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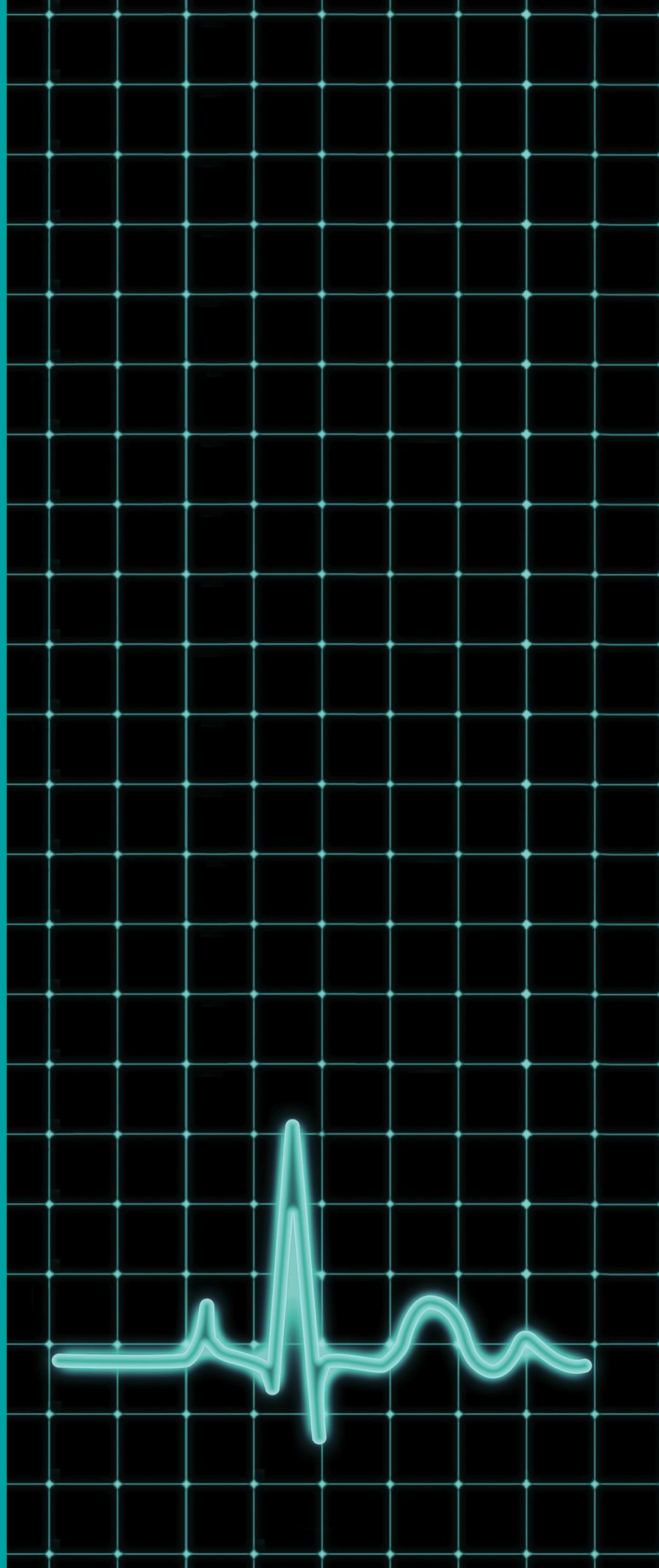
Venture Pulse Q1 2019

Global analysis of venture funding



11 April 2019

Welcome message

Welcome to the Q1'19 edition of KPMG Enterprise's *Venture Pulse,* a quarterly report discussing the key trends, opportunities, and challenges facing the venture capital market globally and in key jurisdictions around the world.

After a record-shattering level of VC investment in 2018, the VC market globally got off to a relatively weak start in Q1'19, particularly in China. The US continued to see very strong VC investment, including a $5 billion investment from SoftBank into The We Company (formerly WeWork) and a $1 billion raise by freight logistics company Flexport.

A shortage of $1 billion+ megadeals likely contributed to the decline in VC investment in Asia quarter over quarter. In Europe, meanwhile, VC investment remained relatively steady in Q1'19 despite Brexit challenges in the UK. Strong activity in other European markets likely helped buoy investment numbers in the region.

Late-stage deals continued to attract the bulk of VC investments globally as economic uncertainties around the globe continued to resonate across a number of markets. While the US public market rebounded in January following the fluctuations seen at the end of 2018, other uncertainties remained high on the radar of investors globally, including trade wars between the US and China, Brexit, and a weakening Chinese economy.

Following a record year of Unicorn IPO exits in 2018, 2019 is looking to extend the trend with a number of highly anticipated companies already moving toward the gate. Ride-hailing company Lyft made the first big wave of 2019. Additional planned exits are setting the stage for an exciting second quarter, while others are also contemplating exits. The performance of these companies could have significant ramifications on the IPO market through the remainder of the year.

In this quarter's edition of *Venture Pulse*, we look at these and a number of other global and regional trends, including:
- The evolution of blockchain and its growing value across industries
- The strength and diversity of Europe's VC market
- The rise of digital banks, including their global expansion plans
- The increasing importance of emerging economies to VC investment

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

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In Q1'19 VC-backed companies in the Asia region raised

$13.1B

across

218 deals

Asia VC investment falls in Q1'19 following a massive 2018

VC investment in Asia got off to a weak start in Q1'19, although Southeast Asia bucked the trend somewhat, thanks to a $4.5 billion raise by Singapore-based ride-hailing platform Grab. After seeing numerous $1 billion plus deals in 2018, China saw only one deal above $1 billion: a $1.5 billion raise by automotive trading platform Chehaoduo Group.

Relatively slow start to 2019 in China as investors become more cautious

Despite the big raise by Chehaoduo Group, VC investment in China dropped overall in Q1'19 as VC investors grew somewhat more cautious. This can be attributed in part to the carry-over of concerns from Q4'18, such as the ongoing trade situation between the US and China and the continued adjustments in the Chinese economy. A number of VC investors in China are also sitting on portfolio companies waiting for the right opportunity to exit. Some concern over how quickly they can turn a profit on investments may also be causing some VC investors to hold back.

Positive growth in India as automotive services companies gain ground

While India did not see any $1 billion+ rounds this quarter, the country attracted several $100 million+ deals, including a $413-million round by e-commerce-focused logistics company Delhivery, led by the SoftBank Vision Fund — an investment which lifted the company to unicorn status. SoftBank was particularly active in India in Q1'19, also making a $60 million investment in online grocery company Grofers and a $149 million in baby clothing e-tailer FirstCry.

Automotive services companies were a big hit with investors in Q1'19, led by ride-hailing company Ola, which received $300 million from Kia and Hyundai as part of a plan to develop electric vehicles. Automobile marketplace platforms also continued to receive attention, a trend expected to continue for the next several quarters. During Q1'19, one car trading platform, CarDecho, raised $110 million in a Series A round.

New initiative bodes well for future investment in Hong Kong

It was a solid first quarter for VC activity in Hong Kong. Despite some uncertainties in the market, the Hong Kong Stock Exchange performed quite well in the first t3 months of the year. Hong Kong continued to attract attention from both investors and companies interested in using it as a base for regional growth.

In the first quarter of the year, the Hong Kong Monetary Authority handed out three new virtual banking licenses in its quest to keep up with other jurisdictions in Asia as it relates to promoting competition and the disruption of the banking industry[1].

1. https://www.scmp.com/business/companies/article/3003496/hong-kong-hands-out-virtual-bank-licences-city-catches-china

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Asia VC investment falls in Q1'19 following a massive 2018, cont'd.

Southeast Asia growing hot in eyes of VC investors

2018 was a significant year for VC investment in Southeast Asia, with more than $7.8 billion invested across 327 deals. While the bulk of that investment went to a small number of companies, including Grab and Go-Jek, the numbers highlight the growing appetite of VC investors for Southeast Asia.

