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Venture Pulse Q2 2018

Global analysis of venture funding

12 July 2018

Welcome message

Welcome to the Q2'18 edition of KPMG Enterprise's Venture Pulse — a quarterly report highlighting key trends, opportunities and challenges facing the venture capital market globally and in key regions around the world.

A record-shattering $14 billion raise by Ant Financial in China, in addition to $1 billion+ mega-rounds to Weltmeister, Pinduoduo, Faraday Future, and Manbang Group helped propel VC investment in Asia and the Americas. While VC investment in Europe remained far behind the other regions, a rebound in investment in the UK helped to keep European investment relatively strong quarter-over-quarter.

Artificial intelligence continued to be a hot area of investment in all regions of the world in Q2'18, while autotech, cybersecurity, agtech and biotech were also seen as key priorities.

The IPO market gained momentum in Q2'18 with the successful IPOs of Ayden in the Netherlands, DocuSign in the US and a number of other software-as-a-service companies. M&A activity was also robust, led by the $7.5 billion acquisition of GitHub by Microsoft. With post-IPO results showing positive returns, it is likely that other VC-backed companies in the US, Europe and Asia could move forward with IPOs over the next few quarters — if only as a means to create exit opportunities for their early investors.

Looking forward to Q3'18, AI and data analytics are expected to remain high on the radar of VC investors. It is also expected that companies in maturing sectors, such as e-commerce, will continue to broaden their offerings and investments in order to access new or adjacent verticals.

In this edition of Venture Pulse, we look at these and other global and regional trends, including:

- The implications of the plateau in seed and angel stage deals in the US
- The major focus on artificial intelligence by both governments and investors
- The strengthening IPO market globally and the shifting rationale for holding IPO exits
- The evolution and rising prominence of agtech

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

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Contents

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Q2'18 summary

The unstoppable tide of capital

The first quarter of 2018 recorded a truly massive tally of VC invested worldwide, with the final figure landing at well over $50 billion once all data was collected. But even that mammoth sum pales in comparison to what the second quarter of 2018 recorded: $69 billion+. It has to be noted that the outlier company of all outlier companies — Chinese fintech giant Ant Financial — once again skewed even annual figures significantly, raising $14 billion in a late-stage VC round that almost beggars typical venture methodologies. Without that single transaction, VC invested would still have been a remarkable $56 billion, give or take, which signals that the unstoppable tide of capital abundance within venture has yet to abate.

Late-stage volume marches slowly but steadily forward

Prior to Q1 2018, even the heady period from late 2015 to the end of 2017 never saw late-stage VC activity account for more than 20% of global venture volume, although eventually quarterly tallies crept close. However, the first two quarters of 2018 have each seen well over 20% of global venture volume classified as late stage. The primary implications of this trend are twofold: one, companies are staying private longer, and two, they are still able to raise plenty of capital. But given the gradual decline in aggregate deal count by quarter, the riskiest potential deals are less and less likely to be closed.

Valuations persevere atop the flood of capital

Venture valuations are difficult in practice, and even somewhat so in theory. Given their degree of uncertainty, it is still intriguing that they remain so consistently high across the board. Such persistence argues significant capital abundance and consequent competition as well as investors' belief that such valuations will eventually pay off. That belief should not necessarily be met with skepticism; software M&A multiples and the rip-roaring performance of technology stocks over the past several years should always be borne in mind when analyzing VCs' willingness to take huge, even if risky, bets. That said, there is still plenty of talk around increasing caution.

European venture still characterized by late-stage-focused funds

As this edition of the KPMG Venture Pulse was being finalized, news broke of Highland Europe, a growth-stage VC firm, closing its third fund at $540 million (based on exchange rates at that time). Such a sizable close for the European fundraising ecosystem exemplifies the European venture scene as it currently stands: A cadre of often late-stage-focused VC firms still successfully close the bulk of capital within the continent, and invest across key metros, bolstering aggregate VC invested even if the tally of early-stage activity continues to decline. Although early-stage fundraising will experience bouts of bullishness, that market within Europe continues to face systemic hurdles more owing to the very nature of early-stage VC than anything else, as well as interplay between EU agencies or national governments as to specific roles.

Skewed by Ant Financial, capital flow surges to a new high

As Ant Financial's mammoth and skewing financing were already remarked upon earlier, it's important to note for the Asia-Pacific venture ecosystem that quarterly VC invested came in quite below the staggering highs previously reached in just the prior year. That said, the steadiness in late-stage volume as well as historical robustness of capital represents another notch in the maturation of the regional venture and technology scene. Ongoing political and trade concerns that look set to intensify could result in some hiccups in the flow of capital to VC in particular, but thus far, things remain robust.

All currency amounts are in USD, unless otherwise specified, data provided by PitchBook.

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Q2'18 summary

Corporate participation continues to be a highly important driver

In this and the previous edition of the Venture Pulse, corporate financings of companies that otherwise meet all other criteria for venture-backed financings are included for the first time. Given the evolution of private markets and the venture industry in general, most notably, the significant increase in corporate VC participation rates, this change was necessary to truly reflect the importance of the role that strategic acquirers and related investment arms are playing in the current landscape. Especially as private companies continue to elect to grow while staying private, more and more companies are looking to gain or maintain exposure to innovation within the private sphere, whether it be financial or related to intellectual property. Participation rates are at all-time highs.

Still highly cyclical on a quarterly basis, fundraising suggests ongoing alternatives commitment

Midway through the year, fundraising volume is on pace to match the tally observed in 2017, roughly speaking, at 234 closed vehicles. Total capital committed, however, is quite healthy, having increased steadily on a quarter-over-quarter basis. What these data points suggest, in the context of the remarkably strong fundraising cycle over the prior several years, is that the shift toward alternatives' allocations on the part of institutional investors is as momentous as some in the industry have declared. Increased allocation to VC by family offices, mutual funds (those often taking direct stakes) and others as part of an overall augmentation of alternatives' portions of portfolios has directly underpinned the bullishness of the VC cycle this past half-decade. If this trend continues, it will likely only further encourage highs in VC invested on a historical basis, as well as late-stage exposure. As fundraising volume is still skewing toward the mid-sized and large segments of the market, pure fund should continue to exert upward pressure across the investing side of affairs.

Liquidity is all about timing

Private capital strategies are all about the premiums given to patient investors. With that in mind, the fact exit volume has steadily slid since peaks in 2014 and 2015 should not yet spark concern, especially as global exit value tallies have been fairly steady. What should spark concern is that there have been few notable surges in exit value, driven by unicorns finally going public or being acquired. The steady trickle of such exits still could pay off for many backers, as exemplified by Microsoft's acquisition of Github and some recent notable IPO filings, such as that of Domo. The key therein is the steadiness of such payoffs and consequent payouts to venture backers. As long as the timeline does not become overly protracted, investors are expected to still take delayed exits of sufficient size over less-robust liquidity events at the preplanned time. And, as the unicorn boom kicked off in earnest in the early years of the 2010s, there is still runway for typical late-stage venture fund timelines — it is probable that non-traditional VCs that looked for quicker exits amid exposure to fast-growing tech companies may be those left most disappointed, but all in all, from here on out it is the steadiness, not the surge, in late-stage companies' exits that matters the most.

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Globally, in Q2'18 VC-backed companies raised

$69.8B

across

3,108 deals

Massive $14 billion raise by Ant Financial propels global VC funding in Q2'18

Despite growing uncertainty globally, including concerns regarding US trade tariffs and changes to tax regulations, Q2'18 saw companies around the world raise a massive amount of VC funding, propelling global totals to a record high despite the continued decline in the number of VC deals.

Ant Financial sees largest VC funding round ever

China-based deals dominated global investment activity in Q2'18, accounting for eight of the 10 largest deals this quarter, including four $1 billion+ deals to Ant Financial, Weltmeister, Pinduoduo and Manbang Group. The $14 billion raise by Ant Financial at the end of May represented the largest VC deal in history. Investors may have seen this opportunity as a mezzanine round: a chance to take hold of equity that could increase significantly upon an IPO that is rumored to be in the works for next year.

US market activity also remained strong in Q2'18, led by Faraday Future's $2 billion round. While European VC deal volume decreased again this quarter, overall investment continued to build on an excellent start to the year.

Artificial intelligence technologies experiencing rapid investment growth

AI continued to see substantial VC investment globally during the second quarter of 2018. China-based facial-recognition company Sensetime raised $1.2 billion over two separate funding rounds this quarter, making it the world's most valuable AI company to-date.

The substantial investor focus on AI technologies reflects the widespread applicability of AI to different industries and solutions. Many countries have also made AI innovation a priority. The Chinese government, for example, has identified AI as a strategic area for investment, with a goal to become a global leader in AI by 2020.

Gap in funding sizes remains noticeable

The $100 billion Softbank Vision Fund made waves in the global VC investment community when it was announced in 2017. Since that time, other VC investors have announced large funds to try and compete for late-stage deals, including Sequoia ($12 billion), Battery Ventures ($1.25 billion) and General Catalyst ($1billion). Even the EU is getting on board the megafund trend, introducing VentureEU in Q2'18, a $2.6 billion fund intended to drive investment in the region. During Q2'18, Softbank also suggested a second Vision Fund is coming, a sure sign that mega-funds will continue to be a significant contributor to the VC market in the quarters and years ahead.

mega-funds, however, are primarily targeted toward late-stage deals. While the focus on investing in late-stage deals extends back to before the Vision Fund was announced, the increase in attention being given to mega-funds over the past few quarters may be contributing to the ongoing decline in deals activity at the angel and seed-stages. With a number of more mature investment sectors — such as food delivery and ride hailing — reaching a fever pitch globally, mega-funds will likely continue to invest in late-stage companies looking to fuel global expansion and take top market position either regionally or globally.

Massive $14 billion raise by Ant Financial propels global VC funding in Q2'18, cont'd.

Excitement over automotive sector technologies continues to build

In Q2'18, US-based electric car manufacturer Faraday Future reopened their last round and raised an additional $2 billion in funding following the $1.5 billion raise in Q1'18, highlighting the increasing attention VC investors are giving to automotive technologies, both in the electric car space and in the autonomous driving space. In the first half of 2018, the total amount invested in autonomous vehicles has almost eclipsed funds raised during all of 2017.

Most, if not all, traditional automotive companies are interested in the autonomous driving space related to either technology development or to fleet management. Large investors such as Softbank are also highly involved in this area, with many hedging their bets by making investments in multiple market leaders. For example, Softbank has invested in Uber, Didi, Grab and Ola. By investing heavily in different companies, it is likely Softbank will be able to force some cooperation between competitors in key markets while furthering competition in others.

Cybersecurity continues to be a hot-button topic for investors

With the growing focus on the Internet of Things and on autonomous driving, it is no surprise that VC investors have focused heavily on cybersecurity around enabling technologies. While few actual breaches have been publicized, there is recognition that any potential threat needs to be strongly mitigated right from the get-go in order to ensure confidence in the space. With the growing number of connected components of vehicles (e.g. guidance systems, etc.), there is growing pressure to ensure protections are in place.

Macroeconomic issues creating uncertainty globally

US trade tension with China, Canada and the EU is creating some uncertainty in the business world globally, although the actual impact has not been significantly noticeable in the VC space to date. The reality is that companies in China and the US have been competitors for many years in different industries, with competition heating up recently in the race to become world leaders in innovative technologies such as artificial intelligence. There has also been increasing industry-based competition between the two countries, particularly in the telecom space where well capitalized Chinese companies such as Tencent, Baidu and Alibaba have made inroads in markets once dominated by US-based telecoms.

Exit market strengthens in the US — bodes well for the future

The IPO market heated up in the US during the first half of the year, with a number of successful exits, including Spotify, Dropbox and DocuSign. To date, both the number of IPO exits and their combined IPO value are on track to exceed 2017 numbers. Median IPO deal size is up substantially at $119 million, the highest the metric has been since 2018. The strength of this number likely reflects the pent-up demand for exits in the market following 2 years of lackadaisical activity. Post-IPO performance has also been very encouraging, with the vast majority trading above their initial IPO price.

Massive $14 billion raise by Ant Financial propels global VC funding in Q2'18, cont'd.

IPOS have also been rebounding in Asia, with new listing rules related to the Hong Kong Stock Exchange spurring renewed interest among unicorns. It would not be surprising to see a number of Asia-based fintech companies looking to the IPO market to exit over the next few quarters.

Some of the IPO activity this quarter appeared to be less about fundraising and more about providing liquidity for founders and employees. This will be a trend to keep an eye on to see if it becomes more prevalent over the remainder of the year. The desire to provide liquidity has also continued to fuel growth in secondary market transactions, particularly in the US.

M&A was also strong in Q2'18, with activity such as Microsoft's $7.5 billion purchase of development platform company GitHub.

Trends to watch for in Q3'18

Looking forward, tax reforms in the US, a significant amount of dry powder and the continued flow of funding into the VC world are expected to keep the VC market strong over the next quarter. Autonomous driving, healthtech and biotech are expected to be big winners over the next few quarters, in addition to blockchain.

One area that may be one to watch over the next quarter will be valuations — particularly for companies with no tangible assets, where investors are focused on what the company might do in the future. The level of assumption and risk involved in these types of valuations is quite high and it is still to be seen if these valuations will be substantiated.

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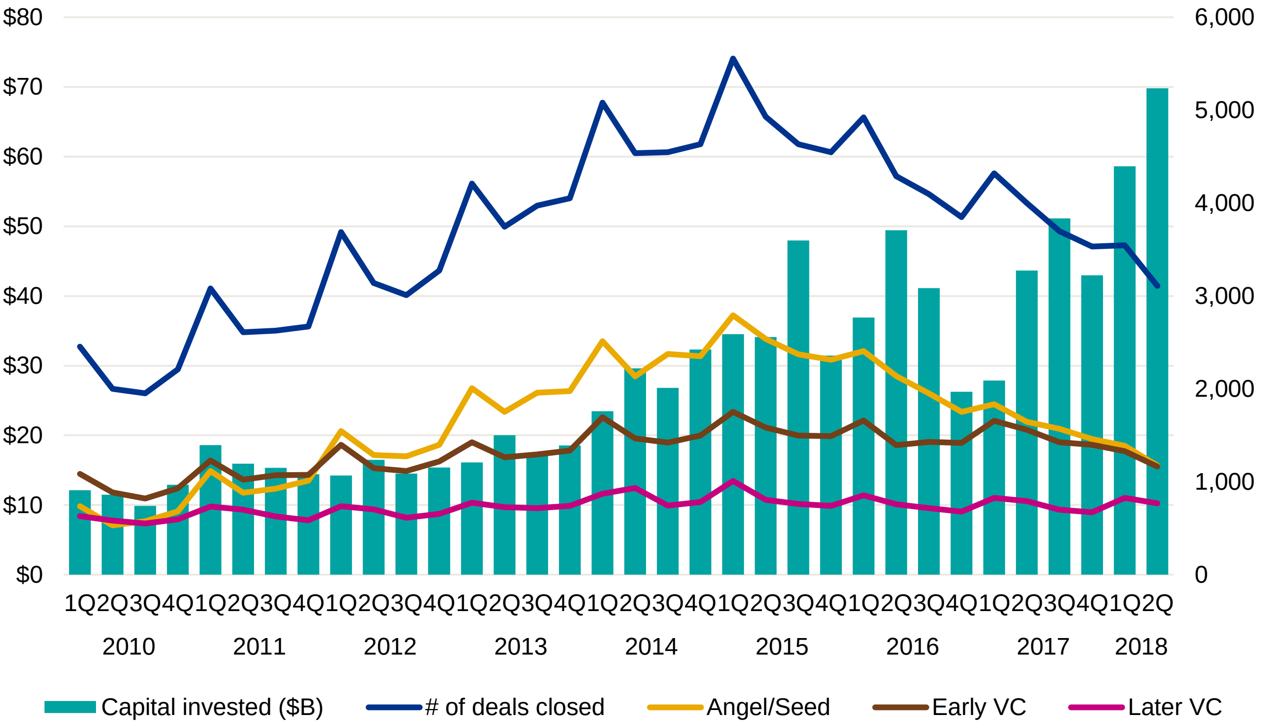
The late-stage tide rolls onward

Global venture financing by stage

2010 — Q2'18



Source: Venture Pulse, Q2'18. Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018. Note: Refer to the Methodology section on page 103 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

Once again, the venture industry has seen another high exceeded by leaps and bounds. The second quarter of 2018 recorded over $70 billion invested, dwarfing the prior high seen in the first quarter of the year and, for comparison's sake, nearly seven times the tally of Q2 2010. There appears to be virtually no limit to how much capital is pouring into late-stage financings of truly mammoth private companies. The poster child of the global late-stage largesse is Ant Financial, which raised billions in 2016 and closed on no less than $14 billion in fresh funding in this most recent quarter. Still, even without that gargantuan sum, Q2 2018 would have seen $56 billion, outstripping all but the prior quarter.

"Globally, we continue to see an upward trend in the amount of venture capital investment, even as deal volumes decline. Asia had a particularly strong quarter — accounting for 8 of the top 10 deals globally — much of which was once again driven by record levels of corporate investment."

Jonathan Lavender
Global Chairman, **KPMG Enterprise, KPMG International**

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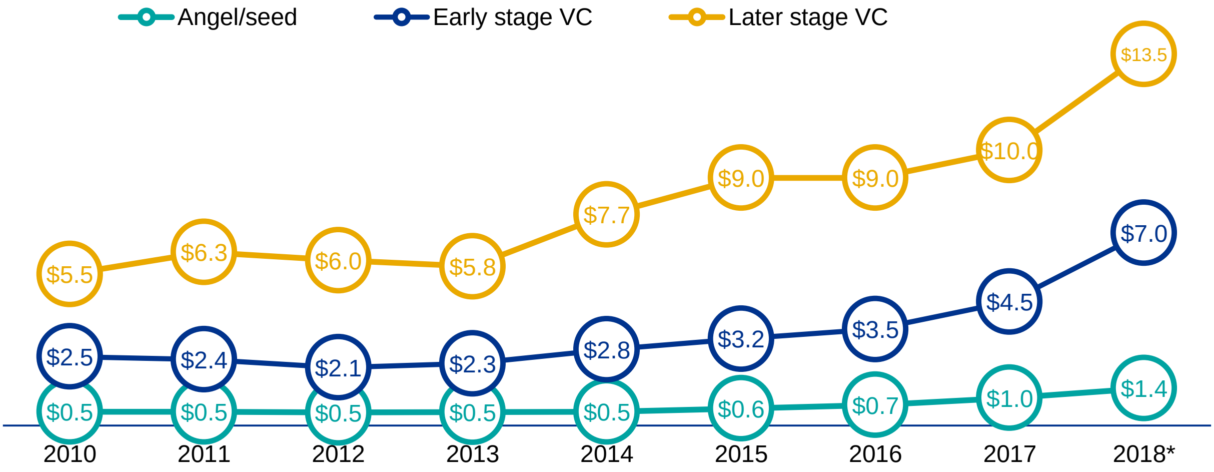
Medians stay as high as ever amid influx of positive sentiment

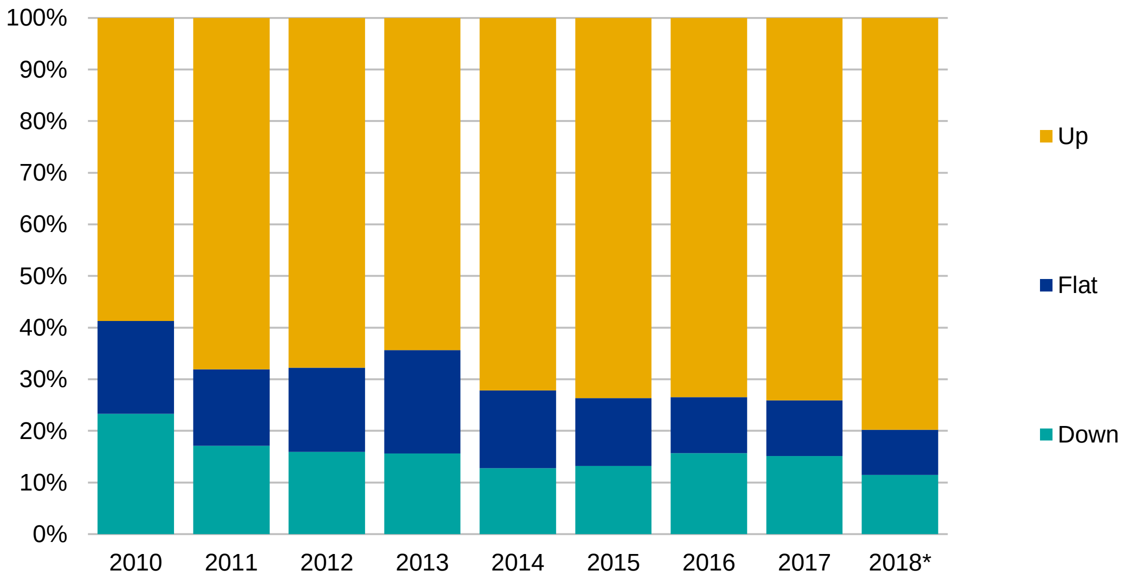
Global median deal size ($M) by stage

2010 — 2018*



Global up, flat or down rounds

2010 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

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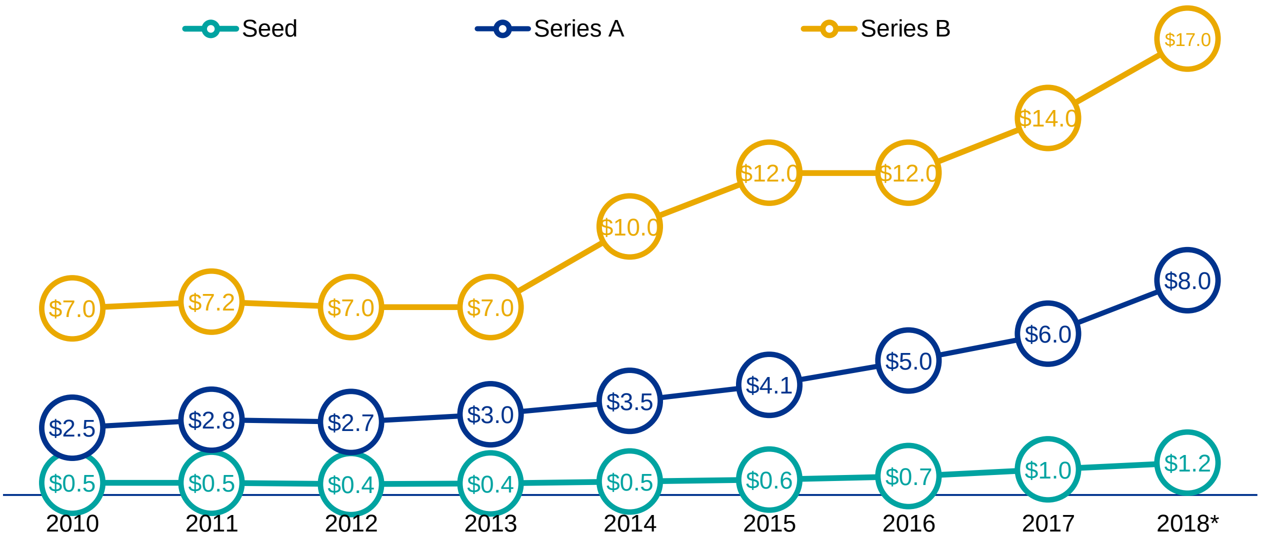
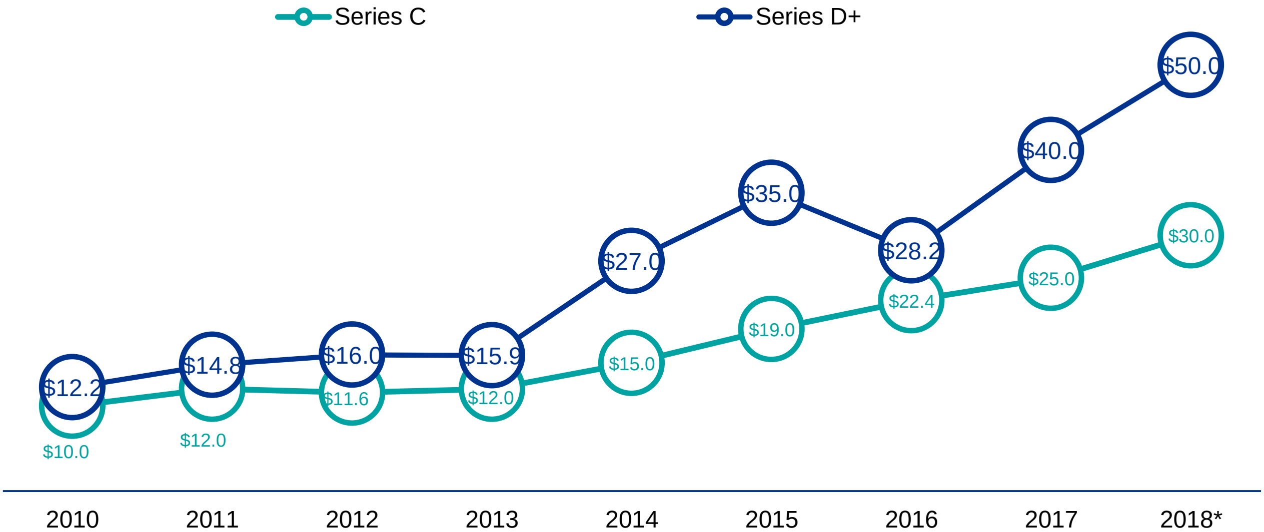
New highs across the board

Global median deal size ($M) by series

2010 — 2018*





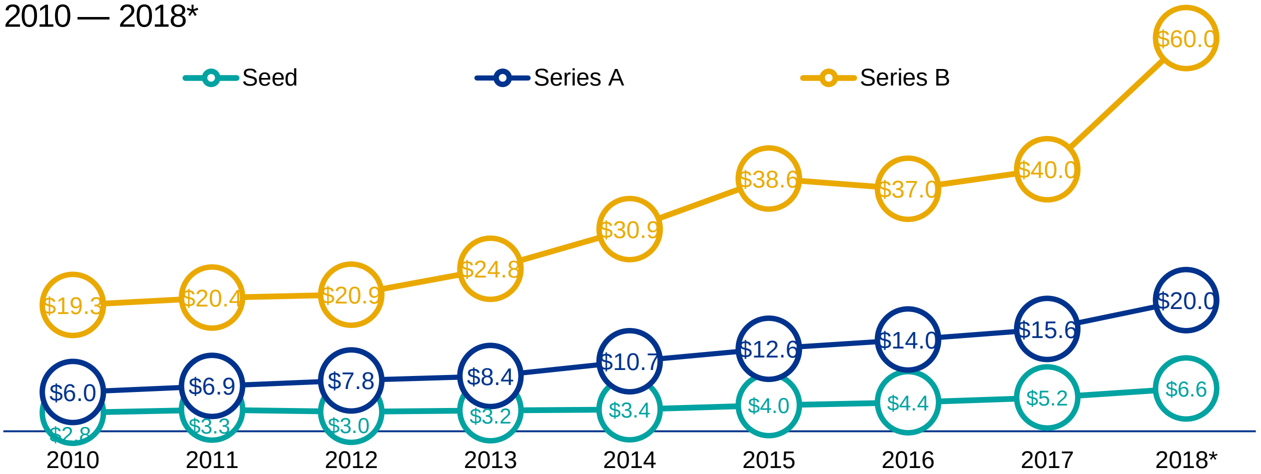
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

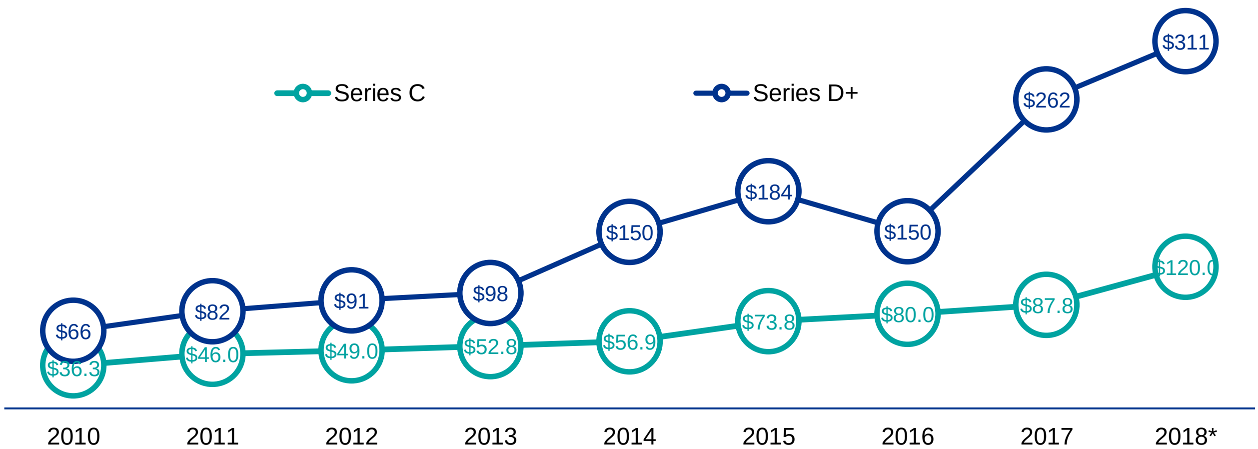
The hurdles that fledgling companies must face in the current, capital-rich landscape, are clear when examining the divergence between seed, Series A and Series B financing sizes. For the companies that can clear those hurdles, the rewards are rich, but to jump from a median of $1.2 million at the seed-stage, then nearly eight times higher at Series A, is increasingly difficult.

Series B valuations see the relatively greatest leap upward between 2017 and 2018 to date

Global median pre-money valuation ($M) by series

2010 — 2018*





Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

"Global VC activity has been very strong so far in 2018, but there is still one big question out there and that is valuations. It is very difficult to substantiate some of the valuations we are seeing in the market based on current results. There's a lot of focus on what companies might provide in the future. The level of assumptions and risk associated with these valuations are very high and we have yet to see if they will be substantiated."

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

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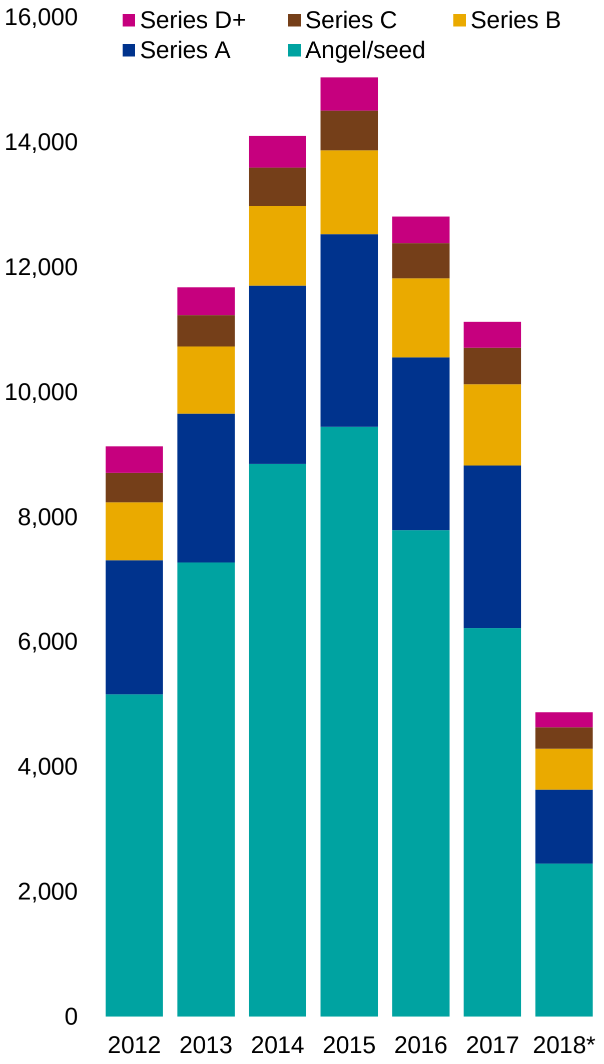
The early stage sees further cyclical pullback

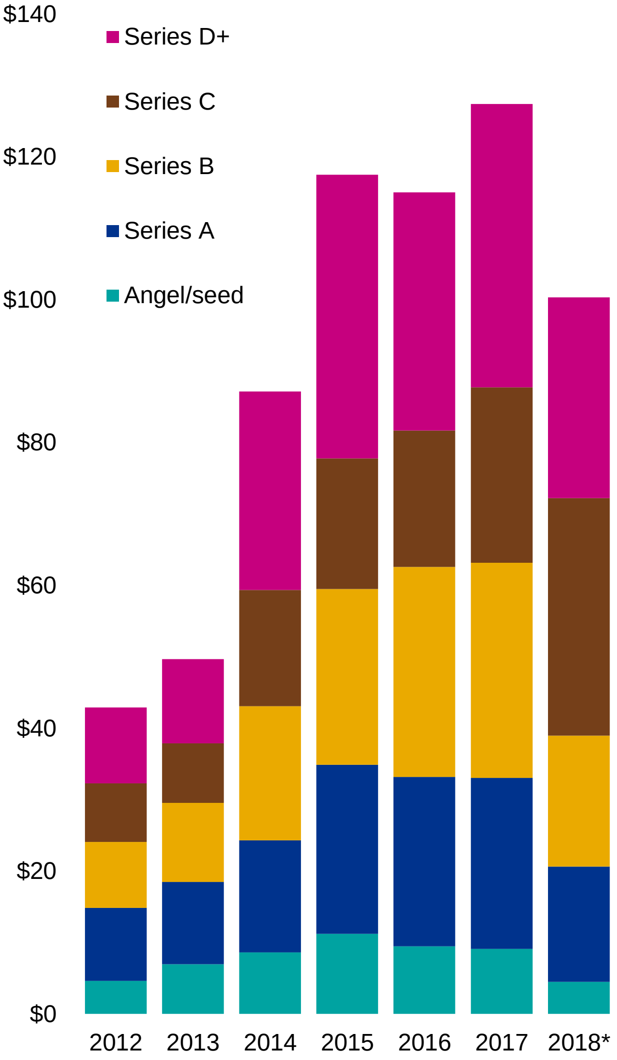
Global deal share by series

2012 — 2018*, number of closed deals



Global deal share by series

2012 — 2018*, VC invested ($B)



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

The aggregate decline in the volume of angel and seed activity recorded since 2015 has very roughly approximated the robust rise in venture financing sizes and valuations recorded between the depths of the financial crisis and that same peak. Consequently, it seems safest to conclude that the decline is cyclical, a rational response to rising prices at such a risky stage.

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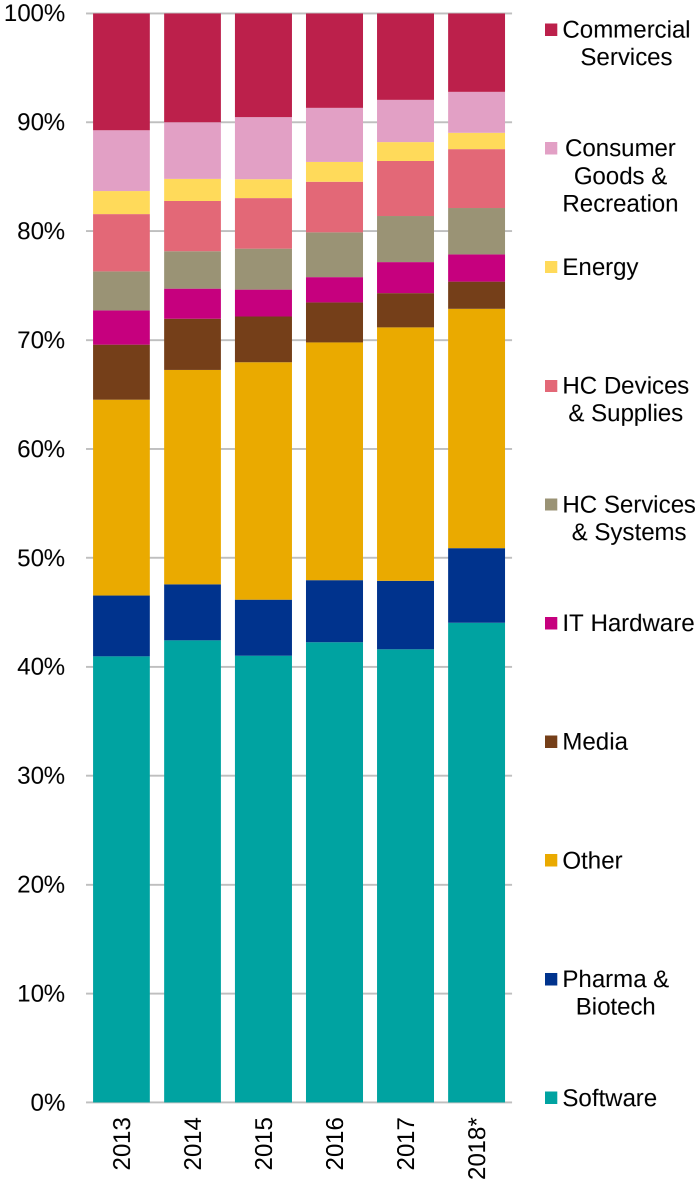
Sector lines continue to blur, pharma stays strong

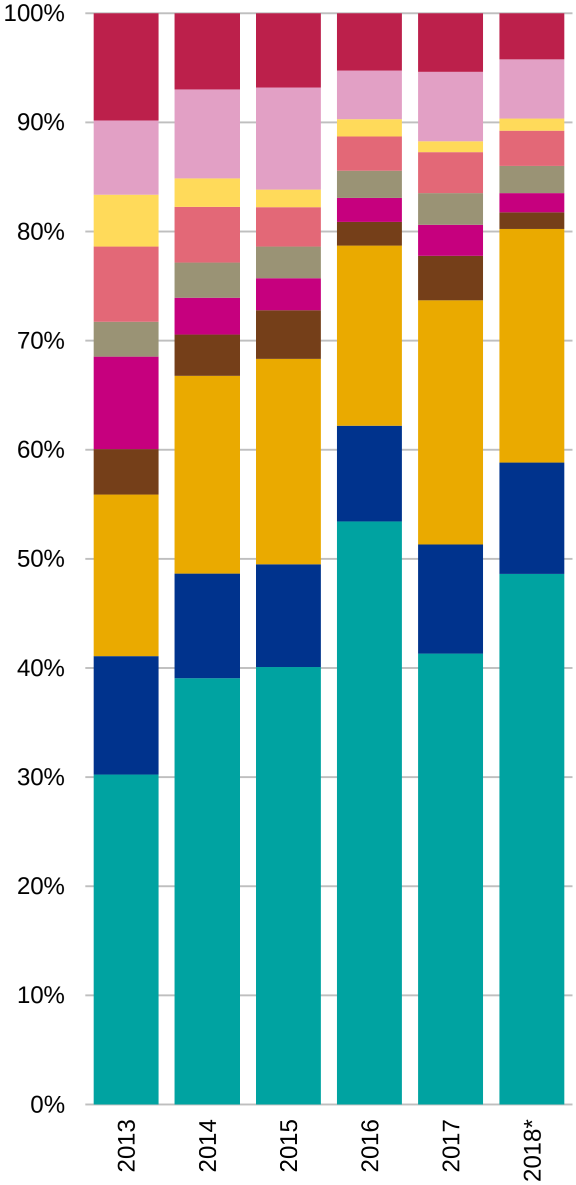
Global financing trends to VC-backed companies by sector

2013 — 2018*, number of closed deals



Global financing trends to VC-backed companies by sector

2013 — 2018*, VC invested ($B)



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

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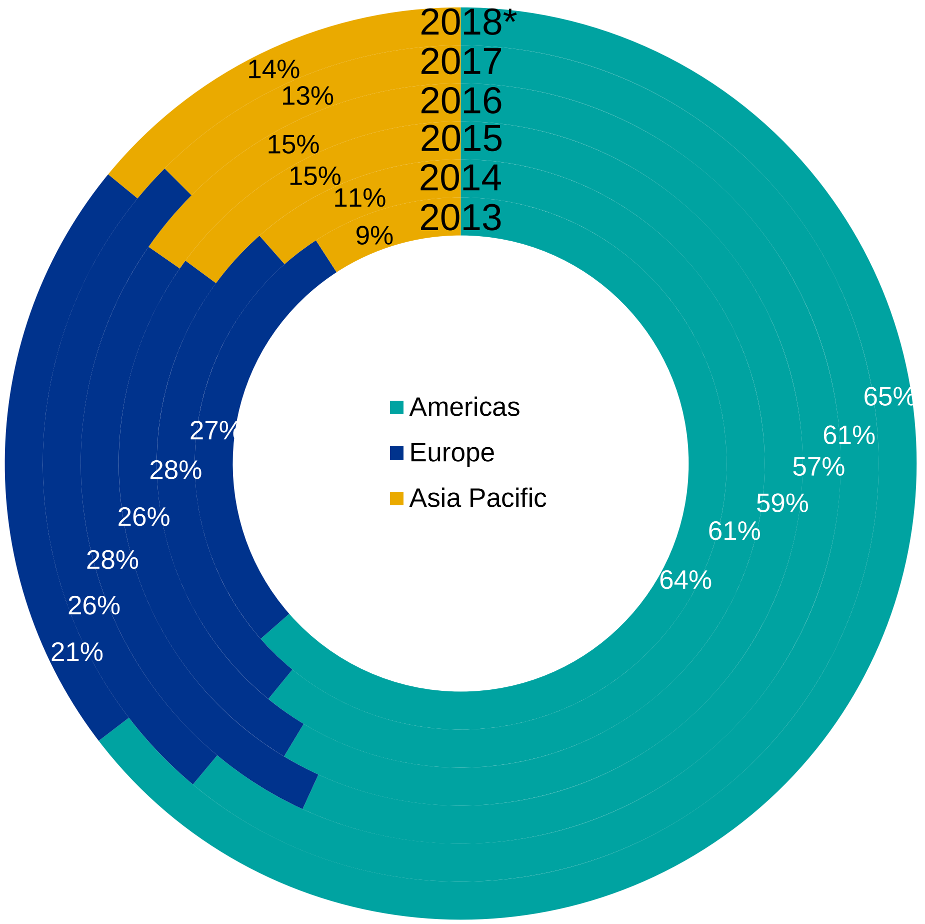
Volume stays robust in developed markets

