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VC Liquidity Report

2017 Annual

The IPO window can be narrow.
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Key takeaways from the analysts

- VC-backed exits recorded another strong year of exit activity with $67.3 billion exited across 1,265 deals. While exits over $100 million comprised just over a third of total exit counts, these transactions make up 88.7% of total exit value.
- Acquisitions declined for the third consecutive year in 2017, resting at $45.7 billion. PE sponsors have become a prominent third source of liquidity for VCs, as buyouts shot up to 18.5% of all exits in 2017.
- Initial public offerings of VC-backed companies increased 203% in value and 30% in count over 2016. High demand for tech offerings amid a strong public market paved the way for six tech IPOs raising more than $500 million each.

$67.3B

2017 North American & European VC-backed exit value

3rd straight year of growth

$45.7B

Exit value accounted for by acquisitions, which declined in count by 15.4%

↓ 21% YoY

114

Number of IPOs in 2017, a 30% year-over-year increase

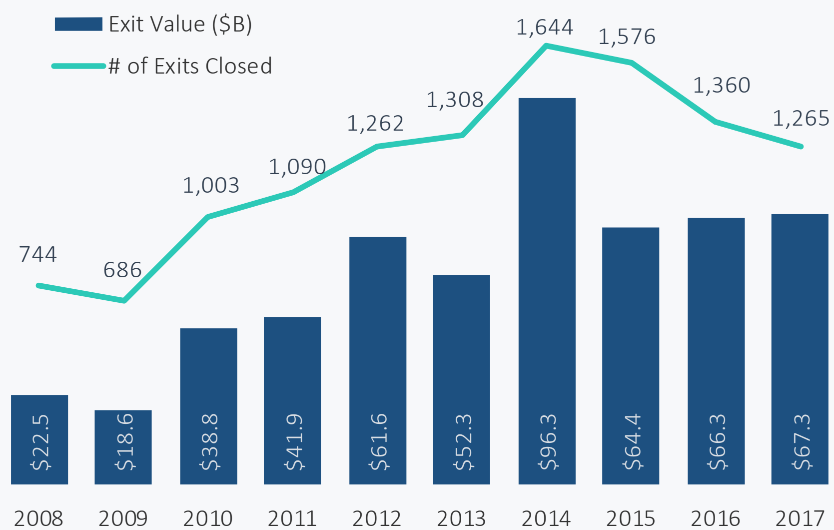
Overview

Though VC exits have slowed, overall exit value remains historically high

VC-backed exits recorded another strong year of activity with $67.3 billion exited across 1,265 deals. Although this is the third straight year of falling exit counts, this activity represents a slight increase of exit value over the two previous years. The maturing venture environment across North America and Europe, combined with consistently generous valuations in the market, have contributed to the proliferation of larger exits. While exits over $100 million comprised just over a third of total exit counts, these transactions make up 88.7% of total exit value. Due to the inherent nature of VC, larger deals have always had an outsized effect on exit value, but the relationship continues to become more pronounced.

Exit counts have declined for three straight years

North American and European VC-backed exit activity



Source: PitchBook

Deloitte's Emerging Growth Company (EGC) Practice

We understand that one size doesn't fit all. Each emerging growth company has its unique needs and issues at different stages of growth. As your company grows, we make the necessary changes to grow with you. Quality is our top priority; our approach to client service focuses on the challenges of high-growth companies, the road to IPO and a commitment to the venture community.

We are committed to delivering a distinctive client experience through service offerings tailored to address the specific circumstances of your company. From startups to billion-dollar companies, Deloitte's collaborative approach brings the full breadth of our technical and industry capabilities, along with access to the global resources of our member firm network, to help you capture opportunities and address challenges. Our extensive IPO experience, along with our experienced professionals, enables us to provide insights that others may miss.

We have helped countless venture-backed companies achieve their goals. As you plan for your next stage of growth, make sure your organization is well-equipped. Engage with our team of professionals that understands your challenges as a growing company, with specific industry knowledge and insights to the financial and operational challenges you may face.

