



# Venture Pulse

## Q3 2016

**Global Analysis of  
Venture Funding**

**October 13, 2016**

# Welcome message

Investor caution continued to dominate the venture capital market globally in Q3'16, extending a trend that began in Q4'15, keeping investor funds on the shelf or focused on deals with a significant degree of scrutiny or investor protections.

Unicorns – companies with a \$1 billion+ valuation – so prominent in Q3'15, have lost their luster, with investors less interested in making sure they do not miss the boat on specific VC trends. Rather than reach for unicorn status as soon as possible, companies are instead getting more realistic valuations.

This trend toward more realistic valuations is positive. With Q4'16 set to bring closure to a number of issues driving market uncertainty, at least in the United States, the environment may be looking up for VC investment.

There has also been a renewed interest in IPO exits globally in the wake of Twilio's successful IPO in Q2'16. During the third quarter, a number of technology companies also initiated IPOs, including Apptio and Trade Desk. In Europe, a region that typically lags far behind North America in terms of IPO exits, Takeaway.com and Nets A/S both held successful IPOs. If others in the IPO pipeline globally are also successful in Q4'16, the number of IPO exits will be well positioned to rebound heading into 2017.

In our Q3'16 Venture Pulse Report, a collaboration between KPMG Enterprise and CB Insights – we explore these trends and other issues that matter to VC investors around the world and reflect on a number of questions that will affect the VC market heading into final quarter of 2016, including:

- Is the VC market ready to make a rebound?
- Why are Chinese investors focusing more globally than locally?
- In the wake of Brexit, what European jurisdictions are trying to attract startups?
- How has cybersecurity evolved – and what does that mean for VC investors?

We hope you find this edition of our Venture Pulse Report insightful. If you would like to discuss any of the results in more detail, contact a KPMG adviser in your area.

## Dennis Fortnum

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37	North America	\$14.4B in funding   1127 deals
63	Europe	\$2.3B in funding   468 deals
80	Asia	\$7.2B in funding   323 deals

All monetary references contained in this report are in USD



*In Q3 2016 VC-backed companies raised*

**\$24.1B**

*across*

**1983 deals**

# SUMMARY OF FINDINGS

## Q3'16 FUNDING TOTAL FALLS 14% FROM PREVIOUS QUARTER

**Global funding drops:** Quarterly funding to VC-backed companies had hovered in a \$27B to \$28B band since crashing in Q4'15 but saw a further decline to \$24.1B in Q3'16. That's the lowest quarterly funding total since Q3'14.

**Deals steady:** After sharply dropping in Q4'15, global deal activity appears to have stabilized around the new normal. Q3'16 deals totaled 1983 globally, up just slightly from last quarter's figure. Deal count actually fell in both Asia and North America, though it rose in Europe.

**Unicorn birth rate remains low:** 2016 has yet to see a quarter with double-digit entrants to the unicorn club. Asia saw a slight bounce-back with four new unicorns this quarter. North America also saw the creation of four unicorns, while Europe saw none for the second-straight quarter.

**Corporate deal share continues to accelerate:** Corporates and CVCs participated in over 28% of global deals, reaching a 5-quarter high as corporations actively invest in VC-backed companies.

*Note: Report includes all rounds to VC-backed companies*

*Mega-deals to VC-backed companies from hedge funds or mutual funds would be included, for example. This report includes all of those rounds. All data is sourced from CB Insights. Page 99 details the rules and definitions used.*

## US SEES TOTAL DEALS AND FUNDING DOLLARS FALL IN Q3'16

**US funding slumps:** US funding dropped to \$14B, down 18% from Q2'16. Quarterly deals stood at 1067, ticking downwards 2% from the prior quarter.

**Late-stage deal sizes continue fall:** Median late-stage deal size in North America ended the quarter at \$22.4M, down 34% from the heady sizes seen in Q3'15.

**Early-stage deal share hits low:** Seed to Series A deal share in North America fell to 49% of all deals to VC-backed companies, representing a 5-quarter low. Seed share in particular, saw a noticeable decline.

**Early-stage deal size outpaces EU, Asia:** While North American early-stage deal share fell, the median size of these deals remained at \$3M, well above that of Europe and Asia.

**CA declines while MA rises:** Without last quarter's outsize rounds to unicorns like Uber and Snap, California funding was down 38% from the prior quarter. However, mega-rounds drove Massachusetts funding up 96%, with deals rising as well.

# SUMMARY OF FINDINGS

## EUROPE Q3'16 DEAL ACTIVITY RISES, BUT FUNDING DROPS BELOW \$2.5B

**Mixed results in Europe:** Q3'16 marked the second consecutive quarter that saw deal activity rising while funding dollars pulled back as mega-rounds remained few and far between. Total funding came in at \$2.3B across 468 deals.

**Seed-stage deal share remains strong:** After plunging in Q1'16, seed share rebounded to nearly half of all deals in Q2'16. Q3'16 has maintained those levels, with seed deals representing 48% of the quarterly total.

**Early-stage deal size shrinks:** As seed deal share rose, median early-stage deal sizes in Europe dropped for the second-consecutive quarter, falling to \$1.5M for the quarter.

**UK deal, dollar activity see slight uptick:** UK VC-backed startups raised \$834M in funding across 110 deals, both numbers reversing a series of quarterly declines since Q4'15.

**Germany funding topped \$500M:** Total funding to German VC-backed startups rose 3% to \$509M in Q3'16, growing for the second-straight quarter. Deal activity also saw slight gains.

## ASIA SLOWDOWN CONTINUES AS INVESTORS PULL BACK

**Asia funding, deals dip:** Deals slid a further 5% to 323, marking the fourth-straight quarterly decline. Funding dollars totaled \$7.2B, a 3% dip from Q2'16 cushioned by large rounds to on-demand companies like Grab and Go-Jek.

**Seed deal share plunges:** After 3 quarters of growth in the seed share of deals into VC-backed Asian companies, Q3'16 saw a sharp decline to 29% from 40% the quarter before.

**Median late-stage deal size plummets:** Q3'16 saw a steep drop in Asian late-stage deal size, which cratered to \$30M. This median is down 70% from last quarter and 80% from the peak of Q4'15.

**India financing recovers somewhat:** A dearth of mega-rounds pushed India funding below \$600M in Q2'16, but Q3'16 saw the total rise above \$1B once more. However, this is still well below the \$3.4B figure of Q3'15.

**Corporates in nearly half of Asian deals:** Corporate and CVC participation in Asian deals was already high relative to other regions, but hit 45% for the quarter with corporates like Tencent and Intel Capital investing actively.

*In Q3 2016*

# GLOBALLY



*VC-backed companies raised*

**\$24.1 billion**

# Stability returning to the VC market globally

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While VC investment hit an 8-quarter low in Q3'16, there are positive signs that the market is becoming more stable, including renewed interest in IPO exits during the quarter. With the US interest rates expected to rise in Q4 and the outcome of the US presidential election decided shortly, the VC market may have reached a critical turning point. Given the high degree of liquidity and a growing sense of positivity taking hold among companies and investors, the VC market is poised to make a rebound, if not in Q4'16, then headed into the new year.

## ***Concerns around Brexit stabilizing***

While the implications of Brexit will have long-term ramifications on the UK and Europe as a whole, the immediate impacts associated with the vote have evened out. While VC investment in the UK remained relatively lackluster in Q3'16, there was a small uptick compared to Q2'16. This suggests that while investors may be anxious about the long-term impacts associated with Brexit, they are not going to make any sudden changes to their investment strategies. While the value of the pound has declined significantly since the referendum, causing some UK-based companies consternation, international VC investors may see this as an opportunity to make inroads into the UK despite its plans to exit the European Union.

## ***Uncertainties abating in North America***

A number of uncertainties causing concern in North America should abate in Q4'16. The US presidential election is set to be decided within the next month, while the US Federal Reserve provided clear indications that an interest rate increase is likely before the end of the year. Once both of these events are completed, the US economy is likely to stabilize for a period of time, which should bode well for all of North America. Given the fundraising that has occurred over the past 3 quarters, it is likely that North American investors will be well positioned to make investments early in the new year.

## ***Asia-based VC investors looking outward***

In Asia, VC investors have turned their attention to investing in other jurisdictions. The Chinese government is also encouraging this outward focus in order to help shift the country from its current manufacturing economy into a more innovation-driven economy. A number of Chinese corporate and state-owned enterprises are acquiring or investing in niche companies in other jurisdictions so that they can leverage those technologies within their own operations or within the Chinese market.\*

\*Reference: How Silicon Valley may get hit by China's virtual reality economy, CNBC, August 13, 2016

# Stability returning to the VC market globally (cont.)

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## ***Unicorn status becoming less critical***

In 2015, companies fought to achieve unicorn status, when perhaps their real valuations did not warrant it. The impact of failed unicorns and unicorns not being able to achieve their private sector valuations upon IPO led to a dearth of unicorns in the first 3 quarters of 2016.

Rather than fighting to attain unicorn status quickly when they might not be ready for it, companies are instead getting more realistic valuations that reflect their current value. This means that companies that do achieve unicorn status should be in a better position to keep that status and to achieve strong results upon exit. On the investment side, with the clamour to find the next unicorn decreasing, investors are becoming more tactical with their investments.

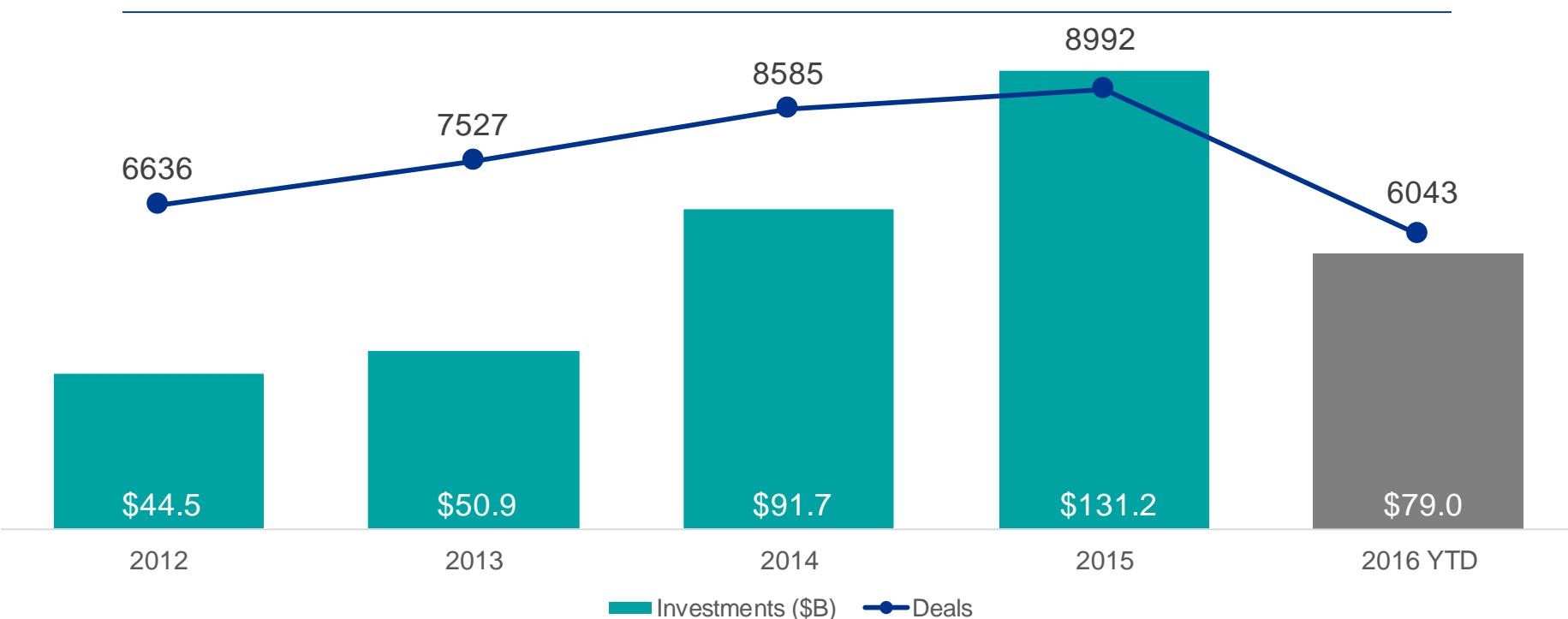
## ***IPO exits poised for renewed growth***

IPO exits have been in short supply during 2016. However, Twilio's successful IPO in Q2'16 fueled a renewed interest in IPO exits globally. During Q3'16, a number of technology firms conducted successful IPOs, including Apptio, and Trade Desk. The success of these companies has given many investors more confidence that the IPO market is opening up again after several dry quarters. Looking ahead, it is highly likely that there will be a groundswell of additional IPOs over the next quarter and into Q1'17 as other organizations look to exit while the IPO door is open.

# \$79B DEPLOYED ACROSS 6043 DEALS TO VC-BACKED COMPANIES THROUGH Q3'16

While 2015 was a record year both in terms of deals and dollars invested in VC-backed companies, 2016 continues to see a noticeable pullback in activity. At the current run-rates, both deal count and total global funding are expected to fall significantly under last year's figures.

## Annual Global Financing Trends to VC-Backed Companies 2012 – 2016 YTD (Q3'16)



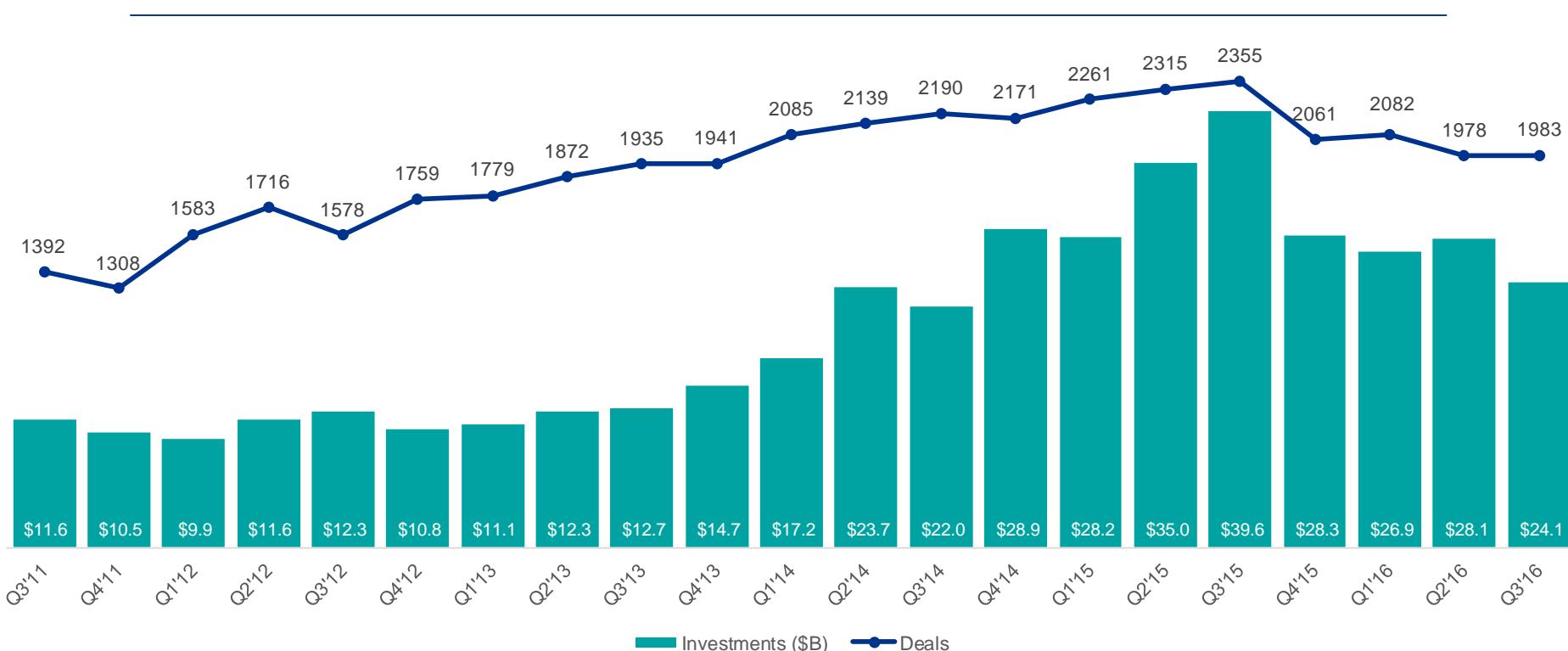
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# TOTAL FUNDING TO VC-BACKED COMPANIES IN Q3'16 DROPS TO LOWEST LEVEL SINCE Q3'14

Overall deal activity remained stable from the quarter prior, but remains well below the levels seen from Q1'14 to Q3'15. Meanwhile, dollars invested in VC-backed companies slipped to \$24.1B, the lowest quarterly funding total since Q3'14.

## Quarterly Global Financing Trends to VC-Backed Companies

Q3'11 – Q3'16

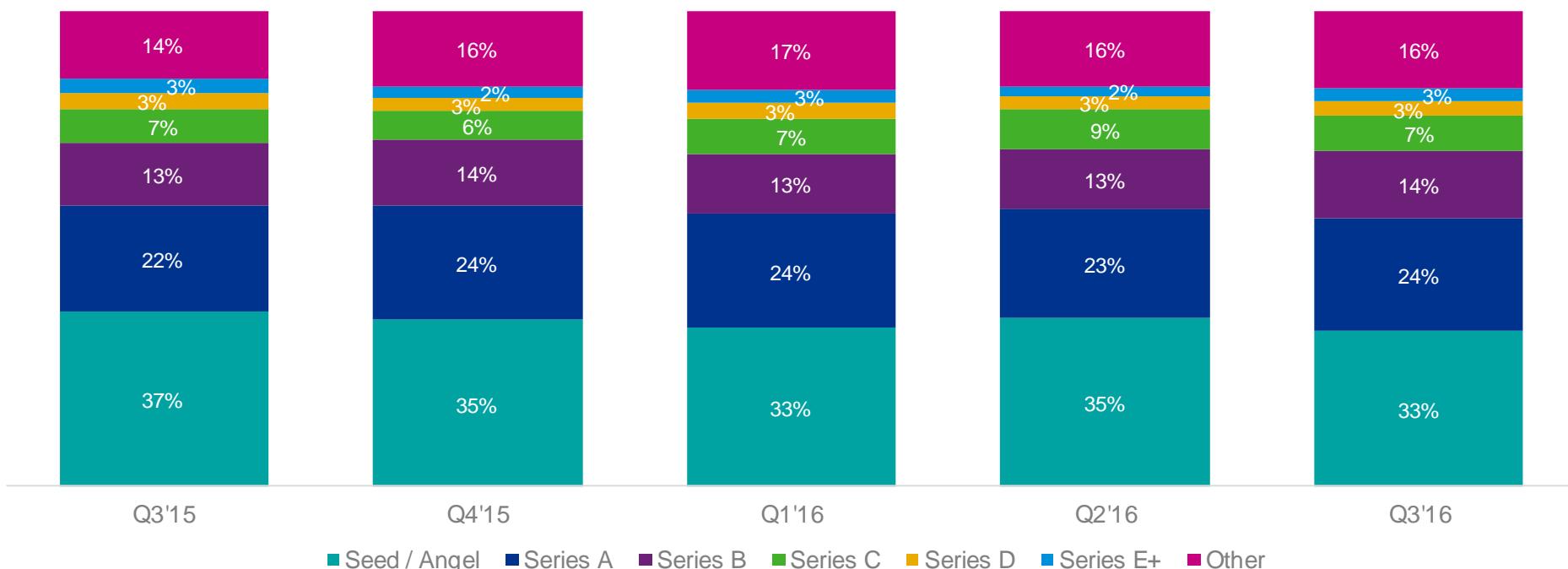


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# SEED-STAGE DEAL SHARE DECLINES AFTER TEMPORARY REBOUND

After a rebound in the quarter prior, seed deal share has fallen off again to 33% of all deals, tying Q1'16 for a 5-quarter low. Other stages remained relatively range-bound.

## Quarterly Global Deal Share by Stage Q3'15 – Q3'16

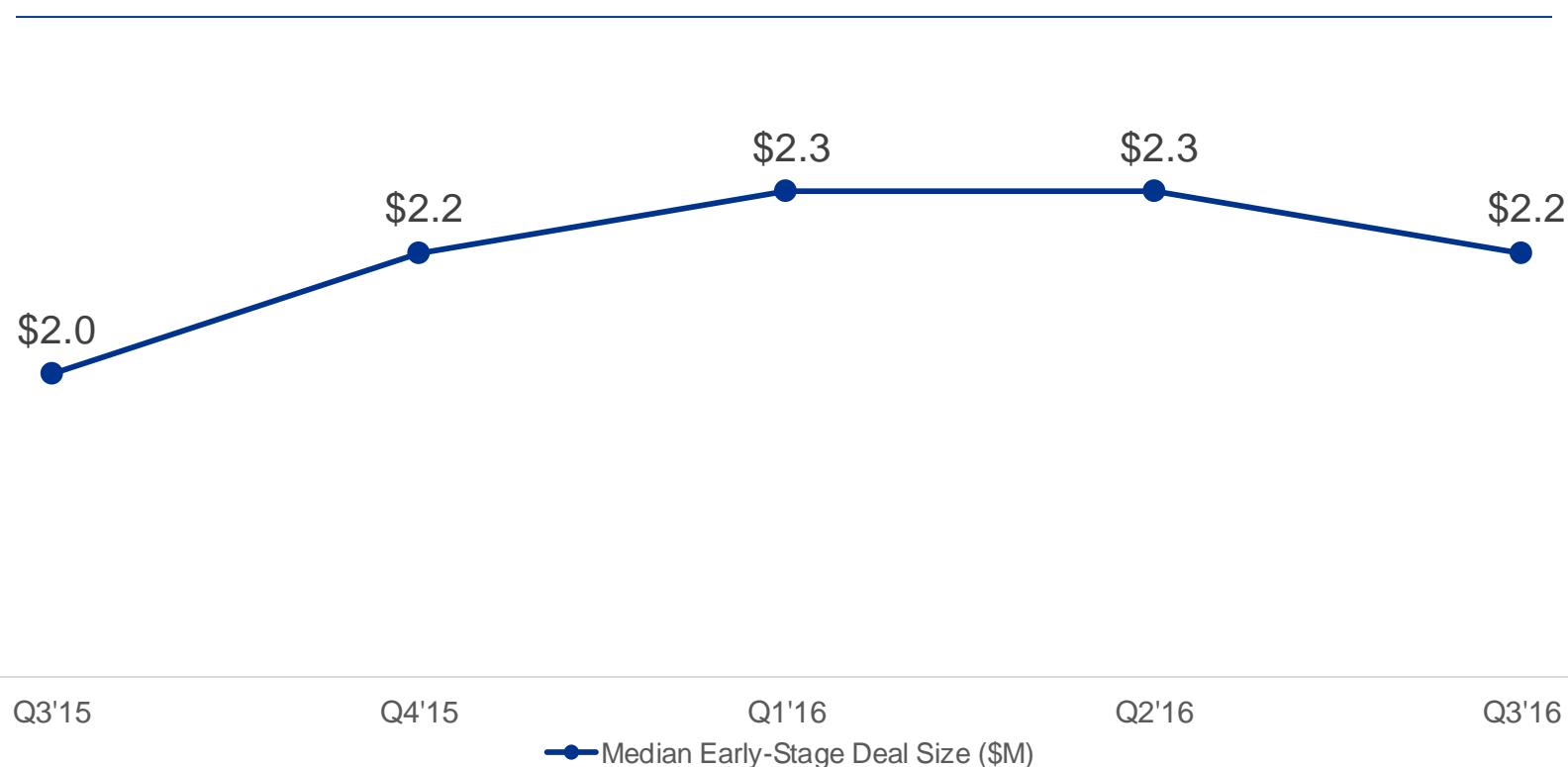


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# MEDIAN EARLY-STAGE DEAL SIZE FALLS SLIGHTLY IN Q3'16

Globally, early-stage (Seed — Series A) deals to VC-backed companies hit a median of \$2.3M in the first 2 quarters of 2016, but have since dipped to \$2.2M in Q3'16.

**Global Early-Stage Deal Size**  
Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# GLOBAL MEDIAN LATE-STAGE DEAL SIZE SLIPS TO 5-QUARTER LOW

After a temporary reversal last quarter, late-stage deal sizes have resumed their downward march from the Q3'15 peak. The Q3'16 median of \$22.1M is now down 37% from the much larger sizes seen a year ago.



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“There is liquidity in the market, but VC investors are very hesitant to put the money to work. Given market conditions, we should continue to see fewer mega-rounds over the next quarter. Investors will likely continue to be cautious, with any late-stage deals linked to external milestones, such as development, market penetration, profitability or gross revenues.”**



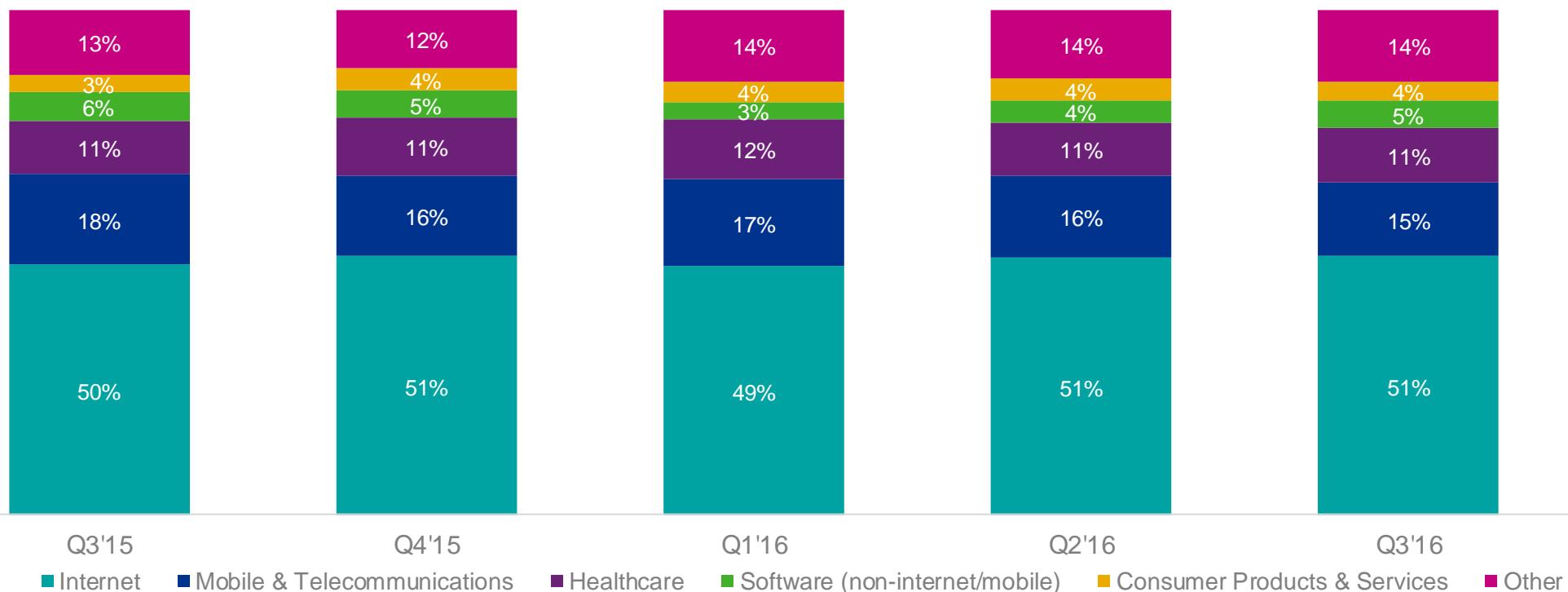
**Arik Speier**

*Co-Leader, KPMG Enterprise Innovative Startups Network and Head of Technology, KPMG in Israel*

# INTERNET AND MOBILE CONTINUE TO ACCOUNT FOR TWO-THIRDS OF ALL VC-BACKED DEALS

Internet and mobile once again took the majority of deals going to VC-backed companies. These two sectors together accounted for 66% of all deals in Q3'16. Non-internet/mobile software deal share crept back up to 5% after bottoming out at 3% to start the year.

**Global Quarterly Deal Share by Sector**  
Q3'15 – Q3'16

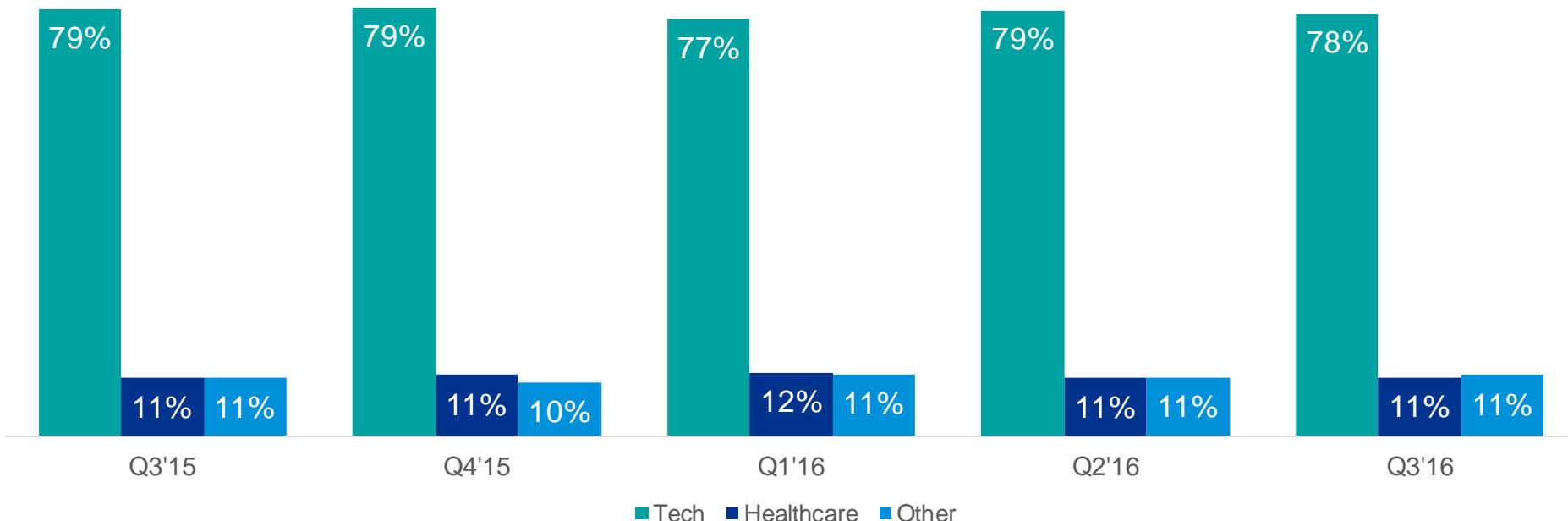


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# VC-BACKED TECH COMPANIES CONTINUE TO ATTRACT LION'S SHARE OF DEALS

Broadly speaking, sector distribution has remained range-bound as tech companies have consistently taken between 77% and 79% of deals to VC-backed firms globally across the past 5 quarters. Healthcare topped out at 12% in Q1'16.

