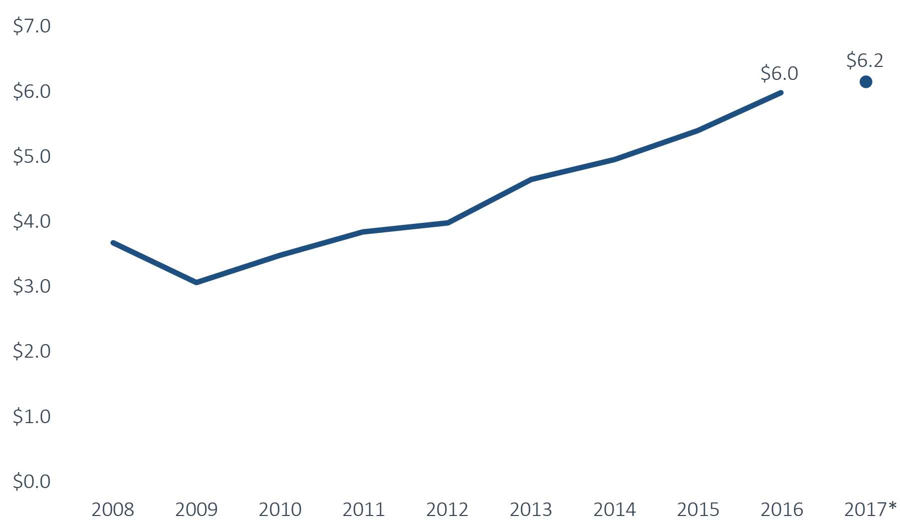
Seed valuations and trends

Angel and seed rounds have continued to come in at higher valuations so far in 2017. With deal volume in the stage leveling off after the decline we saw through 2015 and 2016, the seed space found itself on more solid ground during the first half of 2017. Amid this normalization, we find that investors at this stage are beginning to be more discerning by limiting investments to the highest-performing and most developed businesses.

We saw the median age of seed-stage companies trend older, supporting the theory that more mature businesses raised capital during 1H 2017. This development correlates strongly with larger deal sizes, especially as some firms raise multiple angel or seed rounds. Percentage growth in deal sizes has slowed as the broader seed stage stabilizes, but we still recorded an increase for the sixth straight year.

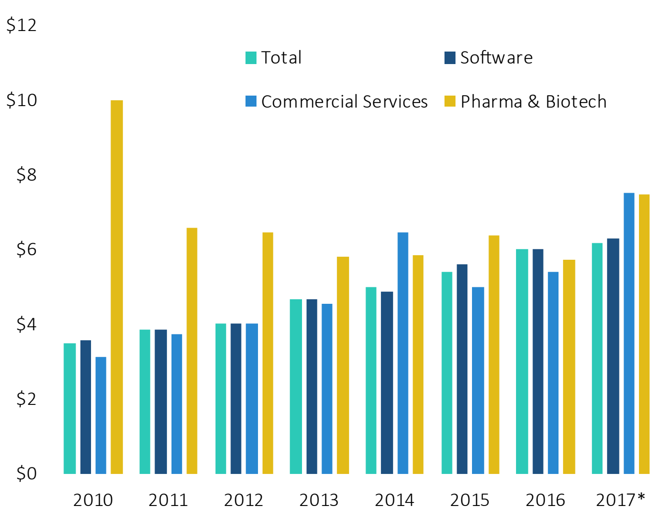
Looking at individual sectors, angel and seed rounds across the commercial services sector experienced an approximately 40% valuation jump over 2016, the largest sector increase. However, much of the continued valuation growth can be attributed to outsized deals in the software and biotech sectors during 2017, including the $11.5 million seed financing secured by Biomeme, a technology platform for advanced DNA diagnostics.

Median US seed pre-money valuation ($M)



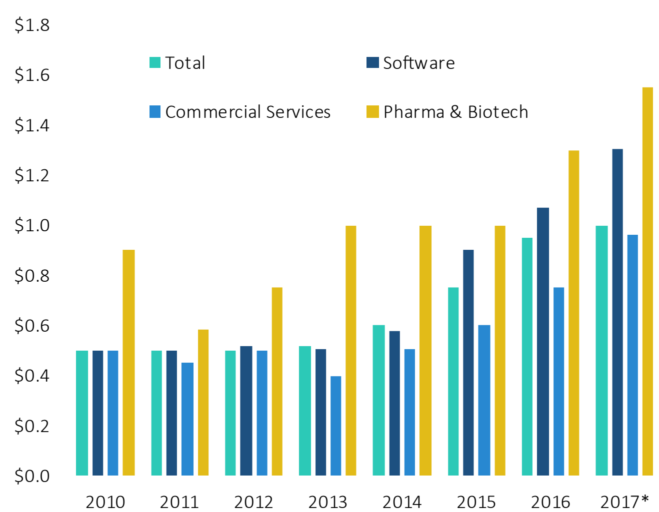
Source: PitchBook
*As of 6/30/2017

Median US seed valuation ($M) by sector



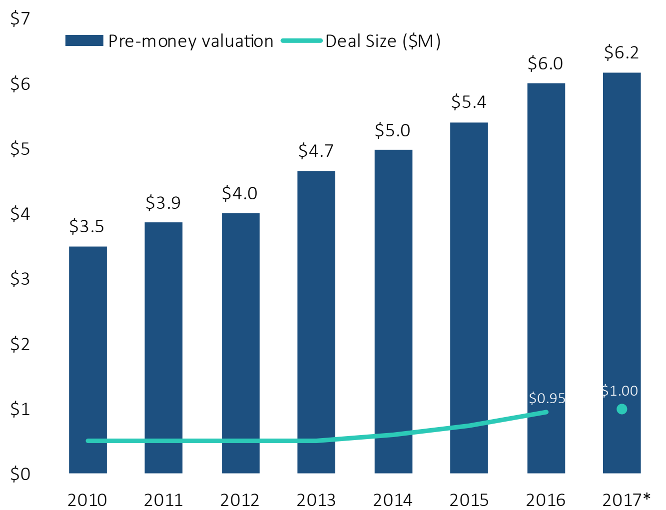
Source: PitchBook
*As of 6/30/2017

Median US seed round size ($M) by sector



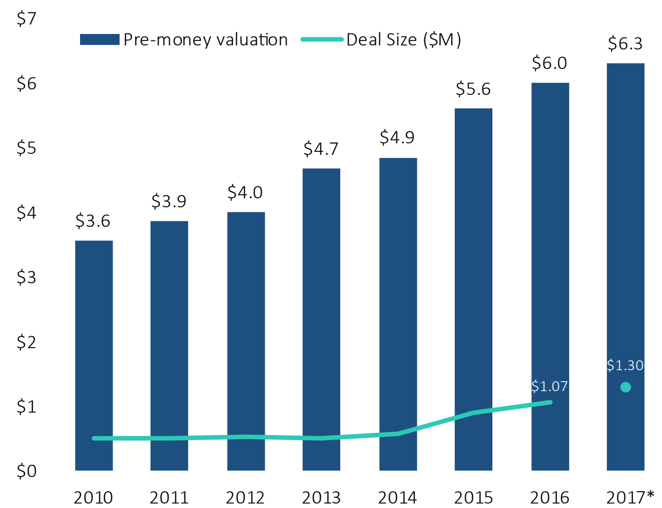
Source: PitchBook
*As of 6/30/2017

Median US seed size and pre-money valuation ($M)



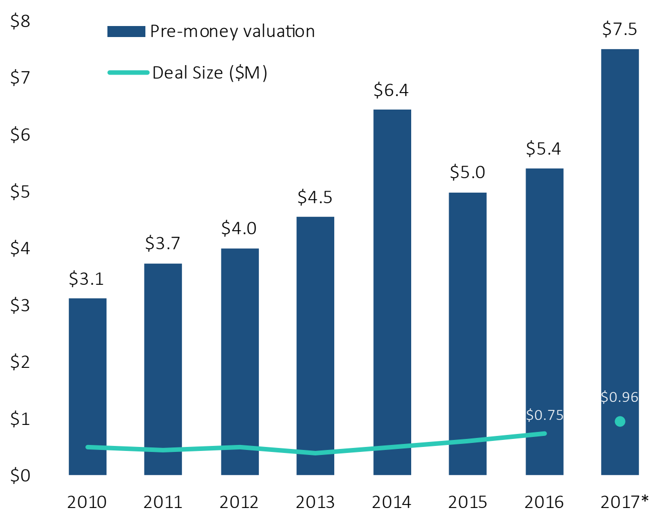
Source: PitchBook
*As of 6/30/2017

Median US software seed size and pre-money valuation ($M)



