


# U.S. Startup Outlook 2017

KEY INSIGHTS FROM THE SILICON VALLEY BANK  
STARTUP OUTLOOK SURVEY



 @SVB\_Financial #StartupOutlook



**Silicon Valley Bank**

Make next happen now.

## 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 United States, United Kingdom and China, participated in the survey, which was conducted shortly after the November 2016 United States presidential election. Given this timing, we did recognize some uncertainty in the responses from what is historically an optimistic group. As the United States transitions to a new administration and the United Kingdom 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 United States, 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 in Startup Outlook 2017. We hope the findings can be useful as you chart your own path or follow this sector. Looking globally, the opportunities for innovation are abundant.



**Greg Becker**

*President and CEO, Silicon Valley Bank*

# 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)

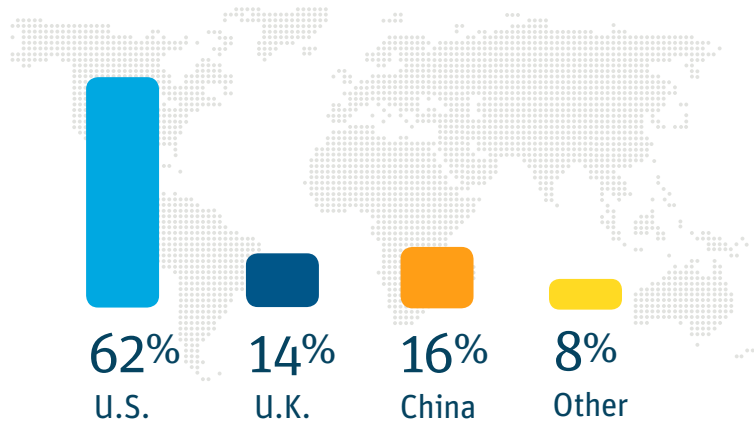
16%  
Other

Profitable

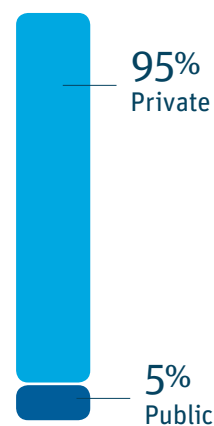


56% Yes  
44% No

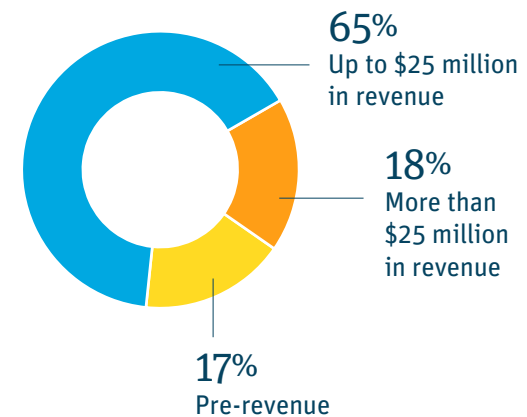
Primary place of business



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.

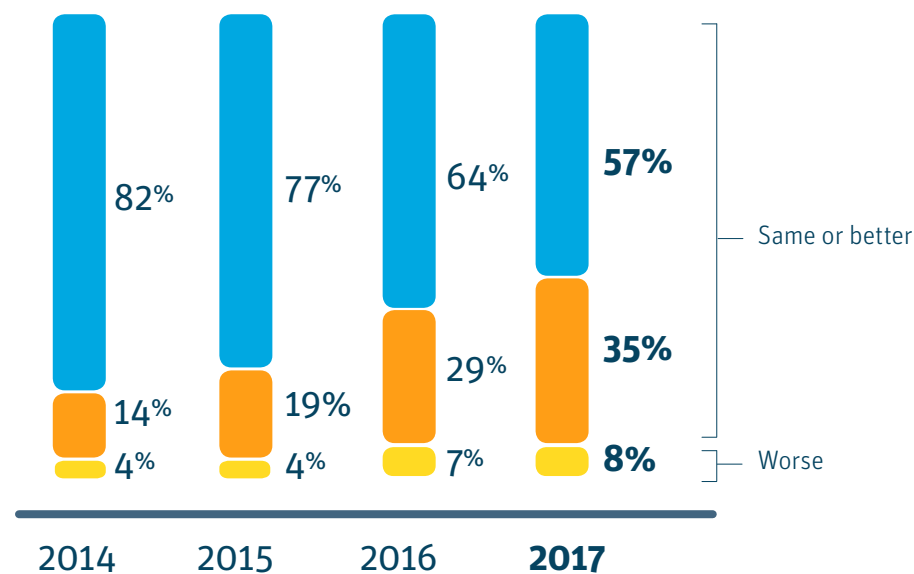
Following a year of healthy recalibration, U.S. startups are guardedly optimistic about 2017. The transition to a new administration in Washington, D.C., combined with investors gaining more power over entrepreneurs, brings some uncertainty. Still, the M&A environment is strong, and not only are most startups hiring, there are signs that finding the right talent may be getting easier. Innovation continues to be a key driver of the U.S. economy in 2017.

