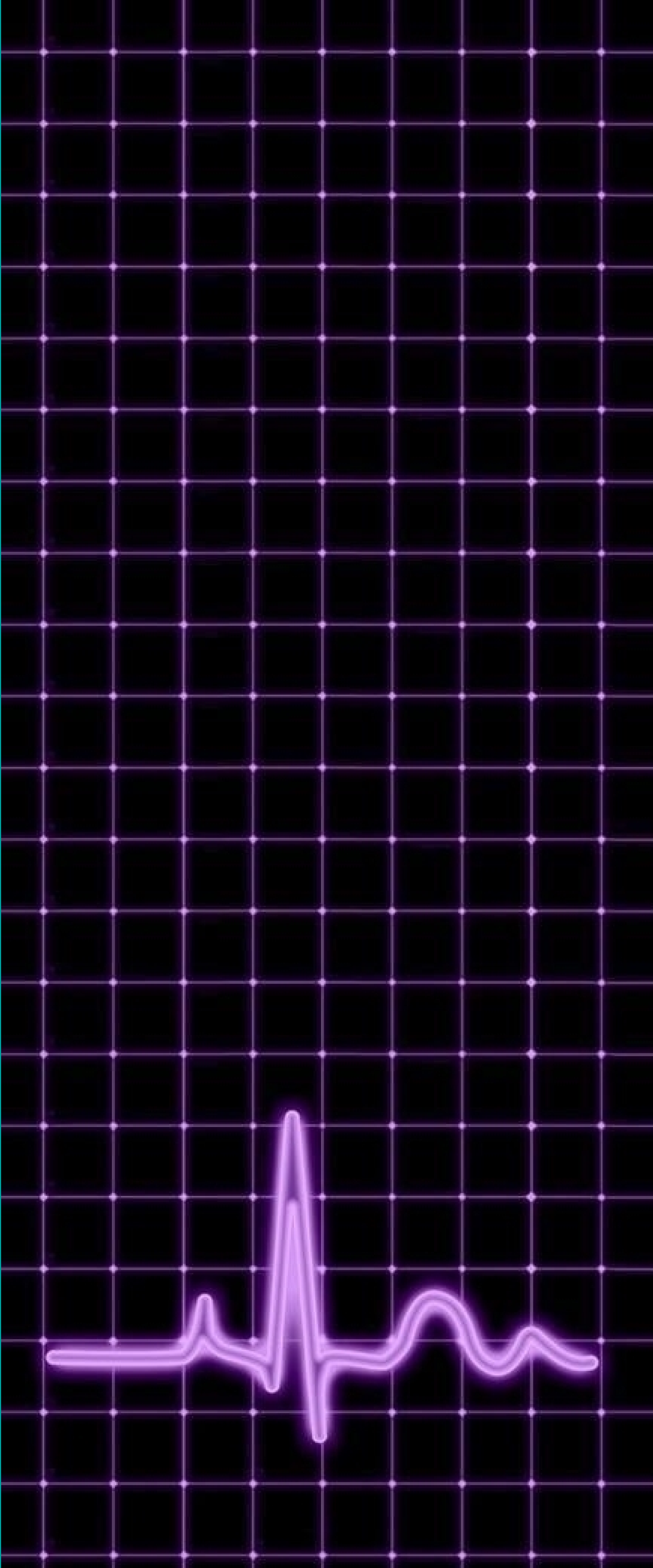
KPMG Enterprise

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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In Q2'19 US VC-backed companies raised

$31.5B

across

2,379 deals

VC investment in the US remains robust in Q2'19 as high profile companies IPO

VC investment in the US was robust in Q2'19, a reflection of the strong economy in the country, the performance of the public markets, and the projection for lower interest rates. While there are a number of issues creating noise in the US market, such as the ongoing trade dispute with China, the US economy has remained quite buoyant. With a significant amount of private capital still available in the market, VC investment is expected to continue at a solid pace into the next quarter.

Diversity of investments helps spur US VC investment

VC investment in the US continued to diversify in Q2'19. Logistics, food delivery, aerospace, consumer durables: the myriad of sectors and verticals represented in the US top deals list this quarter showcases how VC investments are becoming the norm across industries and verticals. Unlike in previous quarters, there was no truly dominant sector of investment in Q2'19, although at a technology level, artificial intelligence continued to be a very hot area for VC investment.

New unicorn births highlight investor focus on late-stage deals

During Q2'19, the US saw 19 new unicorns birthed across a variety of sectors, including fintech (e.g. StockX, Carta, Bill.com), data management (e.g. Sumo Logic, Druva), cleantech (e.g. Sila Nanotechnologies), edtech (e.g. Coursera), cybersecurity (e.g. KnowBe4), and others. The growing number of new unicorns reflects the propensity of VC investors to focus on late-stage deals, the fact companies are remaining private longer, and the abundance of capital in the US VC market.

Interest in meat alternatives skyrockets in Q2'19

Vegan hamburger and sausage company Beyond Meat held a wildly successful IPO in Q2'19, with stock prices rising more than 550% since trading began in May. During the quarter, Impossible Burger also raised a $300 million funding round. The success of these two companies highlights the growing interest of investors in meat alternatives that align with the social consciousness of the millennial and post-millenial generations. It is expected that there will continue to be active investor interest in these types of sustainable food alternatives, although investors will likely be watching companies' costs and results over the next few quarters to determine if their value propositions are truly profitable.

Investors racing toward autonomous vehicles

Autonomous vehicles and related enabling technologies continued to be a hot topic for VC investors in Q2'19, with a significant amount of funding pouring into the space. During Q2'19, Cruise, GM's autonomous driving unit, raised $1.15 billion from GM, Honda, and Softbank's Vision Fund[1]. Corporate investment is dominating the autonomous driving field as companies race to get ahead of their competition.

Strong IPO activity, except in fintech

Q2'19 saw a continuation of IPO exits in the US by prominent tech companies and the market in the US remained robust. In addition to Beyond Meat's successful IPO, video conferencing company Zoom, SaaS firm Pagerduty, social media platform company Pinterest, and cybersecurity firm Crowdstrike also made strong gains post IPO. IPO activity is expected to continue to be strong heading into Q3'19 as long as the US economy remains stable.

[1] http://www.thedetroitbureau.com/2019/05/gms-cruise-unit-gets-additional-1-15b-in-new-funding/

VC investment in the US remains robust in Q2'19 as high profile companies IPO, cont'd.

M&A space booming as companies consider exit options

In Q2'19, the M&A space saw significant activity, led by Salesforce's $15.7 billion acquisition of data visualization company Tableau and Google's $2.6 billion acquisition of data science company Looker. A number of mature technology companies have taken a dual-track approach to making their exit, filing confidentially for IPO as a means to let corporates know they are potentially for sale. This flexible exit approach has helped heat up M&A activity in tune with the accelerating IPO market.

On the M&A front, however, there could be some overhang at least for the big five, Google, Microsoft, Amazon, Apple, and Facebook because of the recent step up in regulatory pressures coming out of Department of Justice and FTC investigations. These companies may hold off on making significant M&A deals until they gain more visibility into how the regulatory issues might play out and the ramifications for their organizations.

