

Venture Monitor

Q1 2020



In partnership with



Silicon Valley Bank



Deal activity remains strong in Q1 as impact from COVID-19 looms.
Page 5

Exit activity stalled following a record-breaking 2019.
Page 28

Mega-funds boost fundraising totals as first-time funds struggle.
Page 30



Contents

Executive summary	3
NVCA policy highlights	4
Overview	5
Angel, seed & first financings	7
Early-stage VC	9
Late-stage VC	11
Deals by region	15
Deals by sector	16
<i>SVB: Time to rationalize and reset plans</i>	20
Female founders	22
Nontraditional investors	24
<i>Carta: The growth of employee equity pools</i>	26
Exits	29
Fundraising	31
Methodology	34

Credits & contact

PitchBook Data, Inc.

JOHN GABBERT Founder, CEO
ADLEY BOWDEN Vice President,
Research & Analysis

Content

NIZAR TARHUNI Director, Research
JAMES GELFER Senior Strategist & Lead Analyst, VC
CAMERON STANFILL, CFA Analyst II, VC
KYLE STANFORD Analyst, VC
JOSHUA CHAO, PhD Analyst, VC
VAN LE Senior Data Analyst

RESEARCH

reports@pitchbook.com

INVESTOR OUTREACH

KYLIE HANNUS Senior Research Associate

Report & cover design by MARA POTTER

National Venture Capital Association (NVCA)

BOBBY FRANKLIN President & CEO
MARYAM HAQUE Senior Vice President of Industry
Advancement
CASSIE HODGES Director of Communications
DEVIN MILLER Manager of Communications & Digital
Strategy

Contact NVCA

nvca.org
nvca@nvca.org

Silicon Valley Bank

GREG BECKER Chief Executive Officer
MICHAEL DESCHENEAUX President
BRENDA SANTORO Head of Global Trade Finance

Contact Silicon Valley Bank

svb.com
venturemonitor@svb.com

Carta

JEFF PERRY Vice President of Revenue
TIM GUNDERSON Investor Services GTM Lead
VINCENT TIMONEY Director of Channel Strategy
REED MCBRIDE Director of Partnerships

Contact Carta

carta.com

Executive summary

After 2019 posted another strong year for the US startup ecosystem, it was hard to imagine the industry would be facing a new period of transition as a result of a global pandemic within just three months of the new year. The topline numbers from the venture industry in Q1 2020 might not reflect a major disruption in the startup ecosystem, since the COVID-19 chaos came into full effect in March when venture deals were already in progress. However, the global pandemic is having a massive impact on startups and VC investors, just as with the rest of the US economy.

The shelter-in-place orders across the country have forced most employees to work from home, disrupted sales and marketing, and affected operations and product and project timelines. All companies are looking to extend their cash runway, examining their burn rates and cutting costs during this period of deep uncertainty. Many have experienced major hits to revenue and significant layoffs or furloughs of their workforce. Some VC-backed startups have had to shut down operations altogether, while others are maintaining their operations without too much disruption.

Venture investors, who had \$121 billion in dry powder as of mid-year 2019, have not stopped investing, but many are being more conservative in their approach. The focus has primarily turned to their existing portfolio companies, ensuring companies have enough cash runway and stressing efficiency. New deals are still happening, but most of these had already been in the pipeline prior to the onset of the pandemic. Investment pace will likely slow down if shelter-in-place orders are still in effect once deals that were already in progress or in the pipeline are completed, since VC is a business that revolves around in-person meetings with founding teams before making an investment.

Valuations have not shifted much yet, but indications from VCs and startups alike suggest that valuations are likely to be challenged in the coming quarters. Some deals have been renegotiated given the new investing climate and public market dips. Late-stage valuations will see the biggest impact—after reaching record highs in 2019—and will come down over the next few months as they're more apt to be valued based on publicly traded peers. On the other hand, investor sentiment suggests early-stage deal values tend to be more range-bound and will be less affected.

Not surprisingly, life science startups are receiving additional attention during this time, especially those working on vaccines, anti-bacterial medications and other life-saving cures. Conversely, startups working on more lifestyle-focused medicines and treatments could see less attention as investors look at companies seeking to address critical needs. Biotech and drug discovery companies, which are deemed essential businesses, are continuing to operate. Researchers are still working in labs, although clinical trials are slowing down for diseases that are not life threatening. And just like startups in other sectors, life science companies are in cost-cutting mode. Beyond life sciences, startups in sectors that are meeting the needs of the new normal—where most of the US population is staying home to work, eat and live—are seeing more demand and interest.

The likely prospect of a serious recession looming (if it has not already begun) has critically affected the health of the startup ecosystem. The IPO market has rapidly fizzled out, and it's possible that the M&A market could see hits as well, as large potential acquirers are also cutting costs. Fundraising figures were robust in Q1, and we expect the data to remain strong in aggregate with several name-brand firms in the market with new vehicles. In aggregate, however, fundraising will slow down as LPs assess the situation and analyze their asset allocations.

Despite the rocky period ahead, there are a few bright spots for the industry. VC fundraising has been strong in recent years, with investors raising more than \$210 billion since 2016. As a result, there is ample dry powder in the market ready to be put to work in promising startups. Also, down times have proven to be good times for startup investing, as companies born in an era of struggle tend to be more battle-hardened and capital efficient.

NVCA policy highlights

NVCA empowers the venture industry by advocating for policies that encourage innovation and new company formation, as well as by delivering resources and programs to help VC investors succeed. We are committed to advancing policies that foster entrepreneurial activity and investment across the country. We are proud to represent an industry that is furthering solutions to tackle today's greatest challenges and advance the possibilities of tomorrow.

The first quarter of 2020 brought unexpected and unprecedented policy challenges as NVCA advocated on behalf of the VC industry and the entrepreneurial ecosystem. The COVID-19 (coronavirus) global pandemic has taken a severe toll on human life and well-being all over the world. It has also had major economic ramifications, including major disruptions to employment, supply chains and economic activity. VC-backed startups have been significantly affected as well, and NVCA quickly engaged with policymakers to ensure economic stimulus legislation would help the entrepreneurial ecosystem.

Below are key policy updates for VCs and VC-backed startups:

The CARES Act: Signed into law on March 27, the CARES Act provides over \$2 trillion in stimulus funds to help cushion the coronavirus' economic impact. Many provisions in the package could be helpful to VC-backed startups. NVCA worked hard during the legislative process to ensure that startups and their unique business model were considered as the bill was written, as well as identify several issues that could inhibit startups' ability to access emergency funds. Some of the key aspects of the bill for the startup community include:

- **Small Business Lending Facility:** The CARES Act includes a \$350 billion small business lending facility that will be managed by the Small Business Administration (SBA). NVCA continues to work on behalf of VC-backed companies that want to access this new program, known as the Payment Protection Program. We were successful in

addressing several roadblocks that could have prevented startups from accessing this loan facility, and we have released step-by-step guidance for how startups can navigate the loan process.

- **Main Street Lending Facility:** This program will be built by the Federal Reserve to serve businesses of all sizes with loans, loan guarantees and other investments. Details are not yet completely known on this, but more information should be coming soon.
- **Treasury Mid-Size Business Lending Facility:** The Department of Treasury will construct a lending facility to provide direct financing to banks and other lenders that make direct loans to companies with between 500-10,000 employees. These loans will have rates capped at 2% and a required six-month grace period before repayment.
- **Deferral of employer social security payroll tax payments:** Employers are generally required to pay 6.2% in Social Security taxes on workers' wages up to \$137,700. This provision allows these tax payments to be deferred through the end of the year, with half of the deferred payments due by the end of 2021 and the other half by the end of 2022.
- **Refundable employee retention credit:** This is a refundable credit of 50% of wages paid up to a total of \$10,000 per employee for companies that have seen operations either fully or partially suspended by government order or who have seen gross receipts fall by more than 50% in the quarter compared with the same quarter the previous year.

The Families First Coronavirus Response Act: In the Families First Coronavirus Response Act, signed into law on March 16, NVCA fought to ensure that the bill's provision requiring paid sick leave and family and medical leave included a 100% refundable tax credit for wages paid during this leave for employers with fewer than 500 employees. Since so many startups are not yet profitable (and many are



Bobby Franklin is the President & CEO of the National Venture Capital Association (NVCA), the venture community's trade association focused on empowering the next generation of transformative American companies. Based in Washington, D.C., with an office in San Francisco, NVCA acts as the voice of the US venture capital and startup community by advocating for public policy that supports the American entrepreneurial ecosystem.

pre-revenue), it was imperative that this credit be refundable so that startups are able to access it.

Federal agency resources & actions: In addition to legislation being passed by Congress, there are several efforts occurring at government agencies that could be helpful to startups.

- **IRS Plan:** The Treasury Department, the Internal Revenue Service and the US Department of Labor announced a plan to implement coronavirus-related paid leave for workers and tax credits for small and mid-size businesses to recover the cost of coronavirus-related leave.
- **Small Business Administration Disaster Loan Assistance:** Venture-backed companies may also qualify for the SBA's Disaster Loan Assistance program. These are lower interest loans that are traditionally provided in times of disaster and have less stringent requirements.

Get the latest information and resources on how the federal response to COVID-19 can affect startups and VCs on our [COVID-19 page](#).

Overview

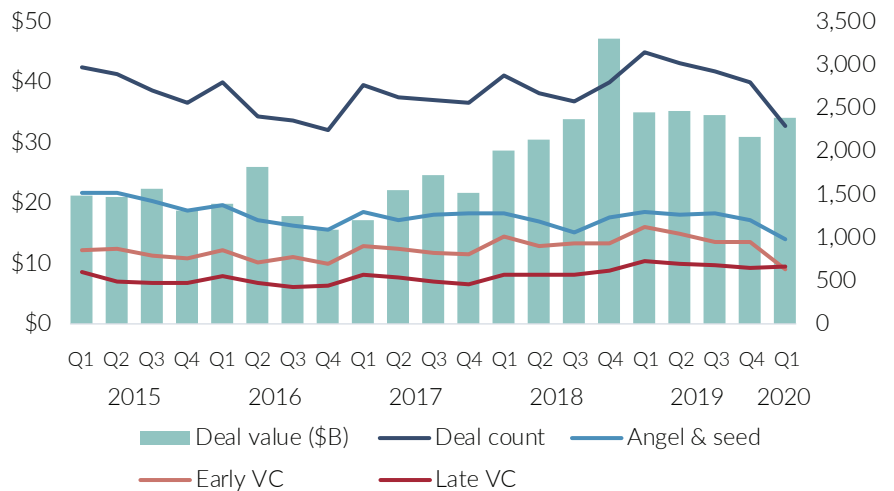
- Capital investment in early-stage VC deals has seen a large runup, with the last two years setting record levels in deal activity and pre-money valuation. However, we anticipate this momentum will likely subside due to the fallout from COVID-19 and the current economic climate, as deal terms begin to shift back in favor of investors and leave startups that previously raised at heightened valuations in a bind. We expect knock-on effects in deal activity to come in the next several quarters as early-stage startups focus on managing burn rates and extending cash runways.
- During the 2008-2009 global financial crisis, angel & seed deals actually increased, bucking the trends across the industry during that time. Today's angel & seed market is much different, with 5x the yearly activity. For current seed trends to continue, larger firms that have moved down the venture lifecycle to invest in seed will be needed to continue heightened activity.
- Late-stage valuations have continuously grown for the past decade, moving in lockstep with public markets. With the recent public market crash,

many companies are left with public comparables that have much smaller market caps, which will likely translate into a softer valuation market if companies must raise capital in the near term. We expect down rounds to increase as a proportion of completed deals as a result.

- Nontraditional investors have heavily increased their participation in VC over the past decade, though in past crises these investors have been quick to retract—nontraditional deal participation dropped nearly 30% from 2008 to 2009, while the overall VC market saw deal count drop less than

Strong Q1 mega-deal activity shows in deal value bump over Q4

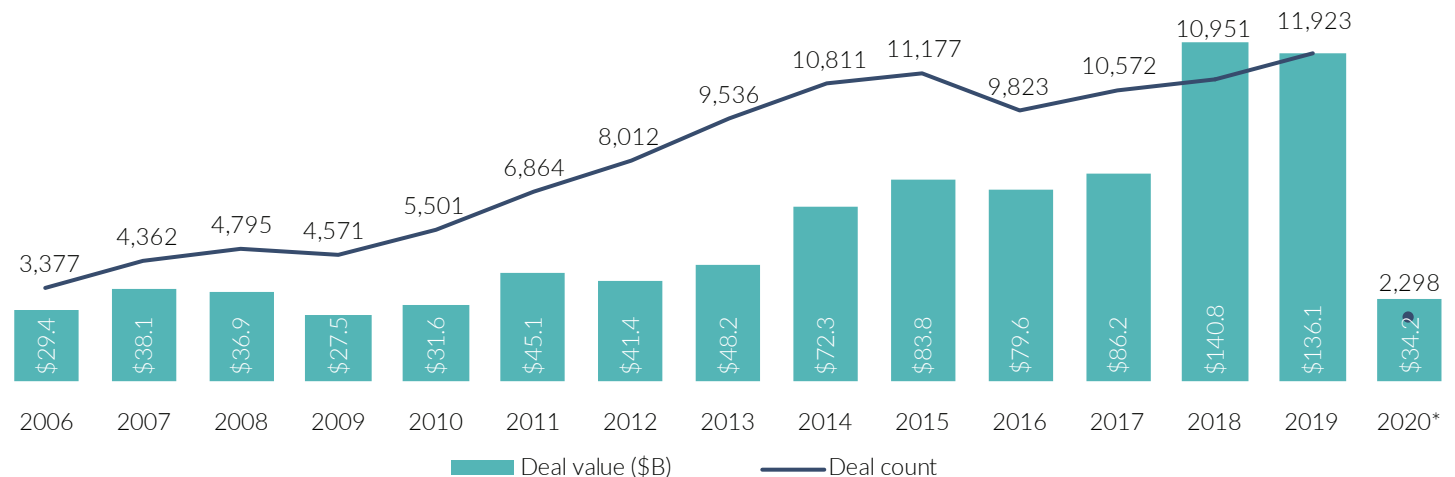
US VC deal activity by quarter



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

After record year, momentum carries deal activity in Q1

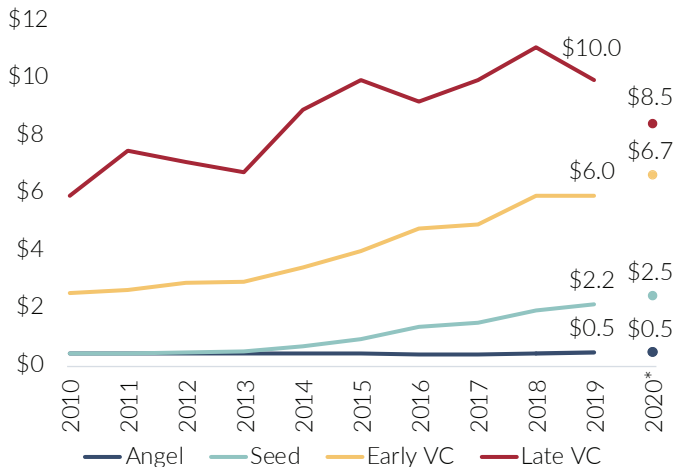
US VC deal activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Late-stage median deal sizes continue to slide

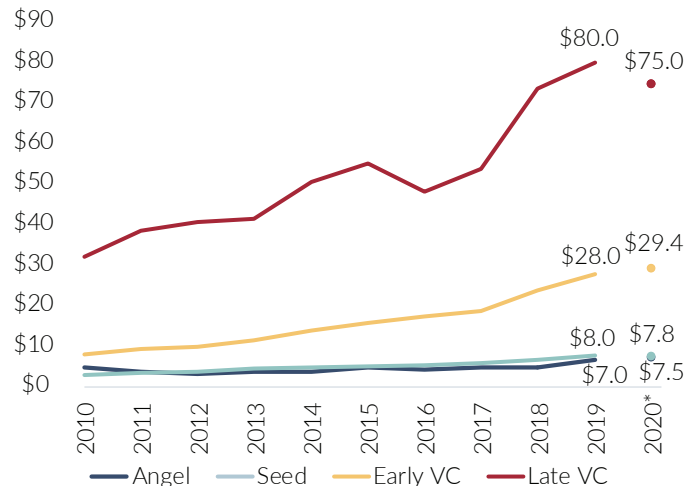
Median VC deal sizes (\$M) by stage



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Early-stage valuations still growing

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



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

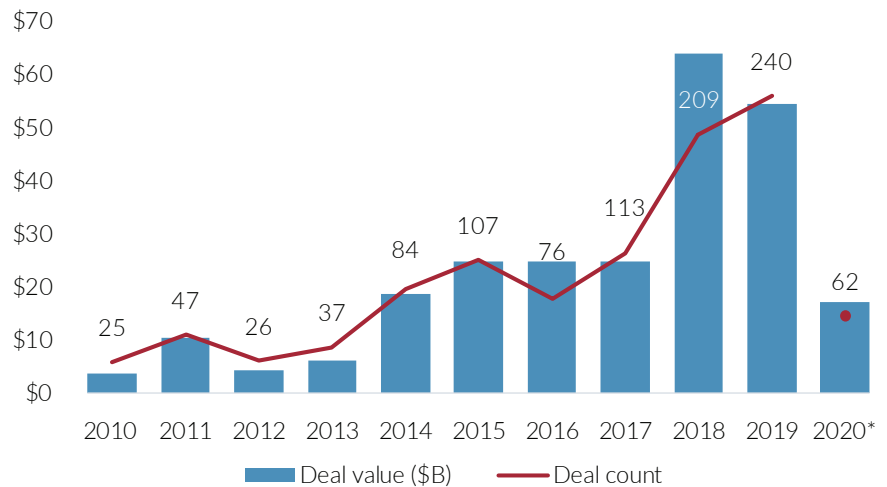
5%. Nontraditional investment has started off slowly, though the corporate participation rate in deal count has risen to the highest figure in our dataset.

