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4Q 2018



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COUNSEL TO GREAT COMPANIES

Solium

Nearly \$131 billion across 8,949 deals
Page 4

\$120B+ exited—33% increase from 2017
Page 27

Median fund size jumps 64% YoY
Page 30

The definitive review of the US venture capital ecosystem

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Executive summary

2018 ended up being a banner year for the VC industry with \$130.9 billion invested across 8,948 US venture deals, the first time annual capital investment eclipsed the \$100 billion watermark set at the height of the dot-com boom in 2000. While venture markets saw a stark decline in angel & seed deal count, 61.9% of total capital invested stemmed from deals sized \$50 million or larger, resulting in elevated median deal sizes and median valuations across all investment stages and series. Capital invested into life sciences companies reached a decade high, and unicorns raised an aggregate of \$44.5 billion in funding that accounted for 33.9% of total VC investment in 2018. Most of these trends began to surface several quarters ago, but as we've continued to observe a high concentration of capital in mega-rounds attract the lion's share of investment, the industry has evolved its normal operating state.

The record year and trend of capital concentration wasn't unique to the 2018 venture deals landscape, as fundraising GPs also experienced a banner year. Venture funds closed on \$55.5 billion across 256 vehicles, the highest capital raised figure PitchBook has ever recorded, and the fifth consecutive year that at least \$34 billion was raised. The fundraising dollar amount in 2018 was fueled by the continued rise of VC mega-funds as vehicles raising at least \$500 million accounted for 57.0% of all capital raised last year. First-time managers also continued to experience ample success garnering LP commitments, raising over \$5 billion, the highest figure recorded in at least a decade. This, coupled with the concentration of capital raised by mega-funds, underpinned another decade-high median fund size, which came in at \$82.0 million. Increasing deal sizes and valuations paired with healthy deal flow suggests the fundraising environment will likely continue its strong pace, but it does call into question the impact such levels may have on capital efficiency.

VC-backed exit activity in 2018 also displayed great strength. M&A activity was impressively led by Microsoft's \$7.5 billion acquisition of GitHub, and Cisco's \$2.4 billion acquisition of Duo Security, but perhaps a more telling sign of liquidity optimism stemmed from the long-awaited opening of the tech IPO window, which saw the most VC-backed companies enter the public markets since 2014. In addition, the aggregate 2018 exit value of those IPOs outpaced every year over the past decade except for 2012, when Facebook raised \$16.0 billion in its public listing. Investor sentiment surrounding expected IPOs in the first half of 2019 (Uber, Lyft, Airbnb, and Slack) indicates that the IPO window could stay open for at least the near future. But despite these positive signs, the increasing volatility in the public markets, especially in the fourth quarter of 2018, is a dark cloud looming on the periphery of this strong IPO window.

In addition to a new calendar year that began with a government shutdown threatening to delay IPOs, another potential issue for the industry is the new foreign investment legislation—Foreign Investment Risk Review Modernization Act (FIRRMA)—which expanded the scope of the Committee on Foreign Investment into the United States (CFIUS) to include minority investments in US companies. The new, expanded CFIUS regime is already impacting how VCs raise money from foreign LPs, as well as day-to-day investment transactions, causing friction in the fund formation process and the company financing process. The new law has become a major consideration for some LPs and VCs, though NVCA was able to achieve numerous victories during the legislative process that lessened the impact for VCs and startups. As more regulations and enforcement come out in 2019, expect this to be a growing topic of conversation and concern for the venture industry.

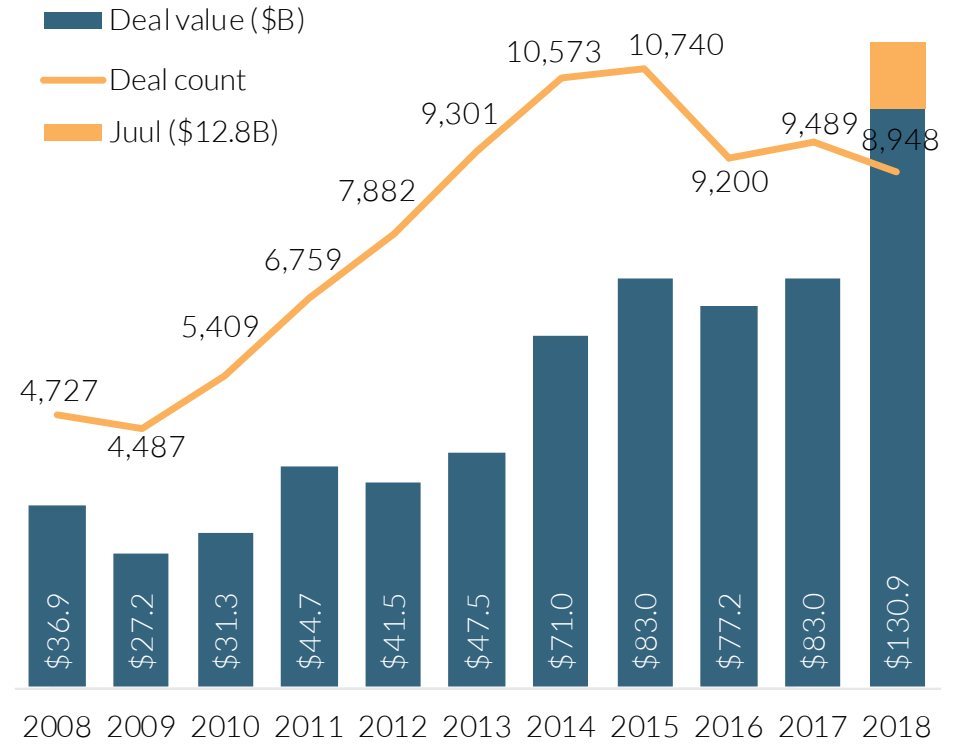
In conclusion, 2018 was a truly exceptional year for the venture industry. Looking ahead to 2019, it appears likely that the arms race of mega-deals into startups backed by a growing number of mega-funds will continue. The industry will be closely watching public market volatility and its impact on the pipeline of IPOs, as well as any other potential signals of a VC market correction. In addition, market participants will be monitoring the effect new government regulations will have on foreign investment in the ecosystem.

Overview

The 2018 VC headline is, understandably, that annual capital invested eclipsed \$100 billion for the first time since the dot-com era. Driven by the record levels of capital raised in recent years, as well as the sustained interest from nontraditional investors, aggregate capital invested topped \$130 billion, surpassing the \$105.0 billion figure recorded in 2000 by Thomson Reuters, a figure many consider the high-water mark for annual VC investment. Large round sizes and high valuations continue to dominate the dealmaking environment, as 2018 closed with a slight decline in completed financings, despite the record aggregate capital invested figure. Further, this trend hasn't been limited to late-stage activity, either, as transaction sizes and valuations have risen across the entire venture investment spectrum. Moving forward, market participants will be assessing the sustainability and health of these activity levels, especially in the case of any adjustments in the global economic or political backdrop, among other factors, that have already introduced volatility in public equities and credit spread reversals.

Capital investment into US VC reaches new all-time high

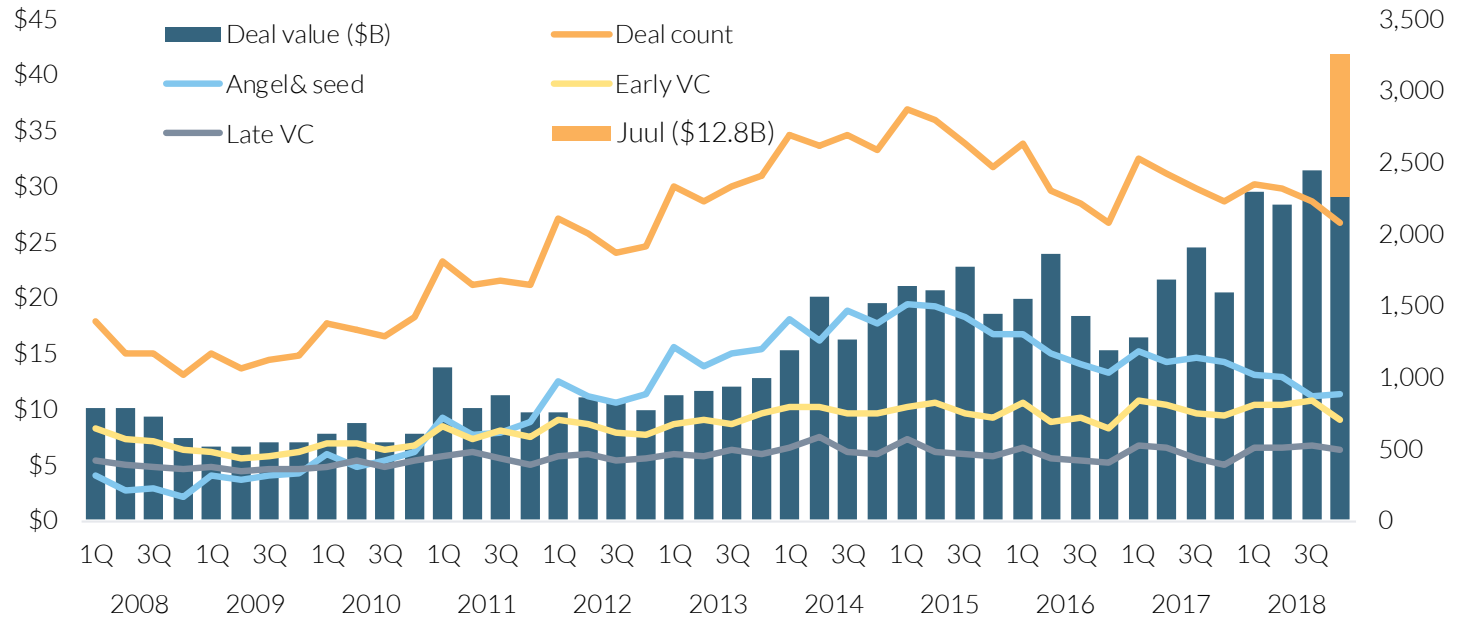
US VC deal activity



PitchBook-NVCA Venture Monitor

4Q deal value in line with rest of 2018 excluding \$12.8B Juul deal

US VC deal activity



PitchBook-NVCA Venture Monitor

Corporates and PE investors have continued to participate in venture deals at a heightened pace, with both investor groups participating in a decade-high worth of transactions, as measured by total capital invested. With corporate VC (CVC) involvement in 1,443 deals and PE participation in 792 deals, completed financing counts remain at or near decade highs as well. These two investor groups are also some of the most heavily involved in large, late-stage venture deals and would likely be some of the initial groups to pull back, given the non-core nature that VC deals represent to them. That said, opportunities in VC-backed companies have served as unique transaction origination channels for various PE groups, particularly those looking to deploy capital into technology businesses. For now, developed and more capital-intensive businesses have benefited from these investors filling out \$100+ million rounds, given many of these groups are at minimum capable of, if not required to, write bigger checks, given the economics of what are traditionally larger vehicles.

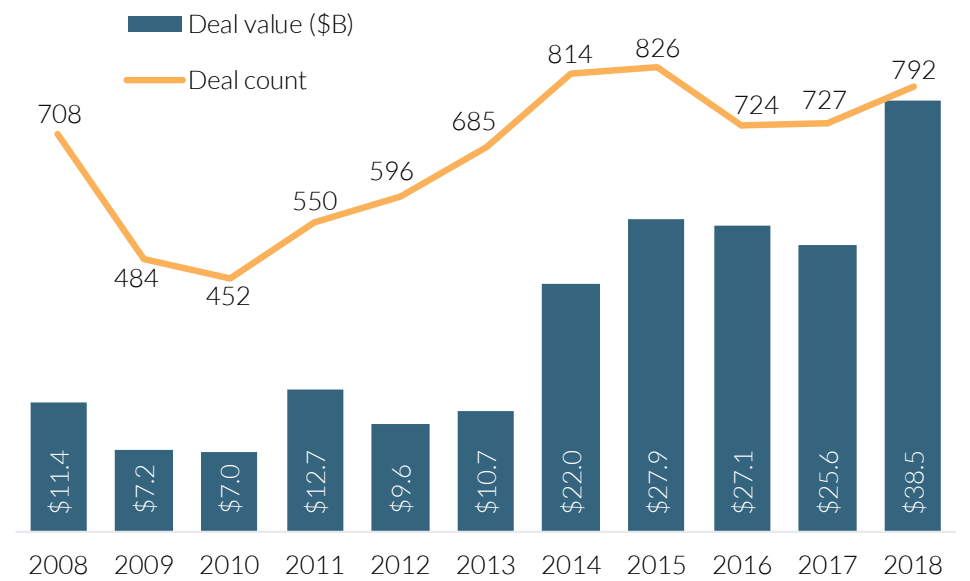
We continue to see late-stage deals account for an outsized proportion of total capital invested. Private capital inflows and the subsequent ability for mature companies to sustain growth under VC backing have

driven a continued extension in the number of rounds upstarts are raising privately and in the average age of VC-backed companies. The industry has started to think of large deals at this stage as the norm, and when looking at transaction values, that statement holds true. However, deals greater than \$50 million still represent only 17.5% of total late-stage deal activity. As the average age of companies raising institutional capital continues to climb, we

expect transaction sizes to remain inflated, particularly as the capital needs of such companies will multiply commensurately with their stage of growth. In addition, we could see investors look to place more concentrated bets on the assets in which they see the most perceived value, a trend we've seen play out with some of the more established VC firms.

PE involvement strengthens in 2018

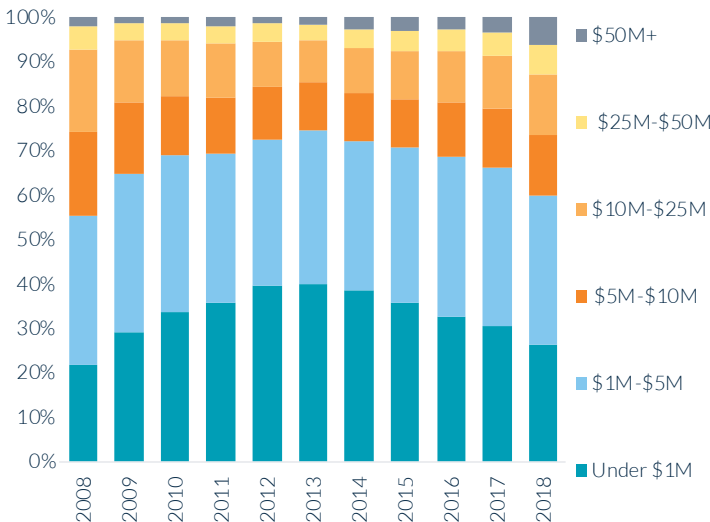
US VC deal activity with PE involvement



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Activity shifts toward upper size brackets

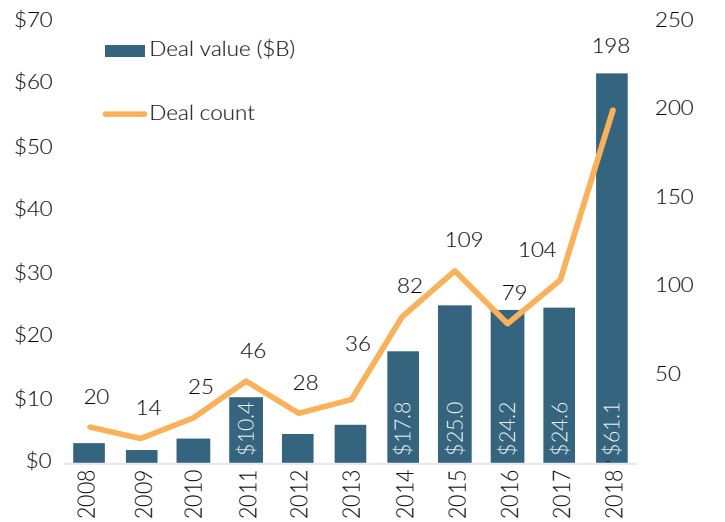
US VC deals (#) by size



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Mega-round counts doubled in 2018

US VC mega-deal activity



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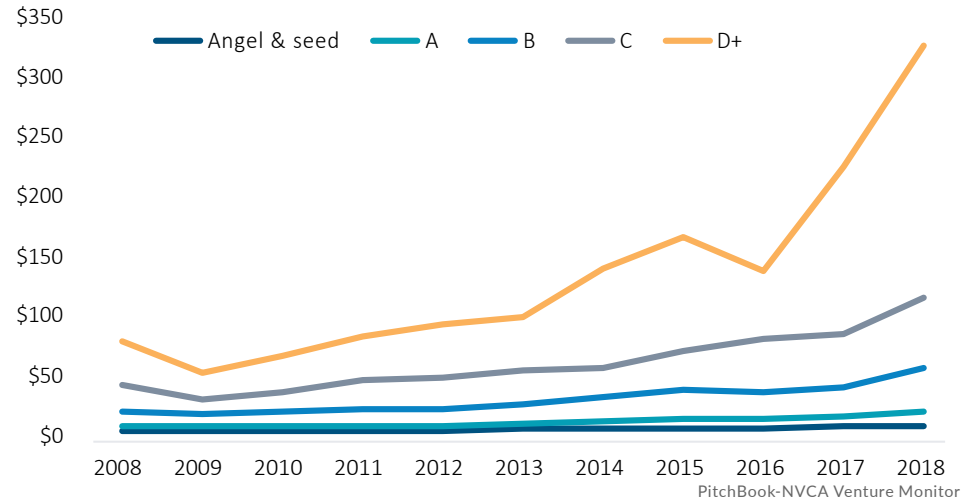
On a historical basis, early-stage activity remained strong in 2018. Despite the count of known completed financings dropping in 4Q, the middle of the year recorded decade-high figures in terms of both capital invested and completed financings at the early stage. The second quarter of the year saw \$11.8 billion in capital invested, while 3Q saw over 840 completed early-stage rounds. Similar to the rest of VC, early-stage and angel & seed median deal sizes traveled higher in 2018, reinforcing the idea that the profile of companies at each venture investment stage has shifted across the entire venture funding cycle. Easily communicated through adages like “Series A is the new Series B,” this idea has been implanted in the current VC zeitgeist, but its staying power through business cycles has yet to be tested. A potential correction or pullback in VC valuations will likely achieve some normalization at the early stages of VC; however, we believe that deal sizes and valuations will remain above long-term historical averages, driven by many of the aforementioned factors such as company age, use of capital, and dry powder.

