

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**

Second Quarter 2019



**SPECIAL REPORT:
Canadian Venture on the Rise**

State of the Markets: Second Quarter 2019

Innovation Marches Onward

Despite fears of slower global growth, innovation marches onward. The record clip of fundraising and investing in 2018 shows no signs of slowing. Technology now represents nearly one-third of the value of the S&P 500 Index. As innovation creates new markets — both geographically and across industries — the growing diversity of companies simply adds to tech's resiliency.

Investors agree that some of the best opportunities are in the US ecosystem. Appetite for innovation returns remains robust. Successive fund raises by venture firms are larger than ever, and family offices and private equity firms are eager to participate. But exciting prospects also exist overseas and north of the border, where Canada is capitalizing on its leadership role in artificial intelligence.

Yet high-growth companies have never been without risk, and rising political and regulatory scrutiny could slow tech's velocity. And while we advocate for a healthy dialogue about the US tech giants' unchecked power and the foreign ownership of cutting-edge technologies, we also believe that the innovation economy is positioned to forge ahead.

Bob Blee
Head of Corporate Finance
Silicon Valley Bank

State of the Markets: Second Quarter 2019

- 3 Macro:** Tech Shines Amid Dull Global Growth
- 8 Fundraising:** Venture Dollars Climb from All Sides
- 13 M&A:** Acquisitions Slow as Startups Aim for Growth
- 18 Regulations:** Potential New Hurdles to Exits
- 23 Special Report:** Canadian Venture on the Rise

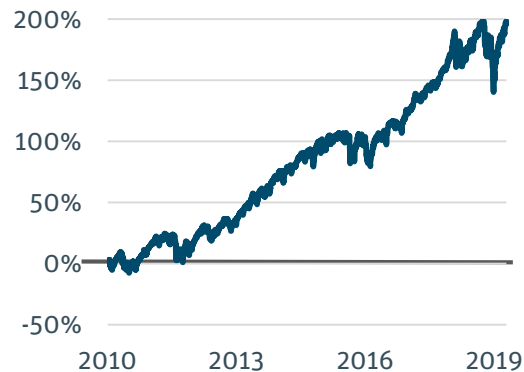


Macro: Tech Shines Amid Dull Global Growth

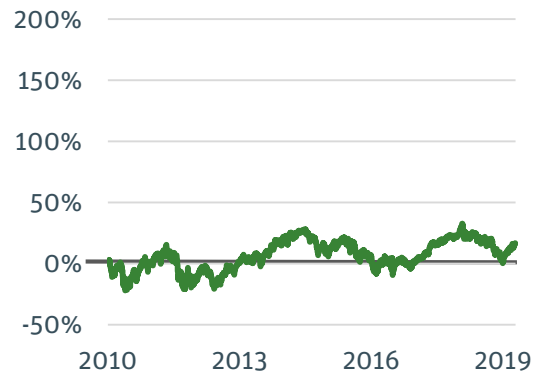
Fears of a Macro Slowdown Have Investors on Edge

While US equity markets have powered through the 2010s, they have not been immune to recent concerns of slowing economic growth. The International Monetary Fund (IMF) cut its global growth forecast for the third time in six months to the lowest rate since the global financial crisis (GFC).

US Market Return (S&P 500)



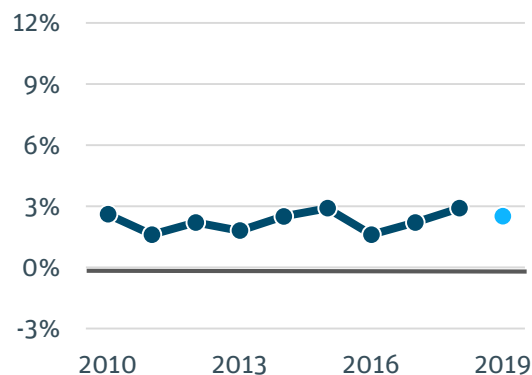
EU Market Return (MSCI Europe)



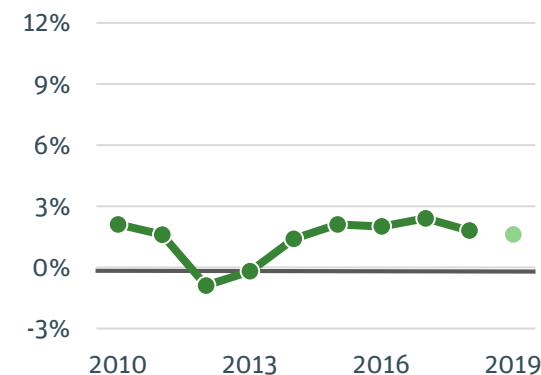
China Market Return (MSCI China)



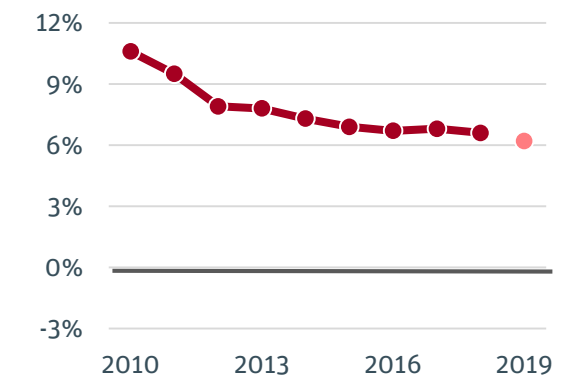
US Real GDP Growth & Forecast



EU Real GDP Growth & Forecast



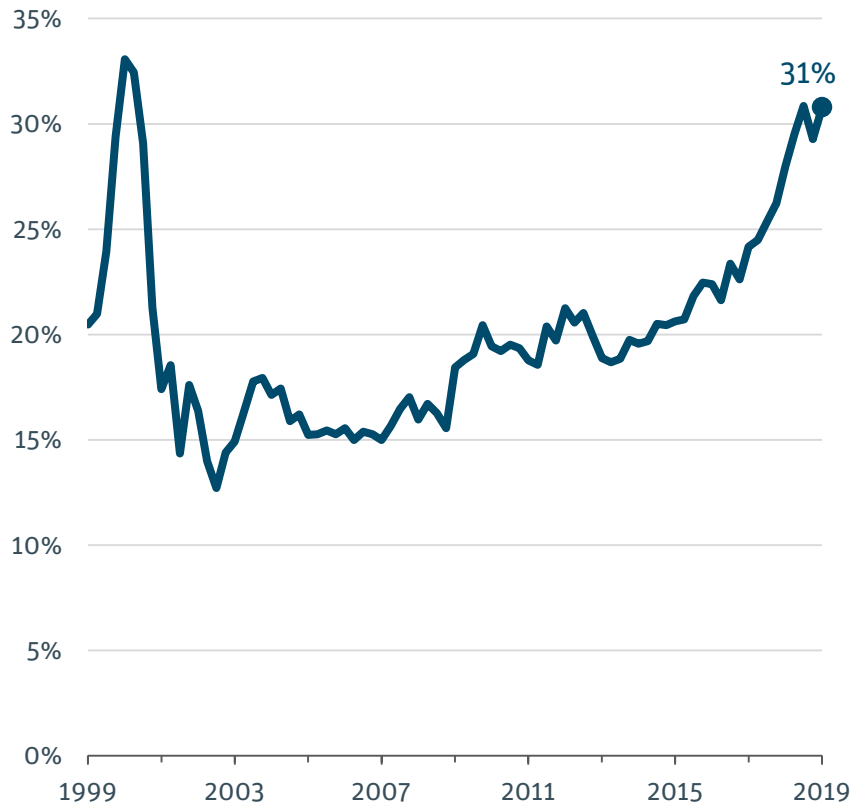
China Real GDP Growth & Forecast



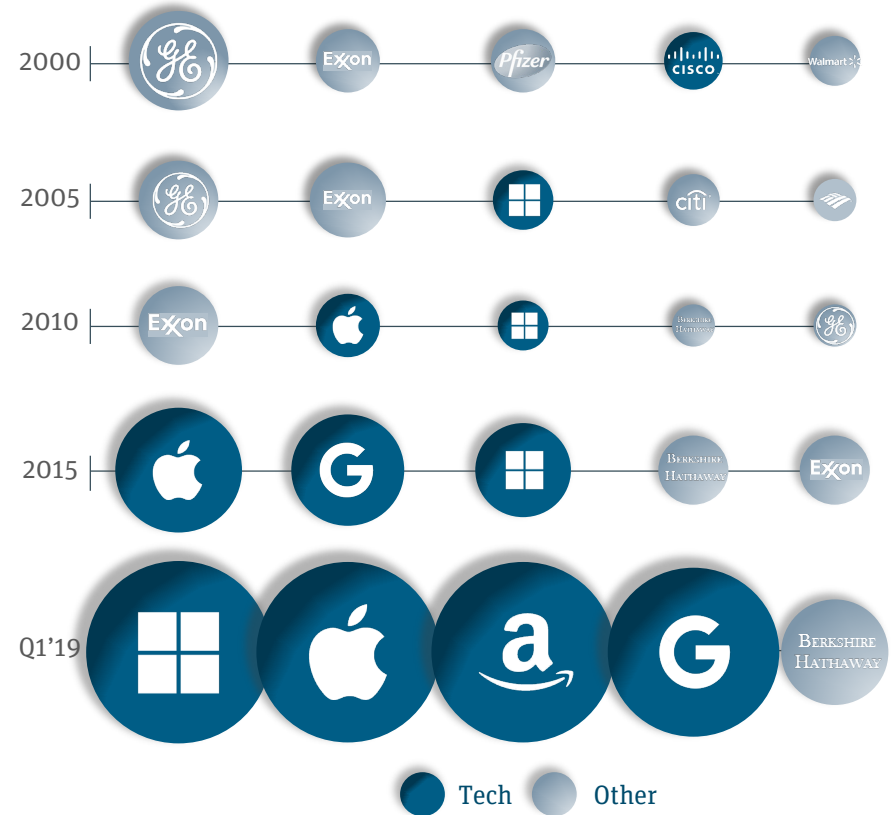
Tech Rises to the Top

Following the hype and subsequent collapse of the dot-com era, tech companies have proven their importance (and value) to the US economy. Nearly one-third of the S&P 500 Index is represented by tech companies – the largest of any industry.

S&P 500 Tech Industry¹ Weighting: 1999–2019



Largest S&P 500 Companies by Market Cap



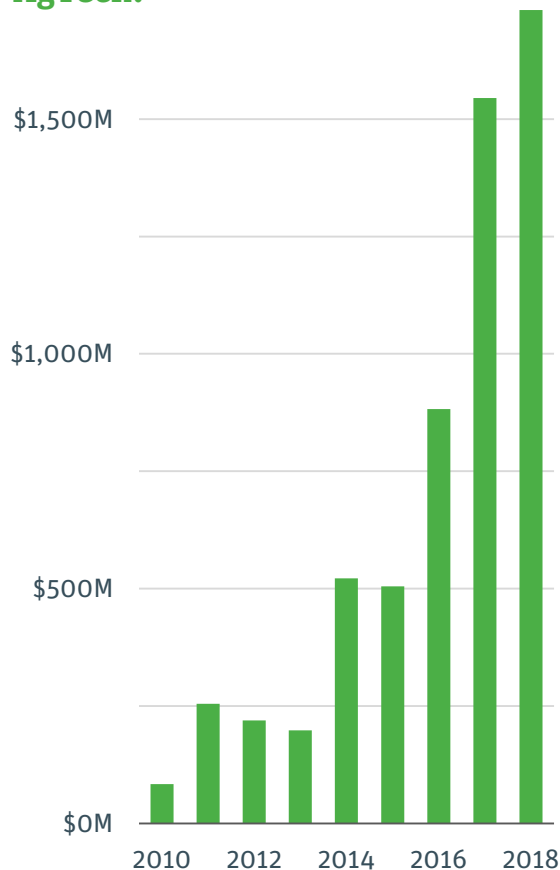
Note: 1) Technology industry includes Amazon as well as companies that were previously classified as Technology prior to the GICS industry reclassification in September 2018.
Source: PitchBook, S&P Capital IQ and SVB analysis.

