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Venture Pulse Q4 2016

Global analysis of venture funding

12 January 2017

Welcome message

Welcome to the Q4'2016 edition of KPMG Enterprise's Venture Pulse Report – highlighting the current trends, opportunities and challenges faced by the venture capital (VC) market, both globally and in key regions around the world. In this edition, we reflect back on 2016 as a whole and discuss what the future might hold for venture capital investing in 2017.

After a relatively good start to 2016, caution took a strong grip on the VC market, extending its hold throughout the remainder of the year. Q4'16 saw further dips in both venture capital investments and, in particular the total number of deals in the Americas, Asia and Europe. While year-end numbers show 2016 lagging the peak deal values of 2015, the sharp decrease in the number of deals compared to last year reflects ongoing investor concerns within the VC market.

Asia and the Americas continued to bear the brunt of VC investor pullback during Q4'16, with sharp declines in the number of deals and capital invested. This quarter Europe showed more resilience in terms of total capital invested, despite the region facing geopolitical uncertainty in a number of EU member states, in addition to the uncertainties related to the UK's Brexit vote. The region's growing diversity of technology ecosystems is likely one factor in the region's relative resilience, although its smaller size (compared to the Americas and Asia) likely also had a moderating impact.

The US election was decided midway through Q4'16, ending a period of uncertainty, while introducing new questions regarding how the change in administration will affect regulatory and trade policy moving forward.

Despite the further drop in VC activity in Q4'16, there are signs that the investment tide is turning and that investor optimism is growing. In the US, there are indications that the IPO market is opening up which, if realized, could renew interest in the VC market. The significant amount of dry powder raised during 2016 will also need to be invested, although it is expected that any investments will require companies to have more concrete plans to profitability than they have needed in the past. With corporates, particularly in Asia, now recognizing the value of collaboration with startups, corporate VC is also expected to grow further.

As global leaders meet this week at the World Economic Forum in Davos, Switzerland, the importance of global collaboration and responsible leadership is expected to be high on the agenda. Innovation in today's society cannot be managed in a vacuum. We expect the lessons from Davos will help guide business leaders, including VC investors, during the year ahead.

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Welcome message

We explore these and a number of other global and regional trends in this quarter's Venture Pulse Report. We also examine a number of questions related to venture capital investment, including:

— Is the VC investment tide about to turn?
— How have investor behaviors changed in light of 2016 trends?
— Is the IPO market opening, particularly in the US?
— What might 2017 have in store for VC investing?

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

Contents

Q4'16 summary

Global VC investment remains substantial, despite major decline in activity

Worldwide venture capital activity declined 24% year-over-year, with just 13,665 completed deals in 2016, compared to 17,992 in 2015. Despite the weakening activity, total venture capital investment remained substantial, with $127.4 billion invested globally during the year. While the amount may be below the peak of $140.6 billion invested in 2015, it is nearly double the total global VC investment seen in 2013.

Asia holds steady year-over-year, while Americas and Europe slip

Unlike the other major regions, Asia's total venture capital invested remained steady between 2015 and 2016, just eclipsing $39 billion each year. The Americas and Europe saw VC capital investment decline significantly during the same period. In the Americas, VC investment dropped from $82 billion to $72 billion, while in Europe investment dropped from $18 billion to $16 billion. The decline in deals activity was even more noticeable – with a drop from 11,208 to 8,642 deals in the Americas, and a drop from 4,378 to 3,142 deals in Europe. Across nearly all regions, investments at the angel and seed-stage recorded quarter-over-quarter declines during 2016, with Asia in particular showing a sudden downturn in angel and seed-stage investment between Q3 and Q4 2016.

Deal metrics suggest investors are still willing to pay up

In 2016, median deal sizes remained high across virtually every series of VC financing. Globally, the median Seed investment and Series A investment both increased in size from 2015, while the median Series B investment held steady at approximately $12 million. In terms of later stage deals, while the median Series D+ investment declined somewhat, from $35 million to $30 million, it remained far higher than in years preceding 2015 and double 2011's median investment. It's clear that while there was a slight increase in investor caution for late-stage deals, investors were still willing to pay up for the right opportunities. Moreover, valuations remained near decade highs. Worldwide, the median Series B pre-money valuation stood at $39.6 million in 2016, close to twice the $20.8 million logged in 2012.

US sees a significant year-over-year slide in first-time financings

High prices had an effect on the level of first-time financings during 2016, with the most highly valued markets experiencing another year-over-year decline. For example, the US recording a decrease from 3,331 closed first-time fundings in 2015 to 2,340 during 2016 – a slide of nearly 30%. Notably, even in the expensive climate, corporate venture arms participated in nearly 15% of all venture activity during 2016 worldwide, the combined value of all such financings hitting a decade high of $64.9 billion.

Corporate M&A accounts for the bulk of exit value in 2016, but declines quarter-over-quarter

Liquidity for venture investors remained on the wane. Exits declined further from the decade high reached in 2014, with year-over-year decreases of almost 26% by count and 13% by value worldwide. Quarterly data reveals a nearly 5 quarters straight slide in completed sales of venture-backed holdings globally. On a brighter note, until the final quarter of 2016, most regions saw less of an impact on quarterly tallies of exit value. For example, the 5 quarters from Q3 2015 to Q3 2016, inclusive, each eclipsed $18 billion in global VC-backed exit value. Corporate M&A continued to account for the bulk of all VC-backed exit value at 84% in 2016 alone, for a total of $58 billion. However, quarterly data reveals a slow but steady slide in corporate M&A, which could suggest a period of lessened liquidity for VC firms unless other exit options arise.

Big disparity in fundraising activity regionally, with Europe showing seven year high in VC raised

Venture fundraising activity differed greatly between the key regions in 2016, with the global markets standing at 372 pools of capital combining for $64.4 billion. In the Americas, the US experienced relatively steady fundraising totals, recording 255 closed funds for 2015 and 253 for 2016, although mega-vehicles drove last year's total VC committed to $41.6 billion. Worldwide, the trend of more money flowing to larger VC managers continued, with Europe, in particular, seeing a seven-year high of $10.5 billion raised across a seven-year low of 62 closed funds in 2016.

All currency amounts are in USD, unless otherwise specified, data provided by Pitchbook.

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Globally, in Q4'16 VC-backed companies raised

$21.8B

across

2,809 deals

Uncertainties hold back global VC funding through end of 2016

After a record breaking 2015, 2016 offered a reality check to the venture capital market around the globe. Concerned about high valuations and other economic challenges, they tightened their funding taps and became more cautious with their investments. The uncertainties associated with the June Brexit vote and its aftermath in the UK, ongoing concern around the lack of exits and the end-of-year presidential election in the US only added to the caution.

Despite the nervousness permeating the VC market throughout much of the year, VC funds conducted what many believe to be a record amount of fundraising. This fundraising, combined with the settling down of several macroeconomic uncertainties that plagued 2016 and the belief that the US IPO market will open again in 2017, however, is giving investors hope that 2017 will see renewed interest and activity in VC globally.

Global annual VC funding remains high, while deal volume plummets

Globally, the total amount of VC funding in 2016 came second only to the peak of 2015, making it a reasonably good year overall for the VC market, despite the steep drop-off experienced in the second half of the year. While 2016's total level of funding may be relatively good by comparison to previous years, the major decline in the number of deals suggests a more complicated year for VC investment.

In Q4'16 in particular, funding dropped to an 11 quarter low, while the total number of deals fell to a number not seen since Q4'11. The Americas, Asia and Europe experienced a marked decrease in both metrics, with Asia and the Americas experiencing the largest declines. Europe's VC market showed some resilience in the amount of VC invested, although the region's VC market as a whole remains but a fraction of those in the other regions.

Caution driving investor behaviors

2016 was characterized by far more caution on the part of investors. While many VC investors were jumping the gun on investments in 2015 so they wouldn't miss the perceived investment boat, during the second half of 2016, in particular, investors became more selective and took far more time to evaluate potential investments. Investors increasingly focused on companies that had a concrete business plan and a proven path to profitability. Companies began to recognize that they could no longer burn cash if they wanted to attract investors.

Investor caution as a result of IPOs failing to achieve their private sector valuations earlier in 2016 also drove many investors to request greater down-round protections for investments. An increasing number of deals also involved convertible debt or options coverage in the event companies could not meet identified milestones.

IPO market fizzles in 2016, but hope for 2017 renewal

The IPO market in the US for VC-backed companies almost came to a standstill in 2016 following a number of high-profile IPOs earlier in the year that failed to achieve their private sector valuations. In the latter half of the year, a small number of tech companies tested the IPO waters again. Twilio showed strong Q3 and Q4 pricing, which could be a positive sign for the IPO market in 2017.

Expectations that a number of large private tech giants will head to IPO early in 2017 are driving renewed interest in the IPO market. Already, Snap, the parent company of Snapchat, has filed for an IPO expected to occur in Q1'17, while others are expected to follow suit, particularly if Snap's endeavor is successful. The opening up of the IPO market would likely have a positive ripple effect on broader VC investment.

Uncertainties hold back Global VC funding through end of 2016, cont'd

Corporate VC participation continues to grow

Corporate investors were particularly active in the VC market during 2016, with Q4'16 being no exception. Many corporate investors have different KPIs for their investments than do VC funds, PE firms or institutional investors. A combination of strategic and investment drivers have kept them active, even in a market dominated by caution overall.

Corporate investors are also making a broad range of investments beyond simple direct VC funding. While a number have set up corporate VC funds, other forms of investment are also growing, including the development of internal business accelerators or the sponsorship of incubators that align with their future strategies. There is little doubt that an increasing number of corporates are looking to the long-term value offered by supporting startups and fostering the innovation ecosystem. As a result, it is expected that corporate participation will likely remain high or even grow further in the foreseeable future.

VC Investment in Asia and Americas drops dramatically

VC funding to Asia-based and Americas-based companies dropped dramatically in Q4'16. In Asia, the lack of large mega-rounds caused significant declines during the quarter, with just one $500m+ financing round during Q4 – a $500m Series E round to Beijing-based software company Yixia. In the US, the largest deal of the quarter was less than half of that size – a $210m Series D round to San Francisco based software company Opendoor.

In Asia, the total dollars invested came relatively close to 2015, although the total number of deals in the region dropped sharply. In the Americas, both deals volume and deal value dropped considerably compared to the banner year the region experienced in 2015.

Europe shows some resilience in Q4 despite uncertainty

While Europe's VC market experienced a challenging year overall, the region showed some resilience in total capital invested in Q4'16 compared to the experience of Asia and the Americas. In a post-Brexit world, investors mostly appear to be taking a 'business as usual' approach to their investments until more details around the UK's Brexit strategy are released in 2017. While the investment environment remains cautious, a number of positive factors have helped with building resilience, including several successful IPO exits by European companies. Government initiatives by the UK, France and Germany also have set the stage for additional VC investment in 2017.

Uncertainties hold back Global VC funding through end of 2016, cont'd

Governments helping to drive and support innovation economy

One positive trend seen during 2016 is the rising interest in governments supporting innovation and the development of technology hubs, with initiatives coming from Europe, in particular during Q4. In the UK, the government announced £1 billion in funding to drive the development of digital infrastructure, part of which includes measures to support UK-based startups – such as investing £400 million into venture capital firms through the British Business Bank[1]. This announcement could reflect the UK's desire to show its ongoing commitment to being a leading technology center despite plans for an exit from the EU.

The governments of Germany and France are also working together to create a €1billion fund to assist startups in their countries to grow beyond the seed-stage[2]. This announcement suggests the level of importance both countries are placing on helping startups grow. While companies can typically get access to seed-stage funding or late-stage funding following proof of concept, middle-stage funding can be more difficult. By bridging the gap, the governments are showing their commitment to developing a solid ecosystem for startups at all stages of development.

In China, the Central Government has continued its efforts to implement its 5 year strategic plan, which includes a large focus on innovation. In Q4, provincial governments within the country started working on the implementation of specific innovation-focused initiatives. For example, in Q4 the Hubei province announced $81 billion[3] for investments focused on diversifying the job base as the country works to move from a manufacturing-based economy to an innovation-driven one. This money will be invested through a number of large investment companies, such as Sequoia Capital and CBC Capital.

Healthtech remains a hot investment area

A number of areas peaked VC investor interest during 2016, including healthtech, fintech, artificial intelligence, and the Internet of Things. While each of these areas won significant attention, healthtech and biotech stood out as an investor priority in all regions of the world – a trend expected to continue into the next year. The reality is that many jurisdictions are faced with major inefficiencies across their healthcare systems. Companies that have strong solutions to a myriad of healthcare issues, from back-office scheduling to patient record-keeping and diagnosis, will likely be able to obtain funding. Other areas expected to continue to attract significant interest over the next year include artificial intelligence, virtual reality and data analytics.

Cautious optimism heading into 2017

Looking into 2017, there is a sense of cautious optimism with respect to the VC market globally and in key regions around the world. Should the IPO market open up, as many expect, this liquidity will likely have a positive impact on the VC market as a whole. At the same time, it is expected that investors will remain cautious with their investments. The days of companies being able to burn cash are gone for the foreseeable future. Rather, investors will likely continue to focus on those companies that have an efficient operating structure, strong business model and defined path to profitability.

1. http://realbusiness.co.uk/funding/2016/11/23/autumn-statement-2016-400m-venture-capital-funds-british-business-bank/
2. http://www.forbes.com/sites/federicoguerrini/2016/12/19/germany-and-france-plan-to-set-up-a-1-billion-fund-for-startups/#1bc32b133366
3. https://www.bloomberg.com/news/articles/2016-10-20/china-heartland-province-deploying-81-billion-to-seed-startups

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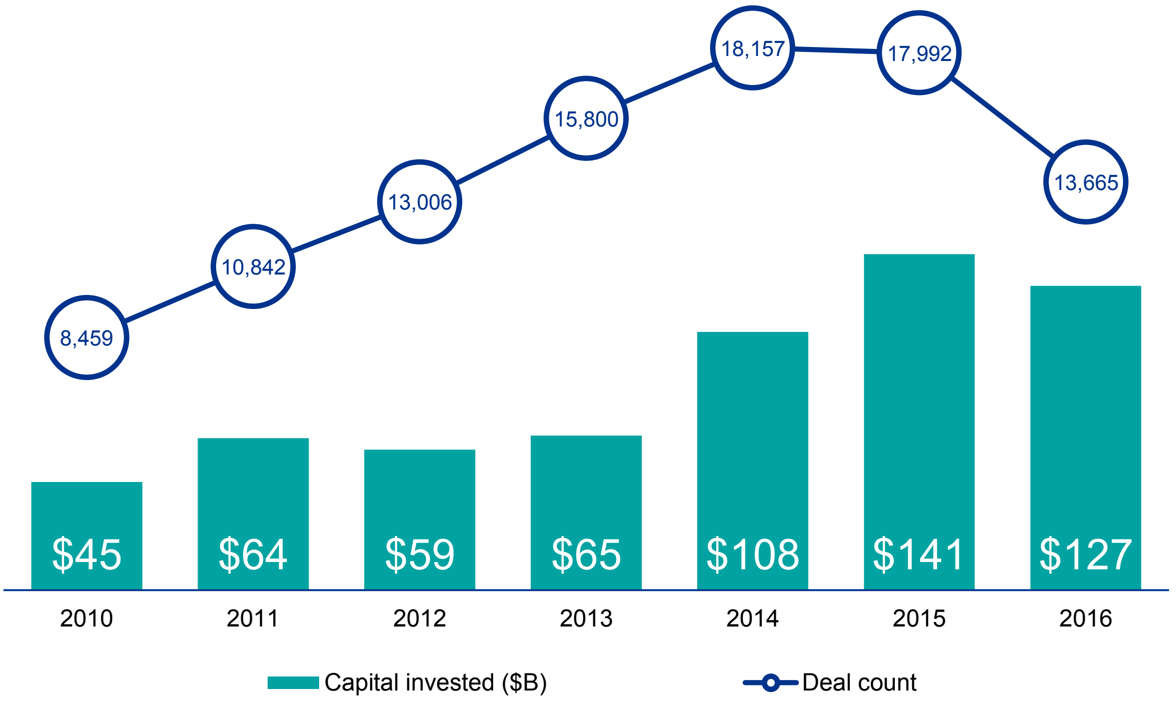
Steep slide in number of deals in 2016

Global venture financing by year

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.
Note: Refer to the Methodology section on page 127 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

Amid the ongoing reset in the venture industry worldwide, it's worth noting that total VC invested remains very high, in fact, nearly twice the total seen in 2013. Although driven by mega-financings, the consistent highs seen in round sizes and valuations on a global basis speak to the demand for worthwhile startups to fund among venture firms, as well as the demand for exposure to potentially high-growth businesses by institutional investors via the venture asset class.

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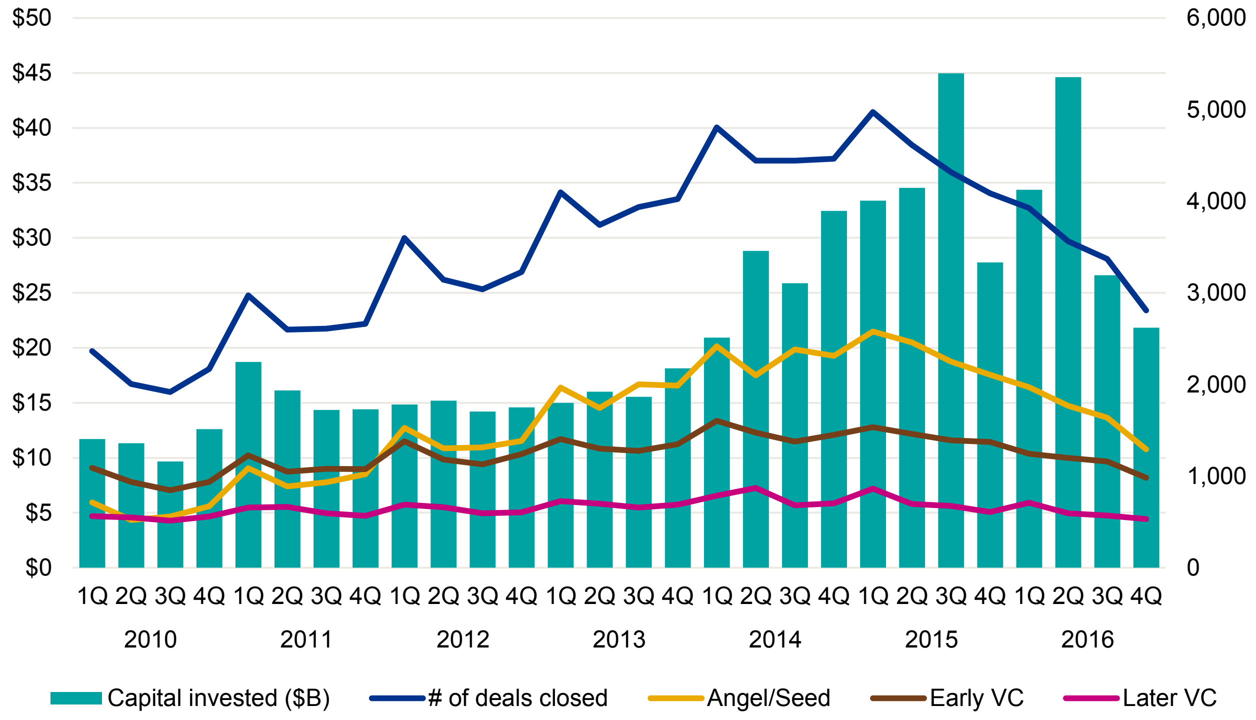
Q4'16 sees multi-quarter lows

Global venture financing by stage

2010 – 2016



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The final quarter of 2016 saw the lowest total of VC invested — $21.8 billion — for a given quarter since Q1'14, which recorded $20.9 billion. As for deal flow, the year-over-year decline from Q4'15 was just over 30%, while to find a comparably low quarterly tally for total activity, one must look back to the final quarter of 2011. In short, the highs of 2014 and 2015 are on the wane, slowly but steadily.

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> While there was a significant decline in the overall number of deals this year around the globe, the total capital invested was more resilient, thanks in part to some very large mega-deals. The outlook for 2017 remains positive with a large number of US and Chinese unicorns actively exploring possible IPOs.

Arik Speier

Co-Leader, KPMG Enterprise Innovative Startups Network and Head of Technology,
KPMG in Israel

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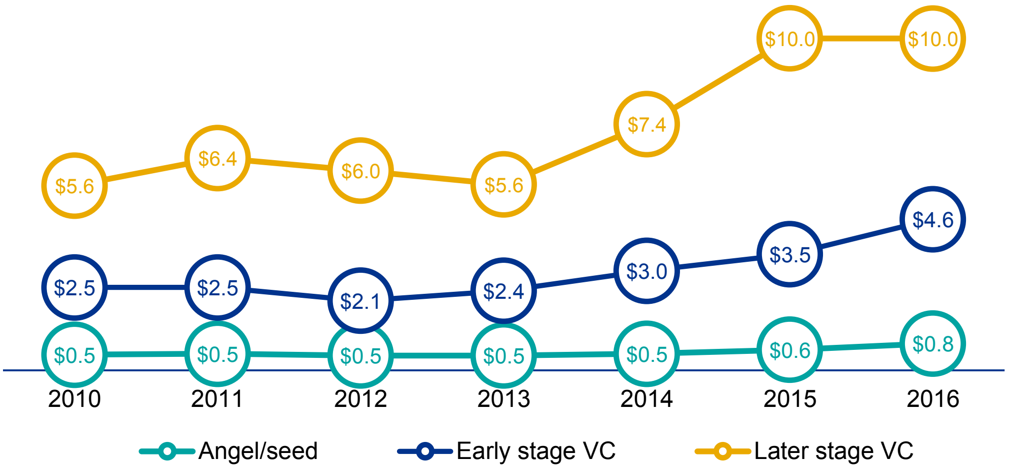
Deal sizes remain high as demand persists

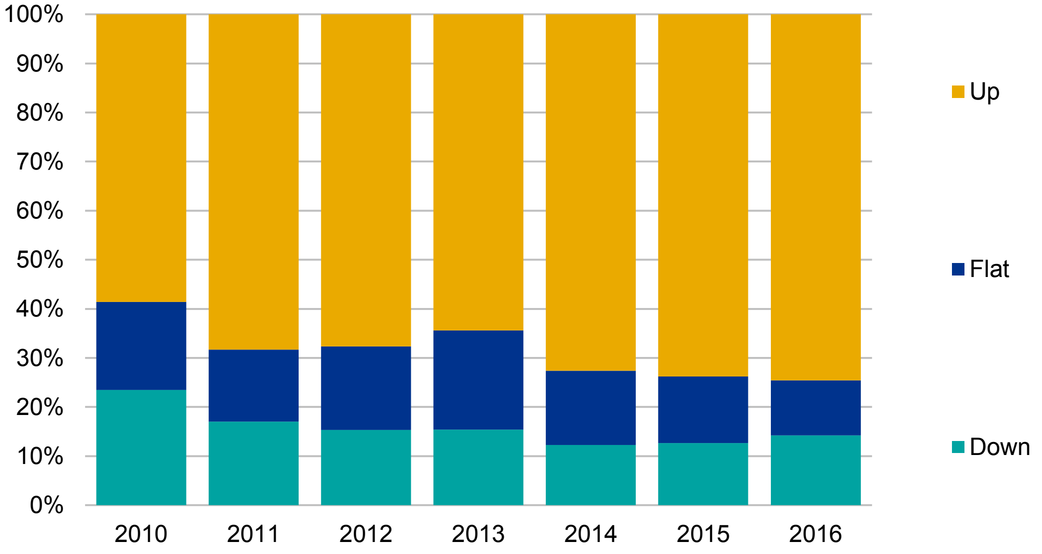
Global median deal size ($M) by stage

2010 – 2016



Global up, flat or down rounds

2010 – 2016



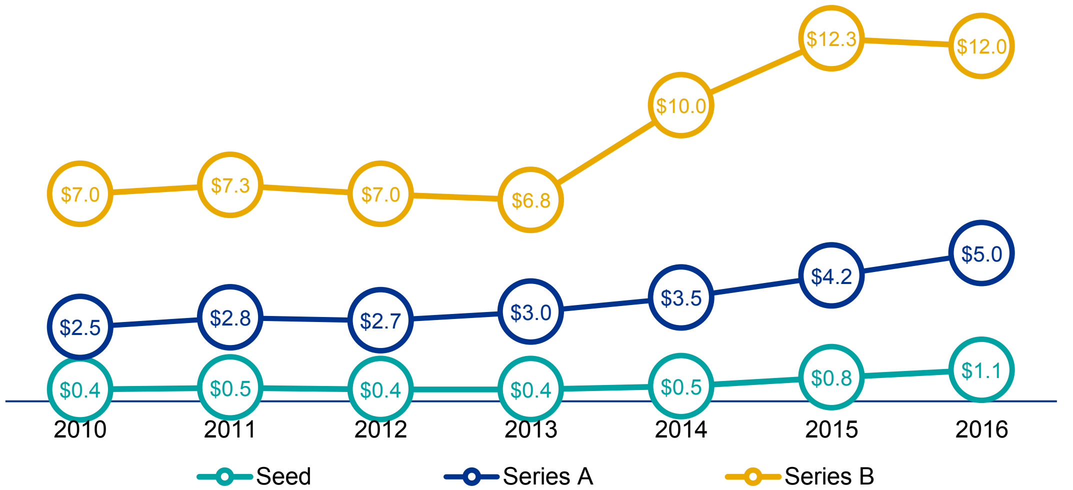
2016 saw the first significant proportional increase in down rounds for the first time in 2 years, amid the overall decline. Median financing sizes stayed high, testifying to caution and strong demand persisting hand in hand.

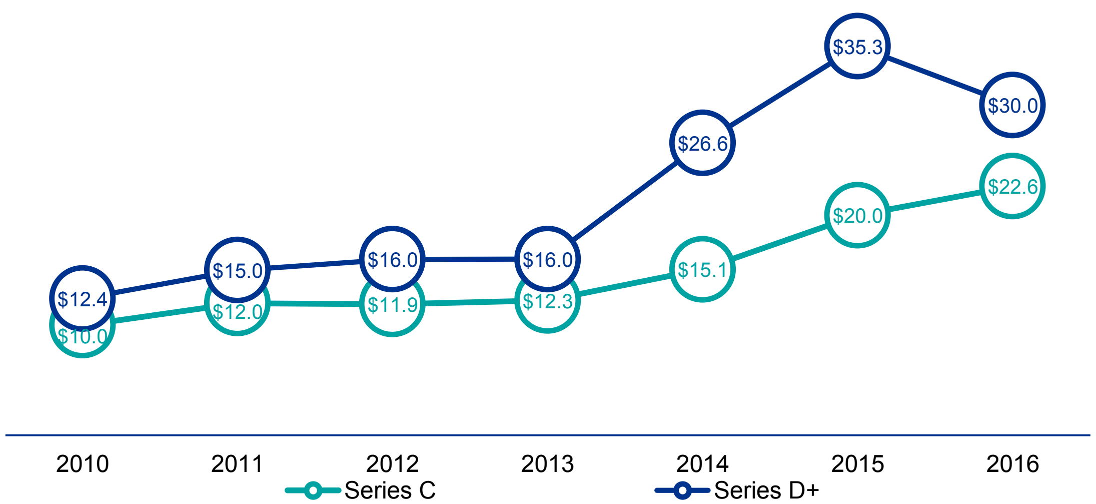
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The latest stage finally declined

Global median deal size ($M) by series

2010 – 2016





Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Much attention has been paid to what some deemed the over-exuberant round sizes and valuations seen among late-stage, venture-backed companies that, in years past, would have already gone public. However, in a sign of growing investor caution, the median financing size at the Series D and later stage finally declined by 15.1% year-over-year after climbing to a peak of $35.3 million in 2015. However, across the same timeframe, financing rounds at earlier stages remained relatively high, with Series C deals inching up by 13.1%.

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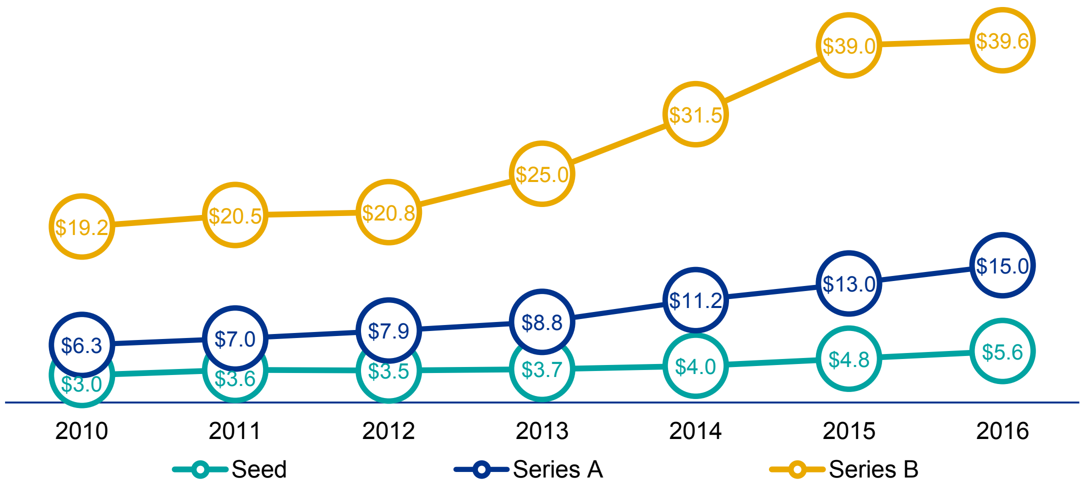
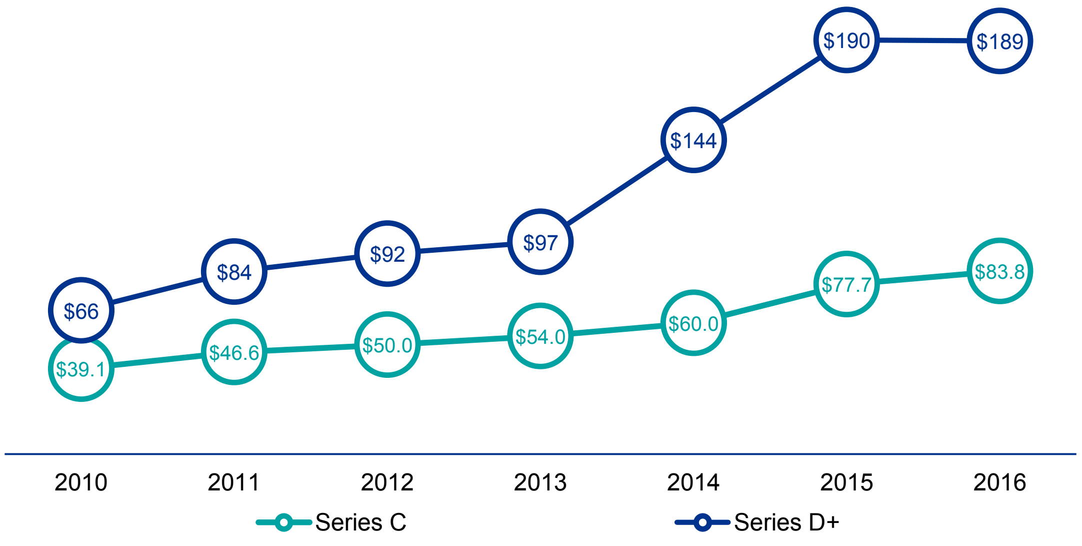
Valuations remain relatively high

Global median pre-money valuation ($M) by series

2010 – 2016





Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Even as financing sizes may have slid a little across a few series, median pre-money valuations stayed very high worldwide, although the largest figures either flatlined (as at Series D or later and Series B) or they increased by less relative to prior years. Median Series C valuations, for example, only went up by $6 million year-over-year, while the prior increase from 2014 to 2015 was a hefty $17.7 million.

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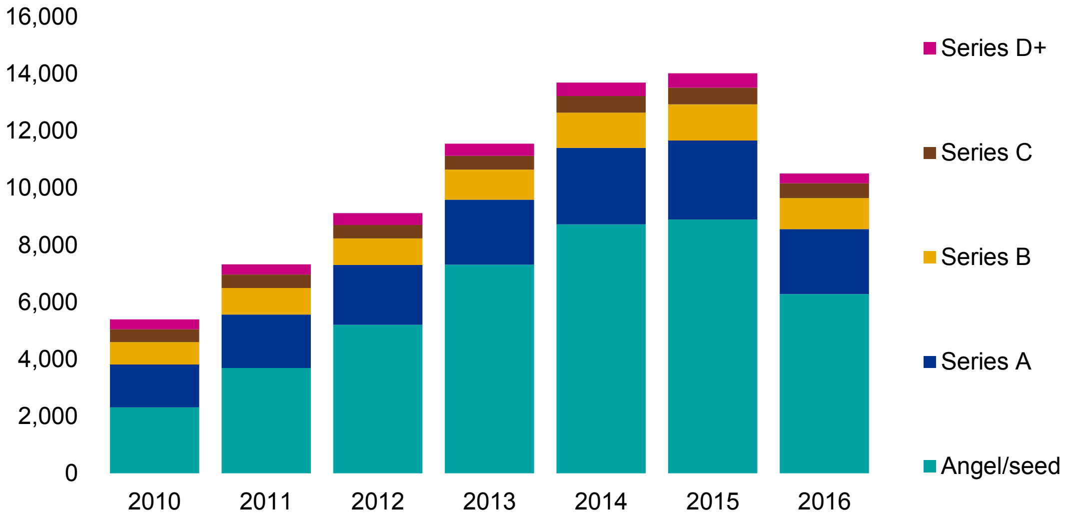
Early-stages have declined the most

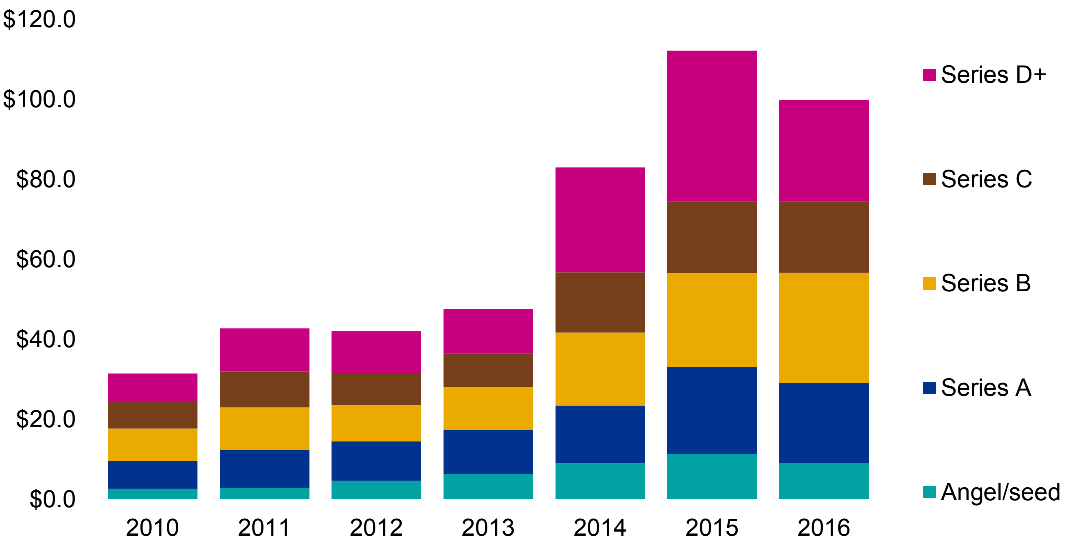
Global deal share by series

2010 – 2016, number of closed deals



Quarterly global deal share by series

2010 – 2016, VC invested ($B)



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

As stronger evidence for rising caution among investors, as well as broader macroeconomic conditions, the riskiest angel and seed-stage has seen the greatest decline in proportionate activity.

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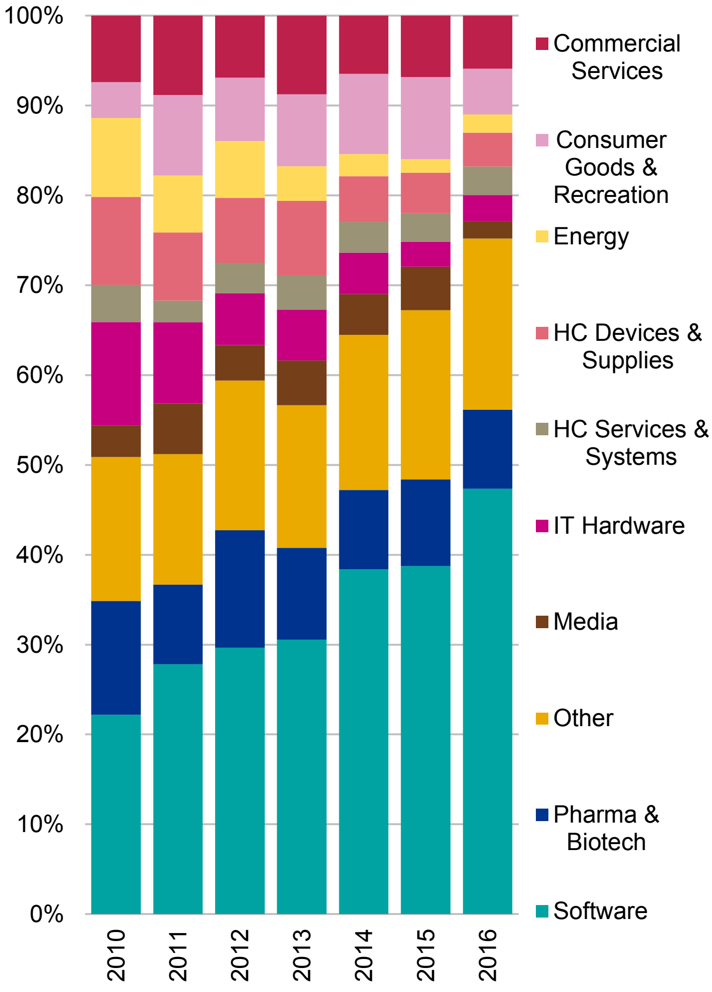
Software remains predominant

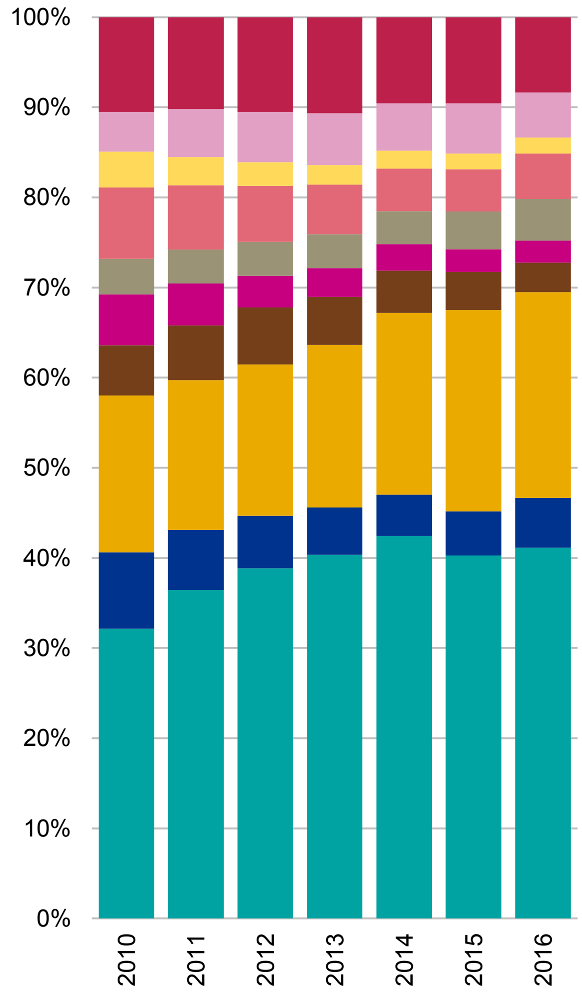
Global financing trends to VC-backed companies by sector

2010 – 2016, VC invested ($B)



Global financing trends to VC-backed companies by sector

2010 – 2016, Number of closed deals



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The outsized proportion of VC investment attracted by software companies in 2016 is testament to the gradual pervasion of software into multiple industries with outliers, such as Uber, raking in billions of dollars as they disrupt traditional sectors. It's also notable that even as overall VC invested climbed over the past few years, pharma and biotech companies still drew in plenty of VC, attributable to the strong demand for more innovative therapies.

