Silicon Valley Venture Capital Survey
Fourth Quarter 2012

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Fenwick
FENWICK & WEST LLP

Background

We analyzed the terms of venture financings for 116 companies headquartered in Silicon Valley that reported raising money in the fourth quarter of 2012.

Overview of Fenwick & West Results

- Up rounds exceeded down rounds in 4Q12, 71% to 8%, with 21% of rounds flat. This was an improvement over 3Q12, when 61% of rounds were up, 17% were down and 22% flat, and was evidence that those companies that are getting funded are receiving strong valuations.
- The Fenwick & West Venture Capital Barometer™ showed an average price increase of 85% in 4Q12, a slight increase from 78% in 3Q12. Series B rounds continued to be the strongest rounds.
- The median price increase of financings in 4Q12 was 41%, an increase over 23% in 3Q12. There were four financings (three software, one hardware) that were up over 400% in 4Q12.
- The results by industry are set forth below. In general software, and to a lesser extent internet/digital media, continued to be the strongest industries, with hardware solid and life science showing significant improvement, and cleantech lagging significantly.
- The percentage of Series A rounds declined significantly, to 12% of all deals.
- Further evidence of the strong valuation environment for those companies that are successful at raising money is that the use of senior and multiple liquidation preferences have both declined significantly over the past year.

Overview of Other Industry Data

In 2012, we generally saw a weaker venture environment than 2011, especially during the last half of the year. Venture investing and acquisitions of venture backed companies both declined compared to 2011, and while IPOs and fundraising were both up, this was primarily a result of a strong first half of the year. Some other trends were:

- Venture fundraising continues to trail venture investing, although the gap closed fairly significantly in 2012.
- The amount of money raised by venture funds continues to be concentrated in a relatively small number of large funds.
- Enterprise facing IT businesses appear to have attracted increased interest in 2012, while consumer facing IT businesses (e.g., internet/digital media) appear to be a bit less attractive.
- Cleantech and to a lesser extent life science continue to be weak, although they appear to be attracting more corporate interest.

- Accelerators and seed financings continue to be strong, but Series A (post seed) financings were often difficult to obtain.
- Although venture capitalists believe that liquidity events will improve in 2013, they believe that obtaining venture financing will be more difficult than in 2012, and that venture fundraising will continue to be concentrated in fewer funds.

With Nasdaq up 16% in 2012 and continuing to increase in 2013, providing public companies more valuable "currency" to make acquisitions, and with many corporations holding substantial cash reserves and public company investors appearing to be more amenable to taking risk, there is good reason to believe that liquidity options for venture backed companies will improve in 2013.

- **Venture Capital Investment.**

  Dow Jones VentureSource ("VentureSource") reported that venture capitalists (including corporation affiliated venture groups) invested $6.6 billion in 733 deals in the U.S. in 4Q12, a 4.6% decrease in dollars and a 10.6% decrease in deals from the $6.9 billion invested in 820 deals in 3Q12 (as reported in October 2012). For all of 2012 venture capitalists invested $29.7 billion in 3363 deals, a 9% decrease in dollars but a 5% increase in deals compared to 2011, when venture capitalists invested $32.6 billion in 3209 deals (as reported in January 2012). In 4Q12 51% of U.S. venture investment went to companies based in California.

  The PWC/NVCA MoneyTree™ Report based on data from Thomson Reuters (the "MoneyTree Report") reported similar results. Venture investment in 4Q12 decreased 2% in dollars from 3Q12, with investment of $6.4 billion in 968 deals compared to investment of $6.5 billion in 890 deals in 3Q12 (as reported in October 2012). For all of 2012 venture capitalists invested $26.5 billion in 3698 deals, a 7% decrease in dollars from 2011, when $28.4 billion was invested in 3673 deals (as reported in January 2012).

  The MoneyTree Report also reported that the strongest industry segment was software, where investment increased by 10% in 2012 over 2011. Life science was weak, with biotech investing down 15% and medical device investing down 13%, and with life science first time financings at their lowest level since 1995. Cleantech was down 28% and even internet investing was down 5% when compared to 2011, although 2012 was the second best year for internet investing since 2001.

  Despite the weakness in life science generally, digital health investing is strong, with Rock Health reporting a 45% increase from 2011 to 2012.

- **IPO Activity.**

  Dow Jones reported that 8 U.S. venture-backed companies went public in 4Q12 and raised $1.2 billion, a decrease from the 10 IPOs in 3Q12, but an increase from the $0.8 billion raised in the 3Q12 IPOs. In all of 2012, 50 U.S. venture-backed companies went public, a 10% increase from the 45 IPOs in 2011, thanks to a strong first half of 2012. The 2012 IPOs raised a total of $11.2 billion, the most since 2000, primarily due to the $6.6 billion Facebook IPO, compared to $5.4 billion raised in 2011 IPOs.

  Thomson/NVCA reported similar results for 4Q12 and 2012. Five of the eight 4Q12 IPOs were in the IT sector, and seven of the eight were based in the U.S., with the eighth from China.

- **Merger & Acquisition Activity.**

  Dow Jones reported that acquisitions (including buyouts) of U.S. venture-backed companies in 4Q12 totaled $9.3 billion in 113 transactions, a 28% decline in dollars but a 14% increase in deals from the $13 billion paid in 99 transactions in 3Q12 (as reported in October 2012). For all of 2012 there were 433 acquisitions for $40.3 billion, a 9% decrease in transactions and a 16% decrease in dollars from the 477 acquisitions for $47.8 billion in 2011 (as reported in January 2012).

  Thomson Reuters and the NVCA ("Thomson/NVCA") reported 95 venture-backed acquisitions in 4Q12, a 1% decrease from the 96 reported in 3Q12, and 435 acquisitions in all of 2012, a 1% increase from the 429 reported in 2011 (as reported in January 2011).

- **Venture Capital Fundraising.**

  Dow Jones reported that 154 U.S. venture capital funds raised $20.3 billion in 2012, a 14% increase in funds and a 25% increase in dollars from the 135 funds that raised $16.2 billion in 2011 (as reported in January 2012). Eleven funds accounted for $11.3 billion of the $20.3 billion raised. (Russ Garland, Venture Wire, January 7, 2013)

  Thomson/NVCA reported that 42 U.S. venture funds raised $3.3 billion in 4Q12, a 20% decrease in funds and a 34% decrease in dollars from the 53 funds that raised $5.0 billion in 3Q12 (as reported in October 2012). For all of 2012, 182 funds raised $20.6 billion, an 8% increase in funds and a 13% increase in dollars from the 169 funds that raised $18.2 billion in 2011 (as reported in January 2012).

  The number of members of the NVCA has declined from 470 in 2008 to 401 currently, a likely indication of the shrinking number of venture firms. (Russ Garland, VentureWire, January 28, 2013)

- **Corporate Investing.**

  As investments and fundraising by venture capitalists has had difficulties, corporate venture investing has fared better. According to the MoneyTree Report, the percentage of financings that included a corporate investor increased to 15.2% in 2012, the third straight year of increase and the highest percentage since the 2008 recession.

  Notably, corporate investors tended to focus more on the industries that are currently least favored by venture capitalists, participating in 20.5% of cleantech financings and 19.5% of biotech financings.

  And corporate investors did not limit themselves to traditional venture investments. For example, GE (Healthymagination), Nike and Samsung have each announced the creation of, or other significant involvement in, a start up accelerator, Rock Health has reported that Merck is a leading funder of digital health startups and GlaxoSmithKline and Monsanto have each taken actions to increase their focus on venture capital.

