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Venture Pulse Q1 2017

Global analysis of
venture funding

11 April 2017



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Welcome message



Welcome to the Q1'2017 edition of KPMG's Venture Pulse Report, highlighting the current trends, opportunities and challenges faced by the venture capital (VC) market, both globally and in key regions around the world. This edition takes a close look at some of the key events in the first quarter and anticipate trends and opportunities in venture capital investing for the remainder of the year.

Caution tempered investor activity throughout Q1, continuing the trend from Q4'16. Global investor activity remained steady, if down from the highs seen in 2015 and 2016, with numbers buoyed by large deals in the US and Asian markets. The total number of deals continued to decline.

The first quarter saw a continued focus on safer bets, resulting in longer decision cycles and increased attention on late-stage deals in most markets worldwide. In a related trend, Q1 has seen a continued concentration of capital in a smaller number of large VC funds, especially in the US and Europe, as investors reduce their risk exposure by focusing on a broader range of investments over a long fund lifespan. Angel and seed investment remained down in most global markets, with new startups needing to demonstrate more than a visionary idea to gain investor backing.

Despite continued lows, there are positive signs for a turnaround in coming quarters. A significant buildup of dry powder in Asia and the US, coupled with signs that the US IPO market may be opening, bode well for activity during the rest of the year. Increasing clarity on global issues, such as Brexit negotiations following the triggering of Article 50, potential US tax reform and the state of China's economy should also begin to strengthen investor confidence.

This edition takes a closer look at these and other global and regional trends in this quarter's Venture Pulse, including:

- Hot sectors, including deep tech, fintech and Internet of Things (IoT)
- US investors' impact in Latin America
- The effects of the Chinese government's shifting priorities
- The opportunities of the growing medtech subsector, especially in the US and Europe.

We hope you find this edition of the Venture Pulse Report 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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Q1'17 summary



Activity decreases again, yet total VC invested enters a plateau

Globally, venture capital activity slid for the fourth consecutive quarter, from 3,201 completed financings in the final quarter of 2016 to 2,716 in Q1'17, representing a decrease of 15.2%. Across the same timeframe, however, total capital invested resurged, as \$23.8 billion was invested in Q4 2016 and close to \$27 billion in the first quarter of 2017. As the median transaction size worldwide has either steadily ramped up or stayed flat over those same 2 quarters, it is clear that investors' appetite for cutting deals did not wane, nor did the supply of capital available to deploy but, rather, they grew more cautious.



Activity across the Americas varies

The Americas saw a decline in total deal volume, extending a trend that began in Q2'15. During the quarter, non-traditional investors such as hedge or mutual funds continued to hold back on financings of high-growth, late stage businesses. After a very strong 2016, VC investment in Canada dropped in Q1'17. However, the Canadian Government's recent announcements in support of VC may bode well for the future. In Latin America, Mexican VC investment dropped off a cliff this quarter in what can likely be attributed to uncertainty associated with potential US policy shifts. Total VC investment in Brazil was solid in Q1'17, powered largely by a massive funding round to 99Taxi.



Outlier financings in the US, paired with first-time financings' decline, suggest VC glut

No fewer than 497 first-time financings were logged in the US during the first quarter of 2017, combining for a total of \$1.6 billion in VC invested. In the same timeframe, overall US deal flow diminished considerably to just over 1,800 completed rounds. Outlier financings led to an uptick in total capital invested with total VC invested exceeding \$17 billion. Analyzing these trends in tandem underlines the narrative of increased investor caution paired with plenty of dry powder on hand.



European seed and angel rounds continue to drop

While deal value in Europe remained fairly steady in Q1'17 at \$3.4 billion invested, deal volume slumped to a five quarter low. Angel and seed stage deals volume continued to be the hardest hit, with Q1'17 results remaining below the number of early stage VC investments for the second consecutive quarter. Despite declining deal volume, corporate VC participation remained strong in Europe. In Q1'17, corporates participated in 22% of all venture deals in Europe — the highest percentage seen over the last 7 years. Q1'17 also saw strong investment into European VC funds, as exemplified by London-based VC Atomico, which raised a massive \$765 million fund. This and other similar fundraises reflect a growing trend for capital to be concentrated in a smaller number of VCs with proven portfolios.



Asia sees slow start to 2017

After registering a record 2016 in terms of total capital invested (owing considerably to outlier financings like that of Ant Financial) the Asia region has seen a historically healthy sum invested in the first quarter of 2017. However, a decline in total venture activity that began in the final quarter of 2016 has only steepened, with the total number of completed financings dropping to the lowest quarterly level since 2012.

Q1'17 summary



Corporate venture capital participation rises as a percent of overall VC deals

While the overall volume of Venture Capital deals has declined over the past 8 quarters, Corporate Venture Arms have continued to invest at a steadier pace. The result — in Q1'17, CVC's participated in almost 17% of all venture backed deals globally — an all-time high. The increased participation rate by CVC's has been evident in the Americas and particularly in Europe, in part due to the rapid decline in total number of deals in those areas. This is understandable given the rationale behind many corporate investments goes beyond immediate financial gain and is often more reflective of the need for corporations to maintain exposure to potentially disruptive startups within their fields or related niches.



Plenty of capital still exerting upward pressure on deal metrics

In the wake of healthy fundraising, venture investors still have plenty of dry powder to deploy in opportunities they deem worthwhile. The global median deal size at the earlier stages of venture financing continued to rise in the first quarter of 2017. The median Series B funding hit \$14.0 million, the Series A counterpart climbed to \$5.7 million, and even the seed stage increased to \$1.4 million. However, late-stage financings saw either a plateau or decrease in median sizes, as the Series C metric actually slid from \$23.0 million in Q4'16 to \$22.0 million in Q1'17. It is worth noting that the median pre-money valuation at Series D or later dropped substantially between 2016 and Q1'17, declining from \$180.5 million to \$155.0 million.



Venture-backed sales continue to slide in number

After 3 straight years of elevated exit value tallies, the most recent 2 quarters have seen much more subdued aggregates worldwide, as exit activity overall has also declined. With corporate acquirers still driving the majority of value achieved, the potential for unicorns to finally go public in 2017 is one of the primary topics of conversation within the industry, as several have filed and public markets remain high in general.



The timing of the fundraising cycle could contribute to a winding down in 2017

After 3 straight years of fundraising activity eclipsing 400 closed pools of capital, and especially in light of the hefty totals raised in the prior 5 quarters, lower figures for the first quarter of 2017 are primarily due to timing more than anything else. The fundraising cycle can vary more significantly on a quarterly basis, due, simply, to its nature. Further quarters will reveal whether the winding down of fundraising in Q1'17 is more typical of past quarterly variations or may be more prolonged due to industry dynamics and the deal-making environment.



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Globally, in Q1'17 VC-backed companies raised

\$26.8B

across

2,716 deals



Global VC investment holds steady as investor positivity grows



Globally, the VC market appears ready to make a comeback after a quiet 2016, with VC investor interest returning across key markets.

While caution continued to drive investor sentiment for the first half of the quarter, a number of large deals (e.g. Airbnb: \$1 billion, Grail: \$914 million, SoFi: \$454 million) in the second half of Q1'17 brought life back to the VC market globally. These, in addition to a slow opening of the US IPO market, are positive signs that VC deal activity may be rebounding. With a significant amount of dry powder in the market, particularly in the US and Asia, there could be a rebound in VC deals activity over the next quarter or 2 should market indicators remain on a positive trend.



Angel and seed funding down as late-stage deals remain key priority

During Q1'17, late-stage deals continued to gain the lion's share of attention in the VC market, as investors remained focused on their existing portfolios as a way to de-risk. Meanwhile, angel and seed-stage funding continued to experience a pullback in most areas of the world, with decreases in both deal count and deal value.

The ongoing focus on late-stage deals reflects a number of factors, including concerns about the next steps of Brexit following the triggering of Article 50, the Chinese economy, and the aftermath of the US presidential election and potential ramifications associated with changes to American tax, trade and immigration policies.



Shift toward fewer but larger VC funds

Over the past quarter and more, there has been a noticeable shift in the number and size of VC funds, particularly in Europe and North America, with a smaller number of larger funds being developed rather than a larger number of smaller funds¹. More investors appear to be limiting their risk by focusing on developing larger funds that can be used to do a broader range of investments over a larger fund lifespan. This can help funds better absorb losses without affecting the long-term return on investment (ROI) associated with a fund.

A challenge with these larger funds is the pressure that can be placed on them by limited partners who would prefer that capital to be spent rather than held back. This can lead to difficulty maintaining discipline when deploying capital, turning into a shotgun exercise rather than a measured and thoughtful capital deployment.

While the trend towards larger funds is expected to continue over the near-term, there could also be some movement at the opposite end of the VC spectrum. Q1'17 saw an uptick in total VC commitments raised by the smallest categories of funds, even though deal count among this group was down.

¹ <https://www.forbes.com/sites/antoinedrean/2017/01/25/ten-predictions-for-private-equity-in-2017/2/#3e226f3b722d>

Global VC investment holds steady as investor positivity grows, cont'd



US IPO market opening bodes well for VC in all regions

Following a mediocre 2016, the IPO market in the US provided hope to international investors in Q1'17 with the successful IPOs of unicorn companies Snap, Mulesoft and Alteryx. The success of the latter two companies, both software-as-a-service providers, suggests that the IPO market may be opening again following a year-long dormancy. Should market indicators remain positive, other companies may soon follow on the heels of these frontrunners. Already, a number of other companies have filed for IPO, including San Francisco-based Okta.

While the success of US IPOs may not directly impact companies in other jurisdictions, any confidence in the US IPO market is likely to resonate across the global VC market. As investors in the US become more confident in exit strategies, they will likely invest more, which could help spur investment internationally.

