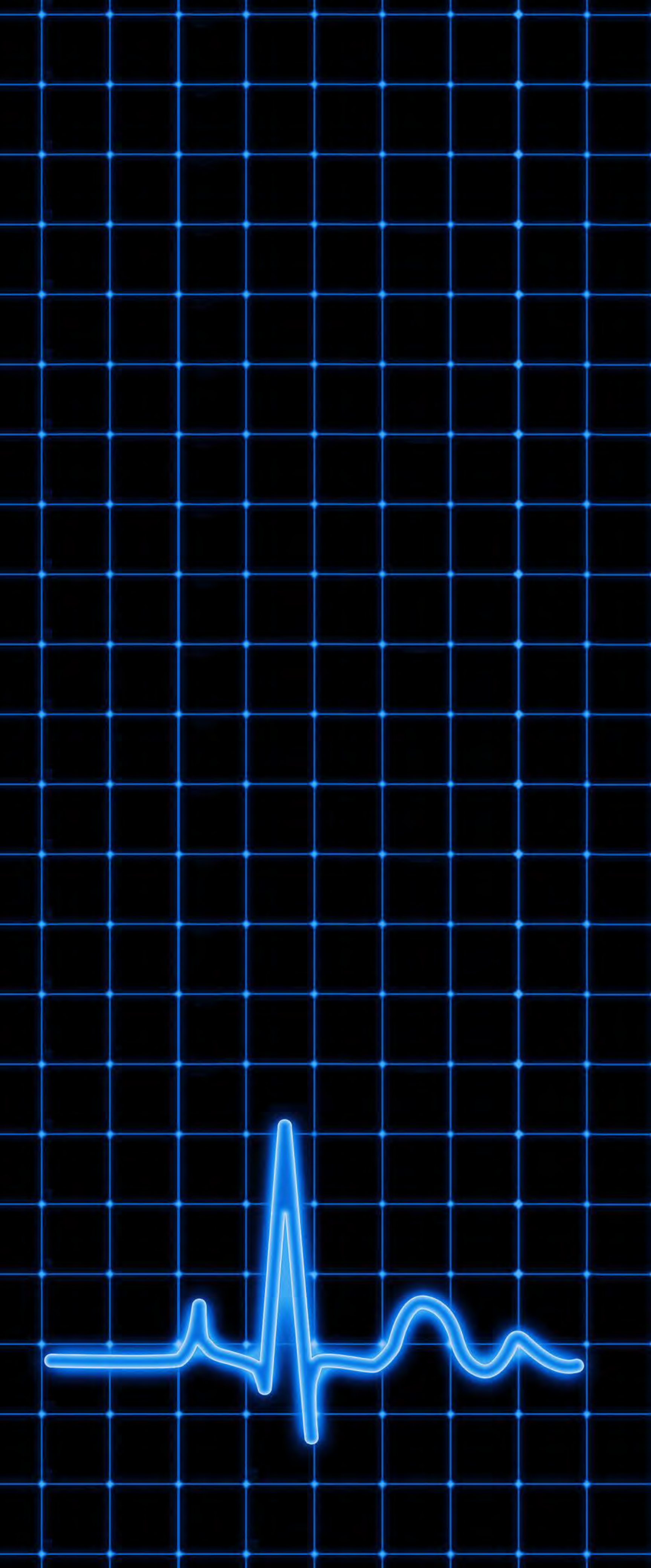
KPMG Enterprise

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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Jonathan Lavender
Global Chairman,
KPMG Enterprise,
KPMG International

Conor Moore
Co-Leader,
KPMG Enterprise Emerging Giants Network,
KPMG International and Partner,
KPMG in the US

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

Contents

Globally, in Q3'19 VC-backed companies raised

$55.7B

across

4,154 deals

VC market globally holds relatively steady despite shortage of massive deals

Q3'19 saw global VC investment hold relatively steady despite increasing levels of economic and geopolitical uncertainty and a lack of $1 billion+ megadeals during the quarter. While VC investment dipped slightly quarter over quarter, it remained strong overall. A significant number of $100 million+ megadeals across the US, Americas and Europe helped to buoy results.

VC investment solid, despite decline compared to 2018

While global VC investment is well off pace to match last year's record, which included the massive $14 billion raise by Ant Financial, investment is expected to exceed levels seen in all years prior to 2018 by the end of the year. While VC investment in Asia may have slowed significantly, other regions have seen significant upticks in investment. Despite the significant uncertainty surrounding Brexit in the UK, for example, Europe has already exceeded 2018's record level of VC investment — with one quarter remaining in the year.

Europe achieves new quarterly high of VC investment

Despite Brexit, some upheaval at the European Commission, the threat of a recession in Germany, and a number of other local challenges across Europe, the region had a record quarter for VC investment during Q3'19. The diversity of innovation hubs across the region continued to play a key role in the strength of Europe's VC market — with Germany, the UK, Sweden, Israel and Belgium all attracting significant funding rounds during the quarter. The diversity of companies attracting funding was also substantial, with VC investors in Europe embracing opportunities across financial services, healthcare, transportation, mobility, pharma and biotech, B2B services, and others.

Brazil and Canada help boost VC investment in the Americas

While the US remained the clear leader for VC investment in the Americas, VC investment was also substantial in other jurisdictions in the region, including Brazil and Canada. Compared to historical trends, Brazil has a particularly strong showing during Q3'19, with two large megadeals — a $400 million raise by Nubank and a $250 million raise by QuintoAndar. Financial services is considered a very hot area of investment not only in Brazil but across Latin America — a trend not expected to turn anytime soon. Canada also saw a banner quarter for VC investment, with four deals over $100 million: a $250 million raise by Clio, and a $151 million raise by Element AI. These investments highlighted the growing focus of Canadian VC investors on the B2B space.

While number of deals rise, total VC investment in Asia remains deflated

Despite a strong uptick in the number of VC deals, VC investment in Asia remained relatively soft quarter-over-quarter, and well back of results seen in Q3'18. The ongoing slowdown in China's economy, trade tensions between the US and China, and the focus the Chinese central government has on tightening rules and regulations in new technology sectors has driven a number of VC investors to hit pause on investments in China, at least as it pertains to large deals.

Fundraising in China has also become more challenging over the last quarter, with some LPs in China preferring to hold on to cash given the uncertain market conditions. VC funds and PE funds have also taken longer to close fundraising. With funding options tightening, startups in China are becoming far more focused on their spend and pathway to profitability than they have in the past. VC investors, meanwhile, are focusing their investments in China on safe bets, late-stage companies, and companies expected to show profit more quickly.

VC market globally holds steady despite shortage of massive deals

Fintech investment widespread as fintech hubs proliferate globally

During Q3'19, fintech companies attracted a significant level of investment globally, from the $470 million raise by N26 in Germany to Nubank's $400 million raise in Brazil and Klarna's $460 million raise in Sweden. The US continued to attract the most diverse amount of fintech funding, with $300 million+ funding rounds going to insurtech Root Insurance, wealthtech Robinhood, and lending company Clearbanc. VC investors continue to see fintech as a hot ticket for investment, particularly in jurisdictions like Brazil, Mexico, and Southeast Asia where there are significant numbers of unbanked and underbanked people.

Transportation and mobility sectors gain traction across the globe

On a global level, transportation and mobility companies were among the hottest areas of investment during Q3'19. In China, these sectors bucked the slowdown trend, accounting for three of the top deals in China, including Didi Chuxing's $600 million investment by Toyota, CHJ Automotive's $530 million funding round, and a $400 million raise by Hellobike. Looking at Asia more broadly, Ola Electric Mobility in India also raised $490 million during the quarter.

In Europe, transportation mobility app FlixMobility in Germany raised the largest funding round of Q3'19, while in the US transportation logistics company Samsara and Nikola Motor Company raised $300 million and $250 million respectively.

With e-commerce levels only growing, VC investment in transportation and logistics is expected to grow, particularly as it relates to commercial solutions. This is particularly true in developing nations where transportation and logistics operations are less mature.

IPO market results mixed; investors focusing on long-term trends

Over the past two to three quarters, a number of high-profile unicorn companies have issued IPOs in the US, including Beyond Meat, Lyft, Peloton, SmileDirectClub, Uber, Zoom, and others. The results of these IPOs have been quite mixed, with several falling well short of expectations and others performing well beyond. WeWork even withdrew its planned IPO — expected to be the second largest of the year next to Uber — during Q3'19 amid concerns about corporate governance. Slack became the first major tech company since Spotify to list directly; although it's too early to say whether this approach will grow in popularity, its pros of potentially being less volatile upon debut given direct listings tend to be much more gradual as a process could outweigh its cons.

Historically, technology IPOs have sometimes needed time in order to find their footing. As a result, investors globally will likely be keenly watching the longer-term performance of companies that issued IPOs this year to see whether performance turns around. Trends over the next 12 to 18 months could tell a different story than short-term results.

Increasing focus on profitability and governance

What has become abundantly clear over Q3'19 is that investors are becoming more skeptical of companies that are not profitable or that do not have strong business models and a very clear path to achieve profitability. Moving forward, it is very likely that VC investors, particularly when making large late-stage deals, will place more of an emphasis on profitability, governance, and other business model characteristics than they may have in the past.

Trends to watch for globally

While there continues to be a significant amount of liquidity in the global VC market, it is expected that VC investors will be more cautious when making investments over the next quarter and into 2020, putting greater emphasis on company business models and expectations related to profitability.

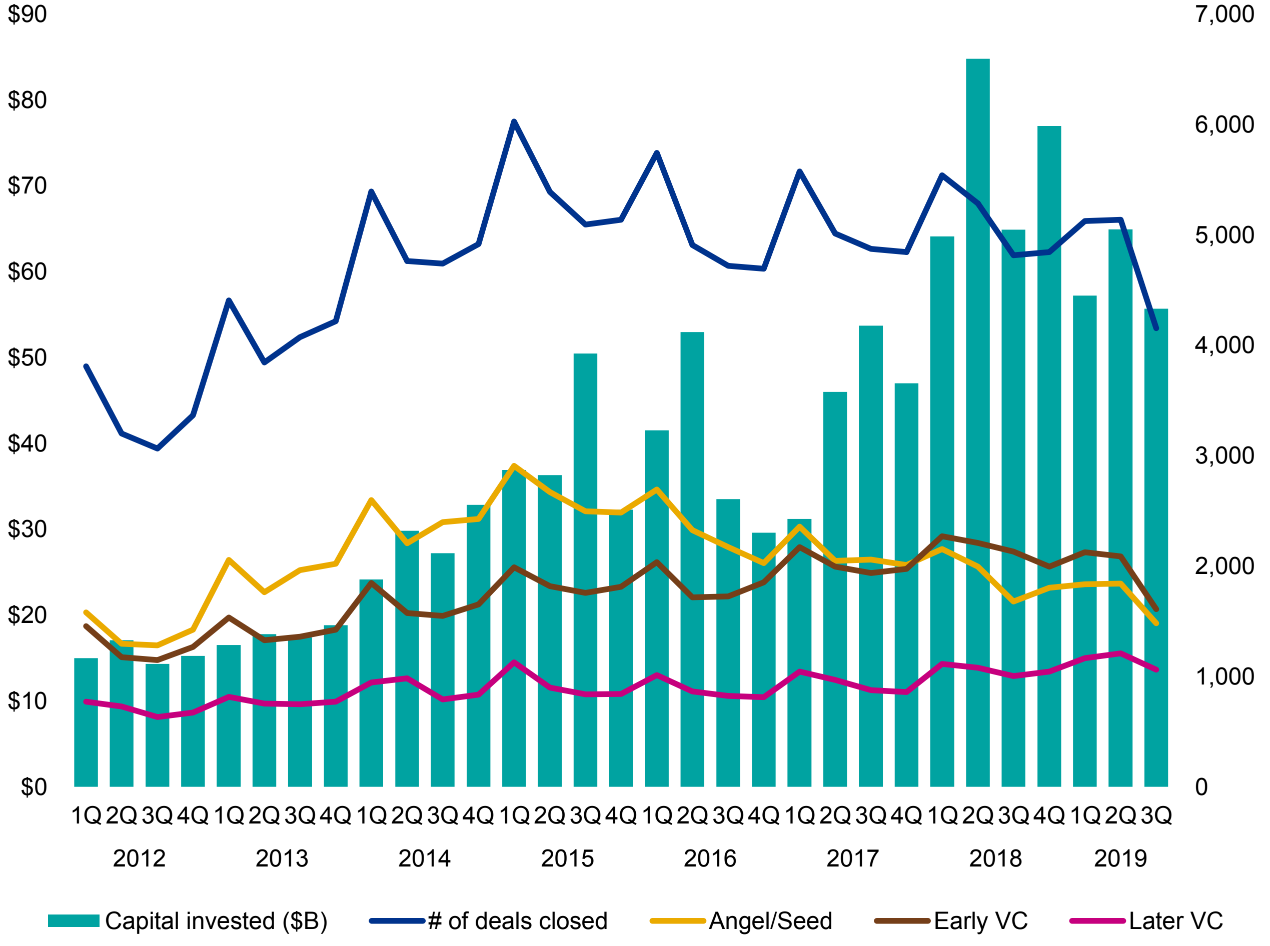
Fintech, transportation, mobility, healthtech, and biotech are all expected to be hot areas of VC investment on a global level, with AI continuing to be a critical focus at a technology level. B2B solutions, productivity solutions, and solutions with real world impacts are also expected to grow on the radar of investors.

Global economic and geopolitical uncertainty is expected to remain relatively high over the next few quarters given the rapidly approaching Brexit deadline, no signs of a break in the US-China trade war, and the US presidential election slated for late 2020.

Venture investment flow stays strong

Global venture financing

2012–Q3'19



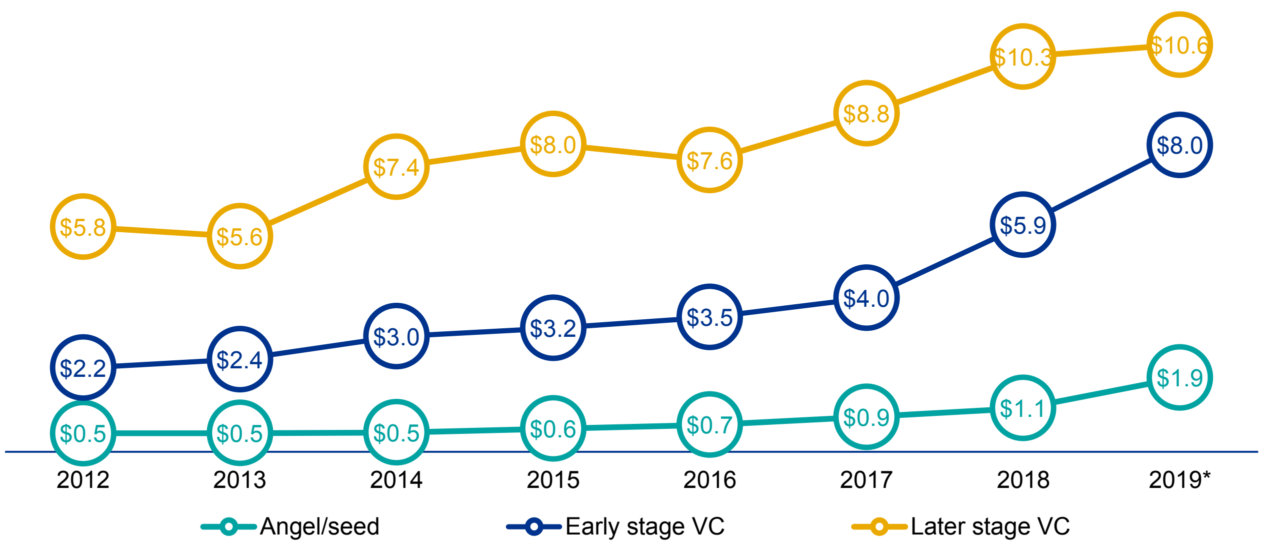
Source: Venture Pulse, Q3'19. Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019. Note: Refer to the Methodology section on page 101 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

The third quarter of 2019 marked the seventh consecutive quarter that global VC invested stayed well above $50 billion, while deal flow moderated to an elevated plateau. Across all stages, counts dipped slightly in the most recent quarter which is primarily attributable to a minor lag in data collection. All in all, the venture cycle remains quite strong, continuing to record its healthiest period of activity since the dot-com era. As allocations to alternative investments — venture included — remain strong, the fuel for robust activity is still flowing significantly, which will stoke the elevated levels of investment to continue unabated. Despite the degree of competition and the potential for overfunding, those factors in and of themselves are unlikely to slow the pace of investment for the time being.

Medians stay strong; late-stage evens out

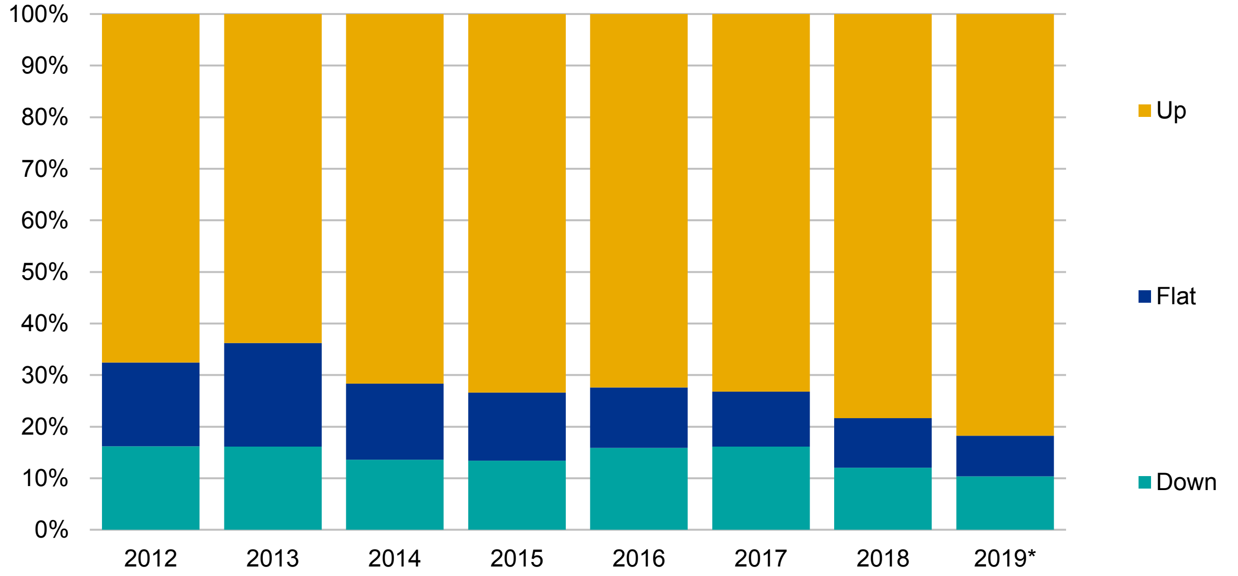
Global median deal size ($M) by stage

2012–2019*



Global up, flat or down rounds

2012 — 2019*

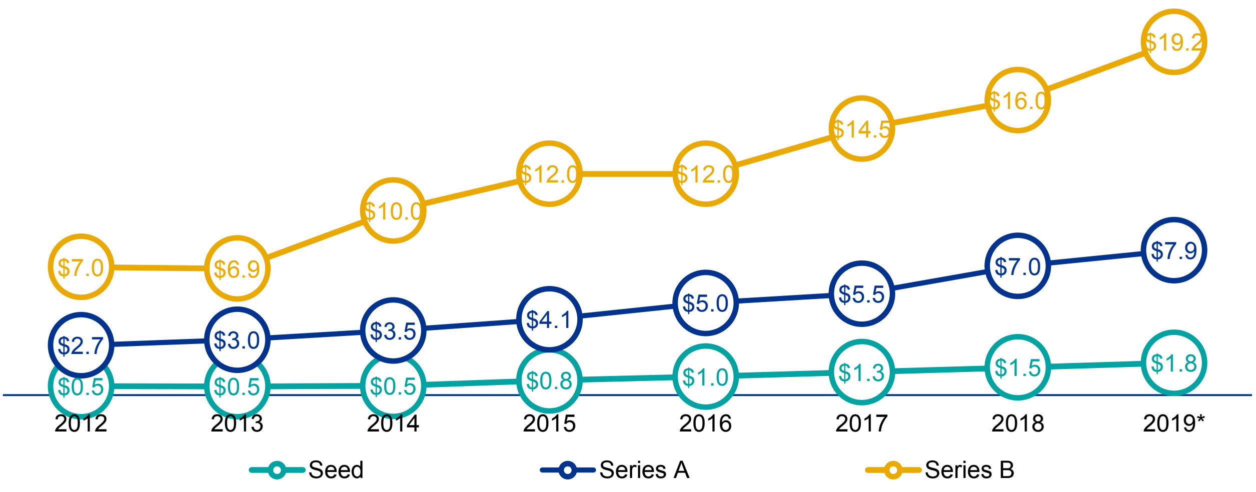


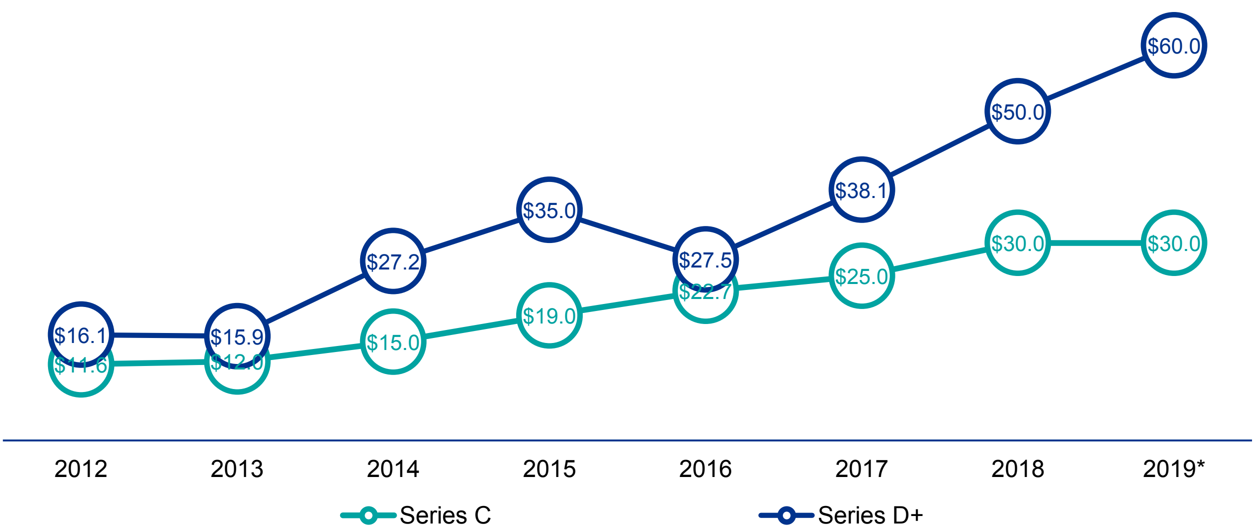
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

New highs for nearly all stages

Global median deal size ($M) by series

2012–2019*





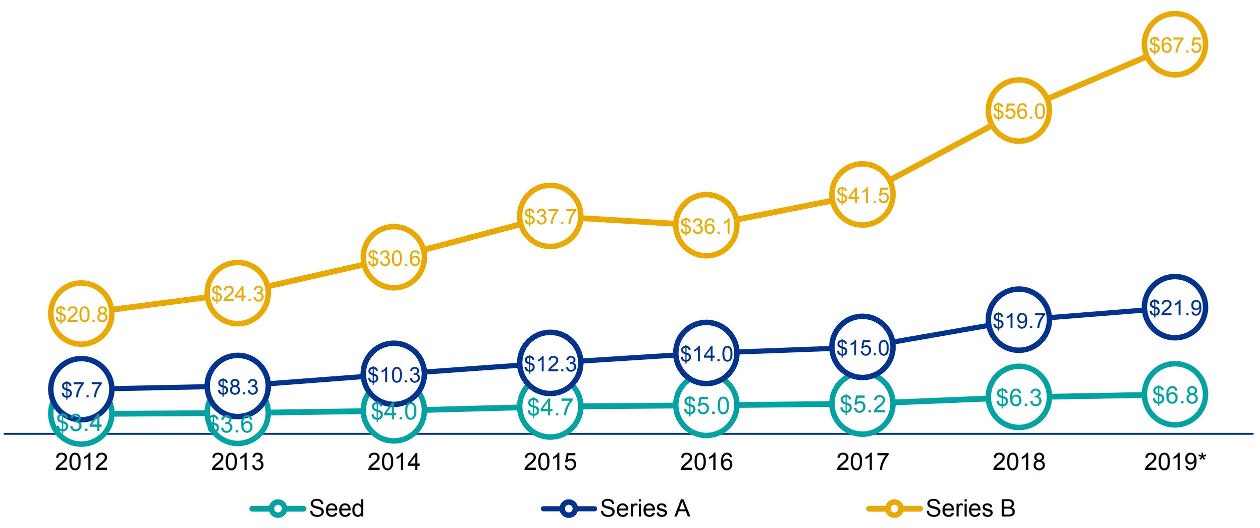
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

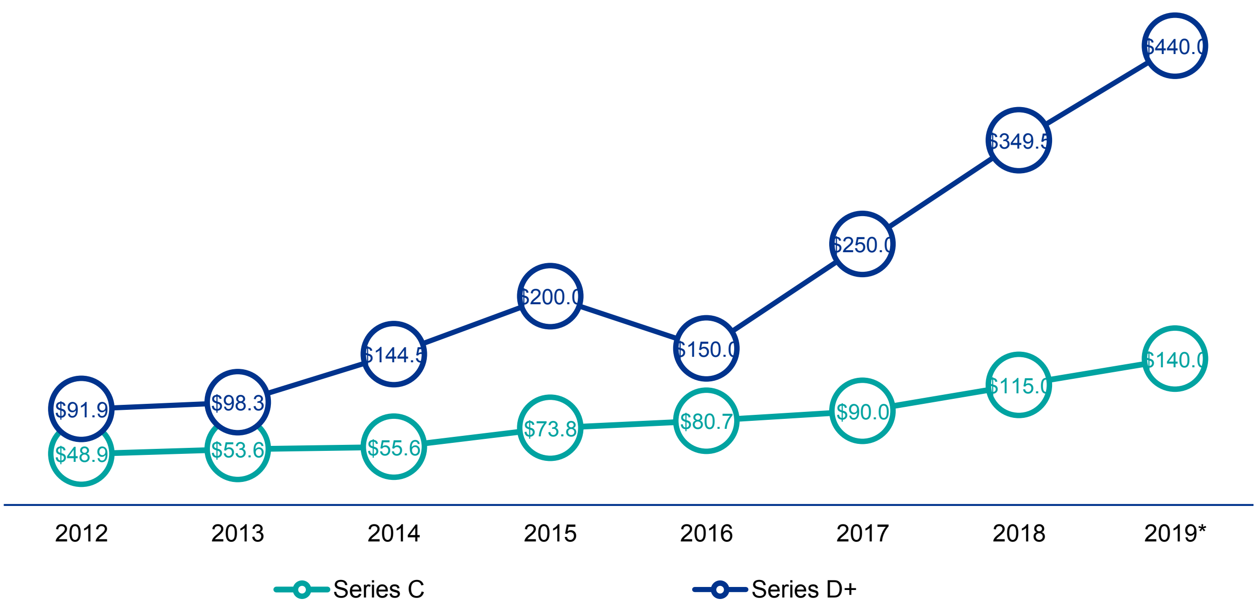
Relative to prior highs, the current levels of median deal sizes by series could strike some as inflationary, but the reality is more complicated than that. Rather, they are the product of the convergence of an abundance of capital, greater access to markets and consequent need for more capital to grow rapidly, companies staying private longr, and significant competition for the best deals. Granted, such levels do necessitate the need for caution around overspending, which is being discussed more and more often nowadays.

The late-stage hits a new stratosphere

Global median pre-money valuation ($M) by series

2012–2019*



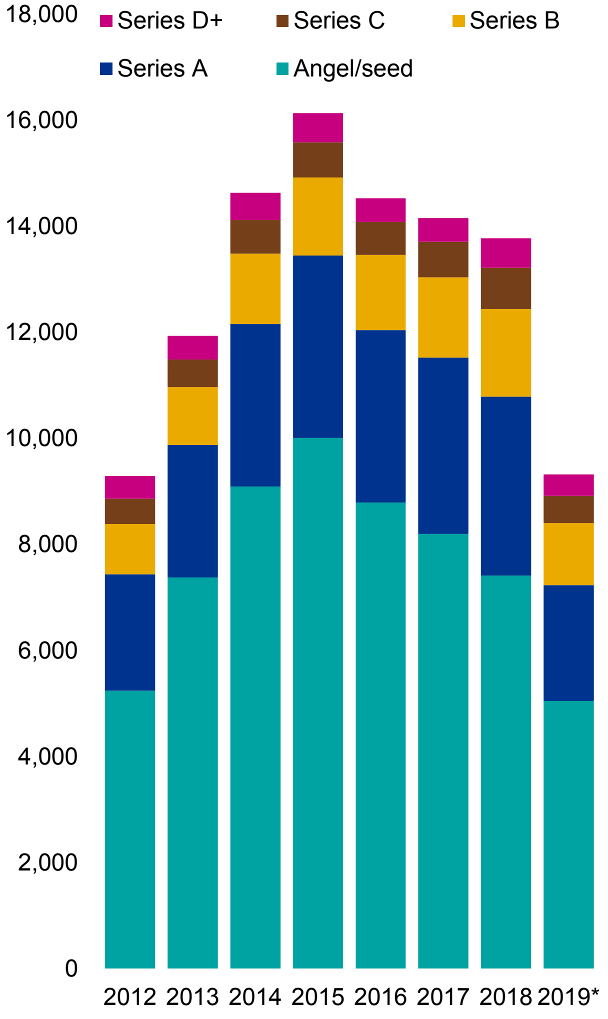


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Capital stays concentrated at the late-stage

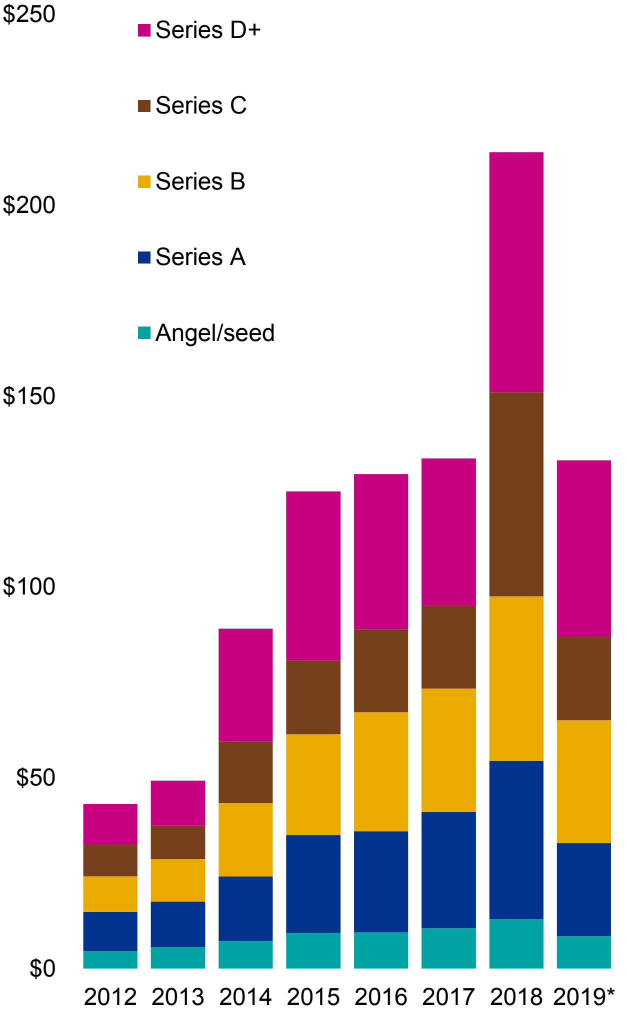
Global deal share by series

2012–2019*, number of closed deals



Global deal share by series

2012–2019*, VC invested ($B)



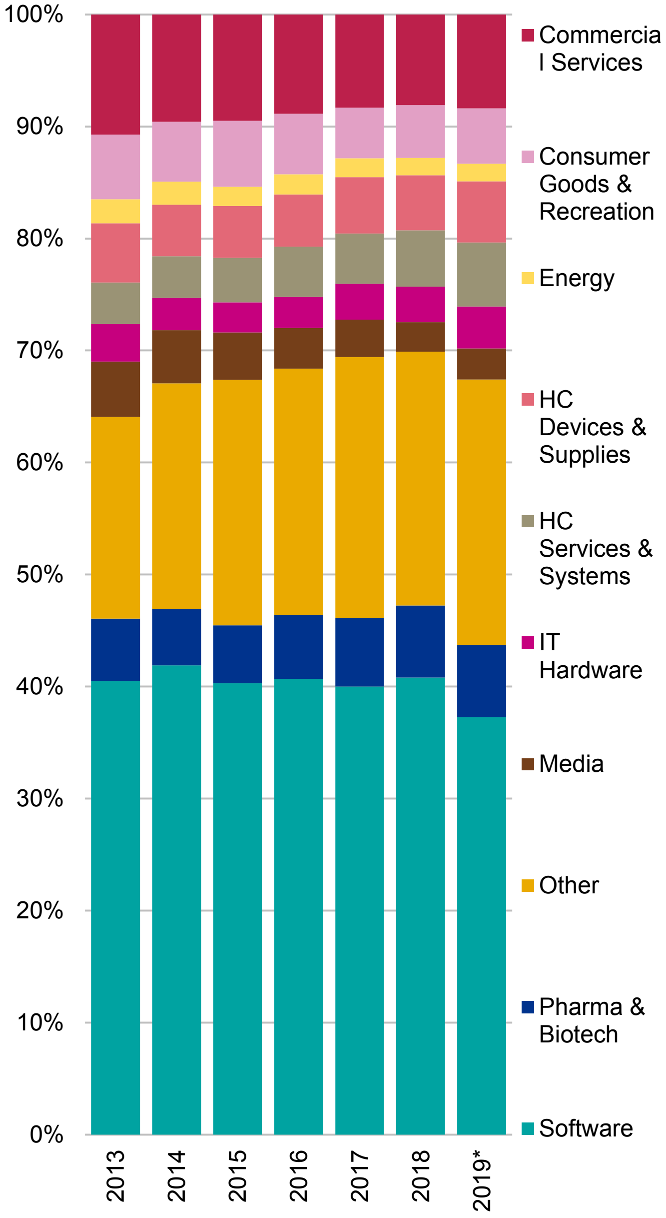
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

It's dangerous to try and interpret too much from series-specific flows of capital. That said, with capital even more concentrated in the late-stages of Series D or later, it is important for investors to consider the diversity of their venture portfolios and over-exposure to massive yet still unprofitable companies, such as The We Company.

Healthcare & hardware remain robust

Global financing trends to VC-backed companies by sector

2013–2019*, number of closed deals



Global financing trends to VC-backed companies by sector

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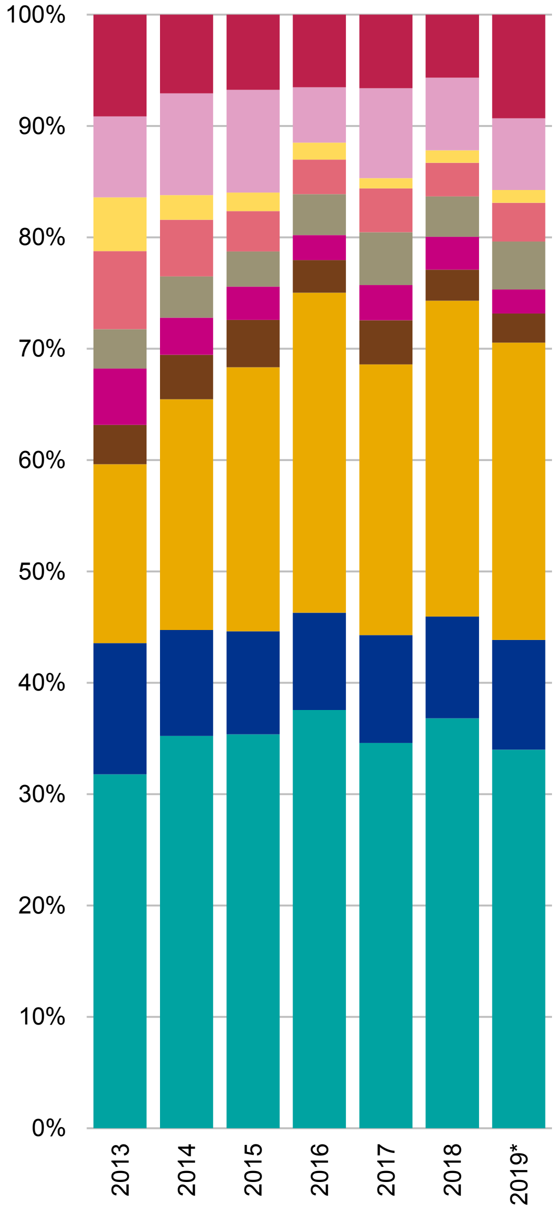
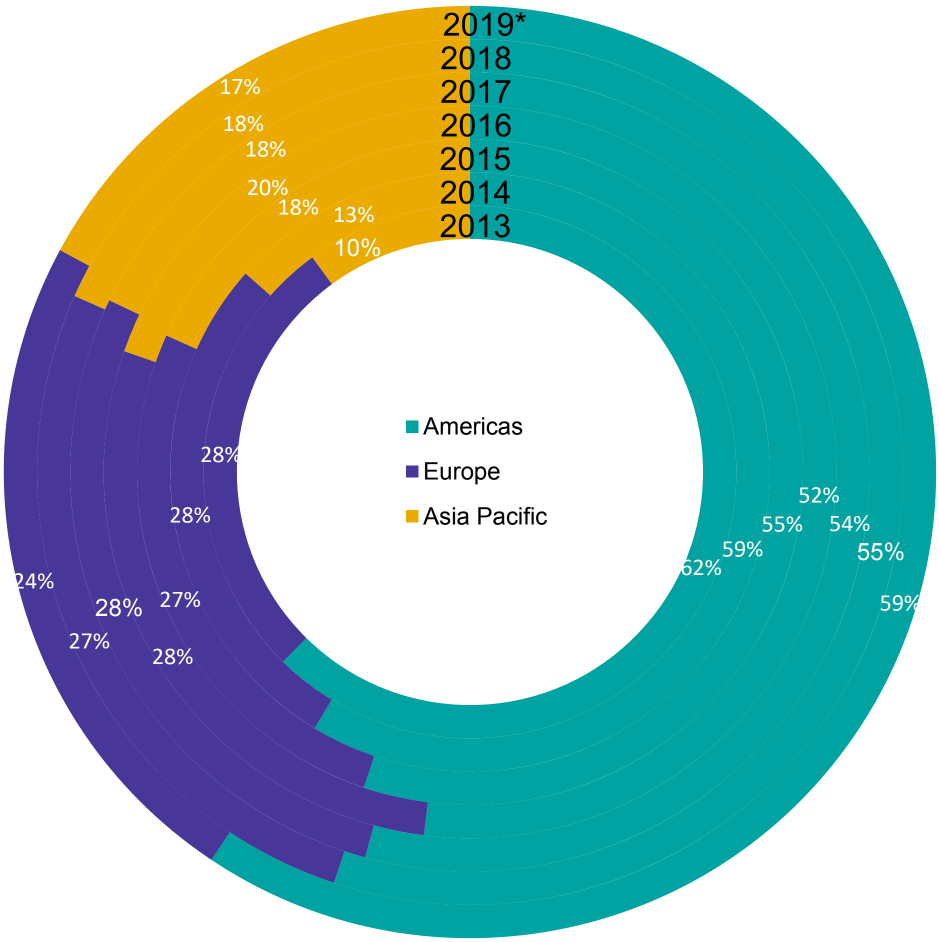


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Asia-Pacific proportions even out

Financing of VC-backed companies by region

2013–2019*, number of closed deals



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

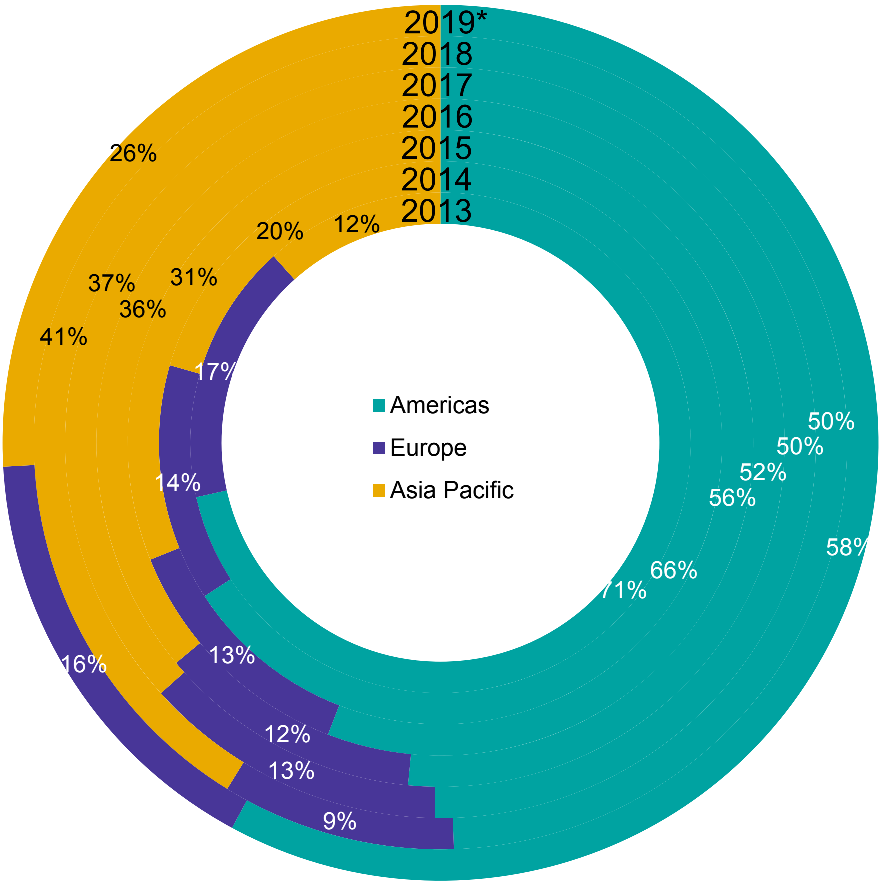
"The VC market globally is performing very well. A number of trends have continued, including the focus of investors on late-stage deals over early stage ones. The biggest surprise in Q3'19 was the strength of Europe. Despite some geopolitical challenges in different countries and Brexit in the UK, nothing seems to be fazing investors in Europe at the moment."