**Quarterly Global Tech vs. Healthcare Deal Share**  
Q3'15 – Q3'16



\*percentages in chart are rounded to nearest whole number

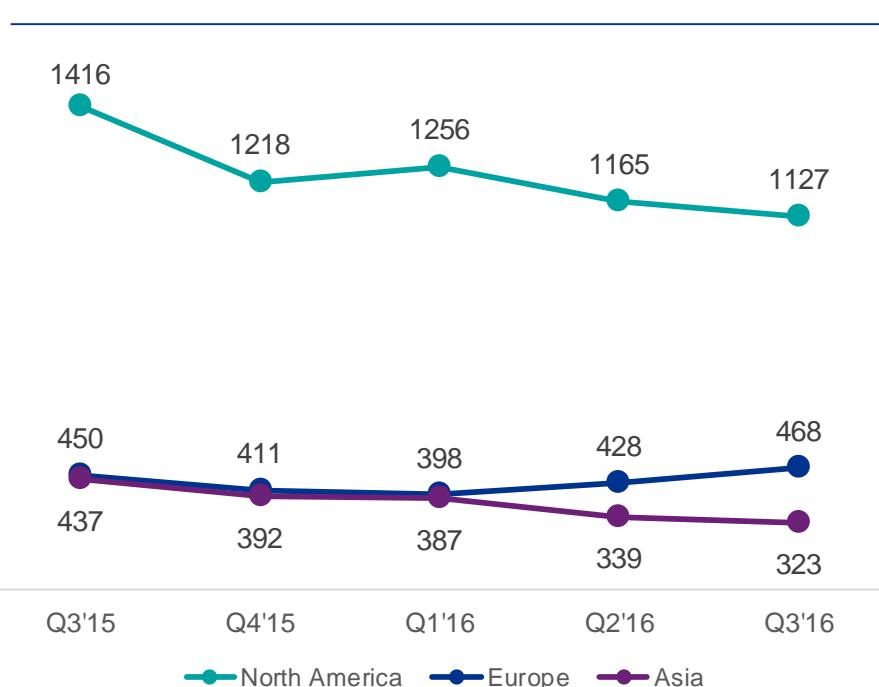
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# VC-BACKED DEAL ACTIVITY IN NORTH AMERICA FALLS AS EUROPE REBOUNDS AND PASSES ASIA

Quarterly funding to VC-backed companies fell across all three major continents, with North America and Europe seeing especially pronounced drops. In deal terms, investment to Europe-based companies has accelerated, while Asia has pulled back. Europe has also now surpassed Asia in deal activity.

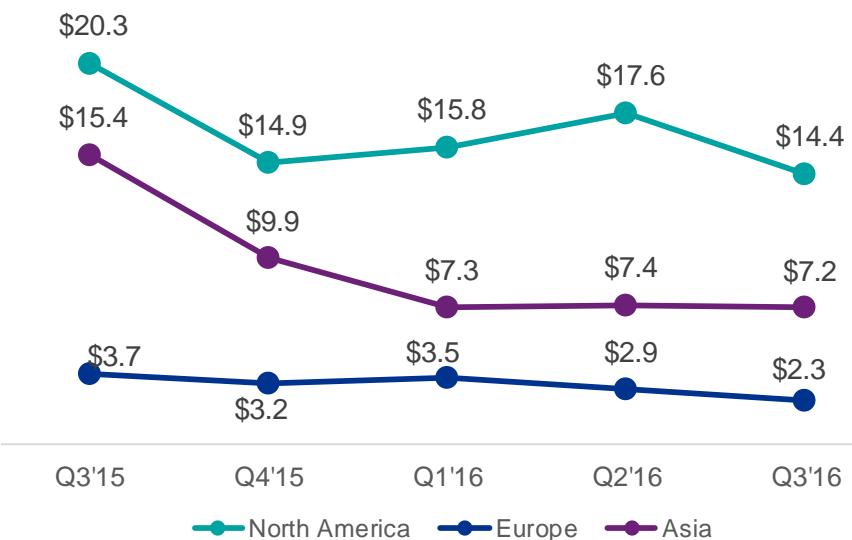
## Deal Count by Continent

Q3'15 – Q3'16



## Investment (\$B) by Continent

Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“ Corporate VC investment continues to rise as traditional companies realize the value that investing in startups can provide. The return for corporates can be significant - if the transformation of their organizations is managed strategically - from more agile innovation and creative solutions to access to stronger data analytics and new sales channels. Corporate VC ROI can go well beyond financial results.”**



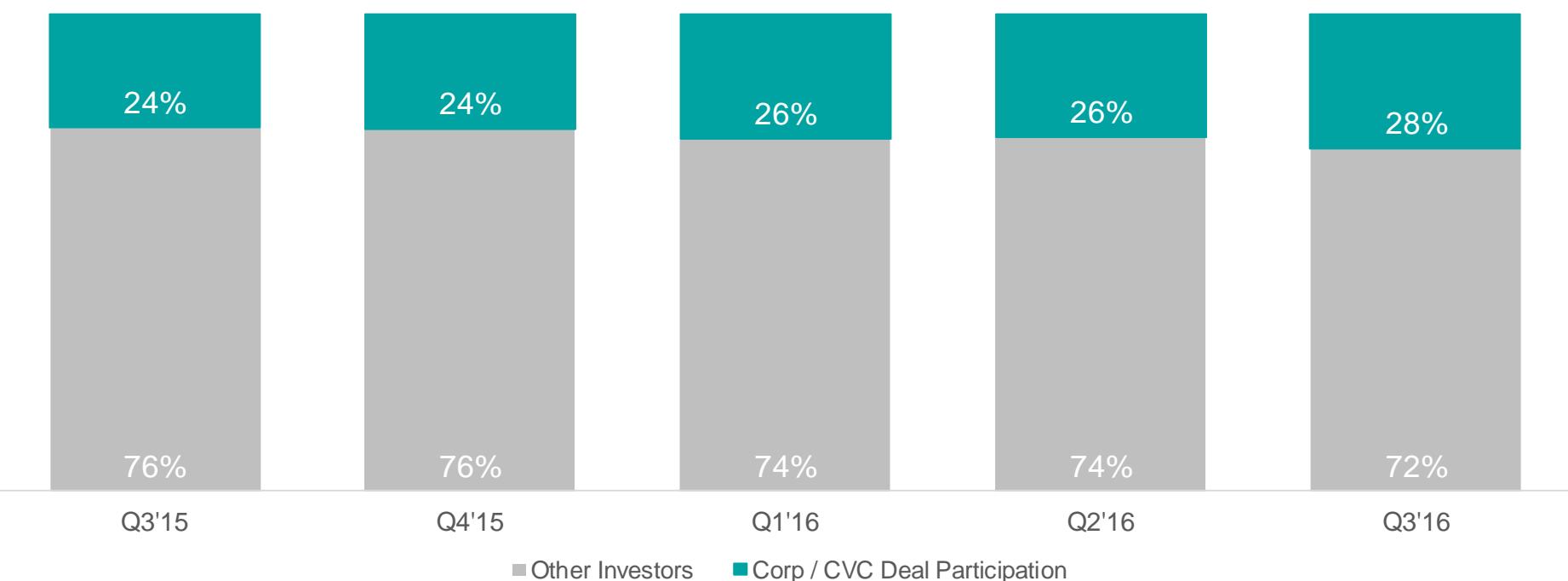
**Jan Reinmueller**  
*Head of  
Digital Village,  
KPMG in Singapore*

# GLOBAL CORPORATE DEAL SHARE CONTINUES TO ACCELERATE

Corporations have steadily ramped up their private markets activity, as more large players are either establishing CVC arms or investing directly in VC-backed companies. Q3'16 was no exception, with corporates and CVCs participating in 28% of all deals, a 5-quarter high.

## CVC Participation in Global Deals to VC-Backed Companies

Q3'15 – Q3'16



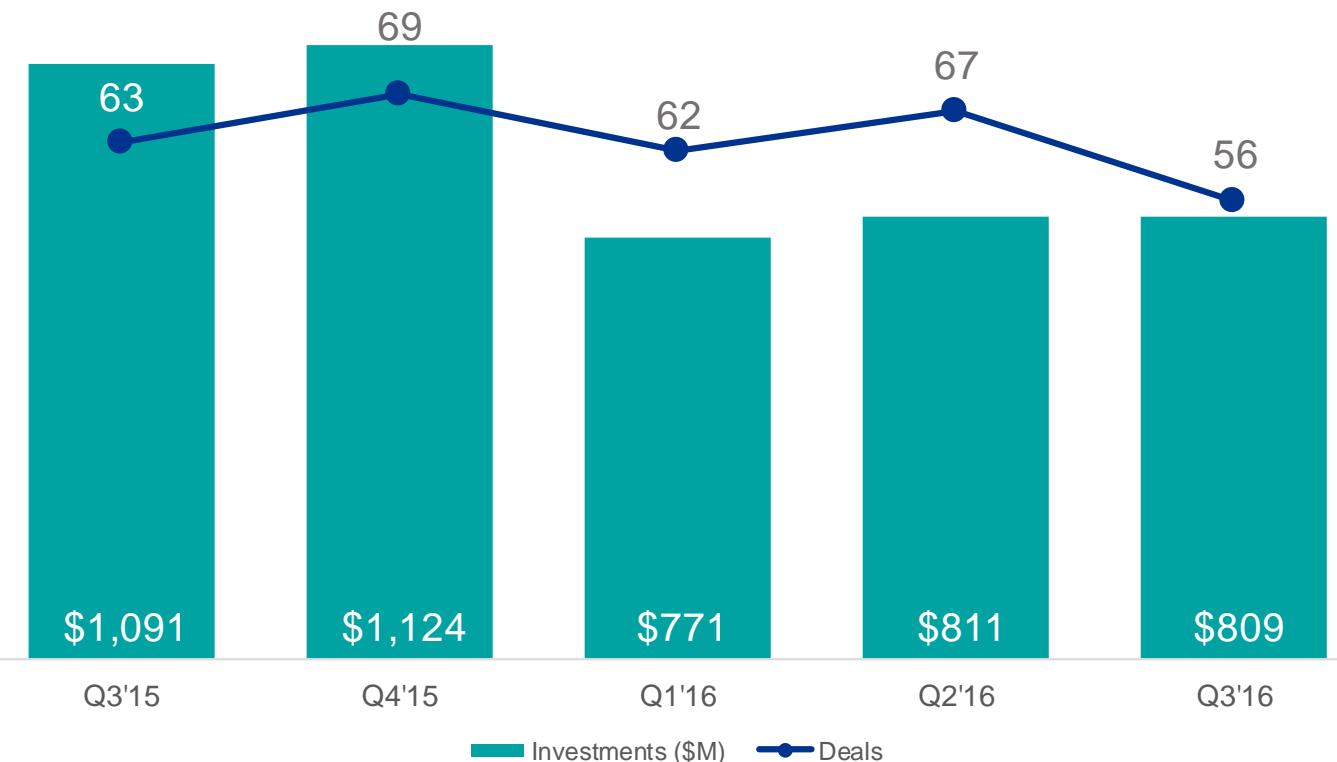
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# CYBERSECURITY VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q3'16

## Cybersecurity Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

**Darktrace**

\$65M // Series C

**Druva**

\$51M // Series E

**Silent Circle**

\$50M // Series C

## Top Countries

**United States**

44 Deals // \$605.1M

**Israel**

7 Deals // \$87M

Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“The proliferation of mobile devices, changing business models, interconnected ecosystems and the increasing value attached to information are driving demand for, and VC investment in, integrated cybersecurity technologies. At the same time, there’s been an increase in targeting by organized crime, nation states and activist cyber-terrorists of critical infrastructure industries and any industry that deals with data that has fungible value on the dark market.”**



**Ronald Plesco**  
*Principal,  
Cyber Security Services,  
KPMG in the US*

# Cross-industry challenges drive VC interest in cybersecurity

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Cybersecurity today is a vast and growing concept. It applies to companies across industries and involves a range of diverse activities, from data collection, movement and storage to threat analysis, intelligence, and reporting.

In an era in which everything from automobiles to alarm systems are wirelessly connected and monitored, companies and VC investors are coming to realize how important protecting sensitive virtual data from numerous sources is becoming. Some are even encouraging attacks to help make systems more secure overall. In the automotive sector, for example, a number of companies are offering 'Bug Bounties' to hackers, who find ways to hack their vehicles so that any weaknesses can be addressed.

## ***Cybersecurity threats increasing across industries***

While traditional financial institutions continue to be a key target for cyber-criminals, they are no longer the only targets. This is because the value of sensitive data on the black or dark markets has increased substantially over the past few years, leading to a broader diversity of targets, methods and attack mechanisms.

As other industries – like retail, healthcare and automotive – integrate more autonomous and networked technologies within their offerings, organized crime, nation states and activist cyber-terrorists are looking for any weaknesses they can exploit to their advantage. As larger companies begin protecting their sensitive data more effectively, attackers are shifting their focus to mid-sized organizations with less mature cybersecurity solutions.

## ***VC funding focusing on strategic investments***

2015 was a peak year for VC investment in cybersecurity, with almost \$3.7 billion invested during the year globally. While there has been a drop-off in VC activity similar to that experienced in other sectors this year, cybersecurity is still raising significant funds. In the first 2 quarters of 2016, over \$1.6 billion in VC funding has flowed to cybersecurity companies.

Funding for cybersecurity technologies has slowed for a number of reasons, including corporate fatigue as a result of struggling with an issue that has been plaguing companies for years, with many unable to see tangible results from their investments. Historically, investors have also been quick to jump at promising companies with interesting new technologies. Now, investors are taking a more strategic view of potential cybersecurity deals, evaluating how technologies work with existing products, policies and processes, while also looking at how offerings can assist in the governance of risk. This integrated view of cybersecurity will likely drive VC investor decision-making over the near term.

# Cross-industry challenges drive VC interest in cybersecurity (cont.)

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## *Israel key cybersecurity hub, but other ecosystems growing*

Israel is seen as a global leader for cybersecurity technologies and startups, particularly those related to financial services like anti-money laundering and the protection of money movement. This unique ecosystem has been driven primarily by entrepreneurs coming out of the Israeli Defence Force. Silicon Valley ranks a close second behind Israel, with many companies looking to build bridges between the two cybersecurity and technology ecosystems.

In addition to these leaders, other cybersecurity hubs are cropping up in other regions, from Russia, Germany and Eastern Europe to Singapore, China and Japan. The unique breadth of cybersecurity concerns provides an opportunity for local cybersecurity hubs to differentiate themselves based on their ability to focus on the needs of specific industries.

## *Corporate interest in cybersecurity high*

There is no silver bullet when it comes to the combination of capabilities, technologies and process required in order to keep sensitive data safe and secure. This is why corporate investors across industries are making investments in companies that can help them better defend themselves, or that have technologies they can apply to accelerate their cybersecurity defences. As more and more sectors find themselves targeted by cybersecurity attacks, the breadth of corporate VC participation in this sector will likely grow.

## *Future focus*

Over the next couple years, cybersecurity-related technologies and investments are expected to continue to evolve with a focus on security analytics to protect sensitive data, Cloud anti-malware, address credential replay attacks and adoption of privileged access platform capabilities. As the attackers evolve their techniques, enterprises should evaluate establishing deceptive networks to distinguish between good vs. bad traffic/events, in near real-time.

**“Organizations should simplify their security and IT architecture by implementing relevant capabilities and not just more tools. Using a Cyber Kill chain model helps think like an attacker, and focus on the basics of protecting sensitive data. It’s critical to align security capabilities with business objectives and regularly measure the effectiveness of the capabilities.”**



**Vijay Jajoo**

*Partner,*

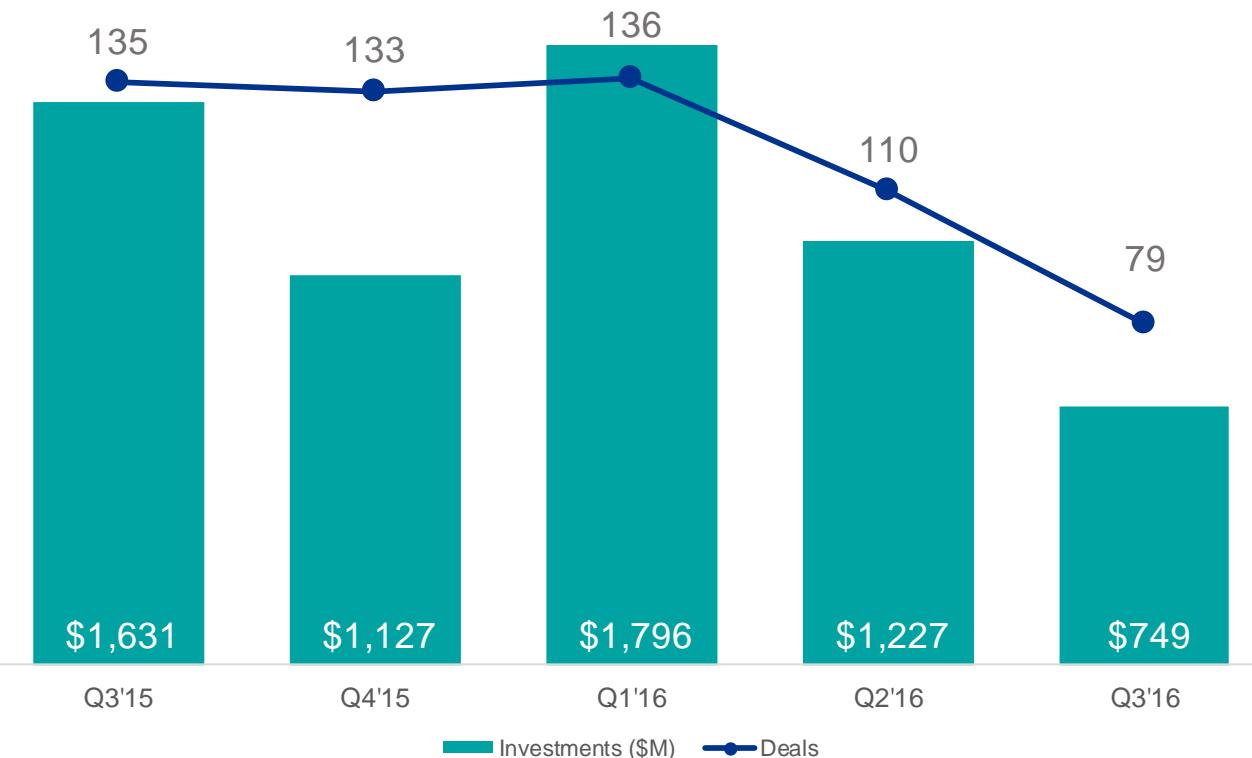
*Cyber Security Services,  
KPMG in the US*

# DIGITAL HEALTH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q3'16

## Digital Health Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

### Meet You

\$151M // Series E

### ClearCare

\$60M // Series C

### Accolade

\$55M // Series E - III

## Top Countries

### United States

60 Deals // \$518.9M

### United Kingdom

4 Deals // \$13.4M

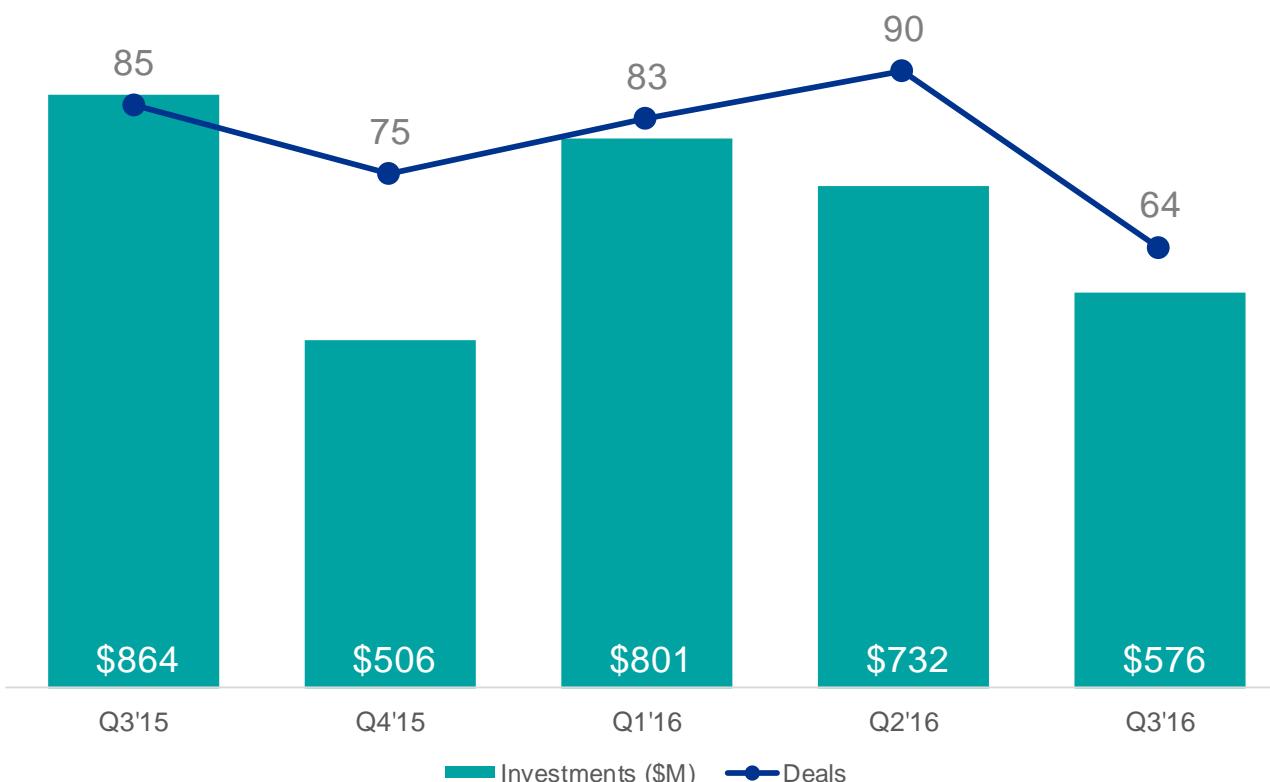
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# AI VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q3'16

## Artificial Intelligence Tech Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

## Top Deals

Indigo Agriculture

\$100M // Series C

Stem

\$100M // Private Equity

C3 IoT

\$70M // Series D

## Top Country

United States

46 Deals // \$540.8M

United Kingdom

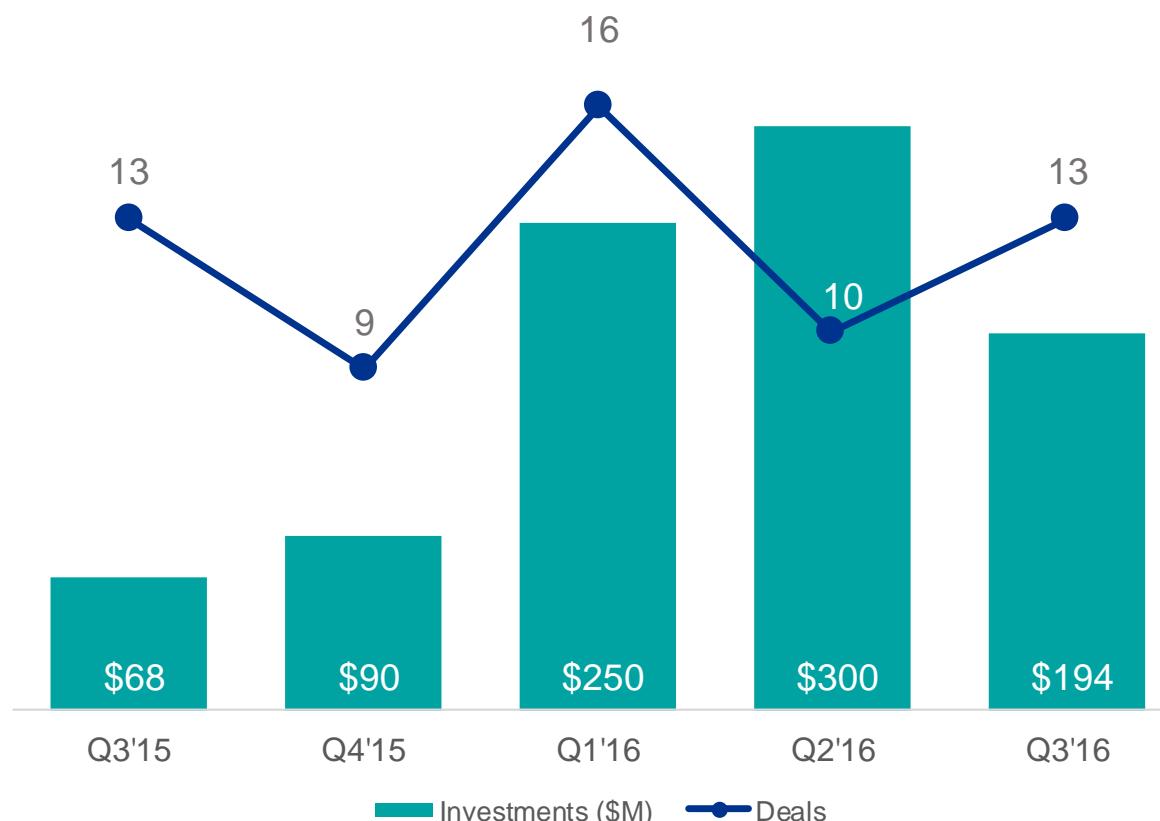
4 Deals // \$6.4M

# AUTO TECH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q3'16

## Auto Tech Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



### Top Deals

**Quanergy**

\$90M // Series B

**MetroMile**

\$50M // Corp. Minority

**Aperia Technologies**

\$15.6M // Series A

### Top Countries

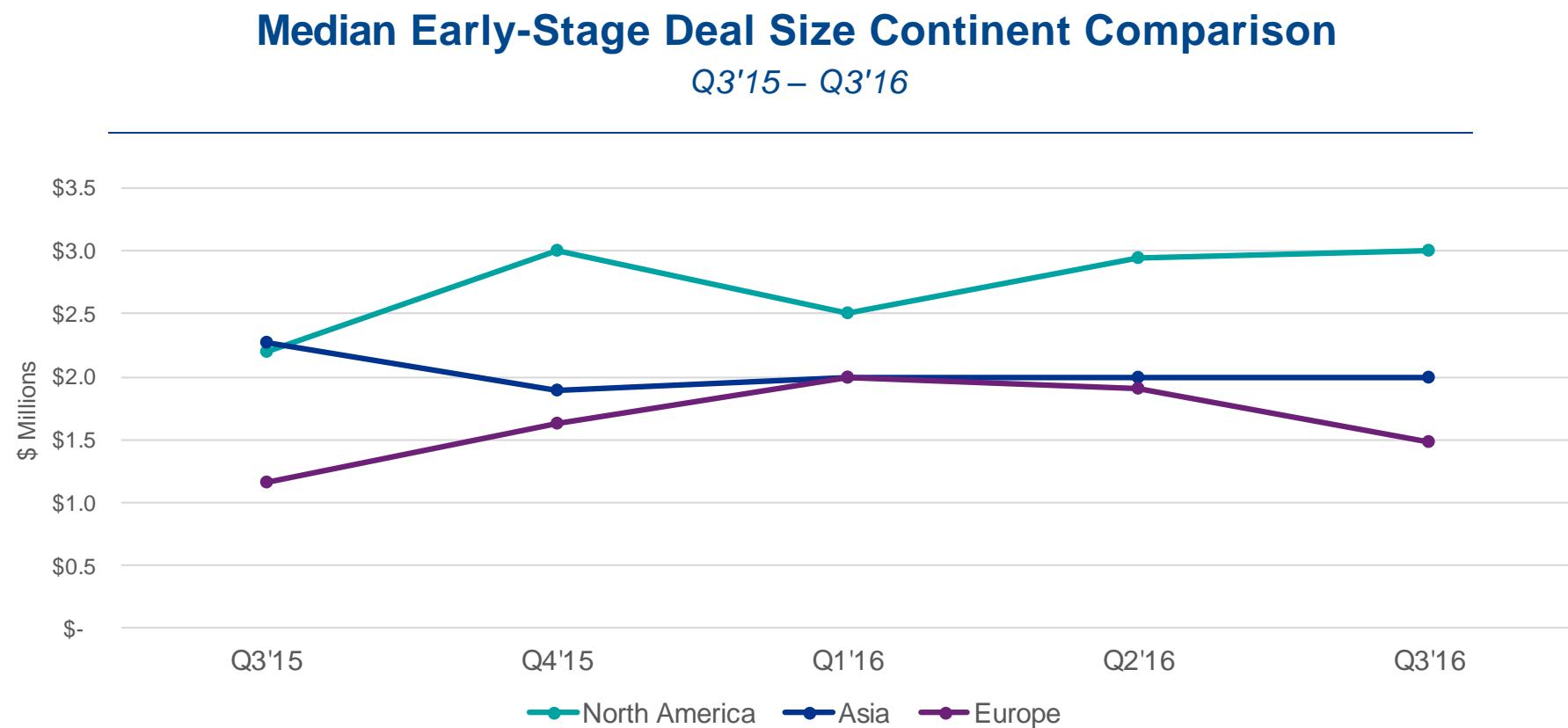
**United States**

8 Deals // \$165.7M

Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# EARLY-STAGE DEAL SIZES IN NORTH AMERICA CONTINUE TO OUTPACE ASIA, EUROPE