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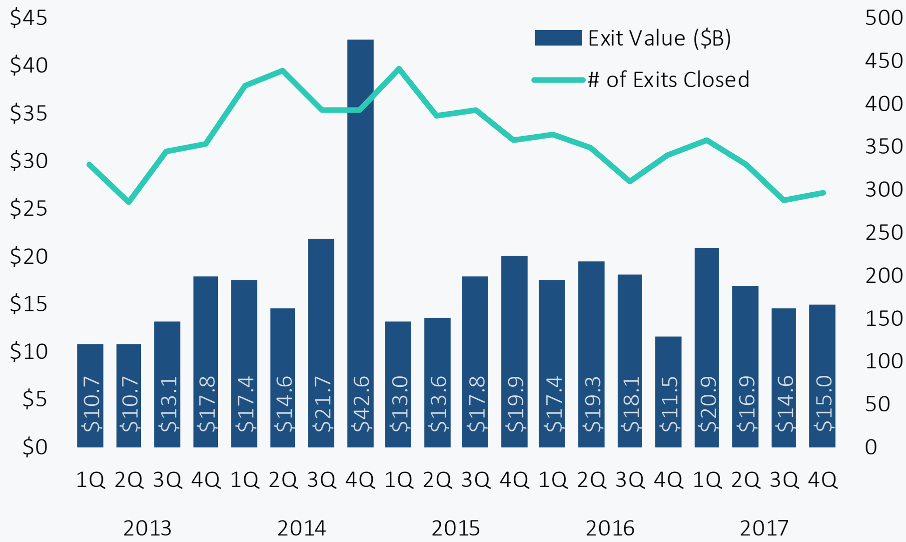
At the top end of the market, 2017 was a rebound year for exits of highly valued companies. The number of exits that eclipsed $1 billion was in line with the last four years, but an open IPO window for large companies brought the number of unicorn-valued companies exiting to a decade-high of 24. This even surpasses the tally in 2014, which held the decade-record for unicorn exits, as well as aggregate exit count and value. After 2017 began with skepticism surrounding the IPO market and unicorn exits, this serves as a victory for the VC community. Perhaps more important is that this trend is a positive signal for the capacity of the exit environment to accommodate outsized exits.

The ability for the broader exit market to continue accommodating outsized exits becomes more important as the inventory of VC-backed aging unicorns swells—18 current unicorns achieved their $1 billion+ valuation at least four years ago. This phenomenon has also allowed the large, mature VC-backed businesses to delay exits far past the normal VC timeline. Alternative exit options like direct secondary sales should continue to gain popularity in the coming year to combat this “private-for-longer” strategy, allowing early investors and employees to achieve liquidity by selling into new funding rounds or structured secondary sales. The recent $9 billion SoftBank investment into Uber is an extremely large-scale example of this type of transaction, providing liquidity to some of the earliest backers, as well as Uber’s founder Travis Kalanick.

Quarterly exit value has occurred at a relatively steady pace since 2013

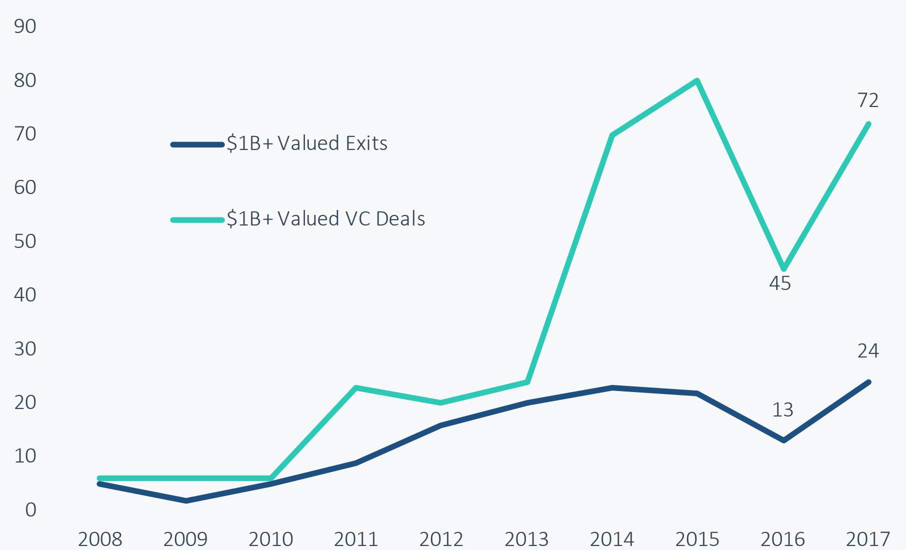
North American & European VC-backed exit activity



