



# Venture Pulse Q4 2015

Global Analysis of  
Venture Funding

January 19, 2016

# Welcome message

2015 was a record-setting year for venture capital, with over \$128 billion of total investment made worldwide, topping 2014's total by 44 percent. What sets 2015 apart, however, lies in the size and scope of the venture capital (VC) investments that were made.

From healthcare to Fin Tech, and retail to education, companies sparked changes that could affect every sector and every business moving forward. Investors saw this potential and made significant investments; in fact, 71 VC-backed companies achieved Unicorn status (\$1 billion valuation) during the year, compared to 53 in 2014.

The World Economic Forum calls this dawning era of transformation and innovation the Fourth Industrial Revolution. At the end of this month, business and government leaders will come together in Davos, Switzerland, to discuss how to navigate these unprecedented changes. But the reality is that regular system-wide innovations are expected to continue to rock the foundations of traditional industries well into the future – and investors must enter uncharted territories if they are to achieve success.

However, after 2 incredibly strong quarters, investors are becoming more cautious with their funding. We've seen VC investment drop from \$38.7 billion in Q3 to \$27.2 billion in Q4, while the number of deals hit a low not seen since Q1'13. The drop-off was most noticeable in Asia, where China and India received significantly less funding than in all previous quarters of 2015. Comparatively, Europe experienced the least decrease in VC activity, although both the number of deals and the total deal value in Europe remain small compared to other regions of the world.

The drop in VC investment signifies a shift in thinking as global investors seem to be taking a less bullish view of the market. An uncertain global economy, a projected slowdown in China, and expected interest rate increases following the recent increase in the US seem to be driving some investors to hold back their investment dollars. These trends, along with a number of Q4'15 IPOs falling short of recent private valuations appear to be making investors more cautious. Some investors have even moved to write down a number of their major VC investments in order to reflect fair market value. Investor caution will likely continue to impact VC activity heading into the first quarter of 2016.



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# Welcome message (cont.)

We highlight a range of issues and trends in this Q4'15 edition of the Venture Pulse report – a collaboration between KPMG Enterprise and CB Insights. Specifically, we discuss a number of key questions, including:

- How is the Fourth Industrial Revolution shifting the foundation of business?
- What is prompting the slowdown in VC activity?
- Why might Europe weather the current storm more readily than other regions?
- What could 2016 have in store for VC investing?

I hope you find this edition of the Venture Pulse report informative. If you would like to discuss any of the results in more detail, contact a KPMG adviser in your area.

Sincerely,

## Dennis Fortnum

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# TABLE OF CONTENTS

#	SECTION	INVESTMENT ACTIVITY
6	Summary	
8	Global Data	\$27.2B in funding   1742 deals
38	North America	\$14.1B in funding   1026 deals

All monetary references contained in this report are in USD

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#Q4VC





*In 2015 VC-backed companies raised*

**\$128.5B**

*across*

**7872 deals**

# SUMMARY OF FINDINGS

## 2015 VC FUNDING HITS ALL-TIME HIGH. ENDS WITH PULLBACK.

**Multi-year highs in funding:** Globally, funding to VC-backed companies in 2015 hit an all-time high of \$128.5B, up 44 percent versus 2014's total of \$89.4B.

**Deals see steep decline:** Large deals were the headline of 2015, largely driving the funding trends and leaving deal activity to fall for the final 2 quarters, including Q4'15, which saw just 1742 deals, the lowest quarterly total since Q1'13.

**Wounded Unicorns:** Many could call 2015 the year of the Unicorn, as 72 new VC-backed companies achieved \$1B+ valuations in 2015. Despite the large growth, the Unicorn trend slowed globally in Q4'15 with just 12 new club entrants, down from 24 in Q3'15.

**Corporates clamoring for deals:** Corporates have participated in ~25 percent of deals for 3 quarters straight as corporates continue to open venture investment arms at a feverish pace.

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

*CB Insights tracked a large number of mega-deals to VC-backed companies this quarter that included hedge funds or mutual funds, for example. This report includes all of those rounds. All data is sourced from CB Insights. Page 62 details the rules and definitions we use.*

## US DEALS CONTINUE TO FALL IN Q4'15 AS WRITE-DOWNS PLAGUE INVESTORS

**US deal activity falls for second straight quarter:** US VC activity cooled off drastically in Q4'15 as deals fell for the second straight quarter to their lowest total since Q4'11. Funding reached \$72.4B in 2015, despite a Q4'15 which saw \$13.8B in funding, the lowest total since Q3'14.

**The fall of the mega-round:** After Q3'15 saw 39 \$100M+ rounds to US VC-backed companies, investors significantly pulled back, with Q4'15 seeing just 18 mega-rounds. Overall, 2015 saw over 100 mega-rounds, which raised a cumulative \$27.3B.

**Signs of seed fatigue:** Despite more micro-VCs and multi-stage funds investing at the seed-stage, seed investments fell for the second straight quarter to a 24 percent deal share.

**New York outpaces Massachusetts:** New York has now outpaced Massachusetts for deal activity in each of the last 5 quarters.

**Early-stage deal sizes increase:** The decrease in early-stage deals in North America could partially be blamed on the increase in deal sizes. In Q4'15 median early-stage deal sizes reached a 5 quarter high of \$3.2M, up 39 percent versus the same quarter a year prior.

# SUMMARY OF FINDINGS

## EUROPE TRUDGES ALONG, AVOIDS SAME PULLBACK AS NORTH AMERICA & ASIA

### **European funding falls slightly on steady deal activity:**

The new normal in Europe seems to be close to \$3B in funding a quarter, a level reached in all 4 quarters of 2015. Deal count fell slightly vs. Q3'15 to 338 deals in Q4'15.

**Late-stage deal sizes reach 5 quarter high:** Median late-stage deal sizes in Europe weighed in at \$18.6M in Q4'15, a 5 quarter high, and double Q4'14's median of \$7.8M. Despite the increase in round size, late-stage deals decreased on an absolute basis in Q4 vs Q3'15.

**UK activity rebounds to highs:** After an anemic quarter for funding and deals in Q3'15, UK-based startups raised \$1.4B across 114 deals, both 5 quarter highs. O3B Networks' \$460M financing helped buoy funding. Overall, the UK accounted for ~45 percent of EU funding.

**Germany funding falls below \$500M:** Funding to German VC-backed startups fell 15 percent in Q4'15 versus Q3'15, despite a 10 percent increase in deals. Funding has failed to reach \$500M in 3 of the last 5 quarters as an absence of large late-stage rounds continues to play a major role in funding.

## ASIA SEES MASSIVE SLOWDOWN IN FUNDING AND DEALS

**Asia investment activity craters, big year:** Funding to VC-backed startups in Asia fell 32 percent versus Q3'15; however, overall funding for 2015 was still a record high at \$39.7B, more than the previous 4 years combined.

**Mega-rounds down in Asia:** \$100M+ rounds dominated headlines for Asia over the past 2 quarters; however, Q4'15 saw a major pullback with only 16 mega-rounds. The five top deals in Asia in Q4'15 accounted for \$4.9B or 51 percent of all funding.

**China funding crashes:** After Q3'15 saw multiple \$1B rounds and a 5 quarter high in deals, funding in China fell 29 percent to \$7.2B amid continued economic uncertainty in the region.

**Outsize corporate influence in Asia:** Corporates participated in over one-third of all deals, compared to one-fourth of deals on a global level.

**India funding slows:** With prominent investors expressing concern over overheating in India's VC ecosystem, deals and funding fell 46 percent and 18 percent respectively in Q4'15 versus the previous quarter as VC-backed startups raised \$1.5B on 114 deals.





*In Q4 2015*

**GLOBALLY**

*VC-backed companies raised*

**\$27.2 billion**



# VC investment declines as market realities sink in

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At the end of 2015, total global venture capital deal value reached a record high of \$128.5 billion, buoyed by massive VC investment activity during Q2 and Q3 in particular. However, overall VC investment pulled back significantly in Q4'15, with overall deal volume experiencing a significant decline.

Total deal value dropped from \$38.7 billion in Q3 to \$27.2 billion in Q4. At the same time, total deal volume decreased from 2008 deals in Q3 to 1,742 in Q4.

## *Mega-round numbers shrink significantly*

An uncertain global economy, a projected slowdown in China, and expected interest rate increases following the recent increase in the US appears to be driving many VC investors to be more cautious. This caution can be seen in the major decline in the number of mega-rounds (\$100M+ investment), from over 72 in Q3 to 38 in Q4. Both North America and Asia saw a significant decrease in mega-rounds versus the exuberant levels seen in Q3. Deal size has also been negatively affected; of the Q4 mega-rounds, only Asia saw mega-rounds which exceeded \$1B in Q4'15. North America experienced the biggest drop in the number of mega-rounds, followed by Asia and Europe respectively.

## *IPOs fall short of private valuations*

During Q4'15, a number of IPOs fell short of recent private valuations, no doubt rattling VC investor confidence. This experience has made a number of investors re-evaluate their investment portfolios. Some investors have even moved to write down a number of their major VC investments in order to reflect fair market value.

## *North American VC activity slows as interest rates set to rise*

North America experienced a dramatic slowdown in VC activity as investors grew more cautious. Total venture capital investment in North America dropped from \$20.8 billion in Q3 to \$14.1 billion in Q4 – the lowest total in the past 6 quarters. In the US, several mutual funds marked down a number of startup valuations related to 'Unicorn' companies – no doubt prompting more scrutiny of additional VC investment activities.

In the US, speculation around rising interest rates may be prompting some North American institutional investors to consider options that could provide reasonable rates of return at lower risk, should interest rates continue to rise. We anticipate corporate investment will be less affected by rising interest rates.

# VC investment declines as market realities sink in (cont.)

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## *Asian VC activity declines amidst slowdown concerns*

Asia was also hit hard overall by the decline in VC activity during Q4'15, with both China and India receiving substantially less VC investment than in each of the previous 3 quarters. In fact, total deal value in Asia dropped from \$14.2 billion in Q3 to just \$9.7 billion in Q4. Concerns regarding a slowdown in China's economy and a weakening retail sector appear to be fueling caution across VC investors.

## *European VC investment less affected by fourth quarter slump*

Europe experienced the smallest decrease in VC activity during Q4'15, declining from \$3.5 billion in Q3 to \$3 billion in Q4. Europe's long-standing reputation for more moderate valuations than those in North America and Asia appears to have provided some protection against the overall global decline.

## *Investors recognizing market realities*

When reviewing Q4'15 VC activity, the most apparent trend is a shift in thinking. Q4'15 really opened investor eyes to current VC realities and showcased problems associated with potentially inflated private valuations. As a result, investors that may have jumped into bigger and bigger deals earlier in 2015, fearing missing out on great growth companies in a highly competitive VC market, seem to now be taking a more cautious approach to their investments.

## *2016: Focus on the fundamentals will be critical*

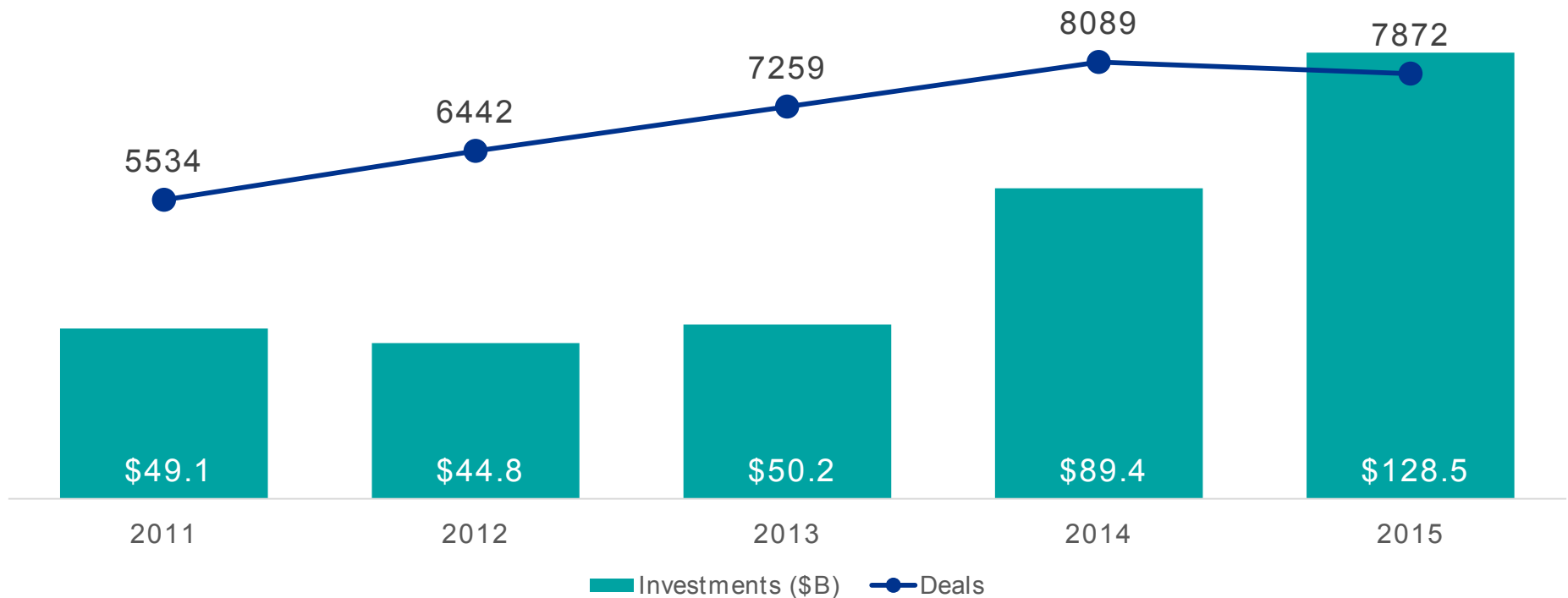
During the first 3 quarters of 2015, there was little divergence in VC investment between companies with positive and negative cash flows. Looking ahead, we expect to see more divergence and investors focused on investing in companies that have key fundamentals in place – positive cash flows, realistic burn rates and efficient operations.

At the same time, with the anticipated slowdown and rising interest rates in the US, there will likely be an increase in M&A activity, even though VC activity may decline.

# \$128.5B DEPLOYED ACROSS 7872 DEALS TO VC-BACKED COMPANIES IN 2015

Funding to VC-backed companies in 2015 reached a multi-year high, topping 2014's total by 44%. Mega-rounds proved to dominate the startup world in 2015 as, despite the highs in funding, deals actually fell 3% versus 2014.

## Annual Global Financing Trends to VC-Backed Companies 2011 – 2015



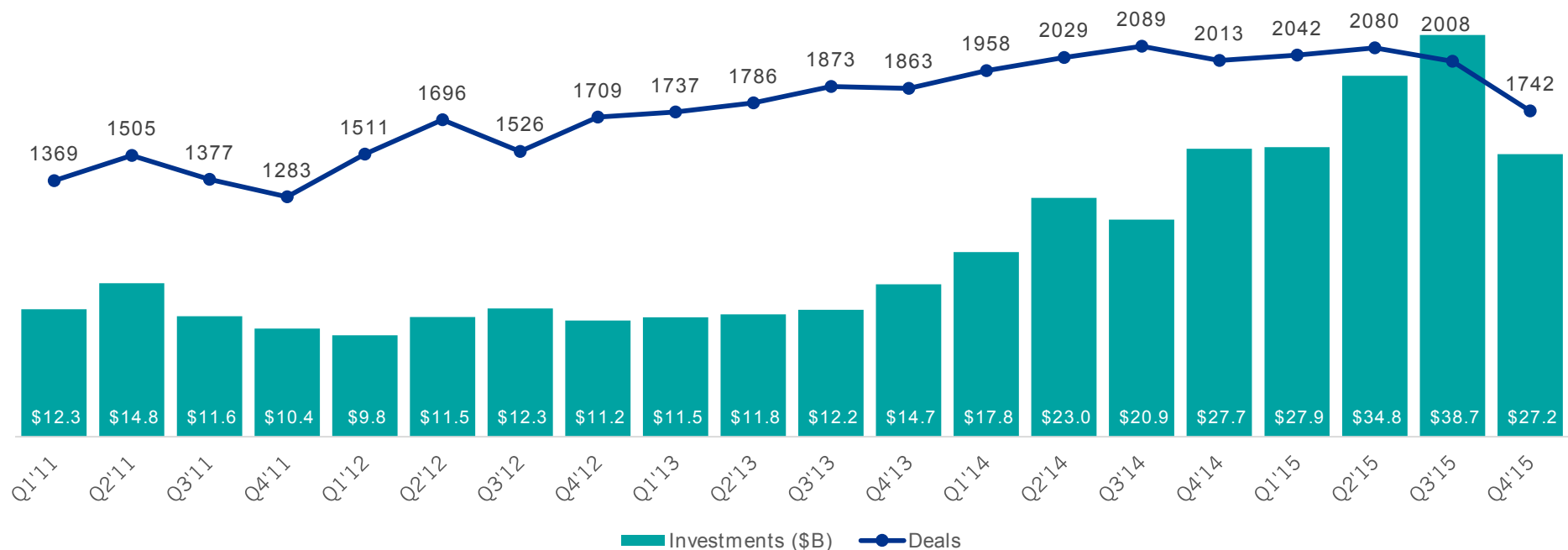
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# Q4'15 FUNDING FALLS DRASTICALLY AMID LOWEST DEAL TALLY SINCE Q1'13

After an exuberant Q3'15, which hit dot com funding levels, Q4'15 cooled dramatically. Sentiment which became very negative in late Q3 quickly manifested itself in Q4 activity as overall investment saw a drastic drop-off in the final quarter of 2015. Funding fell 30% amid weakening mega-round activity while deal activity fell 13% vs. the previous quarter, reaching a level last seen in Q1'13.