- **Angels and Accelerators.**

  There continues to be concern that the angel/accelerator environment has become frothy. CB Insights reported 1749 seed financing rounds in 2012, compared with just 472 in 2009, while Series A rounds grew much more slowly, from 418 in 2009 to 692 in 2012, indicating that there will likely be a lot of seed funded

companies that won't obtain Series A investment. While this is not necessarily bad, as there is value to making small bets on a lot of high risk opportunities, at some point the odds get too high.

Notably, Y Combinator announced in 4Q12 that the amount of money loaned to each of its companies would be reduced from $150,000 to $80,000, and that the size of its class would also be reduced. And Polaris Venture Partners has indicated that it is significantly scaling back its "Dogpatch Labs" incubator. However we do not see a trend yet here, as accelerators like TechStars and 500 Startups are not reducing their size. (Lizette Chapman, VentureWire, December 20, 2012).

- **Venture Capital Returns.**

  Cambridge Associates reported that the value of its venture capital index increased by 0.64% in 3Q12 (4Q12 information has not been publicly released) compared to a 6.17% increase for Nasdaq. The venture capital index substantially lagged Nasdaq for the 12-month period ended September 30, 2012, 7.69% to 29%, and for the ten-year period 6.07% to 10.27%. The Cambridge Associates venture index is net of fees, expenses and carried interest. These type of results are, of course, a significant part of the reason why venture fundraising has been difficult.

- **Venture Capital Sentiment.**

  The Silicon Valley Venture Capitalists Confidence Index® by Professor Mark Cannice at the University of San Francisco reported that the confidence level of Silicon Valley venture capitalists was 3.63 on a 5 point scale in 4Q12, a slight increase from the 3.53 reported for 3Q12.

  According to the VentureView survey of venture capitalists conducted by the NVCA and VentureSource in November/December 2012, venture capitalists predictions for 2013 (compared to 2012) were:

Venture Investment	47% decrease	27% increase	26% flat
Number of IPOs	40% increase	32% decrease	25% flat
Mergers & Acquisitions	62% increase	10% decrease	25% flat
Venture Fundraising	51% increase	49% decrease	(most who thought fundraising would increase thought there would be fewer funds)
Valuations	38% decrease	32% increase	30% flat

  Business IT, healthcare IT and consumer IT were projected as strong industries, with cleantech, medical devices and biopharma expected to lag.

  Series A (post seed) was seen by far as the most difficult fundraising round, with 45% of venture capitalists selecting it as likely to be the most difficult round.

  Sixty-five percent of venture capitalists thought that deal term sheets would become more favorable to investors in 2013.

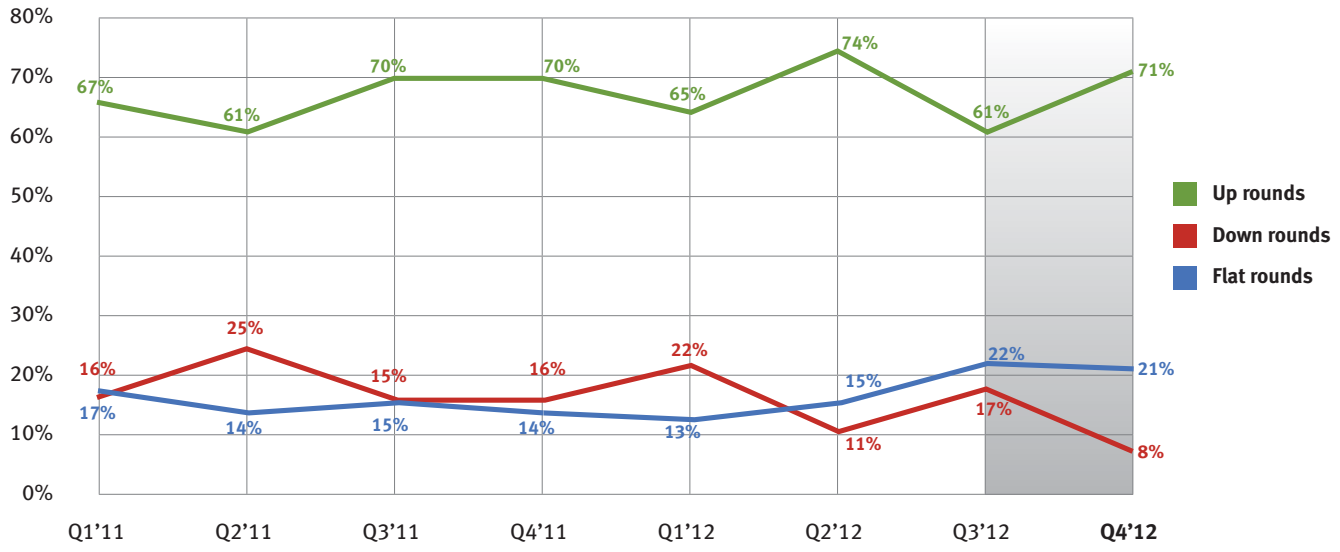
  Seventy-three percent of venture capitalists thought that limited partner agreements would be more favorable to limited partners in 2013.

- **Nasdaq.**

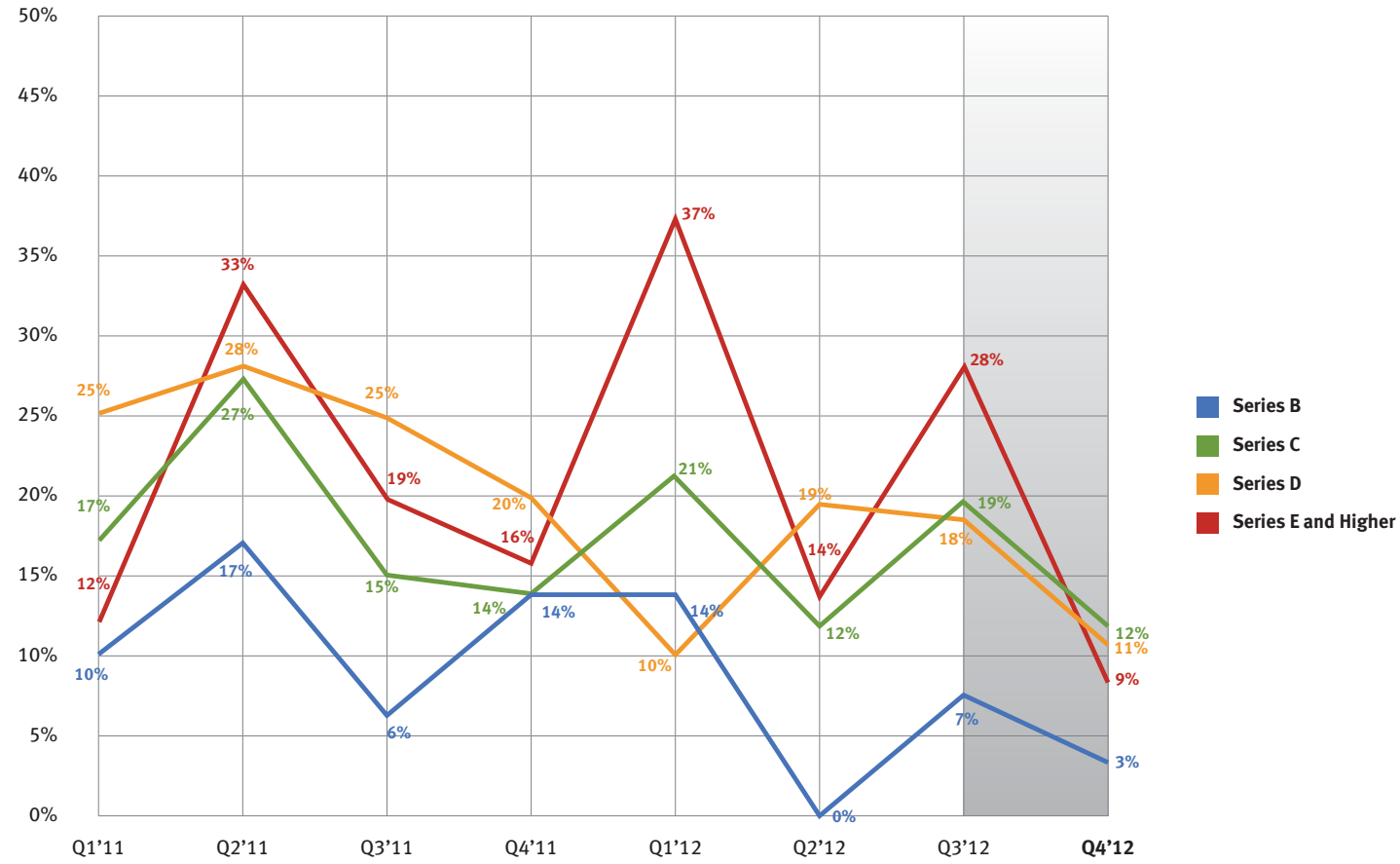
  Nasdaq decreased 1.0% in 4Q12, and has increased 3.3% in 1Q13 through February 13, 2013.

