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Silicon Valley Bank

US Startup Outlook 2018

A Silicon Valley Bank survey of US entrepreneurs
about business conditions and policy priorities



Startups say access to talent is their top policy priority

Silicon Valley Bank presents **Startup Outlook 2018**, the bank's ninth annual report on the health of the innovation economy. Each year, we survey US technology and healthcare entrepreneurs and executives to hear what they are thinking. This year, about 650 startup leaders contributed their plans and perspectives. Their outlook matters because the innovation economy is a high-powered engine, driving job creation and opportunity, creating wealth and stability and inventing what comes next.

We ask about business conditions, access to the funding and talent necessary to grow their companies and the policy issues that they view as critical to their success. The highlights:

- More than 60 percent believe that business conditions in 2018 will be better than in 2017.
- The percentage planning to hire (83 percent) is at a five-year high, and significantly more startups (91 percent) say access to talent is the most important public policy issue affecting companies like theirs.
- Nearly one-third say laws and regulations prompted them to locate facilities or move nonsales operations outside the US. The biggest driver is US immigration policy.
- More than 50 percent say at least one member of their founding team was born outside the US.
- The number of startups that say they have programs in place to increase women in leadership has jumped significantly, from 25 percent to 41 percent. Still, the number of women in leadership roles shows no change.

While most startups are hiring, nearly all find it difficult and consider access to talent their top policy priority. In comments collected from respondents, we heard this common refrain: Innovation succeeds when you can attract the world's best and brightest.

The innovation economy contributes to most of the key measures of overall economic health, including job growth. We hope this report encourages further engagement between entrepreneurs and policymakers as we address such important issues as access to talent, corporate taxes, cybersecurity, employee healthcare costs, consumer privacy and patent reform.

Thank you for your interest in Startup Outlook. **Full reports are available to download.**

