

The logo for Silicon Valley Bank, featuring the letters 'svb' in white on a blue square background.

svb



Silicon Valley Bank

State of the Markets

**Inside Views on the Health and Productivity
of the Global Innovation Economy**

Fourth Quarter 2018



**SPECIAL REPORT:
Europe on the World Stage**

State of the Markets: Fourth Quarter 2018

Awash in Capital... for Now

So far, 2018 has played out as anticipated: strong fundraising, elevated valuations and a solid environment for both IPOs and M&A. Now heading into the fourth quarter, we have seen a return of volatility and accompanying market softness for tech. With questions about the economic cycle lingering, it helps to look back to tech fundamentals during the previous recession for guidance.

In the face of heightened geopolitical concerns, U.S. venture firms are on pace for decade-high fundraising. That capital is magnified by non-traditional investors who remain especially active in mega-rounds at the later stages, pushing investment in startups to more than \$80 billion through just the first three quarters of 2018. With the San Francisco Bay Area saturated with growth capital, investors are increasingly eyeing startup ecosystems across the country for attractive returns.

In our special report on Europe, we find striking parallels to the U.S. story. Startups across the continent are now accessing the full stack of growth capital through private markets. With a developed ecosystem now raising its ambitions, 2018 has been the best year of European tech exits in a decade. And in emerging hubs like those in Germany — home to SVB's newest office — opportunities to innovate and invest remain abundant.

Bob Blee
Head of Corporate Finance
Silicon Valley Bank

State of the Markets: Fourth Quarter 2018

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Grading Our 2018 Outlook

Innovation has thrived through the first three quarters of 2018. Investment across stages remains elevated, marquee venture firms and newcomers alike have been actively fundraising and startups have enjoyed a healthy exit environment — both through IPO and acquisition.

2018 Predictions¹

SVB anticipates the deal count to remain flat in terms of deal count, but investment will remain strong with an uptick in capital committed per deal.

With an abundance of capital searching for growth and new workarounds to satisfy liquidity, valuations at the late-stage climb higher with steady capital investment.

Market conditions and early filings signal a strong year for IPOs. Liquidity demands spur a stream of listings and acquisitions, but many will still opt for private capital.

LPs remain interested, particularly from foreign sources of capital. As opportunity funds become more prevalent, we predict another year above \$30B.

With earnings growth across industries and geographies, firms can bet on the next big thing, through acquisitions and investments. Expect strong CVC involvement.

Grade

Early Stage



Late Stage



Exits



Fundraising



Corporates



2018 Reality

2018 could well break records for early stage capital flow with deal counts in line with prior years. However, there are signs of a slowdown in angel and seed financings.

Three quarters into the year, we've already witnessed 143 \$100M+ rounds — flying past the 2015 record by 35. Secondary transactions are now the talk of the town.

While there has been an upswing in listings this year, it's clear capital from the private markets is preferred. In fact, the largest U.S. listing of 2018 arrived from Europe (p. 22).

Venture fundraising has already surpassed \$30B for the year — it took just nine months. However, foreign capital has been subdued by current geopolitical tension.

Corporates around the world continued pressing into the future through partnerships, venture and acquisitions — with high-profile M&A at premiums to private valuations.

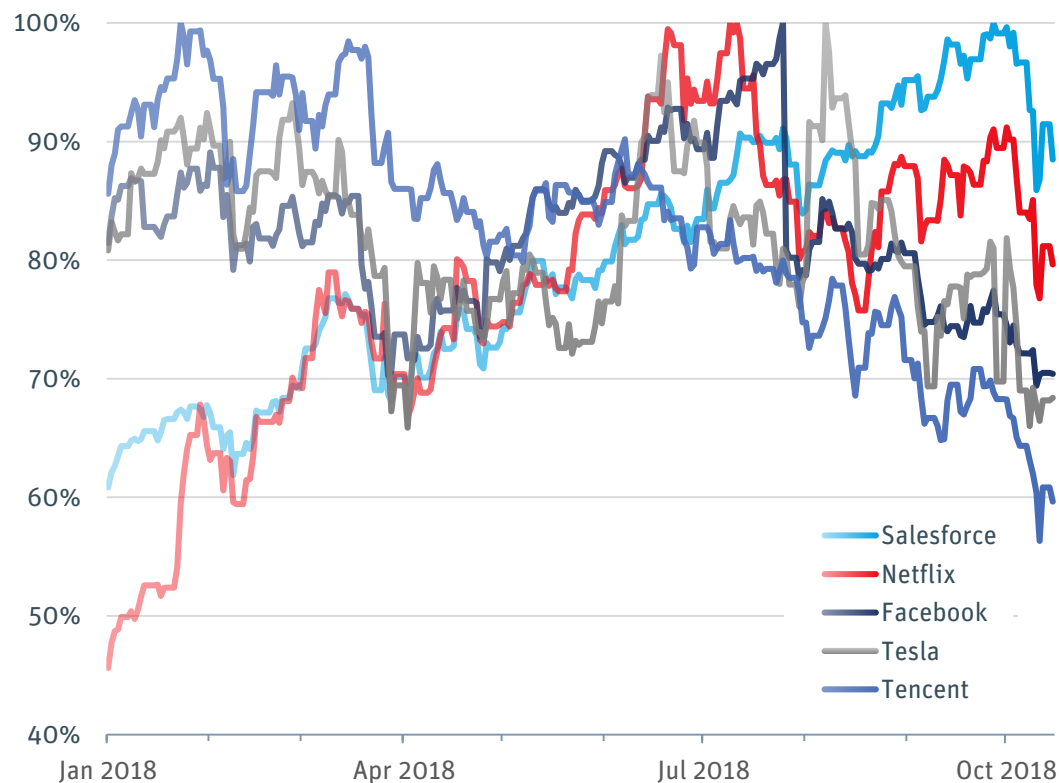


Public Markets: Tech Stumbles at the Top




Double-Digit Drops After Massive Run-Ups

Several high-profile tech companies hit a rough patch leading into the fourth quarter. However, these declines come on the heels of record highs reached earlier this year after years of sustained growth.

Market Cap Relative to All-Time High: 1/1/18–10/15/18



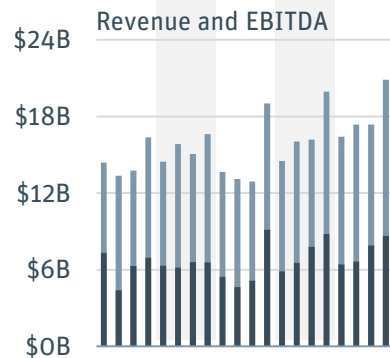
Stock Performance as of 10/15/18

Company	Decline from Peak	Three-Year Returns ¹
 salesforce	-12%	+134%
NETFLIX	-20%	+230%
facebook.	-30%	+75%
 TESLA	-32%	+37%
 腾讯 Tencent	-40%	+120%

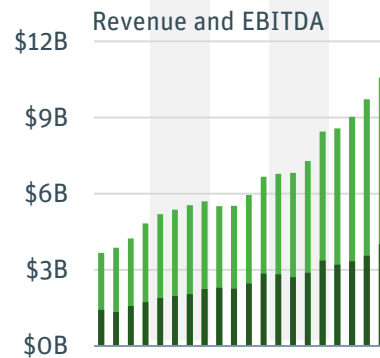
Fundamentals Lift Tech Through Downturns

Let history be our guide. During the Global Financial Crisis, each of these tech companies lost half of their market cap. But those able to prove growth (while remaining at break-even or better) despite economic woes emerged even more valuable.

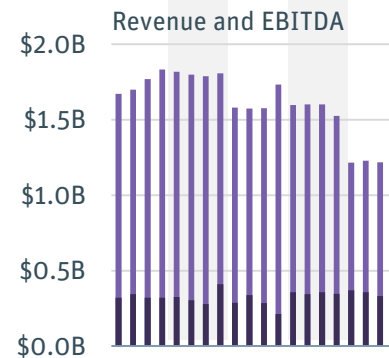
Microsoft



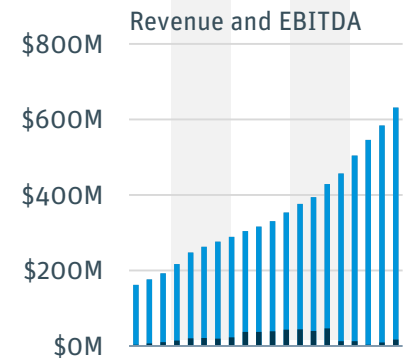
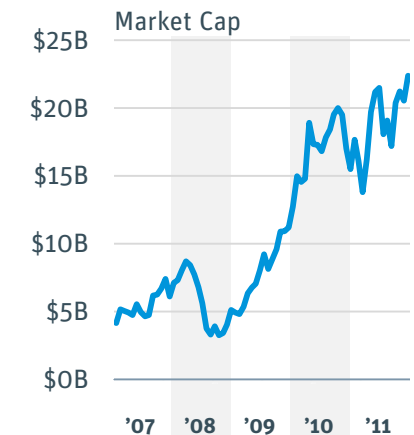
Google



Yahoo!