Nontraditional Industries Prime for Disruption

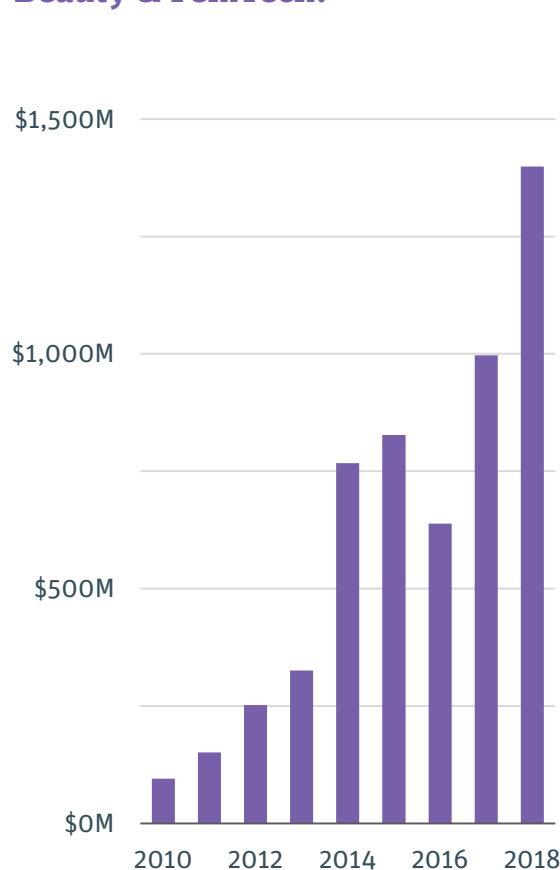
The traditional definitions for tech have eroded as innovation spreads to old guard industries. Areas ranging from beauty to construction are facing disruption from venture-backed companies.

US Venture Capital Investment: 2010–2018

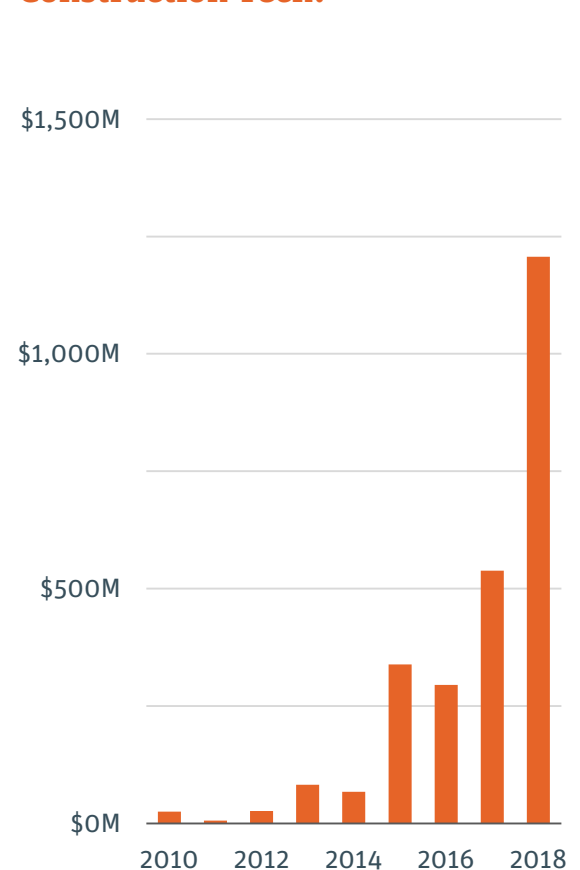
AgTech:



Beauty & FemTech:



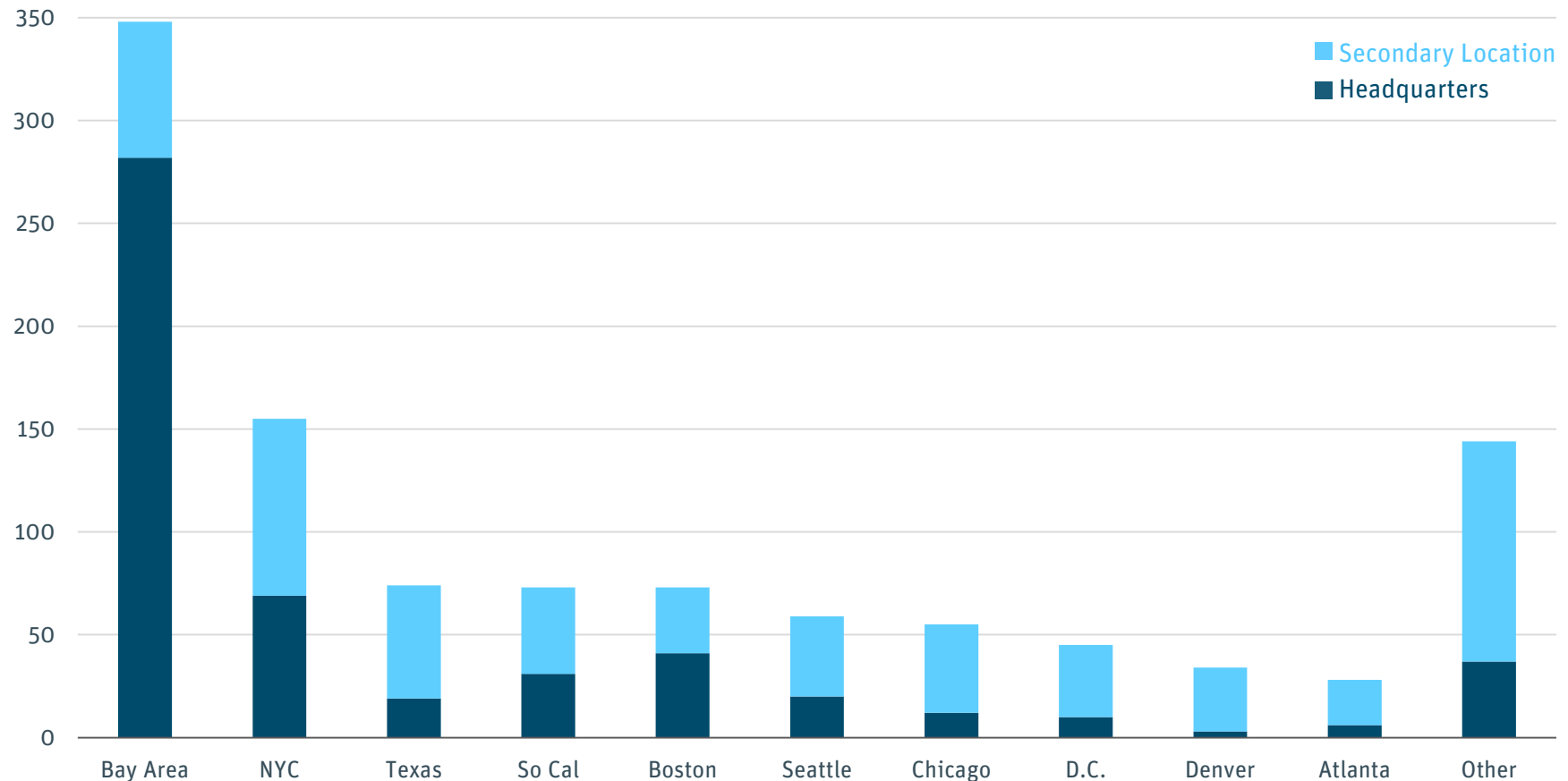
Construction Tech:



Beyond the Bay: Startups Extend to New Cities

Tech's influence is expanding, not only in new industries, but also in new geographies. Silicon Valley remains king, but rising real estate and talent costs are prompting companies to look elsewhere.

Headquarters and Secondary Locations for US Venture-Backed Tech Companies Valued at \$250M+



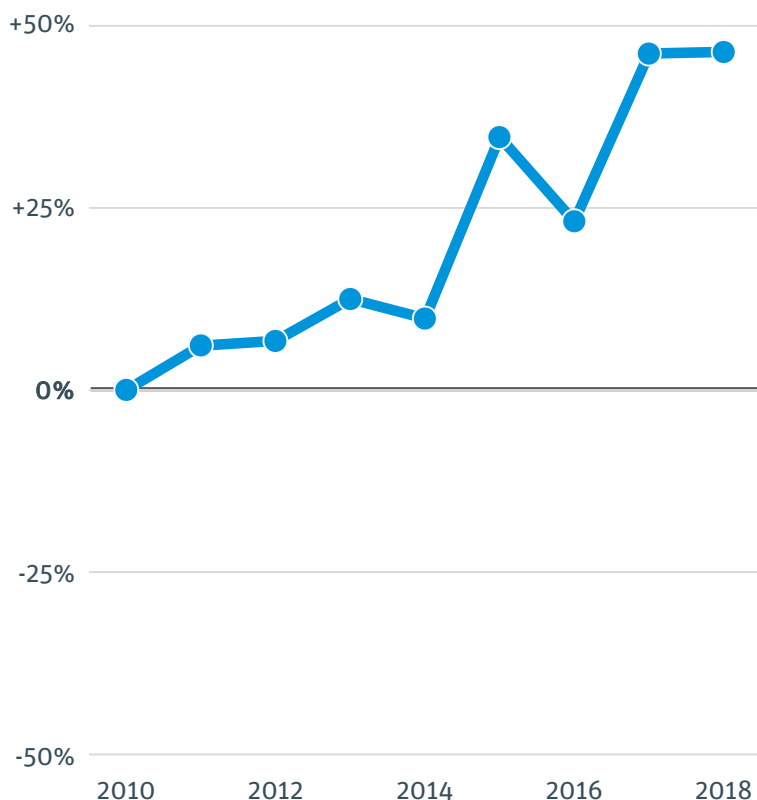


Fundraising: Venture Dollars Climb from All Sides

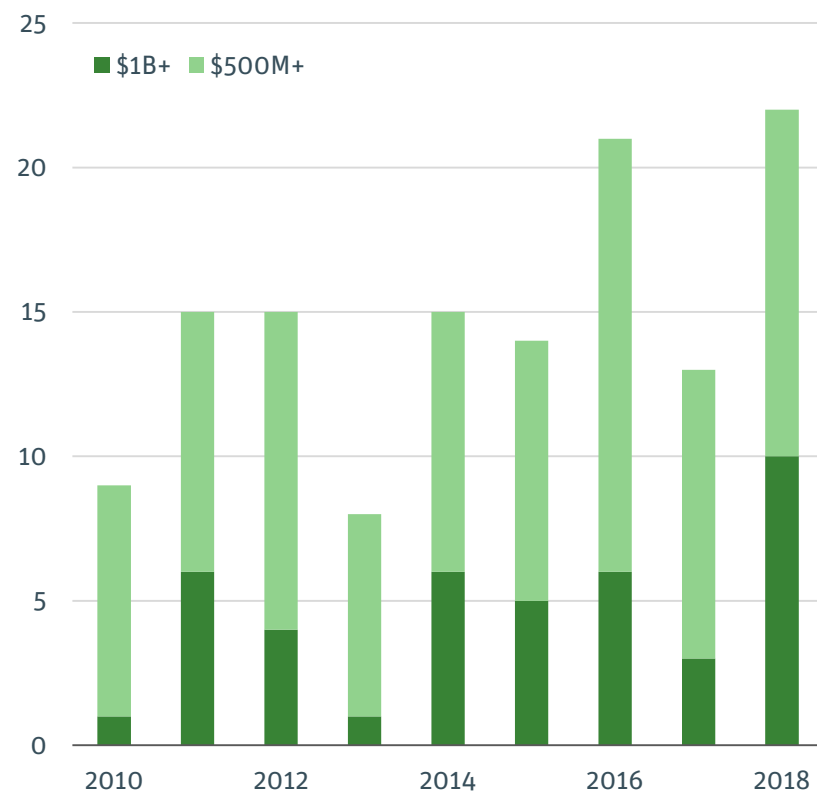
VCs Raising More Capital with Each Trip Back to LPs

Storied firms on Sand Hill Road are attracting more capital for each successive fund, climbing to almost 50% more than their prior fundraise. This trend helped contribute to records in 2018, including the most \$500M+ funds and the first year with double-digit \$1B+ funds.

