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Who is SVB?
Silicon Valley Bank Financial Group
The market leader in startup banking

Financials (Q4 2016):

- Total assets: $44B
- Total loans: $19B
- Total client funds: $84B

Services:

- Credit
- Valuations
- Strategic Advisory
- Treasury Management
- Funds Management
- International Banking
We serve the global innovation economy

Technology + life science + healthcare

Accelerator
Revenue <$5M

Growth
Revenue $5M-$75M

Corporate Finance
Revenue >$75M

Investors
Private Equity and Venture Capital

Individuals
Private Bank
Serving innovation around the world

- SVB Financial Group’s Offices
- SVB Financial Group’s Coverage
- SVB Financial Group’s International Banking Network
Funding Your Venture
Why Companies Fundraise

Cumulative Cash Flow

Key Risks

Conception
- Technology
- Product
- Market
- Talent
- Financing

Roll Out
- Market Fit
- Product
- Talent
- Financing

Scale
- Execution
- Market Size
- Talent

Expansion
- Execution
- Competition
- Talent

Exit
- Financial Market
- Strategic Fit
Typical Sources of Capital

Size of Investment

- $1B
- $100M
- $10M
- $1M

Company Stage

- Higher Risk
- Lower Risk

Company Stage Breakdown:

- Angel
- Crowd Funding
- Early Stage Venture Capital
- Late Stage Venture Capital
- Mezzanine Debt
- Public Markets

SVB Equity Trends 2017
Venture Capital Economics
What VCs Want for Their Investment

**Venture Economics**

- Original Investment: $15M
- Ownership Share: ÷ 20%
- Original Post-Money: = $75M
- Original Investment: - $15M
- Implied Original Pre-Money: = $60M

**Exit Economics**

- Exit Value: $1B
- Exit Value for Investor: $200M
- IRR at 5 Years: 68%
- IRR at 7 Years: 45%

**Investors**

- Exit Value: $1B
- Investors: $200M

**5–7 Years**

- Lots of Effort

**Pre-Money**

- $60M

**Post-Money**

- $75M

**Investment of**

- $15M
  - for 20% Ownership
Why Venture Rates of Return Are So High
Follow-On Rates over 5–7 Years

Cumulative Probability of Raising the Next Series:
Cohort of Startups That Raised a Series Seed 2009–2012

<table>
<thead>
<tr>
<th>Seed</th>
<th>Series A</th>
<th>Series B</th>
<th>Series C</th>
<th>Series D+</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24%</td>
<td>10%</td>
<td>4%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Went on to raise a Series A
Went on to raise a Series B
Went on to raise a Series C
Went on to raise a Series D+

Source: CBInsights.
Venture Capital Is an Unusual Creature

Source: Artivest.
Participating in the Upside, Protecting the Downside

**Economic Rights**

**Price Per Share**
Most important and negotiable of the economic rights

**Participation**
Investor receives original investment (1x, 2x, 3x) and participates as if converted to Common. Can also be capped

**Declared Dividends**
“Interest” on the preferred equity investment from initial time of investment until exit

**Downside Protections**

**Liquidation Preference**
The investor has the option to receive original investment (1x, 2x, 3x) or convert to common, whichever is higher

**Seniority**
The order in which the share classes are paid out

**Control Rights**

**Right of First Refusal**
Investor has the right to invest in the next round of financing, often on a pro rata basis

**Voting Rights**
Defines how the preferred and common stock relate to one another in share of voting power

**Anti-Dilution**
Investor gains additional shares in a recapitalization

**Information Protections**

**Board Seats**
Voting position within the group of elected individuals charged with corporate management and strategy

**Observer Rights**
Non-voting seat alongside the board of directors
### Case Study: VC Preference

$15M Investment for 20% Ownership, 1x LP

<table>
<thead>
<tr>
<th></th>
<th>Exit Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$40M</td>
</tr>
</tbody>
</table>
| **STRAIGHT LIQUIDATION PREFERENCE** | Receive $15M  
20%*$40M = $8M | Receive $15M  
20%*$75 = $15M | Receive $15M  
20%*$200M = $40M |
| **CHOOSE:**    | Hold liquidation | Indifferent | Convert     |
| **VC RECEIVES:** | $15M       | $15M       | $40M       |
| **PARTICIPATING PREFERRED:** | Receive $15M  
PLUS 20%*($40M - $15M) = $5M | Receive $15M  
PLUS 20%*($75M - $15M) = $12M | Receive $15M  
PLUS 20%*($200M - $15M) = $37M |
| **VC RECEIVES:** | $20M       | $27M       | $52M       |
Incentivizing Top Talent
Incentivizing for Long Term Success

