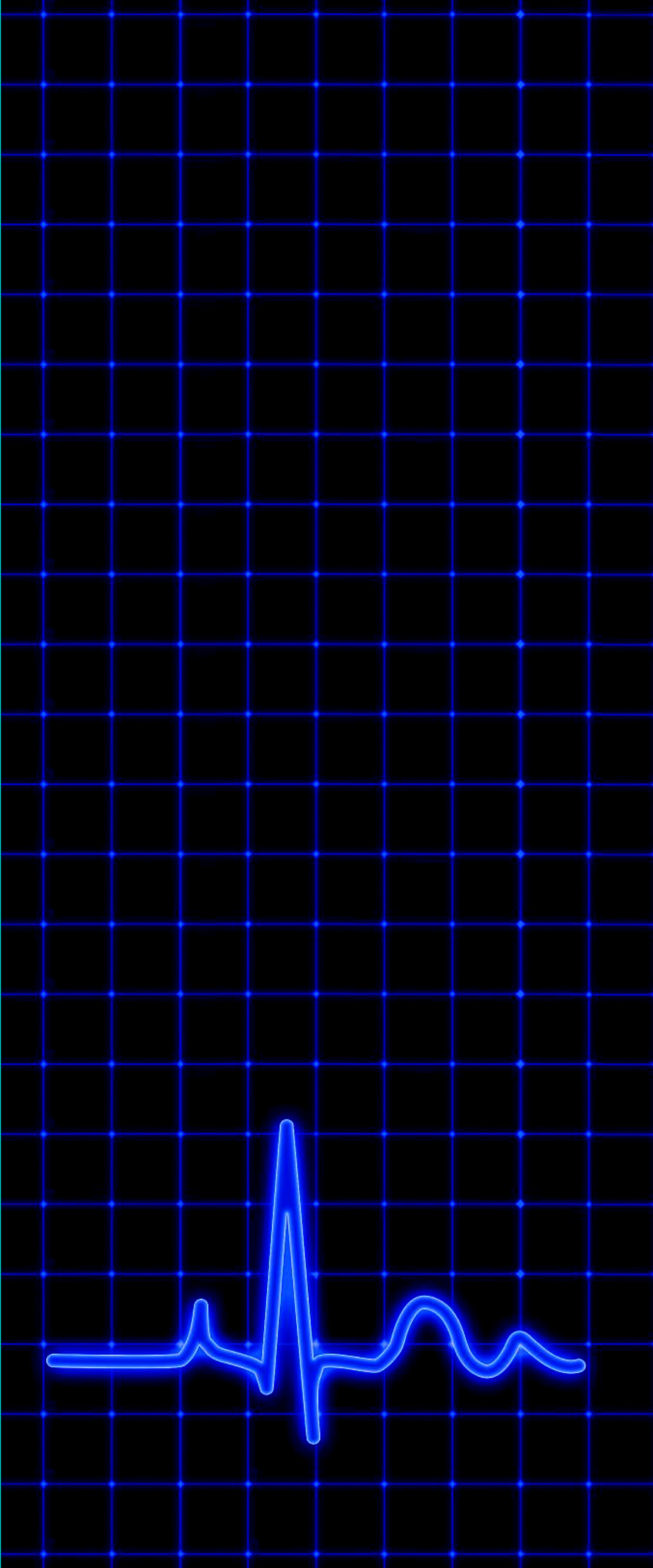
KPMG Private Enterprise

Venture Pulse Q4 2019

Global analysis of venture funding

15 January, 2020



Welcome message

Welcome to the Q4'19 edition of *Venture Pulse* — KPMG Private Enterprise's quarterly report highlighting the key issues, trends, and opportunities facing the VC market globally and in key jurisdictions around the world.

VC investment globally remained steady in Q4'19 despite a number of market challenges ranging from the ongoing trade tensions between the US and China, the *uncertaintyleading* up to the December general election in Britain, and the continued weakness of China's economy. While significantly lower than the record-setting level of VC investment seen in 2018, total annual VC investment globally remained higher than every other year on record.

Despite a small decline in VC funding year-over-year, the US continued to dominate the VC market globally, accounting for more than half of the VC investment seen during 2019. After breaking 2018's record annual high of VC investment at the end of Q3'19, Europe continued to see solid levels of investment to finish off the year. Asia remained the primary weak spot in the VC market globally, with a massive year-over-year decline in VC investment and a smaller decline in the number of VC deals.

At a sector level, VC investment worldwide continued to diversify. Fintech continued to be one of the hottest areas of investment, in addition to autotech, biotech, mobility and logistics, and food delivery. At a technology level, artificial intelligence, automation, deeptech, and B2B solutions all received significant interest from VC investors.

Heading into 2020, the VC market is expected to remain relatively steady in Q1'20, with areas such as AI, biotech, and fintech remaining very hot. Despite some mixed results, the IPO market could see an uptick as companies look to exit in advance of the US Presidential election. The election is likely to drive some uncertainty — particularly in the second half of the year.

In this quarter's edition of Venture Pulse, we examine both annual and Q4'19 VC market results, in addition to delving into a number of global and regional trends, including:

- The increasing focus of investors on the unit economics of consumer-focused businesses
- The growing diversity of unicorns
- The strength and increasing maturity of Europe's VC market
- The heightening focus of VC investors on Latin America

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 Private Enterprise adviser in your area.

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In Q4'19 US VC-backed companies raised

$34.2B

across

2,215 deals

US sees strong Venture Capital investment to finish the year

VC investment in the US remained strong in Q4'19, bringing a positive end to the country's second best year of VC investment ever next to 2018. Despite the resonating impact of the WeWork debacle and some loss of confidence with respect to unicorn IPOs, there continued to be a ton of dry powder in the market which helped fuel deal-making.

Diversity of VC investments helping spur US VC market

VC investment in the US was robust across many different sectors and technology verticals. Fintech, food delivery, B2B services, automation and RPA: these and a number of other areas all attracted significant investments in Q4'19. Continuing a longer-term trend, food delivery continued to attract large investments, with DoorDash raising $700 million in Q4'19. Fintech also remained very hot with Chime raising $500 million during the quarter, Robinhood raising $373 million, and Next insurance raising $250 million.

The geographic diversity of VC investments in the US also continued to expand well beyond Silicon Valley in Q4'19, with companies from New York, Seattle, Portland, and Austin attracting large.

Investors increasing scrutiny of potential deals

In Q4'19, VC investors in the US remained focused on late-stage deals and on companies with strong and well-proven business models. Given recent IPO results and the fallout from WeWork's failed IPO, VC investors confidence has degraded somewhat. As a result, they are only expected to increase their scrutiny of potential deals, becoming more circumspect with where they invest, conducting more due diligence, and looking at the unit economics related to customer-focused companies — such as food delivery or ride-hailing companies.

Fintech opportunities expanding scope, continue to attract investments

Fintech investment in the US continued to be strong in Q4'19 — a trend expected to continue for the foreseeable future. The fintech industry as a whole is very large, with growing opportunities for investment on both the customer-facing side and on the enterprise side. One area of particular interest in 2019 has been on the middleware layer of banking processes, whereby startups are providing banks with opportunities to expand their service offerings while banks are providing startups with opportunities to grow much faster than they would on their own.

US sees more unicorn births than ever before

The US saw 71 new unicorns during 2019, including 15 in Q4'19 — including Vroom, Dataiku, You and Mr. Jones, Guild Education, and Bright Health. New unicorns have cropped up in may regions. While Silicon Valley continued to drive the majority of new unicorns, other cities like Austin, Pittsburgh, Denver, Buffalo, Portland, and Raleigh, also saw companies attain unicorn status this quarter.

The growing diversity of locations able to grow unicorns speaks to the growing diversity of US startup hubs and the work many cities are undertaking in order to build up their innovation and startup ecosystems.

US sees strong Venture Capital investment to finish the year, cont'd.

Corporate VC investment continues apace

Corporate VC investment in the US continued to be relatively strong, with corporates both investing domestically and globally in order to expand their product or services offerings, extend their reach, or improve their internal or customer-facing operations.

There has also been an increasing trend of corporates investing in or purchasing companies in adjacent areas in order to expand the services they can provide to their customers. This is true of both traditional corporates and mature startups alike. For example, in Q4'19, PayPal acquired Honey Science — an online coupon company for $4 billion. It is expected that this acquisition will allow PayPal to take advantage of Honey Science's data analytics tools and offerings to provide more value to their clients.

IPO activity remains strong in US despite mixed results

Unicorn companies that issued IPOs in 2019 have had very mixed results. Despite this fact, there continued to be a significant push towards exits right to the end of 2019 — a trend expected to last into the early part of 2020. This push likely reflects the continued backlog of mature companies that have remained private, the desire of VC funds to give return to their investors, and the increasing pressure on companies to give their employees with shares some liquidity. With a US presidential election looming in November 2020, it is expected that companies will either move to exit within Q1 or Q2'20 or hold back until after the election.

On the IPO front, the mixed results seen by unicorn companies to date have significantly increased the attention companies are getting from a due diligence perspective, with investors honing in on companies' business models, paths to profitability, and unit economics. Companies that want to issue IPOs will likely spend more time getting their financial house in order prior to IPO filing in order to enhance their chances of success.

Rise in collaborative productivity platforms

Over the last quarter, collaborative economy platforms gained some steam, particularly as they relate to specialized industry offerings. For example, Austin-based RigUp, a talent management platform focused on the energy industry, raised $300 million in Q4'19. It is expected that this investment will likely raise interest in other niche productivity and workforce management platforms focused on other complex or nice industries.