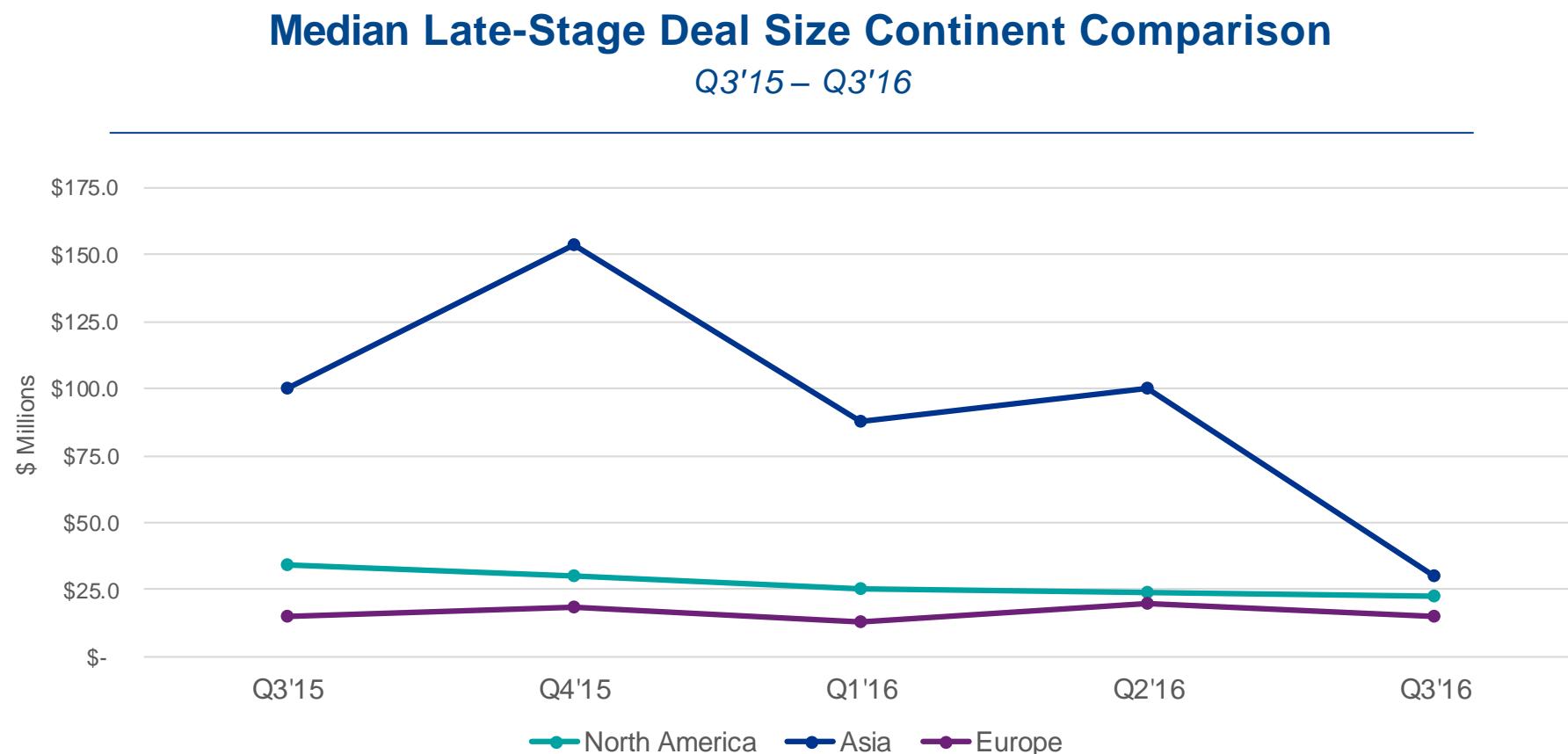
North American VC-backed companies continue to see larger median early-stage deals, hitting \$3M in Q3'16. Asian early-stage deals have held steady around \$2M in recent quarters, while Europe has declined for 2 straight quarters following a 5-quarter peak in Q1'16.



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# MEDIAN LATE-STAGE DEAL SIZE DECLINES ACROSS THE BOARD; PLUNGES IN ASIA

Median late-stage deal sizes in Asia have seen significant volatility in recent quarters, and have now plummeted down to a low of \$30M (which still remains above that of other continents). Both North America and Europe have seen relatively less volatility, though late-stage deal sizes shrank in both as well.



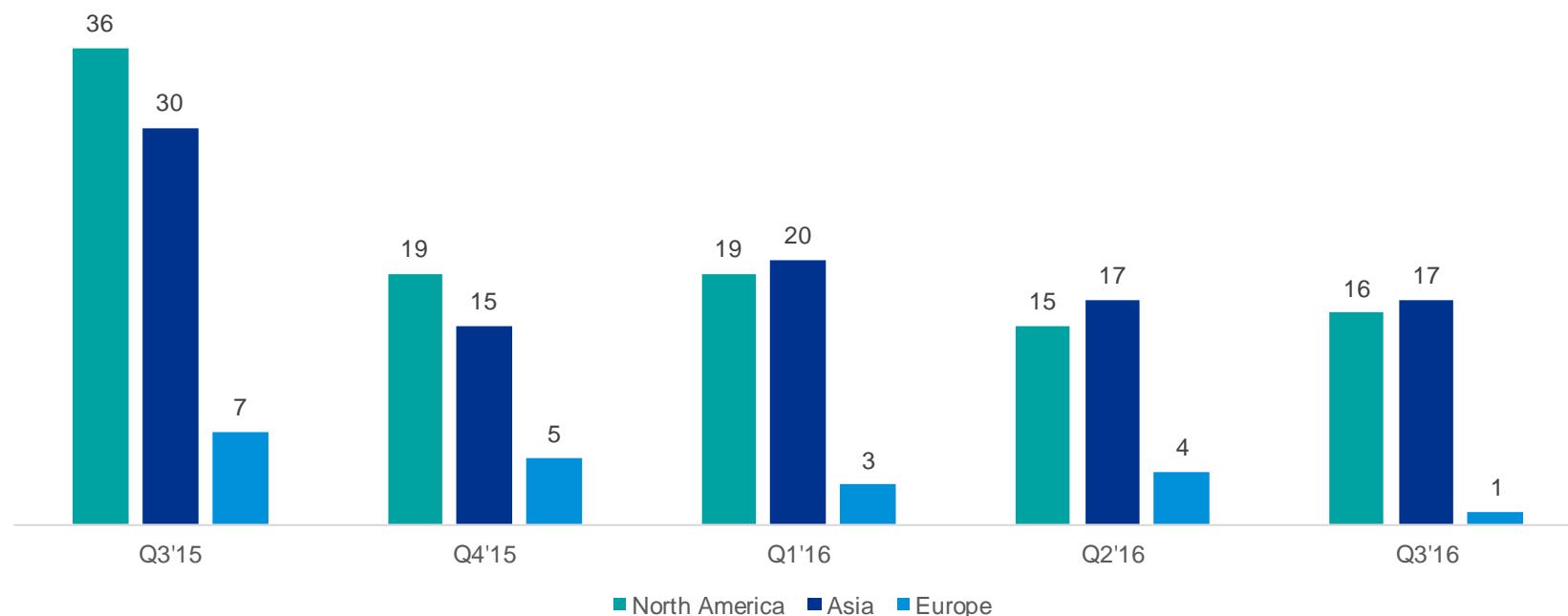
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# MEGA-ROUND ACTIVITY TO VC-BACKED COMPANIES HAS SEEN A RESET

After \$100M+ checks flowed freely to VC-backed companies through much of 2015, the mega-round trend has settled into a lower range through 2016. North America saw just one more \$100M+ than Q2'16, while Asia held steady at 17. Meanwhile, Europe saw just a single mega-round in Deliveroo's \$275M Series E.

## \$100M+ Financings to VC-Backed Companies

*North America vs. Asia vs. Europe, Q3'15 – Q3'16*



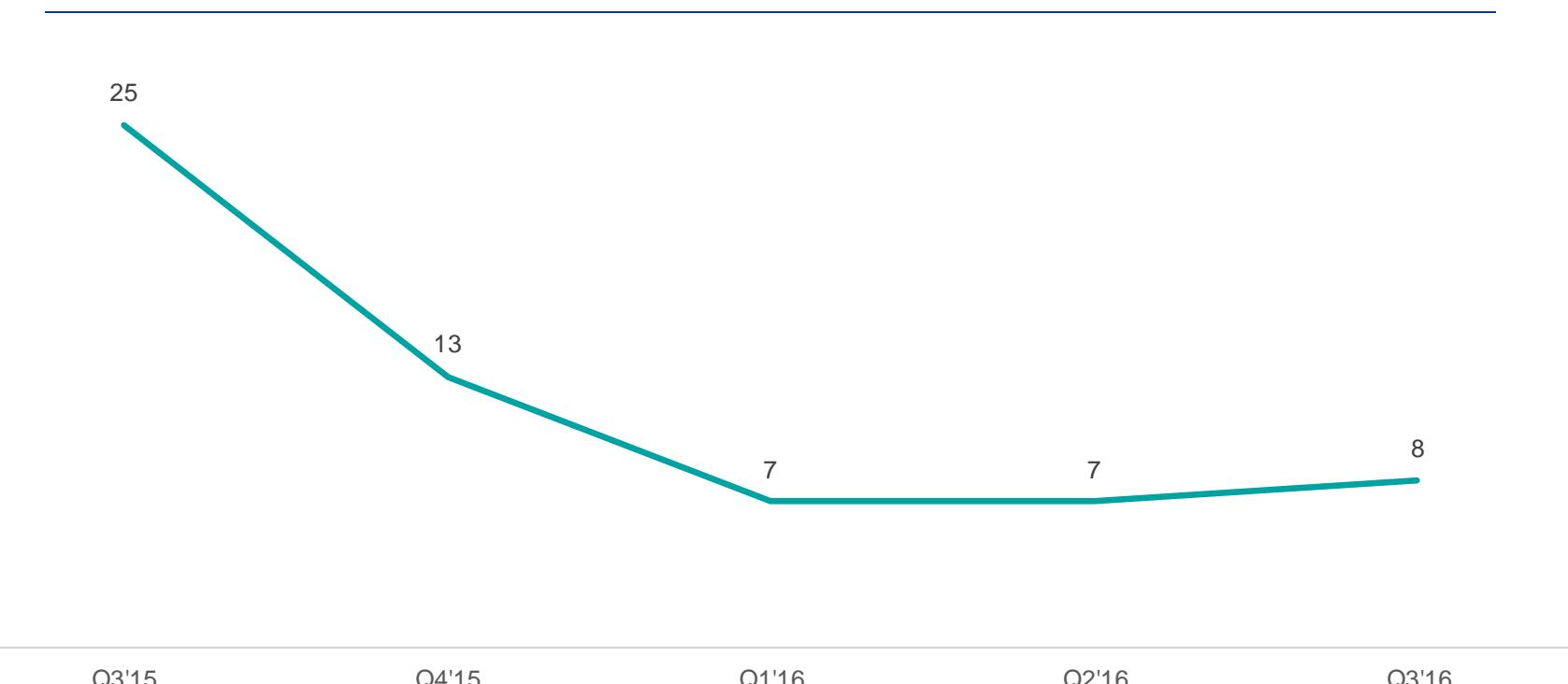
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# NUMBER OF NEW UNICORNS REMAINS IN SINGLE DIGITS

From a high of 25 new unicorns in Q3'15, 2016 has yet to see a quarter with double-digit new entrants into the unicorn club. Q3'16 saw eight newly-minted billion dollar companies including, Compass, Unity Technologies, and OfferUp.

## VC-Backed Companies Entering The Unicorn Club

Q3'15 – Q3'16



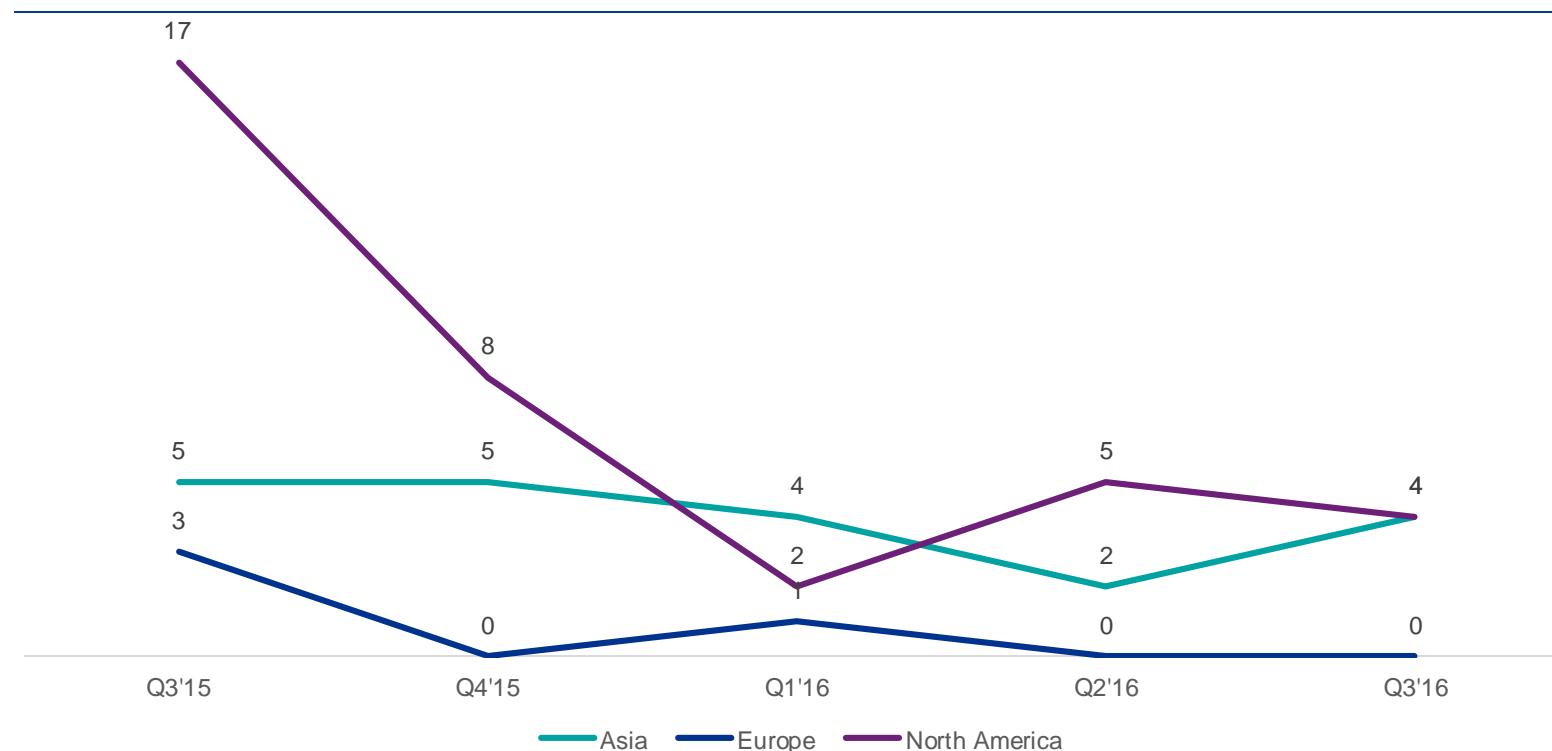
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# ASIA BOUNCES BACK SLIGHTLY IN UNICORNS, NORTH AMERICA STILL FAR FROM PEAK

Asia has remained relatively consistent in producing four to five unicorns each quarter since Q3'15, with the exception of a dip in Q2'16. North America has produced four new unicorns, a rebound after the rapid fall from 17 new unicorns in Q3'15 to just two new unicorns in Q1'16.

## VC-Backed New Unicorn Companies by Continent

*North America vs. Europe vs. Asia, Q3'15 – Q3'16*



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# SELECT 'REST OF WORLD' Q3'16 FINANCINGS

Company	Round	Country	Select Investors
<b>iFood</b>	\$30M (Series F)	Brazil	Movile, Just Eat
<b>Canva</b>	\$15M (Series B)	Australia	Felicis Ventures, Blackbird Ventures
<b>Zoona</b>	\$15M (Series B)	South Africa	International Finance Corporation, Omidyar Network, ACCION, 4Di Capital
<b>Off-Grid Electric</b>	\$10M (Series D)	Tanzania	Helios Investment Partners
<b>CargoX</b>	\$10M (Series B)	Brazil	Goldman Sachs, Lumia Capital, Agility, Valor Capital Group
<b>OpenAgent</b>	\$9.3M (Series B)	Australia	Reinventure, Qualgro, Breakthrough Lab
<b>Whispir</b>	\$8.9M (Series A)	Australia	Tesltra Ventures, NSI Ventures, Rippledot Capital

Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# SELECT VC-BACKED EXITS IN NORTH AMERICA

Company	Exit Type	Valuation	Select Investors
Jet.com	Acquisition (Walmart)	\$3.3B	Accel Partners, Bain Capital Ventures, GV, NEA
Nutanix	IPO	\$2.2B	Battery Ventures, Khosla Ventures, Lightspeed Venture Partners
Dollar Shave Club	Acquisition (Unilever)	\$1B	Forerunner Ventures, Venrock, Andreessen Horowitz, KPCB
The Trade Desk	IPO	\$1B	IA Ventures, Founder Collective, Wellington Management
Apptio	IPO	\$597M	Andreessen Horowitz, Greylock Partners, Shasta Ventures

*“Jet.com is a hit among urban millennials, and it will continue to focus on delivering premium brands and experiences. Walmart.com is winning value-conscious shoppers with everyday low prices by keeping costs low... Together, both Jet.com and Walmart.com will be able to leverage each other’s assets to grow the ways we serve customers.”*

**Doug McMillon**  
President & CEO, Walmart

Quote source: Walmart blog

Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# SELECT VC-BACKED EXITS INTERNATIONALLY

Company	Exit Type	Valuation	Select Investors
UCAR Group	IPO	\$5.5B	Legend Capital, Warburg Pincus, Yunfeng Capital
Takeaway.com	IPO	\$1.1B	Prime Ventures, Macquarie Group
Mtime	Acquisition (Wanda Group)	\$280M	Eight Roads Ventures, Tiger Global Management
GenSight Biologics	IPO	\$165M	Index Ventures, Novartis Venture Funds, Abingworth
Citrus Pay	Acquisition (PayU India)	\$130M	Sequoia Capital India, Ascent Capital

*“We are delighted to announce GenSight Biologics’ successful listing on Euronext Paris—a key stage in our company’s growth. It puts us on track for greater international recognition and continued development of our drug candidates for the treatment of serious neurodegenerative retinal diseases.”*

**Bernard Gilly**  
CEO & Founder, GenSight Biologics

Quote source: LeapRate

Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

*In Q3 2016*

# NORTH AMERICAN

*VC-backed companies raised*

**\$14.4 billion**

# Uncertainty continues to weaken North American VC deals in Q3'16

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VC investment in North America declined in Q3'16 following a small uptick in investment in Q2. The total number of VC deals also decreased by a significant amount, hitting a low not seen since Q4'11. The declines in deal volume and value reflect continued uncertainties in the US market, including the outcome of the US presidential election and the pending increase in US interest rates.

Despite these declines, however, there are clear indications that the US VC market is poised to rebound, if not in Q4'16, then heading into Q1'17. With market uncertainties expected to abate in Q4'16, VC investors that have been building war chests throughout the year may be in a good position to take advantage of any increase in market stability.

## ***IPO exit opportunities growing***

Some US investment bankers have suggested that 2017 will be a strong year for the IPO market. While much of 2016 was a desert for tech IPOs, the successful IPO held by Twilio in Q2'16, followed by the IPOs of Nutanix, Apptio and Trade Desk in Q3 have clearly shown that the IPO market is open again. Numerous other companies are expected to follow suit, issuing IPOs either in Q4'16 or in Q1'17 in order to take advantage of the rebounding IPO sentiment. Institutional investors, in particular, are interested in IPO exits in order to enhance their return on investments.

## ***Investors taking more rational investment approach, slowing down deals***

When it comes to making late-stage investments, investors want to be protected. In the wake of a number of unicorns failing to achieve their private sector valuations upon IPO, some VC investors demanded contractual protections related to Series C or D funding rounds in order to protect against possible down rounds. The shift toward increasing investor protections may reflect a move toward more rational investing, which may extend beyond the current conservative investment cycle.

Over the past few quarters, the power during the negotiation phase of a VC deal has shifted more to investors. While in 2015, investors may have jumped into VC investments simply to get in on a specific VC trend, they are now undertaking more due diligence with respect to each deal they conduct and focusing their investments on companies with proven market potential or a strong business plan. This added due diligence may have slowed down the deals process and, therefore, the number of deals completed during the quarter.

# Uncertainty continues to weaken North American VC deals in Q3'16 (cont.)

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## ***Automotive technologies on the rise***

Over the past several quarters, automotive technology companies have seen some significant investments, many driven by Detroit's Big Three automakers. General Motors has been particularly active in the autotech space, investing in Lyft, a competitor of Uber earlier in the year. In May, GM also acquired self-driving car company Cruise for \$1 billion. This may have sparked a domino effect. During Q3'16, Ford announced investments in, and acquisitions of, a number of automotive automation companies, while Uber announced the acquisition of self-driving truck technology company, Otto.

## ***The barbell effect: mid-stage deals under pressure***

Companies looking for A and B funding rounds are struggling in the US as investors have focused primarily on either early-stage or late-stage deals. This may reflect the additional scrutiny that VC investors are placing on companies looking for investments, with only companies that have a sound business plan and path to profitability able to achieve their funding targets. This barbell effect on funding reflects a trend that has been ongoing for several quarters and one which is expected to continue for the foreseeable future.

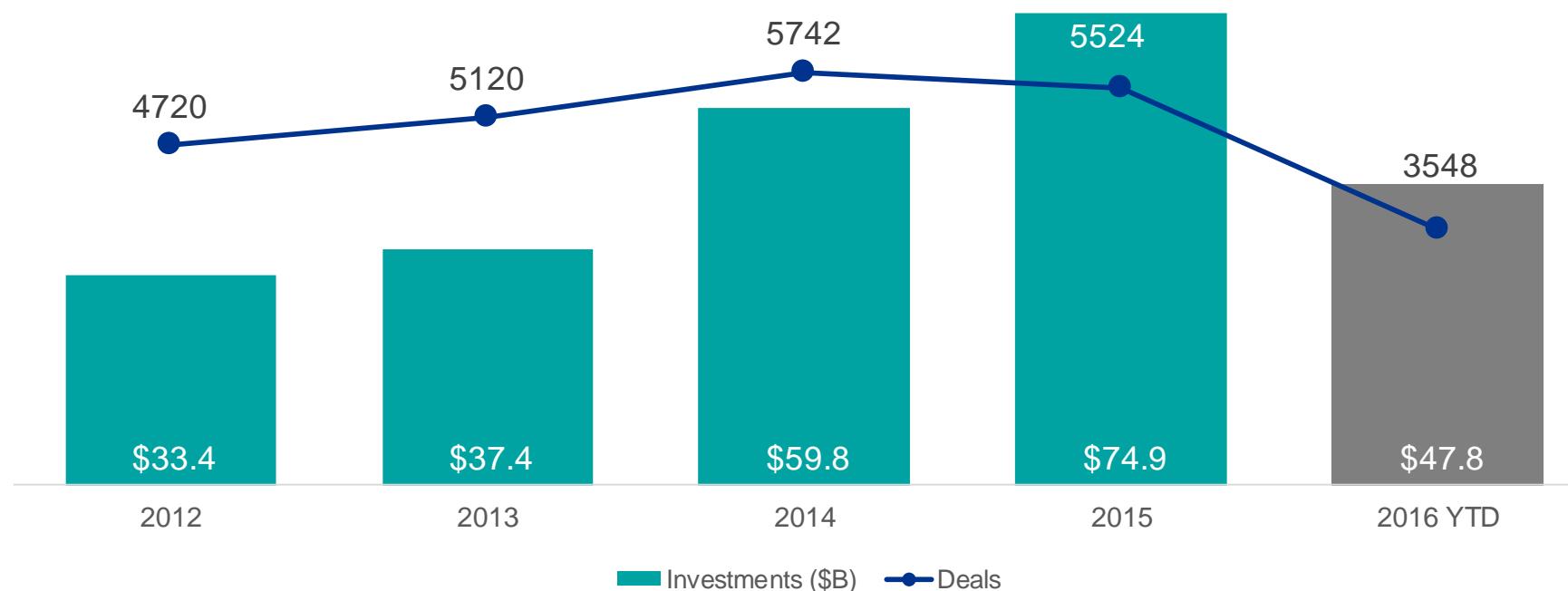
## ***The future looks bright***

With market uncertainties abating and the IPO exit option opening again, a sense of optimism is taking hold within the North American VC market. While the fourth quarter is often quiet for the VC market as companies evaluate their year-end financial position and prepare for the new year, it is expected that heading into Q1'17, the VC market in the US may begin to strengthen again.

# NORTH AMERICA: \$47.8B ACROSS 3548 DEALS THROUGH Q3'16

North America saw record highs in funding last year, fueled by strong mega-round activity. However, deal and dollar activity continues to slow through 2016. Deal pace, in particular, is down. At the current rate, 2016's full-year deal figure should just barely match that of 2012's.

## North American Annual Financing Trends to VC-Backed Companies 2012 – 2016 YTD (Q3'16)



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# QUARTERLY DEAL, DOLLAR TOTALS SINK IN NORTH AMERICA

Except for a temporary rebound in Q1'16, North American deals have steadily sunk over the past year, with just 1127 deals to VC-backed companies in Q3'16. Funding also fell 18% from the quarter prior, down to \$14.4M.

## North American Quarterly Financing Trends to VC-Backed Companies Q3'11 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“Once the uncertainty around the US election and the interest rate hike has passed, the US economic picture should become clearer. Despite the lackluster Q3’16 results, IPO exits like Apptio and Trade Desk indicate that IPO optimism is set to rise into 2017.”**

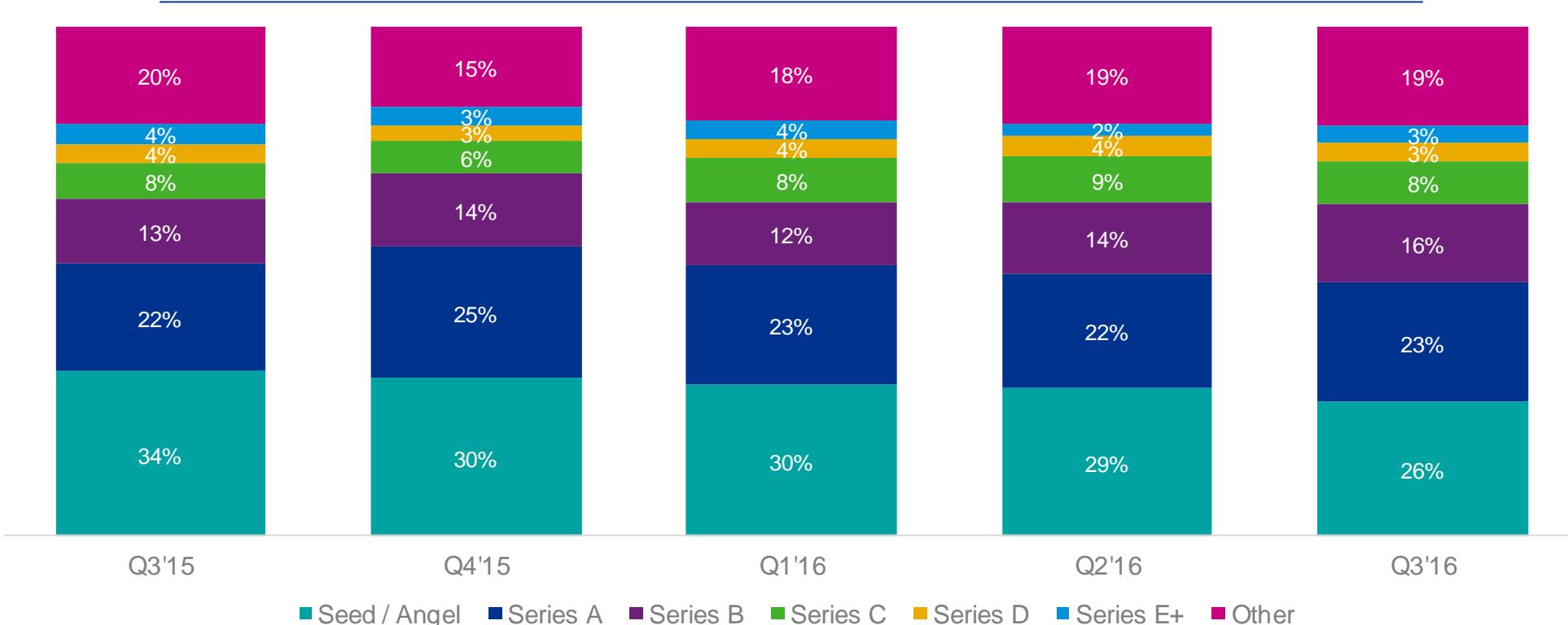


**Brian Hughes**  
*Co-Leader, KPMG Enterprise Innovative Startups Network, and National Co-Lead Partner, KPMG Venture Capital Practice, KPMG in the US*

# SEED DEAL SHARE CONTINUES DECLINE IN NORTH AMERICA

In North America, seed deal share has fallen significantly over the past 5 quarters. Seed investments represented just over a quarter of all deals in Q3'16, down from 29% the previous quarter and 34% in Q3'15.