Financing of VC-backed companies by region

2013 — 2018*, number of closed deals



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

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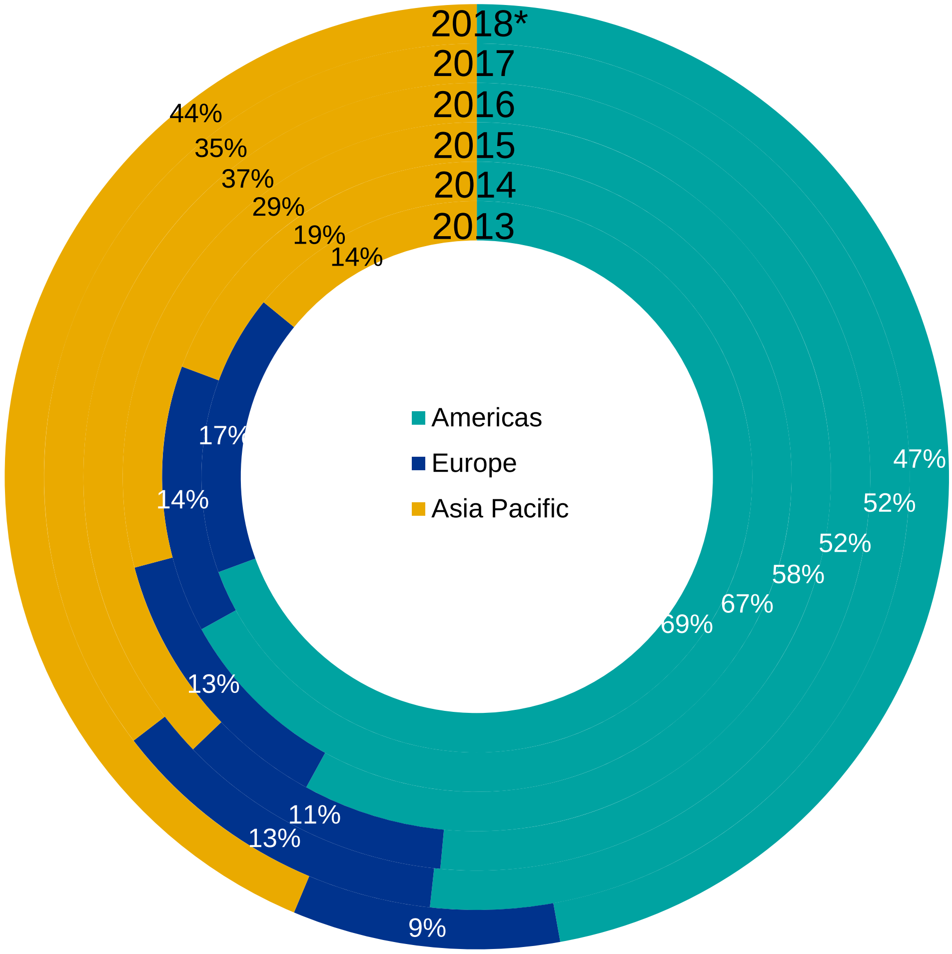
Asia-Pacific sees 44% of VC invested in 2018 YTD

Financing of VC-backed companies by region

2013 — 2018*, VC invested ($B)

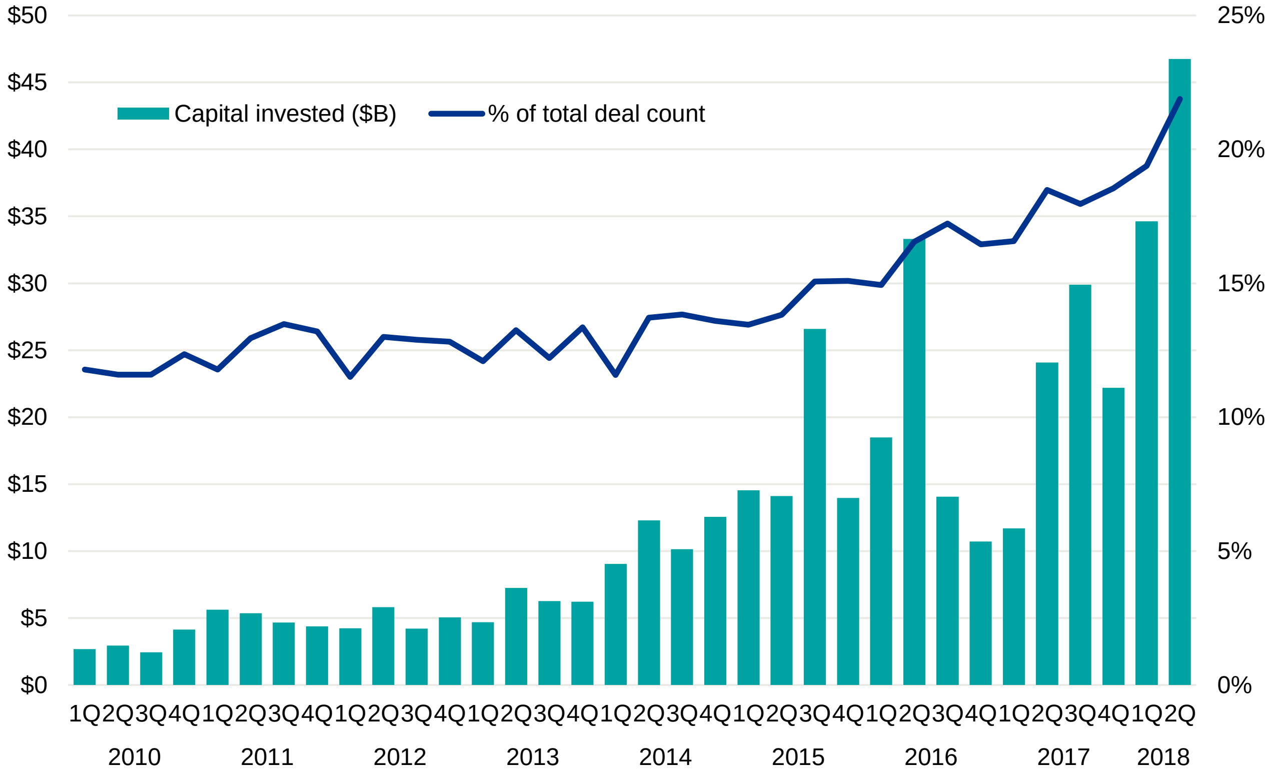


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Corporate VC activity now exceeds more than a fifth of all deals

Corporate VC participation in global venture deals

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

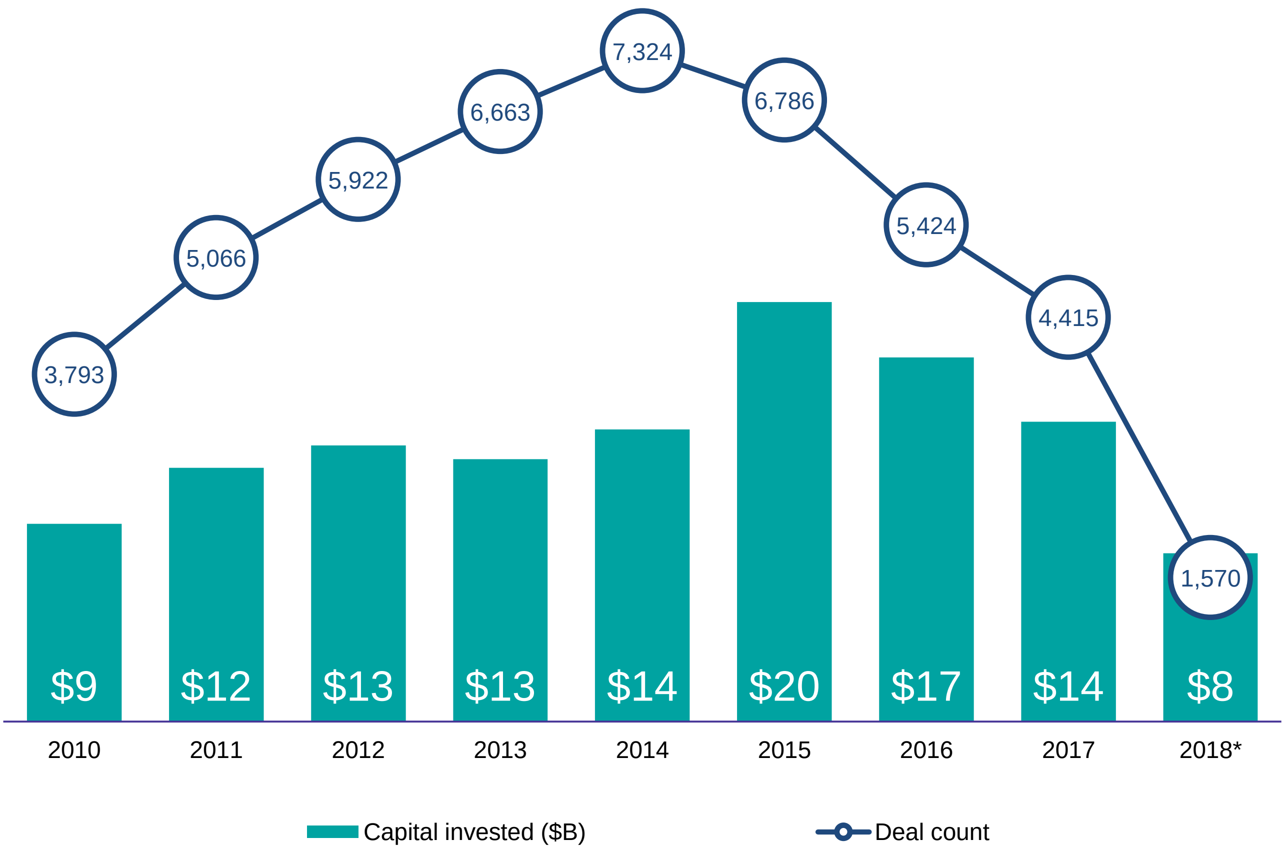
In a cautious, high-priced environment, corporates can justify joining in higher-priced rounds and enjoy access to relatively much richer balance sheets, but their evolution into an important supporting player in the global venture landscape is a testament to the slow-moving evolution of the venture industry on the whole. It is important to note that direct investing is especially skewing figures, as evidenced by the sheer mass of capital tallied in Q2 2018, in which corporates participated or dispensed solo.

Note: The capital invested is the sum of all the round values in which corporate venture capital investors participated, not the amount that corporate venture capital arms invested themselves. Likewise, the percentage of deals is calculated by taking the number of rounds in which corporate venture firms participated over total deals.

Multiple factors combine for 2018 to perhaps hit an all-time low in first-time VC financings

Global first-time venture financings of companies

2010 — 2018*



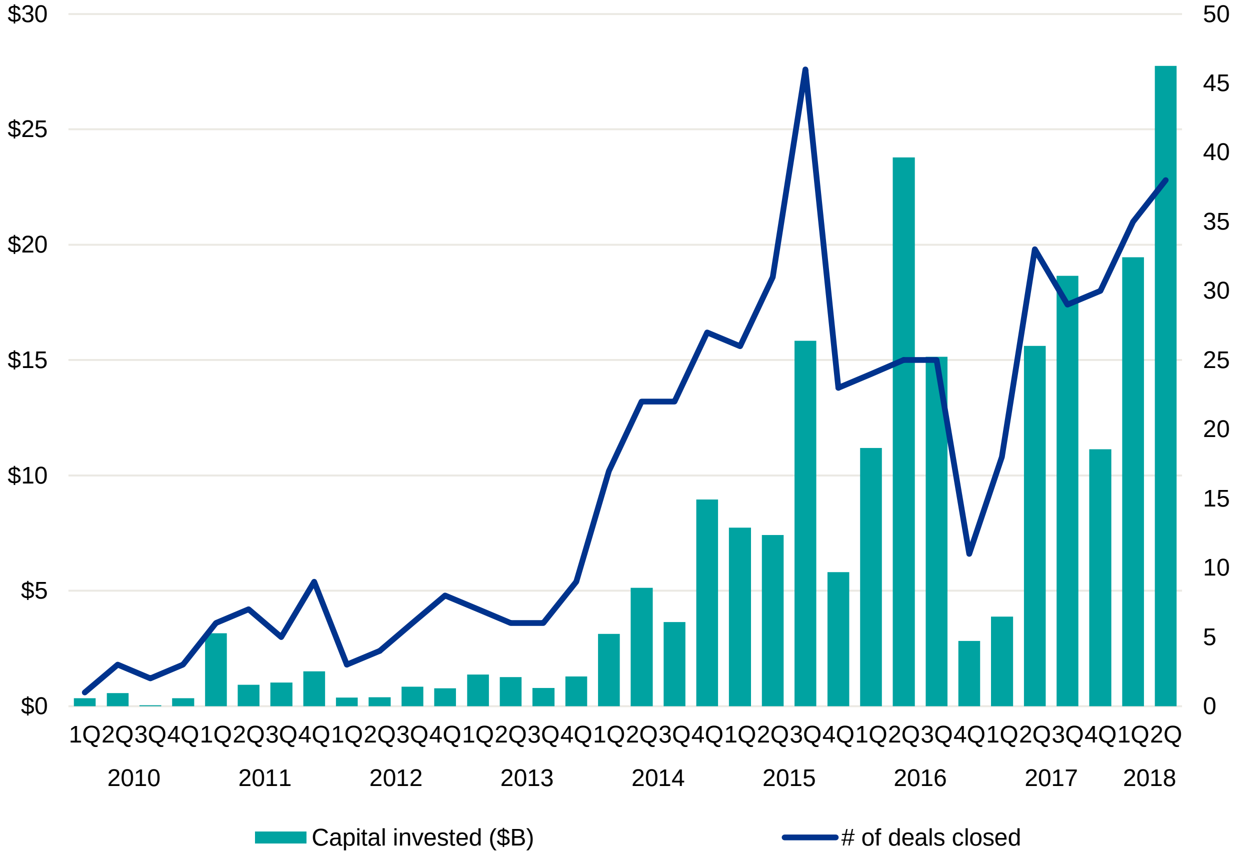
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 11, 2018.

Midway through the year, 2018 looks on pace to record the lowest total of first-time financings in close to a decade, due to a combination of factors. First, in a time marked by expensive financings and despite having plenty of capital on hand, investors are reluctant to pay up for the riskiest investments — brand-new enterprises. Second, the massive gains observed in public markets has likely disincentivized angel financiers from the high-stakes arena of funding fledgling opportunities. Last but not least, innovation cycles come and go, and although there could be a new wave of realized innovations stirring within the crypto sector, much of the lowest-hanging fruit in app-based, mobile-first enterprises has already been snatched.

Another remarkable quarter for unicorns' never-ending ability to raise capital

Global unicorn rounds

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Note: PitchBook defines a unicorn venture financing as a VC round that generates a post-money valuation of $1 billion or more. These are not necessarily first-time unicorn financing rounds, but also include further rounds raised by existing unicorns that maintain at least that valuation of $1 billion or more.

Especially with Lyft recording a Series I financing this past quarter, in its steady progression through the English alphabet, it is clear that thus far, investors are still more than willing to ply existing unicorns with massive sums. New unicorns are still being birthed as well, but the true outliers that resulted in Q2 2018 seeing the largest amount ever raised by new and old unicorns still skew toward the latter.

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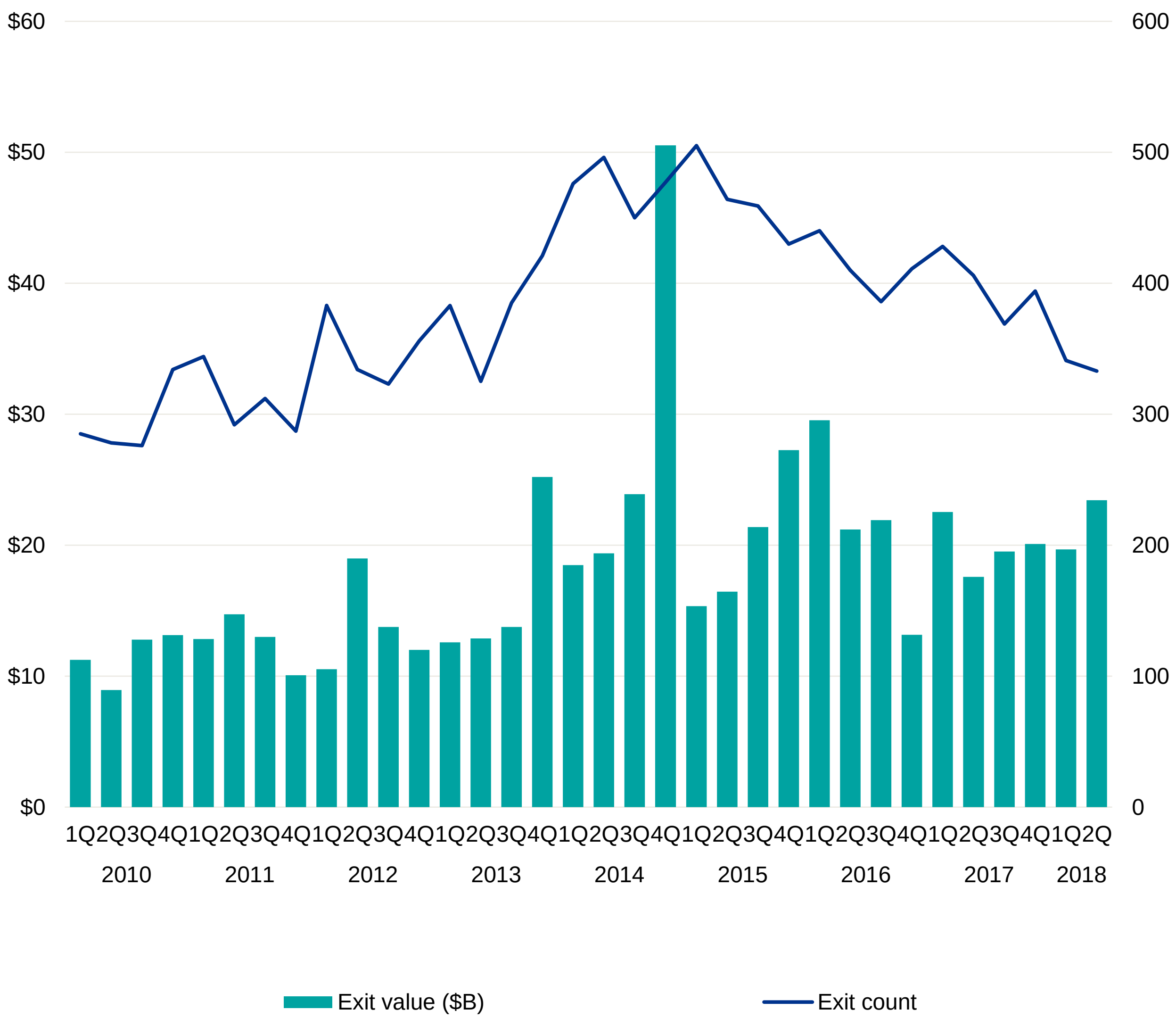
2018 is proving significant for the exit cycle

Global venture-backed exit activity

2010 — Q2'18



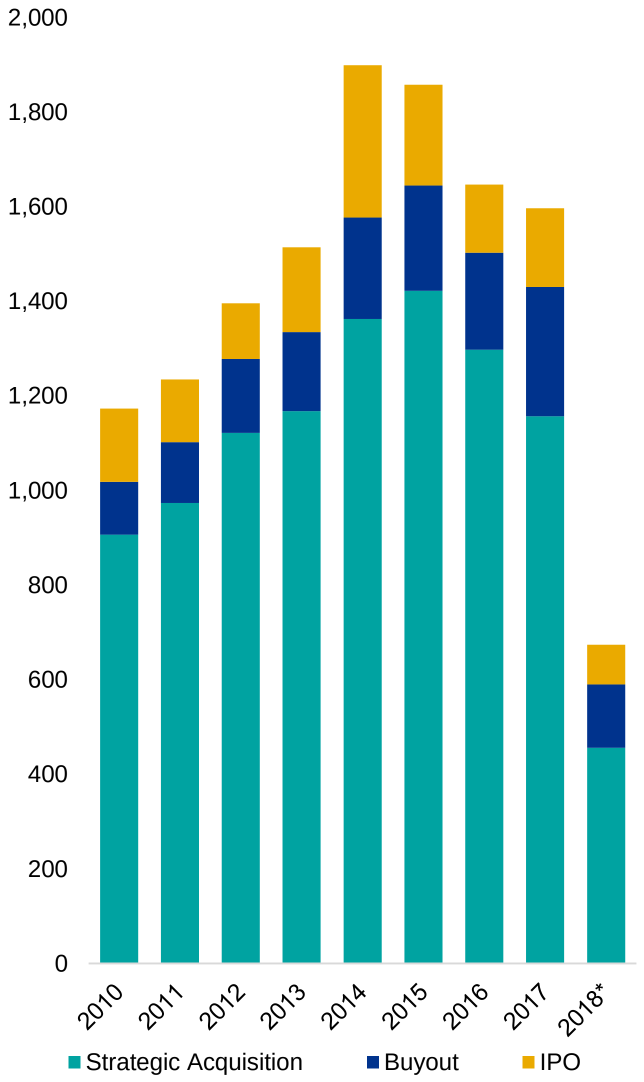
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Enterprise

2018 sees life in tech IPO market

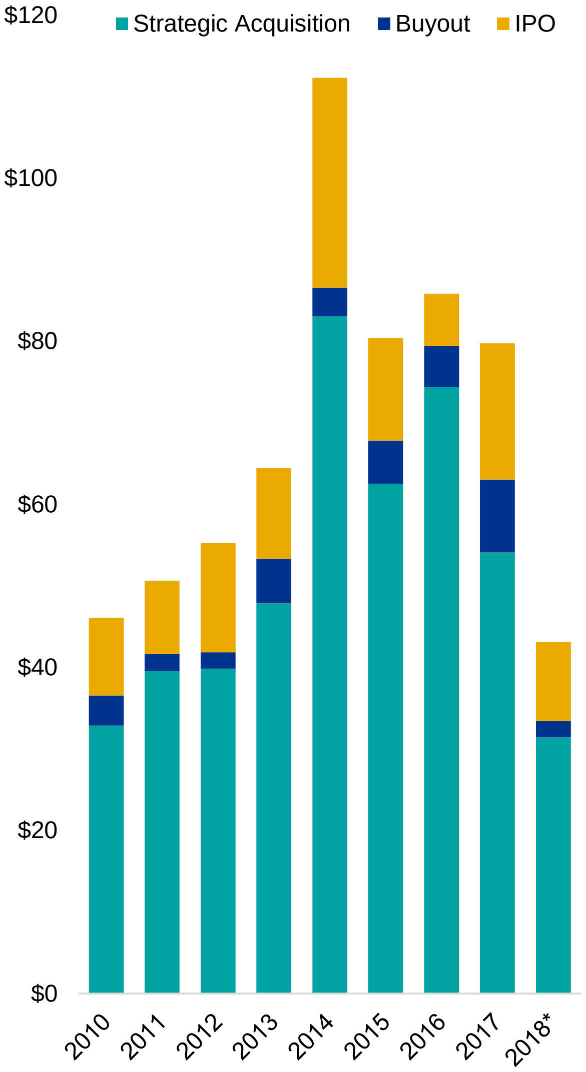
Global venture-backed exit activity (#) by type

2010 — 2018*



Global venture-backed exit activity ($B) by type

2010 — 2018*



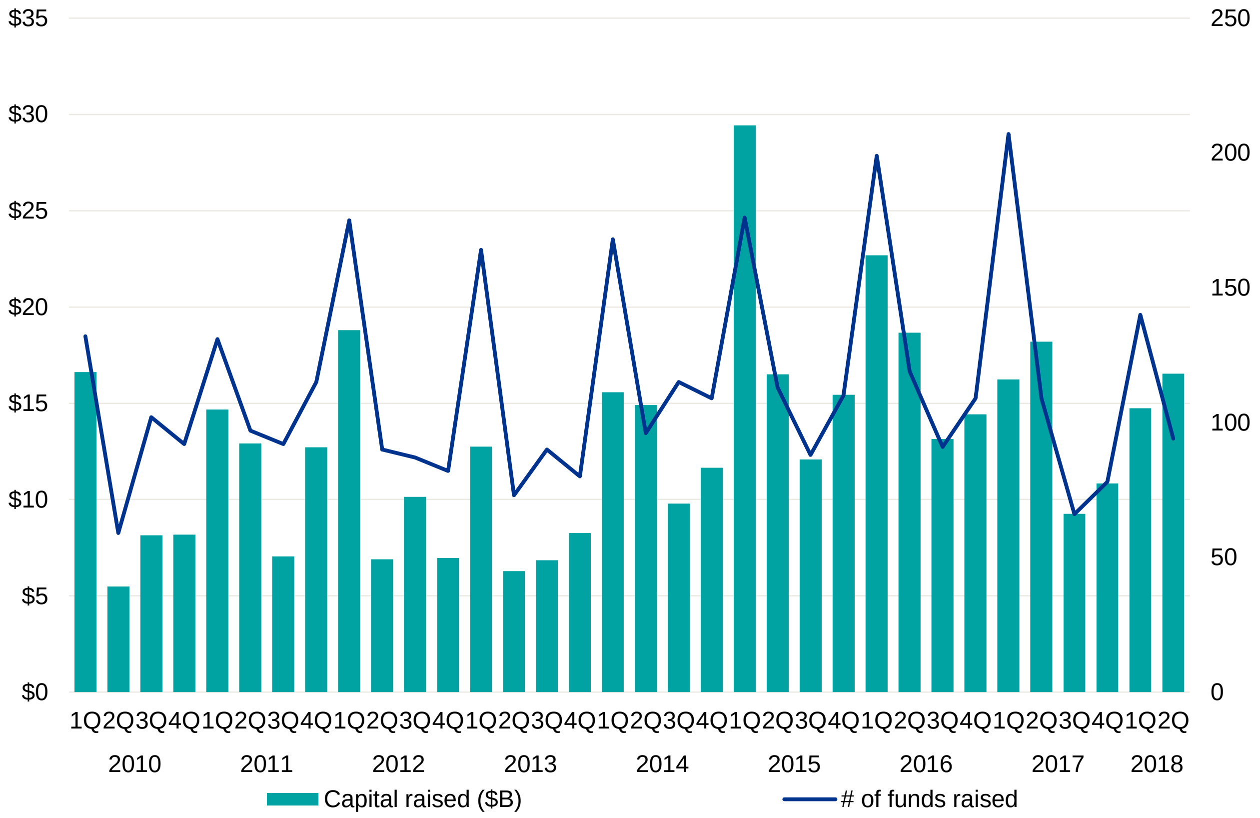
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Liquidity options continue to proliferate for venture-backed companies. The tech IPO market has revived somewhat, with notable names such as Dropbox, Spotify, DocuSign, Smartsheet and Pivotal Software finally debuting on public exchanges. However, buyouts by PE firms and M&A also remain key for both backers and founders, gracing them with multiple options to find liquidity.

One of the stronger quarters for VC raised

Global venture fundraising

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

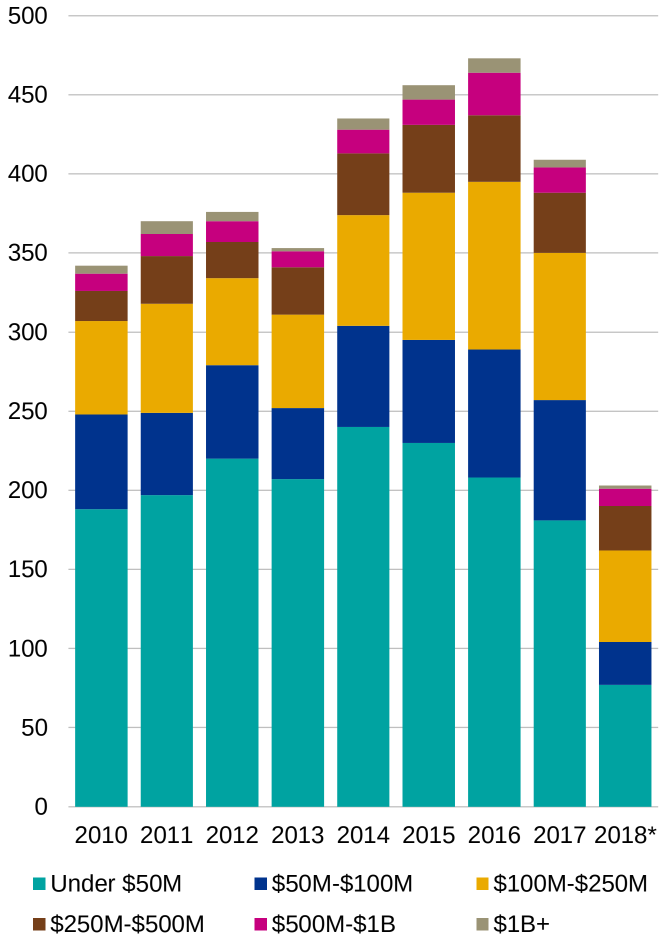
The fundraising market is highly cyclical and skewed significantly by the popularity of alternative investments overall among capital markets. Hence, the waxing and waning of fundraising volume over the past decade. In the last edition of the Venture Pulse, we observed that although there could be recurrent upticks, by and large, on a historical basis, the fundraising cycle is slowing marginally, suggesting limited partners' appetite for exposure to VC may well have been mostly met. That could have been premature, as 234 closed funds in 2018 to date may put the market on pace to match the 460 pools closed in 2017 but, at the very least, the cycle is holding steady, not growing.

KPMG Enterprise

First-time funds enjoy a continued renaissance in 2018 to date

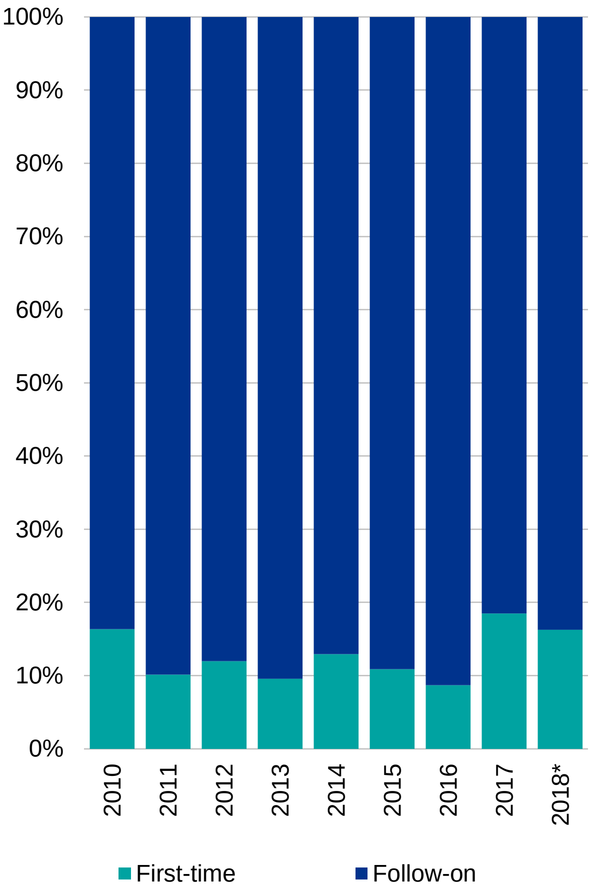
Global venture fundraising (#) by size

2010 — 2018*



Global first-time vs. follow-on venture funds (#)

2010 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

After trending down as a proportion of overall fundraising volume from 2014 to 2016, first-time funds worldwide are still enjoying a comeback first kicked off in 2017. This trend is at least somewhat cyclical. The successes of the most prominent venture funds in the early part of this decade were bound to culminate in venture partners leaving more-established firms to strike out on their own. It is also a testament to bandwagoning, as the ongoing success of aforementioned prominent firms inspires other entities, such as governments to foster fledgling funds.

KPMG Enterprise

VC investment in agtech continues to soar

The agtech sector continues to draw record investment as VCs and other investors seek to finance solutions to the growing issue of food security amid a rapidly growing global population. VCs are particularly attracted to technology and innovation that helps provide more scale, sustainability and predictability in agriculture, a sector known for its unpredictable weather and market volatility.

VC investment in agtech continues to break records

2017 was a blockbuster year for VC investment in Agtech, with over $1.7 billion total invested on the power of a series of mega-deals late in the year, including Ginkgo Bioworks, Indigo Agri and Farmers Business Network. In 2018, we've seen this momentum continue with more than $600 million invested across 105 deals in the first 5 months of the year, including AgriProtein ($107 million), Edico Genome, ConCentric ($54 million) and PrecisionHawk ($75 million).

New technology gives investors comfort in agtech investing

Agriculture has become a destination for VC investing due largely to the advancements in technology that help farmers better predict, manage and boost crop production. Traditionally, agriculture has been seen as a volatile industry, given the unpredictability factors such as, of the weather, pest and disease outbreaks and regularly fluctuating commodity markets. Companies that offer technology that helps to smooth out the food production process — from field and soil to the supermarket — are considered attractive. Technologies that also help to boost production and increase crop yields, while reducing financial and environmental costs, are also in favor in today's agtech market. VCs are excited by Agriculture 4.0 and a range of technologies being developed and refined including crop sensors, satellite imagery, the IoT, blockchain, swarm robotics, automation and data analytics, to name a few examples.

For instance, distributed ledger technology is helping to trace the physical product through the supply chain. This is important for efficiencies, but also meets a growing demand among consumers to source where their food comes from. Another example is AI, which is helping farmers better analyze animal behavior, as well as identify and track potential ailments. Meantime, predictive analytics is being used to assess moisture levels in a field, which helps growers ensure their crops received the appropriate amount of water and better predict growth curves, yields and harvest dates.

Agtech attracting a hybrid of corporates

The agtech sector is maturing, as evidenced by a first wave of agtech unicorns, expansion of VC activity and interest from big players in both the ag and technology sectors. There are more than 30 active funds joining the agtech-focused funds such as Khosla, Fall Line, Finistere, Innovation Endeavors and S2G, among others[1]. There were also some meaningful VC-backed exits in 2017. M&A activity is expected to remain robust in the sector and a focus on the agtech startup scene where early-stage companies are developing various digital solutions to help improve crop production.

Large ag players are expected to be active in M&A in the near term, as well as tech and retail giants such as Google and Amazon, alongside more state-owned corporations. For instance, we could see more financings like the $110-million Series D announced by Farmers Business Network late last year, which included a mix of investors from Singapore's state investment firm Temasek to Kleiner Perkins Caufield & Byers and GV (formerly Google Ventures)[2].

[1] https://techcrunch.com/2018/03/08/major-trends-in-agtech-for-2018/
[2] https://venturebeat.com/2017/11/30/farmers-business-network-raises-110-million-to-bring-price-transparency-to-agriculture/

KPMG Enterprise

VC investment in agtech continues soar, cont'd.

Agtech investment has few geographical boundaries

While the US, China, India and Brazil have a strong interest and investment in ag and agtech given their growing populations (and mouths to feed), there are also innovative solutions coming out of Israel, Australia, New Zealand and the Netherlands. For example, regions with multiple climatic conditions, such as Australia, are most likely to have a wider range of agtech solutions. Meantime, Israel has developed a strong reputation for its agtech innovation pivoting from defence technologies, while the Netherlands has a strong reputation in the horticulture and floriculture space.

There's also a trend towards clustering, in particular bringing together ecosystems that include industry bodies and research and knowledge players. The triple helix of industry, research and government then start to attract the fourth key ingredient: capital — which is where VCs are starting to play a larger role.

Trends to watch in agtech

Agtech companies are trying to disrupt how, what and where we grow. Their goal is not only to help feed more people more efficiently, but also to get aligned with the growing trends of transparency, traceability and sustainability in food production.

Different technologies are helping to marry these various interests. For example, robotics will become more important as producers are under greater pressure to get the crops off the field, into the packaging and then through the supply chain as efficiently as possible — and with the ability to track the journey from farm to plate.

We also expect to see more consolidation not just of companies, but applications for farmers. This will likely include putting multiple sensor-driven data inputs together and giving farmers fewer platforms to work with either in the cab of their tractor, on their smartphone or a desktop. The financial services sector is also expected to get more involved in ag and agtech, as it starts to think differently about its role in the production of food and insurance. For example, insurers have an increasingly important role to play around crop risk given the more severe weather patterns, from flooding to drought, that are affecting global food production.

Lastly, there will be more emphasis on sustainability in farming to help protect the planet. One example is a system where farmers are financially rewarded for their role in helping support sustainability, which can then lead to lower financial and credit costs across the supply chain. That, in turn, will lead to the adoption of technology to support the system. Regardless of the technology and its intended solution, the future of agtech is about delivering certainty for all stakeholders including farmers, bankers, investors and consumers.

"As governments and NGOs strive to ensure they have sufficient food and water for their people, and meet their environmental stewardship obligations, we expect to see interest in agtech grow significantly and more VC activity."

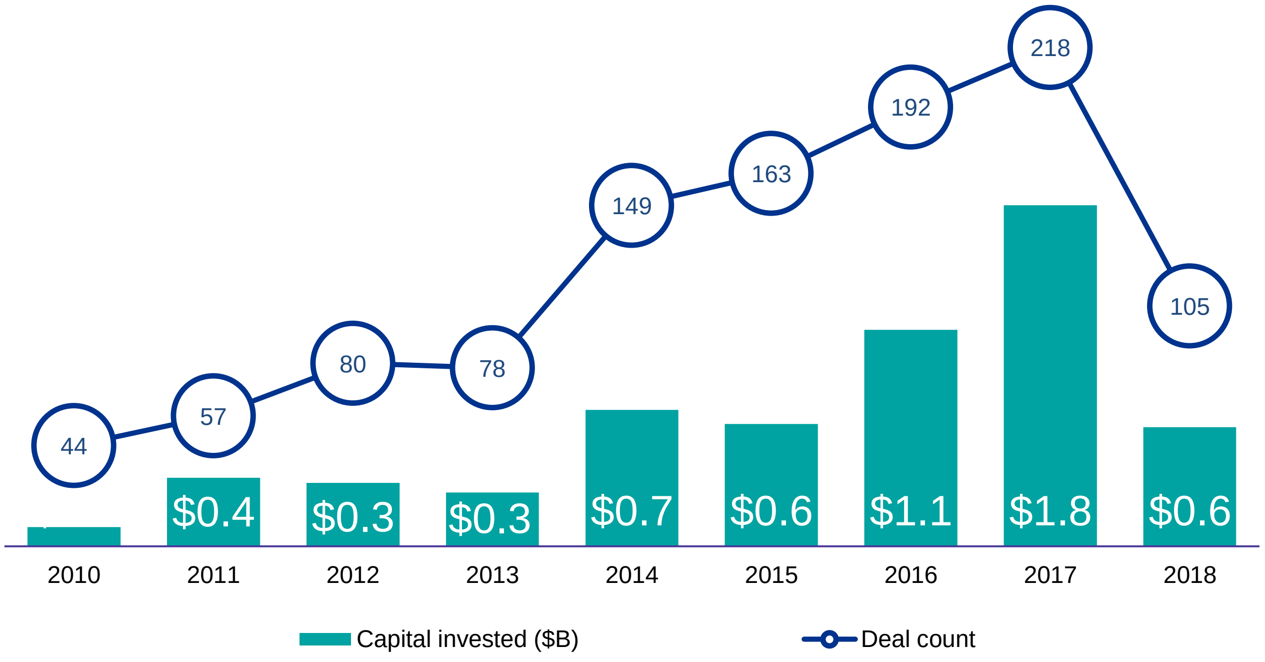
Ben van Delden
Partner, Head of AgTech & Markets
Markets and Growth

KPMG Enterprise

Agtech is on the upswing

Global venture financing of agtech companies

2010 — Q2'18



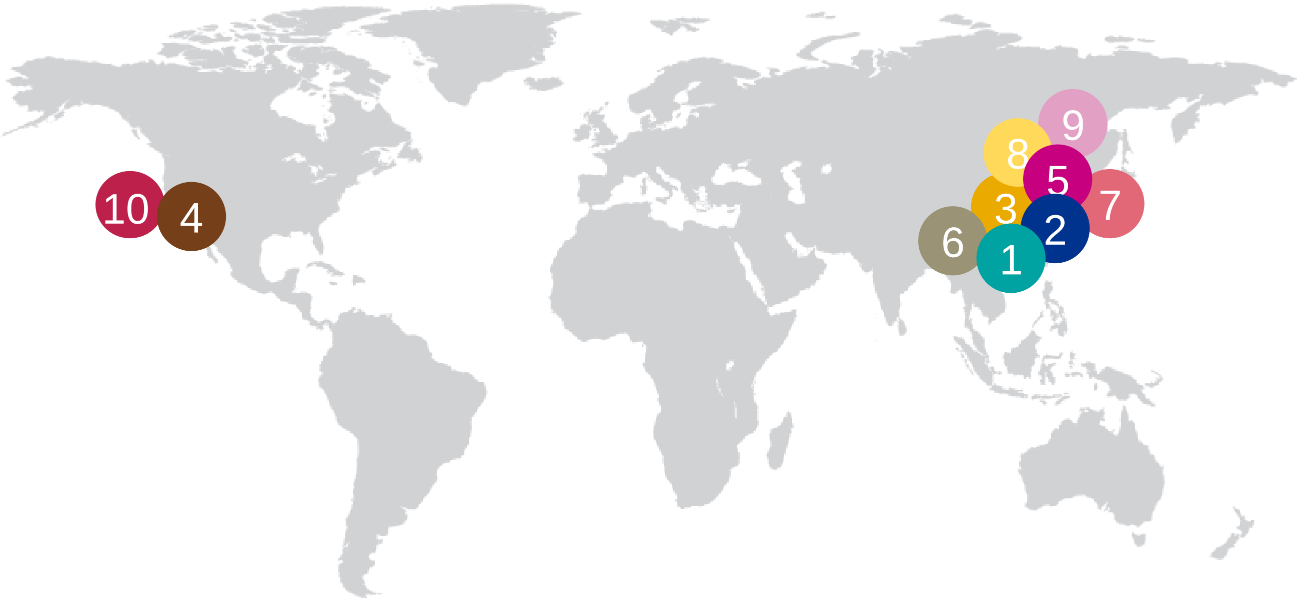
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

The sum of VC invested in agtech between 2015 and 2017 rose exponentially, culminating in no fewer than 218 completed financings within the sector for a combined total of $1.8 billion last year. The 2018 figures are no less robust. This trend is explained by several factors: the demonstrated potential for agtech innovation to result in significant exits, such as those of Granular or Blue River Technology, the growing awareness of the need for more productive and hardy crops, as well as more efficient supply chains in general and last, but not least technical innovations such as, the plummeting cost of sensors that have made even agtech solutions more feasible.