On the valuation front, median pre-money valuations continued to climb across all stages, chiefly unabated in 2018. Valuation growth in 2018 was once again quickest for the largest company sets, with ascending growth rates from angel & seed to Series D+, further highlighting a trend of the largest companies and highest-stage transaction sizes only continuing to thrive.

The exit market recorded robust activity throughout 2018, with total exit value eclipsing \$120 billion for the first time since 2012. The steady level of exit counts is also an especially encouraging sign, as it speaks to the appetite of not only new acquirers willing to transact in unprofitable but high-growth and high-potential businesses, but also the appetite of founders willing to move forward with liquidity events. For the second consecutive year, PE buyouts and IPOs accounted for an increased proportion of VC-backed exits. In addition, IPOs represented greater than 50% of exit value for the second straight year. The 85 IPOs completed in 2018, the highest

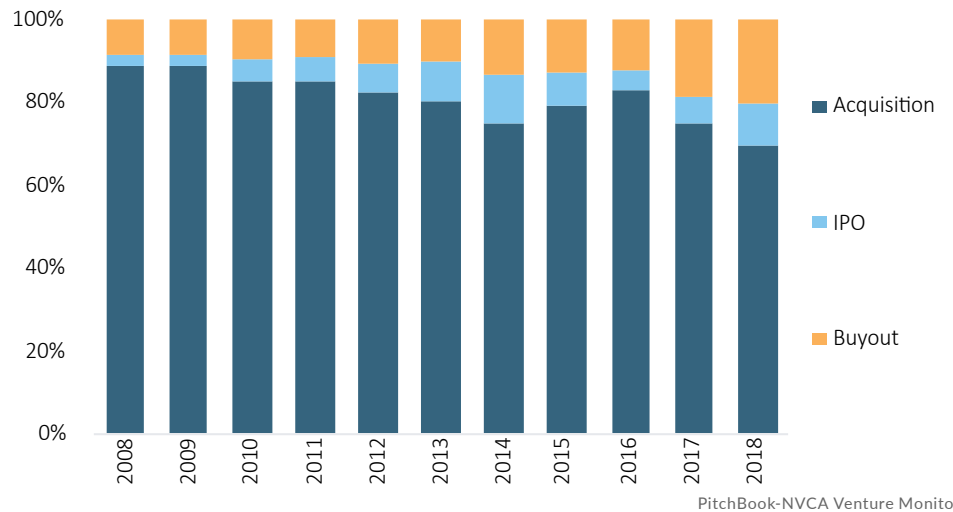
Latest stage valuations remain fastest growing

US VC median pre-money valuation (\$M) by series



Buyouts and IPOs take increasing share of VC exit counts

US VC exits (#) by type



count since 2014, is an encouraging sign given the backlog of mature, highly-valued startups. The IPO venue tends to be a more common exit route for the largest VC-backed companies, which in turn results in ample distribution back to LPs. While this exit route can also be dependent on broader public market conditions, should the window remain open, we could continue to see continued use of the IPO route to raise substantial capital and generate liquidity for shareholders.

Fundraising in 2018, and especially 4Q, was extremely strong from a value basis on the back of a plethora of mega-funds (\$500 million+) that came to market. The

\$55.5 billion raised across 256 closed funds represents an all-time high for dollars raised in a single year, with two separate vehicles breaking the record NEA had previously set for the largest VC vehicle raised (\$3.5 billion). Sequoia's close on an \$8.0 billion vehicle and Tiger Global's \$3.8 billion fund accentuate the shifts in the late-stage investment environment and how GPs are adapting their strategy to remain competitive. First-time funds also posted a record year with 52 new funds closing in 2018 on \$5.3 billion. This strength across the entire fundraising spectrum, partially attributable to improving VC returns, should underpin dealmaking momentum for the next few years.

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Angel & seed

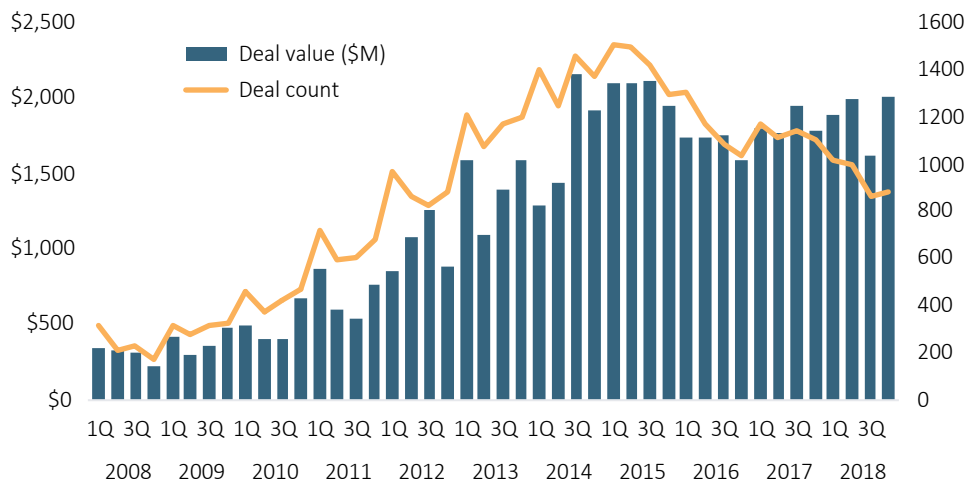
The angel & seed stage saw another strong year of capital investment, with deal value for the year settling near a decade high of \$7.5 billion. Strong 4Q activity in terms of both transaction value and deal count helped to stymie a downward trend. We expect that this quarter's improvement could be short-lived, as investors increasingly focus their attention on fewer, larger deals. However, we do note that at the earliest of stages, many companies are still identifying product-market fit and solidifying go-to-market strategies, among other initiatives. As a result, many of these businesses could be far enough removed from generating revenue or economic profits, and thus, end up insulated from a near-term negative shift in economic growth or investor sentiment.

Angel & seed startups have become increasingly savvy at bootstrapping operations and securing funding and resources through alternative means such as startup accelerators. A general increase in startup scrappiness has

allowed firms to delay funding, and we have seen this occur through the rise in median company age at the angel & seed stage. We've also continued to see angel investors become more institutionalized, in many cases deploying more traditional VC fund models where capital is pooled, yet the investment decision-making process is centralized across a predetermined investment committee. Subsequently, we have seen median pre-money valuations climb 16.7% YoY with the median deal size climbing 15.0% YoY. This indicates that as capital availability has increased over time, startups have been able to raise larger rounds primarily by increasing valuations instead of giving up more equity. The median angel deal size, which has been notably flat for the past decade, rose 30.0% YoY, while seed deal size continued a steady ascent of 25.0%.

2018 angel & seed deal activity ends on a high note

US angel & seed deal activity



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includes technology lawyers who advise startups on the development and integration of products and services that merge digital presence, physical hardware and human-inspired intelligence. We also represent investors as they make, manage and divest investments in this space.

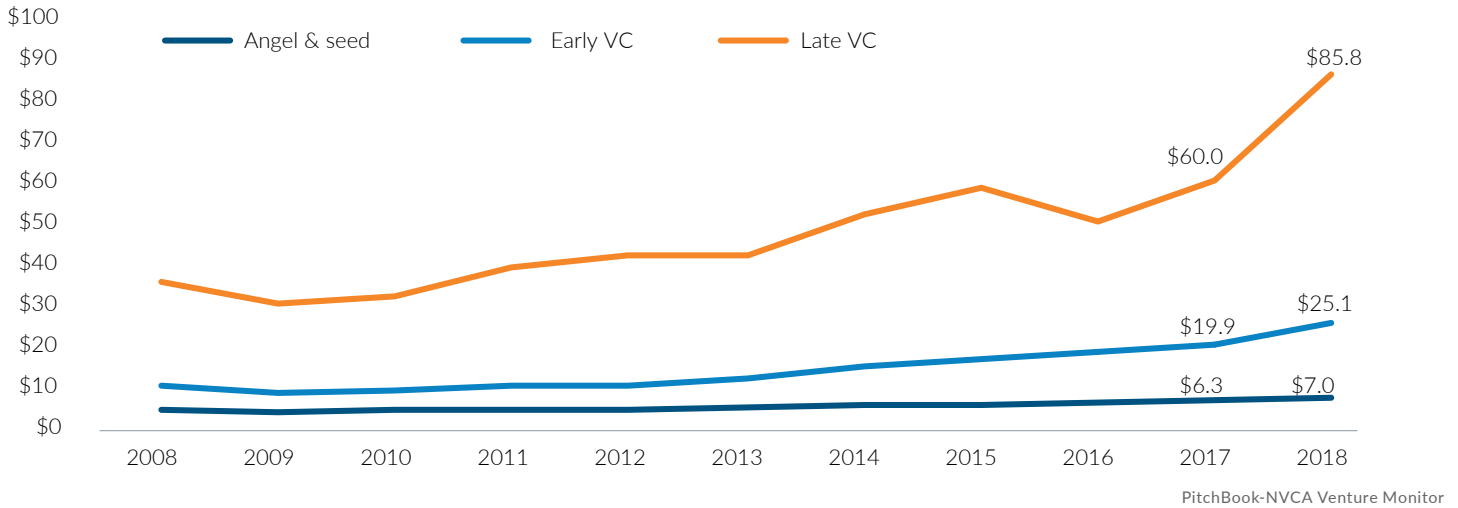
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Angel & seed pre-money valuations climb 11.1%

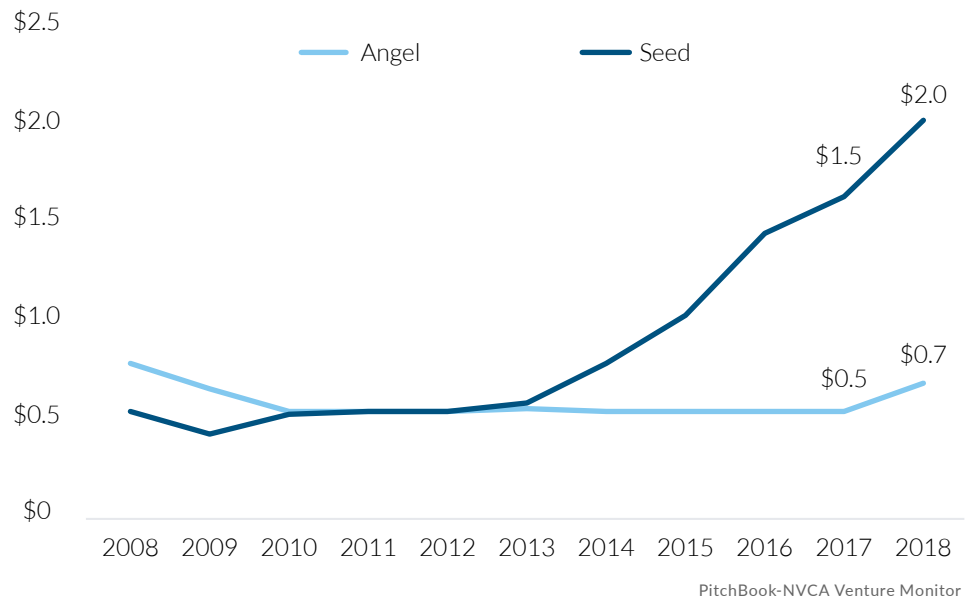
Median US VC pre-money valuations (\$M) by stage



Healthcare drew a significant portion of angel & seed stage funding in 4Q 2018. The largest deal of the quarter was a \$40.0 million seed-stage investment in medical cannabis company Ascend Wellness funded by Salveo Capital and Poseidon Asset Management, among others. The commercial services category was another bright spot in 4Q 2018, with Firefly receiving the largest investment. Raising \$21.5 million in 4Q with participation from NFX Capital, Cross Culture Ventures, and others. Firefly is exploiting the rise in ridesharing to produce digital advertisement displays that affix to cars. Cannabis and ridesharing are two emerging sectors within which we expect to see a significant evolution over the next several years. Both sectors are working through significant regulatory challenges, and we expect each to grow significantly should these hurdles clear.

