



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 European
VC-backed
companies raised***

\$6.5B

across

487 deals



VC market in Europe continues to diversify and attract investors

Geopolitical uncertainty continued to permeate Europe during Q1'19, led by the ongoing challenges associated with Brexit in the UK. Despite the heightening level of uncertainty, many countries within Europe saw significant interest from VC investors. This diversity has helped keep overall VC investment in Europe with strong companies from more than six countries in the region drew \$100 million+ megadeals during Q1'19, including Finland, France, Switzerland, Israel, Germany and the UK.



Digital banks in Europe see very strong investment in Q1'19

Digital banks received a significant amount of attention from investors in Europe during Q1'19, with Germany-based N26 raising \$300 million and UK-based Starling Bank raising almost \$100 million. Part of the attractiveness of digital banks has been their flexibility, the evolution of their business model and, in some cases, their ability to package and sell their technologies to more traditional banks in a white label form.



UK VC investment slows amid ongoing market uncertainty

VC investment in the UK slowed somewhat in Q1'19 amid ongoing Brexit uncertainty, with the most significant funds going to late-stage companies, including fintechs. Iwoca and Starling Bank. Corporate VC investment in the UK remained steady. During Q1'19, Mitsubishi Corporation invested over \$281 million in UK-based Ovo Energy, a company focused on electric vehicle charging and energy storage. Fintech, biotech, and healthtech continued to drive a significant amount of the VC investment in the UK, highlighting the resilience of these industries and the strength of London's innovation ecosystem. On the technology front, AI was particularly hot in the UK, a trend expected to continue for the foreseeable future.

During Q1'19, more than £280 million in funding was awarded to Metro Bank, Starling Bank and ClearBank as part of the Capability and Innovation Fund, an EU-mandated package to boost competition in the UK's business banking sector.



Germany sees solid VC investment to start year

Germany continued to attract VC investors across a wide mix of industries, with companies in pharmaceuticals, fintech, transportation and others raising large funding rounds. Fintech was particularly hot in Germany this quarter, with challenger bank N26 raising \$300 million to help fuel its international expansion and financial services marketplace platform Raisin raising \$116 million. Germany also saw increasing interest in companies offering B2B solutions, such as software platforms focused on business optimization and digitization.



VC investment in the Nordic region gaining momentum

While VC investment in the Nordic region softened somewhat in Q1'19, the region remained a growing area of interest to VC investors in Europe and internationally. Stockholm has evolved into a leading fintech hub, spawning a number of successful unicorns, including iZettle and Klarna. In recent years, Helsinki has also gained momentum particularly in the gaming space with companies like Supercell, Rovio and Small Giant Games. In Q1'19, Finland also saw the region's largest deal: a \$200 million raise by retail planning solution Relex.

VC market in Europe continues to diversify and attract investors, cont'd.

Fintech is seen as the hottest area of investment in the Nordic region, driven in part by open banking, PSD2 and other regulatory changes. In addition to the evolution of fintech startups like Blink, Think and payments unicorn Klarna, the region has also seen traditional corporates getting into the fintech space. Nordea and SEB, for example, have established their own VC investment arms



France continues to build strong innovation ecosystem

In 1Q'19, France set a new record with nearly \$1 billion invested. Remarkably, Doctolib, the online booking platform for doctors, reached unicorn status with \$175 million fundraising. The Agritech Ynsect received \$125 million to pursue transforming farmed insects into animal nutrition in France and to develop a factory in North America.

Fintech attracted significant investments during 1Q'19 with a \$46 million raise by Alan innovative Life and Health Insurance and a \$60 million raise by Shift Technology, a SaaS platform helping insurers detect fraudulent claims. Mobility and parking also generated significant interest from investors, in particular with Virtuo (\$20 million), Onepark (\$17 million) and Zenpark (\$11 million).



Israel's VC market very strong in Q1'19

Israel continued to see a lot of activity in the innovative technology space in Q1'19, including the acquisition of computer networking company Mellanox by NVIDIA for \$6.7 billion and a \$110 million raise by networking firm Drivenets. Israel remains a hotbed of VC investment related to cybersecurity, although Q1'19 also saw nice sized investments in a range of other areas including a \$50 million raise by cannabis inhaler company Syqe Medical and a \$39 million raise by healthcare-focused predictive analytics company EarlySense.



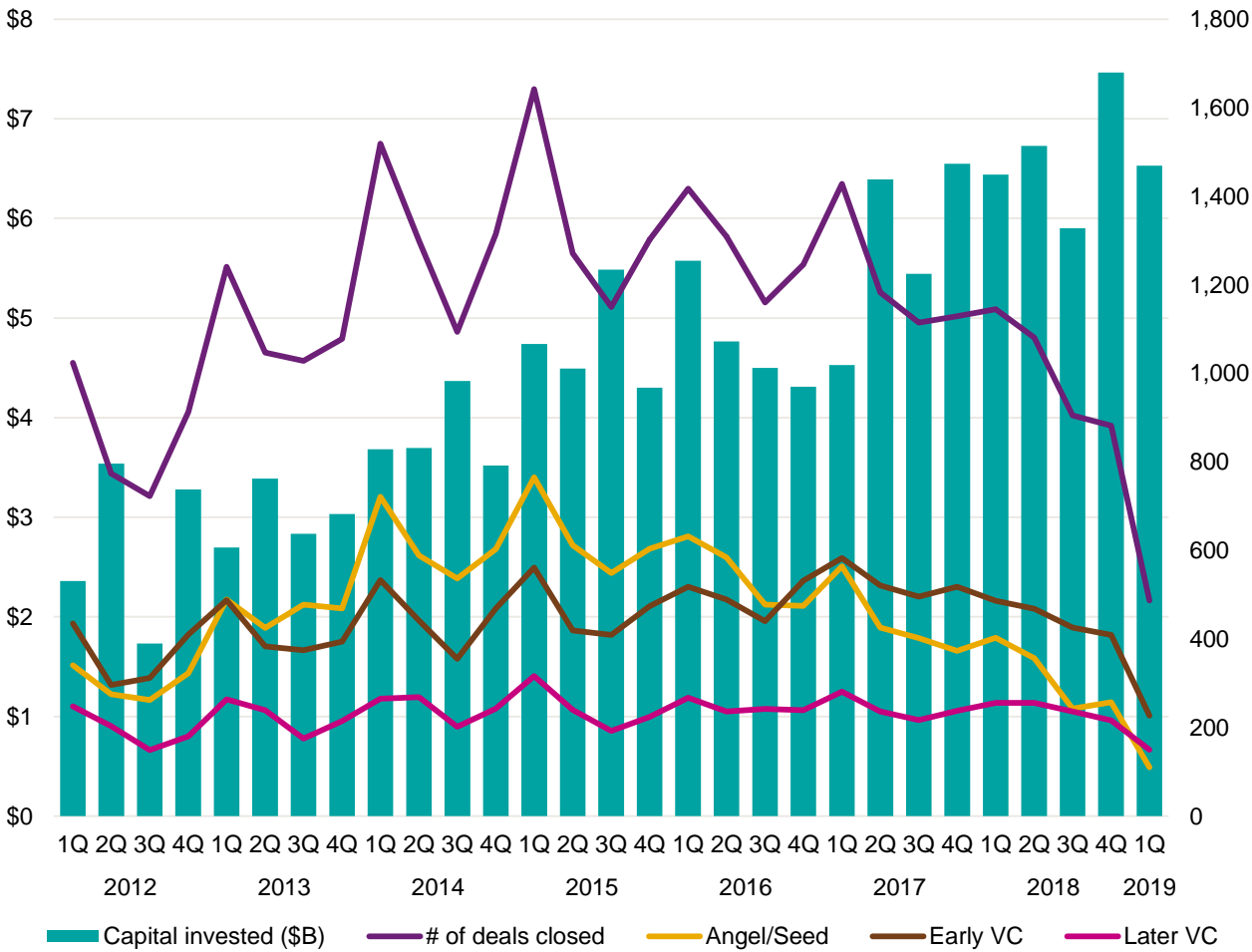
Trends to watch for in Europe

The ongoing uncertainty around Brexit will continue to be of concern for VC investors in Europe, in addition to the potential for a trade war between the US and Europe, particularly in the automotive space. Increasing trade concerns could, however, provide a catalyst for traditional automotive companies in Europe to focus on innovation and alternative revenue streams over the next few quarters.

Artificial intelligence is expected to remain a very hot area of investment throughout much of Europe, in addition to life sciences, biotech and fintech. Looking forward, Europe is also expected to see an increase in partnerships in the financial services sector. There could also be some M&A in the space as successful companies look to grow and gain more market share.

After record close to 2018, Q1 2019 starts strong

Venture financing in Europe 2012–Q1'19

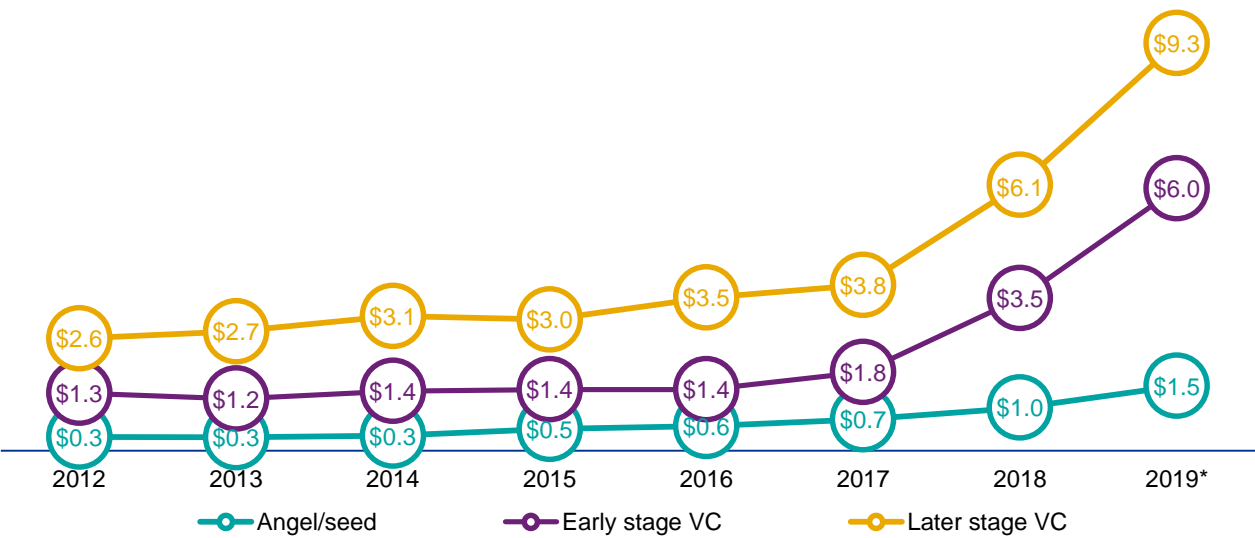


Source: Venture Pulse, Q1'19. Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2019. Note: Refer to the Methodology section on page 30 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