Salesforce



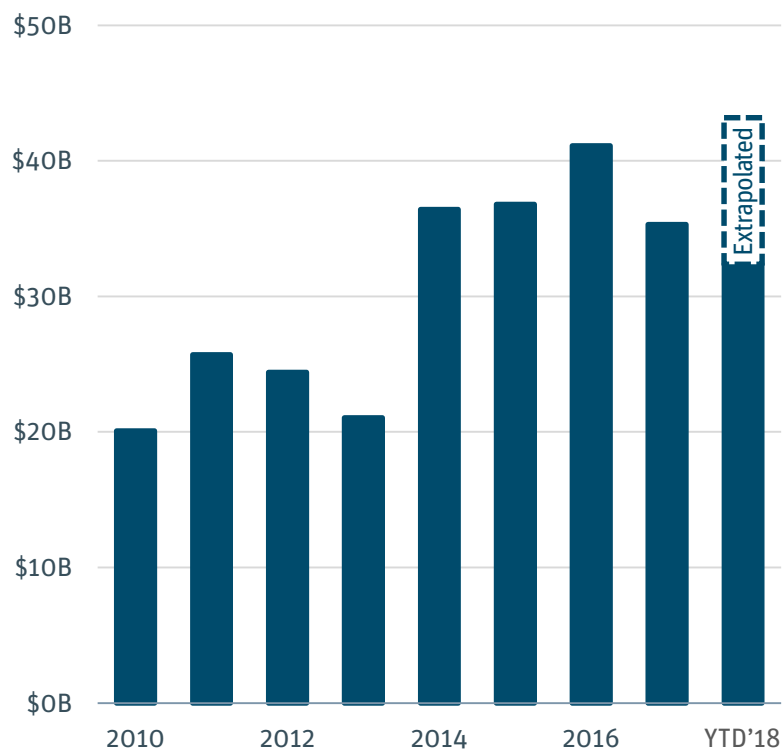


Fundraising: Abundant Capital, Rising Valuations

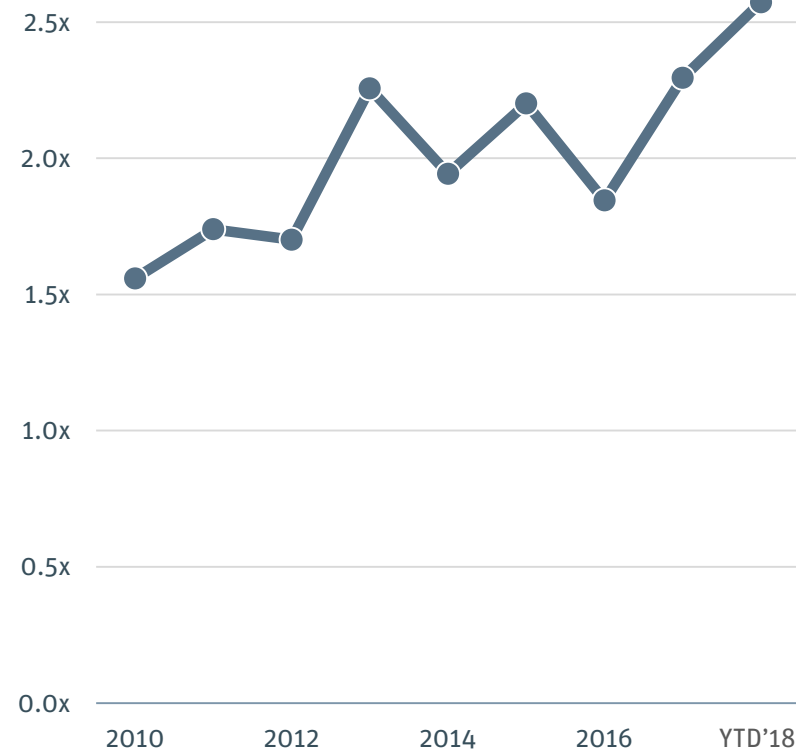
2018 Venture Fundraising on Pace for Decade High

In just nine months, U.S. venture firms have already raised more than \$30B for a fifth consecutive year — bolstered in large part by mega-funds. Even better news for startups: For each \$1 raised by funds, another \$1.50 is invested in startups from the likes of corporate VCs and sovereign wealth.

U.S. Venture Firm Fundraising: 2010–Q3'18¹



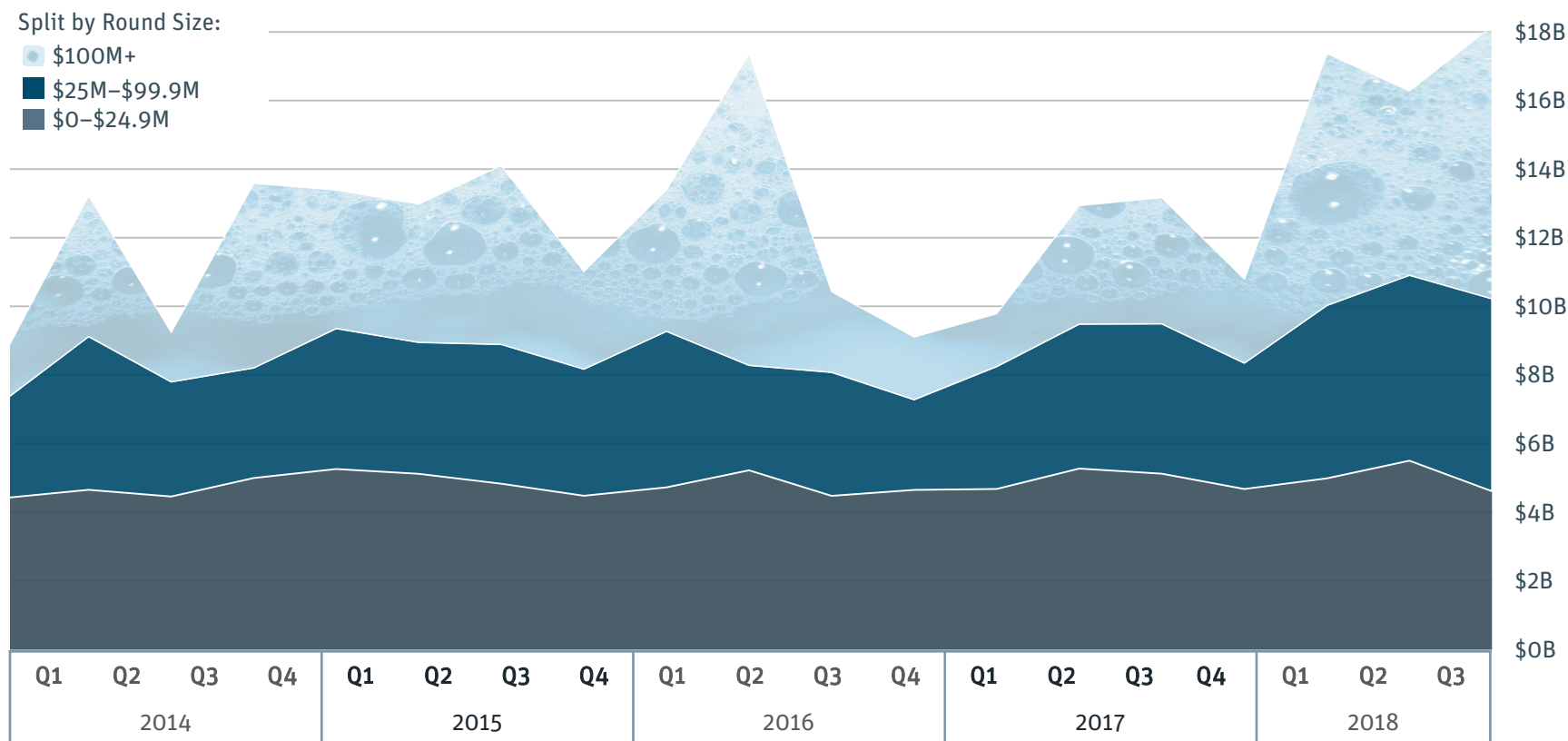
Ratio of U.S. Venture Investment to Capital Raised by U.S. Venture Firms²



Early Capital Steady Underneath Mega-Round Froth

Steady venture fundraising bodes well for sustained investment in early and growth stages. Although later-stage investment flows have ebbed and flowed over the last five years, this year has been the most active for \$100M+ rounds.