The opportunity for IPO exits in other jurisdictions did not change dramatically in Q1'17. In China, in particular, IPO exits continued to be hampered by regulatory barriers, leaving hundreds of companies waiting for their opportunities.



Caution continues to drive Asia-based VC investment in Q1'17

While China remains a clear leader in VC investment in Asia, investors in the country remained cautious throughout Q1'17. While overall interest in the Chinese VC market was strong, VC investors continued to hold back from making investments. The caution is likely out of concern about China's economy, the performance of Chinese capital markets and strong government controls over IPO approvals, which continue to extend the wait time, of companies looking to exit through IPO. While IPO approvals accelerated somewhat in late Q4'16 and into Q1'17, the wait list remains well above 600 companies.



US investors focused on international opportunities

US investors continued to show a significant level of interest in international VC investment opportunities in Q1'17, particularly in Europe and Latin America. Post Brexit-related exchange rate fluctuations led some investors to focus on UK companies, while other investors have sought out target companies in Israel, Spain and other countries that offer a higher potential ROI than companies on their own soil. These international investments have focused primarily on later-stage companies. As for early-stage funding, most VC investors prefer to focus on domestic companies in order to provide more hands-on support.

While China also saw a significant amount of outbound VC investment in 2016, the country's attitude appears to have shifted. The Chinese government appeared to pull back the reins in Q1'17 with respect to encouraging such investment, shifting its attention to encouraging investment in China, potentially to help drive improvements in the economy. Despite the change in government direction, Chinese investors will likely remain interested in pursuing overseas investments related to strategic priorities.



Medtech a dominant force for VC investment

Q1'17 saw a significant amount of interest in medtech globally, particularly in the US, Israel and Canada. US-based Grail, a company focused on early cancer screening, completed a Series B tranche of \$914 million funding round during the quarter, with other medtech deals expected over the next few quarters. Given the cost of healthcare rising across much of the world, there is likely to be ongoing VC interest and investment globally in medtech that can help improve efficiencies, expand access and reduce the cost of healthcare.

Global VC investment holds steady as investor positivity grows, cont'd



Trends to watch for in Q2'17 and beyond

While there are some indications that the global VC market will rebound over the next quarter or 2, investor caution will likely continue to be significant. As a result, while the number of deals and the amount of VC invested may go up, the level of activity will not likely approach the highs seen in 2015 in the near future. The global VC market is more likely to normalize at a rate similar to the investment levels seen pre-2015.

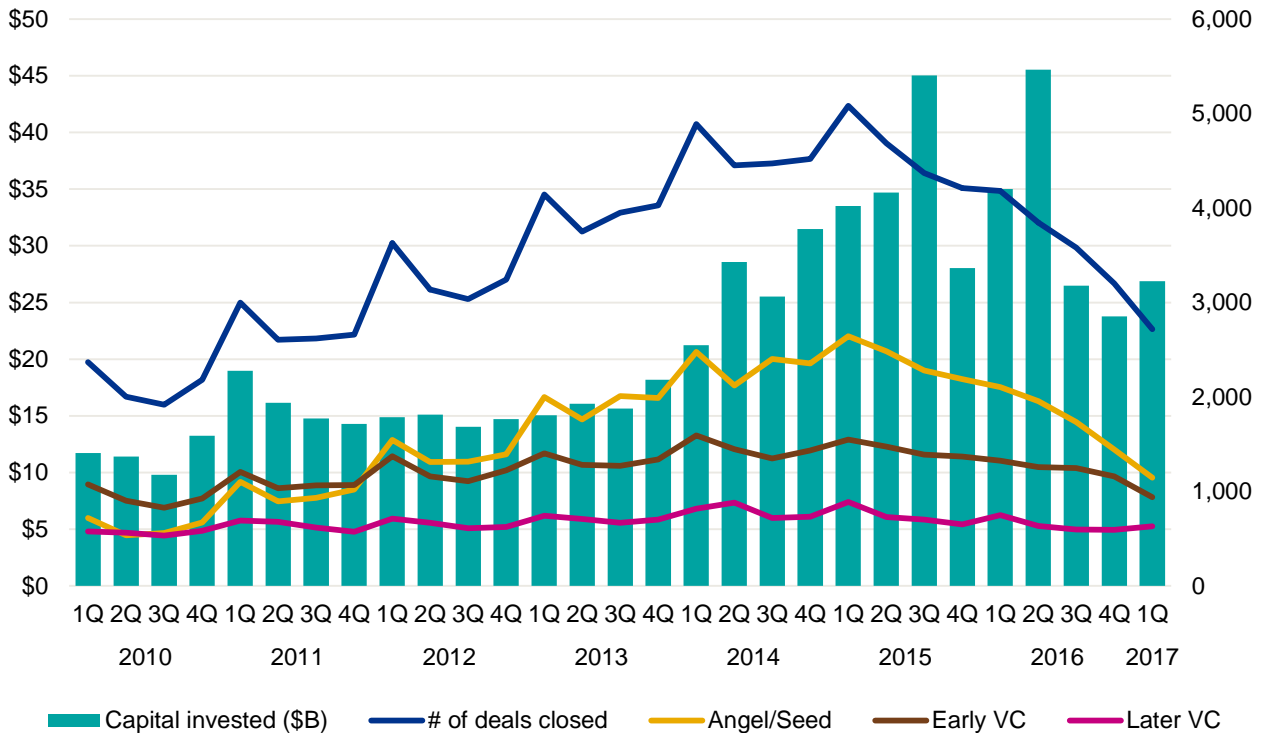
The actions of the new US administration will be critical to watch over the next quarter, especially as they relate to trade, tax and immigration policies, as these could help or hinder VC investment and the development of startups both within the US and around the world. The implications of the UK's execution of Article 50, officially beginning the Brexit process, will also require attention, as the negotiations could have a significant impact on VC investment trends across Europe.

The performance of tech IPOs will likely also have a major impact on the potential rebound of the IPO market. While indicators are currently positive, it is still quite early to definitively say the IPO market in the US is normalizing. Should a negatively perceived activity take place, such as the poor IPO of a highly anticipated unicorn company, the IPO door could swing shut once more. However, should IPO exits pick up over the next quarter or 2, it will likely spark additional interest in the VC market and allow for the release of some of the pent up dry powder in Asia and the US. This would only bode well for global VC activity.

Q1'17 records another consecutive decline in volume

Global venture financing by stage

2010 — Q1'17



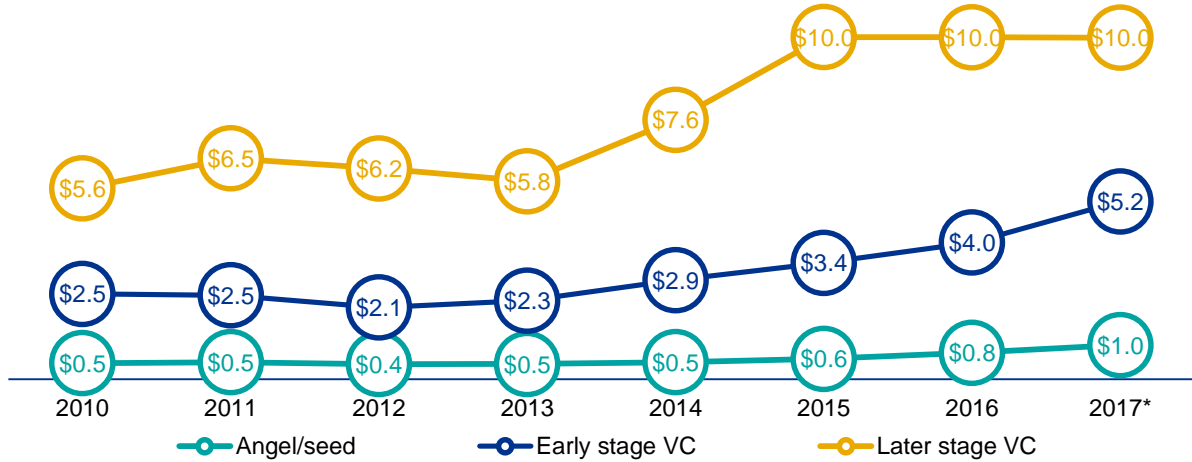
Source: Venture Pulse, Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017. Note: Refer to the Methodology section on page 126 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

The final quarter of 2016 recorded not only a decline in the level of financing activity, but also the lowest total of VC invested since the first quarter of 2014. However, Q1'17 saw VC invested resurge (thanks, once again, to a handful of outlier financings), even though the volume of completed transactions fell yet again. Despite that quarter-over-quarter slide in completed deals, it's likely that given overall investor sentiment and the massive sums raised by multiple venture funds last year, overall activity is set to plateau in coming quarters, with total VC invested still remaining relatively robust on a historical basis.

