PitchBook

Unicorn Report

2017 Annual

Contents

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Due to relatively small number of unicorns, please note that some annual data points have n<10.

Click here for PitchBook's report methodologies

Key takeaways from the analysts

- Driven by the enormous amount of late-stage capital available throughout the industry, US unicorn activity bounced back in 2017 and nearly reached a record number of deals while raising nearly $20 billion from investors.
- 132 US-based companies currently hold the distinction of unicorn. The aggregate valuation of unicorns stood at just $35 billion in 2009, but has grown more than 20x since.
- While unicorn exits have trended higher in recent years, the group has reached double-digit exits just once, while the past four years have averaged over 30 new companies to reach a $1 billion valuation.

$19.6B

2017 deal value for US unicorns

Unicorn value has now surpassed $13B for four straight years

$718B

Aggregate valuation for current unicorns

The aggregate unicorn valuation has grown by $100B since 2016

13

Number of US unicorn exits in 2017

Unicorn exits accounted for 20% of US VC-backed exit value last year

Overview

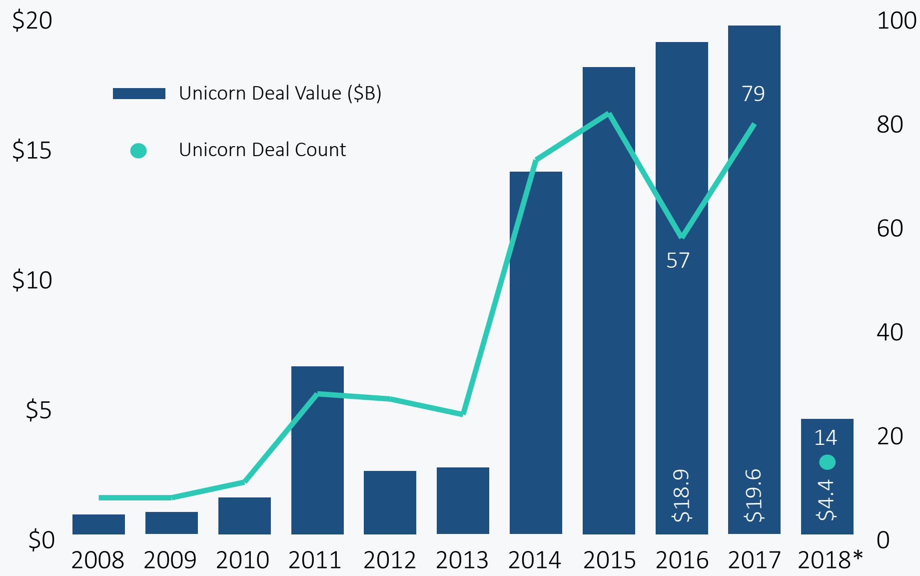
Unicorns continue to rake in capital, reaching new record deal value in 2017

While falling short of the all-time record deal count, 2017 saw a resurgence of investment activity in billion-dollar companies, with 79 companies raising rounds with a valuation of at least $1 billion. More than $13 billion has now been invested in unicorn companies each year since 2014, with 2017 setting a record of $19.6 billion. The strong activity in 2017 reversed a 30% decline in unicorn deals from 2015 to 2016, and investment activity should hold strong. If the pace through the first two months sustains, 2018 will see a record number of unicorn deals and capital invested. No shortage of capital is apparent; VCs currently have enough capital on hand to support nearly four years of investment at current levels. Furthermore, several early-year unicorn IPO filings could portend a strong year for unicorn exits, which should spur increased confidence in the group as a whole.

Billion-dollar startups were much less common before 2014, but despite the cheesy name, unicorns have evolved into a major part of the current venture industry. Last year, 22% of the capital invested in the US was part of a deal valuing a company at $1 billion or more, even though such lofty valuations were attached to less than 1% of completed deals. Nearly $700 billion in unrealized value is currently locked up in unicorns, which is one reason why so much attention is paid to the group.

2017 unicorn deal value reaches new record

US-based unicorn activity



Source: PitchBook
*As of 3/1/2018

Many venerable VCs view the unicorn phenomenon with scorn, operating under the assumption that billion-dollar valuations are a distraction—and potentially a detriment—to the traditional startup funding model. Recent studies and research articles have shown that many of these companies have complicated and dilutive cap structures that effectively inflate the headline valuation figure.

