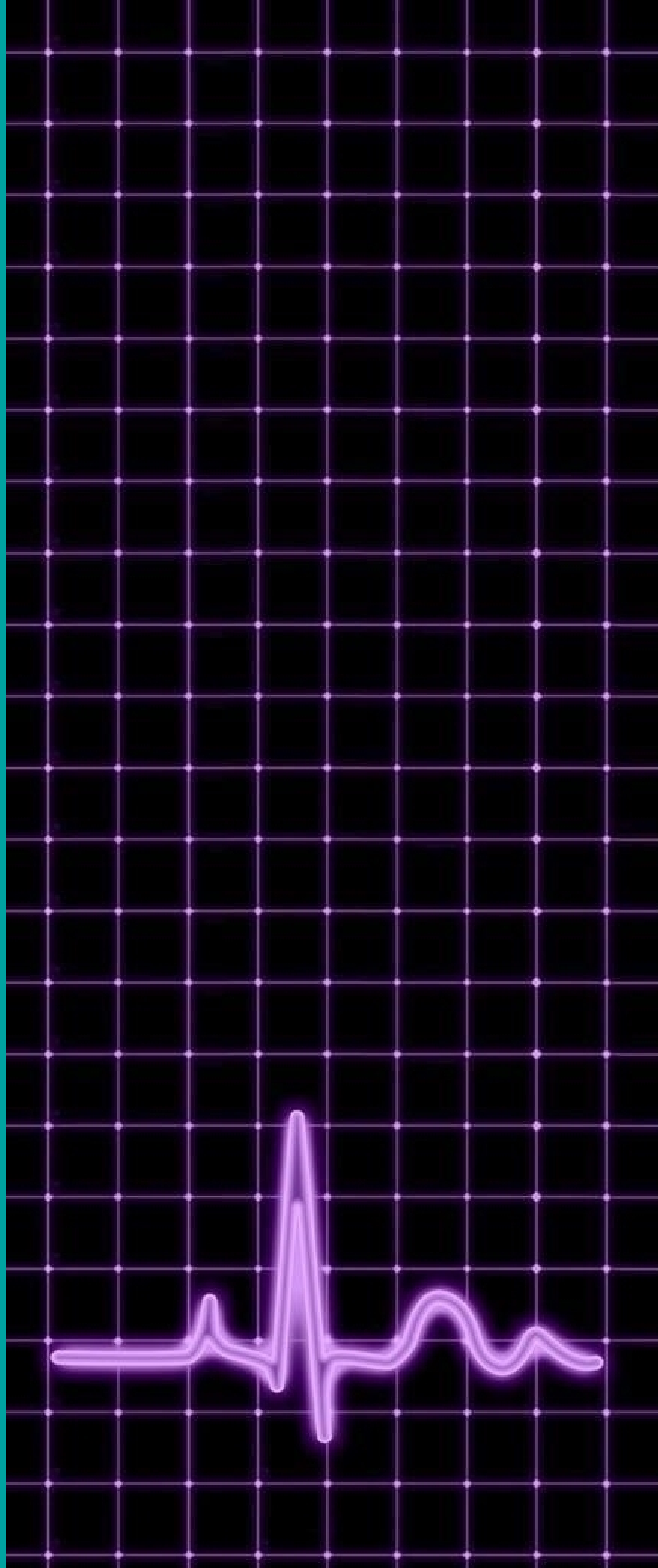
KPMG Enterprise

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.

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

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In Q2'19 European VC-backed companies raised

$8.7B

across

825 deals

VC investment in Europe resilient on back of mega-rounds

Europe's position in the VC world was maintained in Q2'19, in no small part due to a number of large megadeals.

Continuing Diversity of European VC market

The strength of Europe's VC market continued to be defined by the growing diversity of its innovation hubs; while VC investment in the UK was well-off of historical highs, increasing investment in the Nordic countries, France, Spain, Poland and others combined with steady investment in more established innovation centres in Germany and Israel helped keep VC investment in the region high during Q2'19.

As innovation hubs in Europe continue to mature, so too should their startups. A number of growing startups are now seeking larger sized rounds, a necessity for companies looking to move into new segments or regions. This growth activity is likely helping to spur VC investment in Europe for some time to come.

UK continues to see VC deals

Amid the uncertainties of the UK political landscape, the technology sector has shown more resilience than other areas of the economy. During Q2'19, the UK saw several large deals, including raises fintech companies Checkout.com ($230 million), and Monzo ($144 million).

In Q2'19, the UK made strides towards implementing its AI Strategy, supporting the development of machine learning degree programs and research institutes. The Centre for Data Ethics and Innovation also began consultations on the establishment of data trusts to support the use of AI. Despite these initiatives, one forward-looking concern in the UK relates to the extended Brexit uncertainty's long-term impact the ability to attract talent to the country.

Ireland sees investment as companies seek to manage Brexit

Ireland continued to attract attention from companies looking to invest in Europe while managing Brexit uncertainty. During Q2'19, mobile and cloud company Deem announced a new European Innovation Centre in Dublin, while Canada-based TD Securities and US-based Reddit both opened new offices in Ireland. Amazon also announced a renewable energy project as part of its sustainability commitment. During Q2'19, Ireland also saw an interesting partnership forged between drone company Manna and food delivery company Flipdish.

VC investment remains solid in Germany

Germany attracted a solid amount of VC investment in Q2'19, driven in part by a $484 million raise by online tour marketplace GetYourGuide Deutschland. Interest in fintech also gained steam in Germany, as evidenced by Softbank's $1 billion investment in Wirecard. Interest in fintech in general is expected to gain steam in Germany, particularly among traditional corporates looking to fintech as a means to help address aging legacy systems and shape new business models and new services. Sustainability and logistics are also expected to gain traction over the next few quarters, with the logistics industry in particular ripe for disruption given its current fragmentation and highly analog nature.

VC investment in Europe resilient on back of mega-rounds, cont'd.

VC investment in France strengthens significantly in Q2'19

Q2'19 was a strong quarter for VC investment in France, led by a $230 million raise by photo editing company Meero, which earned the company unicorn status. Fast-growing online gardening marketplace ManoMano and digital wallet app company Dashlane also raised $100 million+ funding rounds in Q2, highlighting the growing maturation of France's innovation economy. Fintech investment was particularly robust in Q2'19; in addition to Dashlane, payroll company Payfit raised $80 million and money management app Bankin' raised $23 million.

Nordic countries gaining prominence in Europe's VC market

VC investment in the Nordic countries was very strong in Q2'19, corporate investment in general has blossomed in the Nordic countries in recent quarters, with many domestic corporates realizing the need to make VC investments, even as international corporates increased their investments in Nordic-based startups. Food delivery was also top of mind in the Nordic region in Q2'19, with Finland-based Wolt raising $130 million.

Trends to watch for in Europe

Q3'19 is expected to see a continuation of Brexit uncertainty given the new deal deadline is in Q4'19. Despite any localized uncertainty, VC investment in Europe is expected to remain relatively strong, particularly in areas such as fintech, AI, and healthtech. Drone delivery is one area of VC investment to watch in the future, not only in Europe, but globally.

M&A activity is poised for growth in Europe as smaller players look to consolidate in order to achieve scale. Corporate participation in VC deals is also expected to remain high in Europe as corporates continue to heed to growing imperative to innovate.

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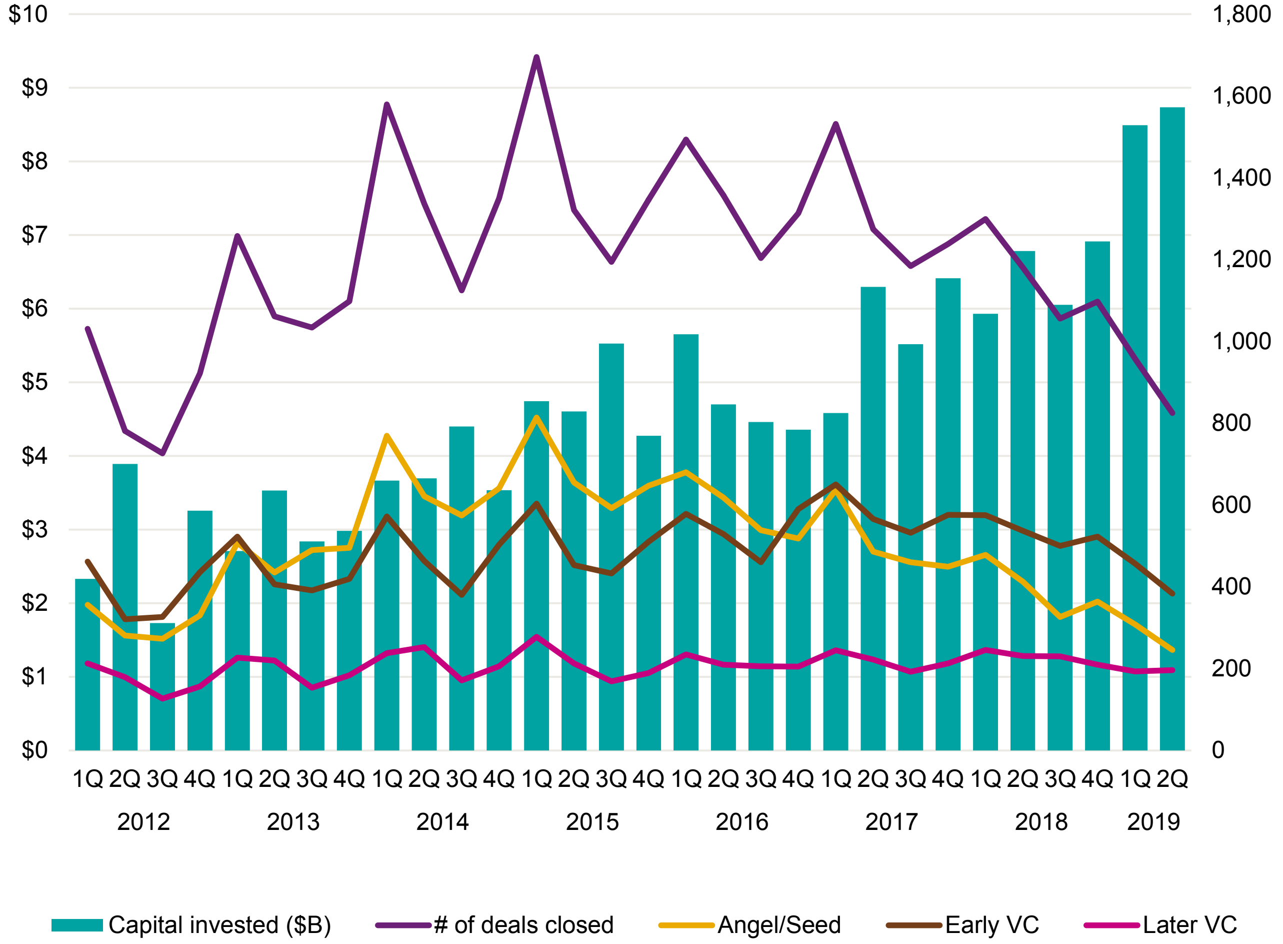
2019 going strong, with Q2 hitting a new high

Venture financing in Europe

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.

