



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.

Throughout this document, "we", "KPMG", "KPMG Enterprise", "us" and "our" refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International or to one or more of these firms or to KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

You know KPMG, you might not know KPMG Enterprise.

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

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

***In Q1'19 US
VC-backed
companies raised***

\$32.6B

across

1,853 deals



VC market in the US very positive as Unicorn IPOs loom

The Venture Capital market in the US saw strong activity in Q1'19, buoyed by the stabilization and rebound of the public markets, the positive performance of tech companies that exited through IPOs in 2018 and by the increasing interest in IPO exits from a number of mature, US-based unicorns.



US quarterly VC funding highest ever outside of outlier Q4'18

While the number of VC deals in the US declined quarter-over-quarter, VC investment in the US remained very high, with Q1'19 investment coming second only to Q4'18, which was lifted by Juul's \$12.8 billion funding round. The largest deals during Q1'19 included a \$5 billion raise by shared-space provider The We Company (formerly WeWork) and a \$1 billion raise by freight logistics company Flexport and earning the company coveted unicorn status.



Lyft IPO a signal of activity to come

Ride-hailing company Lyft hosted a successful IPO on the Nasdaq in late March, raising over \$2 billion. The company was just the first in a line of large unicorns expected to exit over the next few months.

Lyft's largest competitor — Uber — is expected to file publicly in April for what is projected to be the largest IPO of the year in the US. Despite its IPO plans, Uber continued its expansion efforts. During Q1'19, Uber bought Middle-East based ride-hailing service Careem for \$3.1 billion.

Visual search company Pinterest is also expected to IPO in Q2'19 following its S-1 filing in March, while food delivery company Postmates also submitted a confidential IPO filing during the quarter. Slack and Airbnb are also considering IPOs.

The eyes of VC investors will be glued to the performance of these unicorn companies over the next few months. Should early indications be positive, other mature unicorns may also follow in their footsteps.



Established verticals see majority of funding as new verticals crop up

VC investors in the US continued to invest in a number of more established verticals during Q1'19, including food-delivery, healthtech and transportation. The latter accounted for several diverse, yet significant investments, with electric vehicle company Rivian attracting \$700 million, autonomous driving company Aurora attracting \$530 million, and electric scooter and bike sharing company Lime raising \$310 million.

While many of the US's largest VC investments went into proven companies in established verticals, the \$1 billion raise by logistics company Flexport highlights the increasing importance being placed on logistics by VC investors.



Both large funds and small funds gathering interest

Mega-funds continued to gain a significant amount of attention in the VC space, with SoftBank's Vision Fund participating in many \$1 billion+ deals over the past two years, including the \$1 billion raise by Flexport in Q1'19. While the need for large funds continues to resonate in the US, there has also been some strong activity on the other end of the fund size spectrum. For example, in Q1'19, Kleiner Perkins closed a \$600 million fund focused on early-stage and boutique investments, while Future Ventures closed a \$200 million fund focused on space exploration and AI. A number of other smaller funds also closed during the quarter.

VC market in the US very positive as Unicorn IPOs loom, cont'd.



Growth and innovation occurring beyond Silicon Valley

While many VC funds remain focused on Silicon Valley and the West Coast, there has been a growing boom of investment in other parts of the US in recent years. In 2018, while 39.5 percent of VC deals occurred on the West Coast, 20.1 percent occurred in the Mid-Atlantic, 9.5 percent in New England, and 9 percent in the Great Lakes Region. These numbers reflect the growing innovation hubs appearing in cities such as, New York, Boston and others — a trend continuing into 2019. In Q1'19, New York and New Jersey both attracted big deals, such as The We Company's \$5 billion raise, the Clover Health's \$500 million raise, and Knock's \$400 million raise.

Among companies headquartered in Silicon Valley, there has also been a shift toward scaling outside of the Valley in order to access or attract talent and better manage labor, and space costs. Late in 2018, for example, Slack announced a new Denver Office, while other companies have set up offices in Arizona, Salt Lake City and beyond. This trend is only expected to continue as companies look to balance a presence in the Valley with the need to scale and grow efficiently.



Digital banking space heating up in US

The digital banking space in the US continued to gain traction in Q1'19 as Chime raised \$200 million in a round that won it unicorn status. A number of European challenger banks also voiced plans to enter the US in Q1'19, including UK-based Revolut, and Starling Bank. Germany's N26 also raised funds in Q1'19, in part to fund a US expansion, while Israel's Bank Leumi is reportedly talking to potential partners about launching its digital Pepper offering in the US.



Maturing fintech sector continues to see M&A

During Q1'19, FIS announced plans to acquire Worldpay in a \$34 billion deal. Given the maturity of the payments space, it is expected that the sector will continue to see M&A activity as companies look to achieve scale and consolidate market share.



Trends to watch for in the US

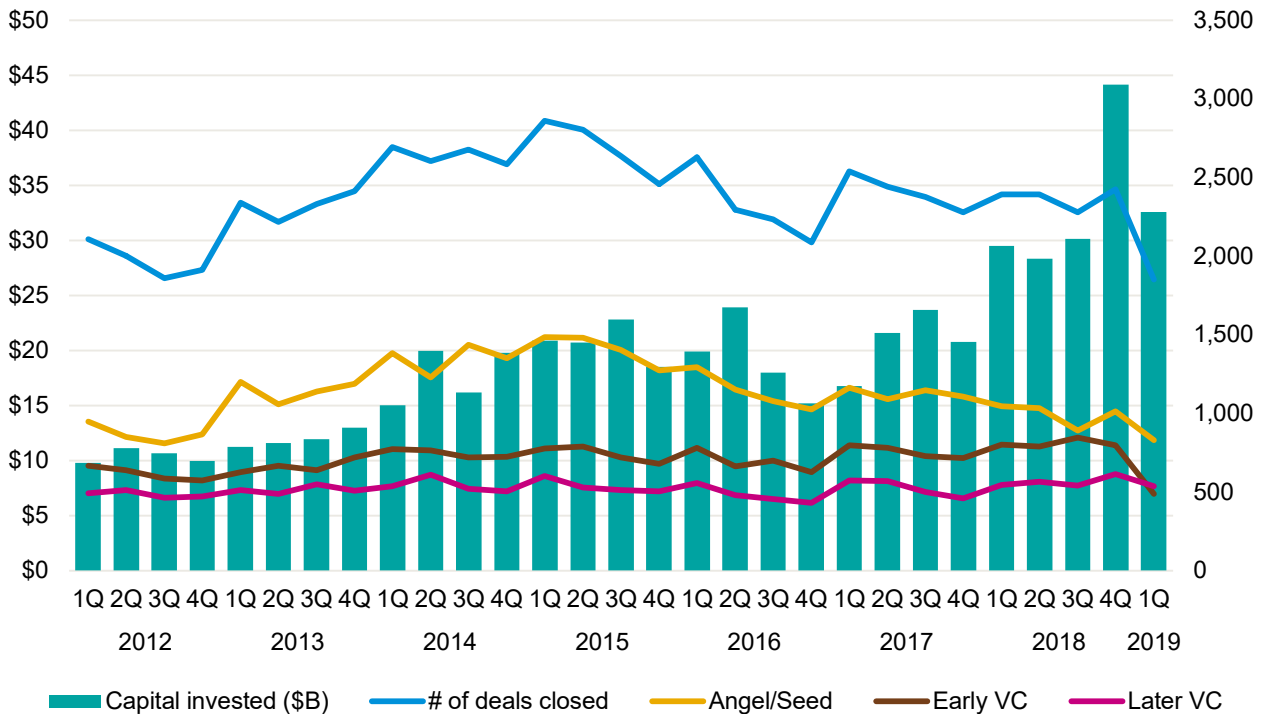
The US VC market is well-positioned for further growth over the next few quarters. As mature unicorns exit, other companies will begin to take their places, marking the next evolution of the unicorn progression. It is expected that this next class of unicorns could be quite different from those seen today, with more representation from companies focused on AI and data analytics.

Looking forward, fintech, healthtech, and biotech are expected to remain very strong areas of VC investment, in addition to health-focused insurtech.

2019 starts off strong

Venture financing in the US

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 24 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

Without the impact of the mammoth Juul financing, Q4 2018 would still have been a record, but Q1 2019 turned in a remarkably strong performance, amassing over \$30 billion and easily reaching the second-highest quarterly record of the decade. Investor appetite even for large financings has not slackened yet by any means.

“Since 2014 the number of active US unicorns has more than doubled to over 160 as private capital is readily available allowing companies to stay private longer. After waiting for years, we finally saw some unicorns choosing to go public in late 2018. We anticipate this trend will continue well into 2019 — spurred by recent high profile offerings such as Lyft, and the ongoing strength of the public markets.”



