



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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In Q3'19 European VC-backed companies raised

\$9.8B

across

777 deals



VC investment in Europe achieves new record high

During Q3'19, VC investment flourished across much of Europe, despite the ongoing uncertainty around Brexit in advance of the October 31st deadline and the changeover of key positions within the European Commission. Despite a decline in the number of VC deals, the amount of VC investment in Europe increased in Q3'19, setting a new quarterly record. At the end of Q3'19, year-to-date VC investment in Europe stood at \$28.1 billion, already above the annual record high of \$26.6 billion set in 2018.



UK continues to attract VC investment to key sectors

Despite Brexit concerns, UK companies continued to attract substantial investment during Q3'19, led by the \$550 million funding round by Babylon Health. The amount of capital in the UK VC market remained strong with no sign of a slowdown in sectors where the UK is seen as a leader — such as fintech, healthtech, and biotech. In these areas, VC investors in the UK appeared to be more than happy to continue making investments in good UK companies with strong business models.

One relatively recent trend in the UK has been an uptick in B2B back-office solutions. During Q3'19, privacy and compliance software company OneTrust raised \$200 million. Given the growing need for companies to become more efficient and to manage a more complex array of regulatory and compliance requirements, it is expected that this is an area that could see further investment in the future.



Germany sees exceptional quarter of VC investment

Germany neared recession during Q3'19, standing on the edge of a second quarter of negative GDP growth. Despite increasing uncertainty, particularly in the automotive and banking sectors, Germany set a new quarterly record for VC investment by a significant margin. The concerns regarding Germany's key sectors could be helping to fuel VC investment, given the growing pressure on traditional companies in Germany to pivot their core business models. This pressure could also spur an upswell in Germany-based corporate investment in the future.

Fintech, mobility, and biotech were all hot areas of VC investment during Q3'19, with all three sectors seeing large deals. The \$564 million raise by transportation app company FlixBus was the country's largest tech funding round to date, while neobank N26 raised \$470 million, and BioNTech raised \$325 million during the quarter.



Availability of funding helping to propel creation of European unicorns

The availability of funding continued to be strong across Europe during Q3'19, not only from traditional VC firms, but also from family offices. This likely contributed to the lack of interest in IPOs, and the rise of unicorn companies in Europe as new technology companies matured and yet remained private. During Q3'19, the region saw seven new unicorns birthed, including FlixBus (FlixBus) and Deposit Solutions in Germany, Acronis and Numbrs in Switzerland, Babylon Health and CMR Surgical in the UK, and Lightricks in Israel.



Israel sees strong VC investment and M&A

Israel continued to attract solid investment in Q3'19, led by a \$150 million raise by Monday.com and a \$135 million raise by Lightricks — which earned the company unicorn status. M&A activity also remained strong in Israel; during Q3'19, Salesforce announced that it would acquire Israel-based company Clicksoftware for \$1.35 billion, while Siemens announced its acquisition of Israeli healthtech company Corindus Vascular Robotics for \$1.1 billion.

VC investment in Europe achieves new record high, cont'd.



VC market in Nordic region continues to grow and mature

VC investment in the Nordic region remained robust, on pace to shatter its record for annual VC funding. International investors and corporates accounted for a large part of this funding. At a sector level, fintech was the biggest winner during Q3'19, with Sweden-based Klarna raising \$460 million in order to fund its expansion into the US.

A number of VC firms are fundraising for new funds in the Nordics and bigger funds are also cropping up in all of the Nordic countries. We're seeing also lot of increased attention from Asian conglomerates towards the region. More funding could spur higher valuations compared to historical norms as competition for the best deals might increase in the future.



Ireland remains a hotspot for fintech investment

During Q3'19, Ireland continued to attract a significant amount of attention from VC investors. The fintech sector continued to be one of the country's hottest sectors for investment, led by Fenargo's \$74 million raise and Future Finance's almost \$26 million raise. During the quarter both Revolut and Starling Bank also announced plans to open international offices in Dublin and Raisin extended its platform to Ireland. Irish biotechs also continued to attract investment, with companies like Croi Valve standing out. Looking forward, Ireland could be poised to see some further investment in lifestyle foods and vegan food company Strong Roots raised over \$19 million in Q3'19.



Trends to watch for in Europe

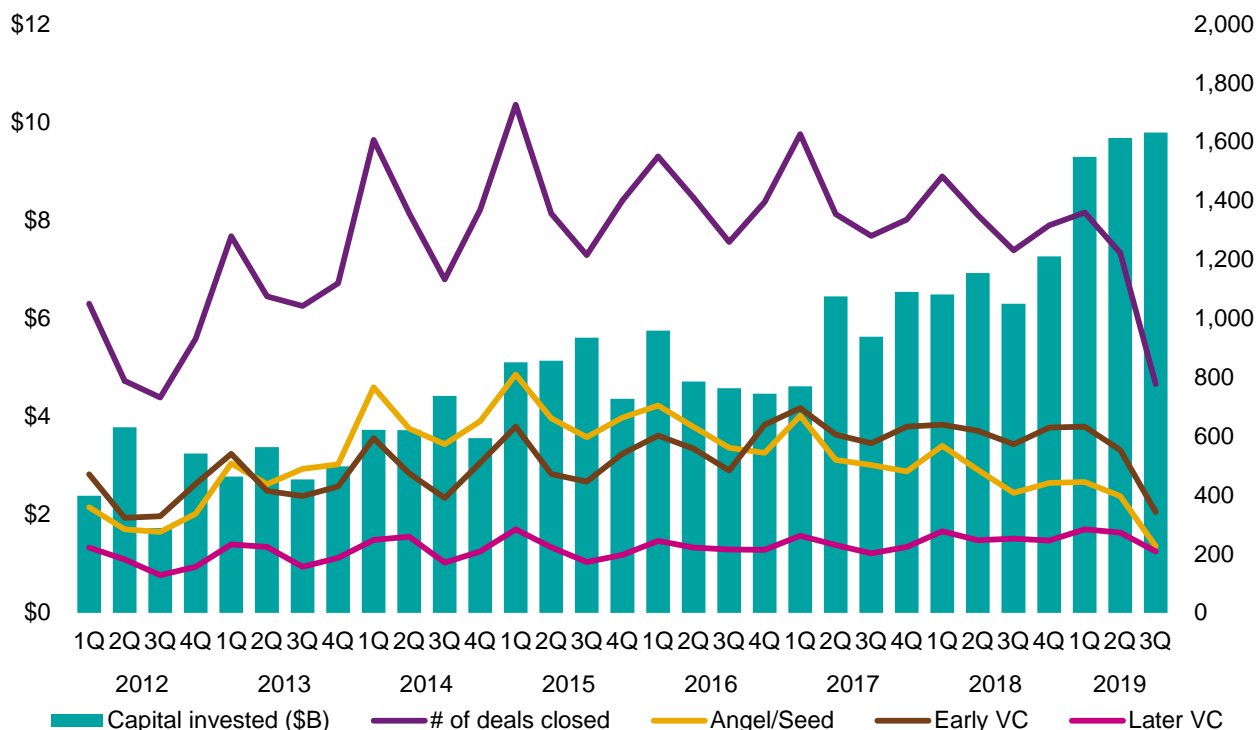
All eyes will be on the UK heading into Q4'19 given the rapidly approaching October 31st deadline. If completed, the outcome of Brexit will likely have a resonating impact on the region during the quarter and into 2020.

Across the region, fintech, mobility, healthtech and biotech are expected to remain very hot. Given the growing emphasis being placed on climate change and sustainability in the region, there could also be an uptick in investment in related technology areas.

2019 tallies climb higher and higher

Venture financing in Europe

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

Venture volume will likely tick back upward after additional datasets that are not currently available are able to be researched; however, the European venture ecosystem is definitely thriving. By the slightest margin, more VC was invested in the continent than ever before for a single quarter in Q3. These tallies benefit in huge part from the first widescale crop of late-stage startups that are able to command significant fundraises across the continent.

“Despite a drop-off in the number of VC deals, VC investment in Europe grew for the third straight quarter. While there continues to be a significant amount of geopolitical and economic uncertainty permeating Europe, VC investors have continued to make strong investments, particularly in late-stage deals as maturing companies target international expansion.”