Deal sizes remain high as demand persists

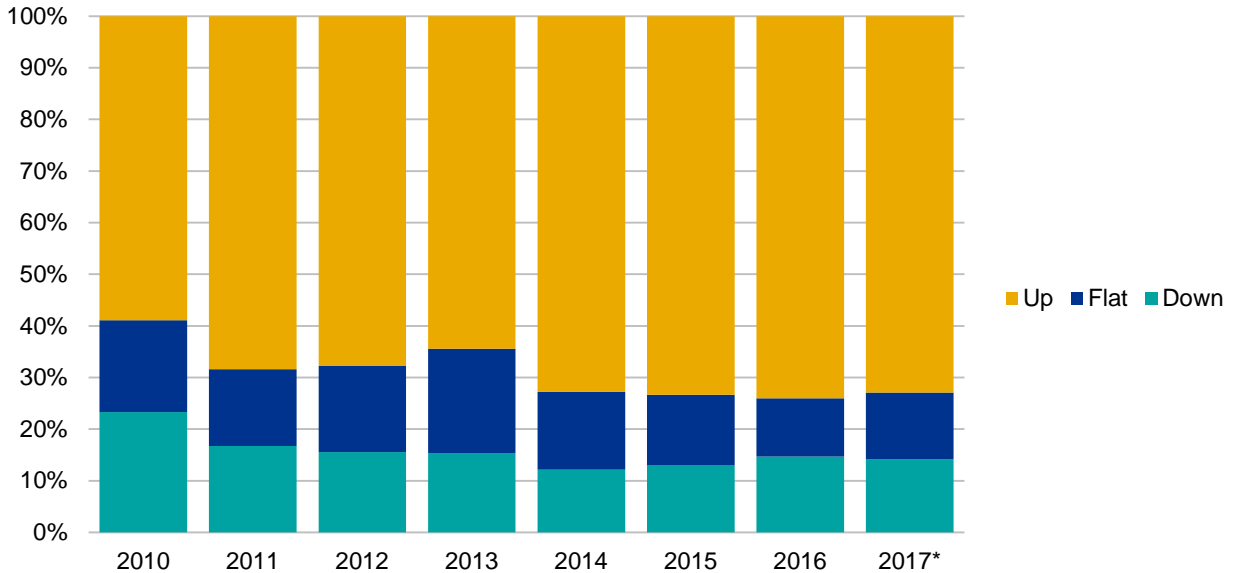
Global median deal size (\$M) by stage

2010 — Q1'17



Global up, flat or down rounds

2010 — Q1'17



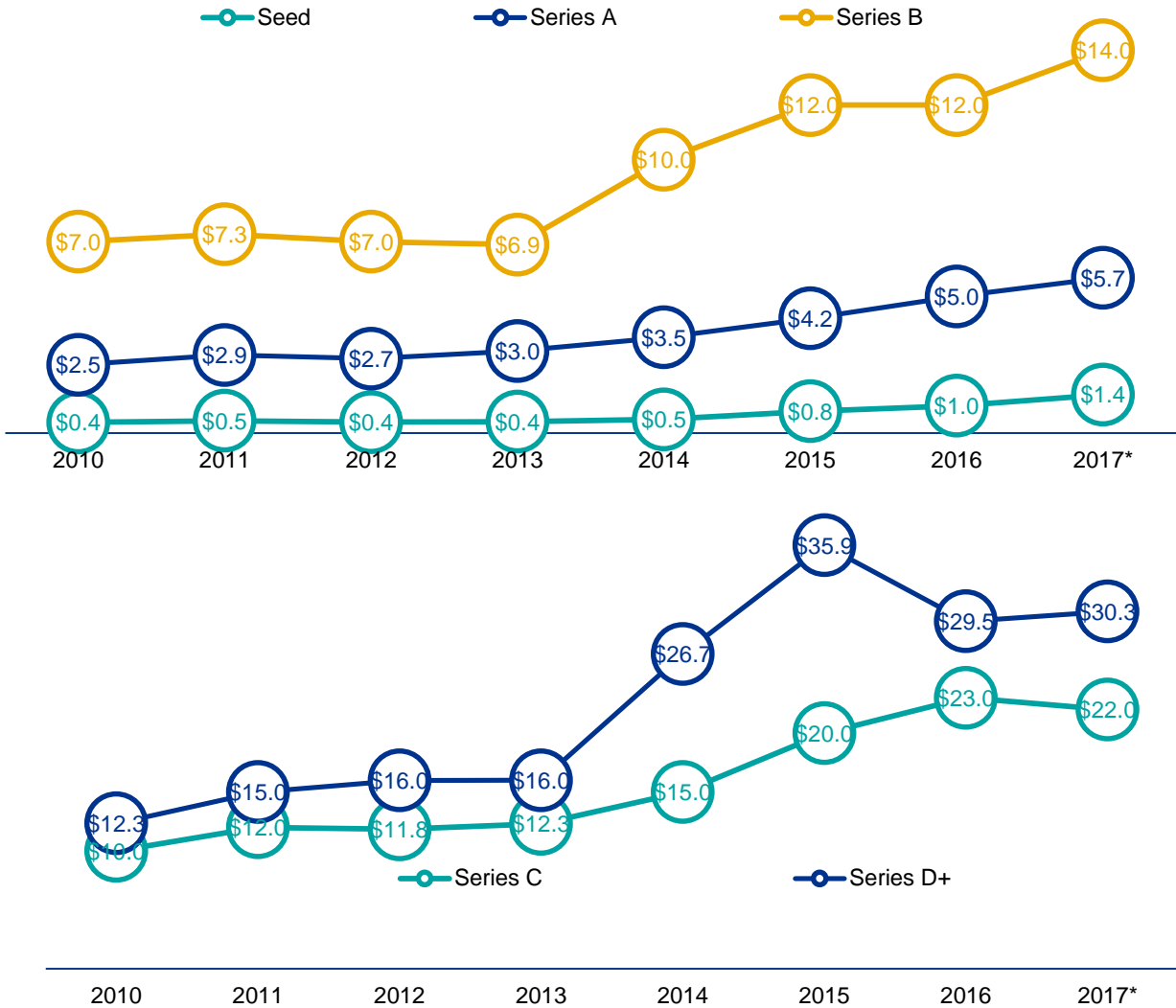
By and large, trends in investor sentiment appeared to hold steady between the entirety of 2016 and the first proportional figures from Q1'17, judging by the consistency in up, down and flat rounds.

Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Signals point toward tempering investor appetite

Global median deal size (\$M) by series

2010 — Q1'17



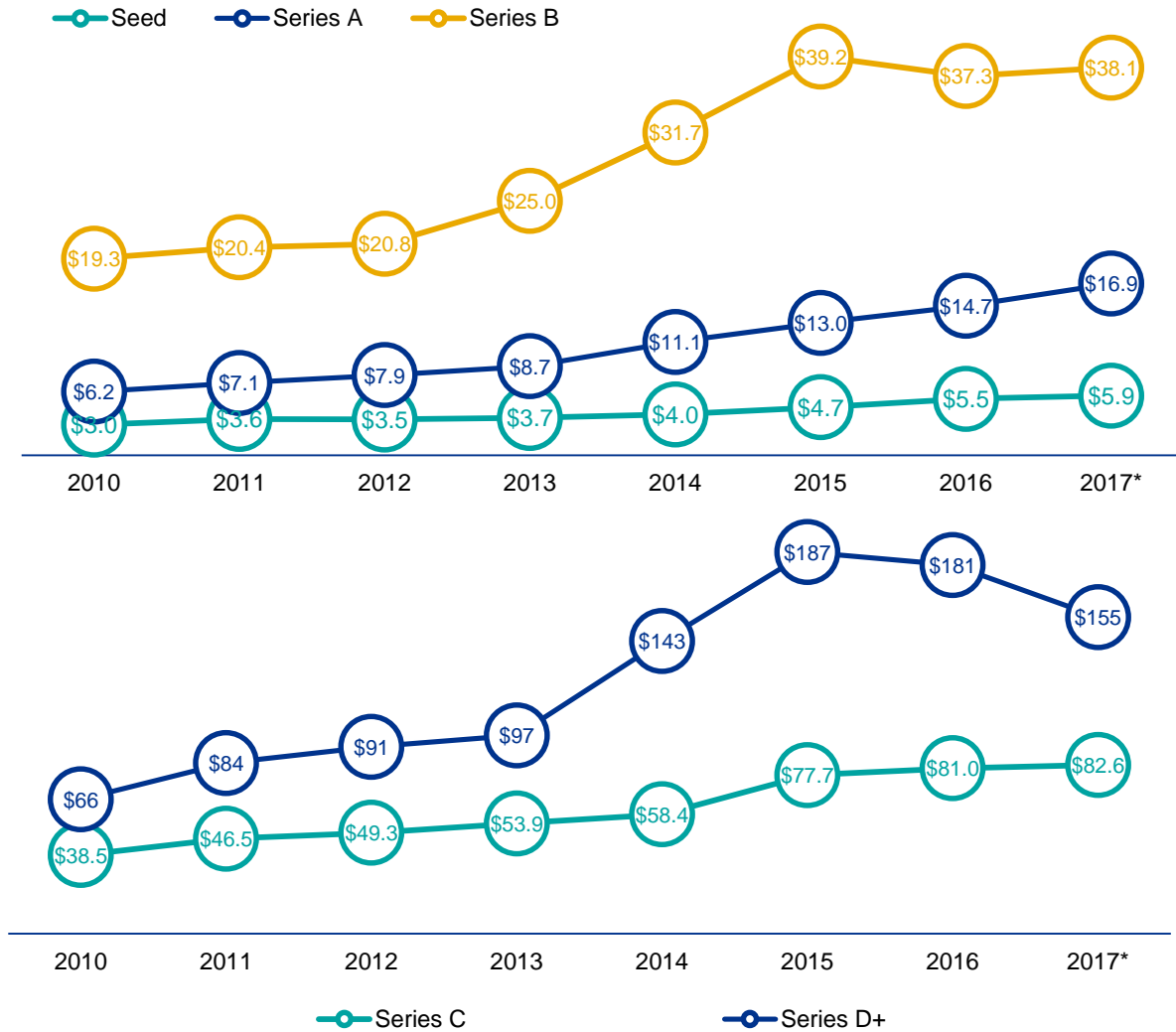
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

At first glance, transaction metrics appear somewhat mixed, with steady increases at the earlier stages in terms of median deal size, while the later stages have seen an evening out. The earlier stage is typically riskier, yet, what is important to recall is how the traditional nomenclature of venture rounds has shifted sizably over the past few years, with the seed stage segmenting and later stages edging into growth equity territory. Consequently, investors are still exhibiting significant demand for the quality opportunities at earlier stages, yet their appetites have tempered somewhat given overall declines, especially at the late stage.

