

Venture Pulse Q2 2016

Global Analysis of
Venture Funding

July 19, 2016



Welcome message

The second quarter of 2016 saw venture capital market activity rise slightly following 2 quarters of declines. Large rounds by companies like Uber, Snapchat and Didi Chuxing helped buoy investment despite the ongoing decline in the number of deals.

While the Brexit referendum in the UK caused many investors to hold back from making significant investments, over the quarter, specifically in the UK, the upcoming US presidential election, the potential increase in US interest rates, and an economic slowdown in China also added to investor caution.

Despite the further drop in the number of VC deals, there are strong indications that market activity will rebound heading into the second half of 2016 and into 2017. Many investors appear to be taking a 'wait-and-see' approach to the VC market rather than switching their investment focus entirely, ending the days of FOMO (fear of missing out).

In fact, many VC investors are using the current market climate as an impetus to raise additional funds, rethink their portfolio of investments and focus more diligently on identifying companies that have strong business models and plans to achieve profitability. As market uncertainties resolve, these investors are expected to be looking to deploy the significant amount of dry powder they have accumulated over the past 6 months.

In this quarter's Venture Pulse Report — a collaboration between KPMG Enterprise and CB Insights — we explore the top-of-mind issues for investors in key regions of the world and reflect on a number of questions that will affect the VC market going forward, including:

- What factors are driving the declining number of deals in the VC market?
- How will the results of the UK's Brexit referendum affect VC investment?
- Are VC-backed unicorns starting to die off?
- How are artificial intelligence technologies poised to reshape business?

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	\$2.8B in funding 385 deals

All monetary references contained in this report are in USD

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#Q2VC



In Q2 2016 VC-backed companies raised

\$27.4B

across

1886 deals

SUMMARY OF FINDINGS

GLOBAL INVESTORS CONTINUE TO DIAL BACK DEAL ACTIVITY IN Q2'16

Funding ticks up: Following 2 consecutive quarters of declines, global funding to VC-backed companies edged up 3% to \$27.4B in Q2'16, lifted by \$1B+ rounds to 'decacorns' valued at \$10B+ such as Uber, Snapchat and Didi Chuxing.

Deals see further decline: Deal activity had already slowed noticeably in Q4'15 and Q1'16 but global financings dropped a further 6% in Q2'16, down to 1886. Deal count fell in both Asia and North America, though it rose slightly in Europe.

Slight recovery in unicorn birth rate: As existing unicorns continue to face increased scrutiny, only seven new VC-backed unicorns were minted in Q2'16. That's two more than the previous quarter, but still considerably fewer than the double-digit births seen in 2015.

Corporates maintain deal pace: Corporates and CVCs participated in over 25% of deals for a second-straight quarter, as corporations continue activity in private markets.

US DEALS FALL IN Q2'16, WHILE FUNDING SEES SLIGHT GROWTH FROM Q1'16

US deal activity continues to reset: US funding was up to \$16.7B, rising 10% from Q1'16. However, the quarterly deal count of 1048 slipped 9% from the quarter prior, and represents a 26% year-on-year plunge.

Late-stage deal sizes stay low: Median late-stage deal size in North America ended the quarter at \$25M, well below the \$30M median in Q4'15 and \$34M in Q3'15.

Early-stage deal share depressed: Seed to Series A deal share in North America fell to 51% of all deals to VC-backed companies, representing a 5-quarter low. Other stages remained relatively range-bound.

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

Deals fall across top US states: Quarterly deal growth was flat or negative across the top three states of California, Massachusetts and New York. However, a few outsized mega-rounds lifted California's total funding 63% from Q1'16.

*Note: Report includes all rounds to VC-backed companies
Mega-deals to VC-backed companies from hedge funds or mutual funds would be included, for example. This report includes all of those rounds. All data is sourced from CB Insights. Page 53 details the rules and definitions we use.*

SUMMARY OF FINDINGS

EUROPE Q2'16 FUNDING DROPS BELOW \$3B BUT DEAL ACTIVITY RISES

Mixed results in Europe: Deal count in Europe crept up 5% to 385, although the funding total of \$2.8B is 20% lower than that of Q1'16. This reverses the deal and dollar trends seen in the quarter prior. Europe surpassed Asia for deal activity.

Seed-stage deal share recovers in Europe: Seed/angel share jumped back to 49% after suddenly falling below 40% last quarter. Meanwhile, most other stage shares decreased slightly as deals rebalanced towards seed.

UK deal, dollar activity continues to fall: UK VC-backed startups raised \$729M in funding across 104 deals, both numbers representing back-to-back quarterly declines. Funding hit a 5-quarter low with the sub-\$1B total.

Germany deal, dollar activity diverges: Funding to German VC-backed startups rose to \$492M in Q2'16, reversing 4-straight quarters of negative growth. Deal count dropped to 70, likewise snapping a 4-quarter streak of deal growth.

INVESTMENT PACE IN ASIA CONTINUES TO PLUMMET

Asia funding essentially flat: Funding to VC-backed Asian companies was up just 2% to \$7.4B, while deals dropped a further 12% from the already-cooling activity seen in Q1'16.

Late-stage deal size recovers to \$100M: Q1'16 saw median late-stage deals in Asia plunge after ballooning throughout 2015. Median deal size has returned to \$100M in Q2'16, with sizeable rounds going to companies like Didi Chuxing, Spring Rain and Tokopedia.

Deal activity slips in China: Funding to VC-backed companies in China rose to \$5.6B, though deal count shrank 20%, down to 74 for the quarter.

India funding craters to \$583M: With investors growing increasingly wary, financing to Indian VC-backed companies continued to drop in Q2'16. A dearth of mega-rounds contributed to a 59% slide in funding from Q1'16.

Corporates maintain investment pace in Asia: Corporates participated in over 30% of deals to Asian VC-backed companies for the fourth-straight quarter.

In Q2 2016

GLOBALLY

VC-backed companies raised

\$27.4 billion

Global VC activity continues decline amid market uncertainties

Global VC investment rose slightly between Q1 and Q2 as a result of \$1 billion+ funding rounds by ‘decacorns’ — companies valued at over \$10 billion, including Uber, SnapChat and Didi Chuxing. Comparatively, deal volume continued to decline, likely a result of numerous factors, from market uncertainties associated with Brexit, the November US presidential election, a slowdown of the Chinese economy and the potential increase in US interest rates to the hangover resulting from the valuation highs created in 2015, which continues to see VC investors questioning high valuations.

Investor caution drives ‘wait-and-see’ approach

Many investors across regions chose to wait on the sidelines in Q2’16, seemingly with the belief that market uncertainties will resolve themselves over the next couple of quarters. Rather than make new investments, many of these investors chose to take the time to raise capital or to evaluate their current portfolio of investments. Crossover investors (mutual funds and hedge funds) appeared to be particularly cautious during the quarter.

Brexit outcome may introduce new uncertainties but also new opportunities

Following the Brexit referendum, there was some short-term turmoil in the global public markets. While the corresponding ripple-effects are beginning to stabilize, the fact that there is no concrete plan for the exit of the UK from the EU may introduce new uncertainties, especially in the European VC market. With many investors wondering: ‘What next?’ — the plethora of caution in the VC market today is not expected to dissolve in the near future. At the same time, other locations may find this a prime opportunity to attract VC investor attention away from the UK, allowing other startup hubs to gain prominence.

IPO failures continue to drive demands for investor protections

Following a number of high profile IPOs failing to achieve their private valuations, investors remained cautious during Q2 when it came to making significant late-stage investments. As companies worked to keep valuations at their current levels during Q2, more investors demanded investor protections as a key component of any funding granted — wanting assurance of protection in the event of a down round or less than ideal IPO exit.

The rise and fall of unicorns

2015 saw the highest number of unicorns (companies with a valuation above \$1 billion) created. This number has been reined in significantly so far in 2016, with just 12 new unicorns in total introduced: five in Q1 and seven in Q2. While some existing unicorns have held highly successful follow-up funding rounds, low valuations may cause others to lose or fail to attract financing in the quarters to come. This may create a new trend of ‘uni-corpses’ as some unicorns disappear.

Global VC activity continues decline amid market uncertainties (cont.)

Proven companies continue to attract investment

With current market uncertainties, experienced and proven companies were seen to win the majority of investment in Q2, especially in North America and Asia, where large funding rounds went to Uber, Didi Chuxing and Snapchat. While Europe continued to fund significant seed and early-stage deals, the other two regions saw investment leaning toward later stage deals.

Regardless of deal stage, VC investors across all regions appeared to be more hesitant with respect to their investments. They are no longer willing to throw money at promising but poorly organized companies. Instead, they are focusing their attention on those that can show a clear path to profitability and which have a strong business model and control of their expenses. Companies that do not have their financial house in order will likely be left behind by those that do.

AI and virtual reality attracting attention — poised for growth

Q2'16 investments in artificial intelligence (AI) increased globally compared to other high-profile sectors such as digital health, which saw a decrease in investment over the quarter. AI is an area that has experienced rapid growth over the last 5 years and is poised for further growth over the next year. The relative resilience of this industry can be attributed to the fact that AI technologies underpin countless innovations, from driverless cars to robo advisory platforms.

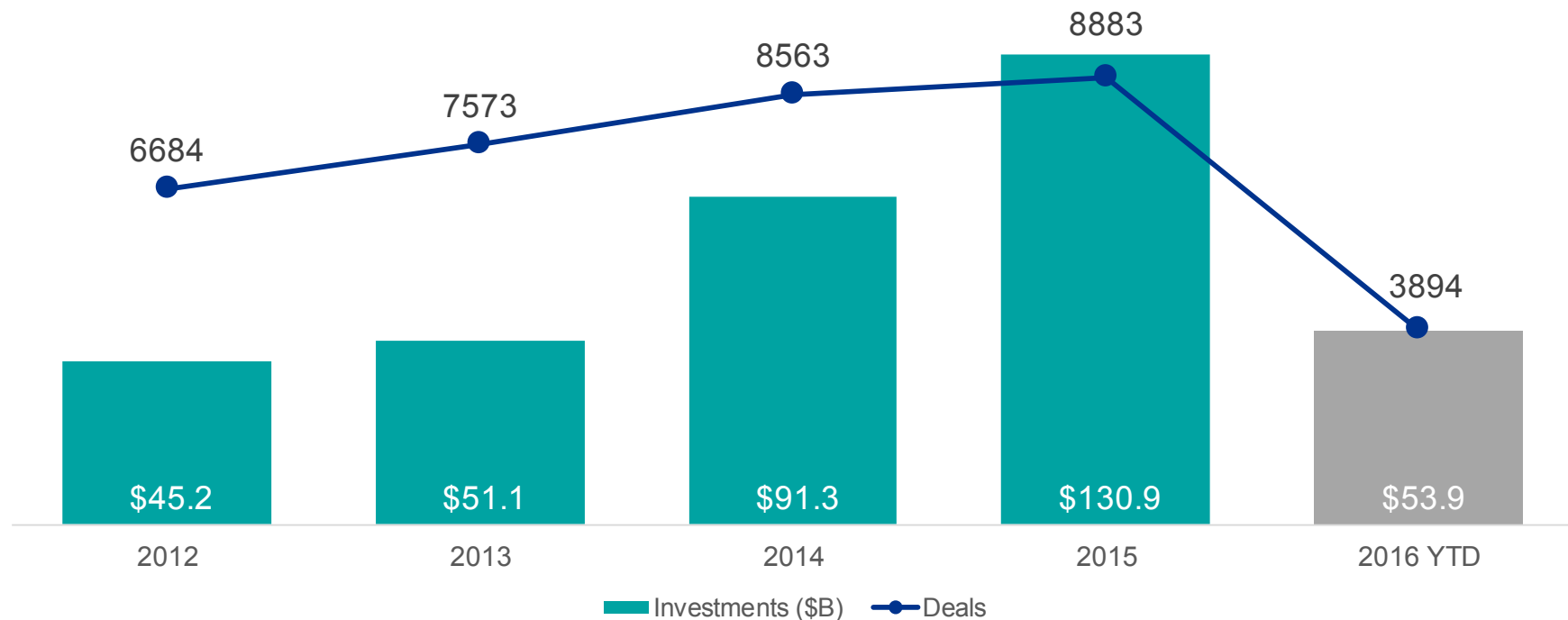
Virtual reality also received a significant boost during Q2'16, as VC investors and virtual reality companies announced the development of a \$10 billion fund focused on augmented reality and related innovation. This new fund is a prime example of how VC investors are placing bets that this field will grow exponentially in the years ahead.

\$53.9B DEPLOYED ACROSS 3894 DEALS TO VC-BACKED COMPANIES IN THE FIRST HALF OF 2016

While 2015 was a record year in both deals and dollars invested in VC-backed companies, 2016 has seen a significant pullback in activity. At the current run rate, deal activity is barely on pace to beat 2013's numbers, although investment is on pace to break \$100B.