Venture Capital Invested in U.S. Tech Startups: 2014–Q3'18

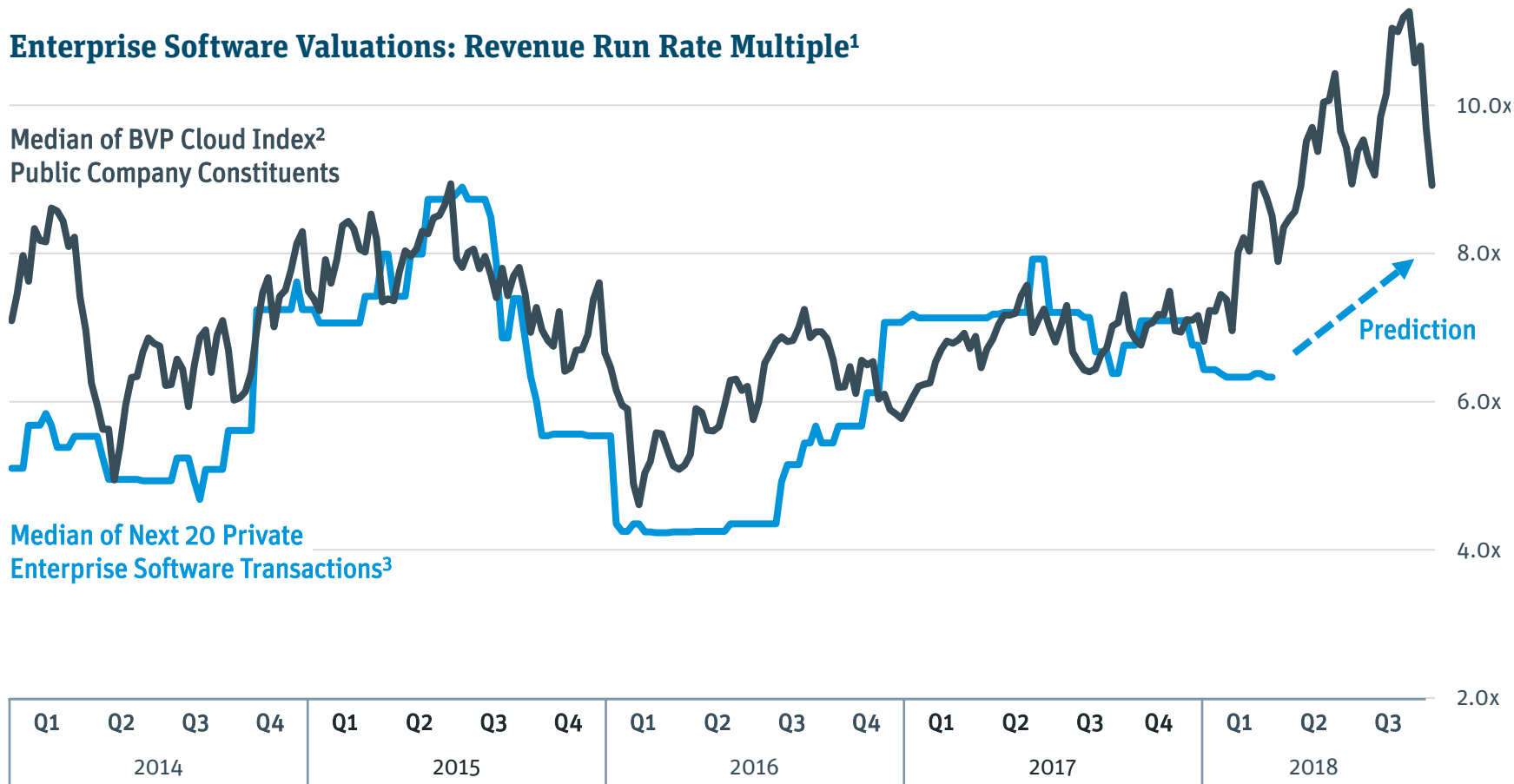


Public Multiples Point Positive

The abundance of private capital, especially for later-stage companies, has pushed valuations to parity with public company multiples. For example, the strong showing by cloud software companies bodes well for the most promising growth stories in venture.

Enterprise Software Valuations: Revenue Run Rate Multiple¹

Median of BVP Cloud Index²
Public Company Constituents



Median of Next 20 Private
Enterprise Software Transactions³

Notes: 1) Revenue run rate = Most Recent Quarter's Revenue x 41. Valuations based on pre-money for private transactions and enterprise value for public companies. 2) More info on BVP Cloud Index at <https://www.bvp.com/strategy/cloud-computing/index>.

3) Data from SVB's observations of ~175 transaction multiples of venture-backed companies with \$25M+ run rate.

Sources: PitchBook, S&P Capital IQ, Bessemer Venture Partners and SVB proprietary data and analysis.

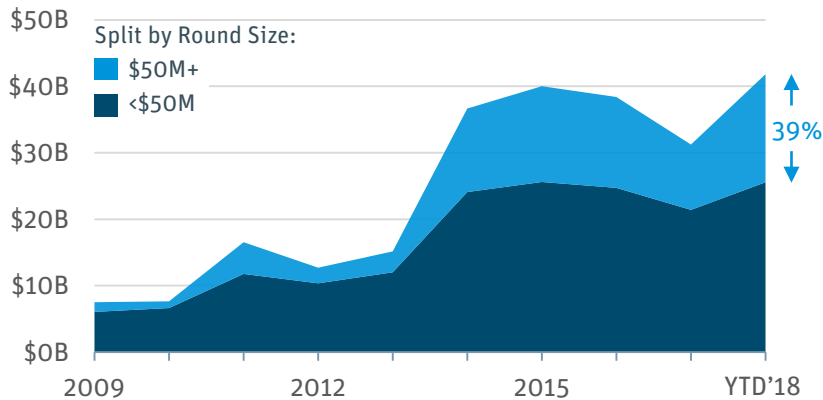


Regional Comparisons: East Coast vs. West Coast

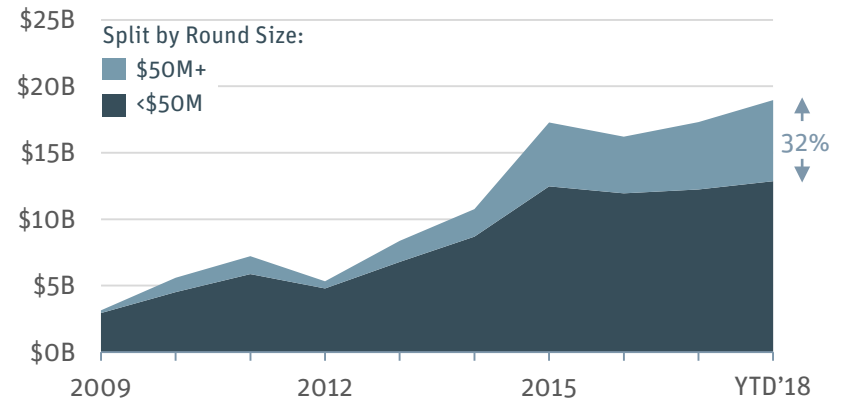
Late-Stage Capital Looks Beyond the Bay

While still the epicenter for venture, the Bay Area is no longer alone in accessing growth capital. Sizable funding rounds are not uncommon for startups across the country.

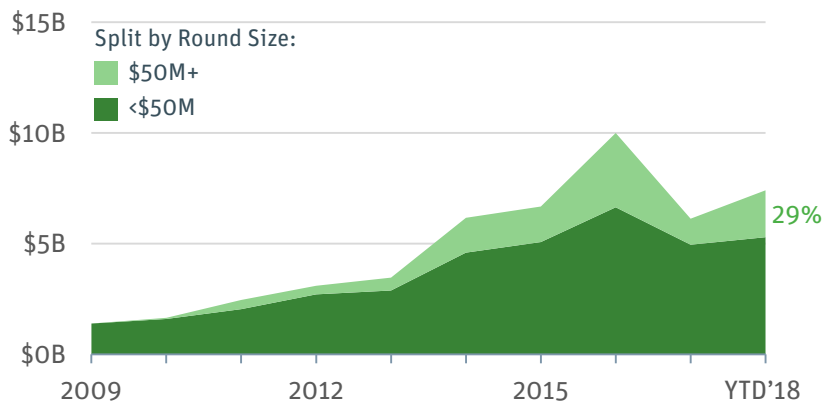
Bay Area Venture Investment¹



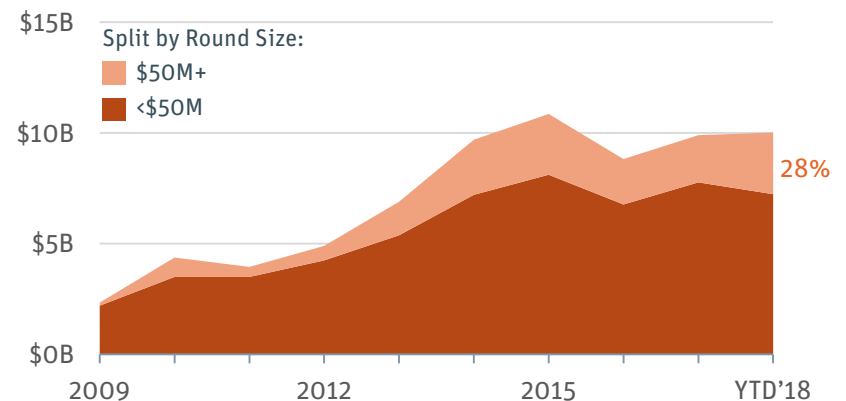
East Coast Venture Investment²



West Coast (Ex. Bay Area) Venture Investment³



Mid-Regions (Ex. Coasts) Venture Investment⁴



Notes: 1) Includes startups headquartered in the San Francisco Bay Area. 2) Includes startups headquartered in ME, VT, NH, MA, CT, NY, DE, PA, MD and VA. 3) Includes startups headquartered in WA, OR, and CA (ex. Bay Area).