Valuations steady, except at the latest stage

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

2010 — Q1'17



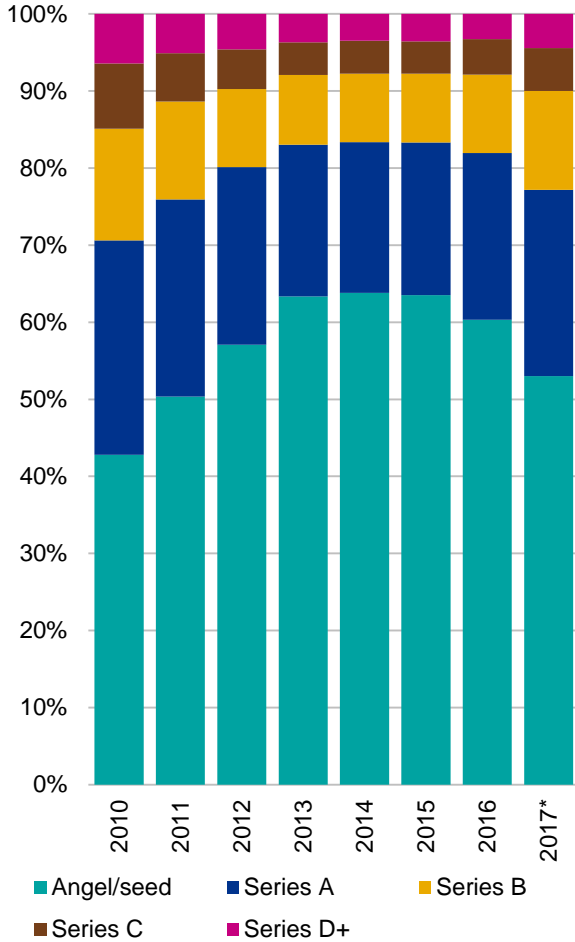
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Given smaller sample sizes recorded in just the single quarter of 2017 that has gone by, declines shouldn't be read into too much as of yet, however the slide in median pre-money valuations at the Series D or later stages is quite notable, especially given how other financing series have seen a steady march upward. Companies can still command hefty valuations, particularly given ample supplies of dry powder, but in the most expensive arena, investors are more stringent than they used to be.

The earliest stages continue their decline

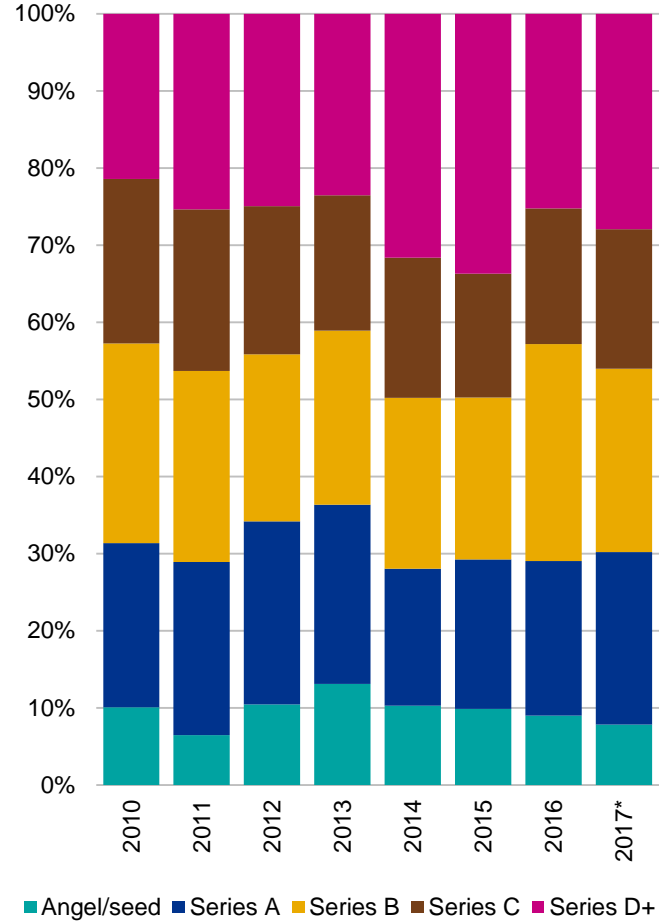
Global deal share by series

2010 — Q1'17, number of closed deals



Global deal share by series

2010 — Q1'17, VC invested (\$B)



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

The fact that only a quarter's worth of data has been recorded in 2017 has definitely factored into the dramatic shift downward in the proportion of angel/seed financings, but the overall trend is still telling.



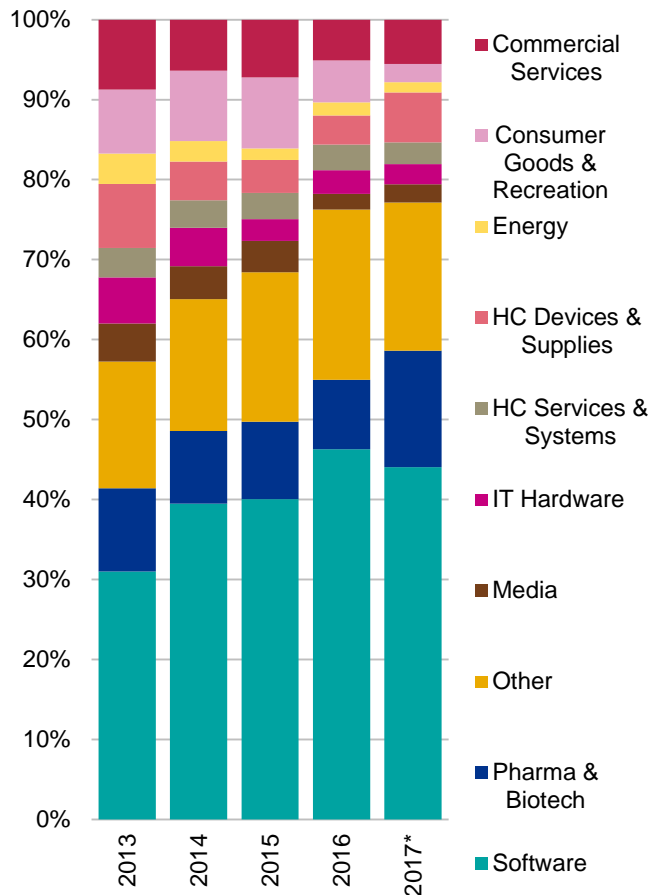
Despite declines in seed deals, the market is still open to the right startups. In the current climate, companies need more than a good idea. They must show solid technologies, experience, and a demonstrated market opportunity. Serial entrepreneurs in hot sectors like artificial intelligence or robotics have a clear advantage.



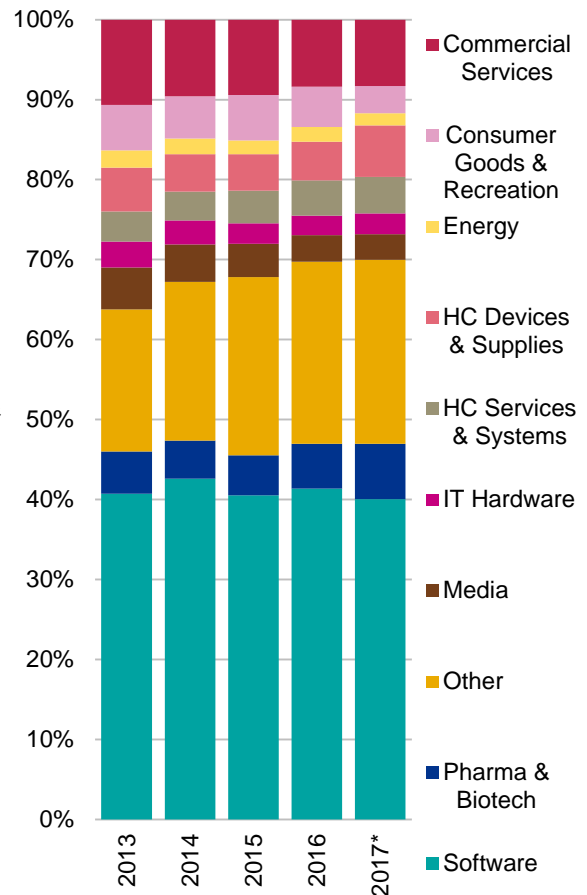
Jonathan Lavender
*Principal, Head of Markets,
KPMG in Israel*

Pharma & biotech rake in plenty of VC in Q1'17

Global financing trends to VC-backed companies by sector
2010 — Q1'17, VC invested (\$B)



Global financing trends to VC-backed companies by sector
2010 — Q1'17, number of closed deals



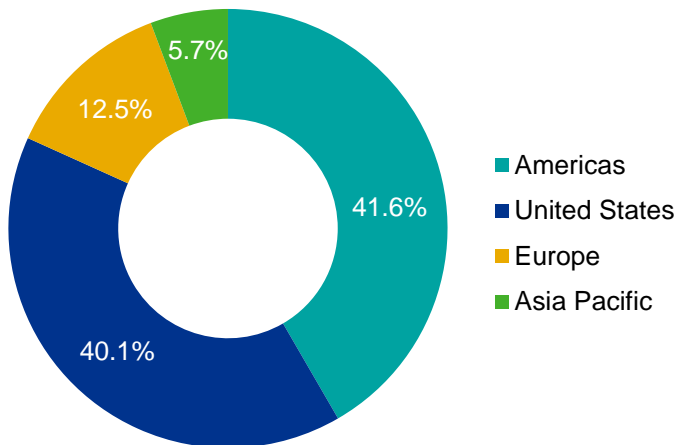
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Proportionally, the allotments of VC financing activity by sector stayed steady through Q1'17. On a capital invested basis, however, pharmaceuticals & biotechnology companies saw an explosion in their percentage of overall invested sums. In all \$3.9 billion was invested across 188 financings of pharma & biotech businesses, already reflecting favorably against the \$11.4 billion dispersed by VCs throughout the entirety of 2016.

