Silicon Valley Bank

# State of the Markets

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

**Q1 2021**

# State of the Markets Q1 2021



# Executive Summary

## Brighter Days Ahead

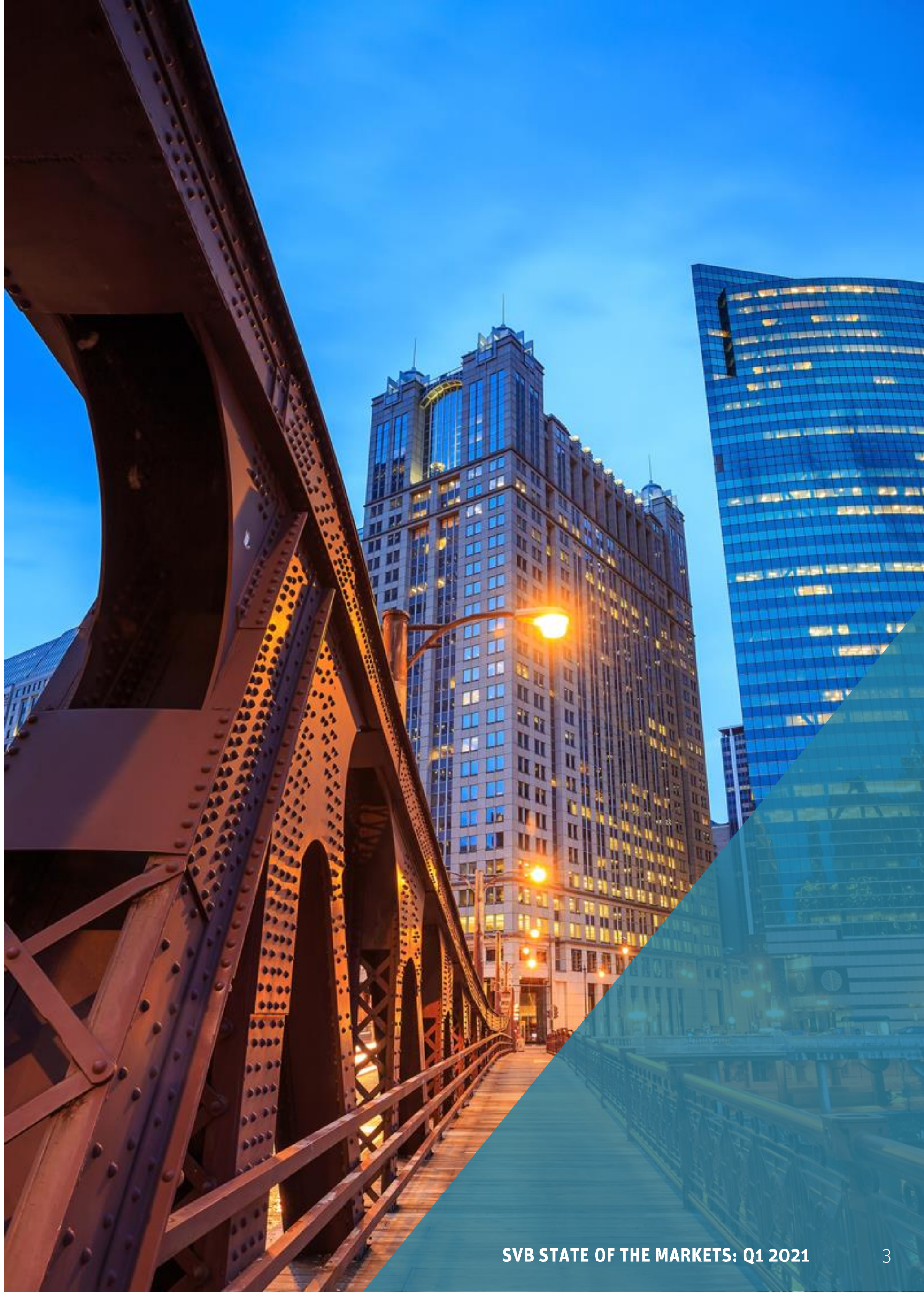
Despite what we hoped for by 2021, many parts of the world are still facing mandatory lockdown and COVID-19 cases continue to grow. However, with several vaccines approved and being administered, there is light at the end of the tunnel.

As the world shifted in 2020, so did venture. Once-forlorn industries became winners almost overnight and previously struggling ones saw revenues skyrocket. After coming to terms with the new normal, investors picked up their investment pace. We saw preferences shift to companies focusing on strong revenue growth over profitability. Valuations for some companies continued to balloon bolstered by larger and quicker rounds, widening the divide between those with easy access to funding and those without. Foreign exchange attracted renewed attention after the historically strong US dollar declined by double digits, adversely impacting unhedged companies by shortening their cash runways and valuations ahead of potential exits and raising rounds.

On the exit front, the performance in the first and second halves of the year diverged: Activity in the first half was muted by steep public market declines and companies pulling back to deal with the short-term impacts of the pandemic. By the second half, activity accelerated as public markets rebounded and companies adapted to operating remotely. Highly anticipated IPOs from Airbnb and DoorDash helped buoy IPO markets and M&A activity, which improved through the rest of the year.

By any measure, 2020 was difficult but it also proved the resilience of the innovation ecosystem. There is still a long road ahead before life goes back to normal for many of us (or whatever becomes normal). Yet, strong fundamentals driving the innovation economy make us hopeful for 2021.

Bob Blee
Head of Corporate Finance
Silicon Valley Bank



# SVB's Outlook for Venture in 2021

| Category | 2020 Themes | By the Numbers | 2021 Outlook |
|---|---|---|---|
| Fundraising | Established, large funds grew in size despite a challenging fundraising environment | • 15 funds over $1B+ closed in 2020<br>• US VC fundraising hit a record $76B in 2020 | Increased LP demand and larger deal sizes will push fundraising to an all-time high |
| Early-Stage | Less mature startups struggled as the pandemic limited revenue growth and forced GPs to prioritize existing and proven investments | • US Series A investments saw a 17% decline in deal count from 2019<br>• The median Series A revenue growth fell 30 percentage points in 2020 | Remote work will encourage migration to low-cost geographies and increase company formation outside of traditional tech hubs |
| Late-Stage | The divide between the haves and have nots became more pronounced. Companies with higher valuations raised capital much faster than their counterparts | • Unicorns took in a record share of US VC investment in 2020<br>• Investment in unicorns increased from 31% in 2019 to 42% in 2020 | Late-stage valuations will continue to increase as GPs are sitting on record levels of dry powder and will continue to pay a premium for the (perceived) best companies |
| Exits | Activity was muted in Q1 and Q2. In the second half of the year, IPOs exceeded expectations while M&A returned to previous levels by year end | • US VC-backed M&A deal count fell 19% YoY<br>• The aggregate value of Tech IPOs in the 2H of 2020 reached $207B, more than 7x the collective 2H value of 2019 Tech IPOs ($29B)<br>• SPACs saw a 320% increase over 2019 | The number of IPOs will increase in 2021 given the growing backlog of Unicorns, provided the public markets continue to tolerate heightened valuations |

Source: PitchBook, Preqin, S&P Capital IQ and SVB Analysis.

# Macro

## Uneven Recovery Despite Strong Returns

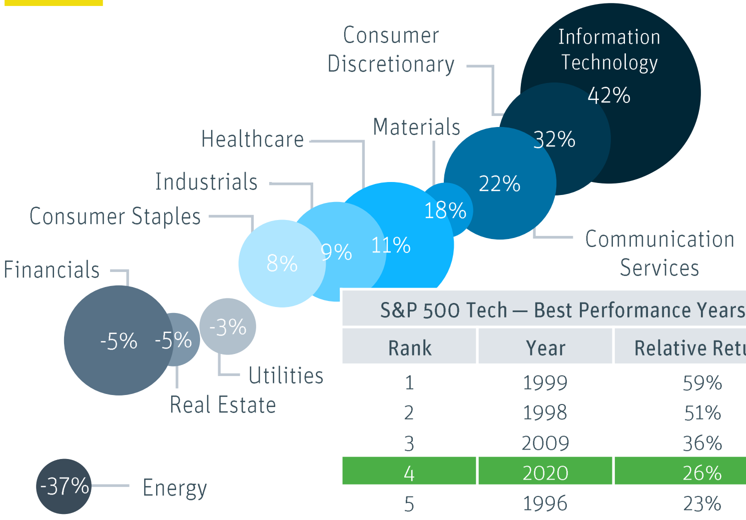
# Markets (Cautiously) Point Positive

Despite COVID-19 and the election creating a recipe for disaster, the S&P 500 ended positive for the year — posting a double-digit return and recovering 85% from the market bottom on March 23rd.[1] Tech led the way, as much of the industry's products and services proved crucial during the pandemic.

Prior history paints a positive picture for 2021, with inaugural years for Democratic presidents traditionally delivering strong returns. One theory for why this happens is that Democrats have historically had a stricter stance on business policies. However, as their terms begin and rhetoric softens, public markets often get a boost when what was originally feared doesn't transpire.

The potential for a "double-dip" recession remains. There have been two in modern history — the most recent occurring in the 1980s following a second round of aggressive contractionary monetary policy by Fed Chair Paul Volcker. Both dips caused markets to fall into bear market territory. Investors are on edge, knowing that history might repeat itself following recent lockdowns. However, a "K-shaped" recovery (different sectors and participants in the economy recovering at different rates) looks to be underway, highlighted on one side by strong markets and investor activity and on the other by mass unemployment and falling consumer confidence.

## Sector Performance 2020 (S&P 500)[1]

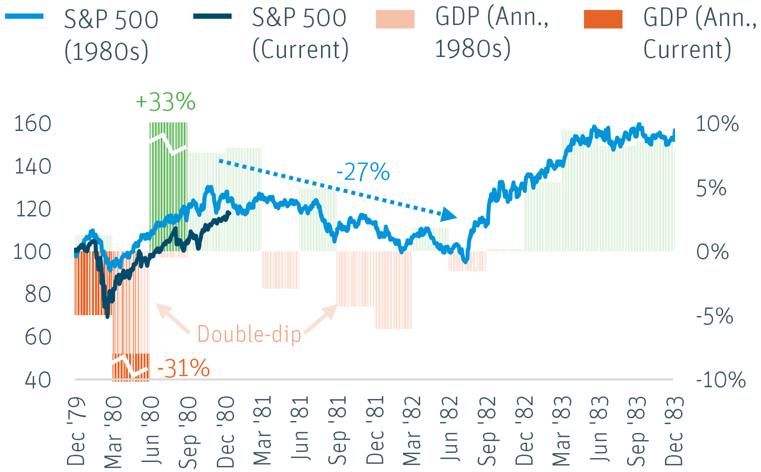



| S&P 500 Tech — Best Performance Years[2] | | |
|---|---|---|
| Rank | Year | Relative Return |
| 1 | 1999 | 59% |
| 2 | 1998 | 51% |
| 3 | 2009 | 36% |
| 4 | 2020 | 26% |
| 5 | 1996 | 23% |

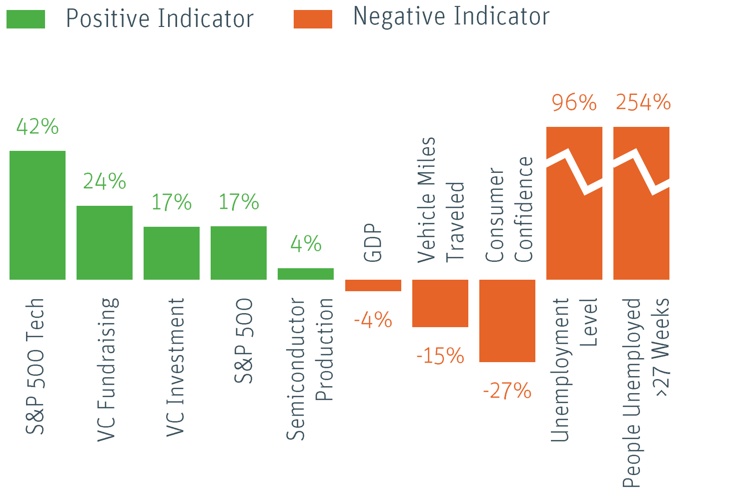
## Inaugural Year Returns (S&P 500)[3]

| Year | President | First-Year Return |
|---|---|---|
| 1977 | Carter | -12% |
| 1981 | Reagan | -10% |
| 1985 | Reagan | 26% |
| 1989 | H.W. Bush | 27% |
| 1993 | Clinton | 7% |
| 1997 | Clinton | 31% |
| 2001 | Bush | -13% |
| 2005 | Bush | 3% |
| 2009 | Obama | 23% |
| 2013 | Obama | 30% |
| 2017 | Trump | 19% |
| 2021 | Biden | ? |
| Average[3] – Republican | | -1% |
| Average[3] – Democrat | | 12% |

## Double-Dip Recession: 1980s vs. Current[4]




## Annual Growth Rate of Key US Indicators[5]




Notes: 1) as of 12/31/20. 2) Since 1990 (earliest year available). 3) Average figures encompass all inaugural years from 1929 to 2017; average Republican return figures are positive post-1981. Shaded inaugural years represent years where the President and Congress were the same party. 4) As of 12/31/2020; S&P 500 indexed to 100 on December 31st 1979 and 2019, respectively. 5) Time length varies by indicator.
Source: BEA, House.gov, PitchBook, Preqin, S&P Capital IQ, Board of Governors US Federal Reserve, US Federal Highway Administration, University of Michigan, BLS and SVB Analysis.

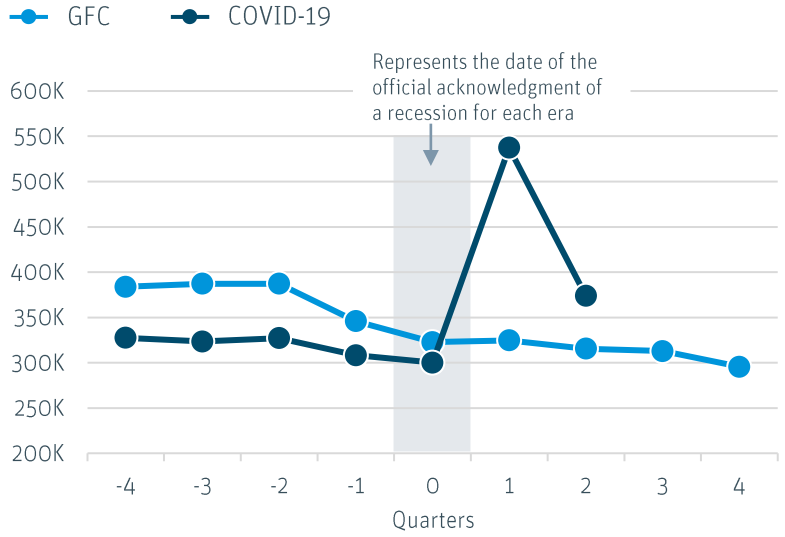
# Entrepreneurship on the Rise?

