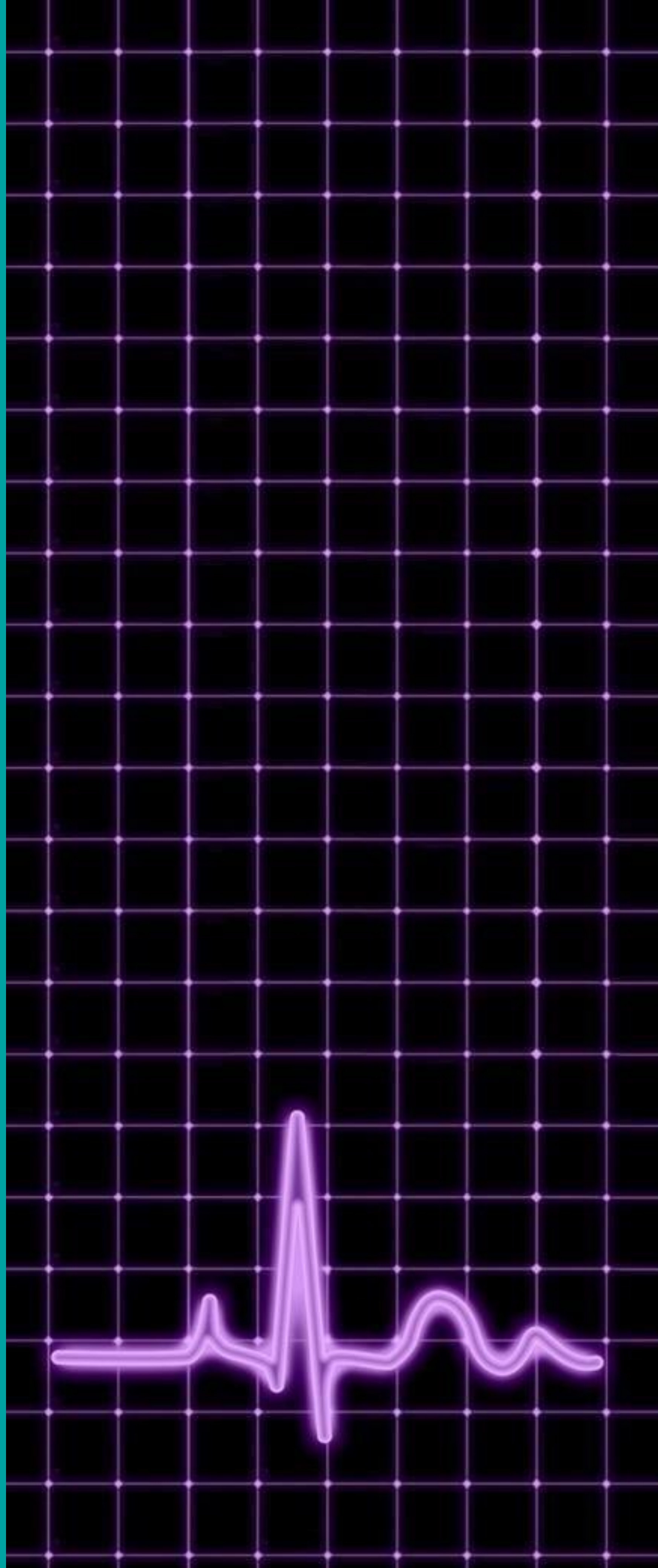
KPMG Enterprise

Venture Pulse Q2 2019

Global analysis of venture funding

11 July 2019



Welcome message

Welcome to the Q2'19 edition of *Venture Pulse,* KPMG Enterprise's quarterly report highlighting the key trends and opportunities facing the venture capital market globally and in key jurisdictions around the world.

At mid-year, global VC investment was well-off the pace required to match 2018's record-setting results. While VC investment in both the Americas and Europe was strong during Q2'19, a second weak quarter of investment in China negatively impacted global VC investment levels. Despite the weakened VC market in China, India saw a nice uptick in investment, led by $1 billion+ funding rounds to OYO Rooms.

In the Americas, the US continued to dominate the VC market, although it was Colombia-based Rappi that attracted the region's largest deal in Q2'19. Rappi's $1 billion raise was the largest technology funding round ever in Latin America.

Despite the ongoing uncertainties related to Brexit, Europe experienced a solid Q2'19, including a $575 million raise by Deliveroo and a $484 million raise by GetYourGuide Deutschland. Europe's increasingly diverse innovation hubs helped drive the region's results, with companies from six different countries accounting for Europe's top ten VC deals this quarter.

Several high-profile companies dominated IPO activity during Q2'19. These included Uber, Lyft, Zoom and Slack — the latter going public via a direct listing. M&A exit activity was also strong in Q2'19, with Salesforce acquiring Tableau for $15.7 billion and Google acquiring Looker for $2.6 billion.

In this quarter's edition of *Venture Pulse*, we look at these and a number of other trends affecting the VC market globally, including:

— The increasing interest coming from corporate investors
— The ongoing focus on investing in late-stage companies
— The growing diversity of verticals attracting VC investments
— The evolution of VC investment in the cyber space

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

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Unless otherwise noted, all currencies reflected throughout this document are US Dollar

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In Q2'19 VC-backed companies in the Asia region raised

$10.1B

across

484 deals

Asia VC investment continues sluggish performance

Overall deal value and volume remained low during Q2'19 in Asia, well off last year's record pace. The sluggish performance reflects the continued absence of significant numbers of $100 million+ megadeals in China for the second consecutive quarter. The continued slowdown in deal making in China likely reflects the ongoing US-China trade dispute and a corresponding increase in investors caution.

Trade dispute dampens longer term outlook for China

The first two quarters of 2019 saw a large drop in VC activity in Asia, both in terms of the number of deals and total deal value. China's share of megadeals in particular has fallen significantly over the past few quarters. At the end of Q2'19, the largest ten deals in Asia accounted for $4 billion in investment. By comparison, in Q4'18, the ten largest deals accounted for $11 billion.

With VC investors in China wary, Q2'19 saw investors focusing on a smaller number of massive deals and a larger volume of smaller deals[1]. This likely contributed to the shrinking number of unicorn births in China; in Q2'19; there were no new unicorns birthed in China, compared to 19 in the US[2]. In recent quarters, Chinese mega-giants such as Alibaba, including its affiliate Ant Financial, have been able to consolidate their significant gains across multiple segments. This could also be contributing to the slowdown in high growth sectors.

Healthtech remains hot in China

Healthtech startups continued to draw significant interest from VC and corporate VC investors in China. In Q2'19, China's JD Health raised $1 billion in funding, while Tencent Trusted Doctors raised $250 million. The life sciences, pharmaceutical, and healthtech sectors are expected to continue to gain traction among VC investors in China as the government moves forward with healthcare reforms, including plans to better manage drug pricing, fast-track approval of overseas drugs, and improve access to care for patients.

Rule changes at the Hong Kong Stock Exchange begin to pay dividends

In 2018, the Hong Kong Stock Exchange (HKSE) changed its listing rules to allow dual-class shares. The aim was to attract more technology firms, a fact that is starting to bear fruit. Alibaba Group is reportedly planning to raise approximately $20 billion through a second listing in Hong Kong. This move, currently expected in Q3'19, could help spur additional activity on the HKSE[3, 4]. Following Hong Kong's record year of IPOs in 2018, the level of IPO activity has dropped off somewhat, although a second listing from Alibaba would prove a significant boost.

Hong Kong awards virtual banking licenses

In recent months, the Hong Kong Monetary Authority (HKMA) awarded eight companies with virtual banking licenses: Ant SME, Insight Fintech, Infinium, Livi VB, SC Digital, PingAn One Connect, WeLab, and Zhong An Virtual Finance. Of these companies, WeLab is the only home grown fintech; the others are backed by companies outside of Hong Kong, including Tencent, Industrial and Commercial Bank of China, JD Digits, Standard Chartered, ZhongAn and Jardines.