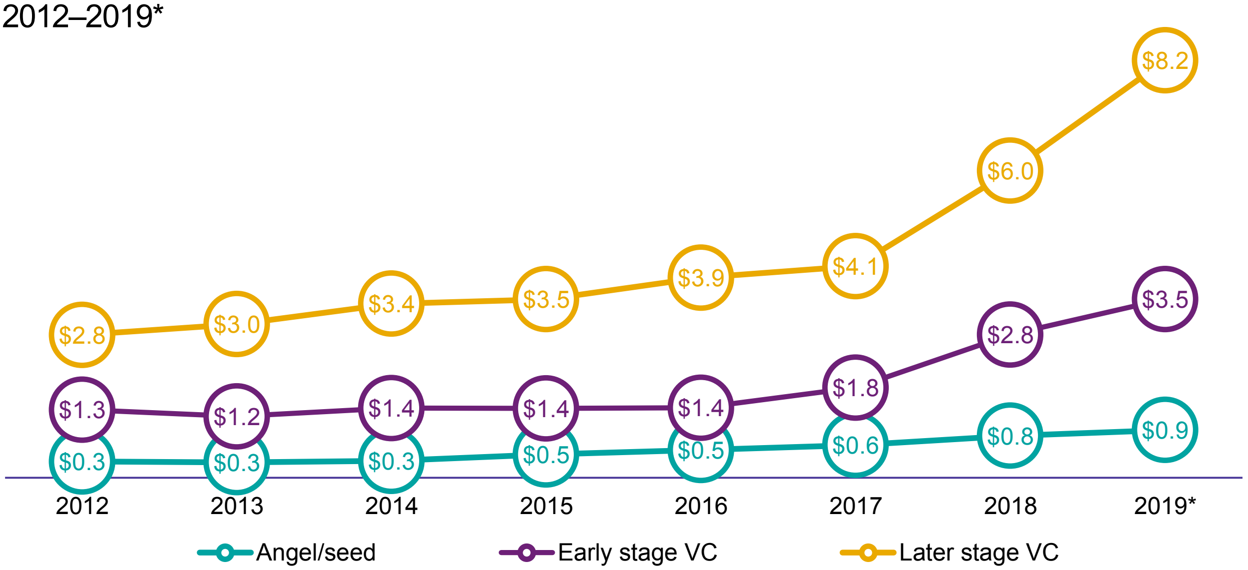
Note: Refer to the Methodology section on page 30 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

Regardless of the softening in the pace of venture dealmaking, VC invested continues to pour into Europe in record flows. Granted, outlier deals do skew the overall tallies — chief among them most recently Deliveroo's $575 million financing — but still, such mega-deals indicate that investors view the prospects for midstage companies across the continent are rosier than many may suspect, given ongoing wrangling around Brexit and slow economic growth.

Medians stay robust

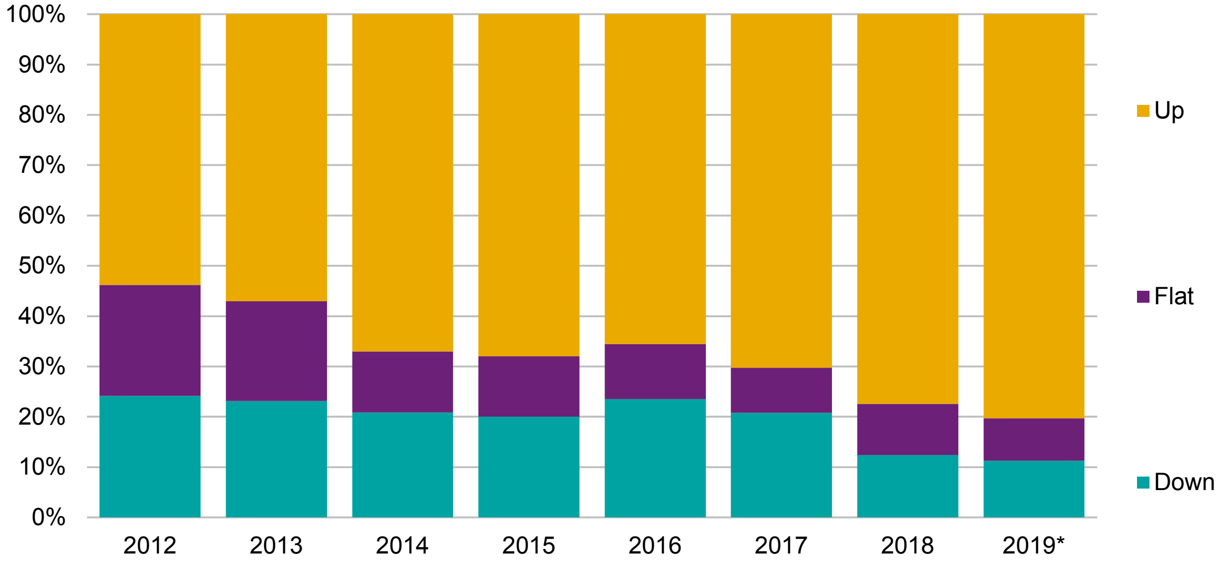
Median deal size ($M) by stage in Europe

2012–2019*



Up, flat or down rounds in Europe

2012–2019*

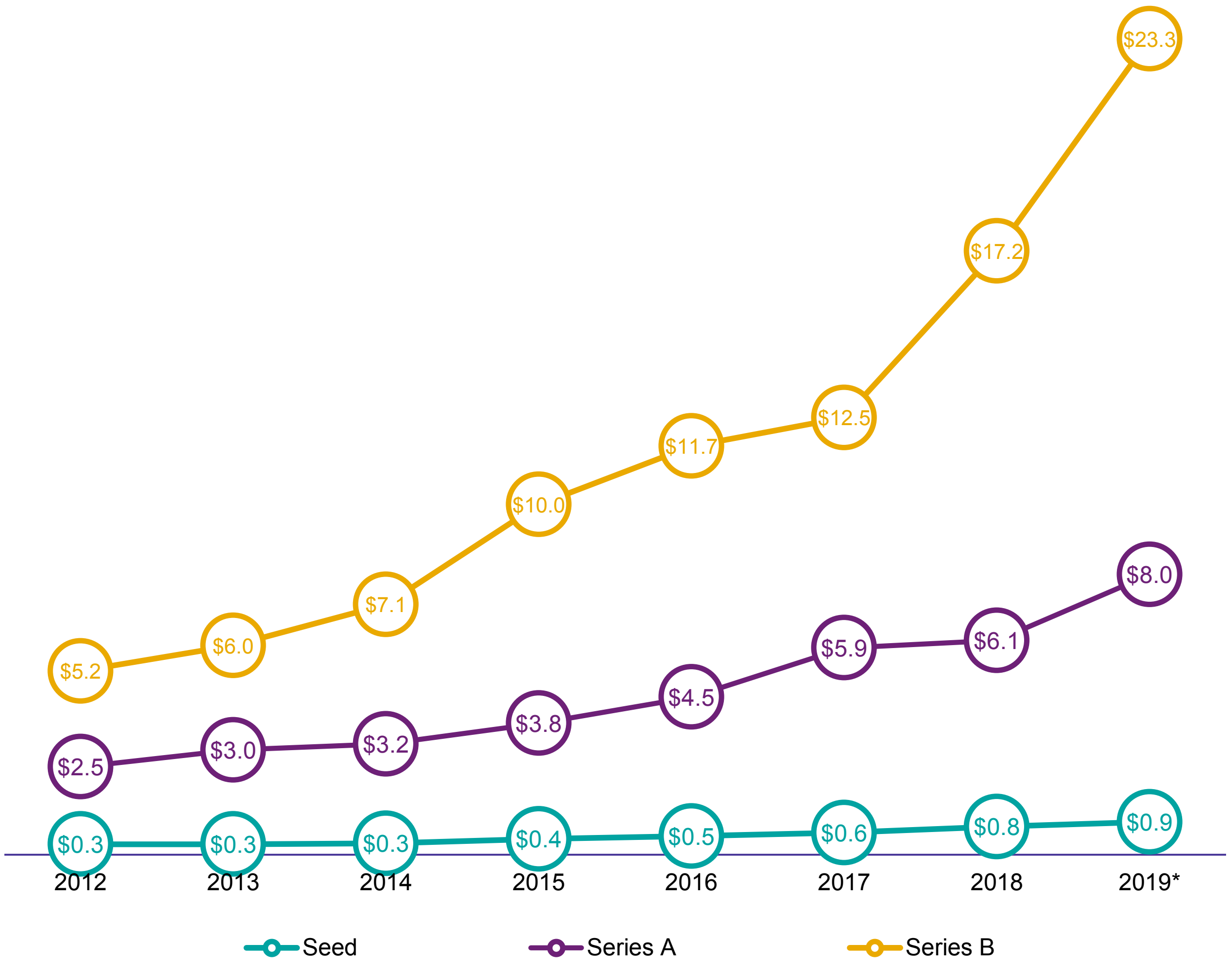


Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Series B rounds keep surging