General business formation in the US has been on a secular decline since the 1980s.[1] Traditionally, recessions accelerate the deterioration of new company formation; however, this year is different. Despite the COVID-19 pandemic, the US is seeing growth in new business applications. We believe this is driven by a combination of three factors: workers striking out on their own as the job market tightens, a lower threshold to start a business remotely, and the redirection of time savings from remote work into side projects.

SVB's startup banking team is already seeing significant growth, especially within the Digital Health, EdTech and Consumer sectors. The locations of these new companies have captured our attention. A noticeable trend is emerging, with entrepreneurs migrating away from cities that are traditionally associated with innovation and toward more suburban locations. Given the continued weaknesses in the job market and reimposed shutdowns, we expect entrepreneurship to continue to grow in nontraditional places.

If 2021 does see a relative return to normal, we may see a decrease in sectors supported by COVID-19 tailwinds — Digital Health, EdTech, Gaming — and an acceleration in AdTech and Consumer Lending.

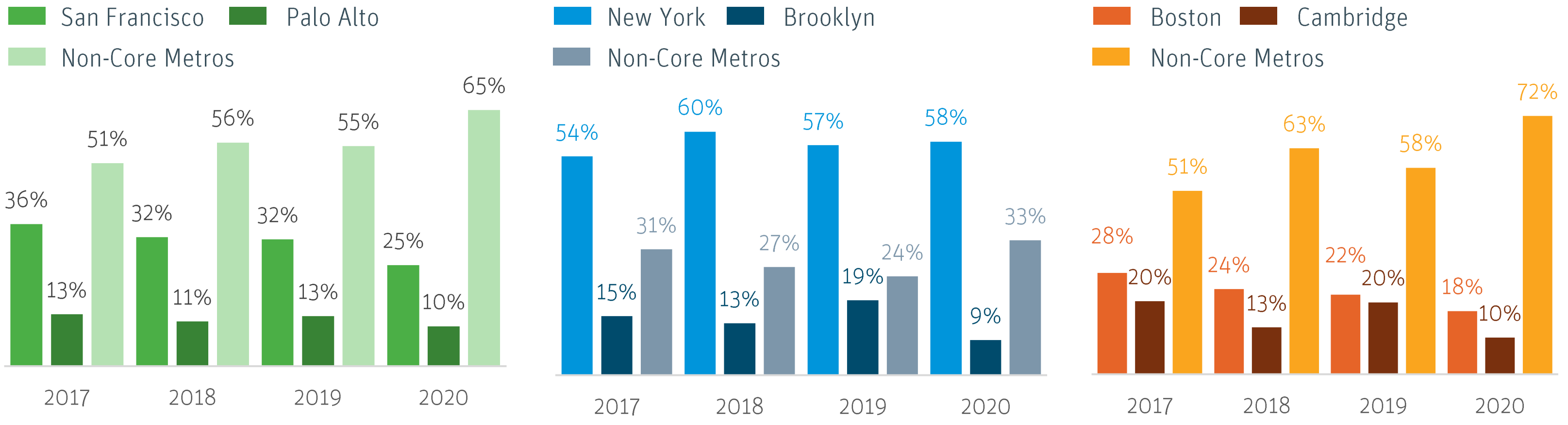
## Business Applications[2] — GFC vs. COVID-19




## Early-Stage[3] Growth by Sector (YoY)

| Sector | 2018 | 2019 | 2020 |
|---|---|---|---|
| AdTech | +17% | -32% | +16% |
| Consumer Lending | +50% | -4% | +15% |
| Digital Health and Wellness | +6% | -6% | +135% |
| E-Commerce | +65% | -18% | +65% |
| EdTech | +34% | -45% | +119% |
| Gaming | +18% | +23% | +50% |
| Personal Finance | +100% | +7% | +7% |
| Social Networks | +86% | -24% | +177% |

## Migration from Traditional Innovation Hubs[4]




Notes: 1) US census data notes a decline of new firms created from a high of 524K in 1984 to 43K in 2018. 2) High-propensity applications include applications: (a) for a corporate entity, (b) that indicate they are hiring employees, purchasing a business or changing organizational type, (c) that provide a first-wages-paid date (planned wages) or (d) that have a NAICS industry code in manufacturing (31–33), retail stores (44), healthcare (62) or restaurants/food service (72). 3) Clients are considered for Startup Banking coverage if they have less than $4M in funding. 4) We measured the change in share of clients onboarded to our startup banking group by city.
Source: US Census Bureau, SVB Proprietary Data and SVB Analysis.

# Private Markets

## Fundraising: Reaching New Heights

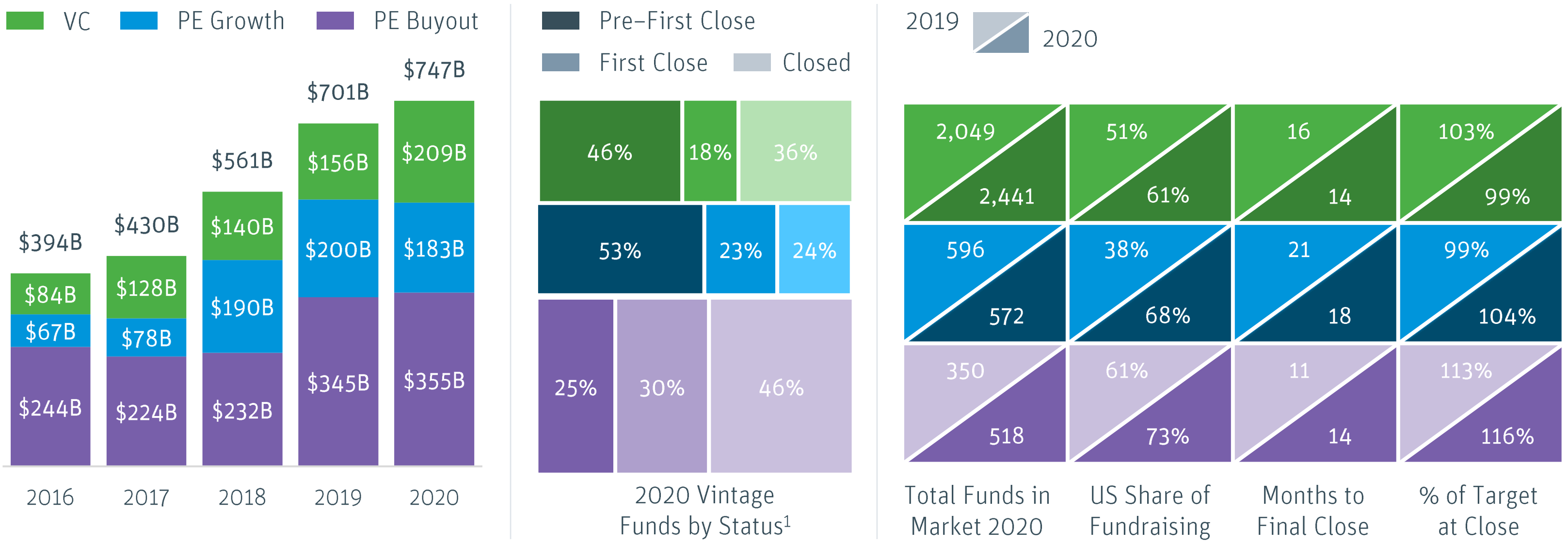
# Hockey Stick Growth (For VC)

The global fundraising environment in 2020 was more difficult than in 2019. Venture funds raising capital in 2020 sought 34% more than in 2019, while the amount of actual funds raised was only 15% higher. Additionally, only 54% of funds with a vintage year in 2020 had a first close.

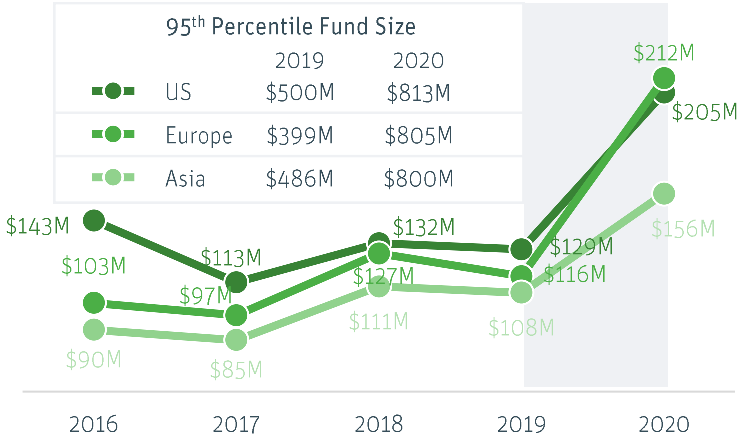
Well-established firms had little difficulty raising new funds as LPs reupped with existing relationships and targeted established brands. This trend, along with an active and resilient late-stage ecosystem, contributed to the average fund size increasing by $76M, $96M and $48M in the US, Europe and Asia, respectively.

Strong fundraising dynamics pushed dry powder to unprecedented levels — contributing to a record high in global VC assets under management (AUM), which topped $1.3T in June 2020. With companies staying private longer, 75% (or $955B) of total VC AUM is unrealized. As this value is returned to LPs in coming years, we anticipate a flywheel effect, with LPs recycling capital back into venture, driving already-strong venture fundraising to a new level.

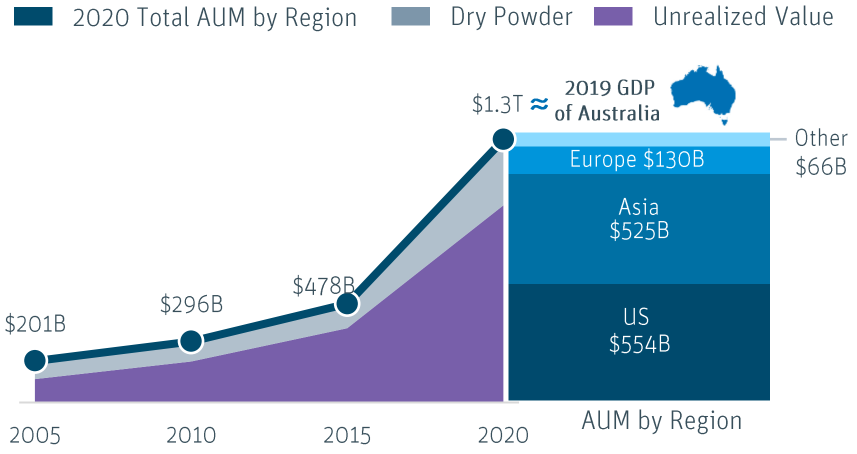
## Total Global Target Value of Funds Actively Raising and Key Metrics




## Average Venture Fund Size




## Global VC AUM




Notes: 1) Funds with vintage/inception year of 2020; first close: funds with at least a first close.
Source: OECD, Preqin and SVB Analysis.

# A Polarized Fundraising Climate

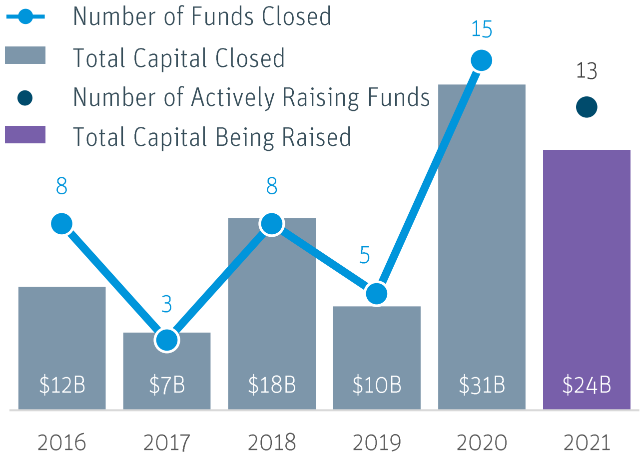
US venture fundraising has moved in two distinct directions. First, large funds continue to expand their share of the pie; in 2020, megafunds ($1B+) accounted for $31B, or 41% of fundraising. Comparing 2020 to 2019, we see that 29% fewer funds were closed, while 33% more capital was raised.

With more capital flowing to fewer funds, newer fund managers might struggle to raise capital, which would increase already-high mortality rates. Among current VCs in the US, 44% of funds are a firm's first, while 20% are a second. This translates to more than 64% of firms facing a higher than 30% chance of failing to raise another fund.

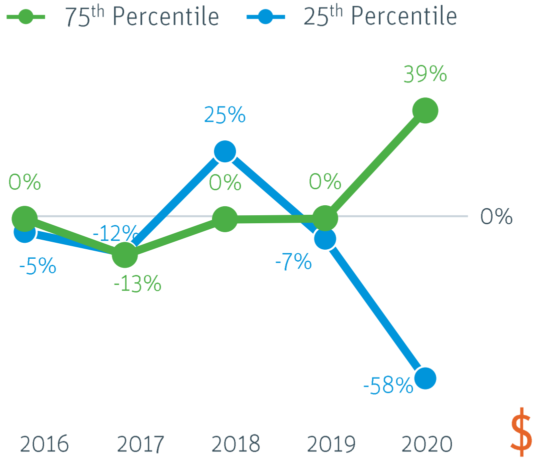
While we see an increasing share of capital going to fewer funds, the number of solo GPs and niche funds (under $2.5M fund size) raising capital has accelerated. In 2020, we saw a 76% jump in the number of funds closed under $2.5M. These funds often target niche markets and position themselves as strategic partners, which allows them access to deals alongside the typically larger, more-established VCs.

For now, while the difficultly in fundraising varies, the amount of demand (capital) for the asset class is strong. In 2020, we saw several LPs tap into their 2021 allocations and raise the total proportion of their portfolios allocated.