Fenwick & West Data on Valuation

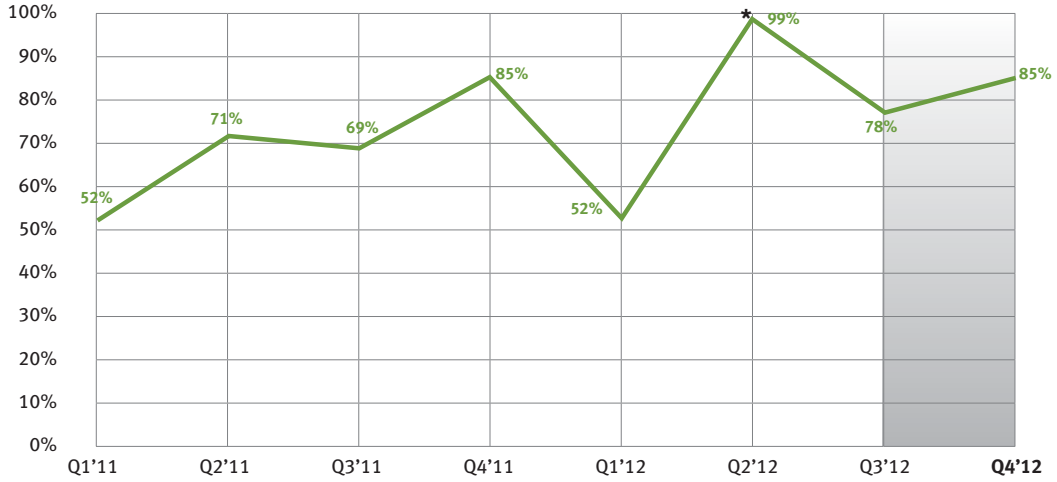
PRICE CHANGE—The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



The percentage of down rounds by series were as follows:

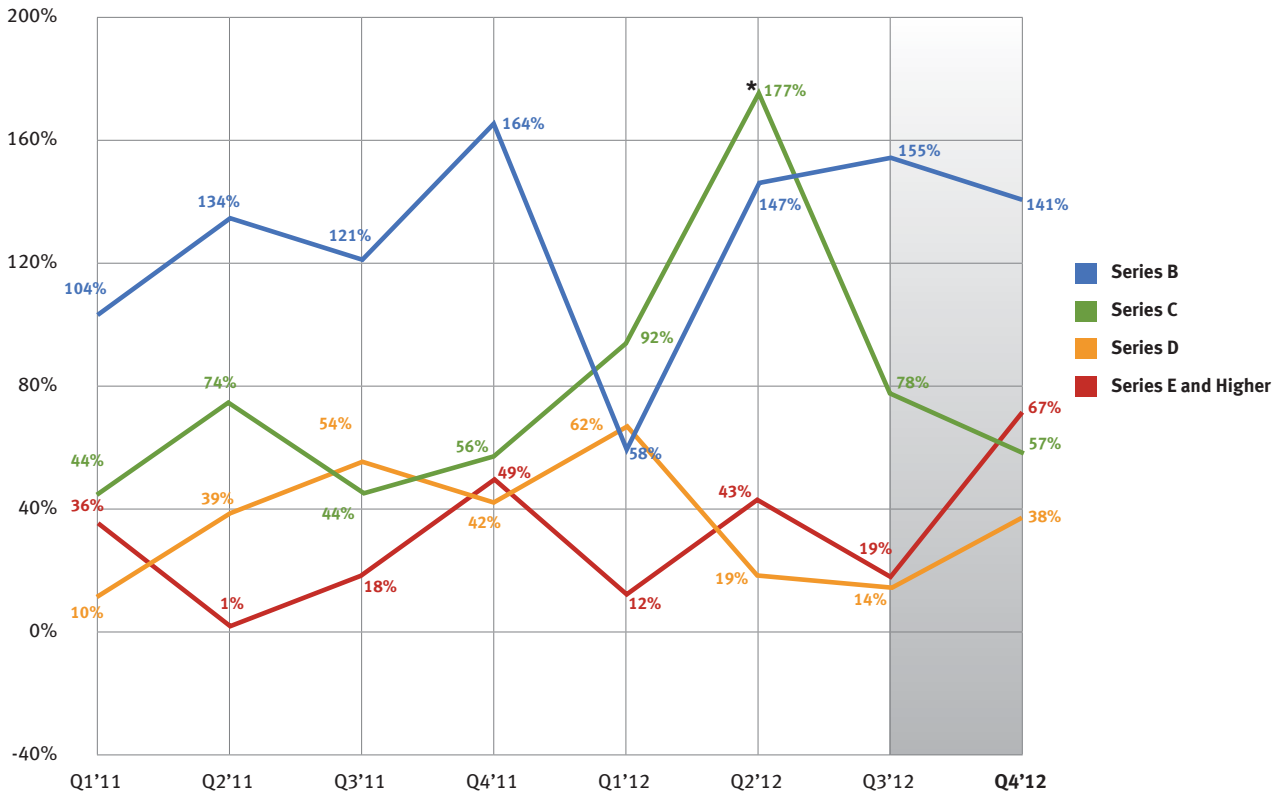


THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (MAGNITUDE OF PRICE CHANGE)—Set forth below is the average percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the average, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in a financing.



*One software company had a 1460% up round and one internet/digital media company had a 1190% up round in 2Q12. If these were excluded the Barometer result for 2Q12 would have been 70%.

The Barometer results by series are as follows:



*Please note that the two above mentioned software and internet/digital media companies with greater than 10x up rounds in 2Q12 were both Series C rounds. If these were excluded the Barometer result for Series C rounds in 2Q12 would have been 72%.

RESULTS BY INDUSTRY FOR CURRENT QUARTER—The table below sets forth the direction of price changes, Barometer results and number of financings for companies receiving financing in 4Q12, compared to their previous round, by industry group. Companies receiving Series A financings are excluded as they have no previous rounds to compare.