## Quarterly Global Financing Trends to VC-Backed Companies Q1'11 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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**“Up until the third quarter of 2015, we saw as much capital going into companies that were generating negative cash flows as those that were generating positive ones. Now, there’s been a divergence. In 2016, the fundamentals are really going to start to matter again. Startups that may be operating with negative gross margins, excessive burn rates and inflated valuations will be the most impacted.”**



**Brian Hughes**

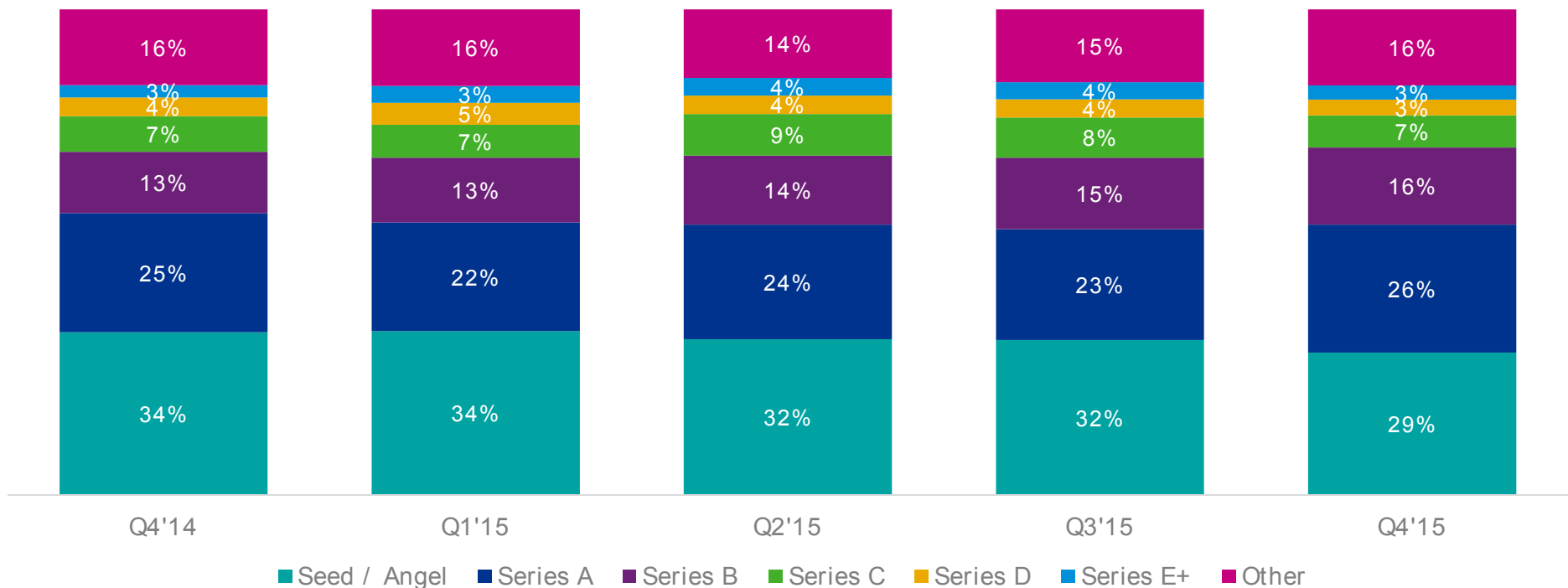
*Co-Leader, KPMG Enterprise  
Innovative Startups Network, and  
National Co-Lead Partner, KPMG  
Venture Capital Practice,  
KPMG in the US*

# SEED-STAGE DEAL SHARE FALLS TO 5 QUARTER LOW

Deal share to seed-stage investments dropped below 30% in Q4'15, reaching just 29%. Series A deals reached a 5 quarter high at 26% deal share. Mid-stage (Series B – Series C) deals accounted for 23% of all deals in Q4'15, matching the previous 5 quarter high from Q3'15.

## Quarterly Global Deal Share by Stage

Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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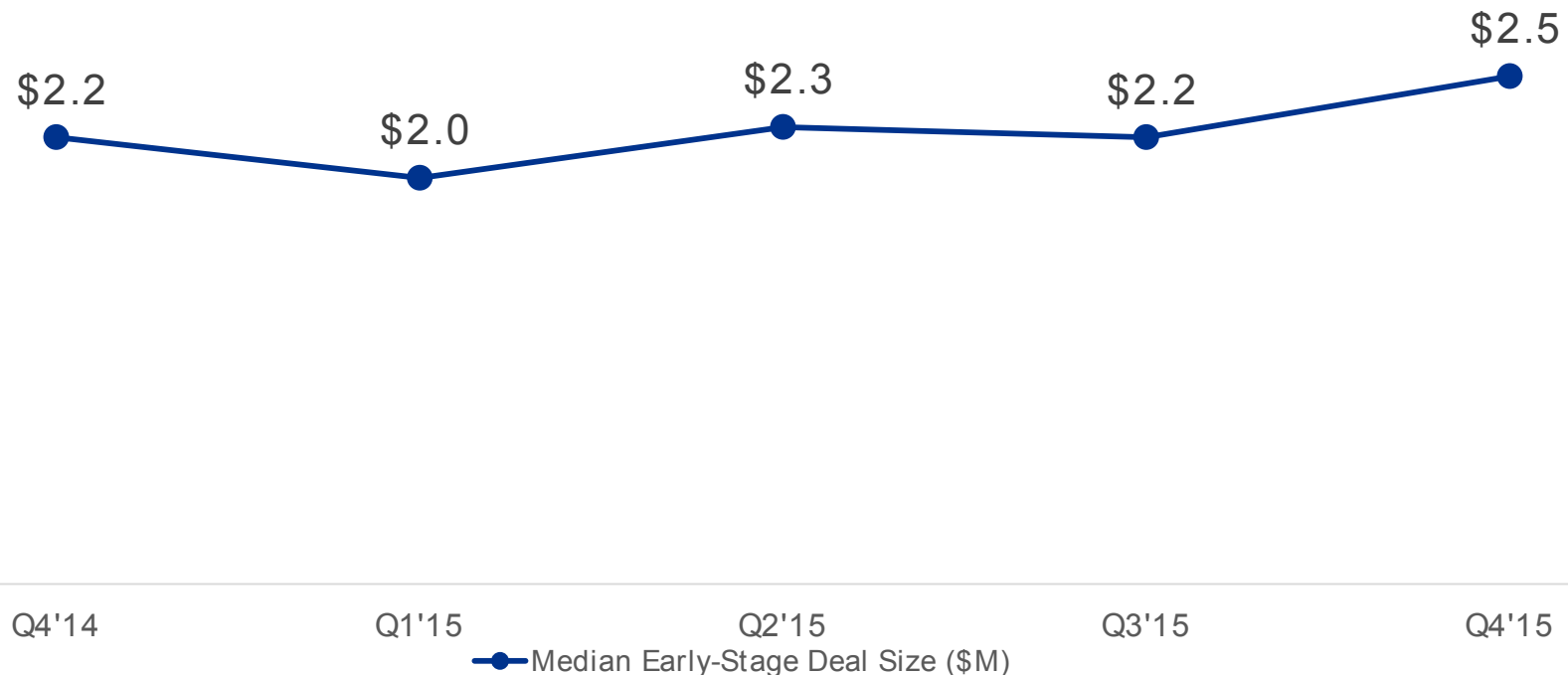


# MEDIAN EARLY-STAGE DEAL SIZE REACHES 5 QUARTER HIGH IN Q4'15

Median early-stage (Seed - Series A) deal size among all VC-backed companies was \$2.5M in Q4'15, up 14% versus the previous quarter. The climate remains competitive for micro-VCs, multi-stage funds and strategic investors looking at early-stage deals.

## Global Early-Stage Deal Size

Q4'14 – Q4'15



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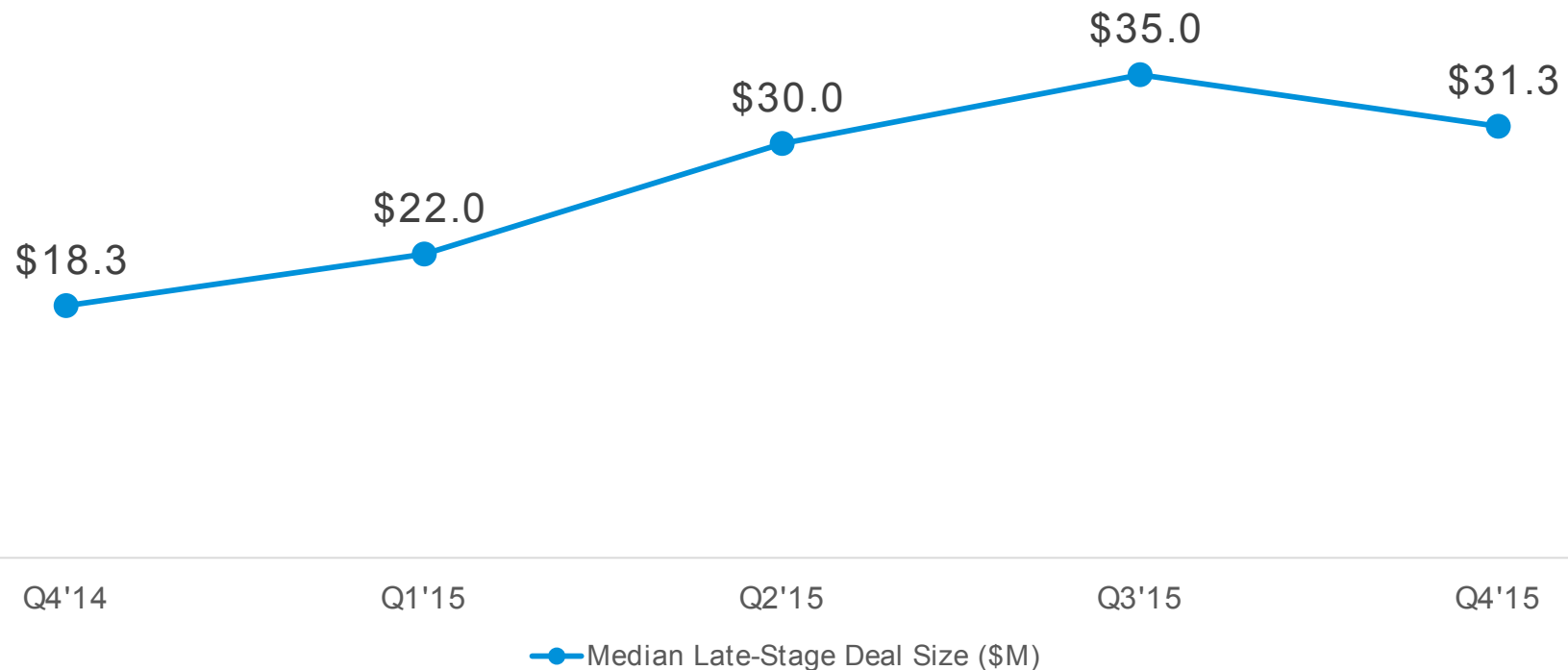


# GLOBAL MEDIAN LATE-STAGE DEAL SIZES FALL OFF PREVIOUS HIGHS

The staggering drop in mega-rounds led to global median late-stage deal sizes falling off Q3'15's highs. However, despite just 38 mega-rounds, the median late-stage deal size stayed at or above \$30M for the third straight quarter.

## Global Late-Stage Deal Size

Q4'14 – Q4'15



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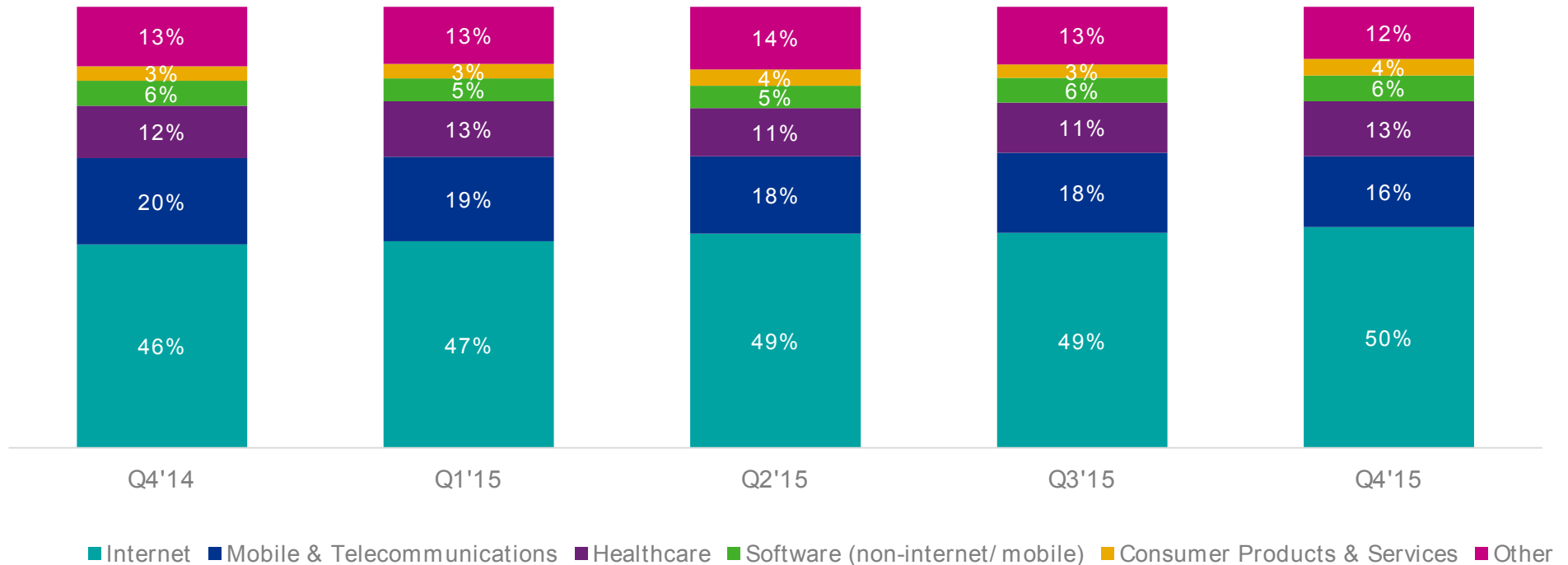




# INTERNET AND MOBILE ACCOUNT FOR TWO-THIRDS OF ALL VC-BACKED DEALS

Internet and mobile continue to represent the bulk of deals to VC-backed companies, as the two major sectors accounted for 66% of all deals in Q4'15. All other sectors remained fairly range-bound with healthcare accounting for 13%, software 6%, and consumer products & services 4%.

## Global Quarterly Deal Share by Sector Q4'14 – Q4'15



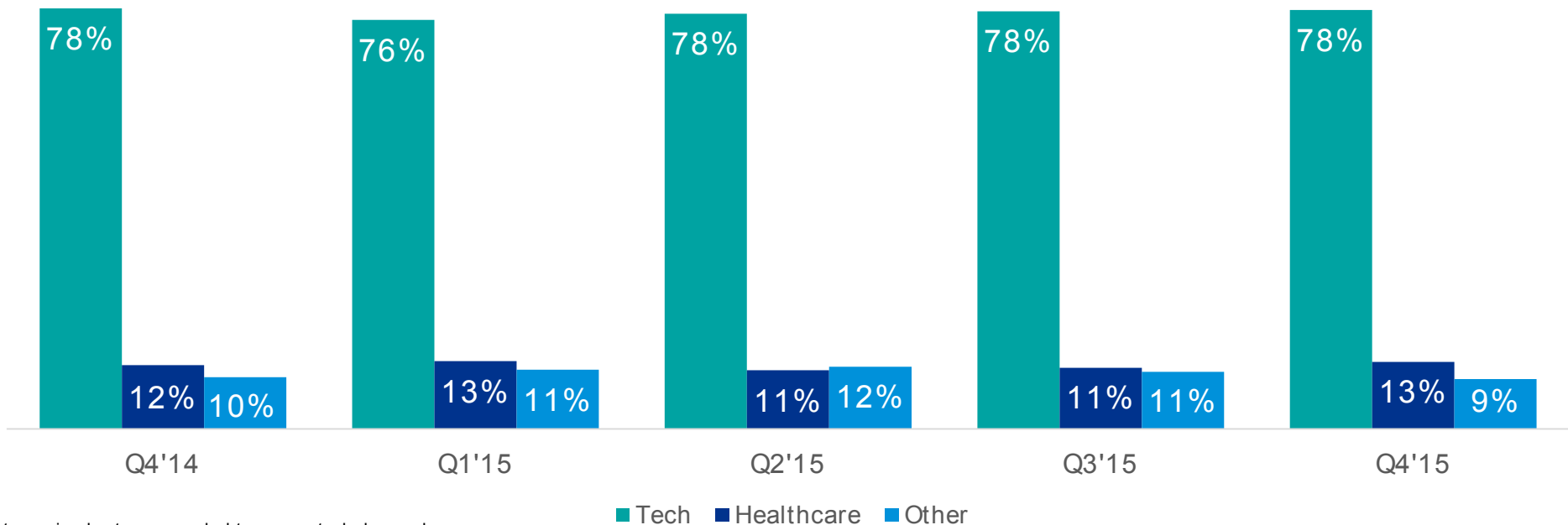
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# TECH MAINTAINS GIANT INVESTMENT DEAL LEAD OVER HEALTHCARE

Tech companies have taken 76%+ of all deal activity to VC-backed firms in each of the past 5 quarters. Healthcare failed to garner more than 13% in any quarter over the same period.

## Quarterly Global Tech vs. Healthcare Deal Share Q4'14 – Q4'15



\*percentages in chart are rounded to nearest whole number

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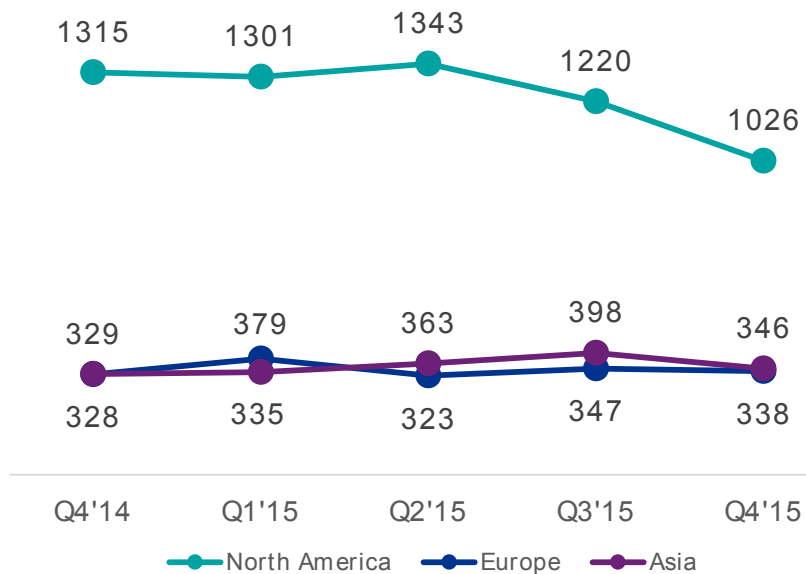


# VC-BACKED COMPANIES IN ASIA AND NORTH AMERICA FEEL FUNDING CHILL IN Q4'15

Both North America and Asia saw significant drop-offs in total funding to VC-backed companies in Q4'15. North America saw just \$14.1B of investment in Q4'15, the lowest quarterly total since Q3'14, while Asia funding fell to \$9.7B. Despite the similarity in deal activity in Asia and Europe, Asia captured over 3x the funding in Q4'15.