At the same time, unicorns seemingly embody much of the essence of the VC industry: high-growth private companies with transformative technologies that promise the potential of an enormous capital return to investors and LPs. No matter the feelings around these companies from outsiders, unicorns are the companies that drive capital investment across the VC industry.

The vast difference in the number of unicorns created prior to 2014 and the number minted after raises eyebrows. 2013 just happened to be the year that Aileen Lee coined the term "unicorn" to denote companies valued at $1 billion or more, but the shift in activity has been caused by more than a new naming convention.

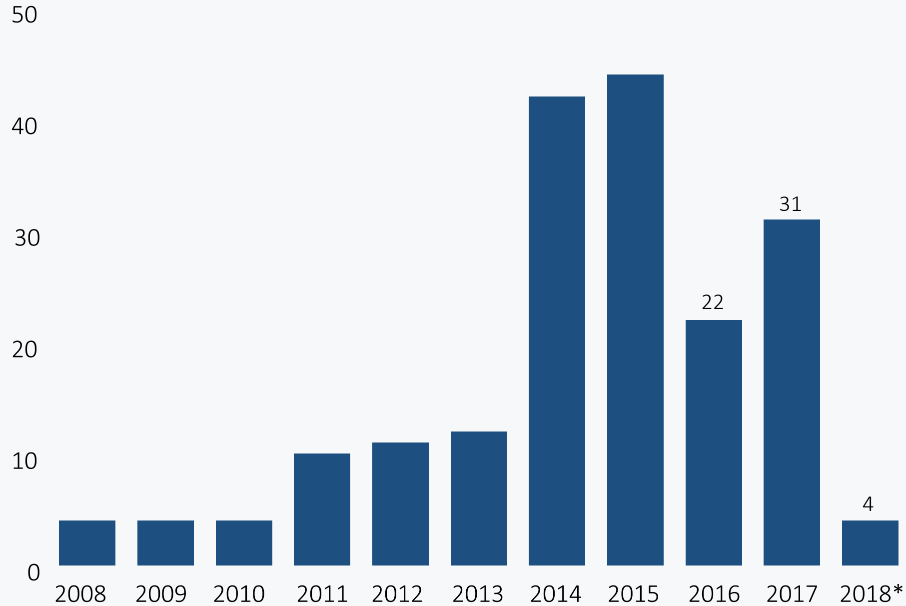
LPs have increased exposure to the asset class and major nontraditional investors have increased participation with sights set on unicorns. Since 2014, roughly $150 billion has been raised by US-based VC funds, nearly equal to the total amount raised in the seven prior years. Recent vintages have produced some of the largest funds we have ever seen—last year New Enterprise Associates raised the largest US VC fund ever at $3.3 billion, and now Sequoia Capital is reportedly eyeing a fund of between $5 billion and $8 billion. These vehicles may be considerable outliers, but VC funds have continued to grow across the board, providing late-stage companies with increased access to capital. In the past four years, 23 US VC funds have closed on at least $1 billion.

Easier access to large pools of capital is one factor that has enabled the rise of unicorns, which have been able to raise private capital at valuations that would have been unthinkable a decade ago. In some instances, this availability of capital has made a traditional exit less important. In 2017, the average time to exit for a VC-backed company reached 6.4 years from first VC raise, more than a year longer than a decade ago.

In addition to the record levels of domestic dry powder, the US venture industry has seen increased participation from nontraditional sources of capital. Over the past four years, roughly 800 growth equity rounds have been completed annually; prior to 2014, the number of deals in a year had never surpassed 600. Mutual funds and sovereign wealth funds have also made their presence felt in