Trends to watch for in the US

Heading into 2020, VC investment is expected to remain hot in areas related to fintech, artificial intelligence, and RPA. Corporate VC investment is also expected to remain robust, with a continued focus on adjacency investments in addition to other strategic investments. VC investor interest in consumer-focused companies could drop off somewhat until there is more certainty around whether the unit economics of businesses such as Uber, Lyft, and food delivery companies can be profitable.

With the number of first-time venture financings continuing to drop, the US could see an uptick in venture investments by family offices. With less confidence yet still a significant amount of dry powder at their fingertips, traditional VC investors are expected to remain focused on late-stage and follow-on deals.

In Q1'20, it is expected that companies, particularly unicorns, looking to issue IPOs will spend more time pre-IPO on improving their financial positions, putting their operations in order, and ensuring their unit economics are attractive. Despite market challenges, IPOs could see an uptick to start the year as companies look to exit prior to the US presidential election.

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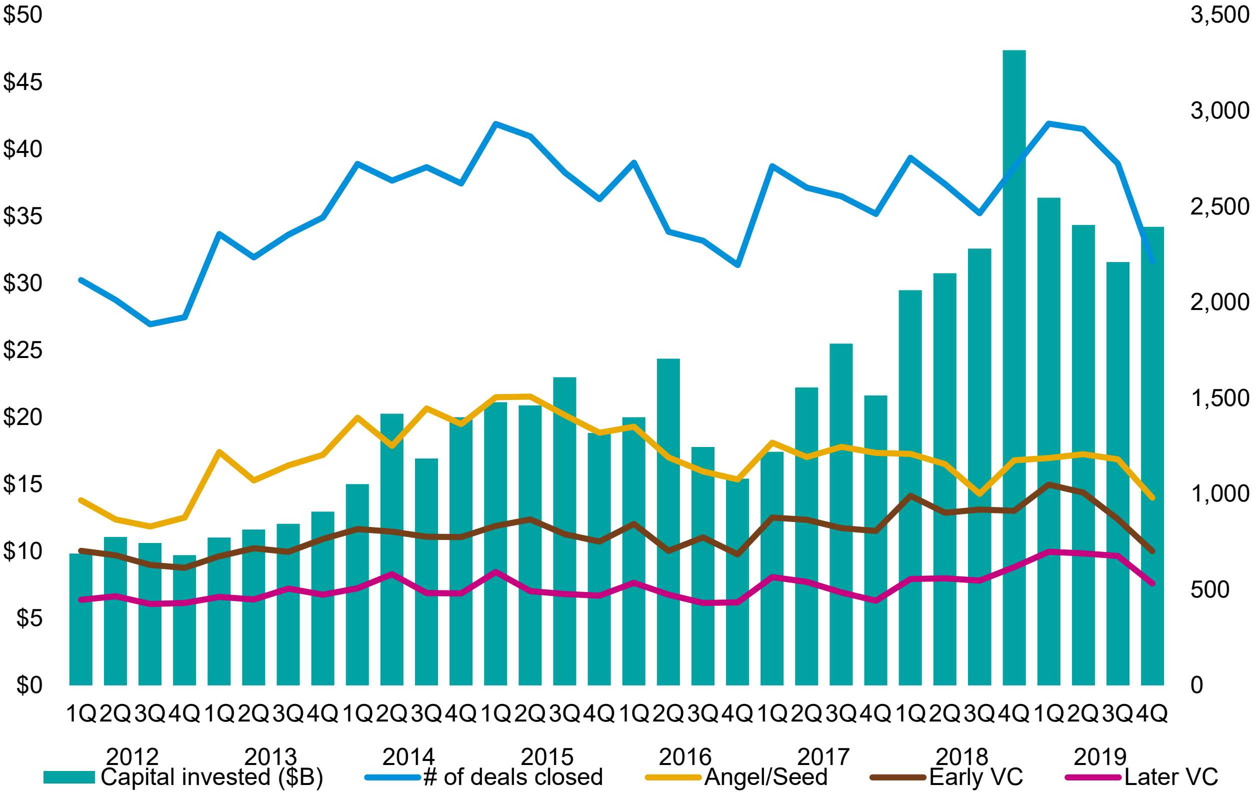
2019 closes upward

Venture financing in the US

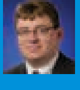
2012–Q4'19



Source: Venture Pulse, Q4'19. Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 1/15/20. Note: Refer to the Methodology section on page 24 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

The final quarter of 2019 saw a rally in aggregate venture invested, ending the year on a higher note despite a precipitous plunge in deal volume recorded at the start of the year. Granted, that volume may creep up somewhat given lags in private markets data collection, but the more important note is just how robust 2019 was overall for the US venture ecosystem. Both dollars invested and activity were remarkably strong, nearly at record highs.

> "The continued investment in fintech is particularly interesting. The ongoing increase in disposable income of the millennial generation is generating significant demand for the services of these companies. This is driving more and more investment regardless of the multiple regulatory barriers that may need to be overcome"



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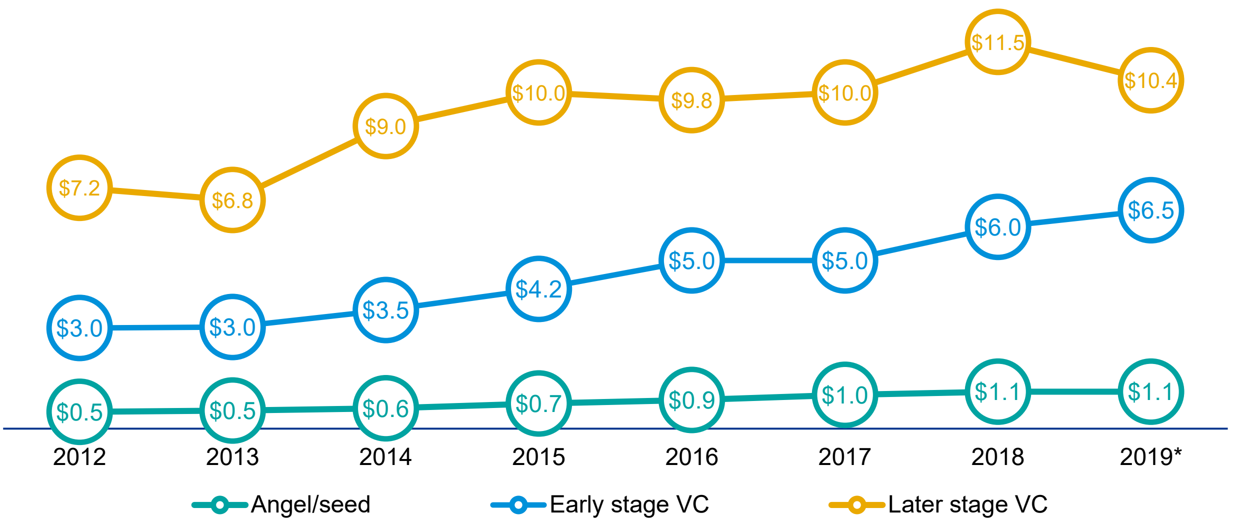
The late-stage finally slides

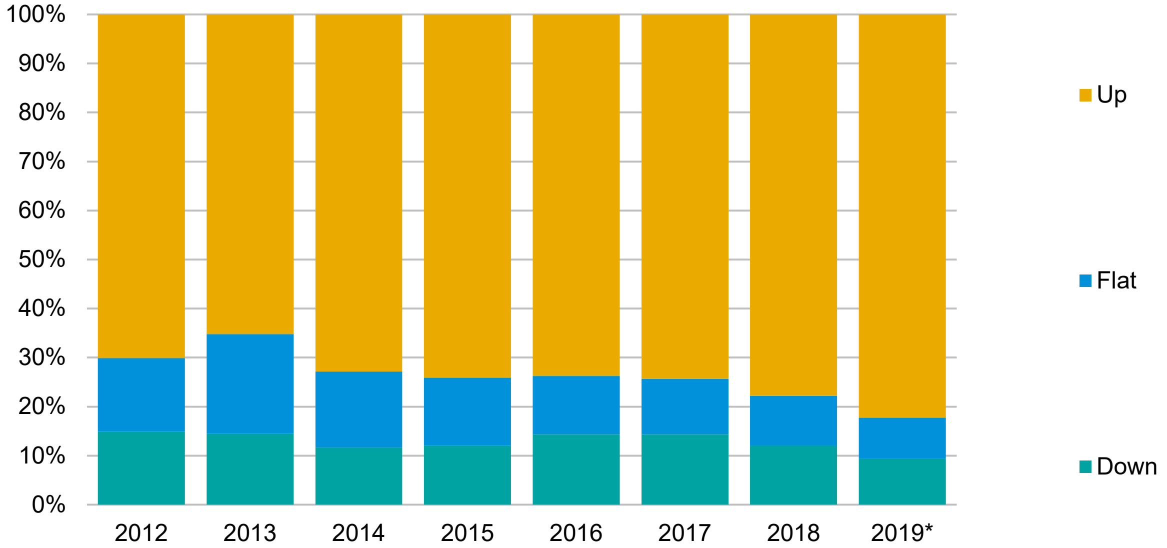
Median deal size ($M) by stage in the US