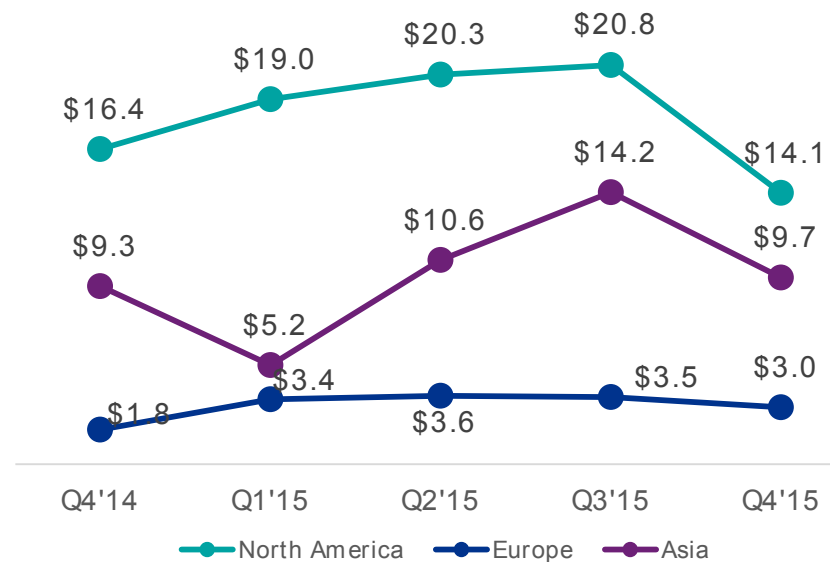
## Deal Count by Continent

Q4'14 – Q4'15



## Investment (\$B) by Continent

Q4'14 – Q4'15



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**“Corporates still want to find companies that can help drive their existing businesses, but the form of investment might not be direct; they might look to pilot test a company’s products instead. On the startup side, there’s a feeling that getting corporates to be their clients rather than their investors might not be a bad thing. When you bring a corporate in as a customer, it can help bring in other customers or investors.”**



**Irene Chu**

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

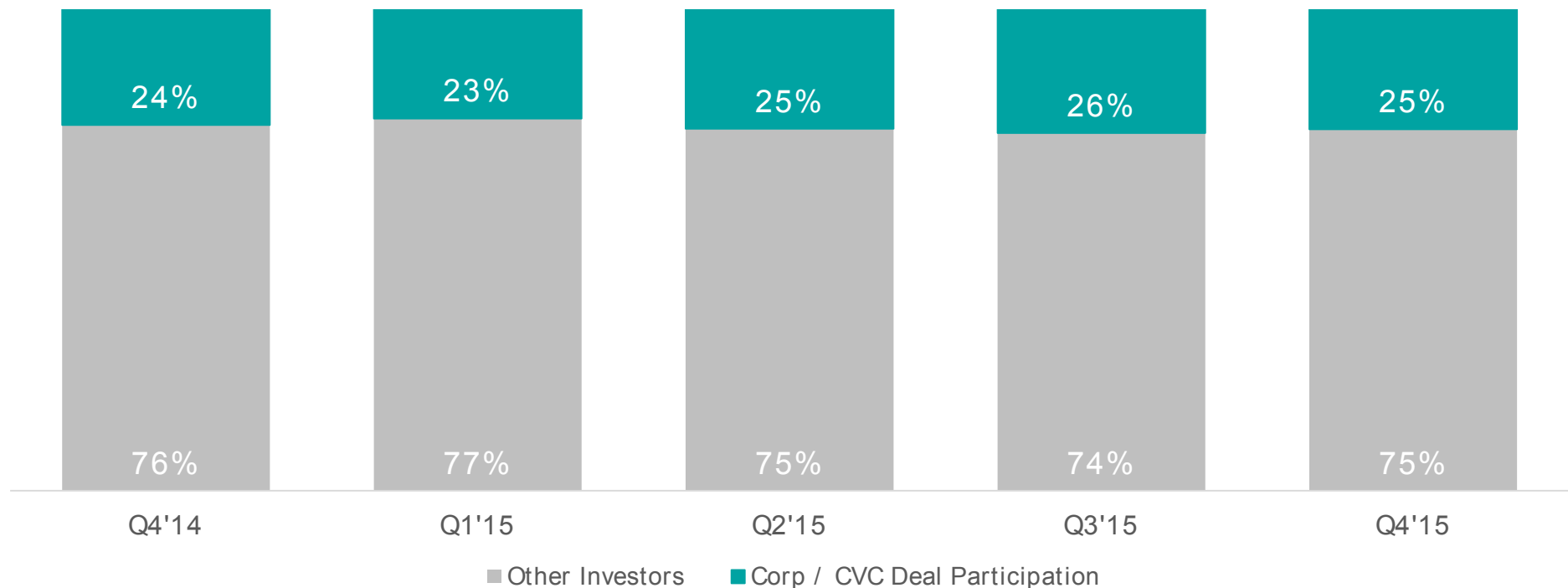


# CORPORATES CONTINUE THEIR INVESTMENT PACE INTO VC-BACKED COMPANIES

Corporations and their venture arms are maintaining their deal share into VC-backed companies, taking 25% of deals in Q4'15.

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

Q4'14 – Q4'15



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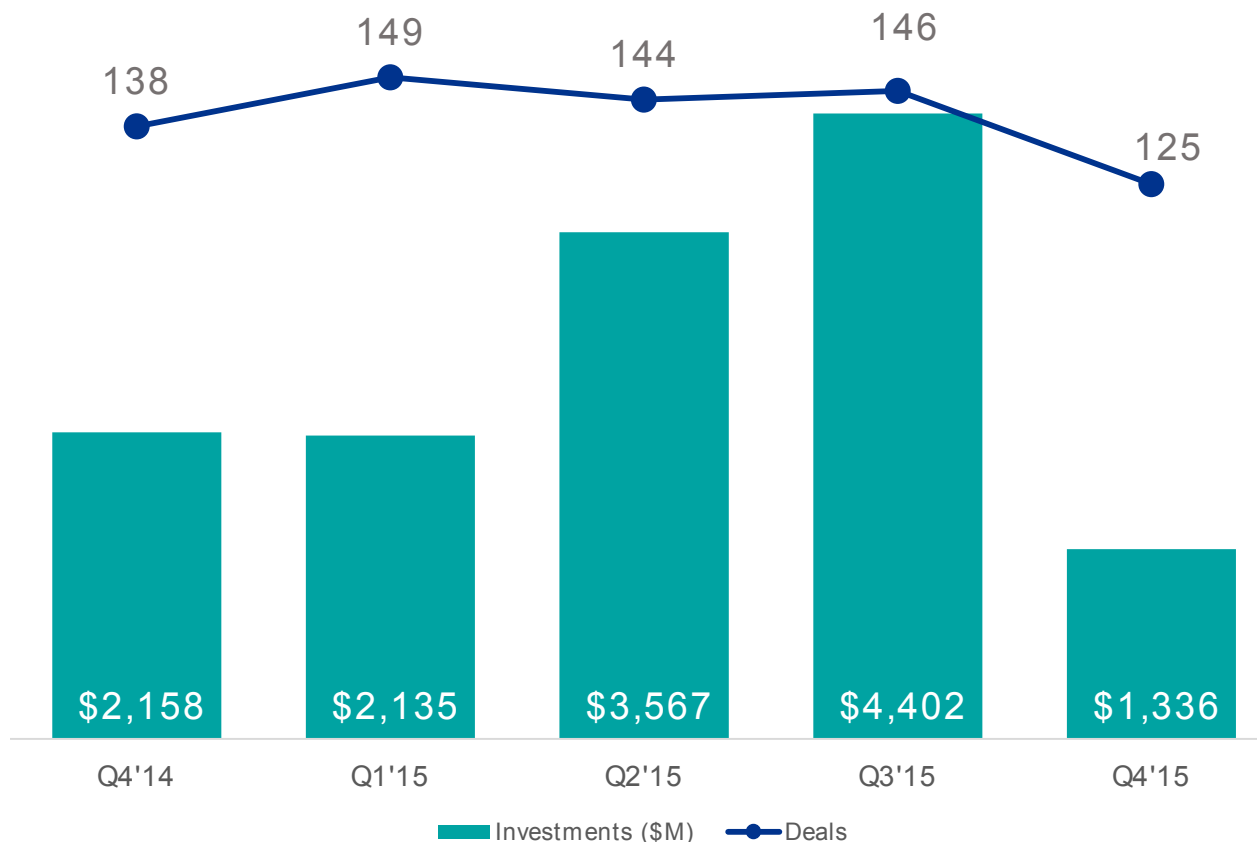


# FIN TECH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q4'15

## Fin Tech Investment Activity

VC-Backed Companies, Q4'14 – Q4'15



## Top Deals

### Rong360

\$158M // Series D

### Social Finance

\$150M // Series E-II

### Symphony Communication

\$100M // Series B

## Top Countries

### United States

64 Deals // \$792.7M

### United Kingdom

11 Deals // \$127.4M

### India

9 Deals // \$54.5M

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**“With an 8 percent reduction each year, Fin Tech was not immune from the overall reduction in VC funding in Q4. It is no surprise that it has been harder to close deals, however we believe this is only a blip along a continued mid-term growth of investment into Fin Tech. Competition should heighten in 2016, as VC funding, global banks and insurers are increasing their investment into certain Fin Tech sub-sectors, such as biometrics and future payments.”**



**Warren Mead**  
*Global Co-Lead Partner, Fintech,  
and Head of Challenger Banks,  
KPMG in the UK*

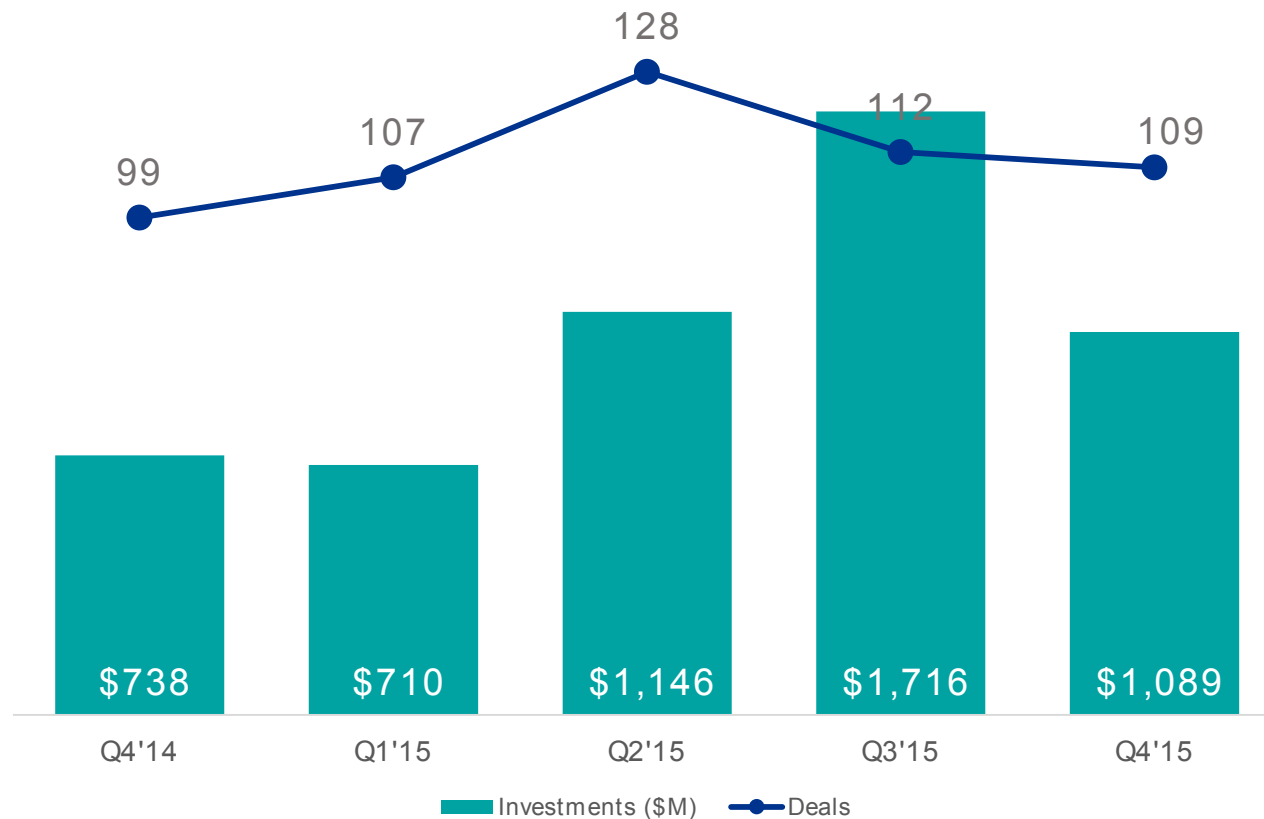
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# DIGITAL HEALTH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q4'15

## Digital Health Investment Activity

VC-Backed Companies, Q4'14 – Q4'15



### Top Deals

#### Collective Health

\$81M // Series C

#### Peloton Interactive

\$75M // Growth Equity

#### One Medical Group

\$65M // Series H

### Top Countries

#### United States

74 Deals // \$918.5M

#### India

8 Deals // \$52.9M

#### Canada

4 Deals // \$3.4M

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#Q4VC





# Giving Ed Tech an A+ in Q4

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While Q4'15 VC investment may have declined across many industries, one sector that saw a significant upward curve over the quarter was education technology. In Q4, buoyed by a number of \$100M+ deals, VC investment in Ed Tech grew over 300 percent compared to Q3 – from \$295 million to over \$1 billion.

Ed Tech has been on the radar of investors for several quarters, if not more. Given the demand of parents, teachers and students for innovative technologies to support learning, most investors have been focused less on whether to invest and more on where to invest. From the technologies supporting MOOCs (Massive Open Online Courses) to interactive learning apps, testing programs and technologies meant to increase the effectiveness of classroom learning, Ed Tech companies are working to transform education.

One needs only to look at the top VC investments in Ed Tech during Q4 to see the diversity. Companies such as:

- **HotChalk** – a California company working with universities to put degree programs online
- **TutorGroup** – a language training company based in Taiwan that provides an online platform for connecting learners with teachers anywhere in the world
- **Udacity** – a Silicon Valley-based company that works with organizations to create skills-driven technology courses intended to advance lifelong learning

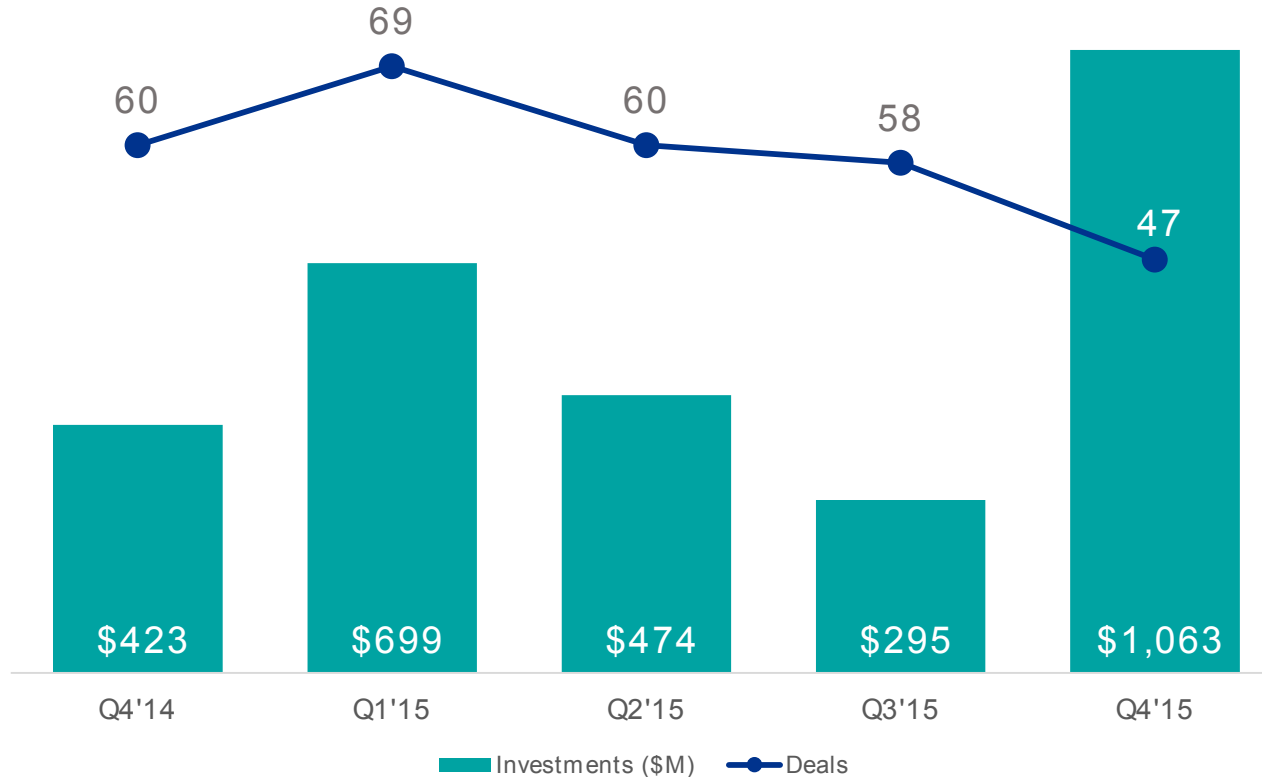
Heading into 2016, we expect Ed Tech will continue to gain attention in the VC market. With many jurisdictions looking to modernize and update their learning infrastructure, and to extend equal learning opportunities to all learners regardless of location – the opportunities presented by investing in innovative technologies could be manifold.

At the same time, we expect that VC investors in the Ed Tech space will become more particular about their investments over the long term. That's because some Ed Tech companies have found it difficult to monetize their offerings. In the US for example, California is in the process of strengthening privacy laws to restrict app-related user information from being sold; other states are likely to follow suit. This could hinder the ability of some Ed Tech app developers to make a profit.

