

Background

We analyzed the terms of 195 venture financings closed in the second quarter of 2016 by companies headquartered in Silicon Valley.

Overview of Results

The weakening in venture valuations that began in the second half of 2015 continued in 2Q16. Valuation metrics have fallen from all time highs¹ in mid-2015 to now being generally flat with their 12 year averages.

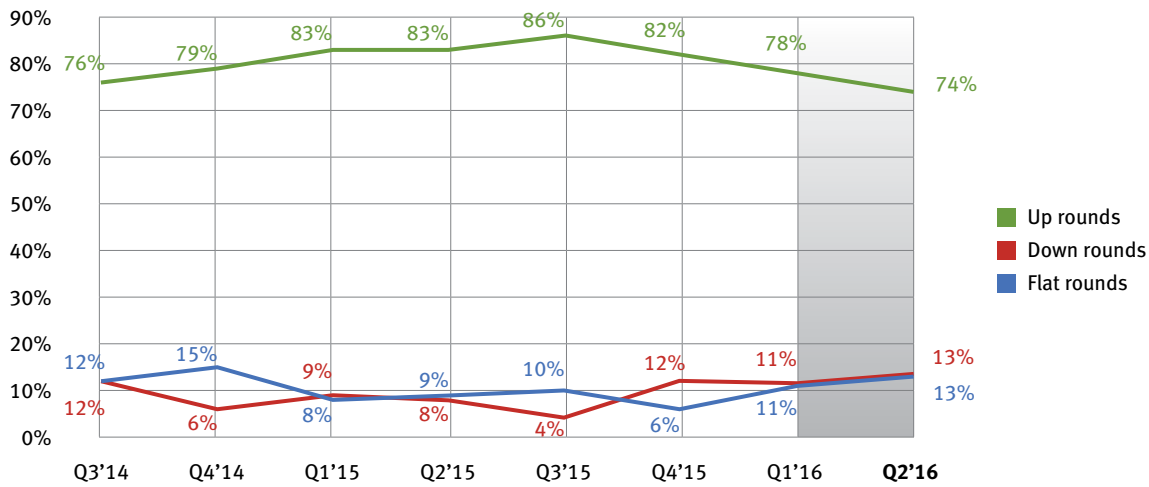
- Up rounds exceeded down rounds 74% to 13%, with 13% flat, in 2Q16. This was a decline from 1Q16, when up rounds exceeded down rounds 78% to 11%, with 11% flat. This quarter was the third straight quarter in which the percentage of up rounds declined and the lowest percentage of up rounds since 4Q13. The 12 year average of up rounds is 66%.
- The average price increase of financings in 2Q16 compared to the company's prior financing (the "Barometer") was 40%. This was a decline from the 53% recorded in 1Q16, the third straight quarterly decline and the lowest average price increase since 3Q10. The 12 year average for the Barometer is 56%.
- The median price increase of financings in 2Q16 compared to the company's prior financing was 31%. This was a decline from the 36% recorded in 1Q16, the fourth straight quarterly decline and the lowest median increase since 4Q13. The 12 year average median increase is 28%.
- The highest percentage up round in 2Q was 279%. This was the lowest "highest percentage up round" in a quarter since 2Q09.
- Valuation metrics were generally similar across the four major industries (software, internet/digital media, hardware and life sciences).
- The percentage of financings that were either Series A² or Series B financings was 44%, the lowest percentage since 2Q14.

¹ Since we began calculating valuation metrics in 2004.

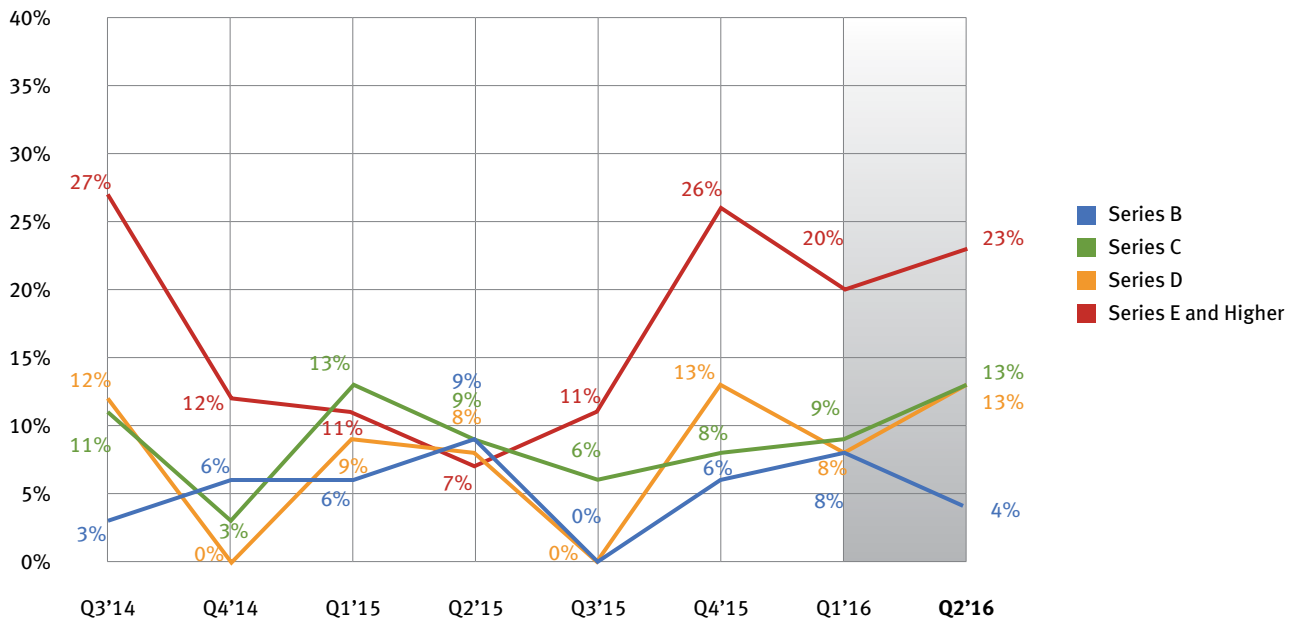
² Includes venture backed seed rounds in which at least \$1 million raised.