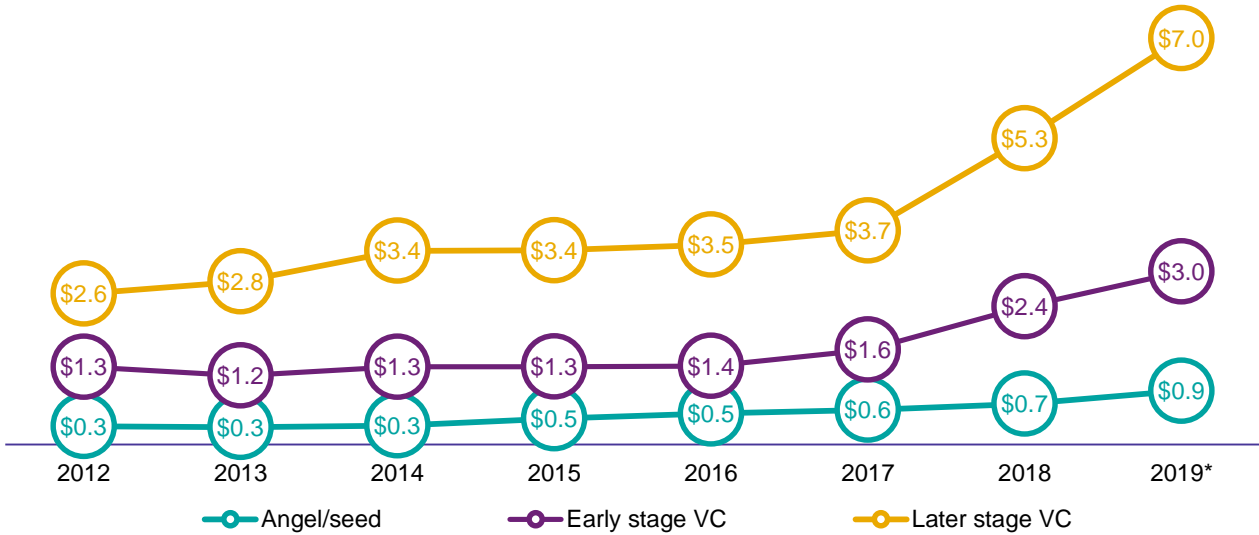


Kevin Smith

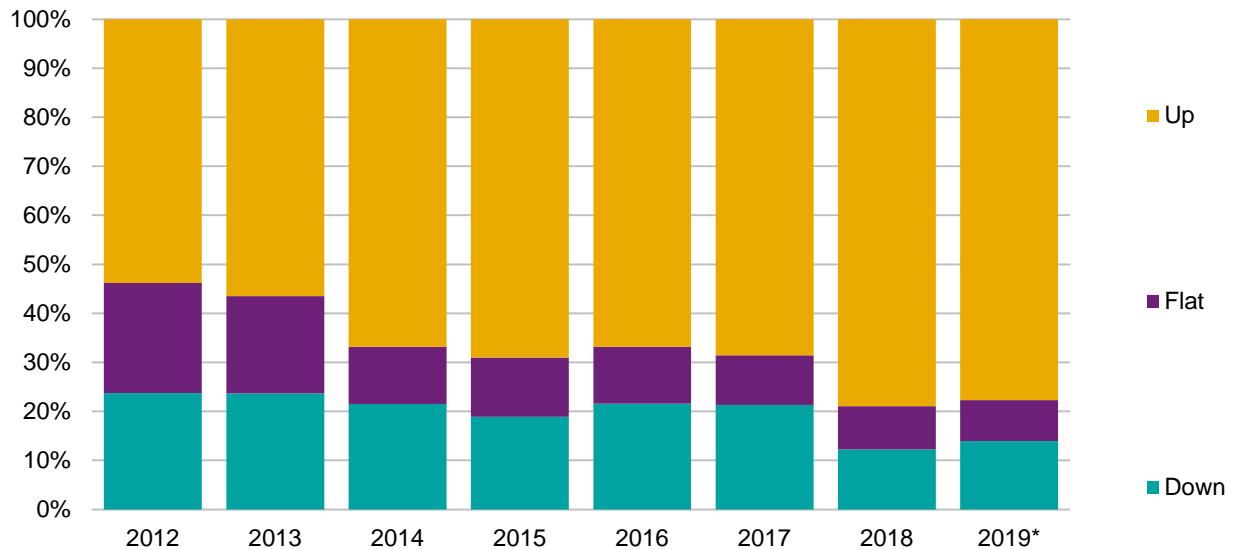
Co-Leader, KPMG Enterprise Emerging Giants Network, **KPMG International** and Head of Clients and Growth — National Markets, **KPMG Enterprise in the UK**

Down rounds tick up for first time in years

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



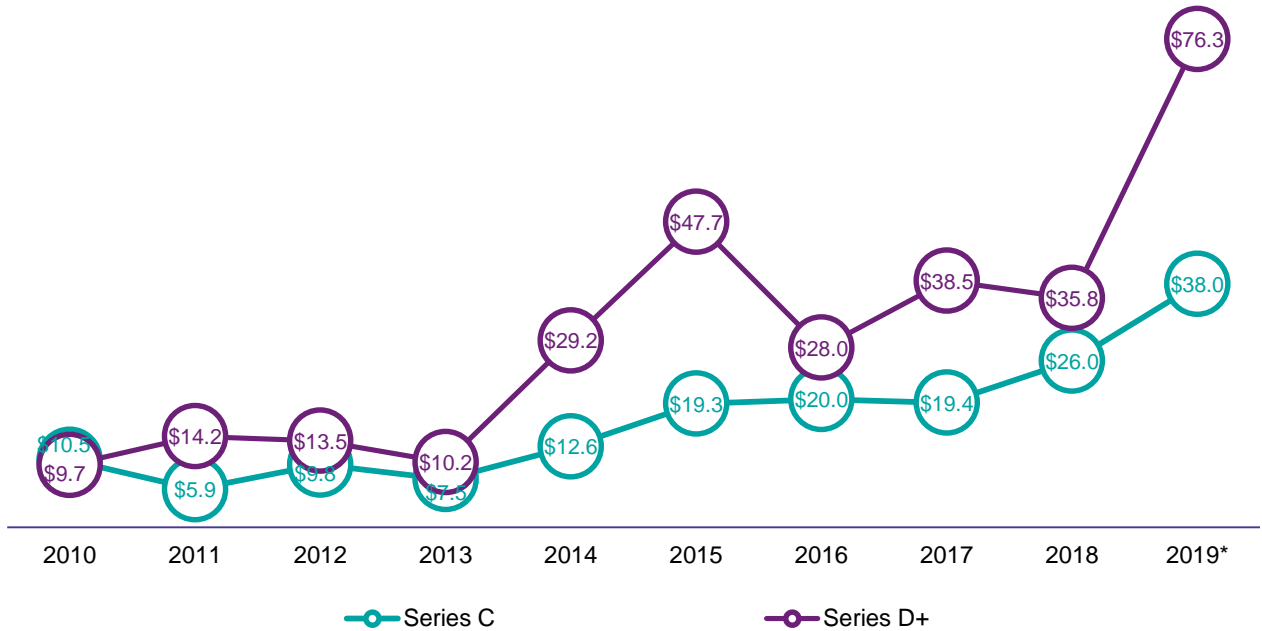
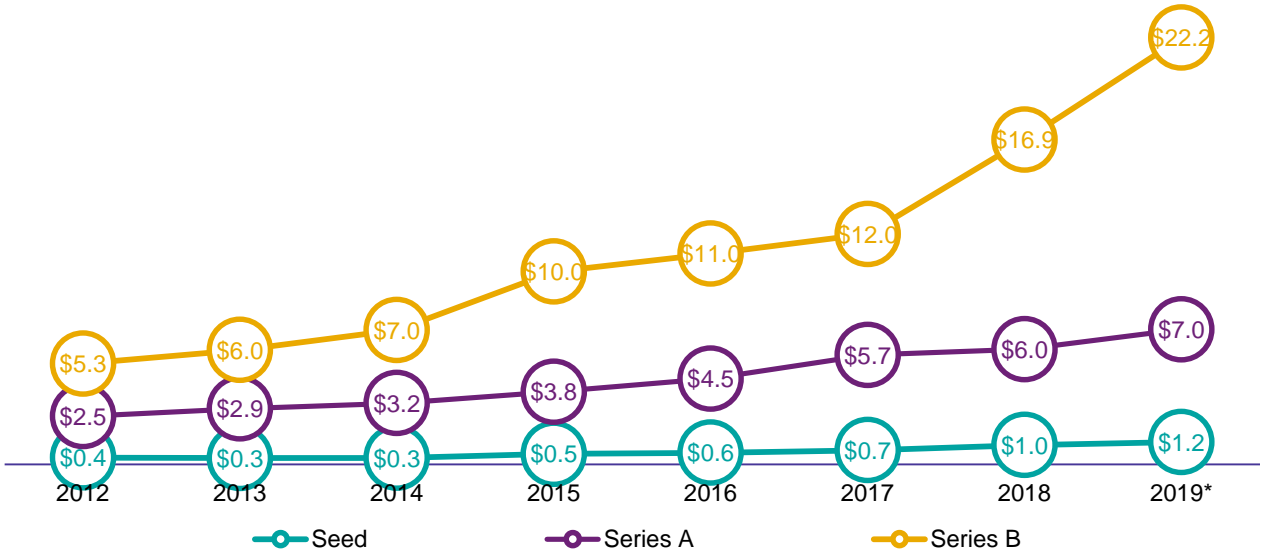
Up, flat or down rounds in Europe 2012–2019*