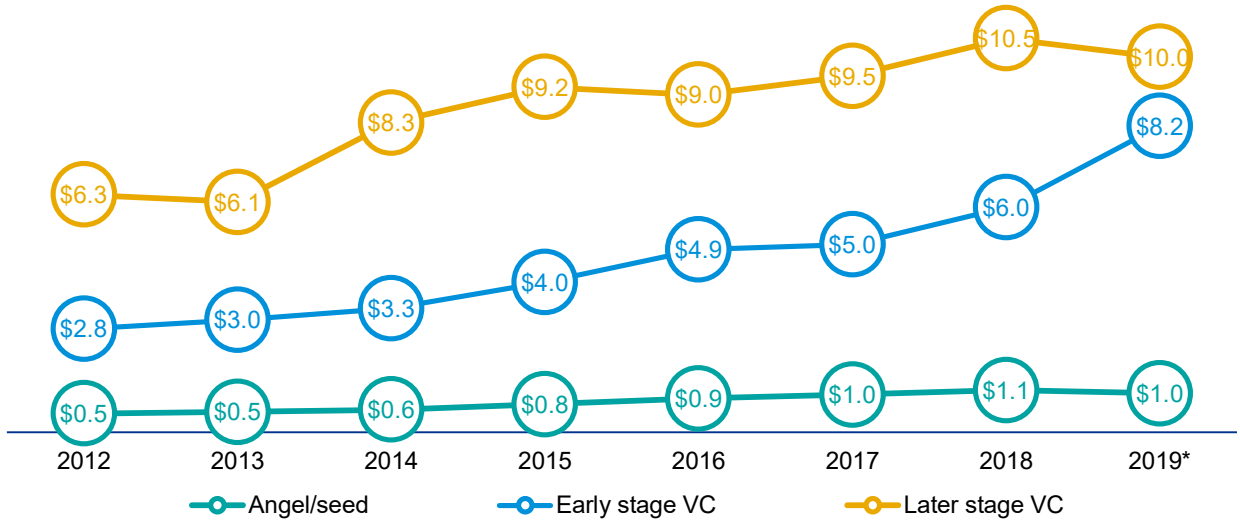
Brian Hughes

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

The late stage evens out

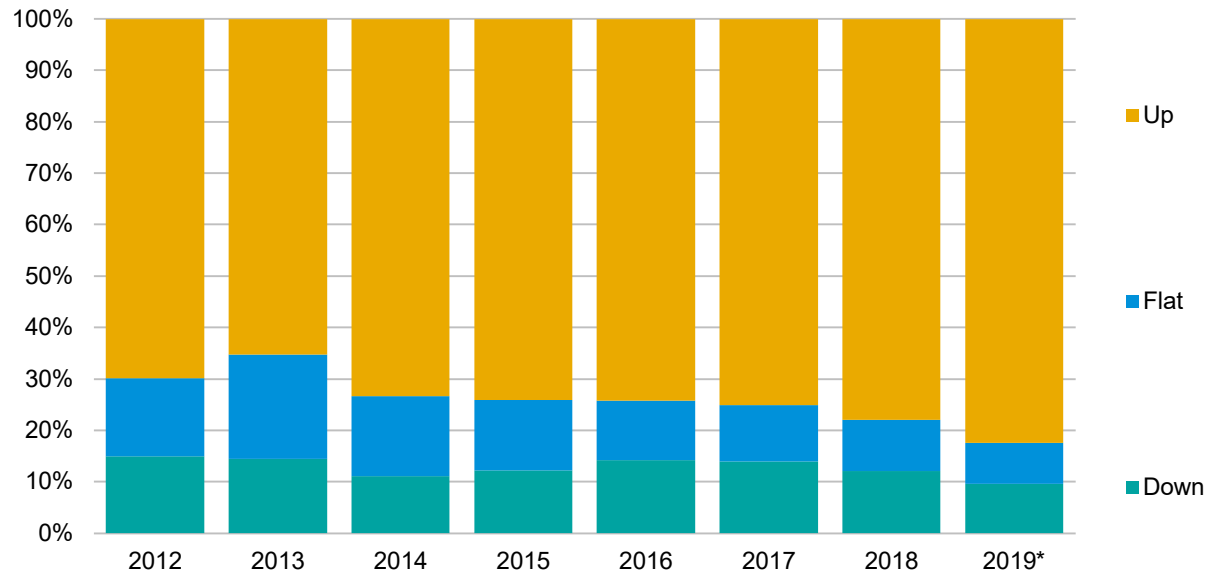
Median deal size (\$M) by stage in the US

