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Number of VC deals falls for fourth consecutive quarter: KPMG and CB Insights

Southeast Asia saw decline in both the volume and value of deals as caution dominates VC market with investors focusing on proven companies amid global macroeconomic upheaval.

Investment deals in venture capital (VC)-backed companies saw another weak quarter with USD\$27.4 billion invested across 1,886 deals globally in Q2 2016, according to *Venture Pulse*.

The quarterly global report on VC trends published jointly by KPMG International and CB Insights showed a slight increase in total funding over the \$26.5 billion invested in Q1 2016. But the total number of deals declined 6 percent from the 2,008 deals done Q1 2016, the fourth straight quarter of pull-back in activity.

Continued concerns over startup valuations, macroeconomic upheavals, the ramifications of Brexit, and an uncertain exit environment for portfolio companies led to the flat performance.

“There’s a lot going on, with uncertainty dominant in every market. The long-term impact of Brexit won’t be clear for a while – which will create even more uncertainty in the market,” said Chia Tek Yew, Head of Financial Services Advisory, KPMG in Singapore.

“It’s a challenging time for VC investors, many of whom are on the sidelines to see how these events may play out, while others are focusing on companies they see as having a solid foundation and growth plan – like Uber, Snapchat and Didi Chuxing.”

Key Q2 highlights:

- Q2 funding saw a five-quarter low in mega-round deals (those over \$100 million in size) - 35 in total versus 40 in Q1 2016 and 63 in Q2 of 2015.
- Global deal activity fell to 1,886 deals, the lowest volume of deals since Q2 2013 – and down 6 percent from the 2,008 deals seen in Q1 2016. Financing ticked up 3 percent to \$27.4 billion, mostly buoyed by \$1 billion-plus rounds to “decacorns” such as Uber, Snapchat and Didi Chuxing. Decacorns refer to private investor-backed companies with a private market valuation of greater than \$10 billion.
- The decacorn megarounds also lifted funding figures in North America and Asia – up 10 percent to \$17.1 billion and 3 percent to \$7.4 billion quarter to quarter, respectively. However, both regions saw noticeable declines in deal activity, with North America down 8 percent from Q1 while Asia fell 12 percent. Europe trended in the opposite direction, with deals climbing 5 percent but funding dropping 20 percent between Q1 and Q2.
- Q2 saw seed share bounce back from 31 percent to 35 percent of all deals, driven by especially strong seed investment activity in Asia and Europe.

- Seven new VC-backed unicorn companies were born in Q2 is up from the five born in Q1 2016, but still well below the Q3 2015 peak when 25 unicorns were birthed.

Anand Sanwal, CEO of CB Insights, commented: “The story of this quarter is the continued decline in deal activity. Unless you’re one of five companies for which there is insatiable investor appetite, it is becoming tougher to raise money from VCs and the assorted cast of characters who’ve entered the investment fray, i.e., hedge funds, mutual funds, sovereigns, corporations, etc. Expect to see lots of companies talking about profitability and taking on cost-cutting measures in the coming quarters.”

North America and Asia see funding climb but deals slip

The trends visible across major venture hubs were decidedly mixed. North America and Asia saw funding climb slightly across fewer deals. Europe, however, saw total investment drop as deal count rose.

Regionally, North America still leads global venture capital activity by a considerable margin. With \$17.1 billion invested in the second quarter of the year, funding rose 10 percent over the \$15.5 billion of funding raised in Q1.

However, this financing total is skewed heavily by the \$5 billion-plus injected into Uber and Snapchat alone. The removal of those outliers shows a very different financing trend.

Despite the growth of funding in North America, deal count fell to 1,117, down 8 percent from Q1 2016. Q2’s quarterly deal total represents a 24 percent year-over-year decline, as well as North America’s lowest deal activity levels since Q1 2012.

Seed activity remained relatively depressed, with the percentage of seed deals remaining at 28 percent, down from 33 percent in Q3 2015.

Asia experienced a similar trend of increased funding across a declining number of deals. In Q2 2016, Asia saw \$7.4 billion invested across 343 deals. This compares to \$7.2 billion invested across 389 deals in Q1 2016, and is a far cry from the \$14.7 billion and 453 deals seen in Q3 2015.

Seed deal share rose to a 5-quarter high of 39 percent as seed-stage deals held steady in absolute terms while the number of other deal stages declined.

Among major markets, Europe was alone in seeing the number of deals grow, up 5 percent to 385 for the quarter. However, this was accompanied by a funding decline of 20 percent to \$2.8 billion.

After dropping sharply in Q1 2016, seed-stage deal share jumped back to 49 percent of all European deals, widening the gap versus other regions.

Southeast Asia sees pullback in funding and deals

Southeast Asia, meanwhile, had a lacklustre quarter. Investments dropped 35 percent from \$396 million in Q1 2016 to \$255 million in Q2 2016. The number of deals also fell by 25 percent from 68 to 51 over the same period.

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Singapore did the most number of deals (15 deals worth \$54.6 million), while Indonesia attracted the highest investments (13 deals worth \$158.3 million). The region's performance in the second quarter this year was the worst since Q1 2015, when 54 deals worth \$140 million were signed.

"Investment sentiment has turned more cautious with growing volatility in the global economic environment. Venture capitalists are becoming more selective and are taking more time to evaluate the value propositions," said Mr Chia. "There is still interest in these start-ups, particularly those in the Internet, telecommunications and healthcare sectors, but their valuations have been more subdued than in the past."

\$100 million-plus financings continue slide from mid-2015 peak

Large mega-round activity (deals over \$100 million) continued to slip, with 35 in Q2 2016 compared to 40 in Q1 2016 and 73 in Q3 2015. Traditional VCs as well as crossover investors such as mutual funds and hedge funds have continued to be more conservative in their commitments to such large deals.

Asian companies outpaced their North American counterparts for the second straight quarter in these large financings, with 17 mega-rounds compared to North America's 14. Both figures represent a decline from the previous quarter.

Comparatively, Europe saw one more mega-round than in Q1 2016, although with only 4 mega-rounds in total, the region lags its counterparts substantially.

Unicorn creation rate recovers slightly, though still fraction of 2015 highs

Q2 2016 saw the unicorn birth rate climb for the first time in three quarters, but still featured less than one-third of the number of unicorns birthed during the Q3 2015 peak. Of Q2's seven new unicorns, five were in North America, with just two in Asia and none in Europe or elsewhere. Among the quarter's new unicorns were Zoox, SMS Assist and Human Longevity.

Note to editors

*All figures cited are in USD

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