2012–2019*



Up, flat or down rounds in the US

2012–2019*

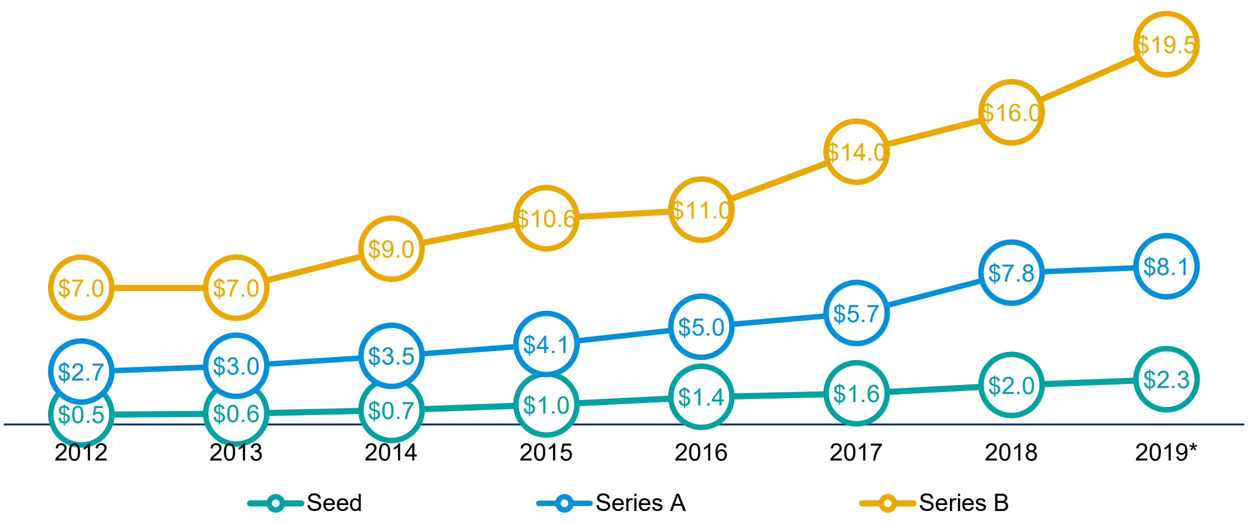


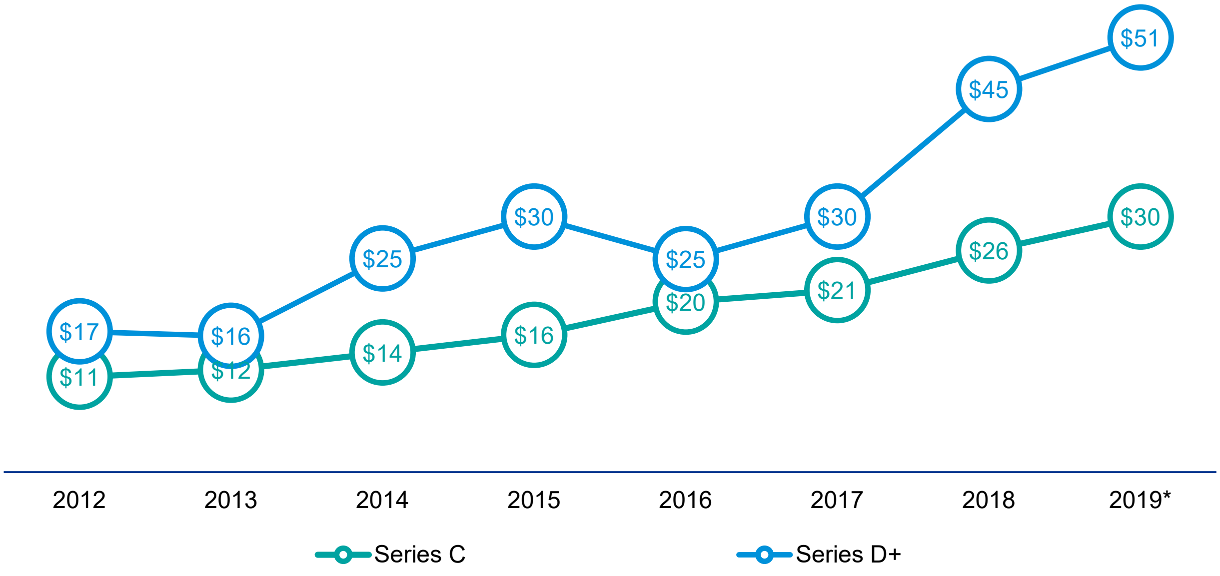
Source: Venture Pulse, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/19. Data provided by PitchBook, 1/15/20.

2019 sees record highs

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

2012–2019*





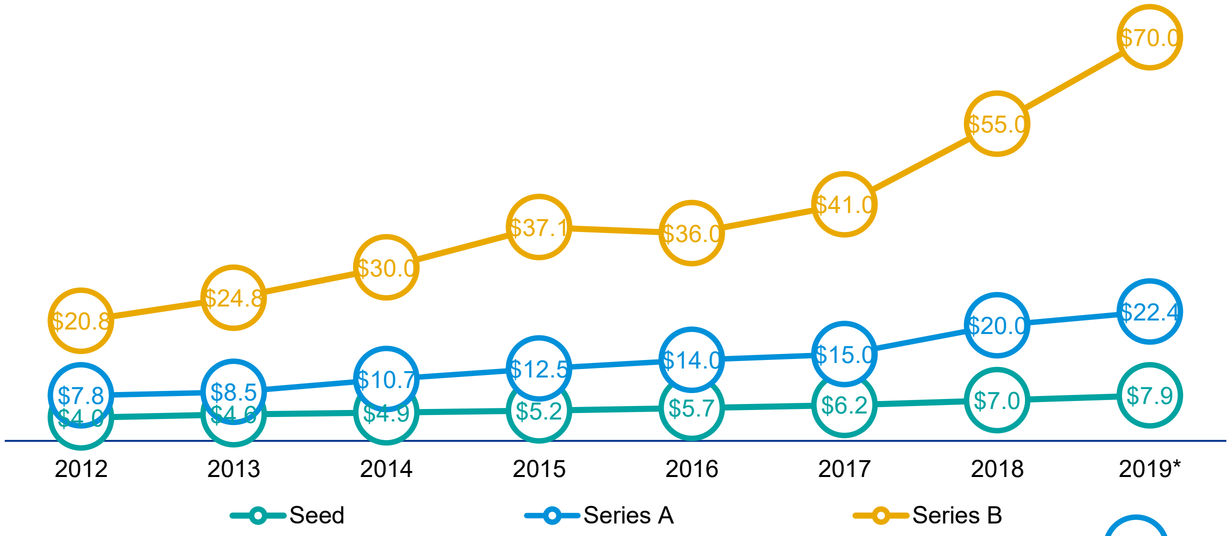
Source: Venture Pulse, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/19. Data provided by PitchBook, 1/15/20.

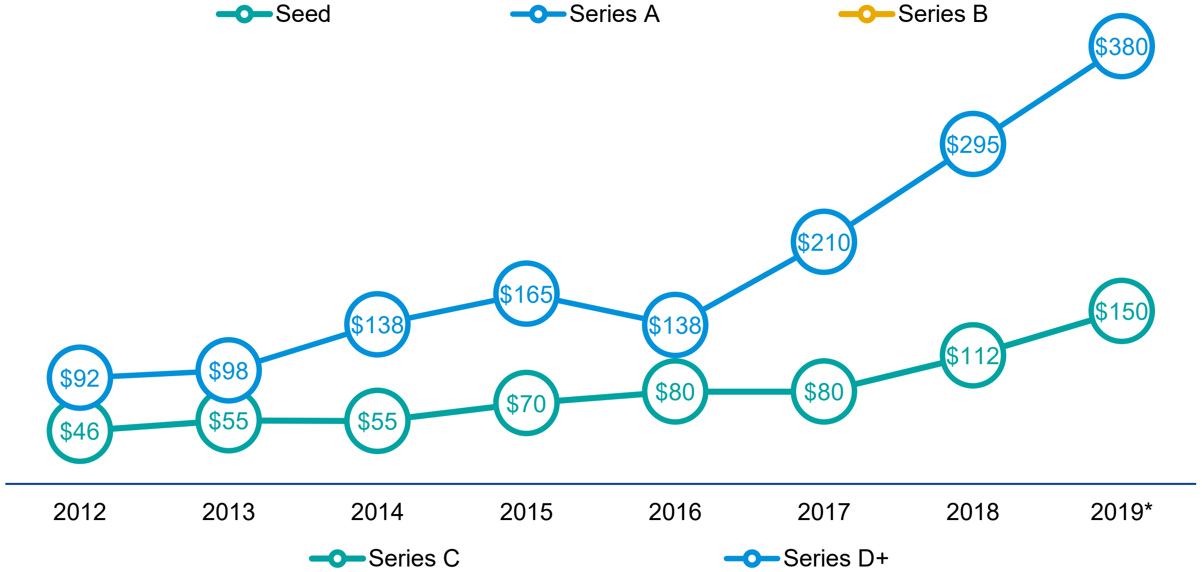
Note: Figures rounded in some cases for legibility.

Record valuations abound

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

2012–2019*





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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, across the entire US as 2019 wound down. The profundity of available capital will likely continue to prop up valuations to, if not the records seen this year, at least equally strong or historically robust levels for some time to come. Again, it's important to note that many of these valuations are rooted in vastly increased addressable market sizes and finally realized technologies plus use cases, and are more valid than some may deem.