Annual Global Financing Trends to VC-Backed Companies

2012 – 2016 YTD (Q2'16)



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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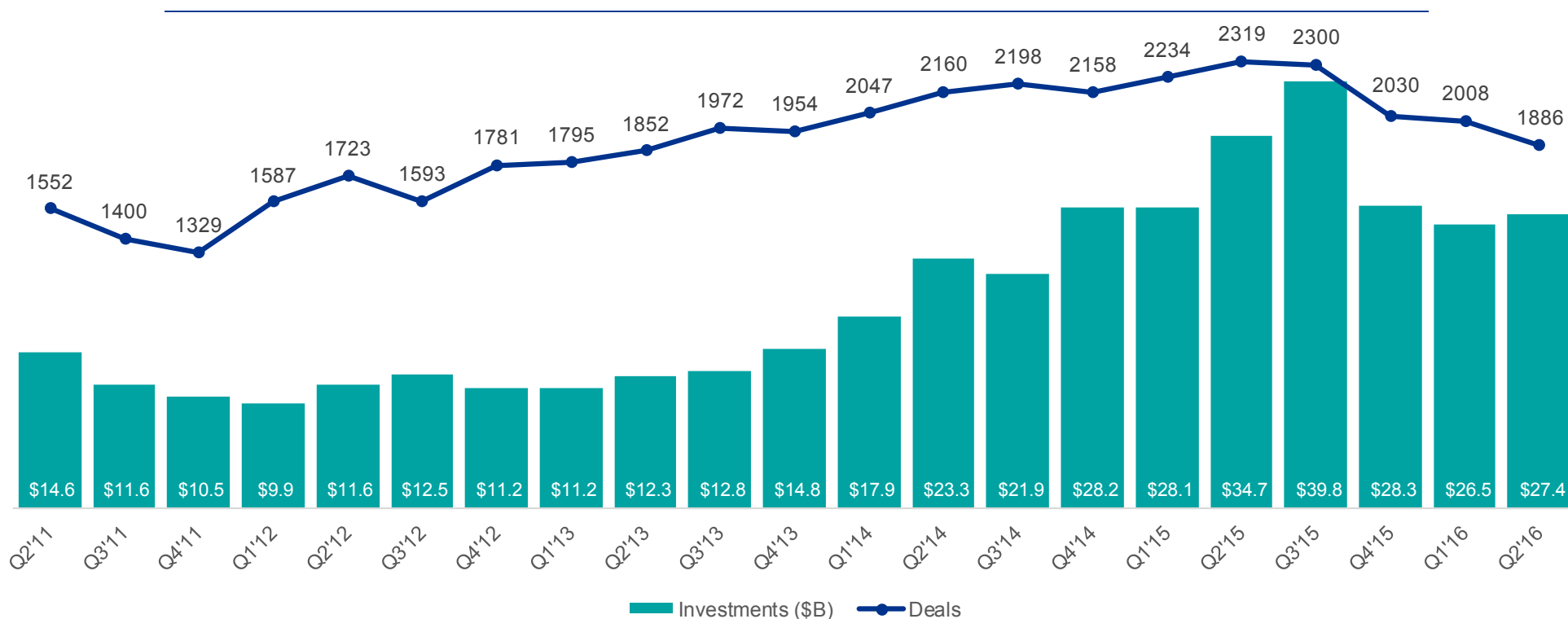
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DEAL ACTIVITY TO VC-BACKED COMPANIES IN Q2'16 DROPS TO LOWEST LEVEL SINCE Q2'13

Financings to VC-backed companies continued a downward trend in Q2'16, seeing \$27.4B invested across 1886 deals. This marks the fourth consecutive quarter of declining deal activity, while funding levels have remained stagnant in the past 3 quarters.

Quarterly Global Financing Trends to VC-Backed Companies Q2'11 – Q2'16



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“With only a slight increase in global funding in venture capital, crossover investors seem particularly cautious. Many of the high-profile tech IPO’s from 2015 continue to trade well below their initial offering price, putting pressure on private company valuations and this, combined with economic concerns in China and Europe, has continued to put a damper on VC investment.”



Brian Hughes

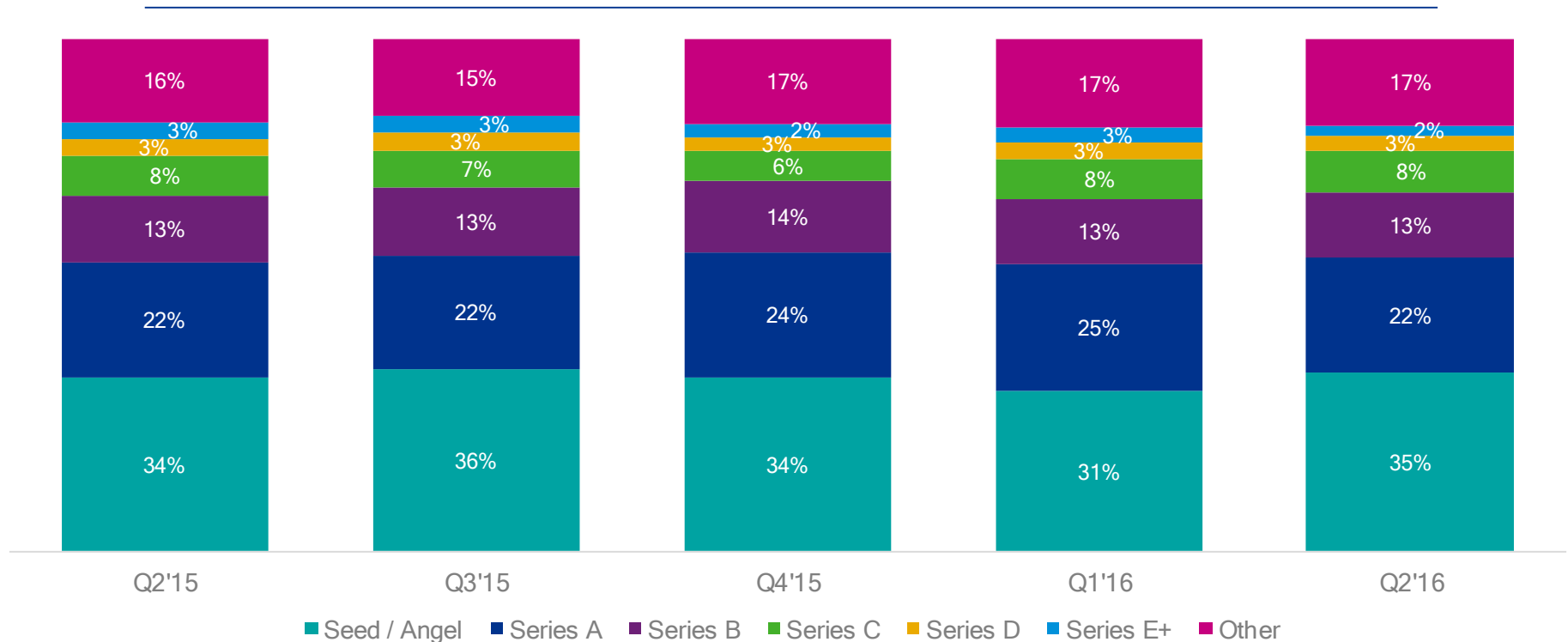
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SEED-STAGE DEAL SHARE REBOUNDS IN Q2'16 AS SERIES A SHRINKS

After last quarter's noticeable decline in seed/angel deal share, Q2'16 saw an uptick to account for 35% of deals. At the same time, Series A deals shrank in Q2'16, taking less than a quarter of all deals in the quarter. All other stages remained relatively range-bound.

Quarterly Global Deal Share by Stage

Q2'15 – Q2'16



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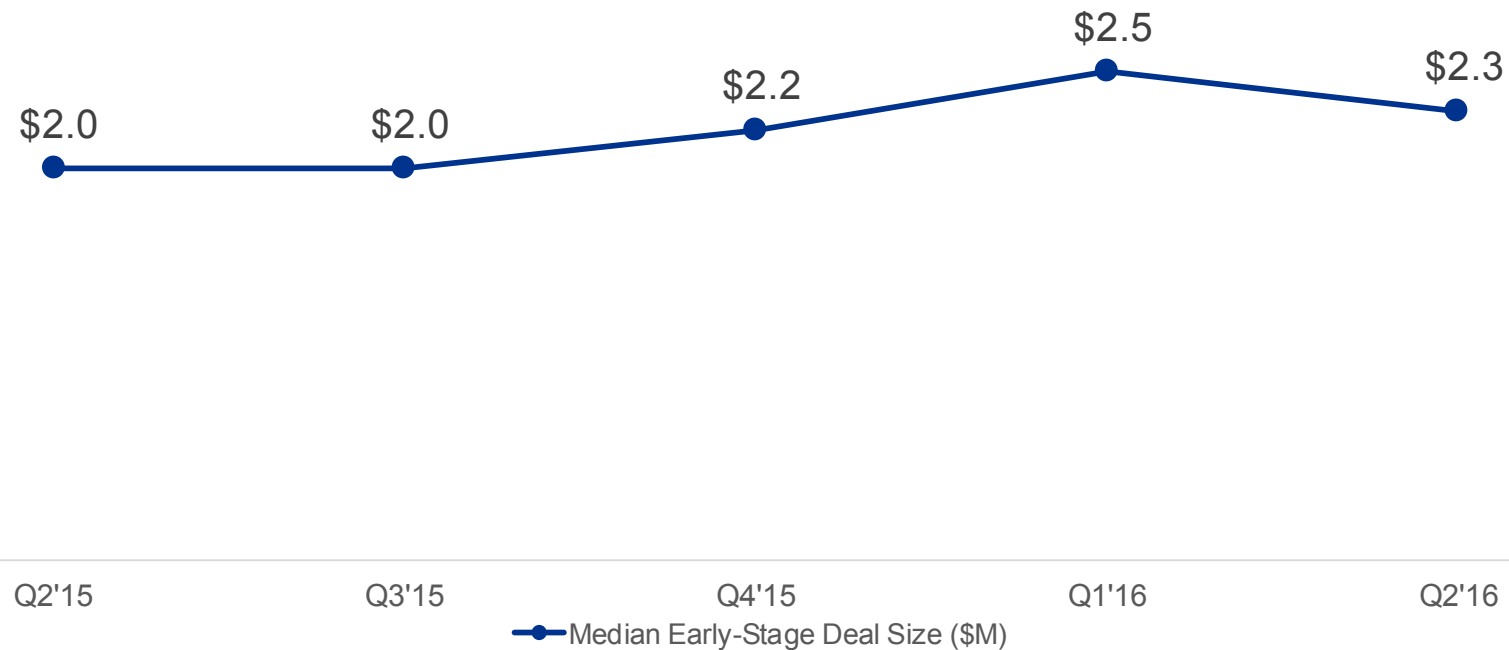


MEDIAN EARLY-STAGE DEAL SIZE SHRINKS AFTER TWO CONSECUTIVE INCREASES

Median early-stage (Seed — Series A) deal size among all VC-backed companies hit a high of \$2.5M in Q1'16, but then shrunk back to \$2.3M in the following quarter.

Global Early-Stage Deal Size

Q2'15 – Q2'16



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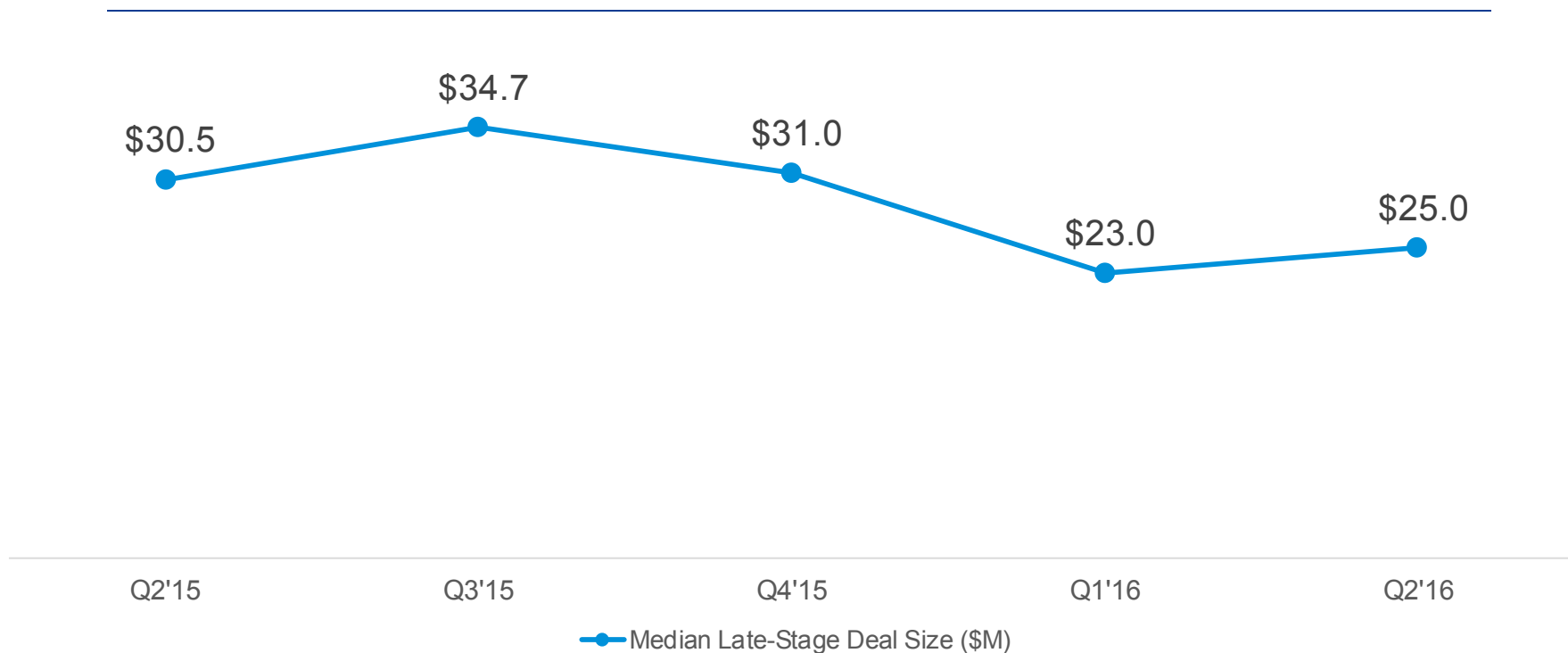


GLOBAL MEDIAN LATE-STAGE DEAL SIZES REBOUND SLIGHTLY IN Q2'16

Global median late-stage (Series D or later) deal sizes bounced back after 2 quarters of decline. Q2'16 saw a median late stage deal size of \$25M, a 28% drop from the peak of \$34.7M in Q3'15.