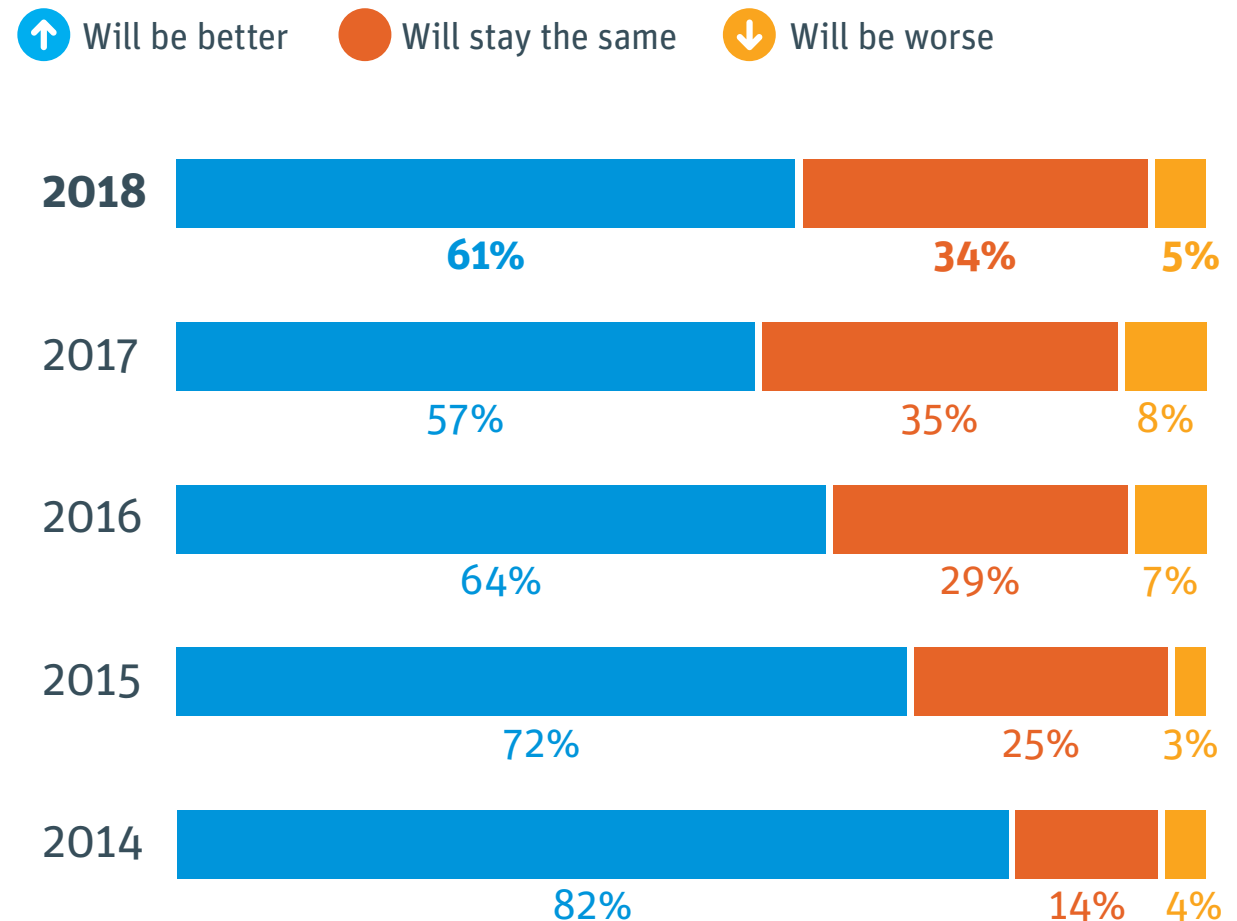


Greg Becker
CEO, Silicon Valley Bank

The outlook improves

Inching up over a year ago, 95 percent of startups believe that business conditions in 2018 will be the same as or better than 2017 for companies like theirs. Those who say it will be much better rose 4 points to 27 percent.

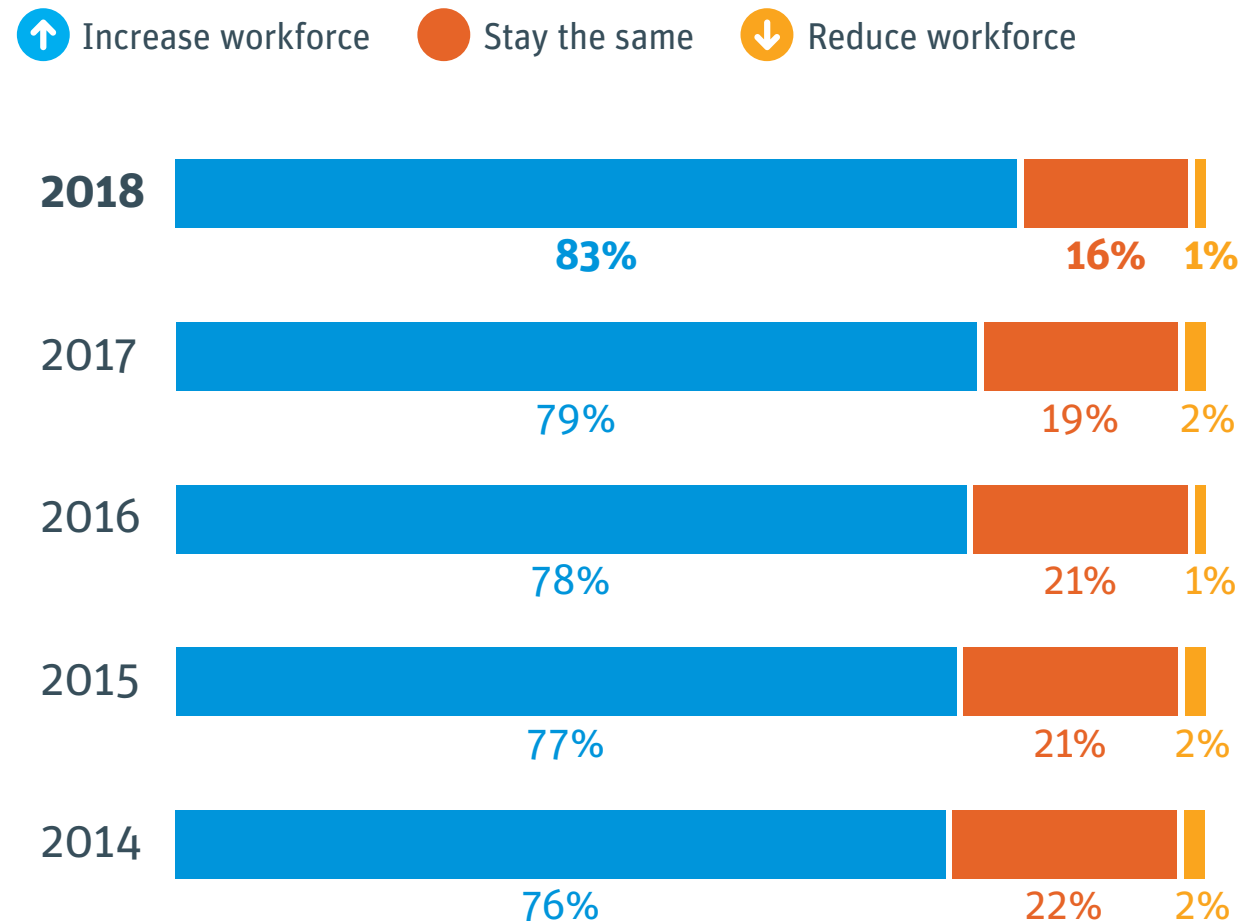
Describe your outlook on business conditions for your company this year compared with last year.



Hiring outlook reaches a five-year high

Startups are growing. More than 80 percent say they are adding employees, while just 1 percent plan to cut their workforces in 2018. The top three job descriptions that startups are seeking to fill are product development, technical positions and sales.

What are your projections for hiring new employees this year?