## 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. Few think conditions will get worse, but the percentage of those who say business conditions will be “much better” in 2017 (21%) has dropped by nearly half since 2014 (39%). 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

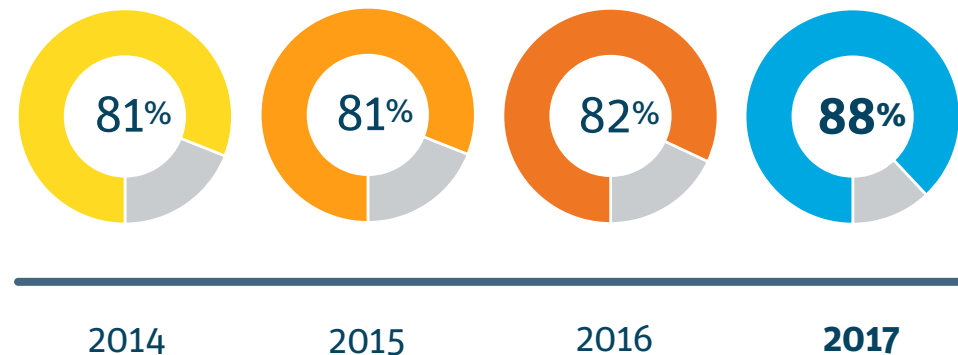


## Raising capital gets more challenging

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

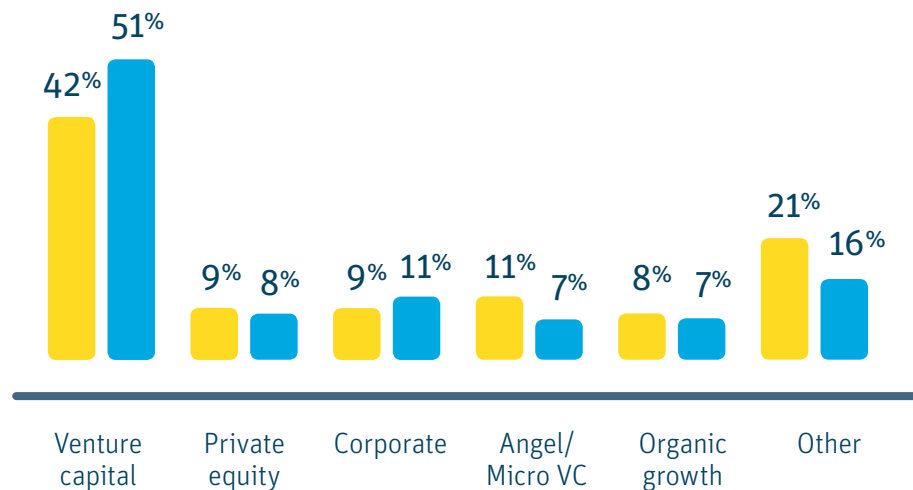


## Startups increase reliance on venture capital

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

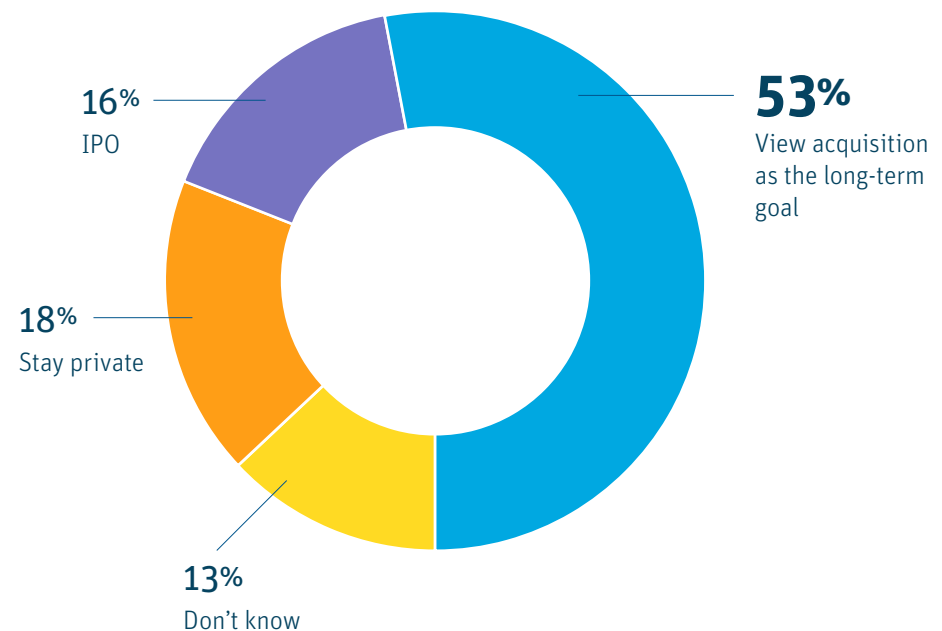


**Other includes:** individuals, bank debt, IPO, grant, crowdfunding, merger.