Median deal size ($M) by early-stage series in Europe

2012–2019*

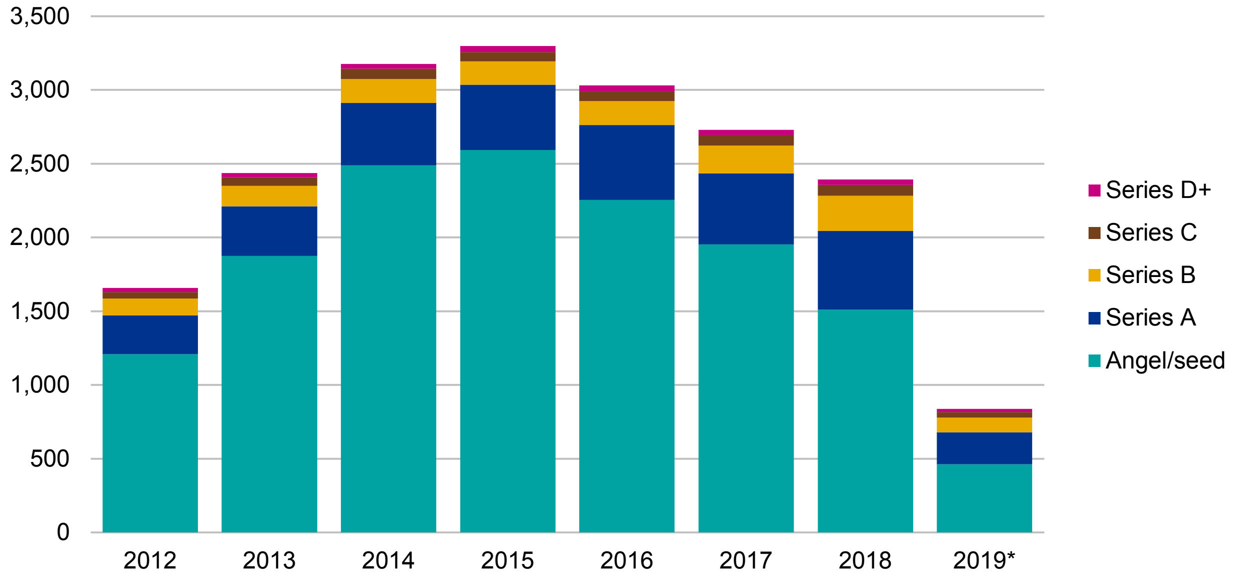


Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Latest stage already soars past 2018 tally

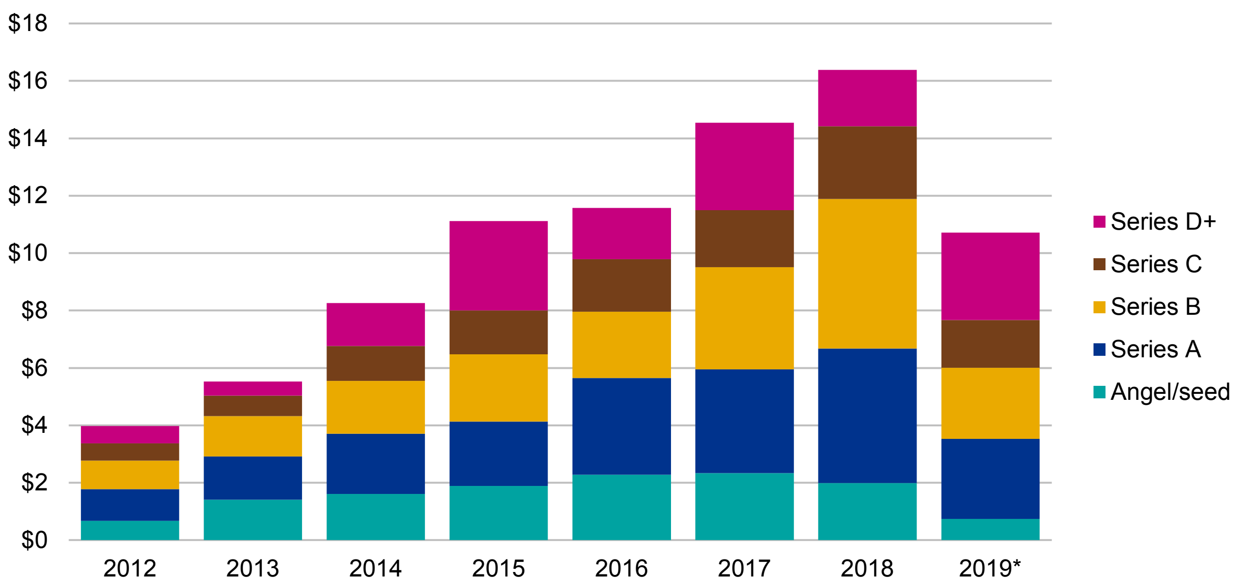
Deal share by series in Europe

2012–2019*, number of closed deals



Deal share by series in Europe

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.

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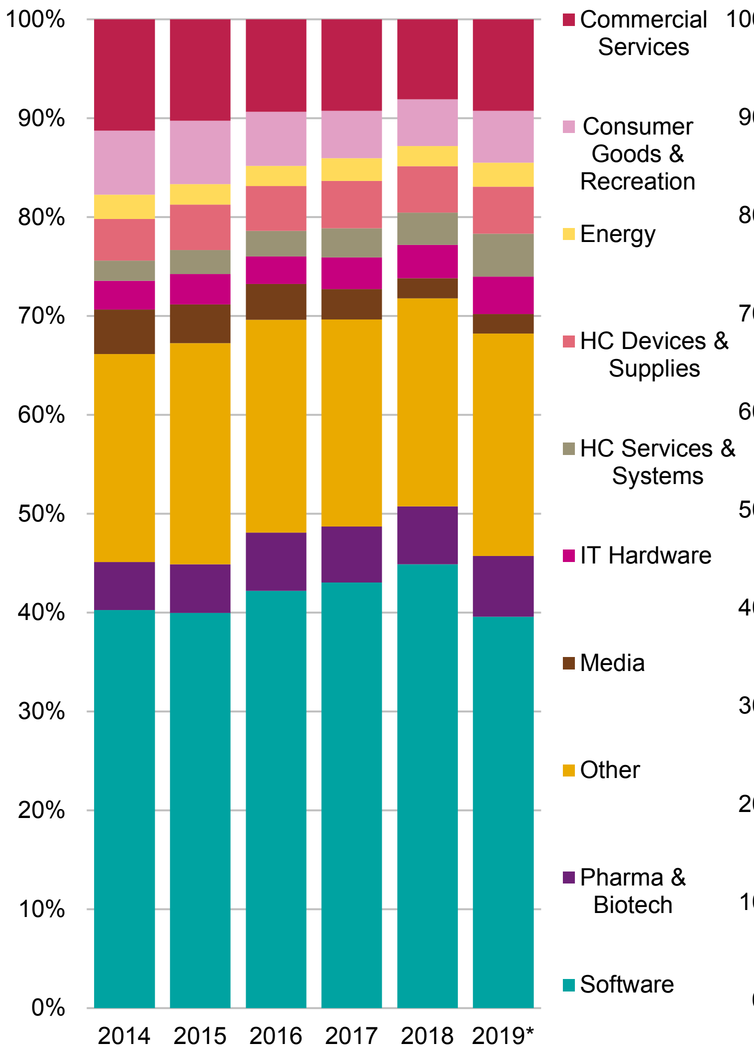
Software retains top spot at midyear

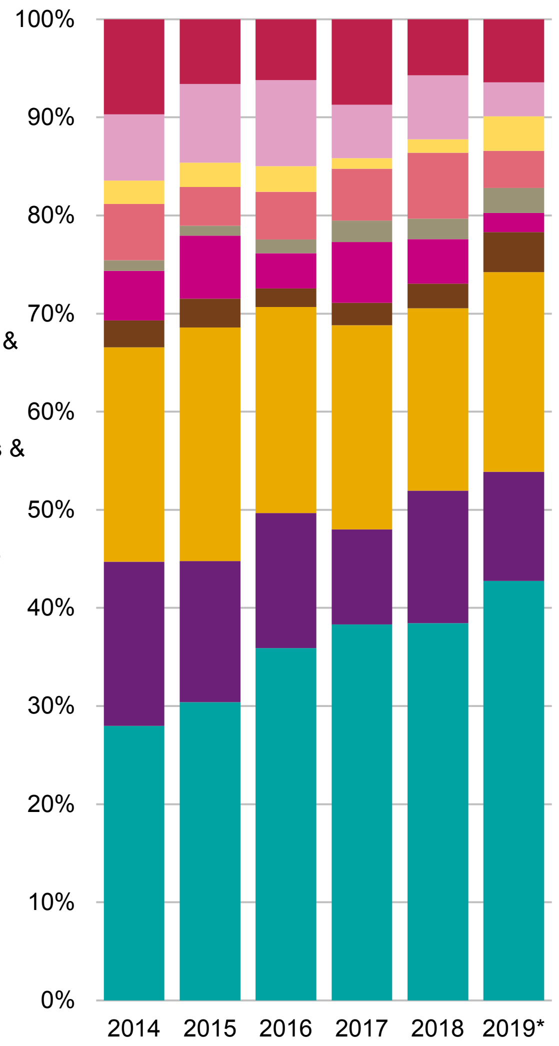
European venture financings by sector

2014–2019*, number of closed deals



European 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.

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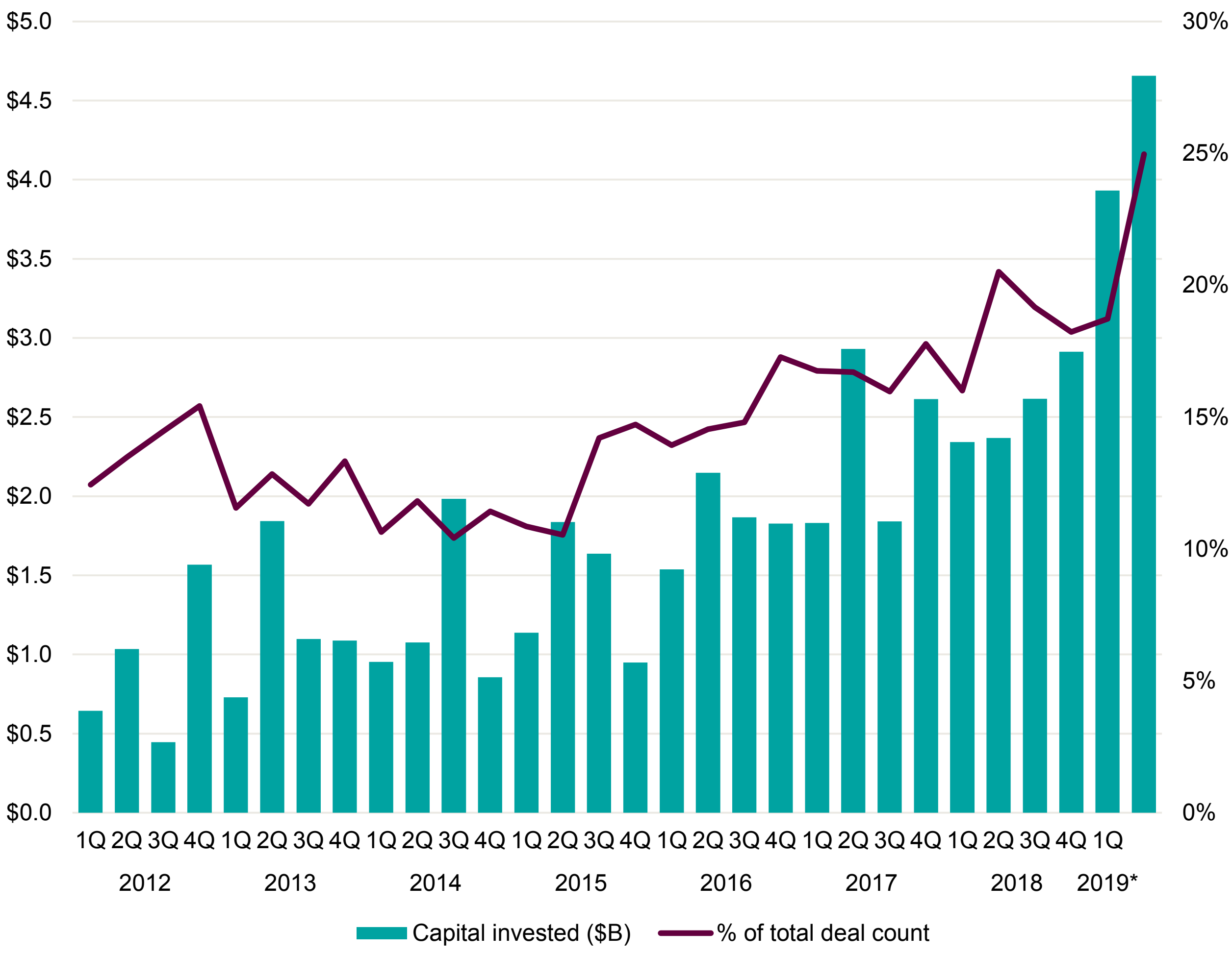
CVCs set another new high

