

U.S. Startup Outlook 2017

A SILICON VALLEY BANK SURVEY OF U.S. ENTREPRENEURS
ABOUT BUSINESS CONDITIONS AND POLICY PRIORITIES



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Silicon Valley Bank

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Strength in the Innovation Sector

Silicon Valley Bank presents Startup Outlook 2017, the bank's annual report on the health of the innovation economy. This year, it comes at a time of significant transition around the world and opportunity in the innovation sector. In its eighth year, the Startup Outlook survey asks entrepreneurs to share what they are thinking about business conditions, access to capital and talent and the critical policy issues that help or hinder their success.

Nearly 950 technology and healthcare executives, primarily from the U.S., U.K. and China, participated in the survey, which was conducted shortly after the November 2016 U.S. presidential election. Given this timing, we did recognize some uncertainty in the responses from what is historically an optimistic group. As the U.S. transitions to a new administration and the U.K. negotiates Brexit, startup sentiments and markets may shift when policies and priorities become clearer. In China, we're seeing similar themes as the country navigates a historic transition from an industrial to an innovation economy.

Against this backdrop, there is good news. The innovation sector is building strength after a healthy recalibration in 2016. Public markets have bounced back, jobs reports are more optimistic, investors are doing deals, valuations are corrected, more funding options are available and the exit market has improved. No matter where they are located, at least 85 percent of entrepreneurs are expecting M&A,

the ultimate exit for most startups, to increase or stay the same. In the U.S., SVB is predicting the number of venture capital-backed IPOs to double or even triple over 2016.

Here's what else we see: There is more potential now for innovation to thrive than in the last 25 years. The breadth of opportunity created by old-world industries being transformed by technology continues to expand globally. Still, companies forming now will have to prove their value with a higher bar as investors continue to identify opportunities with the most promise. We have a long-term positive outlook for the innovation economy, but individual startups will face challenges. It's the nature of the business of building disruptive companies. So mindful of the unicorn lineup awaiting exits, we will not be surprised to see companies struggle and fail this year, potentially even more than in recent years. This is healthy innovation.

Thank you for your interest. To see the full Startup Outlook Report, please go to svb.com/startup-outlook-report. We hope the findings can be useful as you consider policy decisions to move our nation ahead.



Greg Becker

President and CEO, Silicon Valley Bank

Startups to President Trump: Ideas to grow the U.S. innovation economy

Startups signal the future. What will the jobs be? What new innovation will change how we live and work? Entrepreneurs and fast-growing companies with big ideas offer opportunities to disrupt the status quo for the better, and help drive U.S. job creation. We asked Startup Outlook 2017 survey respondents what the new president and administration might do to help grow the U.S. innovation economy. To read more about what they had to say, see [Startups to President Trump](#).

What ideas do you have for the new U.S. president to help support companies like yours?

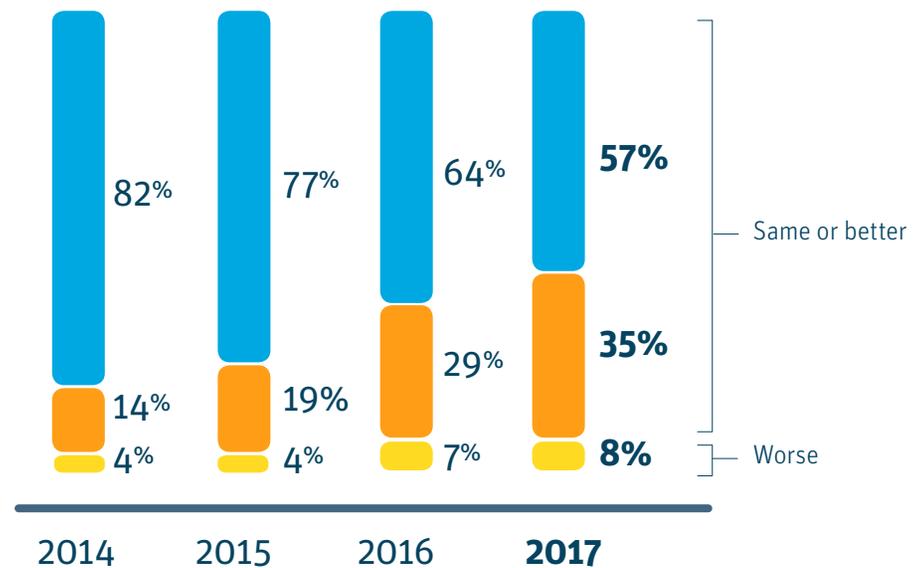
- 1. Change the corporate tax structure**
- 2. Increase access to talent through immigration policy and improvement to the education system**
- 3. Simplify regulations**
- 4. Provide government support for startups, R&D and manufacturing**
- 5. Address healthcare costs and regulation**
- 6. Encourage global trade**
- 7. Reform FDA approval process**