## US Billion-Dollar Funds




## Change in 25th and 75th Percentile Fund Size[1]



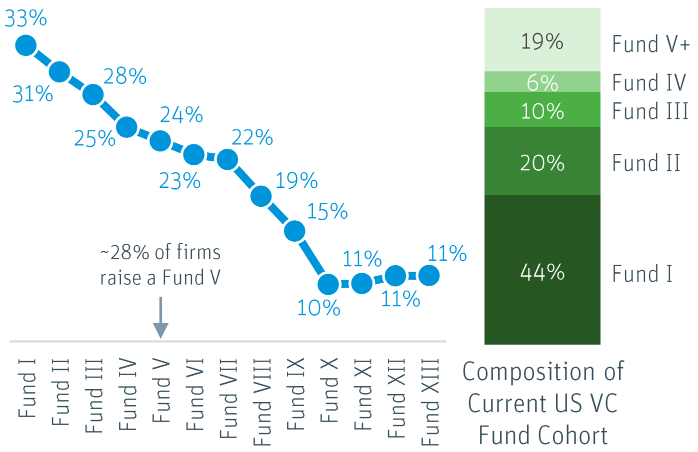

**37%** Growth of Funds <$5M

**59%** Growth of Average Fund Size 2019–2020

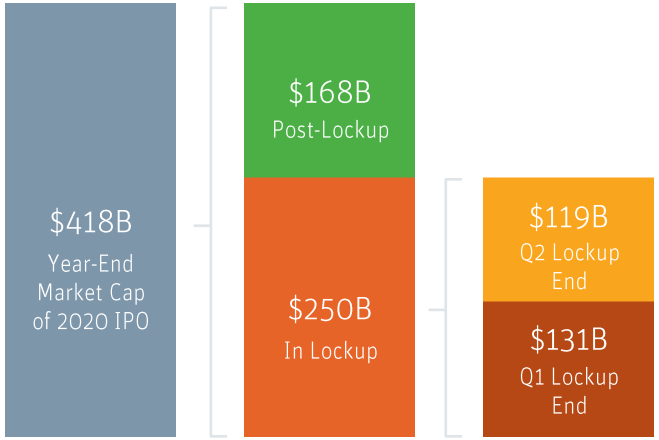
**$5M** 25th Percentile Size

**$182M** 75th Percentile Size

## VC Fund Mortality Rate by Fund Number




## Market Cap of 2020 Tech IPOs by Lockup Period




Notes: 1) Year-over-year.
Source: Preqin, PitchBook, S&P Capital IQ and SVB Analysis.

# Private Markets

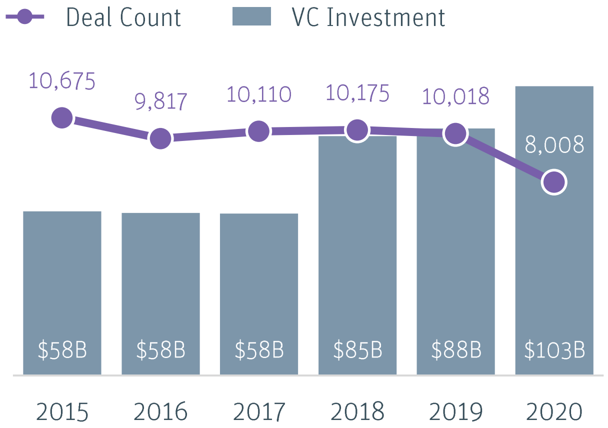
## Investment: Trends on the Upswing

# You Spin Me 'Round (Like a Record)

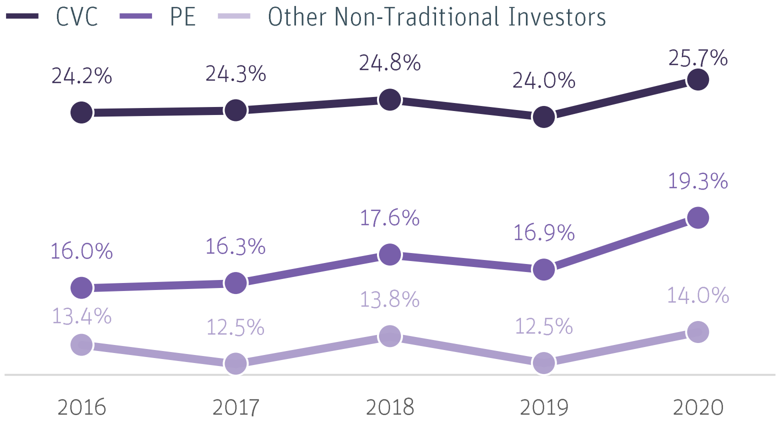
As the pandemic took shape, investors paused to assess the impact on their portfolio companies and the outlook for the innovation economy. This led to an especially pointed slowdown in investment for emerging technologies, as well as for early-stage companies with less-established business models and less-mature financial metrics. However, investors quickly got comfortable, and activity picked up. As a result, 2020 posted not only the highest level, but also the largest increase in tech venture investment since 2018, when SoftBank's Vision Fund deployed unprecedented capital in Unicorn-minting deals.

This increase in investment was driven by several factors, including nontraditional investors shedding the "tourist investor" label, LPs doubling down on venture, and many industries within the innovation economy seeing business boom under the new normal. As the environment rapidly changed, investors poured (a lot of) money into best-of-breed companies in fear of losing bets on unproven companies/industries or missing the next big thing. These developments meant that late-stage deals represented a larger share of venture in 2020 — leading to the creation of 37 net new Unicorns. Despite record liquidity for Unicorns last year, more than $725B of unrealized Unicorn value remains in the United States alone.

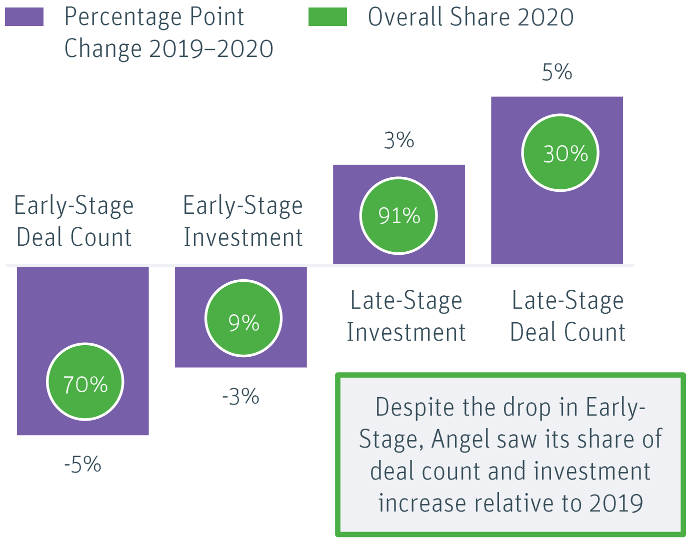
## US Venture[1] Investment in Tech



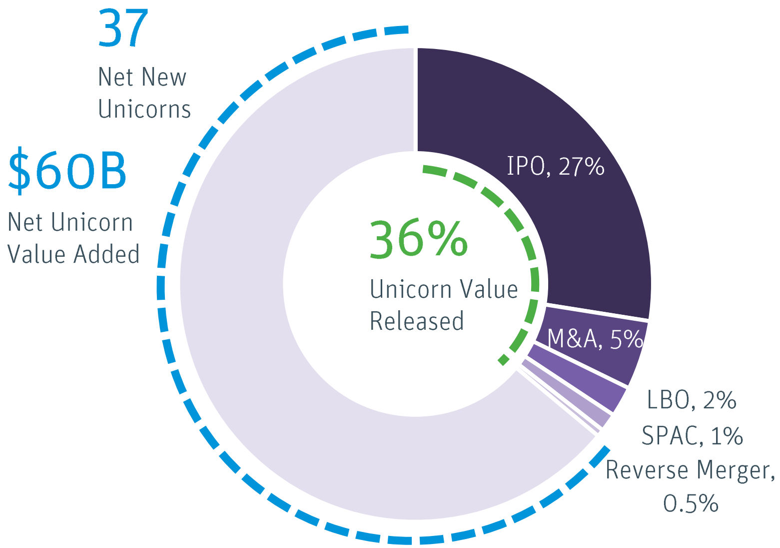

## NonTraditional Investors' Share of US VC[2]




## Share of US Deals by Stage




## Unicorn Value Realized[3]




Notes: 1) Venture includes PE Growth deals. 2) Nontraditional participation rate not additive. 3) As of 12/31/2020.
Source: PitchBook, CB Insights, S&P Capital IQ and SVB Analysis.

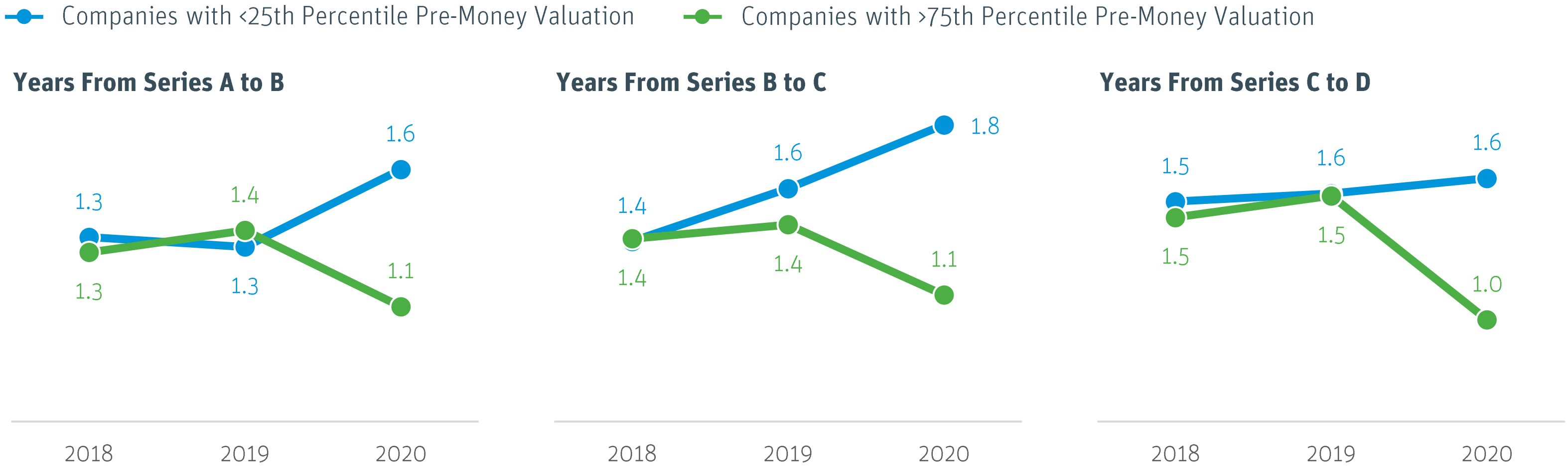
# The Best Have It Easy-ish

With all of 2020's struggles, US VC fundraising reached a record high of $76B in 2020. While more money is flowing into the innovation economy, it has not been distributed equally. Those with the highest valuations saw a decrease in the median time it took to close an equity round, while those with the lowest valuations experienced an increase. This suggests that investors are targeting more-established companies and perceived industry leaders, regardless of the valuation premium. Venture is fast becoming a winner-takes-all market.

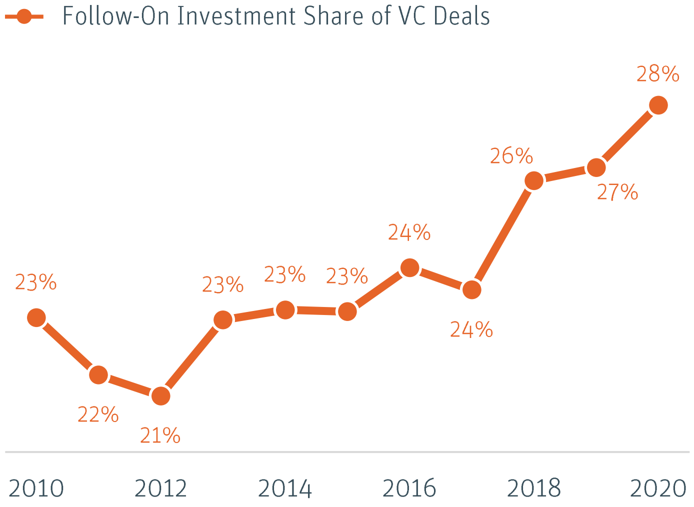
Take Unicorn companies, which accounted for 41% of all US VC investment in 2020. Capital is increasingly becoming concentrated in large, late-stage deals where the boundaries of VC and PE blur. In 2020, 56% of unicorn deals involved PE investors.

Finally, with late-stage valuations reaching new heights, institutional investors are investing earlier to secure ownership, contributing to the jump in Series A deals sizes and valuations. We have also seen this contribute to the uptick in follow-on investment, and traditional investors have had to follow on to preserve their ownership. The sharp rise in follow-on investment in Q2/Q3 — likely to bolster portfolio companies — didn't last, but the long-term trend persists nonetheless.

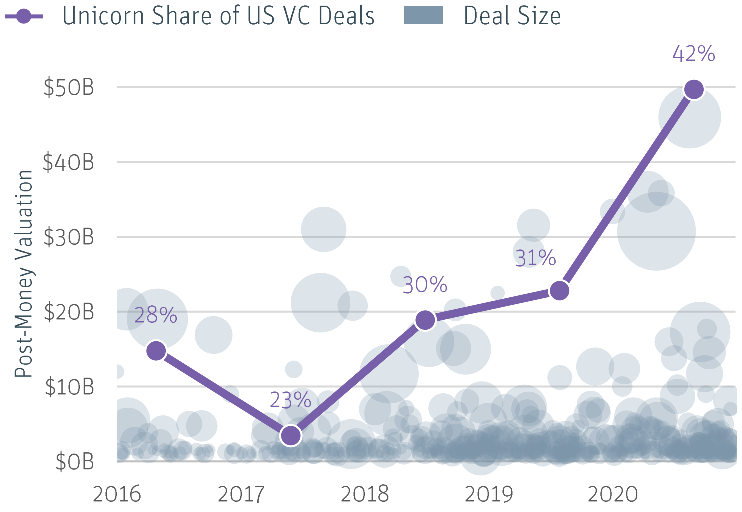
## US Tech: Median Time to Next Round by Pre-Money Valuation and Series




## Follow-On Investment




## US Unicorn Deals[1]




Notes: 1) Graphic excludes PE Growth and Uber.
Source: PitchBook, SVB Proprietary Taxonomy and SVB Analysis.