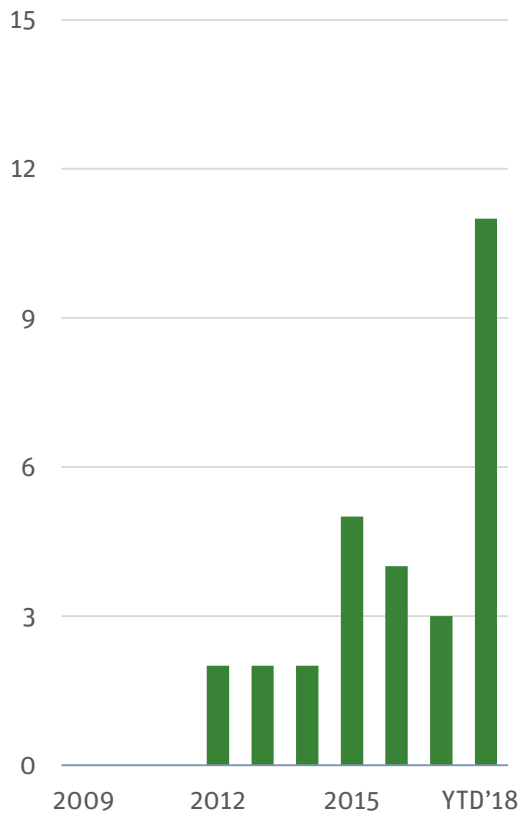
4) Includes startups headquartered in states not covered in the above definitions.

Sources: PitchBook and SVB analysis.

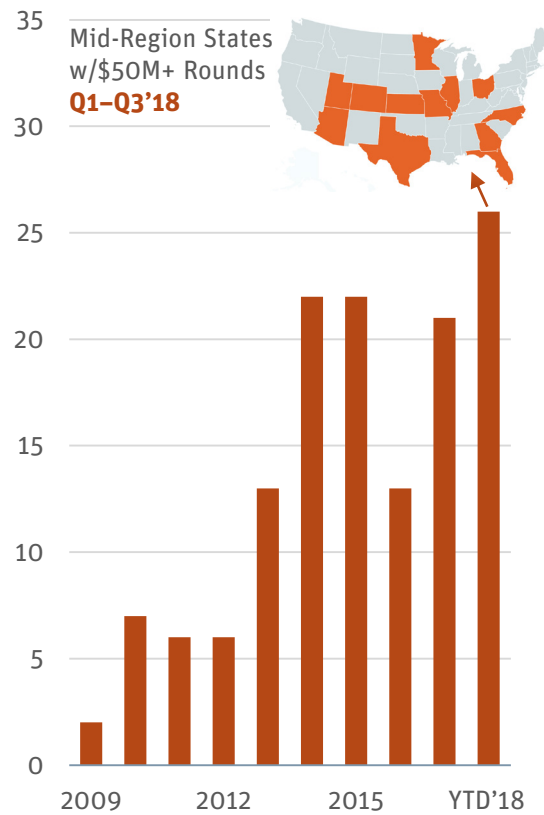
Rising Regional Ambitions

In ecosystems across the U.S., startups have scaled and are seeking substantial capital. In New York City especially, and now more recently in Seattle, late-stage startups are tapping private markets. And in between the coasts, 12 different states have been home to a \$50M raise.

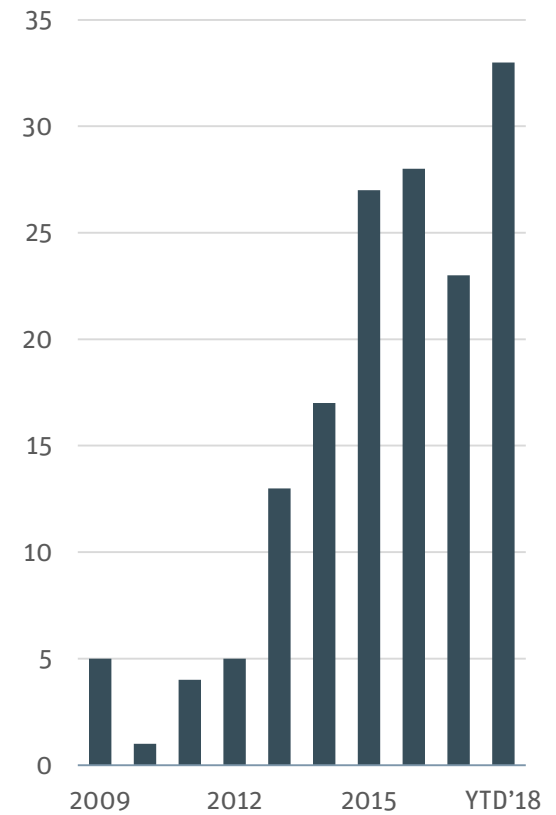
Seattle Metro Area: \$50M+ Deals



Mid-Regions¹: \$50M+ Deals



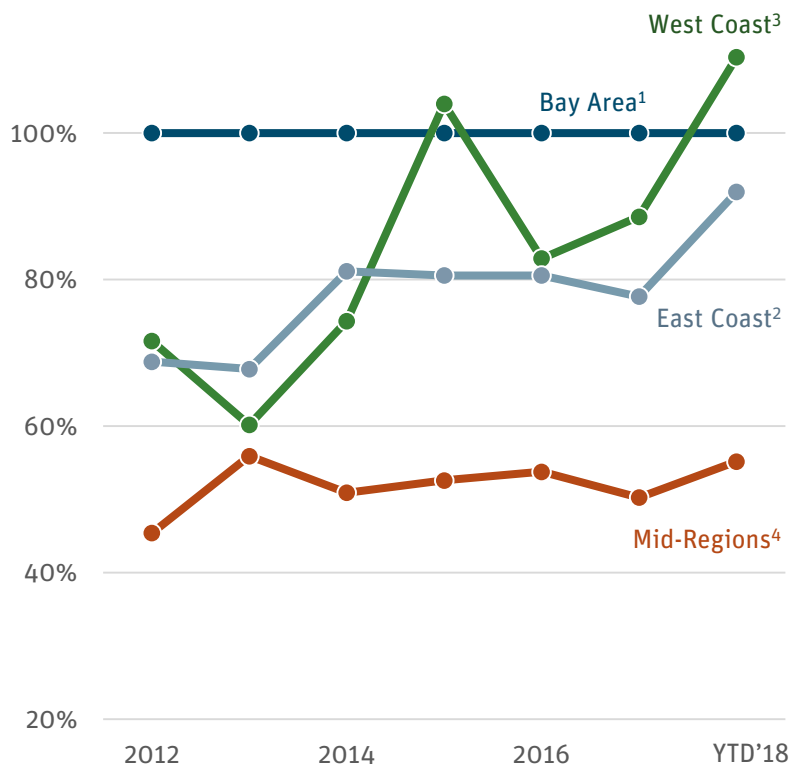
New York Metro Area: \$50M+ Deals



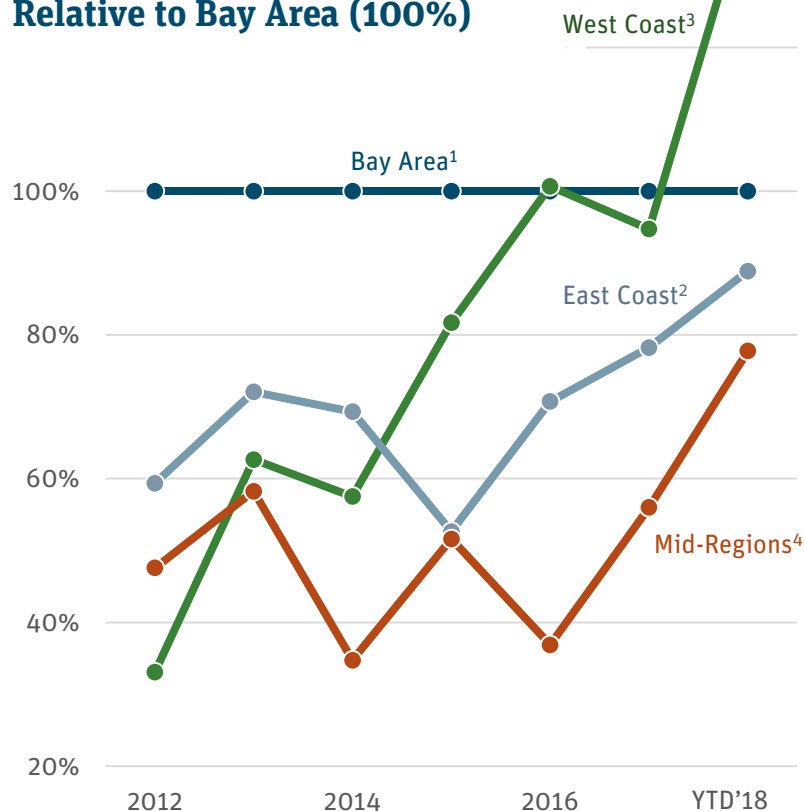
Valuations Climb Nationwide, Especially Late-Stage

As access to capital spreads nationwide, valuations are climbing — particularly in later stages. Increasingly, Silicon Valley–based investors are sourcing deals outside the Bay Area. Median valuations in hubs like Los Angeles and Seattle surpassed the Bay Area through Q3.