Uncertainty may be weighing on startups' outlook

While 92% say business conditions in 2017 will be the same or better than 2016, this naturally optimistic group is less hopeful that this year will be better for their companies. We chalk some of that up to uncertainty, as well as more realistic expectations following a healthy recalibration in 2016.

Describe your outlook on business conditions for your company this year compared to last:

■ Will be better ■ Will stay the same ■ Will be worse

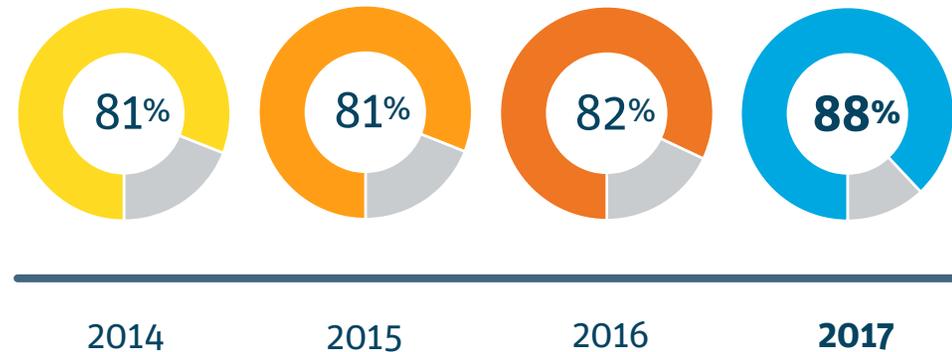


Raising capital gets more challenging

Fundraising is becoming more difficult for startups. For the first time since 2014, fewer startups say raising money was “not challenging.” Investor interest in the innovation sector remains strong, and capital is available to deploy. Startup executives are clearly feeling, however, that the bar has been raised to acquire growth capital for their companies.

What is your view of the current fundraising environment?

