



svb



Silicon Valley Bank

# State of the Markets

Views on Venture Investing in the Global  
Innovation Economy

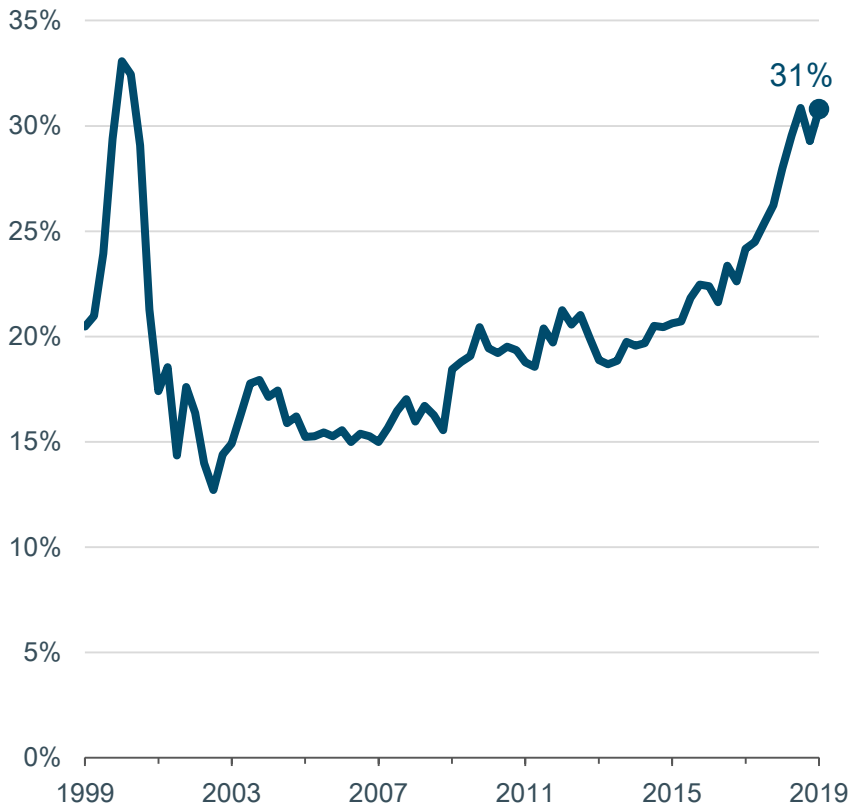
June 25, 2019



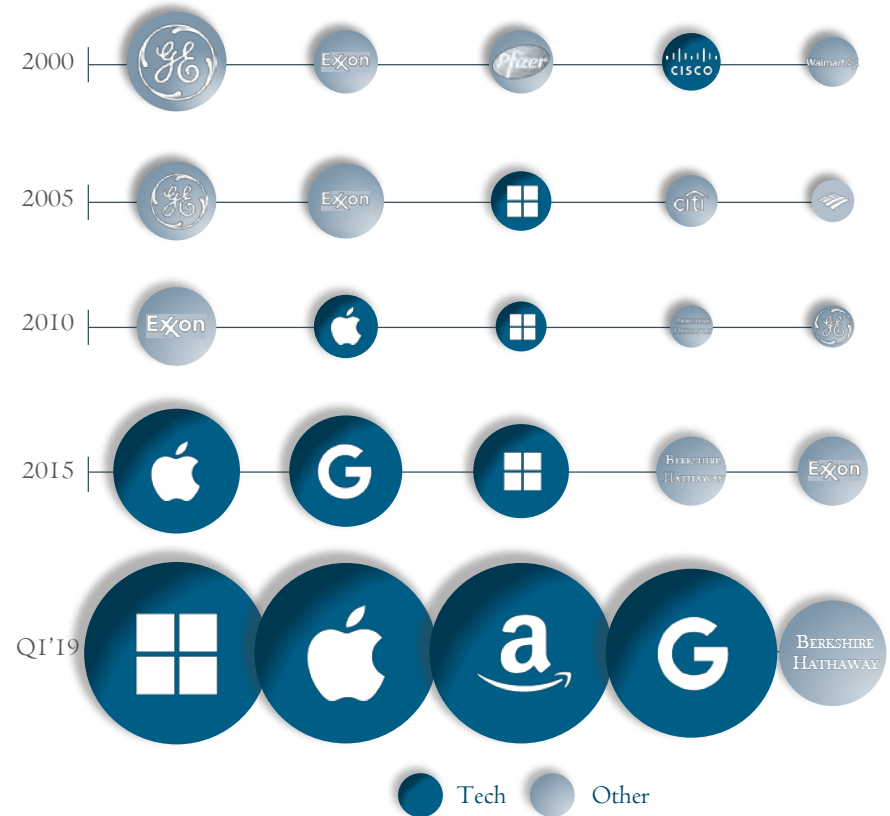
# Tech Rises to the Top

Following the hype and subsequent collapse of the dot-com era, tech companies have proven their importance (and value) to the US economy. Nearly one-third of the S&P 500 Index is represented by tech companies – the largest of any industry.