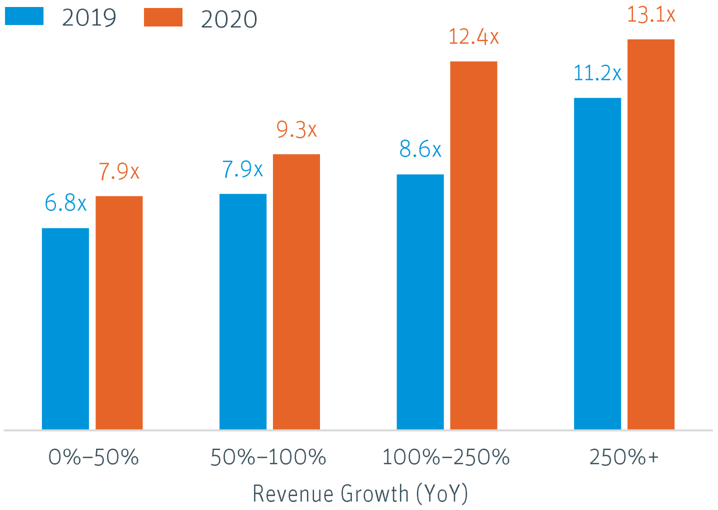
# The Status "Grow"

When Uber and Lyft stumbled out of the gate in 2019, it called into question the "growth-at-all costs" mentality. Initial reception from public markets showed that investors were not willing to pay premiums for companies burning hundreds of millions a quarter — instead shifting the focus to profitability.

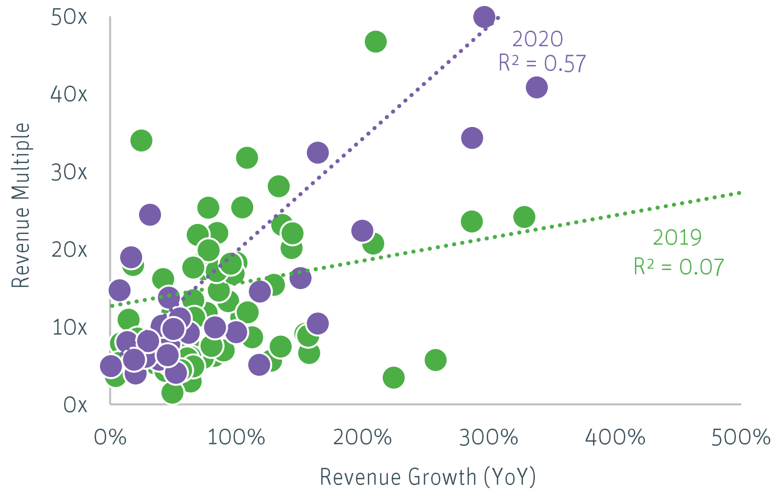
However, in 2020, as companies worked through the impacts from COVID-19, revenue growth regained its luster, with higher-revenue-growth companies commanding higher multiples. As was the case for Enterprise Software companies, revenue growth was a much greater determinant of valuation than in 2019. Unit economics are still a key factor for future success, but at the moment, investors are placing an emphasis on companies that have demonstrated persistent revenue growth through the pandemic.

Among tech companies that raised in 2020, those with strong revenue growth (100%+) saw a larger uptick in their multiple. For Series A companies, the median revenue growth was markedly lower, and the median valuation remained constant. This, plus the decline in Series A deals in 2020, suggests a flight to quality. Meanwhile, valuations rose at the later stages, which demonstrated better revenue growth, translating into increased revenue multiples. Margins, on the other hand, improved across the board as companies slashed expenses to extend cash runway to weather the ongoing pandemic.

## Median US Tech Multiple by Revenue Growth




## Multiples vs. Growth: Enterprise Software[1]




## Benchmarking 2019 vs. 2020[2]

| Stage | Deal Size (2019, Millions) | Deal Size (2020, Millions) | Post-Val (2019, Millions) | Post-Val (2020, Millions) | Revenue (2019, Millions) | Revenue (2020, Millions) | Revenue Growth (2019, YoY) | Revenue Growth (2020, YoY) | Revenue Multiple (2019) | Revenue Multiple (2020) | EBITDA Margin (2019) | EBITDA Margin (2020) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Series A | $11.1 | $10.6 | $44.0 | $46.0 | $3.8 | $3.2 | 109% | 79% | 7.9x | 7.8x | -167% | -111% |
| Series B | $20.0 | $22.0 | $96.4 | $102.0 | $6.7 | $7.2 | 81% | 90% | 8.9x | 11.7x | -123% | -121% |
| Series C | $30.0 | $40.0 | $169.9 | $238.8 | $12.5 | $17.1 | 70% | 79% | 10.1x | 14.0x | -96% | -78% |
| Series D | $60.0 | $50.0 | $430.0 | $485.0 | $40.3 | $31.3 | 66% | 69% | 9.5x | 9.2x | -55% | -47% |

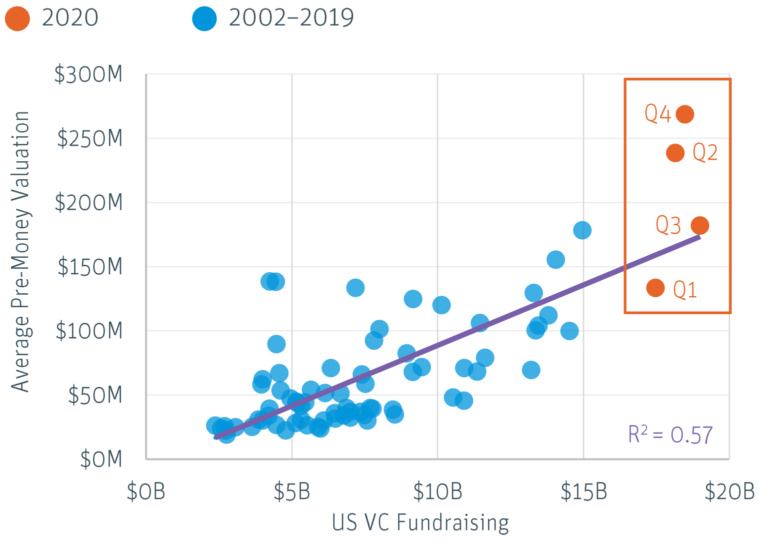
Notes: 1) Data include SVB clients designated as Enterprise Software that raised a Series C–E in '19 or '20 and had a min. $5M revenue run rate at financing. 2) SVB tech clients that raised in stated year. All numbers are median.
Source: SVB Proprietary Data, PitchBook and SVB Analysis.

# Valuations Follow the Money

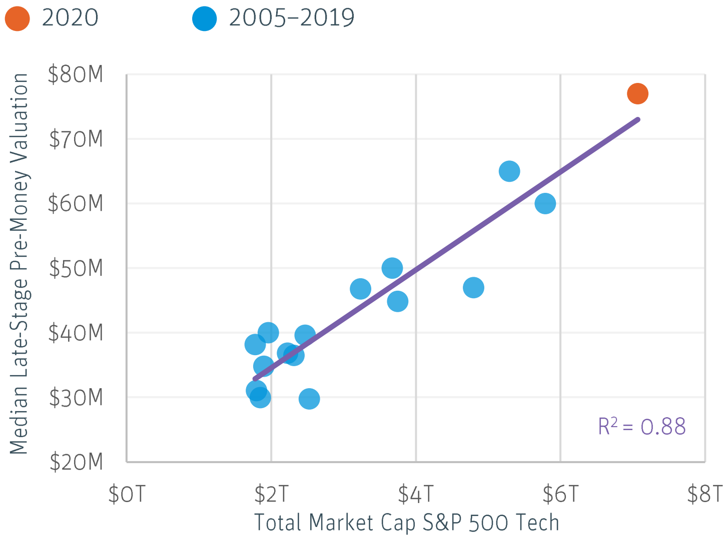
VC fundraising and valuations skyrocketed in 2020, fueled by both megafunds and megarounds. While company fundamentals (should) determine valuations for individual companies, in aggregate, valuations are determined by supply and demand. More capital chasing fewer companies increases valuations, which has disastrous consequences when unabated, such as in the dot-com bubble. We saw first-time financings plateau in 2015, while VC fundraising steadily increased after the last financial crisis. This trend suggests that the accumulation of capital by VCs is greater than the viable opportunities for investing that capital. However, this conclusion fails to take into account that venture strategy is evolving. For example, SoftBank's $93B Vision Fund ushered in an era of megafunds and megadeals, with large, late-stage companies staying private longer and thriving on an abundance of cheap equity before tapping into public markets. The growth of megarounds at the late-late stage has increased demand for capital, keeping the supply and demand in balance.

But is this sustainable? The long-term sustainability of this trend depends on the public market's acceptance of high private-market valuations. With a public market thirsty for returns, IPOs of high growth companies enticed significant interest from Wall Street.

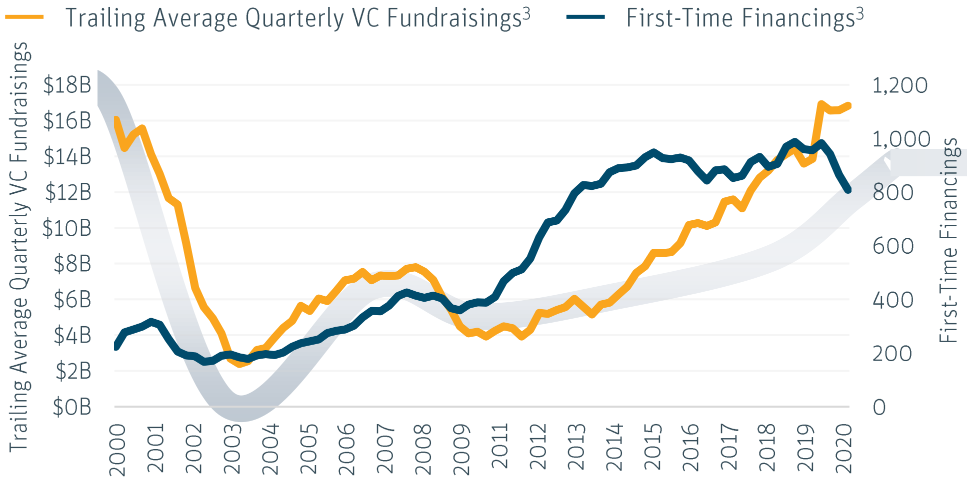
## Quarterly VC Fundraising vs. Valuation[1]

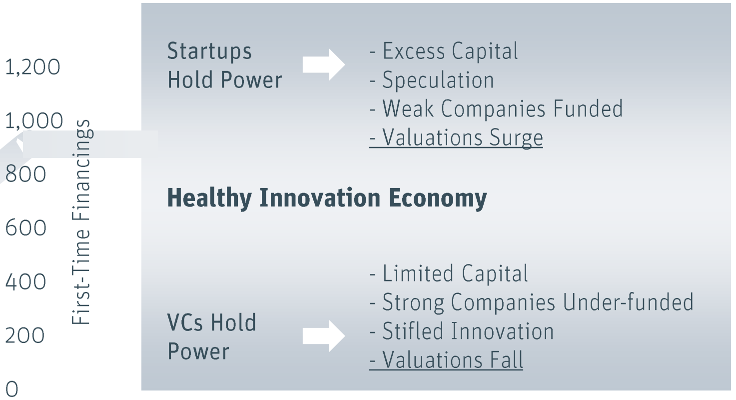



## Annual Market Cap vs Pre-Money[2]




## Dynamics of Venture in the US




Power Dynamics of Venture Valuations

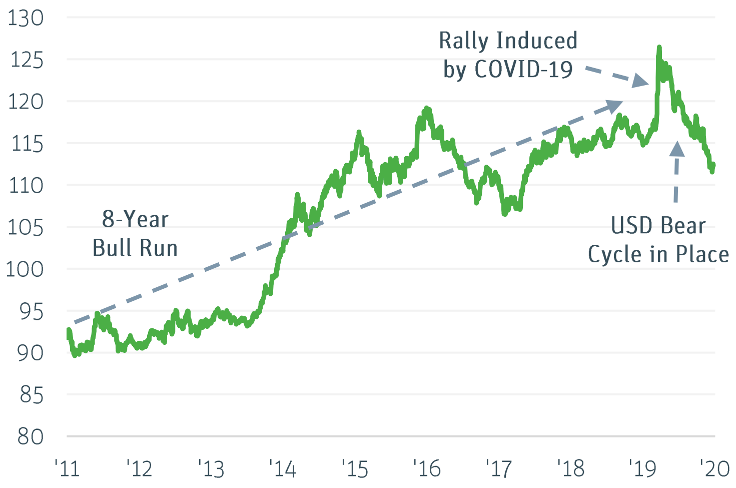
Notes: 1) Valuations include PE Growth and Corporate deals; each dot denotes a quarter. 2) Annual valuation data between '05 and '20; each dot denotes a quarter. 3) Average of trailing six quarters.
Source: Preqin, PitchBook, S&P Capital IQ and SVB Analysis.

# Keep Your Eye on the Dollar

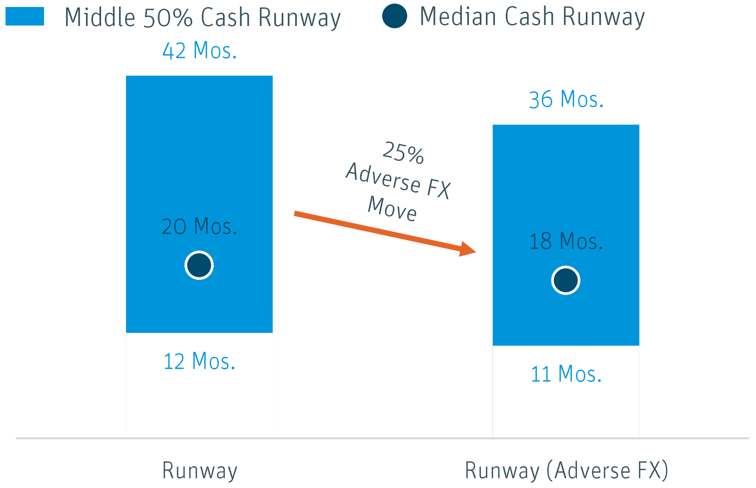
For years, the US-based innovation sector has benefited from a strong dollar — with most startups being net sellers of the US dollar (USD). Then COVID-19 hit. In line with previous episodes of financial distress, the USD defied expectations and went even higher, thanks to fear-driven USD buying. However, as policy-makers responded with trillions of dollars of fiscal and monetary stimulus, demand softened and the USD began to weaken. With continued record low interest rates and an increasing account deficit, COVID-19 created a landscape for a further weakening of the USD.