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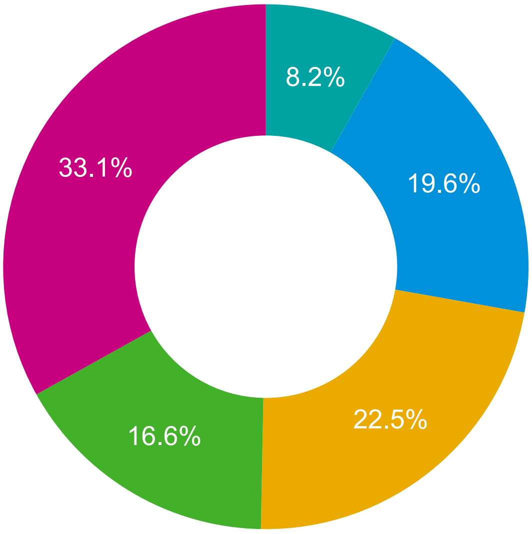
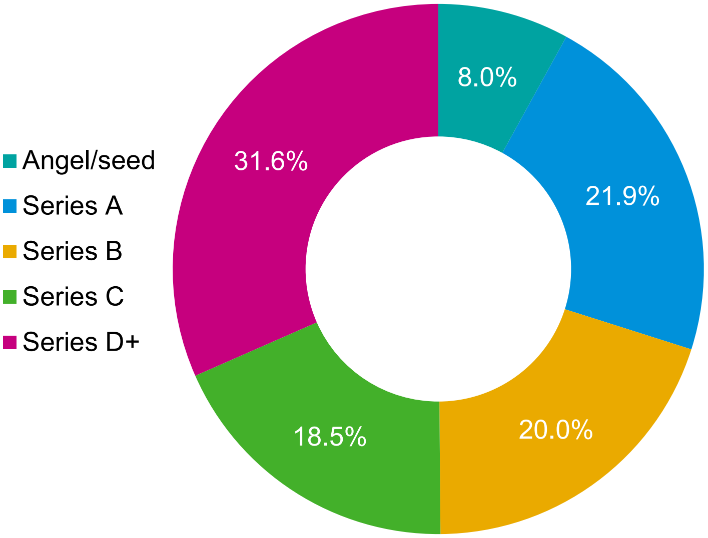
Angel & seed rise slightly

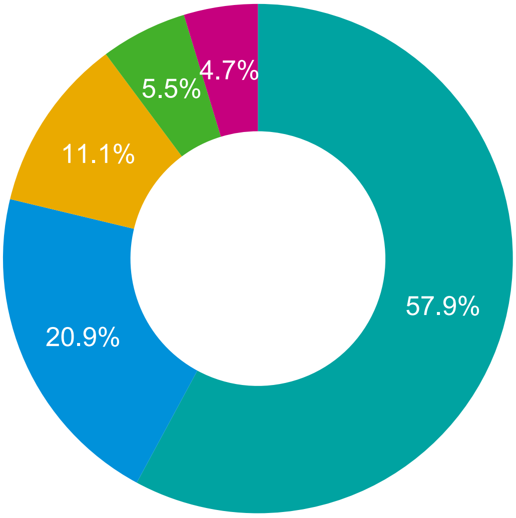
Deal share by series in the US
2019*, VC invested ($B)



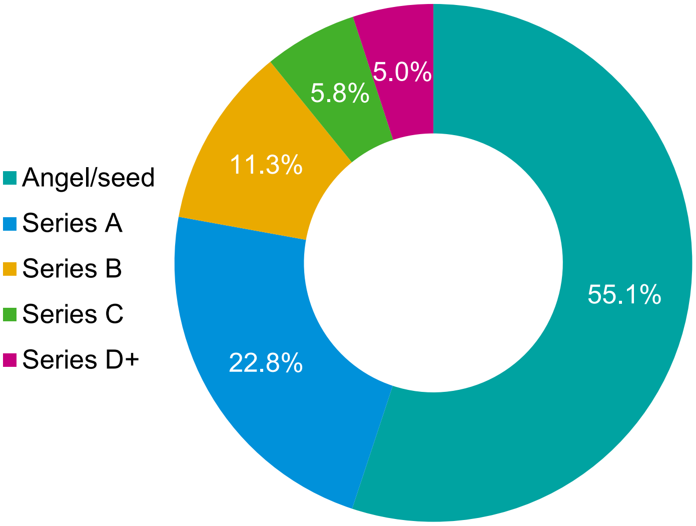
Deal share by series in the US
2018, VC invested ($B)



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



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

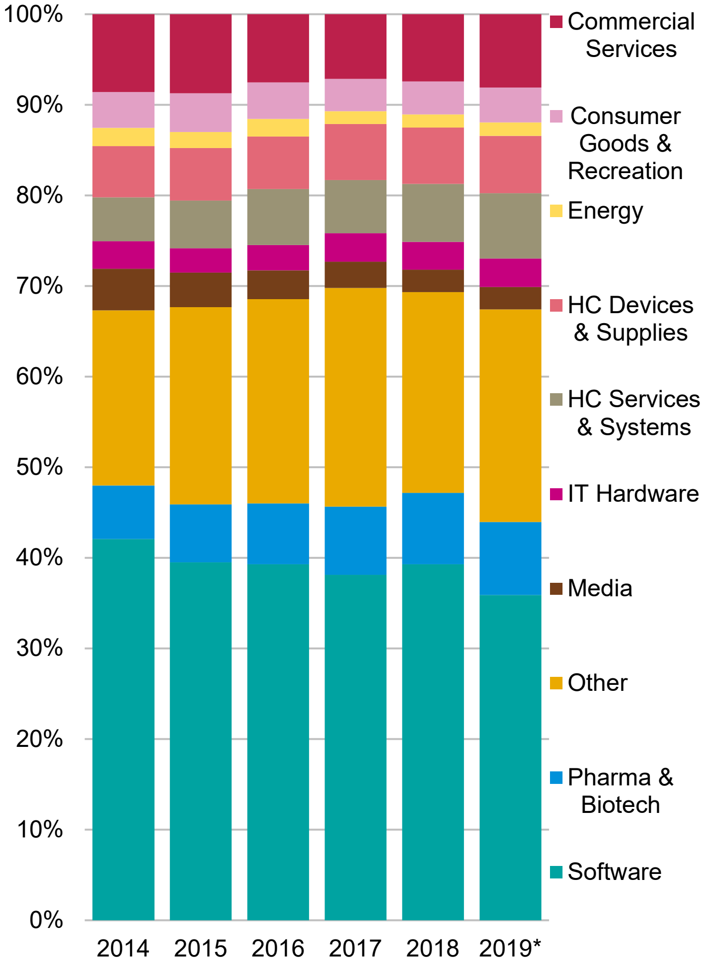


Source: Venture Pulse, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/19. Data provided by PitchBook, 1/15/20.

Record volume in healthcare

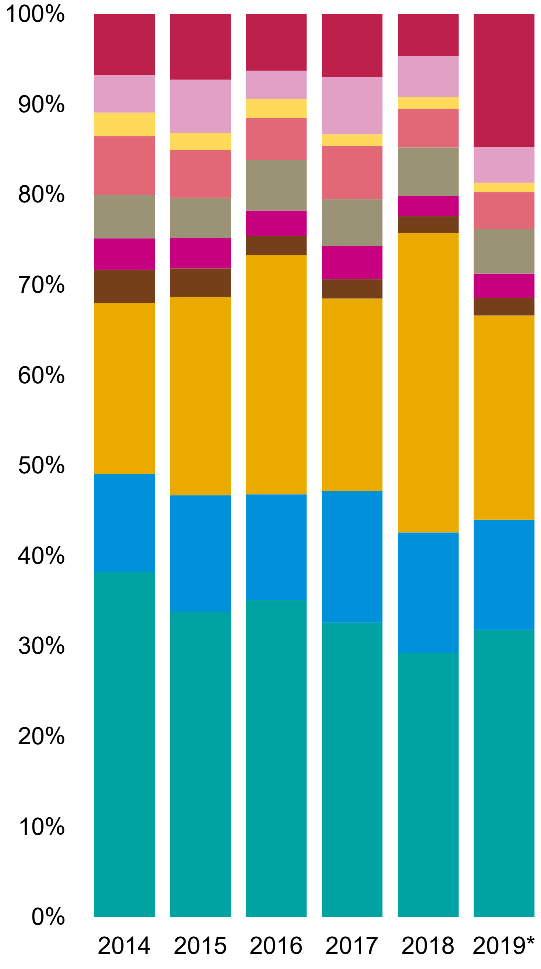
Venture financing by sector in the US

2014–2019*, number of closed deals



Venture financing by sector in the US

2014–2019*, VC invested ($B)



Source: Venture Pulse, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/19. Data provided by PitchBook, 1/15/20.

Boosted by significantly strong macro drivers, healthcare services, systems, devices and supplies recorded record levels of investment volume in 2019, closing out the decade strong.