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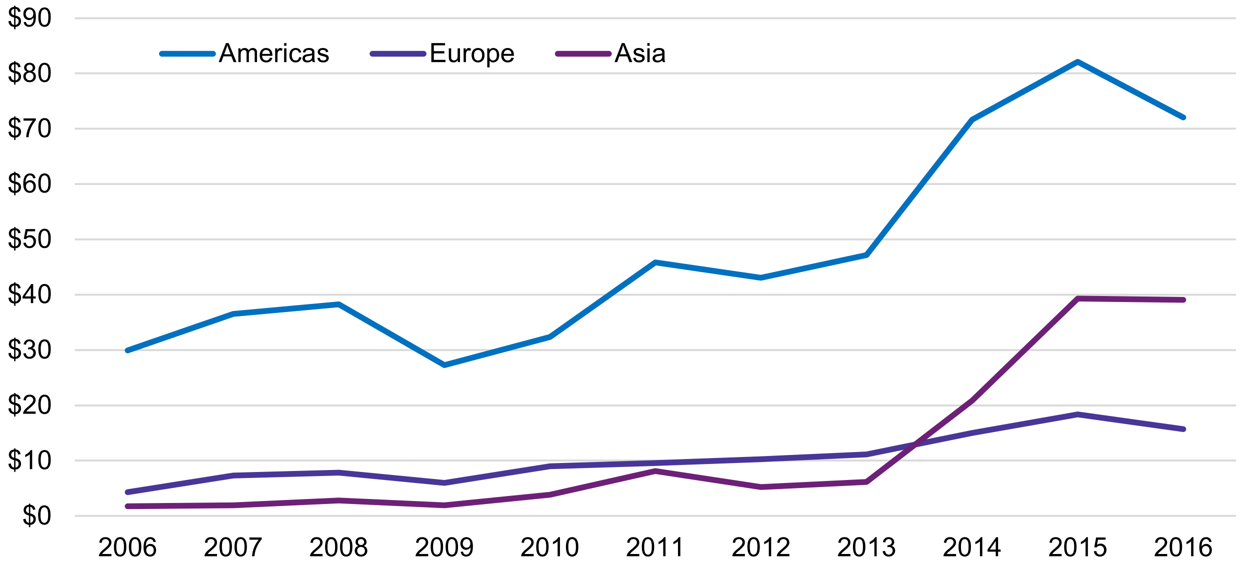
VC investment in Asia stays high

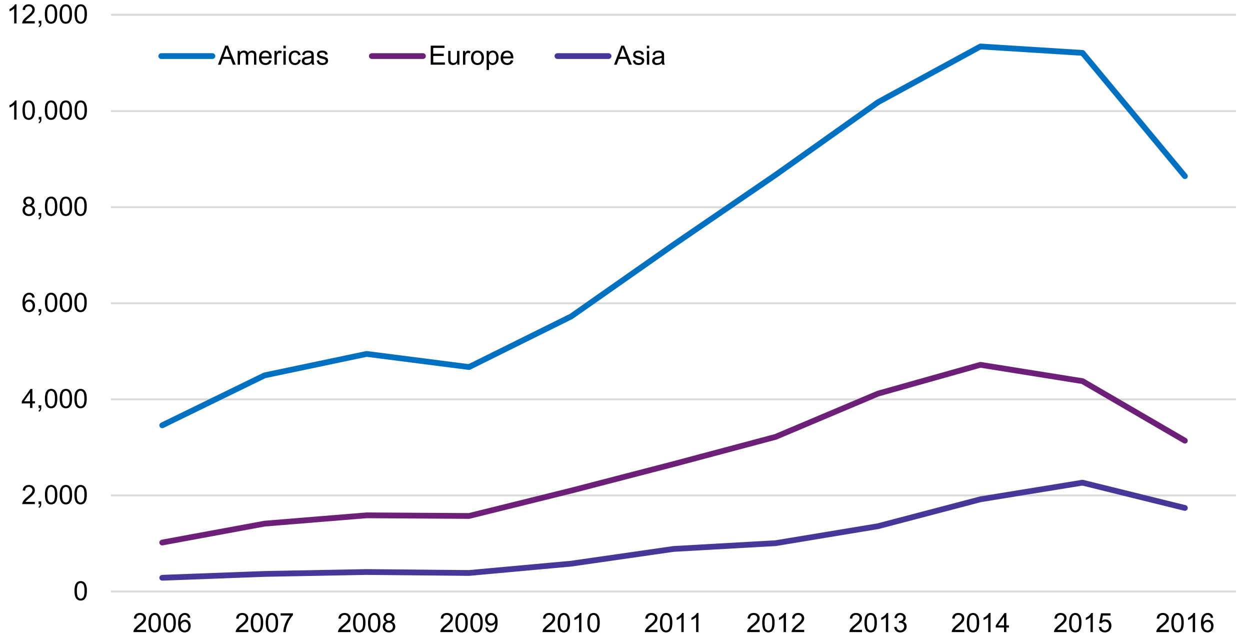
Global financing trends to VC-backed companies by continent

2006 – 2016, VC invested ($B)



Global financing trends to VC-backed companies by continent

2006 – 2016, number of closed deals

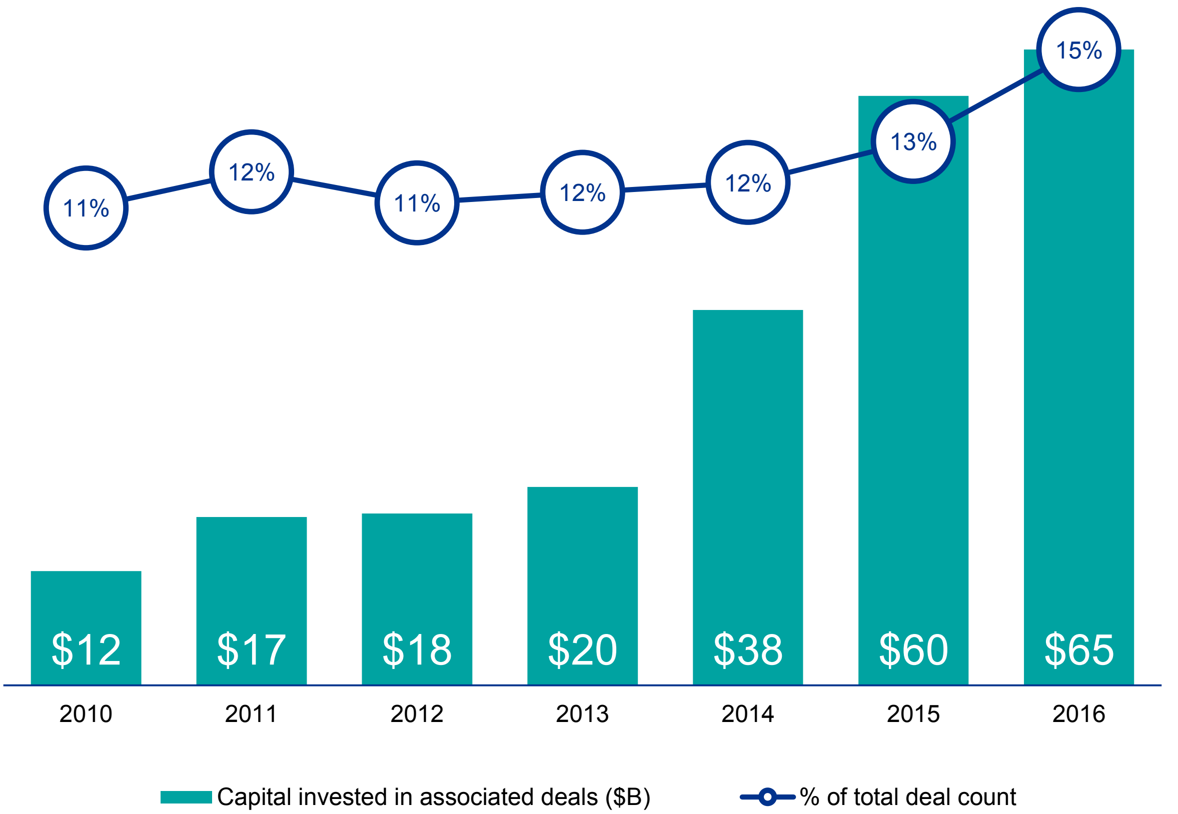


Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Corporates dial-up their participation

Corporate VC participation in global venture deals

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

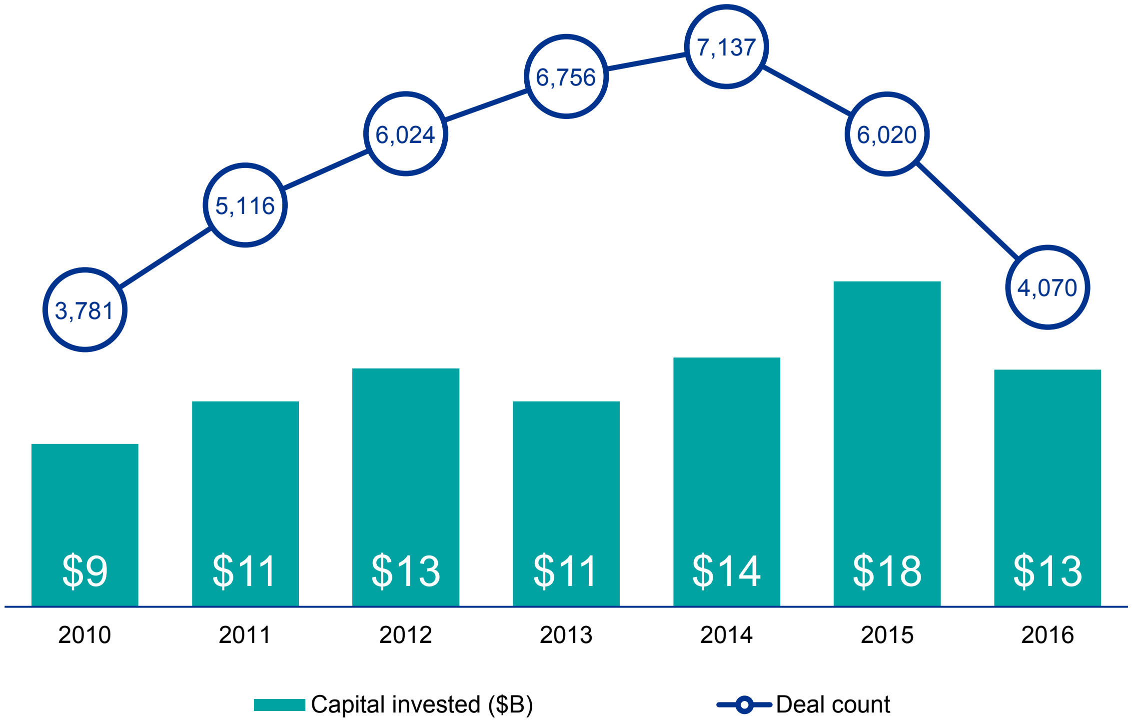
As venture capital becomes more institutionalized and corporations hunt for innovation via acquisitions, participating in the backing of fledgling startups to supplement R&D or to position for ownership down the road is only becoming more popular, with total VC invested driven by outlier financings of large, late-stage businesses in which corporate venture arms took part. Investing purely for financial returns is also a significant driver*.

* The capital invested is the sum of all the round values in which corporate venture capital investors participated, not the amount that corporate venture capital arms invested themselves. Likewise, the percentage of deals is calculated by taking the number of rounds in which corporate venture firms participated over total deals.

Falling first-time financings point to investor caution on the upswing

Global first-time venture financings of companies

2010 – 2016



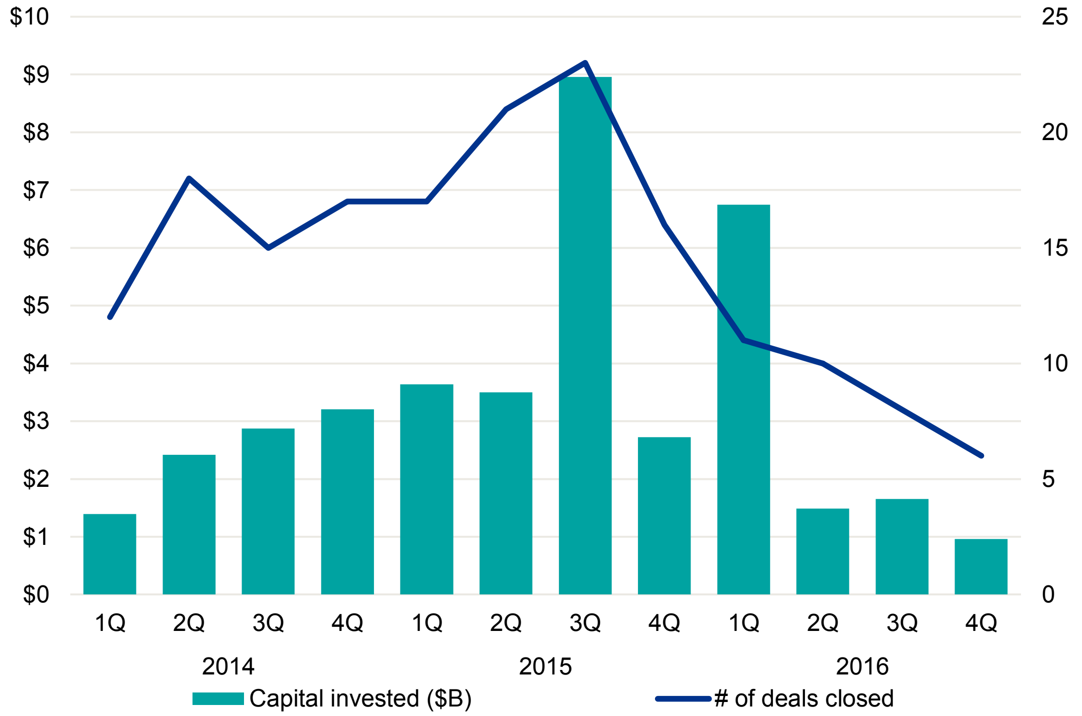
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

One of the primary themes in venture analysis over the past year has been the gradual increase in investor caution as a driver of declining deal counts. The drop-off in first-time financings of fledgling startups, a year-over-year decrease of nearly 33% in number between 2015 and 2016, testifies to a shift in investor sentiment as capital is hardly in short supply and the pipeline of companies looking for funding has not diminished significantly.

Financings of unicorns diminished considerably in the last half of 2016

Global unicorn rounds

2014 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The 'unicorn' phenomenon, in which a private company received a post-money venture valuation of $1 billion or more, peaked in 2015 and has since seen a considerable decline in frequency. Just 6 of such financings occurred in Q4'16, the lowest quarterly tally since 2013, when the term was coined. Venture investors, both traditional and non-traditional are increasingly wary of such expensive financings, particularly given the current liquidity climate*.

* PitchBook defines a unicorn venture financing as a VC round that generates a post-money valuation of $1 billion or more.

2016 brought a dose of reality back to the VC market. Investors seem to have recognized a big disconnect between the valuations that occurred in 2015 and what they should have been. Funding shifted and slowed as investors became cautious, re-evaluated their portfolios and focused investments on the best bets.

Brian Hughes
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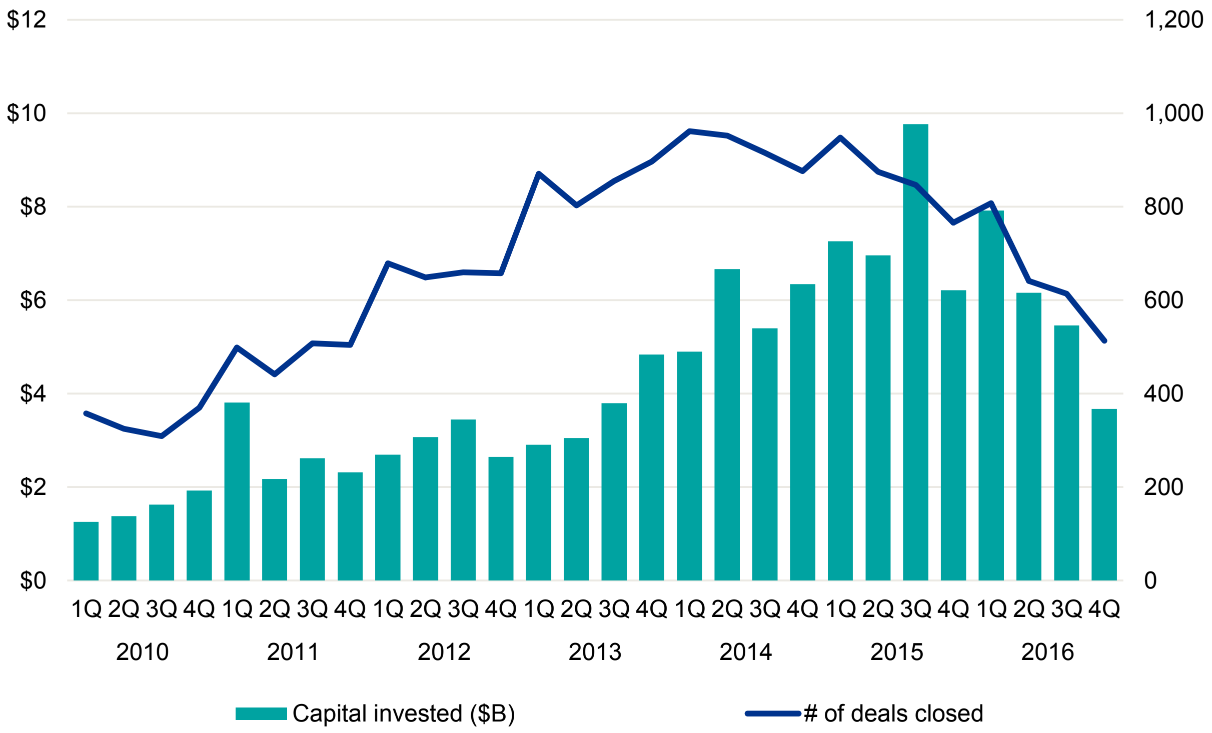
Consolidation is occurring in SaaS

Global SaaS investment activity

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The declining number of SaaS venture rounds is more testament to consolidation within the space beginning to occur and the relative overheating of valuations within the sector than anything else. Relative to Q4'15, the final quarter of 2016 saw its tally of completed financings fall by 33%. With outliers in SaaS M&A such as Qlik Technologies, Demandware and more, certain segments are already seeing considerable competition from sizable players as they acquire in order to bulk up their offerings.

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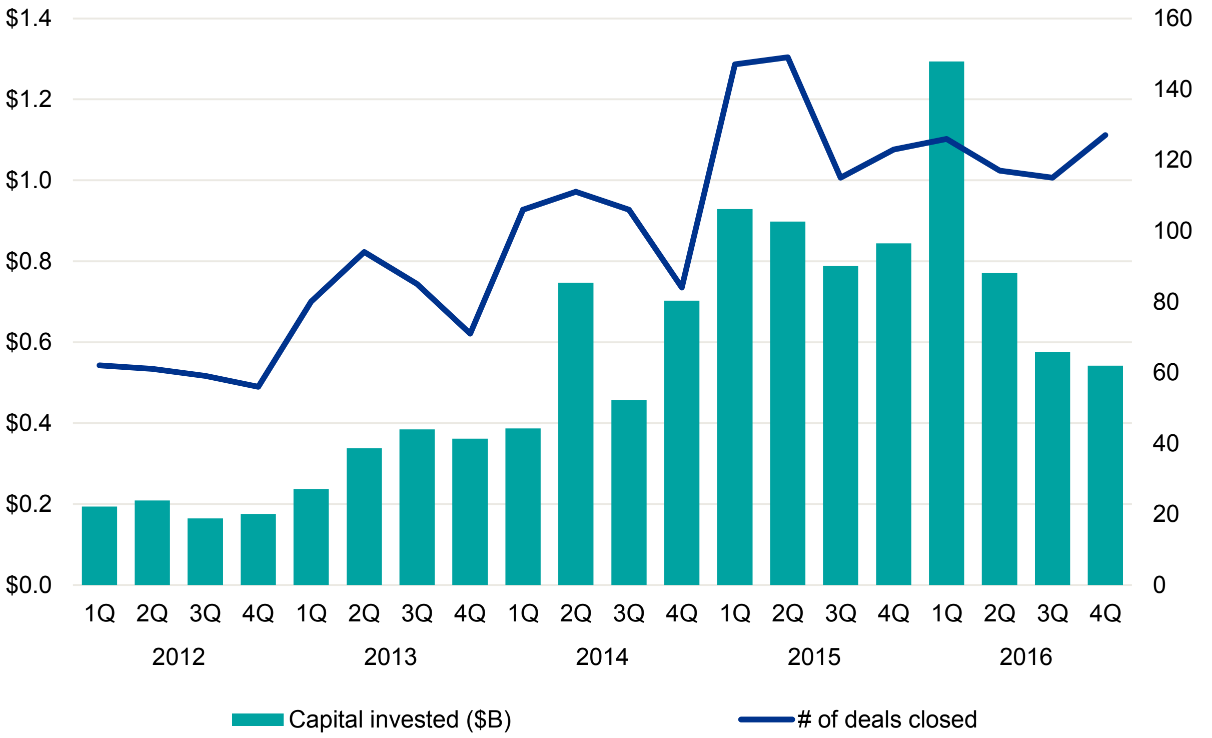
Interest in healthtech remains high

Global healthtech investment activity

2012 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

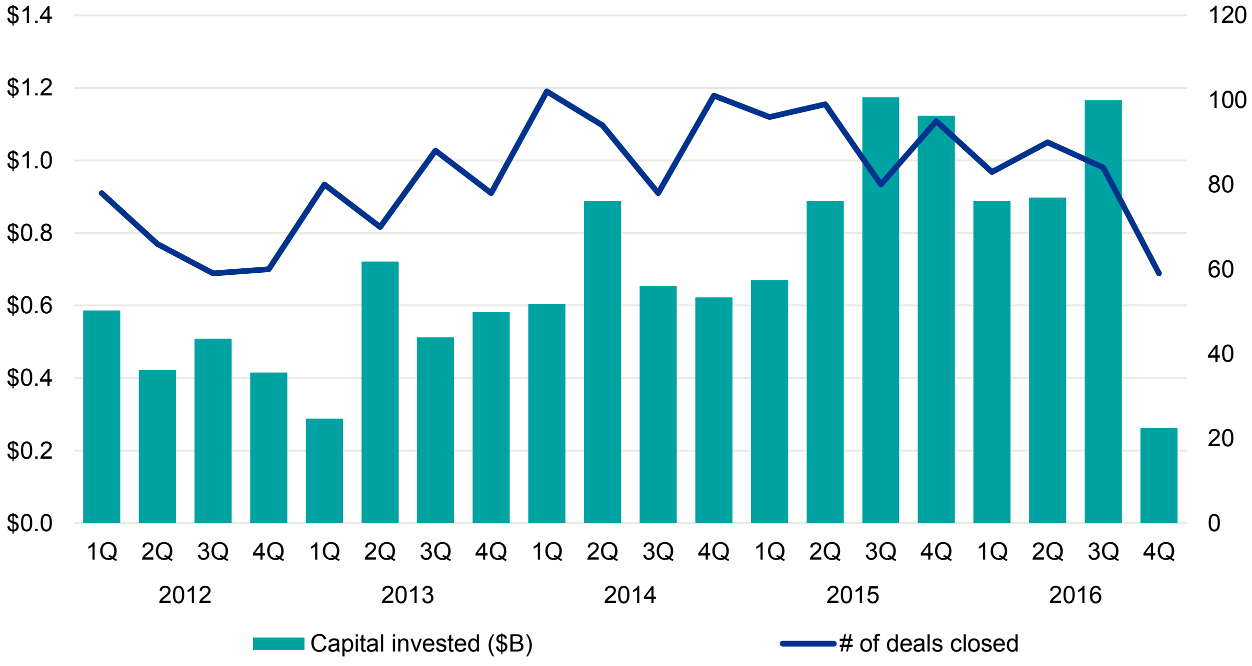
Healthtech startups enjoyed a considerable uptick in venture investors' interest amid the general VC boom over the past few years. With aging demographics across multiple developed countries, a strong need for advanced analytics (as government healthcare systems moved to empower healthcare consumers further) and general costs rising, many firms are looking to back companies that can expedite back-end logistics, provide easy-to-use digital health offerings and more. Although Q3 and Q4'16 saw declining totals of VC invested to $580 million and $540 million apiece, activity remains high.

KPMG Enterprise

Cyber sees dramatic VC decline

Global cybersecurity investment activity

2012 – 2016



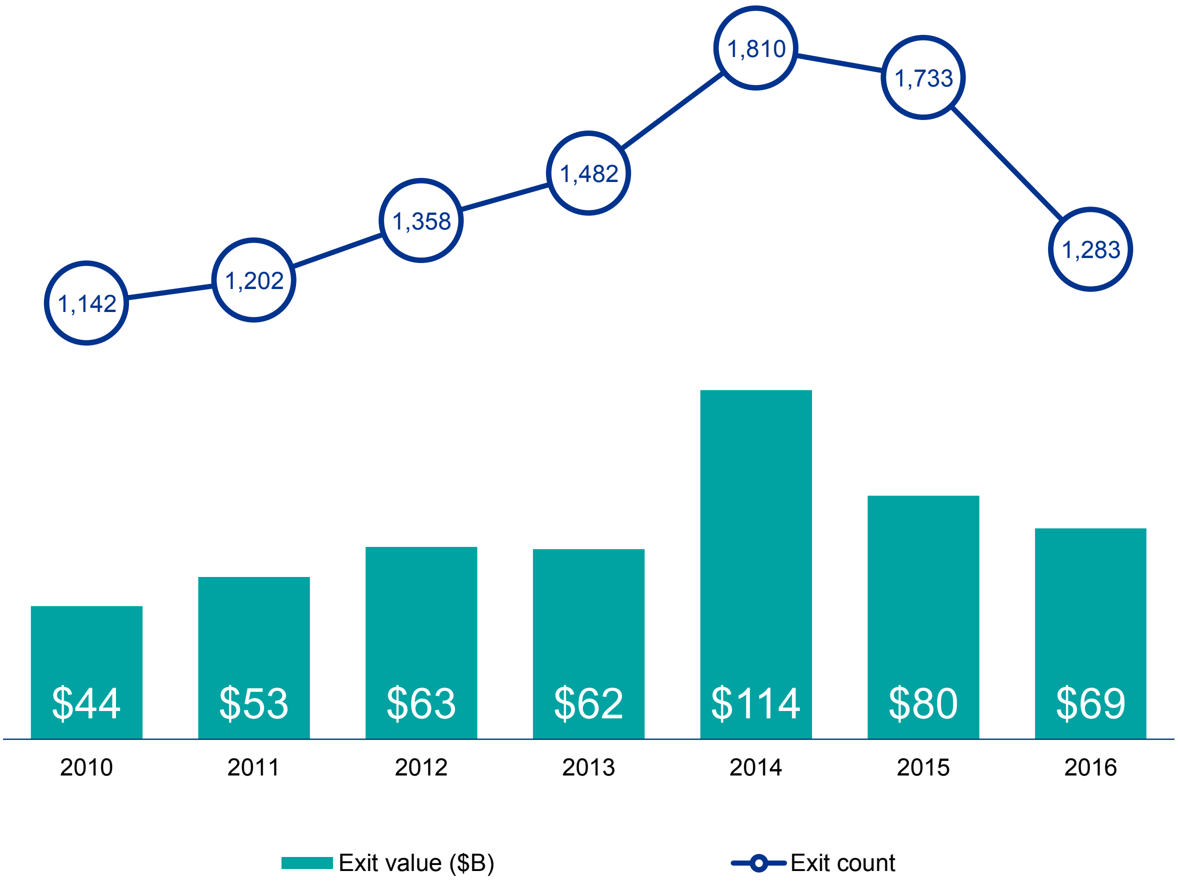
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

With such publicity throughout the entirety of 2016, ranging from widely publicized breaches of millions of customer accounts at Yahoo to allegations of spamming 'fake news' during election cycles, cybersecurity looks set to remain a hot topic of discussion and investor interest in the coming year, as more enterprises look to secure their offerings. The final quarter of 2016 may have experienced a sudden drop-off in both activity and dollars invested but Q3'16 saw no less than $1.2 billion invested across 84 financings of cybersecurity-focused startups worldwide.

Exits have slid steadily for some time

Global venture-backed exit activity

2010 – 2016



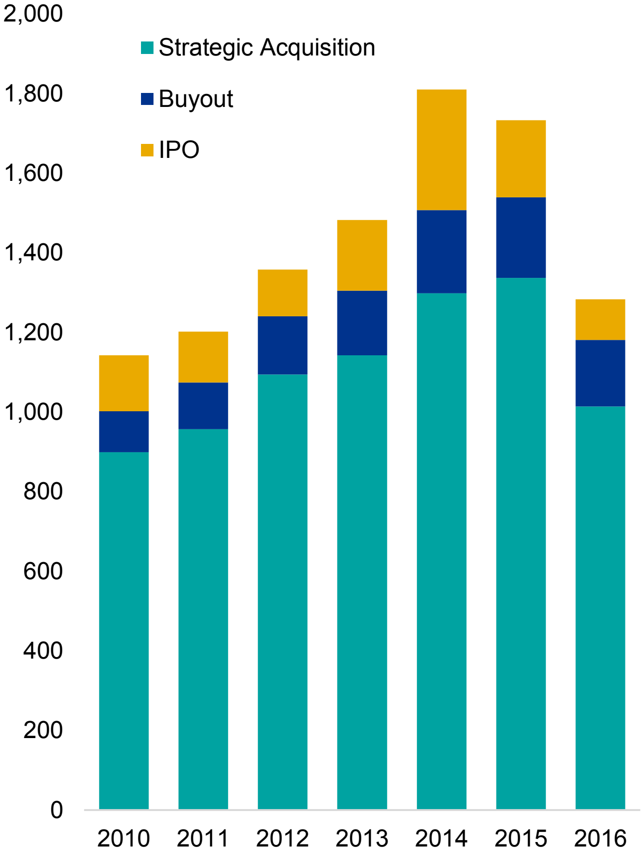
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

One of the more troubling signs for venture firms has been the consistent decline in total exits over the past 2 years, although overall exit value has remained fairly robust. This decline could be attributable to cyclicality and, thus, may resolve in due time. However, VC investors are more closely assessing targets' paths to profitability and, consequently prospective liquidity.

The M&A boom was a primary driver

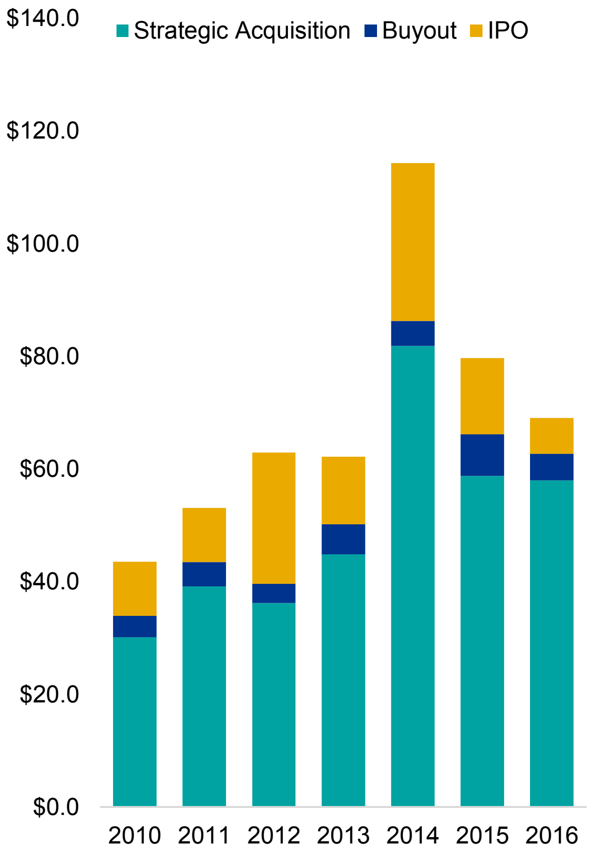
Global venture-backed exit activity (#) by type

2010 – 2016



Global venture-backed exit activity ($B) by type

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

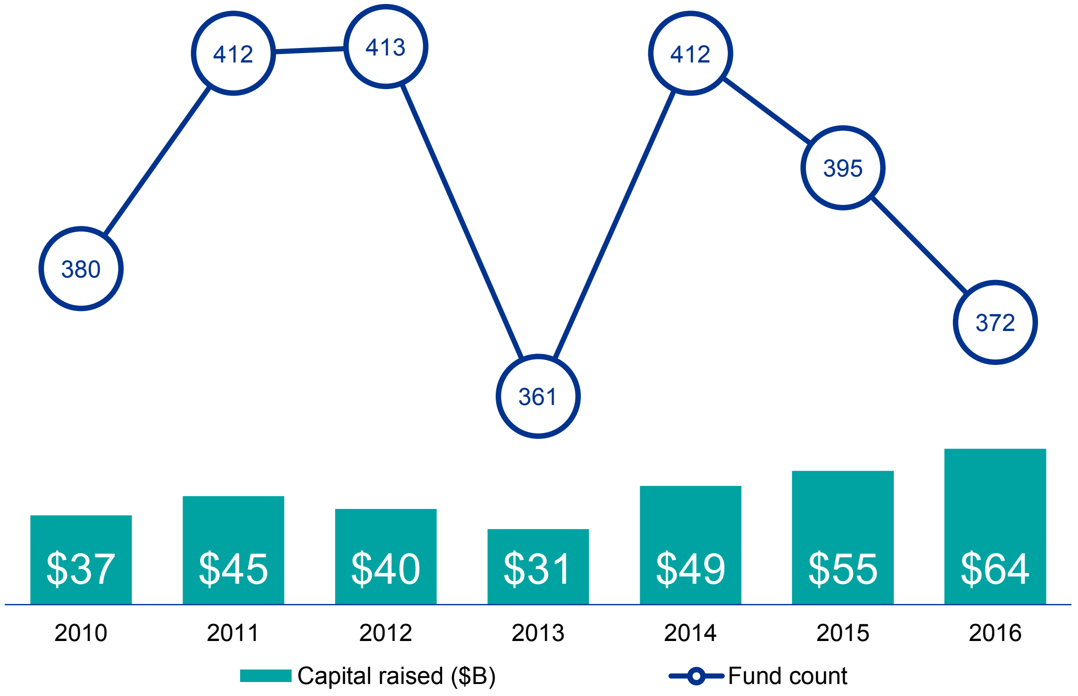
The M&A boom over the past few years has been the primary driver of venture-backed exits, with IPOs decreasing in relative importance as an exit route since a peak in 2014. As of yet, whether or not the IPO market will reopen in 2017 remains to be seen.

KPMG Enterprise

Larger firms attracting more and more VC

Global venture fundraising

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

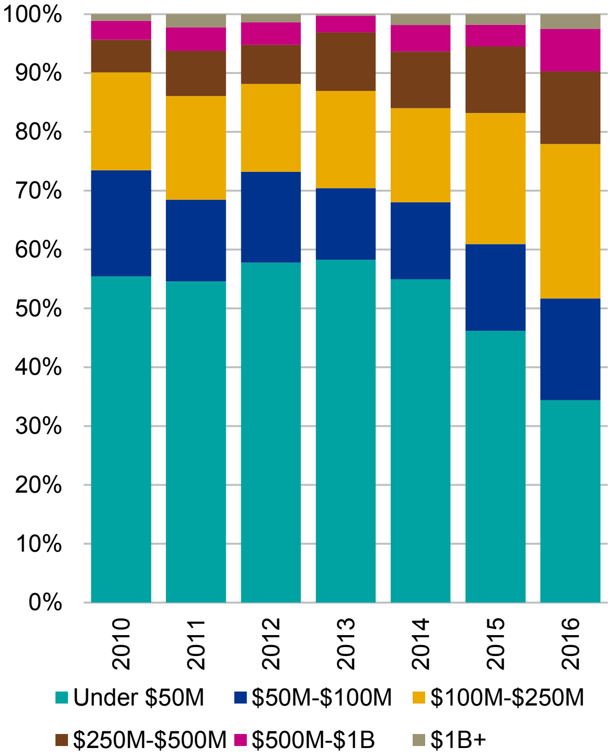
Venture firms have been able to raise more and more capital, even as the total number of funds has declined over the past few years. This trend illustrates ongoing interest in exposure to the venture asset class, as well as the ability of fund managers who reaped significant success in the venture boom, to raise even larger follow-on vehicles.

KPMG Enterprise

Concentration of VC at the upper end leads to fewer first-time funds

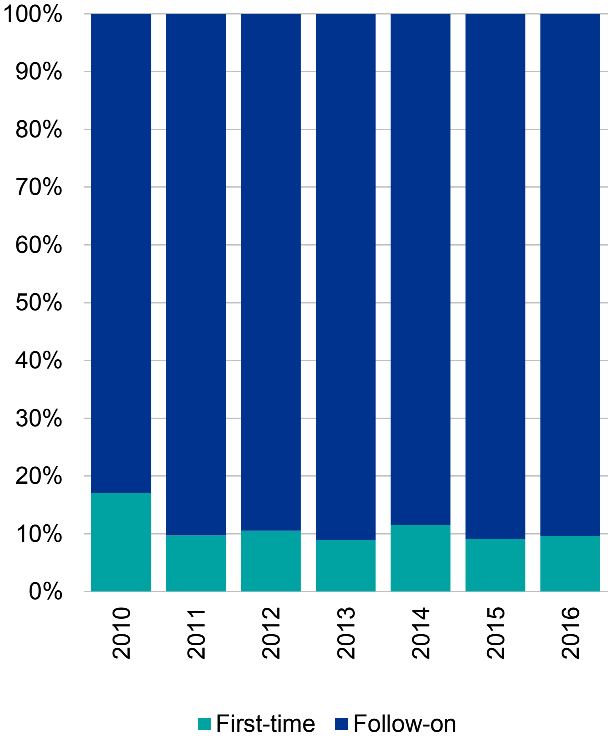
Global venture fundraising (#) by size

2010 – 2016



Global first-time vs. follow-on venture funds (#)

2010 – 2016

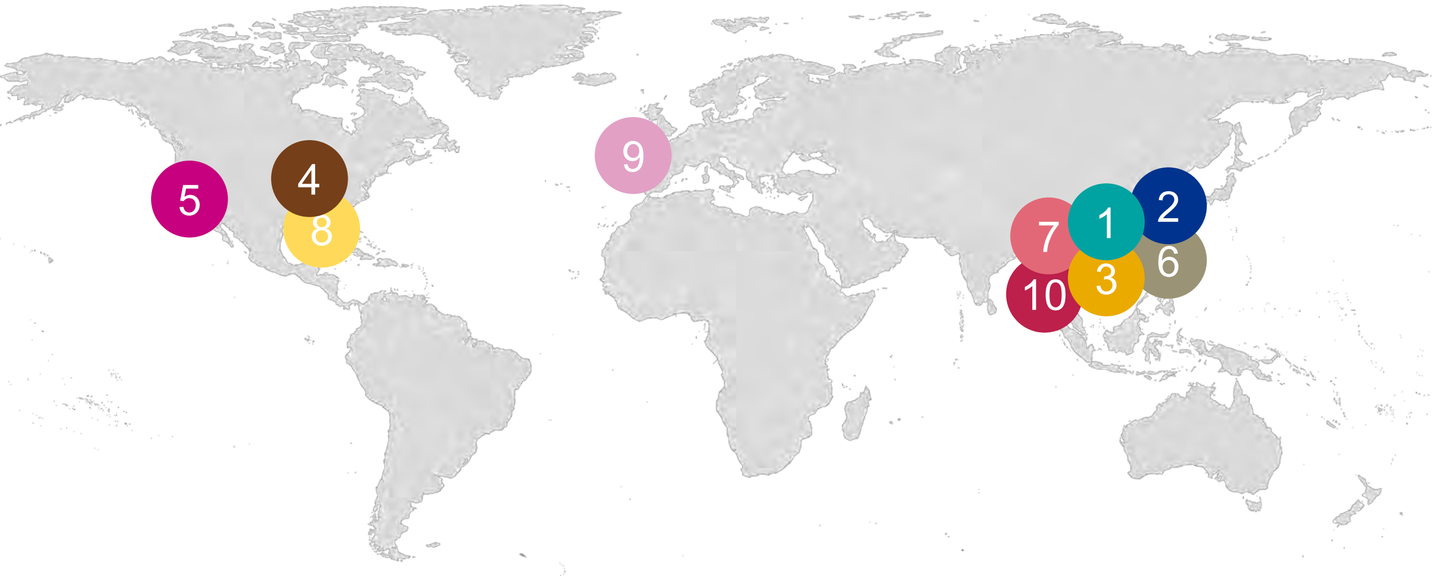


Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Proportionally, more and more firms are able to raise larger funds, borne on the back of past success in the upswing of the venture cycle in 2014 and 2015. No less than $13.7 billion was raised across 9 venture vehicles sized at $1 billion or more in 2016.

KPMG Enterprise

The largest Q4 deals clustered in China



Top 10 global financings in Q4 2016

1 **Yixia** – $500M, Beijing
Video platform
Series E

2 **51credit** – $394M, Beijing
Online credit marketplace
Series C

3 **Innovent Biologics** – $260M, Suzhou
Pharma & biotech
Series D

4 **BlueRock Therapeutics** – $225M, Toronto
Pharma & biotech
Series A

5 **Opendoor** – $210M, San Francisco
Residential real estate platform
Series D

6 **Yiguo**– $200M, Shanghai
Food products & e-commerce
Series C

7 **Xueleyen** – $200M, Hsinchu
Online education platform
Series C

8 **Payoneer** – $180M, New York
Online payments distribution
Series E

9 **Sigfox** – $162.1M, Labege
Cellular network
Series E

10 **Yunmanman** – $160M, Shanghai
Mobile logistics
Series D

Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

In Q4'16 VC-backed companies in the Americas raised

$13.7B

across

1,832 deals

KPMG Enterprise

Declining deal count tempered by rising activity in Canada and Latin America

2016 was a challenging year for VC investment in the Americas. After two particularly strong years, the Americas saw a substantial decline in total deal count from 11,208 to only 8,642, the lowest level seen since roughly 2012. Deal value also decreased from 2015's record high of $82 billion to $72 billion, a total more in line with 2014 levels.

The decline in activity is likely a response to overheated valuations and larger financing sizes seen in prior years, especially within the US, resulting in a cyclical downturn in activity. Market uncertainties, including the US election, also motivated increased investor caution. New startups in particular experienced a downturn, though total investment shows that VC interest in new companies remains high.

Rising Activity beyond the US

While the US accounts for the bulk of activity in the Americas, which is discussed in greater detail in the US section of this report, Canada and Latin America experienced strong levels of activity. VC activity in Canada rose to $2.1 billion in 2016, driven by a bevy of mega-financings, including the largest Q4'16 funding round in the Americas. Foreign VC interest in Latin America continued to increase, with startups in Mexico, Brazil and Colombia attracting debut investments from major US venture firms.

Median financing sizes indicative of market normalization

Median deal size remained strong across the Americas in 2016, ranging from $28.7 million for Series D+ to $1.5 million for seed deals. The strength of median deal sizes across series indicates that the downturn in VC numbers is more reflective of normalization following a period of overheating rather than a slump in the industry. Given this context, it is relevant to note that median deal size for latest stage funding has decreased by only $1.3 million compared to 2015's peak, and still nearly doubles 2013's median.

Corporate investment remains strong

Corporate VC involvement in the Americas increased relative to total VC activity, reaching a new high in 2016 despite a small slide in total round counts. While corporate venture investment has always been a factor in the market, corporate VC activity in the Americas has risen following the financial crisis. The rapid pace of technological innovation is driving corporations to shore up their offerings, and financing more mature companies is an attractive way to supplement internal R&D, especially within the pharmaceutical and biotech sectors.

Canada bucks downturn trend in VC market

In 2016, Canada bucked the downward VC investment trend experienced by many of its Americas counterparts, driven significantly by late Q4'16 deals. Despite quarterly fluctuations in activity, the Canadian VC market is clearly maturing and becoming an appealing area for US VCs able to invest beyond the border.

The country saw numerous large investments in 2016, including the Americas' biggest funding round during the fourth quarter: a Series A raise of $225 million by Toronto-based BlueRock Therapies backed by Bayer and Versant Ventures. This deal, in addition to an undisclosed funding round by Hubba Inc. led by Goldman Sachs Group Inc., illustrate how the country is gaining attention on investment radar of international VC investors and corporates. During Q4'16, the Montreal-based Element AI incubator also received a significant seed investment from Microsoft Ventures – support that should go a long way toward growing the city's burgeoning artificial intelligence tech hub.

Declining deal count tempered by rising activity in Canada and Latin America, cont'd

US investors expanding into Latin America

Continuing a trend seen over the past two years, US VC firms are continuing to show their interest in Latin America startups[1]. Multiple big players made their first investments in Latin America in 2016: Sequoia Capital, Founders Fund and QED made their debut Brazilian investments with fintech firm Nubank; and Andreessen Horowitz chose to back Rappi, a Colombian grocery delivery service. QED also backed Mexican grocery service Cornershop as part of their $6.7 million in Series A funding.

Latin America also drew foreign participation in the form of new accelerators. In September 2016 Chinese giant Baidu launched a tech startup program in Brazil in partnership with the Latin American Angels Society (LAAS), offering mentoring and support as a method of identifying high-potential scalable ventures.

Brazil corporates drive growth of local tech ecosystem

During 2016, Brazil gained more attention for the growth of its startup ecosystems, particularly in Sao Paulo. The evolution of these ecosystems is being driven primarily by corporates, including big banks and telecoms. The recent devaluation of the Real against the American dollar has also made the country more attractive to foreign based VC investors. Companies that provide logistics services or ecommerce products that can improve or support logistics are seen as particularly attractive. While a number of Brazil-based startups have been successful at raising funds, there has been growing pressure from investors for companies to become more efficient with funding and to move more quickly to a point of profitability[2].

Governments investing in entrepreneurship

As Latin American startups attract more international attention and VC funding, governments are looking for ways to help encourage startup creation, especially within the technology sector. In Argentina, newly elected President Mauricio Macri introduced legislative changes that will help facilitate the creation of new companies and encourage entrepreneurship. Similar efforts are also underway in Brazil and Mexico[3].