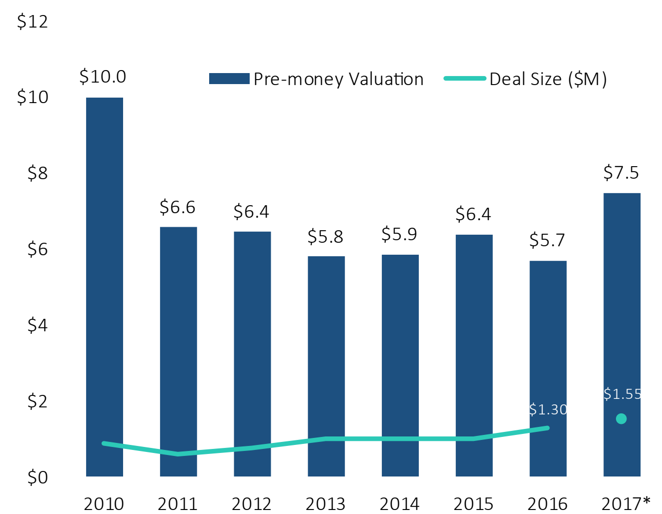
Source: PitchBook
*As of 6/30/2017

Median US commercial services seed round size and pre-money valuation ($M)



Source: PitchBook
*As of 6/30/2017

Median US pharma & biotech seed round size and pre-money valuation ($M)



Source: PitchBook
*As of 6/30/2017

Select largest US seed valuations of 1H 2017

Company	Deal size ($M)	Pre-valuation ($M)	Date	HQ	State	Industry
Randrr	7.8	48.5	3/21/2017	Jacksonville	FL	Software
Jyve	6.2	43.8	6/1/2017	Walnut	CA	Software
OrthogenRx	4.8	39.2	6/14/2017	Doylestown	PA	Therapeutic Devices
MeWe	1.4	37.2	6/15/2017	Albuquerque	NM	Software
Kudos	5.7	32.5	6/23/2017	Palo Alto	CA	Software

Source: PitchBook

Early-stage leveling off

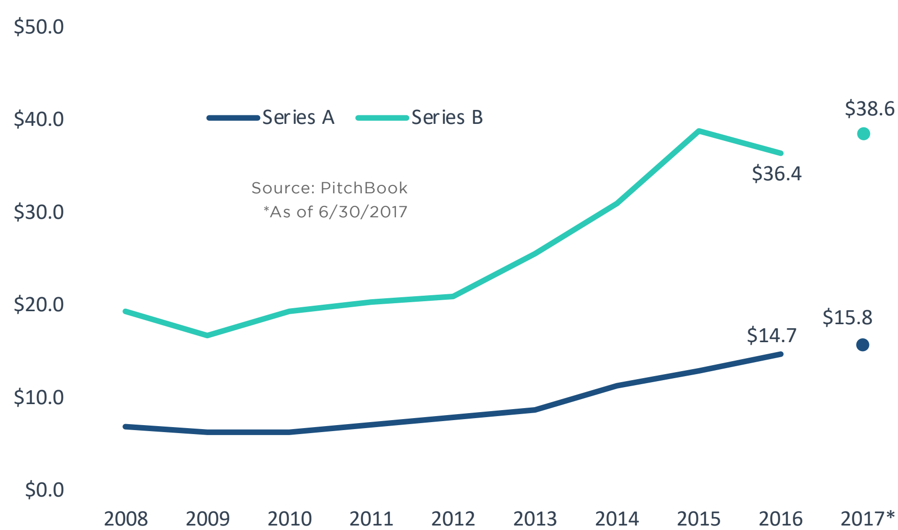
Early-stage valuations and trends

Even through the deluge of companies seeking early VC funding since 2014, early-stage deal volume has remained relatively unchanged through the first half of 2017. With a plethora of attractive potential investments, early-stage investors have been able to exercise more selectivity in the deal process. That said, the best assets also come with higher price tags, doubling median early-stage valuations since the financial crisis. However, there haven't been unchecked increases across the board. Total median valuations in the early stage were dragged down by 19% and 16% in the healthcare devices & supplies and commercial services sectors, respectively.

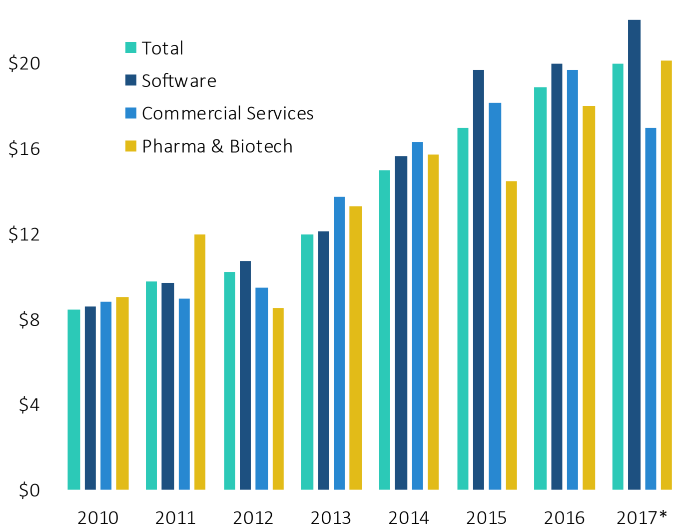
Median deal sizes have continued to be underpinned simply by more developed businesses raising capital at the early stage. To that point, we've witnessed the median age of companies raising Series A or B rounds remain relatively flat compared to the elevated levels we saw in 2016. Although, as investors have paid more, we found they were also able to acquire a larger share of the businesses in 1H17.

The median percentage acquired moved higher for the first time in four years, inching to 26.5% from 25% in 2016.

Median US early-stage pre-money valuation ($M) by series

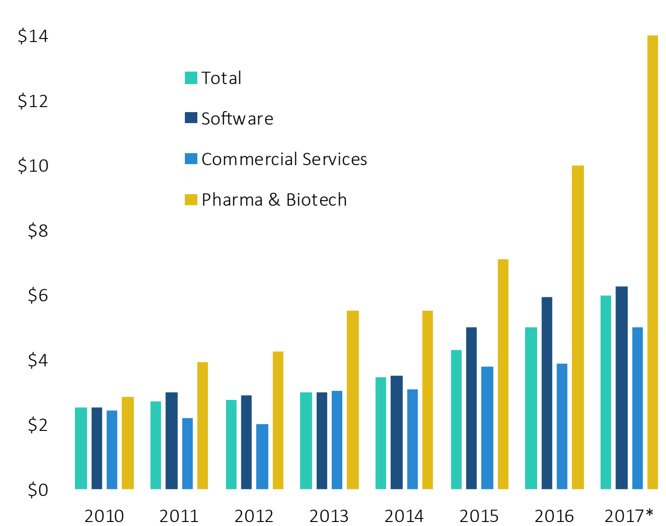


Median US early-stage pre-money valuation ($M) by sector



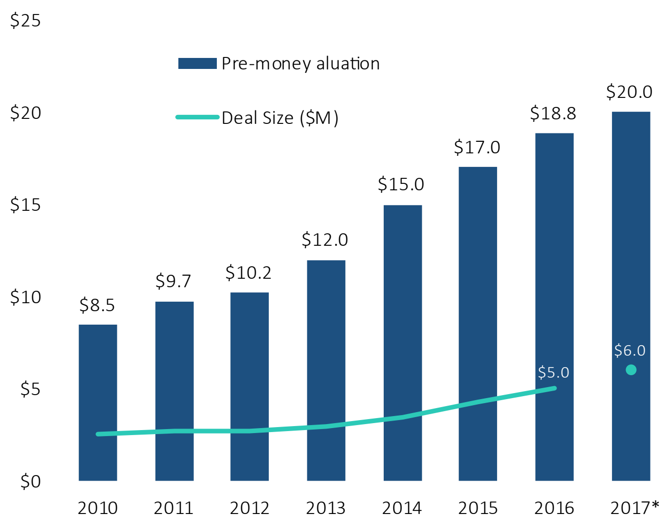
Source: PitchBook
*As of 6/30/2017

Median US early-stage round size ($M) by sector



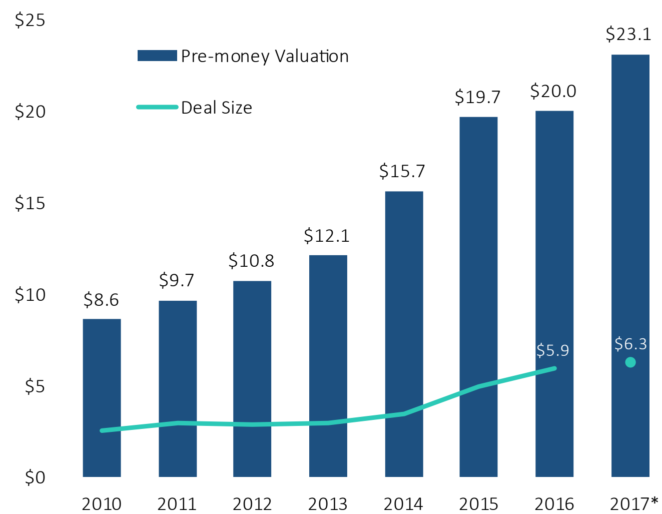
Source: PitchBook
*As of 6/30/2017

Median US early-stage round size and pre-money valuation ($M)