Extremely or somewhat challenging

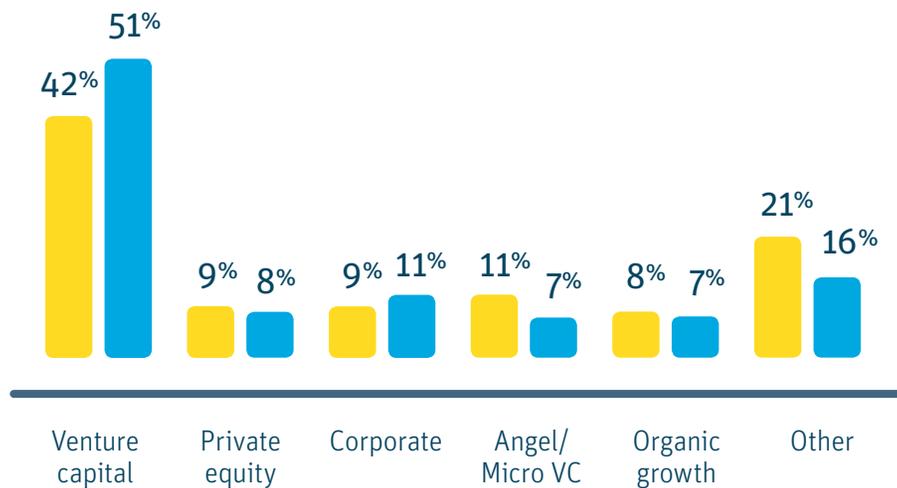


Startups increase reliance on venture capital

For private companies that recently raised funds, venture capital becomes an even more important source of capital in the future: 51% of startups say their most likely next source of funds is venture capital. This is despite fewer early-stage fundings by VCs in 2016. Corporate investors are increasingly viewed as an important capital source, cited by 11% of respondents, surpassing private equity at 8%.

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

2016 2017



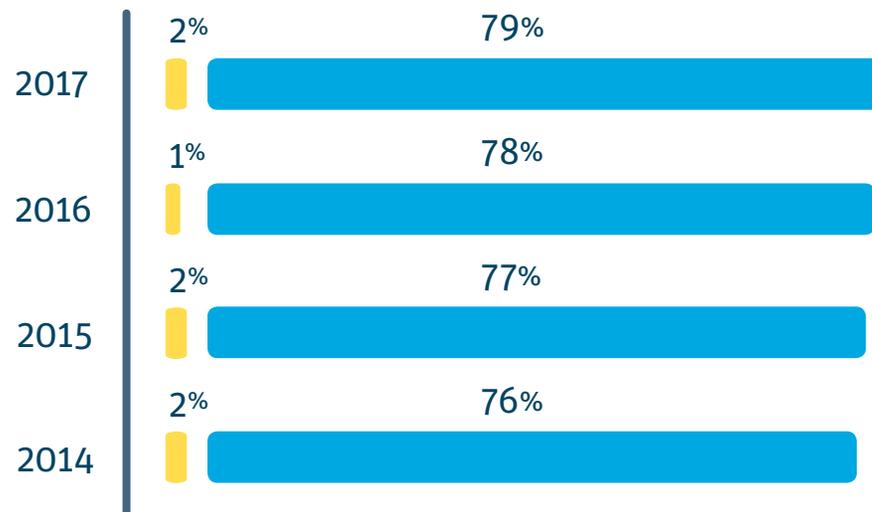
Other includes: individuals, bank debt, IPO, grant, crowdfunding, merger.

Hiring, and layoffs, are consistent over time

For the last four years, startups have consistently reported they would be growing far more than reducing the size of their workforce. Startups are required to be nimble and flexible, adjusting the size and makeup of their workforce as a normal course of growth. We see the flow of startup employees in and out of companies as a constant, not as a meaningful negative shift this year.

What are your projections for hiring new employees this year?

■ Reduce workforce ■ Increase workforce



Access to talent remains top issue

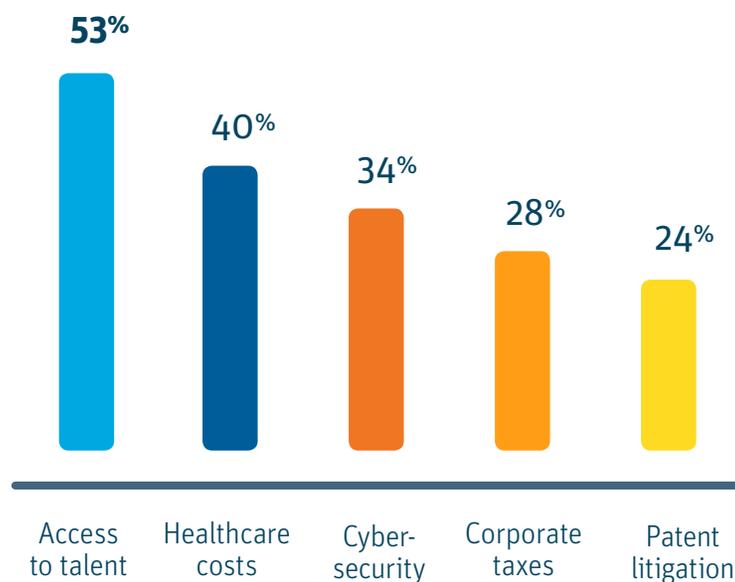
More than half of startups surveyed say access to talent is the most important public policy issue affecting companies like theirs. Healthcare costs jumped to the No. 2 spot over cybersecurity on the 2017 list, followed by corporate taxes and patent litigation.