**North American Quarterly Deal Share by Stage**  
Q3'15 – Q3'16

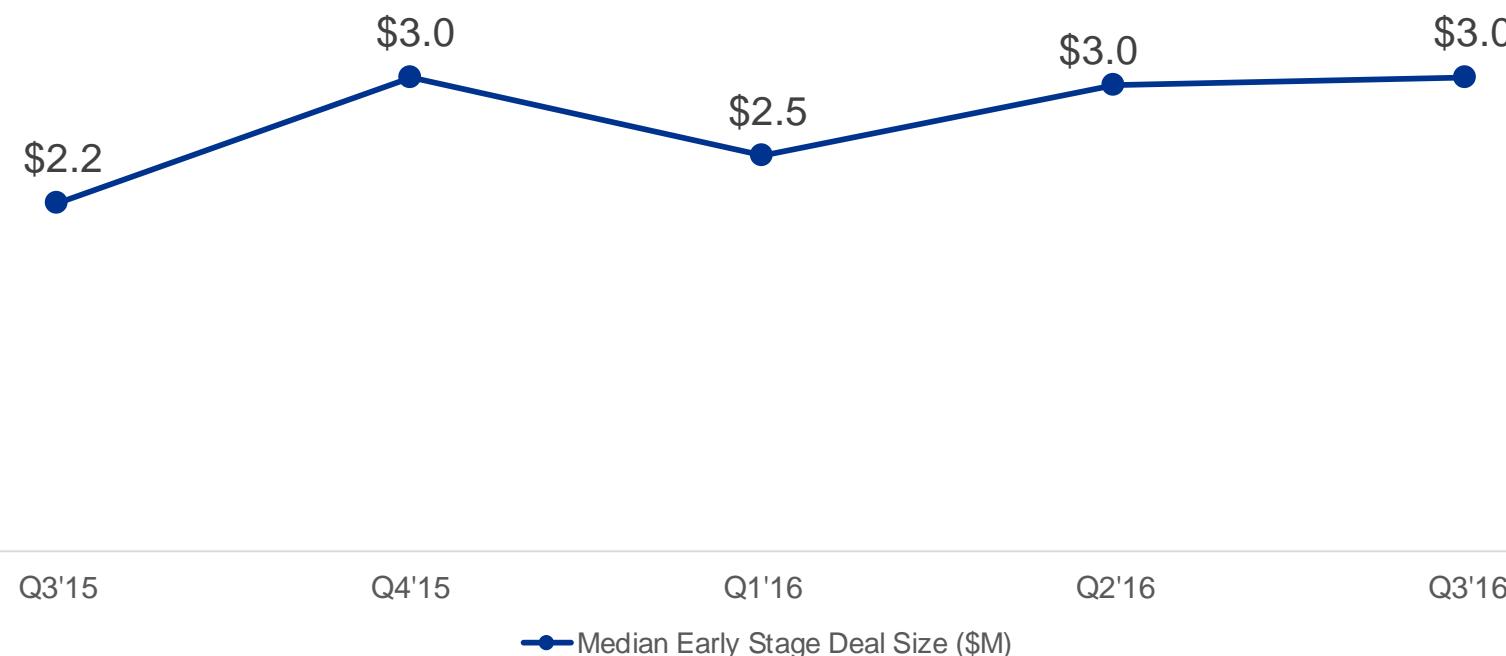


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# MEANWHILE, EARLY-STAGE MEDIAN DEAL SIZES REMAIN AT \$3M

Though early-stage deal share has fallen over the past 5 quarters, median deal sizes have held steady at \$3M over the past two quarters. This is up 36% from the \$2.2M median in Q3'15.

**North American Early-Stage Deal Size**  
Q3'15 – Q3'16



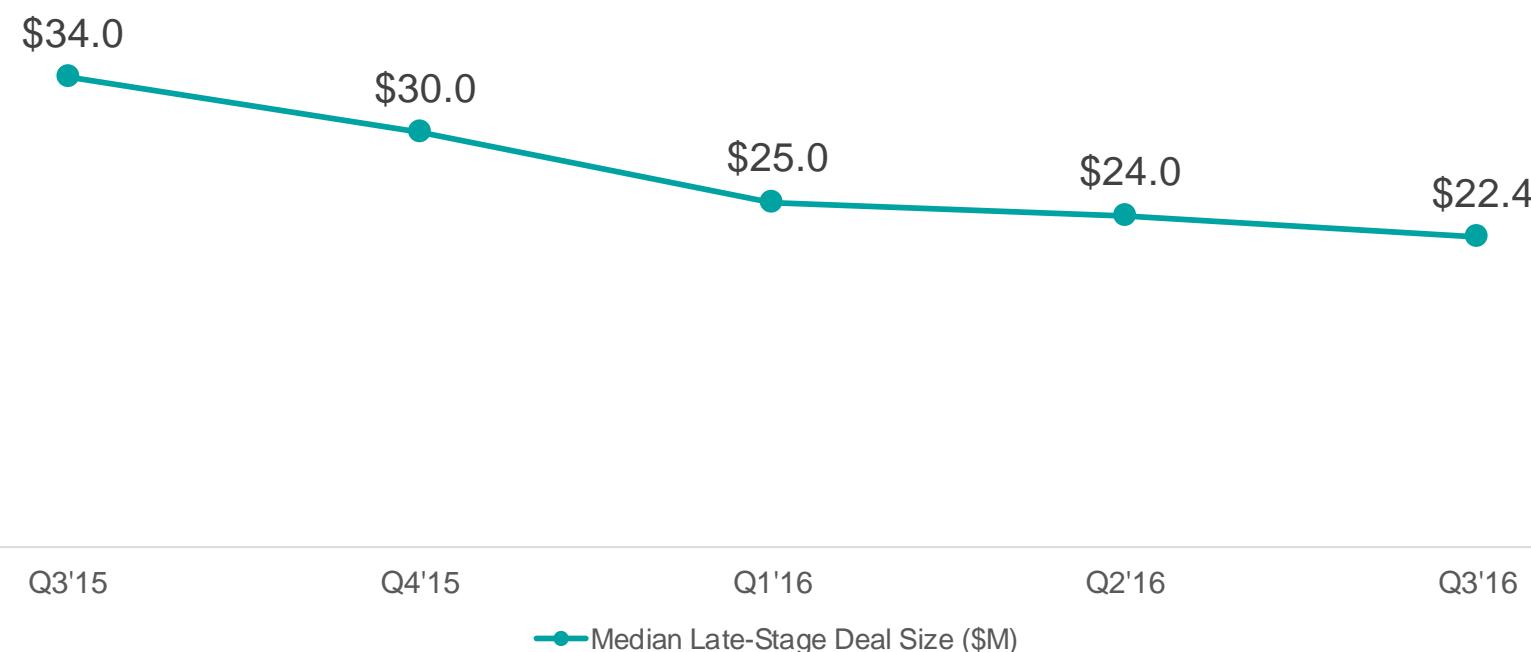
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# LATE-STAGE DEAL SIZES IN NORTH AMERICA CONTINUE TO DEFLATE

Median late-stage deal size in North America shrank for the fourth-consecutive quarter, hitting a 5-quarter low of \$22.4M. This is down 34% over the same quarter a year prior.

## North American Late-Stage Deal Size

Q3'15 – Q3'16

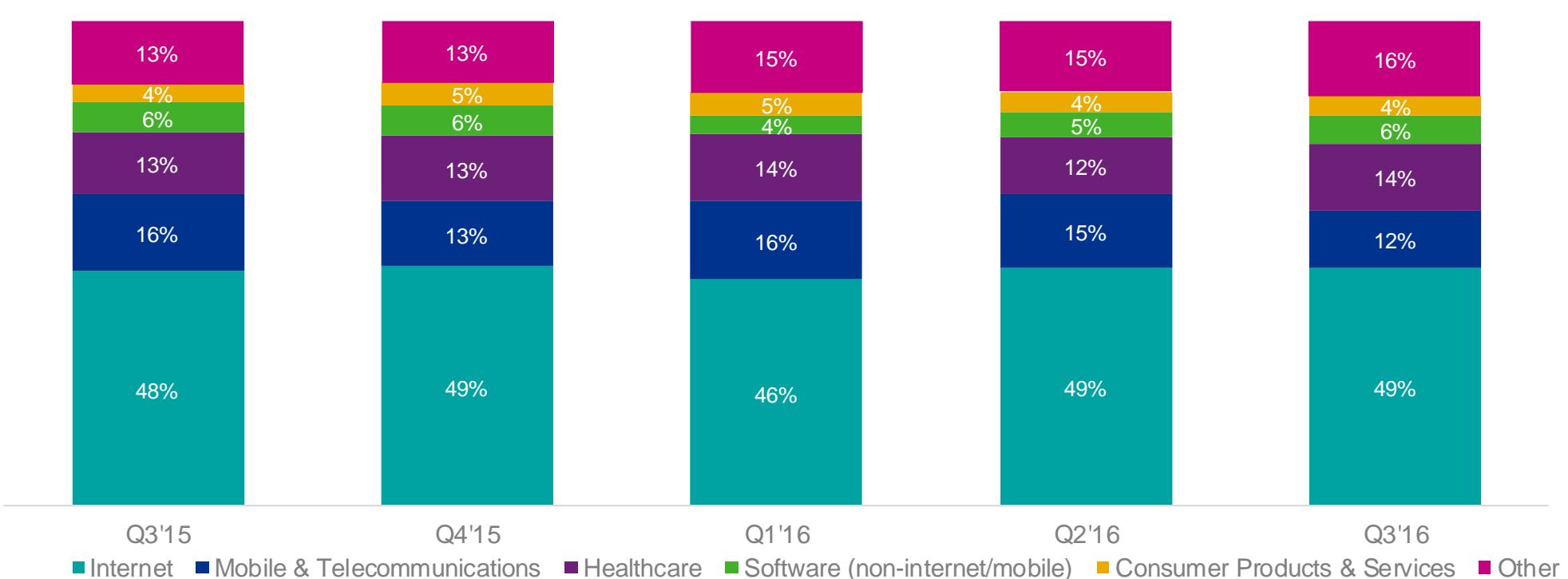


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# INTERNET DEAL SHARE REMAINS STRONG IN NORTH AMERICA, WHILE MOBILE DROPS TO 5-QUARTER LOW

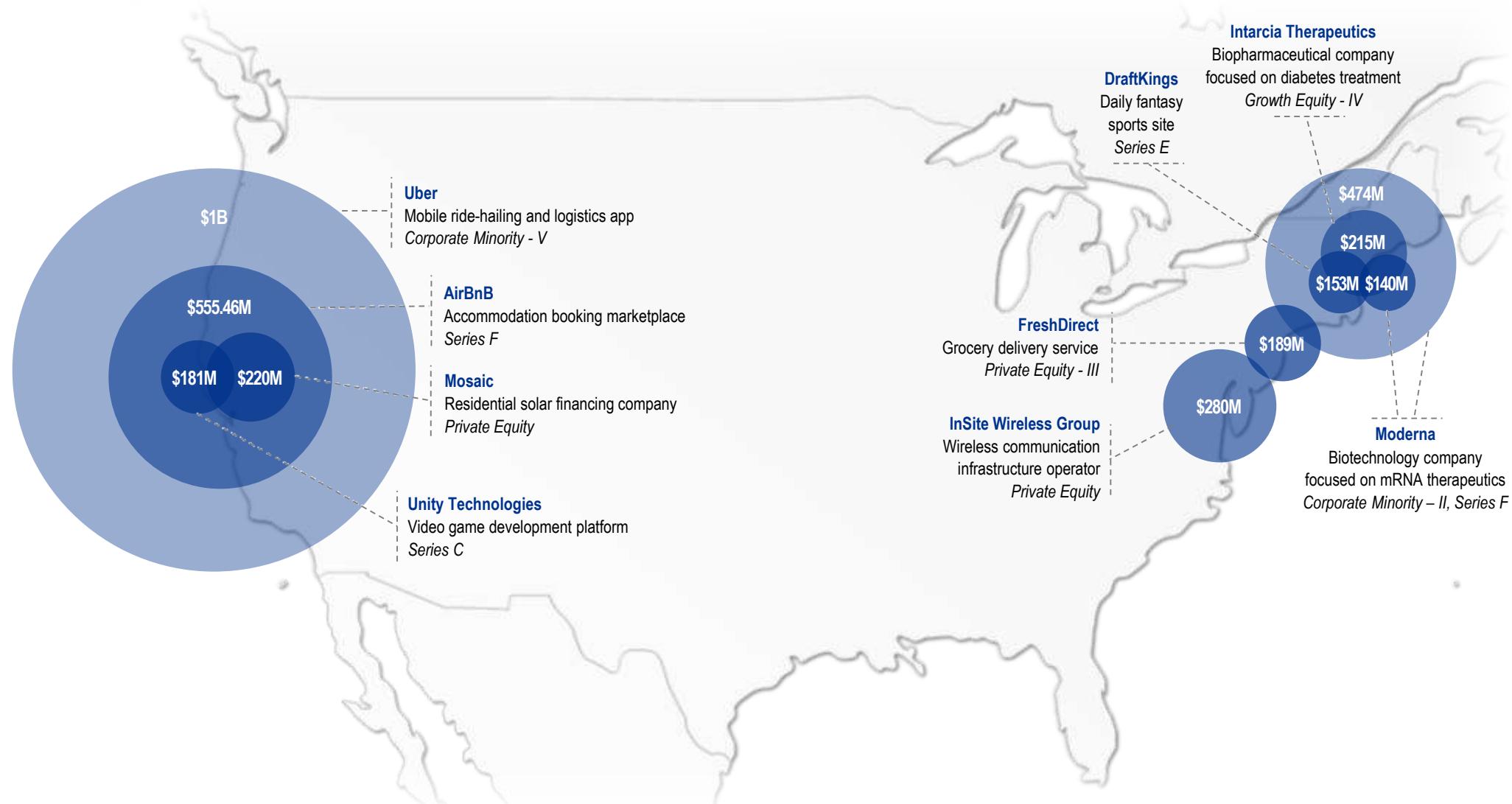
Internet company deal share dropped to 46% in Q1'16, but that retreat looks to be temporary as share has rebounded to 49% in the past two quarters. Meanwhile, mobile and telecom deals have fallen to a 5-quarter low of 12% in Q3'16.

**North American Quarterly Deal Share by Sector**  
Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# 10 LARGEST NORTH AMERICAN ROUNDS OF Q3'16 REPRESENT MORE THAN \$3.4B IN FUNDING



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

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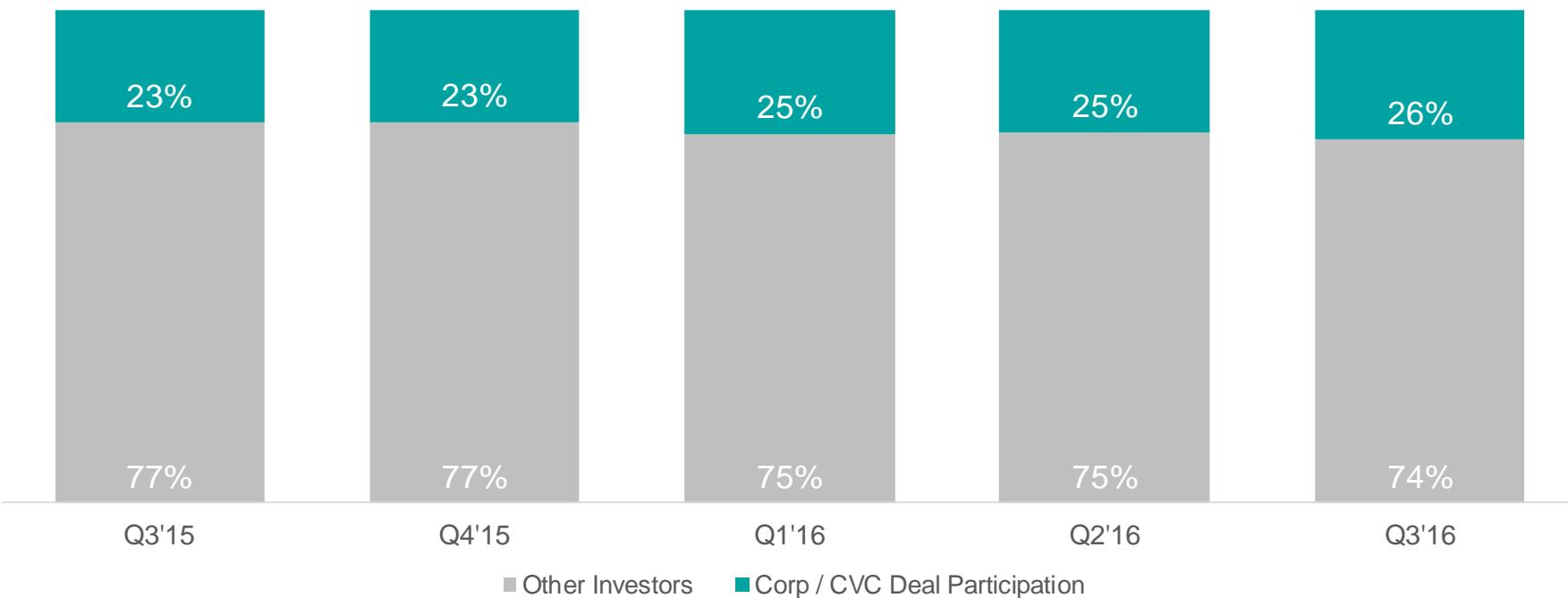
47

# CORPORATES PARTICIPATE IN OVER A QUARTER OF DEALS TO VC-BACKED NORTH AMERICAN COMPANIES

The rise of corporate and CVC participation in North American deals mirrors the global view, with a steady increase through 2016 up to a 5-quarter high of 26% in Q3'16.

## CVC Participation in North American Deals to VC-Backed Companies

Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# NEW ENTERPRISE ASSOCIATES REMAINS MOST ACTIVE INVESTOR IN NORTH AMERICAN COMPANIES

New Enterprise Associates (NEA) once again topped the list of most active VC investors in North American companies. Google Ventures, Greycroft Partners and Bessemer Venture Partners all moved up the list and rounded out the top four names for Q3'16.

## Most Active VC Investors in North America Q3'16

Rank	Investor	Rank	Investor
1	New Enterprise Associates	8	Khosla Ventures
2	Google Ventures	8	Comcast Ventures
3	Greycroft Partners	8	CRV
3	Bessemer Venture Partners	12	SV Angel
5	General Catalyst Partners	12	Venrock
5	Kleiner Perkins Caufield & Byers	12	Liquid 2 Ventures
5	Andreessen Horowitz	12	Accel Partners
8	Slack Fund	12	Battery Ventures

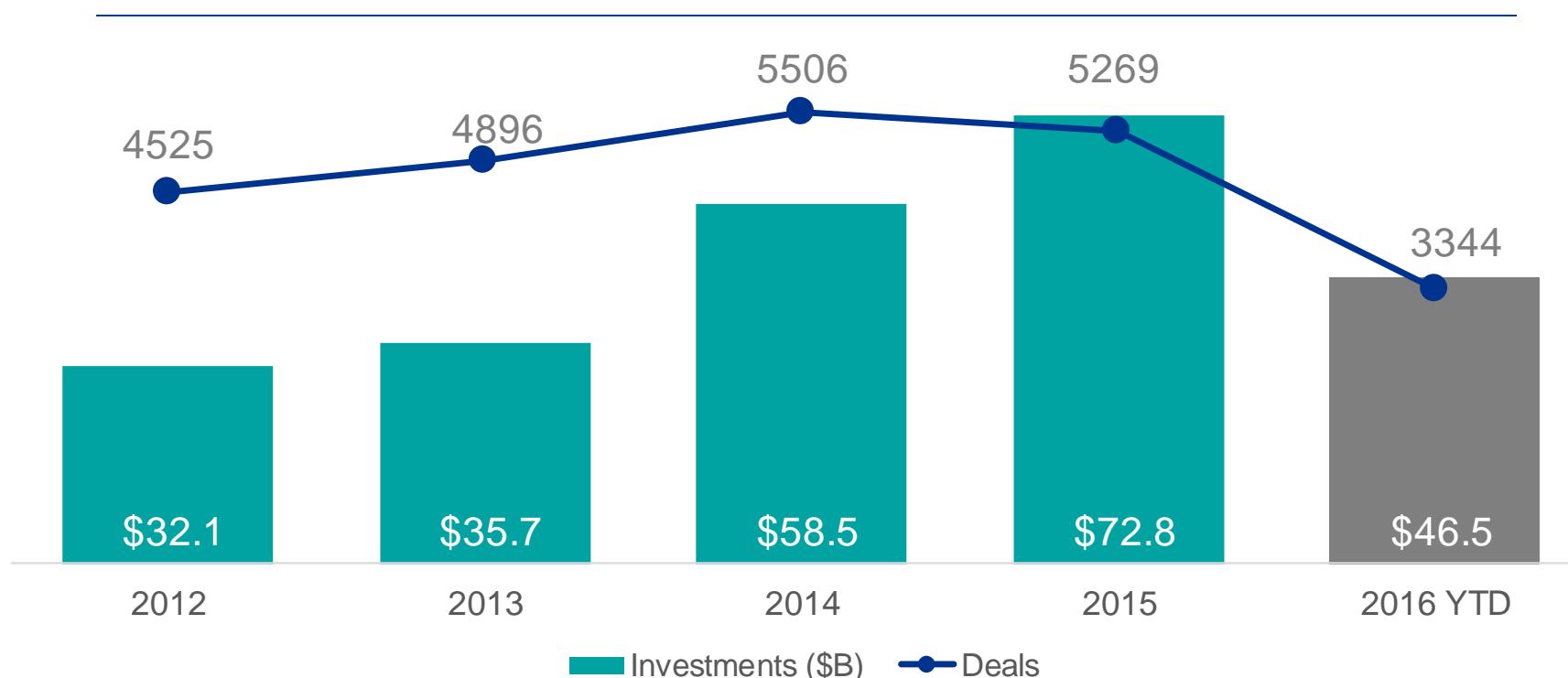
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# US VC-BACKED COMPANIES SEE \$46.5B ACROSS 3344 DEALS THROUGH 3 QUARTERS OF 2016

Investment to US VC-backed companies continues to lag behind last year's frothy totals. Total funding is on track to land somewhere between 2014 and 2015's annual totals, while total deals would likely not even reach 2012's figure at their current pace.

## US Annual Financing Trends to VC-Backed Companies

2012 – 2016 YTD (Q3'16)



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“VC investors are taking more time to evaluate deals than they had in the past. They are scrutinizing the benefits and risks associated with every deal and undergoing far more due diligence. While fewer deals may be completed – the most promising companies are still finding investors.”**



**Jules Walker**

*Director,  
Venture Capital Practice,  
KPMG in the US*

# US DEAL ACTIVITY TICKS DOWNWARDS AS TOTAL DOLLARS SLUMP

US deal activity remains anemic in Q3'16, following the crash of Q4'15. Quarterly funding fell 18% in the absence of last quarter's outsized rounds to companies like Uber and Snap (formerly Snapchat). Funding fell to the lowest total since Q3'14.

## US Quarterly Financing Trends to VC-Backed Companies

Q3'11 – Q3'16

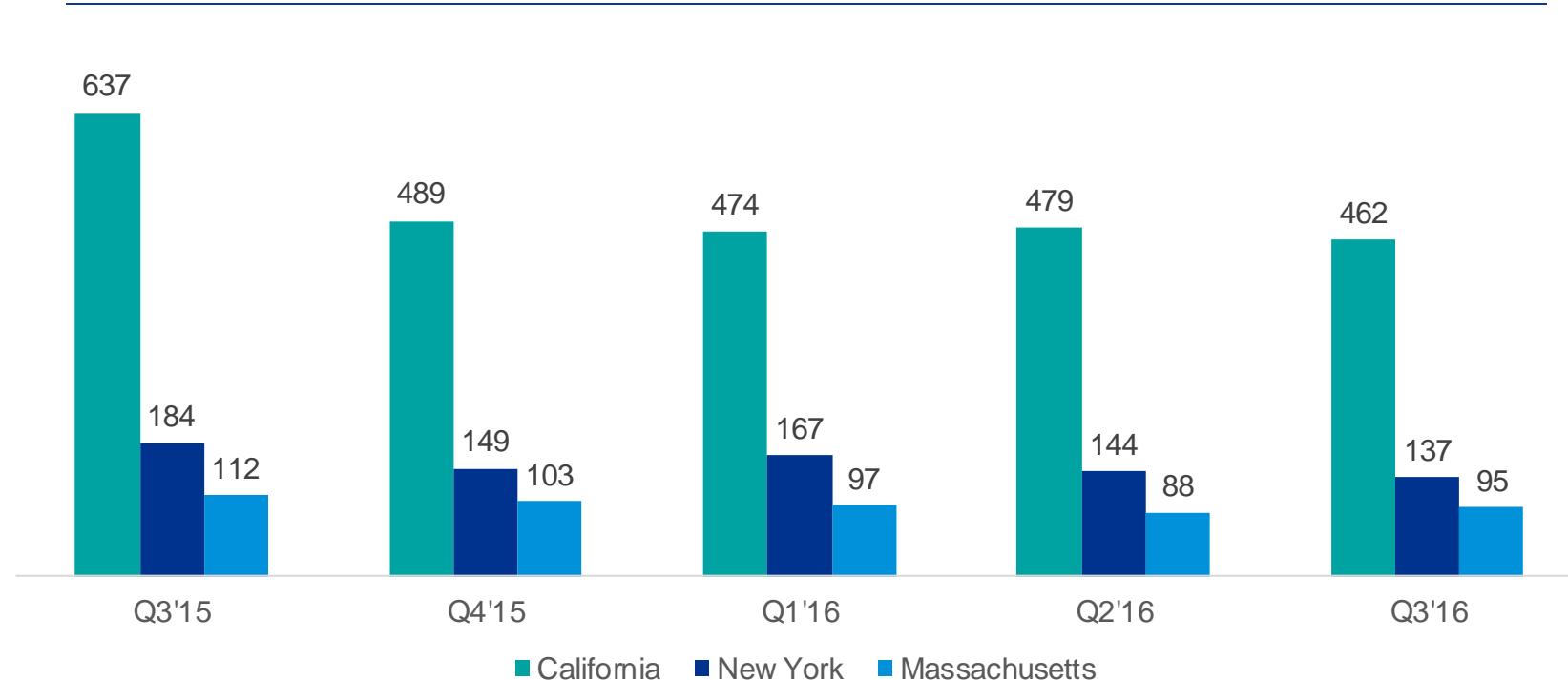


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# CALIFORNIA, NEW YORK DEALS HIT 5-QUARTER LOWS WHILE MASSACHUSETTS TICKS UP

Deal count in both California and New York fell in Q3'16. Quarterly deals in California are now down 27% from Q3'15, while New York is down 26%. By contrast, Massachusetts deals reversed their downward trend with an 8% jump from Q2'16.

## Quarterly Deal Activity to VC-Backed Companies CA vs. NY vs. MA, Q3'15 – Q3'16



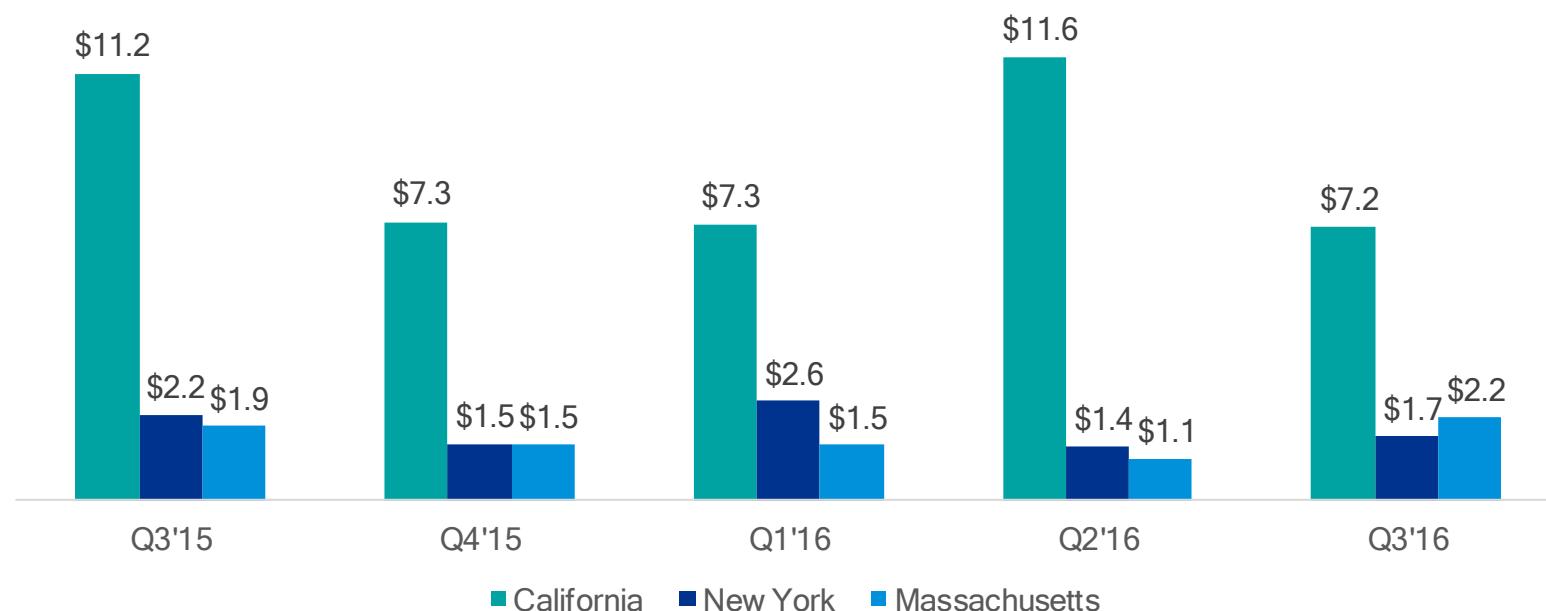
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# CALIFORNIA HITS 5-QUARTER LOW, WHILE MASSACHUSETTS LIFTED TO HIGH BY MEGA-ROUNDS

Quarterly funding to California-based companies has now fallen below \$8B in 3 of the past 5 quarters, again with the Q2'16 jump largely attributable to large Uber and Snap fundings. Meanwhile, Massachusetts funding doubled from last quarter, driven by \$100M+ rounds to companies like Moderna, Intarcia, and DraftKings.