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

The late-stage more than doubles

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

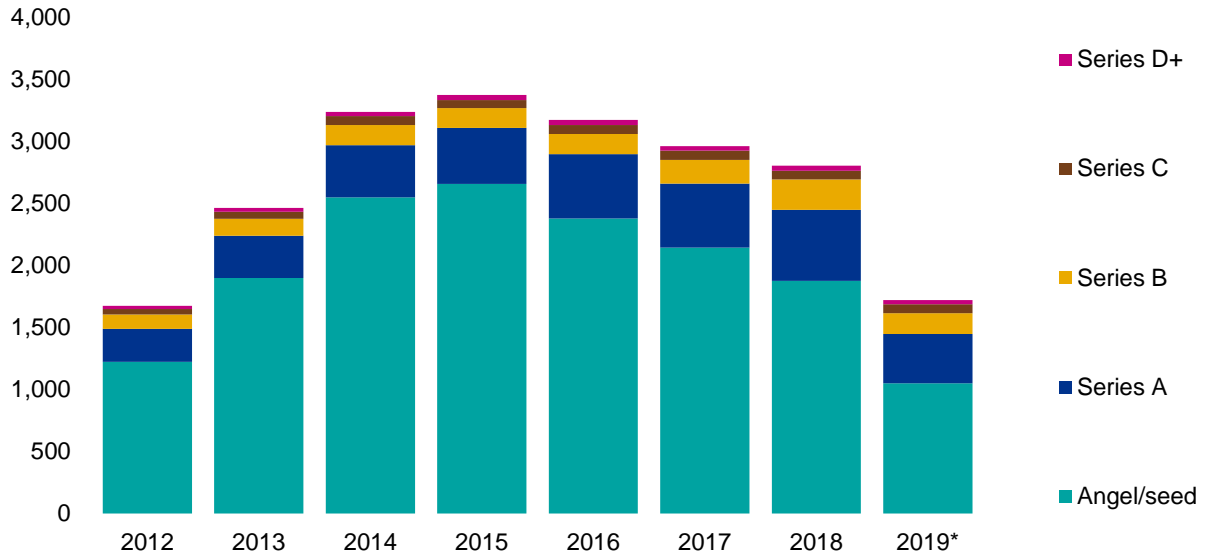


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Series D+ is close to doubling VC invested tally

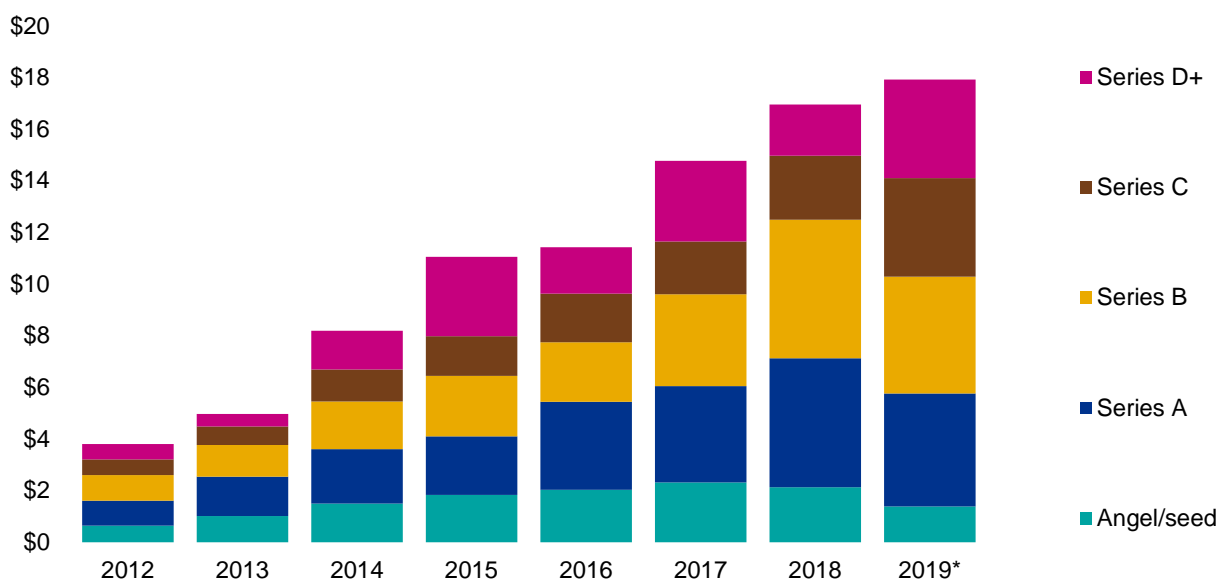
Deal share by series in Europe

2012–2019*, number of closed deals



Deal share by series in Europe

2012–2019*, VC invested (\$B)

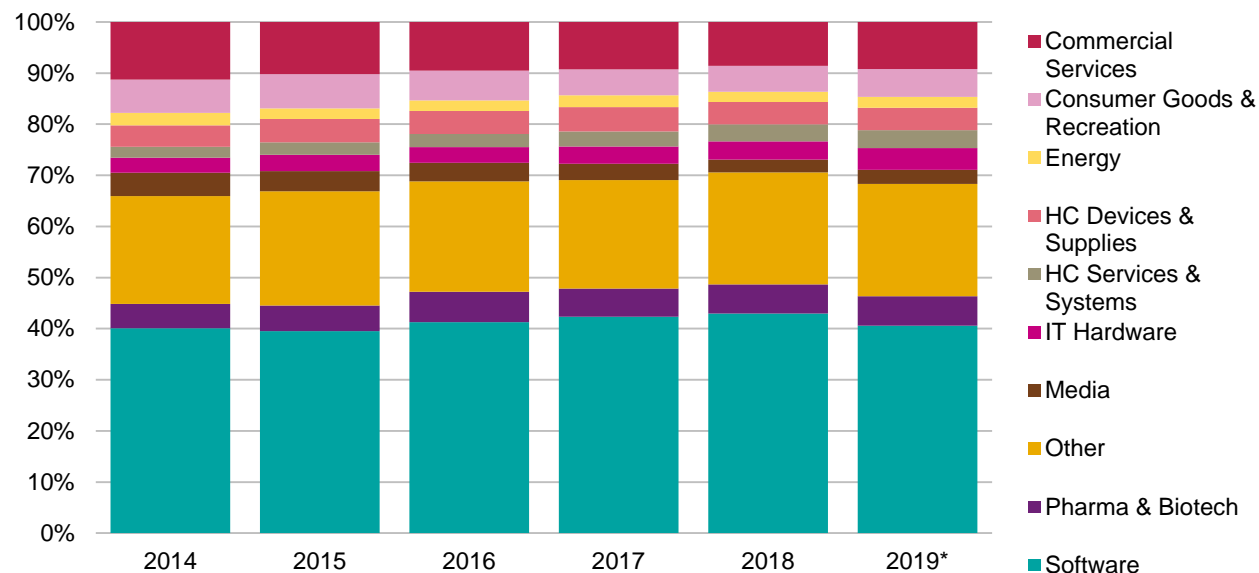


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Software commands the most VC still