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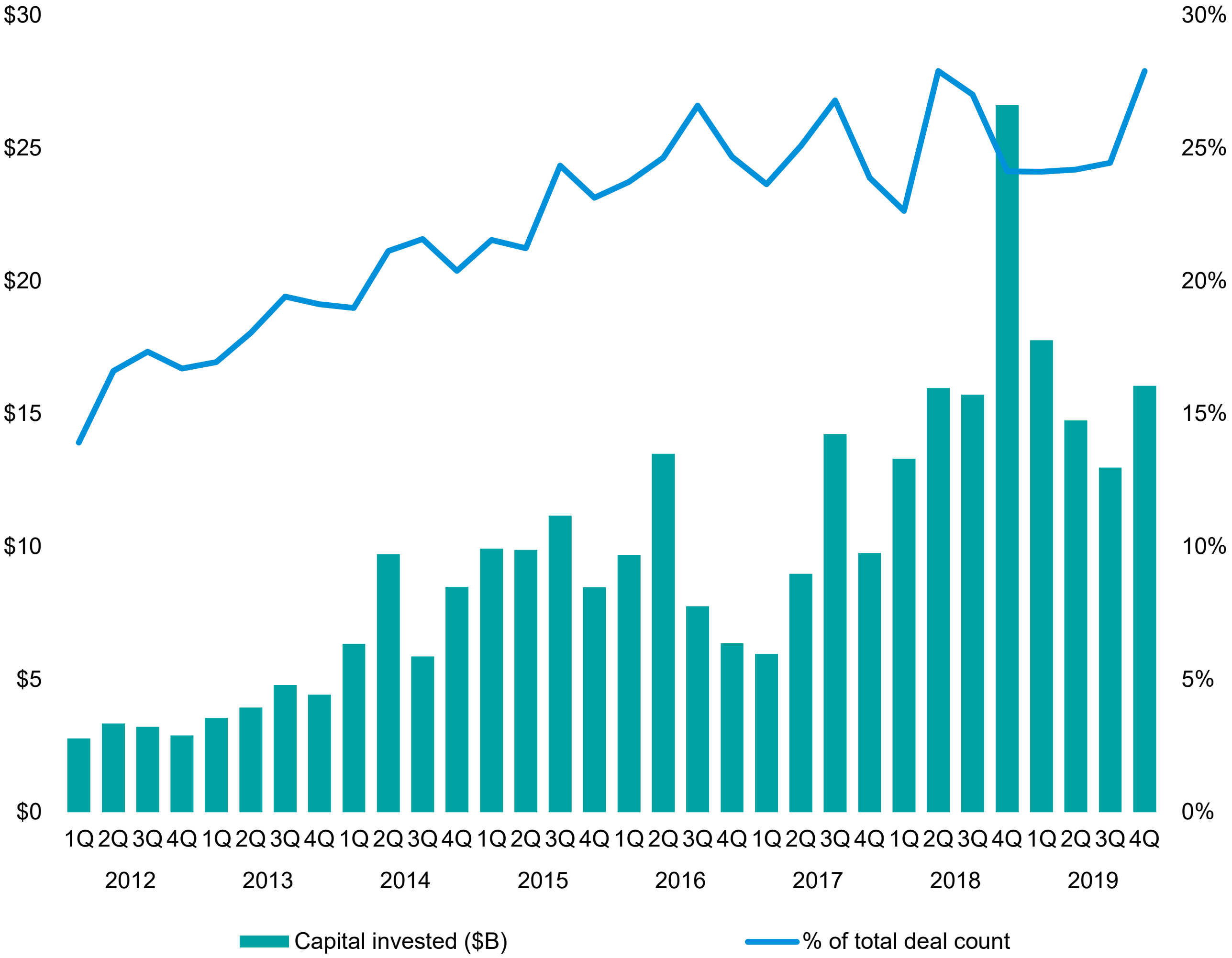
CVC surges at year end

Corporate participation in venture deals in the US

2012–Q4'19



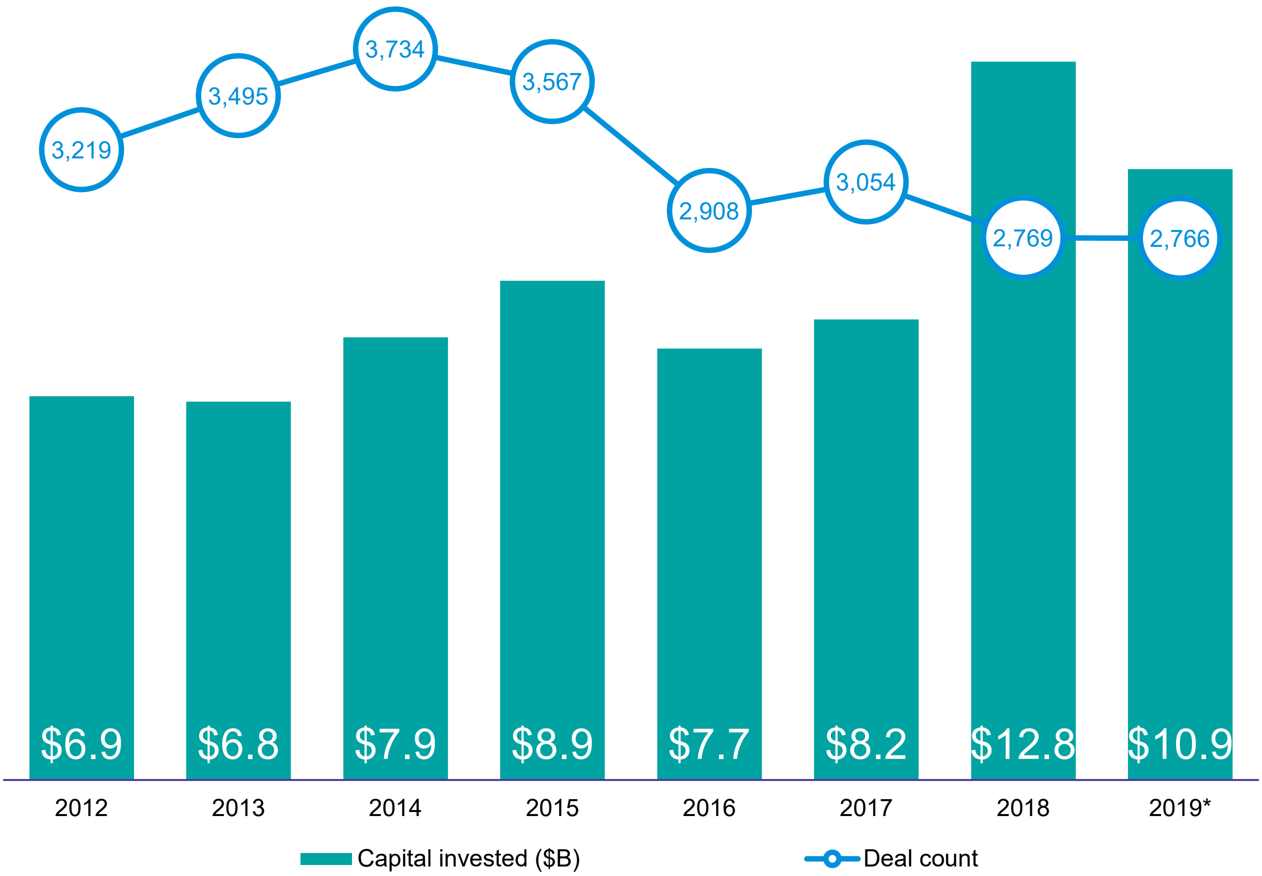
Source: Venture Pulse, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 1/15/20.

Finishing 2019 strong after logging a plateau for four quarters in participation rates, corporate players remain an integral part of the current venture ecosystem, arguably even more so than in the past. Although the classic models of CVC have not changed much over the past decade, as more and more companies have engaged, future strong participation appears likely.

Second-highest tally ever

First-time venture financings of companies in the US

2012–2019*



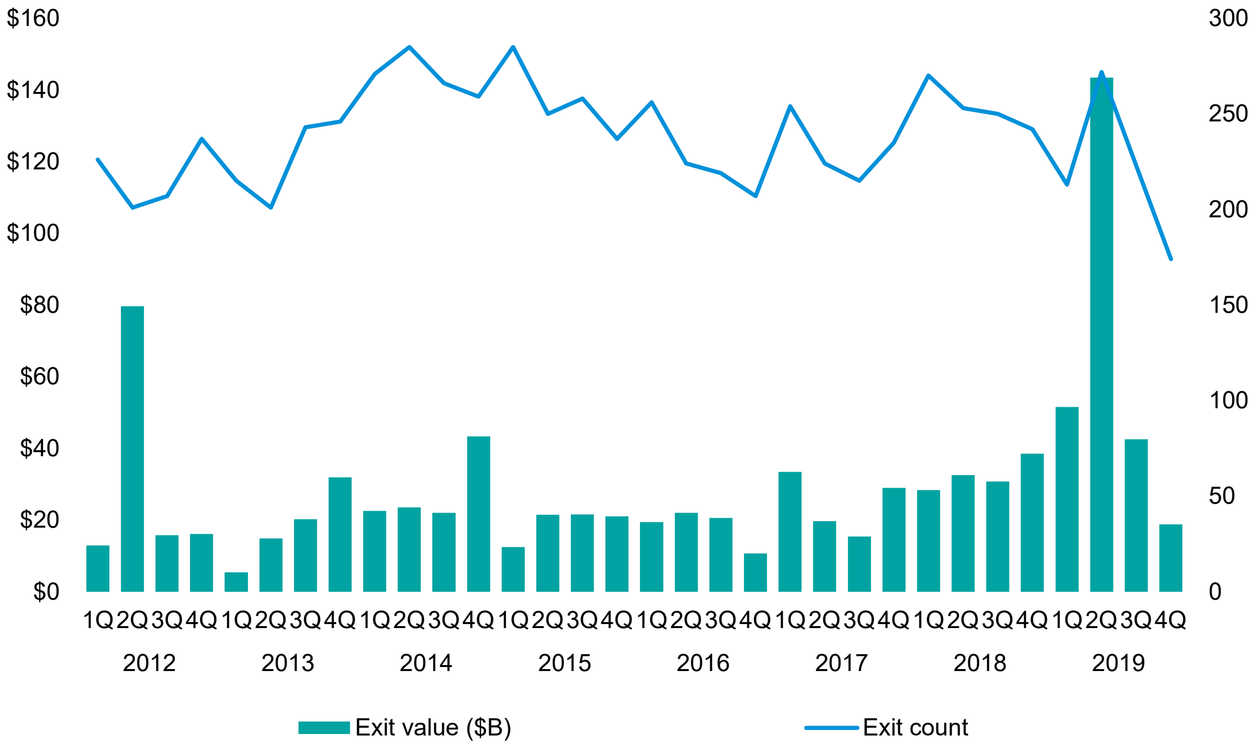
Source: Venture Pulse, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/19. Data provided by PitchBook, 1/15/20.