# ED TECH VC-BACKED INVESTMENT ACTIVITY

## Top Deals & Countries, Q4'15

### Ed Tech Investment Activity VC-Backed Companies, Q4'14 – Q4'15



### Top Deals

#### HotChalk

\$230M // Corp. Minority

#### TutorGroup

\$200M // Series C

#### Udacity

\$105M // Series D

### Top Countries

#### United States

30 Deals // \$627.9M

#### China

7 Deals // \$414M

#### Netherlands

3 Deals // \$4.6M

Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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**“With so many jurisdictions out there looking to modernize educational offerings for students, whether in kindergarten or continuing education, the potential for innovative technologies to make a difference is significant. The challenge for investors will be the ability to select companies with an optimal strategy that meets the needs of all stakeholders, including teachers, administrators, and students.”**



**Conor Moore**  
*National Co-Lead Partner,  
KPMG Venture Capital Practice  
KPMG in the US*

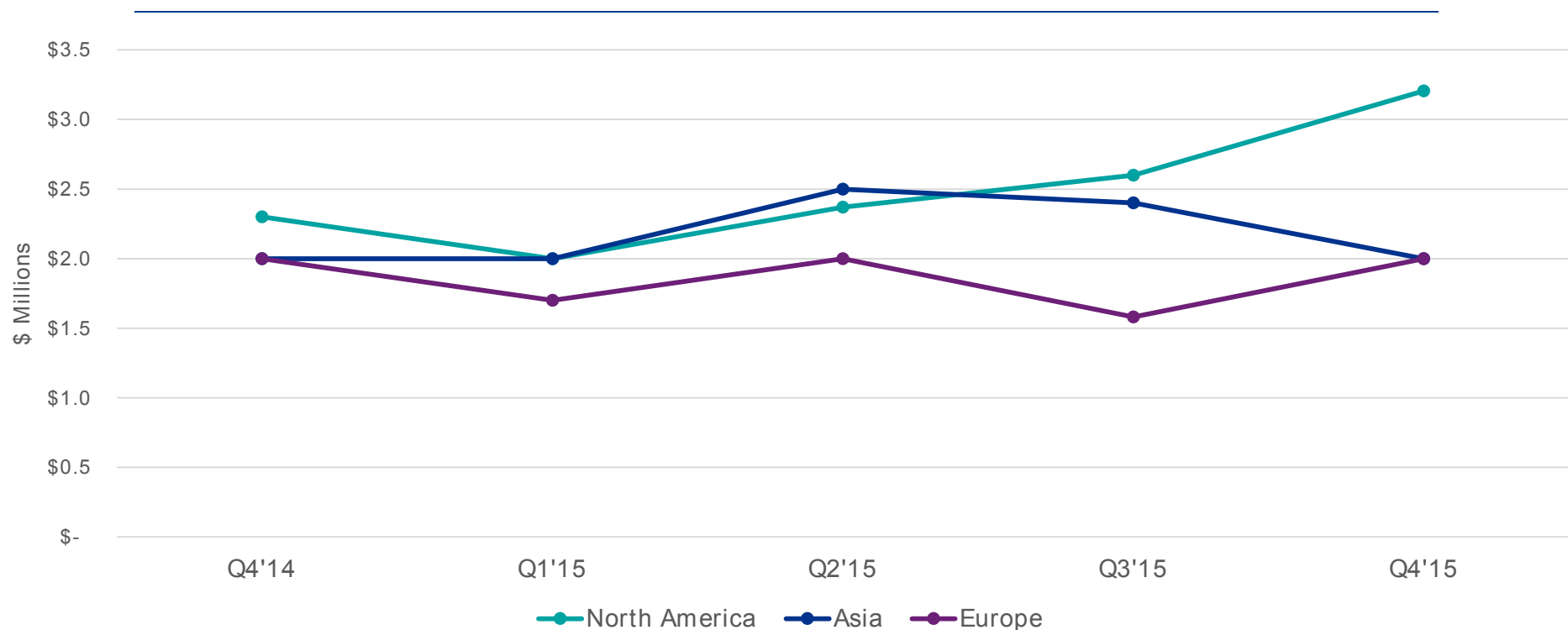
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# EARLY-STAGE DEAL SIZE IN NORTH AMERICA WIDENS GAP VERSUS ASIA AND EUROPE

North American median early-stage deal size continued to increase, reaching \$3.2M in Q4'15, a 5 quarter high. Asia and Europe converged, with early-stage rounds reaching \$2M for each continent respectively.

## Median Early-Stage Deal Size Continent Comparison

Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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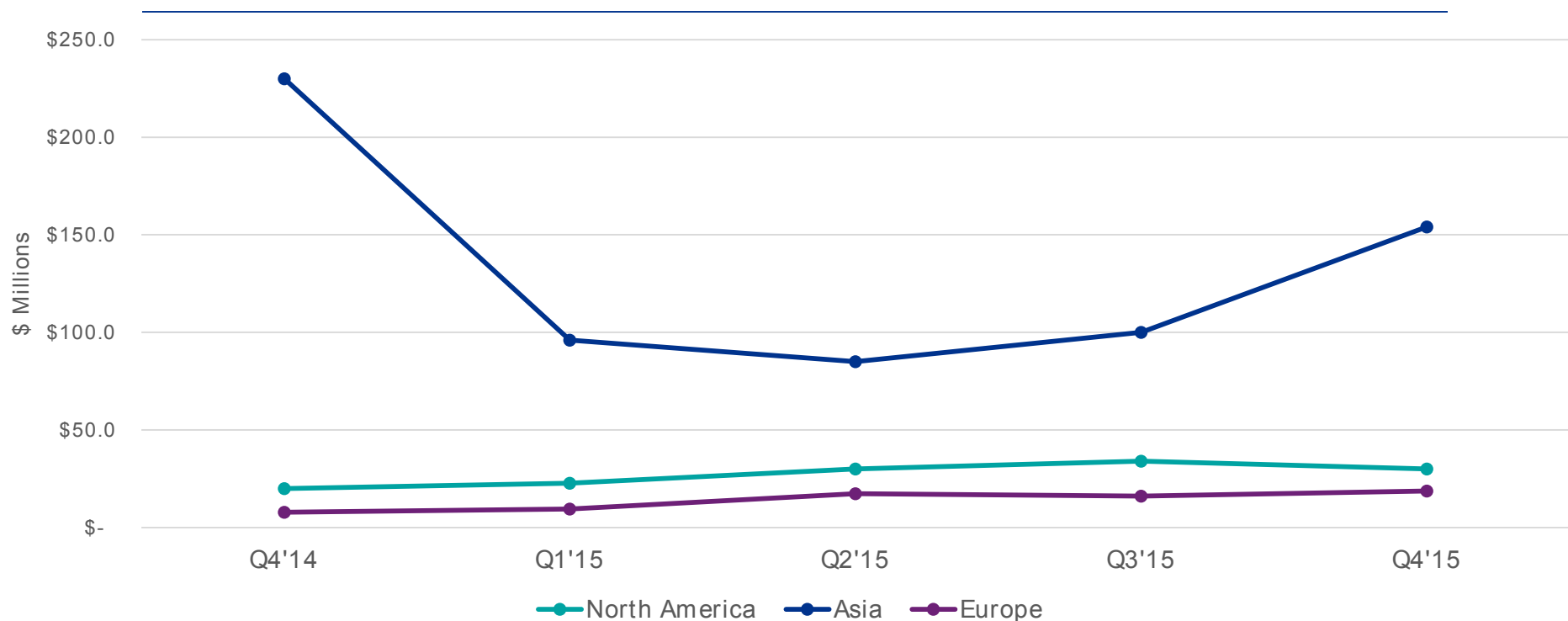


# ASIA HAS THE LARGEST MEDIAN FOR LATE-STAGE DEALS

Median late-stage deals in Asia have been greater than both US and European medians for the last 5 quarters. After Q4'14 saw median late-stage deal size in Asia spike to \$230M behind big rounds including Xiaomi's \$1.1B financing, Asia deals once again increased to \$150M+ in Q4'15 behind \$1B+ financings to China Internet Plus Holdings (the merged entity of Dianping and Meituan) and Ele.me.

## Median Late-Stage Deal Size Continent Comparison

Q4'14 – Q4'15



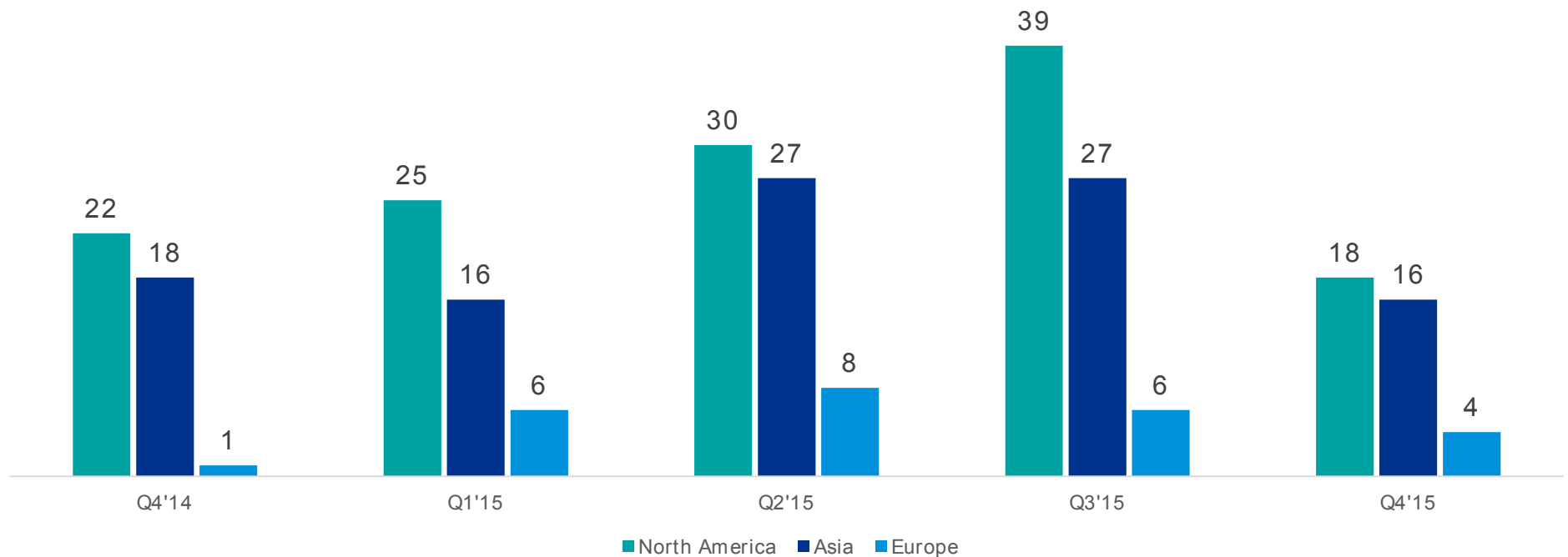
Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

# ARE MEGA-ROUNDS OVER? \$100M+ ROUNDS TO VC-BACKED COMPANIES ALMOST CUT IN HALF IN Q4'15

After Q3'15 saw a combined 72 \$100M+ equity financings to VC-backed companies, the mega-round trend cooled in Q4, with just 38 such deals. Both North America and Asia saw a significant decrease in mega-rounds vs exuberant levels seen in Q3'15. The quarter saw mega-financings dip in number to levels last seen in Q3'14. Overall the mega-rounds in major markets in Q4'15 raised over \$11.4B vs \$20.3B in Q3'15.

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

*North America vs. Asia vs. Europe, Q4'14 – Q4'15*



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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# Entering a new era of business transformation

When it comes to venture capital investment, 2015 was a record-setting year. Over \$128 billion of investment was made worldwide, an increase of over 44 percent compared to 2014. But this substantial increase reflects more than a greater availability of VC funds worldwide; it reflects an understanding among investors that the very foundation of how business is conducted is changing – and it's changing more rapidly than almost anyone could have imagined.

Banking. Healthcare. Retail. Education. Insurance. Travel. Every sector is ripe for transformation, ripe for new business models to supersede the models that have come before. As we entered what the World Economic Forum calls the Fourth Industrial Revolution in 2015, investors focused on mega-deals are looking to take advantage of the rising tide of opportunity. The peak of these investments promoted 72 VC-backed companies to achieve Unicorn status – a \$1 billion valuation - during the course of 2015. By comparison, 53 companies reached Unicorn status in the year previous.

A look at 2015 Unicorns highlights the breadth of innovation already changing the way we work and interact. These companies are:

## *Changing how people shop and access services*

- **Jet.com** – a club-based online retailer offering retail goods using a real-time pricing algorithm
- **Thumbtack** – a company that connects people online with professionals who can provide specific services, whether personal training or house painting
- **Home24** – an online company in Germany focused on providing home furnishings

## *Changing how people communicate*

- **BuzzFeed** – a social news and entertainment company with a focus on shareable content
- **Kik Interactive** – a Canadian company offering an innovative online messaging app for teens

## *Changing how people travel*

- **Blablacar** – a long distance ride-sharing service based in France
- **Uber and Lyft** – companies providing online apps connecting people who need a ride with people who have a car

## *Changing how people obtain healthcare*

- **ZocDoc** – an online scheduling company focused on scheduling doctors' appointments
- **Guahao** – a health-tech company providing an online platform for healthcare information and treatment

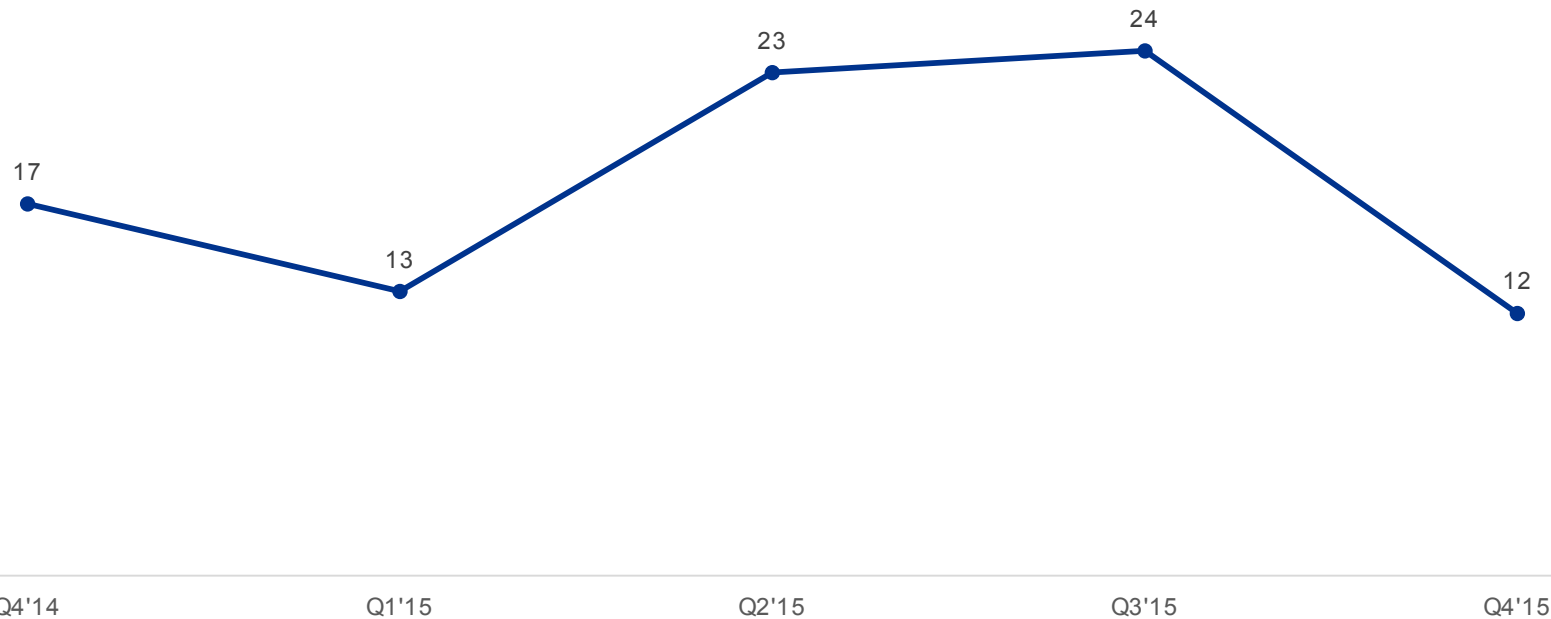
While Q4 reined in the optimism of VC investors and forced many to become more cautious with their funding, the reality is that system-wide innovations are becoming the norm. In today's era of change, innovative companies will likely continue to supplant traditional business models. But investment in these companies may become more discriminating heading into 2016. VC investors could be less willing to invest in innovative companies without a far stronger business case for how their new business models should create profit over the longer term.

# WOUNDED UNICORNS PUSH # OF NEW UNICORNS TO 12 IN Q4'15

Mutual fund valuation write-downs, decreased mega-round activity, a public-private valuation disconnect and some public Unicorn company performance issues resulted in the number of new Unicorns dropping significantly in Q4'15. This level of new Unicorn births was last seen in Q2'14.

## VC-Backed Companies Entering The Unicorn Club

Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

**“In 2016, companies seeking VC investment will need more than an innovative product or service. They’ll need a plan to monetize their offerings. That’s because if they don’t know how they’re going to make money, they’ll be hard-pressed to gain attention as the VC environment tightens around the world.”**



**Arik Speier**

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

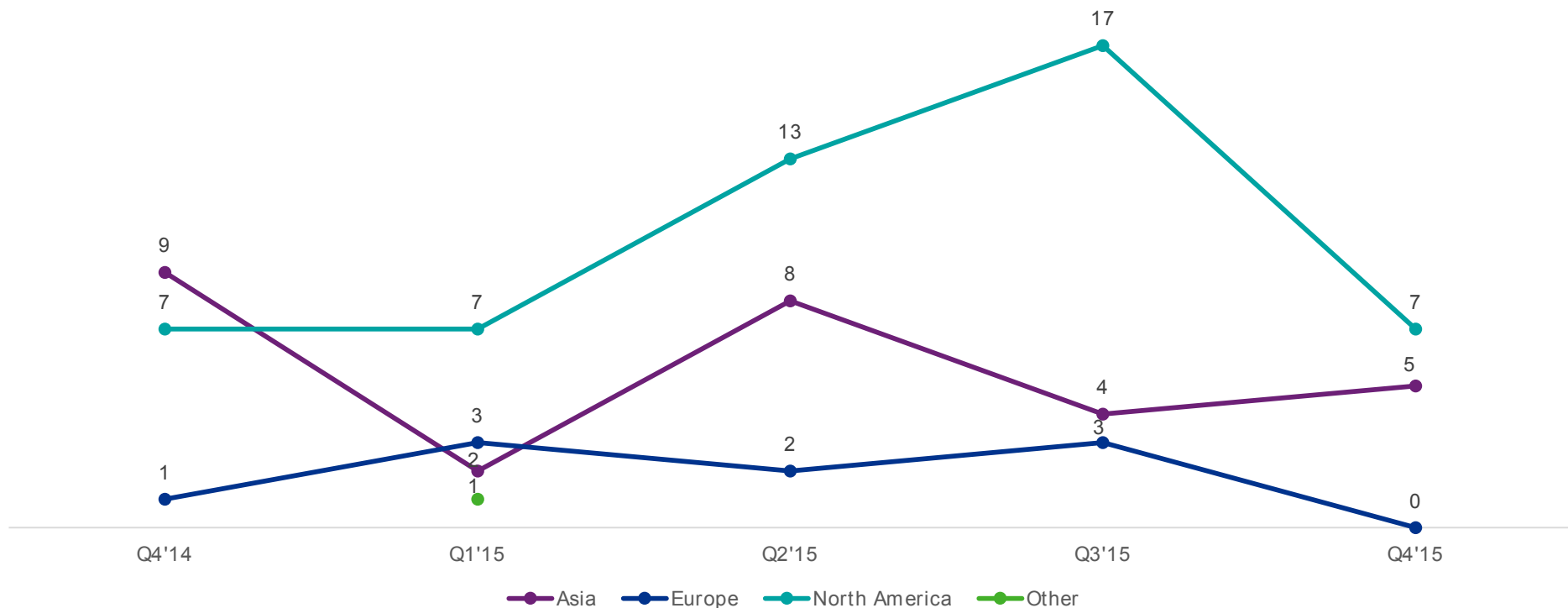
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# EUROPE SEES NO NEW UNICORNS IN Q4'15

The overall slow in deals and mega-rounds, in addition to valuation “bubble” concerns, led to fewer Unicorns across all major continents. Europe, specifically, saw no new Unicorns in Q4'15, while North America saw just seven, while Asia saw a slight increase with five, despite a continued economic slowdown in China.