Angel & seed median deal size increased 15.0% YoY

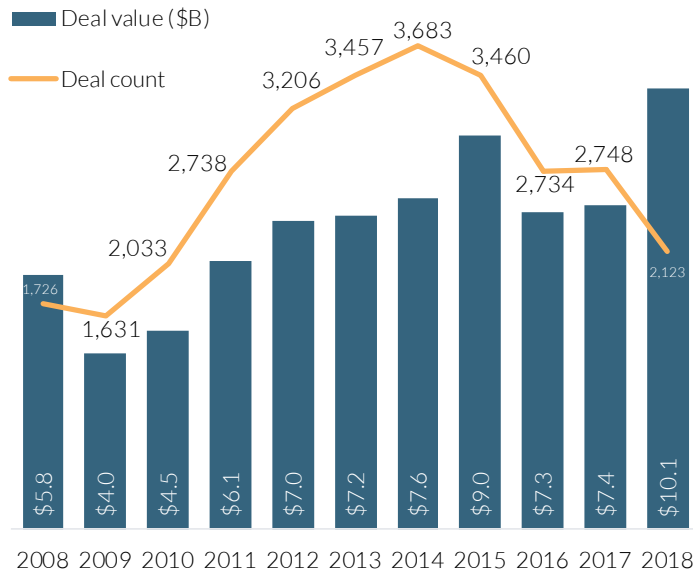
Median angel & seed deal sizes (\$M)



First financings

Startups see fewer, but larger first financings

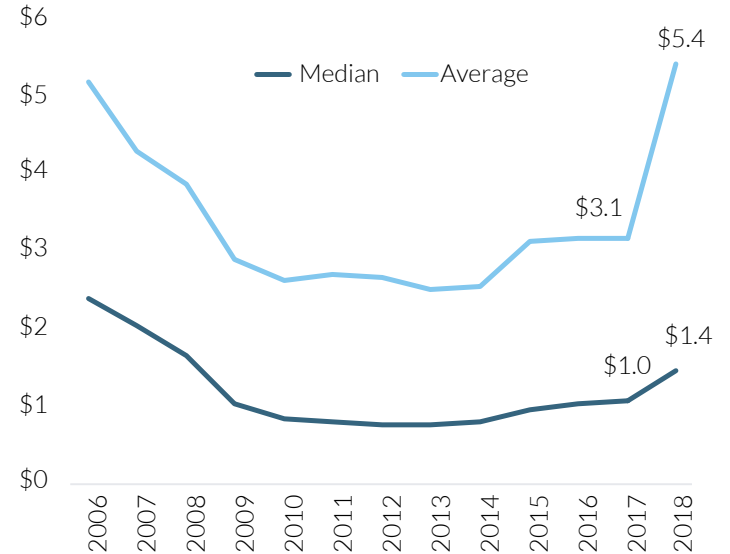
US first-financing VC deal activity



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Median size reaches highest point since 2008

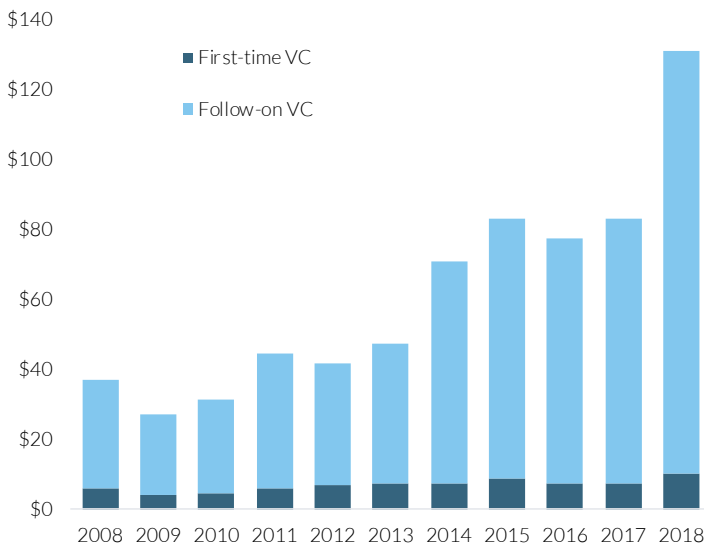
Median and average US first-financing VC deal size



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Follow-on rounds nearly 12x capital invested in first financings

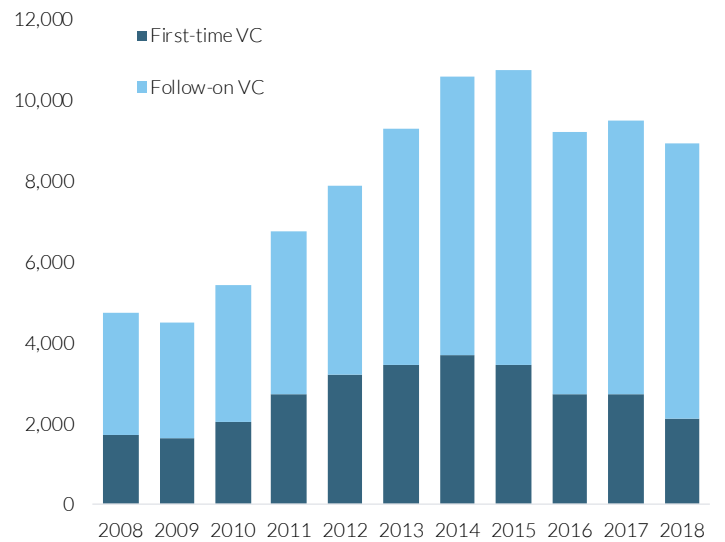
US first-financing VC rounds versus follow-on VC rounds (\$B)



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First financings in 2018 fall short of 2017's count

US first-financing VC rounds versus follow-on VC rounds (#)



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Early-stage VC

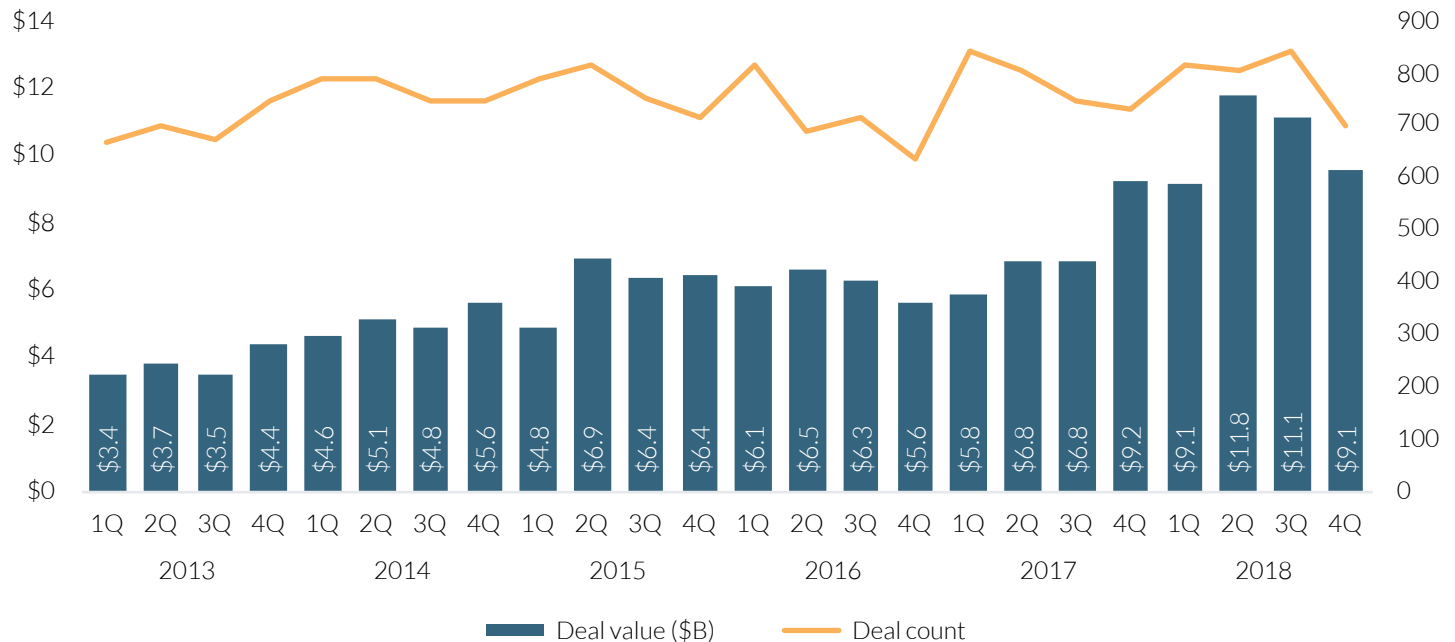
Following two quarters of record-setting capital invested at the early stage, 4Q 2018 settled \$2.0 billion lower at \$9.1 billion in aggregate capital invested. On an annual basis, however, that same figure rose an impressive 43.1%, with deal count reaching a decade high. Competition among VCs has been notably high over the past decade, as investors pursue attractive returns in alternative assets and as financing rounds have become progressively concentrated. This, in combination with record amounts of fundraising and dry powder, has led to more favorable conditions for early-stage ventures, culminating in increased deal sizes and valuations at the early stage. The median deal size in this stage has climbed 22.9% YoY, and the median pre-money

valuation has ascended 26.4% YoY. The proliferation of dry powder over the past decade has facilitated a rise in capital-intensive, consumer-focused businesses that require significant cash injections to scale and obtain market share. New businesses of this nature are likely to exist or achieve growth solely in an environment where cash is as accessible as it has been over the past several years. An economic downturn, one particularly driven by an adjustment in consumer health and sentiment, could hinder these companies. As a result, this could reduce capital availability and valuations, as well as the growth rate of some consumer businesses looking to play in the same markets as incumbents such as Bird, Lime, or Uber.

A move to a more conservative market environment would make these types of businesses more difficult to fund, and we would expect VC investors to shift focus to more capital- and asset-light business models. Further, late-stage investors in the incumbents could find this market environment an insulating factor for their existing consumer businesses.

Despite slight dip in 4Q, 2018 deal value and count reach decade highs

US early-stage VC deal activity

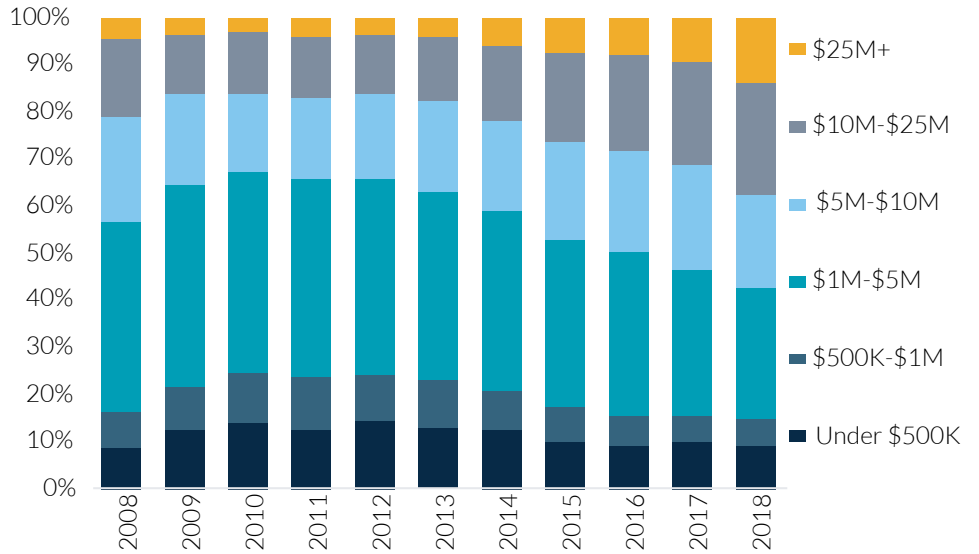


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The fourth quarter of 2018 saw investors hone in on healthcare and artificial intelligence & machine learning startups. Healthcare startups, including those in the fields of biotech and pharma deals, drew a significant amount of capital in 4Q. The largest healthcare deal was a \$300 million Series B investment into Devoted Health, a startup with a focus on personalized Medicare advantage plans. Investors in the deal include Andreessen Horowitz, Uprising and Premji Invest among others. Another high-profile deal was the \$179.0 million Series A investment in Bright Machines with participation from investors including Eclipse Ventures, Flextronics, and Lux Capital. Bright Machines develops manufacturing software that ties together several buzzworthy emerging technologies including computer vision, cloud, edge computing, and machine learning to automate manufacturing operations and robotics. We expect healthcare to continue to be a focal point for investors and to see a heightened interest in startups applying emerging technologies to the manufacturing space as manufacturing firms increasingly seek out advanced tools to compete on an international stage.

Nearly half of early-stage deals sized at least \$5M

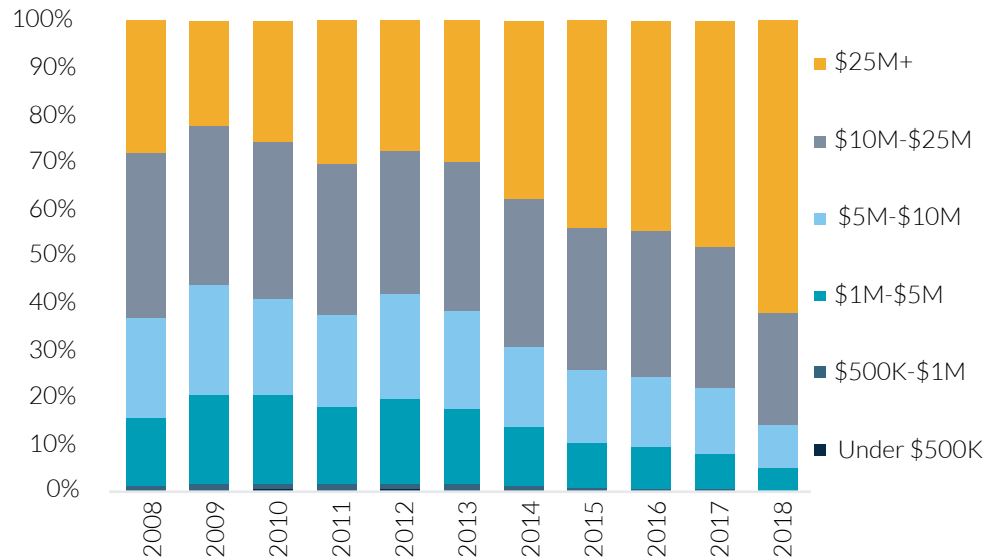
US early-stage deals (#) by size



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\$25M+ deals now make up 61.2% of deals by value

US early-stage deals (\$) by size



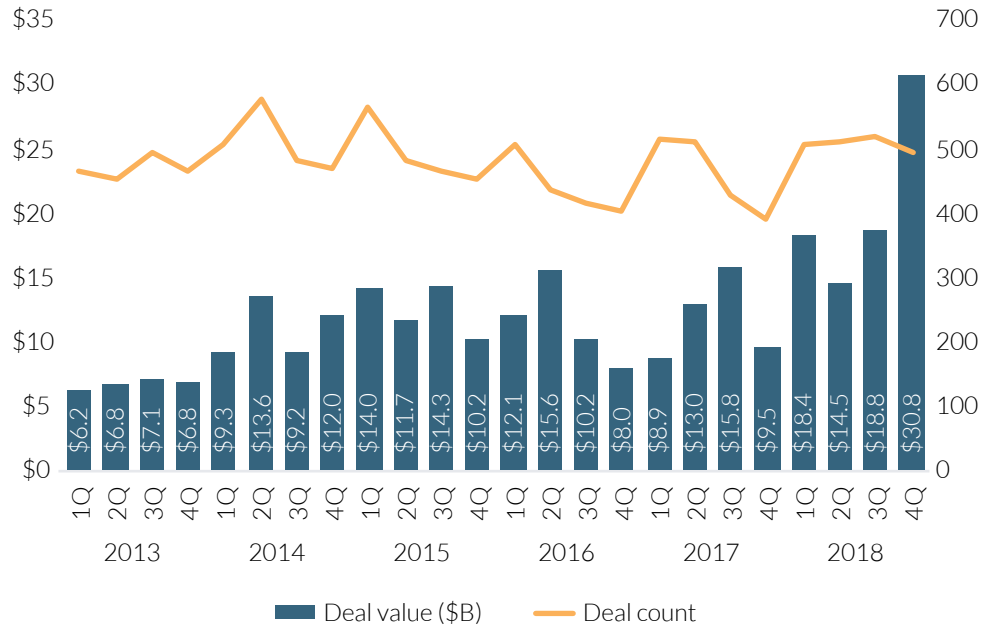
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Late-stage VC

Driven by the massive \$12.8 billion funding of Juul, total late-stage capital invested in 4Q 2018 recorded a decade high of \$30.8 billion. Removing Juul, total capital invested still came in at a near-record level. We've tracked 493 completed 4Q deals thus far, and while this comes in slightly lower when compared with other 2018 quarters, we expect the final tally to come in even with, if not above, the 500 to 520 range we saw in each previous quarter. In a year full of record-breaking figures, activity at the mega-deal level (\$100 million+) reached unprecedented territory with nearly \$62 billion invested across nearly 200 mega-transactions. This equates to a 148.1% YoY uptick in aggregate capital invested and a 90.4% uptick in completed financings at this stage. Interestingly, the count of such deals in 2018 reflected an 81.7% YoY increase over the previous record set in 2015.