When thinking about currency impact for 2021 and beyond, it's worth asking, how will another double-digit rise in foreign currencies impact FP&A[1] and business-performance metrics? SVB's proprietary data shows that adverse FX moves can have a material negative impact on financial metrics. It can lower a company's cash runway several months, while having a multiplier effect on the Rule of 40 valuation metric, with one unit of adverse FX move translating into more than one unit of Rule of 40 loss. Currencies tend to mean-revert, but they may not do so on a startup's timetable, so waiting for a pullback can be costly.

## USD vs. Trade-Weighted Currencies



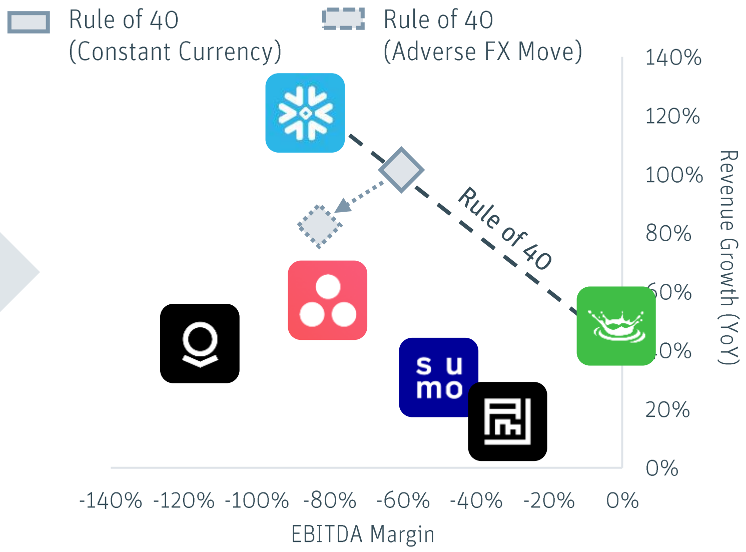

## FX Effects on Cash Runway[2]




## FX Effects on Valuation[3]

| Assumptions | | |
|---|---|---|
| Income Statement Item | Amount | Metric |
| Revenues (Year Prior) | $50,000,000 | Revenue |
| Revenues (Current) | $100,000,000 | Growth: 100% |
| Cost of Sales | $20,000,000 | Operating |
| Gross Profit | $80,000,000 | Margin: -60% |
| Operating Expenses | $140,000,000 | Rule of 40 |
| EBITDA | -$60,000,000 | Metric: 40% |

| | |
|---|---|
| % Non-USD Revenues | 50% |
| Adverse FX Move | -20% |
| % Non-USD Costs | 25% |
| Adverse FX Move | -10% |



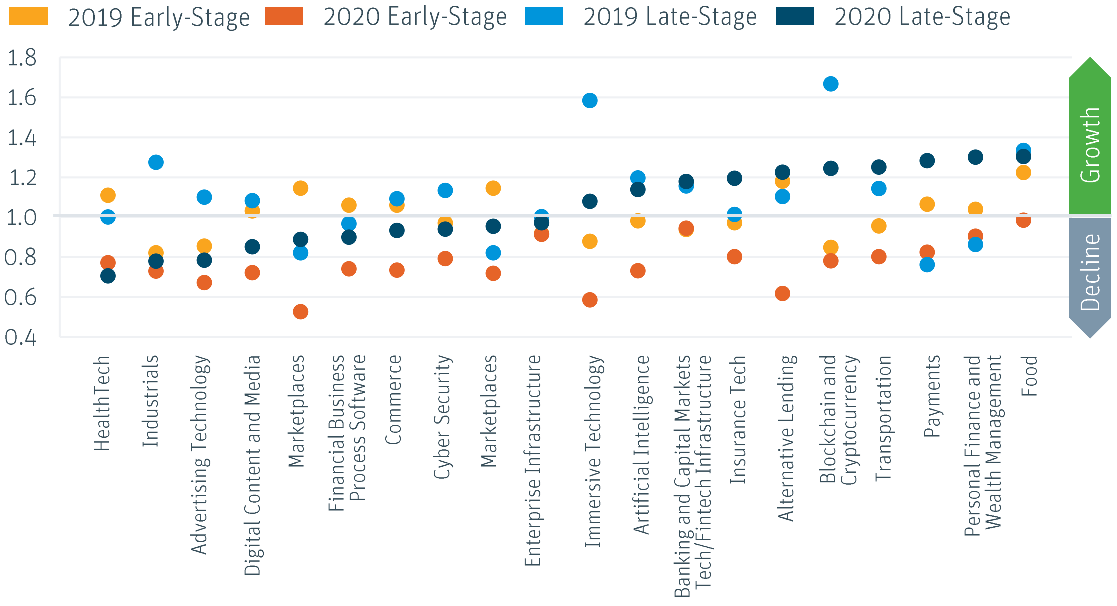

Notes: 1) Financial Planning & Analysis. 2) Defined as loss making SVB tech clients with negative EBITDA that are net sellers of the USD (>$1M) in 2020. 3) Illustrative purposes only; logos represent 2020 US VC-backed SaaS IPOs.
Source: Federal Reserve, Bloomberg, PitchBook, S&P Cap IQ, SVB Proprietary Data and SVB Analysis.

# Late-Stage is Heating Up

It's no secret that COVID-19 accelerated tech adoption and flipped industries seemingly overnight — but just exactly who were the winners and losers? Categorizing deal activity by SVB's proprietary taxonomy, we found that a few industries stood out. FoodTech, EdTech and ClimateTech were resilient at the early-stage. Notably, at the late-stage, FinTech verticals dominated; many benefited from the new normal that presented increased opportunities in areas such as contactless payments, digital assets and infrastructure. As a result, FinTech companies achieved some of the largest step-ups in valuation in 2020. These step-ups were partially a function of large FinTech exits in 2020 driving demand, with no signs of stopping after Affirm's recent IPO surge. The sector's performance even played a factor in Plaid voiding its agreement to be acquired by Visa, with management believing the company could achieve a better exit in the future.

We saw a similar boost for companies that have seen their industries take off. For example, those in the HealthTech industry have seen significant revenue growth as businesses rush to solve the current health crisis. Meanwhile, Cybersecurity and Payments companies have seen their revenues increase as remote work and lockdowns have increased the number of online interactions and e-commerce transactions.

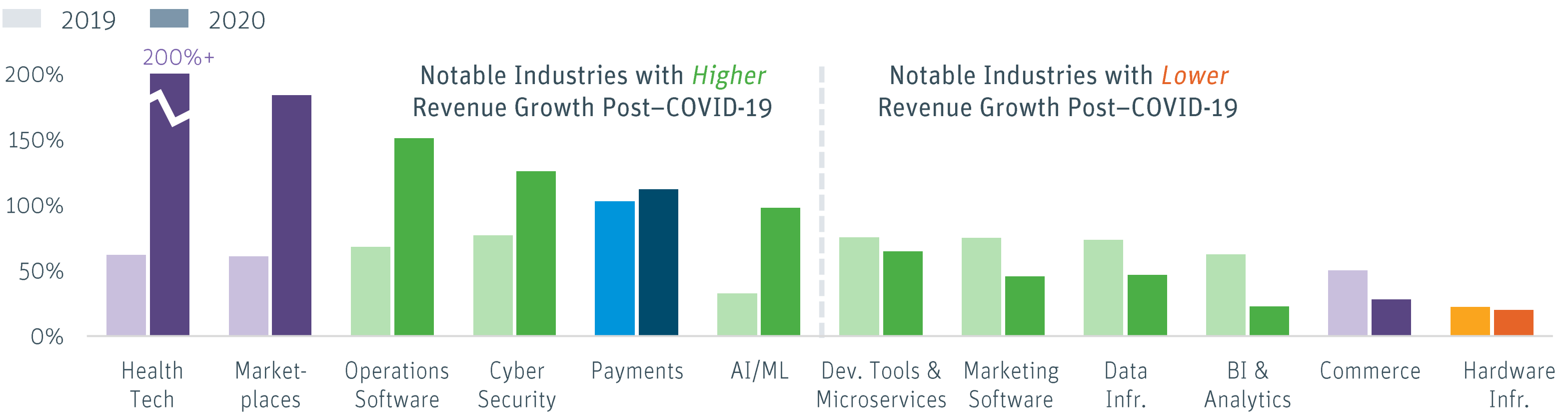
## Hot Sectors[1]




## Top Valuation Step-Ups[2]

| Company | Post-Val ($B) | Step-Up ($B) |
|---|---|---|
| stripe | $36.0 | $13.5 |
| SPACEX | $46.0 | $10.2 |
| chime | $14.5 | $8.6 |
| instacart | $13.8 | $5.9 |
| chime | $6.0 | $4.7 |
| KLAVIYO | $4.2 | $4.1 |
| instacart | $17.7 | $3.9 |
| DISCORD | $7.0 | $3.5 |
| HashiCorp | $5.3 | $3.4 |
| DOORDASH | $16.0 | $3.3 |
| better.com | $4.0 | $3.1 |
| TEMPUS | $8.1 | $3.1 |
| robinhood | $11.7 | $3.0 |

## Median Revenue Growth by SVB Niche for Companies That Raised[3]




Notes: 1) Metric represents a company's average deal count over the last three quarters relative to the average deal count over the previous eight quarters; value under 1 signals decline.
2) Shaded denotes FinTech companies. 3) Revenue growth shown for SVB clients that raised a Series B–E.
Source: PitchBook, SVB Proprietary Data and SVB Analysis.

# Exit Markets

## IPOs End on a High Note; M&A Comes to Life

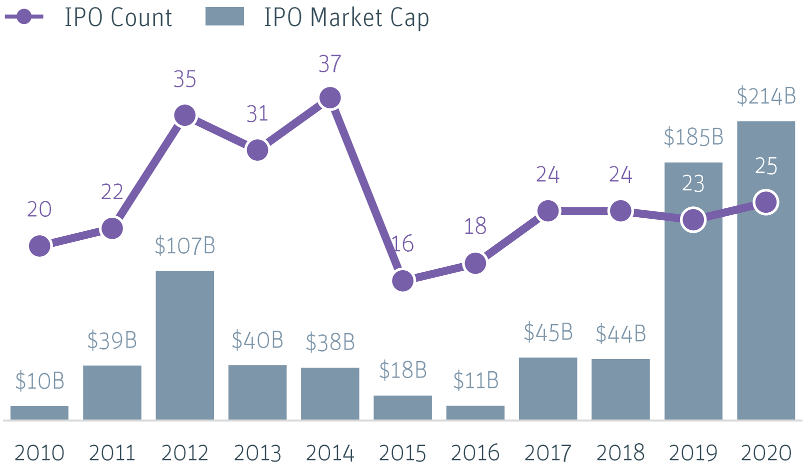
# Decacorn Disruptors Dominate IPO Market

This year proved to be the year of liquidity as IPOs flushed the markets, highlighted by prominent VC-backed darlings that have disrupted old-guard industries and boasted market caps (and multiples) much larger than that of the traditional industry bellwethers. Of the 15 largest VC-backed tech IPOs this decade, about 50% of them occurred in 2020.

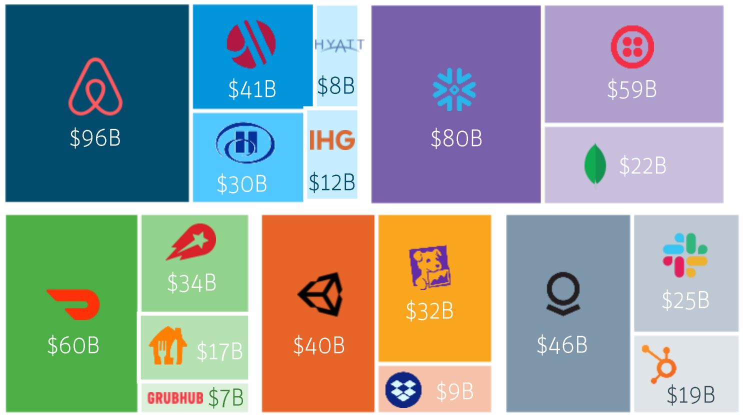
Many were well received by public investors — with 2020 seeing the highest median first-day "pop" this decade and all IPOs remaining above their last private valuation. Liquidity events such as these are crucial for the VC ecosystem, returning capital to LPs and reaffirming confidence in the asset class.

Solid initial public-market performance has come at a cost. The strong debuts from the 2020 cohort have given additional credence to the ongoing argument that the IPO process is broken. Concerns over IPO mispricing and companies leaving money on the table have encouraged notable companies, such as Roblox and Affirm, to delay their IPO debuts until 2021. While the verdict is still out on what adjustments need to be made to the process, it's clear that the IPO window is still wide-open.