Jonathan Lavender
Global Chairman, **KPMG Enterprise**
KPMG International

Americas still dominate in 2019

Financing of VC-backed companies by region

2013–2019*, 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.

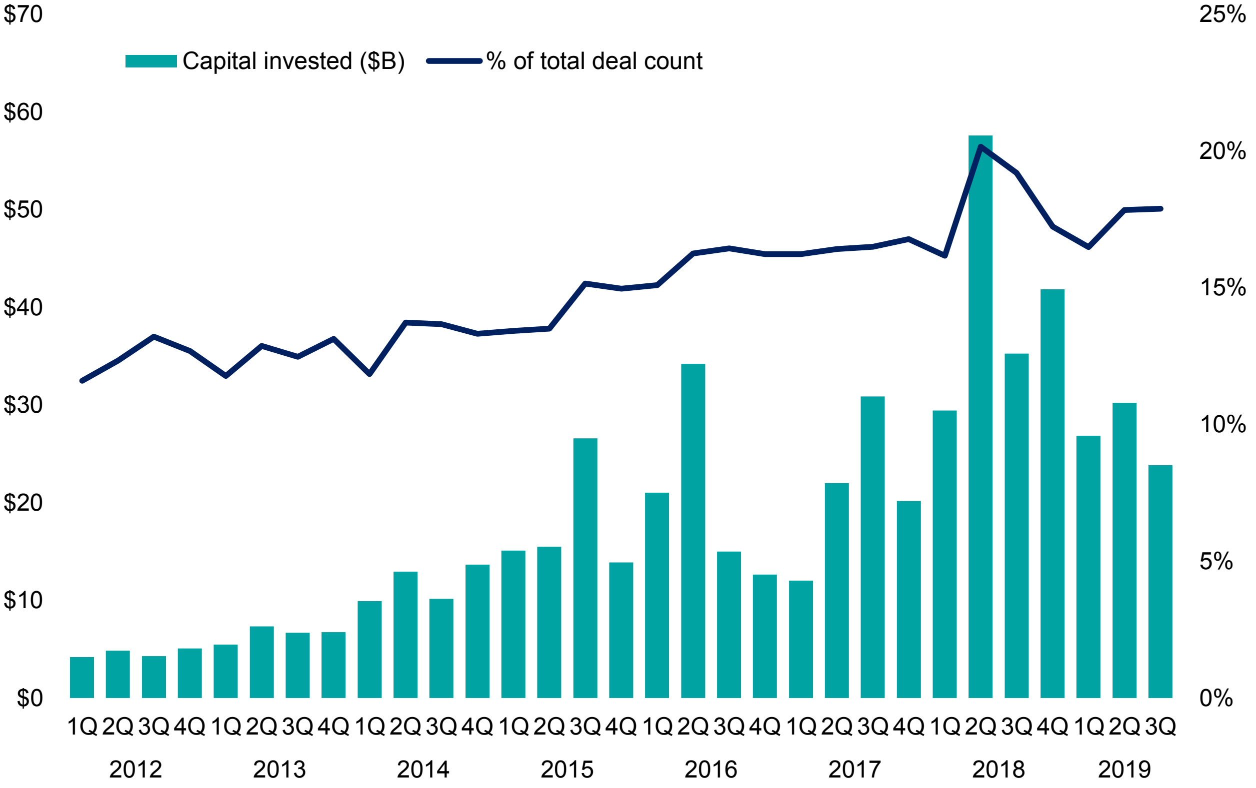
"There remains a ton of US money to be deployed. The VC firms can invest in late-stage deals that continue to be at very high valuations — although recent IPO performance may temper that — or in newer deals where the price may be more reasonable but the risk is much higher. Some of these firms may get squeezed out in the US and look to other geographies for deals and for value."

Conor Moore
Co-Leader,
KPMG Enterprise Emerging Giants Network, KPMG International and Partner,
KPMG in the US

Corporates maintain a significant stake

Corporate VC participation in global venture deals

2012–Q3'19



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

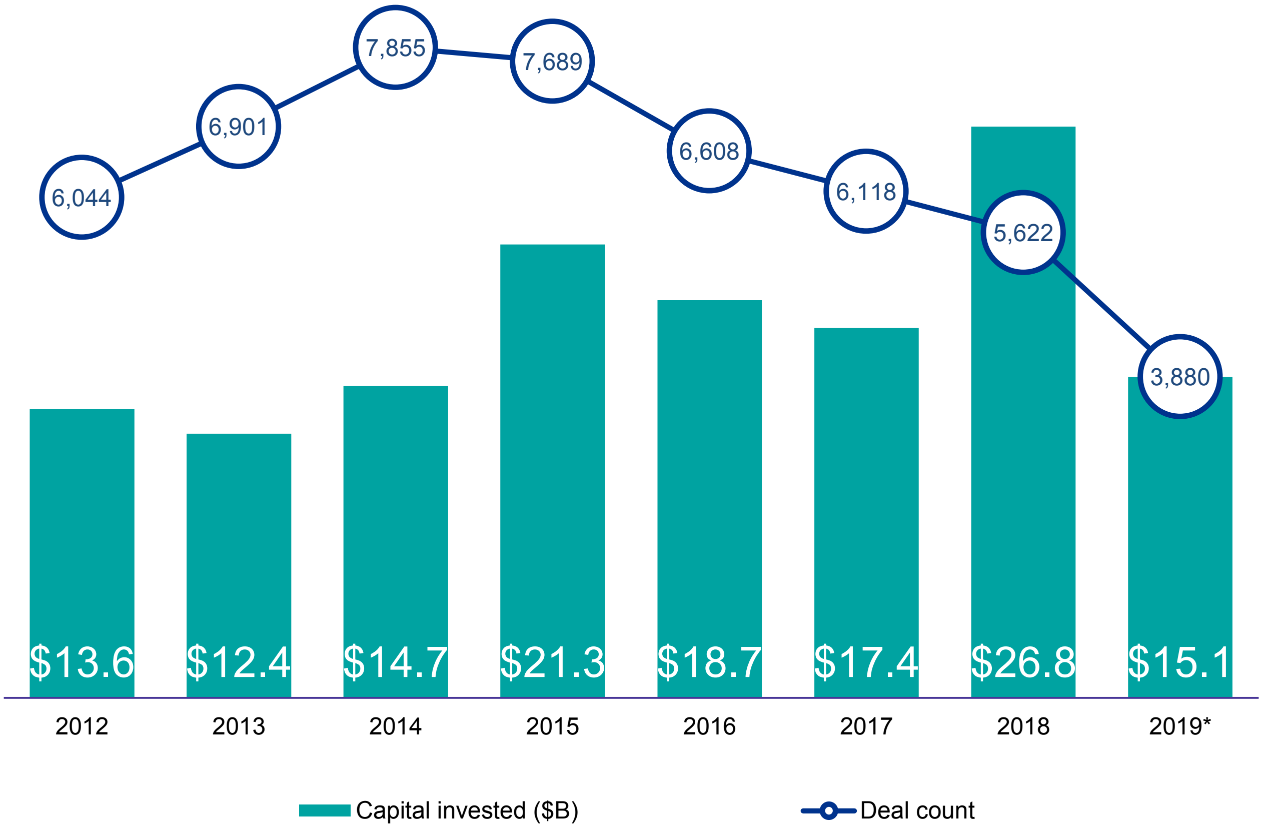
Note: The capital invested is the sum of all the round values in which corporate venture capital investors participated, not the amount that corporate venture capital arms invested themselves. Likewise, the percentage of deals is calculated by taking the number of rounds in which corporate venture firms participated over total deals.

As expected, the slight decline in the rate of participation on the part of corporates earlier in the year has now reversed to even out to a historically high if not record level. Corporates are more involved in the VC game than ever before, whether from a financial or non-financial motive, or a blend of both, as they try to mitigate exposure to key innovations within their given industries.

First-time VC invested stronger than expected

Global first-time venture financings of companies

2012–2019*



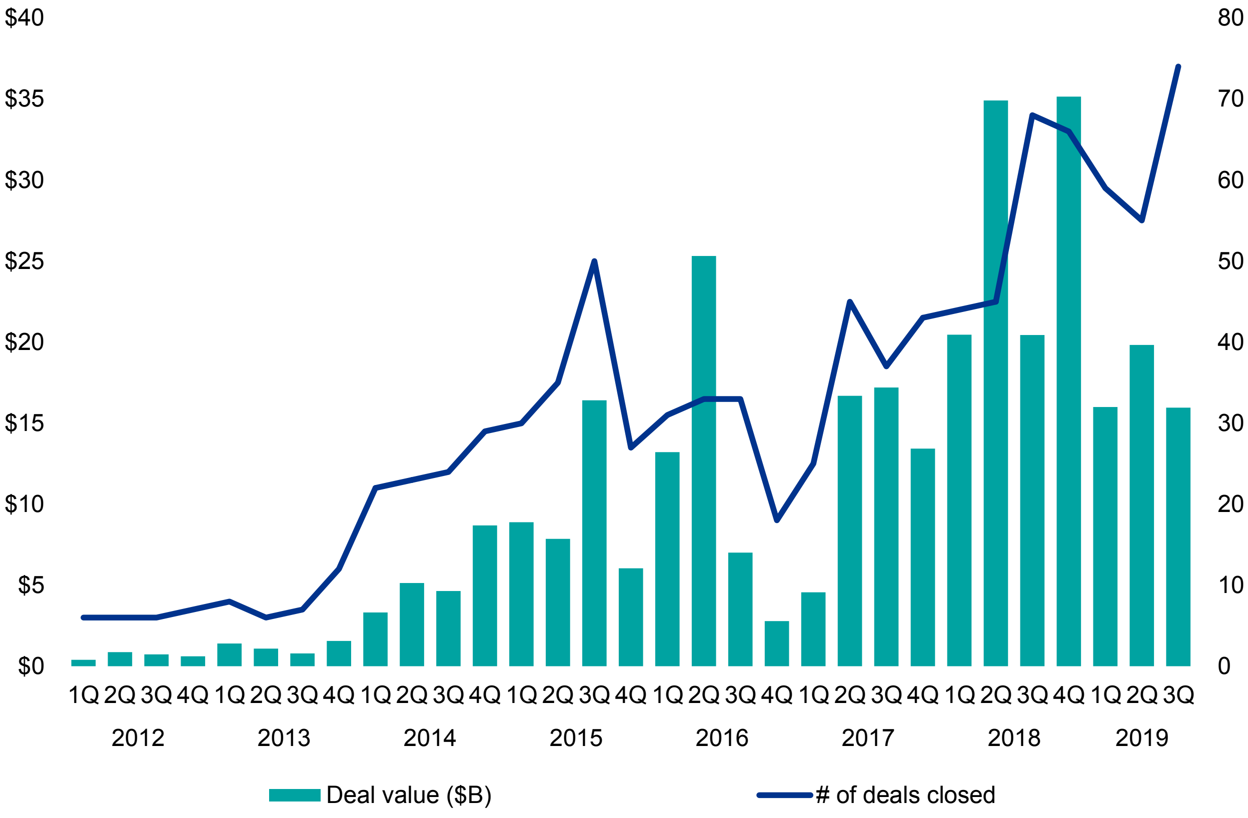
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

The longer-term decline in first-time financing volume is unmistakable, due in part to a proliferation of different modes of access to capital beyond traditional VC and also greater resources that enable founders to bootstrap, e.g. plummeting costs in software and hardware. It is also worth noting, though this remains to be definitively proven, that the incidence of overall entrepreneurship in key areas like the US may be leveling off given better opportunities at extant companies and perception of current economic risk. However, VC invested is still strong all in all, so the capital is available for those that found and are able to build a compelling case.

Unicorns come roaring back in Q3

Global unicorn rounds

2012–Q3'19



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

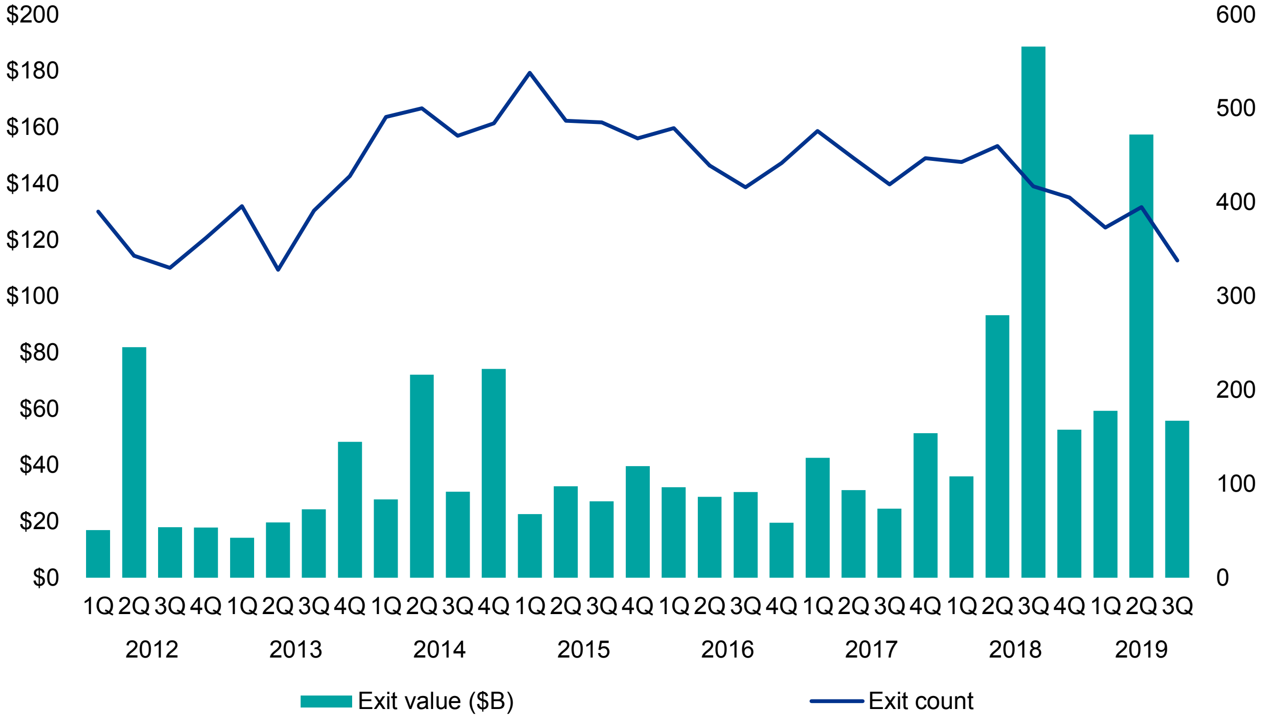
Note: PitchBook defines a unicorn venture financing as a VC round that generates a post-money valuation of $1 billion or more. These are not necessarily first-time unicorn financing rounds, but also include further rounds raised by existing unicorns that maintain at least that valuation of $1 billion or more.

After a downturn in volume, and the record quarters of Q2 and Q4 2018, 2019 was relatively quieter until Q3 saw multiple unicorns close well over 70 rounds of funding. Moreover, total VC raised by new and extant unicorns remained historically robust, in a testament to investors' ongoing desire.

2019 yields additional liquidity for unicorns

Global venture-backed exit activity

2012–Q3'19

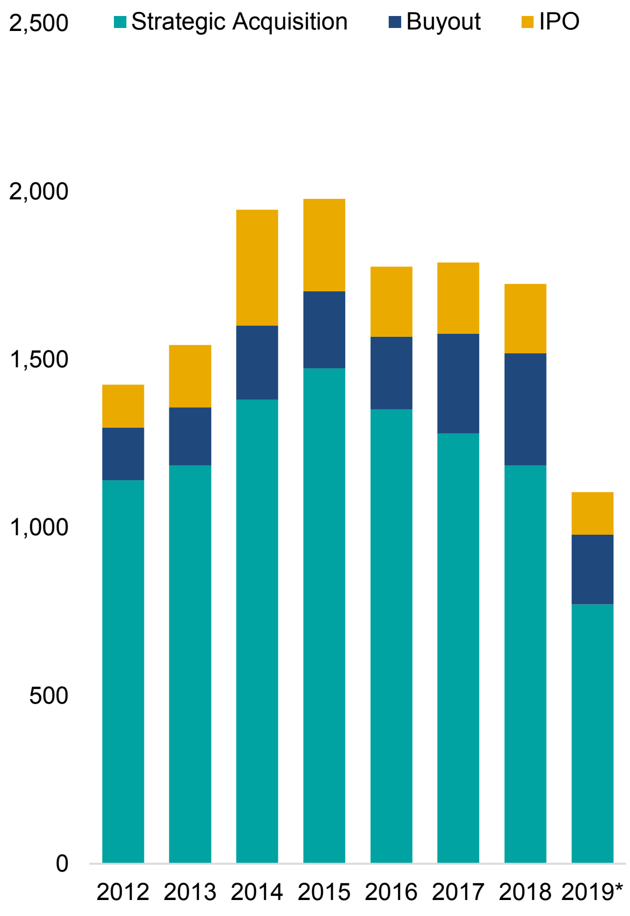


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

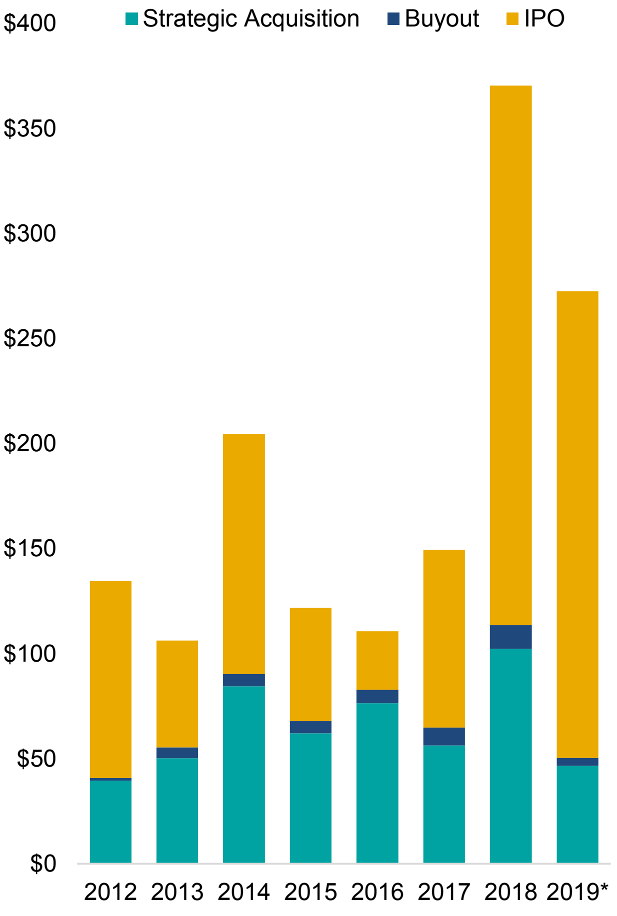
An important change in Venture Pulse methodology must be noted once again, given the significant trend differences. Although exit volume remains largely the same, the shift in exit values is due to the fact that PitchBook now utilizes IPO pre-valuations in the stead of IPO offering sizes. That is one of the drivers of how much more liquidity has been achieved in 2018 and this year to date; unicorns are now finally going public and reaping hefty valuations.

Unicorn IPOs drive exit value to potential record

Global venture-backed exit activity (#) by type
2012–2019*



Global venture-backed exit activity ($B) by type
2012–2019*



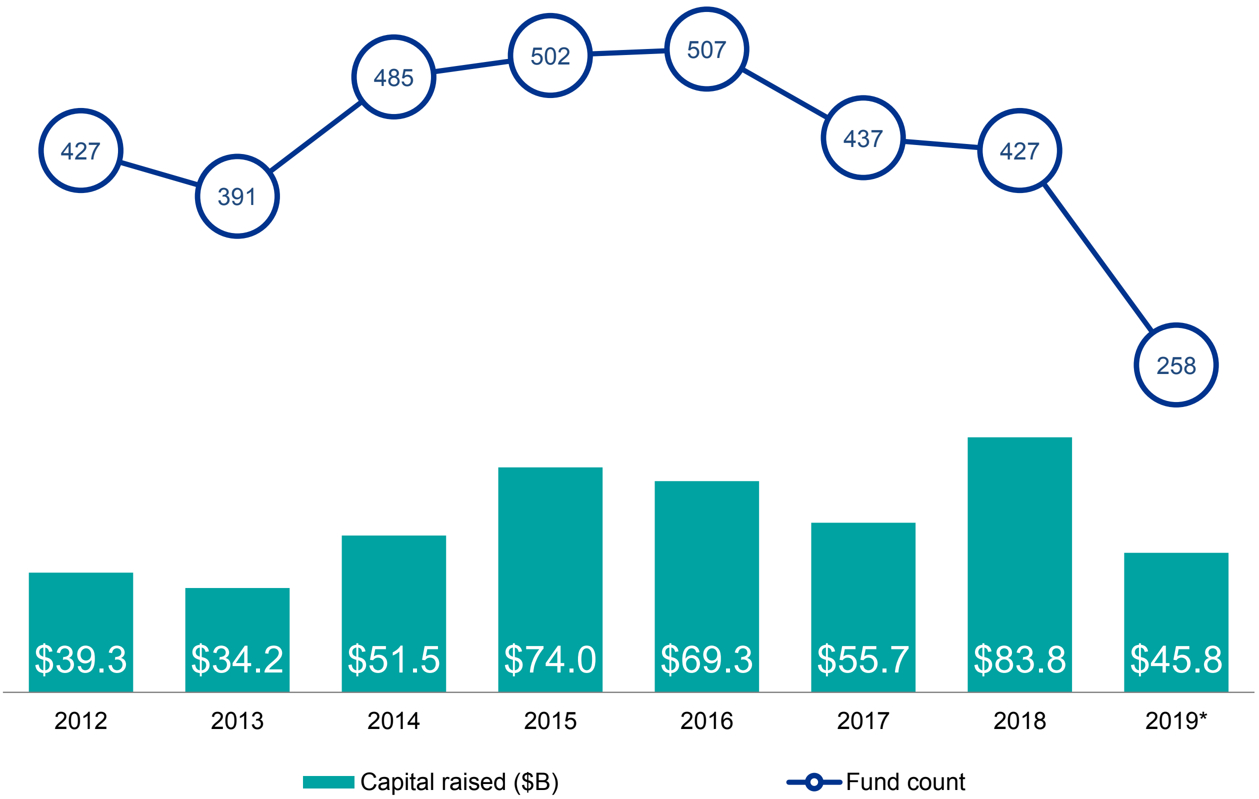
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

For sheer volume, M&A remains the primary exit route for startups, even though 2019 has seen somewhat of a lag to date. However, when they do occur, IPOs like that of Facebook's or Uber's — plus the surfeit of other unicorn debuts on public markets this year — can flip that trend when it comes to exit value. So far, 2018 and 2019 thus far are producing strong results, finally ensuring unicorn backers are able to achieve more liquidity.

Fundraising at a slower pace after a strong run

Global venture fundraising

2012–2019*

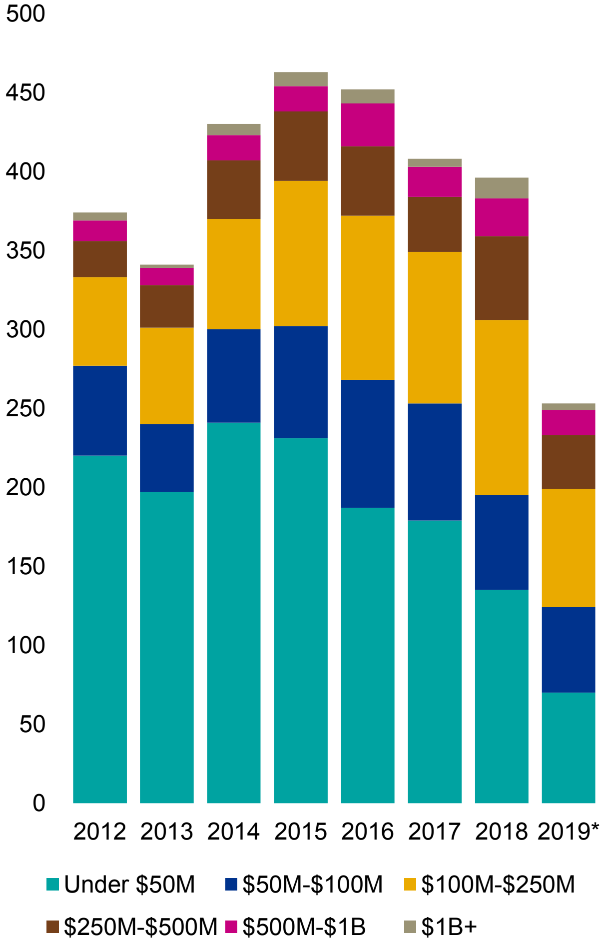


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

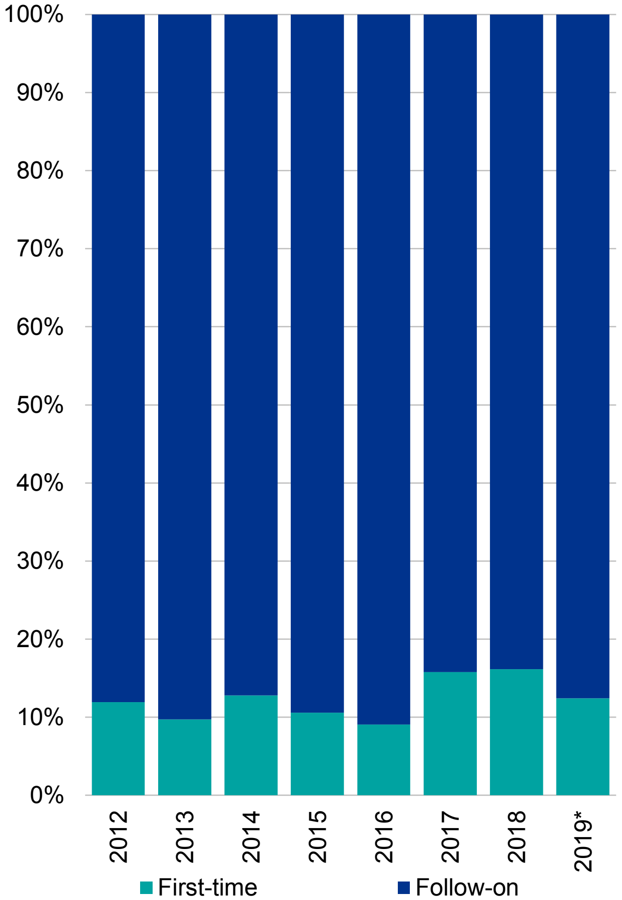
Returning to the yearly depiction of fundraising activity instead of by quarter, as PitchBook is shifting away from quarterly fundraising values given their cyclical skew, with Q3 now having concluded it is clear that 2019 will likely end up with a lower volume of funds than 2018, or indeed most years this past decade. Total capital committed is still quite strong, however, which speaks to the success of many large firms being able to raise even larger follow-on funds. This is likely a typical cyclical shift downward, after a strong period of fundraising, more than any significant decline.

First-time funds rise back up slightly in proportion of volume

Global venture fundraising (#) by size
2012–2019*



Global first-time vs. follow-on venture funds (#)
2012–2019*



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After a slow start, first-time fundraisers are now making a bit of a comeback, closing above 10% of funds by count thus far in 2019 to date. Although only $2.7 billion has been raised by said first-timers, that still is higher already than prior yearly tallies — albeit not by much. Given the complex venture environment right now, without a demonstrated track record, raising a fund for the first time can be a challenging, if not insurmountable, prospect.

No end in sight for Venture Capital investment in cybersecurity

Global venture capital investment reached a peak high of $291 billion in 2018. While 2019's VC investment total will likely fall well shy of that number, it will likely exceed investment from every other year previous. This investment highlights the massive amount of capital being poured into innovation across industries — from financial services, healthcare, and retail to transportation, urban mobility, and logistics.

Technologies like artificial intelligence, machine learning, automation, blockchain, and the Internet of Things (IoT) underpin many of these innovations — helping organizations do more, reach farther, and react faster. But even as these new opportunities change the way business is conducted across industries, they are also creating new threats and new risks that companies must be able to manage if they are going to succeed and grow long-term.

The new security imperative

Cybersecurity is evolving even faster than many other areas of innovation. It is no longer as simple as keeping intruders out of a corporate network or ensuring only properly accredited users can access specific information; it's about controlling access and protecting data everywhere it exists — in the cloud, in networks, across millions of connected devices, and across smart grids and smart infrastructure.

VC investors recognize that data protection is not something companies can ignore. New rules and regulations globally are making it a critical imperative for all organizations that do business — from startups right through to large multinationals. GDPR is already a fact of life in Europe. The California Consumer Privacy Act is slated to come into force in January 2020. Other countries and jurisdictions are in the process of following suit.

Cybersecurity becoming a big ticket for VC investors

The same technologies being used to reinvent industries are also being used to reinvent the concept of cybersecurity. For example, AI is being used to help companies establish behavioral patterns, track and identify anomalies, and respond to threats in real time. Machine learning is helping security solutions to evolve based on experience and new information. Predictive analytics is giving organizations methods to address risks even before they occur.

The incredible scope and breadth of cybersecurity has VC investors flocking to the space. In 2018, $6.4 billion in VC investment went to cybersecurity companies — a record of investment that could be exceeded by the end of 2019. In Q3'19 alone, security and risk management platform OneTrust raised $200 million in the UK, in addition to other deals. While Israel has long been a leader in VC investment in cybersecurity, other countries are also rising on the radar of cybersecurity-focused VC investors.

M&A becoming a key exit strategy

For many cybersecurity startups, exit strategy is focused less on IPO and more on M&A. There has been a significant amount of consolidation in the space, with more predicted in the future. The reality is that most cybersecurity startups today recognize the need to integrate solutions into a larger whole. For the large cybersecurity firms, making acquisitions is a way to build out the breadth of their own offerings.

Over the past couple of years, M&A in the cybersecurity space has been significant. In Q3'19, US-based cybersecurity leader Palo Alto Networks, for example, acquired container security company Twistlock in order to extend its own cloud security reach. This followed on Palo Alto's acquisition of serverless security firm PureSec in Q2'19.

No end in sight for Venture Capital investment in cybersecurity, cont'd.

Trends to watch for in cybersecurity

Cybersecurity is a field with no end game in sight. Even as technology evolves, so too will the threats organizations face. For example, IoT technologies are already rapidly expanding the attack surface for potential cyber attacks. In the future, automated vehicles or infrastructure could pose significant threats if waylaid by cyber terrorists. On the forefront of the development of these technologies, security and data protection will continue to be a critical enabler of risk management.

Additionally, risks associated with IoT technologies are not only the purview of the technology users. These technologies also pose unique risks to organizations where IoT technologies are used by their employees or visitors. Understanding and managing these risks will need to be part of risk management, so startups working to address them will be of special interest to VC investors.

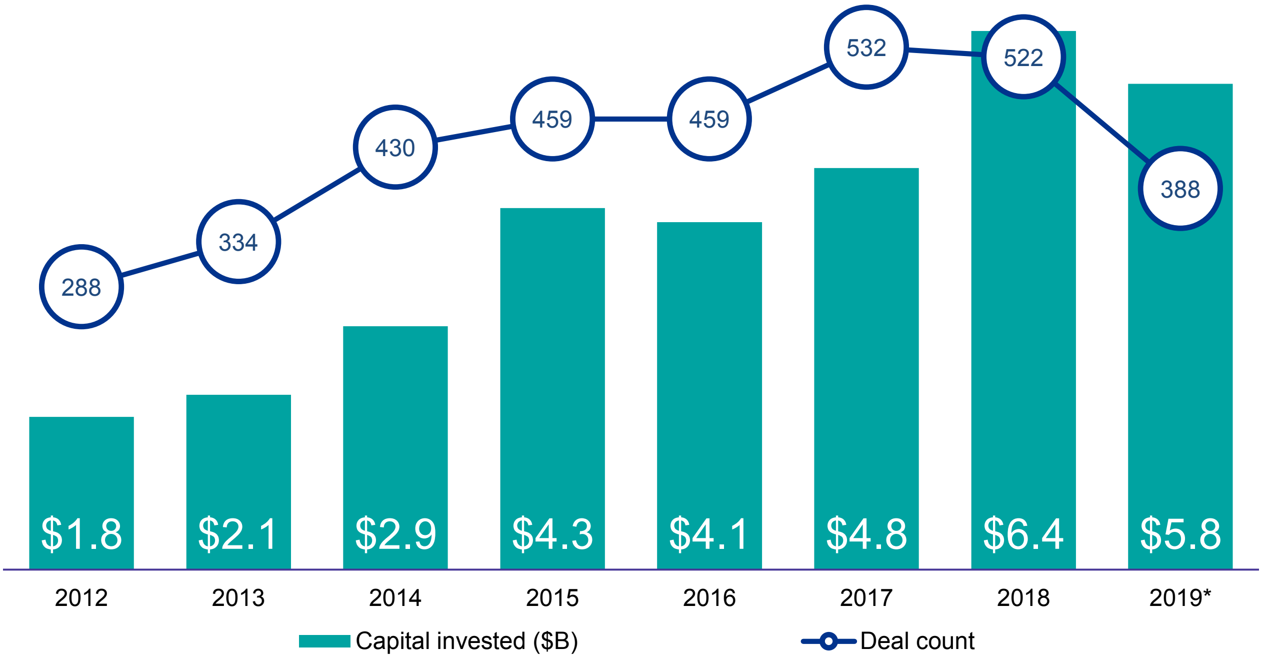
New and evolving data protection and privacy regulations and rules globally will also help keep investors and corporates focused on data security, privacy, and compliance for the foreseeable future.

"We're seeing tremendous growth in connected and telemetry-based devices (e.g. IoT) across the enterprise and consumer markets. Security and privacy have historically taken a back seat with IoT. However, with increasing consumer awareness and regulatory demand for security and privacy across IoT — it's going to be a critical area for companies and investors going forward."

Joshua McKibben
Director, Advisory, Cyber Services
KPMG in the US

Cybersecurity on pace to set a new record

Global venture activity in cybersecurity
2012–2019*



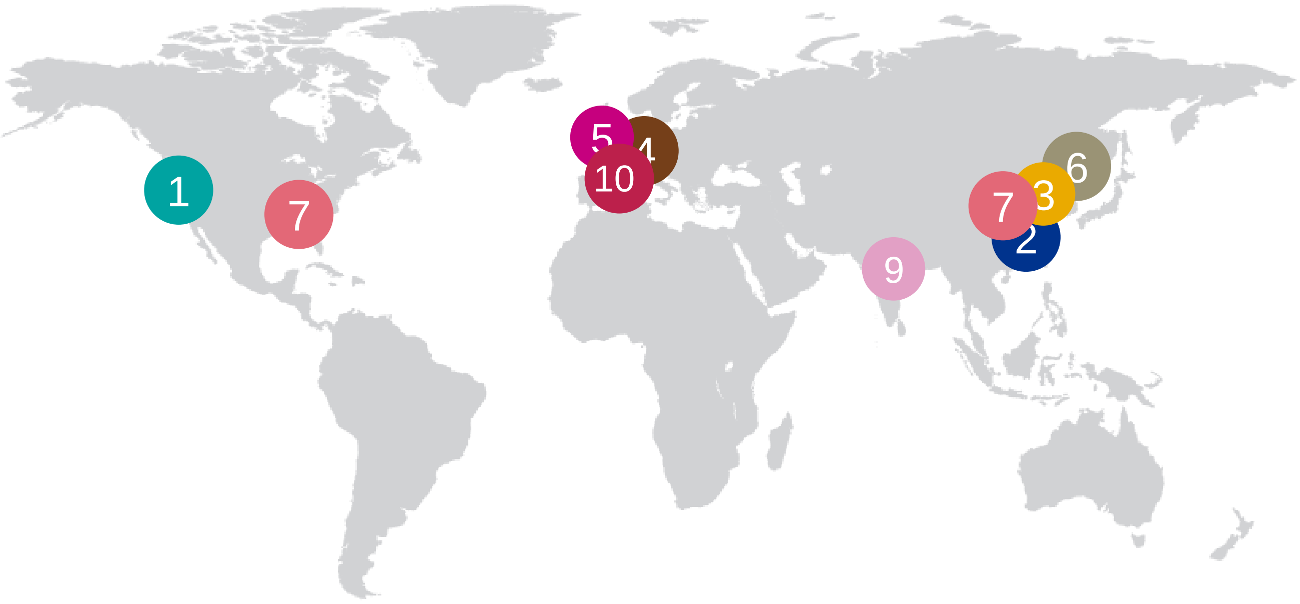
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Although deal count is down relative to prior highs, cybersecurity companies are still raking in VC at a hefty clip, with the $5.8 billion logged in 2019 to date potentially putting the sector on pace for a brand-new high by year's end. Cybersecurity is entrenched as an imperative arena for virtually every corporation now, and consequently, multiple founders and investors are finding it worth their while to tackle the myriad challenges information security present in a variety of pathways. Especially given the relentless evolution of business and consumer software tools across desktop and mobile, as well as smart devices in homes, offices and factories, securing information flows as well as critical points in data flows are posing complex challenges.