2012–2019*



Up, flat or down rounds in the US

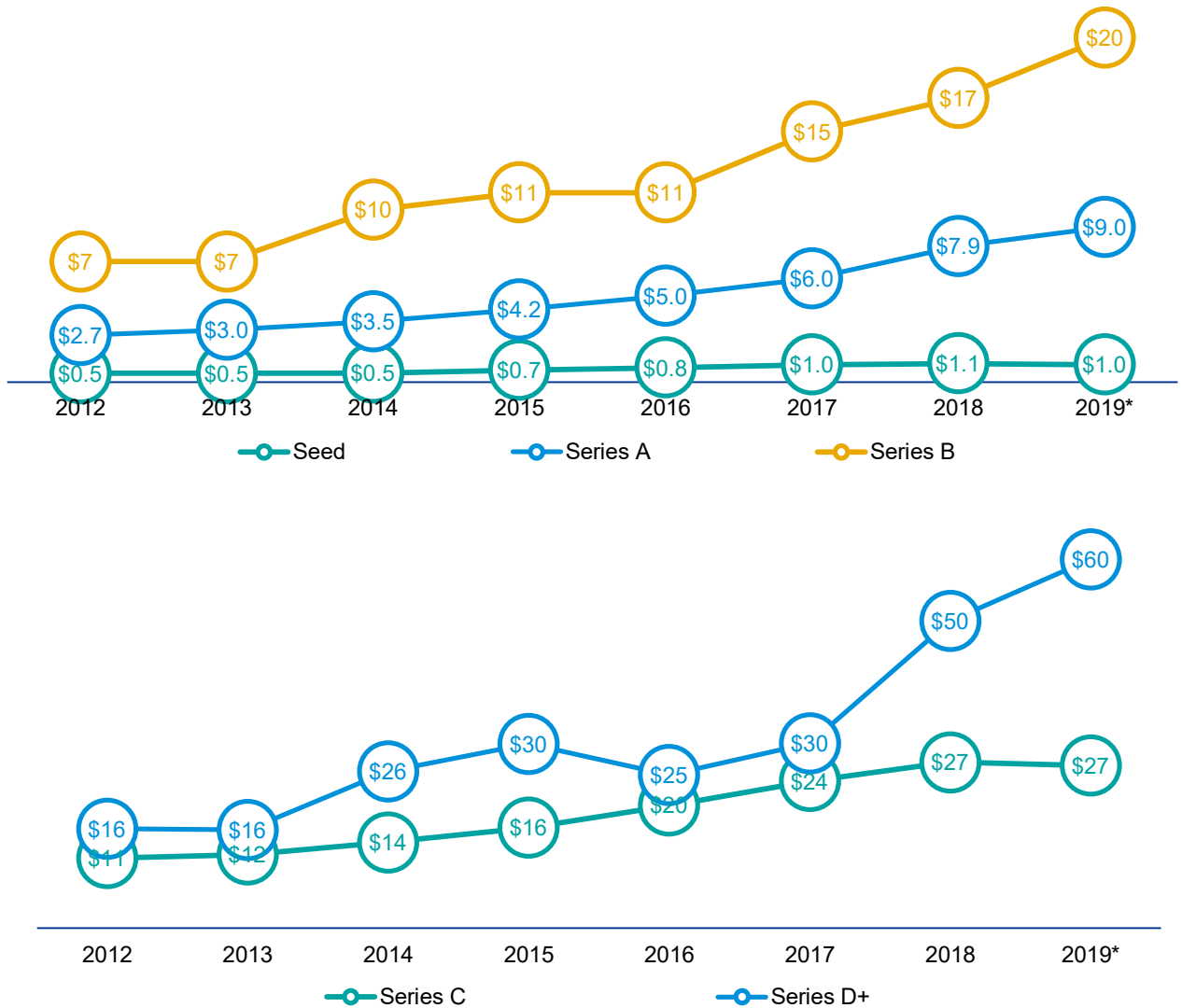
2012–2019*



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

Series C & D diverge further

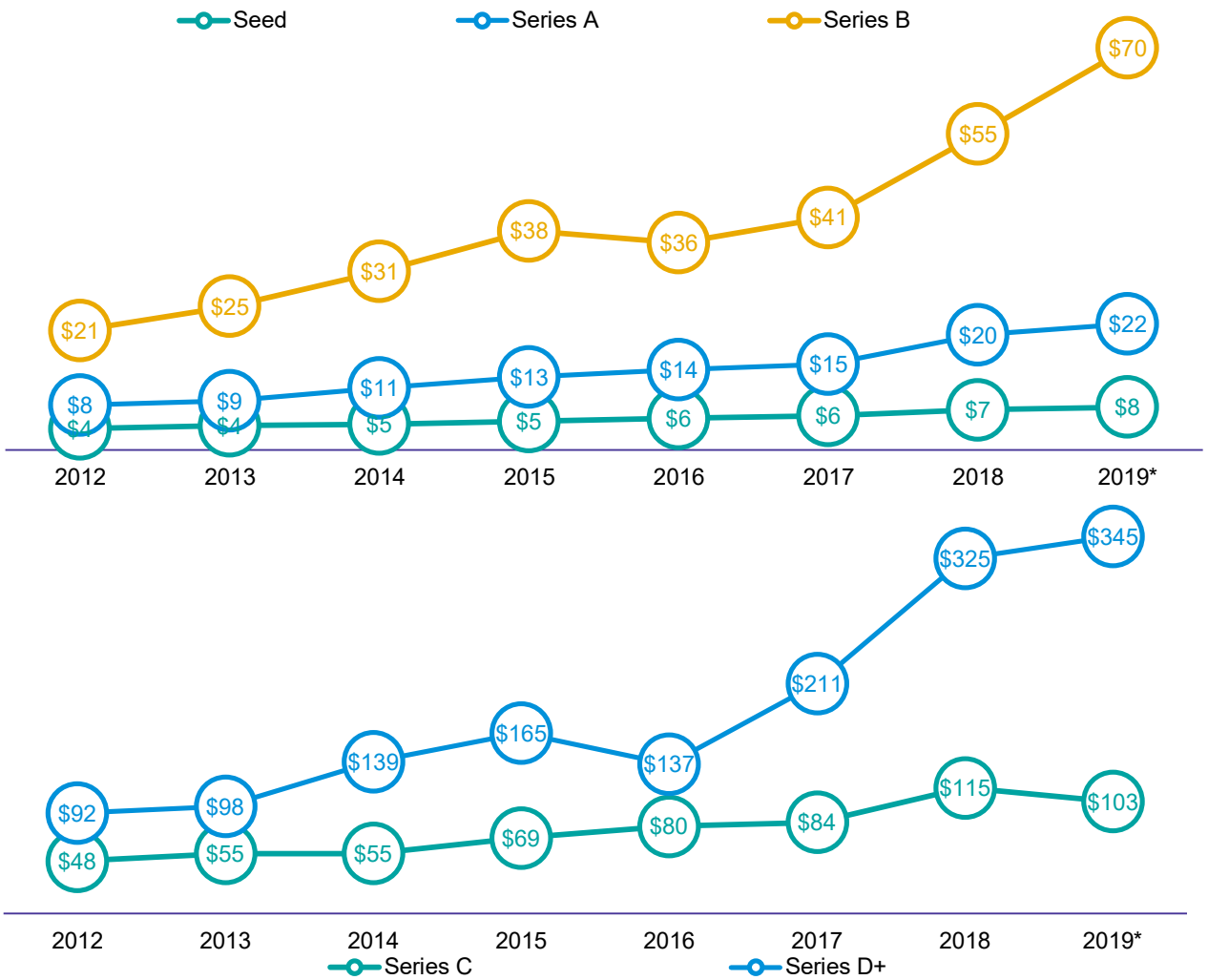
Median deal size (\$M) by series in the US
2012–2019*



Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.
Note: Figures rounded in some cases for legibility.

Valuations stay inflated

Median pre-money valuation (\$M) by series in the US
2012–2019*



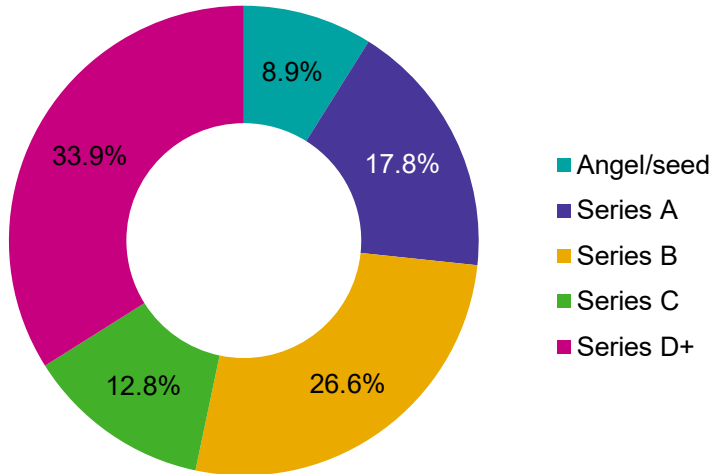
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Note: Figures rounded in some cases for legibility.

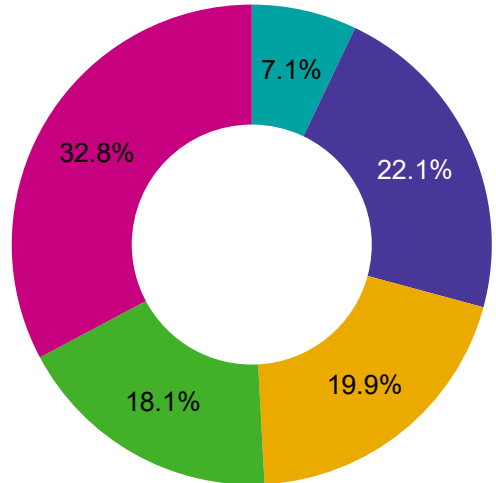
Although it is growing dangerously close to beating a dead horse, it is clear that private valuations remain at near unprecedented highs, similar, if not eclipsing those seen in the dot-com mania. The superabundance of private capital has resulted in remarkable growth at all stages, with Q1 2019 notching even greater highs. There appears to be no stopping the rate of valuation growth, especially at the late stage.

Slight gain in angel & seed

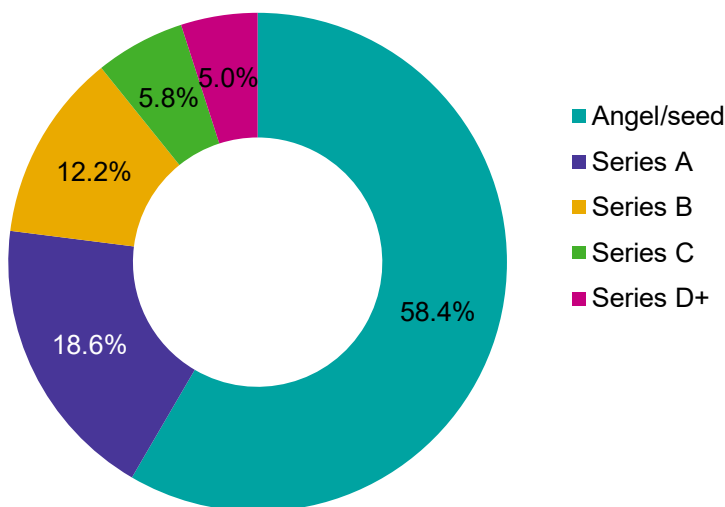
Deal share by series in the US
2019*, VC invested (\$B)



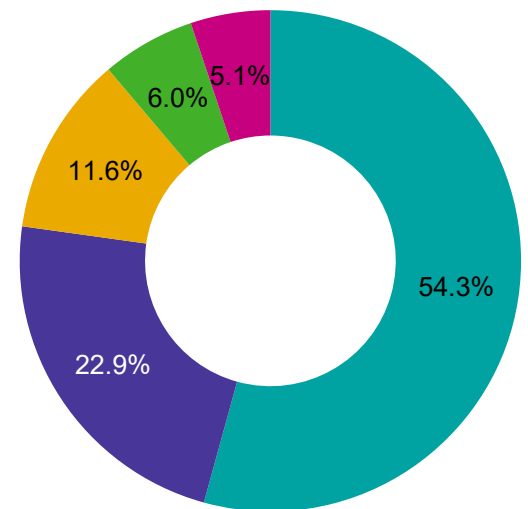
Deal share by series in the US
2018, VC invested (\$B)



