KPMG Enterprise

Venture Pulse Q2 2017

Global analysis of venture funding

13 July 2017

Welcome message

Welcome to the Q2'17 edition of the KPMG Enterprise *Venture Pulse Report.* In this quarter's report, we highlight the key trends, opportunities and challenges facing the venture capital (VC) market globally and in key regions around the world.

Despite an ongoing decline in the number of VC deals globally, there was a major uptick in VC investment during Q2'17. A significant number of mega-deals in all regions helped drive this funding increase, including China-based Didi Chuxing's record-shattering $5.5 billion funding round. Given the return of global mega-deals, it comes as no surprise that this quarter saw the birth of 16 new unicorn companies — the highest level experienced since Q2'15.

US Initial Public Offering (IPO) activity continued to make a turnaround during the quarter, with a number of technology companies achieving successful exits. In tandem with solid merger and acquisition (M&A) activity, this renewal is a positive sign for the market.

Q2 saw biotech and autotech attracting continued interest from investors, these are expected to be hot areas of VC investment in Q3, in addition to artificial intelligence (AI), analytics, and virtual reality technologies. Blockchain is also expected to remain on the radar of investors, with a growing focus on the technology's applicability across sectors and verticals.

In this edition of the Venture Pulse Report, we look at these and other global and regional trends, including:

- The pickup in mega-deals activity across the globe
- The ongoing decline in number of deals, specifically at the seed and early-stage deal levels
- The drivers behind advancements in autotech
- The growing focus on business to business (B2B) opportunities.

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, please contact a KPMG adviser in your area.

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Jonathan Lavender
Global Chairman,
KPMG Enterprise,
KPMG International

Brian Hughes
Co-Leader,
KPMG Enterprise
Innovative Startups
Network, KPMG
International, and Partner,
KPMG in the US

Arik Speier
Co-Leader,
KPMG Enterprise
Innovative Startups
Network, KPMG
International, and Partner,
KPMG in Israel

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Q2'17 summary

Completed transaction volume continues a gentle slide as VC invested comes roaring back

Worldwide VC deal count slid again by just over 7% between Q1 and Q2'17. However, thanks to a surge of mega-rounds, the quarter-over-quarter increase in total venture capital invested was a staggering 55.3%. This included the largest venture round ever, raised by Beijing-based ridesharing platform Didi Chuxing, at $5.5 billion. Analyzing year-over-year figures, even the massive $40 billion invested in Q2'17 was down by 14.2% relative to the $46.7 billion invested in Q2 2016, while deal volume fell by 24% across the same timeframe.

Activity across the Americas varies

Buoyed by the US, the Americas have seen deal volume hold relatively steady over the past three quarters now, as additional datasets have been tabulated. There was a bare increase of 0.1% in activity between Q1 2017 and Q2'17, even as total VC invested surged by close to 38%. Year over year, however, both VC invested and volume were down, the former by 4.2% and the latter by 10.5%. Even in nations experiencing consistent declines in venture volume, certain companies can rake in heftily sized rounds, such as Brazil-based 99Taxis, which closed out a $200 million funding with SoftBank's participation.

Valuations remain steadfast as volume continues at subdued plateau

Nearly every financing series still records an increase in median size relative to 2016 in the US. This continued robustness speaks to how the VC slowdown in the most developed venture market was once again confined largely to the angel and/or seed stages in the US, which are now holding steady in terms of finalized transactional volume. Likely driven by industry cyclicality, there could be a temporary plateau of sorts emerging when it comes to overall US investment volume, with hefty levels of dry powder continuing to exert upward pressure on financing metrics.

The European angel & seed stage is still subsiding, however

Quarter over quarter, aggregate VC invested actually rose slightly in Europe, moving from $4 billion to $4.1 billion, even as quarterly volume diminished by just over 44% year over year. Unlike the US, subsiding angel and seed rounds are the primary cause for the continued slackening in the pace of investors. But as the historically robust tallies of quarterly VC invested testify, plenty of firms are still willing to back multiple European companies, particularly when it comes to the late-stage. A handful of notable financings, such as London-based Improbable's $502 million raise or Auto1 Group's near-$400 million round, continue to help boost overall industry tallies in the continent.

After slower start, Asia sees massive boom in VC invested

It is hard to overstate just how swiftly the tide turned when it comes to aggregate VC invested in Asia. Boosted in large part by several Beijing-based businesses' considerable fundraises, overall capital deployed by investors in the region soared from $5.4 billion in Q1 2017 to $12.7 billion in Q2'17, an increase of over 130%. That said, it is important to note just how much outliers still contribute to such figures — the year-over-year change in VC invested for the quarter was actually down by 33.7%, given that Ant Financial among other companies raised massive rounds around this time last year. Within certain markets, a distinct sense of winner-take-all is emerging, as Didi Chuxing or others either double down on funds to continue rapid, massive expansion or to quickly claim the lead in select market segments.

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

Q2'17 summary

Corporate participation continues rise to record proportions

One of the ongoing trends that signifies how the venture industry has slowly been maturing and changing is the slow but steady rise in the proportion of VC rounds in which corporations or corporate venture arms participate. Standing at 17.6% for Q2'17, this percentage speaks to the maturation of the key drivers behind corporate investing strategies when it comes to exposure to innovation or rapid growth. Whether pure-play financial or strategic or a blend of both, such motivators continue to impel growing corporate involvement, particularly as certain key technical areas such as artificial intelligence continue to showcase more and more useful business applications.

Glut of dry powder to continue transforming industry

Although not the highest figure recorded for a given quarter in the past seven and a half years, and certainly skewed by mega-funds such as New Enterprise Associates' $3.3 billion vehicle, the $17.15 billion in capital commitments collected in Q2'17 is highly significant. For one, it exemplifies how the venture industry still has more than enough funds to support a healthy rate of investing for some time, even in a relatively pricey climate, and two, it illustrates not only limited partners' desire for exposure to the VC asset class but also the perception of considerable opportunities remaining in key, emergent technologies and geographic areas.

Exits continue down what is likely more of a cyclical, temporal decline

Quarterly exit volume exhibits a distinct lessening of momentum since a peak in the first quarter of 2015, even though exit values have remained either within pre-2014 norms or somewhat elevated. Similarly to the investment side, such coincident trends are cyclical, tied to the recent investing boom and in particular corporate acquirers' appetites. Strategic M&A will likely continue at a decent clip, but especially given the boom in such activity for the past few years, there is likely to be a period of internal regrouping and digestion of recent buys, while the pipeline of venture-backed exit-ready companies refills.

Will first-time funds make somewhat of a comeback?

Over the past few years, the proportion of first-time funds to the whole has either held steady or, on a regional basis, diminished somewhat. However, so far in 2017, 26 such vehicles have closed worldwide, relative to 35 in 2015 and 39 in 2016. Thereby on pace for a potential increase in volume, first-time fundraising can serve as a barometer of sorts of LP willingness and sentiment regarding the asset class on the whole. At $2.55 billion in capital commitments to first-time pools of capital, already exceeding any year from 2012 to 2014, it is clear certain first-time fund managers can still rake in more-than-healthy sums from investors, which underlines the perception of opportunities still available within the venture realm.

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

Enterprise

Globally, in Q2'17 VC-backed companies raised

$40.1B

across

2,985 deals

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Global VC investment soars, buoyed by deals in Asia and the US

Two massive deals in China propelled global venture funding up significantly in Q2'17, although funding remained well off of the high reached in Q2'16. While VC investment rose, global deal activity continued to decline — hitting a nine-quarter low during the quarter. Angel and seed stage deal activity took the hardest hit, although the number of deals declined across all major deal stages.

Mega-deals make big comeback globally

After a quiet year, the number of mega-deals rose sharply during Q2'17, with the top 10 deals globally accounting for $10.83 billion in investment. China accounted for two $1 billion+ mega-deals, including a $5.5 billion funding round to ride hailing platform Didi Chuxing — the world's largest tech funding round ever — and a $1 billion funding round to news aggregator Toutiao. mega-deals also made a roaring comeback in the US, with both Lyft and Outcome Health raising $600 million rounds, and numerous other companies holding $100 million+ rounds. Even Europe achieved a relatively strong showing on the mega-deals front, with $100 million+ funding rounds to Improbable, Auto1 Group and DeltaGamma Therapeutics.

Return of the Unicorns

After a period of low valuations and even a number of unicorn deaths, the pendulum shifted during Q2'17, with the number of unicorn births making a strong comeback. Sixteen new unicorns entered the mix during the quarter, the highest number seen since Q3'15. Among the new unicorns were Improbable in the United Kingdom, Otto Bock Healthcare in Germany, MoBike in China, Avoloq Group in Switzerland, and Outcome Health in the US.

Delivery services come into the spotlight

Globally, delivery options took center stage in several jurisdictions during Q2'17 — particularly in Europe, where Delivery Hero raised $421M in private equity funding, and in the US, where a major global online retailer acquired a global brick-and-mortar grocery chain. While both transactions revolved around food delivery, the real excitement for investors may be in the shift towards a much broader view of delivery opportunities, including a stronger focus on B2B services. Such B2B-focused transactions are likely to attract additional attention in the future, not just in the food industry, but in many others as well.

Agritech and foodtech industries gaining steam

While food delivery may be a key issue today, companies looking toward the future have begun to focus on other key aspects of the food and beverage sector, such as food security and sustainability. Currently, agritech and foodtech may be relatively small segments of VC investment globally, but they are expected to grow over time, given that food shortages are projected to become more prevalent over time. Historically, traditional VC investors have not found the industry particularly attractive, likely as a result of the funds required and the inability to envision strong exits. However, corporate investors are beginning to take notice of the potential offered by agritech and foodtech as they look to leverage innovative technologies in their own operations and supply chains.

Global VC investment soars, buoyed by deals in Asia and the US, cont'd.

Doors to IPO market swinging open

After a year-long drought in the global IPO market, Q2'17 saw the IPO doors opening further following a tentative start in Q1'17. Already in 2017, five major unicorns have held IPOs, including Cloudera, China Rapid Finance and Okta during Q2. Others are expected to follow suit heading into Q3'17. While the number of IPOs are not expected to approach historical highs, the rebound, combined with strong M&A activity, is likely to lead to some renewal across the VC market as a whole and the release of some of the built up unrealized gains.

Trends to watch for globally

Globally, blockchain is expected to continue to attract investor interest and attention. While there will continue to be a focus on leveraging the technology in applications related to financial services, looking ahead, there will also likely be a shift toward investing in technologies that leverage blockchain for other industries (e.g. agriculture, retail) or operational verticals (e.g. analytics, performance management). AI, virtual reality and healthtech — including biotech — are also expected to be hot areas of investment throughout the remainder of 2017.

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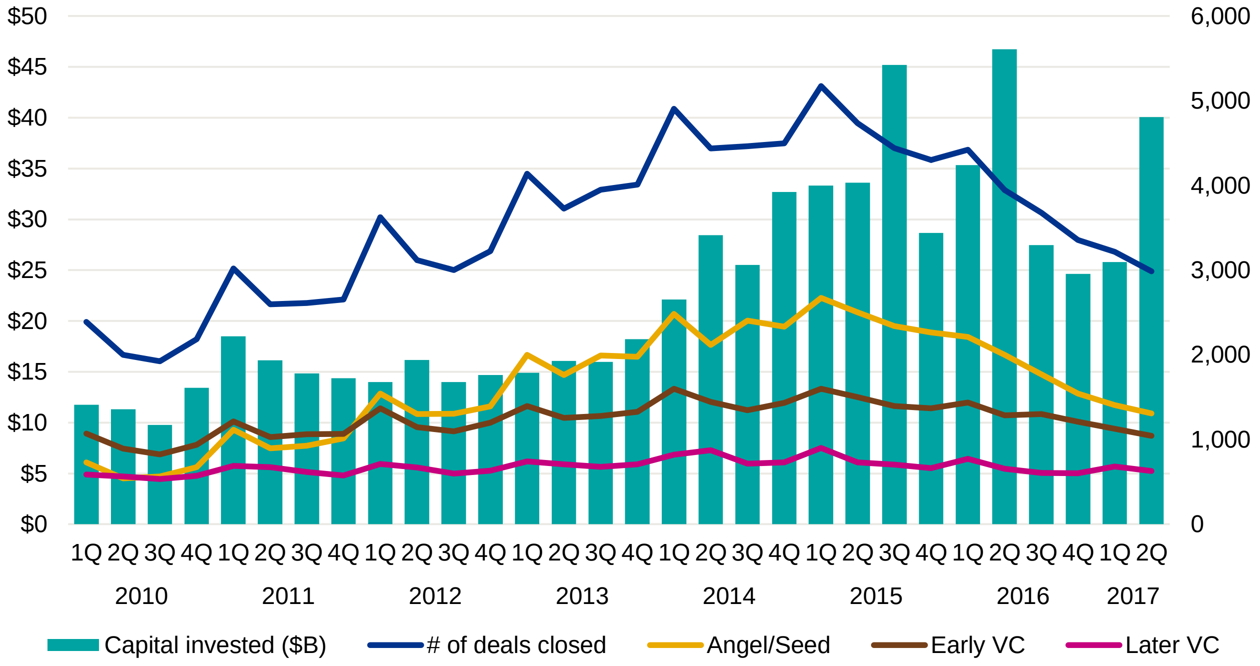
VC invested surges upward in Q2'17

Global venture financing by stage

2010 — H1'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.
Note: Refer to the Methodology section on page 107 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

After a relative plateau for three quarters, VC invested resurged in the second quarter of 2017 even as the volume of financings declined. Mature companies that are clear front runners in their areas continue to rake in massive sums, playing an outsized role in driving up quarterly totals of capital dispensed.

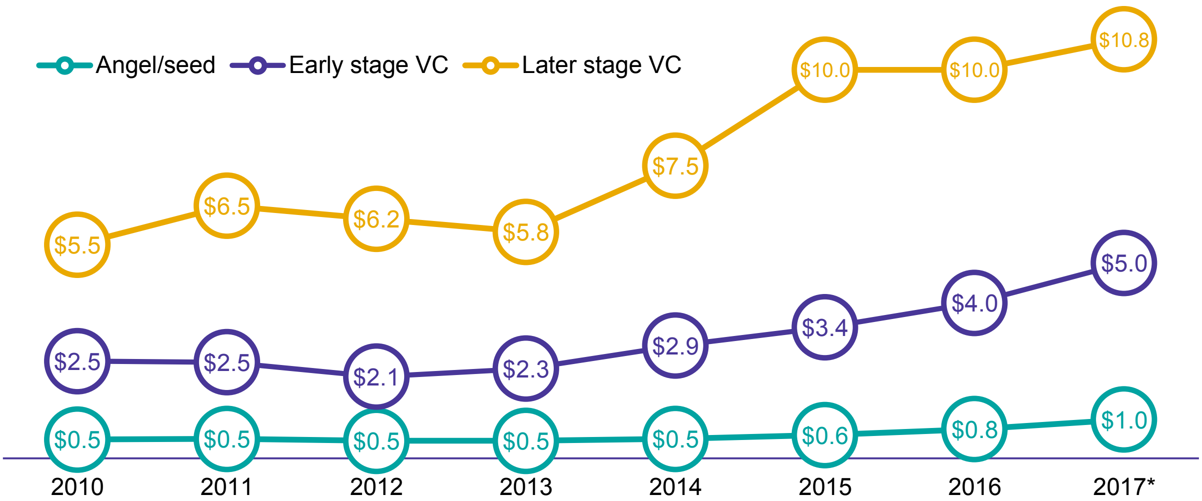
"With two massive deals in China, significant mega-rounds in the Americas and Europe, and the birth of numerous new unicorns – VC investment rebounded globally this quarter. While global deal volume may have declined, there are many positive signs that the VC market has reached a positive turning point."

Jonathan Lavender
Global Chairman, **KPMG Enterprise, KPMG International**

Dry powder exerts upward pressure on deal sizes

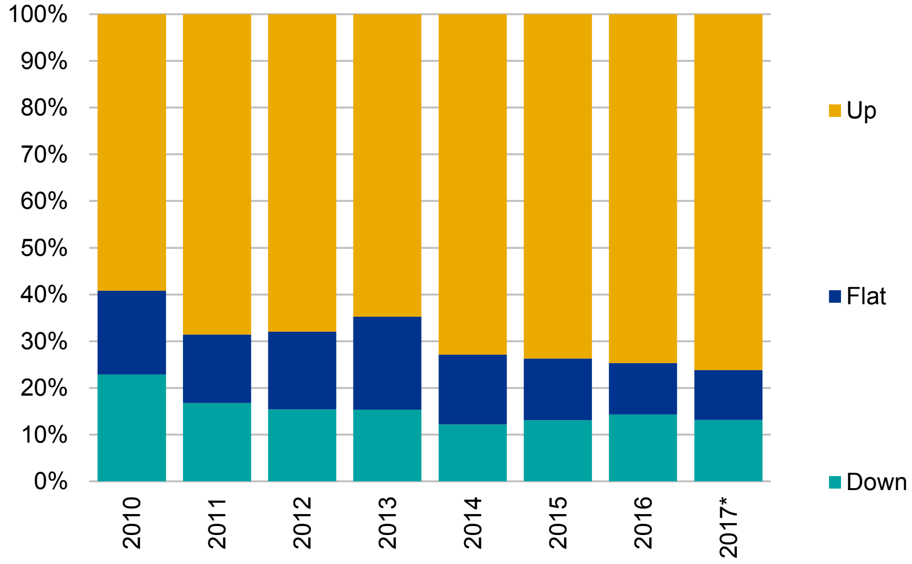
Global median deal size ($M) by stage

2010 — H1'17



Global up, flat or down rounds

2010 — H1'17



The capital raised recently, that investors still have at their disposal, is still exerting an upward pressure on median transaction sizes across all stages.

Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

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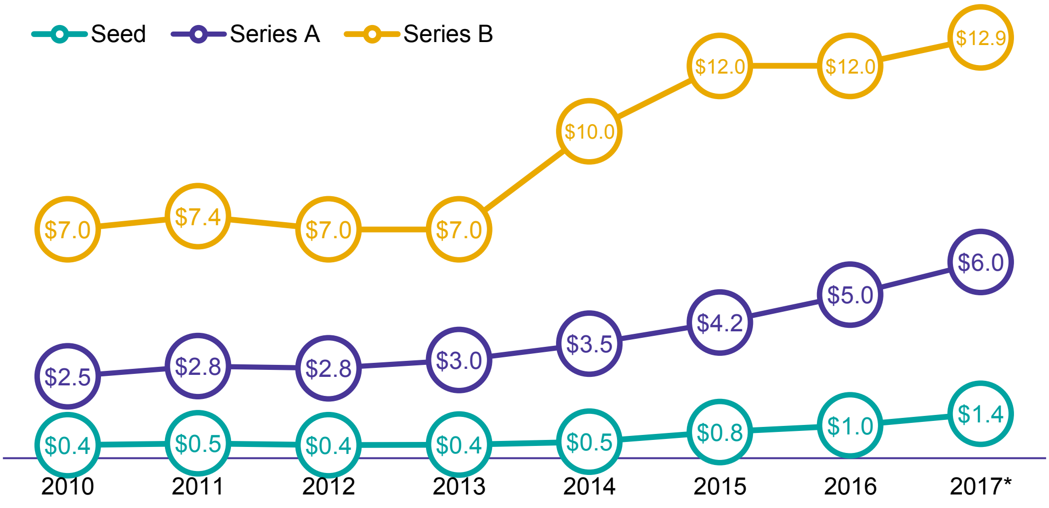
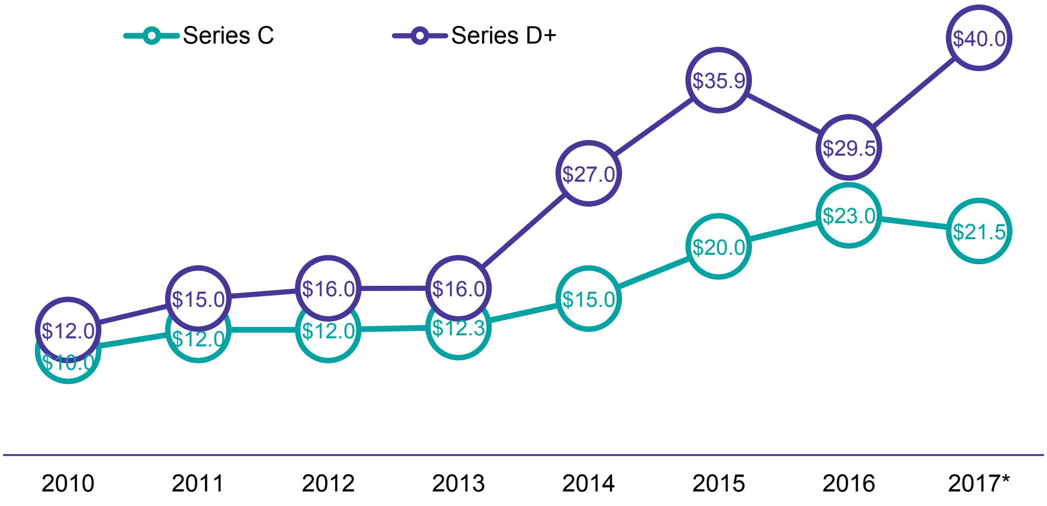
Investors still willing to pay up

Global median deal size ($M) by series

2010 — H1'17





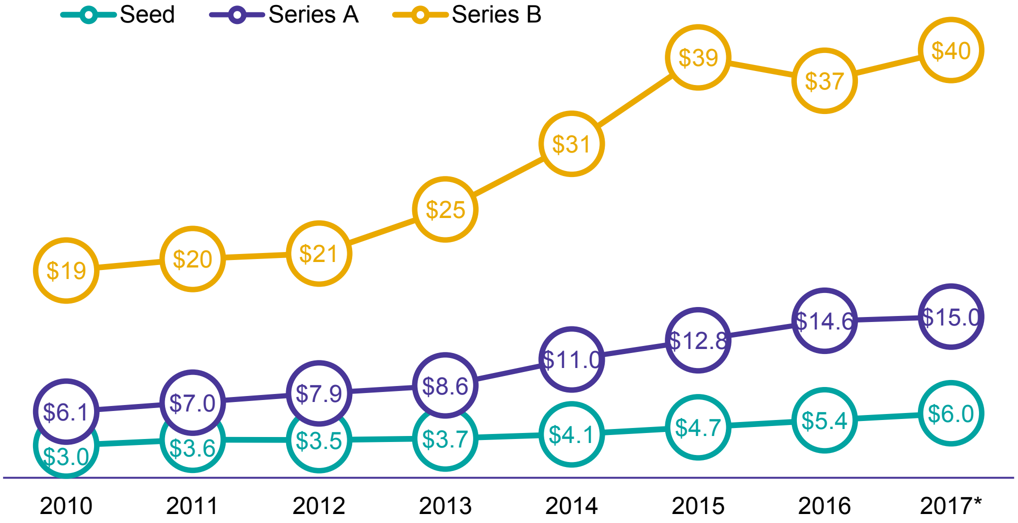
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

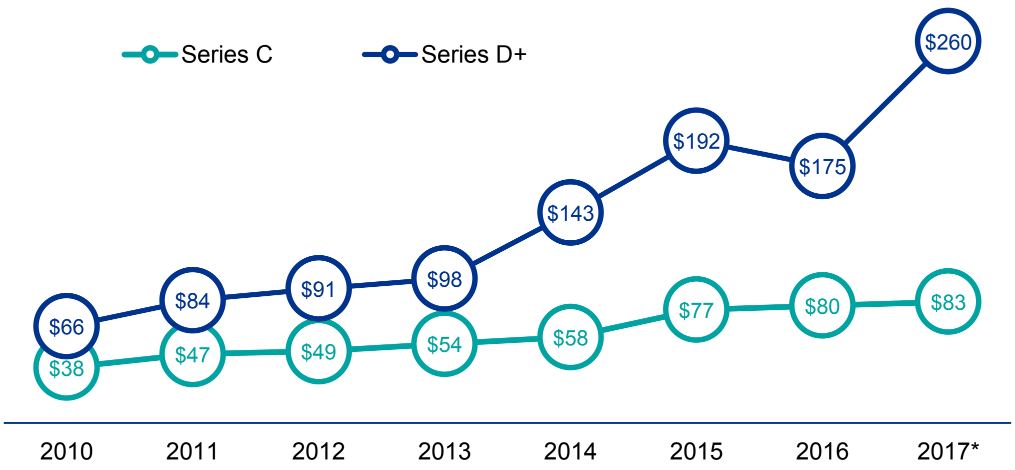
As more data points are aggregated throughout the passage of the year, it is clear that median deal sizes at every stage are either staying high or even increasing somewhat. This persistence can be attributed to hefty dry powder levels and continued demand for exposure to potentially high-growth assets.

Latest-stage valuations still driven by outliers

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

2010 — H1'17





Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

The dramatic upward surge in median pre-money valuations at the latest stage is primarily driven by the most successful of the crop of startups founded post-financial crisis reaching full maturity and raking in potentially one final growth-stage round, or midstage businesses raising capital in a play at dominance, for example, Didi Chuxing.

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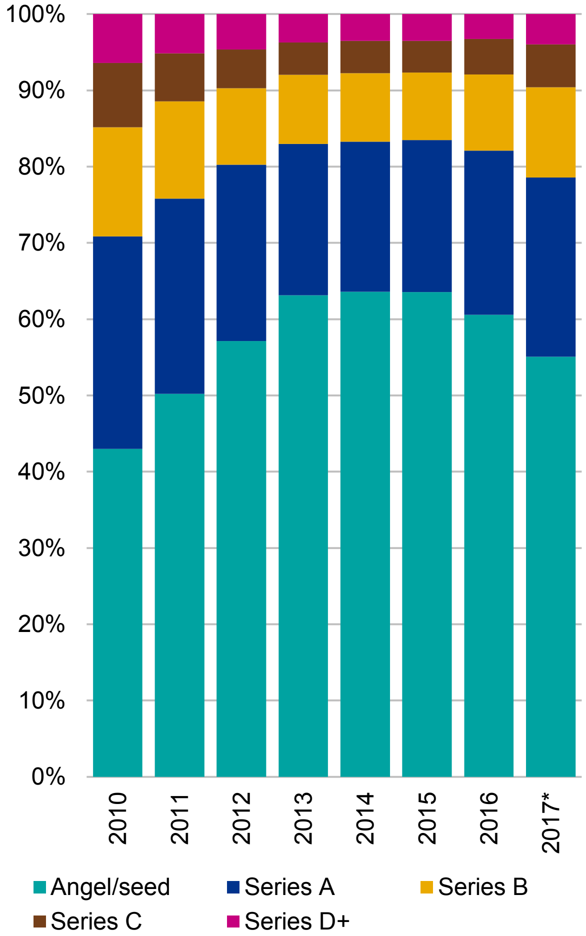
Angel/seed volume reverts

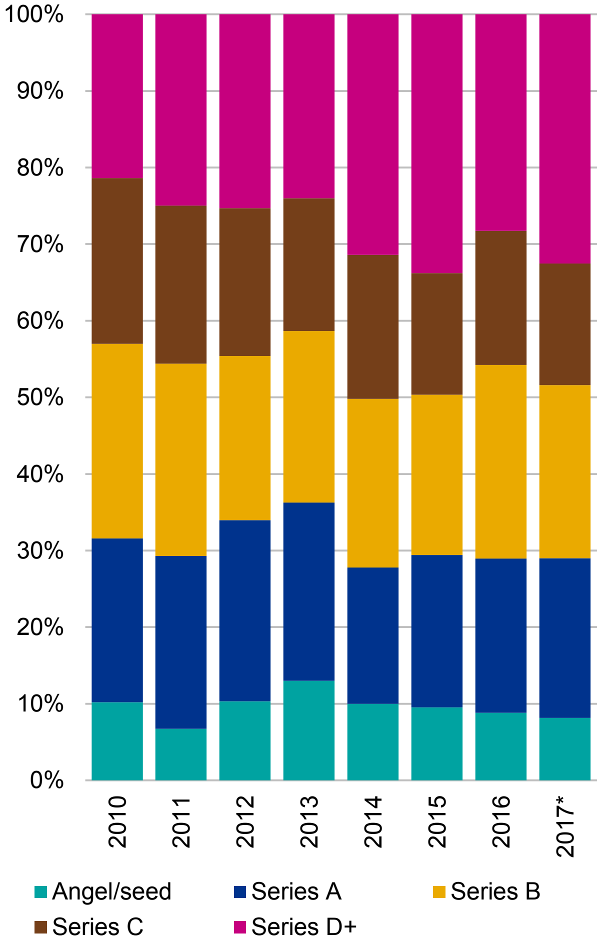
Global deal share by series

2010 — H1'17, number of closed deals



Global deal share by series

2010 — H1'17, VC invested ($B)



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

Much of the downward trend in venture round volume has been due to the continued decline in angel/seed financing activity, although the latter is subsiding more toward pre-boom, historical means.

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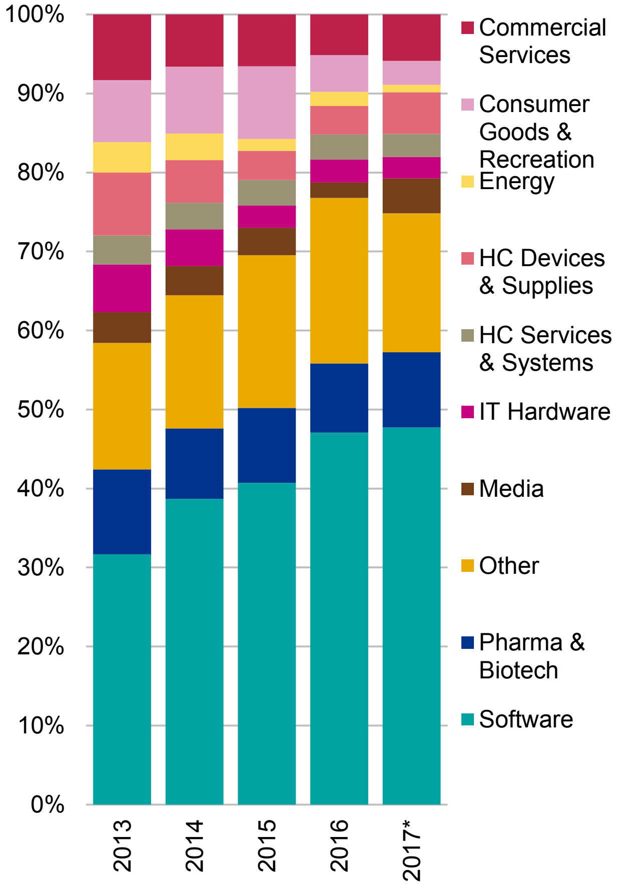
Healthcare-related volume stays resilient

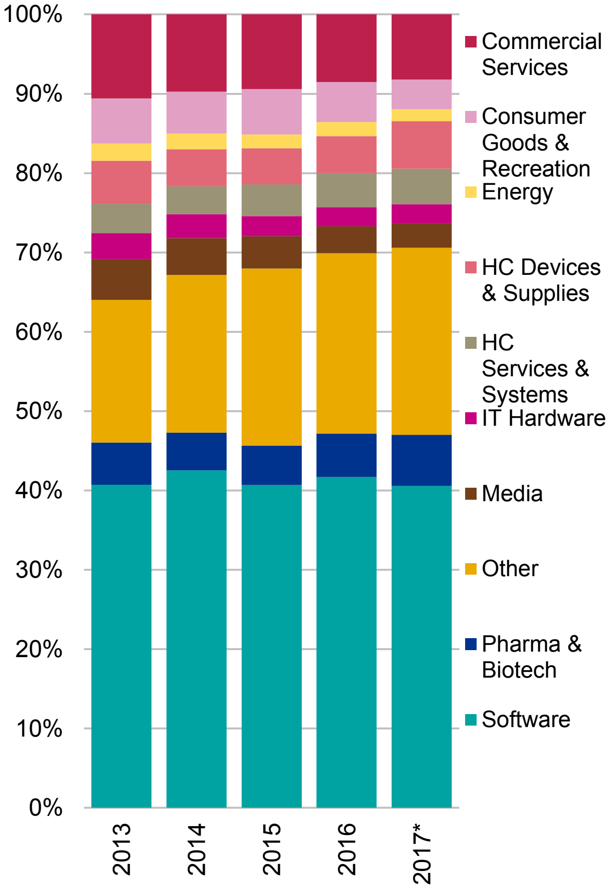
Global financing trends to VC-backed companies by sector

2013 — H1'17, VC invested ($B)



Global financing trends to VC-backed companies by sector

2013 — H1'17, number of closed deals



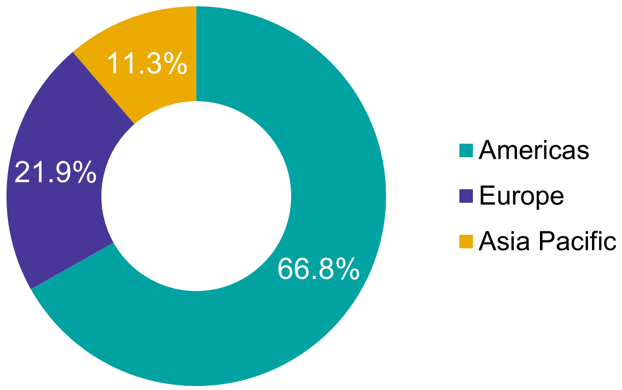
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

Analyzing the pace of financings by sector compared to those of 2016, amid the overall decline in volume, healthcare, pharmaceuticals and biotechnology companies are still closing a relatively strong number of deals in aggregate. The proportion of healthcare-related deal volume grew from 14.4% of the total in 2016 to 16.9% of overall volume in the first half of 2017.

VC investment volume favors developed markets

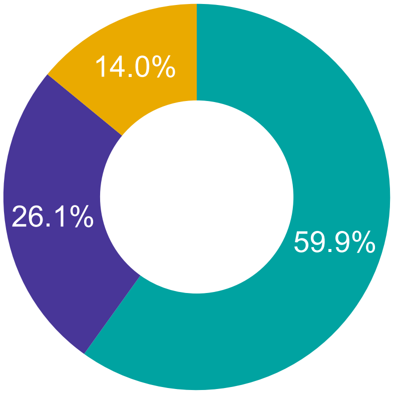
Financing of VC-backed companies by continent

H1'17, number of closed deals



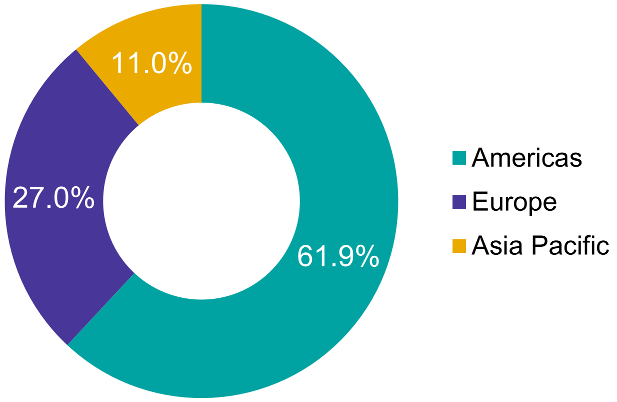
Financing of VC-backed companies by continent

2016, number of closed deals



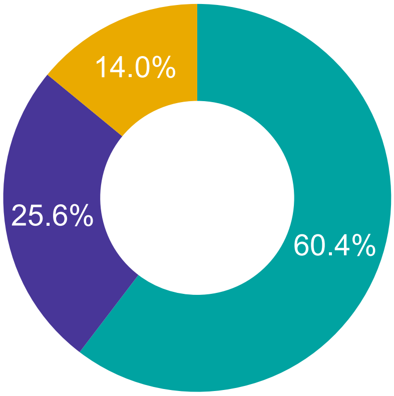
Financing of VC-backed companies by continent

2014, number of closed deals



Financing of VC-backed companies by continent

2015, number of closed deals



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

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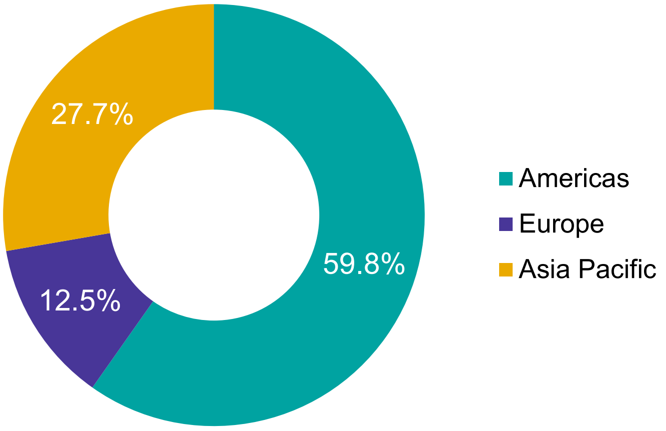
H1'17 sees VC invested shift toward Americas

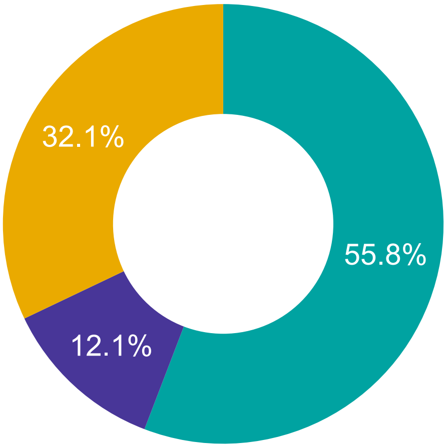
Financing of VC-backed companies by continent

H1'17, VC invested ($B)



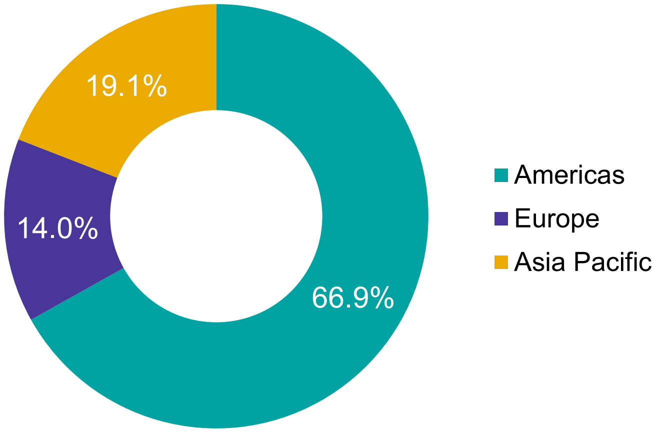
Global financing of VC-backed companies by continent

2016, VC invested ($B)



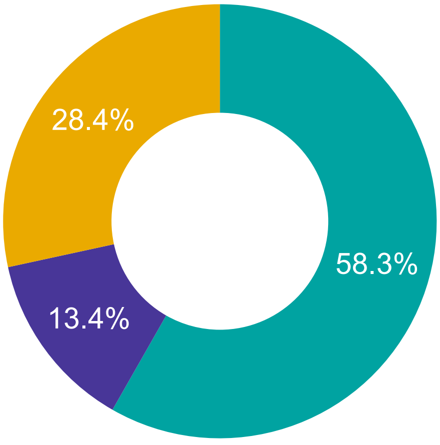
Global financing of VC-backed companies by continent

2014, VC invested ($B)



Global financing of VC-backed companies by continent

2015, VC invested ($B)



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

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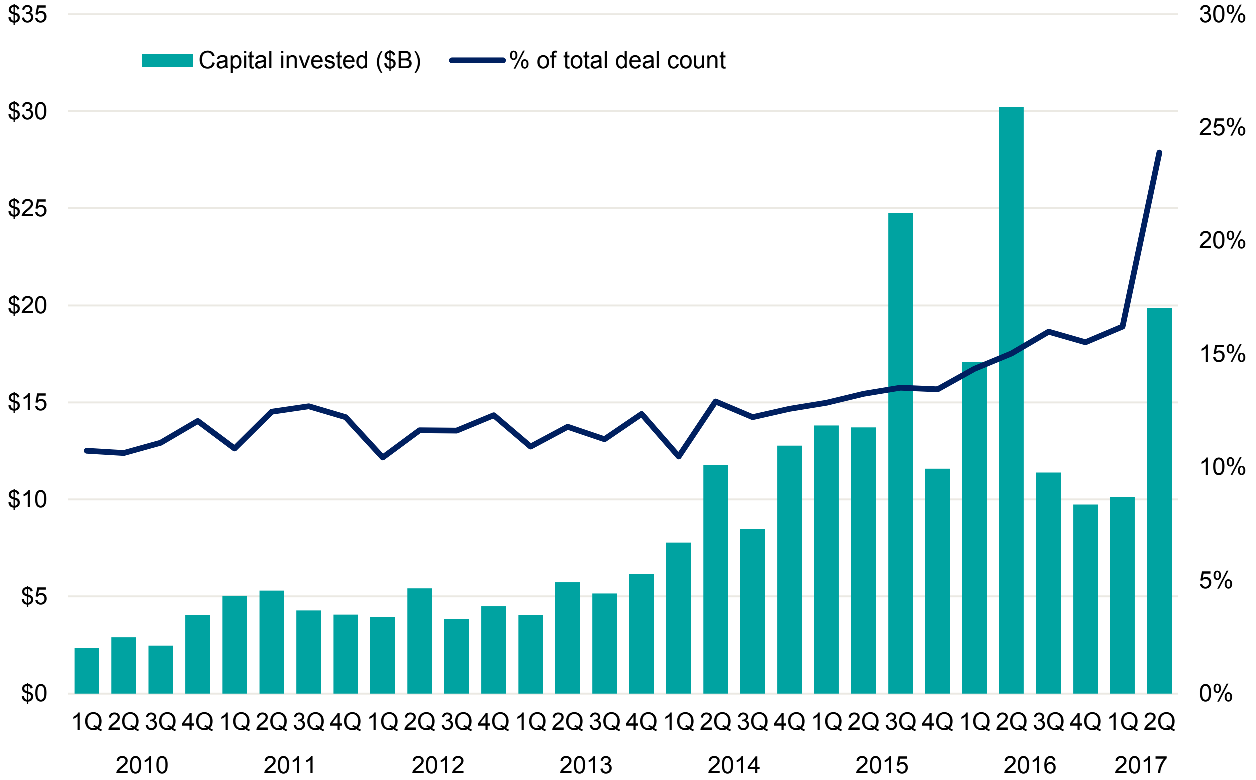
CVCs' involvement continues to grow to decade high

Corporate VC participation in global venture deals

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

A steady if slow-paced climb in the proportion of venture deals in which corporate VCs participate has culminated in a decade high. In efforts to fend off any threats from innovative technologies or business models or both, corporations and their venture groups are more active than ever.