Global Late-Stage Deal Size

Q2'15 – Q2'16



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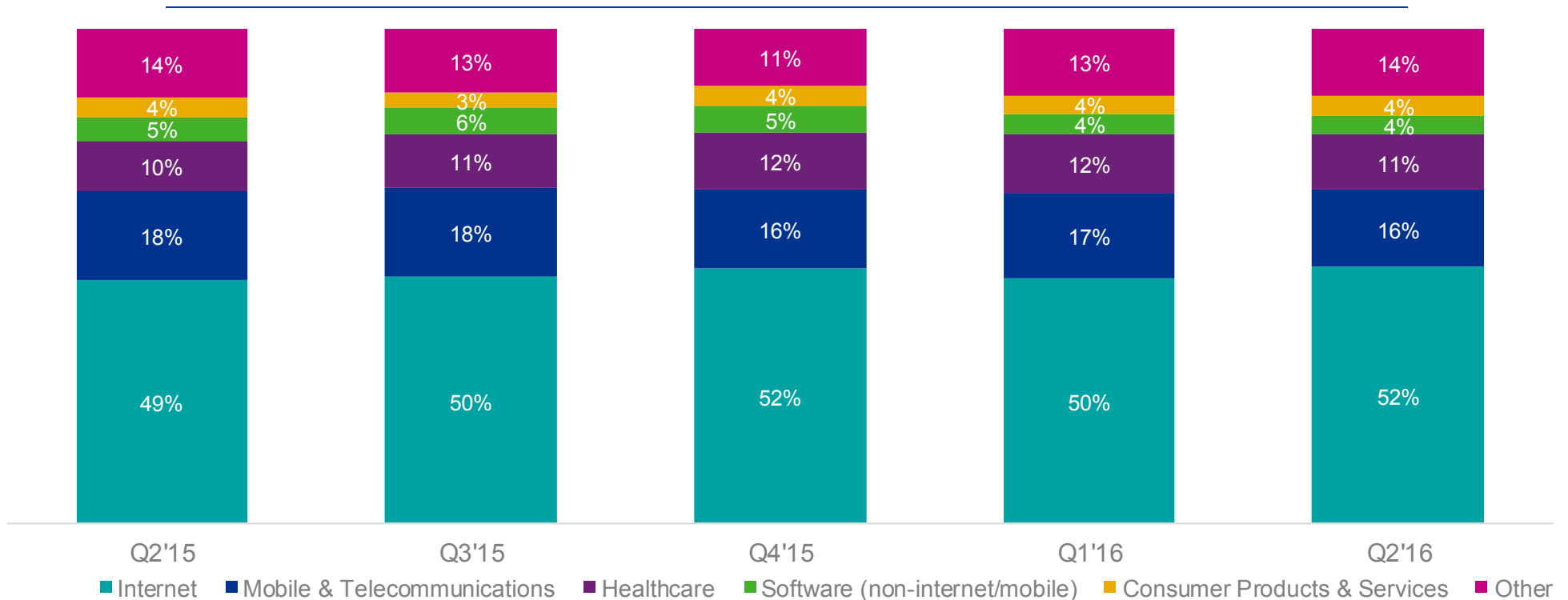


INTERNET AND MOBILE CONTINUE TO ACCOUNT FOR TWO-THIRDS OF ALL VC-BACKED DEALS

Internet and mobile once again took the majority of deals going to VC-backed companies. These two major sectors accounted for 68% of all deals in Q2'16. All other sectors remained fairly range-bound, with healthcare taking 11% and non-internet/mobile software remaining at 4% for the second quarter in a row.

Global Quarterly Deal Share by Sector

Q2'15 – Q2'16



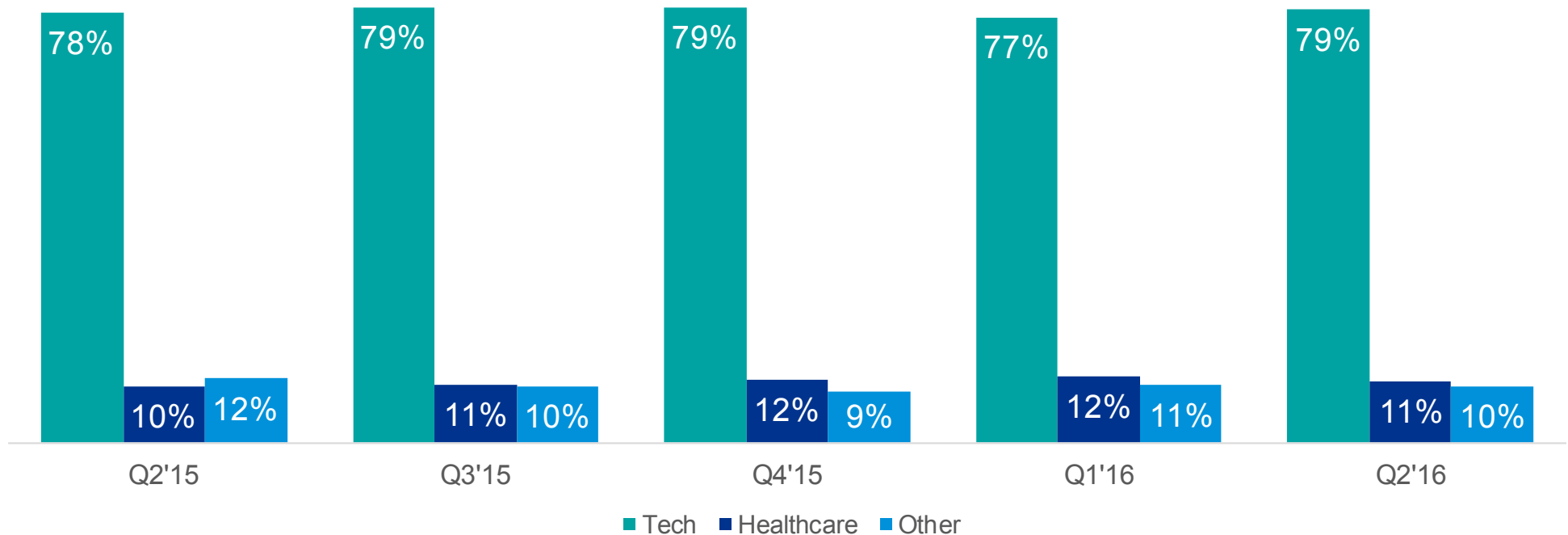
Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

TECH MAINTAINS GIANT INVESTMENT DEAL LEAD OVER HEALTHCARE AND OTHER SECTORS

Tech companies have taken 77%+ of all deal activity to VC-backed firms in each of the past 5 quarters. Healthcare failed to receive more than 12% in any quarter over the same period, while all other sectors combined remain even lower, hovering between 9% and 11% since Q4'15.

Quarterly Global Tech vs. Healthcare Deal Share

Q2'15 – Q2'16



*percentages in chart are rounded to nearest whole number

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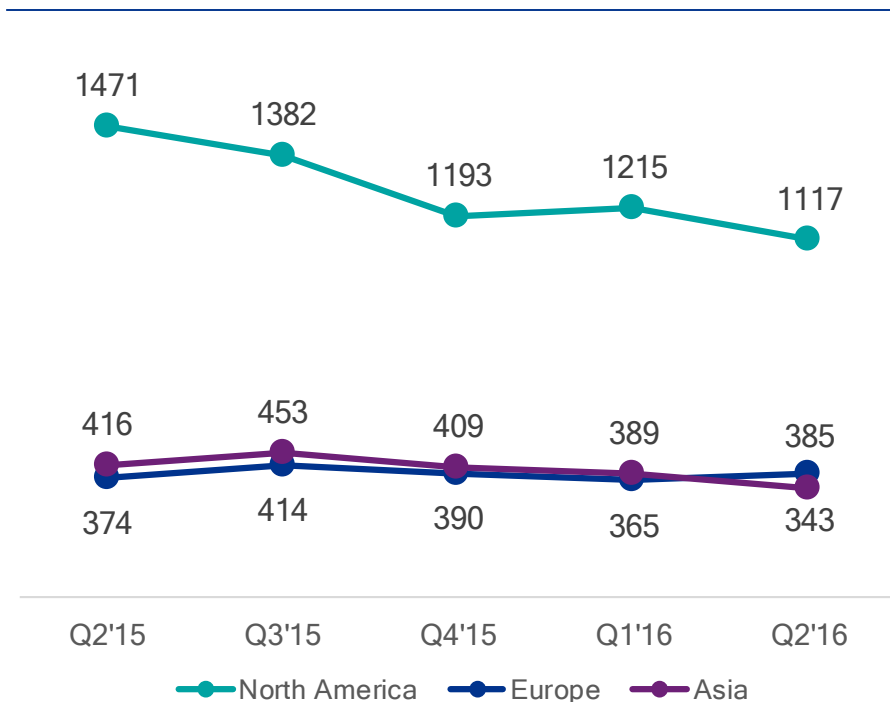


VC-BACKED DEAL ACTIVITY IN NORTH AMERICA FALLS AS EUROPE REBOUNDS AND PASSES ASIA

Activity in North America continues to fall, reaching just 1117 deals in the quarter, while funding in the region simultaneously increased to \$17B+, suggesting fewer but larger deals. Europe surpassed Asia in deal activity for the first time in 5 quarters as well as closing the funding gap between the regions in the past 2 quarters.

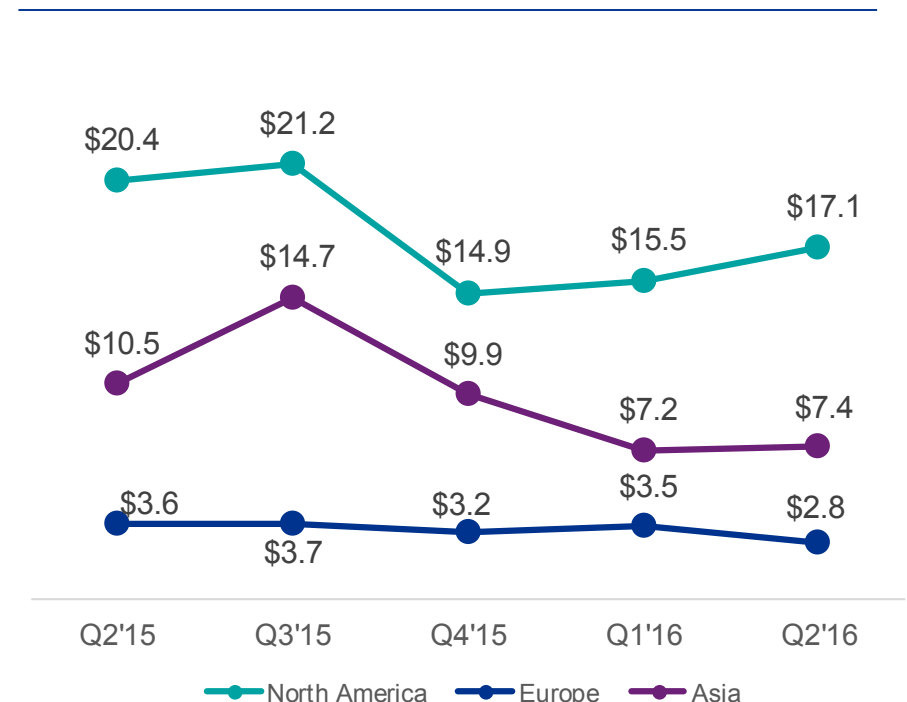
Deal Count by Continent

Q2'15 – Q2'16



Investment (\$B) by Continent

Q2'15 – Q2'16



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“Brexit has the potential to disrupt the disruptors. In the current environment, forecasting how much of an implication there will be on VC investment is difficult. Concerns over key factors, including challenges around the free movement of labor and availability of capital, seem to have taken their toll on venture capital investment. But there is no doubt the aftershocks will be felt not only in the UK, but across Europe and, ultimately, the globe.”



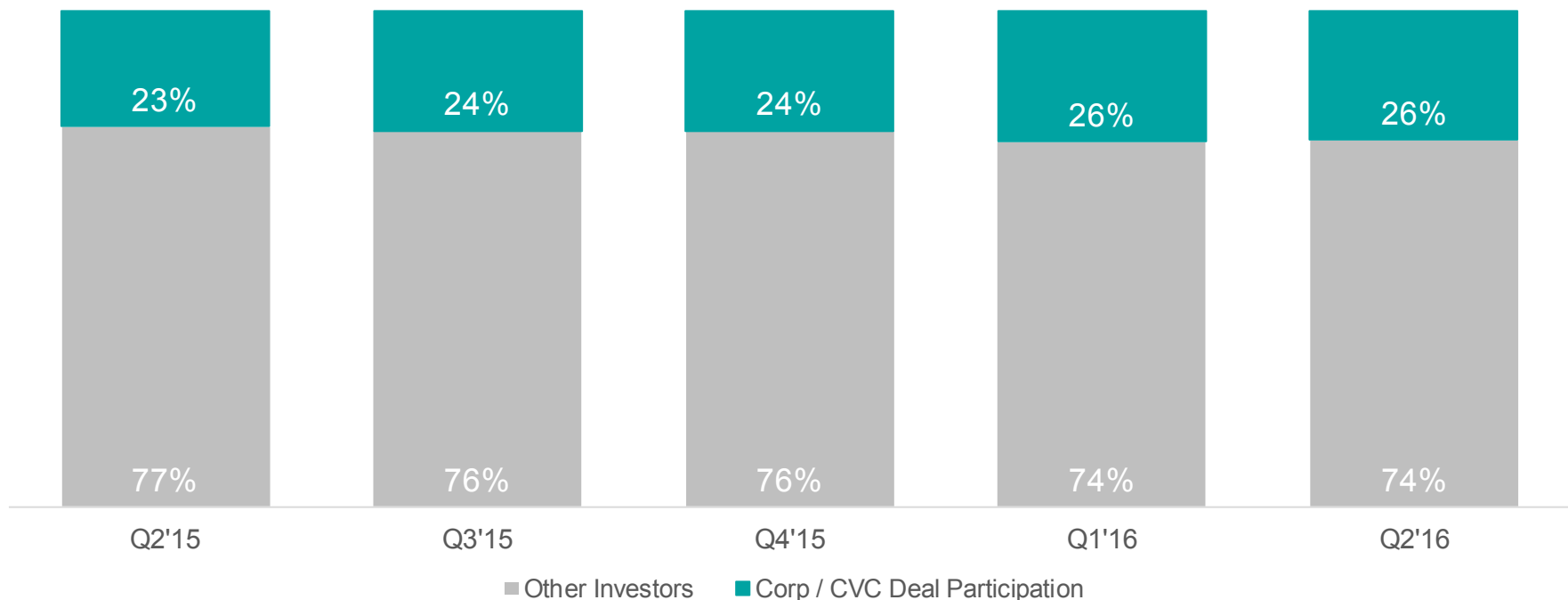
Jonathan Lavender
*Principal,
Head of Markets,
KPMG in Israel*

CORPORATES PARTICIPATE IN OVER A QUARTER OF DEALS FOR SECOND STRAIGHT QUARTER

2016 has seen corporates participate in 26% of all deals to VC-backed companies in both quarters, with more large companies setting up CVC arms and maintaining activity in private markets