Industry	Up Rounds	Down Rounds	Flat Rounds	Barometer	Number of Financings
Software	82%	5%	13%	+128%	45
Hardware	77%	8%	15%	+64%	13
Life Science	57%	10%	33%	+30%	21
Internet/Digital Media	65%	12%	23%	+85%	17
Cleantech	33%	17%	50%	-2%	6
Other	0%	0%	0%	0%	0
Total all Industries	**71%**	**8%**	**21%**	**85%**	**102**

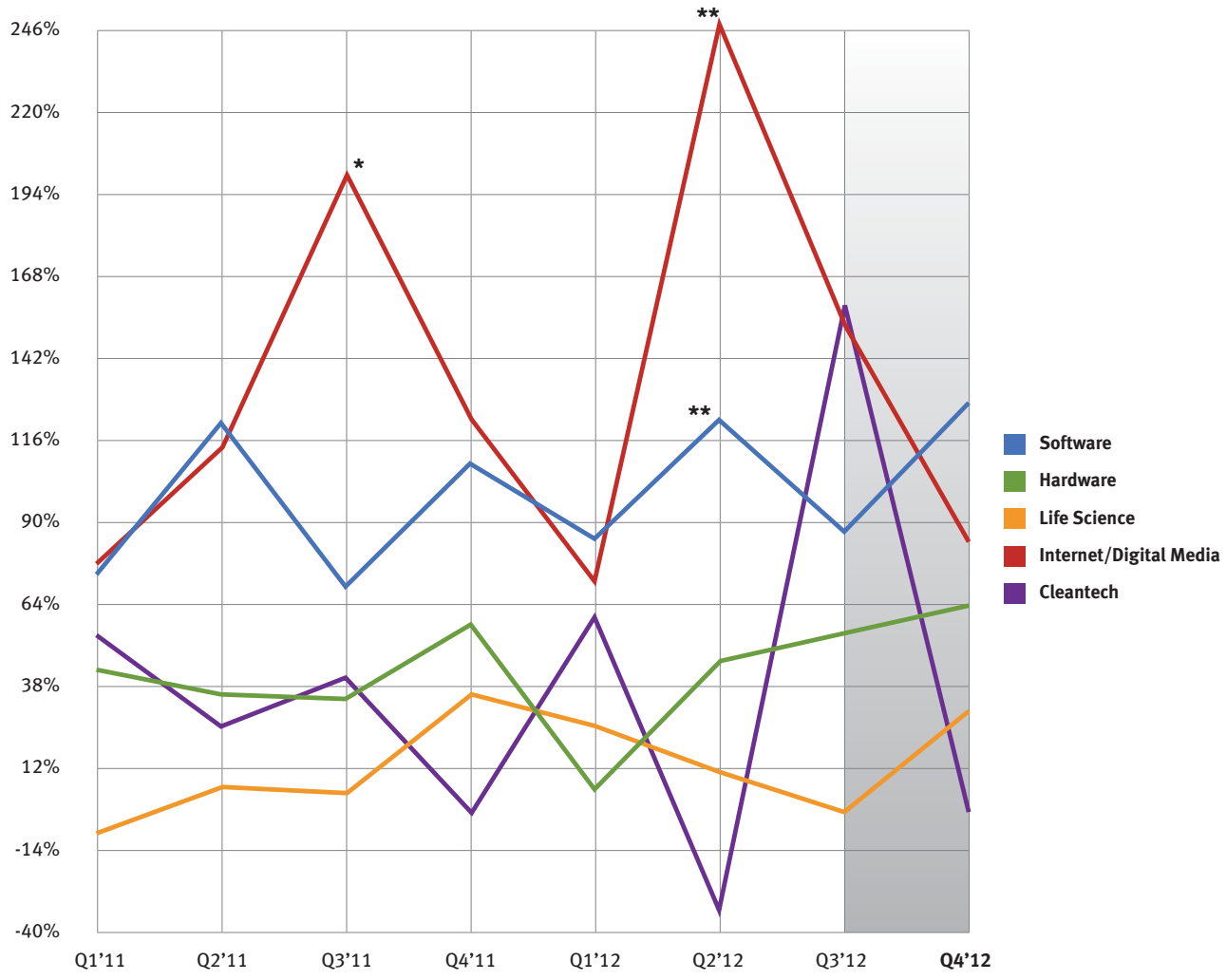
DOWN ROUND RESULTS BY INDUSTRY—The table below sets forth the percentage of "down rounds," by industry groups, for each of the past eight quarters.

Down Rounds	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12
Software	14%	14%	14%	11%	14%	8%	11%	5%
Hardware	15%	15%	12%	0%	42%	15%	30%	8%
Life Science	31%	31%	22%	33%	24%	6%	21%	10%
Internet/Digital Media	11%	11%	18%	12%	20%	0%	14%	12%
Cleantech	0%	0%	11%	43%	0%	75%	0%	17%
Other	25%	25%	0%	0%	0%	50%	0%	0%
Total all Industries	**16%**	**16%**	**15%**	**16%**	**22%**	**11%**	**17%**	**8%**

BAROMETER RESULTS BY INDUSTRY — The table below sets forth Barometer results by industry group for each of the last eight quarters.

Barometer	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12
Software	75%	121%	71%	105%	85%	123%**	87%	128%
Hardware	43%	35%	34%	58%	5%	46%	55%	64%
Life Science	-8%	6%	4%	36%	26%	11%	-2%	30%
Internet/Digital Media	77%	115%	201%*	122%	72%	248%**	153%	85%
Cleantech	54%	24%	41%	-3%	61%	-33%	158%	-2%
Total all Industries	**52%**	**71%**	**69%**	**85%**	**52%**	**99%**	**78%**	**85%**

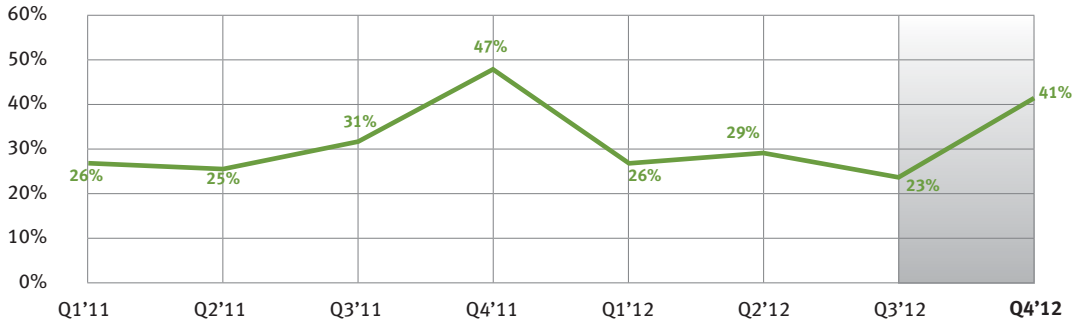
A graphical representation of the above is below.



*One internet/digital media company had a 1500% up round in 3Q11. If this were excluded the Barometer result for the internet/digital media industry in 3Q11 would have been 73%.

**These include the two previously mentioned companies with greater than 10x up rounds in 2Q12. Excluding those two companies, the Barometer result for the software industry would have been 86% and the Barometer result for the internet/digital media industry would have been 176%.