S&P 500 Tech Industry<sup>1</sup> Weighting: 1999—2019

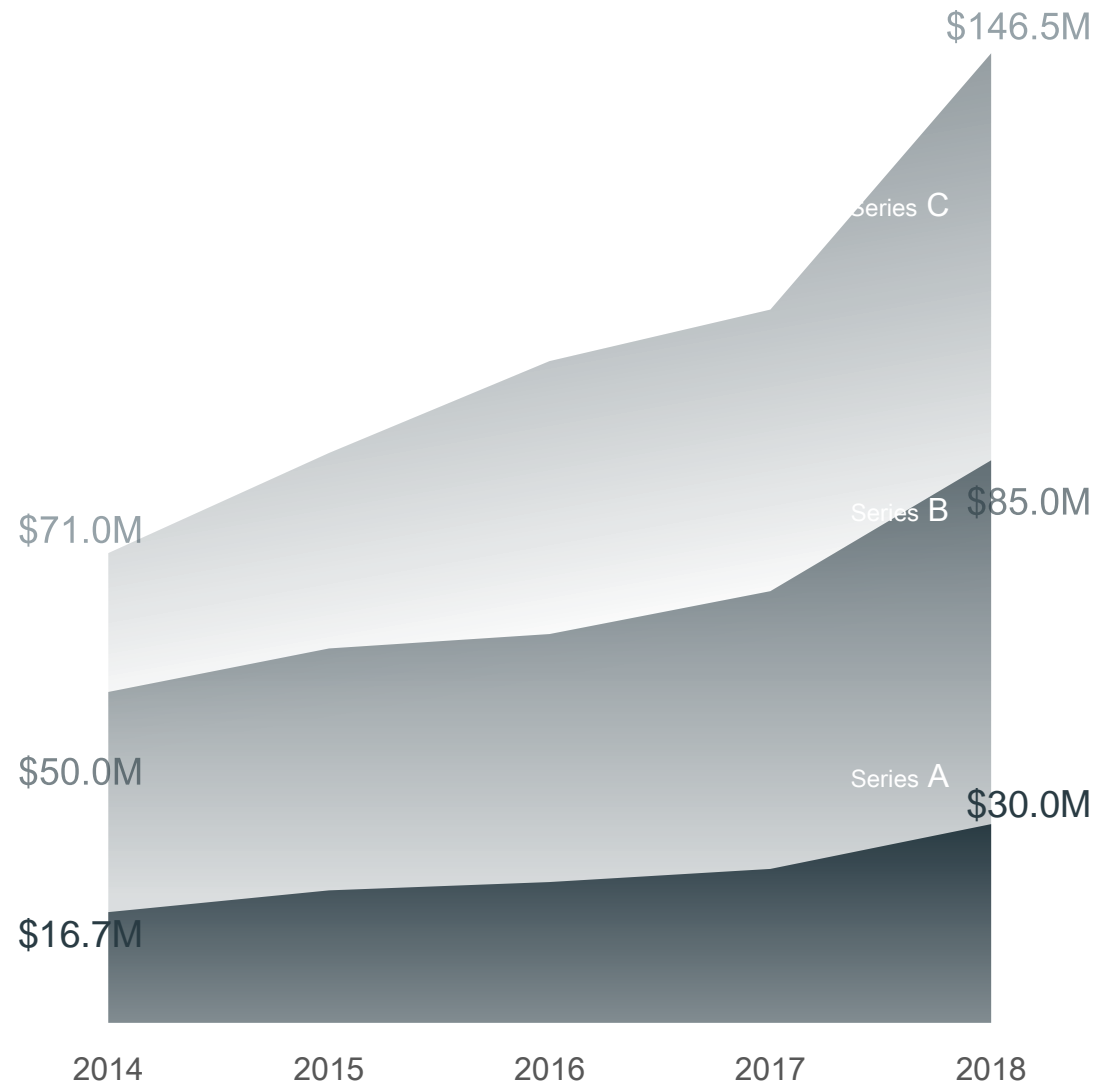


Largest S&P 500 Companies by Market Cap



# Valuations are on the Rise

MEDIAN POST-MONEY  
VALUATION BY STAGE

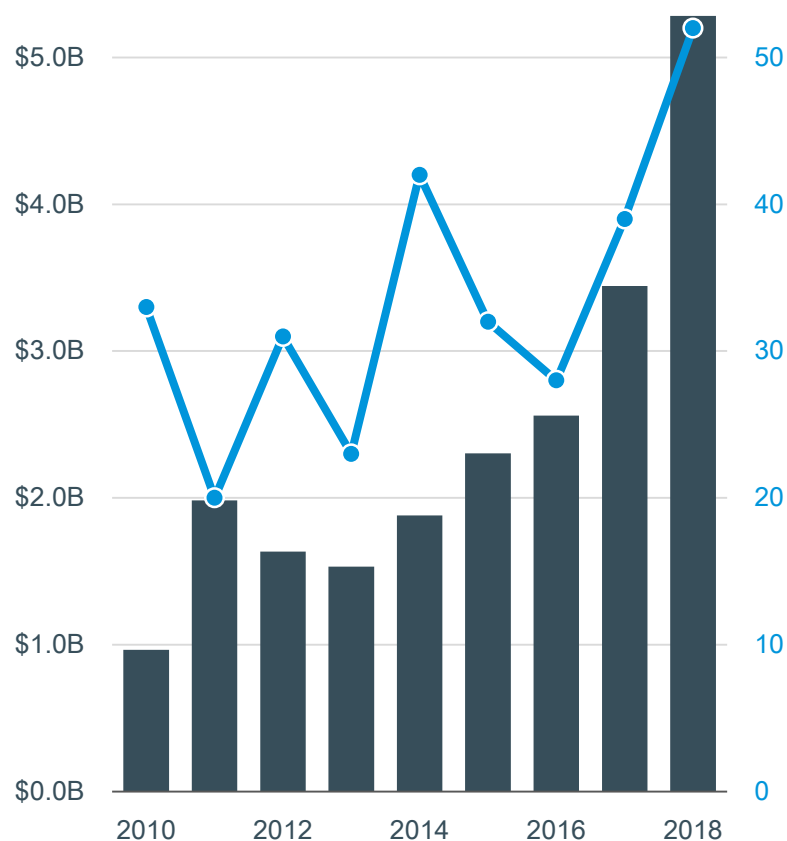


Data as of 12/31/18  
Sources: SVB Capital Proprietary Database

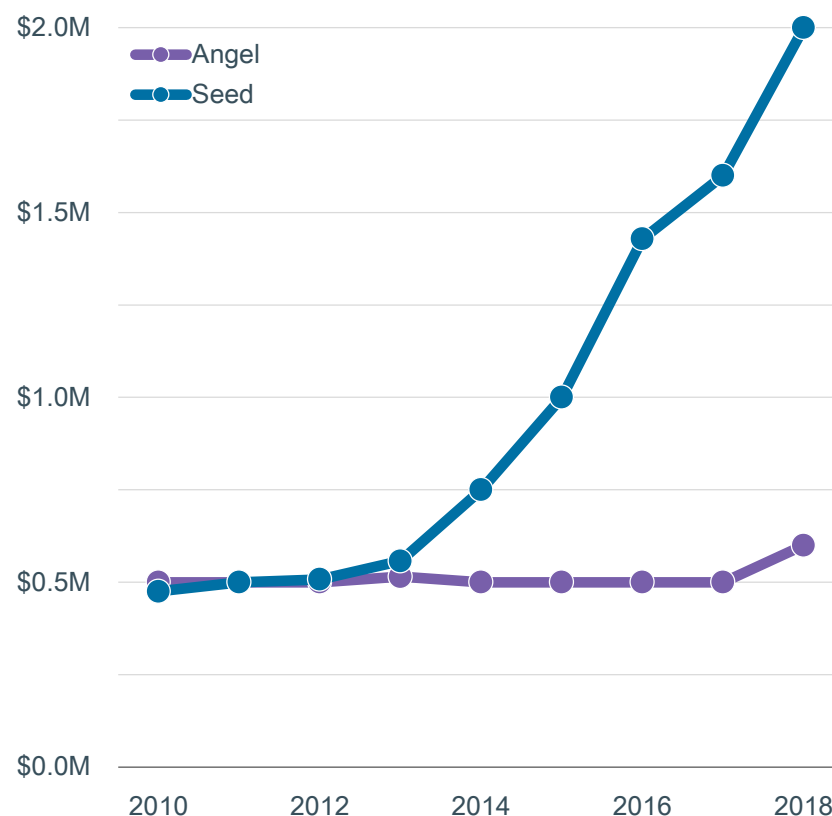
# New Funds Move to Institutionalize Early Rounds

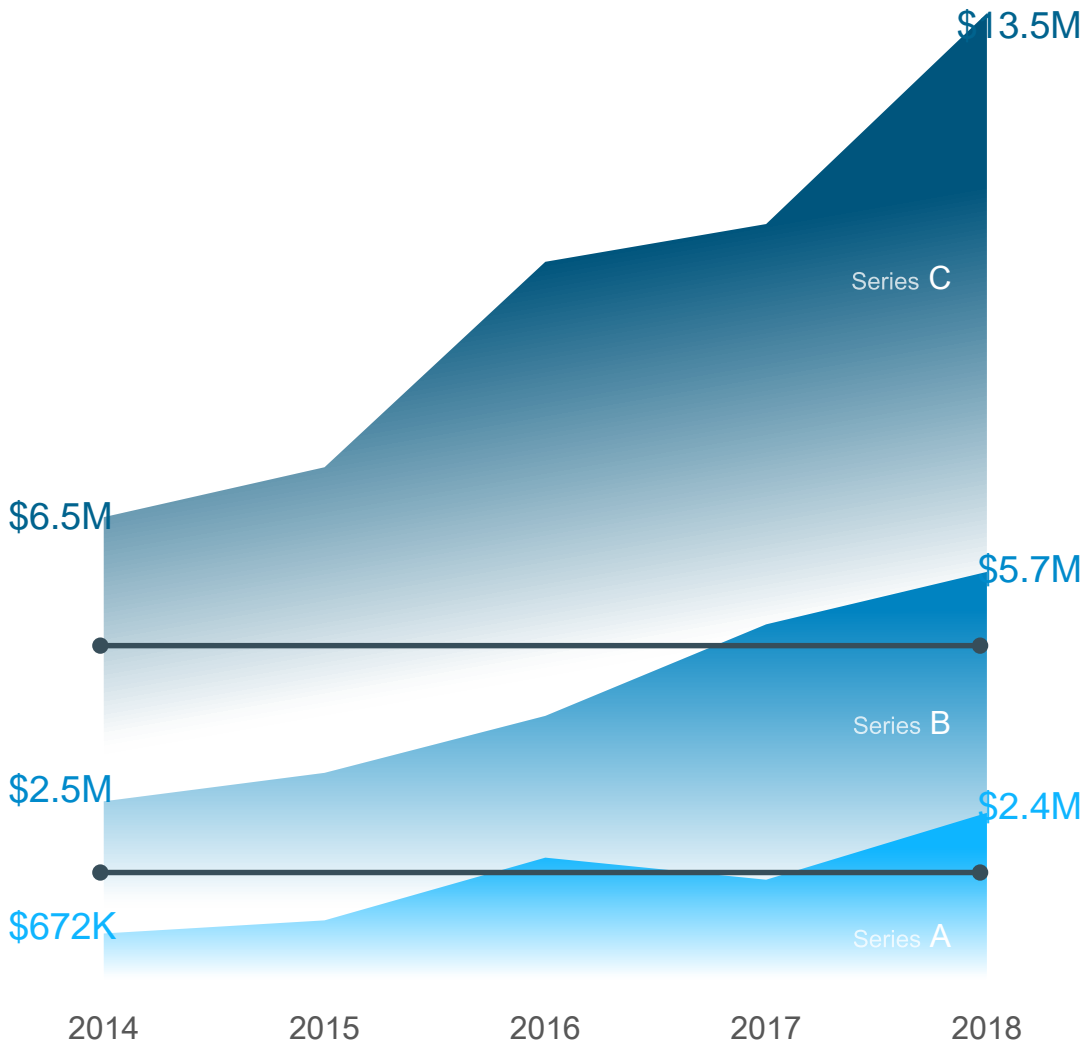
At the earliest stages, venture capital available to emerging innovation companies helped push round sizes for seed rounds well beyond their historical average, which had been in line with angel rounds. The return of capital from upcoming IPOs could push both round sizes higher.

## US VC Fundraising: First-Time Funds



## Early-Stage US Tech Median Round Size: 2010—2018





**A is the New B**  
**B is the New C**

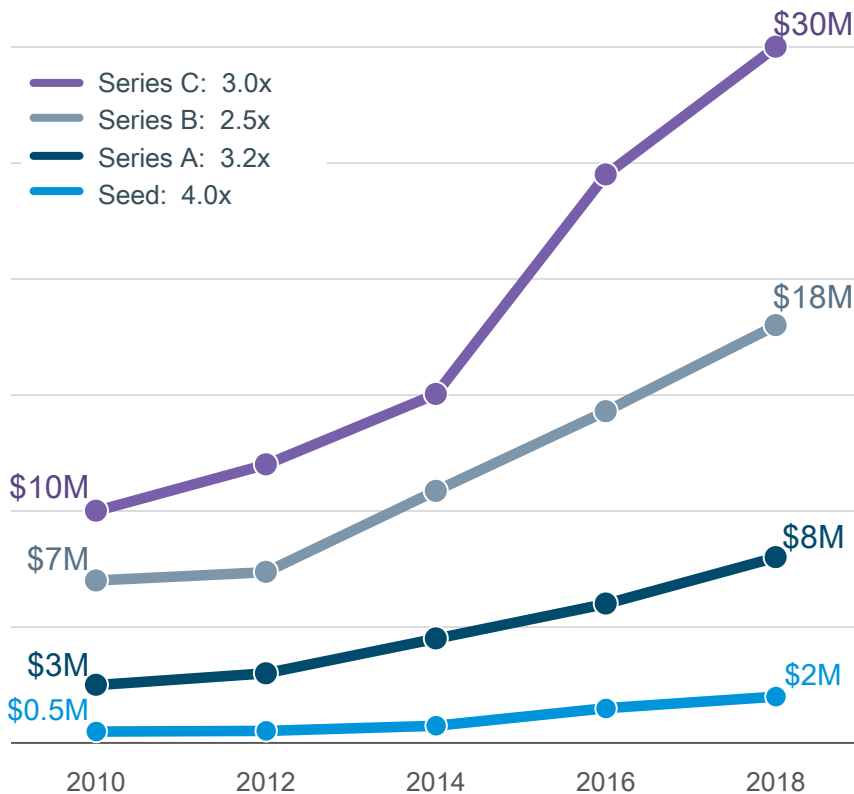
MEDIAN REVENUE AT FINANCING

Data as of 12/31/18. Revenue is annualized based on the latest quarter of revenue at the time of financing.  
Sources: SVB Capital Proprietary Database

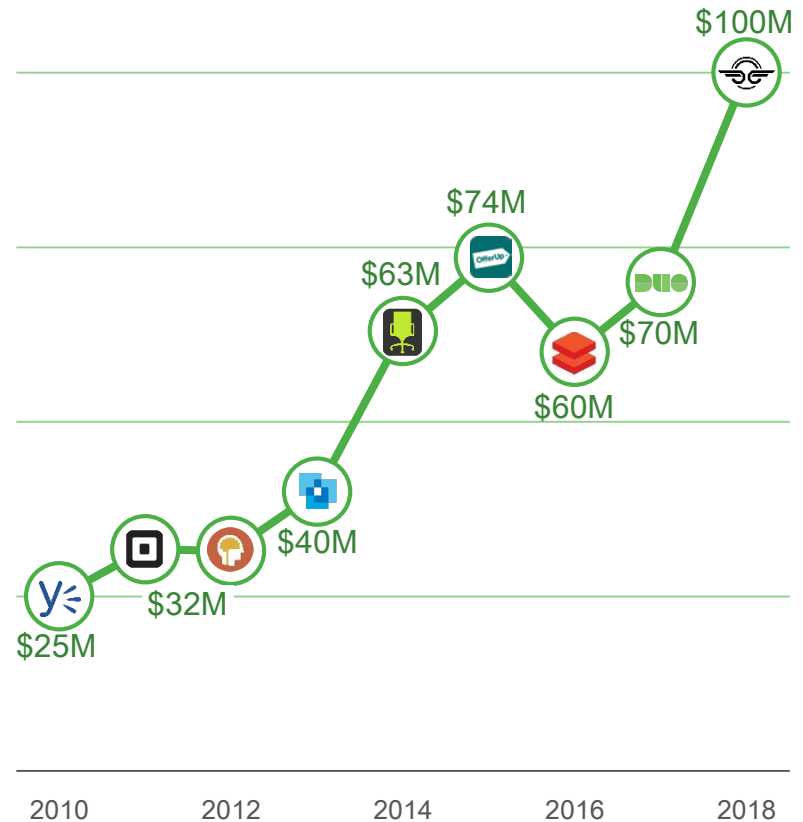
# Startups Are Better Capitalized Than Ever

Thanks to risk-incentivized investors and their buckets of cash, capital raises at every stage have more than doubled since the beginning of this decade. In fact, in order to make the top 100 deals of 2018, a startup would need to have raised a nine-figure round.

US Tech Venture: Median Round Size by Series



US Tech Venture: 100th Largest Deal





# Diverse Pools of Capital Chase Innovation Returns

Traditional venture firms are no longer the only game in town. Newly professionalized family office and capital-rich private equity investors are participating in venture rounds at an increasing pace, nearing the highs from 2015 in deal level and keeps surpassing those capital marks.