US VC Fundraising: Median Step-Up in Fund Size for Same Family of Funds



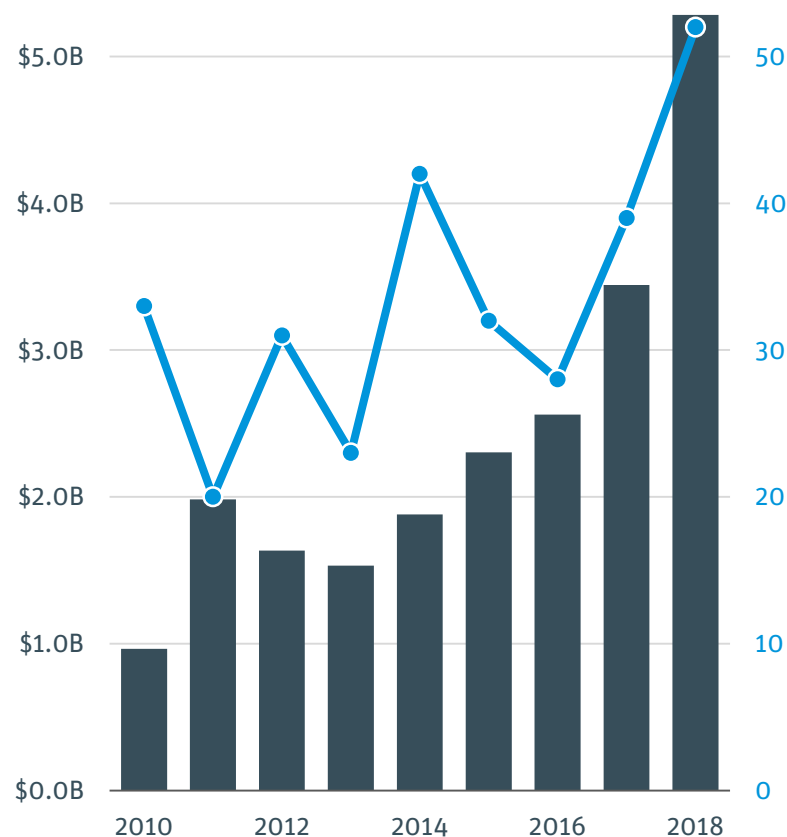
US VC Fundraising: \$500M+ and \$1B+ Funds



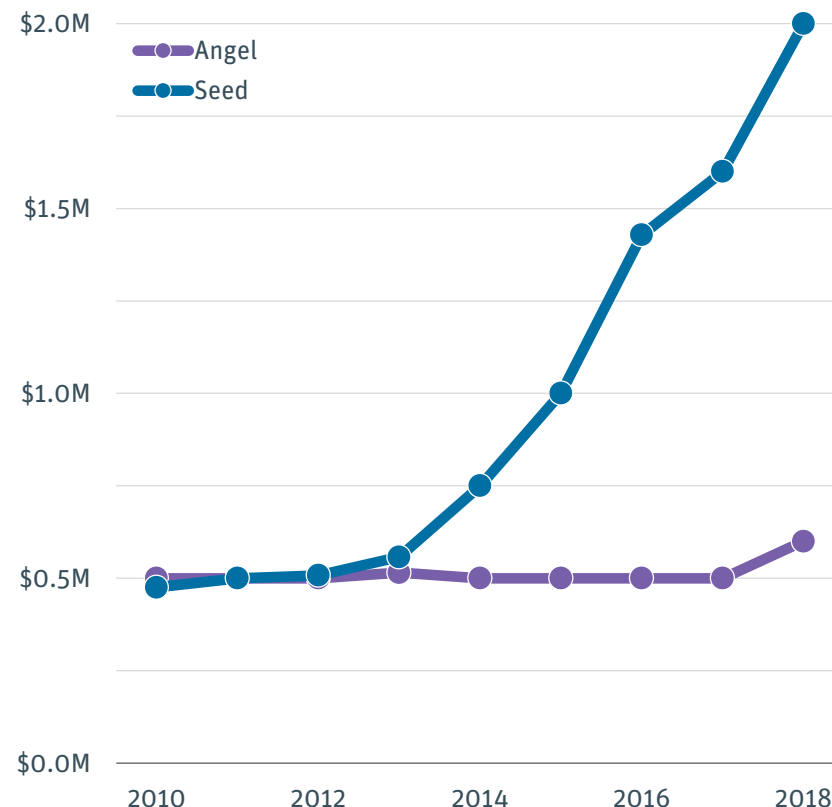
New Funds Move to Institutionalize Early Rounds

At the earliest stages, venture capital available to emerging innovation companies helped push round sizes for seed rounds well beyond their historical average, which had been in line with angel rounds. The return of capital from upcoming IPOs could push both round sizes higher.

US VC Fundraising: First-Time Funds



Early-Stage US Tech Median Round Size: 2010–2018



Diverse Pools of Capital Chase Innovation Returns

Traditional venture firms are no longer the only game in town. Newly professionalized family office and capital-rich private equity investors are participating in venture rounds at an increasing pace, nearing the highs from 2015 in deal level and keeps surpassing those capital marks.

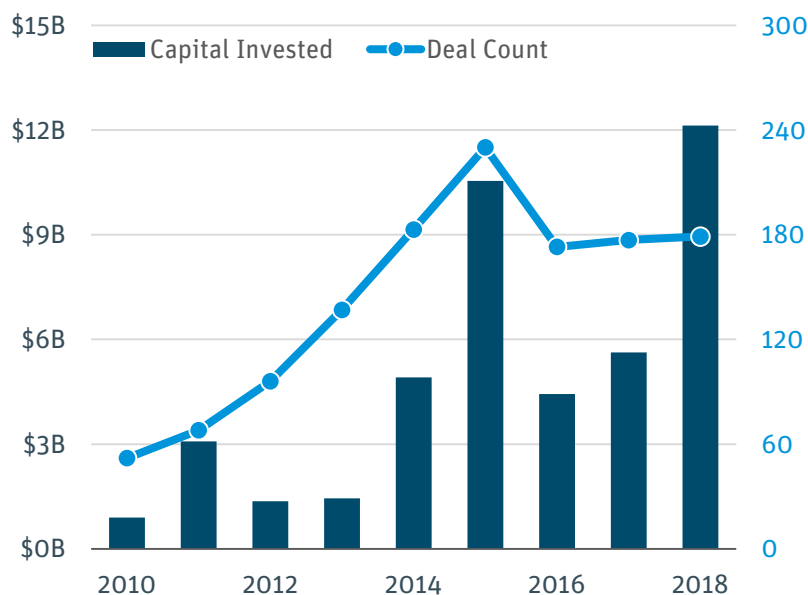
Notable Family Offices Investors in Tech Venture¹



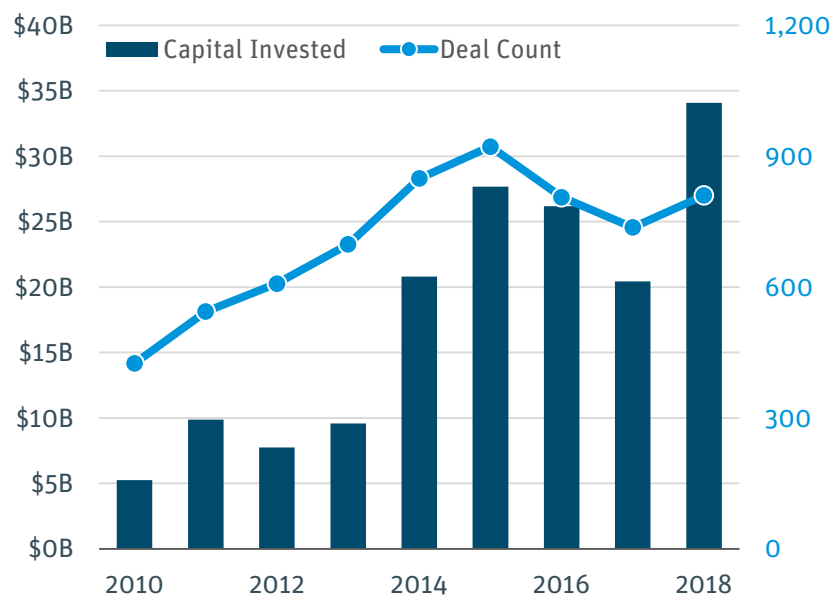
Notable Private Equity Investors in Tech Venture¹



Family Offices' Venture Investment in US Tech²



Private Equity Firms' Venture Investment in US Tech²

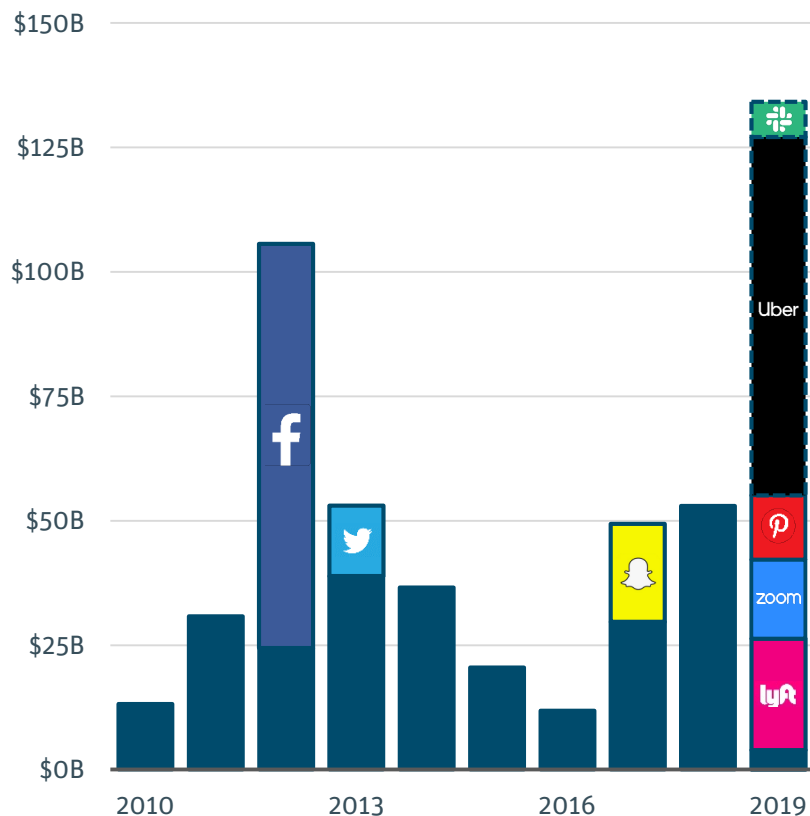


Note: 1) Deal count based on participation in US tech venture rounds from 2010–2018. 2) Investment dollars include full rounds that received participation from at least one investor from the class.
Source: PitchBook and SVB analysis.