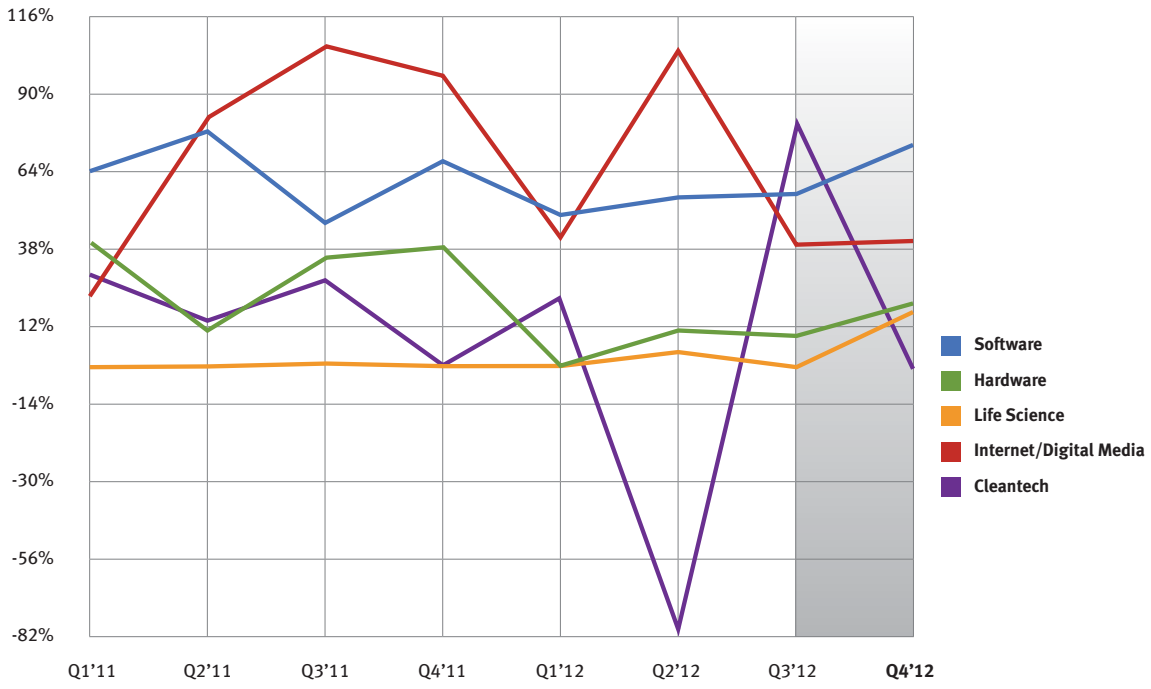
MEDIAN PERCENTAGE PRICE CHANGE—Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, down and flat) are included, and results are not weighted for the amount raised in the financing. Please note that this is different than the Barometer, which is based on average percentage price change.



MEDIAN PERCENTAGE PRICE CHANGE RESULTS BY INDUSTRY—The table below sets forth the median percentage price change results by industry group for each of the last eight quarters. Please note that this is different than the Barometer, which is based on average percentage price change.

Barometer	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12
Software	64%	78%	46%	67%	50%	56%	57%	74%
Hardware	39%	11%	35%	38%	0%	11%	10%	20%
Life Science	0%	0%	1%	0%	0%	5%	0%	17%
Internet/Digital Media	21%	82%	105%	96%	41%	105%	39%	41%
Cleantech	28%	14%	27%	0%	21%	-82%	79%	0%
Total all Industries	**26%**	**25%**	**31%**	**47%**	**26%**	**29%**	**23%**	**41%**

A graphical representation of the above is below.

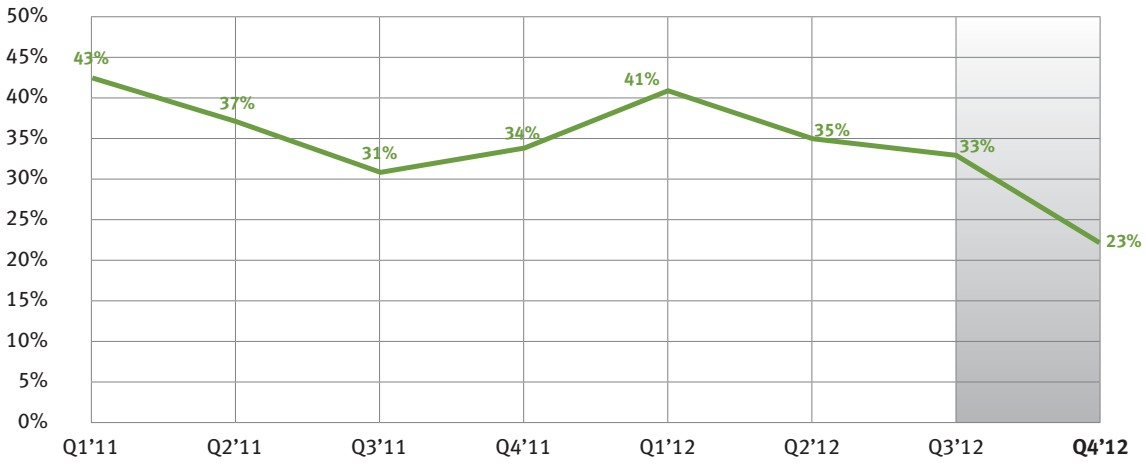


FINANCING ROUND—This quarter's financings broke down by series according to the chart below.

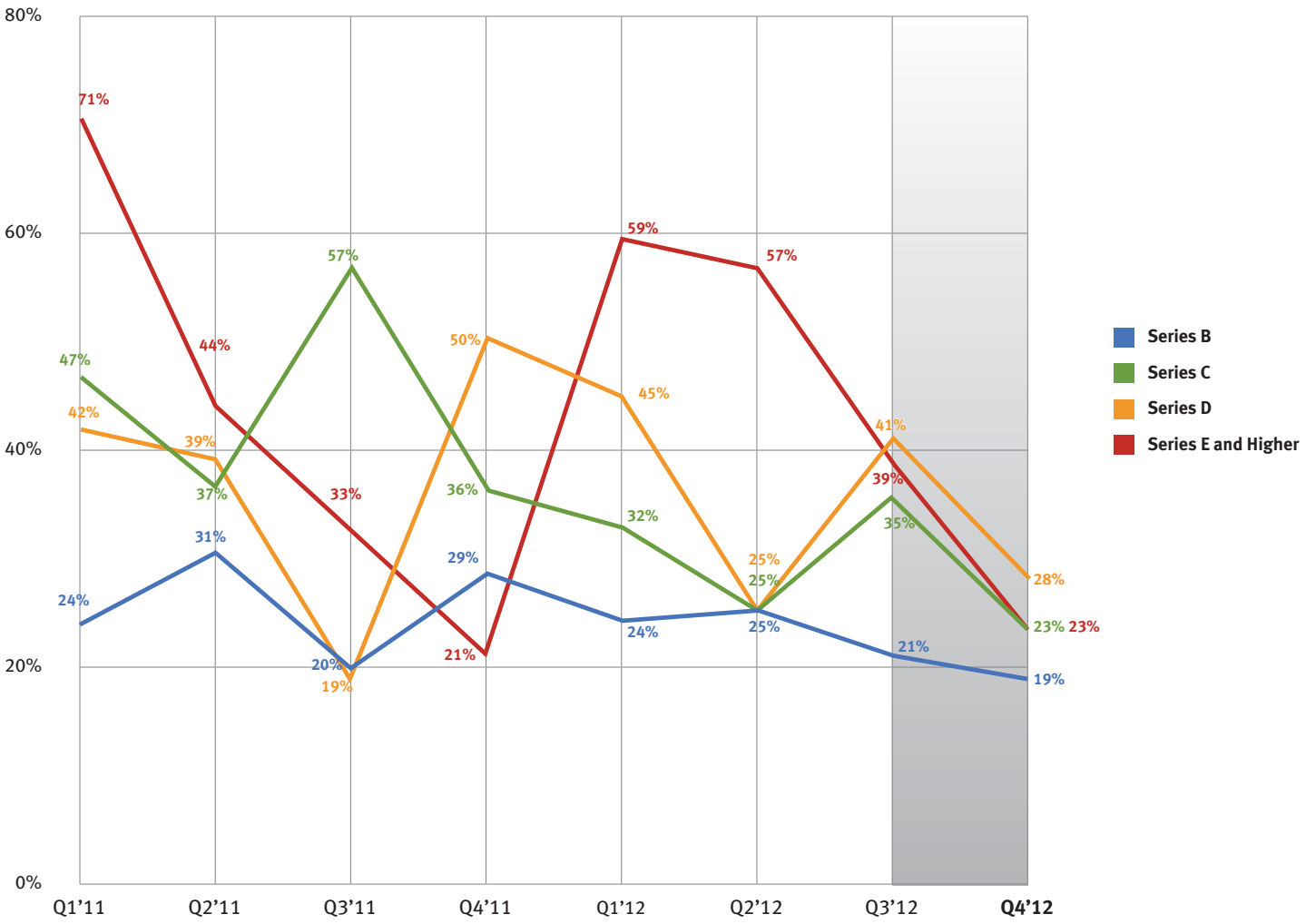
Series	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12
Series A	18%	19%	18%	24%	24%	24%	24%	12%
Series B	24%	25%	31%	24%	18%	17%	24%	31%
Series C	24%	26%	19%	19%	17%	21%	22%	22%
Series D	20%	15%	14%	17%	17%	14%	15%	16%
Series E and Higher	14%	15%	18%	16%	24%	24%	15%	19%