The talent crunch continues

While startups plan to hire, most continue to find it somewhat challenging or extremely challenging to find workers with the skills necessary to grow their businesses. The number of STEM — science, technology, engineering and mathematics — graduates is increasing slowly, and the newest technologies require specialized engineers and data scientists, who are in short supply.

“We need faster and different ways to accelerate education for technical talent. Cybersecurity and coding are the new shop class.”

CEO, security software company,
Atlanta, Georgia

How challenging is it to find workers with the skills necessary to grow your business?

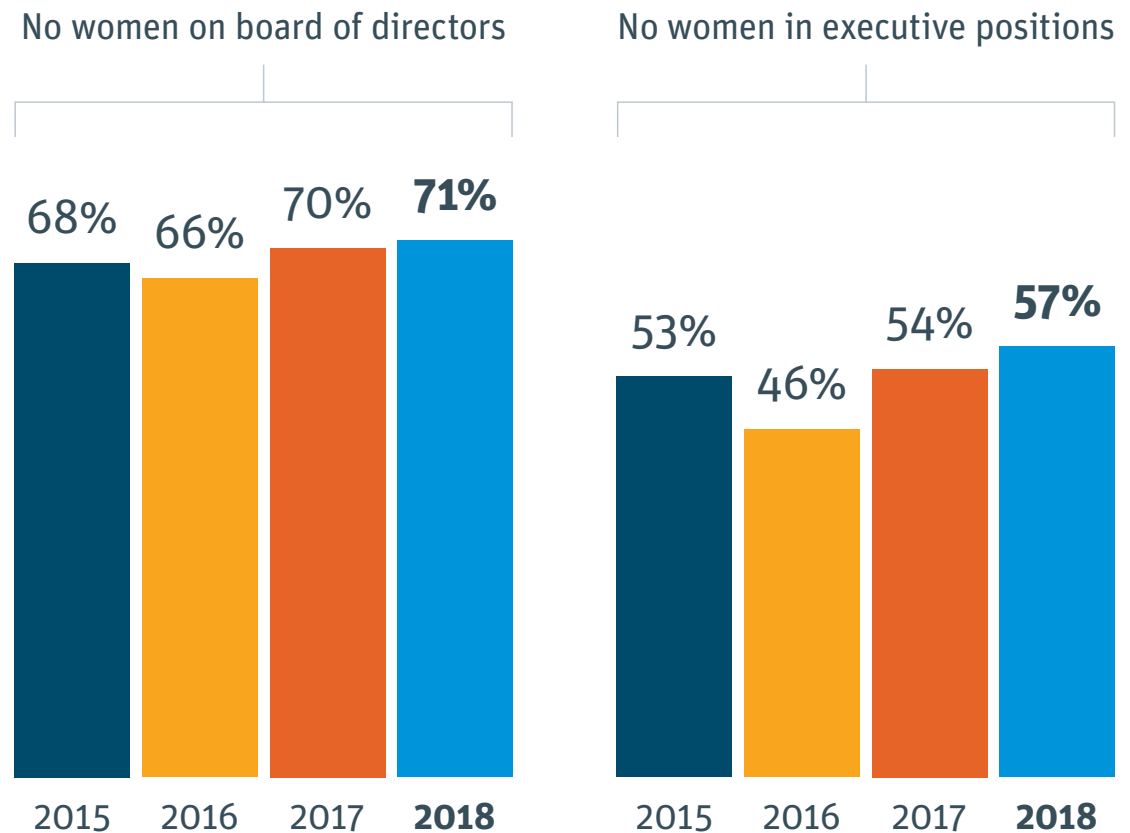
Respondents who say finding talent is somewhat challenging or extremely challenging



There is no progress for women in tech leadership

Seven in 10 startups have no women on their board of directors, and more than half have no women in executive positions. The number of startups that say they have programs in place to increase the number of women in leadership, however, has jumped significantly, from 25 percent to 41 percent.