143 new unicorns minted since 2014

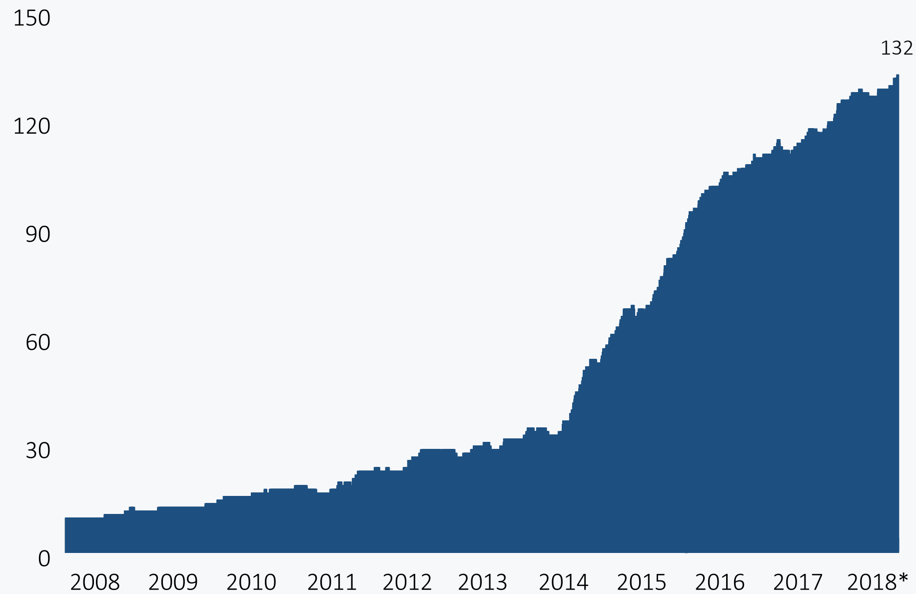
New US-based unicorn count by year



Source: PitchBook
*As of 3/1/2018

Count of current US-based unicorns sits at 132

Aggregate count of US-based unicorns



Source: PitchBook
*As of 3/1/2018. Note: the number of unicorns for this chart is calculated on a daily basis

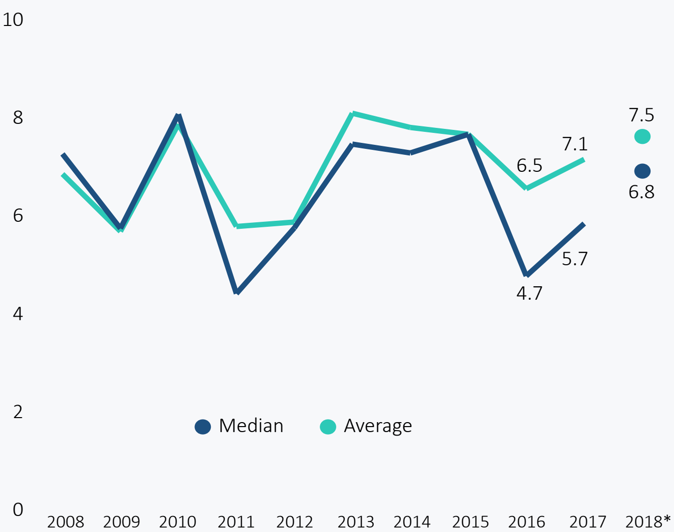
unicorn activity, with Fidelity holding the second-highest number of current unicorns in any portfolio. Sovereign wealth funds from China, Kuwait and Saudi Arabia, just to name a few, also hold stakes in at least one US-based billion-dollar company—Singapore's Temasek Holdings and GIC Private fund have each made at least five investments in US-based unicorns.

The unprecedented level of capital flowing into unicorns can make the topic seem like nothing more than a distraction from traditional VC activity; however, the companies involved in these deals are also the high-growth businesses that the VC industry is centered on.

Much of the attention paid to unicorns is focused on their valuation, but the total amount of capital raised should be considered as well. The median and

New unicorn ages growing

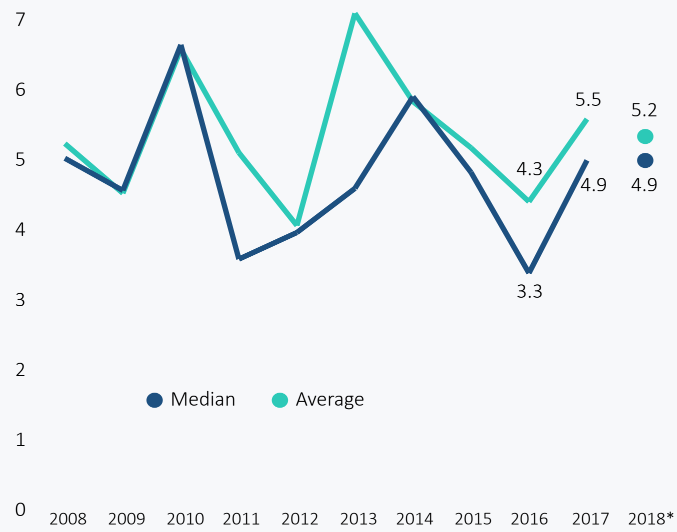
Time (years) from founding to first unicorn round