Already in 2019, the region has seen some strong activity. In addition to Grab's $4.5 billion deal, Thailand-based on-demand delivery platform Lalamove raised $300 million, while Singapore-based beauty marketplace Zilingo in Singapore raised $226 million. Mobile payment technologies and platform businesses continued to be the most attractive to investors given the high demand for mobile payments and other app-based financial services in the region.

AI and Healthtech big drivers of investment in China

Artificial intelligence, automation and facial recognition technologies continued to see strong investment in China during Q1'19, driven in part, by the demand for more robust big data analytics. From an industry perspective, life sciences, pharmaceuticals and healthtech gained traction among investors as the government moved forward with healthcare reforms.

The central government recently announced plans to better manage drug prices, accelerate approval of overseas drug and improve patient access to different drugs and therapies. Diagnostic services also gained momentum in China, with investors keenly interested in solutions focused on early detection of diseases and precision medicine[2].

Trends to watch for in Asia

Given the potential slowdown in China, it is expected that VC investors may become more cautious, focusing investments on those companies with strong business models and paths to commercialization. AI will likely continue to be hot technology in China, in addition to healthtech and diagnostic services related offerings.

In India, VC investors might be somewhat cautious in Q2'19 in advance of the country's national elections. This caution is expected to be short-lived, however, with a number of investment areas expected to be hot through the end of the year, including automotive trading platforms. VC investment in EdTech is also poised to see substantial growth in the near future.

2. https://www.spglobal.com/marketintelligence/en/news-insights/trending/clvpfmy8cngzwsado7x5jq2

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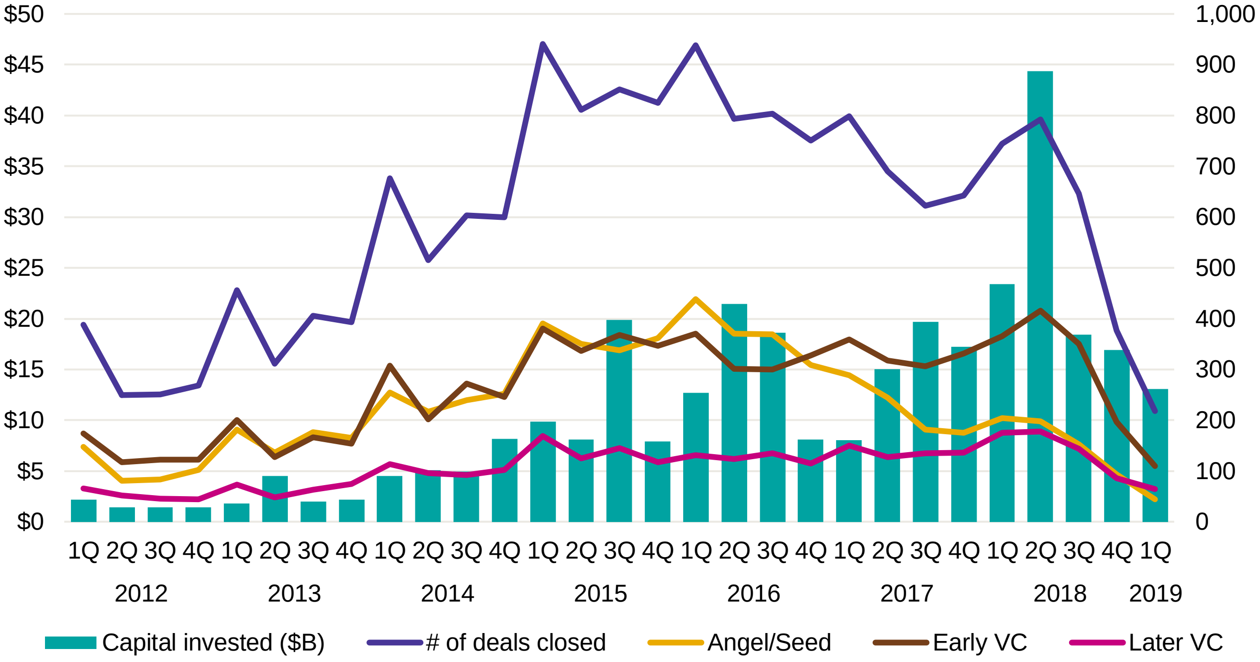
After a historic year, a slow start to 2019

Venture financing in Asia

2012–Q1'19



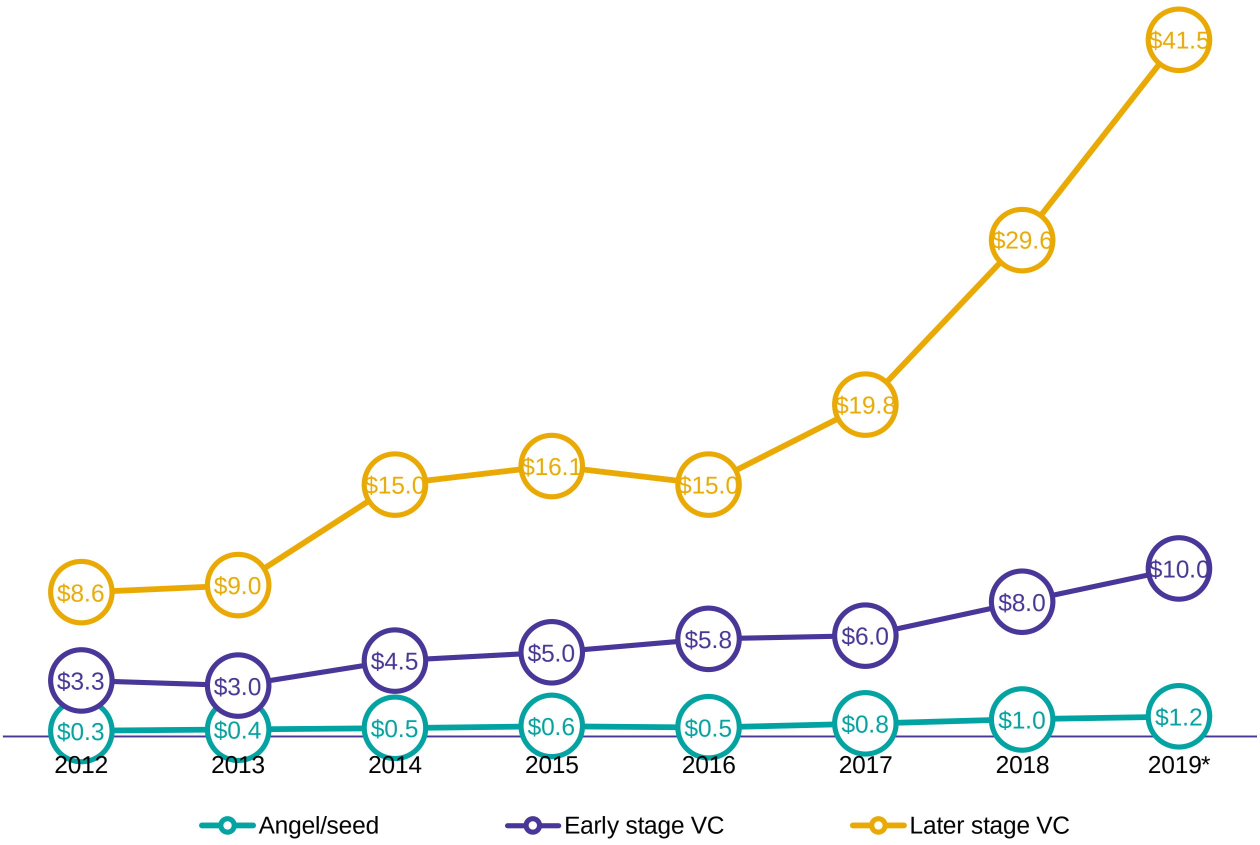
Source: Venture Pulse, Q1'19. Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2019. Note: Refer to the Methodology section on page 23 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

2018 was characterized largely by even more mega-deals than anyone could have expected at the start of the year and, thus, on the whole, remains historic for the region. 2019 however, is much slower at the start, to a degree that can't be explained for data lags, so it may be more of a return to historically typical levels.

