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Unicorn Financings

First Half 2018

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JAN 2014 — JUN 2018

Overview

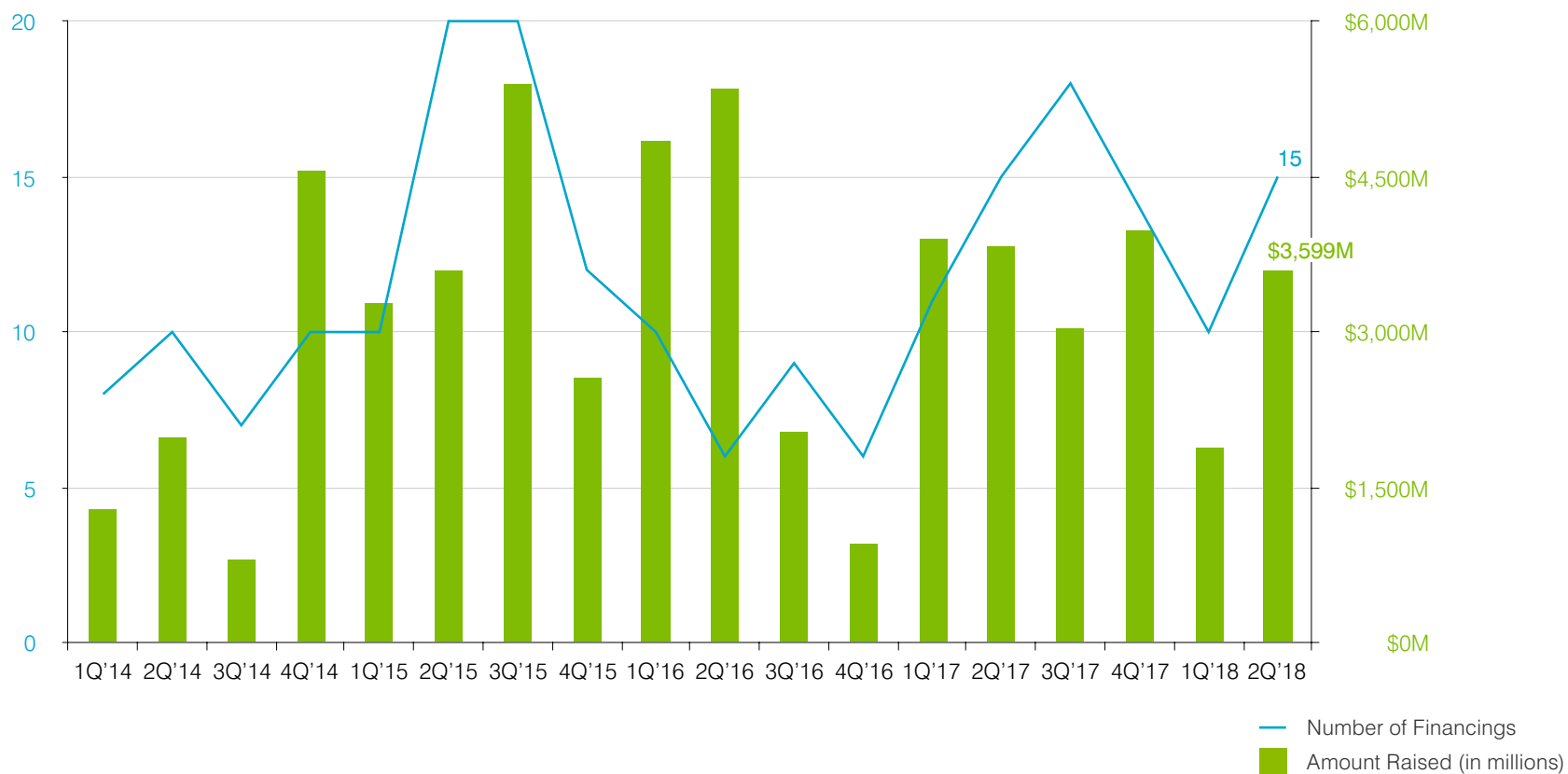
This paper analyzes the deal terms of 83 financings for unicorn companies that raised money in 2017 and the first half of 2018. The deals we analyzed are for U.S.-based, venture-backed companies that are privately held and valued at \$1 billion or more, so-called unicorns. It also includes comparative data from our prior research covering unicorn financings in 2014-2016.

