



# Venture Pulse

## Q1 2016

Global Analysis of  
Venture Funding

April 13, 2016

# Welcome message

The first quarter of 2016 extended the global decline in VC activity with both total deal volume and deal value declining, further following a major dip in Q4'15. Some of the factors driving VC investors to take a more measured investment approach include; an economic slowdown in China, rising interest rates and an approaching election in the US, and a June referendum over the UK's future in the European Union.

While disconcerting to the VC community, the decline in VC activity is likely to be a short-term trend given the amount of liquidity in the market around the globe. In fact, in the US, Q1'16 was one of the highest quarters for raising VC capital since the dot-com boom of 2000. These funds will likely be deployed over the coming quarters as VC investors renew their focus on finding disruptive or innovative companies in which to invest.

At the same time, future VC investments are poised to become even more targeted. Given ongoing market uncertainties, investors are likely to focus on companies with strong balance sheets or business models that show a strong plan to achieve profitability. VC investors may also take a more involved approach to their funding, asking for more input and control over how their invested capital is deployed.

We explore these and a number of other trends in this Q1'16 edition of our Venture Pulse Report – a collaboration between KPMG and CB Insights. As a part of our analysis, we explore answers to a range of questions, including:

- What is driving the decline in VC activity – and will it last?
- Why are corporates so active in the VC market?
- Is the Unicorn trend dead?
- How is digital health bucking investment trends?

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

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36	Europe	<b>\$3.5B in funding   338 deals</b>

All monetary references contained in this report are in USD

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#Q1VC





*In Q1 2016 VC-backed companies raised*

**\$25.5B**  
across  
**1829 deals**

# SUMMARY OF FINDINGS

## GLOBAL FUNDING CHILL CONTINUES IN Q1'16 AS INVESTORS DIAL BACK DEALS

**Funding ticks downwards:** After the Q4'15 crash in investment dollars, global funding to VC-backed companies in Q1'16 dropped further to total \$25.5B. The slowdown in Asian funding drove the global decline.

**Deals also see further drops:** Following the cratering of deal activity in Q4'15, financings slowed again in Q1'16 to end at 1829 for the quarter. Deal activity dropped across all major markets (North America, Europe and Asia).

**Unicorn creation at near-standstill:** As existing Unicorns battled negative press, downrounds and markdowns, only five new VC-backed Unicorns were minted in Q1'16. That's less than half that of any quarterly total in 2015.

**Corporates accelerate deal pace:** Corporate and CVC participation in deals rose to 27 percent in Q1'16 as corporations became increasingly active in private markets.

### **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 53 details the rules and definitions we use.*

## US DEALS FALL AGAIN IN Q1'16; FUNDING SEES SLIGHT GROWTH

**US deal activity falls for third-straight quarter:** US deal activity continued to cool with \$14.8B invested over 1035 deals. Funding climbed slightly from the \$14B in Q4'15, but remained depressed compared to the peaks in 2015.

**Late-stage deal sizes shrinking:** Mean late-stage deal size in North America plunged to \$21.5M in Q1'16, down from \$30M in Q4'15, and \$34M in Q3'15.

**Continued signs of seed fatigue:** Seed deal share fell further to 22 percent for Q1'16. Series A rounds actually outpaced seed deals, reversing the trend of previous quarters.

**Early-stage deal sizes remain high:** Median early-stage deals in Q1'16 matched last quarter's high of \$3M, up a full 50 percent from the same quarter a year before.

**New York sees growth:** New York has now outpaced Massachusetts for deal activity in each of the last 5 quarters. It was also the only state of the top 3 (CA, NY, MA) with both deal and funding growth from Q4'15.

# SUMMARY OF FINDINGS

## EUROPE FUNDING RECOVERS SLIGHTLY, THOUGH DEAL ACTIVITY DOWN AGAIN

**Mixed signs in European financing:** Total funding in Europe crept up 8 percent to \$3.5B in Q1'16, although the deal count of 338 represented a sequential quarterly decline.

**Seed deal share also falls in Europe:** Seed share fell below 40 percent of all deals for the first time in at least 5 quarters, taking only 35 percent of deals going to VC-backed companies. Meanwhile, Series A rounds jumped up to take over a quarter of deals.

**UK deal, dollar activity dips:** UK-based startups raised \$1.3B in funding across 105 deals, both down slightly from Q4'15. UK deals were headlined by a \$192M Series C to Skyscanner in January. Overall, the UK accounted for ~36 percent of Europe funding.

**Germany deal, dollar activity diverges:** Funding to German VC-backed startups fell to \$394M in Q1'16, marking a fourth-straight quarterly drop. By contrast, deal count rose for the fourth-consecutive quarter as there were more early-stage seed and Series A rounds.

## INVESTMENT PACE IN ASIA CONTINUES TO PLUMMET

**Asia funding drop-off continues:** Deals to VC-backed Asian companies dropped a further 9 percent and funding dollars cratered 34 percent from the already-cooling figures of Q4'15.

**Late-stage deals shrink dramatically:** Q1'16 saw a sudden reversal of ballooning late-stage deal sizes in Asia. As mega-rounds became a rarer sight, median late-stage deal size crashed from \$154M in Q4'15 to \$62.5M in Q1'16.

**China funding crashes further:** VC-backed companies in China received \$4B in funding, or just 39 percent of the Q3'15 quarterly peak. Compared to the heady days of past quarters that saw multiple \$1B+ deals, there was just a sole \$1B+ deal in Q1'16, a \$1.2B round to Lu.com.

**Corporates stay engaged in Asia:** Corporates participated in over 30 percent of deals to Asian VC-backed companies for the third-straight quarter.

**India activity slows again:** With mounting investor hesitation and concerns of overvaluation, Indian investment continued to decline in Q1'16. Deals slipped 4 percent while funding fell 24 percent as VC-backed startups raised \$1.2B on 116 deals.



*In Q1 2016*

**GLOBAL**LY

*VC-backed companies raised*

**\$25.5 billion**

# Global VC activity slumps for second straight quarter

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Caution defined the VC market globally during Q1'16. With numerous factors fostering uncertainty in the market and an ongoing skepticism of high valuations, VC activity pulled back even further following a late Q4 drop off in 2015.

## ***Asia experiences steepest decline***

With investors more hesitant, it is not surprising that both the size and number of deals dropped during this quarter. VC deal value in Asia experienced the sharpest decline, falling to less than half of its record setting \$14.3 billion Q3'15. Much of this decline is a result of a decrease in mega-deals in the region. While deals continue to occur in Asia, they are often not to the same scope as experienced during the high quarters of 2015.

## ***North America and Europe slightly up following Q4 decline***

North American VC activity was up slightly between Q4'15 and Q1'16, showing a small increase in deal value and slight drop in volume. With the prospect of rising interest rates and the forthcoming presidential election, the investment climate remains cautionary. This caution may have influenced the lack of IPO exits; the first quarter saw the smallest amount of funds raised from IPOs in 20 years.

While Europe's VC activity got off to a slow start in Q1'16, Spotify's massive \$1 billion funding round during the final week of the quarter lifted expected results for the region by almost one-third. As a result, VC deal value was up slightly compared to Q4'15.

## ***VC funds working to raise capital***

The overall decline in VC activity may simply be a short-term blip on the radar as investors take stock of their positions and become more directed with their investments. Many VC funds globally raised significant capital during the quarter, adding to the growing liquidity and dry powder in the market. Investors will likely look to deploy this capital over the next few quarters.

## ***Investors focusing on performance over possibility***

The days of unalloyed investor confidence are gone. VC investors are becoming more critical of potential investments, looking for companies that can demonstrate revenue creation, positive margins, profitability and an ability to control expenses. As a result, companies looking to attract investment will need to be much more efficient with their cash because it will likely be more expensive for them to raise additional capital in the future. They may also find themselves with more 'hands on' VC investors than they've experienced historically – with VC investors looking to have more say in capital spending and decision making.

# Global VC activity slumps for second straight quarter (cont.)

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## *Eyes on the Unicorns*

With high profile companies failing to live up to their private valuations, existing and potential Unicorns are coming under more scrutiny than ever before. Especially in the US, investors are coming to believe that the high valuations in the market may not be warranted and are stepping back from making any significant mega-deals. Over the next few quarters, there will likely also be more scrutiny of existing Unicorns. In order to continue to attract funding, these companies will need to show tighter control of their expenses and positive margins. Those that can demonstrate positive margins, controlled expenses and profitability will likely be winners down the road, while others may fall to the wayside.

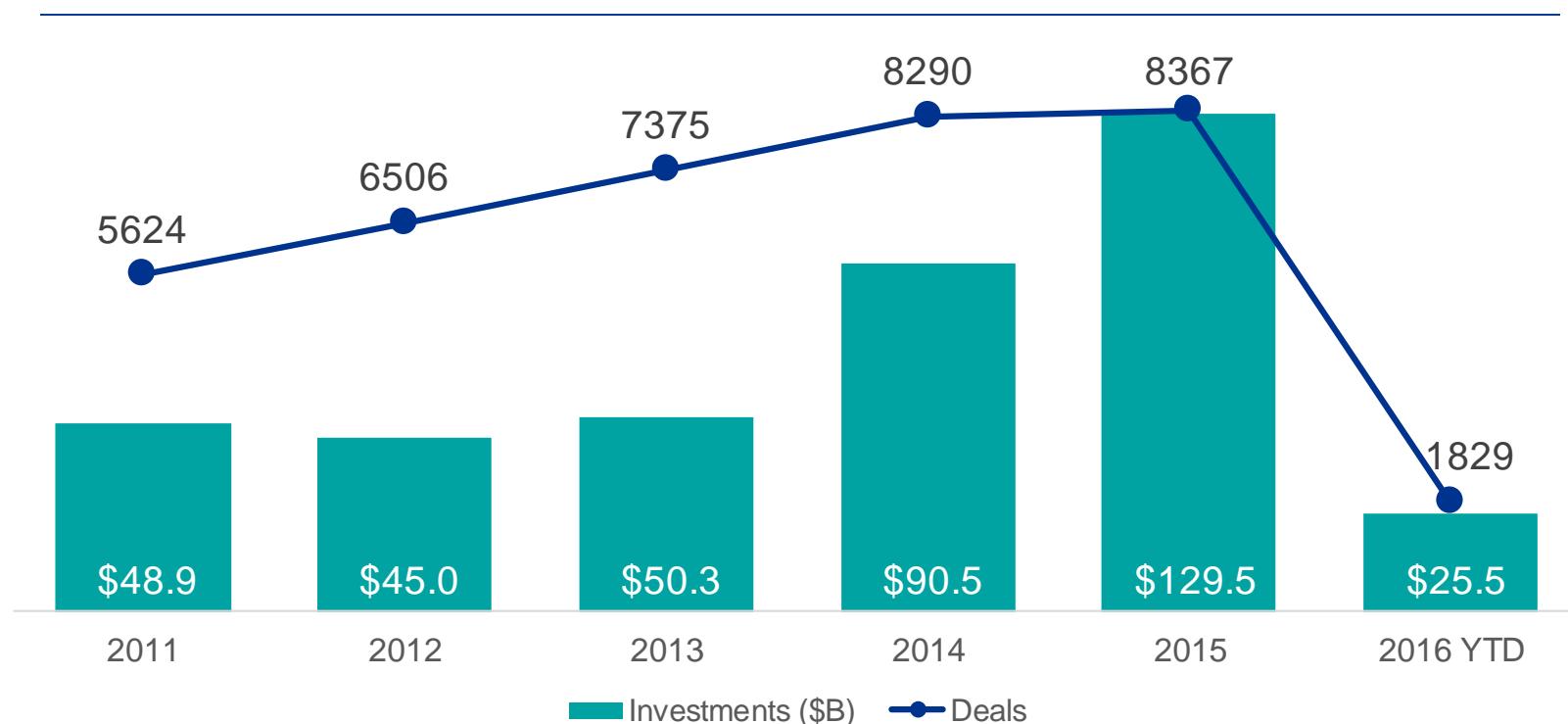
## *Corporate activity continues to be strong*

With valuations dropping and exit possibilities minimized, corporate participation as a percent of VC activity will likely remain strong throughout 2016. Despite market uncertainty, corporates continue to look for new technologies and innovations that they can leverage within their own organizations. Lower valuations can provide them with access to these innovations in a more cost-effective manner.

# \$25.5B DEPLOYED ACROSS 1829 DEALS TO VC-BACKED COMPANIES IN THE FIRST QUARTER OF 2016

2015 was a record year in both deals and dollars invested in VC-backed companies, though we saw a marked pullback in financings towards year-end. 2016 has seen a less exuberant start; at the current run rate, deal activity is roughly on pace to match 2013 while investment dollars would fall between the 2014 and 2015 figures.

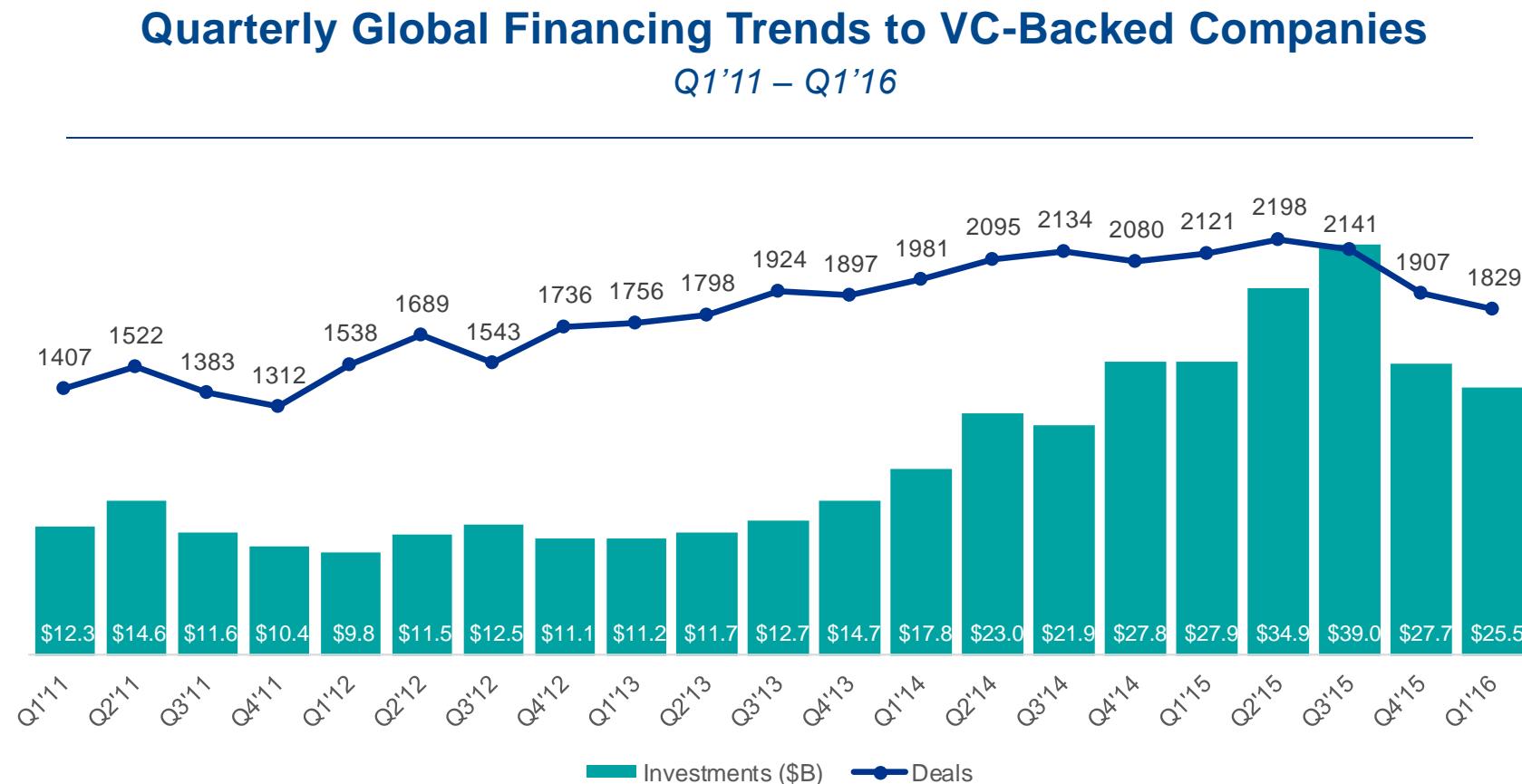
## Annual Global Financing Trends to VC-Backed Companies 2011 – 2016 YTD (Q1'16)



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# Q1'16 SEES CONTINUED DECLINE FROM Q4'15 AS BOTH DEAL TALLY AND FUNDING DOLLARS DROP

The negative sentiment that caused a sharp correction in Q4'15 has continued to persist into the new year. Global funding fell a further 8% vs. the previous quarter as mega-round activity continued to cool. Deal count was a bit more stable but nevertheless fell 4% as opposed to recovering from the drastic drop-off in Q4'15.

