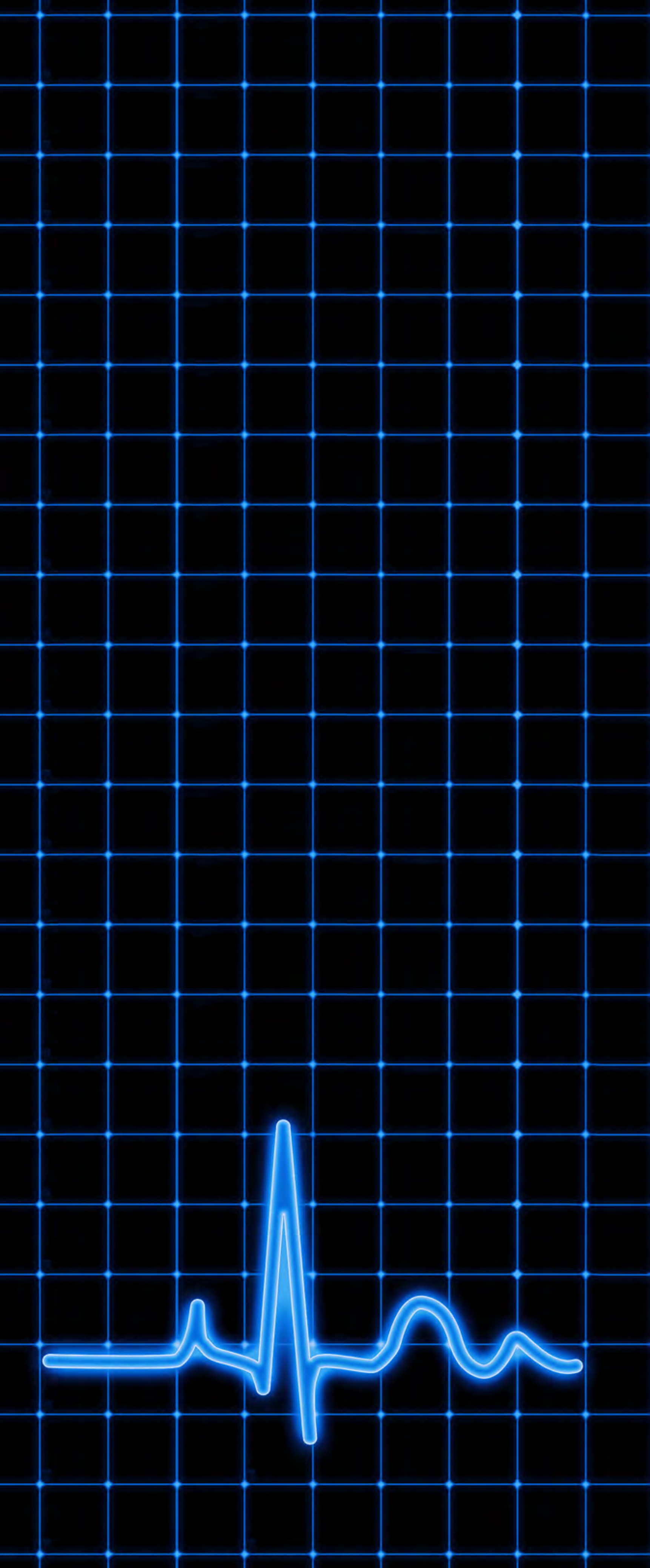
KPMG Enterprise

Venture Pulse Q3 2019

Global analysis of venture funding



10 October 2019

Welcome message

Welcome to the Q3'19 edition of KPMG Enterprise's *Venture Pulse* — a quarterly report highlighting the key trends, opportunities, and challenges facing the venture capital market globally and in key jurisdictions around the world.

Strong investment in the Americas and Europe continued to fuel the global VC market this quarter, while VC investment in Asia remained weak, particularly in comparison to 2018's record-shattering high.

Given the ongoing Brexit challenge in the UK, Europe's positive performance was particularly noteworthy in Q3'19. The region has already achieved a new record of VC investment with a full quarter left to go in the year. The strength of Europe remains its diversity, with Germany, the UK, Sweden, Belgium, and Israel all attracting $100 million+ deals in Q3'19.

In the Americas, the US continued to see a diverse mix of companies attracting VC investment, including the quarter's top global deal: a $785 million raise by e-cigarette manufacturer Juul. At the same time, other jurisdictions also saw significant deals. In Brazil, Nubank's $400 million raise propelled it to deca-unicorn status — the first Brazil-based tech company to be valued at more than $10 billion. Meanwhile, business software developer Clio raised $250 million in Canada.

At an industry level, numerous sectors accounted for relatively large deals, with fintech and transportation remaining very hot areas of investment globally. Looking forward, these areas are expected to continue to be attractive to VC investors on a global basis, in addition to industry-spanning solutions like artificial intelligence (AI) and machine learning.

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

— The increasing uncertainty permeating the global VC market
— The ongoing strength and resilience of Europe
— The slowdown in fundraising activity, particularly in Asia
— Concerns about valuations and the post-IPO performance of US unicorns
— The growing strength of jurisdictions in the Americas outside of the US

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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Unless otherwise noted, all currencies reflected throughout this document are US Dollar.

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KPMG International and Partner,
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Kevin Smith
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In Q3'19 VC-backed companies in the Asia region raised

$14.9B

across

922 deals

Venture Capital deals volume strengthens in Asia as total VC investment remains weak

VC investment in Asia remained subdued in Q3'19, amid growing concerns surrounding the US-China trade tensions and a slowdown in China's economy. Many VC investors across the region have become more cautious, focusing their investments on lcompanies with proven technologies and business models, large sales, or well-defined paths to profitability.

Transportation remains hot area of VC investment in China, despite overall slowdown

VC investment in China fell significantly in the first three quarters of 2019 compared to 2018, with only two deals above the $1 billion mark – neither in Q3'19. During Q3'19, the largest deals in China included a $700 million raise by NetEase Cloud Music, a $600 million investment by Toyota into Didi Chuxing, a $530 million funding round by CHI Automotive, a $500 million raise by Byton, and a $434 million raise by Q&A platform company Zhihu. Despite the decline in VC funding overall, organizations in key sectors continued attract VC investment. During Q3'19, the automotive and mobility sectors were particularly hot – with China-based automotive and mobility-focused companies accounting for five of the top ten VC deals in the region.

VC investment in India remains stregthens in Q3'19

VC investment in India climbed substantially quarter over quarter, led by a number of $100 million funding rounds, including a $490 million raise by Ola, a $373 million raise by Udaan, a $350 million raise by 3rdFlix Visual Effects, and a number of other significant rounds.

The VC market in India showed a wealth of diversity during Q3'19, with a number of sectors attracting attention from investors, including fintech, logistics, education, social networking, mobility, and more. Of these, fintech continued to be the biggest bet with most deals happening in the payments or insurance spaces. Given the current and projected growth of ecommerce in India, logistics companies able to provide services for ecommerce companies are also receiving a lot of attention from VC investors in the country.

Hong Kong sees muted IPO activity — IPOs on horizon will signal future

While Hong Kong's capital markets remained relatively steady, there was a slowdown in IPO activity during the quarter. Despite the short-term slowdown, the pipeline of companies applying for IPOs on the HKSE remained strong. On the final day of Q3'19, Anheuser-Bush's InBev Asia-Pacific unit began trading on the HKSE. The company raised $5 billion in its IPO: the second largest globally in 2019 behind Uber. By the end of the first day of trading, the company's shares had increased 4.4%.

VC investors in Hong Kong — and across Asia more broadly — will likely be watching the post-IPO performance of InBev Asia-Pacific carefully, along with the other IPOs expected in Q4'19 should the capital markets remain steady. If the market response is positive, it could pave the way for additional megadeals to come to the Hong Kong market heading into 2020.

Venture Capital deals volume strengthens in Asia as total VC investment remains weak, cont'd.