Our prior research is available on www.fenwick.com ([here](#), [here](#) and [here](#)).

We have provided both quarterly and annual information, but bear in mind that the quarterly sample size is necessarily smaller, and accordingly more subject to being affected by an outlier financing.

Number of Financings and Amount Raised

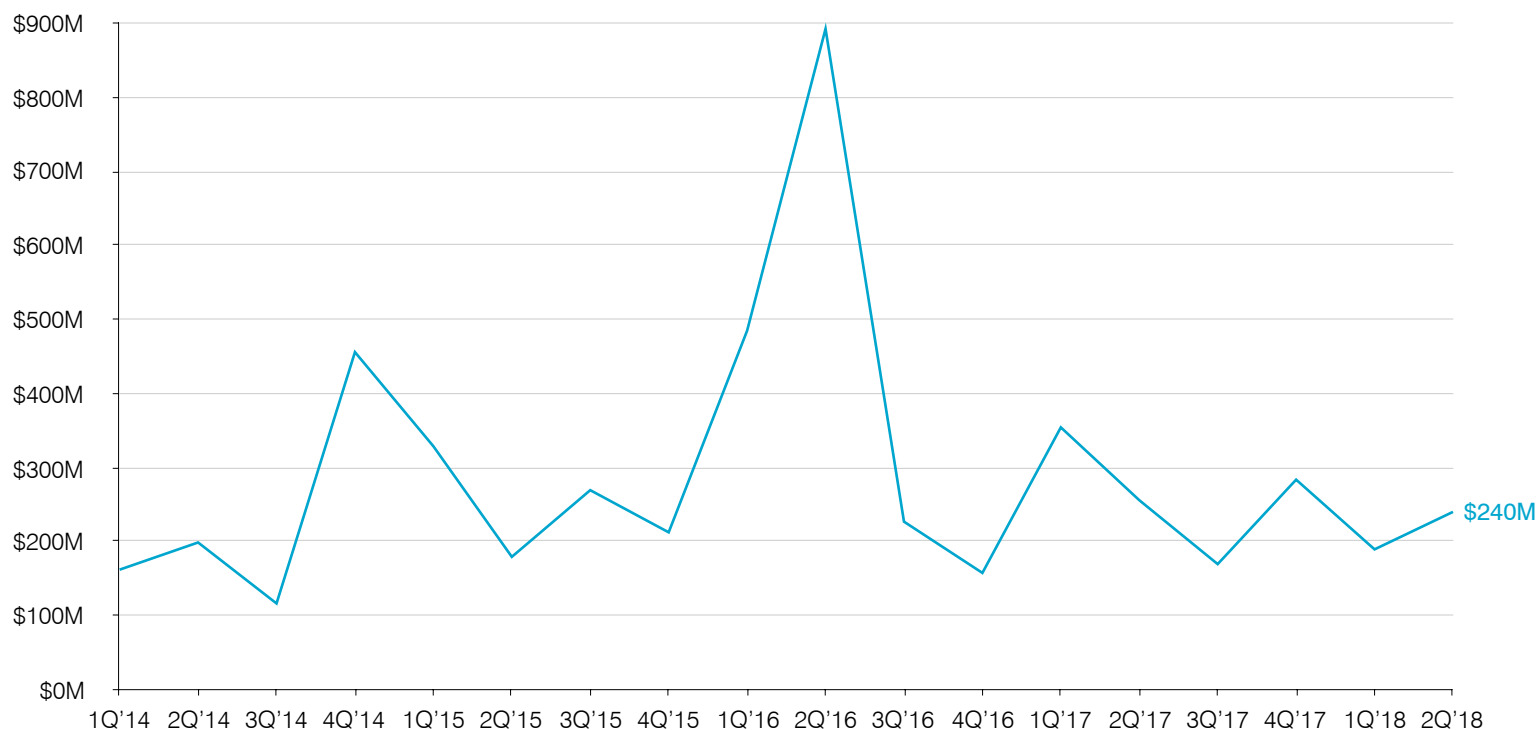
Much like the broader venture capital market, unicorn financing activity rebounded in 2017 from depressed 2016 levels. Nearly \$15 billion was invested into unicorns across 58 financings, reflecting a year-over-year increase of 12% and 87%, respectively. Through the first half of 2018, deal volume is on pace to match 2017 levels; however, the amount of capital raised in these financings has declined.