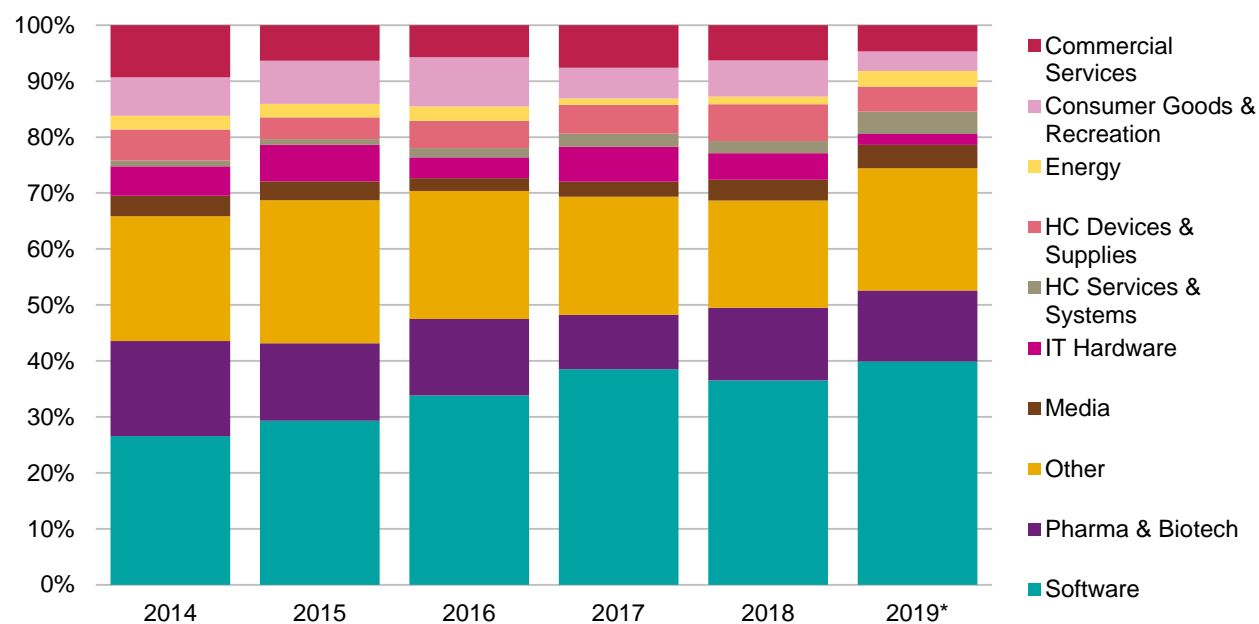
European venture financings by sector

2014–2019*, number of closed deals



European venture financings by sector

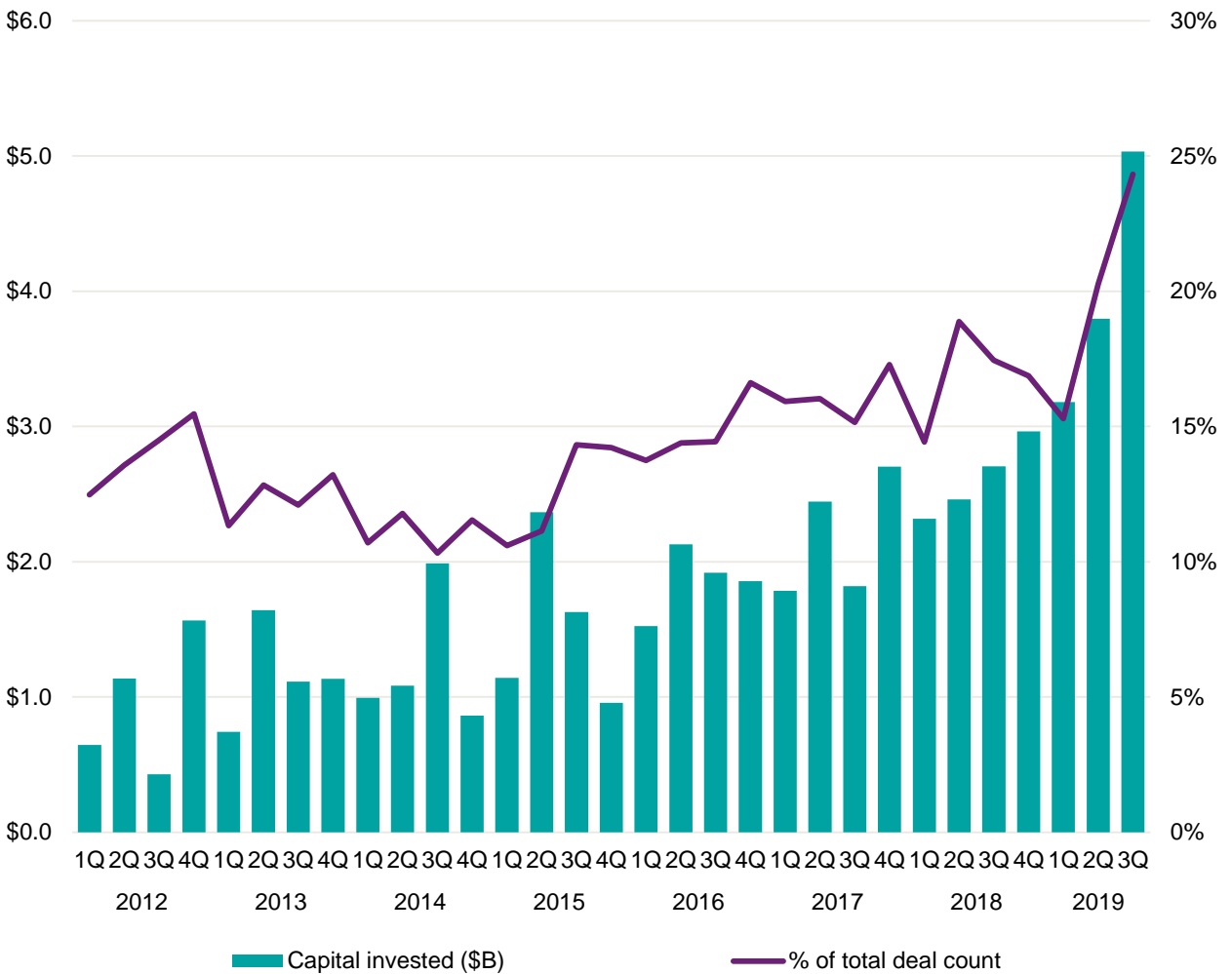
2014–2019*, VC invested (\$B)



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

VC invested with corporates soars exponentially

Corporate VC participation in venture deals in Europe 2012–Q3'19



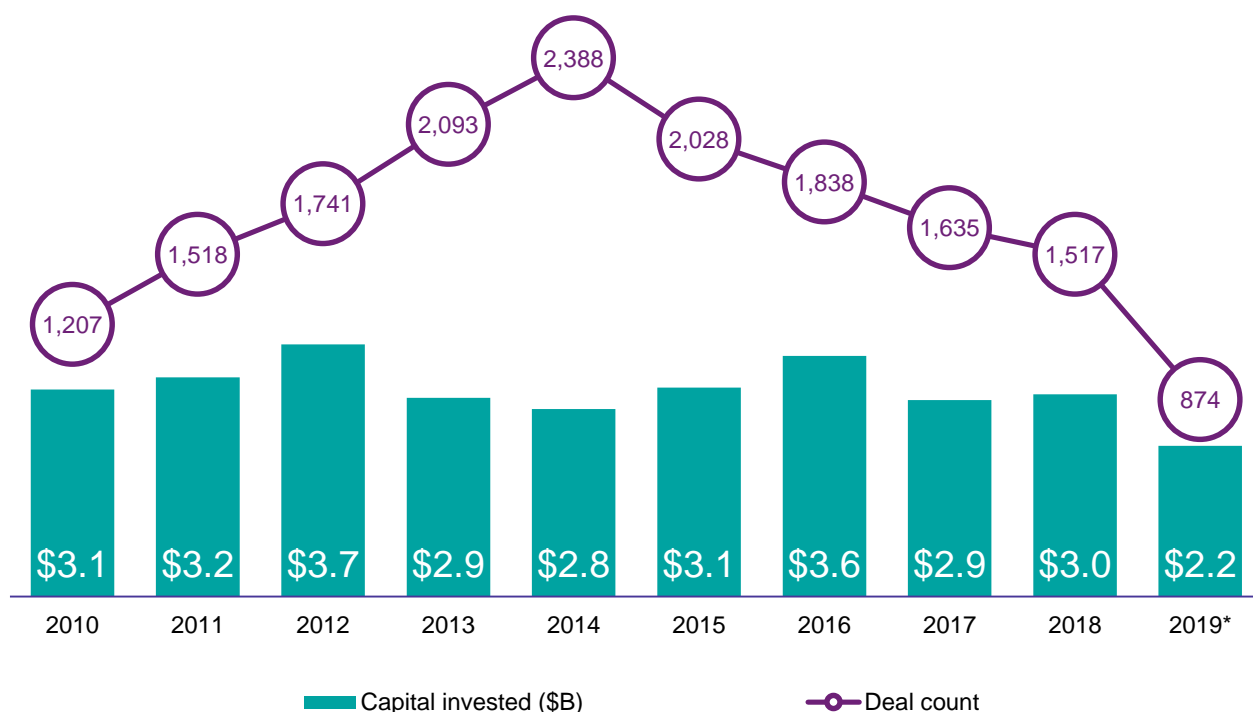
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

The rise in quarterly VC invested tallies with corporate participation is almost exponential, climbing from over \$2 billion to just over \$5 billion since the start of 2018. Corporations and their venture arms, especially in Europe and Asia-Pacific, are helping fuel much of the exposure to maturing, later-stage companies.

First-time funding volume may hit new low

First-time venture financings of companies in Europe

2012–2019*

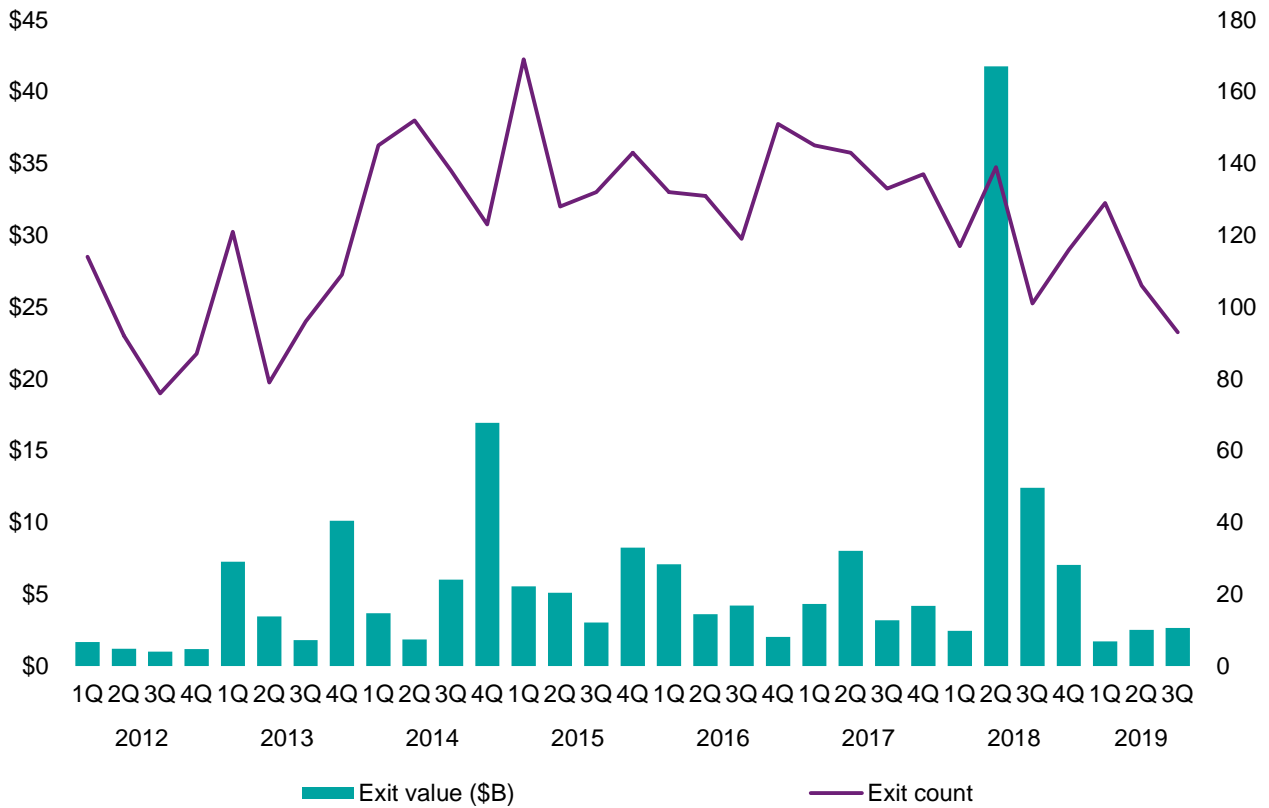


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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). It is likely that alternative funding routes are also affecting these tallies, as companies have more options for financing nowadays plus also more options for bootstrapping given the proliferation of inexpensive software tools. That said, at least plenty is still being invested in first-time fundings, when they do occur.