Fundraising activity in China slows; both VC investors and startups focus on profitability

During Q3'19, a number of PE funds and VC funds in China found it more difficult to close fundraising, with some reducing fundraising targets. Some LPs in China pulled out of potential investments all together because of the desire to hold onto cash.

The decreasing availability of funds has made it more difficult for new market entrants to attract capital, while the more established startups have also had to compete more diligently for funding. With the availability of capital expected to remain tight over the next quarter, it is expected that startups will become more spendthrift in terms of both how they use their money and how they acquire their customers. VC investors in China will likely also focus their future investments on companies with strong business models and those that are able to show profit in a shorter period of time than might have been necessary previously.

AI and healthtech seeing consolidation in China

While AI and healthcare continue to be hot areas of investment in China, both sectors are starting to see some consolidation — with more predicted for the future. On the AI side, some smaller companies are finding it difficult to commercialize their solutions and generate sufficient cash flow.

Despite the slowdown in China VC investments continues in Q3, health and biotech companies focusing on R&D in innovative drugs continue to benefit from the regulatory reforms being introduced by the Beijing government. Whilst volatility in public markets have affected the IPO plans of some biotech firms, long-term prospects for companies developing drugs with differentiated profiles and meaningful supportive clinical data remain strong.

Trends to watch for in Asia

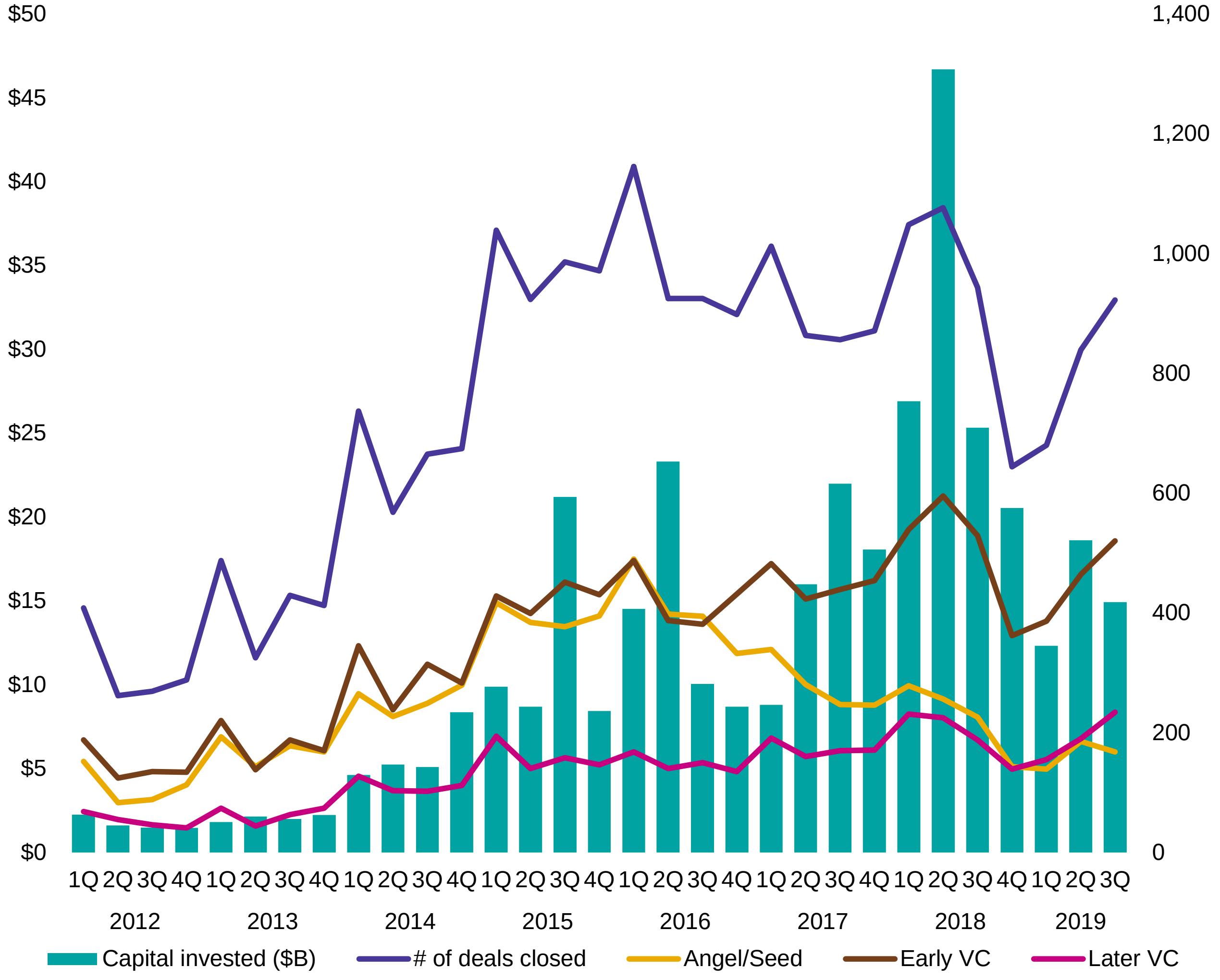
Looking forward to Q4'19, VC investment in Asia is expected to remain moderate at best — particularly in China, where the economic and geopolitical tensions are expected to continue. China's central government is not standing still, however. It is forging ahead with policy reforms aimed at improving and modernizing regulations for a wide range of industries, including insurance, finance, capital markets, and healthcare. While the private sector is still working to understand how these changes will affect them, over time, these changes will likely have a positive effect on the VC market in China.

VC investment in India is expected to remain strong in Q4'19 and into Q1'20, however, given the current credit squeeze it might not be as robust as it has been over the past two quarters.

2019 sees rebound in second half

Venture financing in Asia

2012–Q3'19



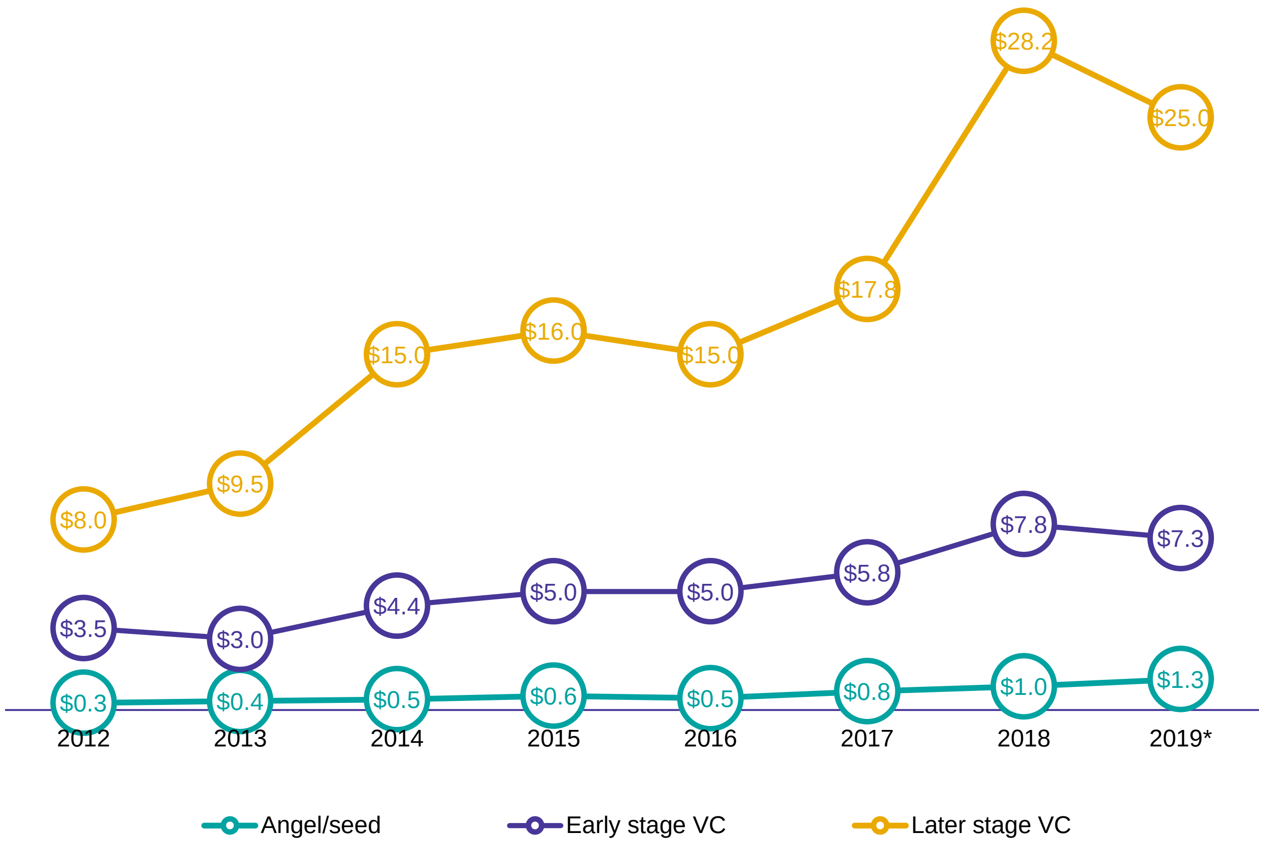
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019. Note: Refer to the Methodology section on page 23 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