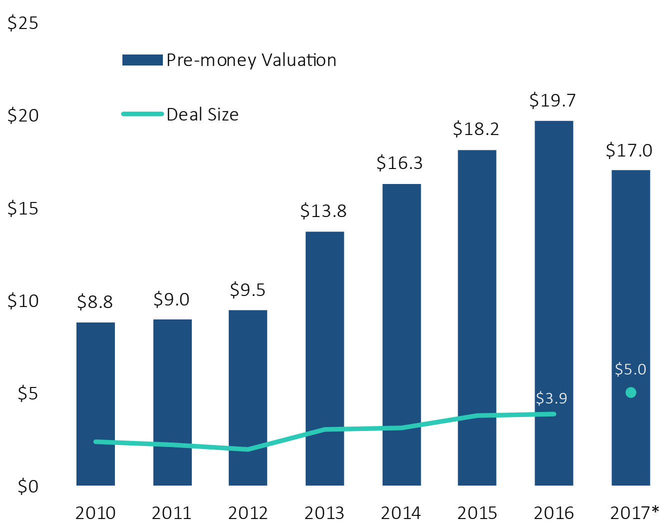
Source: PitchBook
*As of 6/30/2017

Median US software early-stage round size and pre-money valuation ($M)



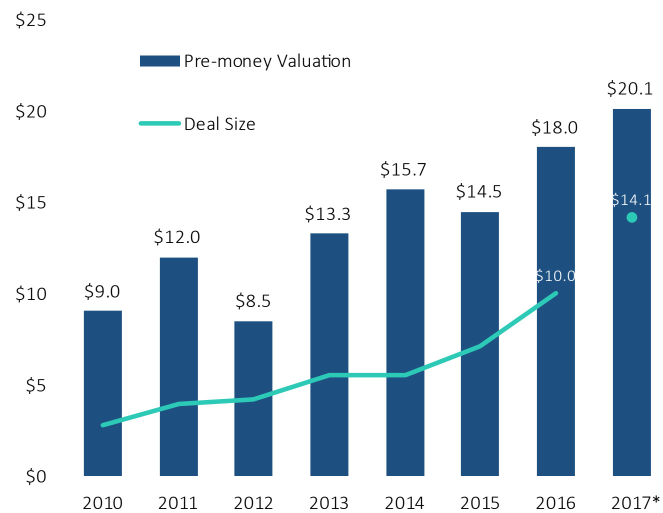
Source: PitchBook
*As of 6/30/2017

Median US commercial services early-stage round size and pre-money valuation ($M)



Source: PitchBook
*As of 6/30/2017

Median US pharma & biotech early-stage round size and pre-money valuation ($M)



Source: PitchBook
*As of 6/30/2017

Select largest early-stage valuations of 1H 2017

Company	Deal size ($M)	Pre-valuation ($M)	Date	HQ	State	Industry
Essential Products	300.0	700.0	6/8/2017	Palo Alto	CA	Electronics
Kensho	50.0	543.3	3/1/2017	Cambridge	MA	Software
Rubius Therapeutics	120.0	400.0	6/21/2017	Cambridge	MA	Pharma & Biotech
AltSchool	40.0	400.0	5/2/2017	San Francisco	CA	Educational & Training Services
F1 Oncology	44.0	381.0	2/16/2017	West Palm Beach	FL	Pharma & Biotech

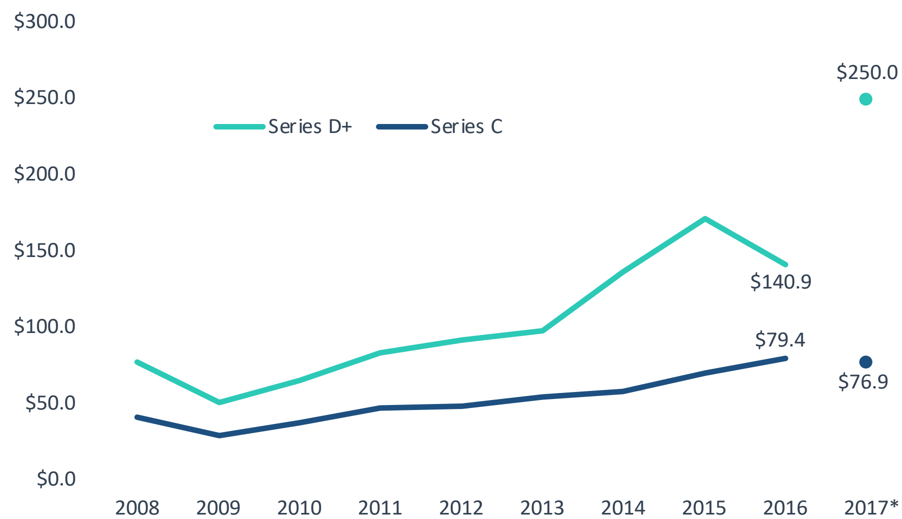
Source: PitchBook

Dry powder aiding values

Late-stage valuations and trends

Since 2009, late-stage valuations have seen the most significant growth of any stage. Series D+ pre-money valuations have increased by almost $200 million—a growth of roughly 386% should 1H figures hold through the rest of 2017—while Series C pre-money valuations have grown to almost $77 million, up 166% during that time. The record amount of VC dry powder (roughly $95 billion in the US) has allowed companies to push out exits and return to the private markets to raise capital for growth. Especially in the depressed exit market, this capital availability enables companies to stay private and determine when a more proper time to exit may be in the future. And while this capital came in bulk from nontraditional investors in 2014 and 2015, the recent pullback of these funds has shown that VCs are also ready and willing to continue funding unicorns. Airbnb, the second-highest-valued US company, recently raised $1 billion from a group of investors that included Andreessen Horowitz and Sequoia Capital, among others. Problems could arise if this trend continues. Recent IPOs of unicorns has shown that these valuations may be overpriced. For instance, Snap, Blue Apron and Cloudera each went public at a valuation that was only equal to or lower than each company's most recent private valuation.

Median US late-stage pre-money valuations ($M) by series



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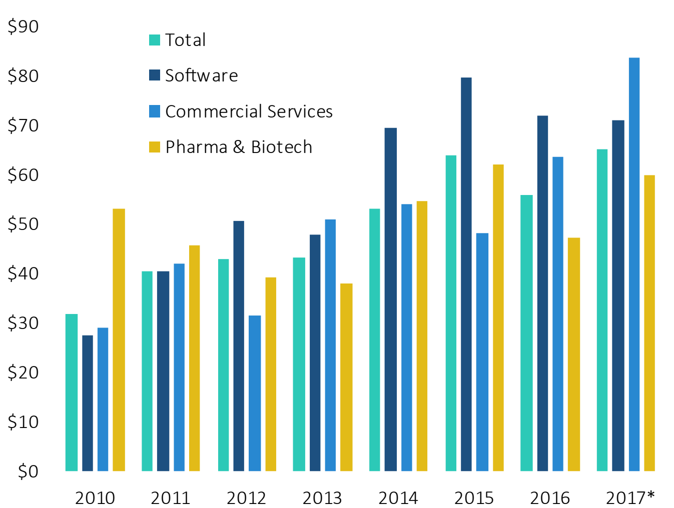
Median US late-stage pre-money valuation ($M) by sector