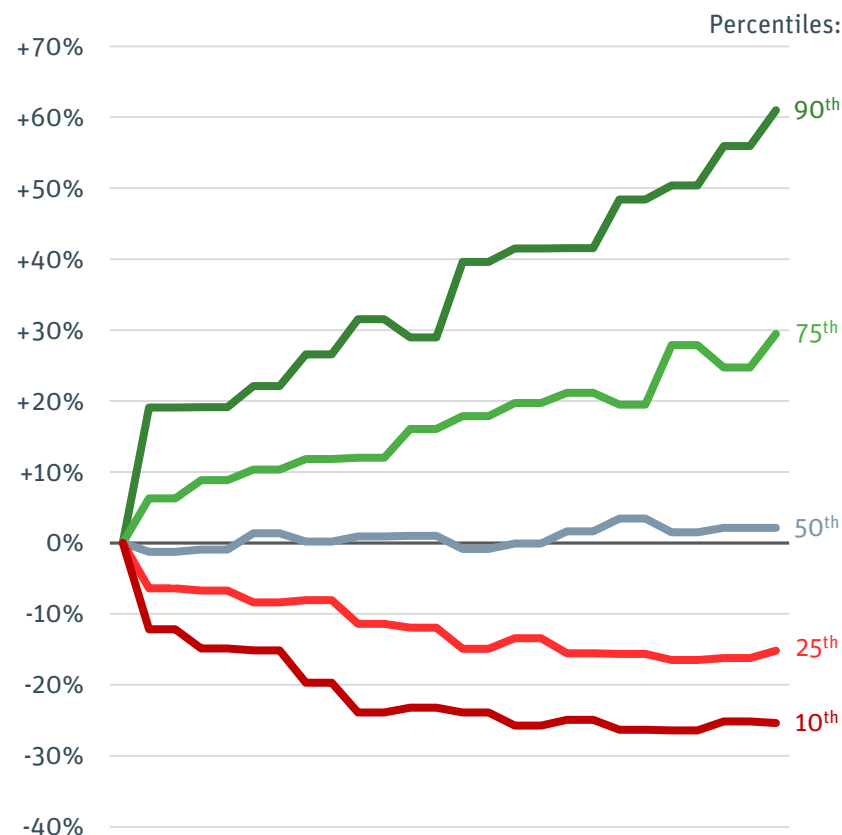
Next Wave of Capital Will Come After Lockups

Early signs indicate 2019 should be the most robust year of value realization via IPOs for U.S. venture-backed tech companies this decade. But the IPO listing is only the start of the journey for insiders, including venture firms, who must weather six months of market movement before exiting.

Aggregate Valuation of US VC-Backed Tech IPOs



Post-IPO Performance for 2010–2018 US Tech IPOs



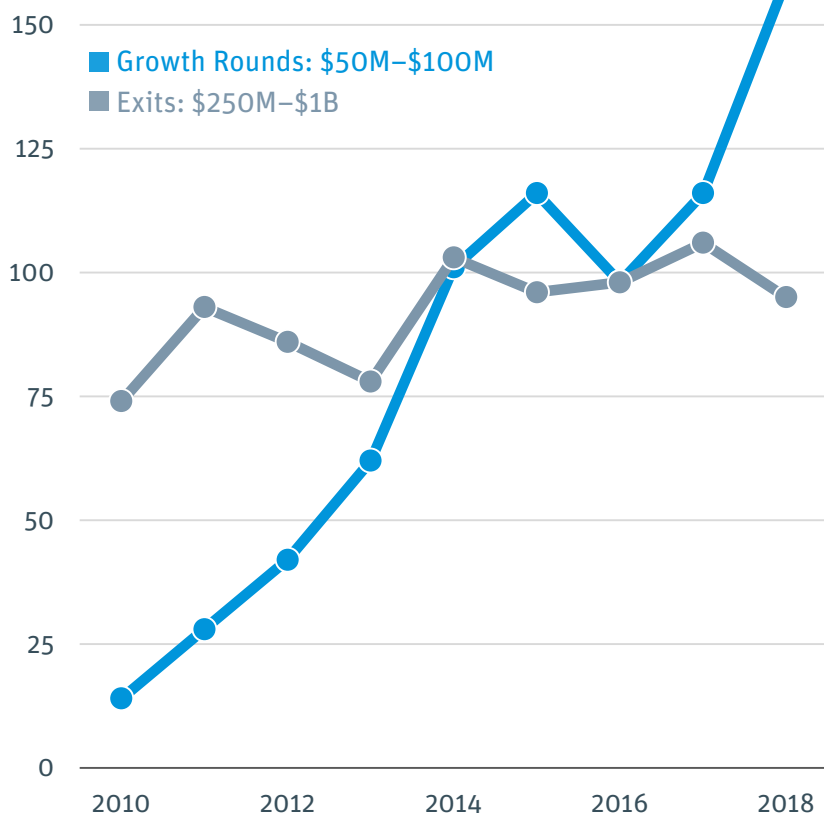


M&A: Acquisitions Slow as Startups Aim for Growth

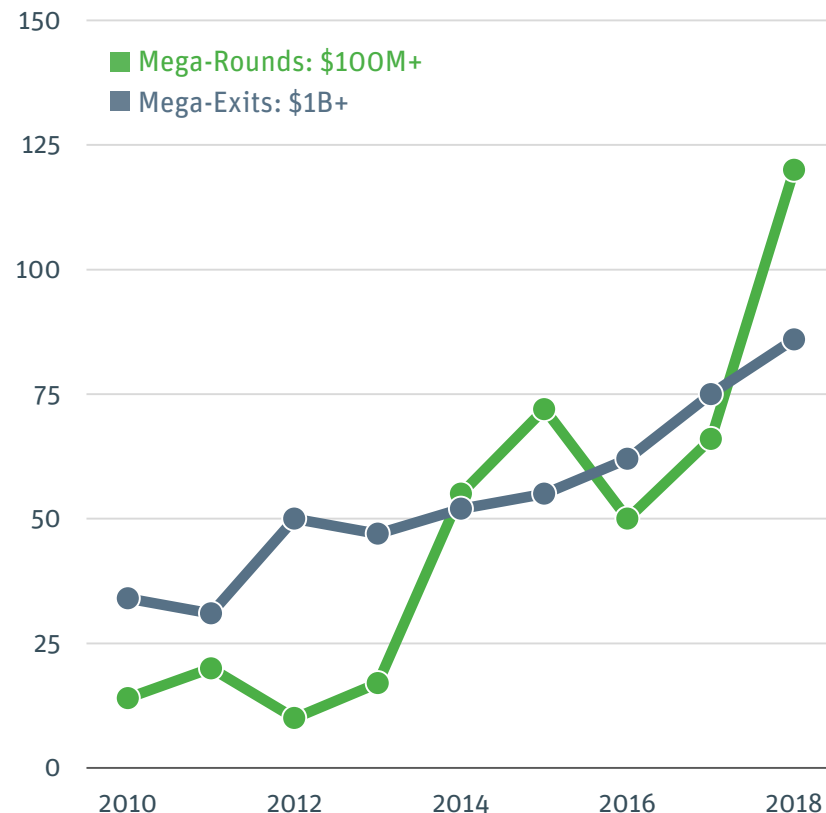
Opting for Growth Capital vs. an Early Exit

With the abundance of available capital, firms are increasingly choosing growth rounds – even mega-growth rounds – over similar-sized exits. This could signal that companies want to mature before securing an even bigger exit. Or are these firms simply shying away from public market scrutiny?

US Tech Growth Rounds vs. Exits: 2010–2018



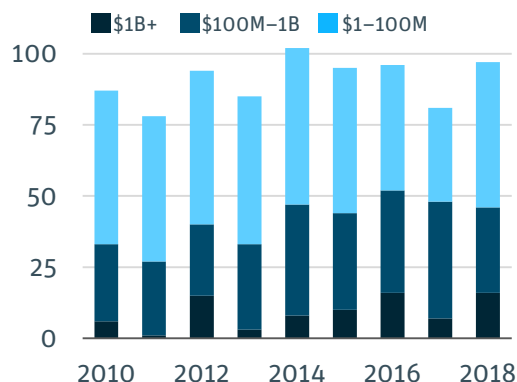
US Tech Mega-Rounds vs. Mega-Exits: 2010–2018



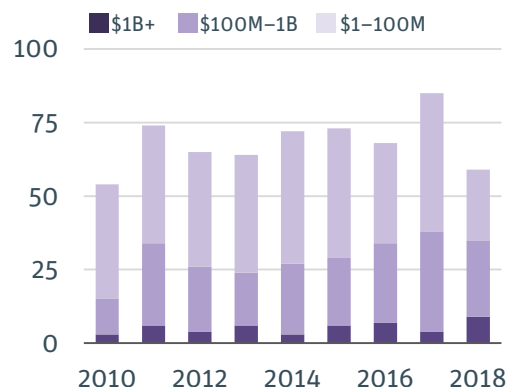
Across US, Valuations Climb for M&A

While fundraising and investing have soared this decade, the number of acquisitions taking place has remained constant. However, deals executed in 2018 were roughly 3x the size of those in 2010.