Source: PitchBook

The number of $1B+ valued deals has far outpaced the number of $1B+ valued exits

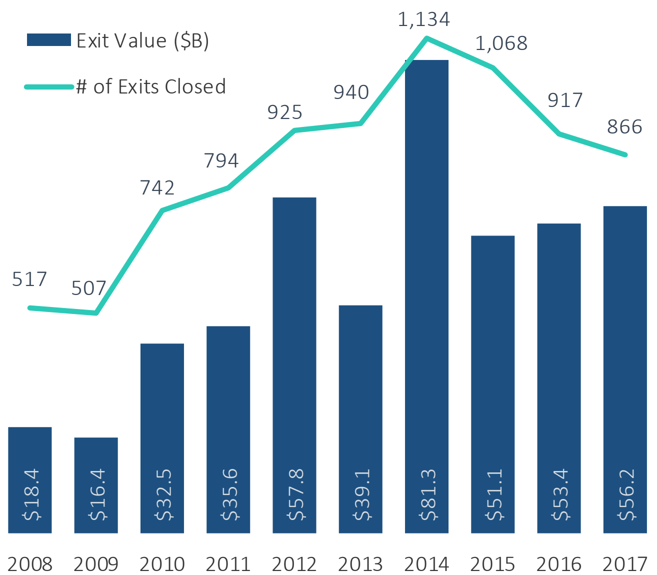
North American & European $1B+ deal and exit activity (#)