Results by Year	2014	2015	2016	2017	H1 2018
Number of Financings	35	62	31	58	25
Amount Raised (in millions)	\$8,651	\$14,801	\$13,182	\$14,746	\$5,492

Average Financing Amount

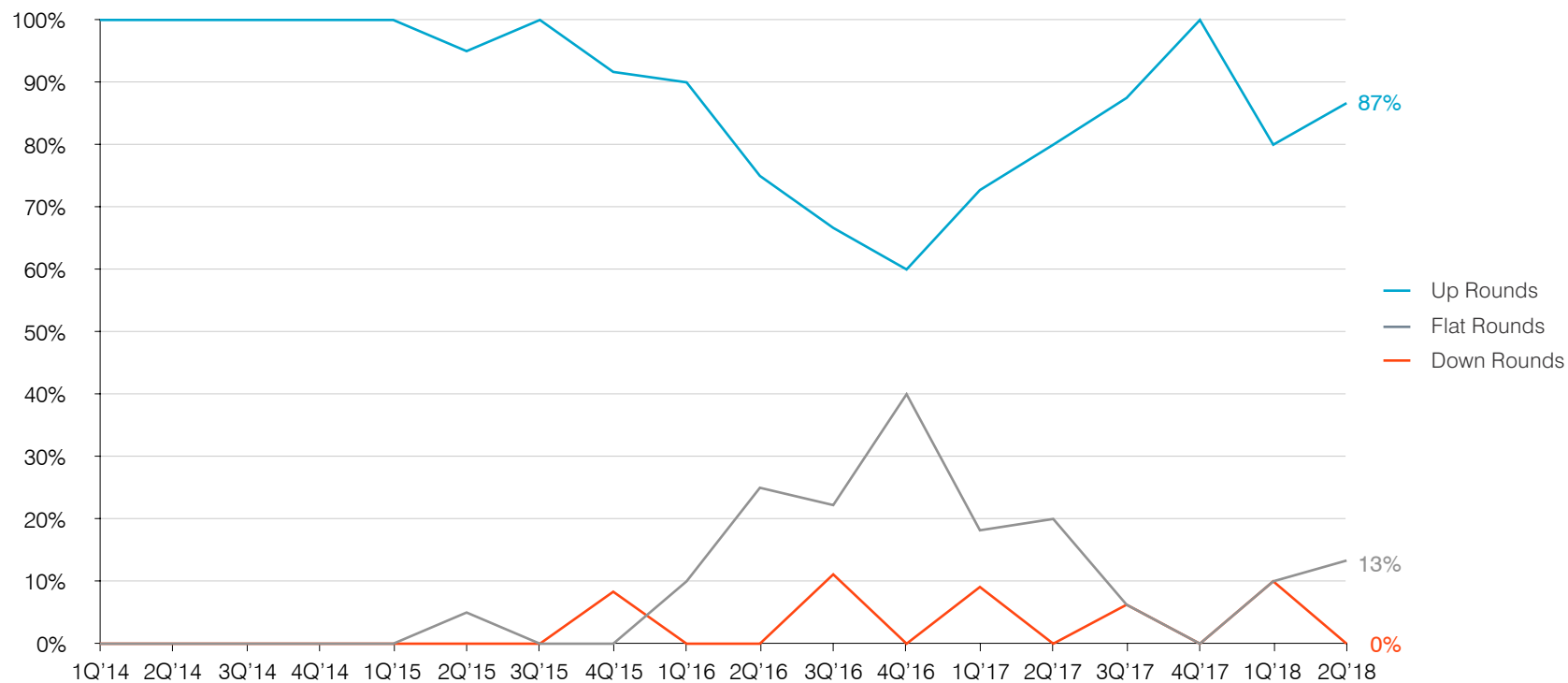
U.S. venture deals continued to grow in size, with an increasing concentration of investment dollars into a fewer number of companies. However, the average amount of capital raised in unicorn financings decreased in 2017 compared to 2016 when several fundings over \$1 billion contributed to a spike in the average financing amount. The average financing amount has continued to decline in H1 2018.