CVC Participation in Global Deals to VC-Backed Companies

Q2'15 – Q2'16



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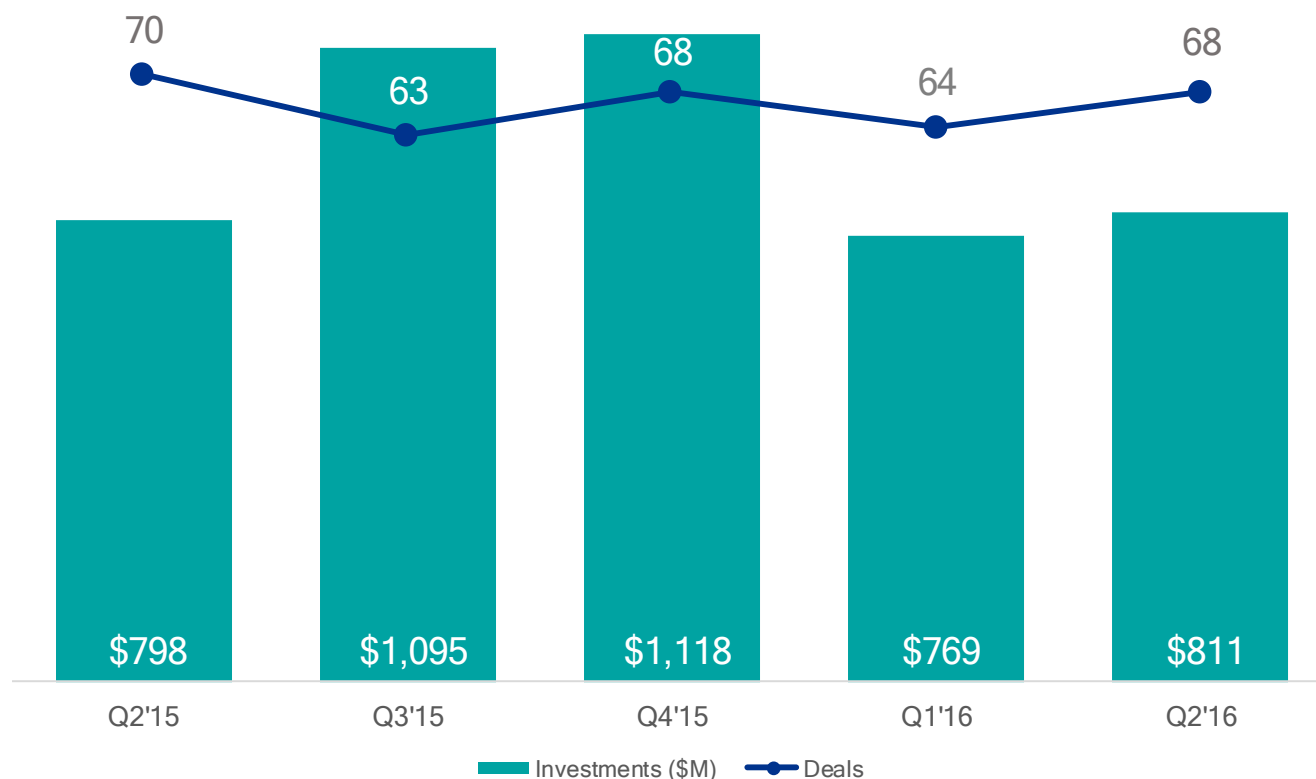


CYBERSECURITY VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16

Cybersecurity Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

LogicMonitor

\$130M // Growth Equity

Cylance

\$100M // Series D

vArmour Network

\$41M // Series D

Top Countries

United States

42 Deals // \$694.2M

Israel

4 Deals // \$27.5M

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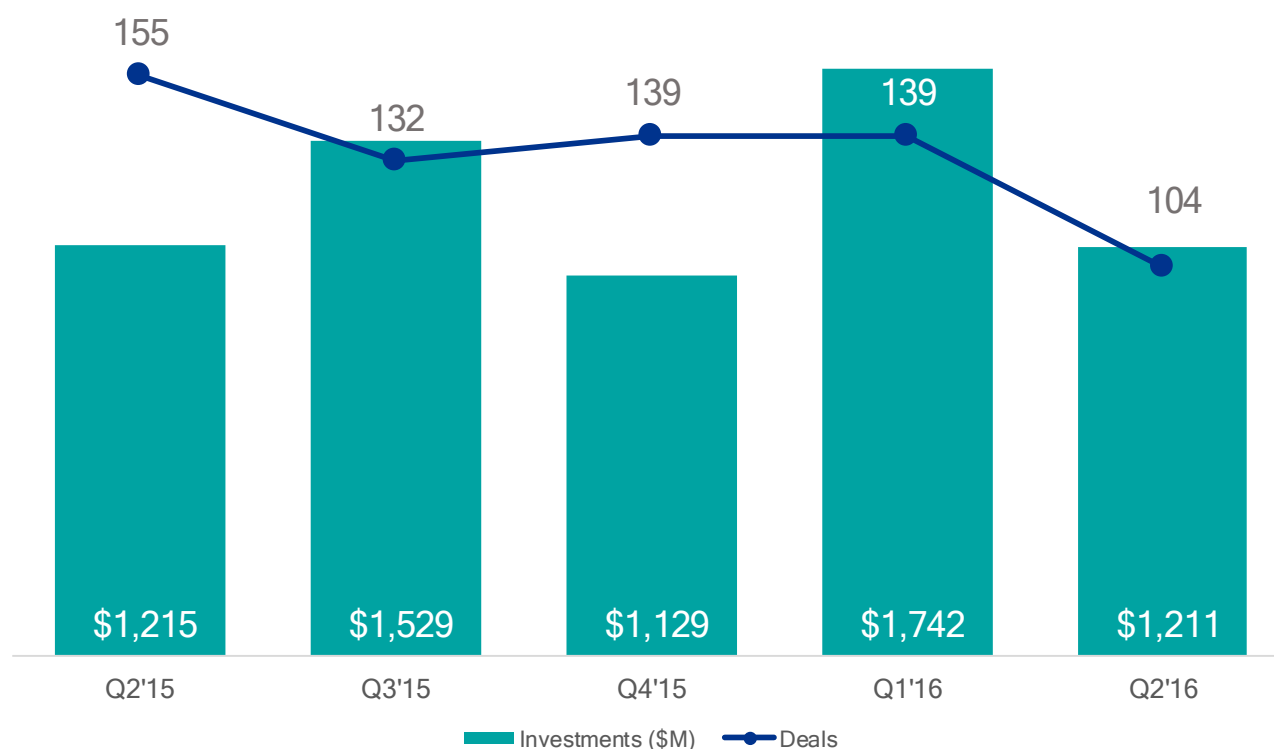


DIGITAL HEALTH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16

Digital Health Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Spring Rain Software

\$183M // Series D

Clover Health

\$160M // Series C

Bright Health

\$80M // Series A

Top Countries

United States

74 Deals // \$825.8M

India

9 Deals // \$24.5M

China

6 Deals // \$288.1M

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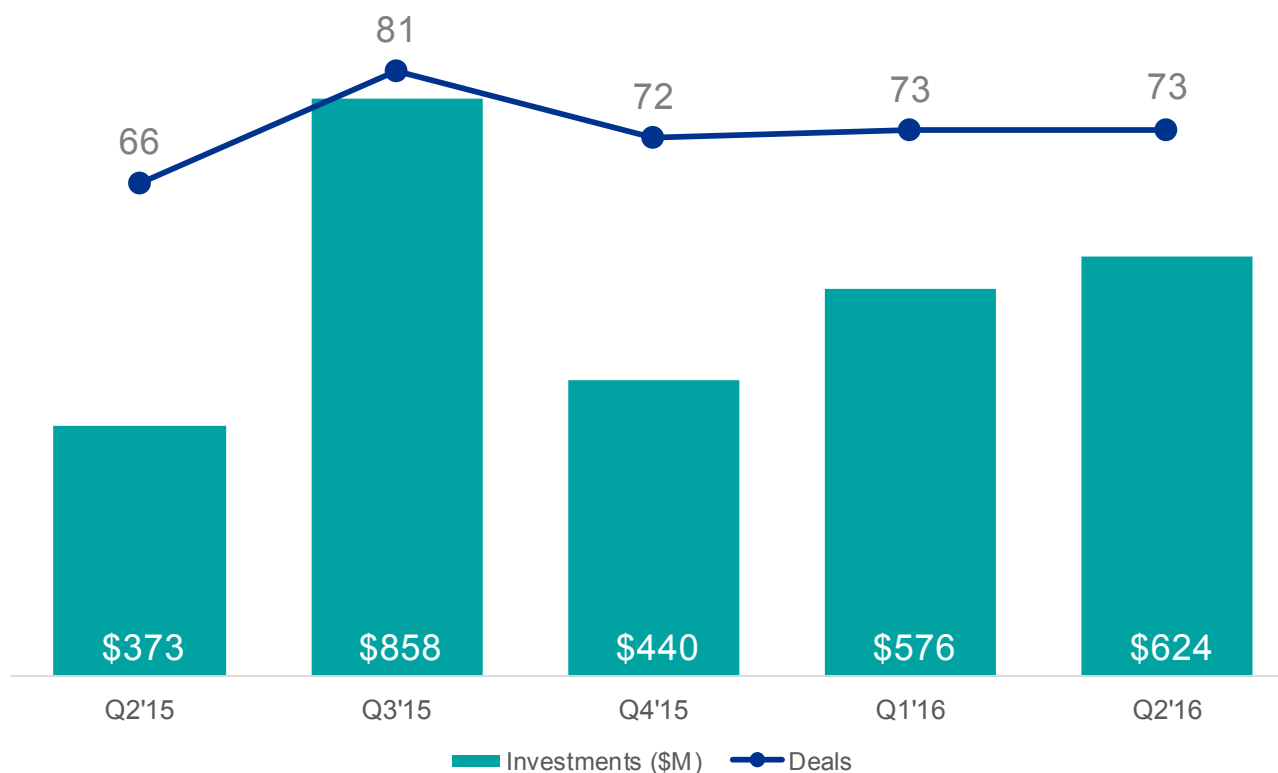


AI VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16

Artificial Intelligence Tech Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Cylance

\$100M // Series D

Anki

\$52.5M // Series D

MOOGsoft

\$31.6M // Series C

Top Country

United States

47 Deals // \$524.5M

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Artificial Intelligence technologies underpin wide range of innovations

When it comes to innovation, many VC investors are focusing on opportunities that aim to automate activities typically handled by people, whether by their internal staff personnel or their end customers. From self-driving cars to healthcare solutions to providing robo advisory, the opportunities are myriad and underpinning each of these offerings are different forms of artificial intelligence (AI) technology.

Automating human thinking

Artificial intelligence technology is a 'catch all' phrase that reflects the use of algorithms encoded in software to perform tasks typically considered to require human knowledge, judgement and skill to execute.

While many companies have been using forms of AI software to conduct basic digital labour, such as transaction processing or data analytics, companies today are more focused on finding AI solutions to tasks that include a higher level of uncertainty when it comes to determining the appropriate response. For example, the algorithms embedded in a self-driving car need to consider the responses of real-time humans in other vehicles on the road in order to be effective – responses that may not be rational depending on a given situation.

The value AI offers to companies is manifold as evidenced by investments from numerous big BPO players. For many, the opportunity to decouple headcount increases from revenue increases is a significant driver. With more complex AI technologies, companies can reduce headcount and automate many back-office jobs. While the ethical ramifications of these types of activities have yet to be explored in detail, many companies see enormous potential benefits from utilizing or integrating such technologies.

Sparkling a new wave of investment opportunities

VC investors see the same significant market potential that individual companies do. Over the past 5 years, investment in AI technologies has risen substantially, from \$282 million in 2011 to almost \$2.4 billion in 2015. A number of well-known VC investors are significantly active in the AI space, including Google Ventures, GE Ventures, Intel Capital and Samsung Ventures.

VC investment in artificial technologies rose between Q1'16 and Q2'16, from \$576 million up to \$620 million, while the number of deals remained stable at 73. AI companies to gain VC investment in 2016 ranged from Pathway Genomics, a company focused on DNA testing, to Digital Reasoning Systems, a firm focused on cognitive computing opportunities.

There have also been a number of high profile acquisitions in the AI space during 2016, including the June announcement of Twitter's acquisition of Magic Pony Technology, a company focused on machine learning related to visual processing, for \$150 million.

Artificial Intelligence technologies underpin wide range of innovations (cont.)

Broad application enhances investment resiliency

Compared to other identified VC growth sectors such as digital health, VC investment in artificial intelligence performed more strongly between the first and second quarters of 2016. The relative strength of AI investment can likely be attributed to its broad-reaching applications, with investors across industries and regions interested in finding ways to utilize AI to create or enhance business offerings or to extend a company's customer reach.

Growth around the corner

Over the next several quarters, VC interest and investment in AI and cognitive computing are expected to continue to increase, in addition to interest in related technologies like robotics and robo advisory. To a degree, it is difficult to decouple AI technologies from other solutions – which makes it a strong bet to VC investors despite current market uncertainties.

Over the next year or 2, we will also likely see organizations and regulators begin to look more in-depth at AI offerings and potential governance issues associated with their use as it relates to connecting machine learning to physical devices and real-world applications.

“From automating simple tasks to augmenting complex decisions, there are very few areas of business that AI and cognitive computing will not impact. KPMG in the US is currently piloting cognitive technology to help augment our services which underscores our commitment to reinforcing confidence in the capital markets.”



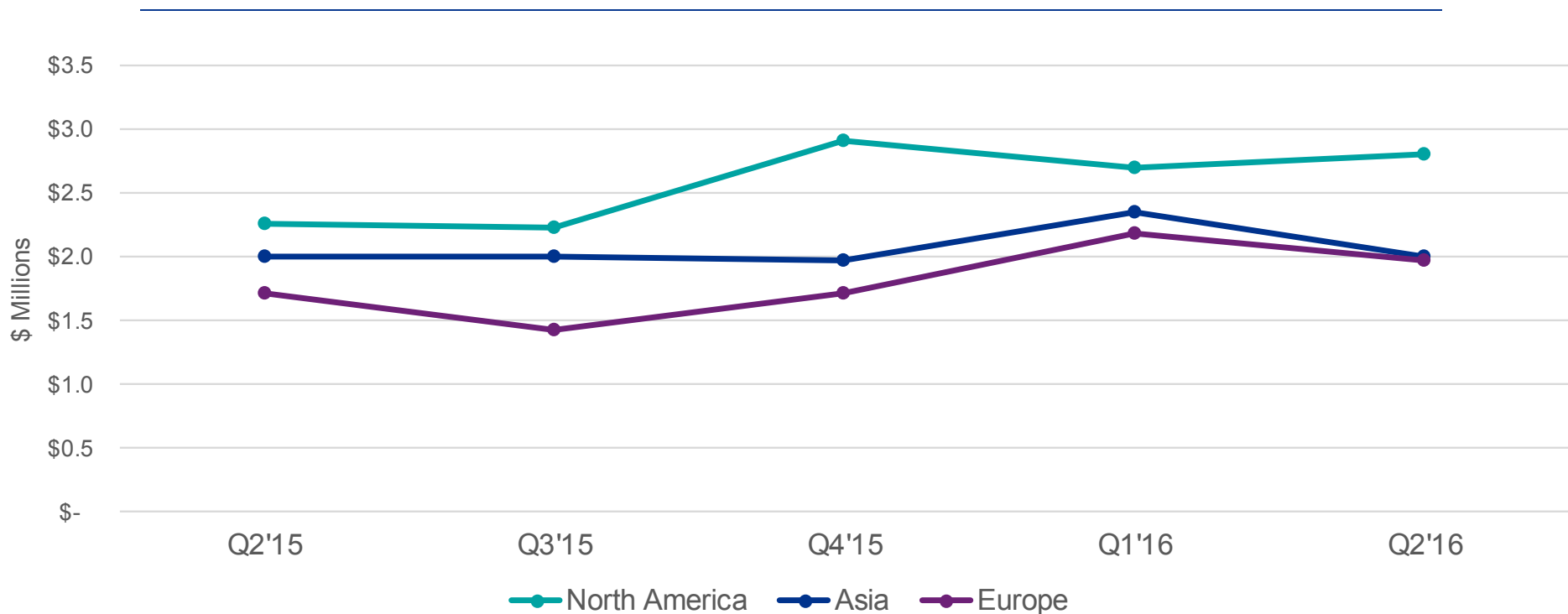
Cliff Justice
*Principal,
Innovation & Enterprise
Solutions,
KPMG in the US*

NORTH AMERICA INCREASES EARLY-STAGE DEAL SIZE GAP AS ASIA AND EUROPE CONVERGE

North American VC-backed companies continued to see larger median early-stage deals, holding steady between \$2.5M and \$3M since Q4'15. Asia and Europe both saw an increase going into Q1'16 and a subsequent decrease in Q2'16, as both fell to a median deal size of \$2M.