## Startups say M&A is their most likely exit strategy

For the second year running, acquisition continues to be the dominant realistic, long-term exit strategy of U.S. startups. Despite public interest and excitement around startup IPOs, many more startups are acquired than go public.

What is the realistic long-term goal for your company?

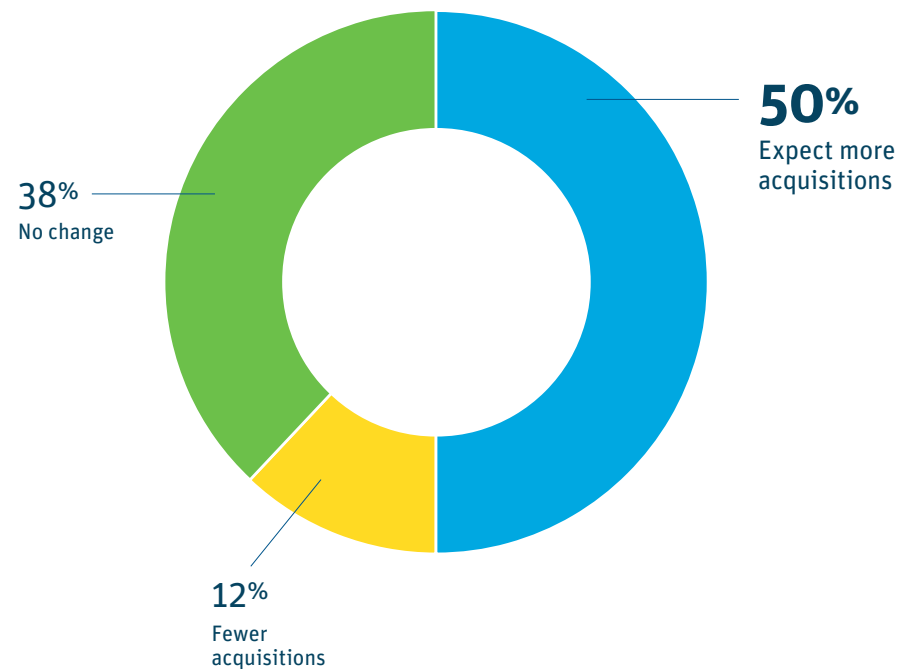




## M&A is expected to be even stronger in 2017

Nearly nine of 10 startups predict as many or more mergers and acquisitions in 2017. Fully half say they expect more acquisitions, which is an increase from 43% a year ago. One of the more interesting M&A trends is the increased appetite of acquirers outside the technology sector, creating additional opportunities for startups.