Corporate VC participation in venture deals in Europe

2012–Q2'19



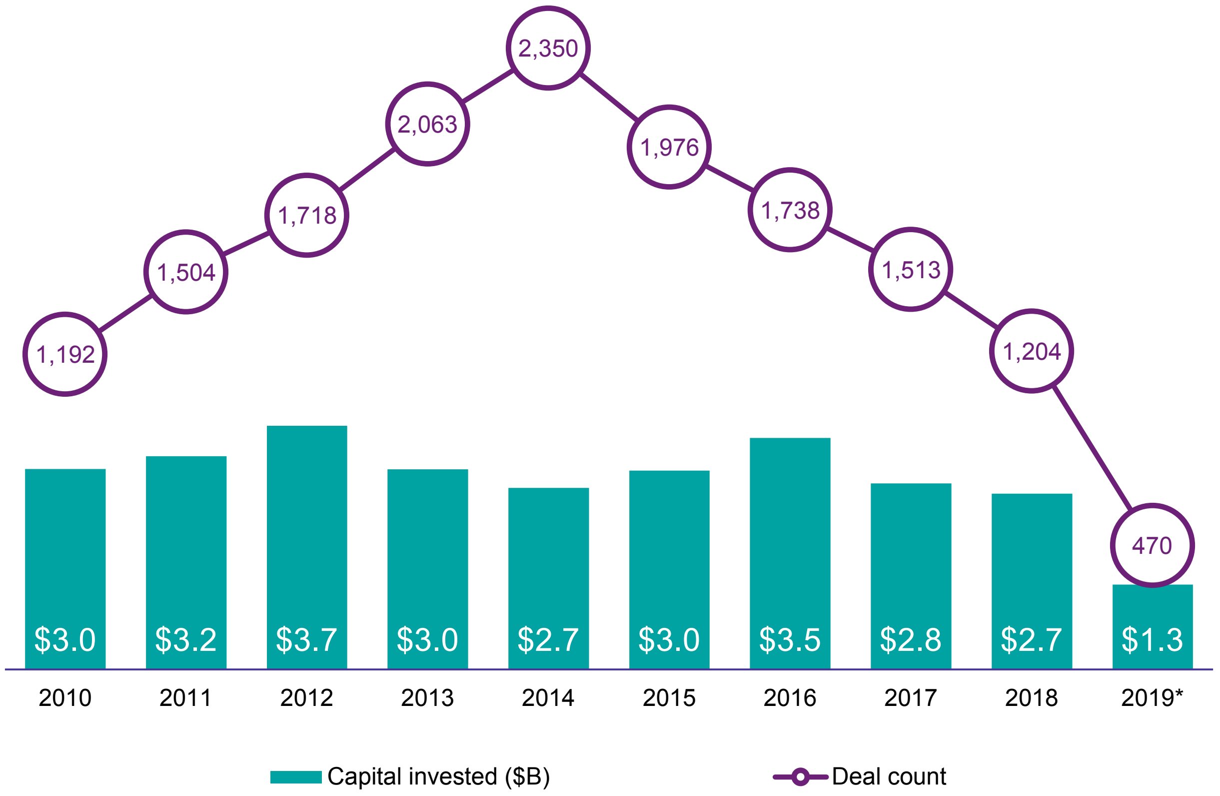
Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 11, 2019.

After an uptick in the first quarter of 2019, corporate players now set a record high for participation percentages in Q2 2019. This is a testament to the ongoing trend of corporates getting more involved as a matter of strategy within the venture ecosystem, as well as Europe's still-strong entrepreneurial ecosystem.

First-time funding off to slow start

First-time venture financings of companies in Europe

2012–2019*



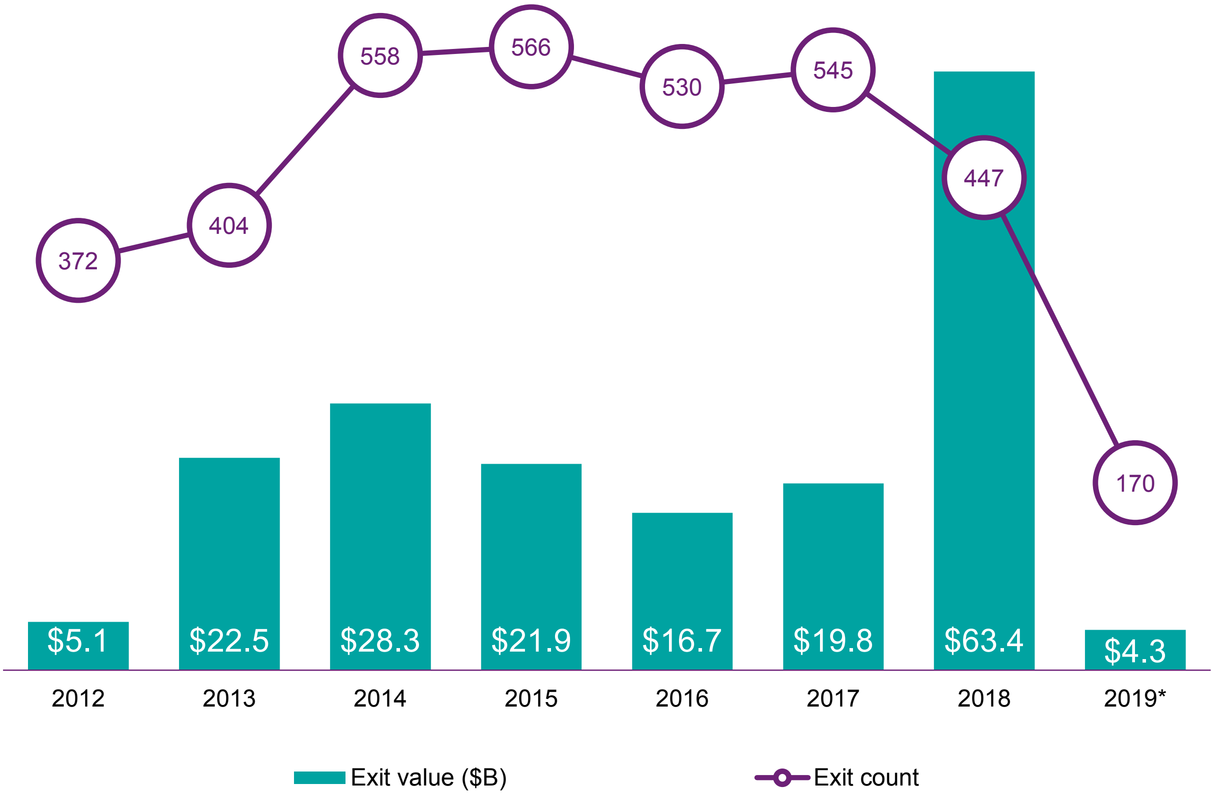
Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Although quite small relative to prior tallies, there has been at least a trickle of capital in first-time financings across Europe. The primary drivers of the trend downward are likely similar to those in the US; alternative forms of capital are making inroads as options for founders in general, while also more VCs are focusing upon the broader ecosystem and away from the riskiest of ventures in an expensive climate.

At midyear point, 2019 still sees sluggish volume

Venture-backed exit activity in Europe

2012–Q2'19



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

After a blockbuster 2018, exit volume and value have been quite sluggish in Europe thus far. In the back half of the year things may turn around, but also this could be due in part to a refueling pipeline of exit-ready companies as the investment cycle revs up once again to produce a crop of mature companies ready for liquidity.

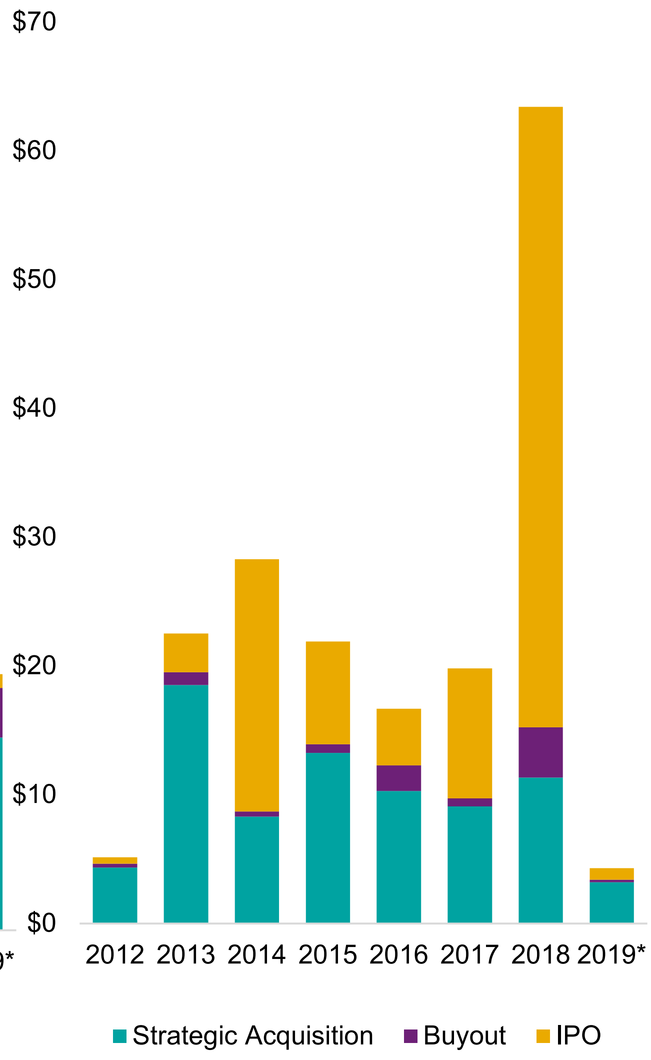
M&A as integral as ever to European exits