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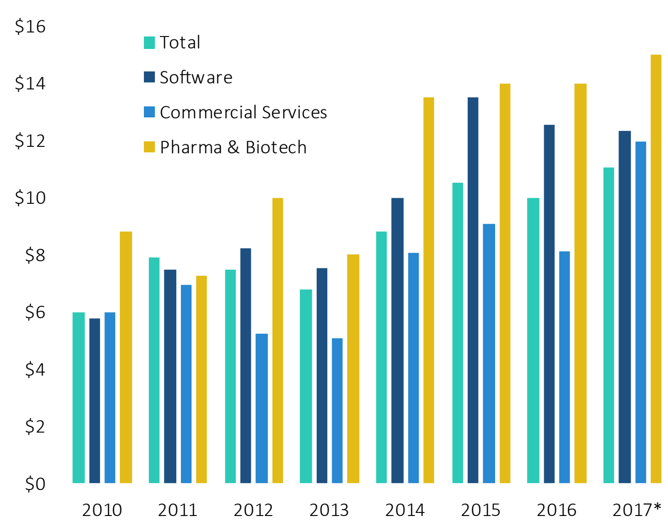
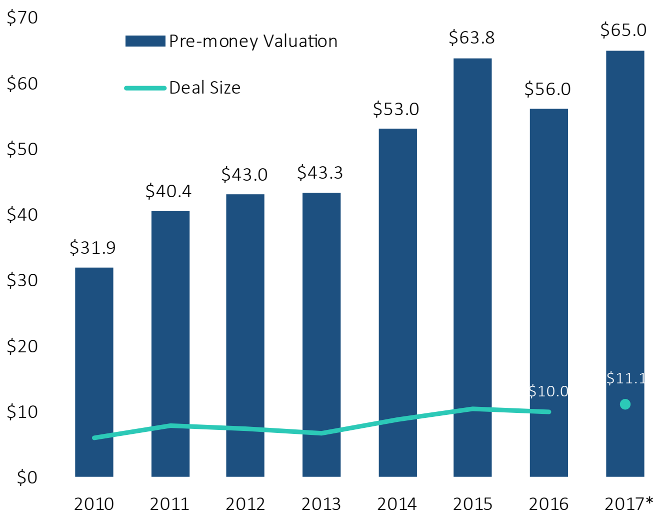
Median US late-stage round size ($M) by sector



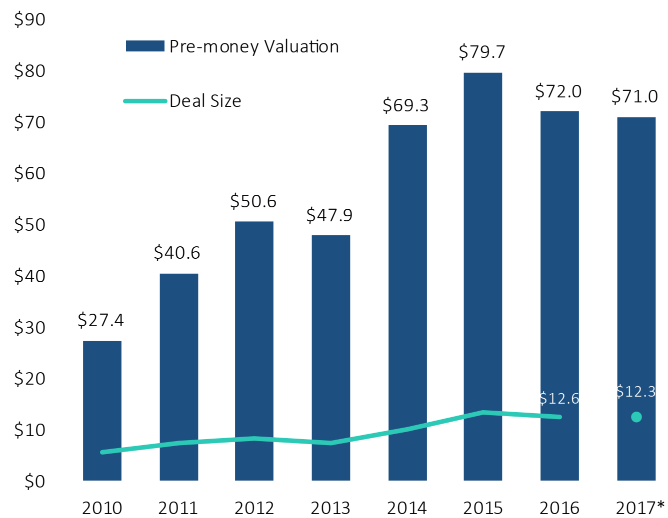
Source: PitchBook
*As of 6/30/2017

Median US late-stage round size and pre-money valuation ($M)



Source: PitchBook
*As of 6/30/2017

Median US software late-stage round size and pre-money valuation ($M)



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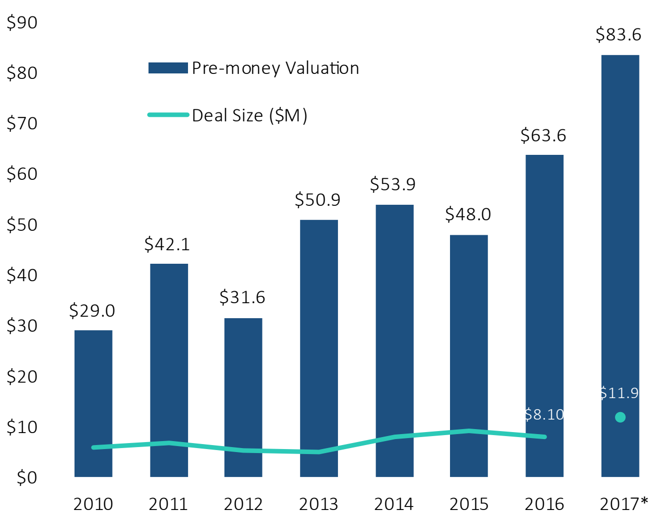
Median US commercial services late-stage round size and pre-money valuation ($M)



Source: PitchBook
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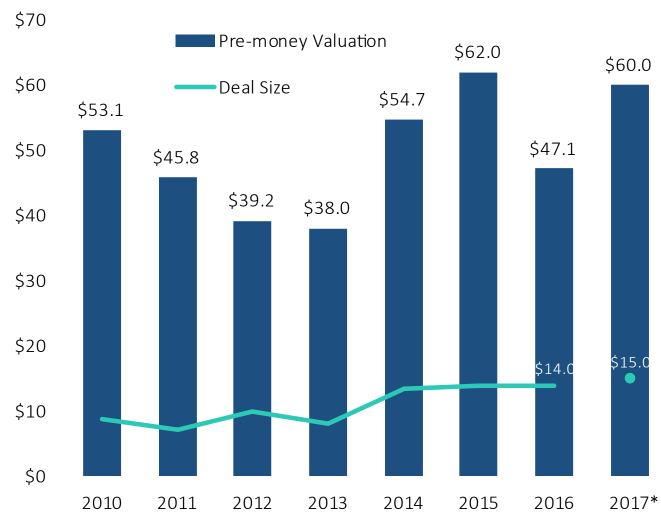
Median US pharma & biotech late-stage round size and pre-money valuation ($M)



Source: PitchBook
*As of 6/30/2017

Select largest US l**ate-stage valuations of 1H 2017**

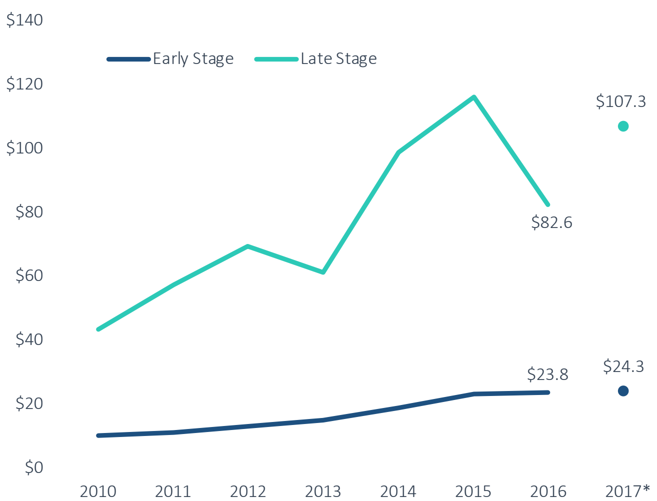
Company	Deal size ($M)	Pre-valuation ($M)	Date	HQ	State	Industry
Airbnb	1003.3	29,996.7	3/9/2017	San Francisco	CA	Software
Pinterest	150.0	12,150.0	6/6/2017	San Francisco	CA	Woftware
Lyft	600.0	6,900.0	5/10/2017	San Francisco	CA	Software
Outcome Health	609.9	4,400.0	6/6/2017	Chicago	IL	Information Services
SoFi	452.9	3,900.0	3/21/2017	San Francisco	CA	Software

Source: PitchBook

Bay Area leading the way

Valuations and trends by US Metro

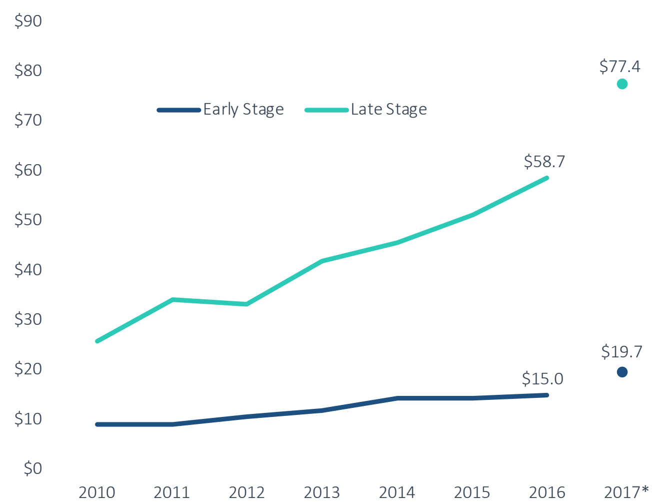
Median Bay Area pre-money valuations ($M) by stage