Deal share by series in the US
2019*, number of closed deals



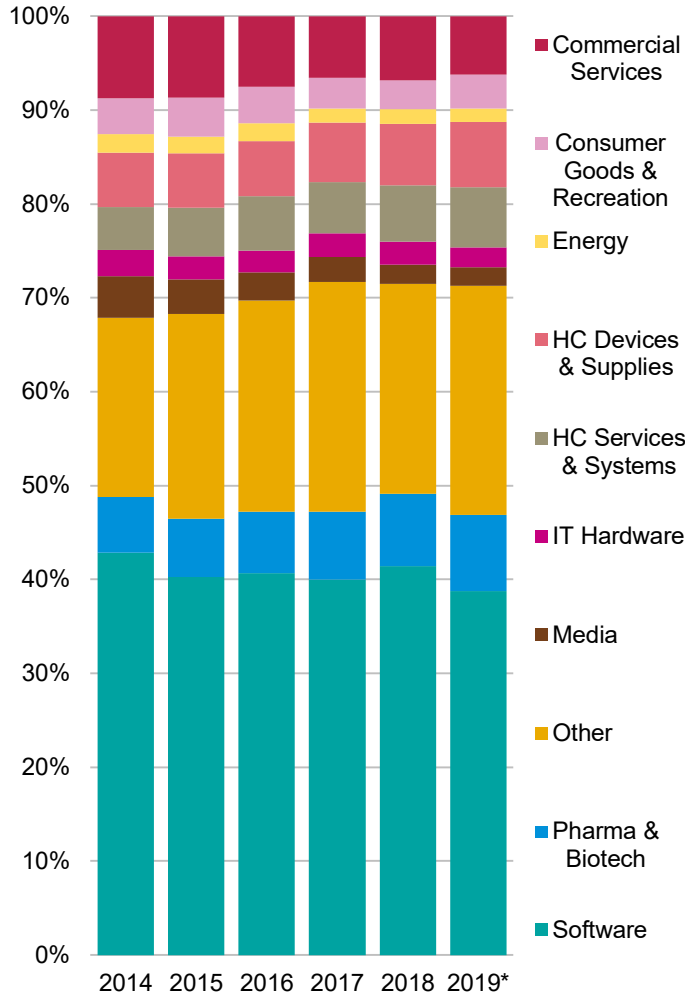
Deal share by series in the US
2018, number of closed deals



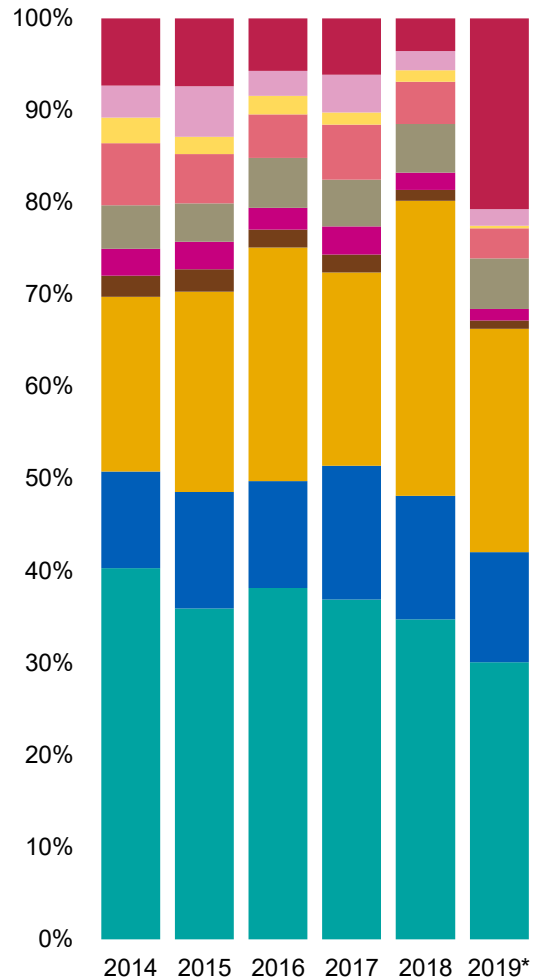
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Healthcare stays resilient

Venture financing by sector in the US
2014–2019*, number of closed deals



Venture financing by sector in the US
2014–2019*, VC invested (\$B)

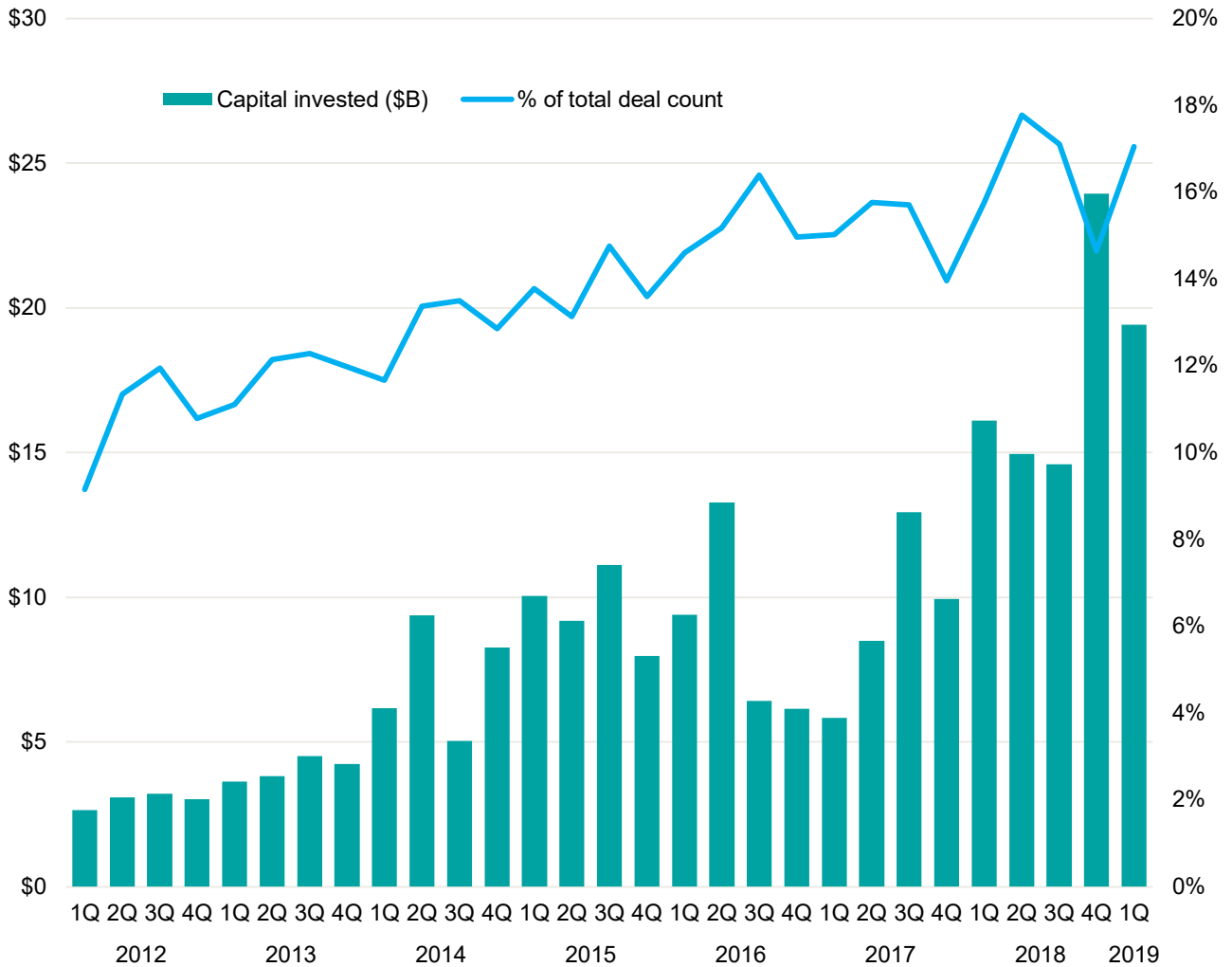


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

As software horizontalizes and stays as the primary plurality among all sectors, the various healthcare sectors also remain fairly resilient, given their specific drivers and positive growth trajectories from a macro perspective.