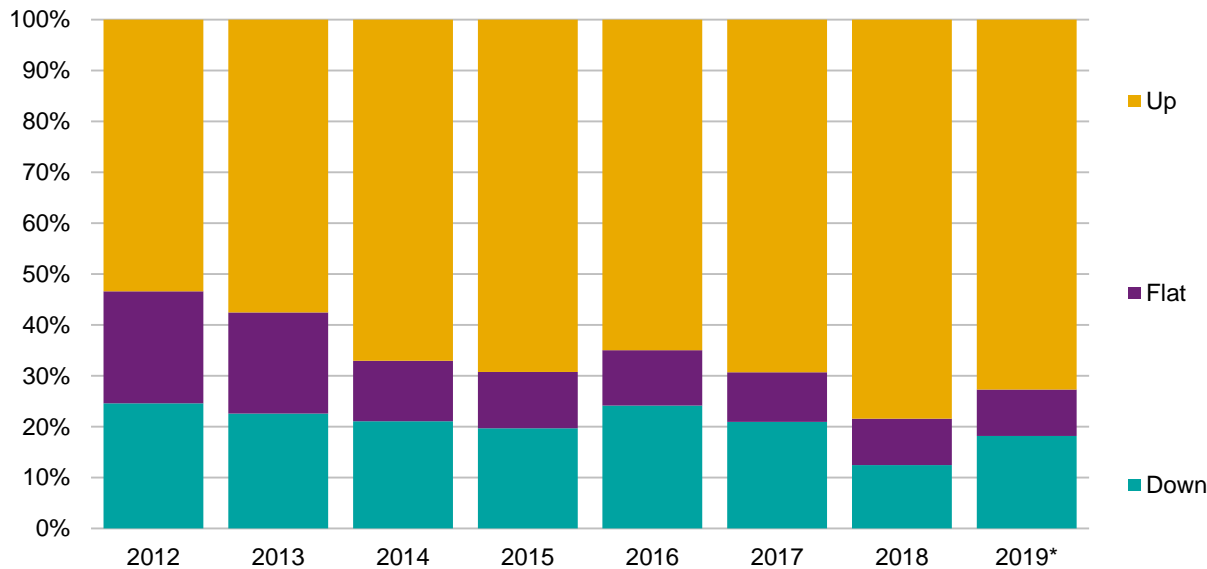
The ongoing decline in completed financing volume, on a quarterly basis, may have evened out somewhat in Europe as seen from the most recent tally for the final quarter of 2018. Primarily, due to private markets' deal flow tracking data lags. VC invested highs still suggest investor confidence remains robust, if a tad cautious still, and cross-border activity is also helping bolster overall deal flow.

New highs across all stages persist into 2019

Median deal size (\$M) by stage in Europe
2012–2019*



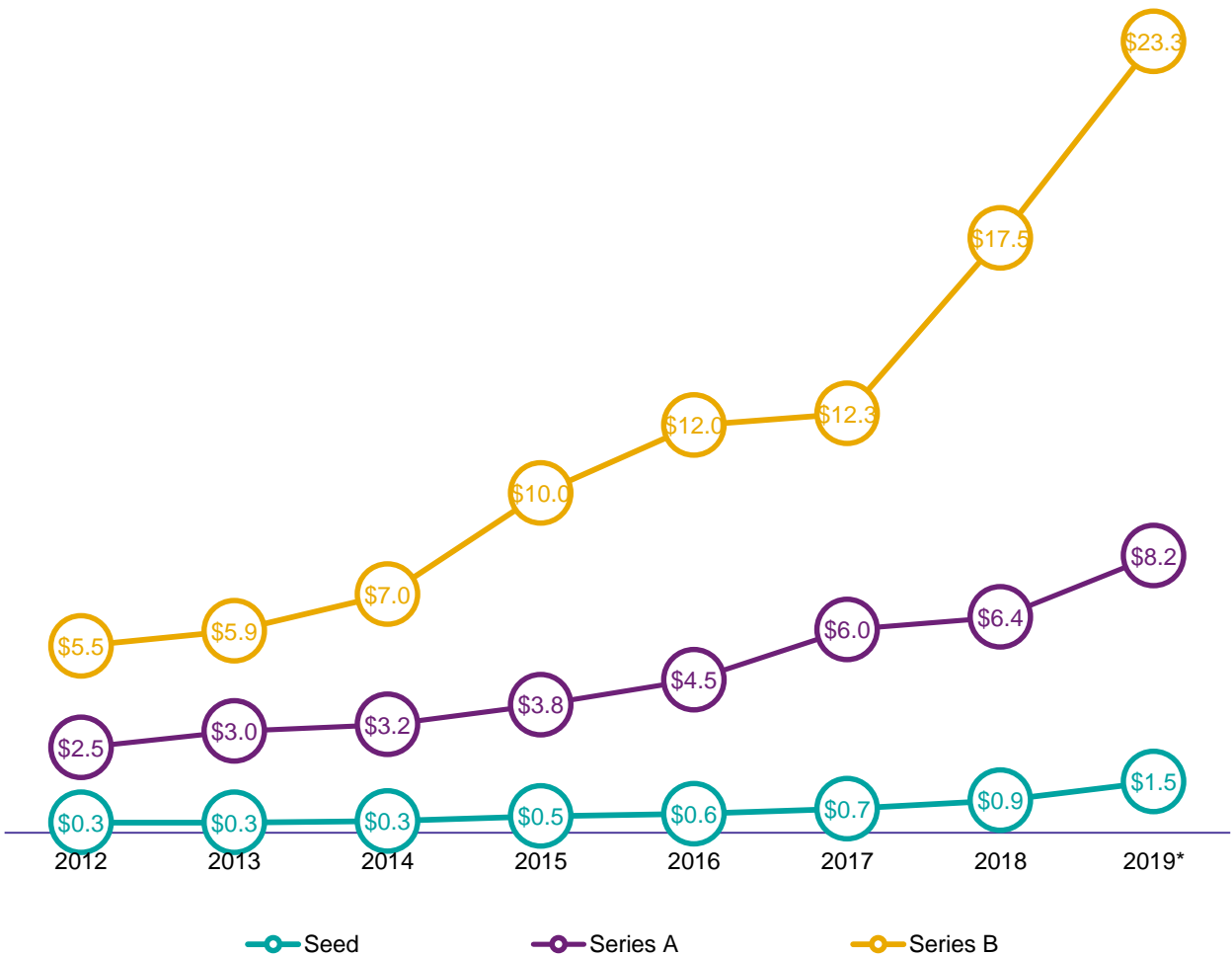
Up, flat or down rounds in Europe
2012–2019*



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

The early stage inflates

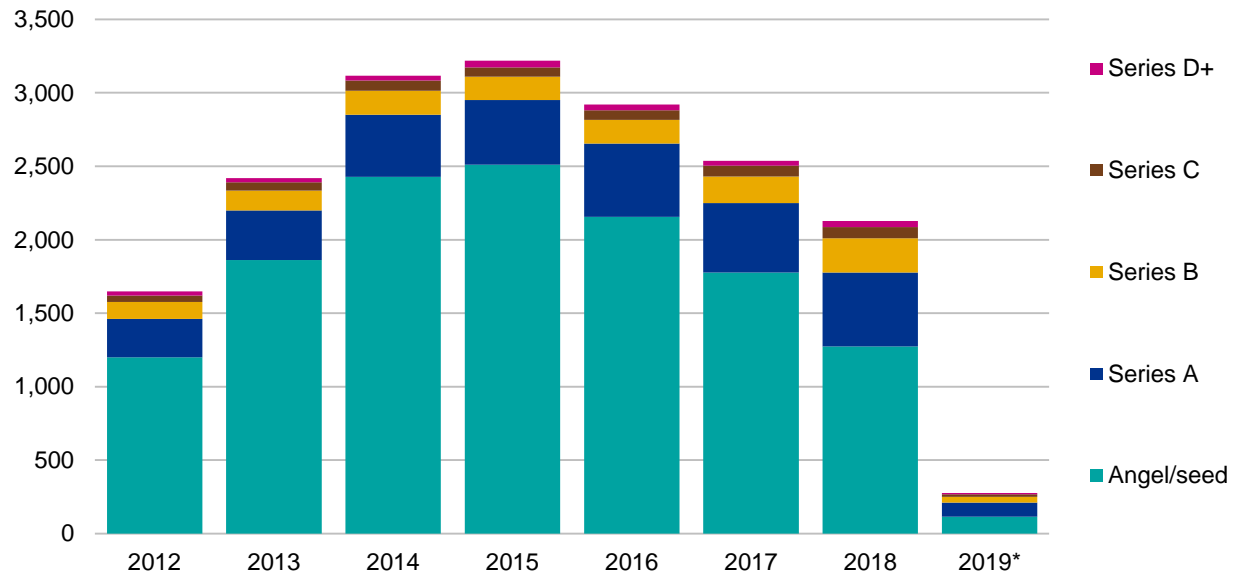
Median deal size (\$M) by early-stage series in Europe
2012–2019*



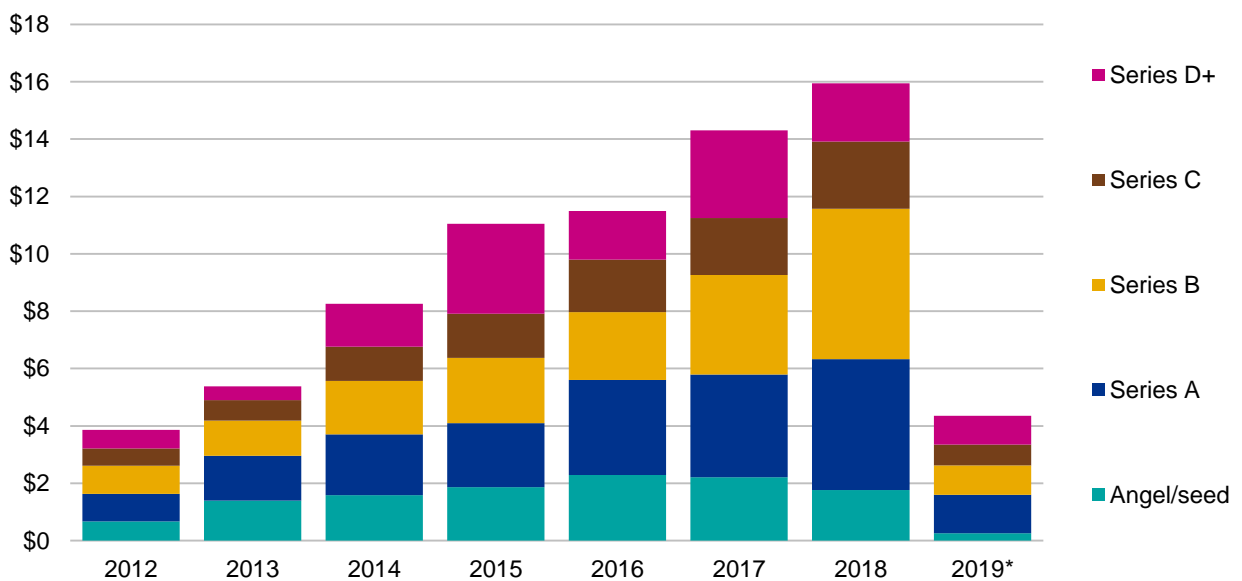
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Proportions hold steady