Note: 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.

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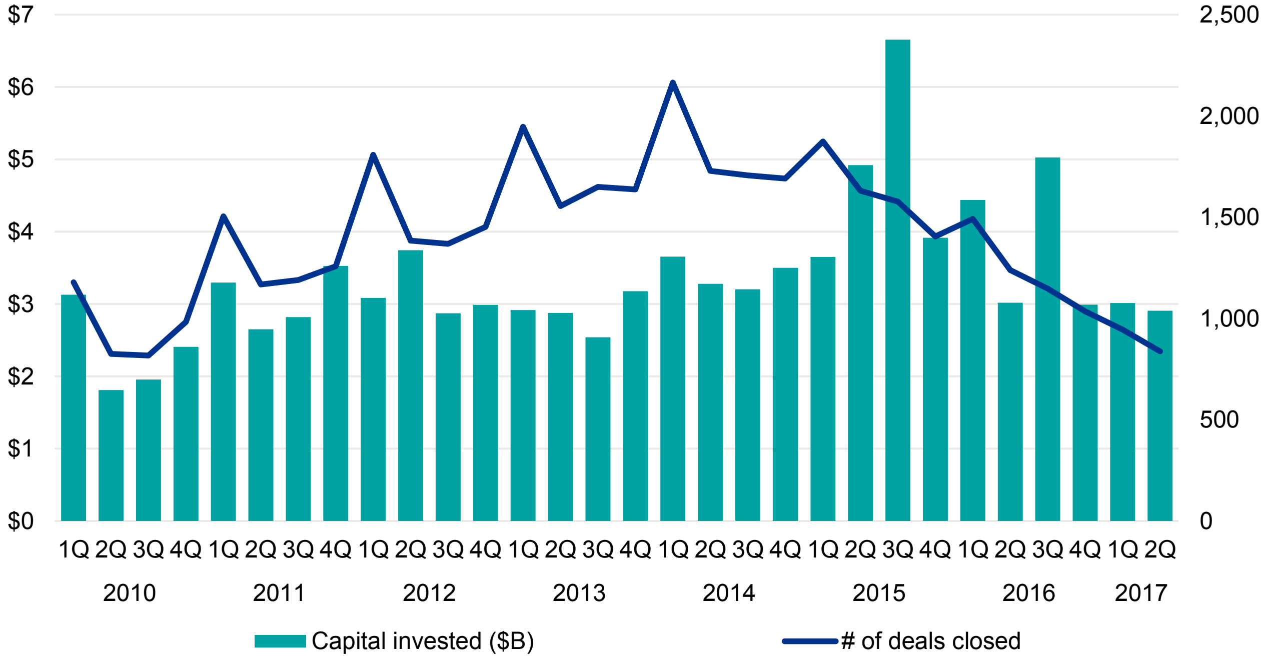
Volume lowers even as VC invested remains steady

Global first-time venture financings of companies

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

It's important to note that although the volume of first-time venture financings has declined for some time now, the current level is not unprecedented on a historical basis. Moreover, as capital invested sums stay robust, the present dynamic is one of deep-pocketed investors with heightened caution.

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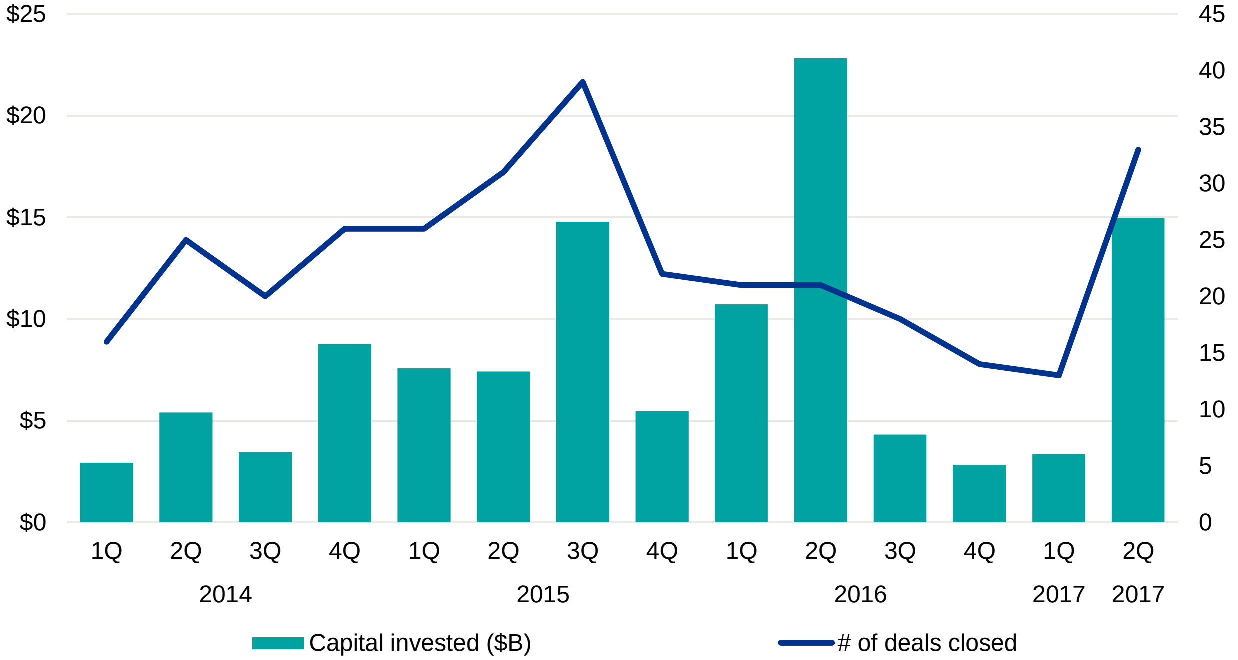
Owing largely to a boom in Asian unicorns, Q2'17 sees resurgence in value and volume

Global unicorn rounds

2014 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

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

After seeing the lowest point since the end of 2013 in terms of volume, unicorn rounds came back in a big way in Q2'17, driven primarily by a surge in Asia.

"The risk appetite of investors continues to be cautious as they focus on big bets. Macro changes, such as a fluctuating currency level and the public stock markets, have created some instability and this continues to have on impact in the market".

Arik Speier
Co-Leader, KPMG Enterprise Innovative Startups Network, KPMG International and Partner, Head of Technology, **KPMG in Israel**

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Biotech firms build global appeal

Biotechnology continues to show strong and steady investment worldwide. Broadly defined, biotech uses technology to harness or influence natural biological processes and organisms, with applications that span health and medicinal, agroscience and genetic engineering.

The first two quarters of 2017 saw a $3.87B of VC investment in biotech across 259 deals worldwide. This is on track to maintain pace with 2016's $6.63B across 504 deals.

Therapeutics a hot subsector poised for growth

Biotech therapeutics, which is focused on the creation of novel compounds and molecules for the development of new medicines, is a particularly strong area. Current activity shows strong growth and the potential for greater capital deployment in hot therapeutics subsectors including diagnostics, neuroscience, and advanced therapies.

Oncology remains a dominant area of this subsector, while the central nervous system is a strong and growing area, especially as firms look for treatments for ailments such as Alzheimer's disease in an aging population. Antibiotics, antibodies, and anti-infectives continue to gain attention.

Funding challenges lead to early exits

Despite rising interest in the biotech sector, many biotech startups struggle to raise sufficient funding, especially in the early-stages. Much of this challenge stems from the inherent nature of biotech rather than lack of potential. In contrast to sectors such as information technology (IT), development lead times are long, sometimes in excess of fifteen years, while the chances of achieving a marketable product is often estimated at five percent or less. As a result, to satisfy investors seeking measurable results, many biotech companies look to early IPOs not as a true exit, but rather as a way to fuel ongoing growth.

US remains dominant in global biotech activity

In terms of both the number of companies and total investment dollars, the US dominates the global biotechnology sector. Local biotech startup activity is especially driven by broader life sciences activity in Boston, Los Angeles, San Diego, and the San Francisco Bay Area, with additional activity clusters gathered around leading universities across the country. US biotechs' competitive advantage stems from three areas: the risk-taking attitude of local VCs, the high per capita healthcare spend in the US, and the economy of scale that the US market offers for the marketing and sale of biopharmaceutical products.

Biotech activity in Europe remains strong, but lacks the critical mass seen in the US due to the spread of life sciences clusters across the continent. European market access also remains fragmented, despite ongoing EU efforts. The strongest activity levels are currently seen in the UK and Switzerland, where the large number of biopharmaceutical groups create a rich environment for life sciences. However, restrictions on immigration following Brexit could adversely impact the growth of the UK biopharmaceutical industry in the future. The competitive cost for researchers is also spurring biotech activity in areas such as Paris, Munich and Berlin, as well as the Nordics, northern Italy, Ireland and Spain. Due to the small size and number of European investors focused on biotech and life sciences, many European biotech startups turn to the US to seek funding opportunities.

Biotech firms build global appeal, cont'd.

China's biotech sector on the rise

The biotech industry in China has shown exciting growth over the past few years. While traditionally Chinese companies focused on generics, including bio-generics for the domestic market or the manufacturing of active pharmaceutical ingredients (APIs) for domestic and global Pharmas, a considerable recent increase in biopharmaceutical companies with global ambitions can be observed. These companies are active in a large array of fields ranging from biosimilars to cancer treatments or gene therapies and they have the ambition to succeed on the global market place

In June, China's Nanjing Legend Biotech Co. made worldwide headlines when it announced that its novel cell and gene therapy had induced remission in patients with multiple myeloma, a blood plasma cancer. The same month, Chinese company WuXi Biologics, a contract drug research and development company, completed Hong Kong's largest IPO of the year, raising $511 million.[1]

Foreign companies have taken note of this growth. Nearly all of the big pharmaceutical companies have established substantial research centers in China, attracted by the availability of skilled talent and the opportunity to collaborate with Chinese researchers. However, the new Chinese Data Protection Act, which limits the transferral of large amounts of data out of the country without government approval, could have a negative impact on future R&D activities of foreign owned companies in China.[2]

Increasing interest from ICT (information and communication technology) investors

In recent years, investors from the booming ICT fields have turned their attention toward life sciences. This is a strong sign that IT investors understand the potential inherent in the confluence of the digital and biological worlds. For example, in 2016 a stingray-like biological robot (cyborg) constructed out of heart cells, controlled by light and able to navigate a simple maze made headlines in 2016, drawing attention to the vast potential inherent in combined IT and life sciences ventures.

The corporate VC arms of IT giants like Apple, Microsoft, and Google's parent company Alphabet are all expanding into biotechnology. For example, Alphabet's Verily Life Sciences LLC is joining a joint $300 million venture with pharma giant Novartis and the European Investment Fund to finance a biotech fund run by life sciences investment firm Medicxi.[3]

The joining of biotechnology and digitization is another important development. One such example is enhanced biologics firm Cellworks whose work in cancer research no longer needs a wet lab. Instead, it uses predictive computational sciences to calculate how new drugs can be used in combination to achieve the best results for patients. Other applications of Big Data and cognitive technologies to the life sciences, especially the development of new drugs, are poised to become more significant in the future.

"The convergence of biologics and digitization has the potential to be a major game-changer, especially with the application of Big Data technology. With technology driving not only the development but also the use of new drugs and therapies on the patient end, it opens the door for more individualized medicine — designing drugs not just for a group of patients, but for each individual based on specific needs and traits."

Andre Guedel
Head of Business Development**, KPMG in Switzerland**

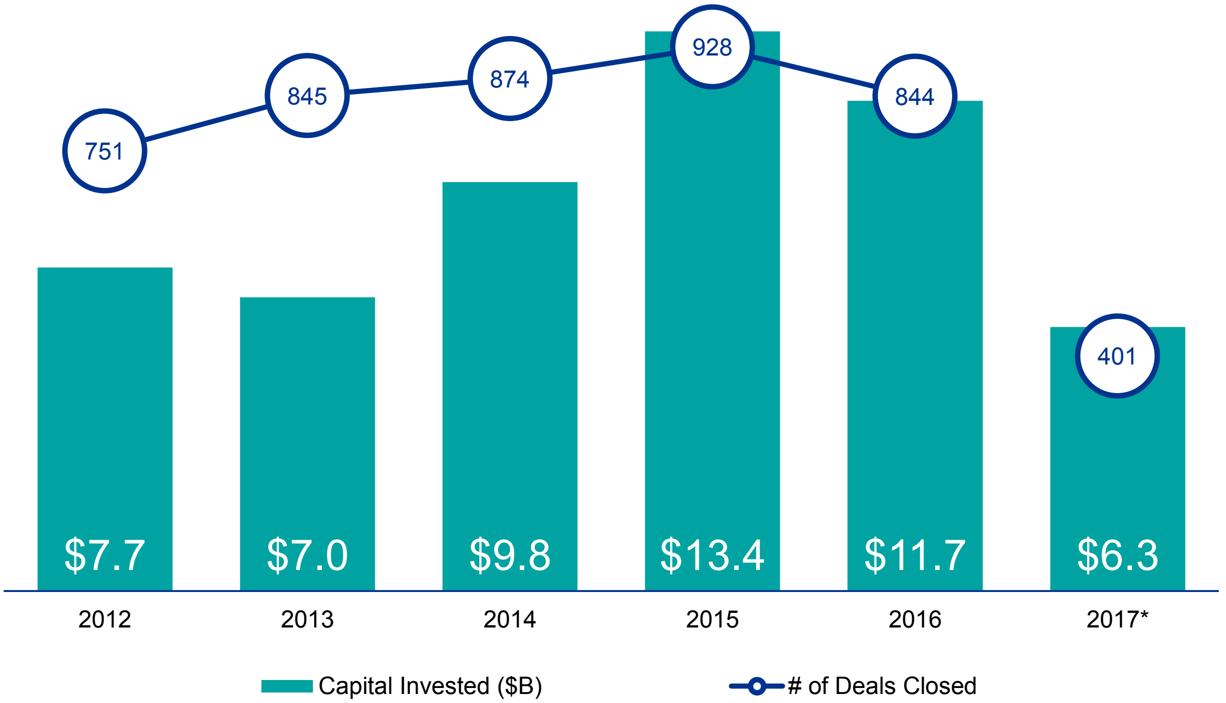
[1]http://www.reuters.com/article/wuxi-biologics-ipo-idUSL3N1J31JX
[2]http://www.reuters.com/article/us-health-cancer-cartcells-idUSKBN18W1GZ
[3]https://www.reuters.com/article/us-biotech-google-idUSKBN1953A2

KPMG Enterprise

Plenty of VC still flowing to pharma & biotech

Global pharma & biotech investment activity

2012 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

As more innovative therapies and targeting of niche audiences combine to draw robust sums of VC invested, pharmaceuticals & biotechnology remains one of the more reliably lucrative sectors, given its unique dynamics of long-term drug pipelines and promising exit avenues via giant strategic acquirers.

Autotech investments move to the fast lane

The automotive industry is ripe for disruption, and autotech looks to be the lever that will move this world. Autotech is a broad category that spans not only new technologies designed for use in vehicles, but also the range of technologies that support radical changes to automotive insurance, auto sales, vehicle security, crash avoidance, and more.

In 2013, the nascent autotech category pulled in only $6.5 million of venture capital investment. But following numerous eye-popping deals in the space made by large technology players and traditional automakers, VC funding has begun to pour in. With this investment comes the broad recognition that personal transportation is on the verge of momentous change.

In the first 6 months of 2017, the amount of venture capital invested in the autotech sector soared to $254.1 million, on track to exceed the $517.6 million recorded for all of 2016. At 22, the number of deals in the first half of this year is set to exceed the 27 recorded in all of 2016. Despite the surge in growth already witnessed, experts agree that this is only the birth of a massive, multi-trillion dollar industry.

The opportunity of autonomous vehicles

When it comes to automotive technology, most people immediately think of autonomous cars, understandably. Self-driving vehicles have grabbed both headlines and VC investors' imaginations.

Tesla's autopilot mode, Google's Waymo, Apple's Project Titan and Uber's self-driving vehicles have all found a place in the public eye, but these are far from the only companies pursuing this massive opportunity. There is a healthy startup community, with names like Zoox, Cruise Automation and more drawing investment and acquisitions. Many also expect that Amazon may soon move into this space.

California has quickly become the epicenter of self-driving car development and testing, with all major automakers establishing a presence in the region. In fact, California has issued licences to 33 companies to allow them to test autonomous vehicles on public roads, including tech giants, major automakers and international startups.

Traditional suppliers in the auto industry, such as Bosch and Delphi, are also looking for a piece of the pie, with their corporate VC arms investing in autotech and related areas.

Setting sights on innovative camera and sensor technologies

While self-driving cars have taken the early spotlight, greater innovations can be seen in the range of exciting new technologies required for an autonomous vehicle to operate. One critical area is sensor technologies, used by vehicles to navigate safely.

One major firm in this area is Israel's Mobileye, which agreed to be acquired in Q2'17 by Intel Corp for $15.3 billion. Based on an idea originally stemming from military defense, Mobileye uses vision technology to create driver assistance and crash avoidance software. Intel's massive bet is premised on the company's forecast that the market for vehicle systems and data services for autonomous driving will be worth $70 billion by 2030.

Other sensing technologies making waves include ultrasonic sensors, which use sound waves to identify nearby obstacles and LIDAR, which uses lasers to measure distances and create a 3D map of surrounding objects.

Autotech investments move to the fast lane, cont'd

Smart cars driving investment into AI and deep learning

The automotive industry is also driving considerable development of AI and deep learning technologies. These are the complex systems that must make sense of the varied sensor data input in real time to navigate safely, avoid accidents and reduce risk. This is a massive area that is attracting significant VC investment and attention, especially given that the possible applications of these technologies reach far beyond smart vehicles.

In 2016, General Motors made headlines with their $1 billion acquisition of San Francisco-based Cruise Automation, while in Q1'17, Ford announced an investment of $1 billion over 5 years in new startup Argo AI. In Q2'17, California-based Drive.ai, which specializes in deep learning software for driverless vehicles, secured $50 million in Series B funding led by NEA[4].

Personal mobility poised for further disruption

Another massive technology-driven change is how the consumer thinks about personal transportation. Already, ridesharing apps like Uber Didi Chuxing and Lyft have caused massive disruption to the taxi industry, while the growing car-sharing and on-demand vehicle market has made many urban consumers question whether they need a car at all. Continued investments in these spaces are expected globally, especially in developing markets.

Green vehicle technologies, including electric cars and other environmentally friendly options, have also continued to garner attention as governments, companies and consumers alike look to reduce their carbon footprint. China's green vehicle company Nio (formerly NextEV) is proving to be a disruptive leader in this space, securing $600 million in March from Baidu and launching its first production model at the Shanghai auto show this year[5].

Autotech trends on the horizon

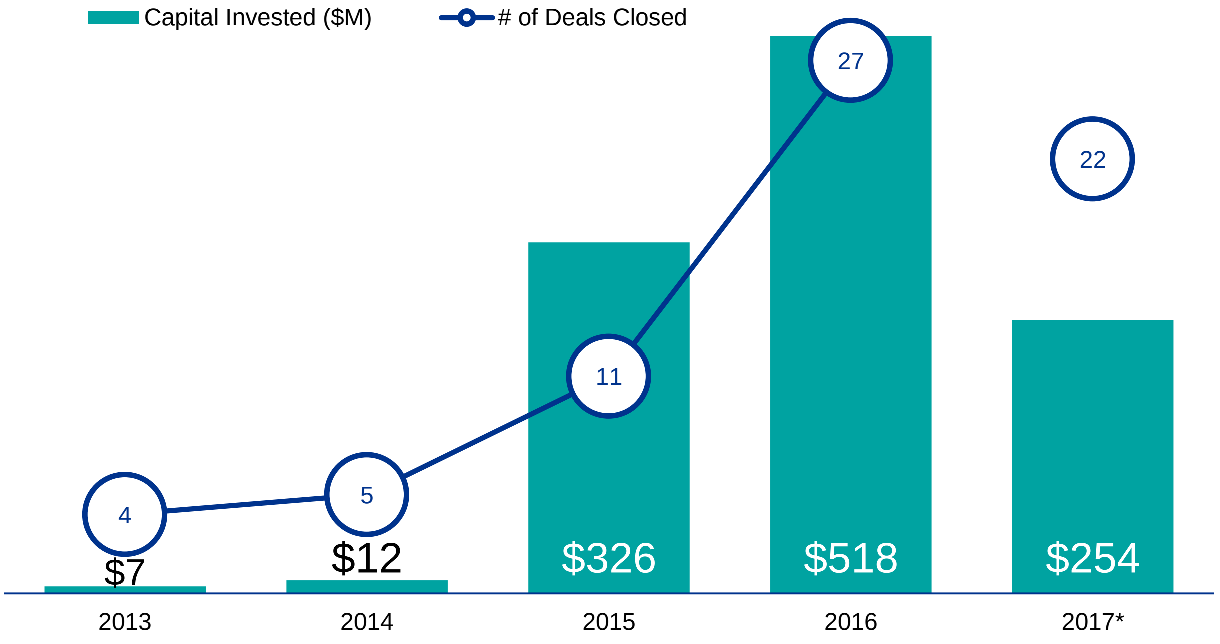
Despite the investment activity already seen, autotech is a new sector whose impact has yet to be fully felt. In coming years, look for new technologies and innovations to create massive change and disruption across every aspect of the auto industry, from manufacturing and sales, to insurance, driver experience, and on-road safety.

[4] https://techcrunch.com/2017/06/27/drive-ai-raises-50m-for-retrofit-kits-to-bring-self-driving-to-existing-fleets/
[5] http://www.thisisinsider.com/china-driverless-car-market-funding-2017-6

Autotech investment shows no sign of slowing

Global autotech investment activity

2013 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

From its veritable explosion in 2015, venture funding in autotech has hardly slowed by either value or volume, logging $518 million in 2016 across 27 financings. Investors, auto companies and entrepreneurs alike are grappling with various value segments of the vast opportunities inherent in autonomous vehicles.

"It is hard to overstate the potential size and impact of the autotech industry. Autotech is a massive revolution that is changing the automotive business model from the ground up by creating safer transportation and saving millions of lives from unnecessary accidents to providing access to mobility to so many underserved communities, and everyone — from automakers and insurers, to consumers and lawmakers — are going to be feeling the impacts for years to come."

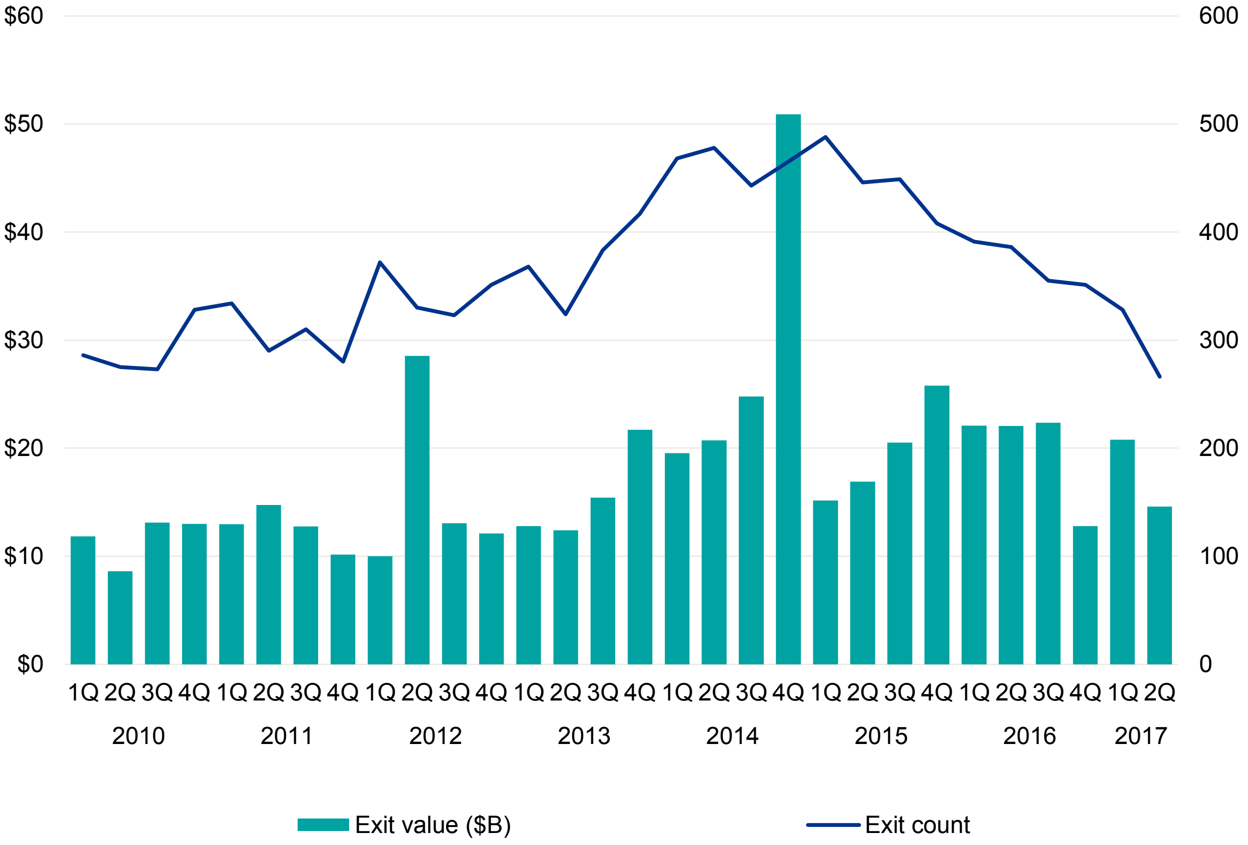
Gary Silberg
Americas Head of Automotive and Partner, **KPMG in the US**

KPMG Enterprise

Exit volume continues to diminish

Global venture-backed exit activity

2010 — Q2'17



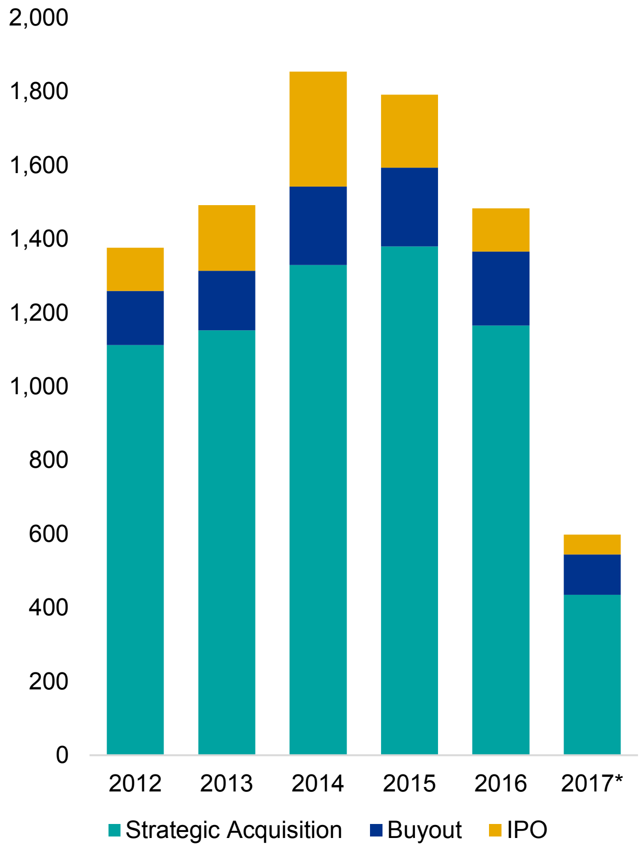
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

As exit values have stayed relatively robust, with some quarterly variations, liquidity prospects are not yet overly troubling. However, as venture-backed selling volume continues to slide quarter over quarter, investors with aging holdings are likely to grow more attuned to exit opportunities.

M&A most viable and common, IPOs crop up

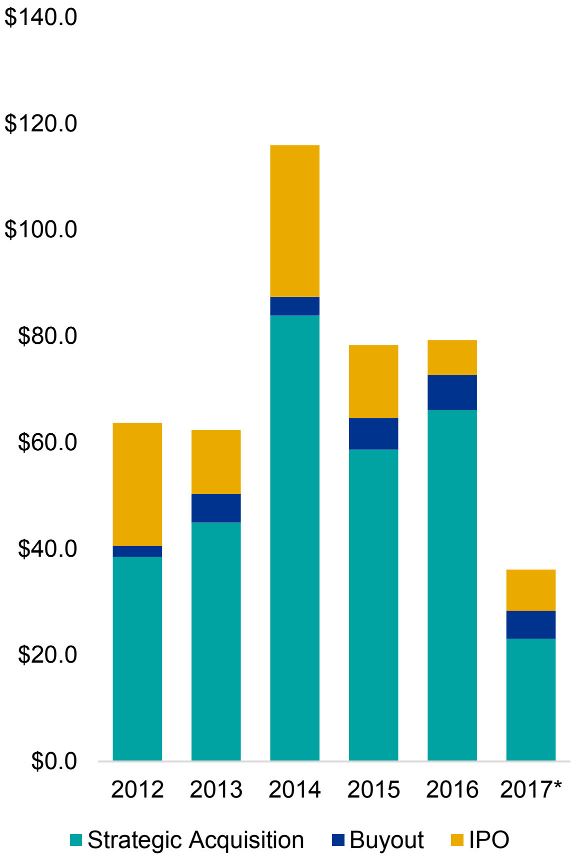
Global venture-backed exit activity (#) by type

2012 — H1'17



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

2012 — H1'17



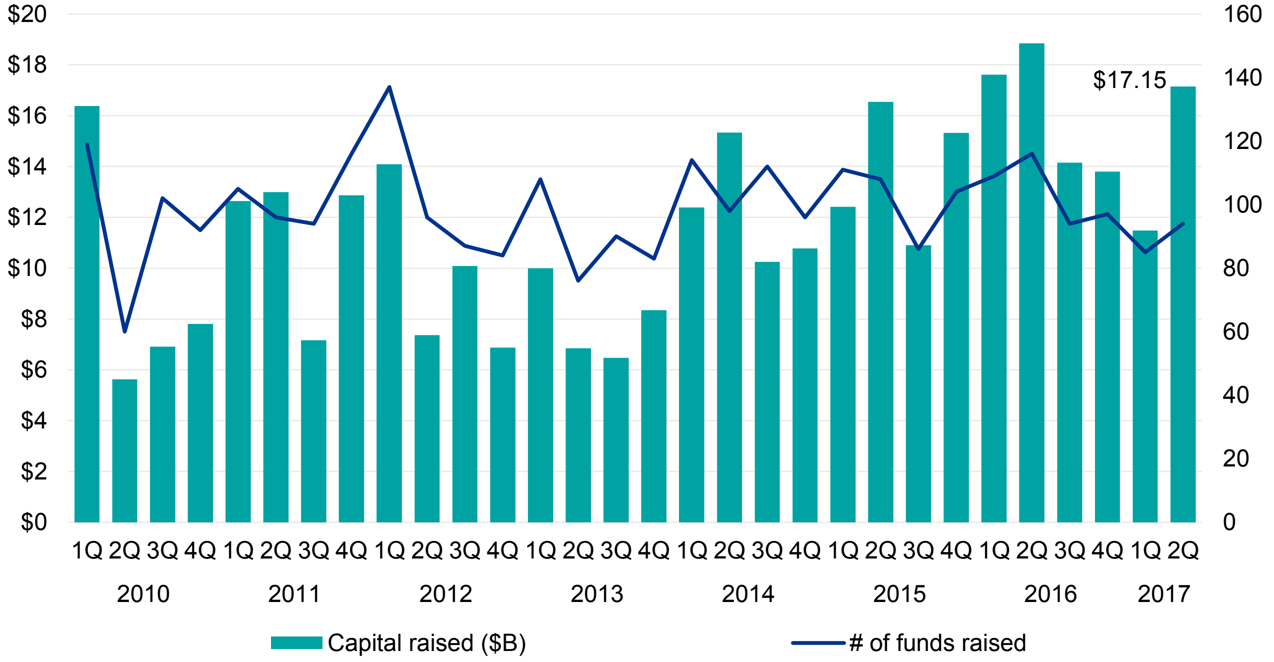
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

Some long-awaited IPOs have finally occurred, yielding potential liquidity for a small crop of venture investors, yet acquisition via a strategic buyer remains by and large the most lucrative and frequently accessed exit route.

Healthy fundraising bodes well for industry future

Global venture fundraising

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

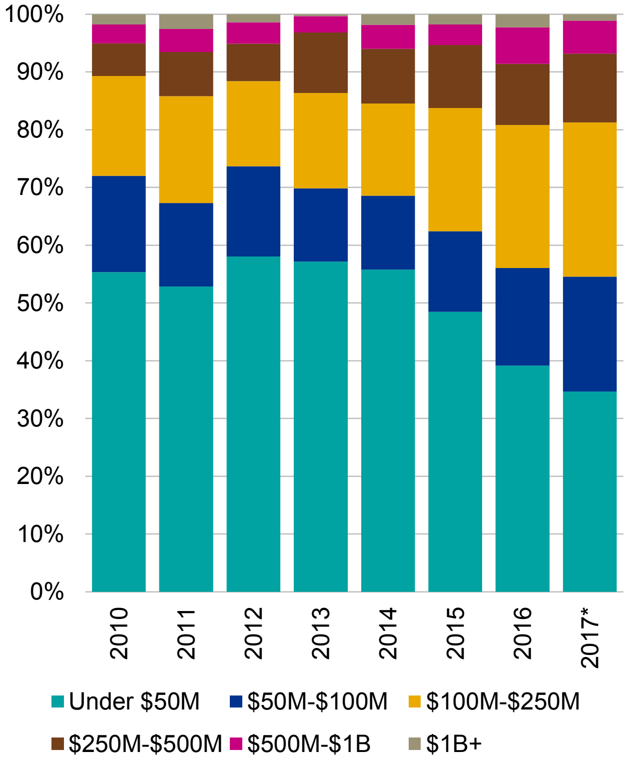
Both up from Q1'17 tallies, the most recent quarterly totals of funds closed and capital raised (the latter the third-highest since the start of 2010) indicate one of the key underlying factors for the current global venture industry: the sheer level of capital available to dispense. Such massive stores of dry powder continue to make multiple markets competitive and prices elevated.

KPMG Enterprise

H1 '17 sees continued shift toward midsize funds, even as first-time volume resurges

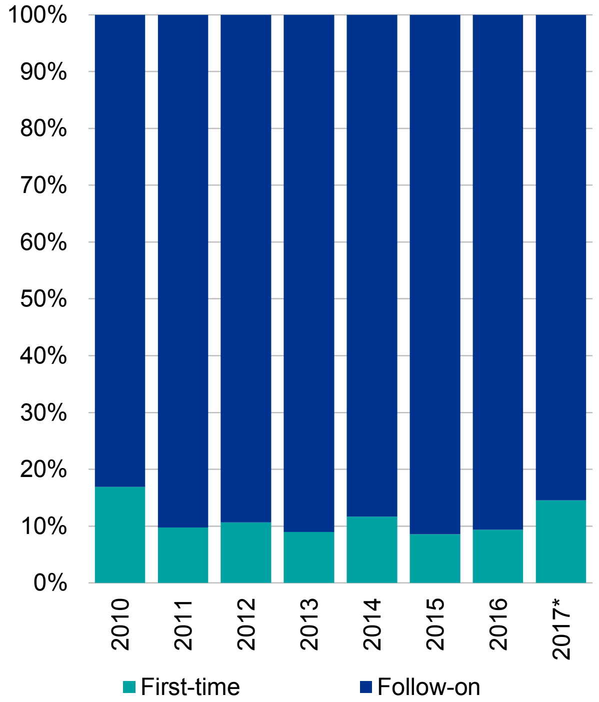
Global venture fundraising (#) by size

2010 — Q2'17



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

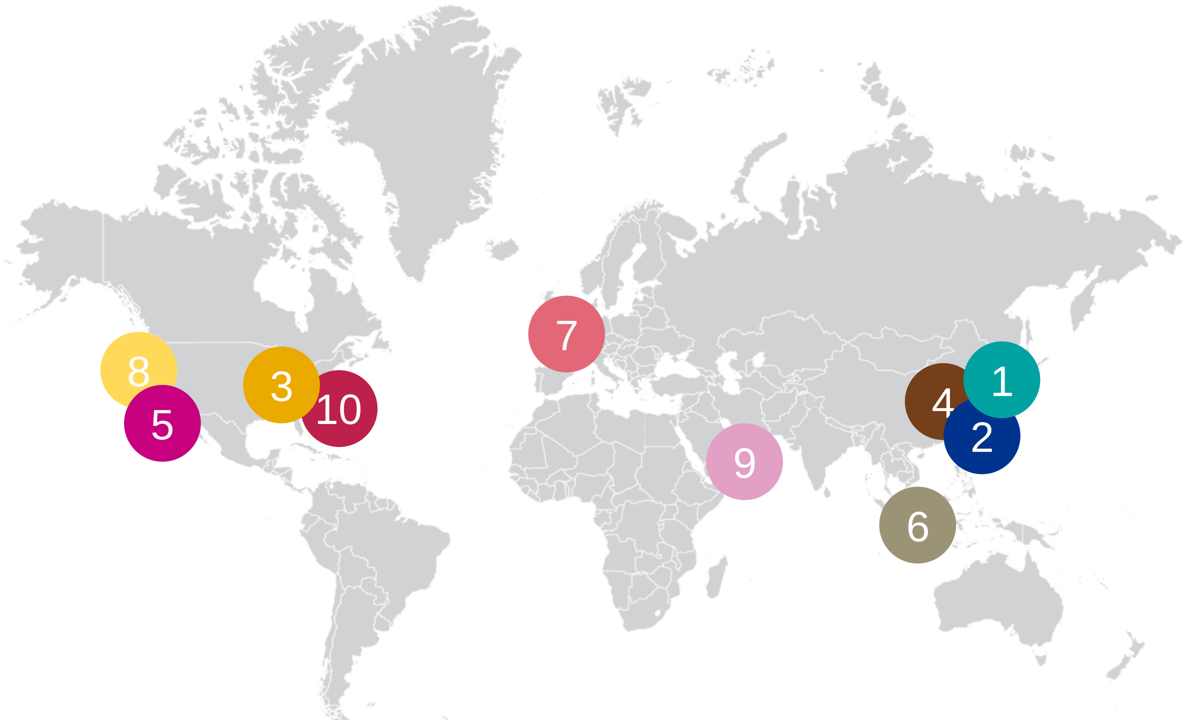
2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

For at least the first half of the year, a significant, if relative, proportion of all funds raised have been accumulated by first-time vehicles, testifying to continued limited partner appetite for exposure to the asset class. However, the ongoing trend toward fundraising volume centering in the middle of the market, while the upper size ranges hold steady, continues; close to 47% of H1'17 funds closed were in the $50 million to $250 million range.