Results by Year	2014	2015	2016	2017	H1 2018
Average financing amount (in \$ millions)	\$247	\$239	\$425	\$254	\$220

Direction of Price Change from Prior Round of Financing

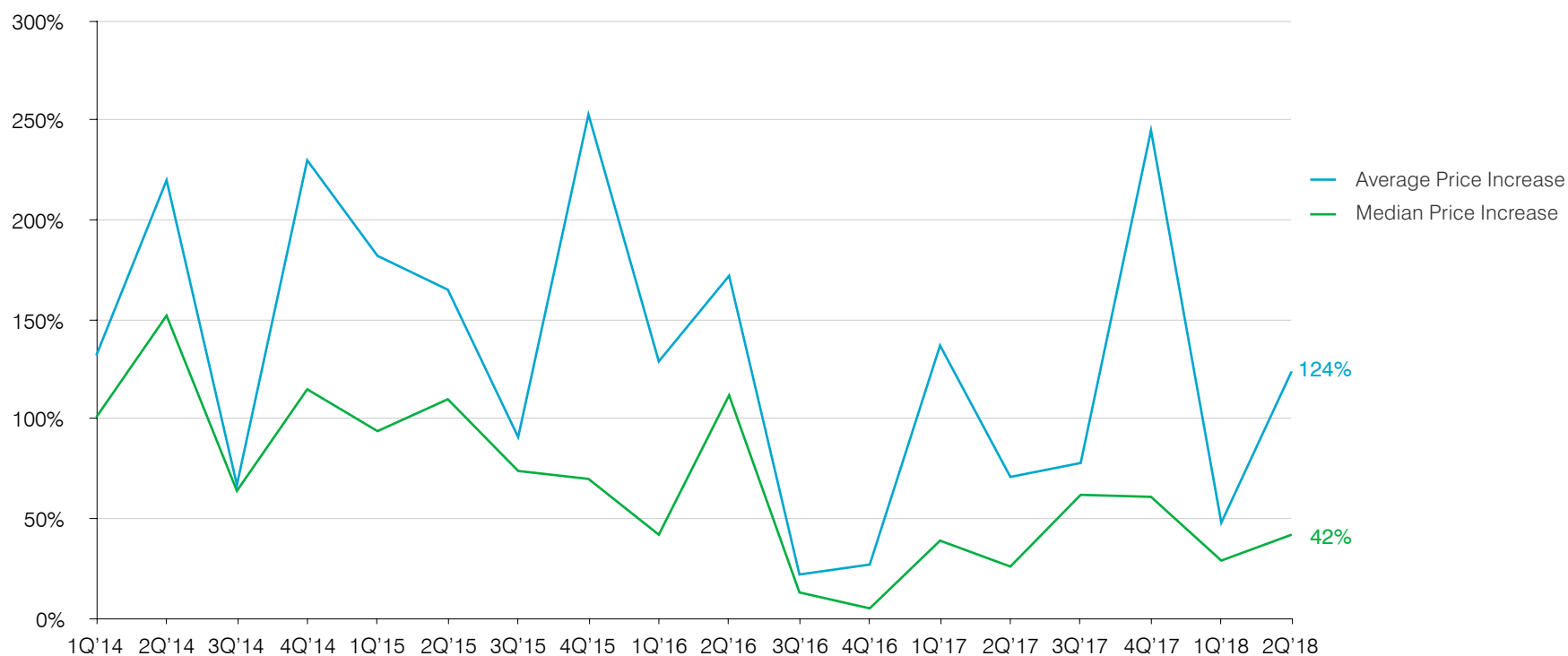
The percentage of up rounds increased throughout 2017 after five consecutive quarters of decline beginning in Q4 2015. Still, the percentage of up rounds in 2017 and H1 2018, while higher than in 2016, remains below 2014 and 2015 levels. Almost all of the financings that were not up rounds were flat rounds and there continue to be very few down rounds.



Results by Year	2014	2015	2016	2017	H1 2018
Percentage of up rounds	100%	97%	75%	86%	84%
Percentage of flat rounds	0%	2%	21%	11%	12%
Percentage of down rounds	0%	2%	4%	4%	4%