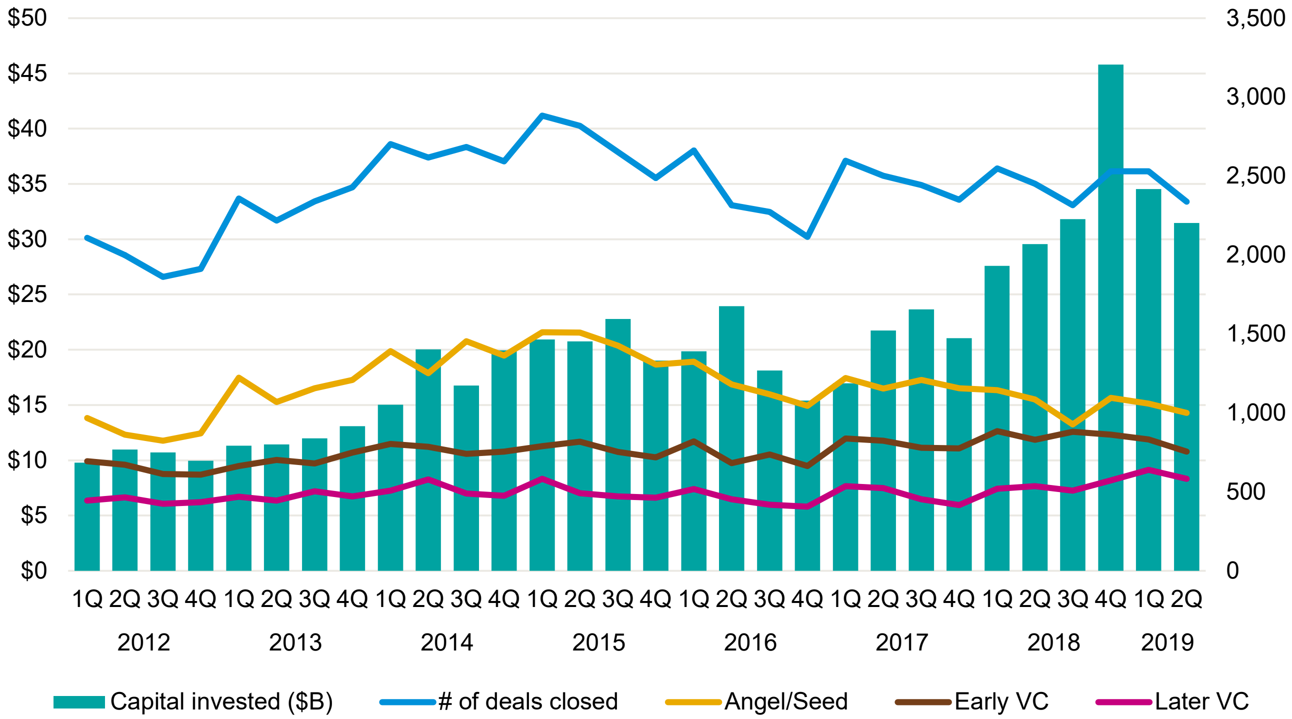
Trends to watch for in the US

The outlook for both VC investment and IPO activity heading into Q3'19 is very positive for the US as long as there are no significant market corrections. Investment is expected to continue to diversify across sectors, although fintech, healthtech, and food delivery will likely continue to see strong investments. At a technology level, AI is expected to remain the hottest area for VC investors. There is also increasing willingness on the part of traditional funding organizations to do business with cannabis firms, which could spark more VC investment in the space.

2019 maintains strong 2018 figures

Venture financing in the US

2012–Q2'19



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

Note: Refer to the Methodology section on page 24 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

The US still is recording strong figures across the board, whether in volume or VC raised. At this point, it is clear the venture industry in its birthplace is evolving, with the atomization of seed-stage fundraising as well as ongoing mega-fundraises contributing to intensifying competition in dealmaking, as well as proliferation into new industry niches.

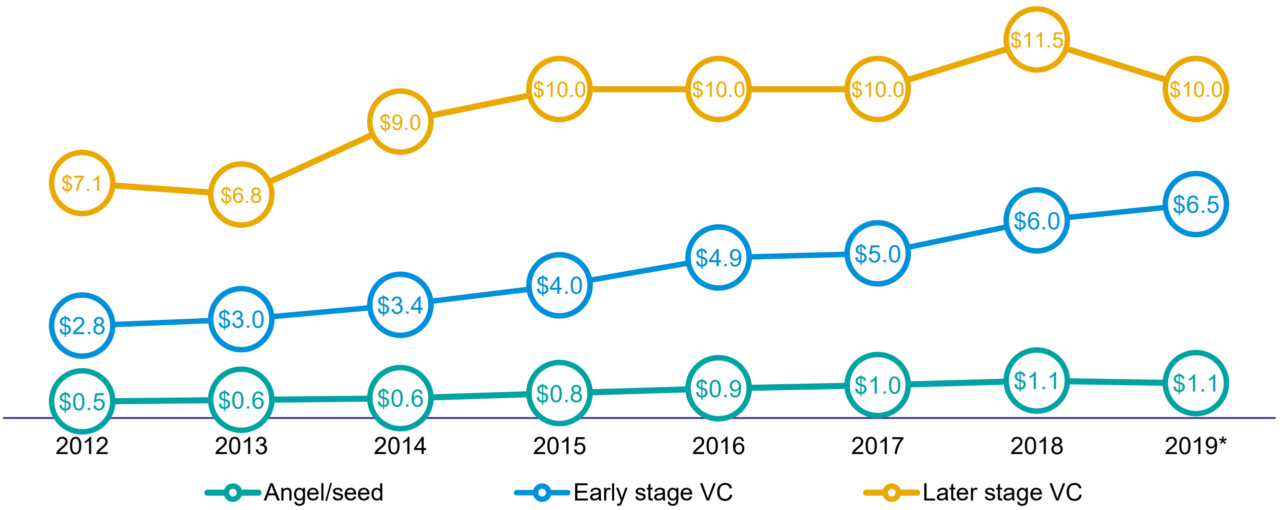
"The autonomous car space has turned into a race, and the only way to be successful in the race is to put a significant amount of capital into it. There are a lot of startups out there, but there will likely only be a few survivors. He prominent players in this space are incredibly diverse, from Uber to Google to car manufacturers themselves, with equally diverse monetization strategies. This makes for a fascinating next 12 months."

Conor Moore
National Co-Lead Partner, KPMG Venture Capital Practice, **KPMG in the US**

The late stage slides ever so slightly

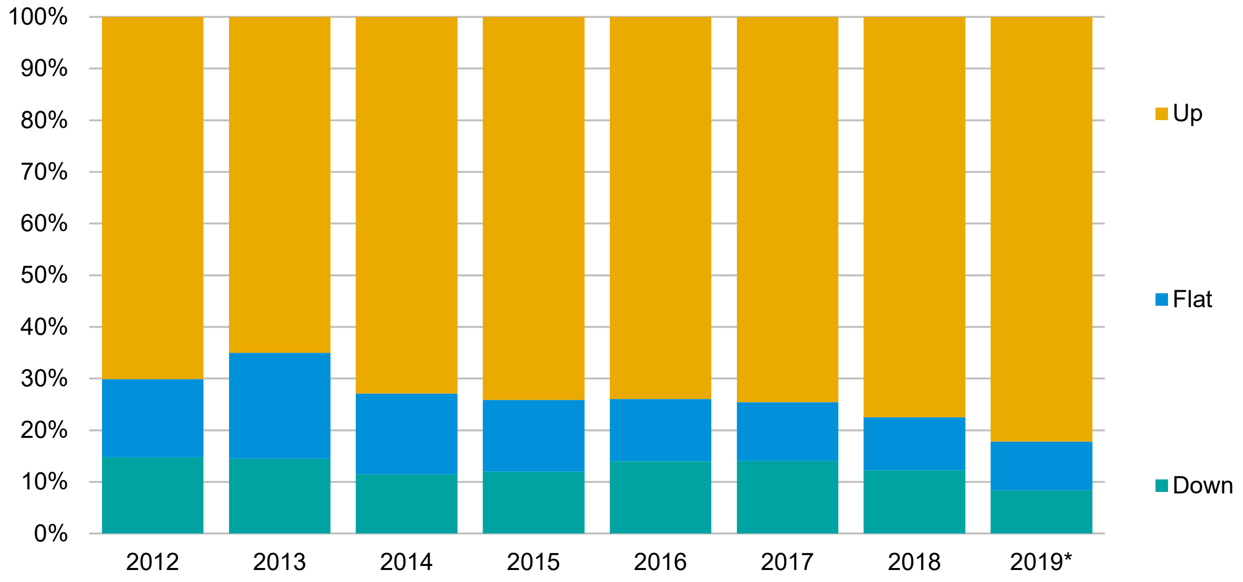
Median deal size ($M) by stage in the US

2012–2019*



Up, flat or down rounds in the US

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.