Source: PitchBook

Exit count has fallen 24% over the past three years in North America

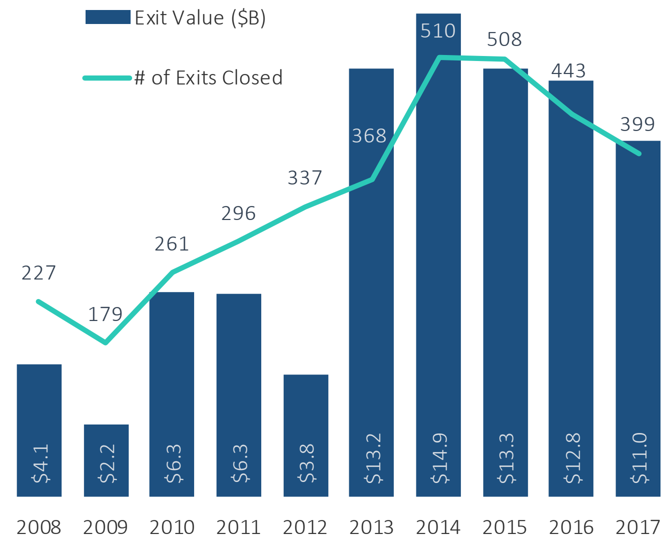
North American VC-backed exit activity



Source: PitchBook

European Exit activity has seen both exit count and exit value decline

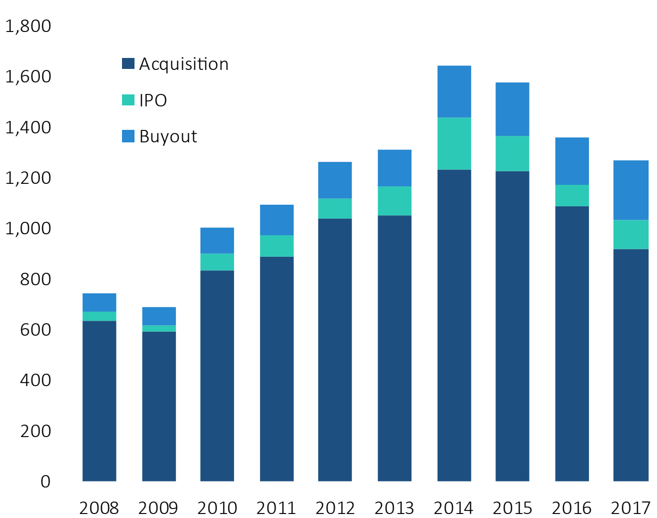
European VC-backed exit activity



Source: PitchBook

Buyouts have continued to show strength as an exit opportunity

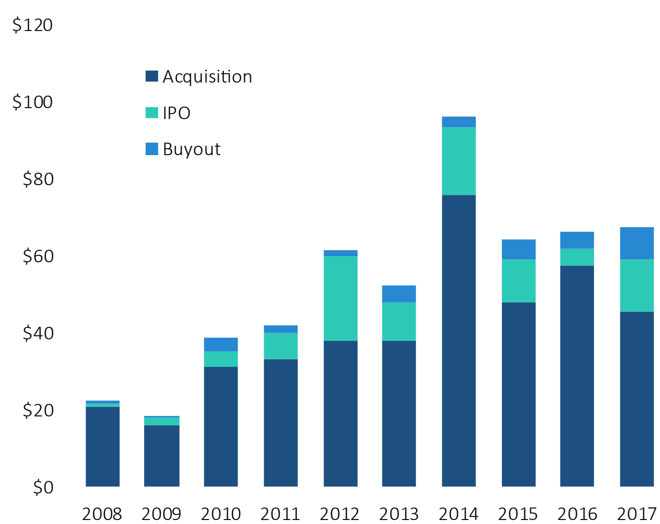
North American & European VC-backed exit activity (#) by type



Source: PitchBook

Acquisitions haven't declined in value to the same extent as in count

North American & European VC-backed exit activity ($B) by type



Source: PitchBook

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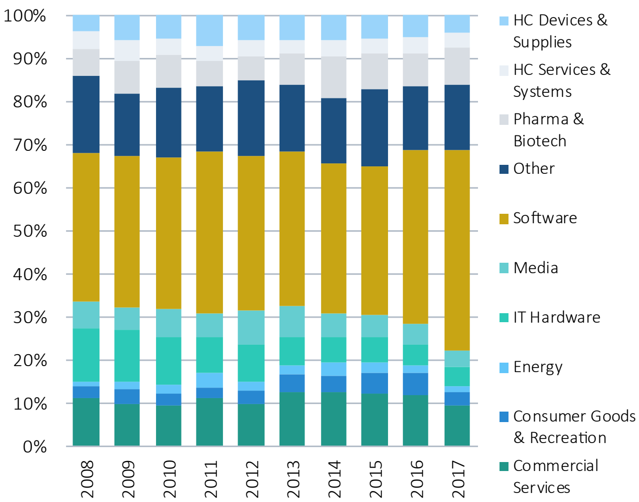
Size & Sector

Software has continued to dominate VC-backed exits

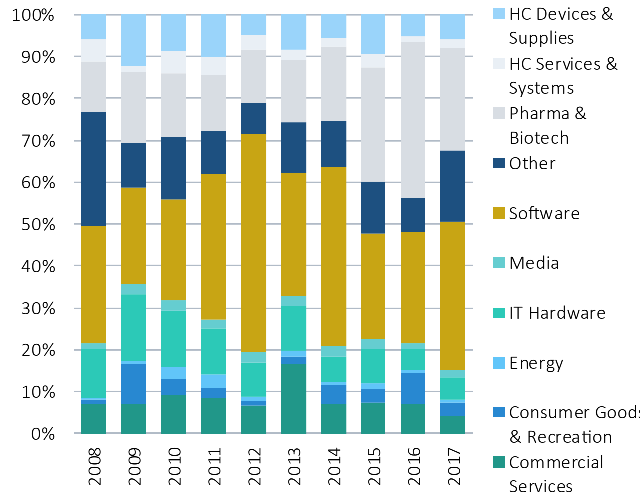
North American & European VC-backed exit activity (#) by sector