Average and Median Percentage Price Change from Prior Round of Financing

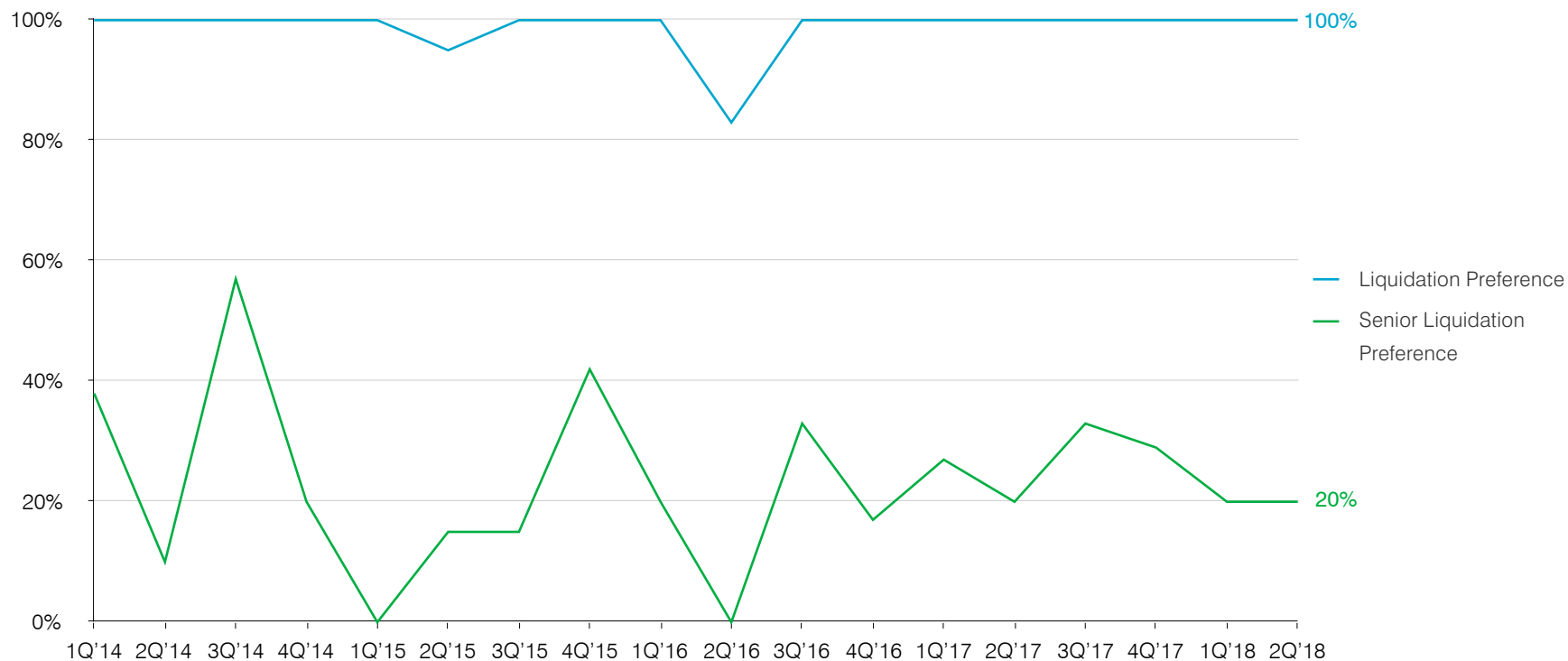
The average and median per share percentage price increase from the prior financing round increased significantly in 2017 compared to 2016, but remain below the elevated levels of 2014 and 2015. H1 2018 has seen a decline in both the average and median per share percentage price increase compared to 2017.



Results by Year	2014	2015	2016	2017	H1 2018
Average per share percentage price increase from prior financing round	167%	162%	83%	129%	94%
Median per share percentage price increase from prior financing round	109%	92%	30%	50%	35%