Source: PitchBook
*As of 3/1/2018

Median pre-unicorn hold period below 5 years

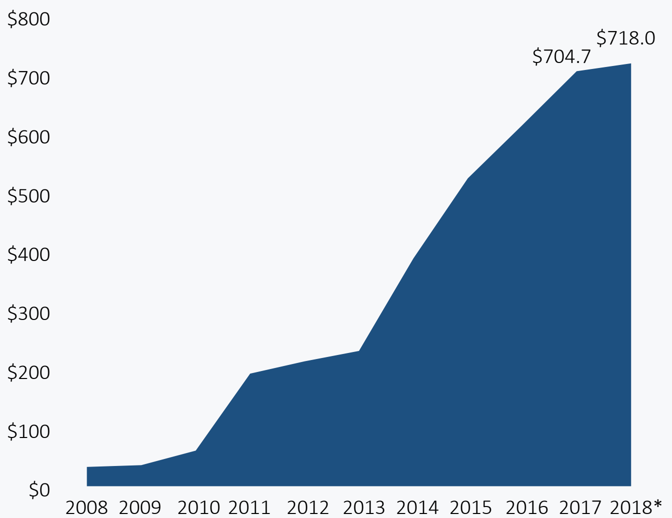
Time (years) from first VC deal to first unicorn round



Source: PitchBook
*As of 3/1/2018

Cumulative unicorn valuation over $700B

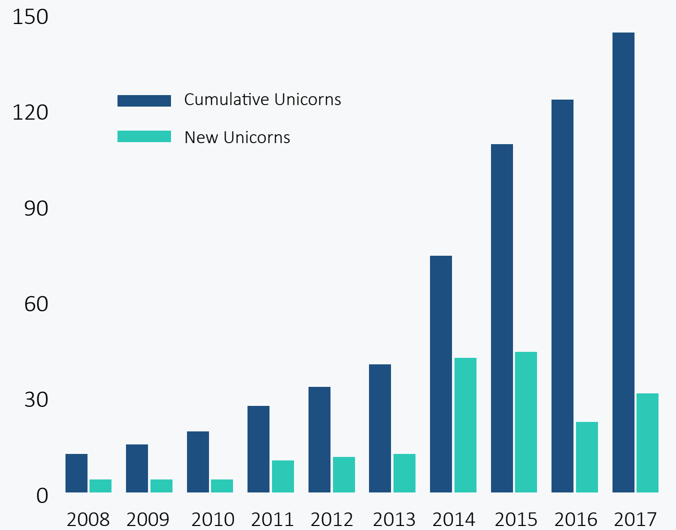
Total valuation ($B) of US unicorns in a calendar year



Source: PitchBook
*As of 3/1/2018

Number of unicorns continues to grow

US unicorn count (#) by year



Source: PitchBook
*As of 3/1/2018

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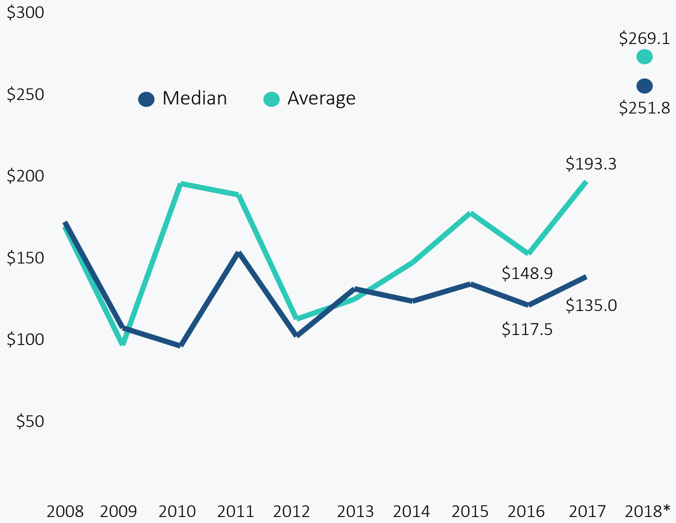
OVERVIEW

average deal sizes for unicorns has continued to grow, much like the rest of the industry. The average unicorn deal in 2016 reached a peak of $350 million, and despite a significant fall last year still managed to reach $280 million. Altogether, 14 current unicorns have raised at least $1 billion in equity funding, with 28 more raising at least $500 million. For an investor who committed a relatively modest sum in an early-stage round, the return of capital is unlikely to be a significant concern; however, as loss-making startups raise hundreds of millions of dollars, investors will inevitably become more concerned with how their capital is being used. As deal sizes have continued to grow at all stages and companies stay private longer, the pressure is growing for companies to show improved financials and generate significant revenue growth before exiting.