Late-stage deal value continues to drive broader VC

US late-stage VC deal activity



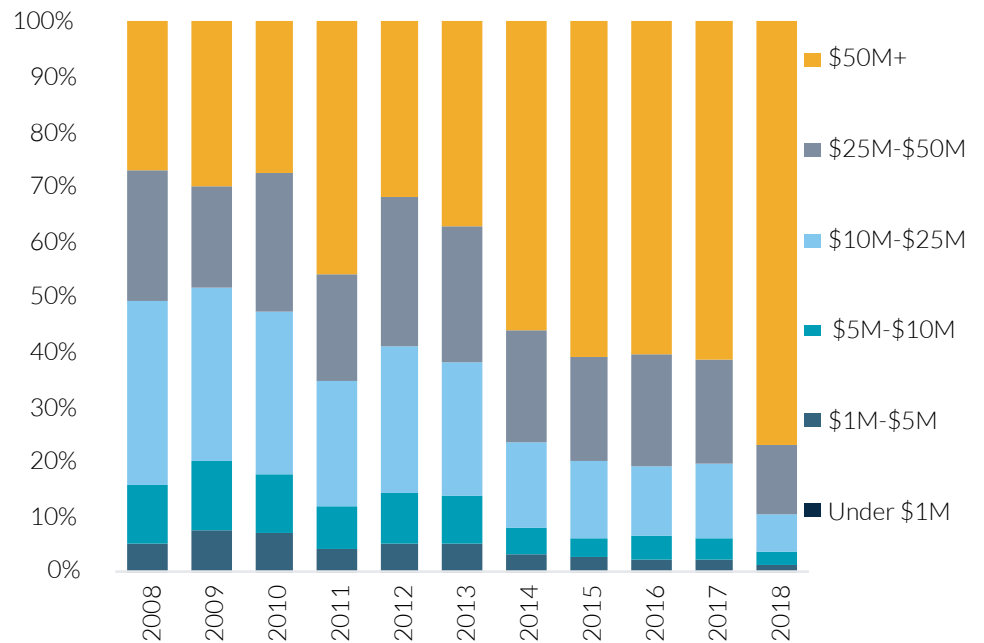
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The increased interest in mature companies propelled the late stage to a YoY increase in completed round counts. This has been assisted by investment participation from nontraditional VC investors, allowing capital-intensive startups to secure funding and continue their rapid growth in the private markets. With the expansion of valuations and deal sizes, mega-funds have cropped up with more frequency to provide additional financing options for those companies that choose to remain VC-backed for as long as possible.

This trend of raising more VC rounds has continued to fuel late-stage valuations. Valuations at this stage grew only slightly slower than the 59.9% jump of Series D+ companies in 2017, finishing 45.4% higher. This growth rate over an already historically high base in 2017 was no small feat, bringing the Series D+ median valuation to \$325.0 million. Series C valuations grew moderately in 2018 at a 36.9% expansion.

Outsized deals dominate late-stage capital investment

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



PitchBook-NVCA Venture Monitor

Silicon Valley Bank: Outlook for 2019

Q&A: SVB CEO's view of the venture ecosystem

Greg Becker notes innovation companies should plan for more scenarios, ensure they have extra capital, and be prepared to shift quickly.

With 2018 US VC investment reaching \$130.9 billion and fundraising at \$55.5 billion, innovation ecosystem financing remains strong. What did we learn that may inform what could happen in 2019?

Deal activity is unprecedented, and round sizes are larger than ever. The well-managed companies being built reach beyond tech, disrupting entire industries. Those firms now have access to growth capital needed to reach world scale while remaining in the private markets.

Strong VC fundraising over the past few years, fueled by investor demand for growth assets in an environment of historically low interest rates, has led to war chests of capital. This bodes well for the best performers in innovation.

If nontraditional investors stay active, abundant capital will remain available for scaled companies in 2019.

On top of VCs, nontraditional investors, including sovereign wealth and mutual funds, have healthy appetites to continue backing companies with check sizes once reserved for public companies. If they remain active, we can expect to see abundant capital available for scaled companies in 2019.

In some sectors, the IPO logjam broke in 2018, and several unicorns (Airbnb, Uber, Lyft, Pinterest, Slack, Palantir) have indicated that they are heading for a 2019 IPO. Do you expect companies will want to stay private, or will more companies find good reasons to go public in 2019?

The primary reasons to go public remain constant: access to capital, liquidity for shareholders, and brand amplification. Companies with the right combination of scale and durable performance will be able to attract public capital. If market conditions hold for valuations, expect one of the biggest harvests to date from the past decade of innovation.

VC fundraising has led to war chests of capital, which bodes well for the best performers in innovation.

Alternatively, if we see investors switch sentiment from "greed" to "fear," many growth stories priced for future perfection may continue to rely on private capital to avoid pricing in that environment. Companies struggling or yet to reach unicorn scale still need to access capital, and the private market is their only real alternative. The good news is the amount of dry powder from VC and PE firms is at a record level to support them.

Looking ahead, how might mega-funds impact investing patterns?

We have already seen their impact, with a record number of \$100 million+ rounds in the private market in 2018. We look at mega-fund investments as strong proof



Greg Becker has been a champion of the innovation economy since he joined Silicon Valley Bank in 1993 as a banker to fast-growing technology companies. Today, he serves as President and CEO of SVB Financial Group and CEO of Silicon Valley Bank, the bank of the world's most innovative companies and their investors.

of enormous opportunities for future innovation and sustainability of technology and life sciences companies fueling these advancements. Traditional venture firms are also scaling fundraising, with several \$1 billion+ funds raised in 2018. While the majority of \$100 million+ rounds have come from nontraditional investors, traditional VCs are raising capital to maintain ownership as their portfolio companies remain private longer.

If sentiment switches from "greed" to "fear," many of these growth stories that have been priced for future perfection may continue to rely on private capital.

If other sources of capital pull back, it could open an opportunity for mega-funds to help the best performers through turbulent times—and own a significant piece of these prized assets.

Life sciences and healthcare companies appear to be riding the same wave as tech. What factors are driving their growth?

US healthcare venture fundraising remained strong in 2018. It was a banner year for biotech IPO and M&A exits. A swell in biotech deals and round sizes over the past two years highlights the large appetite for venture funding in healthcare, especially among generalist and crossover investors.

There is a large appetite for venture funding in healthcare, especially among generalist and crossover investors.

These investors are attracted by cutting-edge advancements in tech leading to more effective drugs and personalized treatments. Strong biotech IPO activity looks to continue in 2019 as crossovers replenished their private company pipeline in 2018.

Most biotech companies at IPO don't have revenues; they seek proceeds to capitalize additional years of R&D.

We are deeply committed to serving the life sciences and healthcare industries and recently closed SVB Financial Group's acquisition of healthcare investment bank Leerink Partners. The new entity, SVB Leerink, operates as a wholly-owned subsidiary of SVB Financial Group and provides SVB the ability to offer life sciences and healthcare companies a fully integrated solution for their equity, M&A, and debt needs.

Are there fundamental differences between life sciences and tech prospects for future growth?

Compared with tech IPOs, there is a very different metric; most biotech companies at IPO have no revenues. Instead, they seek IPO proceeds to capitalize additional years of research and development, targeting a new drug approval. These funds are also designed to put biotechs in a better position to land secondary financing down the road or be acquired based on clinical data.

A quick time to M&A exits and high markups via IPOs in biotech in particular are expected to continue, driving accelerated fundraising in healthcare.

How should innovation companies respond to global political and market volatility?

Many countries are now undergoing unique political and economic disruptions. The turmoil is a challenge for everyone. The good news is that innovation companies are used to dealing with challenges. They move fast, think big, and find opportunities in all kinds of markets. I don't expect this to change. My advice for innovation companies in this environment would be to plan for more scenarios, make sure to have extra capital, be prepared to shift more quickly than usual, and work with the best partners that they can.

The good news is that innovation companies are used to dealing with challenges. I don't expect this to change.



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Harvesting a decade of innovation: Will IPO trends continue in 2019?

Bob Blee, head of the corporate finance group at Silicon Valley Bank, provides an outlook for tech IPOs in 2019.

More than two dozen US venture-backed tech companies went public in 2018, many of which benefited from nearly a decade of exuberant capital fundraising in the private markets, allowing for better scale, capitalization, and operational durability. Will the trends that led to so many high-growth tech companies continue to drive IPOs in 2019? Let's turn to the numbers.

Current VC-backed companies going public are far better capitalized at the time of exit than in prior years, with an average of \$249.6 million across 6.5 privately-raised rounds at the time of IPO in 2018 versus \$63.0 million across 4.6 rounds in 2010. In fact, in the past five years, there have been a staggering 443 \$100+ million venture rounds compared to 138 IPOs.

Not only are these companies better capitalized than in previous years, they're also generating more revenue. In 2018, average trailing twelve-month revenue prior to IPO was \$182.0 million versus \$92.0 million in 2010. Another topline trend has been the shift to recurring revenue models. With this approach, today's SaaS companies, for example, have more predictable and durable financial results, which appeal to investors and increase valuation multiples. With better capitalized companies generating more revenue, higher values have indeed followed. In 2018, there were more \$1 billion+ IPO valuations than ever, 22 versus three in 2010. And the average \$192.0 million raised in a public financing was significantly higher than the 2010 average of \$76.0 million.

We all know that tech companies are staying private longer, but with the average time from founding to IPO now reaching 12.6 years, might we have reached a turning point in 2018? Certainly there exists an

unprecedented war chest of dry powder for further venture investing. However, could the imbalance between large private rounds and IPOs have peaked? Pressure to go public is mounting for a variety of reasons. Among these pressures are access to liquidity for founders and employees as well as the need to create an exit opportunity for early investors. While workarounds in the secondary market have emerged to mitigate these factors, full liquidity for shareholders remains a driving force to list.

Another reason companies go public is to gain permanent access to capital going forward, whether in the form of additional equity, debt, or convertible notes. In 2018, those tech companies that had achieved solid unit economics and a viable path to profitability performed relatively well on the first trading days and post-IPO. They also enjoyed the benefit of increased brand visibility and awareness, a point of employee pride and market differentiation in a crowded competitive landscape.

With many investors still on the hunt for outsized growth, valuations for public tech companies remain historically high. If more robust access to liquidity and long-term independence remain important to successful private tech companies, 2019 may well be active for IPOs. And even if aspiring candidates face a potential flat or down round from their last private valuations, with valuations as high as they are from a nominal standpoint, they need only float a smaller percentage of their stock than has been



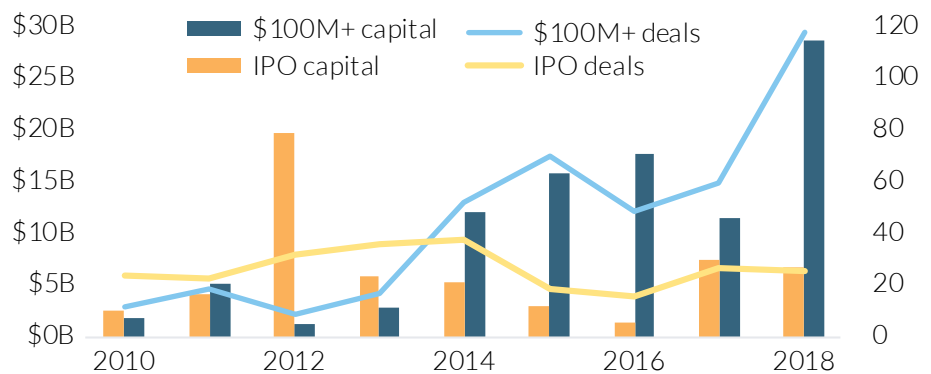
Bob Blee heads Silicon Valley Bank's Corporate Finance Group, which provides commercial banking, lending, and guidance to mid-market and large corporate technology clients, private and public, throughout the US. Bob is also responsible for SVB's global Loan Syndications Practice, which recently became the leader in agenting loans up to \$300 million to mid-market US tech companies.

typical. This scenario may make even a down-round IPO potentially less dilutive and more palatable when considering the long-term health of the company.

In 2019, we'll watch to see if the classic pressures to list are building enough to begin to tip venture-backed companies to ease the imbalance and access public markets rather than private capital. External forces impacting valuations and market volatility make for some uncertainty. But with the growing inventory of scaled private unicorns, many venture-backed tech companies may find good reasons to go public in 2019.

Tech startups raising more private capital

\$100M+ US VC rounds versus US VC IPOs

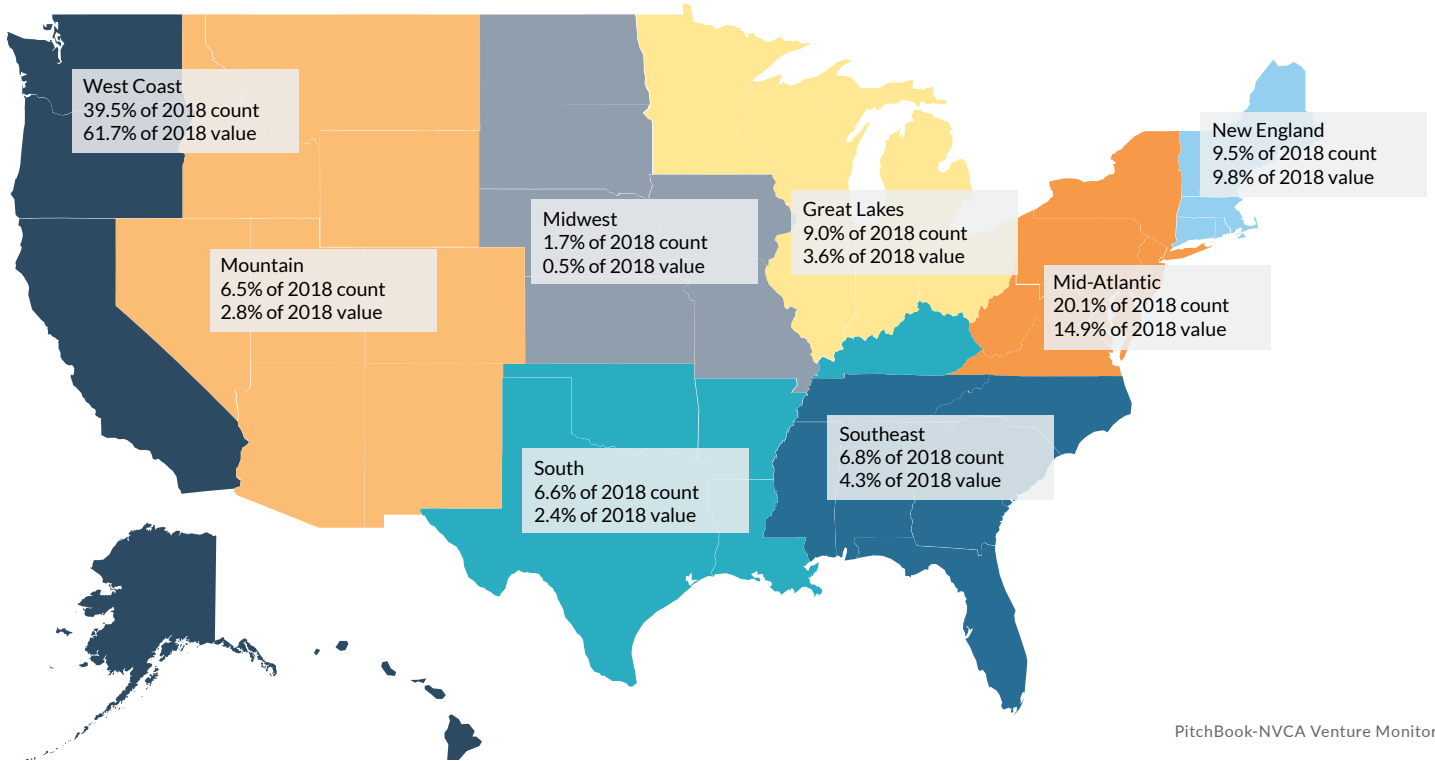


PitchBook-NVCA Venture Monitor . *The data underlying this chart was pulled using a different methodology than the rest of the report for purposes of custom analysis. 2012 IPO capital includes Facebook (\$16 billion).