First-time funding finished 2019 strong at no less than $10.9 billion invested across a remarkably consistent 2,766 transactions. If anything, that number may rise slightly as additional data is collected. Although even the first-time funding climate has doubtless been heated up by the surpluses of capital pouring into the entire VC ecosystem, it's worth noting that given advances in foundational technologies, not only is it arguably cheaper to start companies than ever before, but with enough funding businesses, can expand more rapidly than seen in the past. Thus, a new paradigm has emerged in the first-time financing ecosystem wherein those that can successfully raise not only have access to more capital than before but also are looking to raise more to successfully scale and compete in the current market environment.

Exits nosedive

Venture-backed exit activity in the US

2012–Q4'19



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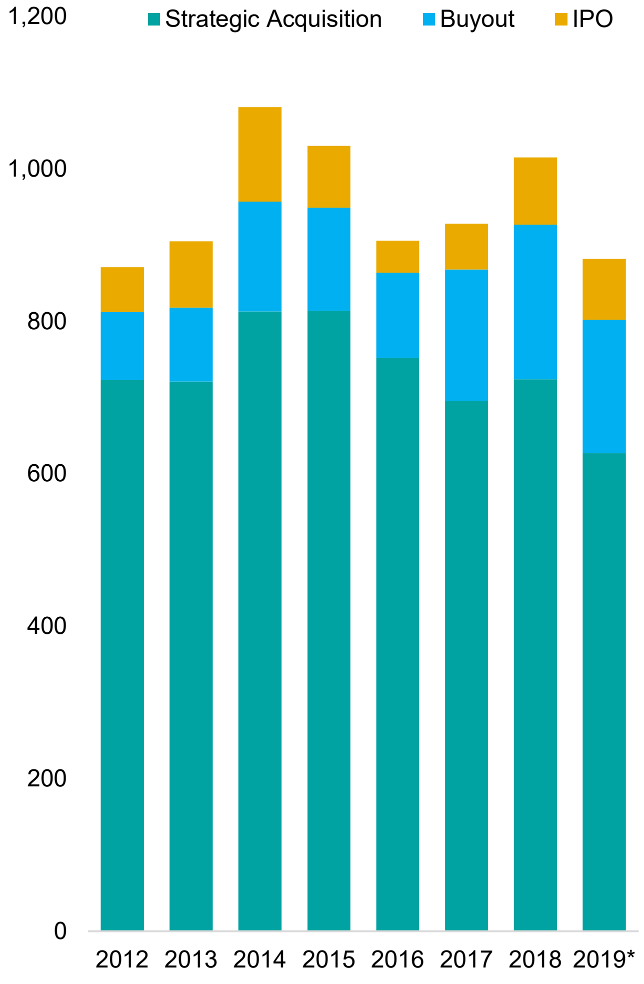
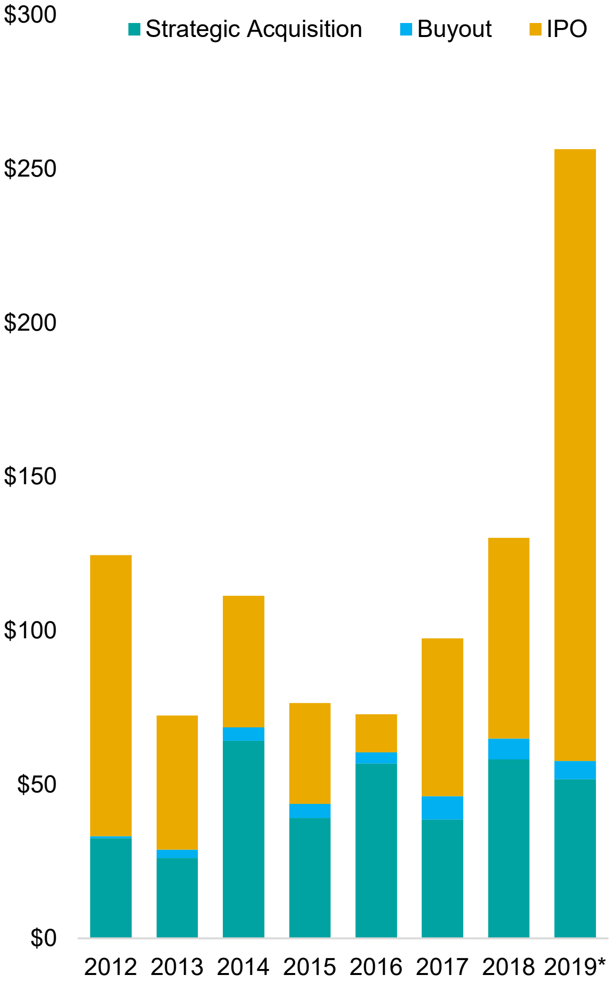
After peaking in value and volume in the second quarter of 2019, thanks to Uber's IPO among others, the US saw a sharp decline in exits unmatched on a quarterly basis in the past eight years. It is hard not to attribute this in part to the volatility and difficulties experienced by the most richly valued unicorns as they continued to trade in much more transparent and unforgiving public markets.

2019 sees record IPO value

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, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/19. Data provided by PitchBook, 1/15/20.

The bevy of unicorns that went public in 2019, whatever their later troubles, propelled exit values via that route to a new high for the decade, even outstripping Facebook's debut in 2012. It's worth noting that even one year isn't necessarily enough to render a verdict on all but the most troubled unicorns' business performance, Consequently although this year is likely to remain an outlier, should some exhibit a turnaround, more may follow suit eventually.

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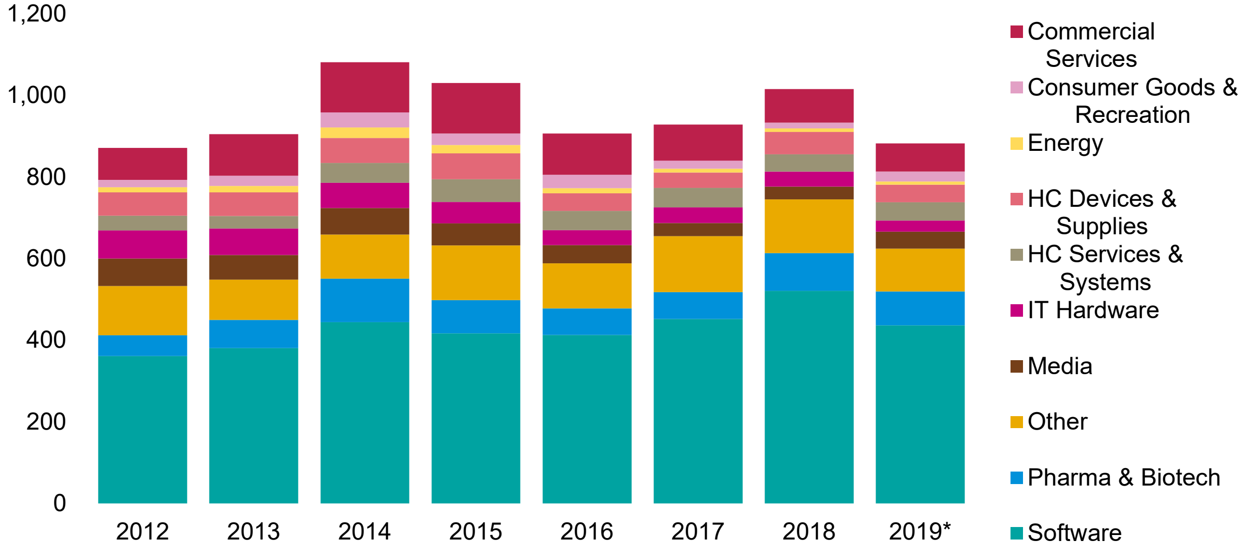
Software and other remain key

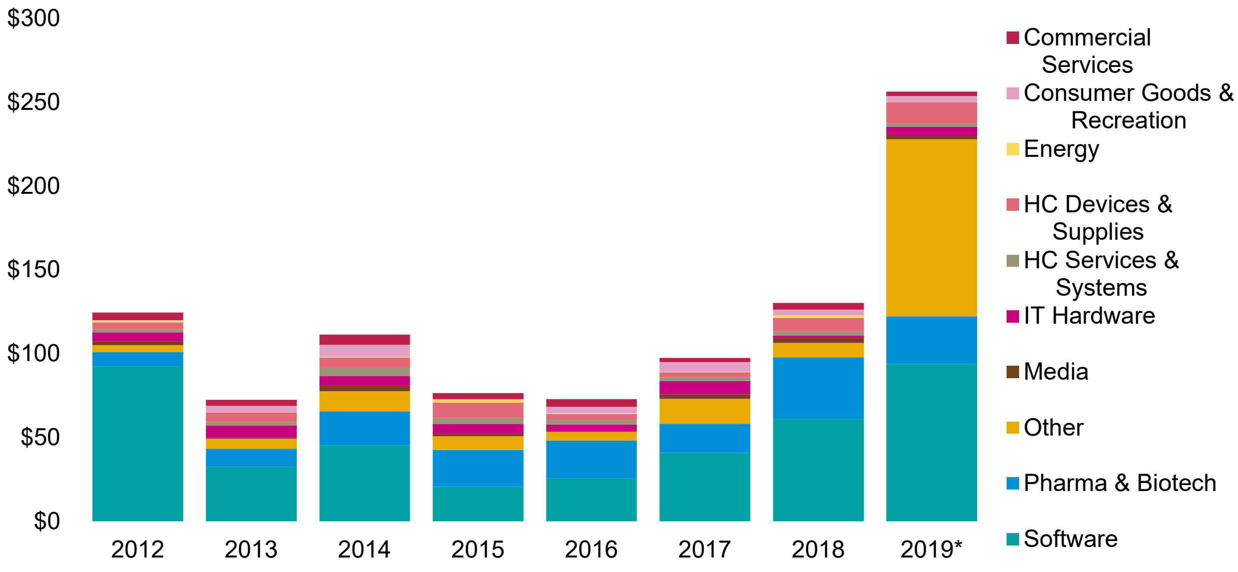
Venture-backed exit activity (#) by sector in the US