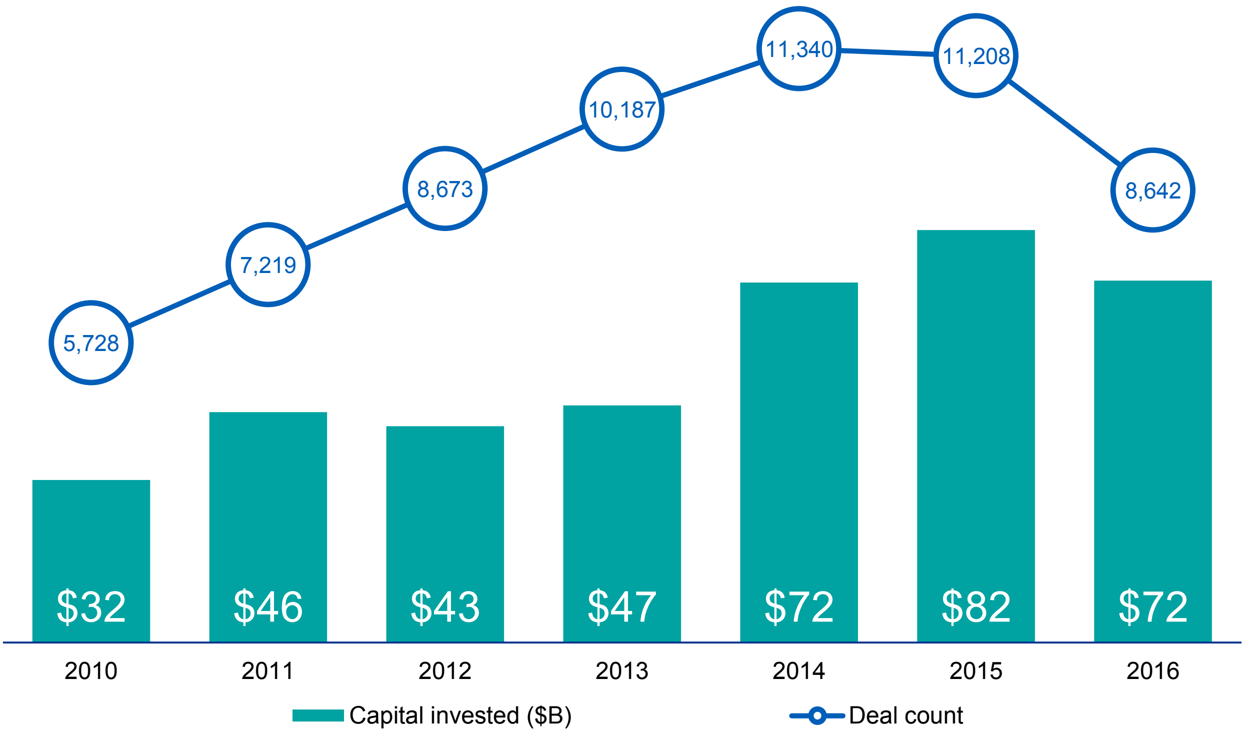
1. http://venturebeat.com/2016/10/09/vcs-should-give-latin-america-another-look/
2. https://techcrunch.com/2016/09/17/brazils-tech-sector-bright-spots-beckon-as-it-begins-to-emerge-from-long-economic-crisis/
3. https://techcrunch.com/2016/09/28/why-have-some-of-silicon-valleys-top-investors-started-investing-in-latin-america/

KPMG Enterprise

A cyclical downturn after 2 strong years

Venture financing trends in the Americas

2010 – 2016



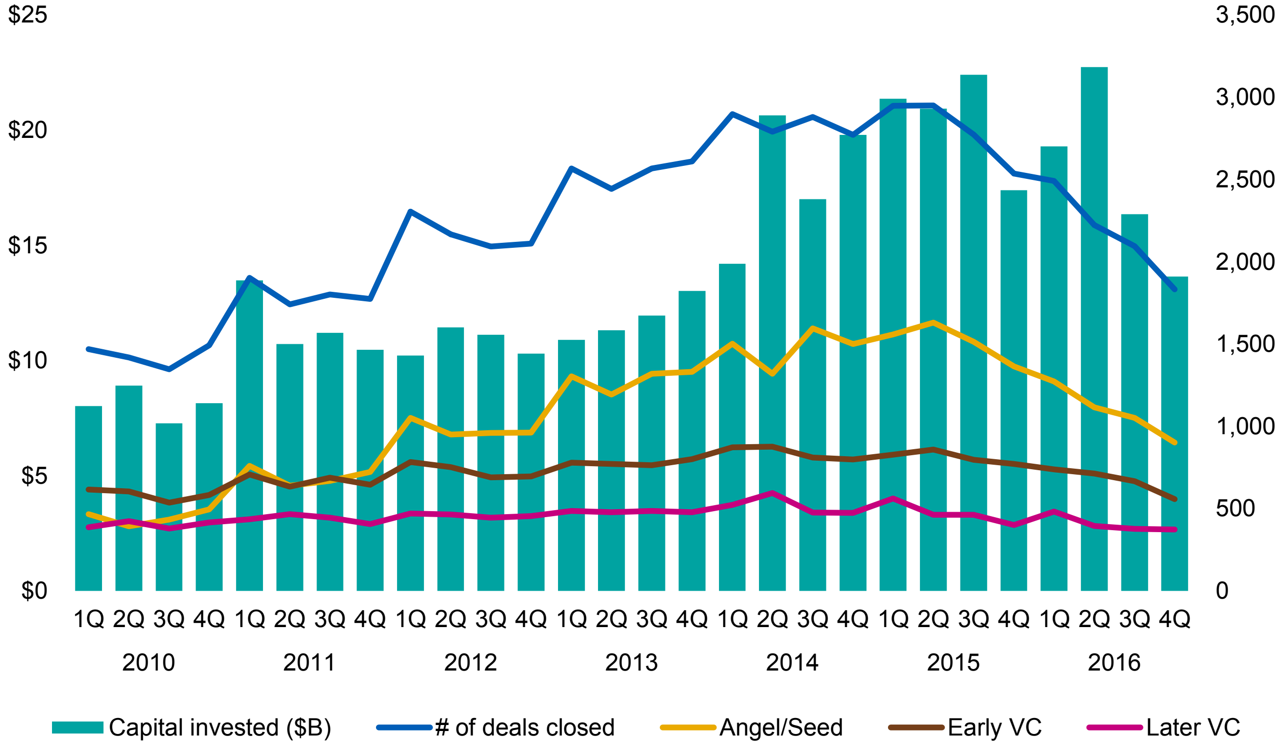
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

In some respects, a downturn was almost inevitable after 2 strong years of venture activity within the Americas, as a cyclical boom in investing activity led to overheated valuations and consequently larger financing sizes, resulting in some investors beginning to shy away eventually. The slow rate of the downturn is evident in the massive sums still invested throughout 2016, even as activity declined significantly, suggesting that investors are still willing to ply worthwhile companies with plenty of cash if they can meet more stringent benchmarks of quality.

Until Q4'16, VC invested stayed robust

Quarterly venture financing trends in the Americas

2010 – 2016



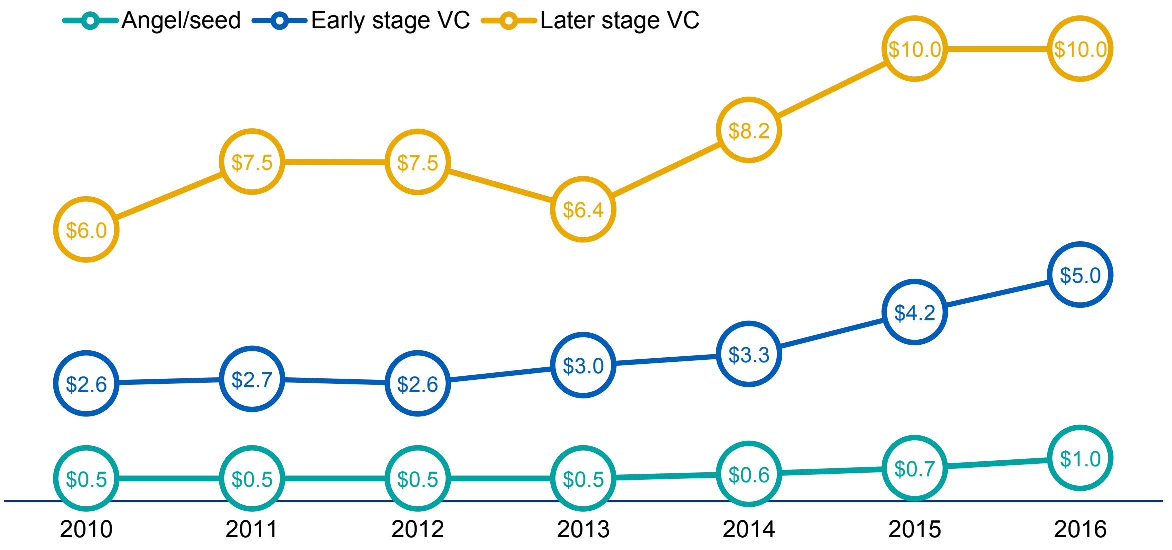
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Analyzing activity by stage, much of the decline has been centered on the angel & seed-stage, understandably. The relative resilience of activity at even the early-stage speaks to the nature of venture investors' caution in the current climate, especially in the absence of significant shocks to either the economy or financial markets that would more immediately impact the venture arena. VCs are definitely more wary yet, among relatively less risky playing fields, such as the late-stage, they are still cutting checks, albeit at a more sedated pace. The decline has been noteworthy, however, with late-stage venture activity in the Americas dropping by 6.8% year-over-year from Q4'15 to Q4'16.

Plenty of VC is still being invested

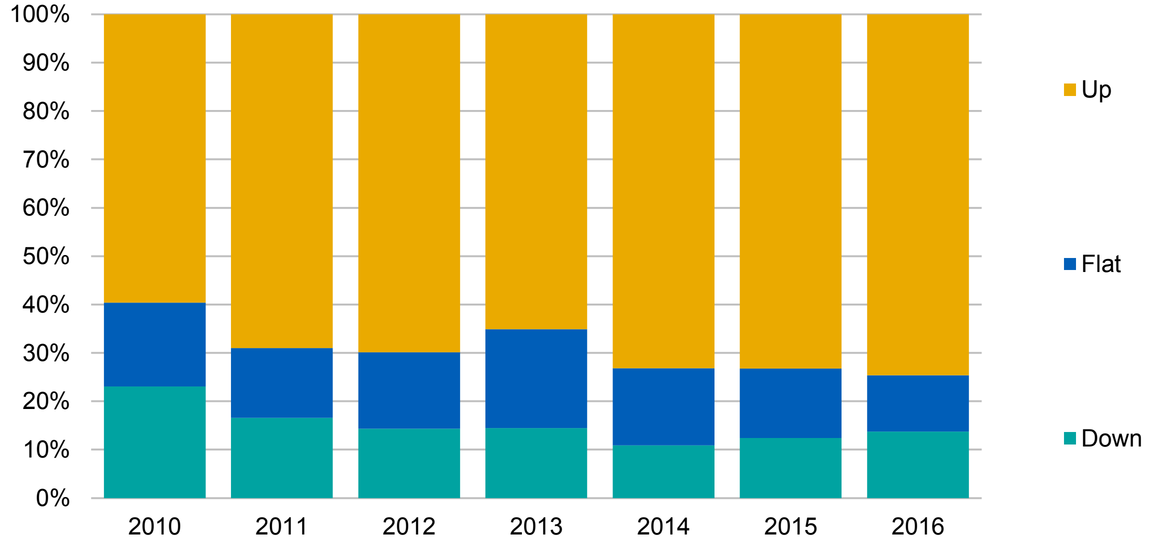
Median deal size ($M) by stage in the Americas

2010 – 2016



Up, flat or down rounds in Americas

2010 – 2016

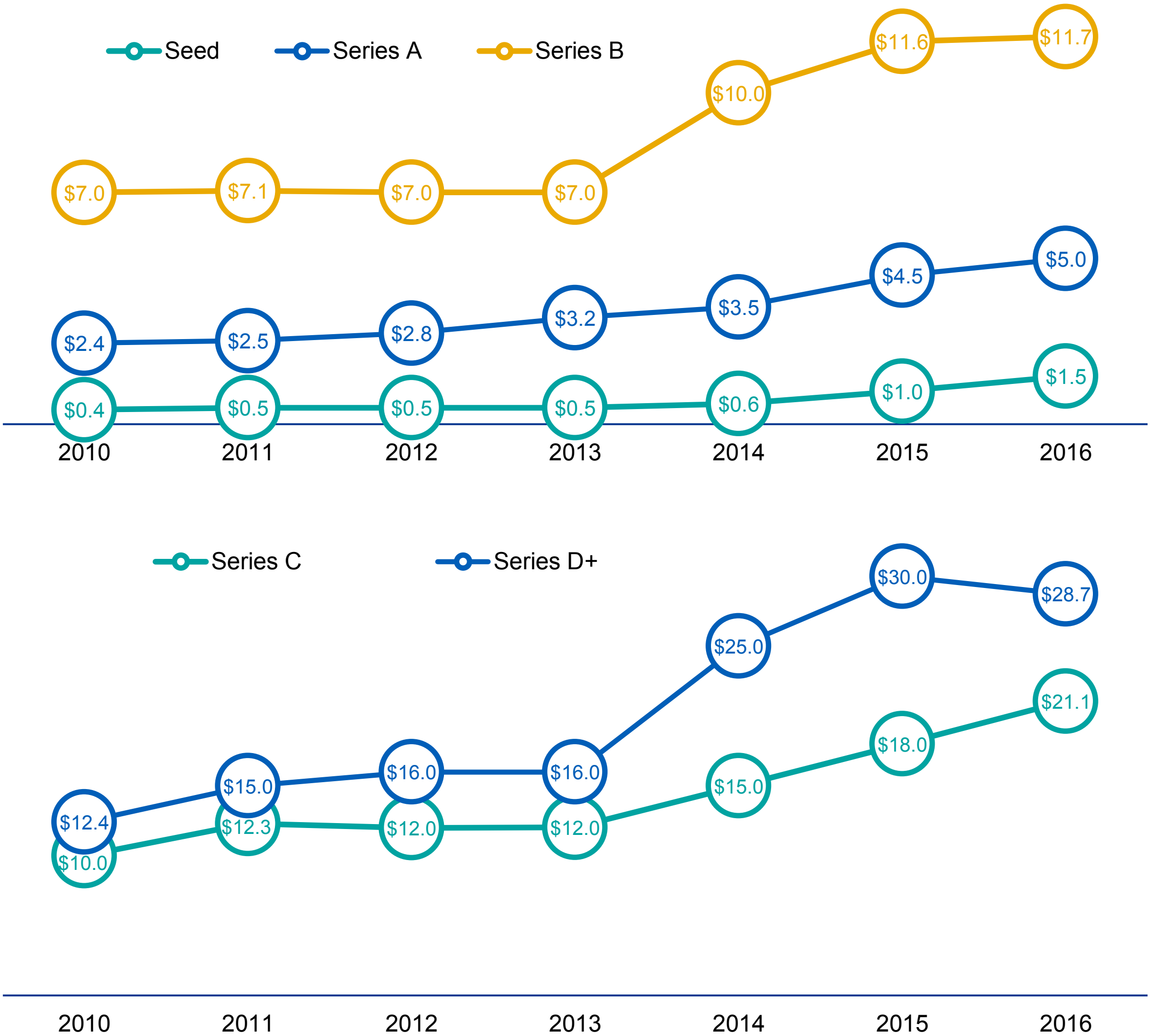


Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Round sizes remain elevated

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

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The continued strength of median financing sizes across nearly all series is further proof that the venture industry in the Americas isn't experiencing a slump so much as a return to normalcy. In a typical response to overheating, activity is cooling down or, as median round sizes above suggest, plateauing. It's still worth noting that the latest stage (Series D or later) has only slid by $1.3 million between 2015 and 2016 and is still close to twice what was recorded in 2013.

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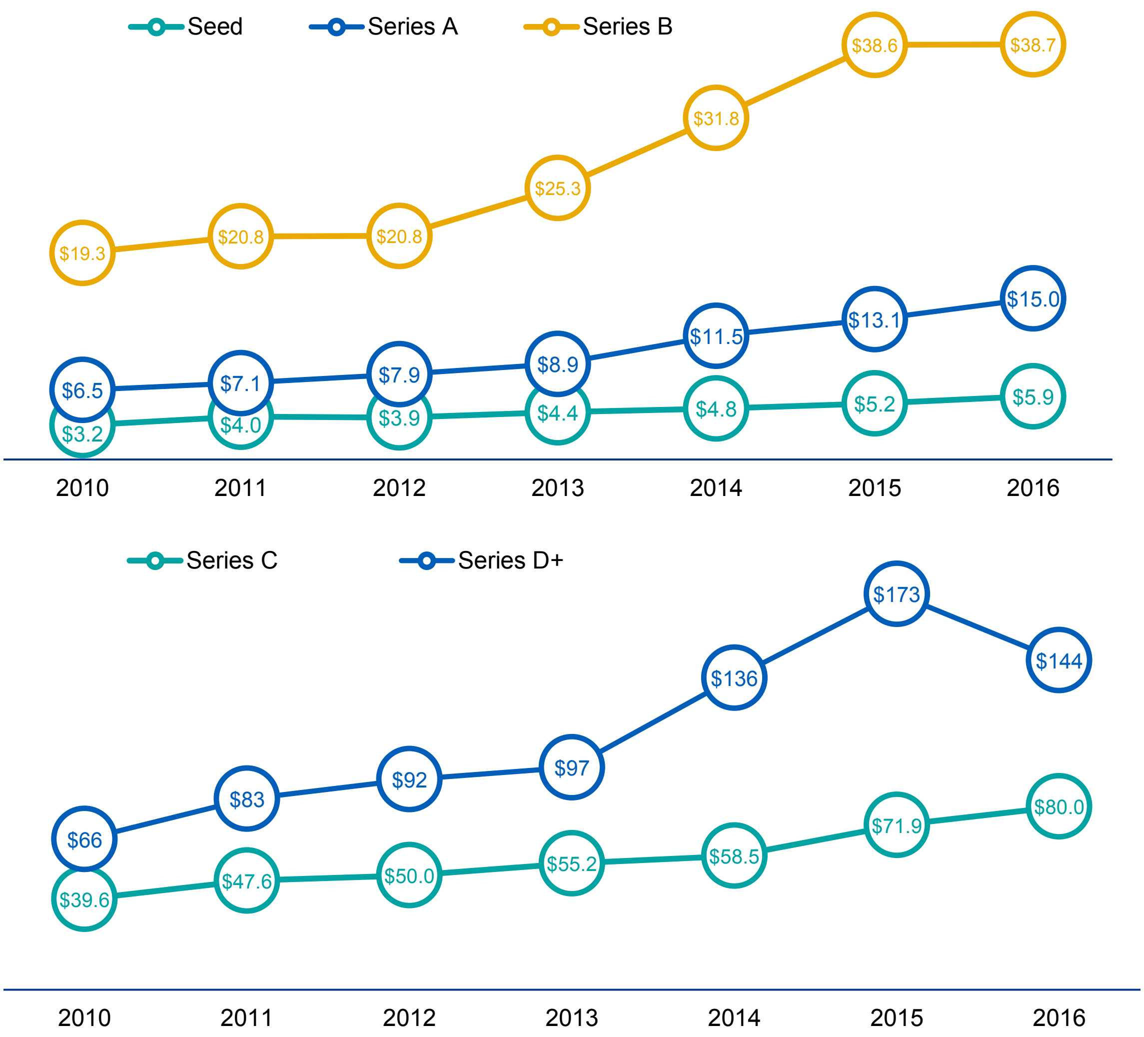
The latest stage finally declined

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

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

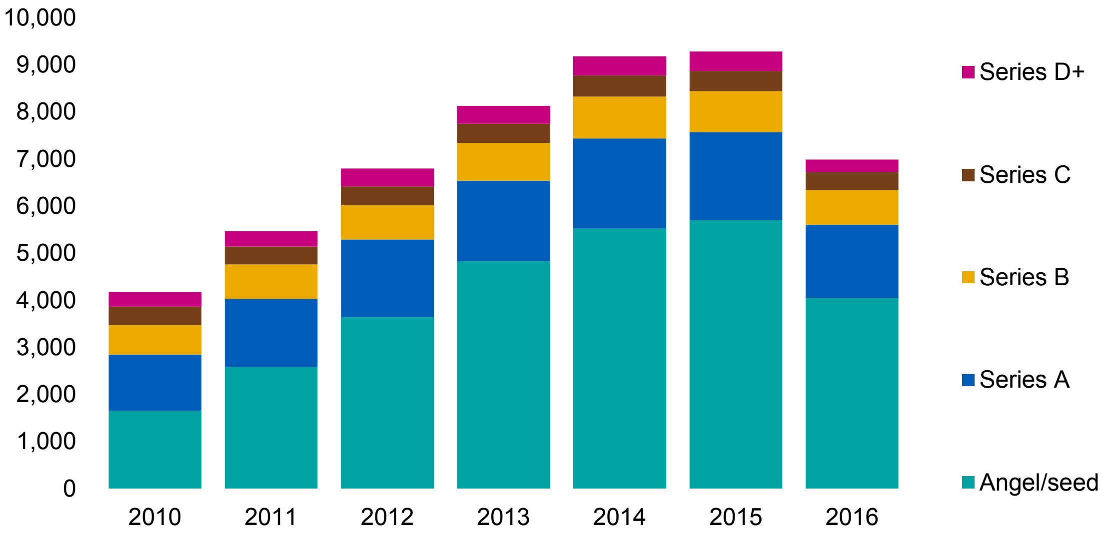
Interestingly, the median pre-money valuation at the latest series exhibits the most significant signs of cooling within the Americas' venture ecosystem. It makes sense that in the Americas, the epicenter of the venture industry, investors would respond more quickly to the skyrocketing valuations observed between 2013 and 2015. Hence, the decline by nearly 17% in size between 2015 and last year for Series D and later valuations.

KPMG Enterprise

Early-stage activity has dropped the most

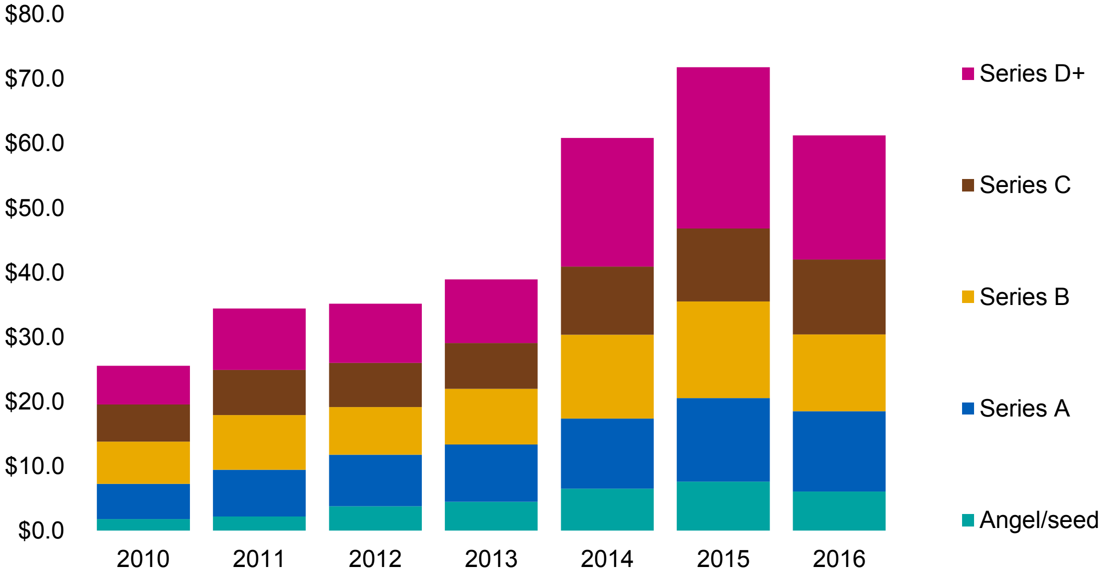
Annual deal share by series in the Americas

2010 – 2016, number of closed deals



Deal share by series in the Americas

2010 – 2016, VC invested ($B)

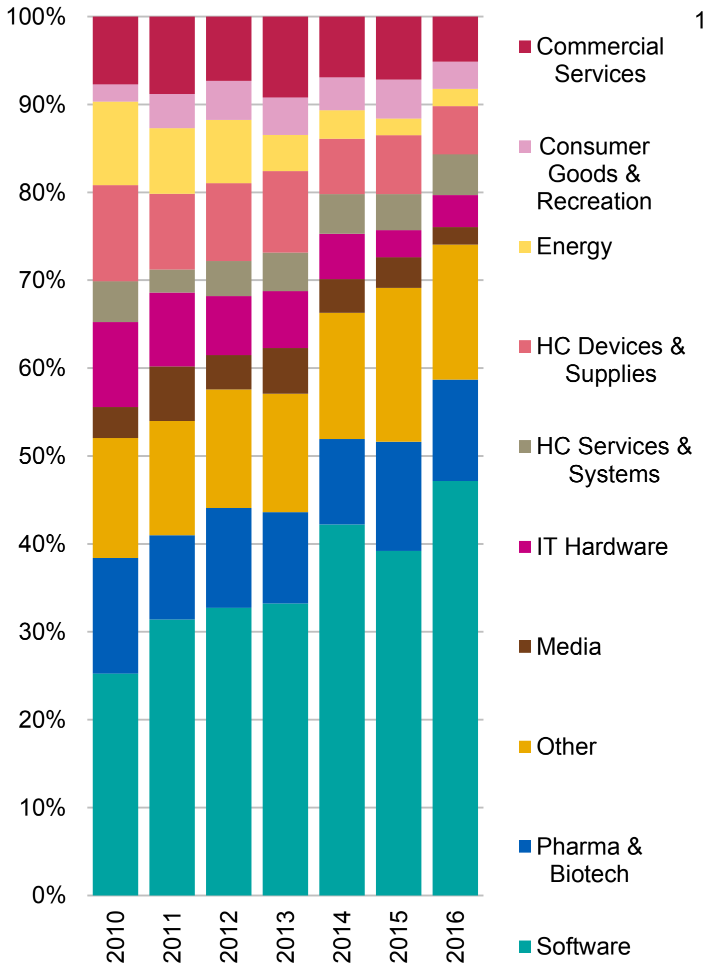


Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

VC diversifies further

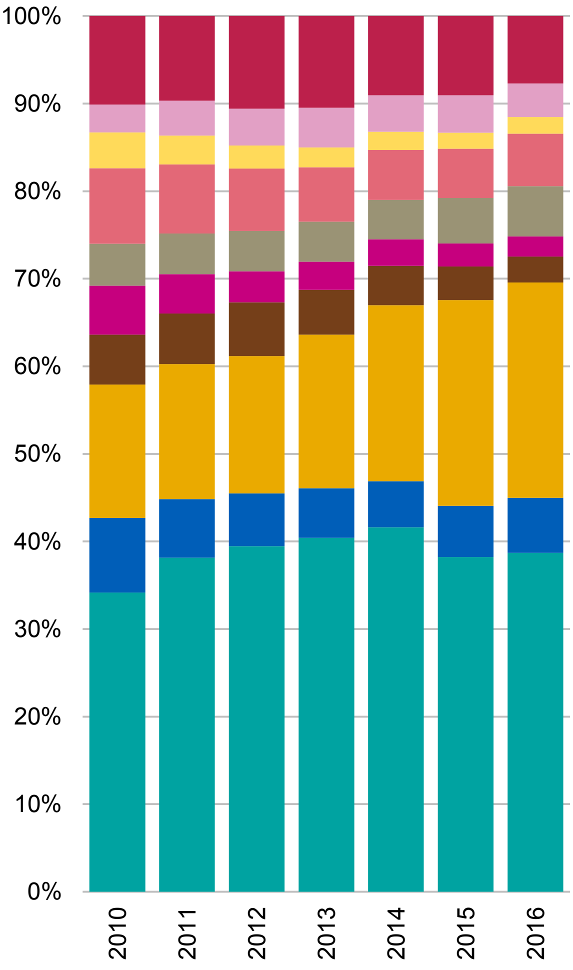
Financing trends to VC-backed companies by sector in the Americas

2010 – 2016, VC invested ($B)



Financing trends to VC-backed companies by sector in the Americas

2010 – 2016, number of closed deals



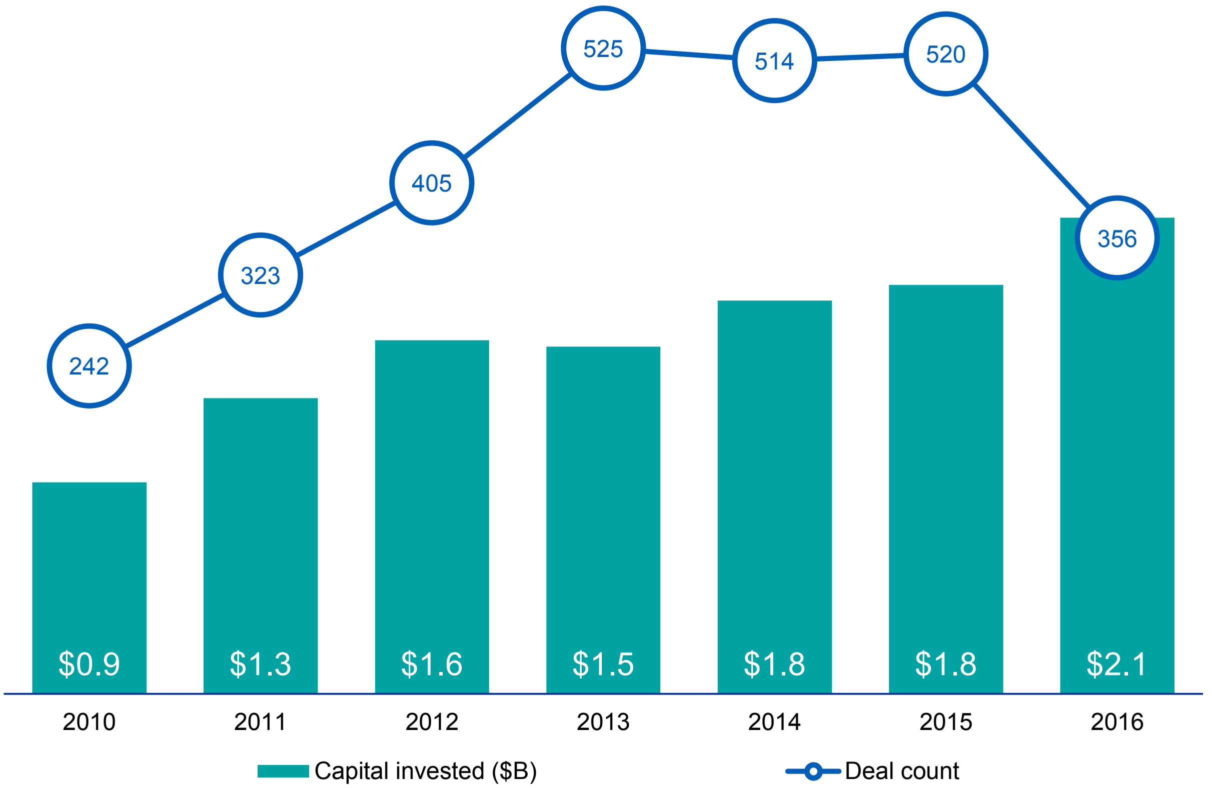
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Particularly as the software industry matured into different business models such as SaaS and the costs of computing plummeted over the past decade and a half, increased venture financing within software was bound to happen. What's more interesting for the Americas region, in particular, is how much more proliferation in terms of venture activity has occurred into sectors beyond the traditional VC realms of healthcare, software and consumer. A quarter of 2016 deals have been in non-traditional arenas that blur lines between sectors, such as Zymergen's bio-engineering of molecules for a variety of applications.

Canadian VC activity drops but VC invested jumps by 16.5%

Financing trends in Canada

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Even as 2016 registered a decline exceeding 30% in completed venture financings of Canada-based companies, the total of VC invested hit a 7 year high of $2.1 billion, a 16.5% increase from the level in 2015. Similarly to other regions, that sum was driven by a bevy of mega-financings.

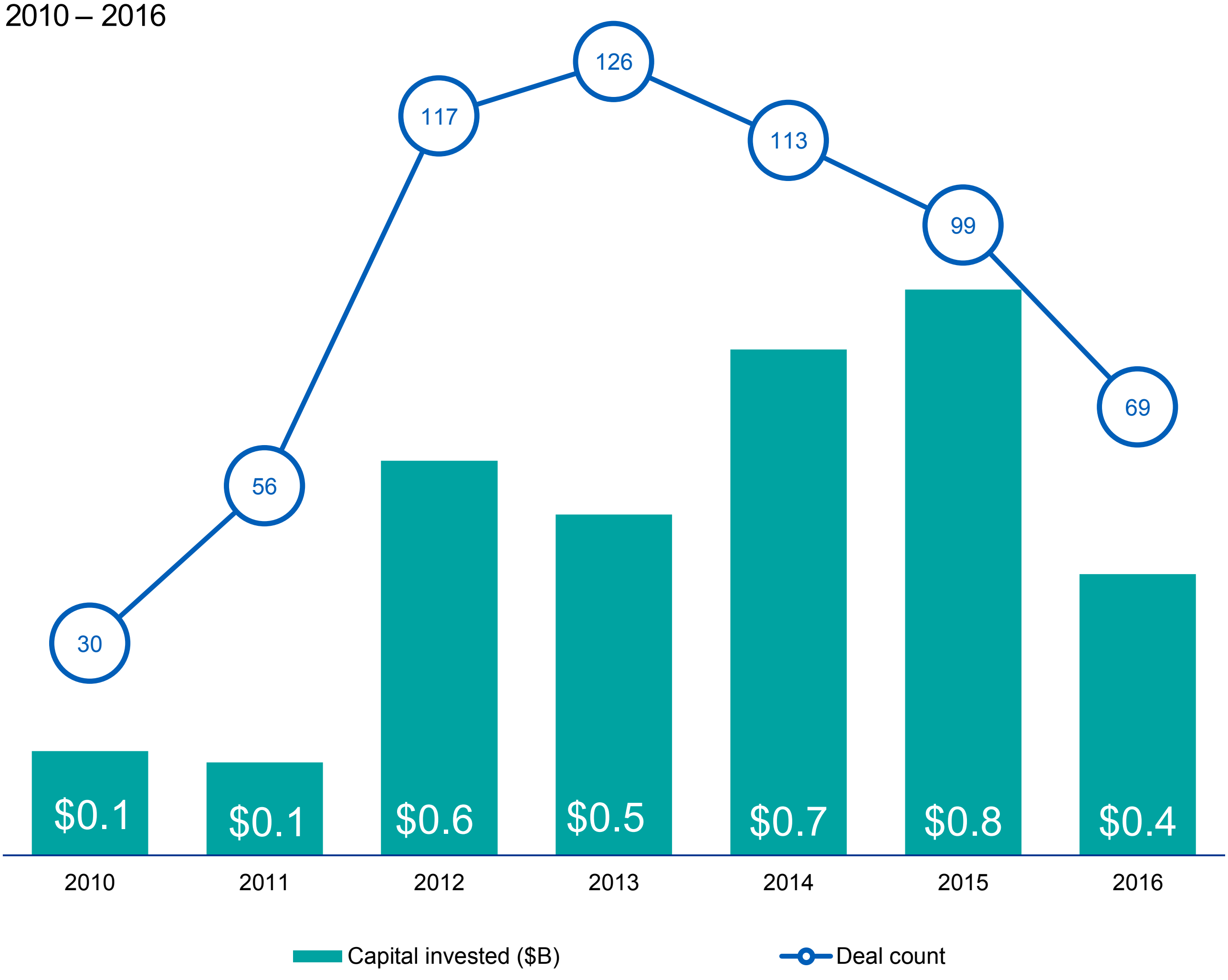
If the new US administration moves quickly on the promise to lower corporate tax rates and open up trade deals, it could have a huge impact – not only on the Americas, but on jurisdictions around the world. Some investors may be cautious during the first quarter of 2017 as they wait and see what happens.

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

After a blockbuster 2015 in terms of VC invested, a pullback in Brazil

Venture financing trends in Brazil

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Brazil has seen significant growth around the development of ecosystems to promote startups. While funding exists for early stage startups, VC funds are becoming aggressive with later stage companies – questioning budgets and requiring them to become more cost efficient in order to raise additional financing.

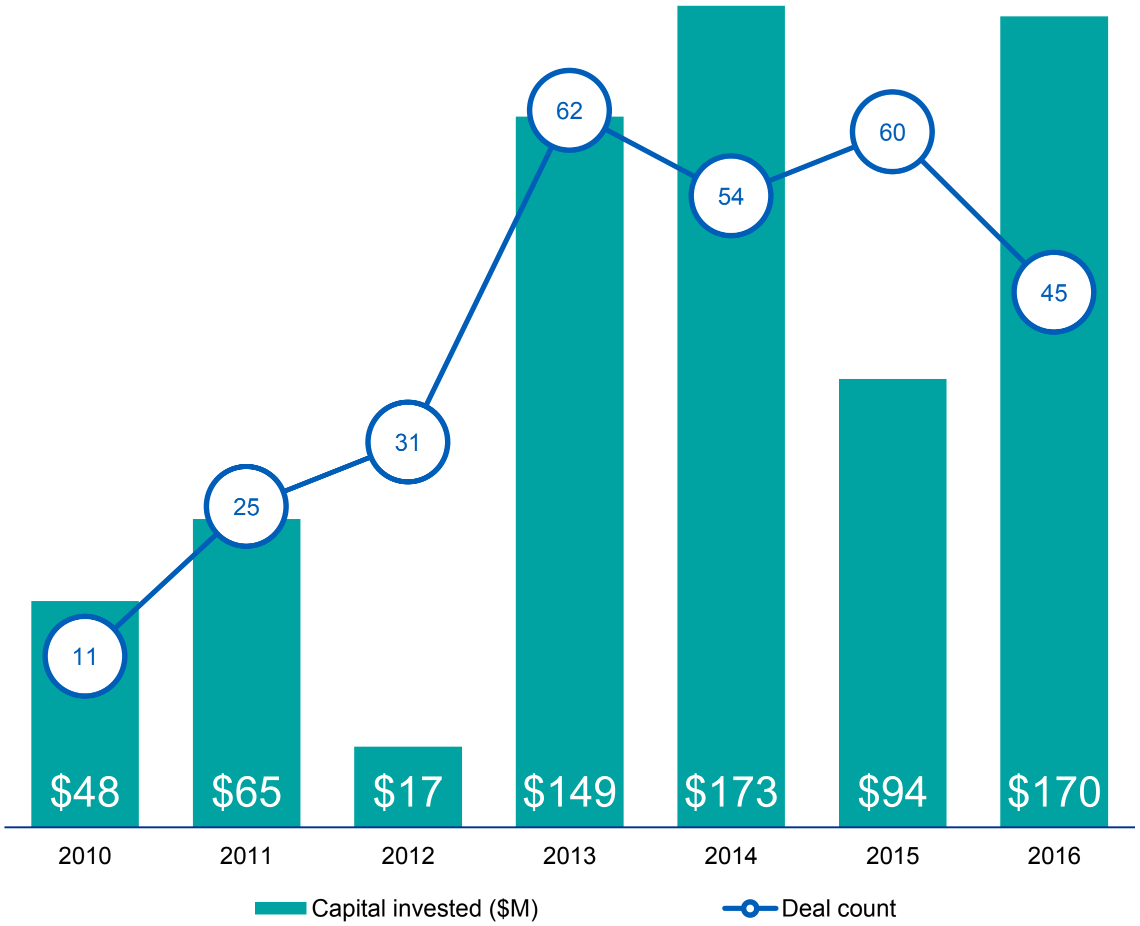
Olivier Trave Bourley
Partner,
KPMG in Brazil

KPMG Enterprise

Mexico's venture scene enjoyed a resurgence in VC invested last year

Venture financing trends in Mexico

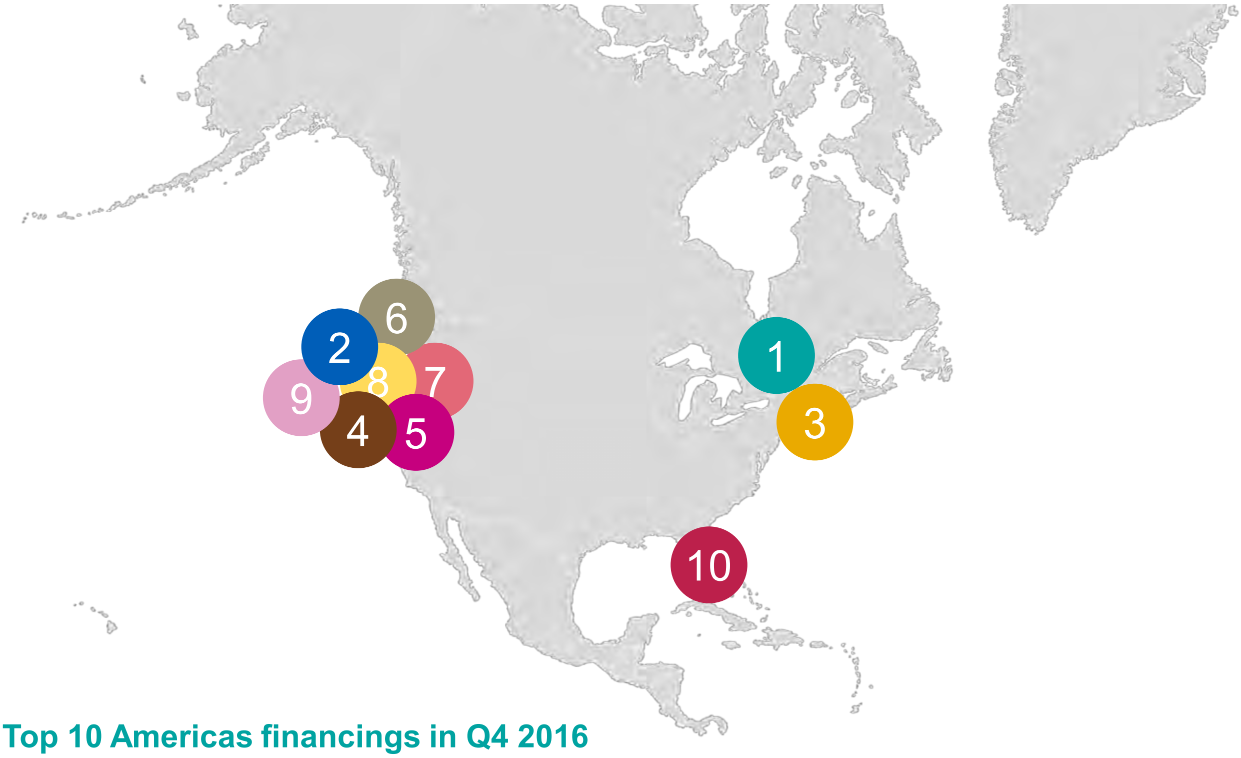
2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

Toronto takes the top spot in Q4



Top 10 Americas financings in Q4 2016

1. **BlueRock Therapeutics** – $225M, Toronto
Biotech
Series A

2. **Opendoor** – $210M, San Francisco
Residential real-estate platform
Series D

3. **Payoneer** – $180M, New York
Online payments & distribution
Series E

4. **Stripe** – $150M, San Francisco
Payments platform
Series D

5. **Postmates** – $141M, San Francisco
Delivery services
Series E

6. **OfferUp** – $130M, Bellevue
Online shopping platform
Series C1

7. **Zymergen** – $130M, Emeryville
Biotech
Series B

8. **Memebox** – $126M, San Francisco
Beauty products
Series C

9. **Unity Biotechnology** – $116M, San Francisco
Biotech
Series B

10. **JetSmarter** – $105M, Fort Lauderdale
Private air travel
Series C

Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

In Q4'16 US VC-backed companies raised

$12.7B

across

1,744 deals

VC funding decline continues in US, rebound hopeful in 2017

After 2 strong years, both VC investment and the number of deals in the US declined substantially in 2016. Total VC investment slid to $69.1 billion from 2015's peak of $79.3 billion, while total activity declined by more than 20 percent. The cooling of the US's venture scene is likely a result of numerous issues that plagued the market for much of the year, instilling caution in many VC investors. The completion of the US election in November brought an end to one major uncertainty, while the Federal Reserve's December interest rate increase demonstrated its renewed optimism for the US economy as a whole. These signs could bode well for the US heading into 2017.

While VC activity by deal stage declined across the board during Q4'16, higher risk seed-stage deal activity declined the most as investors focused on their existing portfolios and companies with proven business plans. Investors are expected to remain cautious headed into 2017, taking more time to evaluate investment options and conduct due diligence. Companies will likely continue to require a strong business plan and path to profitability in order to attract investment for the near future.

Unicorns and IPOs almost non-existent in 2016

Both unicorn births and IPOs were in short supply during 2016. The 2016 IPO market for VC-backed companies in particular is said to have been the worst since 2013. Poor IPO results earlier in the year led to significant market skepticism of potential valuations. There are indications, however, that the tide is turning for the IPO market, particularly in the US. The success of Twilio has spurred some optimism that the IPO market will open up again in 2017.

Already Snap, the parent company of Snapchat, has filed for an IPO which is expected toward the end of Q1'17. Other companies are also predicted to follow suit. With a number of unicorn companies in the group of rumored IPOs, any early successes could be a boost for the remainder of the year. A successful IPO market would help renew the VC market at the same time.

Riskier seed-stage businesses struggle to find backing

The US election prompted a significant amount of economic uncertainty throughout 2016. While the election was resolved midway through Q4'16, the pending change in administration may continue to hold investors back heading into Q1'17 as the change could spark both new opportunities and new risks for VC investors. While the expected lessening of regulations and corporate tax rates could have a positive impact on the VC market, other trade-focused initiatives could cause consternation. Some investors are likely to take a 'wait and see' approach to making any major changes to their investments until after the new president has taken office.