VC investment temporarily shifts toward the US

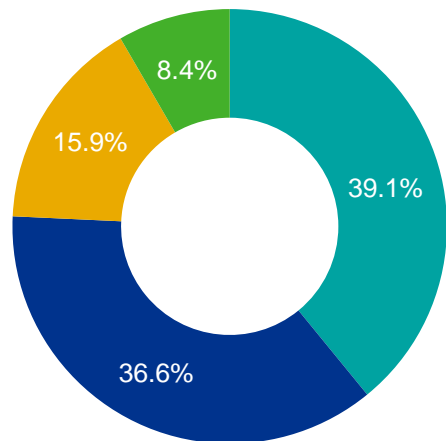
Global financing of VC-backed companies by continent

Q1'17, number of closed deals



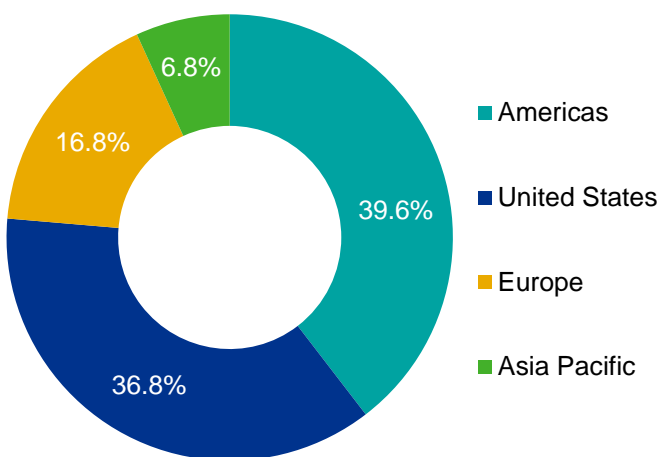
Global financing of VC-backed companies by continent

2016, number of closed deals



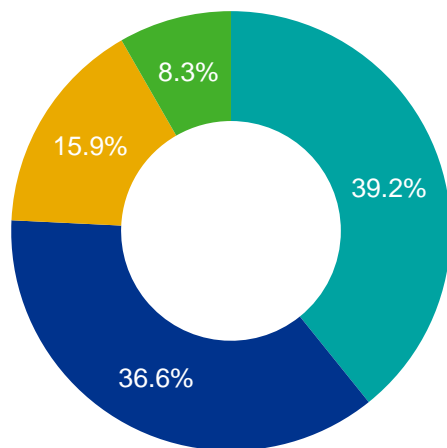
Global financing of VC-backed companies by continent

2014, number of closed deals



Global financing of VC-backed companies by continent

2015, number of closed deals

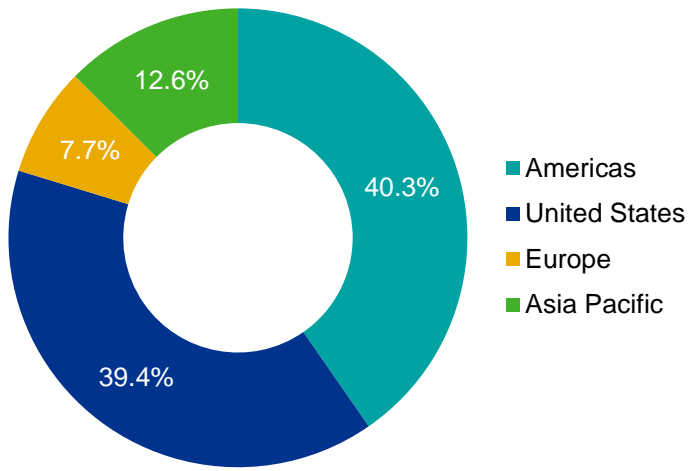


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Q1 '17 sees shift back to developed markets

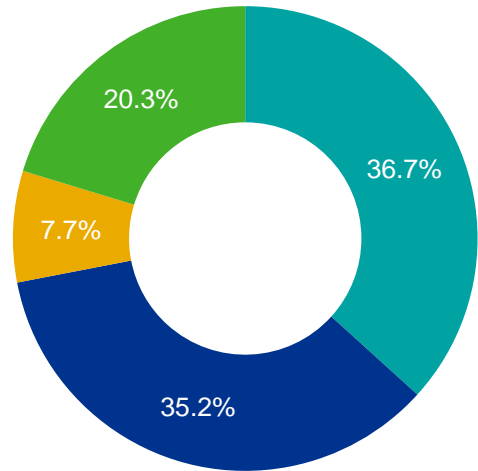
Global financing of VC-backed companies by continent

Q1'17, VC invested (\$B)



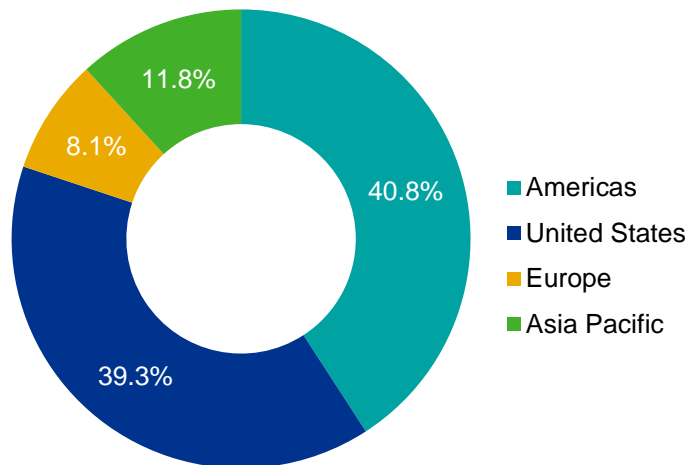
Global financing of VC-backed companies by continent

2016, VC invested (\$B)



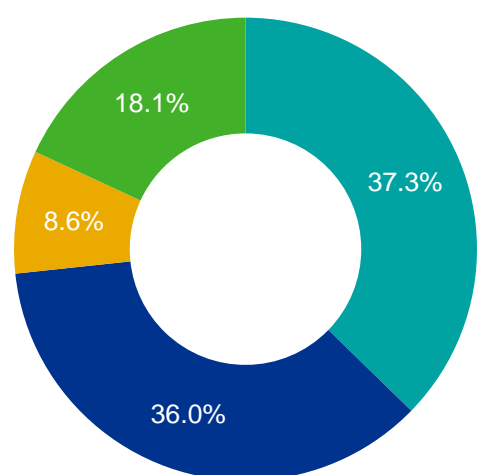
Global financing of VC-backed companies by continent

2014, VC invested (\$B)



Global financing of VC-backed companies by continent

2015, VC invested (\$B)