- We expect the lull in exits we saw in Q1 to remain through much of the rest of the year given the predicted drop in strategic acquisitions as companies retrench and how closely the IPO window is linked to public market conditions. Ten IPOs were completed in Q1, but we expect this activity to drop drastically in 2020 after eclipsing 80 listings in both 2018 and 2019. To compare numbers from the global financial crisis, only 13 VC-backed IPOs closed in 2008, and just 11 closed in 2009.

- As large managers with strong track records continue to close mega-funds (\$500 million+), first-time fundraising will only get more difficult as the downturn continues. Just nine first-time funds have closed so far in 2020, while more than 49 have been raised each of the last three years. First-time managers and smaller GPs that need to engage new investors are likely to struggle due to travel restrictions and similar impediments.

Mega-rounds yet to see slowdown

US VC mega-round activity

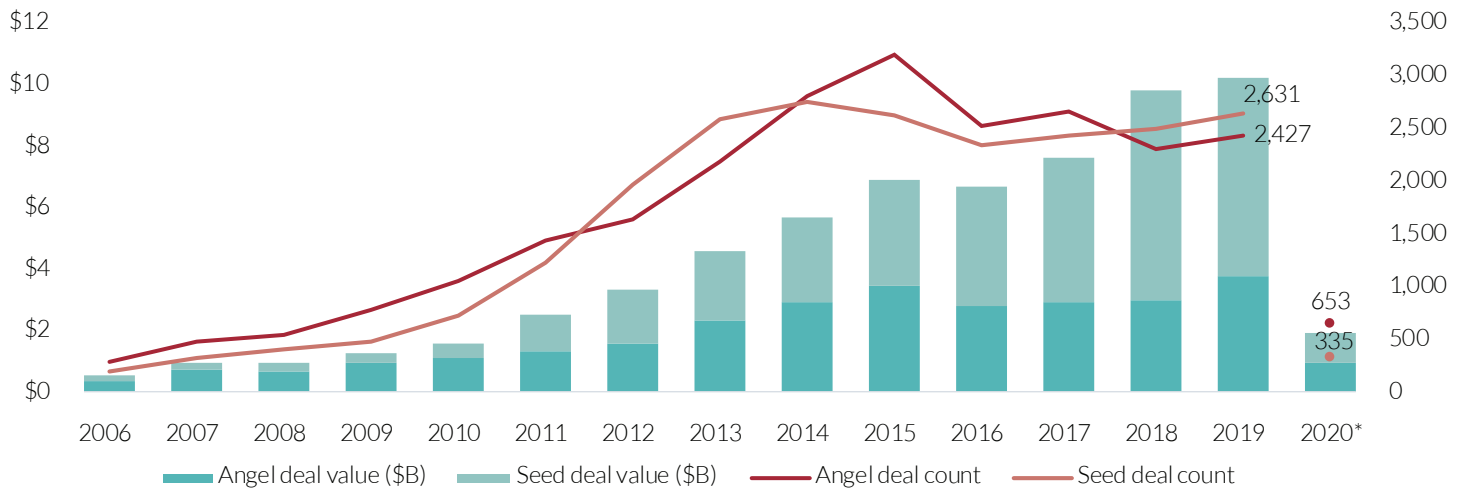


PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Angel, seed & first financings

Crisis effects yet to hit angel & seed deal counts

US VC angel & seed deal activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Since the global financial crisis (GFC), annual angel & seed deal counts have grown from 1,247 in 2009 to more than 5,058 in 2019, translating to an increase in deal value from below \$1.5 billion to a highwater mark of \$10 billion over the same period. During the last recession, large-scale angel & seed investment was relatively nascent, which helped prevent a decline in angel & seed deal counts like what we observed for the early and late stages. Growth of angel & seed deals reached its

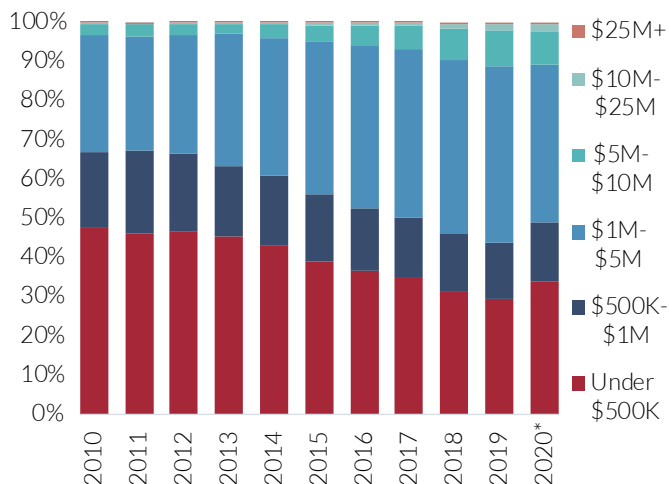
peak in 2015 when more than 5,800 deals were completed. And though deal count for the stage has since declined, angel & seed financings have continued at a pace of roughly 5,000 each year for the past four years.

While the novel coronavirus has sent shockwaves through many areas of the economy, we have yet to see its full effect on VC deal activity. Angel & seed deal count during Q1 2020 has come in relatively

unchanged compared to 2019, with nearly 1,000 deals completed, and more that will be captured over the coming quarters due to the lag in announcements of these deals. Though the state of angel & seed investing is much different than the last financial crisis, the overall growth that angel & seed experienced during those macroeconomic woes could provide a glimpse into how early investors might approach investing in the current environment. The long-term illiquidity that

Deal sizes show shift in pattern

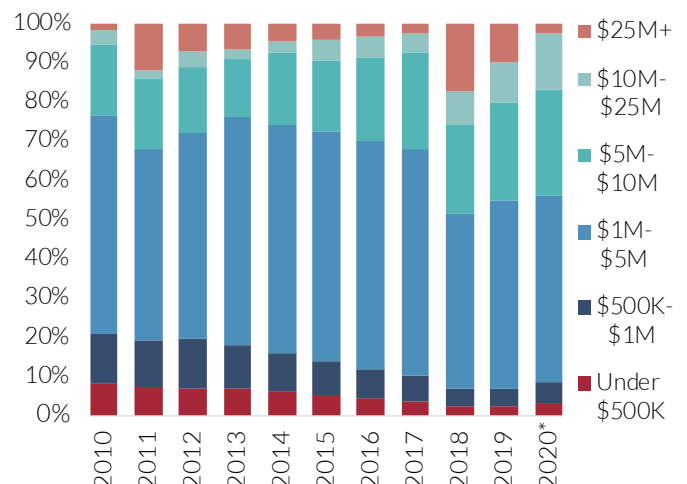
US angel & seed deals (#) by size



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Smaller deals make up growing proportion

US angel & seed deals (\$) by size



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

comes with angel & seed investment is outweighed by the potential windfalls that come with great investments at the stage, and an increasingly active secondaries market over the past few years has further alleviated illiquidity pressures.

Another major shift angel & seed investing has seen since the GFC is an enormous growth in deal sizes, which occurred for several reasons. First, as we have often mentioned, companies are beginning to look for this form of capital later in their lifecycle. In Q1 2020, the median age of companies raising angel rounds reached 3.2 years, and completed seed deals hit 2.9 years, the highest figure tracked for each investment type. Immediately after the GFC, the median age of companies raising seed deals stood at just one year from founding.

Another factor for the boost in deal sizes has been the increase in larger institutions vying for seed deals. While many investors are somewhat formulaic in their approach to the seed stage because financial metrics are less robust, the median fund size has grown consistently in recent years, and the overall larger pool of assets has allowed firms to provide larger checks to companies at a stage that would have previously been too risky. This trend has increased the median seed deal size from \$500,000 in 2011—the last year that angel and seed deal sizes were equal—to \$2.5 million during Q1 2020. The median angel deal size has increased to \$540,000

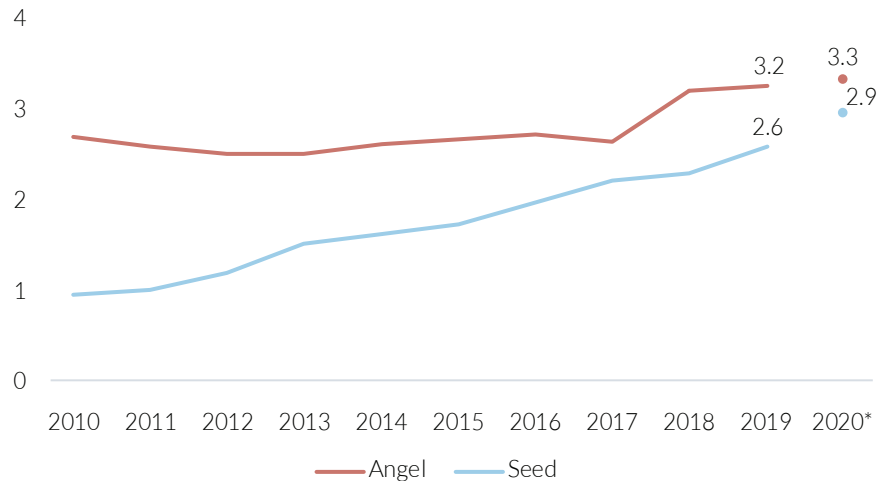
over that same timespan, a relatively flat growth trajectory in comparison.

This bifurcation of median angel and seed deal sizes demonstrates how the increased institutionalization of seed has caused a dramatic divergence between angel and seed deals, which we expect to continue both during and after the current pandemic-induced crisis passes. In fact, the institutionalization of seed could help these deals be even more resilient, as angels investing their own capital are exposed to fluctuations across their wealth portfolio.

Further, alternative financing options continue to expand for young companies, which should continue to push seed deals later in the venture lifecycle. At the same time, the relatively low prices of these deals can offer larger investors a risk-adjusted return that should help sustain their seed deal flow. One challenge for larger firms can be sourcing deals at this most nascent stage, which is more local network-oriented than later stages. In the long term, the use of angel investors as scouts to find talented founders and businesses will continue to be a link between angel and seed deals, even as the two investment stages continue to diverge.

Companies operate without VC for longer

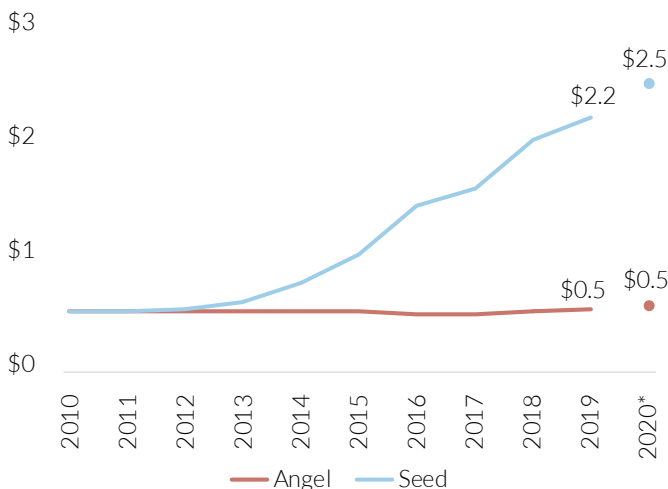
US VC median age (years) of companies



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Angel and seed deals continue divergence

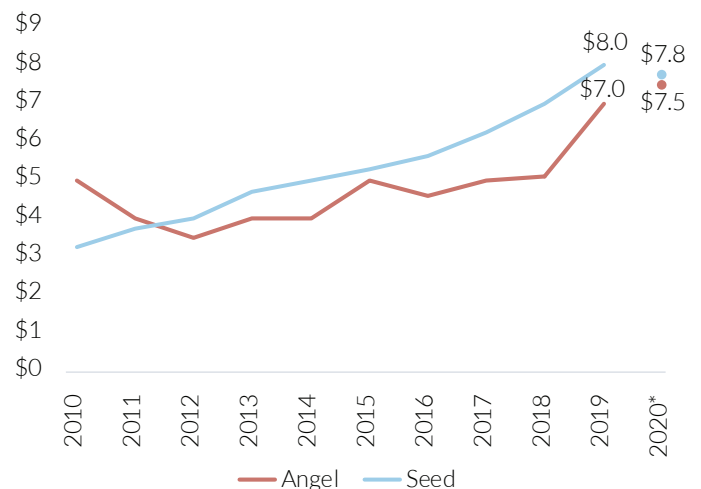
Median US VC angel & seed deal size (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Valuations remain elevated

Median US VC angel & seed pre-money valuations (\$M)

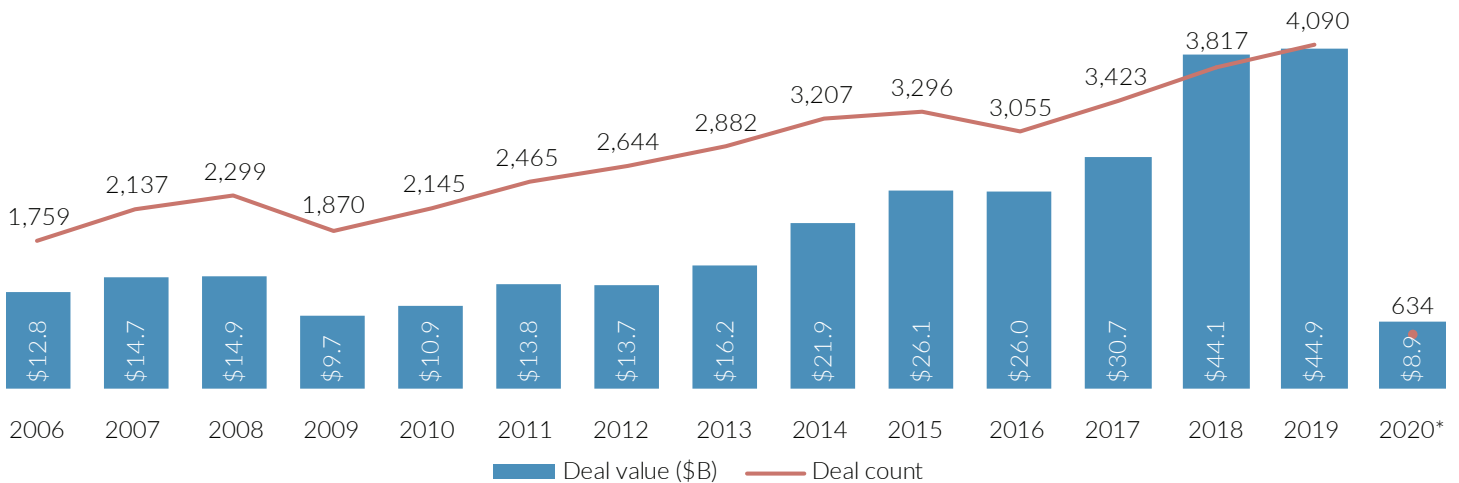


PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Early-stage VC

Early-stage VC deals remain strong, but record-setting trend unlikely to continue

US early-stage VC deal activity

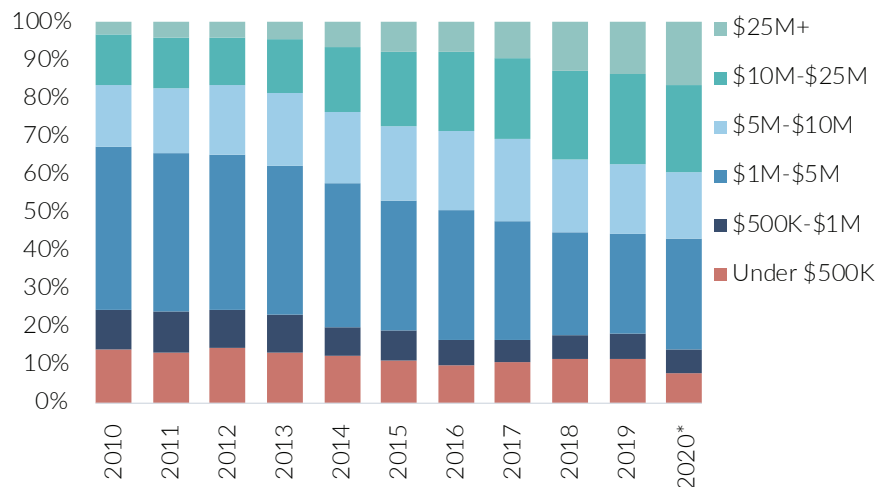


PitchBook-NVCA Venture Monitor
*As of March 31, 2020

The early stage saw strong capital investment in Q1 2020, with \$8.9 billion invested across 634 deals, continuing a decade-long rise that seems primed to subside due to the fallout from COVID-19. The record-high levels of capital raised by VC funds in 2018 and 2019 have been steadily pouring into early-stage startups, as companies continued to enjoy frothy valuations and deal terms largely favoring entrepreneurs until the fallout from the coronavirus began to alter the financing landscape. In Q1 2020, the median early-stage deal size hit an all-time high of \$6.7 million thanks to a record proportion of deals exceeding \$10 million, comprising almost 40% of all early-stage VC deals and making up nearly 90% of early-stage VC invested. Similarly, the number of deals exceeding \$25 million reached an all-time high in the quarter—comprising 16.4% of all early-stage VC deals—whereas this proportion didn't even eclipse 10% of deals just three years back.