Looking ahead: Healthcare, AI, IoT and Cloud remain big bets

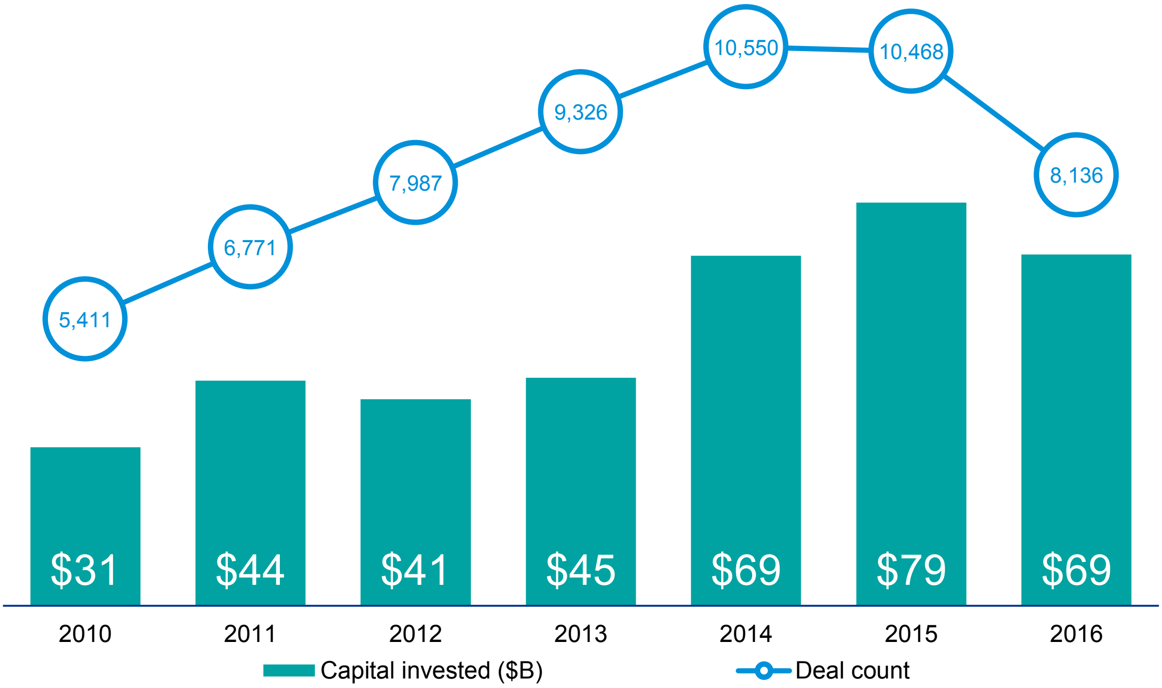
The outlook for the VC market in the Americas is optimistic for 2017. Should the IPO market open as expected, there could be a positive resonance across the VC market. While the first quarter may begin cautiously as investors wait and see whether the new Trump administration in the US moves quickly on its promises to reduce regulation and lower corporate tax rates. The speed and extent of movement on these fronts could significantly impact the appetite for VC investment and the overall exit market.

Heading into the next year, a number of sectors are expected to remain particularly attractive in the Americas, including healthcare and biotech, artificial intelligence, the Internet of Things and cloud SaaS. While some of these sectors have seen a pullback in 2016, each is expected to rebound now that market uncertainties are stabilizing.

Activity declines by over 20% from 2015

Venture financing trends in the US

2010 – 2016



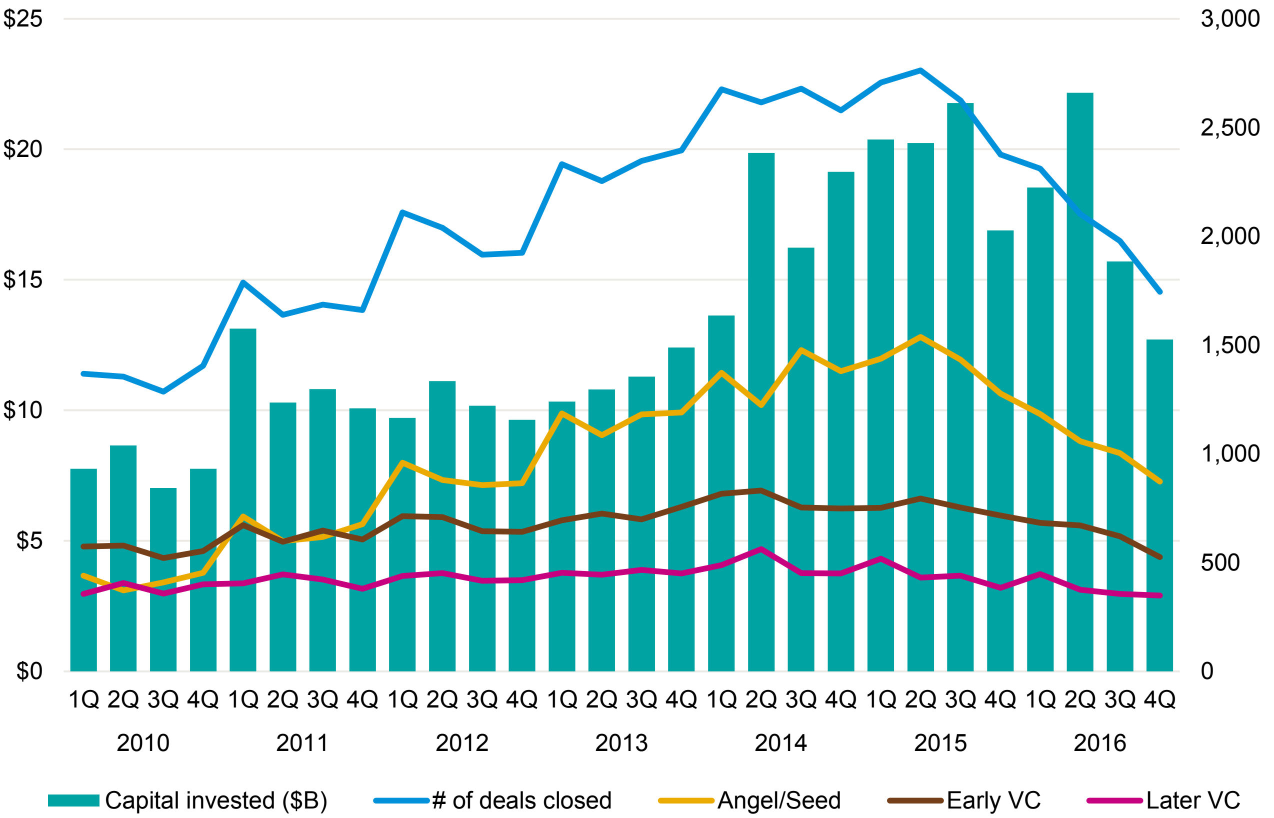
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

After 2 years straight of lofty venture activity, the US finally saw its overheated venture scene begin to cool down, with a decline of over 20% in total round counts. Total VC invested for the year came in at $69.1 billion, down from the peak of $79.3 billion observed in 2015 but on par with the $68.9 billion recorded in 2014. Given the decline in activity coupled with the robust sum of VC invested, it's clear US venture investors have pulled back cautiously yet there has been no crash.

Quarterly numbers illustrate a steep slide

Quarterly financing trends in the US

2010 – 2016



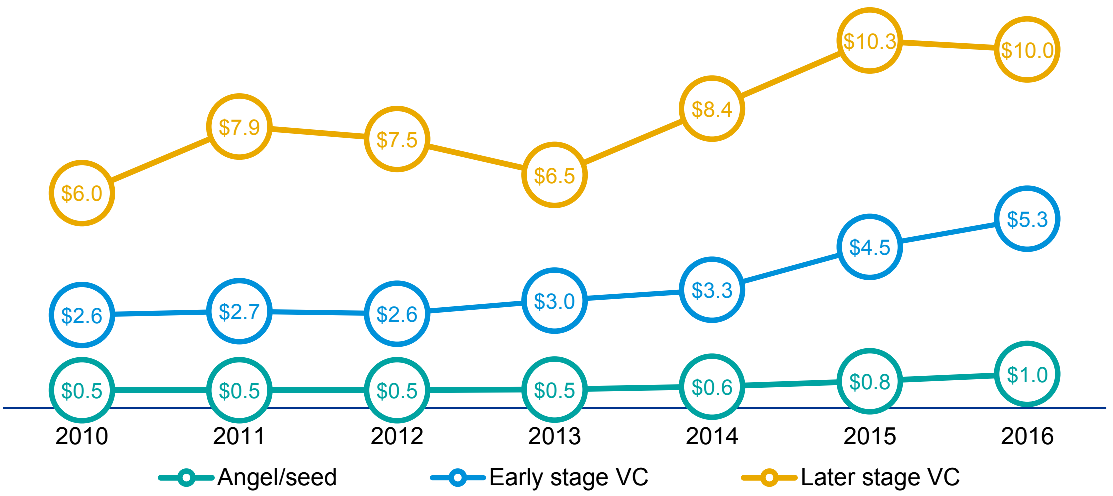
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Year-over-year quarterly comparisons illustrate the steady onset of the lull in the US venture industry. Relative to the final quarter of 2015, US VC invested fell by nearly 25% in Q4'16, while the count of completed financings slid by 26.6%. The sheer steadiness of the decline is suggestive of caution gradually pervading the venture market, while still-robust quarterly totals of sums invested speak to VC firms with ample supplies of dry powder still plying mature, late-stage companies with plenty of capital.

Nearly 75% of 2016 rounds were up

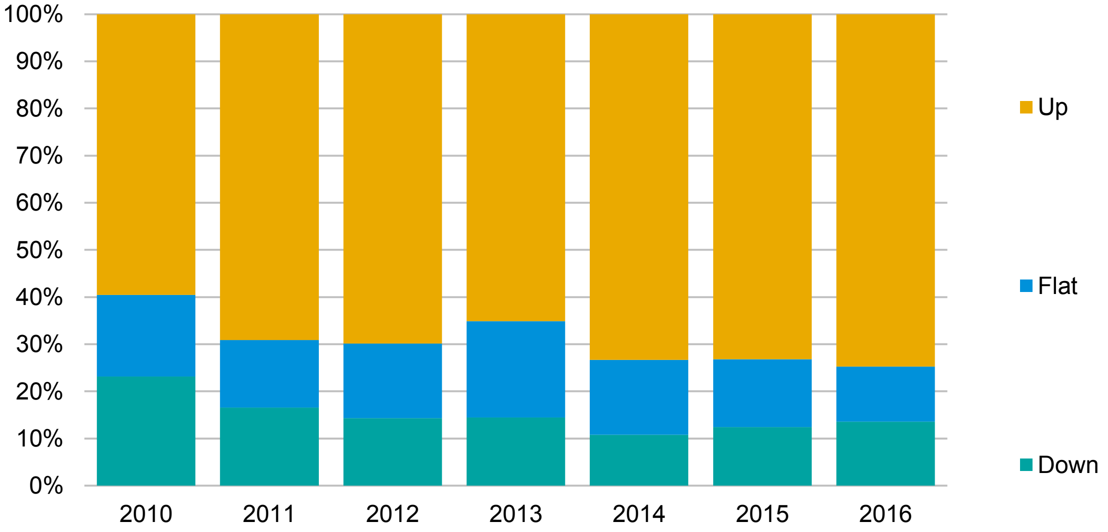
Median deal size ($M) by stage in the US

2010 – 2016



Up, flat or down rounds in the US

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

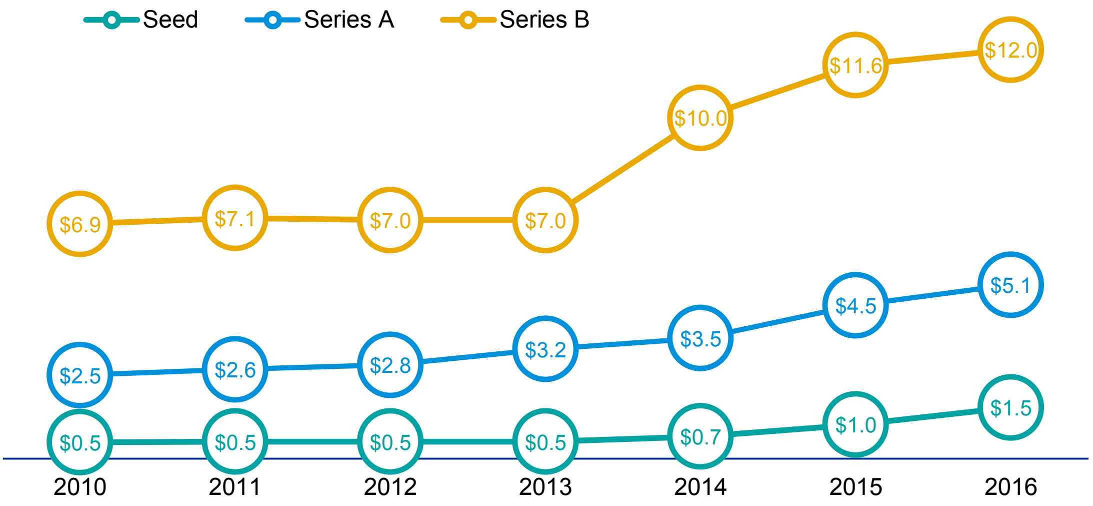
A surer sign of VCs' relatively resilient attitudes in the current climate is the proportion of up rounds that are still occurring. Even amid the downturn in activity, nearly 75% of all financings were increases from previous rounds.

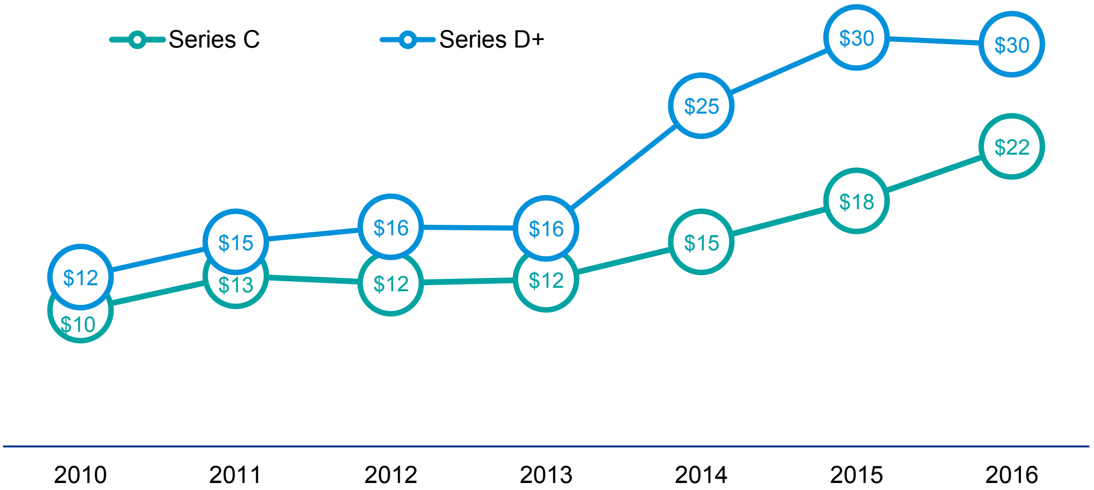
KPMG Enterprise

Financing sizes are still at multi-year highs

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

2010 – 2016





Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

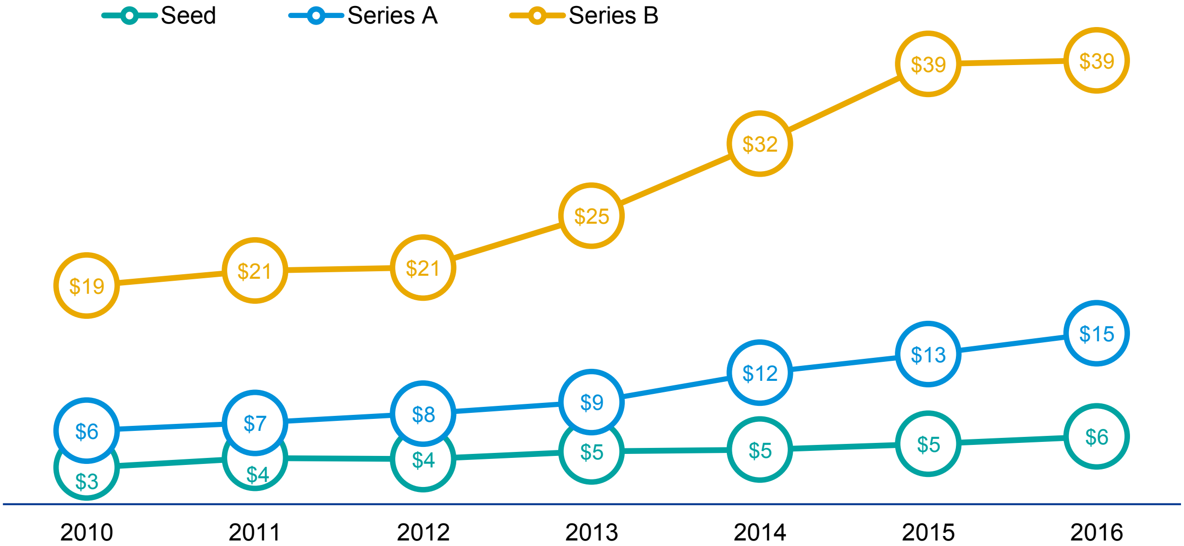
Across all series, the size of the median round has either plateaued or even grown between 2015 and 2016 in yet another sign of the elevated levels of dry powder venture firms have on hand, which is contributing to still-lofty prices. In addition, competition for the best opportunities amid the general decline in activity is also exerting upward pressure.

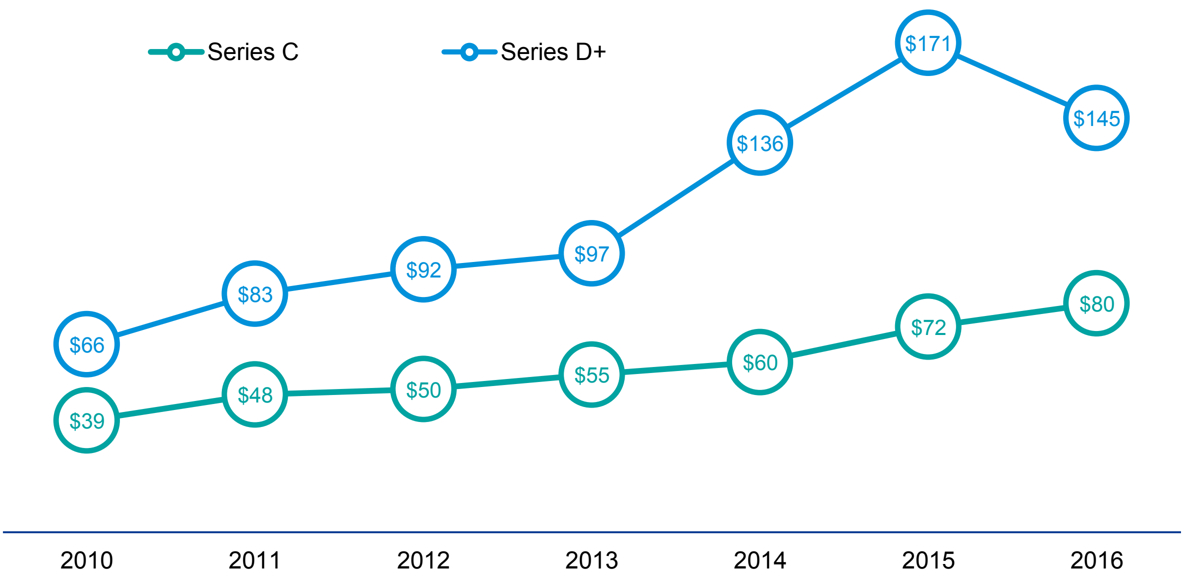
*Figures rounded in some cases for legibility.

Cooling at the latest stage

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

2010 – 2016





Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The late-stage phenomenon of the past few years in the US appears to be finally cooling somewhat, although a median pre-money valuation of $145 million at Series D or later is still 49% higher than what was seen in 2013.

* Figures rounded in some cases for legibility.

“Investor protections are also likely to remain a high priority, particularly for late-stage deals where investors are concerned about potential down rounds.”

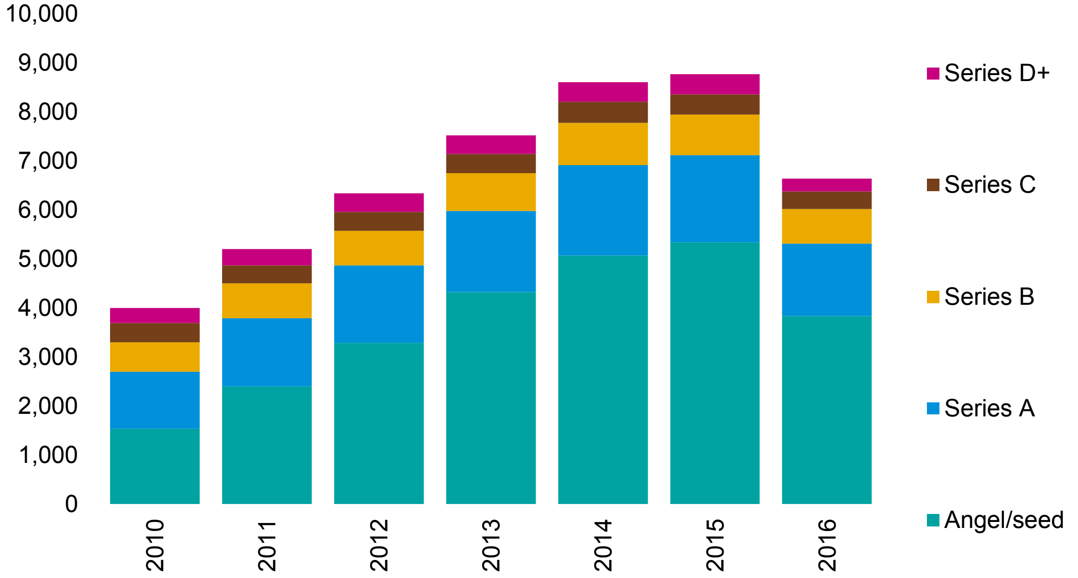
Brian Hughes
Co-Leader, KPMG Enterprise Innovative Startups Network and National Co-Lead Partner, KPMG Venture Capital Practice,
KPMG in the US

KPMG Enterprise

US angel & seed financings slid the most

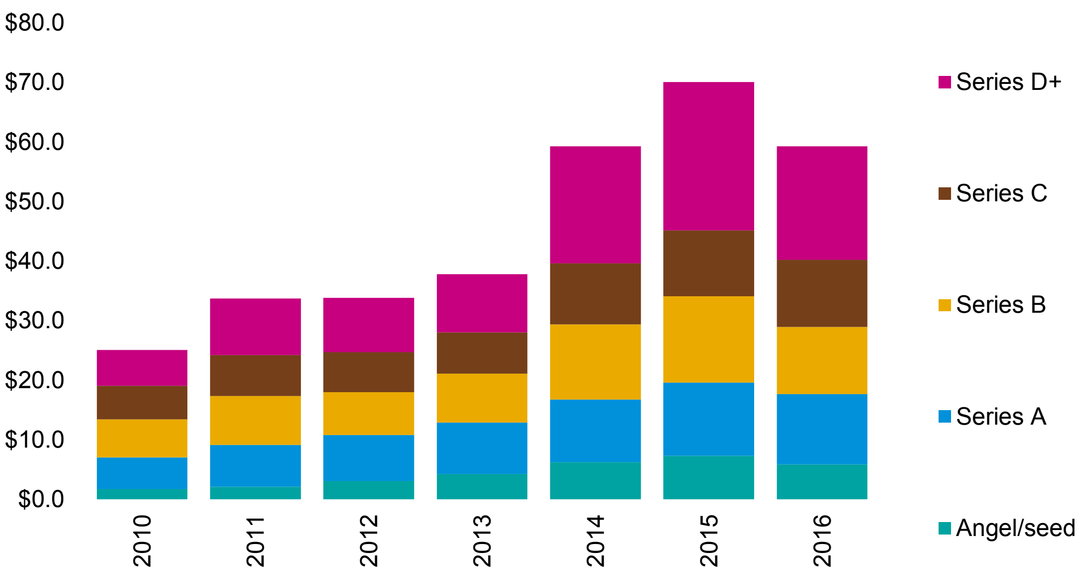
Deal share by series in the US

2010 – 2016, number of closed deals



Deal share by series in the US

2010 – 2016, VC invested ($B)



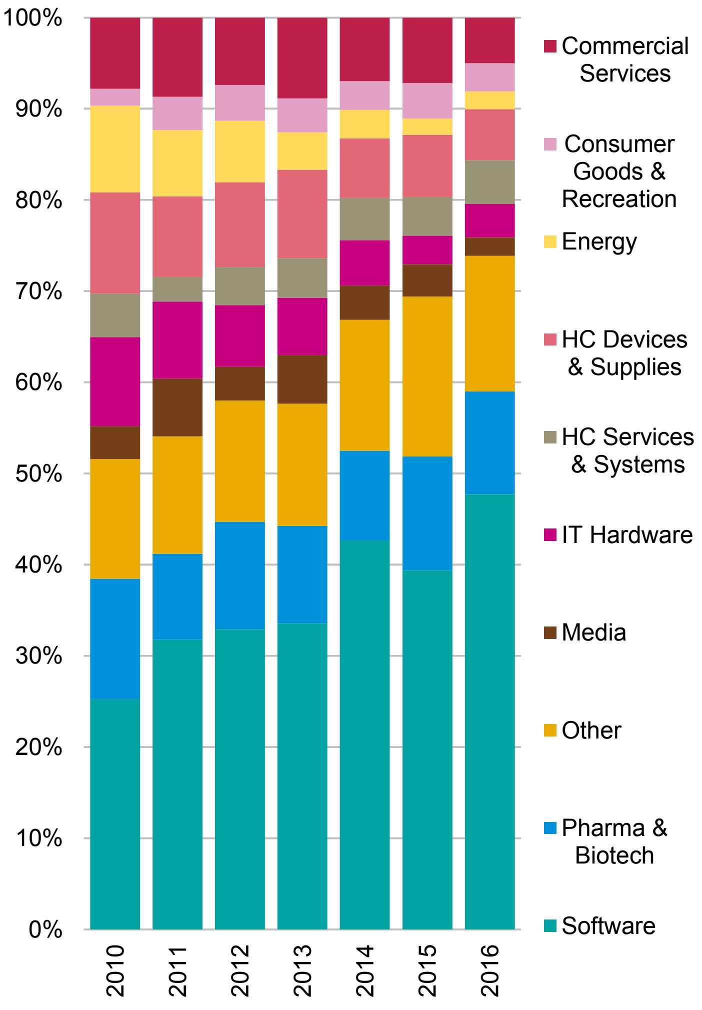
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

Software remains predominant

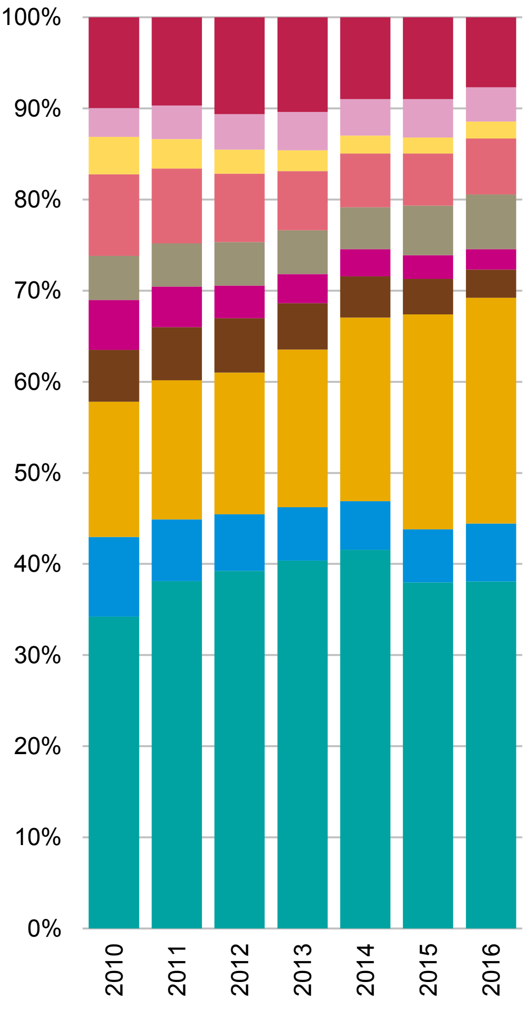
Financing trends by sector in the US

2010 – 2016, VC invested ($B)



Financing trends by sector in the US

2010 – 2016, number of closed deals



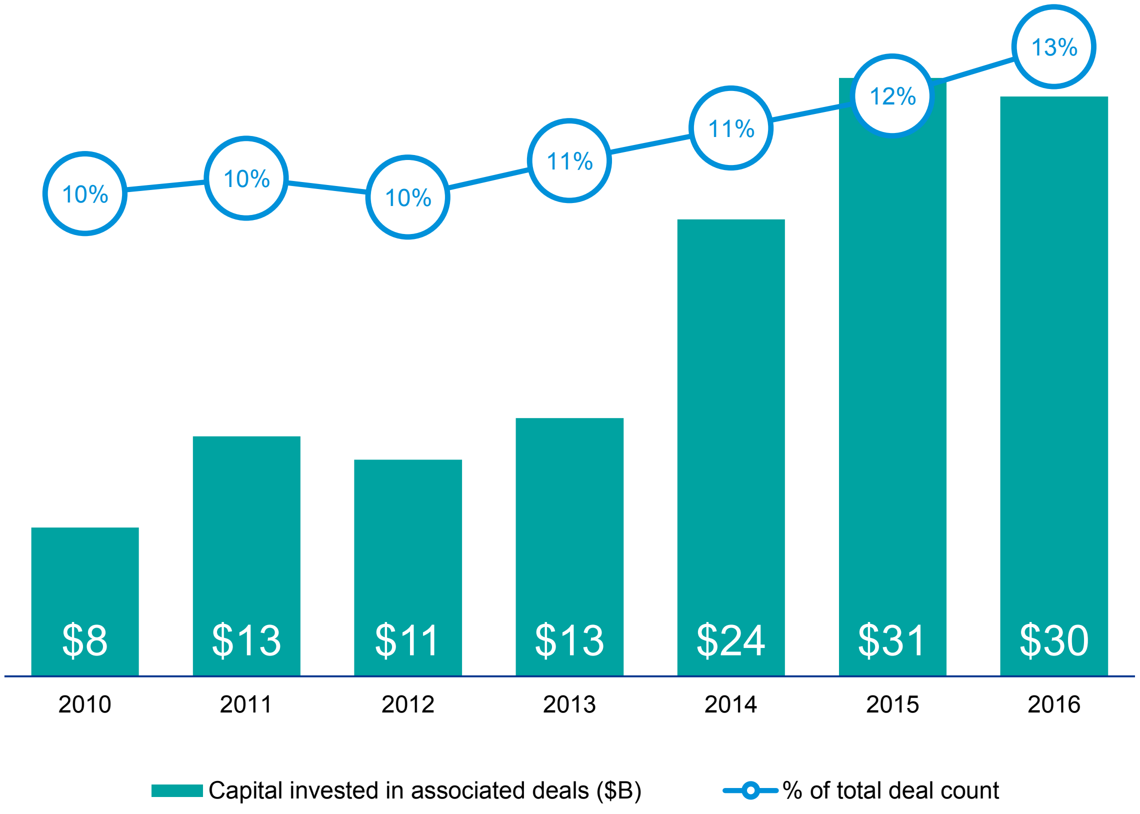
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Proportionally, software financings remained flat between 2015 and 2016 by count, although their relative decrease was greater than that of other sectors, given its outsized percentage of total activity. What's more telling is the fact VC invested in software hit a decade high in 2016 of nearly $33 billion, topping even the $31.2 billion recorded in 2015. That colossal sum was driven in large part by mega-rounds of established disruptors.

Corporates remain highly involved in VC

Corporate participation in venture deals in the US

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Corporate venture investing has been around for a long time but has enjoyed more of a renaissance of sorts in the past few years, post-financial crisis. The surge in total capital invested across financings in which corporate VC arms participated in the past 2 years is part and parcel of the overall overheating in the US venture industry but the fact it stayed resolutely high in 2016 speaks to the more sustainable rationales of corporate venture in general. Corporations are still striving to shore up their offerings, given the rapid pace of innovation and more frequently getting involved in VC rounds to supplement their internal R&D efforts. Certain sectors, such as pharmaceuticals and biotech, are seeing more of this push than others.

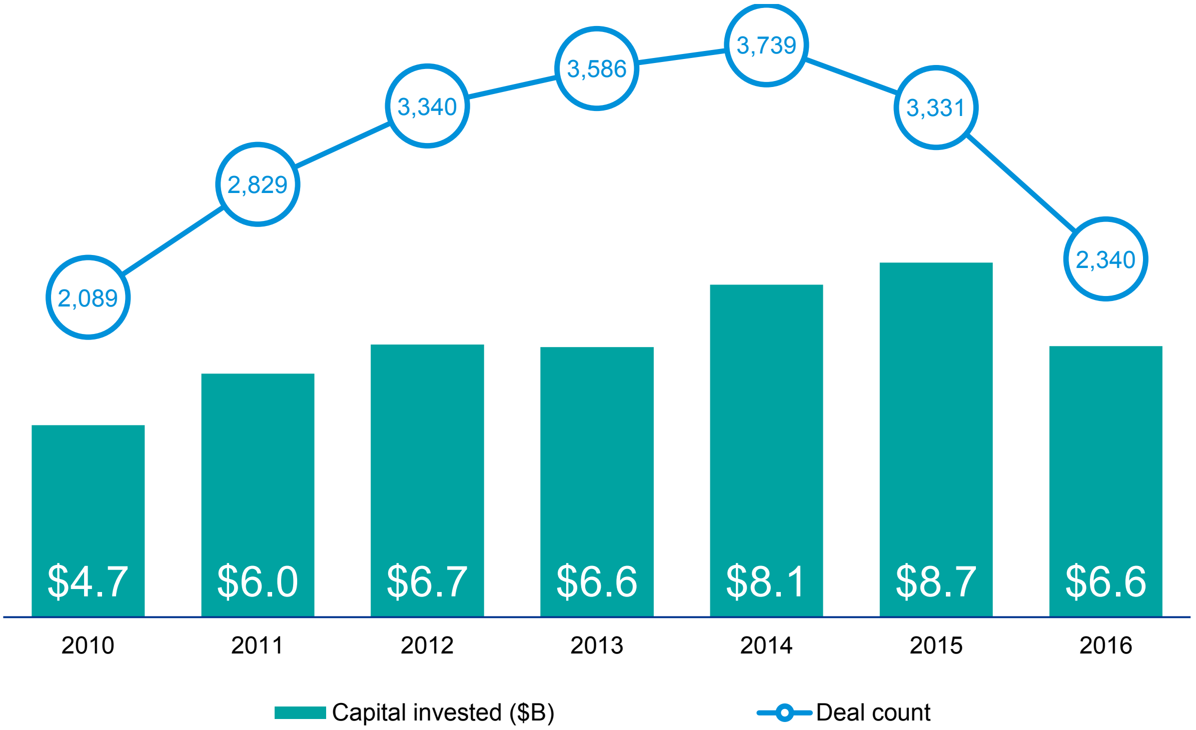
With respect to innovation, corporates are becoming more realistic about what they can do organically and what they can't do. Many in the US have realized that it may be more effective to market-test and conduct signals if they have a venture arm where they can leverage their balance sheet and deploy equity into startups. In order to be effective, however, corporates need the right infrastructure in place to partner with.

Ali Geramian
Manager,
KPMG Innovation Lab
KPMG in the US

US first-time rounds hit the lowest level in 6 years as 2016 closes

First-time venture financings of companies in the US

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

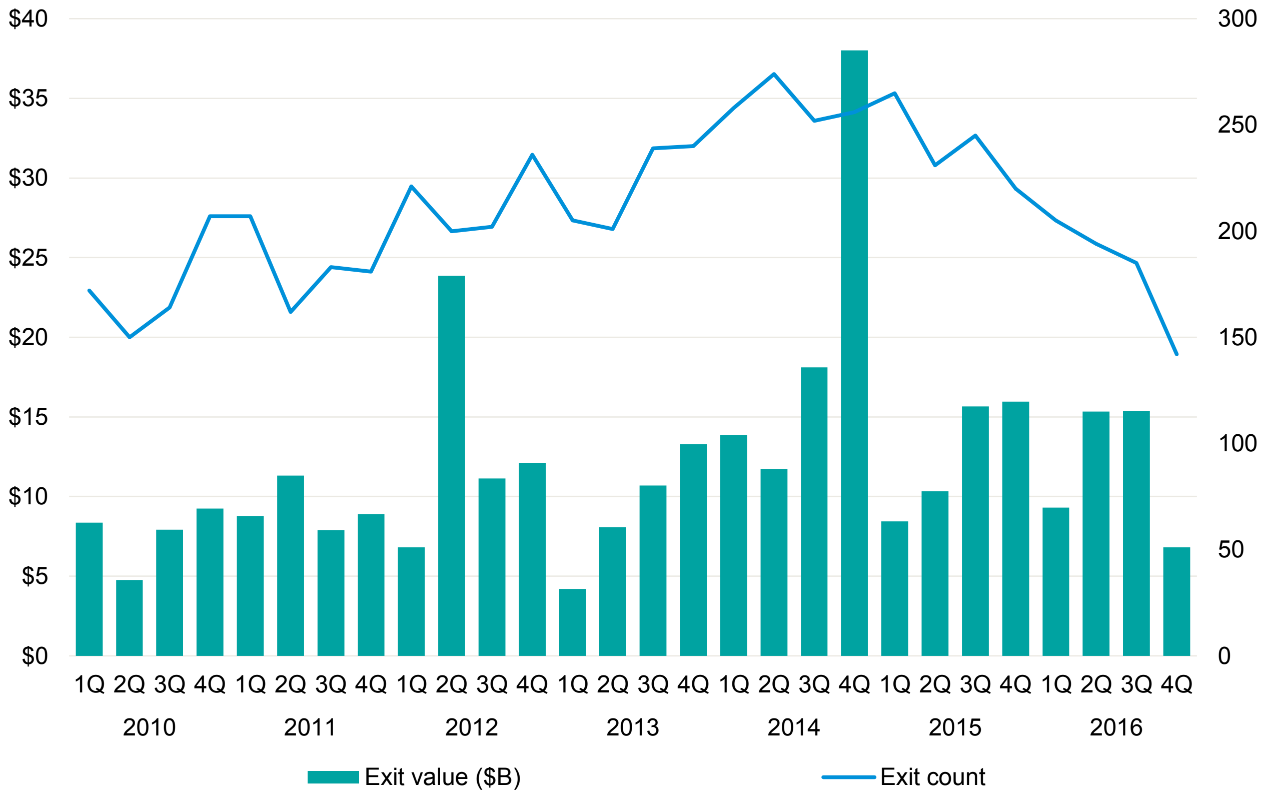
First-time financings in the US hit the lowest level last year since 2010, although the total of VC invested in those rounds remained substantial at $6.6 billion. It's not that venture firms have lost their appetite to that extent for backing new businesses, but that in a highly priced climate, they have pulled back on such risky prospects the most. That said, a fortunate few are still able to rake in plenty of VC, judging by the coupled decline in activity and capital raised.

KPMG Enterprise

Throughout 2016, exits of US VC-backed businesses slid steadily in count

Venture-backed exit activity in the US

2010 – 2016



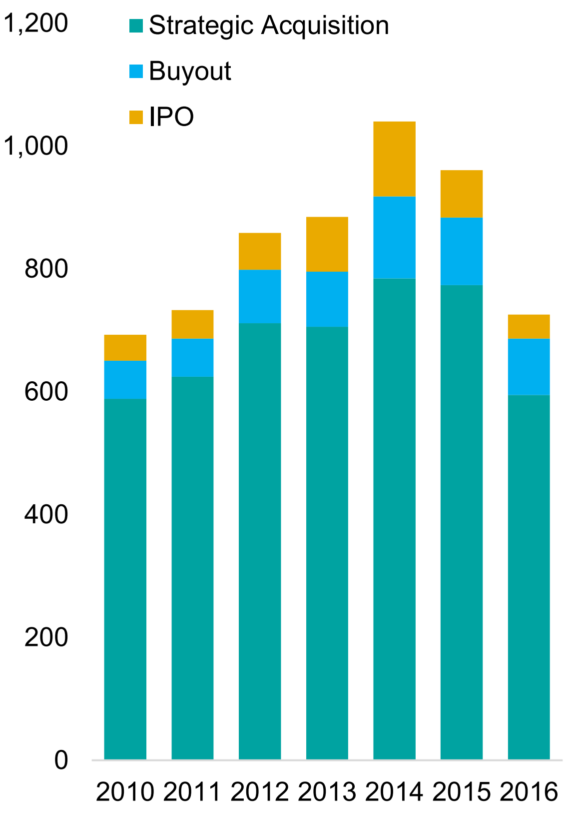
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

As 2017 dawns, liquidity prospects for not only unicorns and other heavily financed late-stage companies will be assessed eagerly by venture firms. As the tally of completed exits has declined steadily for some time now, VC fund managers are increasingly wary of the general climate for sales. For perspective, Q4'16 saw year-over-year declines of 57% in exit value and 35% in count.

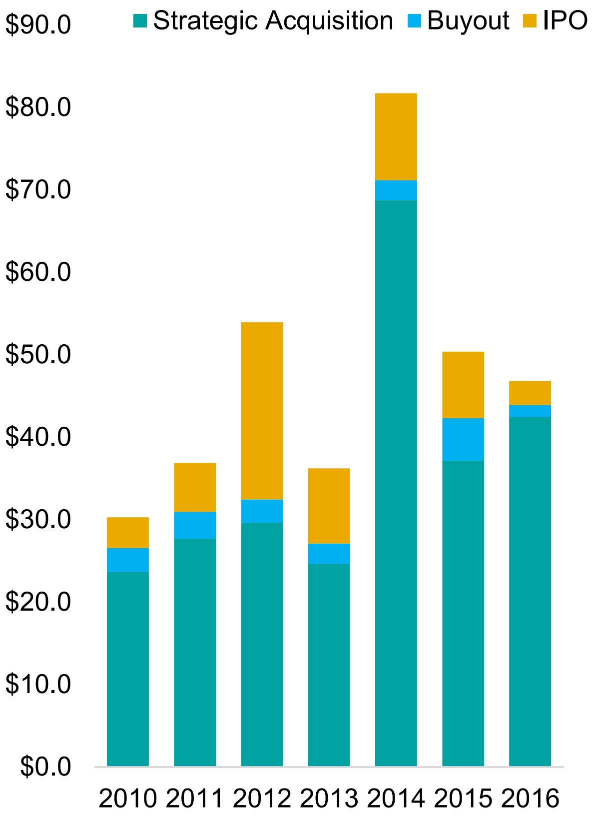
KPMG Enterprise

As the IPO market cooled, M&A drove exit value

Venture-backed exit activity (#) by type in the US
2010 – 2016



Venture-backed exit activity ($B) by type in the US
2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Especially as the IPO market fell into doldrums in 2016, corporate M&A became even more crucial for venture investors' liquidity prospects. The $42.4 billion in exit value achieved via that exit route was the second-highest tally of the decade, only below the massive $68.8 billion notched in 2014.