## Quarterly Investment Activity to VC-Backed Companies

\$B, CA vs. NY vs. MA, Q3'15 – Q3'16

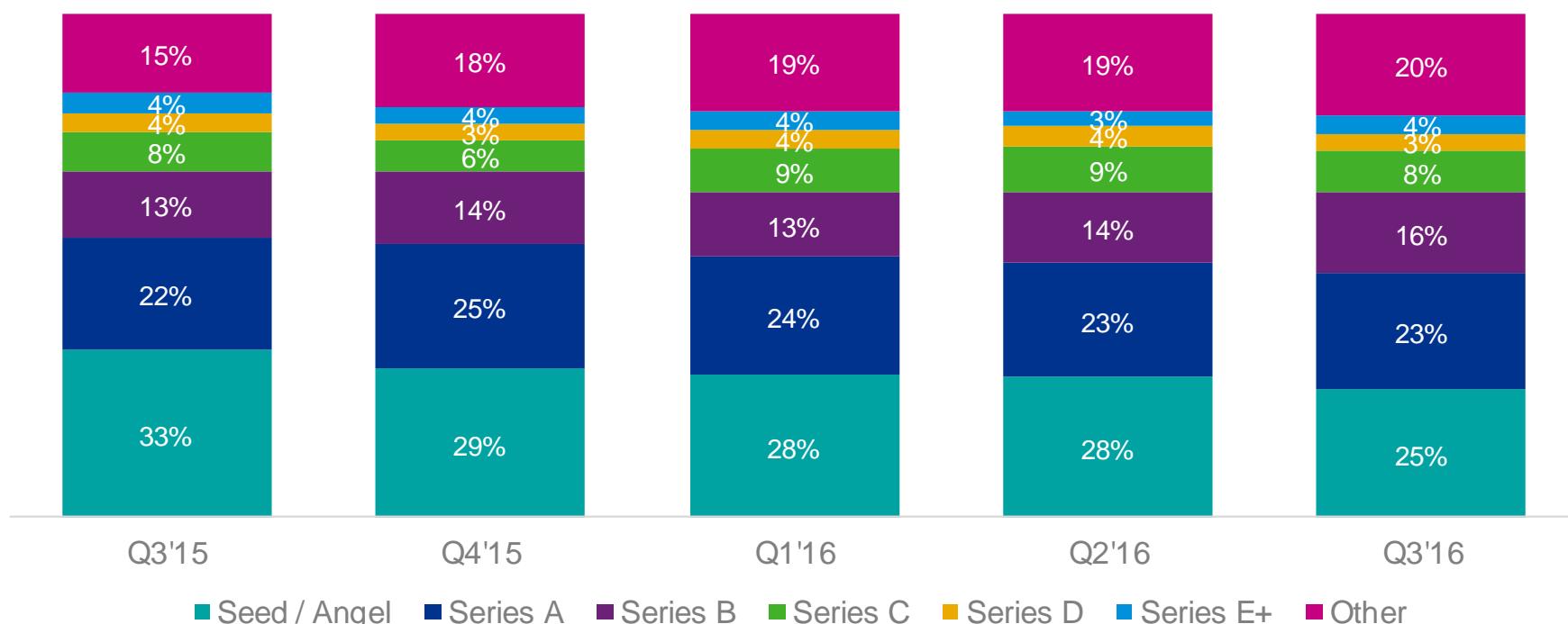


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# EARLY-STAGE DEALS NOW REPRESENTING UNDER HALF OF ALL DEALS IN US

The pronounced decline in seed deal share drove the total US early-stage share (Seed — Series A) under 50% in Q3'16. Meanwhile, Series B rounds represented 16% of all deals to US VC-backed companies, a 5-quarter high.

## Quarterly US Deal Share by Stage Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

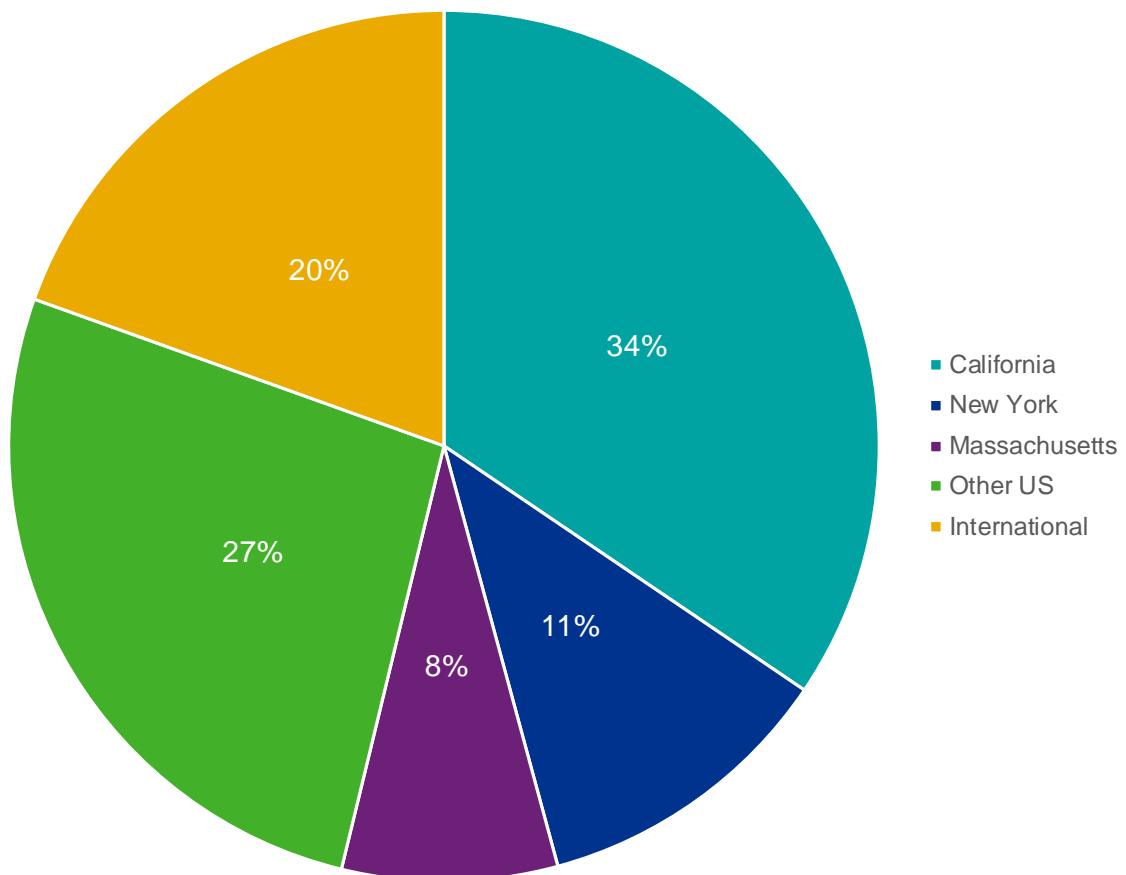
# A FIFTH OF VC FIRMS INVESTING IN US COMPANIES ARE INTERNATIONALLY BASED

Of all VCs that participated in a US investment in Q3'16, 53% were based in either California, New York, or Massachusetts.

California led all states, with 34% of all active VCs calling the Golden State home while Illinois, Texas, and Washington led the other US states, which represented a sizeable 27% in aggregate.

Investors from the UK, China, and Canada were most prevalent among international VCs, which represented 20% of active VC investors into US companies.

**HQ of VCs Investing in US Companies**  
*As % of all VCs investing in US-based companies in Q3'16*



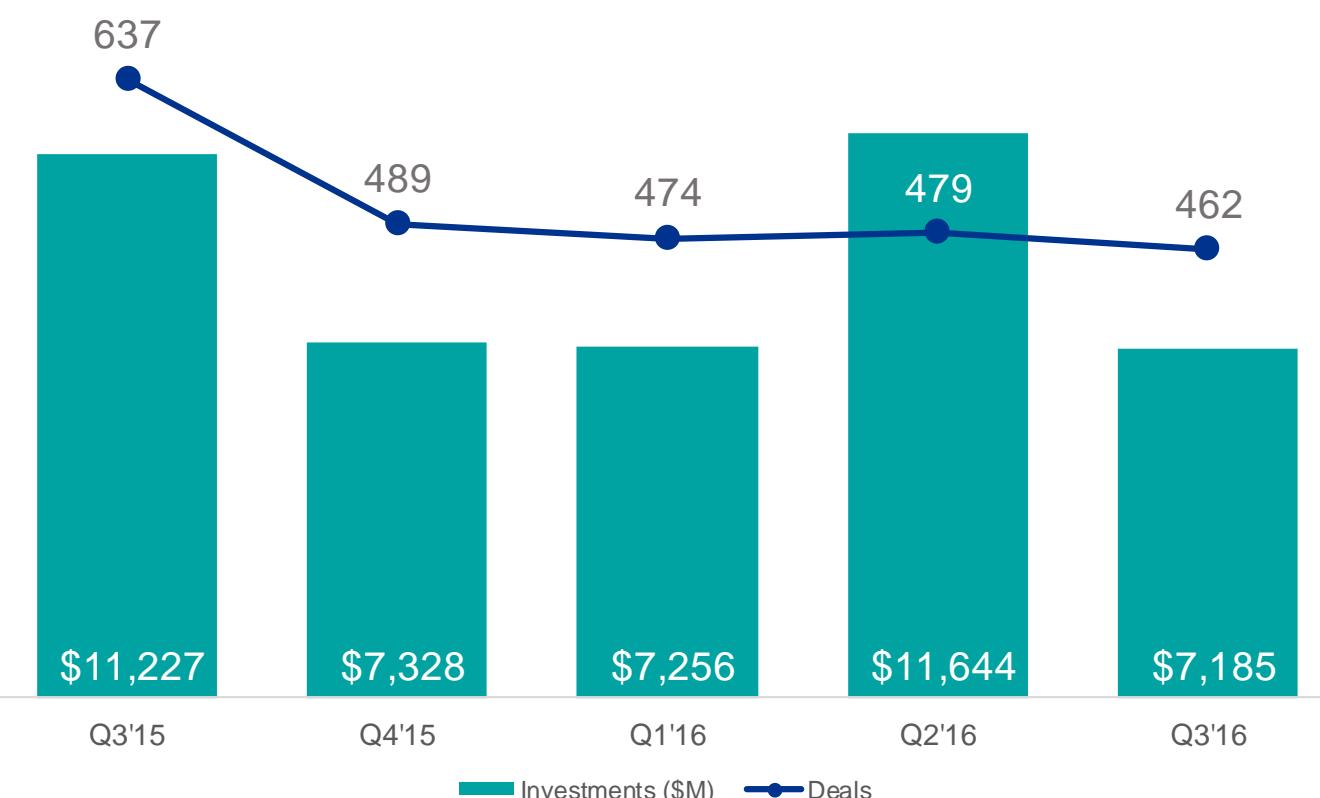
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# CALIFORNIA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## California Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

Uber

\$1B // Corp. Minority - V

Airbnb

\$555.5M // Series F

Mosaic

\$220M // Private Equity

## Top Cities

San Francisco

160 Deals // \$3.3B

Palo Alto

35 Deals // \$283.3M

Redwood City

18 Deals // \$378M

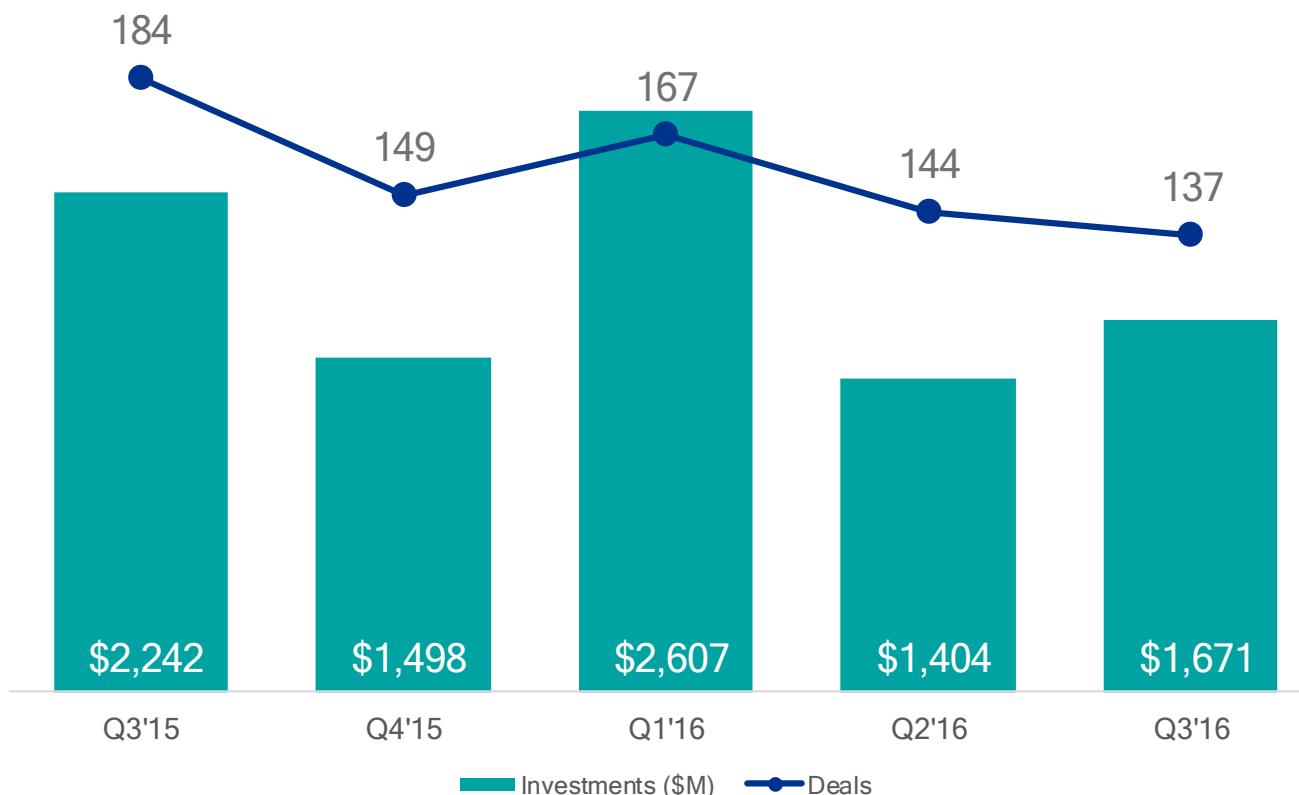
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# NEW YORK VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## New York Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



### Top Deals

**FreshDirect**

\$189M // Private Equity

**Sprinklr**

\$105M // Series F

**Compass**

\$75M // Series D

### Top City

**New York**

129 Deals // \$1.6B

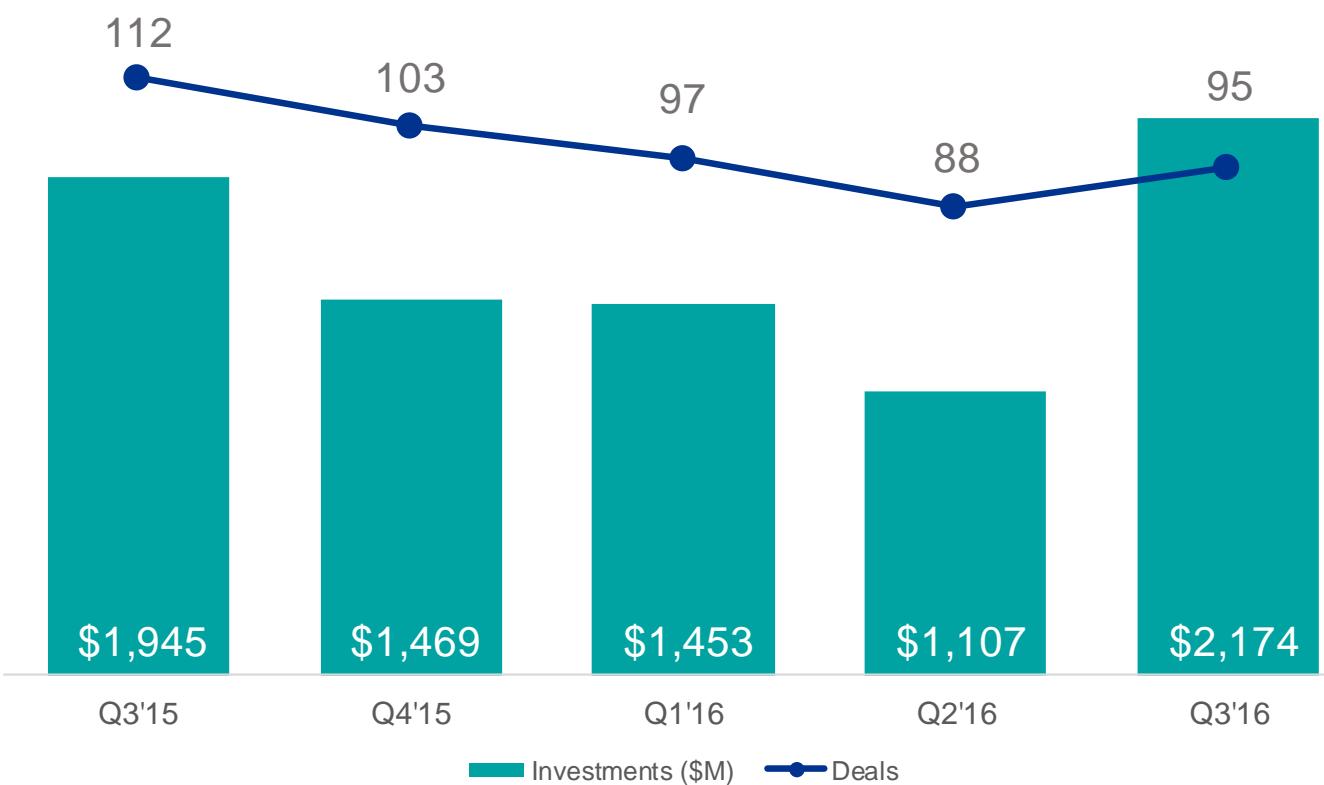
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# MASS VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## Massachusetts Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

**Moderna**

\$474M // Series F

**Intarcia Therapeutics**

\$215M // Growth Equity

**DraftKings**

\$153M // Series E

## Top Cities

**Boston**

35 Deals // \$608M

**Cambridge**

21 Deals // \$1B

**Waltham**

6 Deals // \$58.2M

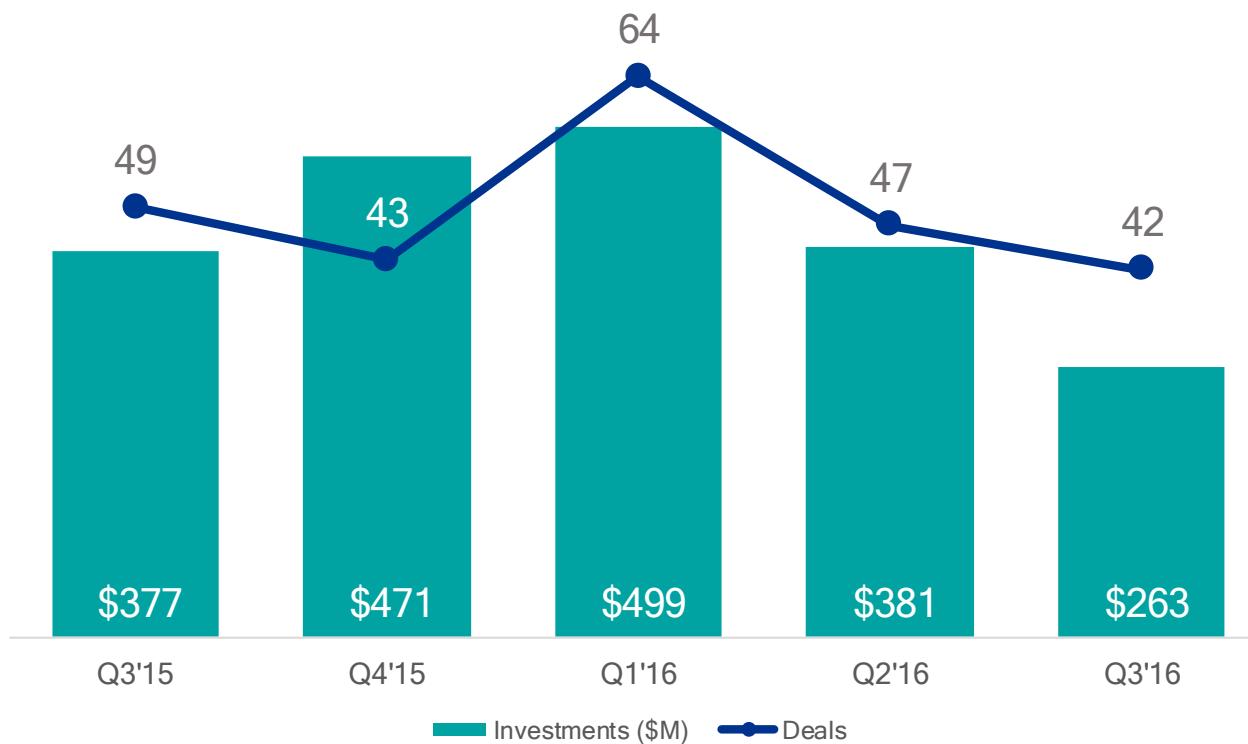
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# TEXAS VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## Texas Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

### Peloton Therapeutics

\$52.4M // Series D

### CognitiveScale

\$21.8M // Series B

### FloSports

\$21.2M // Series B

## Top Cities

### Austin

22 Deals // \$147M

### Dallas

5 Deals // \$55.9M

### Houston

5 Deals // \$35.3M

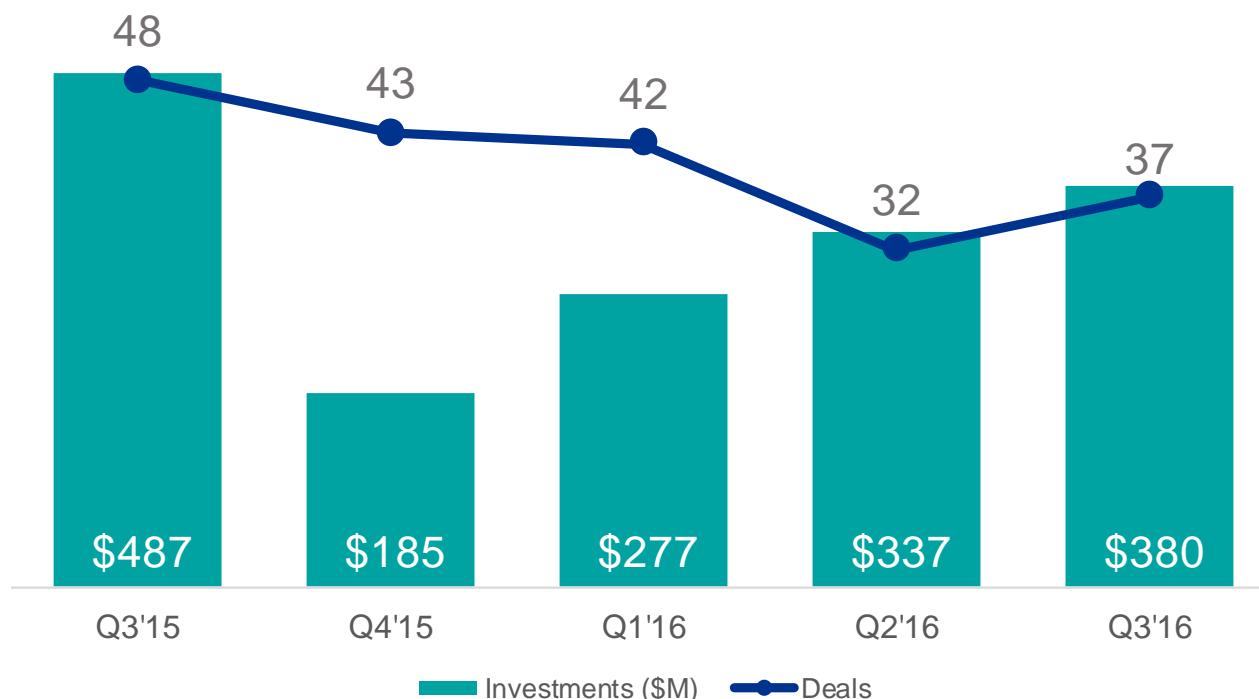
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# PACIFIC-NW VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## Pacific Northwest Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

**OfferUp**

\$119M // Series C - II

**Avalara**

\$50M // Growth Equity - II

**ID Experts**

\$27.5M // Series B

## Top Cities

**Seattle**

21 Deals // \$108M

**Portland**

6 Deals // \$49.8M

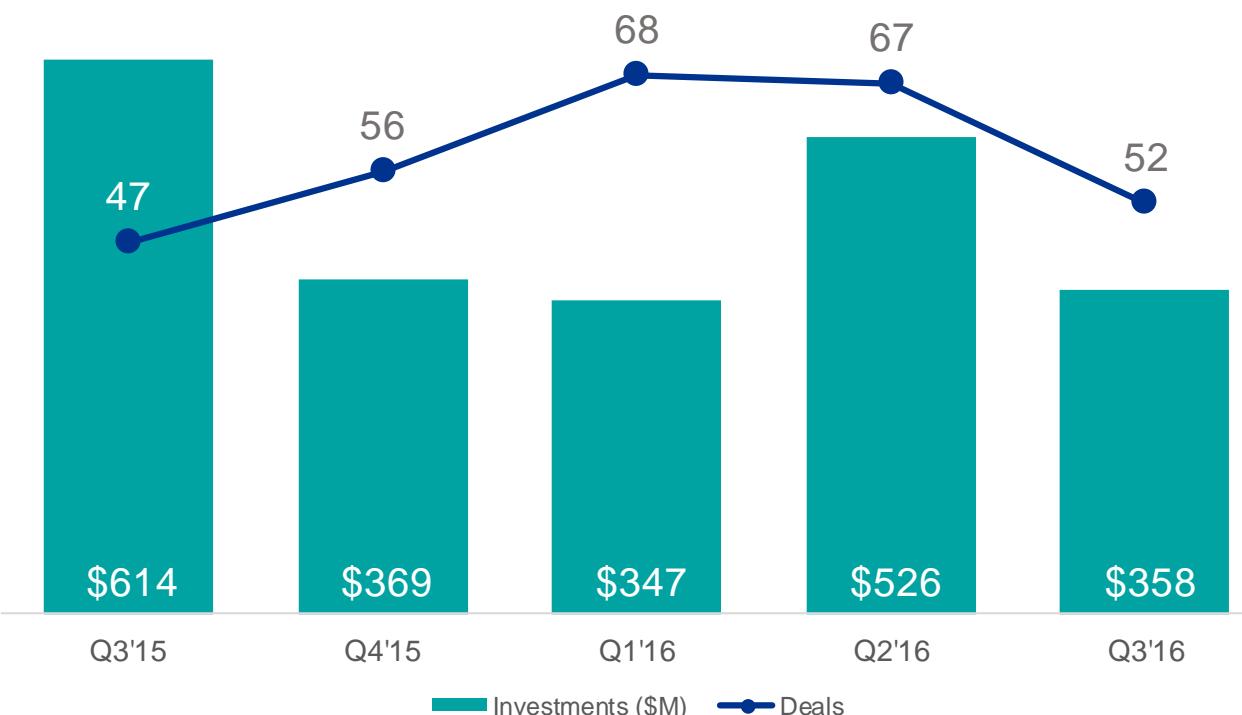
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# CANADA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## Canada Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

**Thalmic Labs**

\$120M // Series B

**ecobee**

\$35M // Series B

**Vena Solutions**

\$30M // Growth Equity

## Top Cities

**Toronto**

18 Deals // \$125.1M

**Vancouver**

10 Deals // \$29.3M

**Montreal**

8 Deals // \$37.6M

Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.



*In Q3 2016*

# EUROPEAN

*VC-backed companies raised*

**\$2.3 billion**

# European investment stabilizes as immediate Brexit impact fades

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VC investment in Europe dropped to a 5-quarter low during Q3'16, despite the total number of VC deals increasing slightly quarter-over-quarter. This decline in VC investment reflects investment trends and market uncertainties globally, including the pending increase in US interest rates, in addition to ongoing concerns regarding the long-term impact of Brexit. While investors remain cautious, there is growing optimism that 2017 may bring more positive results for the region's VC market.