2019 exit volume stays sluggish

Venture-backed exit activity in Europe 2012–Q3'19



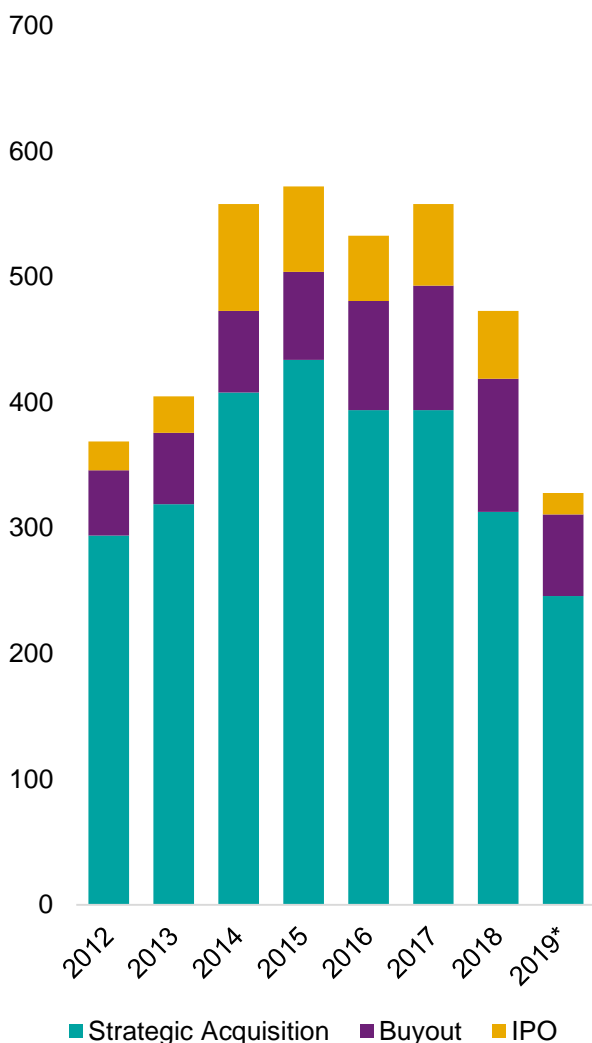
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

Given sluggish exit volume across Europe in 2019 to date, it is likely going to take the crop of maturing, late-stage companies — that are currently helping push deal values to new records — finally going public or being acquired to help reverse this state of affairs.

M&A remains more critical than ever for liquidity

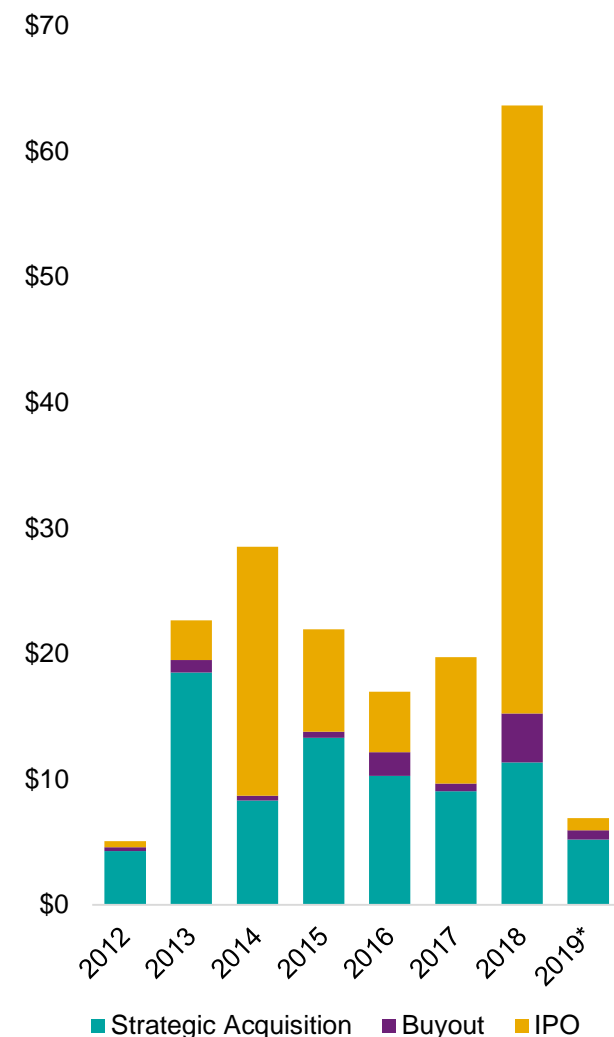
Venture-backed exit activity (#) by type in Europe

2012–2019*



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

2012–2019*

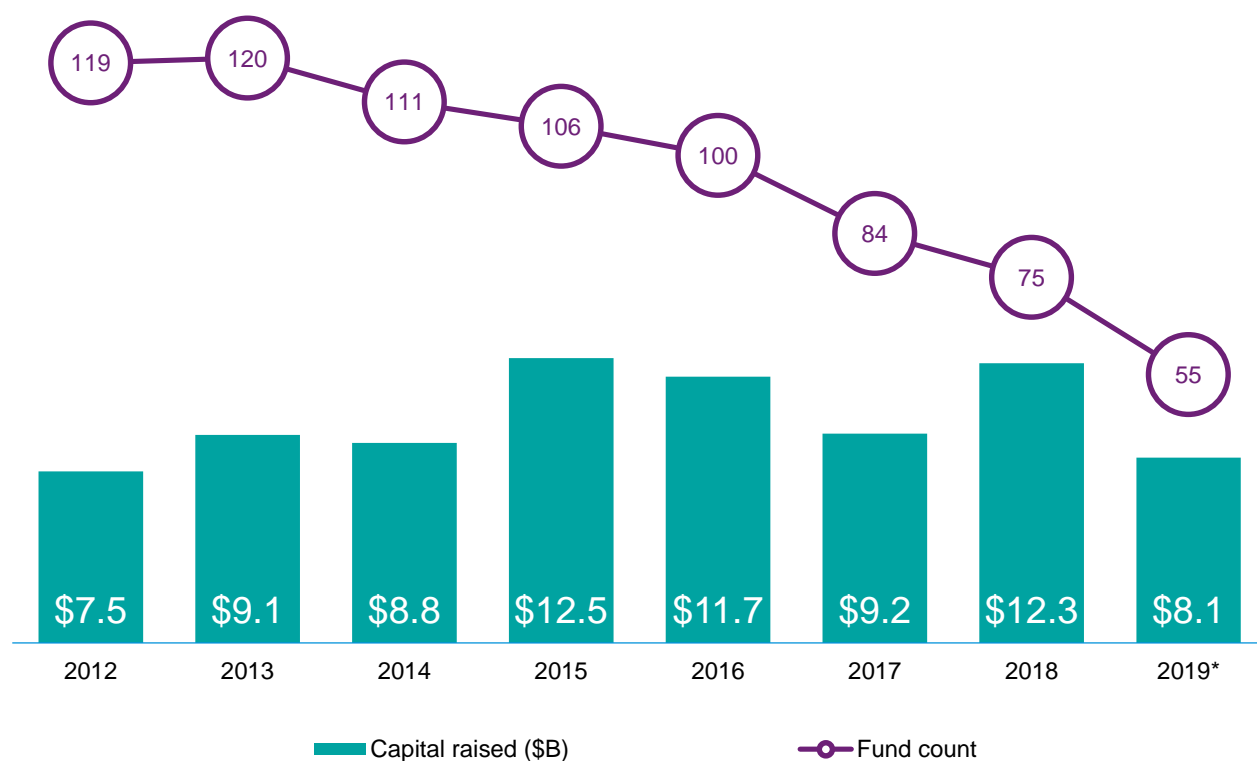


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Fundraising recovers somewhat