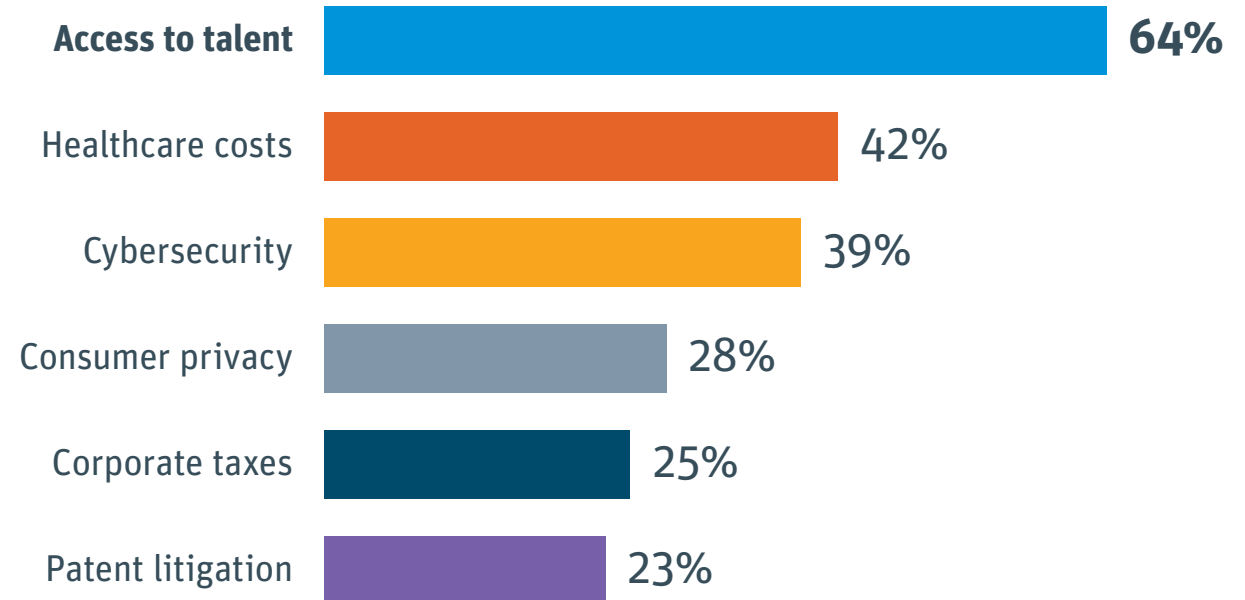
Percentage of startups with no women in leadership positions:



The call for access to talent intensifies

In this year's survey, significantly more startups say access to talent is the most important public policy issue affecting companies like theirs. The focus on healthcare costs for employees remains in the No. 2 spot, and the percentage naming it a top issue has increased. Consumer privacy is among the top five policy issues, along with cybersecurity and corporate taxes.

What are the most important public policy issues affecting companies like yours?



Note: Respondents could choose up to three responses.

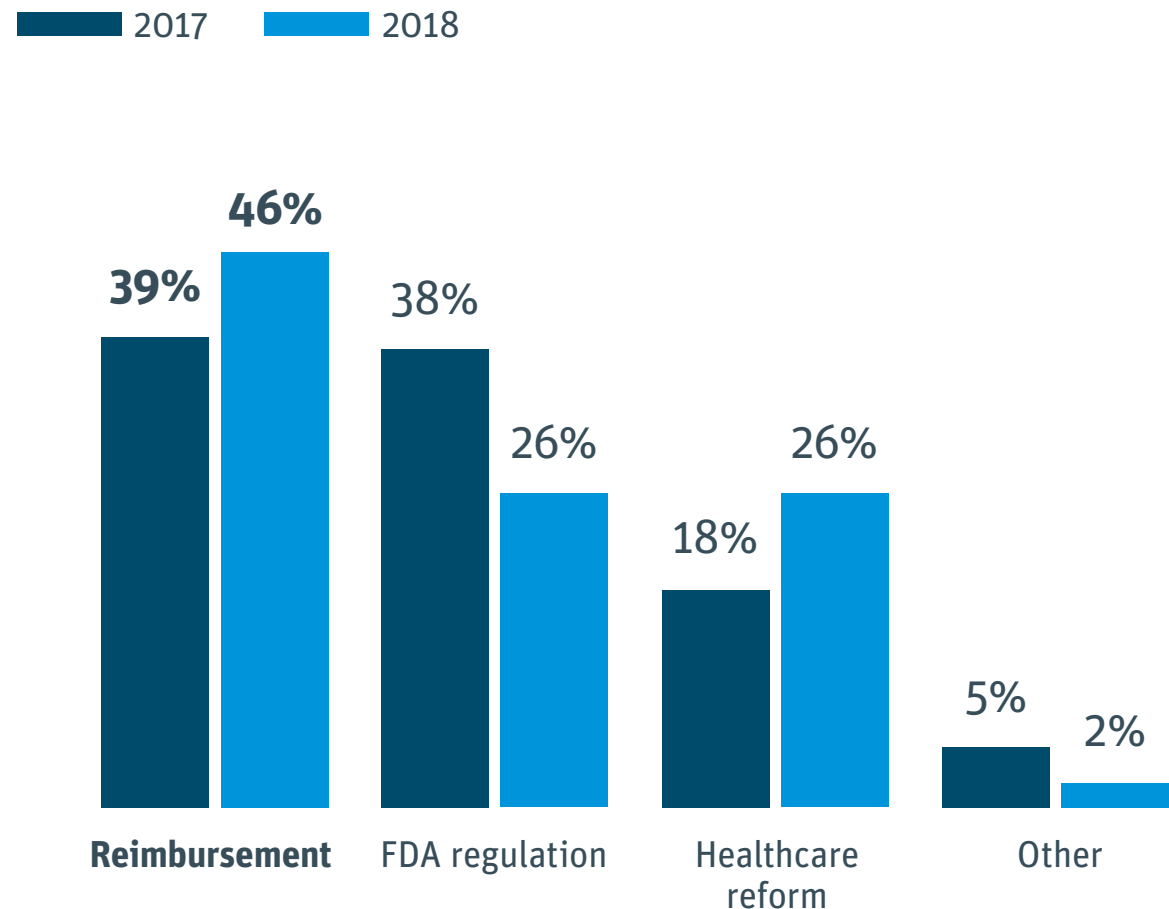
“There is fierce competition for technical talent, driving up salaries and making it difficult for small companies to compete.”