Late-stage metric soars even further in 2019

Median deal size ($M) by stage in Asia

2012–2019*



Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Even if volume has contracted significantly across the region, the deals that are still able to close are being done at historically high valuations, testifying to persistently abundant global capital flooding into key Asian startups, even if at a more cautious rate.

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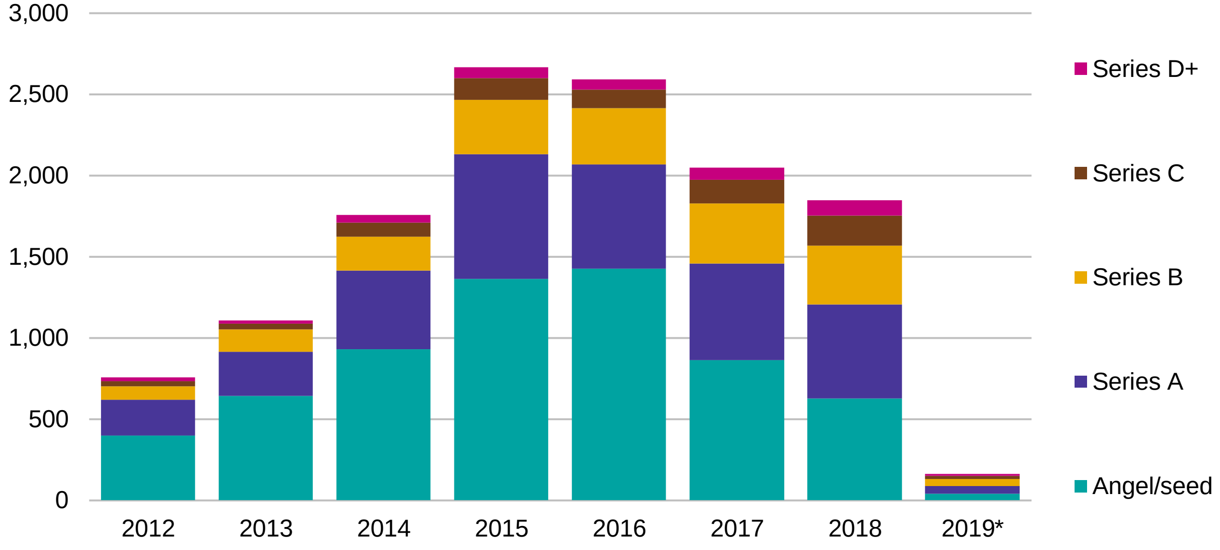
Series C suffers only relative slump in Q1 2019

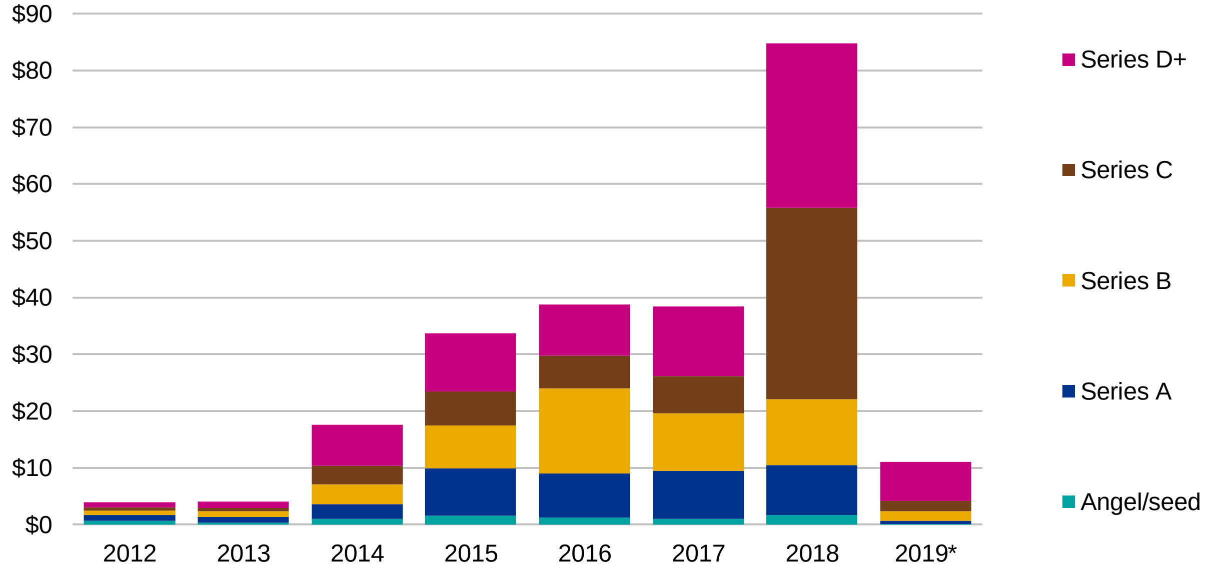
Deal share by series in Asia

2012–2019*, number of closed deals



Deal share by series in Asia

2012–2019*, VC invested ($B)



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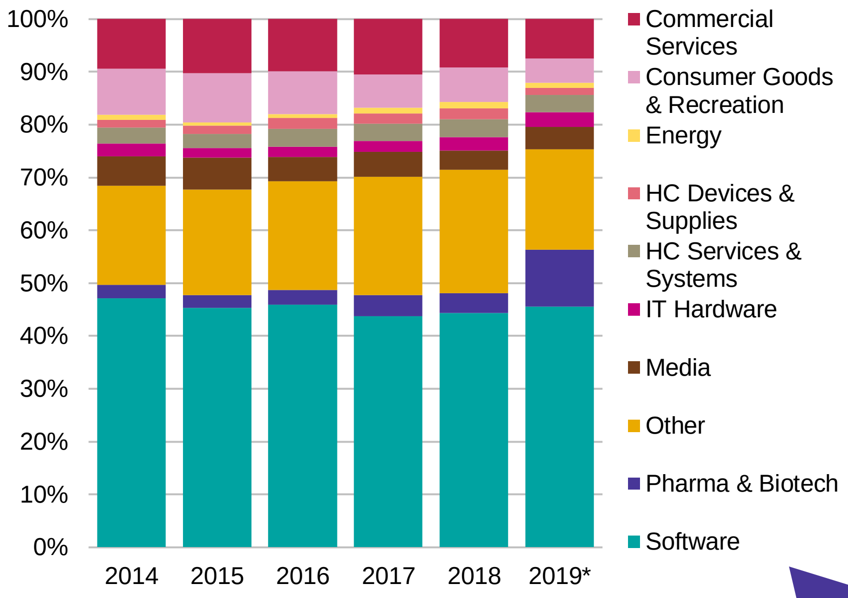
Pharma & biotech boom in Q1

