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Global VC investment remains strong - mega deals lead the way: KPMG Venture Pulse Q3 2017

Total dollars invested resulted in the second largest third quarter ever

Total venture capital investment globally reached US$39 billion in Q3'17, the fourth highest quarterly total capital invested since 2010, according to [Venture Pulse Q3 2017] a quarterly report on global venture capital investment from KPMG Enterprise. While total investment remains strong, the total number of deals dropped yet again, reaching levels not seen since 2011 as investors around the world continued down a disciplined path of investing, placing fewer bets on angel and seed round opportunities, and deploying higher amounts of capital to a more select group of companies.

Following in the footsteps of Q2'17, the US continues to dominate VC investment, accounting for US$21.5 billion, followed by Asia (US$12.3 billion) and Europe (US$4.7 billion). A majority of the investments continued to fund mega-deals during the third quarter, including US-based WeWork (US$3 billion), and China-based Toutiao (US$2 billion) and BAIC BJEV (US$1.6 billion). The top 10 deals globally together accounted for US$9.86 billion in funding. China accounted for half of the biggest deals globally. Although European deal value rose by 9.2 percent quarter over quarter and included four US$100 million+ mega-rounds during Q3'17, only one Europe-based deal made the global top 10 list this quarter.

With strong competition for high quality deals, median valuations continued to hold steady at all stages of funding. After a decline between 2015 and 2016, the median round size for the latest stage—Series D or later—soared once more in 2017 to date to its highest tally ever of US$40 million.

Corporate venture capital (CVC) continues to be an important source of financing to watch," said Brian Hughes, National Co-Lead Partner, KPMG Venture Capital Practice, and a partner for KPMG in the US. "In Q3, 17.7 percent of worldwide venture financings included a corporate venture arm. CVC has morphed from a niche of the VC world to a vehicle for corporations across all industries to inject innovative ideas and technology into their existing products and services. Looking forward, we expect to see CVC participation continuing to increase."

Key Q3'17 highlights

- Overall Global VC investment remains strong at US$39.4 billion in Q3'17, holding strong with the number of mega-deals making up the top 10 list this quarter.
- Global median deal size at every stage remained high. Median Series D+ deal pre-money valuation surges to US$260 million in 2017 to date.
- Corporate venture capital investment as a percentage of deal count remained high at 17.7 percent and is expected to stay strong through Q4'17 into 2018.
- Global first-time venture financings were well off last year's pace, declining from 5,142 deals and US$17 billion in funds in 2016 to 2,736 deals and US$9.7 billion so far in 2017.
- Funding for the VR/AR sector has already surpassed 2016 totals (US$1.56 billion) in the first three quarters of 2017, which saw US$1.645 billion dollars in VC investment. This space is on track to explode in 2018.

Asia VC-backed companies raised US$12.3 billion in investment, due largely to mega-rounds in China
China continues to dominate the Asia market, with 10 out of the top 12 deals, garnering a US$10.2 billion share of US$12.3 billion dollars' worth of investment this quarter. Asia is the only global region where the number of late-stage transactions outnumbered angel and seed rounds in Q3'17.

Corporate VC participation remains high in Asia as Chinese powerhouses Alibaba, Tencent and JD.com are all actively investing in promising startups, particularly in Southeast Asia and India, as well as Europe.

In Singapore, VC investment was at US$140.30 million across 21 deals in Q3'17, signalling a 'pause' in venture financing in Q3 after a robust Q2. Despite the cycle down on overall VC activity since the peak in early 2015, the fact that significant upticks still occur testify to how the Singaporean startup scene still produces companies capable of attracting significant capital.

Large deals keeps the US VC market strong and steady
Despite a fall in the number of deals in the US, capital investment remains strong and steady at US$21.5 billion, which compares well with the record high of US$23.4 billion invested in Q2'16 and US$22.9 billion invested in Q2'17. Deal sizes continue to soar, with top US funding rounds exceeding well over US$100 million, including US$3 billion by WeWork, US$615 million by Intarcia Therapeutics and US$351 million by SpaceX.

Corporate VC is playing a growing role in US fundraising activity as they now account for nearly 16 percent of deals across all sectors. Investing in startups is now viewed as a less risky approach than implementing costly internal R&D initiatives.

Exits by way of IPOs remain below expectations, though their numbers have increased since the lowest quarters of 2016. This likely reflects the increased investment in late-stage initiatives, which may be delaying the move to go public.