Beijing-based companies take the top rankings



Top 10 global financings in Q2'17

1 **Didi Chuxing** — $5,500M, Beijing
Platform software
late-stage VC

2 **Toutiao** — $1,000M, Beijing
Information services
Series D

3 **Outcome Health** — $600M, Chicago
Healthcare information services
late-stage VC

4 **Mobike** — $600M, Beijing*
Transportation
Series E

5 **Lyft** — $600M, San Francisco
Transportation
Series G

6 **Sea** — $550M, Singapore
Social platform software
late-stage VC

7 **Improbable** — $502M, London
Entertainment software
Series B

8 **Wish** — $500M, San Francisco
E-commerce
Series F

9 **Careem** — $500M, Dubai
Transportation
Series E

10 **Intarcia Therapeutics** — $475.7M, Boston
Drug discovery
Series EE

Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

*Note: In the prior edition of the Venture Pulse, Mobike's Singapore location was identified as the outlet wherein its Q1'17 round was raised, given the purpose of the funds was explicitly for expansion in the Singapore and adjacent markets. This subsequent financing, as best as can be determined, is for overall purposes, hence the location is determined as Mobike's official headquarters.

KPMG Enterprise

In Q2'17 VC-backed companies in the Americas raised

$22.6B

across

2,062 deals

KPMG Enterprise

Investment in the Americas levels outside of the US

While the US experienced a relatively strong quarter of investment in Q2'17, other countries within the Americas fell behind pace compared to previous quarters. In Canada, for example, while VC investment increased deal volume saw a decrease. VC activity in Latin America also remained relatively weak.

Due diligence lengthening deal time

Q2'17 saw VC investors across the Americas taking more time to evaluate potential deals and conduct related due diligence. While deals continue to get completed, the runway required to make a deal has been extended. This has likely contributed to the decline in deals activity during the quarter. However, the lack of deals activity does not necessarily reflect waning VC market deal volume outside of the US. High investment volume still exist as they relate to specific sectors and segments, including fintech or healthtech. Changing market conditions have simply extended the time required to get deals completed successfully.

early-stage funding gap grows

In Q2'17, there was a plateau in VC funding for early-stage deals — particularly those that fit between the typical characteristics of seed stage and early-stage deals. While numerous programs exist to provide seed stage funding and support to startups across the Americas, a noticeable funding gap has appeared for slightly more mature companies looking for funding. The challenge relates to the changing characteristics of VC investors given the still-turbulent geopolitical and economic environment across much of the Americas.

Many VC investors have slowed down or stopped making broad investments in early-stage companies, preferring to focus specifically on companies well positioned to achieve success. This has led to companies struggling to obtain small rounds of funding because they are unable to entice enough interest from VC investors. This struggle could have long-term ramifications for the VC market over time, should the trend continue.

Healthtech remains key priority in Canada

In Canada, healthtech remains a key area of VC interest and attention, a trend expected to continue for the foreseeable future. Both federal and provincial governments have been making significant investments in the health sector, including providing funding for new hospitals. These investments will likely spur investment in related technologies as hospitals vie to become the most technologically advanced in the country.

Brazil evolving into Latin America innovation hub

In Q2'17, Brazil continued its evolution into a strong Latin America innovation hub. In recent quarters, San Paulo in particular has seen an increase in the number of global companies setting up shop locally, while incubator models (e.g. plug.co, CUBO) and accelerator models (ACE) have started to thrive there.

Brazil has also seen an increase in the availability of VC funds locally, and a growing interest among VC investors for using Brazil as a platform for growth in Latin America. During Q2'17, KaszeK Ventures closed a fund focused on Latin America valued at US$200 million, its third and largest fund to date. KaszeK Ventures stated that the purpose of this fund will be on continuing to grow the tech ecosystem in Latin America.[6]

[6] https://lavca.org/2017/06/02/kaszek-ventures-closes-us200m-latin-america-tech-fund/

Investment in the Americas levels outside of the US, cont'd.

While Brazil is still working to gain traction among international investors, there are significant positive signs for the future. In Q2'17, ridesharing company 99 completed a fundraising round of $200 million, with a $100 million investment by Softbank from Japan. Over time, it is expected that deal activity will only increase as companies involved in different incubators and accelerators begin to mature.

Trends to watch for in the Americas

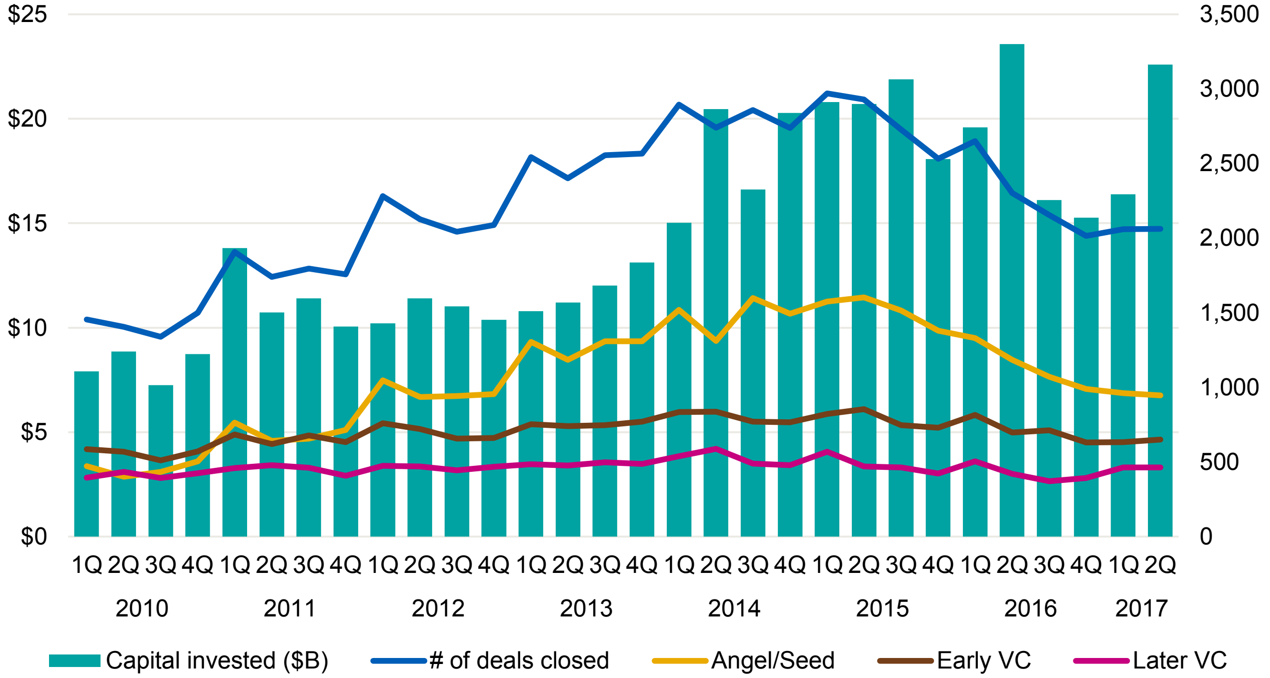
Through the remainder of 2017, healthtech is expected to remain a hotbed for VC investment activity, driven by the growing focus on innovation and the desire to make healthcare services more proactive, efficient and effective. Artificial intelligence, cybersecurity, blockchain and fintech are also expected to remain on the radar of investors.

Over time, there will also likely be additional investor attention given to building innovation hubs, incubators and accelerators in Mexico and Latin America in order to better access these markets and provide tech-enabled services to their relatively large populations.

VC invested resurges after a period of stability

Venture financing in the Americas

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

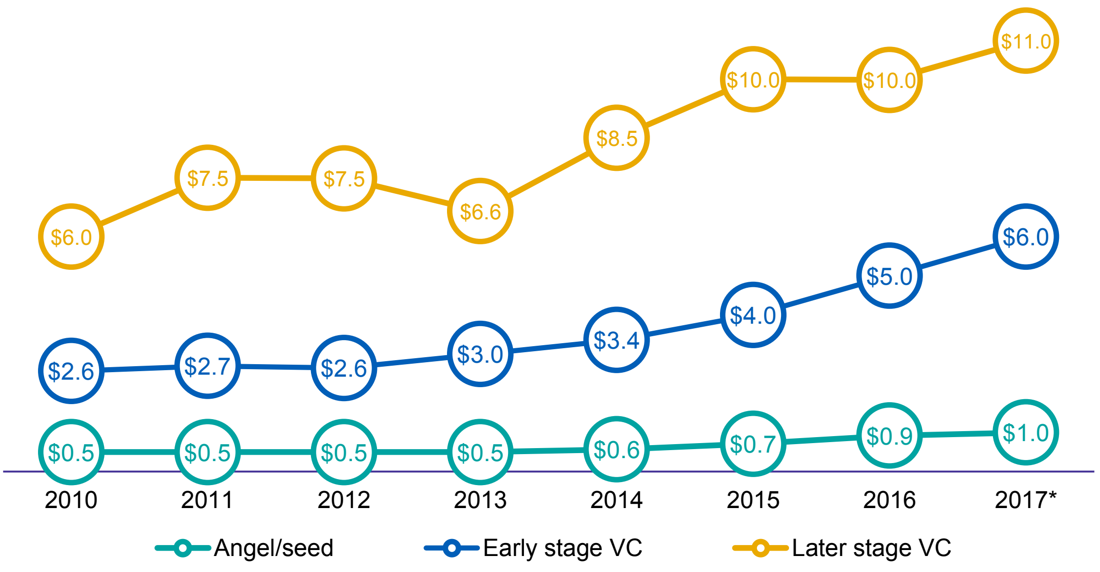
Total venture capital invested bounced back to one of the higher quarters on historical record, even as volume stayed steady. Despite the impact of dry powder and late-stage outliers, as volume reverts to pre-2014 historical levels, such massive sums invested could level off.

KPMG Enterprise

Deal sizes grow or persist at a high plateau

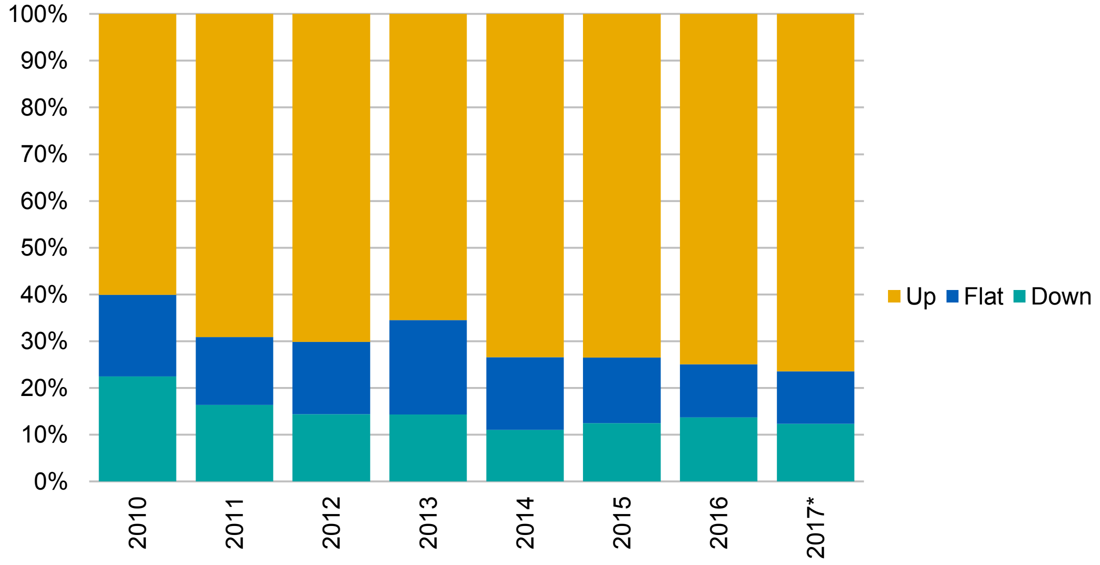
Median deal size ($M) by stage in the Americas

2010 — H1'17



Up, flat or down rounds in Americas

2010 — H1'17

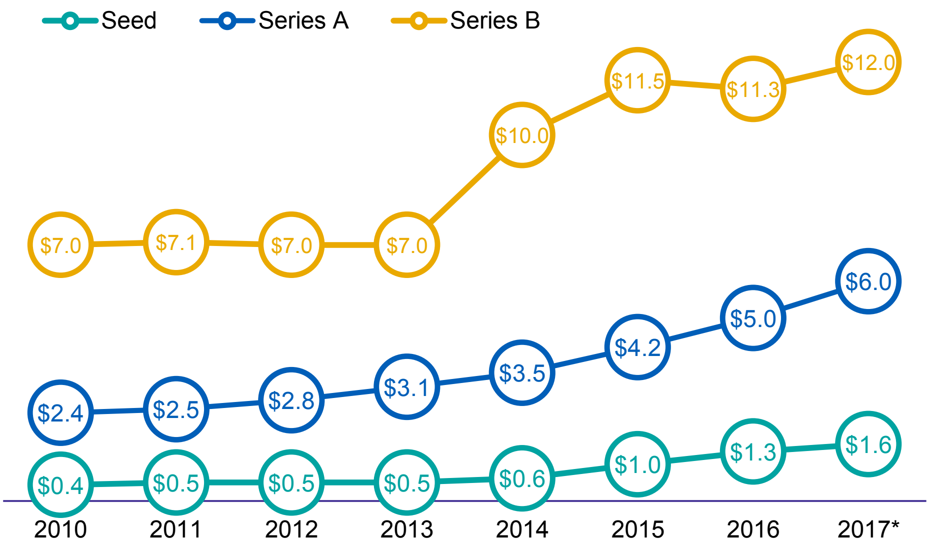


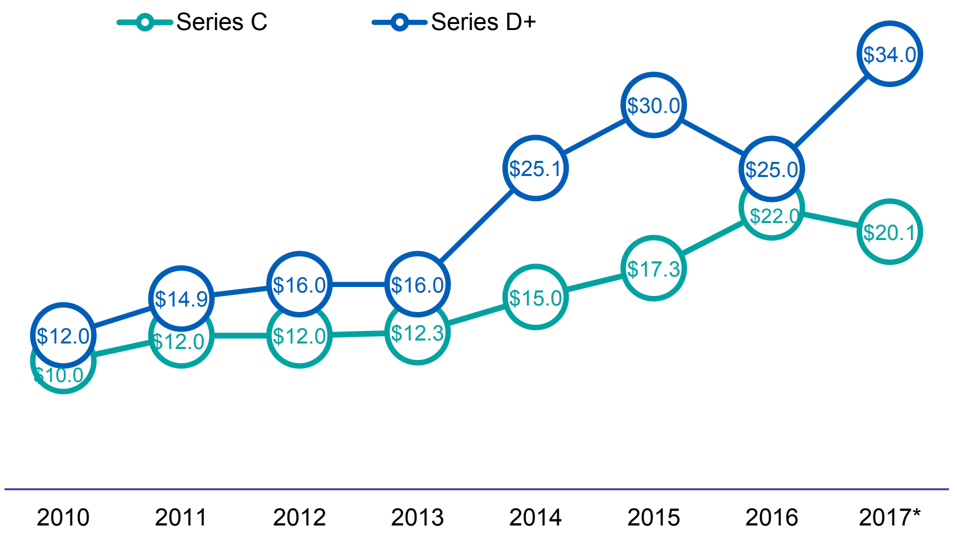
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

Uninterrupted if slight growth at early-stage

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

2010 — H1'17





Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

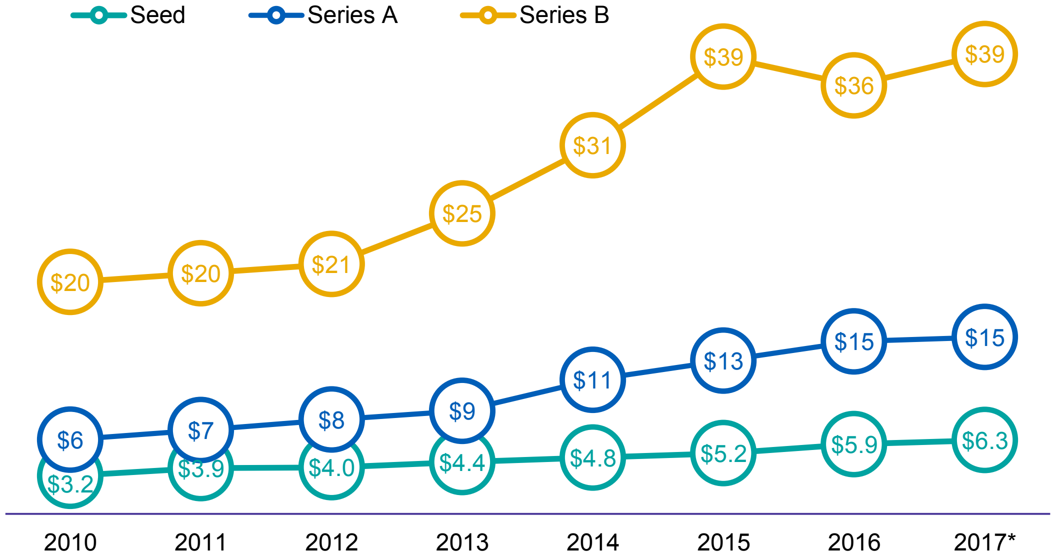
Even as overall volume lowers, the fact median deal sizes are up across nearly every financing series — and are still historically high across the board — testify to the current dynamic of more than sufficient capital chasing fewer, more critically examined deals in developed venture ecosystems.

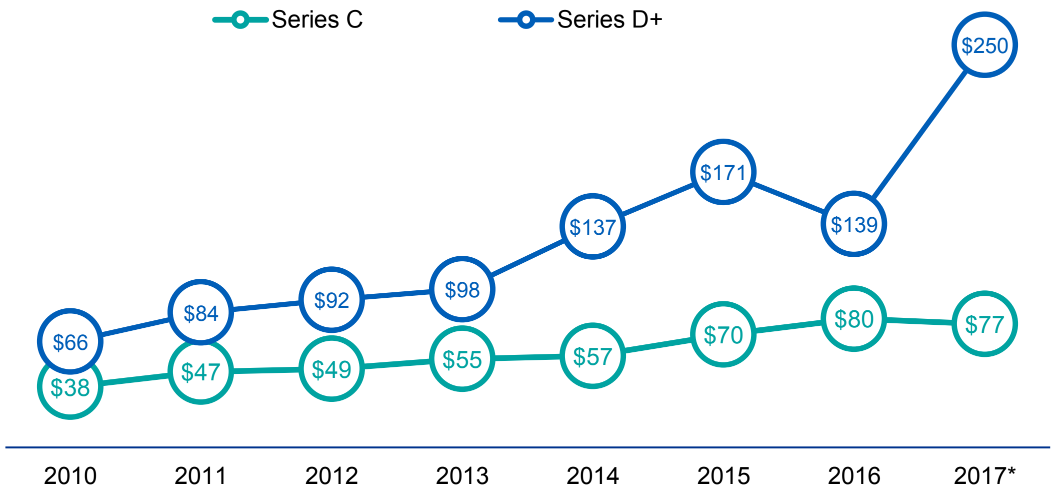
KPMG Enterprise

Valuations plateau, excepting the latest stage

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

2010 — H1'17





Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

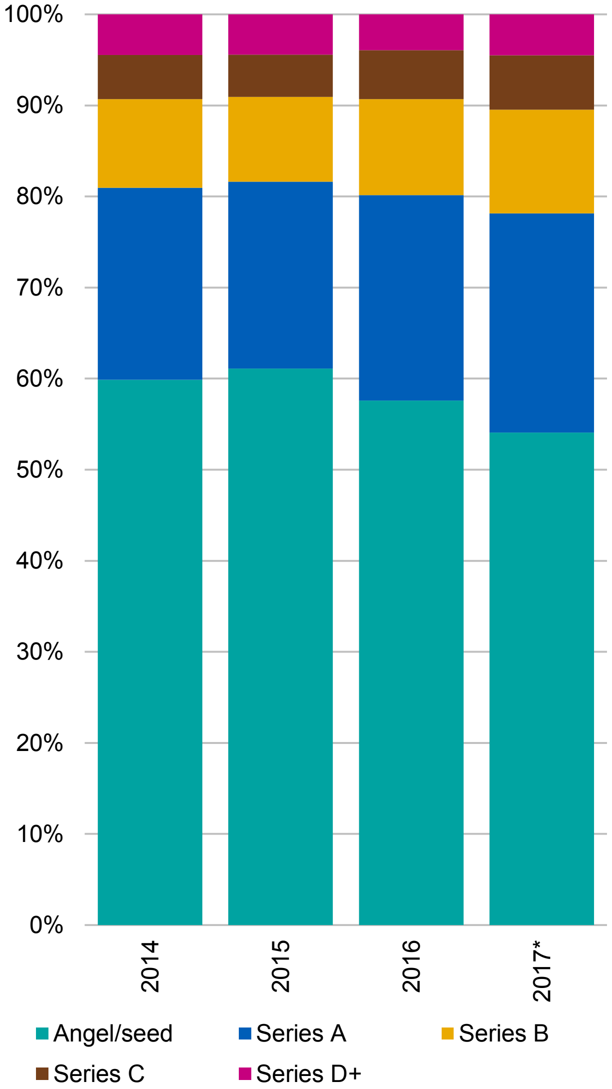
Current supply and demand dynamics in the Americas are producing a temporary equilibrium of sorts at an elevated level of valuations, at least across most financing series. The smaller population of Series D or later rounds is still contributing to unprecedented spikes in median valuations.

KPMG Enterprise

Angel & seed stage subsides to historical means

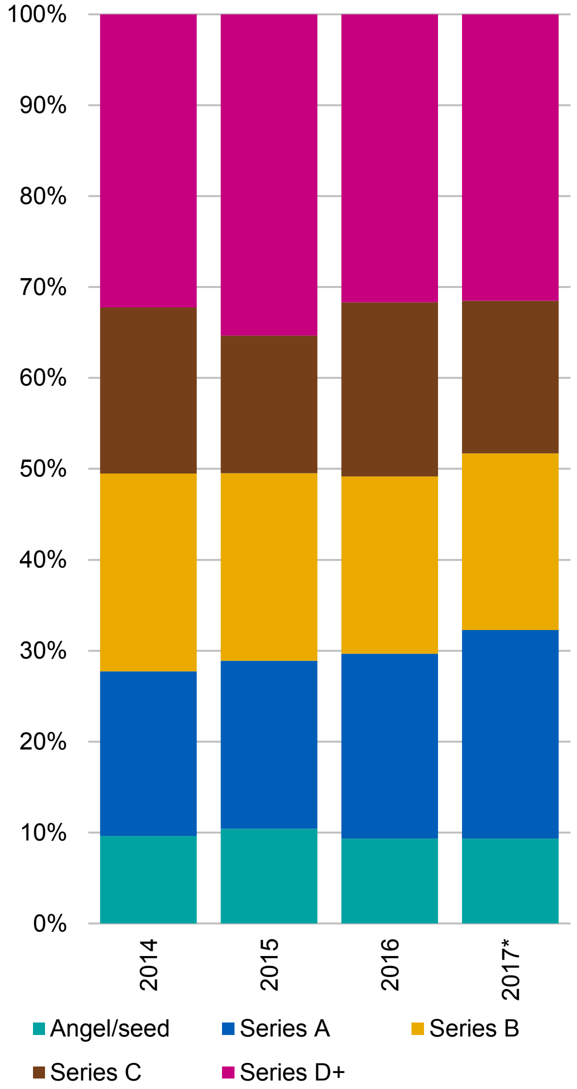
Deal share by series in the Americas

2014 — H1'17, number of closed deals



Deal share by series in the Americas

2014 — H1'17, VC invested ($B)



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

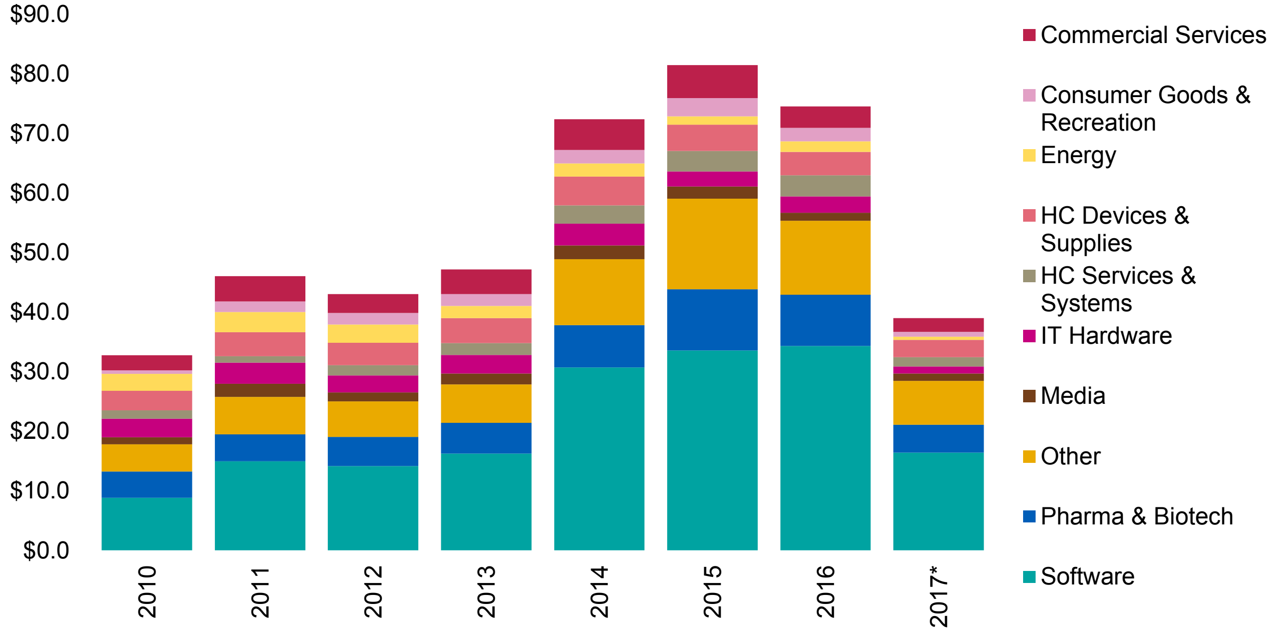
Aggregate angel and seed financing volume declined to 44% of all H1'17 venture volume in the Americas, the lowest such percentage since 2012. By and large, however, trends in the proportion of total VC invested held relatively steady, with only the Series A currently standing at no less than $7.6 billion, 19% of the total in the first half.

KPMG Enterprise

Amid decline, healthcare remains resilient

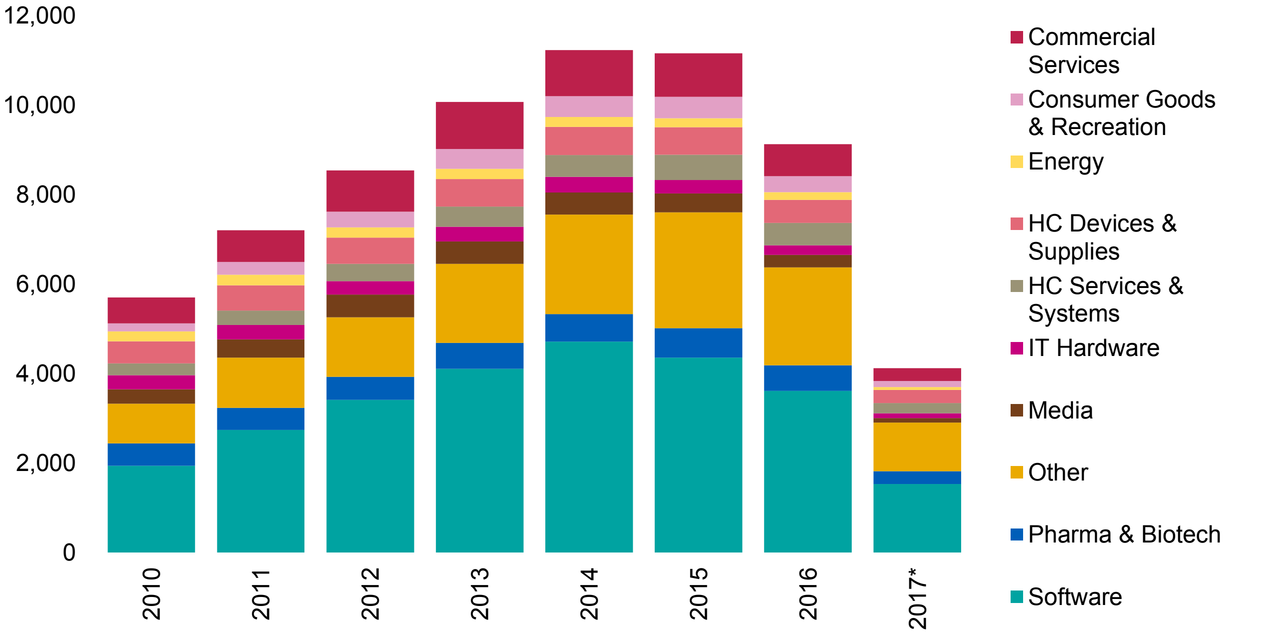
Venture financing of VC-backed companies by sector in the Americas

2010 — H1'17, VC invested ($B)



Venture financing of VC-backed companies by sector in the Americas

2010 — H1'17, # of closed deals

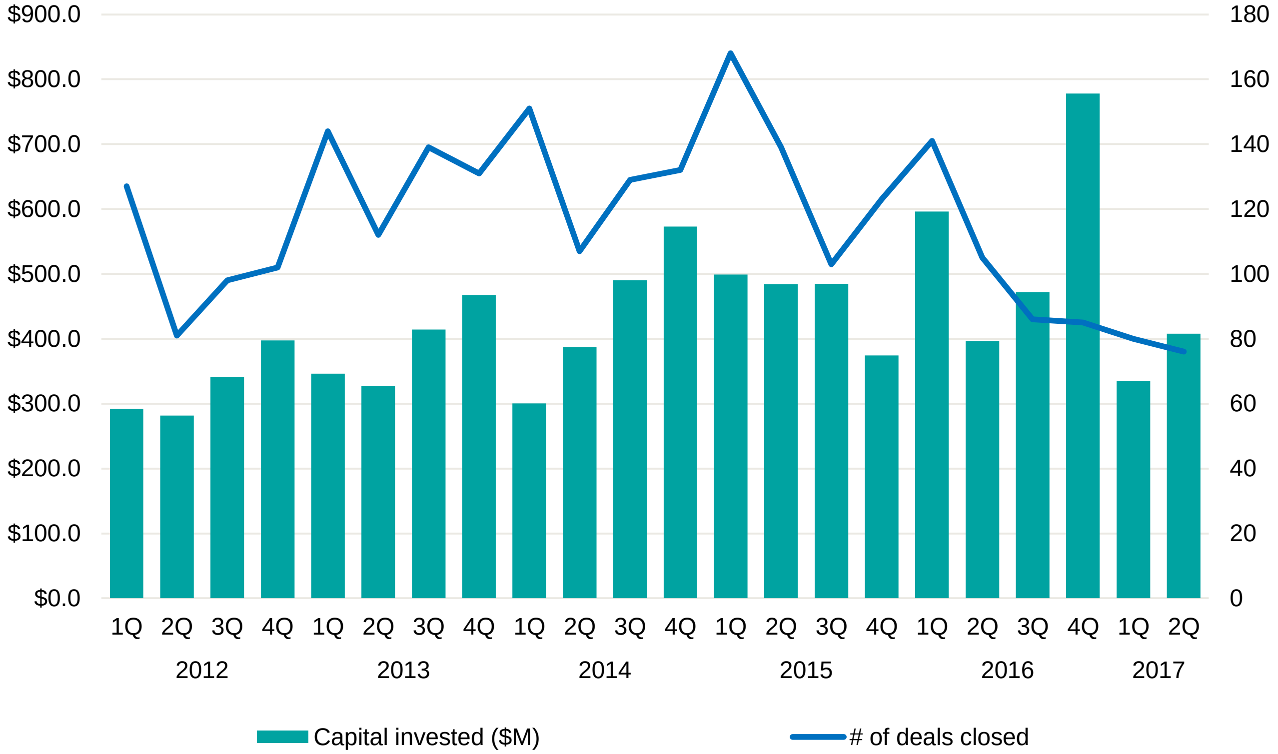


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

VC invested bounces back

Venture financing in Canada

2012 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Even as VC activity subsided slightly quarter over quarter, total capital invested surged to exceed $400 million total in Q2'17, in line with prior quarterly totals observed throughout 2016. A few hefty deals — namely the $102 million financing of Element AI — contributed considerably.

"In Canada, VC investors are taking longer through the due diligence process and focusing on finding a smaller number of bigger investments. This has caused the funding gap between seed stage and Series A to widen, which has become a major issue for companies looking for funding as they may be too mature for seed funding but too small to attract the interest of VC investors."

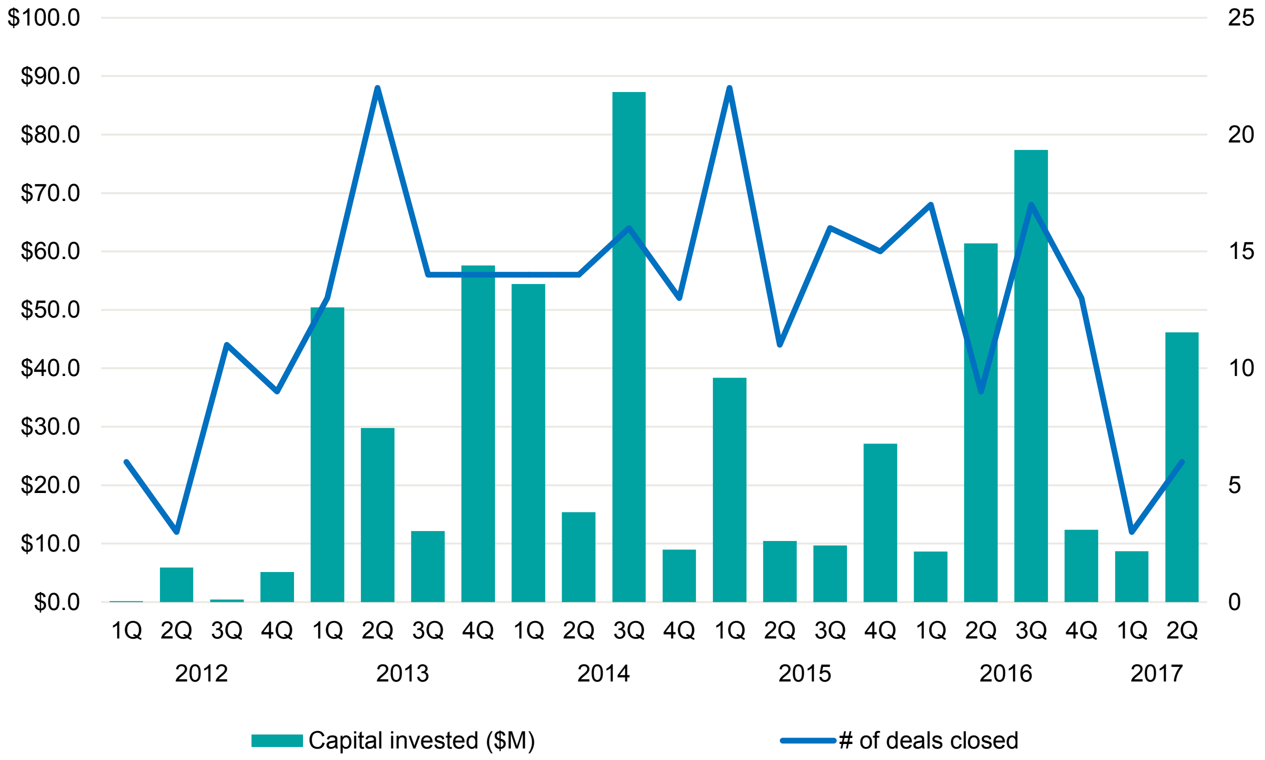
Sunil Mistry
Partner, KPMG Enterprise, Technology, Media and Telecommunications,
KPMG in Canada

KPMG Enterprise

Resurgence after two slow quarters

Venture financing in Mexico

2012 — Q2'17

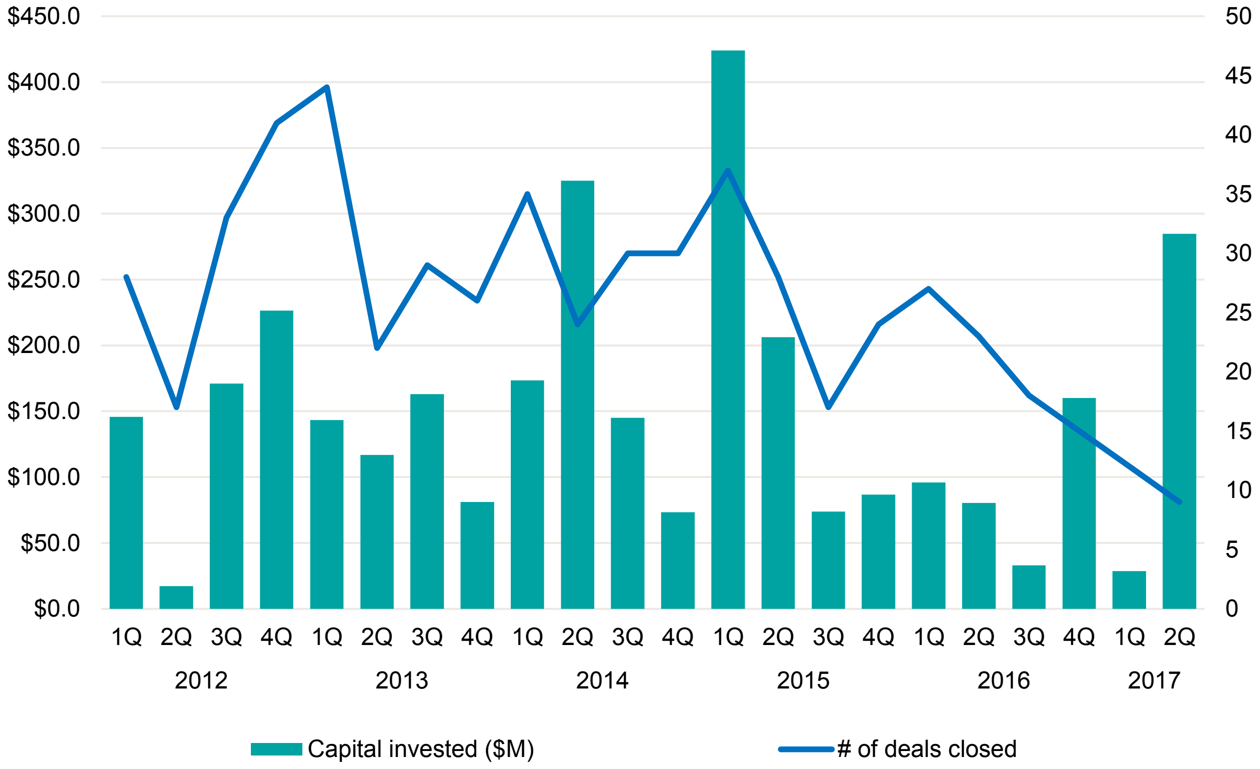


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

After back-to-back slow quarters in terms of capital invested, that same metric soared in Q2’17, even though volume remained compressed. Accel-led $21 million financing of online grocery platform Cornershop was primarily responsible for the resurgence.