Activity by region

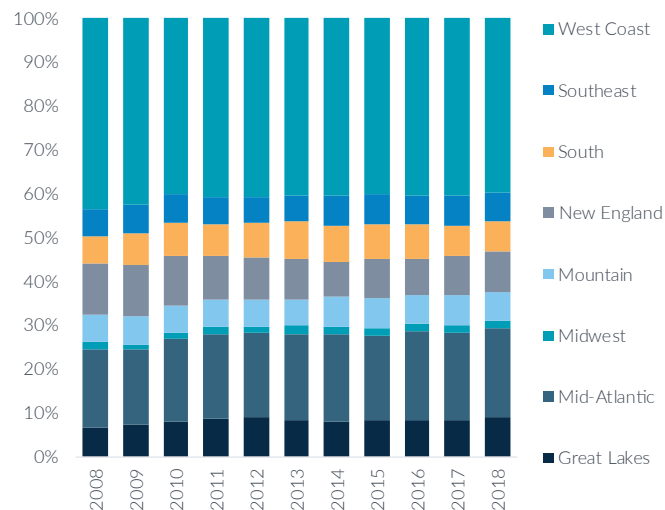
VC hubs outside Silicon Valley see greater proportion of VC

US VC deals by region (2018 total)



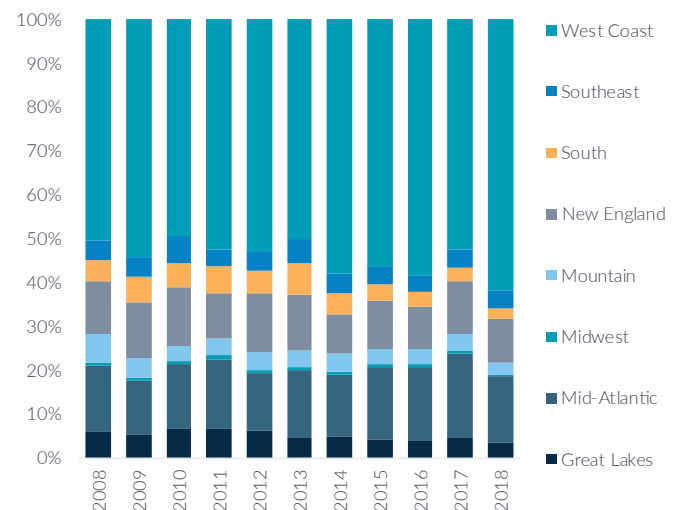
Great Lakes and New England only regions to see increased 2018 deal count

US VC deals by region (#, 2018 annual)



West Coast still takes lion's share of capital investment

US VC deals by region (\$, 2018 annual)



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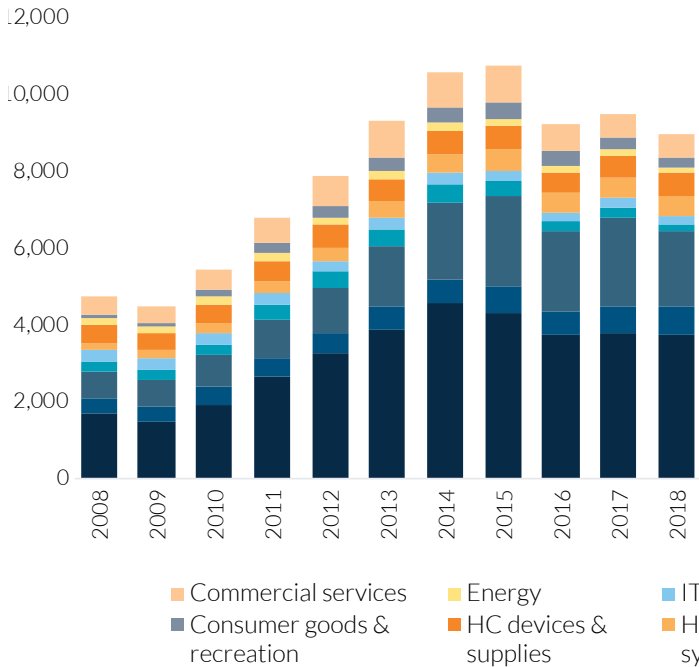
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202.864.5918



Activity by sector

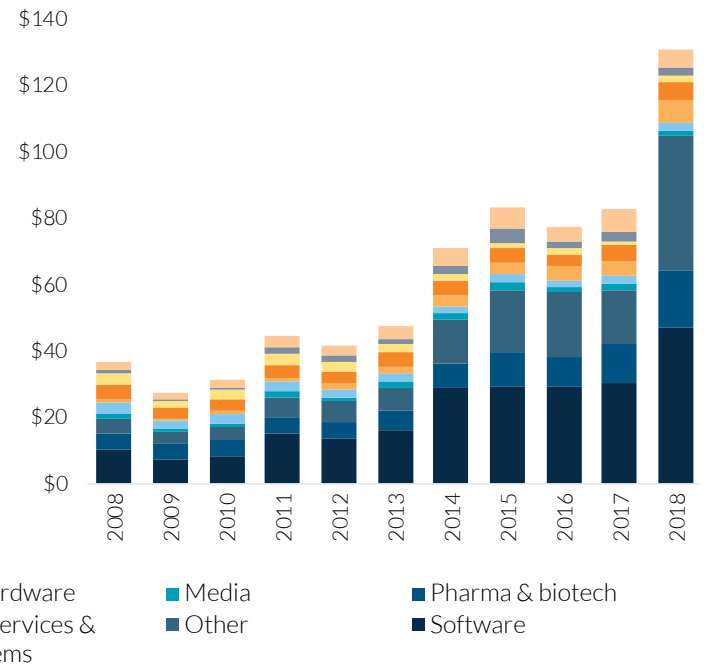
Pharma & biotech and software continue to dominate dealmaking

US VC deals (#) by sector



Software startups see record levels of capital investment

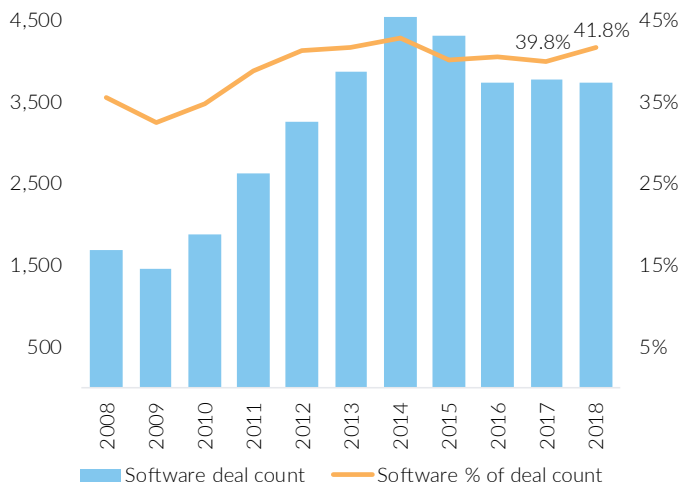
US VC deals (\$B) by sector



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Software companies secure greater proportion of VC deal flow

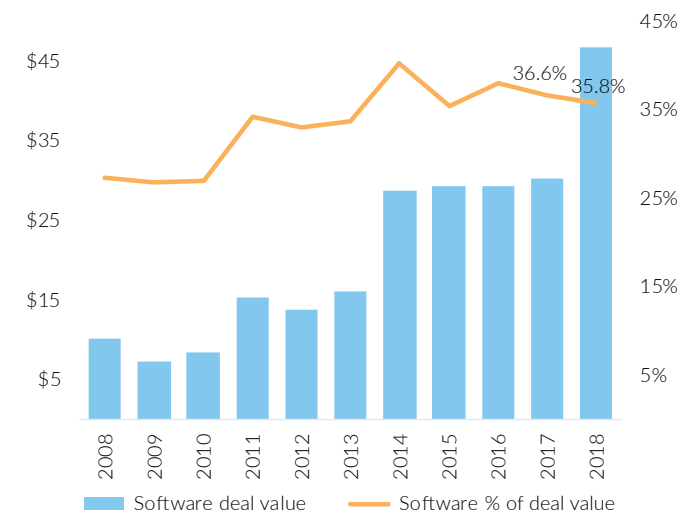
Software deals (#) as proportion of total US VC deals



PitchBook-NVCA Venture Monitor

Software capital investment takes sidestep from 2017 levels

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

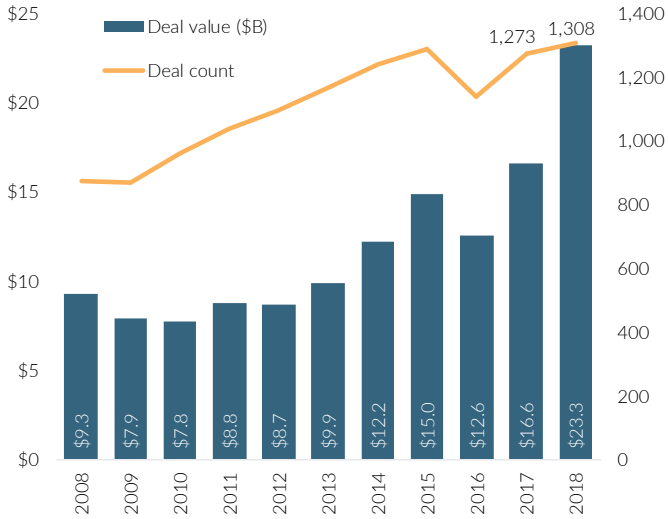


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Life sciences

Capital availability fuels further investment in life sciences

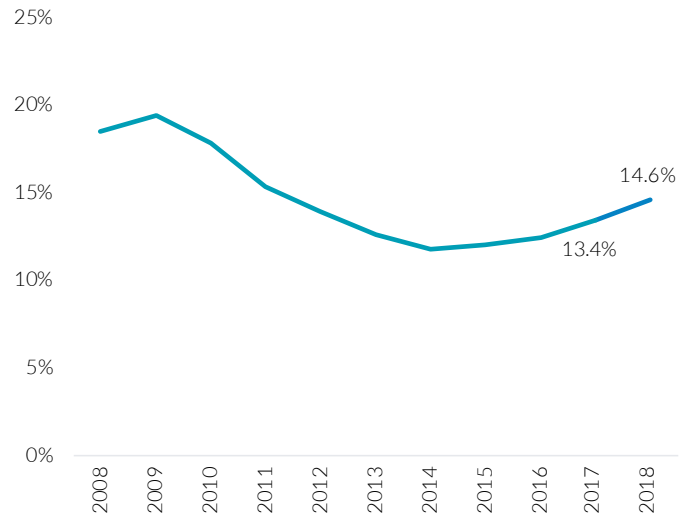
US VC life sciences deal activity



PitchBook-NVCA Venture Monitor

Life sciences' proportion of VC deal flow continues upward

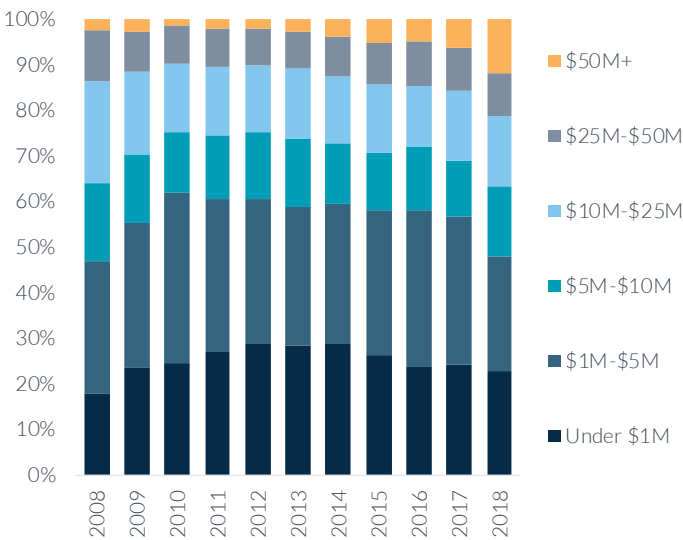
US life sciences deals (#) as proportion of total VC



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Companies securing more larger deals to fund growth

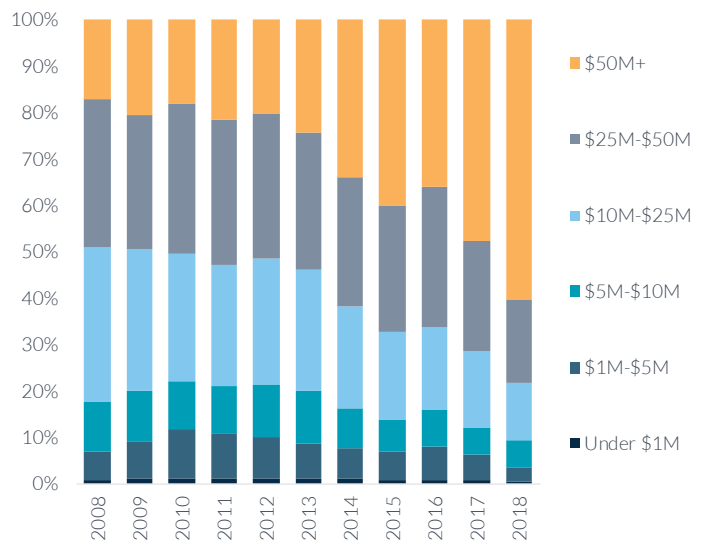
US VC life sciences deals (\$) by size



PitchBook-NVCA Venture Monitor

Deals \$50M+ made up 61.4% of capital invested in 2018

US VC life sciences deals (#) by size



PitchBook-NVCA Venture Monitor

2018 VC executive compensation survey

By Conrad Lee, Head of Product at Advanced-HR

Every year we have the privilege of running the VC Executive Compensation Survey (VCECS). This survey began as an industry initiative 20 years ago and continues to see record participation from venture-backed companies in 2018. More than 135 venture firms participated in the concerted effort this past year, and we continue to enjoy working with many long-standing [partners](#).

Company ownership

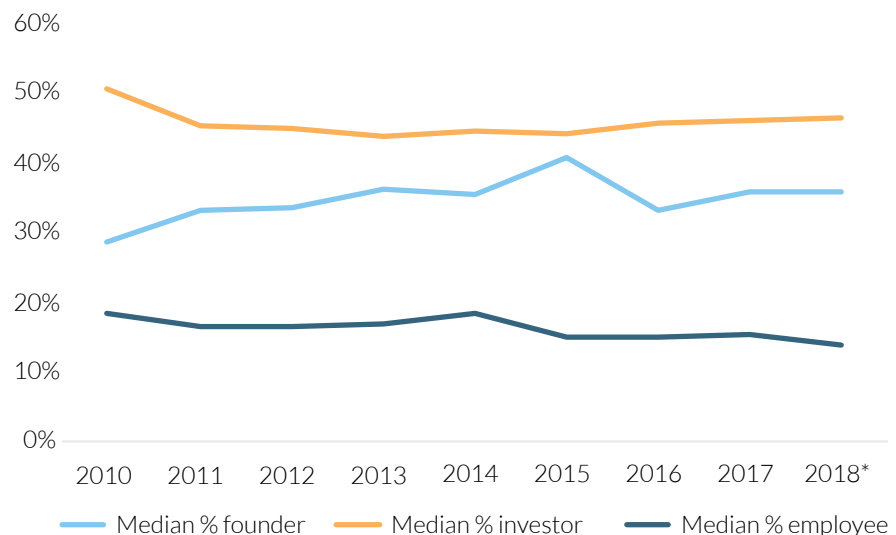
The historical eight-year trailing median distribution of company ownership in post-Series A companies is 35.6% equity held by founders, 45.4% held by investors, and 16.6% held by employees. In 2018, median employee ownership in post-Series A companies dropped significantly below the eight-year trailing median. Since 2014, we have seen cash compensation trend higher among director and lower-level positions, particularly those in technical roles. The dramatic decrease in employee ownership at post-Series A companies suggests that while employees are less willing to accept significant cash discounts in exchange for equity, companies, in turn, are much better equipped to pay competitive cash salaries given the increased funding we are seeing during this stage.

For 2018, company ownership distribution returns to the eight-year trailing median following a Series B round of financing, where 23.3% of equity is held by founders, 60.8% held by investors, and 16.2% held by employees. The return to historical medians for employees at post-Series B companies correlates with the pain point of employee retention. Following a Series B, employees are several years vested, and attrition is mitigated by an acute focus on equity refresh programs.



Employee ownership drops in 2018

VC-backed companies at Series A financing (% fully diluted shares) in US



Source: Advanced-HR
*As of December 18, 2018

Advanced-HR is the leading provider of pre-IPO compensation data. We partner with top-tier investors and their portfolio companies to produce the world's largest compensation database specific to private, venture-backed companies. The VCECS results are leveraged in the Option Impact compensation database, an ongoing survey where companies maintain current information in the system in exchange for full database access at no cost. Advanced-HR is a Solium company (Solium Capital Inc.) (TSX: SUM). To learn more, please visit www.advanced-hr.com.