Source: PitchBook
*As of 6/30/2017

Boston has seen the most consistent growth in VC valuations since 2010

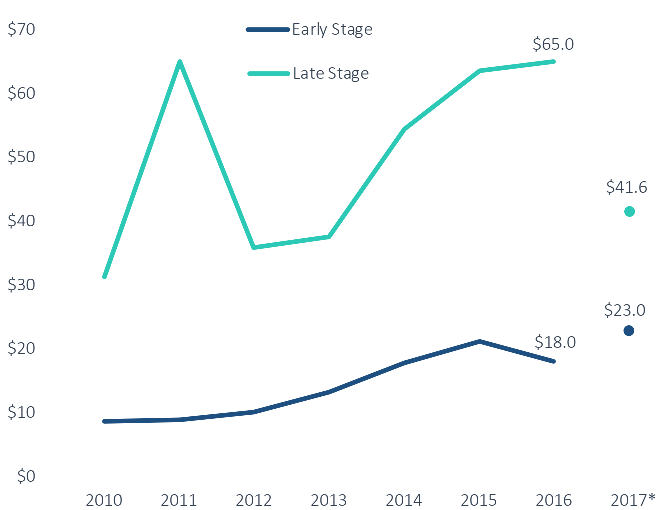
Median Boston pre-money valuations ($M) by stage



Source: PitchBook
*As of 6/30/2017

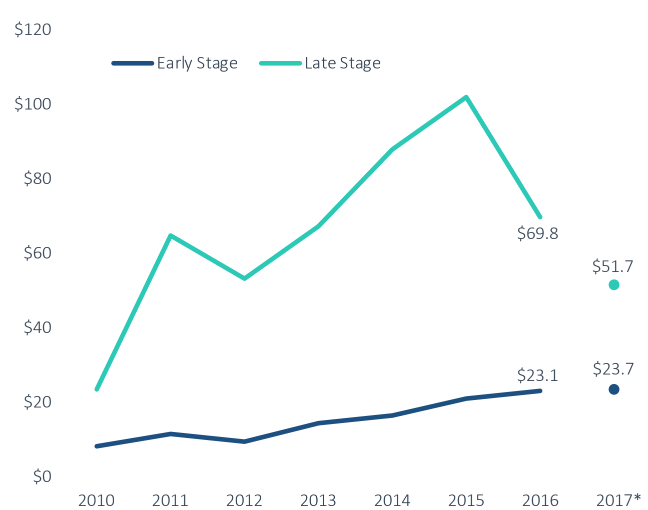
Early-stage valuations have contiued to grow across the US

Median LA pre-money valuations ($M) by stage



Source: PitchBook
*As of 6/30/2017

Median NYC pre-money valuations ($M) by stage



Source: PitchBook
*As of 6/30/2017

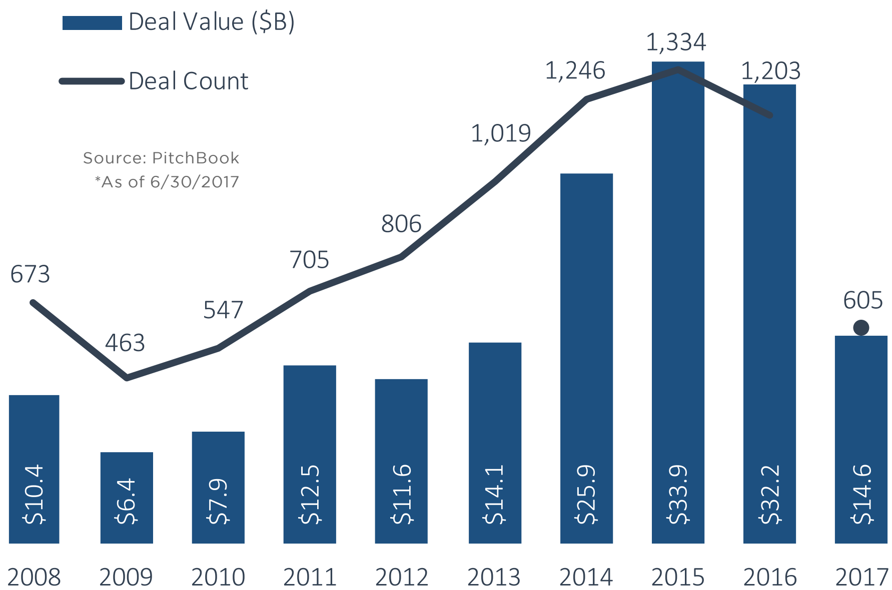
Return needs differ for CVC

Corporate VC participation

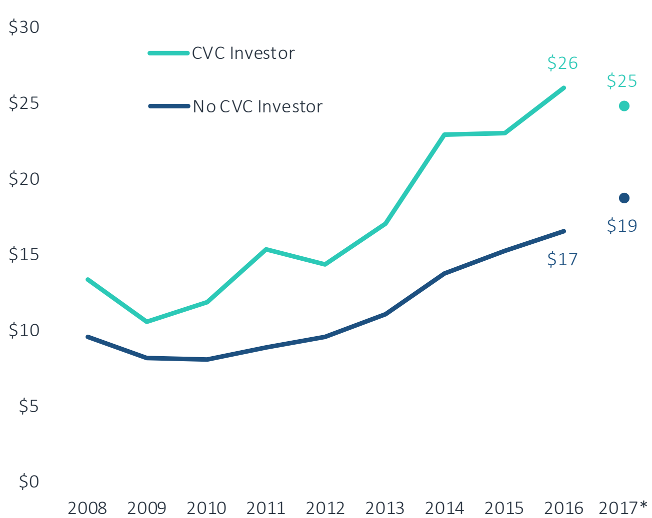
The valuation gap between deals with corporate venture capital participation and those without held true throughout the first six months of 2017. The starkest difference was seen at the late stage with median pre-money valuations of rounds including a CVC investor extending to $100 million. This compares to a median pre-money valuation of only $50 million on rounds without CVC participation. CVC occupies an interesting space in the venture market since they don't have to prioritize financial returns because of the potential value of strategic incentives like products, technology, research, partnerships, etc.

With 2017 trending to maintain deal count levels over 1,000 for the fifth straight year, the increased level of participation from CVC investors has been a major factor in many of the largest VC deals we've recorded. Those late-stage deals are where we've seen the most significant increases in valuations. We believe CVC's growing presence in the late-stage, ultra-long-term mindset and usual role as a willing price-taker means they won't stand in the way of rising valuations.

US VC activity with corporate VC participation



Median US pre-money valuation ($M) of US early-stage VC rounds with corporate VC participation



Source: PitchBook
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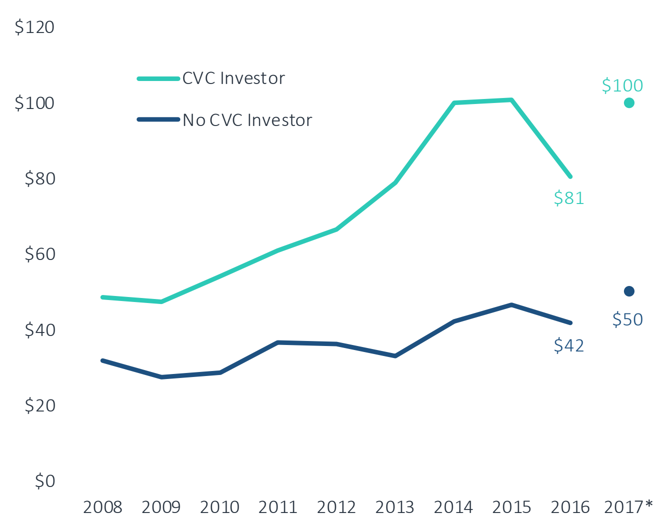
Median US pre-money valuation ($M) of US late-stage VC rounds with corporate VC participation