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

2012–2019*

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

2012–2019*

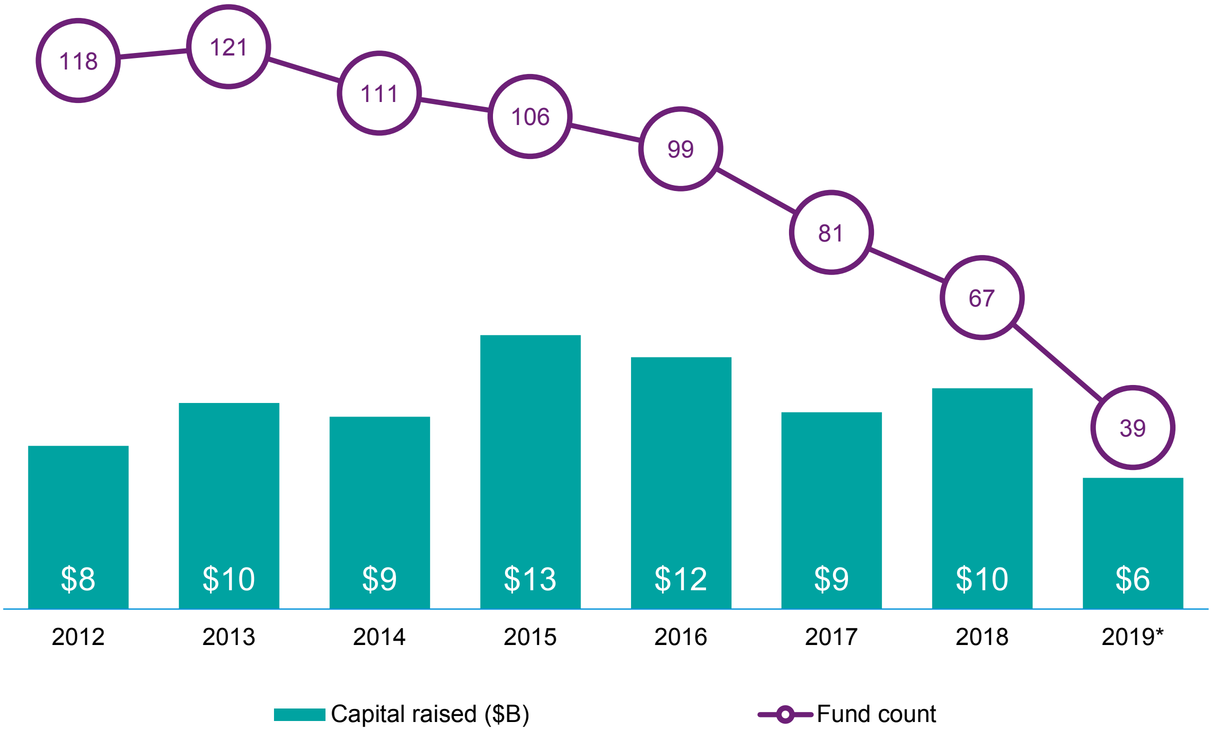


Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Fundraising skewed by outliers

European venture fundraising

2012–2019*



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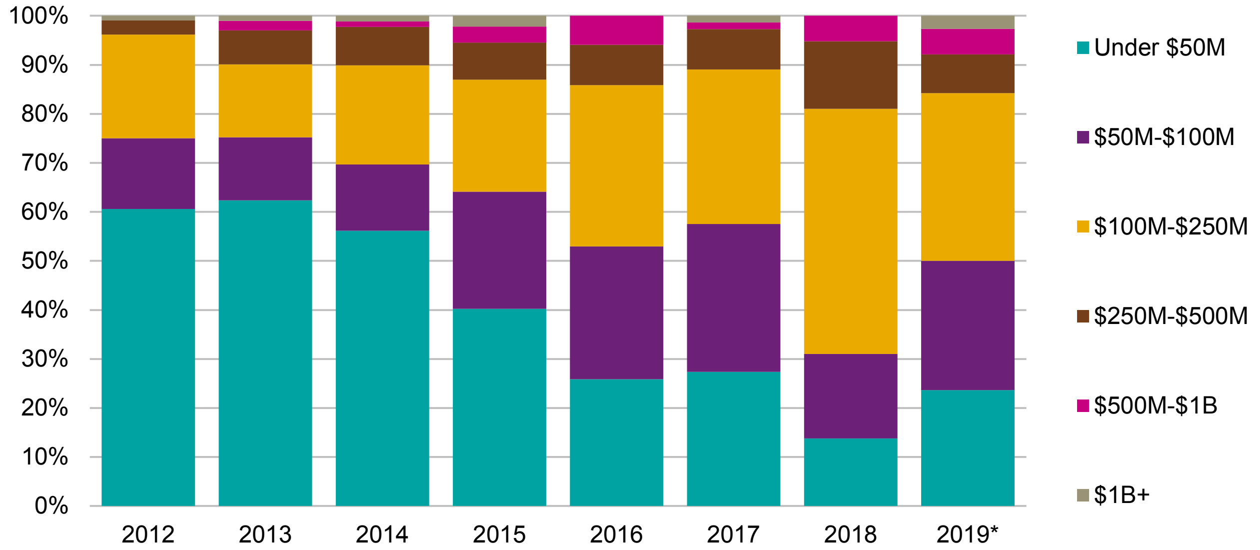
Large firms with established track records understandably have an easier time fundraising than others. Although volume is slightly slower than even last year's subdued pace, already close to $5 billion has been closed in Europe, thanks in large part to those aforementioned firms like Accel, which closed on a $575 million vehicle in May.

Smaller funds make somewhat of a comeback relative to 2018

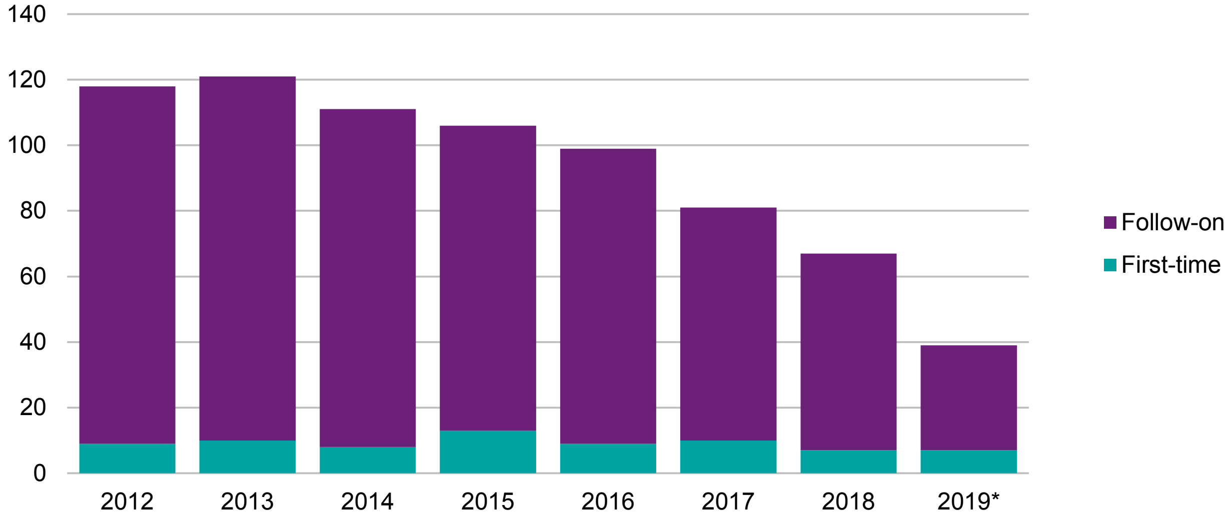
Venture fundraising (#) by size in Europe

2012–2019*



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

2012–2019*



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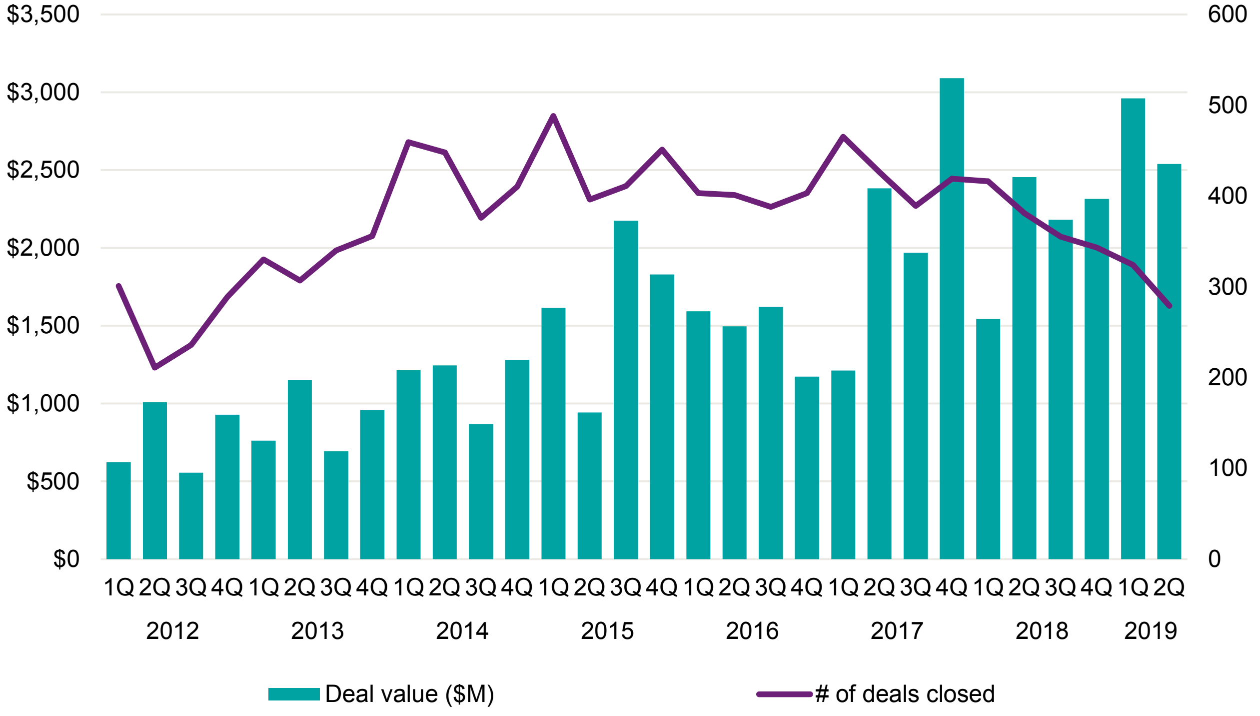
Subdued volume can't slow down VC invested