During Q2'19, work continued on the Greater Bay Area Initiative, with local governments coordinating policies with the aim of facilitating a greater flow of capital and investment in region[5].

[1] https://news.crunchbase.com/news/chinese-startups-shrink-back-from-raising-supergiant-venture-capital-rounds/
[2] https://pitchbook.com/news/articles/unicorn-class-of-2019
[3] https://www.scmp.com/comment/insight-opinion/article/2143267/hkexs-new-listing-rules-will-bring-tech-economy-hong-kong
[4] https://seekingalpha.com/article/4272304-alibabas-second-hk-listing-means
[5] http://fintechnews.hk/8951/virtual-banking/hkma-virtual-bank-license-sc-digital-livi-zhongan-za/

Asia VC investment continues sluggish performance, cont'd

Stable government inspires business confidence in India

Following a sluggish start to the year, VC investment in India picked up steam in Q2'19 reaching $1.5 billion invested on over 38 deals, including $1 billion+ funding round by hotel company OYO Rooms.

OYO has reportedly become India's second biggest budget hotel chain, with more than 400,000 rooms in 290 cities. OYO's aspirations span far beyond India and China, having recently opened its first U.S. hotel at the beginning of the year and planning a $300 million expansion in the US.

The incumbent Indian government was re-elected in May with a strong majority. The result has been an increase in investor and business confidence and a significant uptick in VC activity. With continued stable, predictable economic policies and programs expected over the next few years, the outlook for VC activity in India is very positive.

In Q2'19, India's vast agriculture sector showed signs of nascent agri-tech development. Ninjacart, which links farmers to retailers, raised $100 million from a New York-based hedge fund. In the process, their valuation rose to $320 million[6].

Trends to watch for in Asia

Looking forward to Q3'19, edtech and online food and food delivery will be sectors to watch in India. For example, CloudKitchens, founded by former Uber CEO Travis Kalanick, enables delivery-only restaurants to set up kitchens and avoid the expense and associated risks of bricks-and-mortar outlets. These types of solutions are expected to see increasing investment in India.

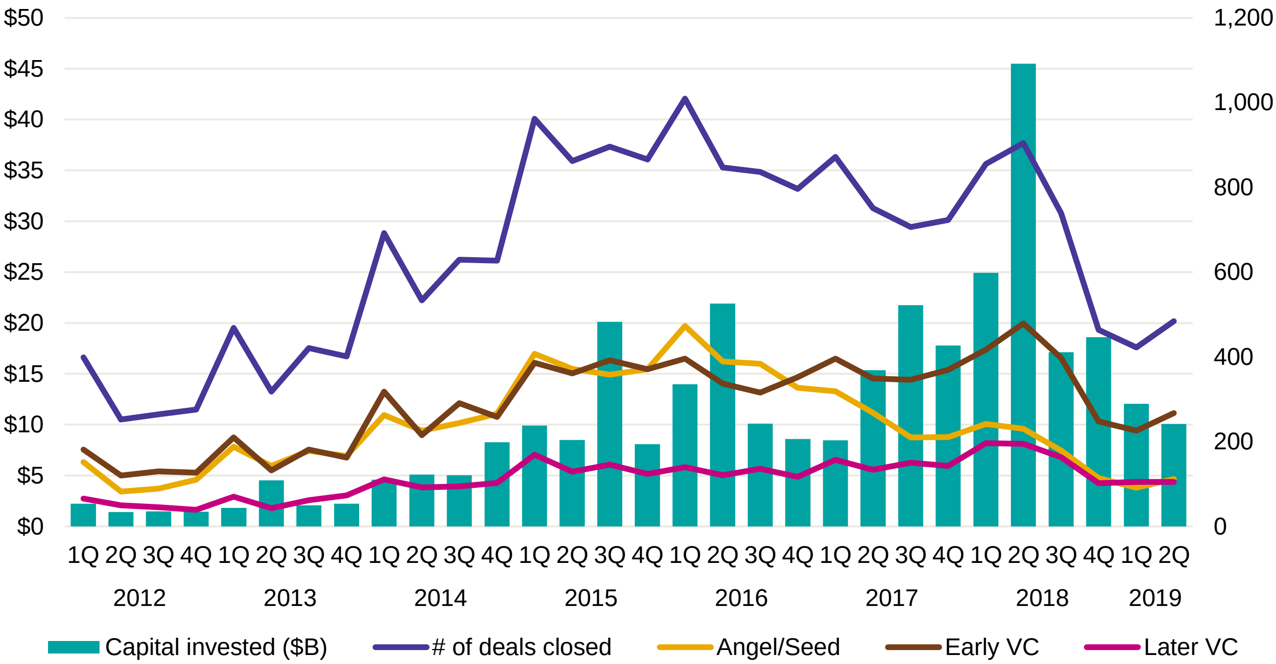
With little sign that the China-US trade dispute will be resolved, VC investment in China could continue to be sluggish, although AI, healthtech and other high priority sectors will likely buck any negative trends.

[6] https://agfundernews.com/ninjacart-raises-89m-in-indias-largest-ever-farmtech-deal.html

Q2 sees trends evening out

Venture financing in Asia

2012–Q2'19



Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

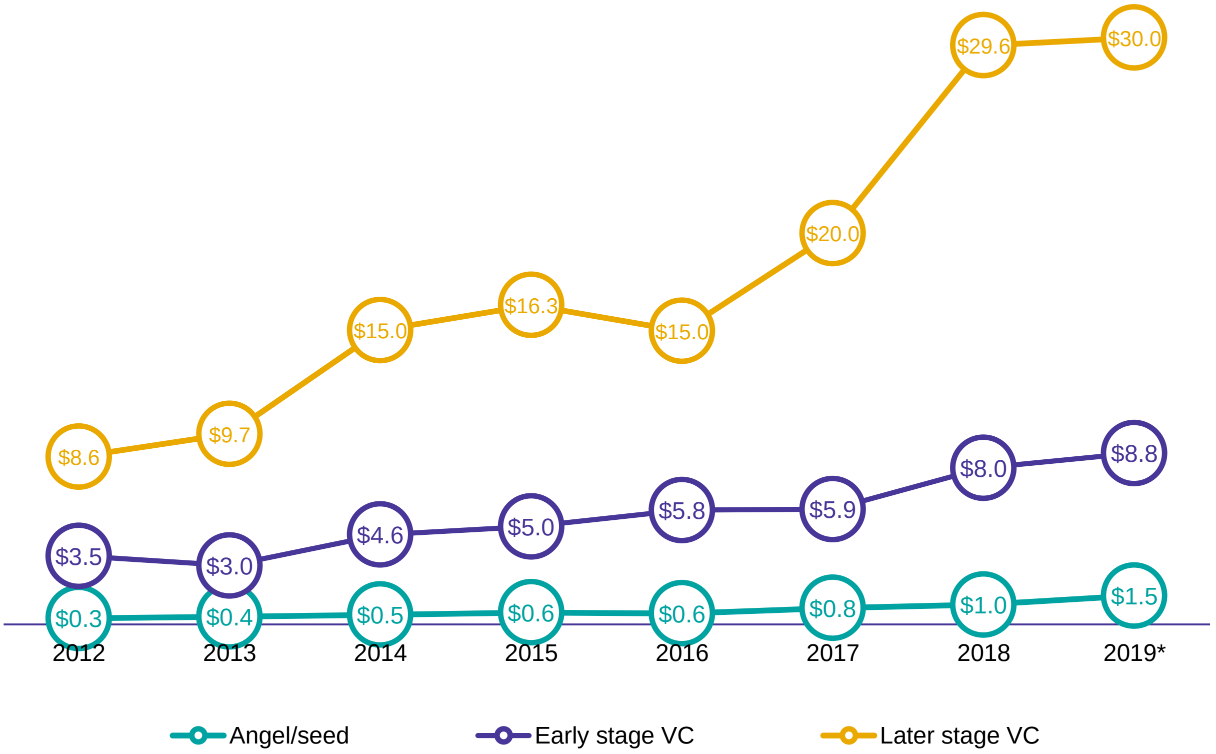
Note: Refer to the Methodology section on page 22 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

The decline that commenced in the final quarter of 2018 has turned out to be a more prolonged slowdown for venture funding levels across the Asia-Pacific region than may have been expected. However, it still hasn't been so prolonged, nor so dramatic, that it is cause for undue concern; rather, every fledgling ecosystem undergoes slower periods of investment rates as investors and companies alike that raked in millions in 2018 take a breather before gaining further exposure and growing further, respectively. Hence the evening out of volume in the past three quarters, as a result.