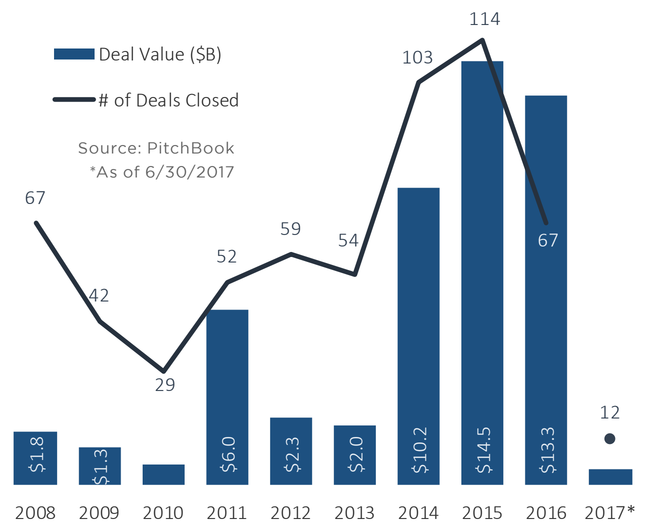
Source: PitchBook
*As of 6/30/2017

Moving back to their niche

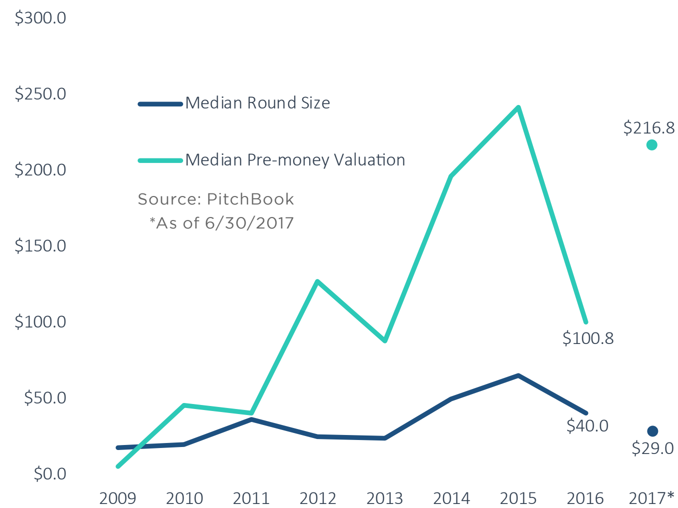
Hedge & mutual fund participation

Hedge funds and mutual funds made their presence felt within the unicorn boom during 2014 and 2015. Out of the 217 rounds these funds participated in during those years, 54 were at valuations of at least $1 billion. Since the 114 completed deals in 2015, however, VC activity by these funds has notably declined, with 2017 on pace to see just 24 of such deals completed. That 79% drop comes after a similar percentage rise from 2010 through 2015, begging the question of what caused the two-year boom in investment. The funds had entered the market looking for yield by taking stakes in companies that were seemingly near exit and therefore providing a sizable return in quick fashion. As VC exit volumes have remained subdued and hedge funds have continued to see increased capital outflows, managers have since refocused their efforts on more traditional investments where a more active management style can produce the alpha needed to supply returns to their investors.

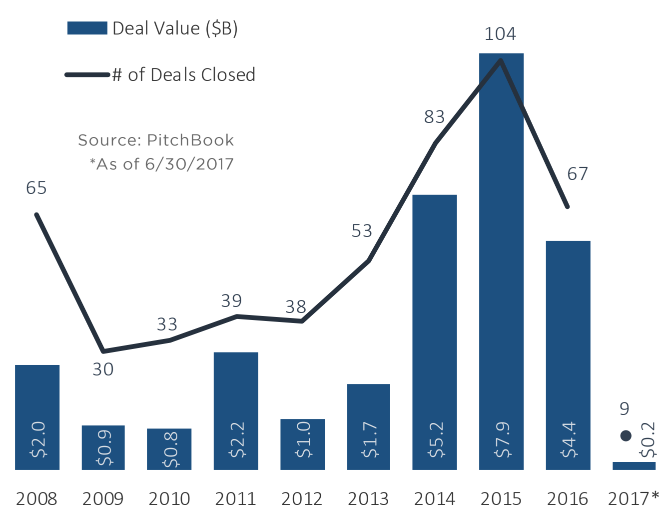
US VC activity with mutual fund participation



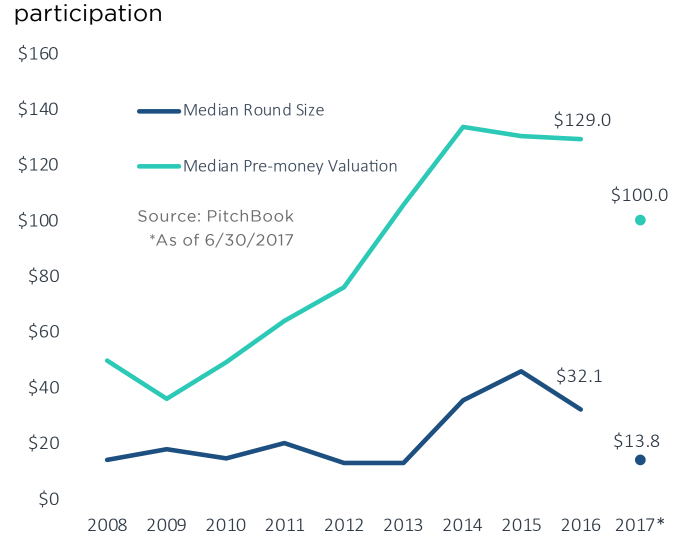
Median US round size and valuation ($M) with mutual fund participation



US VC activity with hedge fund participation



Median US round size and valuation ($M) with hedge fund participation



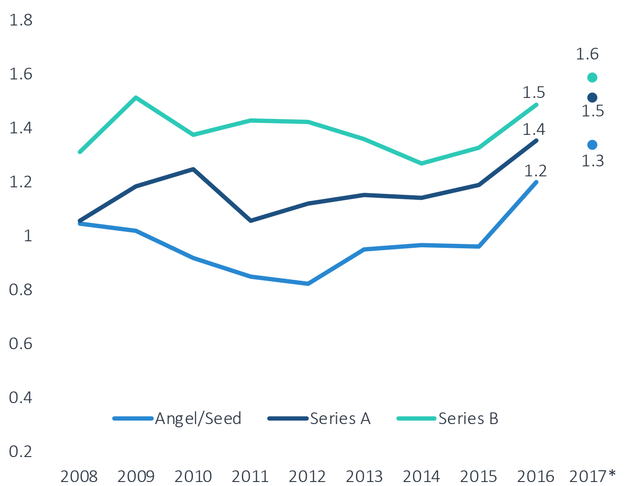
High benchmarks need time

Valuation step-ups, changes and time between rounds

VC investors have emphasized capital efficiency after burn rates grew to unsustainable levels across the industry in 2014 and 2015. Moreover, the time between rounds has lengthened considerably over the past two years as startups have worked on sustainable growth with business metrics that match with user growth. While valuation step-ups have somewhat subsided from the highs of three years ago, high valuation increases in subsequent rounds show investor willingness to follow on in companies that are able to sustain high growth and reach benchmarks set by VCs.

Despite concerns that the VC industry was well overvalued a couple years ago, valuations have continued their climb. In fact, the proportion of completed financings at up-round valuations has reached 77% through 1H, well above the 41% proportion of 2009 and the highest we have ever tracked.

Median time (years) between US early-stage VC rounds



Source: PitchBook
*As of 6/30/2017

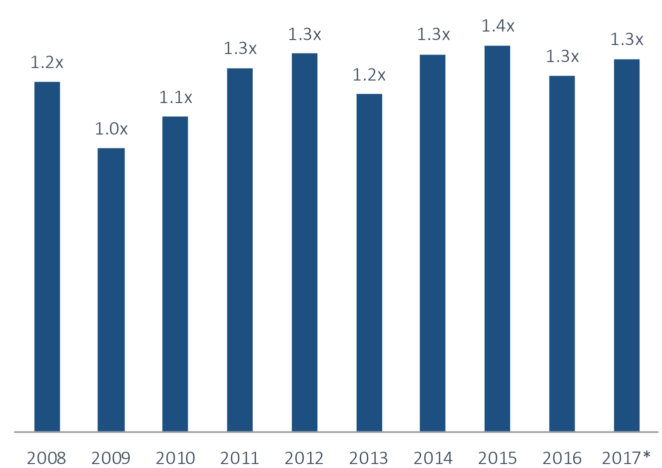
Median time (years) between US late-stage VC rounds