Deal share by series in Europe
2012–2019*, number of closed deals



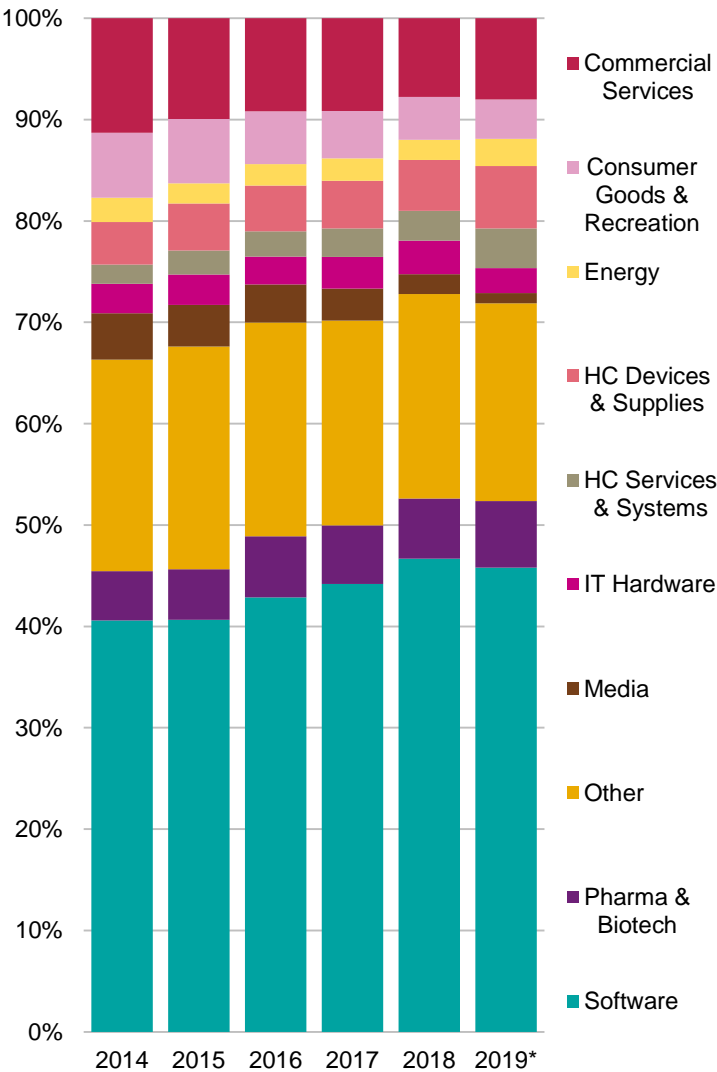
Deal share by series in Europe
2012–2019*, VC invested (\$B)



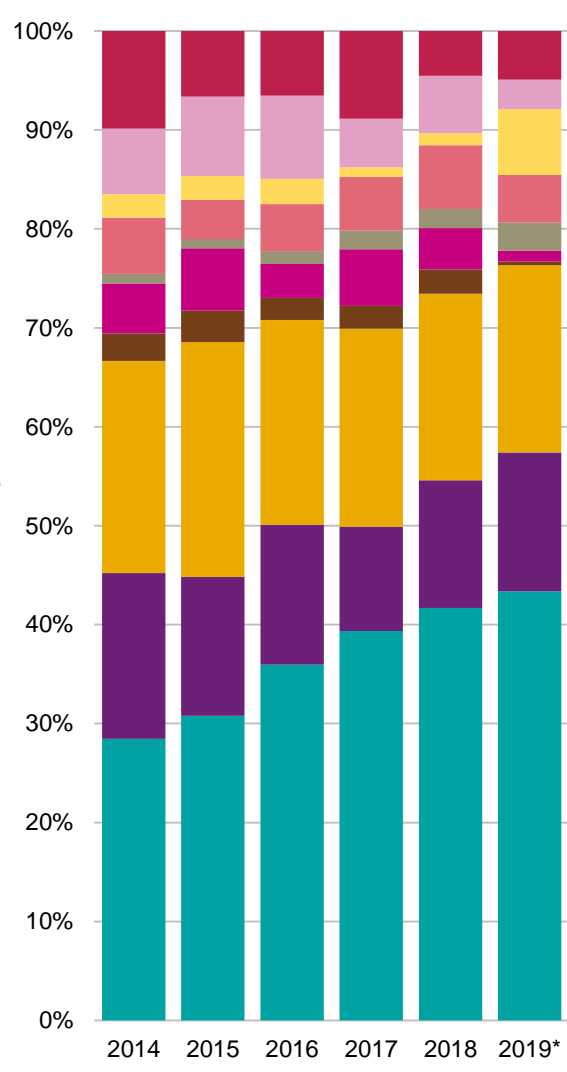
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Software is most lucrative

European venture financings by sector
2014–2019*, number of closed deals



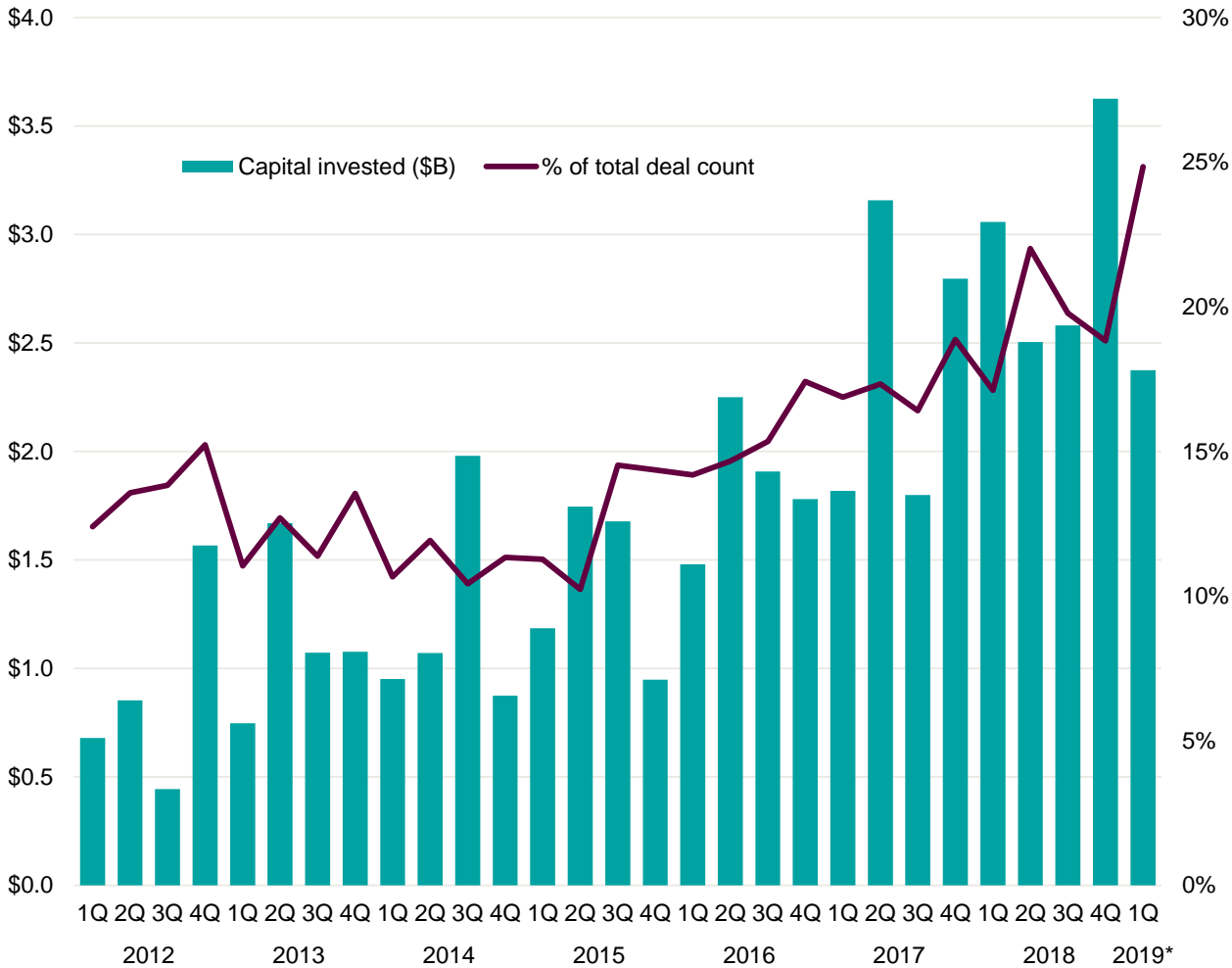
European venture financings by sector
2014–2019*, VC invested (\$B)