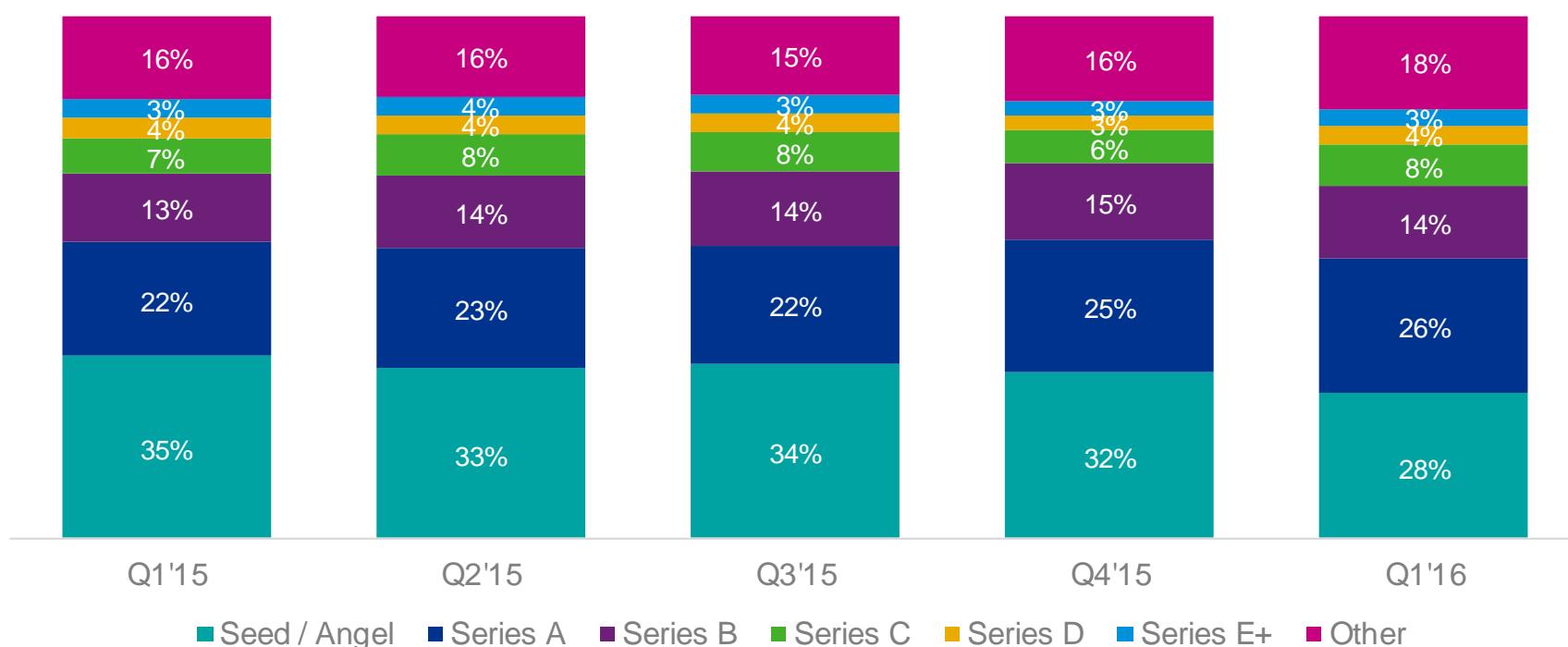


Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# SEED-STAGE DEAL SHARE FALLS TO 5-QUARTER LOW WHILE SERIES A RISES

Deal share to seed-stage investments abruptly dropped in Q1'16, down from 32% of the total in Q4'15 to just 28%. Series A deals continued to take a strong proportion of deals with the 26% in Q1'16 representing a 5-quarter high for A rounds.

**Quarterly Global Deal Share by Stage**  
Q1'15 – Q1'16



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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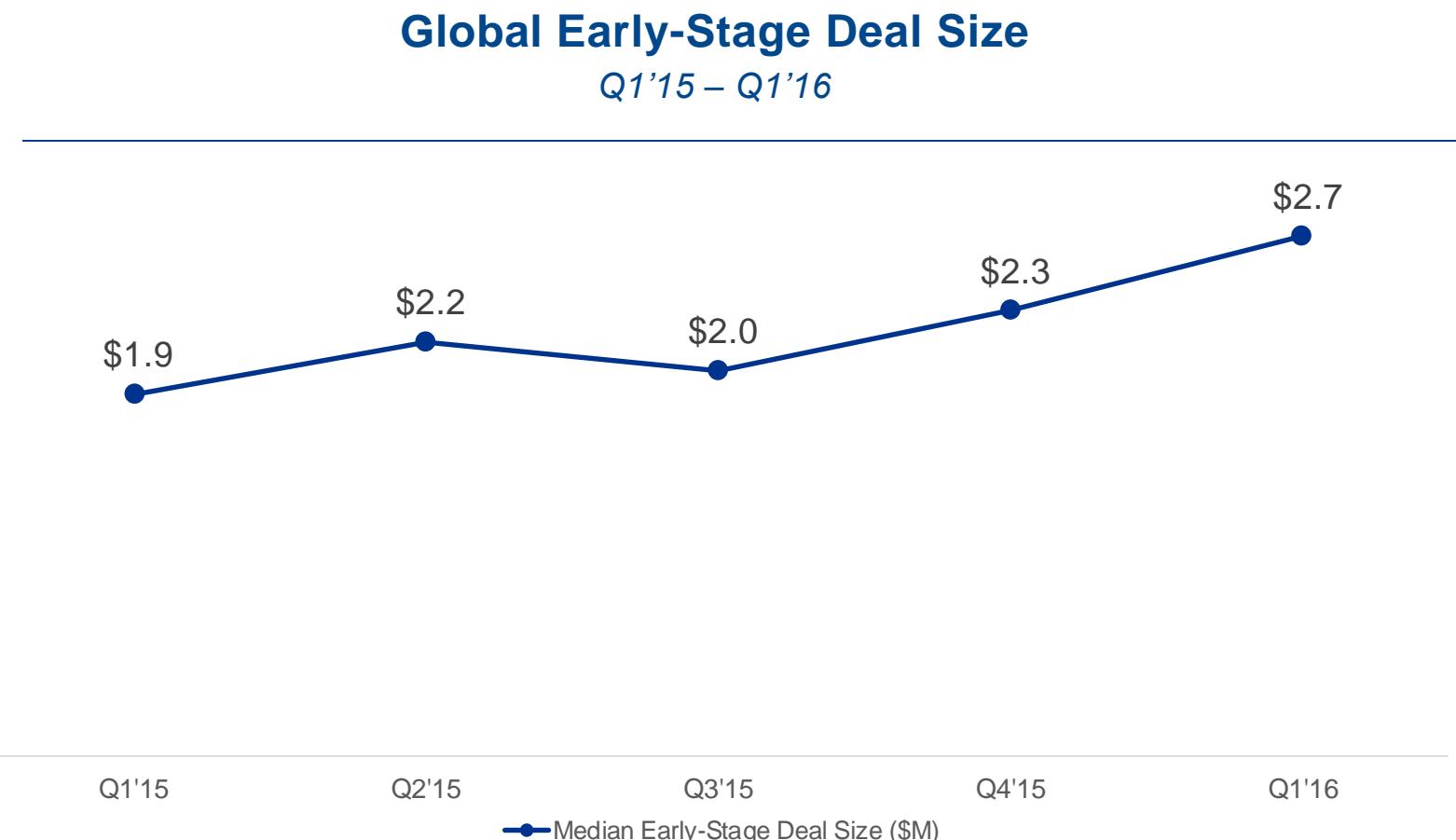
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# MEDIAN EARLY-STAGE DEAL SIZE TICKS UPWARD TO 5-QUARTER HIGH

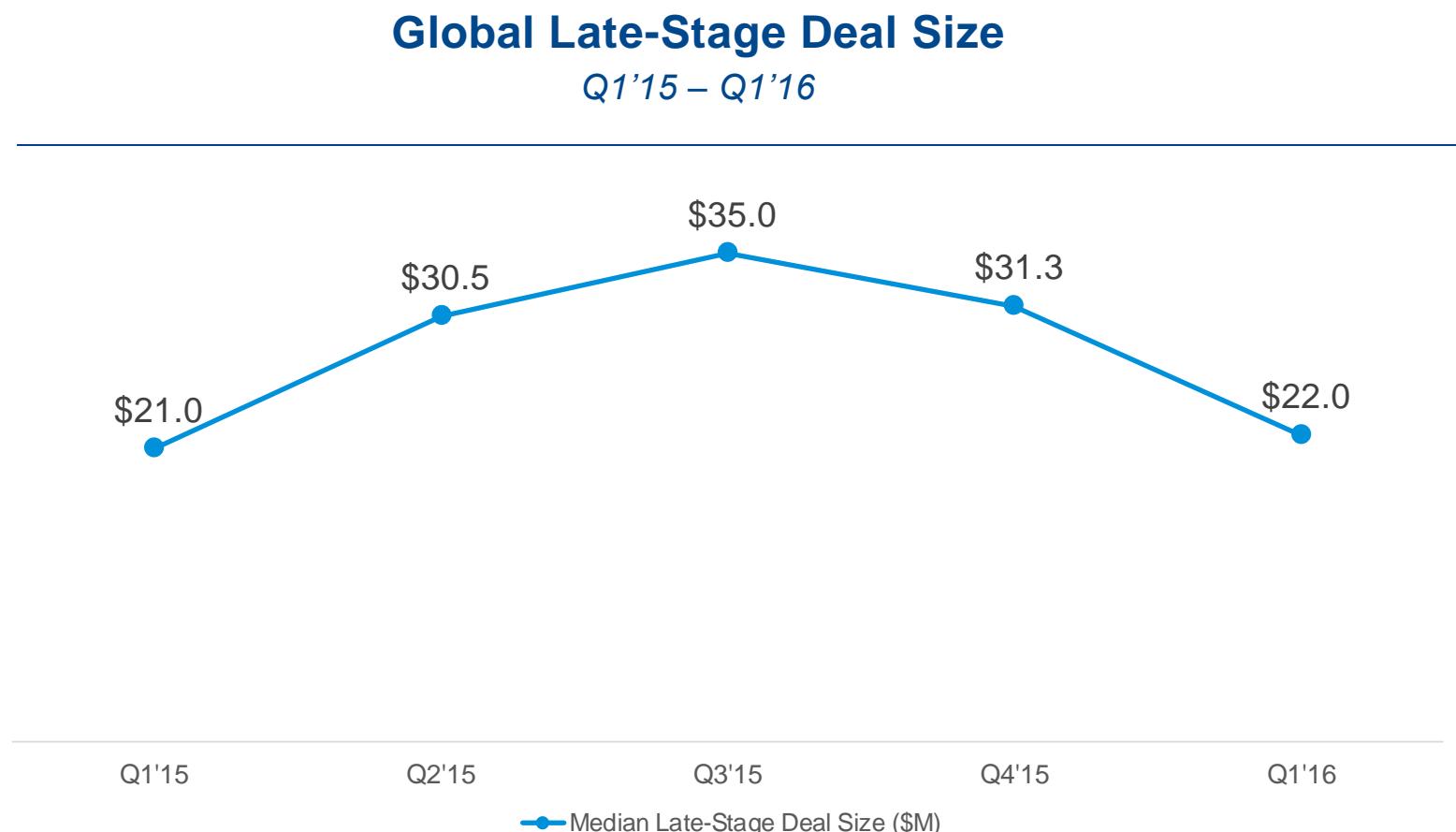
Median early-stage (Seed - Series A) deal size among all VC-backed companies hit \$2.7M in Q1'16, up 17% from the previous quarter. This reflects the active ecosystem of micro-VCs, multi-stage funds and strategic investors actively pursuing early-stage deals.



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# GLOBAL MEDIAN LATE-STAGE DEAL SIZES CONTINUE TO FALL

The continued decline of mega-rounds led to a further drop in global median late-stage (Series D or later) deal sizes. Q1'16's median late-stage deal size plunged 30% from the previous quarter to just \$22M, nearing the pre-euphoria figures of Q1'15.



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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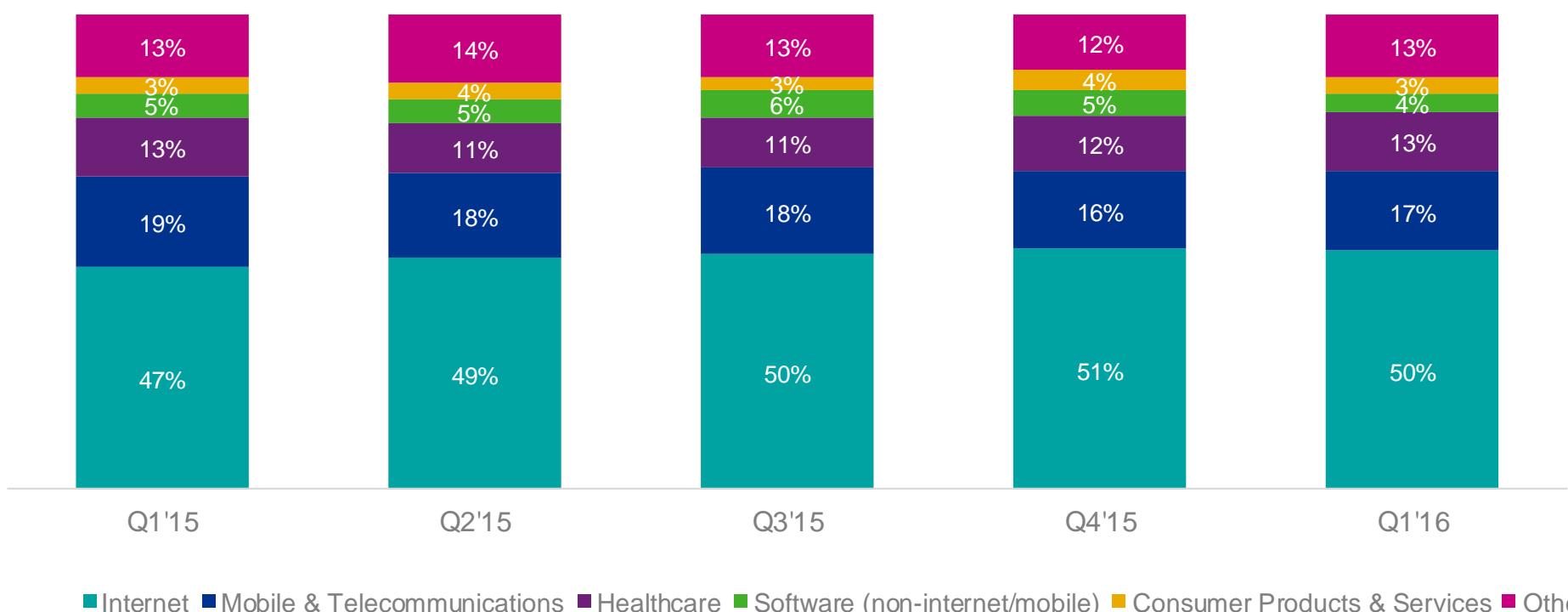
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# INTERNET AND MOBILE CONTINUE TO ACCOUNT FOR TWO-THIRDS OF ALL VC-BACKED DEALS

Internet and mobile once again took the majority of deals going to VC-backed companies. These two major sectors accounted for 67% of all deals in Q1'16. All other sectors remained fairly range-bound, with healthcare taking 13% and non-internet/mobile software hitting a 5-quarter low at 4%.