Co-founder/CEO, enterprise software, Cambridge, Massachusetts

Reimbursement is top healthcare policy issue

Because the healthcare industry faces different regulatory issues than do other sectors, we asked US healthcare executives to identify the most important public policy issue facing their companies. Compared with a year ago, a larger percentage of startups cite reimbursement and healthcare reform, but fewer point to US Food and Drug Administration regulation.

Of the following, which is the most important life science public policy issue affecting your industry?



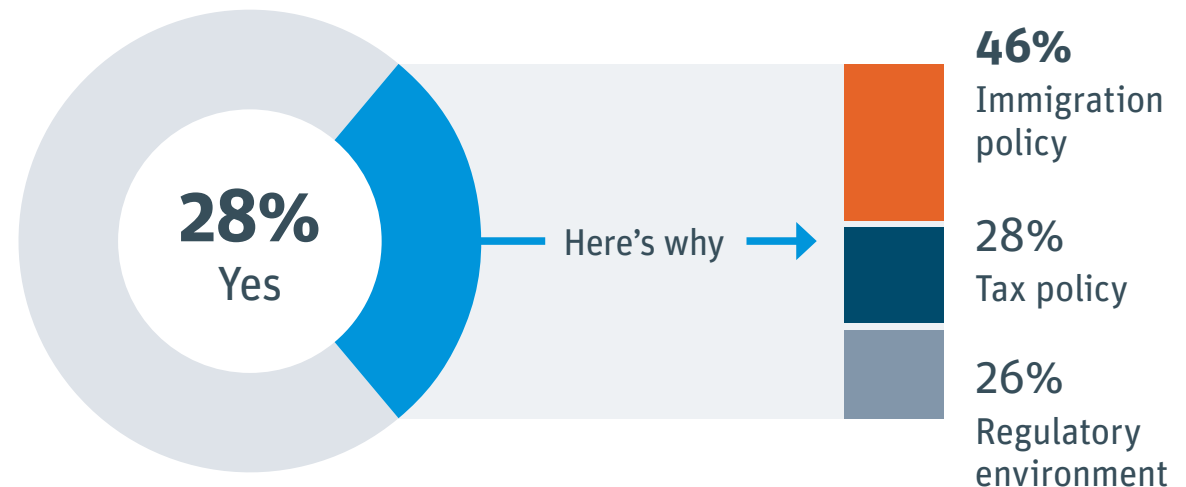
US policy drives some operations offshore

Nearly one-third of startups, ranging from pre-revenue to more than \$25 million in annual revenue, say laws and regulations prompted them to locate facilities or move nonsales operations outside the US. The biggest driver is US immigration policy, followed by tax policy and the regulatory environment. The survey was conducted in November 2017, before the tax reforms were enacted.

With more than half of startups reporting that at least one founder is an immigrant, the innovation economy is deeply affected by US immigration policy.

Have US laws and regulations materially affected your company's decision to locate facilities or hire employees for operational nonsales activities outside the US?

Hired or moved operations offshore



“The US has succeeded in tech due to our ability to attract the world’s best and brightest. We need policies that encourage that to continue.”

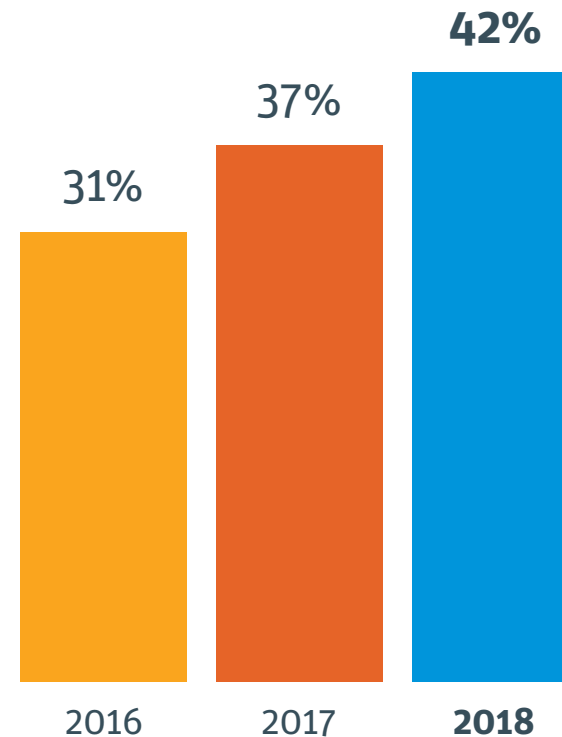
Co-founder/CEO, digital technology company, Redmond, Washington

Patent litigation is growing issue for pre-revenue companies

Only access to talent is a more pressing public policy concern than patent litigation for pre-revenue companies. Now, about 40 percent of pre-revenue companies say it is a top concern, compared with 23 percent of all startups. This reflects the impact that litigation may have on the youngest startups as they move from seed stage to revenue generation.