How do you think the M&A market will change in 2017?

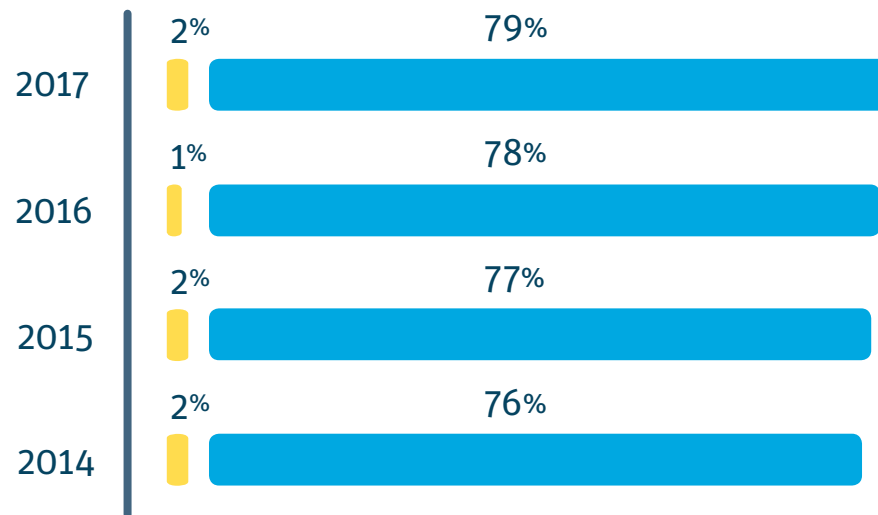


## Hiring, and layoffs, are consistent over time

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

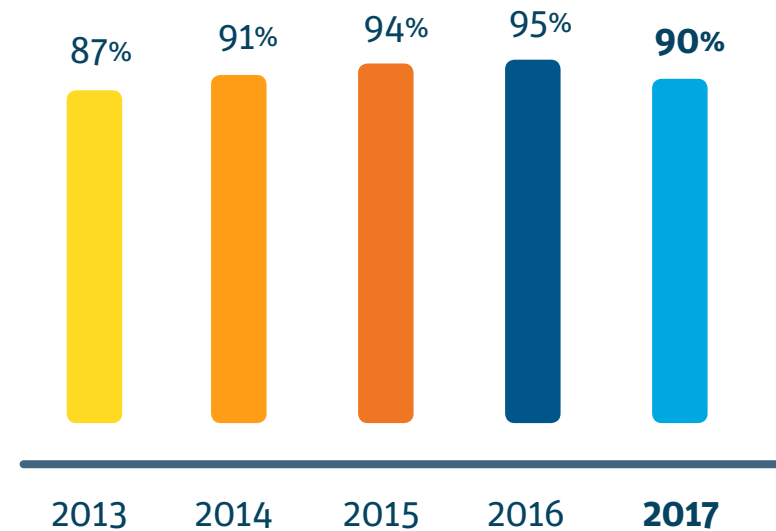


## Talent crunch showing signs of easing

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?

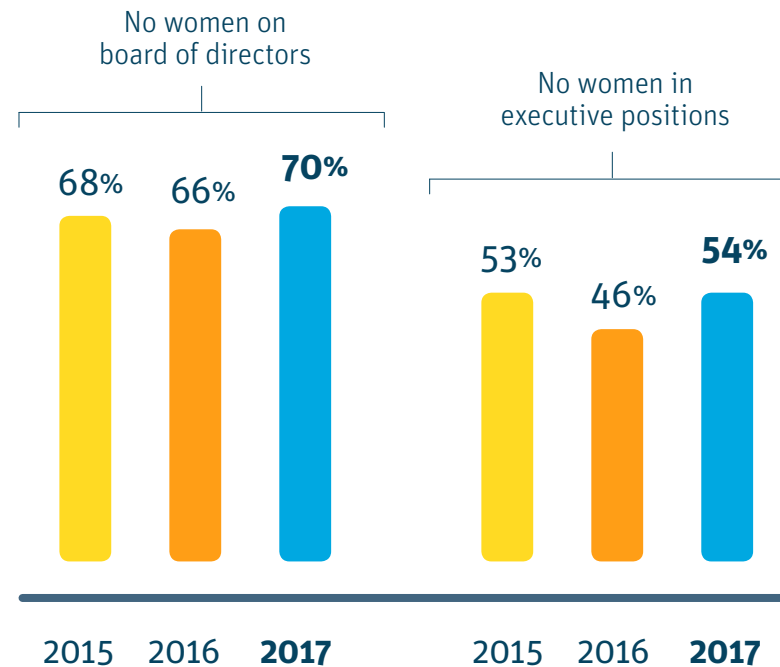
Respondents who say finding talent is challenging or extremely challenging