Proportion of early-stage deals exceeding \$10M reaches all-time high

US early-stage VC deals (#) by size



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

The largest early-stage deal of Q1 2020 was a \$750 million check to Quibi, a short-form mobile video platform that went live as the quarter ended. While this VC mega-

deal is magnitudes larger than the median early-stage deal, this investment in Quibi is a testament to the amount of capital available and further exemplifies investors' recent willingness to fund capital-intensive startups that can generate outsized returns. To note, investors in Q1 did not shy away from businesses like these, as is evidenced by the large proportion of deals in other capital-intensive industries—over 50% of the top 25 largest early-stage deals in Q1 were in pharma & biotech startups, an industry not unlike multimedia with low success rates, stiff competition and high burn rates. Many of the VC market dynamics that have supported large deal sizes (i.e. more mature startups, high capital availability) persist in the market today, but recent macroeconomic realities and widespread market volatility will weigh on dealmaking, suppressing deal valuations and shifting terms in favor of investors for the first time in years.

The median pre-money valuation of early-stage VC deals reached an all-time high of \$29.4 million in Q1 2020, continuing the strong growth that early-stage VC pre-money valuations have experienced over the last three years. In fact, the last three years' median pre-money valuations have

experienced the strongest annual growth rates as deal terms have favored startups amid an influx of VC in the industry. Given this steep runup in valuations combined with the ongoing economic downturn, a reversion seems likely to occur in the coming quarters, which could leave startups that previously raised at lofty valuations in a bind.

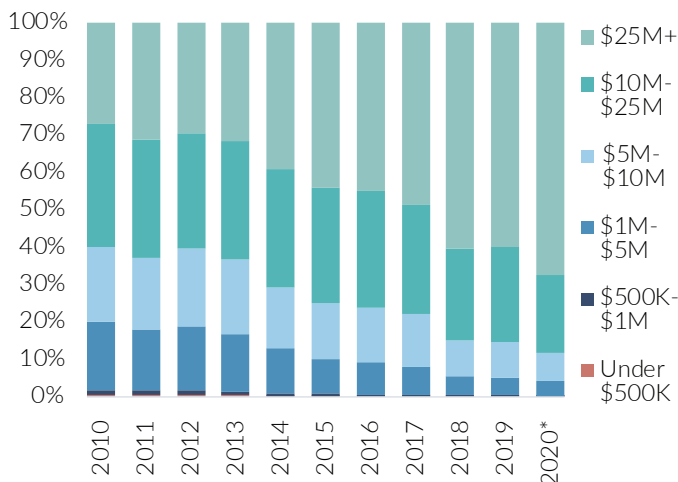
Higher valuations may seem like an unmitigated positive when the round is raised, but a richer valuation comes with heightened expectations. Investors are already raising their standards in diligence, and startups will have more difficulty hitting both financial and product milestones given ongoing business disruptions. These numbers will almost certainly be affected by COVID-19 and the current economic climate, as investors focus their efforts internally on existing portfolio companies both operationally and financially. [Previous analysis by PitchBook](#) showed that the time between venture rounds increased during the financial crisis of 2007 and 2008, with marked decreases to the rolling four-quarter median pre-money valuations of early-stage companies in the years that followed. This highlights a need for the scrutiny that will be placed on a company's

burn rates and financials over the coming months. It also remains to be seen how many new deals will be signed in the next few quarters as the uncertainty of [COVID-19's effect on the US venture landscape](#) continues to grow.

Early-stage valuations are typically less susceptible to market forces given their distance from the public market; however, this doesn't mean that the private markets have been immune to the extreme market volatility of the past few weeks. The current economic climate is influencing early-stage VC-backed companies to varying degrees of severity, with some industry sectors (i.e. travel, hospitality, mobility tech, real estate) being directly affected while others are managing logistical challenges. Startups with high burn rates and capital-intensive business models are being pressured into budget cuts and employee layoffs, leading to a swift and disproportionate impact on the valuations and long-term survivability of early-stage companies. Even for areas where the current situation has benefitted businesses, such as telecommunication and e-learning, it is difficult to characterize the recent turmoil in a positive light as shifts in the venture landscape continue to manifest.

Nearly 90% of early-stage VC raised came from deals exceeding \$10M in size

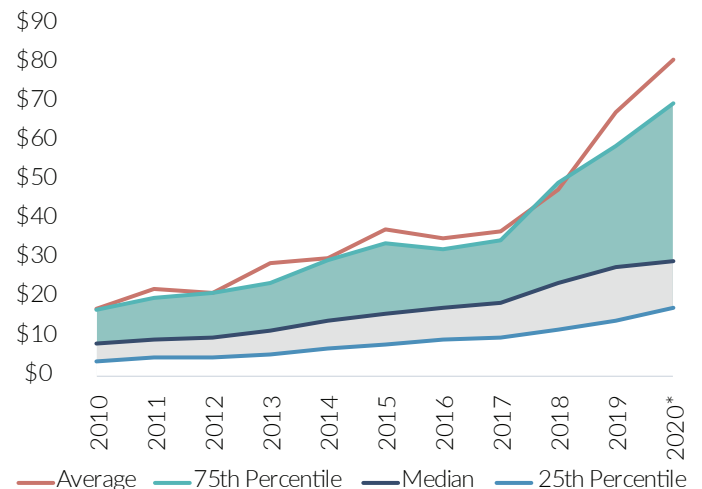
US early-stage VC deals (\$B) by size



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Median early-stage pre-money valuation continues to reach new heights

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



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Late-stage VC

Late-stage deal count reached a new record in 2019, capping a 10-year run that doubled deal count and saw over \$80 billion invested into the stage during each of the past two years. That momentum carried into 2020; while deal count was slightly down in Q1, deal value has already surpassed \$23 billion. Boosting those numbers are the 49 late-stage VC mega-deals (\$100 million+) that have been closed YTD. However, these deals were likely in the making for months. So, while 2020 is well on track to reach figures posted from the past two years, we expect economic headwinds will curtail activity to some extent over the next couple quarters.

One aspect of the stage's growth that could be a victim of the crisis is the massive surge in valuations that has been realized in the past decade. Deal valuations at the late stage have increased almost continuously in recent years, with the median pre-money valuation reaching \$80 million in 2019. However, concerns about the overextension of valuations have been clouding the industry for several years. The quick contraction of public markets due to the uncertainty of the current crisis will be felt by late-stage companies that often use comparable public companies to gauge pricing for their rounds. If or when these late-stage companies raise

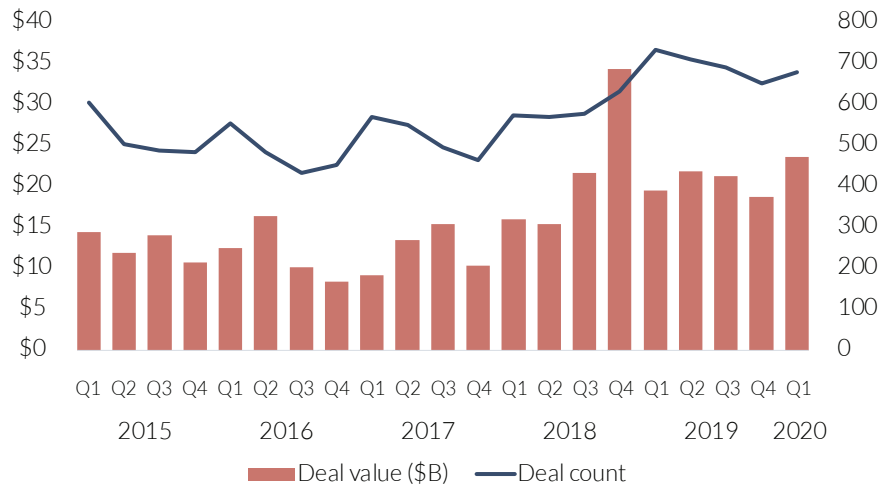
capital again, lower public comps will put downward pressure on valuations. As such, we expect companies to seek out debt and other sources of financing to avoid raising a down round. While the past decade has seen a steady decline in down rounds, culminating in a figure of just 11.7% of late-stage VC deals pricing at a down valuation during 2019, the current environment figures will likely see that percentage rise dramatically. Down rounds

can be devastating to founders and early investors by diluting the cap table if sufficient protections are not in place, but in many cases there may be no other option if the company remains reliant on raising additional capital to continue operations.

As the economy moves toward a recession, GPs are likely to focus on supporting existing portfolio companies and their capital needs.

Unexpected growth in quarterly figures

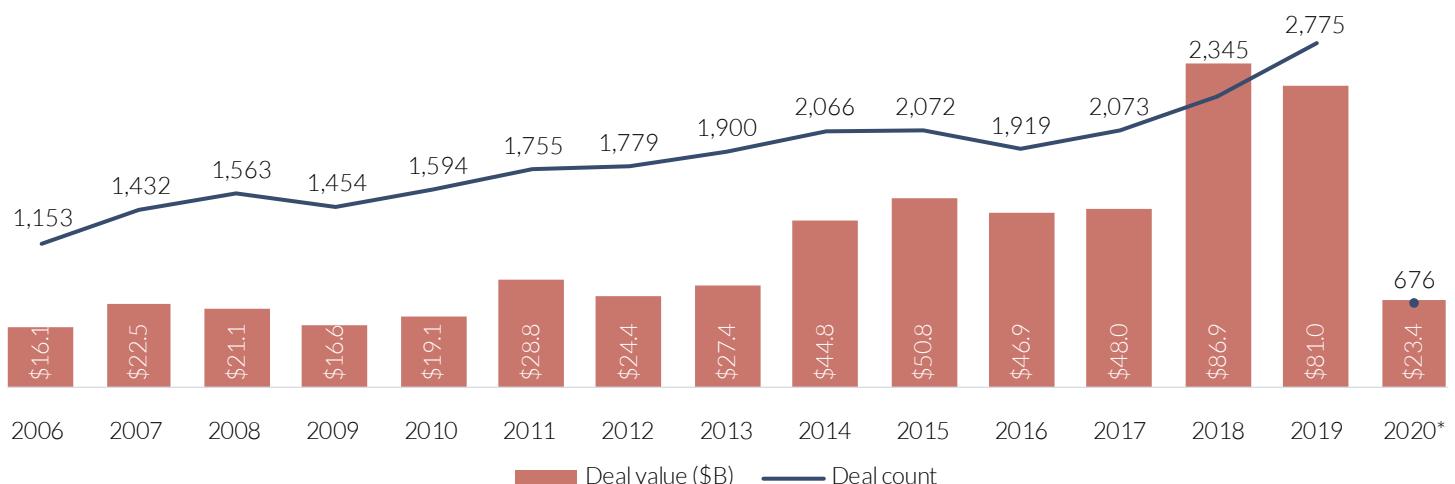
US VC late-stage deal activity by quarter



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Late-stage activity starts off year strong

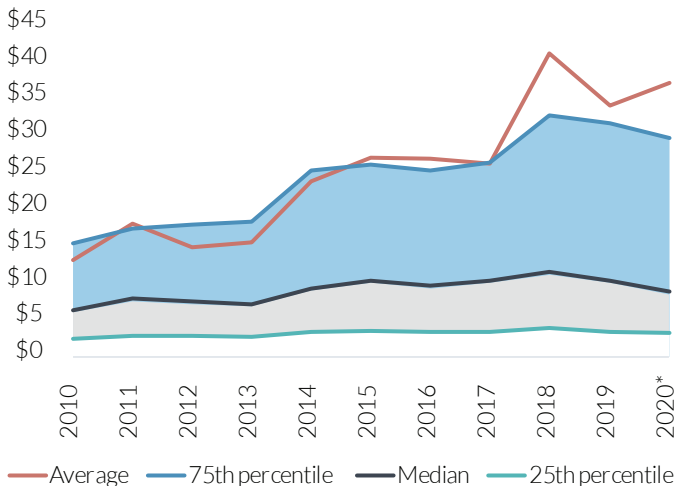
US VC late-stage deal activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

While average grows, quartiles slide

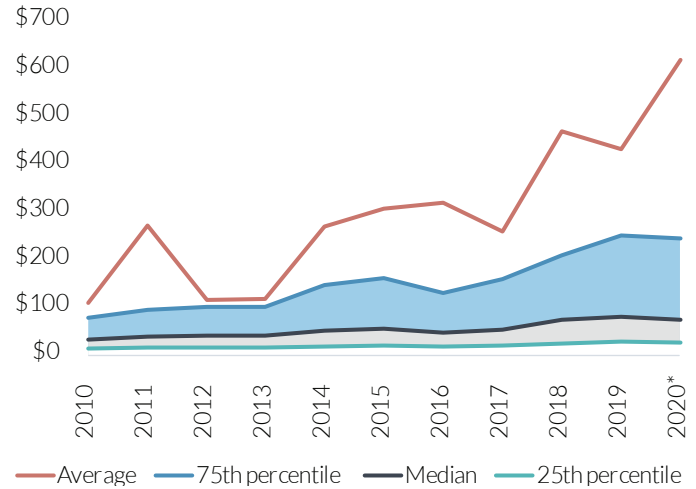
Quartile distribution of US early-stage VC deal sizes (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Outsized rounds skyrocket average valuation

Quartile distribution of median US late-stage VC pre-money valuations (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

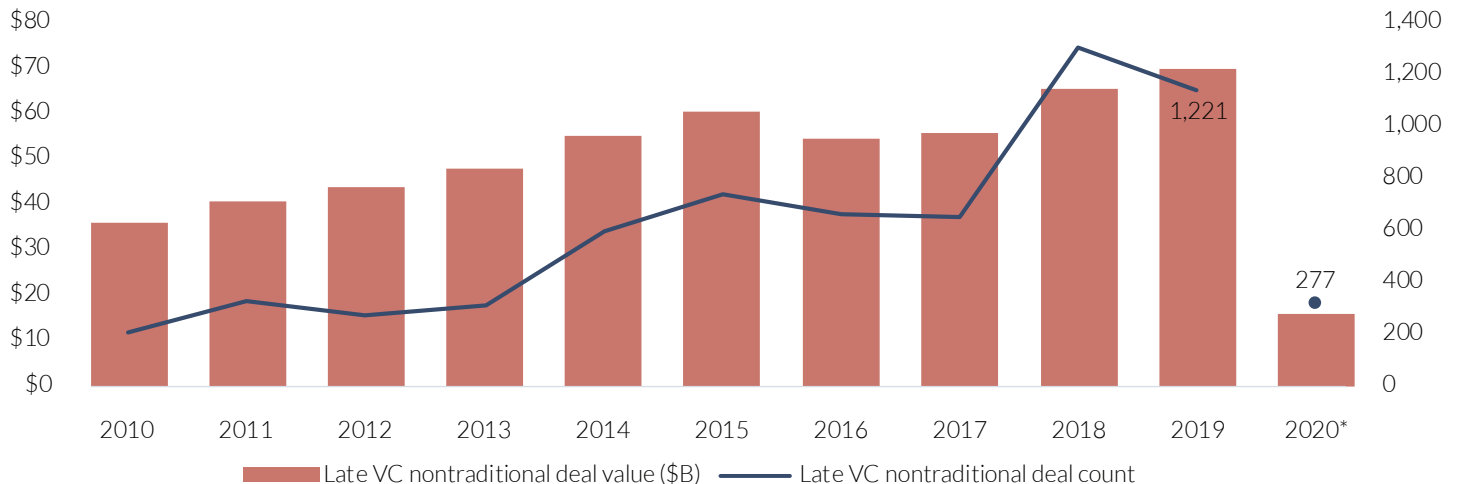
This will put strain on late-stage fund reserves, as recent VC funds have been deploying capital at a historically rapid pace. In addition, GPs may be forced to decide which portfolio companies to rescue and which to move on from prematurely. Although US VC dry powder sat at a record \$121 billion as of mid-year 2019, suggesting that there is plenty of capital available for firms to weather the storm, VC firms will need to evaluate situations on an individual basis as differing aspects, such as sector focus, will largely determine their ability to support portfolio companies.

Nontraditional investors have been a large part of the late-stage market over the past few years, helping finance outsized deals and pre-IPO financings. These investors are another piece of the late-stage market we will be watching as the crisis evolves. For the year to date, VC mega-rounds that rely on the large pools of capital nontraditionals bring have moved along steadily. But if these deals are to continue along at a similar pace, nontraditional investors will need to stay active in venture. For some, this may not be a problem. As capital has moved toward the private markets in the past few years, hedge

funds and mutual funds have followed suit to diversify into private deals. Even large venture deals bring up exposure of these funds to VC only nominally. If VC-backed companies continue to push out exits and IPOs dry up, asset managers may look to continue private investment to take stakes in growth companies. Further, the maturation of venture over the past decade has made allocation by nontraditional investors more a necessity than a one-off addition to a portfolio. Because of this, we believe that a decline in nontraditional investment will largely mirror any decline seen across the broader venture industry.

Nontraditional activity has underpinned late-stage figures

US late-stage VC deal activity with nontraditional investor participation



PitchBook-NVCA Venture Monitor
*As of March 31, 2020



Shape the
future of
the venture
industry
with NVCA

Join us!