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 soar to new high

Corporate VC participation in venture deals in Europe
2012–Q1'19



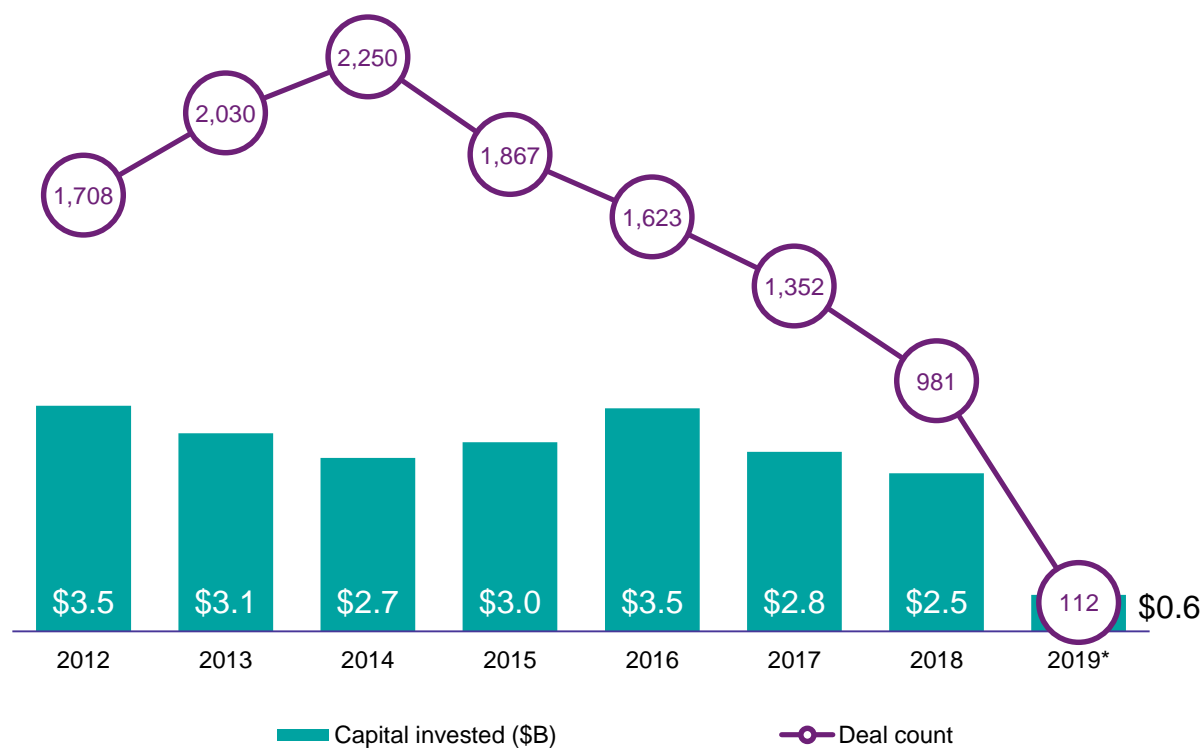
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2019.

The rebound observed globally for CVCs hit an even higher mark in Q1 2019 for their participation in Europe-based deals, as the percentage closes in on a quarter of all volume. That remarkable figure is only eclipsed in one other region — Asia-Pacific.

First-time funding volume stays low

First-time venture financings of companies in Europe

2012–2019*

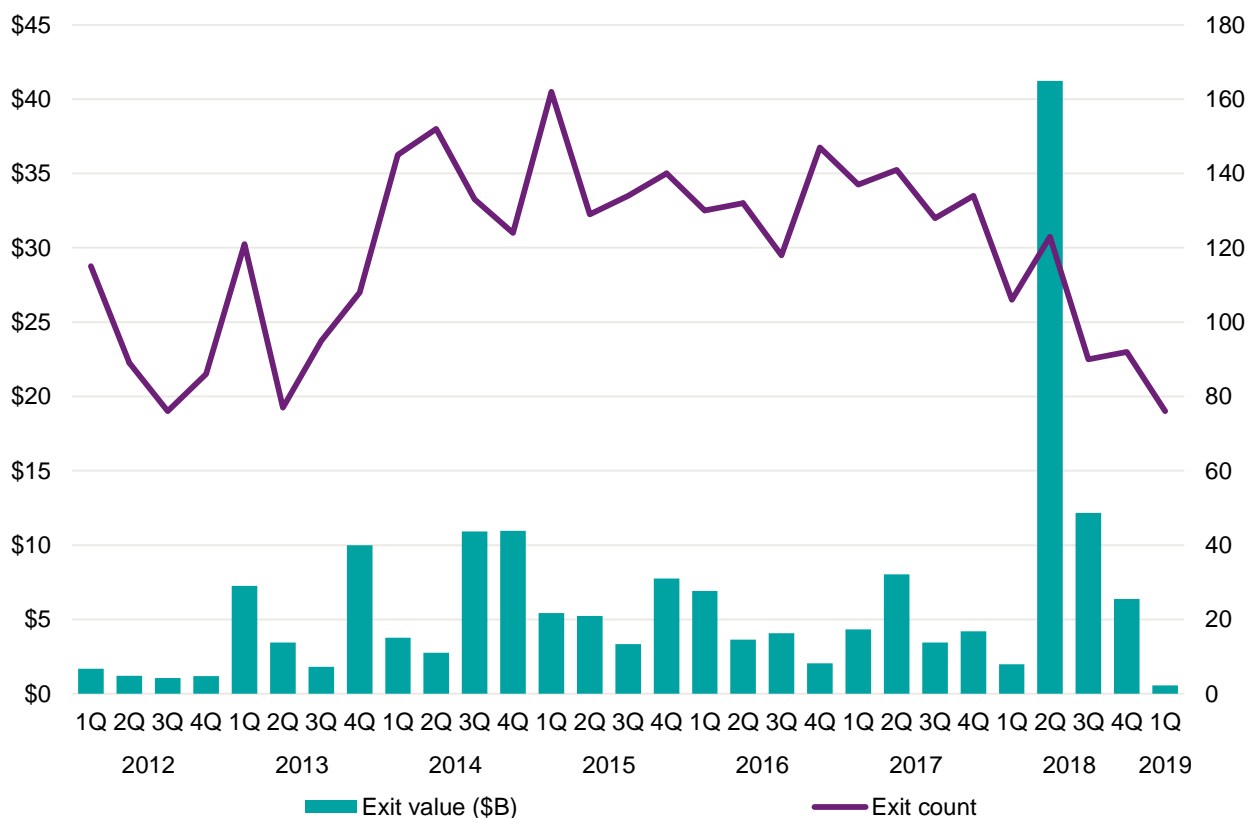


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Once again, it must be noted that new business creation is notoriously difficult to track and, moreover, historical lags affect not only venture financing tracking, but also such figures (as, frankly, lagging affects all private financial and economic data). Moreover, new businesses in many European nations likely seek alternatives to venture funding initially. All that being said, the overall trend of significant decline in first-time financing still holds into 2019's first quarter. Over \$500 million invested in the 112 first-time rounds thus far in 2019, however, is a more promising note.

2019 sees slow start

Venture-backed exit activity in Europe 2012–Q1'19



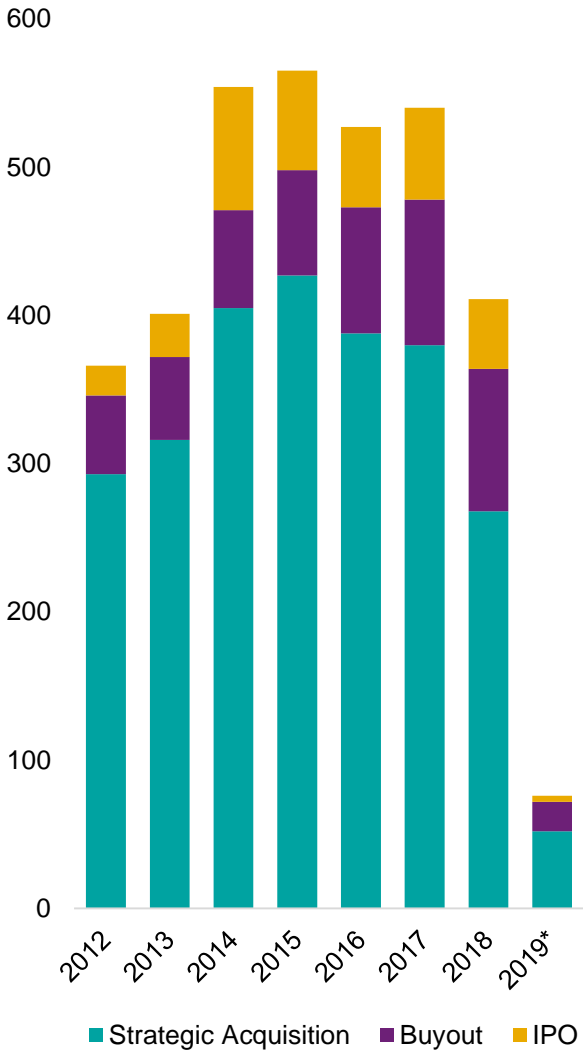
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2019.

Last year, outlier IPOs by Spotify and Adyen pushed total exit value quite high for the continent on the whole. 2019 has yet to see any such matching exits, and thus, the cycle turned in a very low quarter overall. Given the rate of late-stage venture funding, however, there may be some blockbuster exits eventually.

M&A will remain key to European exit values

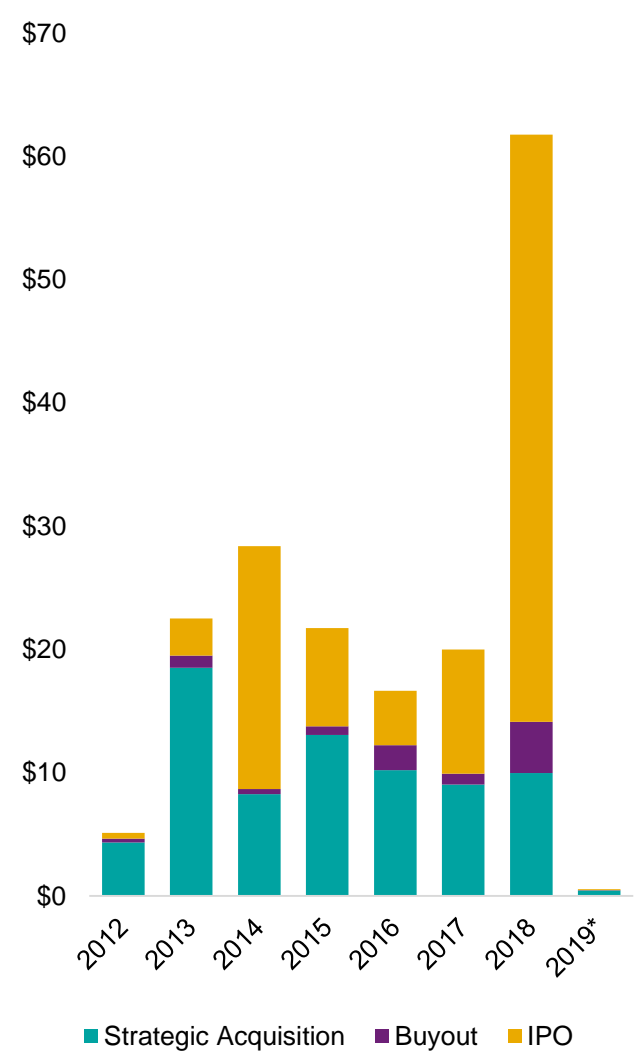
Venture-backed exit activity (#) by type in Europe