"There are a number of clear geographic leaders when it comes to agtech innovation and venture capital investment. The US remains the clear leader in this space however Israel, Australia and India have made inroads. We are also seeing a burgeoning agtech ecosystem in parts of Europe such as the Netherlands, UK and France. Here in Israel, we already have between 400-500 agtech startups driving innovation in a wide range of areas."

Idit Blank-Varol
Head of Food & Retail, KPMG in Israel

China dominates the Q2 2018 rankings



Top 10 global financings in Q2'18

1. **Ant Financial** — $14,000M, Hangzhou
   Financial software
   Series C
2. **Weltmeister** — $3,176M, Shanghai
   Transportation
   Late-stage VC
3. **Pinduoduo** — $3,000M, Shanghai
   Internet retail
   Series C
4. **Faraday Future** — $2,000M, Los Angeles
   Transportation
   Late-stage VC
5. **Manbang Group** — $1,900M, Beijing
   Transportation
   Late-stage VC
6. **Ubtech** — $820M, Shenzhen
   Robotics
   Series C
7. **Hellobike** — $700M, Shanghai
   Transportation
   Series E1
8. **SenseTime** — $620M, Beijing
   Virtual reality
   Series C
9. **SenseTime** — $600M, Beijing
   Virtual reality
   Series C
10. **Lyft** — $600M, San Francisco
   Transportation
   Series I

Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 11, 2018.

KPMG Enterprise

In Q2'18 VC-backed companies in the Americas raised

$28.2B

across

1,986 deals

Americas VC market continues blistering pace

VC investment in the Americas remained high in Q2'18, primarily driven by strong VC market activity and investment in the United States.

US continues to account for biggest deals in the Americas

The US accounted for the lion's share of VC investment in Q2'18, attracting all ten of the biggest deals in the Americas this quarter, including a $1B+ funding rounds to Faraday Future. While a minor amount compared to US totals, Canada also saw a strong level of VC activity relative to historical trends. Brazil, Mexico, and other countries in Latin America, however, saw limited investment this quarter.

Rising trade tension between US and other countries in the Americas

While trade tension between the US and other countries in the Americas appeared to be declining in Q1'18, the second quarter saw an unexpected reversal. While there was not a noticeable impact on VC investment during the quarter, the sudden increase in trade tension between Canada and the US could cause some ripples in the VC market over time should the tension continue particularly for companies and investors in the manufacturing space.

Funding gap widening, creating challenges for middle stage funding

VC investors in the Americas continued to focus on late-stage deals in the Americas during Q2'18, particularly in the US and Canada. While Canada in particular has seen some strong Series A and B funding in the past, recent quarters have shown a shift to a new normal, one in which investors have started to prioritize late-stage revenue generating companies now looking to scale over companies earlier in their development cycle.

At the same time, there continued to be strong support for companies at the earliest of deal stages in the Americas. The availability of funding at both ends of the innovation life cycle has only increased recognition of the widening funding gap at the middle-stages of the deals continuum.

Strong quarter for Canadian VC investment

Canada saw a strong amount of VC activity in Q2'18, including a $98 million Series C raise by smart-home company Ecobee, a $70 million raise by online advance ordering company RitualTech, and a $54 million raise by Concentric.

During the quarter, US-based Salesforce also launched the Canada Trailblazer Fund, a new $100 million VC fund in Canada aimed at investing in early-stage Canadian companies with the potential to align with the Salesforce platform. While the fund is intended to support the strategic goals of Salesforce, it will also likely contribute to the further development of Canada's SAAS innovation ecosystem.

Americas VC market continues blistering pace, cont'd.

Election uncertainty creating a pause in Brazil-based VC investment

The VC market in Brazil was relatively soft in Q2'18, amid growing concerns related to the upcoming federal election to be held in October 2018. While VC investors continued to show interest in the country, actual deals investment was relatively small as investors took a 'wait and see' approach to their investment decisions.

Despite the uncertainty, fintech and logistics companies continued to attract some investment during the quarter, including Neon Bank ($22 million) and Mandae ($7.1 million). While small, these deals reflect areas of growing interest for VC investors in Brazil.

PagSeguro. which raised $2.3 billion during its IPO in Q1'18, announced in Q2'18 that it was going to release follow-on shares. This announcement created some negative ripples in the stock price of PagSeguro, however, the long-term impact of the move has yet to be defined.

Corporates increasingly active in VC investment space

Across the Americas, corporates have become increasingly active in the VC investment space — from the Canadian and Brazilian banks to technology companies like OpenText and Salesforce — which announced the creation of a VC fund focused on Canada during Q2'18. With the exception of investments in the US, much of the corporate VC activity seen across the Americas has been strategic to date, with companies focused on encouraging the development of beneficial technologies or on gaining access to necessary innovation talent.

Artificial intelligence remains hot in Canada

In Q2'18, Canada continued to define itself as a hotspot for innovation in artificial intelligence, particularly with respect to data and analytics. During the quarter, US-based NVIDIA announced plans to develop an innovation lab in Toronto focused on AI, joining other global companies who have already invested in AI innovation in Canada, such as Alphabet, Microsoft, Facebook, Samsung, and Uber.

The focus of AI investments in Canada continues to be relatively diverse, ranging from support for biomedical research to support for fintech innovation.

Trends to watch for in Q3'18

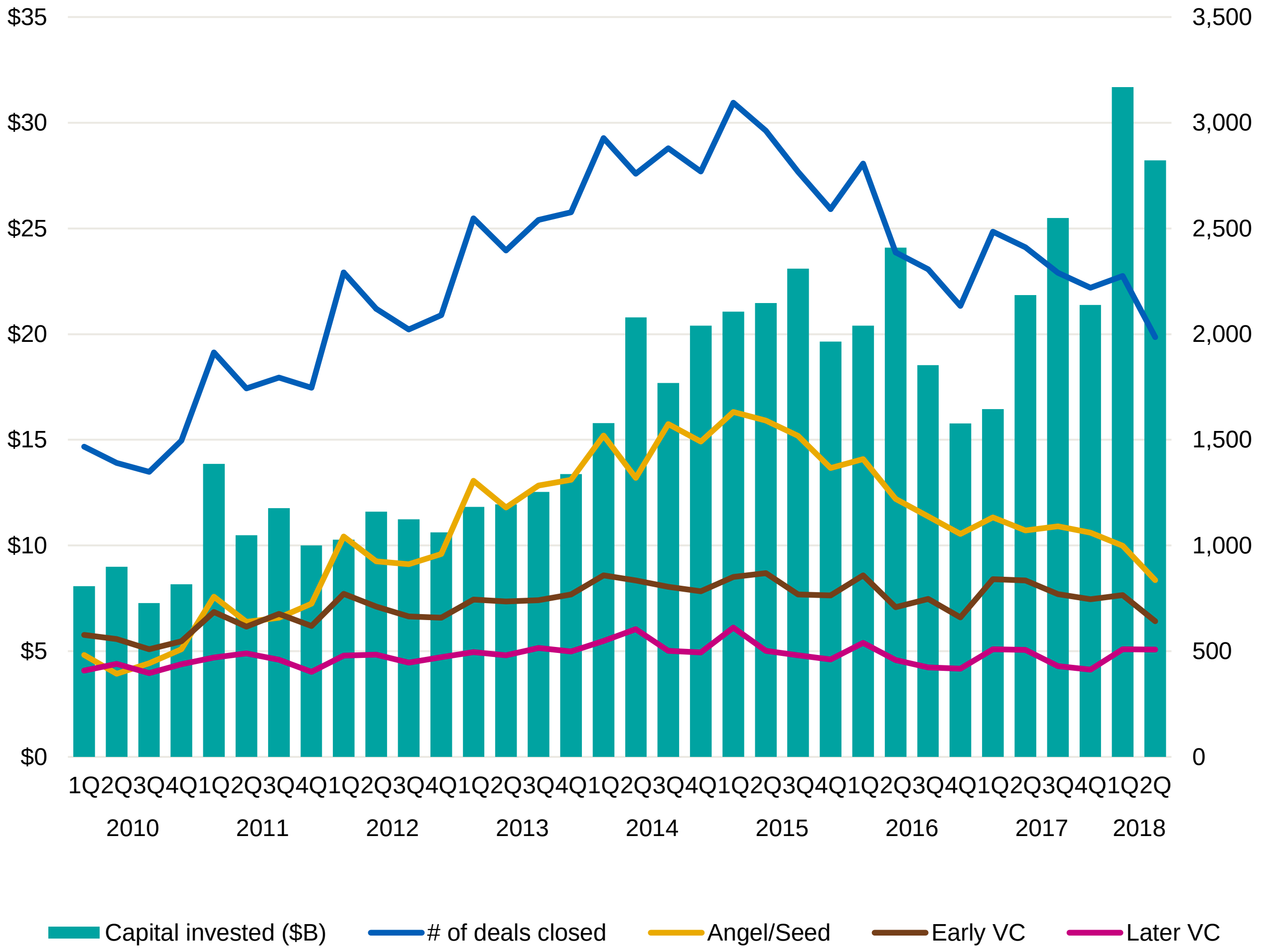
Heading into Q3'18, the outlook for the VC market in the Americas remains relatively positive, although some uncertainties remain related to US trade tensions, the upcoming election in Brazil, and the expectation of rising interest rates over time.

KPMG Enterprise

Stabilization in venture volume on the horizon?

Venture financing in the Americas

2010 — Q2'18



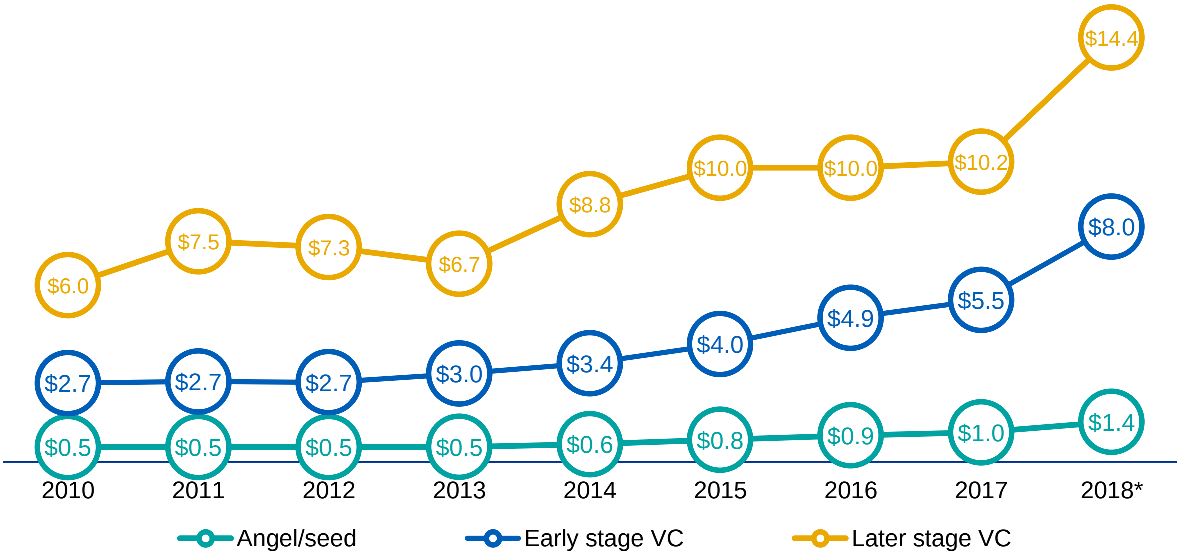
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 11, 2018.

Coming in just a few billion dollars shy of the high set in the first quarter of 2018, Q2 nevertheless raked in sufficient capital to become the second-highest quarter on record in the decade. More importantly, ongoing stability in late-stage financing volume plus an evening out in the quarterly volume of angel, seed and early-stage rounds in the past few quarters hints at a rough stabilization in aggregate VC volume on the horizon.

Up rounds proliferate even further

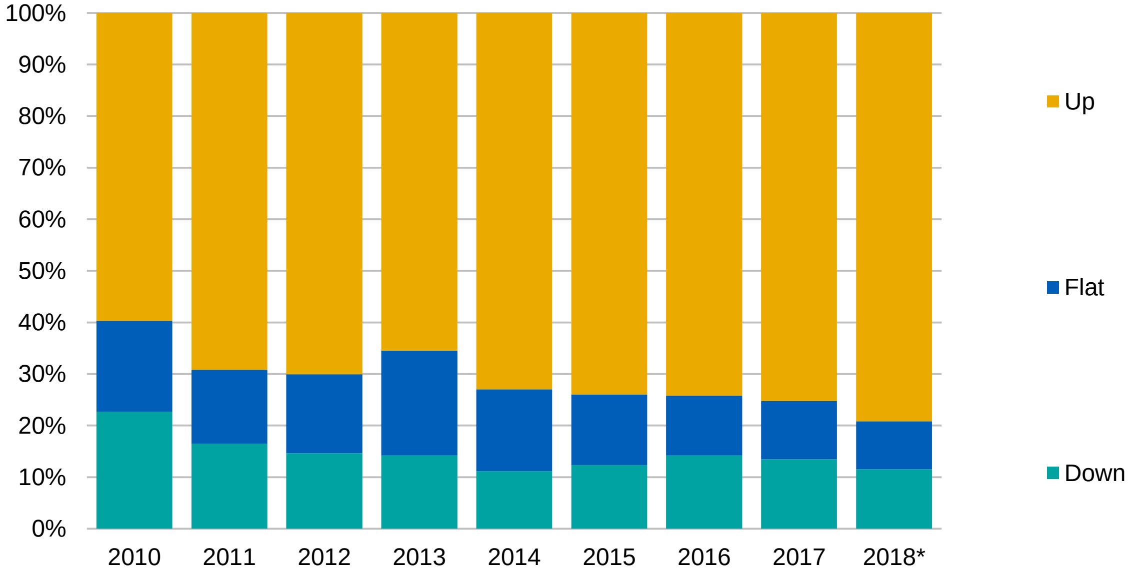
Median deal size ($M) by stage in the Americas

2010 — 2018*



Up, flat or down rounds in Americas

2010 — 2018*

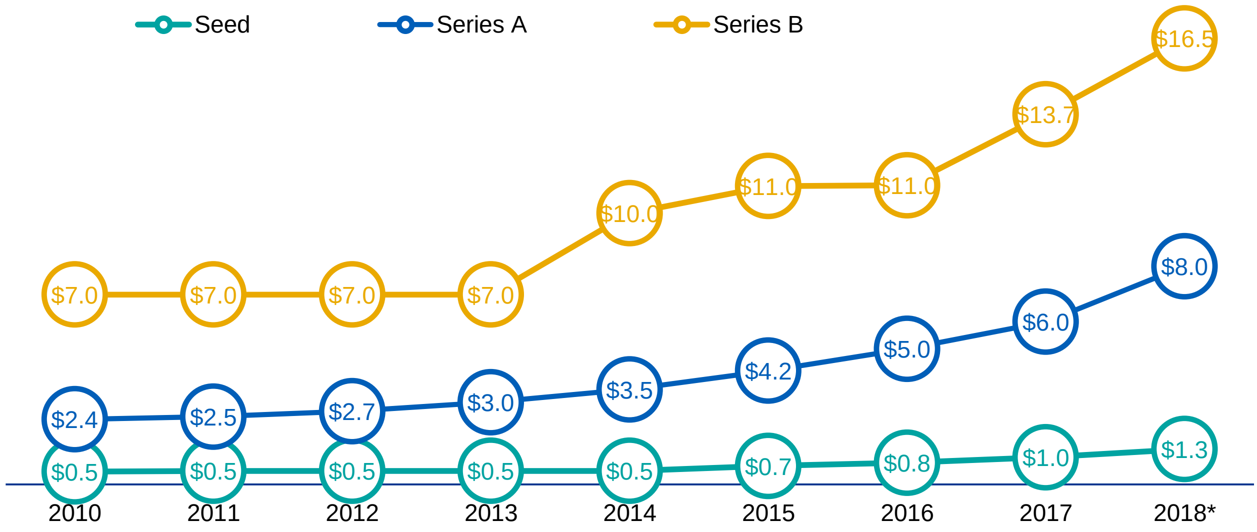


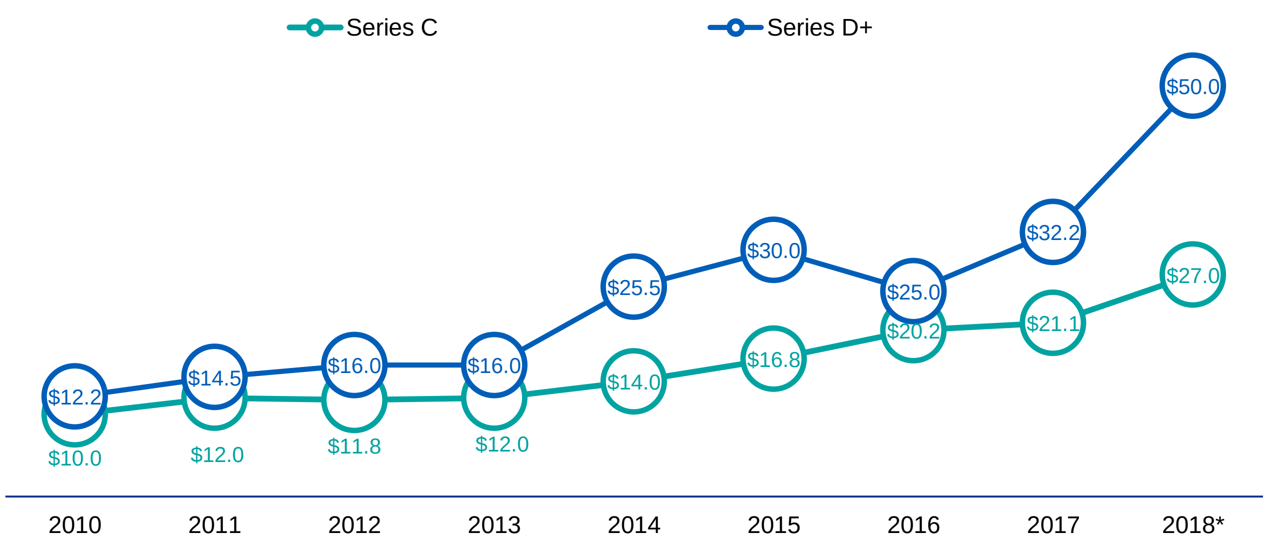
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Series A, D and later see greatest relative increase

Median deal size ($M) by series in the Americas

2010 — 2018*



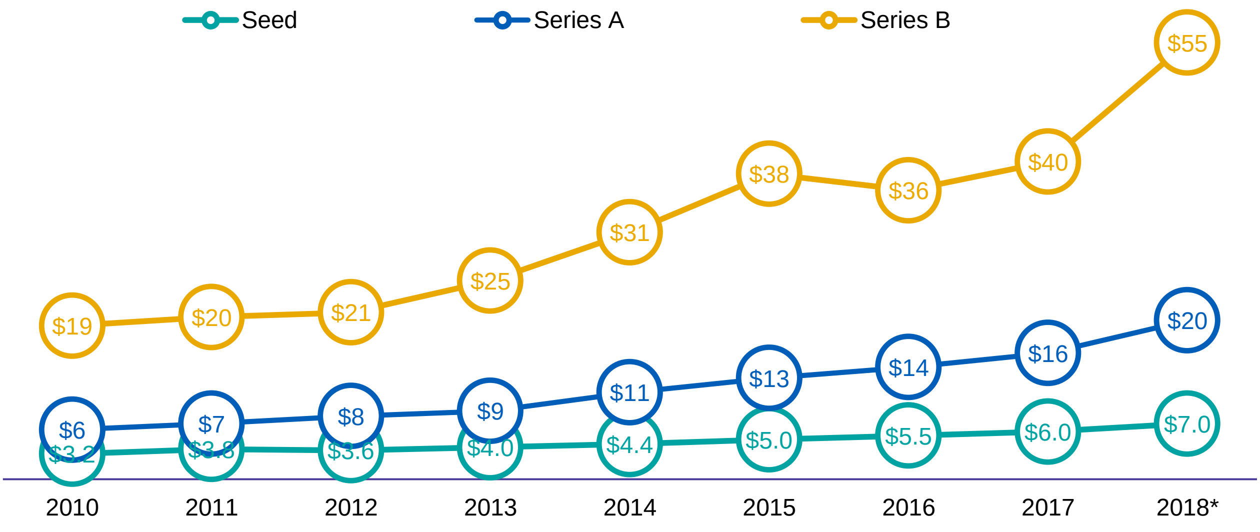


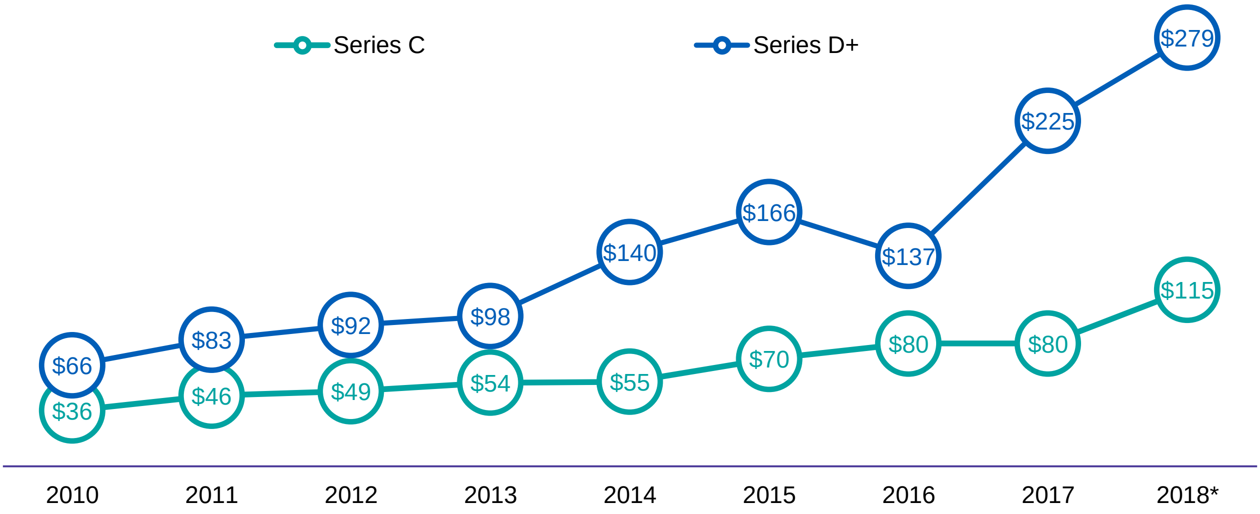
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Series B & D still stand out as clear phase shifts

Median pre-money valuation ($M) by series in the Americas

2010 — 2018*





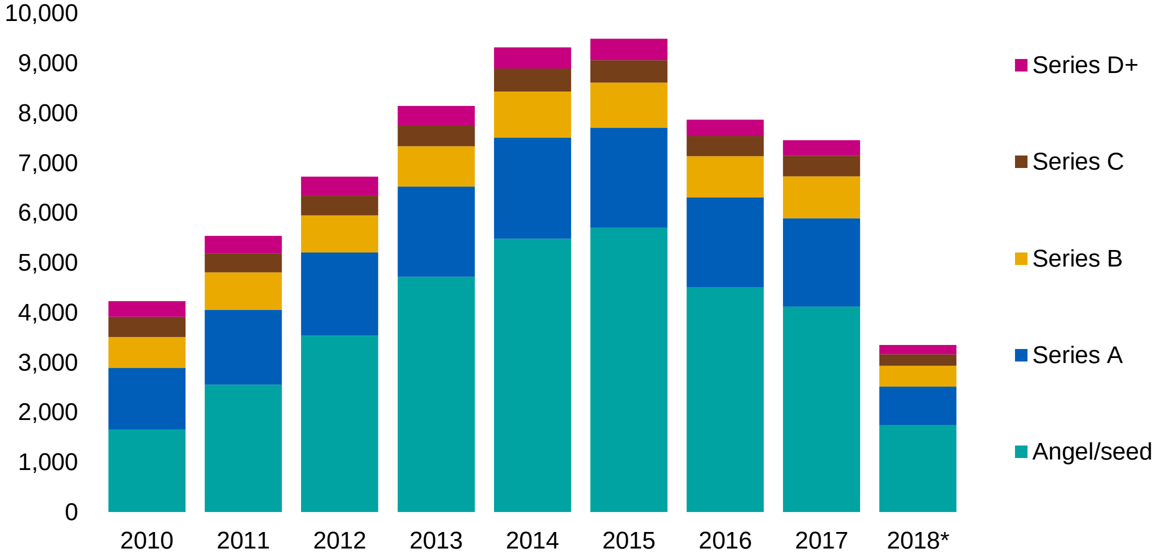
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

In the prior edition of the Venture Pulse, it was remarked that between Series A and B, plus Series C and D, there was clear winnowing of the playing field of startups, as those relatively few companies that were able to vault between those round types enjoyed huge increases in median valuations. Such disparity has only persisted in 2018 to date.

Series D & later rounds already raking in huge sums

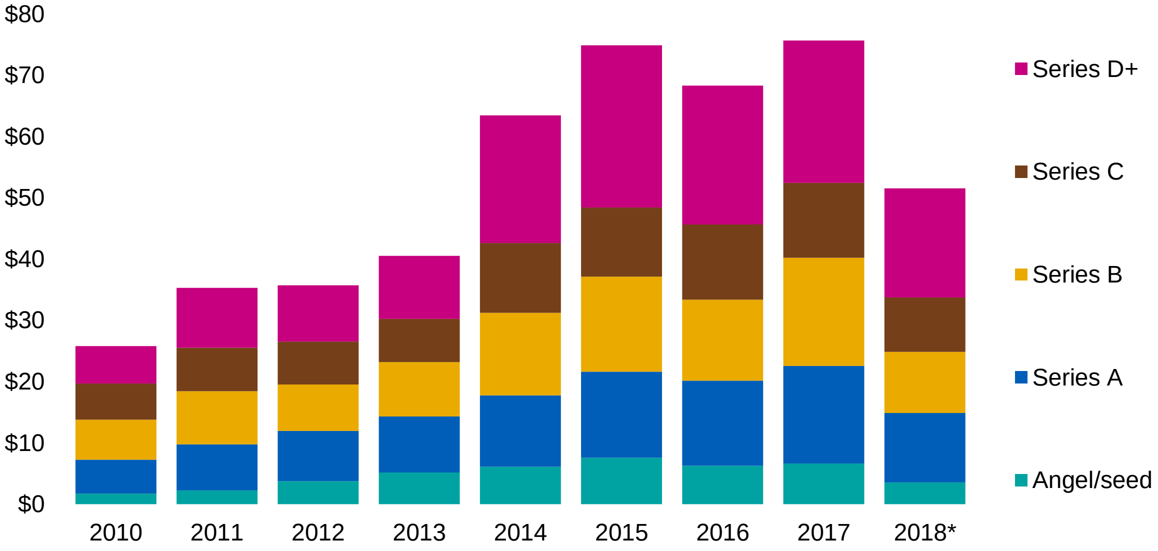
Deal share by series in the Americas

2010 — 2018*, number of closed deals



Deal share by series in the Americas

2010 — 2018*, VC invested ($B)



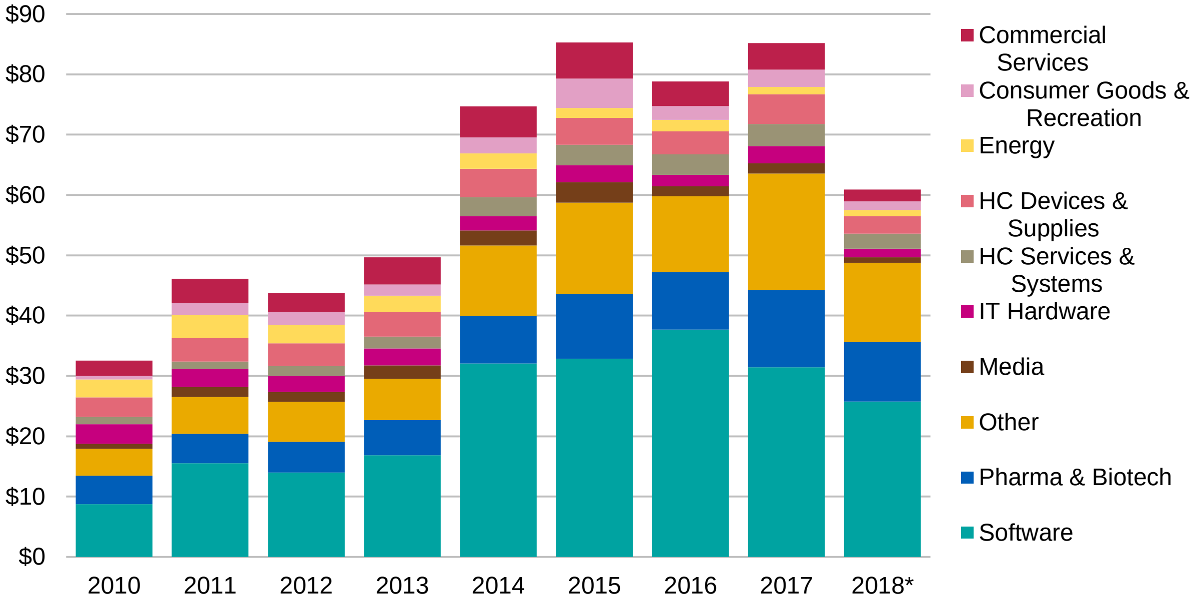
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

KPMG Enterprise

Traditional areas of VC focus remain robust

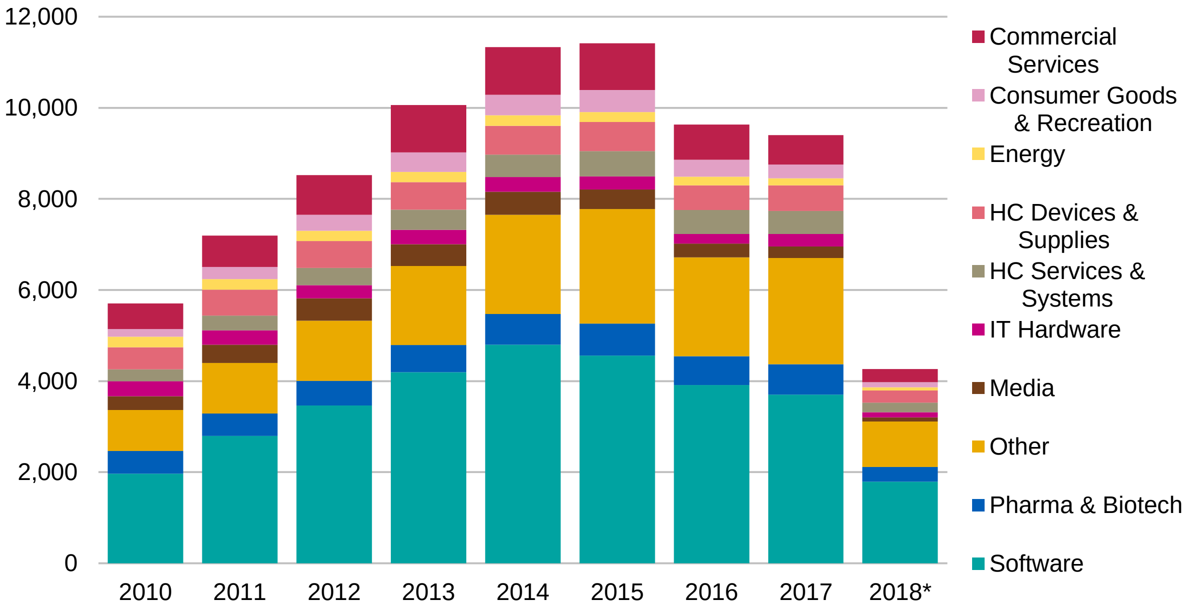
Venture financing of VC-backed companies by sector in the Americas

2010 — 2018*, VC invested ($B)



Venture financing of VC-backed companies by sector in the Americas

2010 — 2018*, # of closed deals

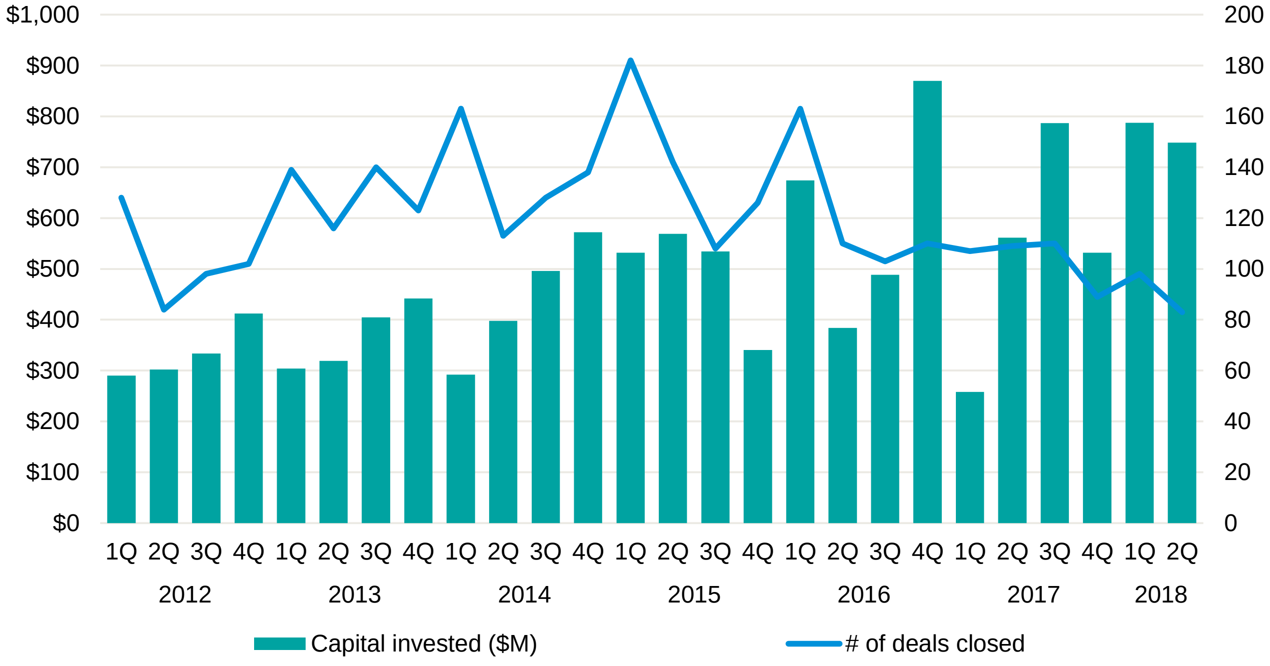


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Another strong quarter for VC invested

Venture financing in Canada

2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Eight financings over $20 million in size of Canadian companies closed in the second quarter of 2018. That healthy tally, plus diversity in the array of companies funded, with sectors ranging from agricultural chemicals to intelligent thermostat systems, bodes well for the health of the Canadian ecosystem, despite moderated volume.

“AI innovation continues to be very prevalent here in Canada. It’s a priority for everyone — the government, research institutions, traditional corporates and startups. This quarter, we saw Nvidia announce plans to start an AI lab in Toronto, one of the first big American companies to do so. It won’t be the last. We expect to see a lot more following suit in the future.”

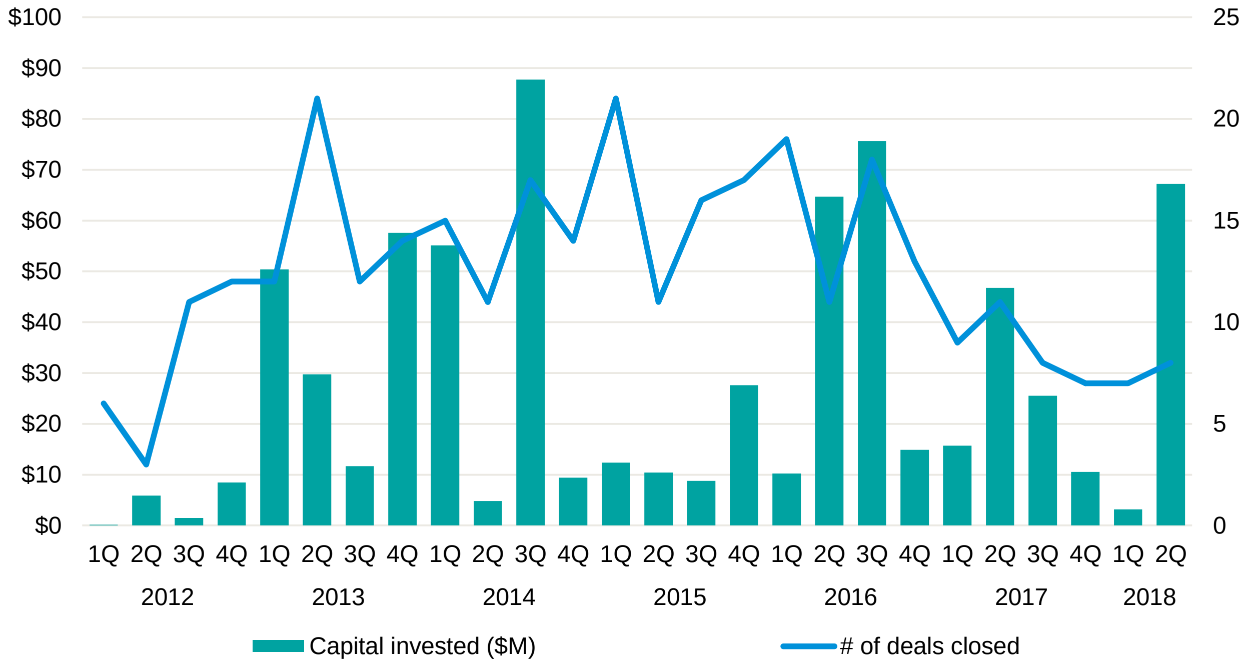
Sunil Mistry
Partner, KPMG Enterprise, Technology, Media and Telecommunications,
KPMG in Canada

KPMG Enterprise

A bounce back in VC invested for Mexico

Venture financing in Mexico

2012 — Q2'18



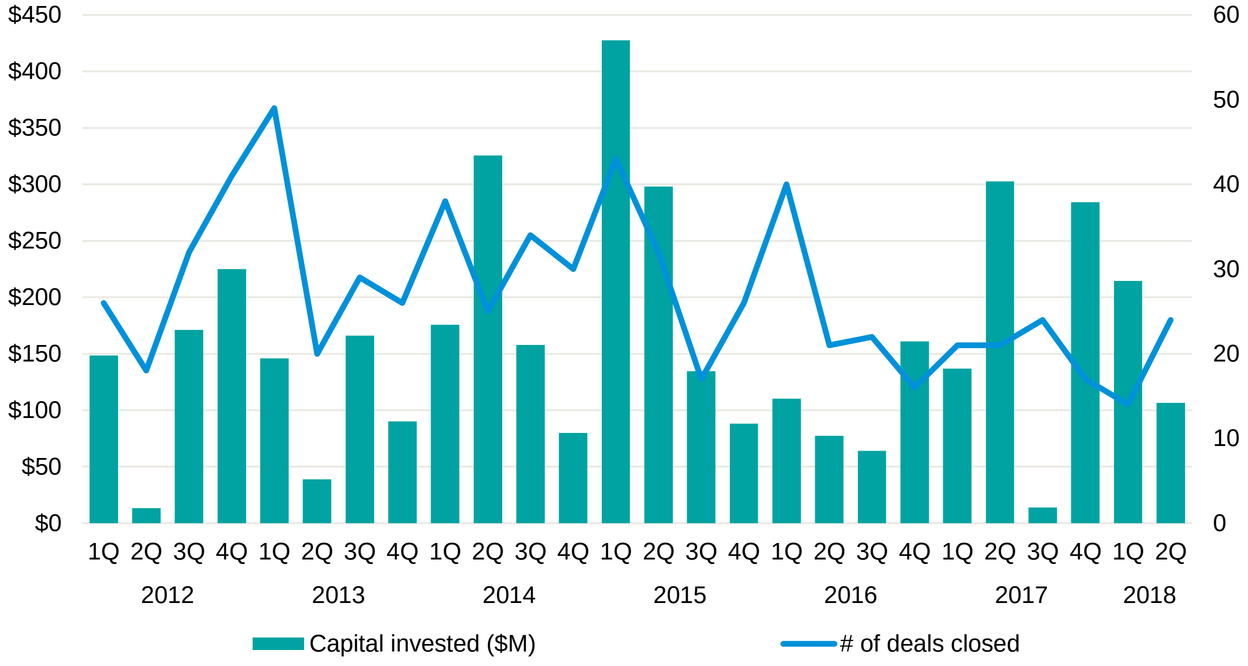
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

After a remarkably low tally of VC invested in Mexico-headquartered enterprises in Q1 2018 — attributable to economic and geopolitical concerns — the tide turned in Q2, with companies such as online lender Konfio raking in multimillion-dollar rounds. That said, there could be future lows still, given the overall trend over the past year and a half has been on the muted end, but the most viable companies should still be able to get funding when they need it.