Median Early-Stage Deal Size Continent Comparison

Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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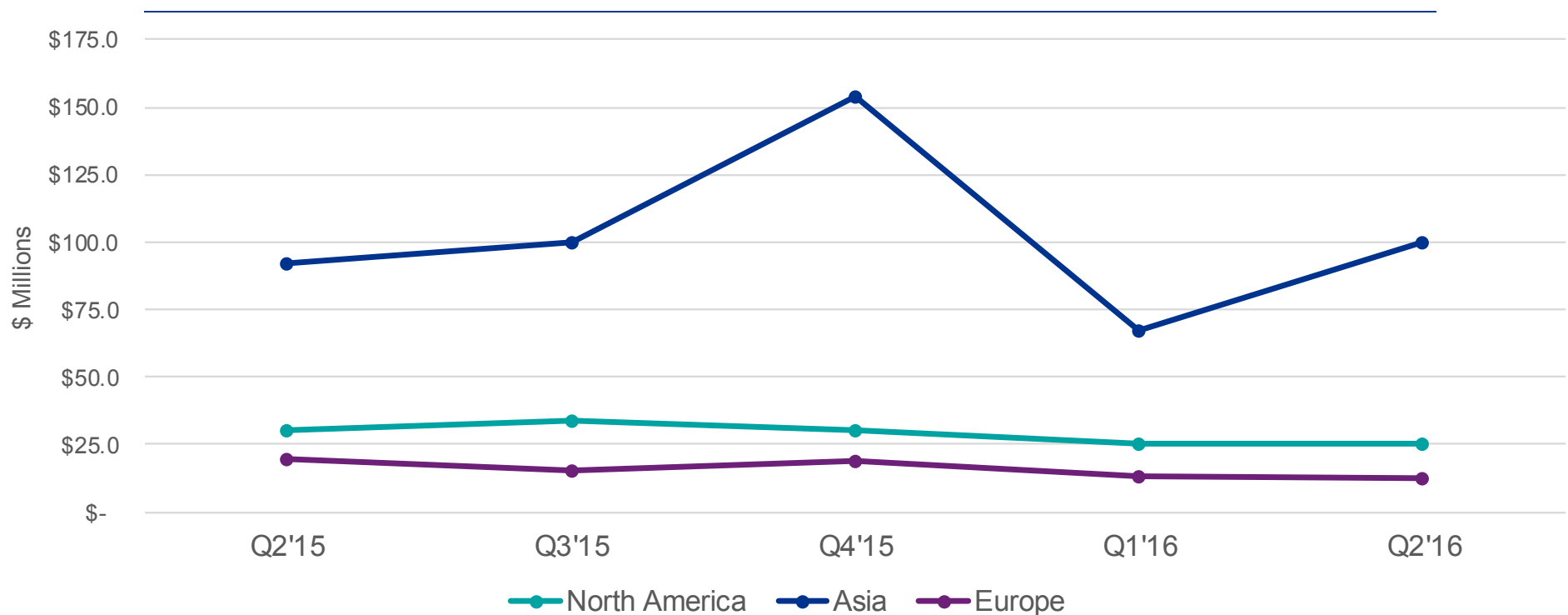


MEDIAN LATE-STAGE DEAL SIZE IN ASIA SEES A SLIGHT REBOUND

After a jump in late-stage deal size to \$150M and subsequent crash below \$75M, Asia has seen median late-stage deal size bounce back to \$100M in Q2'16. Both North America and Europe have seen relatively less volatility in the last few quarters.

Median Late-Stage Deal Size Continent Comparison

Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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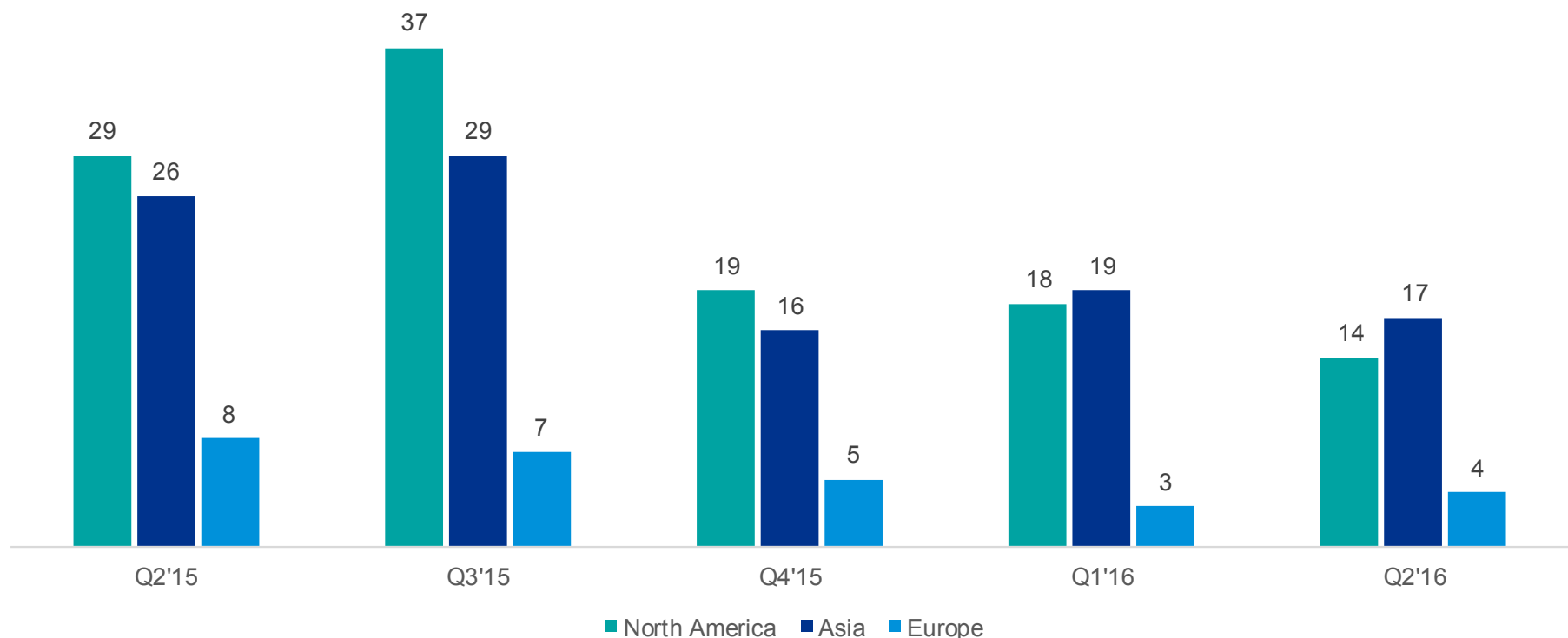


\$100M+ MEGA-ROUNDS TO VC-BACKED CONTINUE TO FALL

2015 saw investors write many \$100M+ checks into private tech companies thanks to crossover investors, corporates and other-deep pocketed investors entering private markets. 2016 has seen that trend cool significantly, with North America seeing just 14 \$100M+ rounds in Q2'16 compared to 37 in Q3'15. Asia outpaced North America in \$100M deals for the second quarter in a row.

\$100M+ Financings to VC-Backed Companies

North America vs. Asia vs. Europe, Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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“ Investors seem to be becoming much more involved with their companies. They want to see that the money they invest will help sustain and grow the business. Investors also seem to be much more vocal with their opinions on the business models of companies and the identified short and long-term goals.”



Arik Speier

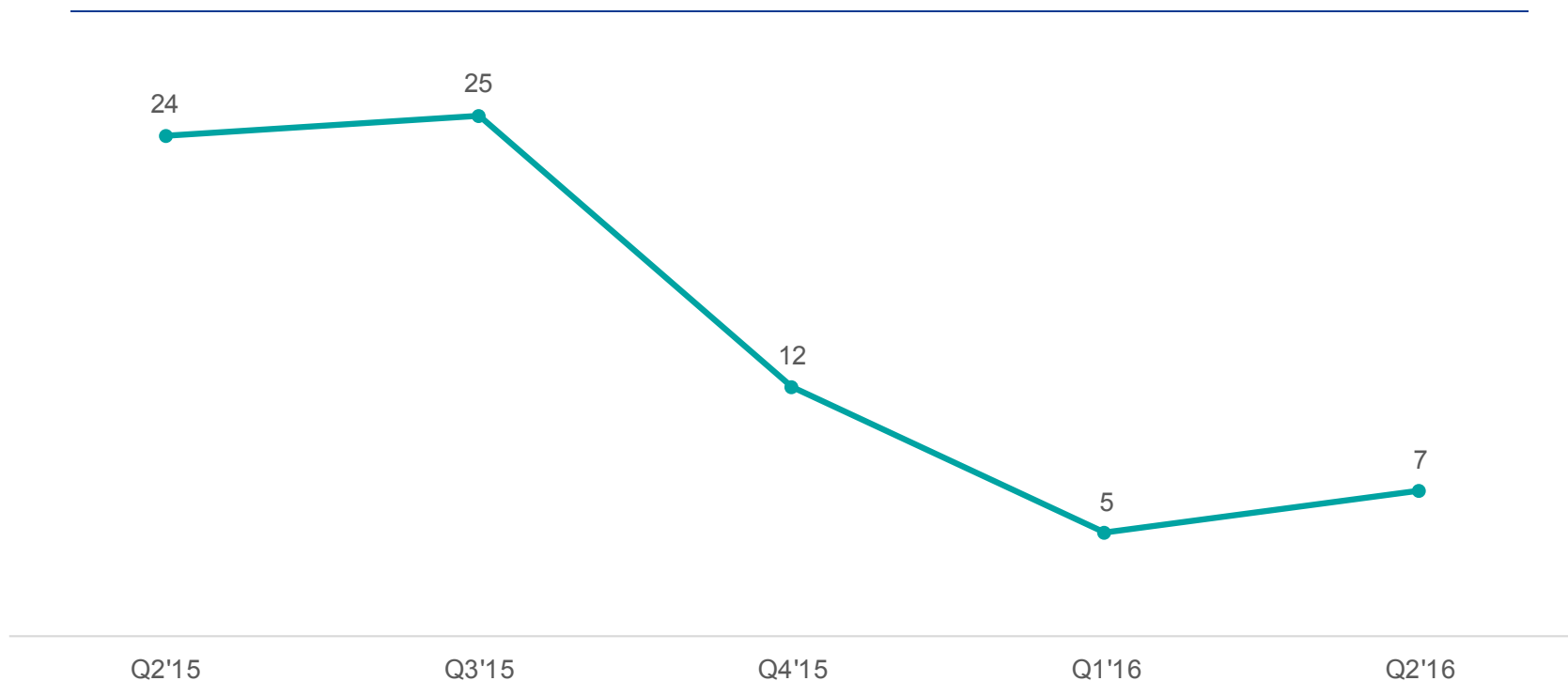
*Co-Leader, KPMG Enterprise
Innovative Startups Network and
Head of Technology,
KPMG in Israel*

NUMBER OF NEW UNICORNS REMAINS IN SINGLE DIGITS

Q2'16 has seen further regulatory issues, layoffs and valuation markdowns within the unicorn club. Although Q2'16 saw 2 more new unicorns than in the previous quarter, tightening in private markets has resulted in fewer than 10 VC-backed companies reaching \$1B+ valuations in consecutive quarters.