**Global Quarterly Deal Share by Sector**  
Q1'15 – Q1'16



■ Internet ■ Mobile & Telecommunications ■ Healthcare ■ Software (non-internet/mobile) ■ Consumer Products & Services ■ Other

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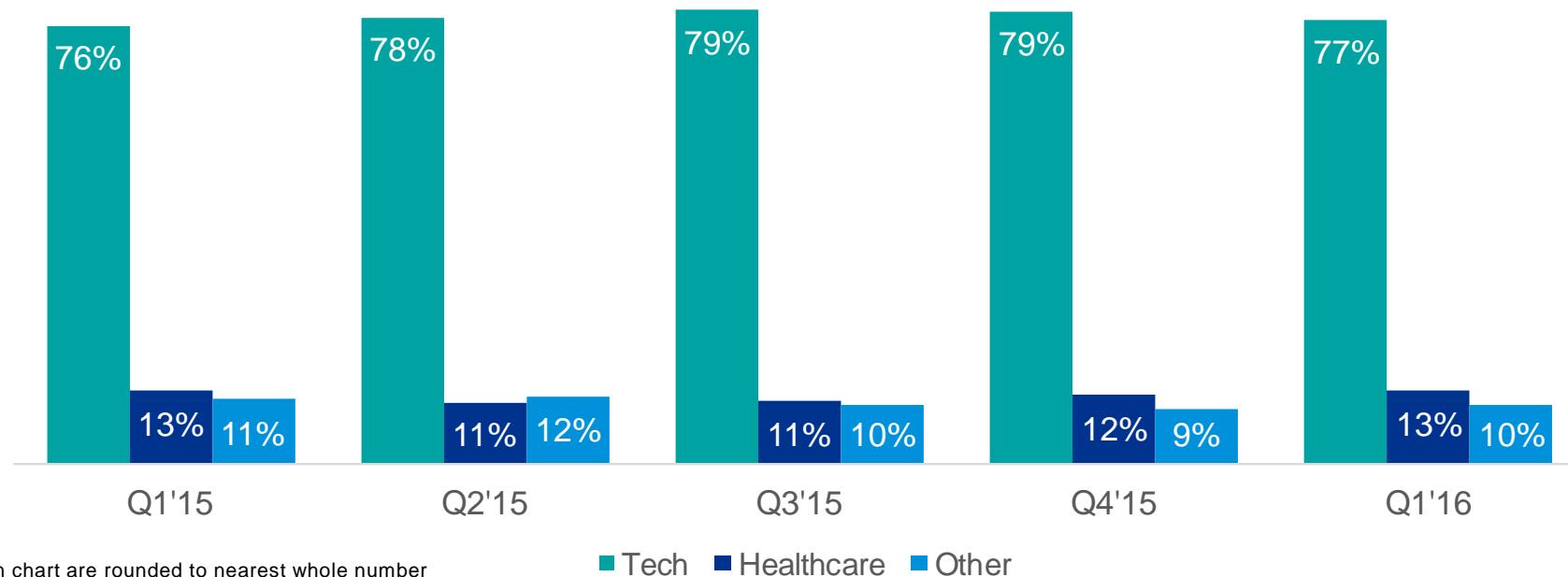
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# TECH MAINTAINS GIANT INVESTMENT DEAL LEAD OVER HEALTHCARE, OTHER SECTORS

Tech companies have taken 76%+ of all deal activity to VC-backed firms in each of the past 5 quarters. Healthcare failed to receive more than 13% in any quarter over the same period while all other sectors combined have not topped 10% since Q2'15.

**Quarterly Global Tech vs. Healthcare Deal Share**  
Q1'15 – Q1'16



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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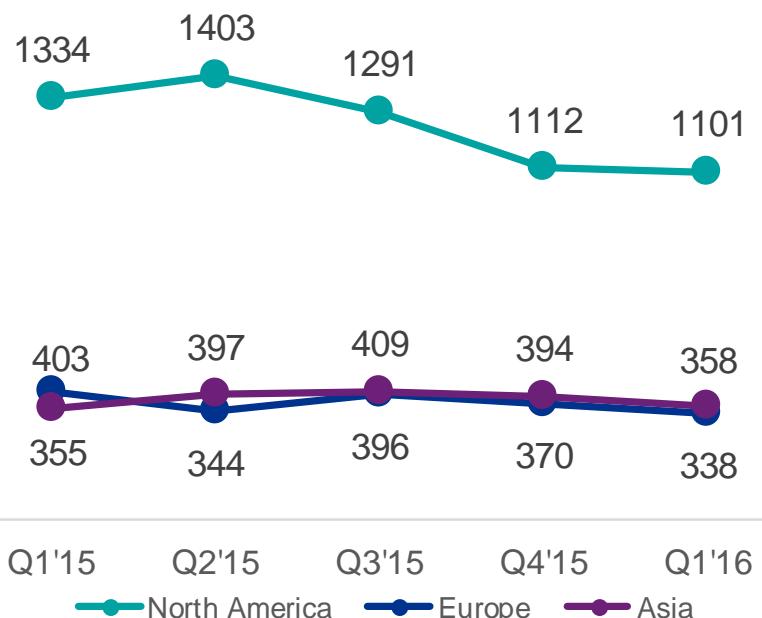
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# VC-BACKED COMPANIES IN ASIA CONTINUE TO FEEL FUNDING CHILL IN Q1'16

Asia saw another significant drop-off in funding to VC-backed companies in Q1'16, with the \$6.5B in total funding representing less than half of the frothy Q3'15 peak. Meanwhile, funding rose slightly in both North America and Europe. Deal activity in North America was flat from the previous quarter while both Asia and Europe saw a continued slide.

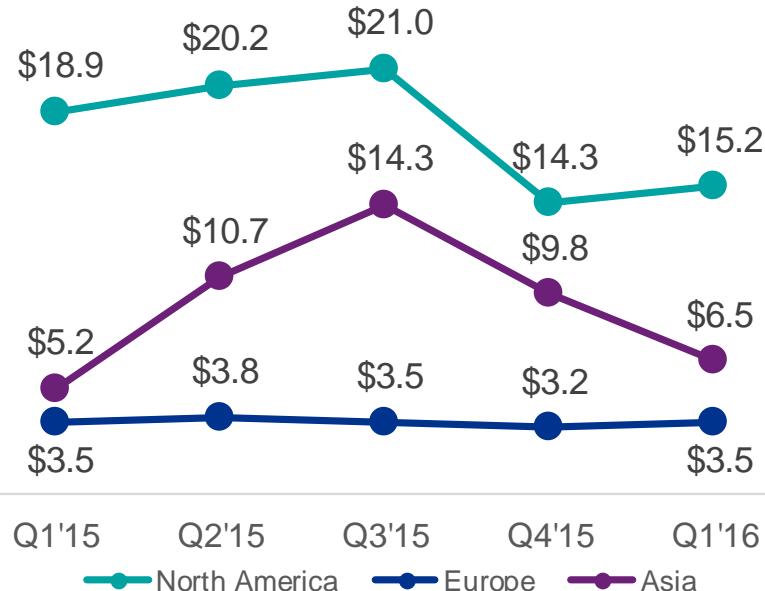
## Deal Count by Continent

Q1'15 – Q1'16



## Investment (\$B) by Continent

Q1'15 – Q1'16



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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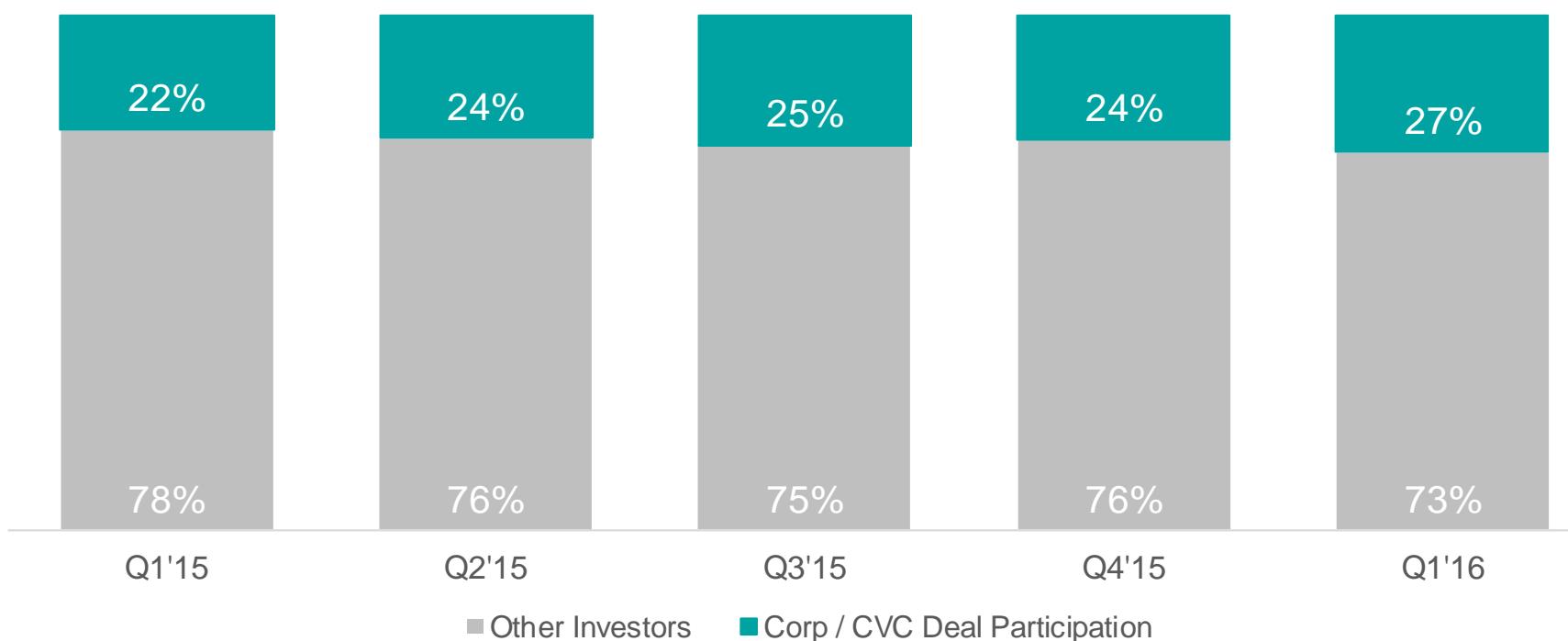
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# CORPORATES ACCELERATE INVESTMENT PACE INTO VC-BACKED COMPANIES

Corporate and CVC deal participation into VC-backed companies rose to 27% of deals in Q1'16, marking a 5-quarter high. Corporate interest in private markets has steadily risen as companies seek opportunities for growth as well as defense against rapidly evolving technologies.

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

Q1'15 – Q1'16



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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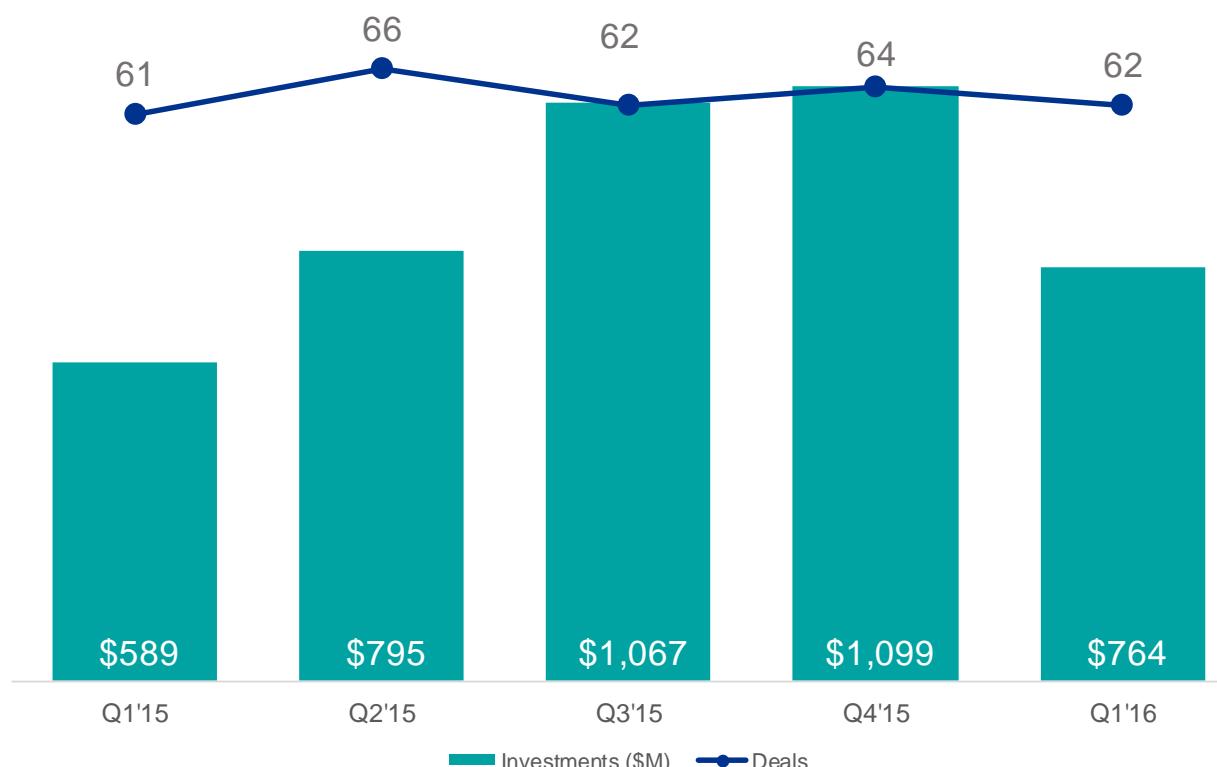
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# CYBERSECURITY VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q1'16