## VC-Backed New Unicorn Companies by Continent

*North America vs. Europe vs. Asia vs. Other, Q4'14 – Q4'15*



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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# NOTABLE 'REST OF WORLD' Q4'15 FINANCINGS

Company	Round	Country	Select Investors
<b>Empreendimentos Pague Menos</b>	\$150.6M (Growth Equity)	Brazil	General Atlantic
<b>Signostics</b>	\$35M (Private Equity)	Australia	Kohlberg Kravis Roberts & Co., Brandon Capital Partners, Playford Capital, Terra Rossa Capital
<b>Off-Grid Electric</b>	\$25M (Series C)	Tanzania	Omidyar Network, Vulcan Capital, DBL Investors, Serious Change Fund, SolarCity
<b>Canva</b>	\$15M (Series A-II)	Australia	Blackbird Ventures, 500 Startups, Matrix Partners, Founders Fund, Shasta Ventures
<b>Invoice2go.com</b>	\$15M (Series C)	Australia	Accel Partners, Ribbit Capital
<b>Trocafone</b>	\$12M (Seed VC)	Brazil	500 Startups, Lumia Capital, Quasar, Wayra
<b>Geofusion</b>	\$9.22M (Seed VC-II)	Brazil	DGF Investimentos, Intel Capital, SP Ventures
<b>Dinda</b>	\$4.91M (Series A)	Brazil	Monashees Capital
<b>Cardiora</b>	\$3.5M (Seed VC)	Australia	Brandon Capital Partners
<b>Pin Payments</b>	\$3.1M (Series A)	Australia	Vix Investments

# SELECT VC-BACKED EXITS IN NORTH AMERICA

Company	Exit Type	Valuation	Select Investors
<b>Square</b>	IPO	\$4.7B	SV Angel, Khosla Ventures, Sequoia Capital, Visa, Kleiner Perkins Caufield & Byers
<b>Pure Storage</b>	IPO	\$3.1B	Sutter Hill Ventures, Greylock Partners, Redpoint Ventures, Samsung Ventures
<b>Cardioxyl Pharmaceuticals</b>	Acquisition (Bristol-Myers Squibb)	\$2.08B	Aurora Funds, New Enterprise Associates, OrbiMed Advisors, Osage Partners
<b>Solidfire</b>	Acquisition (NetApp)	\$870M	Novak Biddle Venture Partners, Valhalla Partners, New Enterprise Associates, Samsung Ventures
<b>SteelBrick</b>	Acquisition (Salesforce)	\$600M	Emergence Capital Partners, Salesforce Ventures, Shasta Ventures, Institutional VP



*"We always knew this was going to be a marathon, not a sprint...The measurement we're going to look at is going to be measured in years and decades."*

**Dave Hatfield,**  
*President, Pure Storage*

Quote source: [Business Insider](#)  
Image source: [Pure Storage](#)



# SELECT VC-BACKED EXITS INTERNATIONALLY

Company	Exit Type	Valuation	Select Investors
<b>Acerta Pharma</b>	Corp Majority (AstraZeneca)	\$7.27B	BioGeneration Ventures, Brabant Development Agency
<b>Avito</b>	Corp Majority (Naspers)	\$2.35B	Kinnevik, Northzone Ventures, Accel Partners, Baring Vostok Capital Partners
<b>Novocure</b>	IPO	\$1.81B	Index Ventures, Pfizer Venture Investments, Johnson & Johnson Innovation
<b>Yongche</b>	Corp Majority (Letv.com)	\$1B	Morningside Group, Qualcomm Ventures, China Broadband Capital, DCM Ventures
<b>ShowroomPrive.com</b>	IPO	\$958M	Accel Partners



*“By taking an equity stake in Acerta, we are completing the four main pillars of our oncology strategy: breast, ovarian, lung and hematology.”*

**Pascal Soriot**  
CEO, AstraZeneca

Quote source: [Bloomberg](#)

Image source: [PoandPo](#)

*In Q4 2015*

# NORTH AMERICAN

*VC-backed companies raised*

**\$14.1 billion**

# North America VC investment experiences sharp decline

During Q4'15, overall Venture Capital investment in North America declined significantly, following three quarters of consecutive growth, from \$20.8 billion in Q3 to \$14.1 billion in Q4. Over the same period, the number of deals fell from 1220 to 1026, marking the second consecutive quarter of decline with respect to deal volume. The decline in VC activity reflects changes and increasing investor concerns on a number of fronts. Several of these are highlighted below

## *Decreasing mega-rounds*

A significant decrease in the number and value of mega-rounds in the region had a significant impact on Q4 results. Overall, the number of mega-rounds (\$100 million+) decreased from 39 in Q3 to just 18 in Q4, by far the lowest total over the past year. During Q3'15, several rounds went over \$1 billion (i.e., Uber and Social Finance), while Q4's largest rounds included Jet.com (\$500 million), Sunnova Energy Corp (\$300 million), and Tenable Network Security (\$250 million). While the reduction in mega-rounds and overall deal activity echoes the experience of Asia, there are rumours that Uber may be close to closing another \$1 billion+ round of funding. If true, this could have a positive impact on VC investment leading into the first quarter of 2016.

## *IPOs falling short of private valuations*

A major concern during Q4'15 is the fact that a number of IPOs fell short of recent private valuations. These experiences have spooked a number of investors, prompting many to re-evaluate their investment portfolios. Some mutual fund investors have even moved to write down a number of their major VC investments in order to reflect fair market value.

This shift toward more realistic valuations during Q4 has showcased problems associated with potentially inflated valuations. As a result, investors that may have jumped on bigger deals earlier in 2015 are becoming more cautious. This caution is expected to continue into 2016.

## *Implications of potential interest rate increases*

In the US, speculation over additional interest rate increases appears to be influencing the investment decisions of some investors. This expectation could be prompting some North American VC investors to re-evaluate options that could provide reasonable rates of return at lower risk should rates rise as expected.

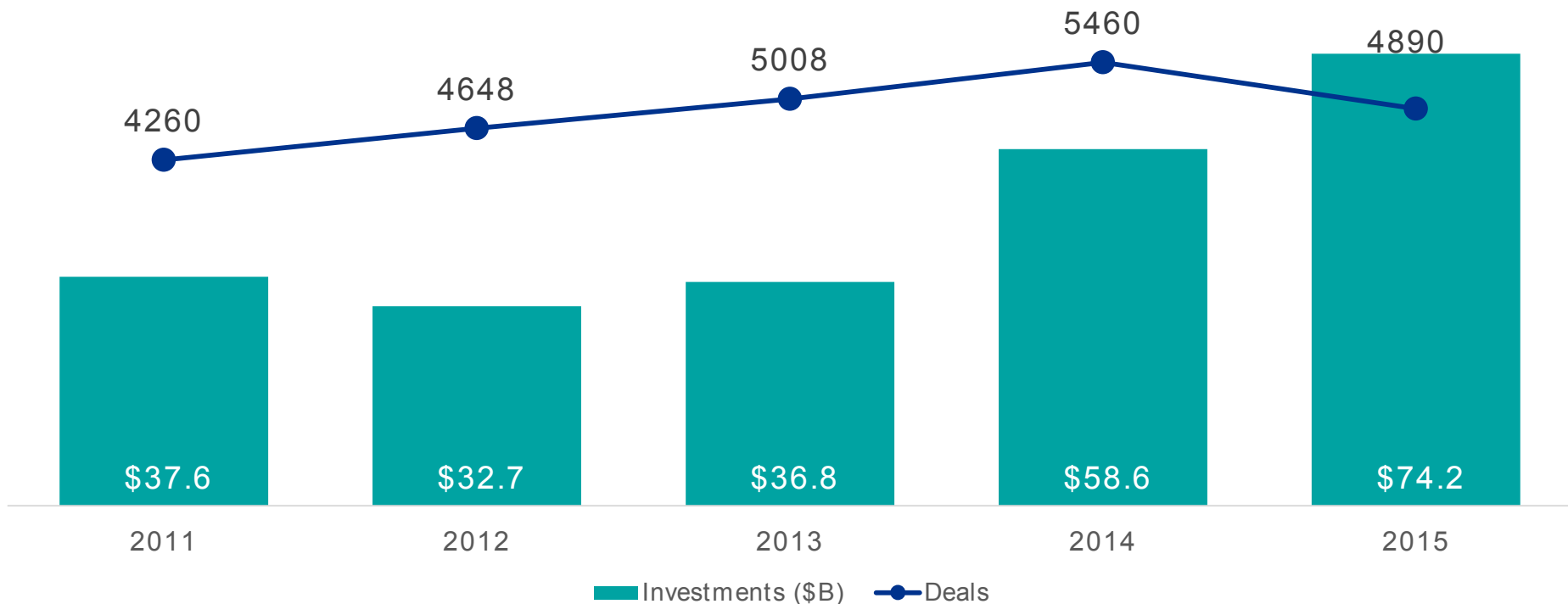
## *Outlook for 2016*

2015 was a quiet year for IPOs. In Q4'15, IPOs remained weak, with tech companies going public at the slowest rate since 2009. However, with a number of IPOs failing to live up to their private sector valuations, investors may start to question the model of keeping companies private over the longer term. In 2016, IPO and M&A activities may rebound as the large inventory of companies that can and should go public start to make their moves.

# NORTH AMERICA: \$74.2B ACROSS 4890 DEALS IN 2015

In North America, 2015 reached a 5 year funding high, reaching \$74.2B across 4890 deals. Funding was up 26% while deals fell 10% versus the previous year. Overall deal activity reached its lowest point since 2012.

## North American Annual Financing Trends to VC-Backed Companies 2011 – 2015



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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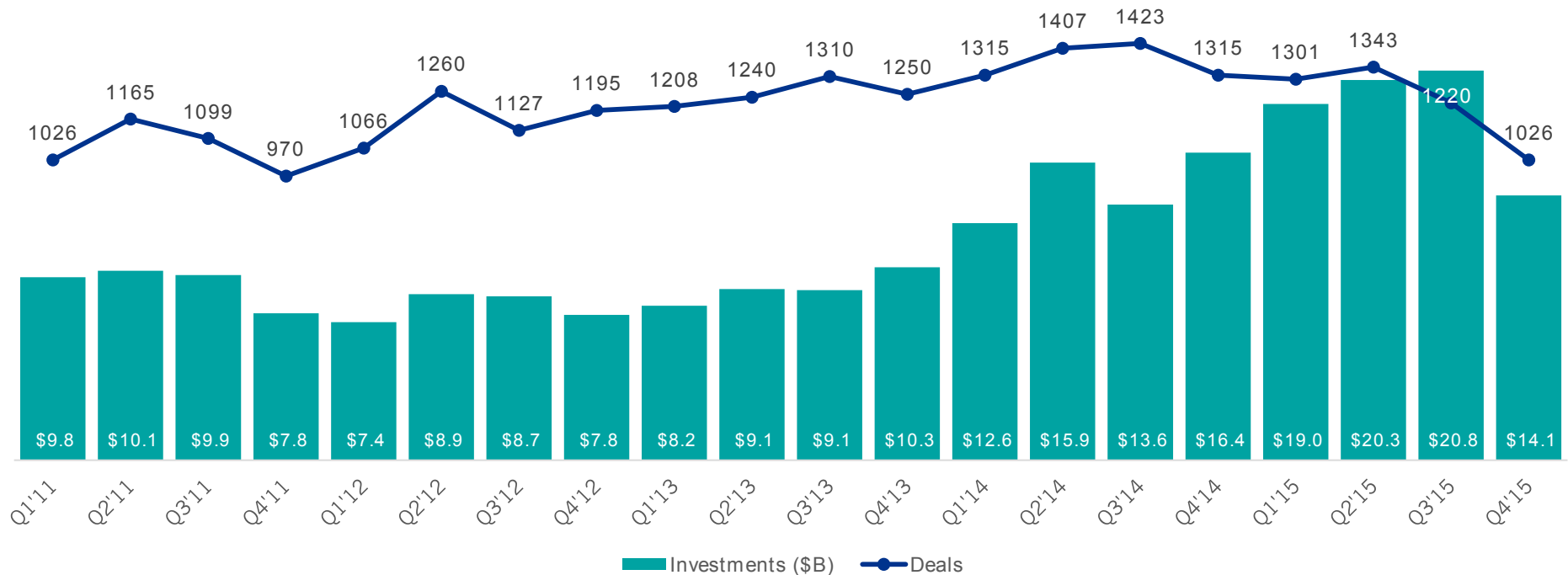
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# OVERALL INVESTMENT TO VC-BACKED NORTH AMERICAN STARTUPS FALLS DRASTICALLY

Deal activity to VC-backed North American companies in Q4'15 fell for the second consecutive quarter to just 1026 deals, the lowest level since Q4'11. While funding had increased for 3 straight quarters in 2015, Q4'15 saw a steep drop-off, falling 32% versus Q3'15 to \$14.1B, the lowest quarterly total since Q3'14.

## North American Quarterly Financing Trends to VC-Backed Companies Q1'11 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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**“There’s a mentality of hunker down and hold onto the cash. There is an immediate expectation that, as interest rates go up, investors can find greater return on capital just by investing it in much lower risk portfolios.”**



**Francois Chadwick**  
*National Tax Leader,  
KPMG Venture Capital Practice  
KPMG in the US*

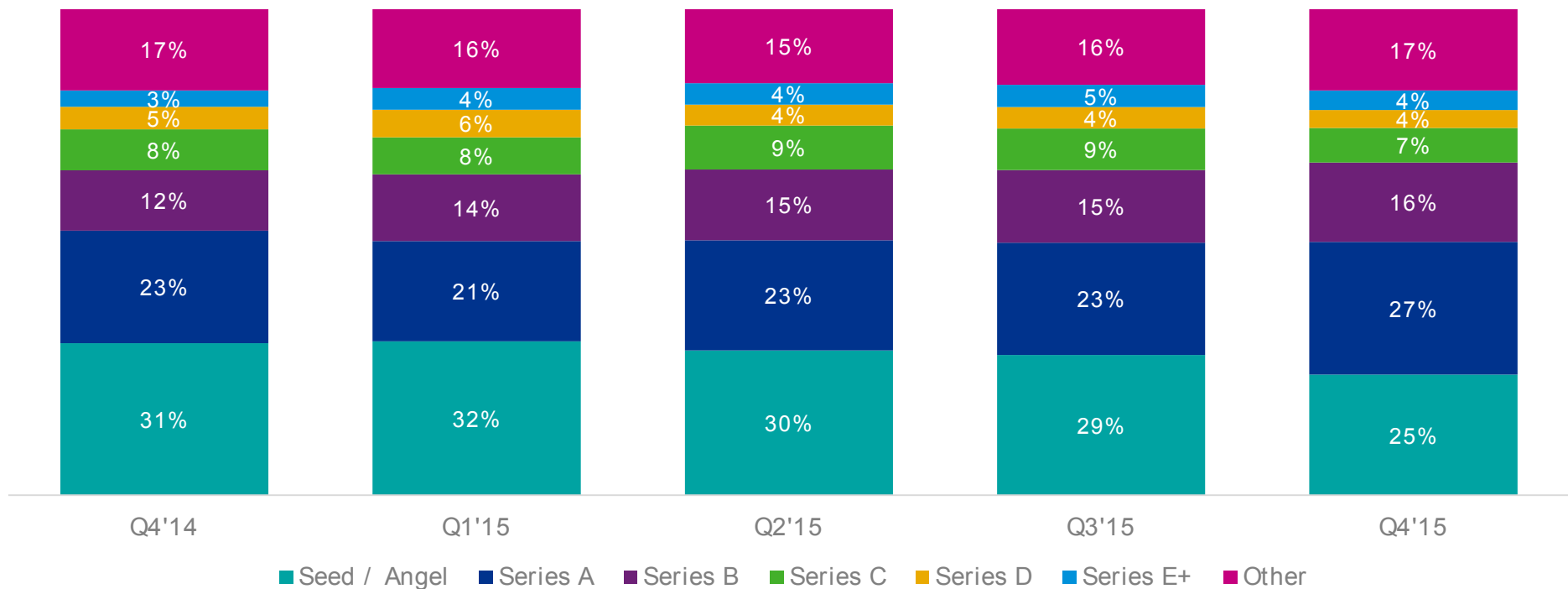
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# SERIES A DEAL SHARE RISES TO 5 QUARTER HIGH AS SEED DECREASES

Early-stage deals into VC-backed North American companies had a mixed trend in Q4'15. While seed-deal share fell to 25%, a 5 quarter low, Series A activity surpassed seed to take 27% of all deals.