VC-Backed Companies Entering The Unicorn Club

Q2'15 – Q2'16



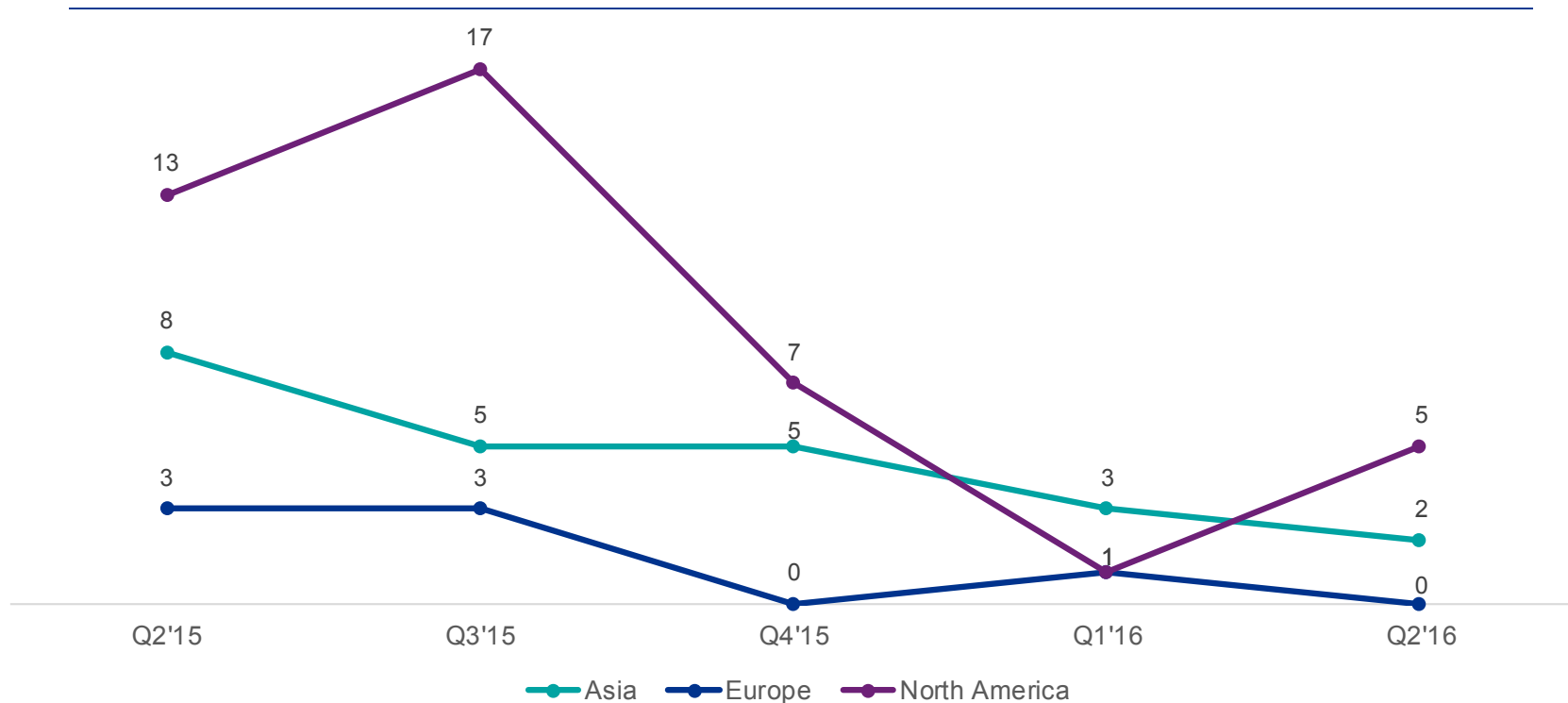
Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

NEW UNICORNS RARE IN Q2'16, BUT NORTH AMERICA SEES A REBOUND IN UNICORN CREATION

After seeing just one new VC-backed unicorn in Q1'16, North America rebounded in Q2'16 with the arrival of five new unicorns, including Human Longevity, Zoox, and SMS Assist. The number of new unicorns in Asia continues to decline from Q2'15, and Europe saw no new VC-backed unicorns this quarter.

VC-Backed New Unicorn Companies by Continent

North America vs. Europe vs. Asia, Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

SELECT 'REST OF WORLD' Q2'16 FINANCINGS

Company	Round	Country	Select Investors
SocietyOne	\$19M (Series C)	Australia	Consolidated Press Holdings, Australian Capital Equity, News Corp Australia
GuiaBolso	\$17.3M (Series C)	Brazil	QED Investors, Kaszek Ventures, Ribbit Capital
Airtasker	\$16.4M (Series B)	Australia	Seven West Media
PromisePay	\$10M (Series A)	Australia	Cultivation Capital, Rampersand, Reinventure
90 Seconds	\$7.5M (Series A)	New Zealand	Sequoia Capital India, AirTree Ventures, SKY TV New Zealand
Trocafone	\$5.6M (Series A)	Brazil	Sallfort Privatbank, FundersClub, Quasar
BankFacil	\$4.42M (Series A - II)	Brazil	Kaszek Ventures, Redpoint e.ventures, Quona Capital

SELECT VC-BACKED EXITS IN NORTH AMERICA

Company	Exit Type	Valuation	Select Investors
Stemcentrx	Acquisition (AbbVie)	\$10.2B	Artis Ventures, Founders Fund, Sequoia Capital
Afferent Pharmaceuticals	Acquisition (Merck & Co.)	\$1.25B	New Leaf Venture Partners, Redmile Group, Third Rock Ventures
Twilio	IPO	\$1.23B	Bessemer Venture Partners, Union Square Ventures, Redpoint Ventures
Acacia Communications	IPO	\$820M	Matrix Partners, Summit Partners, Commonwealth Capital Ventures
Intellia Therapeutics	IPO	\$617M	Atlas Venture, Novartis Venture Funds, Orbimed Advisors

“The addition of Stemcentrx and its late-stage compound Rova-T provide AbbVie with a unique platform in solid tumor therapeutics and complement our leadership position in hematologic oncology.”

Richard Gonzalez
CEO, AbbVie

Quote source: [Fortune](#)

SELECT VC-BACKED EXITS INTERNATIONALLY

Company	Exit Type	Valuation	Select Investors
Lazada	Corporate Majority (Alibaba)	\$1.5B	Rocket Internet, Holtzbrinck Ventures, Tengelmann Ventures
O3B Networks	Acquisition (SES)	\$1.43B	Delphi Ventures, Versant Ventures, US Venture Partners
Privalia	Acquisition (Vente Privee)	\$560M	Insights Venture Partners, Index Ventures, General Atlantic
China Online Education Group	IPO	\$374M	DCM Ventures, Sequoia Capital China, Shunwei Capital Partners
PapayaMobile	IPO	\$337M	DCM Ventures, Keytone Ventures

“This new step in our development is part of our long-term vision for the company. The expansion reflects our continued active approach to European deployment.”

Jacques-Antoine Granjon
CEO & Founder, Vente Privee

Quote source: [Index Ventures](#)



In Q2 2016

EUROPEAN

VC-backed companies raised

\$2.8 billion

Brexit uncertainty causes dip in European VC activity

Despite an increase in the number of deals, European VC investment dipped below \$3 billion in Q2'16, the first time since Q4'14. A sharp decline in UK investment was the primary cause of Europe's slide, as countries like Germany saw an increase in investment quarter over quarter.

UK VC investment plummets over 40% from Q1'16

Uncertainty around Brexit dominated talk in the UK, no doubt contributing to the over 40% drop in VC investment in the country over the quarter. Many VC investors held back from making investments, taking a 'wait and see' approach prior to the vote. The outcome of the referendum caused brief havoc in the public markets, although we are starting to see some stabilization with the recognition that any separation process will take years to complete.

A number of late-stage deals occurred in the UK despite uncertainties, many of which focused on financial services (e.g. Transferwise or LendInvest) and life sciences (e.g. F2G), segments which have been historically strong in the UK. Furthermore, unicorn Farfetch raised a noteworthy \$110 million funding round.

Seed deal activity remains strong percentage of overall VC funding

While Europe as a whole lags behind the US and Asia in terms of VC investments, the region has long been a hotbed for early stage and seed deal funding. In Q2, seed or angel funding reflected 49% of all funding rounds in Europe. While funding remains available to companies, investors in Europe are scrutinizing investments more rigorously prior to making investments, looking for companies that are able to control costs and that have a clear path to achieving profitability.

A number of high-profile mid-stage funding rounds took place in Q2, including Tradeshift in Copenhagen and Lightbend in Switzerland, suggesting that some European startup companies are coming of age, bringing the European VC market with them.

Nice exits highlight value of AI and cognitive learning tech

During the first 2 quarters of 2016, Europe has seen some noteworthy AI and cognitive learning related exits, with Twitter's \$150 million acquisition of machine learning company Magic Pony and Microsoft's \$250 million acquisition of SwiftKey. These exits bode well for other companies in the AI and cognitive learning space and could spur activities and investment in these sectors.

Brexit uncertainty causes dip in European VC activity (cont.)

Dry powder bodes well for Europe long term

Despite the outcome of the Brexit vote, Europe is poised to see substantial additional VC activity in the future, with a significant amount of dry powder collecting in the market. As the VC community comes to grips with the Brexit upheaval, this money will need to be invested. In fact, a number of VC funds have openly articulated that it is 'business as usual' for them and that they will continue to invest in companies in the UK.

Brexit creates new uncertainties, new opportunities

The outcome of the UK's referendum to leave the European Union has introduced new uncertainties into the VC market – ones that could linger in the quarters and years ahead. With no defined plan in place as of yet for an exit, however, most investors recognize that knee-jerk reactions post-Brexit are not the right solution.

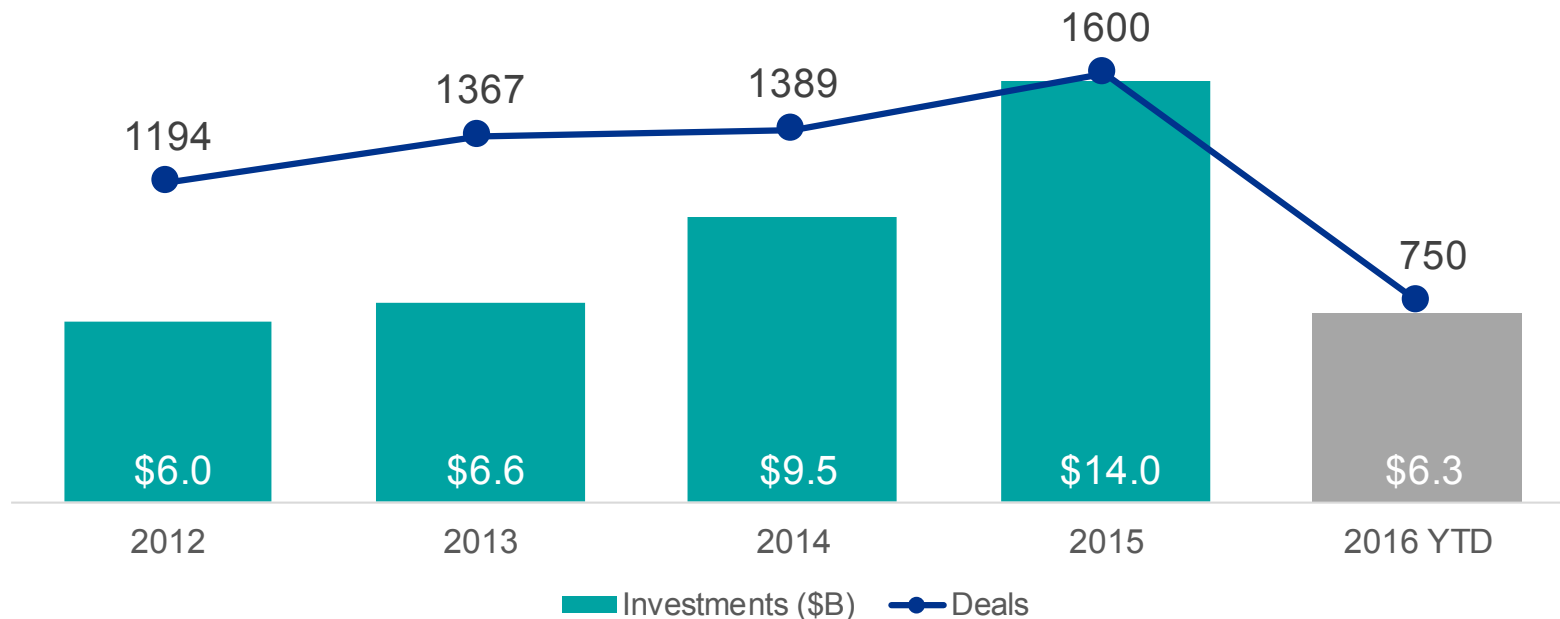
While it is too early to predict Brexit's impact on talent acquisition and other key business activities, it is expected that concerns may cause investors to seriously scrutinize UK-based investments. In the interim, the uncertainties may create opportunities for other startup hubs to attract additional VC investment and interest. Cities like Barcelona, Berlin, Dublin and Paris may be able to attract attention, especially in fintech, where the UK's relatively friendly and accommodating regulatory environment up to now makes it the one of the most attractive place to base EU-focused fintech activities.

VC-BACKED EUROPEAN FUNDING OFF TO A SLOWER START IN 2016

VC-backed companies in Europe saw a new peak in funding and deal activity in 2015, with \$14B invested across 1600 deals. 2016 has so far seen \$6.3B invested across 750 deals, slotting it between 2014's and 2015's levels of activity and investment at the current run rate.

European Annual Financing Trends to VC-Backed Companies

2012 – 2016 YTD (Q2'16)



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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“VC-backed, technology rich companies depend on skilled, innovative professionals and diversity of thinking. If the UK leaves the EU, will this disrupt the free movement of labor and inhibit companies attracting the right talent? There are many other uncertainties, including access to markets, the regulatory framework, data privacy and tax. Of course, it will be a long time before the full implications of Brexit are clear.”



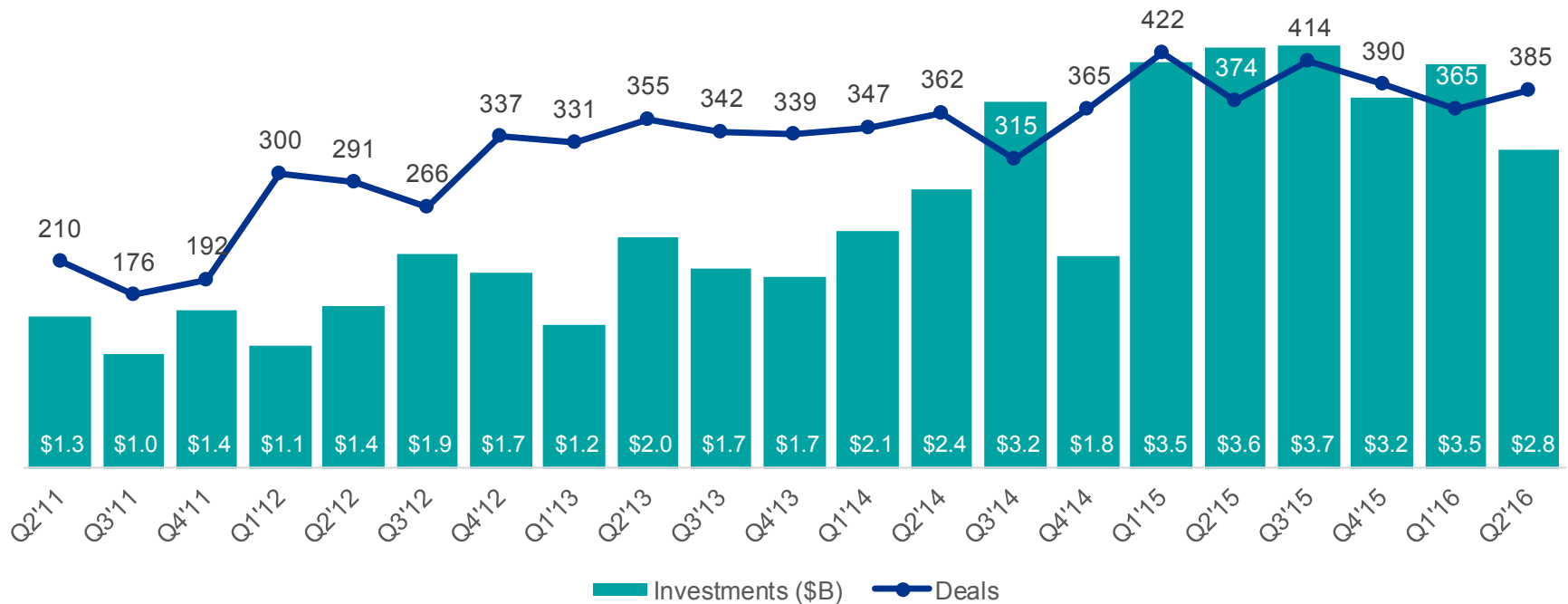
Anna Scally

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

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

After 2 quarters of declining deal activity, Q2'16 saw an uptick with 385 deals in the quarter. Funding, however, shrank below \$3B for the first time since Q4'14 owing to a dearth of mega-rounds.