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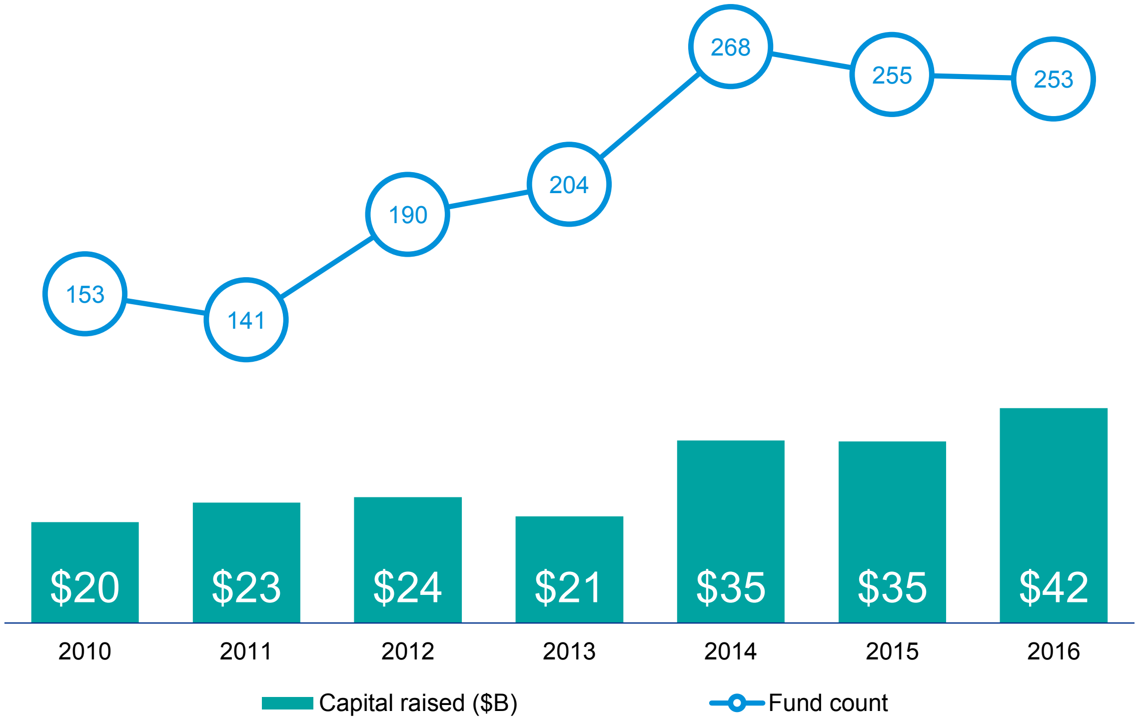
US fundraising tallies remain stable, with larger funds spiking total raised

US venture fundraising

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The significant year-over-year 18.3% increase in total VC raised by US VC firms, from $35.2 billion to $41.6 billion, signifies continued appetite for exposure to the asset class on the part of limited partners. It also speaks to the maturation of much of the VC firm population, as they raise larger and larger vehicles throughout the course of the decade.

KPMG Enterprise

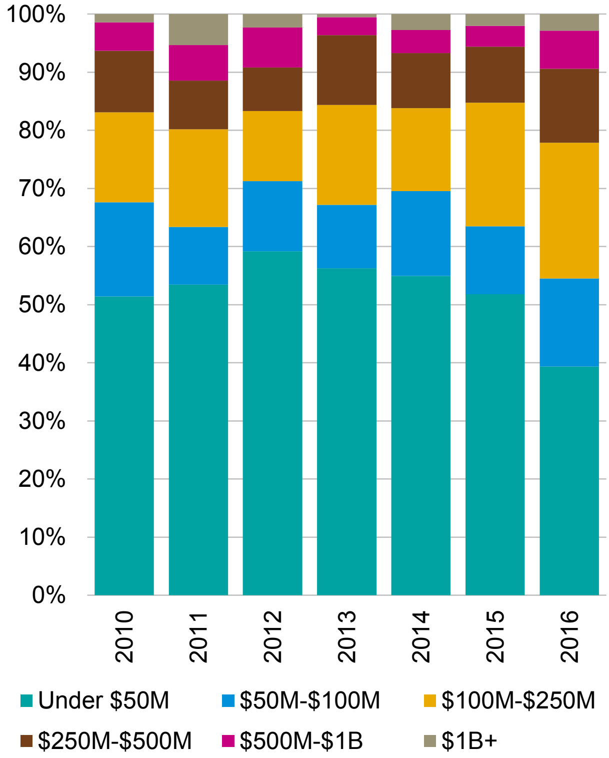
"With some of the uncertainty gone, optimism is growing within the VC market in the US. Economic indicators look reasonably good and it seems like it could be a strong year for IPO exits. If the expected exits materialize, they will put a lot of money back into the coffers of VC firms, which could loosen up VC investment dollars as well."

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

Decrease in smaller funds contributes to fewer first-time raises

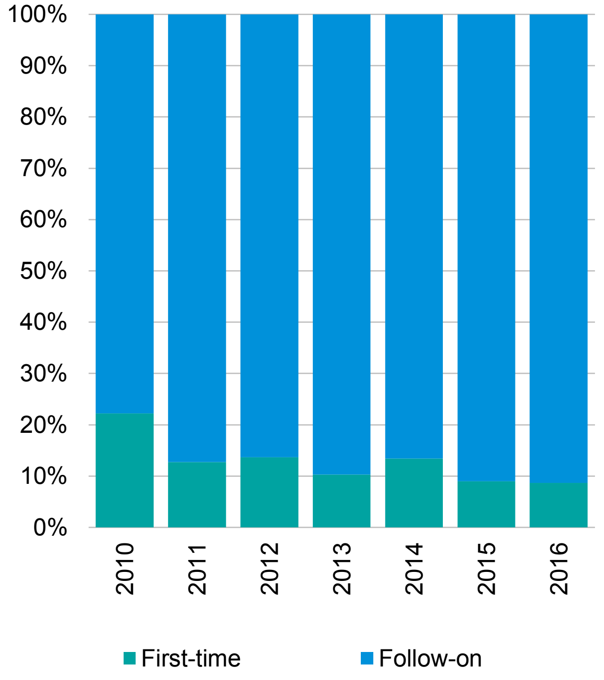
Venture fundraising (#) by size in the US

2010 – 2016



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

2010 – 2016



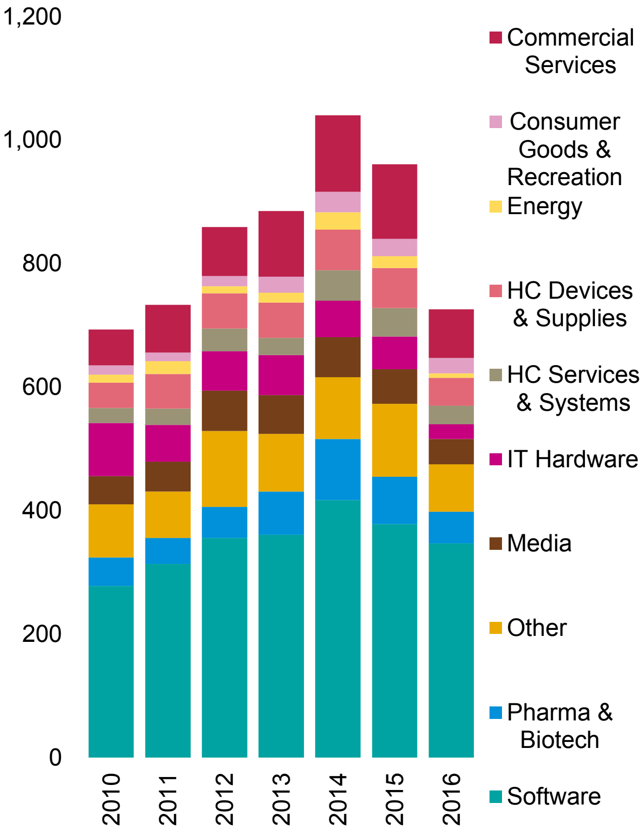
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

First-time fundraising in the US essentially flat-lined between 2015 and 2016, with only 23 raised in the former and 22 in the latter. Follow-on fundraising stayed steady as well. In fact, the total number of follow-on funds raised from 2014 to 2016 has hovered around 230. Again, this testifies to the maturation of a significant number of venture fund managers that have been active from before or since the financial crisis. On another note, the decline in smaller fundraises (with 96 sub-$50 million vehicles closed in 2016, more on par with 2012 and 2013 totals), suggests crowding in the market, as well as a lull in limited partner (LP) enthusiasm for smaller, newer managers.

In the past 3 years, pharma & biotech saw $43.7B in exit value

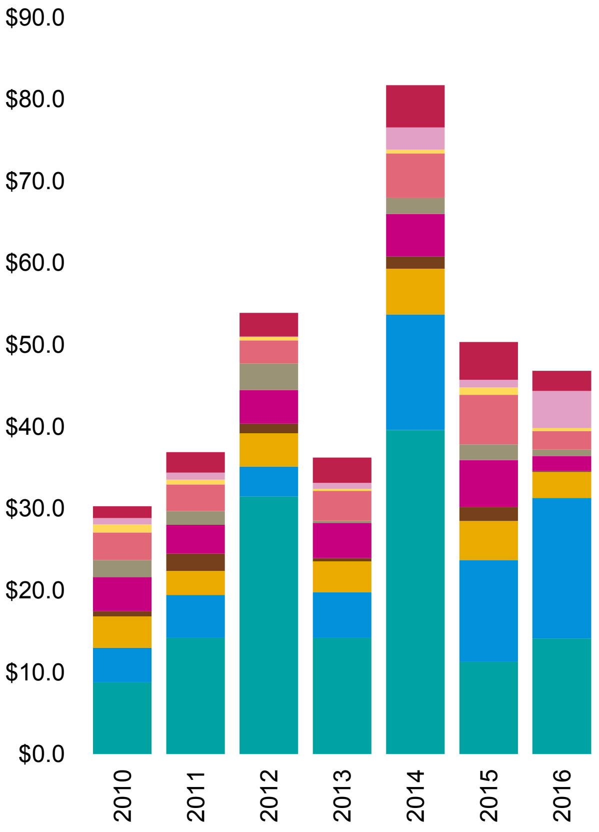
Venture-backed exit activity (#) by sector in the US

2010 – 2016



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

2010 – 2016



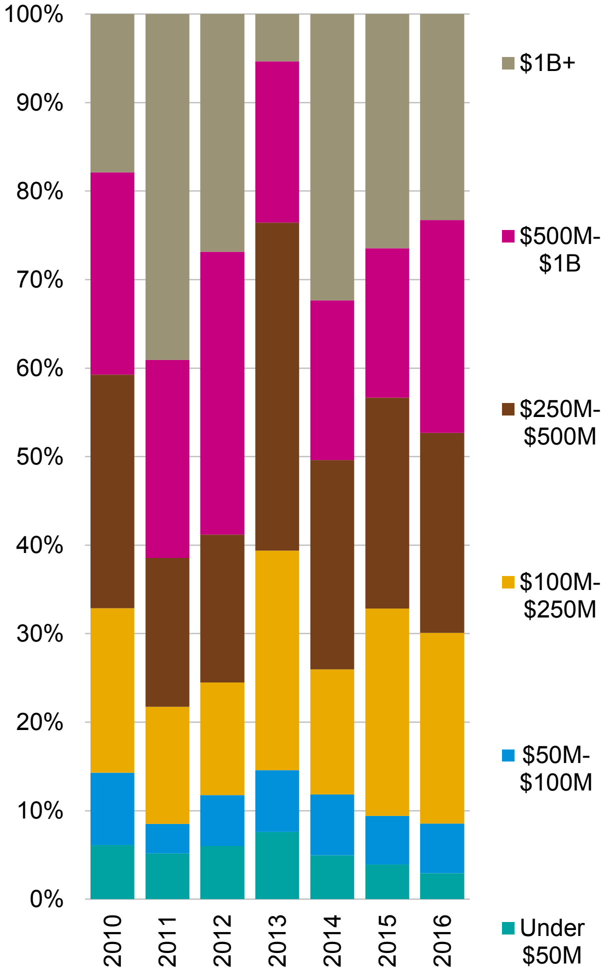
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Pharmaceuticals and biotechnology companies dominated the exit scene in 2016, the sector's tally coming to a massive $17.2 billion total, driven by huge outliers but still overtopping software's $14.1 billion for the year.

Only $1.2B in 2016's total of US VC raised was in sub-$50M funds

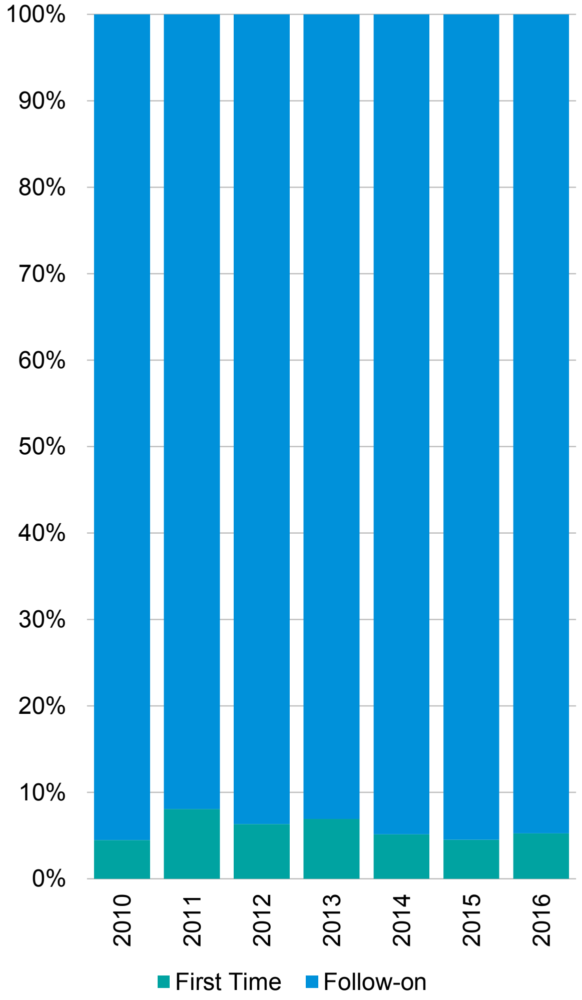
Venture fundraising ($B) by size in the US

2010 – 2016



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

2010 – 2016

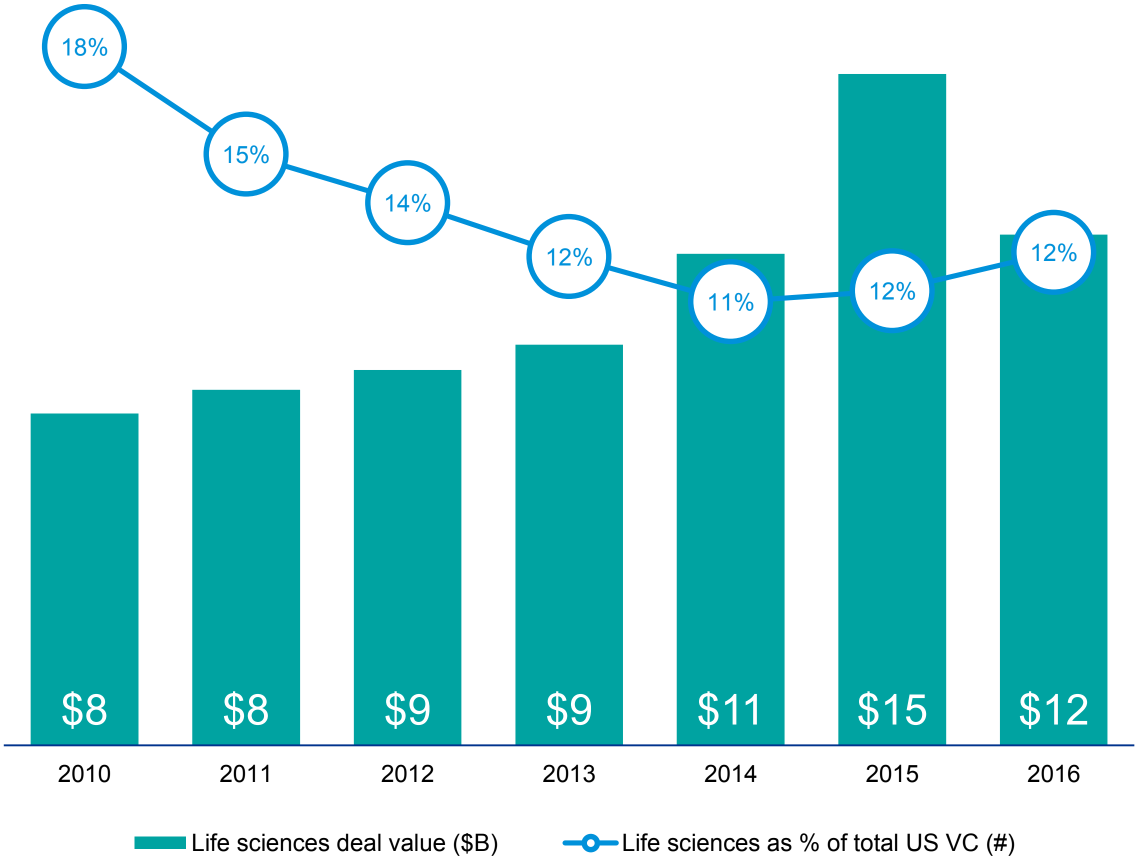


Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Proportionally, life sciences has ticked up as of late

Life sciences as % of total US VC

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Life sciences investing in the US was relatively more in vogue years ago, even amid the more slow-paced period from 2010 to 2012. The decrease in its portion of overall US financing activity must be compared with the venture boom in the same timeframe—it's not that life sciences declined, but rather that it simply didn't see a commensurate increase in activity. For example, life sciences rounds increased from 1,563 in 2012 to 1,726 in 2015, while total venture financing soared from 13,006 to 17,992 in the same period. That said, its proportionate increase amid the downturn demonstrates the continued activity of an established coterie of life sciences-focused VCs.

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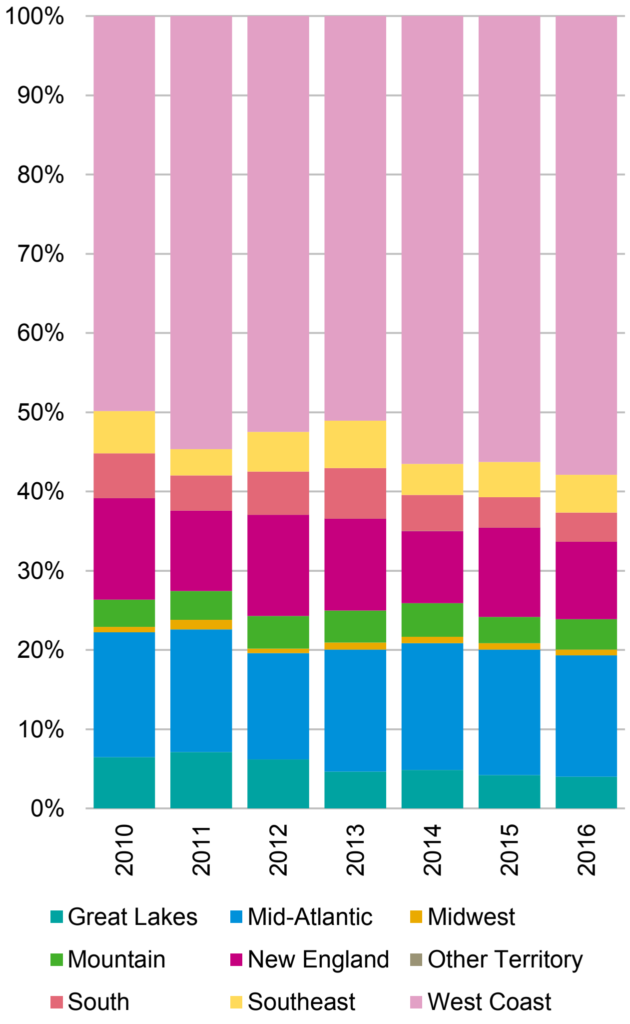
Traditional US strongholds of VC still capture most of deal flow

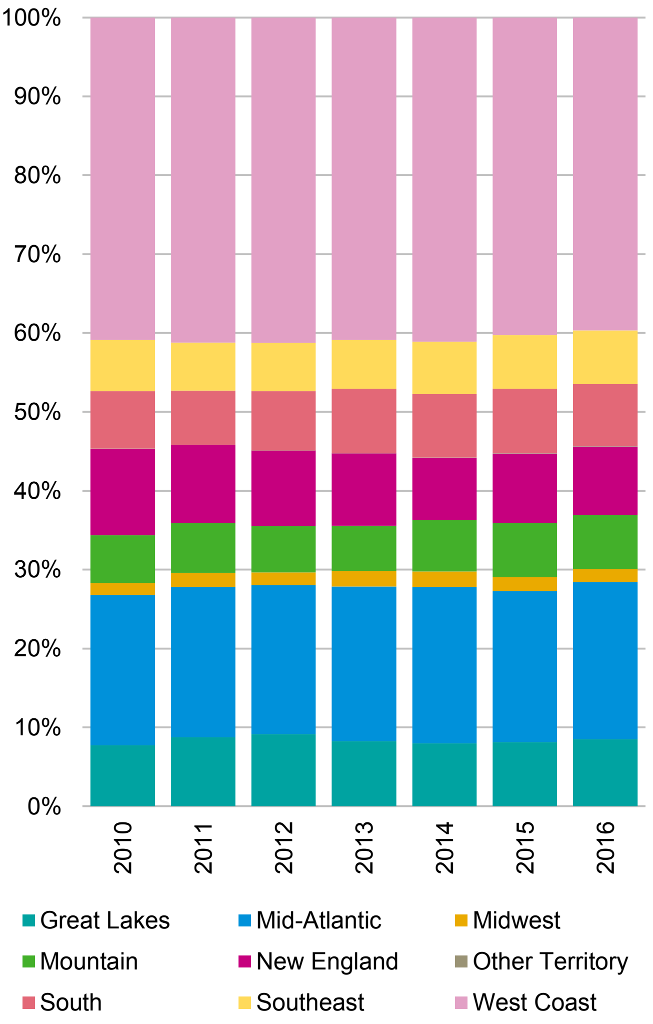
US venture activity ($B) by US region

2010 – 2016



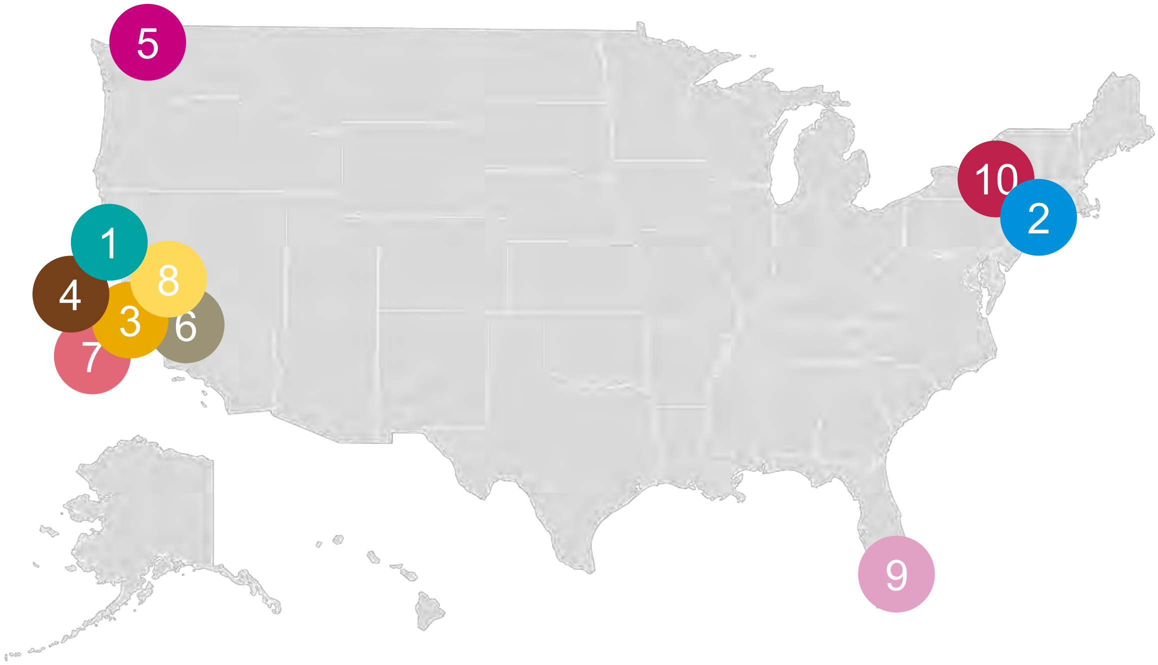
US venture activity (#) by US region

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Traditional hubs account for Q4's top deals



Top 10 US financings in Q4 2016

1 **Opendoor** – $210M, San Francisco
Residential real-estate platform
Series D

2 **Payoneer** – $180M, New York
Online payments and distribution
Series E

3 **Stripe** – $150M, San Francisco
Payments platform
Series D

4 **Postmates** – $141M, San Francisco
Delivery services
Series E

5 **OfferUp** – $130M, Bellevue
Online shopping platform
Series C1

6 **Zymergen** – $130M, Emeryville
Biotech
Series B

7 **Memebox** – $126M, San Francisco
Beauty products
Series C

8 **Unity Biotechnology** – $116M, San Francisco
Biotech
Series B

9 **JetSmarter** – $105M, Fort Lauderdale
Private air travel
Series C

10 **Zibby** – $103M, New York
Online payments & leasing
Early-stage

Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

In Q4'16 European VC-backed companies raised

$3.3B

across

585 deals

European VC interest remains resilient with growth of innovation ecosystems

Europe experienced a drop in both VC funding and the number of VC deals during 2016. However, compared to its counterparts in Asia and the Americas, the region showed some resilience during Q4'16. While uncertainties related to the UK's Brexit strategy and a degree of geopolitical uncertainty in other European countries is making investors cautious, positive signs, such as the successful IPO exits of a number of European companies, have also kept them optimistic.

The current exchange rates between both the Euro and British Pound and the US Dollar have also likely helped add to the resilience of Europe's VC market. The favorable currency climate has made Europe a more attractive place to invest in the eyes of foreign investors, despite other perceived market challenges.

VC Investors in Europe becoming more selective

Similar to trends experienced elsewhere in the world, VC investors in Europe were more cautious with their investment dollars during 2016. Investors continued to make investments, but were far more selective about where they put funds. Investors took more time to evaluate investment decisions and undertook more due diligence. Companies with viable business plans and avenues to profitability continued to receive funding, in addition to those that could show efficiencies rather than burning through cash.

Diversity a big part of Europe's resilience – also a key challenge

The uniqueness of Europe's varied technology hubs may be one of the region's prime factors when it comes to stability. With established or growing technology hubs across Europe, such as London, Berlin, Madrid, Paris, Dublin, Stockholm and Tel Aviv, there are varied opportunities for both startups and VC investors to achieve success. At the same time, the complexity of the region poses challenges for startups wanting to grow beyond their initial borders. The complexity stems from, amongst others, different regulatory environments, cultures and languages across Europe. Many, in fact, choose to target the US or China first when it comes to places to grow internationally.

'Business as usual' in post-Brexit UK

In the UK, the Brexit vote caused significant uncertainty during 2016, particularly in Q2 and Q3. Despite the plan to exit the EU, companies and investors appear to be taking a 'business as usual' approach to their activities in the UK. This approach may change as more details are released about the UK's official Brexit strategy in 2017.

The UK government appears to be taking some proactive actions in order to support its strong innovation ecosystem and continue to attract investment in its post-Brexit economy. During Q4'16, the UK government announced £1 billion in funding for the development of digital infrastructure across the country, including £400 million for VC investments in UK-based startups through the British Business Bank.

Renewal of IPO market could come in 2017

While the IPO market in Europe has traditionally been smaller than that in the Americas or Asia, in 2016 a number of European-based technology firms tested the appetite for IPOs in the region, including Nordic payments firm Nets A/S, food delivery platform Takeaway.com and online pharmacy Shop Apotheke Europe in Germany. Further IPOs are expected heading into 2017, suggesting that Europe may be entering a new era of opportunity for IPO exits.

European VC interest remains resilient with growth of innovation ecosystems, cont'd

Governments providing strong backing for innovation

Governments in Europe are starting to recognize the need to support startup companies beyond the seed-stage. During Q4'16, the governments of Germany and France took a major step toward growing their innovation ecosystems[1]. The two governments announced the creation of a joint €1 billion fund to assist startups in their countries to evolve beyond the seed-stage – a critical challenge for companies that often find it difficult to bridge the gap between seed funding and later stage funding. The provision of middle-stage funding should increase the opportunities for companies to thrive beyond the seed-stage, which should help create a more renewable innovation ecosystem.

The UK government appears to be taking some proactive actions in order to support its strong innovation ecosystem and continue to attract investment in its post-Brexit economy. During Q4'16, the UK government announced £1 billion in funding for the development of digital infrastructure across the country, including £400 million for VC investments in UK-based startups through the British Business Bank.

Future outlook positive for VC investment in Europe

The maturity level of various tech hubs throughout Europe is rising, with new centers like Scandinavia and France emerging, while established hubs in Germany, the UK, Ireland and Israel continue to evolve. This evolution bodes well for the opportunities for VC investment heading into 2017 and beyond.

There is expected to be some consolidation among startups in Europe, particularly acquisitions led by corporate investors making strategic investments. There are a number of well-capitalized companies in the region, which makes M&A a strong possibility.

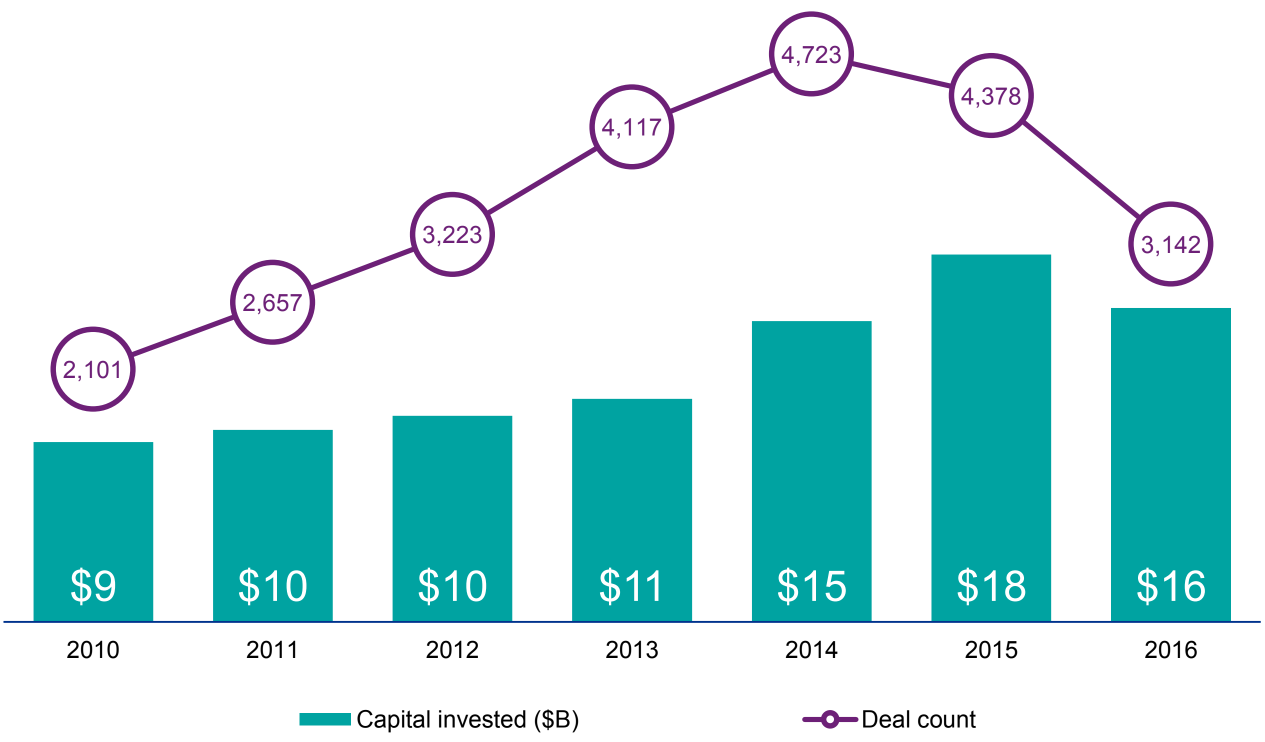
Fintech and healthtech are expected to continue to be major investment areas for VC investors in Europe, while emerging areas, such as AI, machine learning and deep tech, are expected to take on a higher investment priority.

1. http://www.forbes.com/sites/federicoguerrini/2016/12/19/germany-and-france-plan-to-set-up-a-1-billion-fund-for-startups/#1bc32b133366

KPMG Enterprise

Europe experiences a significant decline in number of deals

Venture financing trends in Europe
2010 – 2016

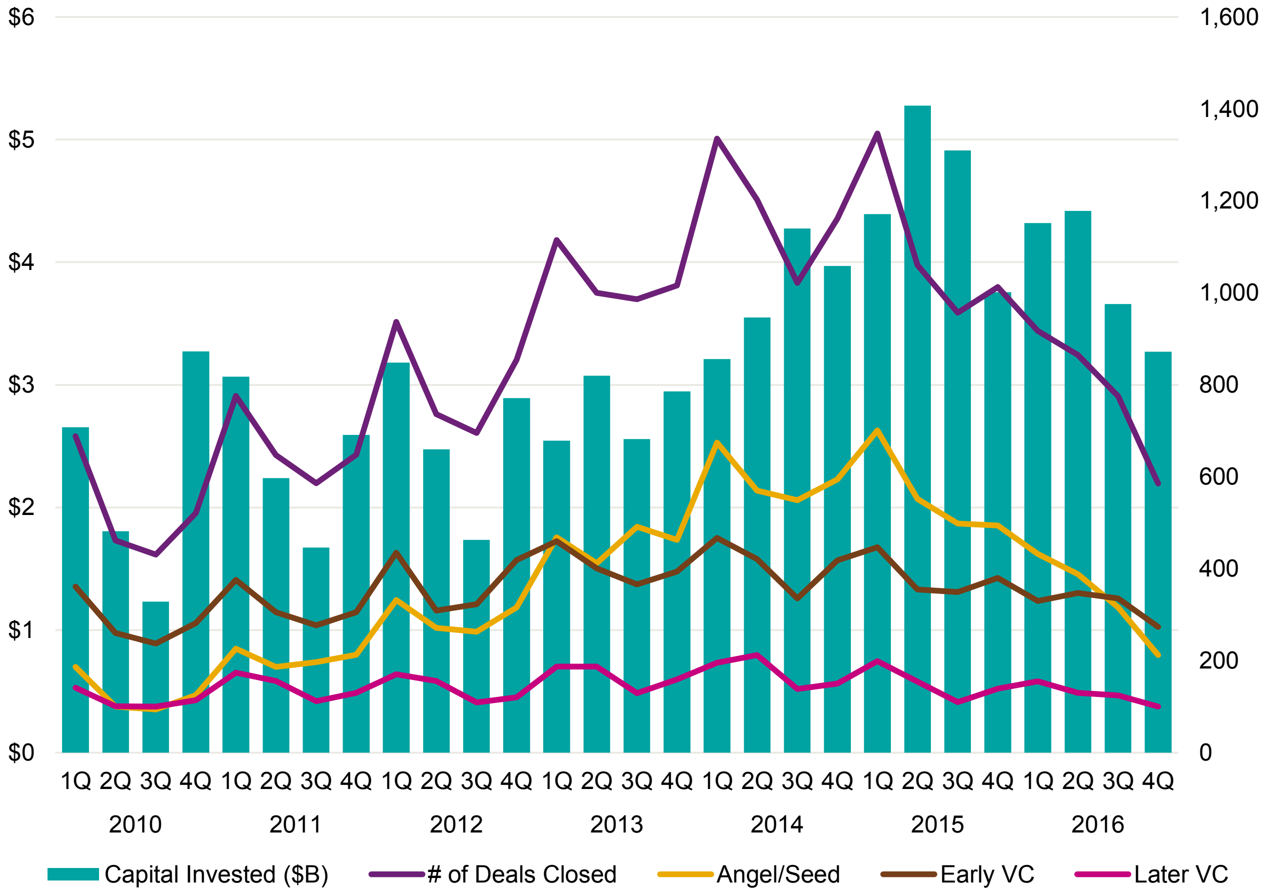


Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Although European venture activity slid again year-over-year, declining by 28% from 2015 levels, VC investment remained quite robust on a historical basis at $15.7 billion. That actually overtops the second-highest tally of the past 7 years, 2014's $15 billion. As Europe's venture ecosystem is more driven by pockets of activity around metropolitan areas, outsized financings of large, late-stage companies have a proportionately greater effect.

Modest drop in total dollars invested in Q4

Quarterly financing trends in Europe
2010 – 2016



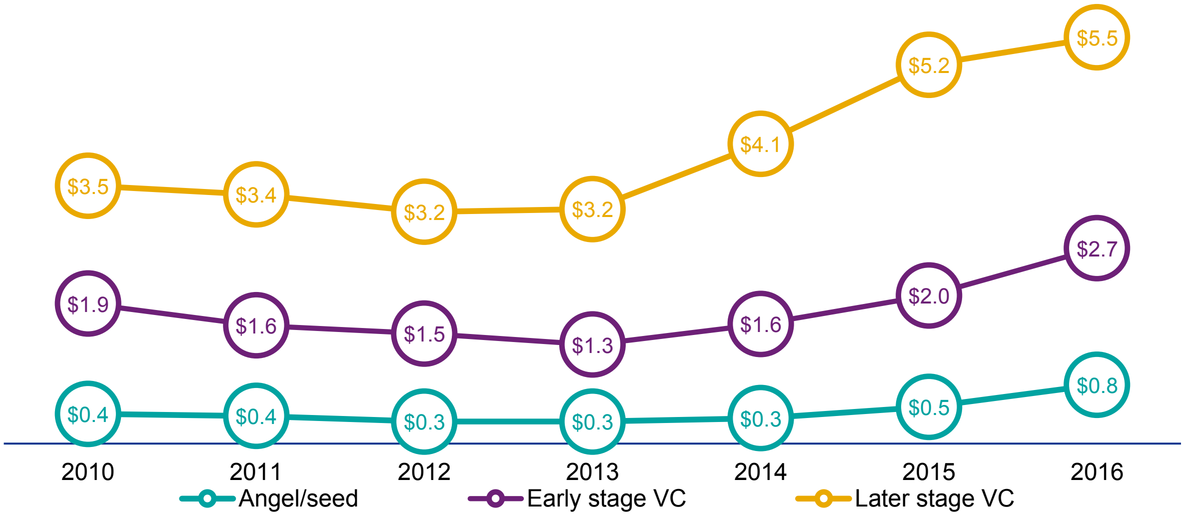
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Compared to Q4'15, the last quarter of 2016 registered a decline of nearly 13% in VC invested, although the more significant decline was by far in total activity, at a 42% drop across the same timeframe.

Especially at the late-stage, round sizes remain high

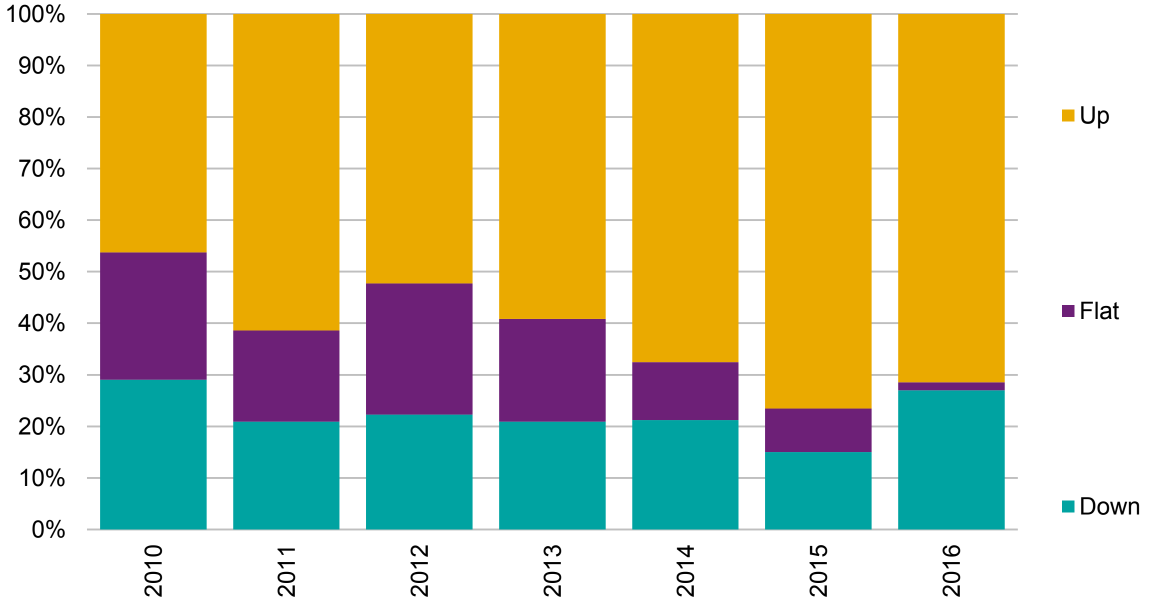
Median deal size ($M) by stage in Europe

2010 – 2016



Up, flat or down rounds in Europe

2010 – 2016

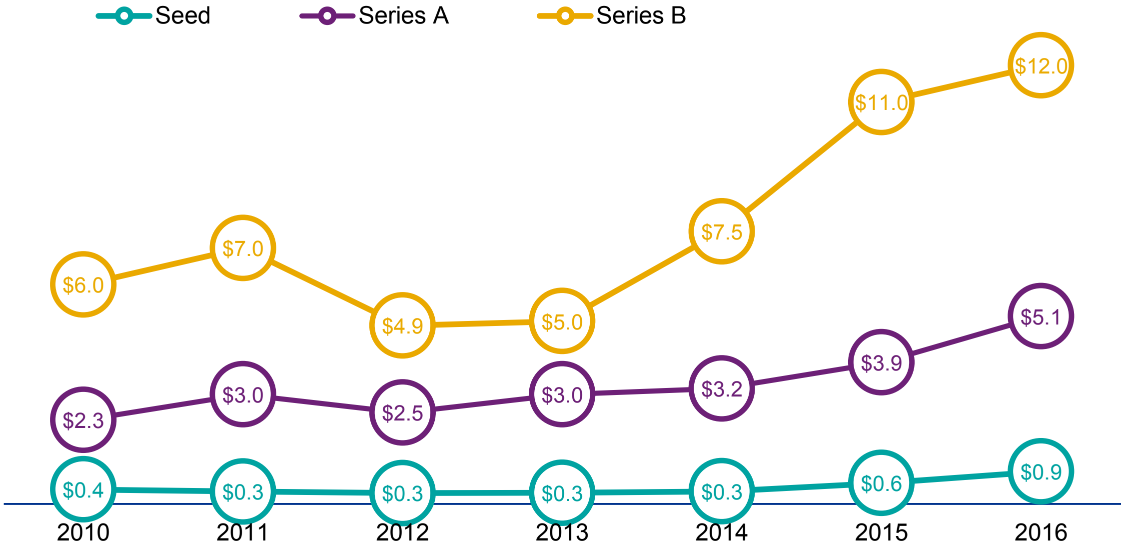


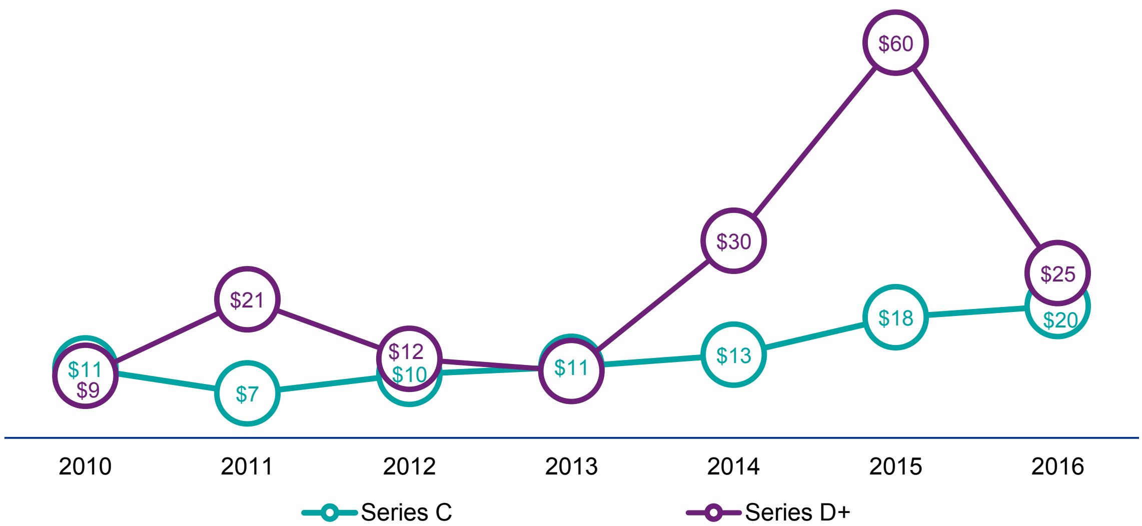
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The latest stage took a plunge

Median deal size ($M) by series in Europe

2010 – 2016





Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Between 2015 and last year, Series D and later financings took a steep dive in terms of median size. In fact, among relatively developed venture markets, the European late-stage was alone in seeing such a decline. It should be noted that on a historical basis, $25 million is within the norm.