What are the three most important public policy issues affecting pre-revenue companies like yours?

Patent litigation as a top issue for pre-revenue companies

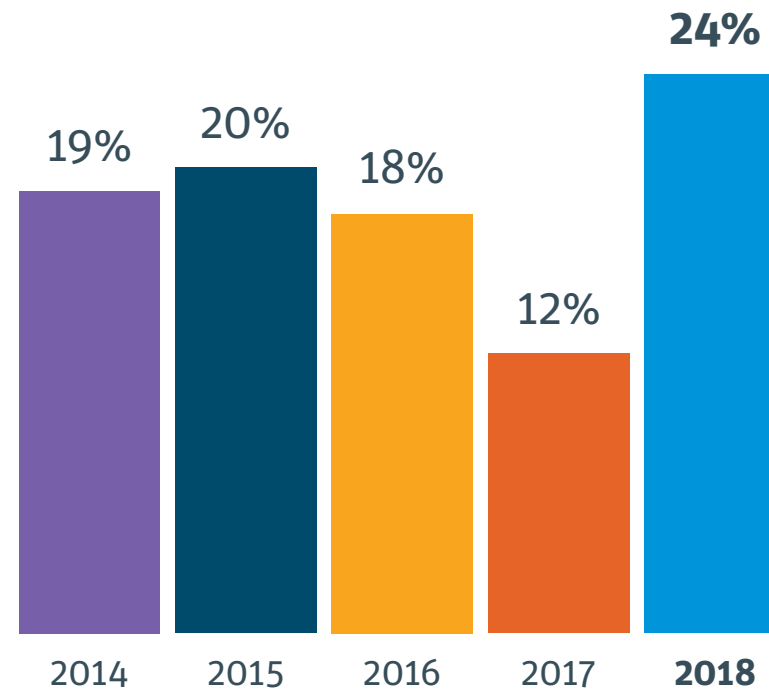


Raising capital becomes less challenging

Nearly 70 percent of startups surveyed successfully raised capital in the past year, and nearly one-quarter of those say the current fundraising environment is not challenging. This is a significant change from 2016 when only 12 percent said it was not challenging to fundraise. The number who say it is extremely challenging vs. somewhat challenging dropped.

What is your view of the current fundraising environment?

Not challenging



Note: Asked of private companies that successfully raised capital.

Two of three healthcare startups applying for federal grants are successful

Of the 35 percent of healthcare startups that reported applying for government grants, 66 percent were successful. Two-thirds of those startups report that the grant had a positive impact on product development; the other third say it helped their ability to raise capital.

“Allocate more funding to early-stage research, including grants.”

Co-founder/CEO, medical device company, South San Francisco, California

Has your healthcare company applied for a US government grant?

Source of grant:

■ National Institutes of Health
 ■ National Security Agency
 ■ Other



Note: Respondents were asked to select all that apply.

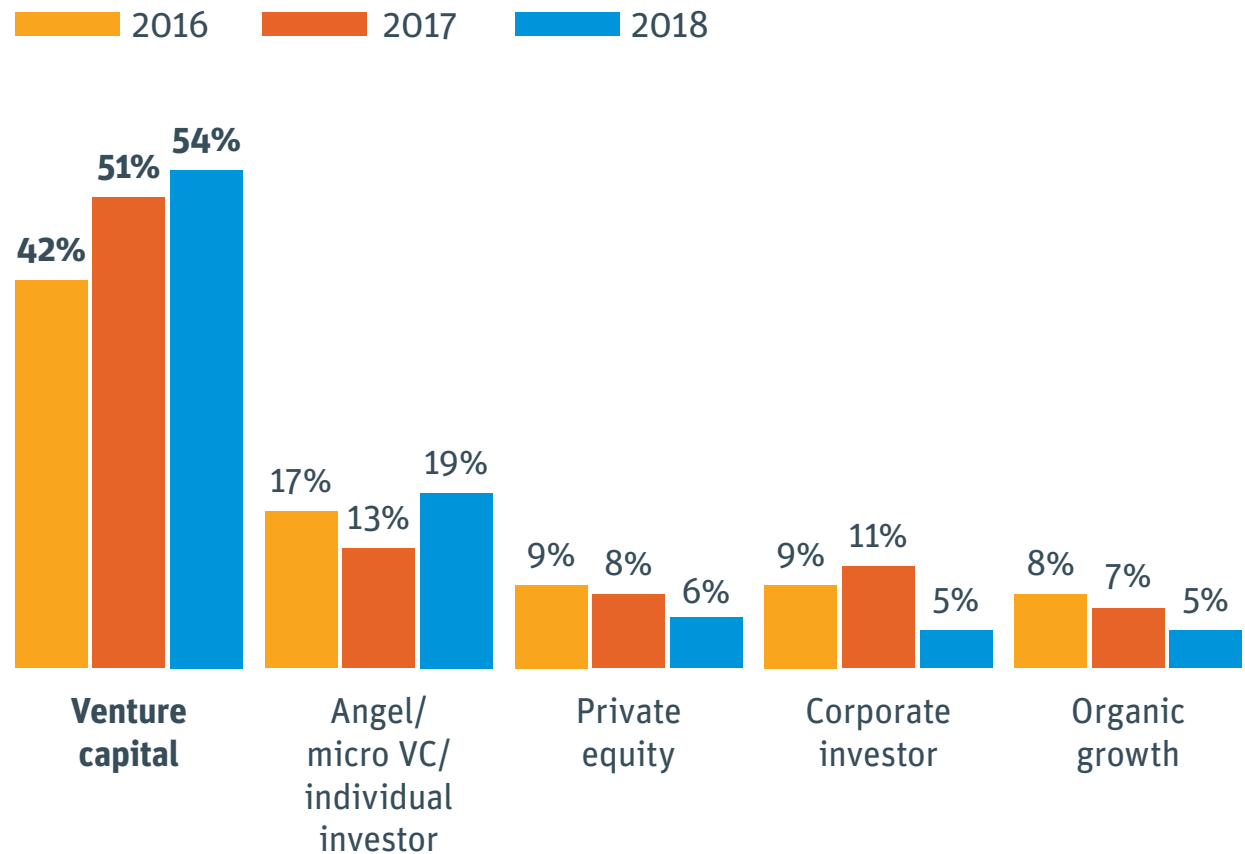
Despite ICO debut, venture capital remains the primary funding source