Source: PitchBook

Software overtakes pharma & biotech for majority of deal value in 2017

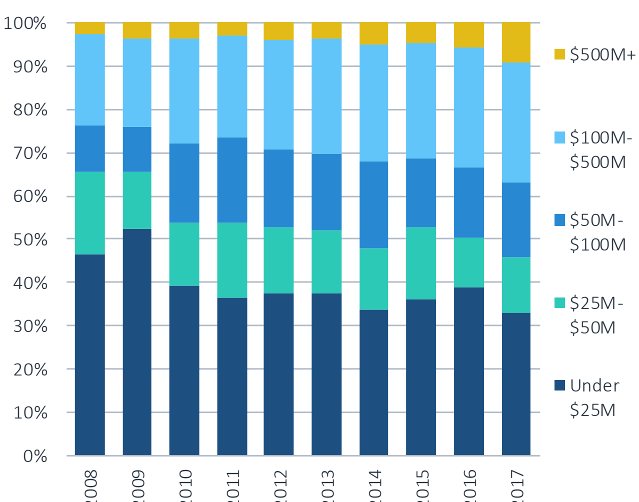
North American & European VC-backed exit activity ($) by sector



Source: PitchBook

Growing number of larger exits completed in 2017

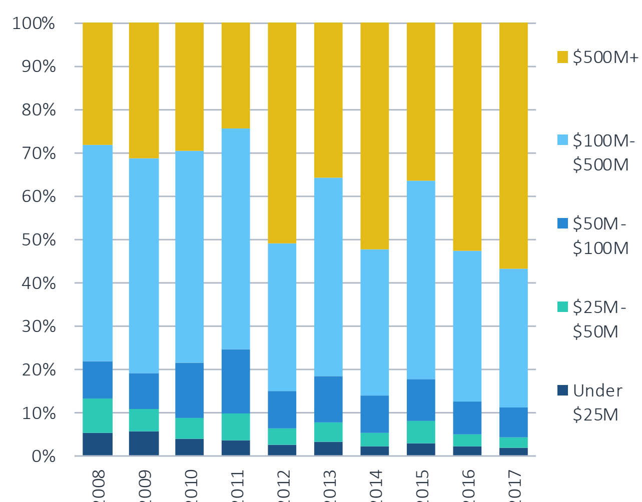
North American & European VC-backed exit activity (#) by size



Source: PitchBook

Exits greater than $500M continue to make up more than 50% of exit value

North American & European VC-backed exit activity ($) by size



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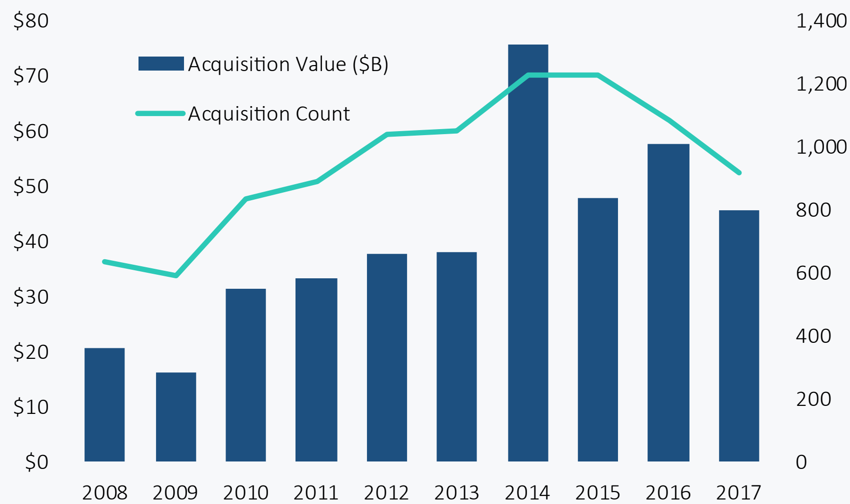
Acquisitions

Acquisitions declined for the third consecutive year in 2017, as exit count slid 15.4% and value decreased 21% from 2016, resting at $45.7 billion. With 3,538 acquisitions of VC-backed companies completed between 2014 and 2016, 2017's decline in acquisition count may be a product of corporations focusing on integrating new companies into their operations and fostering their growth. Additionally, it has become costlier than ever to complete acquisitions, as valuations of venture-backed companies reach new heights. Some acquirers could be waiting for more favorable prices before ramping up activity.

Despite a minor decrease in deal count, tech acquisitions continue to constitute a dominant portion of activity, with 51.8% of 2017 acquisitions made in the software sector. Tech acquisitions are an efficient alternative to internal R&D, as "old economy" corporations look to keep up with changing markets by incorporating tech innovations into their businesses. John Deere's acquisition of Blue River Technology serves as an example of this dynamic. Blue River's autonomous agricultural robots utilize artificial intelligence to differentiate weeds from other plants and efficiently distribute pesticides only where necessary, cutting costs and minimizing chemical presence in soil.