ADVOCACY | COMMUNITY & EDUCATION | RESEARCH

nvca

Please contact NVCA with
your membership queries at
membership@nvca.org or 202.864.5918

nvca.org



Together, we're stronger

At this unprecedented time, SVB has partnered with Founders Pledge to establish the COVID-19 Global Impact & Innovation Fund to help slow the spread of the COVID-19 virus, support a robust medical response, and provide financial relief to those impacted. SVB is making an initial \$1 million investment to fund this critical work, and we invite you to join us.

About Founders Pledge

Founders Pledge is a global nonprofit organization that empowers entrepreneurs to do immense good. It offers evidence-led charity research, streamlined giving infrastructure, and a community of mission-aligned peers and impact experts. Spanning 1,400 members across 34 countries, it includes the leaders behind some of the world's most innovative companies.

Learn more at svb.com/covid-relief

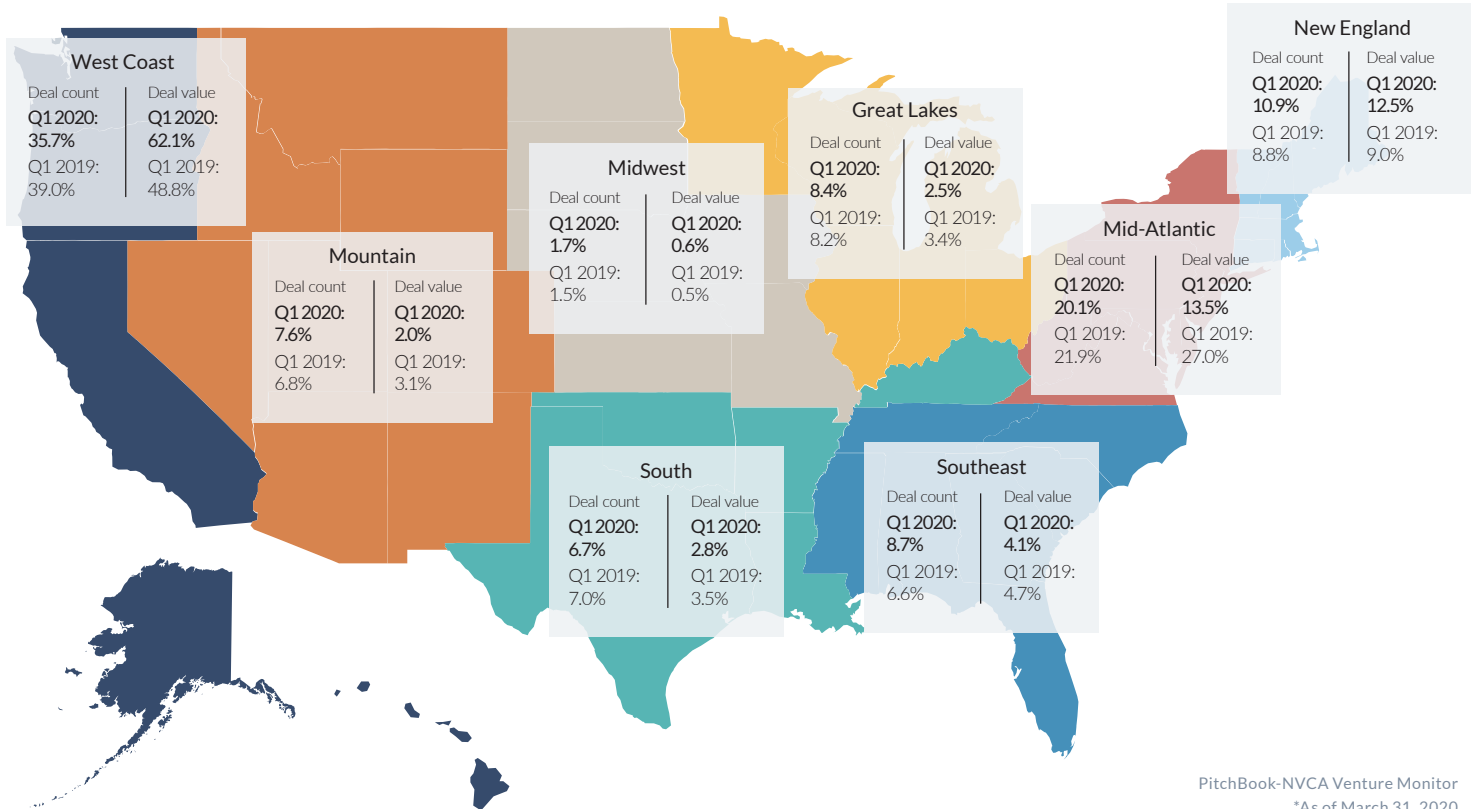
Donate at founderspledge.com/svb-covid-19

©2020 SVB Financial Group. All rights reserved. SVB, SVB FINANCIAL GROUP, SILICON VALLEY BANK, MAKE NEXT HAPPEN NOW, and the chevron device are registered trademarks of SVB Financial Group, used under license. Banking services provided by Silicon Valley Bank, a member of the FDIC and of the Federal Reserve System. Silicon Valley Bank is the California bank subsidiary of SVB Financial Group (Nasdaq: SIVB). Founders Pledge is an independent third party company and is unaffiliated with SVB Financial Group or any of its affiliates.

Deals by region

West Coast proportion of deal count drops to decade low

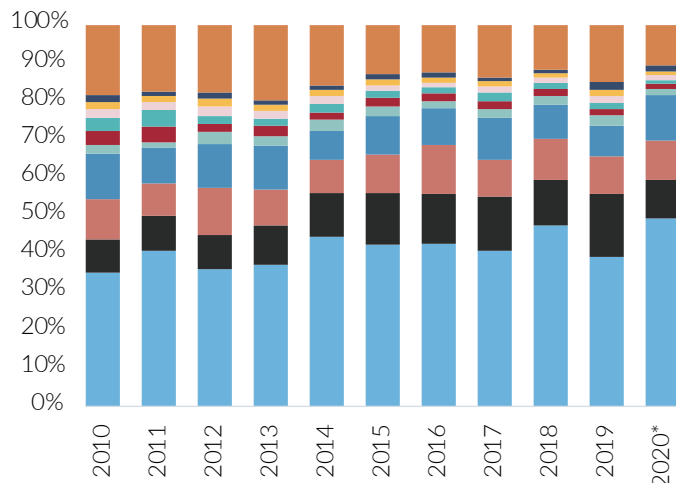
US VC deal activity by region



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

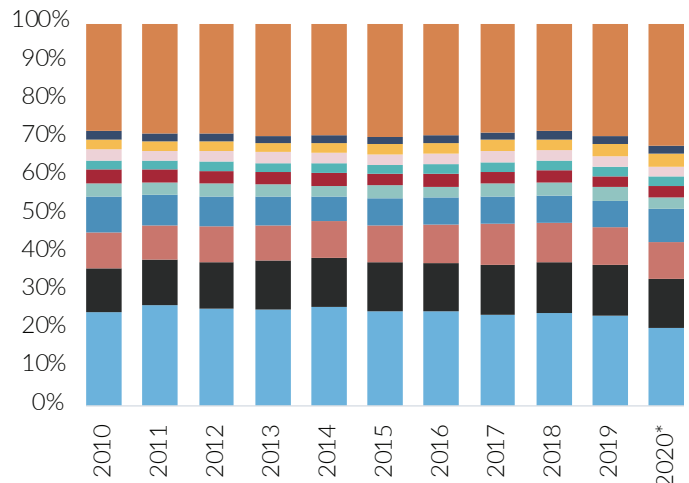
Bay Area deal value proportion nears 50%

US VC deals (\$) by CSA



Deal count outside of hub ecosystems resilient in Q1

US VC deals (#) by CSA



Other Philadelphia Denver San Antonio Chicago
Washington, DC Seattle Boston Los Angeles New York Bay Area

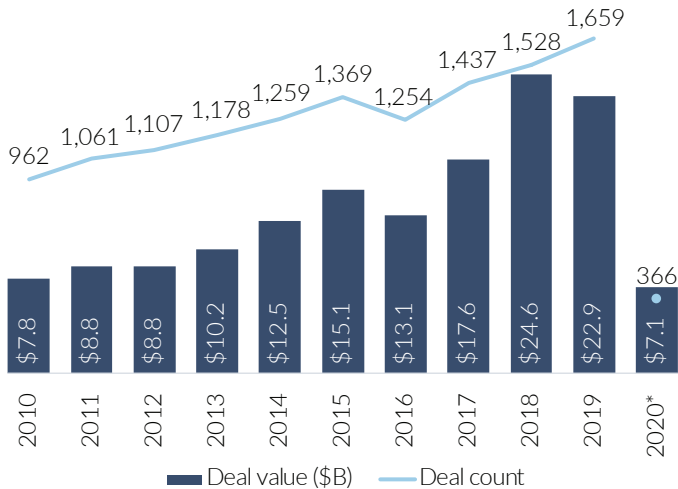
PitchBook-NVCA Venture Monitor
*As of March 31, 2020

PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Deals by sector: Life sciences

Life sciences maintained recent trajectory in Q1

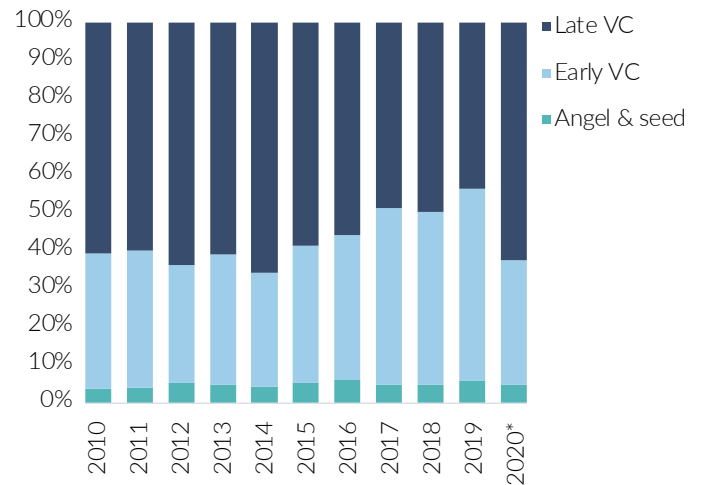
US VC Life sciences deal activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Later-stage deals accounted for more than 60% of life sciences deal value

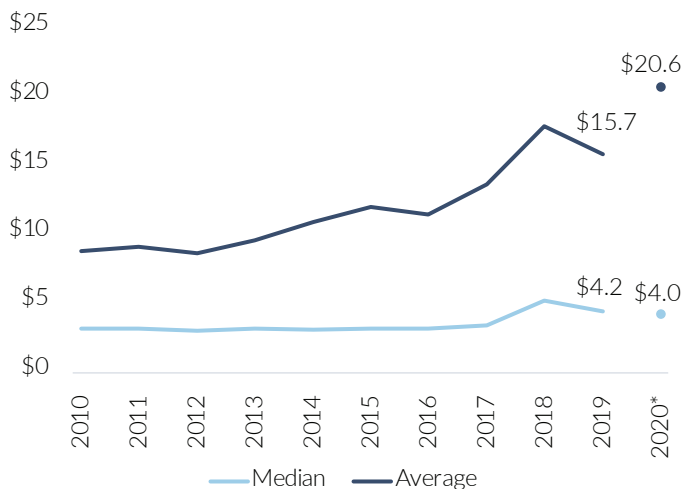
US VC life sciences deals (\$) by stage



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Oversized deals proliferate as average spikes while median slides

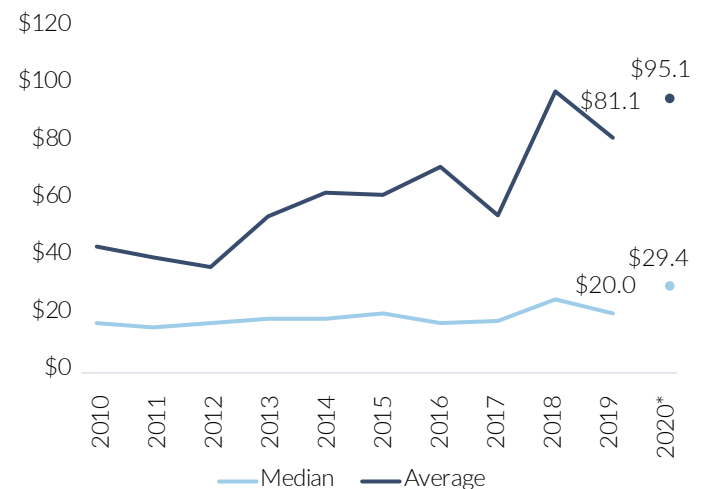
Median and average US VC life sciences deal sizes (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Steady increases to life sciences pre-money valuations as the life sciences sector booms

Median and average US VC life sciences pre-money valuations (\$M)

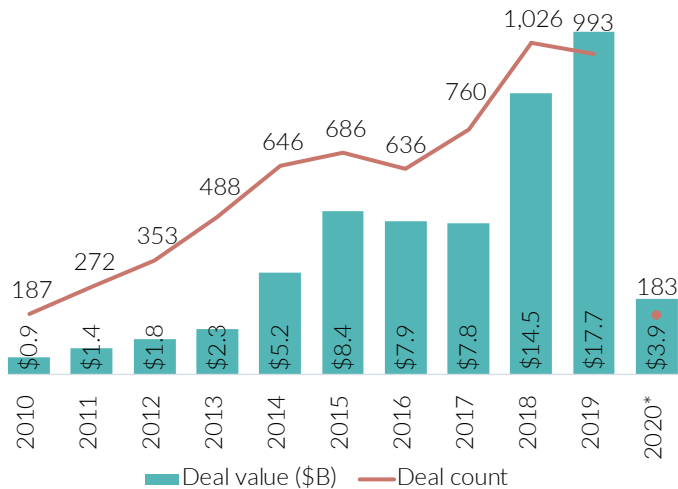


PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Deals by sector: Fintech

Q1 fintech funding on pace with record levels observed in the last two years

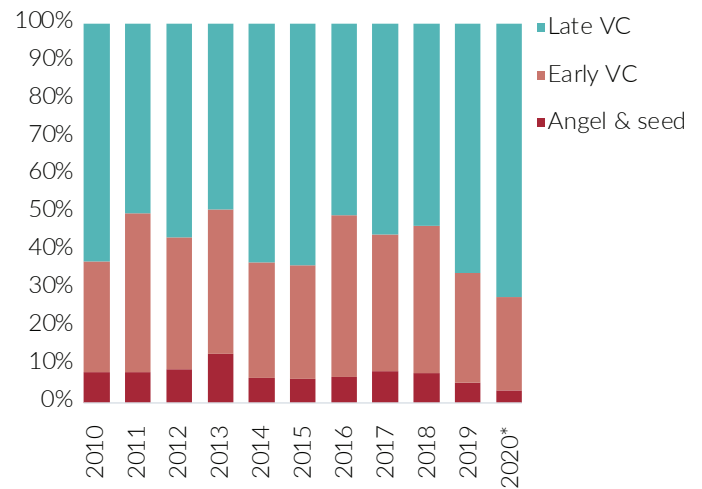
Fintech US VC deal activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Fintech dealmaking continues to concentrate in the later stage

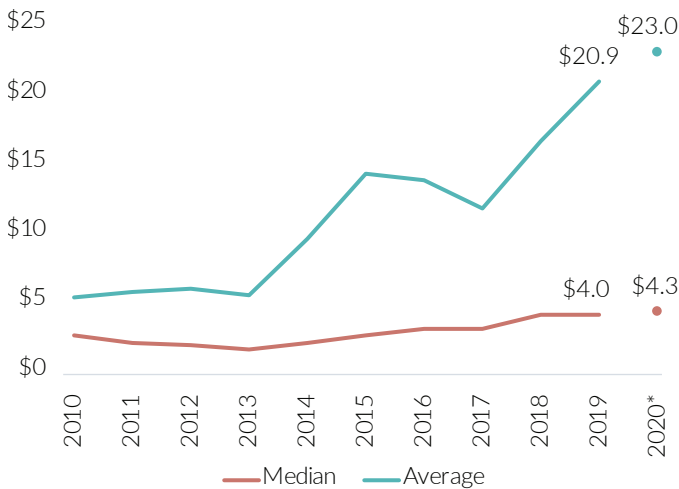
Fintech US VC deals (\$) by stage



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Average fintech deal sizes continue to skyrocket as median stays relatively steady

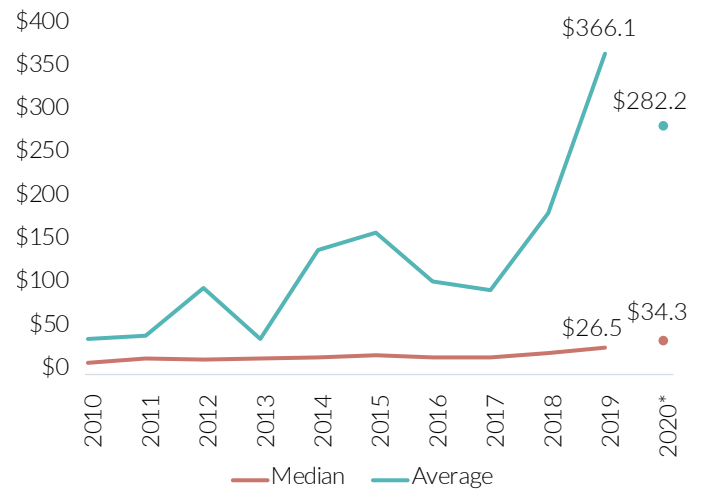
Median and average fintech US VC deal sizes (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Fewer fintech mega-deals lead to drop in average pre-money valuation