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. After a slow start, however, 2019 is catching up to a significant degree in terms of volume, while VC invested remains historically healthy.

Late-stage finally slides slightly

Median deal size ($M) by stage in Asia

2012–2019*



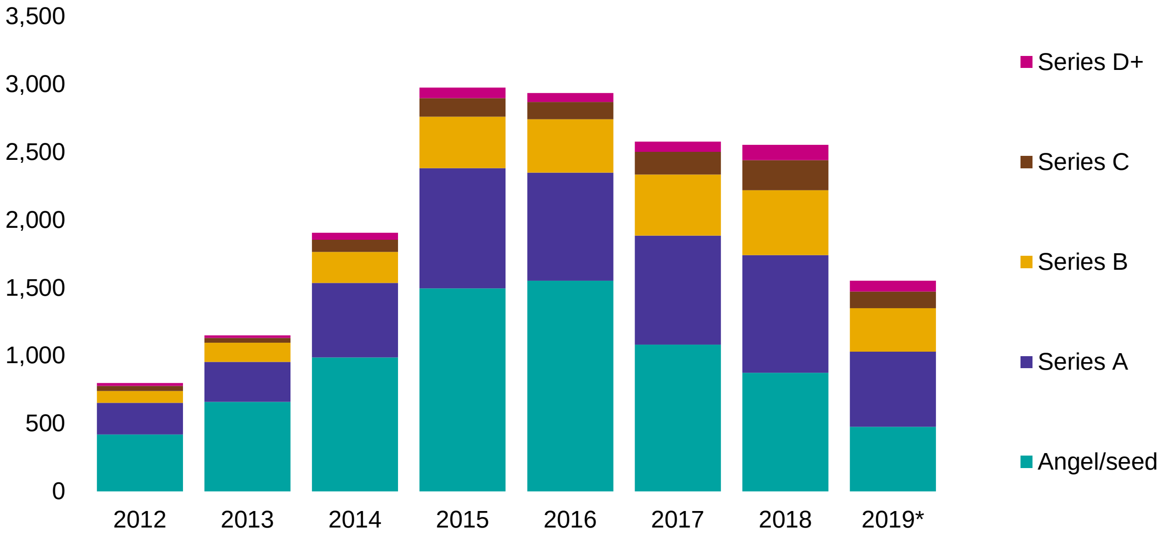
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

As volume has recovered, the slight slide in the median financing size for late-stage transactions suggests a tempering of the exuberance in venture investment, which is likely a healthy sign of moderation rather than the largesse that characterized 2018.

Angel & seed somewhat off pace in 2019

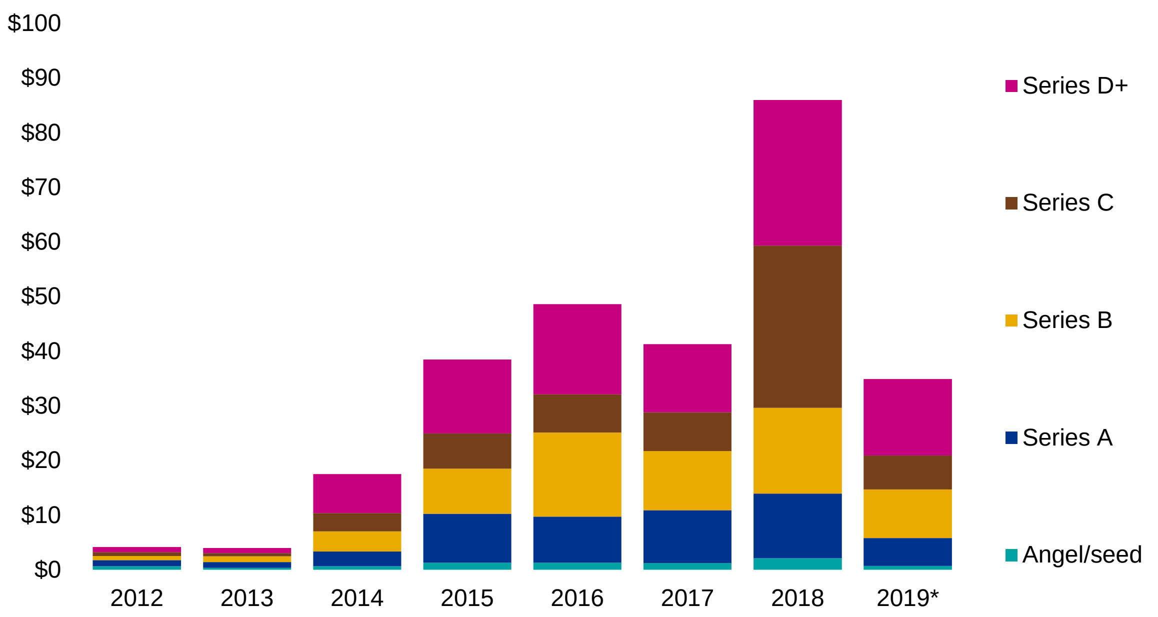
Deal share by series in Asia

2012–2019*, number of closed deals



Deal share by series in Asia

2012–2019*, VC invested ($B)