## Cybersecurity Investment Activity

VC-Backed Companies, Q1'15 – Q1'16



## Top Deals

**Mobi Magic**

\$100M // Series B

**Skybox Security**

\$96M // Private Equity

**Pindrop Security**

\$75M // Series C

## Top Countries

**United States**

41 Deals // \$564.3M

**Israel**

7 Deals // \$53.8M

**United Kingdom**

5 Deals // \$18.4M

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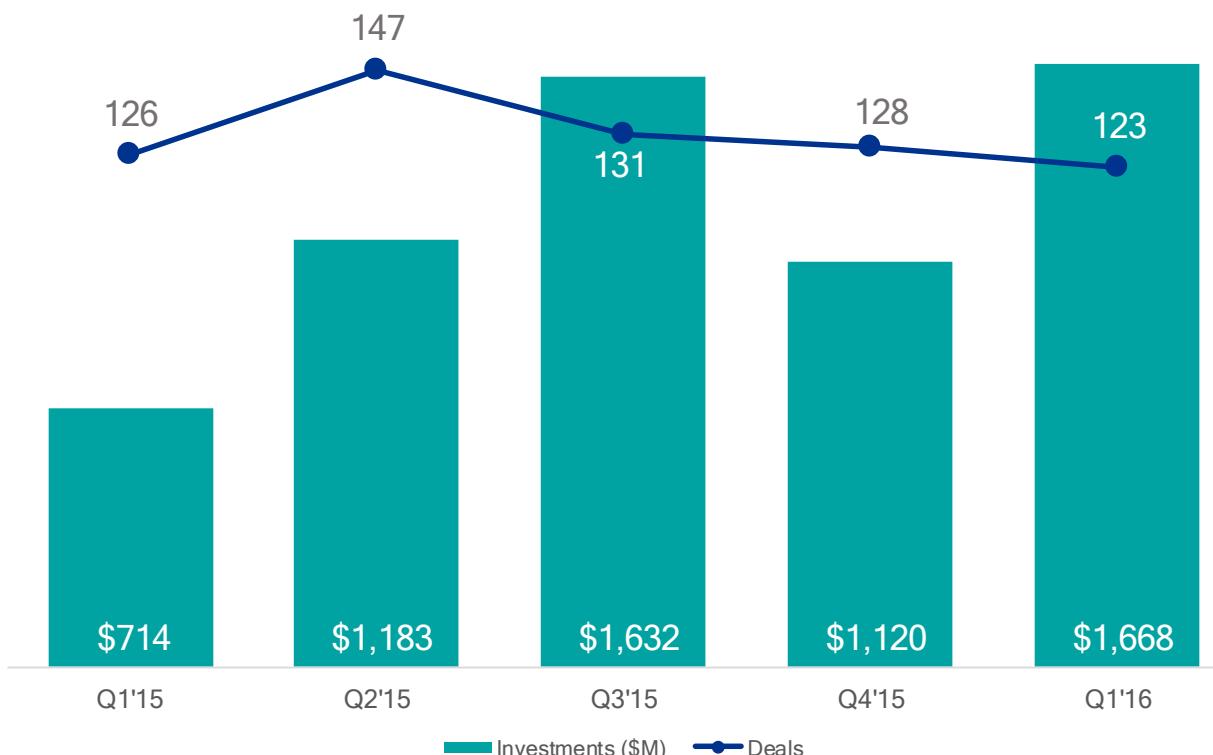
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# DIGITAL HEALTH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q1'16

## Digital Health Investment Activity

VC-Backed Companies, Q1'15 – Q1'16



## Top Deals

Oscar Health

\$400M // Series C

Flatiron Health

\$175M // Series C

Jawbone

\$165M // Series F

## Top Countries

United States

84 Deals // \$1.4B

China

10 Deals // \$121.6M

Germany

5 Deals // \$6.6M

Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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# Digital health offering real opportunities for VC investors

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Recent advances in consumer technology are rapidly expediting the evolution of patient-centered care models around the world by providing ways to leverage technology to personalize the healthcare process.

The potential offered by these 'digital health' solutions is creating a lot of buzz in the VC market. Total VC investment in digital health was up significantly in Q1 compared to Q4'15 despite decreases in other sectors. The biggest digital health deal in Q1'16 went to Oscar Health, a health insurance company whose business model leverages emerging digital health technologies, that raised \$400m in Series C funding.

## ***Recession-proof investment area***

Given how many countries are working to improve the quality and reach of their healthcare systems, digital health is somewhat recession proof. The industry also involves a multitude of interested players – from large pharmaceutical companies and local healthcare providers to insurance companies, device manufacturers and big technology companies like Apple and Google. These players make digital health even more attractive to VC investors because exit routes extend well beyond the traditional IPO.

## ***Solutions becoming specific and data-driven***

In Q3'15, we talked about digital technologies reshaping the administration of health care – from improving scheduling to improving accessibility. In Q1'16, digital health investments focused on personalization and specificity – such as technologies that encourage medication adherence and technologies that monitor individual health metrics and report anomalies. Other investments focused on solutions targeting the most at risk within society, including infants and seniors.

Over the next few quarters, digital health investments will continue to expand and evolve. One critical area where investments will likely focus is on the use of artificial intelligence to utilize and analyze the data available from wearable technologies or to provide alternative service delivery.

## ***Challenges can't be ignored***

While digital health will likely continue to be an active area for VC investments, investors should not fail to consider the challenges associated with the uptake of new healthcare solutions. Regulatory issues, data management, culture change – each of these could create significant implementation roadblocks. Making sure companies have a real means to implement their solutions will be critical to the success of any VC investments.

**“Digital health is becoming very attractive to investors because acquisition and exit routes are so diverse - you don’t need to IPO. There are a multitude of potential acquirers, from big pharma and community providers to device manufacturers, insurance companies and big technology companies like Google and Apple.”**



**Brendan Martin**  
*Lead Health Technology, High Growth Tech Growth,  
KPMG in the UK*

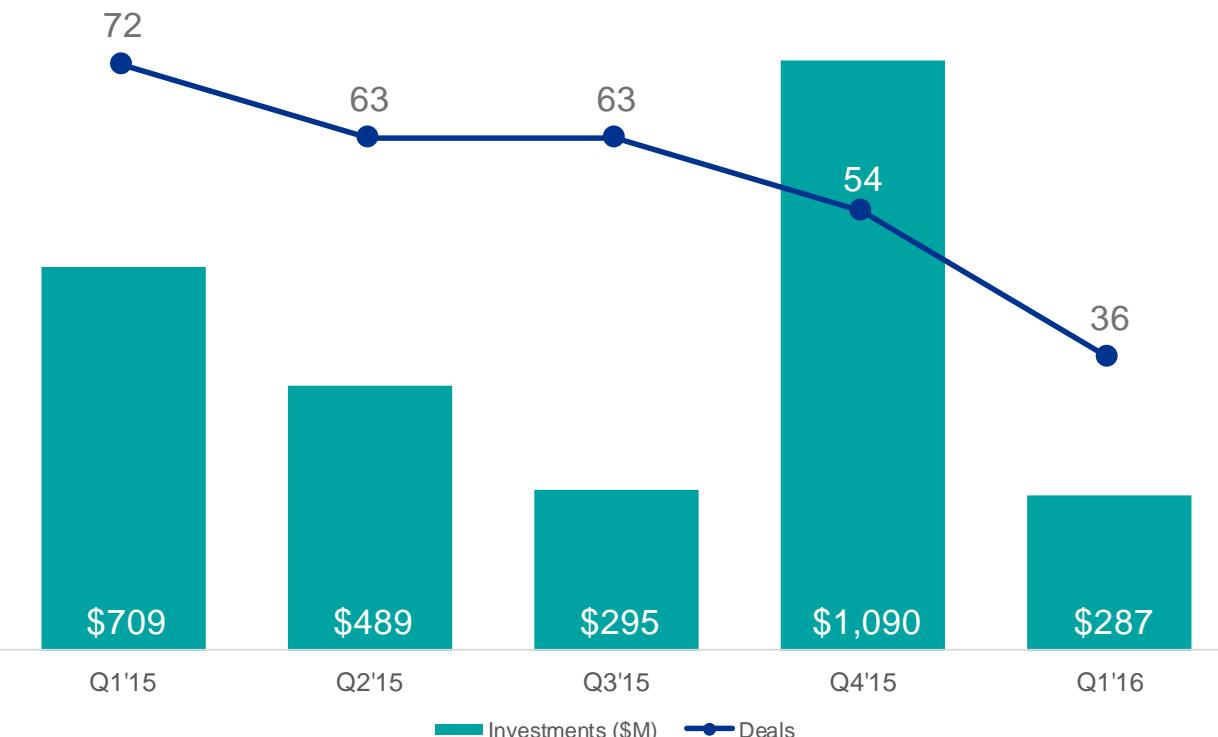
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# ED TECH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q1'16

## Ed Tech Investment Activity

VC-Backed Companies, Q1'15 – Q1'16



## Top Deals

### Byju's

\$75M // Growth Equity

### Grovo Learning

\$40M // Series C

### Everspring

\$27.5M // Growth Equity

## Top Countries

### United States

33 Deals // \$628.7M

### China

7 Deals // \$414M

### Netherlands

3 Deals // \$4.6M

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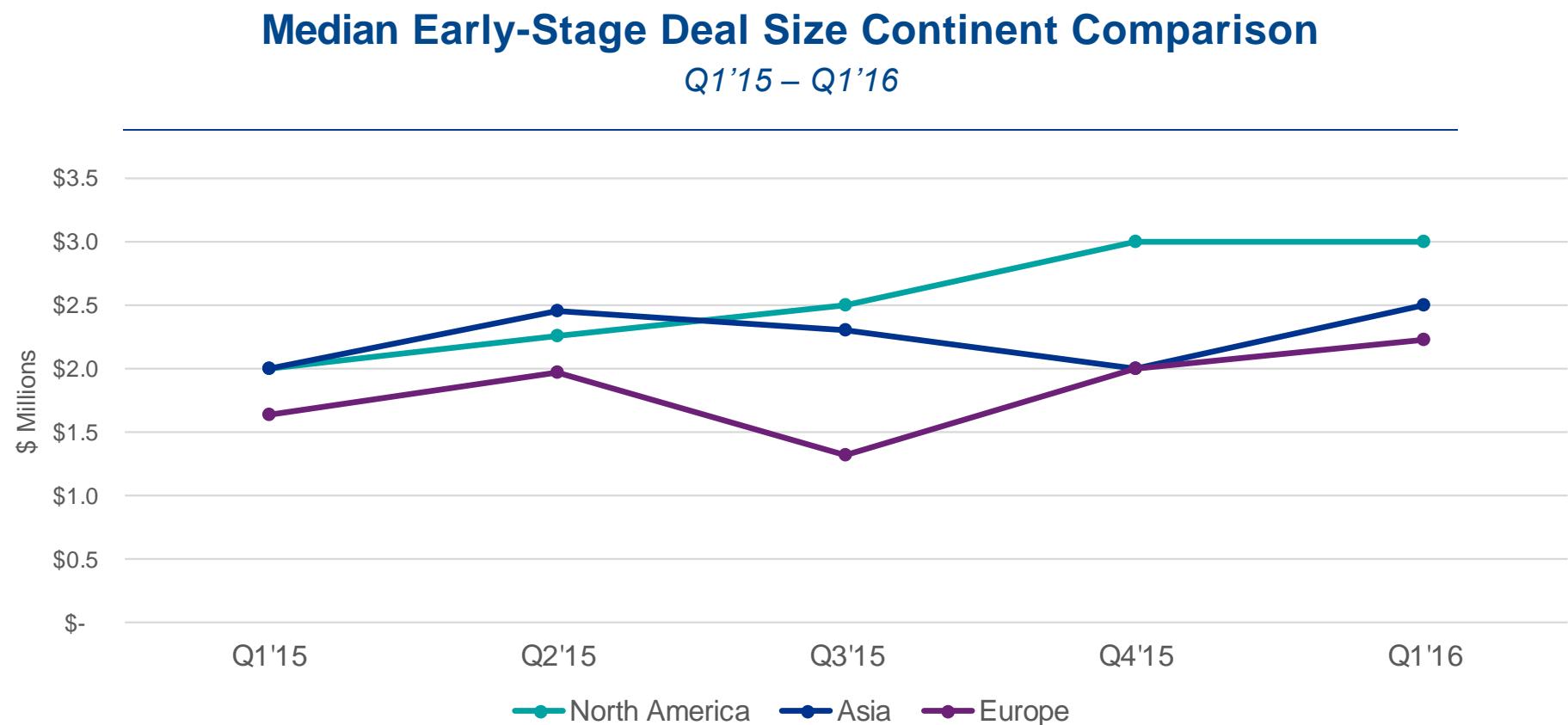
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# NORTH AMERICA MAINTAINS EARLY-STAGE DEAL SIZE GAP OVER ASIA AND EUROPE

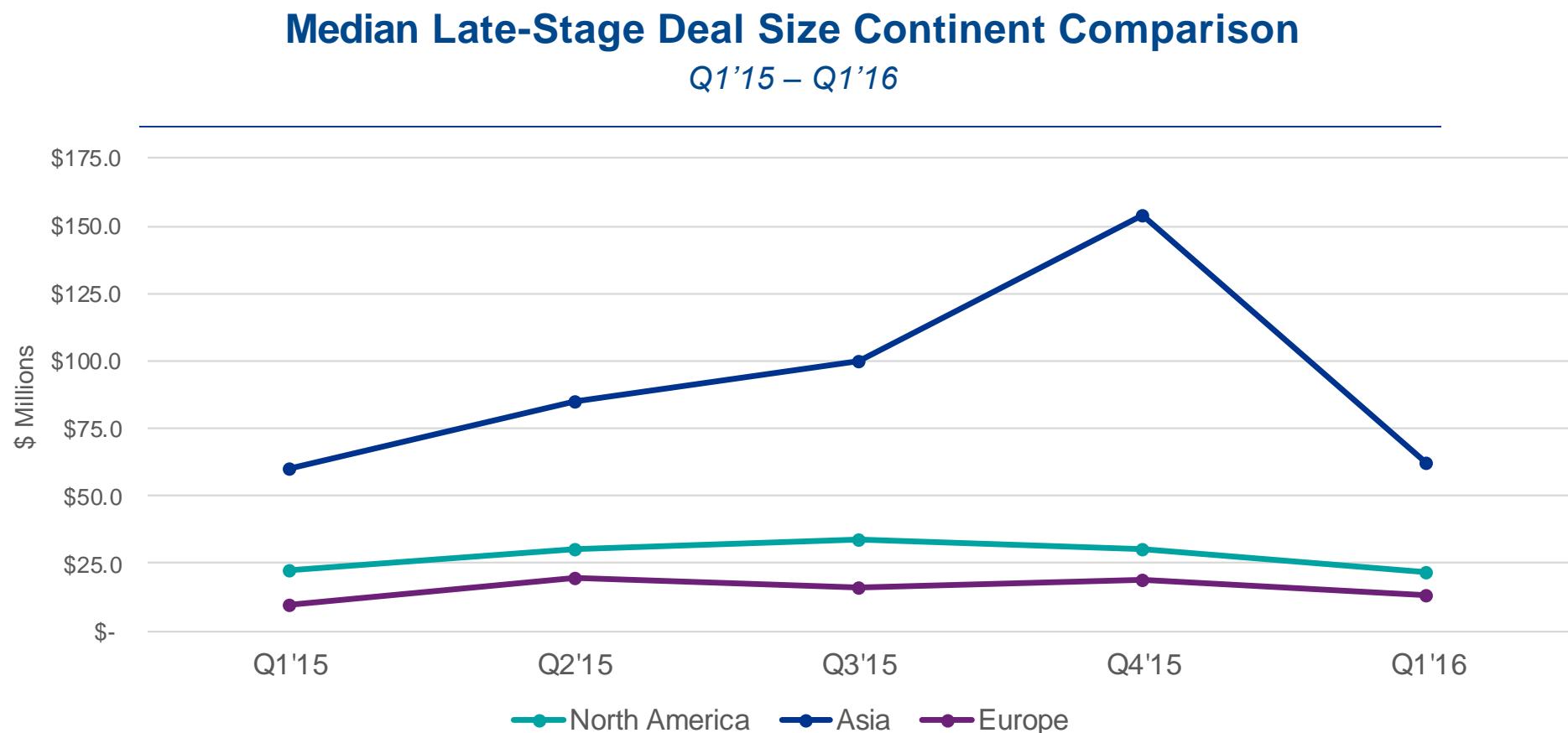
North American VC-backed companies continued to see larger median early-stage deals, holding steady from Q4'15 at \$3M. After Asia and Europe briefly converged in Q4'15, Asian deal sizes broke away, landing at \$2.5M for Q1'16 compared to Europe's \$2.2M.