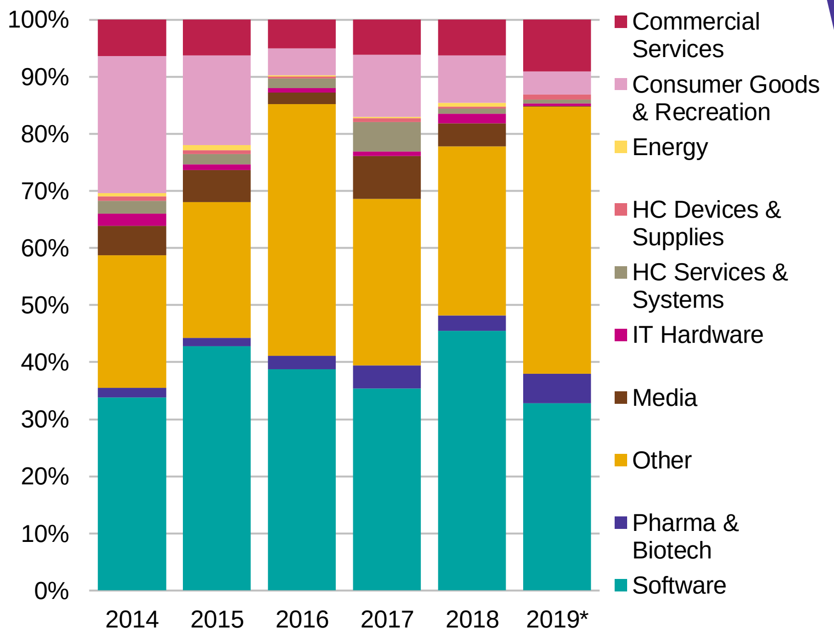
Asia venture financings by sector

2014–2019*, number of closed deals



Asia venture financings by sector

2014–2019*, VC invested ($B)



"There is strong momentum in China for technologies focused on early detection and precision treatment for illnesses like cancer and diabetes. Companies have an immense amount of data available for analysis — and are using it to create very innovative solutions. Given the immense need for more effective health solutions, companies in this space are well-positioned to attract large investments."

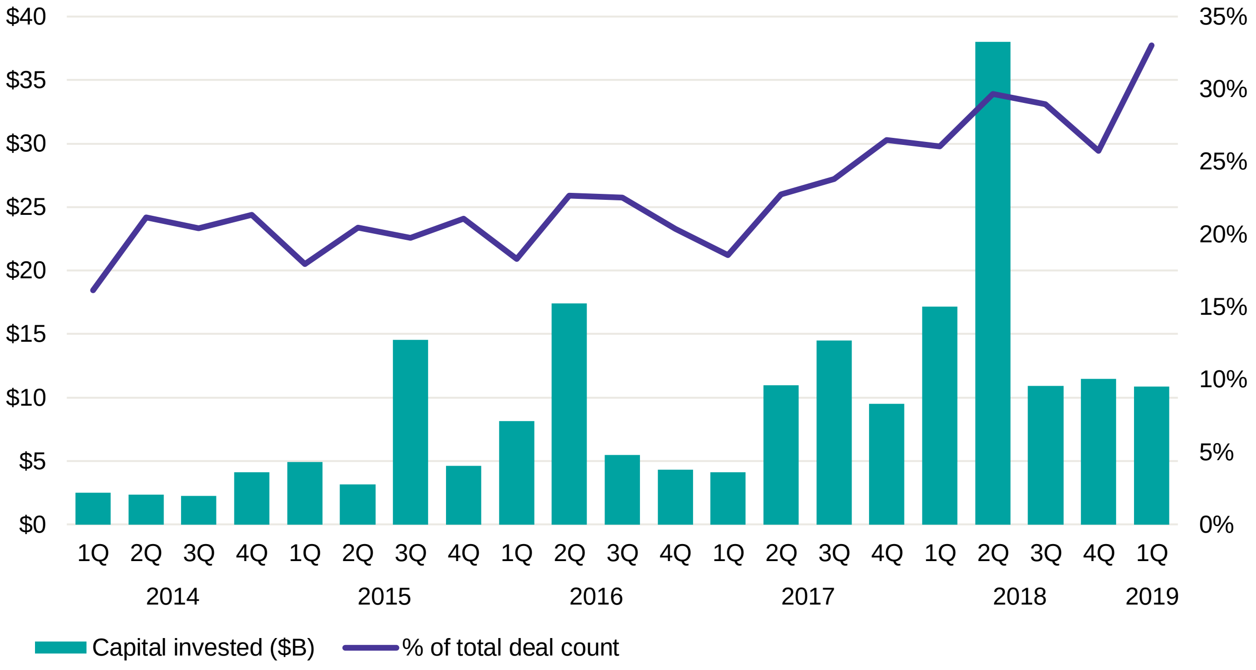
Irene Chu
Partner, Head of New Economy and Life Science, Hong Kong Region,
KPMG China

Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

CVCs pile in at highest rate

Corporate participation in venture deals in Asia

2014–Q1'19



Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2019.

The participation of corporate players in the Asia-Pacific venture ecosystem is integral, given its own unique evolution as opposed to Silicon Valley's or really any other venture ecosystem. Accordingly, the continually record-setting tallies of the rate of corporate participation is to be expected, as corporations will likely also remain more active at a continuous rate given their particular set of financial and strategic incentives.

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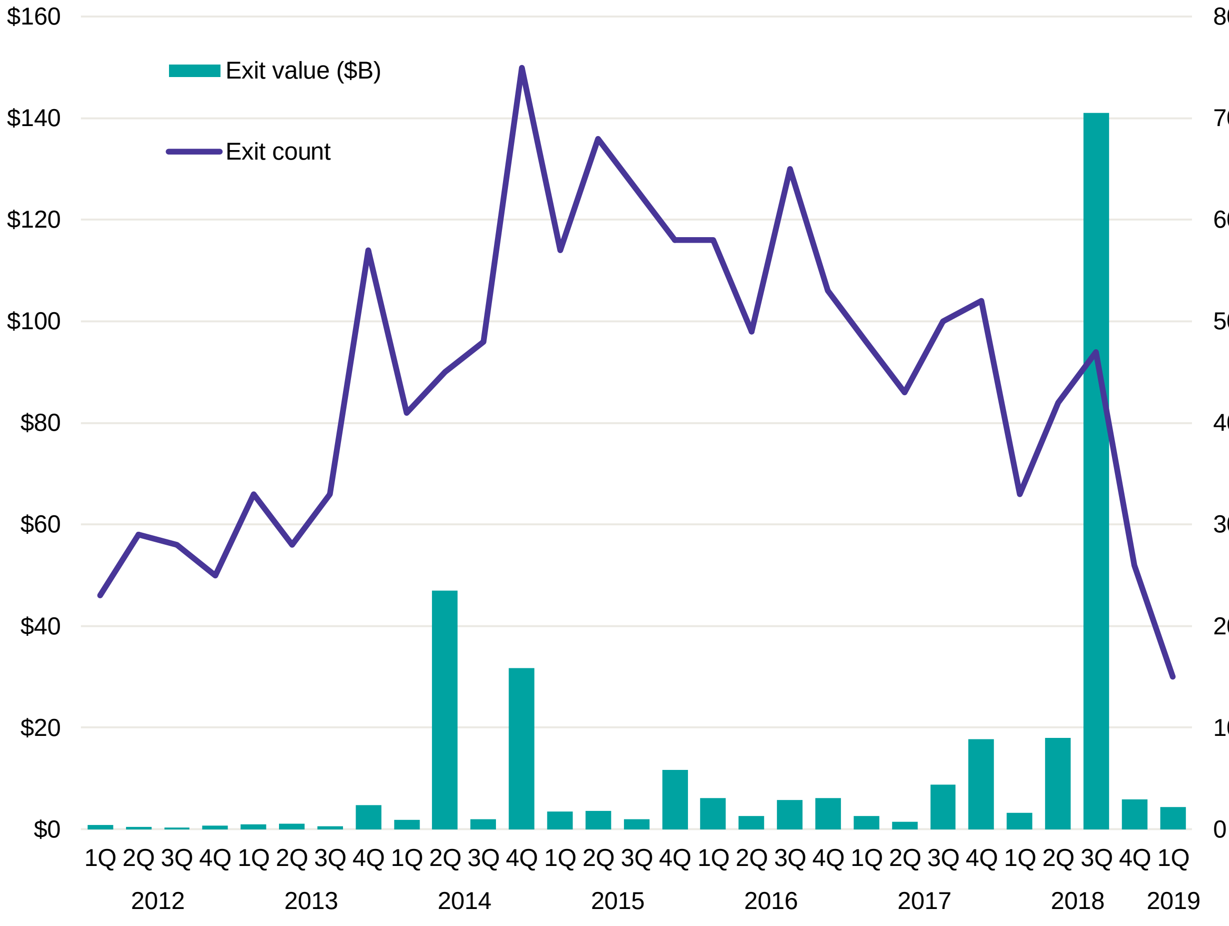
Exit cycle resets to start 2019