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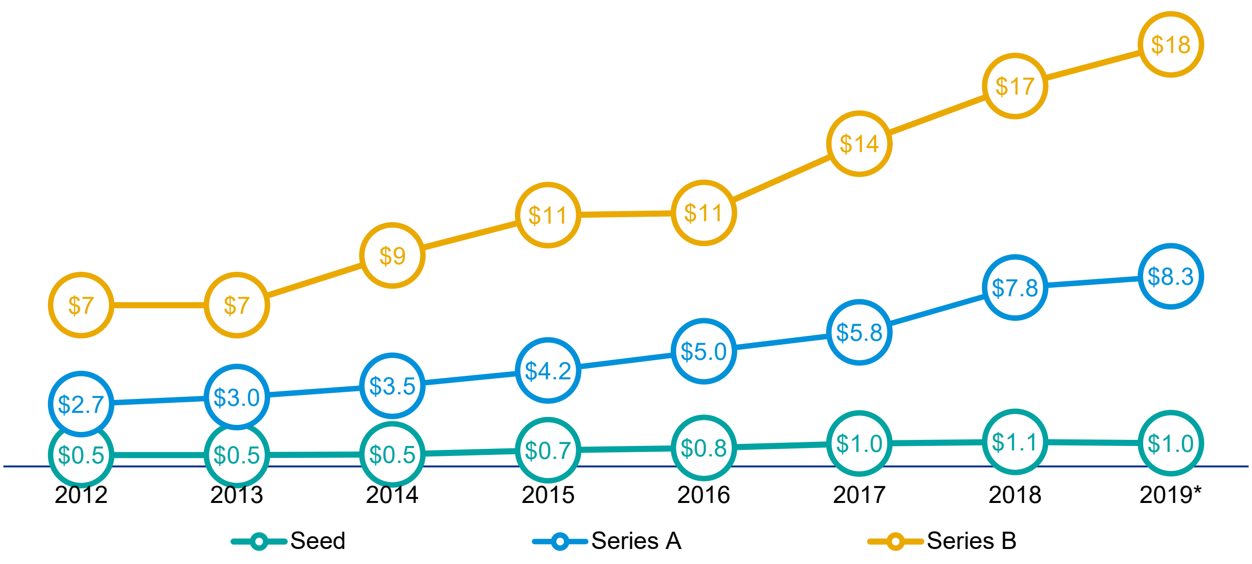
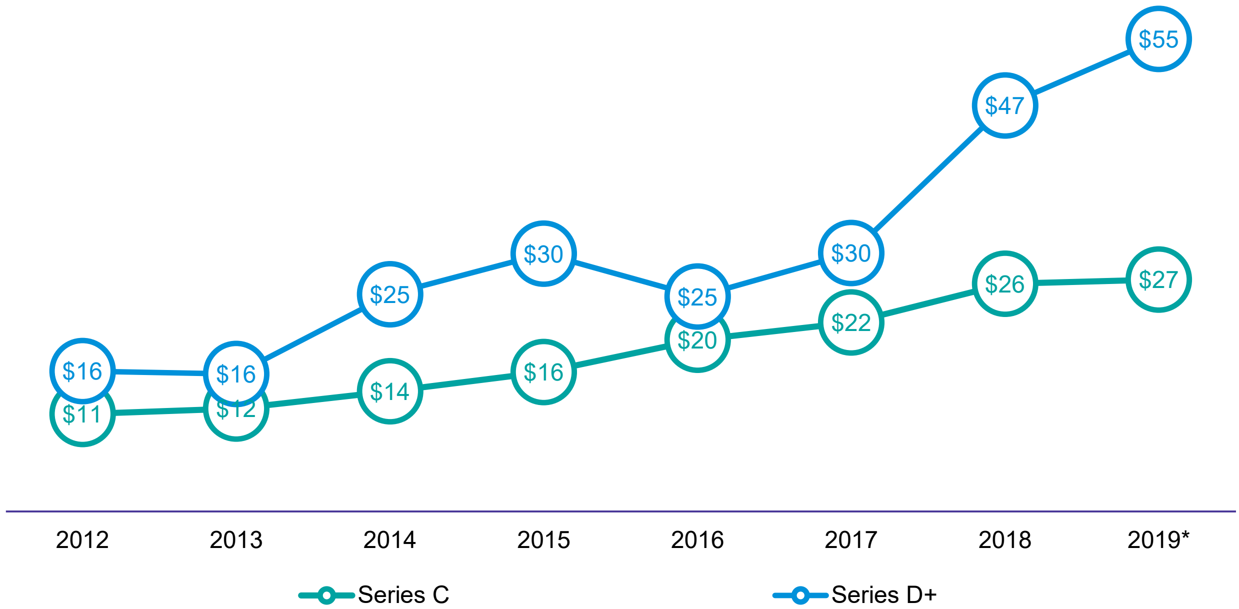
Series D+ records largest relative increase thus far

Median deal size ($M) by series in the US

2012–2019*





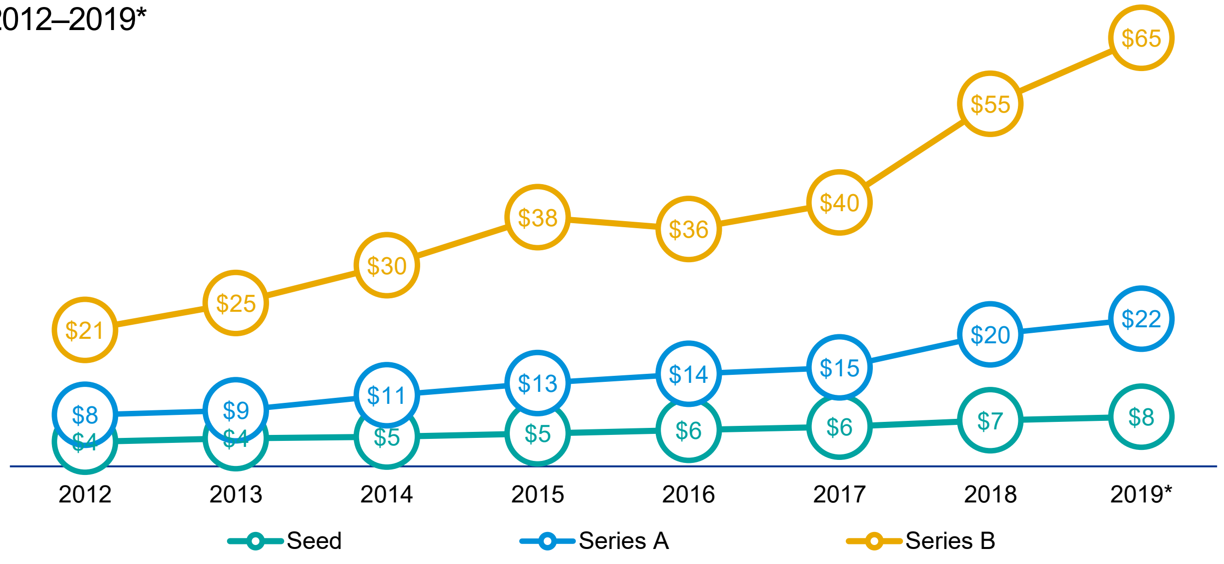
Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

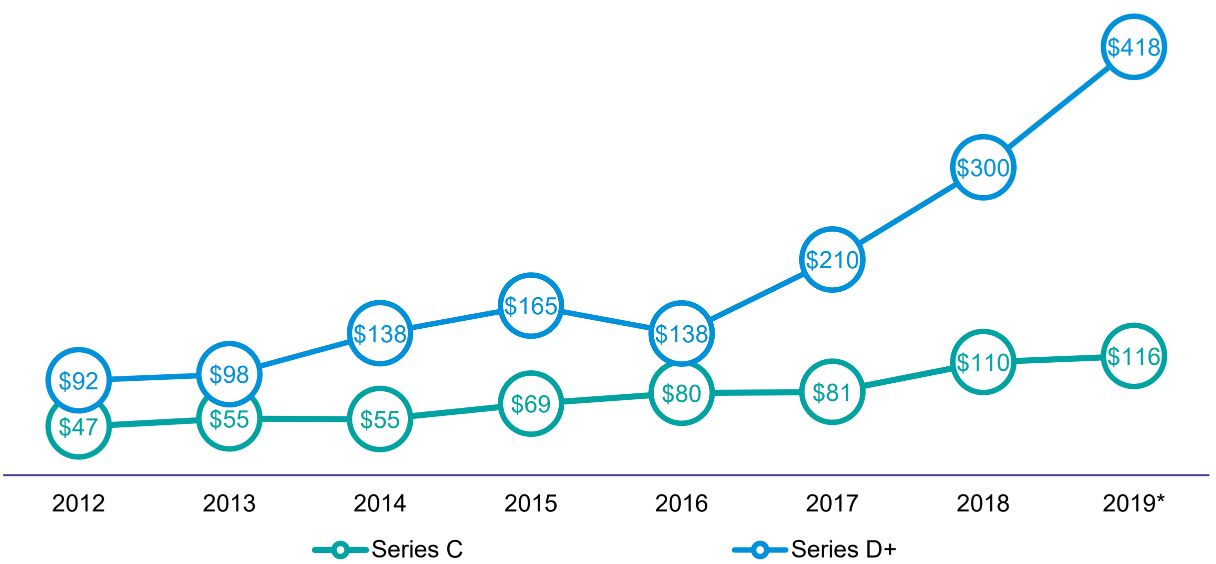
Note: Figures rounded in some cases for legibility.

Valuations stay at or near all-time highs

Median pre-money valuation ($M) by series in the US

2012–2019*





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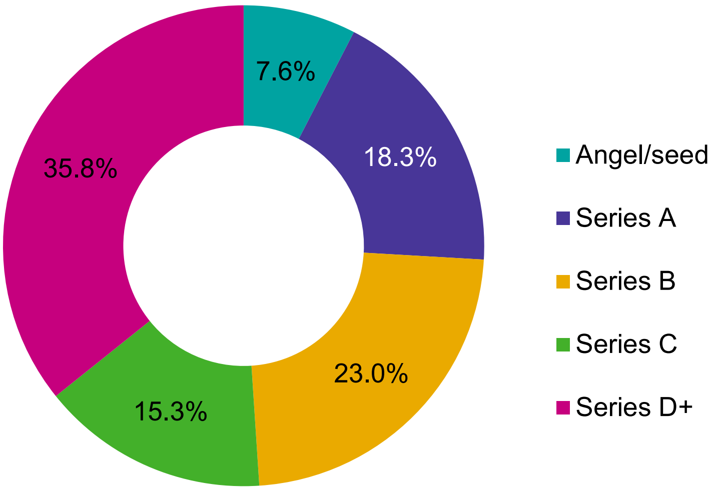
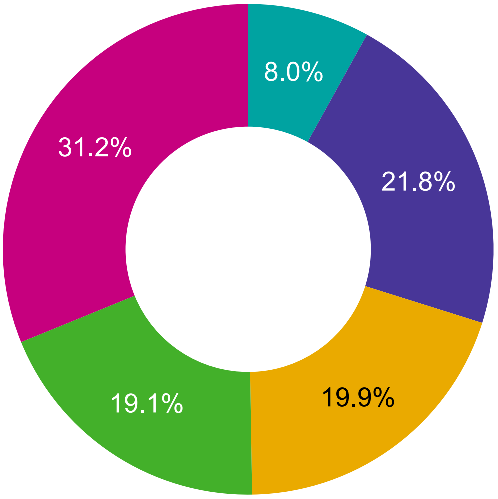
Although it is growing dangerously close to beating a dead horse, it is clear that private valuations remain at near unprecedented highs, similar, if not eclipsing those seen in the dot-com mania. The primary driver of this abundance of capital is the amount of capital that has flowed into the venture space, by and large; attendant success on the part of unicorns will only continue to encourage at a minimum the maintenance of such largesse.