Acquisitions have declined by 25% over the past few years

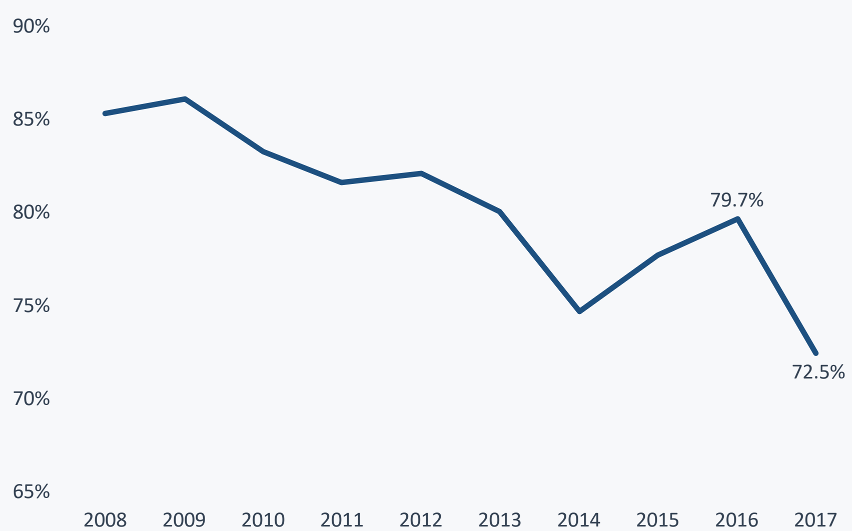
North American & European VC-backed acquisition activity



Source: PitchBook

While still the most common exit route, acquisitions have fallen as a proportion of total VC exits

Acquisition percentage of total North American & European VC-backed exits



Source: PitchBook

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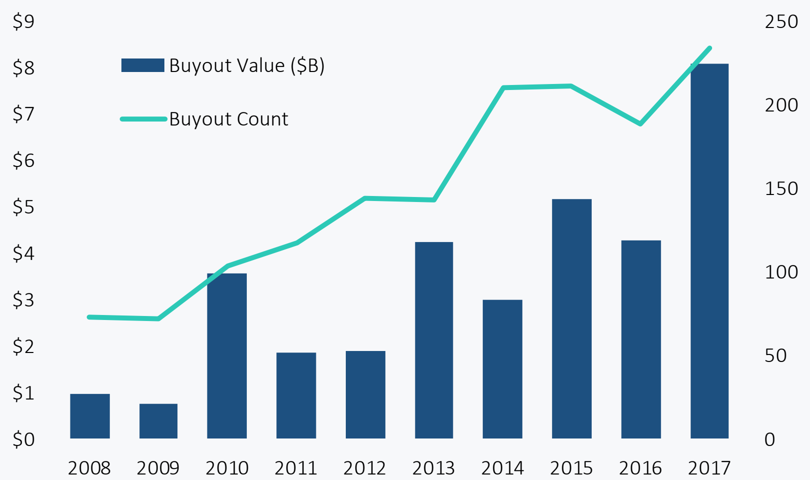
Buyouts

PE sponsors have become a prominent third source of liquidity for VCs, as buyouts shot up to 18.5% of all completed exits in 2017 and nearly doubled in value to $8.1 billion. This dynamic may be attributed to a few factors. As venture-backed companies have chosen to stay private longer and mature their businesses, PE investors have a relatively new pipeline of appropriately mature and scalable venture-backed companies. Additionally, sponsors have embraced the predictable annual recurring revenue models of SaaS companies that fit nicely into the traditional LBO model. Buyouts may also be favorable to founders, as they can circumvent the arduous alternative of operating as a public company in favor of staying private.

Providence Equity Partners has been particularly active in software buyouts, with 48 deals completed since 2015. Its $200 million buyout of digital advertising startup DoubleVerify illustrates the synergies between buyer and seller, as Providence Equity's insights in growing into the increasingly data-based media and advertising industry aim to contribute to the company's customer adoption. At the same time, DoubleVerify's ad-verifying and fraud-protection technology positions the company to tap into a significant market opportunity, as digital ad integrity has become highly relevant in the last year.