Venture-backed exit activity in Asia

2012–Q1'19



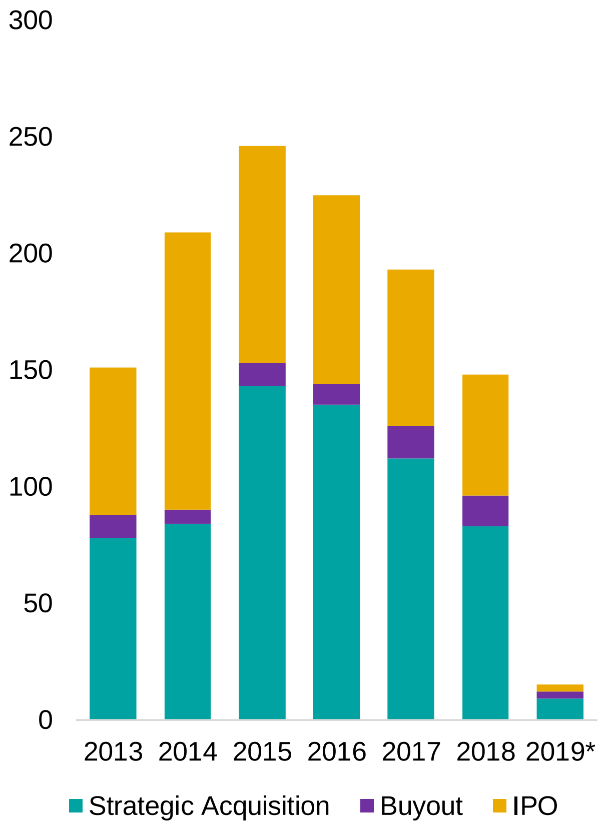
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2019.

The exit cycle is likely resetting in the Asia-Pacific scene, waiting for the raft of current mature late-stage-funded companies to prepare to go public, after a crop did so last year.

IPOs predominate in value to start the year

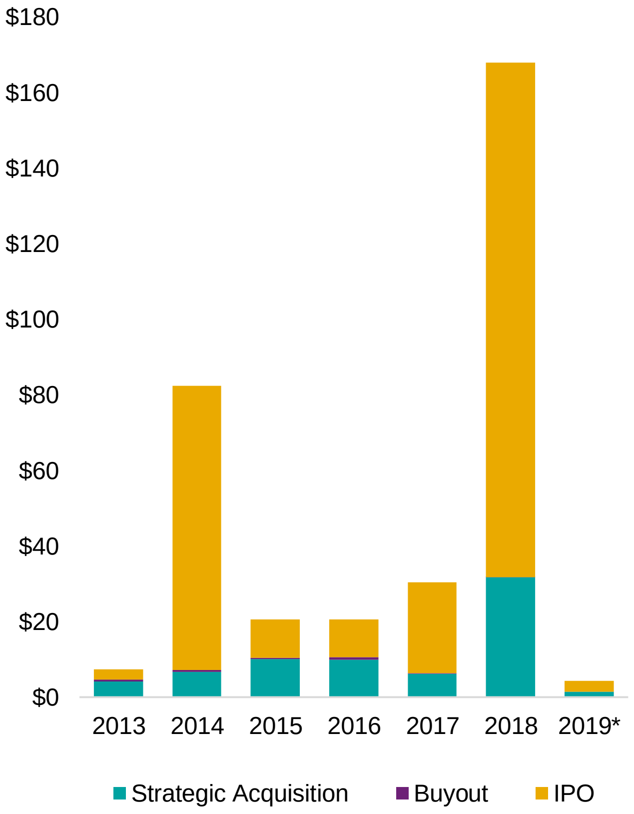
Venture-backed exit activity (#) by type in Asia

2013–2019*



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

2013–2019*

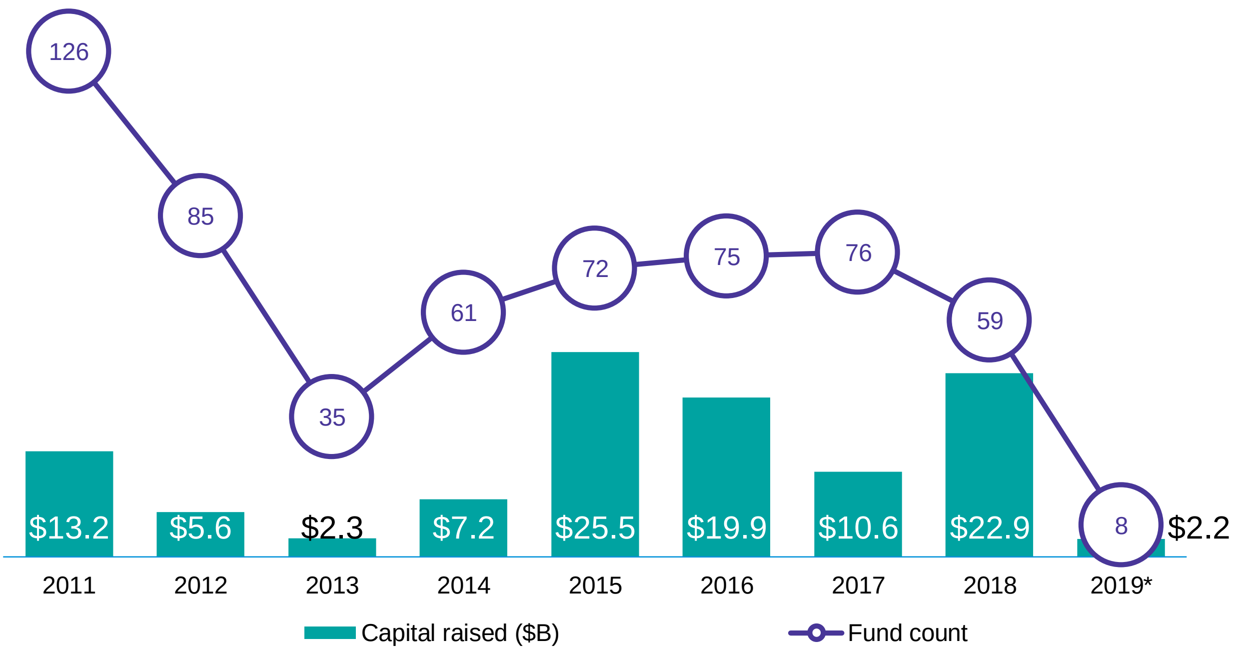


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Fundraising slows to a lower trickle to kick off 2019

Venture fundraising in Asia

2011–2019*



Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

In any nascent venture ecosystem, fundraising is likely to be even choppier than is normal when seen on a quarterly basis. However, traditional venture fundraising is off to quite a Fslow start in the Asia-Pacific region. It remains to be seen if this is more of a quarterly anomaly or whether the cycle is slowing as traditional funds look to gauge whether the late-stage largesse of past years is proving out.