First-time unicorn deal sizes relatively flat

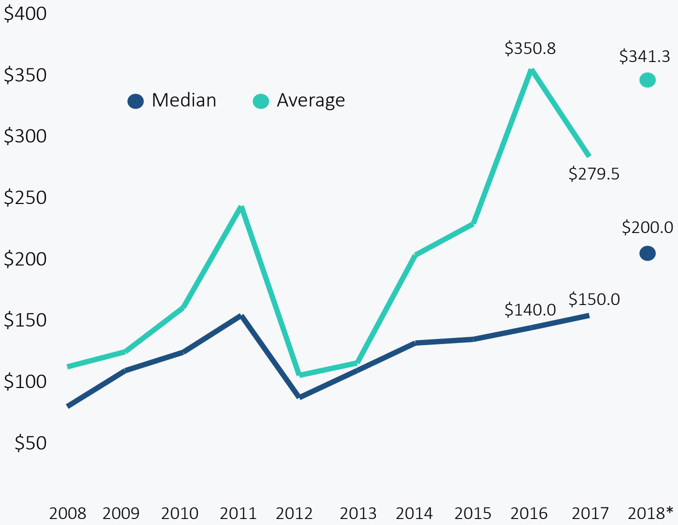
Median & average first-time unicorn deal size ($M)



Source: PitchBook
*As of 3/1/2018

Average unicorn deal sizes have boomed

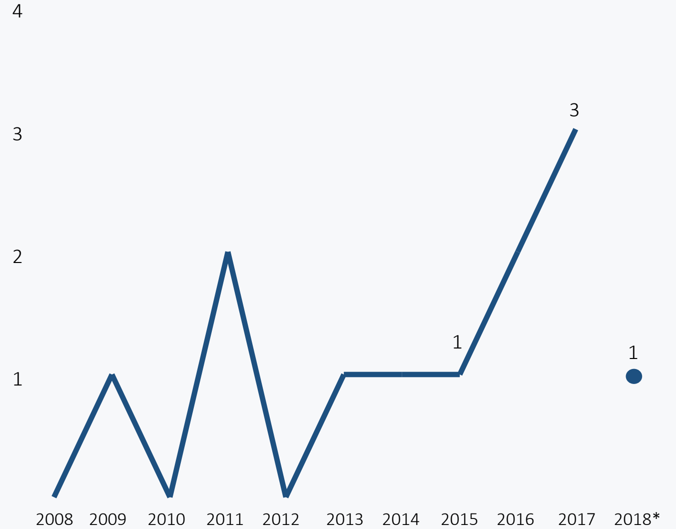
Median & average unicorn deal size ($M)



Source: PitchBook
*As of 3/1/2018

Relatively few down rounds in unicorns

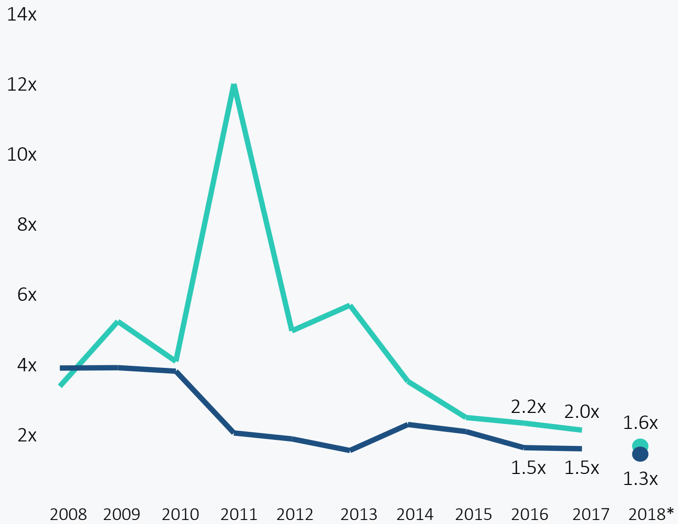
Unicorn down rounds (#)



Source: PitchBook
*As of 3/1/2018

Step-ups have declined in recent years

Median & average valuation step-up multiple



Source: PitchBook
*As of 3/1/2018

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Spotlight

As unicorns accrue value, deal terms become even more important

Late-stage capital has become increasingly plentiful, and investors have not hesitated in bestowing sky-high valuations on companies they deem attractive. Because of this phenomenon, we've seen VC-backed companies choose to raise additional capital from VC investors rather than pursue an acquisition or IPO. As such, most unicorns now have a fairly complicated capital structure that often includes four or more classes of preferred stock—each of which has its own rights and protections for the holders. These differences provide the opportunity for materially varied payouts to the classes of shareholders.