Deal value tilts more heavily toward late stage

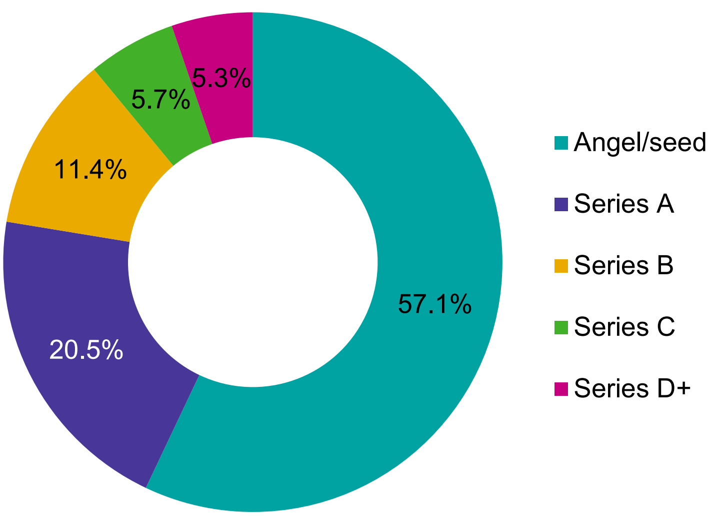
Deal share by series in the US
2019*, VC invested ($B)



Deal share by series in the US
2018, VC invested ($B)



Deal share by series in the US
2019*, number of closed deals



Deal share by series in the US
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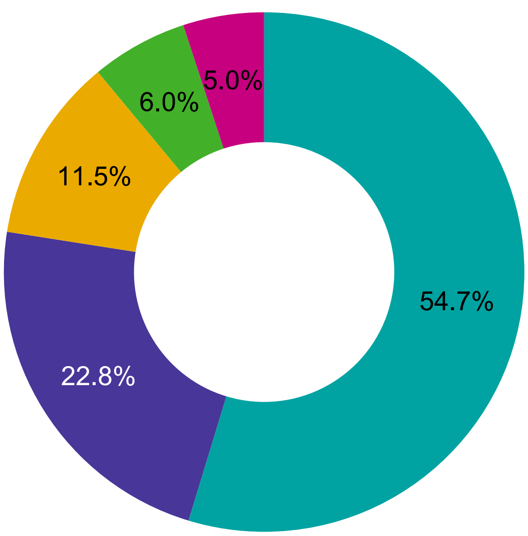

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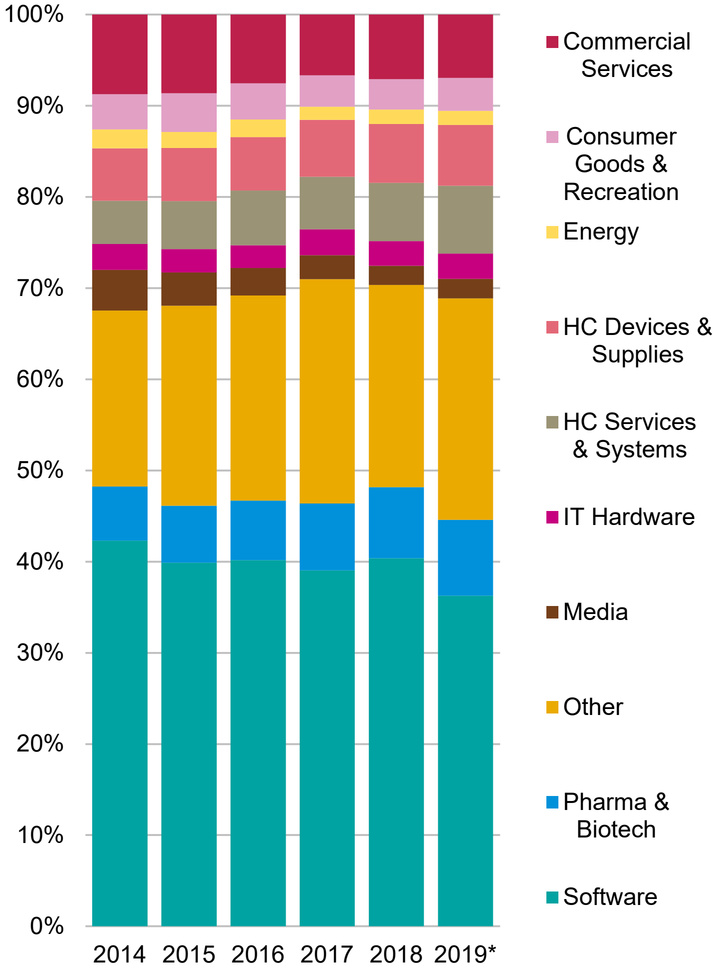
The healthcare ecosystem holds onto gains

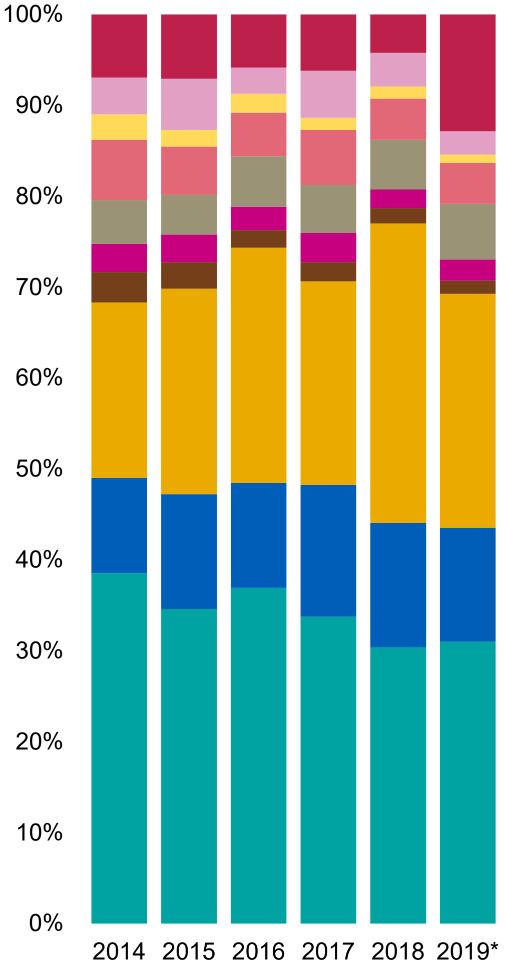
Venture financing by sector in the US

2014–2019*, number of closed deals



Venture financing by sector in the US

2014–2019*, VC invested ($B)