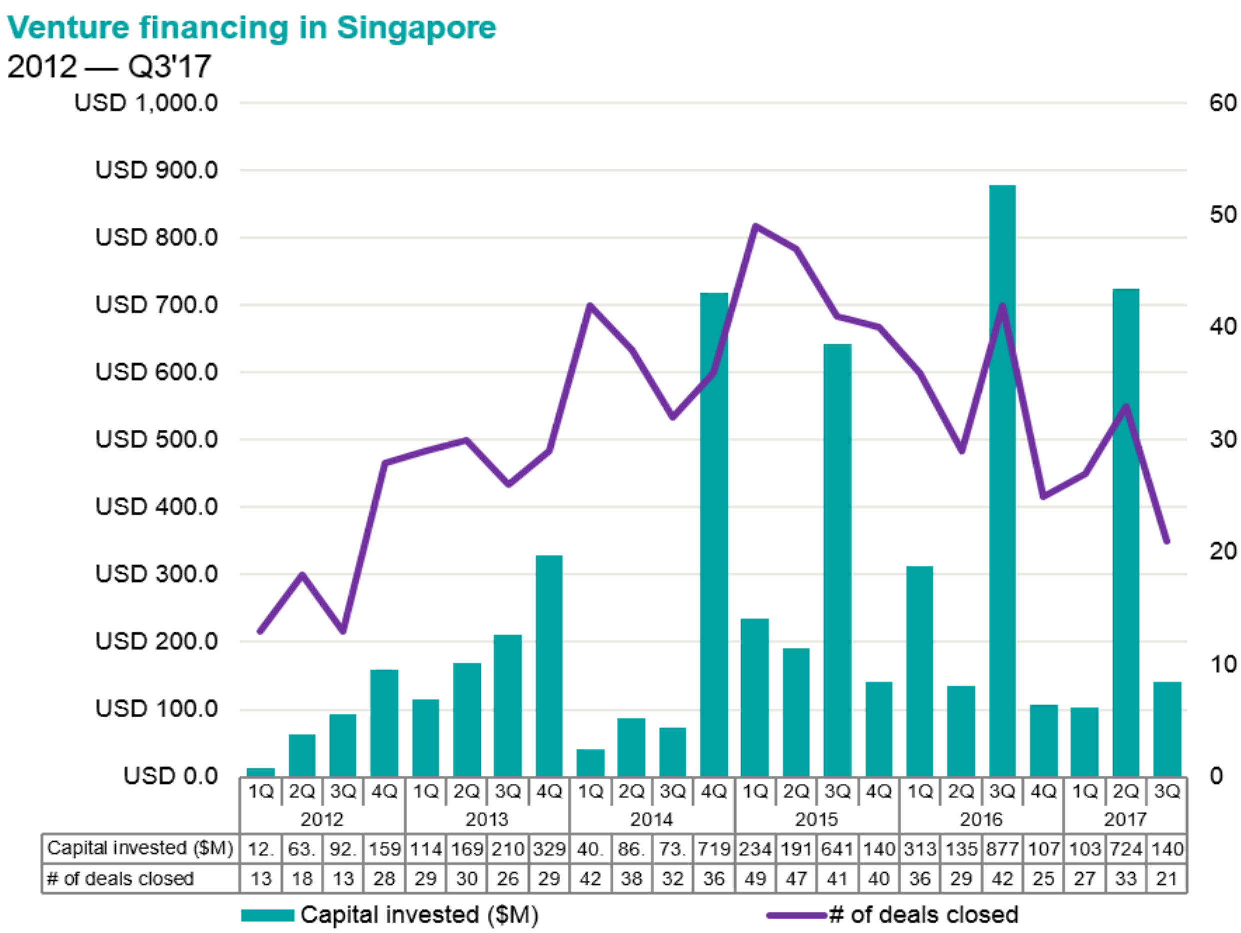
Global trends reflected in Europe
The low volume, high valuation phenomenon continues in Europe, where deal counts continue to drop, particular for early stage investments. Investors are becoming particularly selective with their funding options and are opting to back late-stage initiatives. This move is boosting the median value of these late- stage deals, as can be seen in the number of US$100 million+ ventures. The UK bucked this trend, recording a near record US$1.9 billion in capital invested. While deal volume continued to decline in concert with overall trends, several large financings boosted the UK to a stellar quarterly investment total. The top four European deals during Q3'17 combined for a total of more than US$900 million dollars – with US$385 million to Deliveroo, US$240 million to Prodigy Finance, US$169.5 million to Sound Cloud, and US$165 million to Tricentis.

Corporate VC activity has achieved a new peak at more than 21 percent in Europe, focusing on late-stage initiatives that can help companies diversify their product lines and service offerings. As a result, early-stage projects are struggling to find the financing they need to get initiatives off the ground. Activity on the IPO front continues to quiet, dropping to levels reminiscent of 2010-13 as maturing startups look toward large deals to support their growth.

"Overall the trends are consistent around the globe. We're seeing a drop in the volume of deals as investors offset risk by funding later-stage initiatives that show promise for opportunities to monetize the technology," said Arik Speier, Head of Technology, KPMG Somekh Chaikin in Israel. "As investors become more selective, it increases the competition for the top choices and drives median value. Meanwhile, early stage startups are being forced to work harder and show stronger results to obtain that first seed funding. The move to focus on high quality projects should work out well for investors in the long run."

END

Appendix



	2012 1Q	2012 2Q	2012 3Q	2012 4Q	2013 1Q	2013 2Q	2013 3Q	2013 4Q	2014 1Q	2014 2Q	2014 3Q	2014 4Q	2015 1Q	2015 2Q	2015 3Q	2015 4Q	2016 1Q	2016 2Q	2016 3Q	2016 4Q	2017 1Q	2017 2Q	2017 3Q
Capital invested ($M)	12.	63.	92.	159	114	169	210	329	40.	86.	73.	719	234	191	641	140	313	135	877	107	103	724	140
# of deals closed	13	18	13	28	29	30	26	29	42	38	32	36	49	47	41	40	36	29	42	25	27	33	21

Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

**Note: All figures cited are in USD; data for the report provided by PitchBook.*

About Venture Pulse

The Q3 2017 edition of the Venture Pulse report produced by KPMG Enterprise's Global Network for Innovative Startup, analyses the latest global trends in venture capital investment data and provides insights from both a global and regional perspective. KPMG Enterprise has expanded the scope of Venture Pulse; this edition of the quarterly series provides in-depth analysis on the lifecycle of venture capital investments across the Americas, EMA and ASPAC, including a look at investment activity such as valuations, financing, deal sizes, mergers & acquisitions, exits, corporate investment and industry highlights.

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