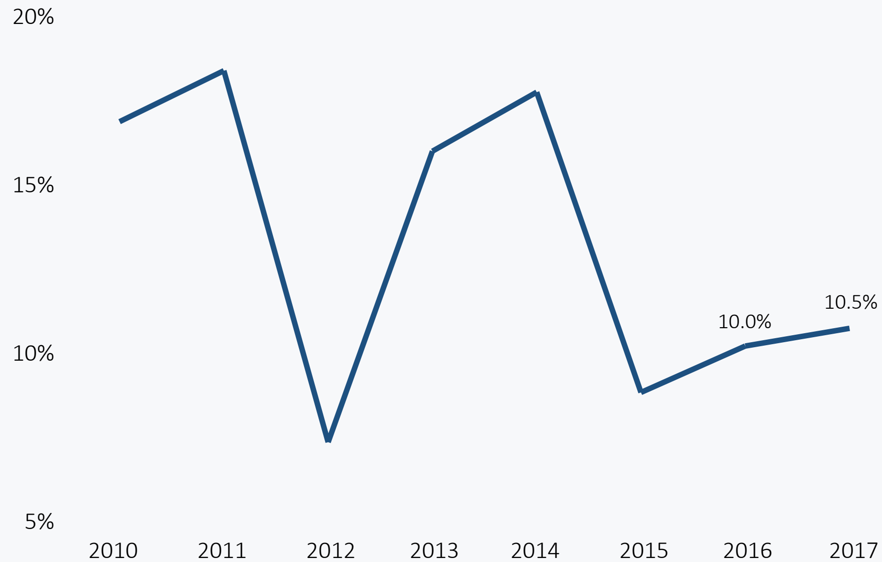
When there is a large valuation step-up from the company's last VC financing to the exit, converting to common shares usually affords investors the greatest return; however, in a flat or down exit, these rights really come into play. With a record number of aging unicorns residing in the private market, liquidity has to be a key consideration for investors, with the ultimate outcome hinging on the willingness of strategic acquirers or public market investors to pay premiums over already extended VC valuations. While we have yet to see a flood of down rounds, warning signs have been apparent in a variety of areas—from high-profile struggles at well-known businesses like The Honest Company to lackluster performance in the public markets from companies like Blue Apron.

Because of these potentials, taking a closer look at VC deal terms will be key for founders/companies raising VC funding in order to have a well-rounded view of common share valuation. Preferred shareholders will likely remain insulated due to their negotiated rights, with common shareholders taking the brunt of the shortfalls.

The two key VC deal terms that drive shareholder economics are liquidation preferences and participation rights. Liquidation preference refers to a preferred shareholder's right to receive a guaranteed payoff based on a multiple of the original investment in the event that converting their shares to common shares would result in a suboptimal outcome. The most common provision is a 1.0x liquidation preference, which essentially provides the investor the right to get their original investment back. Participation rights give the investor the opportunity to receive the best of both worlds, benefiting from their liquidation preference while simultaneously participating in their pro-rata ownership of the common shares.

Participation rights in rounds tick up in recent years

Percentage of unicorn rounds with participation rights



Source: PitchBook
*As of 3/1/2018

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Exits

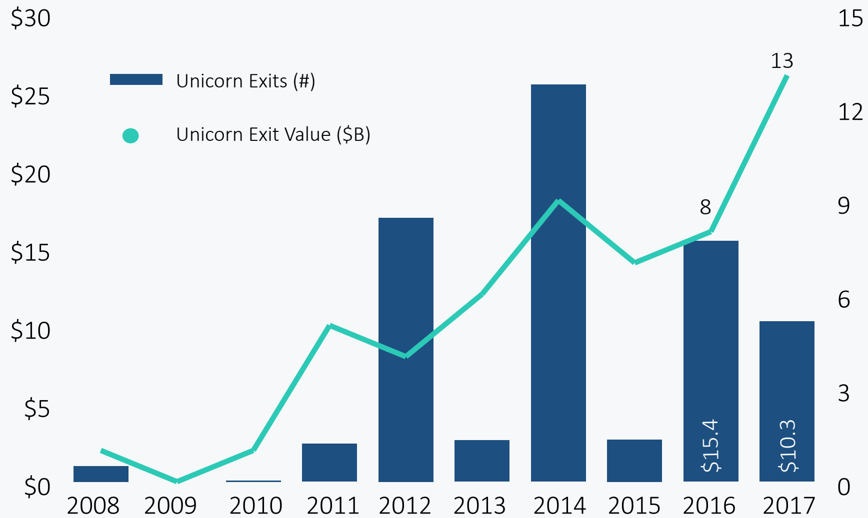
Last year recorded the highest number of US-based unicorns to exit ever, though 2017 was just the fourth-highest year in terms of overall unicorn exit value. Over the past decade, unicorns have been responsible for more than $76 billion in exit value when considered on a cash transaction basis—using the post-valuation or market cap of unicorn exits, however, these transactions have accounted for nearly $250 billion in value created during that time.