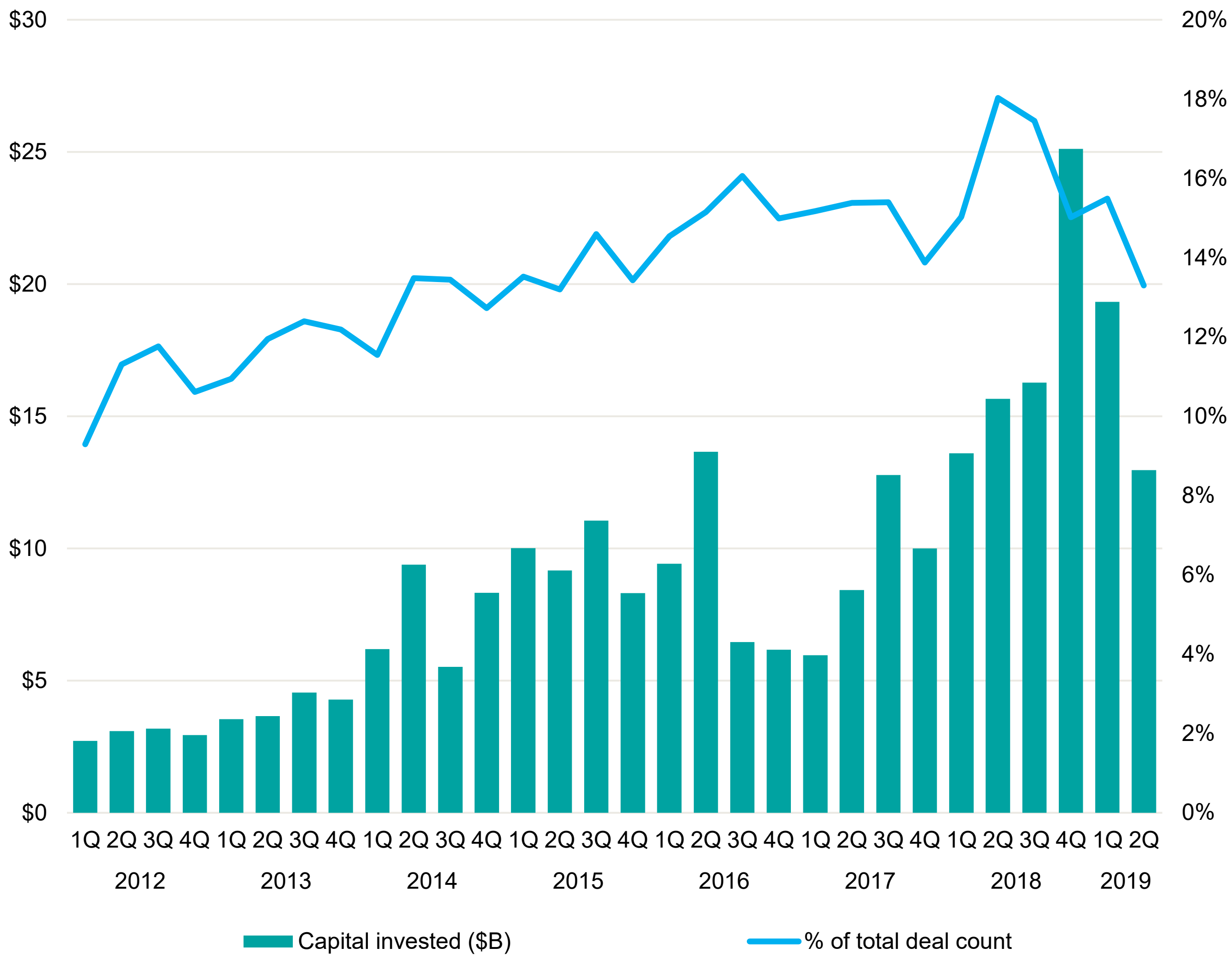
Source: Venture Pulse, Q2'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2019. Data provided by PitchBook, July 11, 2019.

Software may remain the single plurality, but it's interesting to note how the healthcare ecosystem beyond pharma & biotech, even, continues to draw in not only significant flows of capital but resilient proportions of volume overall.

CVC participation stays strong, relatively

Corporate participation in venture deals in the US

2012–Q2'19



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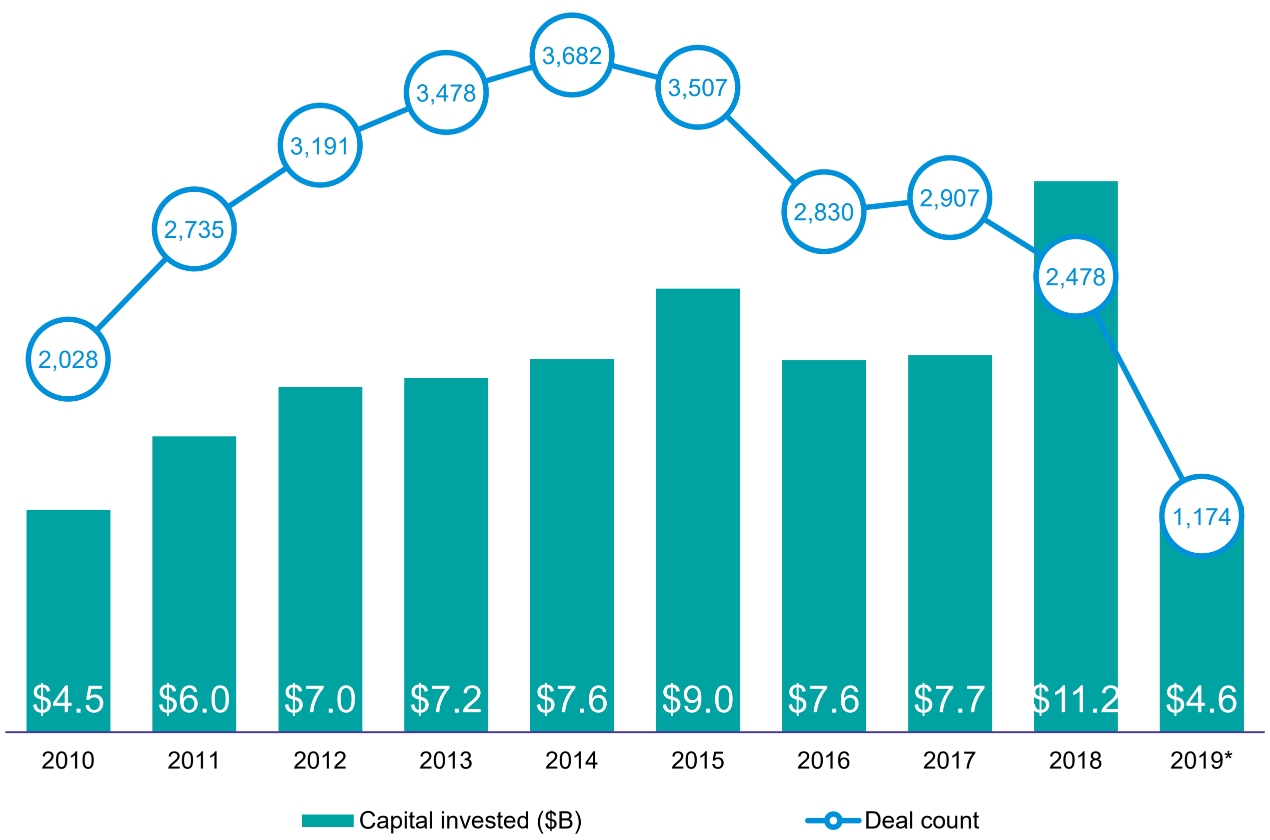
Edging up above longer-term averages as of late, corporates' participation now is evening out, over the past two and a half years. It remains to be seen if this will increase or flatten further; most corporations for which it makes sense to have a CVC have already launched or maintain such vehicles, and, moreover, their model is less about aping traditional VC strategies and rather strengthening their own R&D and core offerings over the long term, rather than ramping up pure investing.

Maturing innovation & VC cycles collide

First-time venture financings of companies in the US

2012–2019*



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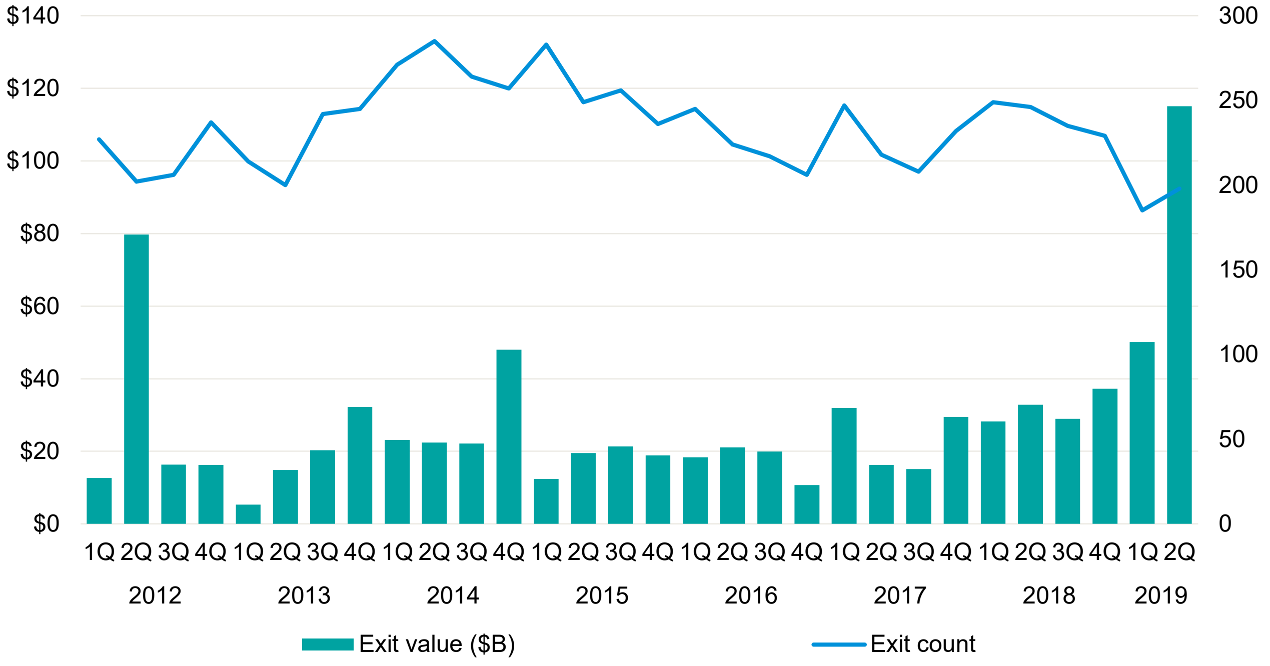
Looking back at 2018 totals for first-time financing volume, given the pacing throughout that year, it was clear that the final figure would be more in line with pre-2011 tallies than anything else. VC invested soared to a new high for the decade, however, bolstered by several outlier financings. Thus far, VC invested is still rather strong given the tally of fewer than 1,000 first-time financings, which provides a clue as to why the cycle has diminished. As the VC industry has matured, while simultaneously the wave of innovation unleashed by digitization and smartphones has slowly ebbed, more dollars and entrepreneurial effort is being funneled into the extant ecosystem rather than necessarily at the confluence of angel or seed VC dollars and brand-new startups. In addition, more forms of alternative capital — rather than VC — have proliferated, further impacting the overall trend.