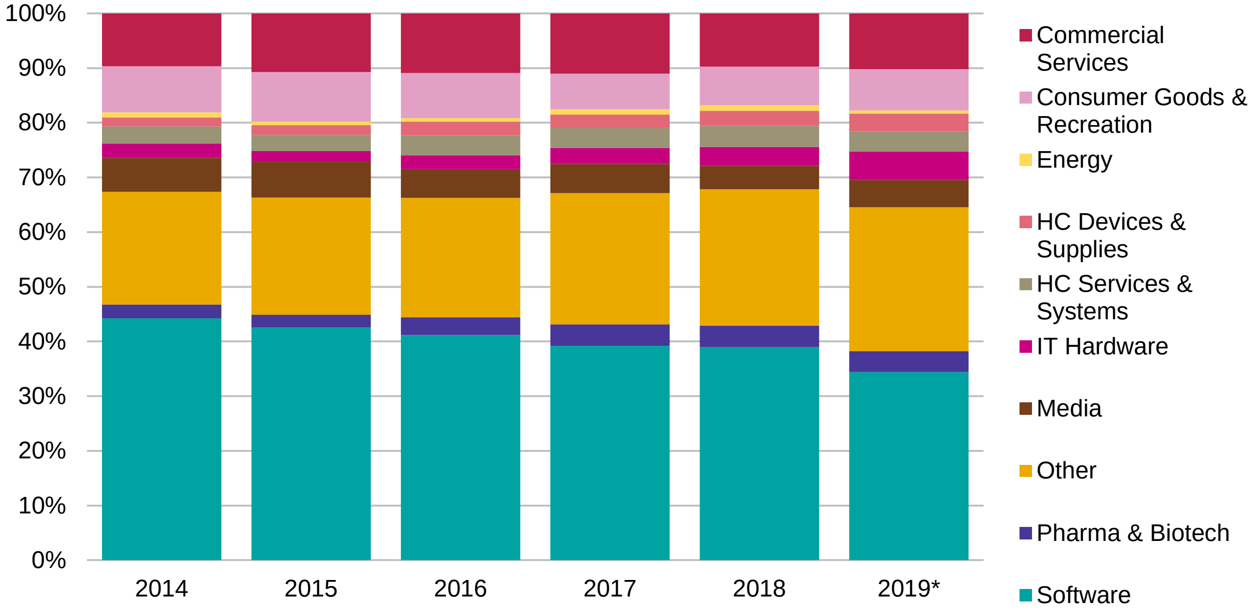


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

IT hardware sees moderate surge in volume

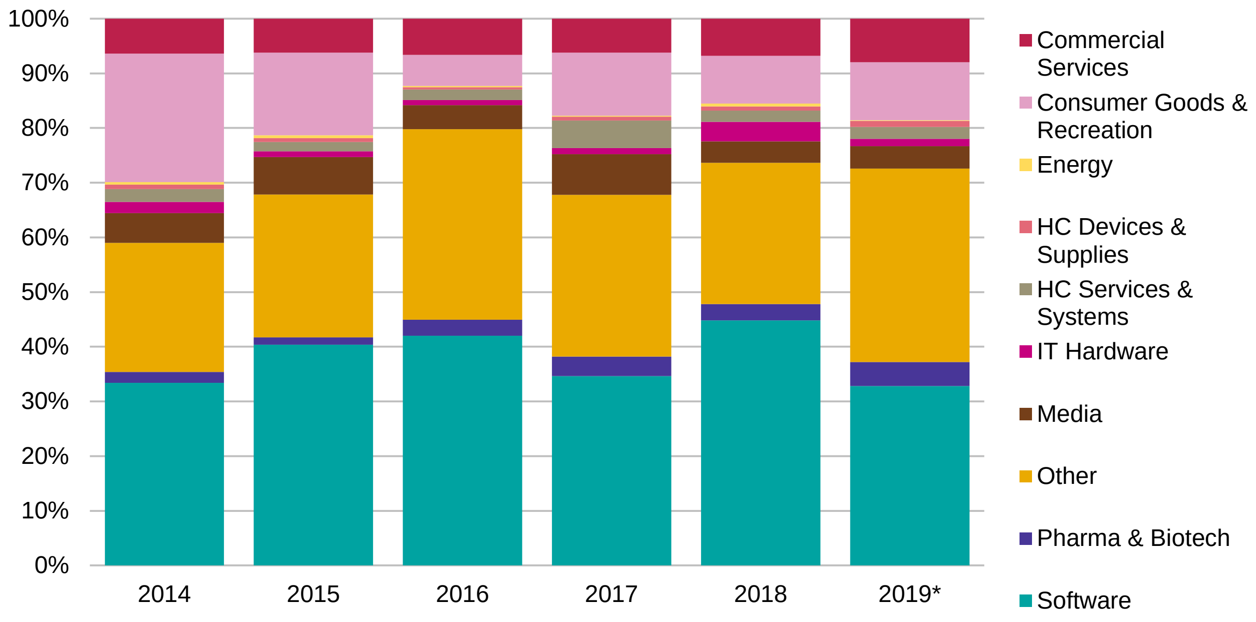
Asia venture financings by sector

2014–2019*, number of closed deals



Asia venture financings by sector

2014–2019*, VC invested ($B)