Volume slips, yet outliers still propel VC invested

Venture financing in Brazil
2012 — Q2'17

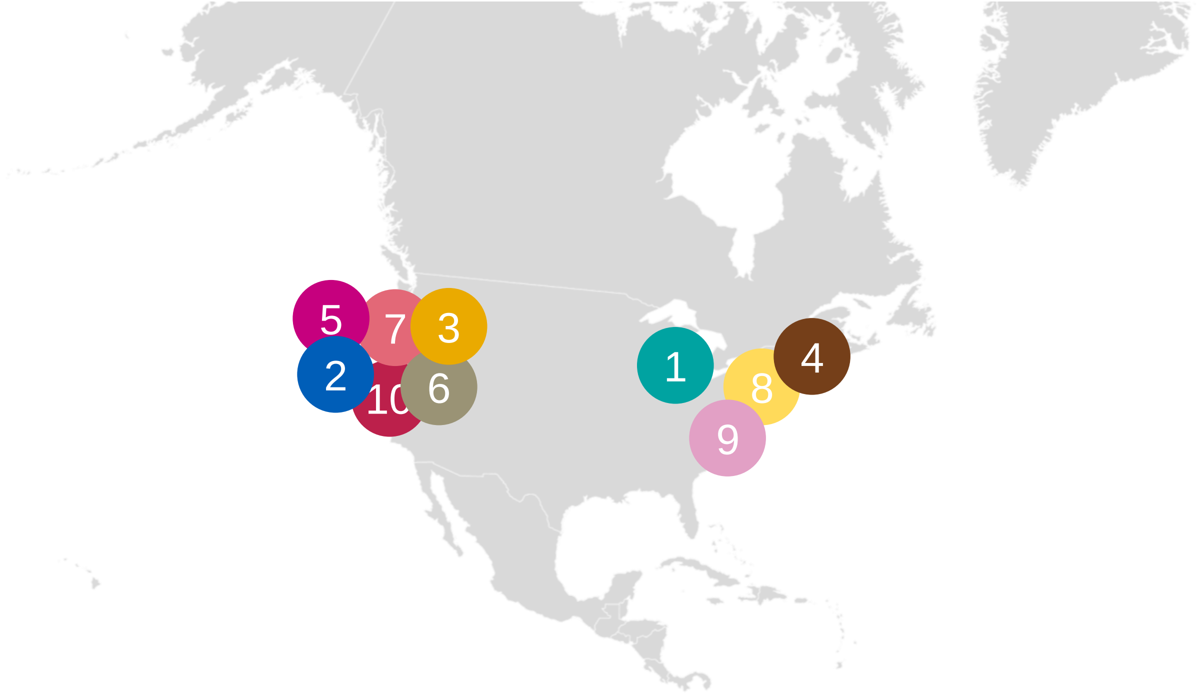


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Q2'17 may have seen the lowest volume in VC activity in years, yet thanks to a number of businesses, was still able to attract an outsized $285 million. Once again, and even more significantly this quarter, the majority of VC invested was concentrated in fewer than five companies, with 99Taxis' $200 million financing finally closing as SoftBank joined in.

KPMG Enterprise

Coastal US epicenters still account for Americas' largest deals



1 **Outcome Health** — $600M, Chicago
Healthcare information services
late-stage VC

2 **Lyft** — $600M, San Francisco
Transportation
Series G

3 **Wish** — $500M, San Francisco
E-commerce
Series F

4 **Intarcia Therapeutics** — $475.7M, Boston
Drug discovery
Series EE

5 **Unity** — $400M, San Francisco
Entertainment software
late-stage VC

6 **Houzz** — $400M, Palo Alto
Information services
Series E

7 **Guardant Health** — $360M, Redwood City
Biotechnology
Series E

8 **Peloton Interactive** — $325M, New York
Consumer durables
Series E

9 **AvidXchange** — $300M, Charlotte
Financial software
Series F

10 **Essential Products** — $300M, Palo Alto
Electronics (B2C)
Series B

Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

KPMG Enterprise

In Q2'17 US VC-backed companies raised

$21.8B

across

1,963 deals

KPMG Enterprise

Outlook positive for the US VC market as investment rises

VC investment in the US rose for the second straight quarter, injecting a strong dose of positivity into the market. While funding remained shy of Q2'16's peak high, a more positive IPO climate and strong M&A activity suggest that VC investment may be rebounding from the 11 quarter low experienced in Q4'16. While VC activity remained low during the quarter, a significant number of mega-deals boosted investment substantially, with the top 10 deals in the country all at or above $300 million in value.

Deals activity continues to decline as US investors focus on late-stage deals

VC deal volume flatlined further in Q2'17, continuing a multi-quarter trend the US has been unable to break despite more certainty in the market and upticks in VC investment. The plateau in VC volume likely reflects a combination of factors, including investors continuing to be cautious following the Q4'16 presidential election, amid expectations of future regulatory changes. Despite a significant amount of dry powder in the market, Q2'17 saw investors continuing to focus on late-stage deals and on companies with strong value propositions. With the market outlook continuing to be positive, however, the decline in deal volume is expected to reverse in the near future.

Secondary transactions taking pressure off exit strategies

Q2'17 highlighted a recent trend toward the use of secondary transactions in order to forestall pressures to exit. Secondary transactions refer to companies allocating a part of funds raised in order to provide liquidity to founders and, in some cases, employees with common shares. The trend toward secondary transactions is likely having a delaying impact on IPO exits as companies are under less pressure to exit and can move ahead when they have the best opportunity to be successful.

IPO market continues to rebound following 2016 drought

The IPO market in the US continued to show signs of improvement in Q2'17, with 19 exits during the quarter, up from 8 in Q1'17. The companies issuing IPOs reflected a strong mix of technology-focused companies, from enterprise cloud services providers like Cloudera to lending company Elevate Credit. With few exceptions, the companies that have gone public so far this year reflect high quality organizations with high revenue growth, a defined path to profitability, and a solid prediction of when they will become cash flow positive. While the remainder of the year is not expected to bring a return to the IPO heights experienced in 2015, the number of IPOs is expected to increase further baring any major market catastrophes.

Food delivery returns to spotlight following acquisition of Whole Foods

Amazon's acquisition of Whole Foods during Q2'17 brought food delivery back into the spotlight during the quarter, despite a general consensus that the market has become saturated in the US. The reality is that many companies have found food delivery a difficult market in which to succeed, with many niche companies failing because of their inability to achieve scale. The Whole Foods transaction reflects a different angle — one focused on broader grocery delivery opportunities and the ability to work with multiple vendors. The B2B approach toward grocery delivery will be one to watch, particularly as corporates may feel pressured by the Whole Foods deal to consider delivery options.[7]

[7] http://money.cnn.com/2017/06/16/investing/amazon-buying-whole-foods/index.html

Outlook positive for the US VC market as investment rises, cont'd

Diversity of offerings continues to fuel growth for healthtech

Healthtech continued to be a hot area for investment in the US during Q2'17, with a myriad of companies raising funds — including medical device company Guardian health, radiology services company Radiology Partners, medical platform company Outcome Health and insurance company Clover. Between the immense spending on healthcare in the US and the variety of healthtech options, investments in this space are not expected to drop off anytime soon.

Trends to watch for in the US

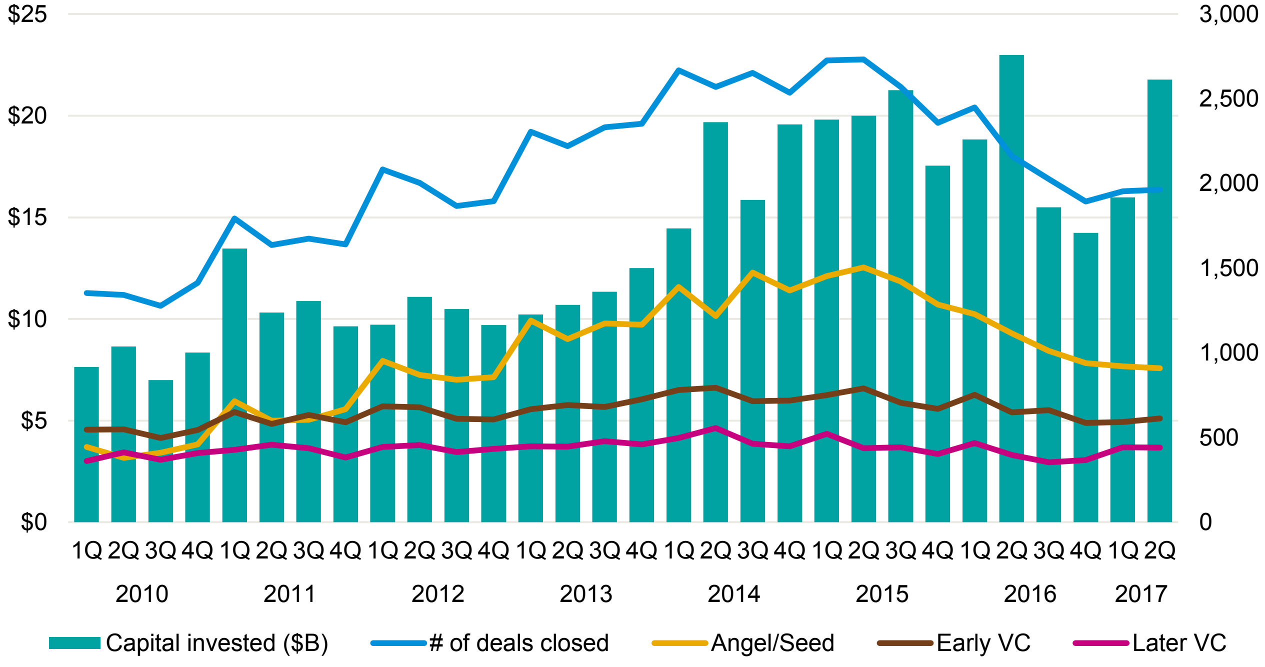
Looking ahead, AI is expected to become a very hot sector for investment in the US over the next 12 months, with technologies that enable machines, computers or platforms to make decisions at a significantly quicker pace than humans continuing to attract significant levels of funding. Blockchain investments are also expected to grow as both traditional VC investors and corporates begin to recognize that the technology's applicability goes far beyond banking and insurance.

KPMG Enterprise

Investors open wallets further in Q2

Venture financing in the US

2010 — Q2'17



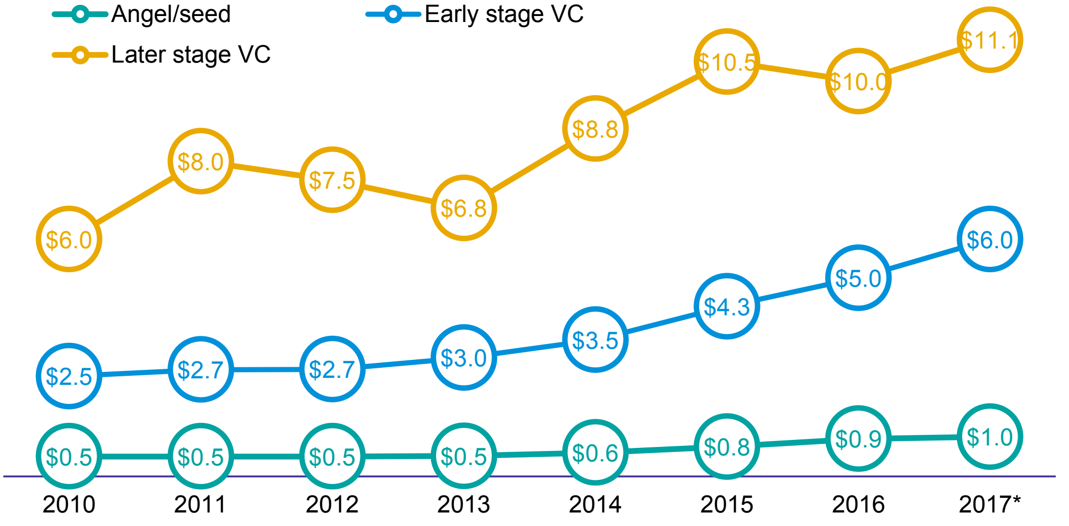
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Contributing significantly to the global resurgence in total VC invested, US companies' aggregate sum raised experienced consecutive quarter-over-quarter growth, even as volume continued into a subdued plateau.

US deal metrics maintain robust level or grow

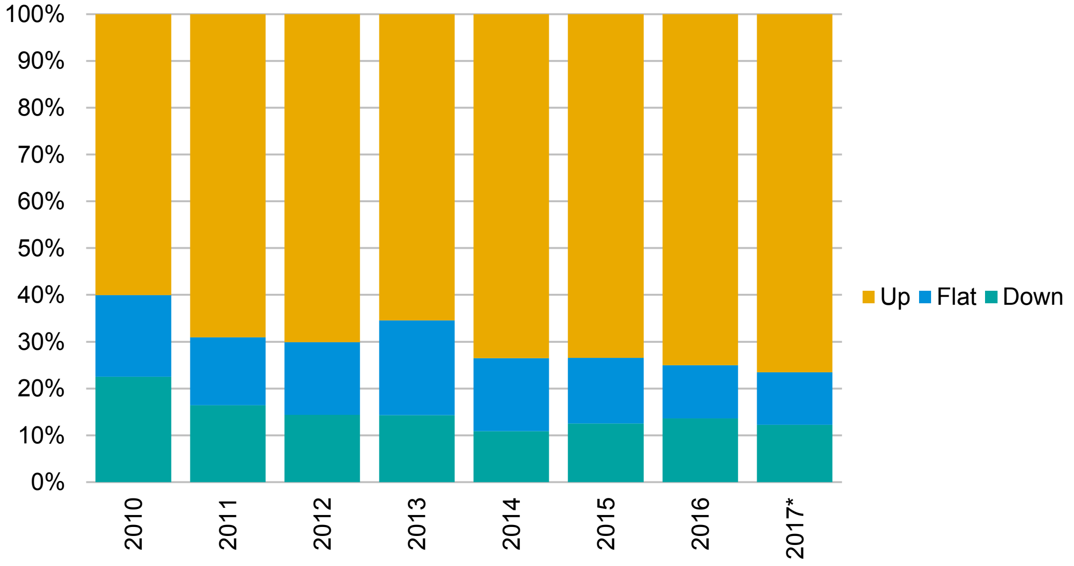
Median deal size ($M) by stage in the US

2010 — H1'17



Up, flat or down rounds in the US

2010 — H1'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

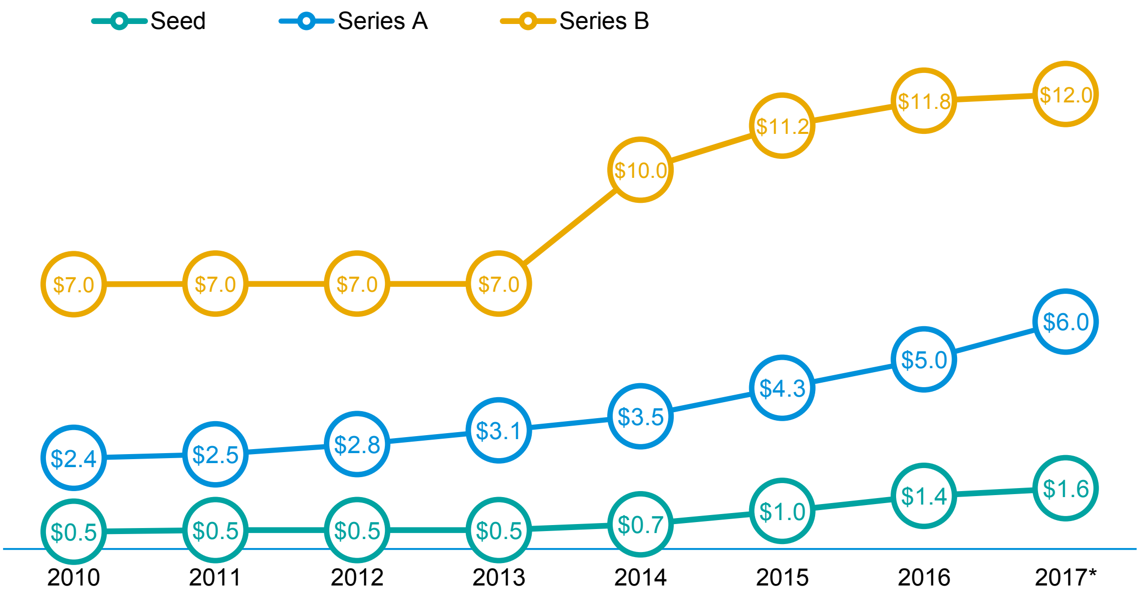
Midway through the year, the rate of increase in the median early-stage financing size has maintained by and large, while the late-stage has seen a plateau.

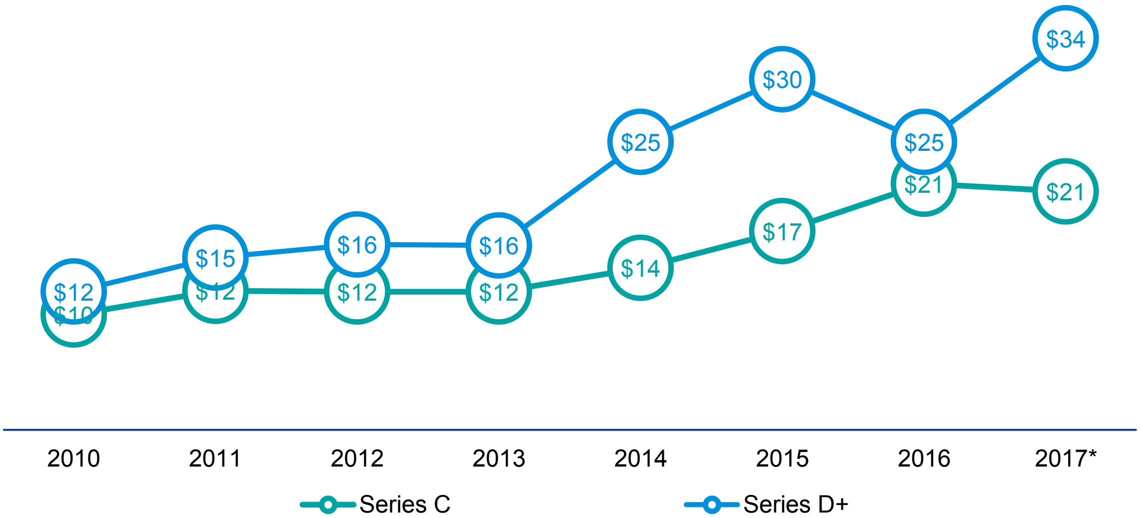
KPMG Enterprise

Steady if slight increases across most series

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

2010 — H1'17





Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

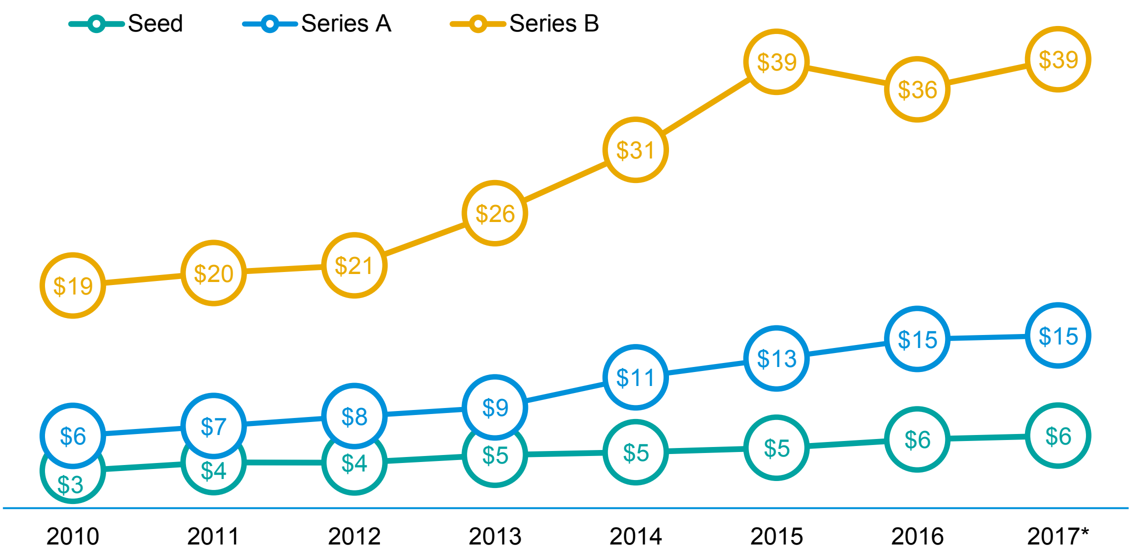
Note: Figures rounded in some cases for legibility.

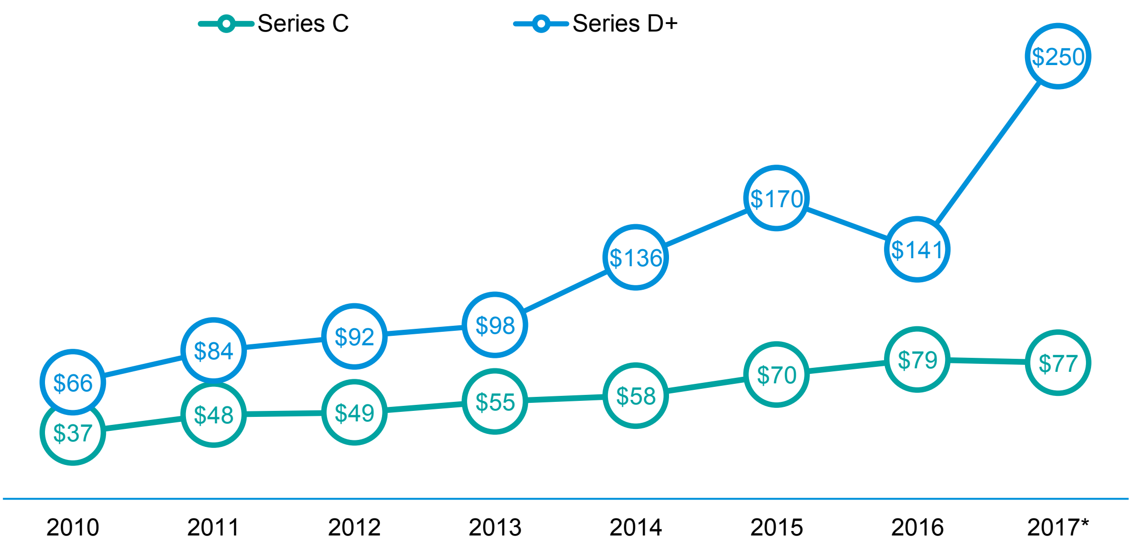
KPMG Enterprise

Valuations persist at historically high levels

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

2010 — Q2'17





Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

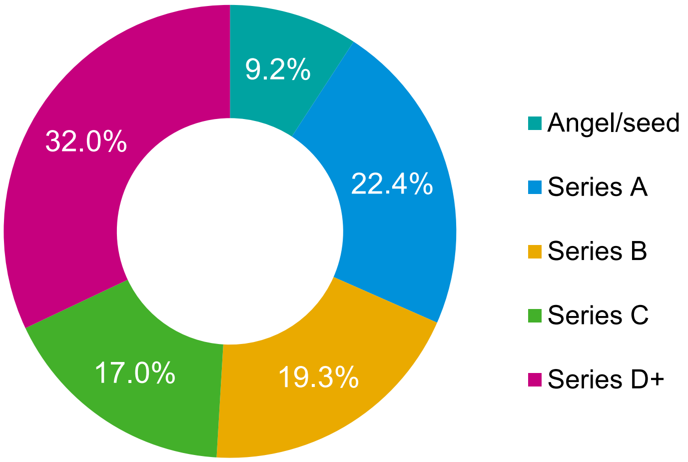
Note: Figures rounded in some cases for legibility.

Owing in part to a necessarily smaller sample size, as only half the year is past, the latest-stage crop of US companies saw an explosion in the median pre-money valuation, in a spike that will surely normalize once more time has passed.

Relative to overall, angel & seed volume contracts

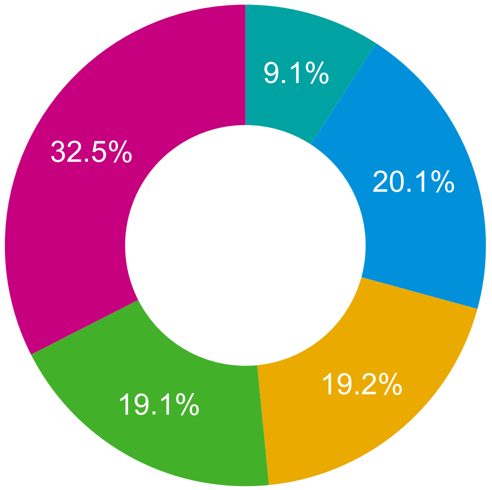
Deal share by series in the US

H1'17, VC invested ($B)



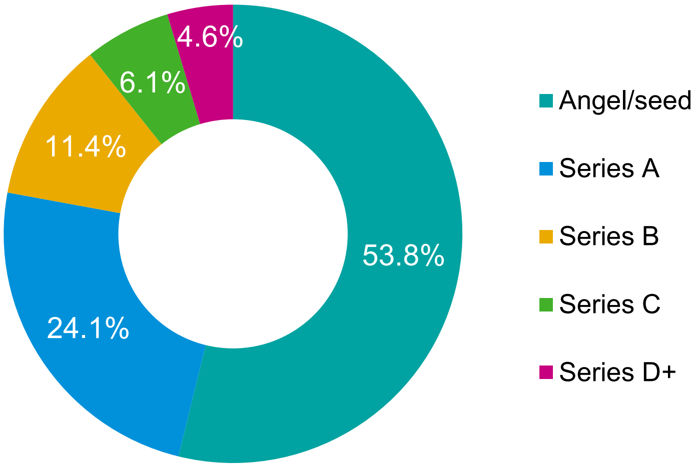
Deal share by series in the US

2016, VC invested ($B)



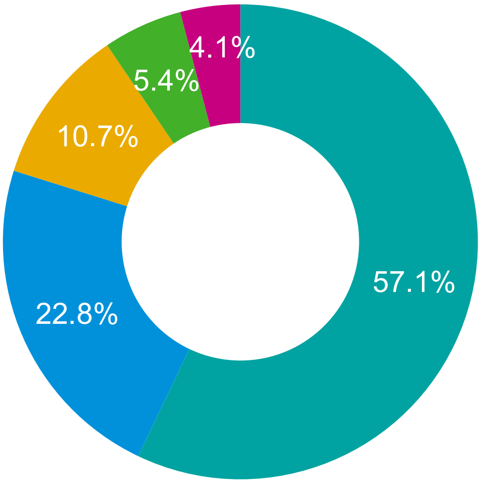
Deal share by series in the US

H1’17, number of closed deals



Deal share by series in the US

2016, number of closed deals

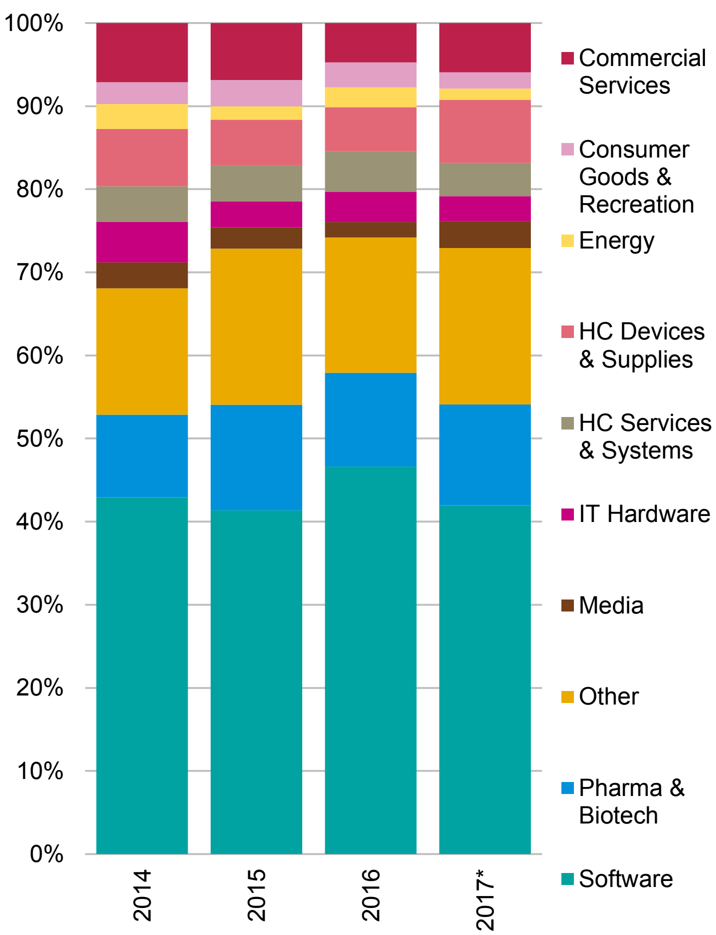


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Pharma & biotech account for $4.6B

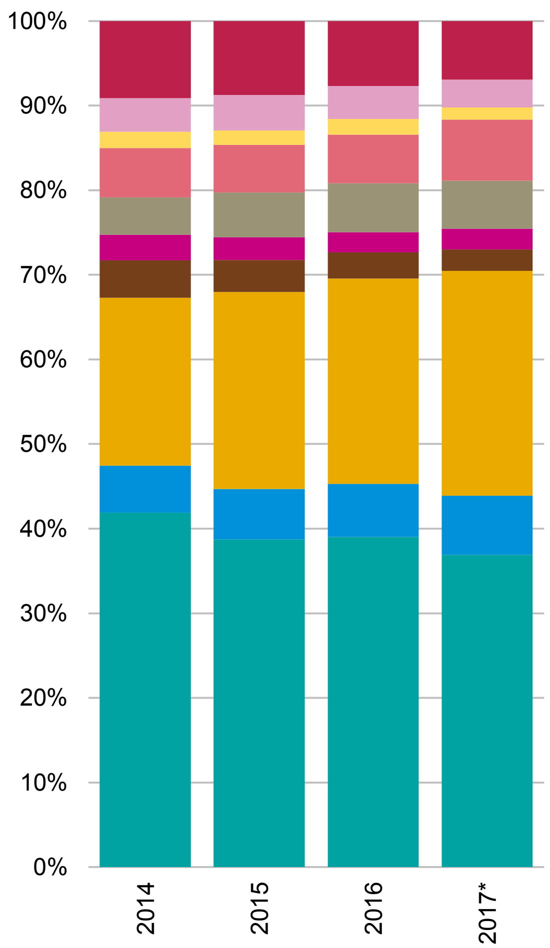
Venture financing by sector in the US

2014 — H1'17, VC invested ($B)



Venture financing by sector in the US

2014 — H1'17, number of closed deals



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

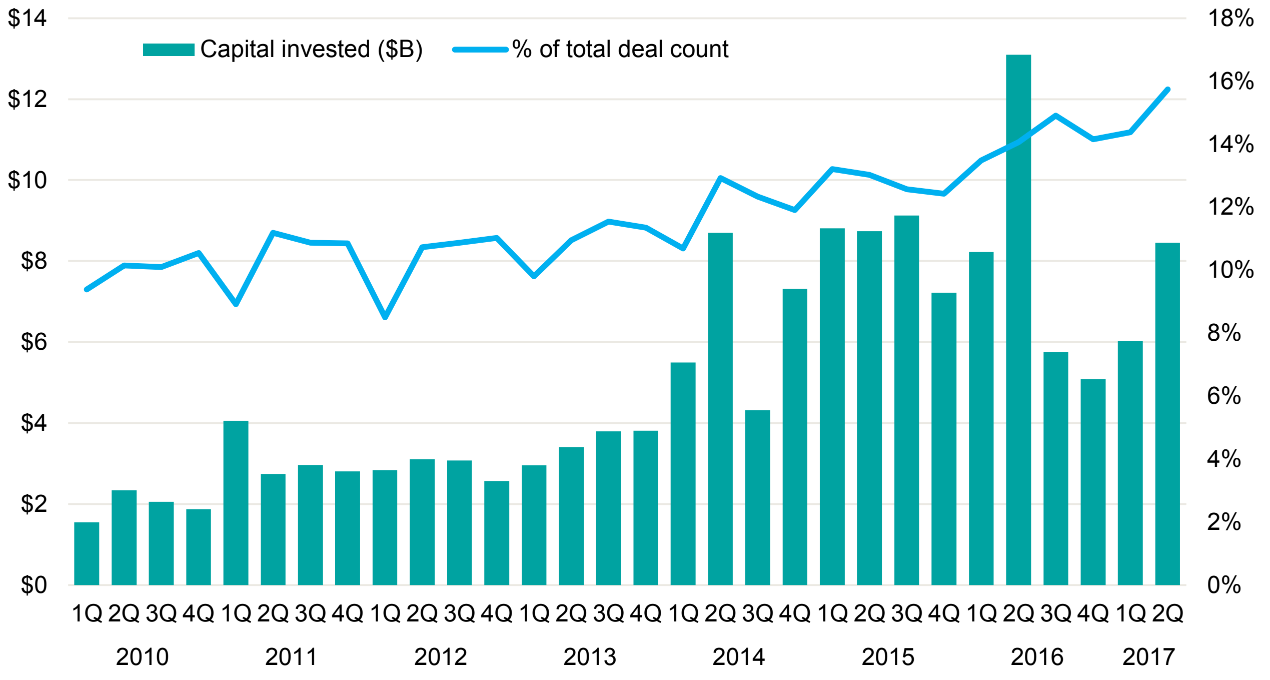
Alone among the principal venture capital sectors, healthcare devices and supplies is still on pace to record a little more or the same number of financings as in 2016, although pharmaceuticals & biotechnology companies are also accounting for a significant portion. This is likely driven by those sectors' unique characteristics and quirks of timing more than anything else, which lead to a temporarily resilient proportion of overall financing, highlighting the appeal of backing potential innovators against the backdrop of a high-priced healthcare system deeply in need of applicable technical advances.

KPMG Enterprise

Corporate participation hits a new high

Corporate participation in venture deals in the US

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

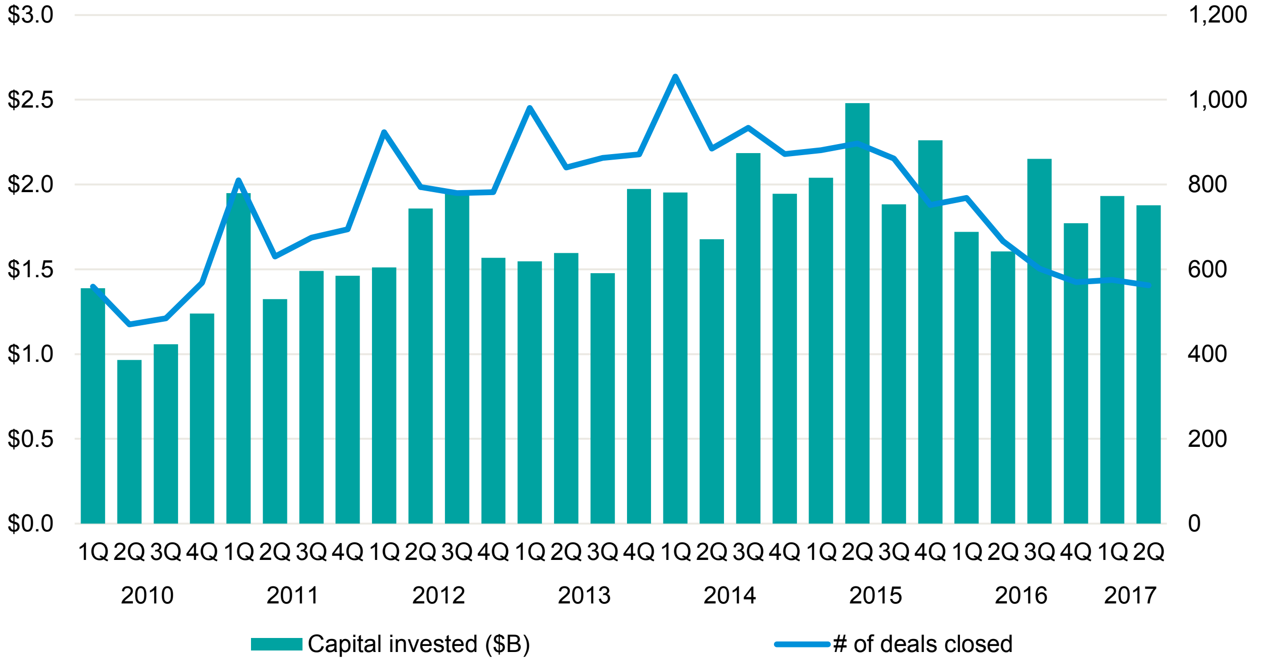
Corporations and various venture arms have kept up a fervent pace of participating in the overall level of venture financings within the US, maintaining a historically high percentage, with a hefty amount of related VC invested as a result.

KPMG Enterprise

Deal volume trends downward even as VC invested turns in a standard quarter

First-time venture financings of companies in the US

2010 — Q2'17



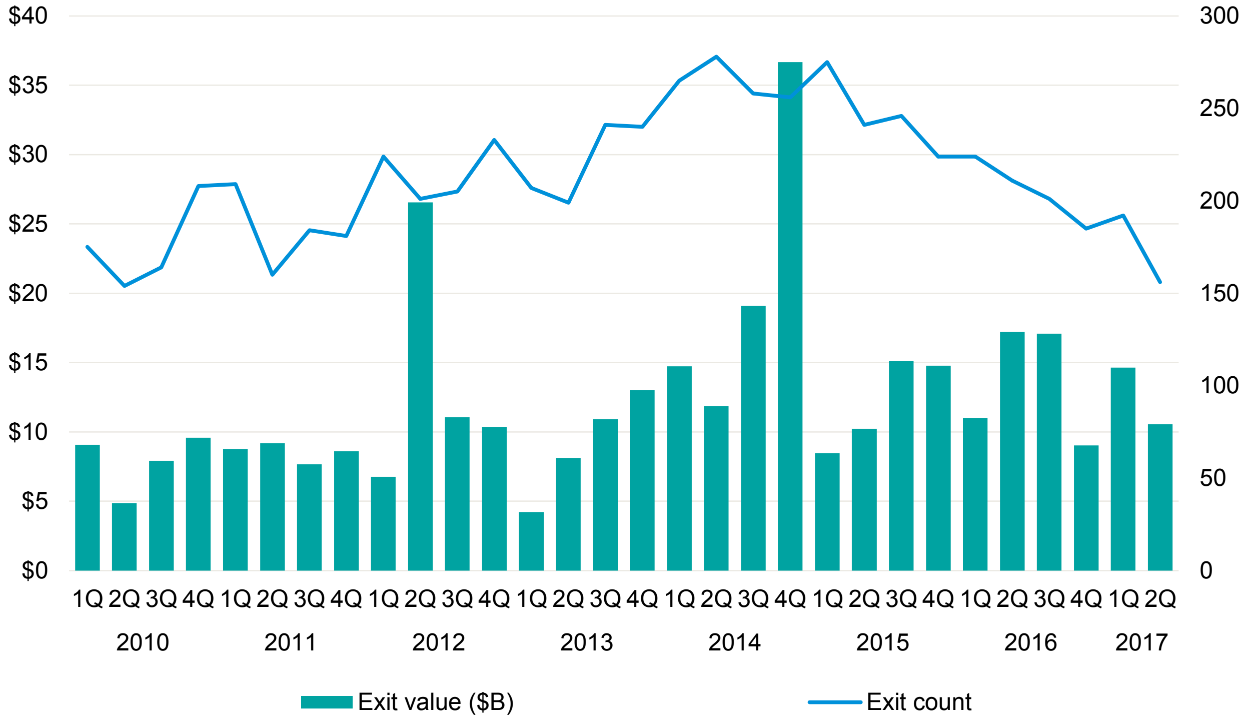
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Perception of heightened risk remains apparent when analyzing the level of first-time financings in the US, although it is worth noting that aggregate VC invested is hovering at standard, healthy levels by historical standards.