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# ASIA STILL HAS LARGEST MEDIAN LATE-STAGE DEALS BUT SEES SHARP DROP IN Q1'16

Median late-stage deal sizes in Asia rose to stratospheric heights in late 2015, but deal size abruptly fell off to \$62.5M in Q1'16, nearly reaching the \$60M of Q1'15. However, late-stage deals in Asia maintain a sizeable gap versus North America and Europe. Both of these continents also saw a drop in median deal size in Q1'16, with North America falling below \$25M for the first time since Q1'15.



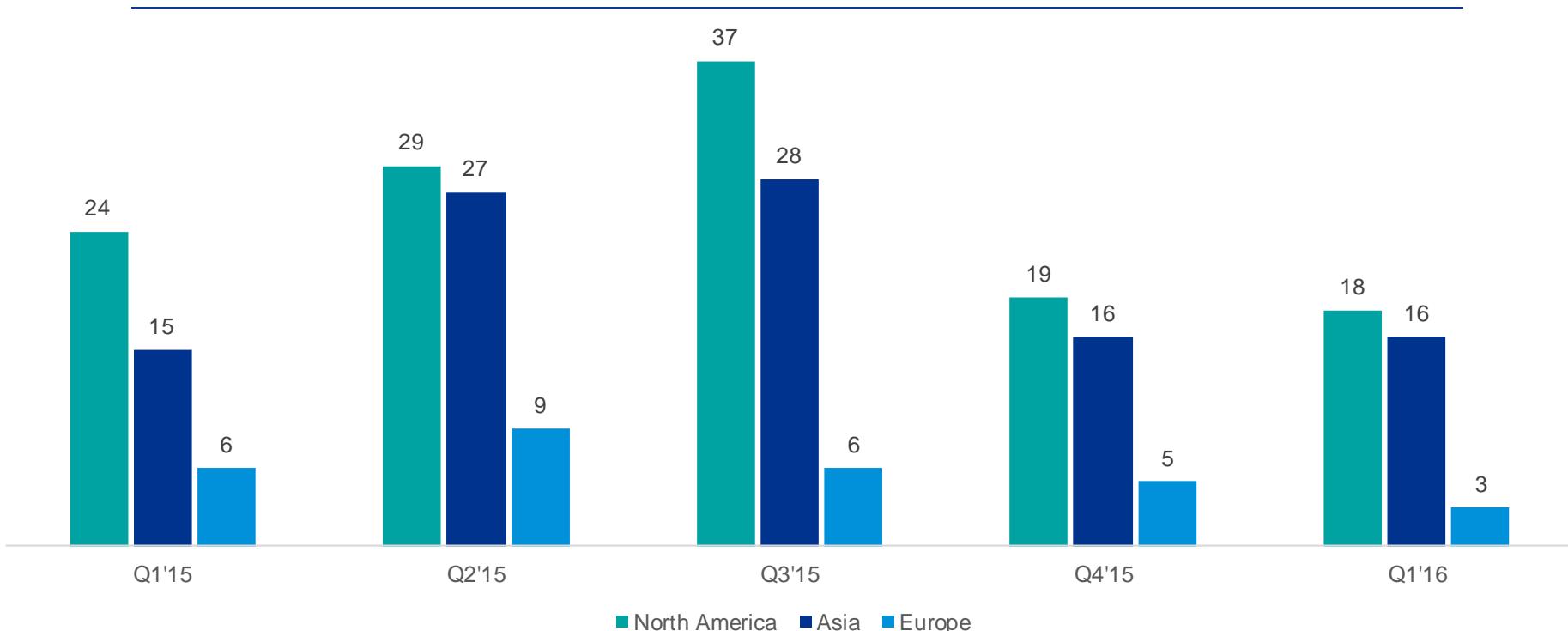
Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# \$100M+ MEGA-ROUNDS TO VC-BACKED COMPANIES HAVE FALLEN BACK TO EARTH

The scramble to find the next Unicorn saw investors open their checkbooks for mega-rounds throughout most of 2015. However, these \$100M+ equity financings remain depressed after falling off a cliff in Q4'15, with all major markets trending flat at best. Q1'16 saw \$8.7B invested across 37 such deals, compared to \$11.5B over 40 deals last quarter.

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

*North America vs. Asia vs. Europe, Q1'15 – Q1'16*



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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**“Given the tougher environment for raising funds, we anticipate many of the Unicorns will tighten their belts by pulling back on spending, driving operational improvements and being more cautious with the money they already have - because it will be more expensive for them to raise capital in the near future.”**



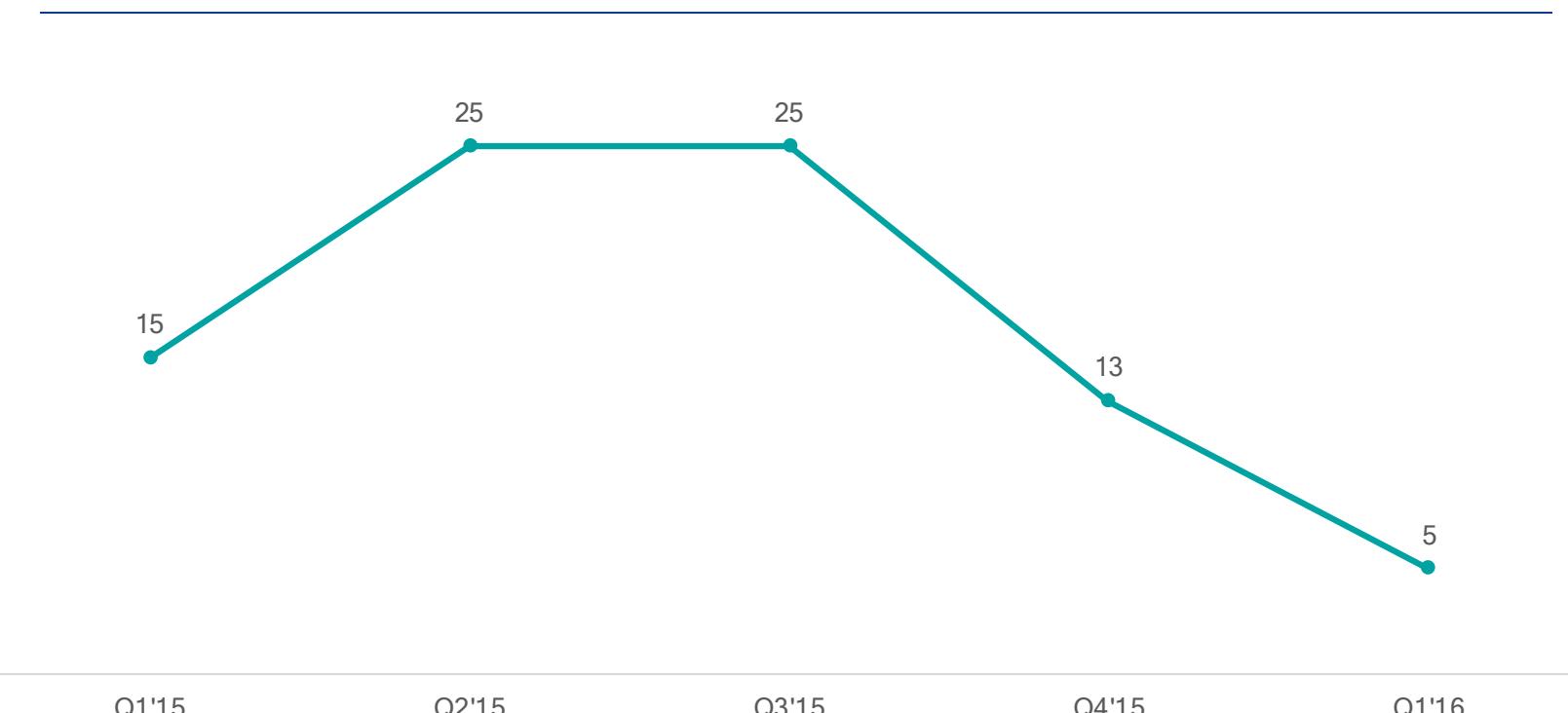
**Arik Speier**  
*Co-Leader, KPMG Enterprise  
Innovative Startups Network and  
Head of Technology,  
KPMG in Israel*

# MOUNTING PRESSURES PUSH UNICORN CREATION PACE TO NEAR-STANDSTILL

Q1'16 has borne witness to high-profile Unicorn company issues, layoffs, down rounds and mutual fund valuation markdowns. This, mixed with hostile conditions in public technology markets, has resulted in a 5-quarter low for Unicorn creations. Just 5 new VC-backed companies entered the Unicorn club in Q1'16, less than half that of any quarter since Q1'15.

## VC-Backed Companies Entering The Unicorn Club

Q1'15 – Q1'16



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# Investor behaviors are changing the way companies do business

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Over the past few quarters, one VC market trend has become increasingly clear: the days of unhindered investor confidence are gone. With much of the global IPO market stalled in Q1'16 and many IPOs from the second half of 2015 having failed to realize their private sector valuations, VC investors are becoming much more skeptical and demanding of their investees.

The idea of a company having a successful exit based on high revenue growth rate, despite a similar growth rate for expenses, is not going to work anymore.

Companies must re-evaluate what they need to do to raise funds.

## ***Investors require more information and want more protection***

For much of 2014 and 2015, investors focused decisions on top-line revenue growth. But in Q1'16, it became apparent that this focus isn't enough. Investors are increasingly questioning the overly optimistic assumptions and forecasts being made by early-stage investors without a strong business plan outlining how such assumptions will be achieved.

Investors know that company potential and actual profitability can be very different things. As a result, investors are requiring much more from prospective companies looking for funding. They want companies to demonstrate revenue creation, positive margins, the ability to control expenses, and profitability - or a realistic path to achieve it. In some industries, investors might also evaluate other performance metrics – like customer retention, bookings or operating margin.

Investors are also asking companies for more guarantees and protection related to their investments. For example, Spotify was able to raise \$1 billion during Q1'16. However, the funding was raised as convertible debt with strict investor guarantees tied to a forthcoming IPO. Moving forward, such investor protection is likely to become a more frequent component of major funding deals.

## ***Early-stage companies must have their ducks in order***

With investors conducting more due diligence on potential investments, seed and early-stage deals suffered considerably in many parts of the world during Q1'16. To attract investors, early-stage companies need to be more prepared than ever. This means re-thinking their approach and developing a more robust pitch.

# Investor behaviors are changing the way companies do business (cont.)

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Rather than simply focusing on the size of the market, market share and potential revenues, companies need to show that they have a way to do business profitably. In some cases, they may need to accelerate their plans to achieve profitability so that it occurs much sooner in their life-cycle than may have been accepted historically. If companies do not have a defined plan and a reasonable turnaround time for achieving profitability, investors will likely be more skeptical and less likely to invest.

## ***Late-stage companies may need to make tough decisions***

Unicorns and late-stage companies will likely be challenged the most by current market realities. That's because they've been able to raise previous funding rounds without the same level of scrutiny. With new investor pressures, companies will need to focus on the fundamentals. This will require many companies to make hard choices about how to achieve profitability – such as conducting layoffs or making cuts to discretionary spending. Such activities may require major culture changes which may foster anxiety. To be successful, companies will need to be able to explain to their stakeholders and employees what they are doing and why they are doing it. This is why some large companies are, in fact, decelerating their growth. Instead, they are focusing their efforts on making sustainable operational improvements that will put them in a more profitable position moving forward.

**“Over the next 6 to 9 months, there will likely be a shakeout amongst Unicorns. Those that can demonstrate revenue growth, positive gross margins, expense control and a path to profitability....may take a slight hit in valuation, but are likely to be the winners down the road.”**



**Brian Hughes**

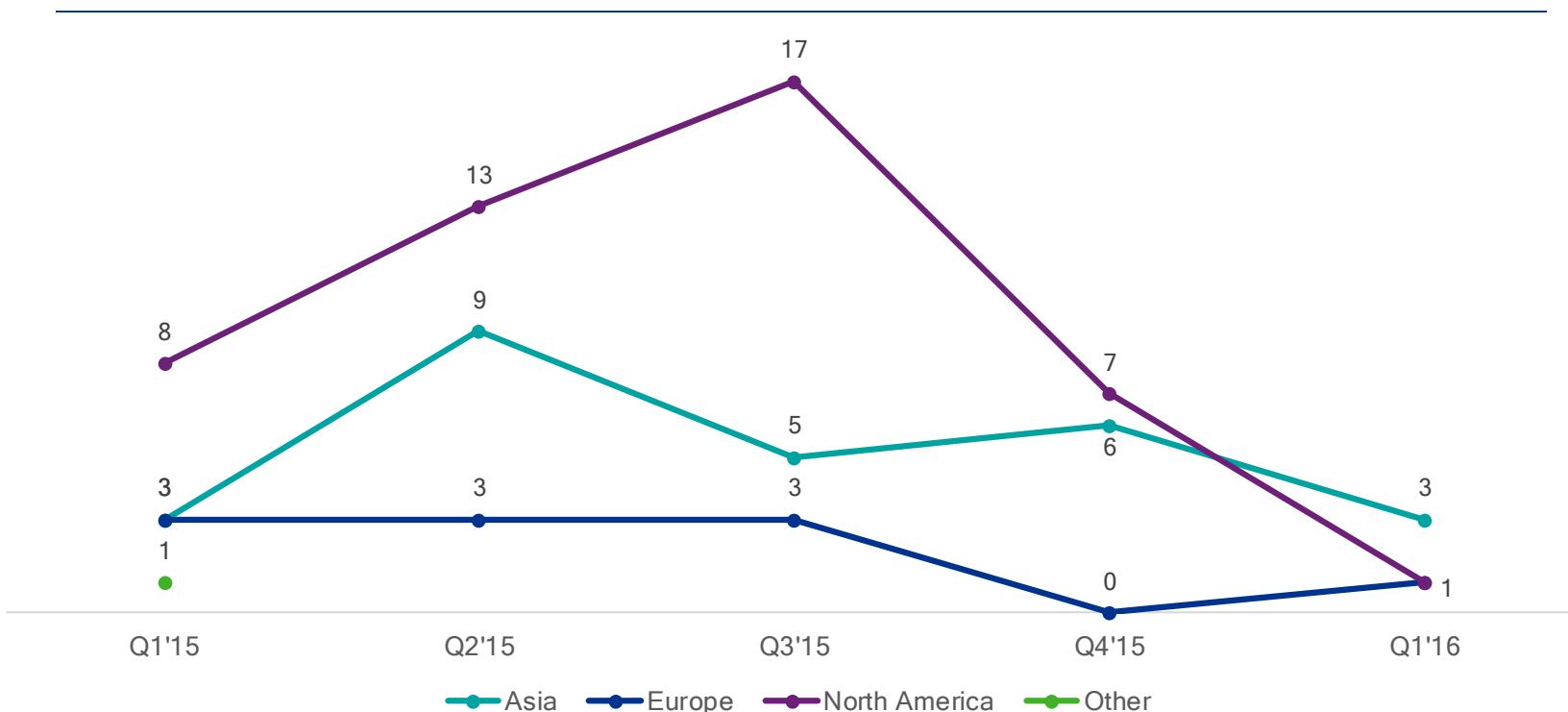
*Co-Leader, KPMG Enterprise Innovative Startups Network, and National Co-Lead Partner, KPMG Venture Capital Practice, KPMG in the US*

# NEW UNICORNS RARE ACROSS ALL MAJOR REGIONS IN Q1'16

Across regions, Europe saw a slight uptick with one new Unicorn, but this was not nearly enough to offset the dearth of new Unicorns in North America and Asia. North America, in particular, saw just one new VC-backed Unicorn for the quarter, a precipitous drop from the 17 it had in Q3'15.