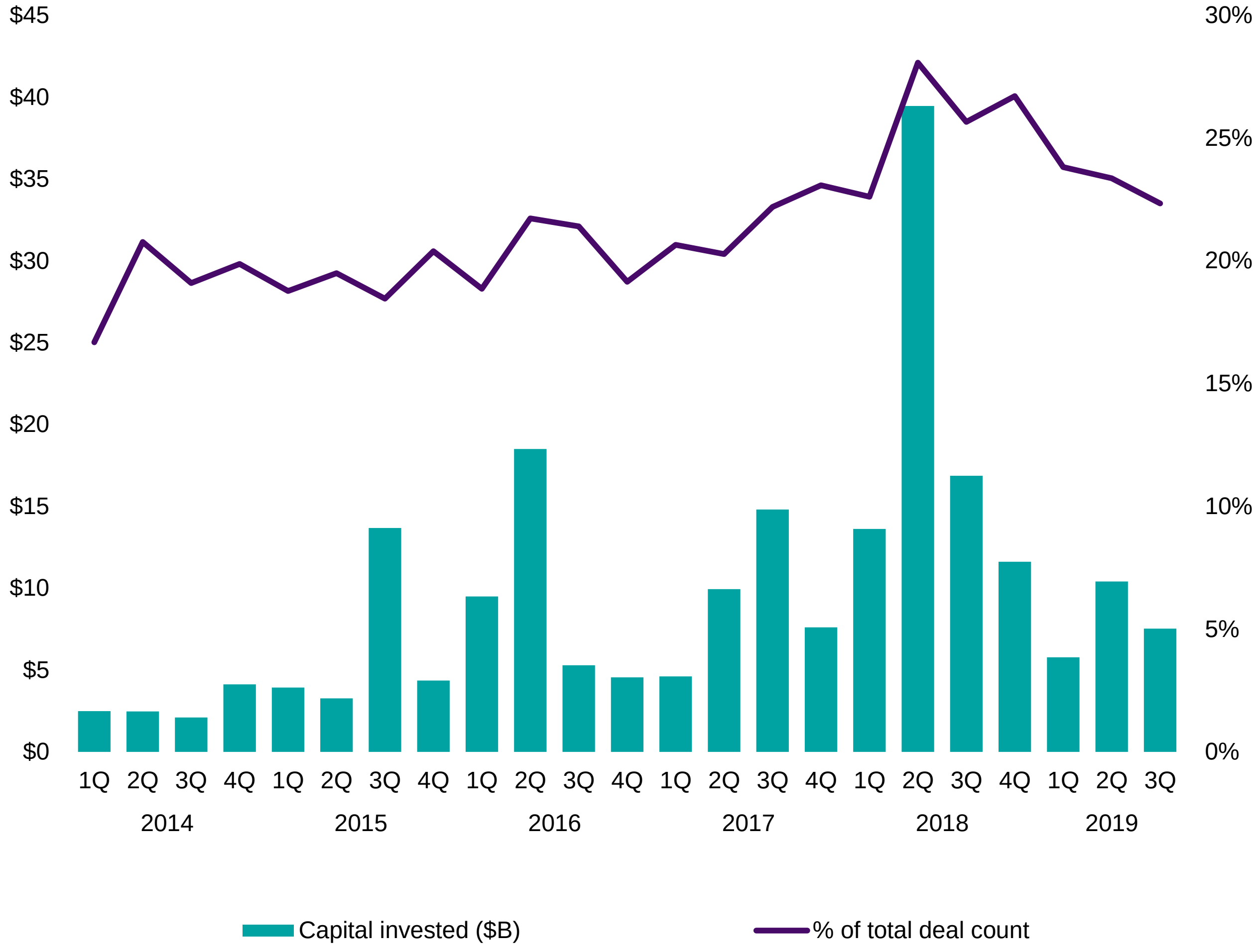


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

CVC keep up the pace

Corporate participation in venture deals in Asia

2014–Q3'19



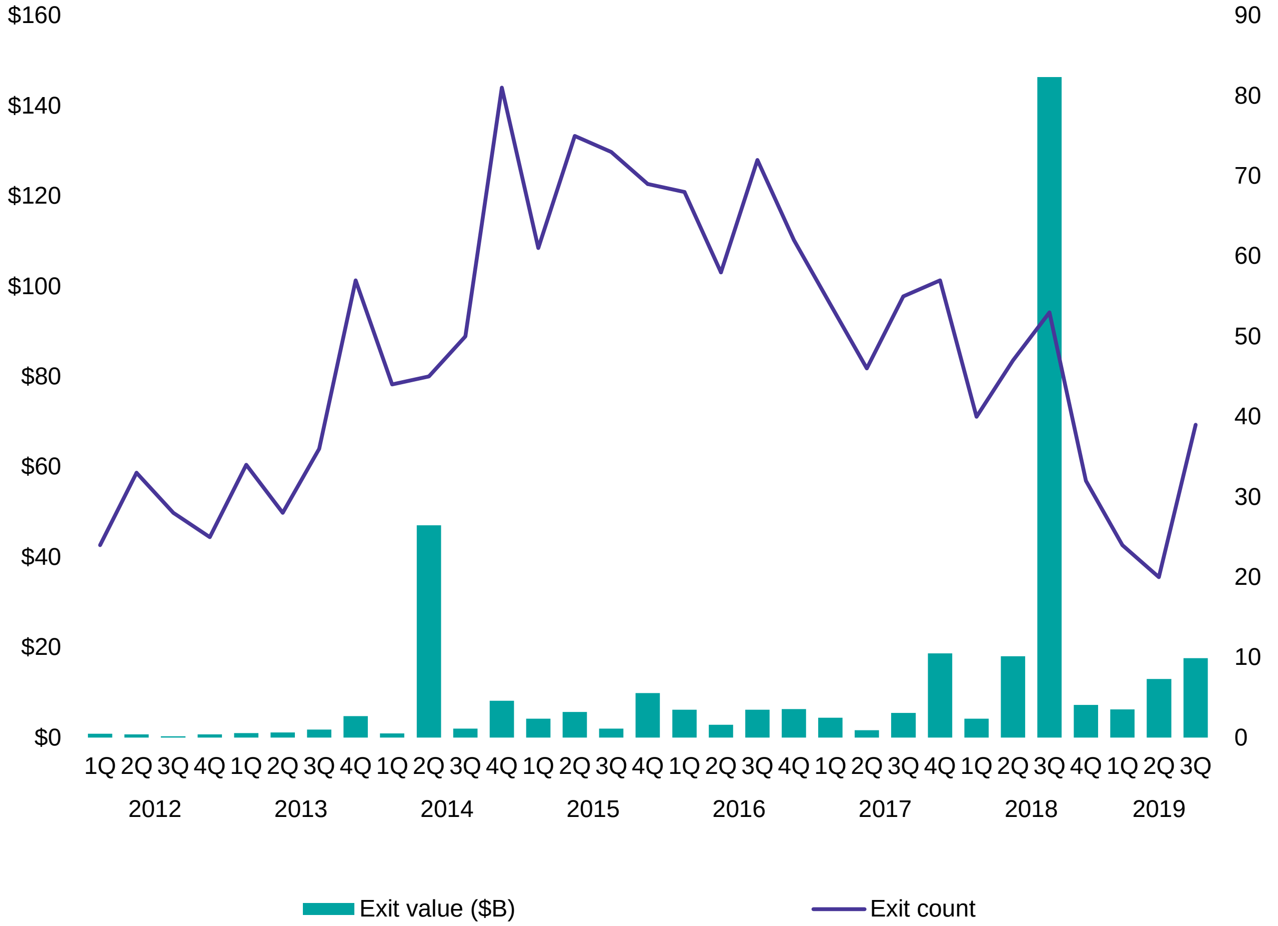
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

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. Consequently, their participation continuing at a historically healthy rate will be critical overall, despite quarterly vagaries in VC invested.

Exit volume rebounds in welcome sign

Venture-backed exit activity in Asia

2012–Q3'19



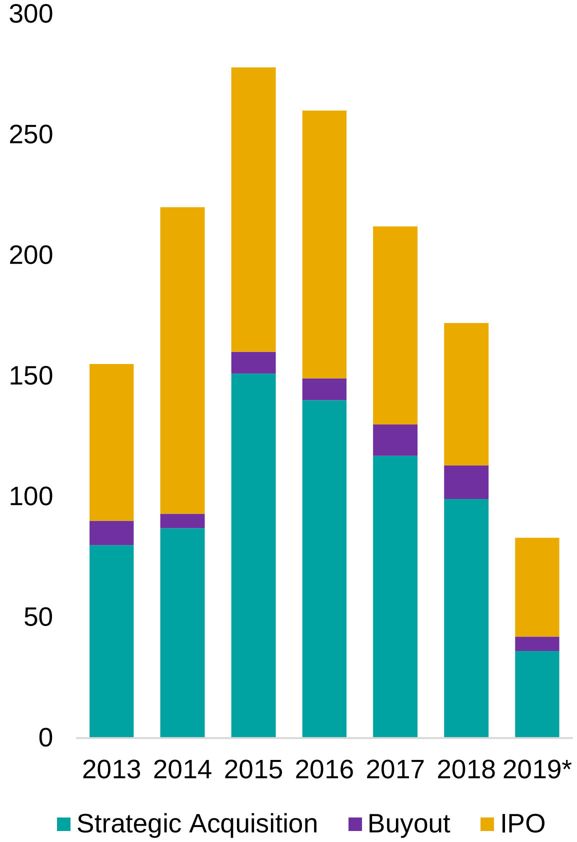
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

As the exit cycle wound down for some time, it was not yet immediately cause for concern given the fledgling status of the Asia-Pacific ecosystem, but it is also very welcome to see a resurgence given the necessity of liquidity to recycle capital back into the startup ecosystem overall.

IPOs still outpace M&A in 2019 to date

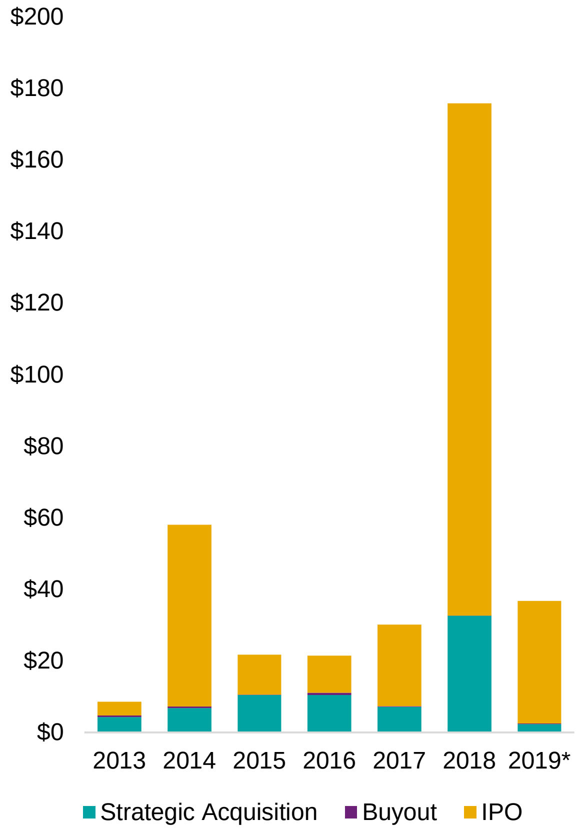
Venture-backed exit activity (#) by type in Asia