Fenwick & West Data on Valuation

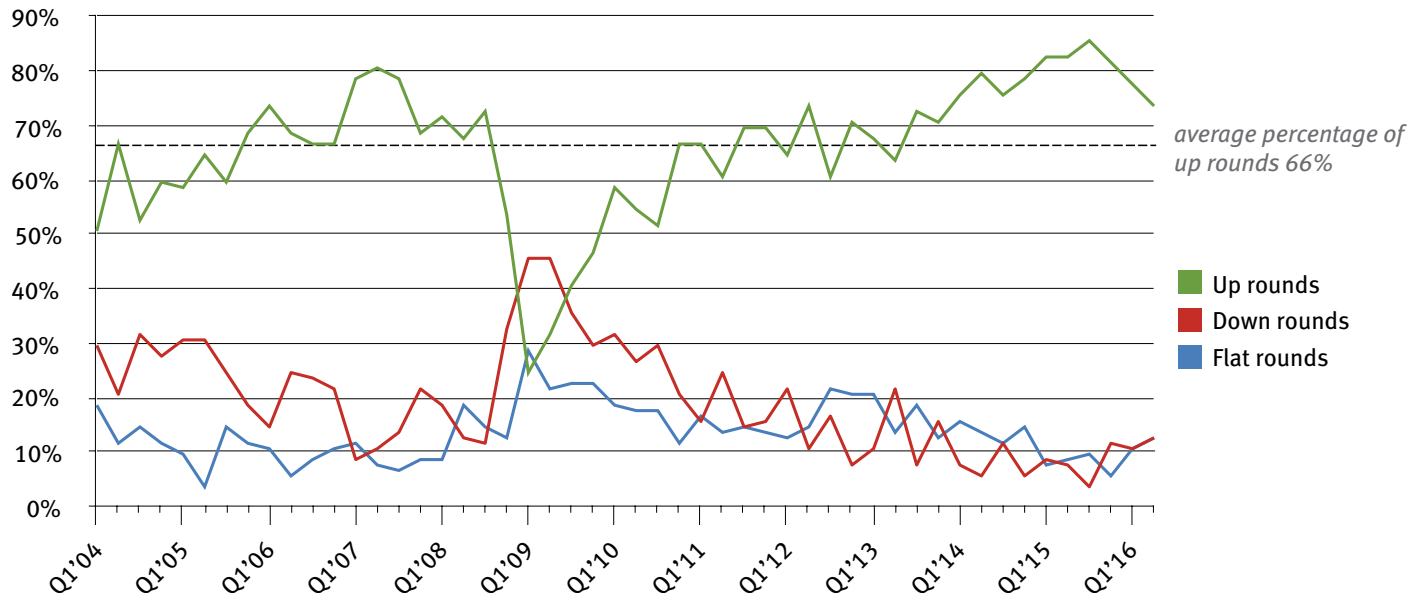
PRICE CHANGE — The direction of price changes for companies receiving financing in a quarter, compared to their prior round of financing.



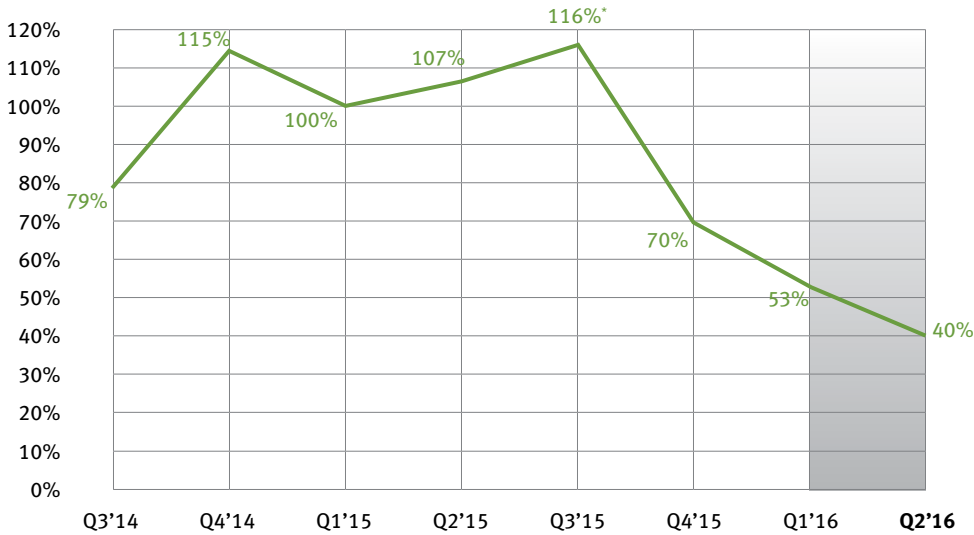
The percentage of down rounds by series were as follows:



EXPANDED PRICE CHANGE GRAPH — Set forth below is the direction of price changes for each quarter since 2004.