Uptick in activity among B2C-centric offerings

Venture financing in Brazil

2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

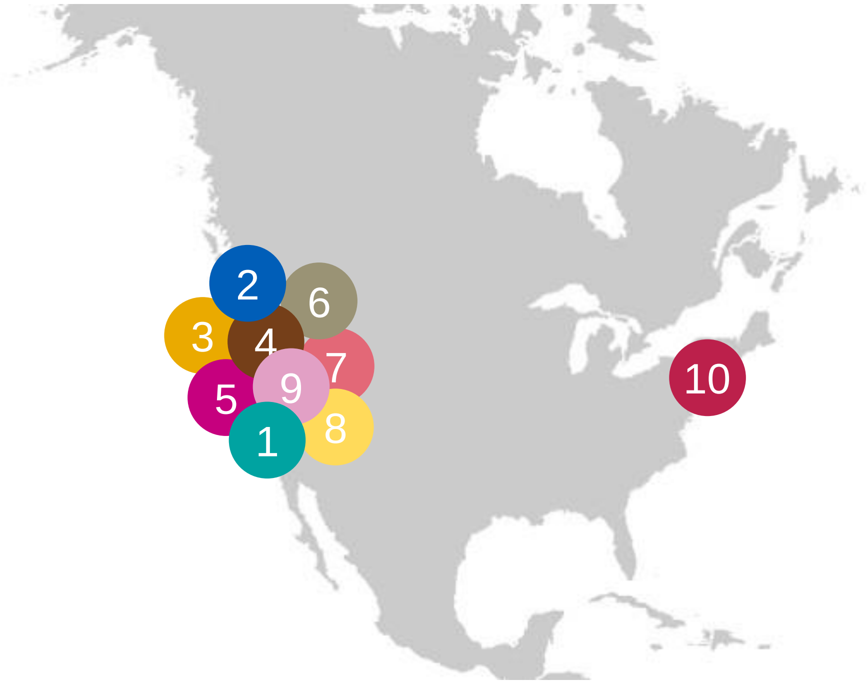
Although the largest funding in Q2 2018 was a Series D round for business software maker ContaAzul, most of the companies that closed on a round of funding are consumer-focused, speaking once more to the Brazilian startup ecosystem's relative strengths and weaknesses.

"With an election coming in October, a lot of VC investors are taking a 'wait and see' approach before making any major investments. This doesn't mean interest isn't percolating. We're seeing a lot of corporate VC funds coming to Brazil to look for investments — and even a number of local companies setting up VC funds. Signaling that Corporate VC is going to grow in Brazil — although it might take a few quarters to materialize."

Raphael Vianna
Director,
KPMG Enterprise in Brazil

KPMG Enterprise

Silicon Valley comes back with a vengeance in Q2 2018



1 **Faraday Future** — $2,000M, Los Angeles
Transportation
Late-stage VC

2 **Lyft** — $600M, San Francisco
Transportation
Series I

3 **Allogene Therapeutics** — $411.8M, San Francisco
Biotechnology
Series A

4 **Robinhood** — $362.9M, Palo Alto
Financial software
Series D

5 **Instacart** — $350M, San Francisco
E-commerce
Series E

6 **Opendoor** — $325M, San Francisco
Vertical market software
Series E

7 **Grail (Biotechnology)** — $300M, Menlo Park
Biotechnology
Series C

8 **Tradeshift** — $250M, San Francisco
Financial software
Series E

9 **Cohesity** — $250M, San Jose
IT storage
Series D

10 **Dataminr** — $221M, New York
Artificial intelligence
Series E

Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 11, 2018.

KPMG Enterprise

In Q2'18 U.S. VC-backed companies raised

$27.3B

across

1,859 deals

VC investment in the US remains strong as IPO market sees resurgence

VC investment in the United States held strong in Q2'18, with all ten of the top US deals this quarter bringing in over $250 million in funding. An additional $2 billion raise by electric-car manufacturer Faraday Future — after reopening their Q1'18 funding round this year, helped propel the US VC numbers this quarter.

VC investment in US late-stage deals big winner as number of seed and angel deals plateaus

US VC investors continued to focus on late-stage deals in Q2'18, with big follow-on raises by Faraday Future ($2 billion), Lyft ($600 million), Robinhood ($362 million), Instacart ($350 million), and others. The rapid maturation of industries considered cutting edge just a few years ago such as food delivery, online lending and ride-hailing — combined with a slow IPO market prior to 2018 has led to a number of late-stage companies looking to the VC market to fuel growth and market leadership plays.

With the tide turning on the IPO market, VC investors are starting to make strategic investments in hot verticals, including autotech, biotech, and life sciences. Angel and seed-stage funding appears to have plateaued following a long period of declining deals numbers. Big Series A raises by Allogene Therapeutics during Q2'18 may be a sign of strengthening early-stage deals activity. Seed and early-stage deals numbers could see a resurgence over the next few quarters in the US as exit activity continues to gain steam.

IPO market in US continues to gain strength

Pent-up demand and positive post-IPO performance contributed to a continued resurgence in US IPO activity in Q2'18. Positive exits by Docusign and Zuora this quarter, combined with strong IPOs by Dropbox, Zscaler, and others earlier in the year, helped to spur a renewed interest in IPO exits more broadly. While still early days, post-IPO performance has been quite positive for these companies. Investors have also taken the long-term performance by companies like Twilio, now 2 years post-IPO, as proof that alternative business models can work and have longevity.

While many of the largest IPOs to date have come from software-as-a-service companies, it is expected that other technology companies will also move to exit in the coming quarters, particularly those that have delayed exiting due to the draught of exit activity that occurred in 2016 and 2017. In terms of less mature companies listing for IPO, companies in the biotech and life sciences space remain among the most active.

M&A activity was also positive during Q2'18, with Microsoft's acquisition of developer platform GitHub for $7.5 billion.

Autotech remains big focus in US

Autotech continues to be a priority for VC investors in the US, as evidenced by Faraday Future's second $1 billion+ raise this year. Many traditional automotive manufacturers are investing in autonomous driving technologies in particular, despite the fact numerous hurdles remain before such technologies can be implemented at a consumer level. VC investors are focusing particularly on companies and management teams who have some ability to overcome recognized hurdles to technology commercialization.

VC investment in the US remains strong as IPO market sees resurgence, cont'd.

Breadth of cybersecurity investments expand

In Q2'18, cybersecurity firm Tanium raised $175 million, highlighting that cybersecurity continues to be a big bet among VC investors. This is particularly true given that the breadth of cybersecurity issues has quickly expanded beyond traditional norms. With the increase in connected technologies — from homes to cars to devices — there has been a related increase in concern regarding potential hacking. With many companies looking at breaches as a question of "When?" not "If" — corporate investments have also shifted to include technologies that enable rapid response to breaches.

Convenience services a hot topic for investors

One trend of note so far in 2018 is the growing focus on 'convenience' companies. While verticals like grocery and food delivery have long been convenience-focused, companies now appear to be targeting more specialized niches. In Q1'18, dog-walking came under the investor microscope with Wag's $300 million raise. In Q2'18, a second dog-walking focused app, Rover, raised $155 million. The focus on dog-walking so far this year suggests that VC investors are willing to place bets on companies trying to make people's day-to-day lives easier to manage.

Mega-funds and niche funds find traction in the market

Following the introduction of Softbank's Vision Fund in 2017, there has been an increase in attention on the creation of other mega-funds — such as the $12 billion fund being raised by Sequoia Capital, the $1.25 billion raised by Battery Ventures, and the $1 billion being raised by General Catalyst. These funds and their complementary minimum cheque size highlight the desire of VC firms to be able to compete for the largest deals.

While there has been a significant focus on 'bigger is better' in terms of fund size, there has also been some focus on small funds able to provide niche offerings, such as support to sustainable companies in order to meet the needs of millennials. VC investors have also focused a significant amount on creating specialized funds to support investments in other global markets, such as Asia, Mexico, and Brazil.

Trends to watch for in Q3'18

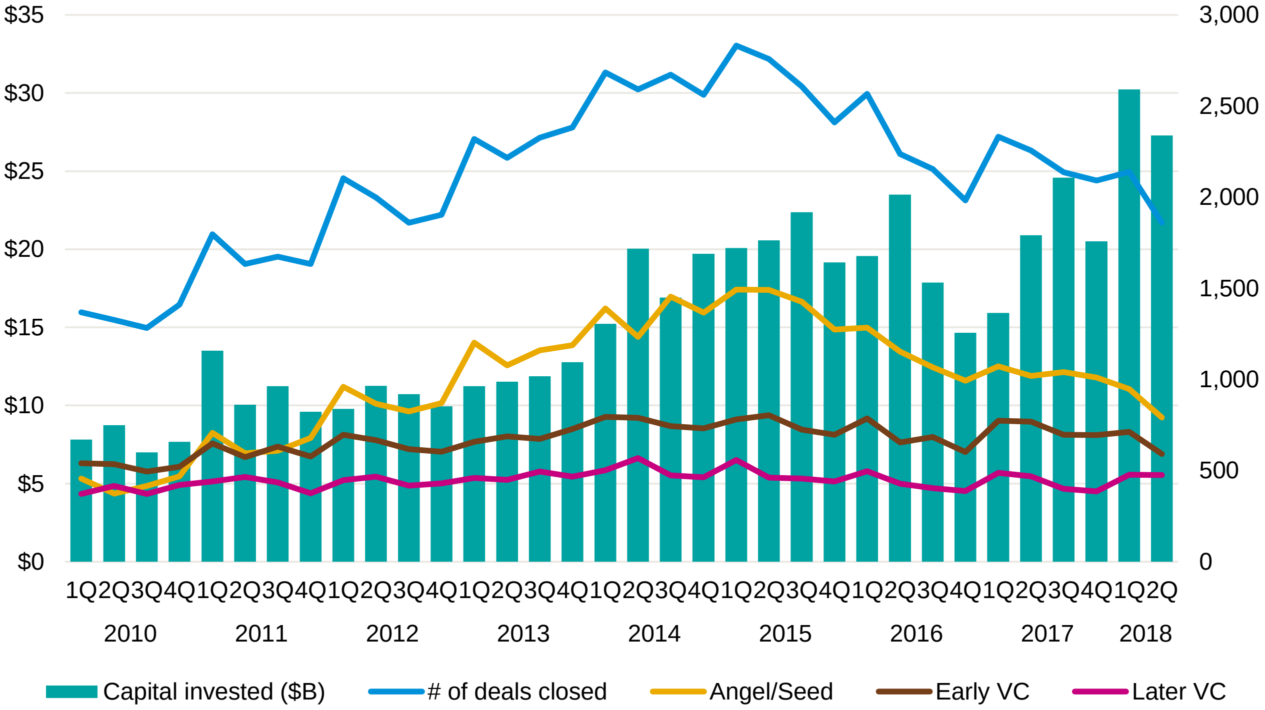
Heading into Q3'18, the VC market in the US is expected to remain strong, even with ongoing uncertainty related to tax reforms and trade tariffs with other countries. Activity in the IPO market is expected to continue to increase with a greater variety of companies looking to exit. In terms of key sectors, AI and autotech investments are expected to remain strong, in addition to investments in healthtech, biotech, and life sciences companies.

KPMG Enterprise

An unstoppable wave of late-stage capital

Venture financing in the U.S.

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

The money just keeps flowing. Last edition of the Venture Pulse, it was noted how remarkable the consecutive highs in quarterly VC were — but the back-to-back highs in the first half of 2018 are astounding. Late-stage companies are closing rounds of financing, then even reopening for additional infusions of capital in further tranches, in a testament to how much hype there is in the late-stage, unicorn-centric game.

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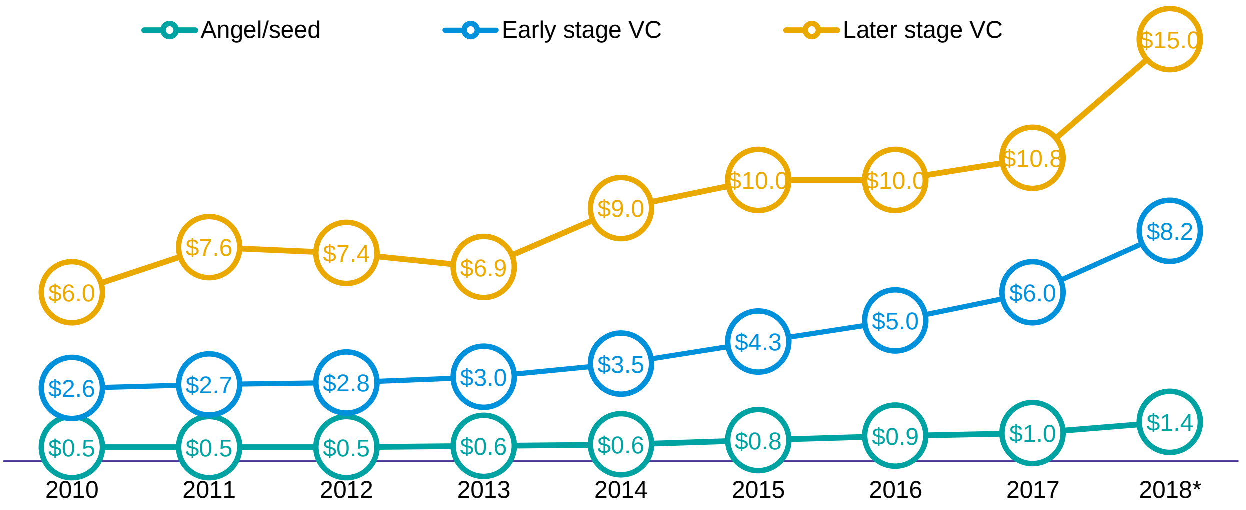
"While the successful IPO activity in the first half of 2018 has clearly been a catalyst for continuing growth in late-stage investing, the increases in funding at the earlier stages of investment bodes very well for the future of the VC-backed ecosystem in the US."

Conor Moore
National Co-Lead Partner, KPMG Venture Capital Practice, **KPMG in the U.S.**

The disparity between angel & Series A widens

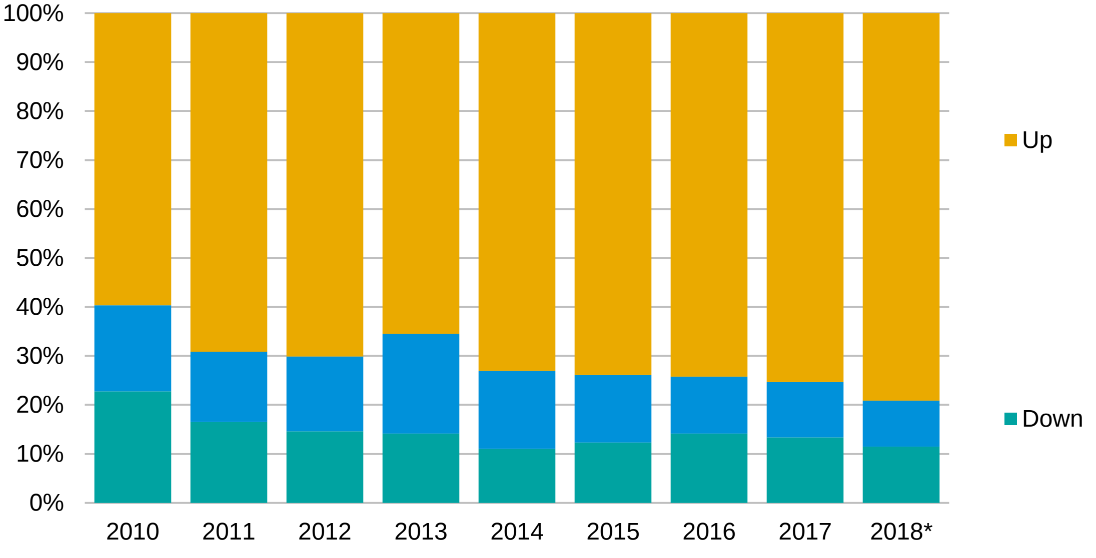
Median deal size ($M) by stage in the U.S.

2010 — 2018*



Up, flat or down rounds in the U.S.

2010 — 2018*



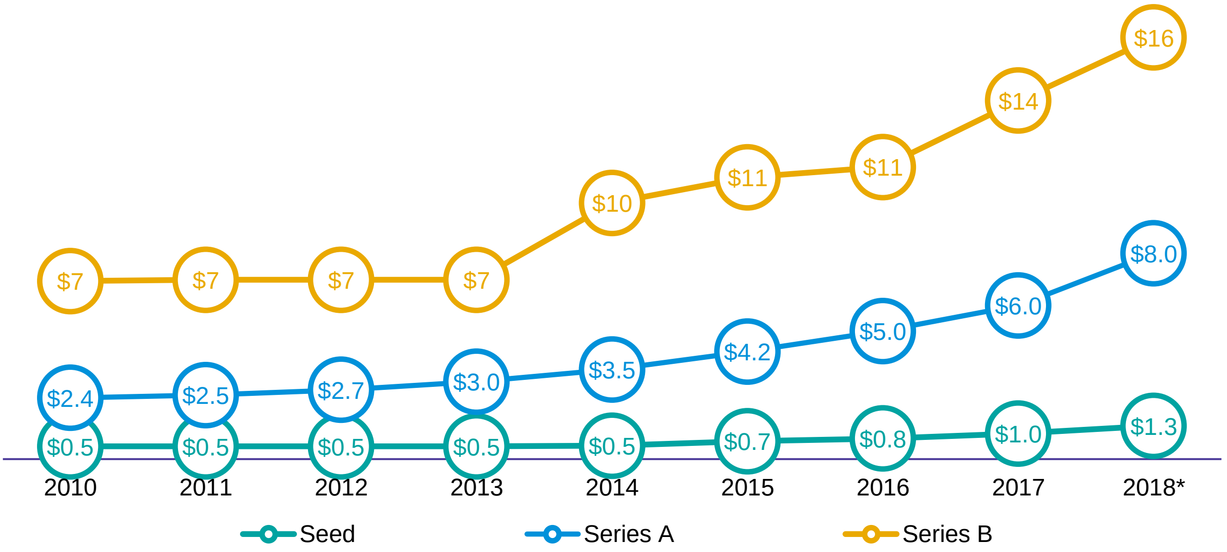
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

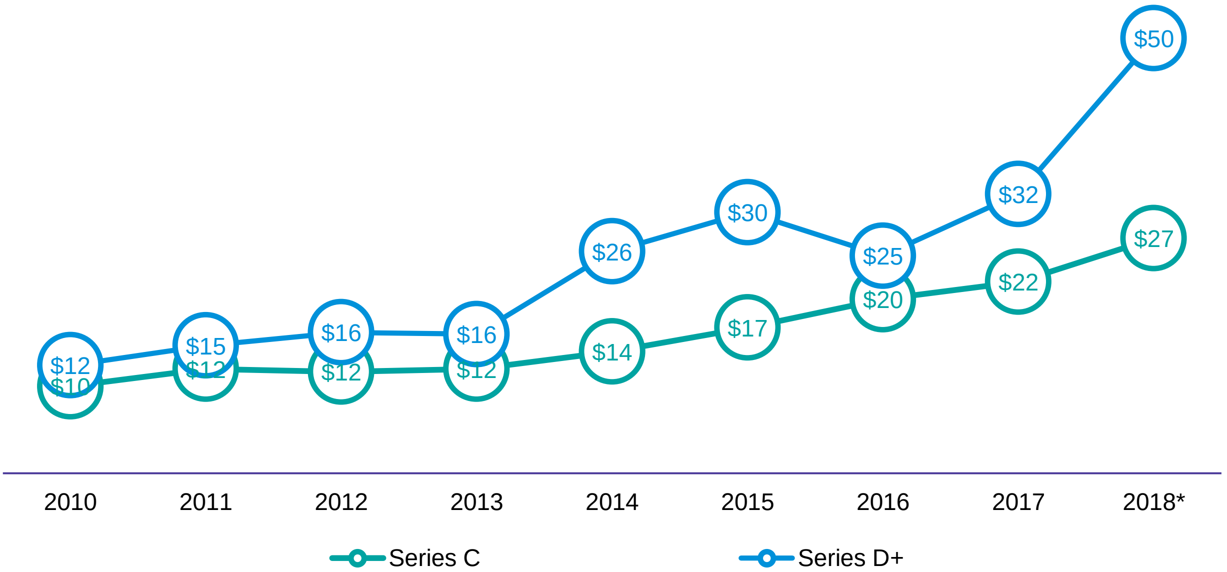
KPMG Enterprise

Latest stage surges even higher

Median deal size ($M) by series in the U.S.

2010 — 2018*



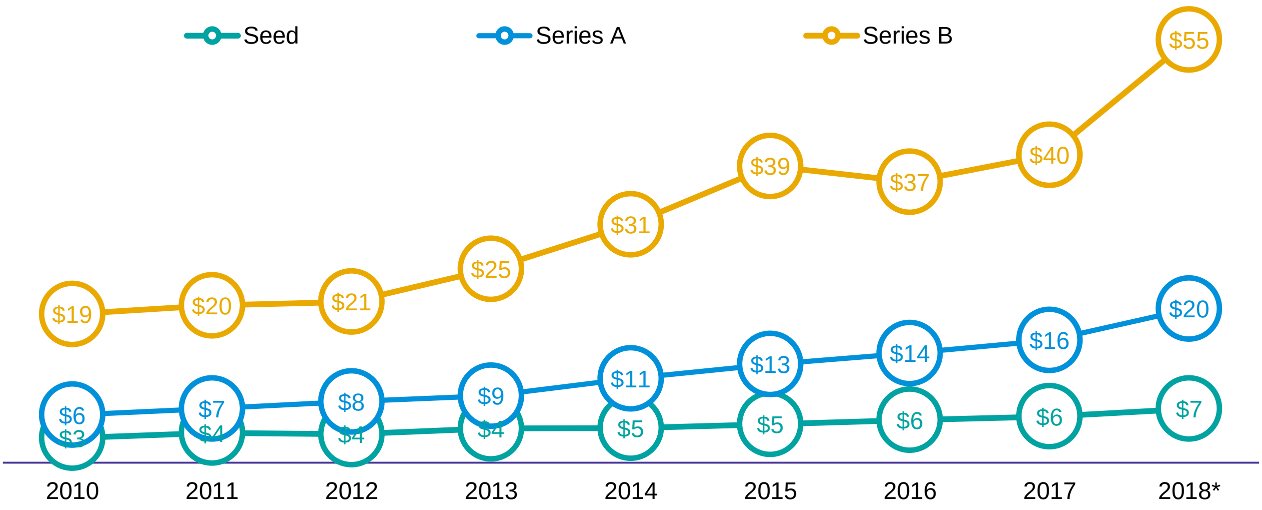


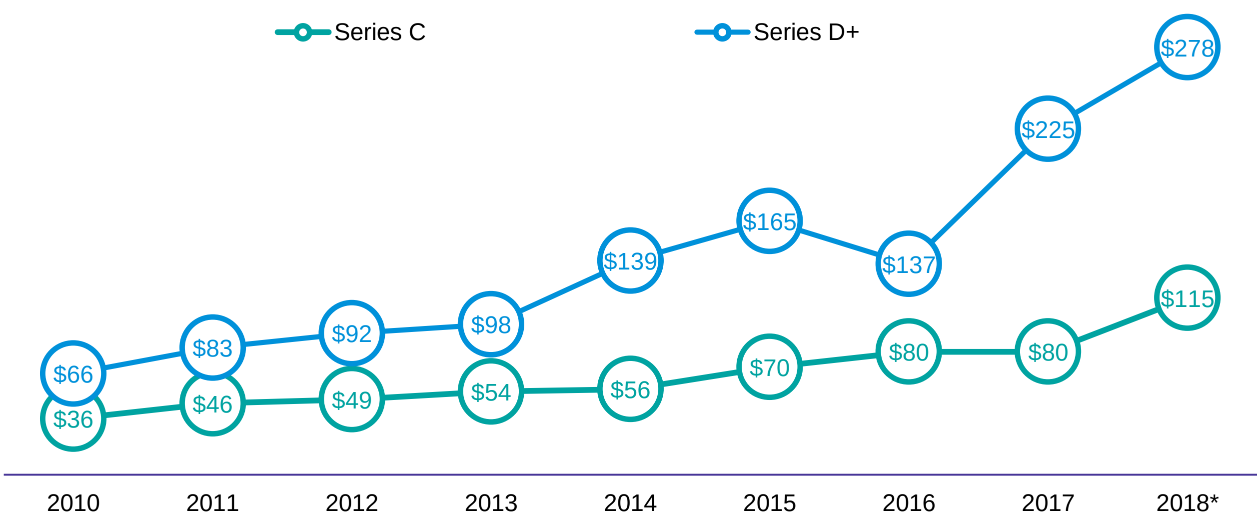
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.
Note: Figures rounded in some cases for legibility.

Awash in capital, even medians stay high

Median pre-money valuation ($M) by series in the U.S.

2010 — 2018*





Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Note: Figures rounded in some cases for legibility.

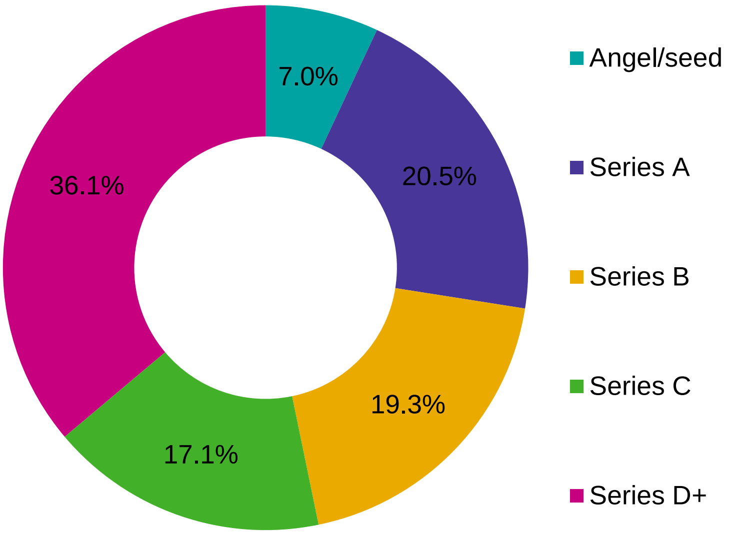
Since 2016, the latest-stage median valuations have launched into the stratosphere. The oldest unicorns that keep on raising sums contribute significantly to even the median of Series D and later rounds but, by and large, it is also a testament to how deeply the venture landscape is awash in capital.

KPMG Enterprise

Angel & seed experiences greatest contraction

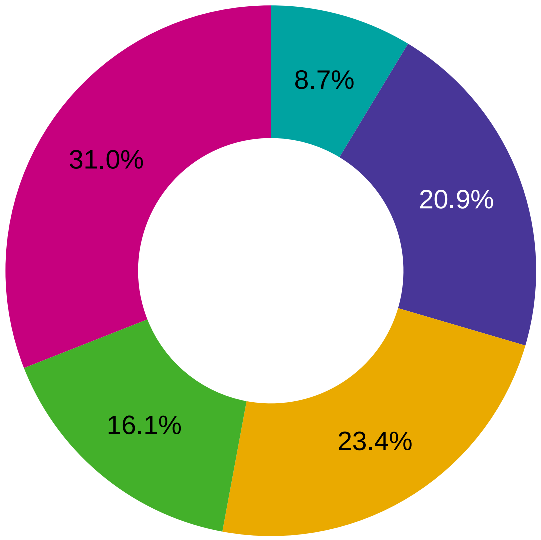
Deal share by series in the U.S.

2018*, VC invested ($B)



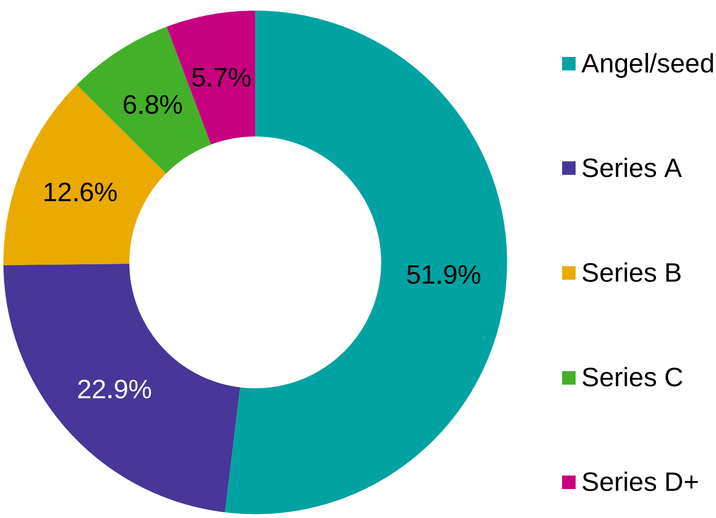
Deal share by series in the U.S.

2017, VC invested ($B)



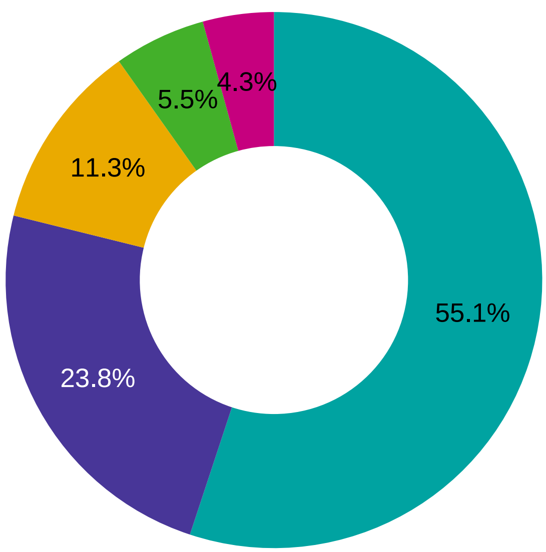
Deal share by series in the U.S.

2018*, number of closed deals



Deal share by series in the U.S.

2017, number of closed deals

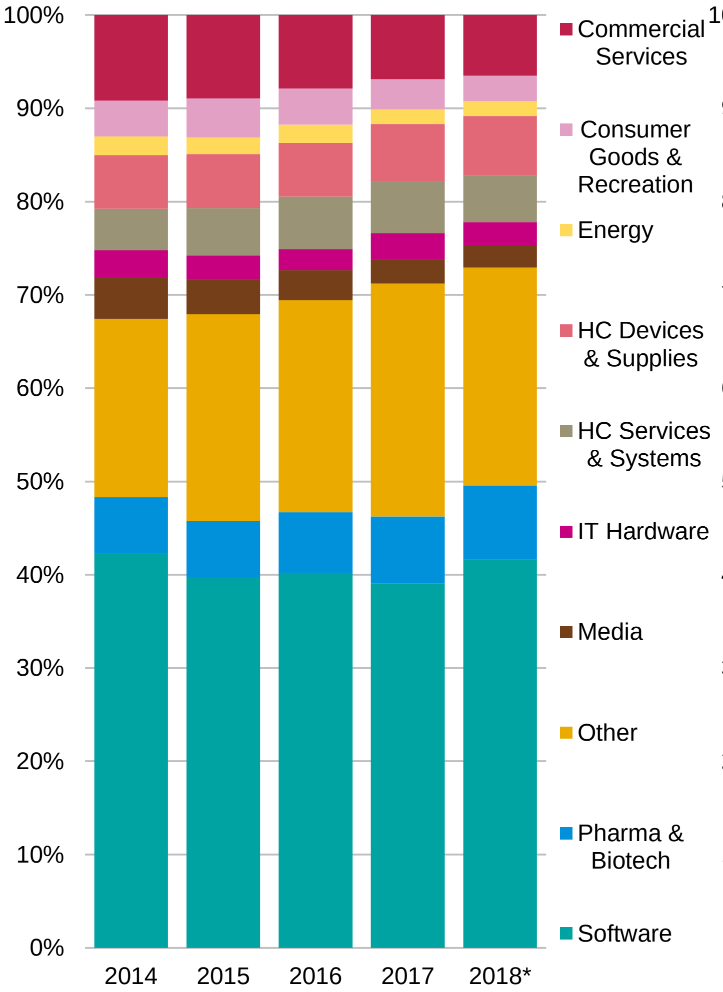


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 11, 2018.

Life sciences stay strong

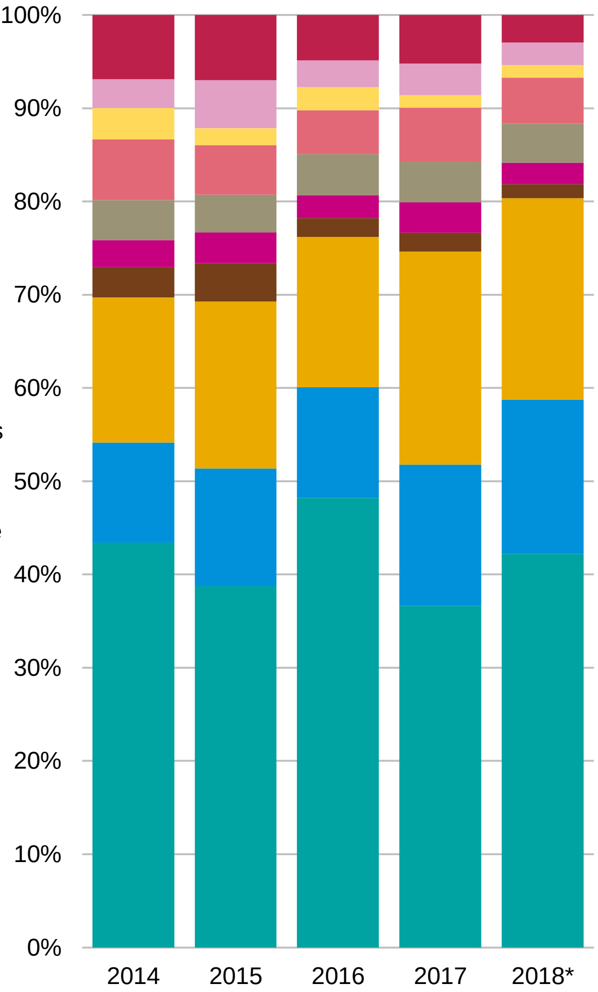
Venture financing by sector in the U.S.

2014 — 2018*, number of closed deals



Venture financing by sector in the U.S.

2014 — 2018*, VC invested ($B)



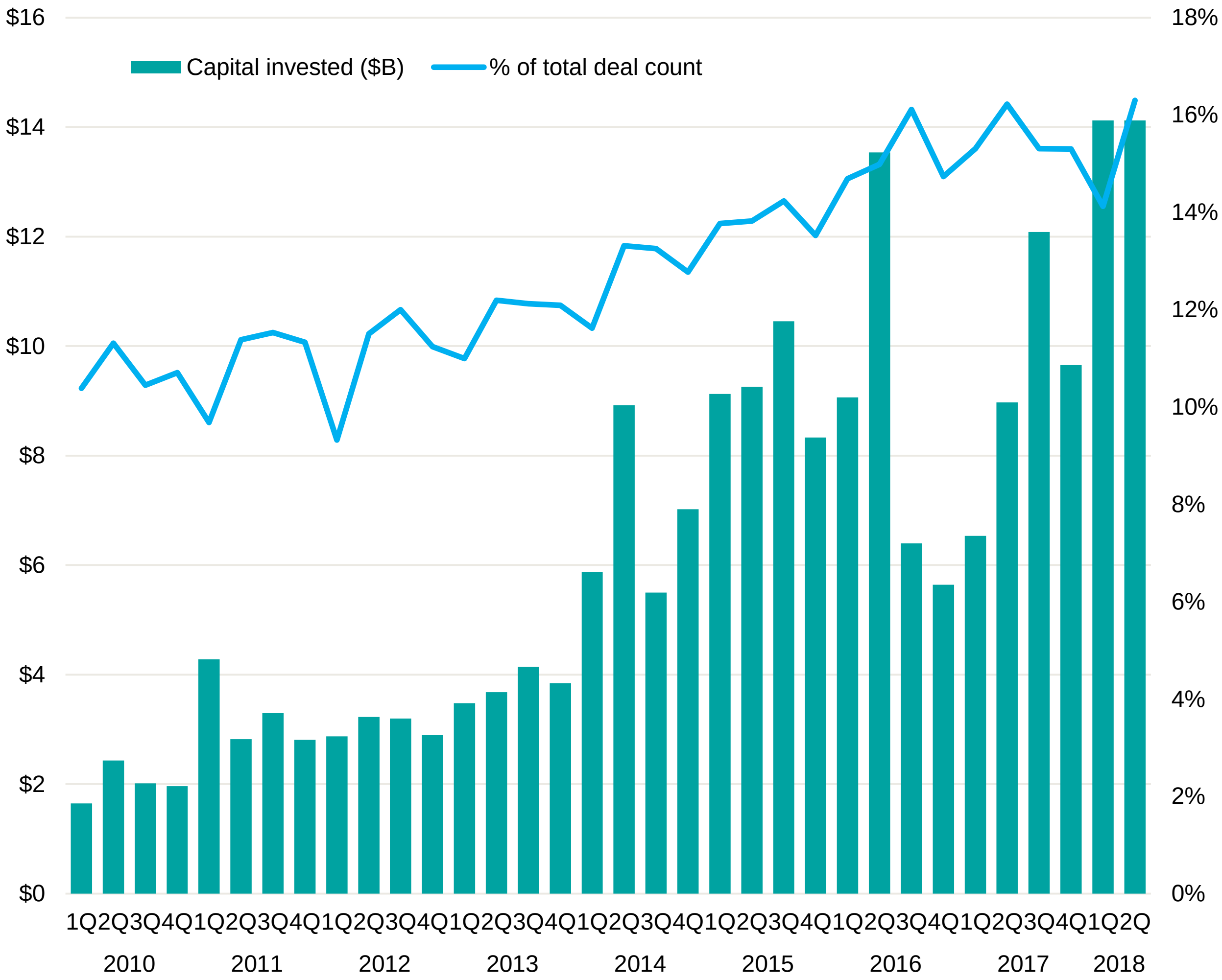
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

The prior edition of Venture Pulse focused upon pharma & biotech's robustness both in VC invested and volume in the first quarter of 2018, but it's worth noting that life sciences in general account for over 14% of U.S. VC volume, the highest proportion in years. As life sciences span healthcare devices & supplies plus pharma & biotech, it is a testament to how much more interested VCs are becoming in healthcare innovation as the industry grows to an even larger share of the nation's economy.

CVC participation rebounds

Corporate participation in venture deals in the U.S.

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

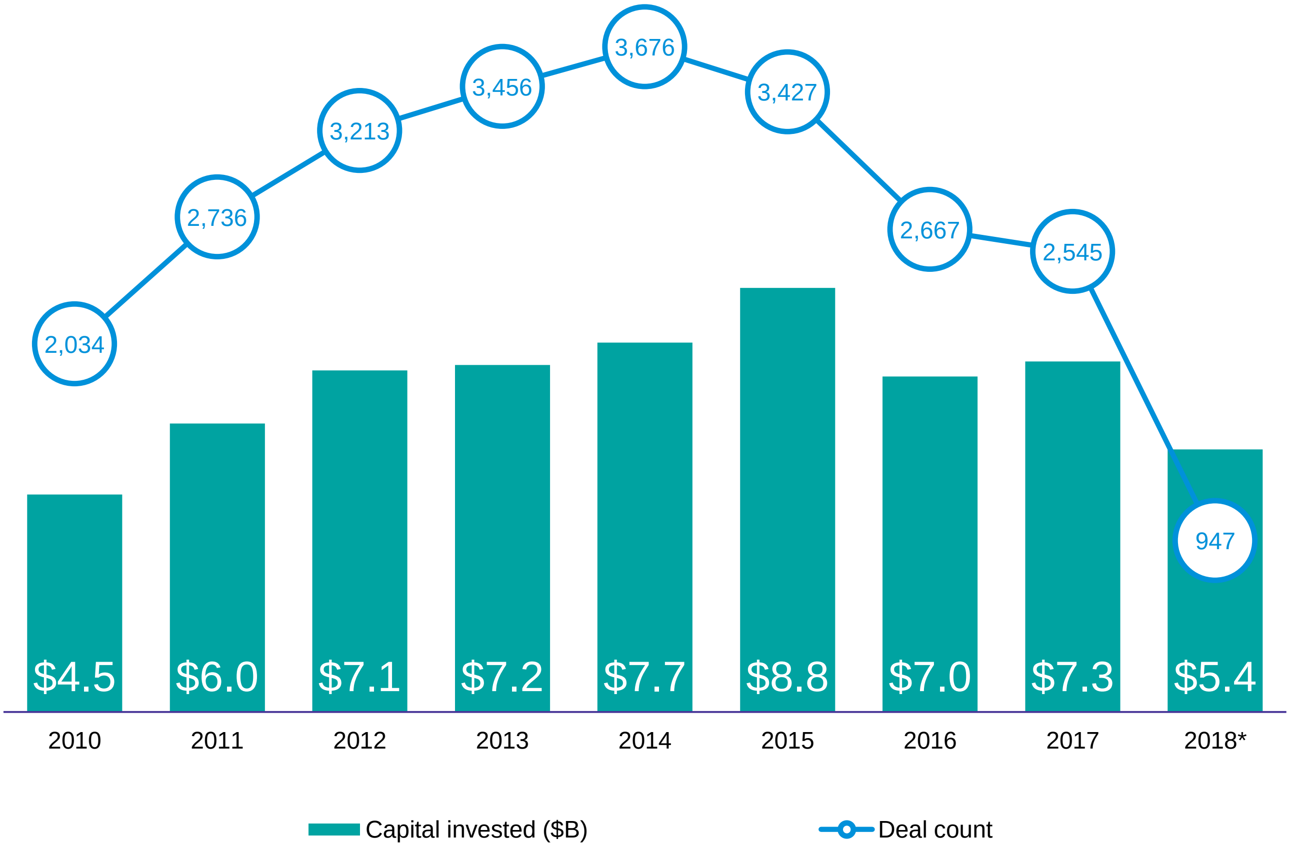
After notching the first significant dip in a while, corporate players were back at it again in Q2 2018, joining in more than 16% of all U.S. VC activity and a substantial portion of the period's largest venture rounds. As they can afford it but more importantly also often have what are in essence R&D interests in staying exposed to burgeoning technologies within their own industries, CVC entities are likely to stay invested.

KPMG Enterprise

Diverging VC invested & volume point to restarting innovation cycle

First-time venture financings of companies in the U.S.