"From a cybersecurity perspective, there will likely be a big investor focus on how new technologies can help bridge hybrid environments and traverse security capabilities from one cloud to another"

Deepak Mathur
Director, Advisory, Cybersecurity
KPMG in the US

Q3 sees diverse cluster of mega-deals



Top 10 global financings in Q3'19

1. **JUUL** — $785.2M, San Francisco
Consumer durables
Late-stage VC

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

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

4. **FlixMobility** — $564.4M, Munich
Automotive
Series F

5. **Babylon Health** — $550M, London
Healthcare services
Series C

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

7. **Mission Lane** — $500M, Atlanta
Consumer finance
Series A

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

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

10. **N26** — $470M, Berlin
Financial software
Series D

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

In Q3'19 US VC-backed companies raised

$28.2B

across

2,265 deals

Breadth of venture capital investment helping drive strength of US VC market

Despite some heightening uncertainty in the US economy and public markets, the VC market in the US continued to see solid levels of investment during Q3'19, led by the $785 million raise by e-cigarette maker Juul.

With a scarcity of massive deals this quarter, the US continued to see numerous megadeals valued between $100 million and $500 million. These deals occurred across a wide variety of sectors, including financial services, mobility, automotive, healthcare, insurance, and others. Both the breadth of investments and the geographic diversity of companies attracting investment likely helped buoy the VC market in the country.

Number of unicorn births in US remains strong

After 20 unicorn births during Q2'19, Q3'19 saw an additional 19 companies reach unicorn status in the US, including Checkr, Shape Security, Rivian, and Sonder. The continued high number of unicorn births likely reflects both the ongoing focus of VC investors on late-stage deals and increasing valuations given the significant competition for the highest quality deals.

AI-focused companies accounted for more than a quarter of this quarter's new unicorns, with Scale AI, DataRobot, Argo AI, Icertis, and Anduril all becoming unicorns during Q3'19. Outside of the new unicorns, a number of other AI companies attracted large investments during Q3'19, including ThoughtSpot ($248 million) and LucidWorks ($100 million). Given the broad applicability of many AI solutions, AI-focused companies are expected to remain very attractive to VC investors over the next few quarters.

Fintech remains a key area of VC investment in Q3'19

Fintech continued to be a hot area for VC investment in the US during Q3'19, with raises by Mission Lane ($500 million), Root Insurance ($350 million), Fundbox ($326 million), Robinhood ($323 million), Clearbanc ($300 million), and others. VC investors recognize that opportunities to enhance financial services extend far beyond the more mature payments and lending spaces.

Recently, there has been an increase in investments focused on startups that provide enabling technologies to enhance the value proposition of existing financial services companies. Both traditional VC investors and corporates recognize there is a massive market in the traditional financial services companies that need to undertake digital transformation. Companies able to provide the services and digital extensions required to help these organizations become more digital, flexible, and responsive will likely remain high on the radar of VC investors for the foreseeable future.

US VC investors watching longer-term performance of IPO market

The IPO market in the US has been a tale of two cities so far in 2019, with a number of successes and a number of perceived failures. On the positive side, companies like Beyond Meat and Zoom have seen extraordinary success. Meanwhile other companies have seen far from stellar results, including transportation behemoth Uber and its competitor Lyft.

A number of recent unicorn IPOs have been particularly disappointing for investors considering the companies were seen as big hits, attracted huge funding rounds, and had premium private sector valuations. However, history has shown that it can take some time for companies to really thrive post-IPO. For example, Snapchat went down but is now starting to grow again. While the short-term performance of some of these high-profile unicorn companies may be weak, their performance over the next 12 to 24 months is the indicator investors really need to watch.

Breadth of venture capital investment helping drive strength of US VC market, cont'd.

Corporate VC investment continues to expand outside the technology space

Corporate VC investment in the US dipped somewhat during Q3'19, although the breadth of corporates making VC investments continued to grow beyond the technology space. More incumbents across industries have recognized the importance of leveraging digital innovation in order to grow and retain market share. This has led to numerous companies making a broad range of innovation investments, including VC investments. Given the number of industries that remain ripe for disruption and the complex challenges faced by incumbents — such as legacy systems and processes or less flexible business models — it is expected that corporate VC investment will likely increase again over the next few quarters.

Increasing focus on profitability and business model

Concerns about too-high valuations combined with a weaker economic outlook will likely see VC investors becoming somewhat more cautious over the next quarter or two. Given the amount of capital still available in the market, VC investment is expected to remain solid — however, investors will likely increase their scrutiny of companies, focusing their investments on those able to show profitability or that have realistic projections for when they will become profitable.

WeWork's recent decision to withdraw its Q3'19 IPO filing — which would have made it the second largest IPO of the year after Uber — is expected to only enhance investor focus on key business fundamentals like profitability and good governance.

Trends to watch for in the US

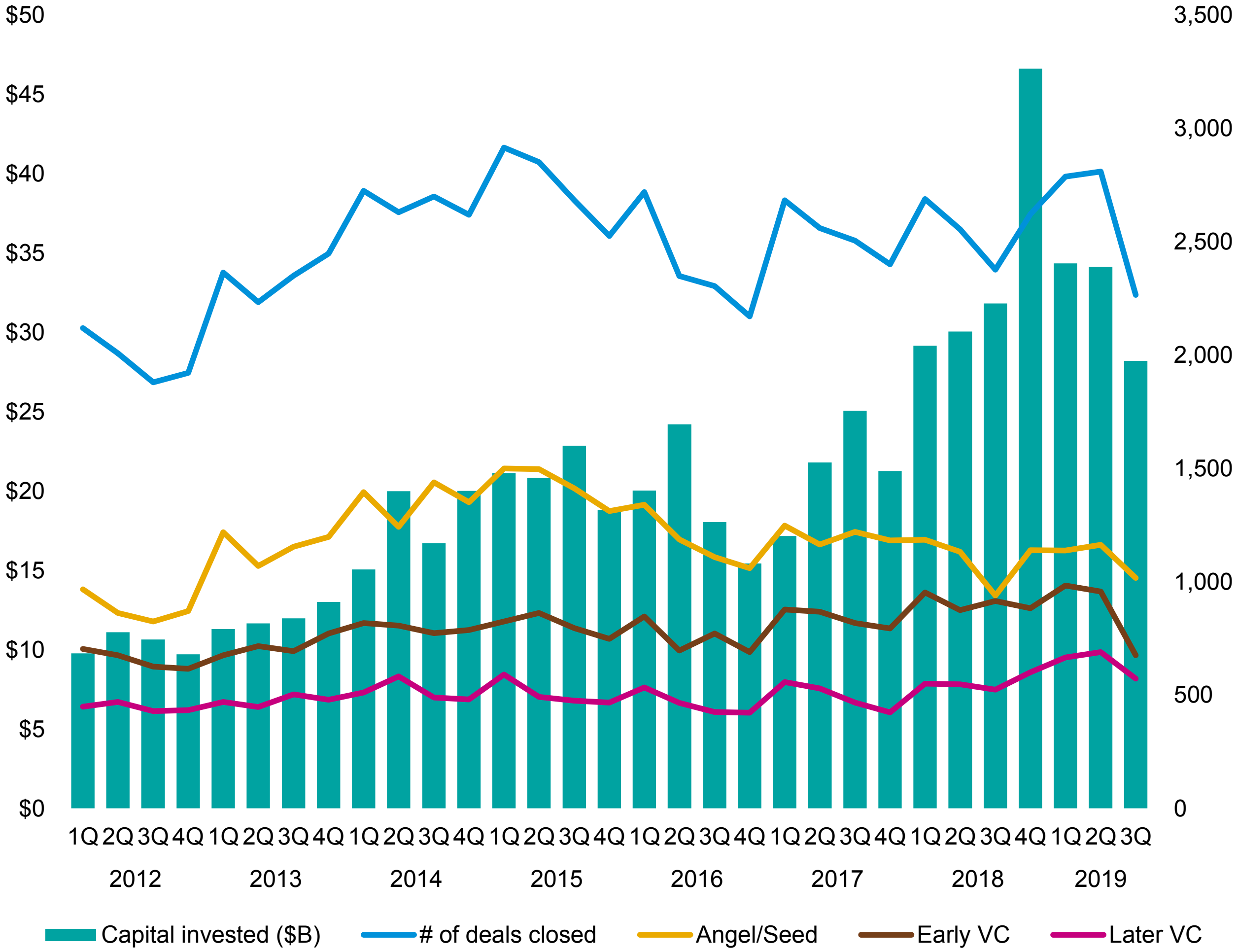
While the economic outlook heading into 2020 is not as bright as it has been in recent years, with plenty of capital still available, VC investment in Q4'19 and the early part of 2020 is expected to remain relatively stable.

In the US, many investors will be watching the longer-term performance of companies that issued IPOs early in 2019. While Uber's performance might not be easily relatable to other companies, the ongoing results of companies like Beyond Meat, Zoom, Slack, and Lyft are more likely to impact investment decisions moving into 2020. VC investors in the US are also expected to increase their focus on companies that are profitable or that have a good story as to when they will become profitable.
At a technology and industry level, AI is expected to remain a very hot area of VC investment, in addition to fintech, transportation, healthtech, and cybersecurity.

2019 on pace for another robust year

Venture financing in the US

2012–Q3'19



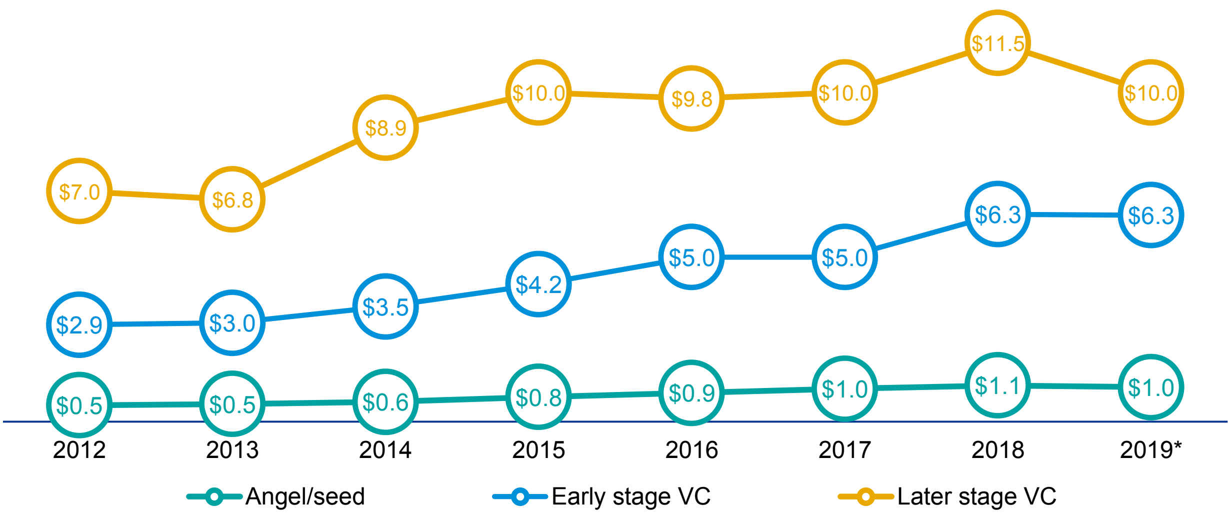
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

Despite the dip in VC invested as well as angel & seed financing in Q3, 2019 still is going to be one of the strongest years for VC invested on record, barring a truly disastrous Q4. The unicorn model has been somewhat proven out given strong performance and exits from multiple venture-backed IPOs this year, and thus significant capital flow at the late-stage seems primed to continue.

The late-stage dips, if slightly

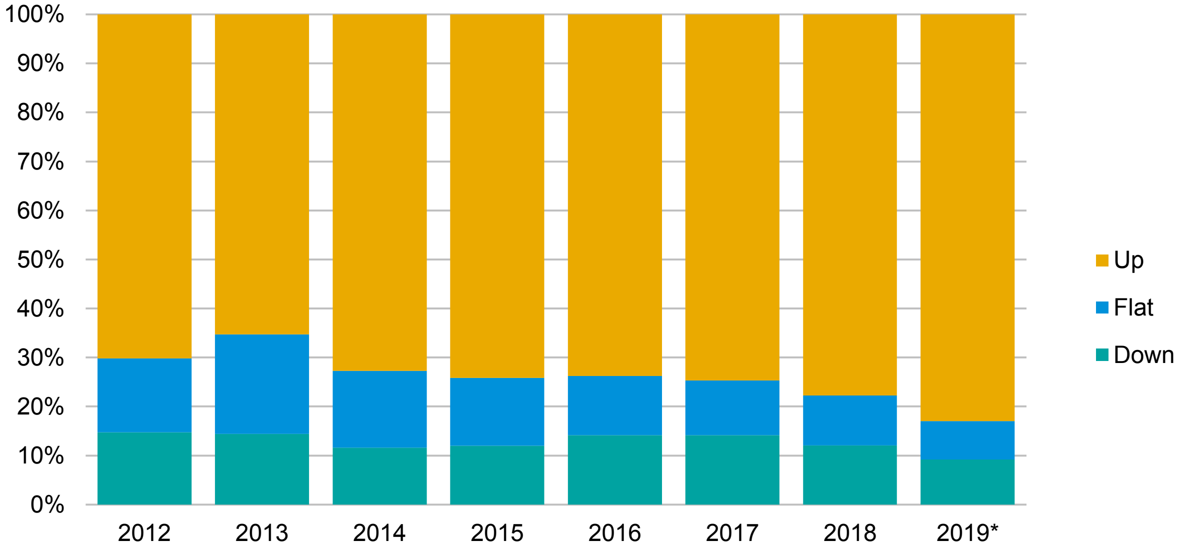
Median deal size ($M) by stage in the US

2012–2019*



Up, flat or down rounds in the US

2012–2019*

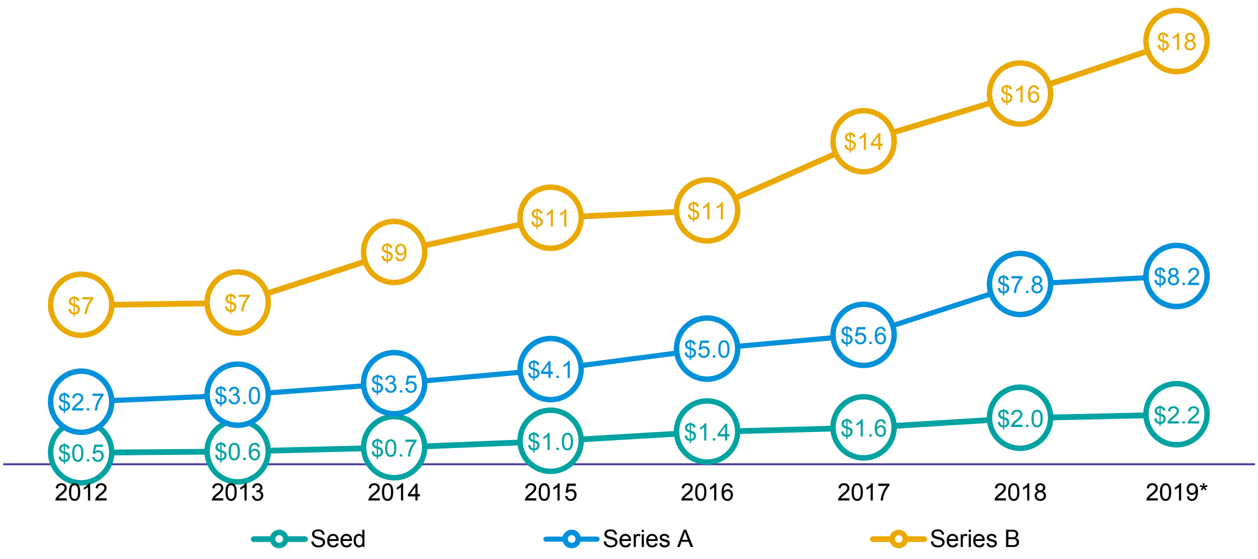


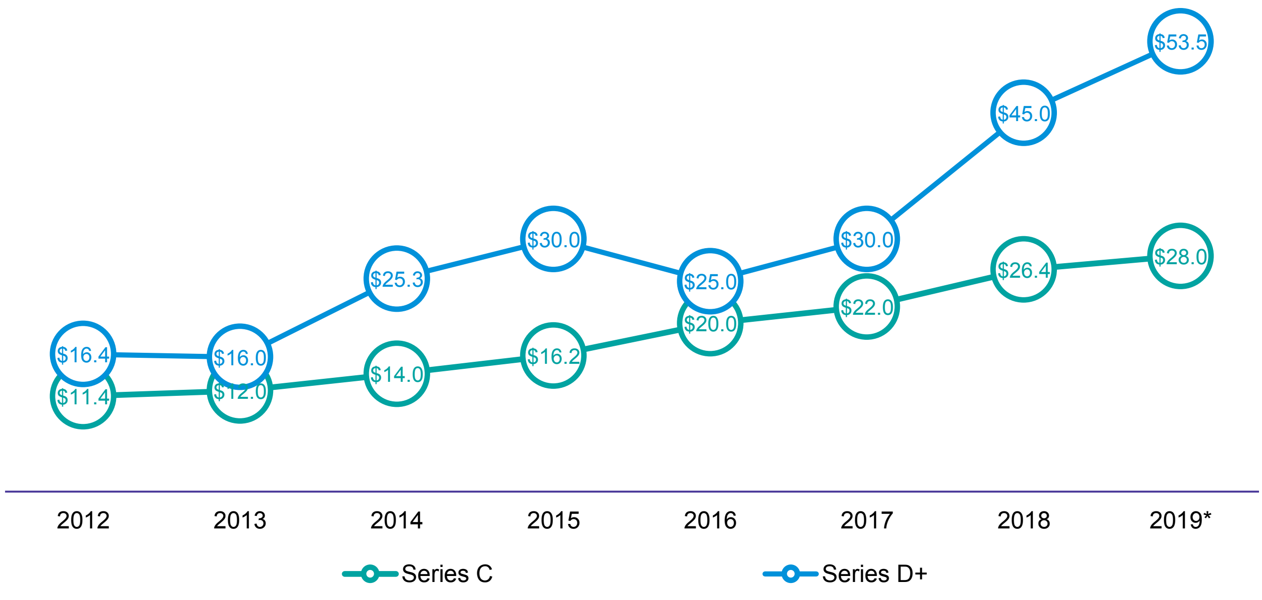
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Medians notch new highs across all stages

Median deal size ($M) by series in the US

2012–2019*





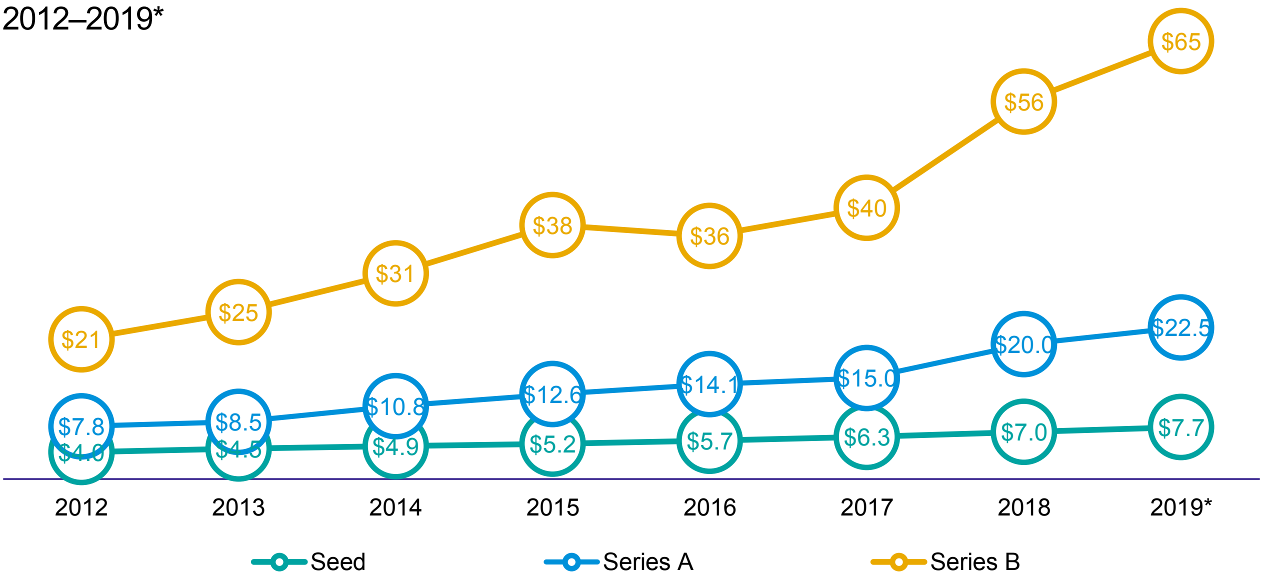
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

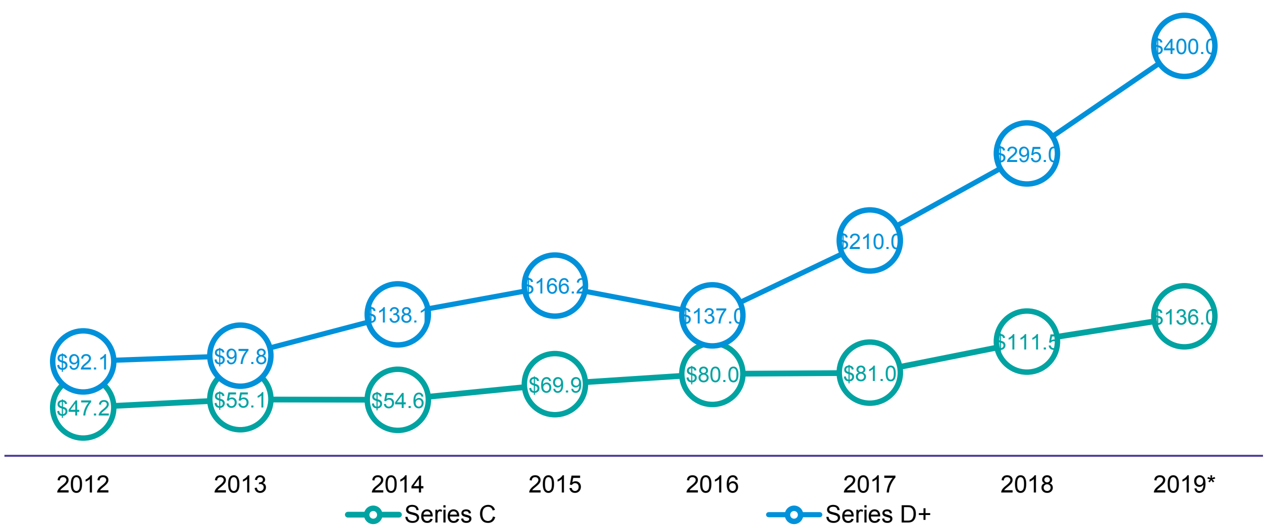
Note: Figures rounded in some cases for legibility.

Valuations notch new highs

Median pre-money valuation ($M) by series in the US

2012–2019*





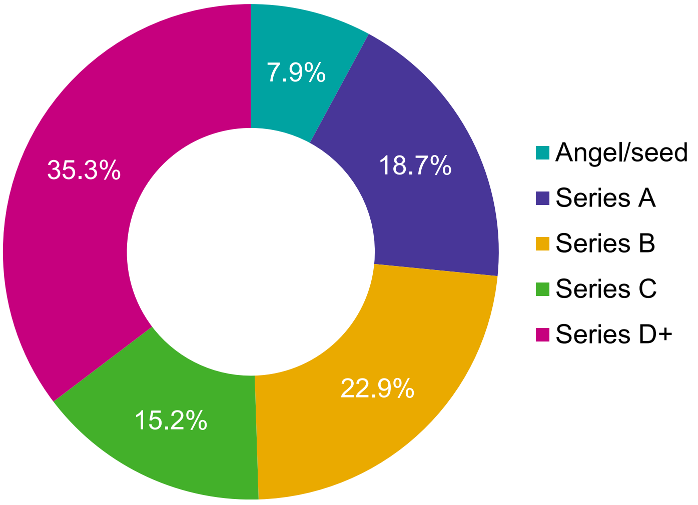
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Note: Figures rounded in some cases for legibility.

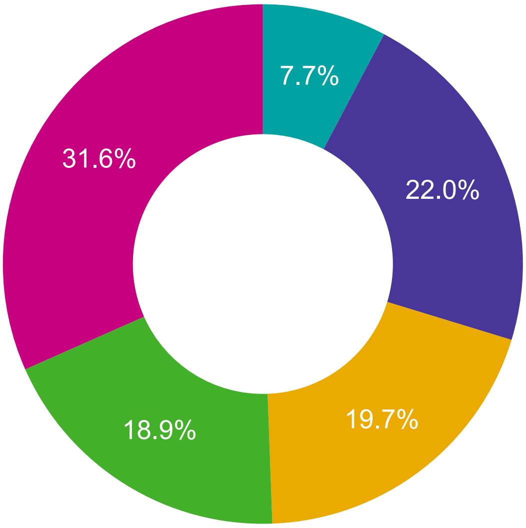
Private valuations remain at near-unprecedented highs, similar to, if not eclipsing, those seen in the dot-com mania. The superabundance of private capital has resulted in remarkable growth at all stages, even if some stages are now growing at a slightly slower rate. Some of those valuations are doubtless justifiable, but it's notable that more and more talk of discipline with regard to capital spend is occurring in Silicon Valley and elsewhere.

Angel & seed volume proportions recover

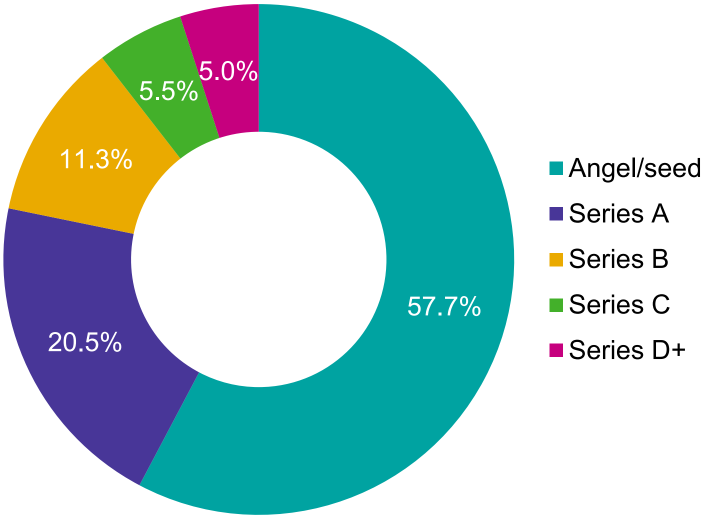
Deal share by series in the US
2019*, VC invested ($B)



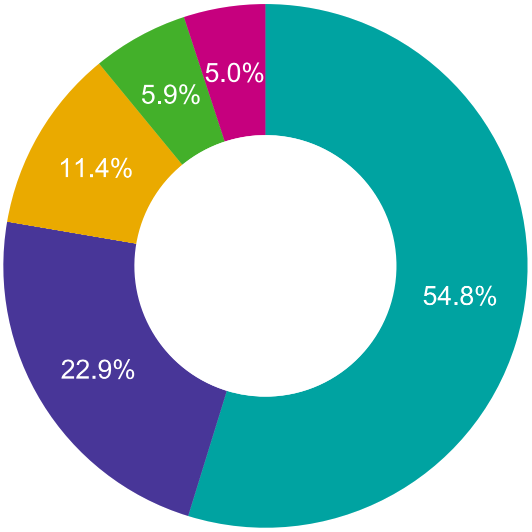
Deal share by series in the US
2018, VC invested ($B)



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



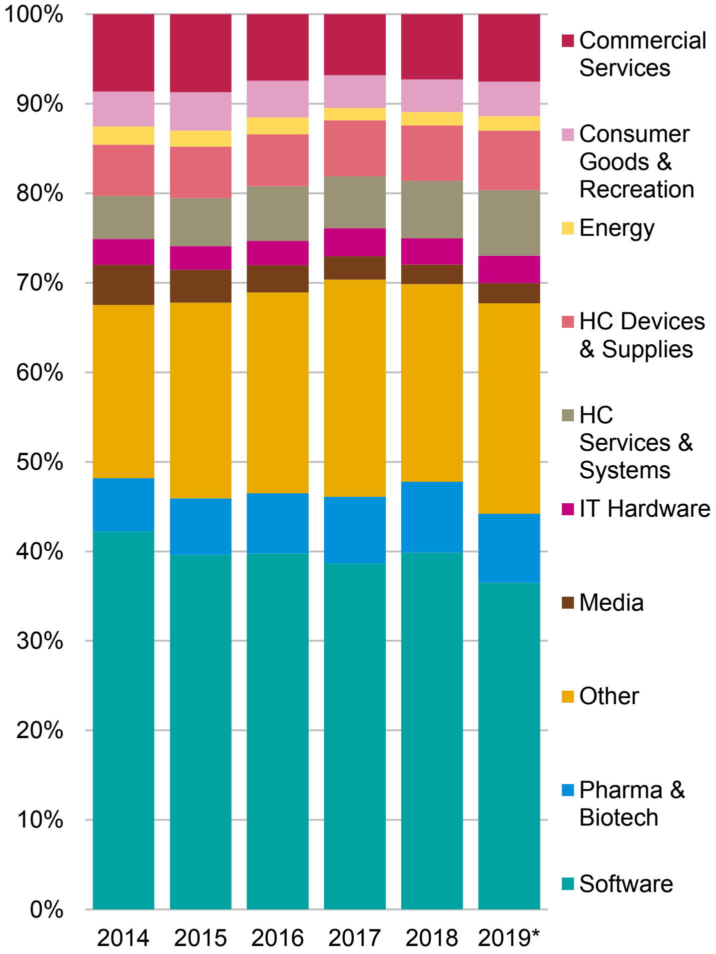
Deal share by series in the US
2018, number of closed deals



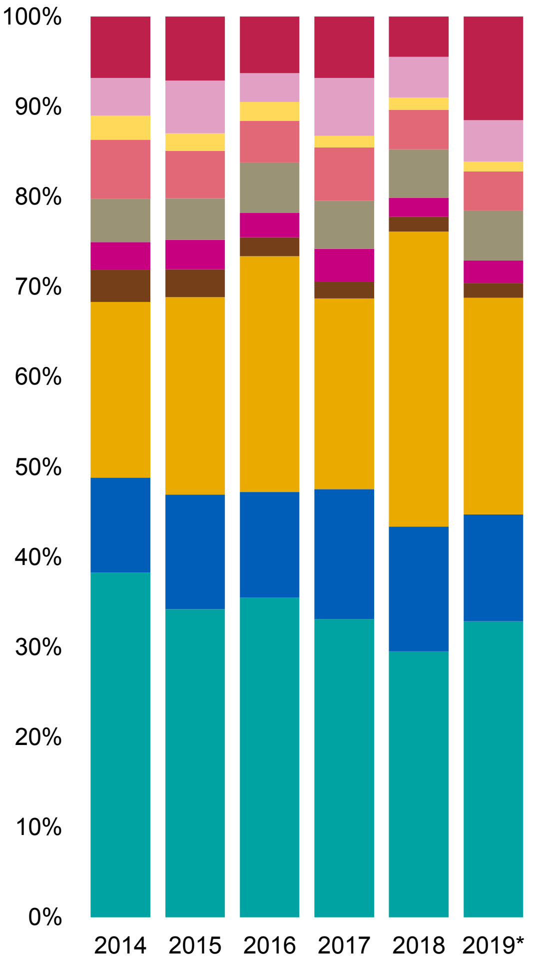
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Healthcare & hardware stay robust

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)



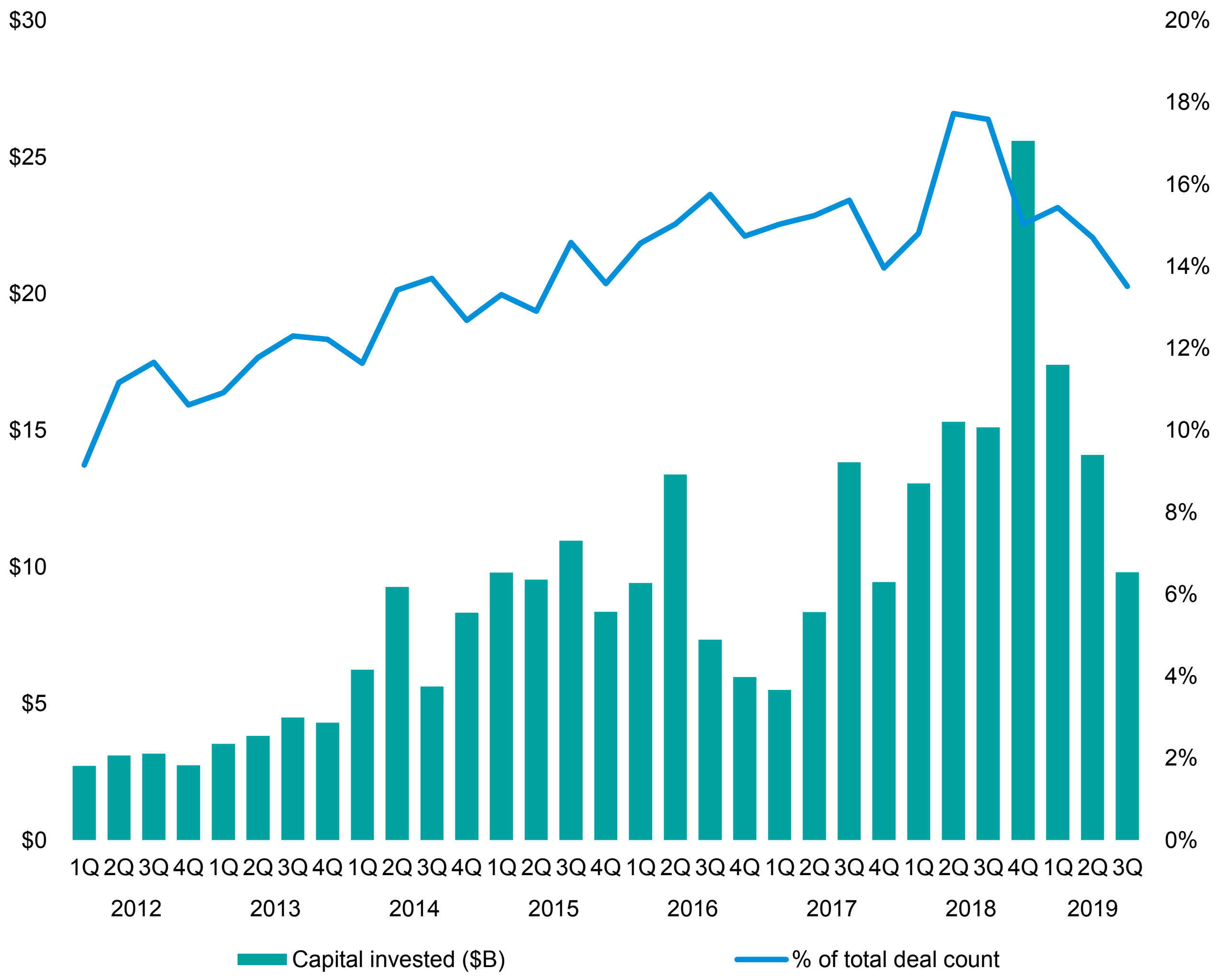
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

The healthcare ecosystem is drawing in more activity than ever amid the slight decline in volume, bolstered by strong macro drivers across the healthcare industry and also favorable regulatory climates.

CVC participation dips slightly

Corporate participation in venture deals in the US

2012–Q3'19

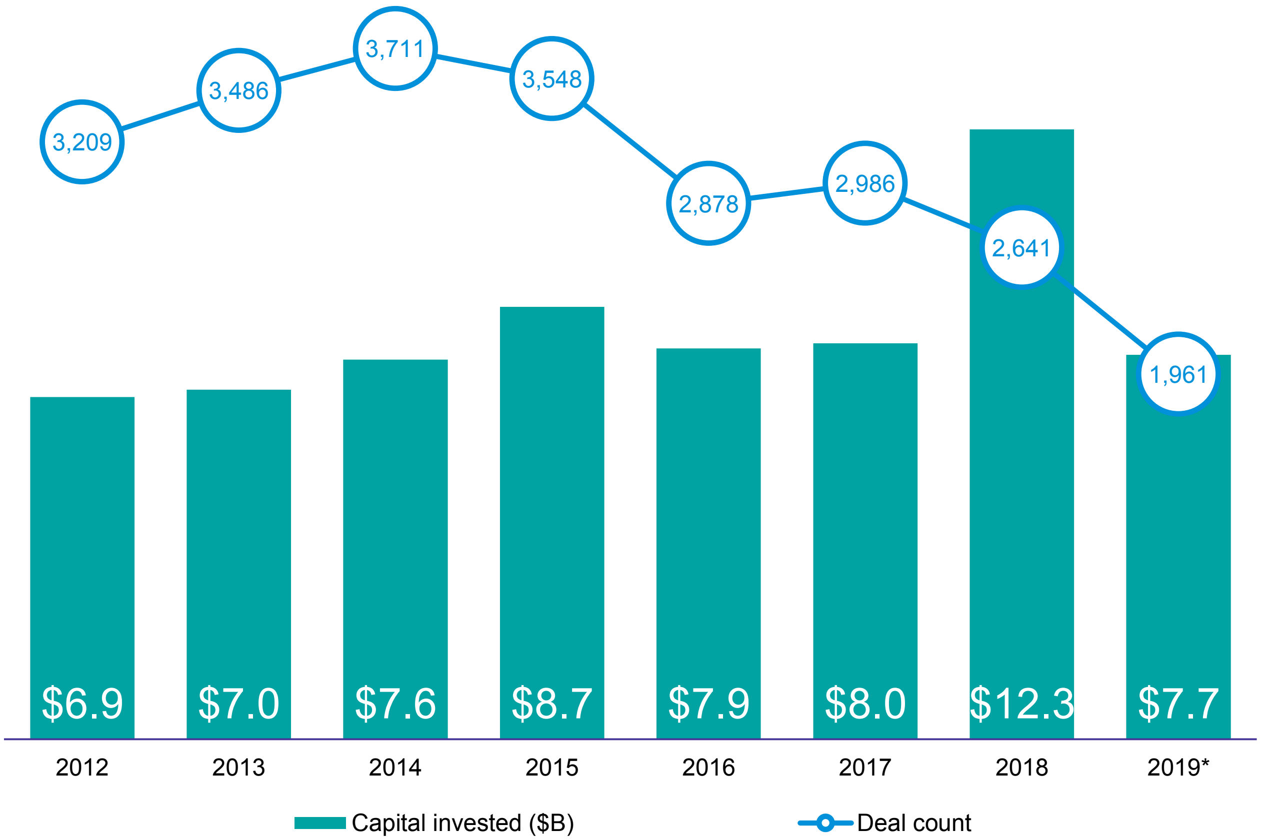


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

Despite the decline in corporates' participation rate, the longer-term trend of corporations staying more active as investors is likely to hold intact, although it could evolve into differing models, such as establishing an incubator rather than a direct, outside investing arm.