2012–2019*



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

2012–2019*

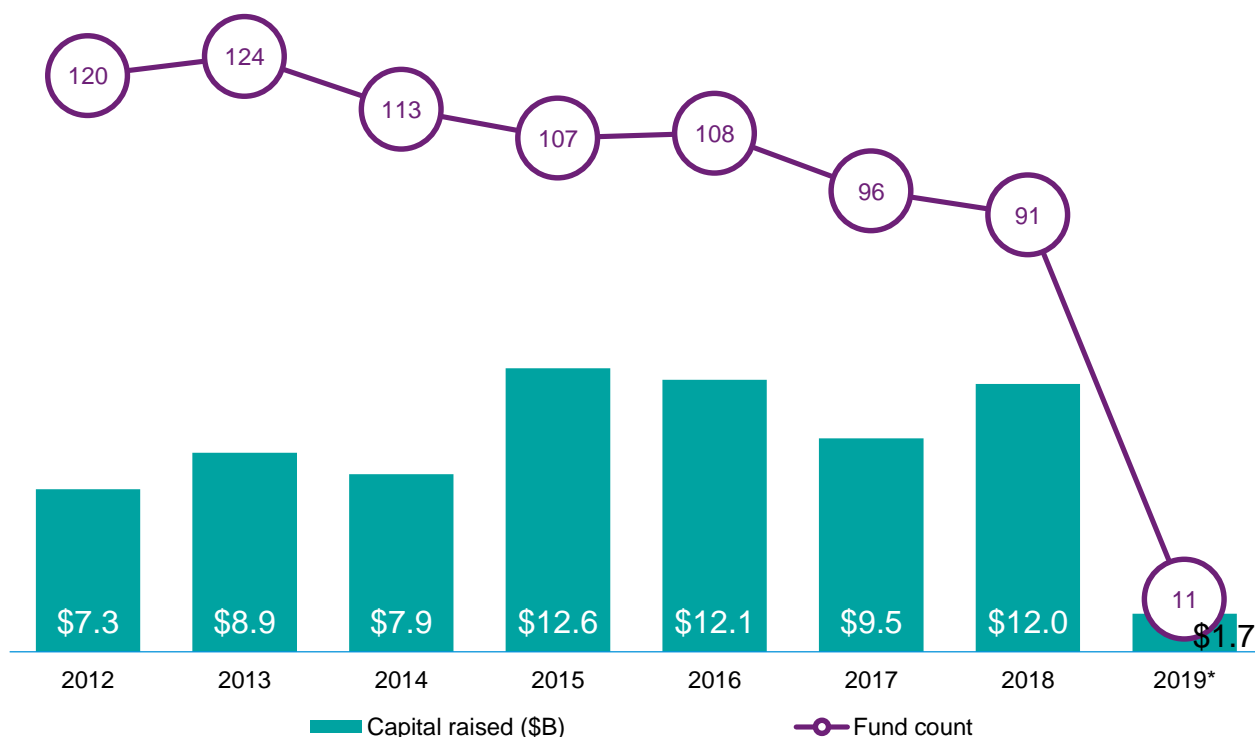


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Fundraising chugs along at subdued pace

European venture fundraising

2012–2019*



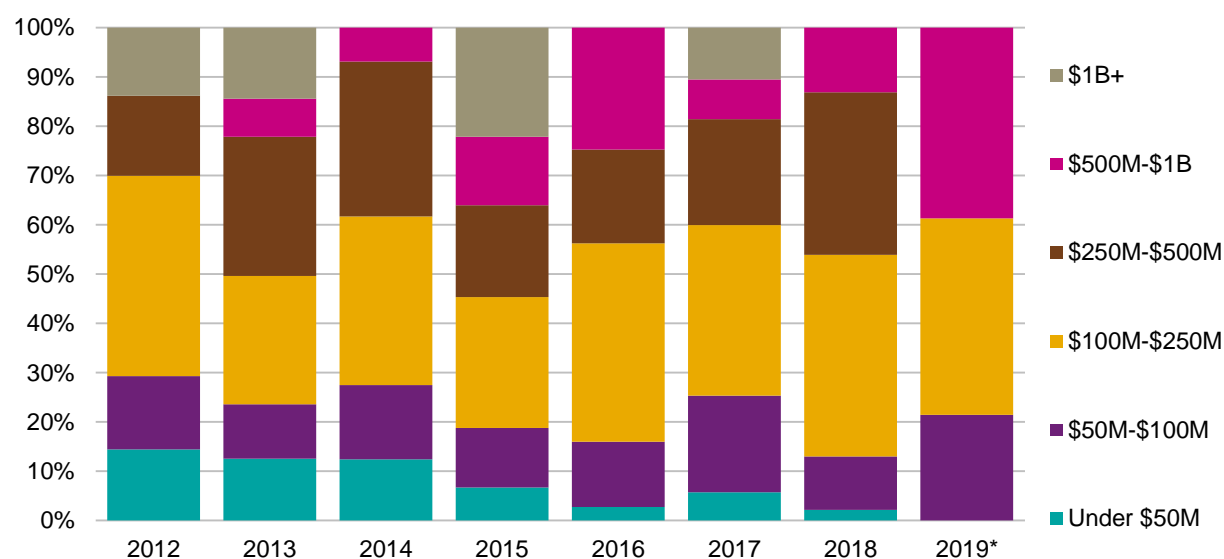
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

The European fundraising scene still sees relatively subdued volume, although quarterly values by, and large, have stayed close to historical averages. Outside investors' continued participation will remain critical given overall funding rates.

Subdued fundraising volume doesn't provide any evidence of trends as of yet

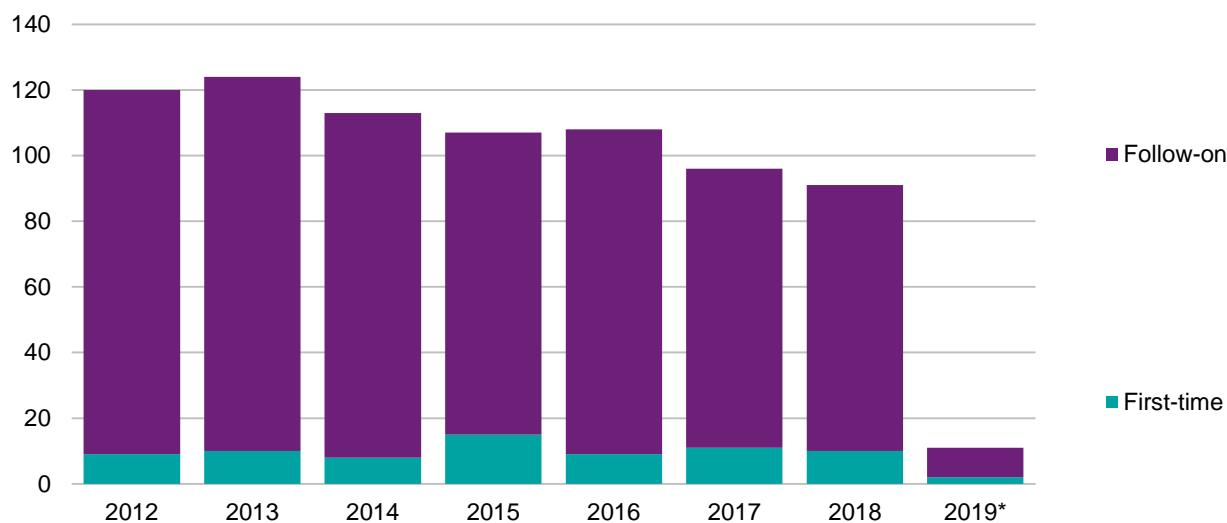
Venture fundraising (#) by size in Europe