Series A: Pre-Money Valuations Relative to Bay Area (100%)



Series C: Pre-Money Valuations Relative to Bay Area (100%)

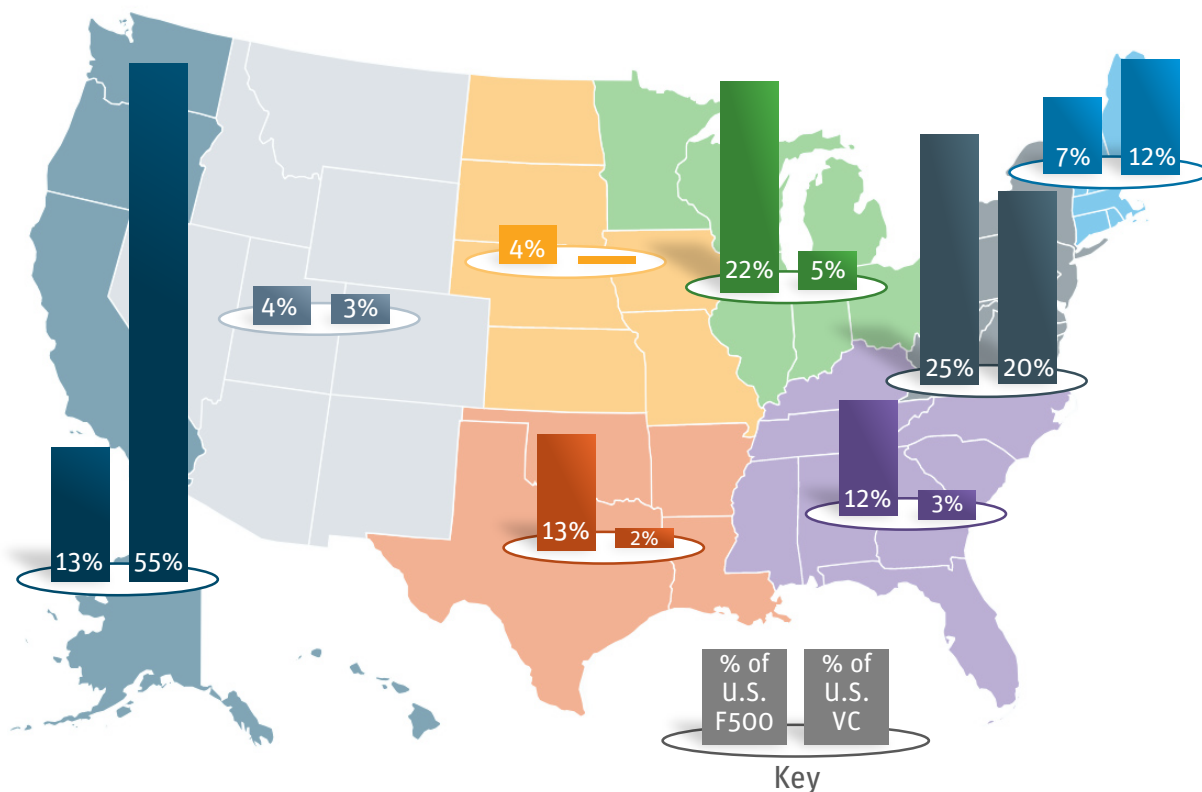


Notes: 1) Includes startups headquartered in the San Francisco Bay region. 2) Includes startups headquartered in ME, VT, NH, MA, CT, NY, DE, PA, MD and VA. 3) Includes startups headquartered in WA, OR, and CA (ex-Bay Area). 4) Includes startups headquartered in states not covered in the above definitions.
Sources: PitchBook and SVB analysis.

Where Will Venture Head Next?

As technology becomes vital across all sectors, the next wave of disruption may well emerge from customer-focused companies situated near the old guard. Regions like the South, Southeast and Midwest are home to a greater share of Fortune 500 companies than U.S. venture investment.

Fortune 500 Companies and Venture Funding by Region (% of U.S.)



States with Largest Gap between Fortune 500 vs. Venture Funding¹

State	F500	VC	Gap
Texas	10%	2%	7.6%
Illinois	7%	2%	5.3%
Ohio	5%	1%	4.4%
Virginia	5%	1%	3.9%
New Jersey	4%	1%	3.5%
Connecticut	4%	1%	3.0%
Michigan	3%	0%	3.0%
Minnesota	4%	1%	2.9%
Pennsylvania	4%	1%	2.7%
Georgia	3%	1%	2.4%

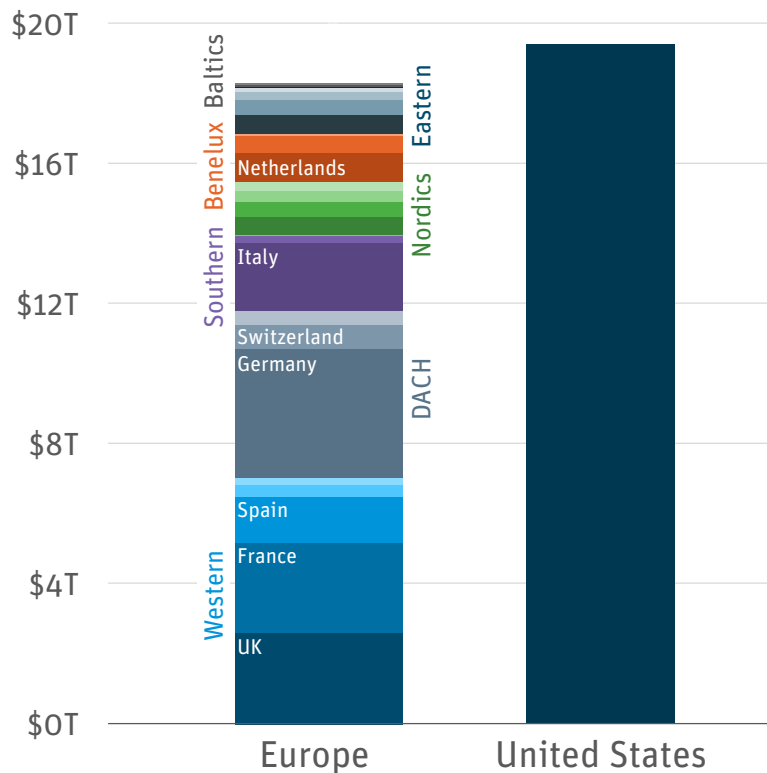


Venture in Europe: Investment Playbook

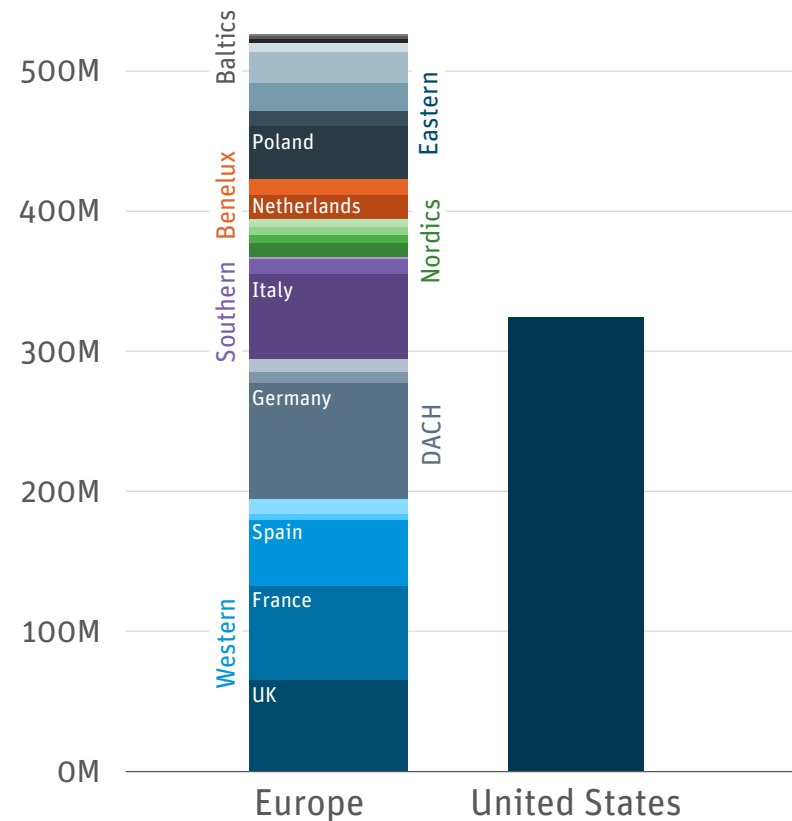
Massive Opportunities, Many Boundaries

The sheer size of European markets makes it attractive, but the challenges are compounded by so many borders and regulatory regimes. Those companies that achieve scale have built a defensible moat around their business and shown superb adaptability, making for a more resilient ecosystem.