Source: PitchBook
*As of 6/30/2017

Median US early-stage round step-ups in US

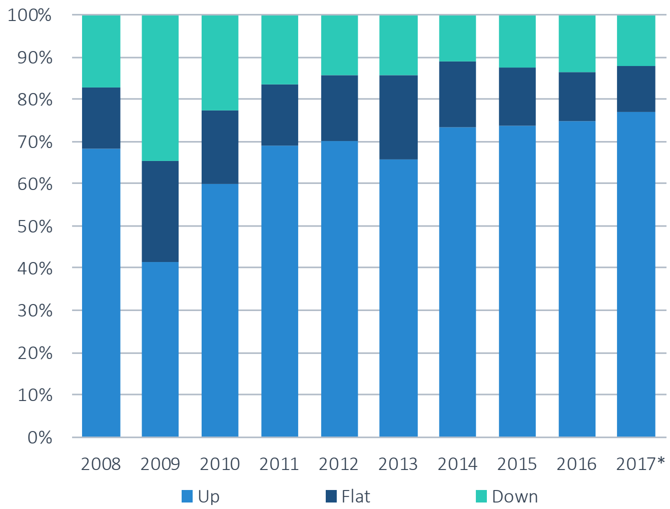
Source: PitchBook
*As of 6/30/2017

Median US late-stage round step-ups in US



Source: PitchBook
*As of 6/30/2017

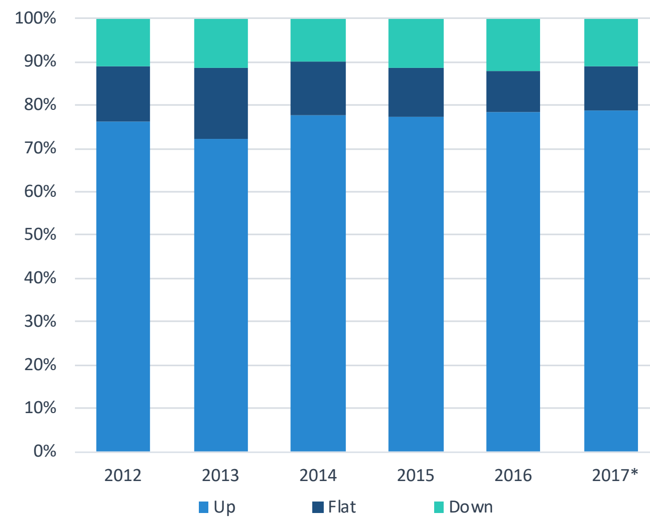
All up, flat or down rounds (#) by year



Source: PitchBook
*As of 6/30/2017

Despite recent concerns around overvalued companies, the percentage of up, down, and flat rounds has stayed relatively strong for several years

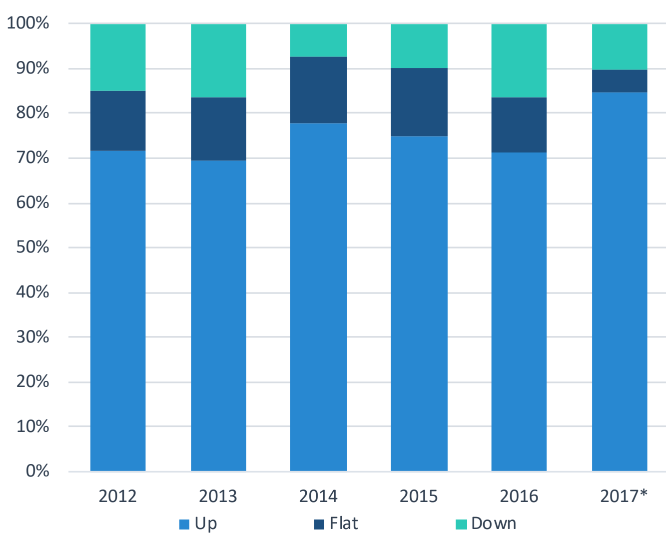
Software up, flat or down rounds (#) by year



Source: PitchBook
*As of 6/30/2017

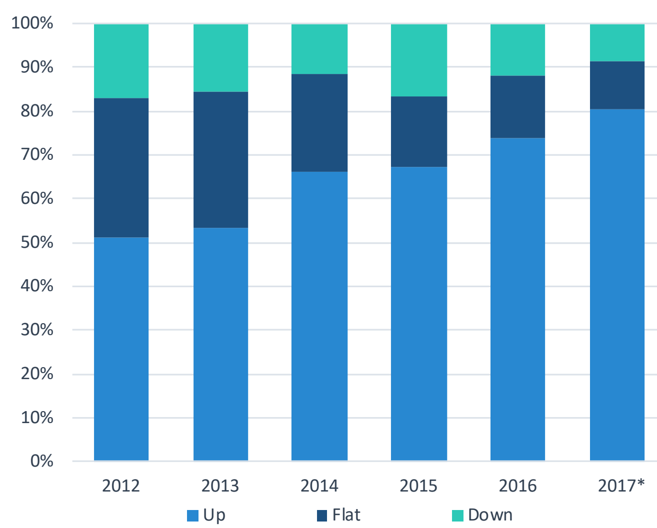
Pharma & biotech has seen the yearly proportion of up rounds grow by almost 40% since 2012

Commercial services up, flat or down rounds (#) by year



Source: PitchBook
*As of 6/30/2017

Pharma & biotech up, flat or down rounds (#) by year



Source: PitchBook
*As of 6/30/2017

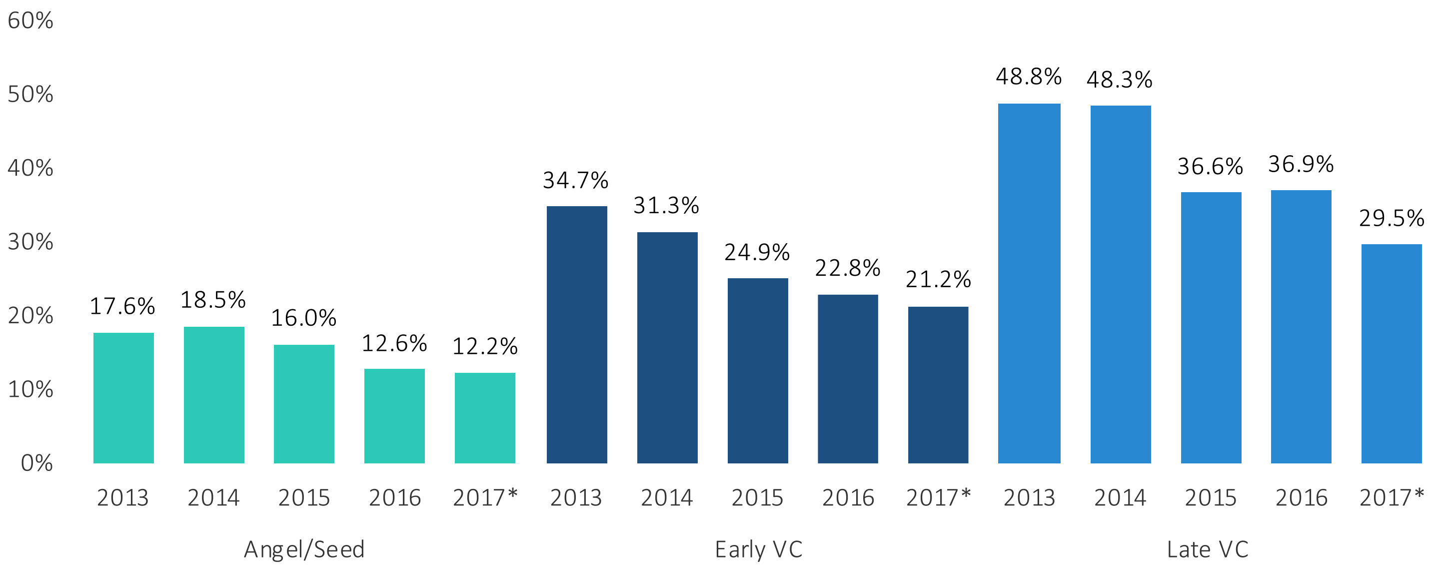
Note: Up, flat or down rounds are calculated using a combination of comparing share price and the pre and post valuations of previous and current rounds, e.g. if the price per share in the most recent round was the same as in the prior financing OR the post value of the old round is the same as the new round, then that would be classified as a flat round.