CVC rebounds to normalcy

Corporate participation in venture deals in the US 2012–Q1'19

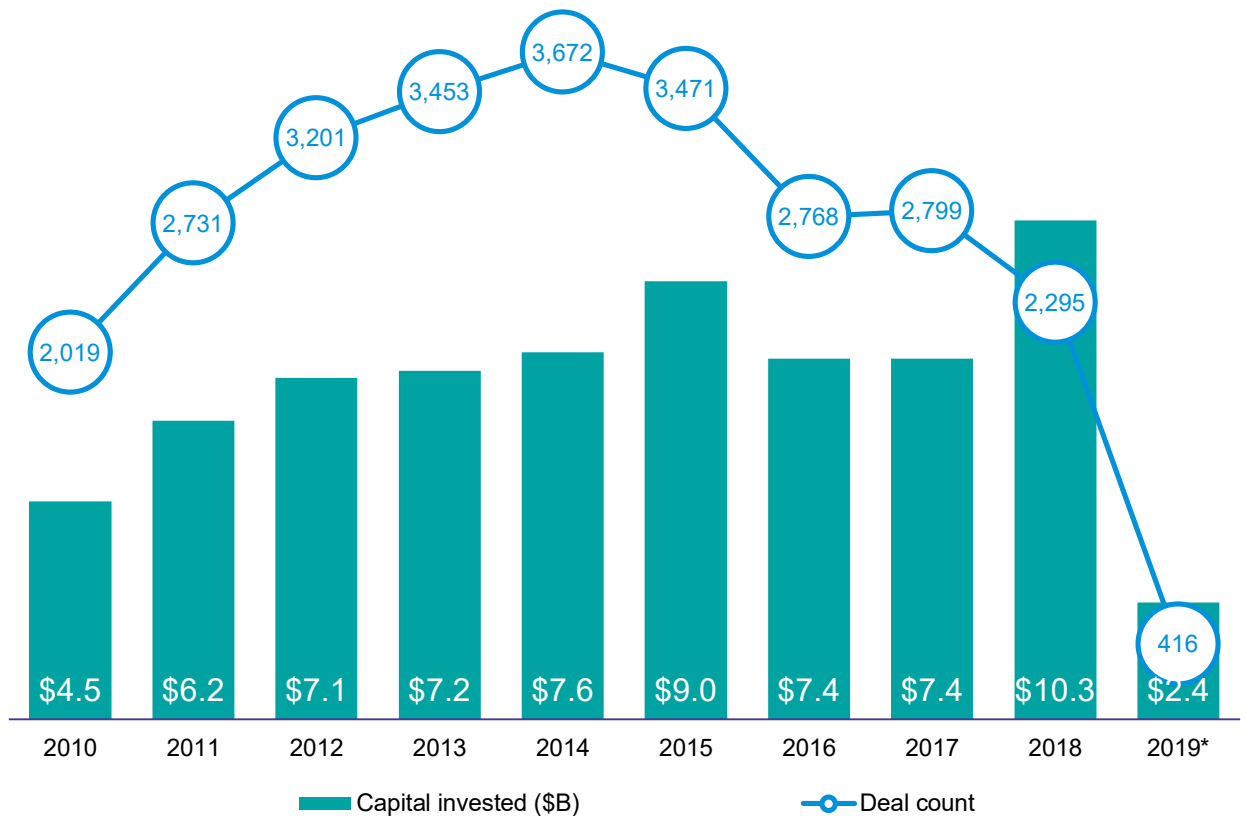


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2019.

After an atypical and unexpected decline in participation rate, the longer-term trend of corporations and corporate venture arms' elevated participation returned to normal levels, reflecting the evolution of the venture landscape as it grows more institutionalized and also more diverse in the population of investors at play even within the US.

Innovation & financing cycles at later innings

First-time venture financings of companies in the US 2012–2019*



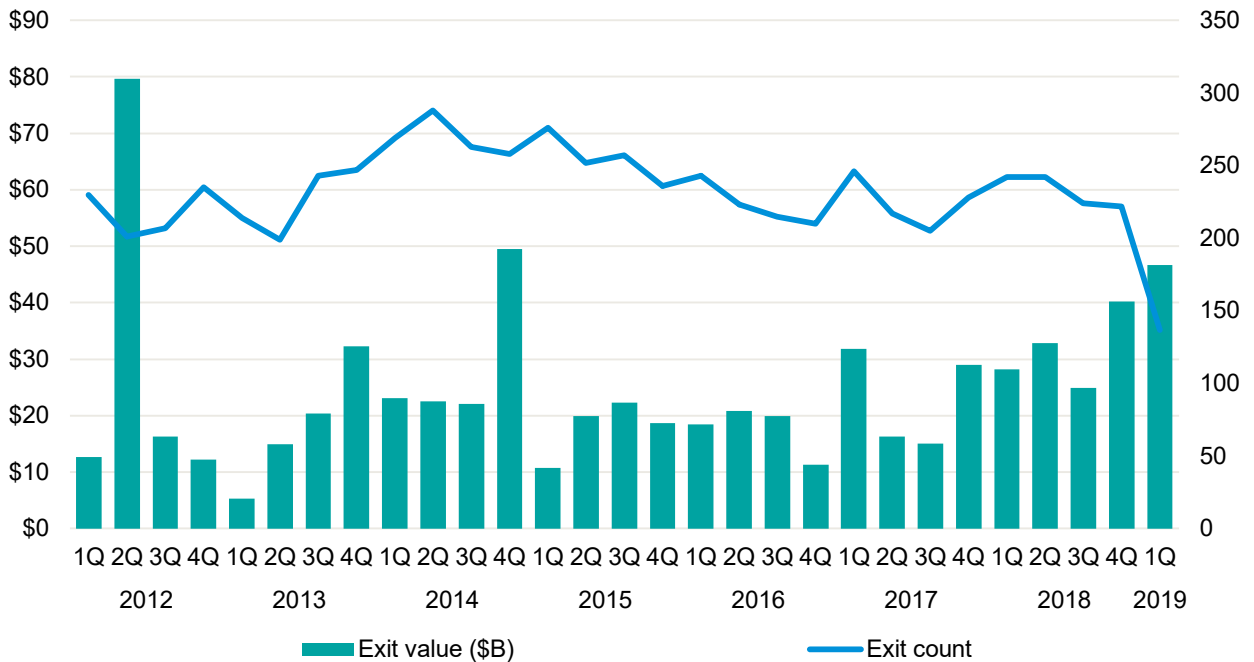
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

The pace of first-time financing volume remains slow in the US, but the longer-term rate of decline does appear to have diminished somewhat, in a promising move. Having said that, the \$2.4 billion invested across first-time financings in Q1 does put 2019 on pace to come in close to the \$10.3 billion invested last year. Resulting primarily from the abundance of capital available for even fledgling startups, both these trends suggest the innovation cycle is resetting somewhat as newer cross-sectors emerge and capital concentrates on safer prospects.

Exits on pace to match 2018 in historic value

Venture-backed exit activity in the US

2012–Q1'19



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

2018 enjoyed a significant boost from IPOs in terms of exit value plus the usual suspect of mega-M&A event and 2019 may shape up similarly, with the bulk of exit value in Q1 2019 derived from one listing; Lyft's. That may augur what is to come for the rest of the year, as the most noted US unicorns prepare to finally list at what could be historic valuations.

“The story in the US continues to be very positive. The 2018 IPOs generally performed very well and the pre-public companies that have completed financings recently have all been at higher valuations. This then should encourage greater investment at all points on the investment spectrum, from seed to late-stage. If the unicorn IPOs on tap for the coming month or two go well, the VC market could see very strong results in Q2 and the remainder of 2019.”

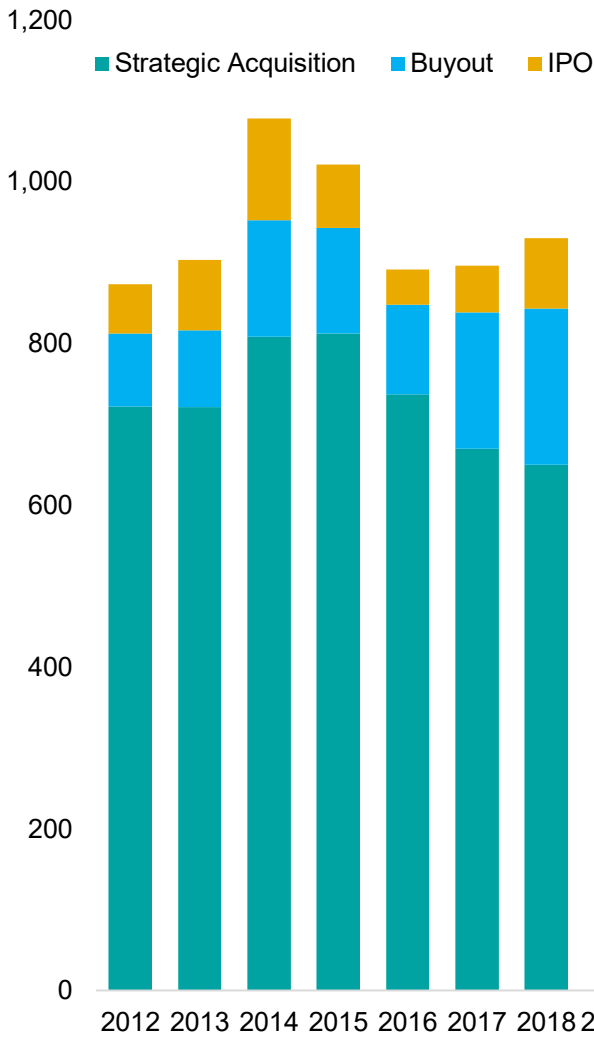


Conor Moore
National Co-Lead Partner, KPMG Venture Capital Practice, **KPMG in the US**