2012–2019*



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

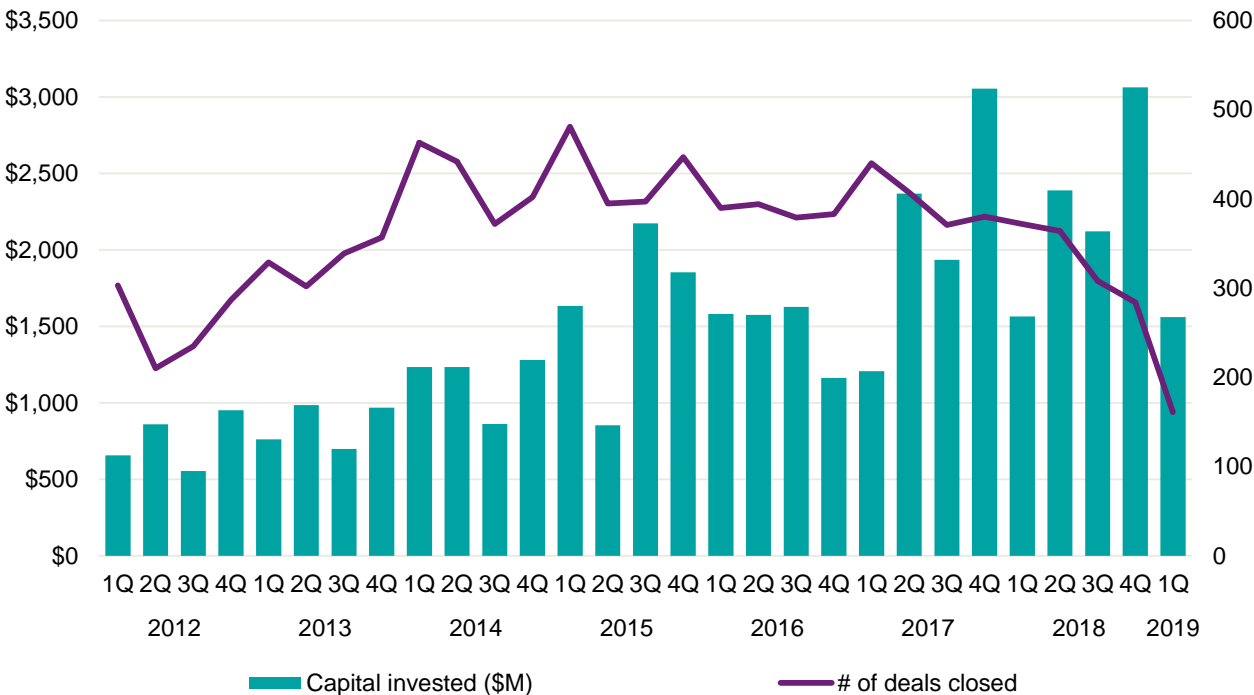
2012–2019*



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

Volume remains subdued

Venture financing in the United Kingdom 2012–Q1'19

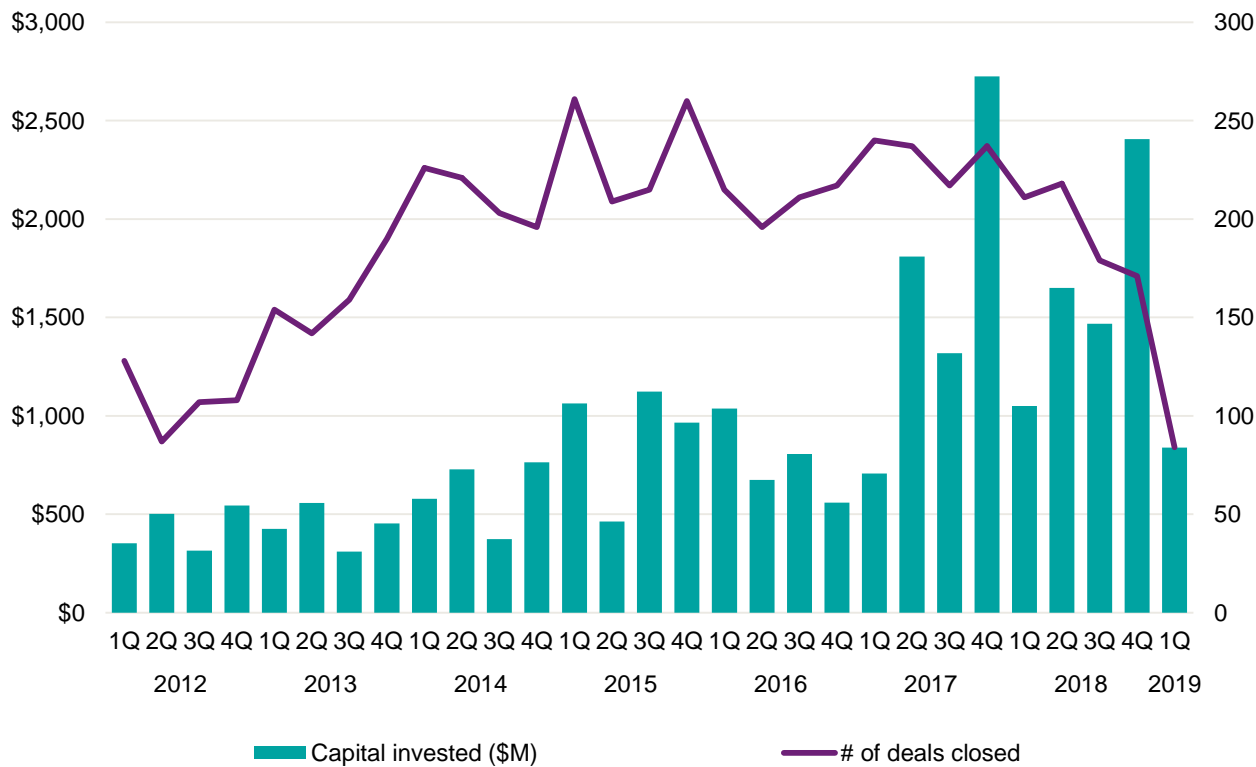


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

The ongoing question marks around Brexit are doubtless exerting somewhat of an impact on investor sentiment, but so are competitive and costly processes, as is evident from the still-healthy total of VC invested. Prominent deals for the quarter are diverse on a sector basis, reflecting some of the strengths of the UK startup ecosystem; Ovo Energy raked in \$281.6 million in February 2019 while GoCardless closed on \$75.5 million of Series E funding as well, to name two.

Slow start to 2019 belies overall trends

Venture financing in London 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.

London is not going to lose its status as a global financial center and concentration of traditional private investment managers overnight, no matter what happens with Brexit. The more material implications thus far for the startup ecosystem have been primarily related to talent access, on an anecdotal basis. That said, there may be more subdued deal flow going forward should major financial services companies in particular relocate and knock-on effects begin to proliferate.

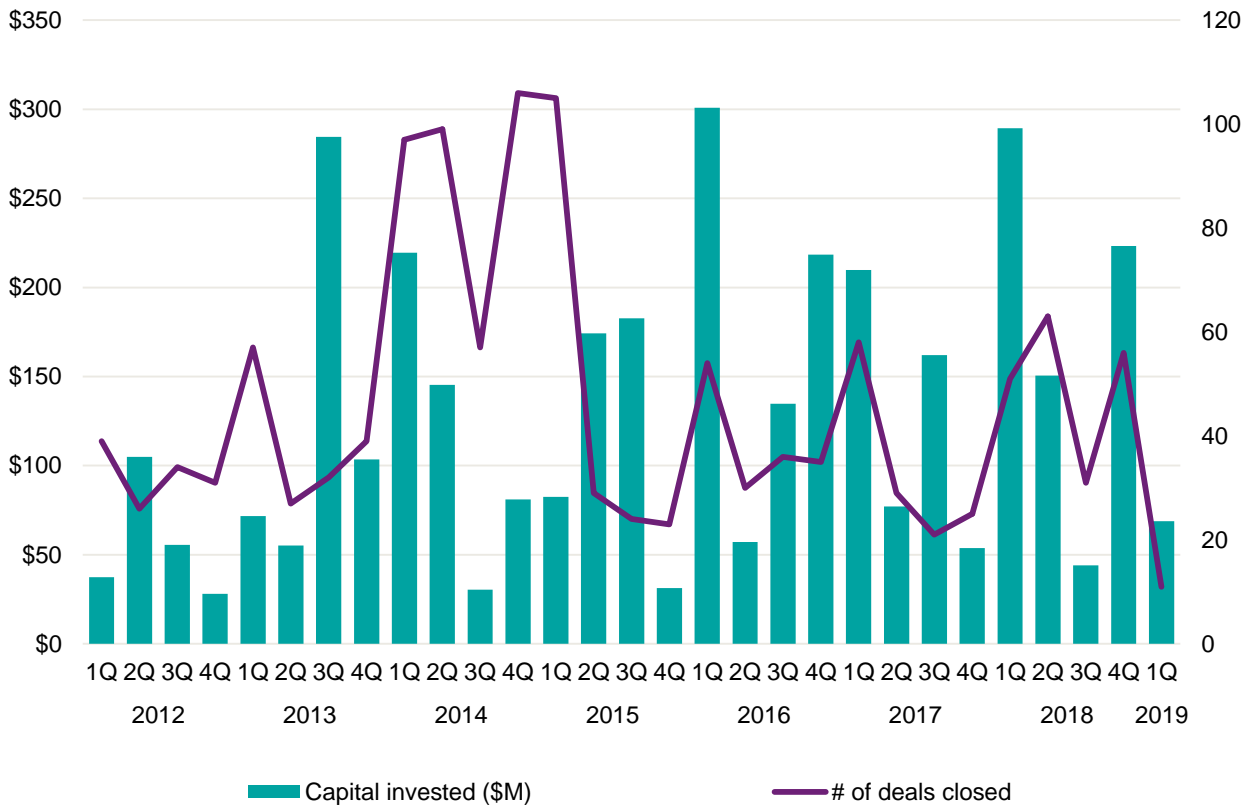
“The traditional strengths of the UK, AI, Biotech and Fintech, will continue to drive deals out of the traditional hubs on London, Oxford and Cambridge. However with valuations rising, and in many cases being out of reach for all but the top tier of VC firms, we expect to see more funds look across the UK in 2019 for deal flow.”



Tim Kay
Director, Innovative Startups, KPMG in the UK

A historically typical reversion

Venture financing in Ireland 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 Irish venture ecosystem continues to see significant skewed quarterly results — the jump between Q4 2018 and the first quarter of 2019 is not dissimilar to what’s been seen before. The largest deal was that of Atlantic Therapeutics, a \$32.6 million Series B funding.

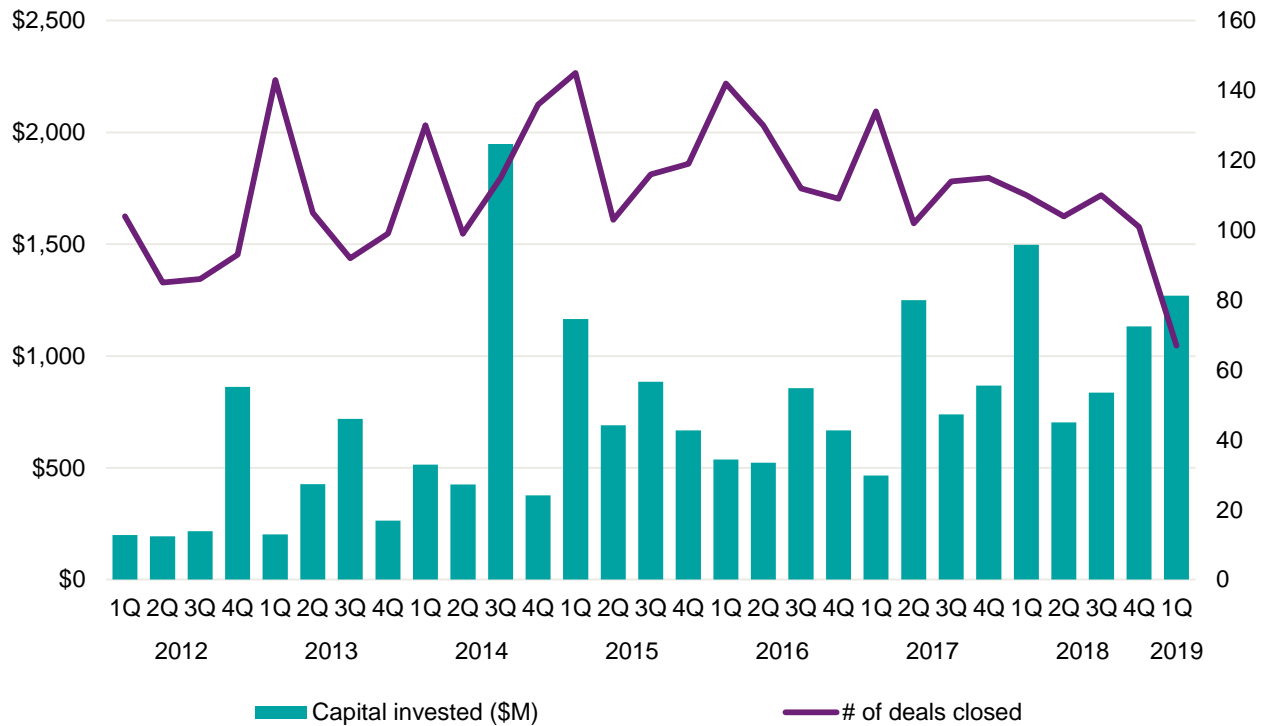
“Q1 2019 is down significantly on a very strong Q4 2018. However the pattern of venture investing in Ireland can be quite volatile quarter to quarter and can be heavily influenced by one or two large fundraisings. Expectations are that the numbers will rebound significantly in Q2 2019.”



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

Quarterly volume dips down to start 2019

Venture financing in Germany 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 Germany venture scene has had such a steady run of quarterly volume, one quarter's atypical decline is more due to data lag than anything else. VC invested remained healthy, thanks in large part to some hefty financings, like the \$300 million financing of N26, a mobile bank provider.