2012–2019*



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

2012–2019*

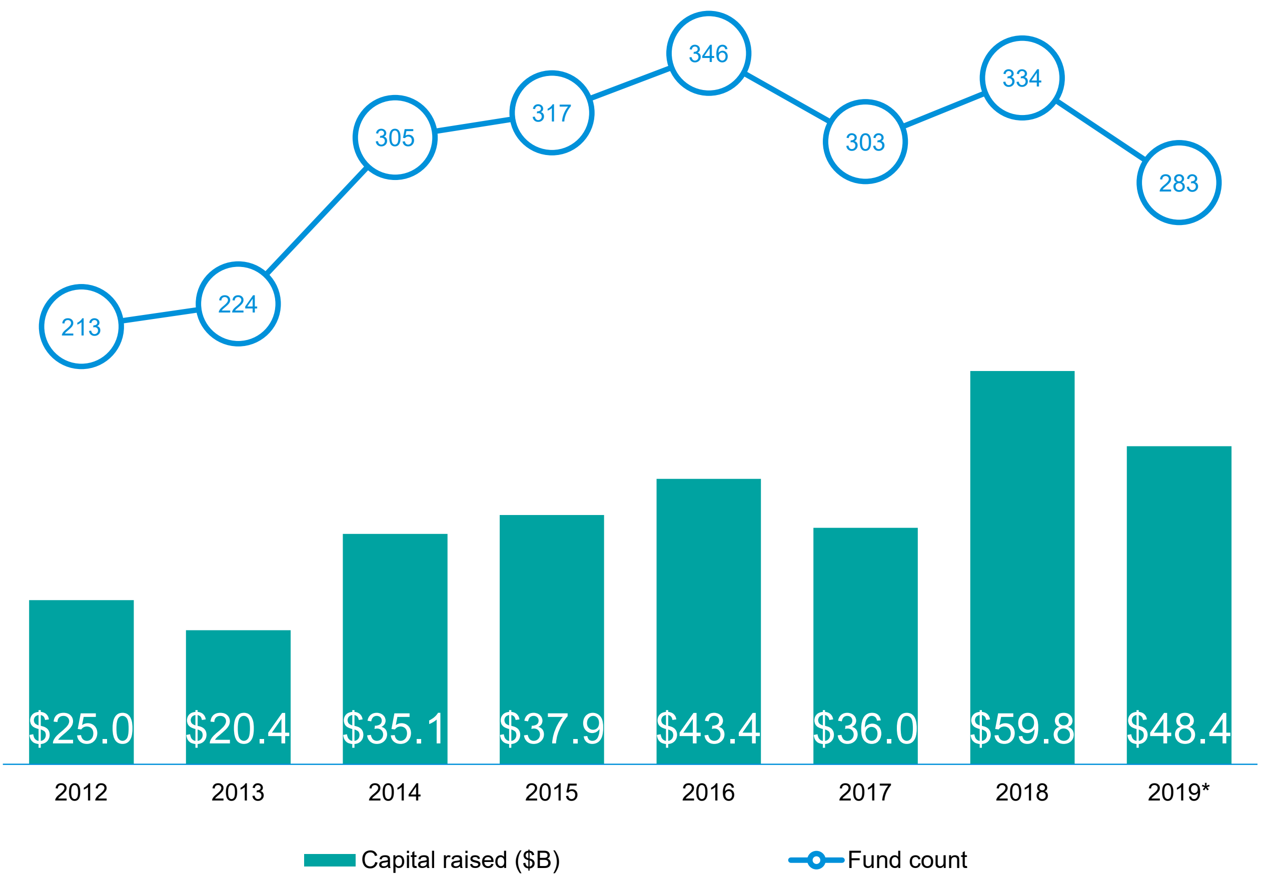


Source: Venture Pulse, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/19. Data provided by PitchBook, 1/15/20.

A more moderate year

US venture fundraising

2012–2019*



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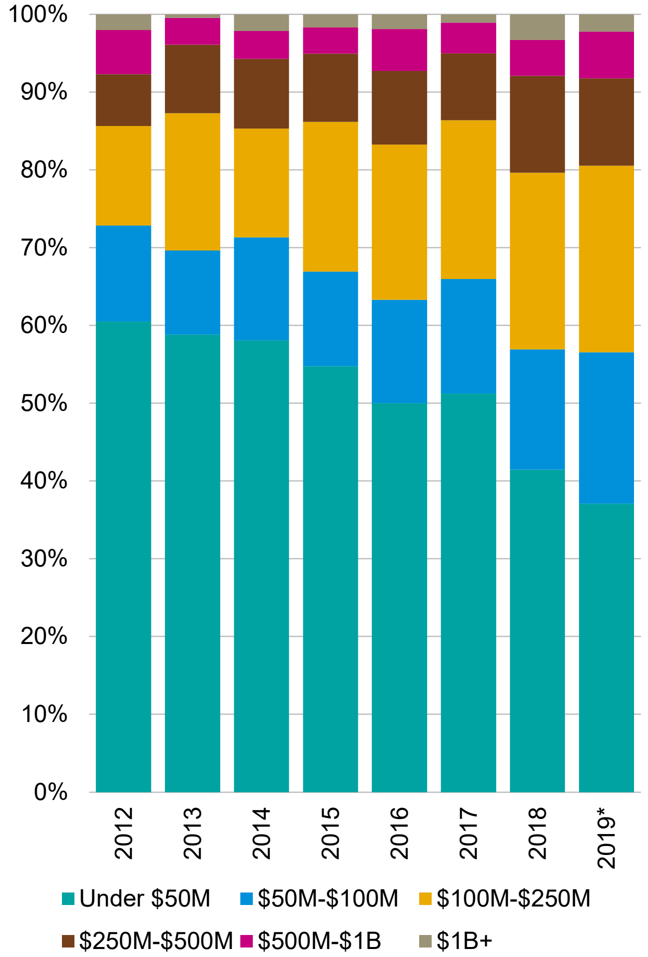
After a record haul in terms of dollars committed and a near-record high in volume in 2018, 2019's numbers seem more down than they actually are. Compared to the full decade, the $48.4 billion committed was remarkably high, and volume wasn't too far off the 300+ funds closed in 2017. That said, given just how much capital has flowed into fund managers' coffers over the past four years in the US, the fundraising cycle could moderate somewhat as limited partners hit their target allocations to alternative investments in general.

Proportions hold steady

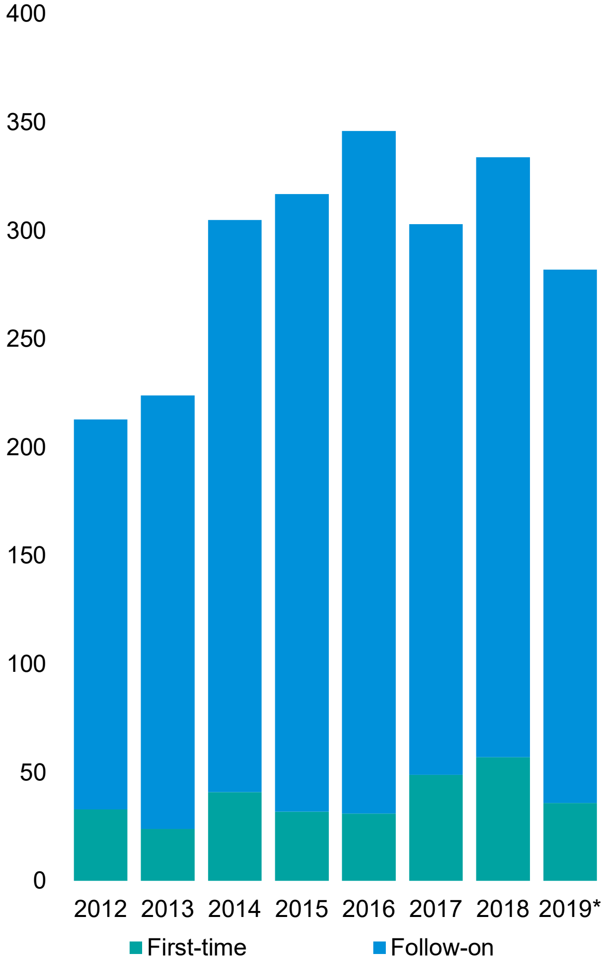
Venture fundraising (#) by size in the US

2012–2019*



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

2012–2019*



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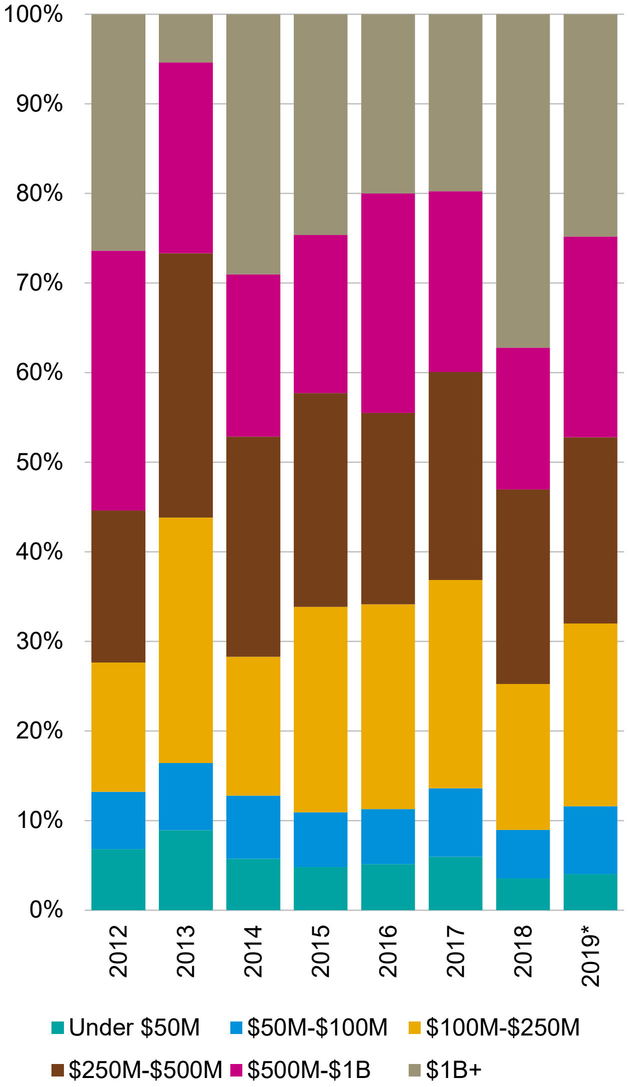
After tilting nigh-inexorably to favor larger fundraises over the past eight years, 2019 recorded proportions of volume by fund size ranges that held relatively steady to 2018. Taking this consistency with a grain of salt, it could well be a sign of market equalization as supply-and-demand dynamics even out among both allocators to VC and VC fund managers successfully targeting a given niche in the capital stack.