GDP Split by Country: Europe¹ vs. U.S.



Population Split by Country: Europe¹ vs. U.S.

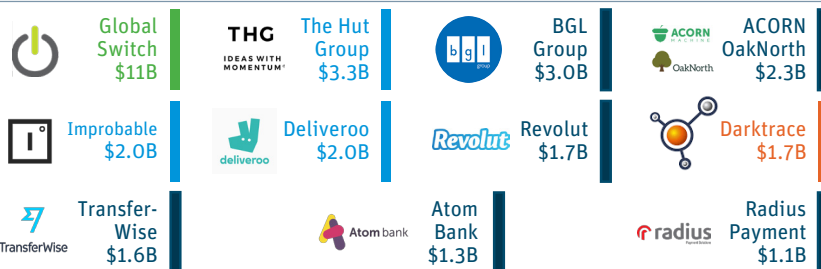


Consumer-Oriented Unicorns Lead; Fintech Shines

Boasting more than two dozen unicorns, Europe is the third-largest venture ecosystem. The U.K., with eleven of its own, is representative of the split between sectors. Financial and consumer tech have found the fastest success, but SaaS is gaining traction.

European Tech Unicorns by Location as of 9/30/18

United Kingdom



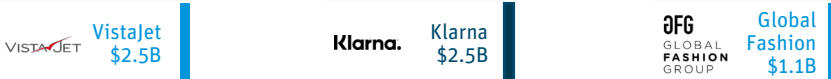
Germany



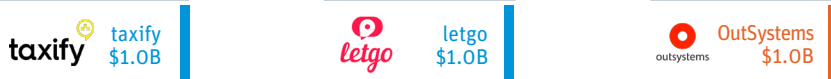
France



Malta



Estonia



Sweden



Netherlands



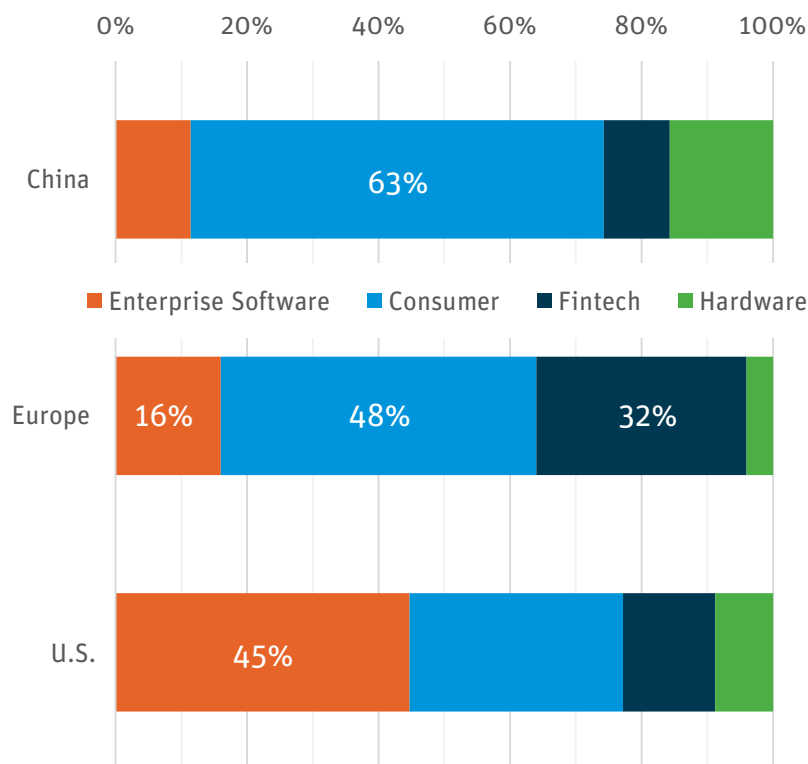
Luxembourg



Portugal



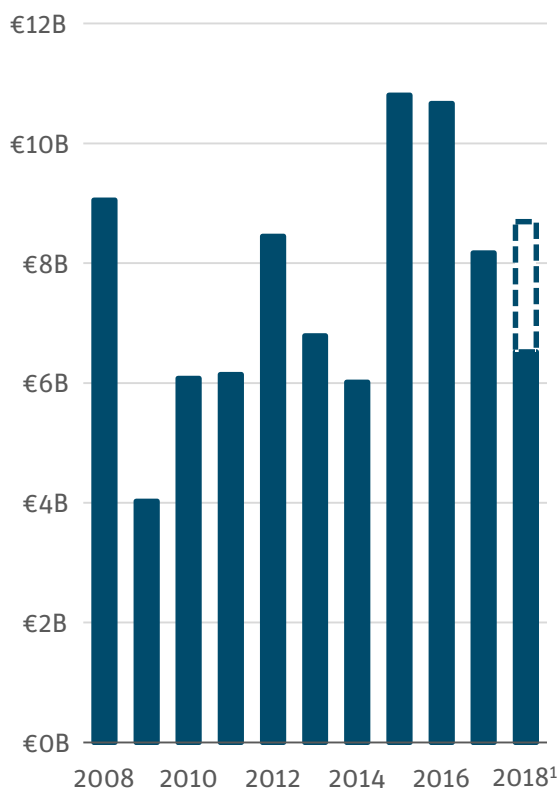
Tech Unicorns by Sector: Europe vs. China vs. U.S.



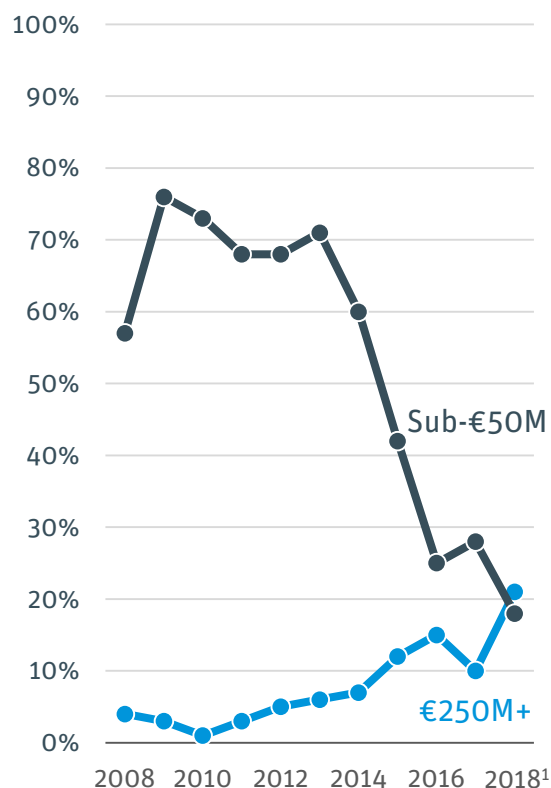
Fund Sizes Climb, Allowing for More Ambitious Bets

Venture firms are changing in Europe, though still raising roughly one-fourth their U.S. counterparts. Funds are growing from smaller family office-supported endeavors to state-sponsored powerhouses. More €250M+ funds have been closed than sub-€50M funds, signaling a new scale of capital.

European Venture Fundraising



European Venture Fundraising By Fund Size: €250M+ vs. <€50M



Notable Government Investment and Limited Partner Funds



European Investment Fund
 HQ: Luxembourg City, Luxembourg
 Supports dozens of country- or region-specific joint initiatives and fund-of-funds across 25+ countries



British Business Bank
 HQ: Sheffield, England
 Invests in venture funds and startups through its Enterprise Capital Fund, Angel CoFund and VC Catalyst Fund.



KfW Group
 HQ: Frankfurt, Germany
 Provides equity capital to innovation startups through HTGF and Coparion and venture funds via KfW Capital.



Enterprise Ireland
 HQ: Dublin, Ireland
 Economic development agency that supports entrepreneurs and firms with funding and global market expertise



Exits Arrive: World-Scale IPOs and M&A

Europe's Finest Hit Public Markets

Four exemplars of Europe's venture tech ecosystem — with support from investors across the globe — made their public debut in 2018, including the largest tech listing outside of China: Spotify.