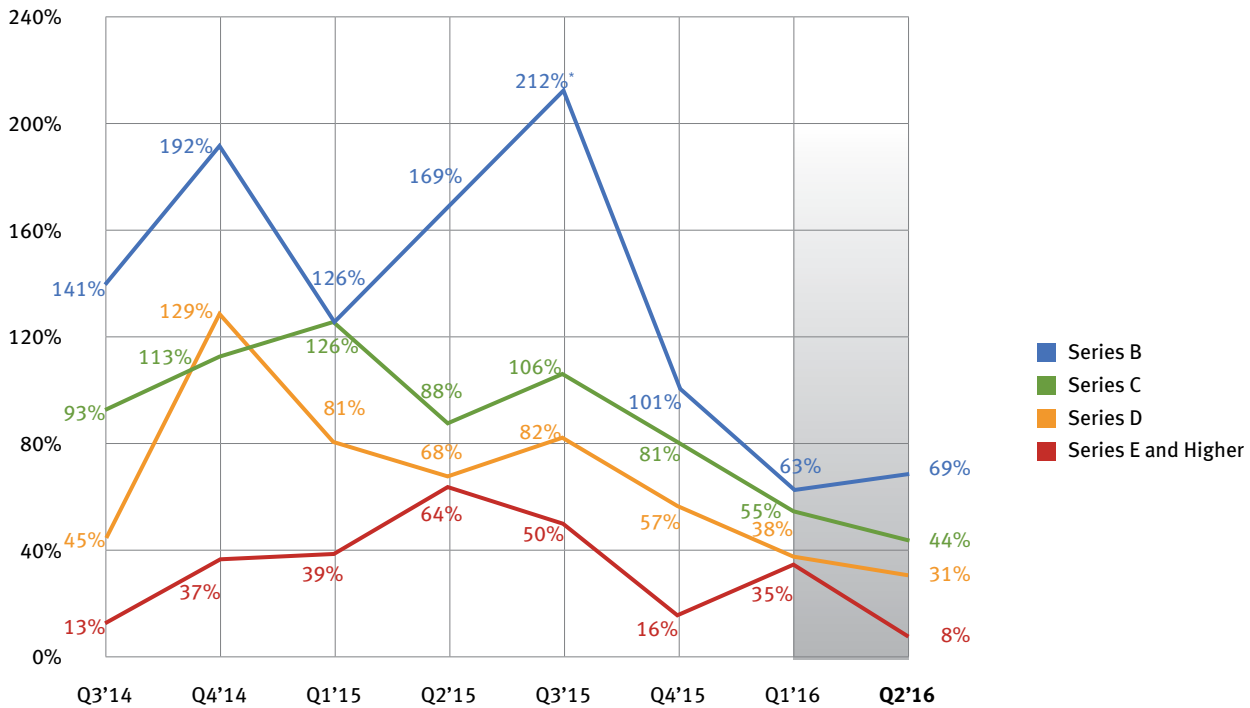


THE FENWICK & WEST VENTURE CAPITAL BAROMETER™ (MAGNITUDE OF PRICE CHANGE)— Set forth below is the average percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing.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



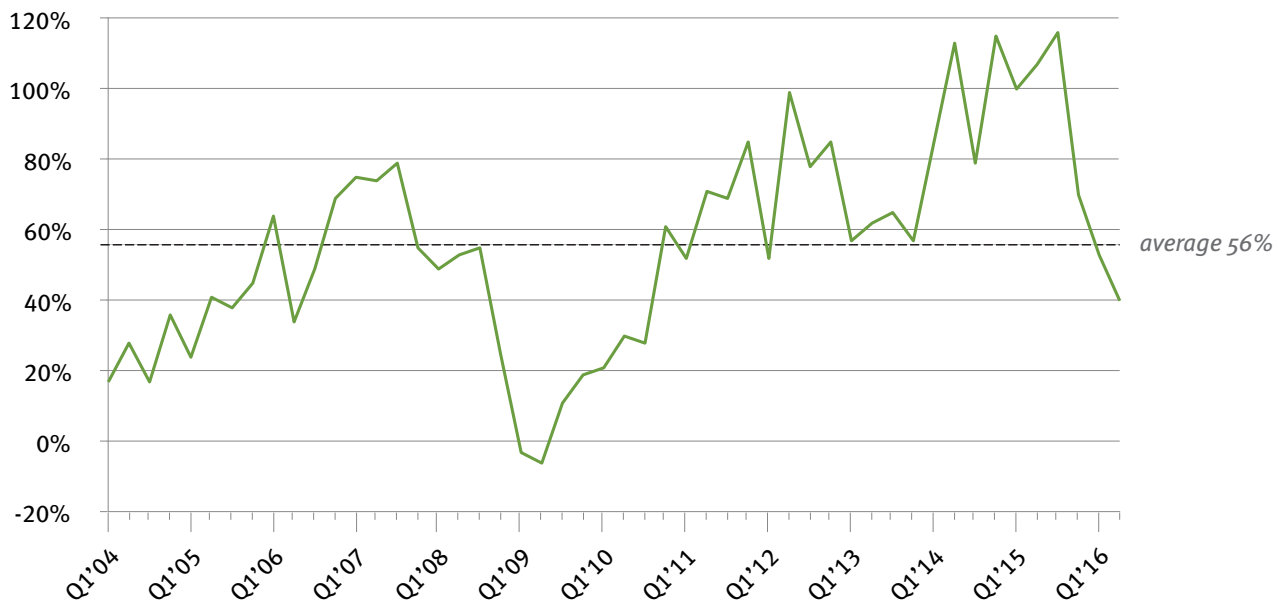
* One company had an over 3000% up round in 3Q15. If this financing was excluded, the Barometer result for 3Q15 would have been 93%.

The Barometer results by series are as follows:



* Please note that the above-mentioned over 3000% up round financing in 3Q15 was a Series B round. If this financing was excluded, the Barometer result for Series B rounds in 3Q15 would have been 132%.

EXPANDED BAROMETER GRAPH — Set forth below is the average percentage price change for each quarter since we began calculating this metric in 2004.



RESULTS BY INDUSTRY FOR PRICE CHANGES AND FENWICK & WEST VENTURE CAPITAL BAROMETER™ — The table below sets forth the direction of price changes and Barometer results for companies receiving financing in this quarter, 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	74%	13%	13%	45%	76
Hardware	70%	15%	15%	22%	20
Life Science	75%	13%	13%	33%	24
Internet/Digital Media	74%	13%	13%	35%	23
Other	83%	8%	8%	56%	12
Total all Industries	74%	13%	13%	40%	155

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.