Even as volume slides, medians stay high

Median deal size ($M) by stage in Asia

2012–2019*



Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

A promising sign for the Asia-Pacific venture ecosystem is that even as volume slides significantly, there is little shortage of capital for the companies that are able to raise. This implies that investors have simply grown more cautious rather than completely leery of startups within the region.

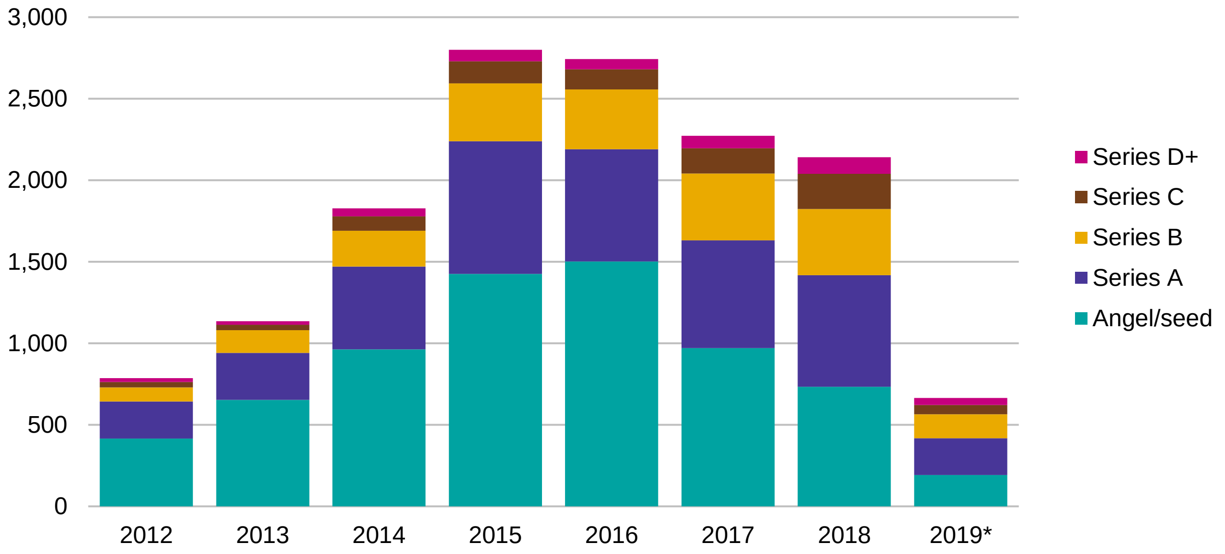
"While overall investment was subdued, this was still an exciting quarter for the fintech ecosystem in Asia, as highlighted by the Hong Kong Monetary Authority's recent approval of eight virtual banking licenses and recently announced plans by the MAS to offer five banking licenses in Singapore. Regulators across Asia are committed to opening the door for fintechs looking to enter the banking sector. "

Egidio Zarrella
Head of Clients and Innovation Partner,
KPMG China

Activity disproportionately tilts toward late-stage

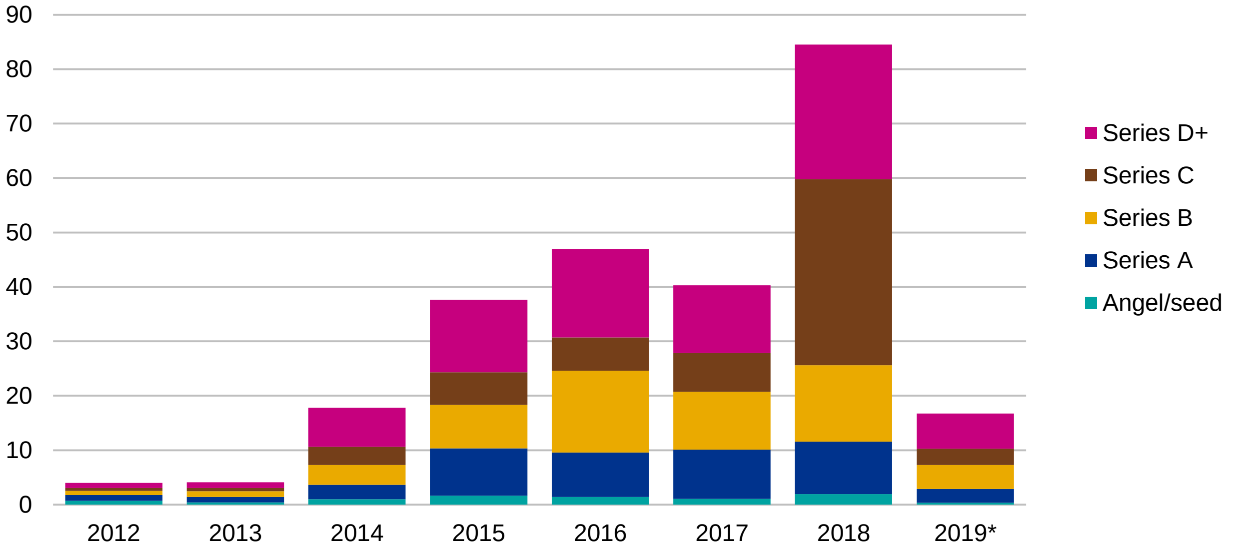
Deal share by series in Asia

2012–2019*, number of closed deals



Deal share by series in Asia

2012–2019*, VC invested ($B)

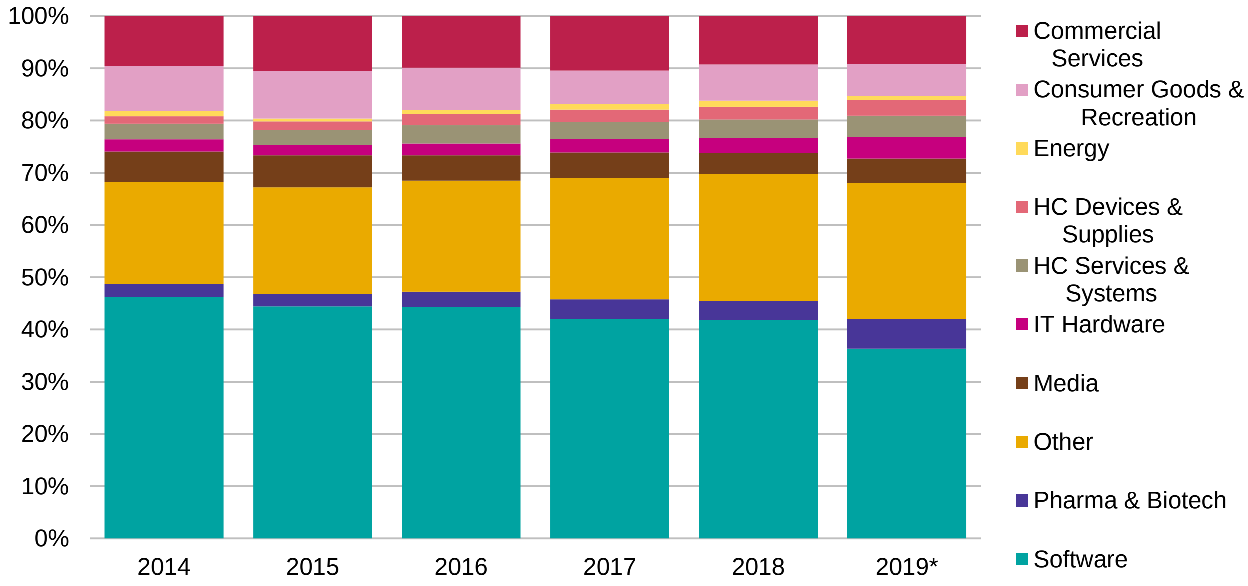


Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Sector lines blur as healthcare stays resilient