Venture financing in the United Kingdom

2012–Q2'19



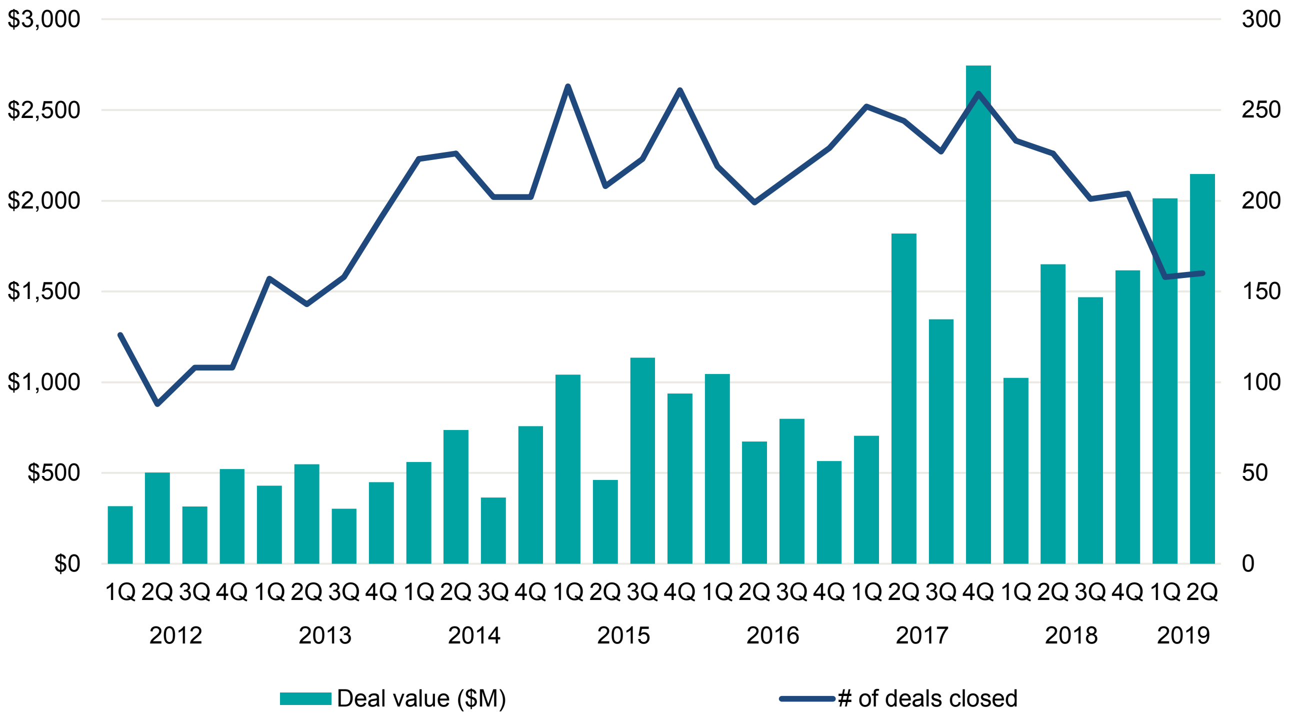
Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Brexit may remain as much of a thorny issue as ever, but investors are hardly dissuaded from still plying the largest startups in the UK with plenty of VC. However, slowing volume may be a bit of a telltale around other investors not being quite as sanguine on riskier prospects, and thus pulling back the pace somewhat, looking to only bestow funds on the companies deemed as safest prospects.

London plays host to bulk of VC invested

Venture financing in London

2012–Q2'19



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Once again, it's worth noting London is not going to lose its status as a global financial center and concentration of traditional private investment managers overnight, no matter what happens with Brexit. Questions around access to talent and some moves by major institutions to relocate will definitely exert an impact, but thus far, London has still seen plenty of VC invested keep flowing.

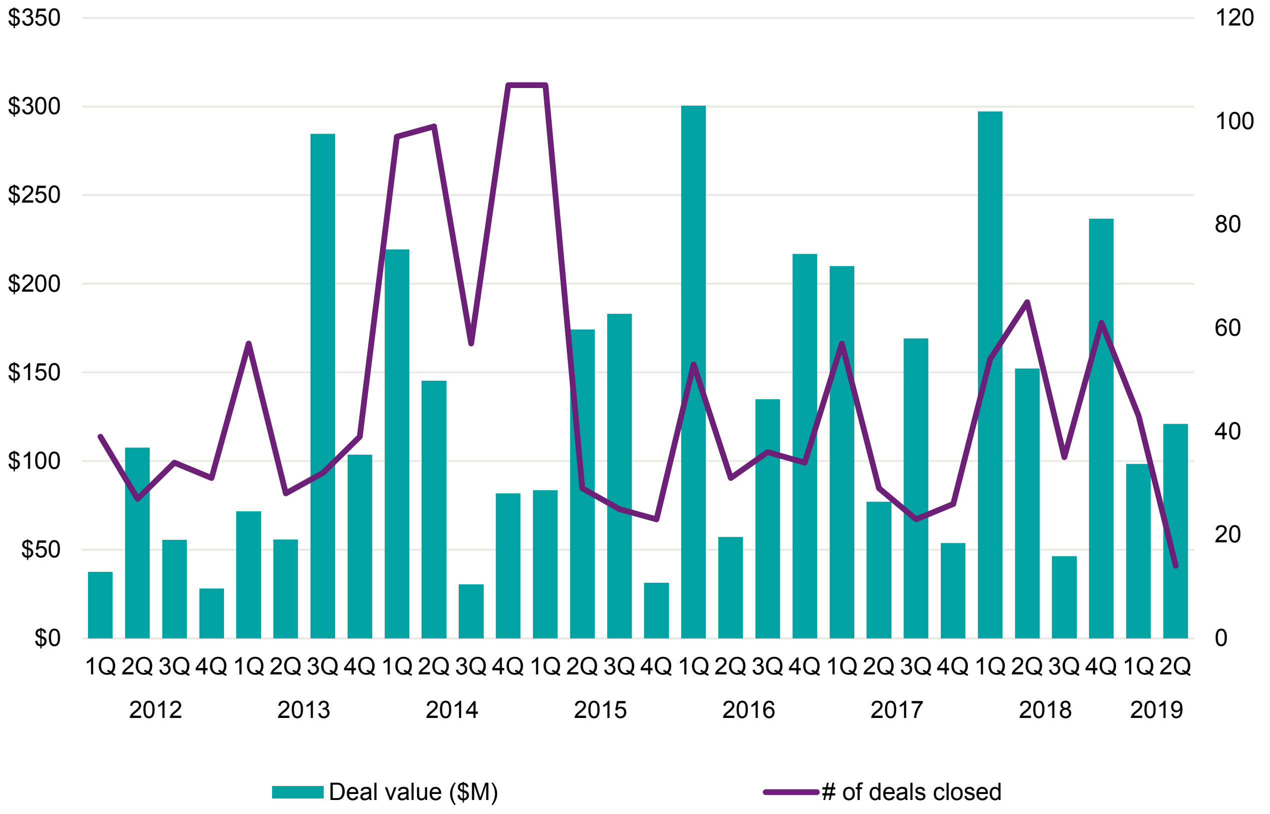
"The position of the UK is being maintained through a combination of the strength of London and the continuing trend of larger, later stage deals. The UK must continue to encourage clusters of innovation outside of London and increases in seed and angel investment."

Tim Kay
Director, Innovative Startups
KPMG in the UK

Despite slow pace, sizable VC invested

Venture financing in Ireland

2012–Q2'19



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The Irish venture ecosystem continues to see significant skewed quarterly results, however, thanks to a handful of sizable financings, including the $30 million Series B funding of medical health testing platform Lets Get Checked, Q2 turned in solid sums of VC invested overall

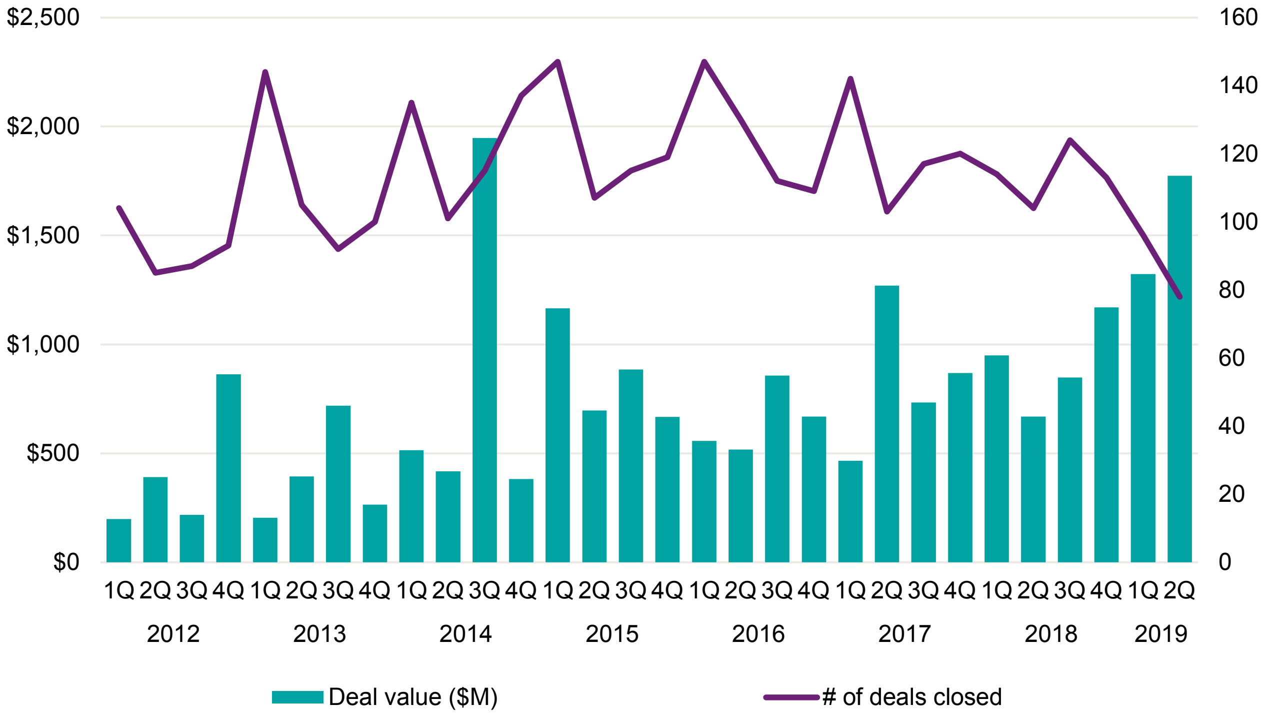
"Ireland continues to be a great location for companies looking to expand into Europe or for companies concerned about the impact of Brexit on their business. We've seen a lot of activity this year – from TD Securities and Reddit opening new offices - to mobile and cloud software company Deem announcing plans to open their European Innovation Centre in Dublin. Many corporates are looking at Ireland as the place to be right now.."