European Quarterly Financing Trends to VC-Backed Companies Q2'11 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

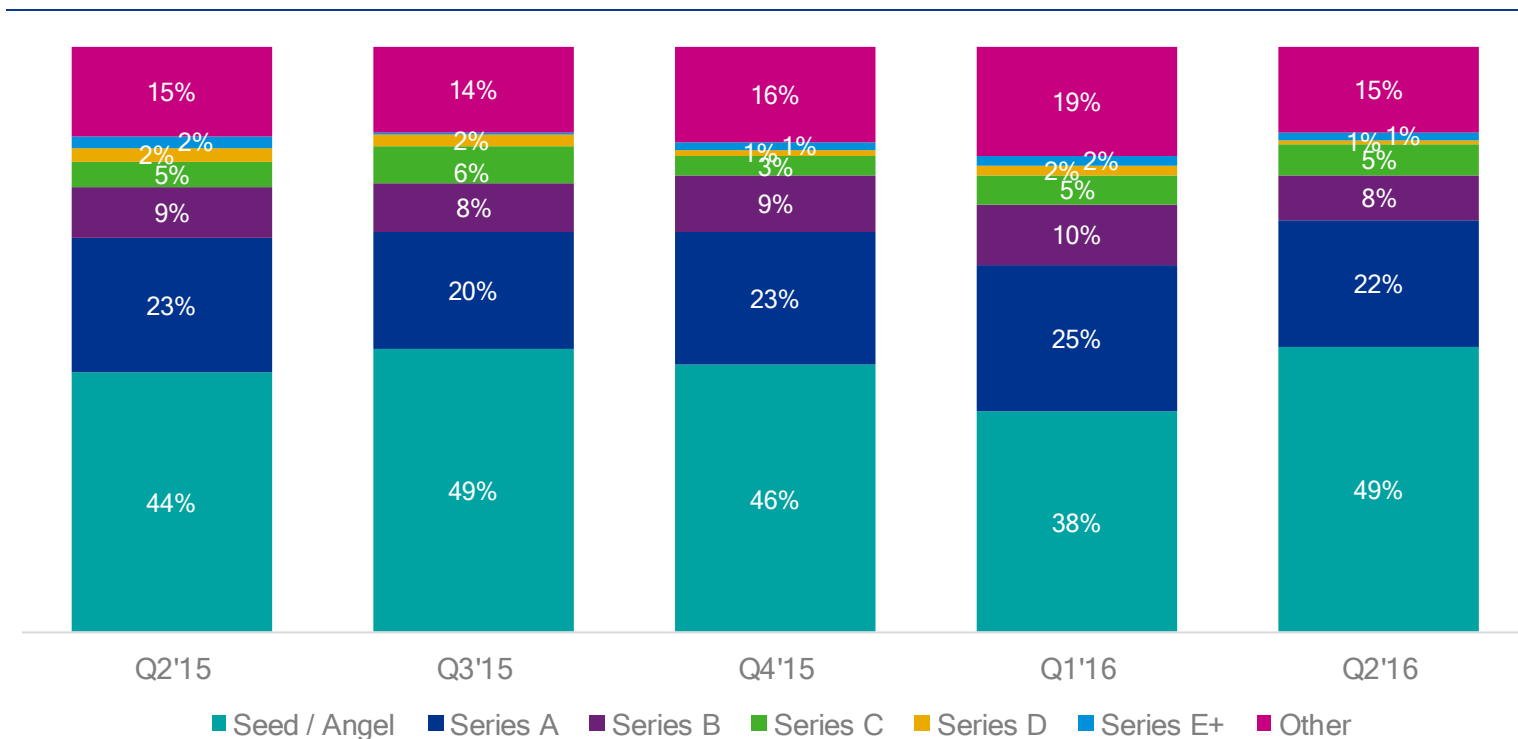
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SEED DEAL SHARE IN EUROPE JUMPS AFTER A RECORD LOW

After seed-stage deal share suddenly plunged below 40% in Q1'16, Q2'16 saw a recovery with nearly half of all European deals happening at the seed/angel stage. Most other stages decreased slightly as deal share rebalanced towards seed.

European Quarterly Deal Share by Stage

Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

EARLY-STAGE DEAL SIZE DROPS SLIGHTLY AFTER TWO CONSECUTIVE INCREASES

Early-stage deal size in Europe increased from \$1.4M in Q3'15 to \$2.2M in Q1'16 after increases in 2 back-to-back quarters. Q2'16 dipped slightly but still broke the \$2M mark.

European Early-Stage Deal Size

Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

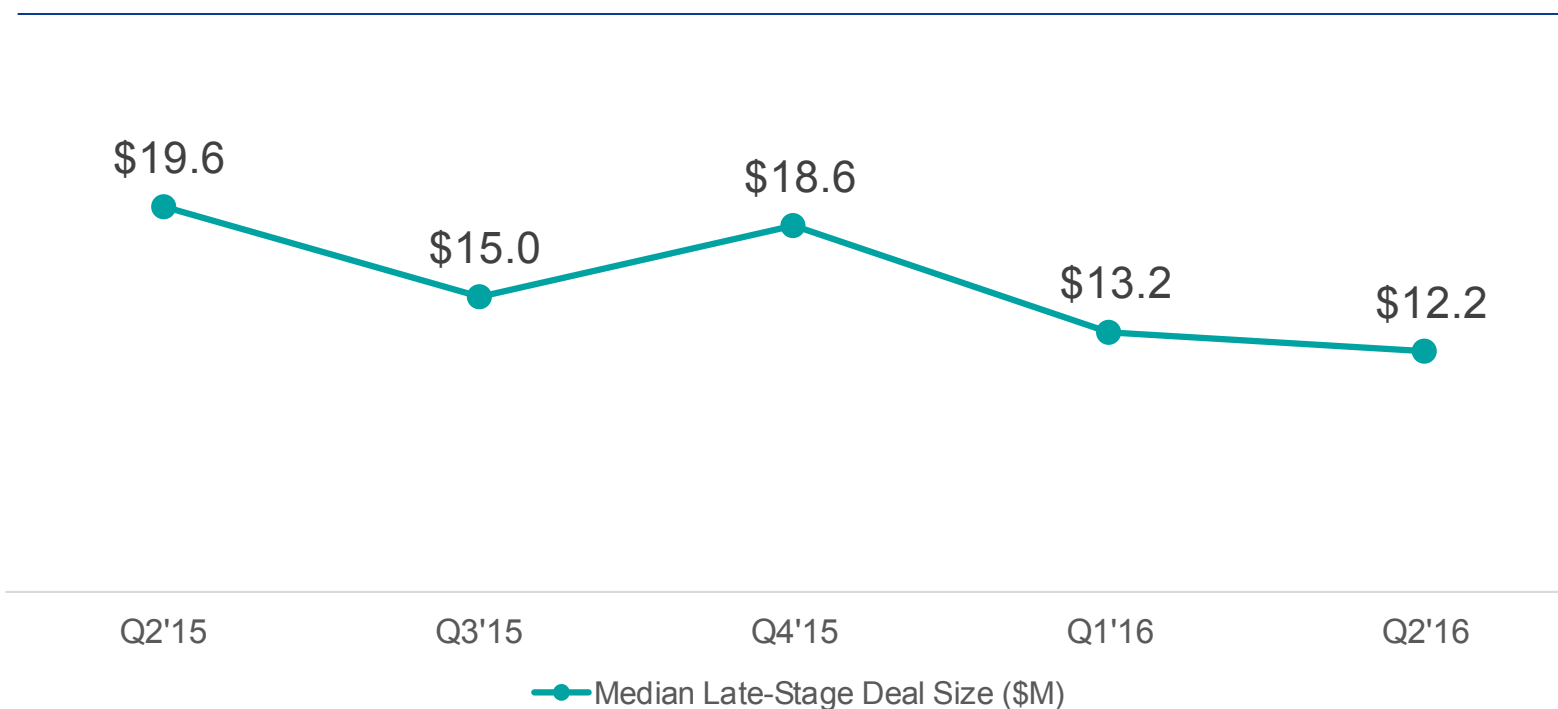
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EUROPEAN LATE-STAGE DEAL SIZE FALLS AGAIN IN Q2'16

Median late-stage deal sizes continue to decline in Europe after breaking \$15M for 3 straight quarters in 2015. The average late-stage deal size was \$12.2M in Q2'16, a 38% drop from the same quarter a year prior.

European Late-Stage Deal Size

Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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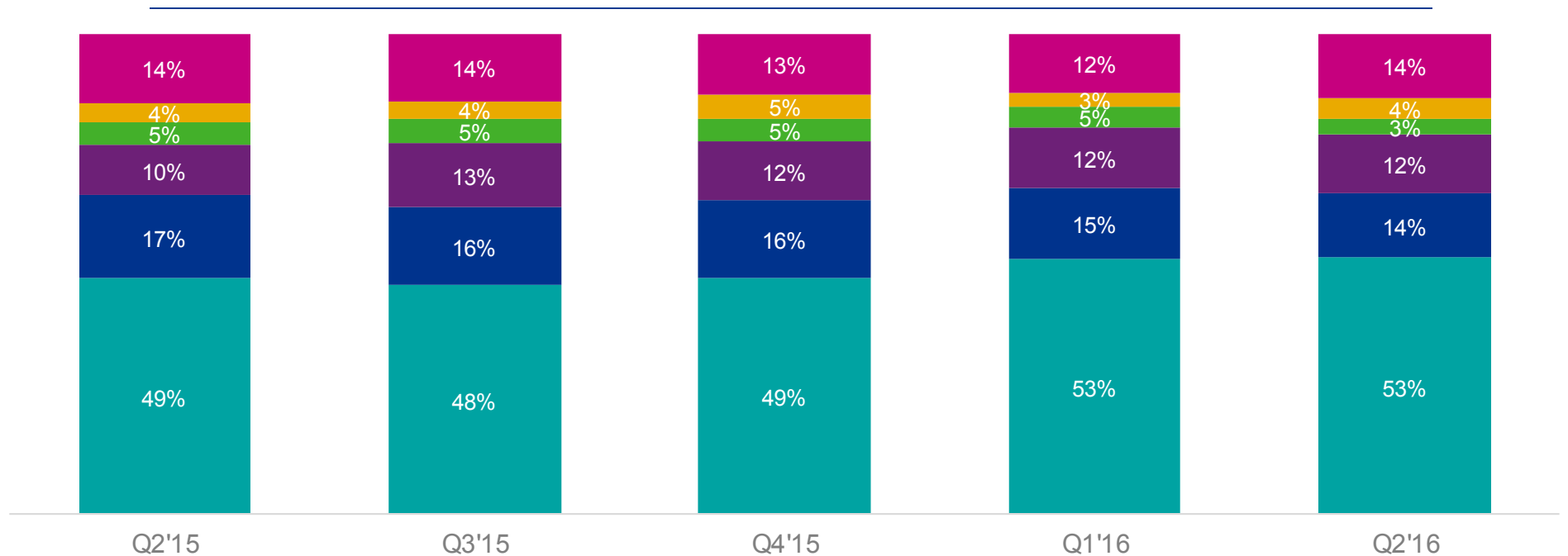


INTERNET TAKES MORE THAN HALF OF ALL DEALS FOR THE SECOND QUARTER IN A ROW

After a 3-quarter slowdown in internet deal share, 2016 has seen both quarters take more than half of all deals into VC-backed companies in Europe. Mobile reached a 5-quarter low of 14% after continuously shrinking in deal share since Q2'15.

European Quarterly Deal Share by Sector

Q2'15 – Q2'16



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

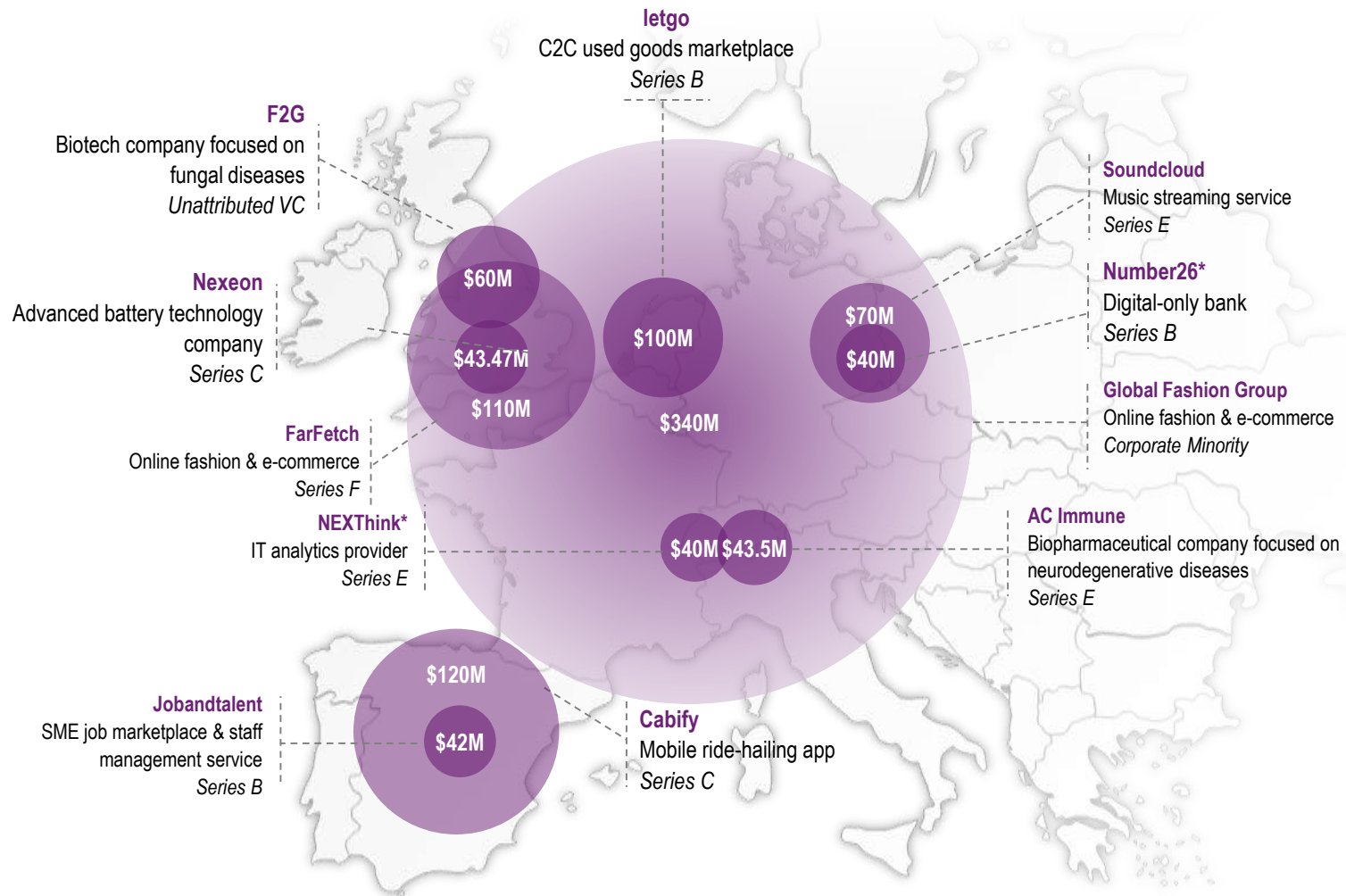
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THE 11 LARGEST EUROPEAN ROUNDS OF Q2'16 REPRESENTED MORE THAN \$1B IN FUNDING