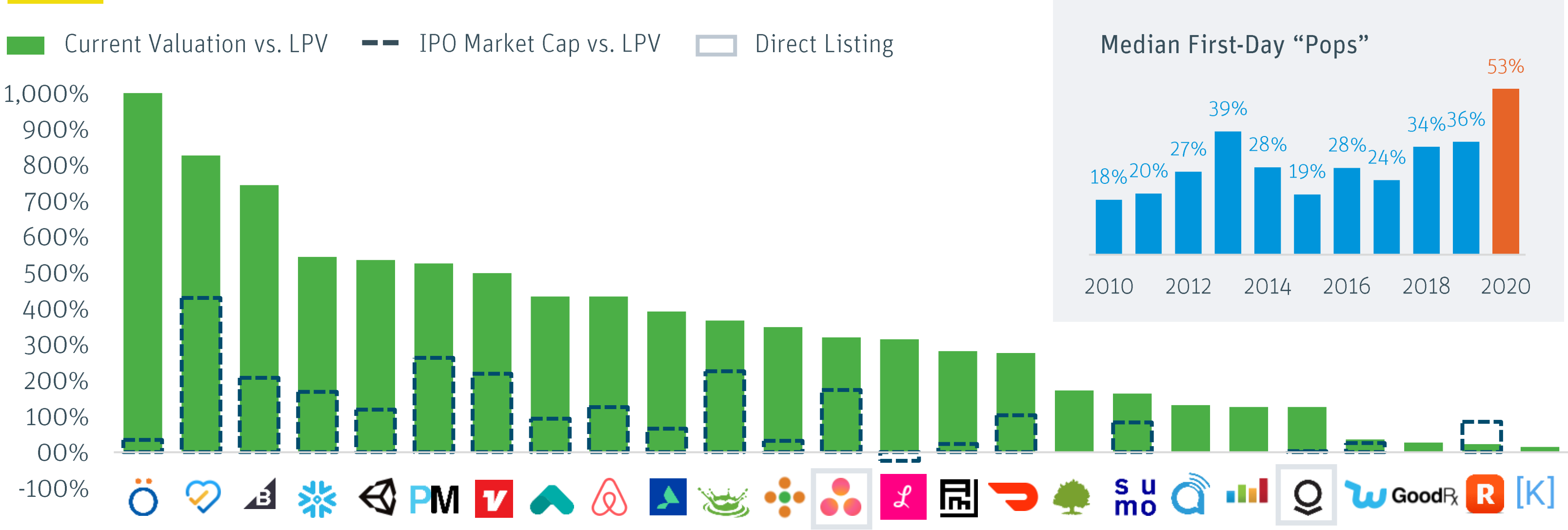
## US VC-Backed Tech IPOs by Year




Scaling Market Caps of Prominent 2020 IPOs[1]




## Performance vs. LPV[2] and Median First Day "Pops"




Notes: 1) Market capitalization figures as of 1/20/2021. 2) Performance figures as of 1/20/2021; LPV = last private valuation.
Source: PitchBook, S&P Capital IQ and SVB Analysis.

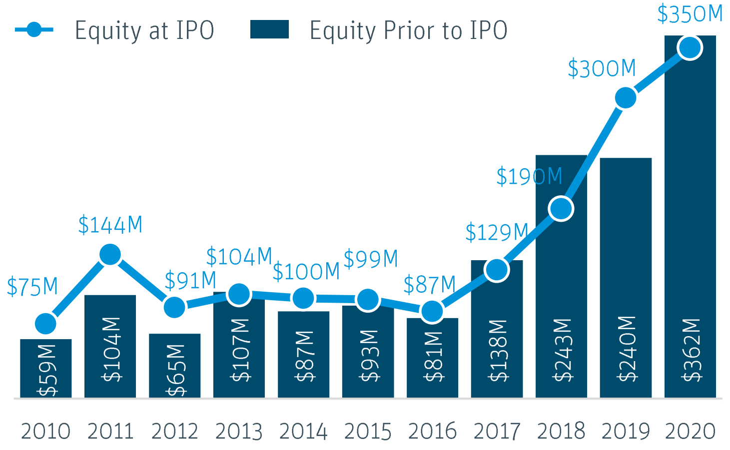
# No Profit, No Problem

The current IPO cohort has performed strongly even though they are burning a record amount of cash to reach unprecedented scale. While not necessarily a new trend, it underscores the continued preference for growth — a stark contrast with the same period last year, when investors bulked, instead requiring companies show a path to profitability.

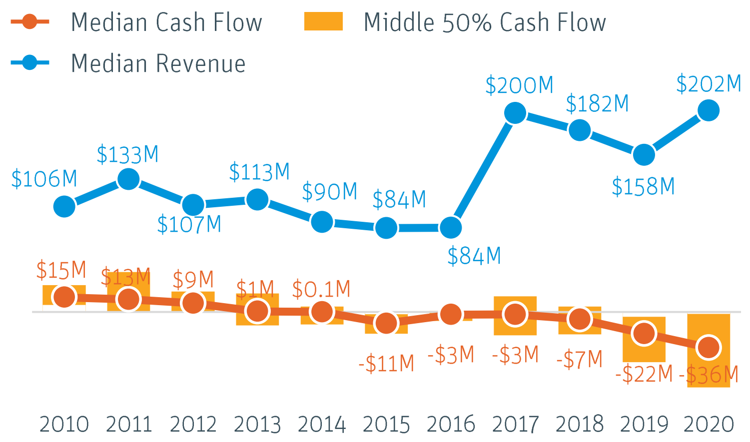
In a worrying development, top-line revenue growth (on a median basis) isn't growing much faster than it has historically. After an acceleration in 2019, revenue growth fell last year, likely due to the pandemic. Despite this, the IPO cohort commanded a 16x revenue multiple (on a median basis) — the highest this decade. This trend was led by companies such as Snowflake, whose 82x multiple ranks the third-highest since 2010. Of the top 20 largest revenue multiples from VC-backed tech IPOs this decade, about 35% are from 2020.

While this might not be cause for concern at the moment, it is worth monitoring. Those companies that are not able to deliver on their lofty ambitions might soon find themselves in trouble.

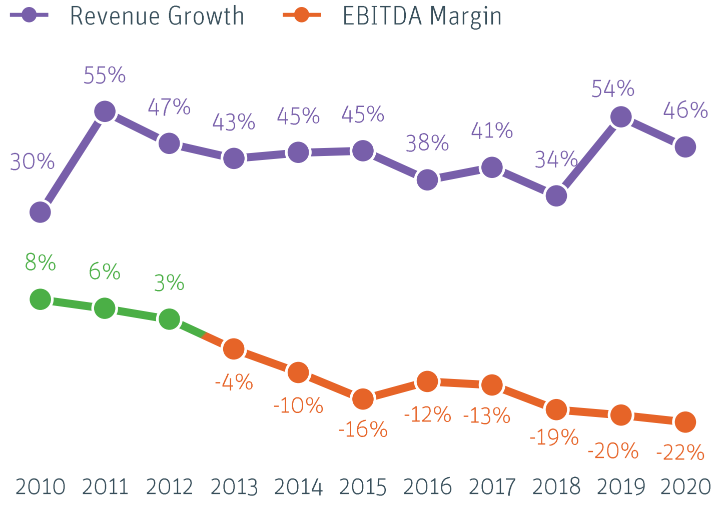
## Median Equity Raised at and Prior to IPO



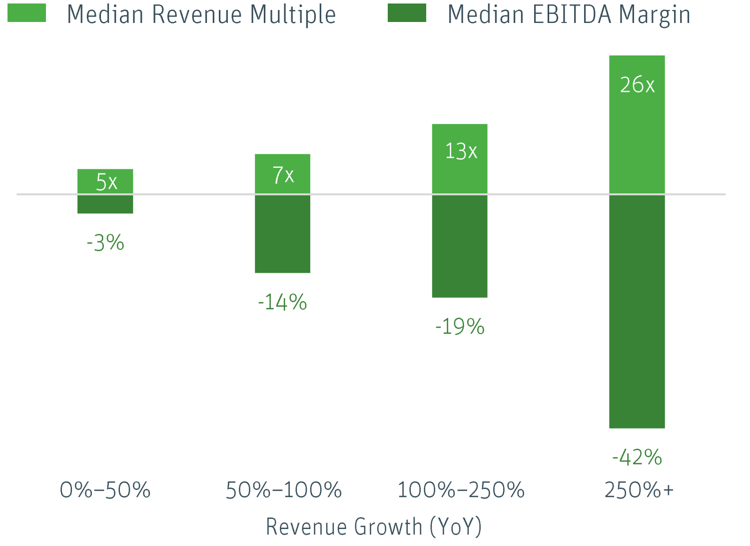

## Cash Flow and Revenue by Year[1]




## Median Revenue Growth and Margin[1]




## Multiples and Margin by Revenue Growth[1]



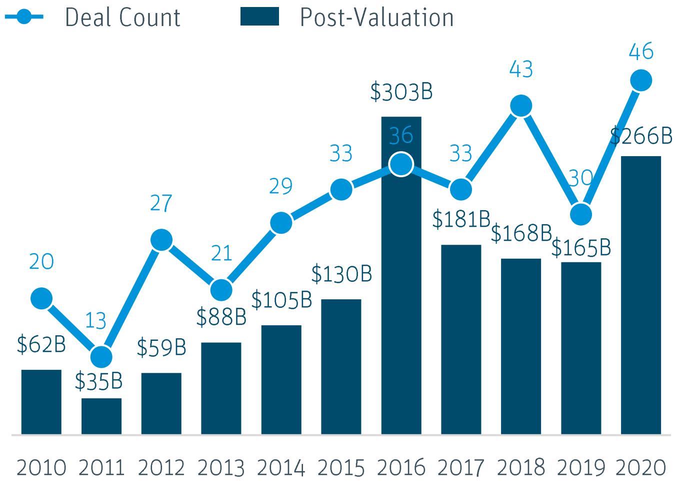

Notes: 1) Revenue Growth, Revenue Multiple and EBITDA Margin data for 2010–2020 US VC-Backed Tech IPO Cohorts; Revenue Growth is annual revenue run rate year-over-year at IPO.
Source: PitchBook, S&P Capital IQ, SEC company filings and SVB Analysis.

# Billion-Dollar Buyouts Boom

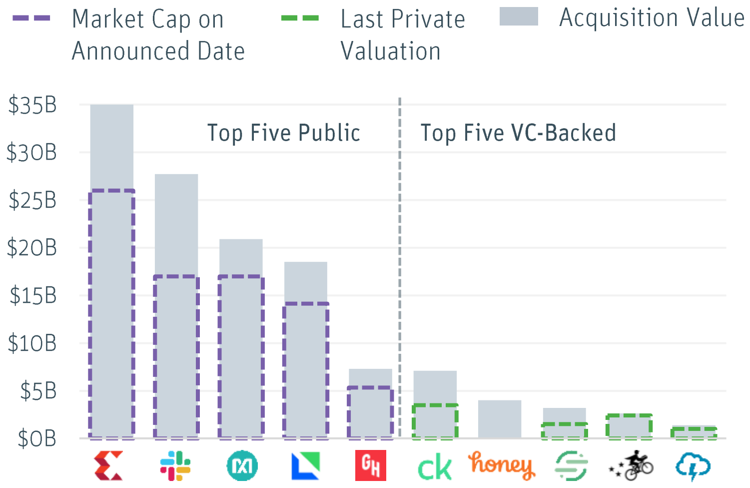
After a surprisingly muted first half of the year, M&A activity has come back to life in the second half of 2020. Billion-dollar tech acquisitions hit a record high in terms of deal count and fell just short of a record in terms of value. Notable deals include Salesforce's $27B acquisition of Slack and Teladoc's $19B acquisition of Livongo. Both targets were a part of the 2019 VC-backed tech IPO cohort and show a continued desire for large tech companies to acquire strategic partners in a race to the top.

While this might be encouraging for future prospects, the pandemic, politics and regulation are making it harder to get deals done. Since 2010, the average time between the announcement and close date has risen nearly 50% — with a pointed slowdown after Trump was elected. Despite a new regime taking office this year, things might not look much different. The tech industry is under intense scrutiny by regulators and policy-makers seeking to rein in the industry's influence and control. Look no further than the failed takeover of Plaid by Visa, which was abandoned in part because of the Antitrust Division's suit to block it. High on the Democrats' agenda are changes to the antitrust law that could make it easier to block mergers or force companies to modify how they do business.

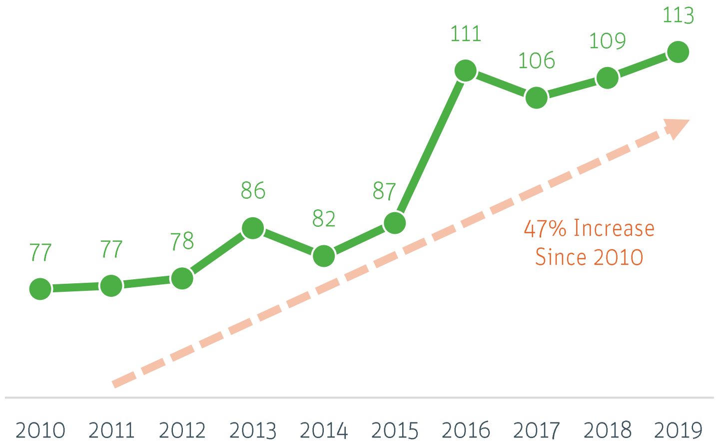
## Billion Dollar Tech Acquisitions



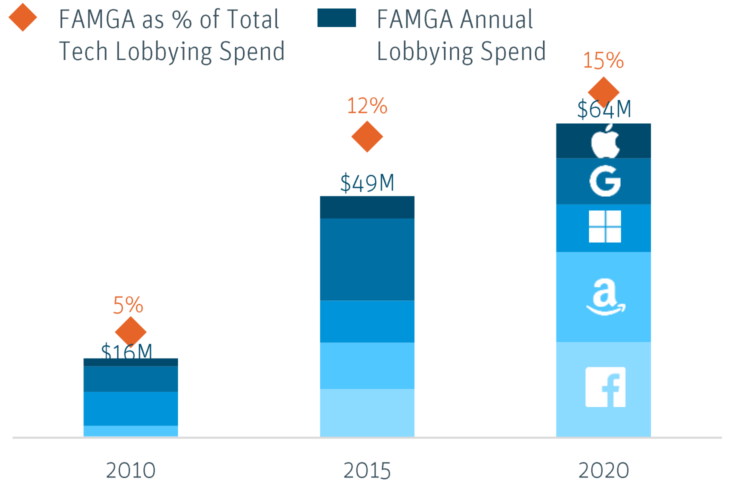

## Top Five US Public and VC-Backed Tech M&A




## US Tech M&A Avg. Time to Close (Days)




## FAMGA[1] Lobbying Spend by Year[2]




Notes: 1) FAMGA = Facebook, Amazon, Microsoft, Google (Alphabet), Apple. 2) 2020 includes Q4 2019 figures as Q4 2020 data isn't available yet.
Source: Center for Responsive Politics, PitchBook, S&P Capital IQ and SVB Analysis.