Acquisition Downside Protections

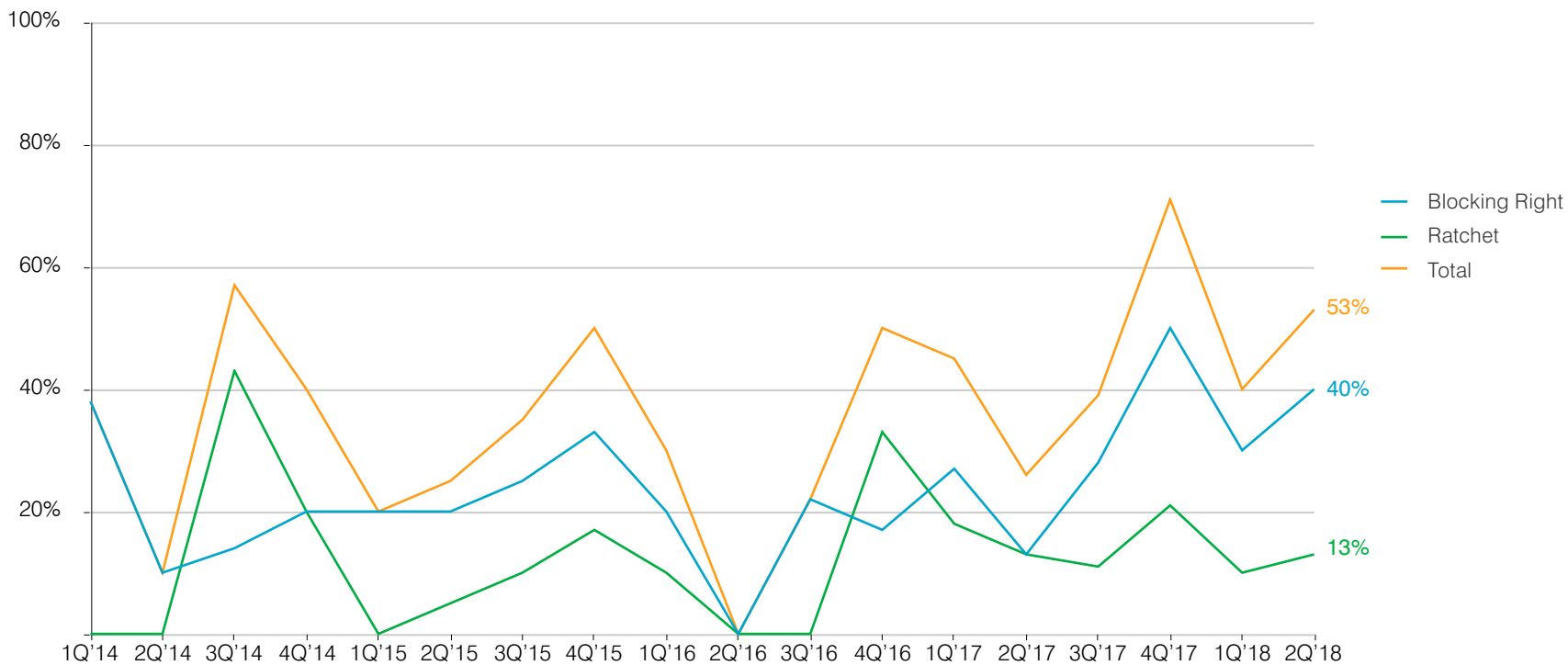
All unicorn financings in 2017 and H1 2018 provided investors with a liquidation preference. The percentage of unicorn financings in 2017 that provided investors with a senior liquidation preference increased substantially compared to 2016, coinciding with a moderate decline in U.S. M&A deal activity and stronger valuation results. As valuation results moderately weakened in H1 2018, the use of senior liquidation preferences declined.



Results by Year	2014	2015	2016	2017	H1 2018
Liquidation preference (preference over common stock)	100%	98%	97%	100%	100%
Senior liquidation preference (preference over common stock and also other series of preferred stock)	29%	18%	19%	28%	20%