Exit volume takes a turn for the worse, temporarily

Venture-backed exit activity in the US

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

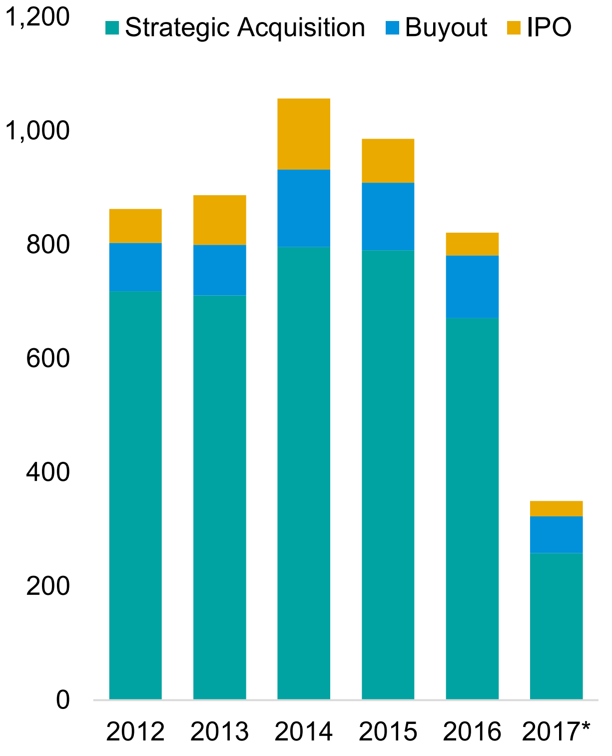
Total exit value may remain well within historical ranges, especially on a quarterly basis; the plunge in completed exit volume, on the other hand, should hopefully prove only a temporal aberration for venture backers.

KPMG Enterprise

IPO volume up, M&A still major driver

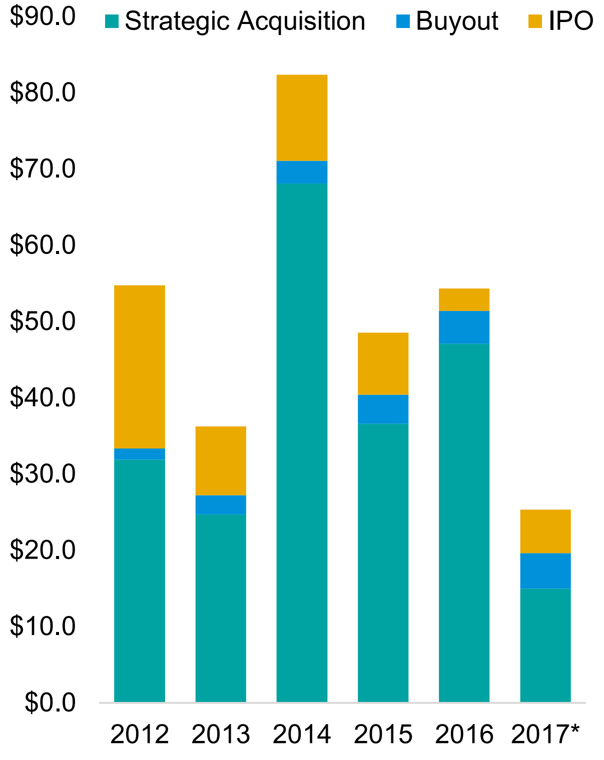
Venture-backed exit activity (#) by type in the US

2012 — H1'17



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

2012 — H1'17

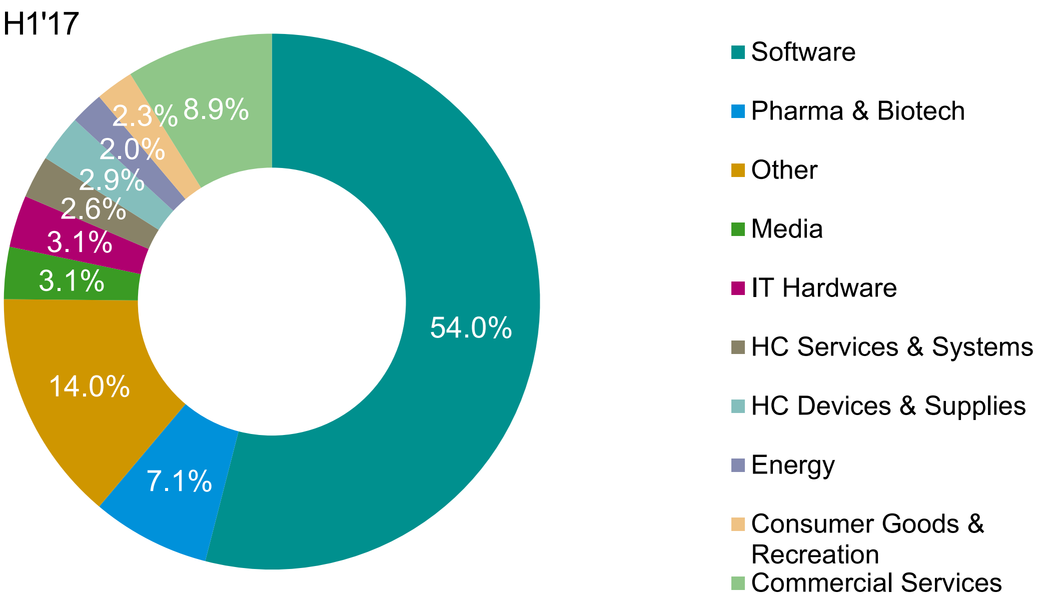


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

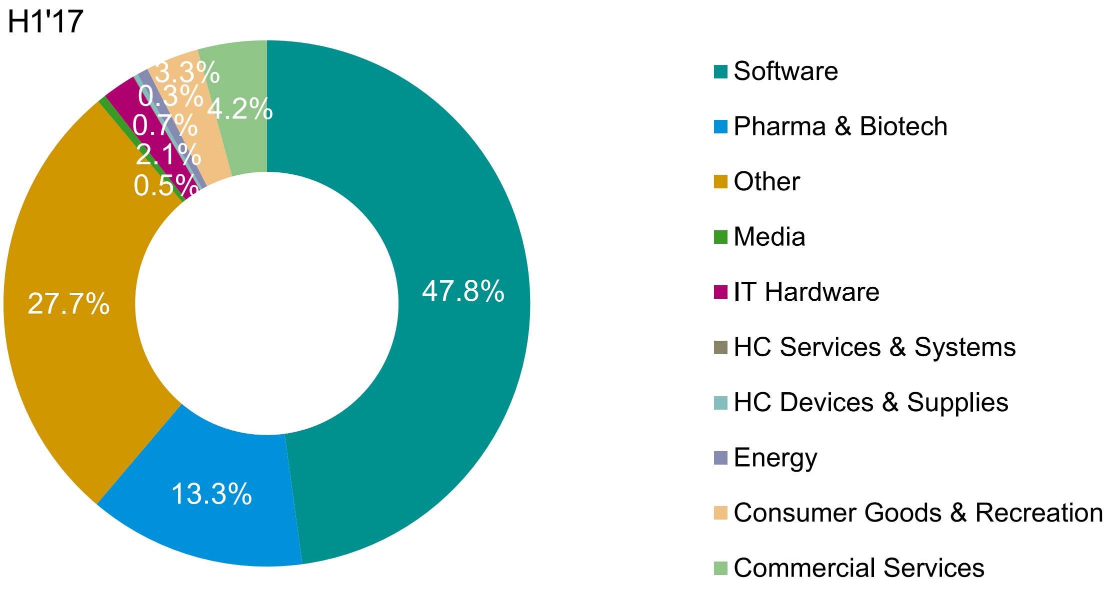
Exit value realized via IPOs — accounting just by offering size — has already eclipsed the total seen last year, and could be on pace for one of the stronger years on record. M&A remains a more popular and lucrative exit route, however.

Software still accounts for plurality of exit value for selling VCs

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



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

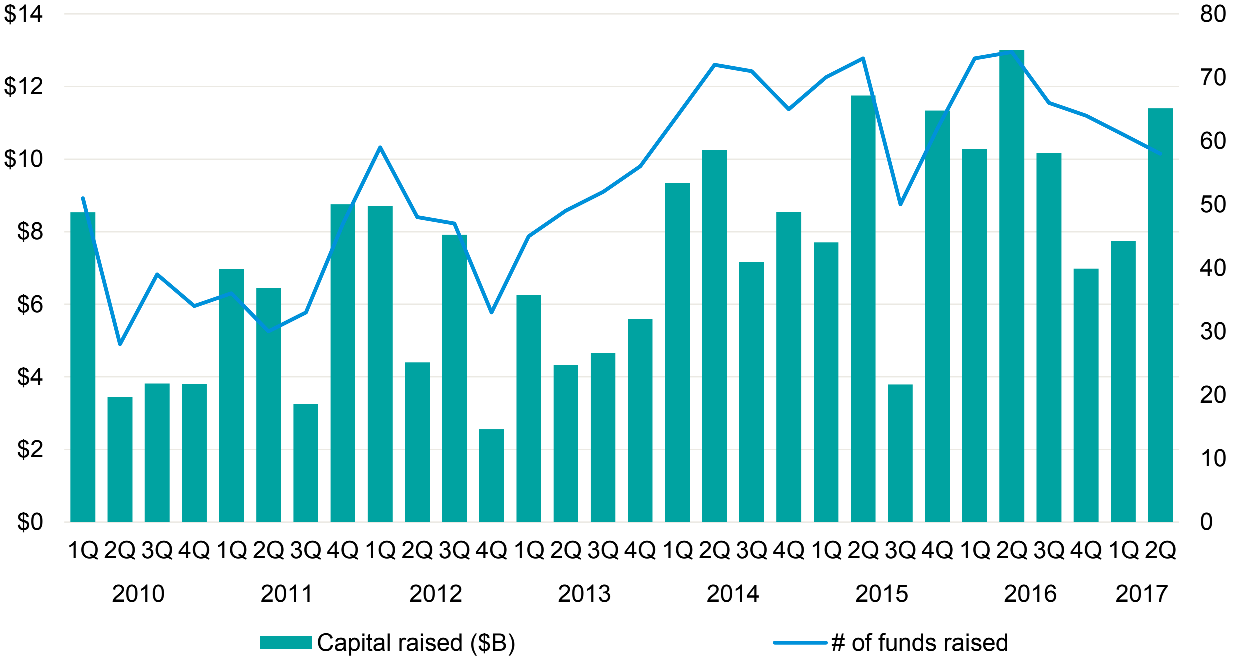


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

US fundraising volume down again, but total VC raised surges

US venture fundraising

2010 — Q2'17



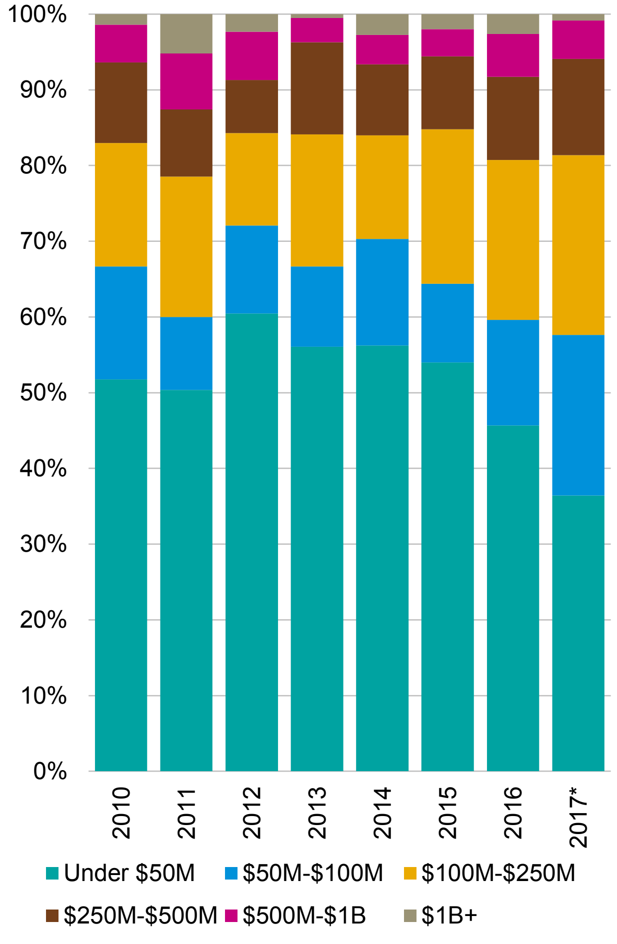
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

After a highly elevated period for venture fundraising volume in the US — stretching back to early 2014 barring a couple quarterly quirks — Q2'17 saw a sharp turn down in volume even as value skewed sharply up, boosted significantly by New Enterprise Associates' $3.3 billion capital pool closing.

Fundraising continues to trend upward in size, with follow-ons accounting for the bulk

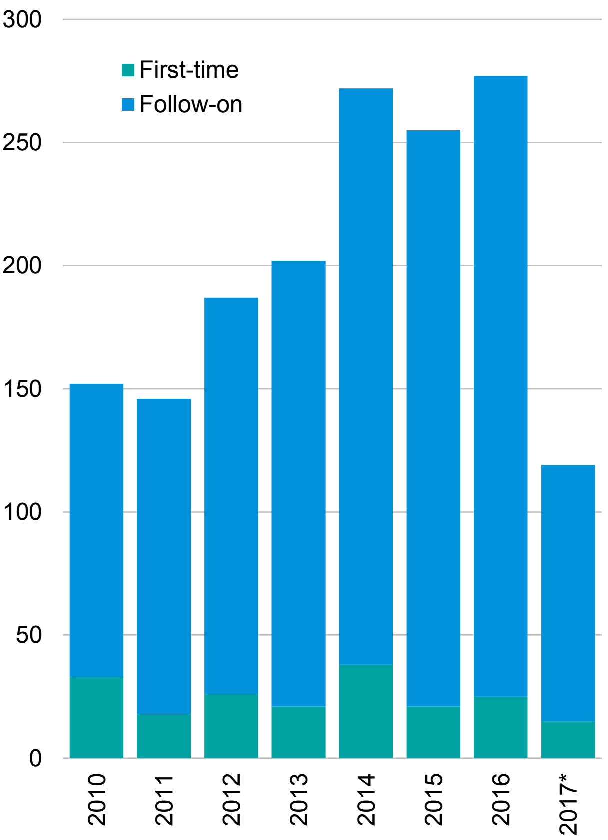
Venture fundraising (#) by size in the US

2010 — H1'17



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

2010 — Q2'17



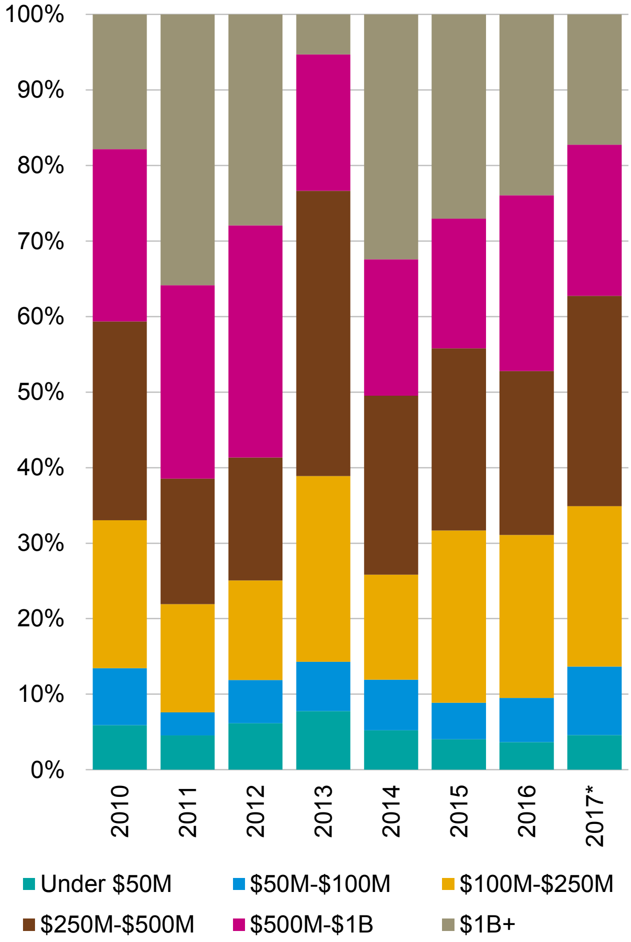
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

Although hardly vanishing, the proportion of US funds closing continues to trend away from the micro-fund size class, with the midsized ranges gaining the most in terms of relative share.

First-time funds on a robust pace in the US in funds raised, already equaling 2015's tally

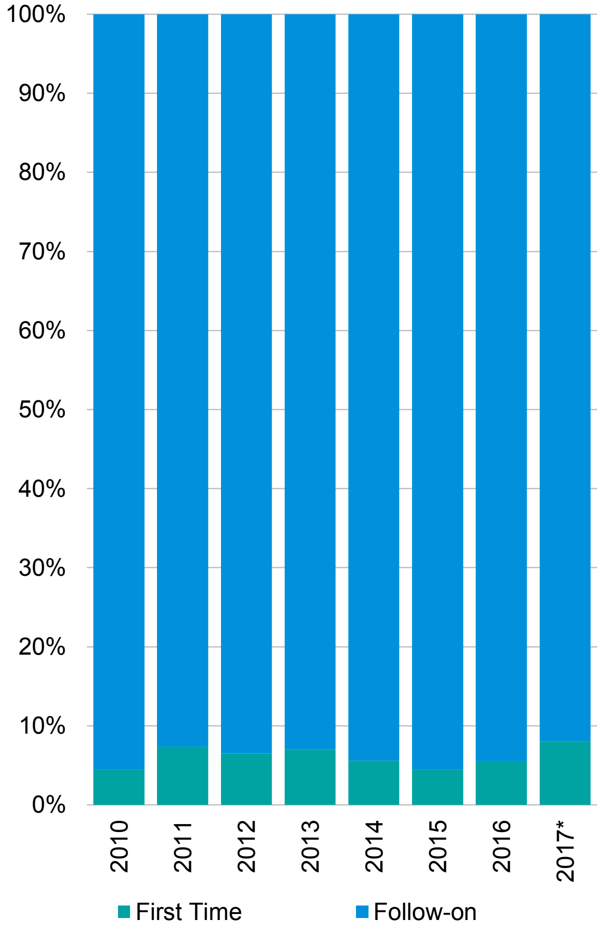
Venture fundraising ($B) by size in the US

2010 — Q2'17



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

2010 — H1'17



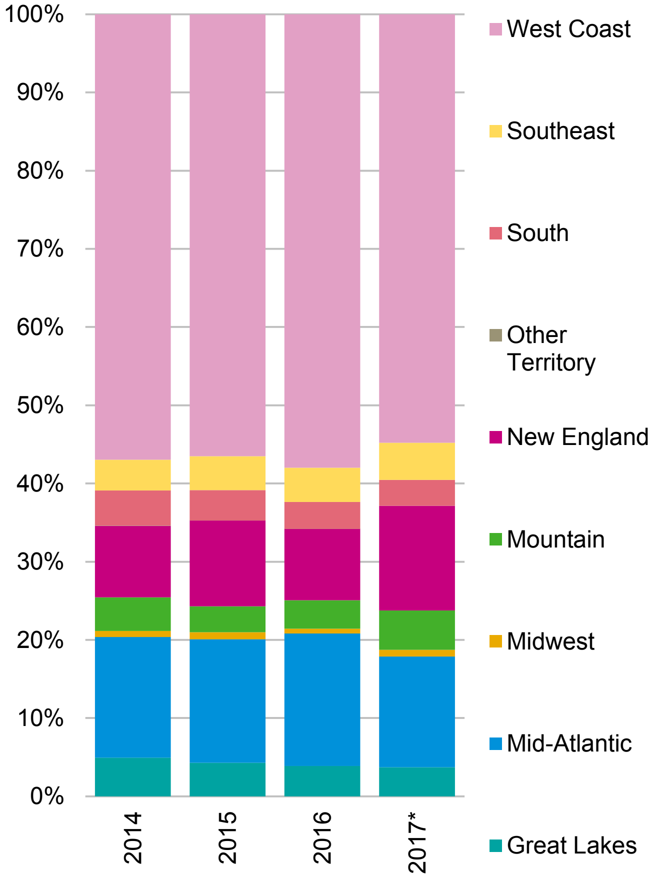
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

KPMG Enterprise

VC activity continues to proliferate beyond traditional strongholds

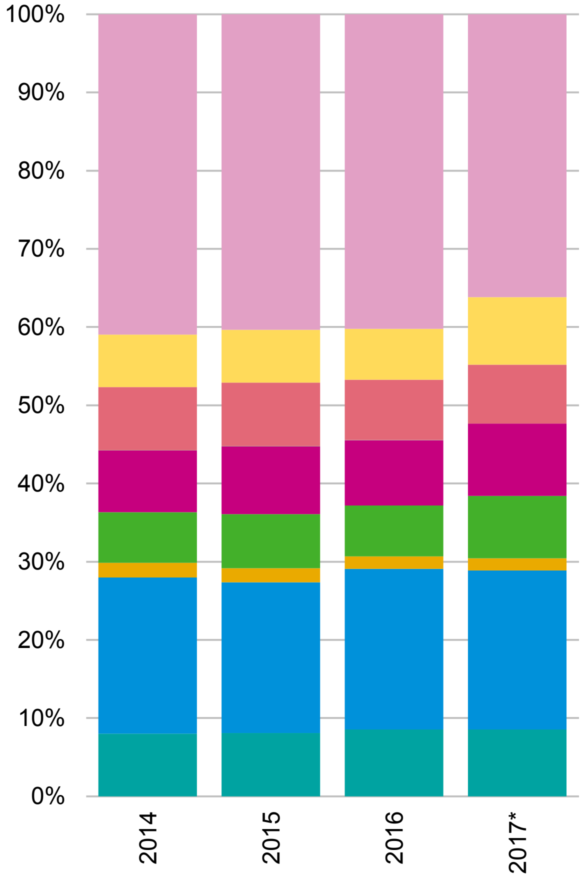
US venture activity ($B) by US region

2014 — H1'17



US venture activity (#) by US region

2014 — H1'17



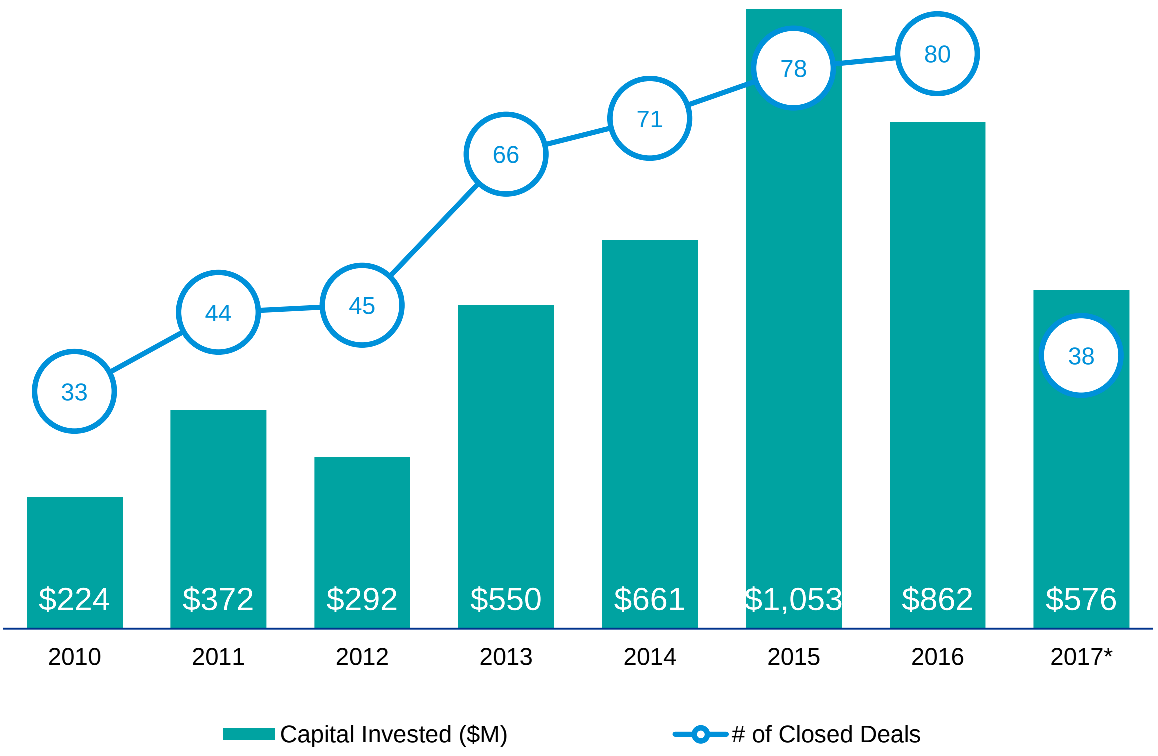
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

KPMG Enterprise

VC invested maintains robust pace

US venture financing in cybersecurity

2010 — Q2'17



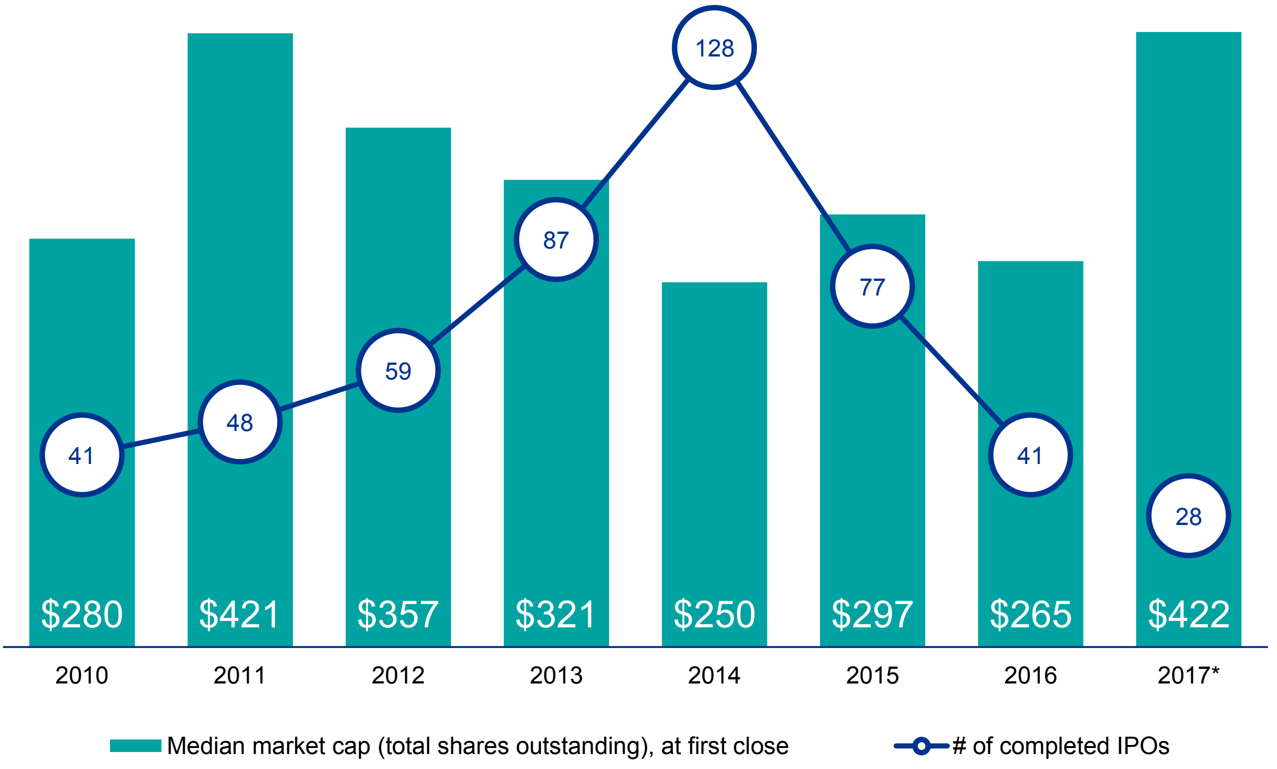
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

"Investment into cyber continues to be very active. There have been a number of very significant findings, including the creation of two new unicorns over the past six months. At a certain point funding in this sector will get overheated and then you will start to see some consolidations. But right now it continues to be a very hot sector."

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

Median IPO metrics skewed upward

US venture-backed IPO activity
2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

As the median post-valuation (calculated by taking the median of the official share price multiplied by total shares outstanding) of US-based companies debuting in 2017 to date reveals, overall IPO metrics are significantly skewed by the fact mature, richly valued, late-stage companies are the only VC-backed companies going public in the current climate.

KPMG Enterprise

IPO window opening in 2017

Select venture-backed US companies that recently went public by offering size ($M)

Company name	Offering size ($M)	Last VC financing post-valuation ($B)	Market capitalization ($B)	HQ city	Industry group
Snap	$3,400	$20.0	$20.7	Los Angeles	Platform Software
Blue Apron	$300	$2.0	$1.8	New York, NY	Food Products
Cloudera	$225	$4.1	$2.1	Palo Alto, CA	Database Software
MuleSoft	$221	$1.5	$3.2	San Francisco, CA	Systems & Information Management
Okta	$187	$1.2	$2.1	San Francisco, CA	Network Management Software
Biohaven Pharmaceutical	$168	N/A	$.93	New Haven, CT	Biotechnology

Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

On a historical basis, venture-backed IPO activity recorded in the US is still well below recent levels, although it is on pace to exceed the lackluster total logged in 2016. That said, some mature, late-stage businesses that received hefty private VC valuations have finally been able to go public and obtain liquidity for their employees and investors.

"Over the last 12 months, we have seen secondary transactions become more prevalent. Companies are using fundraises to provide some liquidity to founders and other shareholders in order to alleviate some of the pressure to go public. This is having a positive impact on the market as companies can better time their entry into the public market which should increase the quality of the public offering."

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

KPMG Enterprise

In Q2'17 European VC-backed companies raised

$4.1B

across

589 deals

Number of European VC deals nosedive as early-stage investment dries up

Europe continued to see a pullback in the number of VC deals during Q2'17, with seed and early-stage deals plummeting. Despite a fifth straight quarterly decline in deals volume, however, total VC investment in Europe remained strong as a result of a number of mega-deals. Three $100 million+ deals together accounted for $1 billion in European VC funding, including $502 million to London-based Improbable, $397 million to Berlin-based Auto1 Group, and $100 million to London-based GammaDelta Therapeutics.

Governments set to help plug early-stage funding gaps

Several European governments recently announced programs that could help address declines in funding at the seed and angel deal stages. In Q2'17, as part of its commitment to sustaining a strong startup and scale up ecosystem post-Brexit, the UK announced that the British Business Bank would extend the limits on its current venture capital investment program and introduce new supports to help start-up companies and small businesses in the country.[8] Germany announced that it would double the amount of VC funding available to start-ups by the year 2020, and invest €2 billion over the next 10 years into the innovation ecosystem[9]. The French government also announced plans to sell assets to create an €10 billion fund to invest in disruptive innovation.[10]

B2B hybrid opportunities thriving in Germany

In Germany, B2B tech opportunities gained prominence in the eyes of VC investors during the quarter. In Q2'17, two significant deals involved B2B opportunities: a $397.6 million funding round to Auto1 Group and $421 million in private equity funding to Delivery Hero. Both Auto1 Group and Delivery Hero offer mechanisms for companies to provide better services to their diverse customers — a value proposition that is only expected to gain traction across industries over time.

Regardless of Brexit plans, UK continues to attract VC investment

Brexit concerns continued to be a non-issue for many VC investors in the UK during Q2'17. In fact, London-based virtual reality firm Improbable hosted a $500 million+ Series B funding round during the quarter, making it one of the largest VC deals ever conducted in the country. The ability for Improbable to attract funding during a low risk investment climate bodes well for the robustness of the UK innovation ecosystem. Despite Brexit plans, the country remains highly attractive to startups and investors as a result of its strong talent base, leading universities, and government incentives and support programs.

Israel taking the lead in smart transportation

Israel has long been a hub for technologies that can foster innovations across industries, such as machine learning, cybersecurity, analytics, and sensors. Intel's acquisition of Mobileye in Q1'17 only increased the attention investors have been placing on Israel. Because of this, more investments in smart transportation related technologies are expected over the next few quarters. There is also expected to be an increase in investments to Israeli software companies that can maximize the value of new technologies (e.g. platform management, data analytics).

[8] https://www.thestreet.com/video/14180135/british-government-launches-plan-to-help-the-country-as-it-leaves-the-eu.html
[9] https://www.thelocal.de/20170612/new-german-state-firm-to-give-startups-boost-with-2-billion-injection-report
[10] https://www.wsj.com/articles/france-to-create-10-billion-fund-to-invest-in-innovation-1499279714?mod=wsjde_finanzen_wsj_barron_tickers

Number of European VC deals nosedive as early-stage investment dries up, cont'd

French VC market experiences rapid growth

The VC market in France gained momentum during Q2'17 with a significant increase in VC investment and interest quarter over quarter. VC interest is only expected to increase heading into Q3, as Station F — a massive startup incubator — opened with the support of numerous global companies, including Microsoft, Ubisoft, Amazon and others. France's new president Emmanuel Macron also recently announced the introduction of a new 'talent passport' aimed at attracting critical talent to the country, and proposed a new European Venture Fund to help foster the growth of startups.[11] On the M&A front, Snap, Inc. (SnapChat) made headlines with the acquisition of Paris-based startup Zenly for $250M - $350M.

Ireland continues to gain traction among global VC investors

Ireland's VC market remained robust in Q2'17. A $65 million raise by Iterum Therapeutics was among the top 10 European deals during the quarter, while a number of smaller deals also showcased **Ireland's** growing innovation expertise. Fintech remains one of Ireland's strongest tech sectors, able to attract early-stage funding despite the risk-adverse funding market. In Q2'17, payments messaging app Plynk successfully raised €25 million in Series A funding to help scale its operations and fuel global growth.

Trends to watch for in Europe

Despite significant uncertainty, the outlook for VC investment in Europe remains positive given the rapid evolution of tech hubs across the region. While the UK, Israel and Germany will likely continue to be leading hubs of investment, France, Ireland and Scandinavia are expected to continue to grow on the radar of investors. Investments in artificial intelligence, analytics, blockchain and B2B-focused technologies are also expected to increase over the next two to three quarters. Q2'17's Improbable deal may also spur additional investments in virtual reality.

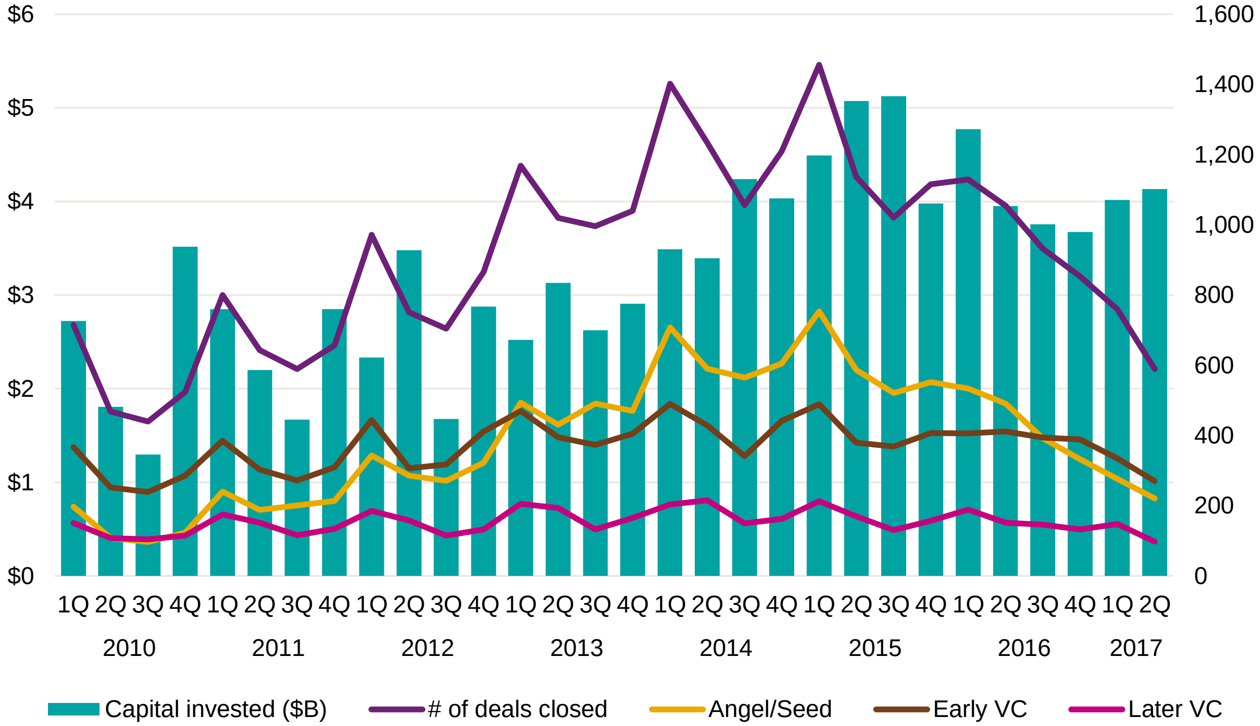
[11] http://www.cnbc.com/2017/06/15/french-president-macron-france-should-be-a-country-of-unicorns.html

KPMG Enterprise

VC invested remains overall robust, despite another decline in deal volume

Venture financing in Europe

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Venture capital activity in Europe continues to decline in volume, even as VC invested remains relatively robust and on the historically higher end. Particularly over the last five quarters, the slide in volume is primarily owing to a decline in angel and seed financings.

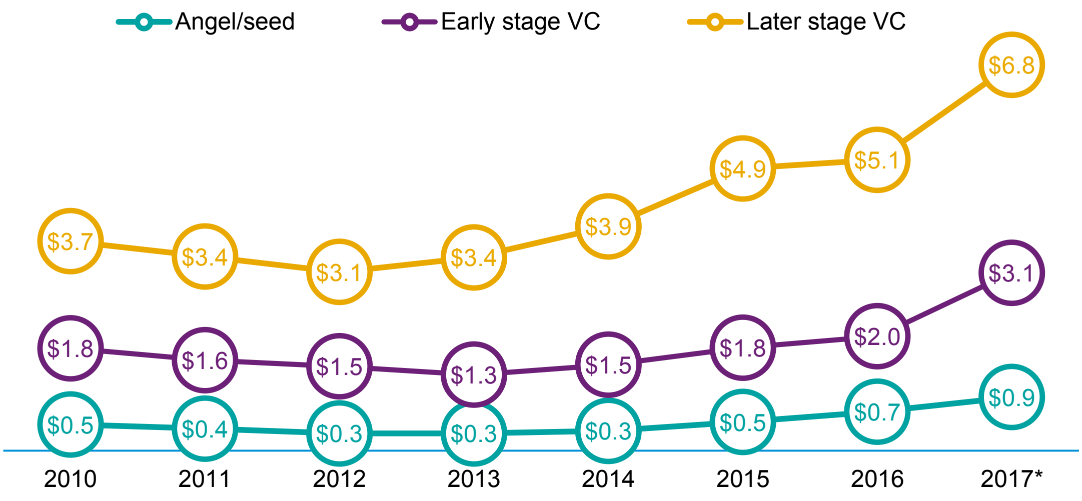
"Companies in Europe are being challenged to combine good ideas, a strong management team and establishing credible plans to achieving profitability as they look to secure more funding. Regardless of stage, investors are taking a more demanding stance on where they invest."