Despite aggregate VC exit counts falling each year since 2014, the number of unicorns to exit has been on an upward trend. Much of this growth is due to the increased number of unicorns in existence, but nonetheless the growth should be seen as a positive. Similar to dealmaking, unicorn exits have accounted for roughly 1% of the completed exits by US-based VC companies over the past four years, but more than 23% of the total exit value during that time.

With Dropbox and Spotify (European unicorn) already filing for public listings in 2018, there is hope that this year could again see a large number of unicorns to exit. Overall the group is aging, at least in VC terms. The average age of a unicorn raising a new round of VC in 2017 surpassed eight years, and as the business cycle ages, it may be the sooner the better to exit for older unicorns.

High percentage of VC exit value stems from unicorns

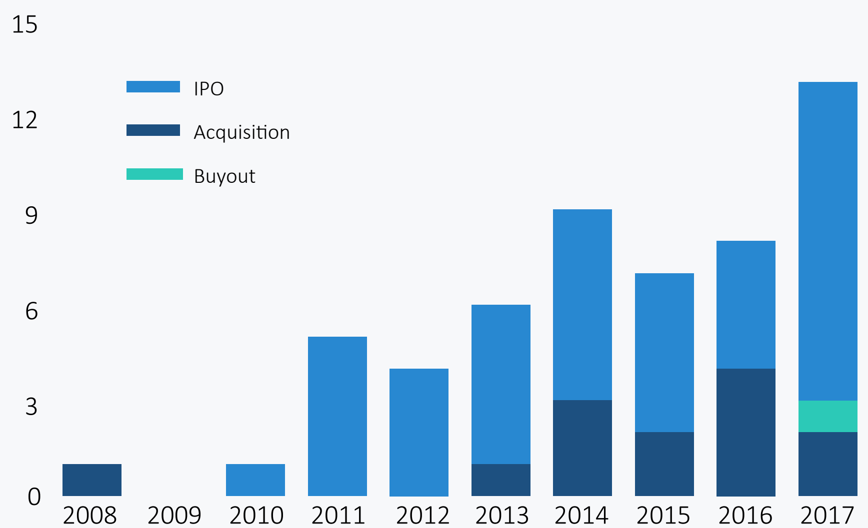
US unicorn exit activity



Source: PitchBook
*As of 3/1/2018

Most common exit route by far is IPO

US unicorn exit activity (#) by type



Source: PitchBook
*As of 3/1/2018

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Select unicorn statistics

Company	Amount raised to date ($M)	Amount raised in past 12 months ($M)	Employee count	# Active investors
Uber	**$13,188.1**	**$1,250.0**	**17,000**	**141**
WeWork	$4,686.9	$3,000.0	4,000	24
Lyft	$4,112.4	$2,100.0	1,800	85
Airbnb	$3,403.1	$1,003.3	2,500	68
Palantir Technologies	$2,752.6	--	2,000	71
Magic Leap	$1,889.2	$502.0	1,200	29
SoFi	$1,876.6	$500.0	1,000	49
Moderna Therapeutics	$1,837.9	$500.0	500	22
SpaceX	$1,759.9	$450.0	6,000	32
Pinterest	$1,446.3	$150.0	1,200	63
Intarcia Therapeutics	$1,433.5	$615.0	271	39
Grail (Biotechnology)	$1,311.7	$1,211.7	--	22
Wish	$1,250.3	$500.0	900	43
Katerra	$1,109.0	$1,025.0	1,300	15
Bloom Energy	$932.0	--	925	37
Instacart	$926.1	$613.0	619	40
DraftKings	$898.8	$118.7	425	41
Theranos	$810.4	--	220	17
Slack	$800.7	$250.0	650	37
Compass	$775.2	$550.0	3,000	21
Planet	$772.5	$575.0	201	27
Tae Technologies	$770.5	--	64	10
Pivotal Software	$758.1	--	2,000	5
Oscar	$738.9	--	153	31
Domo	$729.9	$115.1	500	46