IPO Downside Protections

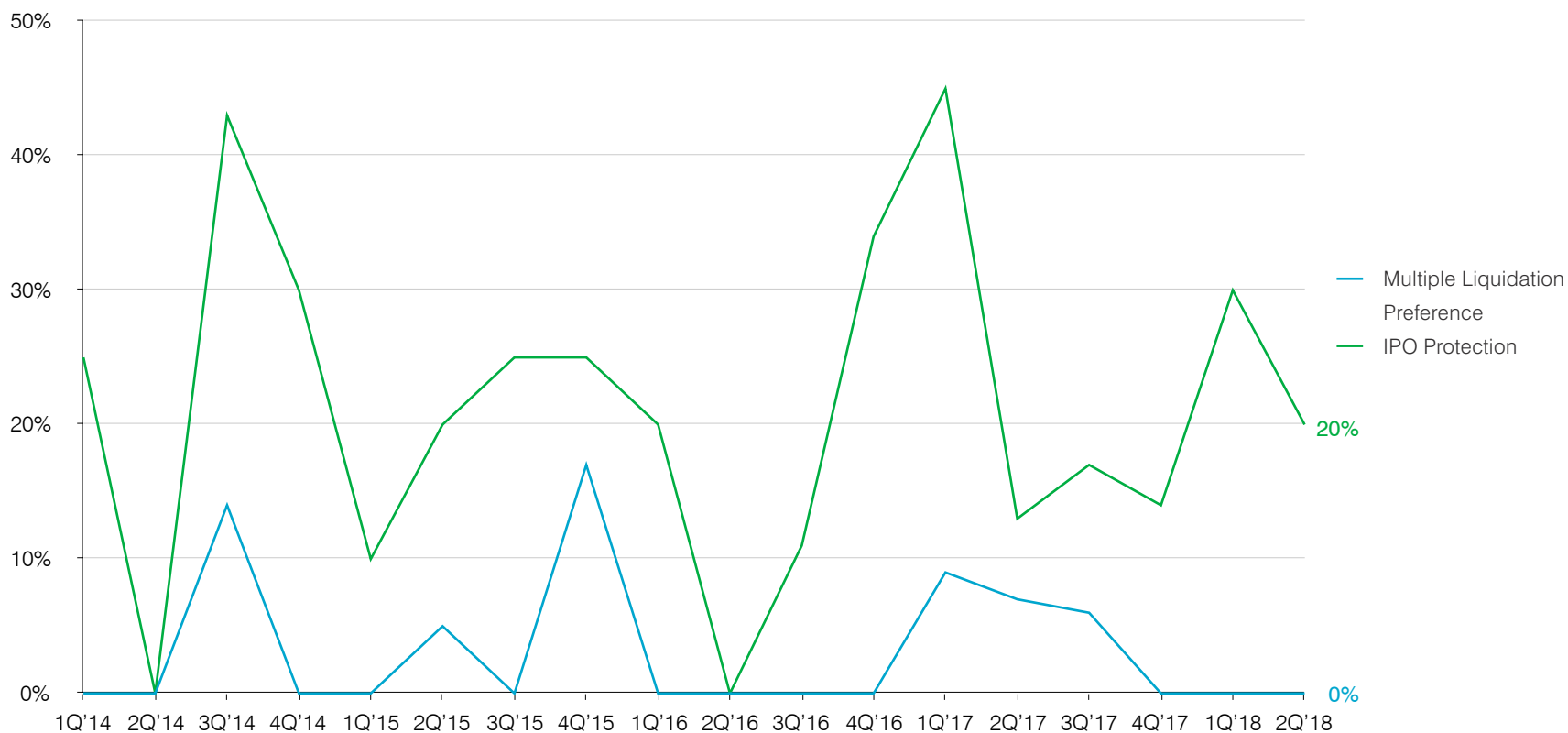
Despite a strengthening initial public offerings market, IPO downside protections, and blocking rights in particular, were used much more in 2017 and H1 2018 than in prior years.



Results by Year	2014	2015	2016	2017	H1 2018
Blocking right (IPO price must be at least as high as the unicorn round price, or in some cases the unicorn price plus a premium)	20%	24%	16%	30%	36%
Ratchet (investor receives additional shares if IPO price is less than the unicorn round price, or in some cases the unicorn round price plus a premium)	14%	8%	10%	16%	12%
Total	34%	32%	26%	46%	48%

Upside Benefits

There continue to be very few unicorn financings that provide investors with a multiple liquidation preference. Not only has there been an increased prevalence of downside protections, but the percentage of unicorn financings that provided investors with IPO protection above the unicorn round price also increased in 2017 and H1 2018 compared to 2016.