First-time funding sees strong flow of VC

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



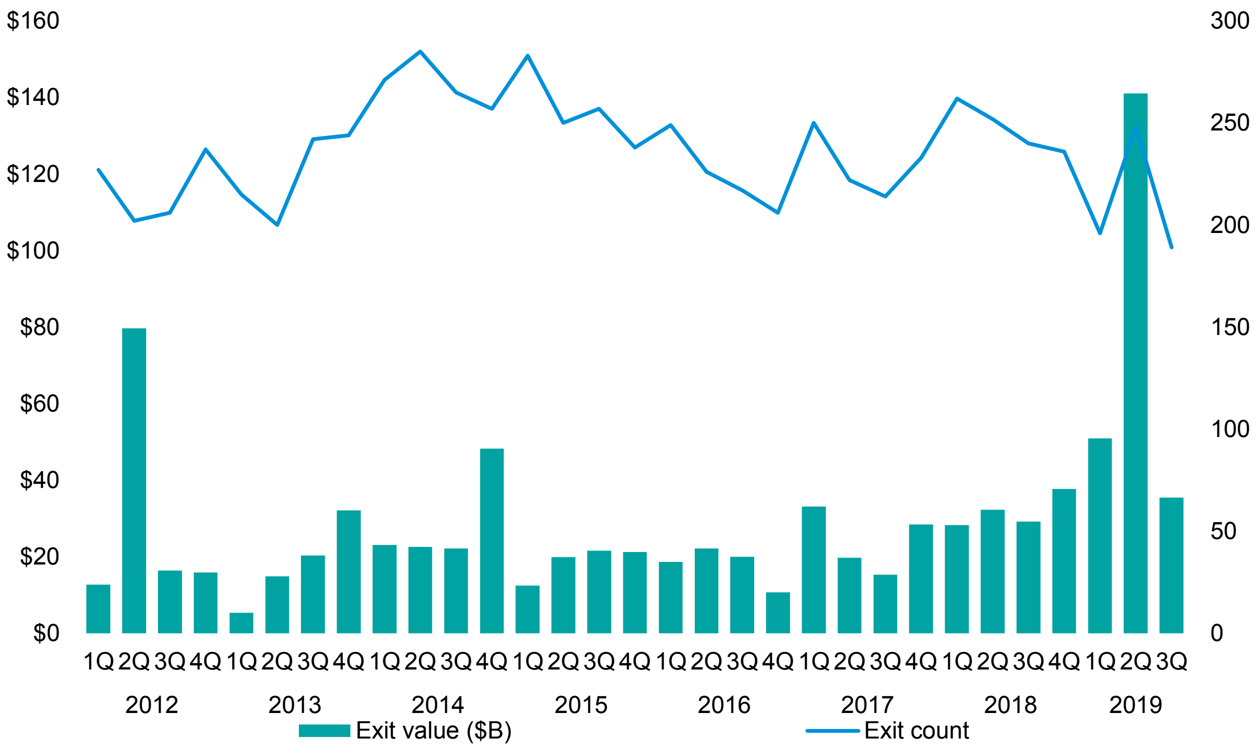
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

At $7.7 billion, the total sum of VC invested in first-time financings for the US is likely to result in one of the most robust years on record, despite the slowdown in deal count. This surge in capital invested is likely due in part to the inflation seen across the entire venture environment in the US, as median round sizes and pre-money valuations grow significantly; even for first-time financings, an abundant supply of capital available for funding will help underpin an increase in such metrics, albeit not to the same extent as seen broadly. In addition, as technological cycles beyond the software and mobile ecosystem proliferate into new niches and ramp up further, there is likely to be a pause in the volume of first-time financings until underlying technical challenges are addressed in hardware and key research advances made.

Exit cycle stays strong after record quarter

Venture-backed exit activity in the US

2012–Q3'19



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

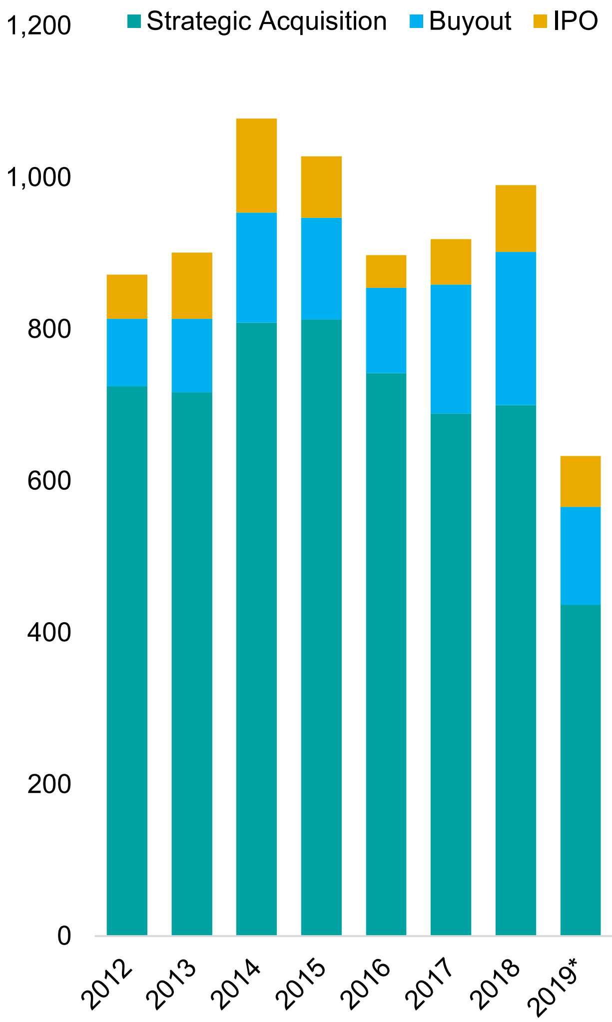
In the wake of a single quarter that achieved a staggering $140 billion in aggregate exit value, even a robust Q3 pales a little by comparison. However, the last four quarters have seen significant exit value sustained, in a promising sign for the US venture ecosystem on the whole. Although it takes some time to liquidate stakes fully, already these gains are likely to generate dollars recycling back into the VC landscape.

"Because tech has had such a bullish run, investors expect every company to come out of the [IPO] gate and go gangbusters. But the historical trend shows that while it might take a bit of time to get going, the best companies just get into the market and grow from there. The trend to watch will be how companies that issued IPOs this year perform over the next 12 to 24 months."

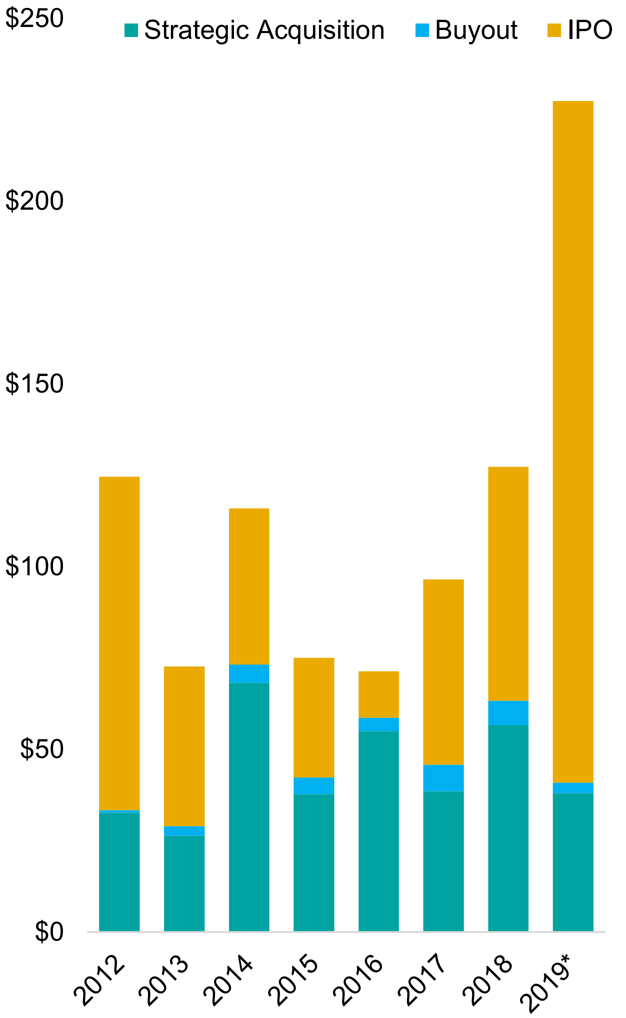
David Pessah
Senior Director, KPMG Innovation Labs
KPMG in the US

2019 finally sees unicorn IPO surge

Venture-backed exit activity (#) by type in the US
2012–2019*



Venture-backed exit activity ($B) by type in the US
2012–2019*



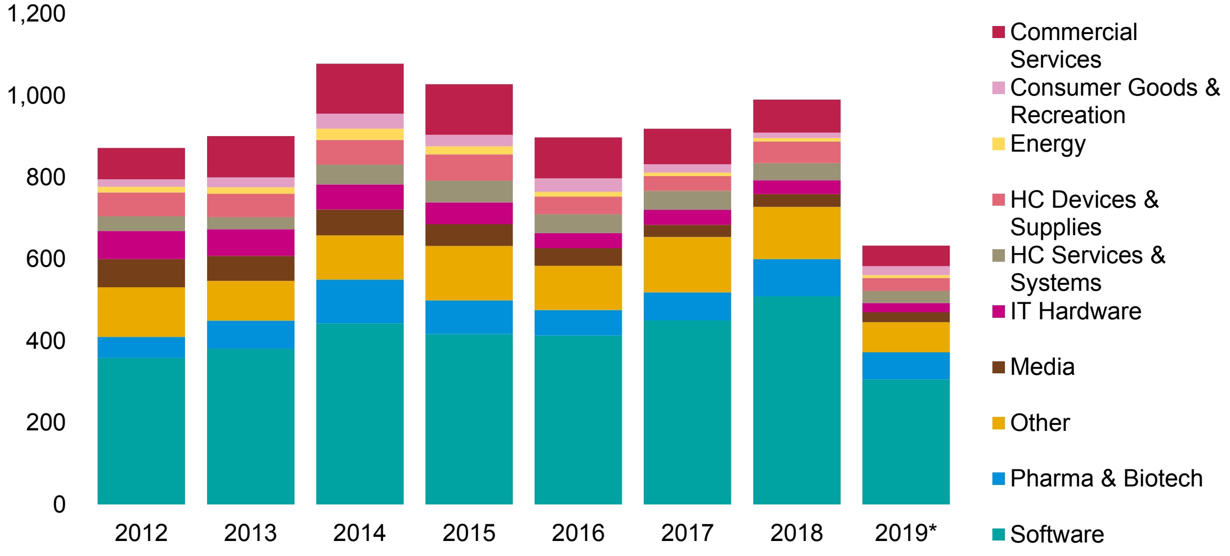
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Given the methodology shift incorporated in the prior edition of the Venture Pulse, IPOs remain a key driver of value in the venture landscape, primarily due to the impact of a handful of unicorns that saw their valuations soar upon debut or at minimum stay strong. While post-IPO performance for some has been lackluster, more VC-backed companies than expected are still performing relatively strongly.

Healthcare & software remain key to volume

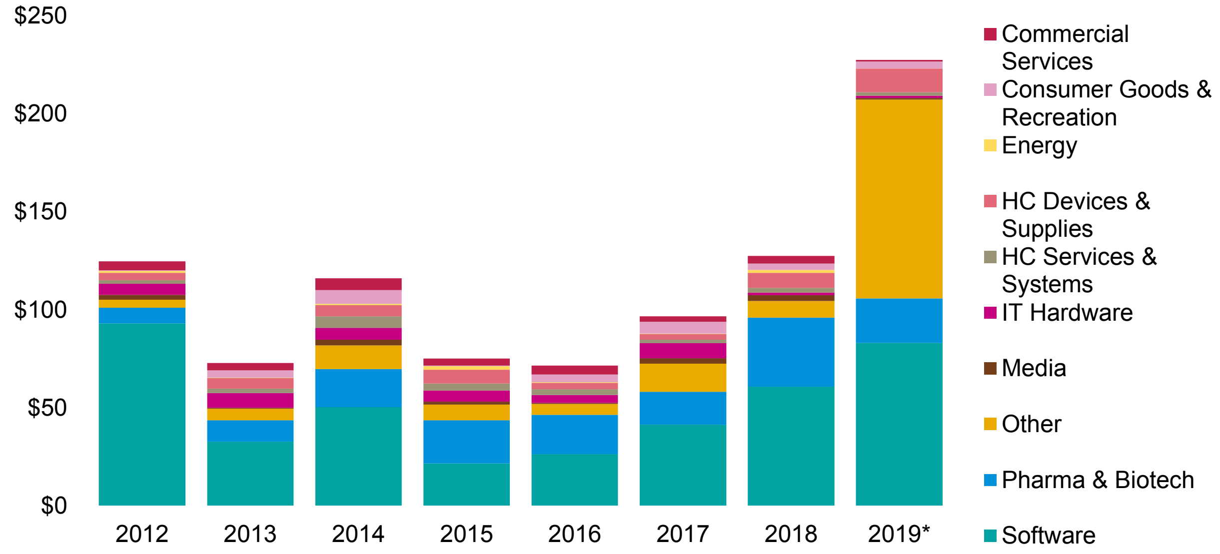
Venture-backed exit activity (#) by sector in the US

2012–2019*



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

2012–2019*

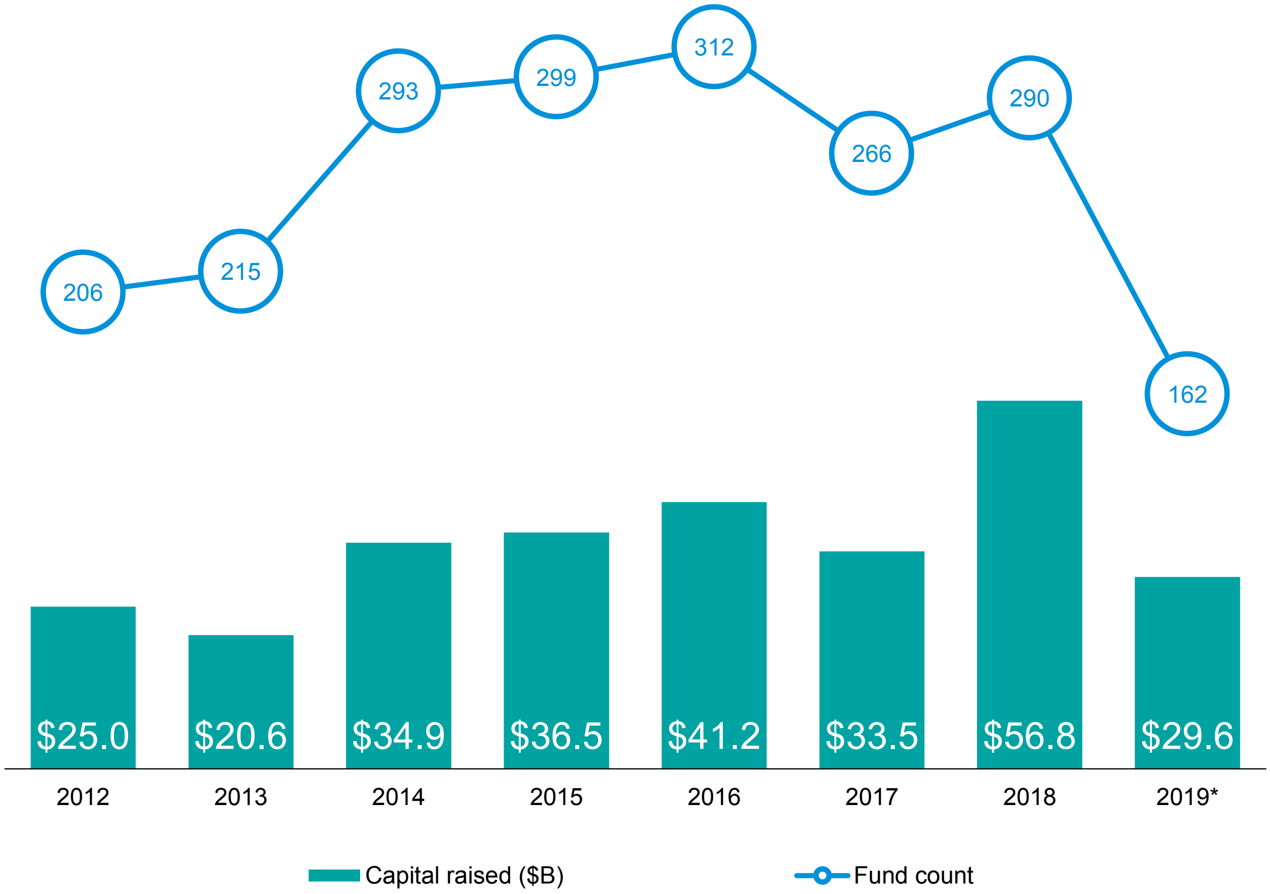


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

After robust 2018, 2019 cools off

US venture fundraising

2012–2019*



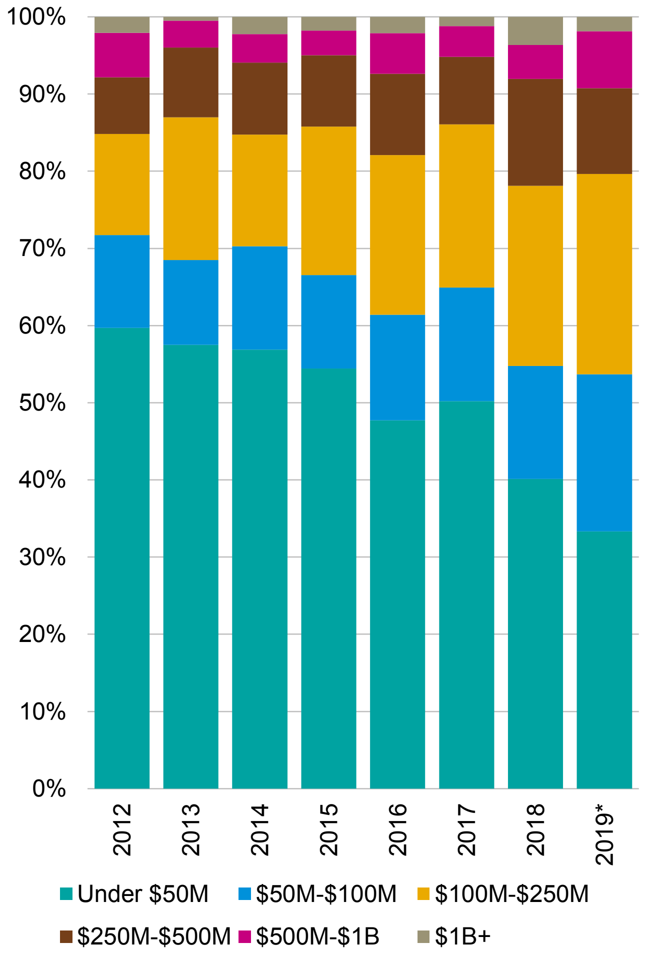
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

2018's tallies for fundraising smacked of exuberance and largesse, and thus it is hardly surprising that both volume and VC raised are trending down from such heights, in typical cyclical fashion. There is no sign that limited partners are now souring on VC and pulling back to see how more recent venture vintages perform, but it is likely that after several years of strong commitments and activity, many have allocated as much as they wish to VC, and in terms of timing, won't commit more until later in the overall venture cycle, certainly not in 2019.

Fundraising tilts toward larger vehicles

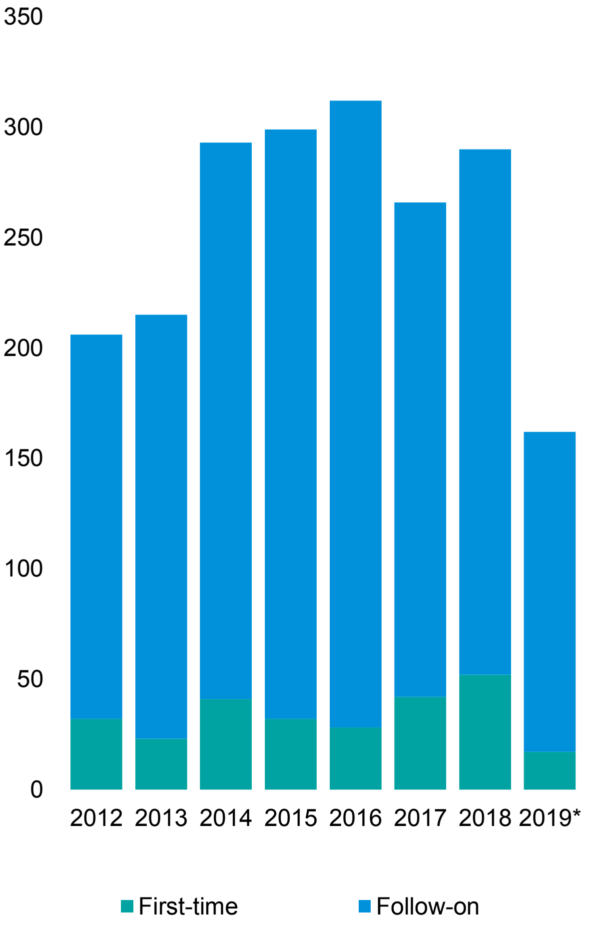
Venture fundraising (#) by size in the US

2012–2019*



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

2012–2019*



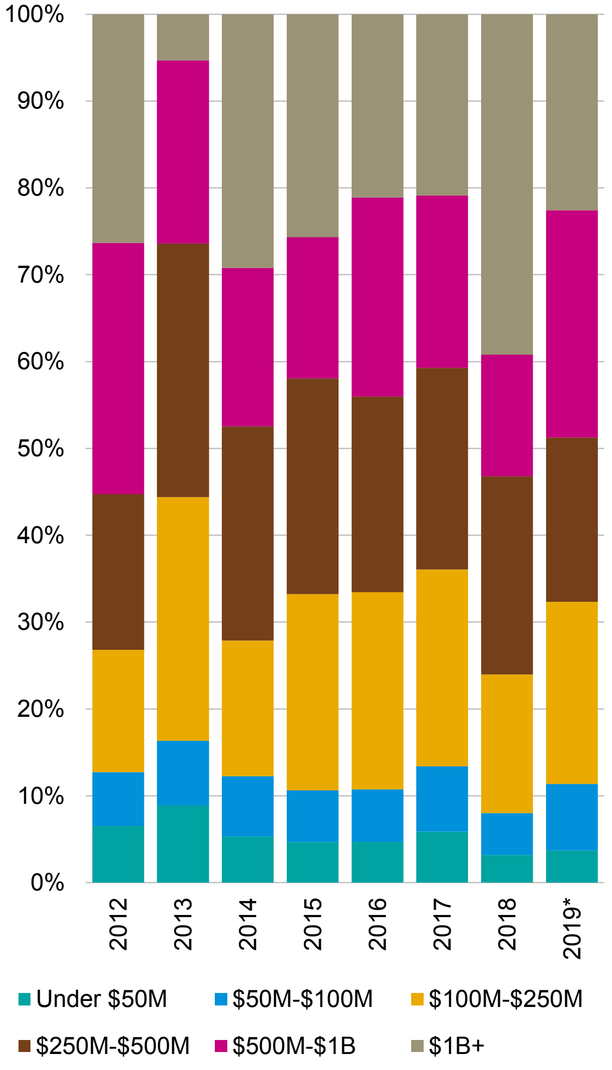
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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 as fundraising on the whole tilts larger in response to the success of firms plus the new economics of scale in the US venture landscape, it'll be difficult for first-time fundraisers without strong pedigrees and unique, differentiated strategies to close on funds.

Follow-on fundraisers hit new record proportion

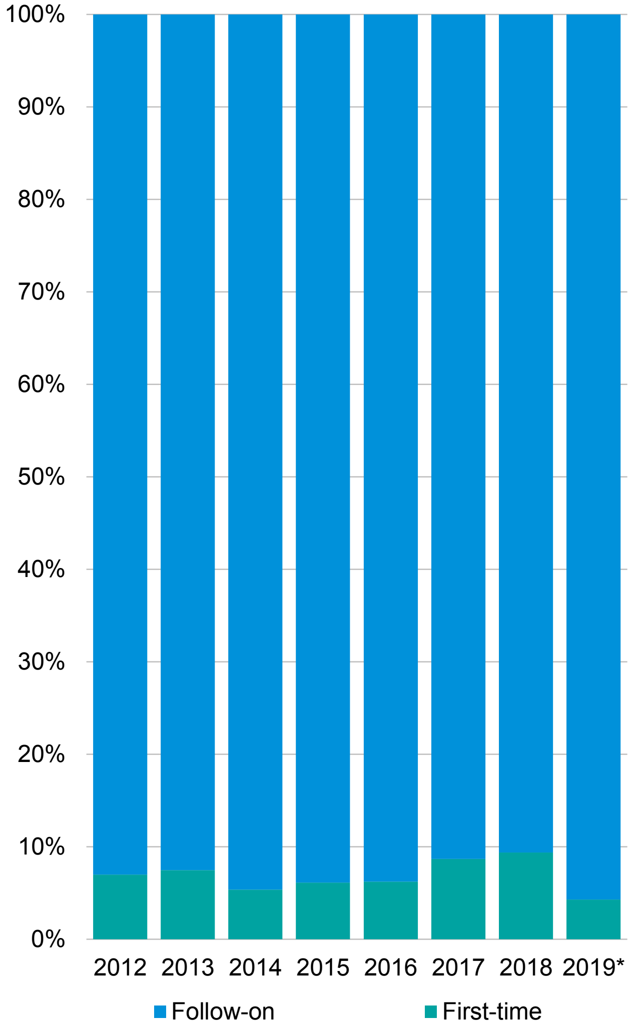
Venture fundraising ($B) by size in the US

2012–2019*



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

2012–2019*

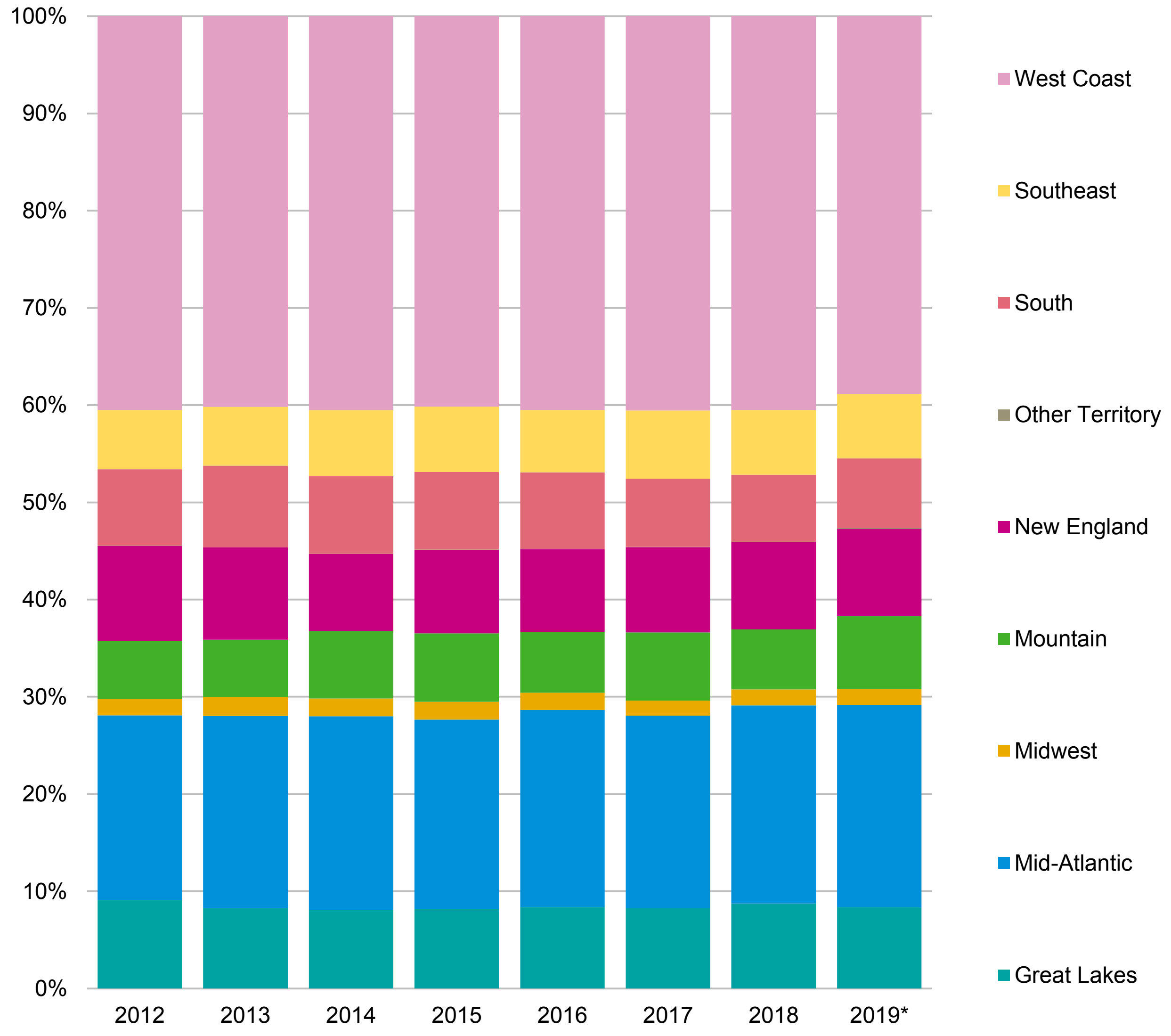


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Emerging hubs continue run of popularity

US venture activity (#) by US region

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.

In Q3'19 VC-backed companies in the Americas raised

$30.8B

across

2,420 deals

Jurisdictions across the Americas see robust investment in Q3'19

Q3'19 was a robust quarter of VC investment across the Americas. While the US continued to dominate region in terms of both investment and the number of VC deals, both Brazil and Canada experienced strong quarters. In Brazil, fintech garnered substantial investment, while AI, healthtech, and biotech continued to attract significant investment in Canada.

US VC investment remains robust despite lack of massive deals

The US continued to see significant VC investment in Q3'19, despite the lack of massive megadeals. The diversity of the US market — both geographically and on an industry basis — have helped the country remain the clear leader globally in terms of VC investment. A look at the country's top ten VC deals highlights the breadth of organizations attracting investment, from e-cigarette maker Juul and insurtech Root Insurance to proptech firm Compass and mobility company Lime.

Fintech industry growing and maturing in Brazil

The fintech industry in Brazil drove a substantial level of VC investment during Q3'19, led by a $400 million raise by Nubank — a funding round that made the neobank Latin America's first Decacorn with a valuation above $10 billion. Given the significant percentage of unbanked people in Brazil and across Latin America, many VC investors see a lot of room for growth in the space. Over the past few quarters, fintech in Brazil has continued to mature, with a number of fintechs now offering white label banking for other brands. At the same time, there is increasing interest in fintech from traditional banks. With interest rates at a historical low in the country — and expected to decline further — banks recognize the increasing need to invest to remain competitive.

Canada sees phenomenal quarter of investment amid Verafin, Clio, and Element AI deals

Canada experienced a record quarter of VC investment in Q3'19, led by a $250 million raise by Clio — a software platform for lawyers, and a $151 million raise by Element AI — a software firm focused on providing machine learning solutions to businesses. These large deals highlight the growing focus of Canadian firms on the B2B market, in addition to solutions that align with Canada's strong AI and machine learning capabilities. They also showcase the growing maturity of Canada's tech sector, with companies attracting larger and larger deals in a diversity of locations across the country. Verafin, by example, is based in St. John's, Newfoundland.

Productivity driving significant interest from VC investors

Across the Americas, productivity-focused startups gained traction among VC investors. In the US, the focus of productivity companies continued to evolve — with many focusing on B2B and enterprise software solutions rather than direct consumer apps. VC investors are particularly keen on these opportunities given the strong performance maturing companies have experienced in the market. Of the enterprise productivity companies that became unicorns in Q3'19, several have been in the enterprise technology space — such as Monday.com and DataRobot. A number have also performed well following IPOs earlier this year, making the space even more attractive in the eyes of investors.

Jurisdictions across the Americas see robust investment in Q3'19, cont'd.

International investors driving interest in Latin America

International investors continued to spur the vast majority of VC investment in Latin America, with US-based TCV leading Nubank's $400 million raise — a round that also saw participation from Tencent Holdings, Sequoia Capital, DST Global and other investors.

Meanwhile, Japan's SoftBank led September's $250 million Series D funding round for QuintoAndar, making the property rental website company Brazil's newest VC-backed unicorn. Earlier this year, Softbank announced a $5 billion Innovation Fund focused on Latin America. It is expected that this fund will continue to spur direct investment in the region and additional attention from global VC investors.

Mexico also continues to be attractive to international investors; in Q3'19, fintech payments startup Klar raised $57.5 million in funds from international investors including Santander InnoVentures.

Trends to watch for in Q4'19

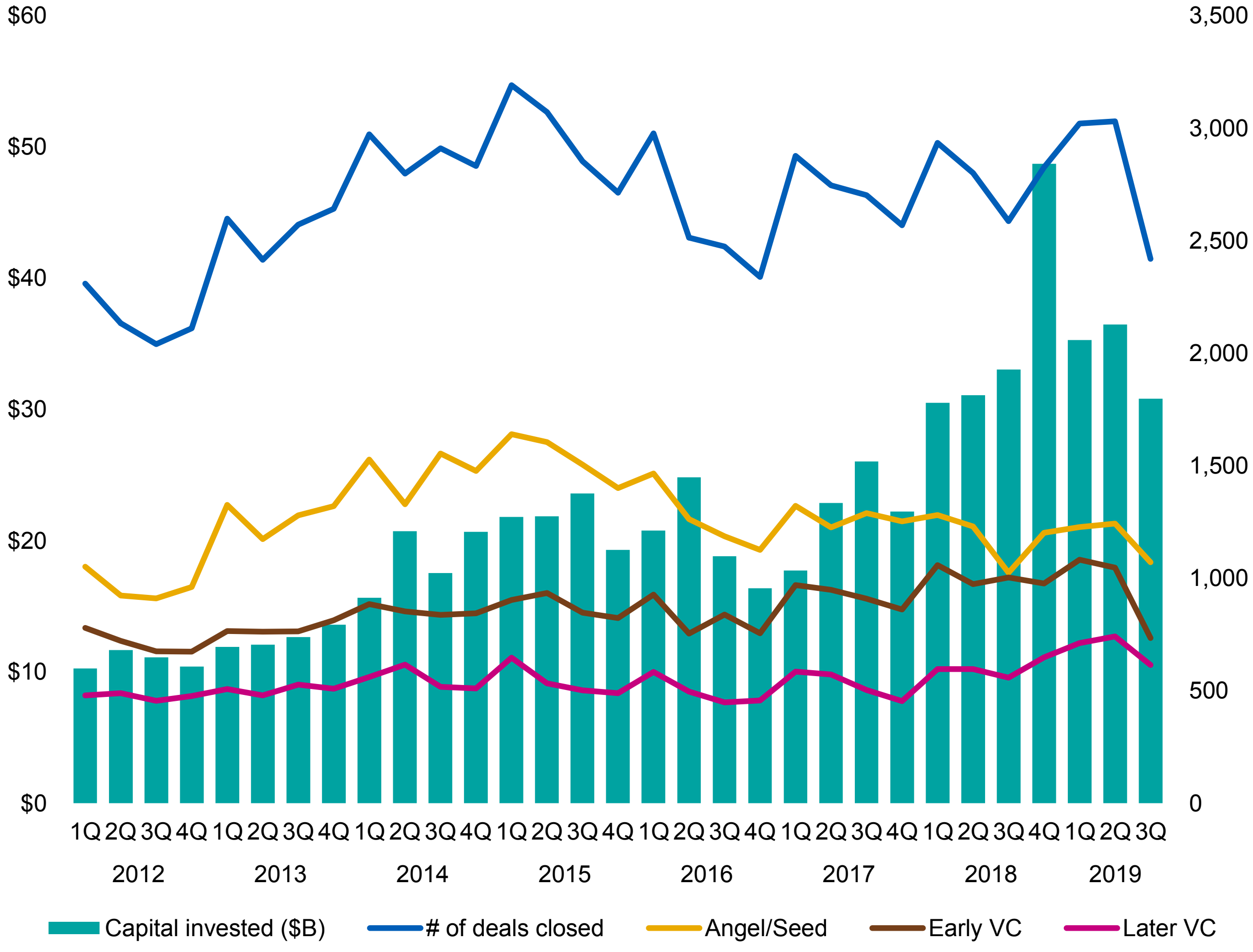
VC investment across the Americas is expected to remain strong moving into Q4'19. In Latin America, fintech is expected to continue to be the hottest area of investment. Both the size of checks and the number of late-stage fintech deals are expected to grow as companies in the industry begin to mature, particularly in Brazil. International interest in the region is also expected to grow, with the $5 billion Latin America-focused SoftBank Innovation Fund expected to increase international investor attention on the region.

In the US, VC investment is expected to remain strong for the remainder of the year given the amount of capital in the market. AI is expected to remain a top priority for US investors given its broad applicability, while transportation is expected to continue to gain attraction — particularly as it relates to commercial solutions.

Despite a dip in volume, VC invested stays strong

Venture financing in the Americas

2012–Q3'19



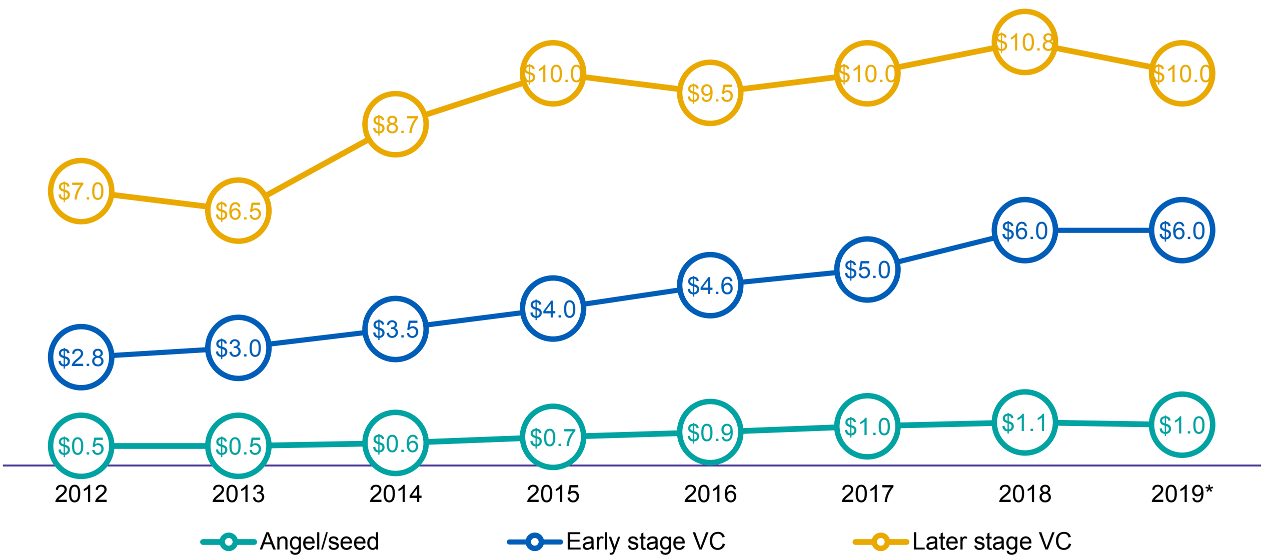
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

It is likely that the dip in volume between Q2 and Q3 2019 will be mitigated over time by additional data being uncovered or reported; what is more telling is that despite that dip, VC invested is still quite robust across the entire Americas, continuing a near-historic run. Beyond the US, strong performance from other nations and the growth of their metro startup ecosystems continues to bolster the continent's venture landscape.