## VC-Backed New Unicorn Companies by Continent

*North America vs. Europe vs. Asia vs. Other, Q1'15 – Q1'16*



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# NOTABLE 'REST OF WORLD' Q1'16 FINANCINGS

Company	Round	Country	Select Investors
<b>Nubank</b>	\$52M (Series C)	Brazil	Founders Fund, Kaszek Ventures, Sequoia Capital, Tiger Global Management
<b>Travelstart</b>	\$40M (Unattributed)	South Africa	Amadeus Capital Partners, MTN Zambia
<b>dr.consulta</b>	\$25.9M (Series A)	Brazil	Kaszek Ventures, LGT Venture Philanthropy
<b>Cyara</b>	\$25M (Series A)	Australia	Greenspring Associates, PeakSpan Capital
<b>iROKOTv</b>	\$19M (Series E)	Nigeria	Canal+ Group, Kinnevik
<b>Global Kinetics</b>	\$11.46M (Series A)	Australia	Brandon Capital Partners, OurCrowd.com
<b>Culture Amp</b>	\$10M (Series B)	Australia	Blackbird Ventures, Felicis Ventures, Index Ventures
<b>WebRadar</b>	\$10M (Series B)	Brazil	DGF Investimentos, Qualcomm Ventures
<b>Elastagen</b>	\$9.13M (Series B)	Australia	ATP Innovations, Brandon Capital Partners, GBS Venture Partners, Korea Investment Partners
<b>Enjoei</b>	\$5M (Series A)	Brazil	Bessemer Venture Partners, Monashees Capital

# SELECT VC-BACKED EXITS IN NORTH AMERICA

Company	Exit Type	Valuation	Select Investors
Legendary Entertainment	Corp. Majority (Wanda Group)	\$3.5B	Accel Partners, Softbank Corp., TomorrowVentures
Jasper Technologies	Acquisition (Cisco Systems)	\$1.4B	Benchmark Capital, Sequoia Capital, DAG Ventures
Cruise Automation	Acquisition (General Motors)	\$1B	Qualcomm Ventures, Spark Capital, Maven Ventures
Brightree	Acquisition (ResMed)	\$800M	Battery Ventures
Padlock Therapeutics	Acquisition (Bristol-Myers Squibb)	\$600M	Atlas Venture, MS Venture, Johnson & Johnson Innovation



*"I think we have, between what Cruise brings to the table and all the capabilities we have inside of GM, we have a really strong position to rapidly commercialize this technology."*

**Dan Ammann**  
*President, General Motors*

Quote source: [The Verge](#)  
Image source: [Pensions & Investments](#)

# SELECT VC-BACKED EXITS INTERNATIONALLY

Company	Exit Type	Valuation	Select Investors
Leaba Semiconductor	Acquisition (Cisco Systems)	\$320M	Bessemer Venture Partners, Pitango Venture Capital
Swiftkey	Acquisition (Microsoft)	\$250M	Octopus Ventures, Accel Partners, Index Ventures
Altair Semiconductor	Acquisition (Sony)	\$212M	Giza Venture Capital, Jerusalem Venture Partners, Bessemer Venture Partners
Captain Train	Acquisition (Trainline.com)	\$189M	Index Ventures, Alven Capital
Replay Technologies	Acquisition (Intel)	\$175M	Samsung Ventures, Deutsche Telekom Capital Partners, Guggenheim Partners



*“The LTE landscape is much more complex than that of other 4G technologies due to the fragmented global spectrum map and varying combinations of frequency bands...”*

**Eran Eshed**  
Co-Founder, Altair Semiconductor

Quote source: [PR Newswire](#)  
Image source: [Wireless Design Mag](#)



*In Q1 2016*

# EUROPEAN

*VC-backed companies raised*

**\$3.5 billion**

# Europe VC activity increases slightly - investors remain cautious

In Q1'16, total VC deal value increased slightly, buoyed by Spotify's \$1 billion funding round that closed out the quarter. Despite this significant deal, worth close to one-third of Europe's entire VC activity during the quarter, many VC investors in the region are holding back from making major investments. The reality is that many European VC investors are being cautious given uncertainties that could have an impact on the VC market over the medium term, including a pending referendum regarding the United Kingdom's future in the European Union, the fallout from the Brussels terrorist attacks only months after attacks in Paris, and the impact of the forthcoming US presidential election on the investment climate in the US of which Europe is not immune.

## *Increasing amount of “dry powder” in market*

The current hesitance among VC investors in Europe may simply be a short-term trend. This is because of the dry powder in the market where VC funds will likely be looking to invest once market uncertainties have leveled out. Given that interest rates are expected to remain very low in Europe, investors are expected to continue to look for investment opportunities to make much higher returns.

## *Investors more critical about potential investments*

Given current market uncertainties, VC investors are becoming more selective when it comes to their investment activities. During Q1'16, deal share was marked by a pullback in seed / angel rounds – dropping to 35 percent from 42 percent in the prior quarter. This pullback suggests that investors are de-risking by investing in companies that are more established and that have a proven track record. As a result, startups will need to provide a lot more detail to investors in order to attract funding.

Nowadays, investors in Europe are often more conservative than VCs in the US and they want to examine a startup company's profit and loss statement and cash flow forecast as well as see positive margins – or obtain more visibility on how and when the company will become profitable. Companies that do not have a strong and credible business plan for achieving profitability will be hard-pressed to attract investment given the caution currently permeating the European VC market.

Investors are also demanding more protection in exchange for their investments. Spotify was able to raise \$1 billion using convertible debt with strict investor guarantees tied to a forthcoming IPO. In such a cautious market, investor guarantees will likely become more prevalent.

# Europe VC activity increases slightly - investors remain cautious (cont.)

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## ***Corporate investment poised for growth***

Corporates had been slow to move in Europe and for many years they had 'follower' strategies in adopting digital technologies and new business models. However, European corporates have changed their attitudes. A number of large corporates have set up VC arms in order to buy and develop innovations that they can commercialize or implement internally. Given the pressure for traditional companies across a number of industries to innovate, it is expected that corporate investing in Europe will only continue to grow.

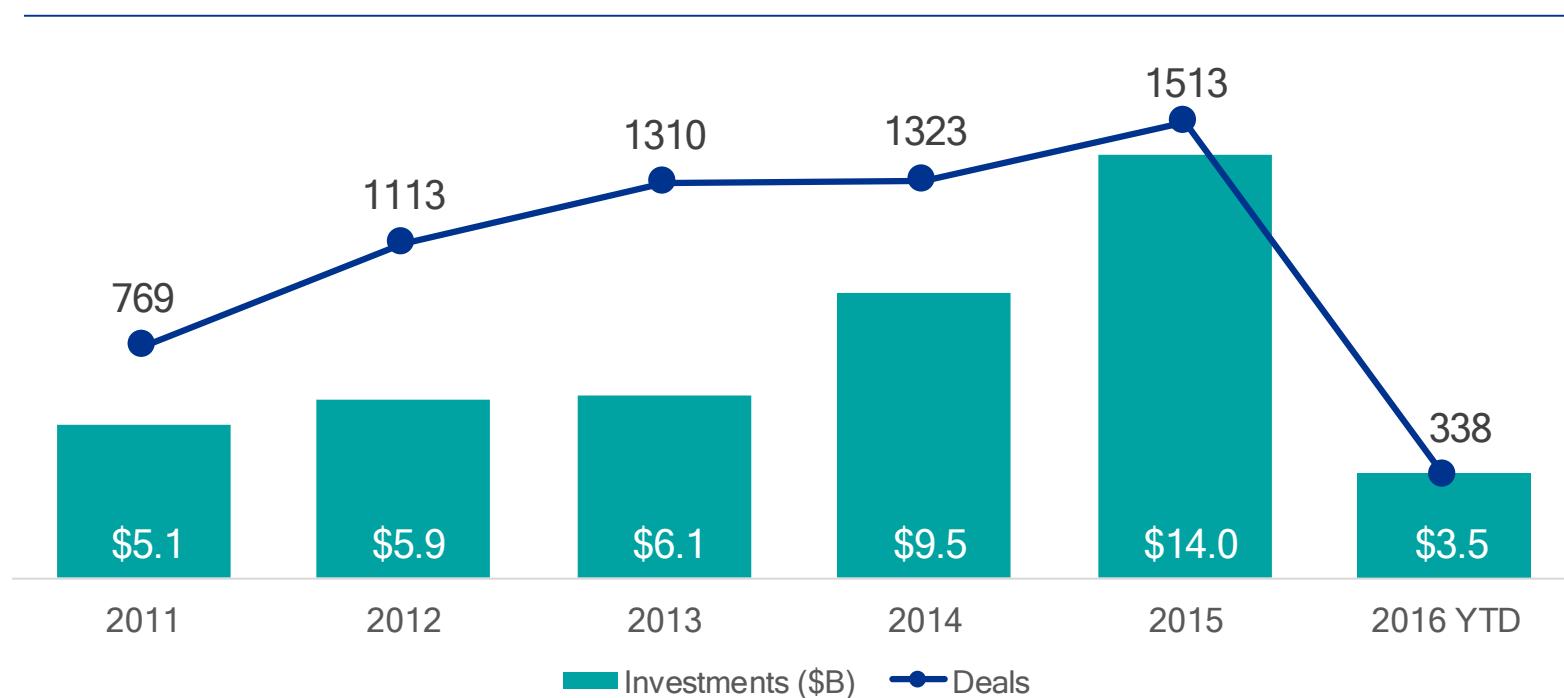
## ***Innovation agenda likely to drive future growth***

Europe's diversity is a positive attribute when it comes to innovation. The EU and many European countries have established innovation agendas aimed at fostering innovation in a variety of areas, from fintech to insurtech to digital health. This move to support the development of a more proactive ecosystem of incubators, accelerators, innovation hubs and innovation incentives to encourage and stimulate growth should only help increase Europe's innovation presence over the next few years.

# VC-BACKED EUROPEAN FUNDING OFF TO A SLOW START IN 2016

VC-backed companies in Europe saw a new peak in funding and deal activity in 2015, with \$14B invested across more than 1500 deals. 2016 has started slower, with most of 2016 funding rooted in the \$1B convertible note raised by Spotify and less than 350 deals occurring in the first quarter (compared to more than 400 in Q1'15).

**European Annual Financing Trends to VC-Backed Companies**  
2011 – 2016 YTD (Q1'16)



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

**“There is a lot of dry powder and liquidity in the system – a lot of money has been raised in the last 12 to 24 months that has to be invested. While I don’t see valuations coming down very steeply, investors are expected to become more active and more hands-on.”**

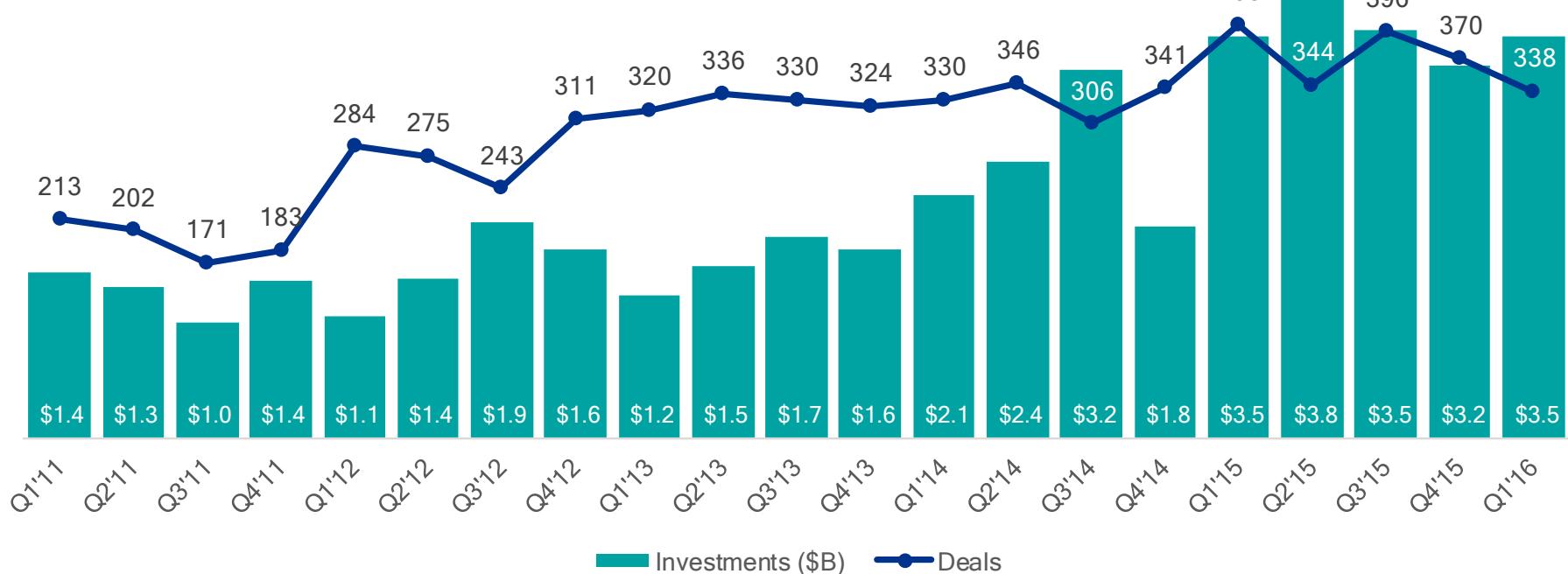


**Guillermo Ramos**  
*Director, Corporate Finance,  
KPMG in Spain*

# DEAL COUNT IN EUROPE DROPS AGAIN IN Q1'16 BUT FUNDING RISES

Q1'16 saw a further decline in deal activity to European startups from Q4'15, down to the lowest level since Q3'14. Despite this, funding dollars bounced back to \$3.5M, an 8% uptick from the quarter prior, largely due to the \$1B convertible note raised by Spotify.