2019 could be the year of IPOs

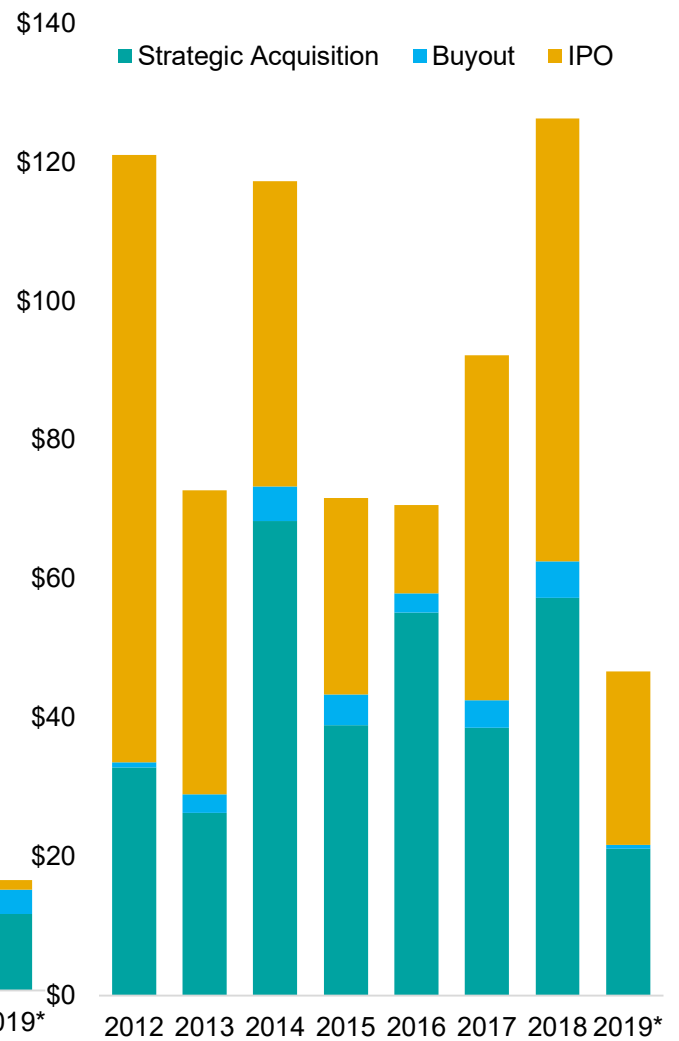
Venture-backed exit activity (#) by type in the US

2012–2019*



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

2012–2019*



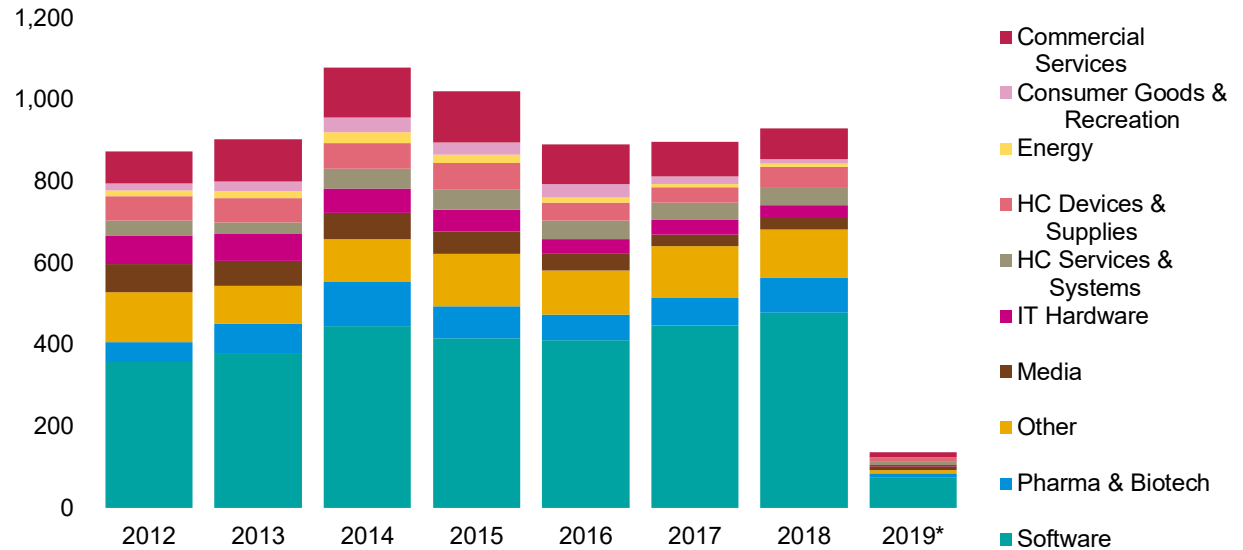
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

Given the methodology shift incorporated in the prior edition of the Venture Pulse, IPOs remain a key driver of value in the venture landscape. This year may be even more of an outlier than ever before due to unicorn listings. M&A will likely remain the primary driver of volume, however.

Cross-sector drives exit value

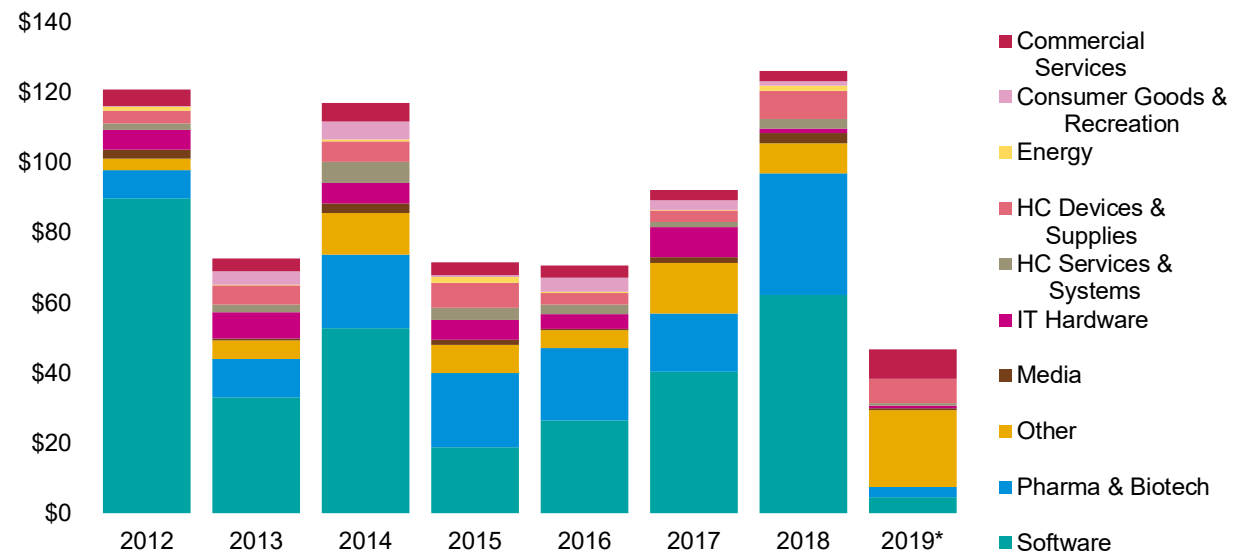
Venture-backed exit activity (#) by sector in the US