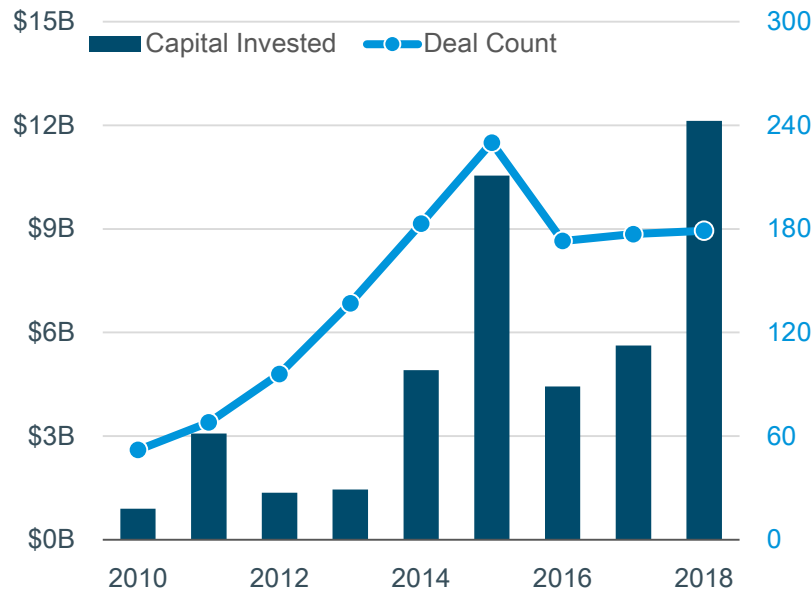
## Notable Family Offices Investors in Tech Venture<sup>1</sup>



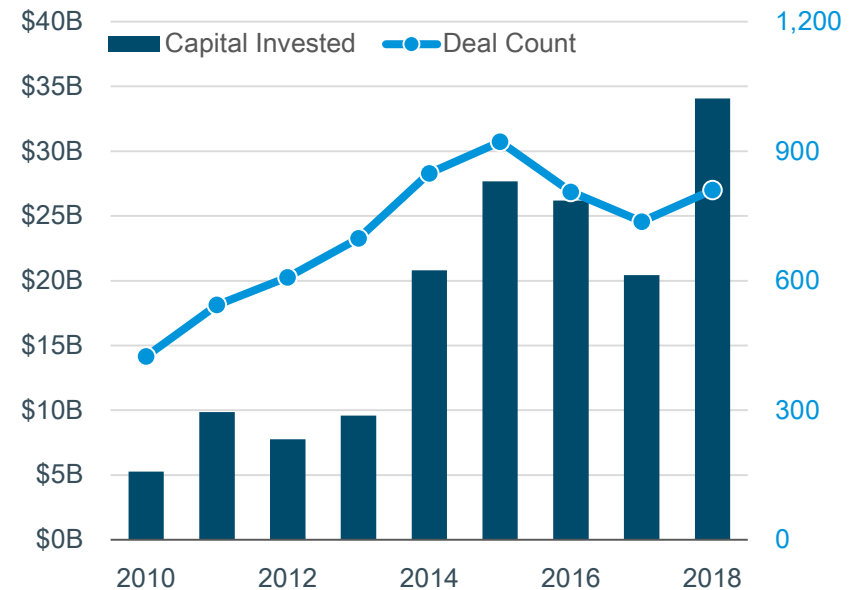
## Notable Private Equity Investors in Tech Venture<sup>1</sup>



## Family Offices' Venture Investment in US Tech<sup>2</sup>



## Private Equity Firms' Venture Investment in US Tech<sup>2</sup>

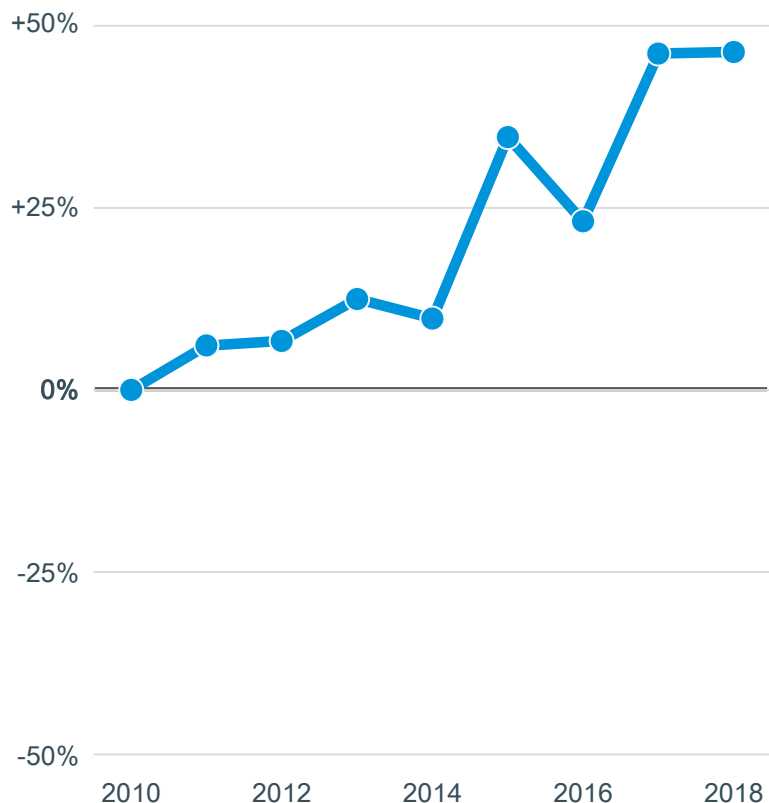


Note: 1) Deal count based on participation in US tech venture rounds from 2010–2018. 2) Investment dollars include full rounds that received participation from at least one investor from the class.  
Source: PitchBook and SVB analysis.

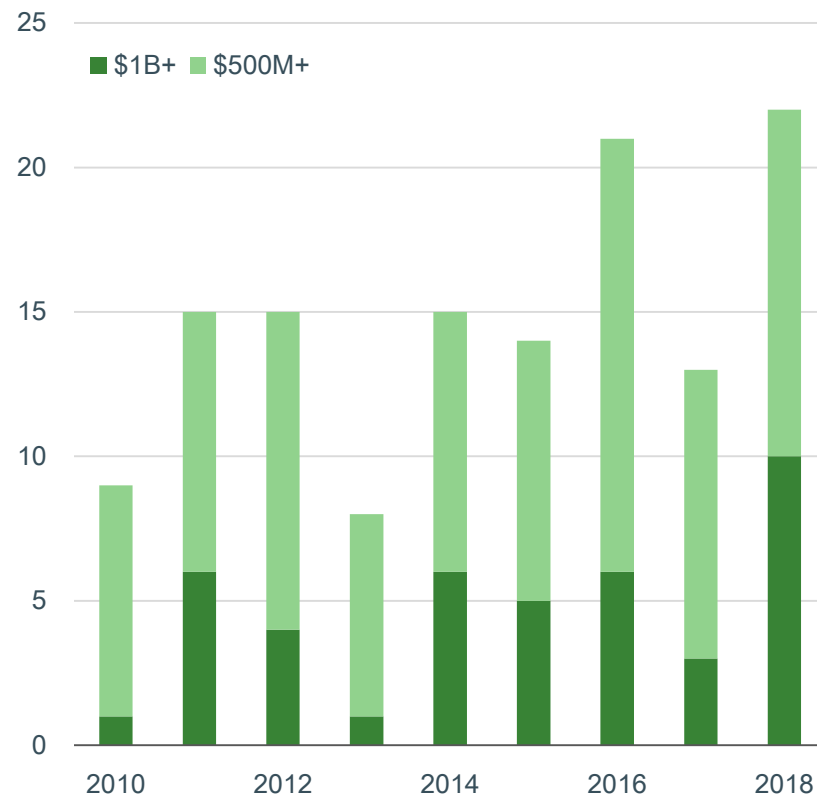
# VCs Raising More Capital with Each Trip Back to LPs

Top firms are attracting more capital for each successive fund, climbing to almost 50% more than their prior fundraise. This trend helped contribute to records in 2018, including the most \$500M+ funds and the first year with double-digit \$1B+ funds.

US VC Fundraising: Median Step-Up in Fund Size for Same Family of Funds



US VC Fundraising: \$500M+ and \$1B+ Funds

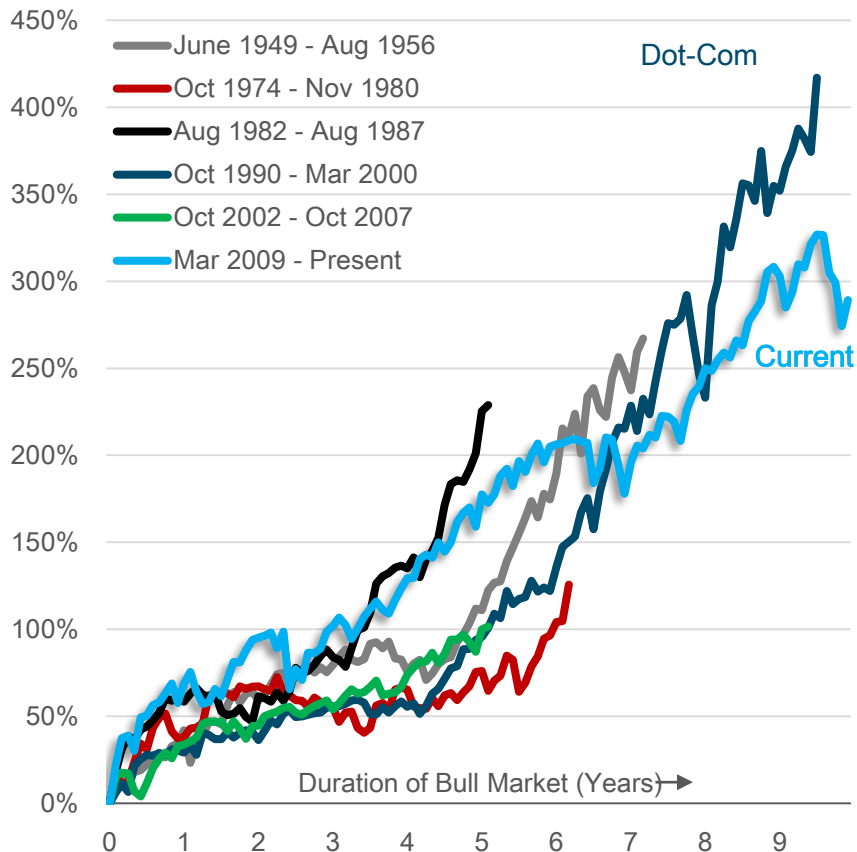




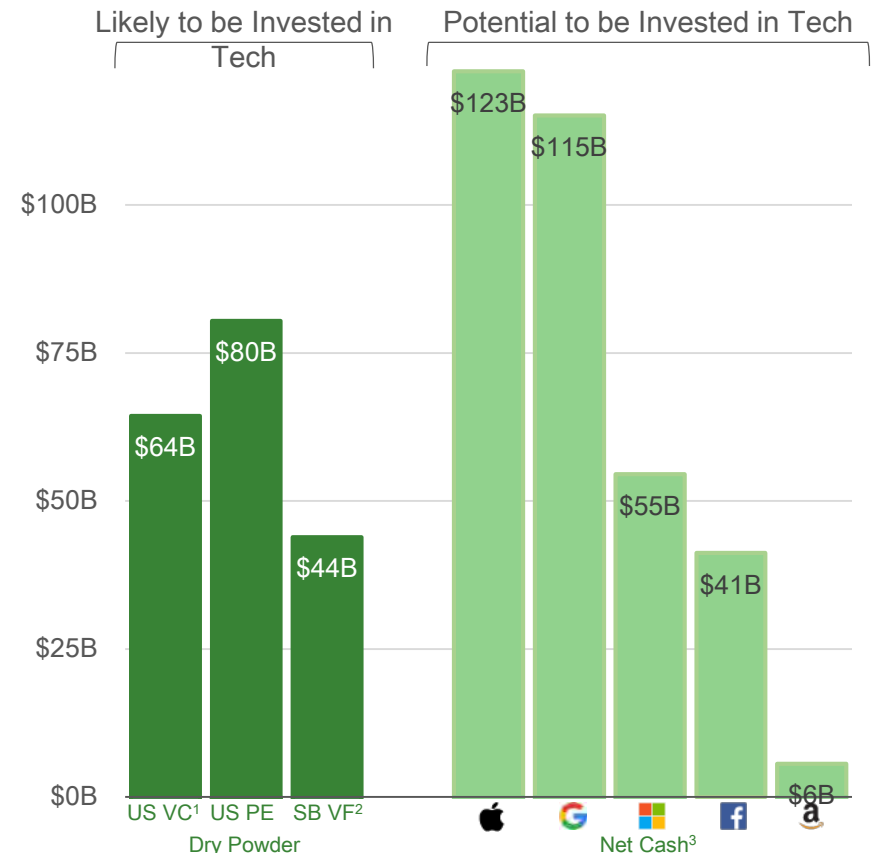
# Sizeable Cash Piles as Bull Run Breaks Records

A decade of prosperity following the recovery from the Global Financial Crisis has left both traditional and emerging investors flush with cash for venture investing.