First-timers stay robust

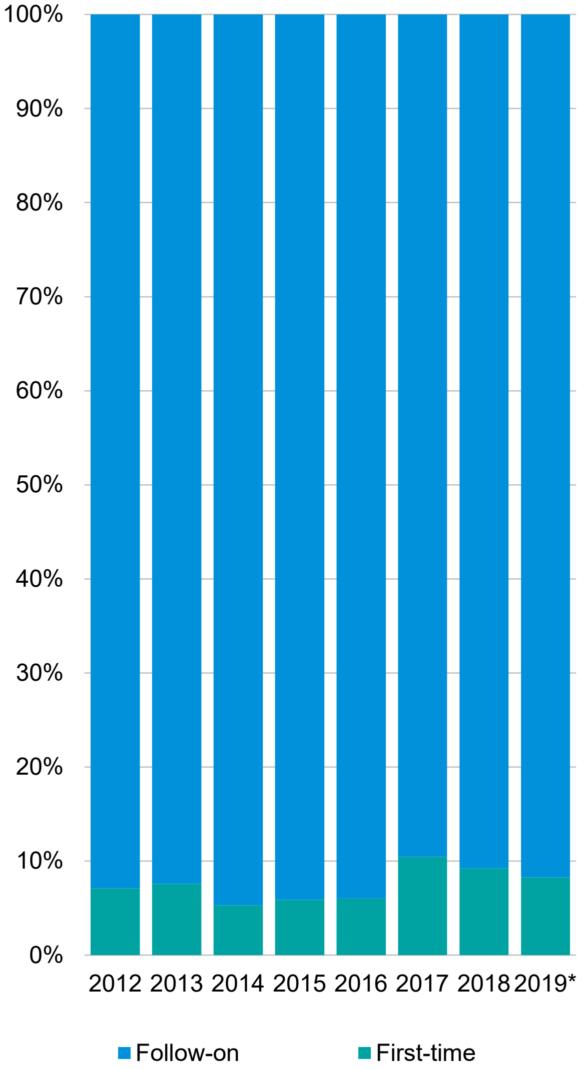
Venture fundraising ($B) by size in the US

2012–2019*



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

2012–2019*



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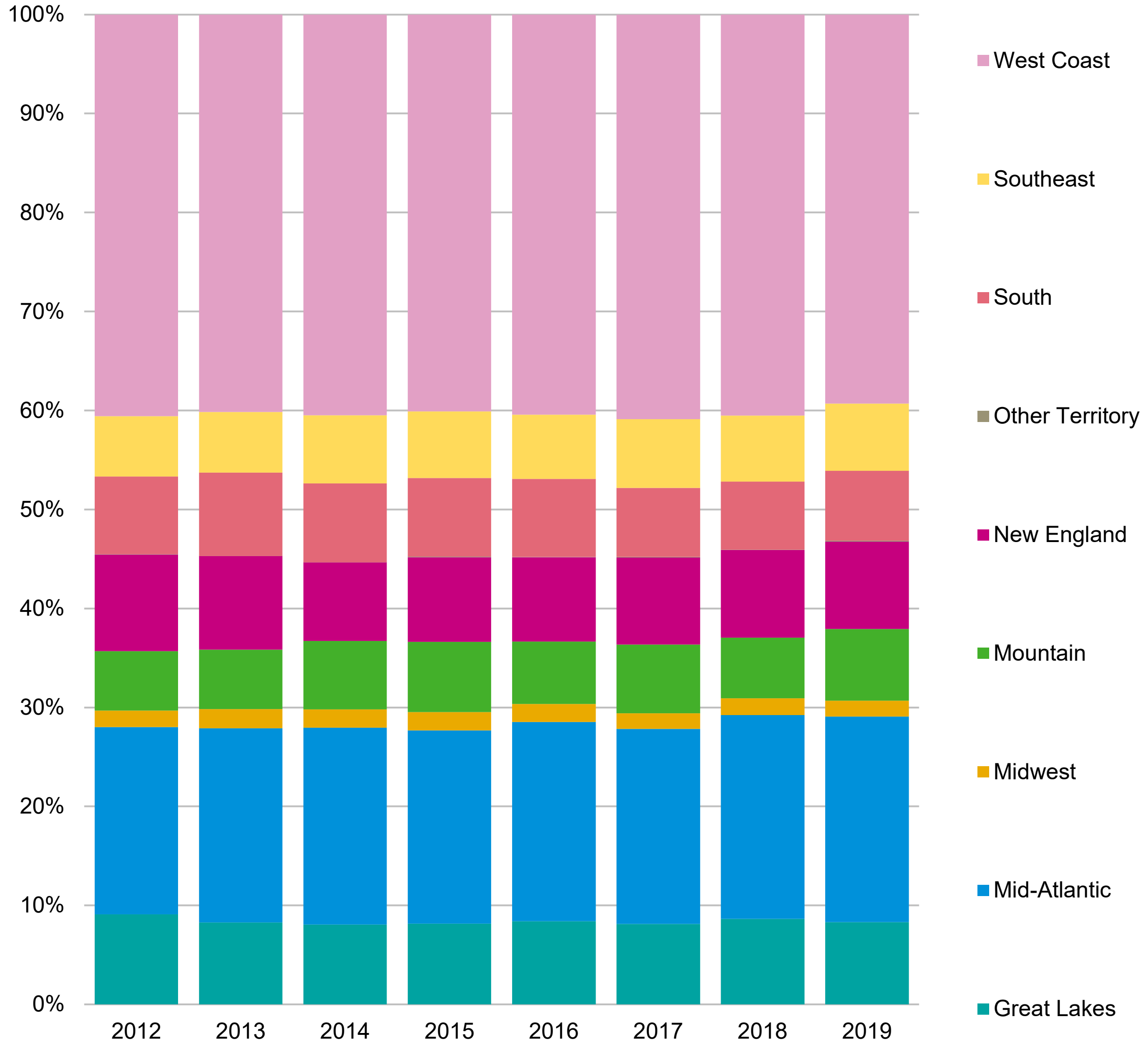
Emerging hubs finish strong

US venture activity (#) by US region

2012–2019*



Source: Venture Pulse, Q4'19, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/19. Data provided by PitchBook, 1/15/2020.

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

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The KPMG Private 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

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Methodology

KPMG uses PitchBook as the provider of venture data for the Venture Pulse report.

Please note that the MESA and Africa regions are NOT broken out in this report. Accordingly, if you add up the Americas, Asia-Pacific and Europe regional totals, they will not match the global total, as the global total takes into account those other regions. Those specific regions were not highlighted in this report due to a paucity of datasets and verifiable trends.

In addition, particularly within the European region, the Venture Pulse does not contain any transactions that are tracked as private equity growth by PitchBook. As such rounds are often conflated with late-stage venture capital in media coverage, there can be confusion regarding specific rounds of financing. The key difference is that PitchBook defines a PE growth round as a financial investment occurring when a PE investor acquires a minority stake in a privately held corporation. Thus, if the investor is classified as PE by PitchBook, and it is the sole participant in the recipient company's financing, then such a round will usually be classified as PE growth, and not included in the Venture Pulse datasets.

Also, if a company is tagged with any PitchBook vertical, excepting manufacturing and infrastructure, it is kept. Otherwise, the following industries are excluded from growth equity financing calculations: buildings and property, thrifts and mortgage finance, real estate investment trusts, and oil & gas equipment, utilities, exploration, production and refining. Lastly, the company in question must not have had an M&A event, buyout, or IPO completed prior to the round in question.

Fundraising

PitchBook defines venture capital funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional venture capital firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identified as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund is domiciled, if that information is not explicitly known, the HQ country of the fund's general partner is used. Only funds based in the US that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

Deals

PitchBook includes equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, venture capital firms, corporate venture firms and corporate investors. Investments received as part of an accelerator program are not included, however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US. The impact of initial coin offerings on early-stage venture financing as of yet remains indefinite. Furthermore, as classification and characterization of ICOs, particularly given their security concerns, remains crucial to render accurately, we have not detailed such activity in this publication until a sufficiently robust methodology and underlying store of datasets have been reached.

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, covering Q1 2019, PitchBook's methodology regarding aggregate exit values changed. Instead of utilizing the size of an IPO as the exit value, instead the prevaluation of an IPO, based upon ordinary shares outstanding, was utilized. This has led to a significant change in aggregate exit values, yet is more reflective of how the industry views the true size of an exit via public markets.

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