Exits exceed 2018 after historic debuts

Venture-backed exit activity in the US

2012–Q2'19



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2018 recorded a massive haul for venture backers and multiple companies, but with 2019 set to go down as the year the unicorn herd finally began stampeding for the exits, this year has dwarfed 2018 tallies with ease. Given the mammoth debuts of Uber, Lyft, Zoom, Slack, Beyond Meat and more, and tallying up their valuations, a new quarterly record was set in Q2 for exit value overall.

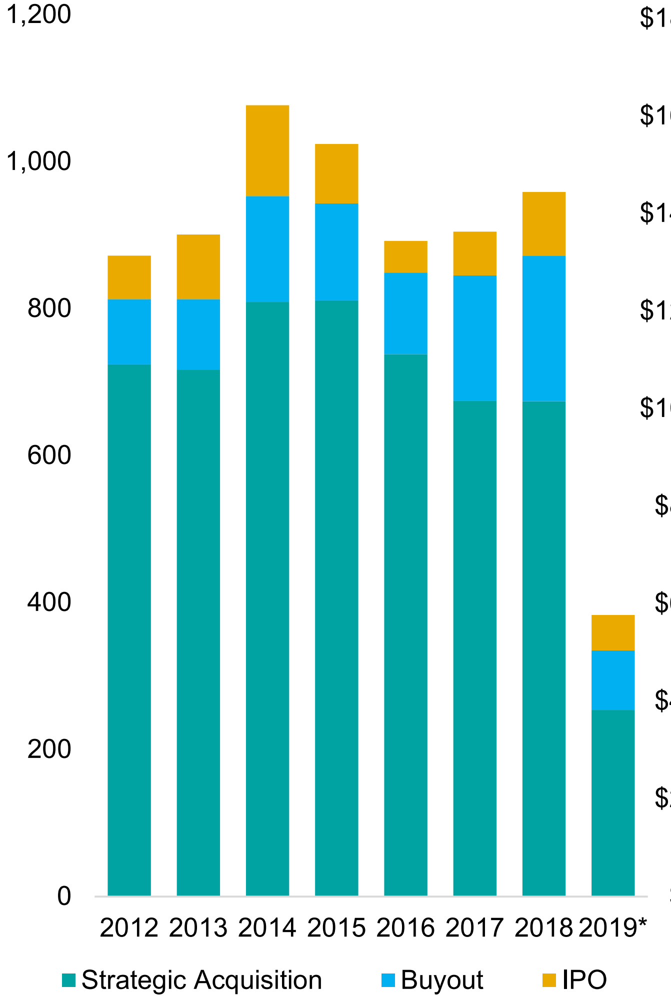
"For the first half of the year the IPO market for VC backed companies has been very strong and many of them have had strong performance. Just look at the returns for Beyond Meat , Zoom, Pagerduty, Pinterest and Crowdstrike to name a few. As long as the overall market remains stable and there is no macroeconomic event , we should continue to see a significant number of VC Backed IPO's for the remainder of the year."

Brian Hughes
Co-Leader, KPMG Enterprise Emerging Giants Network, **KPMG International** and
National Co-Lead Partner, KPMG Venture Capital Practice, **KPMG in the US**

2019 is proving to be the year of IPOs

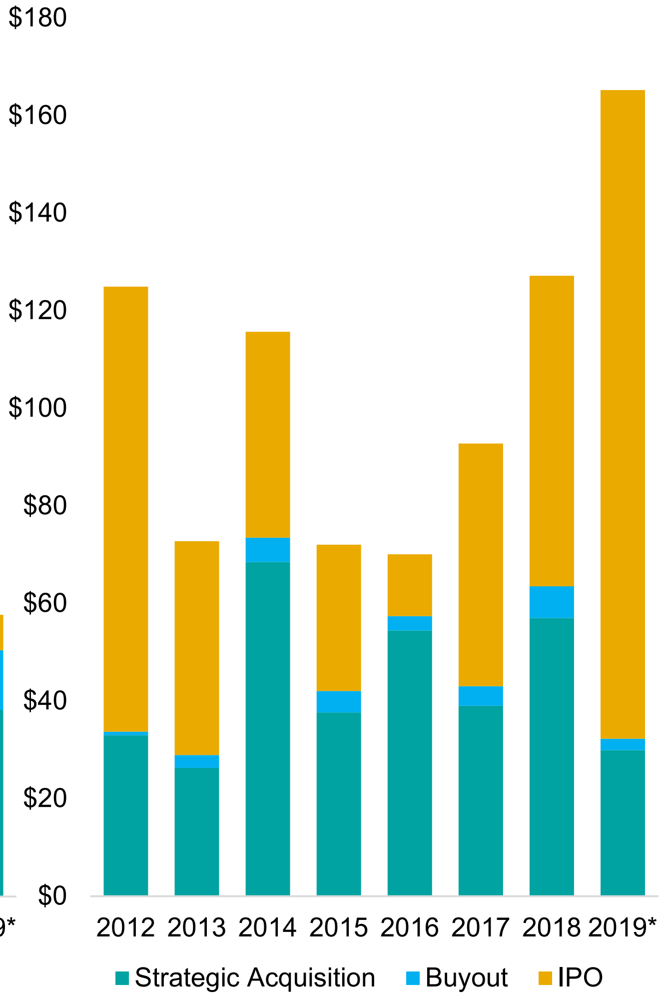
Venture-backed exit activity (#) by type in the US

2012–2019*



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

2012–2019*



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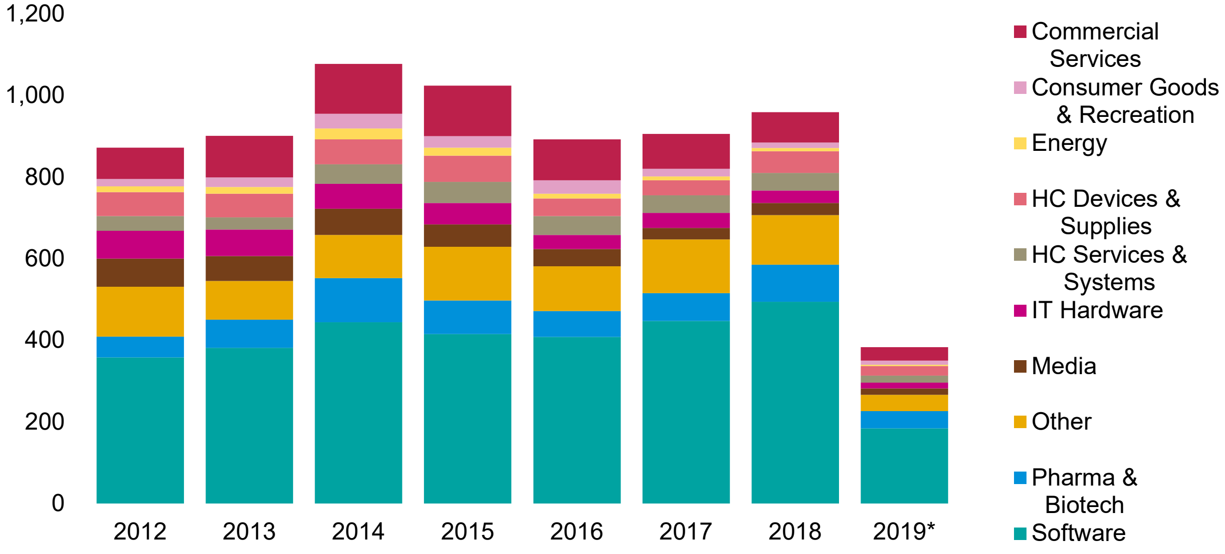
Given the methodology shift incorporated in the prior edition of the Venture Pulse, wherein IPO exit value now is more accurately predicated on exit valuation, it is clear that unicorn IPOs will help 2019 go down as a record year for US venture-backed exits.