Buyouts becoming a more popular route to exit for VC-backed companies

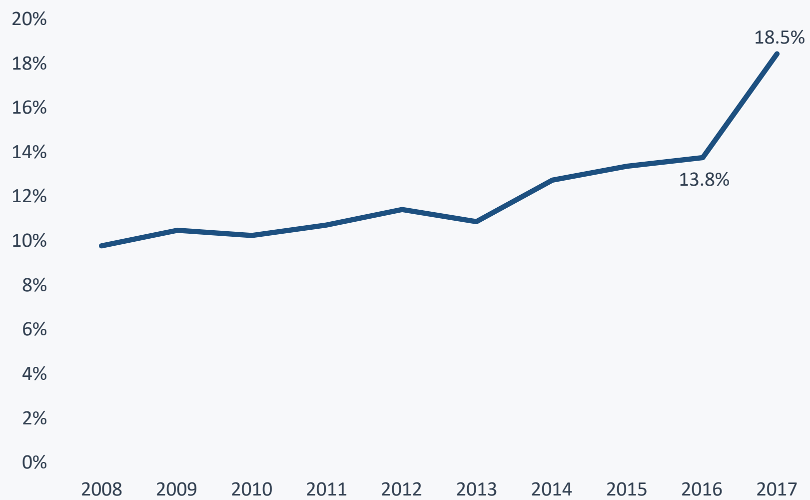
North American & European buyout activity



Source: PitchBook

As companies continue growth longer in the private market, buyouts likely to increase

Buyout percentage of total North American & European VC-backed exits



Source: PitchBook

IPOs

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Amid a strong public market environment, 2017 enjoyed a healthy uptick in IPOs. With over $13.5 billion raised across 114 offerings, IPOs of venture-backed companies increased 30% in count and 203% in value from the previous year. Demand for large tech offerings materialized in 2017, paving the way for six outsized tech IPOs raising more than $500 million each. While these exits made up just 5% of IPO count, they constituted over 48% of total IPO deal value. The growth we've seen in venture valuations have no doubt contributed to larger exits.

Median time to IPO from most recent financing round increased to 1.4 years in 2017, and median years from founding to exit remained at a high point of 9.5 years. At the same time, median pre-IPO valuation reached $167.6 million, a 39% increase from 2016. As these highly valued and well-developed late-stage startups take their companies public, there has been a growing share of outsized liquidity events. Although these large exits provide early investors with strong returns, backers closer to the exit may not receive substantial gains, as growth and value appreciation slow for larger, more mature companies. Snap (NYSE: SNAP), for instance, saw a massive appreciation in its valuation from its Series A round to Series F round after four years of rapid growth. However, its IPO valuation depreciated from the valuation received during its Series F round amid reports of decelerated user growth and similar product offerings from competitors.

Looking forward, 2018's IPO prospects appear strong, but volatility may serve to deter startups. The pipeline of mature late-stage companies has continuously grown, and 2017 saw 53 startups gain unicorn status. Additionally, two highly valued tech companies (Xiaomi, Dropbox) have reportedly begun the filing process, and buzz about other speculated IPOs abounds. However, the return of volatility in the public market represents a potential headwind that could dissuade startups from going public.

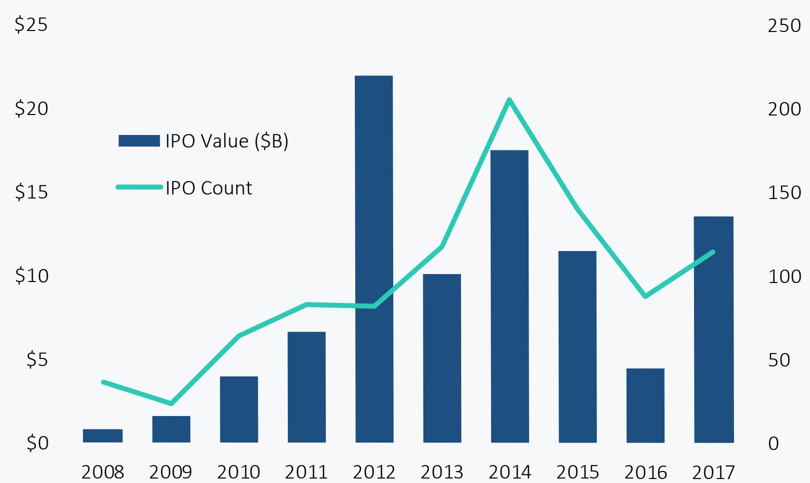
Over $13.5 billion raised across 114 IPOs during 2017, a 203% YoY increase in value and 30% YoY increase in count