Longest S&P 500 Bull Market Runs Since 1945



Accumulated Net Cash: 12/31/2018



Notes: 1) VC and PE dry powder as of 3/31/2018 with SVB estimates for amount expected for tech investment. 2) Vision Fund dry powder remaining as of year-end. 3) Cash includes cash and ST and LT investments, net ST and LT debt.

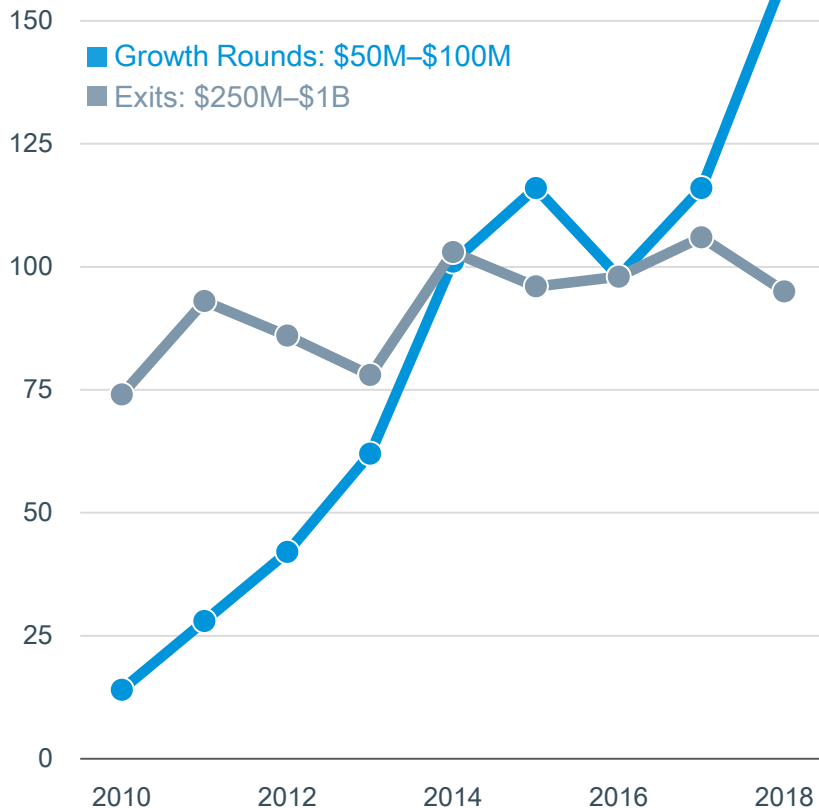
Sources: LPL Research, Yahoo, S&P Capital IQ, PitchBook and SVB analysis.

SVB Public

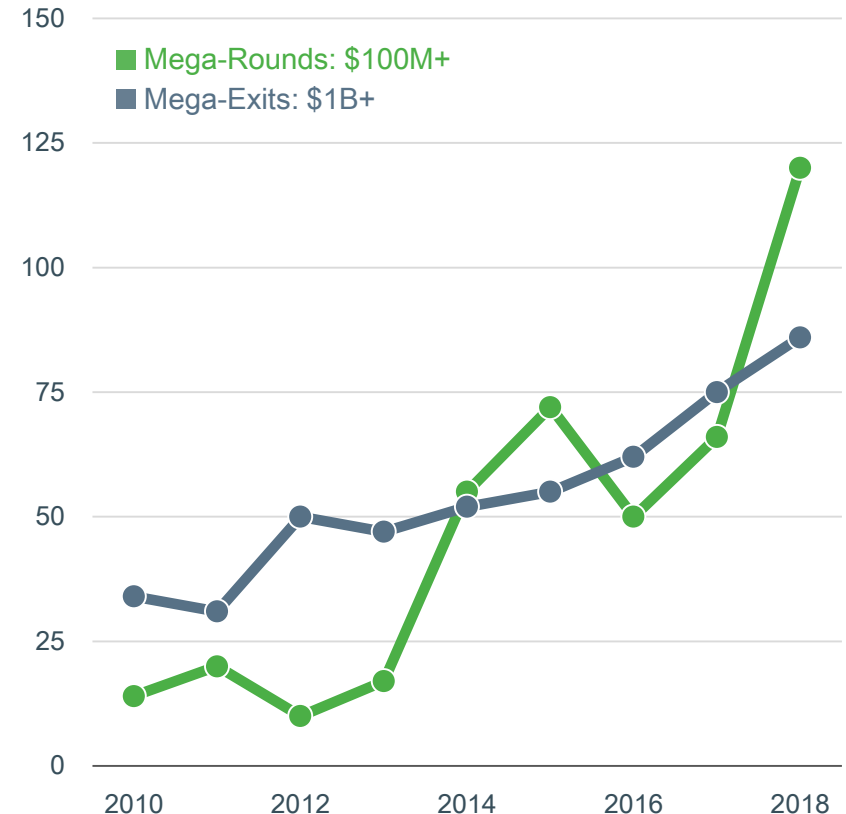
# Opting for Growth Capital vs. an Early Exit

With the abundance of available capital, firms are increasingly choosing growth rounds – even mega-growth rounds – over similar-sized exits. This could signal that companies want to mature before securing an even bigger exit. Or are these firms simply shying away from public market scrutiny?

US Tech Growth Rounds vs. Exits: 2010–2018



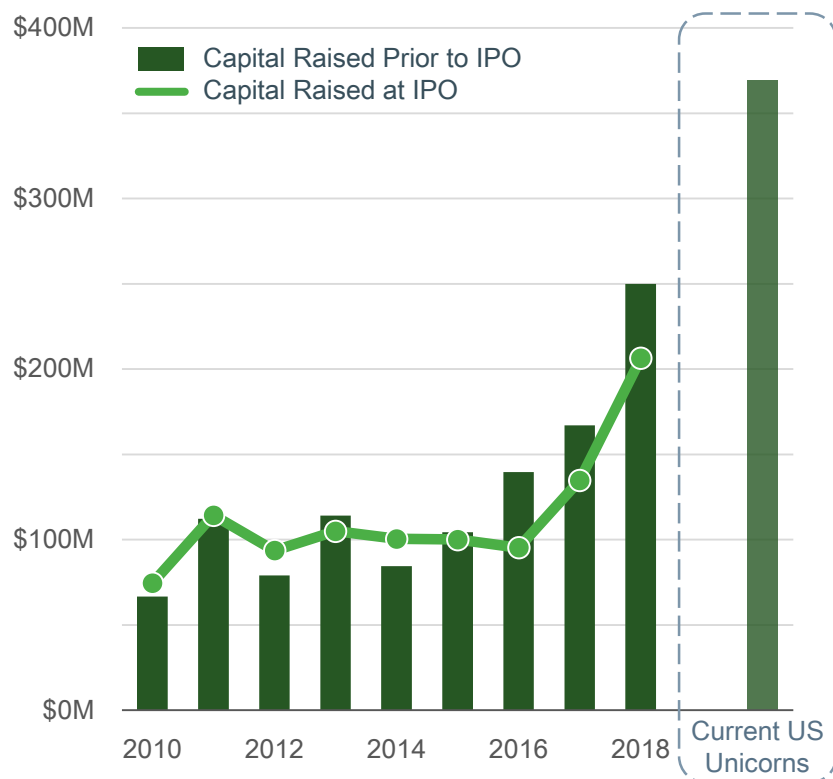
US Tech Mega-Rounds vs. Mega-Exits: 2010–2018



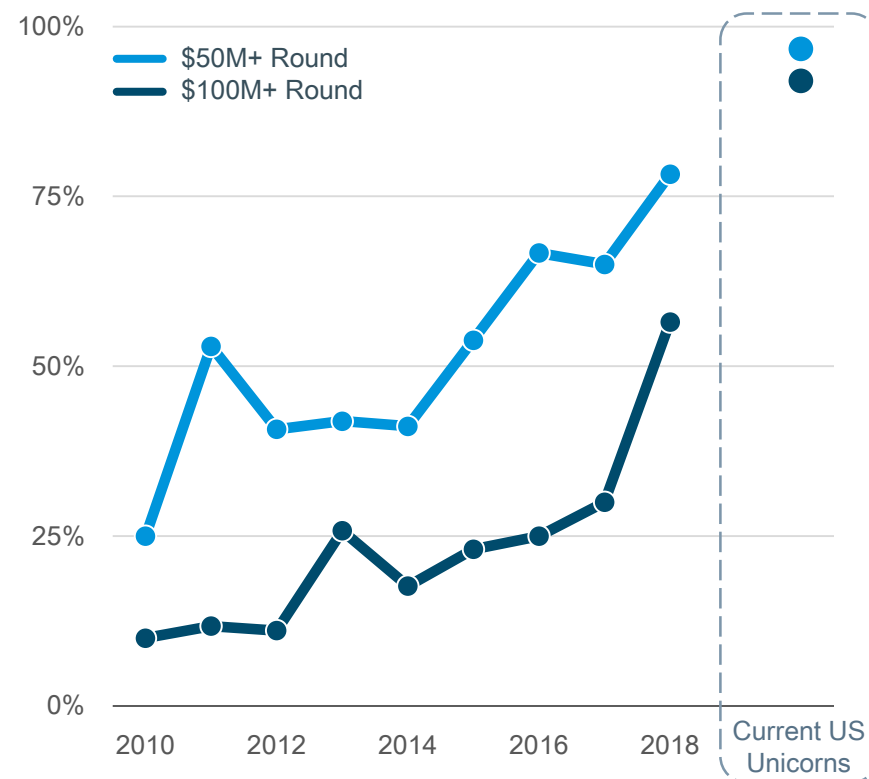
# Expect IPOs to Continue Their Capital Climb

Before the flurry of private capital began in 2015, the average venture-backed tech company would raise \$100M in private capital ahead of their \$100M public offering. Looking at the current crop of US unicorns, more than 90% have already raised at least \$100M in a single private financing.