2012–2019*



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

2012–2019*

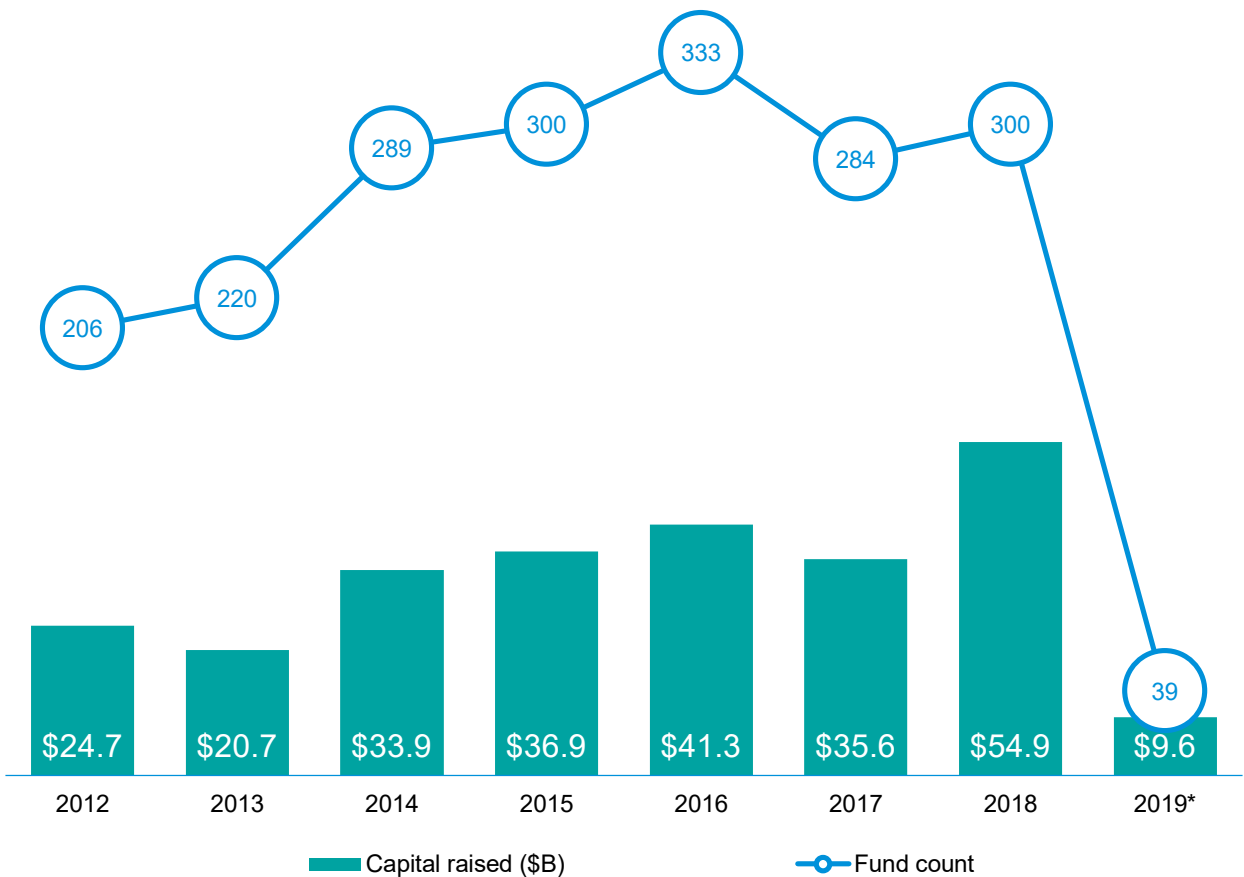


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

After record half, a cooling

US venture fundraising

2012–2019*



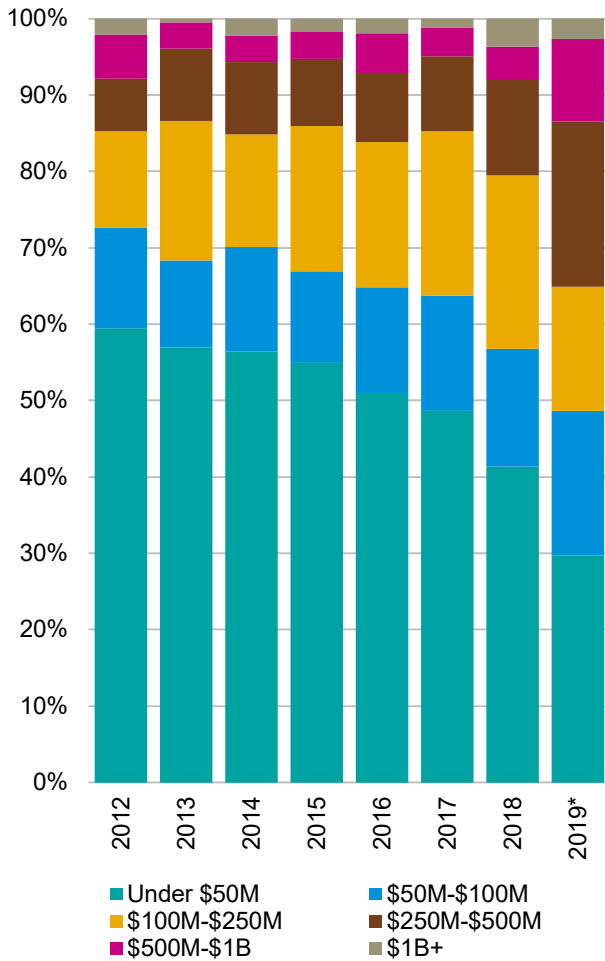
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

With the back half of 2018 marked by outlier totals of sums raised, due to mega-funds' incidence at the hands of the top venture firms, it was to be expected that the first quarter of 2019 would see a slowing in volume as well as VC invested, especially as processes kick off and yet do not necessarily close in the first quarter of the year. Overall, the quarterly total was well within historical norms.

First-time funds take a breather

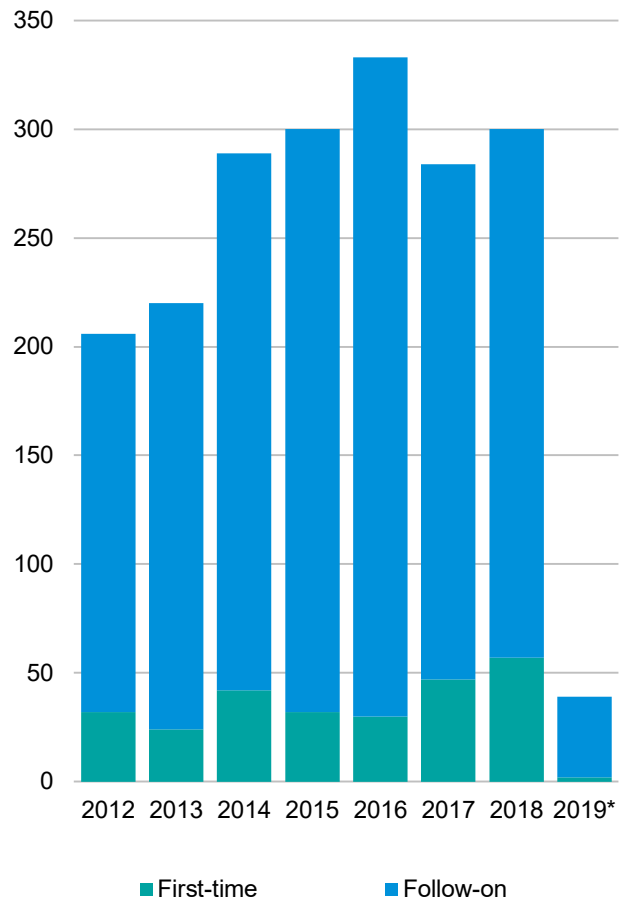
Venture fundraising (#) by size in the US

2012–2019*



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

2012–2019*



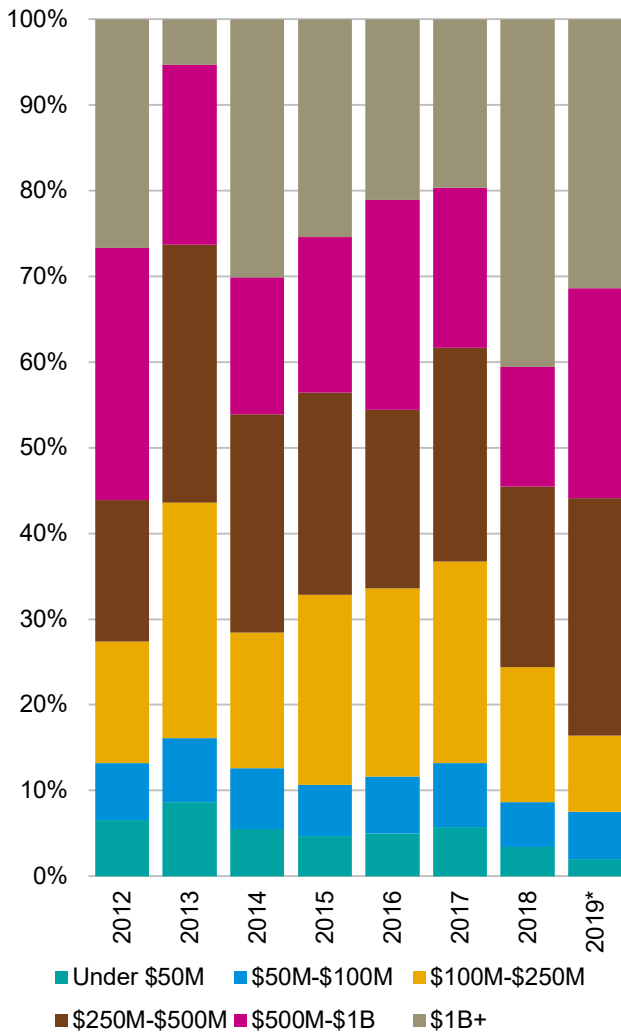
Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

First-time funds finished 2018 at a historically high proportion in volume and thus as is to be expected in any trend, reversion to the mean was likely, especially with just a quarter's worth of data aggregated. There is no clear indication that first-time fundraising will decline significantly beyond the assumption that most appetite in the market for new manager allocations has been sated.