## ***Caution driving late-stage investment***

Some VC investors in Europe were particularly cautious with respect to late-stage deals in Q3'16. In order to attract funds, investors are looking for companies to meet more substantial external milestones than in the past, whether that means market penetration, increased gross revenues or better profitability. Only companies that are able to show investors that they have the right business model to succeed will be able to attract investment in such a cautious and hesitant investment climate.

## ***UK investment increases slightly, Brexit impact limited to-date***

In Q3'16, investment in the UK rose slightly after a significant slide in the second quarter. This suggests that while VC investors in the UK are concerned about Brexit, investments continue to be made and most UK investments and acquisitions already in the pipeline prior to Brexit have moved forward as planned. While the decline in the British Pound, post Brexit, may cause concern for some businesses with overseas suppliers, the devaluation may actually help to keep global VC investment interest in the country.

The full impact of Brexit on the UK economy and VC market are expected to become clearer over the next 2-3 years as the UK negotiates the terms of its exit from the EU. For startup companies that operate in a dynamic and rapidly changing environment, this means Brexit is not likely to be a top concern at the moment. However, a number of VC investors are beginning to evaluate Brexit impacts on a case-by-case basis, while others are looking for companies to address any implications from Brexit in their pitch decks.

## ***Corporates view VC investment as a strategic priority***

Corporate VC investment in Europe is well positioned for possible growth over the near term, primarily as a result of traditional companies looking to evolve and leverage technology solutions more effectively, either internally or externally. In Germany, for example, Daimler is working to transition from being an OEM company into a mobility company. For most of these corporates, being able to leapfrog into the future is dependent on collaboration with startups, whether through direct investment or through M&A.

# European investment stabilizes as immediate Brexit impact fades (cont.)

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## ***Berlin, Dublin, Barcelona, and Paris vie to take London's place***

While current UK investors do not appear to be fazed by Brexit, other European VC hubs are using the Brexit vote as an opportunity to attract potential companies and VC investors to their communities with the hope of growing their existing tech hubs and ecosystems.

## ***Interest in IPOs increasing slightly***

Traditionally, M&A has been the key exit strategy for VC-backed companies in Europe as the IPO market in the region is considered to be less mature compared to jurisdictions such as the US. However, interest in IPO exits appears to be growing among VC-backed companies in the region.

During Q3'16, banking payments firm Nets A/S in Copenhagen held a successful IPO, followed by Amsterdam-based Takeaway.com. Some European investors watched these companies carefully and have their eye on other companies in the IPO pipeline. If these companies have success during Q4'16, the IPO market may improve in Europe heading into 2017, opening the door to it becoming a more robust exit strategy.\*

## ***Cybersecurity gaining momentum***

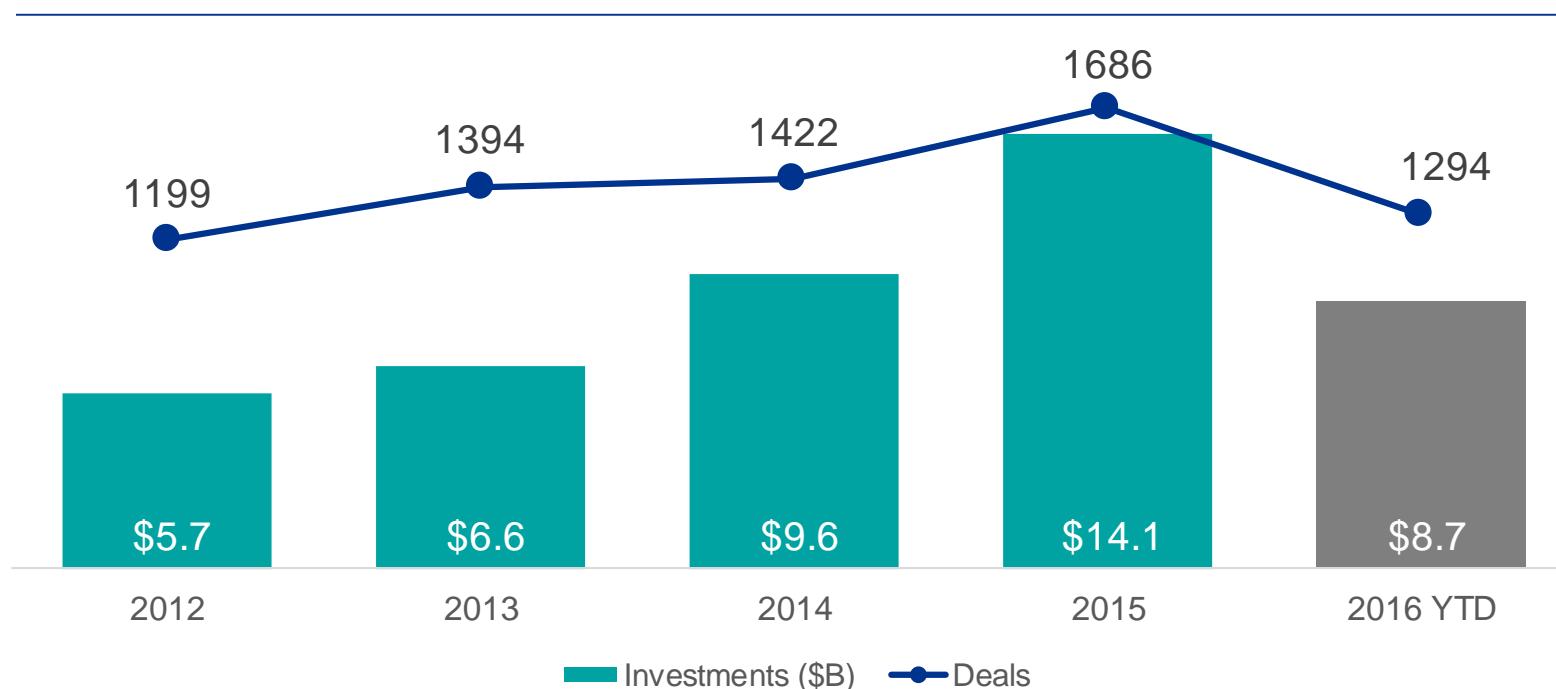
As technology advances are made across a wide range of industries, the importance of cybersecurity has gained more momentum in Europe, particularly in Israel. VC investors are becoming keenly interested in companies able to address cybersecurity from both an offensive angle (e.g. predictive analytics, threat assessment) and from a defensive one (e.g. threat prevention). Investors recognize that cybersecurity will only continue to evolve, making it an attractive area for future investment.

\*Reference: Nets Starts Trading as IPO Values Firm at \$4.5B, Bloomberg, September 23, 2016  
Food Delivery startup Takeaway.com raises \$368M in IPO, Techcrunch, September 29, 2016

# VC-BACKED EUROPEAN FUNDING PICKS UP DEAL PACE BUT SLOWS IN FUNDING

VC-backed companies in Europe saw a new peak in funding and deal activity in 2015, with \$14.1B invested across nearly 1700 deals. 2016 has so far seen \$8.7B invested across 1294 deals, which puts this year on track to exceed 2015 in deal activity but drop in funding.

**European Annual Financing Trends to VC-Backed Companies**  
2012 – 2016 YTD (Q3'16)



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“ The long-term ramifications of Brexit haven’t been felt yet. Deals are still getting done, but many of these would have been in the pipeline before the referendum. The real impact will likely be felt heading into 2017, as the UK begins proceedings to disentangle itself from the European Union.”**



**Anna Scally**  
*Partner,  
Head of Technology, Media and  
Telecommunications,  
KPMG in Ireland*

# DEAL COUNT RISES IN EUROPE WHILE DOLLARS INVESTED FALL BELOW \$3B

After 2 quarters of declining deal activity through Q1'16, the past 2 quarters have seen an increase in deal activity with Q3'16 reaching a new deal activity high. Funding, however, saw its second-consecutive quarter with less than \$3B of investment, owing to a dearth of mega-rounds.

## European Quarterly Financing Trends to VC-Backed Companies Q3'11 – Q3'16

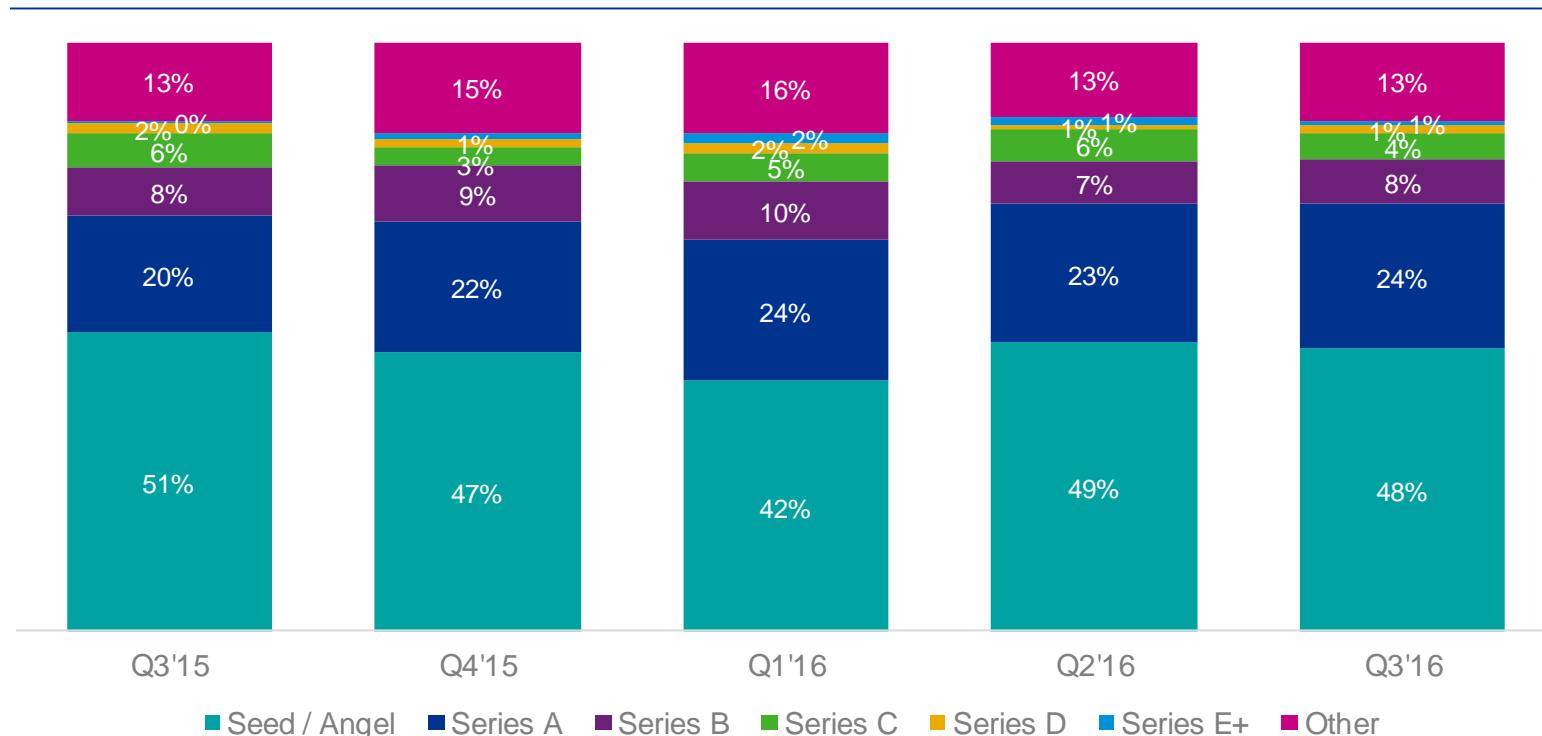


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# SEED DEAL SHARE IN EUROPE REMAINS STRONG FOR THE PAST 2 QUARTERS

After seed-stage deal share suddenly plunged in Q1'16, Q2'16 saw a recovery with nearly half of all European deals happening at the seed/angel stage, and Q3'16 has maintained the same levels.

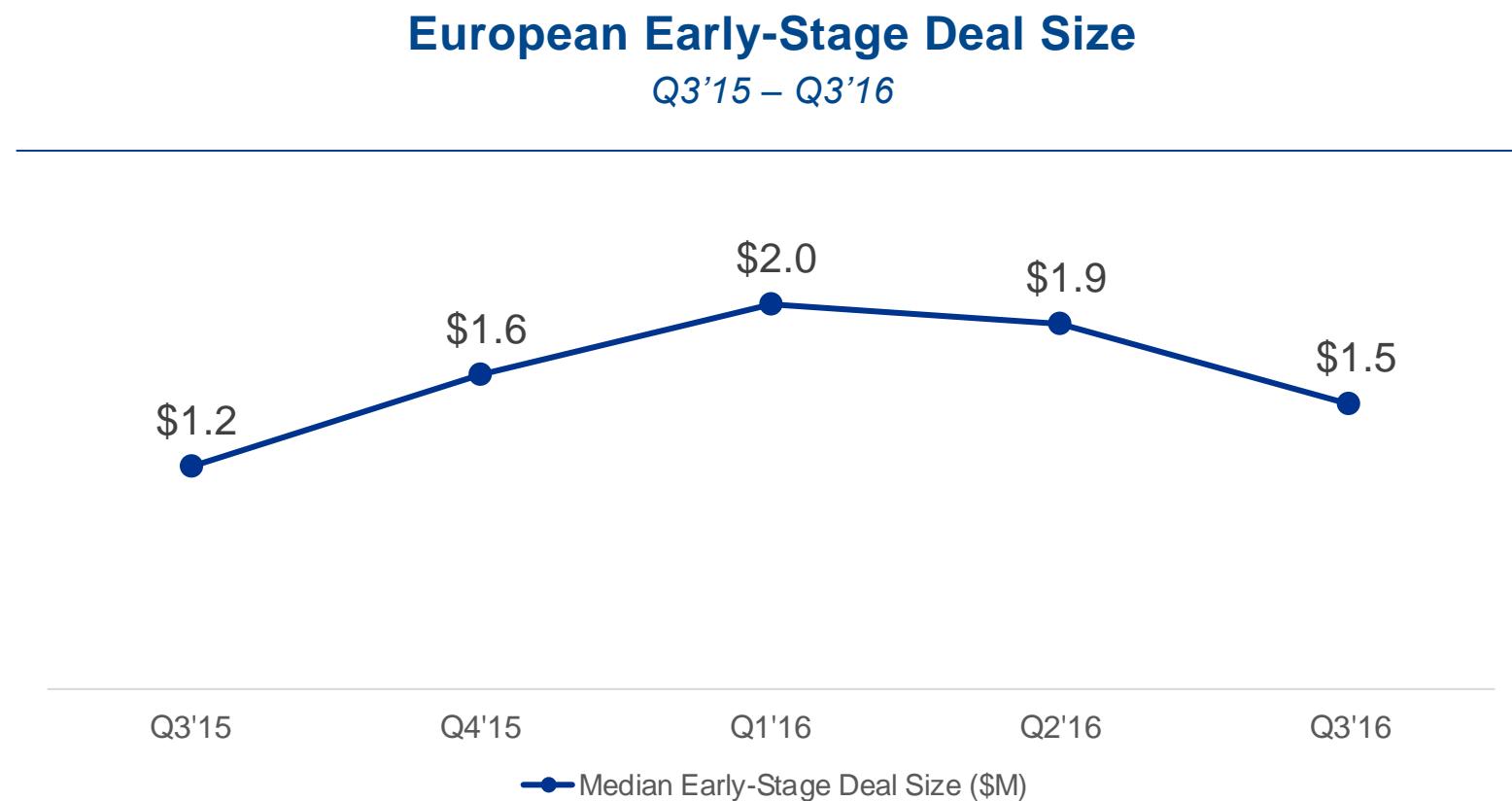
European Quarterly Deal Share by Stage  
Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# EARLY-STAGE DEAL SIZES DROP FOR THE SECOND QUARTER IN EUROPE

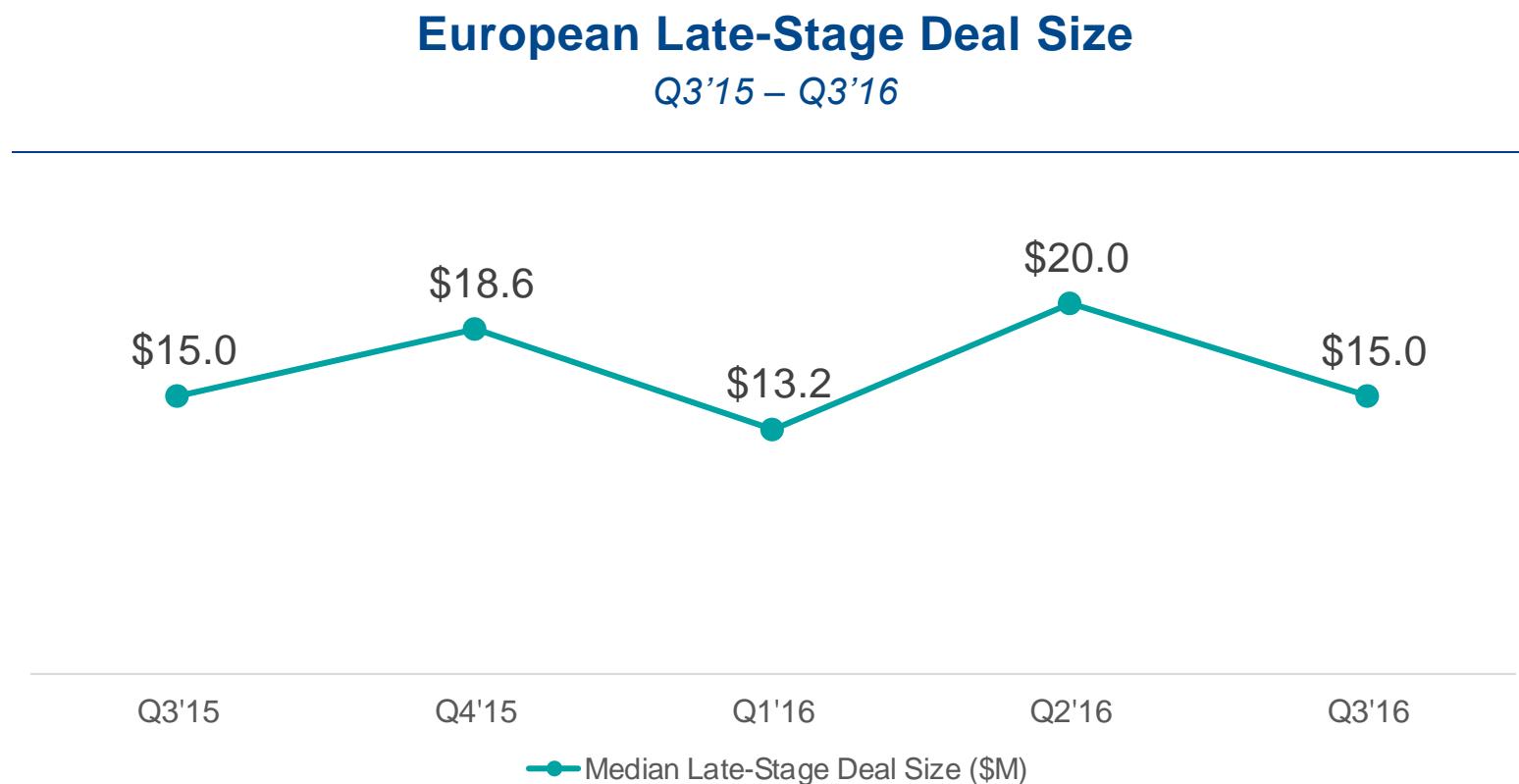
Early-stage deal size in Europe increased from \$1.2M in Q3'15 to \$2M in Q1'16 after increases in 2 back-to-back quarters. The last 2 quarters have dropped below the \$2M mark, with Q3'16 seeing a median early-stage deal size of \$1.5M. This can probably be attributed to the increase in deals at the seed-stage.



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# EUROPEAN LATE-STAGE DEAL SIZE FLUCTUATES

Late-stage deals in Europe have alternated between increasing and decreasing in deal size in each consecutive quarter. Q2'16 saw a high of \$20M for median late-stage deal size, dropping by 20% in Q3'16 which saw a \$15M median late-stage deal size.



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“In Q3, we saw several IPOs, including Nets and Takeaway.com, with other companies announcing their intent to go public. Other European tech firms are keeping an eye on these listings to see if valuations justify their own IPOs. Successful IPOs should also encourage VC investors to make bigger bets on European tech firms in the future.”**

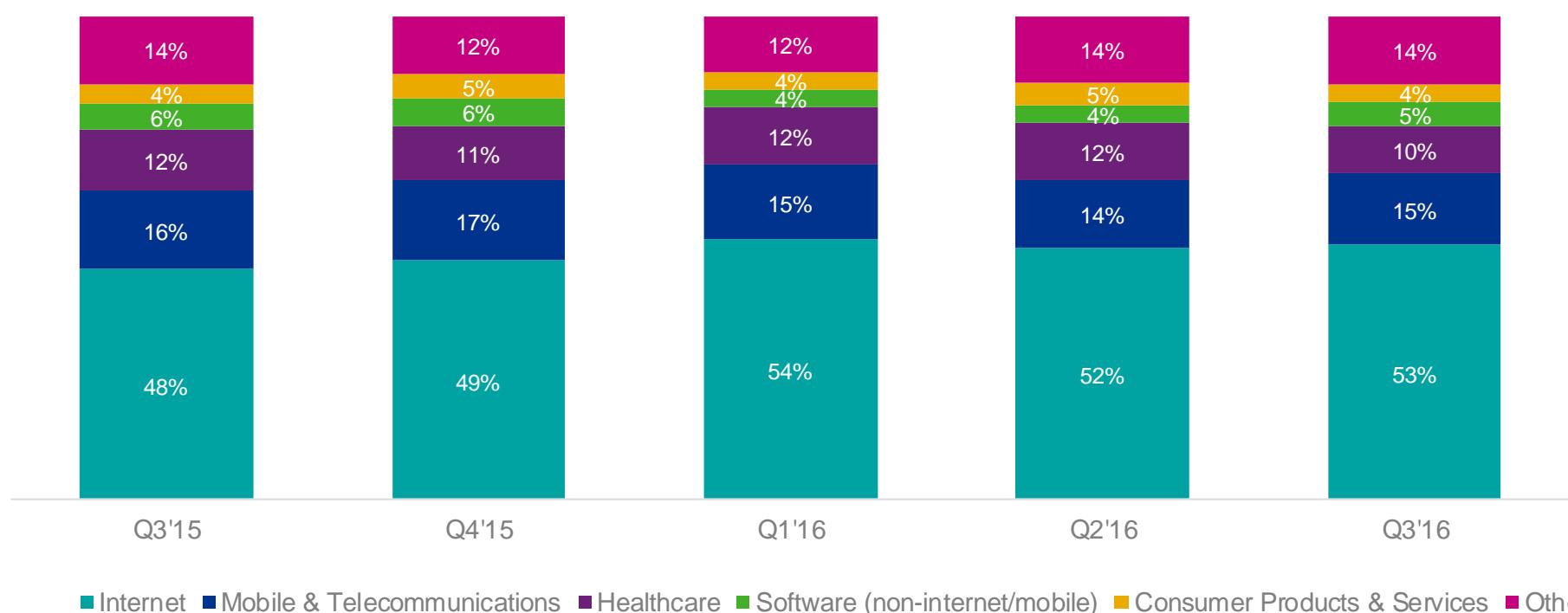


**Patrick Imbach**  
*Co-Head of KPMG Tech  
Growth,  
KPMG in the UK*

# INTERNET TAKES MORE THAN HALF OF ALL DEALS FOR THE THIRD QUARTER IN A ROW

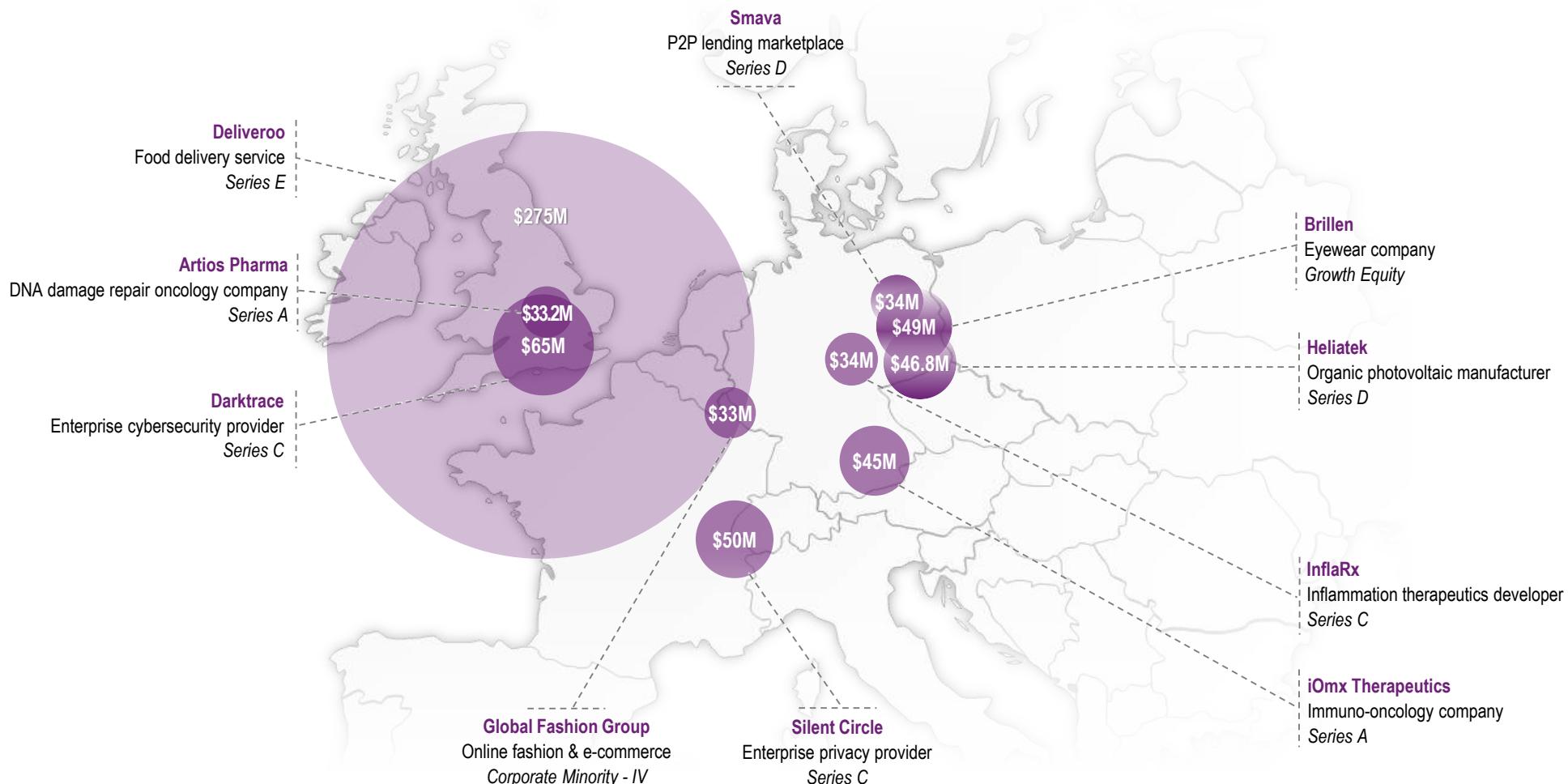
Internet has taken more than half of deals into VC-backed companies in Europe for the last 3 quarters. Healthcare dropped to a low of 10% in Q3'16. All other sectors remained relatively range-bound.

European Quarterly Deal Share by Sector  
Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# 10 LARGEST EUROPEAN ROUNDS OF Q3'16 REPRESENT MORE THAN \$660M IN FUNDING

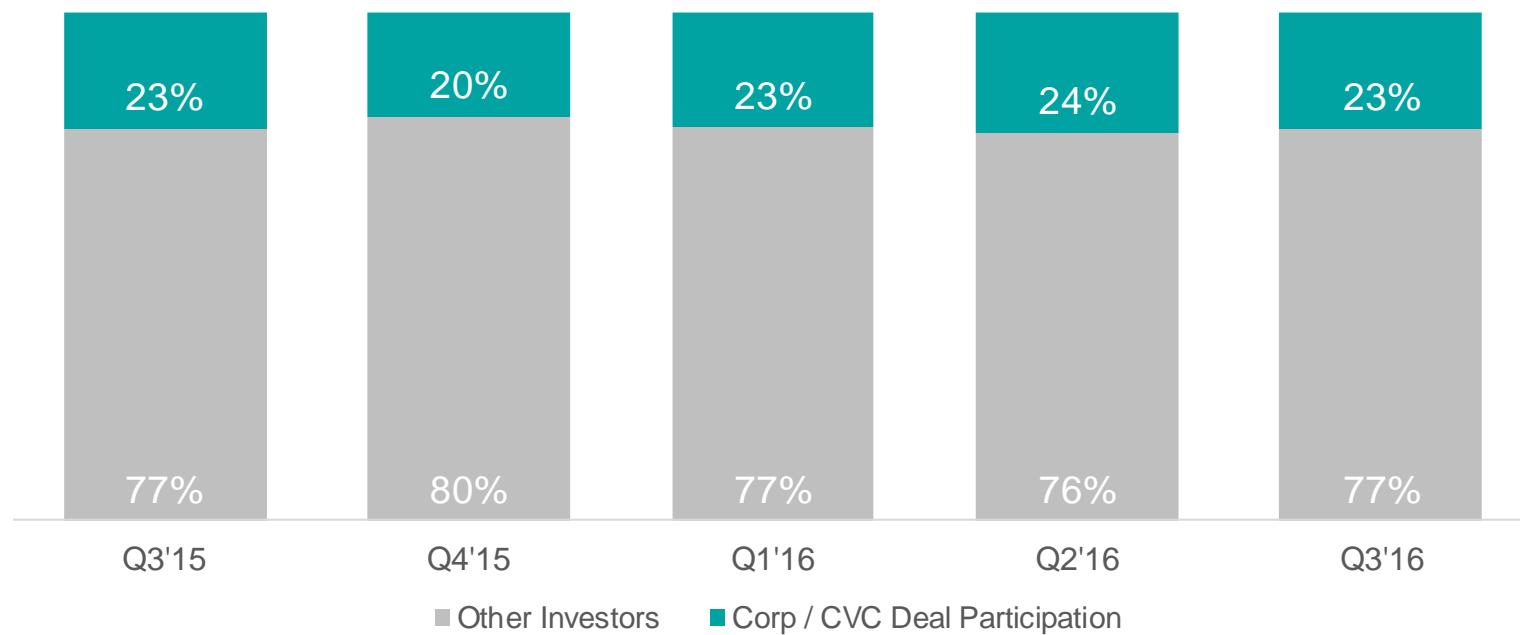


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# CORPORATE PARTICIPATION IN EUROPE HOVERS JUST UNDER A QUARTER OF ALL DEALS

Corporate investors participated in 23% of all deals to European VC-backed companies in Q3'16. Corporates have taken a fifth or more of all deals into VC-backed companies for the last 5 quarters.