European venture fundraising

2012–2019*



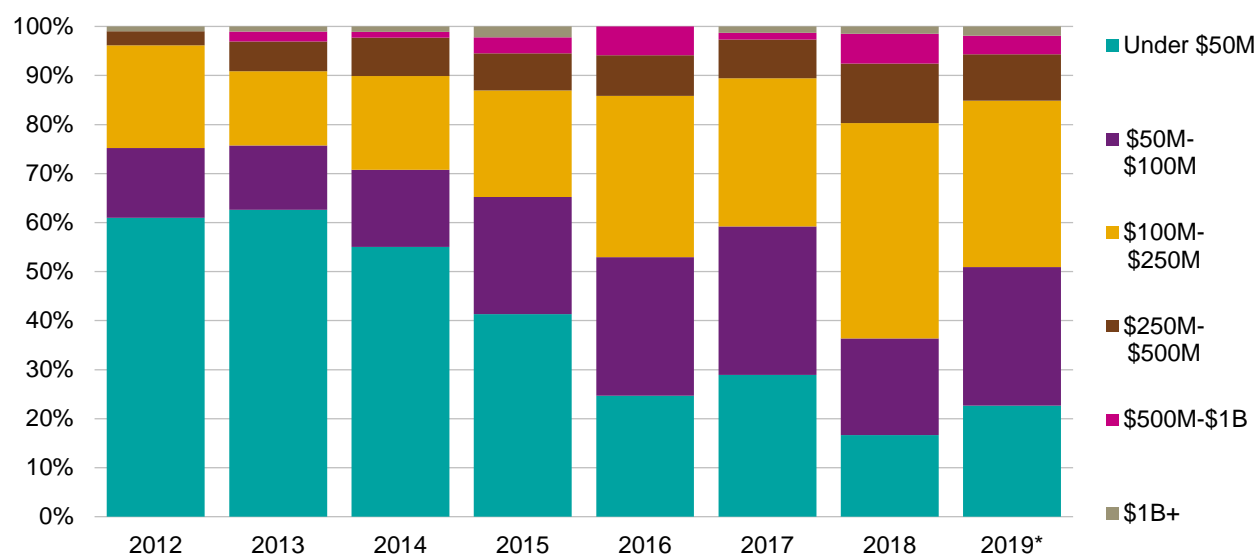
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

The European fundraising scene is dominated by a smaller population of successful firms, and thus even with 75 pools of capital closed last year, a second-highest tally of \$12.3 billion can be closed upon. This year has seen somewhat similar figures thus far, with VC raised rebounding to likely close the year in the double digits.

First-time fundraising surges back in 2019 to date

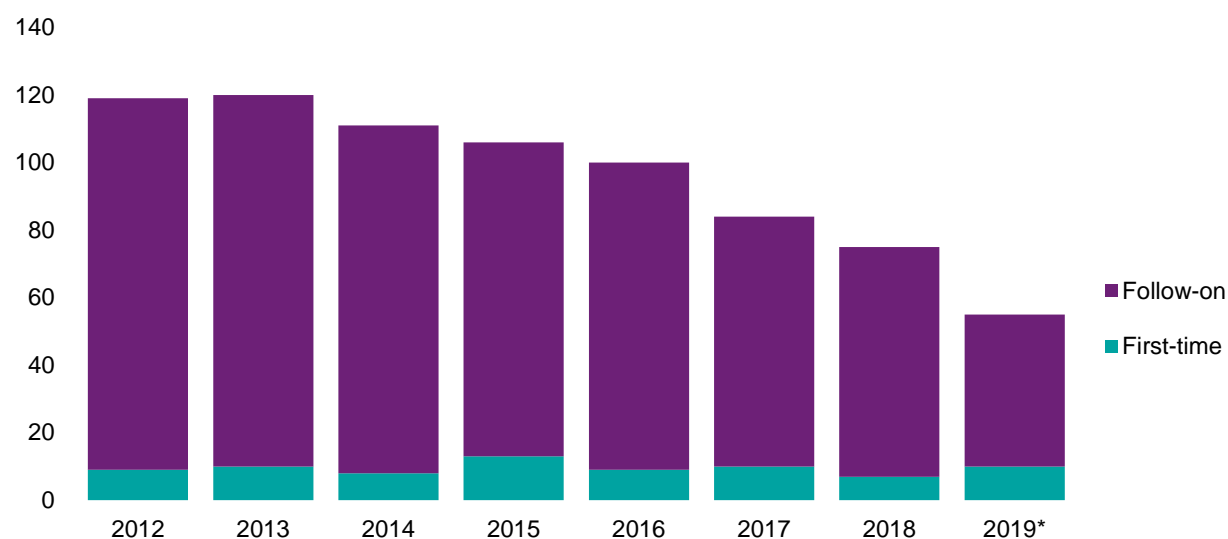
Venture fundraising (#) by size in Europe

2012–2019*



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

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.

Volume likely to reverse as VC invested is strong

Venture financing in the United Kingdom 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.

Whatever outcome Brexit may ultimately have, when it is ever finally concluded, it does not seem to have affected venture investors' outlook for quite a few UK startups, thus far. VC invested is still robust as ever, while volume likely dipped but not that great of an extent — it'll likely recover once clandestine deals are finally unearthed. However, it must be noted that Brexit could and likely will exert more of an impact as its ramifications are actually realized.

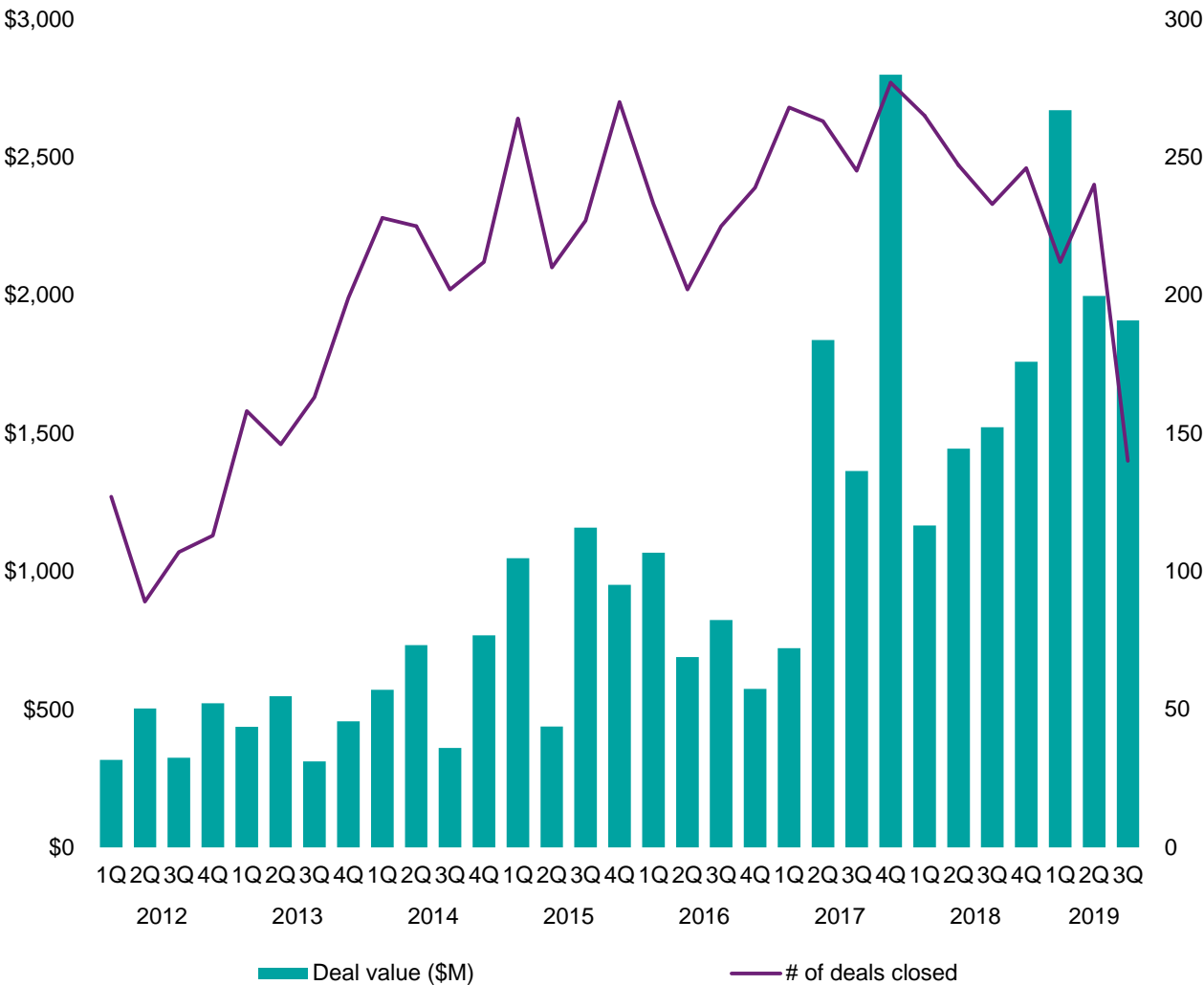
"There's no sign that sectors such as fintech and healthcare are slowing down in the UK. Globally, the UK is a world leader in these spaces and companies are going to continue to get the capital they need so that they can expand globally. There is still capital in the market and VC investors appear to have few qualms about investing in UK stalwart industries."



Tim Kay
Director, KPMG Enterprise
KPMG in the UK

London sees greatest extent of the drop

Venture financing in London 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.

The more material implications related to Brexit thus far for the London startup ecosystem are still 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. It's unclear whether that is one of the drivers behind the sharp dip in Q3, as there are other factors at play, including data collection lags, but the discussion around a hard Brexit can hardly be helping given the uncertainty induced.