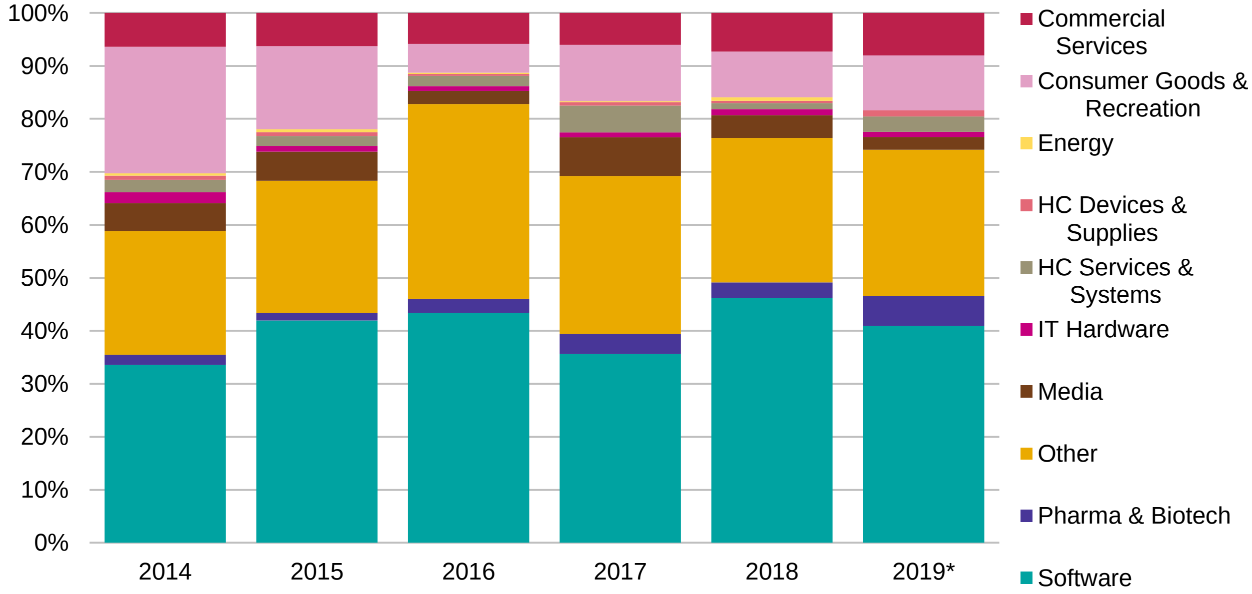
Asia venture financings by sector

2014–2019*, number of closed deals



Asia venture financings by sector

2014–2019*, VC invested ($B)