2013–2019*



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

2013–2019*



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

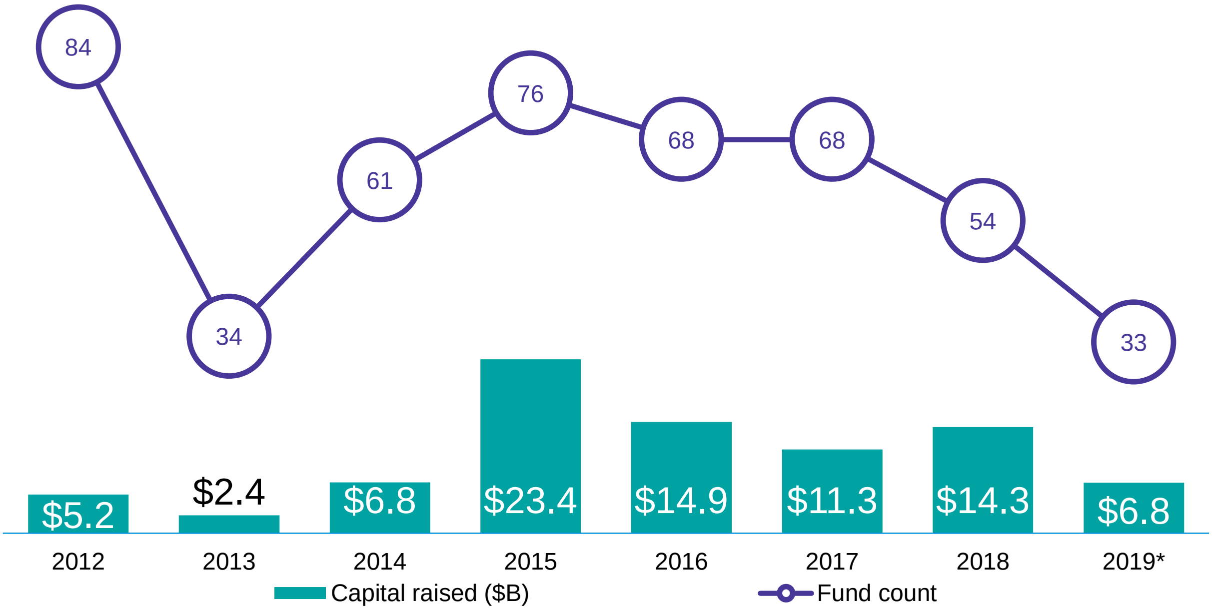
"There has been some economic volatility in Hong Kong this quarter, which has affected a number of industries. But the capital markets have not been badly affected so far, in part because the third quarter is usually slow for the public markets here. The pipeline of companies applying for IPO in Hong Kong is still very strong — but whether they will go out before the end of the year will depend on changing market conditions. InBev's successful IPO could help spur activity."

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

Fundraising slows yet doesn't cease entirely as the year winds down

Venture fundraising in Asia

2012–2019*



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Fundraising is quite choppy on a quarterly basis for even established ecosystems, so for the Asia-Pacific ecosystem, given its stage of maturation, it is only to be expected even yearly tallies may slow somewhat. Volume is only somewhat off this year relative to 2018, while VC raised isn't overly shrunken, so it is likely more of an off year while investors regroup given heftier annual tallies earlier in the decade.

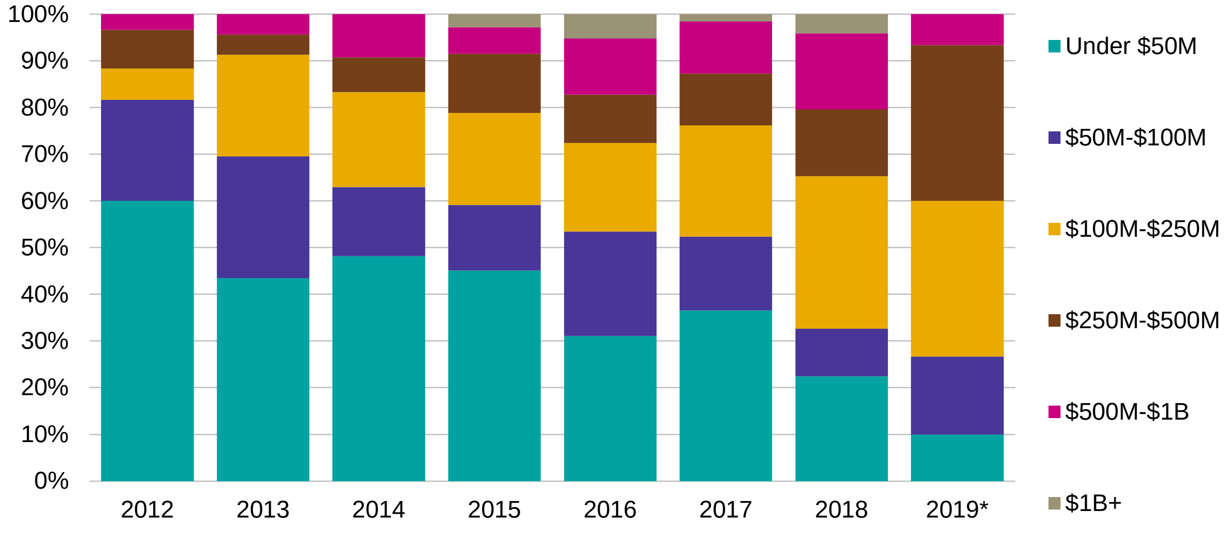
"There's a lot of interest in the Asian market, but investors have really slowed down their activity because there is a lot of nervousness in the market. Investors are being very conservative, waiting to see where things go from an economic and geopolitical perspective. This doesn't mean activity isn't happening at all. "

Egidio Zarrella
Head of Clients and Innovation Partner
KPMG China

Larger, more established firms lead the way in terms of closing funds

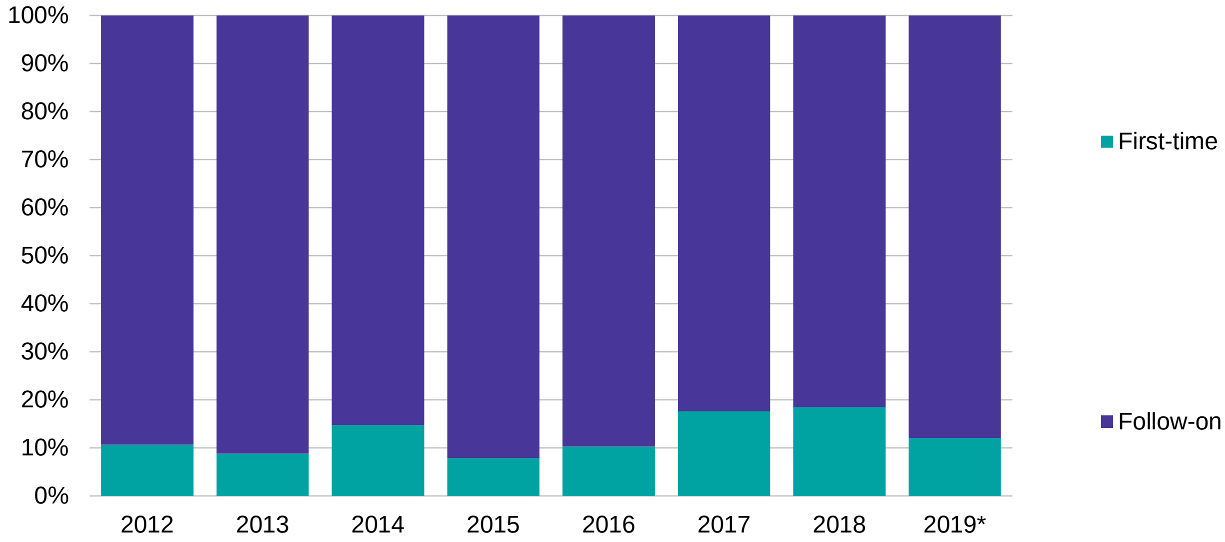
Venture fundraising (#) by size in Asia

2012–2019*



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

2012–2019*



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

India sees rebound in Q3 2019

Venture financing in India

2012–Q3'19

Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

After a gradual downturn throughout 2018, Indian venture financing volume has leveled out at a more typical historical level, while VC invested has regained heights unseen for some time. Industry stalwarts such as Ola contributed to that resurgence, of course, with $490 million in fresh funds flowing to that company in Q3.