A healthy quarter for Irish VC

Venture financing in Ireland 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.

The Irish venture ecosystem continues to see significant skewed quarterly results, but Q3 was quite healthy despite a downturn in activity (barring data lag issues). Fenengo, an enterprise regulatory software developed, helped skew totals upward by raising €66 million in July.

“Companies who are developing products and services to help arrest climate change and support the decarbonisation agenda are probably not attracting the VC dollars they should expect. I predict that over the next few quarters, we will see more investors putting their money behind early stage companies with decarbonisations solutions. And I think public sentiment (at least in Europe) would support that! In fact, KPMG is creating a global VC fund for Cleantech innovation in collaboration with the World Economic Forum”.

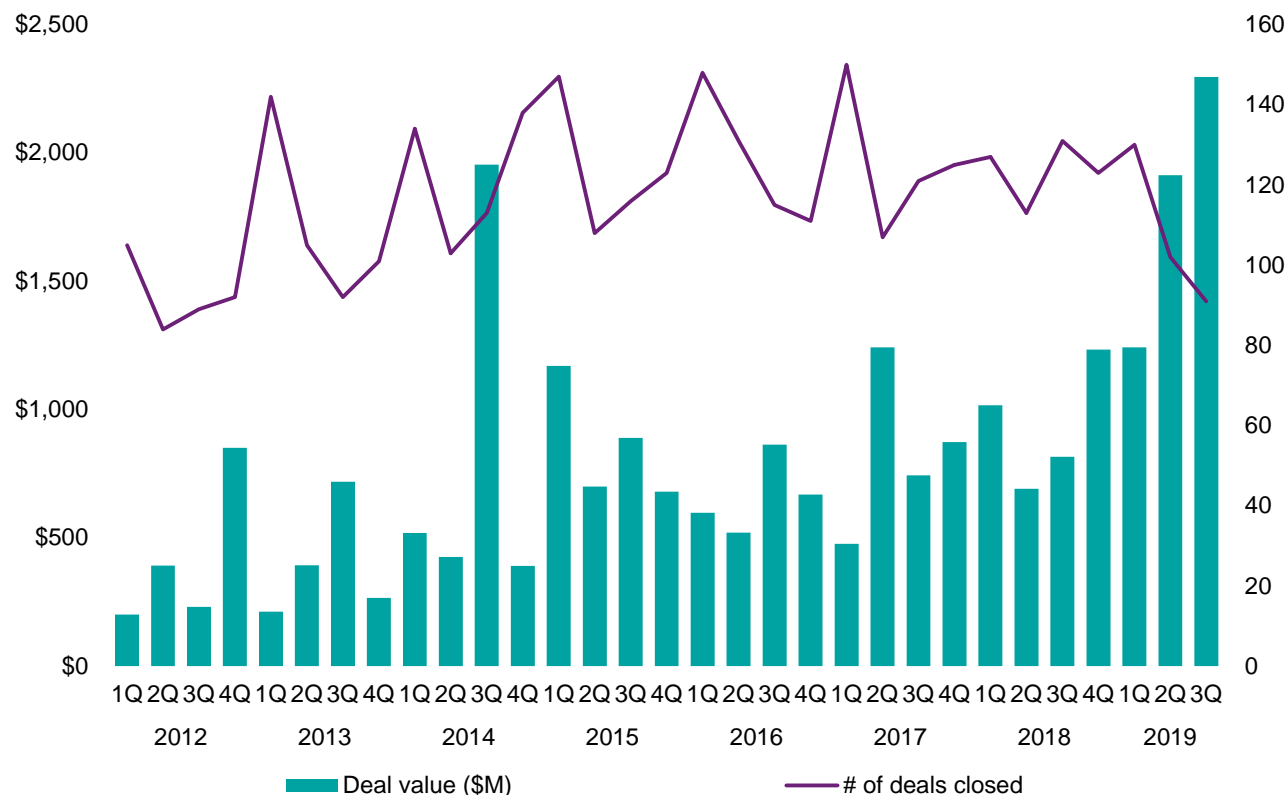


Anna Scally
Partner, Head of Technology and Fintech Lead
KPMG in Ireland

A record quarter for German VC

Venture financing in Germany

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.

The Germany venture scene had such a steady run of venture volume, the downturn is likely to be temporary and if anything more mild in coming quarters. However, more important to note is the production of large, late-stage companies by the German ecosystem, with companies like N26 and FlixBus raising over \$1 billion combined in Q3 2019.

“A number of industries in Germany have been facing challenges, including the OEMs in the automotive sector and the banks. These challenges are putting a lot of pressure on traditional organizations to rethink their core business models. This is likely contributing to the big investments we’ve seen in fintech and mobility. We’re going to see some significant disruptive changes in the near future.”



Tim Dümichen
Partner
KPMG in Germany

After a record Q2, Berlin sees shift of VC away

Venture financing in Berlin 2012–Q3'19

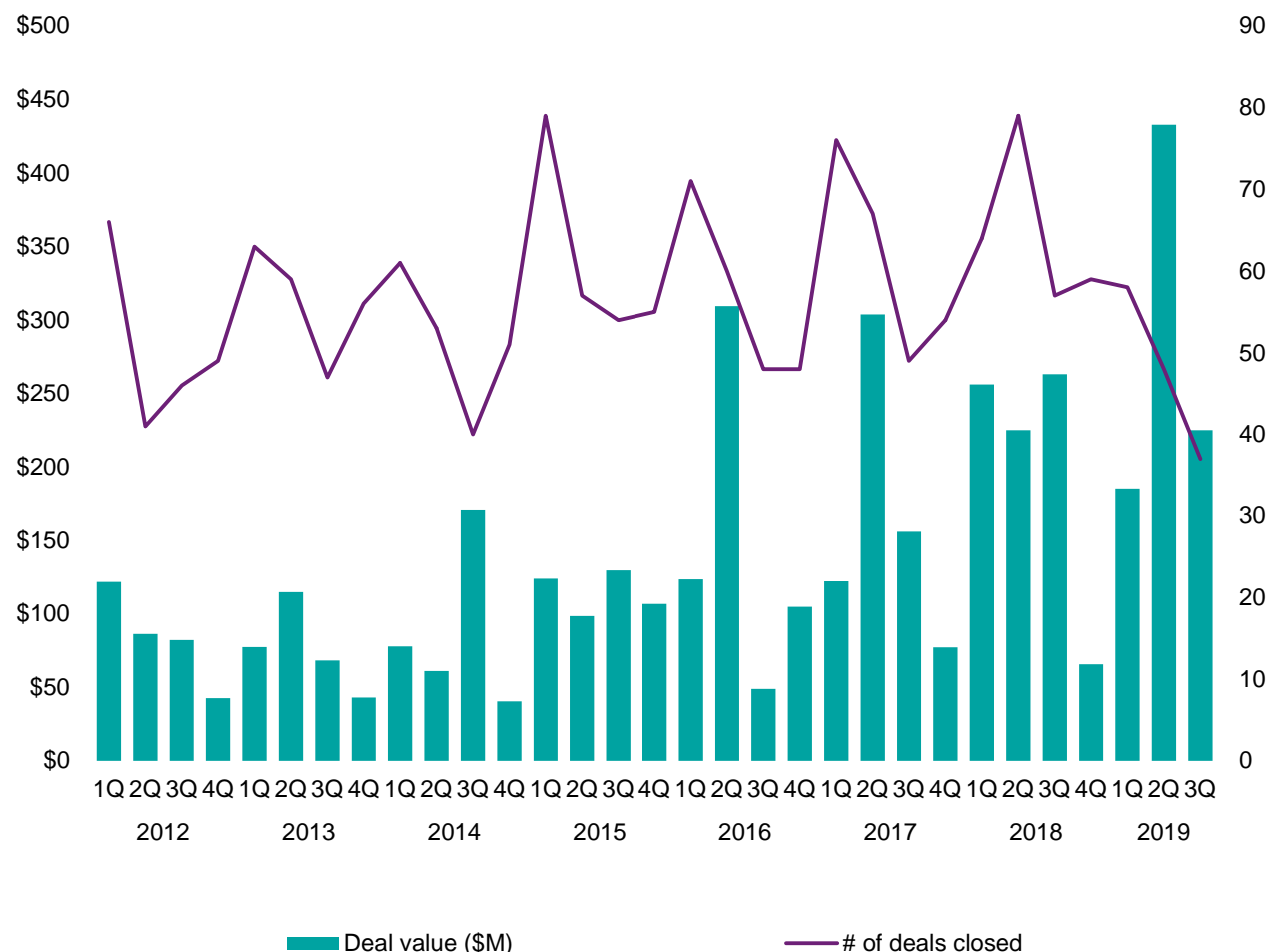


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

The Berlin startup ecosystem is the largest in the nation, however, Germany has enjoyed several other hotbeds of entrepreneurial activity and consequently funding, from Munich to Mainz. Hence the shift away from Berlin even during a record quarter overall of venture capital invested.