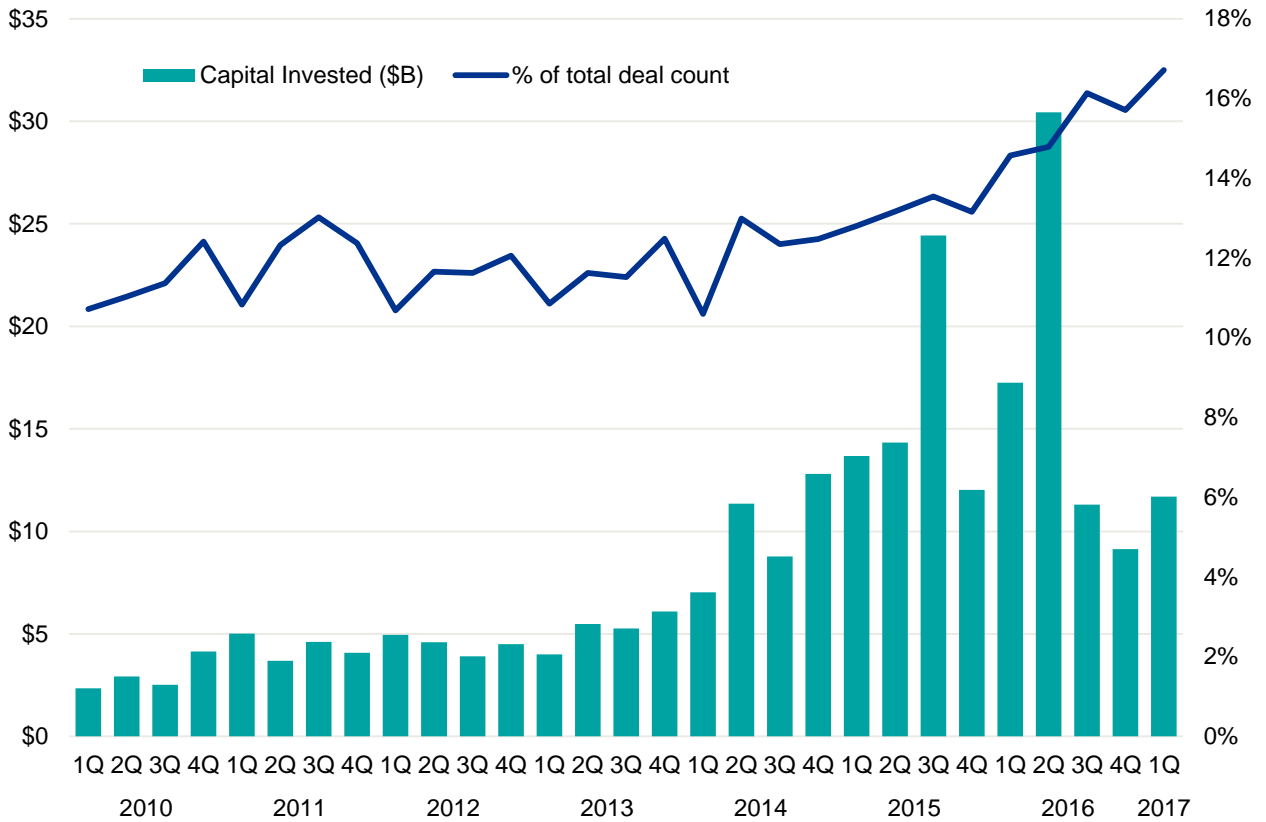


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

CVCs involvement reaches a high unseen since 2007

Corporate VC participation in global venture deals

2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

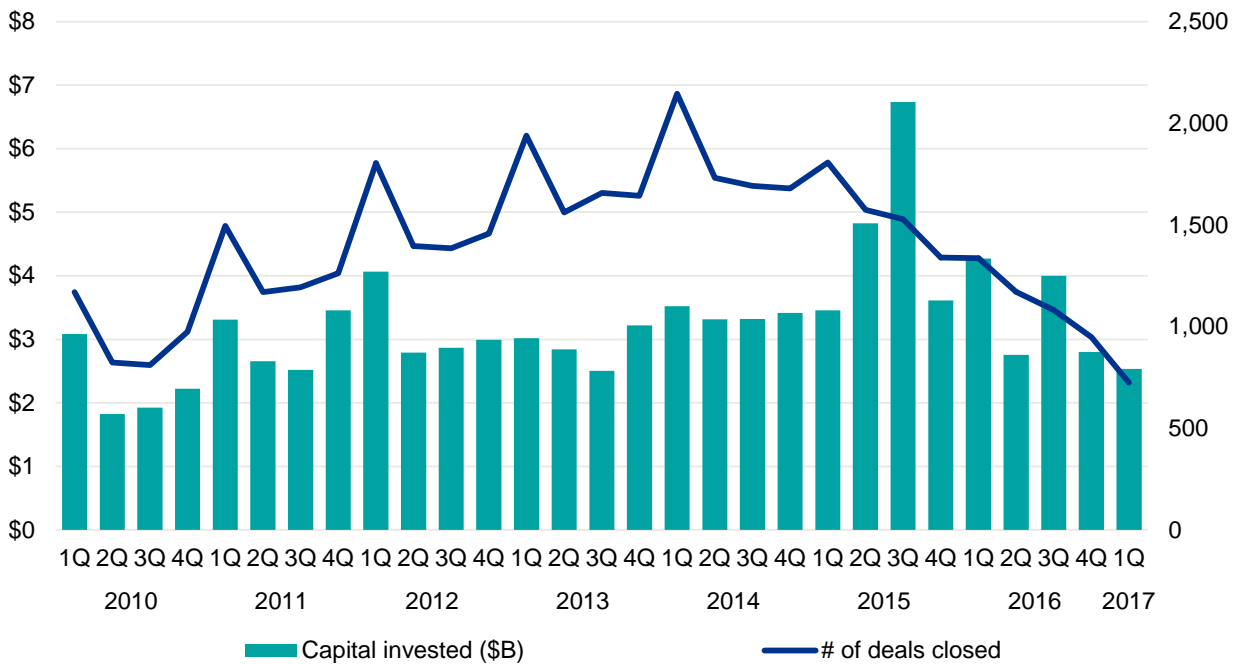
The number of deals in which corporate venture arms have participated may have slid for 2 consecutive quarters for now but, given the overall decline in venture financing volume, the percentage of overall financings in which they've participated has rarely been higher. Moreover, the total quarterly tallies of those deals have remained remarkably robust, testifying to CVCs' more diverse investing rationales.

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.

First-time financings slide by count once more, yet VC invested steadies

Global first-time venture financings of companies

2010 — Q1'17



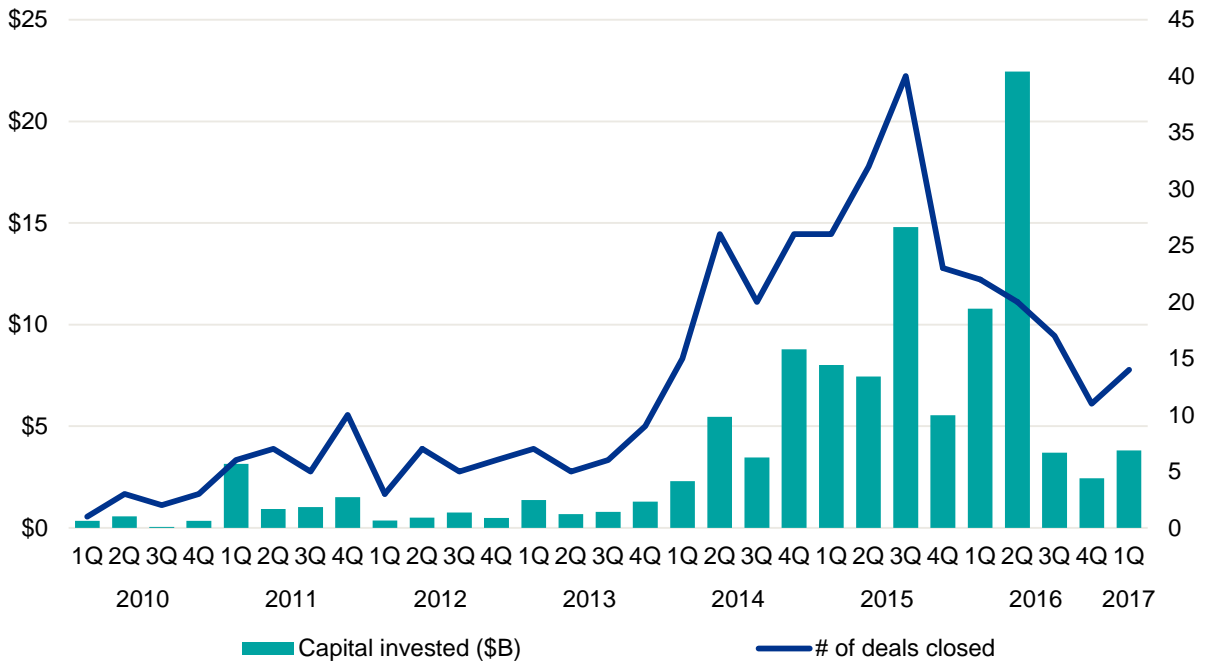
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

One of the principal drivers behind the steady diminishing in first-time financings' volume has been the ramp-up in median transaction sizes, as well as the growth in more diverse financing opportunities among early and late stages. However, after such a prolonged period of decline, even if the count of completed first-time rounds fell again, it's important to note that accompanying sums of VC invested have steadied somewhat. Venture firms are still willing to ply fledgling companies with capital, it's merely that their risk profiles have grown more rigorous.

Unicorns' heyday may have passed, but they are far from extinct

Global unicorn rounds

2014 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Note: PitchBook defines a unicorn venture financing as a VC round that generates a post-money valuation of \$1 billion or more.

The 'unicorn' phenomenon, in which a private company received a post-money venture valuation of \$1 billion or more, peaked in 2015 and has since seen a considerable decline in frequency. However, such rounds are far from dying out completely, as one can see from the mild uptick in both the sum of VC invested in such financings and the tally of 14 that occurred in the first quarter of 2017 alone.

Disruptive medtech industry on track for strong 2017



Medtech was a hot sector during Q1'17, attracting a significant amount of VC investment globally. This rapidly growing sector can be broadly defined as any healthcare technology innovation that an incumbent medical device company would consider to be a disruptor. While overall deal count is down worldwide, pharma and biotech deals in medtech, appear resilient, giving rise to speculation that medtech is likely to continue to attract strong investment throughout 2017.



Hot medtech subsectors continue to garner attention

Medtech startups are attracting particular attention and investment in four key areas: orthopedics, imaging, diagnostics, and cardiology. For example, Q1 saw MedLumics out of Madrid raise €34.4 million in Series B funding to support the development of their product, a device to treat atrial fibrillation and other heart arrhythmias.

Artificial Intelligence (AI) and cognitive learning systems are hot deep tech subsectors that are attracting significant attention throughout global markets and will likely play a significant part in medtech solutions. Medtech investments are increasing their appeal and applicability to particular VC investment portfolios. For example, startups are working on using cognitive systems to analyze and detect pathology from imaging scans, as well as improving scanning technologies and enabling app-based healthcare diagnostics. Orthopedics, which includes areas such as prosthetics and replacement joints, is another particularly robust area. Given both the attention that robotics has garnered in recent quarters, as well as the growing needs of aging populations worldwide, this is an area ripe for disruption and further growth.

Despite these areas of concentration, emerging subsectors in areas such as drug delivery, ophthalmic solutions, and oncology also have a strong and growing presence in the market. For example, US-based company Grail, which focuses on early cancer screening, recently raised \$914 million in Series B tranche funding, making it the largest medtech fundraise of the quarter.



EU and US leaders in the medtech sector

As with traditional medical devices firms, medtech companies tend to be clustered in areas with higher healthcare spend, making the US and Europe core areas for this sector. Strong startup growth is currently seen particularly in Boston; and in Northern Europe which has traditionally been home to both world-class engineering and life-sciences companies. Q1 also saw notable medtech investments in Israel and Canada.