Median Equity Raised Prior to IPO and via IPO by US Venture-Backed Tech Companies



Percentage That Raised a Private Venture Round of \$50M+ and \$100M+ Prior to IPO



# The Bar for an IPO is Higher Than Ever Before

MEDIAN STATISTICS OF VC-BACKED TECH IPOs  
BY YEAR

**\$639M** Market Cap  
at IPO

**\$91M** Revenue  
at IPO

2014

2018/19

**\$1.9B** Market Cap  
at IPO

**\$226M** Revenue  
at IPO

Data as of 5/1/19  
Source: Capital IQ

# Unicorns are Fundamentally Healthy

MEDIAN STATISTICS

\$116M

Revenue

75%

Annual Revenue  
Growth

65%

Gross Margins

\$65M

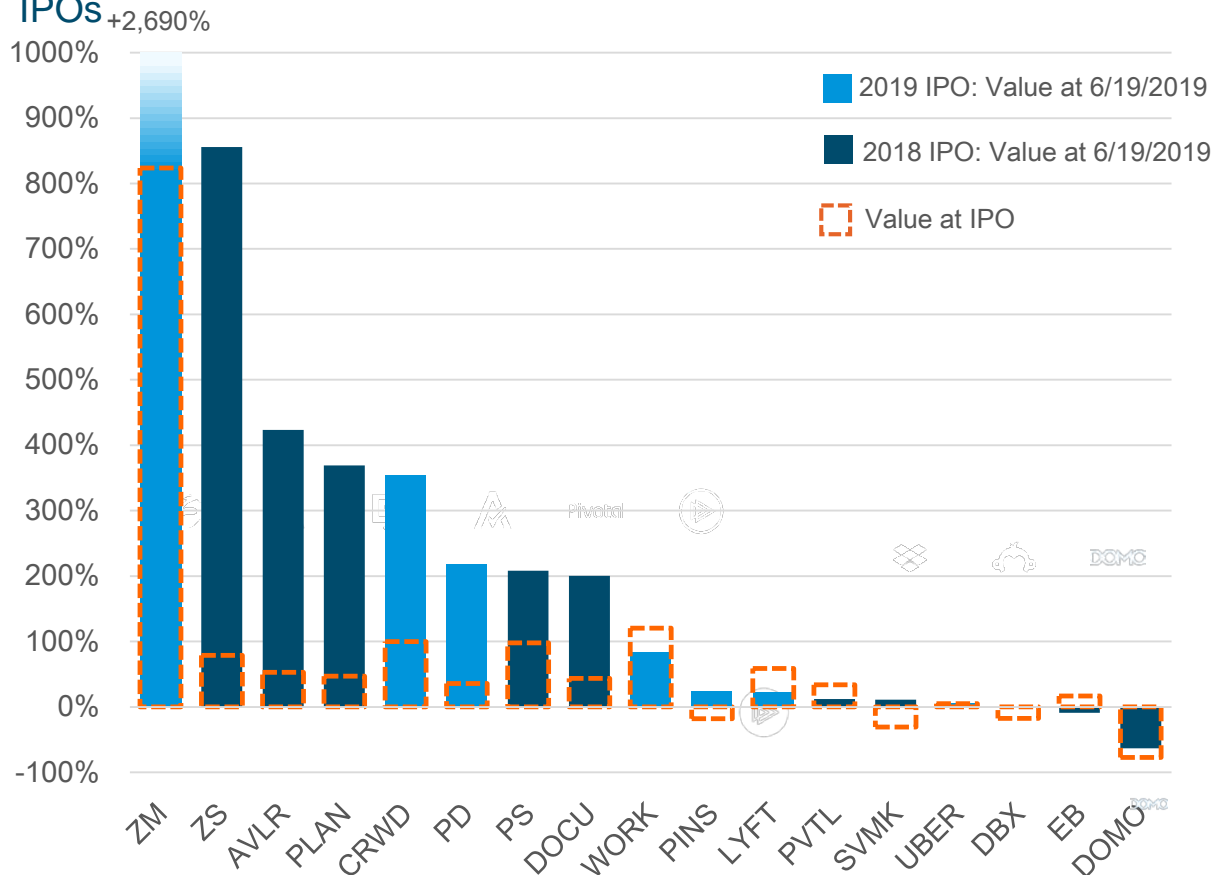
Cash Balance

Data as of 12/31/18  
Sources: SVB Capital Proprietary Database

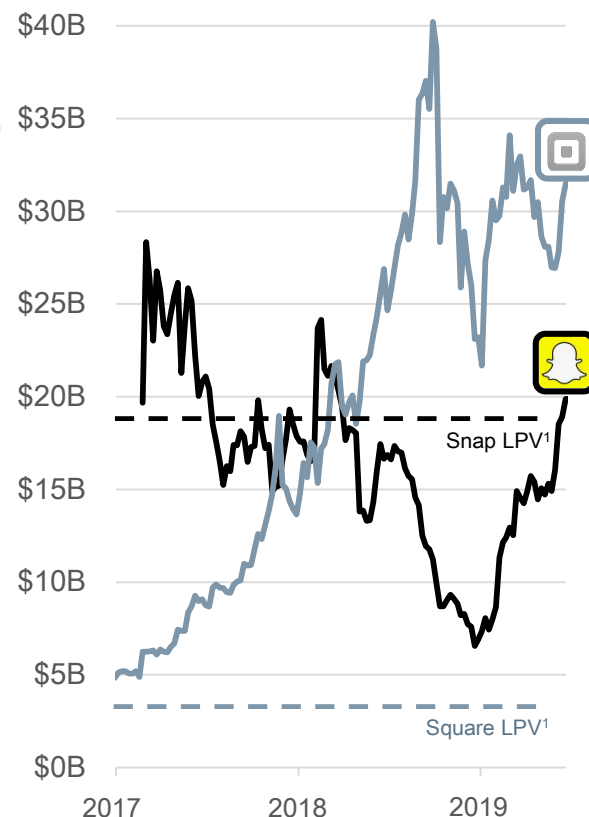
# Public and Private Investors Seeing Eye-to-Eye

Public and private investors have largely agreed on unicorn valuations, as the vast majority of the top billion-dollar debuts in 2018 and 2019 priced and remained above their last private round. That said, the IPO is just the beginning, as evidenced by Snap and Square's reversal over the last couple years.

Valuation Relative to Last Private Valuation<sup>1</sup>: '18—'19 US \$1B+ Tech IPOs



Market Cap: Square and Snap





# Innovation is Global

SELECT \$1B+ EXITS IN 2018 & 2019

Uber  
zoom  
Pinterest  
pagerduty  
lyft  
SONOS  
GitHub  
glassdoor  
DocuSign  
ring  
zuora  
Dropbox

flatiron  
Pill Pack  
DUO SECURITY

Funding Circle  
iZettle  
Spotify  
adyen

Mellanox

Flipkart

美团点评  
NIO  
拼多多  
小米  
mobike  
ele.me

qualtrics

99

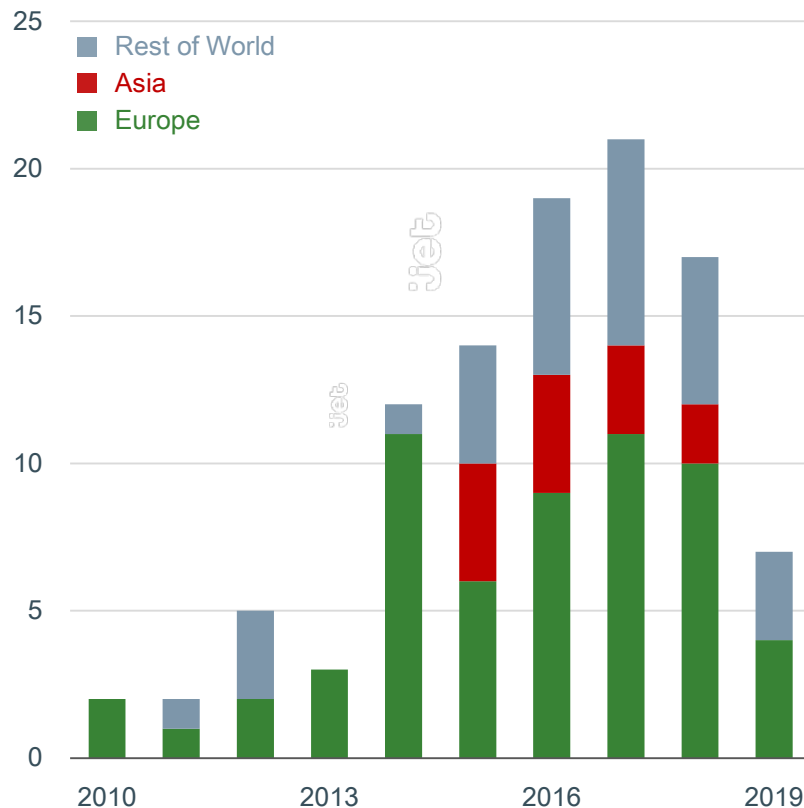
between 1/1/18 and 6/3/19.  
posure to all of the listed



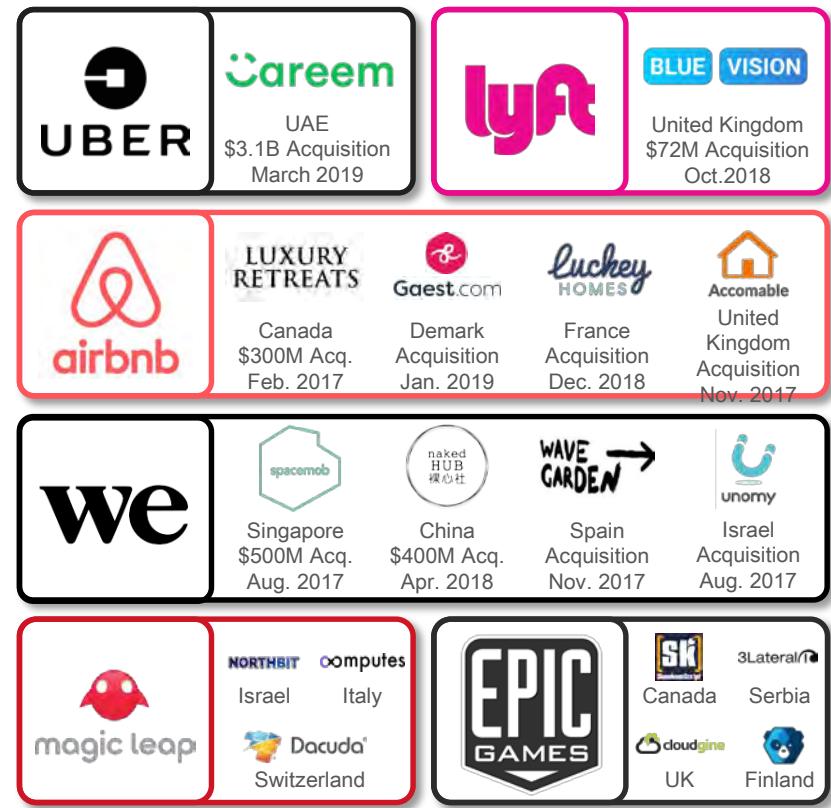
# US Tech Looks To International Opportunities

The innovation economy's best and brightest are putting their abundant capital to work abroad, with 20% of their acquisitions taking place outside of the US. On the back of a strong dollar, their capital is going even further for expansion overseas.