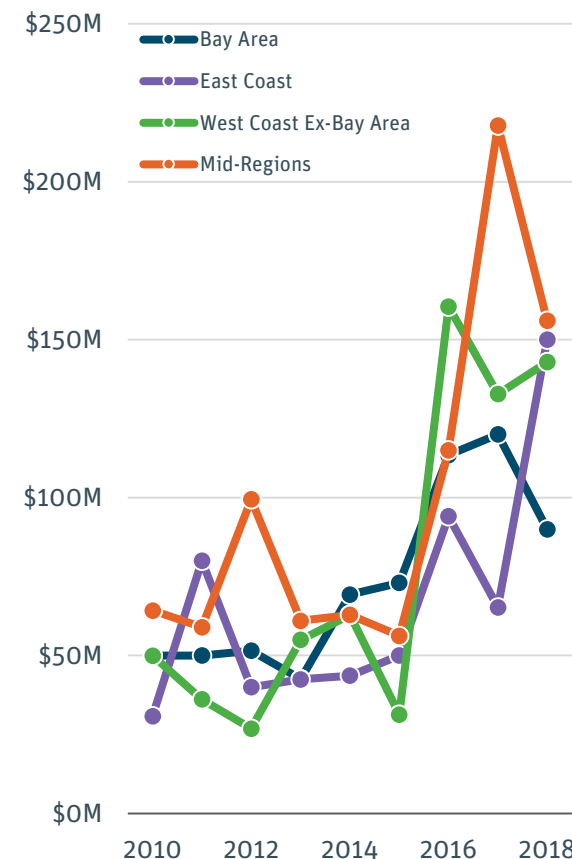
VC-Backed M&A: Bay Area



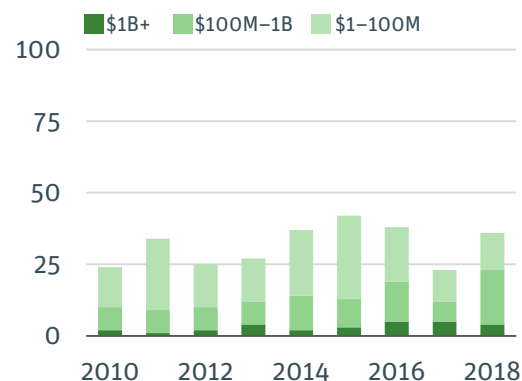
VC-Backed Tech M&A: East Coast



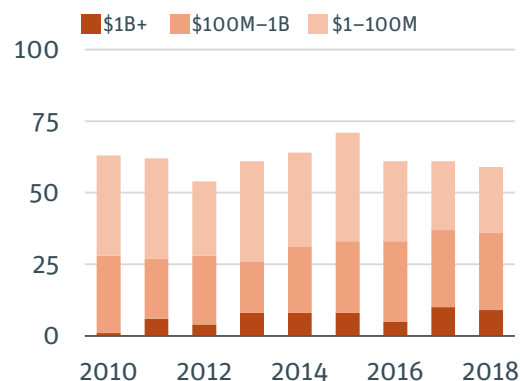
M&A Value by Region (Median)



M&A: West Coast Ex-Bay Area



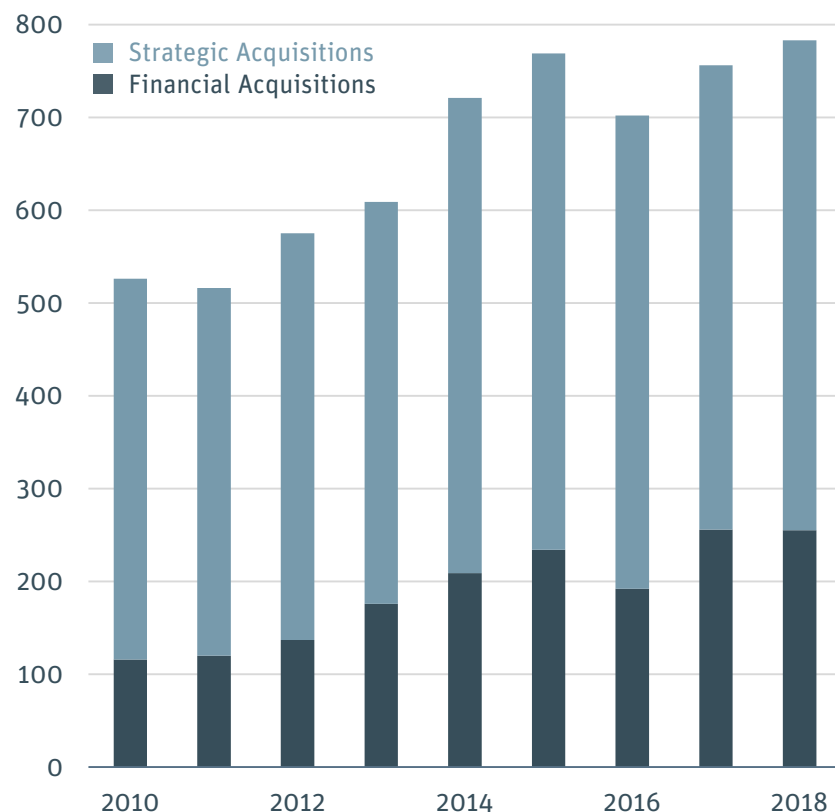
VC-Backed Tech M&A: Mid-Regions



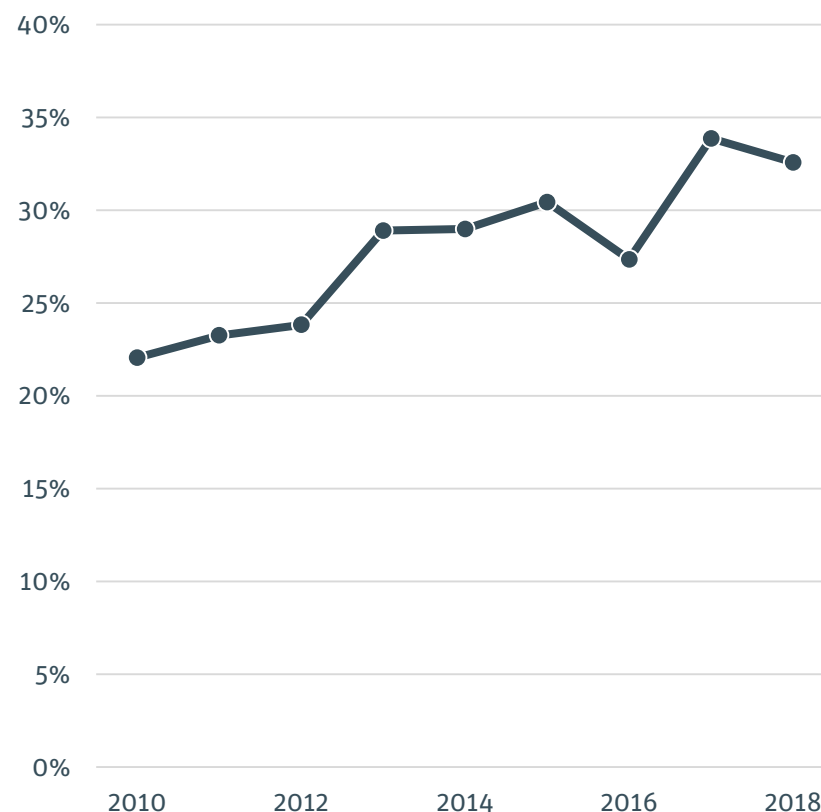
Bucking the Trend: Financial Acquisitions Mount

As financial buyers grow more comfortable with tech, particularly companies with recurring revenue, they're increasingly stepping in to purchase those startups. Financial buyers also are filling a void – buying companies that may be unable to attract soaring venture rounds.

US VC-Backed M&A: Strategic vs. Financial Activity



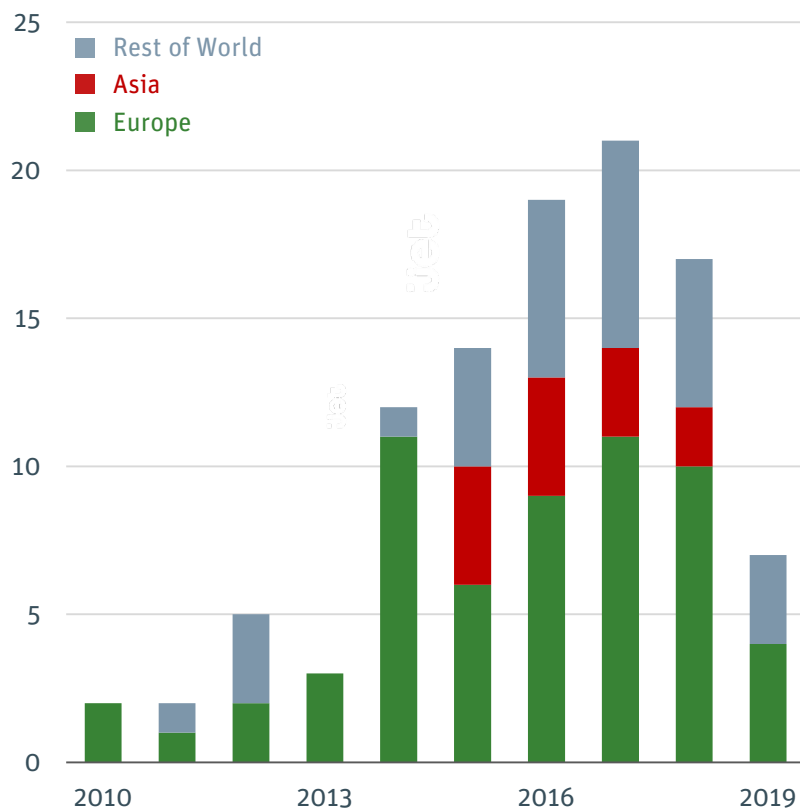
Financial Acquisitions: % of Total M&A Activity



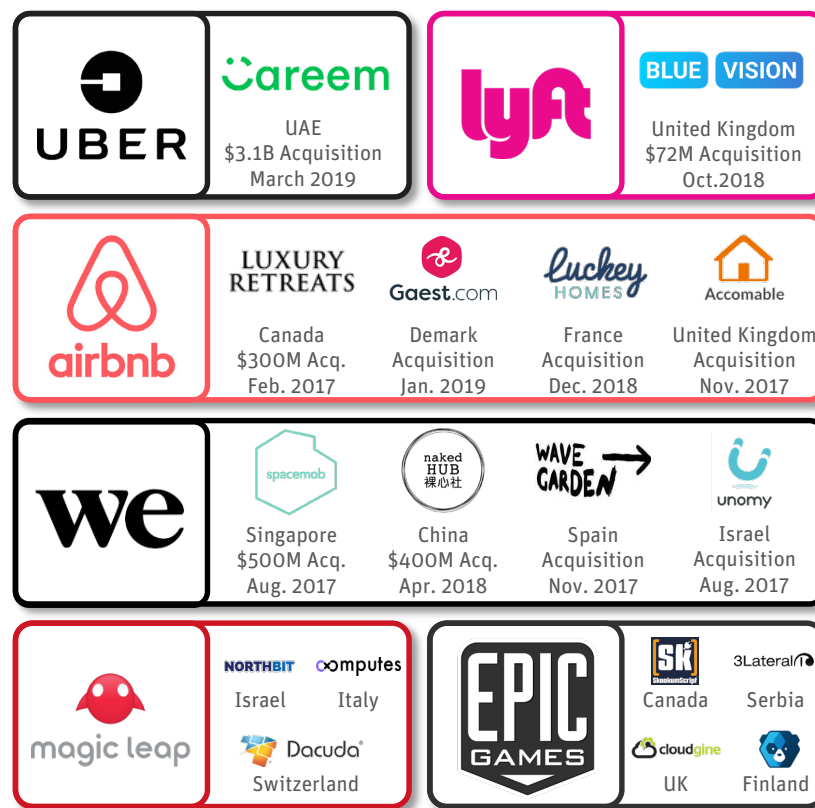
US Tech Looks To International Opportunities

The innovation economy's best and brightest are putting their abundant capital to work abroad, with 20% of their acquisitions taking place outside of the US. On the back of a strong dollar, their capital is going even further for expansion overseas.