2010 — 2018*

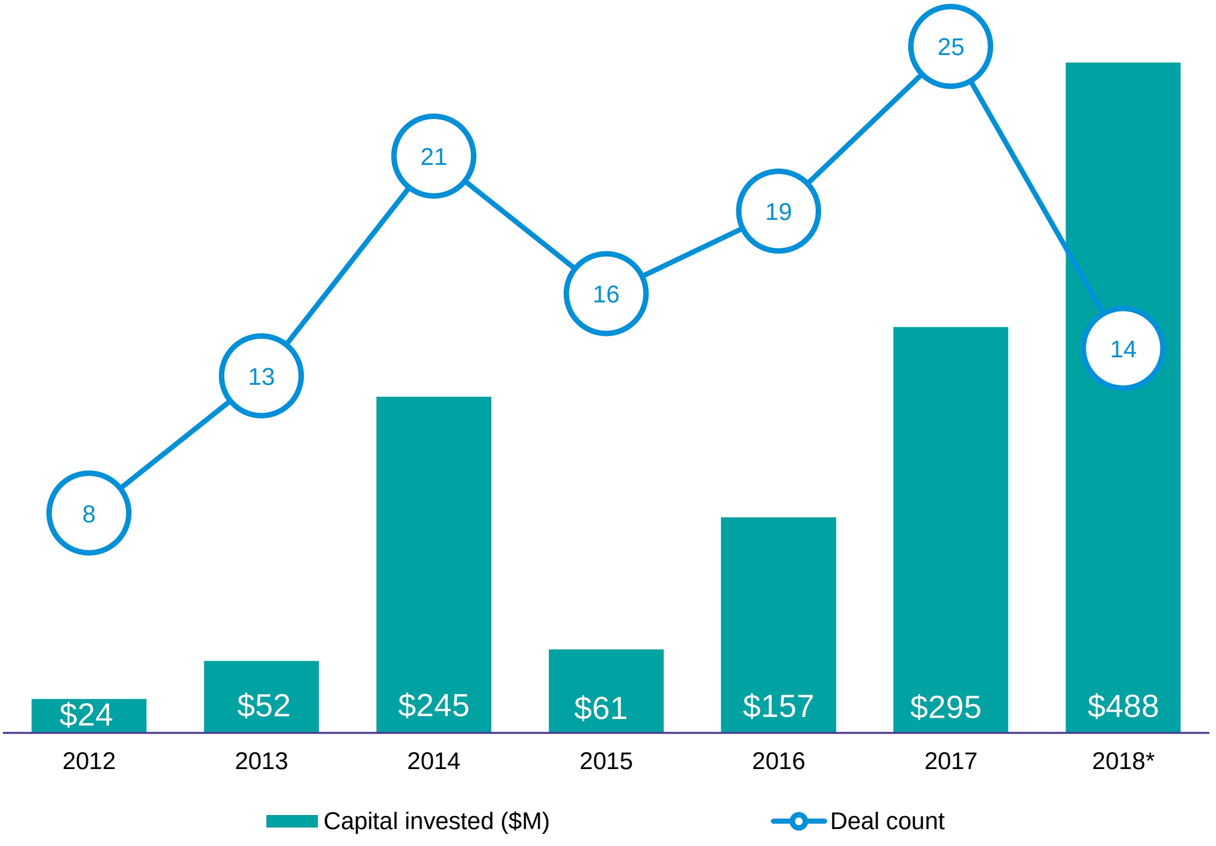


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 11, 2018.

Bouncing back from the tallies of Q1 2018, the year as a whole is recording a remarkably high aggregate of VC invested in first-time funding (skewed by companies such as satellite imaging system maker EarthNow, which had a $1 billion first-time round of Series A funds this year) even as volume remains quite low. Such outliers hint that the innovation cycle is in a lull right now as entrepreneurs and financiers alike tackle harder problems in more capital-intensive industries, such as agtech, aforementioned satellite imaging and the like.

Pet projects: VC invested hits new high

U.S. venture activity in pet technology
2012 — 2018*



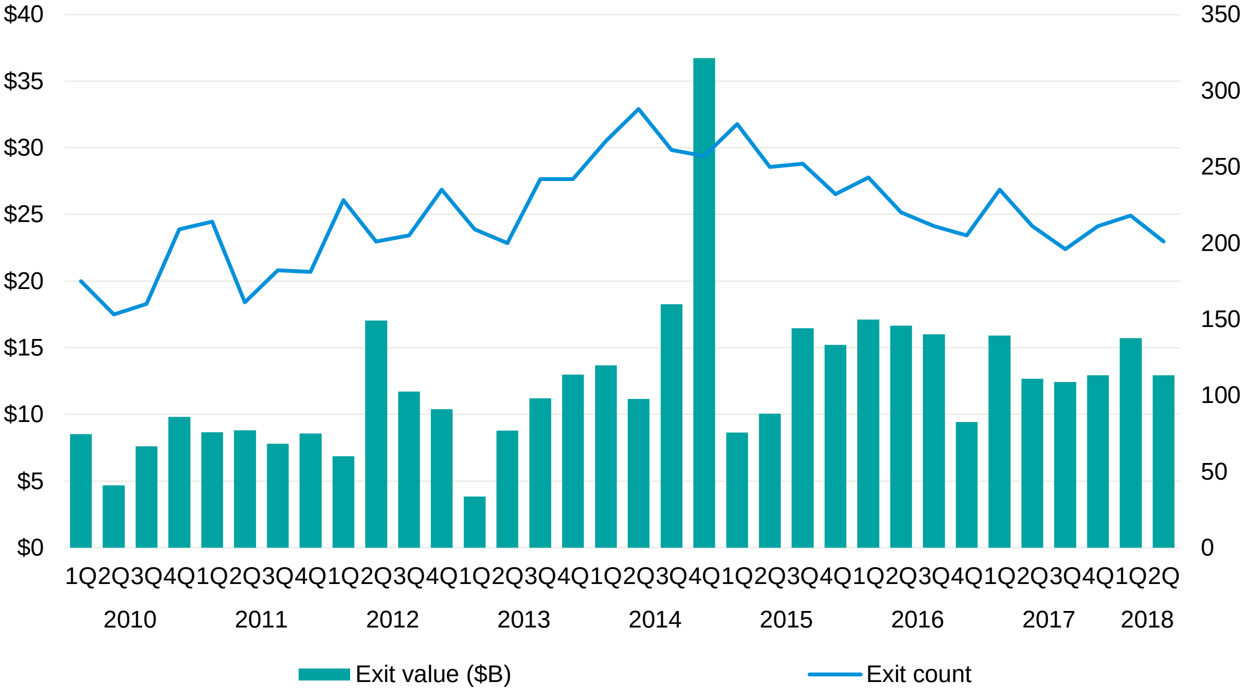
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Pet technology has exploded in popularity, and looks set to be entering its maturing later stages of hype and funding cycles judging by the surge in VC invested in 2018 to date alone. Such investor enthusiasm is due, in large part, to the healthy growth trajectory of the nation's pet industry.

The U.S. sees steadiest rate of venture-backed exits

Venture-backed exit activity in the U.S.

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

As 2018 to date has seen a healthy resurgence in tech IPOs plus alternate options of exits such as buyouts by the likes of Thoma Bravo and Vista Equity Partners, the forecast for investors and founders looking to sell appears rosy. Macro trends also are relatively promising, as exit values have been steady and on the higher end, historically speaking, while volume has plateaued.

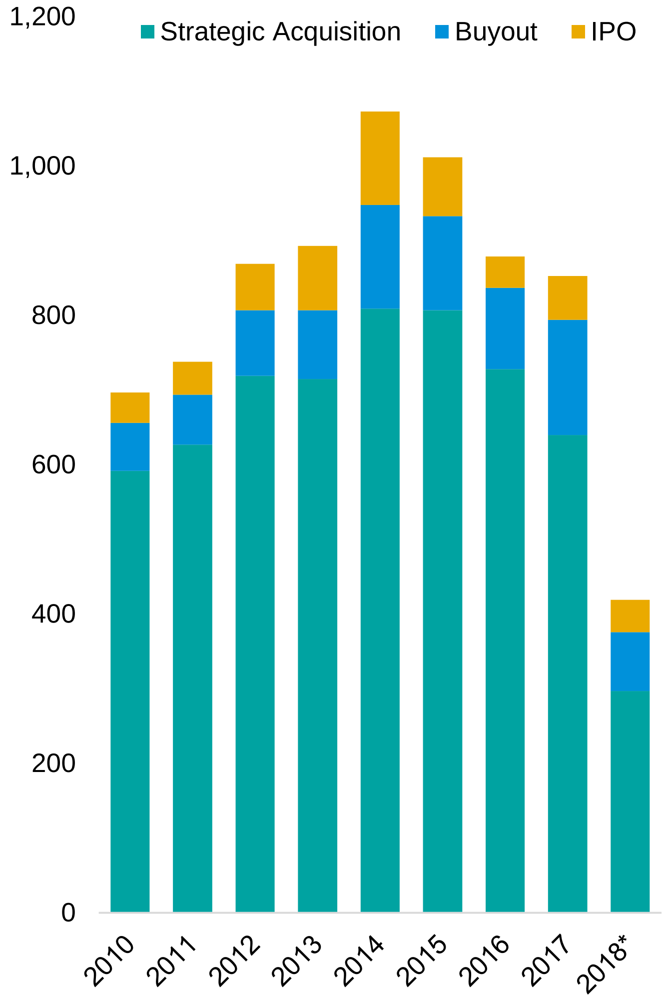
"This has been the best six month period since before 2016 for the IPO market. There has been a significant increase in the number of IPOs and of the companies that have completed IPOs, approximately 70% are trading above their asking price. This is generating a lot of enthusiasm for IPOs among investors. Over the next quarter or 2, this enthusiasm will likely translate into other high-profile exits."

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

Even with IPOs resurging, M&A is best bet

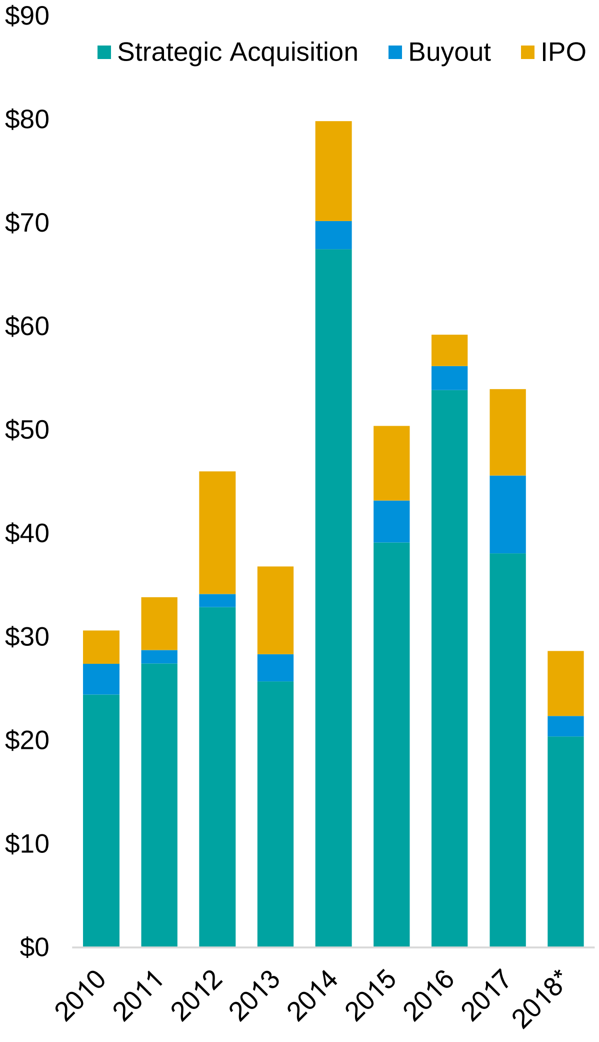
Venture-backed exit activity (#) by type in the U.S.

2010 — 2018*



Venture-backed exit activity ($B) by type in the U.S.

2010 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

The bullish case for M&A as a source of liquidity for venture-backed companies in the U.S. in 2018 is still strong; it appears that the M&A cycle, although not quite as strong as it has been in past boom years, still has plenty of strength left.

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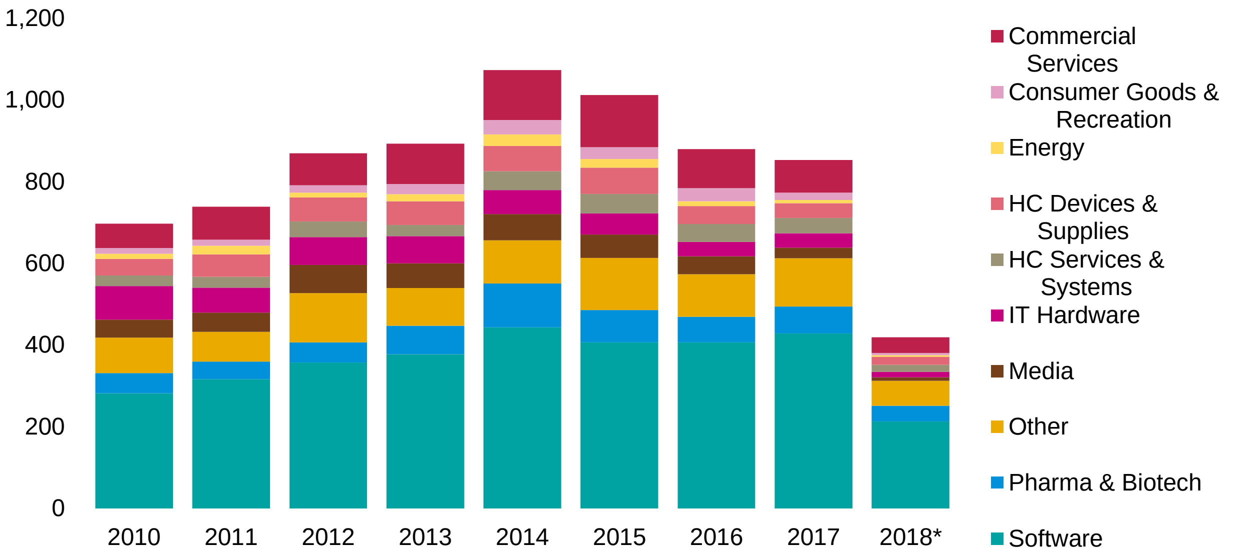
Pharma startups raking it in

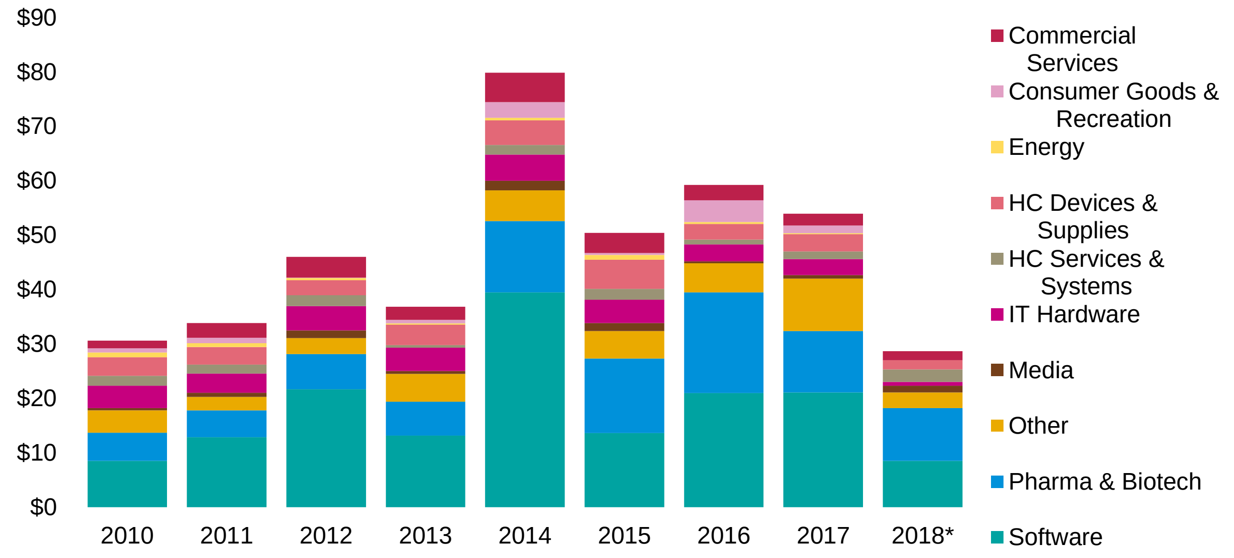
Venture-backed exit activity (#) by sector in the U.S.

2010 — 2018*



Venture-backed exit activity ($B) by sector in the U.S.

2010 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

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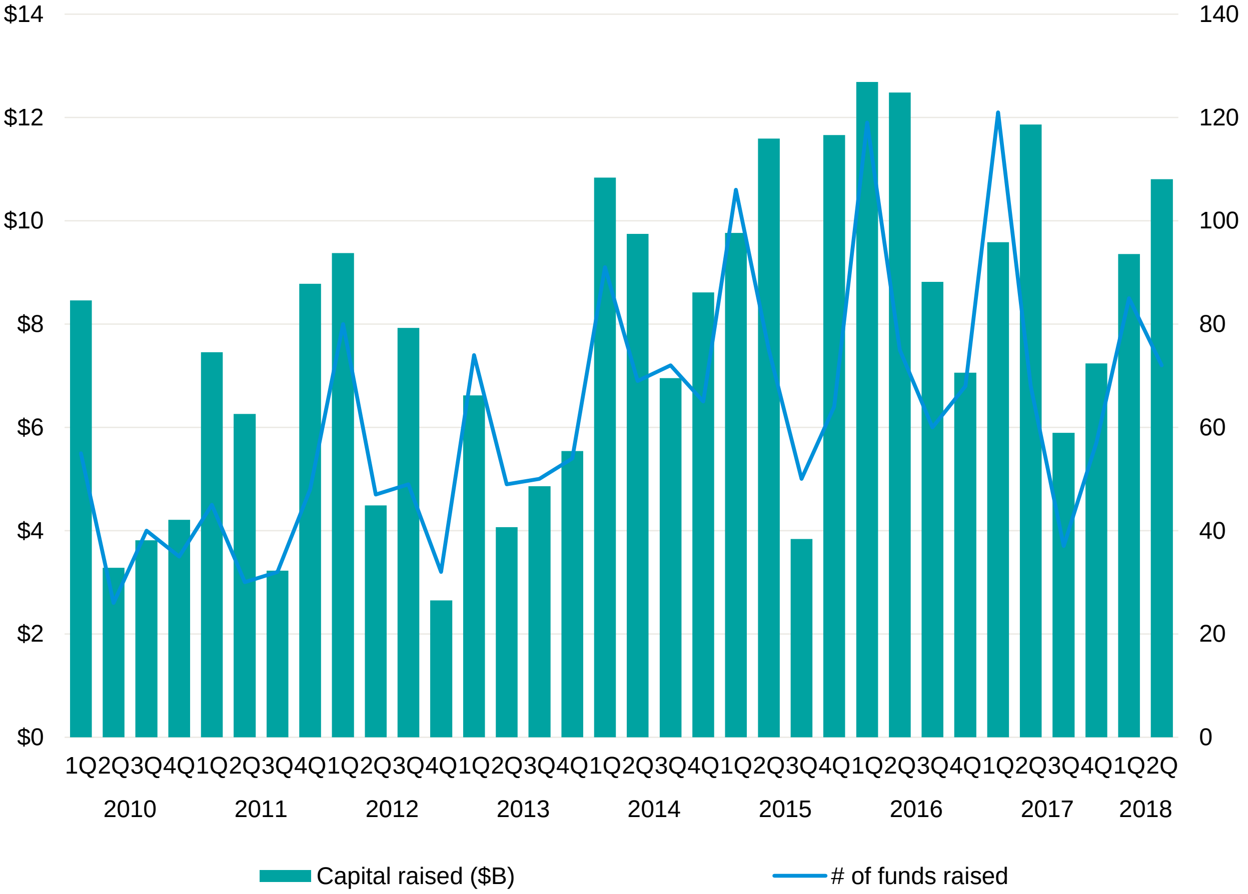
Even given third consecutive quarter of growth in VC raised, the cycle is at the least plateauing

U.S. venture fundraising

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

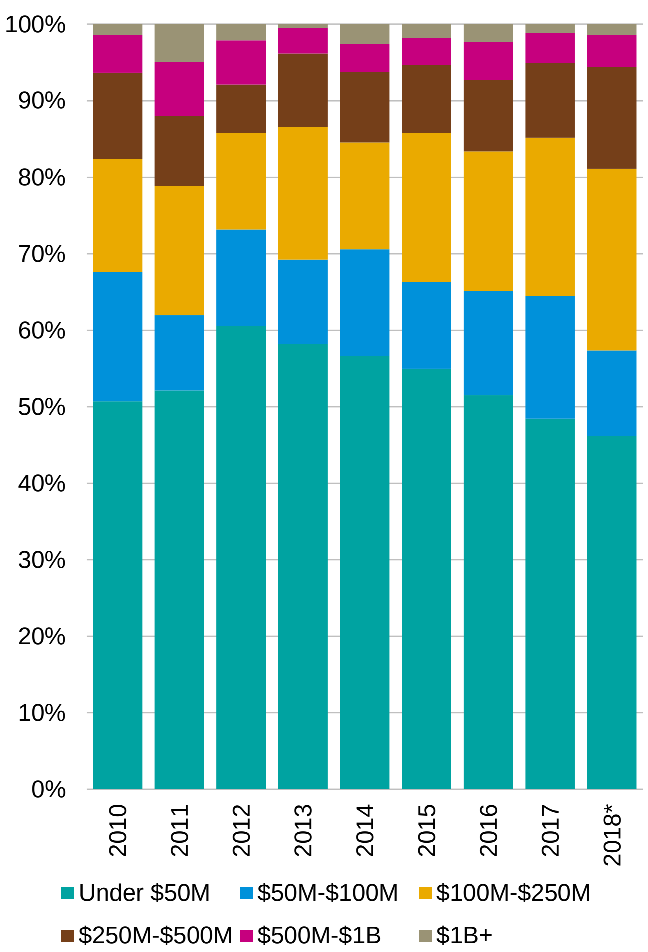
As the epicenter of the venture industry, the U.S. fundraising cycle still accounts for the majority of global volume. The cycle has been robust, with Q2 2018 one of the stronger quarters on record in terms of total VC raised, however, by and large, it is difficult to see the pace of fundraising quickening in the future, at best it is likely to persist at the current elevated level. There does not appear to be unlimited appetite on the part of LPs for exposure to VC.

KPMG Enterprise

First-time fundraising still seeing decent figures relative to follow-on funds

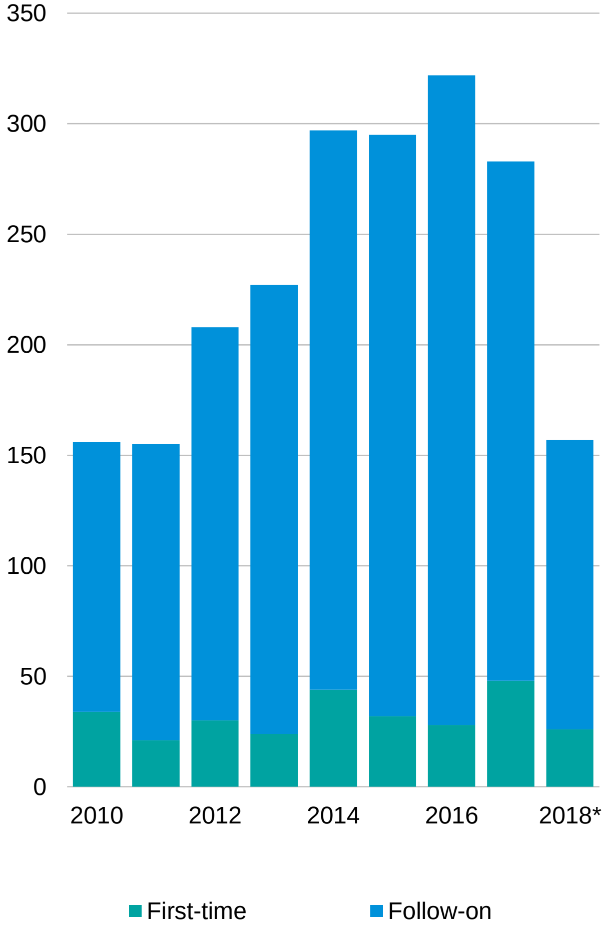
Venture fundraising (#) by size in the U.S.

2010 — 2018*



First-time vs. follow-on venture funds (#) in the U.S.

2010 — 2018*



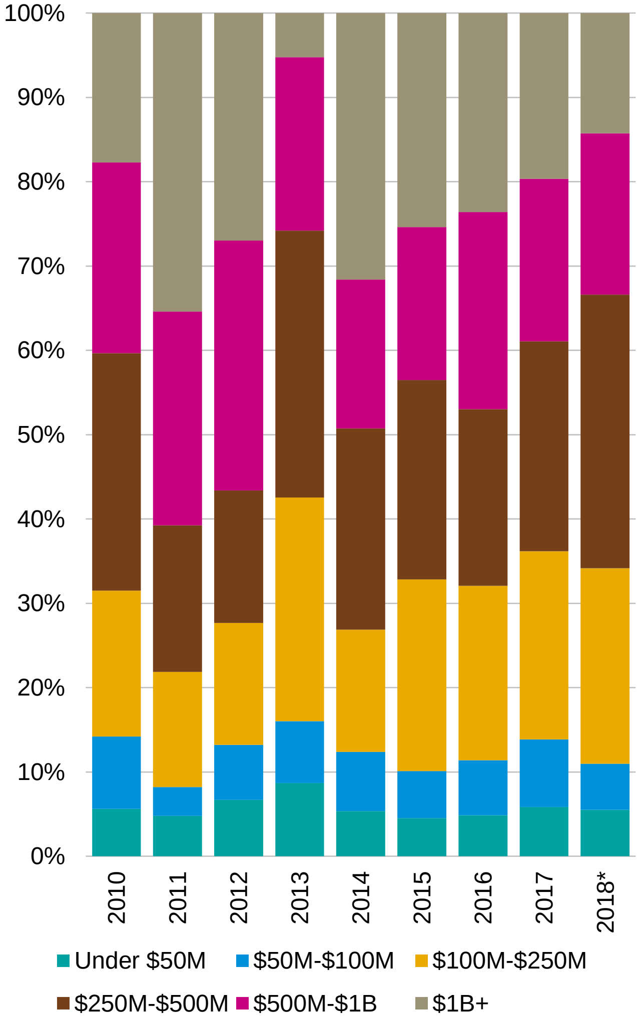
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

As noted in the prior edition of the Venture Pulse, the resurgence in first-time fundraising volume in 2017 was not necessarily going to persist, given the economics of that market, but in the year to date, things are looking relatively promising for fledgling funds coming to market and looking for capital.

Midway through the year, fledgling funds still able to raise significant sums

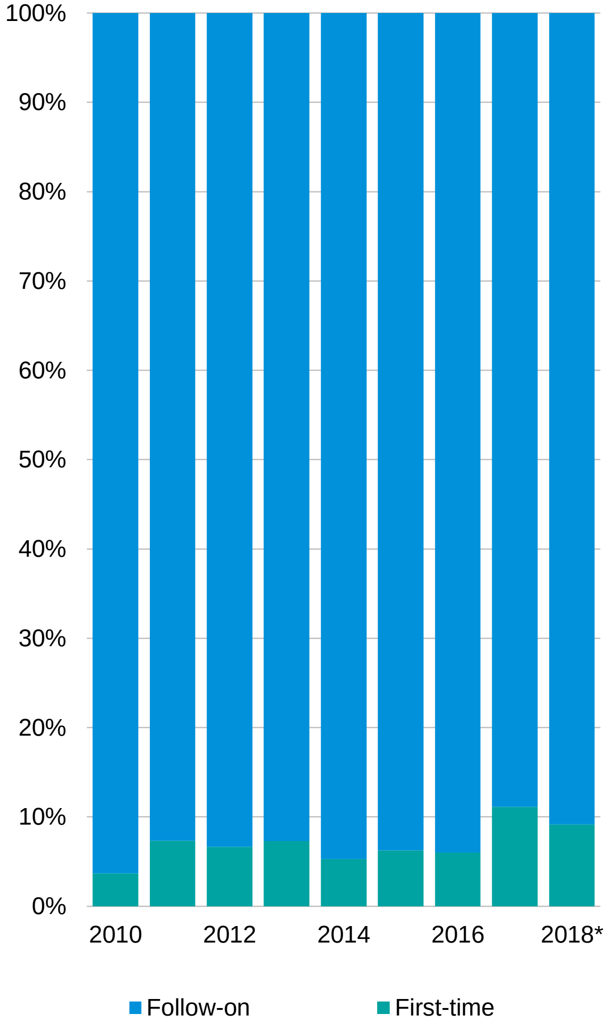
Venture fundraising ($B) by size in the U.S.

2010 — 2018*



First-time vs. follow-on funds ($B) in the U.S.

2010 — 2018*

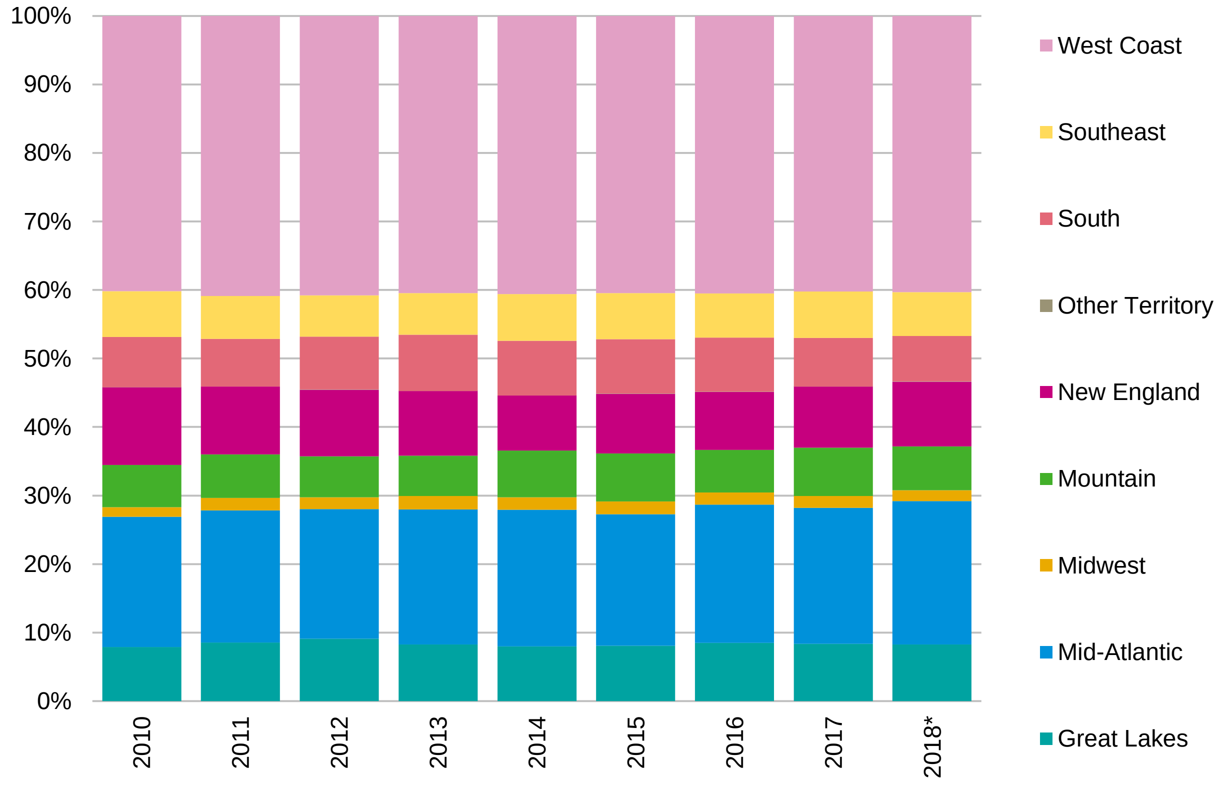


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

2018 activity shifts to centralize around traditional hubs, as other areas slowly grow

U.S. venture activity (#) by U.S. region

2010 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

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In Q2'18 European VC-backed companies raised

$5.6B

across

631 deals

European VC investment holds steady in Q2'18

The diversity of the European VC market helped drive investment this quarter, with the top 11 deals spread among six countries, including the UK, Estonia, Finland, Germany, Belgium and Israel. However, the UK continued to show its strength, representing 3 of the top 4 deals during the quarter.

Regardless of the geographic and cultural diversity across the region, artificial intelligence was a common and very dominant theme during Q2'18 in almost all European countries. This only highlights AI's significant importance to the VC market both, locally and on a regional scale.

IPO market gaining slow traction in Europe

IPO exits in Europe have been sluggish over the last 2 years, but the tide might have started to turn with an increase in activity this quarter. In Q2'18, Netherlands-based company Ayden held a successful IPO — although the move was focused on providing existing stakeholders with an exit opportunity rather than on raising new capital. Over the first day of trading, the share price rose 67%, valuing the company at over $14 billion. The increase in IPO activity could drive a number of other aging unicorns to look at IPO exits over the next few quarters.

VentureEU set to support bigger VC deals across Europe

During Q2'18, the EU and European Investment Fund launched VentureEU, a funding program that has been in the works for several years, aimed at filling the gaps in VC investment in Europe by providing access to bigger funding pools. With Europe lagging well behind both the US and Asia in terms of VC funding availability, particularly for larger, later stage deals , it is hoped that this fund, expected to reach approximately $2.6 billion, will help companies in Europe gain access to the capital needed to scale and compete more effectively globally.

UK regaining ground in Europe with strong Q2'18

VC investment in the UK gained strength in Q2'18, propelling it back to the top of the VC market in Europe. The UK accounted for six of the top 10 European deals this quarter, including Revolut ($250 million), Freeline Therapeutics ($119 million), CRM Surgical ($100 million), Liberis ($81 million), Culture Trip ($80 million) and Crescendo Biologics ($70 million).

During Q2'18, the UK also announced a massive $1 billion deal to put the UK firmly on the map in terms of AI innovation. The deal included both new government funding for AI research, and private sector investments. Under the deal, Japanese VC firm Global Brain and Canada-based VC firm Chrysalix will both locate their European headquarters in the UK and will invest £35 million and £110 million respectively in UK-based deep-tech, AI, and robotics startups. This funding deal should only enhance AI investments in the UK, which are already significant. For example, pharma-focused AI company BenevolentAI raised $115 million in Q2'18.

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European VC investment holds steady in Q2'18, cont'd.

AI and biotech hot topics in Germany

Germany saw a dip in investment in Q2'18 following large raises in Q1'18 by Auto1 Group and BioNTech. Despite the dip, venture capital investment remained respectable, led by a $76 million raise by Frontier Car Group and a $73 million raise by Sonnen.

During Q2'18, Rocket Internet also announced its desire to invest approximately $3 billion in artificial intelligence and fintech. With the e-commerce space becoming saturated, Rocket and other e-commerce companies in Europe have begun to focus their attention on adjacent verticals with broader applications and revenue generation opportunities.

In addition to AI, biotech is beginning to gain traction among investors in Germany, a surprising trend given the reluctance on the part of investors to focus on the space over the past decade.

France continues to build strong innovation ecosystem

Q2'18 was another strong quarter for venture capital investment in France, with a $50 million raise by OpenClassrooms, a $47 million raise by ENYO Pharma, and a $37 million raise by HiFiBio. French unicorn BlaBlaCar also acquired carpooling app Less, which only launched in beta 4 months ago — during Q2'18 to better support its core business.

Artificial intelligence received a significant amount of attention during Q2'18 in France, with the government announcing €1.2 billion of funding over the next 4 years to support AI capabilities and enhance the competitiveness of French companies.

Companies feel pressure as GDPR comes into effect

The General Data Protection Regulation (GDPR) went into effect in Europe this quarter, a regulation that will have significant consequences for all companies operating in Europe. While the new regulation may not have a major impact on VC investment directly, it may cause some distraction as startups look to manage the new compliance regime. Given the stiff penalties associated with non-compliance, up to 4% of global revenue or 20 million Euros, whichever is greater, it is likely that companies that have not done so in advance could be scurrying to do so over the next few months.

While there may be negative short-term consequences, the benefits of a strong data protection system could make European companies more attractive over the longer term as they become global leaders in how to manage private consumer and employee data.

Trends to watch for in Q3'18

Despite some political and macroeconomic uncertainty in Europe, there is a significant amount of optimism for the VC market heading into Q3'18. Late-stage deals are expected to remain a key focus for investors, while AI, biotech and life sciences are projected to gain significant momentum. With the success of the Ayden IPO, a number of aging unicorns, particularly in the UK, may make IPO plays over the next few quarters

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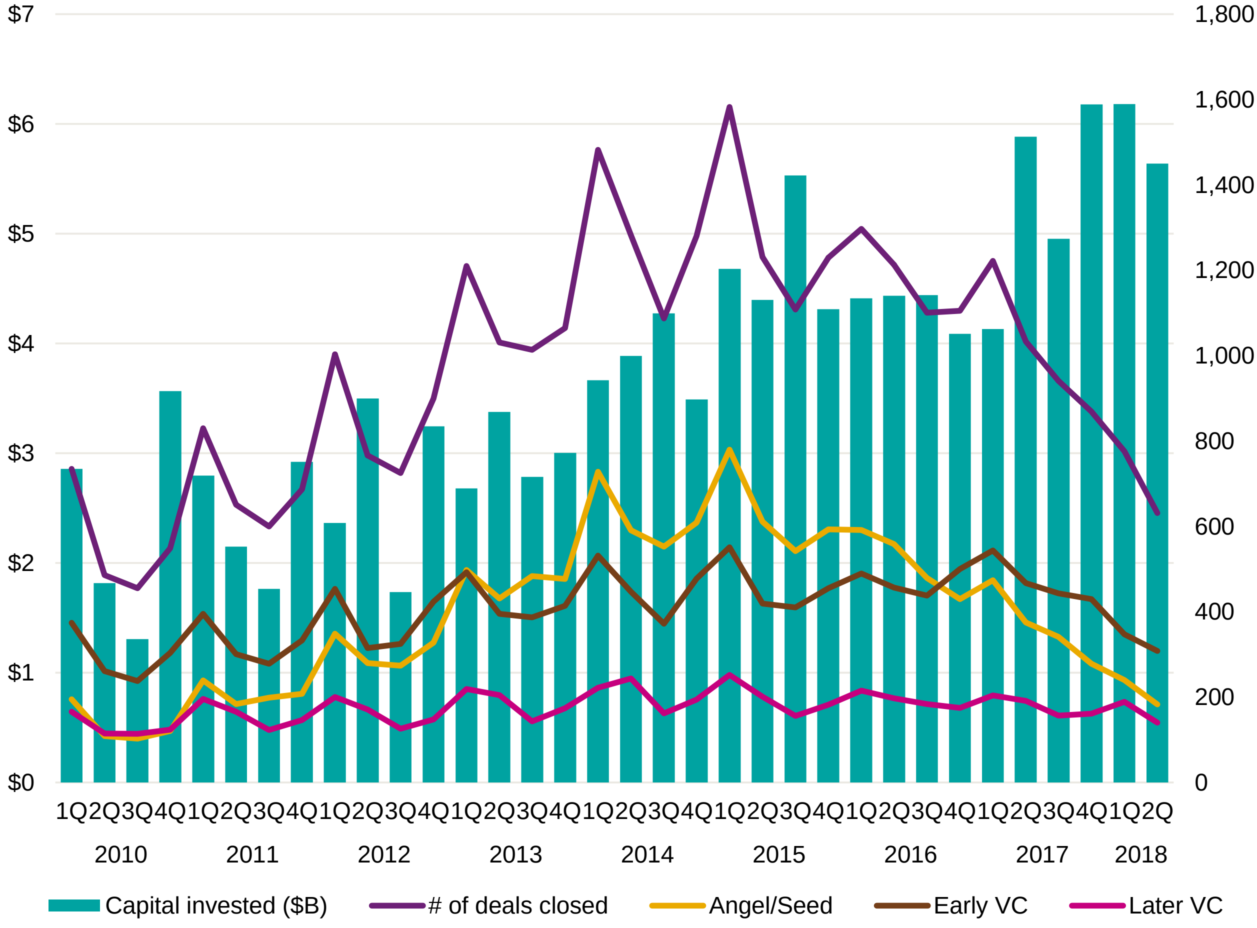
VC invested remains remarkably strong on a historical and standalone basis

Venture financing in Europe

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Venture volume may continue to contract, by and large, across the European continent, but the influx of VC invested continues as strong as ever. Late-stage financings may be responsible for the majority of the influx of capital, but their very existence does speak to continued opportunities for tech startups across the European venture scene, diverse as it is across multiple metropolises.