Balancing Compensation

<table>
<thead>
<tr>
<th>Role</th>
<th>Salary</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founder</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>C-Suite</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Engineer</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Sales</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Common Stock
- Stock Options
- Restricted Stock

Near Term | Long Term

Equity Compensation

STOCK OPTIONS vs. RSUs

<table>
<thead>
<tr>
<th>Stock Options</th>
<th>RSUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain</td>
<td>Gain</td>
</tr>
<tr>
<td>Fair Market Value</td>
<td>Taxed as Capital Gain Once Vested</td>
</tr>
<tr>
<td>No value when Common &lt; Strike</td>
<td>Taxed as Income Once Vested</td>
</tr>
</tbody>
</table>
409A Valuation Opinions

How often should I get an independent valuation opinion?

What triggers the need?

What is a ‘material event?’
Startup Compensation Trends
Early Team Compensation

CEO

CEO Equity Compensation (% FDS)

<table>
<thead>
<tr>
<th></th>
<th>Founder</th>
<th>Non-Founder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Seed</td>
<td>35%</td>
<td>5%</td>
</tr>
<tr>
<td>Post Series A</td>
<td>30%</td>
<td>15%</td>
</tr>
<tr>
<td>Post Series B</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Post Series C</td>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

CEO Salary Compensation ($ THOUSANDS)

<table>
<thead>
<tr>
<th></th>
<th>Founder</th>
<th>Non-Founder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Seed</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Post Series A</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>Post Series B</td>
<td>$100</td>
<td>$200</td>
</tr>
<tr>
<td>Post Series C</td>
<td>$150</td>
<td>$250</td>
</tr>
</tbody>
</table>

Source: Advanced-HR

Data from Option Impact, Q4'16
Early Team Compensation

C-Suite

C-Suite Equity Compensation
(% FDS)

- Founder
- Non-Founder

Post Seed | Post Series A | Post Series B | Post Series C

C-Suite Salary Compensation
($ THOUSANDS)

- Founder
- Non-Founder

Post Seed | Post Series A | Post Series B | Post Series C

Data from Option Impact, Q4'16

Source: Advanced-HR

SVB Equity Trends 2017
Early Team Compensation

VP

VP Equity Compensation (% FDS)

- Founder
- Non-Founder

<table>
<thead>
<tr>
<th>Stage</th>
<th>Founder</th>
<th>Non-Founder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Seed</td>
<td>?%</td>
<td>?%</td>
</tr>
<tr>
<td>Post Series A</td>
<td>?%</td>
<td>?%</td>
</tr>
<tr>
<td>Post Series B</td>
<td>?%</td>
<td>?%</td>
</tr>
<tr>
<td>Post Series C</td>
<td>?%</td>
<td>?%</td>
</tr>
</tbody>
</table>

VP Salary Compensation

- Founder
- Non-Founder

<table>
<thead>
<tr>
<th>Stage</th>
<th>Founder</th>
<th>Non-Founder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Seed</td>
<td>?$</td>
<td>?$</td>
</tr>
<tr>
<td>Post Series A</td>
<td>?$</td>
<td>?$</td>
</tr>
<tr>
<td>Post Series B</td>
<td>?$</td>
<td>?$</td>
</tr>
<tr>
<td>Post Series C</td>
<td>?$</td>
<td>?$</td>
</tr>
</tbody>
</table>

Source: Advanced-HR
Option Pool as a Percentage of Ownership
All Series

Distribution of Option Pools for Companies (% FDS)

<table>
<thead>
<tr>
<th>Range</th>
<th>Non-Founding CEO</th>
<th>Founding CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 30%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>25–30%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>20–25%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>15–20%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>10–15%</td>
<td>32%</td>
<td>20%</td>
</tr>
<tr>
<td>5–10%</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>0–5%</td>
<td>3%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Median Option Pool by Stage (% FDS)

Sources: SVB Analytics and Advanced-HR Option Impact, Q4'16.
Trends in Private Company Valuations
Series Seed
Deal Count and Capital Invested


<table>
<thead>
<tr>
<th>Year</th>
<th># of Deals</th>
<th>Capital Invested ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1,273</td>
<td>$1.2B</td>
</tr>
<tr>
<td>2013</td>
<td>1,819</td>
<td>$1.7B</td>
</tr>
<tr>
<td>2014</td>
<td>2,217</td>
<td>$2.1B</td>
</tr>
<tr>
<td>2015</td>
<td>2,096</td>
<td>$2.2B</td>
</tr>
<tr>
<td>2016</td>
<td>1,632</td>
<td>$2.0B</td>
</tr>
</tbody>
</table>