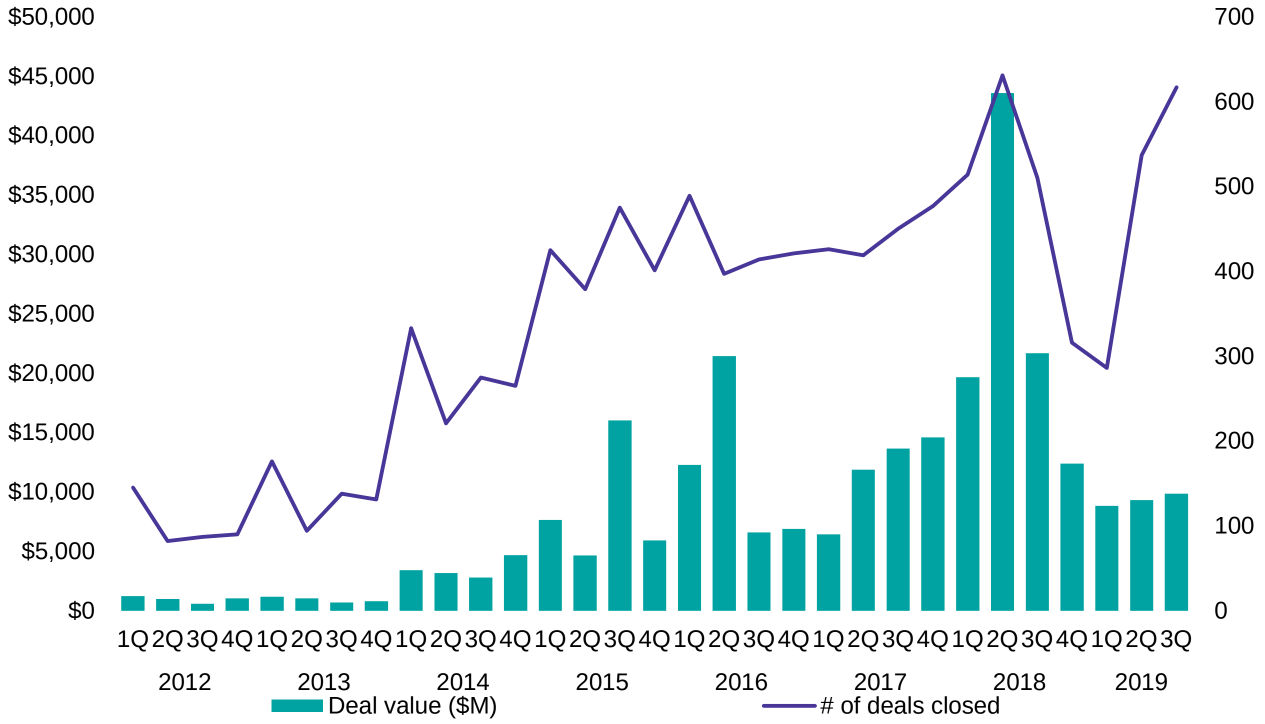
"While there wasn't a single large deal which stood out in Q32019, VC investment activity in general has been robust. While there is some credit squeeze in the economy, the underlying sector performance driven by strong consumption led growth in sectors including fintech, logistics, edtech, and mobility, suggests a very strong pipeline. If there's a slowdown, it is not likely going to have a significant impact in the near term."

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

China experiences resurgence as 2019 closes

Venture financing in China

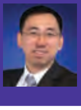
2012–Q3'19



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

In the prior edition of the Venture Pulse, it was noted that the back-to-back muted quarters, after such a high-flying stretch of VC invested and volume, was now more telling for the Chinese venture ecosystem. What likely occurred was a retrenching by domestic investors given some uncertainty both economic and political. Now, however, activity has resurged as said uncertainty was deemed to not exert overmuch of an impact, at least as of yet.

"The VC market in China has slowed down in recent quarters – with the number of deals down significantly comparing to the same periods last year. There's also been a decline in the number of new funds established, which could hinder funding availability in the future. Despite the challenges in the market, a number of sectors continued to attract investment, including fintech, autotech and biotech. Startups also need to focus on profitability and cashflow planning to build a sustainable business."