Fenwick & West Data on Legal Terms

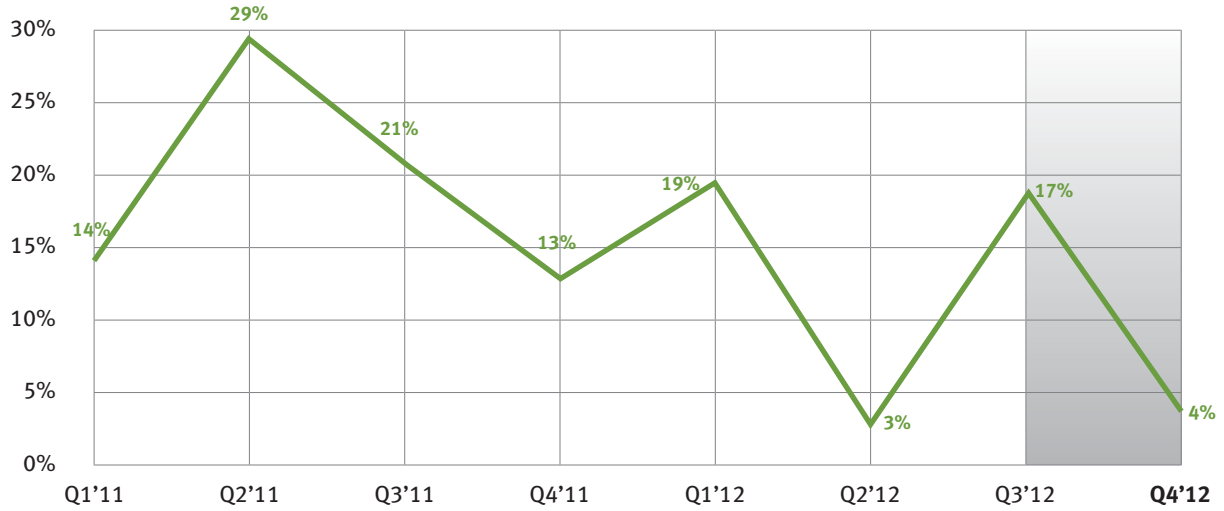
LIQUIDATION PREFERENCE—Senior liquidation preferences were used in the following percentages of financings.



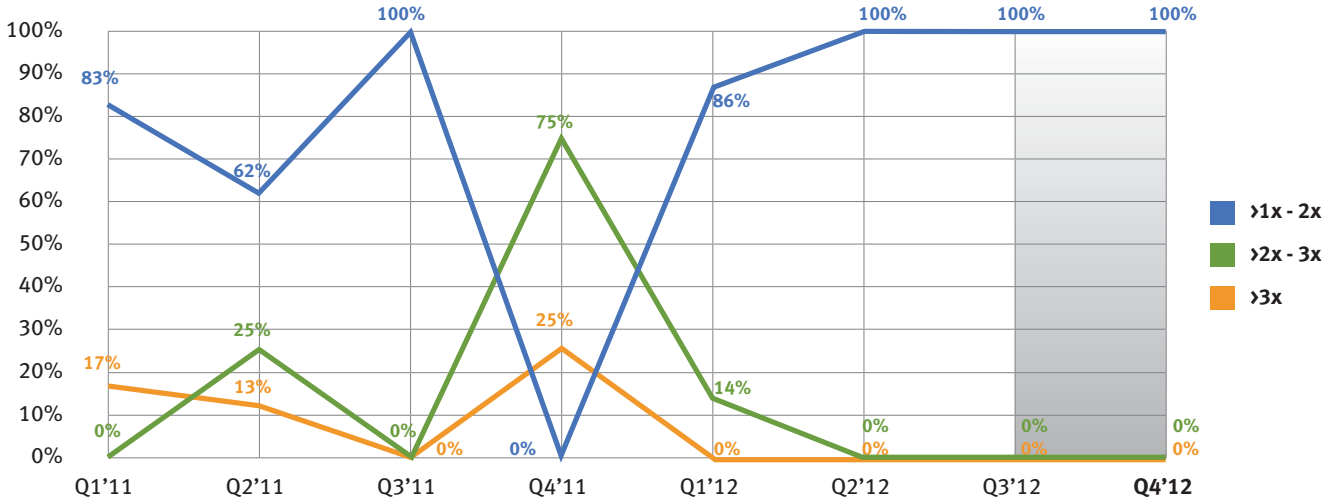
The percentage of senior liquidation preference by series was as follows:



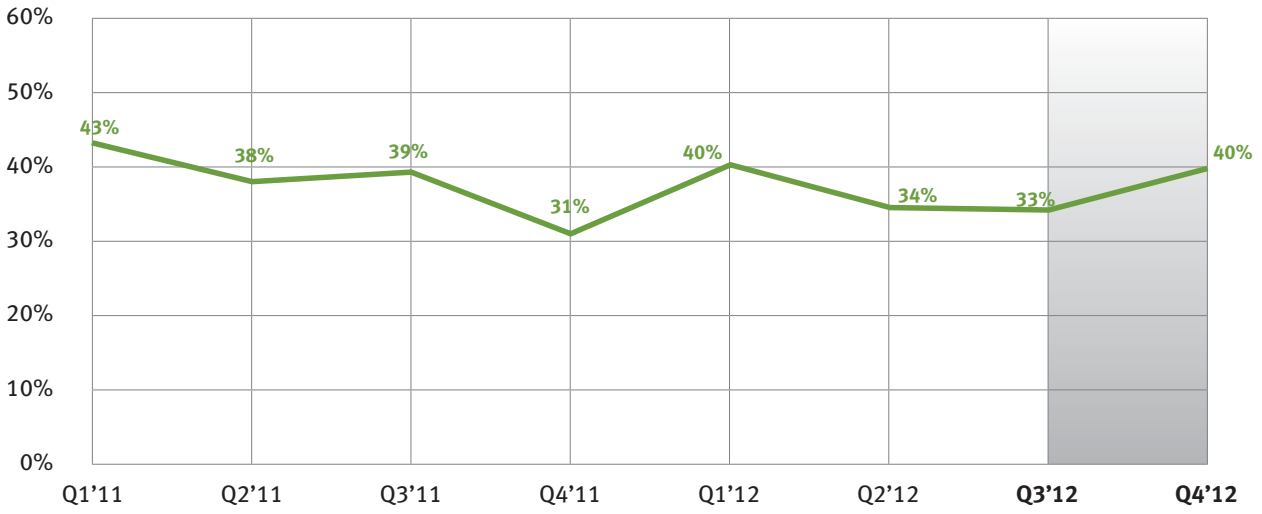
MULTIPLE LIQUIDATION PREFERENCES—The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