Source: Pitchbook.
Series Seed
Invested Capital & Pre-Money Valuations

U.S. Technology – Pre-Money Valuations
Middle 50%: 2012–2016

- 2012: $6.0M
- 2013: $6.7M
- 2014: $5.0M
- 2015: $5.7M
- 2016: $6.0M

U.S. Technology – Capital Invested
Middle 50%: 2012–2016

- 2012: $0.5M
- 2013: $0.5M
- 2014: $0.7M
- 2015: $0.4M
- 2016: $1.5M

Source: Pitchbook.
Series A
Deal Count and Capital Invested


Source: Pitchbook.
**Series A**
Invested Capital & Pre-Money Valuations

**U.S. Technology – Pre-Money Valuations**
Middle 50%: 2012–2016

**U.S. Technology – Capital Invested**
Middle 50%: 2012–2016

Source: Pitchbook.
New Investor Share at Financing
All Series


Source: Pitchbook.
Market Outlook
Traditional Investors Replenish Capital

While crossover investors have cut back on late-stage investments, the venture ecosystem as a whole has shown resilience. In 2016, venture capital commitments hit their highest level in more than a decade.


VC Fundraising  VC Investments  CVC Investments  Crossover Investments

Crossover Investment - 50% YoY
Venture Capital Fundraising + 18% YoY

1. Corporate venture capital.
2. Crossovers include hedge funds, mutual funds, and wealth management firms.
Sources: Pitchbook, National Venture Capital Association, and SVBA estimates.
Liquidity on the Horizon: $1B+ IPO Candidates

As some of the most valuable companies consider a public offering, liquidity and talent are expected to filter through the innovation ecosystem, building the next generation of promising ventures.


Sources: S&P Capital IQ and Wall Street Journal.
Questions?
About the Authors

Steve Liu
Steve Liu is a Managing Director with SVB Analytics, responsible for leading the valuation practice and execution of the group’s portfolio of valuation opinions for private companies. Prior to joining SVB Analytics, Steve spent over 10 years working with the Big 4 (Deloitte and KPMG) in New York and San Francisco, managing both domestic and international clients that ranged from start-up to Fortune 100.

Steve brings a diverse financial background that includes valuations for Mergers and Acquisitions, financial/tax reporting and strategic planning. His valuation experience has focused primarily on clients in the technology and life sciences industries.

Steve earned a Master in Business Administration from the Stern School of Business (NYU), and both a Bachelor and Master’s degree in Engineering from The Cooper Union.

Managing Director
sliu@svb.com

Senior Manager
slawson2@svb.com

Sean Lawson
Sean Lawson is a Senior Manager with SVB Analytics, focusing on valuations of early-stage, venture-backed technology companies.

Prior to joining SVB Analytics, Sean was an intern at Caliber Advisors in San Diego, CA, where he assisted associates and directors with valuation opinions ranging from buy-sell agreements, estate and gift, fairness opinions, financial statement reporting and security and intellectual property valuations.

Sean received his Bachelor’s degree in management science and a minor in accounting from the University of California, San Diego.

Senior Associate
spipp@svb.com

Steven Pipp
Steven is an Senior Associate with SVB Analytics, responsible for conducting due diligence and financial analysis on valuation engagements for early-stage, venture-backed technology companies.

Prior to joining SVB Analytics, Steven worked as a financial analyst at Glenmore Consulting in Minneapolis, MN, developing business strategies and evaluating economic potential for transformative technologies.

Steven earned a Master’s of Science in Finance from Boston College and a Bachelor’s of Science in Business from the University of Minnesota.
About Silicon Valley Bank
For more than 30 years, Silicon Valley Bank has helped innovative companies and their investors move bold ideas forward, fast. SVB provides targeted financial services and expertise through its offices in innovation centers around the world. With commercial, international and private banking services, SVB helps address the unique needs of innovators.

About SVB Analytics
SVB Analytics, a non-bank affiliate of Silicon Valley Bank, serves the strategic business needs of entrepreneurs, corporates and investors in the global innovation economy. For more than a decade, SVB Analytics has helped global business leaders make informed decisions by providing market intelligence, research, and consulting services. Powered by proprietary data, SVB Analytics has a unique view into the technology and life science sectors.

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