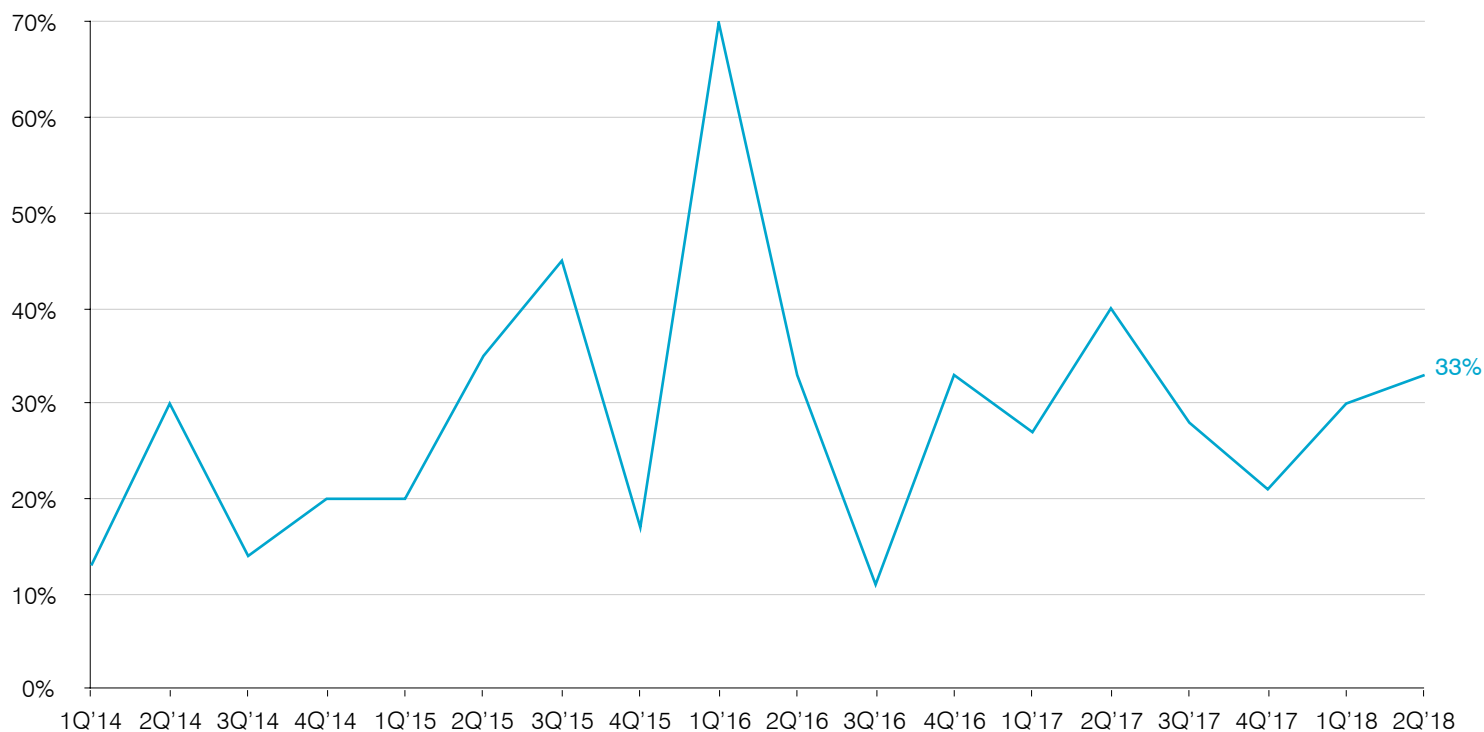


Results by Year	2014	2015	2016	2017	H1 2018
Multiple liquidation preference	3%	6%	0%	0%	0%
IPO protection above unicorn price	23%	21%	16%	21%	24%

Super Voting Stock

(Percentage of Financings with Dual-Class Common Stock)

Dual-class common stock structures, where there is one class of common stock with more votes per share than the other class, have become more prevalent in recent years, especially among tech unicorns.



Results by Year	2014	2015	2016	2017	H1 2018
Percentage with dual-class common	20%	32%	39%	29%	32%

The recipients of the super voting common were:

Founders and/or management	43%	35%	33%	18%	38%
Founders and/or management and early investors	4%	15%	33%	47%	13%
All pre-IPO shareholders	43%	50%	33%	35%	50%

About the Authors



Cynthia Clarfield Hess is Co-Chair of Fenwick's Startup and Venture Capital Group. In her 25 plus years as a corporate attorney, Cindy has counseled technology companies on a broad range of corporate transactional matters, from formation matters and venture capital financings to mergers and acquisitions and public offerings, representing both companies and underwriters. She has worked with a wide range of high-technology clients—from established technology stalwarts to emerging companies developing disruptive technologies, which include some of the hottest and most innovative companies in the mobile, SaaS and social media spaces.



Mark Leahy, Co-Chair of Fenwick's Startup and Venture Capital Group and a seasoned advisor to technology companies on a broad range of corporate transactional matters, focuses on providing legal solutions that advance his clients' business objectives. His practice focuses on venture capital financings, corporate governance, mergers and acquisitions, and public offerings. His expertise spans a wide range of technologies, including software, semiconductor, internet/e-commerce, and data management and storage.



Khang Tran supports the firm's knowledge management efforts by collecting and sharing knowledge and expertise across the firm, which in turn, is leveraged to improve the quality of legal services to the firm's clients.

Contact/Sign Up Information

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