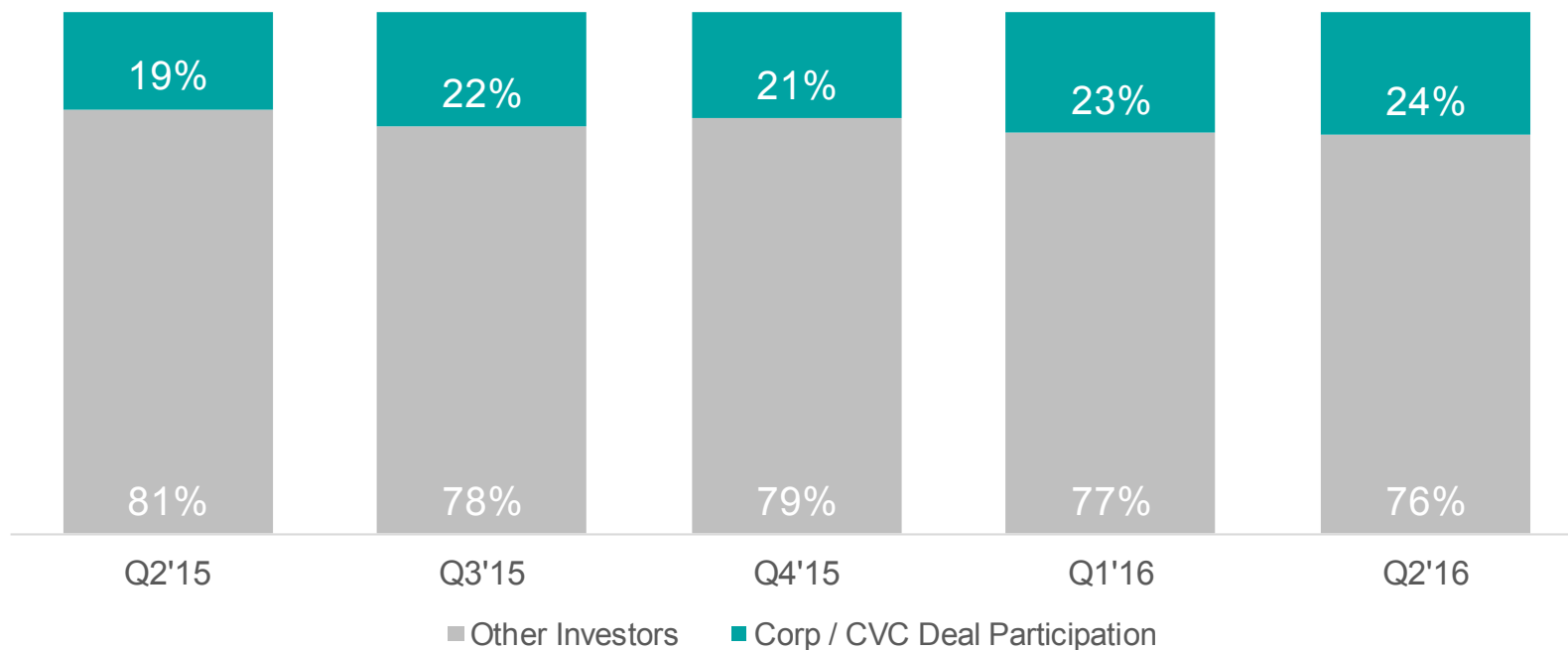
* - Tied for 10th place with \$40M in funding

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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

Corporate investors participated in 24% of all deals to European VC-backed companies in Q2'16, representing a 5-quarter high. Corporate participation has now topped 20% for 4 of the last 5 quarters.

CVC Participation in European Deals to VC-Backed Companies Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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“In the first half of the year, we have seen US technology giants acquiring UK tech startups in emerging areas such as machine learning and artificial intelligence. This highlights the strength of the UK technology ecosystem and the quality of companies it produces.”



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

HIGH-TECH GRUENDERFONDS IS MOST ACTIVE VC INVESTOR IN EUROPE IN Q2'16

High-Tech Gruenderfonds continues to hold its spot as the most active VC investor in Europe, with investments in more than 10 unique companies in the quarter, including Thermosome and Junique. Denmark-based Sunstone Capital ranked second.

Most Active VC Investors in Europe Q2'16

Rank	Investor	Rank	Investor
1	High-Tech Gruenderfonds	11	e.ventures
2	Sunstone Capital	11	Accel Partners
3	Global Founders Capital	11	Partech Ventures
3	Point Nine Capital	11	SEED Capital
3	Bayern Kapital	11	Alma Mundi Fund
3	Business Growth Fund	11	Wellington Partners
7	SpeedInvest	11	Caixa Capital Risc
7	Index Ventures	11	LocalGlobe
9	Holtzbrinck Ventures	11	PMV
9	Imperial Innovations	11	Project A Ventures
11	Octopus Ventures	11	IBB Beteiligungsgesellschaft

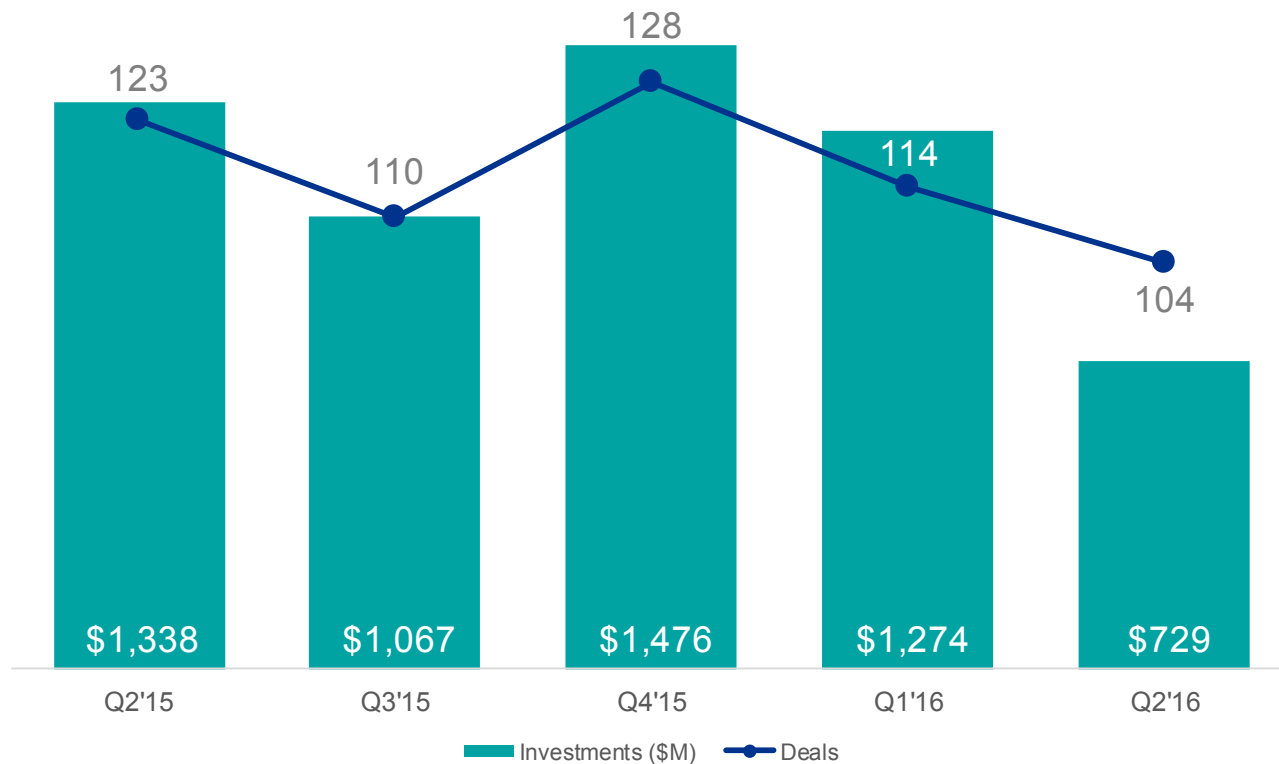
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UK VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

UK Investment Activity VC-Backed Companies, Q2'15 – Q2'16



Top Deals

FarFetch

\$110M // Series F

F2G

\$60M // Unattributed VC - III

Nexeon

\$43.5M // Series C

Top Cities

London

64 Deals // \$469.3M

Cambridge

5 Deals // \$46.7M

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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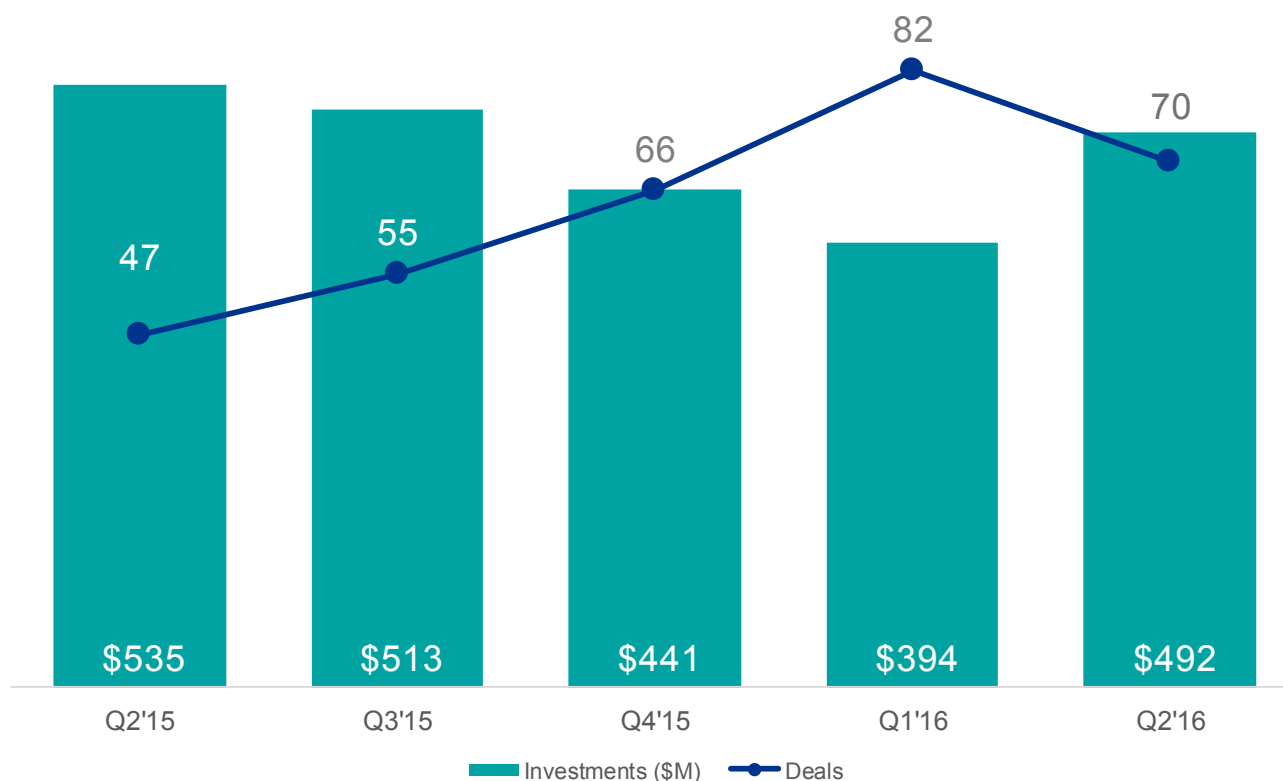


GERMANY VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

Germany Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Soundcloud

\$70M // Series E

Finanzcheck

\$46M // Series C

Number26

\$40M // Series B

Top Cities

Berlin

39 Deals // \$293.4M

Munich

9 Deals // \$71.1M

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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“In Europe, there are a number of non-tech players that are looking to find accompanying business models that complement their business to increase their profitability. In the future more of these companies will look to M&A in the digital space in order to redefine their value chain and business models.”



Tim Dümichen
Partner,
KPMG in Germany

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

CB Insights and KPMG Enterprise encourage you to review the methodology and definitions employed to better understand the numbers presented in this report. If you have any questions about the definitions or methodological principles used, we encourage you to reach out to CB Insights directly. Additionally, if you feel your firm has been underrepresented please send an email to info@cbinsights.com 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 tranching investments. If a company does a second closing of its Series B round for \$5M and previously had closed \$2M in a prior quarter, only the \$5M is reflected in our results.
- Round numbers reflect what has closed – not what is intended. If a company indicates the closing of \$5M out of a desired raise of \$15M, our numbers reflect only the amount which has closed.
- Only verifiable fundings are included. Fundings are verified via (1) various federal and state regulatory filings; (2) direct confirmation with firm or investor; or (3) press release.
- Previous quarterly VC reports issued by CBI have exclusively included VC-backed rounds. In this report any rounds raised by VC-backed companies are included, with the exceptions listed.
- Geography note: Israel funding figures are classified in Asia.

What is excluded:

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

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



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About KPMG Enterprise

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