Despite an increasing number of sources from which startups raise funds to grow their businesses, including ICOs, more than half of startups say they expect to obtain their next source of funds from venture capitalists.

“Increase federal investment in startups to enable a path to market for high-risk technologies.”

President, hardware company, Menlo Park, California

What do you expect to be your company’s next source of funding?

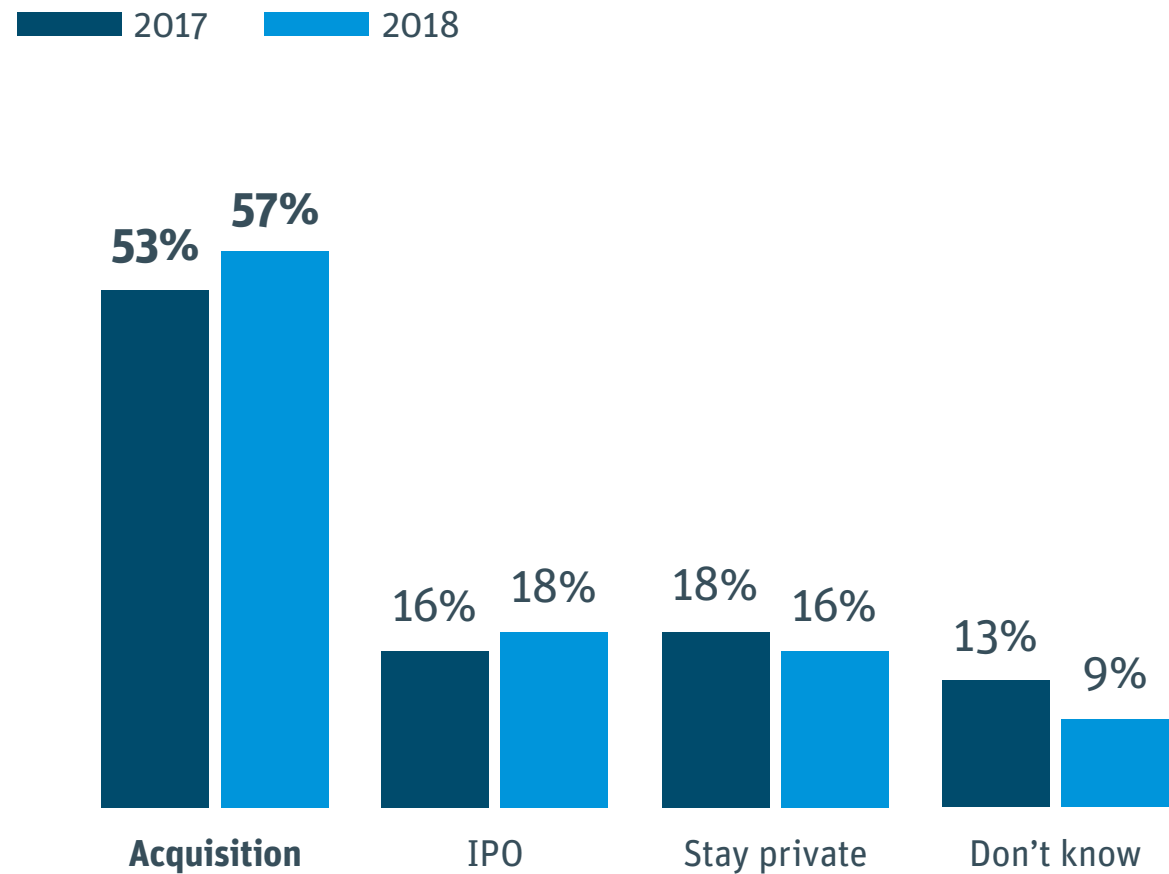


Note: Asked of private companies that successfully raised capital. Other sources of funding include bank debt, IPO, merger, government grants and crowd funding and represented 15% in 2016, 10% in 2017 and 11% in 2018.