We asked life science companies:

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

- 39% Reimbursement
- 38% FDA regulation
- 18% Affordable Care Act implementation
- 5% Other

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



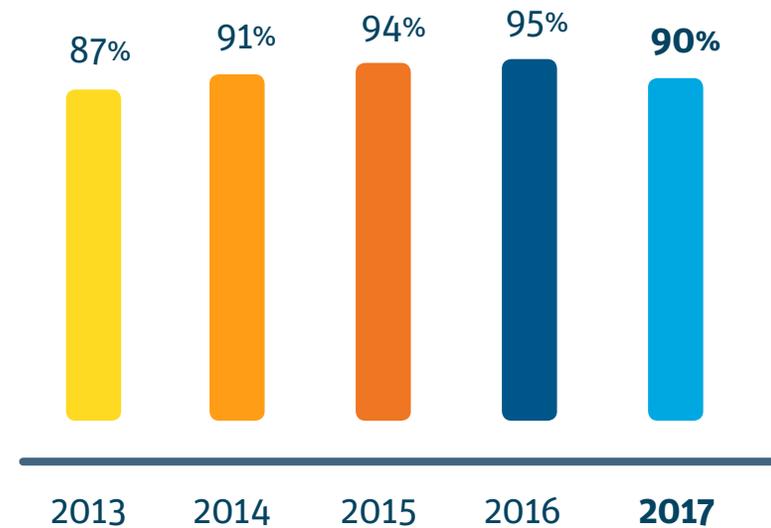
Note: Respondents were given the opportunity to select multiple responses.

Talent crunch showing signs of easing

A year ago, when 95% of executives said it was challenging to find people with the skills necessary to help grow their businesses, we predicted it was possible that the talent crunch had reached its peak. It's too soon to call it a trend, but it does appear that the very tight labor market has loosened a little. Innovation executives say the lack of skilled workers inhibits product development and makes it difficult to scale operations.

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

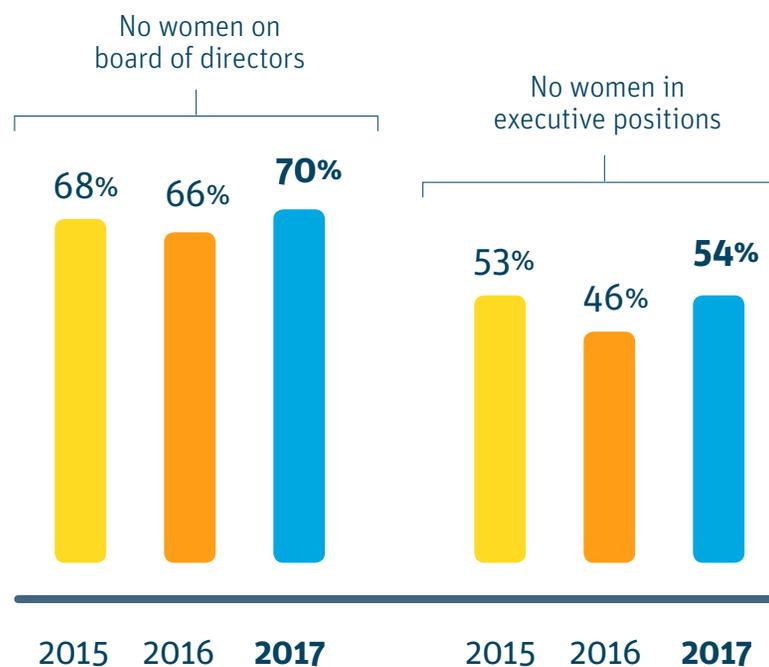
Respondents who say finding talent is challenging or extremely challenging