Conrad leads the VC Executive Compensation Survey and Option Impact at Advanced-HR, delivering cash and equity insights to private companies and their investors. Option Impact is the world's largest compensation database specific to venture-backed companies, and the VCECS is supported by 150+ top venture firms. Conrad has spent nearly a decade working with venture firms and their portfolio companies as they seek to recruit, reward, and retain top talent in highly competitive markets. He has supported companies of single founders to late-stage, billion-dollar startups.

Compensation in \$1B companies

As companies remain private longer, retaining core leadership is a challenge. Among companies with \$1 billion+ valuations, founding CEO cash compensation has increased since 2016 while equity has remained near constant. As high-value companies approach liquidity, investors are reluctant to relinquish equity holdings. During this time, option pools begin to dwindle, and equity is strategically focused on the few key hires that will guide the liquidity event—often, the CFO. As founding CEOs have significant equity exposure, cash compensation begins to approach their public company counterparts, rewarding founders prior to full liquidity and incentivizing retention.

While founding CEO cash compensation has dramatically increased, non-founding CEO cash compensation has remained near constant. In contrast, non-founding CEO equity compensation has increased since 2016, though 2018 data may show a median ceiling of 5%. As company valuations have continued to grow, so too have investors' appetites for increased equity grants where an experienced CEO is key to a successful liquidity event.

Revenue per employee

Revenue per employee has remained near constant since 2016, with the exception of companies producing less than \$10 million or more than \$100 million in annual revenue. Between the two groups, we see inverse trends.

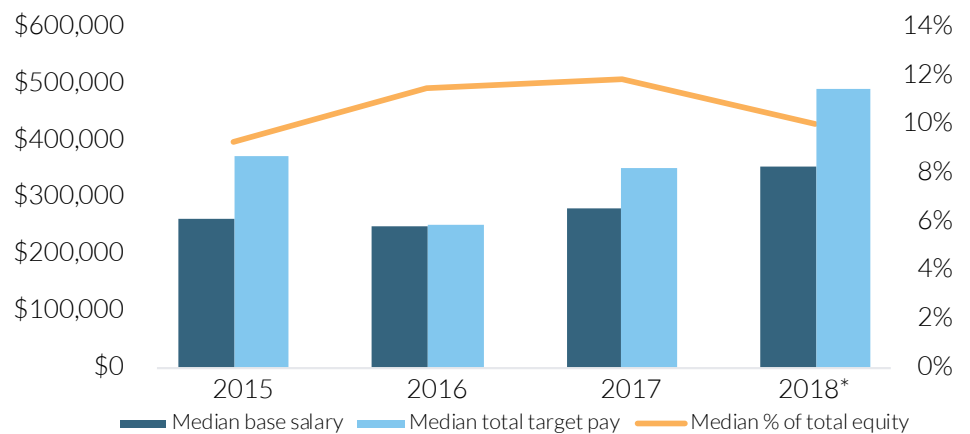
For companies producing less than \$10 million, revenue per employee has trended higher since 2015 while headcount has remained static in post-Series A and post-Series B companies. We attribute this to an industry shift that focuses on SaaS platforms delivered to other companies and growth in the broader consumer market (ecommerce, marketplaces, etc.). These companies have shown the ability to grow revenues by leveraging modern marketing technology stacks and identifying scalable distribution channels.

Companies producing revenue in excess of \$100 million have displayed a slow and steady decline in revenue per employee since 2016. While companies can achieve initial revenues without a large workforce, scaling beyond \$100 million proves costly due to the strength of the competitive labor market. While top talent is increasingly reluctant to accept cash discounts in exchange for equity, companies are forced

into higher cash offers when competing with FAANGs and company. This holds particularly true in epicenters such as the Bay Area, New York, Boston, Austin, and Seattle. We have seen steady labor market increases in Boulder, CO and Salt Lake City as well, which we anticipate will soon follow underlying trends seen in other highly competitive labor markets.

Founding CEO cash compensation rises

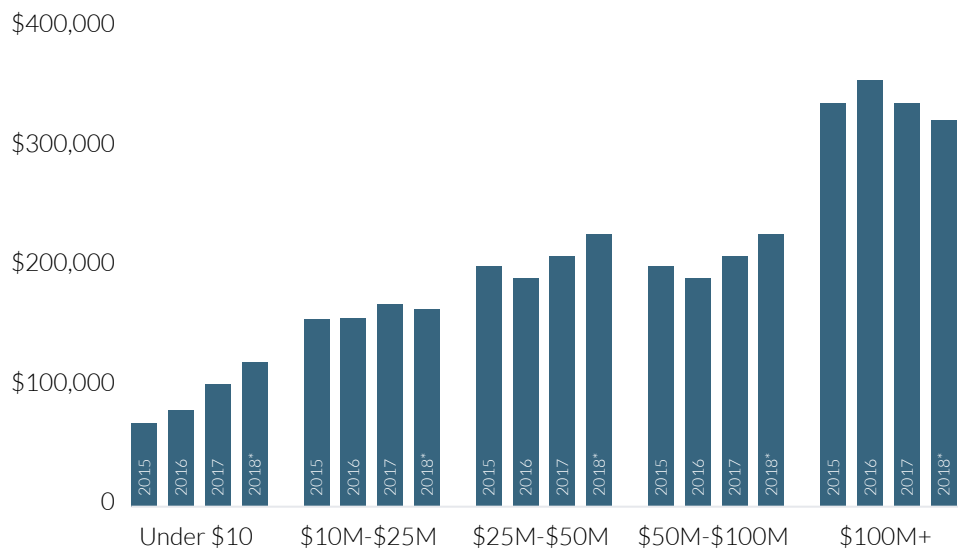
Cash and equity compensation in private companies valued at \$1B or more



Source: Advanced-HR
*As of December 18, 2018

Revenue per employee rises early and falls late

US median annual revenue per employee (\$M)



Source: Advanced-HR
*As of December 18, 2018

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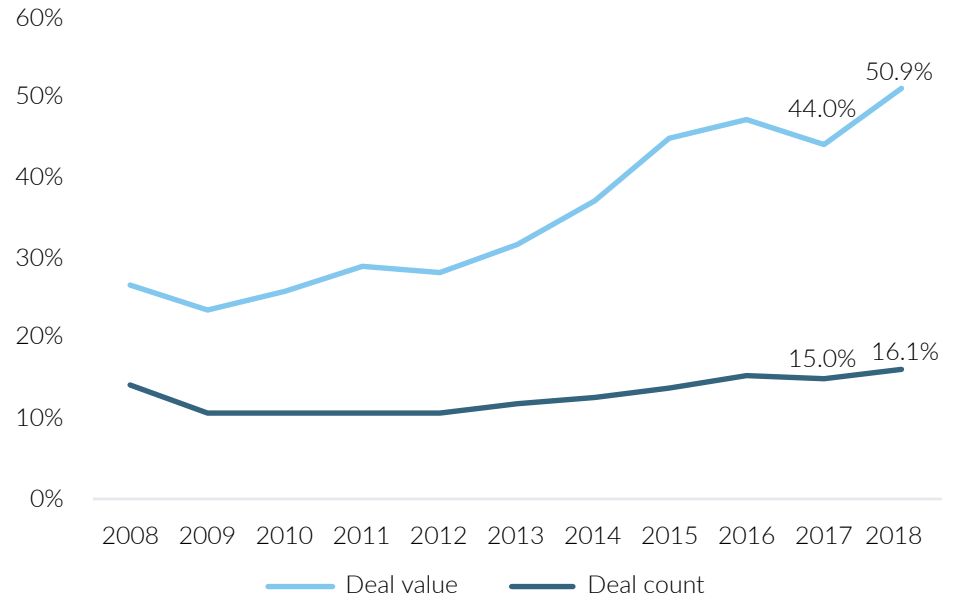
Corporate VC

Corporates participated in 1,443 venture deals in 2018, totaling \$66.8 billion, an incredible 83.2% increase from 2017 (bolstered by the \$12.8 billion Juul deal). Although CVC deal count has stayed relatively flat over the last four years, deals with corporate participation have made up a swelling proportion of US venture activity. In terms of deal count, 16.1% of venture rounds included a corporate investor, up from 15.0% in 2017 and just 11.6% five years ago. Additionally, rounds with CVC investors accounted for a whopping 50.9% of capital investment, indicating that corporate investors have become an important funding source for larger rounds and late-stage capital.

Elevated CVC investment can be attributed in part to the continued popularity of startup investments for corporate innovation and to the entrance of new players in the VC ecosystem. Amid expectations that automation will become ubiquitous across industries, we've seen a steady increase in investment in AI technology and machine learning startups in recent years, in some

Growing proportion of venture deals include corporate investors

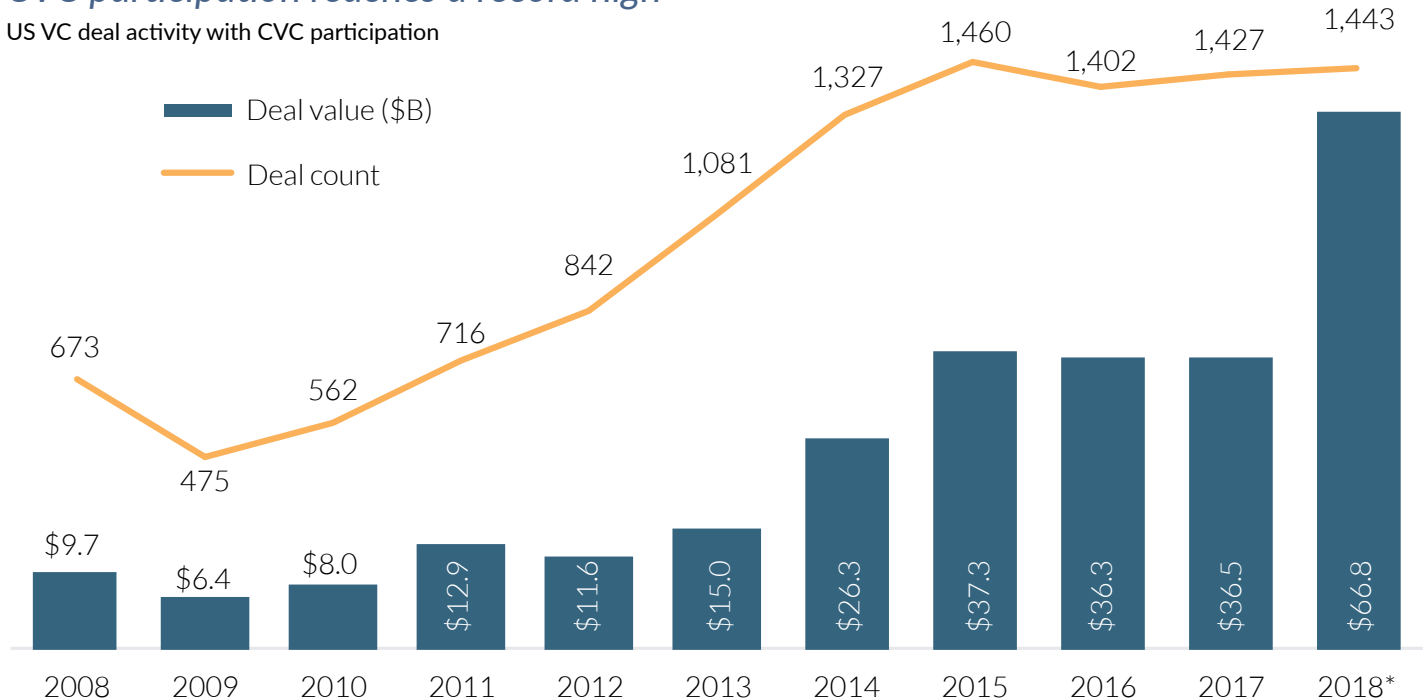
Deals with CVC participation as proportion of total US VC



PitchBook-NVCA Venture Monitor

CVC participation reaches a record high

US VC deal activity with CVC participation



PitchBook-NVCA Venture Monitor

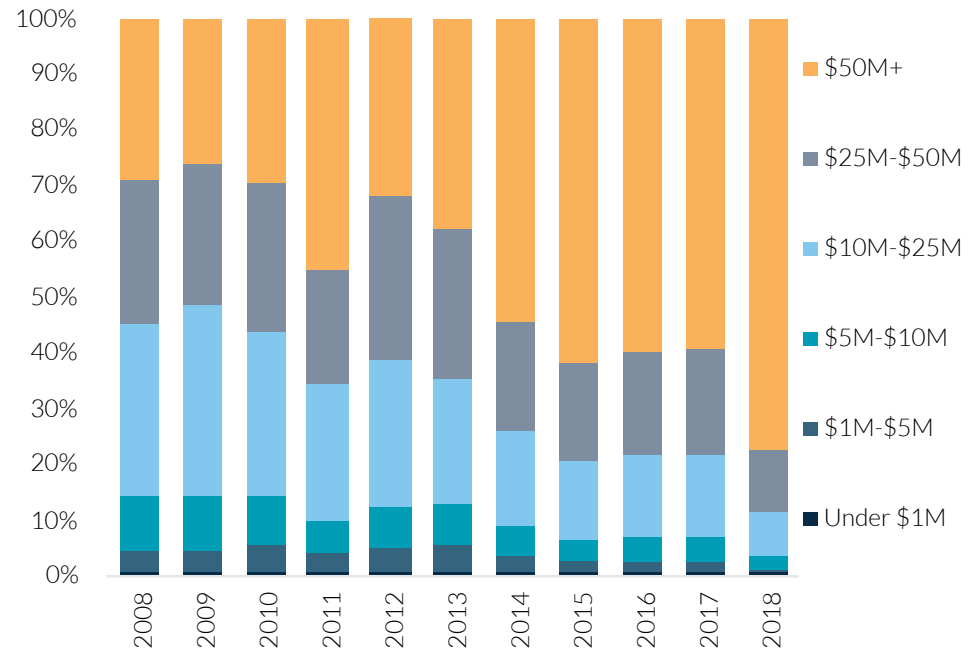
cases leading to acquisitions. Additionally, incumbents in industries that require intensive spending on R&D, such as biotech & pharma, can minimize costs of funding innovation and mitigate risks by seeding smaller, more agile startups. Despite the allure of early-stage ventures, corporates tend to invest in more mature startups, which in recent years have secured ever-larger deals to grow at scale and meet their operating needs.

Newer deep-pocketed investors such as SoftBank, as well as corporate tax cuts that have boosted corporate coffers have led to more outsized financings. The number of deals with CVC participation sized \$50 million or larger grew to 253 in 2018, a 68.7% YoY increase. While deals in this size bucket make up just 18.9% of all deals with CVC inclusion, they constitute an astounding 77.4% of all capital invested. SoftBank's unprecedented \$100.0 billion Vision Fund has single-handedly shifted the scheme of venture investments toward the new normal of mega-rounds, with outsized investments across stages and geographies compelling other early- and late-stage investors to follow suit.

To examine the effect of SoftBank, we filtered all investments from its six distinct entities from our CVC dataset.¹ It appears it has participated in 40 disclosed deals in 2018 totaling approximately \$8.7 billion. While these deals represent only 2.8% of CVC deal count, they constitute an impressive 13.0% of all CVC deal value. The venture ecosystem has rarely, if ever, seen a single investor drive such a substantial proportion of capital into a select few massive deals. While these metrics illustrate the outsized effect that SoftBank has had in its own investments, VCs have reacted in kind with competing mega-funds such as Sequoia's \$8.0 billion vehicle closed in 3Q 2018. Some have remarked that SoftBank's provision of so much capital can lead to bad practices among startups, such as capital inefficiency and overspending. Conversely, these resources have led to the creation and development of startups with industry-altering business models only feasible given copious amounts of capital, such as Uber's effect on the transportation industry.