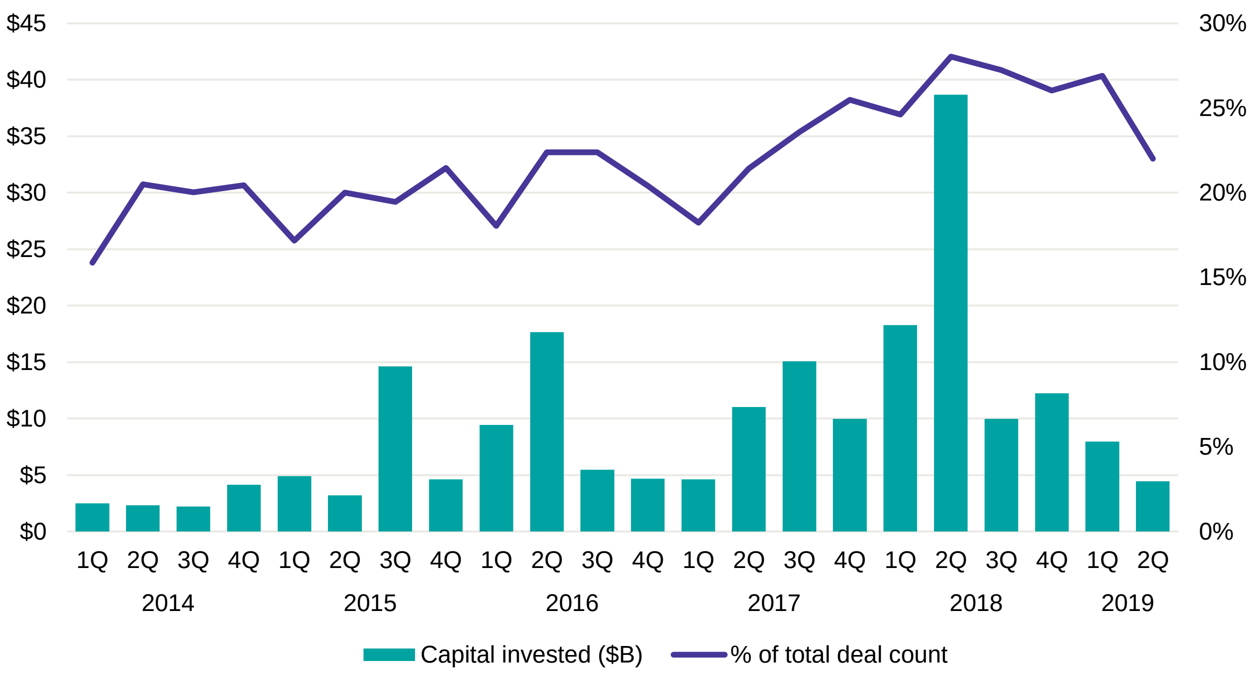


Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

CVC participation takes a bit of a breather

Corporate participation in venture deals in Asia

2014–Q2'19



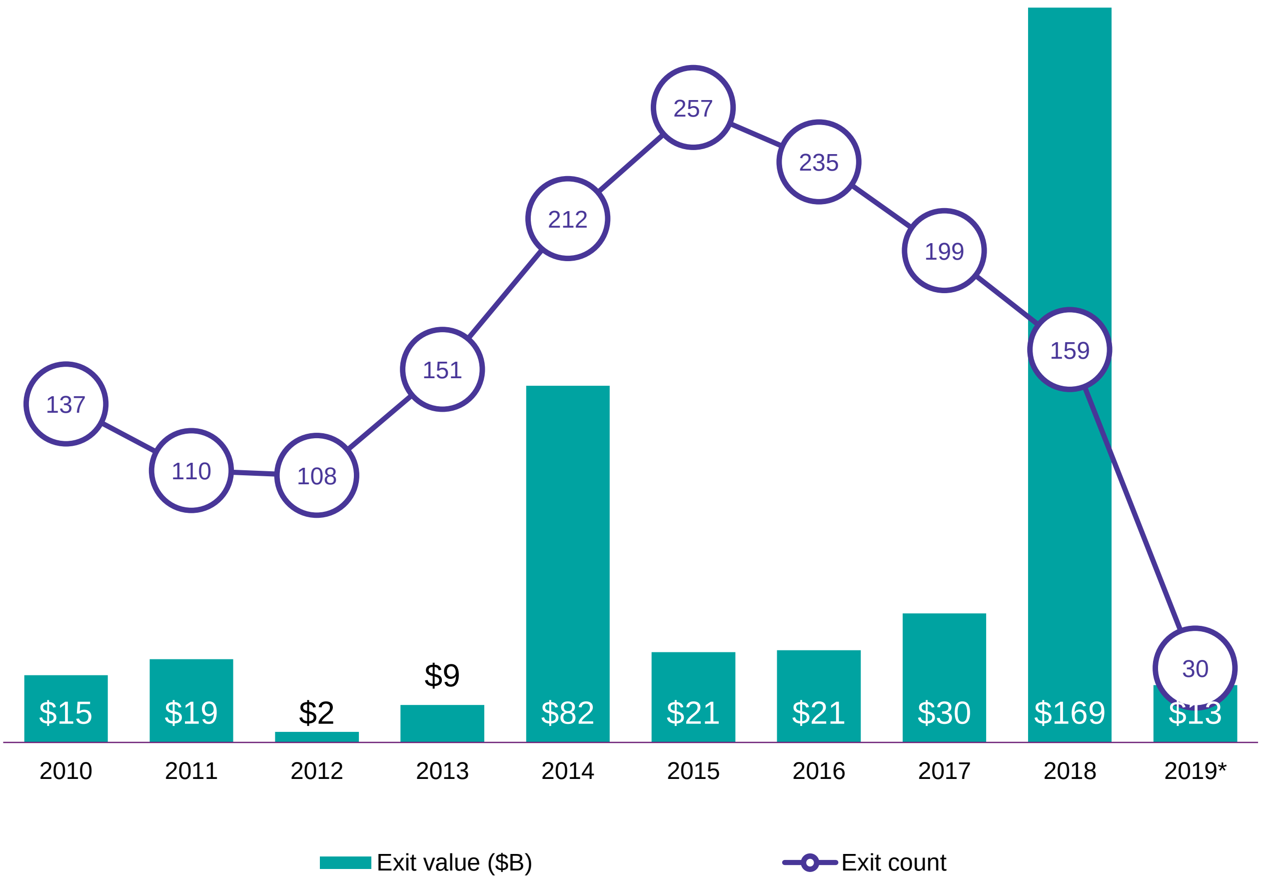
Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Corporate players remain essential in the capital cycle of the Asia-Pacific venture ecosystem, especially at the late-stage. Consequently, any prolonged downturn would be cause for concern, however, a quarterly tilt downward is hardly that. Rather, corporates are still staying relatively active, especially compared to historical levels.

Exit cycle on pace to hit to historical means

Venture-backed exit activity in Asia

2012–Q2'19



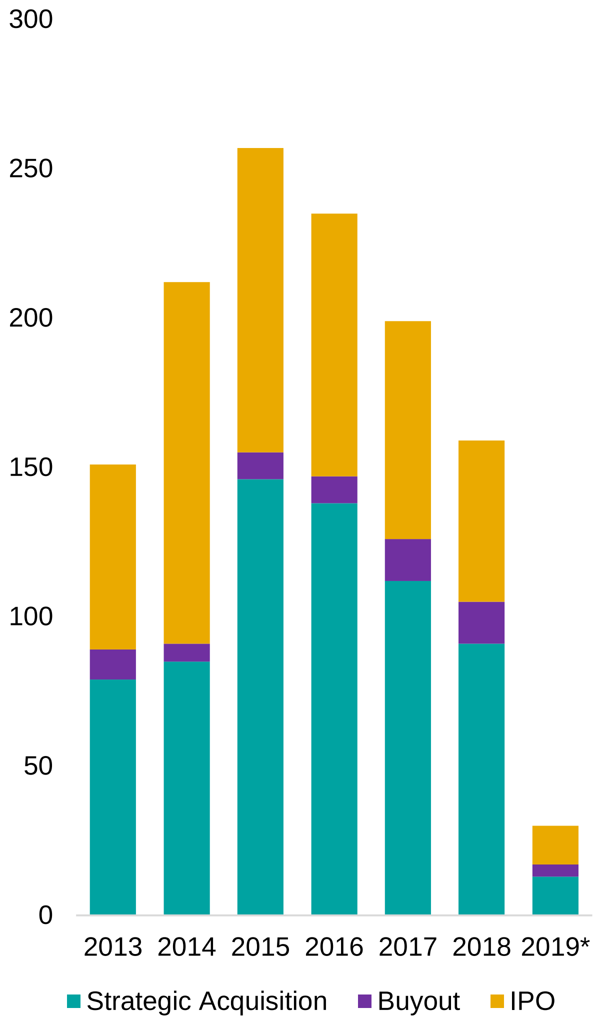
Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

After a blockbuster year of listings in particular, venture-backed exits in the region are now more looking set to hit levels that are far more common throughout the past five years, e.g. 2015 or 2016 tallies. That is likely due to the nascency of the venture ecosystem overall, wherein it has not yet matured enough to produce a steady clip of liquidity.

M&A, IPOs divide exit volume down the middle

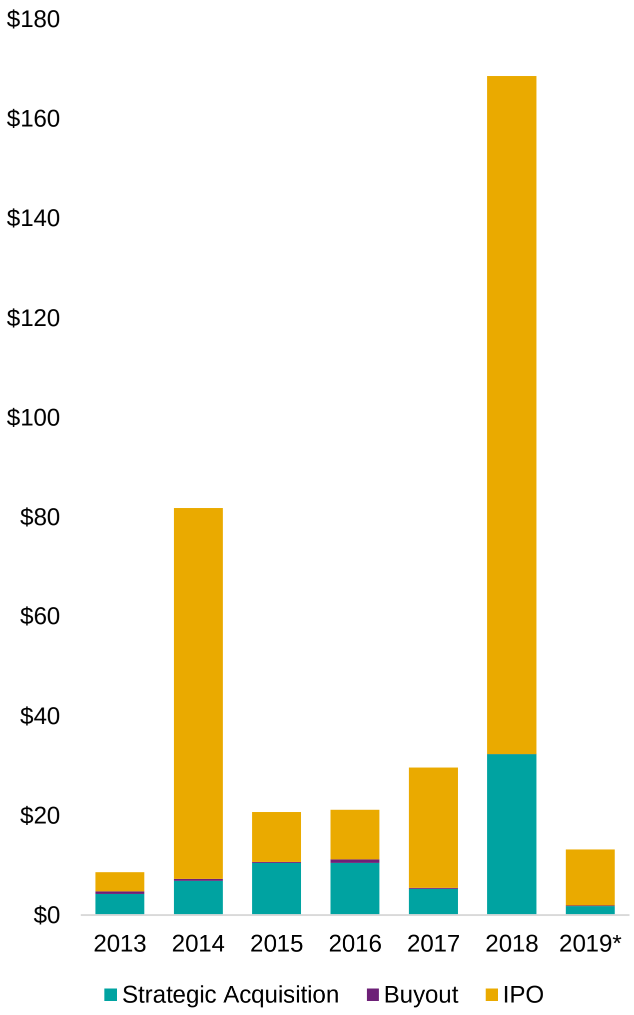
Venture-backed exit activity (#) by type in Asia