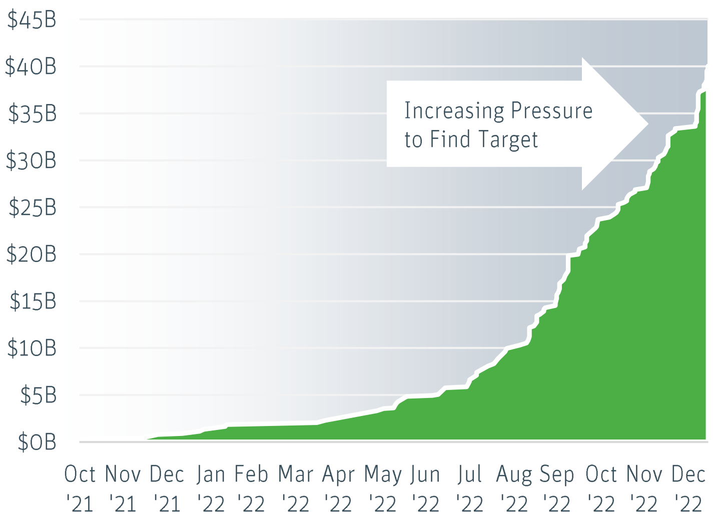
# No Turning SPAC Now

SPACs took the limelight last year — and for good reason. In 2020, 320% more SPACs were raised than in 2019, with the average size reaching $336M, $106M greater than in 2019. At the same time, the PIPE deals that accompany SPACs grew; in many cases, they were larger than the actual SPAC. This means that the size of companies SPACs can acquire is much larger than it was previously, as seen with DraftKings and Vivint Smart Home.

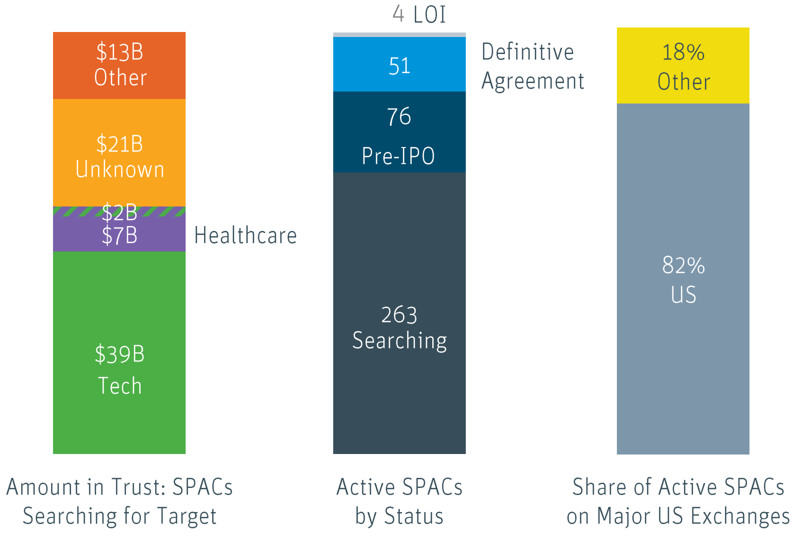
As a result of increased awareness of the vehicle and expanding capabilities in terms of size and sophistication, the demographics of the SPAC have changed. In 2020, 59% of active SPACs were seeking to acquire, or acquired, tech companies. Of the 119 SPACs announced or going public for 2021, 64% have a high likelihood of acquiring a tech company. Back in 2019, the SPAC structure was poorly understood among most of the tech ecosystem, with tech only accounting for about 26% of all SPACs.

The current SPAC mania faces a looming cliff, as most SPACs only have 24 months to find a target. This deadline may create perverse incentives that force a De-SPAC with a subpar company or offer deal terms that are not justified by the fundamentals of the target. In 2021, only three SPACs totaling less than $1B must De-SPAC, but in 2022, 94 SPACs totaling more than $32B must De-SPAC or return their capital.

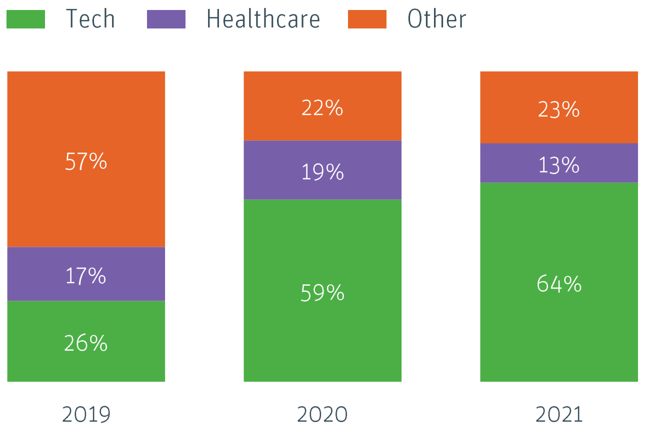
## Tech SPACs Capital by Est. Deadline[1]



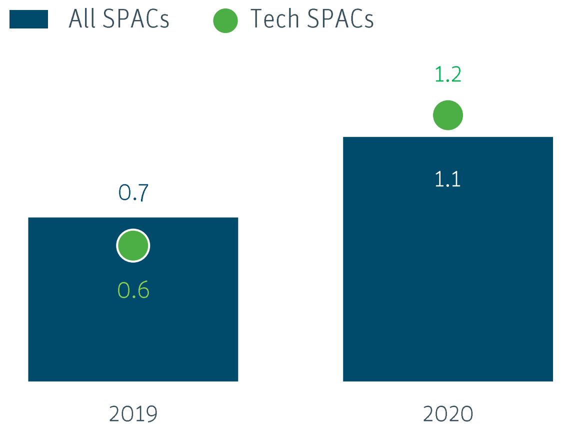

## SPAC Landscape




## SPACs by Likely Target Sector[2]




## Median Ratio of PIPE[3] to SPAC IPO Value[4]




Notes: 1) For SPACs searching for a target. 2) Active SPACs and pre-IPO SPACs (assumed to have IPO in 2021). 3) PIPE = Private Investment in Public Equity. 4) For active SPACs reporting a PIPE.
Source: SPAC Research, SPAC Track, S&P Capital IQ and SVB Analysis.

# International

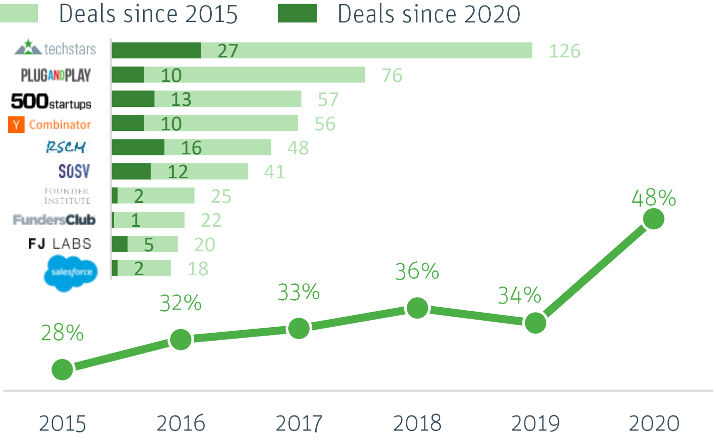
## Venture Budding Abroad

# Canada: Proof Is in the Poutine

Foreign investors have always played an important role in supporting the Canadian innovation ecosystem — from providing late-stage capital to offering important connections via their extensive network. For the past four years, the US investor share of Canadian venture capital has remained in the mid-30% range, until now. The pandemic has broken down borders as investors and founders get comfortable doing net new remote deals, giving investors south of the border access to attractive Canadian startups known for their technical expertise and capital efficiency.

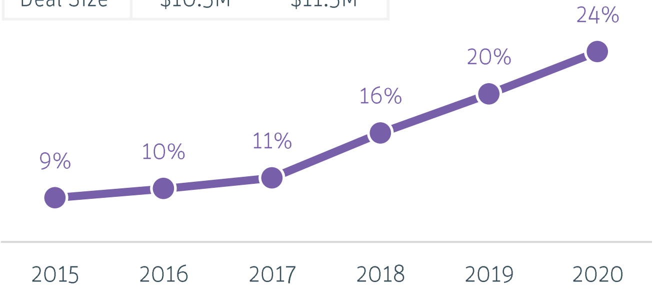
With the increased influx of foreign capital, as well as the fact that COVID-19 has pushed investors to prefer more-established and proven companies, late-stage investment has grown to new heights. Within late-stage, sectors such as ClimateTech, EdTech, HealthTech and Operational Software have attracted significant capital as they continue to benefit from the new normal. This increased late-stage capital could be crucial in giving Canadian startups a greater ability to scale; hopefully, leading to successful mega-exits, showing that Canada is an established and mature ecosystem and bucking the trend toward an "exit early" mentality.

## US Investor Participation Rate and Most-Active US Investors of Canadian Tech VC

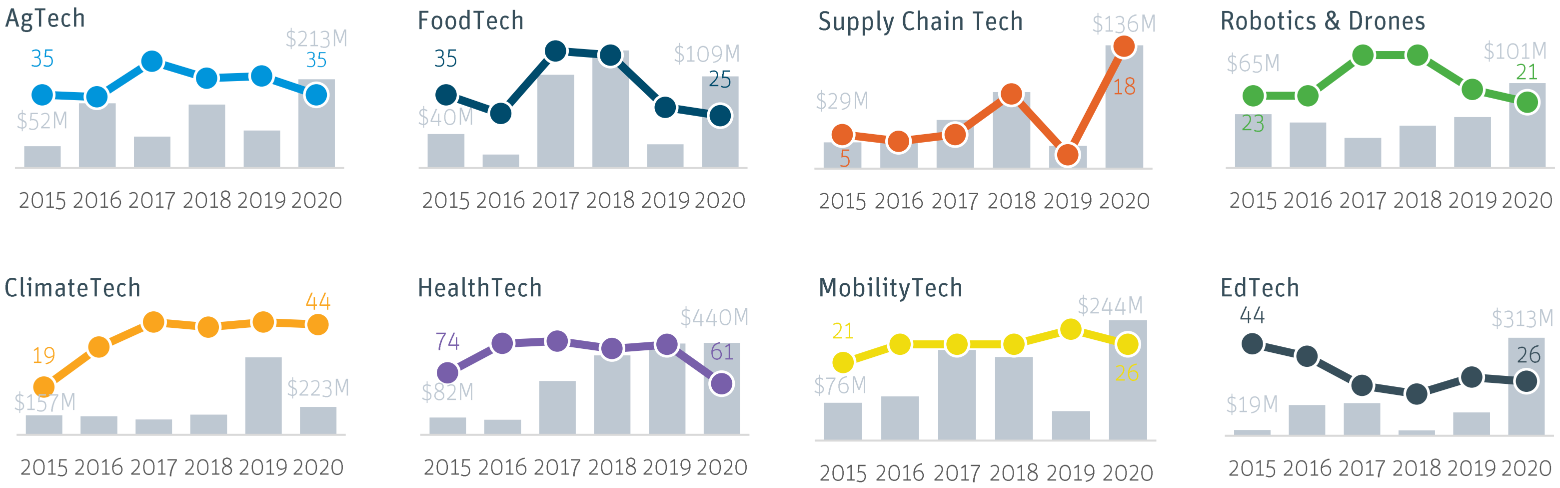



## Late-Stage Share of Canadian Tech VC

| | SVB Tech Client Late-Stage Deals | |
|---|---|---|
| | 2019 | 2020 |
| Deal Size[1] | $10.5M | $11.5M |




## Hot Sectors: Canada[2]



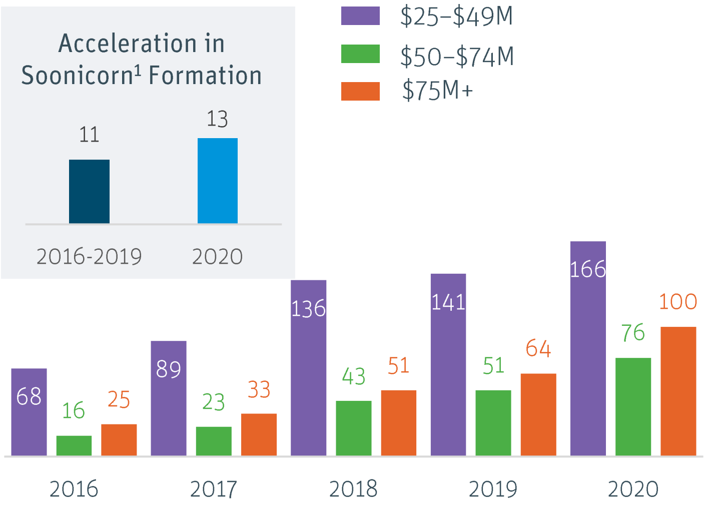

Notes: 1) Median deal size. 2) Data is not additive as certain companies may be categorized under multiple PitchBook verticals.
Source: PitchBook and SVB Analysis.

# European Tech Reaching Record Highs

European venture is thriving. More capital is coming into the ecosystem than ever before, as investors target late-stage companies minting Unicorns at an unprecedented rate. The United Kingdom and Germany have seen activity skyrocket, as well as (interestingly) Sweden—though not totally surprising given the recent success of Swedish companies like Spotify. European founders have faced similar challenges coping with the pandemic, but one major benefit has been the movement to remote due diligence—making international investors much more willing to close Zoom-only deals.

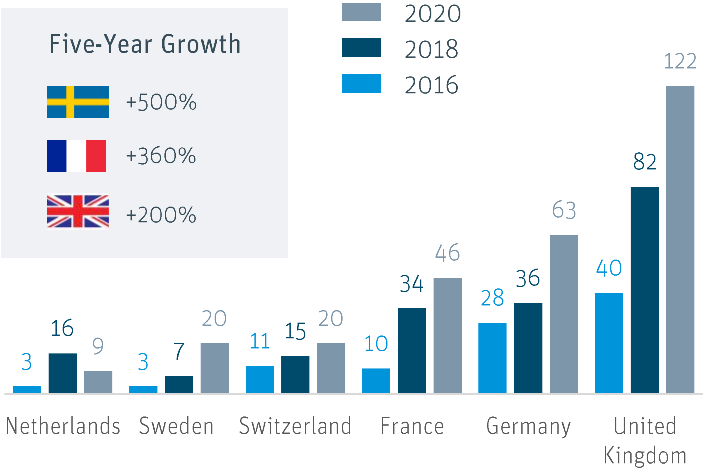
There is substantial capital tied up in Europe's growing Unicorn cohort. The number of exits in 2020 were subdued, certainly not breaking any records. This leaves the potential for many "individual" liquidity events if IPOs and M&A jump back to prior highs. In such a scenario, talent can dissipate. The UK government is actively working on how to retain talent following Brexit.