Strategics prove important capital source for outsized deals

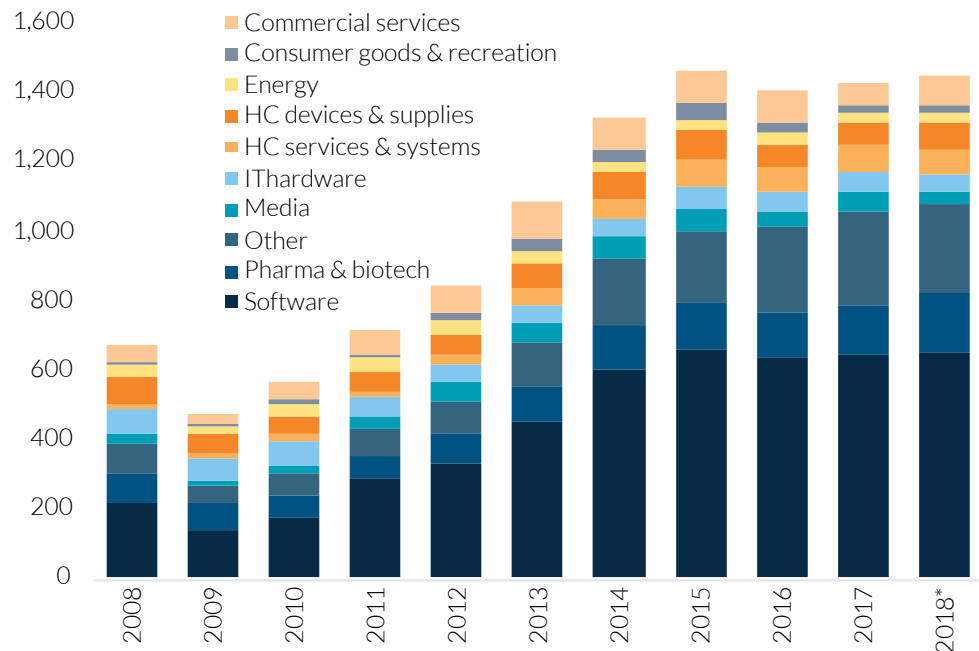
US VC deals (\$) with CVC participation by size



PitchBook-NVCA Venture Monitor

Pharma & biotech one of few sectors to see increased deal count

US VC deals (#) with CVC participation by sector



PitchBook-NVCA Venture Monitor

1: SoftBank's six entities include SoftBank Group, SB China Venture Capital, SoftBank Capital, SoftBank China & India Holdings, SoftBank Ventures Korea, and SoftBank Investment Advisers.

Growth equity

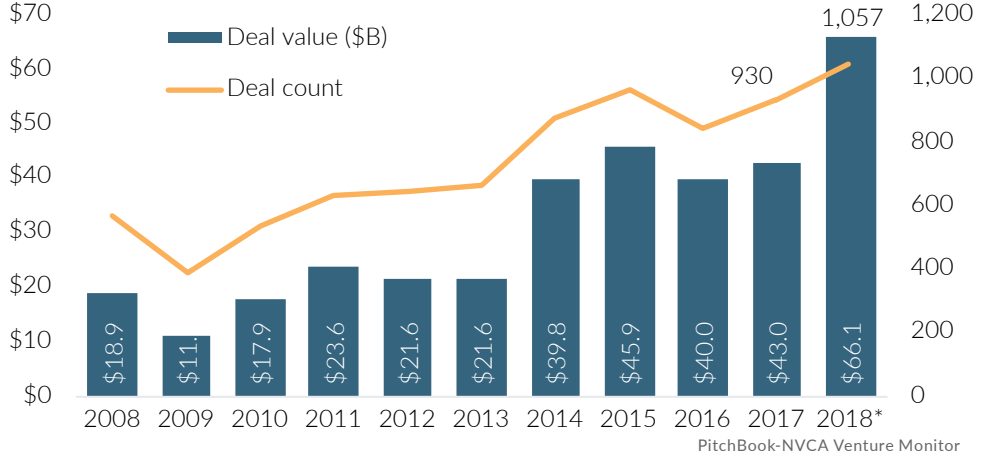
Growth equity saw its second consecutive year of burgeoning activity. 2018 activity reached record highs with an impressive \$66.1 billion invested across 1,057 deals, representing a 53.6% increase in deal value and a 13.7% increase in deal count YoY. The median valuation and deal size of growth equity rounds also saw sizable upticks, resting at \$47.0 million and \$200.0 million, respectively.

As venture markets have matured in recent years, growth equity investments have become an increasingly common route for nontraditional investors to take a stake in fast-growing startups. With startups staying in private markets longer, public market investors have been precluded from attractive, high-growth investment opportunities. Subsequently, participation from nontraditional investors such as mutual funds, pension funds, and family offices have contributed to mounting activity and more capital for developing startups. With heightened demand from investors, startups have commanded record-setting round sizes, and correspondingly, valuations, as previously mentioned.

The upward trajectory of growth equity investments also reflects the growing presence of PE investors in venture markets. Many venture-backed companies have evolved to create investment profiles fitting for PE investment, as they exit their early-stage startup phase and enter their growth period. The high margins and recurring revenue models characteristic of startups in the tech sector in particular make these companies attractive targets for PE investors. Additionally, with startups taking in more capital in larger rounds, investment sizes have become more accessible for PE investors with larger funds and larger minimum check sizes. Mega-deals have continually grown as a proportion of growth equity deals, sitting at 22.9% of all disclosed deal sizes in 2018, up from 16.0% in 2017 and 9.0% five years ago.

Growth equity reaches over 1,000 deals closed

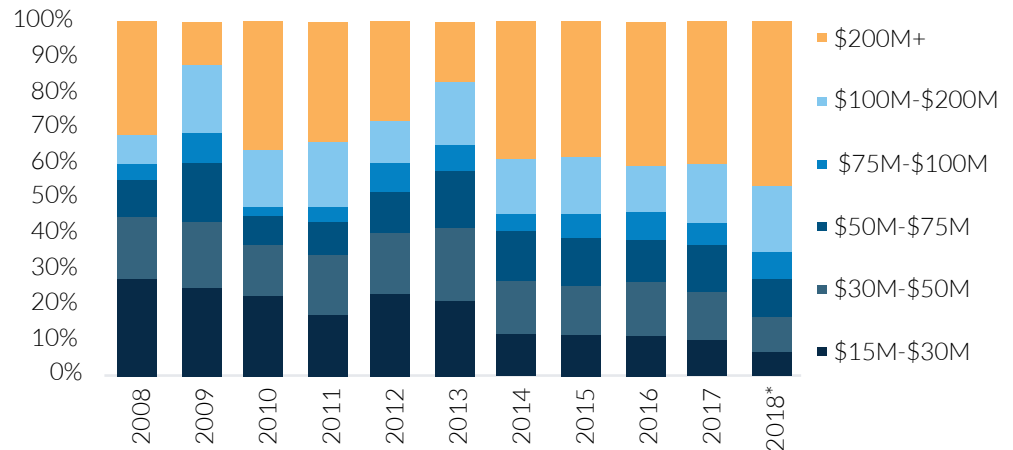
US growth equity deal activity



PitchBook-NVCA Venture Monitor

Mega-deals dominate capital invested in growth equity rounds

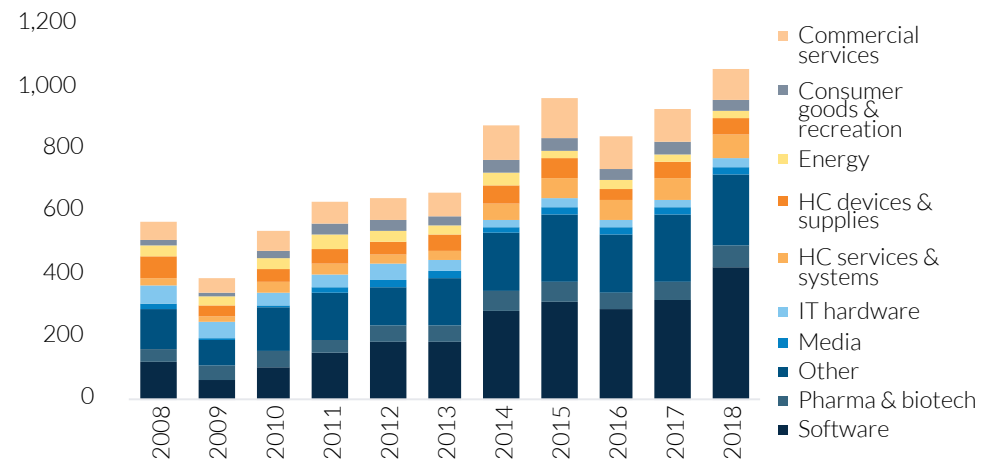
US growth equity deals (\$) by size



PitchBook-NVCA Venture Monitor

Growth equity deals in software startups increase in 2018

US growth equity deals (#) by industry



PitchBook-NVCA Venture Monitor

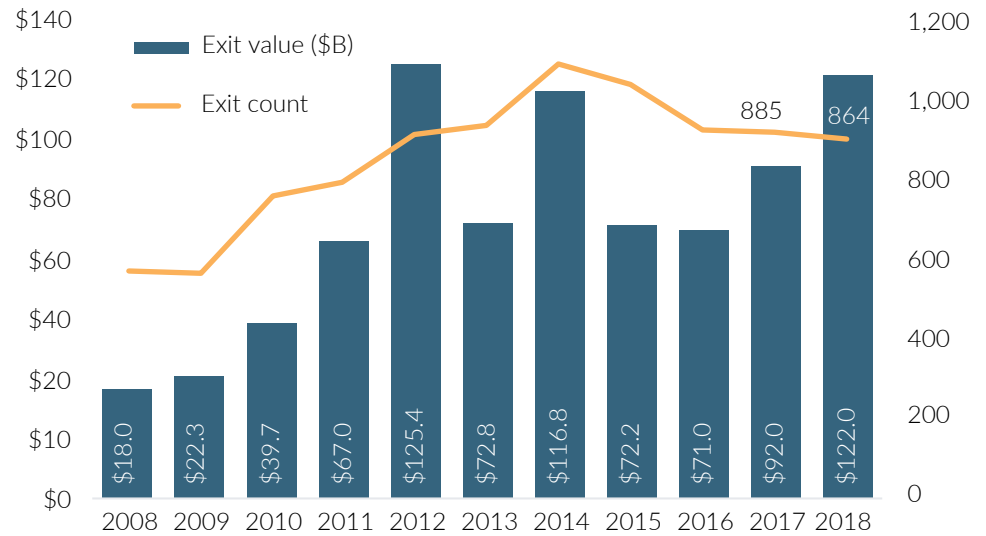
Exits

2018 was an exceptionally strong year for VC-backed exits. More than \$120 billion was exited across 864 exits, equating to a 33.0% YoY uptick in terms of total exit value with the count of exits remaining relatively flat. While exit sizes increased, the steady count of exits bodes well for both VC and LPs as a healthy balance was struck between public investors willing to buy into IPOs and buyers remaining acquisitive. As a result, LPs can expect substantial distributions back to them in the near-term.

Despite the public market volatility and slight cooling of exit counts, 4Q posted one of the stronger recent quarters on an exit value basis. This was undoubtedly driven by a concentration of larger exits headlined by Moderna Therapeutics and GitHub, but there were a host of \$300 million+ exits driving this outperformance as well. While those two mentioned deals make up a significant portion of the total, the majority of other outperforming quarters were the consequence of one extremely large deal (Facebook IPO, WhatsApp acquisition, Snap IPO, etc.). The distribution of value across

Exit value reaches highest level since 2012

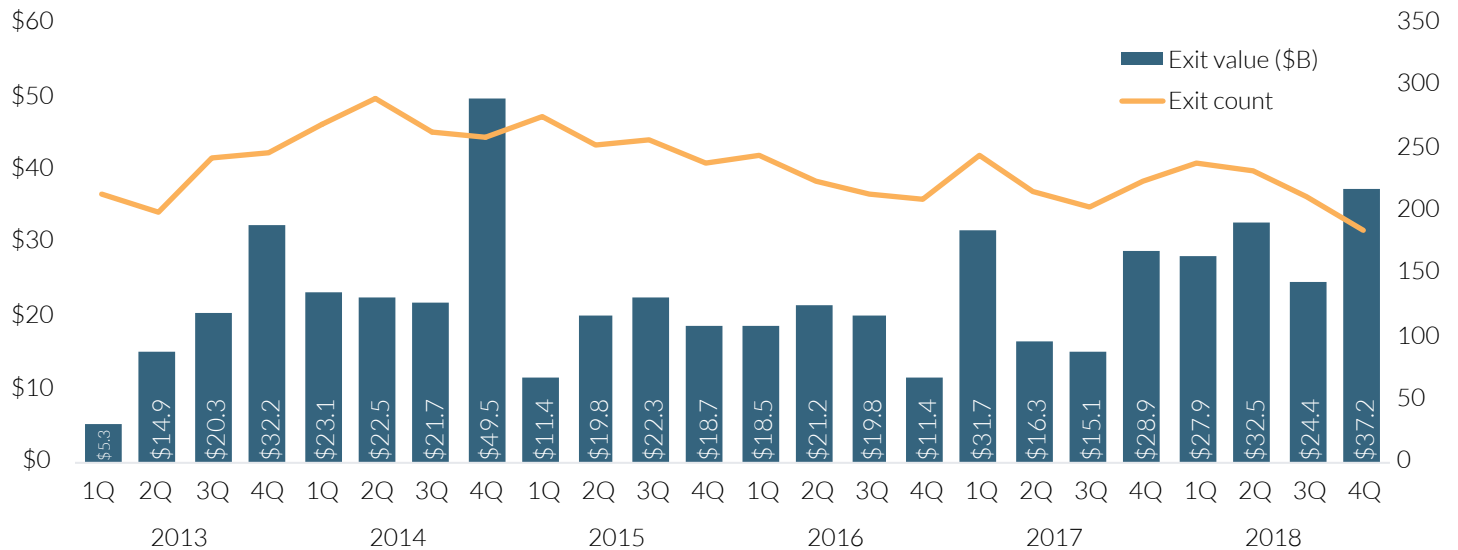
US VC exit activity



PitchBook-NVCA Venture Monitor

Exit counts slightly decline in second half of 2018

US VC exit activity



PitchBook-NVCA Venture Monitor

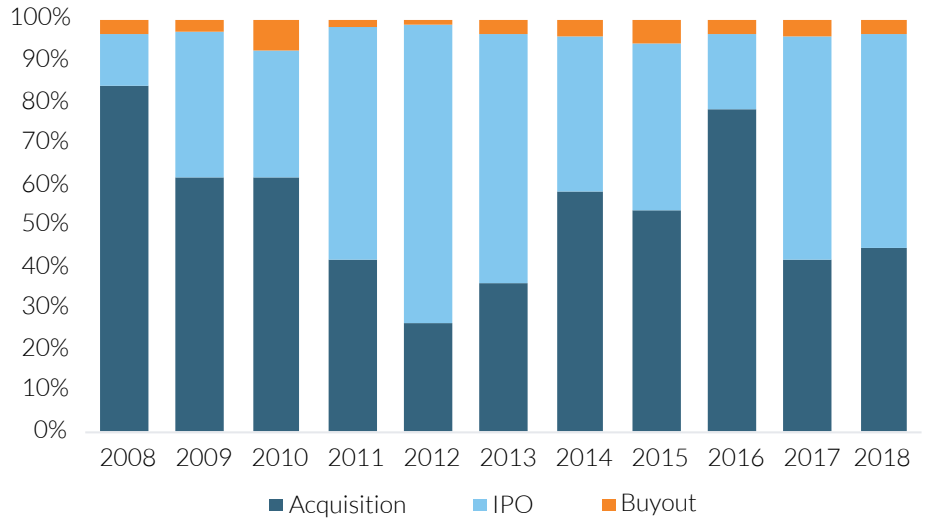
exits sends an encouraging sign about more broad-based capital return to GPs, particularly given the uptick in the median-to-exit for VC-backed companies. Buyouts and IPOs encroached further into M&A's lead as a proportion of exit count, as the aforementioned interest from PE dollars has extended beyond making minority investments. For the most part, buyouts haven't extended into the upper realms of VC, as only one exit in 2018 over \$500 million was executed by a PE investor, and only 3.1% of total exit value in the year was attributed to buyouts.

VC-backed IPOs in general had a very robust year, increasing in both count and liquid value exited. Healthcare IPOs continued their strong year during 4Q, making up 68.2% of IPO count in the quarter including many of the largest offerings. Leading that group of large healthcare IPOs was Moderna Therapeutics, which represented the biggest biotech public listing ever. While the Moderna deal served as positive reinforcement for the ability of outsized biotechs to move forward with public listings, the stock has declined over 26% as of January 8, 2019.