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

Contrast between volume & VC invested contributing to skew, even in medians

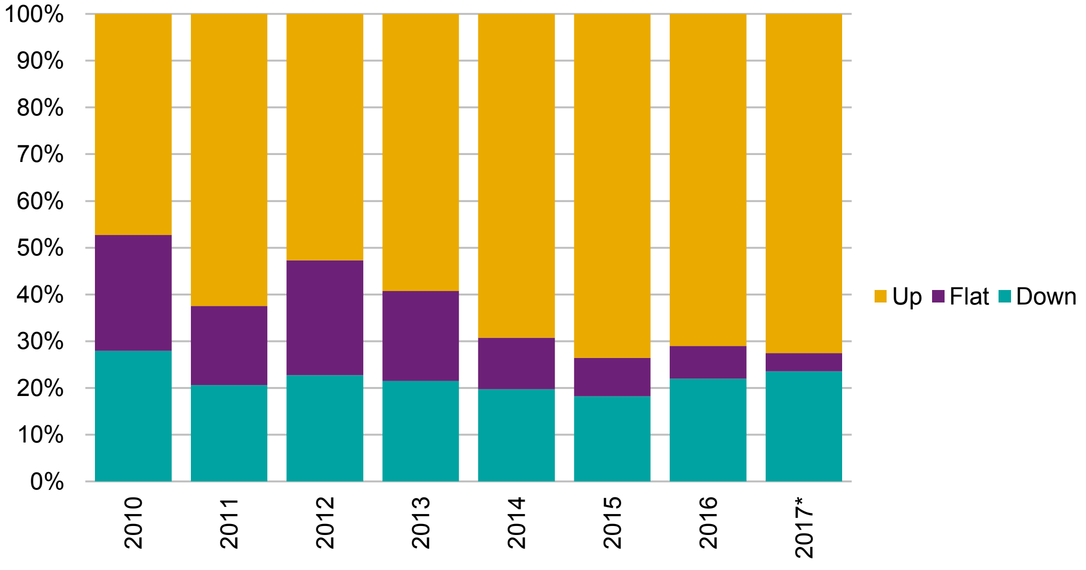
Median deal size ($M) by stage in Europe

2010 — H1'17



Up, flat or down rounds in Europe

2010 — H1'17



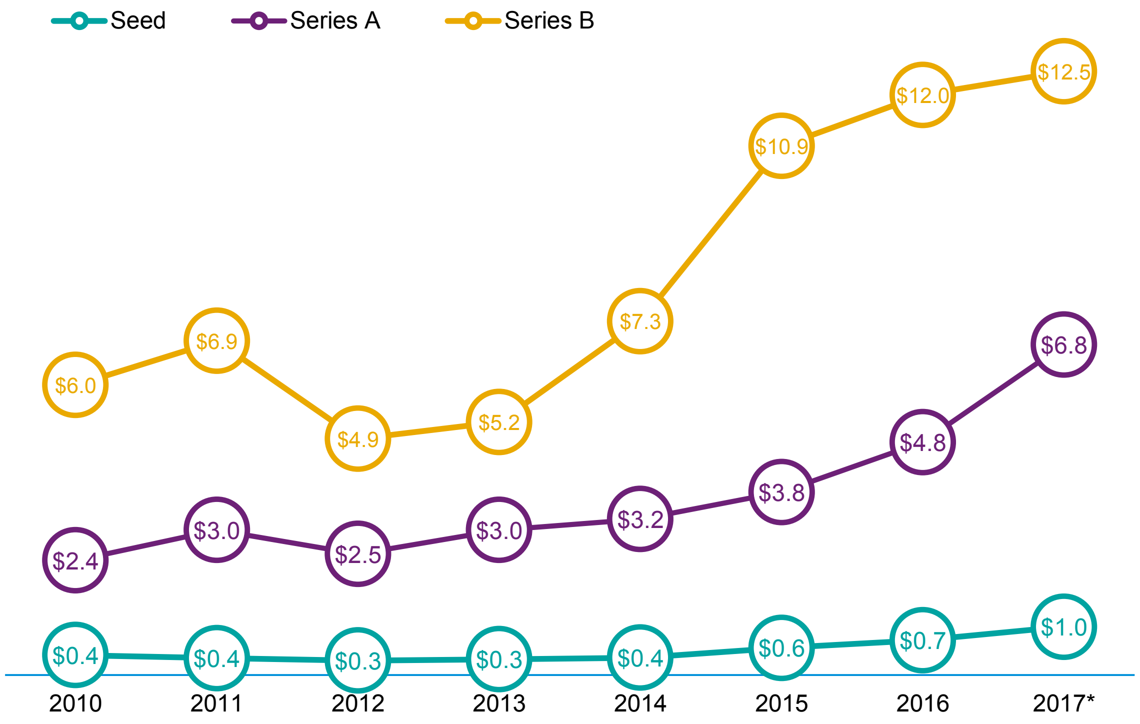
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

KPMG Enterprise

Series A numbers hold at a very inflated figure

Median deal size ($M) by series in Europe

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

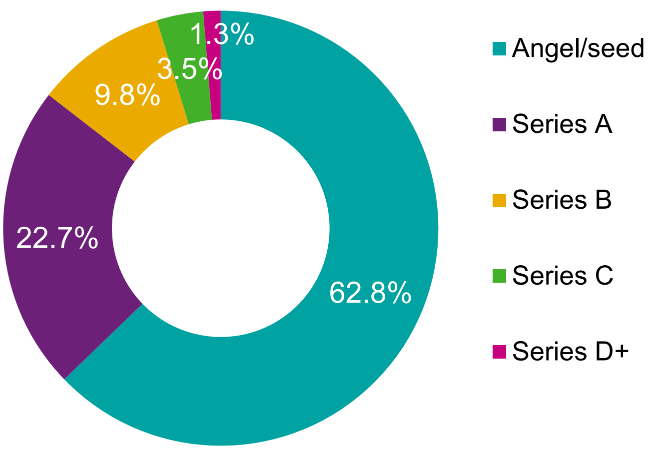
Driven in part by considerable upward pressure from dry powder, but also by macro dynamics still holding relatively steady, median financing sizes are still at an elevated or even increasing level.

KPMG Enterprise

Earliest stage sees continued decline

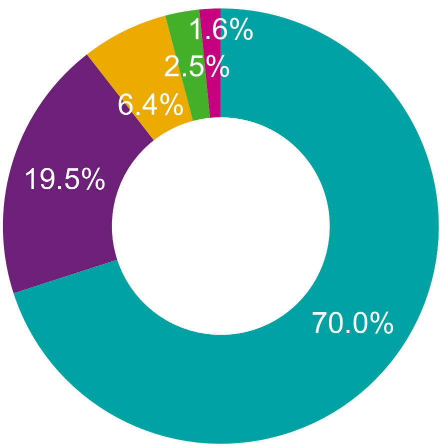
Deal share by series in Europe

H1'17, number of closed deals



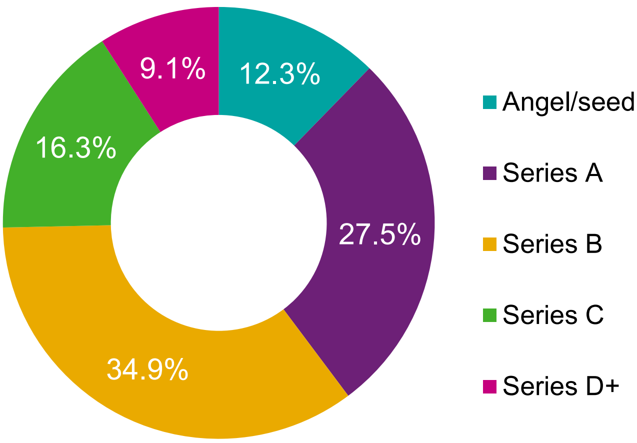
Deal share by series in Europe

2016, number of closed deals



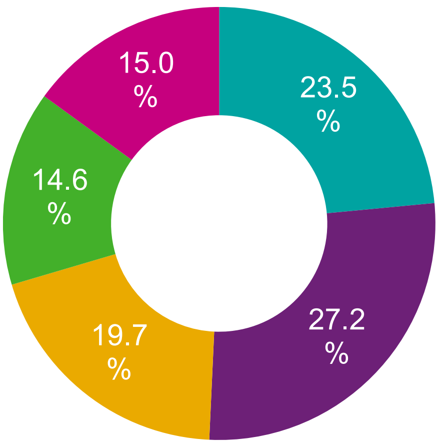
Deal share by series in Europe

H1'17, VC invested ($B)



Deal share by series in Europe

2016, VC invested ($B)



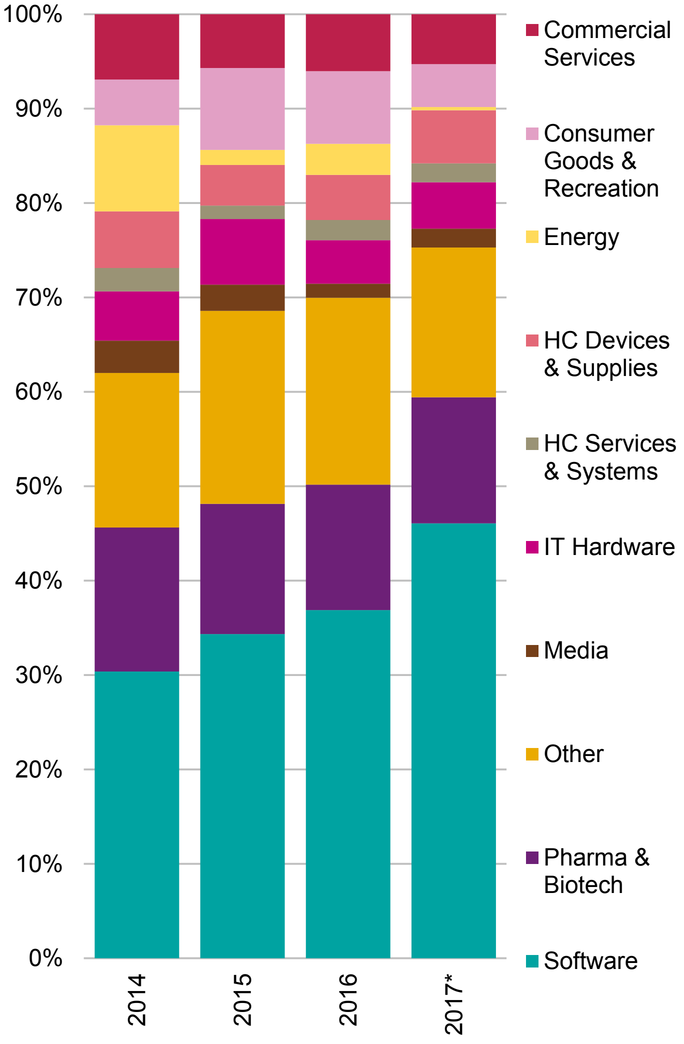
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

KPMG Enterprise

Consumer is down, software on upswing

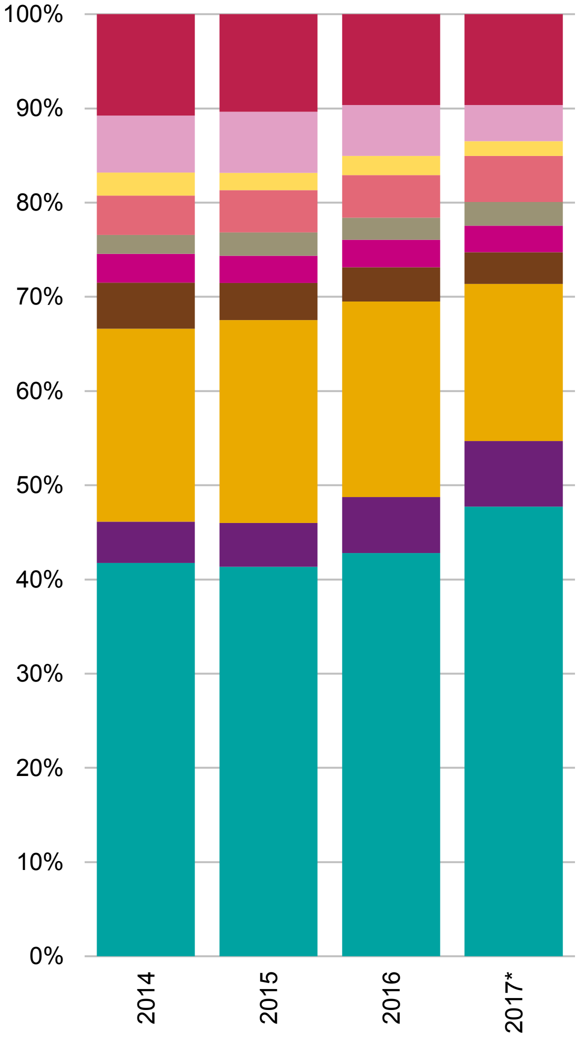
European venture financings by sector

2014 — H1'17, VC invested ($B)



European venture financings by sector

2014 — H1'17, number of closed deals



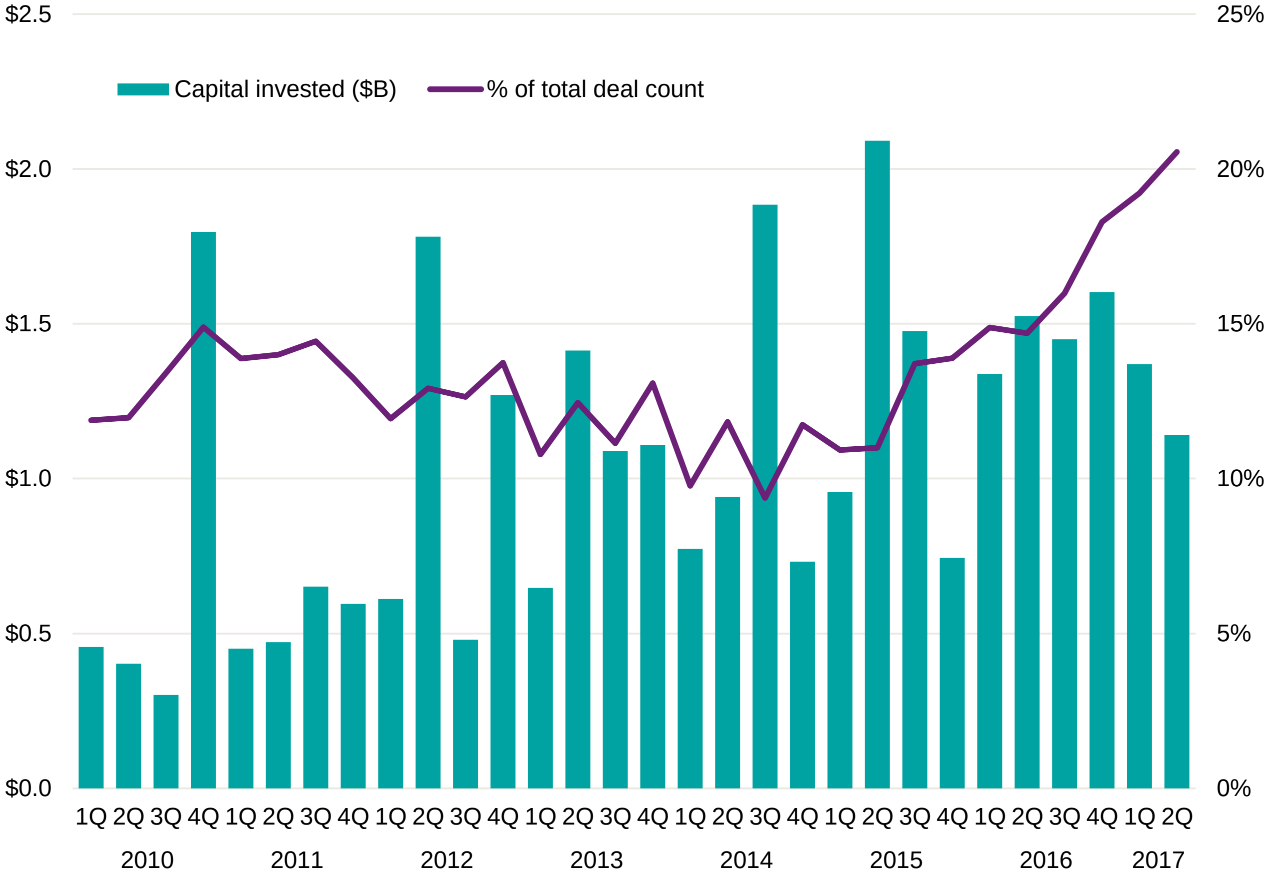
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

Given relative costs and local initiatives supporting the relatively easier development of pure software plays, the European venture scene is still seeing a disproportionate amount of VC flow to software businesses. In value and volume, however, pharmaceuticals and biotechnology and other healthcare-related spaces are staying robust.

A new high for corporate participation in VC

Corporate VC participation in venture deals in Europe

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

The rise in corporations or their venture arms participating in venture financing hit a new high the second quarter of 2017, even if associated VC invested totals fell again. On a country-by-country basis such participation can vary considerably, but for the industry as a whole, it indicates the evolution of the CVC model and corresponding incentives for corporates to stay abreast of innovation.

"Most corporates have a strategy for working with startups, whether through a corporate VC arm or an incubator or an accelerator. Everyone is investing. This could be a factor in declining seed-stage investment as many corporate activities don't fit within traditional mechanisms of investment."

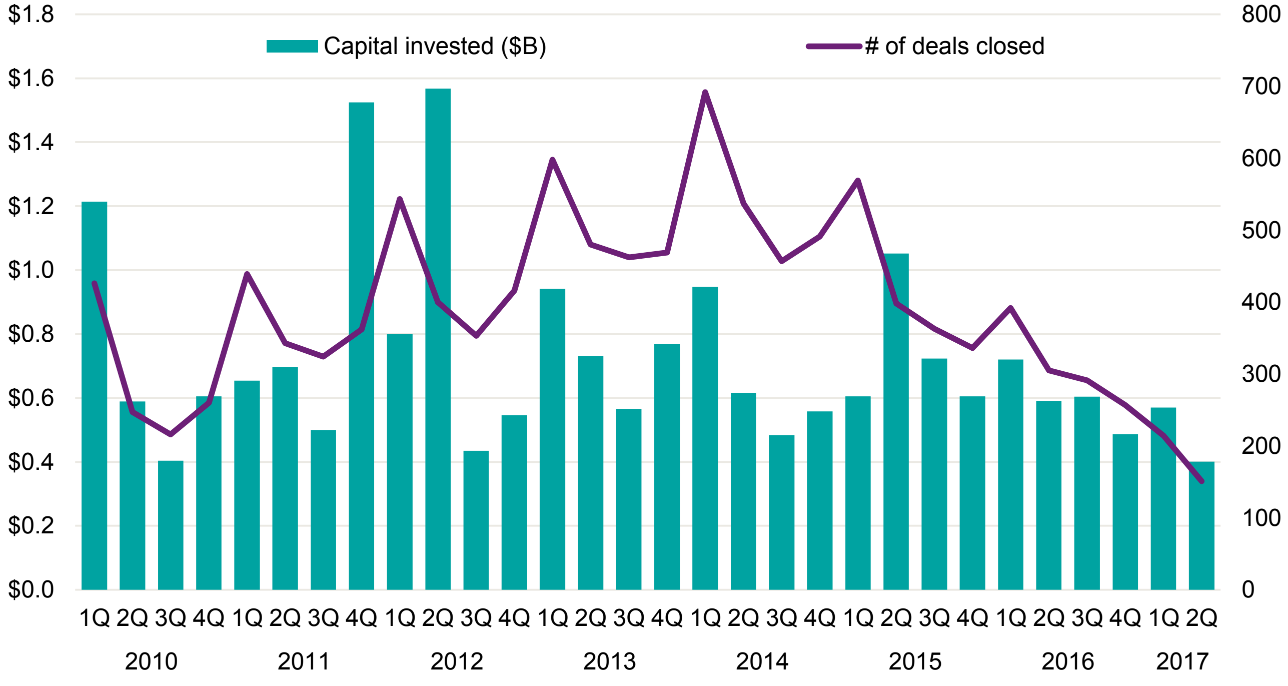
Marius Steinberg
Co-Leader Smart Start Initiative, Partner, **KPMG in Germany**

KPMG Enterprise

As activity slides, eventually VC invested may follow suit

First-time venture financings of companies in Europe

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

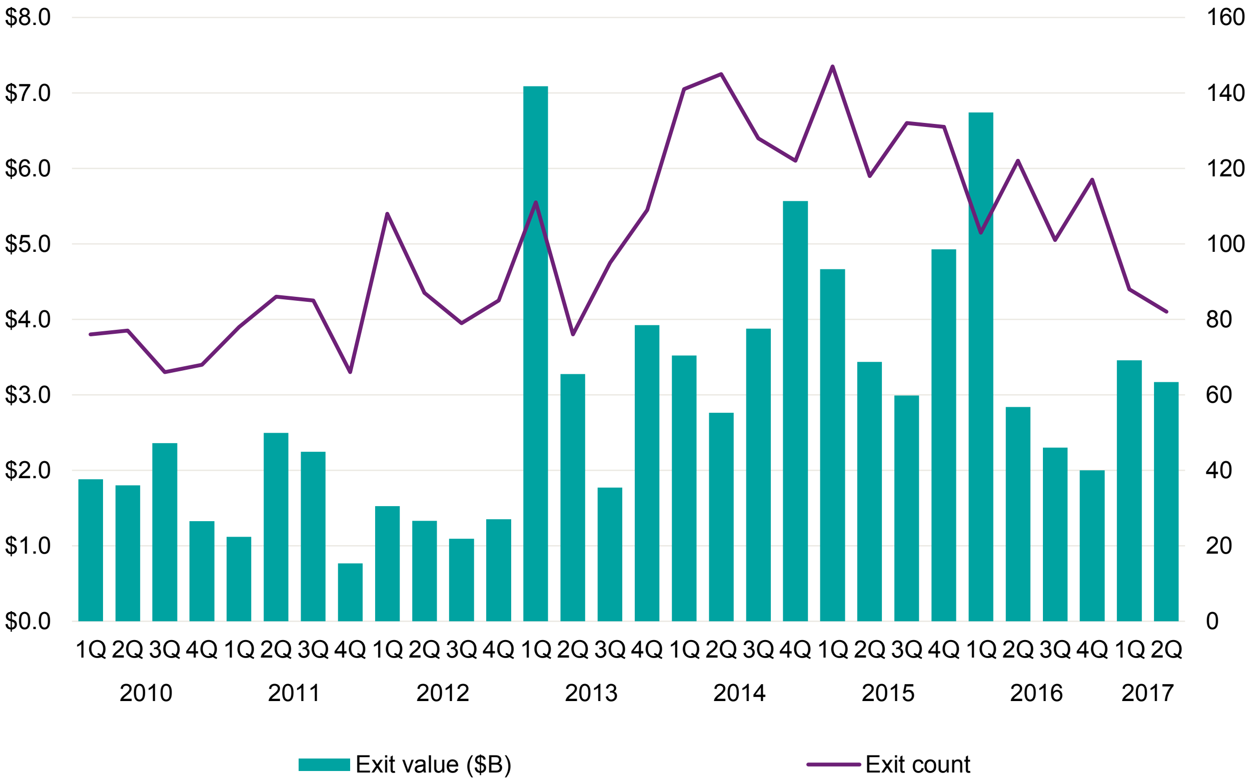
For some time now, barring some quarterly volatility, the overall volume of first-time financings has been declining after a ramp-up from 2010 to early 2014. This is most likely attributable to increased investor caution more than anything else, although cyclicality in new venture fund formation could also be a factor, with once-new funds now maturing and no longer investing that early.

KPMG Enterprise

Exit activity plunges even further in Q2'17

Venture-backed exit activity in Europe

2010 — Q2'17

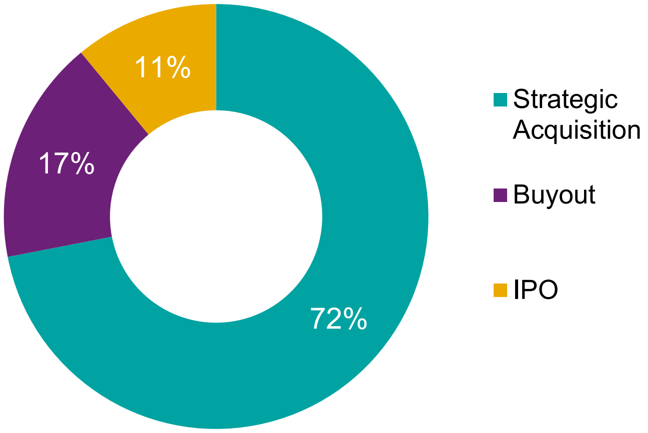


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

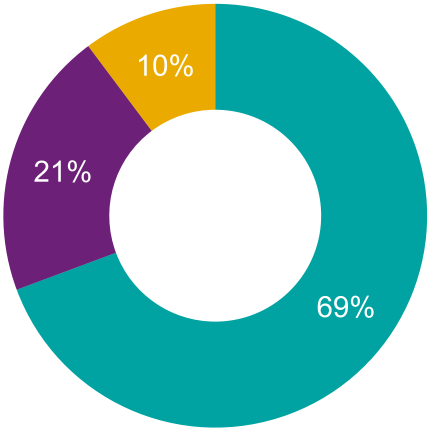
Although not the lowest quarter within historical timeframes for exit value, the historically average figure in Q2’17, in tandem with the decline in volume, is inauspicious for investors looking for liquidity. As there have been only a couple quarters of such slides in volume amid considerable variability, however, this trend must be monitored going forward for greater validation.

Strategic acquisitions still provide most value & volume

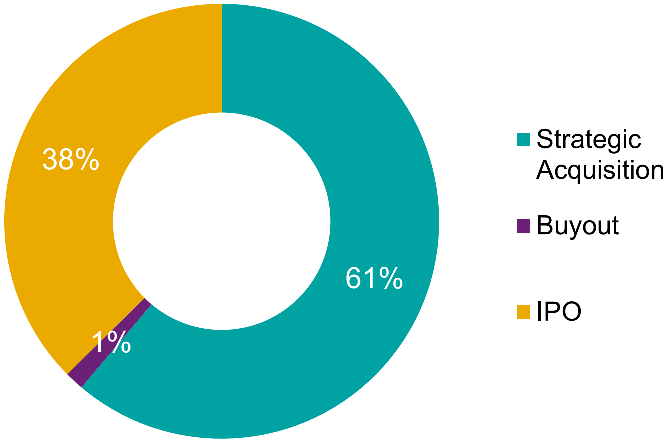
Venture-backed exit activity (#) by type in Europe
Q2'17



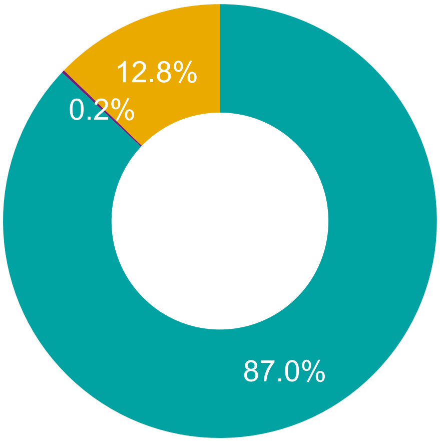
Venture-backed exit activity (#) by type in Europe
Q1'17



Venture-backed exit activity ($B) by type in Europe
Q2'17



Venture-backed exit activity ($B) by type in Europe
Q1'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

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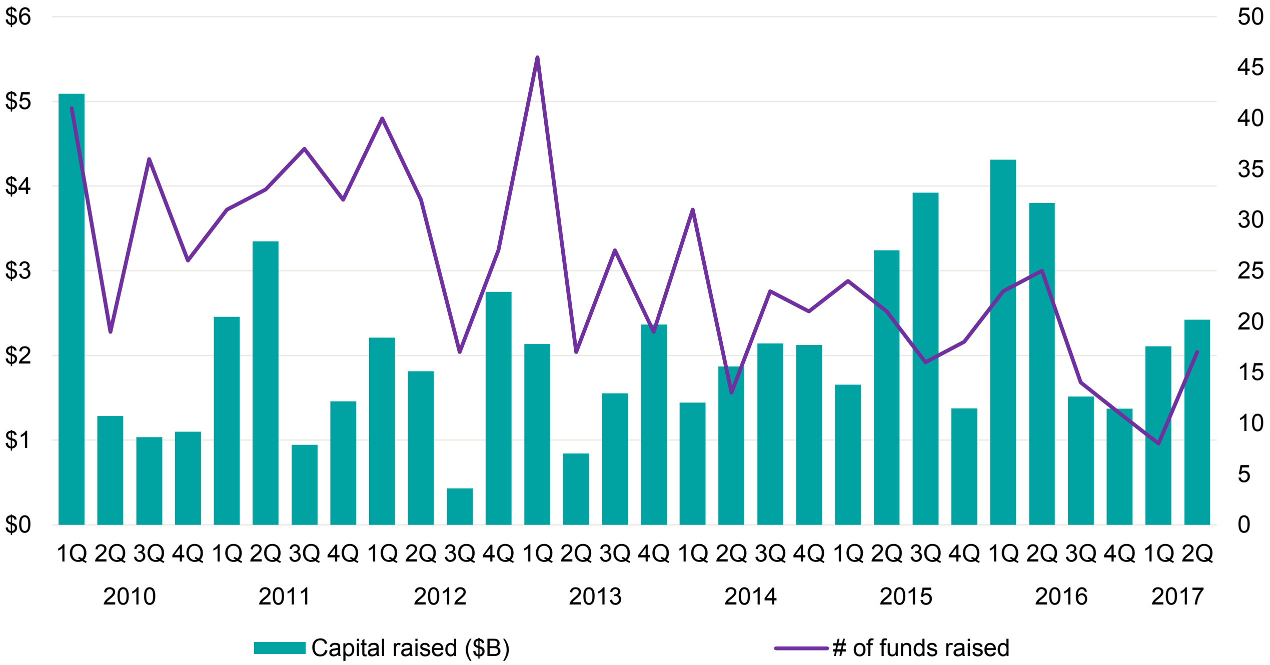
Fundraising volume increased slightly, still concentrated at the midstage

European venture fundraising

2010 — Q2'17



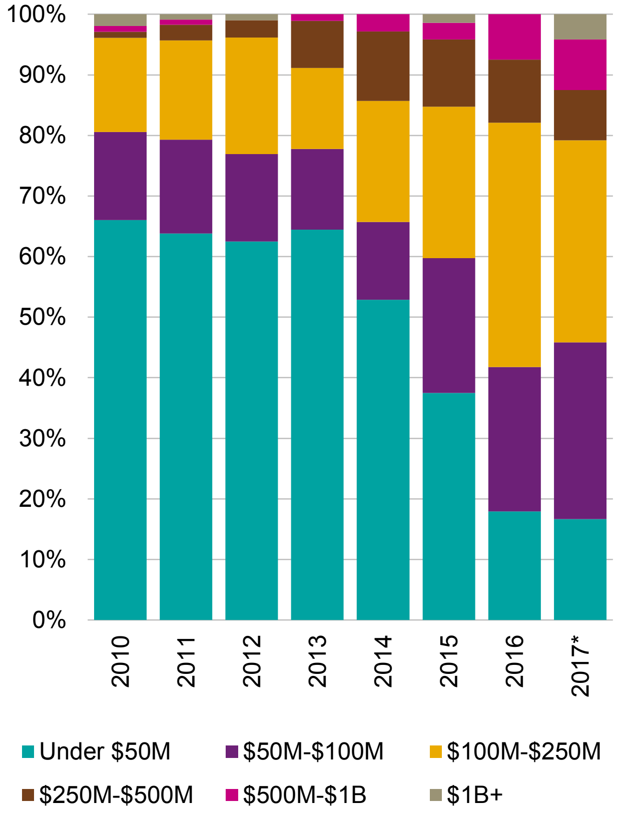
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Fundraising figures are quite variable when broken out by quarter. That said, it is evident European fundraising volume has been declining for some years now, even if total commitments collected can still be robust, as experienced fund managers with demonstrated track records continue to raise sizable vehicles.

Fundraising still trends larger, even if a plateau at the smallest level is occurring

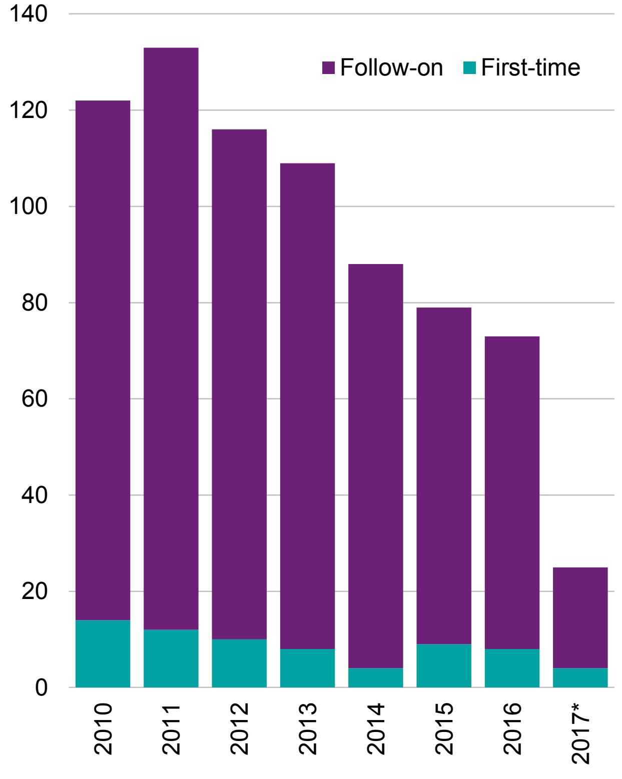
Venture fundraising (#) by size in Europe

2010 — H1'17



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

2010 — H1'17



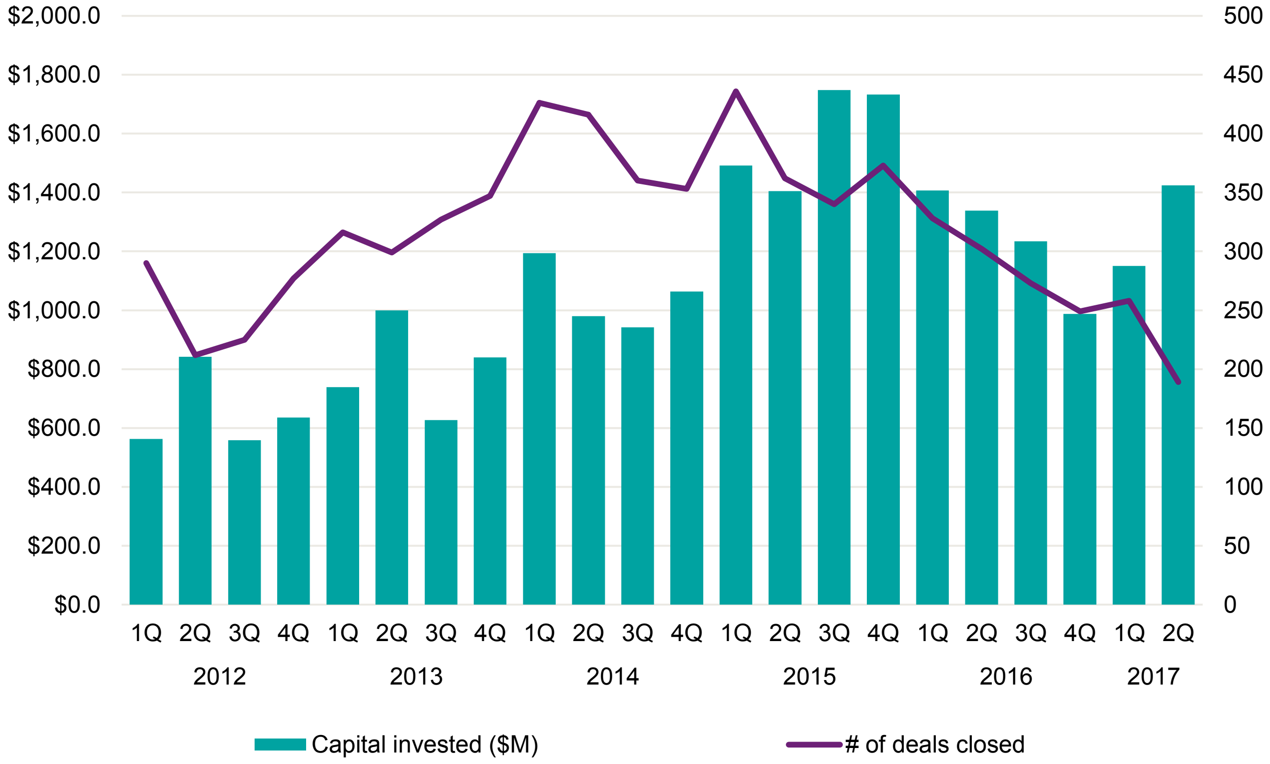
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

Sub-$50 million VC funds are holding steady in terms of proportion of overall activity, although the trend seems to be toward funds in the middle of the size range.

Activity remains tempered

Venture financing in the United Kingdom

2012 — Q2'17

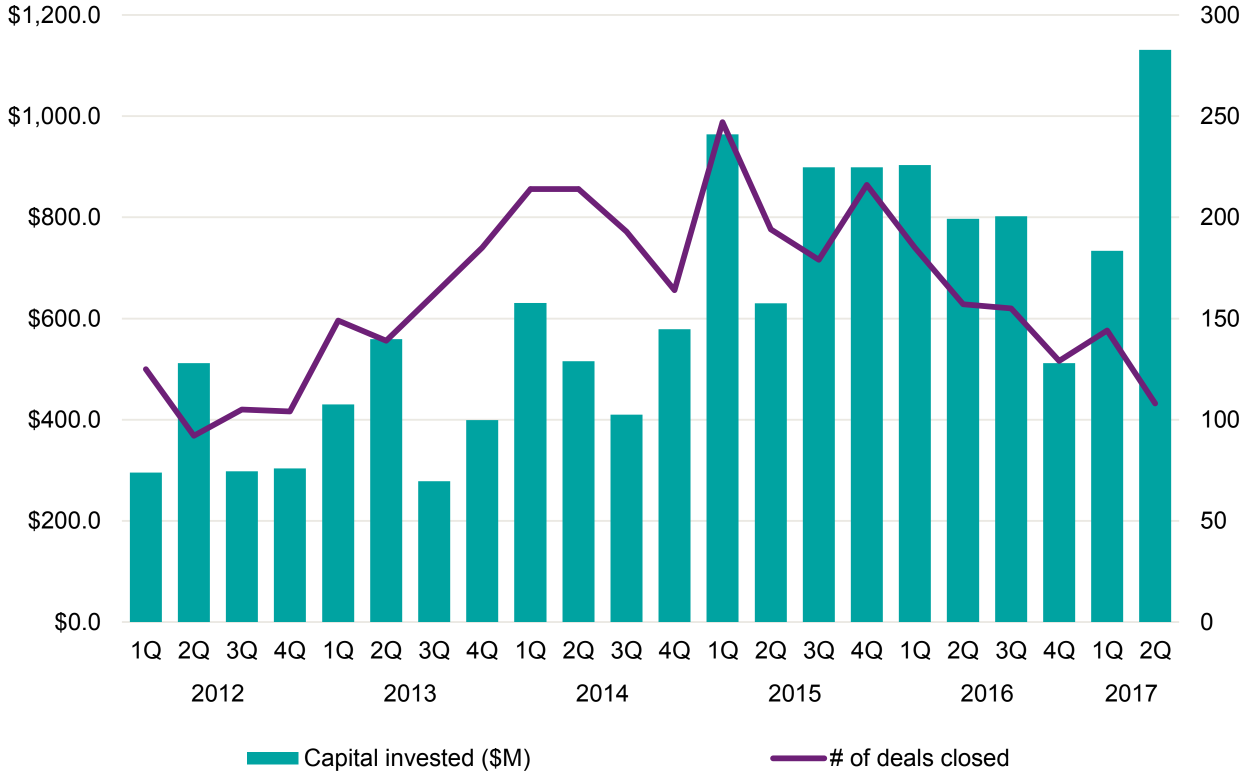


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

As in other developed markets, venture financing volume continued to slide — however gently — in the United Kingdom, yet VC invested spiked upward. Investors are certainly warier of any potential politically related uncertainties, yet they are still willing to put money to work. It is worth noting that one company alone — virtual gaming operating system maker Improbable — was responsible for no less than $502 million raised.

London soars on the strength of one deal

Venture financing in London
2012 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

It's important to note the effect of mega-rounds when examining venture activity within a given metropolis. London's mammoth Q2'17 haul of $1.1 billion would have been $628 million when taking into account virtual gaming company Impropable's $502 million financing.