KPMG Enterprise

"In spite of 2016 being a challenging year globally, it's been the second best year on record for the amount of VC dollars invested in Europe. However, the number of deals benefiting from those investments has fallen considerably — back to 2012 levels. Looking forward there is a good pipeline of startups that have grown substantially. If they want to scale, going to the IPO market might be a credible option for a select few in 2017."

Anna Scally
Partner, Head of Technology, Media and Telecommunications,
KPMG in Ireland

Enterprise

Series B valuations indicate a clear threshold

Median pre-money valuation ($M) by early series in Europe

2010 – 2016

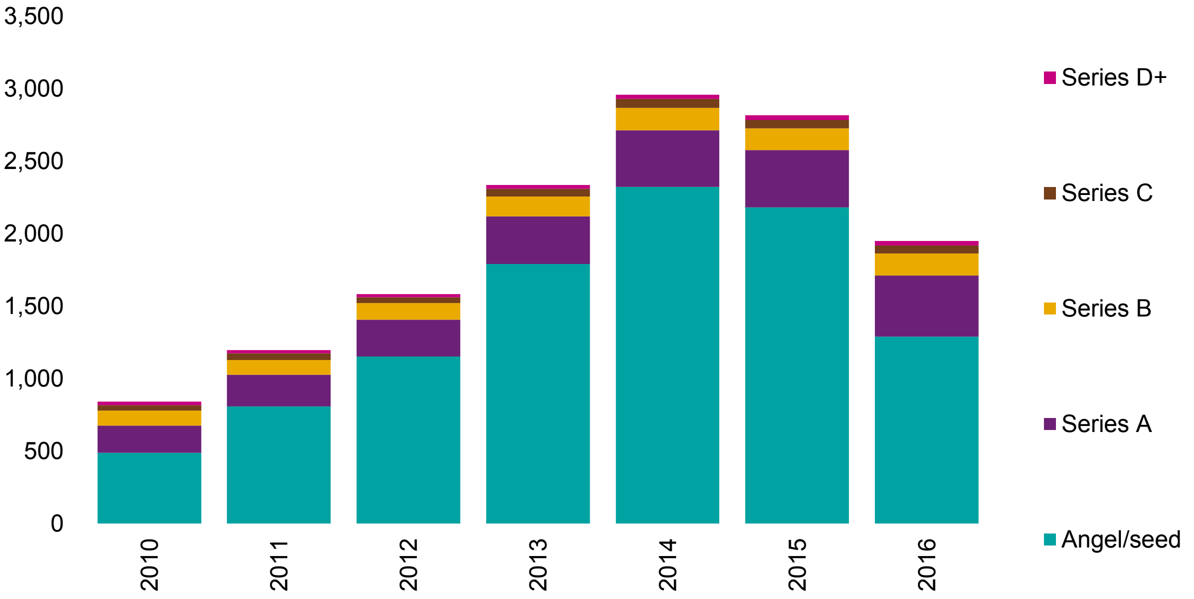
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

One of the significant hurdles within the European venture ecosystem is scaling beyond a certain point up the venture capital stack. On an anecdotal basis, the main challenge is breaching the significantly sized Series A or even Series B level. Accordingly, the skyrocketing median Series B pre-money valuation over the past few years suggests that amid the global venture boom, investors are eager to ply European companies that are able to clear that threshold with plenty of VC.

Angel and seed deals grow in VC investment

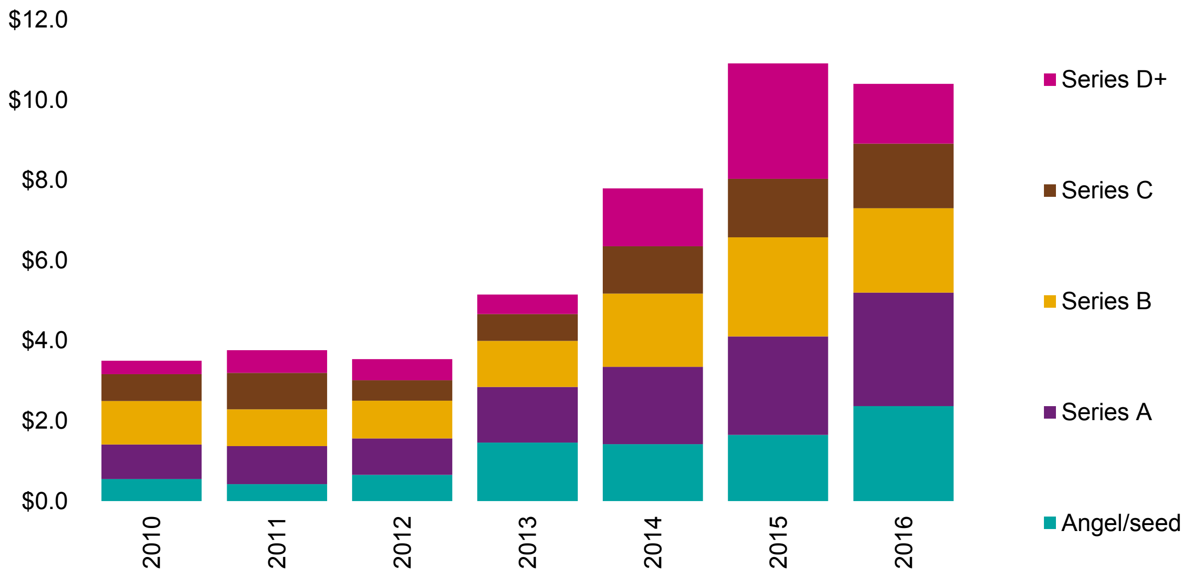
Deal share by series in Europe

2010 – 2016, number of closed deals



Deal share by series in Europe

2010 – 2016, VC invested ($B)



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

There is still a strong hunger for tech development in Europe, particularly in the UK, Germany and France, where a lot of traditional businesses know they need to digitize. The question will be how quickly they can do it.

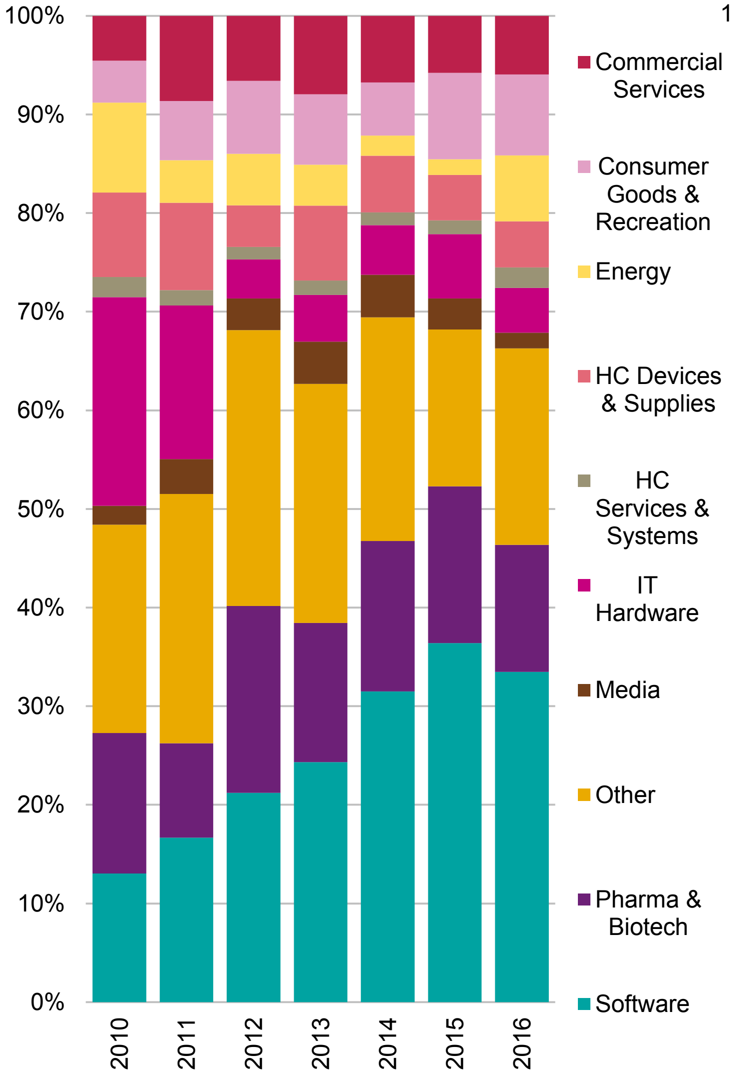
Jonathan Lavender
Principal, Head of Markets,
KPMG in Israel

KPMG Enterprise

Software slides in capital invested

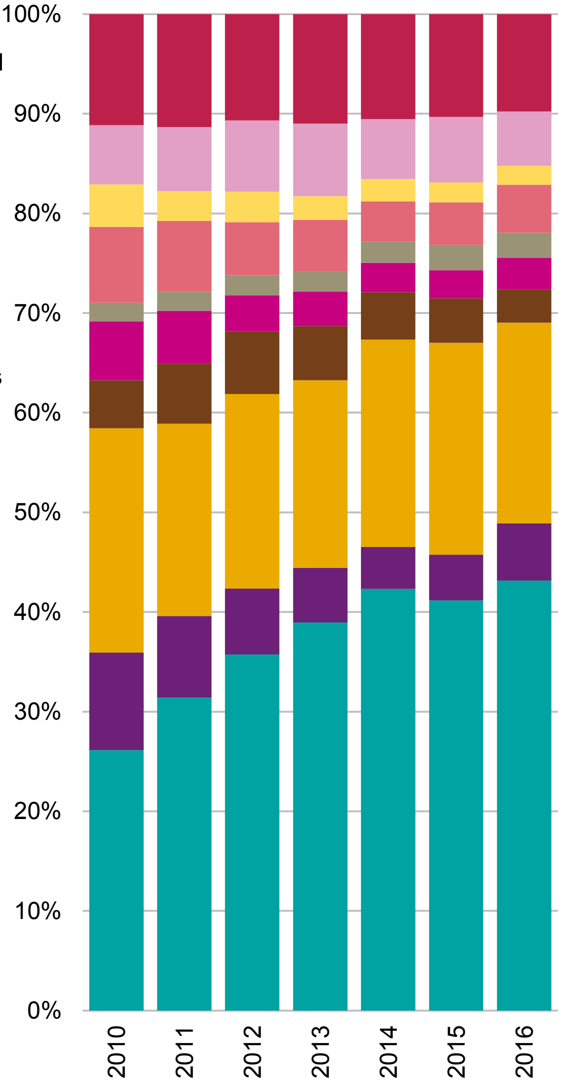
European venture financings trends by sector

2010 – 2016, VC invested ($B)



European venture financing trends by sector

2010 – 2016, number of closed deals



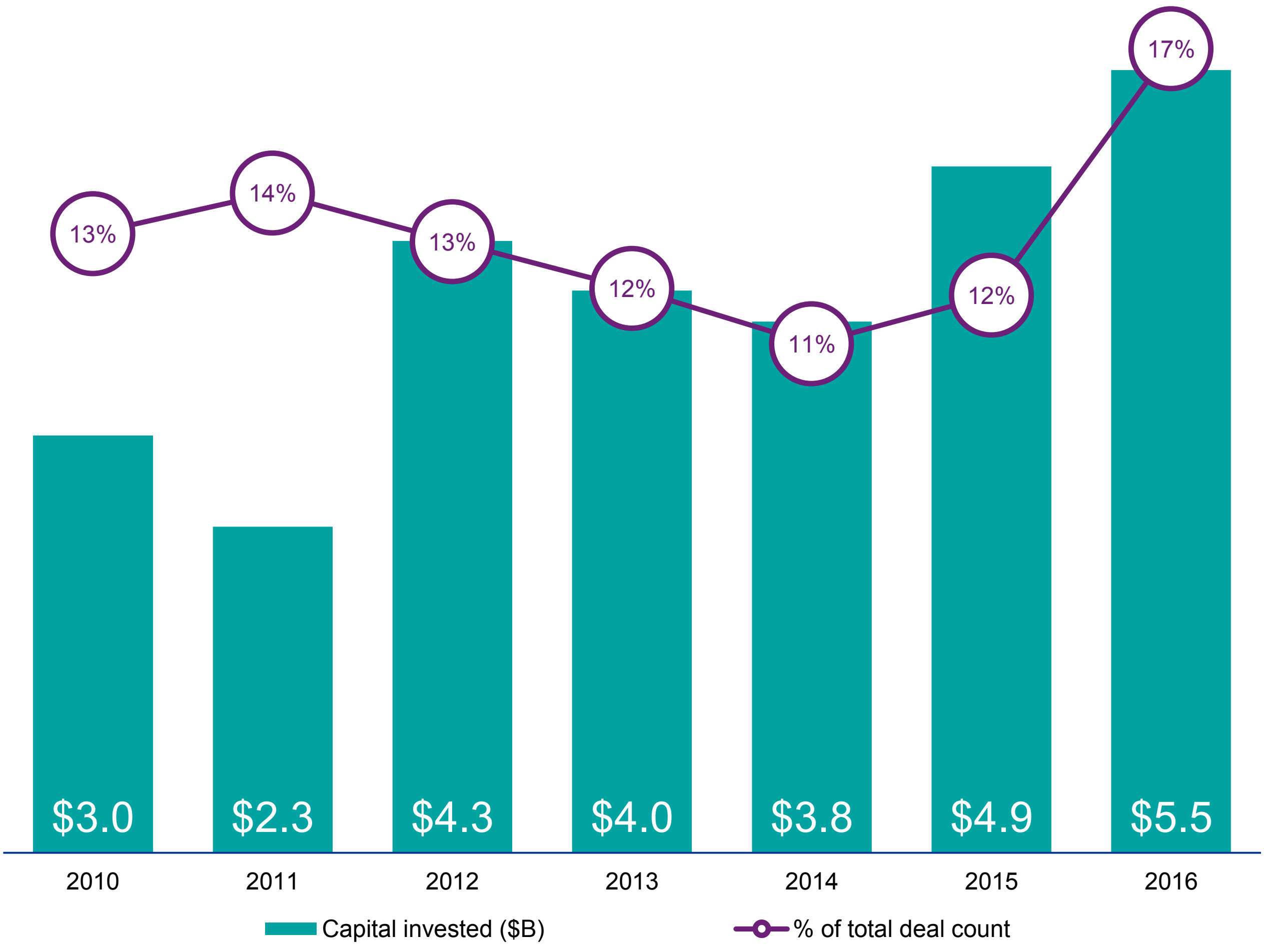
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Among all the sectors, sums invested to healthcare-related companies actually remained relatively stable between 2015 and 2016, with virtually every other seeing slides in capital to varying degrees. $1.05 billion went to energy companies based in Europe in 2016, while pharmaceuticals and biotechnology raked in just over $2 billion in total in the same timeframe.

Corporate participation jumps

Corporate VC participation in venture deals in Europe

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The value of European rounds in which corporate VCs participated in 2016 grew significantly year-over-year, by no less than 14% to $5.5 billion total. As a percentage of total financings, the number in which they participated also grew significantly. With differing investment rationales, corporate venture arms have been able to maintain their activity amid the downturn.

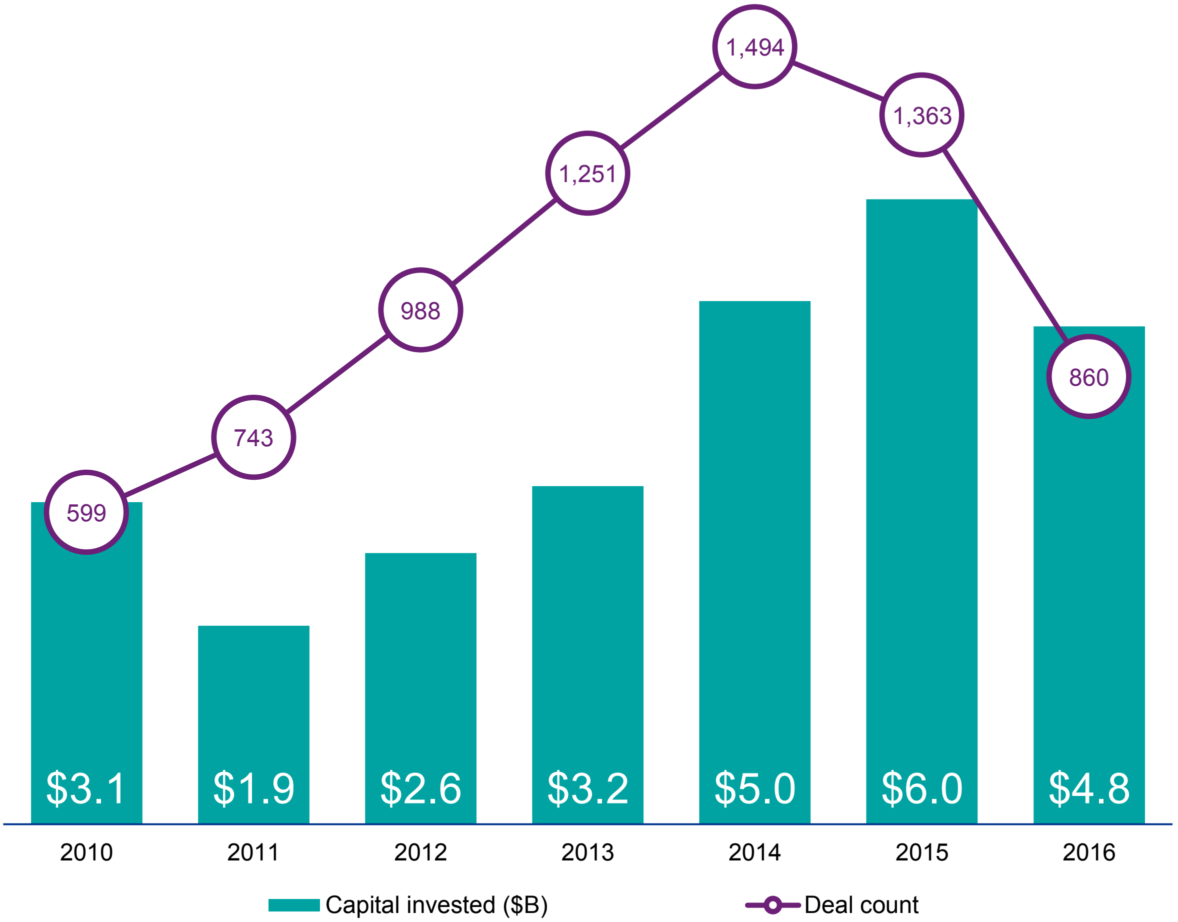
While there is still uncertainty in the European economy resulting from Brexit, the message from the VC market is that they continue “business as usual”. We are seeing though that investors are conducting more due diligence on Brexit-related risks and implications to ensure that management has thought through any potential ramifications before moving forward.

Patrick Imbach
Co-Head of KPMG Tech Growth,
KPMG in the UK

The UK records a steep drop

Venture financing in the UK

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

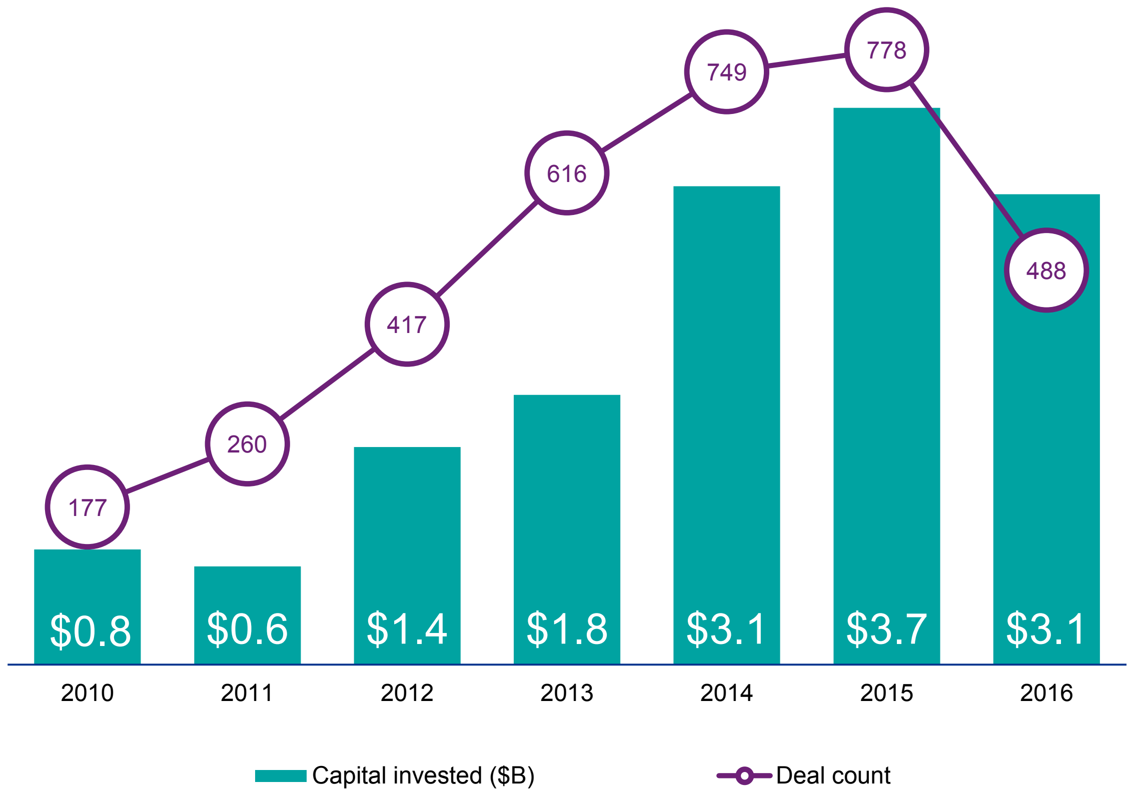
Impacted by the onset of uncertainty around multiple political and diplomatic issues in the wake of Brexit, the UK venture scene saw total completed financings fall throughout the back half of the year to a low unseen since 2011. Deal value remained resilient, as has been a common theme throughout 2016, but it remains to be seen how Brexit will affect UK VC in the coming year.

KPMG Enterprise

After cresting in 2015, London saw a sudden slide in activity in 2016

Venture activity in London

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

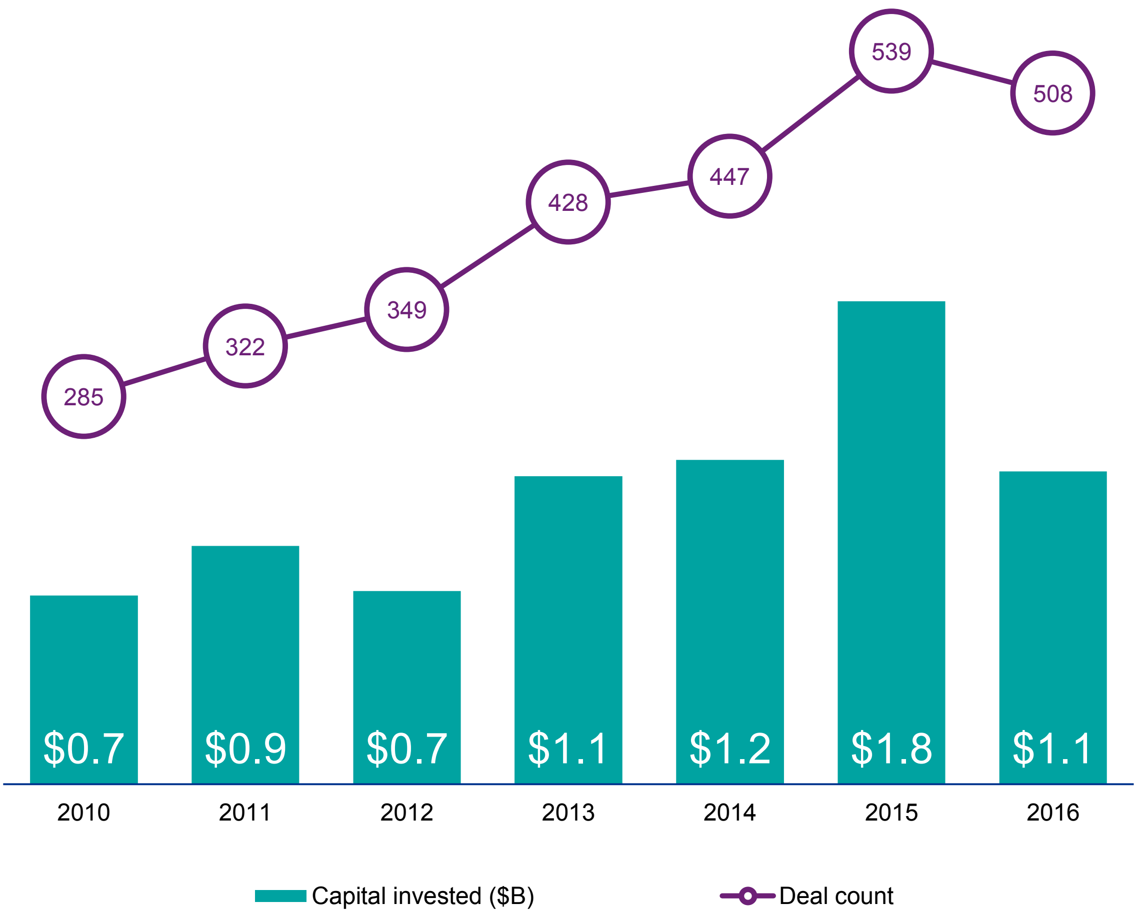
In light of Brexit, a swift year-over-year decline in the number of completed venture deals makes intuitive sense, yet as there is simply so much uncertainty around the UK's leaving the European Union, it is premature to assume London's top-line venture activity will diminish dramatically. Plenty of VC was still invested in the city's startups in 2016 alone.

KPMG Enterprise

The Nordic region remains healthy

Venture financing in Nordic region

2010 – 2016



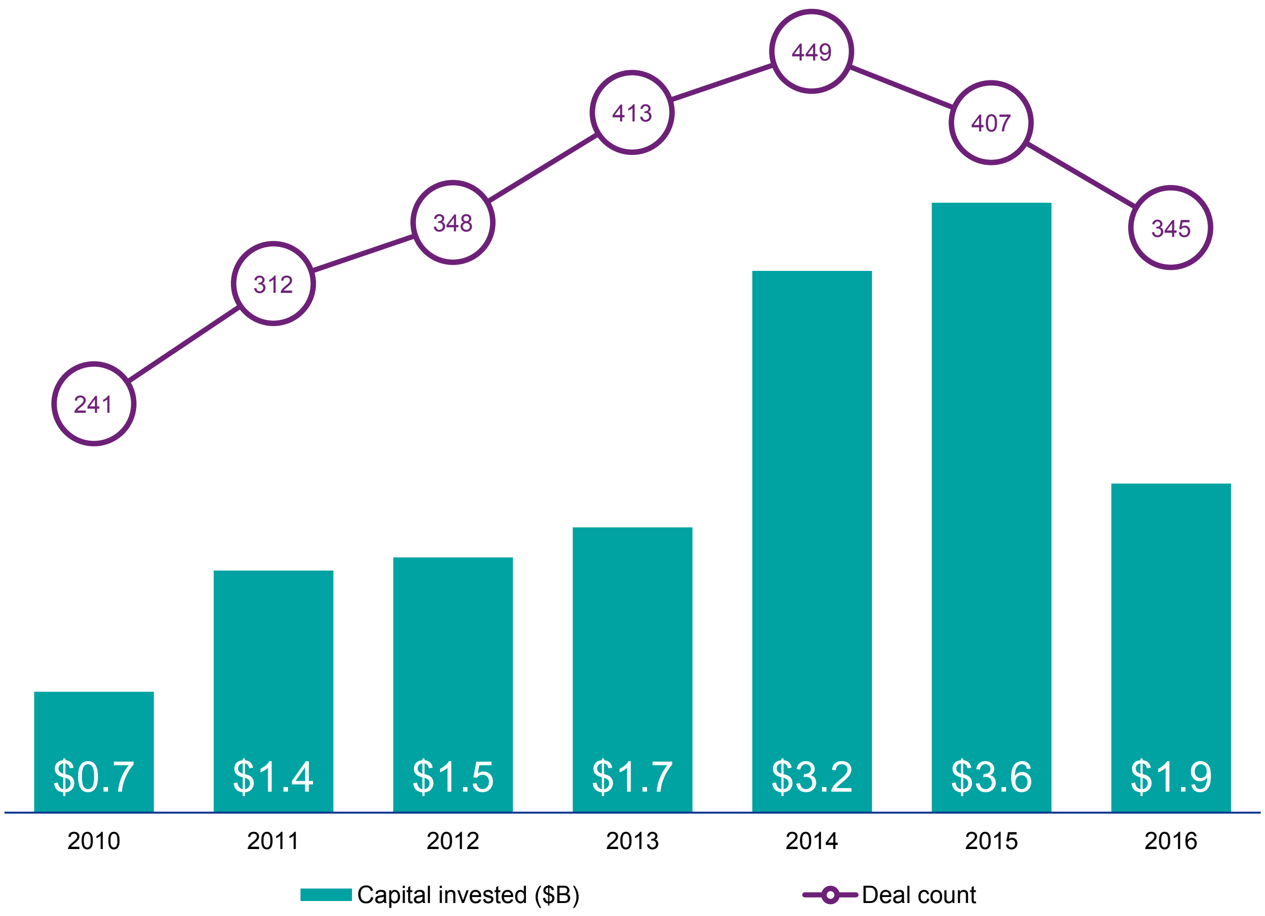
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The Nordic region enjoyed a relatively healthy 2016 in both VC invested and total activity, especially in the context of the broader global downturn in venture funding. Driven by some outliers, VC investment remained substantial at $1.15 billion, down from an outlier 2015 by some 35%.

Germany reverts to historical norms

Venture financing in Germany

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

After 2 outsized years in terms of the total value of all venture fundings of domestic companies, Germany finally saw its annual total of VC dispersed return to historical norms, retaining a healthy margin of $260 million over the figure notched in 2013.

KPMG Enterprise

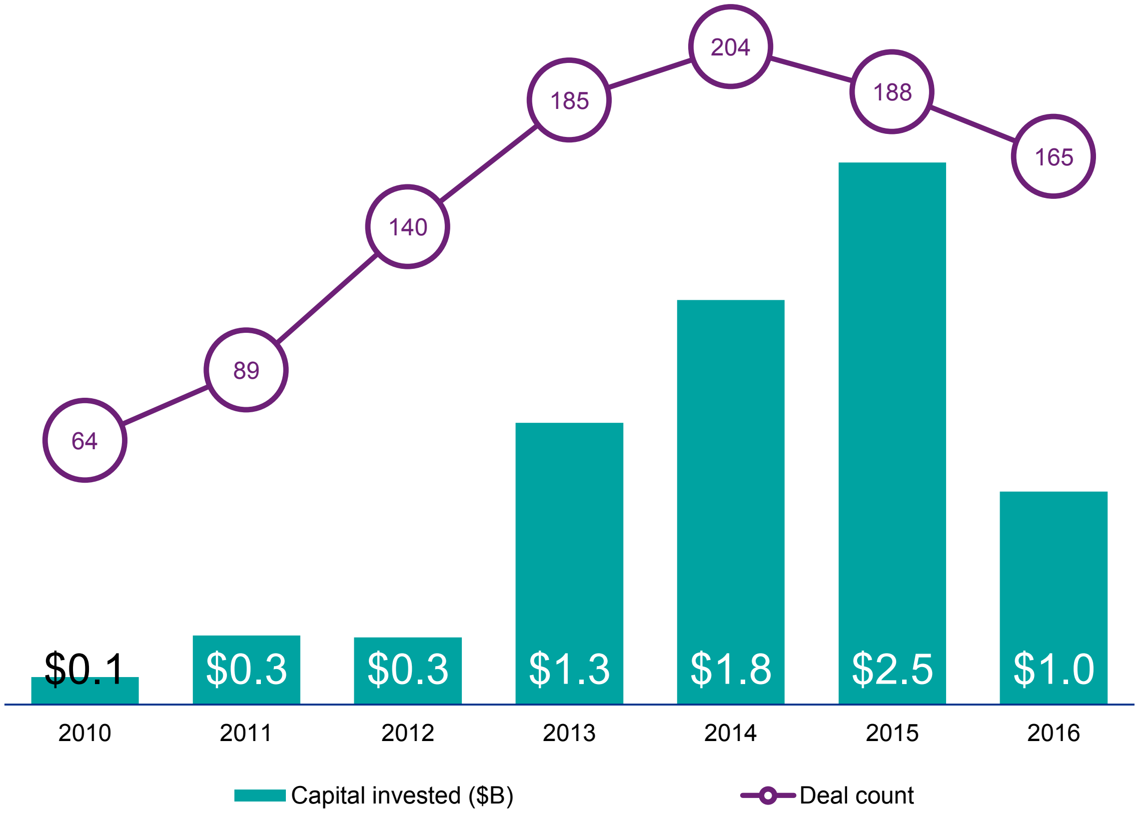
There is strong political will in Europe to compete with the US in new areas of technology, like virtual reality and artificial intelligence. VC investors seem to be doing everything they can to foster these investments, including setting up big funds to help incentivize companies to care about these areas and to fund advancements.

Tim Dümichen,
Partner,
KPMG in Germany

Berlin experiences rapid shift in VC invested, even as activity remains high

Venture activity in Berlin

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

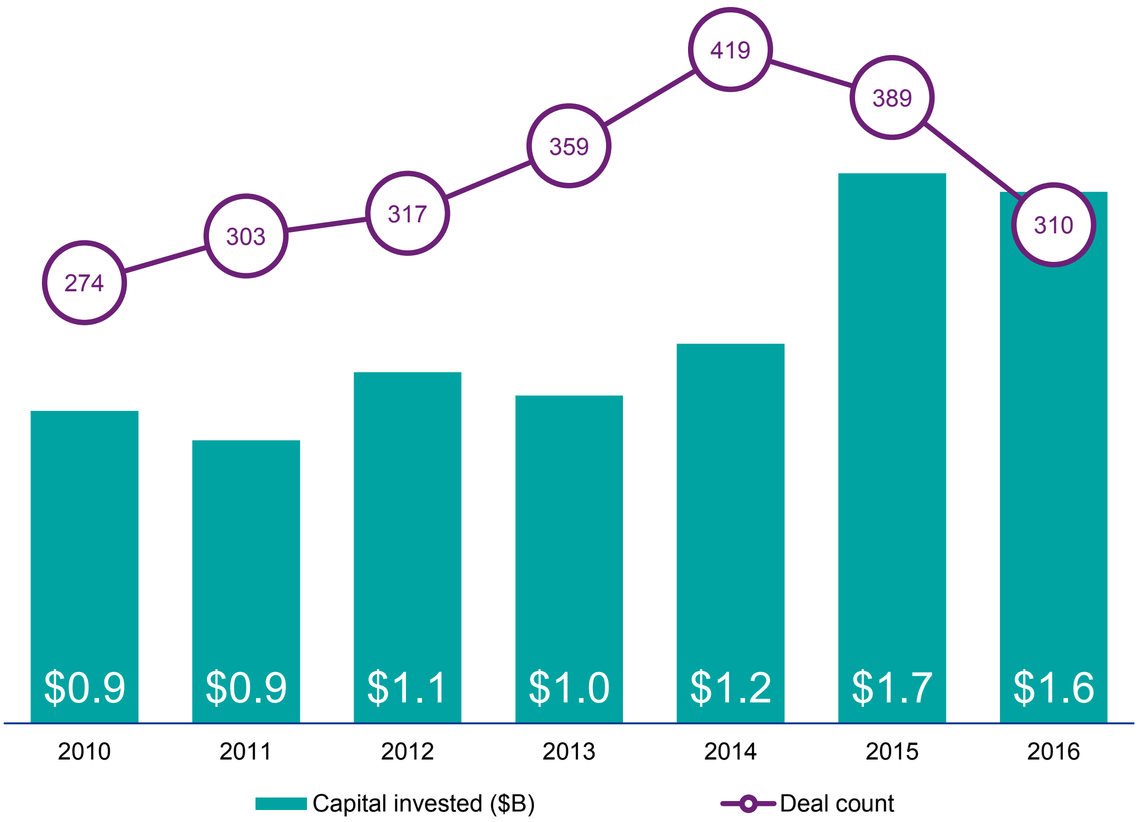
After rising steadily year over year to crest at $2.5 billion in total VC invested in 2015, last year saw nearly $1.0 billion in total capital dispersed to Berlin-based businesses. Although lower than each of the preceding three years, that sum still outperforms on a longer-term historical basis.

KPMG Enterprise

French capital investment totals stay strong

Venture activity in France

2010 – 2016



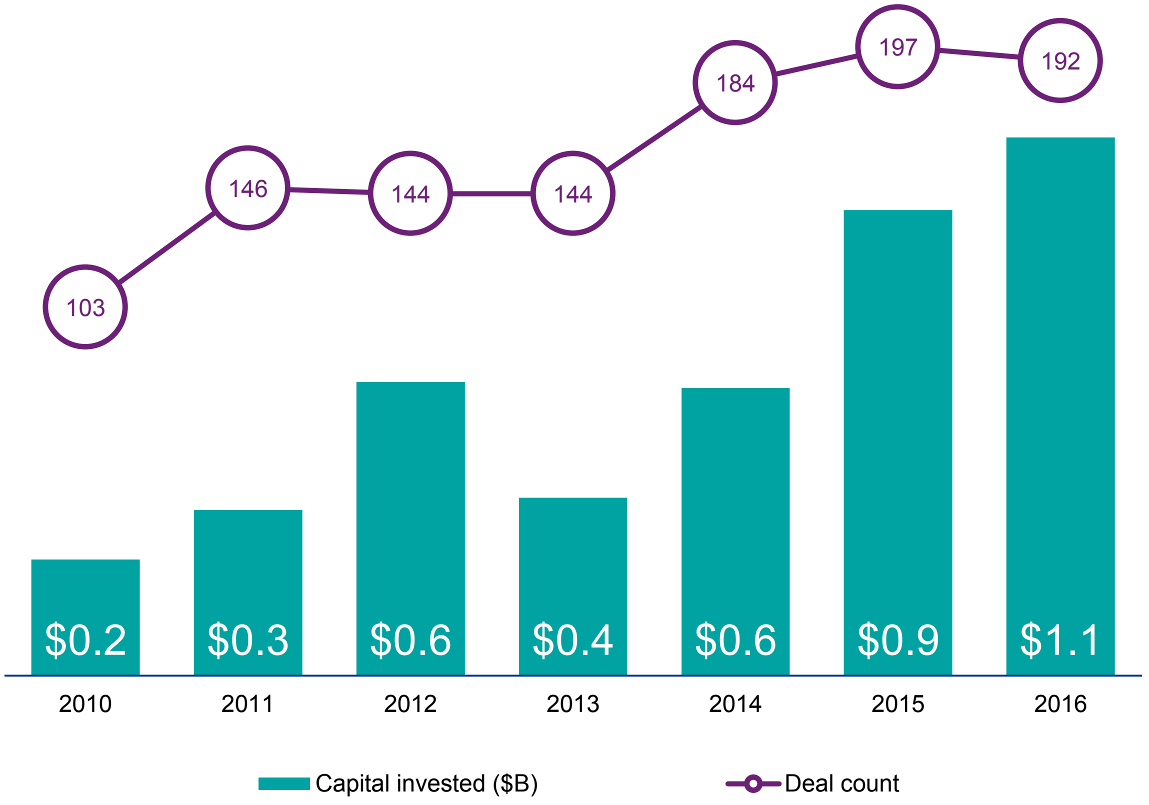
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

French venture activity experienced a shift similar to that of other European nations in terms of activity, yet its total VC invested remained quite resilient.

Paris hits a high in VC investment as activity remains stable

Venture activity in Paris

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Paris venture activity continued unabated throughout 2016, maintaining a lofty plateau that kicked off in 2014. Gradually, VC invested has risen in tandem, simply due to a greater preponderance of larger financings.

Looking to the future, we are likely going to see an increase in corporate ventures. A lot of big ticket companies want to invest in European startups right now. Corporates activity is expected to rise — not only in pure VC investment, but also in terms of those supporting or setting up incubators or accelerators for startups.

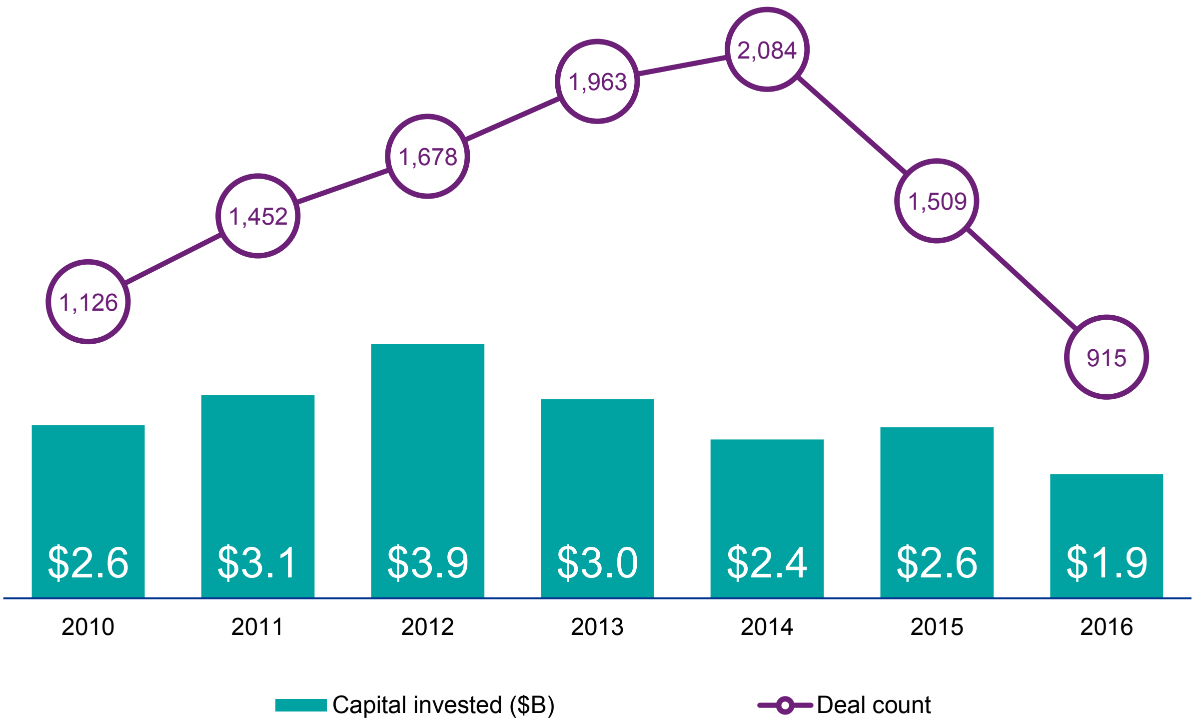
François Bloch

Partner, Head of Innovative Startups,
KPMG in France

First-time financings continue their year-over-year decline in Europe

First-time venture financings of companies in Europe

2010 – 2016



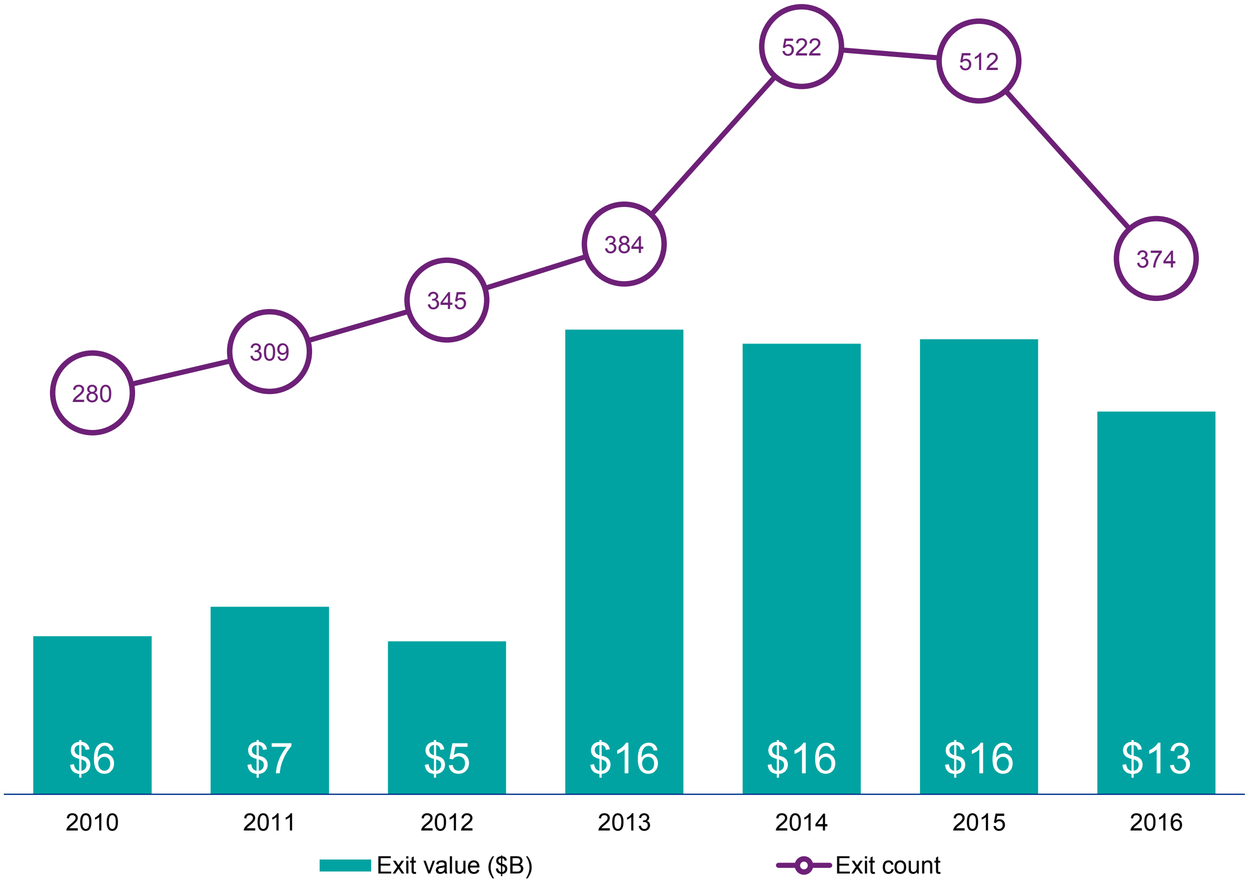
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Given the reversal in investor sentiment, European first-time financings fell by both count and value, hitting a 7 year low in each category. VC invested fell by just over 27% year-over-year, while activity slid by just under 40%.