Despite the technology advances that come from Asia, medtech and associated VC support has yet to achieve a strong presence in the Asian markets. As these markets are still maturing and are associated with a potentially large, high-gross consumer base, this trend could change, especially as the Chinese government places greater emphasis on supporting healthcare research and technology in coming years.



Corporate VC a critical component of medtech investment

Traditional medical device companies and big pharma are taking a greater interest in funding medical device startups. Last year, corporate VC arms were responsible for upwards of 20% of the investment in early-stage medtech startups, and this trend has clearly continued into Q1'17.

Corporate investors' motivations are clear: the market for traditional medical devices is flat and the need for innovation is high. By investing in medtech startups, companies have the opportunity to find assets that deliver over and above their current offerings, deliver a good value proposition to the market, and provide the ability to charge higher margins if they can bring a proven product into their portfolio. Investing in or acquiring companies that deliver 'ready-made innovation' appears to be the most effective route to increasing market share.

Disruptive medtech industry on track for strong 2017, cont'd



Medtech trends to watch for in 2017

Corporate investment activity will likely to be maintained or even increase over the coming quarters. However, despite ongoing interest, market conditions and the resulting investor caution mean that VC investors will be looking for companies and products positioned to be market leaders. Medtech firms will need to clearly demonstrate their products' potential and target market to attract investment. There is also likely to be an increase in interest and attention in medtech companies that serve a niche or underserved market in the medical space.

Macroeconomic trends, particularly potential healthcare reform in the US, may drive or hinder performance in this sector. Funding of medtech and other healthcare startups could even accelerate if certain US regulations around medical devices are loosened under the new administration.



We are seeing an increasing stratification of the medtech market. Big deals are getting bigger, small deals are getting smaller and the jump from development to fruition is extending. The market is clearly looking for best-in-class-products. If there's any question on an idea's eventual market position, the road forward is much less clear. ”



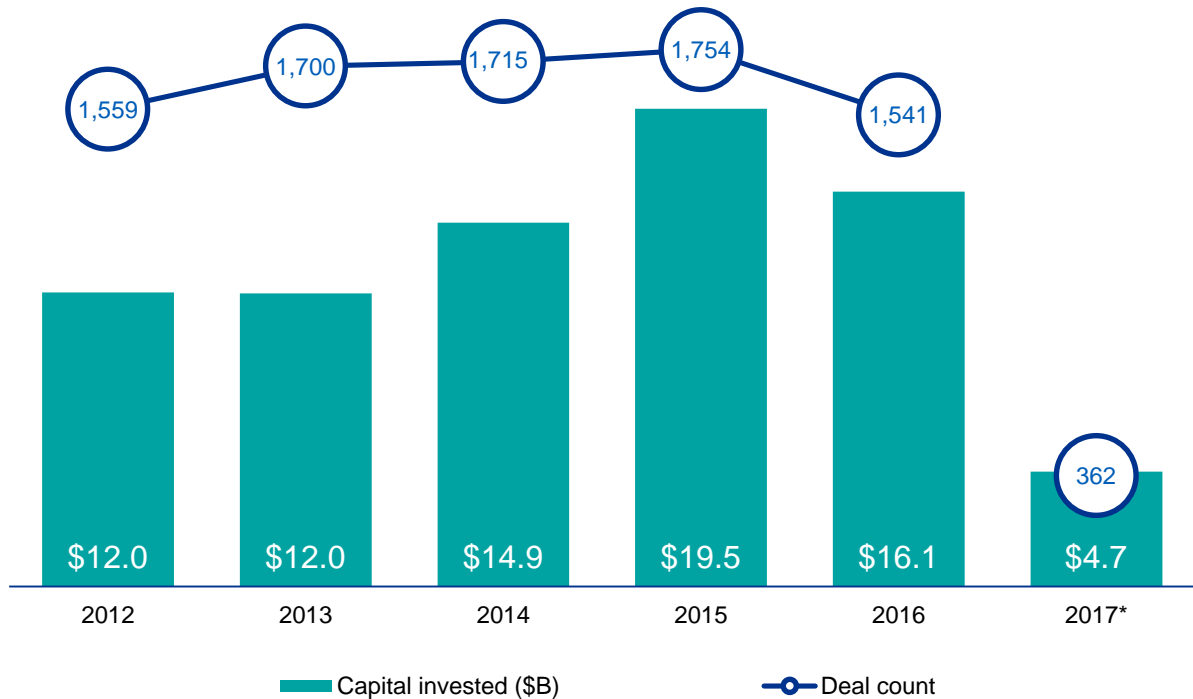
Brendan Martin

Senior Associate, Global Strategy Group
KPMG in the UK

Medtech investment stays robust

Global medtech investment activity

2012 — Q1'17



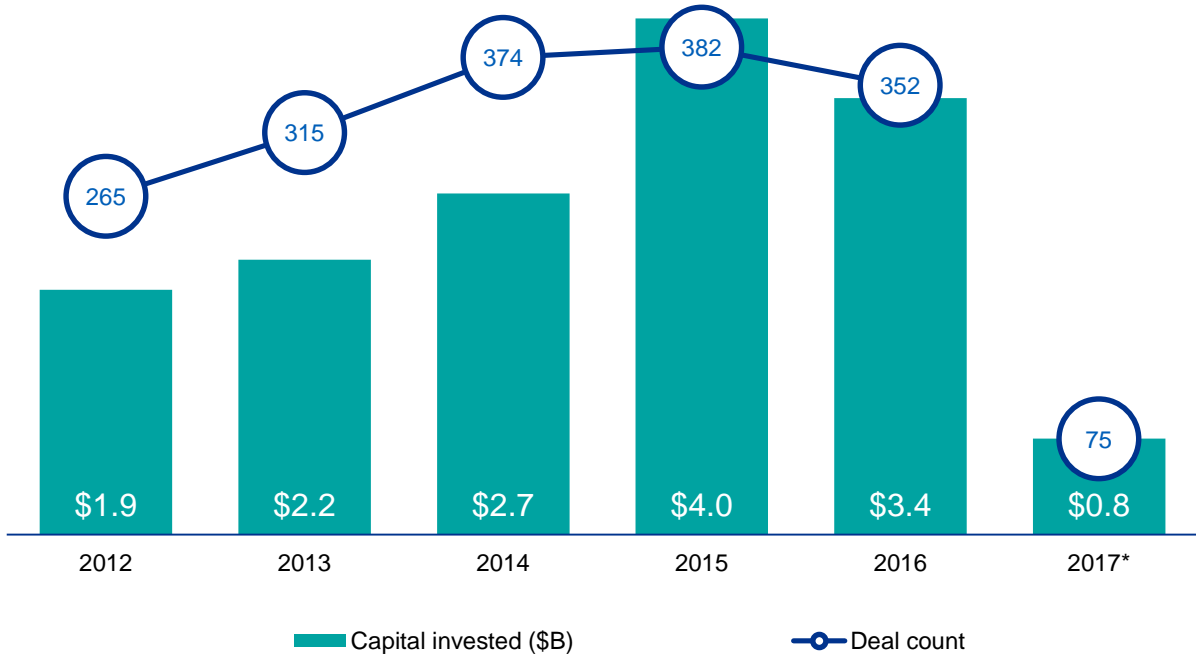
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

The natural allure of investing in potential disruptors of the persistently expensive, innovation-craving medtech space is balanced by the high barriers of regulations, cost and more. Yet, overall, venture firms are still backing businesses within the space at a robust clip, even if the heights of 2015 look set to go unchallenged for some time. Promising new treatments, particularly in immunotherapy, plus the potential easing of regulatory burdens when it comes to medical devices in the US, are piquing VCs' interest. It's also important to point out that it's not simply the making of the devices, supplies or treatments that could prove most profitable and revolutionary in the end, but even just the expediting and improvement of background analytics could help reduce costs and save lives.

Cybersecurity off to slower start

Global cybersecurity investment activity

2012 — Q1'17



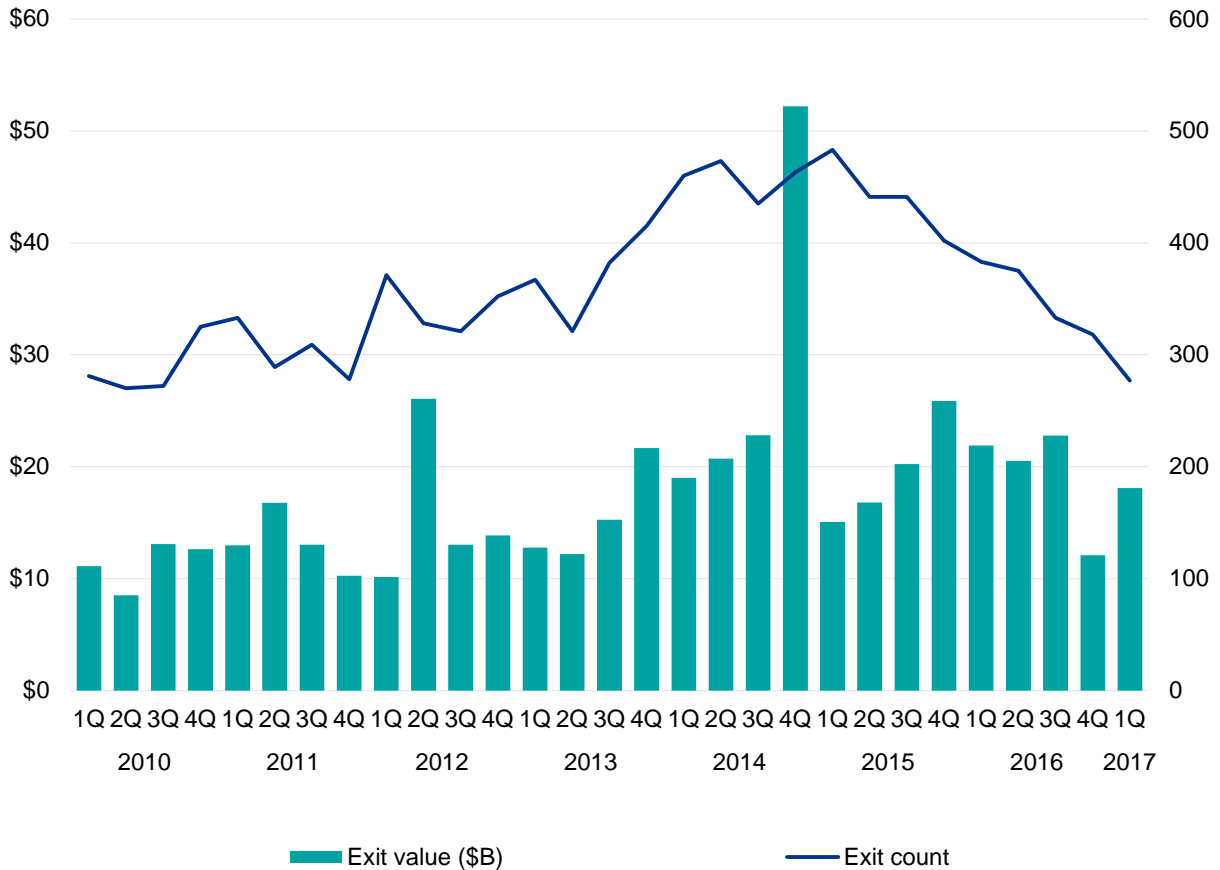
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