Anna Scally
Partner, Head of Technology and Fintech Lead,
KPMG in Ireland

Outlier financings come in handy once again

Venture financing in Germany

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 dip in volume in Germany in Q2 is likely to rise as more data is collected over time, however, it is still worth noting that despite the magnitude of the decline, VC invested in Germany still was quite resolutely robust, although primarily relying upon outlier financings once again.

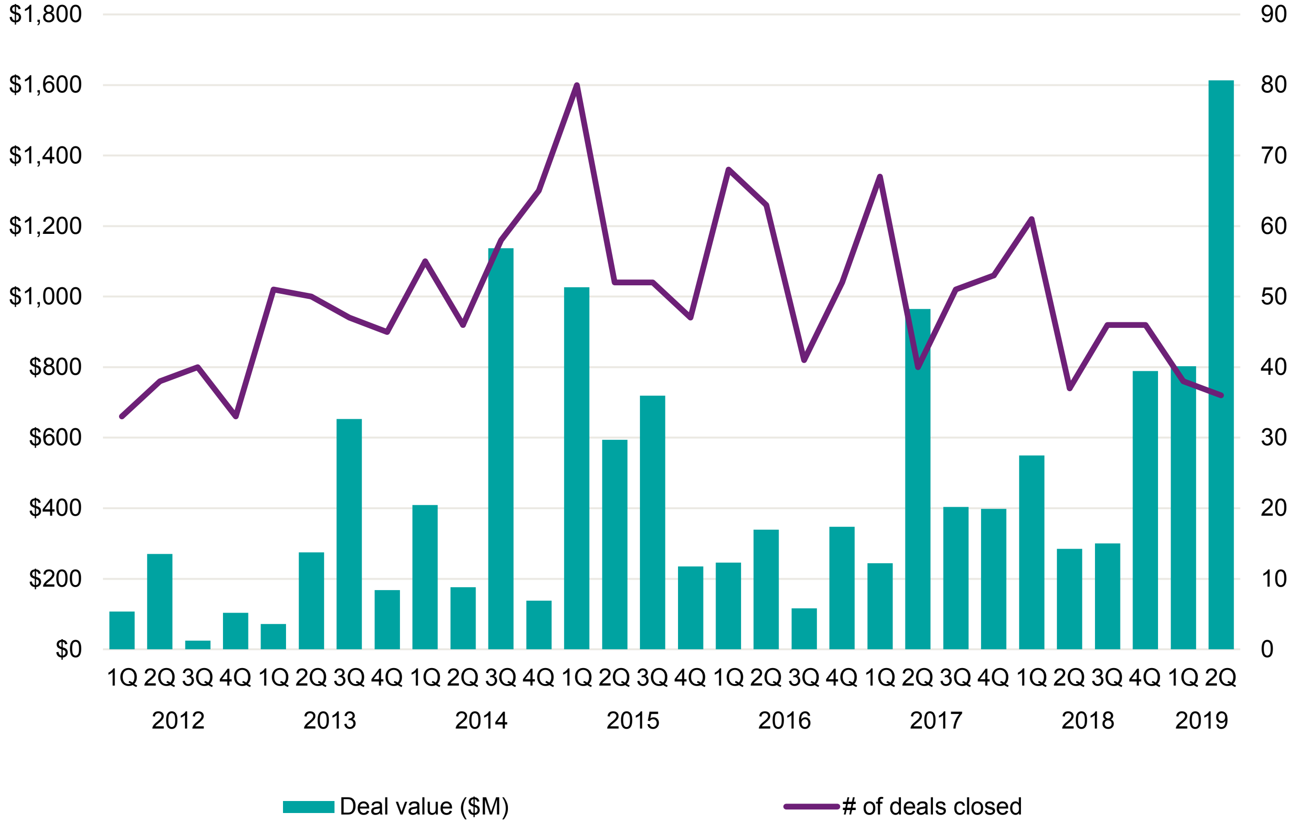
"One trend we've seen developing over the past few quarters is that there is still cash available. There is a series of investors that have dry powder on the line and are still looking for investment. At the same time, we're continuing to see more mature deals, bigger deals, and deals later in the lifecycle. At early-stages, companies need to have very good teams and very good ideas if they want to attract investment."

Tim Dümichen
Partner
KPMG in Germany

Berlin still sees greater concentration of capital

Venture financing in Berlin

2012–Q2'19



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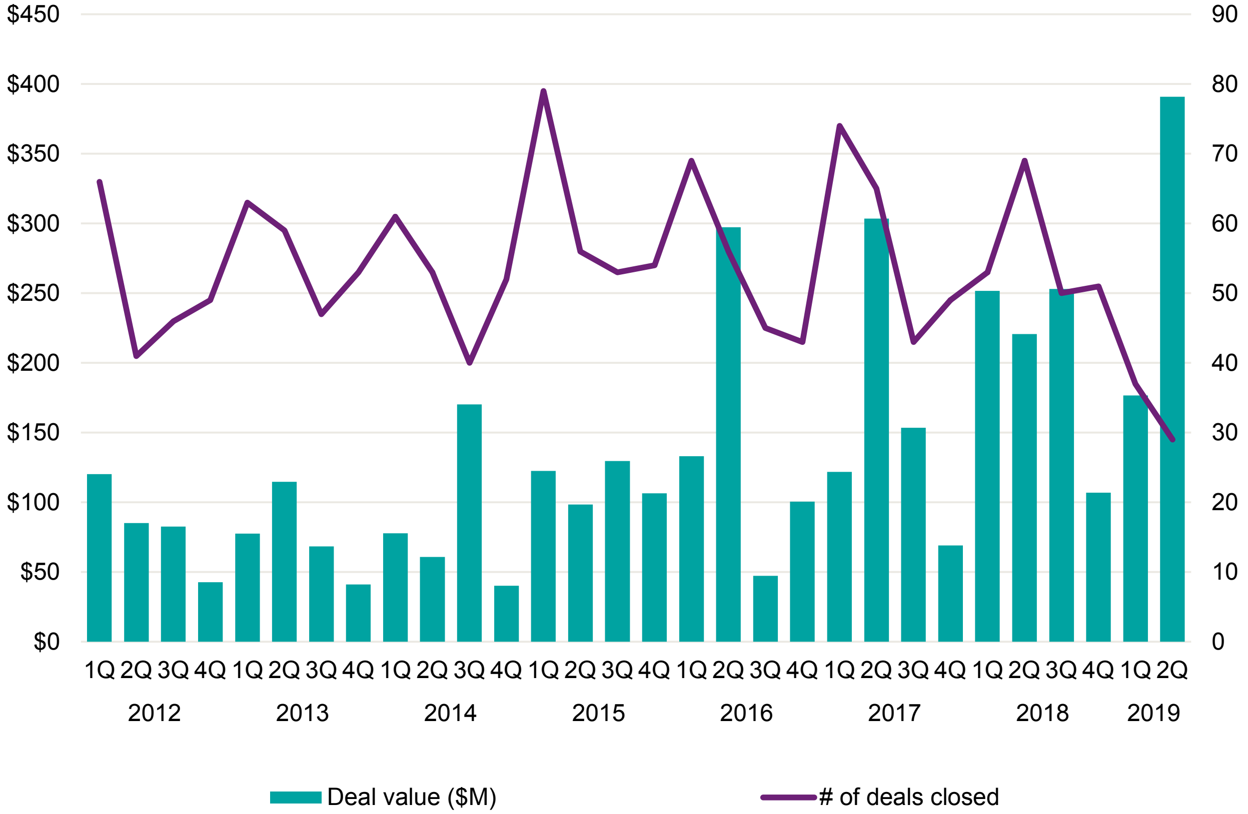
Of the dollars flowing to Germany in Q2, most of them were concentrated in Berlin. The European venture scene is primarily one patchwork of major metro areas, and although Germany has historically seen some significant activity beyond its capital, it appears Q2 saw the reverse of that usual trend, thanks to several mega-deals.