Some of this result can be explained by the broader downtrend in public equities over the last quarter, which dampened new listing activity and saw significant pullbacks in high-beta equities such as technology. While macro uncertainty is a focal point for the overall market, this recent move may signal harsher sentiment on public companies lacking concrete fundamentals. As the conventional wisdom goes, great companies can IPO at any point, but looking forward to 2019 or whenever we see a sustained downturn in public markets, revenue growth may not be enough to satisfy investors.

IPOs make up more than half of exit value

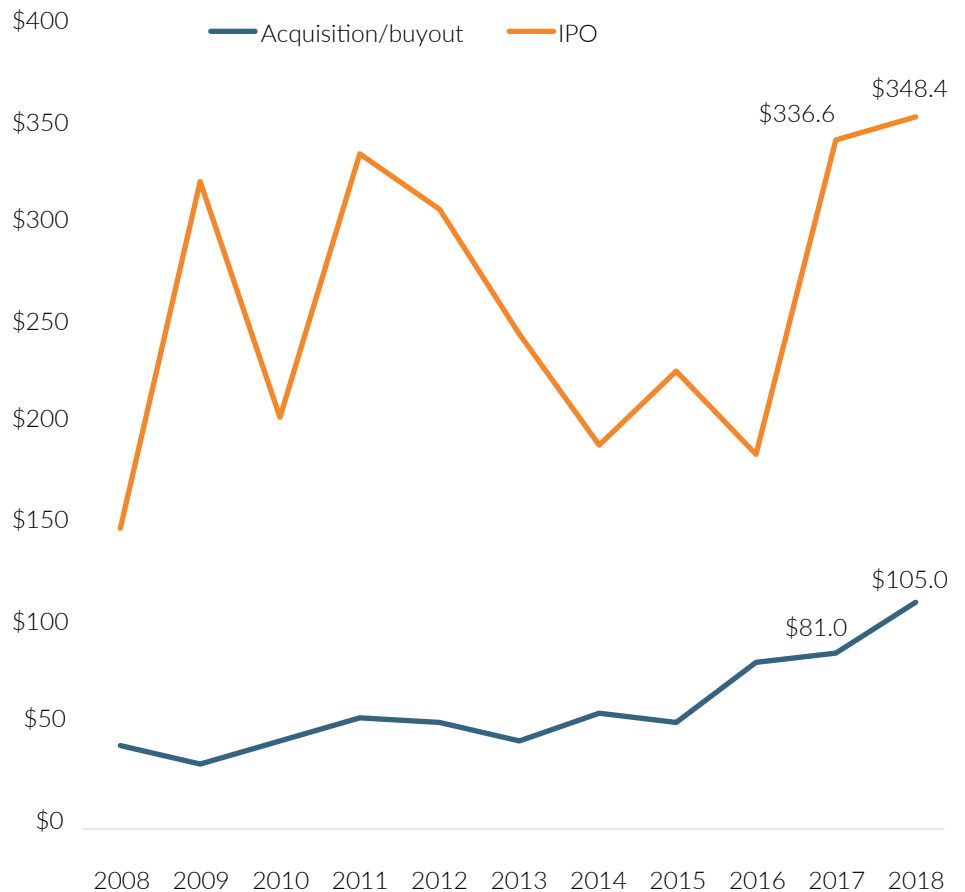
US VC exits (\$B) by type



PitchBook-NVCA Venture Monitor

Exit sizes remain at decade highs

Median exit size (\$M) by type



PitchBook-NVCA Venture Monitor

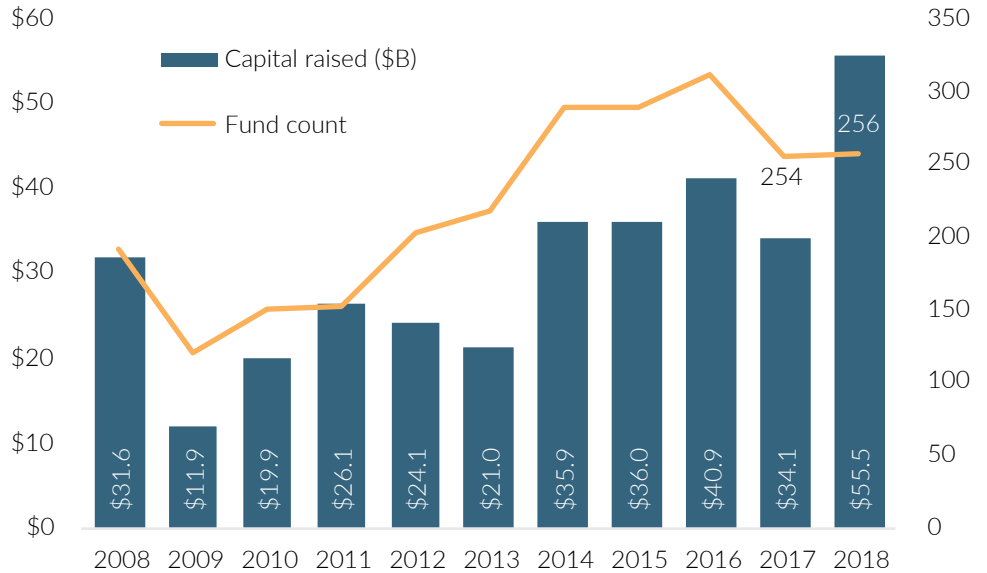
Fundraising

2018 was a banner year for venture fundraising as VCs raised over \$55.5 billion across 256 vehicles, the highest value for capital raised we've recorded. Despite looming fears of a market downturn, venture investors retain plenty of cash on hand to fund innovation throughout the venture life cycle for years to come. 2018 saw a record 11 venture funds raised with \$1 billion or more in commitments by the likes of Tiger Global Management, GGV Capital, and Bessemer Venture Partners, among others. Historically, venture fund managers would put these larger funds to work in late-stage and growth deals. In 2018, however, these vehicles are being used to invest throughout the venture life cycle (including early stage). Bessemer Venture Partners, for instance, notes that with its \$1.9 billion BVP X vehicle, it will continue to invest in the early stage and throughout each company's growth.

Vcs have taken to raising outsized funds to meet the demand for larger rounds brought by more mature startups across stages. Follow-on capital has also become an increasingly important tool to mitigate the threat of dilution. Venture markets have become highly competitive with the entrance of deep-pocketed late-stage investors, such as SoftBank, and nontraditional venture investors, such as mutual funds and family offices. While early- and late-stage investment funds have grown in size, so too has the presence and size of dedicated follow-on funds. Lightspeed Venture Partners, for instance, closed the \$1.1 billion "Select III" fund in addition to its \$750.0 million early-stage vehicle to enhance the firm's early-stage fund strategy with follow-on rounds in its current early-growth phase portfolio companies.

VC fundraising reaches new high with over \$55B committed

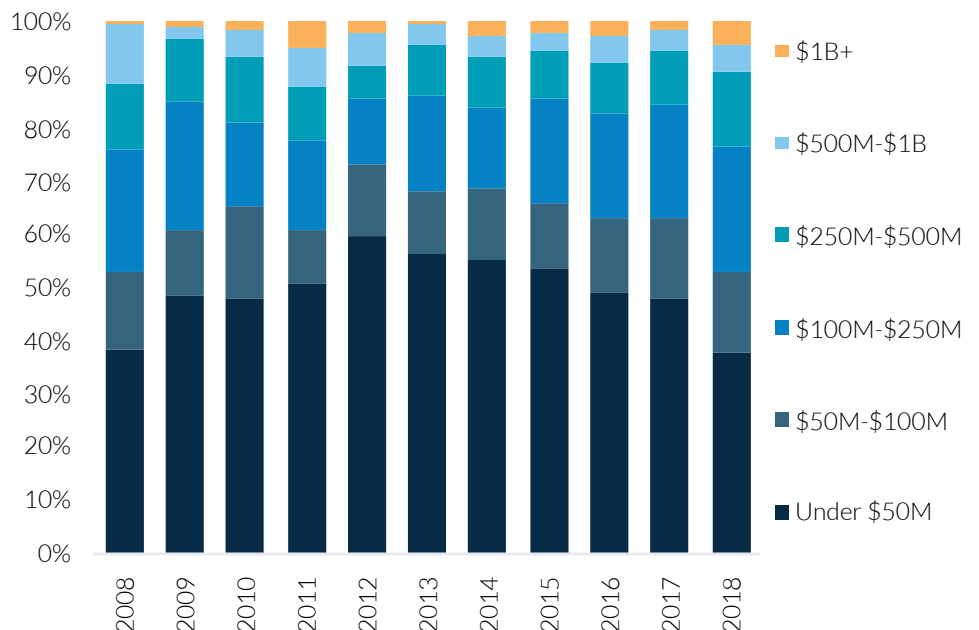
US VC fundraising activity



PitchBook-NVCA Venture Monitor

Vcs raised 11 funds \$1B or greater in 2018, a new record

US VC fundraising (#) by size

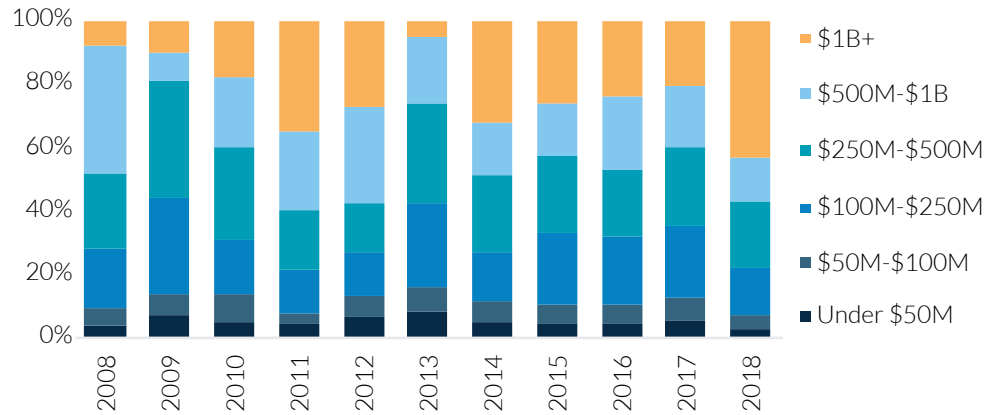


PitchBook-NVCA Venture Monitor

Looking beyond mega-funds, it appears VCs are shifting toward larger funds across the spectrum. The median fund size has increased 64.0% from 2017 values to \$82.0 million in 2018, signaling an upward shift for smaller funds as well. First-time funds also made a strong showing in 2018, with 52 vehicles securing a cumulative \$5.3 billion in committed capital. These first-time funds also appear to be larger than previous years, with 12 first-time funds sized between \$100 million and \$250 million and four vehicles sized in the \$250 million to \$500 million range. Some first-time funds have achieved such large closes thanks to their credibility as spin-offs of longstanding, successful venture firms.

Billion-dollar funds constitute growing proportion of VC funds

US VC fundraising (\$) by size

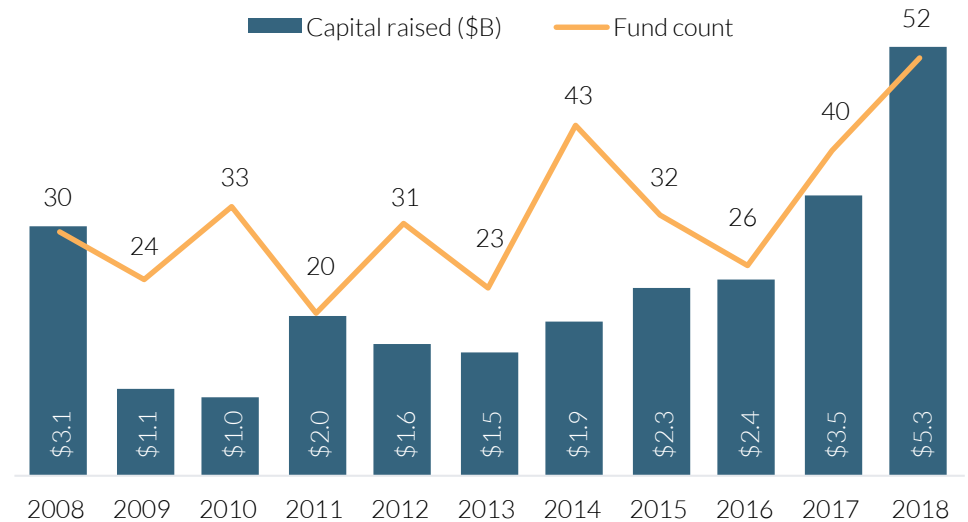


PitchBook-NVCA Venture Monitor

One such first-time fund raised this quarter was a spin-off of senior team members from New Enterprise Associates (NEA) who formed NewView Capital. The firm's enormous \$1.4 billion vehicle employs a combination of growth and secondary strategies we've seen becoming more common in recent quarters. In a comment to TechCrunch, the firm stated that the fund is "providing liquidity to a set of companies that would require several years longer" to exit.² Accordingly, some of the firm's first investments will be secondary purchases of assets from NEA's aging portfolio.

52 first-time VC funds raised in 2018

US VC first-time fundraising activity

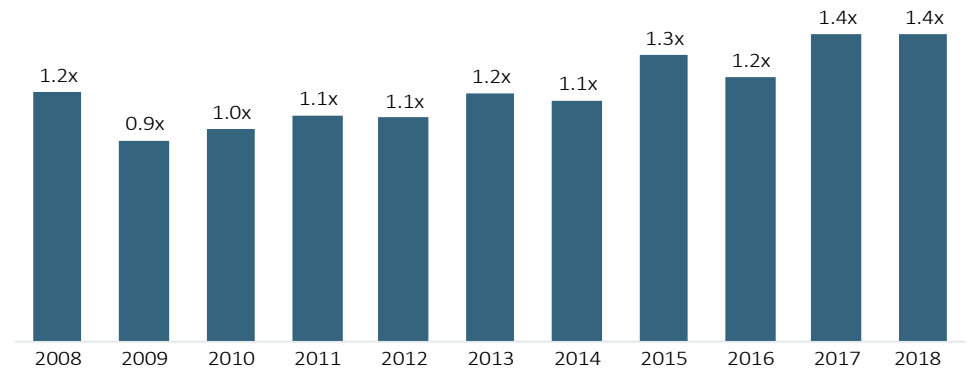


PitchBook-NVCA Venture Monitor

With VC dry powder currently sitting at \$75.7 billion (as of 1Q 2018), VCs hold an immense trove of capital to foster startups in the years to come. Based on the current investment pace, our calculation of cash-on-hand for VC firms indicates investors could deploy capital nearly 2.4 years if they ceased fundraising today. Some GPs and LPs have expressed concern that excess capital has led to inflated round sizes and valuations. In the event of a recession, VCs will still have ample capital to invest, but valuations may see a correction from their currently elevated levels.

Step-ups remain elevated as VCs raise larger vehicles

Median US VC fund size step-up by close year



PitchBook-NVCA Venture Monitor

2: "NEA spin-out NewView Capital raise \$1.35B for its debut growth fund," TechCrunch, Kate Clark, December 2018

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.

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.

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.

Growth equity: Note: Growth equity data is only included in its specific section and not included in any other venture datasets. 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.

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.

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.



THE PERKS OF PARTNERSHIP

The PitchBook Platform

As an NVCA member, your free access to the PitchBook Platform includes five advanced searches and five profile views per month.

Fundraise faster with targeted searches for limited partners who will likely be interested in your fund.

Conduct better due diligence by diving deep into a company's round-by-round financing history, executive team and market traction.

Price deals with confidence using pre- and post-money valuations, public and private comps, cap tables and series terms.

Find promising investors quickly by zeroing in on other firms or strategic acquirers whose investment preferences match your portfolio company.

More data. Less dough.

Our members get 10% off a new subscription to the PitchBook Platform (up to a \$10,000 value) or one free, additional set. If your firm was a PitchBook client prior to September 14, 2016, you're eligible for one of these discounts the next time you renew your contract.

Help us help you

We will email quarterly surveys to each member firm, which will give you the opportunity to report your activity to PitchBook. The data you provide will not only power PitchBook-NVCA reports, but also ensure your firm is represented accurately in the PitchBook Platform. If you'd like to send your quarterly activity report directly to PitchBook, email research@pitchbook.com.



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