Exits drop in 2016

Venture-backed exit activity in Europe

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

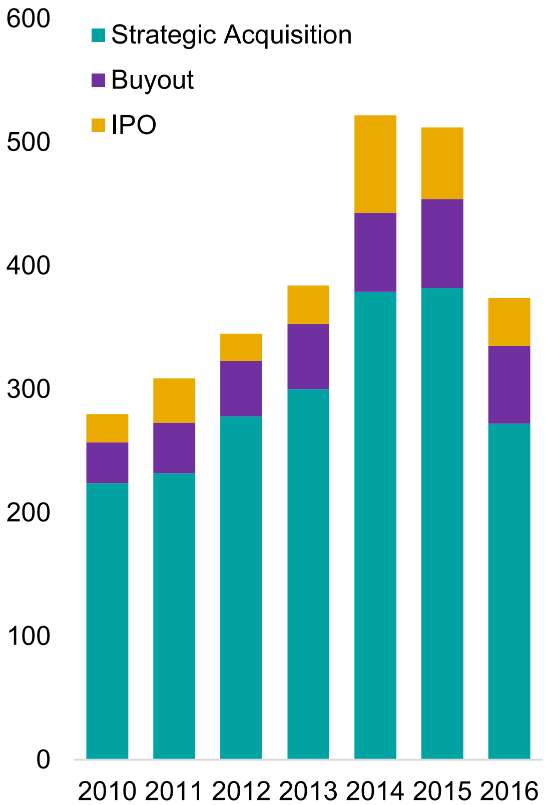
After chugging along steadily at elevated totals for value for 3 years, European venture-backed exits finally slid by nearly 16% year-over-year. Activity fell by nearly 27%, roughly back to the level observed in 2013.

KPMG Enterprise

Almost a 29% decline in corporate acquisitions led to a fall overall

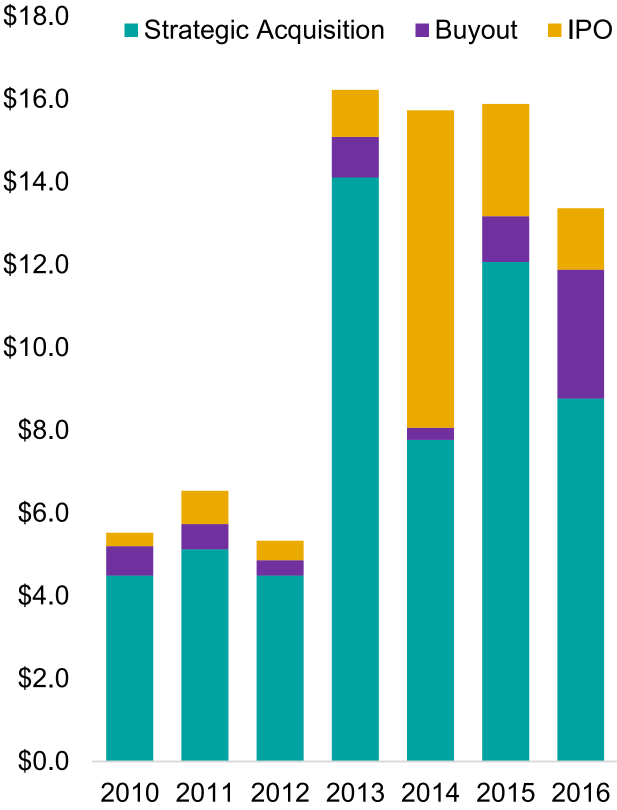
Venture-backed exit activity (#) by type in Europe

2010 – 2016



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

2010 – 2016



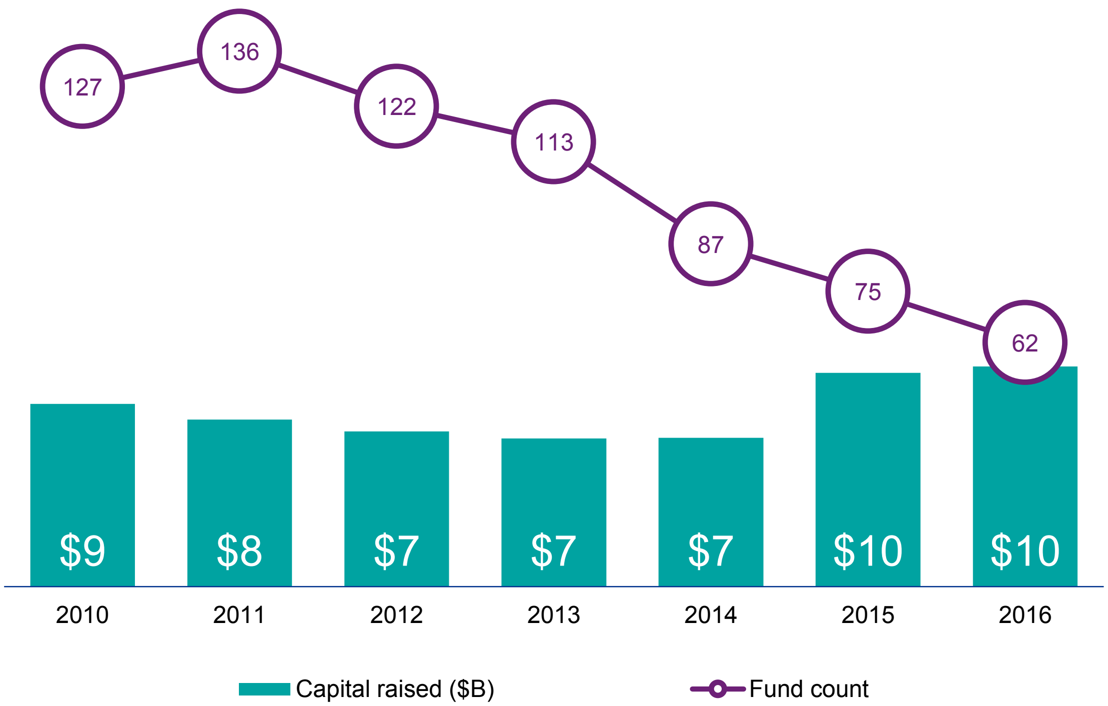
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

One of the primary factors behind the decline in overall exit activity in Europe last year was a decline in corporate acquisitions by nearly 29%.

The decline in domestic venture fundraising is pronounced in Europe

European venture fundraising

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Over the past 7 years, the number of funds raised domestically in Europe has only declined, even if the past 2 years have seen a resurgence in total VC raised, combining to amass $20.7 billion in total.

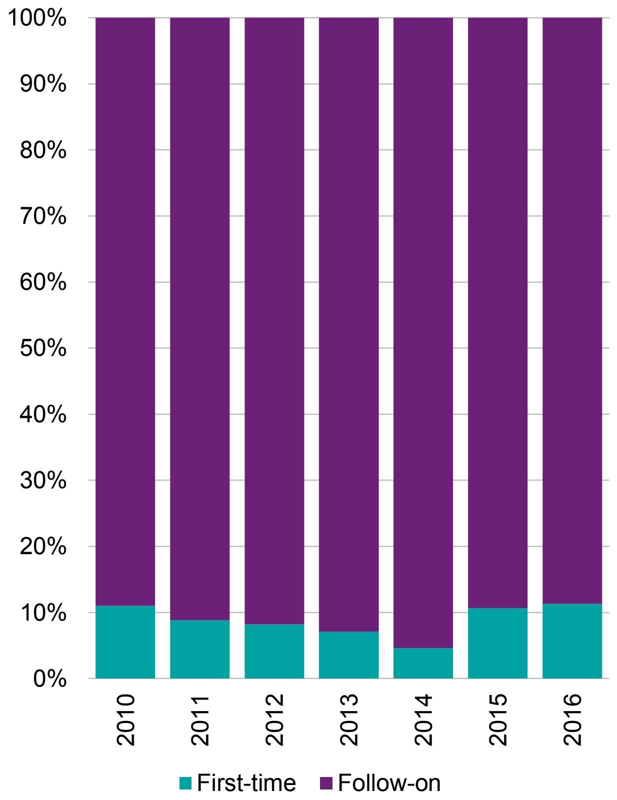
Larger, more experienced VC firms dominate fundraising in Europe

Venture fundraising (#) by size in Europe

2010 – 2016

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

2010 – 2016

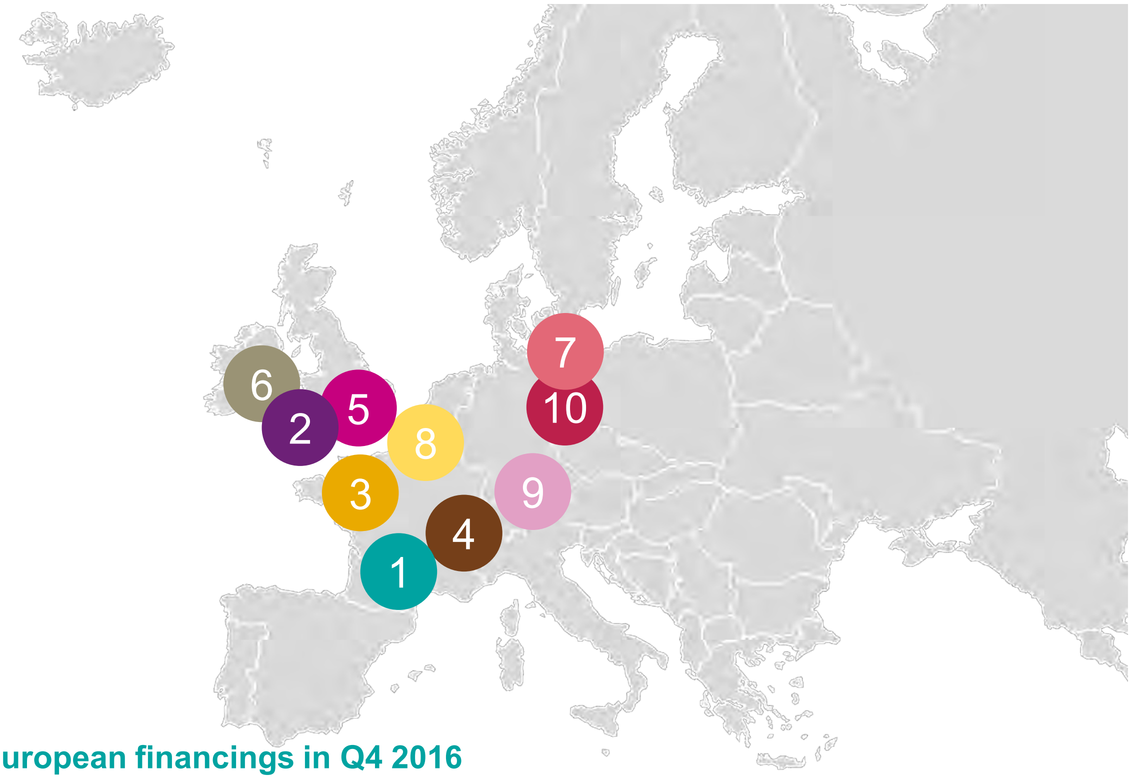


Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Larger venture managers are still able to raise on follow-on vehicles of considerable size, with only a small bevy of smaller managers able to close funds as of late, particularly in 2016.

KPMG Enterprise

Europe's VC hubs account for most rounds



Top 10 European financings in Q4 2016

1 **SigFox** – $162.1M, Labege
Cellular network
Series E

2 **Oxford Nanopore Technologies** – $124.4M, Oxford
Biotech
Late-stage

3 **Devialet** – $108.1M, Paris
Electronics (B2C)
Series C

4 **ADC Therapeutics** – $105M, Epalinges
Pharma & biotech
Early-stage

5 **Kymab** – $100M, Cambridge
Pharma & Biotech
Series C

6 **Carrick Therapeutics** – $95M, Dublin
Pharma & biotech
Early-stage

7 **HelloFresh** – $91.9M, Berlin
Food products
Series G

8 **Nova Lumos** – $90M, Amsterdam
Electricity distributor
Early-stage

9 **Sonnen (battery storage)** – $85M, Wildpolsried
Solar-based battery developer
Late-stage

10 **GoEuro** – $70M, Berlin
Travel search platform
Series C

Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

In Q4'16 VC-backed companies in the Asia region raised

$4.9B

across

357 deals

Enterprise

Asia-based VC investment drops further amid ongoing lack of mega-deals

Despite a significant decline in investment in Q4'16, total VC funding in Asia for 2016 came just shy of 2015's all-time high. This reflects the importance of mega-deals to Asia's VC market. Numerous mega-deals early in the year buoyed total funding overall, then trailed off during the second half of the year, to just a single $500 million+ funding round in Q4'16.

Similar to VC investors in other regions around the world, investors in the VC market in Asia have taken a more cautious approach to their investments this year. While investments are still being made, the due diligence and deals approvals process is taking longer than it has historically. As a result, the number of deals has slowed dramatically, particularly in Q4'16.

Innovation mandate driving government activity in China

In China, provincial governments have started to implement the central government's mandate for innovation. The Hubei province, in particular, announced a fund of $81 billion for investments focused on diversifying the job base during Q4'16. Rather than make investments directly, the province is investing funds through a number of large investment companies, including Sequoia Capital and CBC Capital[1].

In addition to acquiring companies or investing in startups, provincial governments are also starting to set-up research centres and programs to attract foreign IT talent and providing tax incentives, subsidies and other supports in order to grow local technology hubs.

IPO market in Asia remains relatively lackluster

The IPO market in China, specifically, continues to face numerous delays, with hundreds of companies deadlocked, waiting for the opportunity to exit. Despite these drawbacks, many companies from mainland China view Hong Kong as a better option for IPO than the US, where valuations are often less certain. One positive sign for the IPO market in Asia during Q4'16 was the Hong Kong based IPO of selfie app maker Meitu.

Corporate investment in Asia remains strong

Corporate investors have played a significant role in the VC market in Asia – in China, India and Japan in particular. At the same time, corporate investment may be one contributing factor toward why fewer companies have reached unicorn status in the region during 2016. Large corporates have made major efforts to acquire promising startups before they get to that stage, particularly in China.

India continues to attract VC attention, particularly for tech enablement

VC interest in India was relatively strong during 2016, although deal-making was slower than in 2015. The government introduced initiatives aimed at clarifying rules and regulations for startups, in an effort to make it easier for companies with new business models to understand what they could and could not do in the country. The positive growth in India's startup ecosystem has likely led to the growth of VC investments being made by successful Indian entrepreneurs, in addition to the increase of established professionals leaving their corporate jobs to start new business ventures.

The latter trend bodes well for the future of India-based startups as established professionals may be better equipped to guide a startup than individuals with a creative idea but less business experience. Heading into 2017, startups looking to attract capital will likely put more emphasis on their cost structure in order to show investors they are well organized to achieve profitability. Subsectors of technology expected to grow over the next year include healthcare, fintech and any technology that enables other businesses to grow.

1. https://www.bloomberg.com/news/articles/2016-10-20/china-heartland-province-deploying-81-billion-to-seed-startups

Asia-based VC investment drops further amid ongoing lack of mega deals, cont'd

Japan's startup ecosystem growing

While the volume and value of VC deals may still be low, there was a strong push in Japan to support the development of new technologies and startups during 2016, both from the government and from corporates. Japanese corporates, in particular, continued to accelerate their shift from an internal closed loop innovation system to a more open innovation culture. Looking ahead to 2017, a steady uptick in VC fundraising and VC investment is expected as the startup ecosystem in the country continues to grow[1].

Trends to watch for in 2017

Looking ahead to 2017, artificial intelligence and cognitive learning are poised to transform almost every aspect of people's lives. Consequently, VC investment across sectors in this space is expected to be a very hot topic for the foreseeable future. Outsourcing, healthcare and education technologies are also seen as top priorities for VC investment.

In China, outbound VC investment is expected to continue at a solid pace as companies look to acquire technologies for use in the Chinese market. Barring any unexpected challenges introduced by the change in government, the United States is likely to continue to gain the lion's share of outbound investment, although Canada, Israel and countries in Europe may also see additional interest from Chinese investors, especially in countries where their currencies have devalued over the past 6 months.

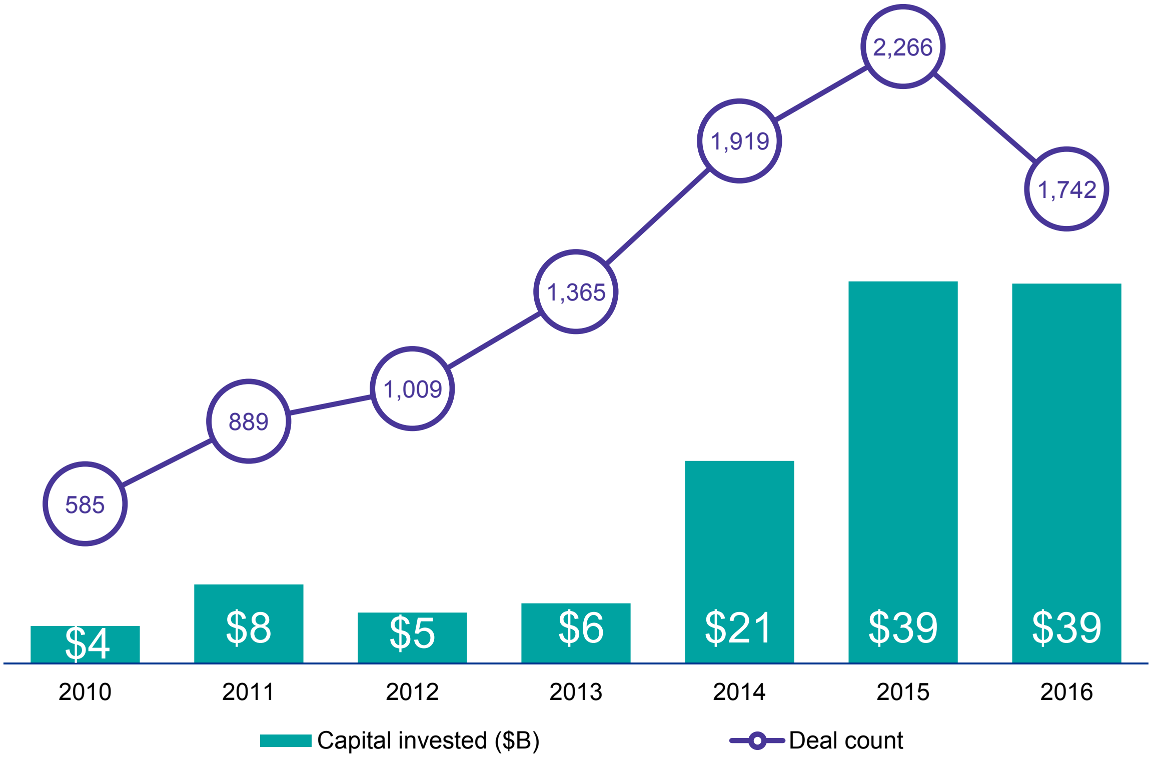
1. http://news.stanford.edu/2016/08/31/japan-transforming-innovation-culture/

KPMG Enterprise

Asia experiences a more significant decline in activity

Venture financing trends in the Asia region

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

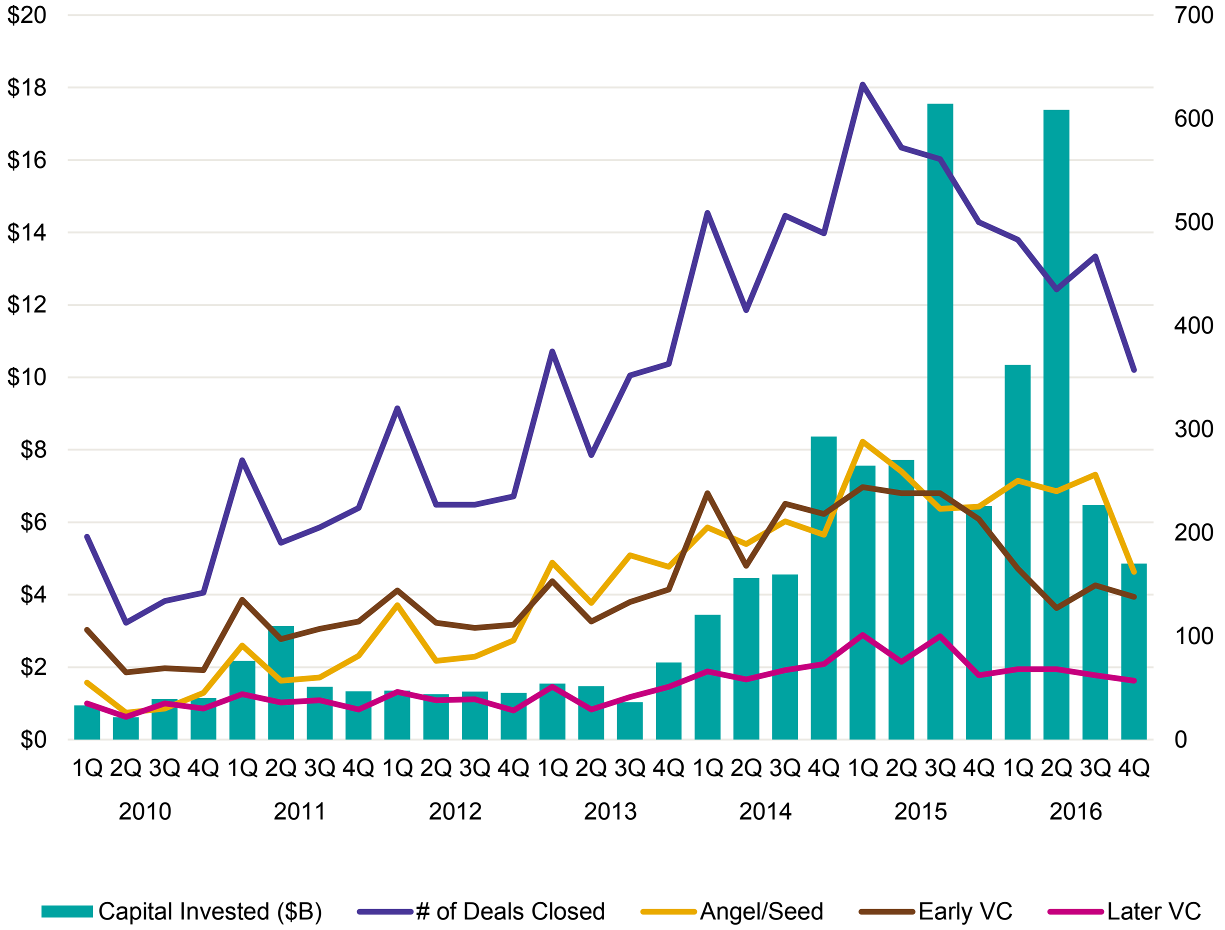
Without a well-developed venture ecosystem, the Asia region is driven primarily by deals within India and China. Early winners of select niches within those countries are responsible for boosting overall sums invested in the area over the past 2 years. The role of non-traditional venture investors should also not be underestimated, as both local and US firms eye relatively better-priced opportunities in emerging markets.

KPMG Enterprise

On a quarterly basis, the decline in activity mirrors worldwide trends

Quarterly financing trends in the Asia region

2010 – 2016



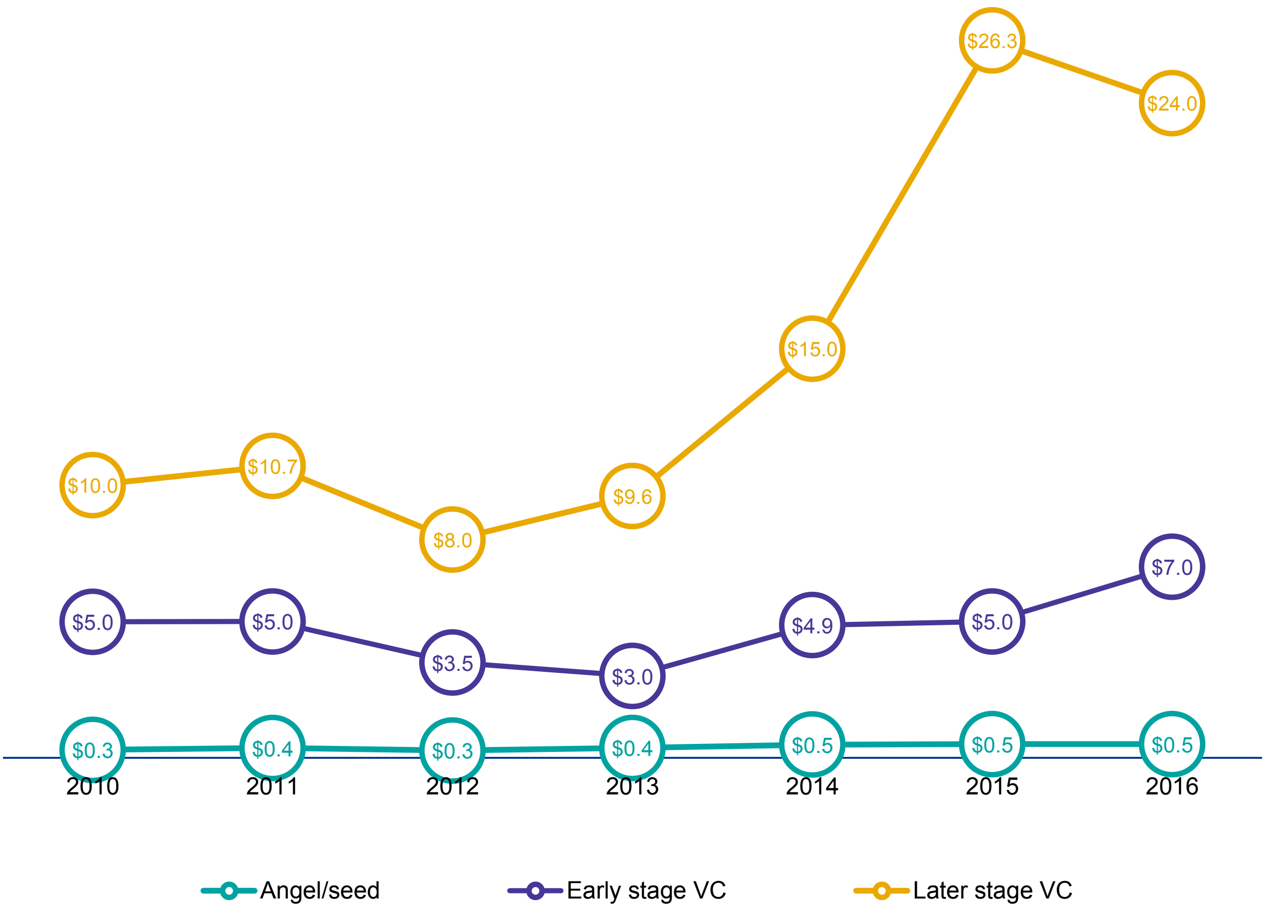
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Year-over-year, the final quarter of 2016 saw a decline of 24.7% in VC invested relative to the same period in 2015, while activity slid by close to 29%. Even more so than in other regions, however, the final Q4 tallies were still above historical means.

At the late-stage, round sizes remain high, while early remains strong

Median deal size ($M) by stage in the Asia region

2010 – 2016



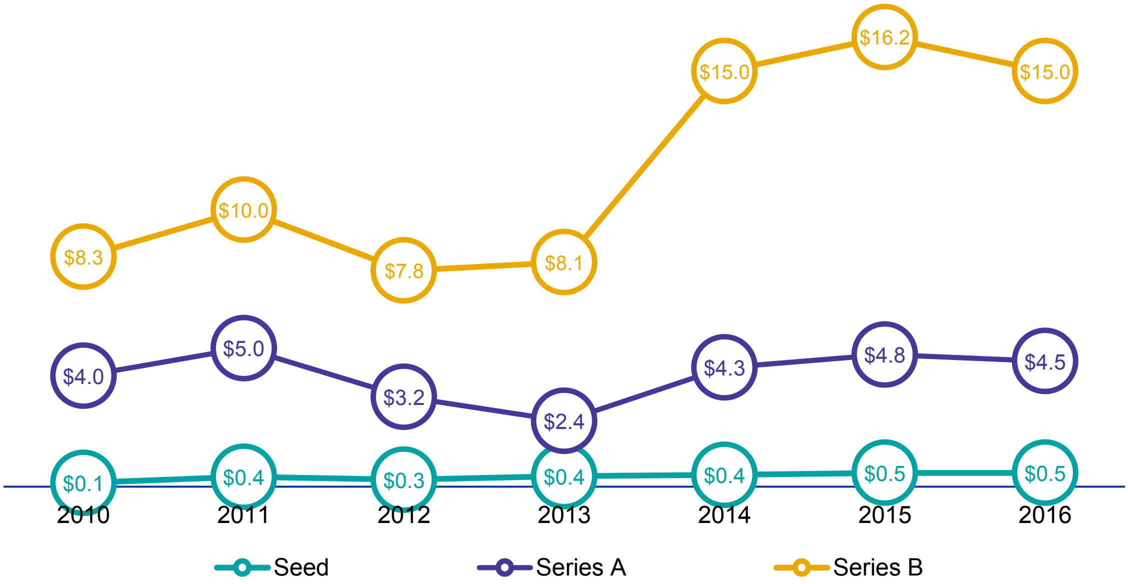
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

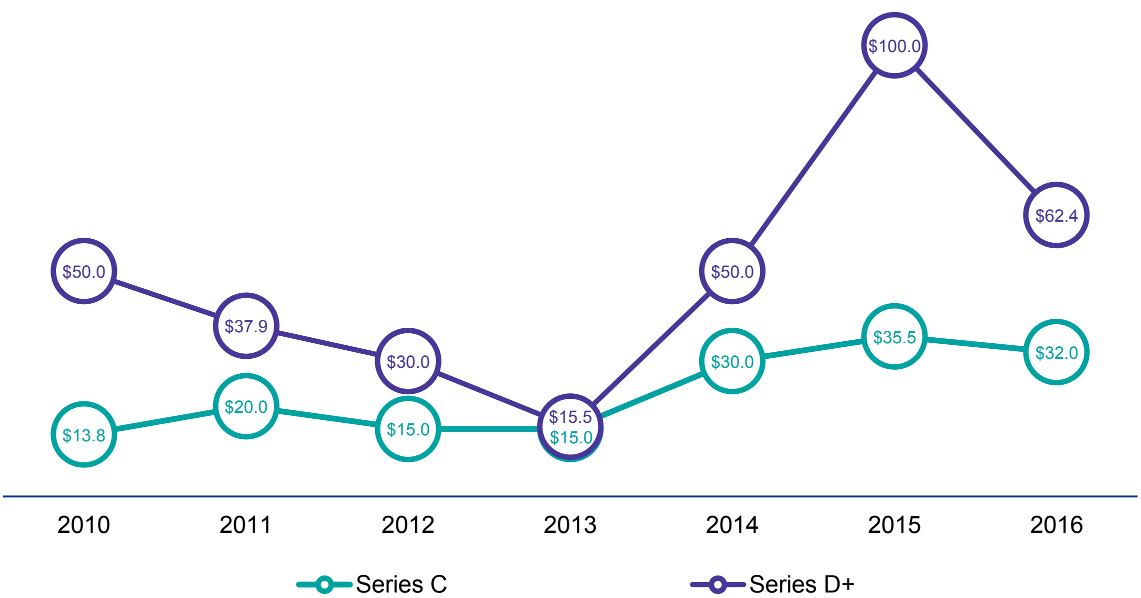
The median late-stage financing in the Asia region remains well above historical comparables, 60% larger than what was recorded in 2014. That figure is again driven by a small cluster of mature companies that capitalized early on opportunities with the emerging markets of the region.

Nearly every series plateaued

Median deal size ($M) by series in the Asia region

2010 – 2016





Note: Select figures are rounded for legibility.

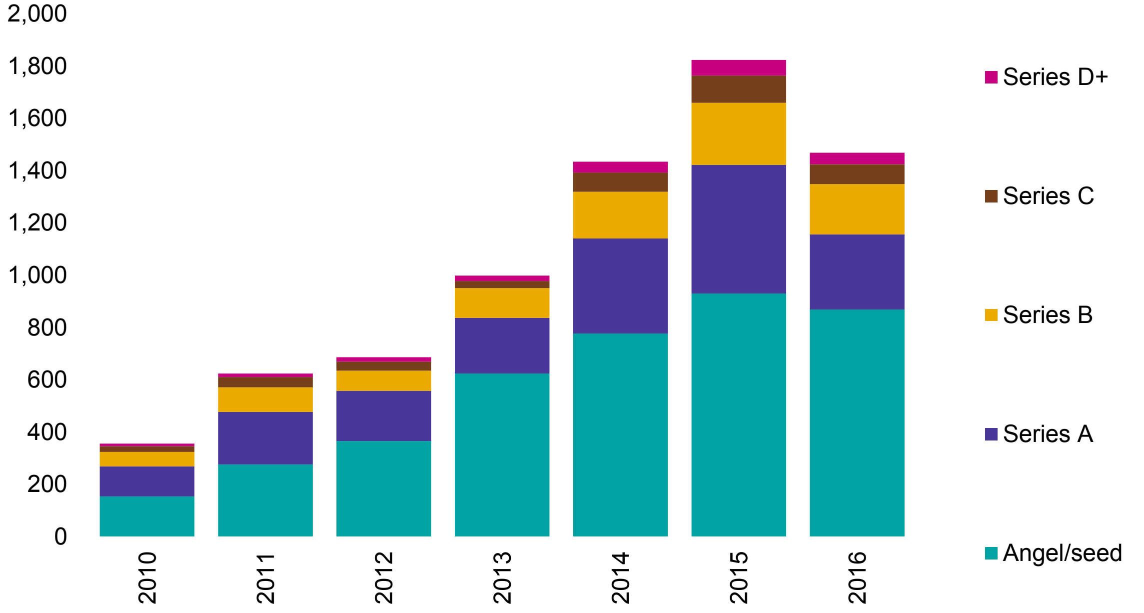
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

Unlike other regions, angel and seed activity has stayed relatively resilient

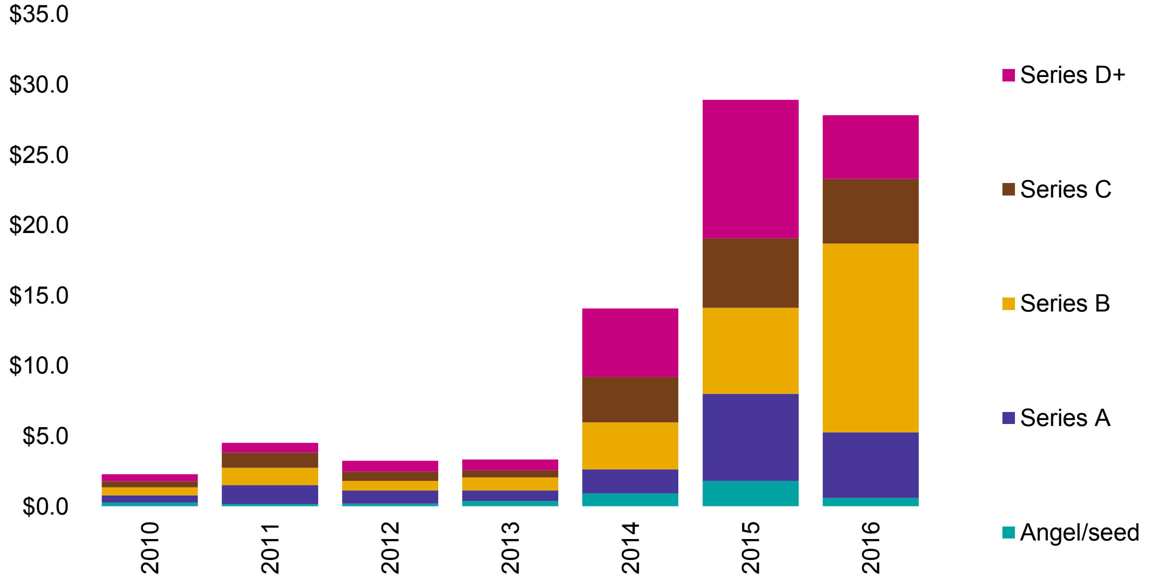
Deal share by series in the Asia region

2010 – 2016, number of closed deals



Quarterly deal share by series in the Asia region

2010 – 2016, VC invested ($B)

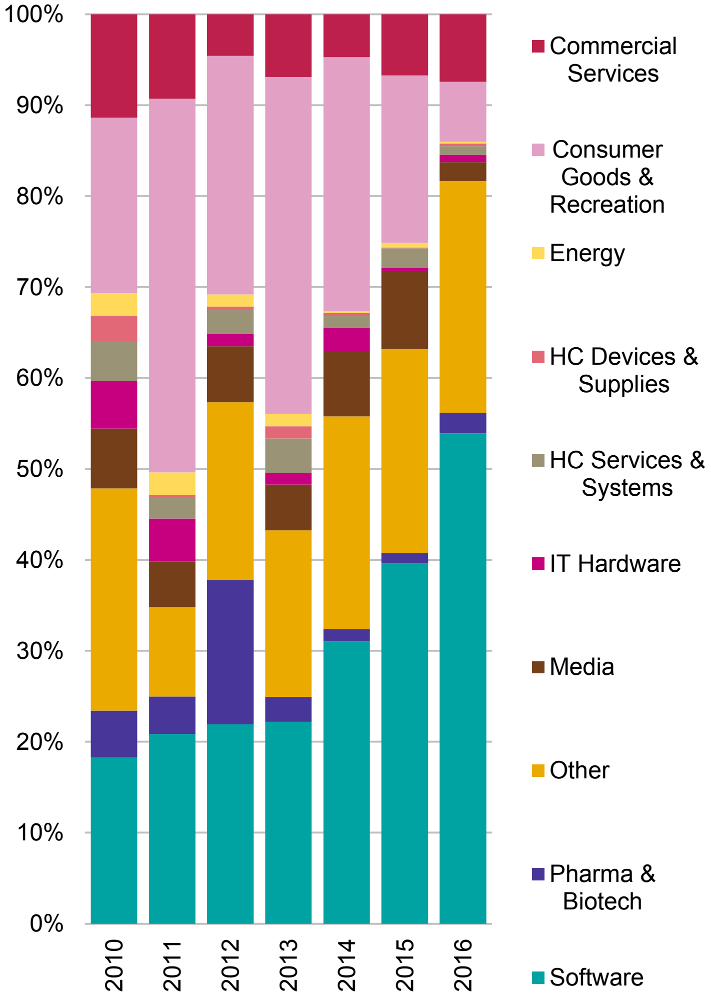


Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Software hits $21.1B invested in 2016

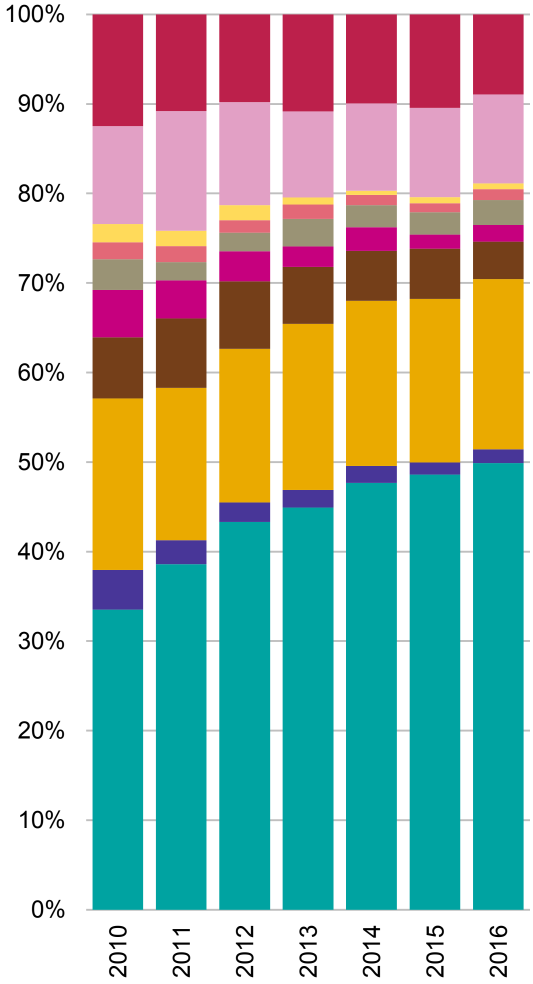
Asia venture financings trends by sector

2010 – 2016, VC invested ($B)



Asia venture financing trends by sector

2010 – 2016, number of closed deals



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Healthcare investments stayed relatively stable between 2015 and 2016 in terms of activity, while software fell by just over 20% by count in the same timeframe. Notably, however, software hit a new high in terms of VC invested, at a staggering $21.1 billion, well over the $15.6 billion achieved in 2015.