Positive sentiment stays intact

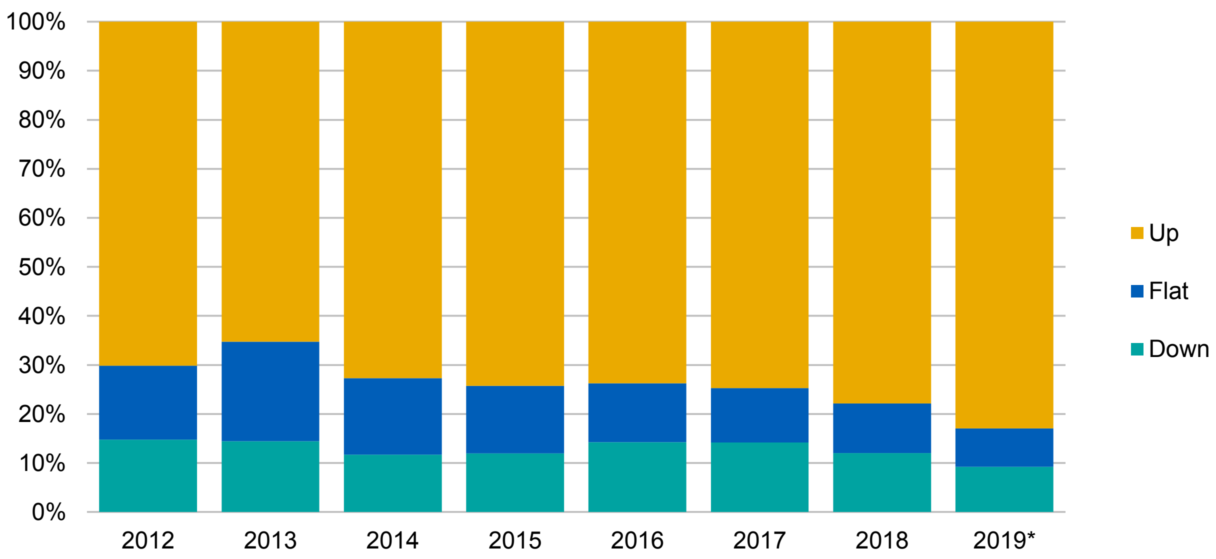
Median deal size ($M) by stage in the Americas

2012–2019*



Up, flat or down rounds in the Americas

2012–2019*

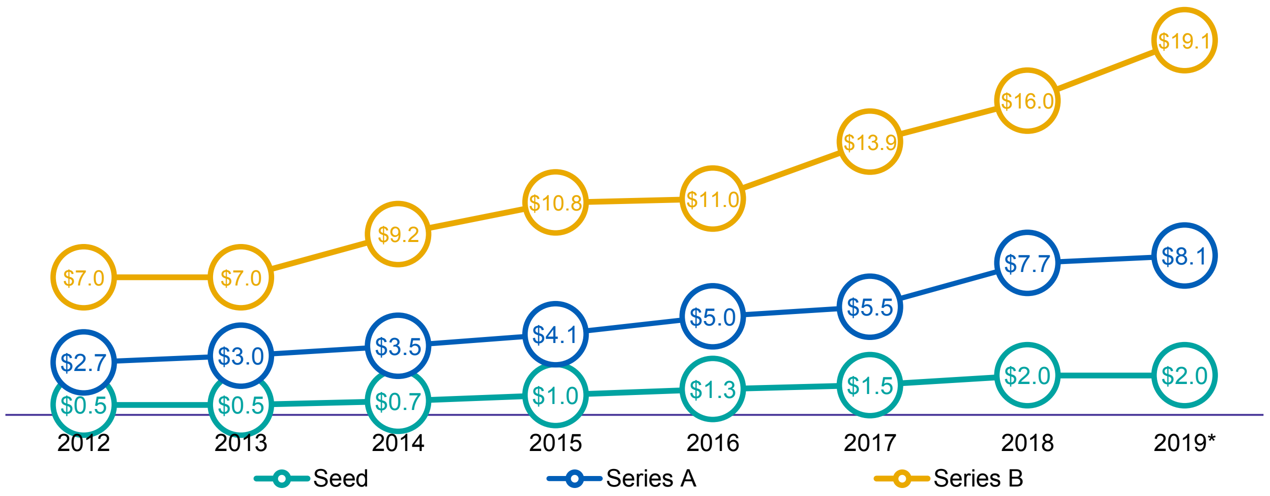


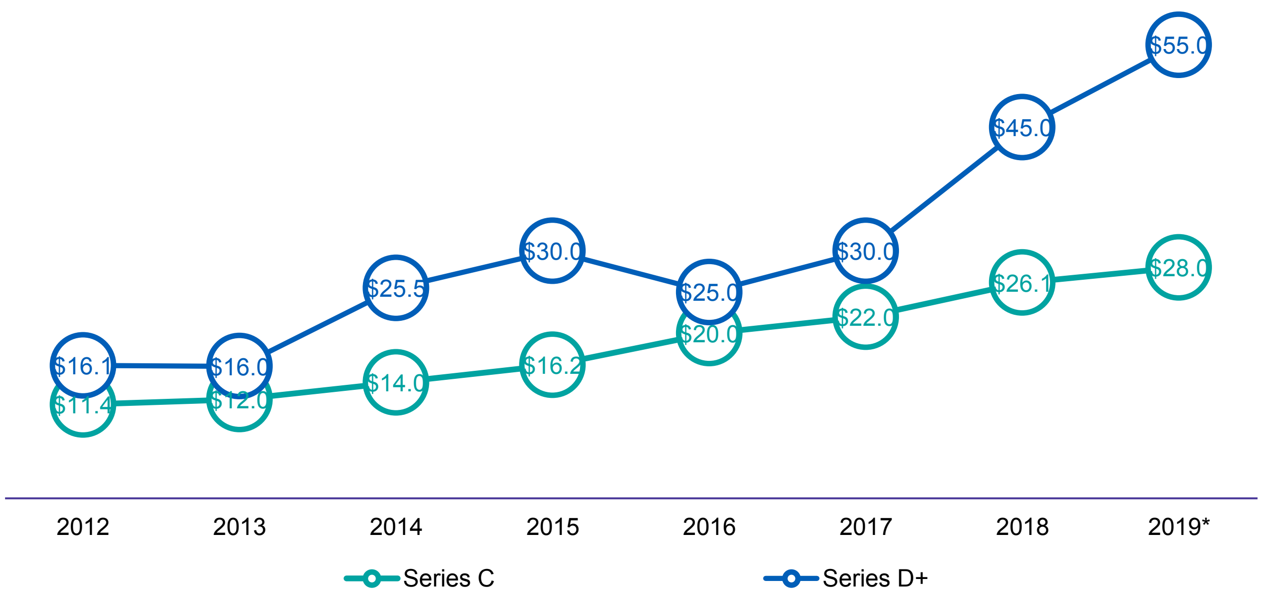
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Late-stage pulls further away

Median deal size ($M) by series in the Americas

2012–2019*



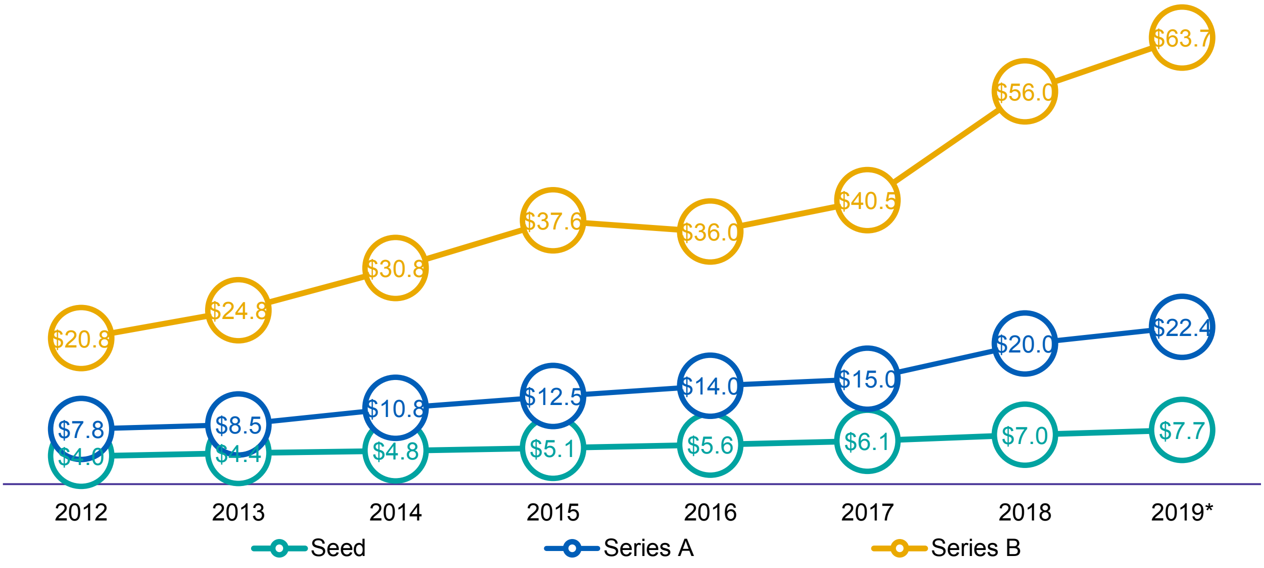


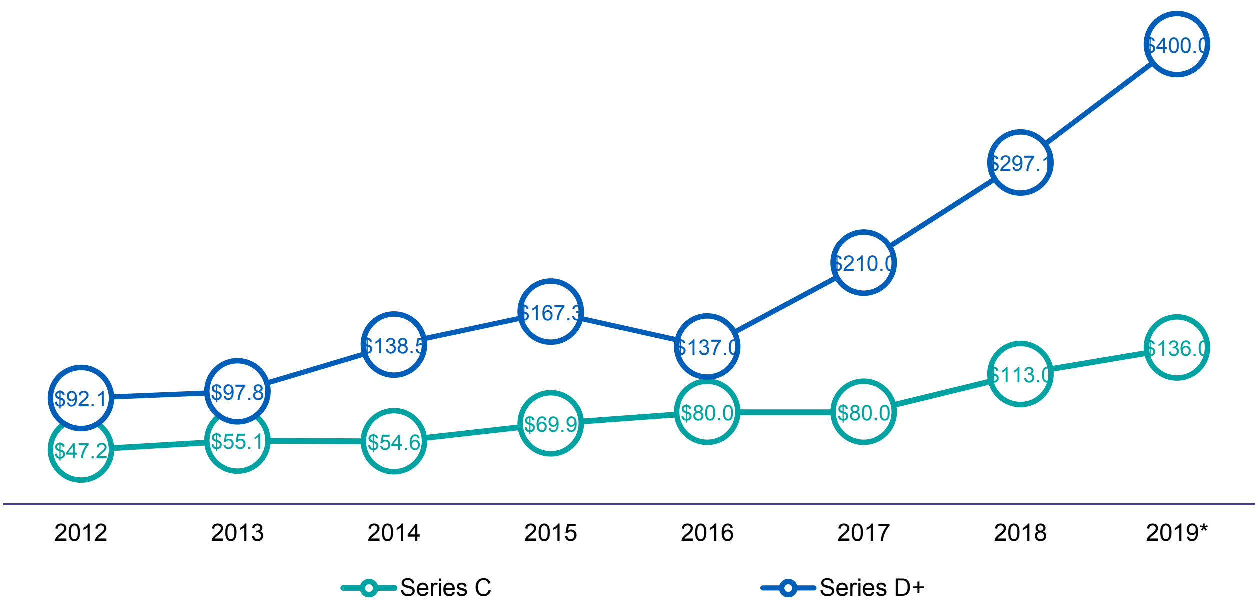
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Strong US tallies help keep medians high

Median pre-money valuation ($M) by series in the Americas

2012–2019*



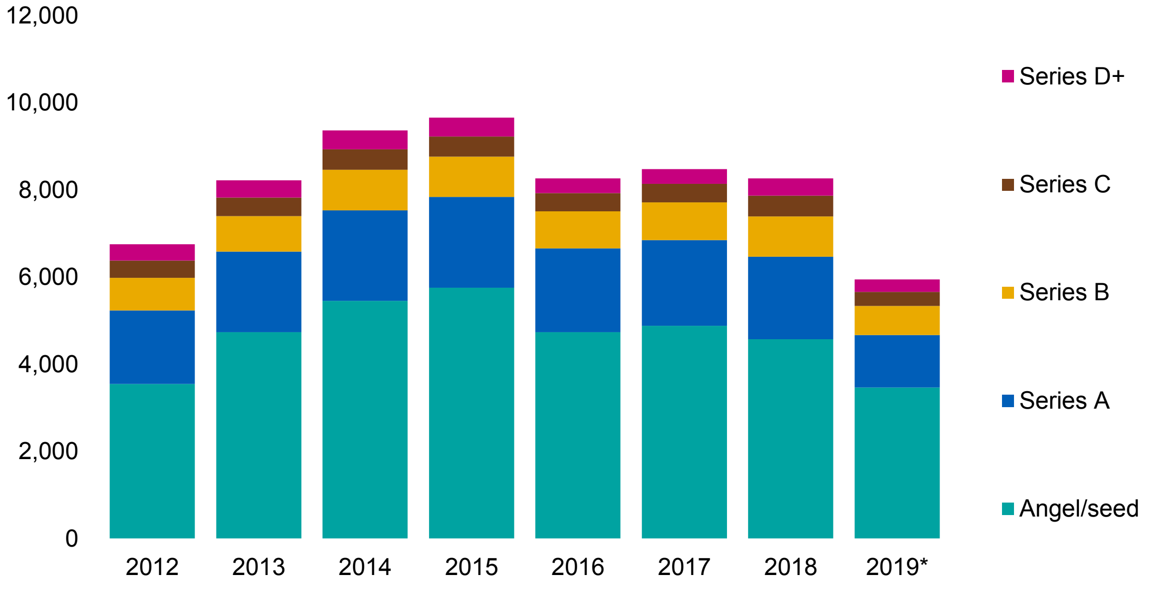


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

By and large, relative proportions stay similar

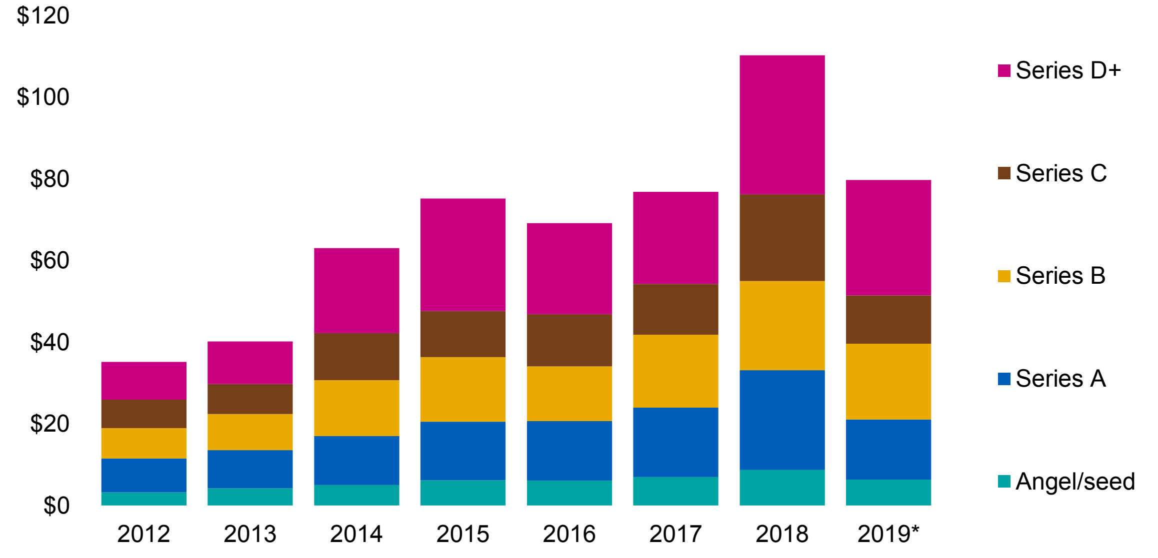
Deal share by series in the Americas

2012–2019*, number of closed deals



Deal share by series in the Americas

2012–2019*, VC invested ($B)

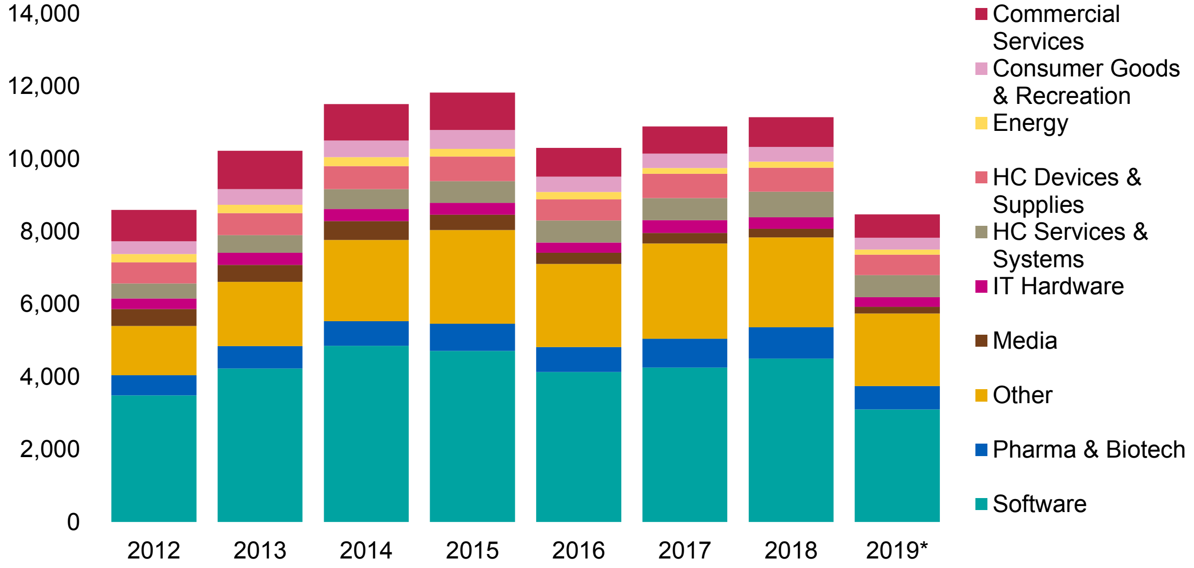


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Healthcare ecosystem stays resilient

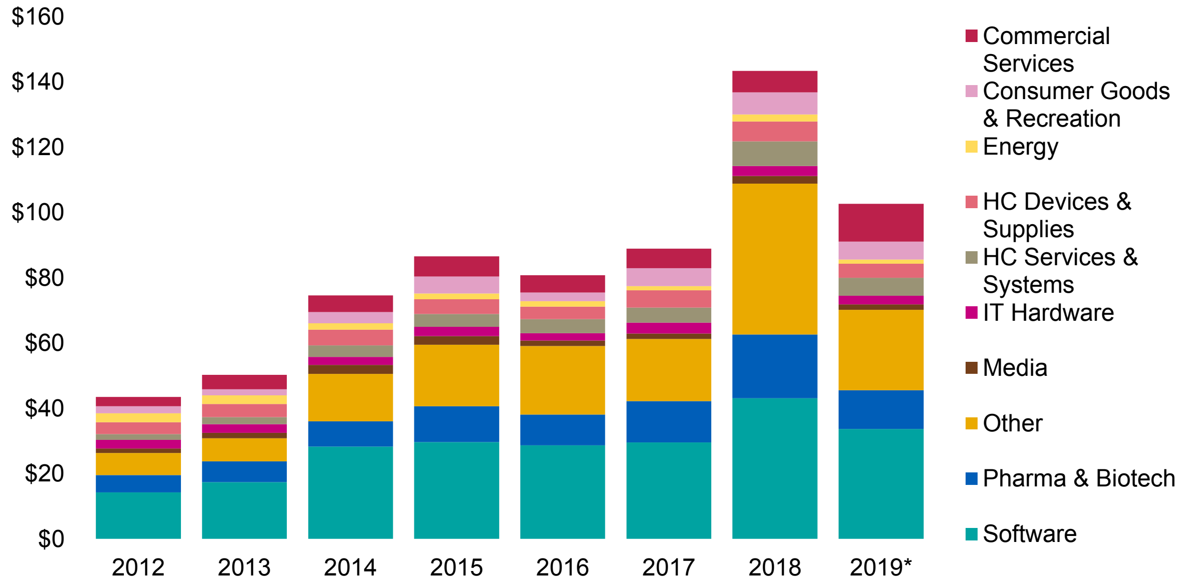
Venture financing of VC-backed companies by sector in the Americas

2012–2019*, # of closed deals



Venture financing of VC-backed companies by sector in the Americas

2012–2019*, VC invested ($B)

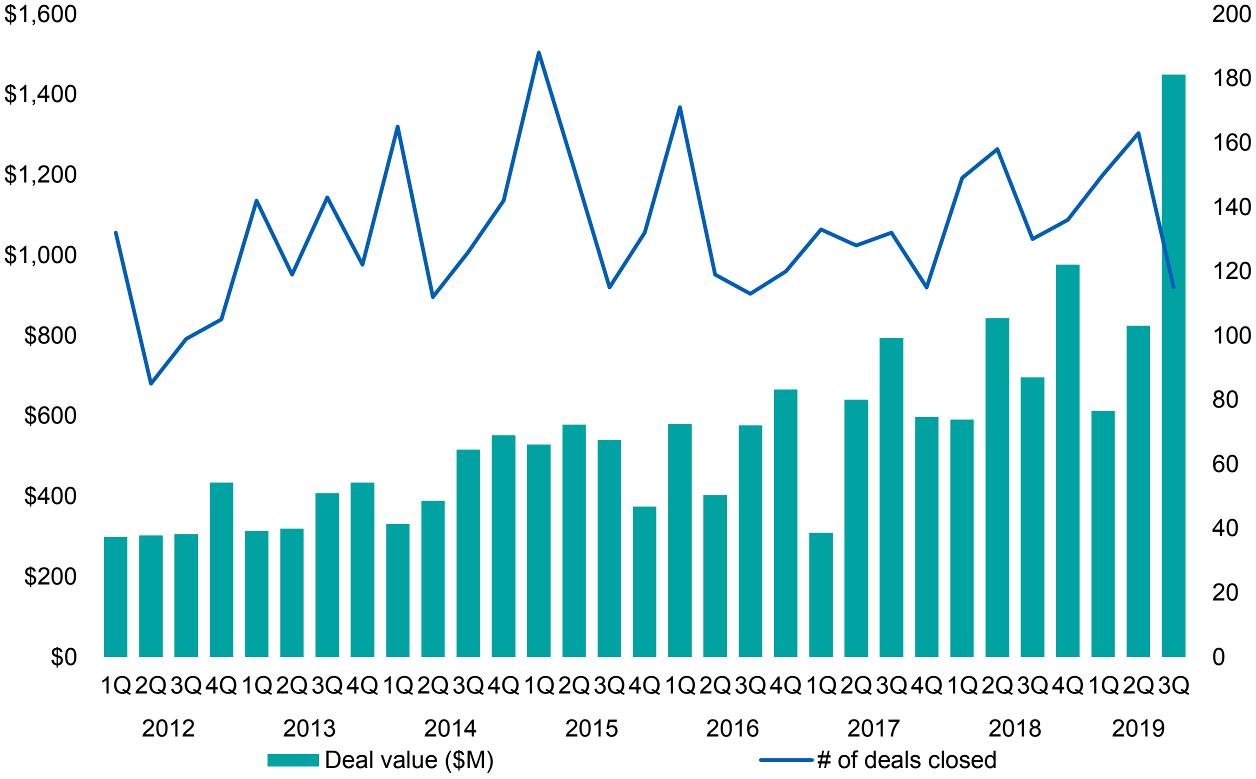


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Another record quarter for Canada

Venture financing in Canada

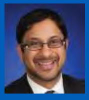
2012–Q3'19



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 one of the highest quarters on record for volume, VC invested in Canada surged to a brand-new high, thanks in large part to a bevy of significantly sized deals. However, it is worth pointing out that such companies are now able to scale to such a size given the growth and proliferation of the Canadian tech ecosystem across key metro areas, attracting investor dollars from abroad in rounds such as the $250 million funding of business software provider Clio.

"The innovation ecosystems across Canada are maturing rapidly – not only in Toronto, Montreal, and Vancouver, but in other cities as well. We're seeing larger and larger deal sizes, which is helping to increase the buoyancy of the VC market in the country. VC investment will likely continue to be significant heading into Q4'19 and into 2020."

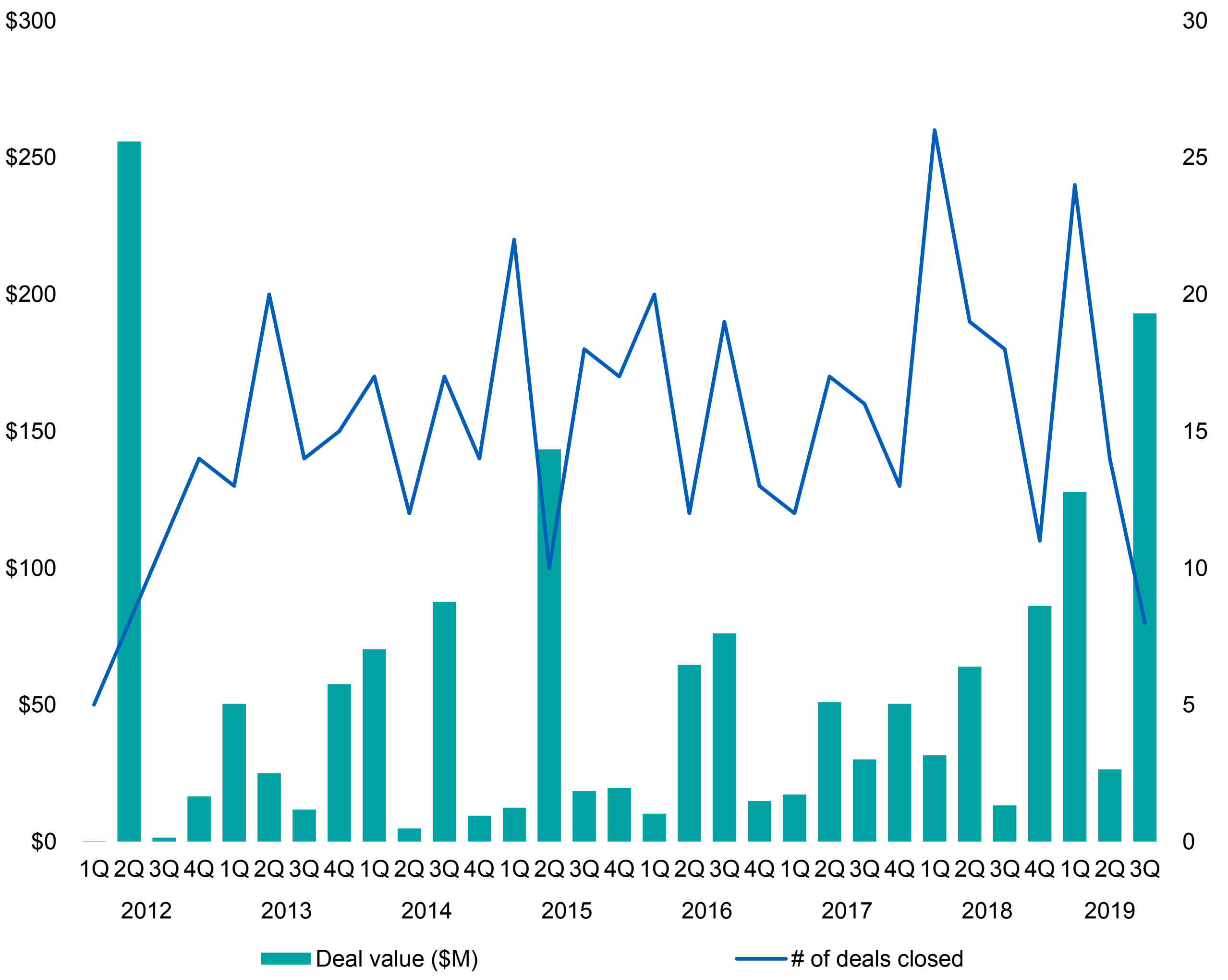


Sunil Mistry
Partner, KPMG Enterprise, Technology, Media and Telecommunications,
KPMG in Canada

Mexico sees resurgence in VC invested

Venture financing in Mexico

2012–Q3'19



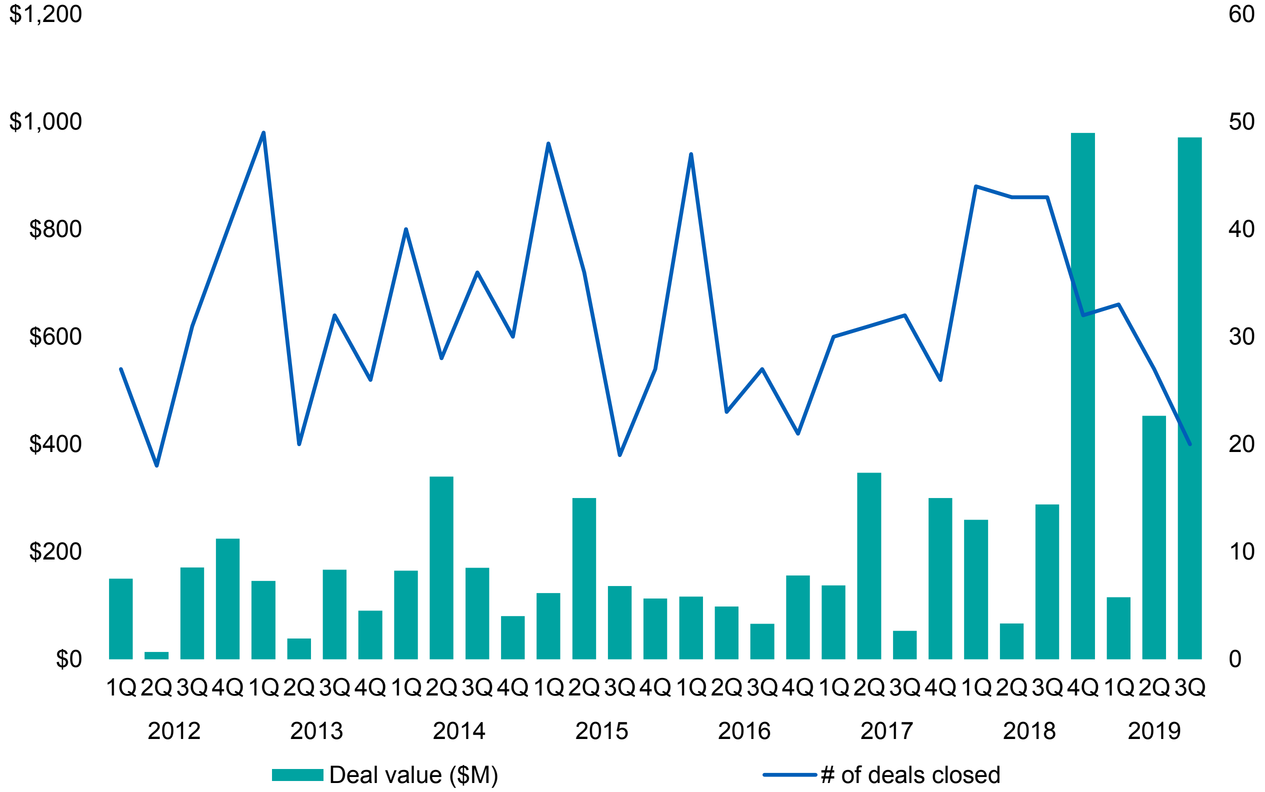
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

As noted before, the nascency of the Mexican venture ecosystem will result in significant variability across quarters. Q3 2019 was no exception, seeing a spike in venture invested thanks to a handful of large deals, such as the $80 million funding of Smart Lending and the $57.5 million seed raise by Klar, a challenger bank.

Nubank once again skews quarterly tallies

Venture financing in Brazil

2012–Q3'19



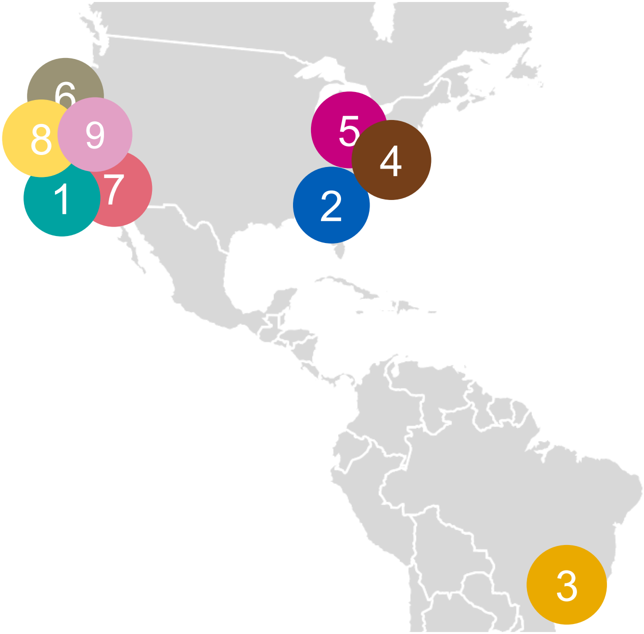
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Much like how Ant Financial singlehandedly skewed figures for China in past years, Nubank's aggressive growth and expansion has helped it rake in plenty of capital from investors abroad; its $400 million Series F round in July put the company's pre-money valuation at close to $10 billion.

"The new $5 billion SoftBank fund is truly raising the bar on VC investment in Latin America, driving more interest from foreign investors. Here in Brazil, we are seeing bigger deals, more investors, and more rounds of capital raising. Fintech has been particularly hot, and there's still plenty of room for growth. In addition to payments, there's growing interest in the P2P credit space, electronic payments, and even white labeling of platforms for other brands to use."

Raphael Vianna
Director
KPMG Enterprise in Brazil

Without record-breaking deals, multiple cities are represented in Q3's top transactions



Top 10 financings in Q3'19 in Americas

1. **JUUL** — $785.2M, San Francisco
Consumer durables
Late-stage VC

2. **Mission Lane** — $500M, Atlanta
Consumer finance
Series A

3. **Nubank** — $400M, Sao Paulo
Financial software
Series F

4. **Compass** — $370M, New York
Real estate services
Series G

5. **Root Insurance** — $350M, Columbus
Automotive insurance
Series E

6. **Fundbox** — $326M, San Francisco
Financial software
Series C

7. **Robinhood** — $323M, Menlo Park
Brokerage
Series E

8. **Lime** — $310M, San Francisco
Automotive
Series D

9. **Samsara** — $300M, San Francisco
Business software
Series F

9. **Clearbanc** — $300M, San Francisco
Financial software
Series B

9. **Automattic** — $300M, San Francisco
Publishing
Series D

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

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 FlixMobility 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 FlixMobility (FlixBus) and Deposit Solutions in Germany, Acronis and Numbrs in Switzerland, Babylon Health and CMR Surgical in the UK, and Lighttricks 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 Fenergo'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 it's 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

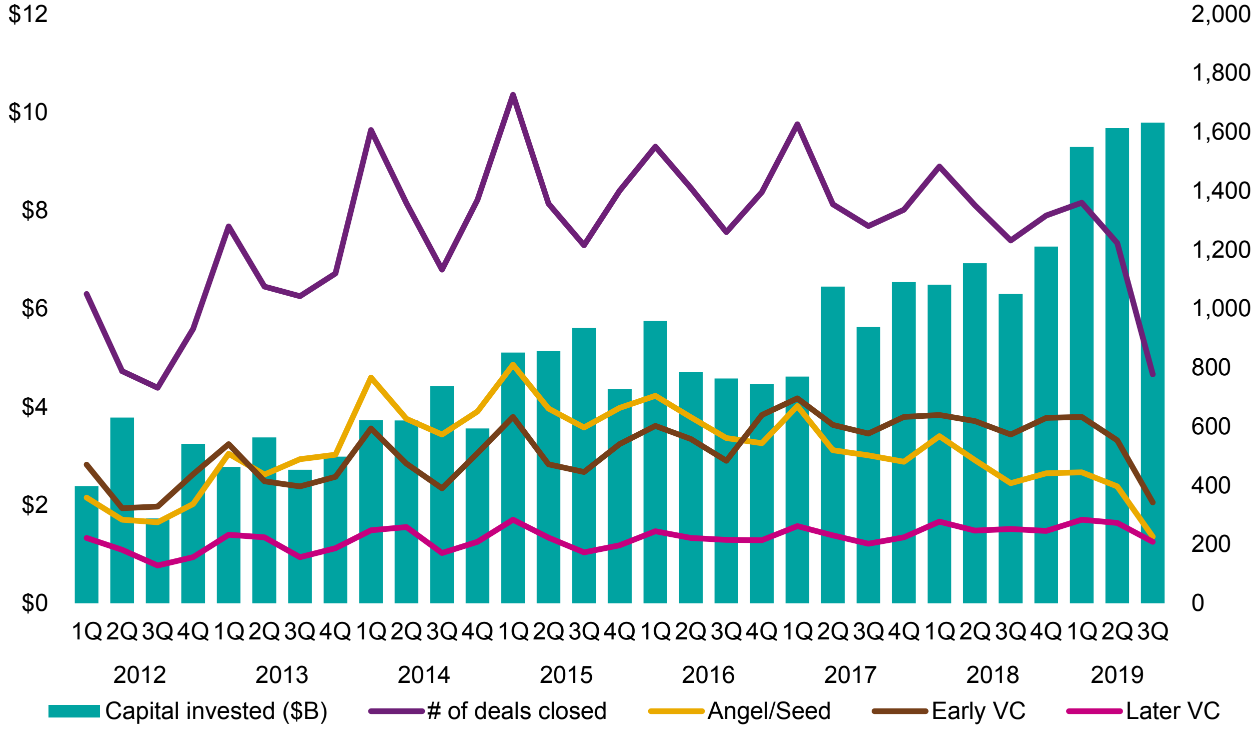
All eyes will be on the UK heading into Q4'19 given the rapidly approaching October 31st deadline. If completed, the outcome of Brexit will likely have a resonating impact on the region during the quarter and into 2020.

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.

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.