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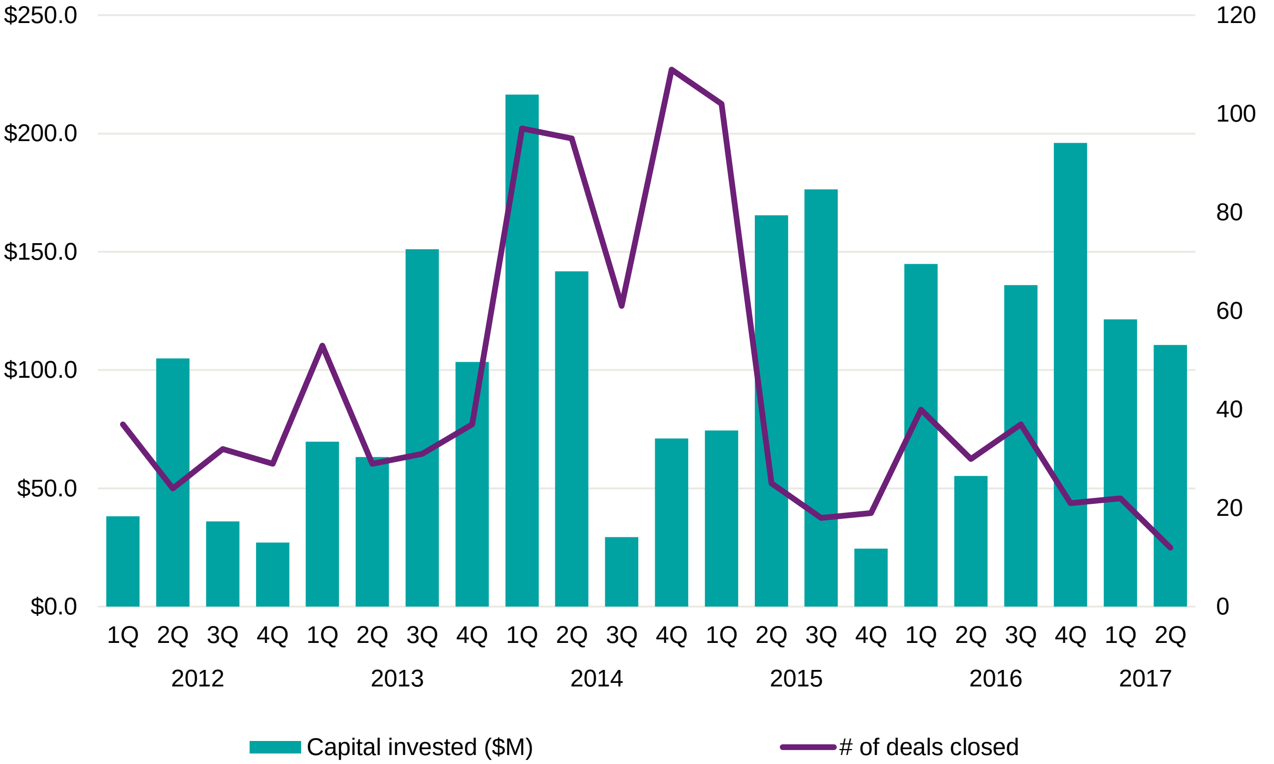
VC invested stays robust even as volume lowers

Venture financing in Ireland

2012 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

The tally of completed venture financings dipped to a new low for the past five-plus years, yet VC invested remained robust, largely owing to a hefty $65 million financing of Dublin-based Iterum Therapeutics.

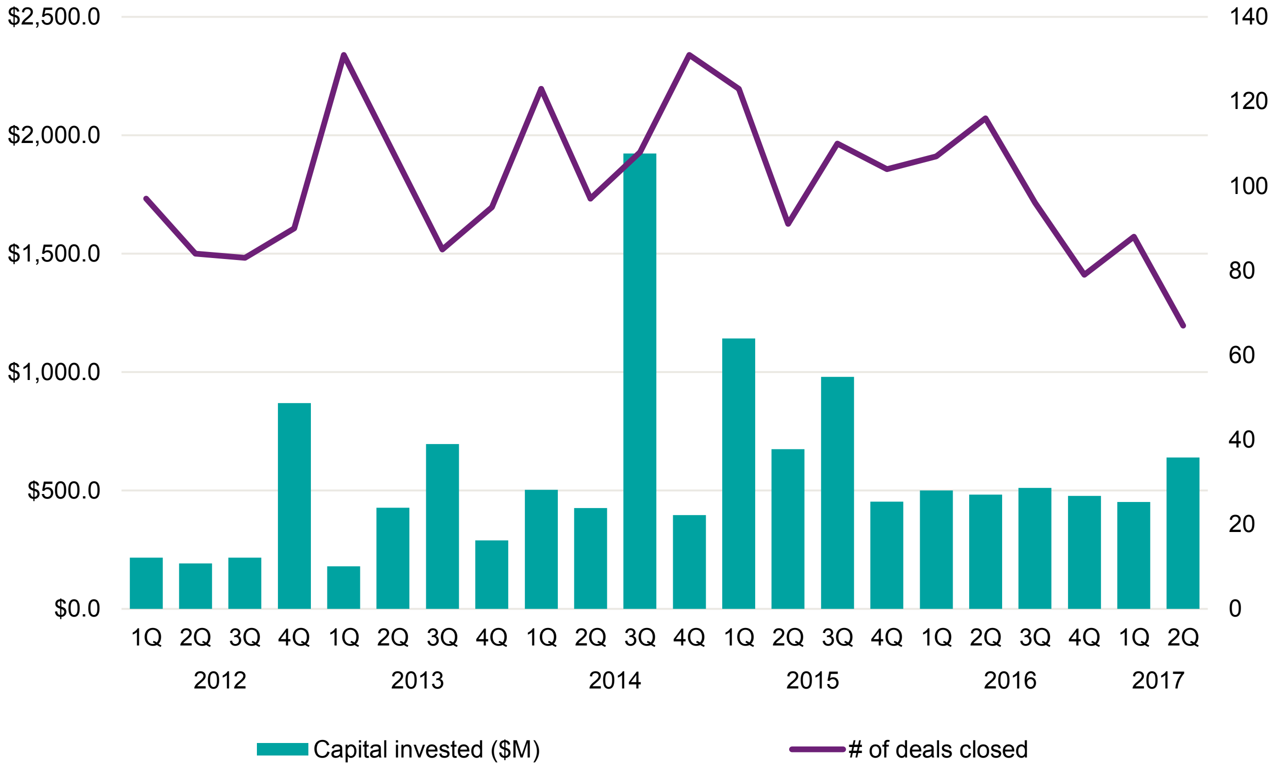
"Ireland is not just keen to be attractive to startups, but it is also keen to provide a conducive environment in which to grow and scale international companies. TechIreland, which is currently mapping deep engineering and R&D activities aims to become the definitive source of data and insights on Irish innovation globally. This initiative will help shine a spotlight on a number of companies which should ultimately enable them to gain visibility and stronger prospects to attract funding."

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

Slight bump in VC invested as volume slides

Venture financing in Germany

2012 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Venture sums invested on a quarterly basis in Germany continue to hold steady or even increase upwards, although activity continues to decline. This most recent decline is likely owing to timing more than anything else, although political uncertainty or the variability in economic health reports around the continent on the whole will likely continue to impact investor sentiment.

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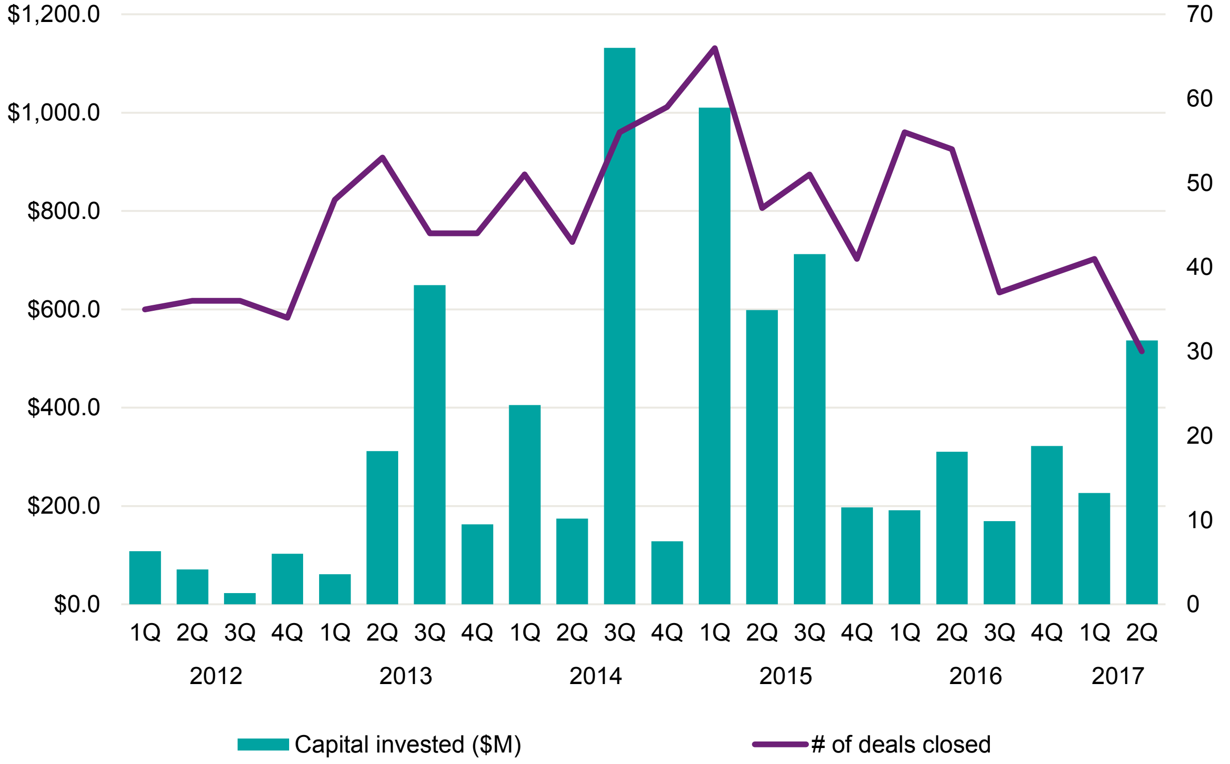
Subdued quarter for volume, resurging VC invested

Venture financing in Berlin

2012 — Q2'17



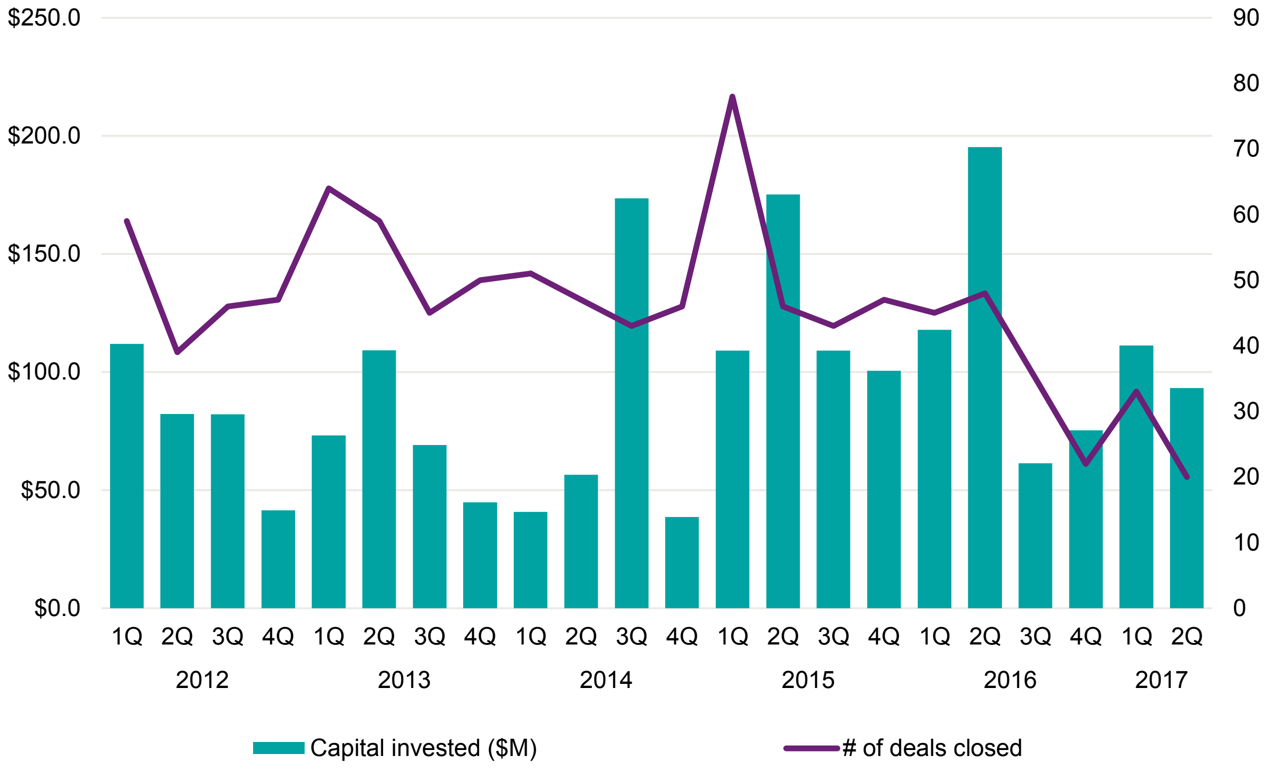
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

After holding steady for three straight quarters, completed venture capital financing volume slid somewhat between Q1'17 and Q2'17. VC invested spiked due to the nearly $400 million funding of used-car marketplace Auto1 Group in May.

Activity persists at subdued plateau

Venture financing in Spain

2012 — Q2'17

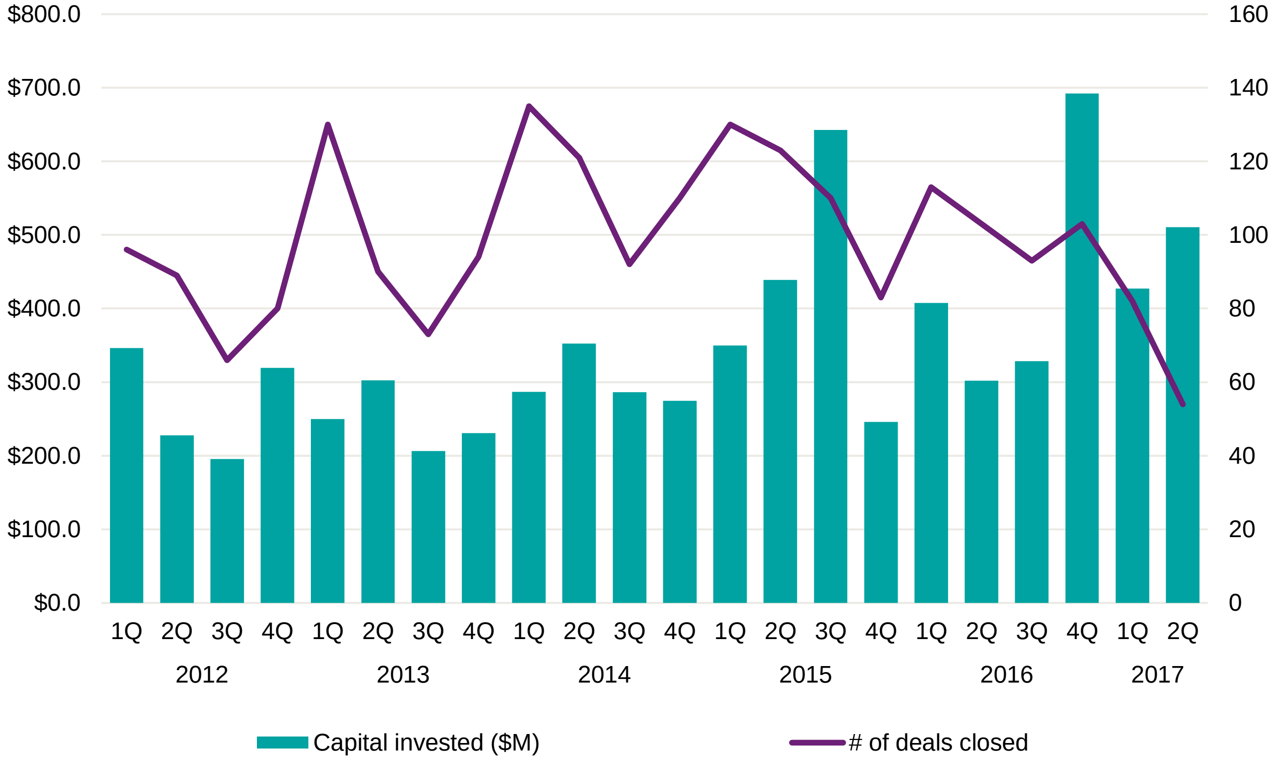


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Some slight revision upward in deal volume could occur in future but even if so, it is clear that Spanish venture activity has entered a more subdued level since the middle of 2016, while VC invested has stayed somewhat more resilient. Although not as skewed as Q1'17, the tally of deal value in Q2'17 is still buoyed by a handful of midsized financings.

VC invested at third-highest quarter in years

Venture financing in France
2012 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Q2'17's plunge in volume is likely a temporal aberration more than anything else. Especially as VC invested stayed on the higher end — in fact the third-highest quarterly total in years — it is clear investors still have appetite for exposure to French startups.

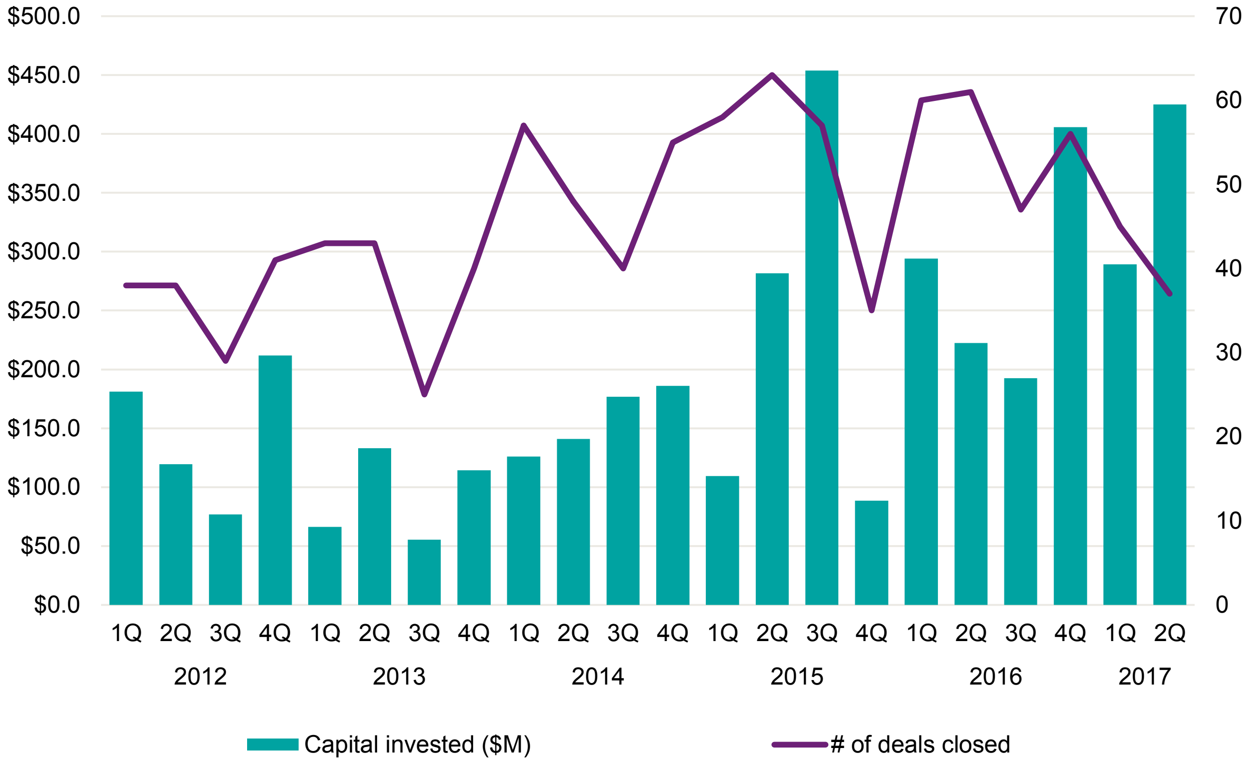
"France has made big gains in terms venture capital investment. The amount of corporate venture funds going to businesses and the number of large financing rounds has increased tremendously compared to last quarter. There has also been a big push to invest in the tech ecosystem in France and to make the country more welcoming for entrepreneurs and investors. These are all very positive signs for the future."

Guillaume Cauchoix
Partner, **KPMG in France**

Paris sees second-highest VC invested total in years

Venture financing in Paris

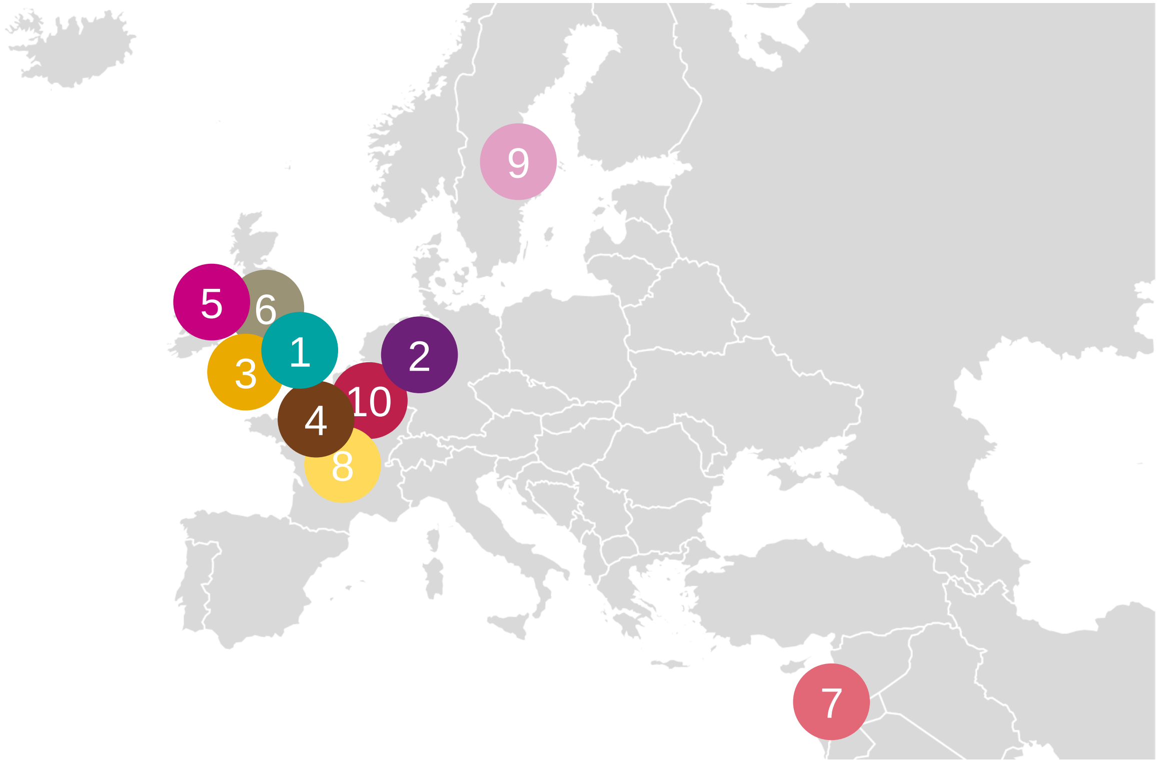
2012 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Completed transaction volume may have declined significantly quarter over quarter, but total sums invested made a strong showing, recording the second-highest quarterly total in years. Four companies raised $40 million+ apiece in Q2'17.

London & Paris host most top financings in Q2'17



1 **Improbable** — $502M, London
Entertainment software
Series B

2 **Auto1 Group** — $397.6M, Berlin
Automotive
late-stage VC

3 **GammaDelta Therapeutics** — $100M, London
Biotechnology
early-stage VC

4 **Actility** — $75M, Paris
Application software
Series D

5 **Iterum Therapeutics** — $65M, Dublin
Drug discovery
Series B

6 **Babylon Health** — $60M, London
Healthcare services
Series B

7 **Valens** — $60M, Hod Hasharon
Semiconductors
late-stage VC

8 **Shadow** — $56.3M, Paris
Computer parts
early-stage VC

9 **BIMA (Mobile Micro-insurance)** — $55.2M, Stockholm
Insurance software
Series C

10 **Algolia** — $53M, Paris
Automation software
Series B

Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

KPMG Enterprise

In Q2'17 VC-backed companies in the Asia region raised

$12.7B

across

315 deals

Asia VC market awash with money

Venture capital investment in Asia rose sharply during the second quarter compared to Q1'17, bolstered by two mega-rounds in China. Despite the significant increase in funding, the number of deals declined, likely a result of ongoing investor caution.

mega-deals bring roar back into the Asia VC market
Beijing-based ride-hailing giant Didi Chuxing raised $5.5-billion in Q2'17, in the largest private venture funding round ever for a technology company. Another startup, Toutiao, became China's most valuable media company almost overnight after Sequoia Capital and CCB International invested $1 billion. Asia also saw a significant number of $100 million+ funding rounds during Q2'17, in what may be a turning point for regional investment. In addition to a number of China-based companies, Singapore-based Sea raised $550 million, while India-based OYO Rooms raised $250 million.

Corporate interest high across Asia
In recent quarters, a greater number of corporates have been making VC investments in Asia. Particularly in Japan, where CEOs of traditional companies have recognized the imperative to innovate in order to remain relevant, corporate venturing remains an important part of the overall ecosystem. Increased corporate involvement in Asia has been especially noticeable in the autotech and healthcare sectors.

Both high tech and simple tech solutions gaining traction
During Q2'17, the hottest sectors of VC investment in Asia were artificial intelligence, robotics, fintech, edtech and healthtech, although interest in cloud and infrastructure services also picked up speed. At the same time, companies with simple business models also attracted significant VC investment, including bikesharing start-ups Mobike and Ofo. In June, Mobike raised $600 million, while two-year-old Ofo is currently valued at approximately $2 billion. While these types of companies continue to burn cash in a race to acquire market share, it remains to be seen if their business models will be viable long term.

Startups moving up the value chain
There has been a growing trend in 2017 associated with startups looking to move up the value chain by investing heavily in training and customer service. Didi Chuxing, for example, now requires all of its drivers to learn English. Many customer-focused startups recognize that in order to make money, they need to charge more — but to charge more, they need to enhance their services.

Fintech interest remains high in China and Hong Kong
In China and Hong Kong, fintech remains a key area of investor interest despite a dip in funding in Q2'17. This interest has focused on front office and customer experience improvements as companies in the region remain growth focused. This is unique compared to other regions, where fintech investment often focuses on achieving back office efficiencies.

Government and middle class investors driving activity in China
The government continued to drive innovation in China in Q2'17. During the quarter, state-owned company China Aerospace Science and Technology Corporation (CASC) announced a $22 billion fund to invest in new technologies in partnership with other state-owned organizations. The government also implemented foreign currency controls to encourage investment abroad in specific areas where there is great potential for technologies to benefit the Chinese economy.[12]

As personal wealth has grown in China, many in China's emerging middle class have also started to pool their money into small VC funds — adding to the money available in the market.

[12] http://www.opengovasia.com/articles/7614-chinese-state-owned-enterprises-form-usd-22-billion-fund-to-invest-in-emerging-strategic-industries

Asia VC market awash with money, cont'd.

VC market in India sees significant shift

Following the Flipkart deal in Q1'17, India saw a major turnaround in VC activity during Q2'17. Investor interest has skyrocketed, particularly for deep tech solutions. A number of late-stage startups also began to consider acquiring early-stage companies as a way to quickly plug gaps in their portfolios. From an exit perspective, India is poised to see a couple of IPOs in the tech space early in Q3. Funding has also become more readily available, with some startup founders in India becoming angel investors themselves.

During Q2'17, the government of India also announced a goods and services tax (GST) in a major tax policy shift. This is causing some concern for investors and companies of all levels. The impact of this development will likely become clearer over the next quarter.[13]

Trends to watch for in Asia

Venture capital activity is posed to remain strong in Asia, with deep tech, autotech and healthtech continuing to be major sectors of interest. Heading into Q3, however, investors looking at China will need to keep a keen eye on the National Congress of the Communist Party in Beijing as the government's new priorities will be set. The outcomes of this congress may have a significant impact on VC investment trends in 2018.

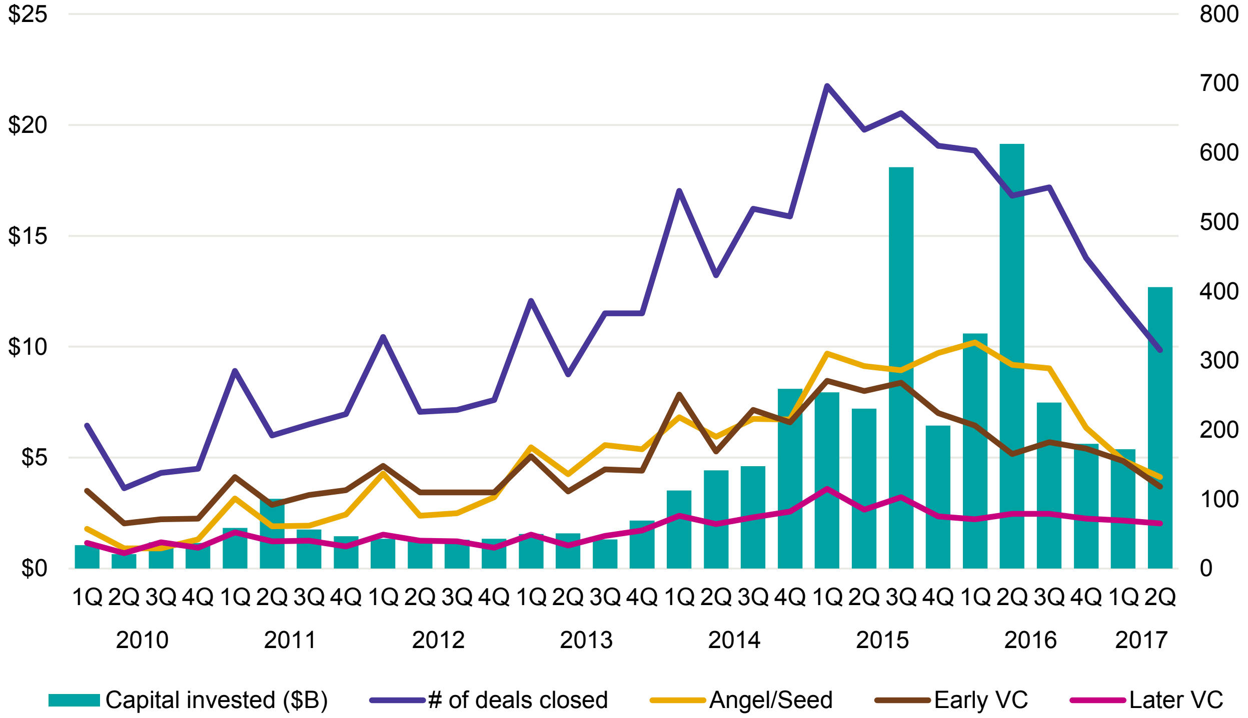
[13] http://www.bbc.com/news/world-asia-india-40453774

KPMG Enterprise

VC financing volume may have plunged, but total VC invested roars back

Venture financing in Asia

2010 — Q2'17



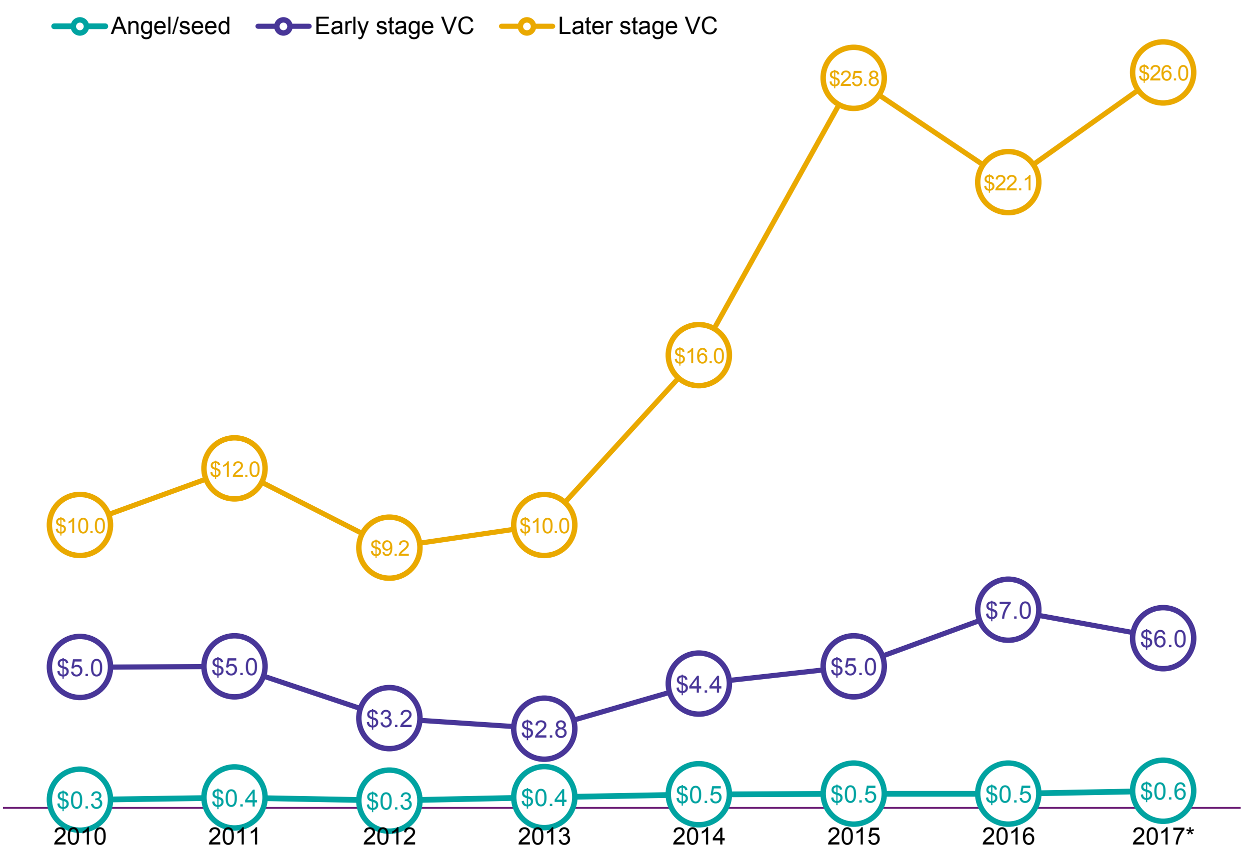
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Even as completed transaction volume fell again quarter over quarter, aggregate VC invested soared back to get close to $13 billion, notching the tally for third-highest sum of quarterly VC invested of the decade. Massive fundraises such as Didi Chuxing's $5.5 billion round contributed considerably to that total.

Each stage sees an increase in median financing size

Median deal size ($M) by stage in Asia

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

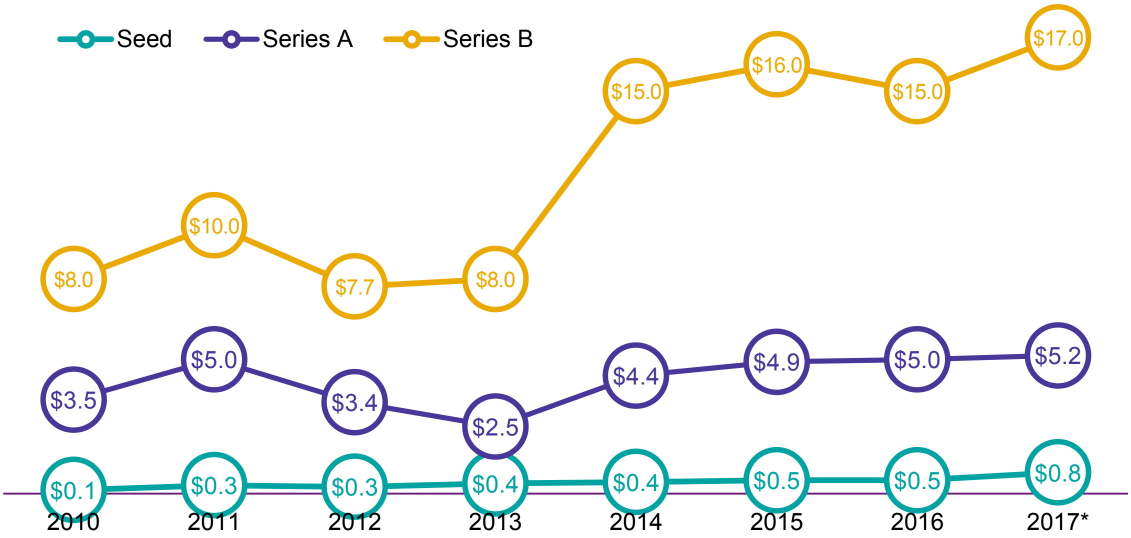
Still well above historical comparables all in all, the median financing size across the late and earliest stages in the Asia-Pacific region still hold a bare to significant margin above 2016 figures. This is testament mainly to continued investor interest in exposure to potentially fast-growing businesses within the region, plus significant sums of dry powder.

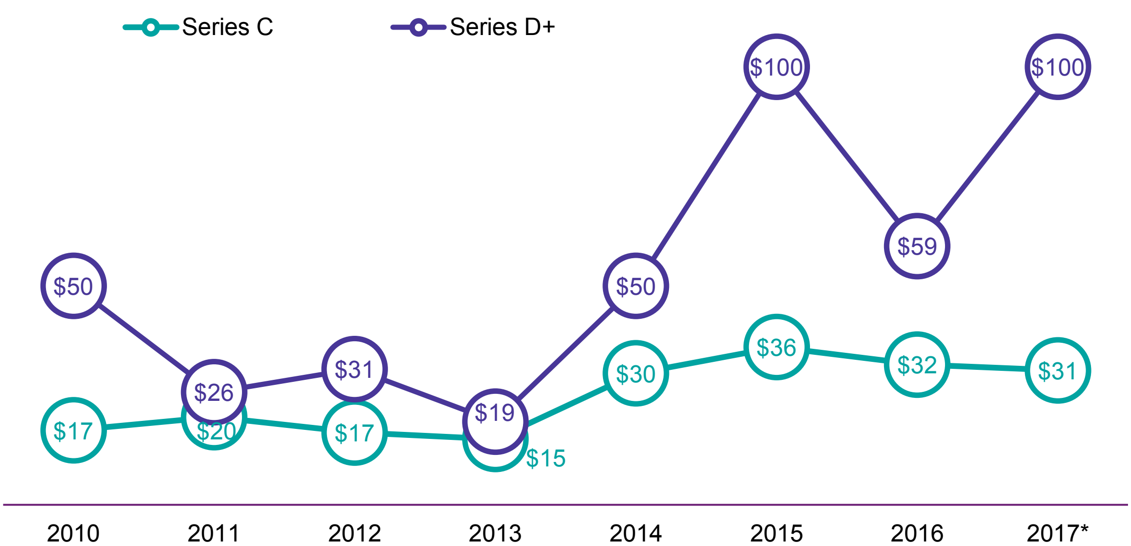
KPMG Enterprise

The early-stage sees slight increases

Median deal size ($M) by series in Asia

2010 — H1'17





Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

Note: Select figures are rounded for legibility.