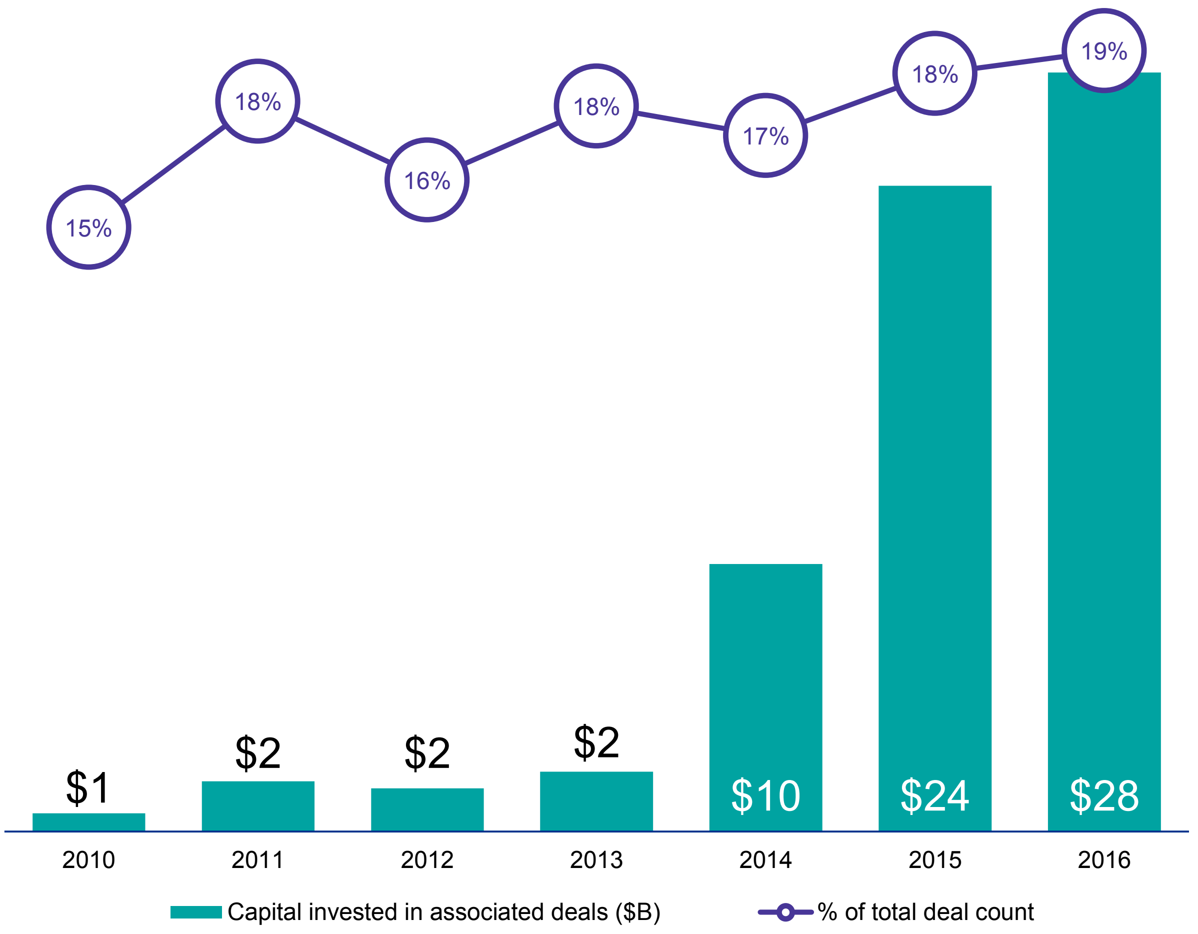
“Investors in Asia are shifting their investment focus. While there has previously been a lot of attention paid to online to offline (o2o), the second half of 2016 saw investors more focused on artificial intelligence, robotics and big data. There is also increased focus on fintech, education and healthcare related startups.”

Philip Ng
Partner, Head of Technology
KPMG China

Corporate VCs hit a new high

Corporate participation in venture deals in the Asia region

2010 – 2016



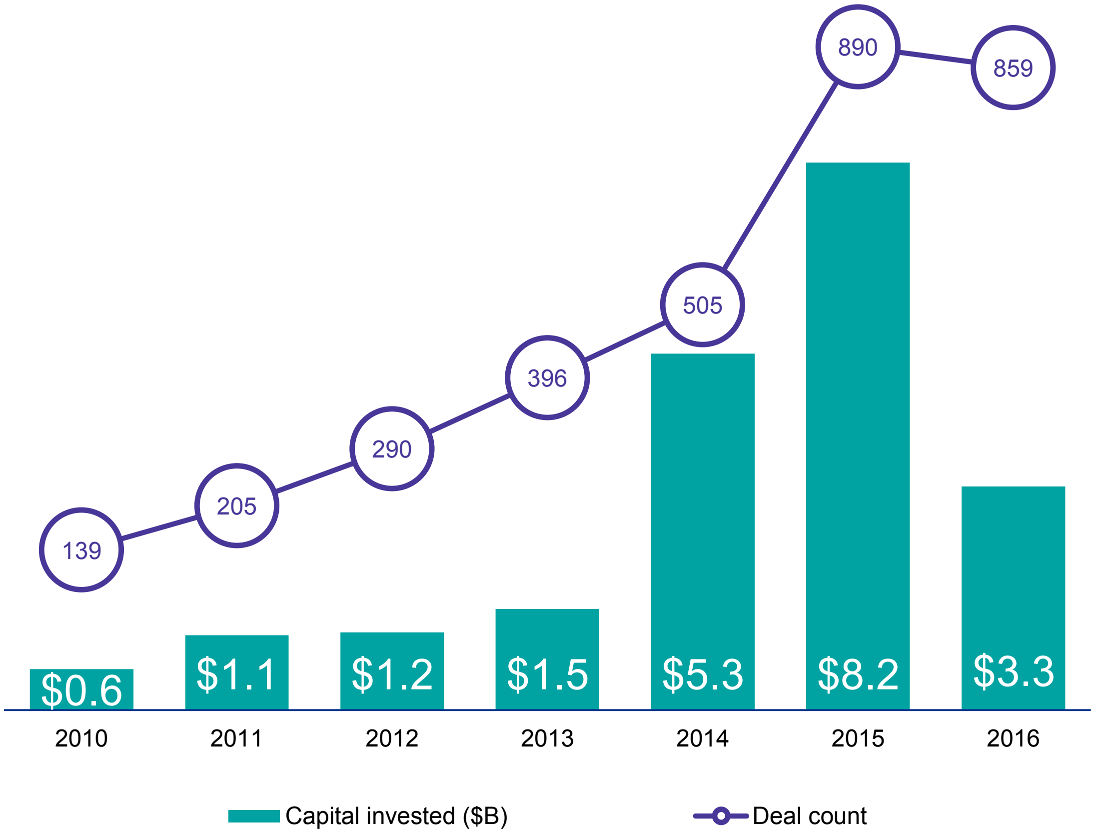
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Relative to other regions, the fledgling venture ecosystem in Asia entails a higher percentage of its total VC activity to be associated with corporate venture arms historically, given their typical investment rationales in backing companies with an eye toward future strategic and innovative gains as well as financial. However, the global increase in CVC investing has certainly not escaped the region, as is evident from a new high in the proportion of total activity in which corporate VCs participated.

India stays strong

Venture financing in India

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

To put 2016's performance in overall venture activity in context, the 859 completed financings of India-based companies that year represents no less than 70% more than the total recorded in 2014 and a 296% increase over the 290 in 2012.

KPMG Enterprise

There is still considerable interest among VC investors in India, however deal cycles have been longer as investors are taking more time to evaluate startups to ensure they are investing in companies that have clear business models and truly unique value propositions. “Me too” companies are now finding it difficult to raise funds, whereas companies with unique models for example, in the fintech, healthcare and logistics ecosystems are taking the lion share of funding.

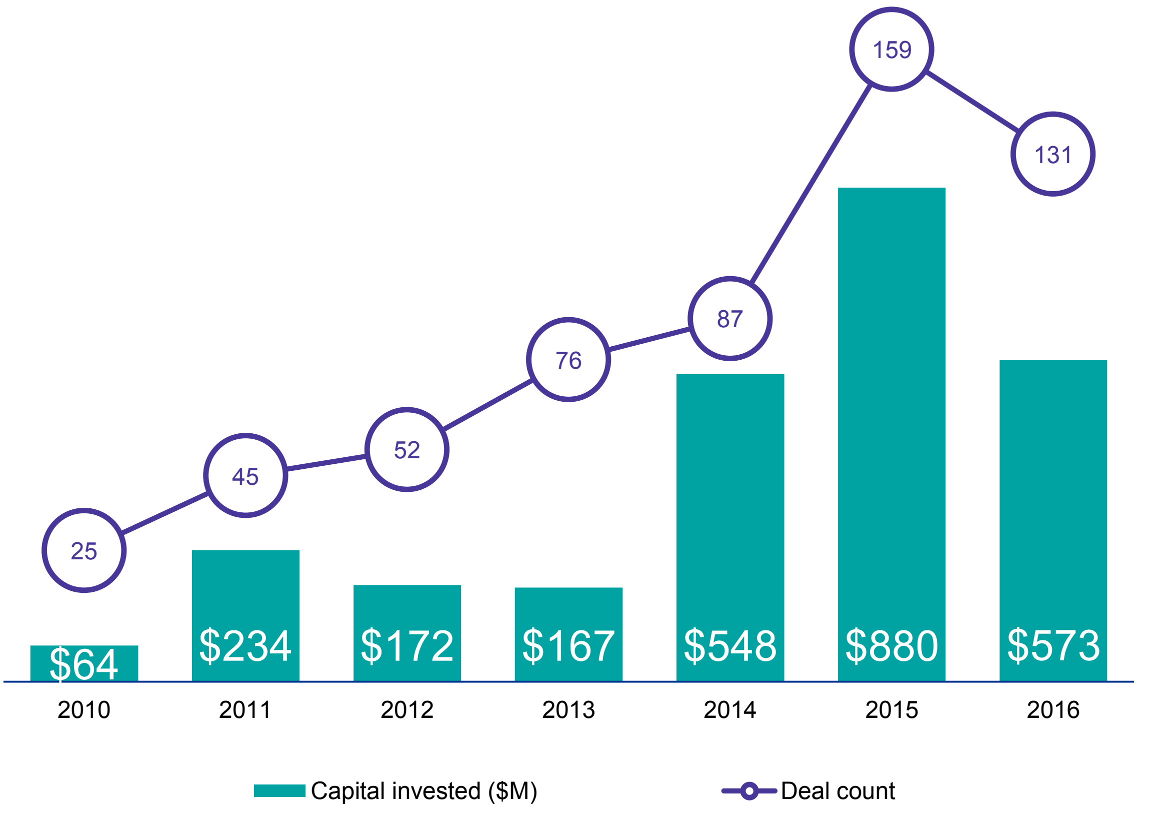
Sreedhar Prasad
Partner, Internet Business and Startups,
KPMG in India

KPMG Enterprise

VC investment in Mumbai startups has virtually trebled 2011 - 2013 totals

Venture activity in Mumbai

2010 – 2016



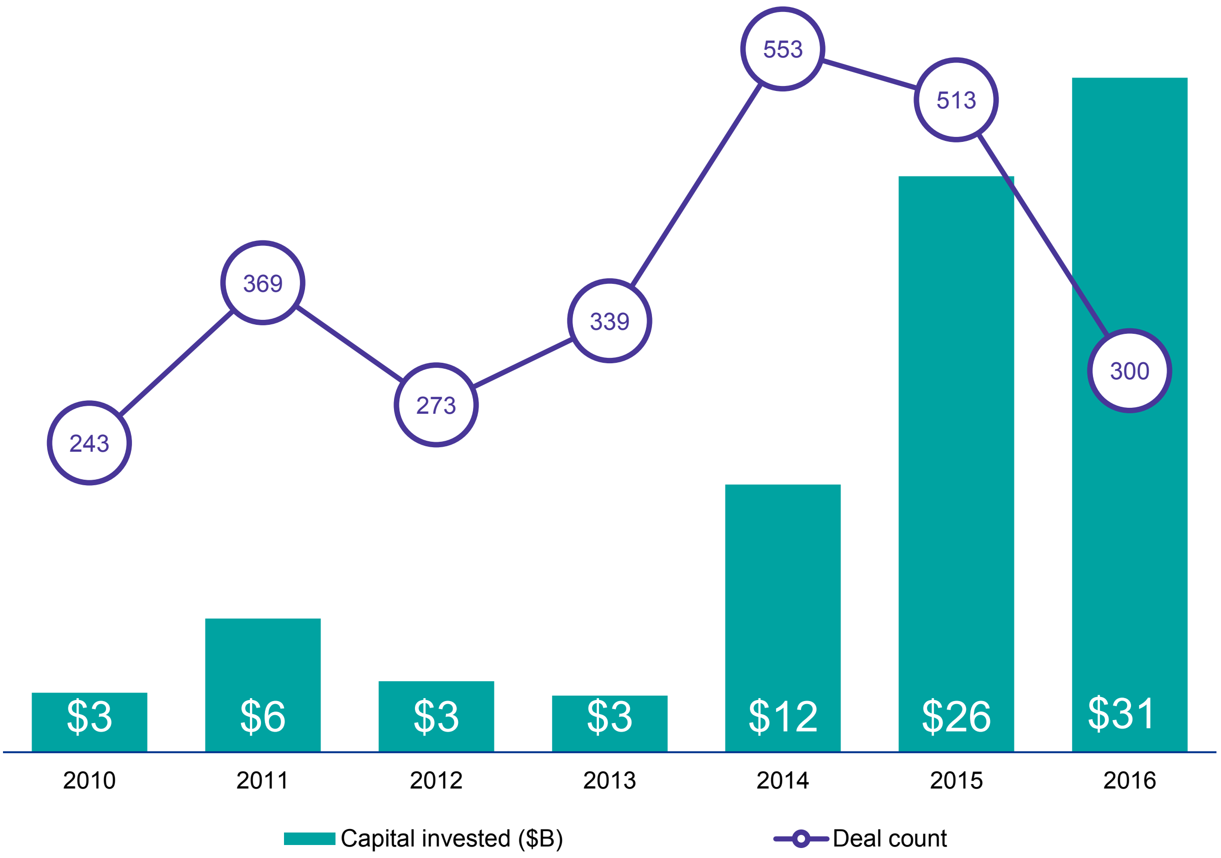
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Mumbai saw a sudden surge of venture activity in 2015, a performance unlikely to be replicated, and yet 2016 came close, notching no fewer than 131 closed VC financings.

VC in China boomed in 2016

Venture financing in China

2010 – 2016



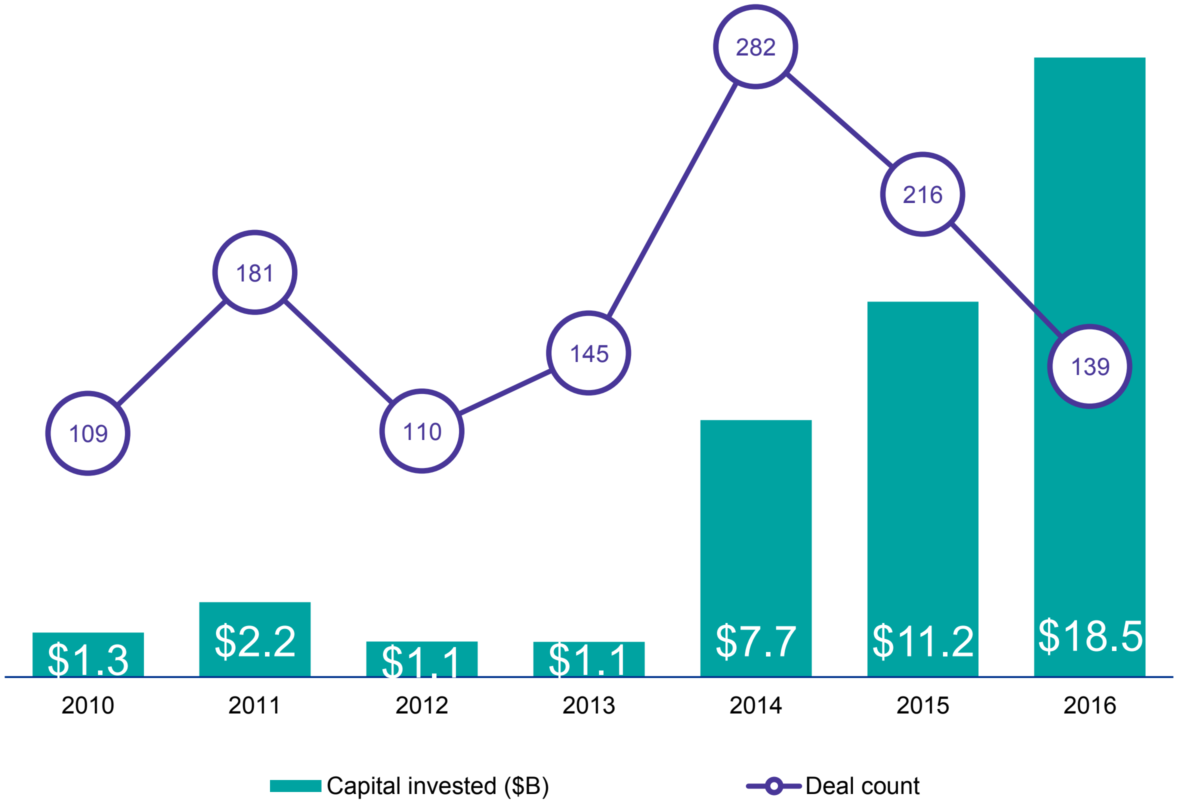
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

At $31 billion in total VC invested through 300 rounds (the latter a steep drop from the 513 completed financings in 2015), it is clear that both traditional and non-traditional VCs avidly sought to gain exposure to innovative businesses within China last year.

Beijing's venture scene has seen $37.3B invested since 2014 began

Venture activity in Beijing

2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Beijing's staggering $18.5 billion invested tally in 2016's entirety was driven in large part by a cluster of mammoth late-stage venture deals.

China is becoming a more mature economy. We're seeing it move from being heavily reliant on agriculture and manufacturing to an economy driven by innovation and services. Over the next year, the world will likely recognize how much artificial intelligence (AI) is going to transform everything we do. For example, the amount being invested in AI in Asia is growing by the day. 2017 will likely be the year investors will look at AI and say, 'if you're not investing in it, you're missing the boat'.

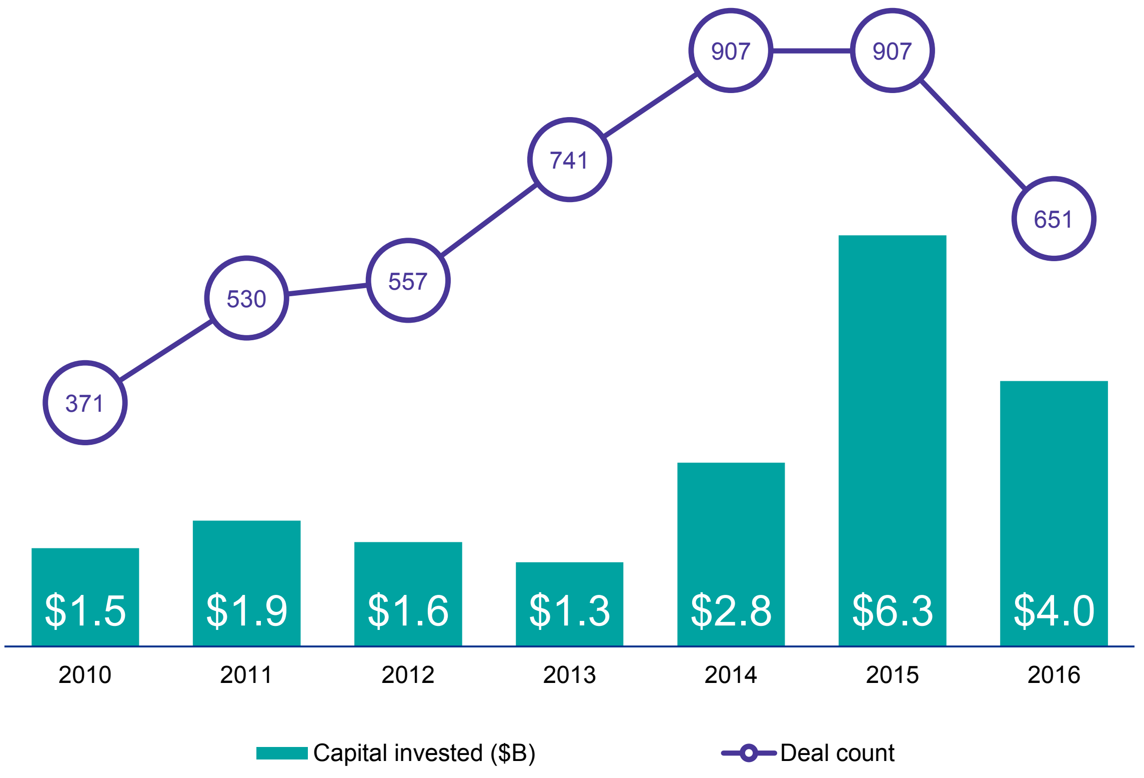
Egidio Zarrella
Clients and Innovation Partner,
KPMG Hong Kong

KPMG Enterprise

The downturn in first-time financings even hit the Asia region

First-time venture financings of companies in Asia

2010 – 2016



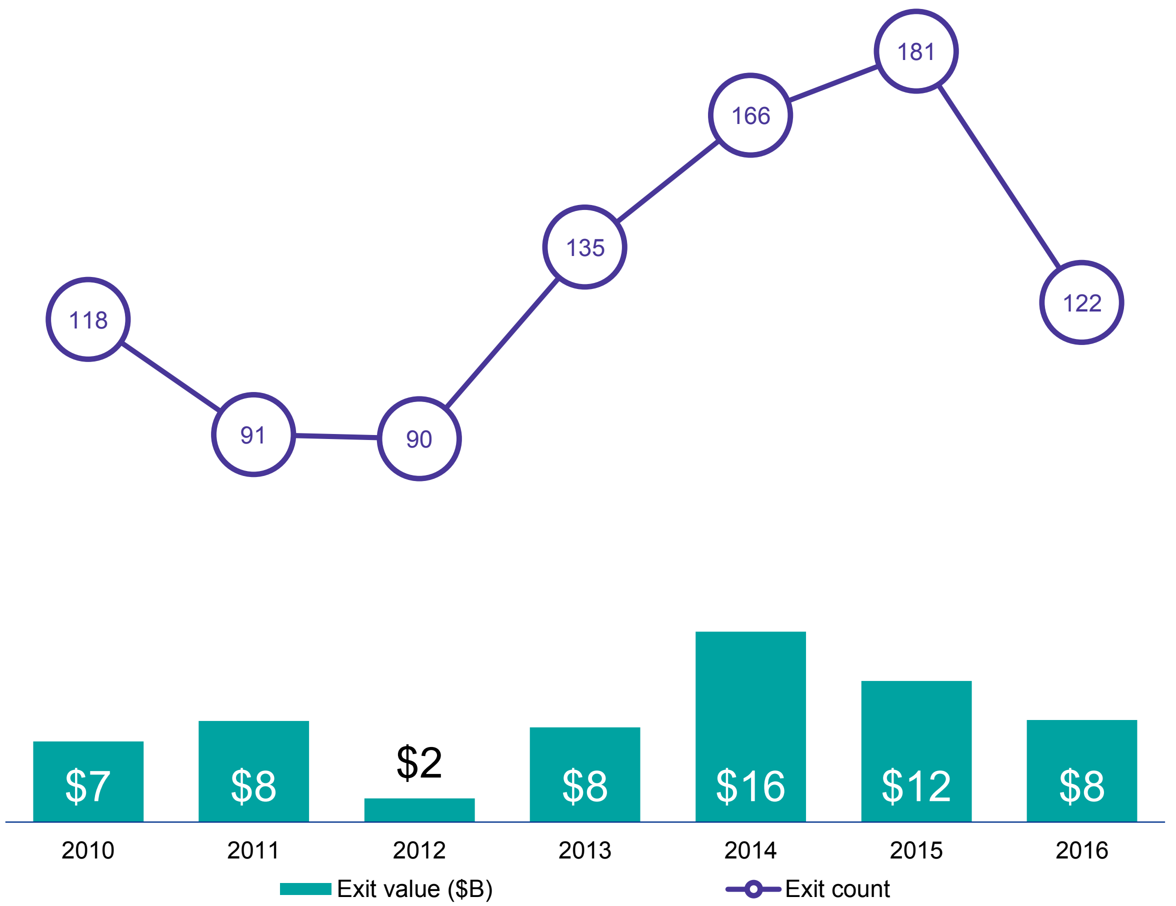
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

At 651, the total number of first-time financings of Asia companies declined to a 4 year low, yet not only was the total invested the second-highest sum of the past 7 years, the record back-to-back period from 2014 to 2015 suggests cyclicality in part as well as the reversal in global investor sentiment as the primary drivers of the drop more than anything else.

Asia exits slid after a recent peak

Venture-backed exit activity in the Asia region

2010 – 2016



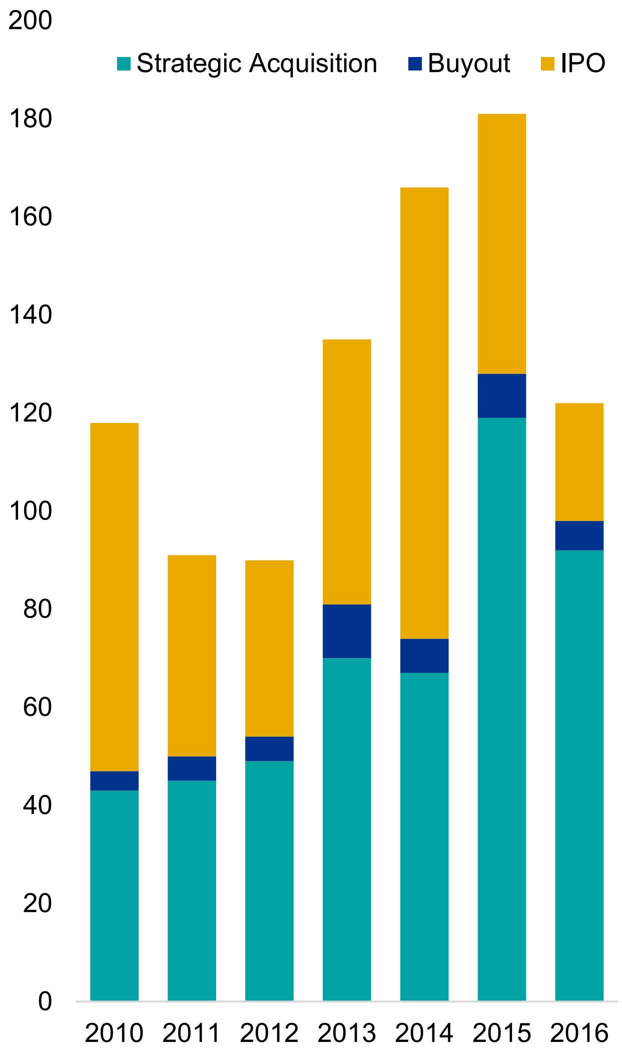
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

The swift drop between 2015 and 2016 is hard to chalk up to any one primary factor or even set of factors, apart from timing. The smaller the market, the more affected it is by timing. Hence, the 32.6% drop in exit counts likely reflects mainly timing as well as a period of digestion for corporate acquirers interested in purchasing Asia VC-backed holdings, in light of the steadily rising totals over the prior 3 years.

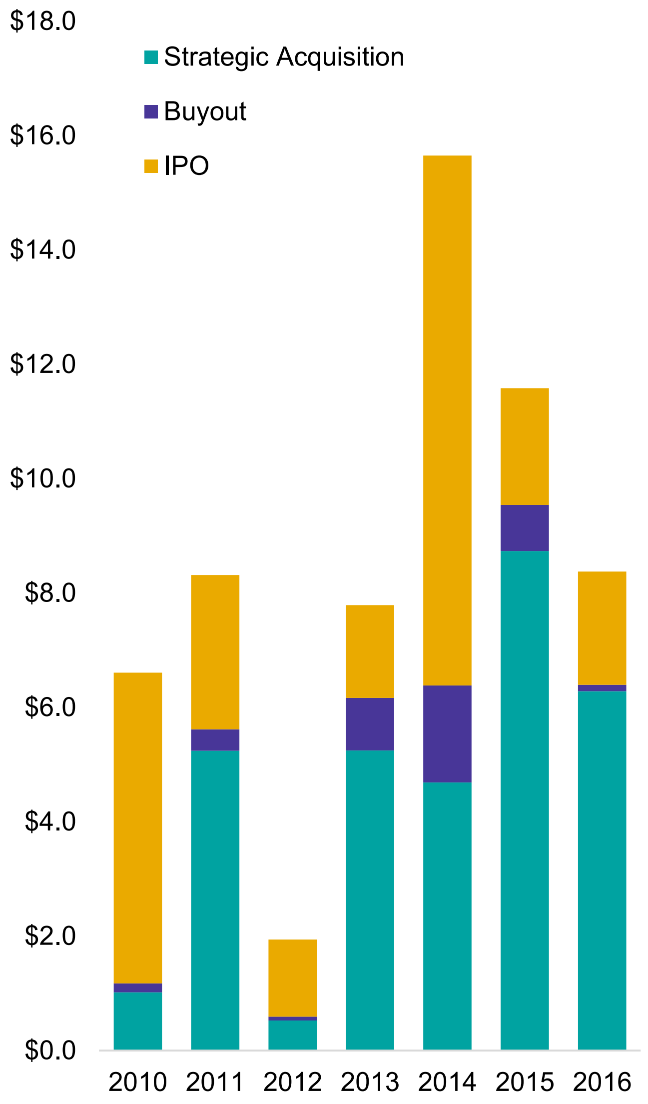
![KPMG Enterprise]

Expectedly, corporate M&A drove $6.3B in 2016 exit value

Venture-backed exit activity (#) by type in the Asia region
2010 – 2016



Venture-backed exit activity ($B) by type in the Asia region
2010 – 2016



Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

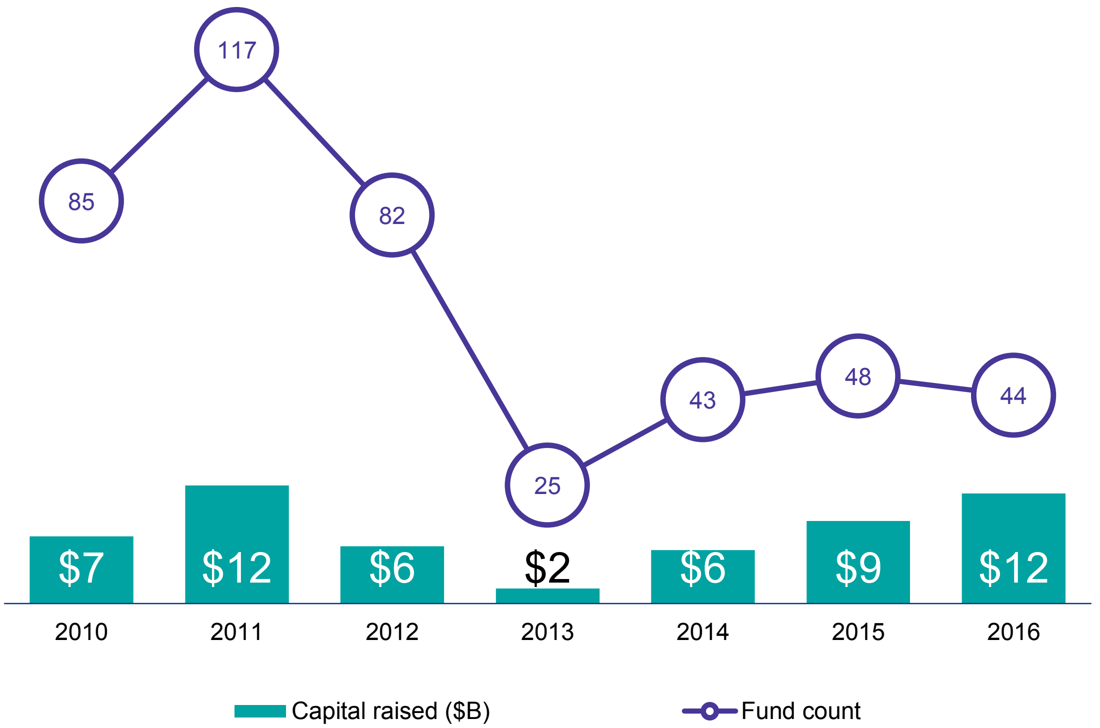
Japanese companies remain leaders in internal R&D, but some have struggled to adapt to the rapid global pace of commercial and business model innovation. This is forcing a transition towards a more open approach to innovation, with companies increasingly looking externally for new technologies and business models that will help them compete in a fast-moving global marketplace.

Paul Ford
Partner, Deal Advisory,
KPMG in Japan

Fundraising activity chugs along, with a surge in VC raised

Venture fundraising in the Asia region

2010 – 2016



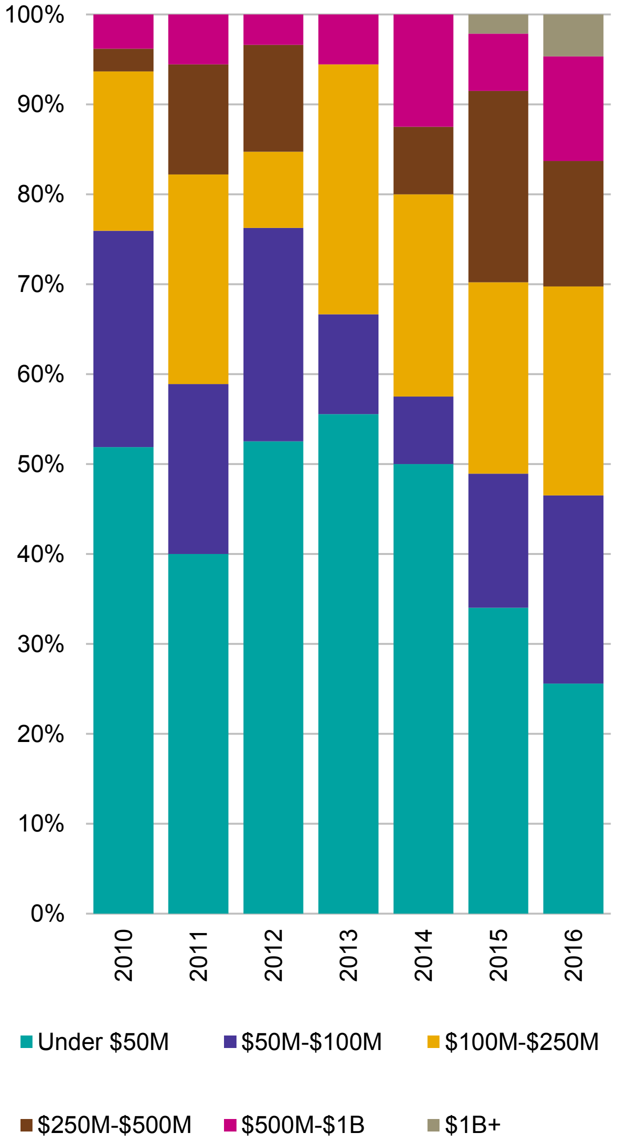
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

Fundraising in the Asia region enjoyed a bit of a surge in terms of dedicated VC raised, even if total counts remained steady. At $11.6 billion, the region has only seen 1 year that was more lucrative: 2011 at $12.5 billion in capital commitments.

The trend toward larger funds is impacting Asia as well

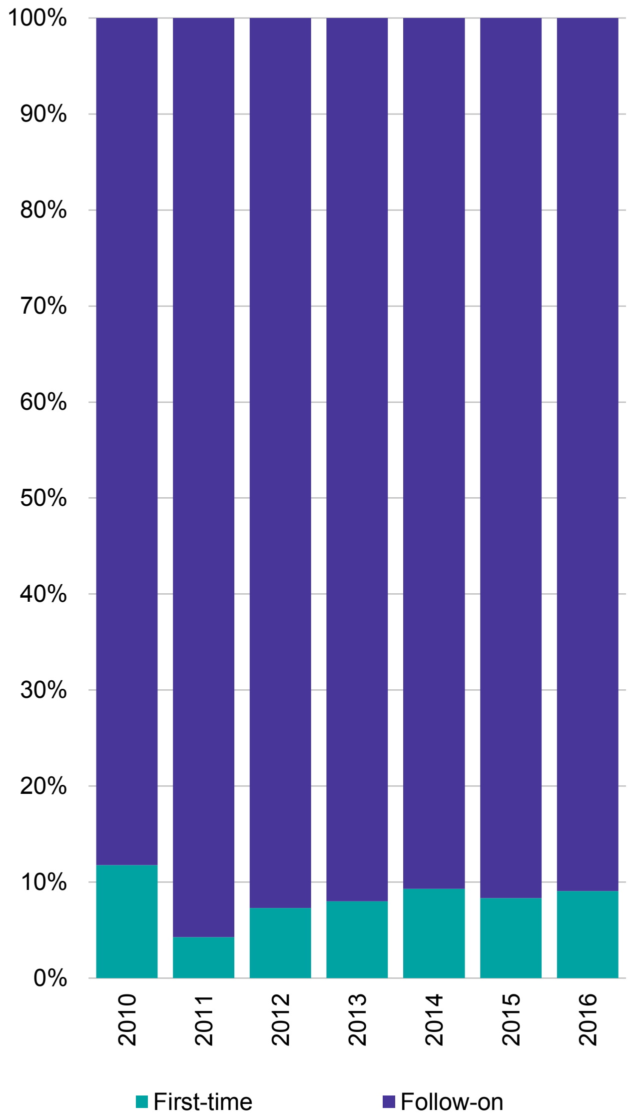
Venture fundraising (#) by size in the Asia region

2010 – 2016



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

2010 – 2016



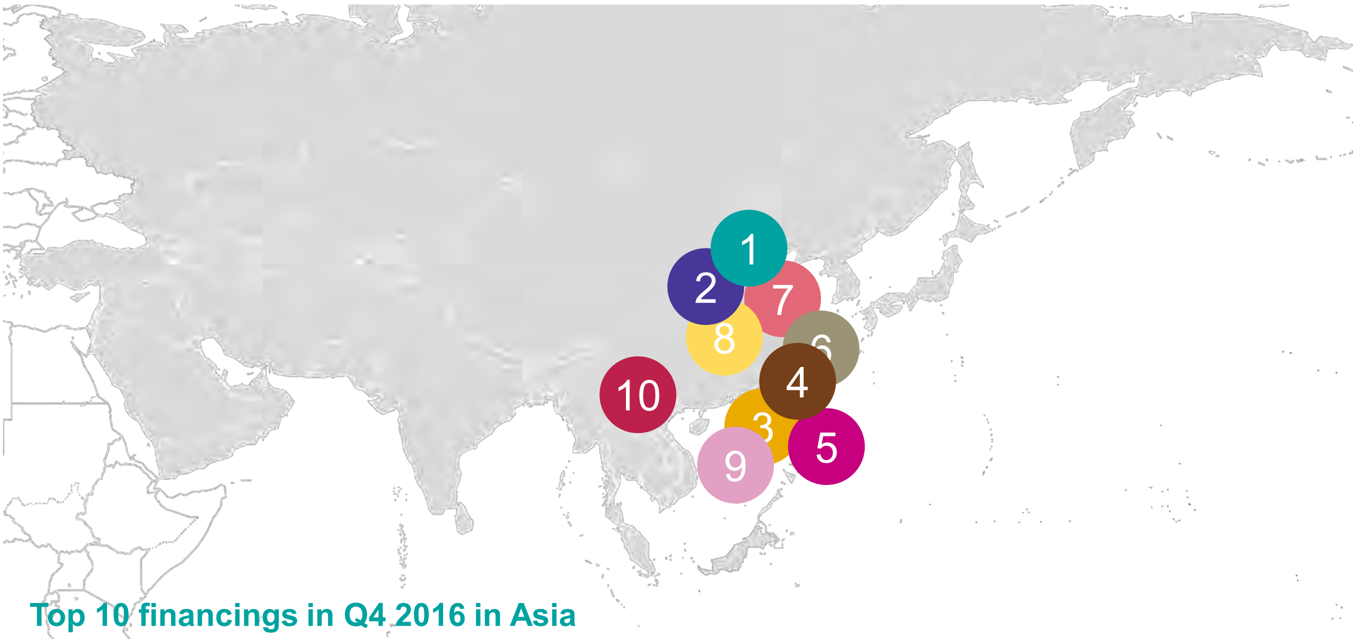
Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

KPMG Enterprise

In China, there is a lot of opportunity for entrepreneurs with creative solutions and business models to implement and launch their ideas to market quickly. Given the size of the population, this is particularly attractive to companies that can link their offerings to consumer spending.

Lyndon Fung
US Capital Markets Group,
KPMG China

China accounts for top Q4 deals in Asia



Top 10 financings in Q4 2016 in Asia

1. **Yixia** – $500M, Beijing
   Online fashion & e-commerce
   Series E

2. **51credit** – $394M, Beijing
   Online credit marketplace
   Series C

3. **Innovent Biologics** – $260M, Suzhou
   Pharma & biotech
   Series D

4. **Yiguo**– $200M, Shanghai
   Food products & e-commerce
   Series C

5. **Xueleyen** – $200M, Hsinchu
   Online education platform
   Series C

6. **Yunmanman** – $160M, Shanghai
   Mobile logistics
   Series D

7. **Ofo** – $130M, Beijing
   Bikesharing platform
   Series C

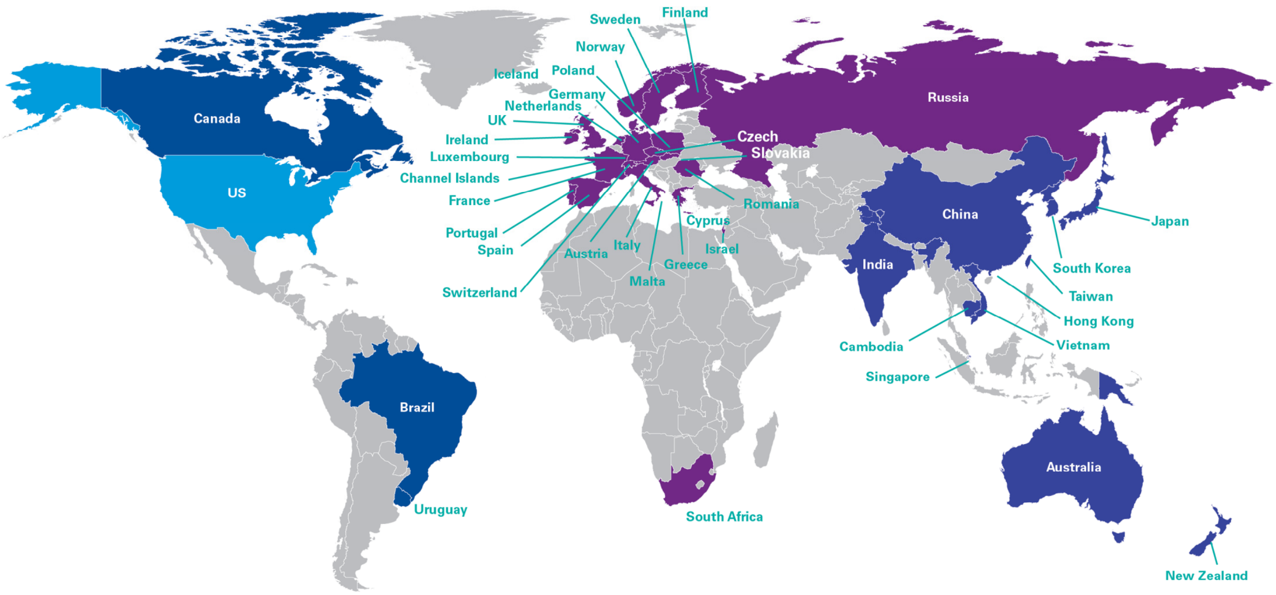
8. **Sensetime** – $120M, Beijing
   AI & Big Data analytics
   Series B

9. **Changing Education** – $118M, Guangzhou
   Online teaching platform
   Series C

10. **Huochebang** – $115M, Guiyang
    Logistics & shipping
    Series B1

Source: Venture Pulse, Q4'16, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 12, 2017.

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



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About KPMG Enterprise

About KPMG Enterprise

You know KPMG, you might not know KPMG Enterprise.

KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. Whether you're an entrepreneur looking to get started, an innovative, fast growing company, or an established company looking to an exit, KPMG Enterprise advisers understand what is important to you and can help you navigate your challenges — no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

The KPMG Enterprise Global Network for Innovative Startups 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.

The Pulse of Fintech.....coming soon

The VC market globally is dynamic and ever changing. Technology companies looking to attract investment reflect a myriad of sectors, products and solutions. In today's technology-centric society, however, one sector stands apart: Fintech. Globally, fintech innovators are changing the very foundation of how business works and are enabling incumbent financial institutions. Every day, new fintech companies are finding ways to make banking, financial and insurance services more personalized, smarter and faster. Fintech solutions have the potential to reach every market sector, business, and consumer on the planet. The opportunities fintech offers are significant – and investors know it. That's why KPMG International created the Pulse of Fintech Report. Every quarter, we bring you insights on the fintech deals and trends making headlines. Our annual summary and Q4'16 report will be released soon. If you wish to join the Pulse of Fintech subscription list, contact us at enterprise@kpmg.com.

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KPMG Enterprise

Methodology

KPMG has switched to PitchBook as the provider of venture data for the Venture Pulse report. Due to differing methodologies between data providers, there may be discrepancies between this and prior editions of the Venture Pulse report.

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.

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.

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.

Growth equity: Rounds must include at least one investor tagged as growth/expansion, while deal size must either be $15 million or more (although rounds of undisclosed size that meet all other criteria are included). In addition, the deal must be classified as growth/expansion or later-stage VC in the PitchBook Platform. If the financing is tagged as late-stage VC it is included regardless of industry.

Methodology, cont'd

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.

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.

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