## North American Quarterly Deal Share by Stage Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

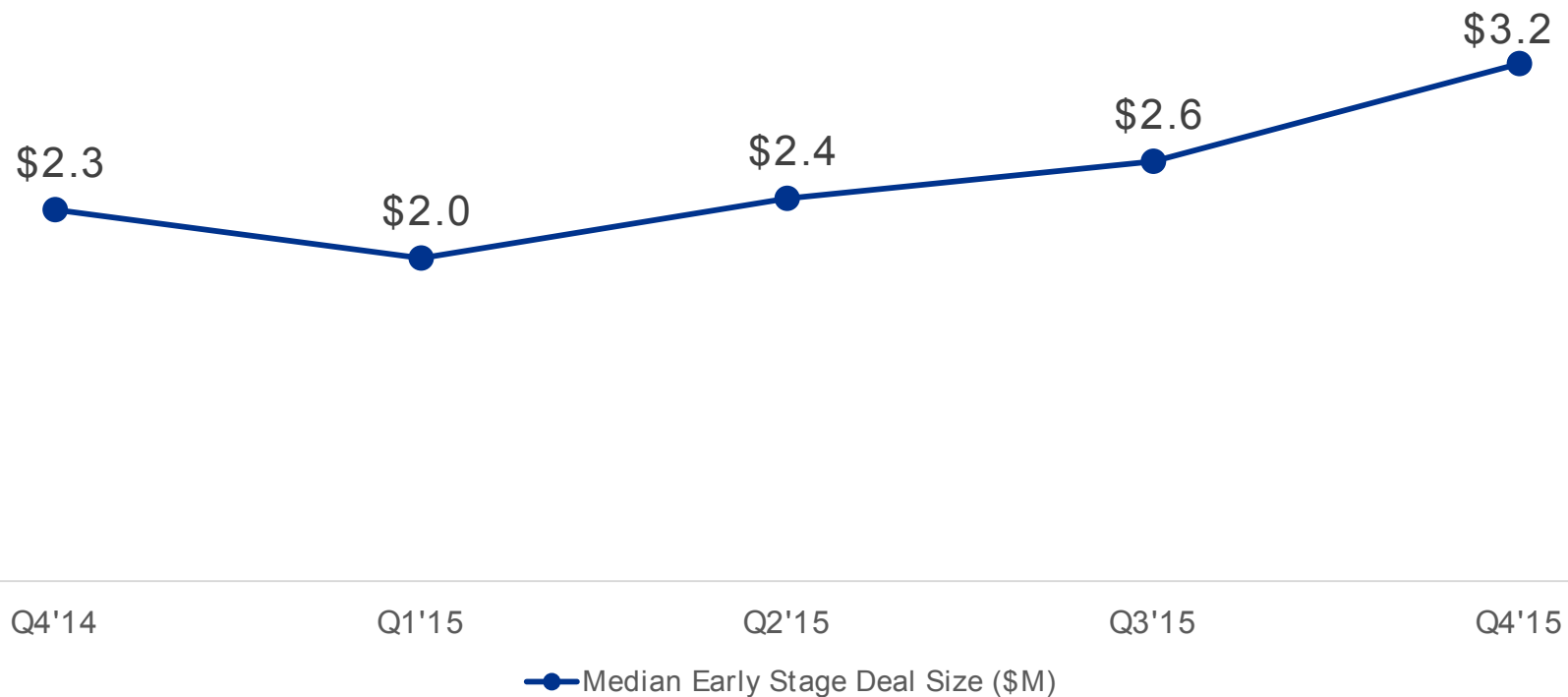
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# EARLY-STAGE DEAL SIZES INCREASE FOR THIRD STRAIGHT QUARTER IN NORTH AMERICA

Median early-stage deals were \$3.2M in Q4'15, a 5 quarter high and 39% higher than the same quarter a year prior.

## North American Early-Stage Deal Size

Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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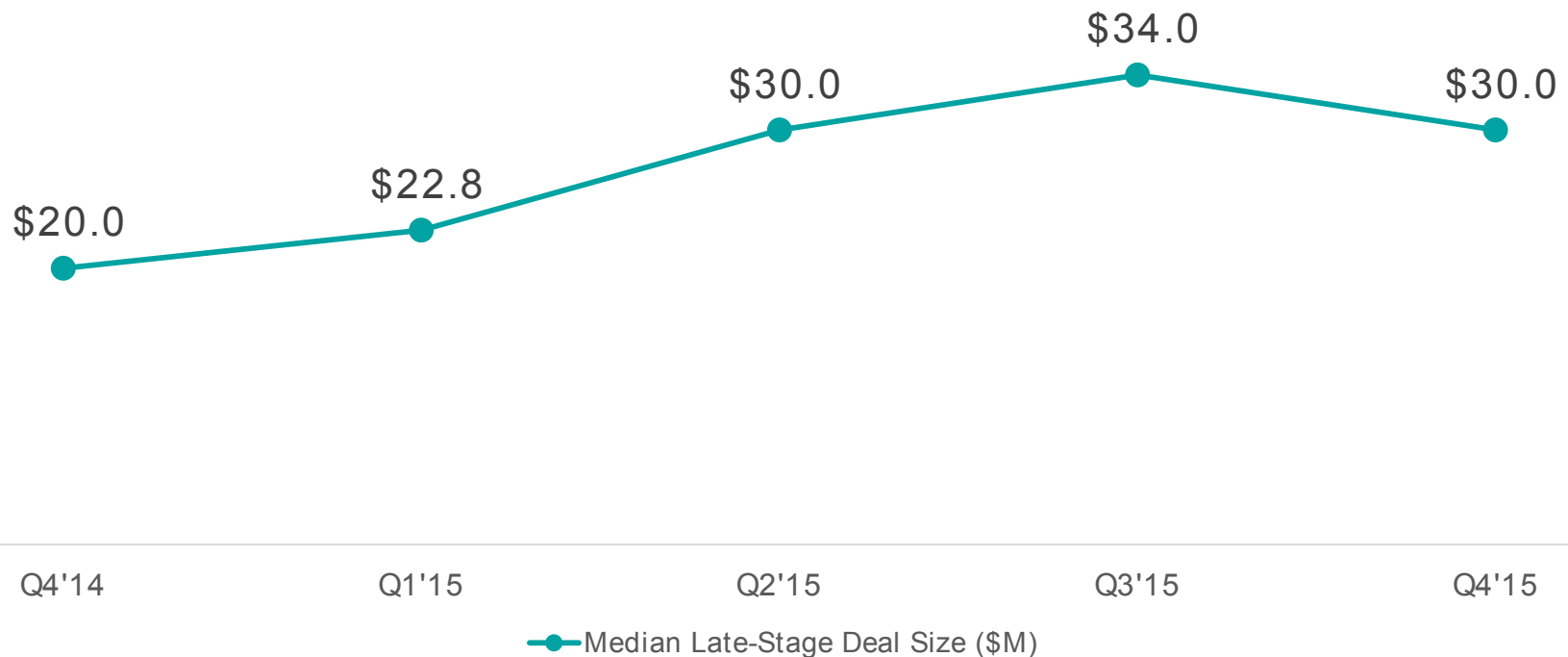


# EARLY-STAGE DEAL SIZES INCREASE FOR THIRD STRAIGHT QUARTER IN NORTH AMERICA

Despite the steep fall in mega-rounds, median late-stage deal size reached \$30M for the third straight quarter, topping the same quarter last year by 50%.

## North American Late-Stage Deal Size

Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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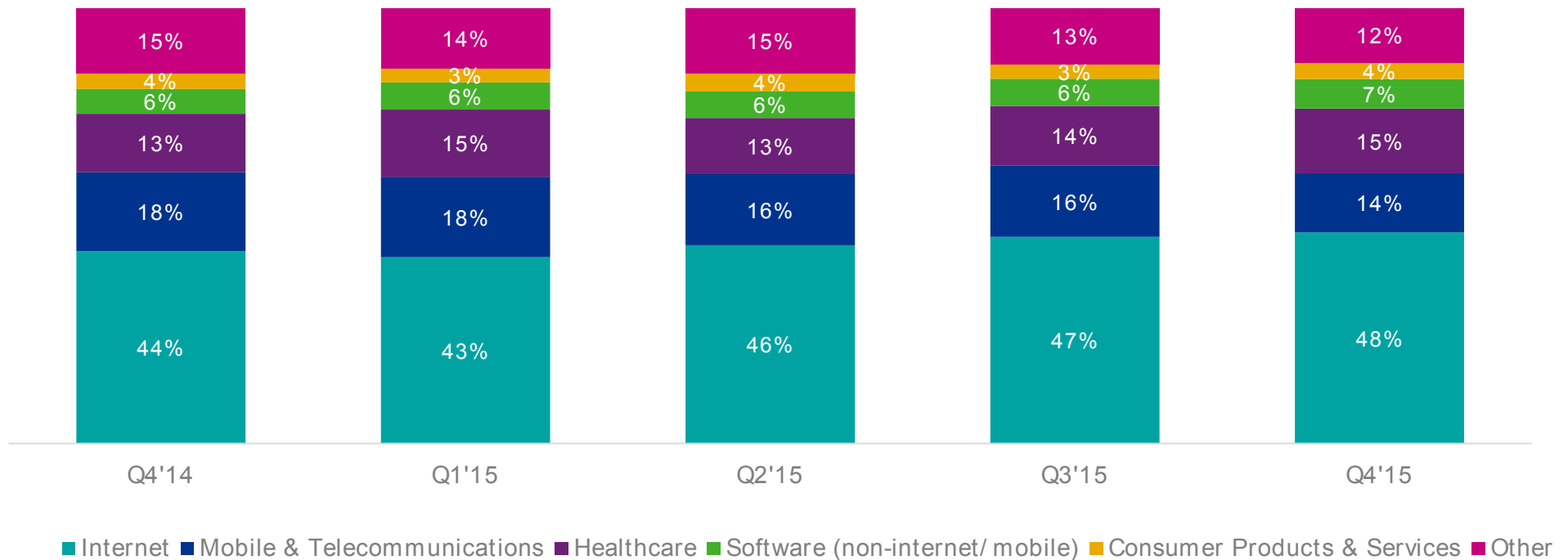


# VC-BACKED INTERNET COMPANIES CONTINUE TO GARNER THE BULK OF THE DEALS

Internet companies have consistently taken over 40% of all deals into VC-backed North American companies. All sectors remained relatively range-bound during the last 5 quarters.

## North American Quarterly Deal Share by Sector

Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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# THE 10 LARGEST ROUNDS OF Q4'15 TOTALED OVER \$2.7B, NEARLY 20% OF FUNDING IN NORTH AMERICA

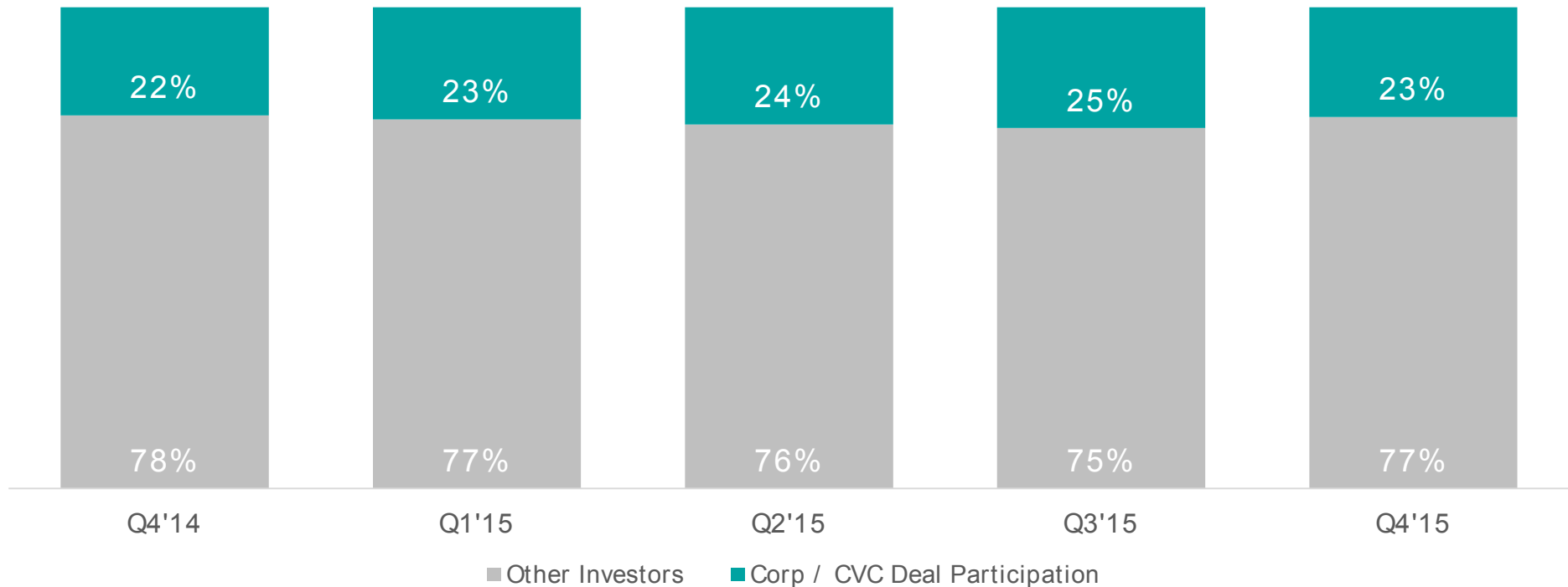


# CORPORATE DEAL SHARE OF VC-BACKED NORTH AMERICAN COMPANIES FALLS OFF Q3'15 HIGHS

After a 5 quarter high of 25% in Q3'15, corporate investor participation fell slightly in Q4'15 to 23%. This is the fifth straight quarter CVC participation has topped 20% as more new corporate venture units continue to pop up.

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

Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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# NEA WAS THE MOST ACTIVE VC INVESTOR IN NORTH AMERICA IN Q4'15

New Enterprise Associates (NEA) was the most active investor in North America in Q4'15, topping the most active investors for the third straight quarter. General Catalyst Partners ranked second, while Andreessen Horowitz rounded out the top three.

## Most Active VC Investors in North America Q4'15

Rank	Investor	Rank	Investor
1	New Enterprise Associates	9	Accel Partners
2	General Catalyst Partners	10	True Ventures
3	Andreessen Horowitz	10	Sequoia Capital
4	Kleiner Perkins Caufield & Byers	10	Correlation Ventures
4	Greycroft Partners	10	ff Venture Capital
6	Khosla Ventures	10	Founder Collective
6	Formation 8	10	Foundry Group
8	Google Ventures	10	Salesforce Ventures

Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

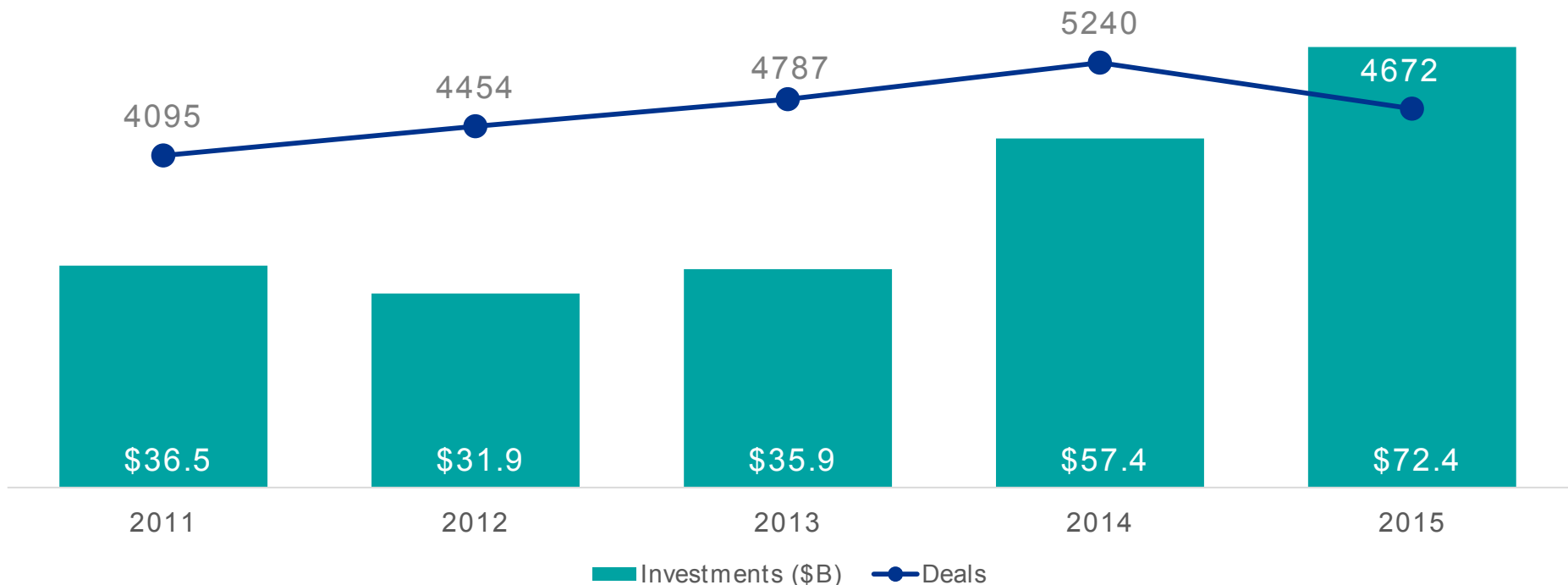
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# US FUNDING TOPS \$70B IN 2015 DESPITE LOWER DEAL TOTAL

After a high of \$57.4B in 2014, US-based VC-backed companies raised \$72.4B in equity financing in 2015. While more dollars were deployed in the US, deal activity fell to 4672, an 11% decrease vs. 2014 and the lowest total since 2012.