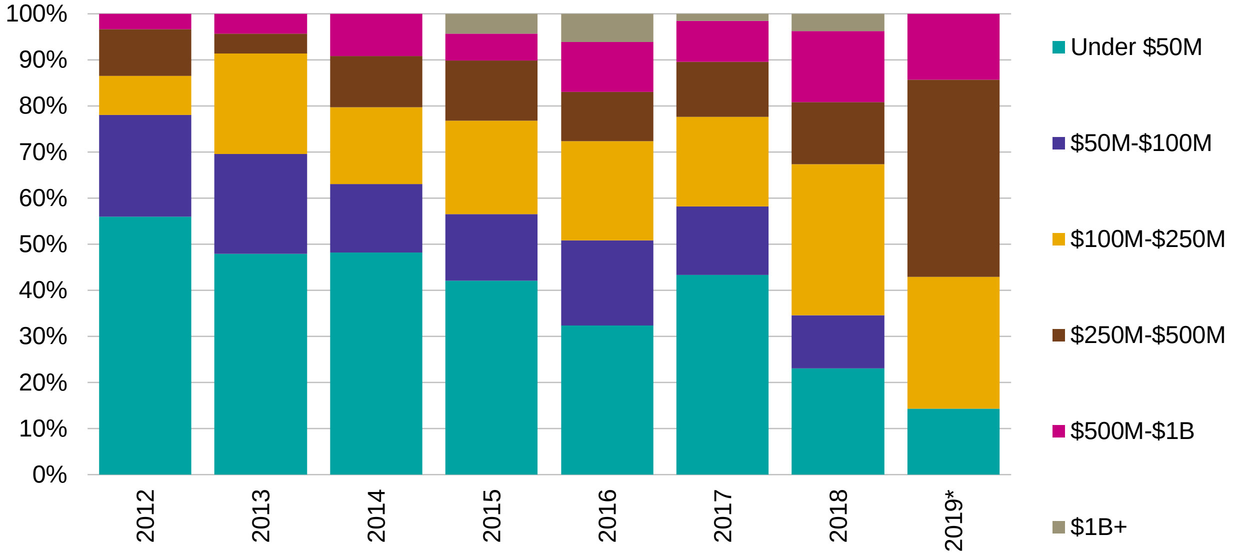
"In recent quarters, VC firms in China have increasingly worked together in order to make big investments in late stage companies — collaborating with each other to invest in top tier companies in particular industries rather than competing with each other for specific deals."

Egidio Zarrella
Head of Clients and Innovation Partner,
KPMG China

Fundraising shifts larger, in response to market trends

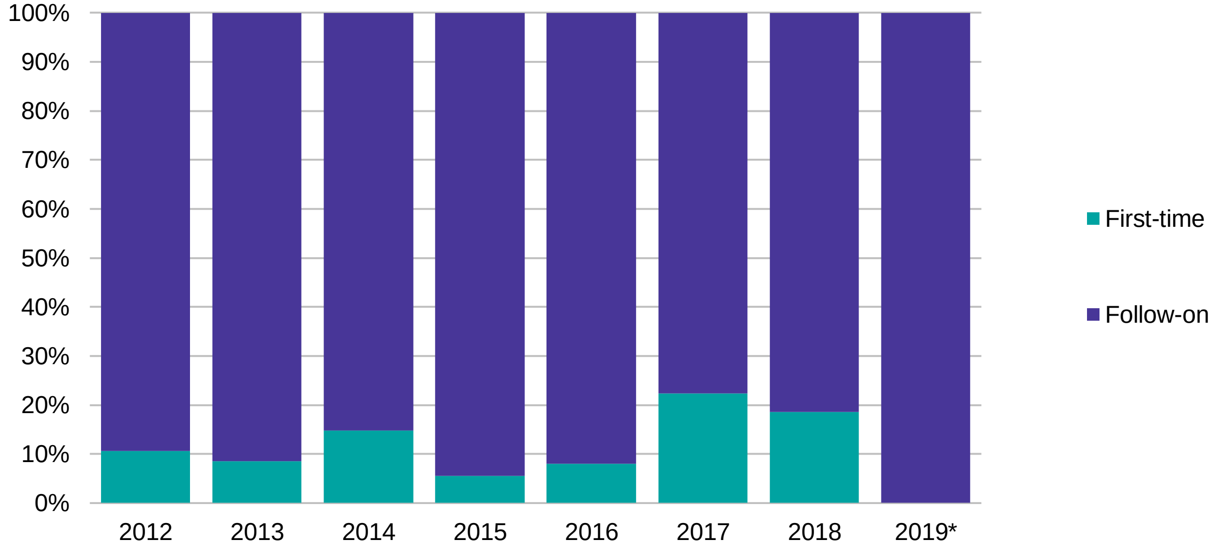
Venture fundraising (#) by size in Asia

2012–2019*



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

2012–2019*



Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

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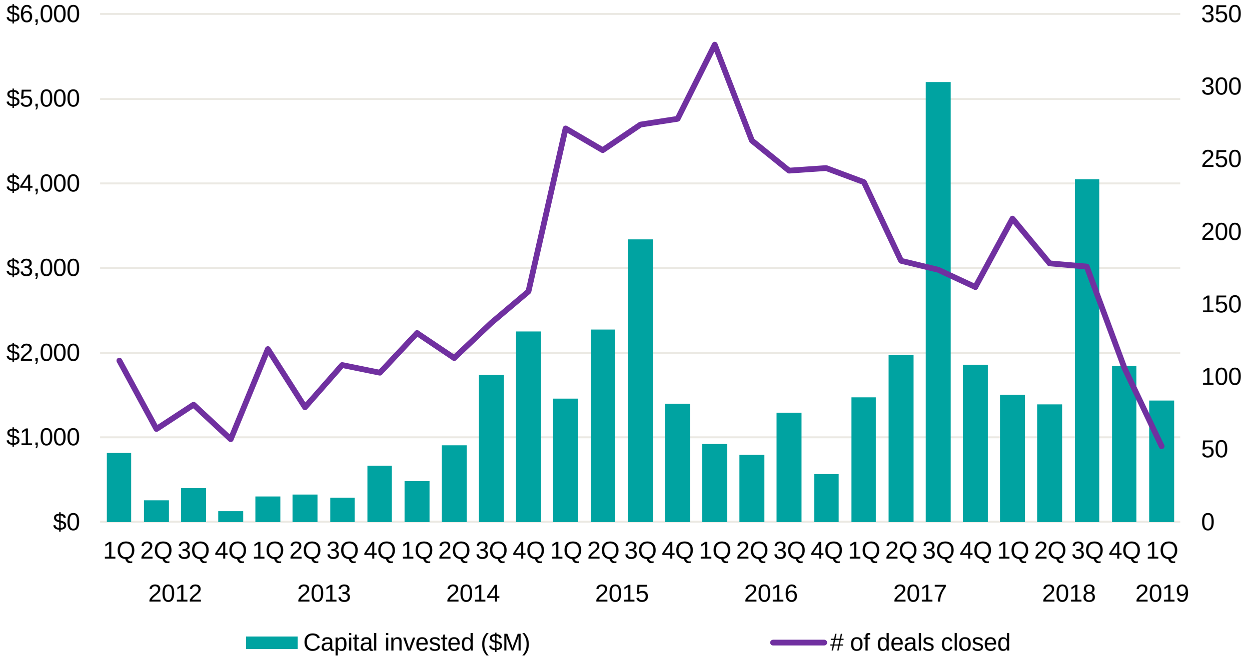
A slow start to 2019

Venture financing in India

2012–Q1'19



Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

The downturn in the final quarter of 2018 carried over into 2019's first quarter, as much of the Asia-Pacific region saw sluggish investment activity. That may be due more to temporal aberrations than any key underlying factors; additional data will have to observed in other quarters to render a verdict.