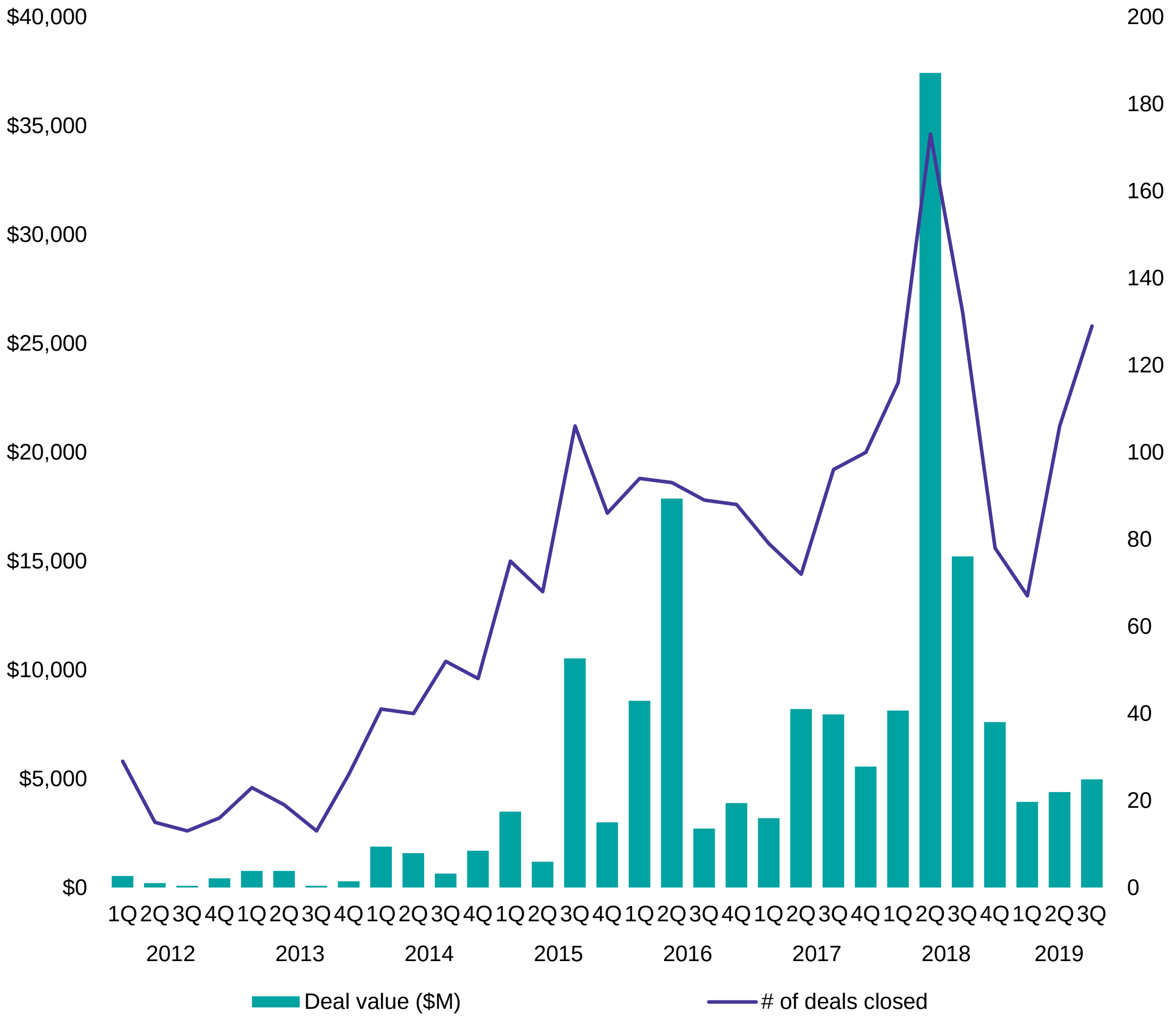


Philip Ng
Partner, Head of Technology
KPMG China

CVCs help support the comeback

Venture financing in China with corporate venture participation

2012–Q3'19

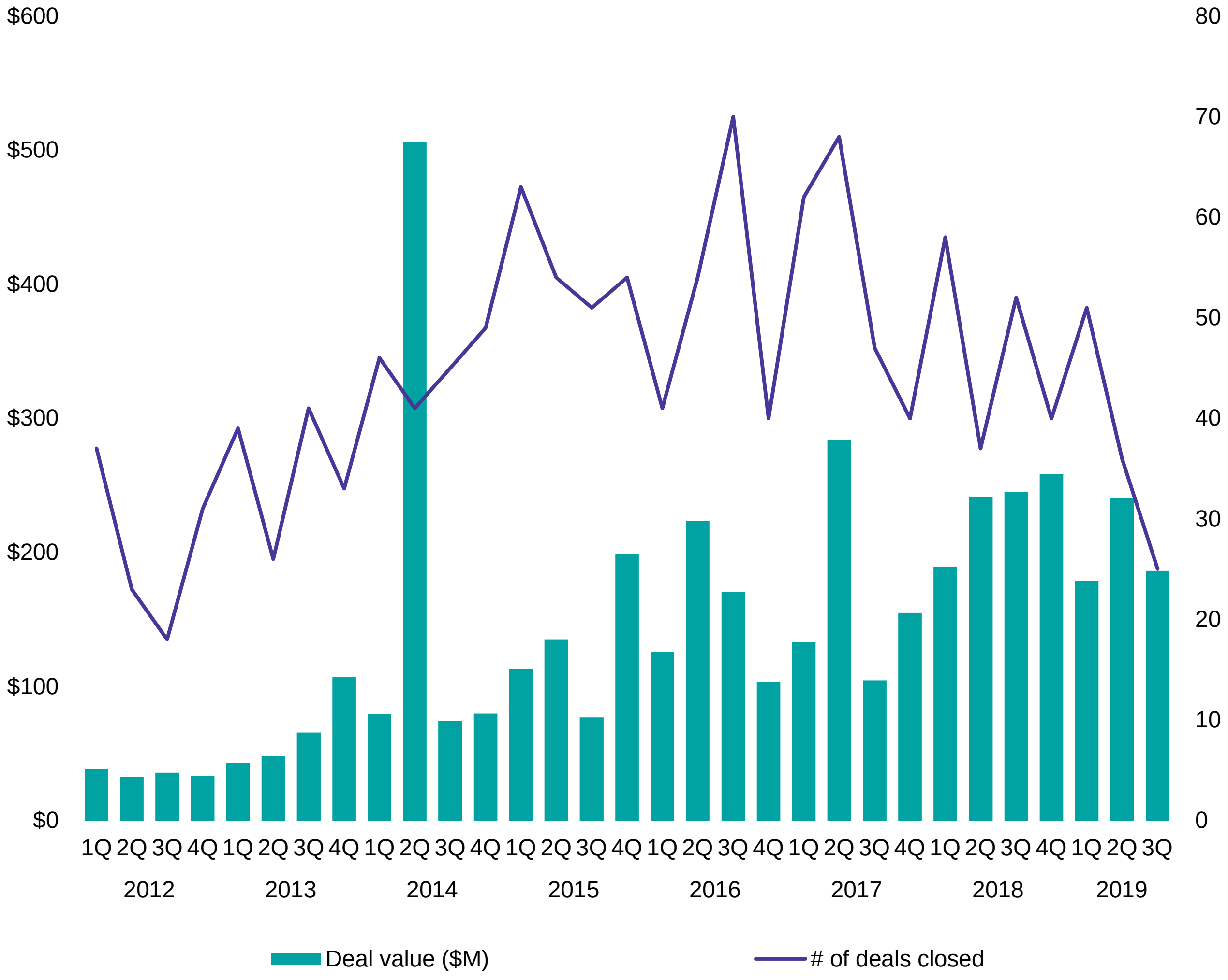


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Australia records a robust quarter for VC invested

Venture financing in Australia

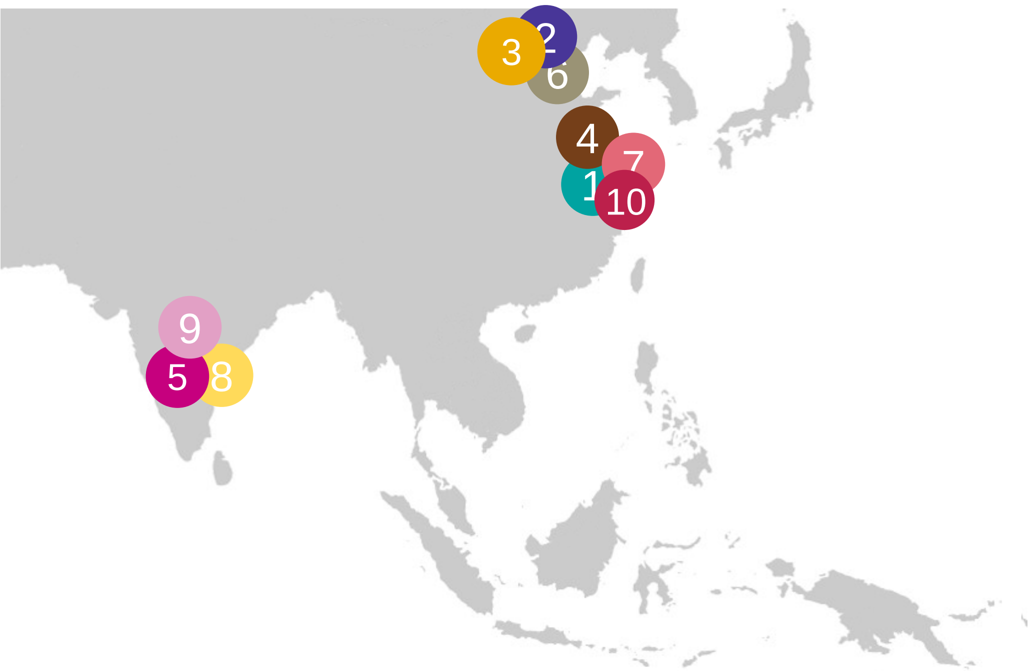
2012–Q3'19



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Reviewing venture activity in Australia on a longer timeframe, it's clear that the last two years have produced the strongest run overall for investment of the decade, even if volume has oscillated wildly. Q3 was no exception, with the strong raises of Culture Amp — $82 million and Employment Hero — $15.3 million — aiding considerably.

China & India dominate Q3 rankings



Top 10 financings in Q3'19 in Asia-Pacific

1. **NetEase Cloud Music** — $700M, Hangzhou
Entertainment software
Series B2

2. **Didi Chuxing** — $600M, Beijing
Automotive
Corporate

3. **CHJ Automotive** — $530M, Beijing
Automotive
Series C

4. **Byton** — $500M, Nanjing
Automotive
Series C

5. **Ola** — $490M, Bengaluru
Application software
Series J

6. **Zhihu** — $434M, Beijing
Information services
Series F

7. **Hellobike** — $400M, Shanghai
Transportation
Corporate

8. **Udaan** — $373.5M, Bengaluru
Business software
Series D

9. **3rdFlix Visual Effects** — $350M, Hyderabad
Educational software
Early-stage VC

10. **D&J China** — $300M, Shanghai
Office services
Late-stage VC

Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

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

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The KPMG Enterprise Global Network for Emerging Giants 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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Arik Speier, Partner, KPMG in Israel

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Raphael Vianna, Director, KPMG in Brazil

Roni Michael, Head of Technology Consulting, KPMG in Israel

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

Tim Dümichen, Partner, KPMG in Germany

Tim Kay, Director, KPMG Enterprise, 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.

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.

Methodology, cont'd.

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, as in 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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