## International Acquisitions by US Tech Unicorns



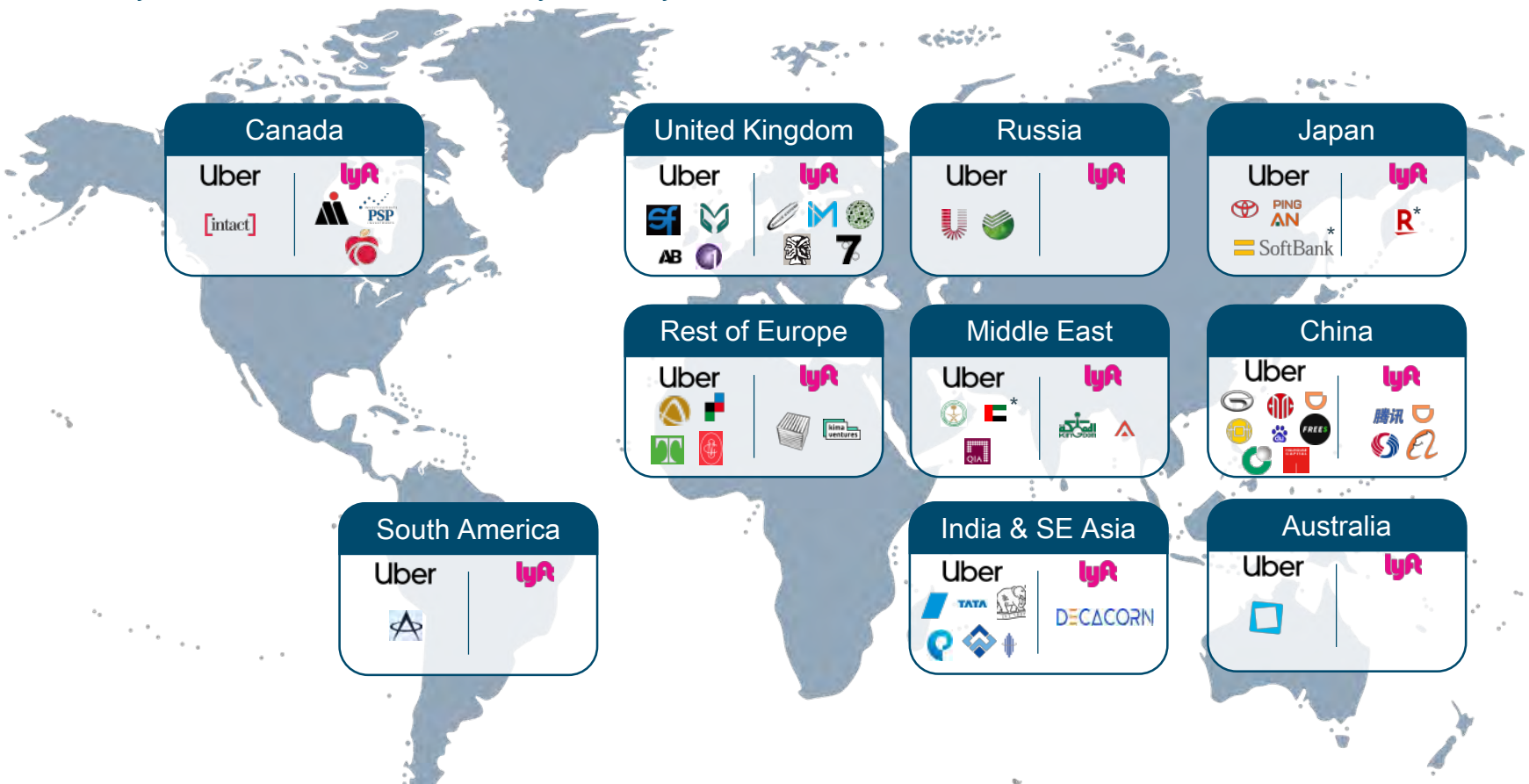
## Notable Int'l Acquisitions by US Tech Decacorns



# Unicorns Rely on Capital Boosts From Abroad

It takes a village. In the cases of Uber and Lyft, a global network of investors played significant roles in financing their growth from startups to giants. Regulators will need to weigh both the benefits and consequences to foreign investment in U.S. tech companies.

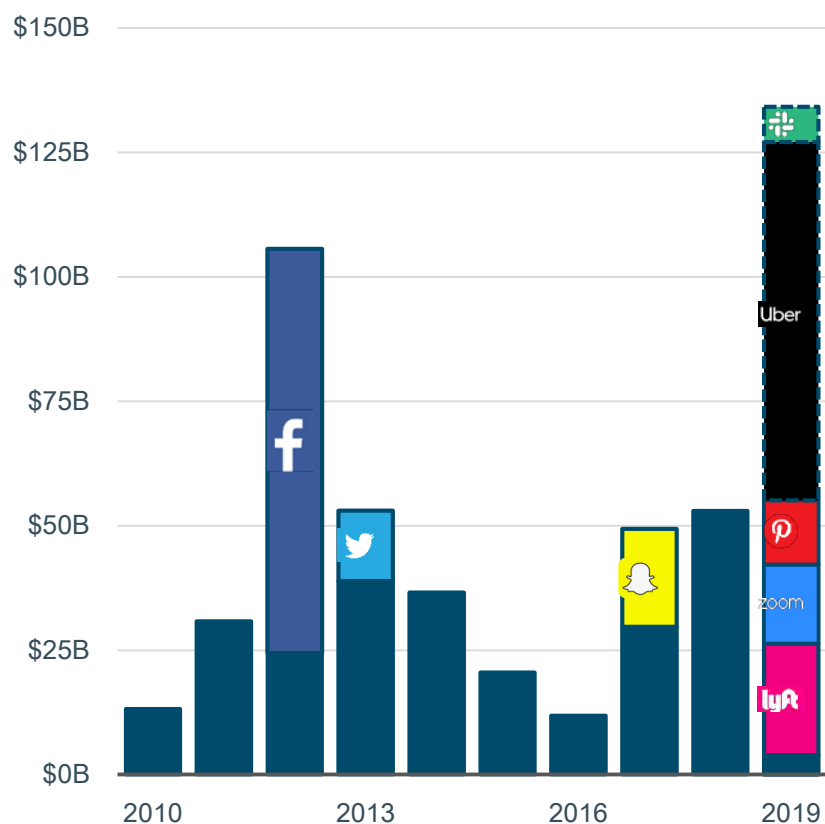
## Uber & Lyft: International Investors by Country



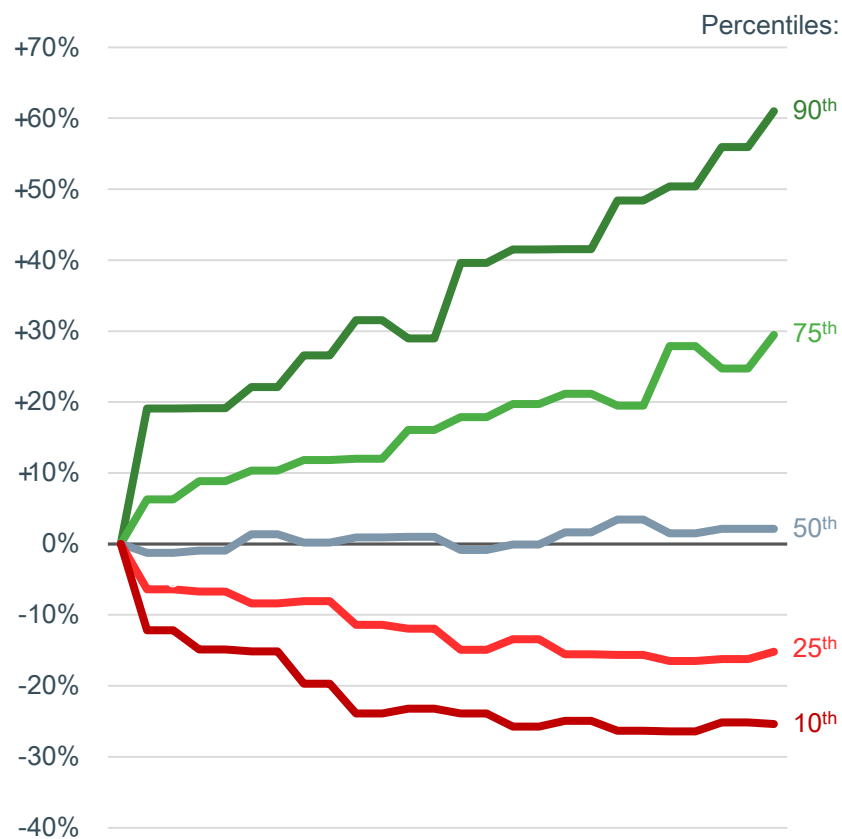
# Next Wave of Capital Will Come After Lockups

Early signs indicate 2019 should be the most robust year of value realization via IPOs for US venture-backed tech companies this decade. But the IPO listing is only the start of the journey for insiders, including venture firms, who must weather six months of market movement before exiting.

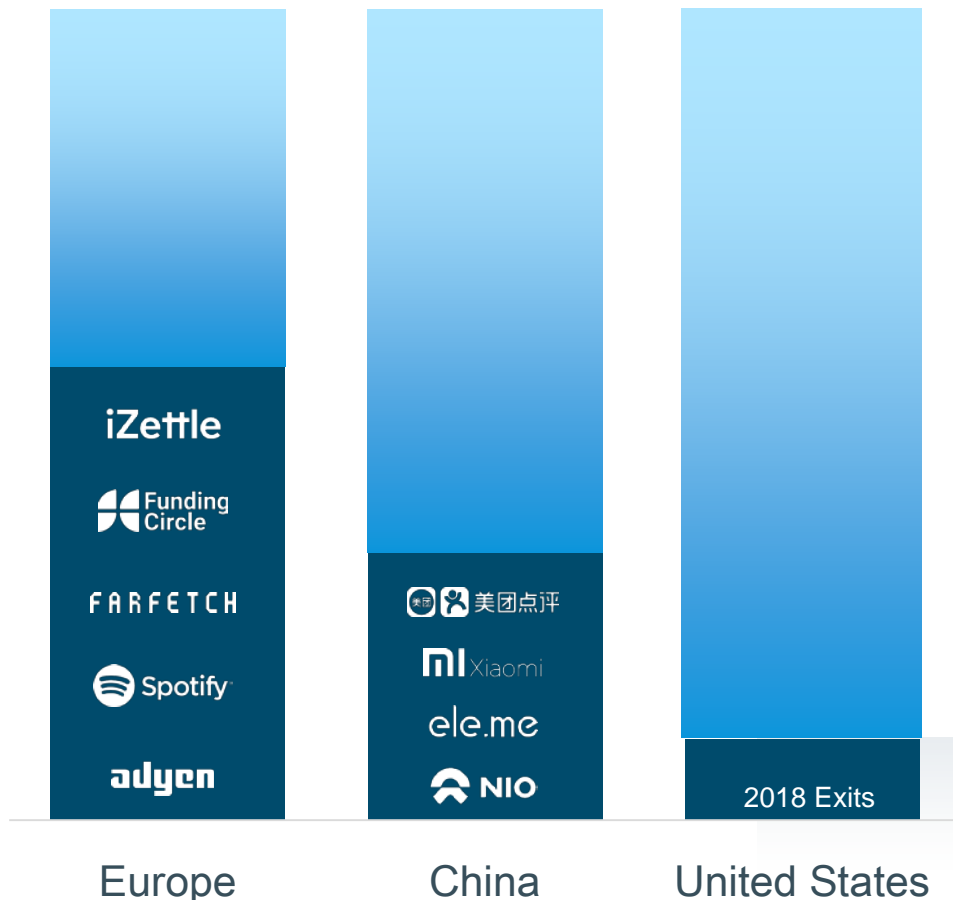
## Aggregate Valuation of US VC-Backed Tech IPOs