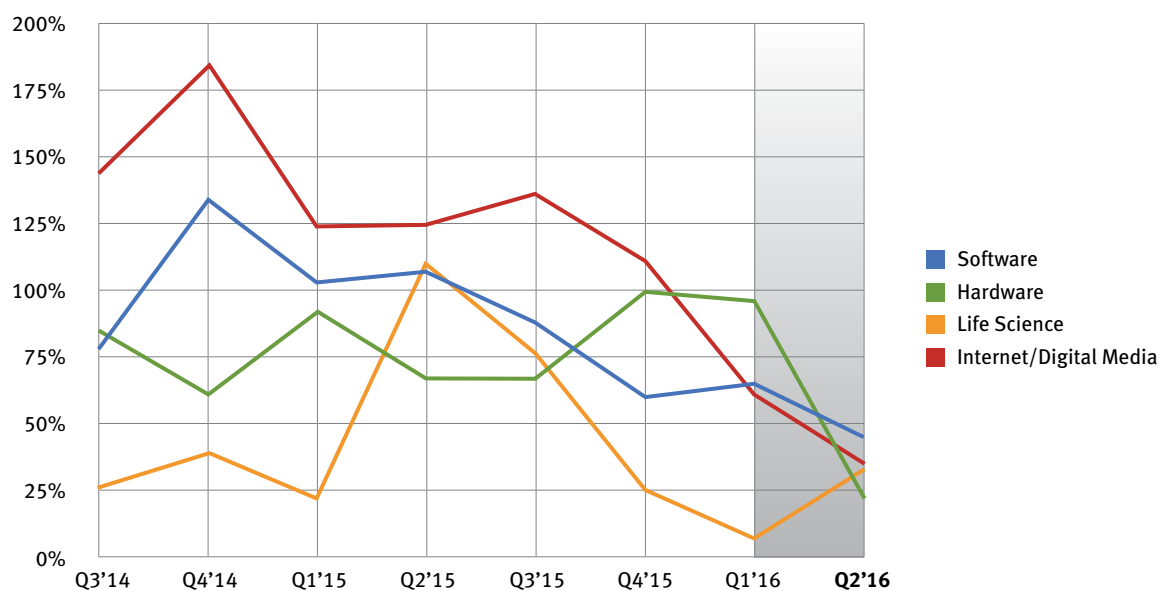
Down Rounds	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16
Software	8%	7%	8%	3%	6%	10%	7%	13%
Hardware	8%	6%	6%	25%	0%	18%	18%	15%
Life Science	21%	6%	13%	12%	6%	25%	17%	13%
Internet/Digital Media	14%	6%	12%	9%	4%	6%	10%	13%
Other	25%	0%	9%	11%	0%	11%	0%	8%
Total all Industries	12%	6%	9%	8%	4%	12%	10%	13%

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

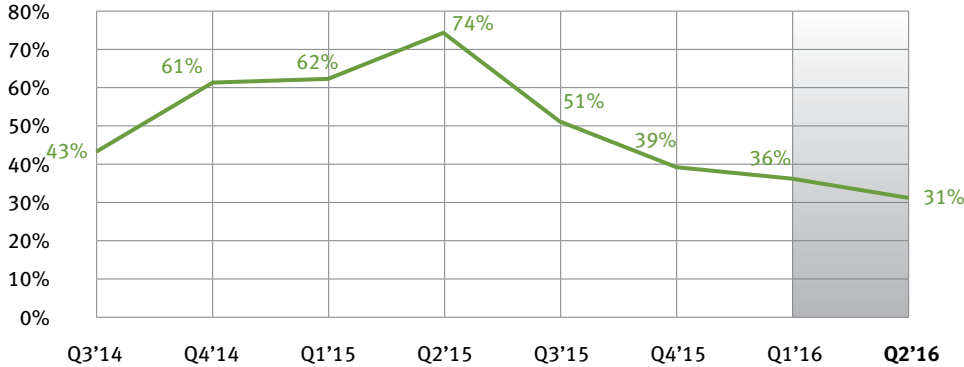
Barometer	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16
Software	78%	134%	103%	107%	88%	61%	65%	45%
Hardware	85%	61%	92%	67%	67%	100%	96%	22%
Life Science	26%	39%	22%	110%	76%	25%	7%	33%
Internet/Digital Media	139%	178%	124%	125%	136%	115%	61%	35%
Other	56%	83%	155%	108%	509%	33%	16%	56%
Total all Industries	79%	115%	100%	107%	116%	69%	53%	40%

* If the above-mentioned over 3000% up round financing in 3Q15 was excluded, the Barometer results for companies in the “Other” industry group and for all reviewed companies in 3Q15 would have been 47% and 93%, respectively.

A graphical representation of the above is below.



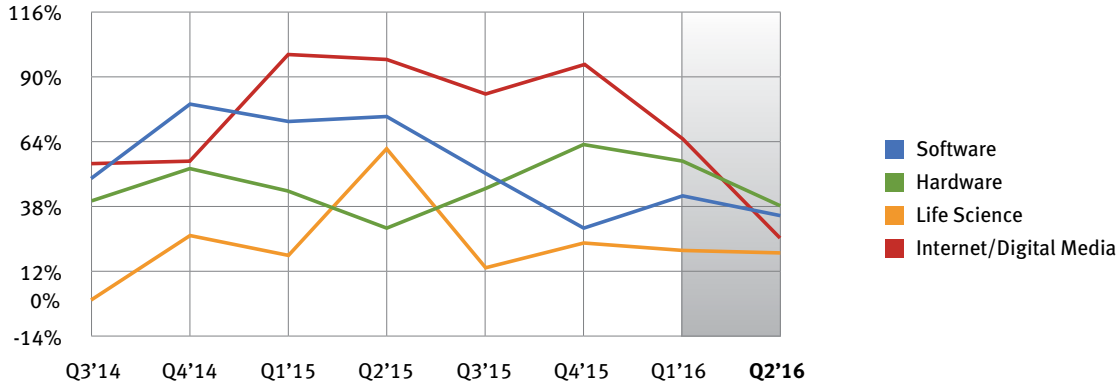
MEDIAN PERCENTAGE PRICE CHANGE — Set forth below is the median percentage change between the price per share at which companies raised funds in a quarter, compared to the price per share at which such companies raised funds in their prior round of financing. In calculating the median, all rounds (up, 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.