## European Quarterly Financing Trends to VC-Backed Companies Q1'11 – Q1'16



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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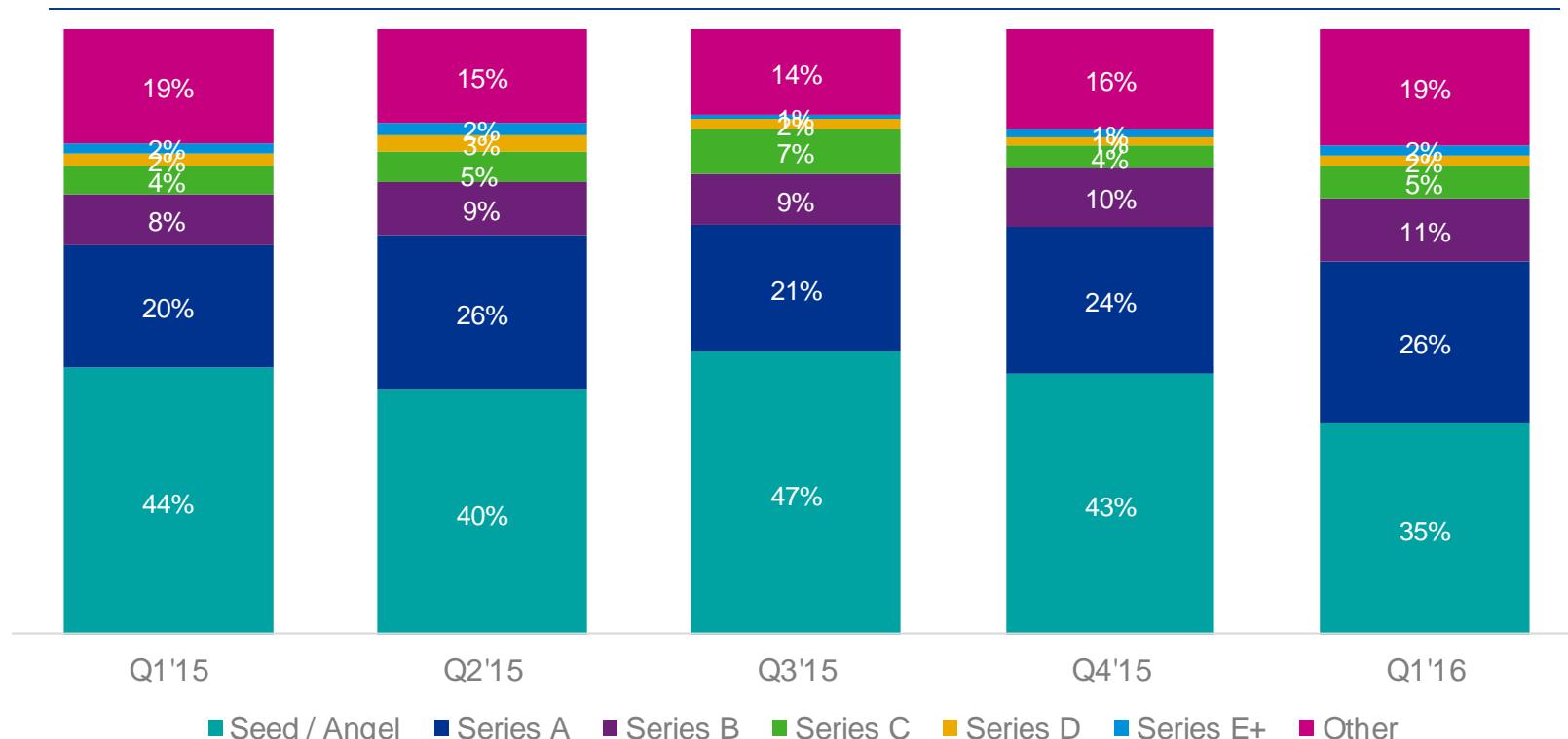
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# SEED DEAL SHARE IN EUROPE DROPS BELOW 40%

Seed/Angel deal share in Europe fell below 40% for the first time in at least 5 quarters, taking only 35% of total deal share into VC-backed companies. Deal share across the board went up slightly as a result, with Series A jumping above a quarter of deal share.

European Quarterly Deal Share by Stage  
Q1'15 – Q1'16



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

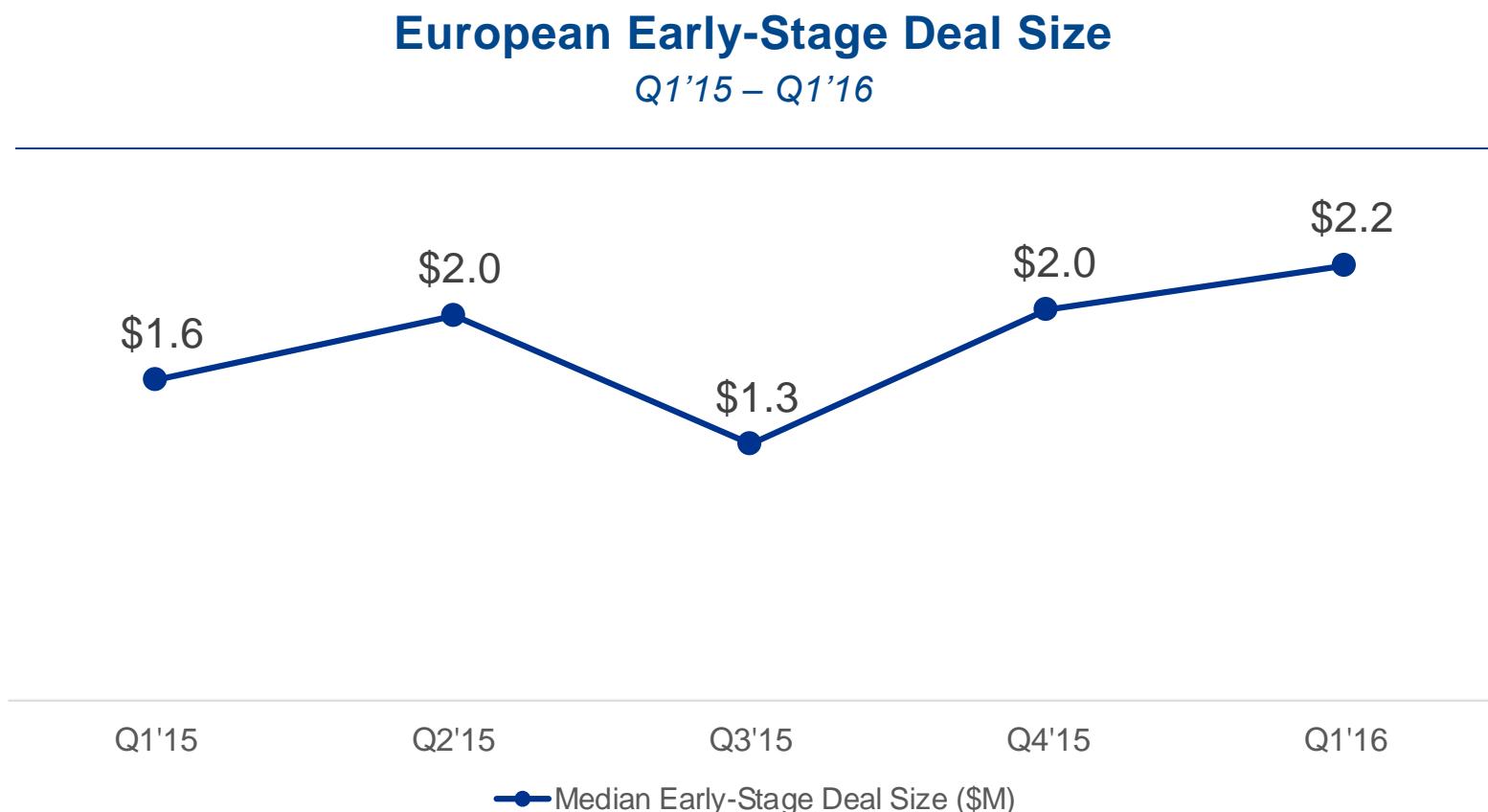
**“Companies that want to attract seed and angel investments in Europe right now need to provide investors with more defined plans for how they will achieve their targets. Without a roadmap for achieving profitability, investors may be skeptical about a company’s bullish assumptions.”**



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

# EARLY-STAGE DEAL SIZE INCREASES FOR THE SECOND STRAIGHT QUARTER

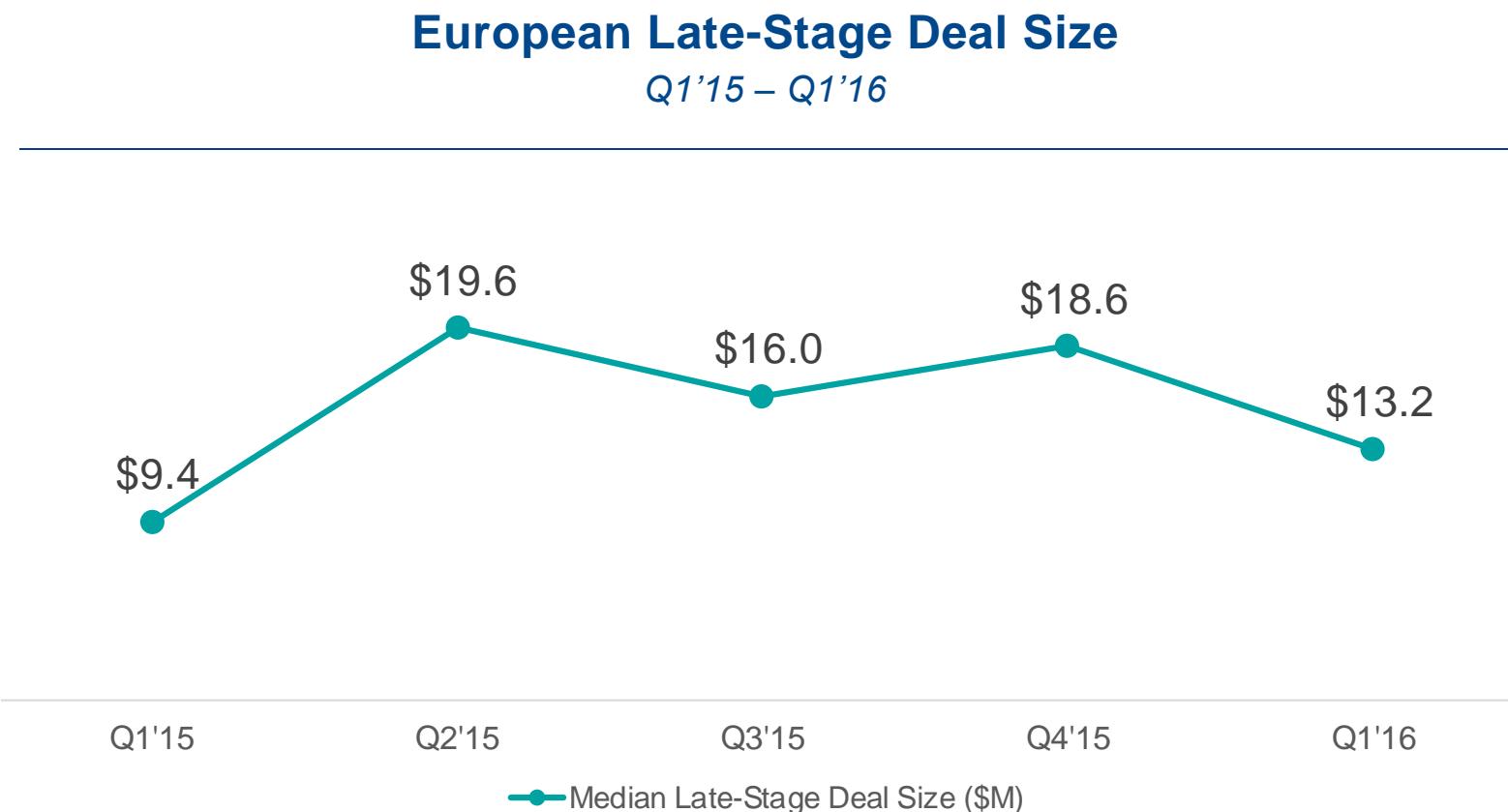
Despite early-stage deal share decreasing in Q1'16, the median size of the deals have increased to \$2.2M for the quarter. Early-stage deal size in Europe has moved up and down, but this has been the second consecutive quarter of deal size growth.



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# EUROPEAN LATE-STAGE DEAL SIZE SHRINKS IN Q1'16

After median late-stage deal sizes broke \$15M for 3 quarters in a row, the median in Europe fell to \$13.2M in Q1'16, a 29% quarter over quarter decrease.



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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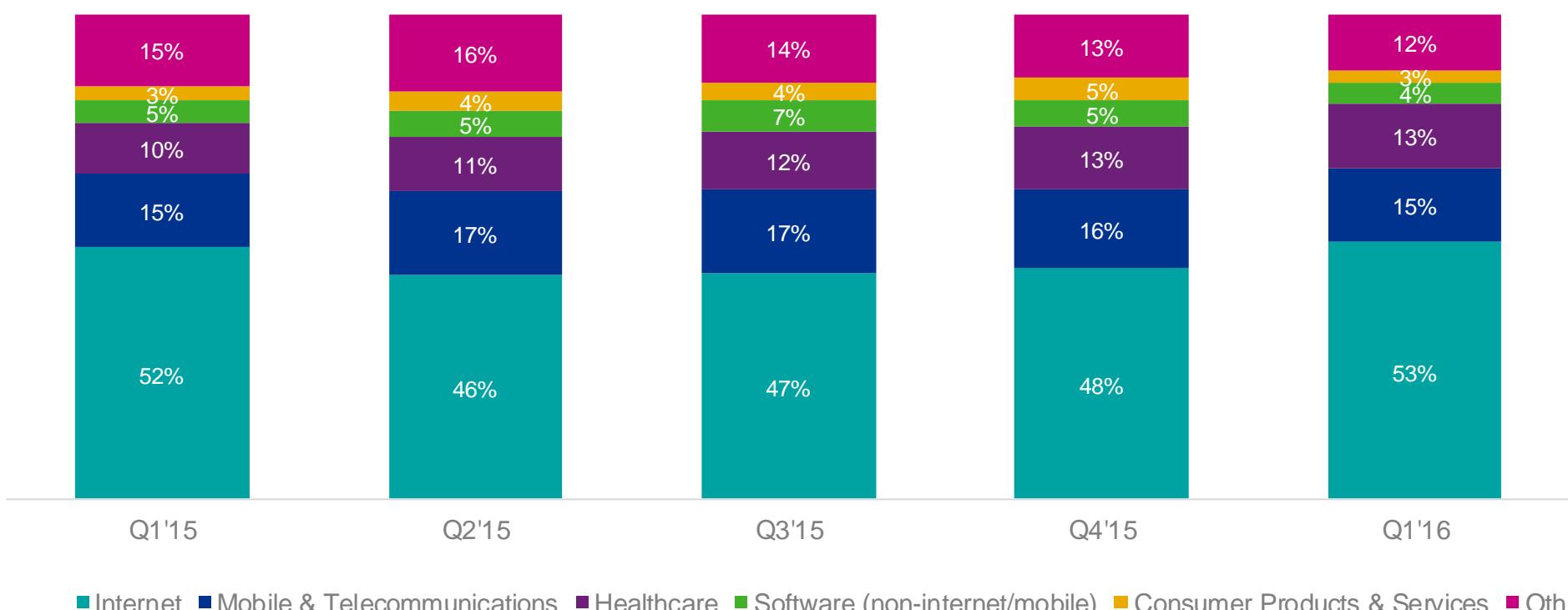
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# INTERNET TAKES MORE THAN HALF OF ALL DEALS AFTER A 3-QUARTER SLOWDOWN

Tech companies continue to take the most deal share, with internet, mobile, and software comprising more than 70% of total deal share into Europe in Q1'16. Internet also took more than half of all deal share, the first time since the same quarter 1 year prior.