Follow-on fundraisers have an easier time

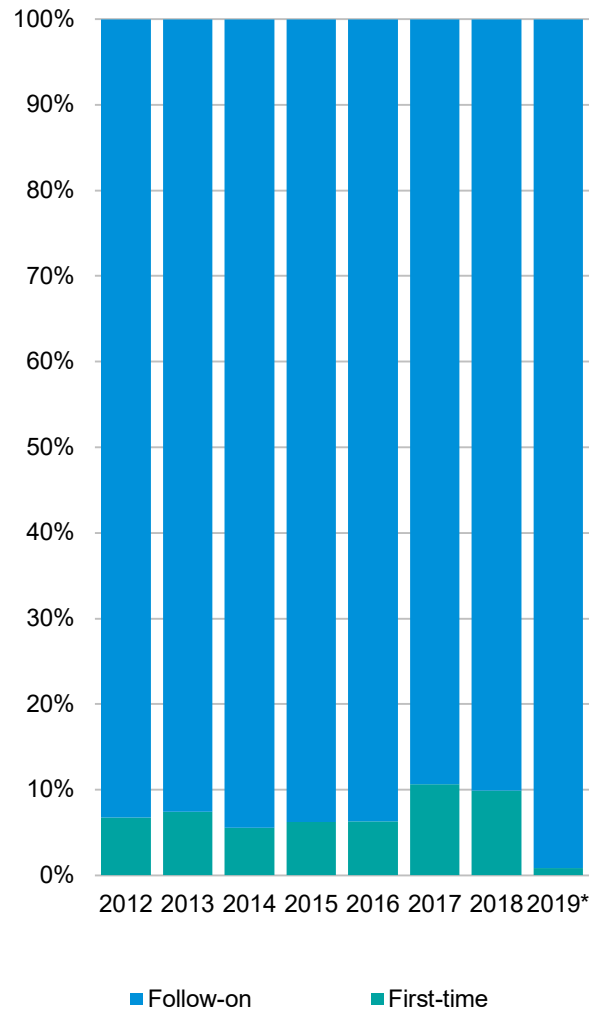
Venture fundraising (\$B) by size in the US

2012–2019*



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

2012–2019*

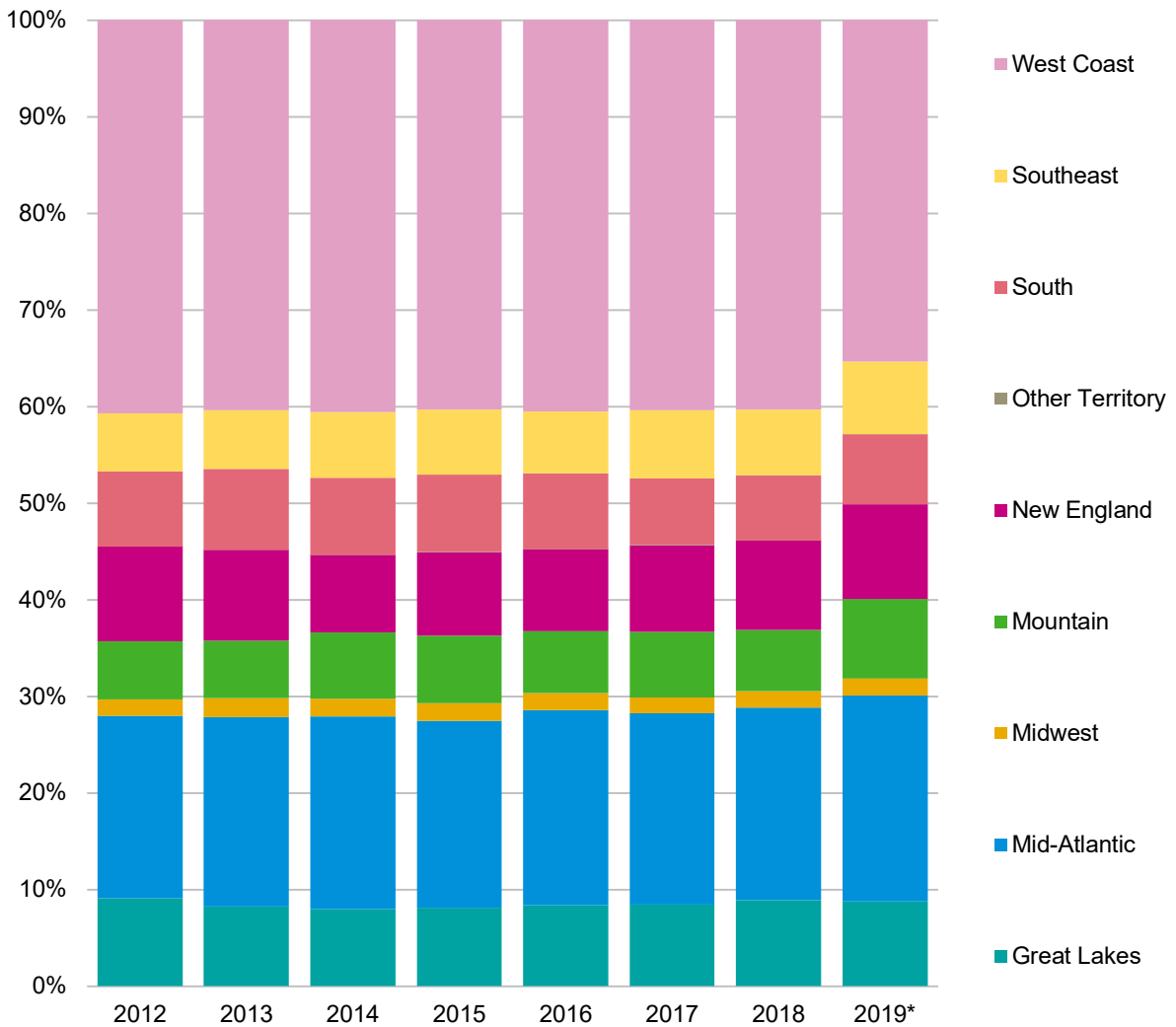


Source: Venture Pulse, Q1'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/19. Data provided by PitchBook, April 11, 2019.

2019 starts strong for emerging hubs

US venture activity (#) by US region

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.

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

About KPMG Enterprise

About KPMG Enterprise

You know KPMG, you might not know KPMG Enterprise.

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

The KPMG Enterprise Global Network for Innovative Startups has extensive knowledge and experience working with the startup ecosystem. Whether you are looking to establish your operations, raise capital, expand abroad, or simply comply with regulatory requirements — [we can help](#). From seed to speed, we're here throughout your journey.

Acknowledgements

We acknowledge the contribution of the following individuals who assisted in the development of this publication:

Jonathan Lavender, Global Chairman, KPMG Enterprise, KPMG International

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

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

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

Arun Ghosh, Principal, National Blockchain Leader, KPMG in the US

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

Egidio Zarrella, Head of Clients and Innovation Partner, KPMG China

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

Jussi Paski, Head of Startup Services, KPMG Finland

Lindsay Hull, Associate Director, KPMG Enterprise Global Innovative Startups Network, KPMG in the US

Melany Eli, Director, Marketing and Communications, KPMG Enterprise, KPMG International

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

Philip Ng, Head of Technology, KPMG China

Rachel Bentley, Fintech Seniors Manager, KPMG in the UK

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

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.

To connect with a KPMG Enterprise adviser in your region email
enterprise@kpmg.com

kpmg.com/venturepulse [website]
[@kpmg](https://twitter.com/kpmg) [Twitter]



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

©2019 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.