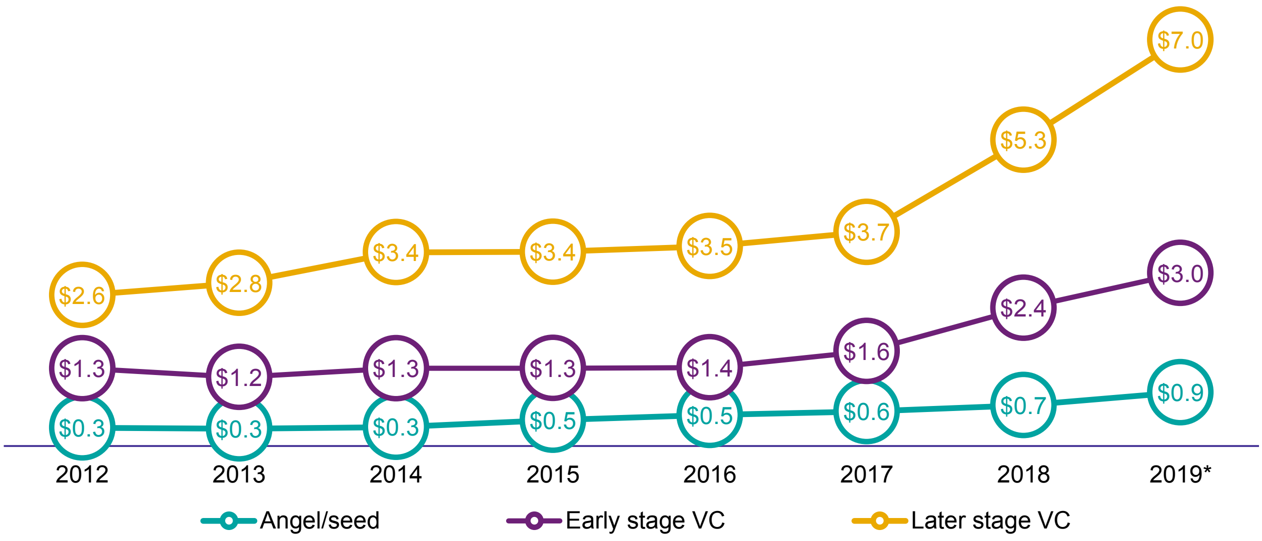
"Despite a drop-off in the number of VC deals, VC investment in Europe grew for the third straight quarter. While there continues to be a significant amount of geopolitical and economic uncertainty permeating Europe, VC investors have continued to make strong investments, particularly in late-stage deals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

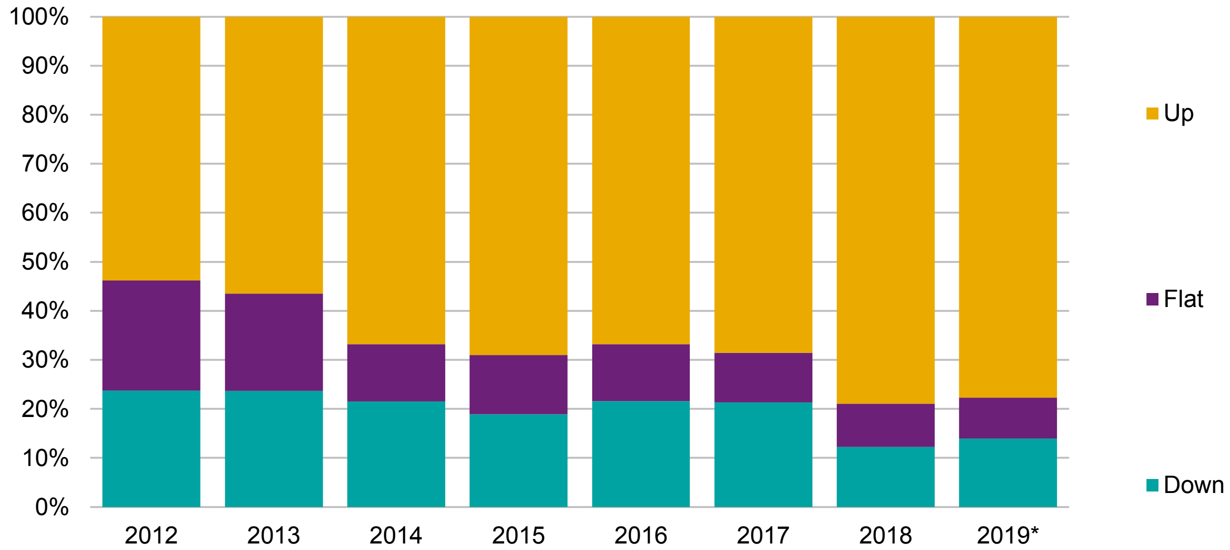
Median deal size ($M) by stage in Europe

2012–2019*



Up, flat or down rounds in Europe

2012–2019*

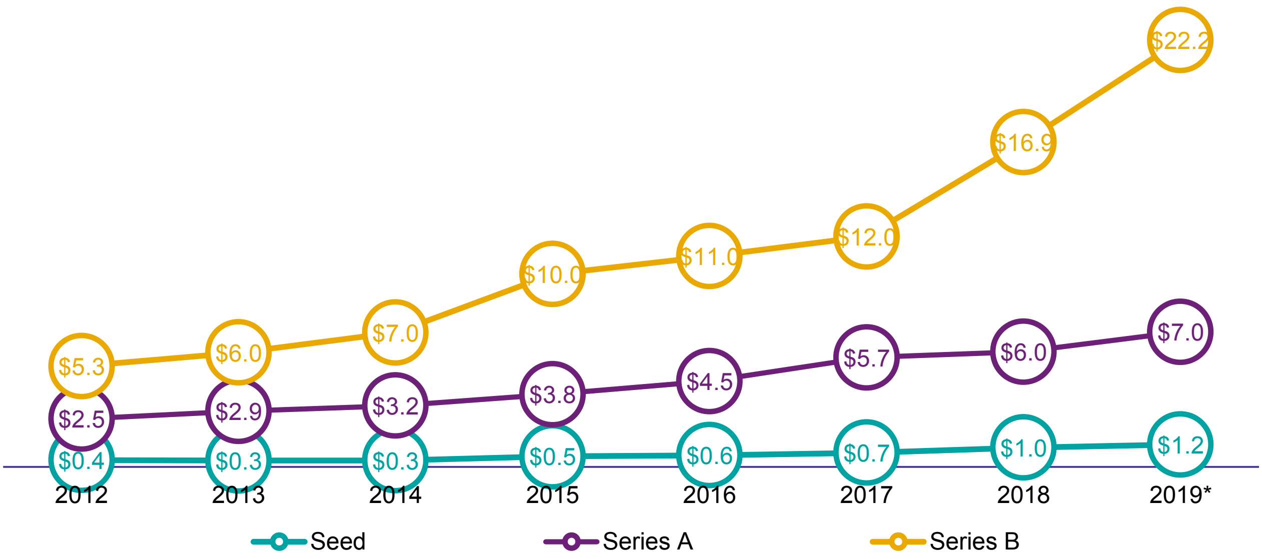


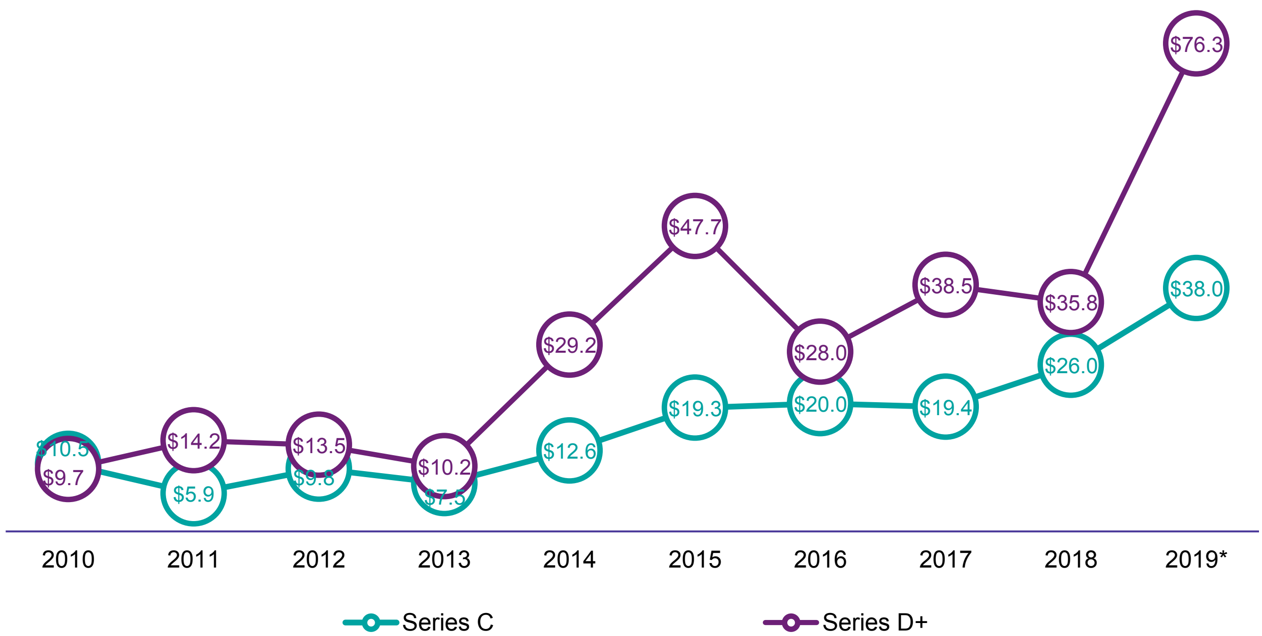
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

The late-stage more than doubles

Median deal size ($M) by series in Europe

2012–2019*



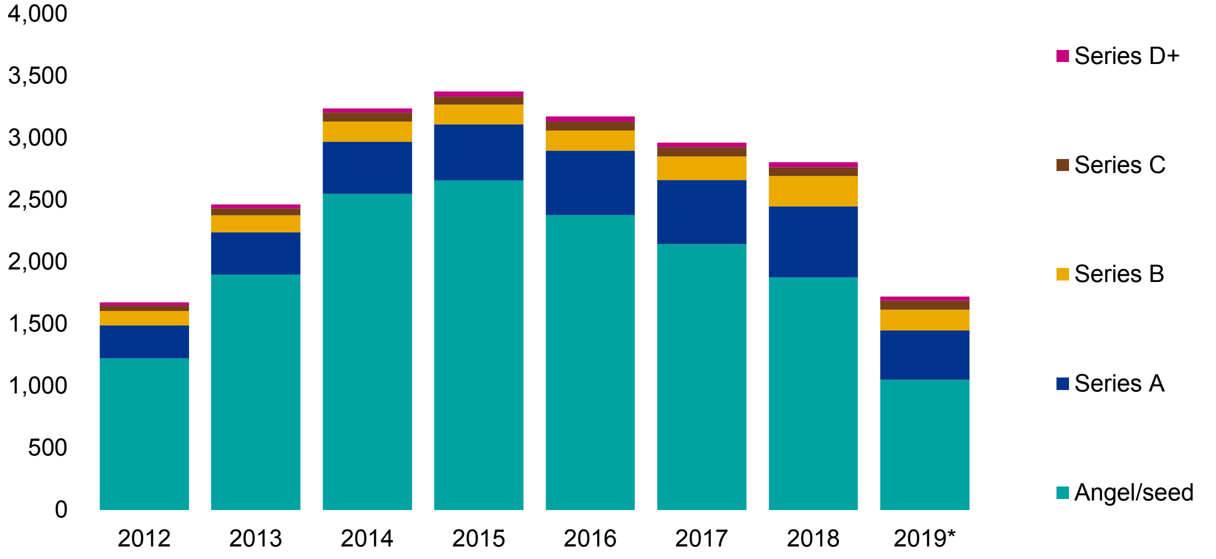


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Series D+ is close to doubling VC invested tally

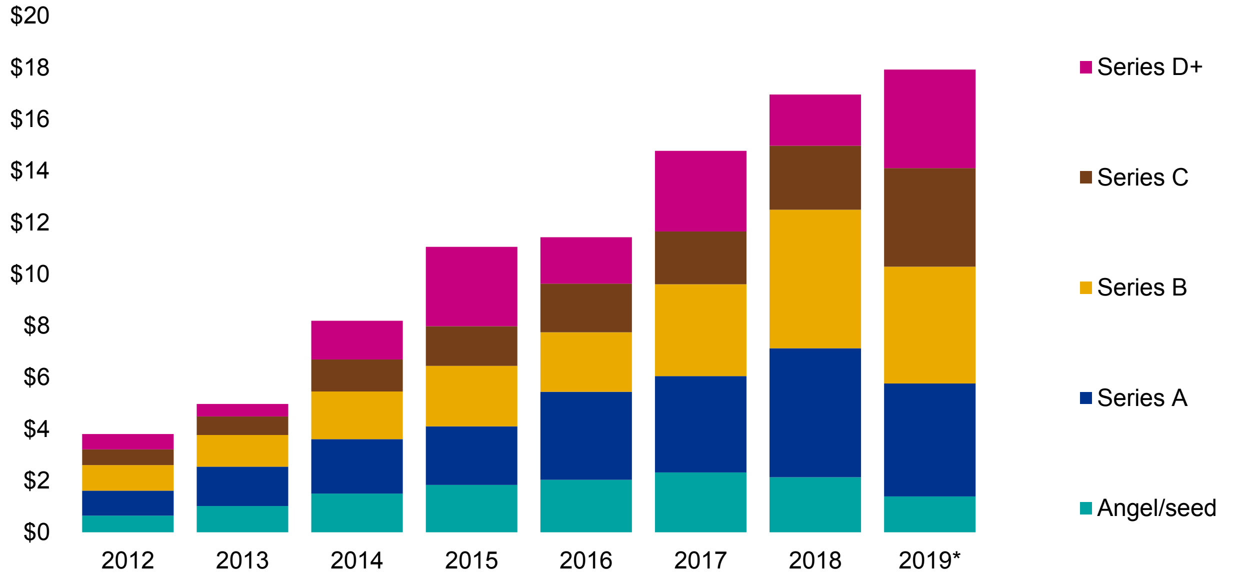
Deal share by series in Europe

2012–2019*, number of closed deals



Deal share by series in Europe

2012–2019*, VC invested ($B)

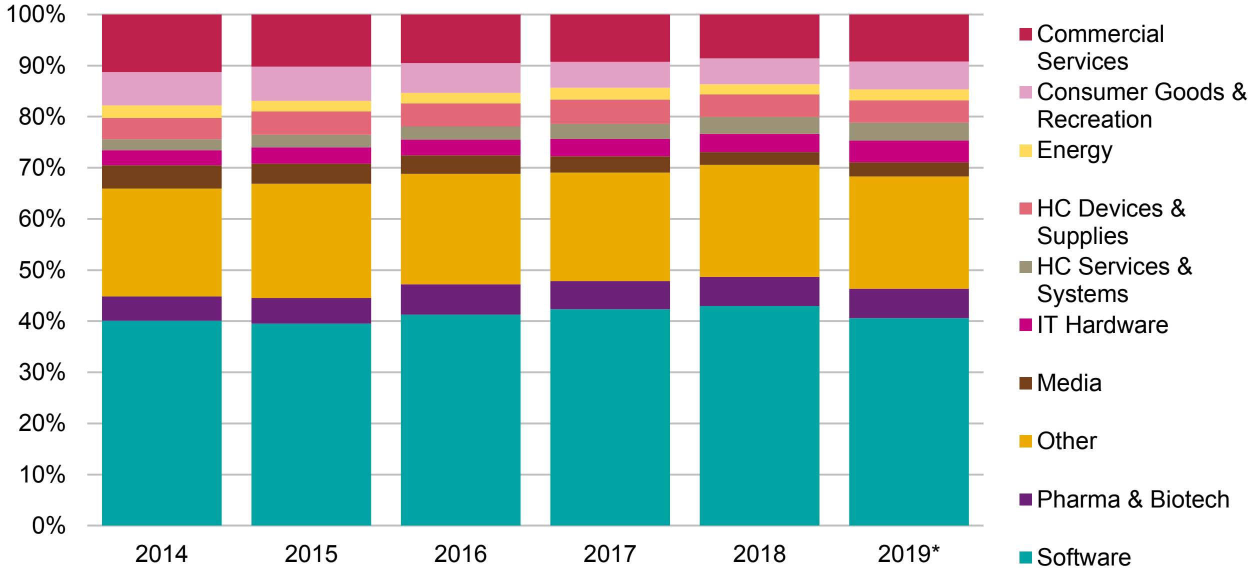


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Software commands the most VC still

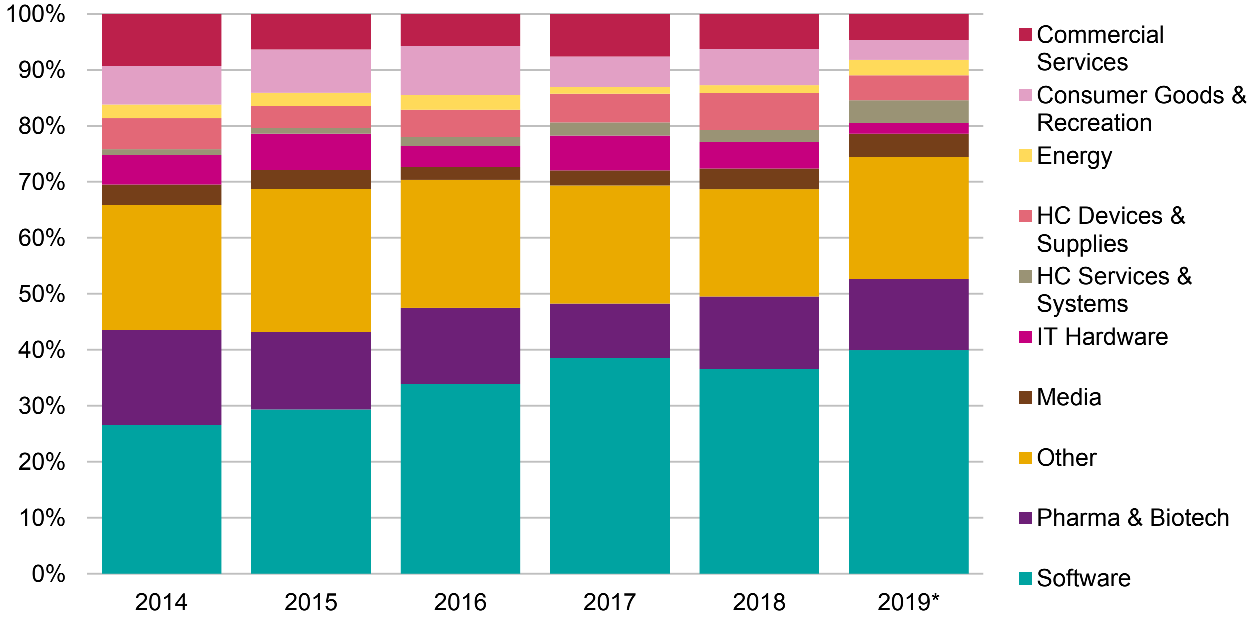
European venture financings by sector

2014–2019*, number of closed deals



European venture financings by sector

2014–2019*, VC invested ($B)

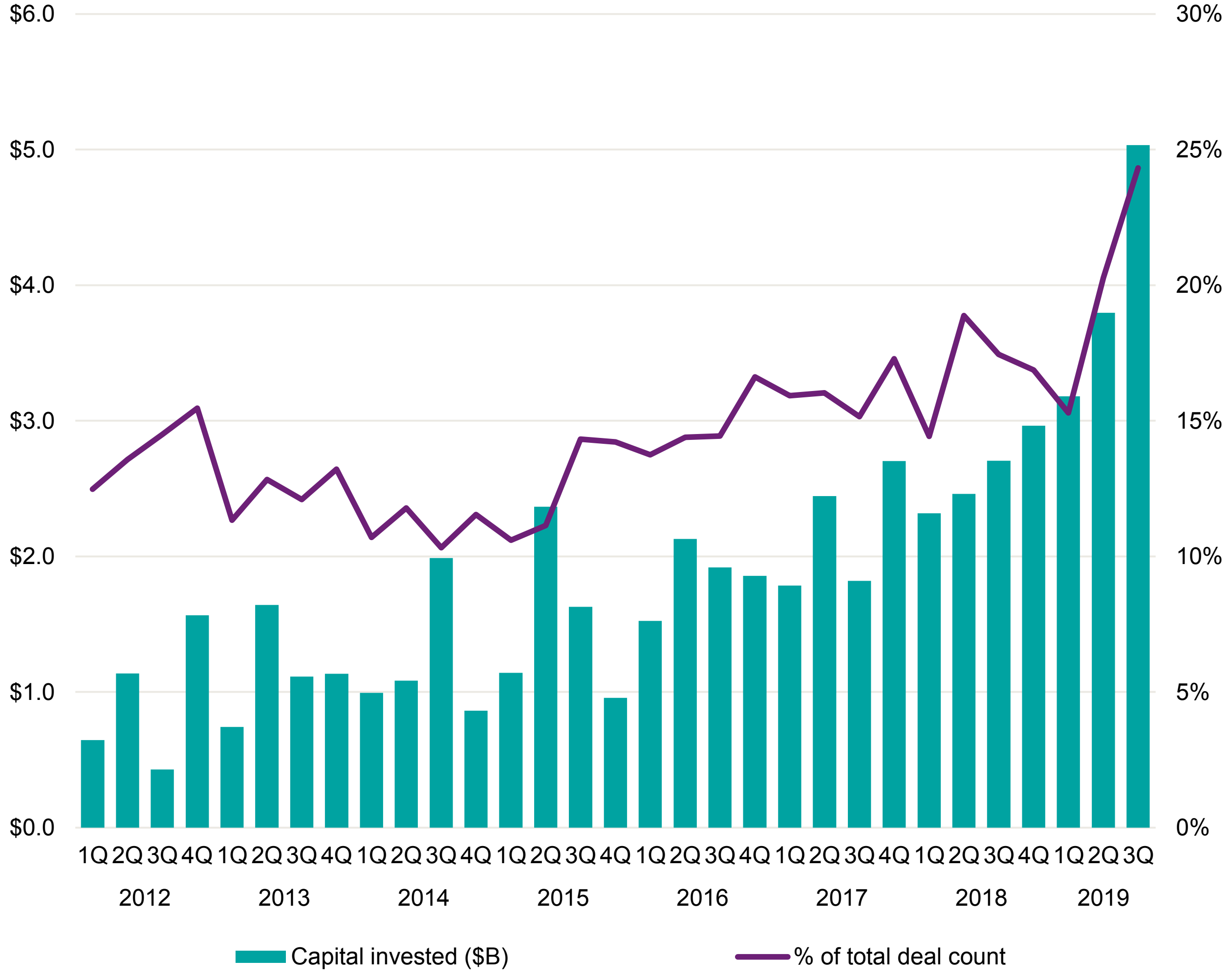


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

VC invested with corporates soars exponentially

Corporate VC participation in venture deals in Europe

2012–Q3'19



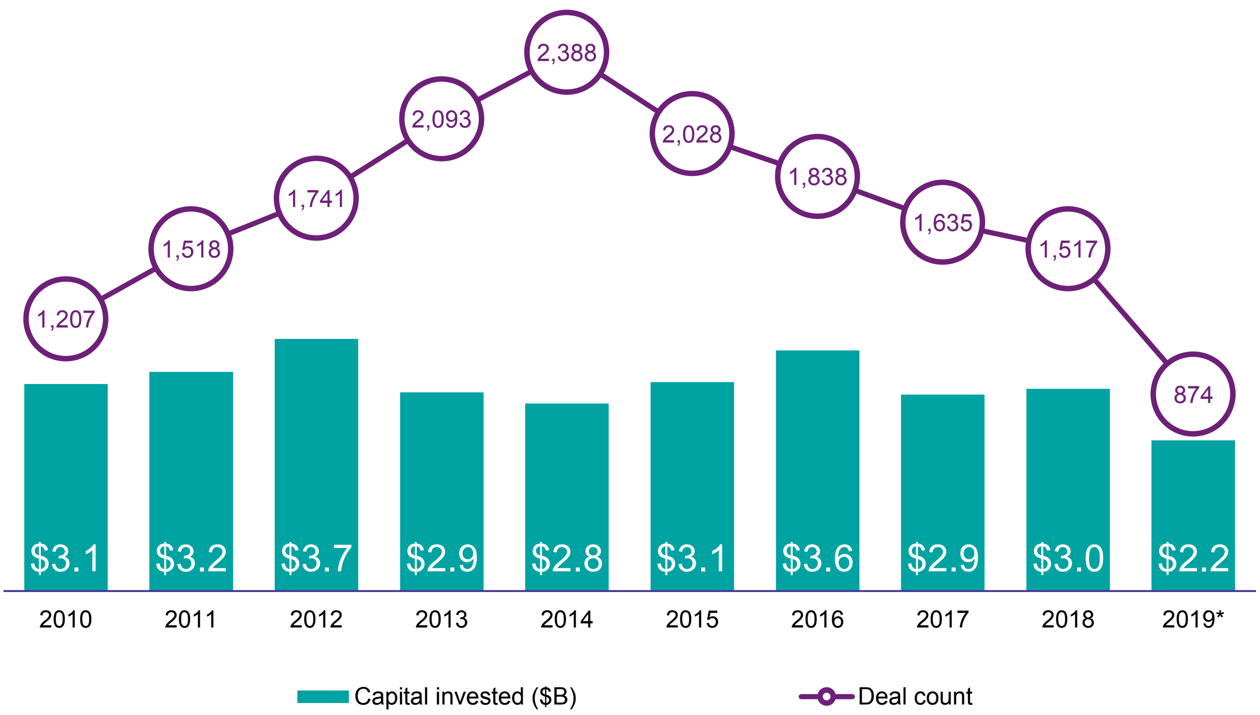
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

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*



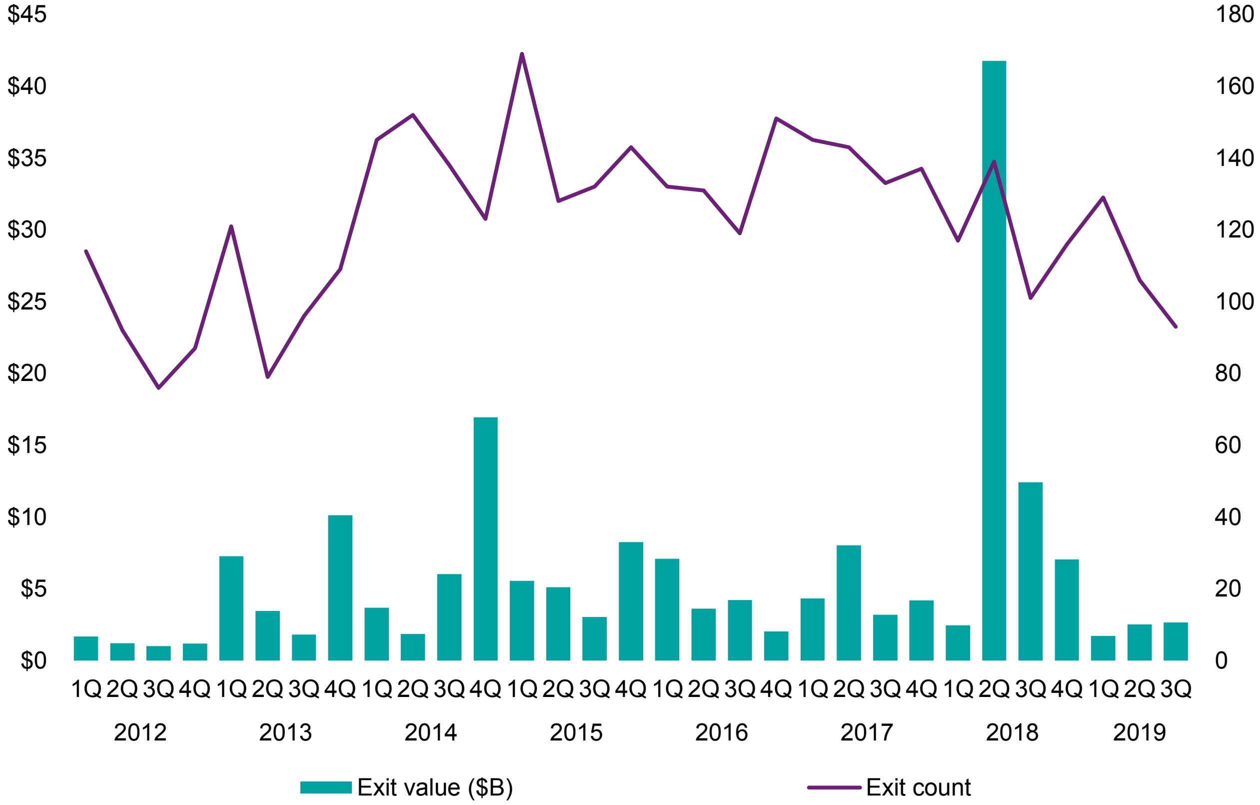
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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



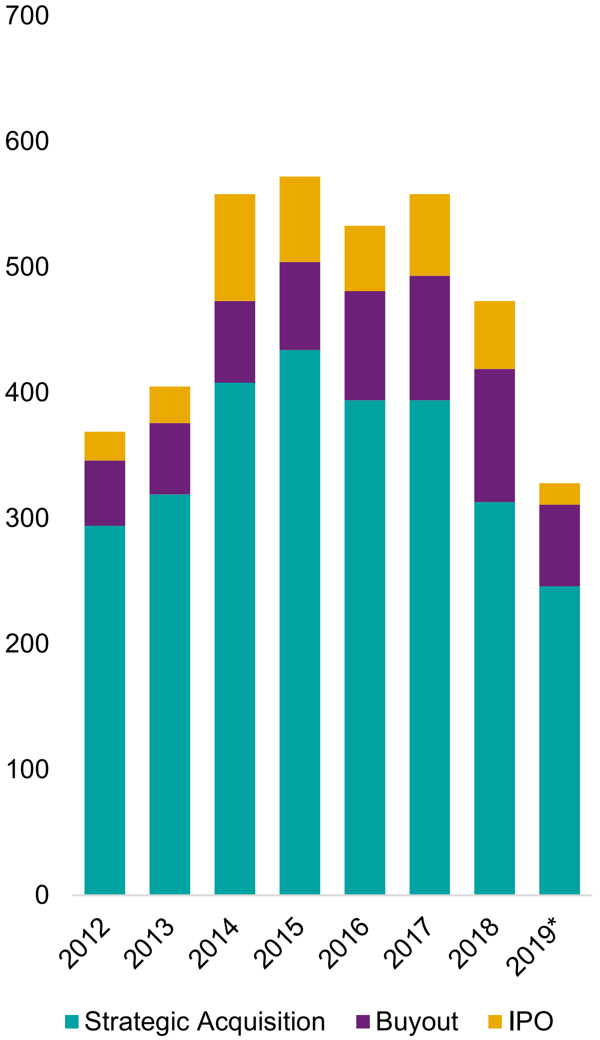
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

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

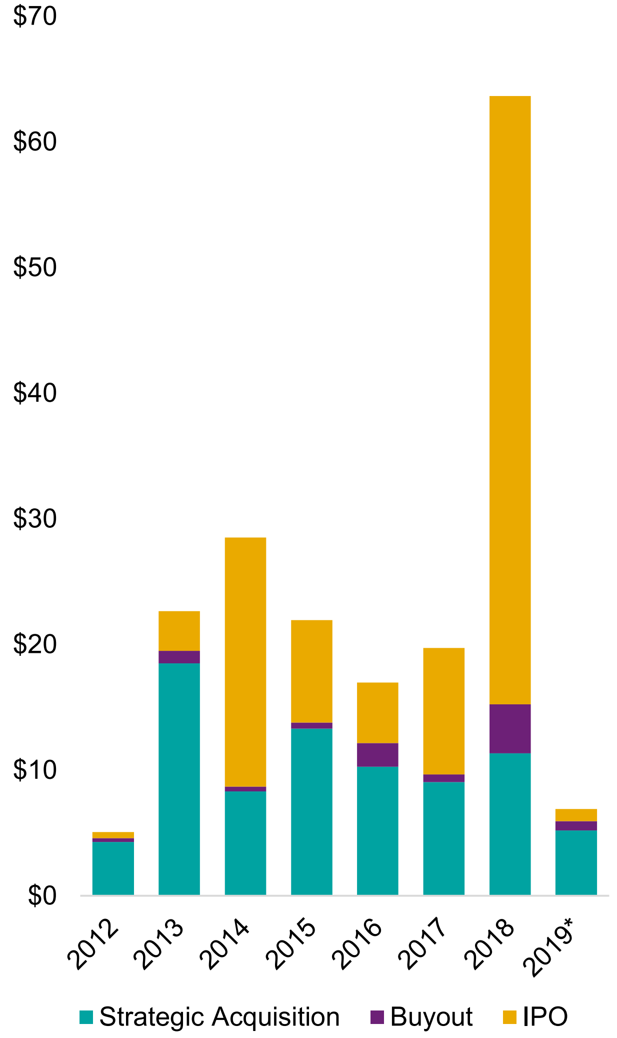
Venture-backed exit activity (#) by type in Europe

2012–2019*



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

2012–2019*

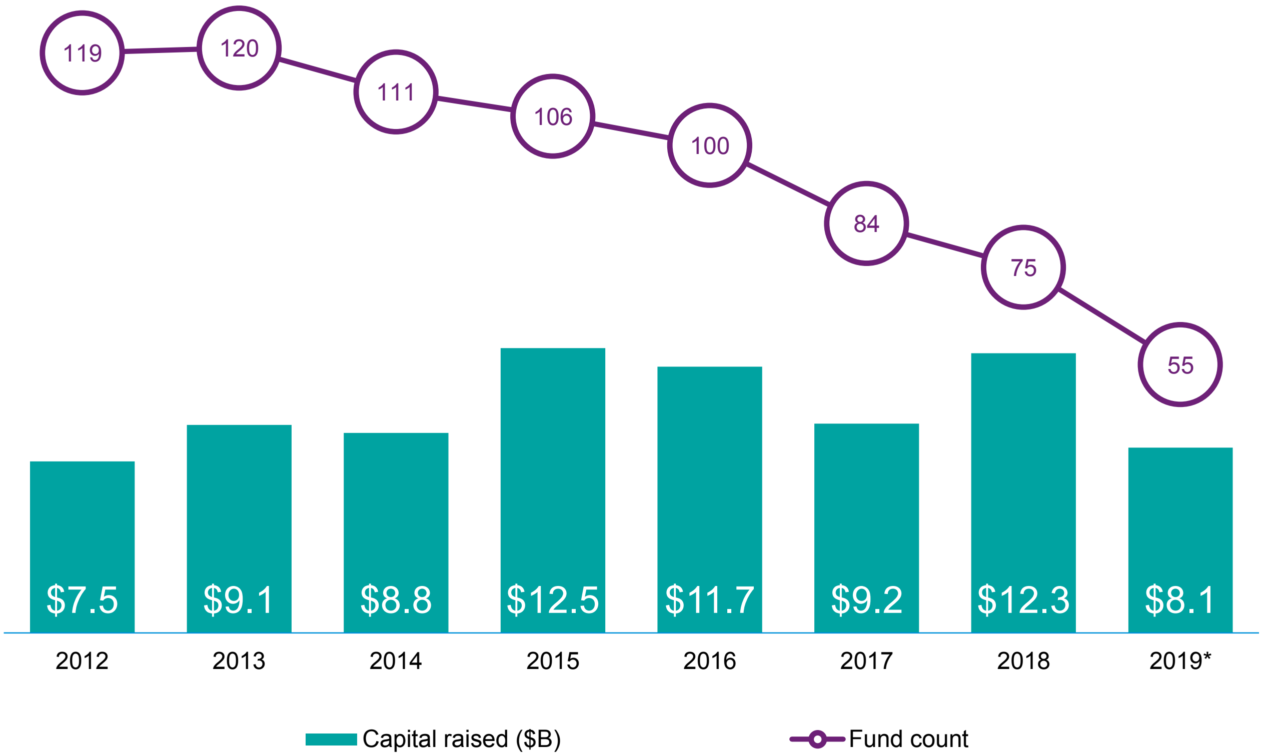


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Fundraising recovers somewhat

European venture fundraising

2012–2019*



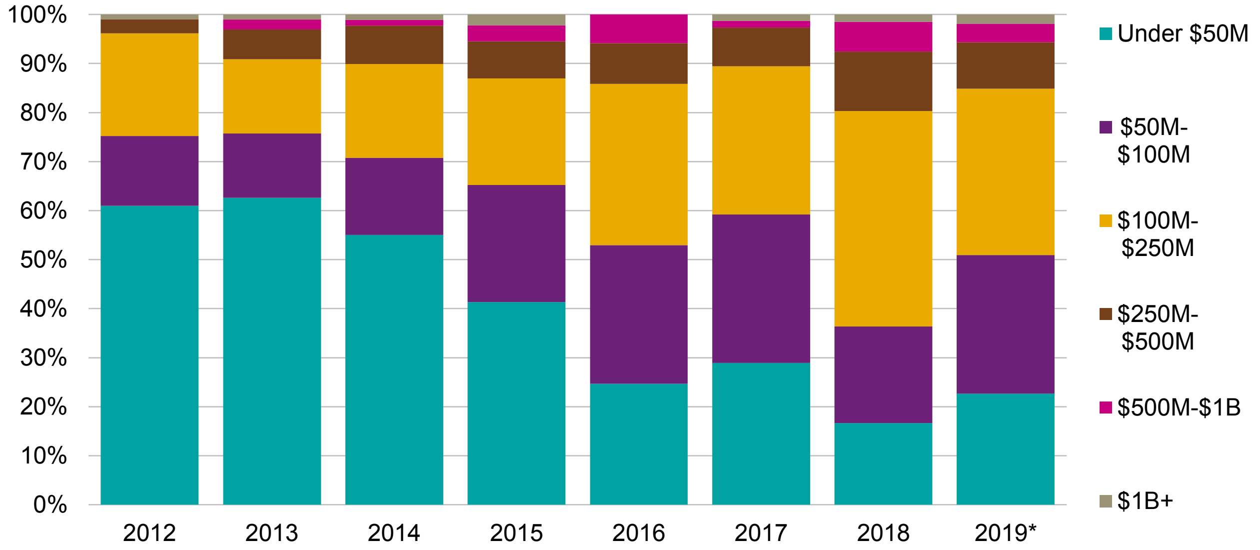
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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

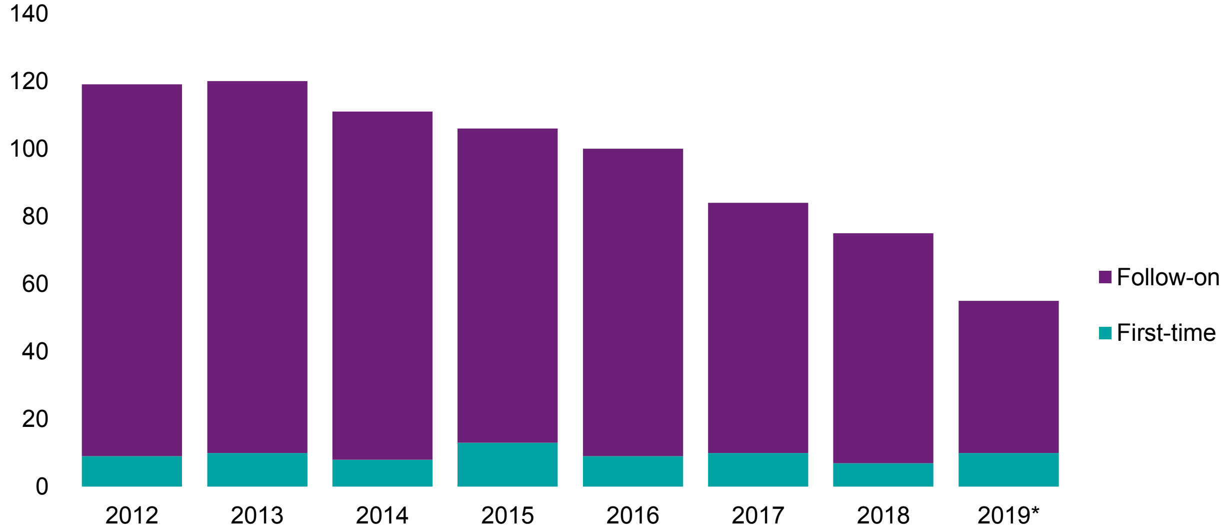
Venture fundraising (#) by size in Europe

2012–2019*



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

2012–2019*

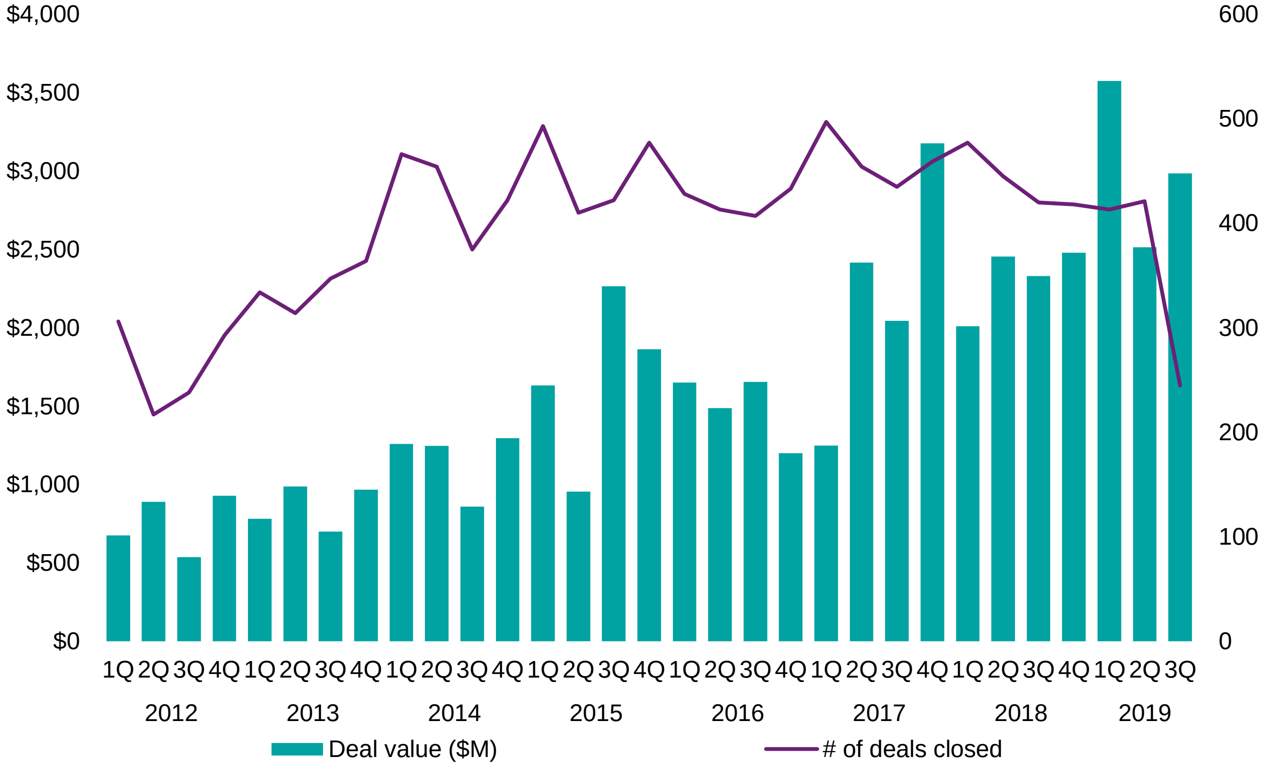


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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 doesn't 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 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.