**European Quarterly Deal Share by Sector**  
Q1'15 – Q1'16



■ Internet ■ Mobile & Telecommunications ■ Healthcare ■ Software (non-internet/mobile) ■ Consumer Products & Services ■ Other

Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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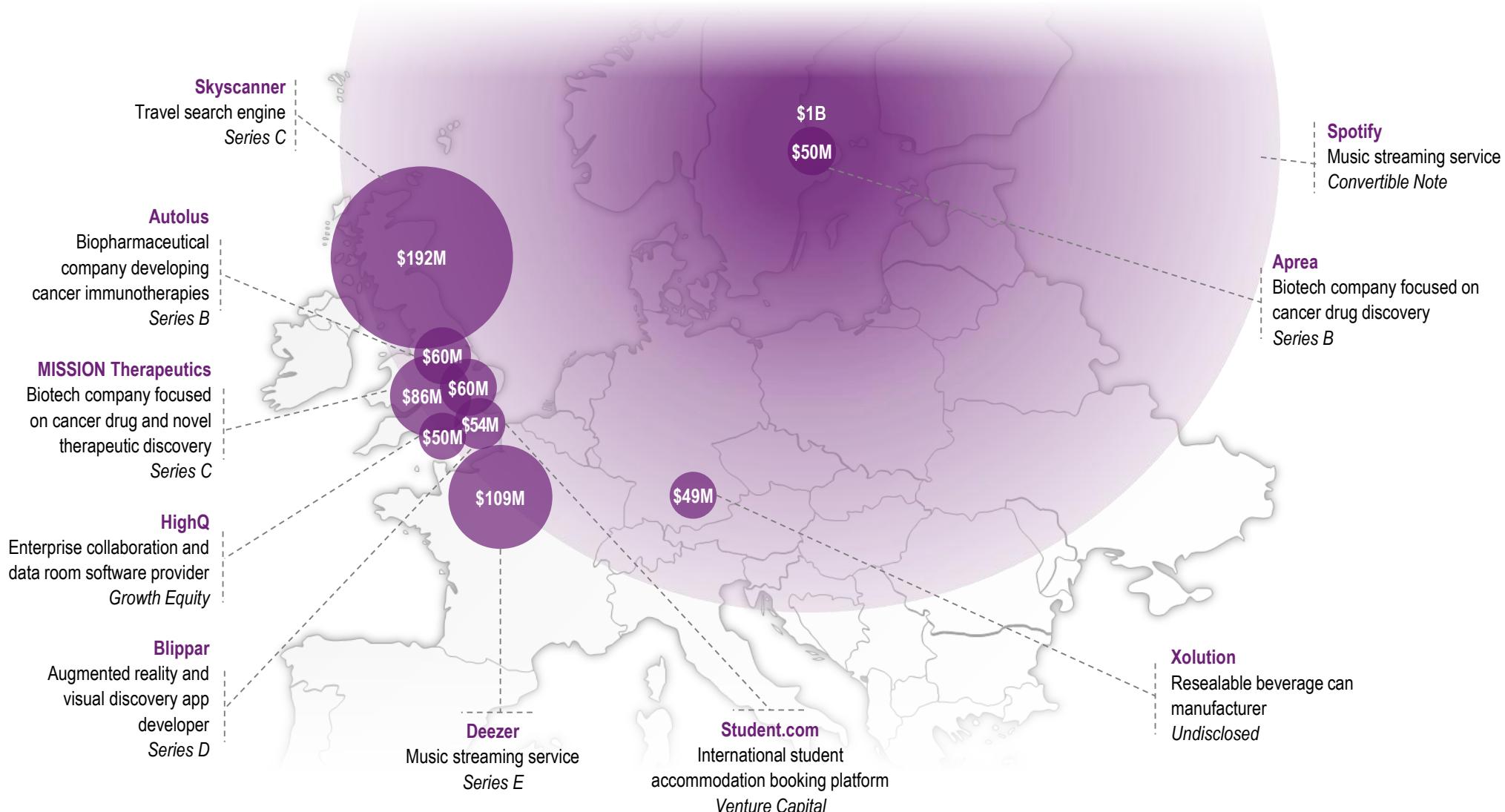
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# THE 10 LARGEST EUROPEAN ROUNDS OF Q1'16 REPRESENTED MORE THAN \$1.7B IN FUNDING



**“Investors in many parts of the world are increasingly insisting on new protections and guarantees. In Europe, the billion-dollar VC investment into Spotify carried with it guarantees, protecting investors, should Spotify make good on its promise to go public in the next few years.”**

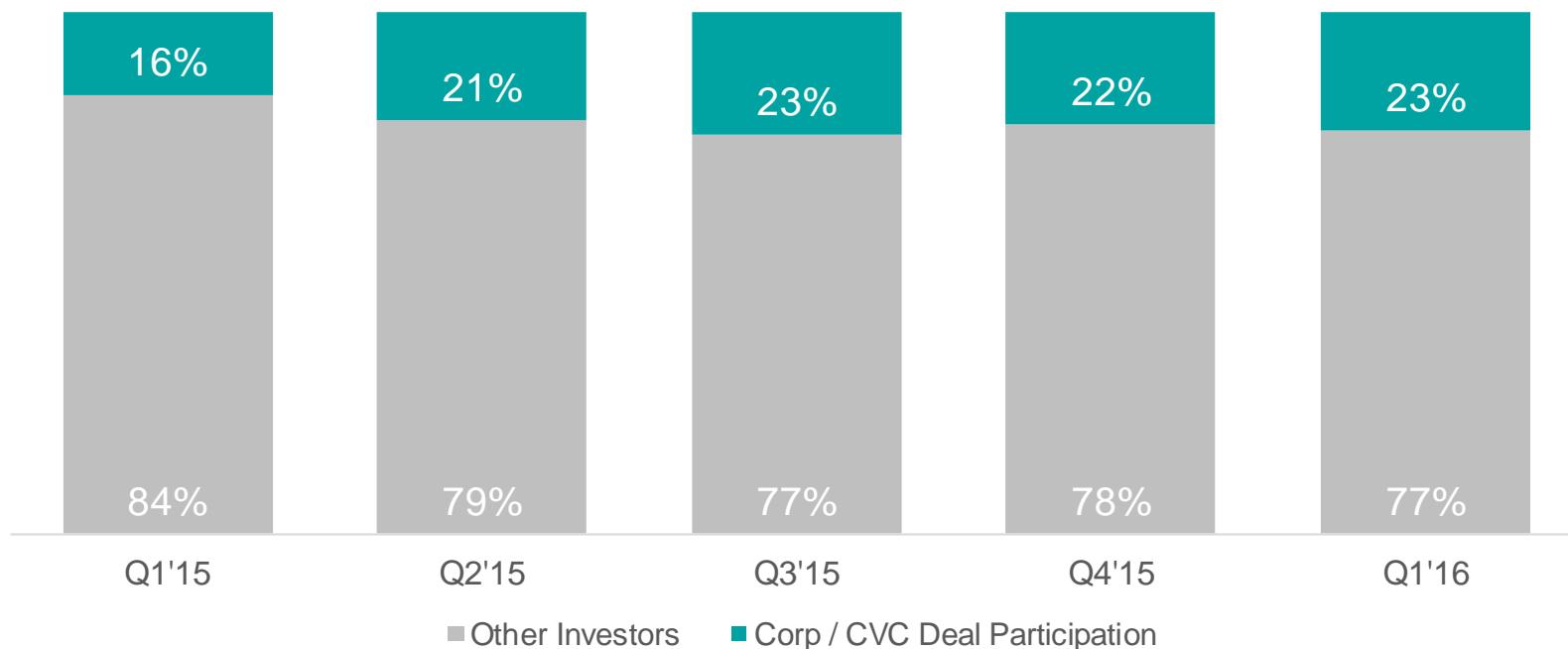


**Patrick Imbach**  
*Head of High Growth  
Technology Group,  
KPMG in the UK*

# CORPORATE PARTICIPATION TOPS 20% FOR 4 OF THE LAST 5 QUARTERS

Corporate investors participated in 23% of all deals to European VC-backed companies in Q1'16. Corporate participation has now topped 20% for 4 of the last 5 quarters.

## CVC Participation in European Deals to VC-Backed Companies Q1'15 – Q1'16



Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

# HIGH-TECH GRUENDERFONDS IS MOST ACTIVE VC INVESTOR IN EUROPE IN Q1'16

High-Tech Gruenderfonds continues to hold its spot as the most active VC investor in Europe. The German-based VC led all VCs with multiple early-stage bets, including LifeTime and Gravit, among others. Business Growth Fund, German Startups Group and Index Ventures rounded out the top four.

## Most Active VC Investors in Europe Q1'16

Rank	Investor	Rank	Investor
1	High-Tech Gruenderfonds	5	Holtzbrinck Ventures
2	Business Growth Fund	9	Bayern Kapital
3	German Startups Group	9	Salesforce Ventures
4	Index Ventures	9	Imperial Innovations
5	Caixa Capital Risc	9	Ventech
5	Partech Ventures	9	e.ventures
5	Notion Capital	9	IBB Beteiligungsgesellschaft

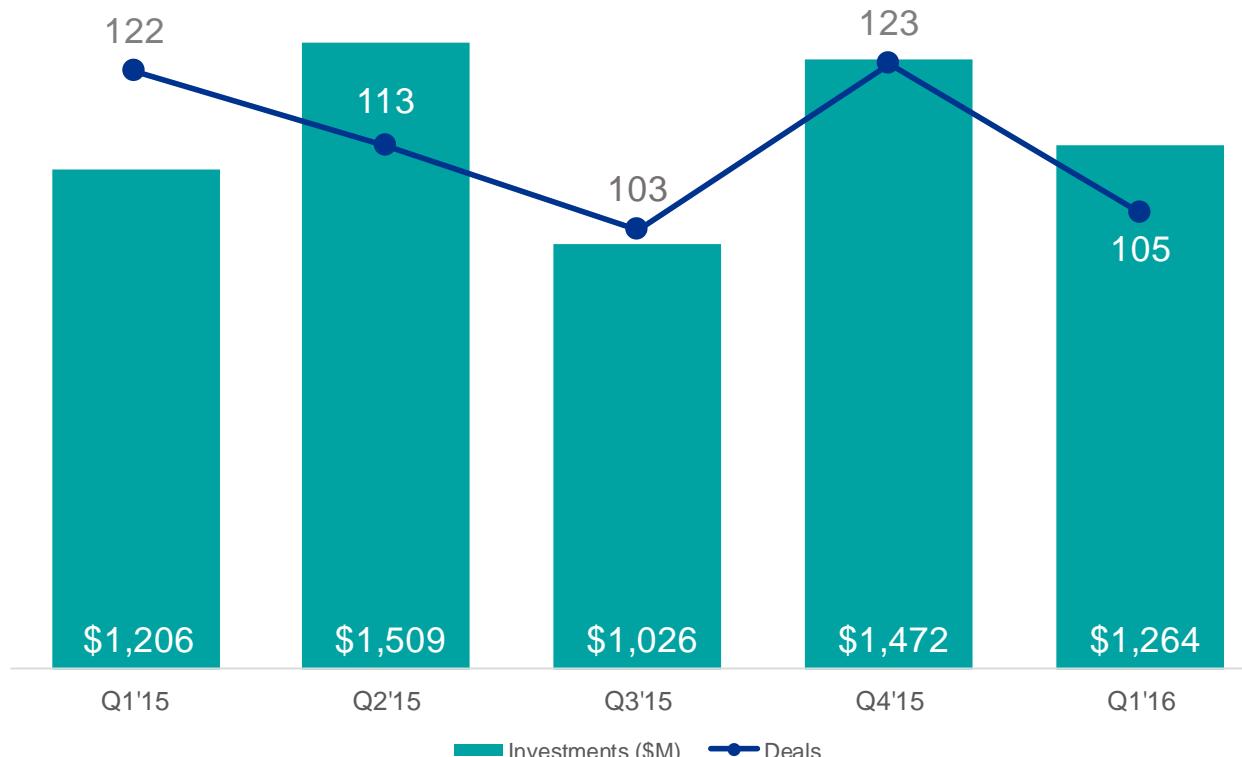
Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13, 2016

# UK VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q1'16

## UK Investment Activity

VC-Backed Companies, Q1'15 – Q1'16



## Top Deals

**Skyscanner**

\$192M // Series C

**MISSION Therapeutics**

\$86.24M // Series C

**Autolus**

\$60M // Series B

## Top Cities

**London**

53 Deals // \$636.1M

**Cambridge**

10 Deals // \$168.5M

**Edinburgh**

4 Deals // \$198.7M

Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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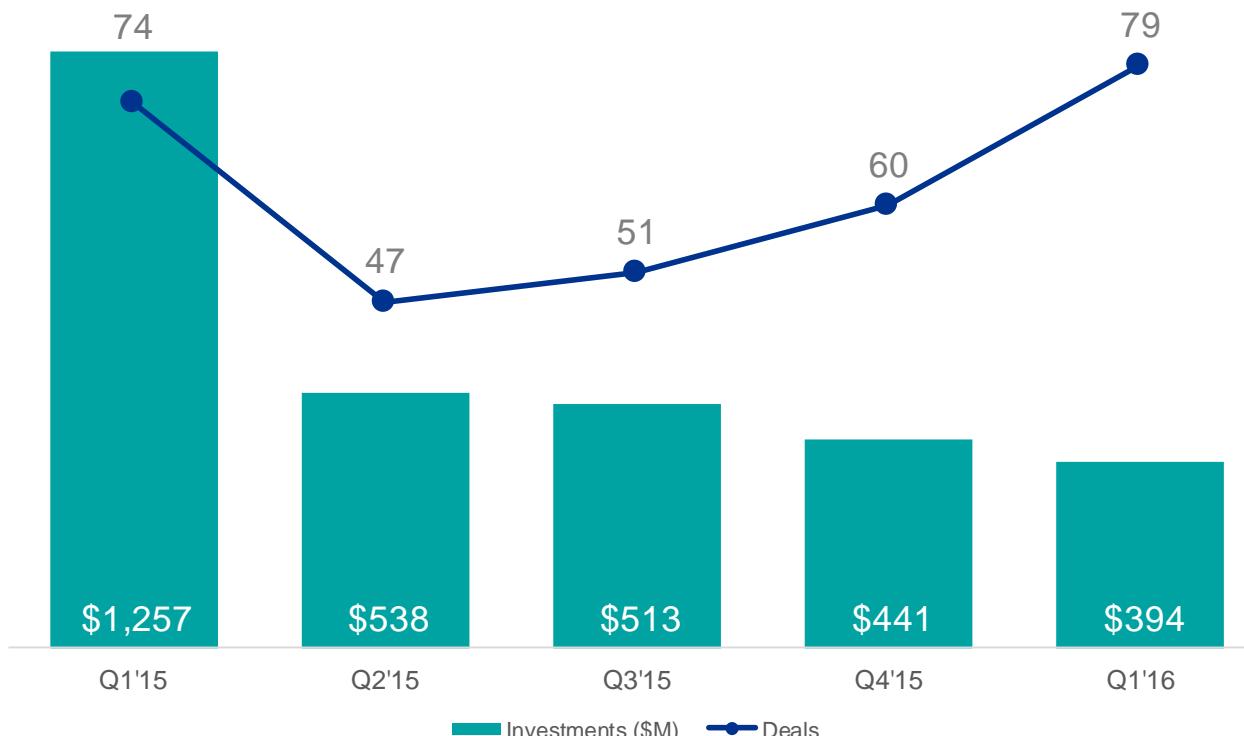
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# GERMANY VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q1'16

## Germany Investment Activity

VC-Backed Companies, Q1'15 – Q1'16



## Top Deals

### Xolution

\$49.14M // Unattributed VC

### eGym

\$45M // Series C

### Spotcap

\$34.4M // Series B

## Top Cities

### Berlin

47 Deals // \$172.1M

### Munich

9 Deals // \$113.9M

### Hamburg

5 Deals // \$27.8M

Source: Venture Pulse, Q1'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) April 13th, 2016.

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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 tranches investments. If a company does a second closing of its Series B round for \$5M and previously had closed \$2M in a prior quarter, only the \$5M is reflected in our results.
- Round numbers reflect what has closed – not what is intended. If a company indicates the closing of \$5M out of a desired raise of \$15M, our numbers reflect only the amount which has closed.
- Only verifiable fundings are included. Fundings are verified via (1) various federal and state regulatory filings; (2) direct confirmation with firm or investor; or (3) press release.
- Previous quarterly VC reports issued by CBI have exclusively included VC-backed rounds. In this report any rounds raised by VC-backed companies are included, with the exceptions listed.

## What is excluded:

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

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



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## About KPMG Enterprise

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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.

# Acknowledgements

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