VC invested turns in a blockbuster quarter

Venture financing in Spain

2012–Q2'19



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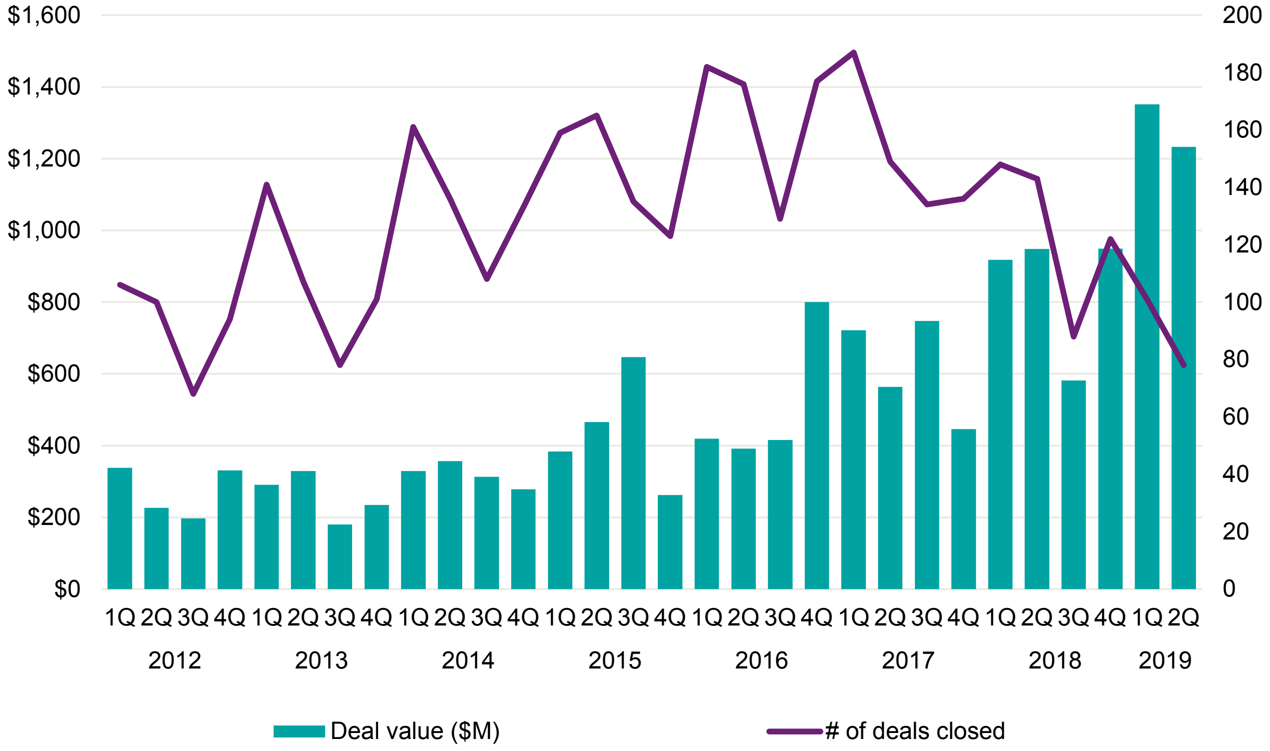
Granted, the mammoth EUR150 million financing of Glovo, an on-demand delivery app, is what was primarily behind the massive surge in quarterly VC invested for Spain, however, it is a promising sign for the budding Spanish venture ecosystem.

After record quarter, VC invested stays strong

Venture financing in France

2012–Q2'19



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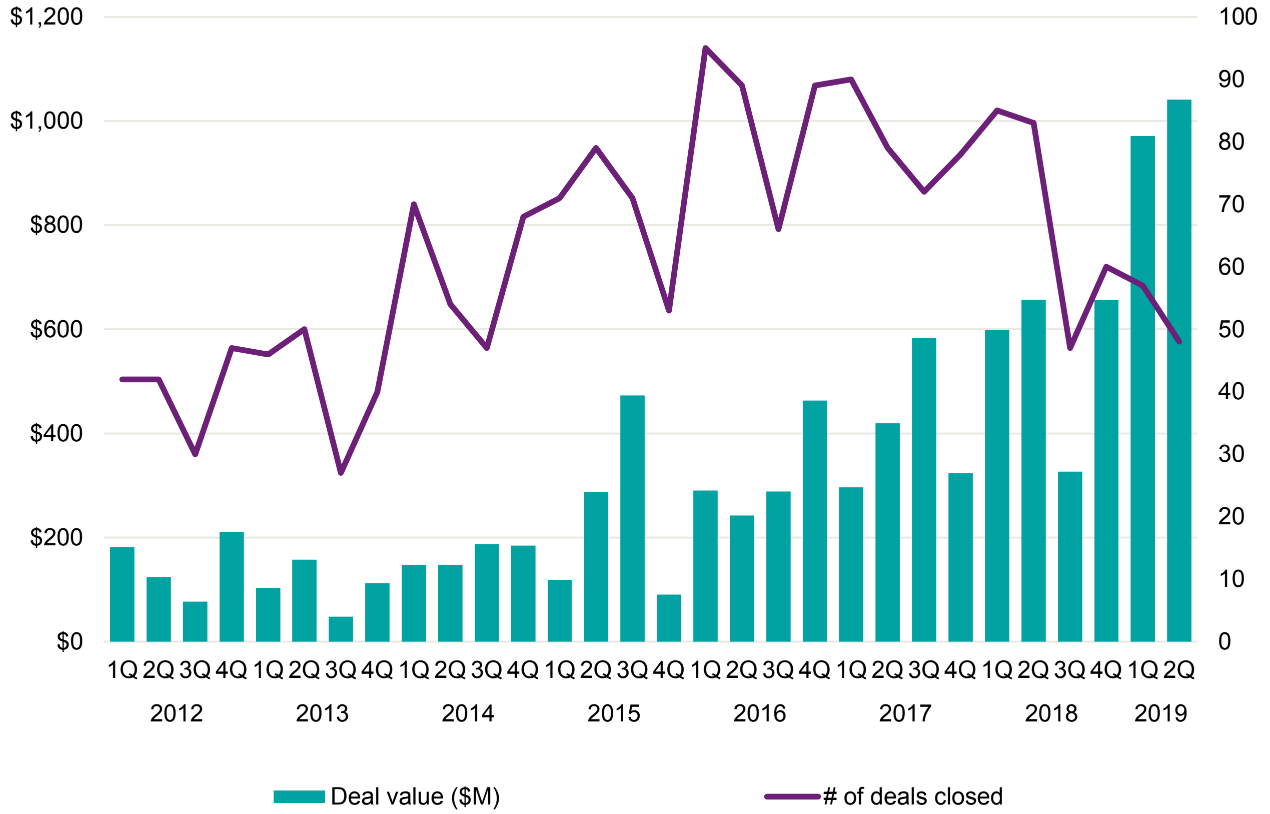
Throughout 2018, there were sufficient quarters of $900 million-plus tallies that the record $1.1 billion VC invested in Q1 2019 was hardly surprising, although quite an achievement. However, a reversion to more normal levels was also to be expected after capital flowed so heavily for so long; the softening in Q2 volume was hardly that significant, as well, given the levels still achieved in VC invested.

Paris sees majority of VC invested in Q2

Venture financing in Paris

2012–Q2'19



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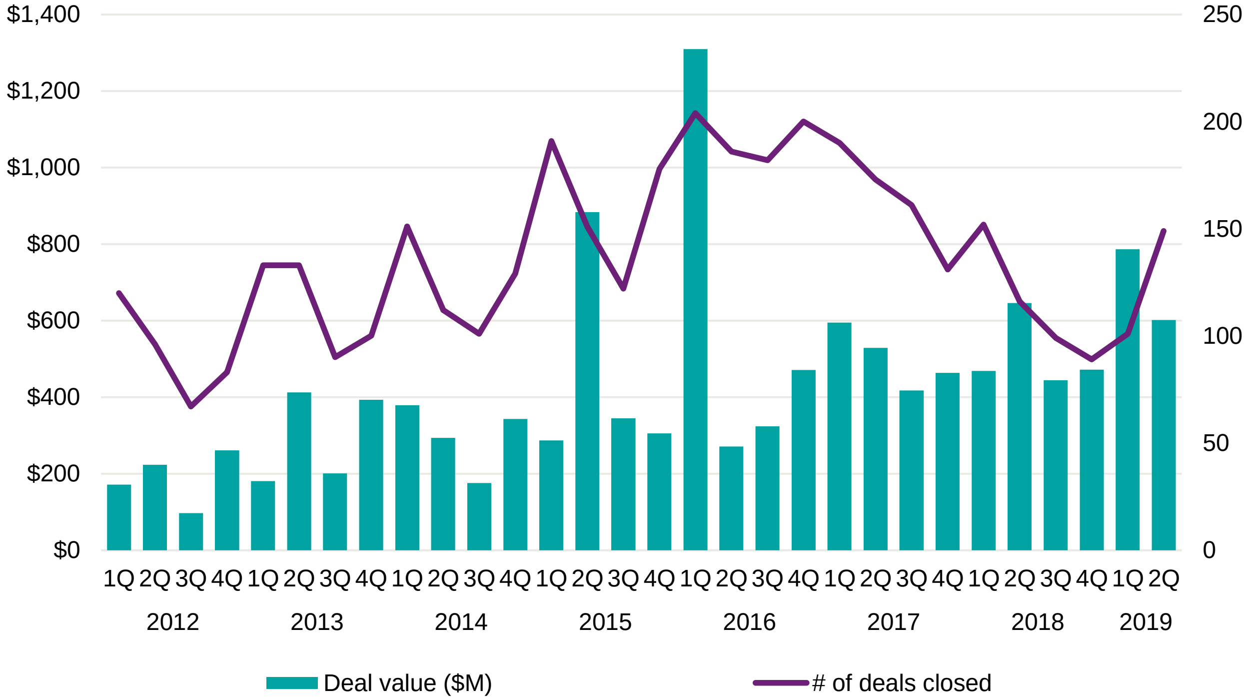
Most of the money in French VC still flows to Paris, although the concentration of volume has dispersed at times in the past. Of the totals recorded in Q2, Paris saw an outsized proportion, as well as a majority of volume.

Deal volume surges upwards

Venture financing in the Nordics

2012–Q2'19



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Note: Northvolt's $1 billion financing was excluded from the underlying data as it was classified as a purely corporate transaction.

The Nordics boast a substantial set of venture ecosystems that have produced significant startups over the years; one off quarter is hardly concerning when analyzing longer-term trends. The significant uptick in Q2 volume, reversing prior slides, is a good example of why short-term dips should not be overly read into, as given the pace at which investors abroad funded Nordics companies last year overall, it is likeliest they took a breather as the ripple effects of the capital spread throughout the region.

"The Nordic region is really trendy right now, with investments focusing on technologies like AI and machine learning, and across sectors from gaming to cleantech. This quarter's $1 billion raise by Northvolt is a particularly huge deal, not just for the Nordic region, but for the European continent. Corporates and international investors are driving a lot of this investment at least at the larger deal stages."

Jussi Paski
Head of Startup Services
KPMG in Finland

Q2 sees remarkable geographic diversity

Top 10 financings in Q2'19 in Europe

1 **Deliveroo,** $575M, London
Application software
Series G

2 **AUTO1 Group,** $535.9M, Berlin
Automotive
Late-stage VC

3 **GetYourGuide,** $484M, Berlin
Information services
Series E

4 **ADC Therapeutics,** $276M, Epalinges
Biotechnology
Series E

5 **Meero,** $230M, Paris
Commercial services
Series C

5 **Checkout.com,** $230M, London
Financial software
Series A

7 **adjust,** $227M, Berlin
Business/productivity software
Late-stage VC

8 **Gett,** $200M, Tel Aviv
Software
Late-stage VC

9 **Glovoapp23,** $174.8M, Barcelona
Logistics
Series D

10 **Innoviz Technologies,** $170M, Rosh Ha'Ayin
Consumer durables
Series C

Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 11, 2019. Note; Northvolt's $1 billion financing was excluded from the underlying datasets as the transaction was classified as purely corporate.

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

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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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