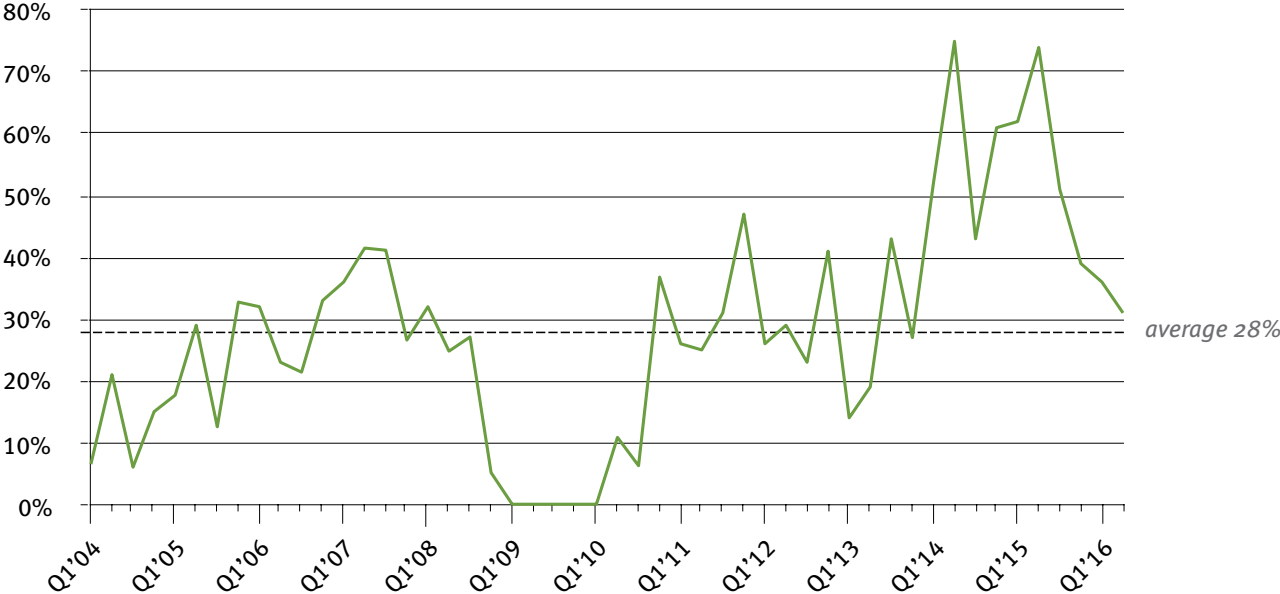
MEDIAN PERCENTAGE PRICE CHANGE RESULTS BY INDUSTRY — The table below sets forth the median percentage price change results by industry group for each of the last eight quarters. Please note that this is different than the Barometer, which is based on average percentage price change.

Median % Price Change	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16
Software	49%	79%	72%	74%	51%	29%	42%	34%
Hardware	40%	53%	44%	29%	45%	63%	56%	38%
Life Science	0%	26%	18%	61%	13%	23%	20%	19%
Internet/Digital Media	54%	56%	99%	97%	83%	96%	65%	25%
Other	38%	29%	92%	77%	36%	38%	2%	39%
Total all Industries	43%	61%	62%	74%	51%	39%	36%	31%

A graphical representation of the above is below.



EXPANDED MEDIAN PRICE CHANGE GRAPH — Set forth below is the median percentage price change for each quarter since we began calculating this metric in 2004.

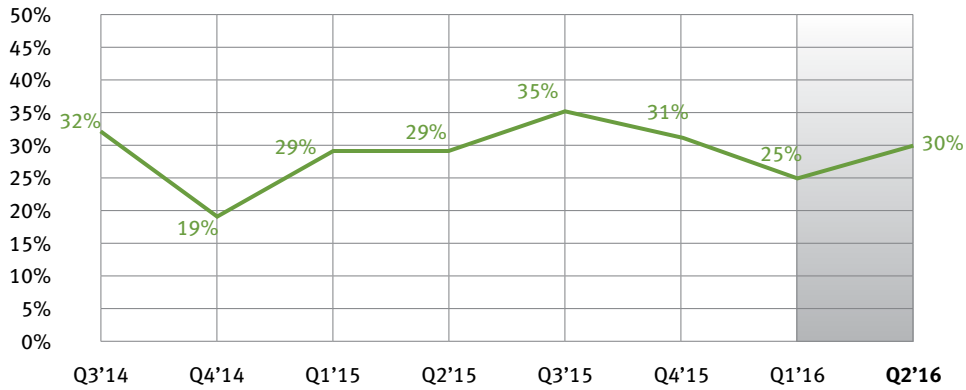


FINANCING ROUND — This quarter’s financings broke down by series according to the chart below.