## USA Annual Financing Trends to VC-Backed Companies 2011 – 2015



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

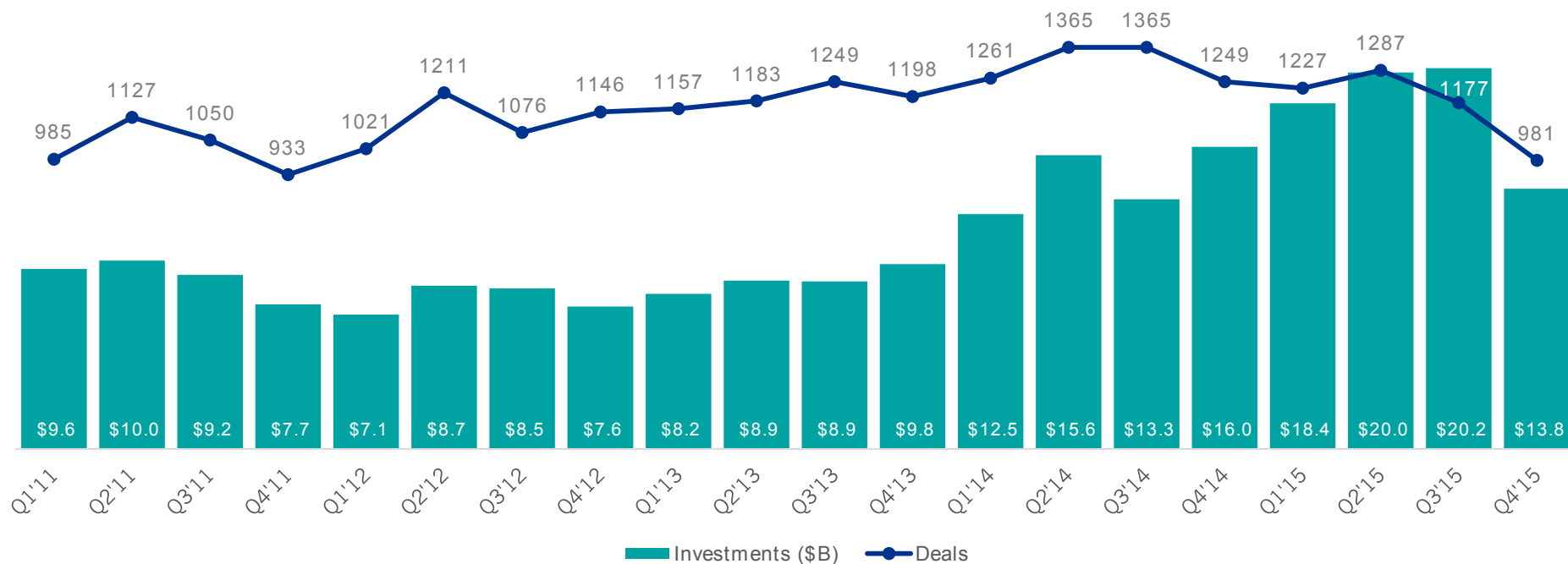
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# US DEAL ACTIVITY HAS WORST QUARTER SINCE Q4'11

US startups saw a \$6B+ decrease in funding with Q4'15 seeing just one deal of \$500M+, to Jet.com. While funding was low, deal activity was even lower, falling for the second straight quarter to 981 deals, its lowest total since Q4'11, and down 22% versus the same quarter a year prior.

## USA Quarterly Financing Trends to VC-Backed Companies

Q1'11 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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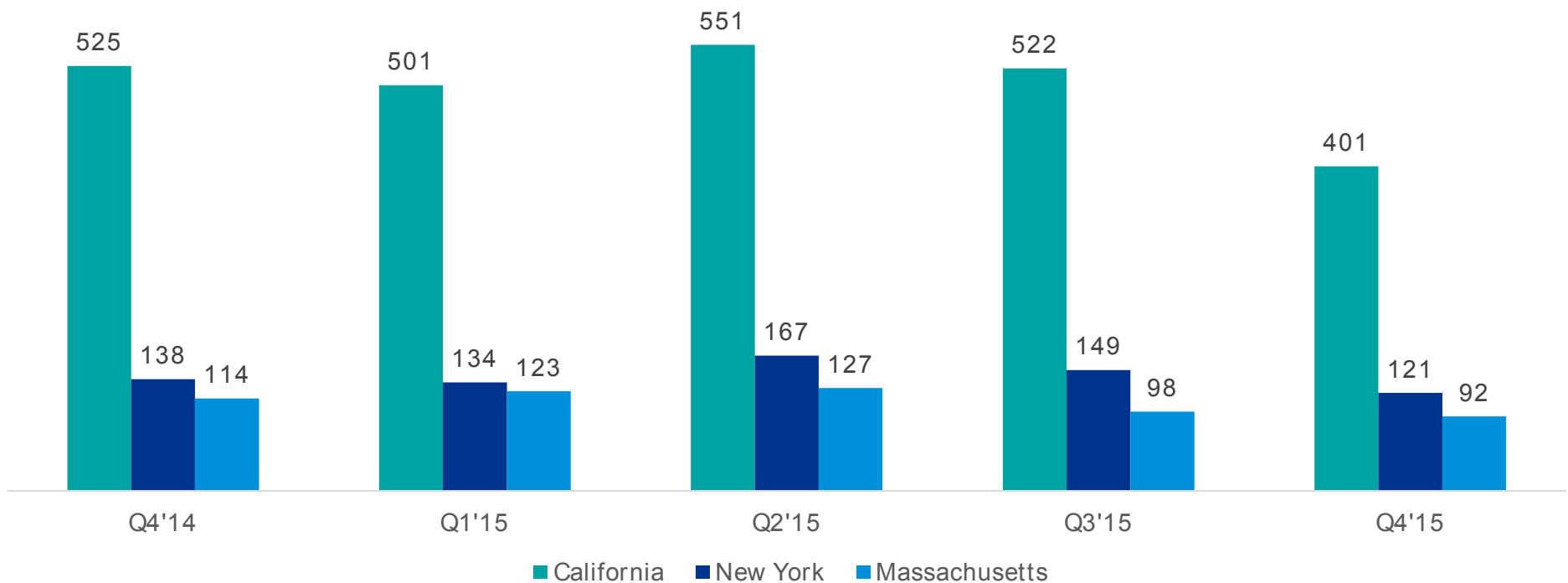


# CALIFORNIA CONTINUES TO DOMINATE DEALS INTO VC-BACKED COMPANIES

While activity in California has slowed down for 2 quarters straight, deals continue to top 400 per quarter and account for more than Massachusetts and New York combined. New York has now outpaced Massachusetts in each of the last 5 quarters.

## Quarterly Deal Activity to VC-Backed Companies

CA vs. NY vs. MA, Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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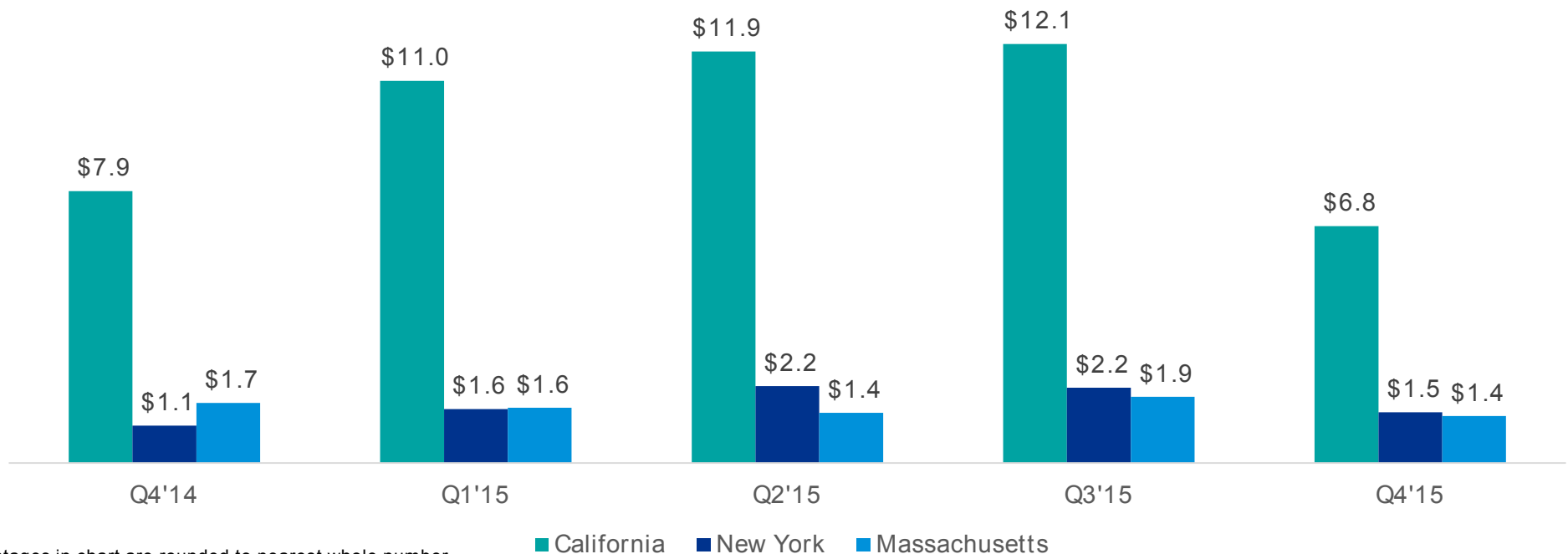


# CALIFORNIA FUNDING FALLS 44% VERSUS Q3'15

After California saw \$12.1B invested in Q3'15 due to three \$1B+ financings, funding fell off a cliff, reaching just \$6.8B in Q4'15. NY funding fell to \$1.5B while MA funding fell to \$1.4B.

## Quarterly Investment Activity to VC-Backed Companies

*\$B, CA vs. NY vs. MA, Q4'14 – Q4'15*



\*percentages in chart are rounded to nearest whole number

Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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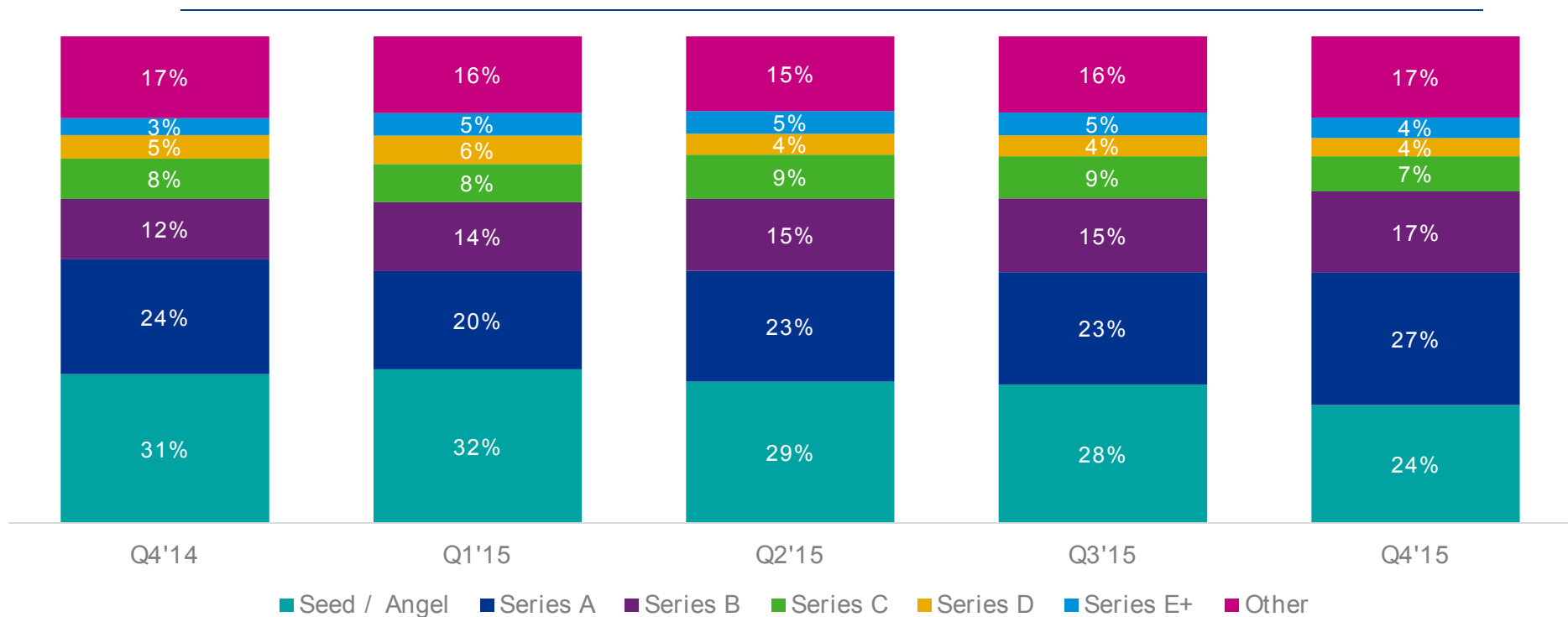


# SEED DEAL SHARE HITS A 5-QUARTER LOW

Seed-stage investments took less than a fourth of all deals to VC-backed companies in the US in Q4'15, dropping to a 5 quarter low of 24%. Conversely, Series A deal share reached a 5 quarter high, accounting for 27% of all deals to US-based VC-backed companies.

## Quarterly US Deal Share by Stage

Q4'14 – Q4'15



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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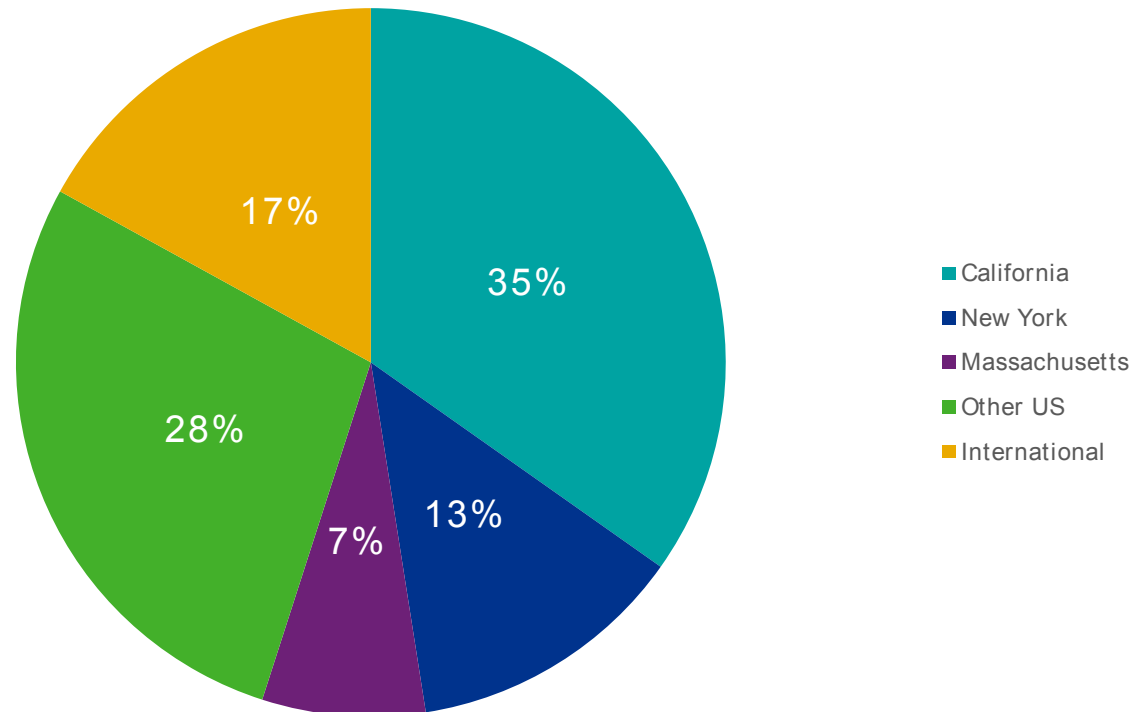
# OVER HALF OF ALL VCs INVESTING IN THE US ARE BASED IN MAJOR MARKETS

Of all VCs that participated in a US investment in Q4'15, 55% were based in either California, New York or Massachusetts.

California led all states, with 35% of all active VCs calling the Golden State home, while Illinois, Pennsylvania and Colorado led the other VC states.

Investors from the UK, China and Canada were most prevalent among international VCs.

## HQ of VCs Investing in US Companies *As % of all VCs investing in US-based companies in Q4'15*



Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

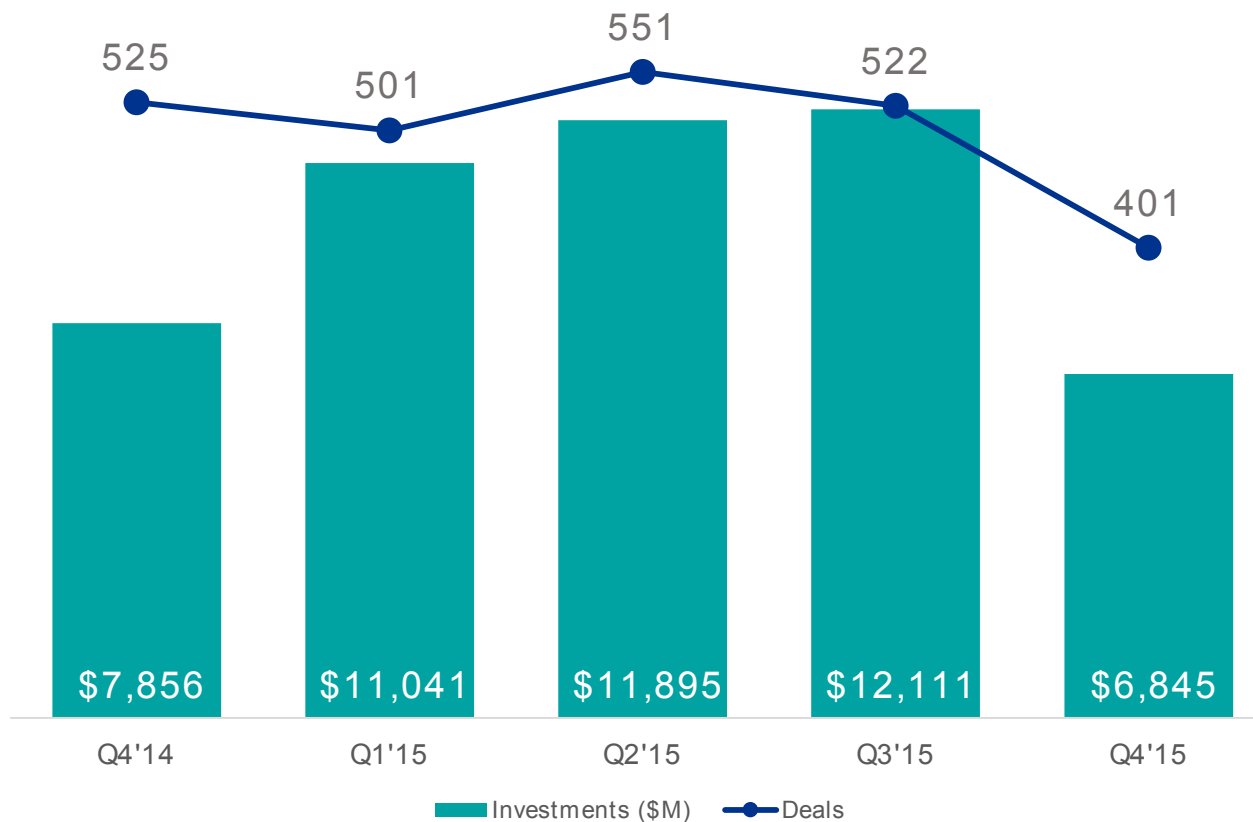
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# CALIFORNIA VENTURE-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q4'15