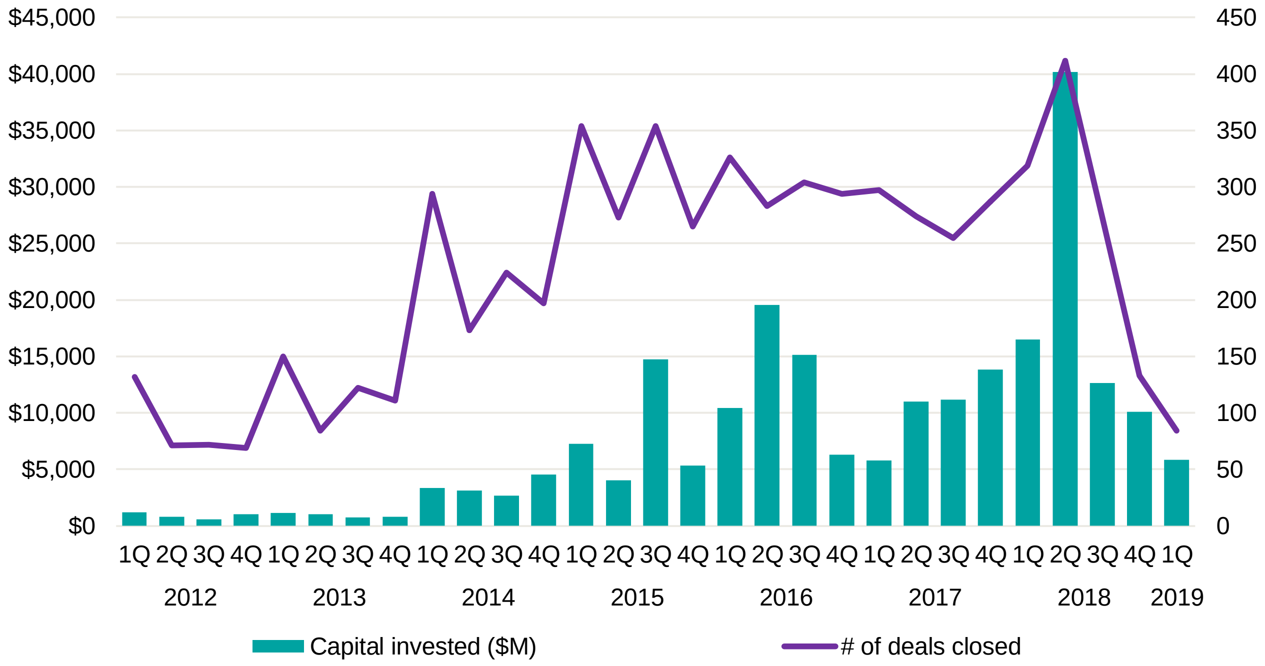
"Edtech has the potential to become a truly breakout sector in India. The sector has evolved from companies simply offering online digital classes to providing access to both online and offline tutorial offerings, to now offering even more innovative options. With no clear leader in the space, many companies are competing to develop content and raise funding rounds. It is anyone's game — which will make the next few quarters very critical."

Nitish Poddar
Partner and National Leader, Private Equity
KPMG in India

2019 starts off in muted fashion

Venture financing in China

2012–Q1'19



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The back-to-back muted quarters, after such a high-flying stretch of VC invested and volume, is now more telling for the Chinese venture ecosystem. What is likely occurring is a retrenching by domestic investors as those capable of global investment keep active abroad, given that China is facing a period of more sluggish economic growth (relatively speaking) and some policy uncertainty. It's not that the startup ecosystem is faltering, but rather that investors are biding their time somewhat amid a time of question marks for economic and political futures.

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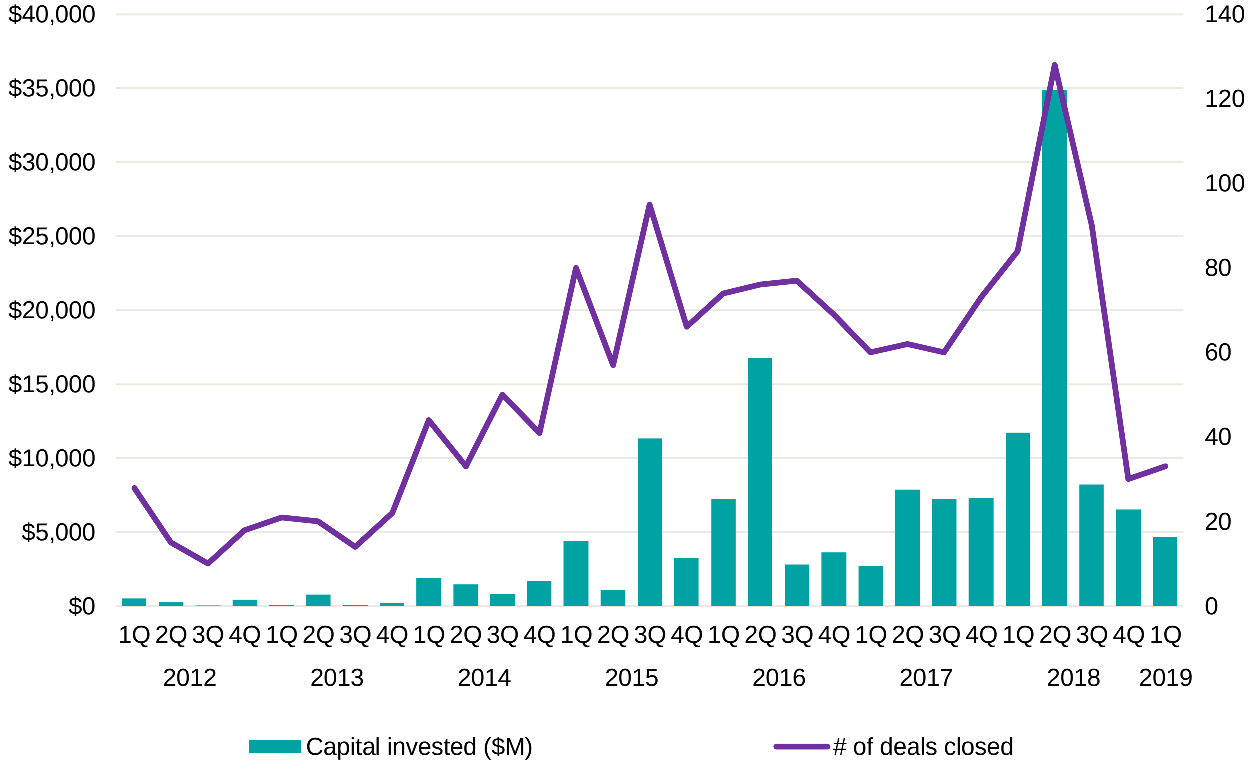
CVCs' pause is contributing to the slowdown

Venture financing in China with corporate venture participation
2012–Q1'19



Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

"AI, Autotech and Healthcare continue to attract sizable investments. The big platform companies in China continue to invest in a variety of companies, in particular companies in traditional sectors with large traffic and user bases. But like traditional VCs, the pace of their investments is starting to slow down as well. They are also placing more emphasis on post-investment management, aiming to use technology to improve the efficiency of portfolio companies."