Cross-sector offerings continue to drive exits

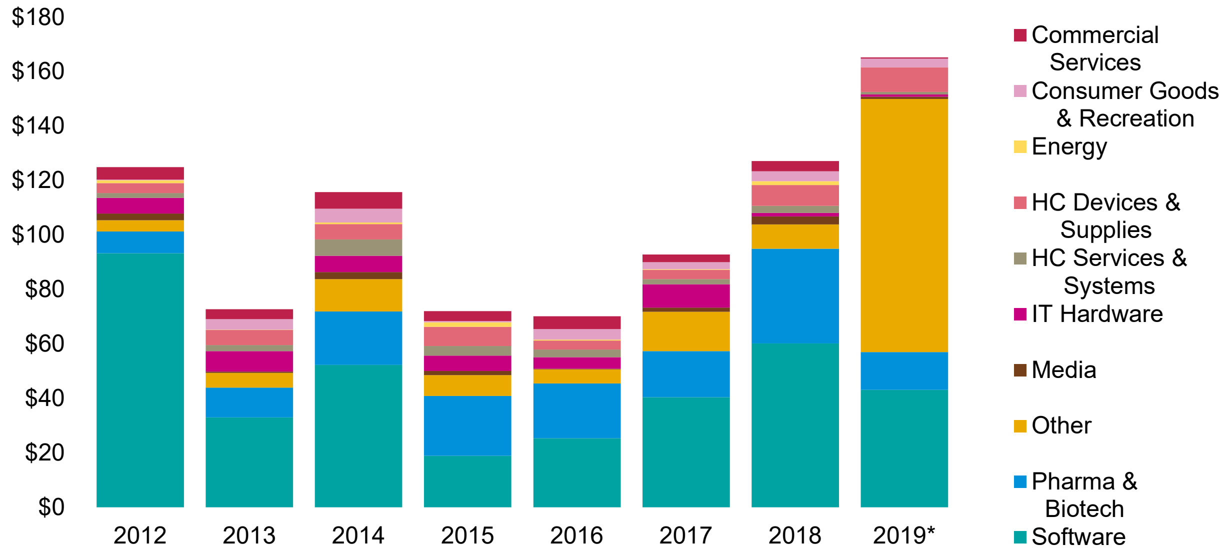
Venture-backed exit activity (#) by sector in the US

2012–2019*



Venture-backed exit activity ($B) by sector in the US

2012–2019*



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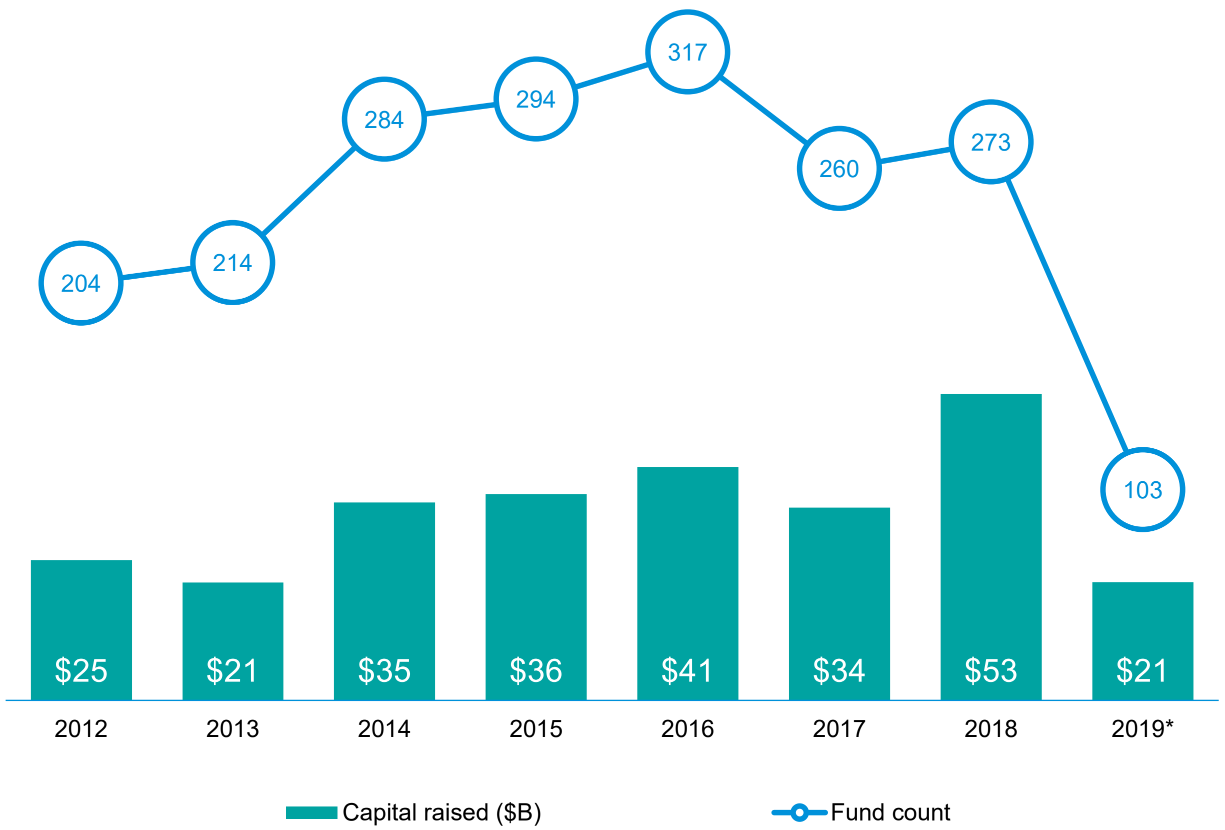
Moderation after a blockbuster year

US venture fundraising

2012–2019*



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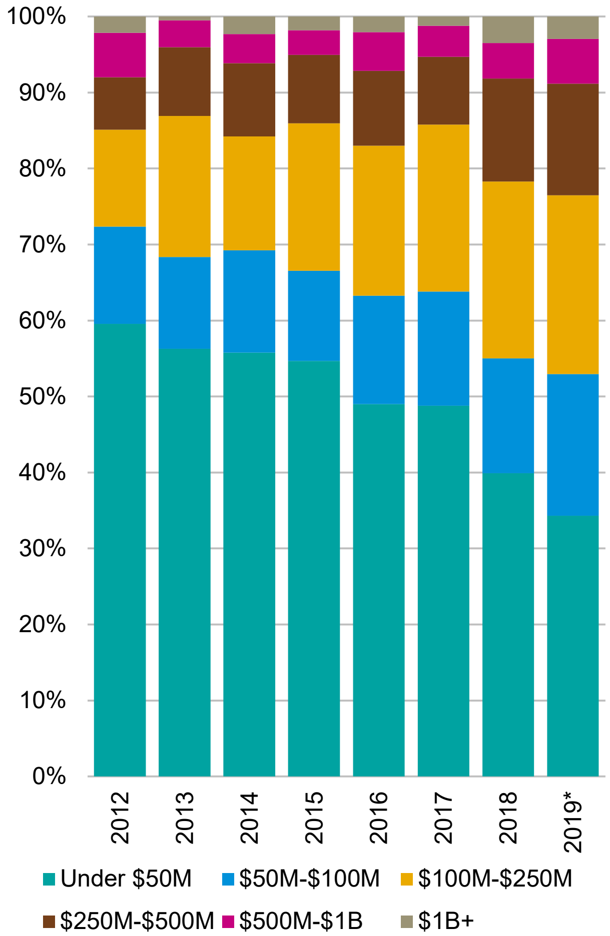
With the back half of 2018 marked by outlier totals of sums raised, as mega-funds rushed to close and debut 2019 with enriched coffers, a slowdown in the fundraising cycle was only to be expected, by and large. Reversion to the mean is a well-known phenomenon, after all. However, in the US, the pace is likely to pick up in the second half of the year, especially if firms that have not yet raised, but benefited from successful exits this year, return to the fundraising trail.