Median and average fintech US VC pre-money valuations (\$M)

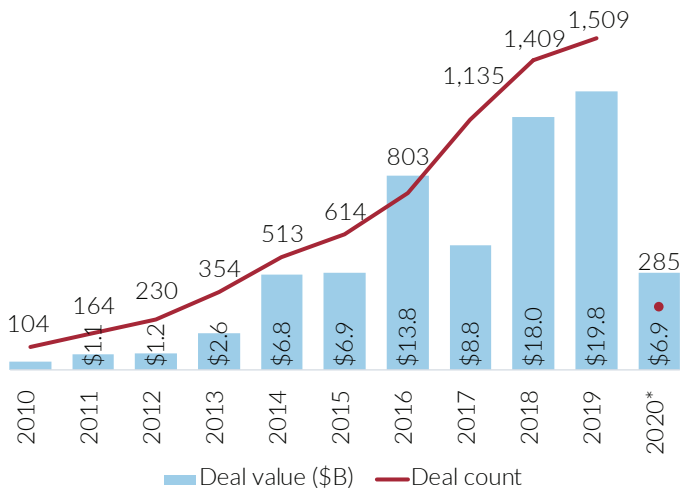


PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Deals by sector: AI & ML

AI funding shows continued strength in Q1

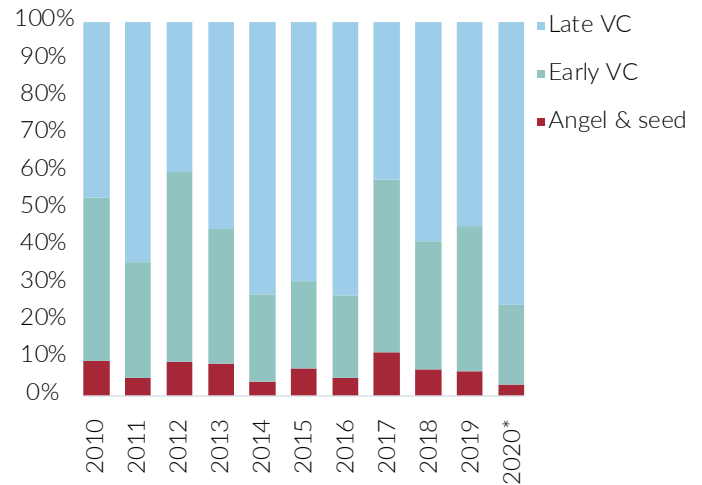
AI & ML US VC deal activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Capital flows disproportionately into large late-stage deals

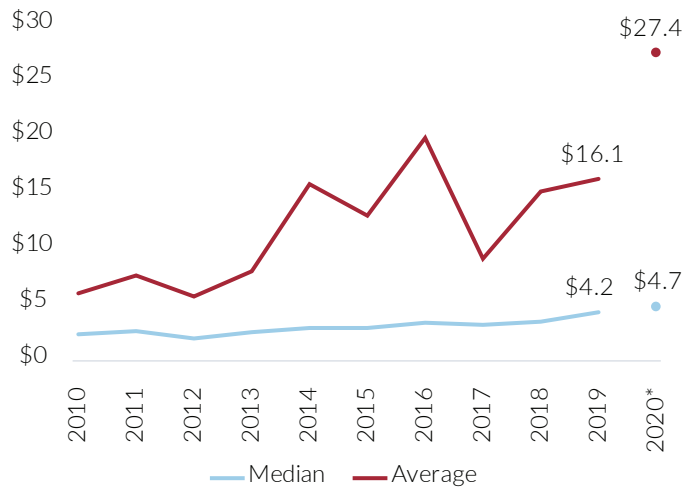
AI & ML US VC deals (\$) by stage



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Deal sizes sustain their growth

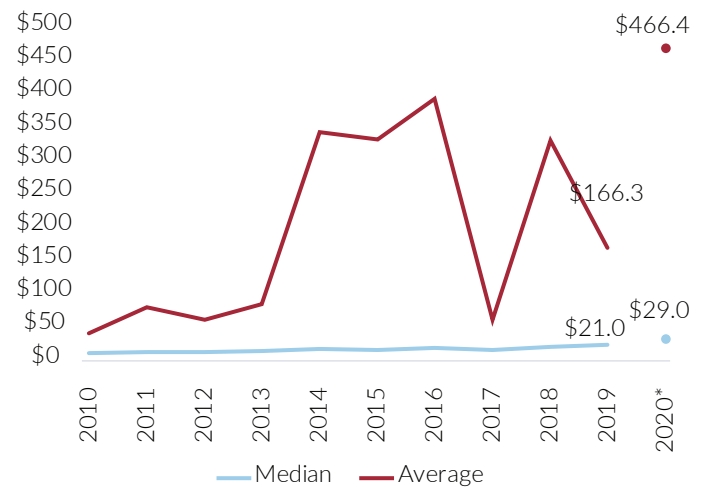
Median and average AI & ML US VC deal sizes (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Nearly 40% increase in median valuations over 2019

Median and average AI & ML US VC pre-money valuations (\$M)

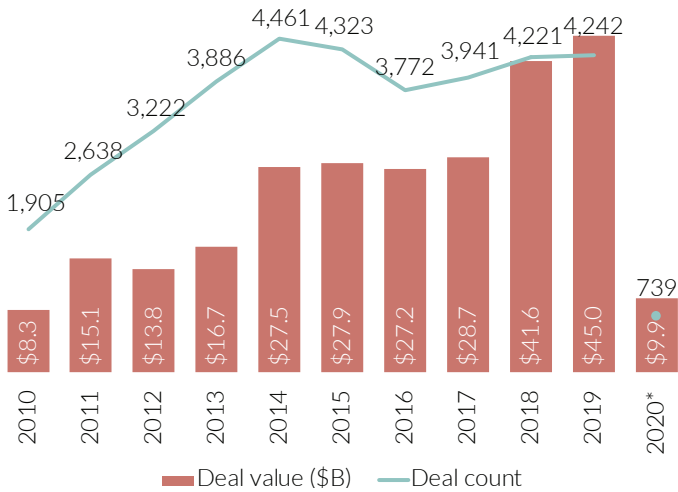


PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Deals by sector: Software

Deal activity in line with last two years' pace

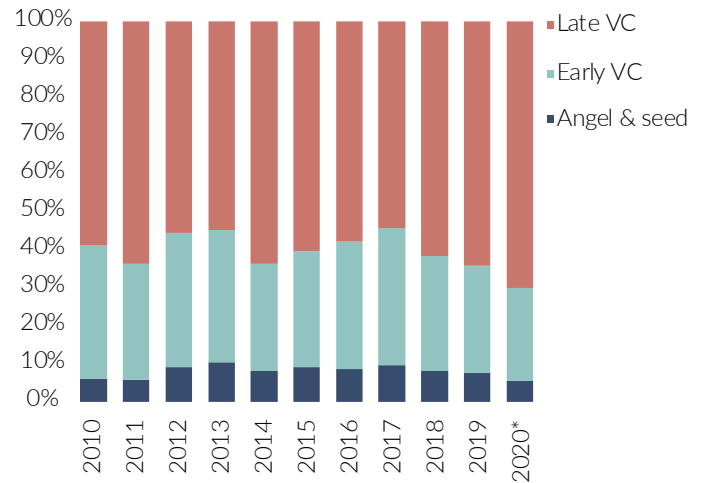
Software US VC deal activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Late-stage takes greater share of the dollars for the third consecutive year

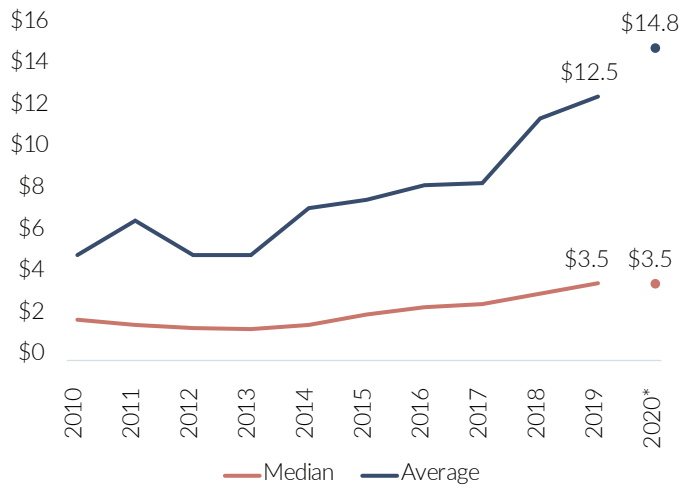
Software US VC deals (\$) by stage



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Median deal sizes plateau

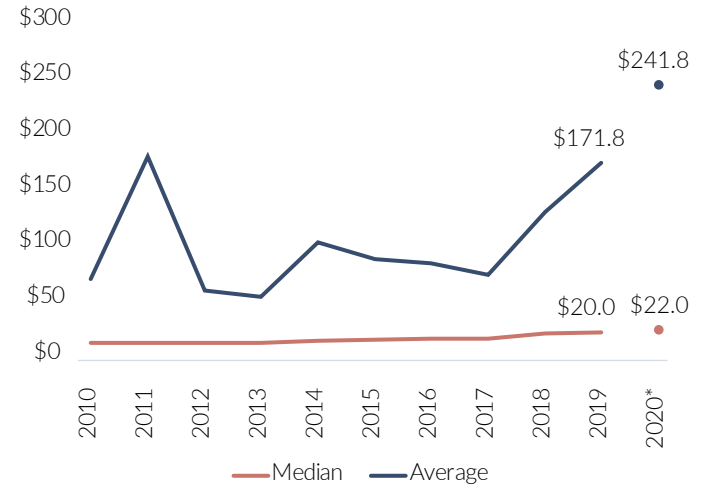
Median and average software US VC deal sizes (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Valuation growth shows acceleration thus far

Median and average software US VC pre-money valuations (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

SVB: Time to rationalize and reset plans

Q&A with Brenda Santoro, Head of Global Trade Finance, Silicon Valley Bank

The tail end of Q1 was a roller coaster ride. Below, Brenda Santoro provides a deep dive on what we're seeing. With insight from Katherine Andersen, head of life science and healthcare relationship management, Santoro weighs in on how the healthcare industry is mobilizing to create solutions for COVID-19.

What is it like to be on the front lines at SVB given its client base?

While the suddenness and depth of the global COVID-19 crisis is unmatched, SVB remains focused on the health and safety of our employees and serving our clients seamlessly throughout this volatile time. What matters to us is being a partner to our clients, listening to their needs and being flexible with our solutions, both with scalable solutions and on a case-by-case basis. We are strong advocates for innovators; we work with the National Venture Capital Association, TechNet and others to ensure startups can access critical government programs. Because of our strong financial position, we are able to help ease some of the financial pressures our clients are facing and continue to invest for future growth.

How are you advising companies to withstand these turbulent times?

Innovators are flexible and adaptable by nature, and none of us can really know how this cycle will turn out. Companies should develop a base-case scenario to calculate their cash-need projections as best they can. In consultation with their investors and financial and legal partners, companies should look for ways to extend their runway, defer expenses and act quickly to evaluate—and apply for—relief programs offered by their financial partners and the government.

SVB is offering a venture debt principal deferral program that is intended to defer principal payments for six months for venture debt borrowers across our global client base.

For more information about SVB and our involvement in government COVID-19 relief programs, visit SVB COVID-19 Response & Community Support at www.svb.com.

Given the bank's long experience in up and down cycles, what observations can you make at this point?

There is nothing conventional about what we're going through, so it is hard to generalize. From a macro view, we're coming off one of the most liquid decades in history when you look at how much has been raised by companies and VC and PE firms.

While the innovation ecosystem in aggregate was well capitalized going into this market contraction, the quick onset of this financial event and near-halt of capital flows are prompting everyone to rationalize business expenses and rethink 2020 and beyond. There remains a lot of capital to be deployed, but there will likely be a period of price discovery before we see capital flow again.

From a global perspective, how might this shift the innovation economy?

The financial distress is global, and likely will lead to a shift in how and where companies do business and fast-track some changes that were already underway. There are some trends to watch:

- Tariffs had already pushed many companies to locate other sources for products. COVID-19 is accelerating this and will prompt many companies to reevaluate their supply chains with the goal of diversifying risk to achieve more stable and cost-effective solutions, including increasing reliance on US-based sources. Supply chains are highly complex, interconnected networks and changes may occur more slowly for multinational companies, but smaller companies may be able to shift more quickly.
- What's remarkable is how quickly these innovators—from tech and healthcare companies to the worlds of government,



Brenda leads a team that provides expertise and financing to innovation economy clients doing business globally in addition to developing strategies to support client growth and success in these global markets. Brenda also serves on ITAC Committee 10 providing private sector input to White House policies and is a board member of the Bay Area Council and past board member of the British American Business Council. Brenda has served in a number of roles at SVB since joining in 2005. She holds a Master's Degree from the Fletcher School of Law and Diplomacy at Tufts University and speaks French and Dutch.

academia and philanthropy—are collaborating to advance medical treatments and healthcare delivery to address the immediate challenge. When the crisis ends, we can apply these new collaboration models to other tough problems. Leapfrogging to digital has already occurred, especially in emerging markets and populations that may be among the hardest hit by the pandemic impact. Mobile payments and instant microloans, for example, have the potential to extend financial inclusion to those who need it most.

- Trade will certainly be affected for a period of time, but ultimately companies will want to urgently get back to business, working to source and sell globally and ultimately serve their clients worldwide. Global connections will grow not diminish.

What pandemic-related impacts are life science and healthcare companies and investors seeing?

It appears investors are still deploying capital, but we expect we will continue to see a major flight to quality over the coming months. We're also operating in a selective market where good companies will need to be realistic on valuation. The short of it is the worst is still ahead. And the biggest unknown driving all of this volatility is how long the US will be shut down.

We're already seeing disruptions to drug development and delays with clinical trials. Many companies are delaying or suspending clinical trials and allocating resources to other priorities. Every step of the drug development process is being affected—from trial recruitment to the supply chain. The longer we're in this current environment with stay-at-home orders, the higher the potential for significant disruption with lasting impacts. Doctors simply can't prioritize new treatments for their patients, so instead they're keeping with the status quo. We have already seen a huge ramp in demand for telemedicine and virtual care. We expect to continue to see growth in this area.

Elective procedures have become a four-letter word in this environment. While there's currently a general ban on elective procedures, there also isn't much clarity yet on how these companies can come back. Physician practice companies will clearly be hit with a steep drop in elective visits. As

soon as doctors are allowed to do surgeries again, they're going to be working overtime in an attempt to recoup lost income.

Overall, we expect the next couple of quarters will be challenging. We were left at the beginning of March with a number of private companies who were looking to go public. Now, the vast majority are on hold, yet still need capital. As a result, significant consolidation across healthcare is possible.

Many healthcare companies have global partners, investors, licensing agreements and R&D operations. What global opportunities and challenges do you see ahead?

For those US companies with overseas manufacturing in Europe or elsewhere, it's expected that there will be an extended period of disruption. Even if businesses are open, getting people to tend to their manufacturing jobs has been difficult, which creates significant supply challenges. Many companies are unable to make products or import.

Many of us have been looking to China to help determine what might be on the horizon. In spite of businesses and schools being reopened, consumers in China are not back to normal. Notably, the US is more consumer-led than China, which has a heavy manufacturing base. We could very well have an even longer road ahead in the US.

What other COVID-19 responses have you seen that may have a long-lasting impact?

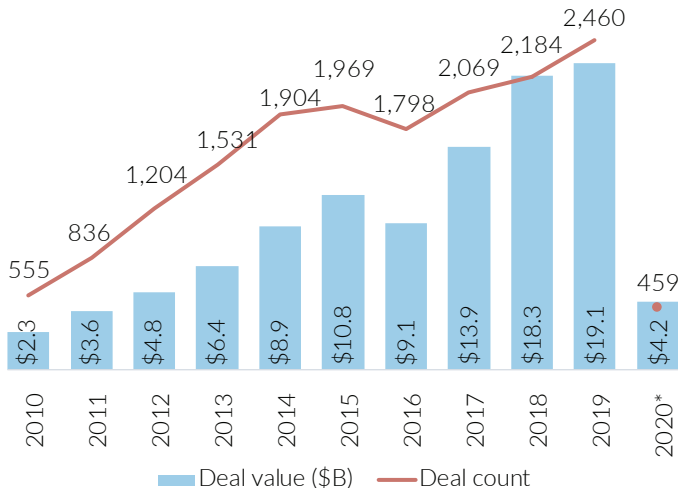
The urgency to find solutions now will set the stage for future rapid innovation. We're seeing real-time pivots daily across the tech landscape: life science firms globally crowdsourcing to find cures, high-tech manufacturers retooling to make life-saving equipment and shared-economy services moving to help students and seniors. Consider how our daily routines now include telemedicine, distance learning and new habits of professional and personal communications.

We also have seen an outpouring of charitable giving. SVB has developed the [COVID-19 Global Impact & Innovation Fund](#) in partnership with Founders Pledge, an innovative global giving platform for founders and entrepreneurs. Working side-by-side with our partners, investors, and innovators, SVB recognizes that together our connected community is stronger, and able to get resources more quickly to high-impact organizations. SVB has made an initial investment of \$1 million to this fund. If you have the desire and the means, we encourage you to give to the relief fund or an organization in your community working for the greater good.