2013–2019*



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

2013–2019*

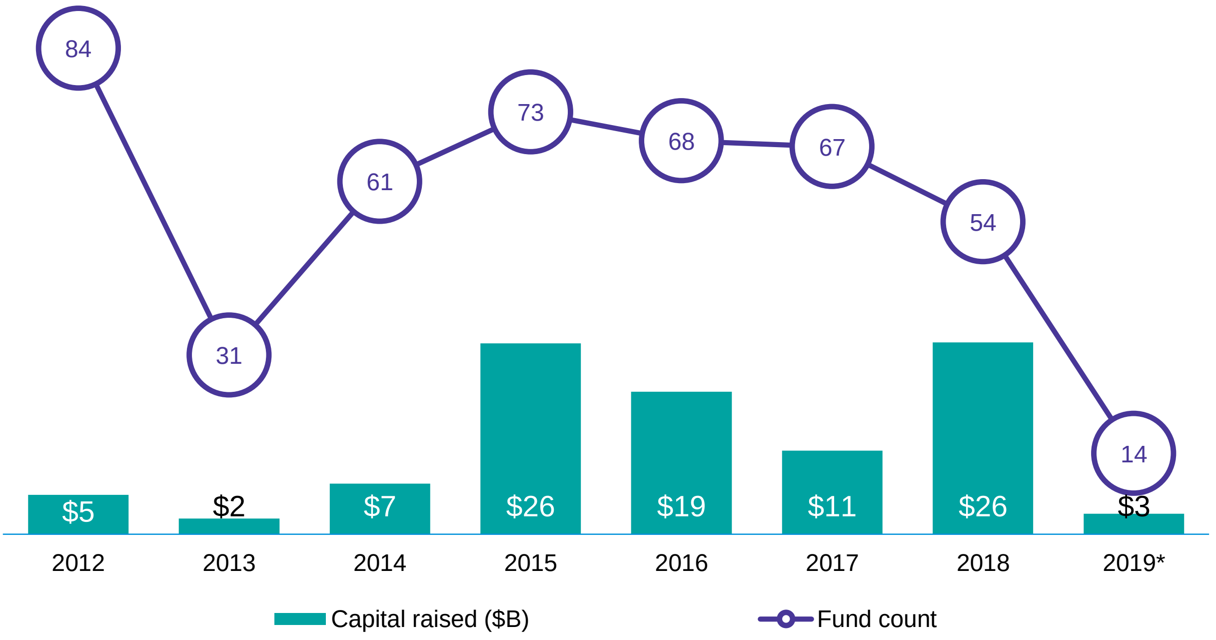


Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Fundraising still proceeding at a sluggish pace throughout 2019 thus far

Venture fundraising in Asia

2011–2019*



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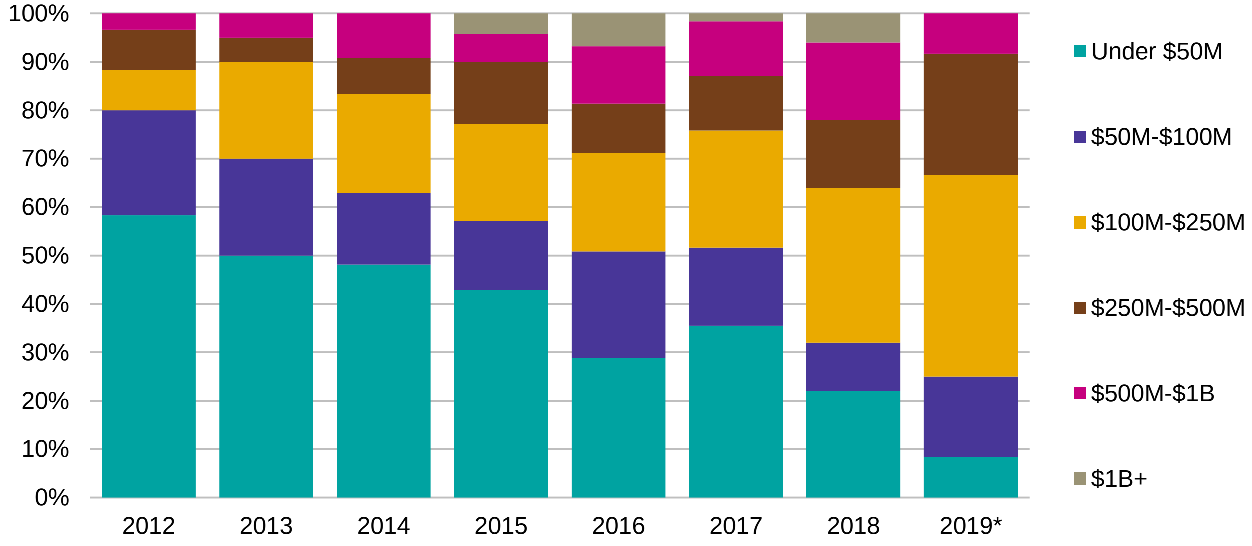
2018 saw the most ever raised by venture funds, even as overall volume dipped below tallies seen for much of the middle of the 2010s. However, 2019 is off to a significantly slower start, in both capital raised and count. Contributing factors likely include the nascency of the ecosystem, wherein gains have largely been concentrated amid a smaller population of firms; growing cross-border investor interest; and the prevalence of corporate activity within the ecosystem overall.