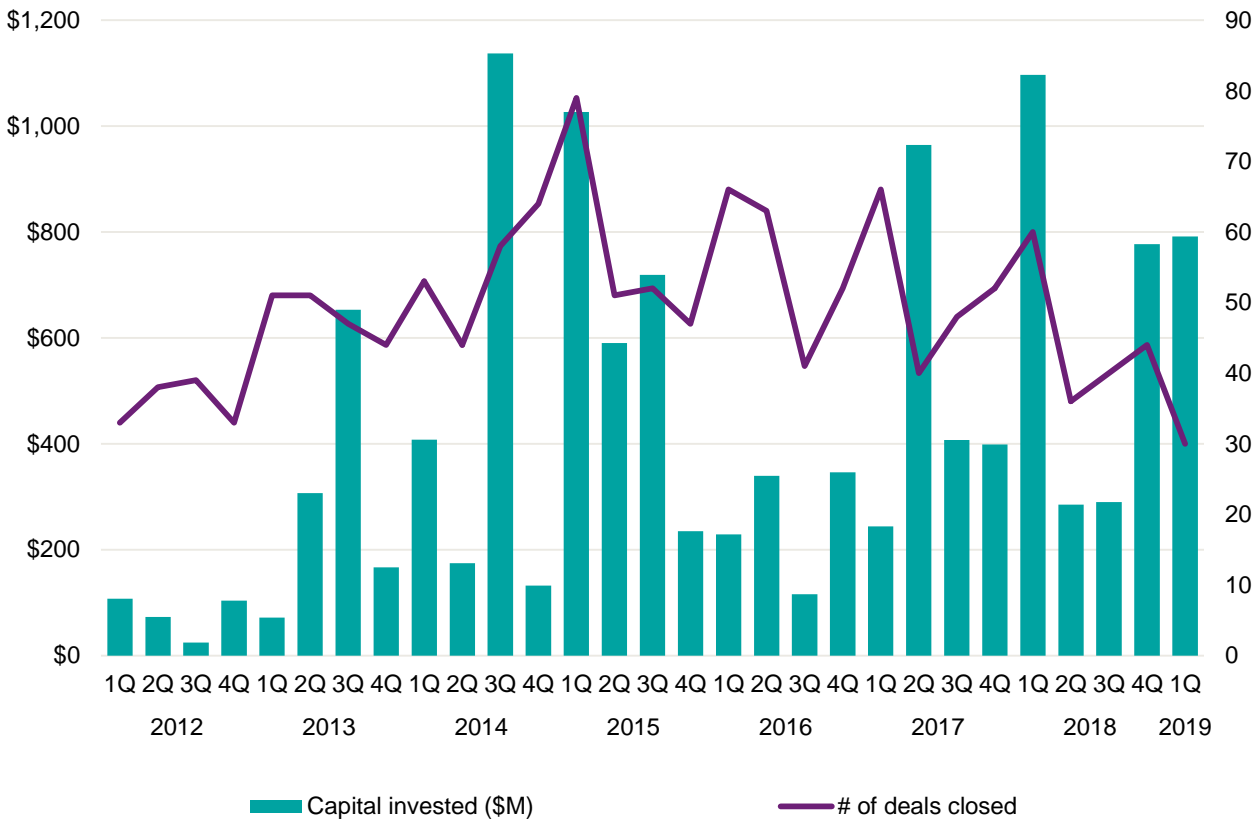
“While a trade war will be challenging — especially for the OEMs in Germany — it could on the other hand accelerate the need for companies into looking beyond their current business models to examine what should come next. In all this turmoil that could be a positive for companies as it has the potential to catalyze new developments.”



Tim Dümichen
Partner,
KPMG in Germany

Berlin sees greater concentration of capital

Venture financing in Berlin 2012–Q1'19

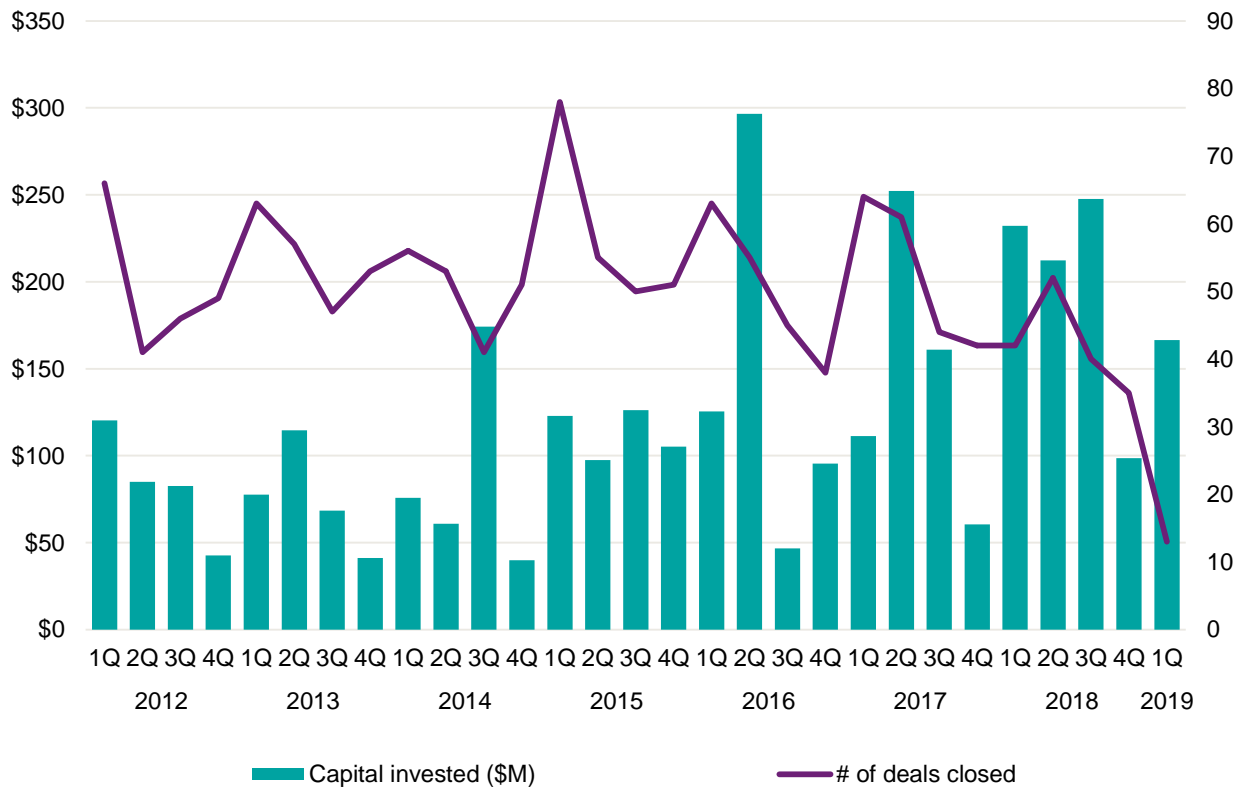


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

The Berlin ecosystem saw a steady persistence in the flow of dollars invested, even as volume dipped lower, primarily due to one mega-deal, the \$300 million funding of mobile bank N26; it is interesting to note that Germany also sees more proliferation of deals across other major cities, which differs somewhat from most other major countries.

Despite drop in volume, VC invested rebounds

Venture financing in Spain 2012–Q1'19

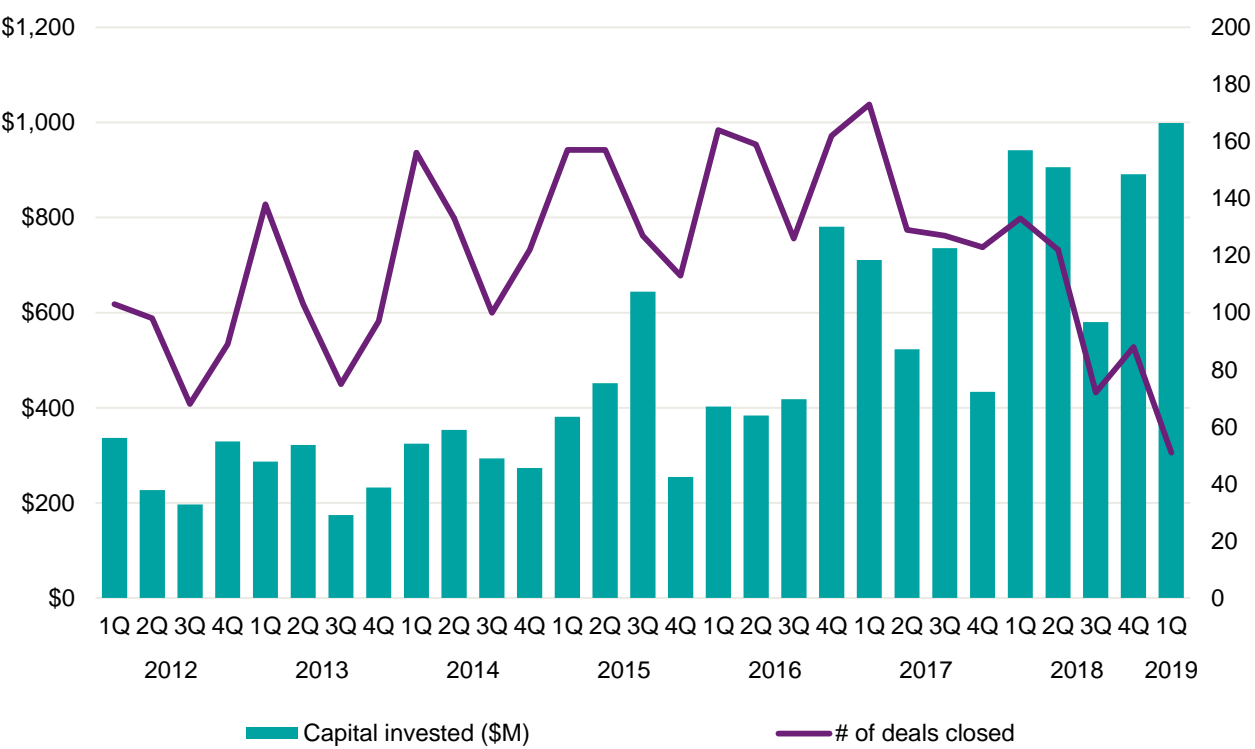


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

As remarked last quarter in the prior edition of the Venture Pulse, the Spanish ecosystem sees some quarterly disparities in volume in particular. However, capital invested remained robust heading into 2019, with notable financings propelling that total forward, including the \$75 million Series B funding of Pagantis and the \$30 million Series B raise by Badi.