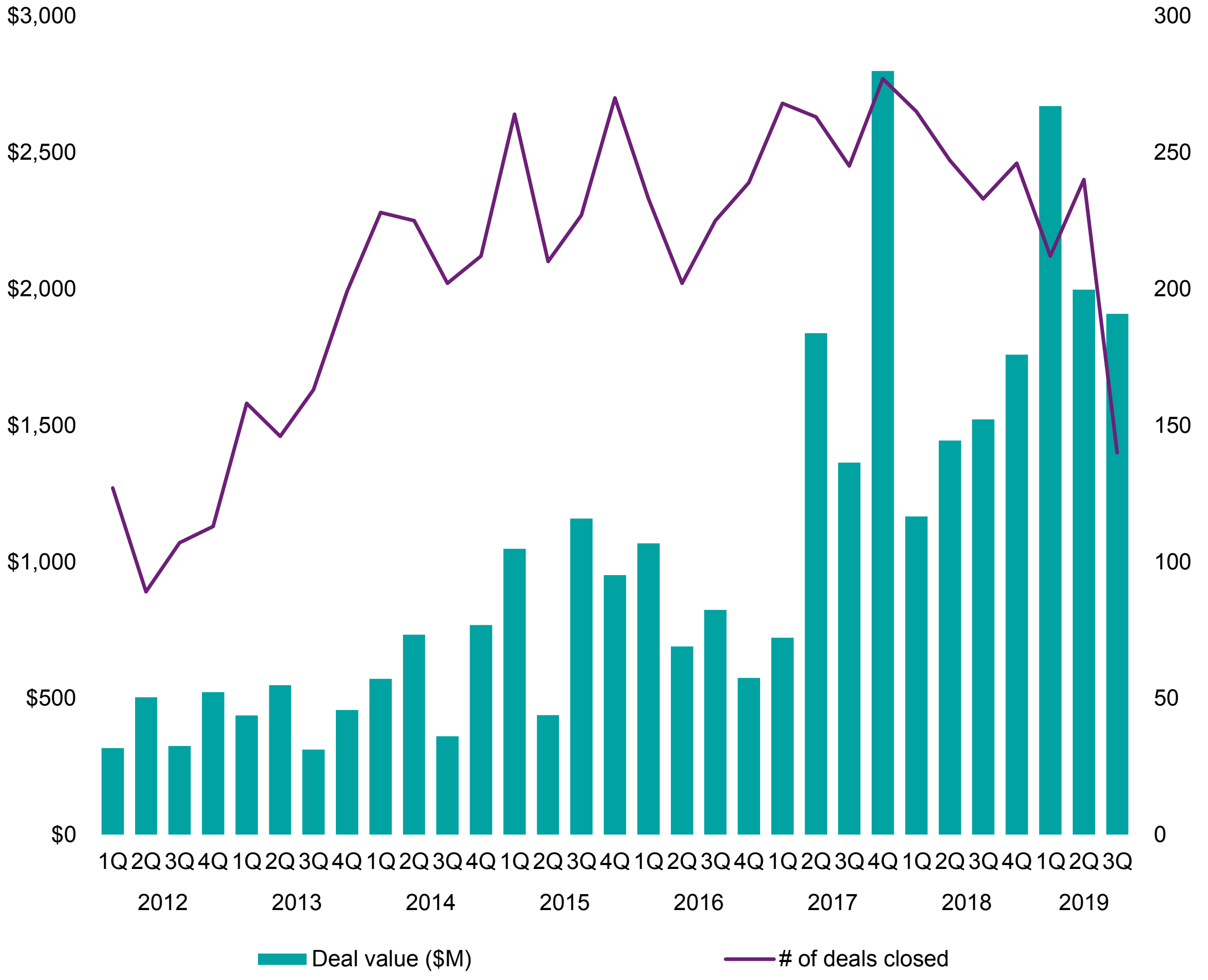
"There's no sign that sectors such as fintech and healthcare are slowing down in the UK. Globally, the UK is a world leader in these spaces and companies are going to continue to get the capital they need so that they can expand globally. There's still capital in the market and VC investors appear to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

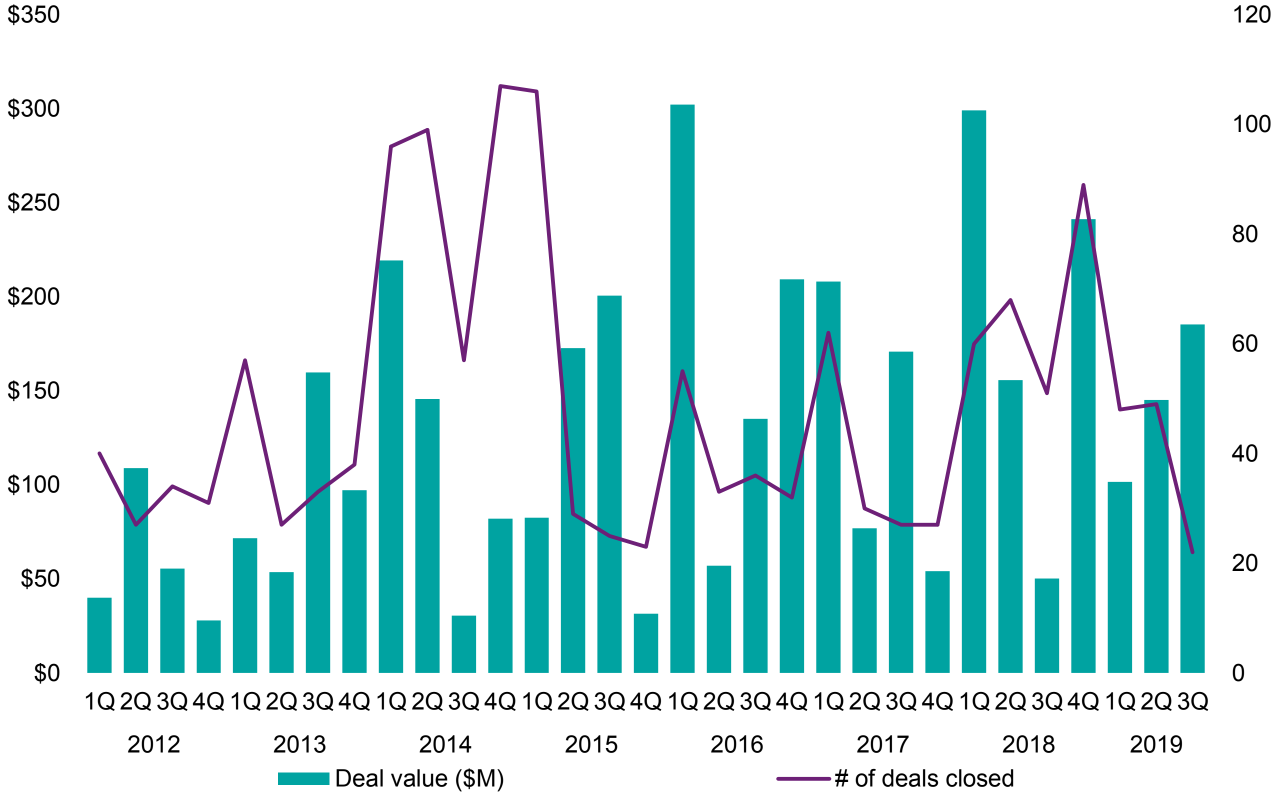


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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). Fenergo, an enterprise regulatory software developed, helped skew totals upward by raising €66 million in July.

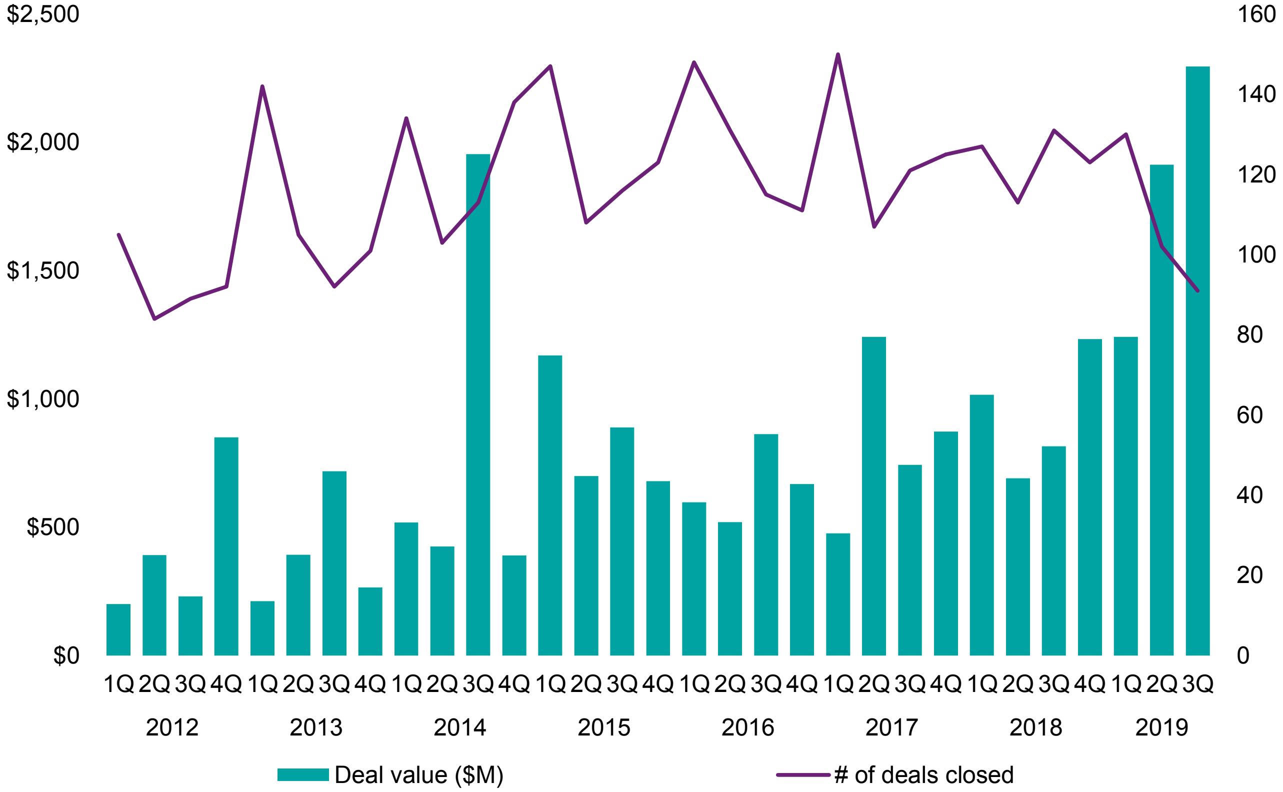
"Companies who are developing products and services to help arrest climate change and support the decarbonisation agenda are probably not attracting the VC dollars they should expect. I predict that over the next few quarters, we will see more investors putting their money behind early stage companies 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 FlixMobility raising over $1 billion combined in Q3 2019.

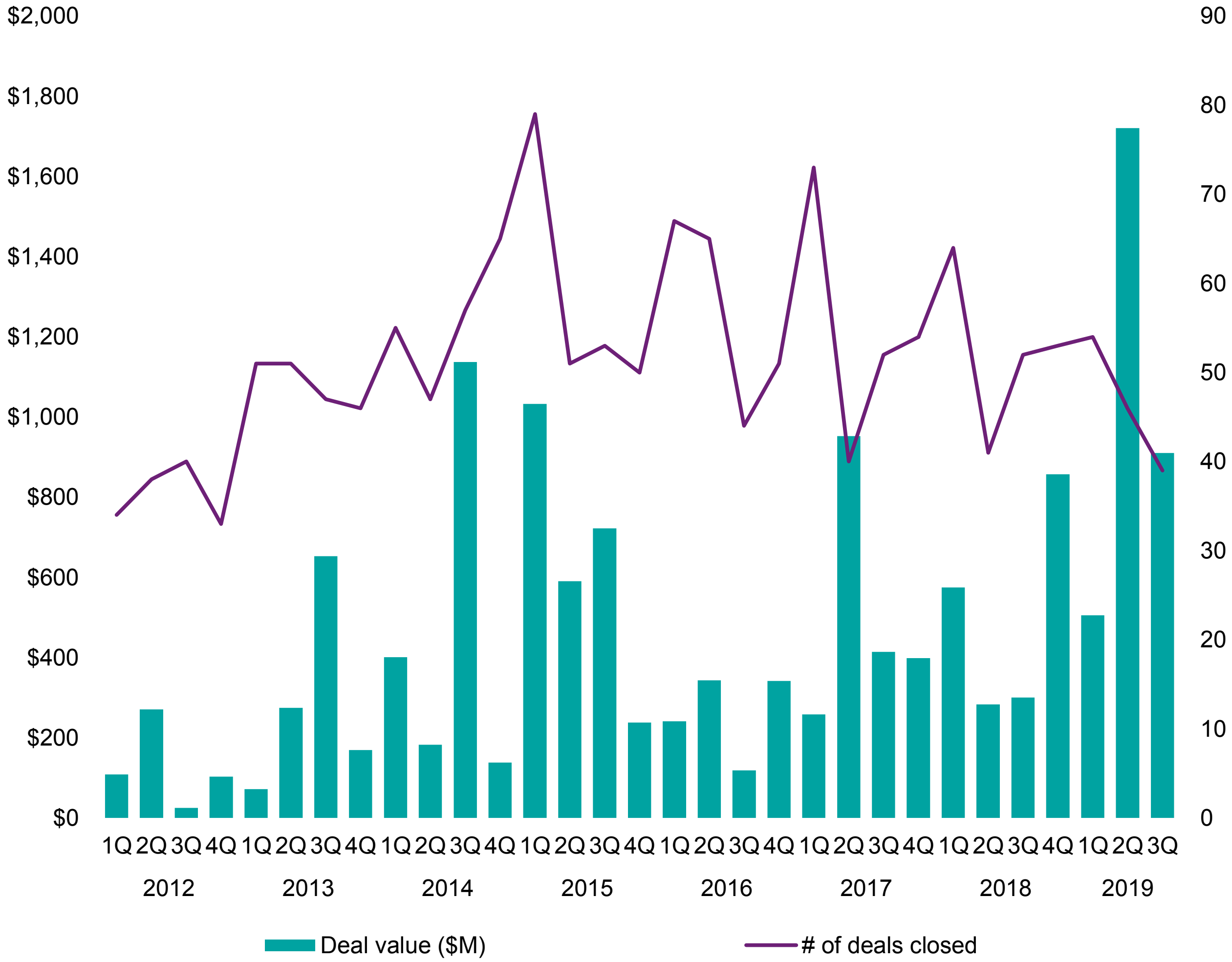
"A number of industries in Germany have been facing challenges, including the OEMs in the automotive sector and the banks. These challenges are putting a lot of pressure on traditional organizations to rethink their core business models. This is likely contributing to the big investments we've seen in 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



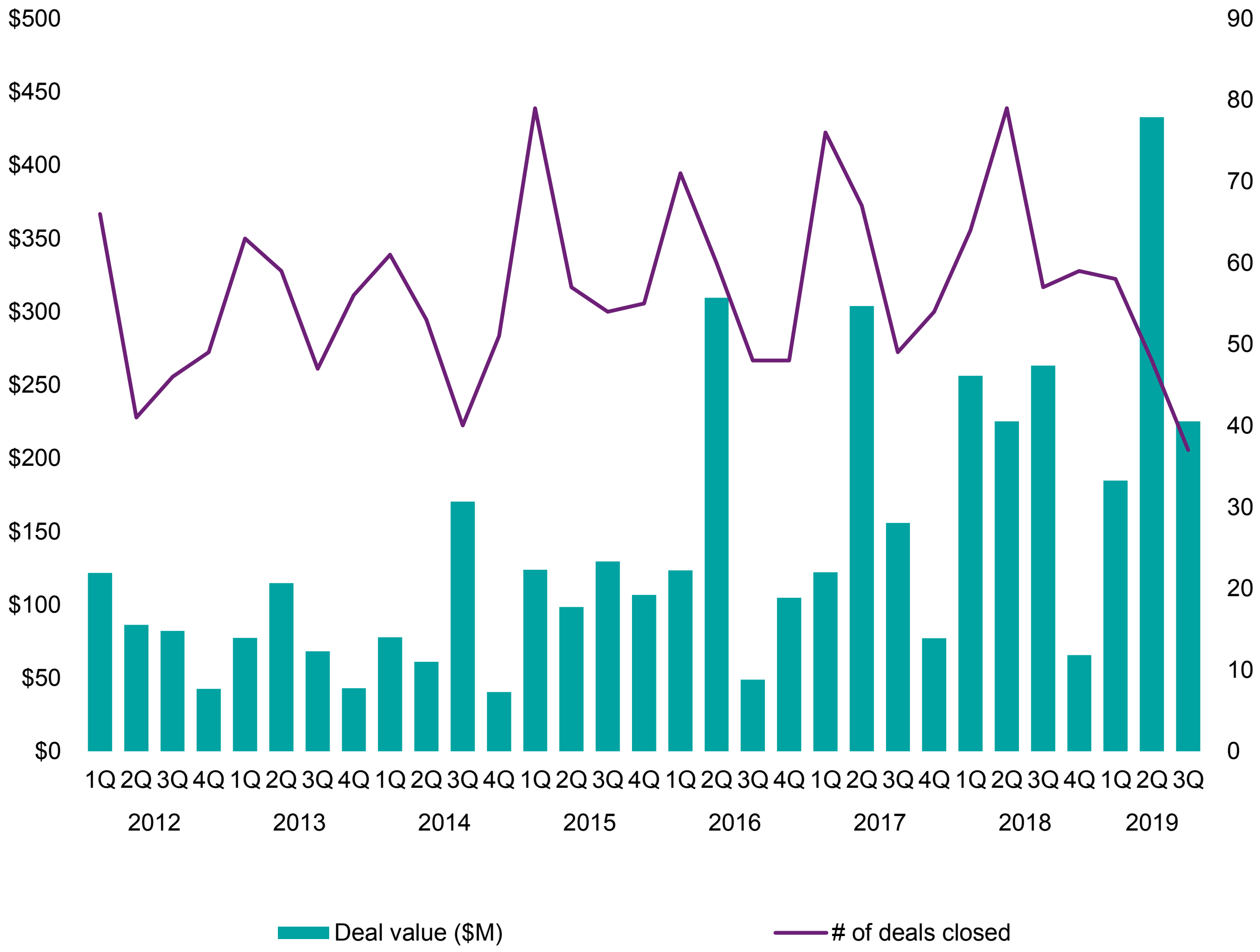
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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

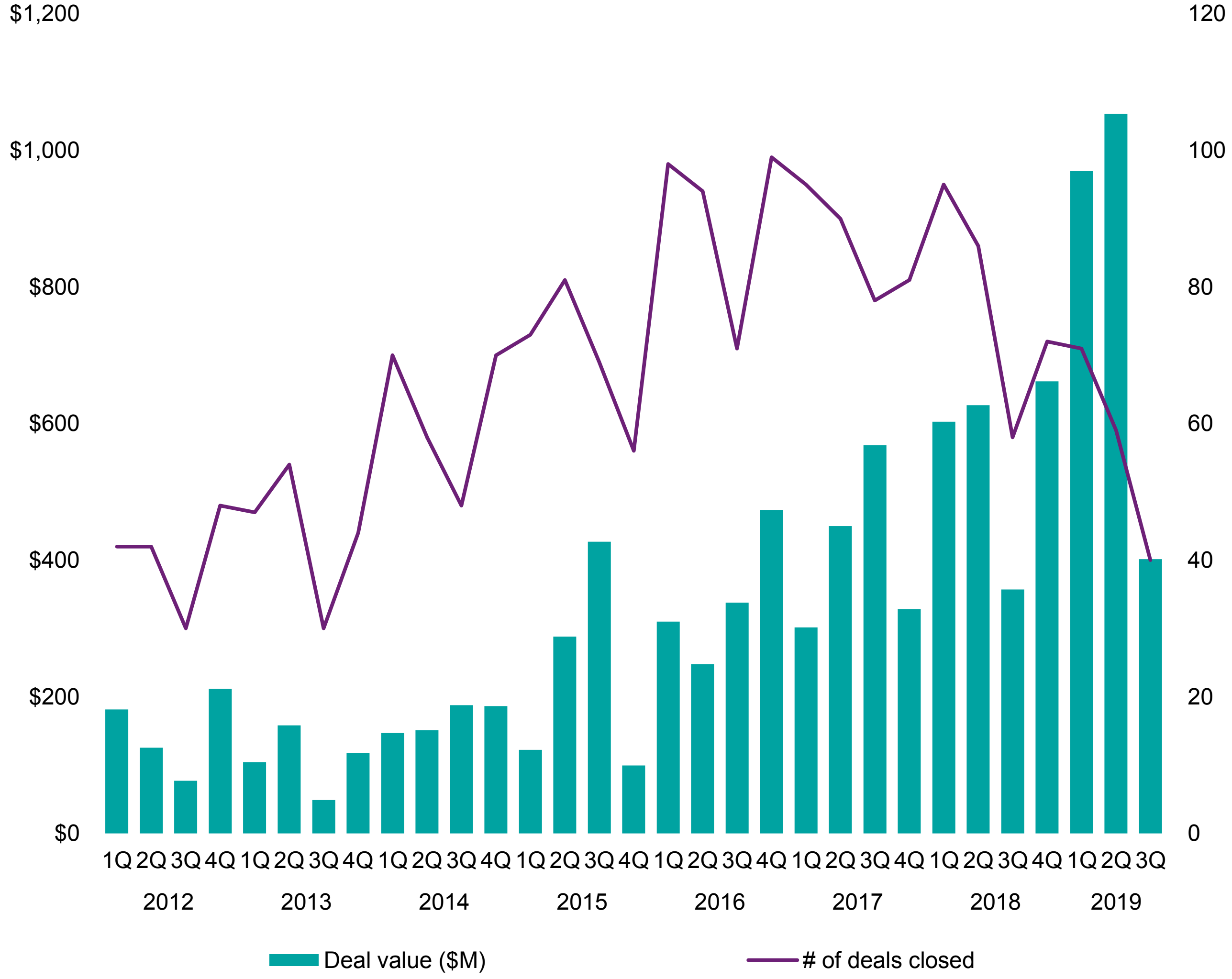
2012–Q3'19

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



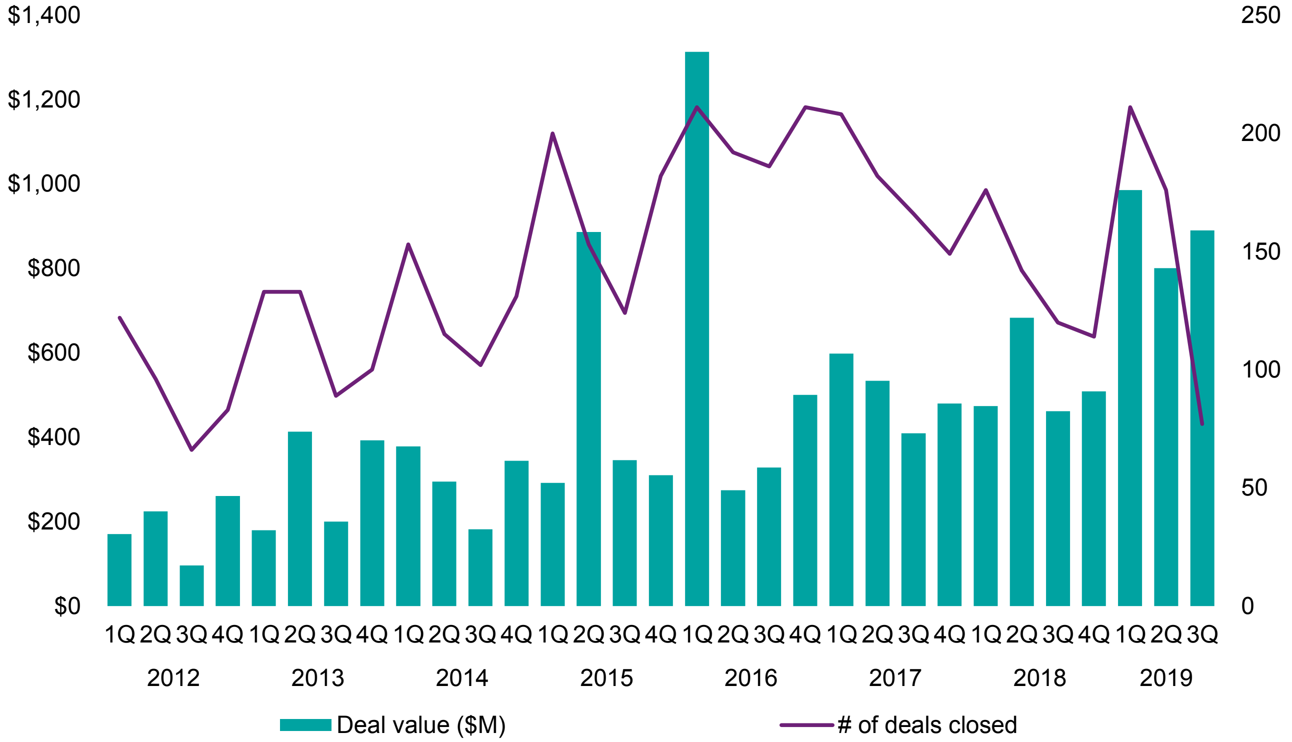
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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



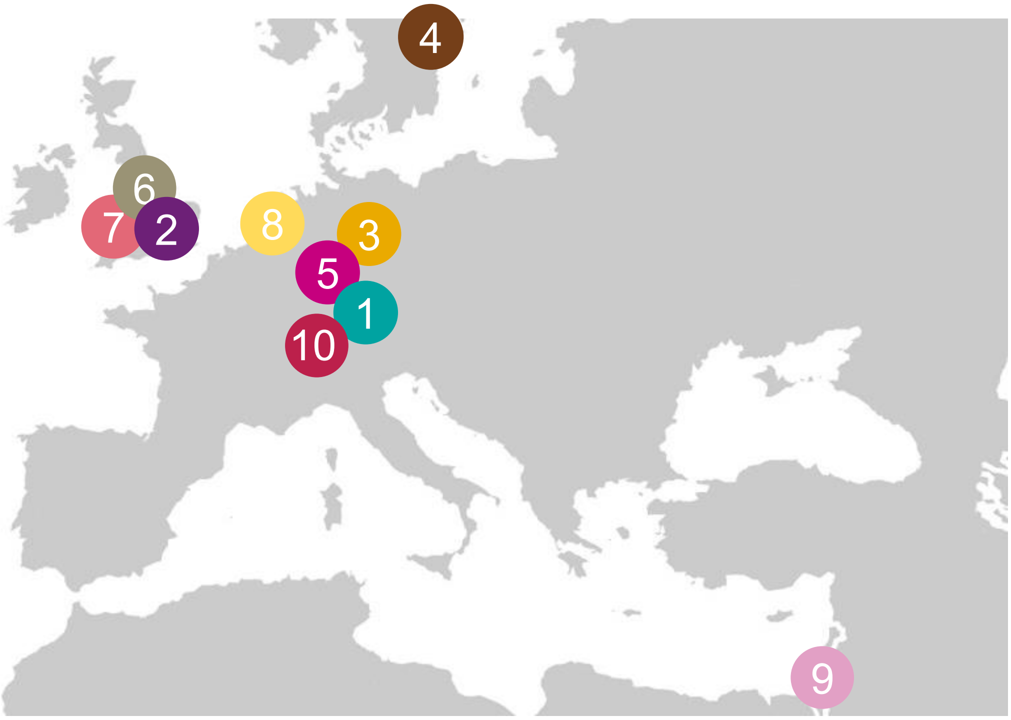
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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

1. **FlixMobility** — $564.4M, Munich
Automotive
Series F

2. **Babylon Health** — $550M, London
Healthcare services
Series C

3. **N26** — $470M, Berlin
Financial software
Series D

4. **Klarna** — $460M, Stockholm
Financial software
Late-stage VC

5. **BioNTech** — $325M, Mainz
Biotechnology
Series B

6. **CMR Surgical** — $254.2M, Cambridge
Surgical devices
Series C

7. **OneTrust** — $200M, London
Business software
Series A

8. **Drylock Technologies** — $167.85M, Zele
Personal products
Late-stage VC

9. **Monday.com** — $150M, Tel Aviv
Business software
Series D

10. **Acronis** — $147M, Schaffhausen
Network management software
Late-stage VC

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

KPMG Enterprise

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

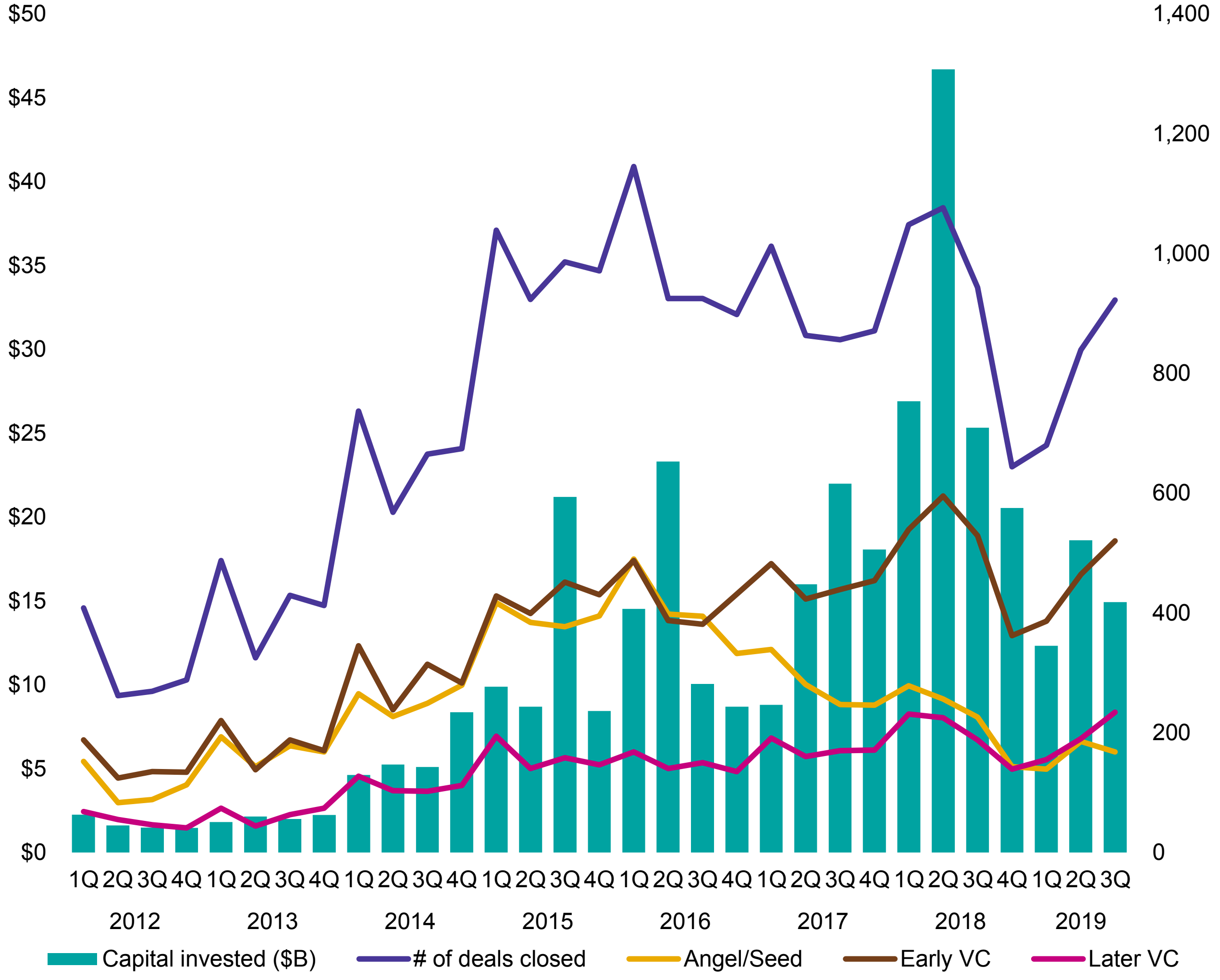
Looking forward to Q4'19, VC investment in Asia is expected to remain moderate at best — particularly in China, where the economic and geopolitical tensions are expected to continue. China's central government is not standing still, however. It is forging ahead with policy reforms aimed at improving 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



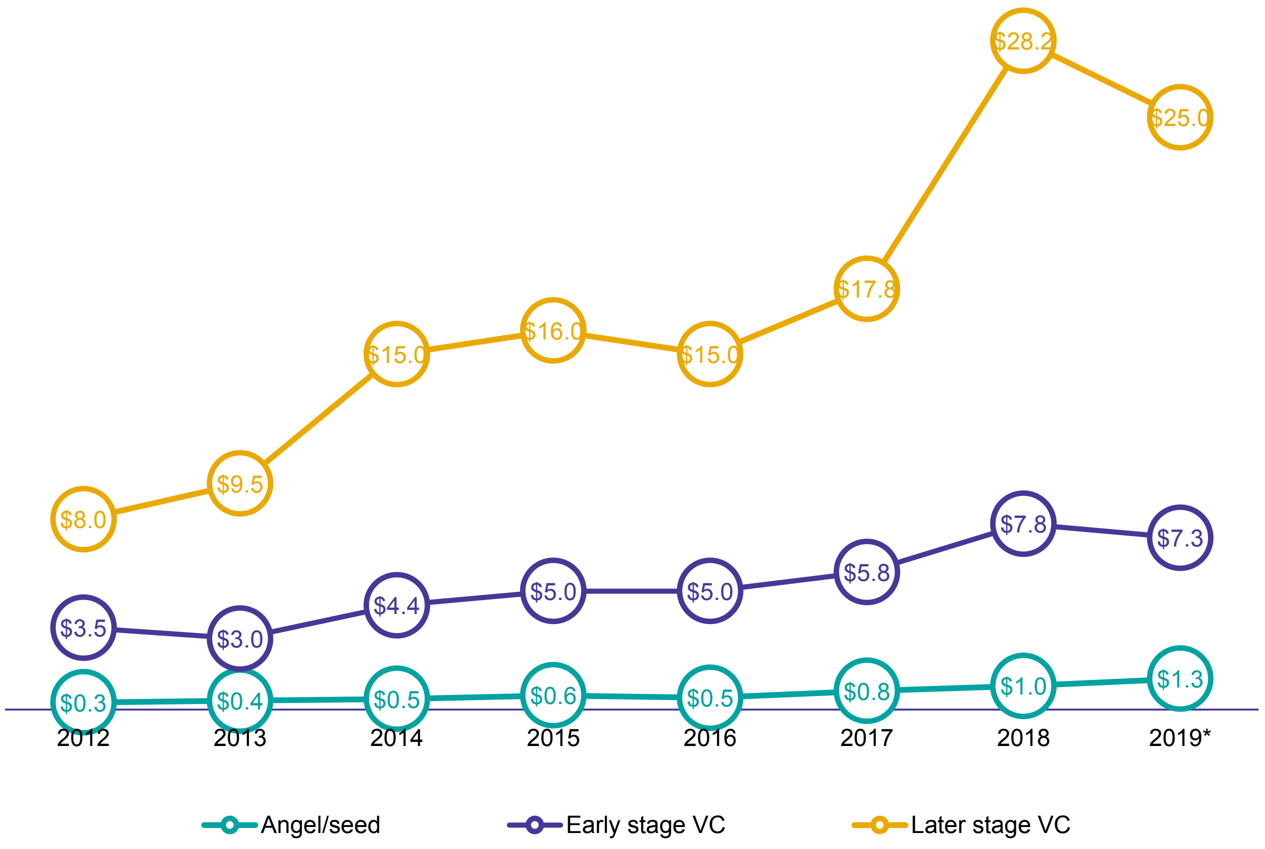
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

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*



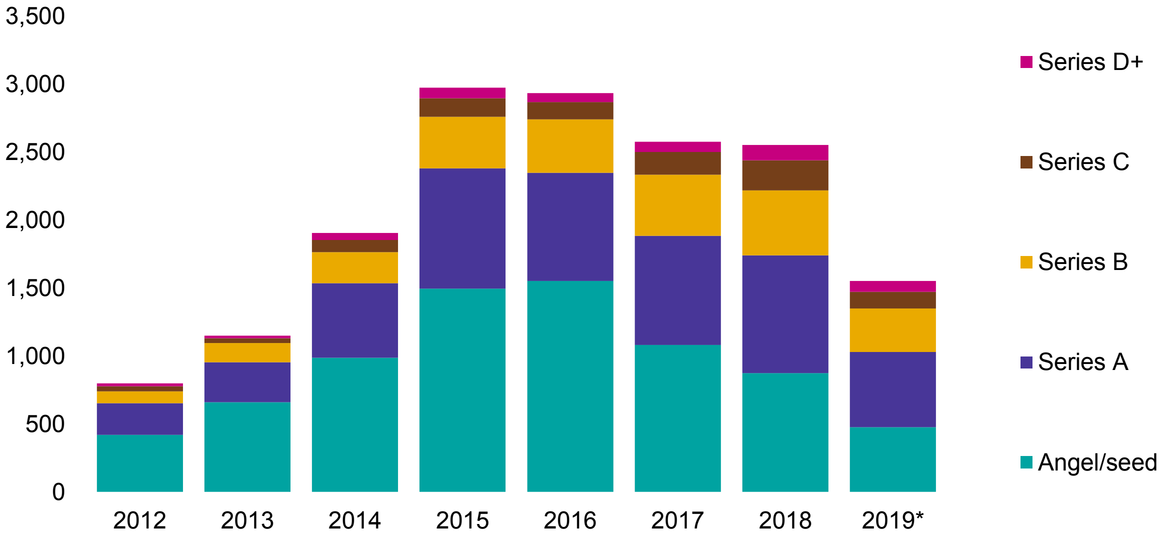
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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

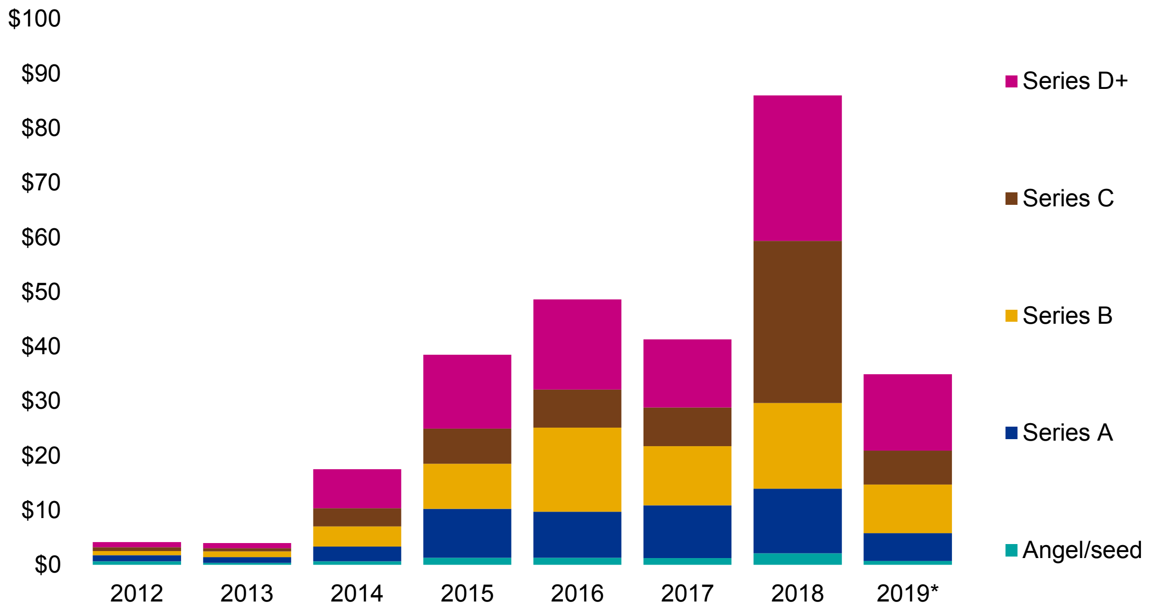
Deal share by series in Asia

2012–2019*, number of closed deals



Deal share by series in Asia

2012–2019*, VC invested ($B)