First-time funds press pause

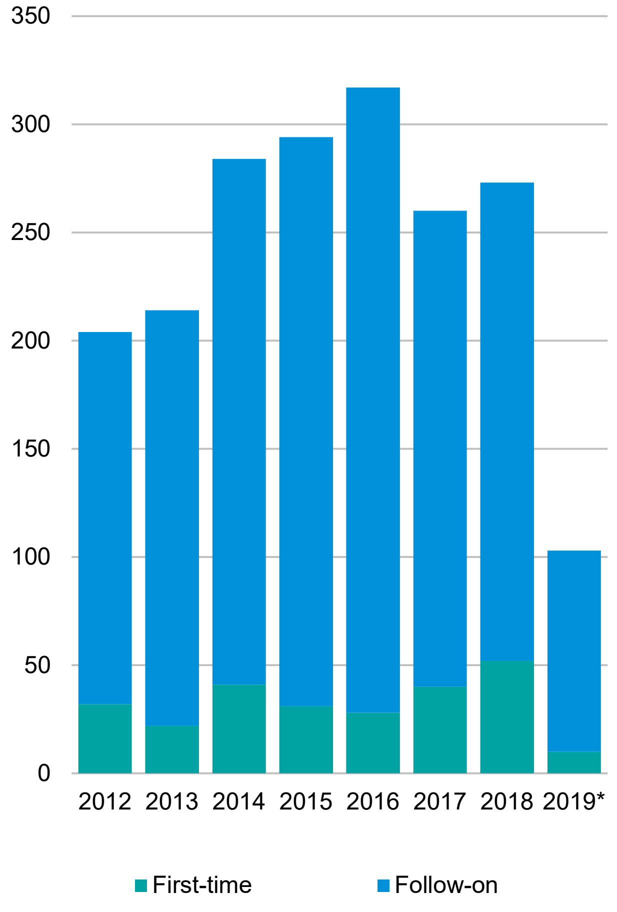
Venture fundraising (#) by size in the US

2012–2019*



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

2012–2019*



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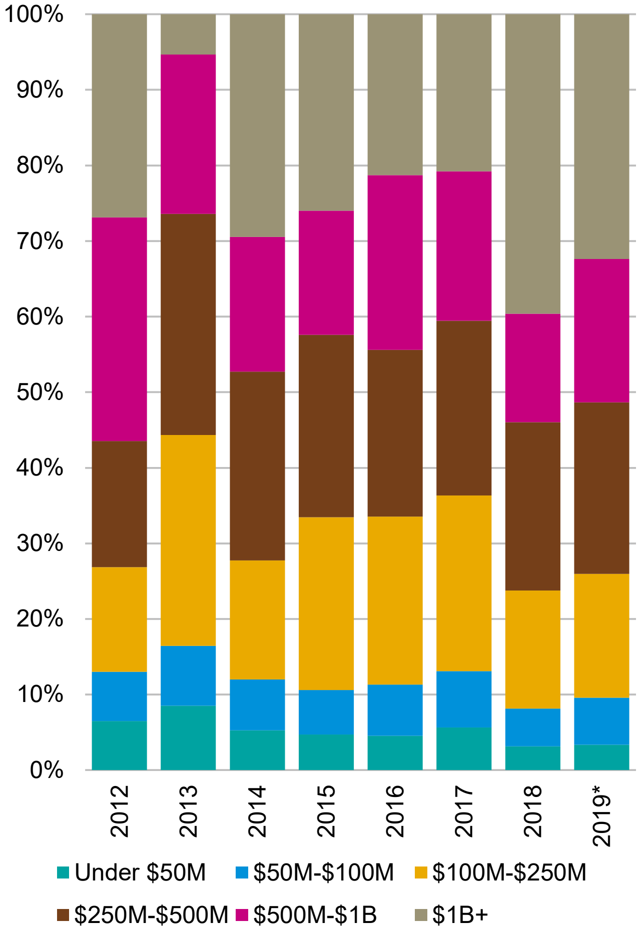
First-time funds finished 2018 at a historically high proportion in volume and thus once again one must expect reversion to the mean. Having said that, they haven't completely dropped out of the conversation, with several prominent first-time funds being closed on healthy amounts. Newer entrants to the currently intensely competitive market have a lot to contend with, and thus, observers and their backers will be watching for new strategies that can succeed.

Follow-ons account for bulk of VC raised

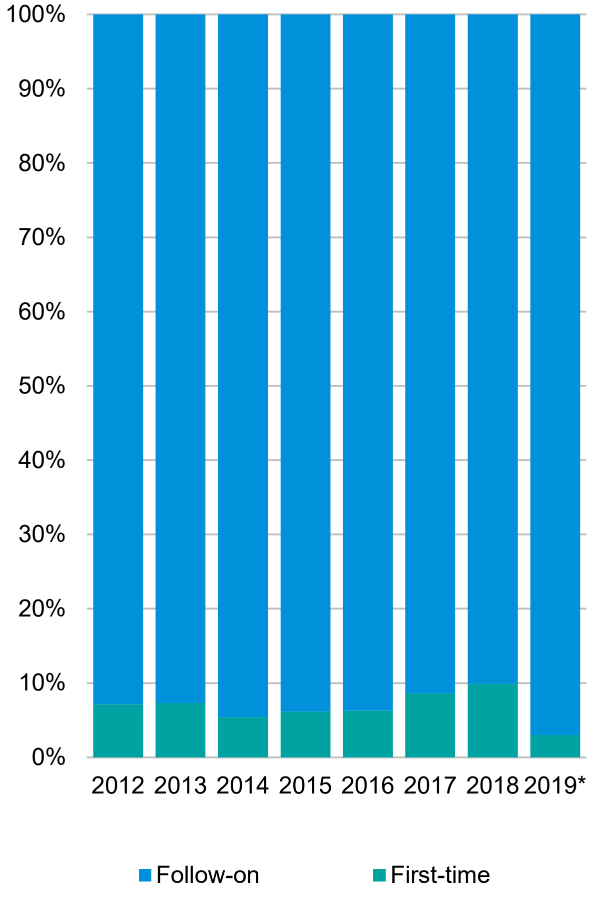
Venture fundraising ($B) by size in the US

2012–2019*



First-time vs. follow-on funds ($B) in the US

2012–2019*



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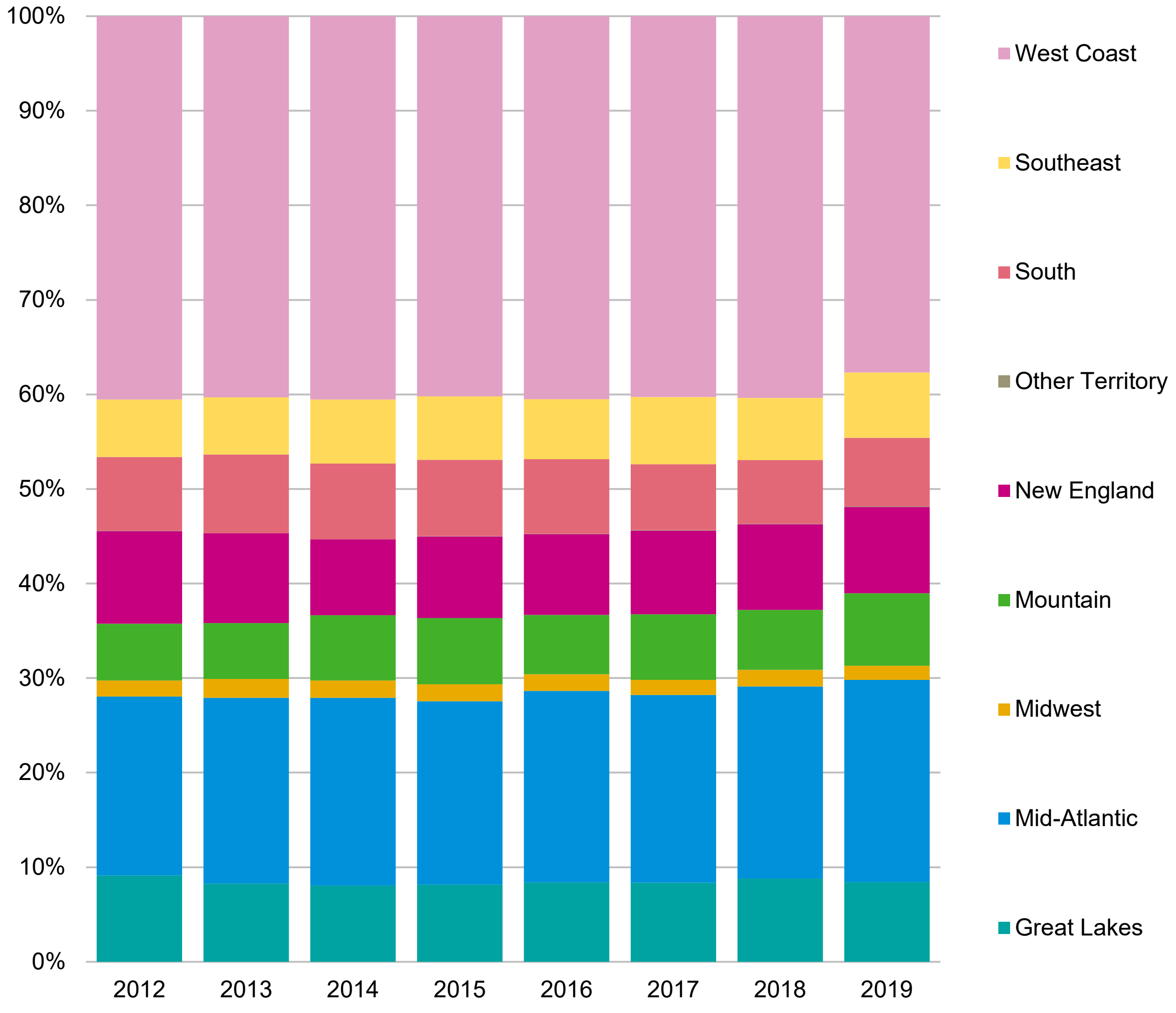
2019 stays strong for emerging hubs

US venture activity (#) by US region

2012–2019*



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

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About KPMG Enterprise

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The KPMG Enterprise Global Network for 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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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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