Participation rates falling

Liquidation participation

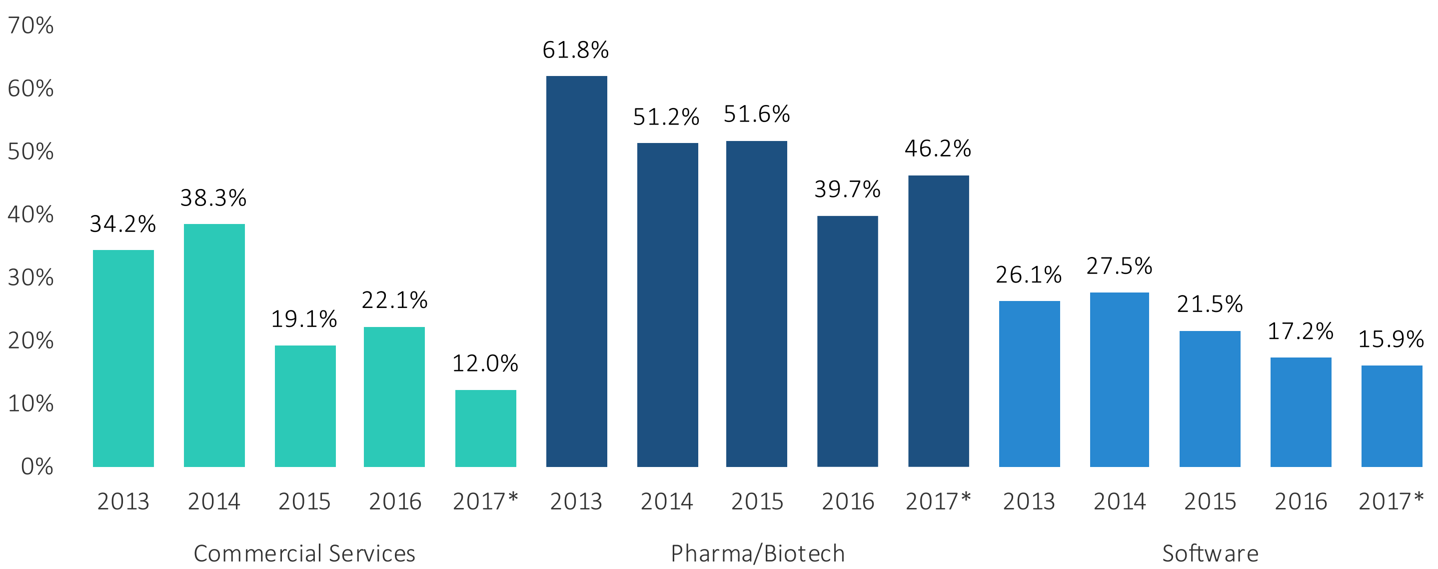
Liquidation participation has declined over recent years at every stage and across several sectors. Overall, this has provided more founder-friendly terms throughout the industry, provided that liquidation preference multiples haven't shifted higher to compensate investors for non-participating terms. Participation, either capped or uncapped, has fallen to the lowest proportion since the financial crisis. Just over 20% of deals have included participating terms during 2017, a far cry from the over 50% seen in 2010. While these levels have fallen, at the late stage investors have looked to be compensated through other means. Blue Apron, for example, gave up extra stock to certain investors through a ratchet provision when their IPO failed to reach a specified share price.

Liquidation participation in US VC rounds by stage



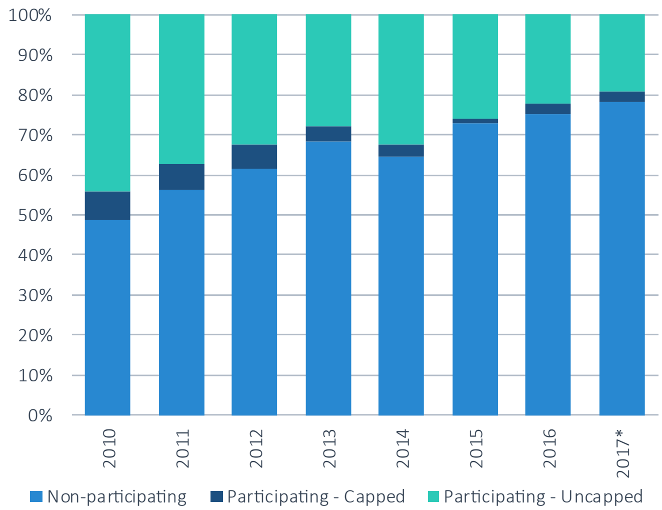
Source: PitchBook
*As of 6/30/2017

Liquidation participation in US VC rounds by sector



Source: PitchBook
*As of 6/30/2017

Series A liquidation participation in US

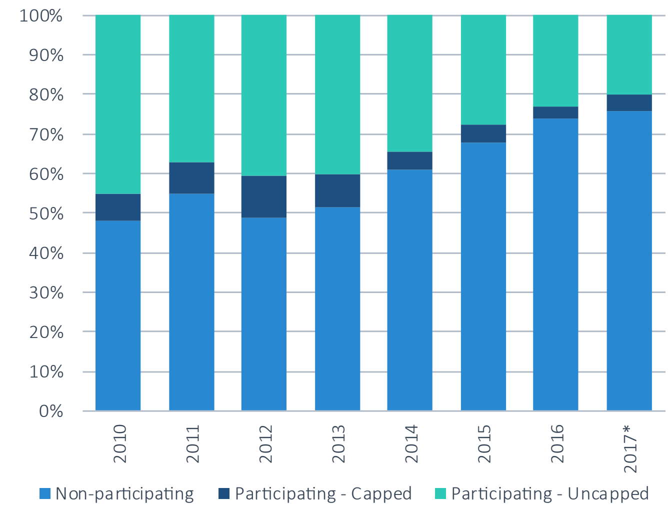


Source: PitchBook
*As of 6/30/2017

Non-participating terms have been used in over 75% of early-stage rounds

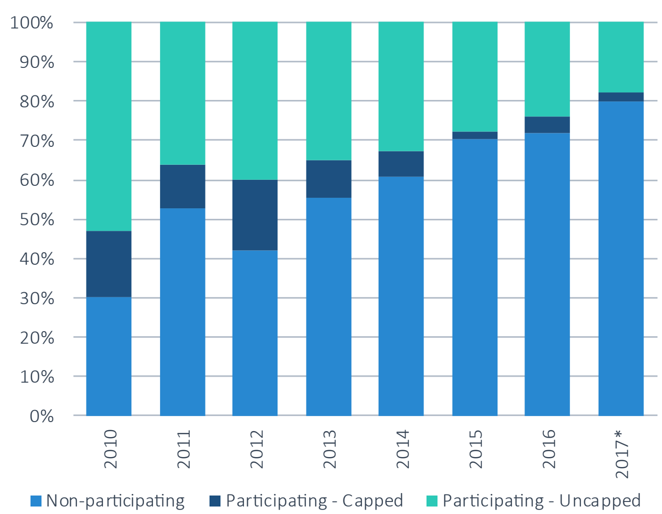
Uncapped participating terms are at the lowest levels since 2010 across each stage

Series B liquidation participation in US



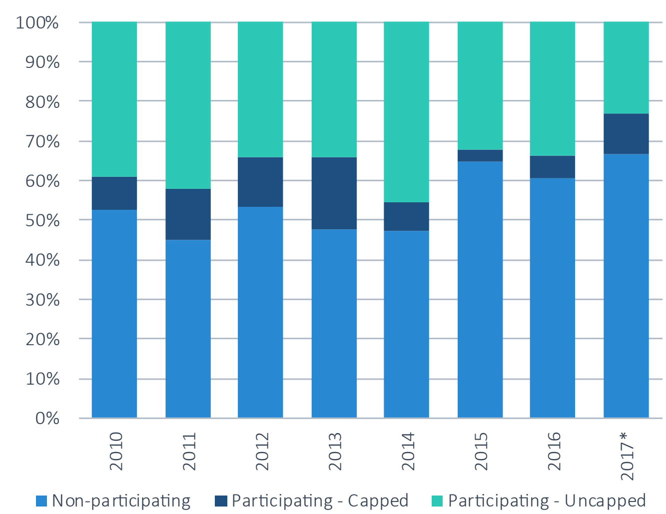
Source: PitchBook
*As of 6/30/2017

Series C liquidation participation in US



Source: PitchBook
*As of 6/30/2017

Series D+ liquidation participation in US



Source: PitchBook
*As of 6/30/2017

The key distinction between participating preferred stock and non-participating preferred is that in the former, holders not only get their investment back but also share with the common stock on an as-converted basis in any remaining available deal proceeds, while in the latter, investors get either their investment amount back plus an accrued dividend if applicable or their pro rata share based on common stock, whichever is greater.