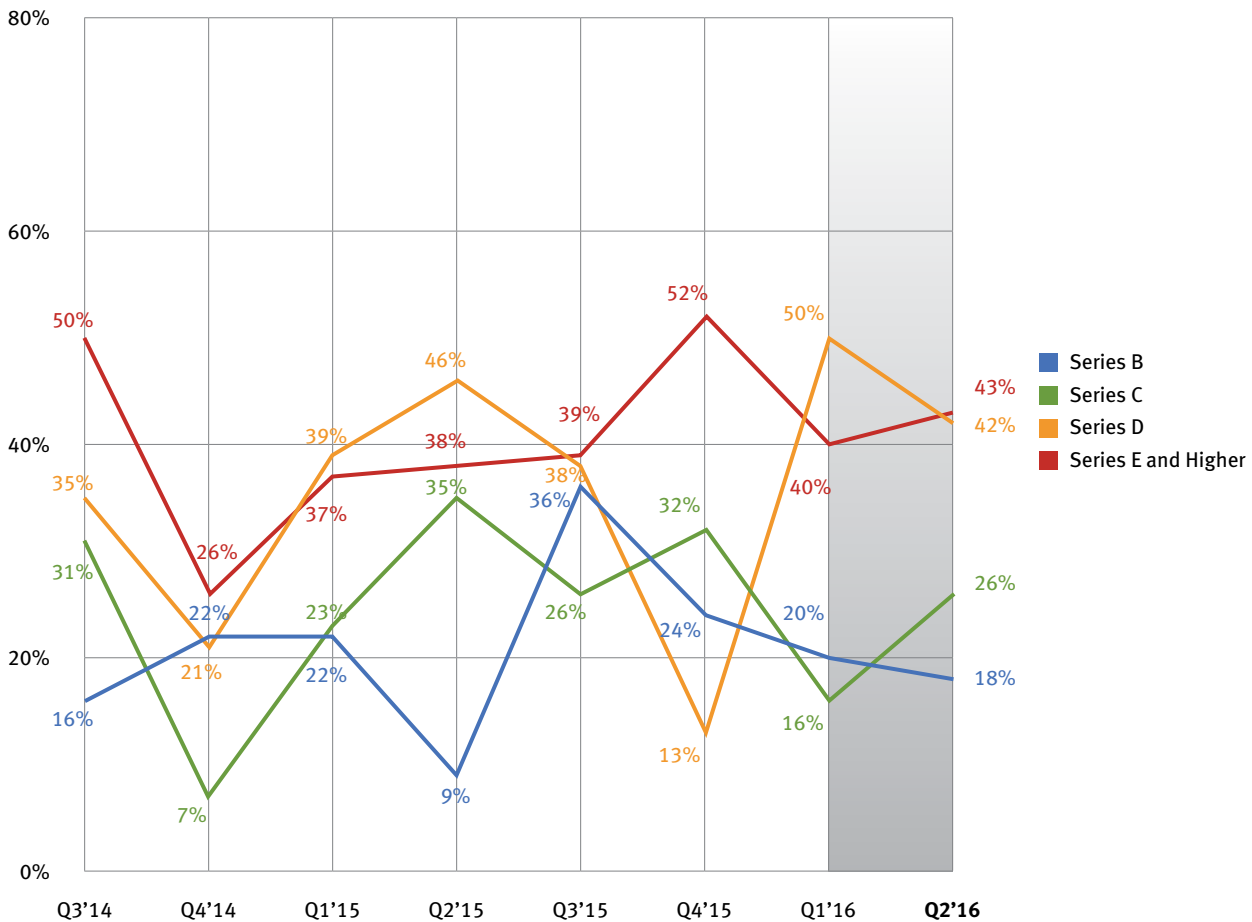
Series	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16
Series A	28%	27%	25%	18%	23%	27%	22%	21%
Series B	21%	21%	29%	28%	22%	21%	27%	23%
Series C	20%	19%	18%	20%	19%	25%	29%	24%
Series D	14%	9%	13%	16%	14%	11%	8%	12%
Series E and Higher	17%	23%	16%	17%	22%	16%	14%	21%

Fenwick & West Data on Legal Terms

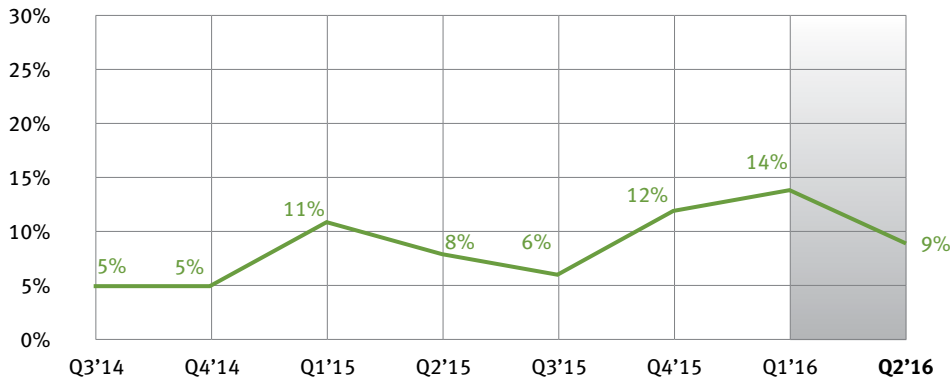
LIQUIDATION PREFERENCE – Senior liquidation preferences were used in the following percentages of financings.



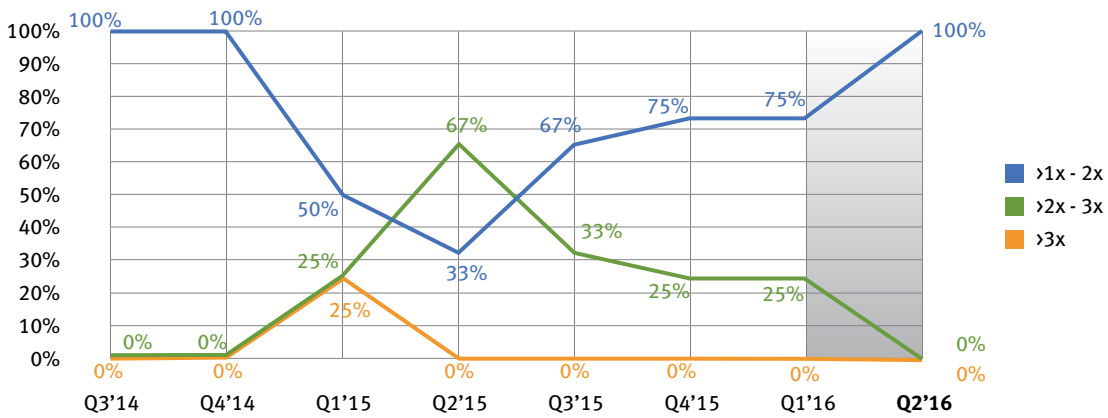
The percentage of senior liquidation preference by series was as follows:



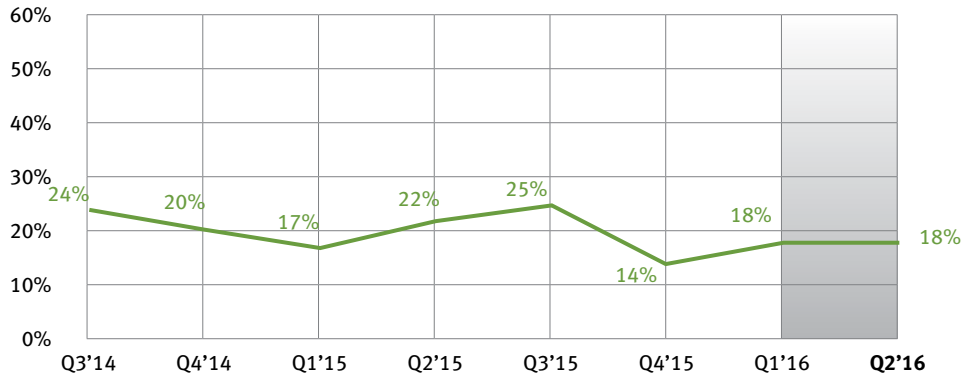
MULTIPLE LIQUIDATION PREFERENCES— The percentage of senior liquidation preferences that were multiple liquidation preferences were as follows:



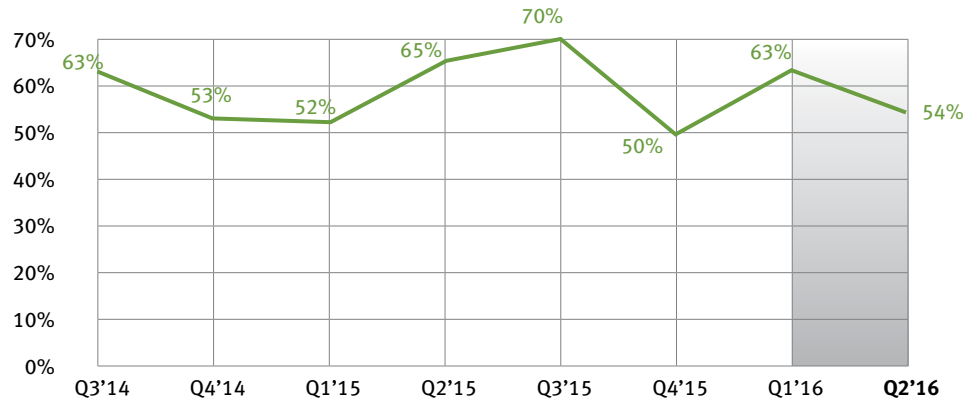
Of the senior liquidation preferences that were a multiple preference, the ranges of the multiples broke down as follows:



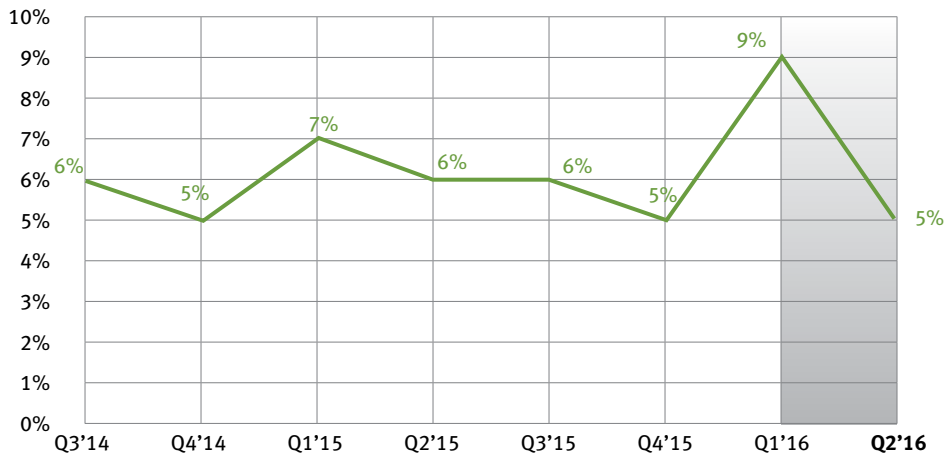
PARTICIPATION IN LIQUIDATION – The percentages of financings that provided for participation were as follows:



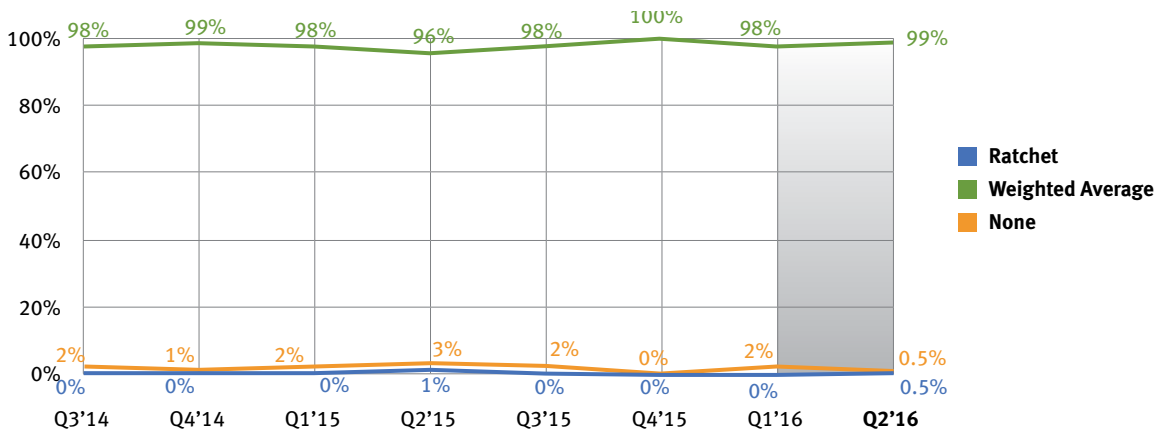
Of the financings that had participation, the percentages that were not capped were as follows:



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

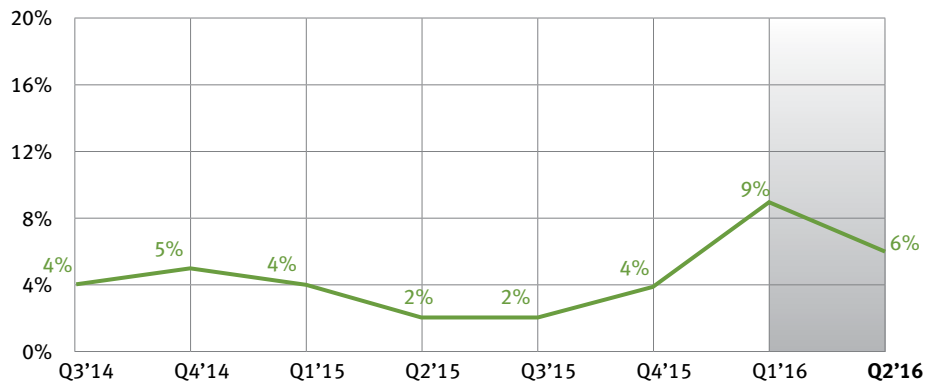


ANTIDILUTION PROVISIONS –The uses of (non-IPO) antidilution provisions in the financings were as follows:

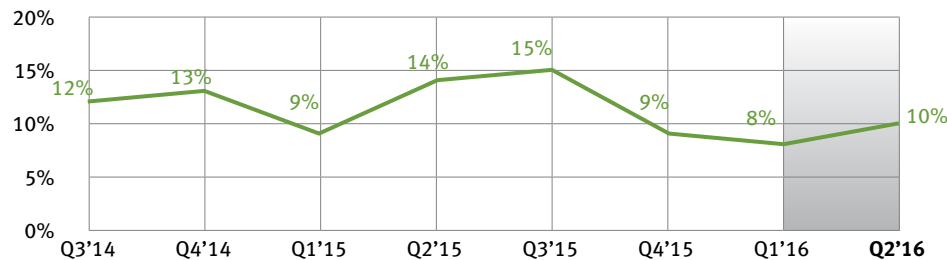


Please note that the chart above only applies to non-IPO anti-dilution provisions. In other words, the chart refers to anti-dilution provisions that protect the investor against a future venture financing at a price below what the investor paid. The chart does not include anti-dilution provisions designed to protect against an IPO at a price below the price paid by the venture investor (e.g., an IPO ratchet), because those provisions are generally only negotiated/included in very late stage, high value deals. We believe it would not be useful to provide a percentage of all financings that have IPO anti-dilution provisions, because it will provide a result that is artificially low. An analysis of IPO anti-dilution provisions is included in our Unicorn Survey, which by its nature is focused on late stage, high value deals.

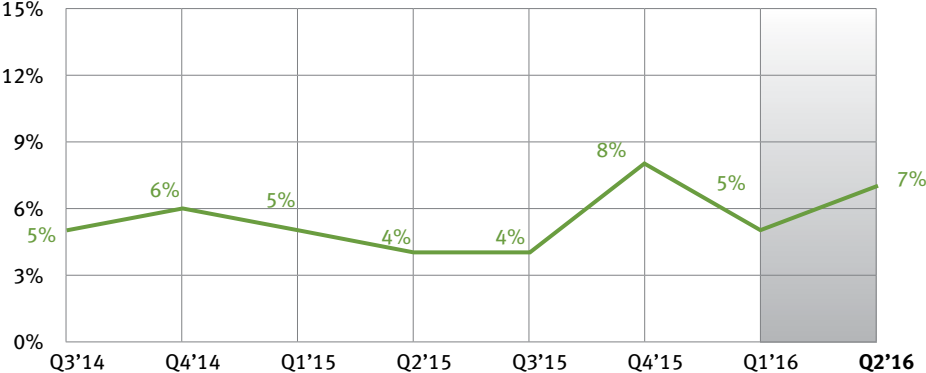
PAY-TO-PLAY PROVISIONS – The percentages of financings having pay-to-play provisions were as follows:



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:



▪ **About our Survey**

The Fenwick & West Venture Capital Survey was first published in the first quarter of 2002 and has been published every quarter since then. Its goal is to provide information to the global entrepreneurial and venture community on the terms of venture financings in Silicon Valley.

The survey is available to all, without charge, by signing up at www.fenwick.com/vcsurvey/sign-up. We are pleased to be a source of information to entrepreneurs, investors, educators, students, journalists and government officials.

Our analysis of Silicon Valley financings is based on independent data collection performed by our lawyers and paralegals, and is not skewed towards or overly representative of financings in which our firm is involved. We believe that this approach, compared to only reporting on deals handled by a specific firm, provides a more statistically valid and larger dataset.

For purposes of determining whether a company is based in “Silicon Valley” we use the area code of the corporate headquarters. The area codes included are 650, 408, 415, 510, 925, 916, 707, 831 and 209.

▪ **Note 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 on average about 18 months prior. By definition the Barometer does not include companies that do not do follow-on financings (which may be because they went out of business, were acquired or went public). Accordingly we believe that our results are most valuable for identifying trends in the venture environment, as opposed to calculating absolute venture returns. Please also note that our calculations are not “dollar weighted,” i.e. all venture rounds are treated equally, regardless of size.

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

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