## CVC Participation in European Deals to VC-Backed Companies Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# HIGH-TECH GRUNDERFONDS IS THE MOST ACTIVE VC INVESTOR IN EUROPE FOR Q3'16

High-Tech Grunderfonds continues to be the most active investor in European companies, with investments in Heliatek and Immunic. Business Growth Fund and Global Founders Capital were tied for second place.

## Most Active VC Investors in Europe Q3'16

Rank	Investor	Rank	Investor
1	High-Tech Grunderfonds	9	Caixa Capital Risc
2	Business Growth Fund	9	LVenture Group
2	Global Founders Capital	9	Northzone Ventures
4	SEED Capital	9	Index Ventures
4	Almi Invest	9	Balderton Capital
6	360 Capital Partners	15	Passion Capital
6	Bayern Kapital	15	Seedcamp
6	Earlybird Venture Capital	15	SpeedInvest
9	London Co-Investment Fund	15	Sunstone Capital

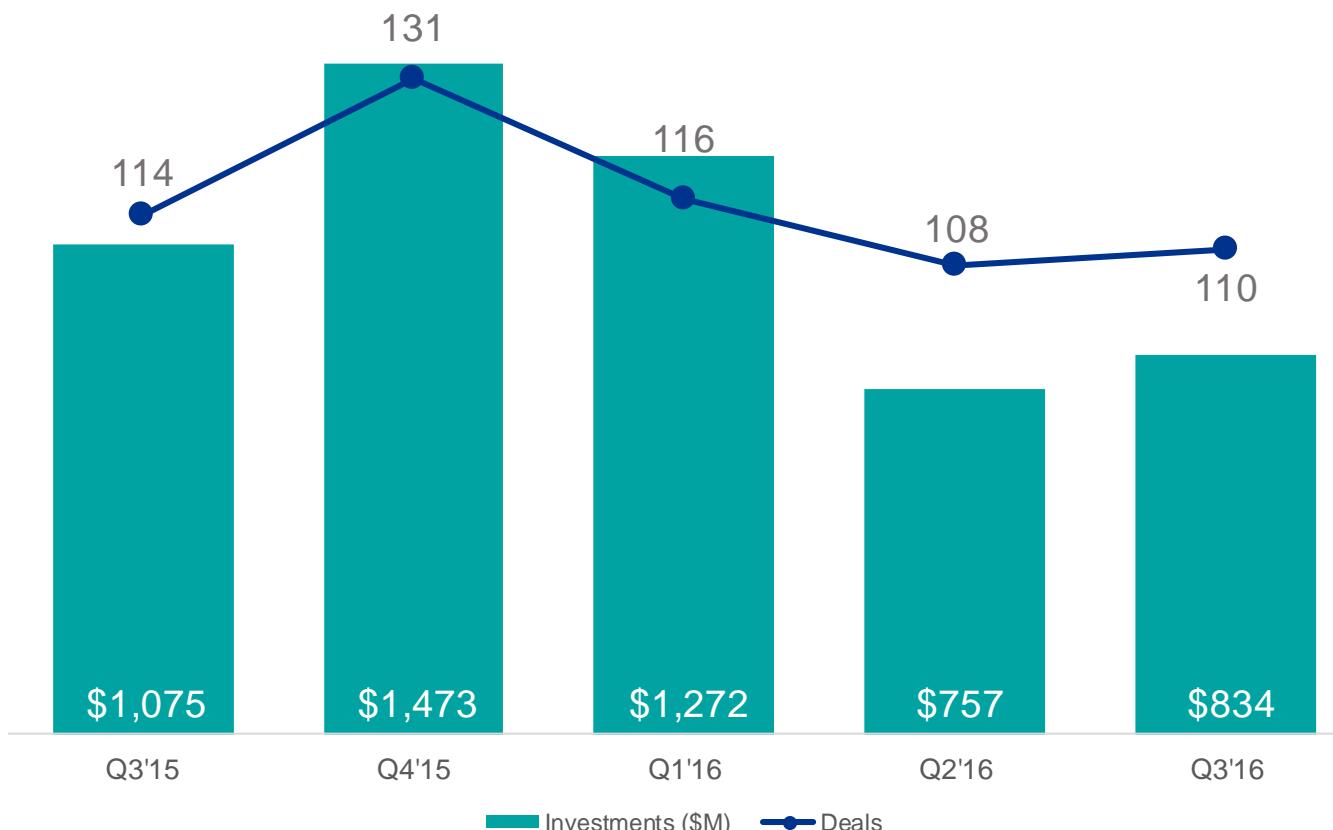
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# UK VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## UK Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

## Top Deals

### Deliveroo

\$275M // Series E

### Darktrace

\$65M // Series C

### Artios Pharma

\$33.2M // Series C

## Top Cities

### London

59 Deals // \$580.6M

### Cambridge

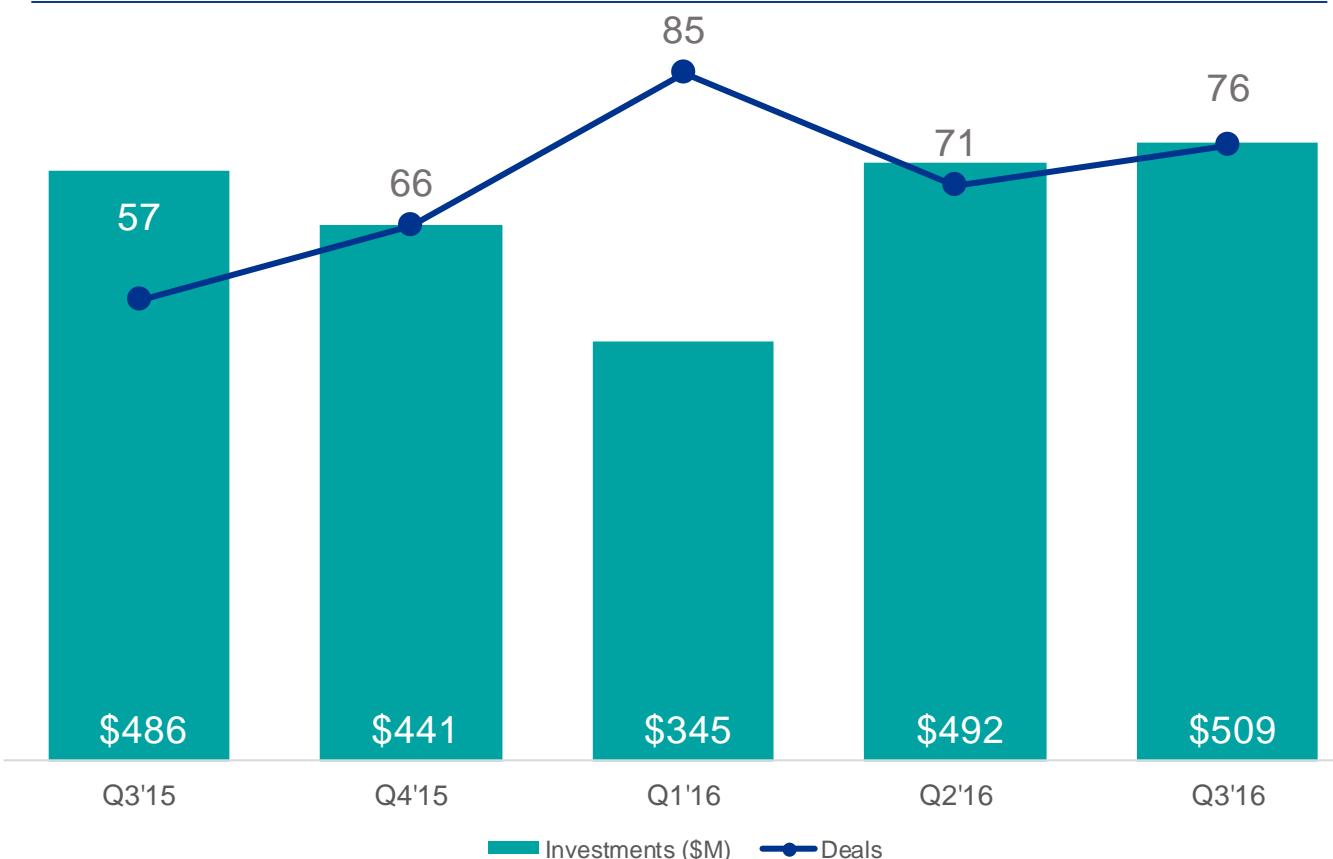
9 Deals // \$69.6M

# GERMANY VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## Germany Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

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**“Corporate participation in the VC market is only expected to grow over time. All industries need to respond to digital disruption. Corporates and family owned businesses may need help modernizing their business models and products.”**



**Tim Dümichen**  
*Partner,  
KPMG in Germany*

*In Q3 2016*

# ASIAN

*VC-backed companies raised*

**\$7.2 billion**

# VC investment in Asia remains flat for third-straight quarter

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While year-over-year quarterly results show VC investment in Asia has declined more than 50% between Q3'15 and Q3'16, quarter-over-quarter results have remained relatively stable since Q1'16. The ongoing flatness of VC investment is likely a result of ongoing global market uncertainties. Investment in China, in particular, reached a 5-quarter low, although the number of VC deals in China rose slightly.

## ***VC investors in Asia remain cautious in buyer's market***

VC investment in Asia remained hesitant in Q3'16. Over the past 2 quarters, the Asian VC market has transitioned to become more of a buyer's market, in which VC investors have more time to evaluate a company and undertake the proper due diligence associated with a transaction. Investment committees are taking more time to approve projects and many are starting to require deal teams to put personal stakes or shares into a company so that they have more skin-in-the game from a risk perspective.

In this cautious investment environment, in many cases, it is taking longer for deals to get completed, extending the time to close a given transaction. The longer lead time has likely affected deal volume over the past few quarters.

## ***Chinese investors focused globally***

Chinese VC investors continue to focus on markets outside of China. VC investors are taking advantage of government incentives and imperatives aimed at transitioning the Chinese economy to an innovative and technology-driven economy from its current manufacturing focus. Many state-owned enterprises are also looking outward in order to obtain access to new technologies that can be brought back to China within the next 2 to 3 years. In particular, Chinese companies have recently acquired or invested in technology companies in Israel, Canada and the UK. Of these, Israel has been the most aggressive about working with tech VC funds in China in order to promote their technologies to the Chinese market for their mutual benefit.

This international focus is likely to have a positive impact on China and Asia long-term by allowing Chinese companies to leverage new technologies as part of products and services in the future.

# VC investment in Asia remains flat for third-straight quarter (cont.)

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## *India VC investors focused on fundamentals*

VC investment in India rebounded in Q3'16 compared to Q2'16, although investment dollars are still more than 75% below the peak experienced in Q3'15. While investment dollars might be down, the quality of investments has increased dramatically as VC investors have focused on companies with clear business models and greater profitability potential. Over the next few quarters, Series B and C deals are expected to increase as high-quality early-stage companies grow and seek out new funding.

## *Japan's VC market small, but poised for rapid growth*

Next to the US and China, Japan's VC market is quite small, however, activities over the past few quarters suggest that the country's venture ecosystem may be entering a period of rapid growth as the culture within the country becomes more accepting of entrepreneurialism and funding availability grows in parallel. The government is providing more support for entrepreneurship and early-stage investors, while large corporates are setting up VC arms and investing in or acquiring startups, a major shift from the internal innovation focus they have had in the past. These actions, in addition to public successes like privately funded Mercari attaining unicorn status in Q1'16, are poised to help the industry make significant gains heading into 2017.

## *Technology enablement – the wave of the future in Asia*

Over the next few quarters, Asia based VC investment is likely to remain focused on technology enablement, using technology to help improve service or product quality or to make them more accessible for individuals. The healthcare sector is poised to be a big winner in this regard both in terms of providing accessible primary healthcare and in terms of making processes such as booking appointments and writing prescriptions easier for both doctors and patients.

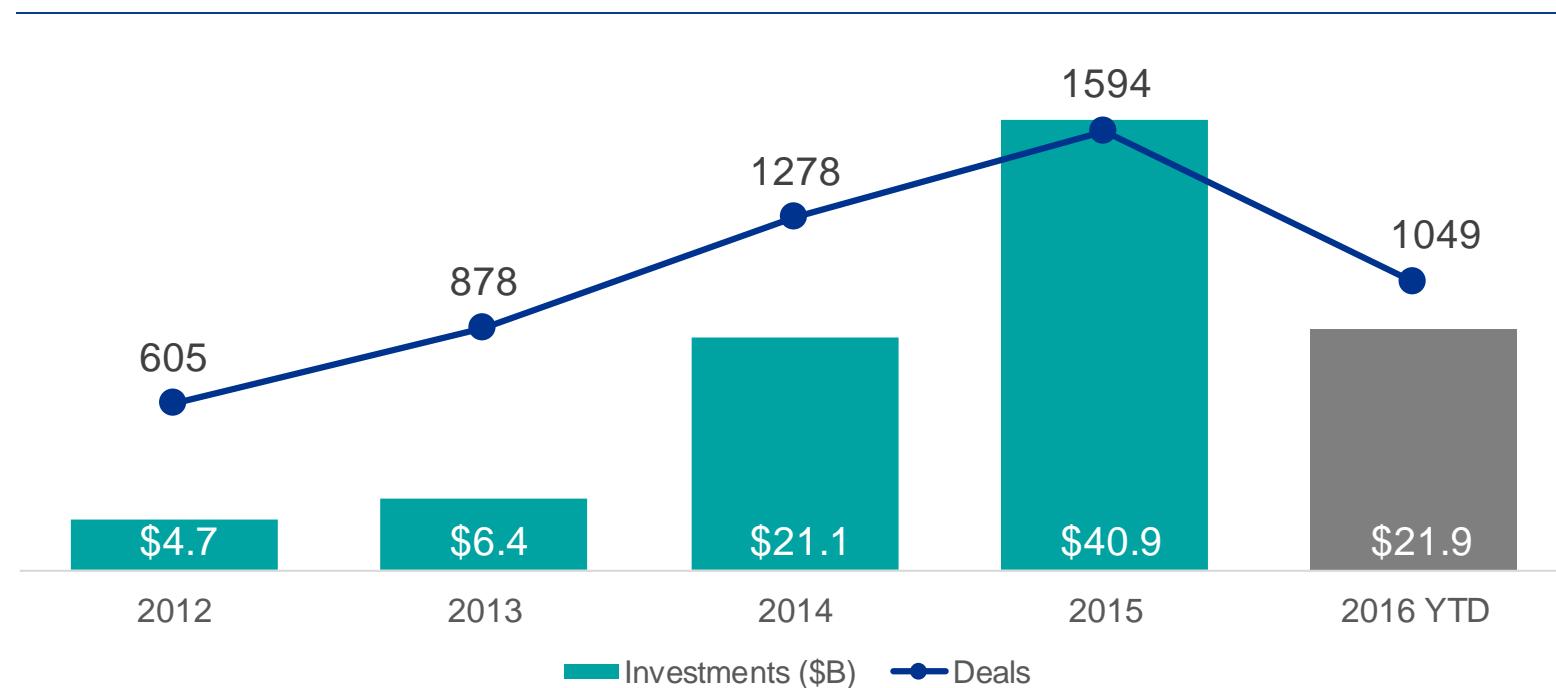
Investment in entertainment and media technologies is also expected to rise dramatically heading into 2017. This sector continues to be fueled by an insatiable appetite from Asian consumers for such technologies.

Furthermore, international growth is also expected to be a major focus for Asia-based VC investors in the near-term. Investors in Hong Kong are already focusing on companies able to build globally competitive companies, with investors in mainland China also keenly interested in this area.

# 2016 TO DATE: INVESTORS DEPLOY \$21.9B ACROSS 1049 DEALS TO VC-BACKED COMPANIES IN ASIA

Funding and deal activity in Asia grew quickly from 2012 to 2015, with deals more than doubling in that time period and funding seeing more than 8X invested from \$4.7B to \$40.9B. However, 2016 has seen a slowdown, with funding on pace to fall below \$30B and deals to drop to less than 1500.

## Asian Annual Financing Trends to VC-Backed Companies 2012 – 2016 YTD (Q3'16)

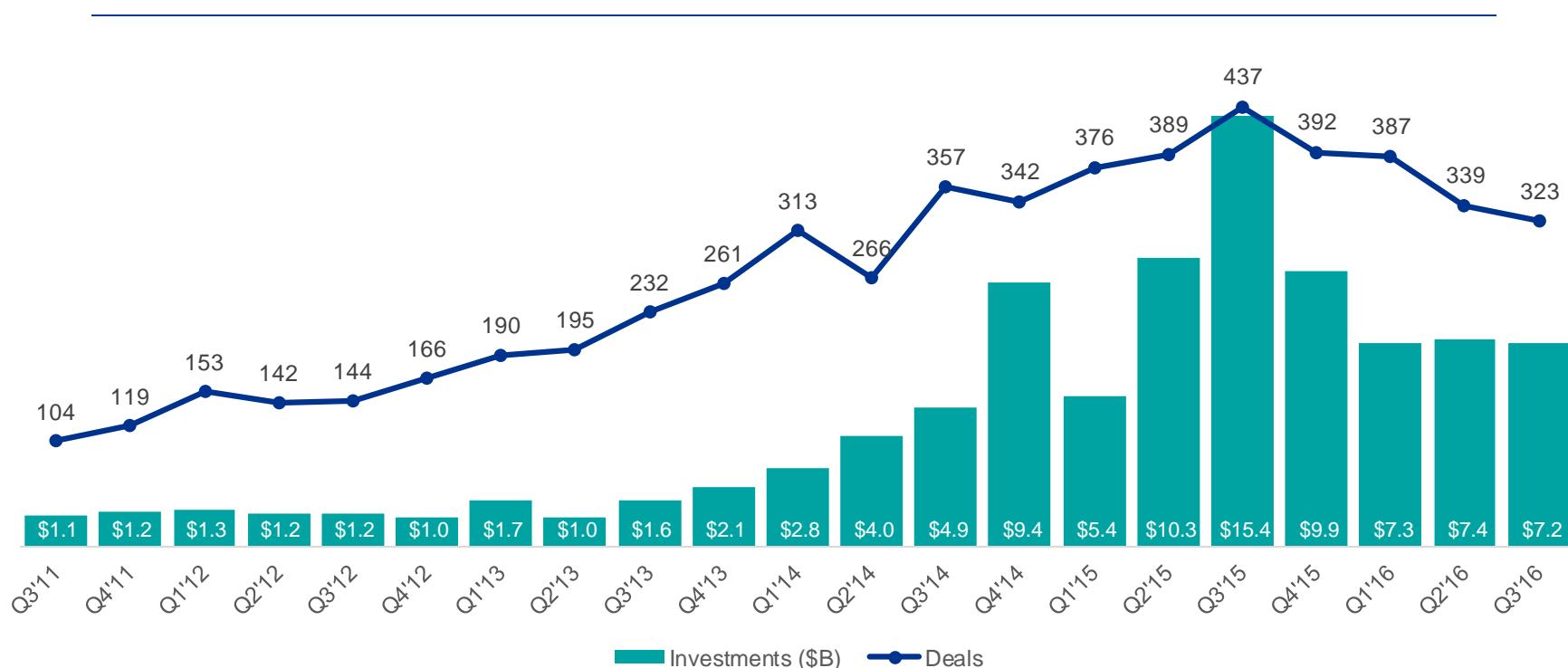


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# DEALS TO ASIAN VC-BACKED COMPANIES DROP FOR THE FOURTH-CONSECUTIVE QUARTER

Deal activity has slowed down dramatically in Asia since it reached a peak of 437 deals in Q3'15. After 4 straight quarters of negative growth, Q2'16 saw just 323 deals, the lowest level since Q2'14 and a drop of 26% from Q3'15. Funding has seen 3 consecutive quarters below \$7.5B, and was buoyed this quarter by deals into on-demand companies like Grab and Go-Jek.

## Asian Quarterly Financing Trends to VC-Backed Companies Q3'11 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“In Asia, the next wave of innovation will likely be about building globally competitive companies. To excel, companies need to understand how foreign businesses are run, including their different cultures and management styles.”**

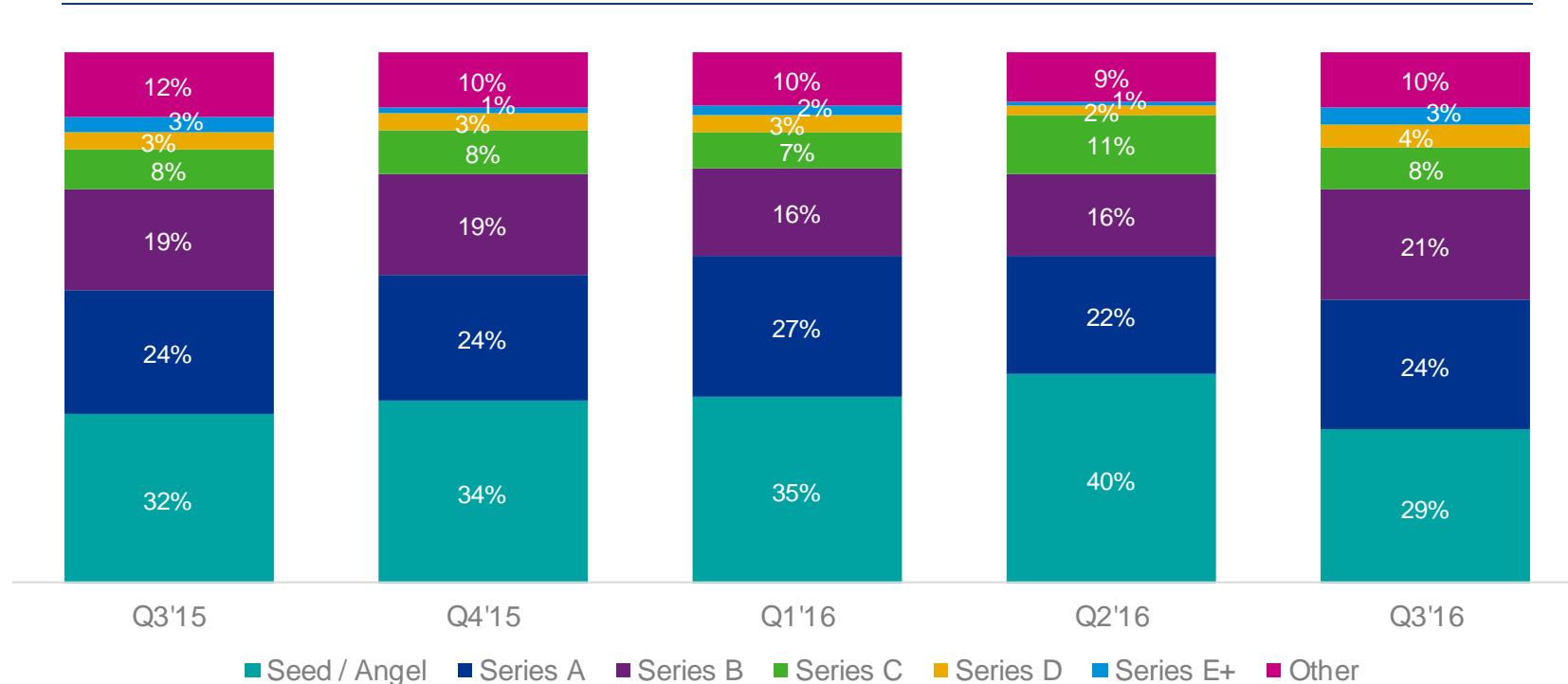


**Irene Chu**  
*Partner, Head of High Growth Technology & Innovation Group,  
KPMG in Hong Kong*

# ASIAN SEED/ANGEL DEAL SHARE DROPS BELOW 30% AFTER A HIGH IN Q2'16

After 3 quarters of growth in the seed/angel share of deals into VC-backed companies in Asia, Q3'16 saw a significant fall to 29% from 40% the quarter before. Series B saw the most growth, taking more than a fifth of all deals in the quarter.

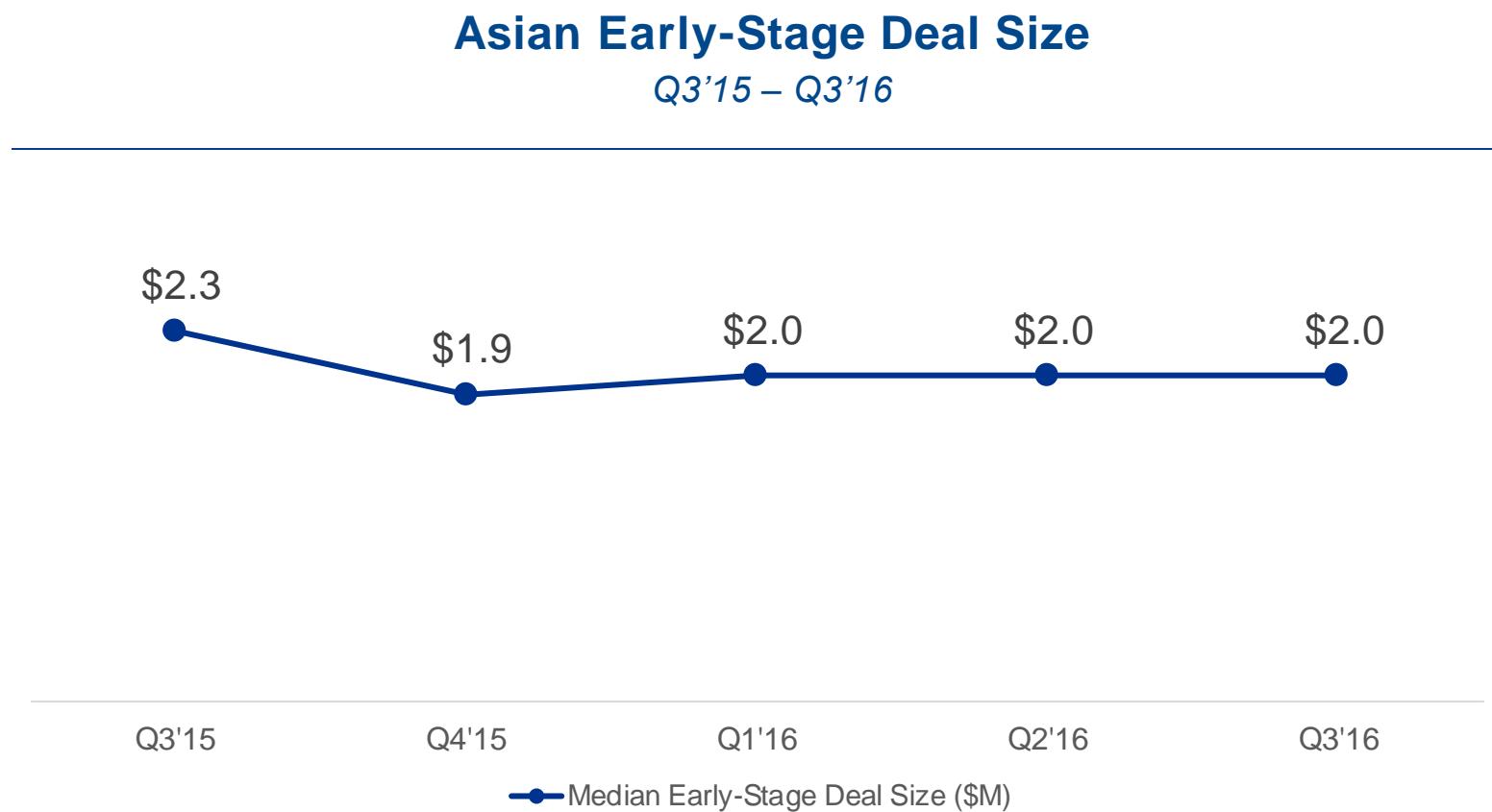
## Asian Quarterly Deal Share by Stage Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# MEDIAN EARLY-STAGE DEAL SIZE HOVERS AROUND \$2M IN ASIA

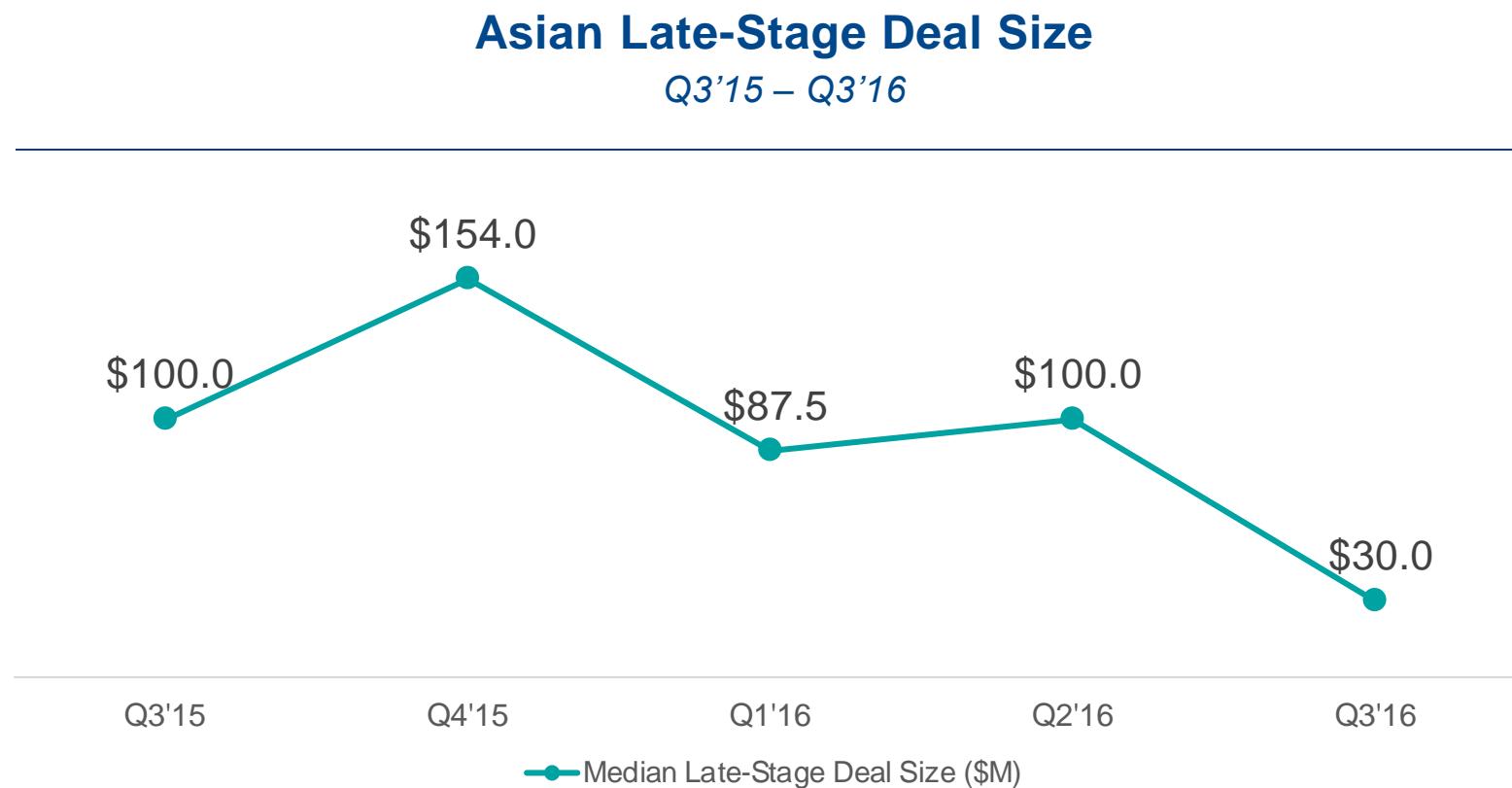
While Q3'15 saw a slightly larger early-stage deal size in Asia at \$2.3M, the median has remained at \$2M throughout 2016.