International Acquisitions by US Tech Unicorns



Notable Int'l Acquisitions by US Tech Decacorns



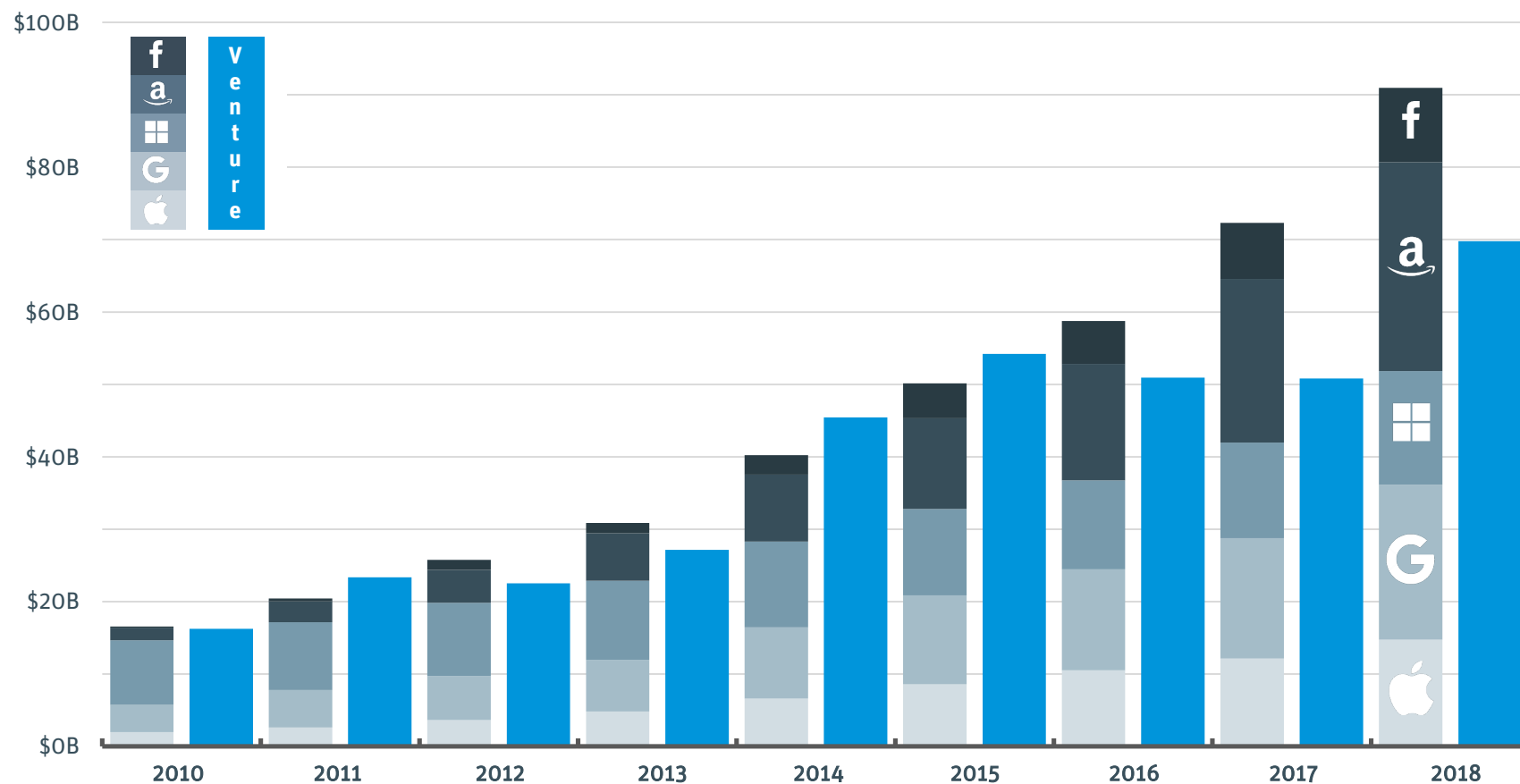


Regulations: Potential New Hurdles for Exits

Tech Giants Spend Big but Now Face Scrutiny

The Big 5 US tech giants have gone unchecked despite their growing influence. Now, as they outspend the entire tech venture ecosystem in R&D dollars alone, they are facing increasing political scrutiny. Are their innovations a true benefit to society?

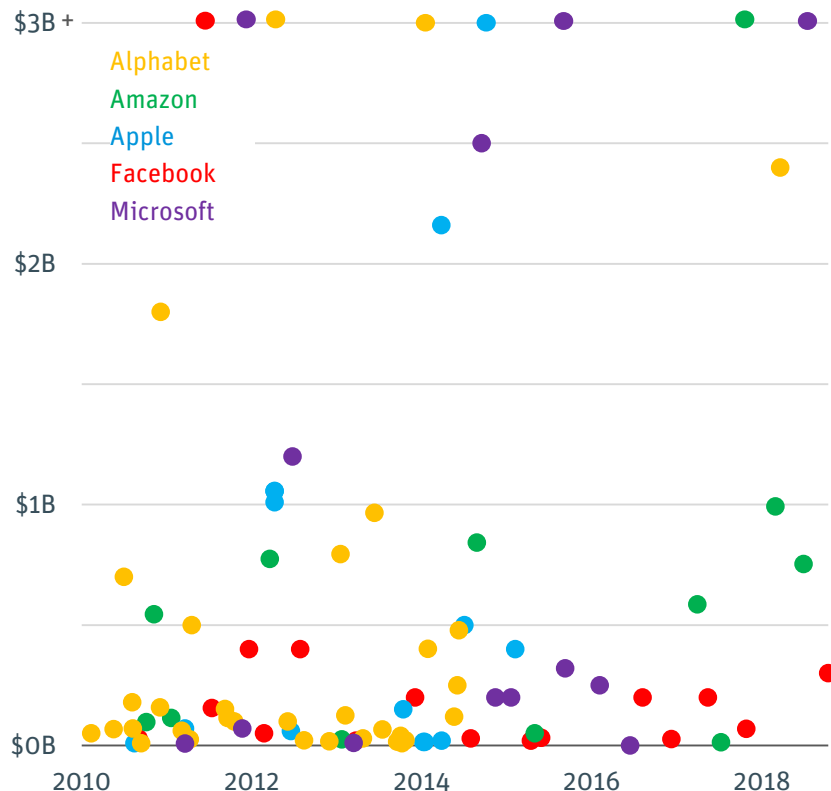
R&D Expenditure by Big 5 US Tech Companies vs. US Tech Venture Capital Invested



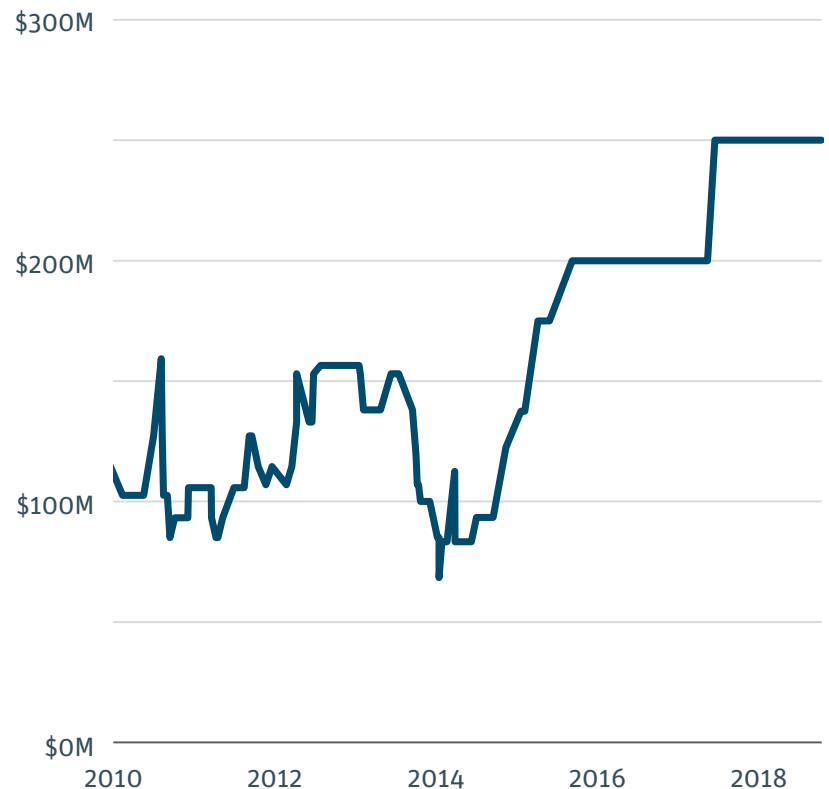
Attractive Acquisition Values from Big 5 in Jeopardy

As the Big 5 have grown, they are executing fewer but larger M&A transactions – the median deal value more than doubled this past decade. Again, this is an attractive exit for startups and investors, but political headwinds could block (or limit) this exit path.

Tech Big 5 Acquisitions of Venture-Backed Tech Companies¹



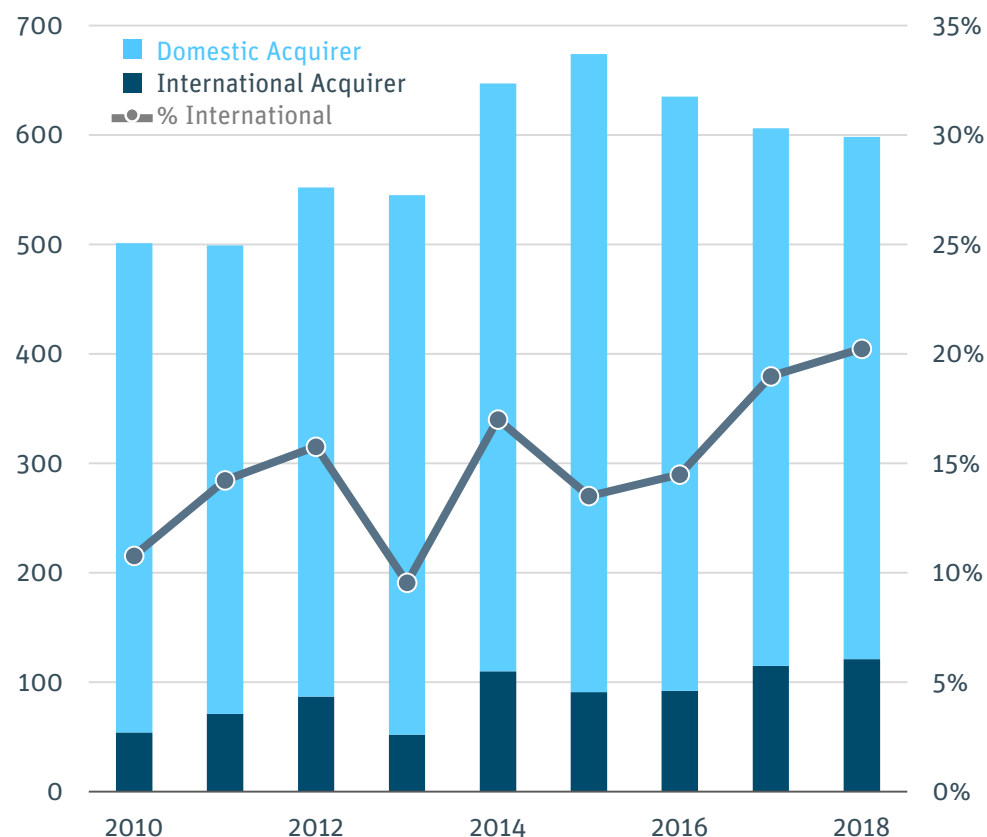
Tech Big 5 Acquisitions of Venture-Backed Tech Companies: Rolling 30-Deal Median



CFIUS Could Impact 20% of VC-Backed Acquisitions

As geopolitical tensions rise, the Committee on Foreign Investment in the United States (CFIUS) is paying close attention. This has the potential to limit foreign acquirers who have been buying a growing share of US start ups.