An IPO is not the realistic goal for most startups

With an improved outlook for IPOs, there is a small increase in the number of startups that eventually expect to go public. Acquisition, however, has long been the most common path to exit, and an overwhelming number of startups continue to believe that they will be acquired. Abundant access to private capital and the challenges of operating a public company influence startups' decisions to be acquired or remain private.

What is the realistic long-term goal for your company?



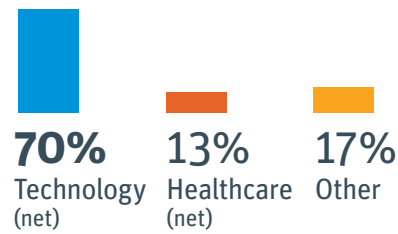
About the Startup Outlook survey

Our annual survey of technology and healthcare startup executives offers insight into what is on the minds of leaders in technology and healthcare today. For this year’s survey, we received responses from startup executives in innovation hubs around the world. This public policy report is based on responses from 650 US startup executives.

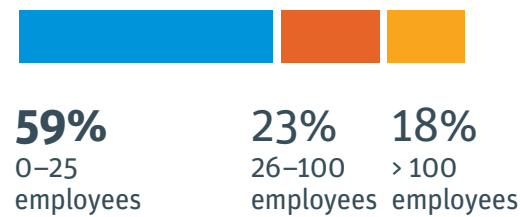
Total respondents

1,045

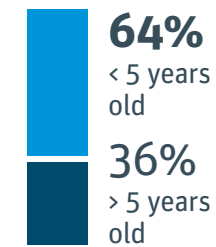
Industry sector



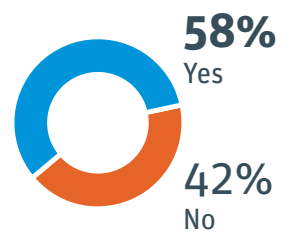
Size



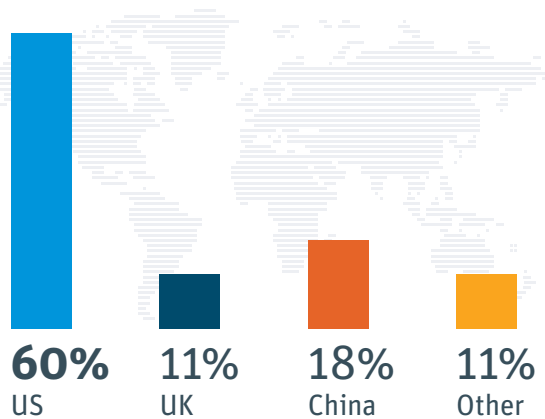
Company age



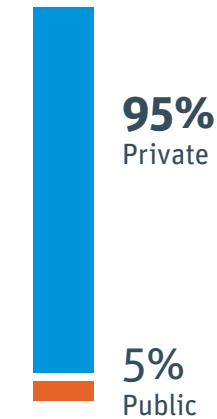
Profitable



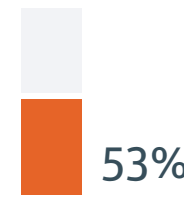
Primary place of business



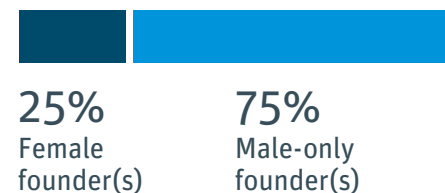
Ownership



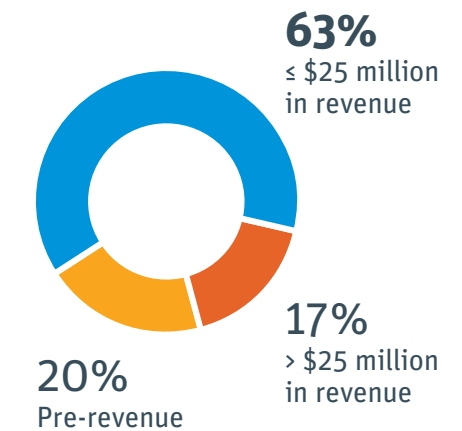
US companies with at least one founder born outside the United States



Founder gender



Revenue stage





About Silicon Valley Bank

For 35 years, Silicon Valley Bank (SVB) 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.

Learn more at svb.com/startup-outlook-report