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# MEDIAN LATE-STAGE DEAL SIZE IN ASIA CRATERS IN Q3'16, DROPPING 70% FROM PREVIOUS QUARTER

Q4'15 saw a peak in late-stage deal size with \$154M as the median, fueled by fifteen deals above \$100M each. Q3'16 has presented a meaningful drop, reaching \$30M in median late-stage deal size. This represents an 80% drop from the Q4'15 peak, and brings the number closer to the deal size seen in the other continents.

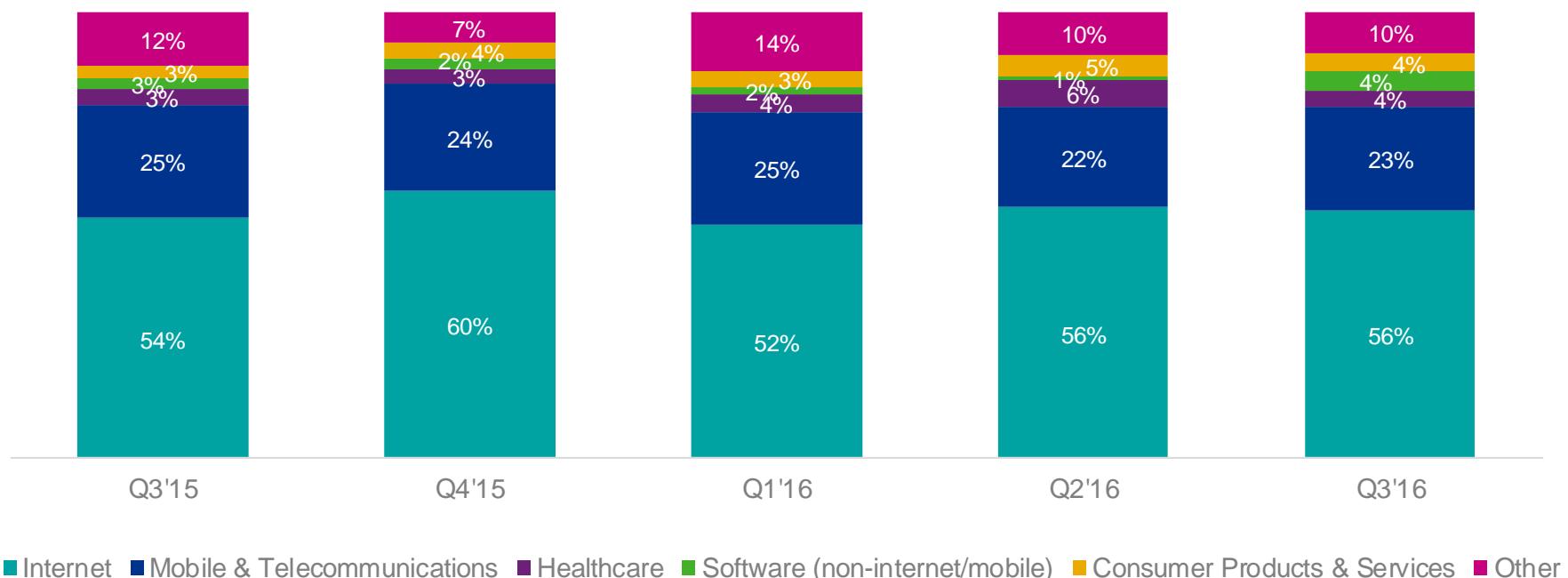


Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# INTERNET AND MOBILE SHARE STILL DOMINANT IN ASIA, WHILE HEALTHCARE SHRINKS

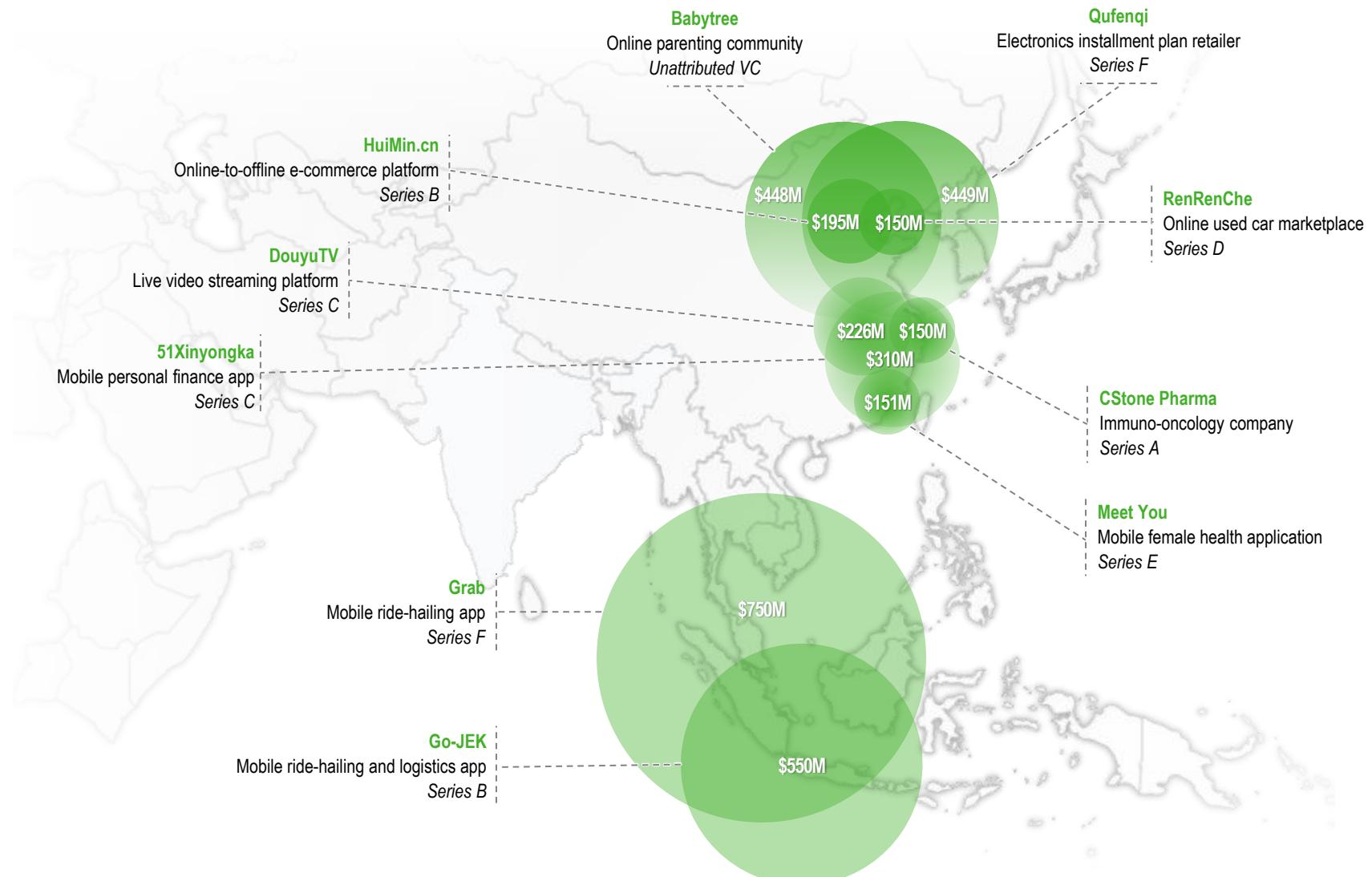
Internet deal share climbed back to 56% for the last 2 quarters after a dip in Q1'16. Together, Mobile and Internet have more than 3 quarters of all deals for the last 5 quarters. Healthcare dropped from 6% to 4% between Q2'16 and Q3'16.

**Asian Quarterly Deal Share by Sector**  
Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# 10 LARGEST ASIAN ROUNDS OF Q3'16 REPRESENT MORE THAN \$3.3B IN FUNDING



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“It appears that it is becoming more of a buyer’s market in China. There’s less bidding going on and VCs are taking more time to evaluate each company. In some instances investment committees are asking deal teams to put personal funds into projects to ensure they have a real stake in a company’s success.”**



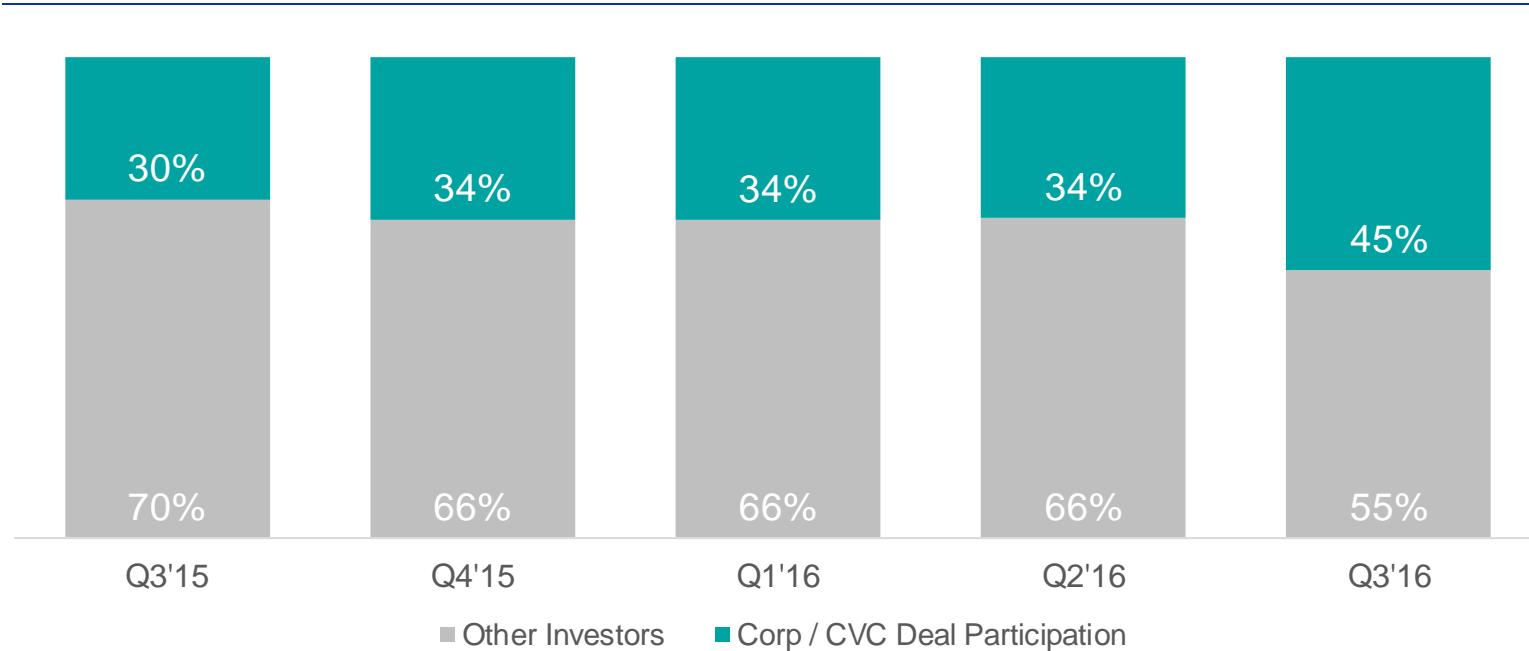
**Lyndon Fung**  
*US Capital Markets Group,  
KPMG China*

# CORPORATES PARTICIPATE IN NEARLY HALF OF ALL DEALS TO VC-BACKED COMPANIES IN ASIA

Between Q3'15 and Q2'16, Asia typically saw about a third of deals include corporates, already a greater proportion than any of the other geographies. Q3'16 saw an especially large jump, reaching 45% in the quarter. Some of the most active corporates this quarter were Tencent, Intel Capital, and Brand Capital.

## CVC Participation in Asian Deals to VC-Backed Companies

Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“ The availability of capital is influenced by the broader cultural environment. When there are more people who want to become entrepreneurs and more corporates setting up VC arms or investing funds into startups directly this helps de-risk the market for investors. This cultural shift is happening in Japan and it’s putting a lot of energy and vitality into the VC market.”**



**Paul Ford**  
*Partner, Deal Advisory,  
KPMG in Japan*

# SEQUOIA INDIA AND 500 STARTUPS WERE THE MOST ACTIVE VCs IN ASIA IN Q3'16

Sequoia Capital India and 500 Startups tied for most active investor in Asia, with each making investments in more than 10 companies including, Druva, Zilingo and Iterable. Blume Ventures was the most active investor in Q2'16, but dropped to the bottom of the most active list in Q3'16.

## Most Active VC Investors in Asia Q3'16

Rank	Investor	Rank	Investor
1	Sequoia Capital India	6	Gobi Partners
1	500 Startups	10	Swastika Company
3	East Ventures	10	SAIF Partners
4	Matrix Partners China	10	Qualcomm Ventures
4	Accel Partners India	10	Bessemer Venture Partners
6	Sequoia Capital China	10	Blume Ventures
6	Shunwei Capital Partners	10	Brand Capital
6	Golden Gate Ventures	10	Gobi Partners

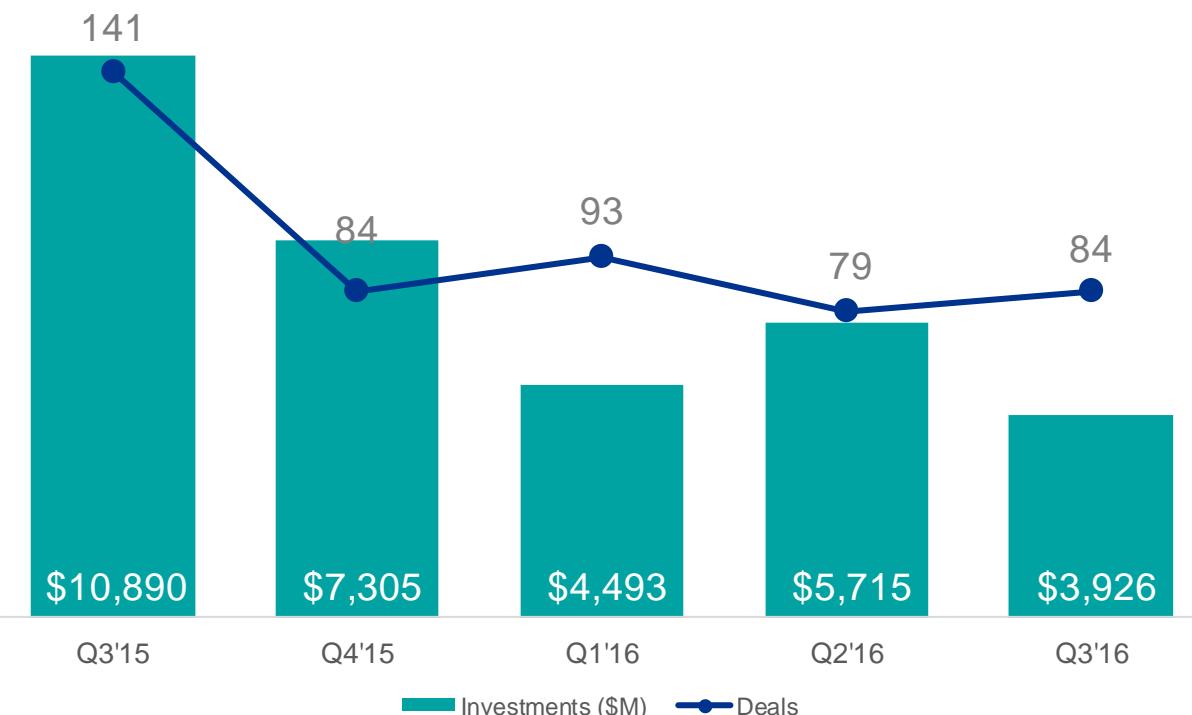
Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# CHINA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## China Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

**Qufenqi**

\$449M // Series F

**Babytree**

\$448M // Unattributed

**51Xinyongka**

\$310M // Series C

## Top Cities

**Beijing**

31 Deals // 1.9B

**Shanghai**

20 Deals // \$609.7M

**Shenzhen**

4 Deals // \$127M

Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

**“ The investment environment in India is becoming stable with clearer business models emerging in the startup ecosystem. Though the speed of investments have not increased, we see a clear increased interest by investors in FinTech start-ups with O to O models which have better control in the ecosystem, as well as interest in the payments space. Interest in health-tech is growing too, particularly in technologies that are enabling higher quality primary care or more convenient healthcare delivery, such as new models of care, digital health screening, scheduling, and digital referral services.”**



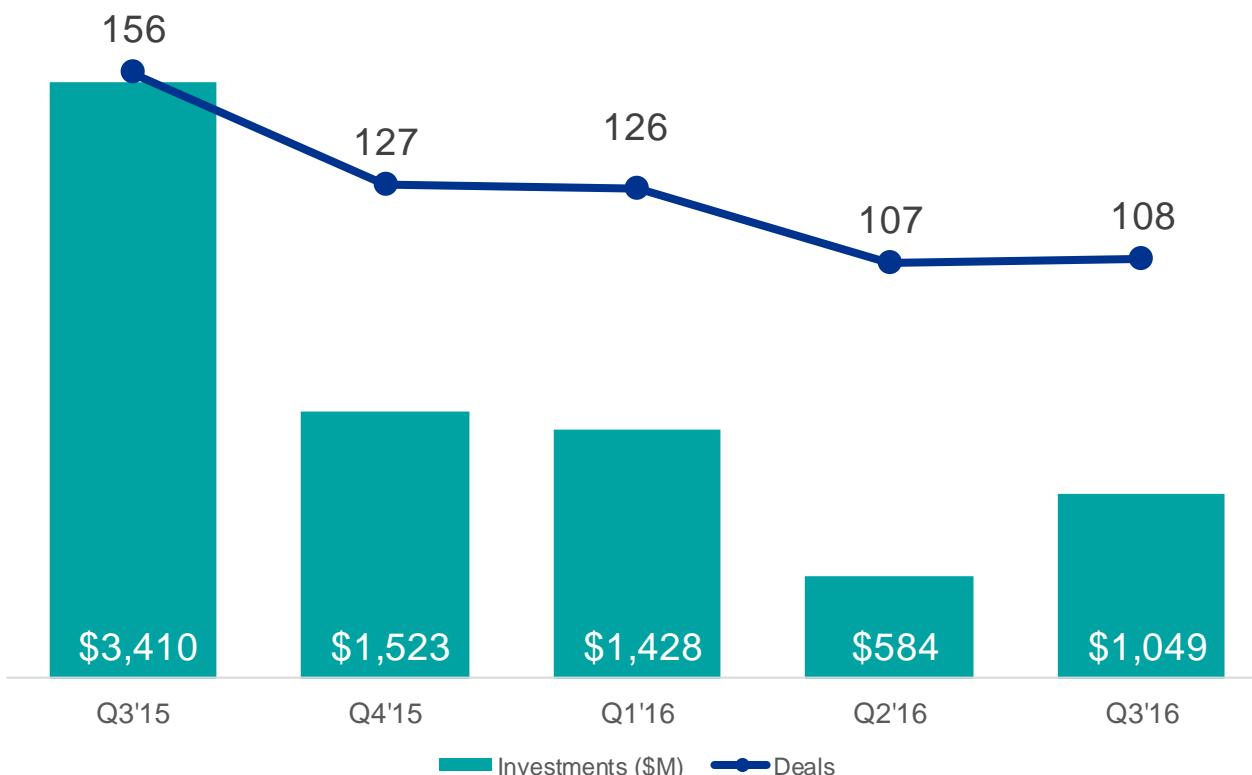
**Sreedhar Prasad**  
*Partner, E-Commerce and  
Startups,  
KPMG in India*

# INDIA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q3'16

## India Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

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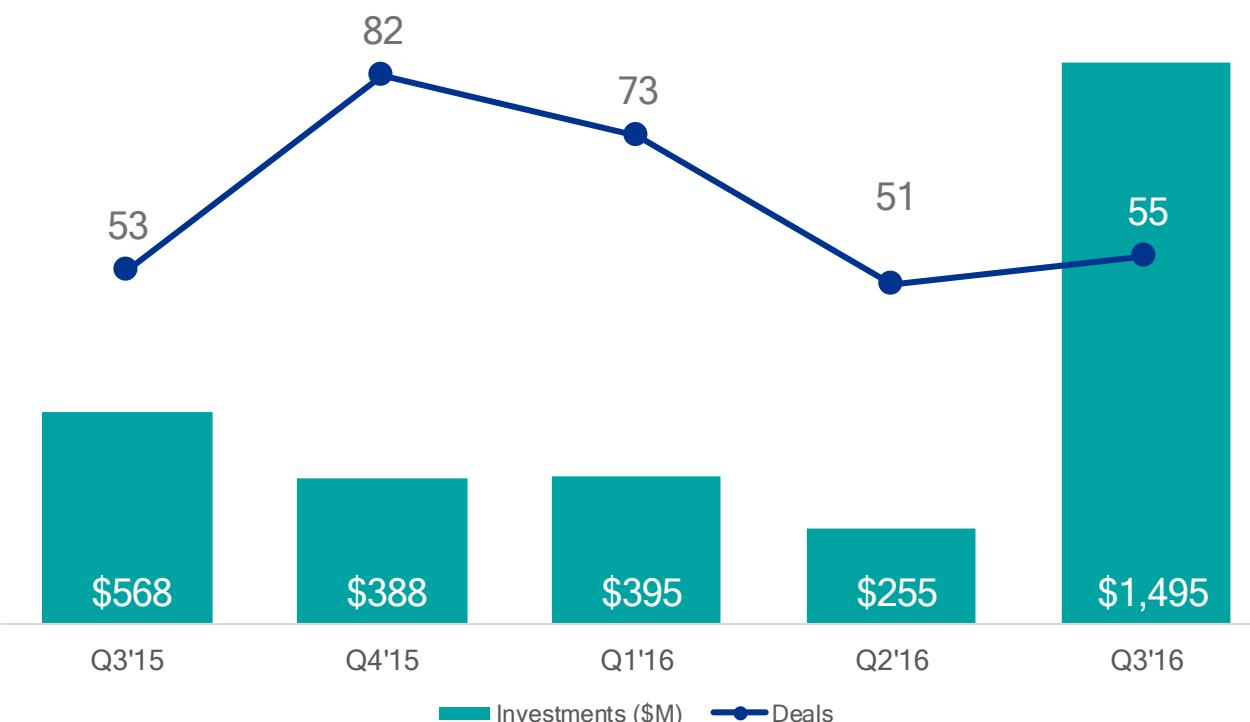
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# SOUTHEAST ASIA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q3'16

## Southeast Asia Investment Activity

VC-Backed Companies, Q3'15 – Q3'16



## Top Deals

Grab

\$750M // Series F

Go-JEK

\$550M // Series B

Carousell

\$35M // Series B

## Top Countries

Singapore

21 Deals // \$858.9M

Indonesia

20 Deals // \$599.9M

Source: Venture Pulse, Q3'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) October 13<sup>th</sup>, 2016.

# METHODOLOGY — WHAT'S INCLUDED? WHAT'S NOT?

CB Insights and KPMG Enterprise encourage you to review the methodology and definitions employed to better understand the numbers presented in this report. If you have any questions about the definitions or methodological principles used, we encourage you to reach out to CB Insights directly. Additionally, if you feel your firm has been underrepresented please send an email to [info@cbinsights.com](mailto:info@cbinsights.com) and we can work together to ensure your firm's investment data is up-to-date.

## What is included:

- Equity financings into emerging companies. Fundings must come from VC-backed companies, which are defined as companies who have received funding at any point from either: venture capital firms, corporate venture group or super angel investors.
- Fundings of only private companies. Funding rounds raised by public companies of any kind on any exchange (including Pink Sheets) are excluded from our numbers even if they received investment by a venture firm(s).
- Only includes the investment made in the quarter for tranches investments. If a company does a second closing of its Series B round for \$5M and previously had closed \$2M in a prior quarter, only the \$5M is reflected in our results.
- Round numbers reflect what has closed – not what is intended. If a company indicates the closing of \$5M out of a desired raise of \$15M, our numbers reflect only the amount which has closed.
- Only verifiable fundings are included. Fundings are verified via (1) various federal and state regulatory filings; (2) direct confirmation with firm or investor; or (3) press release.
- Previous quarterly VC reports issued by CBI have exclusively included VC-backed rounds. In this report any rounds raised by VC-backed companies are included, with the exceptions listed.
- Geography note: Israel funding figures are classified in Asia.

## What is excluded:

- No contingent funding. If a company receives a commitment for \$20M subject to hitting certain milestones but first gets \$8M, only the \$8M is included in our data.
- No business development / R&D arrangements whether transferable into equity now, later or never. If a company signs a \$300M R&D partnership with a larger corporation, this is not equity financing nor is it from venture capital firms. As a result, it is not included.
- No buyouts, consolidations or recapitalizations. All three of these transaction types are commonly employed by private equity firms and are tracked by CB Insights. However, they are excluded for the purposes of this report.
- No private placements. These investments, also known as PIPEs (Private Investment in Public Equities), even if made by a venture capital firm(s).
- No debt / loans of any kind (except convertible notes). Venture debt or any kind of debt / loan issued to emerging, startup companies, even if included as an additional part of an equity financing is not included. If a company receives \$3M with \$2M from venture investors and \$1M in debt, only the \$2M is included in these statistics.
- No government funding. Grants, loans or equity financings by the federal government, state agencies, or public-private partnerships to emerging, startup companies are not included.

# KPMG ENTERPRISE INNOVATIVE STARTUP NETWORK. FROM SEED TO SPEED, WE'RE HERE THROUGHOUT YOUR JOURNEY



# About KPMG Enterprise

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## About KPMG Enterprise

You know KPMG, you might not know KPMG Enterprise.

KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. Whether you're an entrepreneur looking to get started, an innovative, fast growing company, or an established company looking to an exit, KPMG Enterprise advisers understand what is important to you and can help you navigate your challenges – no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact – a trusted adviser to your company. It's a local touch with a global reach.

The KPMG Enterprise global network for innovative startups has extensive knowledge and experience working with the startup ecosystem. Whether you are looking to establish your operations, raise capital, expand abroad, or simply comply with regulatory requirements — we can help. From seed to speed, we're here throughout your journey.

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