Strategic Acquisitions of US VC-Backed Tech Companies



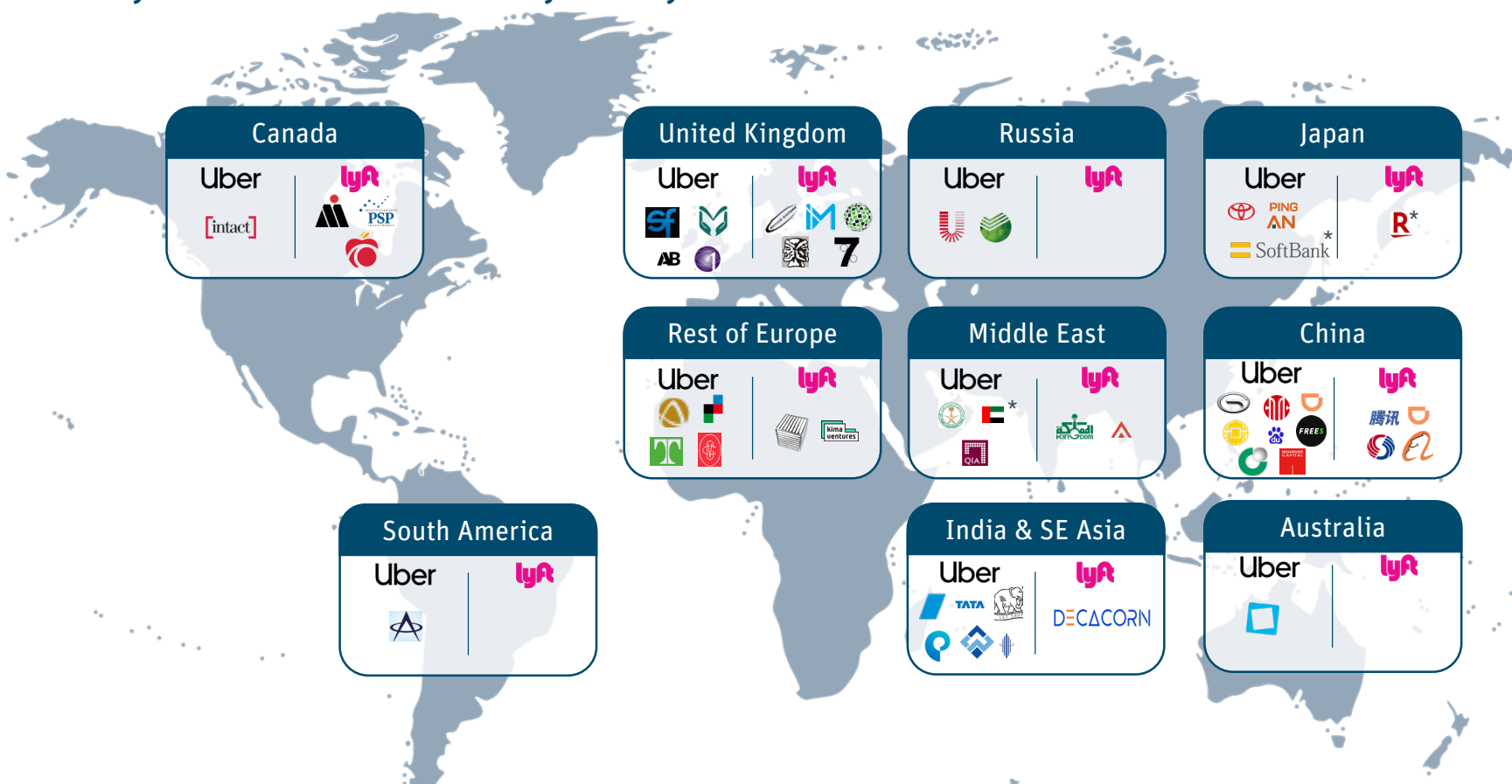
Most Acquisitions by Country: 2010–2018

	Country	Deal Count	Deal Value
#1	United Kingdom	137	\$15B
#2	Canada	116	\$8B
#3	Japan	59	\$22B
#4	Germany	58	\$32B
#5	France	49	\$8B
#6	China	43	\$5B
#7	Israel	35	\$1.3B
#8	India	31	\$1.3B
#9	South Korea	28	\$1.6B
#10	Netherlands	27	\$24B

Unicorns Rely on Capital Boosts From Abroad

It takes a village. In the cases of Uber and Lyft, a global network of investors played significant roles in financing their growth from startups to giants. Regulators will need to weigh both the benefits and consequences to foreign investment in U.S. tech companies.

Uber & Lyft: International Investors by Country





Special Report: Canadian Venture on the Rise

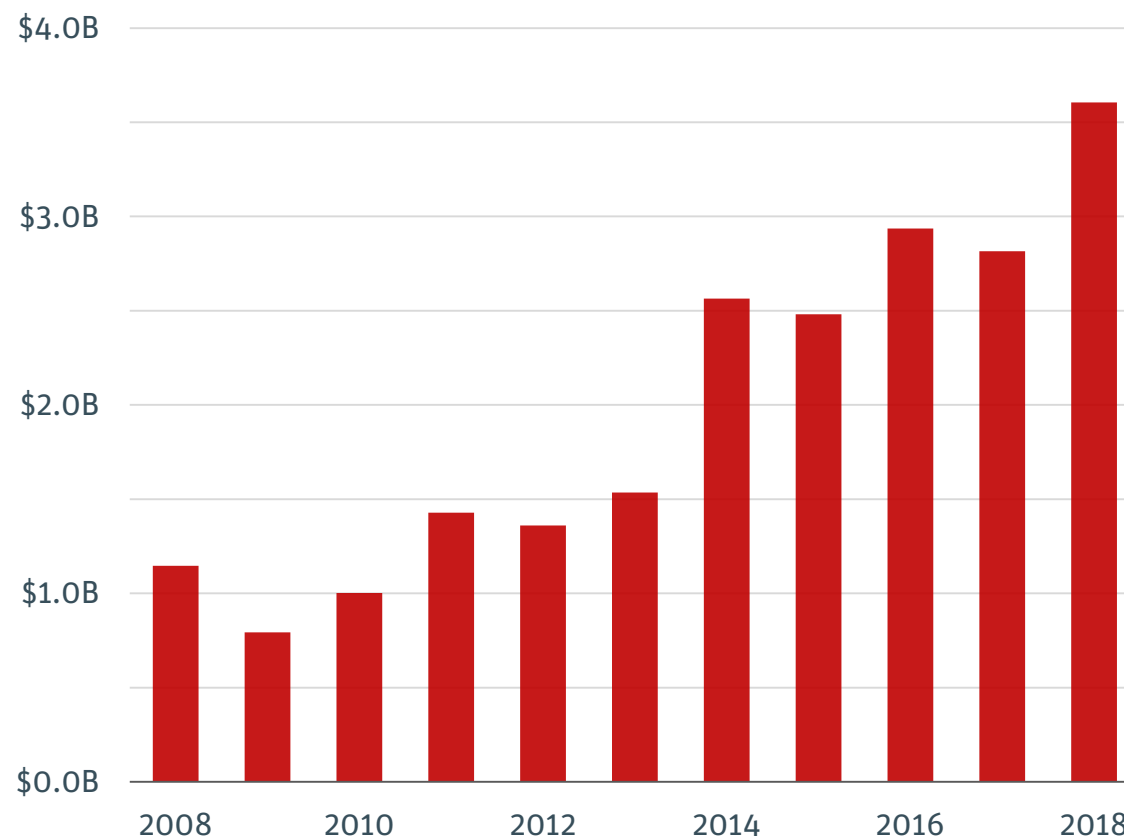
A Steady Climb: Building Venture in Canada

On the backs of strong universities and consistent government support for R&D, venture investment has thrived in Canada — rising nearly fourfold this decade. Programs remain aimed at continued flows of both capital and talent into the burgeoning ecosystem.

Top Canadian Universities by World Rank in Computer Science¹



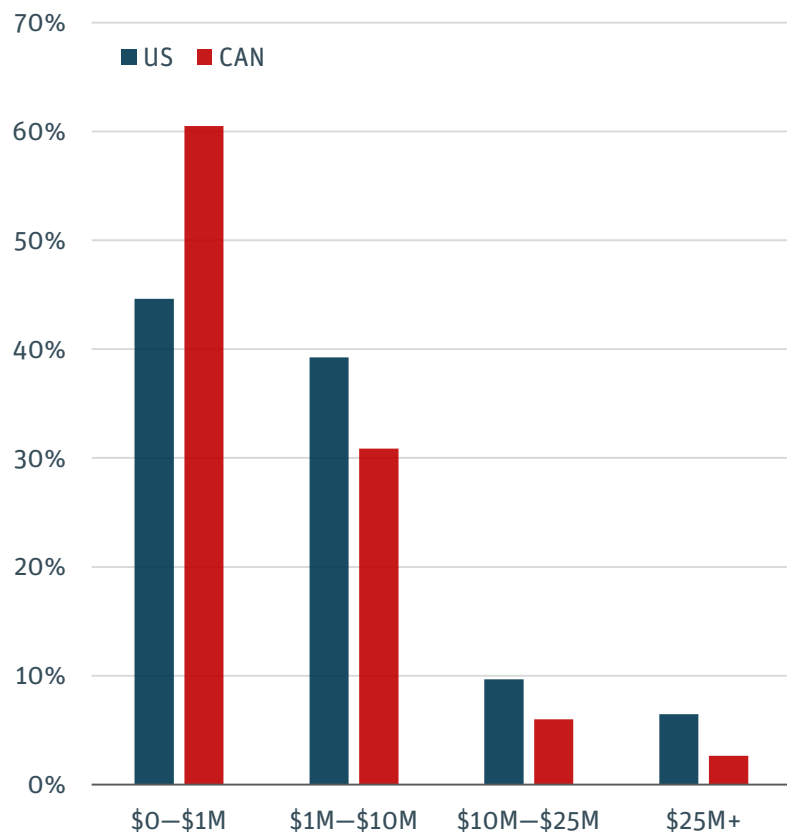
Venture Capital Investment in Canada



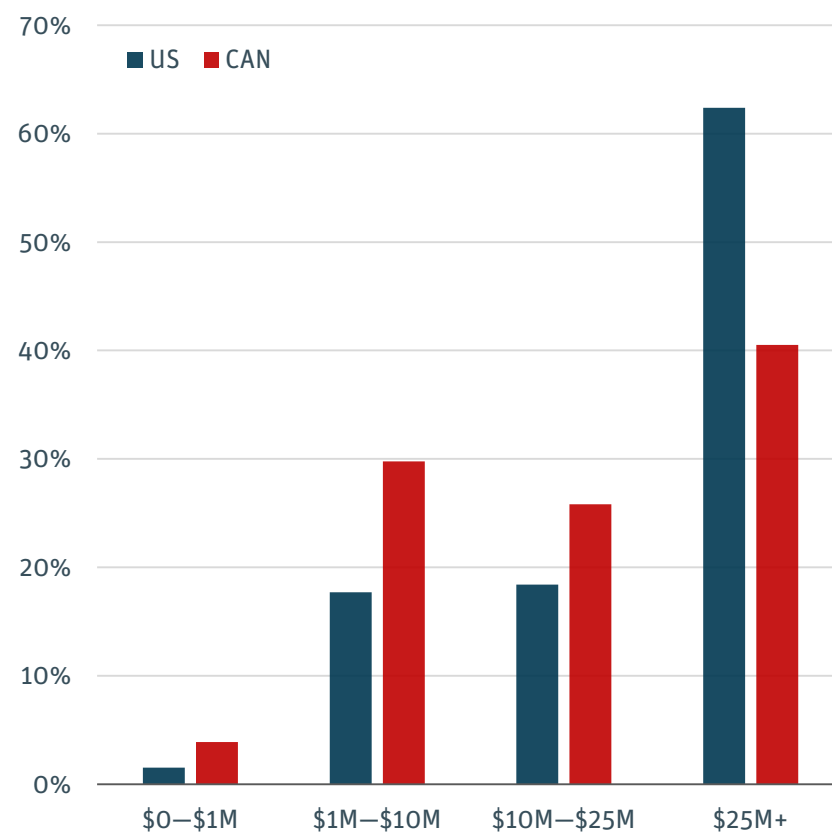
Startup to Scale-Up: Canadians Face “Valley of Death”

Investment continues to climb for startups, but funding gaps remain. Early stage activity remains abundant: Almost two-thirds of deals were for less than \$1M. While their US counterparts raised more than 60% of capital through \$25M+ growth rounds, Canadian firms raised just 40% since 2016.