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

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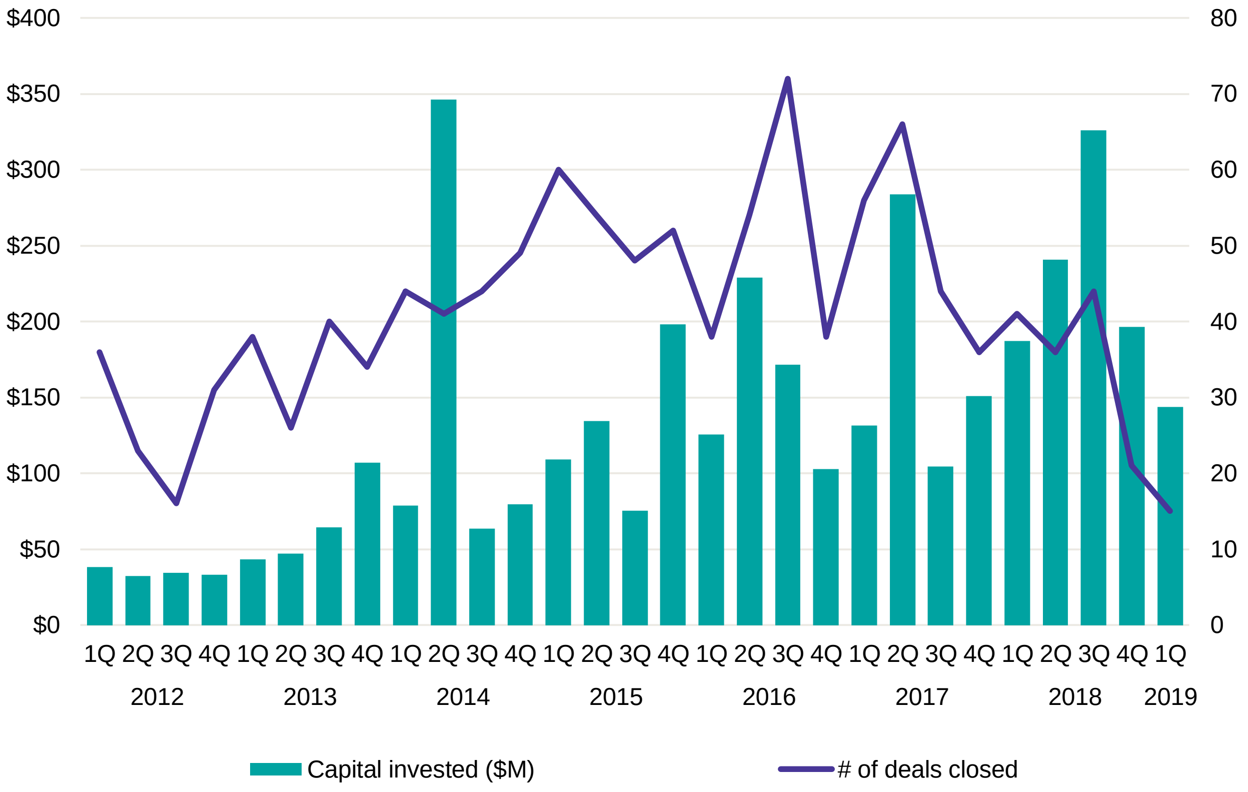
Healthy VC invested amid downturn in volume

Venture financing in Australia
2012–Q1'19



Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

After such strong growth in VC invested throughout 2017 and 2018, by and large, a reversion was to be expected, and Q1 2019 turned in a historically healthy sum of VC invested, nearing $150 million. Airwallex's $100 million Series C funding was key in propping up that healthy total.

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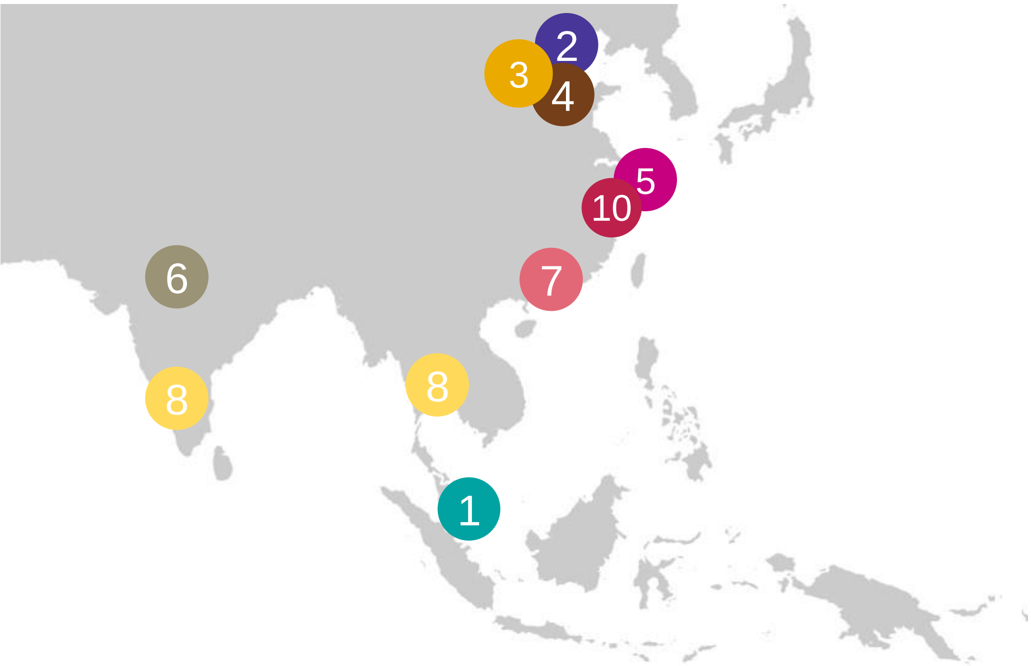
Q1 sees geographic diversity



Top 10 financings in Q1'19 in Asia-Pacific

1 **Grab** — $4,500M, Singapore
Automotive
Series H

2 **Chehaoduo** — $1,500M, Beijing
Platform software
Late-stage VC

3 **Horizon Robotics** — $600M, Beijing
Application software
Series B

4 **Danke Apartment** — $500M, Beijing
Platform software
Series C

5 **Weltmeister** — $446M, Shanghai
Automotive
Series C

6 **Delhivery** — $413M, Gurgaon
Logistics
Series F

7 **JUSDA** — $355.8M, Shenzhen
Logistics
Late-stage VC

8 **Lalamove** — $300M, Bangkok
Platform software
Series D

8 **Ola** — $300M, Bengaluru
Transportation
Series J

10 **Yimidida** — $266.15M, Shanghai
Logistics
Series D

Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2019.

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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.

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Raphael Vianna, Director, KPMG in Brazil

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

Tim Dümichen, Partner, KPMG in Germany

Tim Kay, Director, Innovative Startups, KPMG in the UK

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Methodology

KPMG uses PitchBook as the provider of venture data for the Venture Pulse report.

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

In addition, particularly within the European region, the Venture Pulse does not contain any transactions that are tracked as private equity growth by PitchBook. As such rounds are often conflated with late-stage venture capital in media coverage, there can be confusion regarding specific rounds of financing. The key difference is that PitchBook defines a PE growth round as a financial investment occurring when a PE investor acquires a minority stake in a privately held corporation. Thus, if the investor is classified as PE by PitchBook, and it is the sole participant in the recipient company's financing, then such a round will usually be classified as PE growth, and not included in the Venture Pulse datasets.

Also, if a company is tagged with any PitchBook vertical, excepting manufacturing and infrastructure, it is kept. Otherwise, the following industries are excluded from growth equity financing calculations: buildings and property, thrifts and mortgage finance, real estate investment trusts, and oil & gas equipment, utilities, exploration, production and refining. Lastly, the company in question must not have had an M&A event, buyout, or IPO completed prior to the round in question.

Fundraising

PitchBook defines venture capital funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional venture capital firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identified as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund is domiciled, if that information is not explicitly known, the HQ country of the fund's general partner is used. Only funds based in the US that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

Deals

PitchBook includes equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, venture capital firms, corporate venture firms and corporate investors. Investments received as part of an accelerator program are not included, however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US. The impact of initial coin offerings on early-stage venture financing as of yet remains indefinite. Furthermore, as classification and characterization of ICOs, particularly given their security concerns, remains crucial to render accurately, we have not detailed such activity in this publication until a sufficiently robust methodology and underlying store of datasets have been reached.

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Methodology, cont'd.

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.

Corporate: Corporate rounds of funding for currently venture-backed startups that meet the criteria for other PitchBook venture financings are included in the Venture Pulse as of March 2018.

Corporate venture capital: Financings classified as corporate venture capital include rounds that saw both firms investing via established CVC arms or corporations making equity investments off balance sheets or whatever other non-CVC method actually employed.

Exits

PitchBook includes the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of the majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown.

In this edition of the KPMG Venture Pulse, covering Q1 2019, PitchBook's methodology regarding aggregate exit values changed. Instead of utilizing the size of an IPO as the exit value, instead the prevaluation of an IPO, based upon ordinary shares outstanding, was utilized. This has led to a significant change in aggregate exit values, yet is more reflective of how the industry views the true size of an exit via public markets.

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