## California Investment Activity

VC-Backed Companies, Q4'14 – Q4'15



## Top Deals

**Palantir Technologies**

\$429.83M // Series K-II

**Lyft**

\$247.7M // Series F

**HotChalk**

\$230M // Corp. Minority

## Top Cities

**San Francisco**

135 Deals // \$2.39B

**Palo Alto**

24 Deals // \$694.3M

**San Diego**

21 Deals // \$503.5M

Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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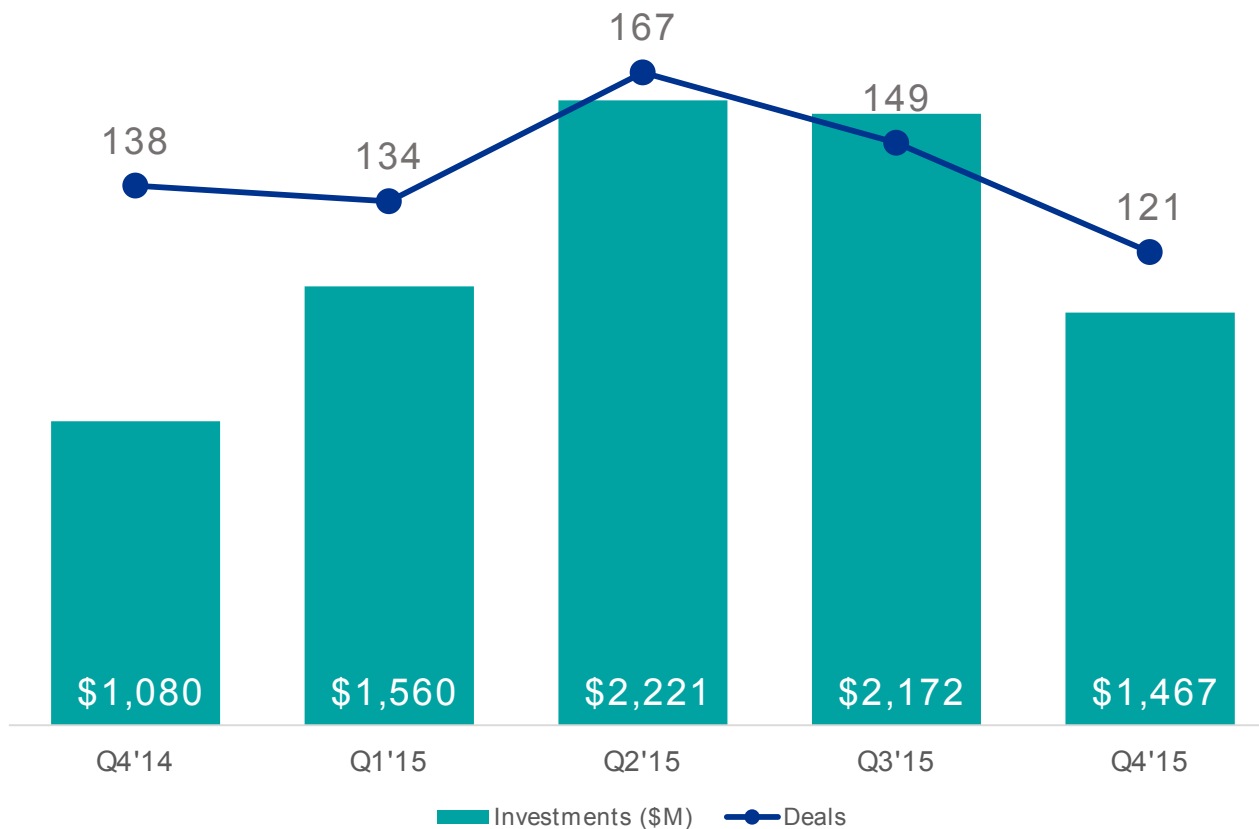




# NEW YORK VENTURE-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q4'15

## New York Investment Activity VC-Backed Companies, Q4'14 – Q4'15



## Top Deals

**Gerson Lehrman Group**

\$212M // Private Equity

**Vice Media**

\$200M // Corp. Minority

**Vroom**

\$95M // Series C

## Top Cities

**New York**

109 Deals // \$1.2B

Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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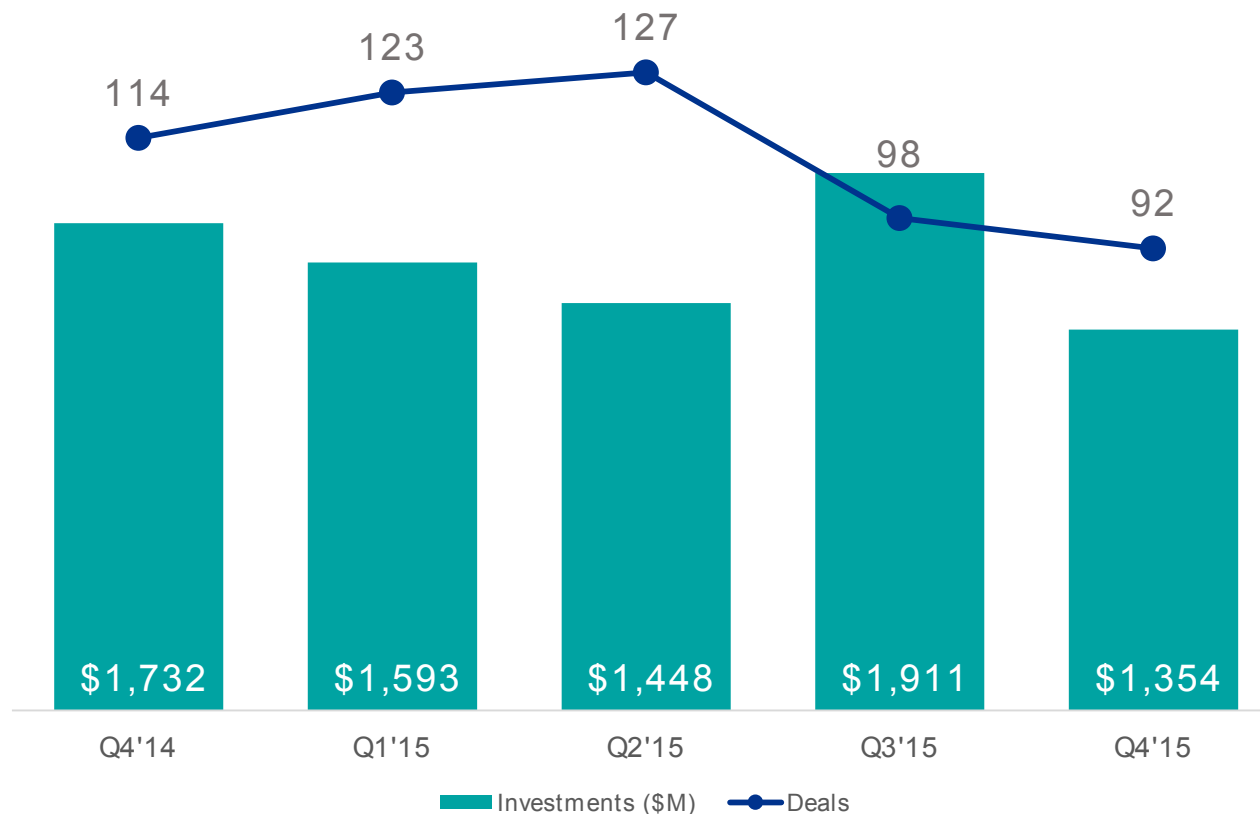


# MASS VENTURE-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q4'15

## Massachusetts Investment Activity

VC-Backed Companies, Q4'14 – Q4'15



## Top Deals

### Codiak Biosciences

\$80M // Series A

### Digital Guardian

\$66M // Series D

### Cybereason

\$59M // Series C

## Top Cities

### Boston

31 Deals // \$281.5M

### Cambridge

22 Deals // \$492.7M

### Waltham

9 Deals // \$199M

Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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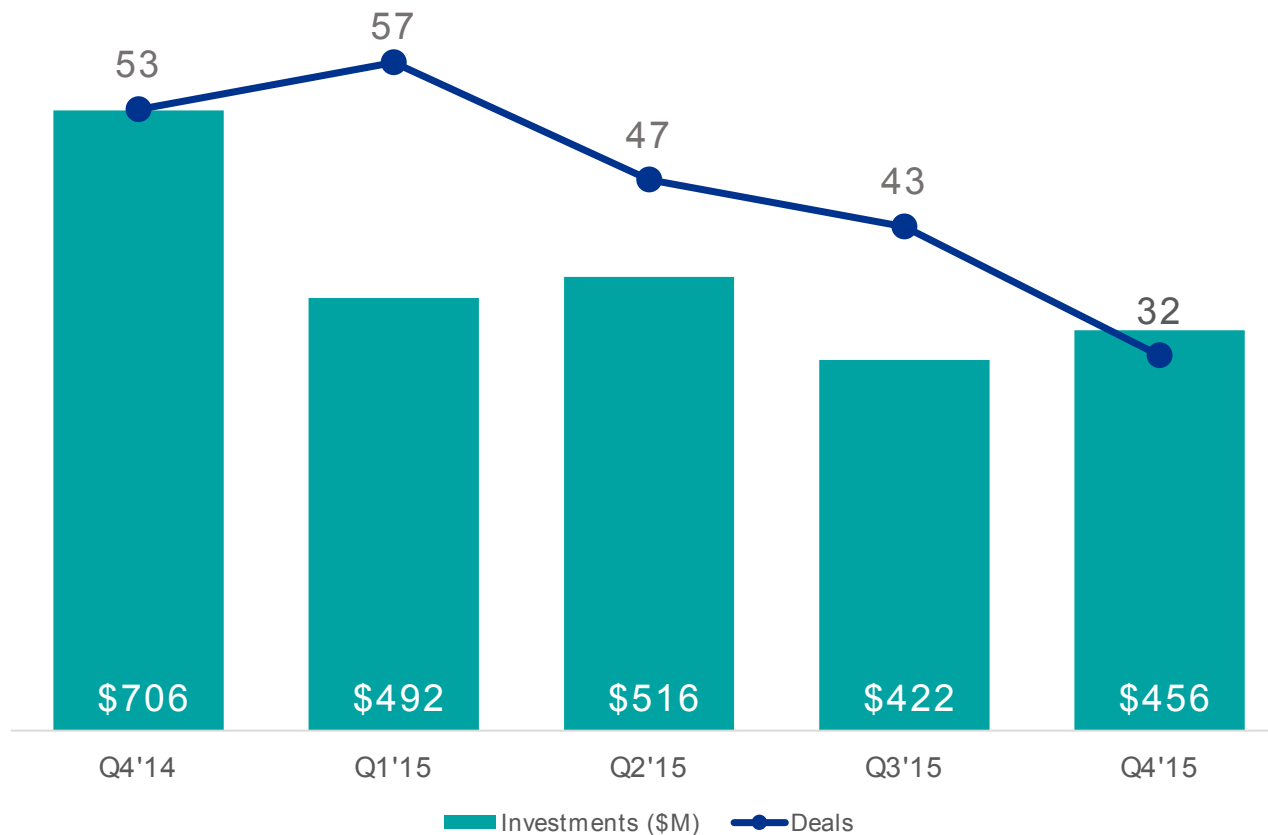
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# TEXAS VENTURE-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q4'15

## Texas Investment Activity VC-Backed Companies, Q4'14 – Q4'15



### Top Deals

**Sunnova Energy Corp.**

\$300M // Private Equity

**Umbel**

\$20M // Series B

**Phunware**

\$19.34M // Series F

### Top Cities

**Austin**

24 Deals // \$145M

**Houston**

4 Deals // \$306.6M

**Dallas**

2 Deals // \$2.5M

Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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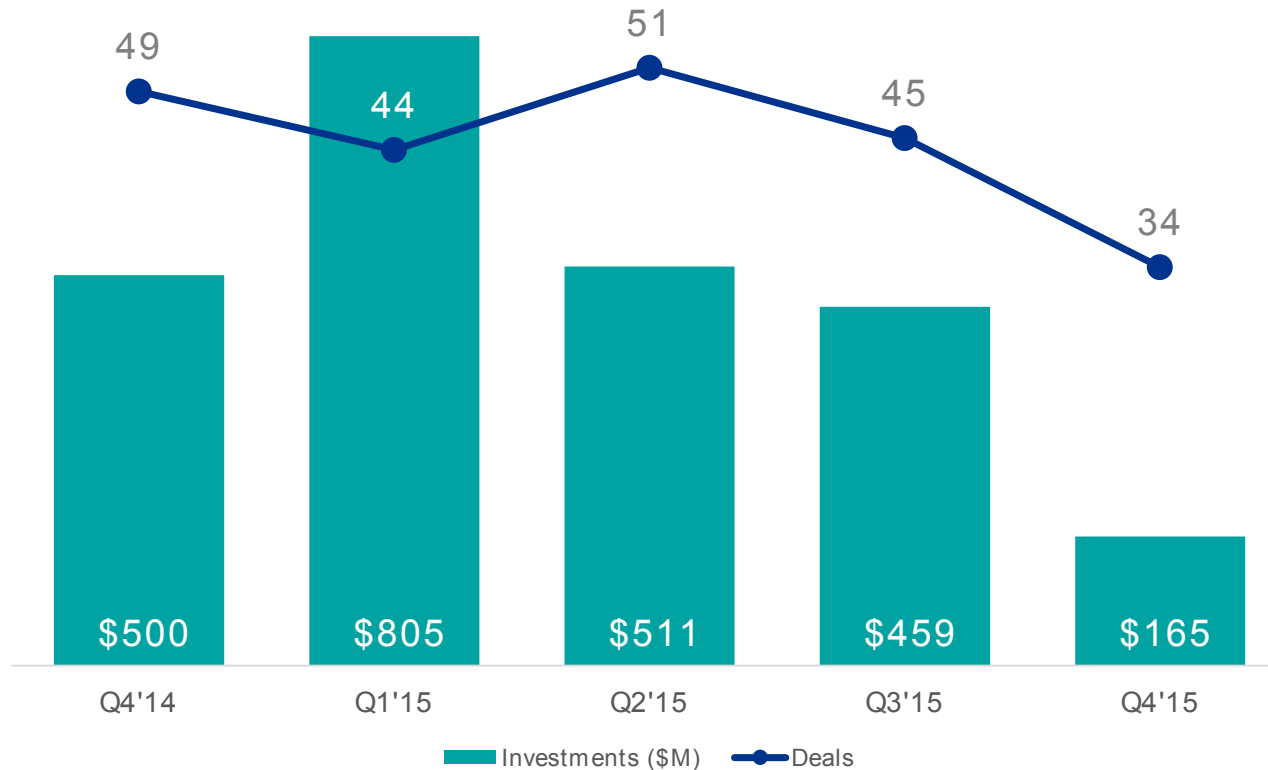


# PACIFIC-NW VENTURE-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q4'15

## Pacific Northwest Investment Activity

VC-Backed Companies, Q4'14 – Q4'15



## Top Deals

### Janrain

\$27M // Series D

### Pioneer Square Labs

\$12.5M // Series A

### Planetary Resources

\$12.23M // Series A

## Top Cities

### Seattle

21 Deals // \$93.5M

### Portland

4 Deals // \$39.3M

### Bellevue

4 Deals // \$6.9M

Source: Venture Pulse, Q4'15, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) January 19th, 2016

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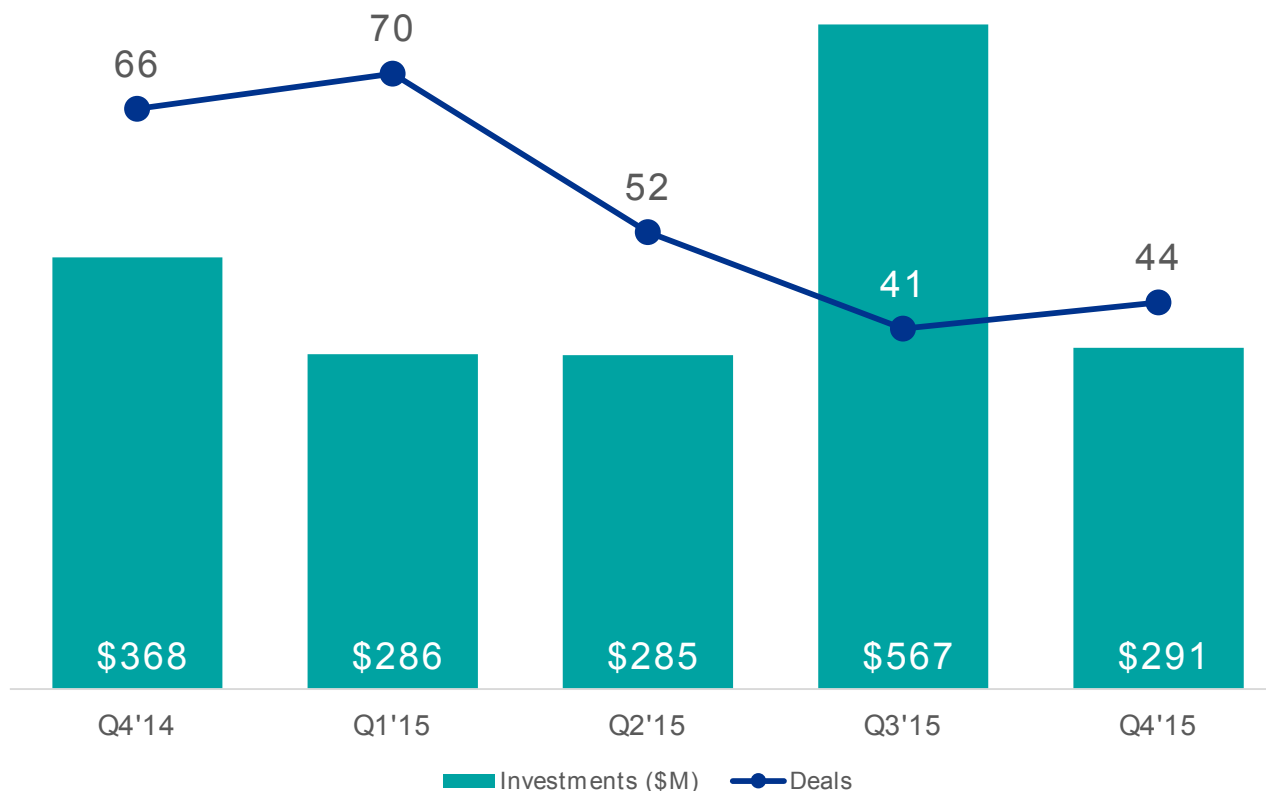
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# CANADA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q4'15

## Canada Investment Activity VC-Backed Companies, Q4'14 – Q4'15



## Top Deals

### Aeryon Labs

\$45.9M // Growth Equity

### Coveo

\$35M // Series D

### Cymax

\$25M // Series A

## Top Cities

### Toronto

13 Deals // \$60.41M

### Vancouver

8 Deals // \$60M

### Halifax

5 Deals // \$13.1M

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# METHODOLOGY – WHAT’S INCLUDED? WHAT’S NOT?

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

## What is included:

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

## What is excluded:

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

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



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## About KPMG Enterprise

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