Source: PitchBook
*As of 3/1/2018

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Unicorn league tables

Top investors in current unicorns by count

SV Angel	25
Sequoia Capital	20
Fidelity Investments	20
Andreessen Horowitz	20
Wellington Management	19
GV	19
Khosla Ventures	18
Kleiner Perkins Caufield & Byers	18
Baillie Gifford	16
Tiger Global Management	15
SharesPost	15
Founders Fund	15
New Enterprise Associates	14
T. Rowe Price	13
GGV Capital	12
CapitalG	12
The Goldman Sachs Group	11
Hartford Financial Services Group (Mutual Fund Business)	11
AME Cloud Ventures	11
David Sacks	11
Thrive Capital	10
TPG Growth	10
MicroVentures	10
Salesforce Ventures	10
Jeremy Stoppelman	10
IVP	10
ICONIQ Capital	10
Greylock Partners	10
Accel	10
Comcast Ventures	10
Dave Morin	10

Source: PitchBook

Top unicorn investors making first deal at seed stage

David Sacks	6
Dave Morin	5
Troy Carter	5
Andreessen Horowitz	4
Mark Hager	4
Keith Rabois	3
Biz Stone	3
Sequoia Capital	3
Benjamin Ling	3
Initialized Capital Management	3
Kevin Hartz	3
Alexis Ohanian	3
Michael Cheung	3
Elad Gil	3
Naval Ravikant	3
SV Angel	3
Anthony Saleh	3
Y Combinator	3
Garry Tan	3
Harjeet Taggar	3
Jeremy Stoppelman	3
TEEC Angel	3

Source: PitchBook

Top unicorn investors making first deal at Series A

SV Angel	12
Khosla Ventures	8
Sequoia Capital	6
Dave Morin	5
Draper Fisher Jurvetson	5
T. Rowe Price	5
First Round Capital	5
Jeremy Stoppelman	5
Kevin Hartz	4
New Enterprise Associates	4
Kleiner Perkins Caufield & Byers	4
Benchmark Capital	4
Founders Fund	4
GV	4
Ronald Conway	3
David Sacks	3
Thrive Capital	3
Vinod Khosla	3
Raymond Tonsing	3
Accel	3
Slow Ventures	3
Bezos Expeditions	3
Andreessen Horowitz	3
Dave Goldberg	3
Joe Zawadzki	3

Source: PitchBook

Top unicorn investors making first deal at Series B

Andreessen Horowitz	7
Sequoia Capital	5
AME Cloud Ventures	4
GE Ventures	4
IVP	4
Felicis Ventures	4
General Catalyst Partners	4
Benchmark Capital	3
Redpoint Ventures	3
Kleiner Perkins Caufield & Byers	3
Greylock Partners	3
Ronald Conway	3
SV Angel	3
Scott Banister	3
GGV Capital	3
The Goldman Sachs Group	3

Source: PitchBook

Top unicorn investors making first deal at Series C

Founders Fund	5
Salesforce Ventures	5
Khosla Ventures	5
Allen & Company	5
Comcast Ventures	5
Tiger Global Management	5
New Enterprise Associates	4
Insight Venture Partners	4
Thrive Capital	4
DFJ Growth	4
MicroVentures	4
GV	4
Kleiner Perkins Caufield & Byers	4
Jerry Yang	3
Greenoaks Capital	3
Tao Capital Partners	3
Andreessen Horowitz	3
Valor Capital Group	3
Accel	3
SV Angel	3
Fidelity Investments	3
GGV Capital	3

Source: PitchBook

Top unicorn investors making first deal at Series D+

Wellington Management	15
Fidelity Investments	13
Baillie Gifford	11
SharesPost	10
Tiger Global Management	7
GV	7
CapitalG	7
SoftBank Group	6
MicroVentures	6
T. Rowe Price	6
General Atlantic	6
GGV Capital	6
Hartford Financial Services Group (Mutual Fund Business)	6
Coatue Management	6
Kleiner Perkins Caufield & Byers	6
The Goldman Sachs Group	5
TPG Growth	5
Optimum Asset Management	5
Technology Crossover Ventures	5
Temasek Holdings	5
M13	5
ICONIQ Capital	5
IVP	5

Source: PitchBook