$13.5B

capital raised by VC-backed IPOs during 2017

After a down year in 2016, IPOs rebounded somewhat in 2017

North American & European VC-backed IPO activity



Source: PitchBook

Alternative exit opportunities

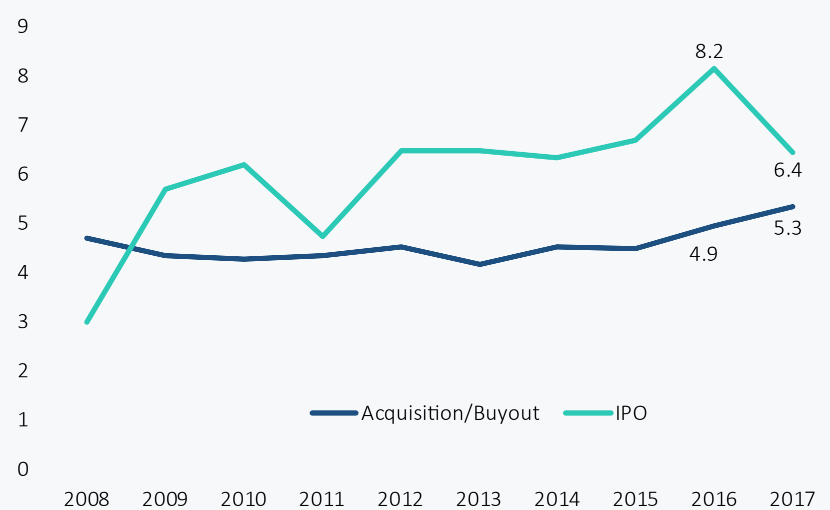
2017 brought a host of alternative VC exit options to the forefront, with IPO fees centered in the crosshairs. Social Capital and Hedosophia partnered to form and IPO a special purpose acquisition company (SPAC) specifically to execute a reverse merger of a technology company valued over $1 billion. While the SPAC structure is not new, the focus on a technology unicorn is unique, and we have already seen another technology-focused SPAC list in 2018. The Social Capital Hedosophia team claims that since investors in the SPAC's IPO are betting on the SPAC management team, these investors would have a much longer-term focus as opposed to traditional public market investors. However, this is somewhat contradicted by SPAC investors' rights to redeem their shares once the acquisition has been announced.

Another highly anticipated alternative exit is Spotify's pursuit of a direct listing. This unconventional transaction will not raise any new capital and will be completed without formal underwriting support from investment banks. We believe this approach has more potential disruptive power on the traditional IPO process than the SPAC approach, as Spotify is only contracting a group of three advisors and paying them a flat fee. Spotify's size and seemingly increased bargaining power in relation to investment banking services will make its direct listing of interest to the other large late-stage companies that have postponed IPOs over the last couple of years. Many questions remain about a direct listing of this size, notably around the early pricing and volatility. With no formal underwriting support or lockup periods, supply and demand at the initial listing have the potential to be significantly mismatched and cause some early fluctuations. However, the presence of the three banks advising the process and Spotify's mature internal finance function should leave the company well-equipped for most potential scenarios.

While innovating around the IPO process is admirable, we view operation as a public company as a larger pain point to venture-backed companies than the process itself. We believe VC-backed companies are more concerned with avoiding quarterly reporting requirements and the short-termism and scrutiny of public investors than the upfront cost of an IPO. Though the arduous and costly IPO process may have slowed some activity, it is not insurmountable, as 2017 still represented a robust year of VC-backed IPO activity across North America and Europe, especially for large companies.

SPACs have received relatively little hype, but could play important role in unicorn exits moving forward

Median time (years) from first financings to exit by type



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