Spain sees reversion to the mean

Venture financing in Spain 2012–Q3'19

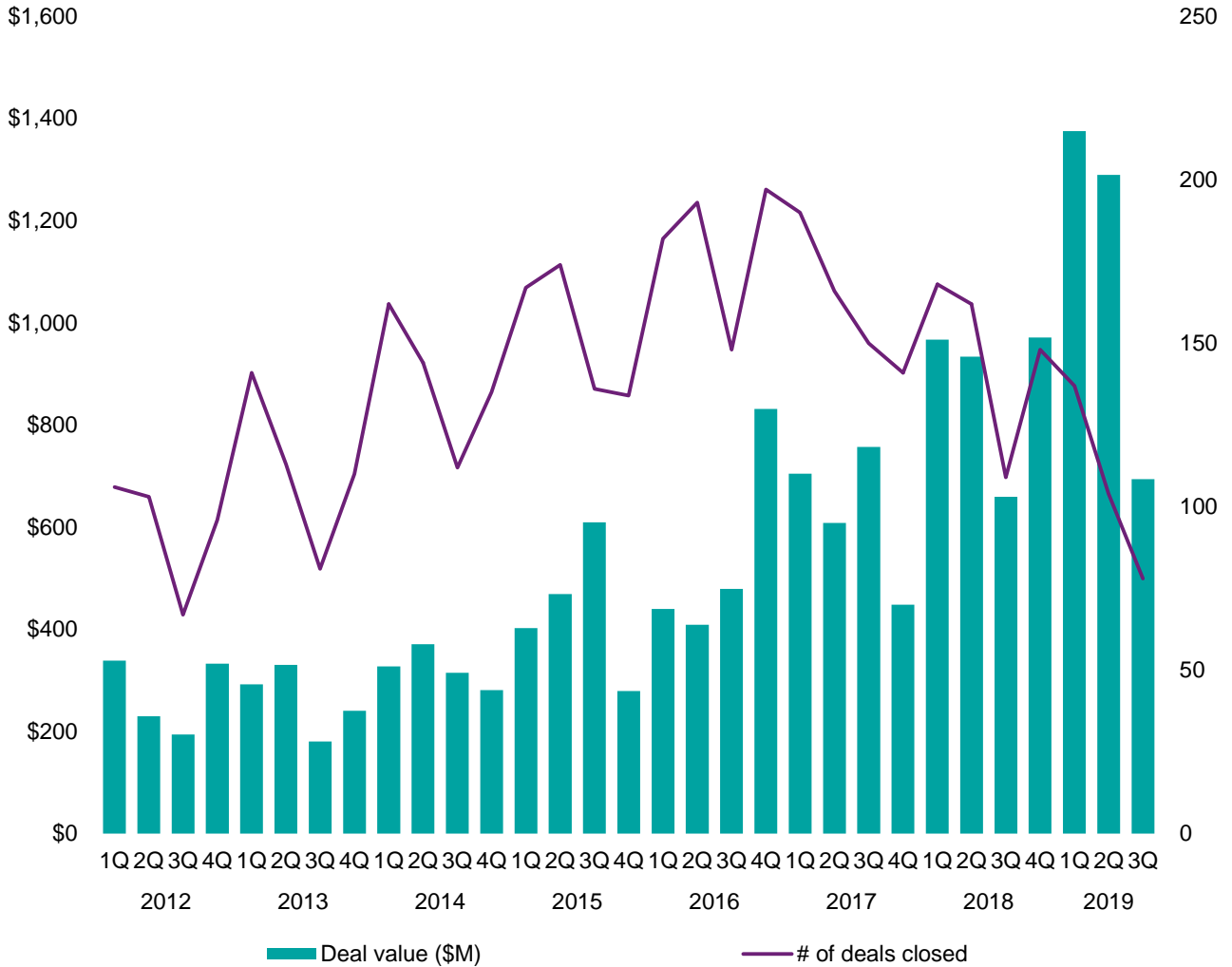


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

As remarked last quarter in the prior edition of the Venture Pulse, the Spanish ecosystem sees some quarterly disparities in volume in particular, given it is still maturing and yet on the whole capable of producing companies that can rake in significantly sized rounds. Reversion to the mean was inevitable, and yet it is worth noting Spain still notched a historically healthy quarter.

France finally sees return to historical levels

Venture financing in France 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 blockbuster half-year, it makes sense that the French venture ecosystem would see some reversion to the mean eventually. That said, VC invested remained historically healthy at well over \$600 million invested in total, even as volume declined significantly — given data lags, it is likely that decline will moderate once undisclosed deals finally are unearthed.

After hosting a record half, Paris takes a breather

Venture financing in Paris 2012–Q3'19



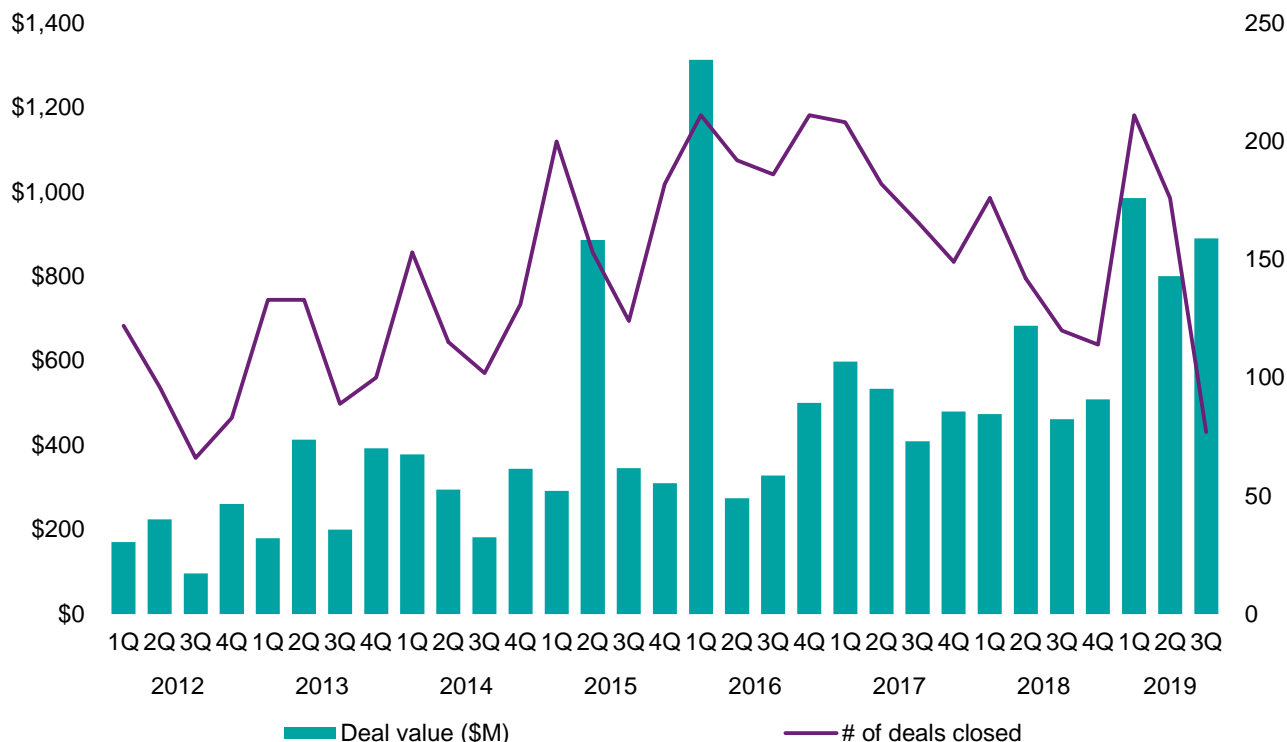
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Paris is much the center of the French venture ecosystem as New York is the center of the New York state ecosystem. Consequently, given the downturn in French venture funding overall, the drop for the city of light was only to be expected.

Nordics' tallies stay strong

Venture financing in the Nordics

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.

Across the regional venture ecosystems of Stockholm, Helsinki, Copenhagen and more, the Nordics boast a significant array of startup hotbeds, which has helped keep venture financing at healthy levels for most of a year now. It should be noted that the strong tally of VC invested in Q3 was due in large part to one funding, the \$460 million round that payments platform Klarna closed.

"The Nordic region is seeing more money in the VC market than ever. A lot of VC firms are fundraising for new funds, while new micro funds are also trying to enter the market focused on specific technologies or industry sectors. We're seeing VC investors embracing numerous industries across the Nordic countries –from fintech to gaming and SaaS. In recent quarters, there's also been a strong uptick in corporate investment, mostly focused on late-stage deals."



Jussi Paski
Head of Startup Services
KPMG in Finland

Q3 sees proliferation across the continent



Top 10 financings in Q3'19 in Europe

- | | |
|---|--|
| <p>1 FlixBus — \$564.4M, Munich
Automotive
Series F</p> | <p>6 CMR Surgical — \$254.2M, Cambridge
Surgical devices
Series C</p> |
| <p>2 Babylon Health — \$550M, London
Healthcare services
Series C</p> | <p>7 OneTrust — \$200M, London
Business software
Series A</p> |
| <p>3 N26 — \$470M, Berlin
Financial software
Series D</p> | <p>8 Drylock Technologies — \$167.85M, Zele
Personal products
Late-stage VC</p> |
| <p>4 Klarna — \$460M, Stockholm
Financial software
Late-stage VC</p> | <p>9 Monday.com — \$150M, Tel Aviv
Business software
Series D</p> |
| <p>5 BioNTech — \$325M, Mainz
Biotechnology
Series B</p> | <p>10 Acronis — \$147M, Schaffhausen
Network management software
Late-stage VC</p> |

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



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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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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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