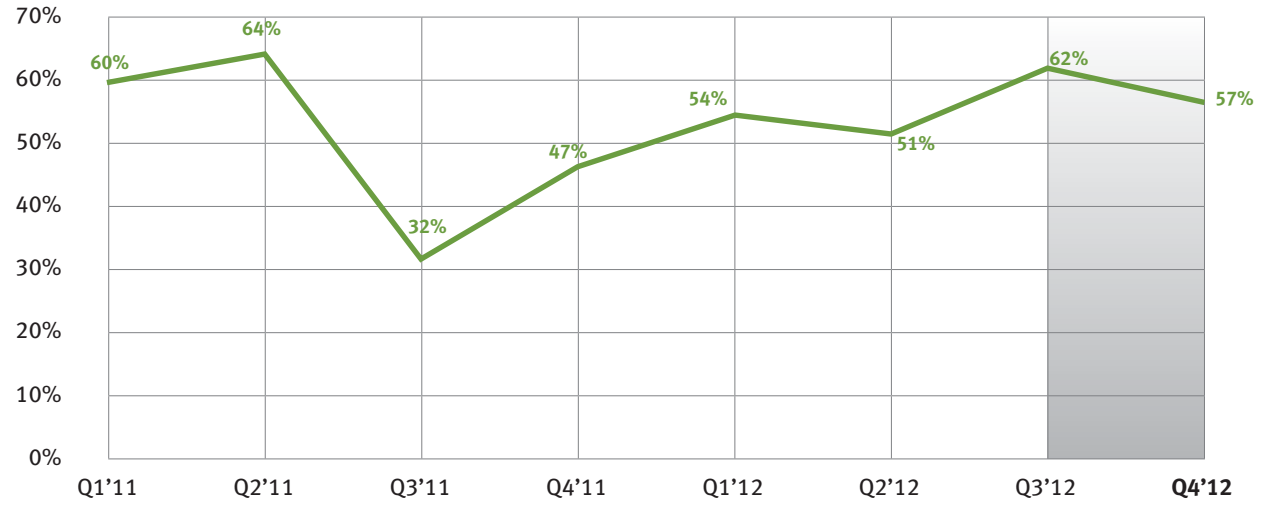
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



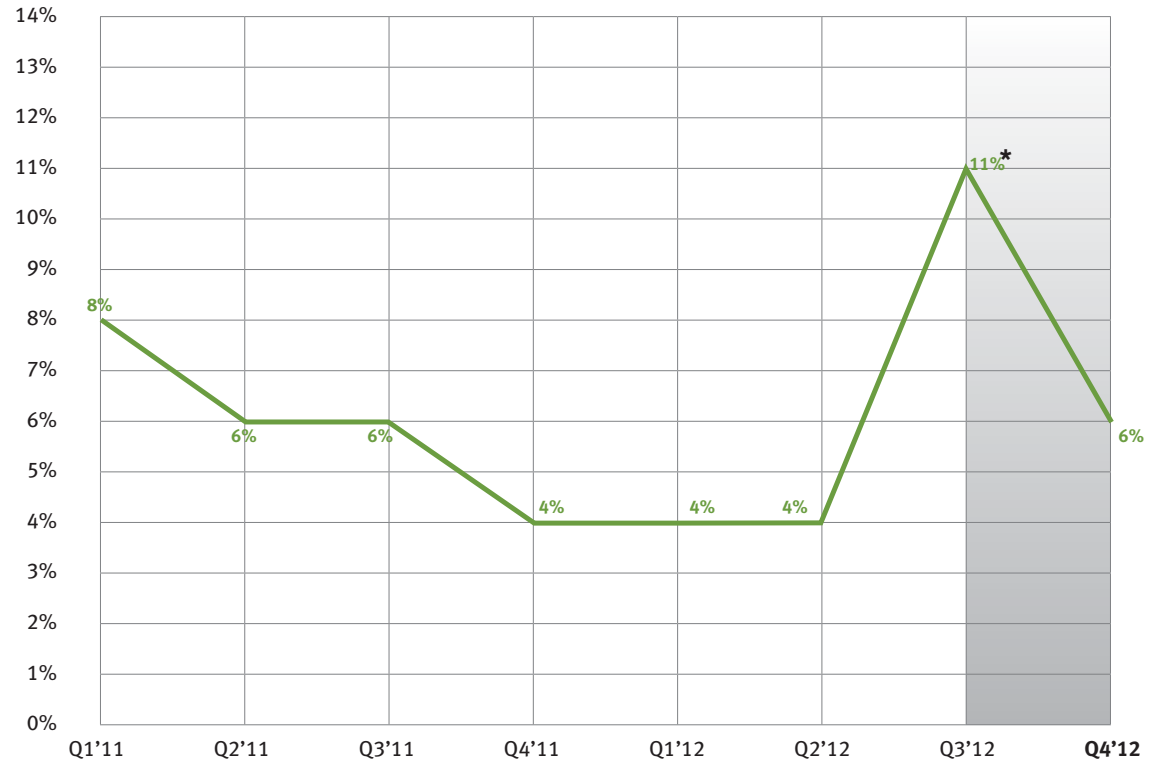
PARTICIPATION IN LIQUIDATION — The percentages of financings that provided for participation were as follows:



Of the financings that had participation, the percentages that were not capped were as follows:

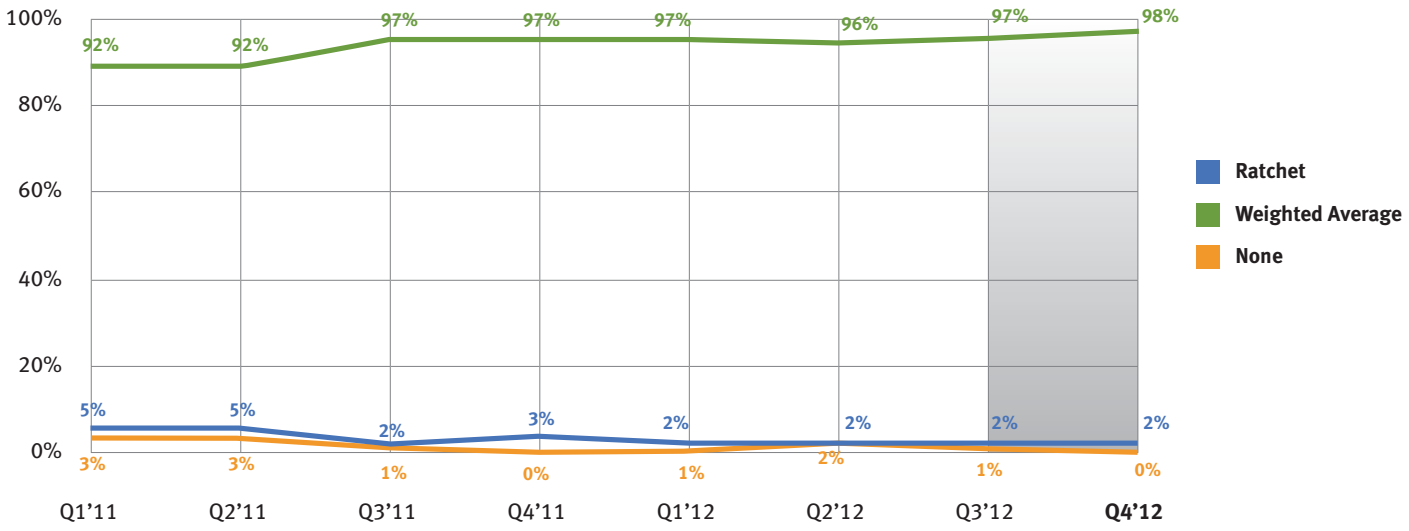


CUMULATIVE DIVIDENDS – Cumulative dividends were provided for in the following percentages of financings:

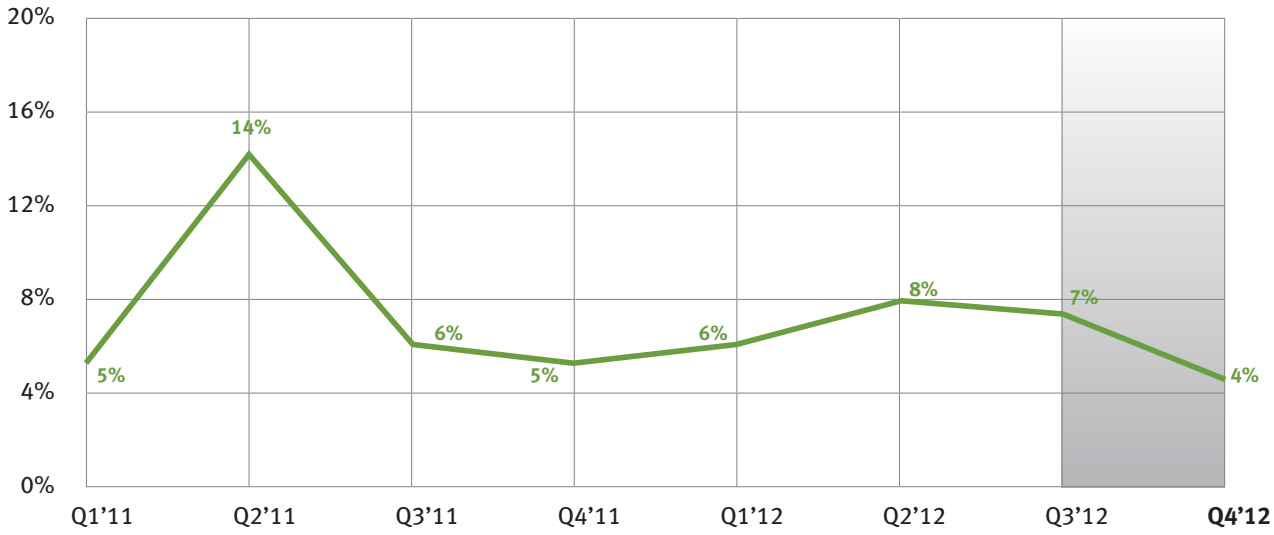


* Note that the use of cumulative dividends increased noticeably in 3Q12. We note that 46% of the financings using cumulative dividends were in the life science industry, and that 38% of the financings (and 33% of the life science financings) using cumulative dividends did not provide for a participating liquidation preference, suggesting that in those financings' cumulative dividends were used as a substitute for participating liquidation preference.

ANTIDILUTION PROVISIONS –The uses of antidilution provisions in the financings were as follows:

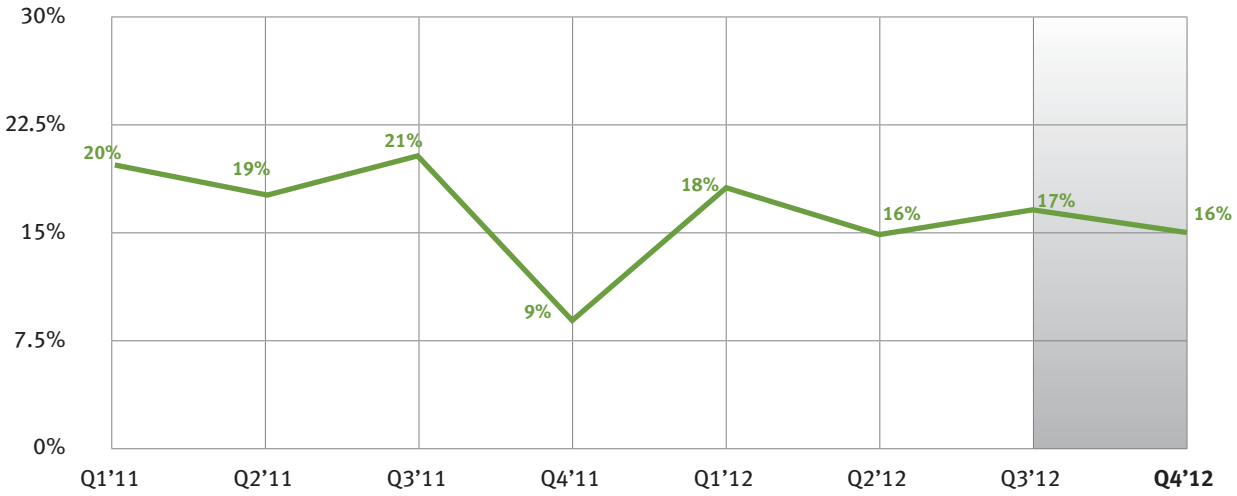


PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:

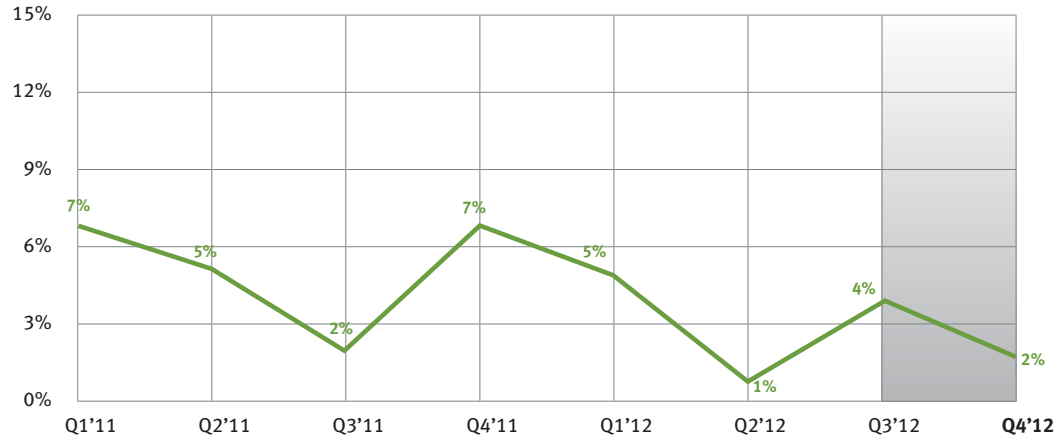


Note that anecdotal evidence indicates that companies are increasingly using contractual "pull up" provisions instead of charter based "pay to play" provisions. These two types of provisions have similar economic effect but are implemented differently. The above information includes some, but likely not all, pull up provisions, and accordingly may understate the use of these provisions.

REDEMPTION – The percentages of financings providing for mandatory redemption or redemption at the option of the investor were as follows:



CORPORATE REORGANIZATIONS – The percentages of post-Series A financings involving a corporate reorganization (i.e. reverse splits or conversion of shares into another series or classes of shares) were as follows:



- **Notes on Methodology.**

  When interpreting the Barometer results please bear in mind that the results reflect the average price increase of companies raising money in a given quarter compared to their prior round of financing, which was in general 12 to 18 months prior. Given that venture capitalists (and their investors) generally look for at least a 20% IRR to justify the risk that they are taking, and that by definition we are not taking into account those companies that were unable to raise a new financing (and that likely resulted in a loss to investors), a Barometer increase in the 40% range should be considered normal.

  When comparing current period results to prior period results based on third party data (e.g., amounts invested by venture capitalists, amount of M&A proceeds, etc.), we use the prior period results initially published by the third party for the period, not the results that have been updated with additional information over time, to provide better comparability with the current period published results. For example, when comparing fourth quarter results to third quarter results, we use the initially published third quarter results, typically provided in October, not the updated results that are typically provided in January. Such situations are set forth in our report with a parenthetical as to the date the information was initially reported.

- **Disclaimer.**

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- **Contact/Sign Up Information**

  For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West.

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