Fundraising still shifts larger, middle of the market sees gains in volume

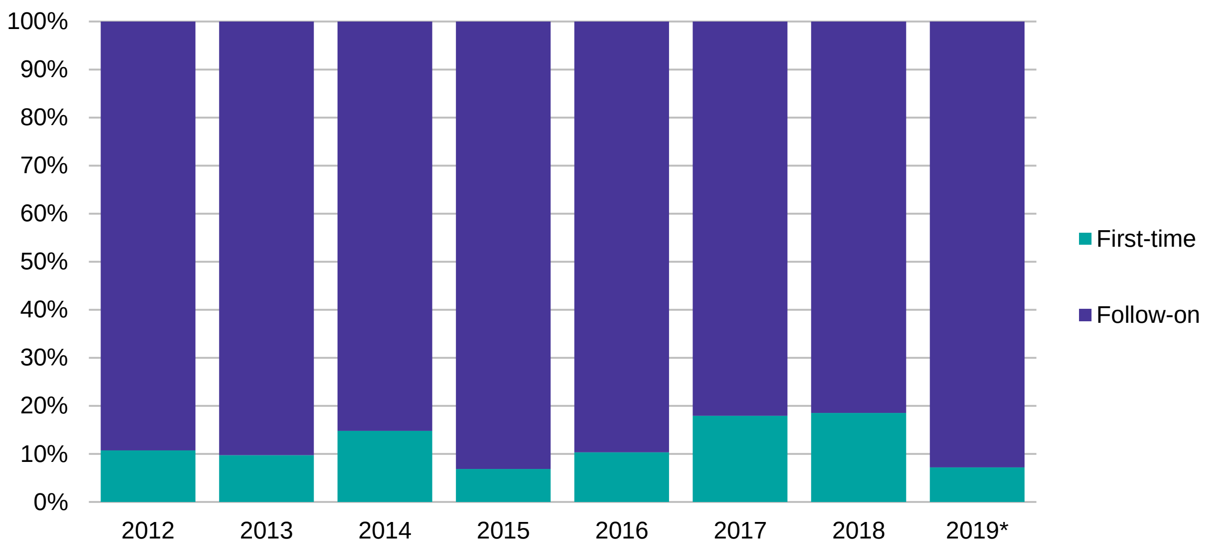
Venture fundraising (#) by size in Asia

2012–2019*



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

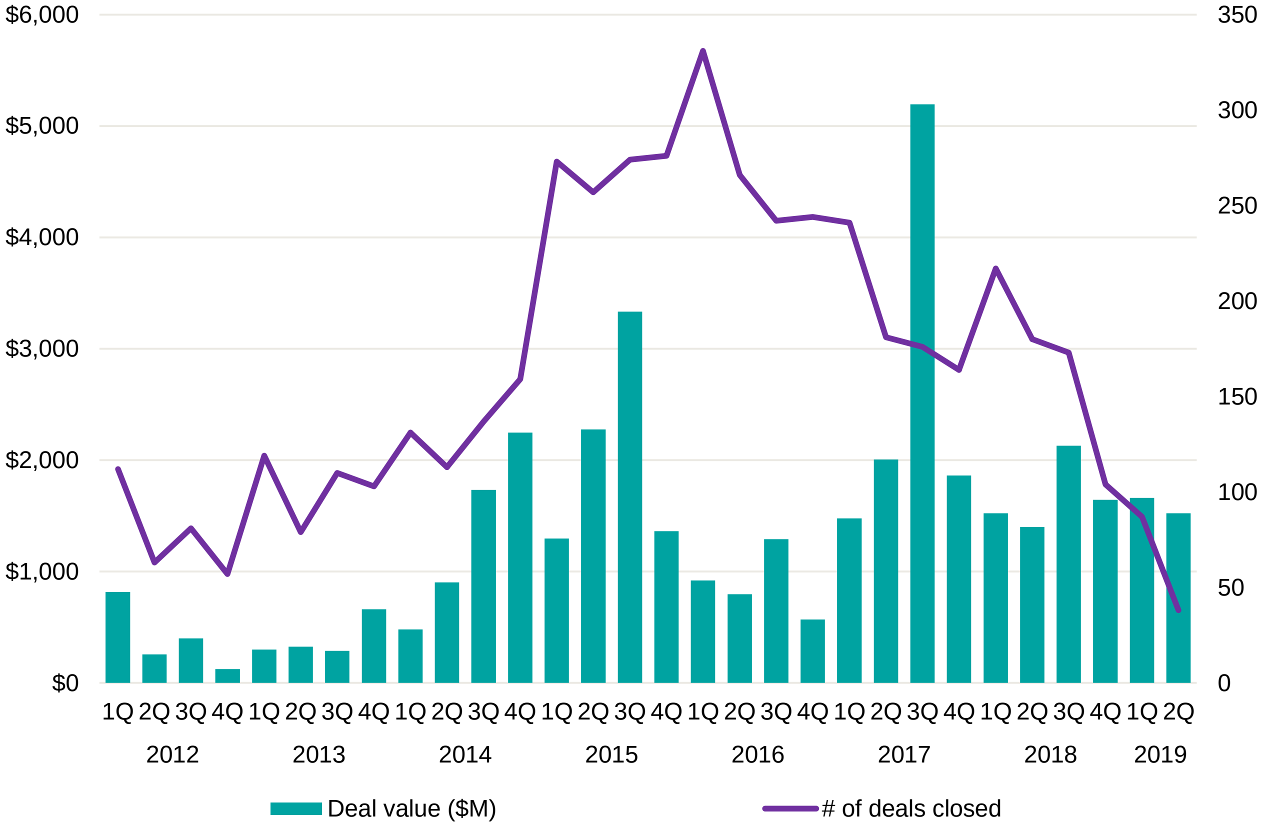
2012–2019*



Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Venture volume evens out

Venture financing in India
2012–Q2'19



Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

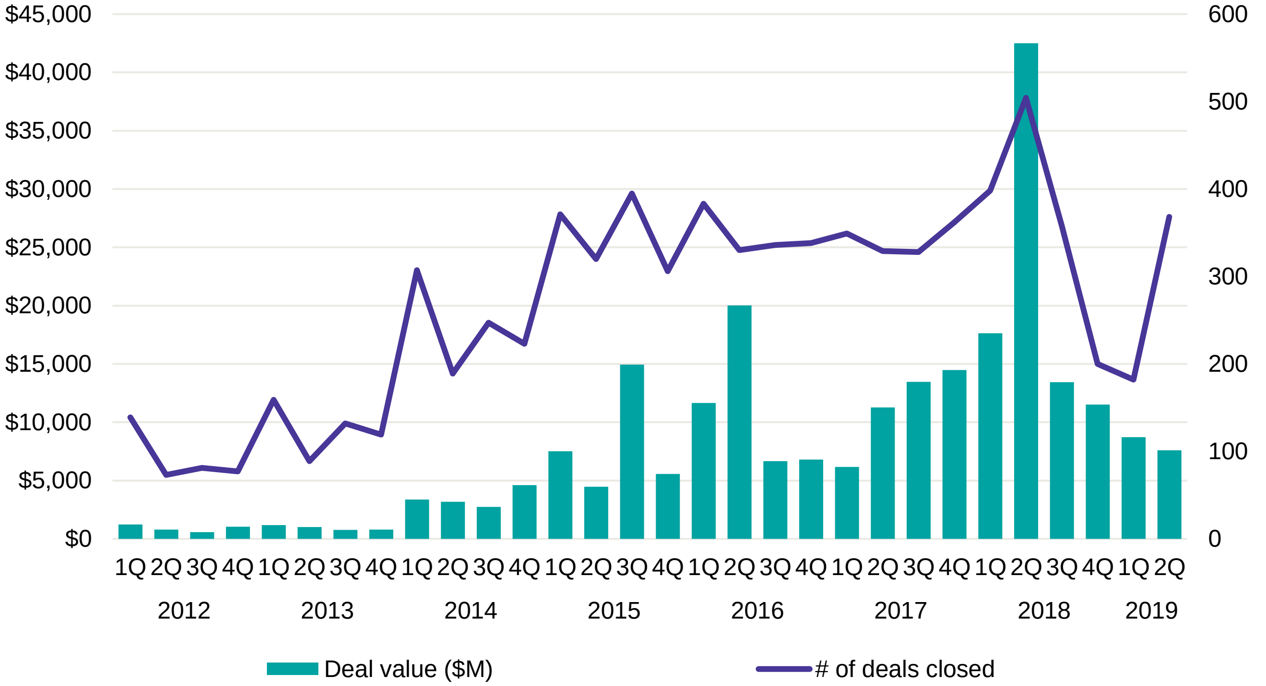
The downturn in the final quarter of 2018 carried over into 2019's first quarter, as much of the Asia-Pacific region saw sluggish investment activity. However, VC invested recovered to hold steady at a more-than-healthy historical rate.

"The results of India's general election this spring had a marked impact on business confidence. A significant uptick in VC activity followed the ruling party's return to power with a larger majority. The VC community, and business community generally, gained comfort in predictability. They know that the economic policies and programs created and administered by the ruling party before the election are likely to continue through to the next election in five or so years' time."