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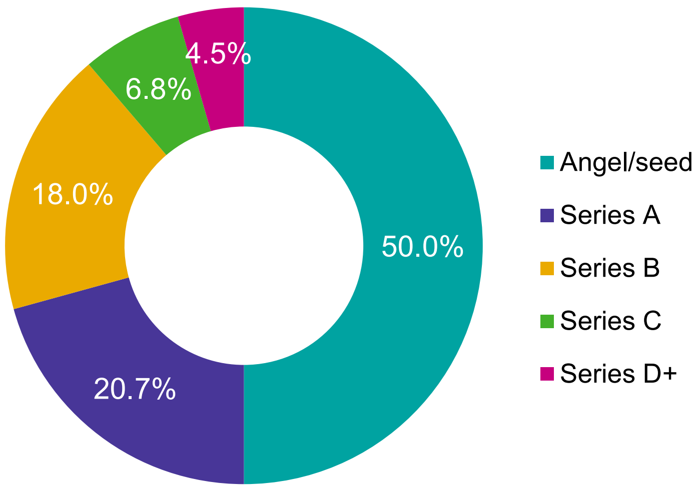
Trends toward middle & later stages are especially pronounced in Asia

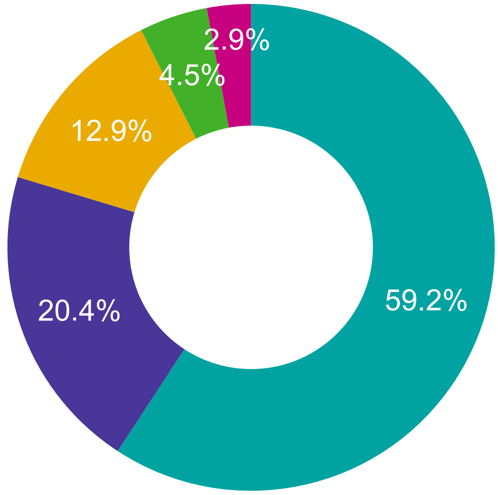
Deal share by series in the Asia region

H1'17, number of closed deals



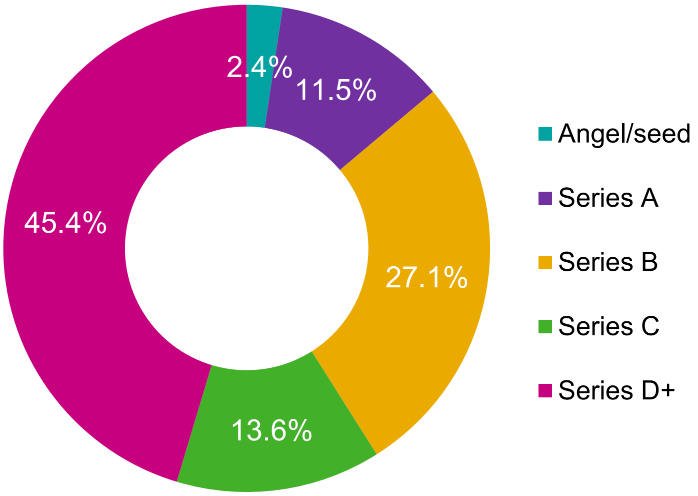
Deal share by series in the Asia region

2016, number of closed deals



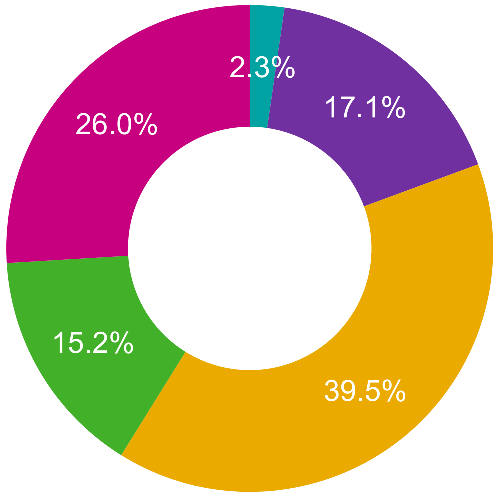
Deal share by series in the Asia region

H1'17, VC invested ($B)



Deal share by series in the Asia region

2016, VC invested ($B)



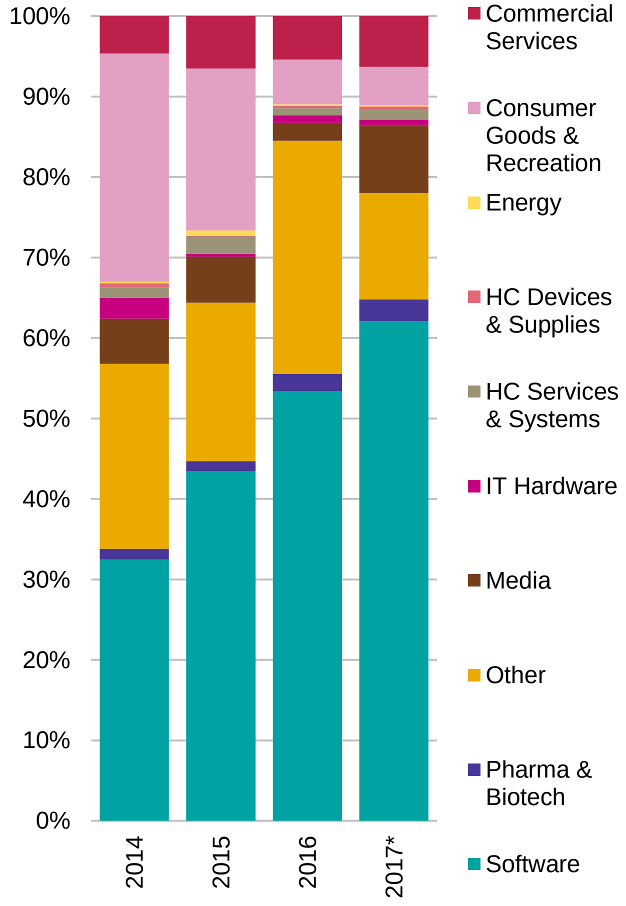
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

KPMG Enterprise

Media & software see VC invested share boom

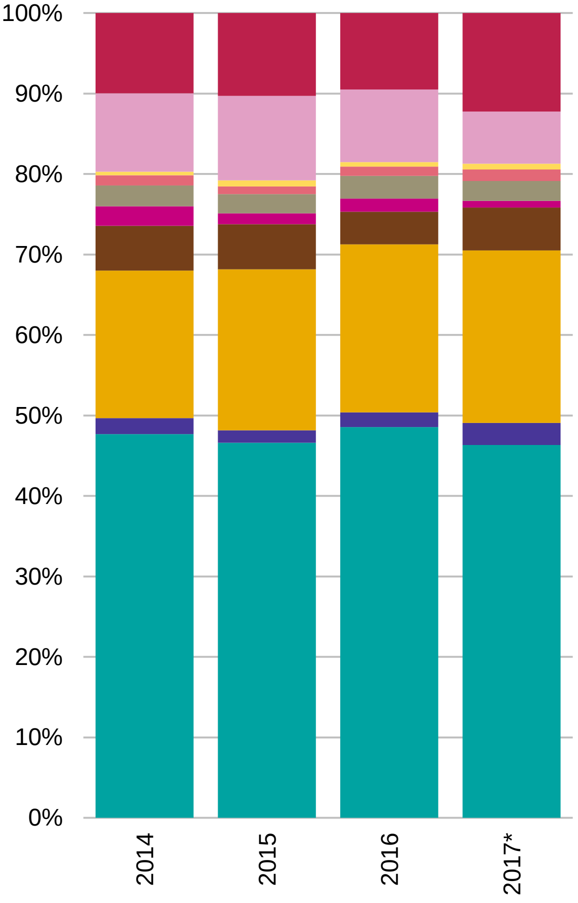
Asia venture financings by sector

2014 — Q2'17, VC invested ($B)



Asia venture financings by sector

2014 — Q2'17, number of closed deals



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 6/30/2017. Data provided by PitchBook, July 13, 2017.

"The total number of deals continues to drop, but the large size of some of these deals means that in terms of the total deal value, it was a pretty solid quarter. We remain very focused on fintech. AI and robotics continue to be a hot topic in China and health care is just going from strength to strength each quarter."

Egidio Zarrella
Clients and Innovation Partner, **KPMG Hong Kong**

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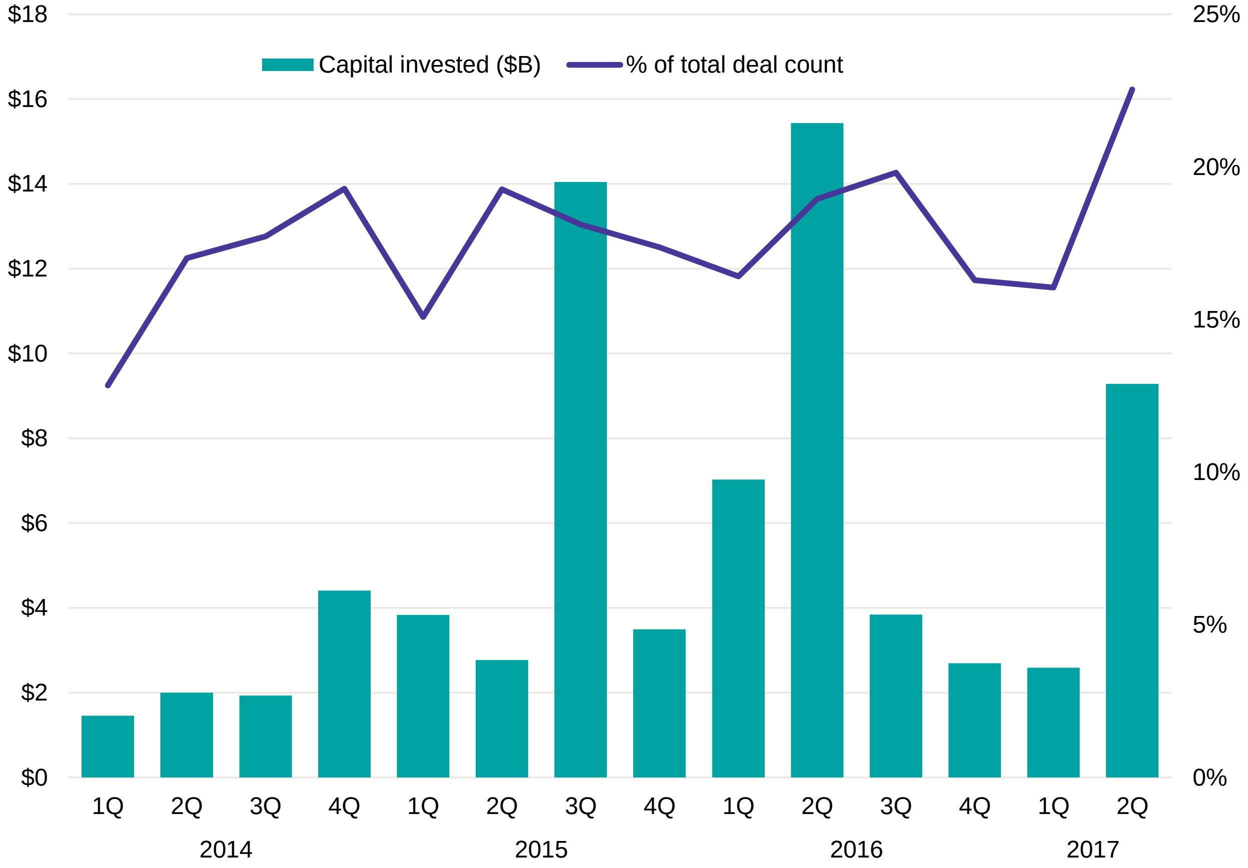
Surge in CVC participation

Corporate participation in venture deals in Asia

2014 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

With much of the emerging venture scene in Asia already dominated by businesses affiliated with or spun out of established tech giants, the elevated rate of corporate participation in VC activity is perhaps to be expected. That said, the surge upward to a new high of 22.5% of all venture activity is not only indicative of the decline in volume but also the robustness and resilience of Asian corporate interest in staying on top of innovation.

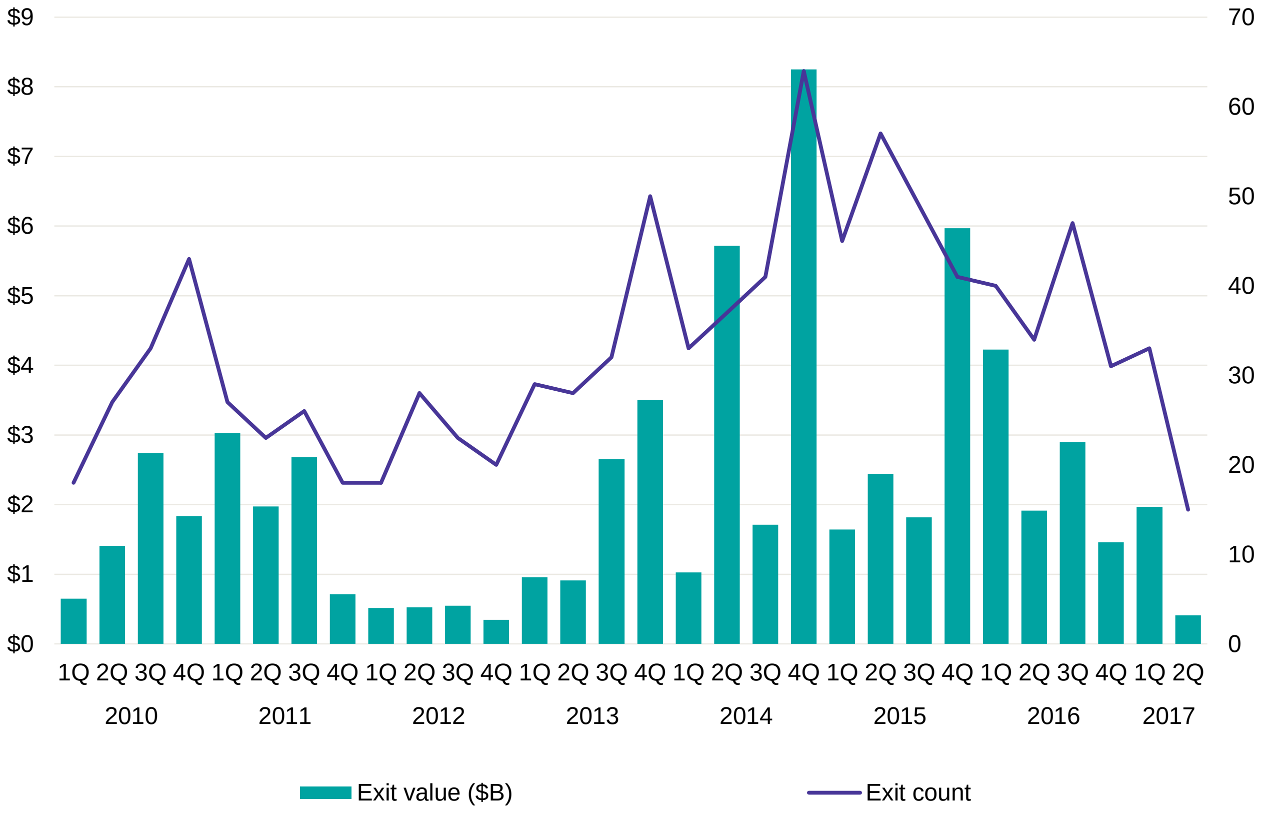
"Enhancing the overall customer experience is becoming a key driver as more developed businesses refine their business models to boost their path to profitability. Apps like food delivery and ride-share are starting to heavily invest in training staff."

Lyndon Fung
US Capital Markets Group, **KPMG China**

In sign of cyclicality, exits decline

Venture-backed exit activity in Asia

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Especially on a quarterly basis, it is important to stress the impact timing has on overall venture-backed exit tallies. Asia's developing venture ecosystem has not yet had sufficient time to develop a truly robust pipeline of companies prepared to exit. Hence, the steep plunge in completed sales between Q1'17 and Q2'17 is likely temporal, though the longer-term decline since 2014 indicates a longer overall cycle.

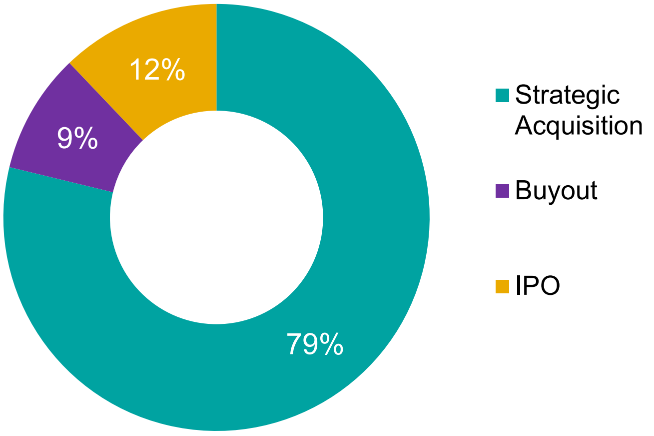
"Historically Japan's VC mentality was relatively conservative, with investors focused more on financial forecasts and quantitative metrics than on overall market opportunity. As a result, both investments and exit returns tended to be smaller. This is changing, with more global investors and Japanese VCs who have expanded beyond their traditional banking base driving growth in both fund and investment size. The impact on exits remains to be seen."

Paul Ford
Partner, Deal Advisory, **KPMG in Japan**

A significant reliance in strategic acquisitions contributed to diminishing exit volume

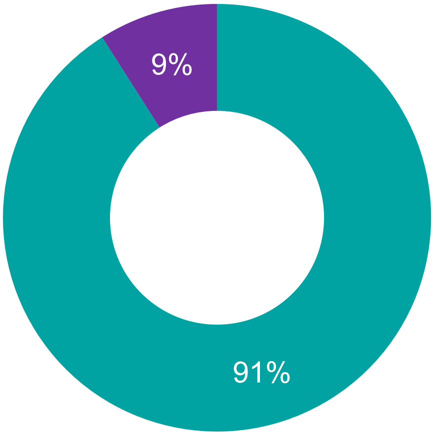
Venture-backed exit activity (#) by type in the Asia region

Q1'17



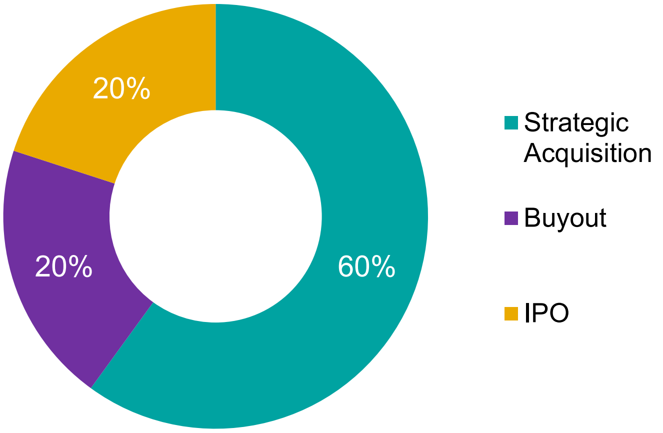
Venture-backed exit activity ($B) by type in the Asia region

Q1'17



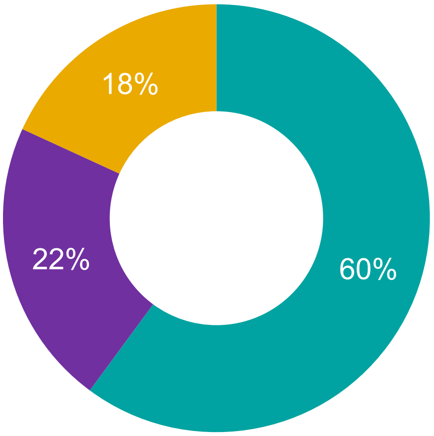
Venture-backed exit activity (#) by type in the Asia region

Q2'17



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

Q2'17

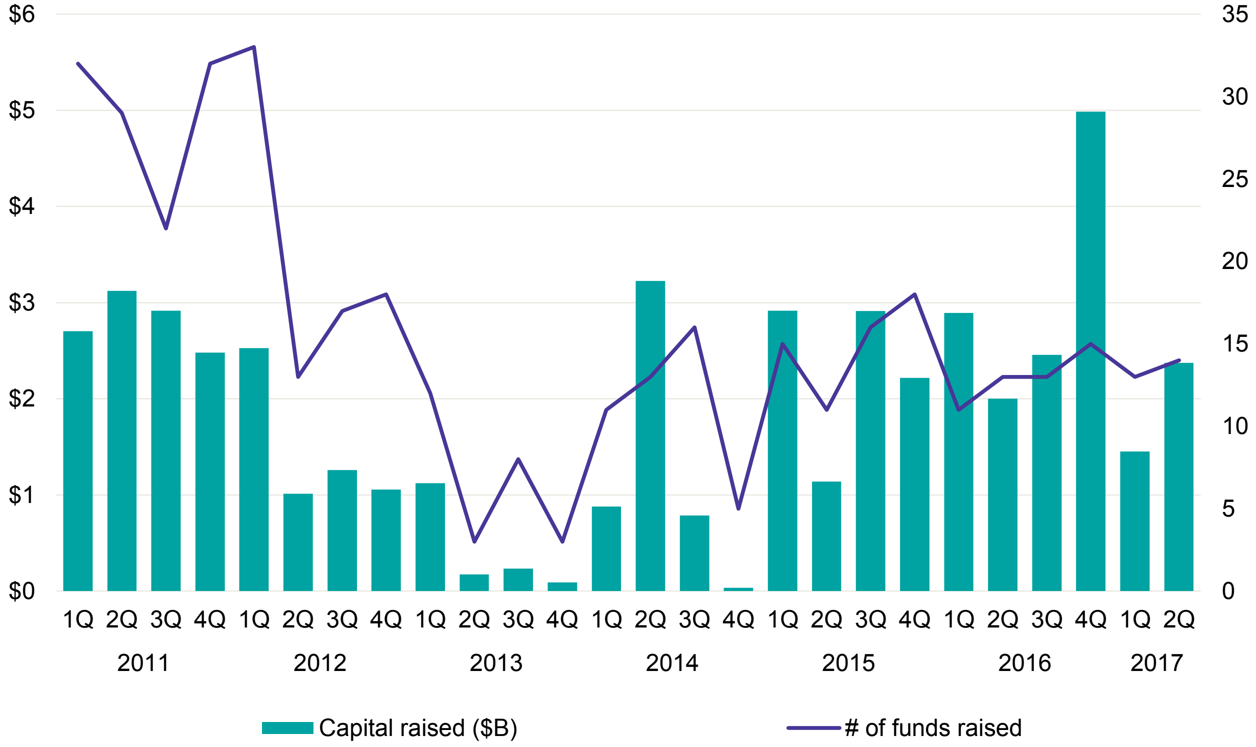


Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Fundraising value & volume stay within recent variance or hold steady

Venture fundraising in Asia

2011 — Q2'17



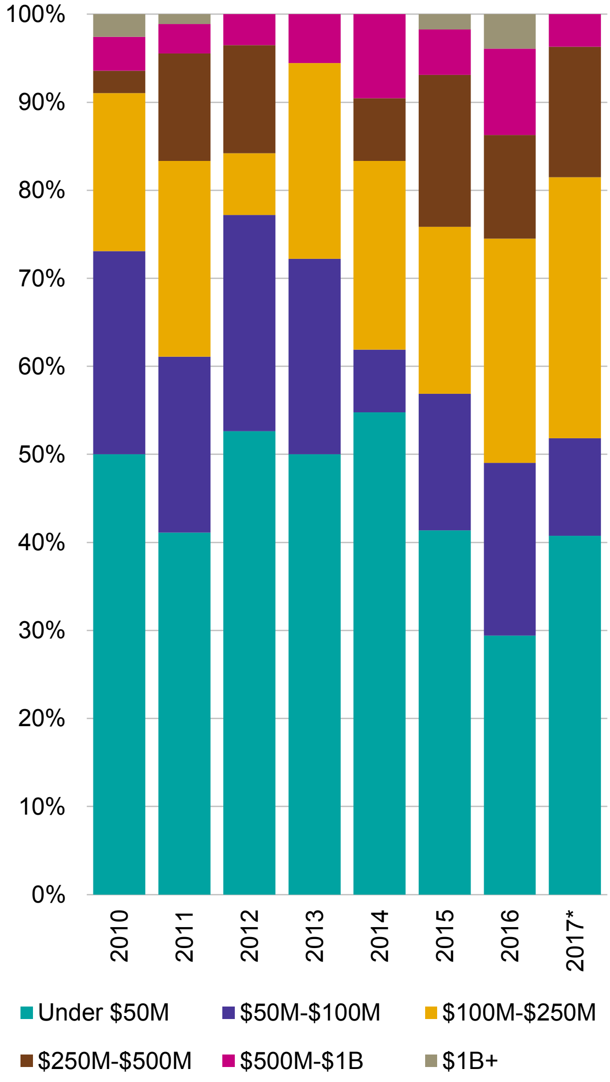
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Fundraising by count may have stayed flat once again, as commitments rose to lie well within recent quarterly levels.

Fund sizes remain trending to the larger end, even if sub-$50M funds are up by count

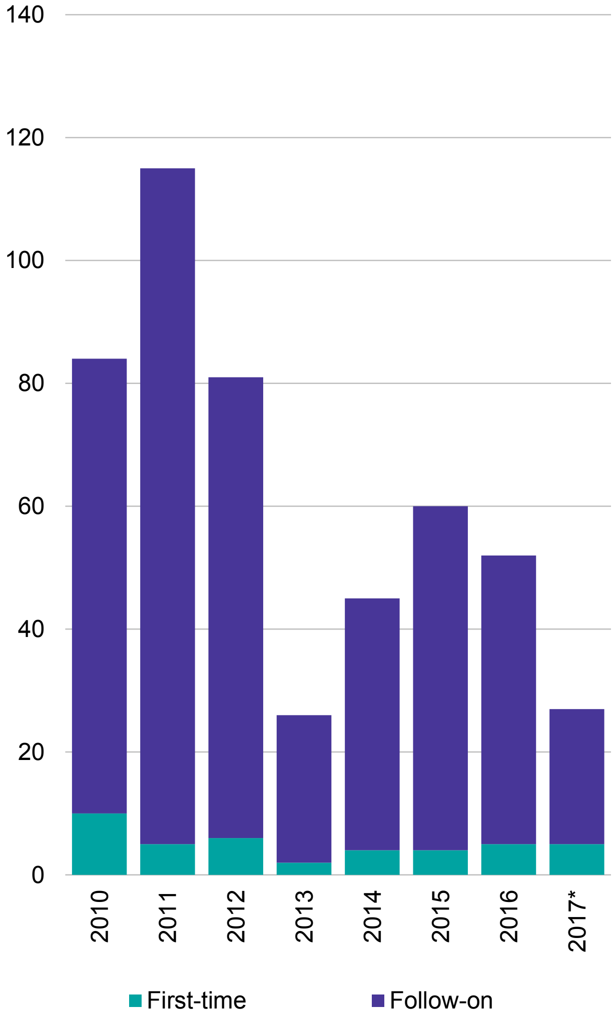
Venture fundraising (#) by size in Asia

2010 — H1'17



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

2010 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/3/1/2017. Data provided by PitchBook, July 13, 2017.

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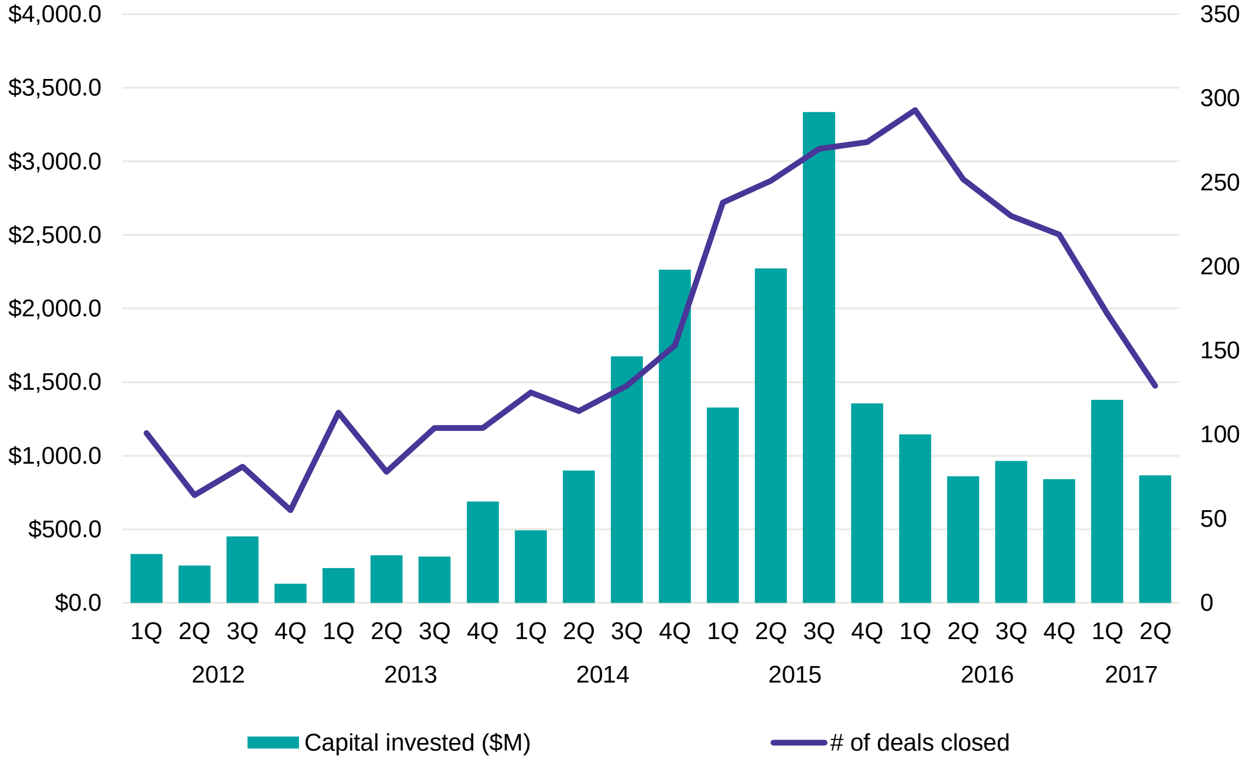
Investors are more selective, yet still interested

Venture financing in India

2012 — Q2'17



Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Venture activity recorded another consecutive quarterly decline, the fifth such since a peak of 293 completed financings in Q1'16. On the other hand, total VC invested stayed historically robust, closing in on $870 million in the quarter and testament to investors — particularly larger, nontraditional players — still desiring exposure to the Indian startup scene.

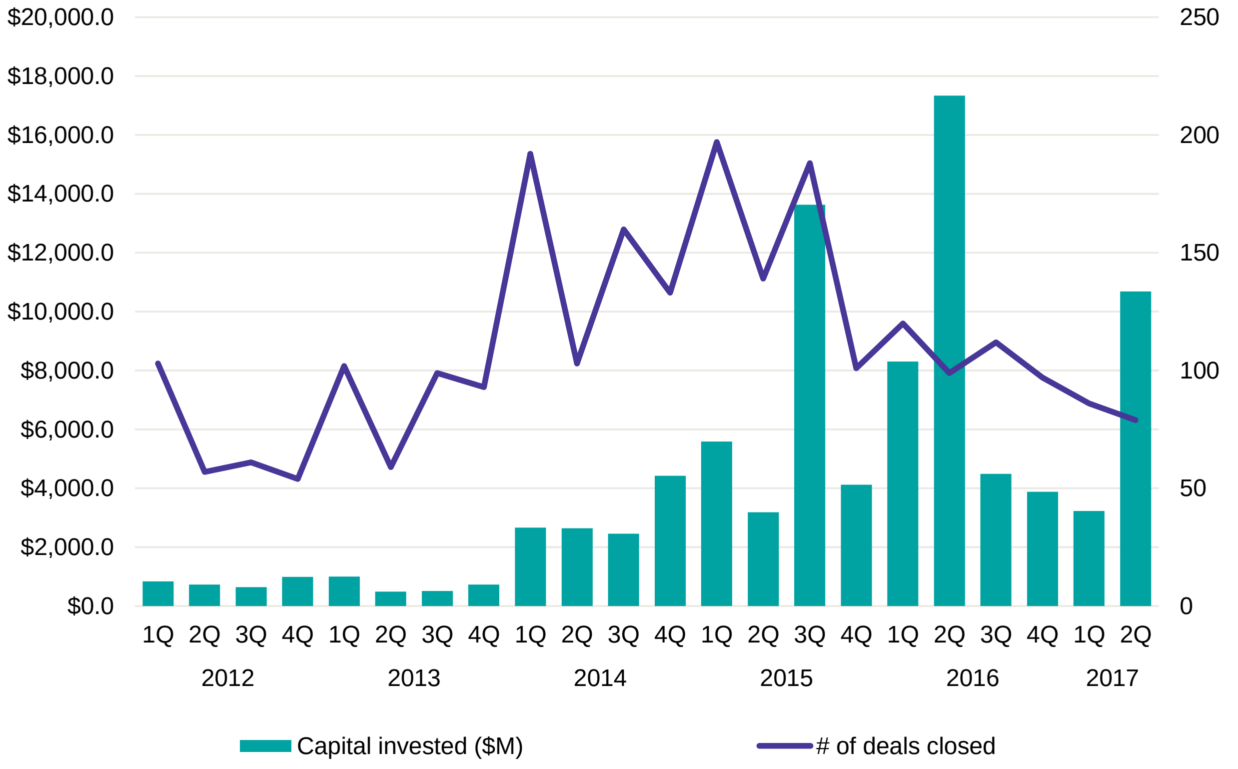
"Most large companies are considering acquiring early-stage startups that are category leaders, these are both ecommerce players as well as traditional companies. They are looking to shorten their own product development cycles through acquisitions or trying to dominate the ecosystem by acquiring companies that enable their business. Consolidation is now on every board's agenda."

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

Volume continues plateau as mega-rounds soar

Venture financing in China

2012 — Q2'17



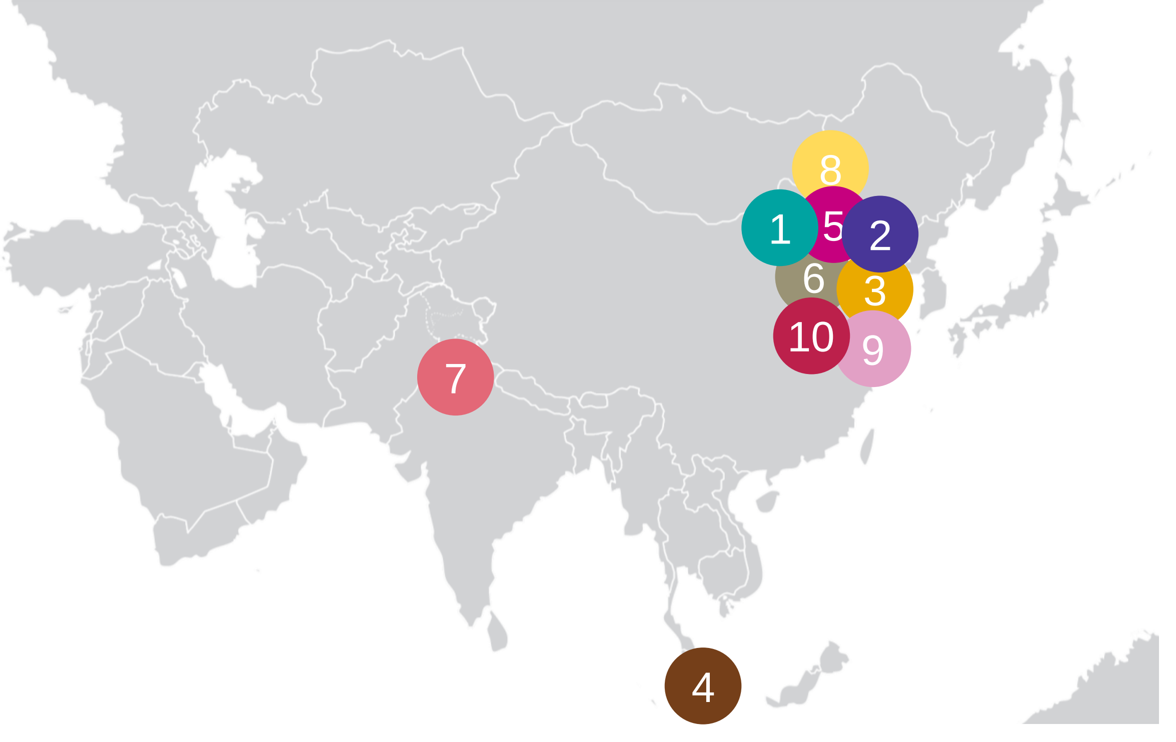
Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

Thanks to the largest venture round in history — Didi Chuxing's $5.5 billion raise — China recorded close to $10.7 billion in aggregate capital invested in Q2'17 alone, even though transactional volume stayed relatively flat. This trend has been ongoing for some time, signifying how later-stage enterprises in China are doubling down in their efforts to secure enough market share they are the clear leaders within their spaces.

"Increasingly, the government backed funds in China are stepping into the space of traditional VCs and making investments that support the national priorities in innovation, the priority areas include industrial automation, next generation vehicles, and new technologies in healthcare. There are also many government innovation initiatives launched over the last three quarters and we do not anticipate the pace slowing down in the near future."

Philip Ng
Partner, Head of Technology, **KPMG China**

Beijing accounts for 6 of the top 10



1 **Didi** — $5,500M, Beijing
Platform software
late-stage VC

2 **Toutiao** — $1,000M, Beijing
Information services
Series D

3 **Mobike** — $600M, Beijing*
Transportation
Series E

4 **Sea** — $550M, Singapore
Social platform software
late-stage VC

5 **Ofo —** $450M, Beijing
Transportation
Series D

6 **Guazi.com** — $400M, Beijing
Transportation
Series B

7 **OYO Rooms** — $250M, Gurgaon
Hotels
late-stage VC

8 **Mobvoi** — $180M, Beijing
Electronics (B2C)
Series D

9 **Souche.com** — $180M, Hangzhou
Transportation
Series D

10 **Mychebao** — $174M, Nanjing
Automotive
Series C

Source: Venture Pulse, Q2'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, July 13, 2017.

*Note: In the prior edition of the Venture Pulse, Mobike's Singapore location was identified as the outlet wherein its Q1'17 round was raised, given the purpose of the funds was explicitly for expansion in the Singapore and adjacent markets. This subsequent financing, as best as can be determined, is for overall purposes, hence the location is determined as Mobike's official headquarters.

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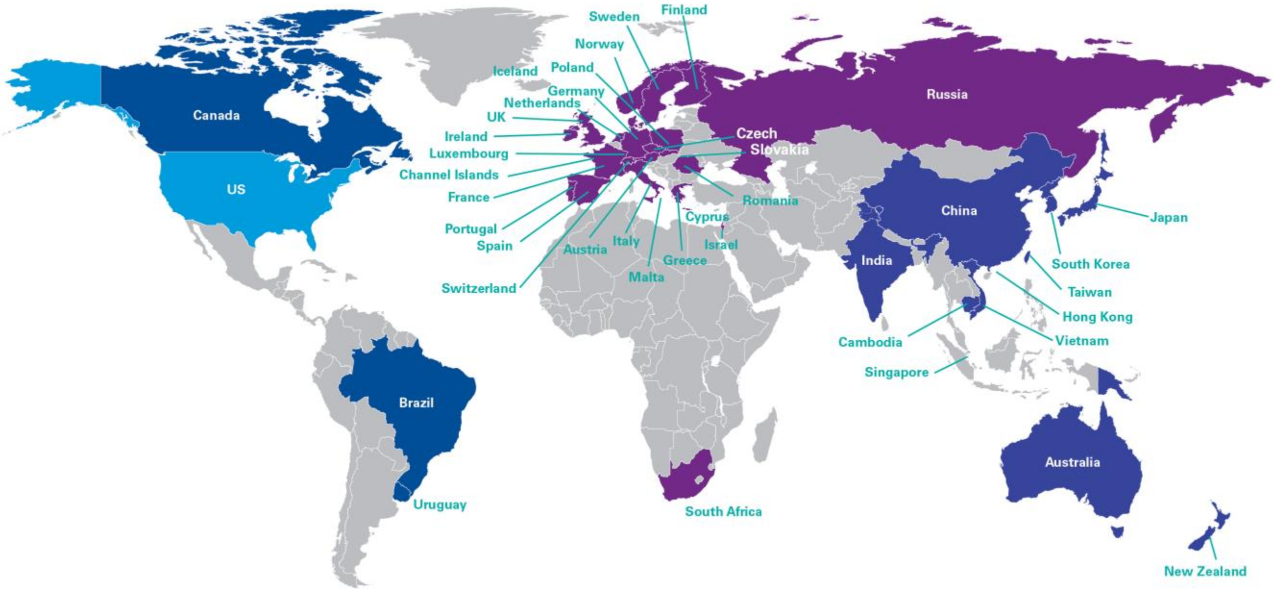
KPMG Enterprise Innovative Startup Network. From seed to speed, we're here throughout your journey



Contact us:

Brian Hughes
Co-Leader, KPMG Enterprise
Innovative Startups Network
E: bfhughes@kpmg.com

Arik Speier
Co-Leader, KPMG Enterprise
Innovative Startups Network
E: aspeier@kpmg.com

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About KPMG Enterprise

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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, KPMG International brings you insights on the fintech deals and trends making headlines. The Q2'17 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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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.

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

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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