The ratio isn't changing

Women in tech leadership has been a topic of conversation in Silicon Valley and globally for several years. It is well-known that women are underrepresented on startup boards and in the executive suite. For all the work being done to change this ratio in the U.S., this year's survey respondents report there is no progress in the aggregate. Leading into 2017, 70% of startups report having no women on their boards, and more than half (54%) have no women in executive positions. One quarter of startups say they have programs in place to increase the number of women in leadership roles, which has been consistent year over year.

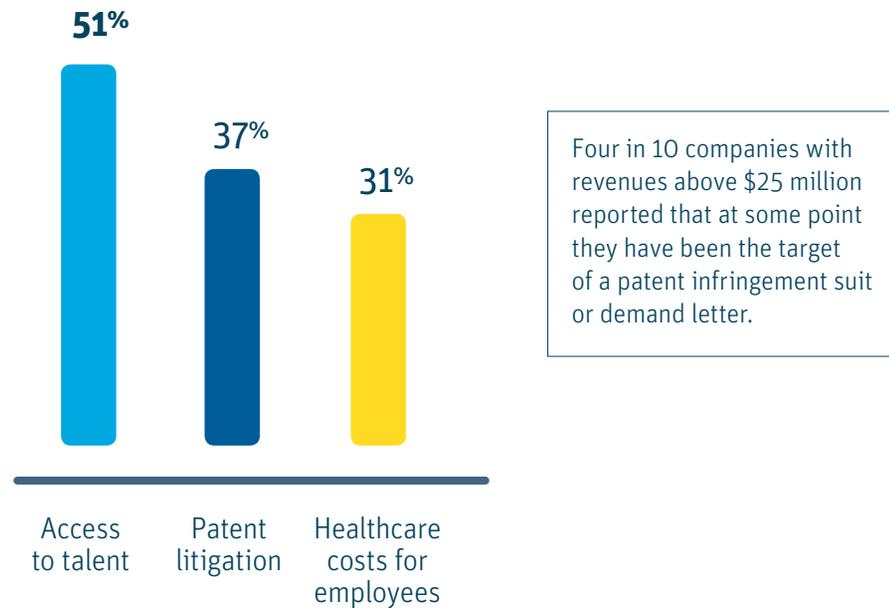
Percentage of startups with no women in leadership positions:



For pre-revenue companies, patent litigation concerns grow

Only access to talent is a more pressing public policy concern than patent litigation for U.S. pre-revenue companies. The percentage that named patent litigation a top issue grew from 31% to 37% between 2016 and 2017. This reflects the impact litigation may have on the youngest startups as they move from seed to revenue-producing stage.