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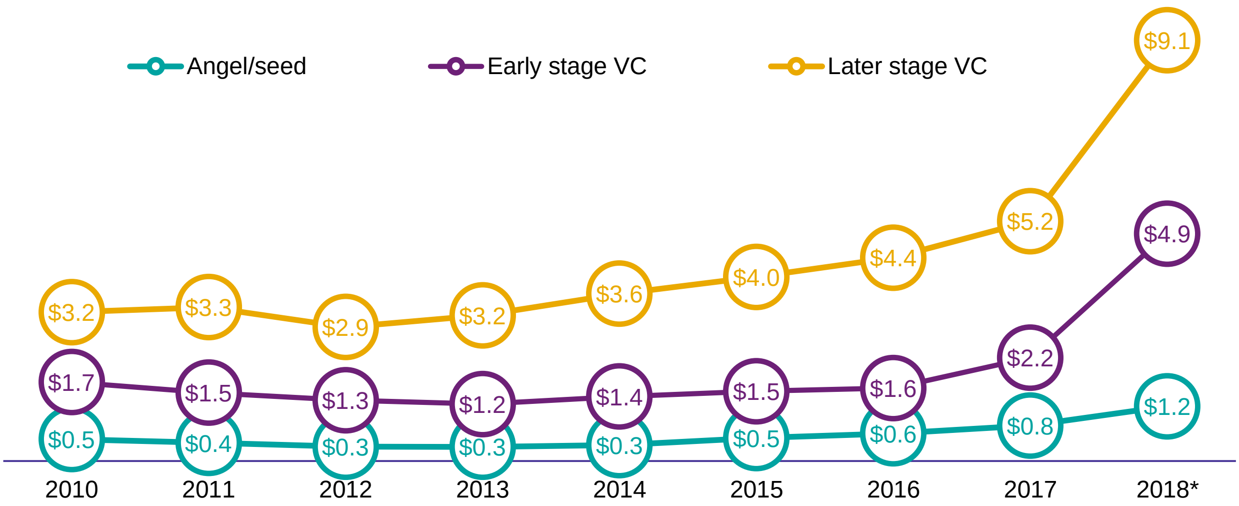
Midway through the year, significant jumps in median financing sizes over 2017 tallies persist

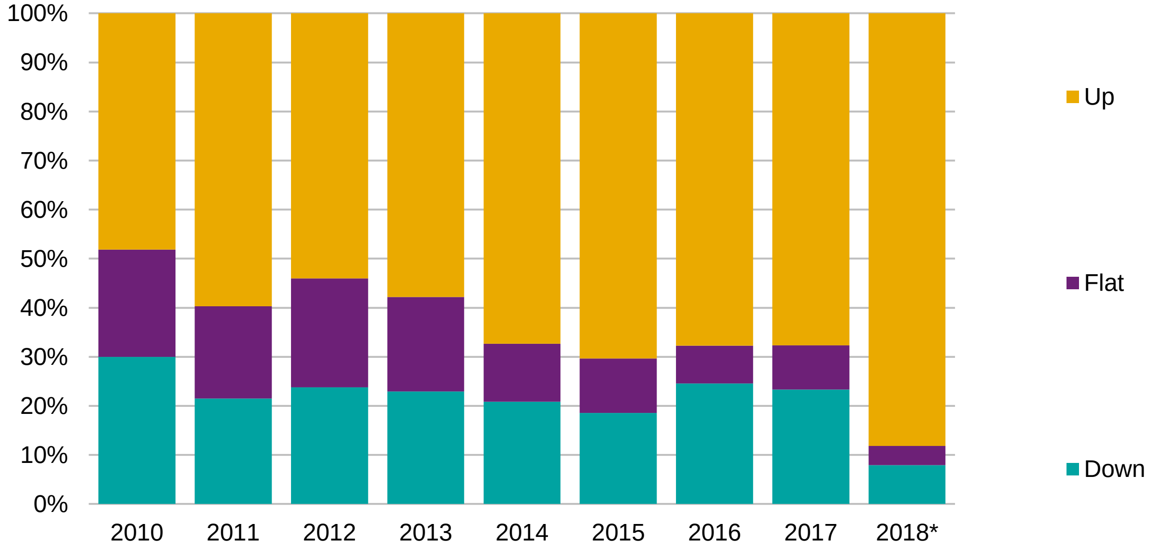
Median deal size ($M) by stage in Europe

2010 — 2018*



Up, flat or down rounds in Europe

2010 — 2018*

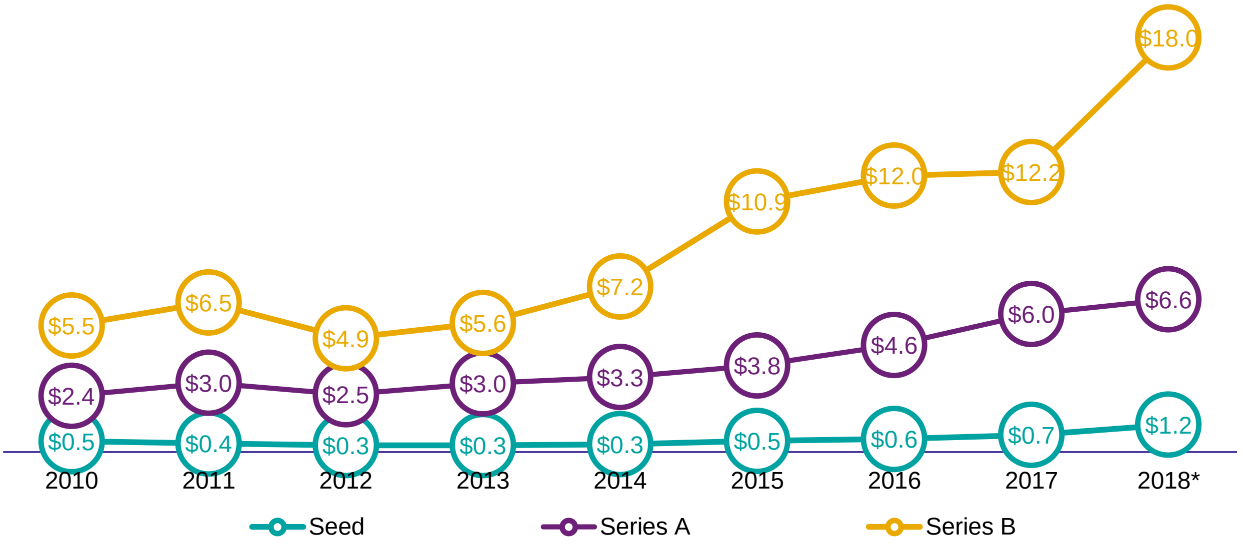


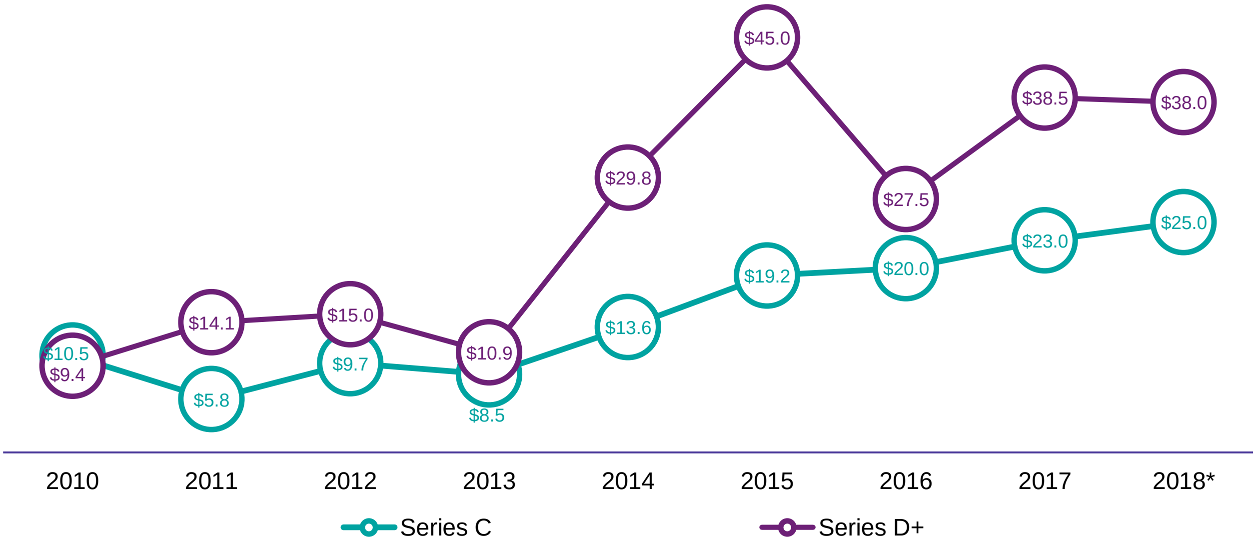
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Late-stage deal sizes even out

Median deal size ($M) by series in Europe

2010 — 2018*





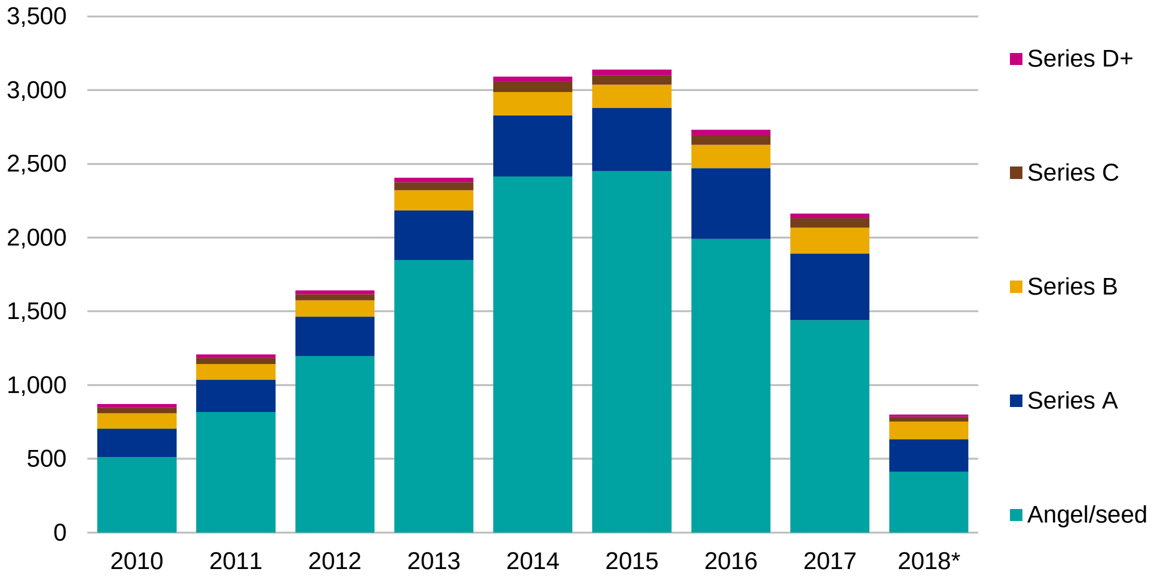
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

KPMG Enterprise

Series B VC invested already matching 2017

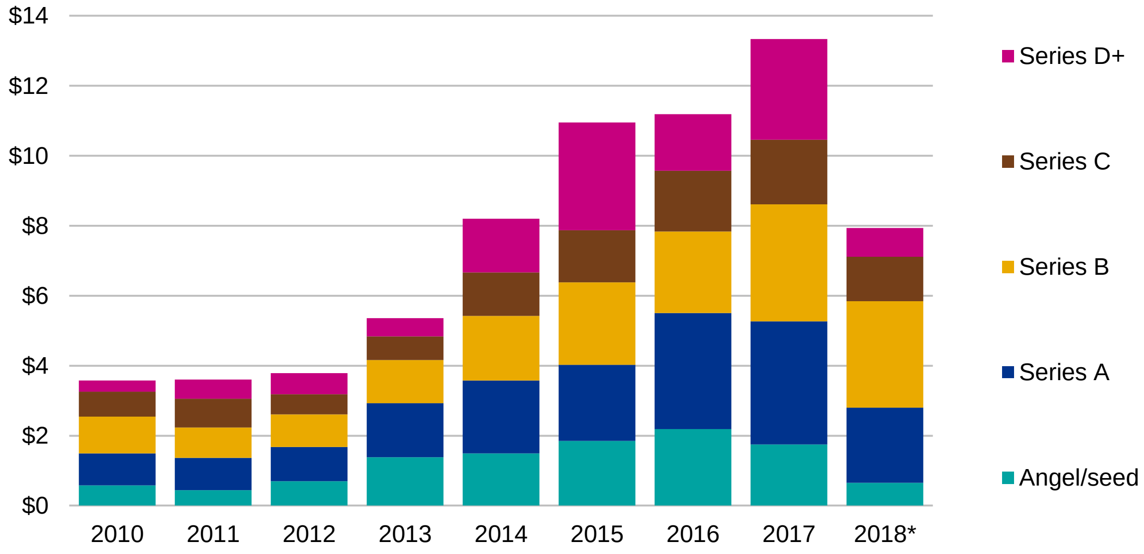
Deal share by series in Europe

2010 — 2018*, number of closed deals



Deal share by series in Europe

2010 — 2018*, VC invested ($B)



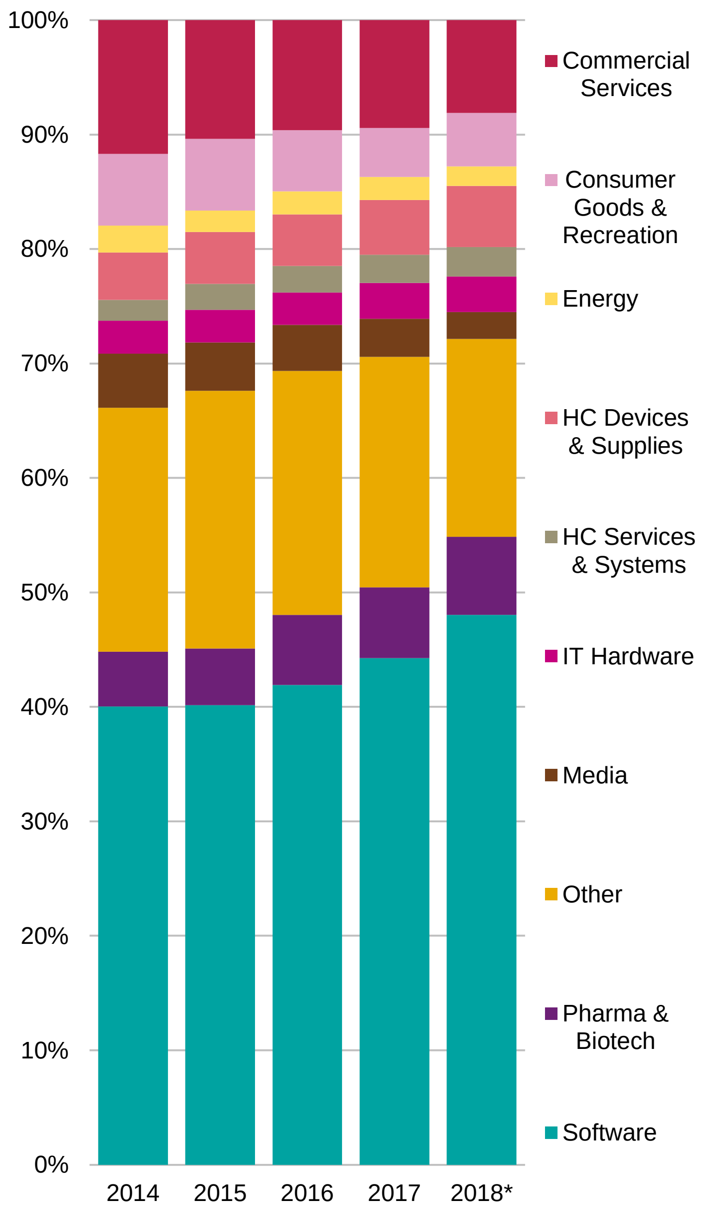
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

KPMG Enterprise

Software & pharma remain focus of VCs

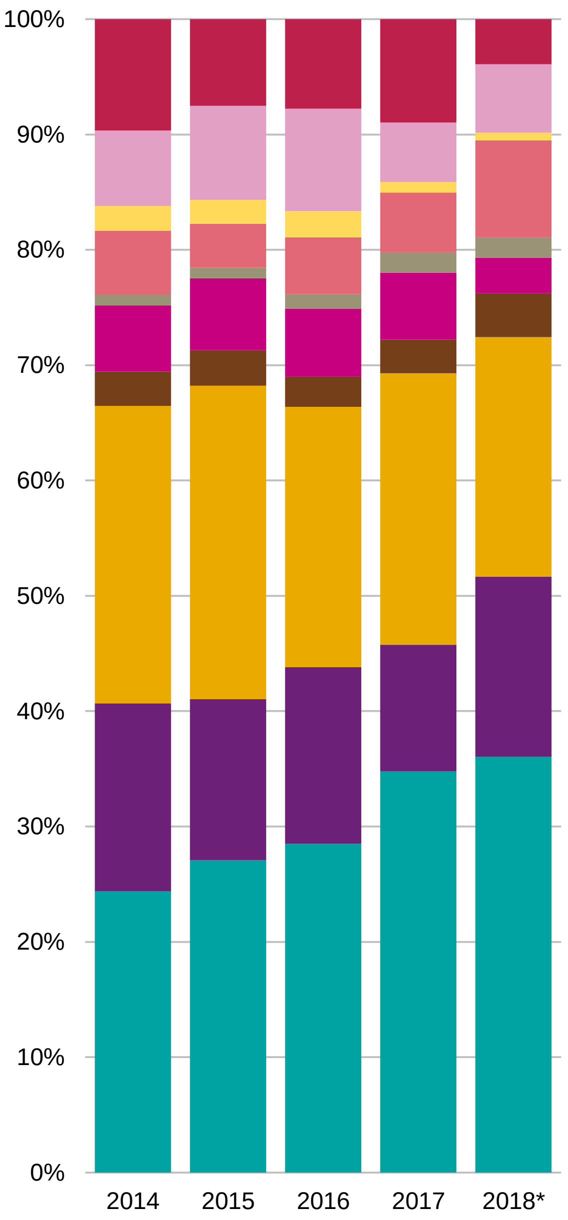
European venture financings by sector

2014 — 2018*, number of closed deals



European venture financings by sector

2014 — 2018*, VC invested ($B)

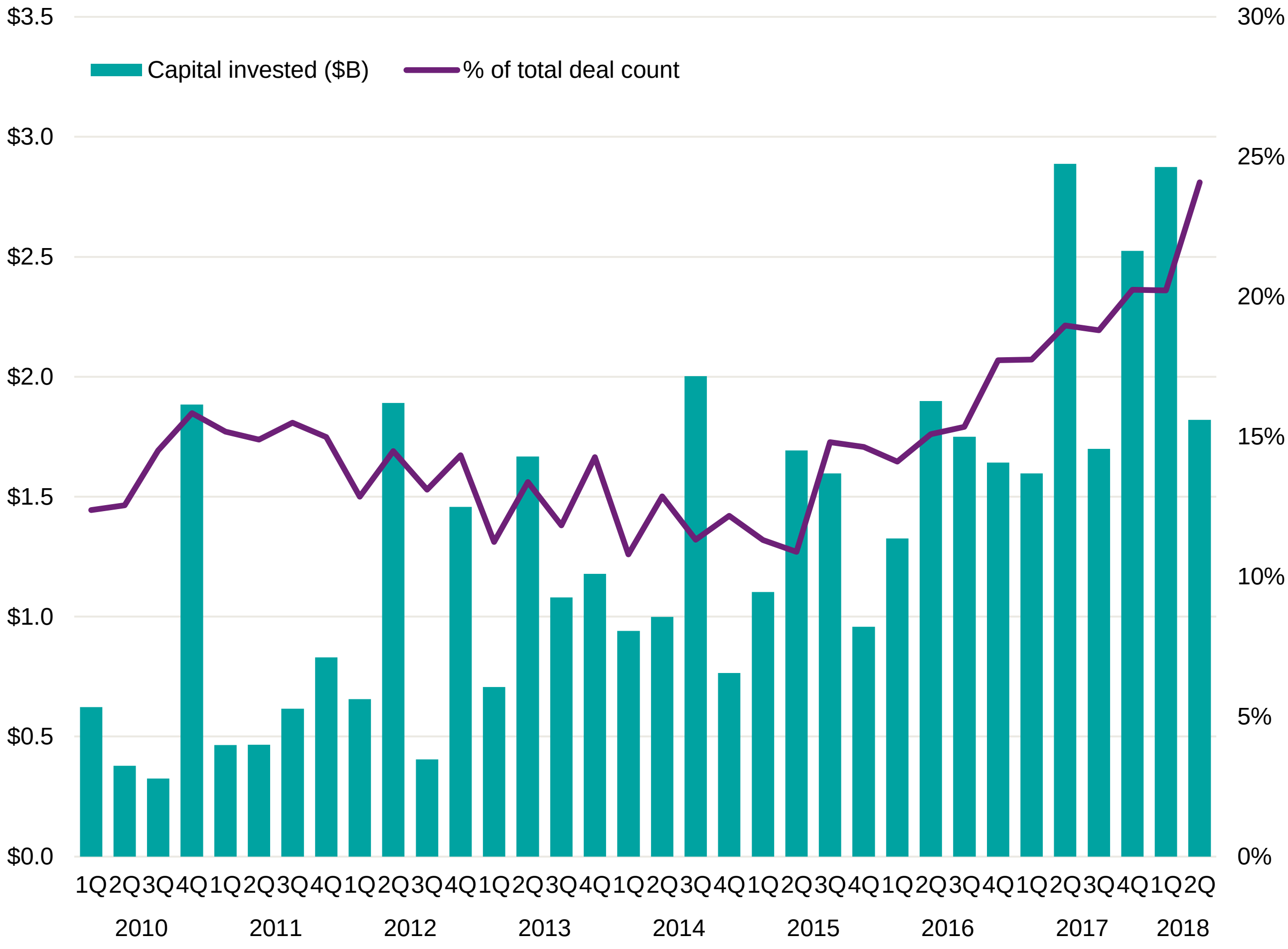


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

CVCs keep invigorating the venture landscape

Corporate VC participation in venture deals in Europe

2010 — Q2'18

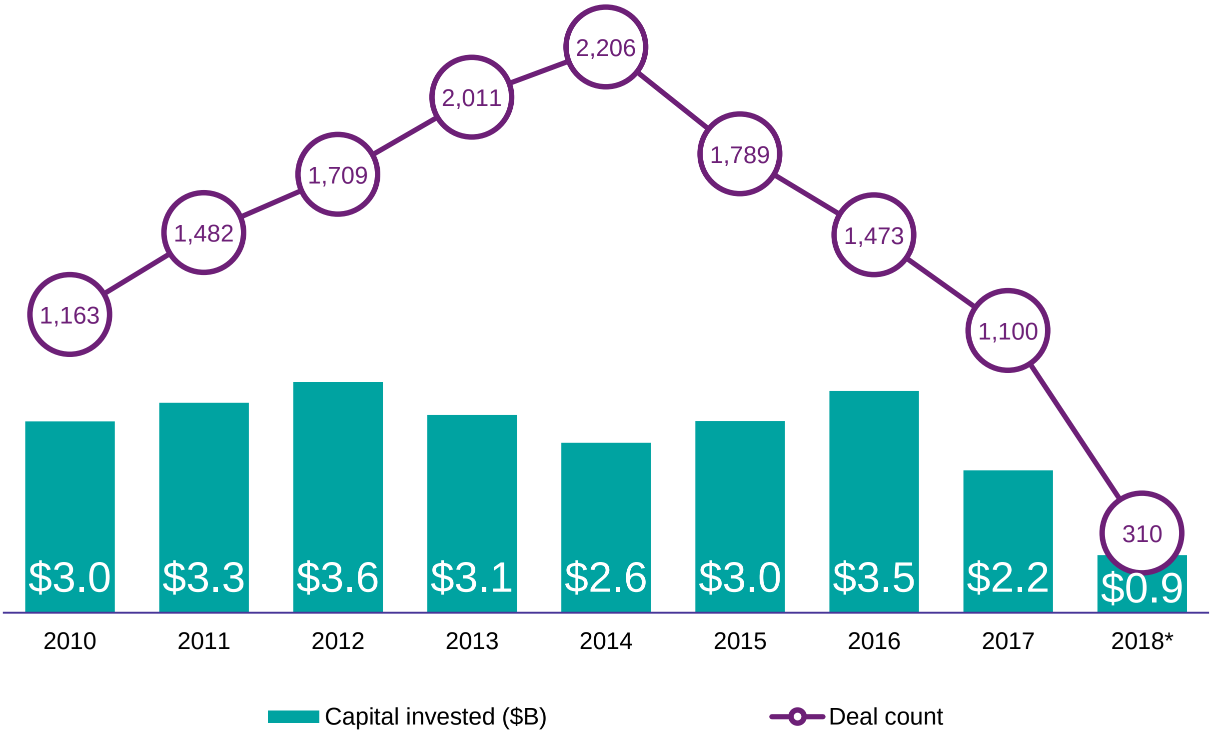


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

2018 looks set to record new lows for both first-time financing value & volume

First-time venture financings of companies in Europe

2010 — 2018*



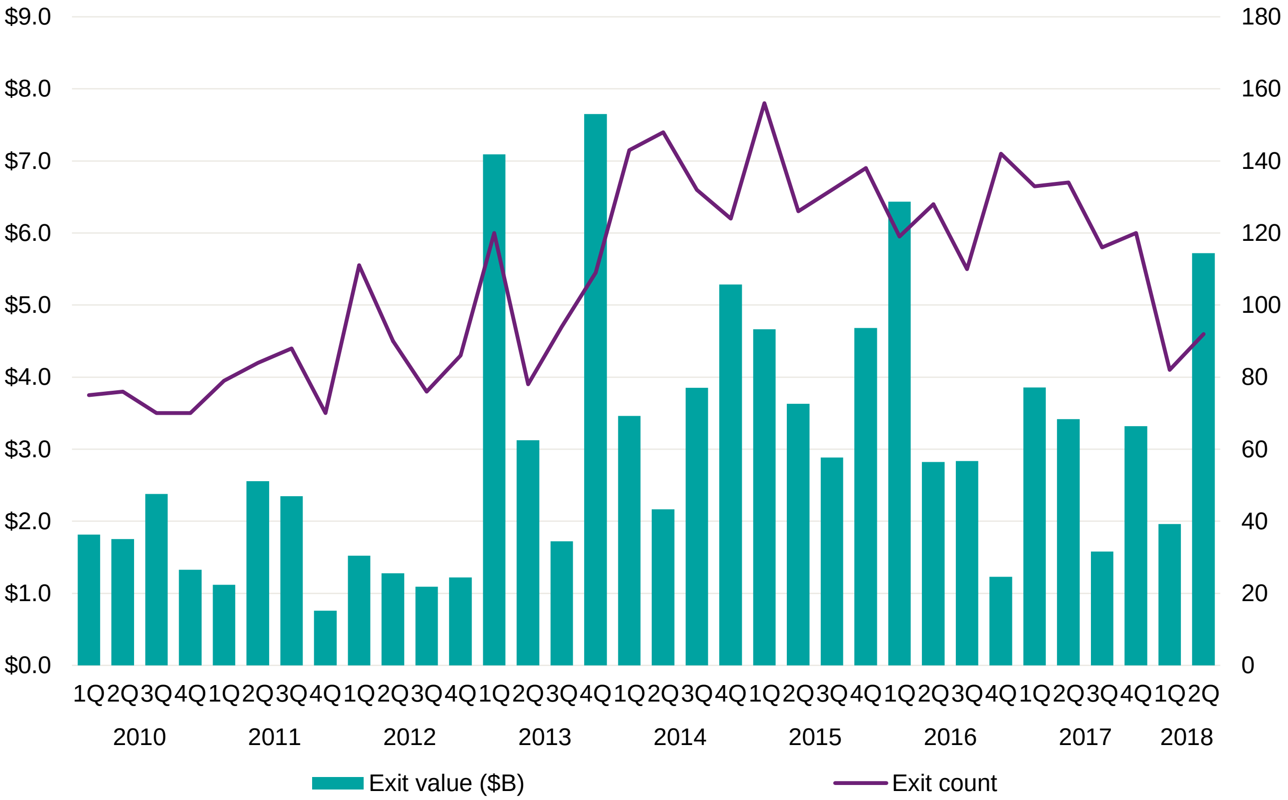
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

It's not that new companies aren't being started in Europe, to reiterate the point made in the prior Venture Pulse — relevant data has yet to catch up, as it's notoriously difficult to track new business creation — but that the current high-priced climate is discouraging their financings. Moreover, alternate forms of financing may well be more appealing for now. Thus, 2018 looks set to be a historic year in terms of lows for both first-time VC invested and overall activity.

A mild rebound shows potential

Venture-backed exit activity in Europe

2010 — Q2'18



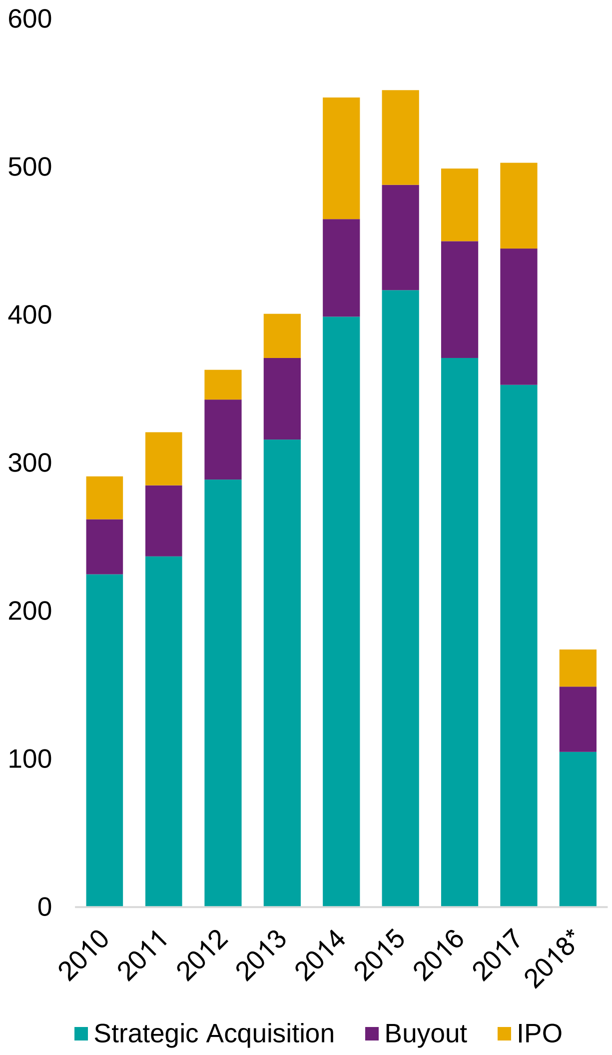
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Despite the slide in exit volume over the past few quarters, again, it's worth noting that venture-backed exit activity in Europe is still historically healthy, especially when considering exit value tallies. Q2 2018 was skewed significantly by two deals, both interestingly within the realm of payments: the $2.2 billion acquisition of iZettle by Paypal and the IPO of Adyen on the Amsterdam stock exchange.

PE shops continue to provide an increasingly used exit avenue

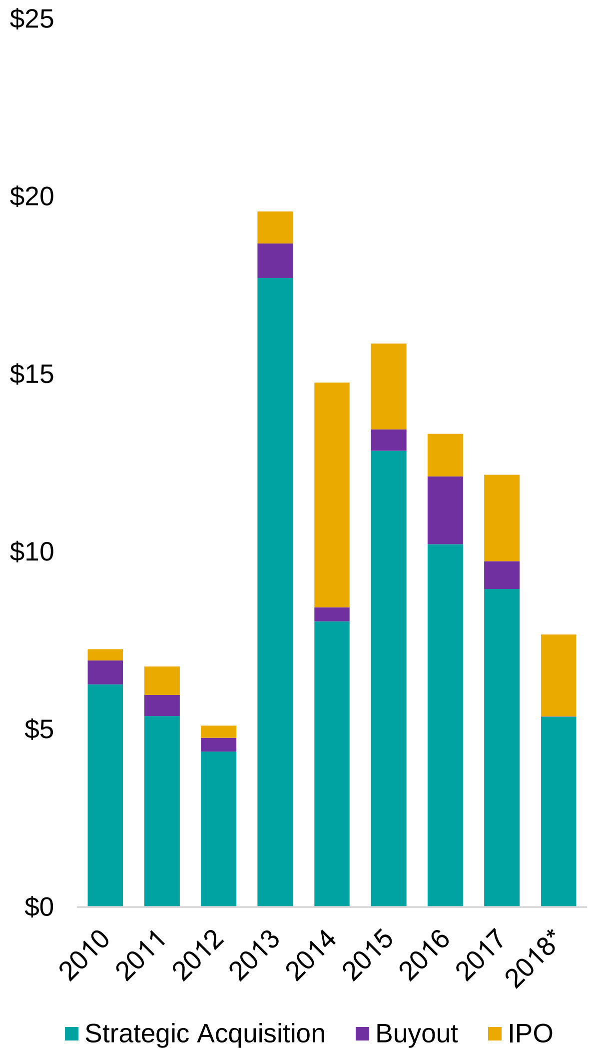
Venture-backed exit activity (#) by type in Europe

2010 — 2018*



Venture-backed exit activity ($B) by type in Europe

2010 — 2018*

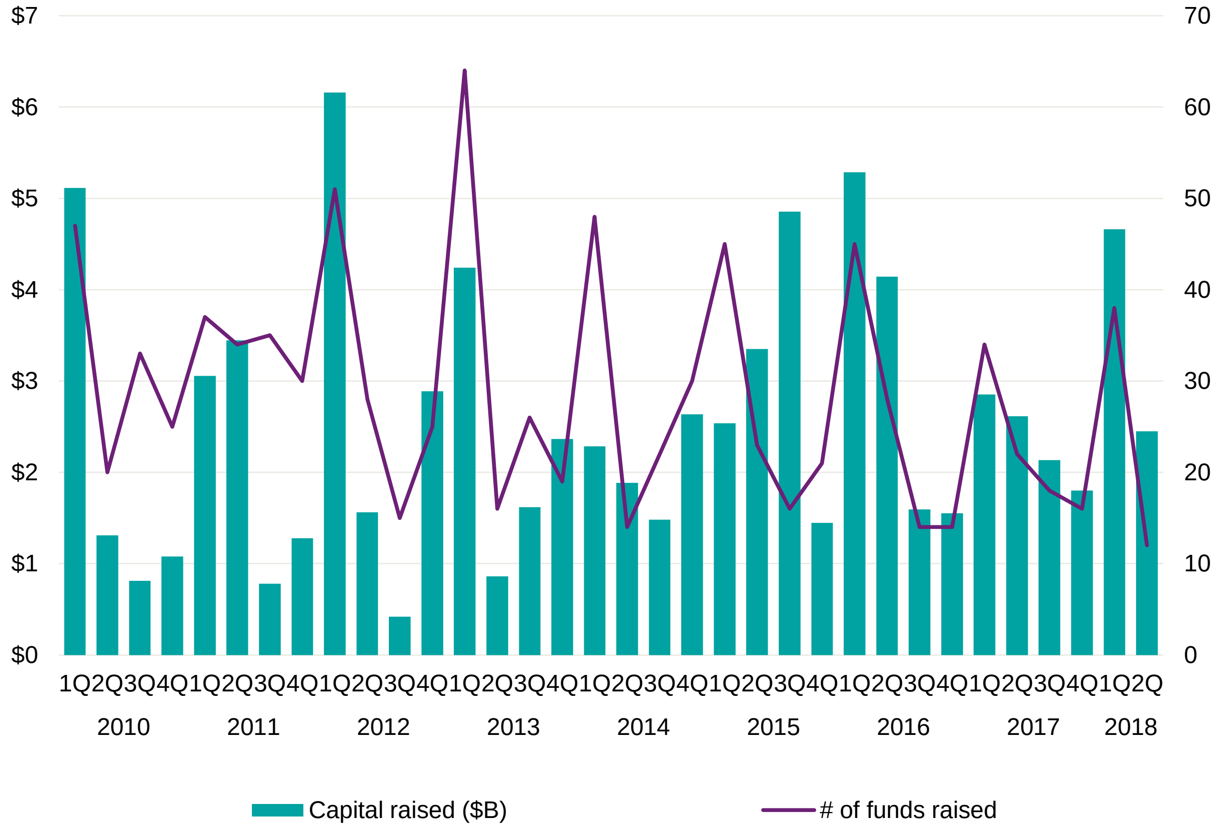


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

After blockbuster Q1, back to normal for European fundraising

European venture fundraising

2010 — Q2'18



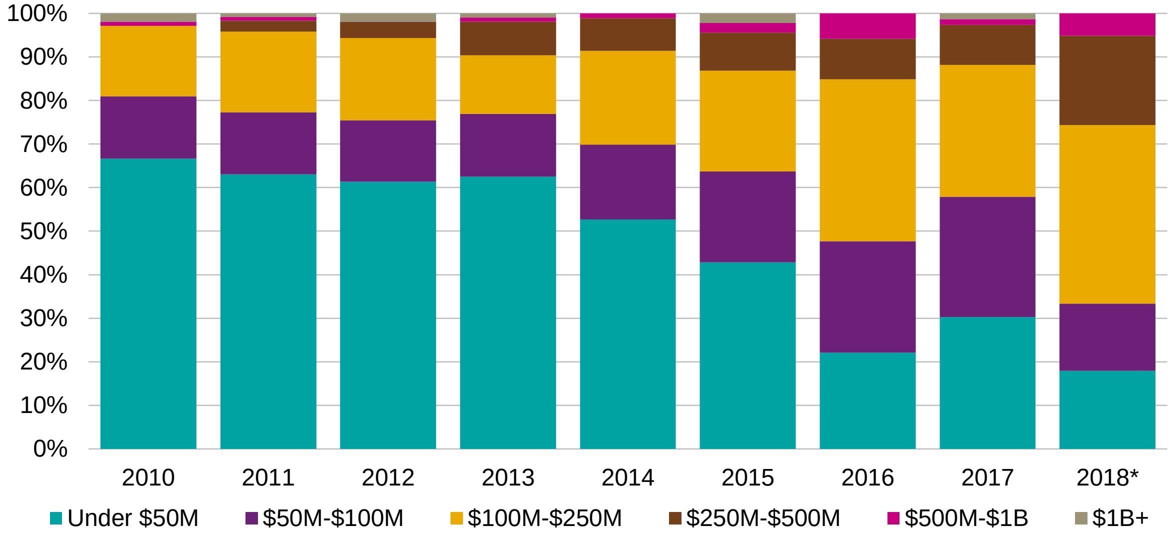
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Again, fundraising figures by quarter are useful to analyze, but remain quite variable. But the most recent high-profile raise — Highland Europe's third flagship fund in six years closed on €463 million in June — shows that even if fundraising is still largely born on the backs of a bevy of experienced, late-stage focused firms, the late-stage European venture scene, for those companies that can get to that stage, should remain well supplied with capital.

Increasing shift to the middle of the fundraising market by size

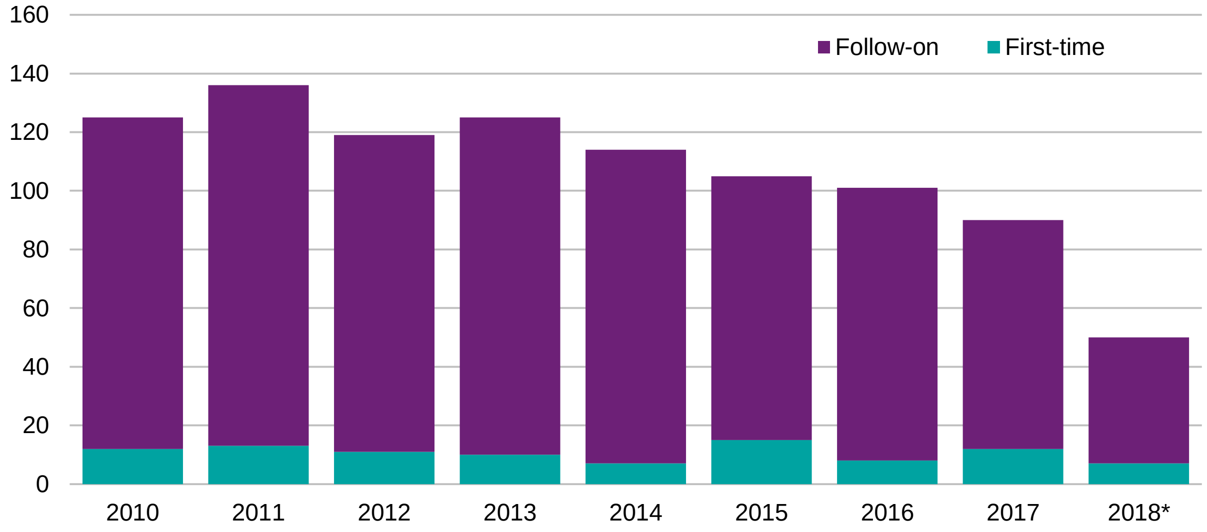
Venture fundraising (#) by size in Europe

2010 — 2018*



First-time vs. follow-on venture funds (#) in Europe

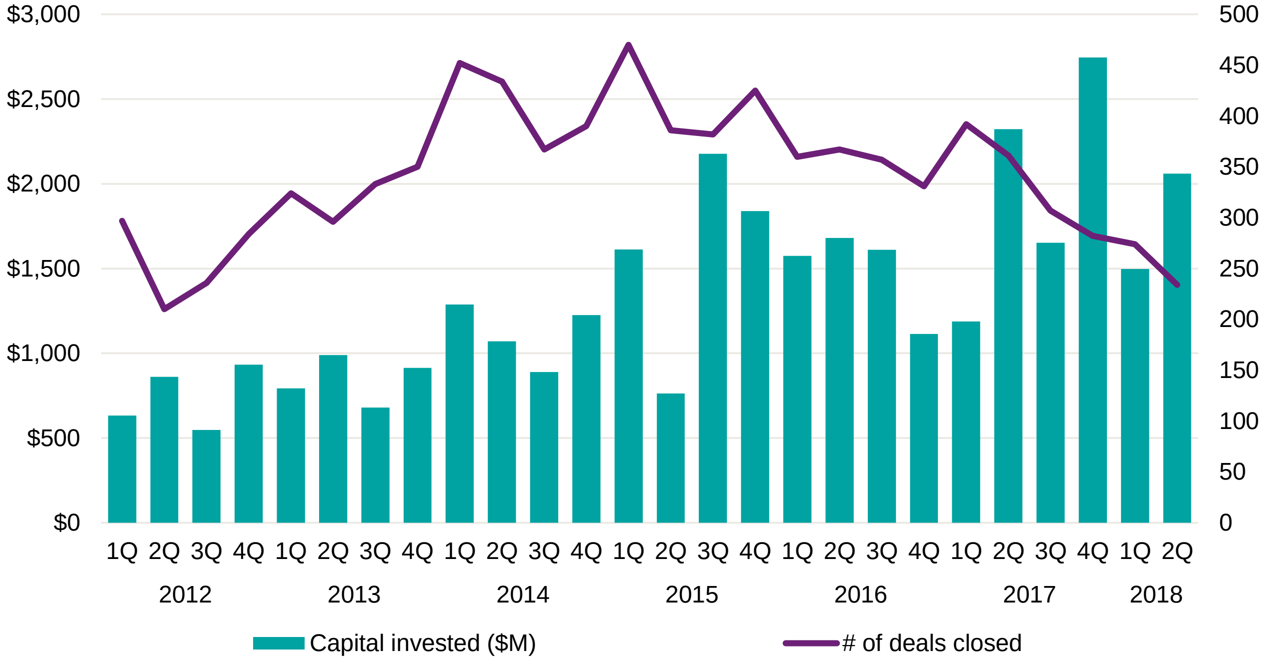
2010 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

Strong sums invested even as activity slides

Venture financing in the United Kingdom
2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Hot on the heels of a blockbuster 2017, the United Kingdom is still seeing aggregate sums of VC invested that are on the very high end, historically speaking, despite a continuing slide in total volume. This suggests that despite continued uncertainty on the macropolitical and macroeconomic ends, investors are only being moderately risk-averse, concentrating capital in safer, more mature opportunities.