Female founders

Though growing, activity in female-founded companies still small

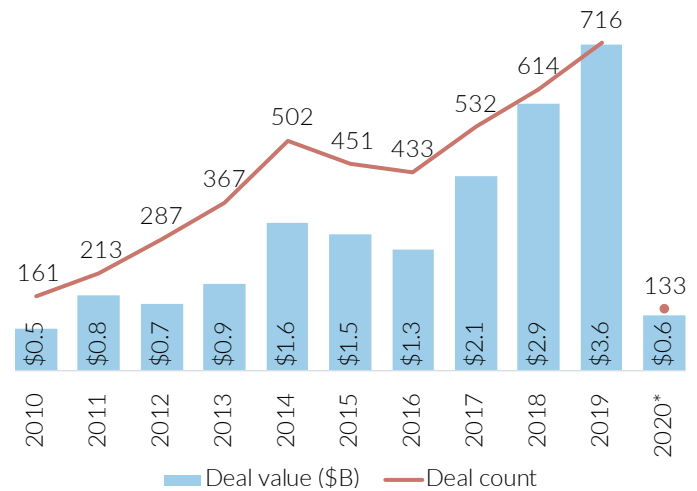
US VC deal activity for female-founded companies



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Deal count into all-female-founded companies has grown 65% in last three years

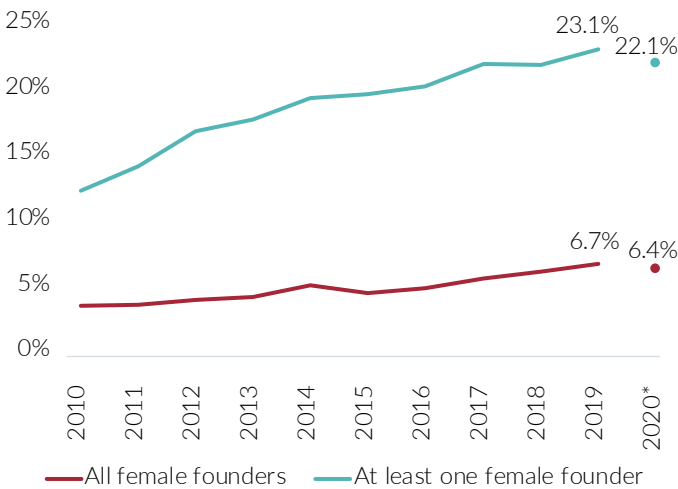
US VC deal activity for companies with all female founders



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Proportion of investment still lagging

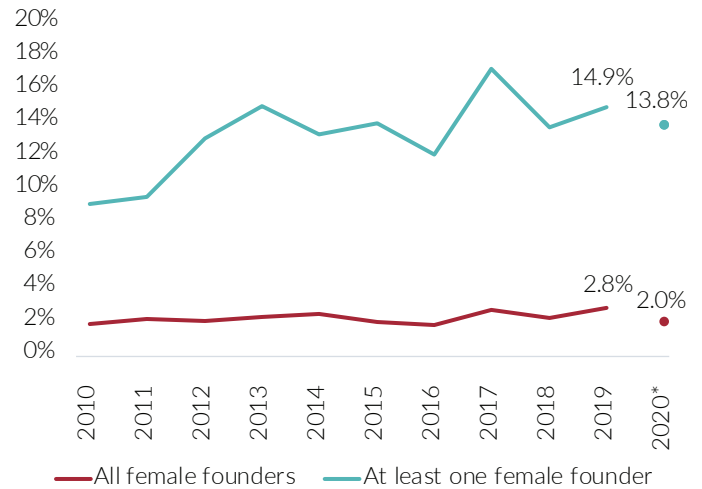
Female-founded companies as a proportion of total US VC deals (#)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Deal value growth slower than deal count

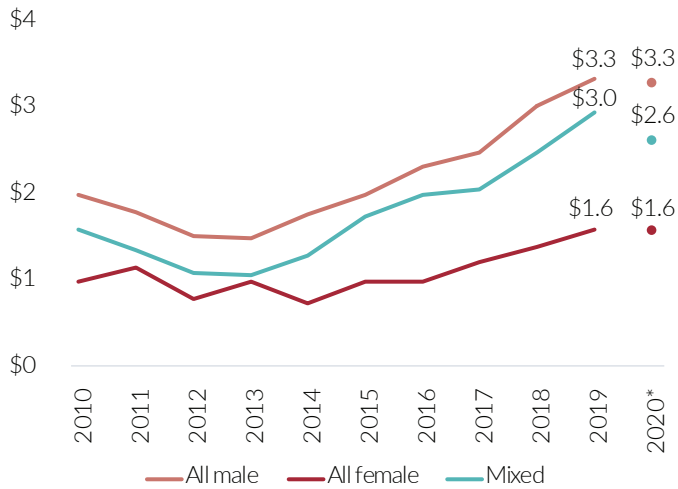
Female-founded companies as a proportion of total US VC deals (\$)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Median deal sizes stall for founders of all genders

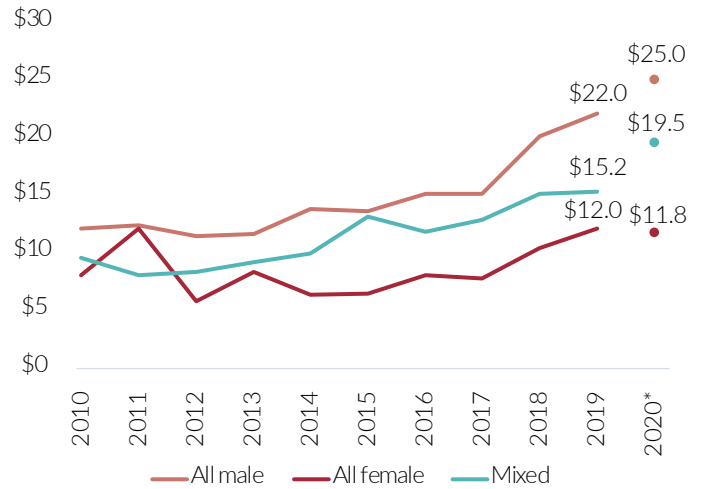
Median US VC deal sizes (\$M) by founder gender



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

All-female founded companies not realizing valuation growth

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



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Top 5 US CSAs by capital raised (\$) for companies with all female founders (2006-2020)*

Combined statistical area	Capital raised (\$B)
Bay Area	\$5.33
New York	\$4.48
Boston	\$1.73
Los Angeles	\$1.65
Raleigh, NC	\$0.56

PitchBook-NVCA Venture Monitor
*As of March 31, 2020

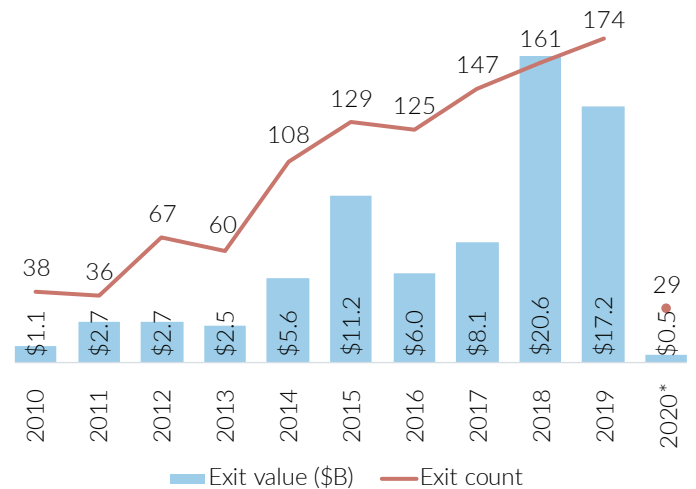
Top 5 US CSAs by deal count (#) for companies with all female founders (2006-2020)*

Combined statistical area	Deal count
New York	979
Bay Area	960
Los Angeles	505
Boston	302
Seattle	196

PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Exit activity has stalled early in 2020

US VC exit activity for female-founded companies



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

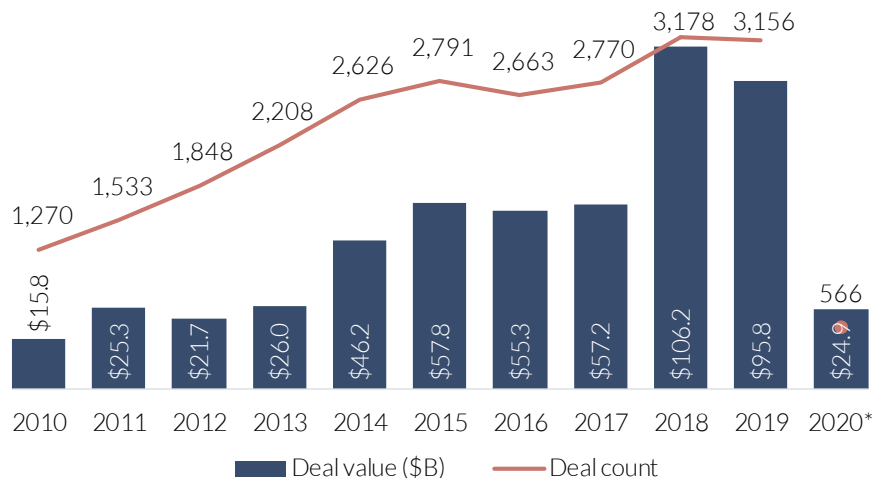
Nontraditional investors

Over the past decade, we have seen high growth in the number of funds and firms adding direct venture to their list of strategies, becoming very prominent figures in the VC mega-deals that have exploded in the age of the unicorn. Over 3,100 deals have included nontraditional investor participation in 2019 and 2018, which combined to represent participation in over \$200 billion worth of VC deal value. We have argued that nontraditional investors have become more entrenched in VC, building more sophisticated venture operations and realizing the diversification benefits that VC offers their portfolio. But market downturns often spur flighty market participants to retract to their classic strategies. Over the next few months, the resolution of nontraditional VC investors will be put to the test, and only when the industry emerges out the other side will we be able to determine the extent to which VC has become a persistent strategy for these investors. While we will see first quarter deal count grow as Q1 deals continue to be announced, nontraditional participation has reached over 500 deals so far, a pace that, if continued, would amount to a full-year decline of around 20% YoY.

While most of the attention on nontraditional investment surrounds ultra-late-stage unicorn deals, the investor cohort has increased activity across all stages. Early-stage dealmaking has outpaced that in the late-stage in recent years. Our data has illustrated that deals with nontraditional investment come in much larger than deals without, in part because nontraditional investors are less price sensitive than traditional VCs due to their size and return profiles. If valuations decline materially in the coming months, the distressed situations of some companies could provide enticing opportunities for investors such as PE firms. The competitiveness of the PE industry has increased prices and lowered returns in recent years, driving funds to look even harder for untapped opportunities to put money to work. A distressed venture market could provide value to PE portfolios that are able to help companies sustain during a downturn and emerge ready for growth when the economy rebounds.

Nontraditional VC activity lags in Q1

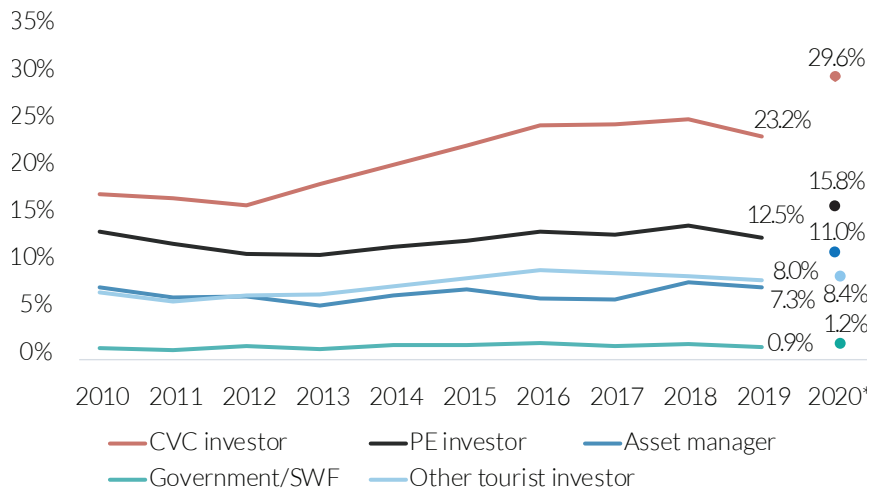
US VC deal activity with nontraditional investor participation



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Momentum keeps nontraditional counts resilient in Q1

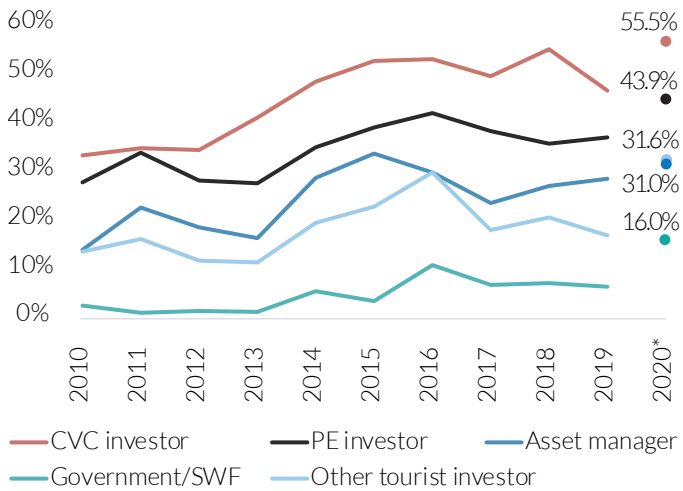
Proportion US capital invested (#) by nontraditional investors by type



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Nontraditional continue strong investment participation

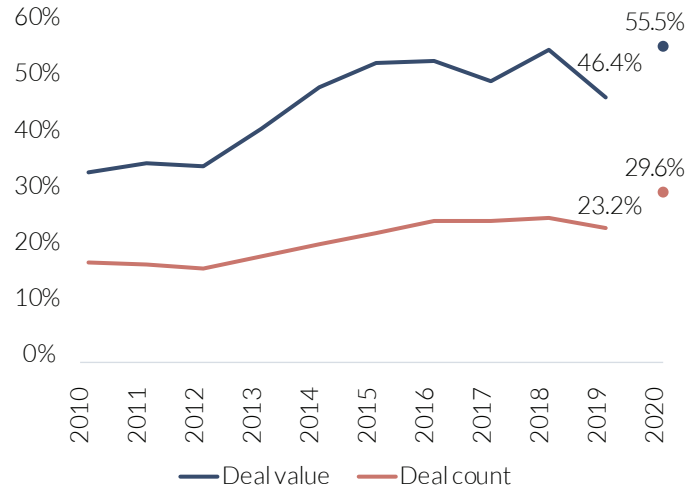
Proportion US VC invested (\$) by nontraditional investors by type



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

CVCs' participation rates continue growth

CVC deal activity as proportion of total VC deal activity

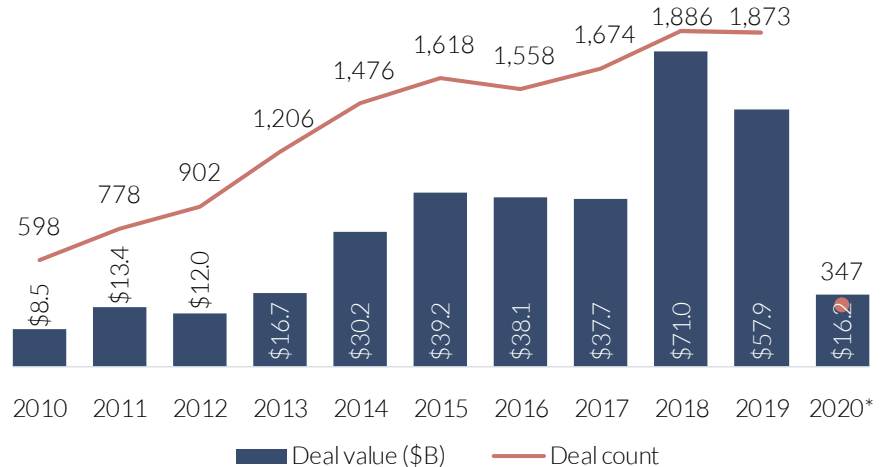


PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Corporate VC's (CVC's) investment scope has differed markedly from other nontraditional investors, focusing more on early-stage deals. The growth in CVC over the past decade has been driven by its inclusion as part of external R&D and growth programs within corporates. CVCs participated in over 23% of all completed deals in 2019, the fourth consecutive year to reach that figure. While that amount doesn't scream growth, CVC has increased its participation rate significantly over the past decade amid a VC industry that has nearly tripled during that time. During an economic crisis, many expect CVCs to retract from venture; this is likely to happen with corporations that have been investing solely off their balance sheet, and that see large declines in revenues and cash piles. However, many CVCs have created investment teams and dedicated capital to startup investment-focused funds in recent years, which we believe will help continue the flow of CVC to startups. During Q1 2020, 29.6% of completed deals we track included participation from a corporate venture arm, the highest percentage in our dataset.

Industry to watch CVC activity in 2020

US VC deal activity with CVC participation



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Carta: The growth of employee equity pools

Stock options are one of the most effective tools for startups to attract the talent they need to grow, and to align long-term incentives between founders, employees, and investors. However, despite their importance, employee option pools at startups were getting smaller during the first half of the 2010s.

But some recent evidence indicates that option pools may in fact be increasing—albeit slowly.

According to our data, employees have some cause for optimism when it comes to securing a greater share of the companies they're helping to build. We'll show how equity pools are growing and discuss what this means for employees and investors. (Additional factors may also be contributing to this result, such as expanded headcounts, extended timelines for liquidity and programs to extend post-termination exercise period. We will explore these in future posts.)