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

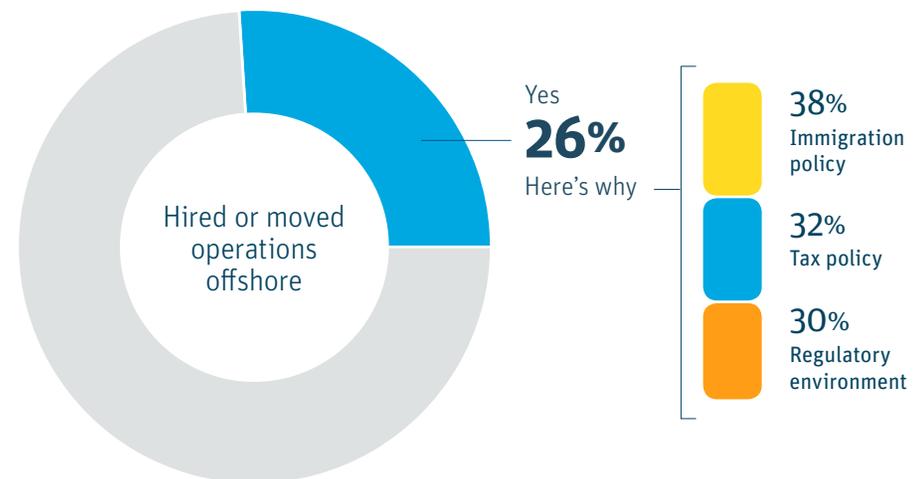


Note: Respondents were given the opportunity to select multiple responses.

Policy is driving some U.S. startup operations offshore

One in four respondents say that laws and regulations prompted them to locate facilities or move non-sales operations outside the U.S. Pre-revenue startups are more likely to leverage international markets for facilities and employees.

Have U.S. laws and regulations materially affected your company's decision to locate facilities or hire employees for operational non-sales activities outside the U.S.?



About the Startup Outlook 2017 survey

Our eighth annual survey of technology and healthcare executives offers insight into what's on the minds of innovation leaders today. For this year's survey, we received 941 responses covering such topics as how innovation companies are faring, hiring projections and how government policies are affecting business growth.

Total respondents
941

Industry sector

 **69%**
Technology (net)

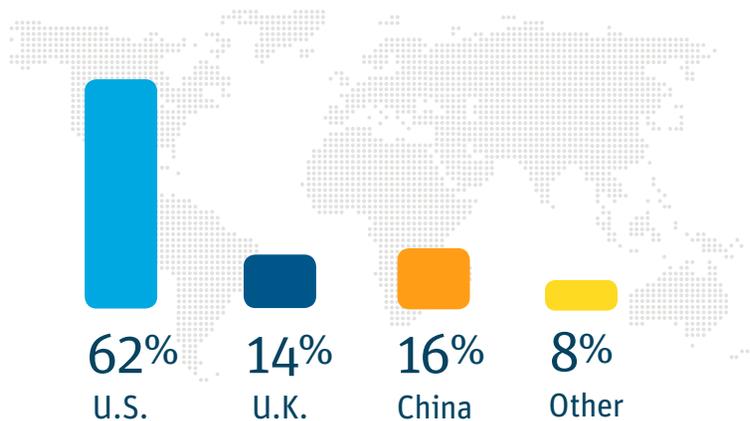
 **15%**
Healthcare (net)

16%
Other

Profitable



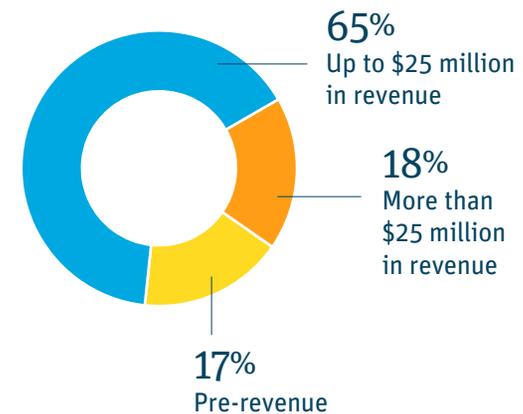
Primary place of business



Ownership



Revenue stage



Peerless Insights Survey, a third-party firm, conducted the Startup Outlook 2017 survey online on Silicon Valley Bank's behalf from November 14, 2016, to January 3, 2017. U.S. respondents totaled 587.



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About Silicon Valley Bank

For more than 30 years, Silicon Valley Bank (SVB) has helped innovative companies and their investors move bold ideas forward, fast. SVB provides targeted financial services and expertise through its offices in innovation centers around the world. With commercial, international and private banking services, SVB helps address the unique needs of innovators.

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

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This material, including without limitation to the statistical information herein, is provided for informational purposes only and is compiled from the survey that we worked on with Peerless Insights, a third-party source.

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