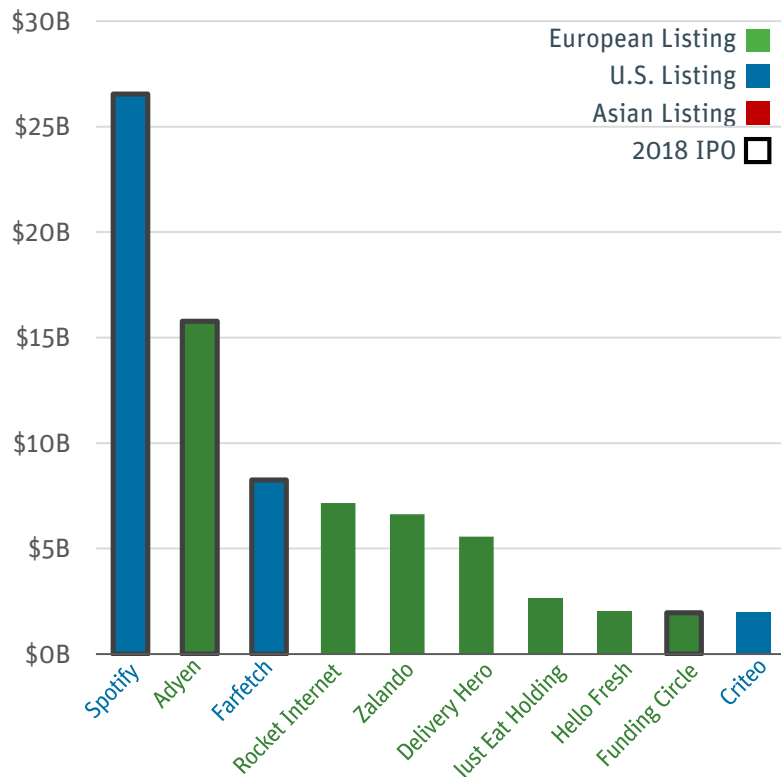
Notable 2018 European Venture-Backed IPOs

 <h3>Spotify</h3> <p>HQ: Stockholm, Sweden</p> <p>Industry: Music streaming</p> <p>Listing Date: April 3, 2018</p> <p>Market Cap (10/19/18): \$26.3B</p> <p>Relative to Last Priv. Val.: 1.3x</p> <p>Notable European Investors</p> <p>Northzone</p> <p>CREANDUM</p> <p>wellingtonpartners VENTURE CAPITAL</p> <p>Notable International Investors</p> <p> FOUNDERS FUND</p> <p>KPCB TCV </p>	 <h3>Adyen</h3> <p>HQ: Amsterdam, Netherlands</p> <p>Industry: Payments platform</p> <p>IPO Date: June 13, 2018</p> <p>Market Cap (10/19/18): \$17.5B</p> <p>Relative to Last Priv. Val.: 9.0x</p> <p>Notable European Investors</p> <p> Index Ventures</p> <p> MAN CAPITAL LLP</p> <p>Notable International Investors</p> <p> Felicis Ventures</p> <p> GENERAL ATLANTIC TEMASEK</p>	 <h3>Farfetch</h3> <p>HQ: London, England</p> <p>Industry: Boutique e-commerce</p> <p>IPO Date: Sept. 21, 2018</p> <p>Market Cap (10/19/18): \$5.8B</p> <p>Relative to Last Priv. Val.: 1.5x¹</p> <p>Notable European Investors</p> <p>Advent Venture Partners</p> <p> Index Ventures</p> <p> VITRUVIAN PARTNERS</p> <p>Notable International Investors</p> <p> JD.COM 京东 DST</p> <p>TEMASEK</p>	 <h3>Funding Circle</h3> <p>HQ: London, England</p> <p>Industry: B2B peer lending</p> <p>IPO Date: Sept. 28, 2018</p> <p>Market Cap (10/19/18): \$1.5B</p> <p>Relative to Last Priv. Val.: 2.0x</p> <p>Notable European Investors</p> <p> Index Ventures</p> <p>Accel</p> <p> BAILLIE GIFFORD</p> <p>Notable International Investors</p> <p>Ribbit Capital</p> <p> USV Union Square Ventures</p> <p>DST TEMASEK</p>
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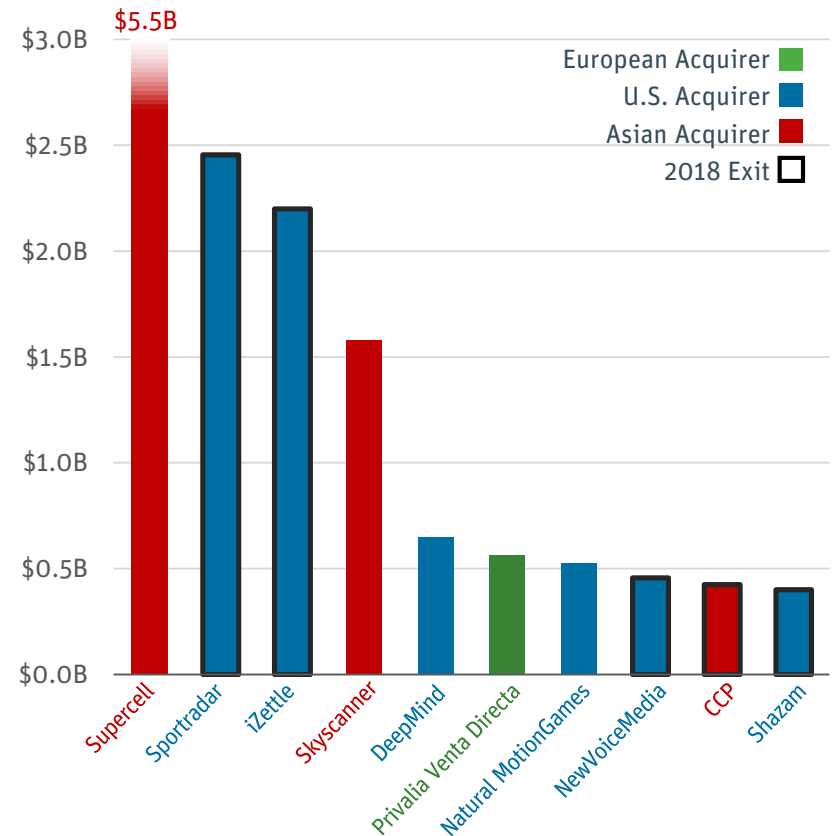
Europe Begins Harvesting a Decade of Innovation

Europe is teeming with exits. Two of the three largest acquisitions and the three largest IPOs of the last five years all took place in 2018. Interestingly, European companies have tapped local markets at IPO, but acquisitions have come predominantly from overseas buyers.

**Largest Venture-Backed Public Offerings
by Market Cap: Q4'13–Q3'18**



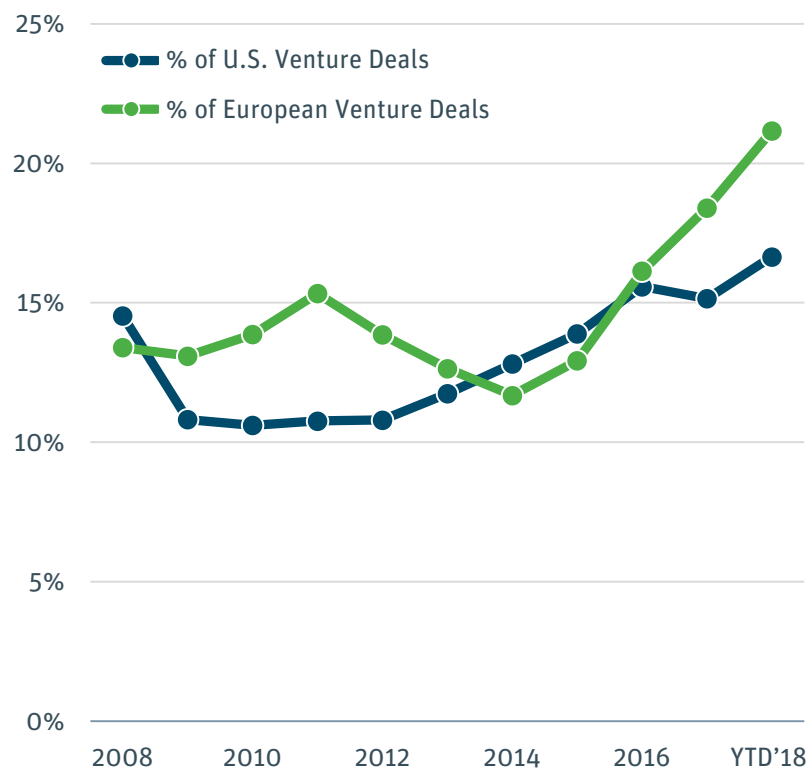
**Largest Venture-Backed Acquisitions
by Transaction Value: Q4'13–Q3'18**



An Increasing Role for Corporates in Europe

Corporate innovation is central to the European startup scene. Corporations have participated in 20% of financing rounds thus far in 2018, surpassing even U.S. levels. Could this attention to innovation foreshadow a flurry of M&A to come?