## Post-IPO Performance for 2010–2018 US Tech IPOs



■ % of Unicorn Value Realized in 2018 ■ % of Remaining Unicorn Value



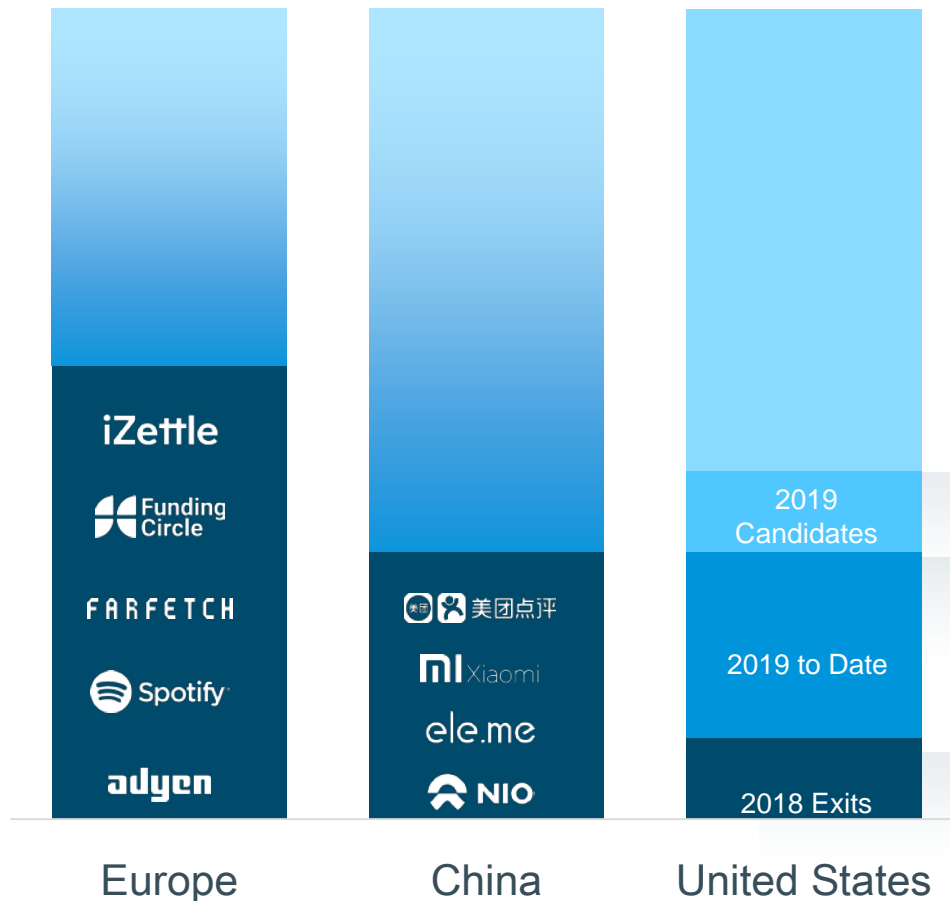
## We Expect 2019 will be a Year of US Liquidity

UNICORN VALUE REALIZED IN 2018  
EXITS RELATIVE TO TOTAL  
REMAINING VALUE



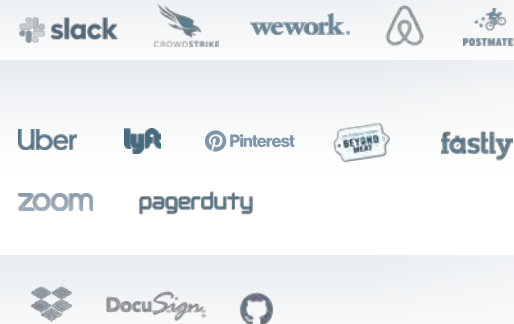
Data as of 6/3/19  
Sources: PitchBook and Capital IQ

■ % of Unicorn Value Realized in 2018 ■ % of Remaining Unicorn Value



# We Expect 2019 will be a Year of US Liquidity

UNICORN VALUE REALIZED IN 2018  
EXITS RELATIVE TO TOTAL  
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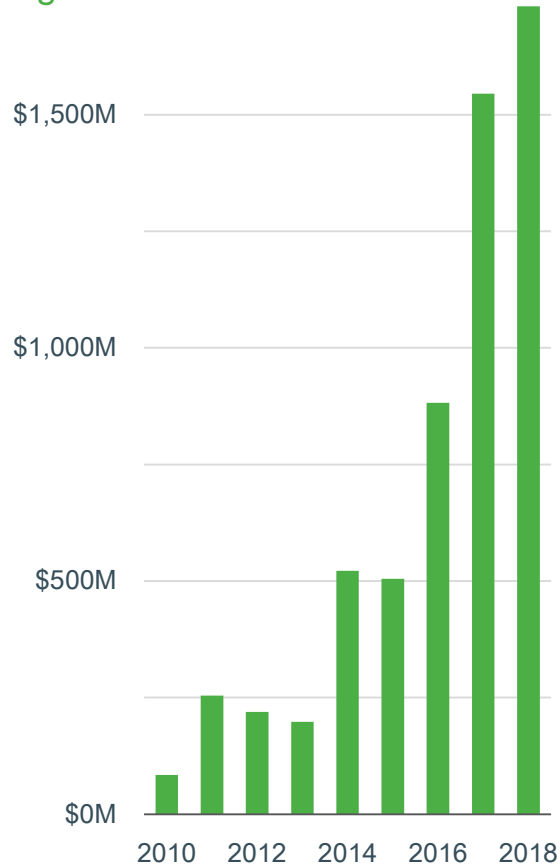
Data as of 6/3/19  
Sources: PitchBook and Capital IQ

# Nontraditional Industries Prime for Disruption

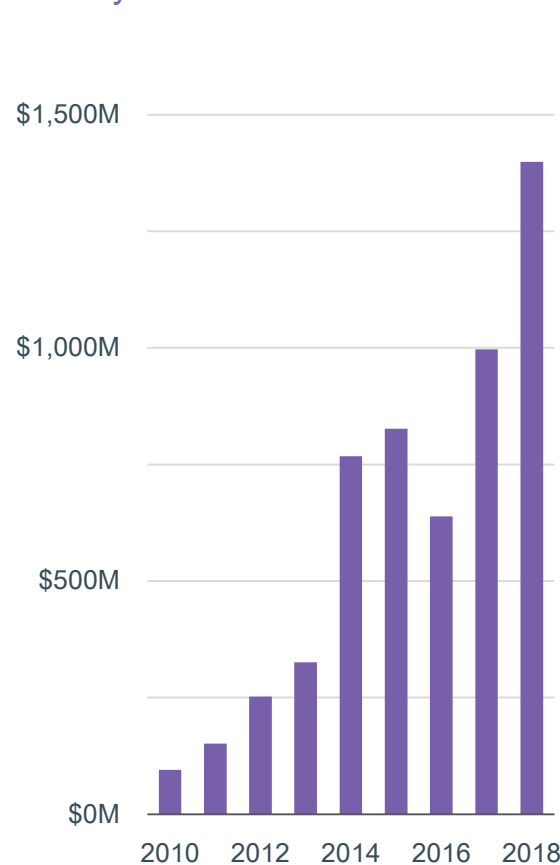
The traditional definitions for tech have eroded as innovation spreads to old guard industries. Areas ranging from beauty to construction are facing disruption from venture-backed companies.

US Venture Capital Investment: 2010–2018

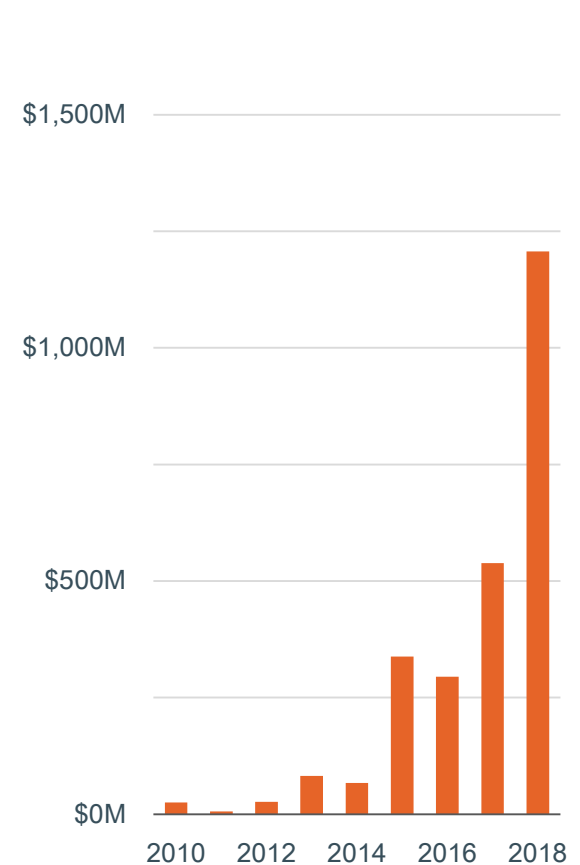
AgTech:



Beauty & FemTech:



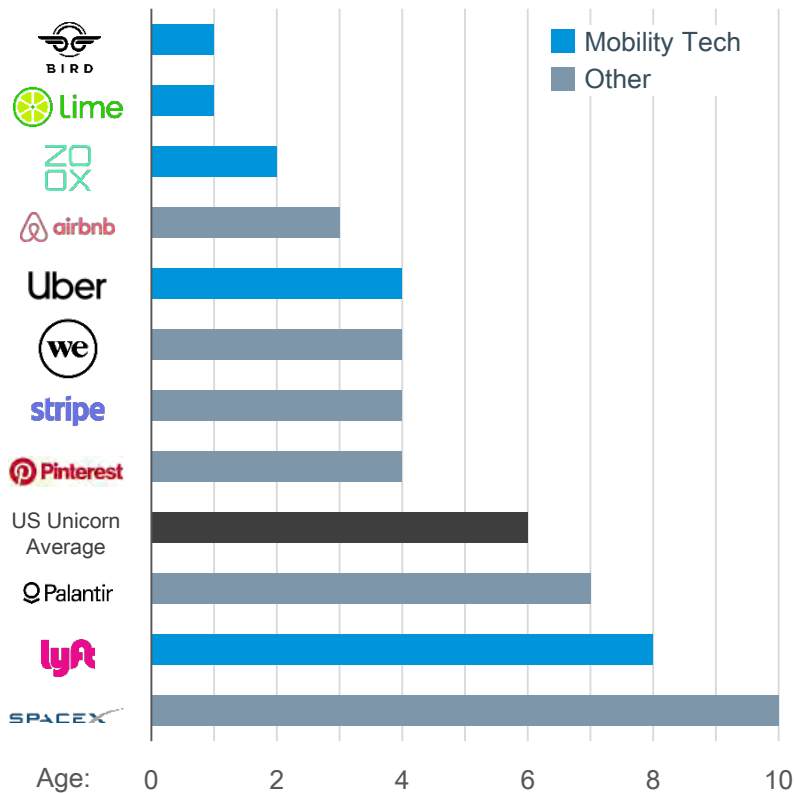
Construction Tech:



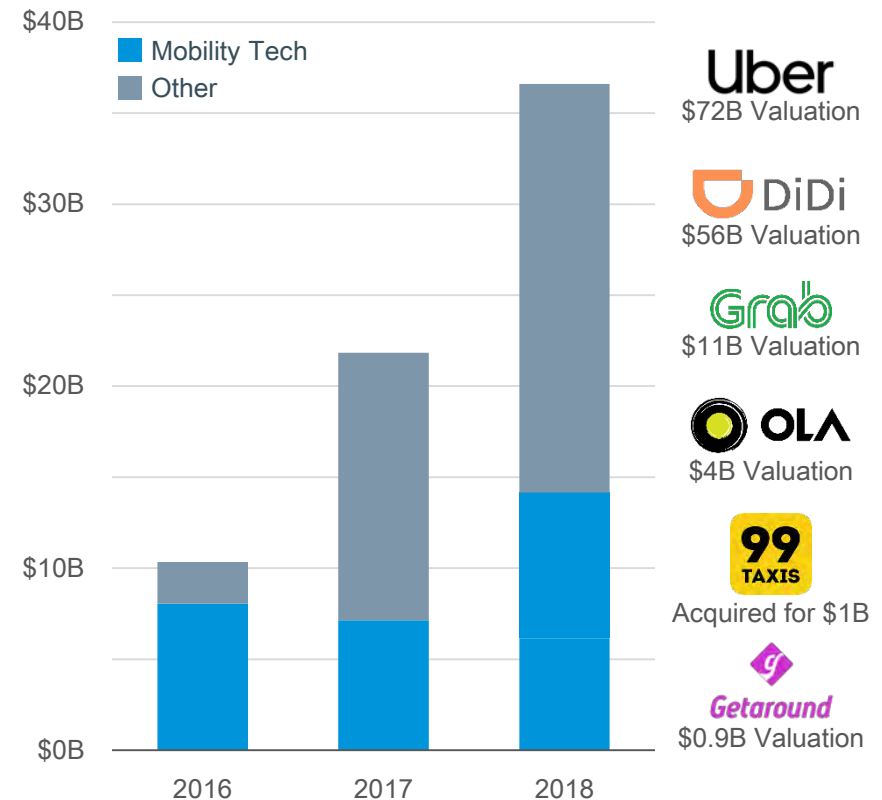
# The Future of Mobility: New Platforms Skyrocket

The fastest unicorns ride scooters: Bird and Lime rolled to billion-dollar valuations as quickly as any in history. Startups are benefitting from advances in fundamental hardware, artificial intelligence, and communications – not to mention plentiful capital from the likes of SoftBank's Vision Fund.

Mobility Tech and Notable US Tech Decacorns:  
Age at Which Unicorn Status Achieved



SoftBank \$100M+ Global Investments in Mobility

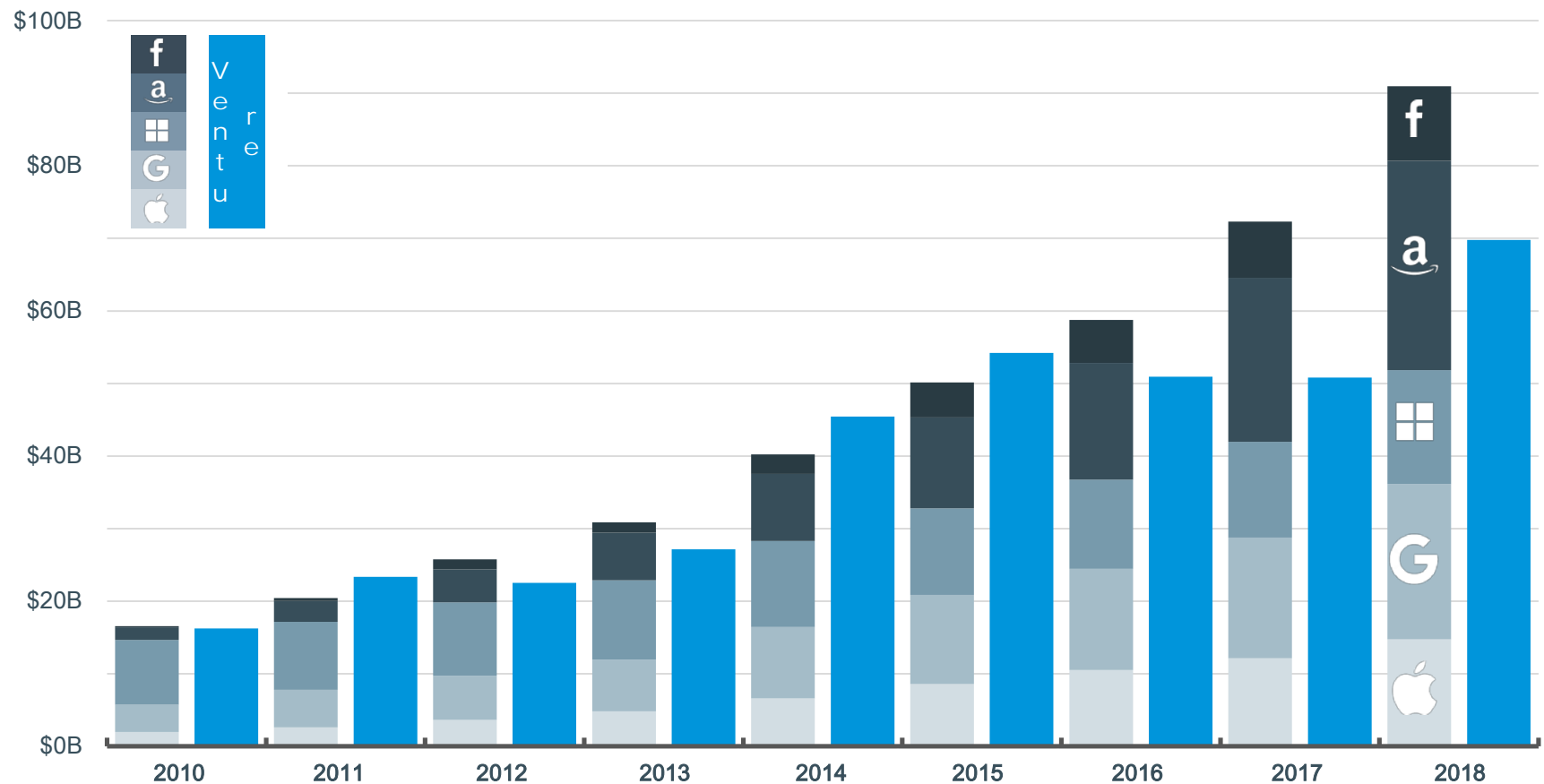




# Tech Giants Spend Big but Now Face Scrutiny

The Big 5 US tech giants have gone unchecked despite their growing influence. Now, as they outspend the entire tech venture ecosystem in R&D dollars alone, they are facing increasing political scrutiny. Are their innovations a true benefit to society?

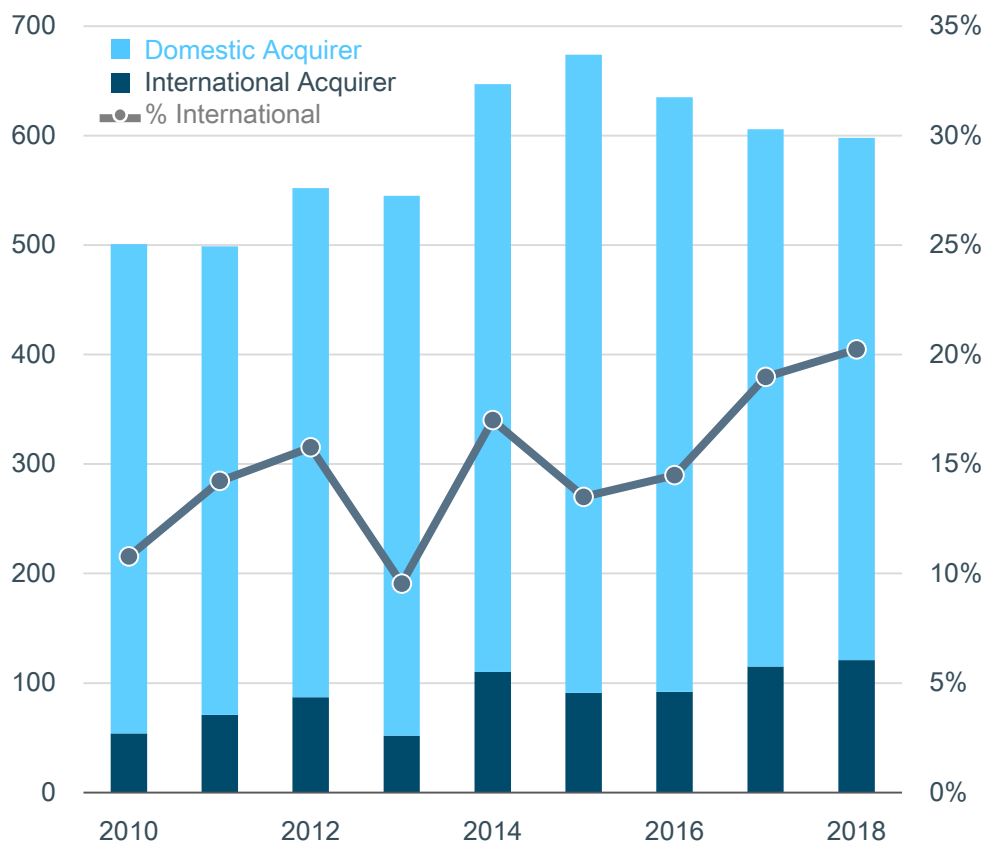
R&D Expenditure by Big 5 US Tech Companies vs. US Tech Venture Capital Invested



# CFIUS Could Impact 20% of VC-Backed Acquisitions

As geopolitical tensions rise, the Committee on Foreign Investment in the United States (CFIUS) is paying close attention. This has the potential to limit foreign acquirers who have been buying a growing share of US start ups.

Strategic Acquisitions of US VC-Backed Tech Companies



Most Acquisitions by Country: 2010–2018

	Country	Deal Count	Deal Value
#1	United Kingdom	137	\$15B
#2	Canada	116	\$8B
#3	Japan	59	\$22B
#4	Germany	58	\$32B
#5	France	49	\$8B
#6	China	43	\$5B
#7	Israel	35	\$1.3B
#8	India	31	\$1.3B
#9	South Korea	28	\$1.6B
#10	Netherlands	27	\$24B

# SVB's Outlook for Venture in 2019

Records were broken in 2018 as both venture-backed companies and their investors stockpiled private capital. Will this be the year we finally see exits for many of the high-profile startups built during this decade of prosperity?

## 2018 Themes

## 2019 Prediction

Deal counts at the early stages fell for another year from their 2015 highs. Capital remained robust, however; the median Seed deal size reached \$2M for the first time.	Early Stage	Without the robust pool of Seed-funded companies from years past, SVB anticipates another year of steady capital in the early stages, despite declining deal counts.
Records were shattered at the later stages, with nearly 200 venture deals of \$100M+ in the US in 2018. Median pre-money valuations for Series D+ crossed \$300M.	Late Stage	2018 could well be an anomaly for mega-round activity without renewed support from SoftBank or sovereign wealth funds. Expect valuations in aggregate to slide.
International startups took advantage of calm markets and strong valuations to list in 2018. The US, however, still has \$500B worth of unicorns on paper waiting to be realized.	Exits	If the marquee names in venture set a positive sentiment early, 2019 could represent the tipping point between demand for private and public capital at the late stage.
US venture firms secured more than \$50B in committed capital, the highest total since the dot-com era. 43% went to funds of \$1B+, like Sequoia's \$8B Global Growth III.	Fundraising	The velocity of US venture firms' fundraising efforts foreshadows another big year for capital commitments. 2019 should top \$40B, even with a decrease from 2018.
Corporates participated in one-in-six US VC deals in 2018, with new CVC groups forming in old guard industries facing disruption late in the economic cycle.	Corporates	If stock prices (and management teams) remain stable, CVCs will remain heavily involved. Look for nearly 1,000 tech venture deals to have corporate participation.

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For more than 35 years, Silicon Valley Bank has helped innovative companies and their investors move bold ideas forward, fast. SVB provides targeted financial services and expertise through its offices in innovation centers around the world. With commercial, international and private banking services, SVB helps address the unique needs of innovators.



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