Tech Venture Deal Count (% of Total): 2016–2018



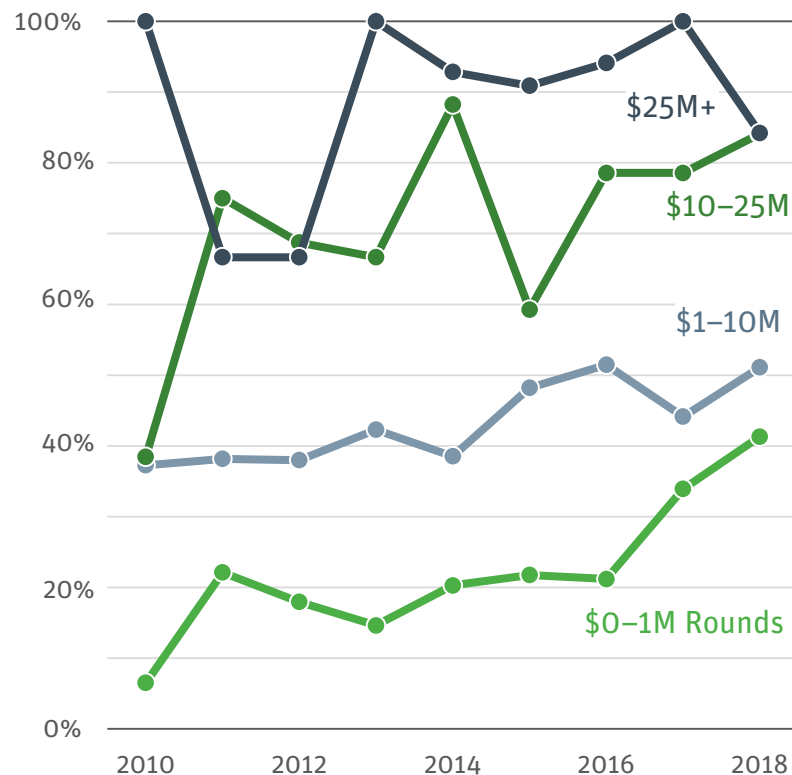
Tech Venture Capital Inv. (% of Total): 2016–2018



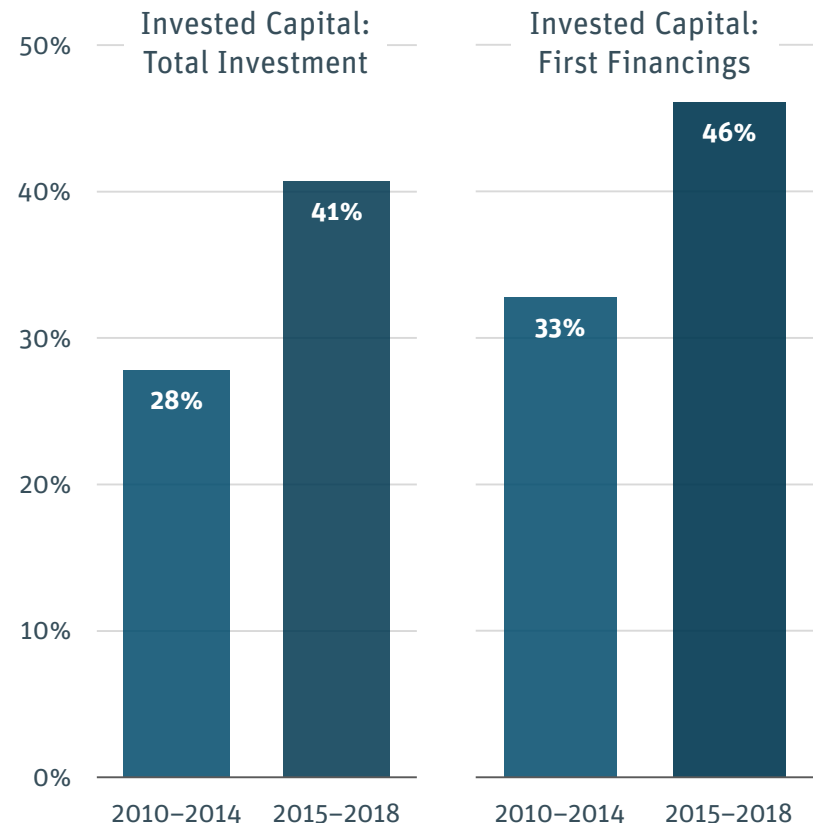
As Foreign Capital Arrives, Toronto Cements Its Place

Overseas capital continues to fill the gaps. Growth rounds, in particular, have relied on foreign participation (80%+ of which is from the US). Toronto firms led the charge, receiving eight of the 13 mega-rounds. In fact, more than 40% of all Canadian VC dollars now flow to the city.

Canada Tech Venture: Participation by Foreign Investors by Round Size: 2010–2018



Toronto's Share of Canada Tech Venture Capital

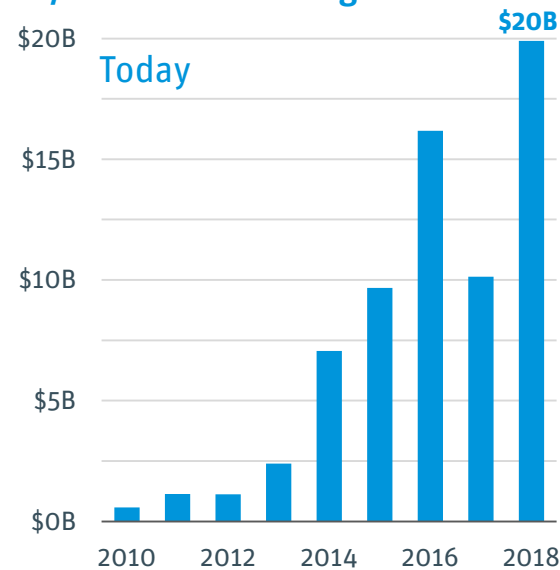


AI: An Opportunity for Canada to Lead the World

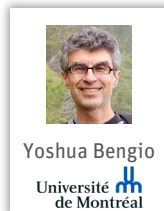
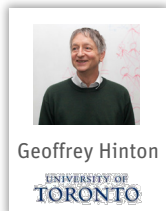
The now worldwide phenomenon started in large part in the halls of Canadian universities. As artificial intelligence provides the platform of tomorrow, new industries are opening where Canadian startups could find an edge and achieve the global-scale exits to drive the next chapter of innovation.

North American Venture Investment: 2010–2018

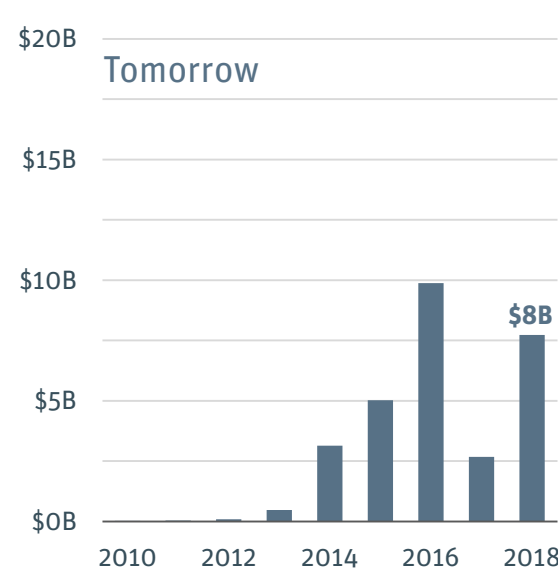
AI/Machine Learning



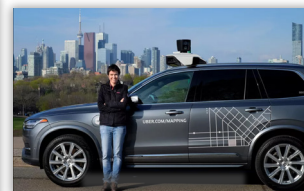
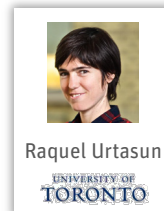
World-Leading AI Researchers



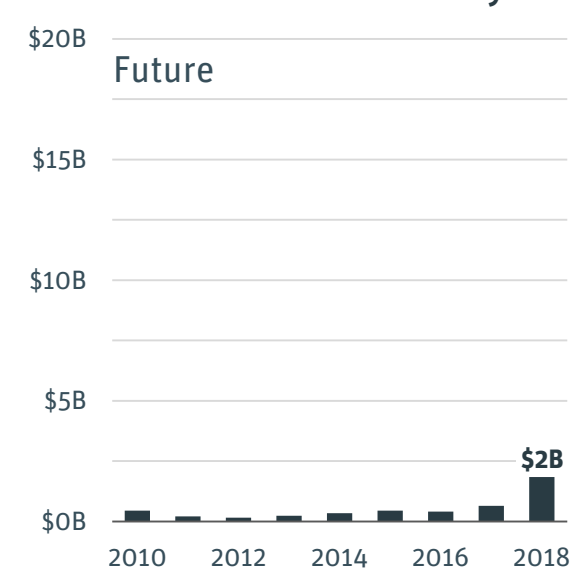
Autonomous Vehicles



U of Toronto + Uber: Self-Driving Car Group



Smart Cities & Micro-Mobility



Toronto + Alphabet: Sidewalk Labs





Appendix

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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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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 US, Canada, Europe, China and SE Asia.

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.



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Andrew Pardo is a Senior Research Associate based in San Francisco responsible for the capital markets research and data-driven analysis of the innovation economies that SVB serves globally. In this role, he supports research efforts exploring investment, fundraising and exit dynamics in the global venture ecosystem.

Prior to this role, Andrew was a Buy-Side Equity Research Analyst for a \$100B+ asset manager based in the Bay Area. His area of coverage spanned the domestic and international Financials sector. Andrew earned a Bachelor of Science in accounting from Loyola Marymount University.

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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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