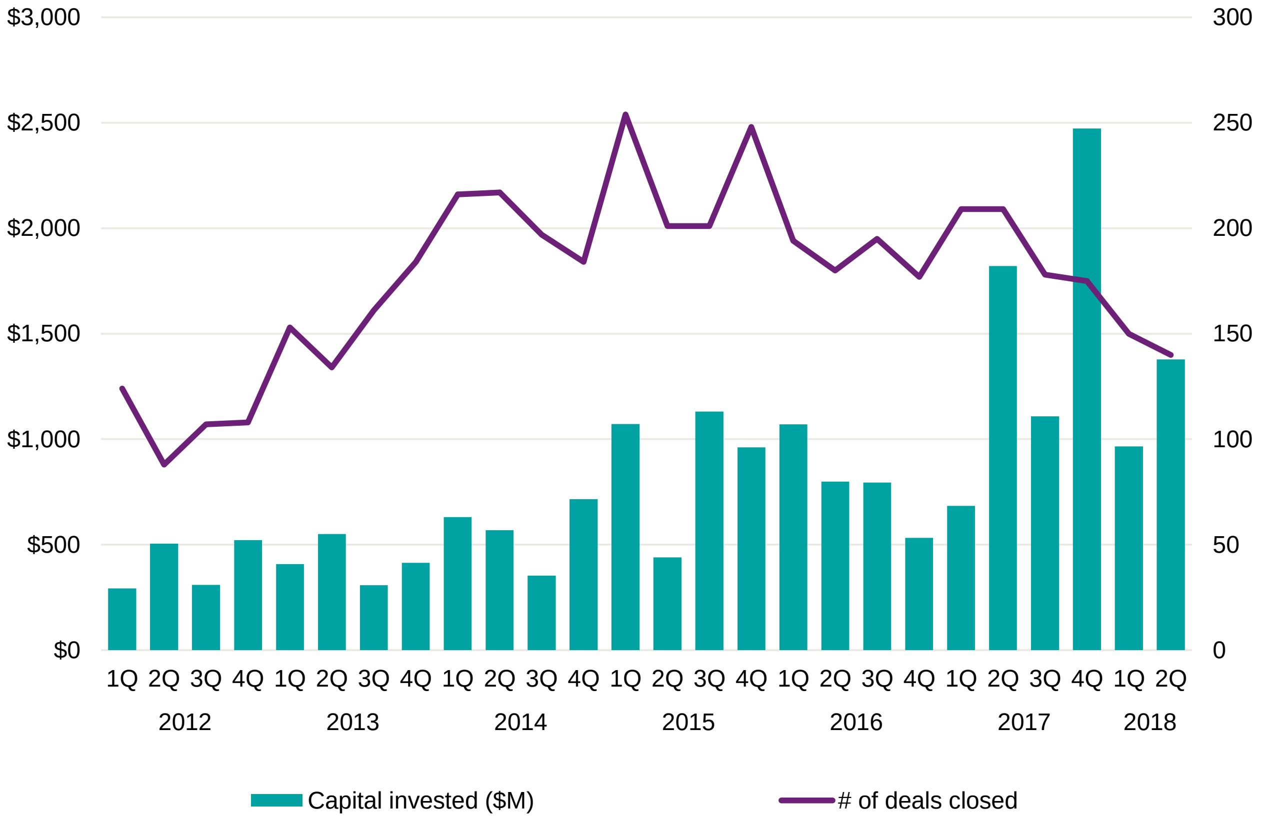
"We are seeing a new group of investment categories evolving — AI first businesses, blockchain businesses, and others. These are going to help establish a new VC life cycle with increasing venture rounds over the next few quarters and years. Already AI first businesses are raising solid early- and mid-stage funding rounds. Subject to successful R&D and commercialisation, they will surely attract even more funding going forward."

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

A mild slowdown in volume

Venture financing in London

2012 — Q2'18



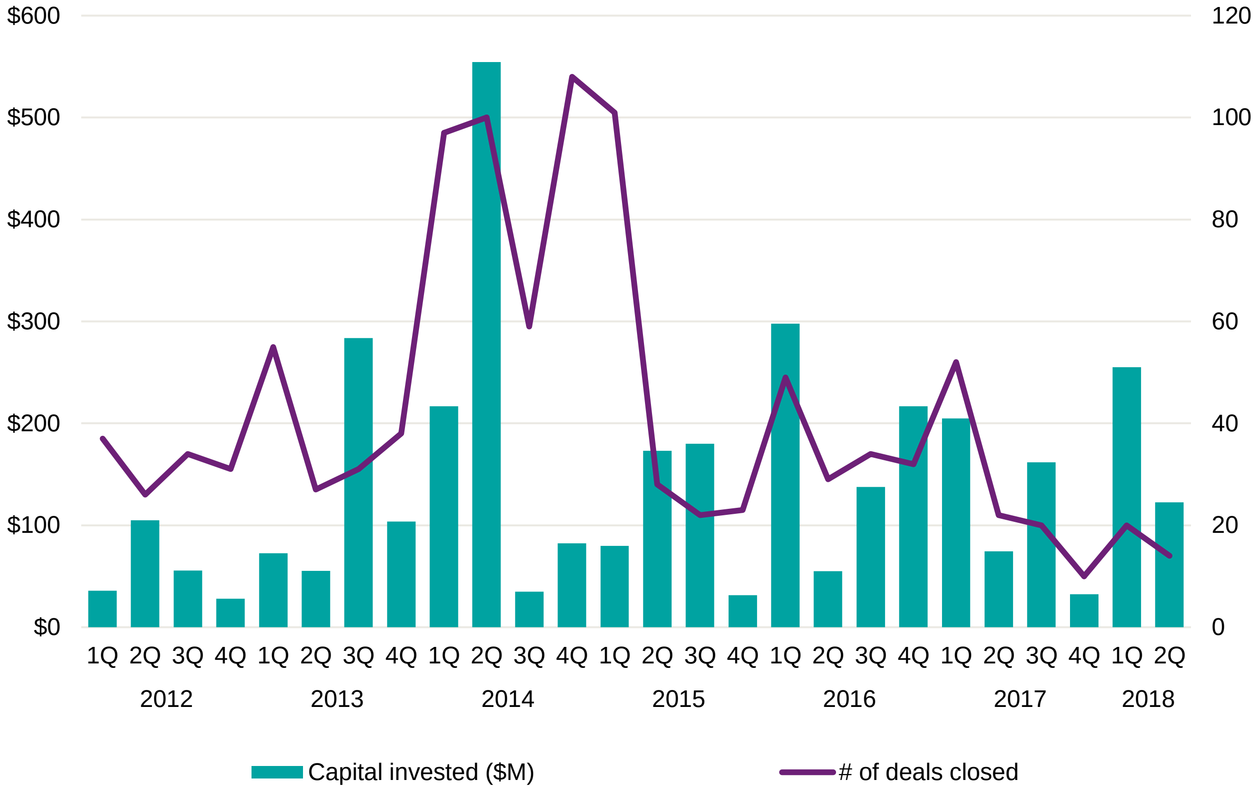
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

London-based companies are still raking in plenty of capital, even if there are as of yet no such outliers like those seen at the close of 2017. However, third-highest quarterly sum of VC invested of the past 7 years is hardly anything to sniff at, against a backdrop of slowly diminishing volume. Investors may be concentrating more funds in safer prospects, but those companies' growth prospects are bright.

2018 VC invested well within historical norms

Venture financing in Ireland

2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

The diversity of Ireland's startup scene is more marked than many may think. The top raise in Q2 2018 was a $64 million round by Sublimity Therapeutics, which focuses on oral drug delivery.

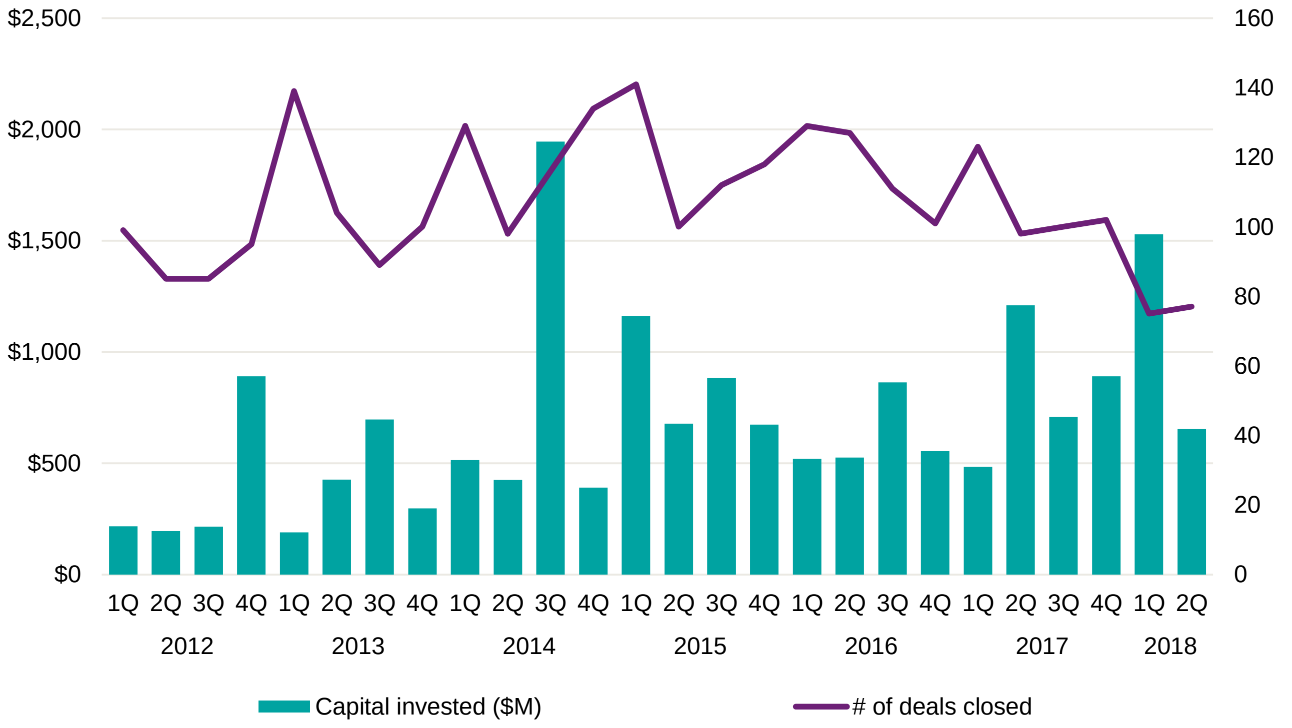
"While the short-term impact of GDPR may cause some upset for European companies, compliance could generate some significant opportunities in the future. Since GDPR is shaping up to be the gold standard for the security and retention of personal information, compliant companies should be well equipped to compete anywhere in the world."

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

Q2 2018 deal volume evens out

Venture financing in Germany

2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Aggregate VC activity evened out between Q1 and Q2 2018, which, given additional data recorded in coming months, could very well entail that Q2 volume was more robust than that of the first quarter. VC invested also remained healthy, albeit skewed somewhat by used-car marketplace Frontier Car Group's $89 million round.

"There is a lot of liquidity in the market, which will bode well heading into Q3'18. However, the level of uncertainty is more than we would normally see with GDPR across Europe, Brexit in the UK, political tension here in Germany, and a budding trade war between the EU and the US. These developments are going to keep investors on high alert, making them more cautious and selective."

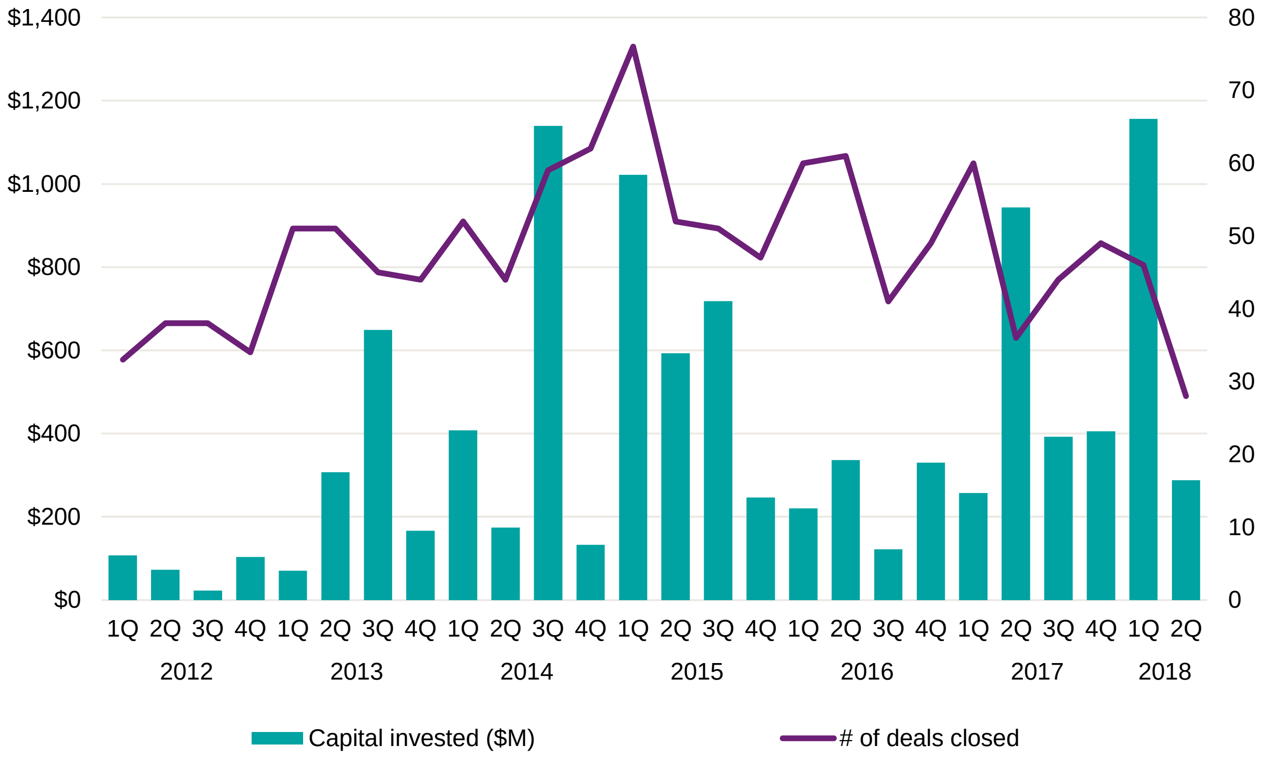
Tim Dümichen
Partner, **KPMG in Germany**

KPMG Enterprise

Is the used-car marketplace heating up?

Venture financing in Berlin

2012 — Q2'18



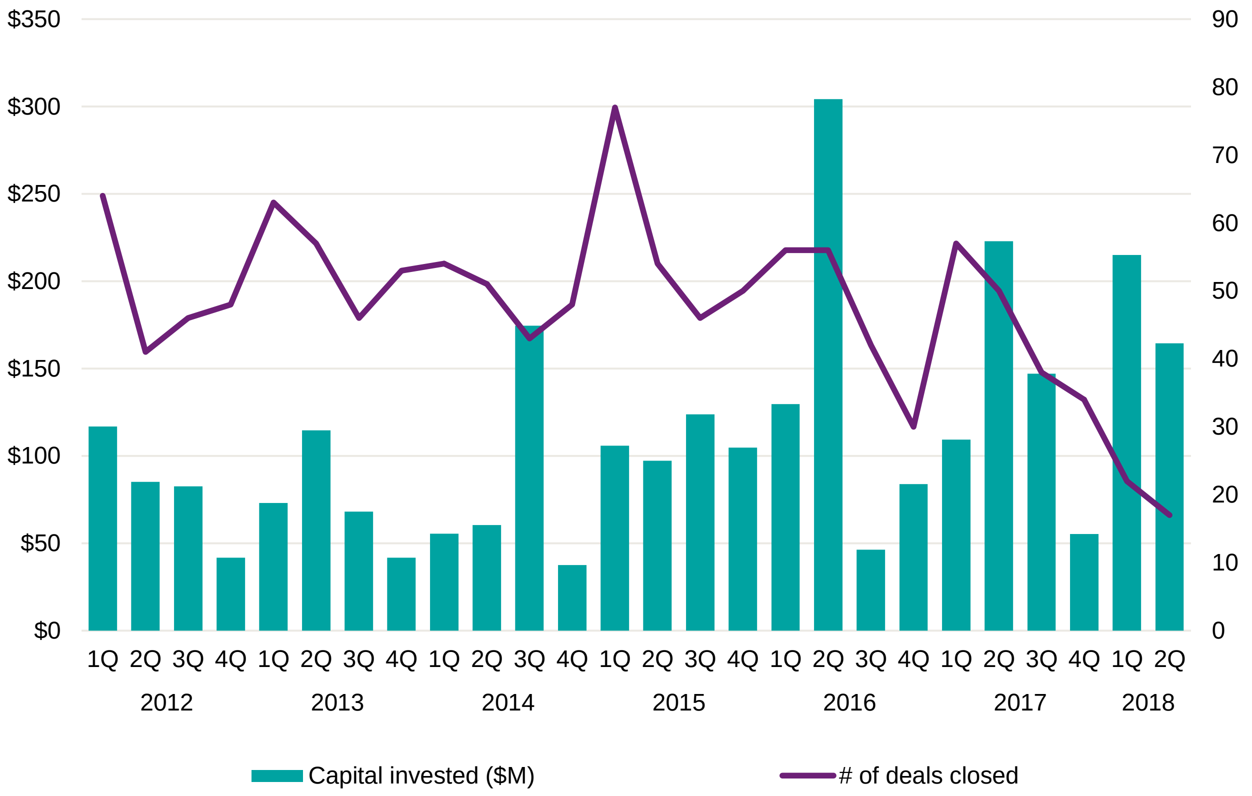
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Interestingly enough, after a Q1 marked by a large financing of a used-car marketplace provider — Auto1 Group — the top raise in Berlin was by another used-car marketplace provider, Frontier Car Group. This could well be the late-stages of a cycle of competition, with the last companies standing now refilling their warchests for growth.

KPMG Enterprise

Another strong quarter for VC invested

Venture financing in Spain
2012 — Q2'18



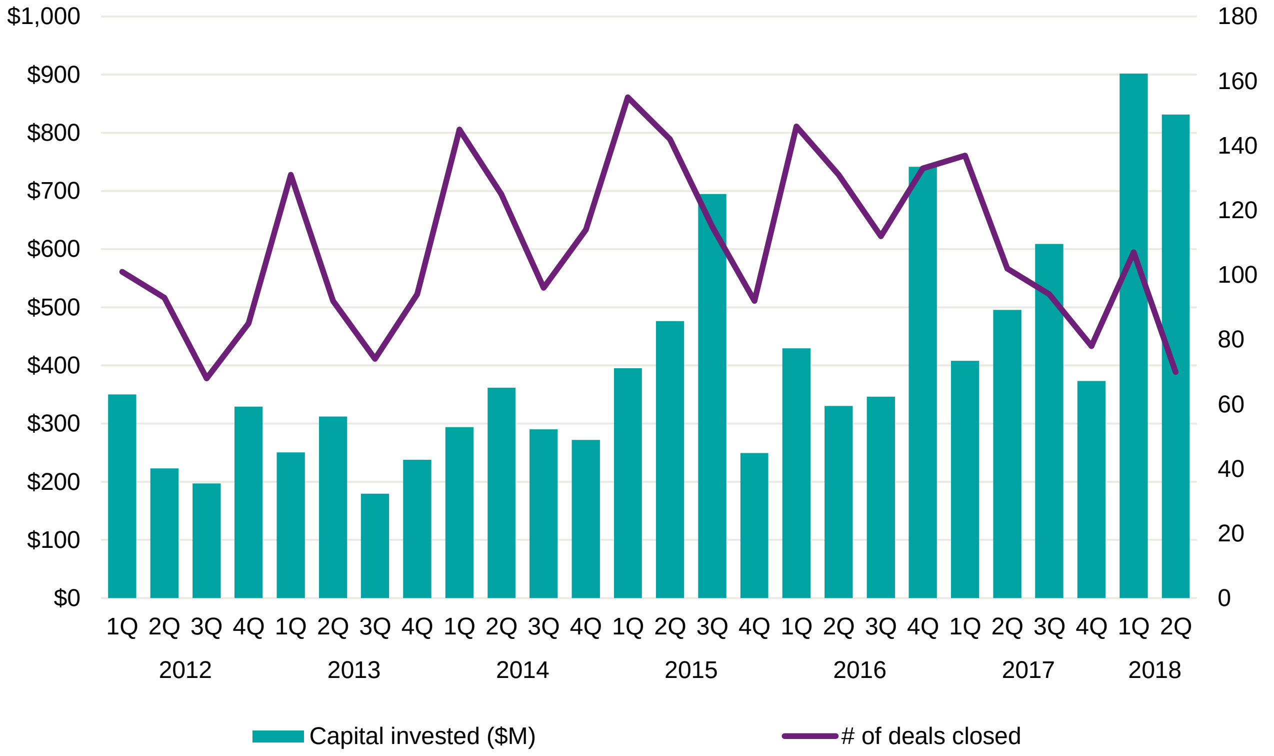
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

In the wake of Cabify's quarter-skewing raise in Q1, the Spanish venture ecosystem saw another healthy tally of VC invested, even as activity remains near historic lows. Most of the action was centered around B2B and consumer software plays, with listing platform Spotahome closing on $40 million in Series B funds and freight delivery platform OnTruck raking in $29.6 million, also of Series B funds.

France venture scene records another influx

Venture financing in France

2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Even after a strong Q1 that could have been deemed an outlier, French venture-backed companies continue to rake in plenty of capital. As always when that occurs with a slide in rounds completed, one must look for outliers, but surprisingly there was no single $100 million financing accounting for much of the robustness, but rather a flurry of decently sized rounds, with no fewer than 15 exceeding $20 million.

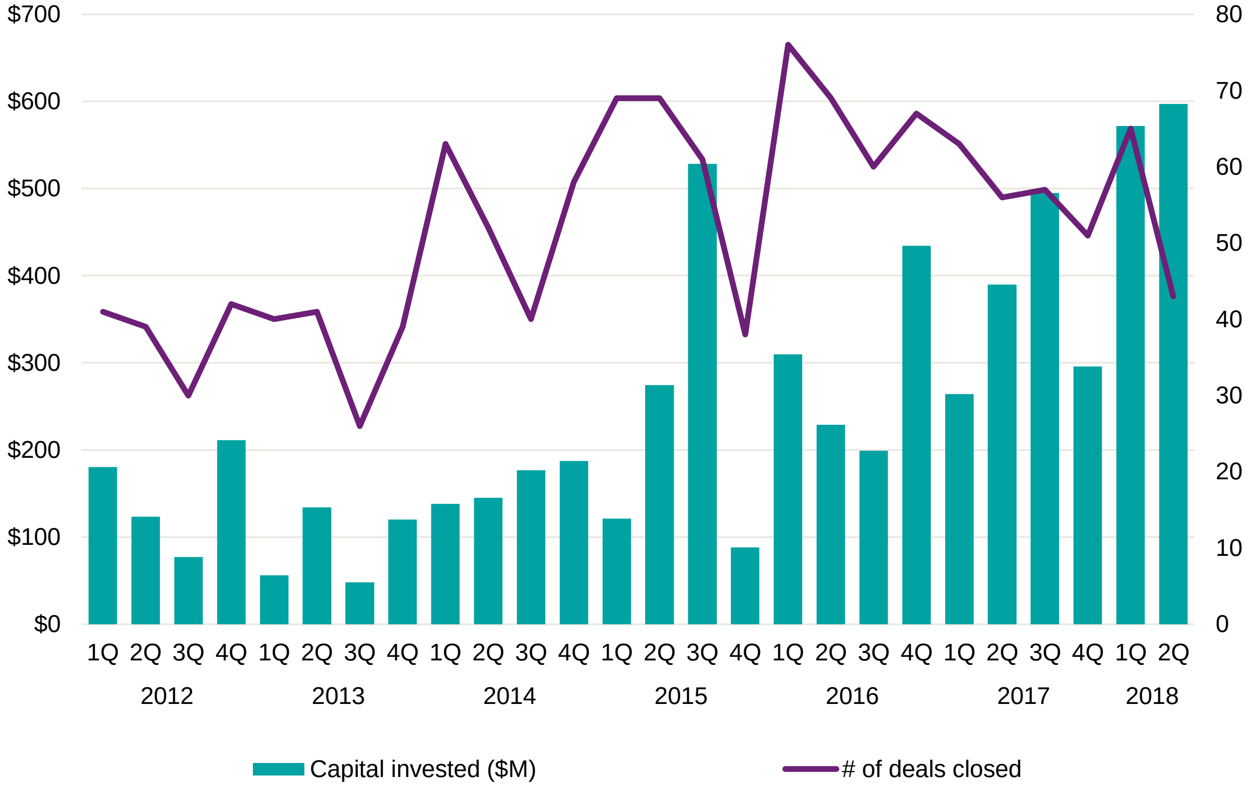
"Unlike in many countries, seed-stage funding is still strong in France. The country has become a unique innovation laboratory catering to the world. For 6 years, it has been demonstrating its ability to create excellent startups able to harness an incredible level of innovation. This, in addition to support by the state, has helped reduce risks for seed investors, making them far more willing to invest than they might be otherwise."

Georges Gambarini
Innovation & Fundraising, Head of Innovative Startup Network
KPMG in France

Paris remains central hub of French VC

Venture financing in Paris

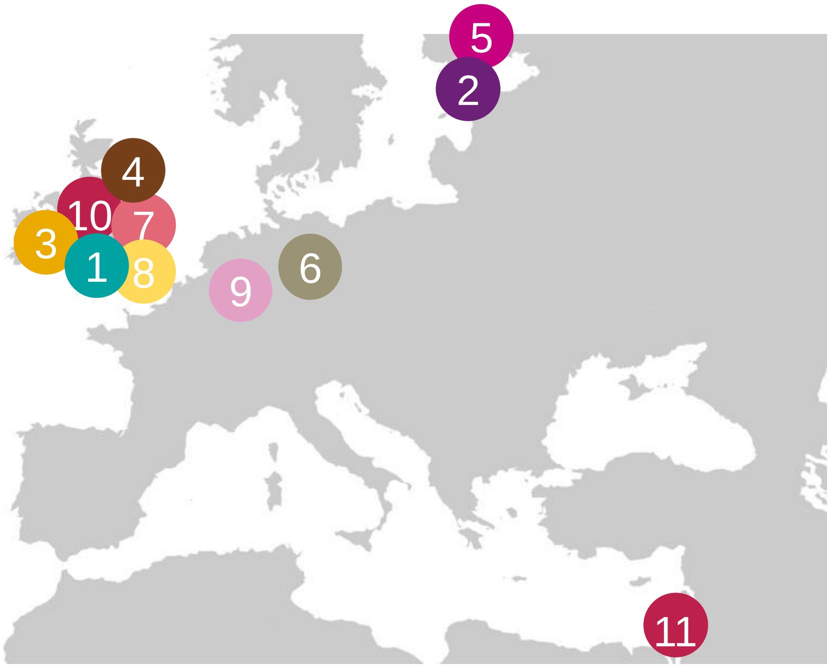
2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Most of the money flowing to French companies still winds up in Paris, with only two of the top 10 financings in Q2 2018 occurring in non-Paris-headquartered businesses. The largest transaction of Q2 was a $60 million financing of educational platform OpenClassrooms.

The edges of Europe stand atop Q2 rankings



1 **Revolut** — $250M, London
Financial software
Series C

2 **Taxify** — $175M, Tallinn
Transportation
Early-stage VC

3 **Freeline Therapeutics** — $119.2M, London
Biotechnology
Series B

4 **CMR Surgical** — $100.2M, Cambridge
Surgical devices
Series B

5 **HMD Global** — $100M, Espoo
Distributors/wholesale
Late-stage VC

6 **Frontier Car Group** — $89M, Berlin
Transportation
Series C

7 **Liberis** — $80.9M, London
Consumer finance
Late-stage VC

8 **Culture Trip** — $80M, London
Social content
Series B

9 **Iteos Therapeutics** — $75.8M, Gosselies
Drug discovery
Series B

10 **Crescendo Biologics** — $70M, Cambridge
Therapeutic devices
Series B

11 **V-Wave** — $70M, Caesarea
Therapeutic devices
Series C

Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

KPMG Enterprise

In Q2'18 VC-backed companies in the Asia region raised

$35.9B

across

466 deals

Ant Financial $14 billion funding round propels Asia's VC investment

Venture capital investment in Asia, and in China, in particular, was very strong this quarter, with more than $35 billion in total investment across 466 deals. Late-stage megadeals continued to dominate in Asia, representing 8 of the top 10 deals globally, including a massive $14-billion round by Ant Financial. During the quarter, there was also a huge exit in India and the IPO of Japan's first startup unicorn.

Fintech investment remains strong

Investors worldwide lined up to finance fintech companies in China in Q2'18. The biggest deal of the quarter was the $14-billion round raised by Ant Financial, operator of Alipay — China's biggest online payment platform. The funding, provided by a number of international VC firms, is expected to help the company with its overseas expansion. Pintec, which offers end-to-end solutions based on AI, big data, and blockchain also raised $103 million this quarter.

Funding to help 'Uber for trucks' boost supply chain

Truck-hailing firm Manbang, often described as China's 'Uber for trucks', received $1.9 billion during Q2'18. The investment is expected to help the company improve its logistics and the supply chain management. The investment was led by SoftBank's Vision Fund, which includes backers such as Apple Inc, Foxconn, and Saudi Arabia's Sovereign Wealth Fund.

Healthcare and biotech remain robust

Biotech and healthcare-related technologies continued to draw significant VC investment in Q2'18. In particular, there was considerable interest and funding for companies specializing in genetic-sequencing-related technology for early detection of terminal diseases.

Investors have also shown interest in the use of AI across various applications, including initial screening of diagnoses and pre-diagnosis of patients with certain conditions. AI is also being used to review images (e.g. CT scans). Companies with access to large amounts data and a proven ability to scale their business models can expect to be very attractive to investors moving forward.

In addition to research and AI-related technologies, there has also been more investment in companies that provide greater access to healthcare. A major deal in Q2'18 was the $500-million raise from China's WeDoctor, which provides diagnosis and online booking services. AI and health care — both separately and now together — are considered a national priority in China given its large and aging population.

AI continues to attract major capital

AI is also attracting investors across other sectors as more companies focus on integrating the technology into their business models. China has a distinct advantage in terms of AI development given its large population and massive pool of aggregated data.

As a result, it is not surprising that China continued to pull in massive investments in AI in Q2'18. China-based SenseTime, which provides face, image and video recognition technology for various sectors, raised over $1.2 billion across two deals this quarter. At a valuation of more than $4.5 billion, SenseTime is now considered the world's most valuable AI startup[3].

[3] https://www.cnbc.com/2018/05/31/sensetime-raises-more-than-one-billion-dollars-in-mere-months.html

Ant Financial $14 billion funding round propels Asia's VC investment, cont'd.

Chinese exchanges seek more start-ups; attract PE

China has been working to expand its capital markets, including developing new listing rules for its major stock exchanges in Hong Kong and Shanghai to attract more local companies to list at home[4]. In Q2'18, the Hong Kong Stock Exchange introduced new rule changes to encourage IPO exits, including allowing companies with variable voting rights to list. This move is part of Hong Kong's mission to turn itself into a capital markets hub for emerging and innovative Chinese companies. Also this quarter, the China Securities Regulatory Commission (CSRC) announced additional measures in Shanghai designed to attract new economy innovative businesses.[5]

IPOs on the rise in Hong Kong

The Hong Kong Stock Exchange appears to be picking up steam. While overall annual listing volumes have been declining since 2014, late 2017 and the first half of 2018 have seen increased activity. A number of major companies seen as potential listing candidates in the near future include: Xiaomi, Lufax, WeLab, Meituan Dianping and Ant Financial.

E-commerce exit dominates deals in India

Wal-Mart's $16-billion purchase of Indian e-commerce site Flipkart was the biggest exit for an Indian tech company by a long shot. VC interest in internet-driven platforms and companies continued to grow this quarter, particularly given the mobile-dominated marketplace in India. E-commerce players have been expanding their product range into areas such as logistics, e-services, and payment services. There has also been a proliferation of digital media companies catering to the surge in consumption of news, entertainment and gaming — inspired by successful models such as Amazon Prime. Overall in India, almost half-a-dozen first-time venture capital investors have made their debut since the beginning of this year, indicating growing investor interest in India's startups[6].

Despite this activity, Q2 was a slow quarter for VC investment India, with the largest VC investment being Capital Float ($80 million), followed by a number of much smaller deals.

A watershed moment for Japan's VC sector

Japanese flea market app operator Mercari raised $1.2 billion in its IPO in Q2'18, representing the first IPO of a unicorn startup in Japan and proof that home-grown ventures in Japan can present outstanding return opportunities of over 100x for VC investors. The IPO was considered massive for a VC-backed company by Japanese standards. Traditionally, Japanese companies go public at earlier stages and therefore for lower valuations. The Mercari IPO, used to raise funds for international expansion — is expected to encourage other Japanese entrepreneurs to seek funding to grow beyond Japan's domestic market.

Trends to watch for in Q3'18

AI and analytics are expected to continue to drive VC activity across Asia over the next few quarters, with investments expected across a range of sectors, including healthcare, biotech, financial services, and retail. Other sectors expected to see increased investment include payments, virtual banking, and consumer sectors that cater to Asia's rising middle and upper class. We will be watching to see whether the trade tensions between China and the US lead Chinese investors to look for opportunities in other regions. Chinese investment in the US may also hinge somewhat on proposed legislation before the US Congress, which would give the government greater oversight over deals involving foreign investors[7].

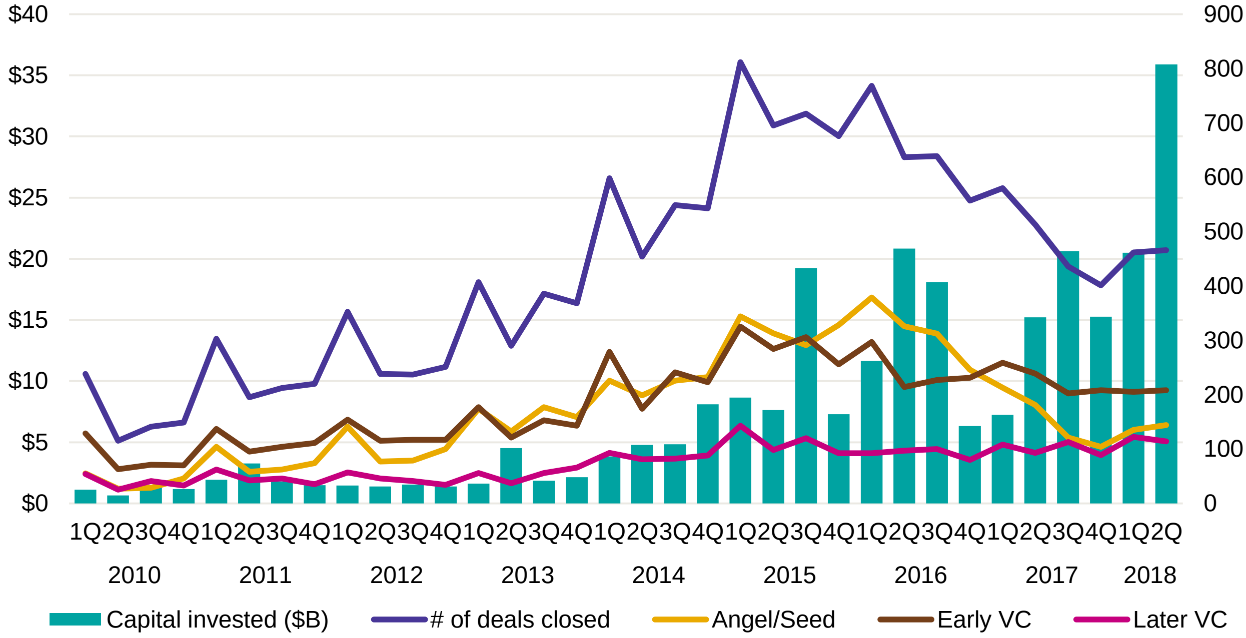
[4] https://www.caixinglobal.com/2018-03-10/shanghai-shenzhen-bourses-draft-new-rules-to-attract-tech-unicorns-101219652.html
[5] https://www.scmp.com/business/china-business/article/2143158/new-listing-rules-likely-attract-dozen-applicants-first
[6] https://www.dealstreetasia.com/stories/indian-startup-venture-capital-investors-98026/
[7] https://www.bloomberg.com/news/articles/2018-05-16/venture-capitalists-fret-over-u-s-bill-targeting-chinese-investors

KPMG Enterprise

Q2 2018 soars to unprecedented levels thanks to Ant Financial's massive round

Venture financing in Asia

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Last quarter's edition of Venture Pulse noted it was remarkable that the region's VC ecosystem recorded yet another $13 billion+ tally, signifying the growing maturity of its venture capital market. Ant Financial's jaw-dropping $14 billion could not have been foreseen, but speaks to both the maturation of the scene's ecosystem and its continued dominance by a handful of rapidly growing, late-stage companies.

"During the past quarter, rule changes around the Hong Kong Stock Exchange have brought renewed attention and interest to potential IPOs. There is tremendous anticipation around a number of unicorns considering going public over the next few quarters, in particular in the area of fintech and biotech. Allowing companies with variable voting rights is attracting new economy companies to be listed in Hong Kong. Fintech and Autotech continues to receive significant investments and we are seeing increased attention on the biotech and retail tech."

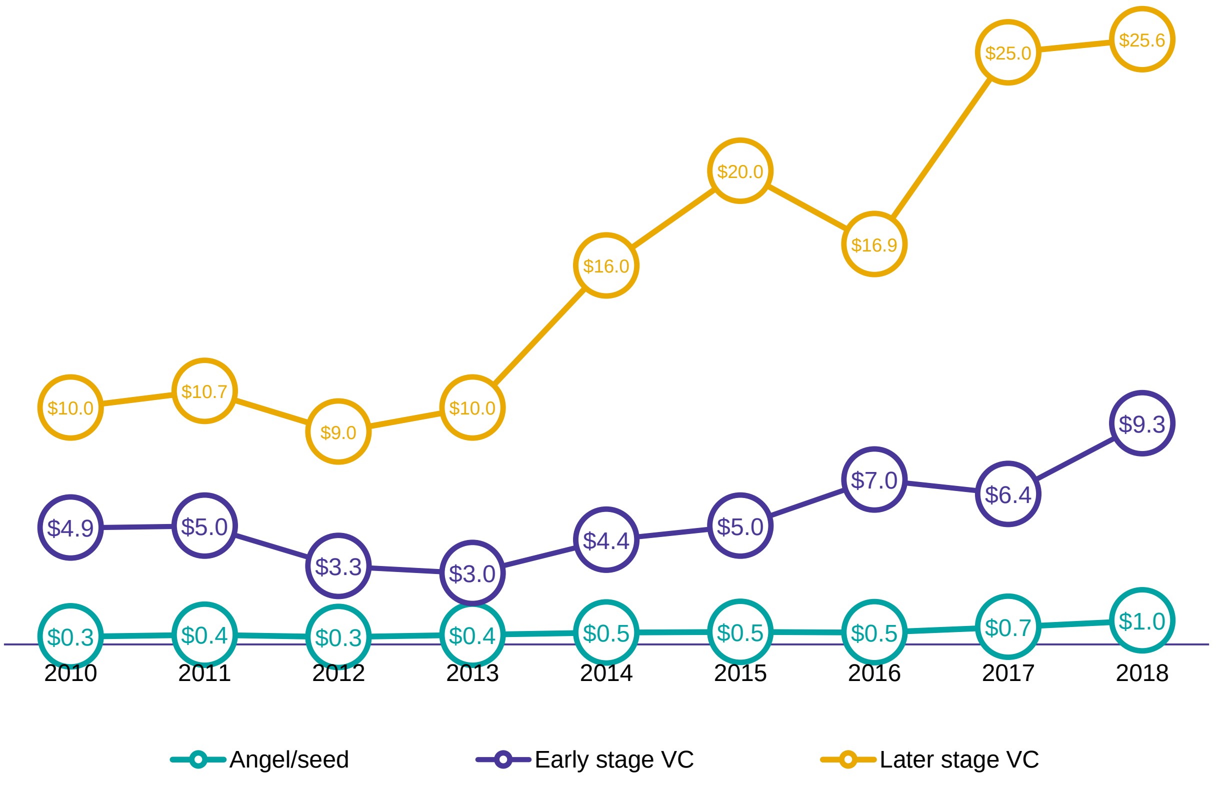
Philip Ng
Partner, Head of Technology, **KPMG China**

KPMG Enterprise

Late-stage figures even out, as early-stage tallies edge up even higher

Median deal size ($M) by stage in Asia

2010 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

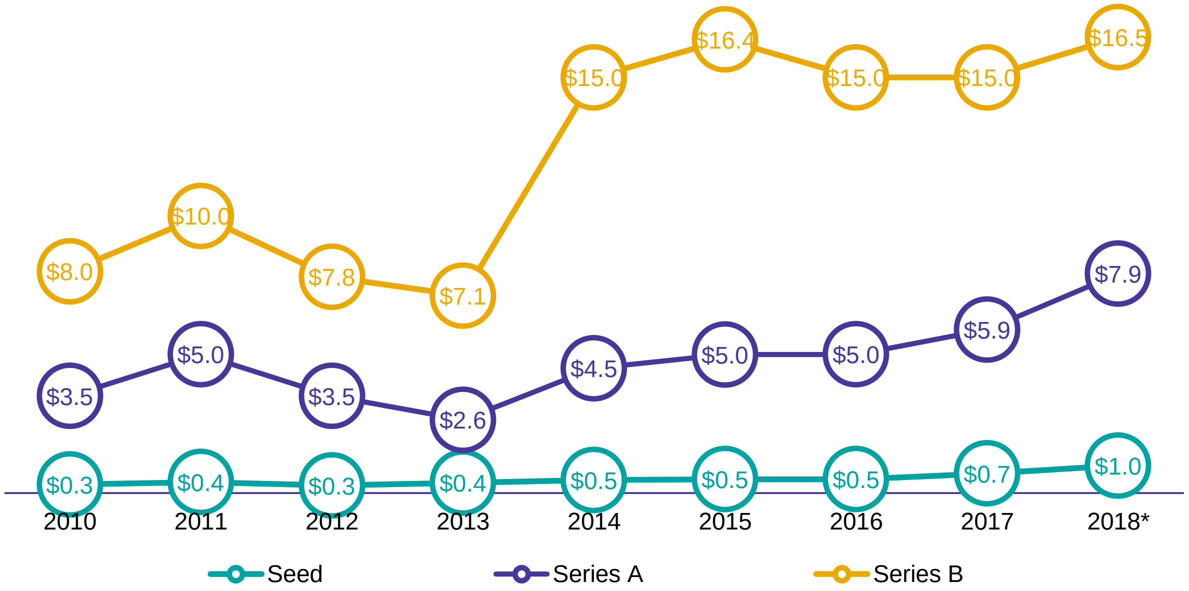
After an upsurge at the latest stage post 2014, which showed the impact of the first huge venture-backed successes in the Asia-Pacific region, median transaction sizes now are evening out somewhat, which is likely for the best as opposed to continued inflation and consequent potential overexuberance.