Modest gains

Since 2015, the size of the average employee equity pool at privately held companies with post-money valuations of at least \$1 million has, for the most part, increased gradually each year. But those gains have been modest. For companies with post-money valuations of

less than \$10 million, the average employee option pool grew slowly but steadily, apart from a slight dip from 2015 into 2016.

Three of the six valuation bands—\$10 million-\$50 million, \$50 million-\$100M, and \$500 million-\$1 billion—all saw increases in the average size of total employee option pools between 2015 and 2016, whereas the other three size buckets—less than \$10 million, \$100 million-\$250 million, and \$250 million-\$500 million—saw decreases in the size of employee option pools during the same period.

As we can see, the greatest volatility in the average size of employee option pools occurred across companies with post-money valuations of between \$500 million and \$1 billion. From 2015 to 2016, the average employee option pool at companies of this valuation range saw a significant increase, only to fall between 2016 and 2017. Since then, the average pool has steadily increased. Companies in this valuation size bucket also saw the greatest change in the size of the average employee option pool overall.

What factors affected employee equity pool growth by valuation

This modest increase in employee equity pool size is likely driven by multiple factors.



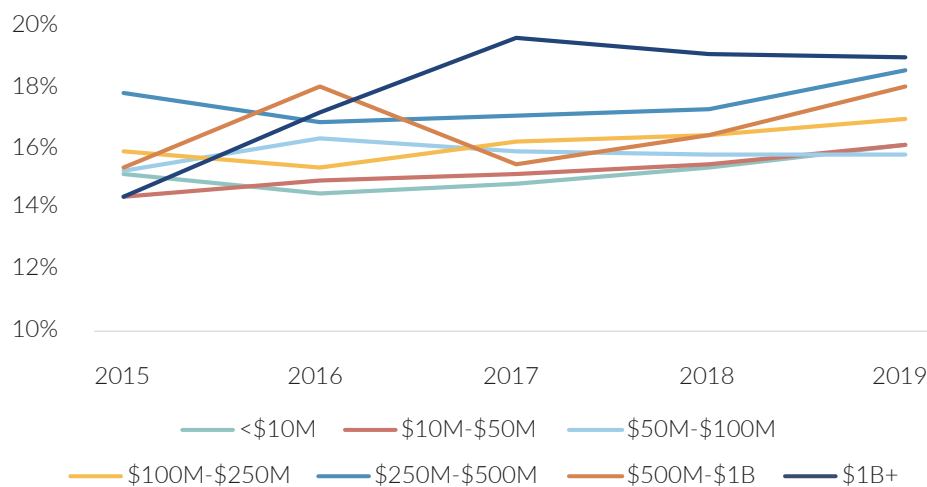
Reed McBride started his career in Silicon Valley as a start-up attorney at Orrick, advising over 100 technology companies on billions of dollars of VC and M&A transactions. Prior to joining Carta, he scaled two startups over five years, building teams and leading numerous functions including business operations, finance, people ops, legal, and corp dev. Reed currently runs BD & Partnerships at Carta, in addition to advising numerous startups. Reed holds a BS with highest honors from the University of Illinois College of Engineering and a JD from the University of California, Berkeley, School of Law, where he graduated Order of the Coif and served as a Senior Editor and Executive Committee member of the California Law Review.

First, competition has increased among startups offering equity to prospective employees. Equity can help attract skilled employees and drive both buy-in to a startup's mission while creating a shared vision for how to help the business succeed. Furthermore, in intensely competitive spaces, such as computer vision and machine learning, the need to attract top-tier engineering talent intensified competition for skilled specialists. With heightened competition for talent, startups go to greater lengths, such as reserving larger equity pools, to attract those employees.

In addition, one must consider recent challenges for companies planning to go public. Between market volatility and heightened investor expectations, many companies have been forced to prolong their path to a liquidation event, such as an IPO. Some companies are offering employees larger equity stakes to compensate. This is particularly relevant to late-stage private companies competing with publicly

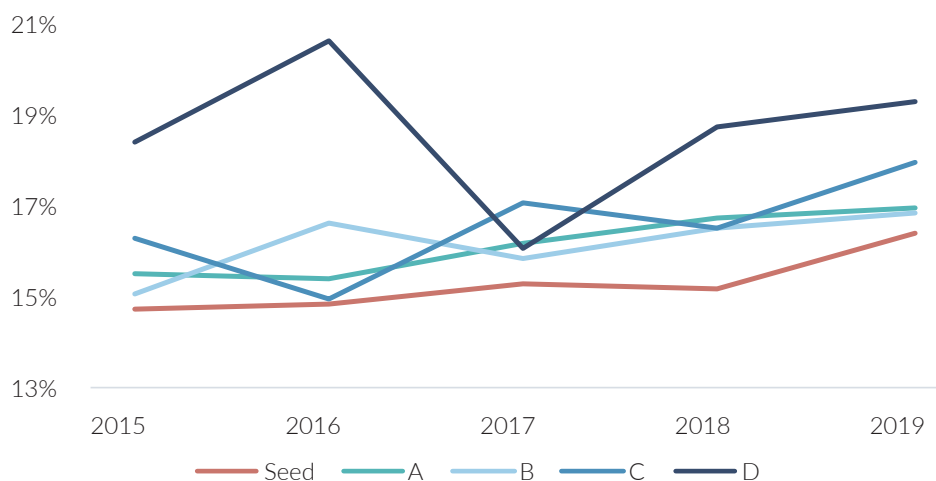
The average employee equity pool is growing

Employee option pool sizes by company post-money valuation



Carta

Employee equity pools by series



Carta

traded companies for talent. Many private companies have been forced to reevaluate their equity packages to compete effectively and offering liquidity may become a necessity in the future.

Size of option pools varies widely by round

We also found that the average size of employee option pools varies depending on the funding round.

The graph above shows percentage-point changes in the average size of employee equity pools at companies across seed, Series A, Series B, Series C and Series D rounds between 2015 and 2019.

Companies at the seed stage saw the least variance in the average size of employee option pools over time, followed closely by companies at the Series A stage.

There was a great deal more volatility in the size of employee equity pools across Series D rounds; the average size of employee equity pools for companies at these fundraising stages started higher and ended higher but experienced a much more significant decline from 2016 to 2017 (and a much greater subsequent increase from 2017 to 2018).

What factors affected employee equity pool growth by round

New rounds of fundraising tend to trigger increases to the overall size of employee option pools, whether to give equity to a new round of hires or to give out more equity to high performers and correct imbalances. Correcting these imbalances can be difficult, as we discovered when we set out to rectify historical errors in our equity distribution—but it's an important, necessary step that more and more startups are taking.

One of the greatest downsides to increasing the employee option pool is dilution.

With startup valuations continuing to rise, some founders have been less concerned about dilution in recent years. But as venture capitalists take an increasingly cautious approach to funding—with a progressively narrower focus on profitability in the wake of several high-profile disappointing IPOs and the emergence of COVID-19—it's possible dilution will become a more urgent concern for both founders and investors in the coming months.

Something else to consider is the fact that in 2018 and 2019, many atypically large funding rounds were closed. For example, some of the Series A rounds in 2018 and 2019 were among the largest we've ever seen. Another potential complication is the fact that funding rounds are routinely extended to include multiple closings

over time. These factors make examining employee equity by funding round challenging; one company's Series A round may be closer to another company's Series C round in terms of total amount closed.

Larger option pools are likely to grow in importance as a competitive advantage for startups in the years to come, especially as they're pressed by employees and recruiters for more transparency about the real value of startup options. Although increases in the average employee option pool have been modest, access to equity will remain an important differentiator for many startups, as their success necessarily hinges on attracting—and retaining—the right people.

Carta is an ownership network that's changing how capital markets operate. We're focused on creating owners and increasing transparency and liquidity for shareholders. We currently work with over 14,000 companies and more than 800,000 investors, law firms and employees, all of which use our platform to manage equity.

**This study uses a sample of Carta's founder and employee cap table data, aggregated and anonymized. Companies who have contractually requested that we not use their data in anonymized and aggregated studies are not included in this analysis.*

DISCLOSURE: This communication is being sent on behalf of eShares, Inc. dba Carta, Inc. ("Carta"). This communication is not to be construed as legal, financial or tax advice and is for informational purposes only. This communication is not intended as a recommendation, offer or solicitation for the purchase or sale of any security. Carta does not assume any liability for reliance on the information provided herein.



Equity. Simplified.

Thousands of companies and investors use Carta to connect equity, valuations, compliance, and more.

14,000

Companies

500+

Investor clients

70+

Fund accountants

COMPANIES

Cap table management

409A valuation

ASC 718

Scenario modeling

Private liquidity

INVESTORS

Portfolio tracking

Realtime IRR

LP Management

Fund admin services

Scenario modeling

Thumbtack

flexport.

 LEVER

GIGAFUND

 BLUMBERG
CAPITAL

TRIBE CAPITAL

carta.com

Exits

As expected, given the presence of outlier events in 2019 such as Uber and Slack transitioning to public markets, exit value started off 2020 at a slower pace than last year's record-breaking activity. While we anticipate a slowdown in exits, 2019's exceptional showing was bound to overshadow exit activity this year. Currently, Q1 data shows \$19.3 billion in exit value across 183 deals, which is still a robust quarterly total relative to the last decade.

Large exits still had an active first quarter, with 10 deals over \$500 million completed, extending the growth of that size bucket as a percentage of the total on both a count and value basis to 27.0% and 79.9%, respectively. The VC market's increasing reliance on large exits to return capital to investors has worked well during a steady and increasing public market, but it will be tested during the rest of 2020 after COVID-19 uncertainty brought the long-running bull market to an end in March.

In a reversal from the last couple of years, acquisitions made up the majority of capital exited during Q1 2020, supplanting IPOs from their throne for the first time since 2016. Specifically, this shift was buoyed by the lull in IPOs and acquisitions making up the two

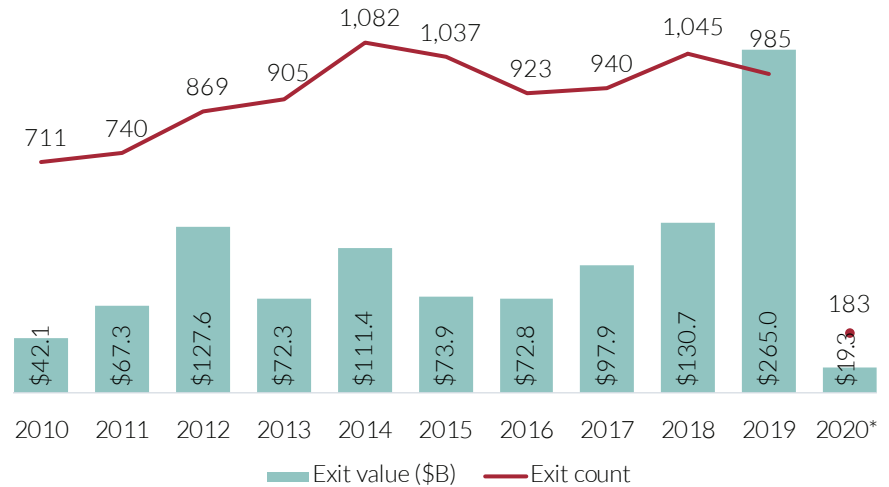
largest exits: Visa's \$5.3 billion acquisition of Plaid and Alphabet's deal for Looker priced at \$2.6 billion. These deals clearly demonstrate public incumbents' reliance on the acquisition of startups as a major avenue for innovation. It is probable that activity of this magnitude will slow down throughout the

next few quarters as corporations retrench and focus on liquidity rather than external investments.

While much of Q1's data seems to be unscathed, the ongoing COVID-19 crisis caused some serious struggles in the public

Exits start off 2020 on slower pace following record year in 2019

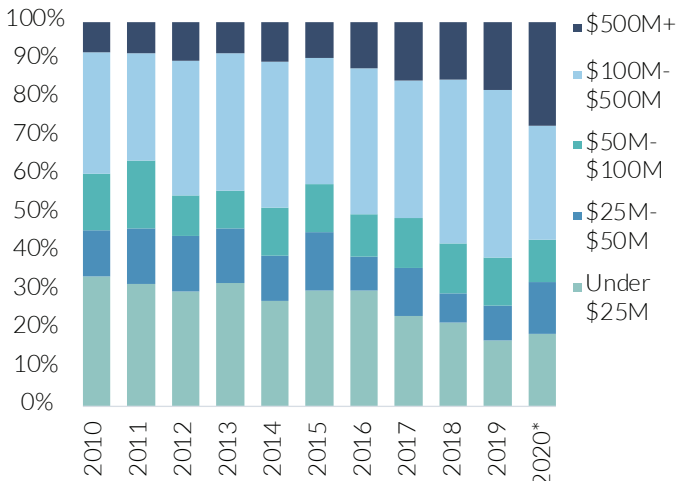
US VC exit activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Large exits continue taking share

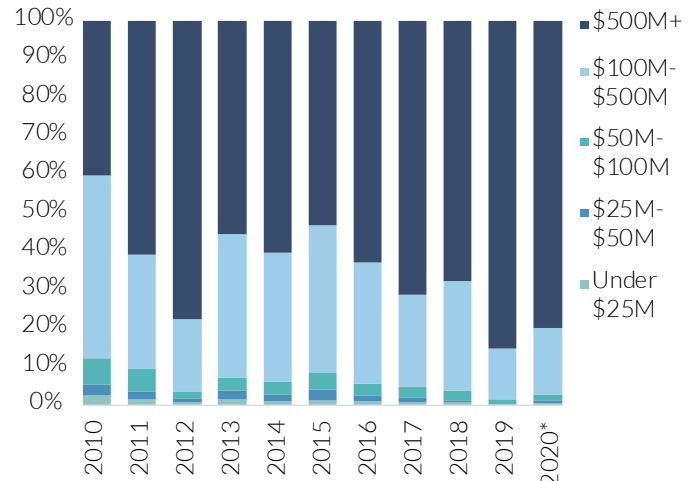
US VC exits (#) by size



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Fewer billion-dollar exits in Q1 plateaus the trend

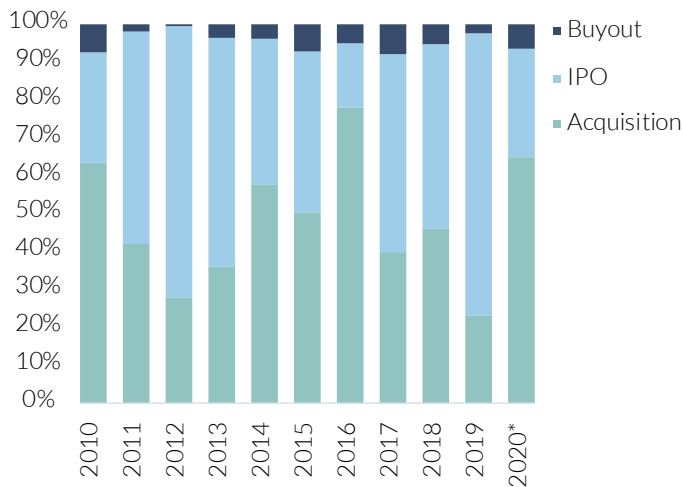
US VC exits (\$) by size



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

IPO slowdown likely to continue through first half of 2020

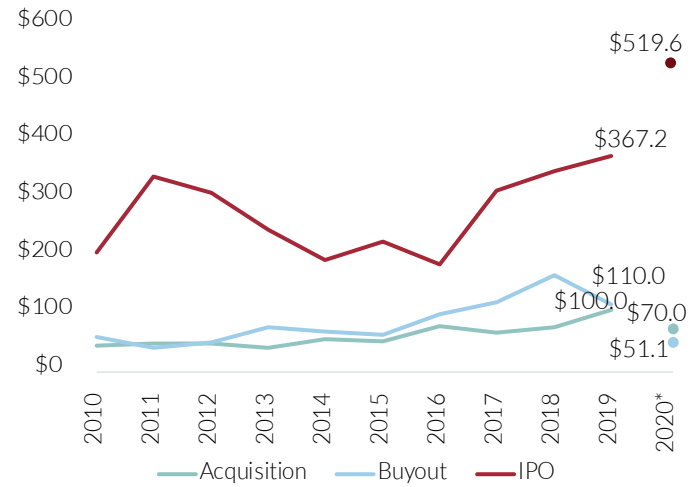
US VC exits (\$) by type



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Acquisition sizes continue to slide in 2020

Median US VC exit size (\$M) by type



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

markets which put a damper on VC-backed IPOs in March. We expect this lull in public listings to remain through much of the rest of the year given how closely the IPO window for private businesses is linked to the conditions in the public market. The pandemic-related volatility in the public markets makes proceeding with an IPO an extremely risky decision for company management and board members. This leads us to believe that there will be a significant pullback in IPO volume over the duration of the crisis—the beginnings of which we have already observed in recent weeks. This slump will also apply to direct listings, which have gained significant momentum over the past few years. Although no new capital is raised during these exits, direct listings still price the equity of the business in the currently volatile public markets. To compare numbers from the global financial crisis, only 13 VC-backed IPOs closed in 2008, and only 11 closed in 2009. With 10 completed in Q1, we expect IPO activity in 2020 to drop drastically after eclipsing 80 listings in both 2018 and 2019.