Corporate/CVC Participation in Venture Deals



Active CVCs from U.S. into Europe: 2014–Q3'18

Corporate	Deals
Intel Capital	23
Salesforce Ventures	19
Qualcomm Ventures	16
GV (Google)	11
Cisco Investments	10
M12 (Microsoft)	9
MasterCard	5
PayPal Holdings	4
American Express	4
Dell Technologies	4

Active CVCs from Europe into U.S.: 2014–Q3'18

Corporate	Deals
Deutsche Telekom	41
Next47 (Siemens)	30
Eight Roads	27
Sky Startup Invnt.	16
WPP	14
Santander	12
Shell Ventures	11
REV (RELX)	10
Randstad	10
Robert Bosch	9

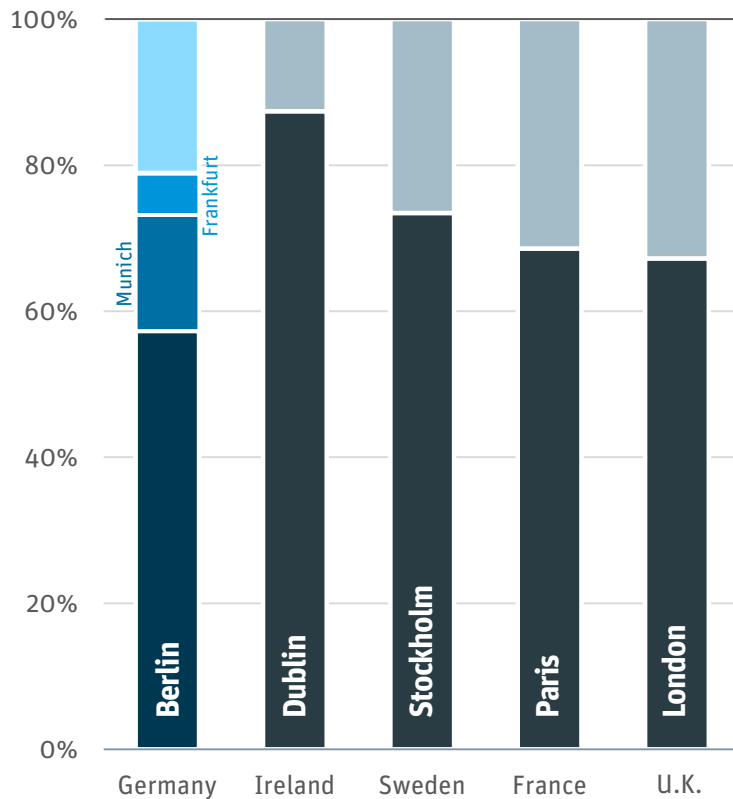


Spotlight on Germany: Venture on the Rise

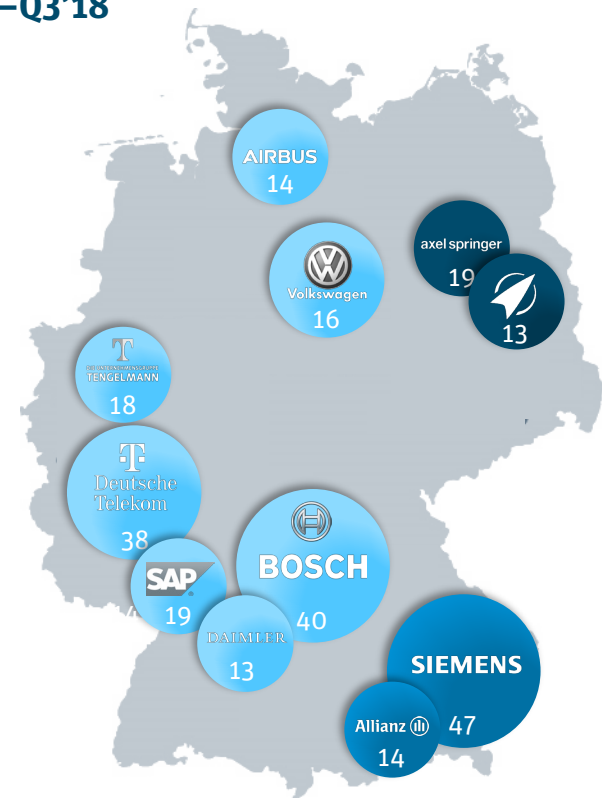
Innovation Everywhere, but Berlin Remains the Hub

Germany is unique in the distribution of its startup scene, relative to other European countries where founders and funding are co-located in a single city. Berlin has become the consumer-internet hub, and deep tech flourishes across the country, reaching a rich history of Mittelstand industrial firms.

Deal Count by Metro (% of Nation): 2016–Q3'18



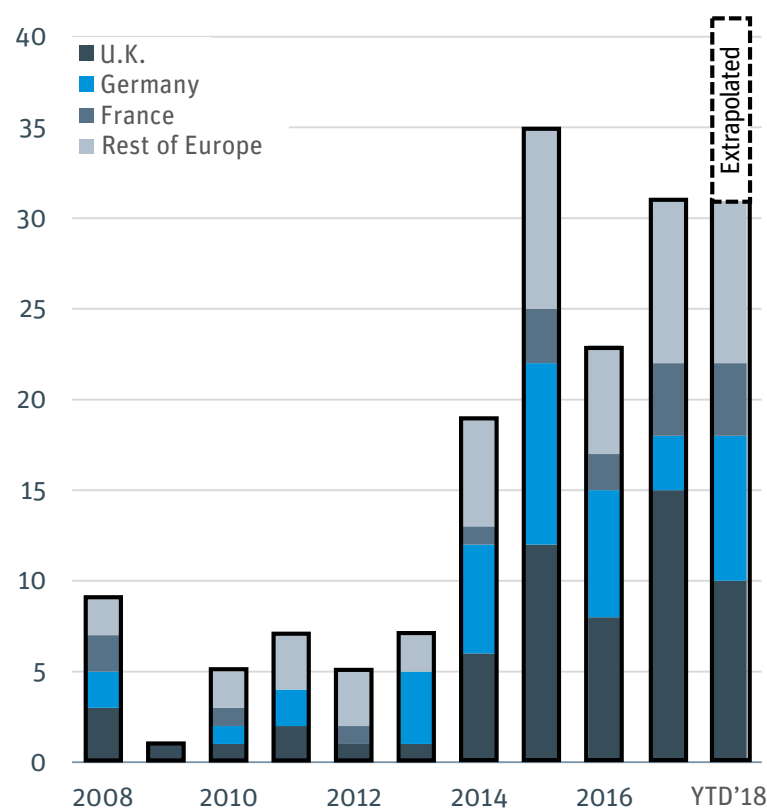
Most Active Corporate/CVC Investors by Deal Count: 2016–Q3'18















Foreign Financiers Help Power the German Scene

Mega-rounds have erupted in Europe since 2014, mirroring the U.S. startup landscape. Germany is an outlier in consistently ranking in the Top 3 countries for \$50M+ investments without a homegrown firm in the 12 most active investors. But local champion venture firms are filling coffers now.

\$50M+ Rounds in Europe: 2008–Q3'18



Most Active Investors in \$50M+ Rounds: 2016–Q3'18

HQ	Investor	Deal Count	Total Inv. Capital ¹
	Index Ventures	7	\$1,395M
	Accel	6	\$872M
	Idinvest Partners	6	\$603M
	Bpifrance	6	\$511M
	DST Global	5	\$1,220M
	Insight Venture Partners	5	\$440M
	Andreessen Horowitz	4	\$953M
	Temasek Holdings	4	\$892M
	Baillie Gifford	4	\$873M
	Rakuten Capital	4	\$514M
	Balderton Capital	4	\$418M
	Kohlberg Kravis Roberts	4	\$266M



Appendix

Authors



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Steven Pipp is a Vice President based in San Francisco responsible for capital markets research and data-driven analysis of the innovation economies that SVB serves globally. In this role, he has led research efforts exploring investment, fundraising and exit dynamics between the venture ecosystems of the U.S., China, Southeast Asia and Europe.

Prior to his research role, Steven managed strategic advisory and valuation engagements for venture-backed technology companies as part of SVB Analytics. Before joining SVB, Steven worked in Minneapolis as a consultant and entrepreneur with a focus on clean energy technology.

Steven earned a Master of Science in Finance from Boston College and a Bachelor of Science in Business from the University of Minnesota. In addition, he holds the Chartered Financial Analyst (CFA) designation.



Bob Blee
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Bob Blee heads Silicon Valley Bank's Corporate Finance Group, which leads SVB's relationships with public and late-stage private companies in the Innovation sector throughout North America, providing a full suite of lending and banking products, as well as guidance as a trusted partner, helping our clients succeed and quickly scale.

Previously, Bob held a variety of roles in SVB's California and Midwest regions, including heading seed, early and mid-stage Infrastructure, Hardware, Consumer Internet and Fintech banking in the Bay Area and Southern California and was responsible for SVB's Mezzanine Lending and Loan Syndications practices.

Bob sits on the nonprofit board of the Network for Teaching Entrepreneurship (NFTE) and the Silicon Valley Advisory Council of the Commonwealth Club. He is also active with his alma mater, the University of Illinois.



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Erin Platts is the Head of Relationship Banking for Europe at Silicon Valley Bank. She has been with Silicon Valley Bank for 14 years, beginning her career at its Boston office.

Erin provides strategic input into the bank's business, including potential products and services as well as expansion into new markets.

Erin and her teams are dedicated to providing debt financing to early, growth, and late stage innovation businesses of all life stages in the UK, Ireland and Germany. Erin is responsible for developing new relationships and overseeing the continued growth of the European team and client base.

Erin was featured on *Management Today's* top 35 Women Under 35 list and was included in the Innotribe's Power Women in FinTech report.

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The background of the top section is a low-angle photograph of several modern glass skyscrapers reaching towards a clear blue sky. In the center, a building with a distinctive spherical, diamond-patterned facade is visible. In the top left corner, there is a blue square containing the white text 'svb' and a white chevron symbol pointing to the right.
svb**Silicon Valley Bank**

About Silicon Valley Bank

For more than 35 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.



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