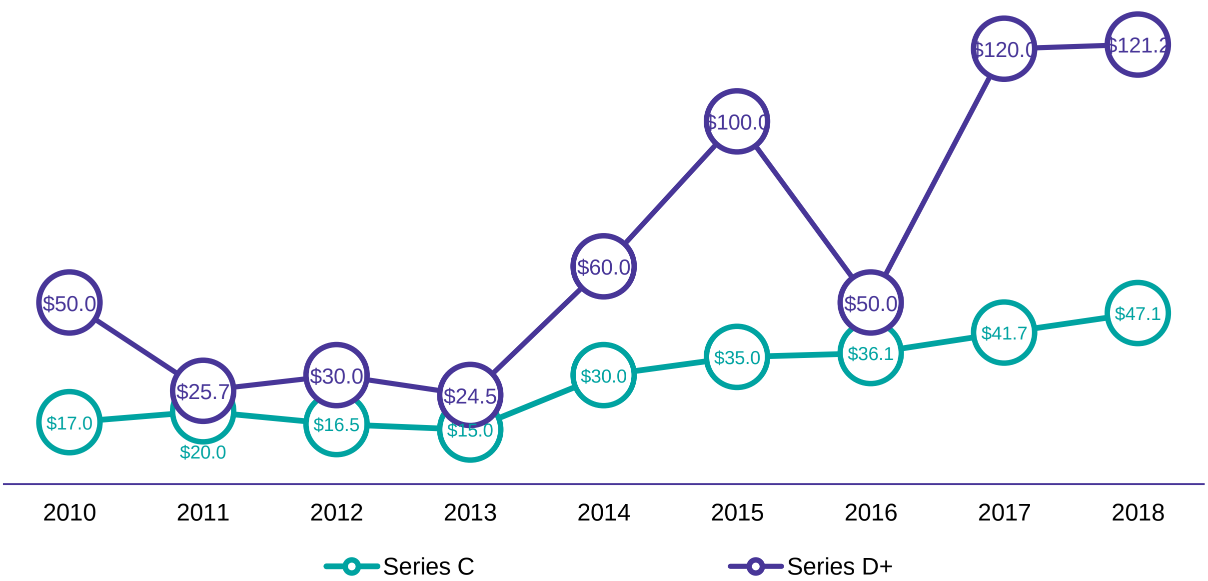
KPMG Enterprise

Series A figures maintain growth

Median deal size ($M) by series in Asia

2010 — 2018*



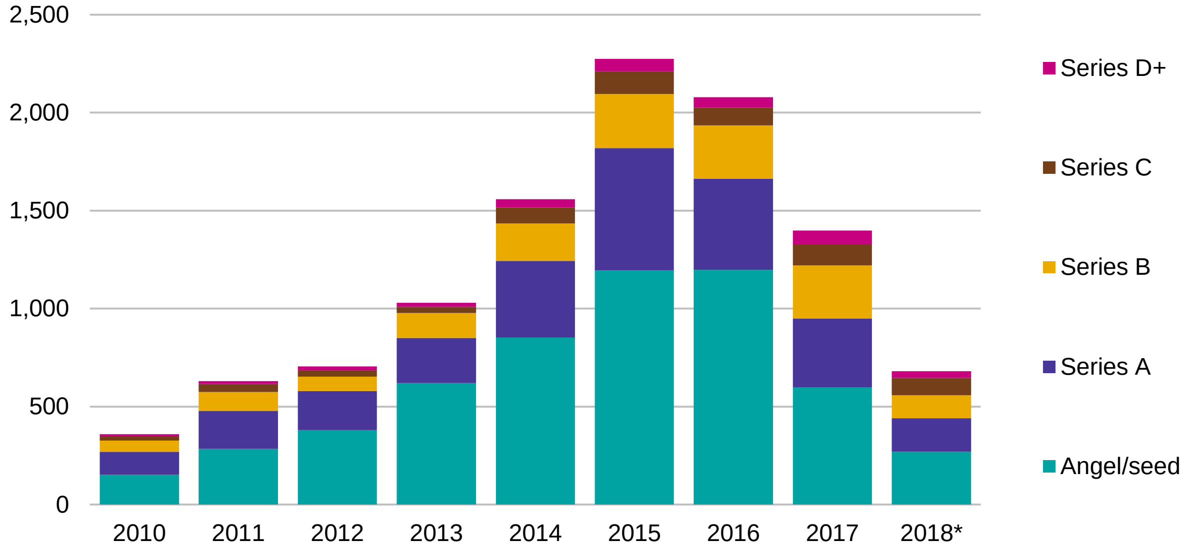


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.
Note: Select figures are rounded for legibility.

Skewed somewhat, Series C financings account for majority of VC invested in 2018 to date

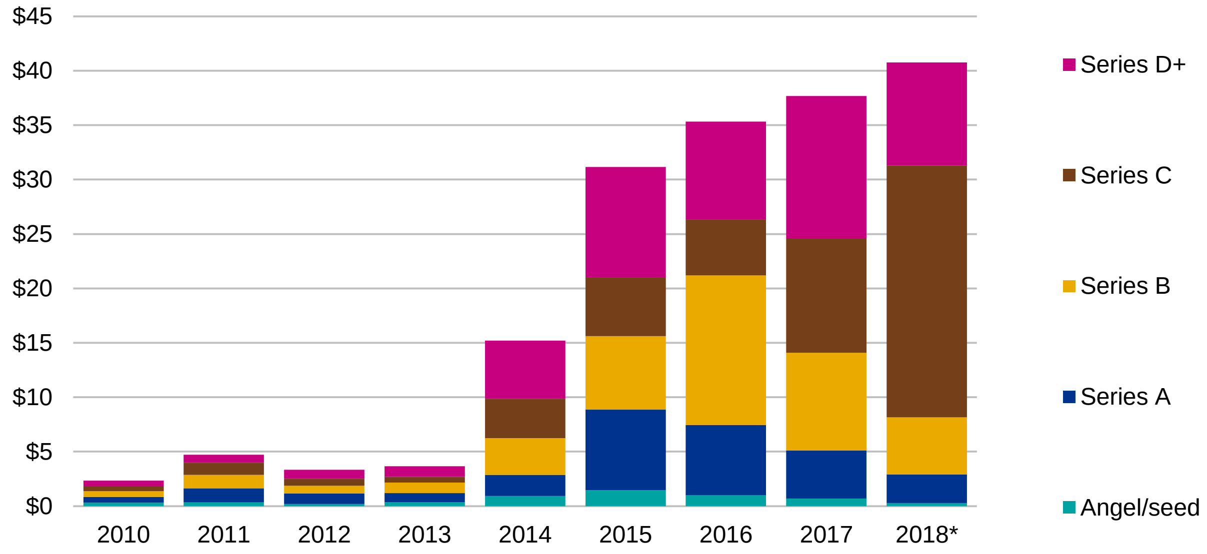
Deal share by series in Asia

2010 — 2018*, number of closed deals



Deal share by series in Asia

2010 — 2018*, VC invested ($B)



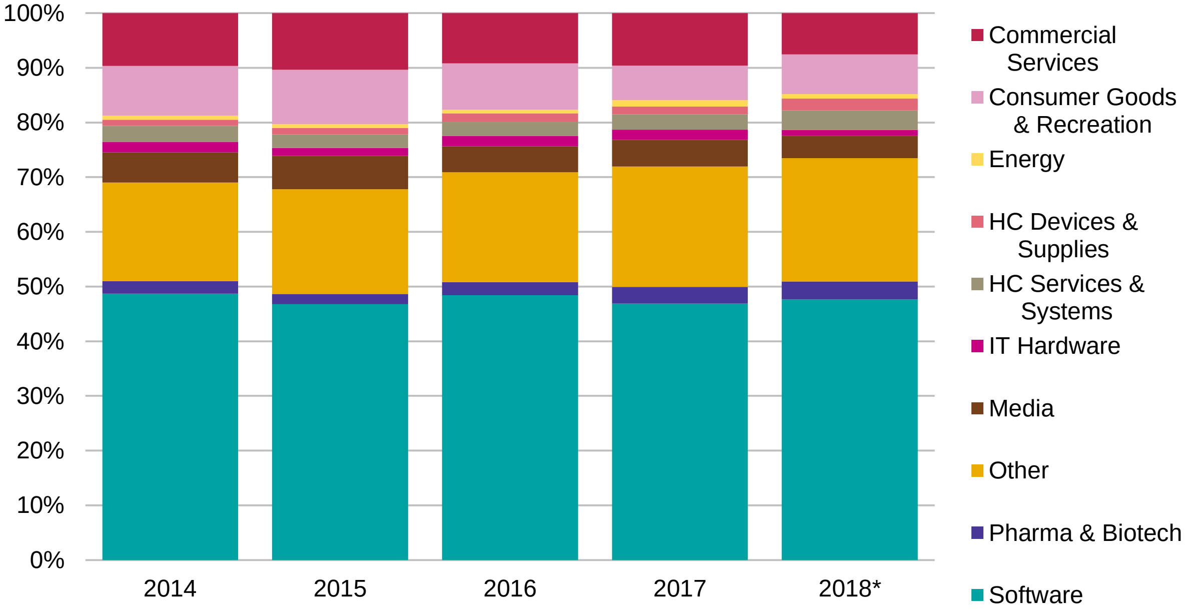
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

KPMG Enterprise

Software platforms remain most popular

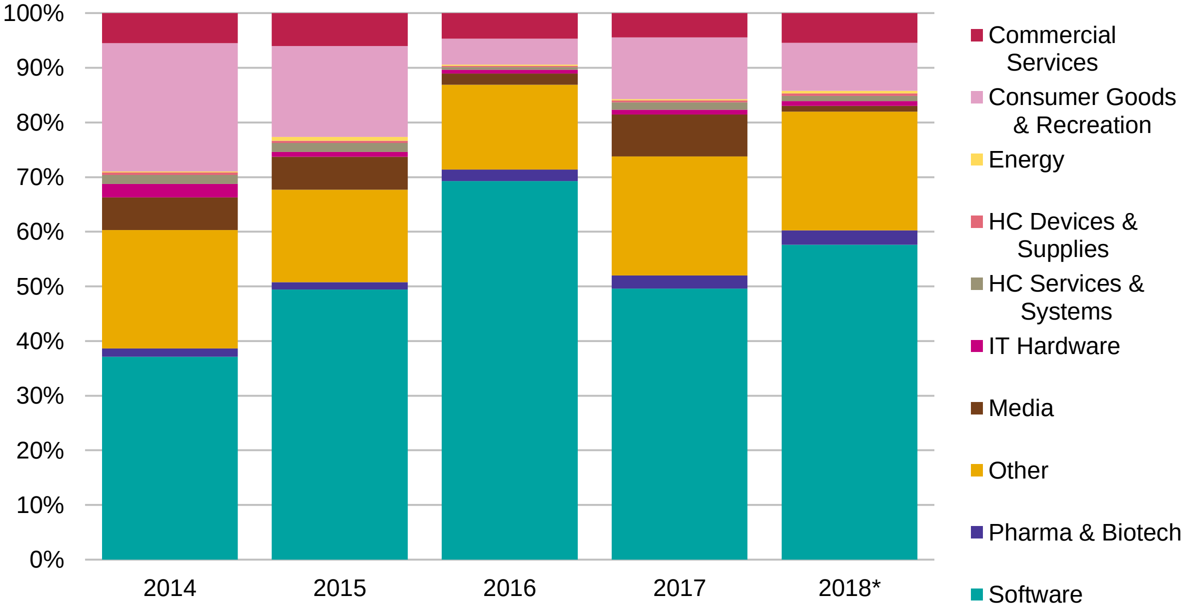
Asia venture financings by sector

2014 — 2018*, number of closed deals



Asia venture financings by sector

2014 — 2018*, VC invested ($B)

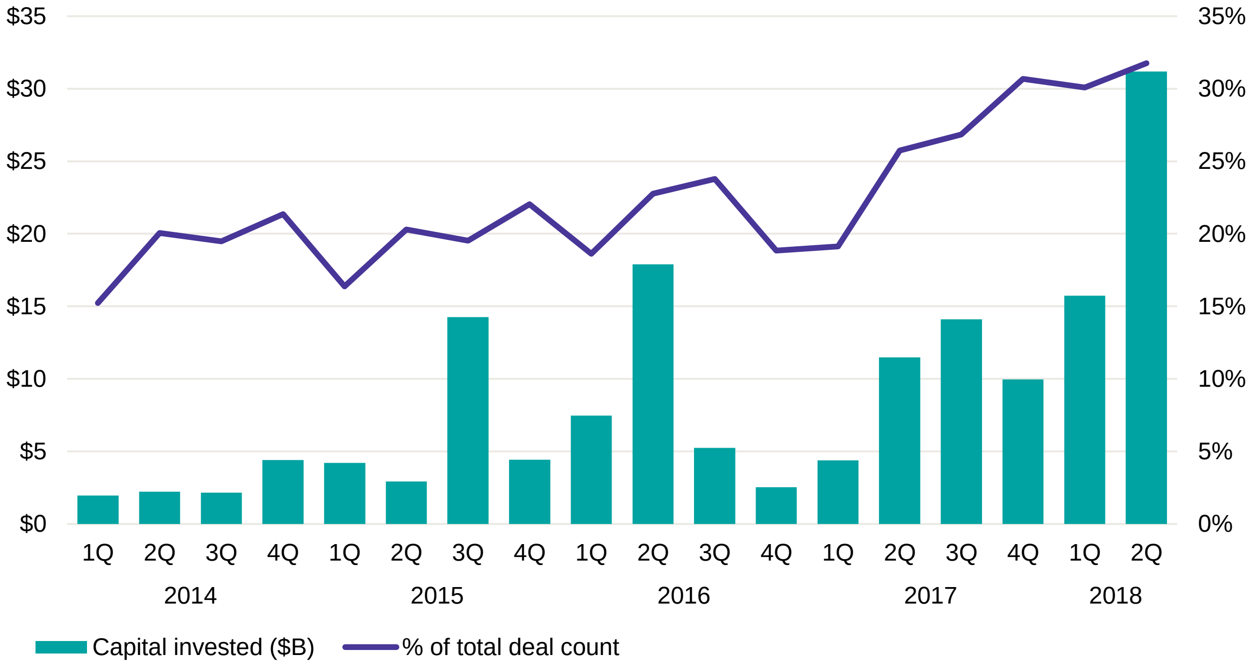


Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

CVCs retain a hefty participation rate

Corporate participation in venture deals in Asia

2014 — Q2'18



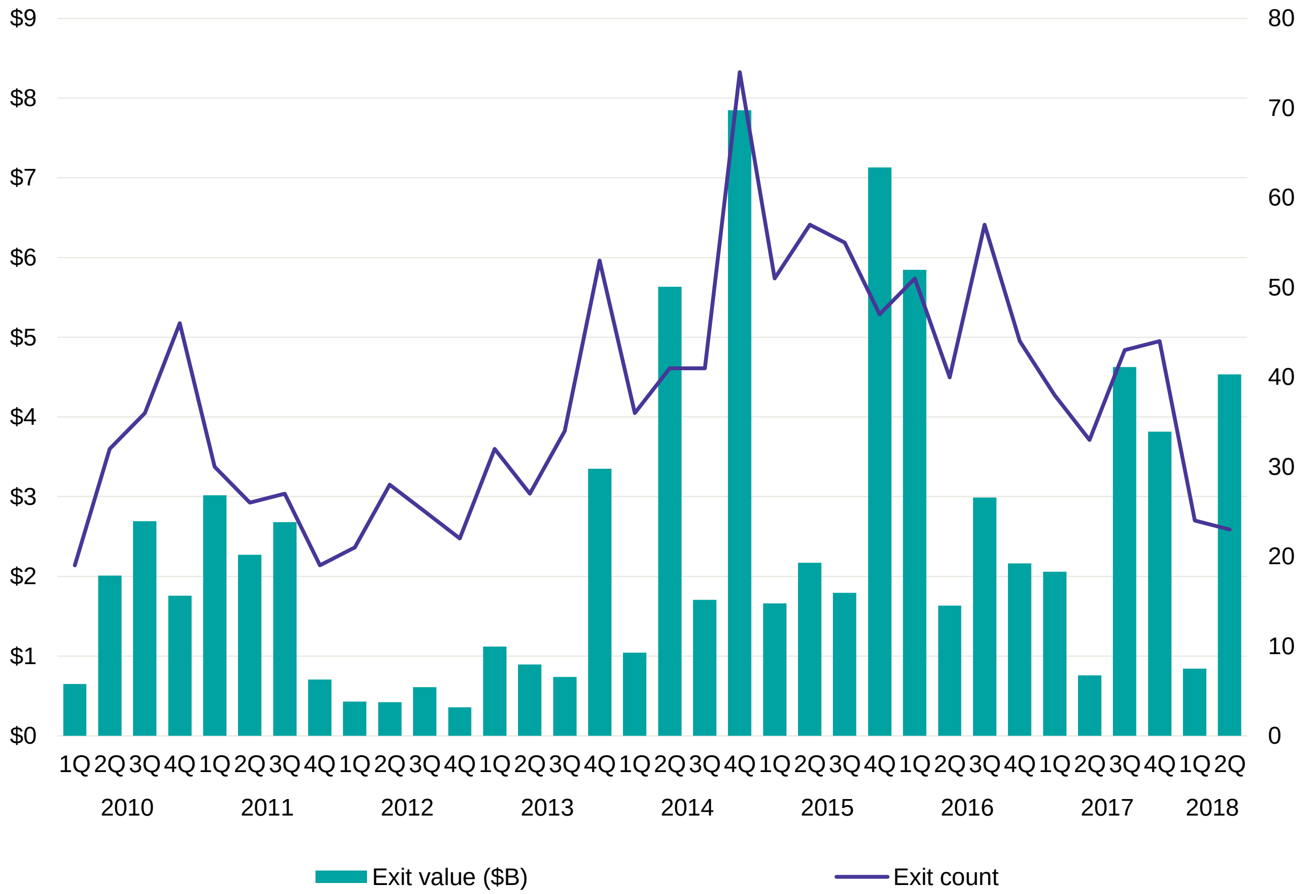
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

Corporations and their venture arms remain essential to the Asia-Pacific ecosystem on the whole. Largely due to how financial markets evolved within the region overall, their ongoing support and particular models for involvement by and large are a positive, as they encourage and inculcate entrepreneurial efforts across key hubs.

A maturing market results in quarterly volatility

Venture-backed exit activity in Asia

2010 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

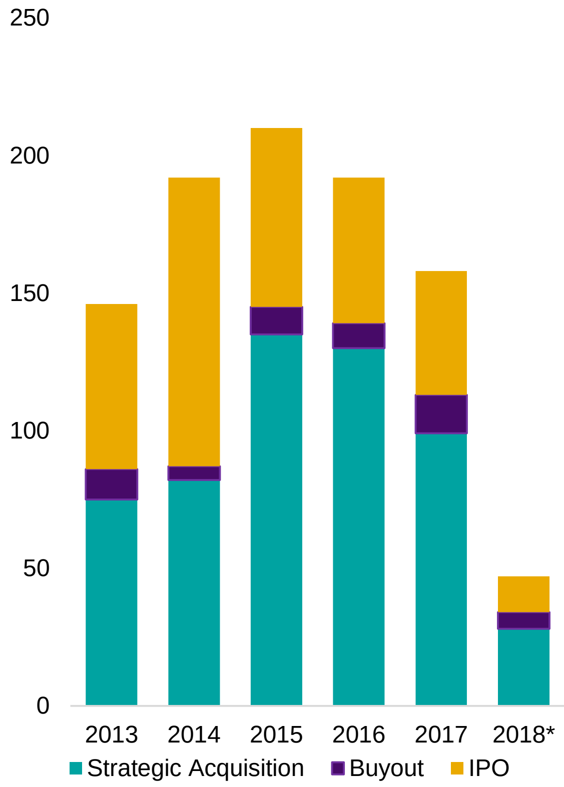
"The Hong Kong exchange is making some very strategic moves into the new economy. They are trying to position Hong Kong to be the platform for IPOs in that space. It's not just changing the exchange and what coming through it, but also what Hong Kong will be in the next five-to-10 years."

Egidio Zarrella
Head of Clients and Innovation Partner, **KPMG China**

Strategics still taking a breather in 2018, with buyout shops filling the gap somewhat

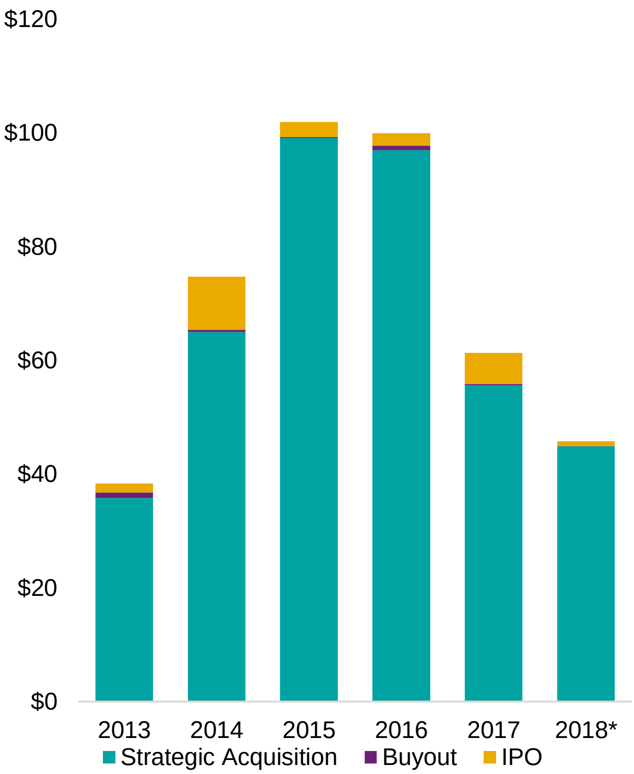
Venture-backed exit activity (#) by type in Asia

2013 — 2018*



Venture-backed exit activity ($B) by type in Asia

2013 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

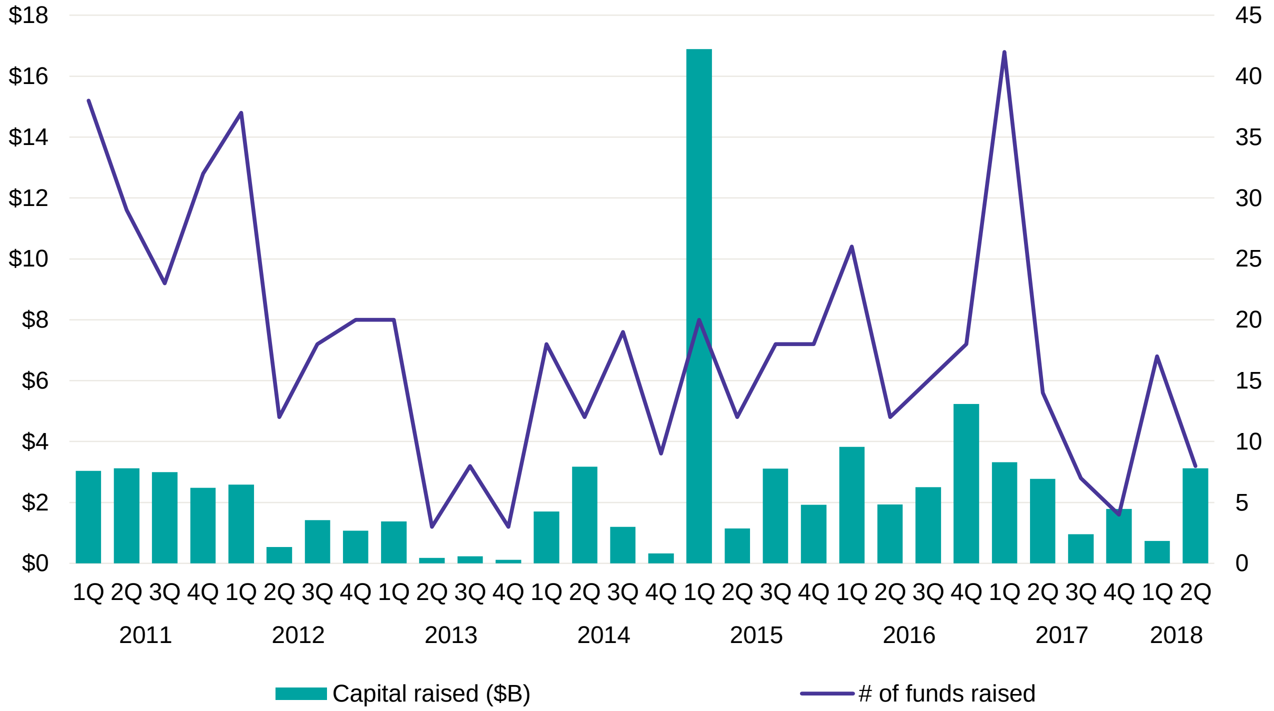
"Mercari's IPO was a blockbuster exit by Japanese standards and is a watershed moment for Japan's VC sector in particular. In addition to driving renewed VC interest in Japan, the great outcome for early employees will be a strong catalyst to build a more robust local angel ecosystem, accelerating the formation of exciting new ventures."

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

Fundraising volatility still suggests the regional VC scene has a ways to grow

Venture fundraising in Asia

2011 — Q2'18



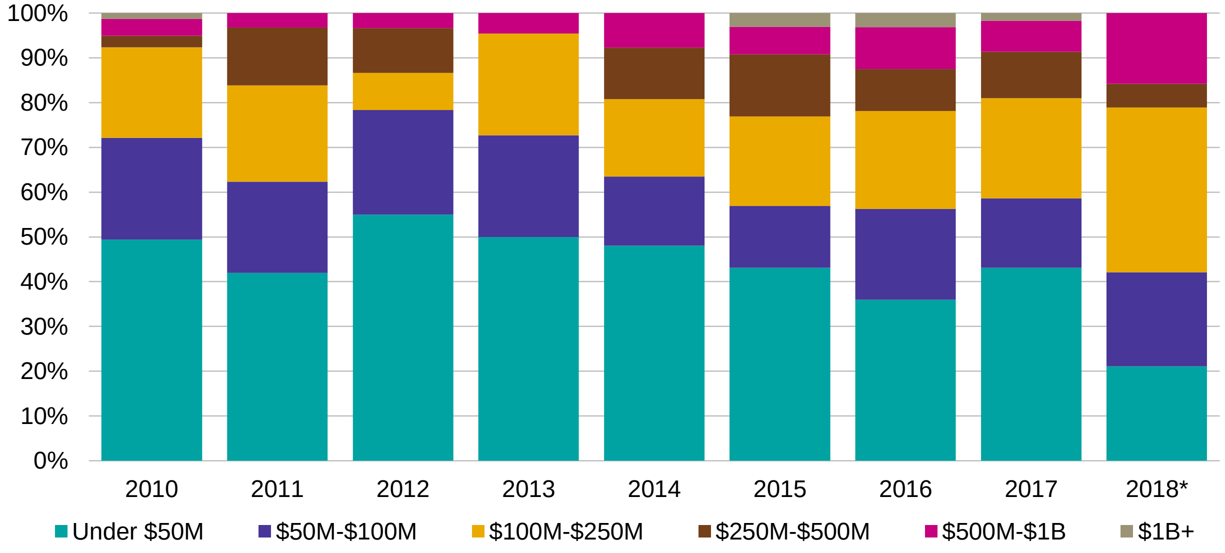
Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

As past peaks have indicated, there can be quite a few venture funds closed within the Asia-Pacific region — the thing is that there will be wild swings from quarter to quarter in aggregate tallies of count and capital raised, primarily as the ecosystem is still growing and maturing. The downturn in Q2 2018 should accordingly not be read overmuch into.

Healthy first-time fundraising tallies suggest promising signs for regional ecosystem

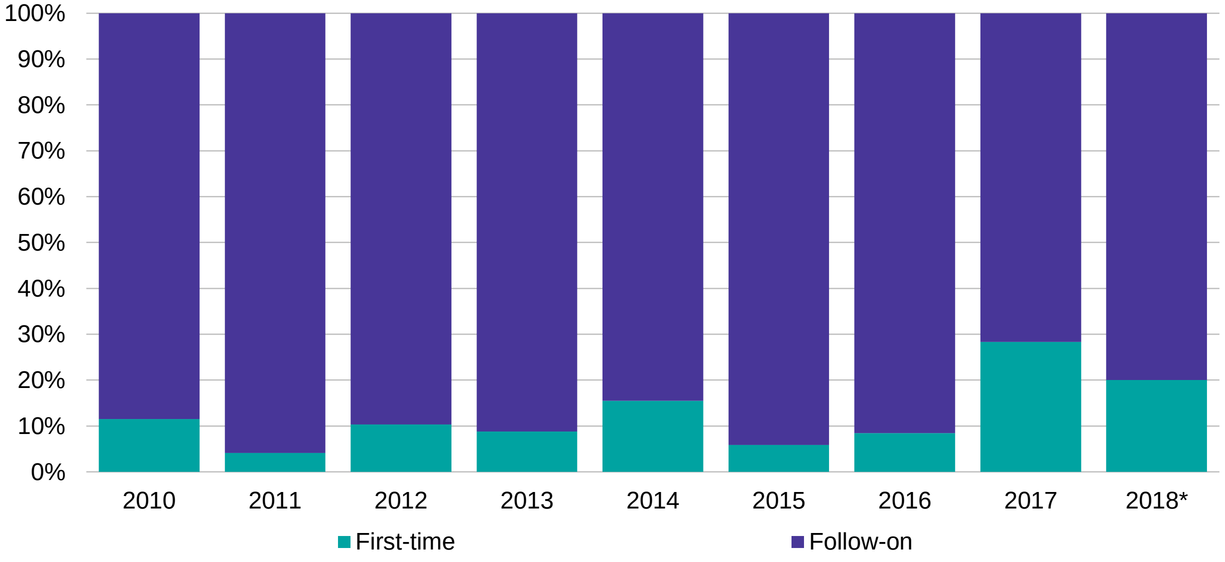
Venture fundraising (#) by size in Asia

2010 — 2018*



First-time vs. follow-on venture funds (#) in Asia

2010 — 2018*



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/18. Data provided by PitchBook, July 12, 2018.

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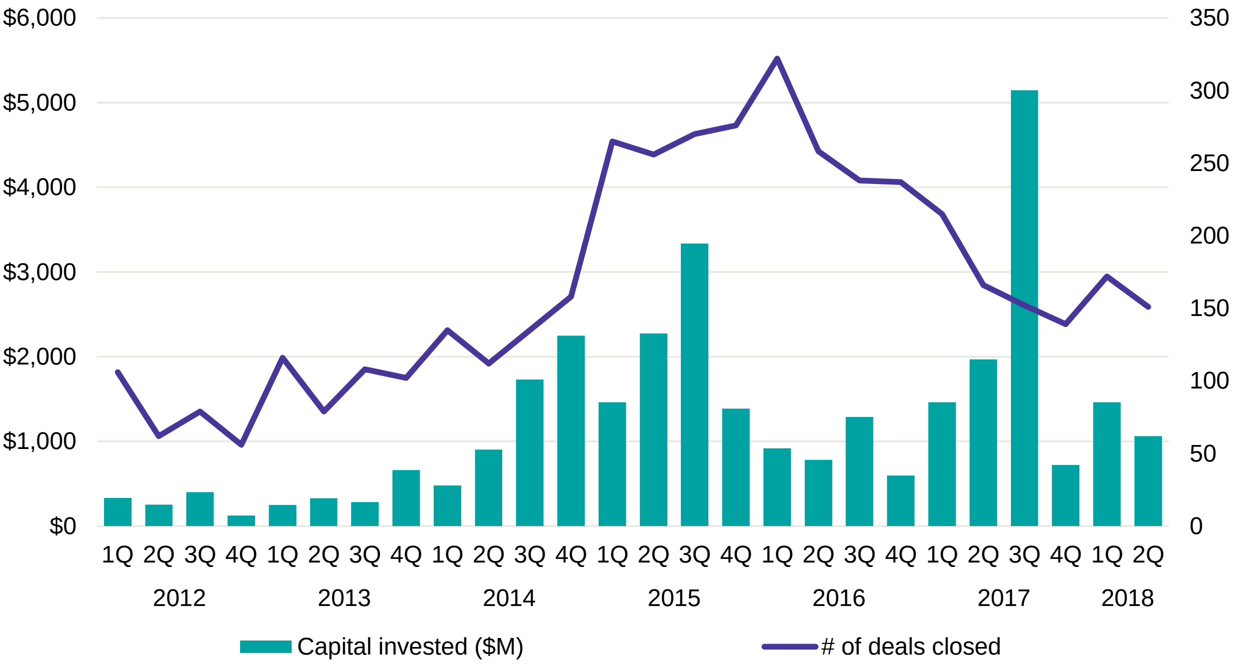
Volume steadies as B2C focus remains intact

Venture financing in India

2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

The trend in venture volume continues to even out within India. While VC invested tallies clip along at a steady pace — the top two transactions in Q2 were on-demand food delivery platform Swiggy's $210 million Series G round and insurance provider PolicyBazaar's $200 million Series F funding, both of which exemplify the ongoing focus on the consumer space.

"We see a very strong positive sentiment in India where companies are aggressively looking to acquire capabilities rather than building in-house. It's more about 'who should I acquire?" Companies in the Internet/CPG/Retail/ Financial Services industries are aggressively looking for bolt-on strategies where they can acquire a category/capability which they can add to their repertoire to succeed in the market."

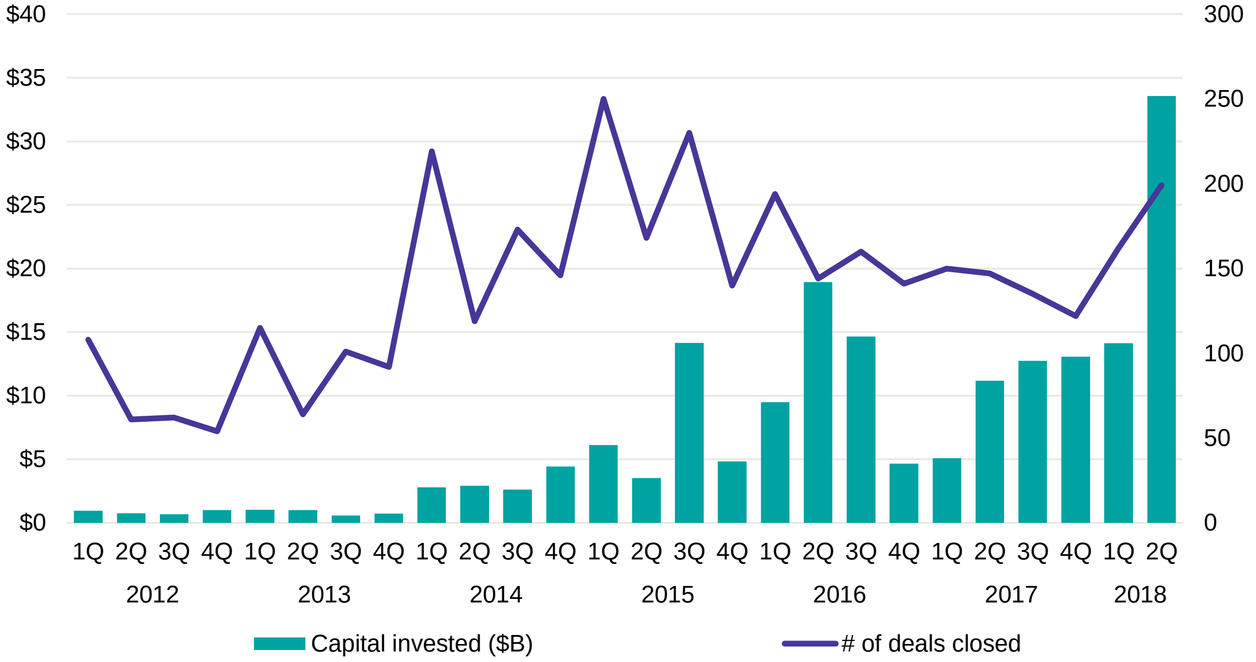
Sreedhar Prasad
Partner, Consumer Markets, Internet Business and Startups, **KPMG in India**

KPMG Enterprise

All about Ant Financial

Venture financing in China

2012 — Q2'18



Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

The sheer amount of money Ant Financial has raised is astounding, as it and it alone skews Chinese venture figures so handily. Per PitchBook data, the company has raised $23.4 billion since its inception, across both venture capital and debt. Such raises testify to just how much capital can pour into an enterprise that looks set to capture the massive growth potential within a given Chinese sector.

"I expect Chinese capital will continue to pour into venture capital investment inside China, as well as across parts of Asia. Because of the trade tension between China and the U.S., some of the Chinese investors might be looking at opportunities outside of U.S., depending on the sectors."

Irene Chu
Partner, Head of New Economy, Hong Kong Region, **KPMG China**

China accounts for all top Asia-Pacific financings

1 **Ant Financial** — $14,000M, Hangzhou
Financial software
Series C

2 **Weltmeister** — $3,176M, Shanghai
Transportation
Late-stage VC

3 **Pinduoduo** — $3,000M, Shanghai
Internet retail
Series C

4 **Manbang Group** — $1,900M, Beijing
Transportation
Late-stage VC

5 **Ubtech** — $820M, Shenzhen
Robotics
Series C

6 **Hellobike** — $700M, Shanghai
Transportation
Series E1

7a **SenseTime** — $620M, Beijing
Virtual reality
Series C

7b **SenseTime** — $600M, Beijing
Virtual reality
Series C (corporate)

8 **VIPKid** — $500M, Beijing
Education & training
Series D

9 **Byton** — $500M, Nanjing
Automotive
Series B

10 **WeDoctor** — $500M, Hangzhou
Application software
Corporate

Source: Venture Pulse, Q2'18, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 12, 2018.

KPMG Enterprise Innovative Startup Network. From seed to speed, we're here throughout your journey

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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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Tim Dümichen, Partner, KPMG in Germany

KPMG Enterprise

Methodology

KPMG uses PitchBook as the provider of venture data for the Venture Pulse report.

Please note that the MESA and Africa regions are NOT broken out in this report. Accordingly, if you add up the Americas, Asia-Pacific and Europe regional totals, they will not match the global total, as the global total takes into account those other regions. Those specific regions were not highlighted in this report due to a paucity of datasets and verifiable trends.

Fundraising

PitchBook defines venture capital funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional venture capital firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identified as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund is domiciled, if that information is not explicitly known, the HQ country of the fund's general partner is used. Only funds based in the U.S. that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

Deals

PitchBook includes equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, venture capital firms, corporate venture firms and corporate investors. Investments received as part of an accelerator program are not included, however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the U.S.. The impact of initial coin offerings on early-stage venture financing as of yet remains indefinite. Furthermore, as classification and characterization of ICOs, particularly given their security concerns, remains crucial to render accurately, we have not detailed such activity in this publication until a sufficiently robust methodology and underlying store of datasets have been reached.

Angel/seed: PitchBook defines financings as angel rounds if there are no PE or VC firms involved in the company to date and it cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which PitchBook typically aggregates together as early-stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors and more.

Late-stage: Rounds are generally classified as Series C or D or later (which PitchBook typically aggregates together as late-stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Corporate: Corporate rounds of funding for currently venture-backed startups that meet the criteria for other PitchBook venture financings are included in the Venture Pulse as of March 2018.

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Methodology, cont'd

Growth equity: Rounds must include at least one investor tagged as growth/expansion, while deal size must either be $15 million or more (although rounds of undisclosed size that meet all other criteria are included). In addition, the deal must be classified as growth/expansion or later-stage VC in the PitchBook Platform. If the financing is tagged as late-stage VC it is included regardless of industry.

Also, if a company is tagged with any PitchBook vertical, excepting manufacturing and infrastructure, it is kept. Otherwise, the following industries are excluded from growth equity financing calculations: buildings and property, thrifts and mortgage finance, real estate investment trusts, and oil & gas equipment, utilities, exploration, production and refining. Lastly, the company in question must not have had an M&A event, buyout, or IPO completed prior to the round in question.

Corporate venture capital: Financings classified as corporate venture capital include rounds that saw both firms investing via established CVC arms or corporations making equity investments off balance sheets or whatever other non-CVC method actually employed.

Exits

PitchBook includes the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of the majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown.

Agtech

PitchBook defines agtech as follows: companies that provide services, engage in scientific research, or develop technology which has the express purpose of enhancing the sustainability of agriculture. This includes wireless sensors to monitor soil, air and animal health; hydroponic and aquaponic systems; remote-controlled irrigation systems; aerial photo technology to analyze field conditions; biotech platforms for crop yields; data-analysis software to augment planting, herd, poultry and livestock management; automation software to manage farm task workflows; and accounting software to track and manage facility and task expenses. Pitchbook do not include novel foods, food delivery foodtech and food ecommerce solutions in their definition of AgTech.

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