Nitish Poddar
Partner and National Leader, Private Equity
KPMG in India

After slow start, Chinese volume roars back

Venture financing in China
2012–Q2'19



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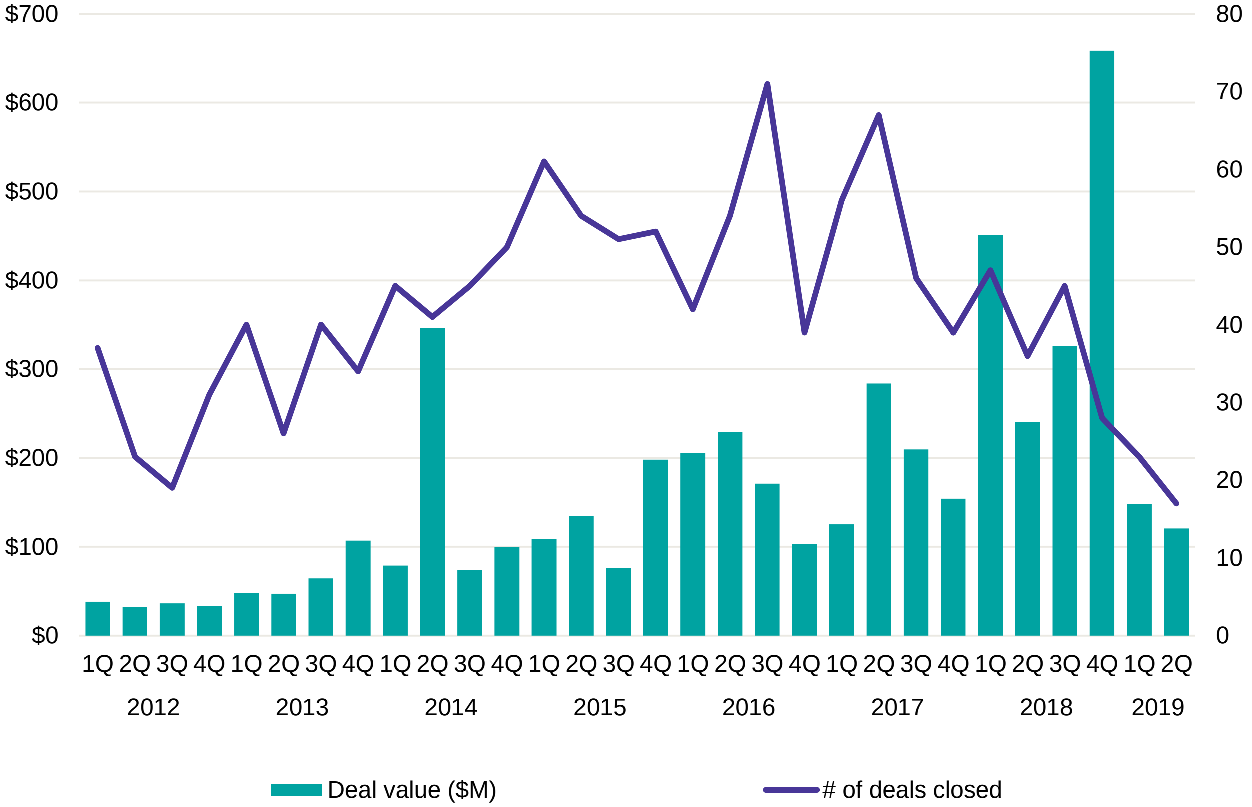
The back-to-back muted quarters, after such a high-flying stretch of VC invested and volume, gave initial pause in the past two editions of the Venture Pulse. However, as noted in those editions, it was likely more a time of retrenching than anything else, and the latest figures bear that conclusion out. VC activity has resurged significantly in volume, even as value has diminished slightly. A note of caution: Such a jump could well also plunge downward next quarter, given the ongoing maturation of the Chinese ecosystem resulting in significant volatility in quarterly tallies.

"We've seen a decline in venture capital activity in China so far this year, and by various measures, the country's global share of megarounds, total value of the largest deals, and start-ups as a percentage of global mega-deal volume, to name a few. While economic growth overall in China and Hong Kong remains robust, these trends suggests that US/China trade tensions are having some impact on market confidence."

Irene Chu
Partner, Head of New Economy and Life Science, Hong Kong Region,
KPMG China

A muted Q2 for Australian venture activity

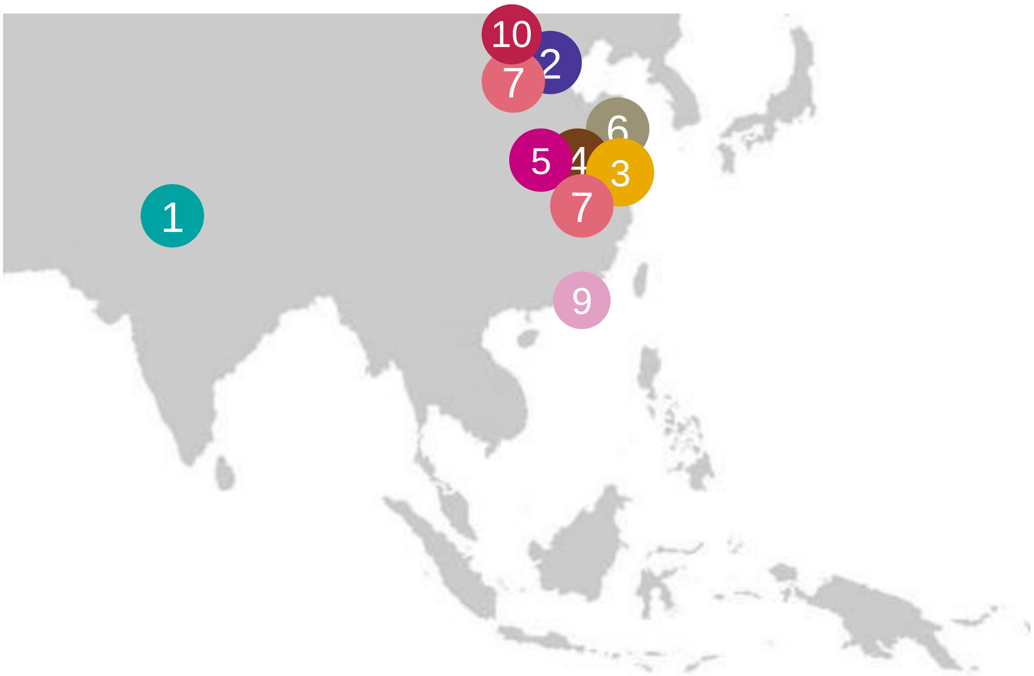
Venture financing in Australia
2012–Q2'19



Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

After such strong growth in VC invested throughout 2017 and 2018, by and large, a reversion was to be expected; even though Q2 2019 still saw relatively robust VC invested overall, volume evened out to the lowest tally in quite some time. Granted, lagging data may impact that figure somewhat, but it's all in all been a muted half for the nation's ecosystem.

Q2 concentrates largely in China



Top 10 financings in Q2'19 in Asia-Pacific

1 **OYO Rooms,** $1,100M, Gurgaon
Application software
Series E

2 **JD Health,** $1,000M, Beijing
Platform software
Late-stage VC

3 **Aihuishou,** $500M, Shanghai
E-commerce
Late-stage VC

4 **Hozon,** $437.7M, Shanghai
Automotive
Series B

5 **Bordrin,** $364.8M, Nanjing
Automotive
Early-stage VC

6 **Tianji Enovate,** $291.8M, Shanghai
Automotive
Series A

7 **Tencent Trusted Doctors,** $250M, Shanghai
Healthcare technology systems
Late-stage VC

7 **Mafengwo,** $250M, Beijing
Information services (B2C)
Series E

9 **Klook,** $225M, Hong Kong
Restaurants, hotels & leisure
Series D

10 **RootCloud,** $218.9M, Beijing
Database software
Series B

Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 11, 2019.

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

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The KPMG Enterprise Global Network for Emerging Giants has extensive knowledge and experience working with the startup ecosystem. Whether you are looking to establish your operations, raise capital, expand abroad, or simply comply with regulatory requirements, we can help. From seed to speed, we're here throughout your journey.

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Roni Michael, Head of Technology Consulting, KPMG in Israel

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

Tim Dümichen, Partner, KPMG in Germany

Tim Kay, Director, Innovative Startups, KPMG in the UK

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Methodology

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

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

In addition, particularly within the European region, the Venture Pulse does not contain any transactions that are tracked as private equity growth by PitchBook. As such rounds are often conflated with late-stage venture capital in media coverage, there can be confusion regarding specific rounds of financing. The key difference is that PitchBook defines a PE growth round as a financial investment occurring when a PE investor acquires a minority stake in a privately held corporation. Thus, if the investor is classified as PE by PitchBook, and it is the sole participant in the recipient company's financing, then such a round will usually be classified as PE growth, and not included in the Venture Pulse datasets.

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

Fundraising

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

Deals

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

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

Methodology, cont'd.

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

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

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

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

Exits

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

In this edition of the KPMG Venture Pulse, as in Q1 2019, PitchBook's methodology regarding aggregate exit values changed. Instead of utilizing the size of an IPO as the exit value, instead the prevaluation of an IPO, based upon ordinary shares outstanding, was utilized. This has led to a significant change in aggregate exit values, yet is more reflective of how the industry views the true size of an exit via public markets.

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