## European Deals by Size

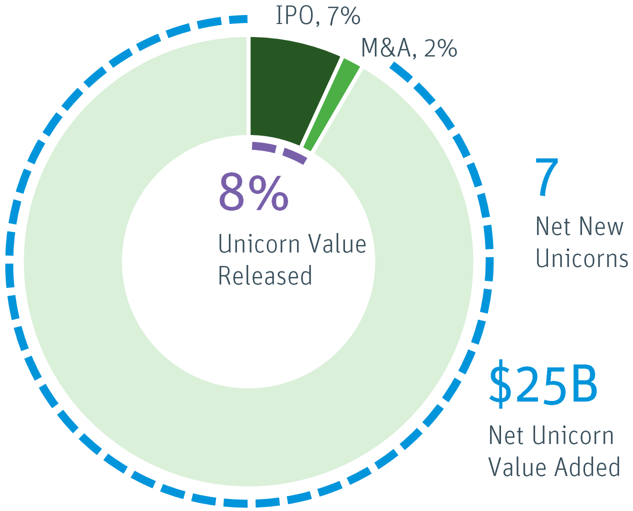



## Number of European Exits by Type


## Growth Rounds[2] by Country




## EMEA Unicorn Value Realized[3]




Notes: 1) Soonicorns are described as VC-backed companies with a valuation above $500M. 2) Growth round defined as $25M or more in size. 3) As of 12/31/2020.
Source: CB Insights, PitchBook and SVB Analysis.

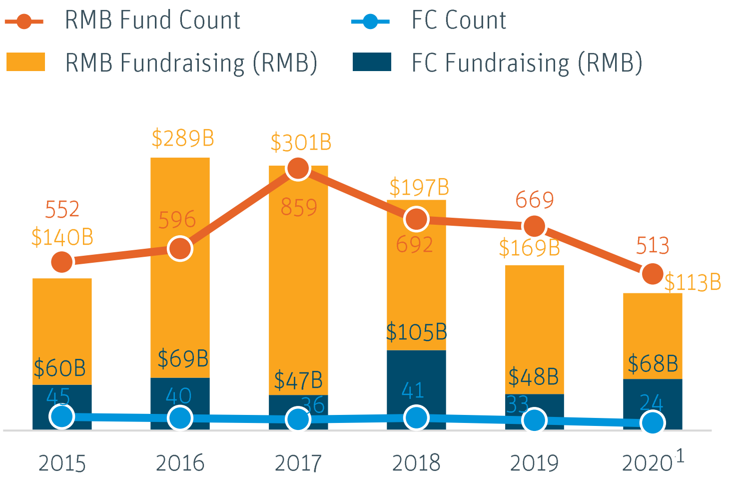
# China: Hot IPO Market Driving Late-Stage

Last year marked another milestone year for the venture ecosystem in China. Fundraising in Renminbi (RMB) has continued to fall — on pace for its lowest year in six years as the government focuses on COVID-19 relief efforts and banks face tougher restrictions. However, foreign currency fundraising is on pace to match 2018's record, with firms with a strong track record receiving continued support from LPs.

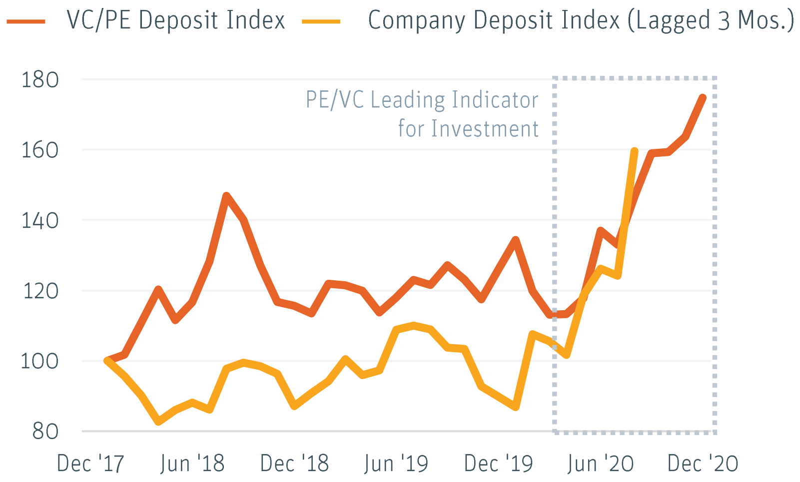
VC investment saw an uptick, especially at the later stage, as investors poured into pre-IPO companies before they exit. This was due in large part to financial market reform in China, as government officials implemented registration-based IPO criteria to the ChiNext board, following its successful use by the STAR Market. This helped propel China to the top of the IPO leaderboard, as Chinese IPOs accounted for about 40% of global IPOs by deal volume.[1] They also captured half of the 10 largest IPOs in 2020, claiming the top three spots — including chipmaker SMIC's listing on the STAR market.

The positive reception from investors (as demonstrated by strong stock performance) has driven a host of other companies to prepare to go public. As of mid-December, there were more than 800 companies in the IPO queue list of the China Securities Regulatory Commission (CSRC), 76% of which were applying for IPOs under the registration-based system.

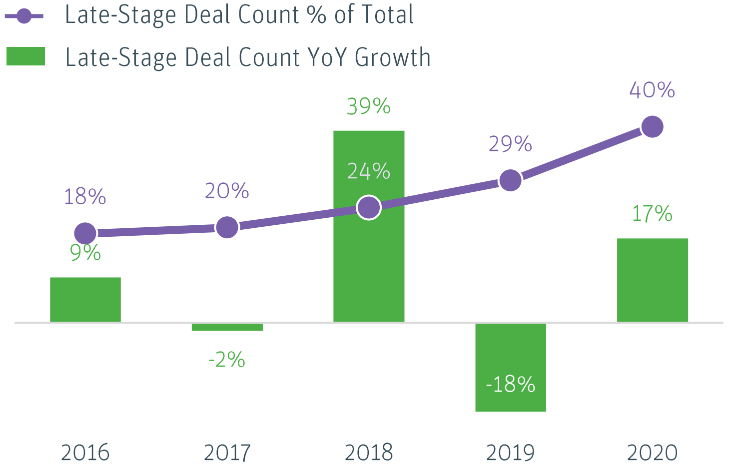
## Foreign Currency (FC) vs. RMB Fundraising



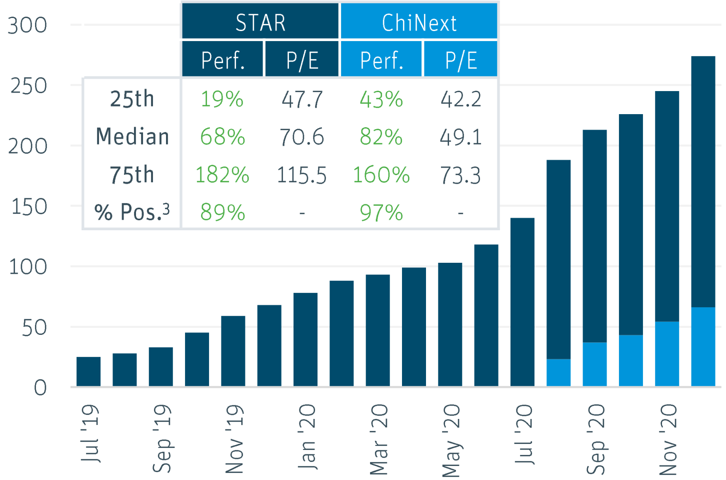

## China Deposit Index[2]




## Late-Stage Investment in Chinese Tech




## STAR Market and ChiNext IPO Count




| | STAR | | ChiNext | |
|---|---|---|---|---|
| | Perf. | P/E | Perf. | P/E |
| 25th | 19% | 47.7 | 43% | 42.2 |
| Median | 68% | 70.6 | 82% | 49.1 |
| 75th | 182% | 115.5 | 160% | 73.3 |
| % Pos.[3] | 89% | - | 97% | - |

Notes: 1) Through Q3 2020; Q4 data unavailable at time of release. 2) Deposit data indexed to 100 on 12/31/2017.
Source: PitchBook, Zero2IPO, S&P Capital IQ, SVB Proprietary Data and SVB Analysis.

# Authors

**Bob Blee**
Head of Corporate Finance
bblee@svb.com

**Andrew Pardo**
Senior Associate,
Market Insights
apardo@svb.com

**Calvin Otis**
Senior Associate,
Market Insights
cotis@svb.com

**Eli Oftedal**
Associate,
Market Insights
eoftedal@svb.com

# Disclaimers

1. The material contained in this document, including without limitation the statistical information herein, is provided for informational purposes only. The material is based in part upon information from third-party sources that we believe to be reliable, but which has not been independently verified by us and, as such, we do not represent that the information is accurate or complete. This information should not be viewed as tax, investment, legal, or other advice, nor is it to be relied on in making an investment or other decision. You should obtain relevant and specific professional advice before making any investment decision. Nothing relating to the material should be construed as a solicitation, offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction.
2. All credit products and loans are subject to underwriting, credit, and collateral approval. All information contained herein is for informational and reference purposes only and no guarantee is expressed or implied. Rates, terms, programs and underwriting policies subject to change without notice. This is not a commitment to lend. Terms and conditions apply.
3. SVB Private Bank is a division of Silicon Valley Bank. Banking and loan products and services are offered by Silicon Valley Bank. Loans and credit cards are subject to credit and/or collateral approval. Financing is available and varies by state. Restrictions may apply.
4. SVB Leerink LLC is a member of SVB Financial Group. Products and/or services offered by SVB Leerink LLC are not insured by the FDIC or any other federal government agency and are not guaranteed by Silicon Valley Bank or its affiliates. SVB Leerink LLC is a member of FINRA and SIPC.
5. To execute your wealth plan we work with third party unaffiliated specialist in the areas of Tax, Insurance and Trust & Legal Services. Founders Circle Capital is a third party and not affiliated with SVB or SVB Wealth Advisory, Inc. Silicon Valley Bank does not have a direct relationship with Founders Circle Capital (FCC) and has no responsibility or affiliation. Silicon Valley Bank, as a member of SVB Financial Group, has an indirect financial interest in Founders Circle Capital ("FCC") and, as a result, has an indirect interest in making client referrals to FCC. FCC is a registered investment adviser and is not a bank or member of the Federal Reserve System.
6. All companies listed throughout this document, outside of Silicon Valley Bank, and the related entities, non-bank affiliates and subsidiaries listed on this 'Disclaimer' page are an independent third parties and are not affiliated with SVB Financial Group.
7. Wealth planning and investment and stock option strategies are provided through SVB Wealth Advisory, Inc., a registered investment advisor, and non-bank affiliate of Silicon Valley Bank.
8. Foreign exchange transactions can be highly risky, and losses may occur in short periods of time if there is an adverse movement of exchange rates. Exchange rates can be highly volatile and are impacted by numerous economic, political and social factors as well as supply and demand and governmental intervention, control and adjustments. Investments in financial instruments carry significant risk, including the possible loss of the principal amount invested. Before entering any foreign exchange transaction, you should obtain advice from your own tax, financial, legal and other advisors and only make investment decisions on the basis of your own objectives, experience and resources.
9. SVB Asset Management, a registered investment advisor, is a non-bank affiliate of Silicon Valley Bank and a member of SVB Financial Group.
   SVB Securities is a non-bank affiliate of Silicon Valley Bank and a member of SVB Financial Group. Member FINRA and SIPC.
   SVB Wealth Advisory is a registered investment advisor, non-bank affiliate of Silicon Valley Bank and a member of SVB Financial Group.
10. Any predictions are based on subjective assessments and assumptions. Accordingly, any predictions, projections or analysis should not be viewed as factual and should not be relied upon as an accurate prediction of future results.

Investment Products:

| | | |
|---|---|---|
| Are not insured by the FDIC or any other federal government agency | Are not deposits of or guaranteed by a bank | May lose value |

# Disclaimers

1. Silicon Valley Bank UK Limited is registered in England and Wales at Alphabeta, 14-18 Finsbury Square, London EC2A 1BR, UK (Company Number 12546585). Silicon Valley Bank UK Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (Firm Reference Number 543146).
2. SVB Israel Advisors Ltd. is a subsidiary of SVB Financial Group. Neither SVB Israel Advisors nor SVB Financial Group is licensed to conduct banking business or provide other financial services in Israel and neither engages in unlicensed banking activities. Banking services are provided by Silicon Valley Bank, a member of FDIC. Silicon Valley Bank is not supervised by the Supervisor of Banks in the Bank of Israel but by the US Federal Reserve Bank and the California Department of Financial Protection and Innovation (DFPI).
3. Silicon Valley Bank and SVB Financial Group UK Limited are not licensed in Ireland to undertake banking business in Ireland or to undertake any other regulated activity in Ireland. SVB Financial Group UK Ltd is registered in England and Wales at Alphabeta, 14-18 Finsbury Square, London EC2A IBR, UK under No. 5572575.
4. Silicon Valley Bank Germany Branch is a branch of Silicon Valley Bank. Silicon Valley Bank, a public corporation with limited liability (Aktiengesellschaft) under the laws of the U.S. federal state of California, with registered office in Santa Clara, California, U.S.A. is registered with the California Secretary of State under No. C1175907, Chief Executive Officer (Vorstand): Gregory W Becker, Chairman of the Board of Directors (Aufsichtsratsvorsitzender): Roger F Dunbar.
5. Silicon Valley Bank Germany Branch with registered office in Frankfurt am Main is registered with the local court of Frankfurt am Main under No. HRB 112038, Branch Directors (Geschaftsleiter): Oscar C Jazdowski, Joan Parsons. If you no longer wish to receive marketing communications from SVB Financial Group or Silicon Valley Bank, you may unsubscribe. Read about our Privacy Policy. If you have any questions or concerns about our privacy policies. please contact us by email privacy@svb.com.
6. Silicon Valley Bank is not licensed to undertake banking business in Denmark or to undertake any other regulated activity in Denmark.

## 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.

See complete disclaimers on previous page.



www.svb.com

@SVB_Financial

Silicon Valley Bank

@SVBFinancialGroup