## 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.

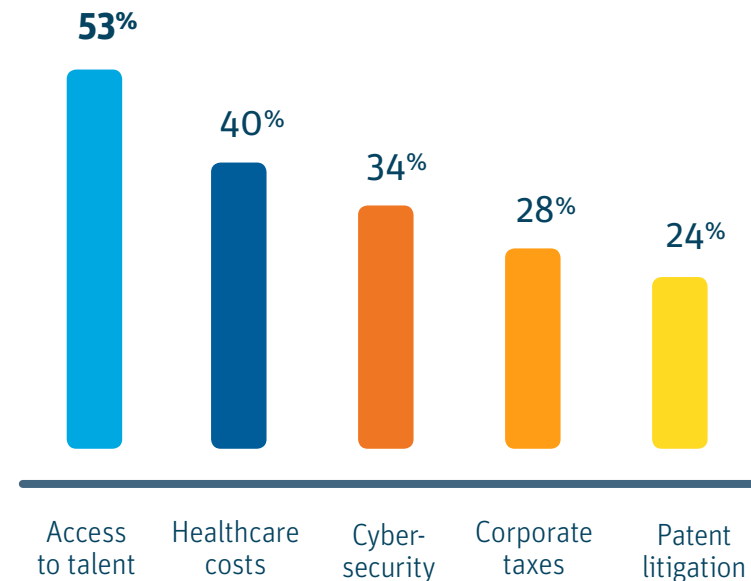
Percentage of startups with no women in leadership positions:



## Healthcare costs climb in importance for startups

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. For more perspective on these issues, and to learn entrepreneurs' ideas for the new administration, see [Startups to President Trump: Ideas to Grow the U.S. Innovation Economy](#).

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

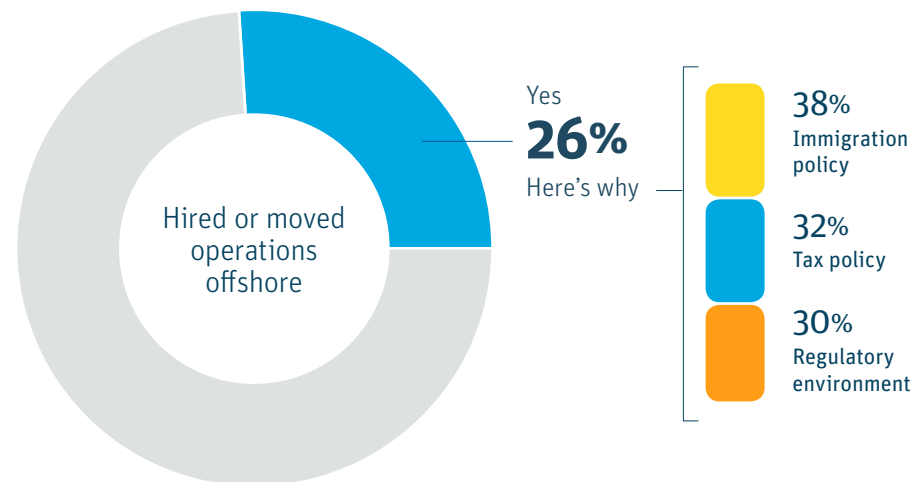


**Note:** Respondents were given the opportunity to select multiple responses.

## 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.?





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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](https://svb.com/startup-outlook-report)

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