A record quarter for French VC

Venture financing in France 2012–Q1'19

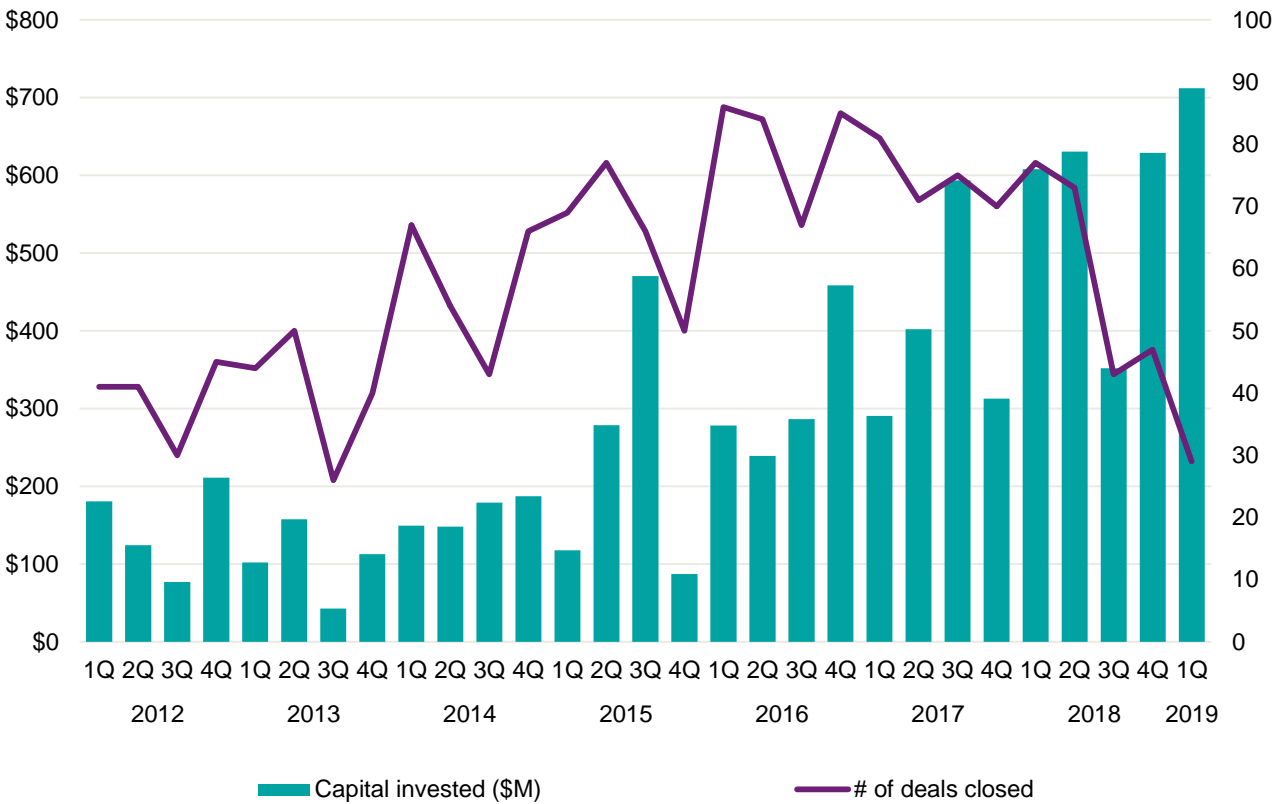


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

After a blockbuster half in 2018, there was a tad of a downturn for a quarter in VC invested for the French venture ecosystem, but 2019 has seen a new record notched at just about \$1 billion invested. A bevy of sector-diverse large fundings in Q1 helped boost that total, notably the \$174.8 million funding of Doctolib plus the \$128.2 million funding of insect protein maker Ynsect.

Paris hosts record quarter for French VC

Venture financing in Paris 2012–Q1'19



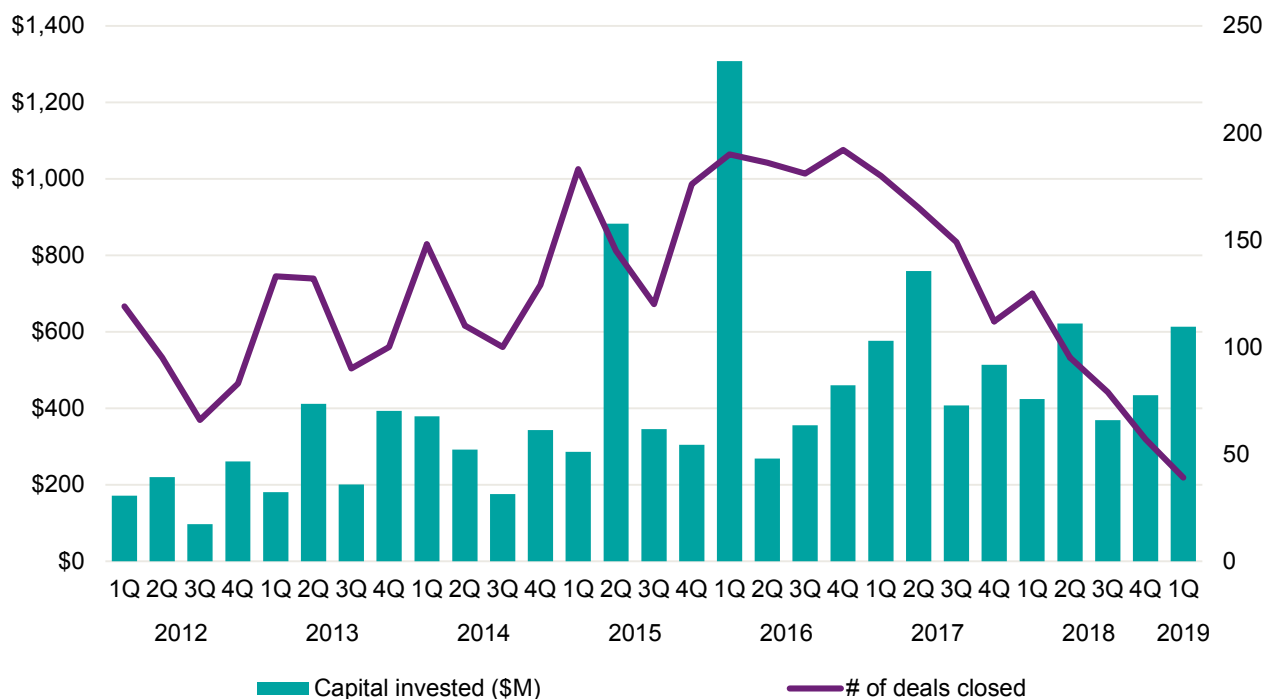
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Most of the money in French VC still flows to Paris, although the concentration of volume has dispersed at times in the past. However, thanks to some hefty rounds, Paris hosted the record concentration of capital in Q1 2019, more than in the past decade at the very least.

Volume and VC invested diverge in Q1 2019

Venture financing in the Nordics

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.

For some time now, despite lowering transactional volume, the Nordics have seen a steady flow of VC invested, primarily due to the graduation to maturity of a crop of startups that are able to keep raking in significant sums. Notable financings include the \$64.1 million Series C funding of Aprea Therapeutics, as well as the \$200 million late-stage round of RELEX, which is based in Helsinki.

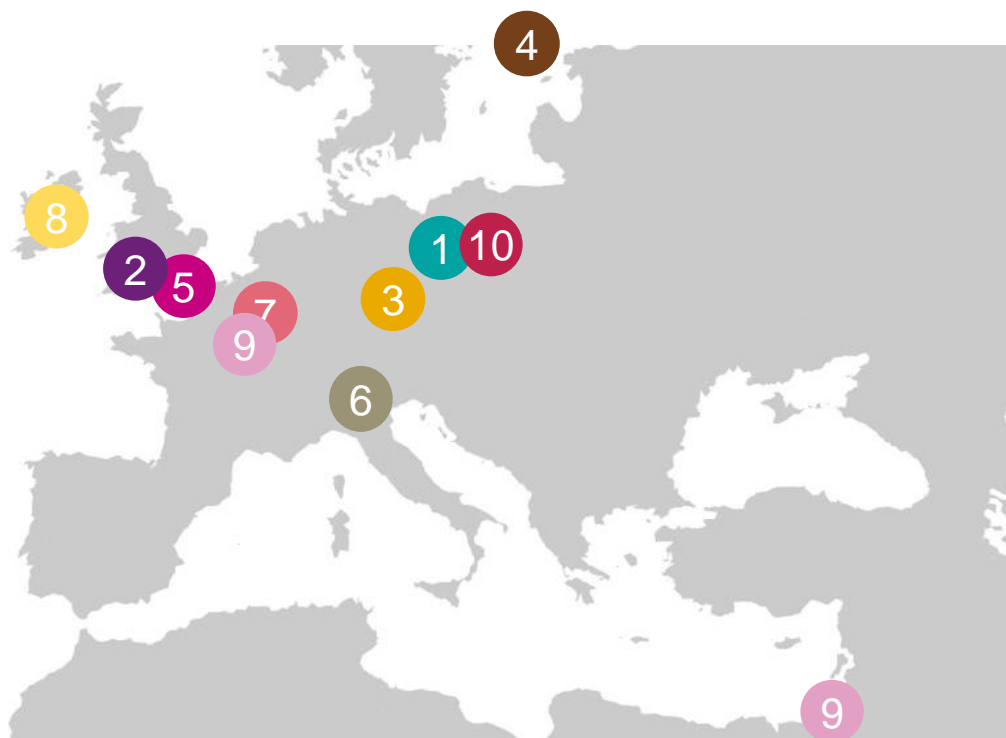
“The Nordics is attractive market to invest, with a stable economy, good availability of public funding, government support and high level of education. Fintech and gaming sectors lead the way but as the innovation ecosystems mature other sectors will also arise in to spotlight. There is a lot of liquidity in the market and deals on the pipeline, which bodes well heading into Q2'19.”



Jussi Paski

Head of Startup Services, KPMG Finland

Q1 sees remarkable diversity



Top 10 financings in Q1'19 in Europe

- | | | | |
|---|--|----|---|
| 1 | N26 — \$300M, Berlin
Financial software
<i>Series D</i> | 6 | Arvelle Therapeutics — \$180M, Basel
Biotechnology
<i>Series A</i> |
| 2 | Ovo Energy — \$281.6M, Bristol
Energy services
<i>Corporate</i> | 7 | Doctolib — \$174.8M, Paris
Platform software
<i>Late-stage VC</i> |
| 3 | BioNTech — \$211.5M, Mainz
Biotechnology
<i>Corporate</i> | 8 | Innoviz Technologies — \$132M, Rosh Ha'Ayin
Transportation
<i>Series C</i> |
| 4 | RELEX — \$200M, Helsinki
Business software
<i>Late-stage VC</i> | 9 | Ynsect — \$128.2M, Evry
Agriculture
<i>Series C</i> |
| 5 | Iwoca — \$195.6M, London
Financial services
<i>Series D</i> | 10 | Wefox — \$125M, Berlin
Financial software
<i>Series B</i> |

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

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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.

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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