There is plenty of anecdotal evidence to back the prediction of a future decline in IPO

volume. Airbnb raised another \$1 billion in the private market, which will likely further delay an IPO. Social Capital Hedosophia, fresh off their completed reverse merger of Virgin Galactic, postponed the IPOs of two new special purpose acquisition companies (SPACs). One of the IPOs that went forward during the first quarter of 2020 was Casper, highlighting the company's need for capital infusion. The once buzzy direct-to-consumer mattress business had to cut its valuation significantly as public market investors continued to meet businesses that reported poor unit economics with skepticism.

Even the nearly constant flow of biotech IPOs has seen some pause, with a dozen or so recent filers awaiting more consistency in the market before moving forward. These biotech companies will be important to watch. Given many companies in this space are still pre-revenue, suspending an IPO puts them in a tight spot when it comes to cash flow. A number of these filers are private VC-backed biotech companies looking to raise a significant level of capital to get their products through trials and into the hands of clinicians and patients. Notably, public

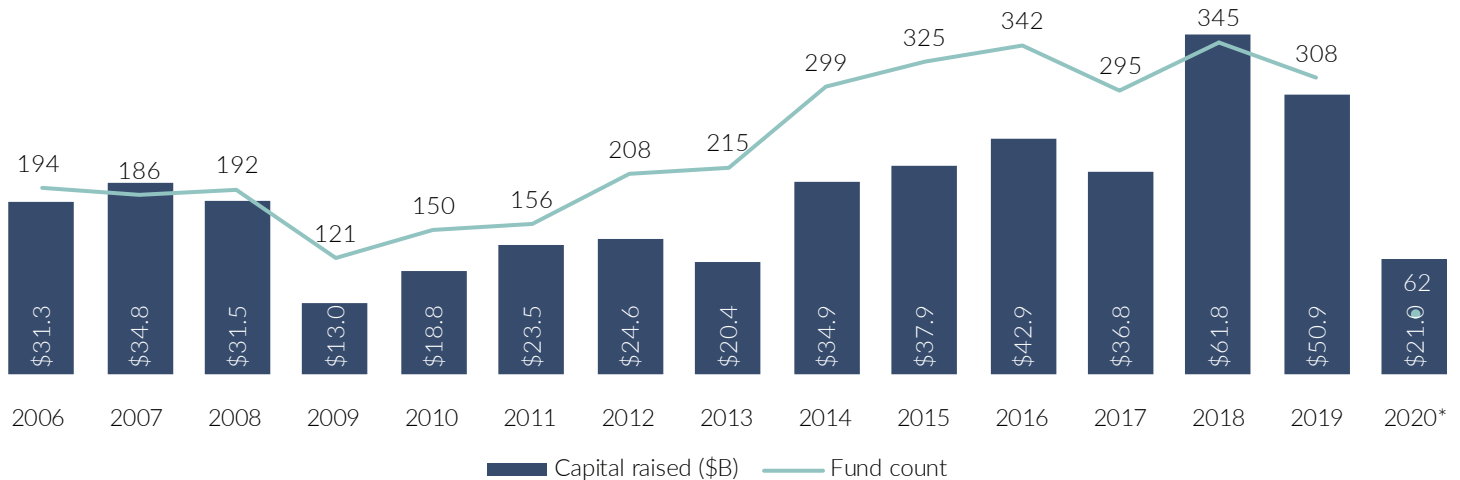
healthcare companies tend to do well during economic uncertainty. Out of the 11 sectors that comprise the S&P 500 index, healthcare has traditionally been one of the least volatile to market forces. Alongside consumer staples, the healthcare sector is currently the second-least volatile in terms of percent downturn in the last 30 days.

If COVID-19-related uncertainty drags on for longer than anticipated, some of these companies may be forced to return to the private markets to maintain operations or potentially seek a sale of their business. Given the unique healthcare-directed nature of COVID-19 and its broader implications in the global market, we see the current market conditions as more favorable for large healthcare and biotech incumbents that are looking to reinforce their pipeline through strategic M&A activity of private VC-backed companies at a significantly lower valuation than during the prolonged bull market. This ultimately catalyzes scientific innovation and benefits patients and companies across the healthcare industry.

Fundraising

2020 off to a robust start for capital raised

US VC fundraising activity

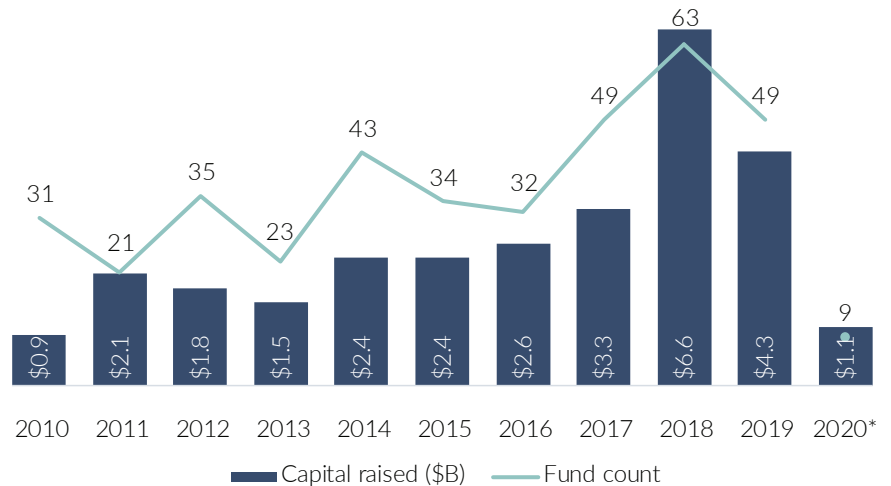


PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Coming into 2020, we anticipated a strong year for US VC fundraising. Activity through Q1 has been robust, with more than \$20 billion raised. However, the number of funds closed remains on a downward trajectory, as capital is increasingly concentrated in larger vehicles. The strength of prominent VC firms has been on display in recent weeks, with New Enterprise Associates and Kleiner Perkins both announcing sizable closes in March. However, Tiger Global raised the largest VC fund in Q1 at \$3.8 billion, representing the most recent recommitment to the VC strategy for the asset manager and a potential bellwether for the sticking power of some nontraditional players through a downturn. This fund came just over one year after Tiger Global closed on a fund of the same size in late 2018, further illustrating the ability of established managers to secure large sums with relative ease by tapping into the longstanding relationships and the consistent demand from LPs. Roughly a dozen funds of \$500 million or more have closed so far in 2020, with more than 50 open funds in the US seeking \$250 million or more.

First-time fund volume dries up

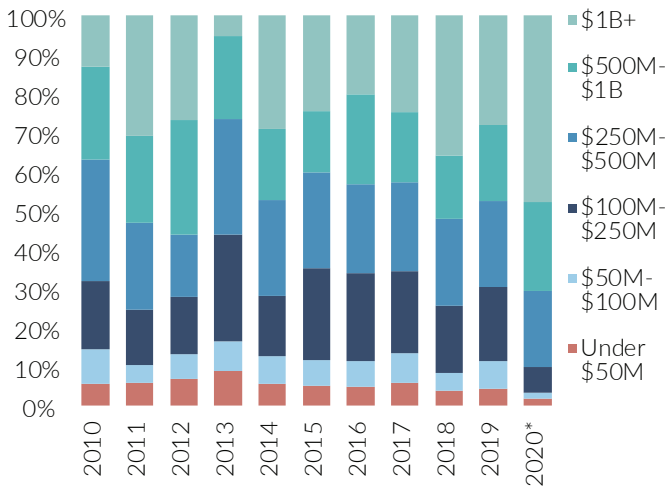
US VC first-time fundraising activity



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Mega-funds proliferate so far in 2020

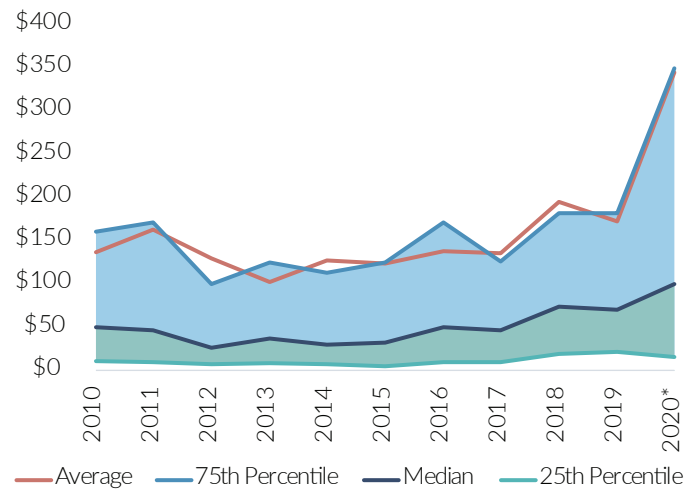
US VC funds (\$) by size



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

Top end of the market surges in Q1

Quartile distribution of US VC fund sizes (\$M)



PitchBook-NVCA Venture Monitor
*As of March 31, 2020

On the other hand, first-time fundraising has been a more challenging proposition and will only get more difficult as the downturn continues. Just nine first-time funds have closed so far in 2020, while more than 49 have been raised each of the last three years. First-time managers and smaller GPs that need to engage new investors are likely to struggle due to travel restrictions and similar impediments. VC firms will be particularly susceptible because their small size and high-risk strategy provides little financial buffer. Name-brand VC firms may be able to streamline the fundraising process as many LPs may choose to reallocate and forgo the need for an onsite due diligence meeting.

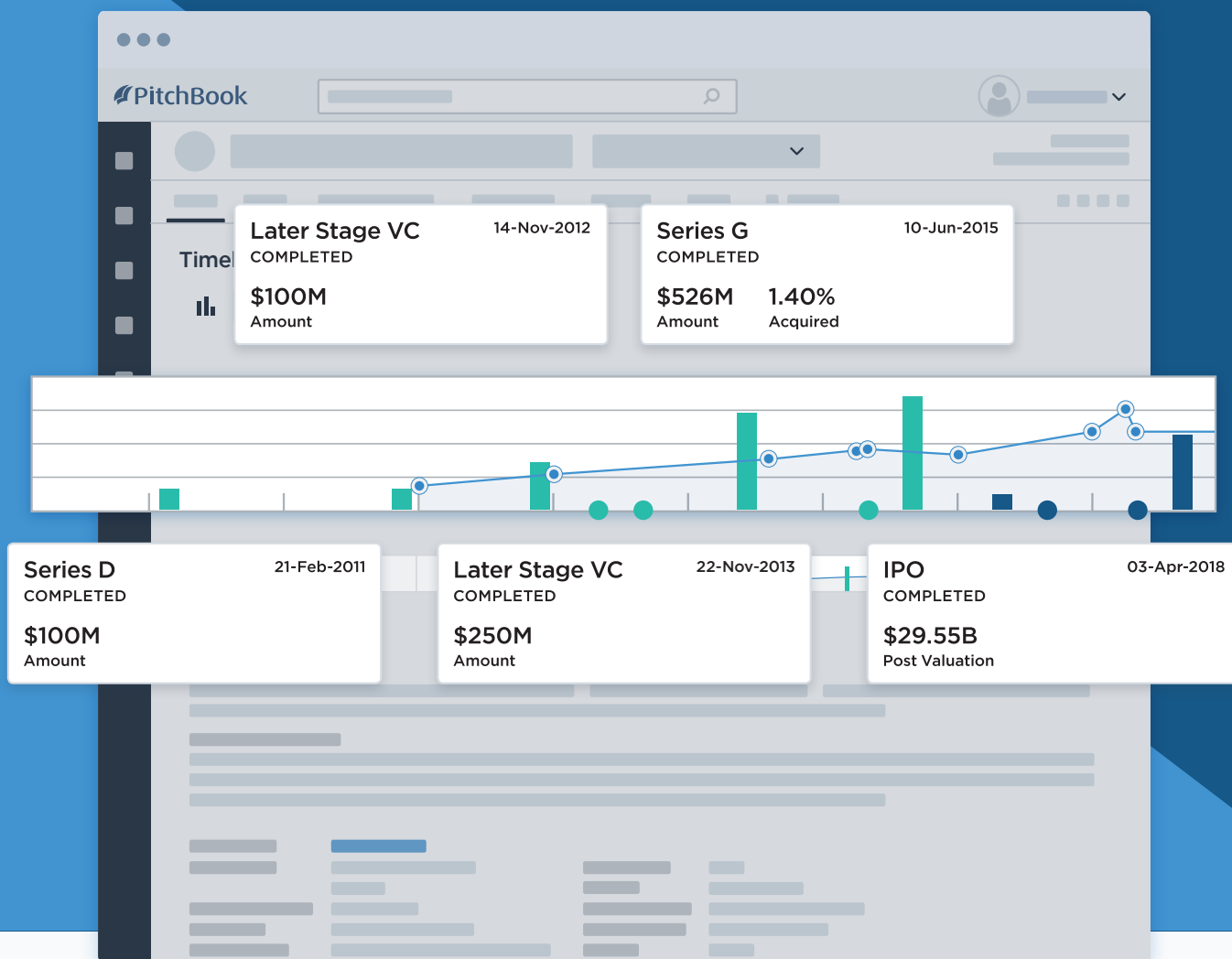
This dichotomy in the market is also clear when looking at activity bucketed by fund sizes. Four billion-dollar funds closed in Q1 2020, which drove 47.8% of the quarter's capital raised and set the year on track to notch the highest percentage on record. VC mega-funds made up half of all capital funneling into VC funds in Q1; this speaks to the distinct paradigm shift we've seen over the past decade in which VC has moved from a niche slice of private markets to a strategy

that sees \$100 billion invested annually. This also pushed the average and 75th percentile fund size up 99.6% and 92.3%, respectively, above the year-end 2019 figure—a significant feat over those already elevated levels.

As the COVID-19 crisis hits the public equity and credit markets more swiftly, we believe drops in broad asset prices and the resulting denominator effect for LPs will play a part in further depressing fundraising. However, the risk is somewhat mitigated because many LPs entered the downturn under-allocated to VC and the strategy makes up a relatively small proportion of most portfolios. Combined with the high demand for access to premier VCs, we believe this will allow aggregate VC fundraising to remain resilient. With that said, there are concerns. Persistently higher valuations in VC financings have led to paper gains and inflated VC holdings; the median RVPI value is 1.24x or higher for every vintage from 2012 to 2016. While the denominator effect alone may not cause dire issues for LPs, rising VC valuations on the other side of the equation—call it the “numerator effect”—could pose a definite threat.

LPs have benefited from positive net cash flows from VC funds in recent years, but contributions will likely outstrip distributions in the coming quarters. More recent vintages have been deploying capital more quickly than in the past given inflated deal sizes, often relying on new fundraises to support follow-on financings. We anticipate that many funds will shift their capital deployment strategy, concentrating on supporting existing portfolio companies and adjusting their reserve capital accordingly.

On the performance side, VC funds have posted the best one-year horizon IRR of any private market strategy in recent periods through mid-year 2019, but performance has been dropping. Even prior to the March selloff in public equities, VC valuations began to plateau and the late-stage average declined slightly in 2019. As difficulties related to the novel coronavirus linger, this downward trend should be sustained and will likely dampen the aggressive portfolio markups that have been behind much of the strength in recent short-term aggregate fund performance.



10 years. That's how long it took for Spotify to go public.

As companies stay private longer, they need to navigate not just a Series A but a Series B, C, D, E, F, G and beyond. With PitchBook's comprehensive global public and private market data, they can raise capital faster, negotiate smarter and exit stronger.

See where PitchBook's data can take your company. **Request a free trial at pitchbook.com/free-trial.**

Methodology

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, corporate investors and institutions, among others. Investments received as part of an accelerator program are not included; however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US, with any reference to “ecosystem” defined as the combined statistical area (CSA). We include deals that include partial debt and equity.

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.

Nontraditional investors: “CVC” includes rounds executed by established CVC arms as well as direct equity investments by corporations into VC-backed companies. “PE” includes VC deals by investors whose primary classification is PE/buyout, growth, mezzanine or other private equity.

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.

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’s investment team is based; 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.

A perfect partnership: PitchBook and the National Venture Capital Association

Why we teamed up

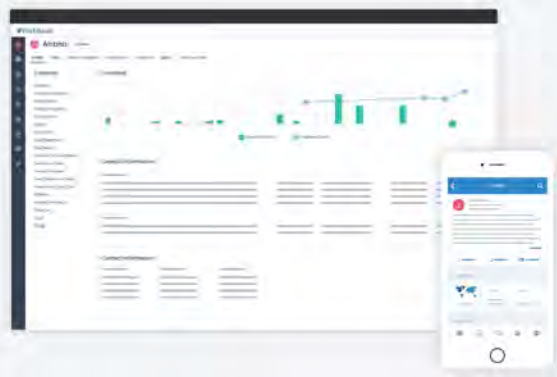
NVCA is recognized as the go-to organization for venture capital advocacy, and the statistics we release are the industry standard. PitchBook is the leading data software provider for professionals in venture capital, serving more than 4,000 customers across the private markets. Our partnership with PitchBook empowers us to unlock more insights on the VC ecosystem and better advocate for our evolving industry.

The PitchBook-NVCA Venture Monitor

Informed by PitchBook data, our quarterly Venture Monitors dive deep into venture capital activity and deliver insights to inform your investment strategy. PitchBook data also bolsters our annual 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.

NVCA member firms are eligible for a one-time 10% discount on a new PitchBook subscription or their next subscription renewal, or one complimentary PitchBook seat for a subscription cycle.

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.

Ready to get started with the PitchBook Platform? Go to pitchbook.com/nvca