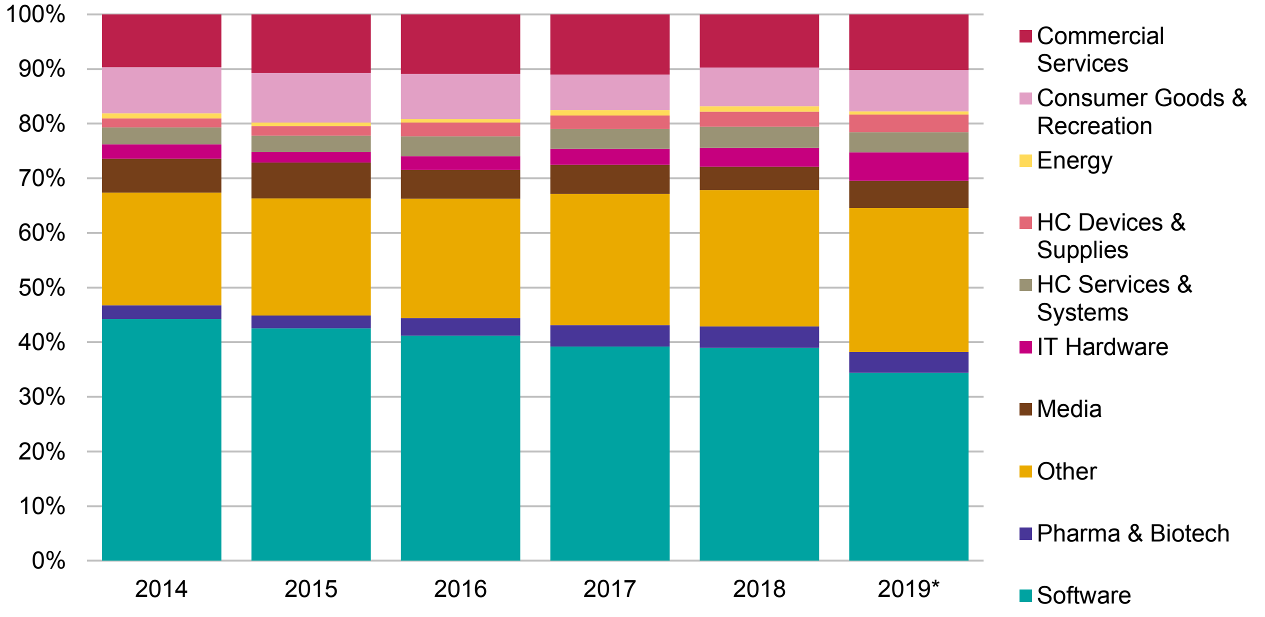


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

IT hardware sees moderate surge in volume

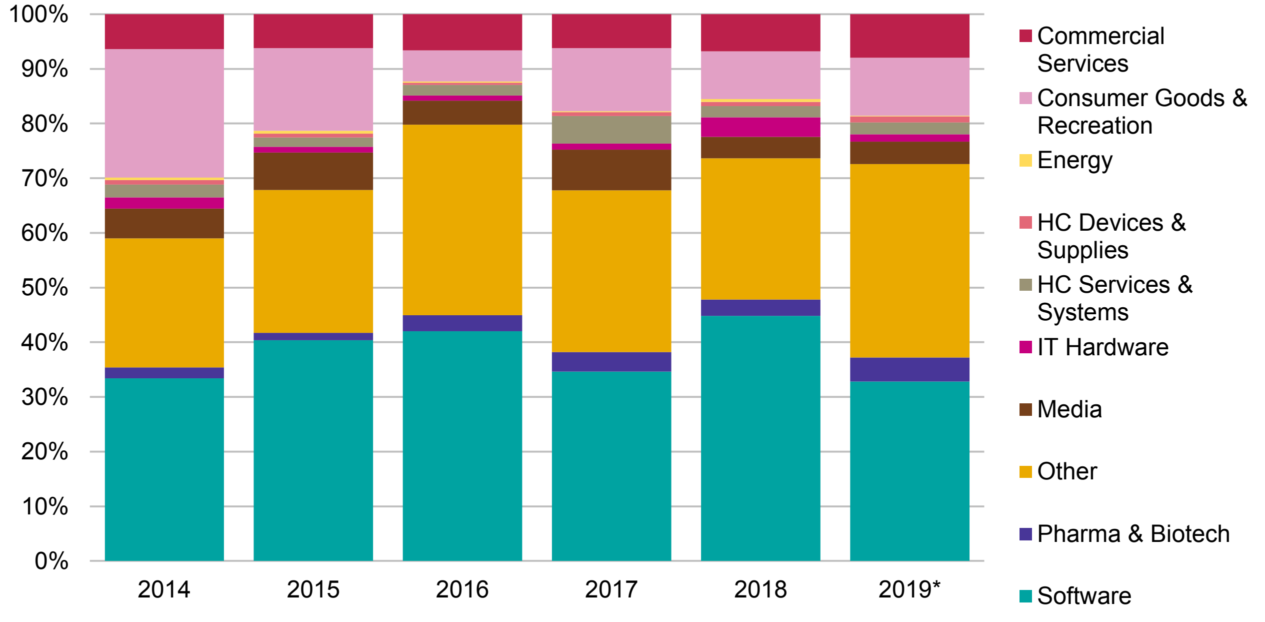
Asia venture financings by sector

2014–2019*, number of closed deals



Asia venture financings by sector

2014–2019*, VC invested ($B)

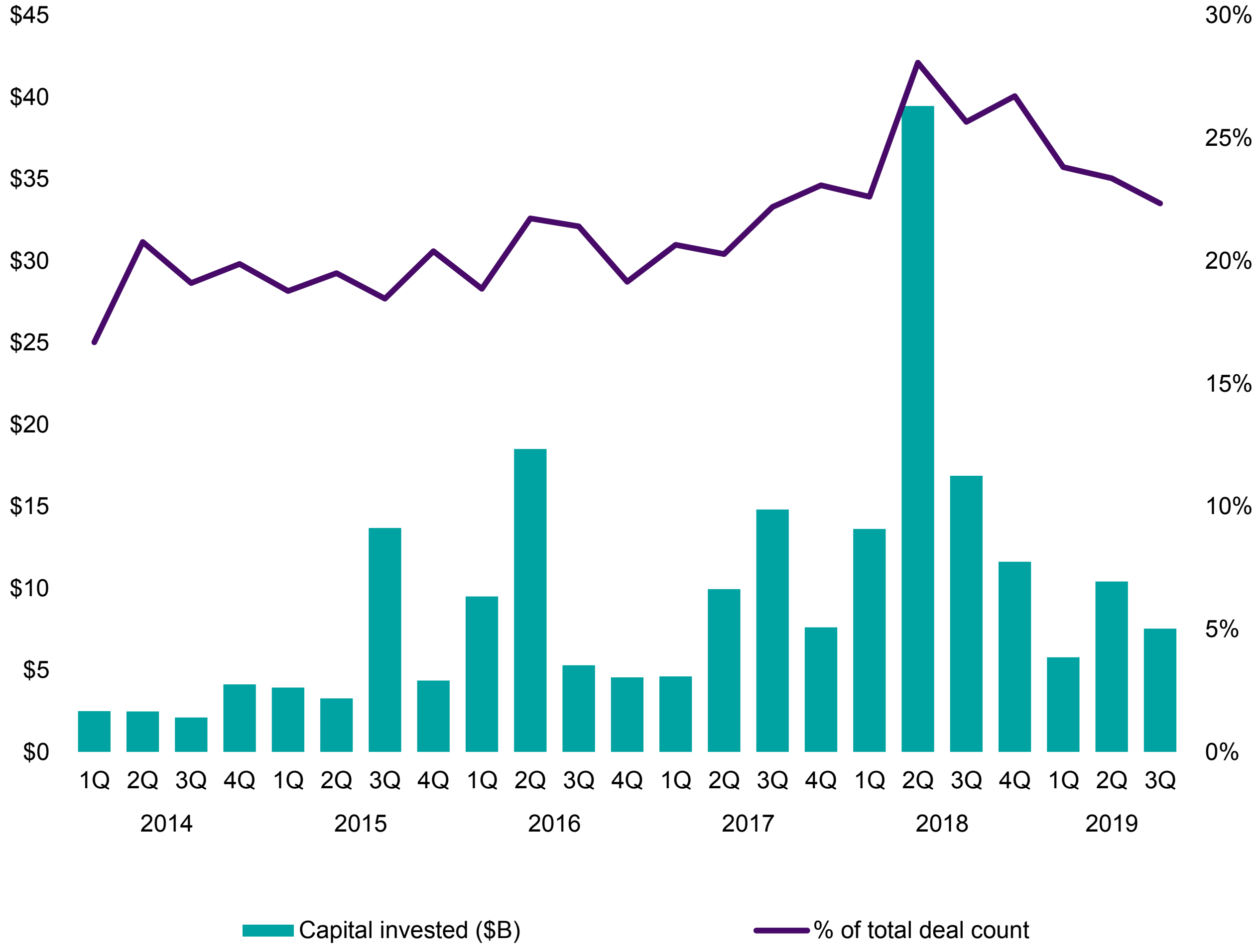


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

CVC keep up the pace

Corporate participation in venture deals in Asia

2014–Q3'19



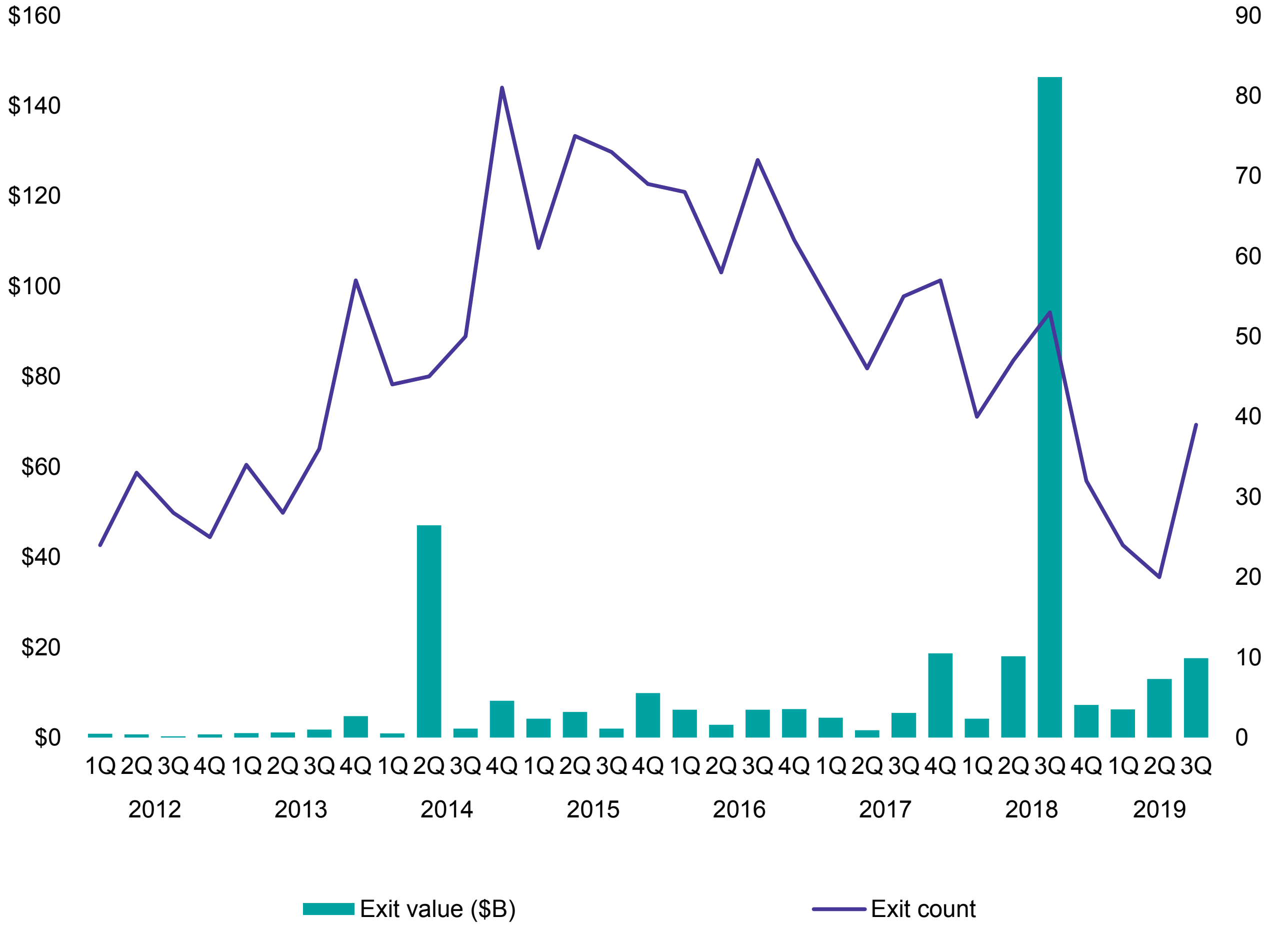
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

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



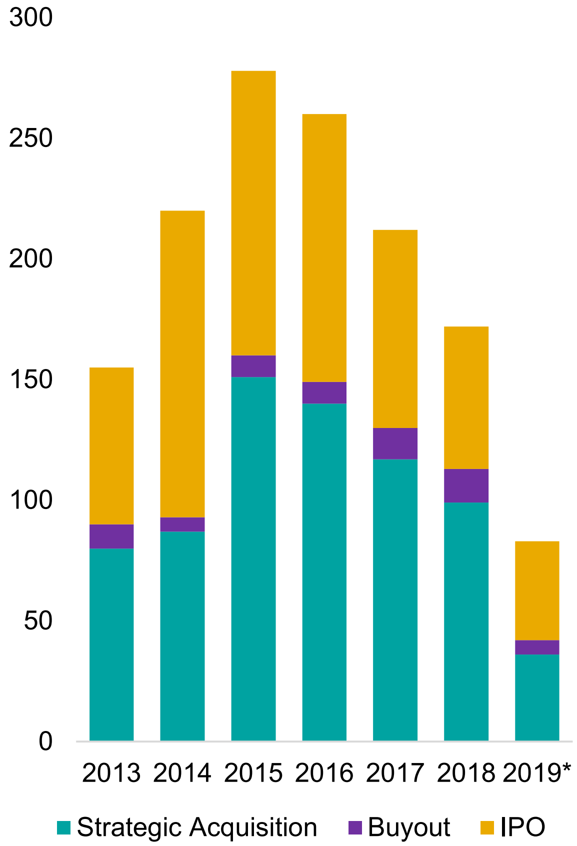
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

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

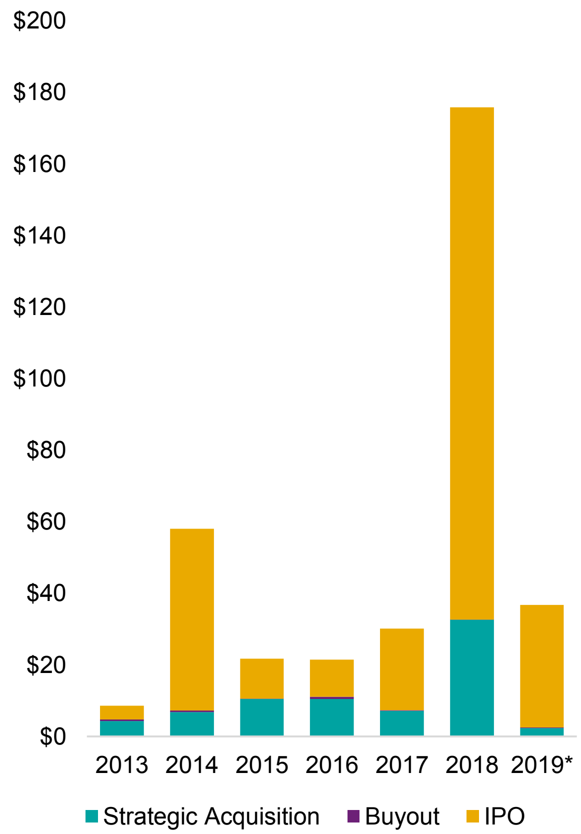
Venture-backed exit activity (#) by type in Asia

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.

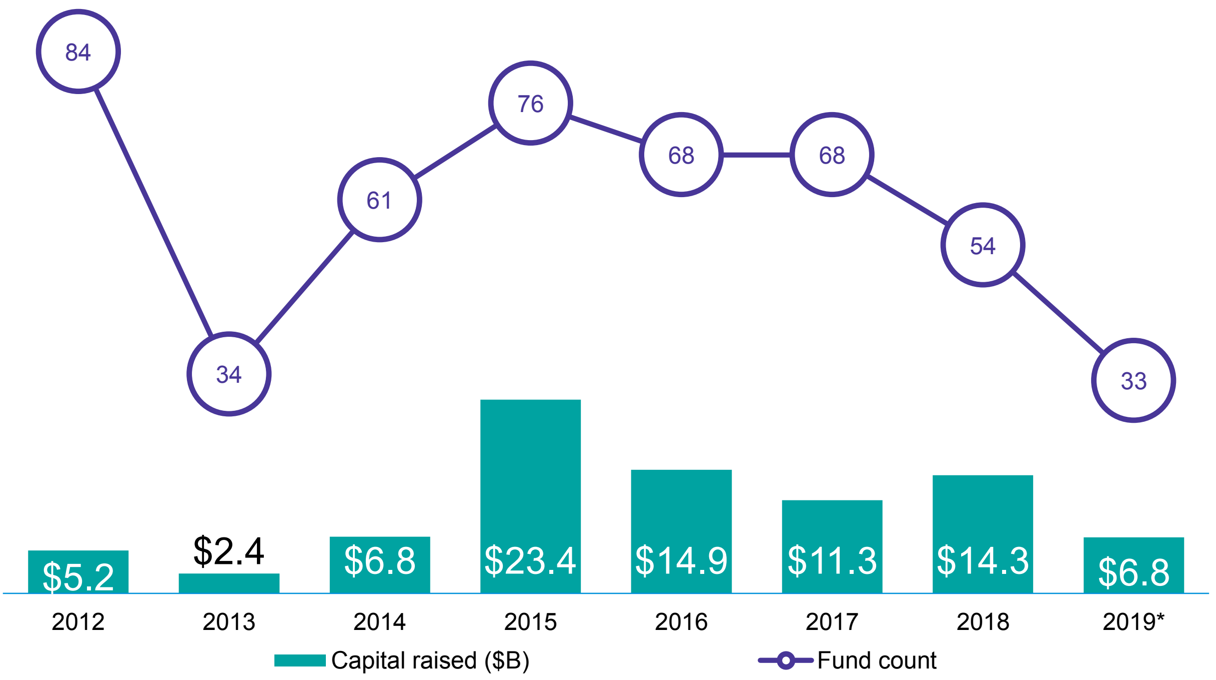
"There has been some economic volatility in Hong Kong this quarter, which has affected a number of industries. But the capital markets have not been badly affected so far, in part because the third quarter is usually slow for the public markets here. The pipeline of companies applying for IPO in Hong 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.

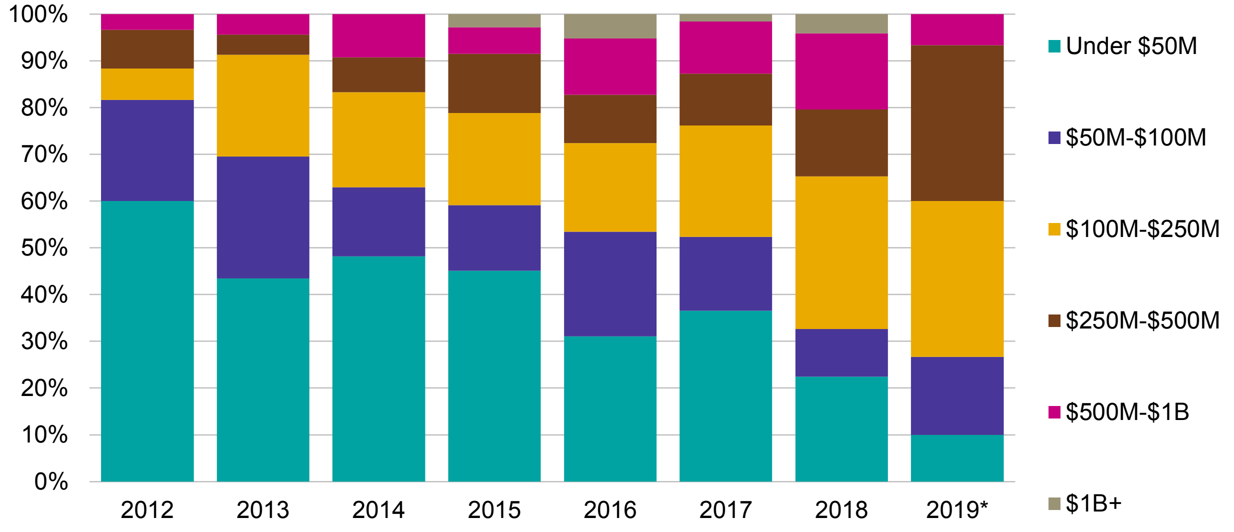
"There's a lot of interest in the Asian market, but investors have really slowed down their activity because there is a lot of nervousness in the market. Investors are being very conservative, waiting to see where things go from an economic and geopolitical perspective. This doesn't mean activity isn't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

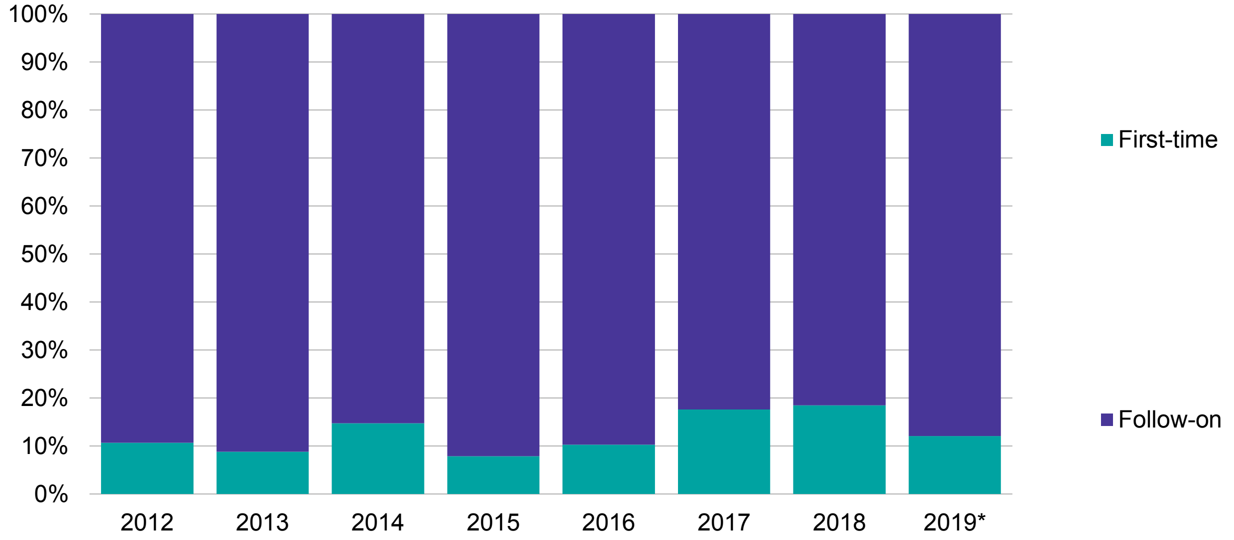
Venture fundraising (#) by size in Asia

2012–2019*



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

2012–2019*

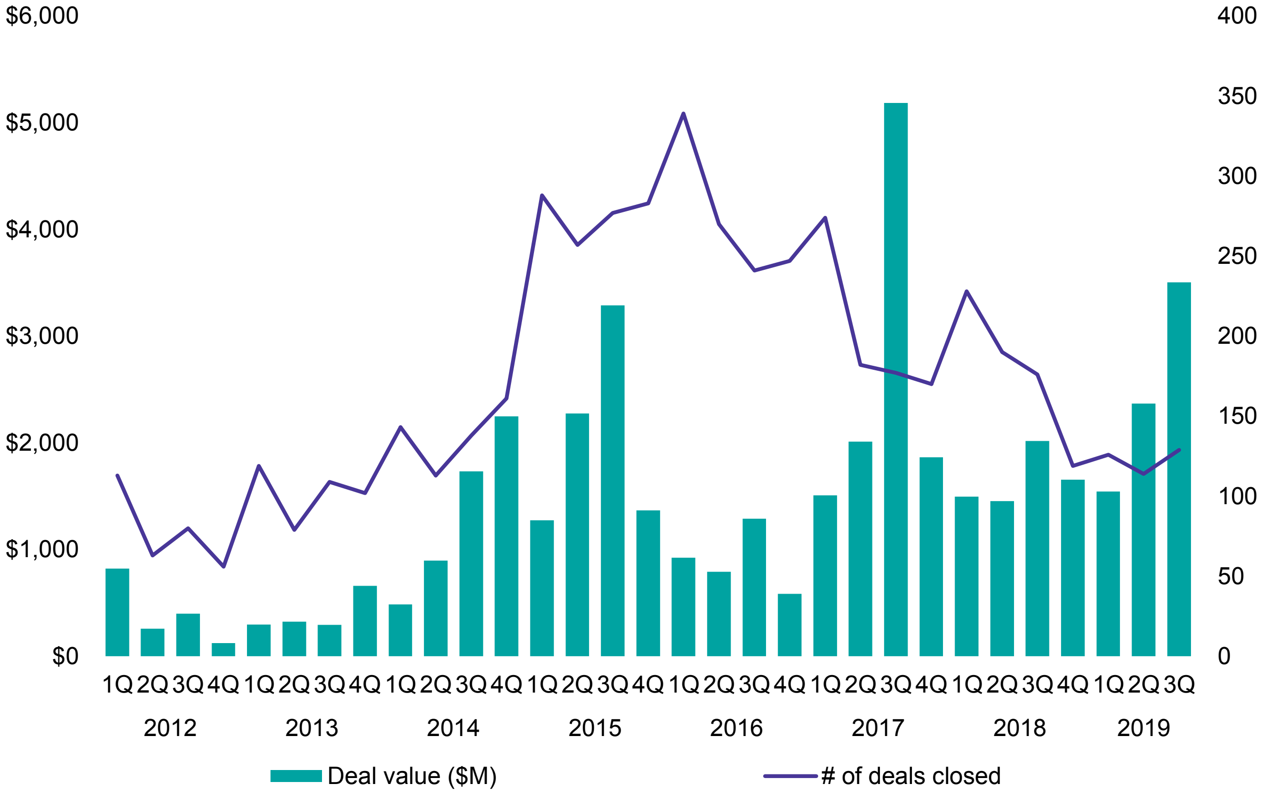


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

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.

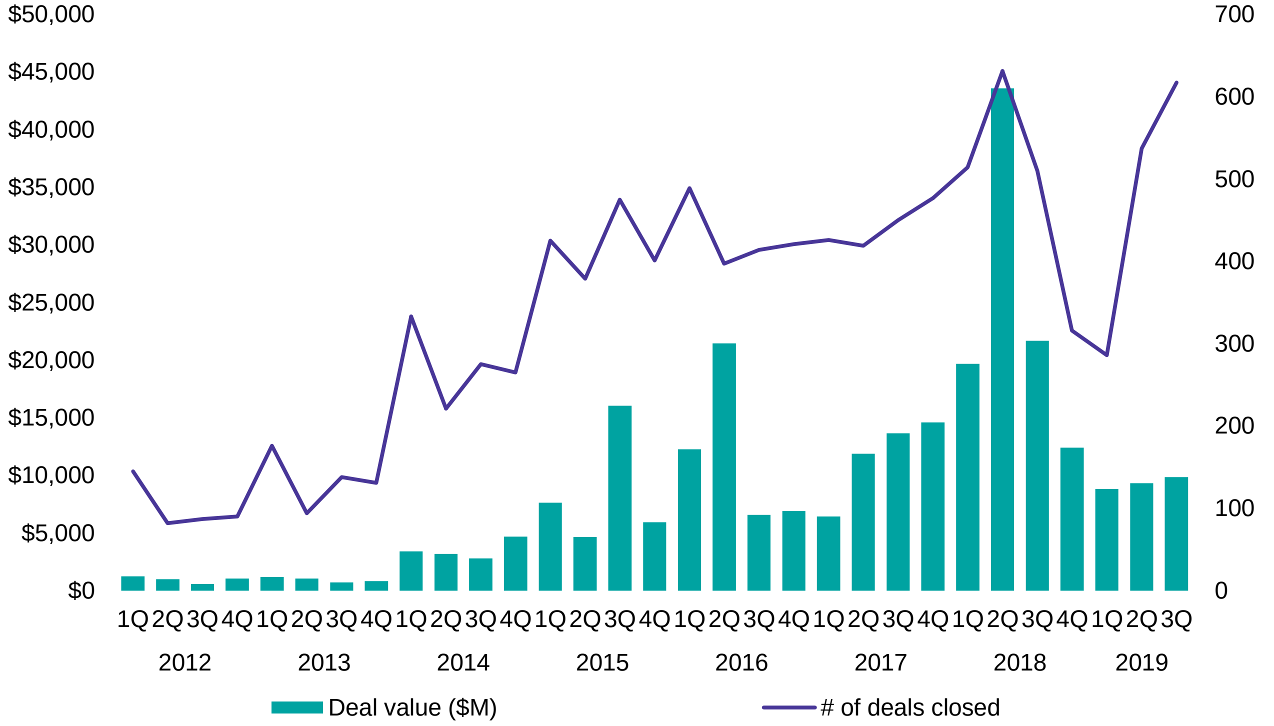
"While there wasn't a single large deal which stood out in Q32019, VC investment activity in general has been robust. While there is some credit squeeze in the economy, the underlying sector performance driven by strong consumption led growth in sectors including fintech, logistics, edtech, and mobility, 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.

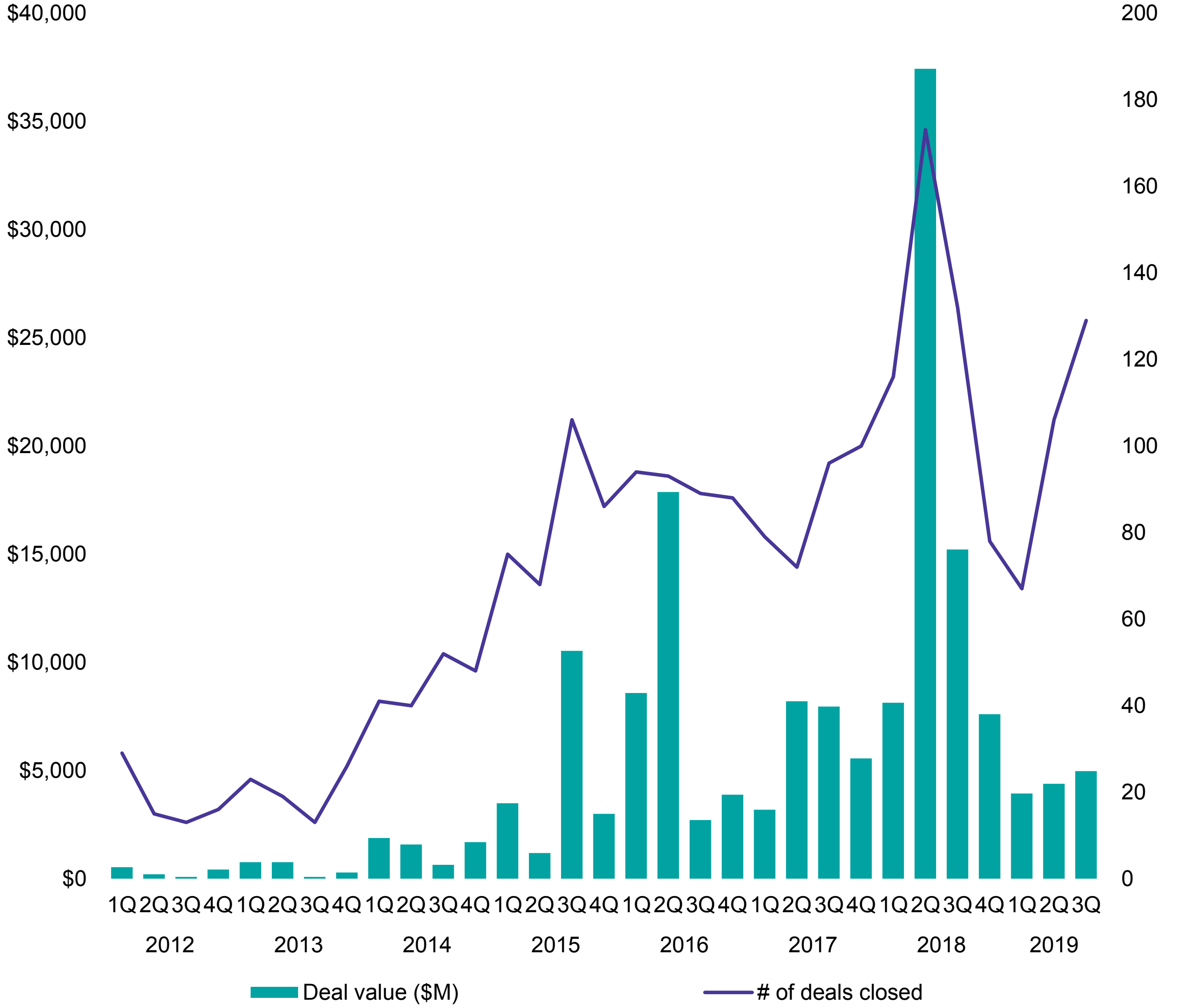
In the prior edition of the Venture Pulse, it was noted that the back-to-back muted quarters, after such a high-flying stretch of VC invested and volume, was now more telling for the Chinese venture ecosystem. What likely occurred was a retrenching by domestic investors given some uncertainty both economic 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

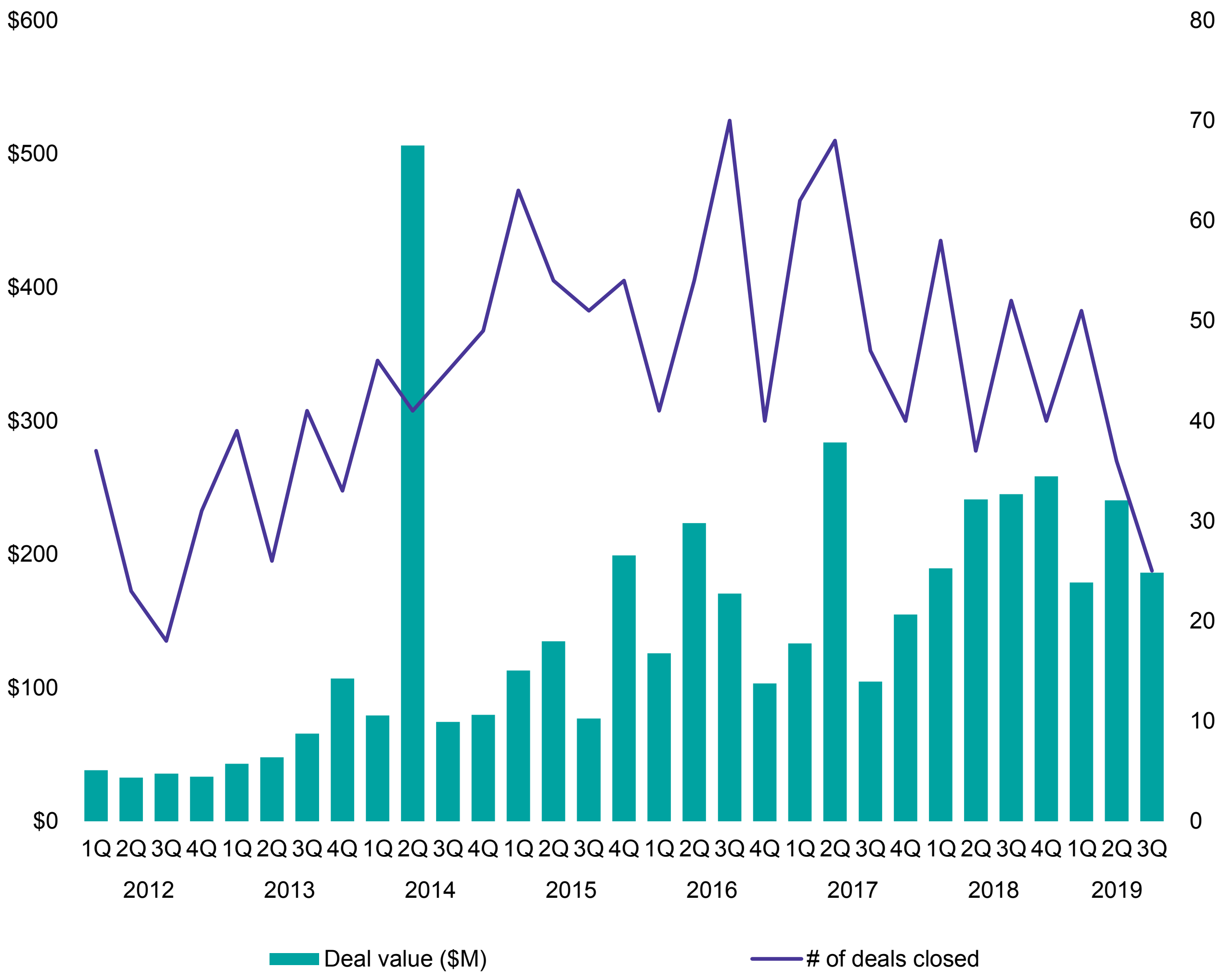


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Australia records a robust quarter for VC invested

Venture financing in Australia

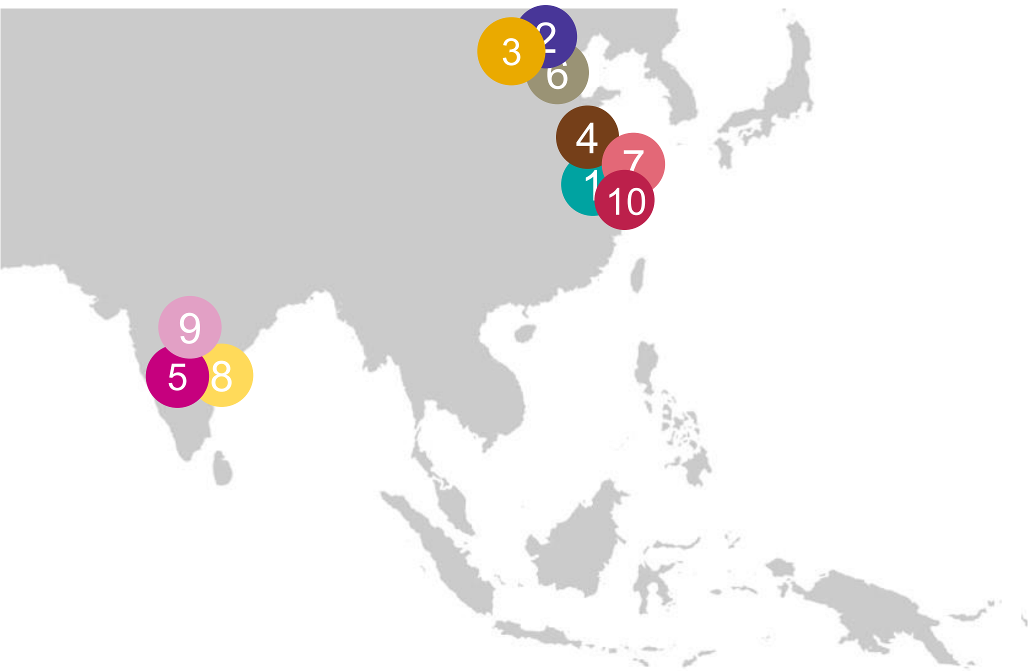
2012–Q3'19



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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About KPMG Enterprise

About KPMG Enterprise

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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.

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

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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, 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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