At 75 completed financings worldwide for a total of less than \$1 billion invested, the cybersecurity industry is off to a slower start in 2017. In this arena, incumbency advantages, in particular, can prove more of a headwind than in other sectors. Yet, the need for continual improvement in oft-outmoded legacy IT systems could help boost VCs' perceptions of liquidity prospects. After all, the threats posed by the mere accidental leaking of information or minor mistakes (as evidenced by Amazon S3's recent outage, which took down a hefty portion of the internet) have hardly slackened. There remain plenty of opportunities, so the slowing in venture financing to kick off 2017 is likely more due to timing than anything else.

Exit volume records another decline

Global venture-backed exit activity

2010 — Q1'17



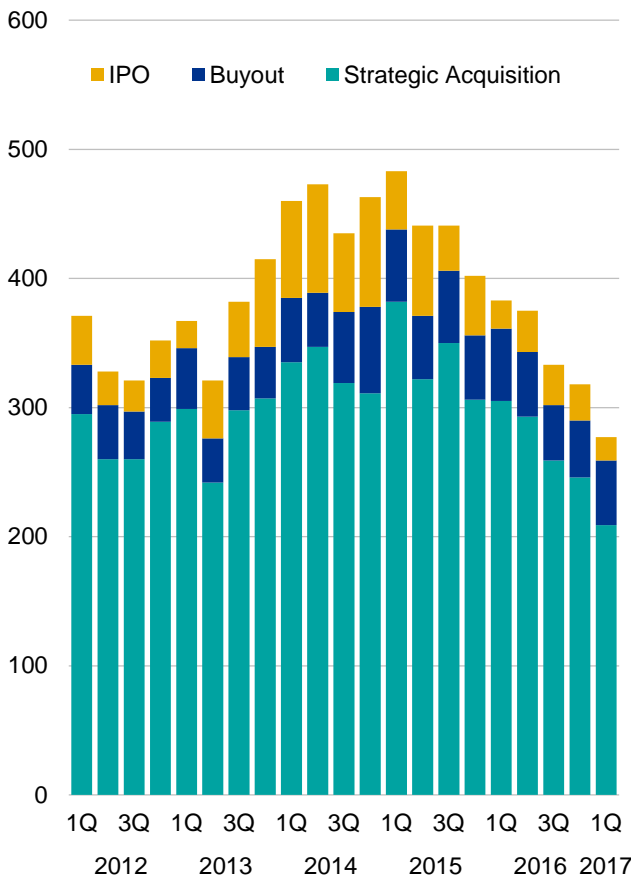
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Since the heights of 2014, venture-backed exit volume has slid steadily, with scarcely a single quarterly interruption. Although aggregate exit value has fluctuated much more by comparison, and sales of venture-backed companies still haven't plunged below historical means, investors will need to assess exit trends carefully in order to plan on liquidity timelines.

M&A remains most popular, but will IPOs resurge?

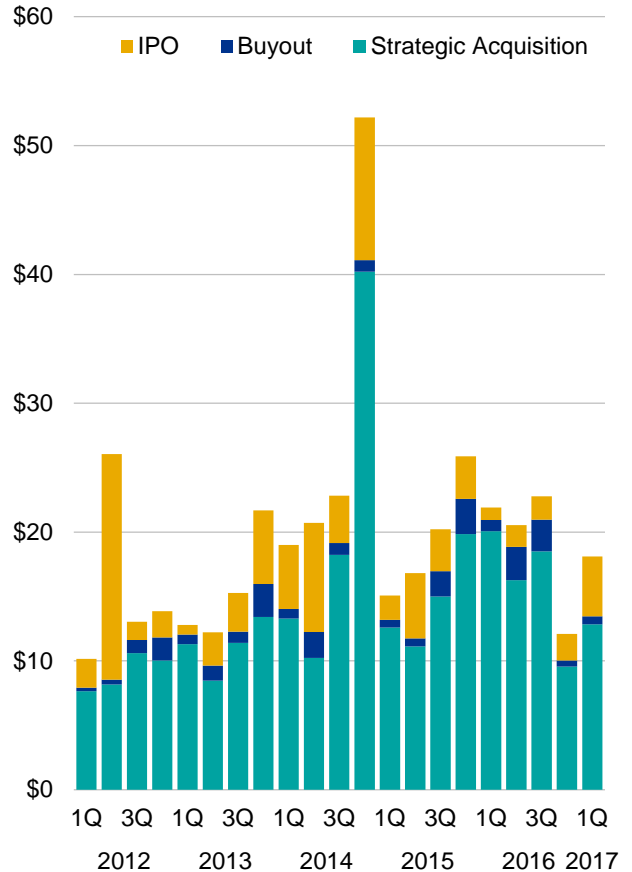
Global venture-backed exit activity (#) by type

2012 — 2016



Global venture-backed exit activity (\$B) by type

2012 — 2016



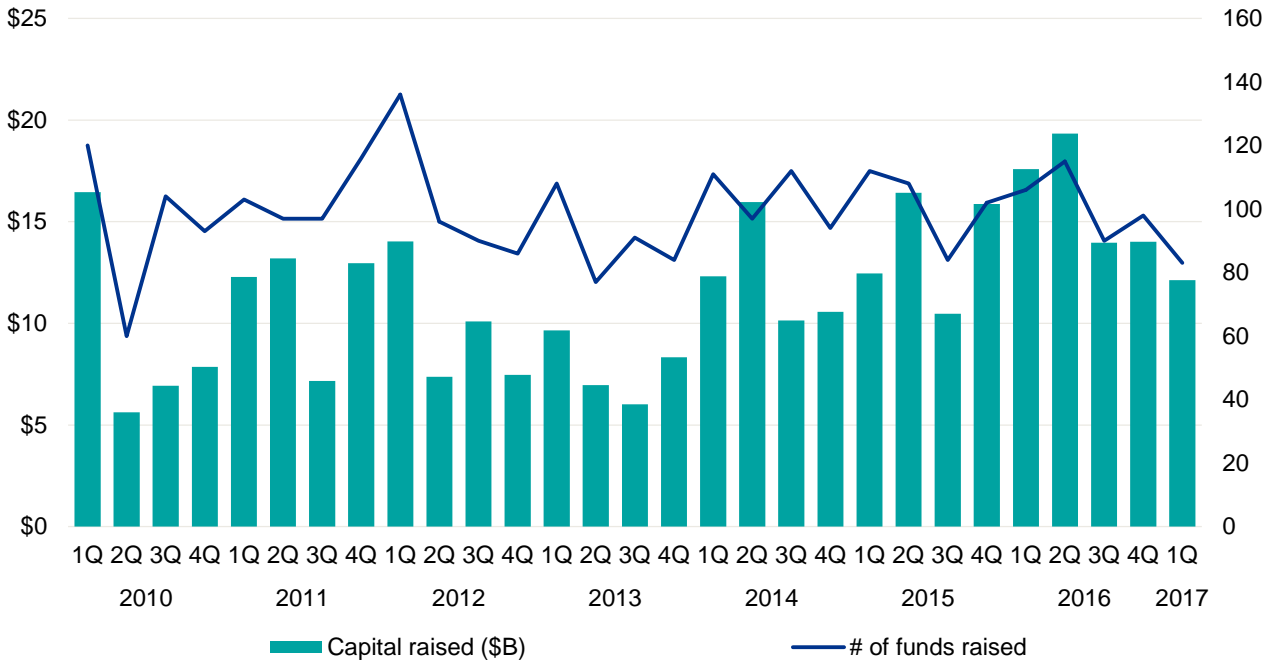
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Even as exit volume has slid quarter over quarter, M&A remains the primary driver of not only volume, but also value, with an actual resurgence between the final quarter of 2016 and the first of 2017. More importantly, from the perspective of investors in many late-stage companies, the total value reaped via initial public offerings (IPOs) rose significantly, although that total is necessarily skewed by Snap's debut. However, should the IPO window reopen more decisively in 2017, that could provide a significant boost of liquidity for many heavily funded, mature companies in venture firms' portfolios.

Fundraising holds relatively steady

Global venture fundraising

2010 — Q1'17

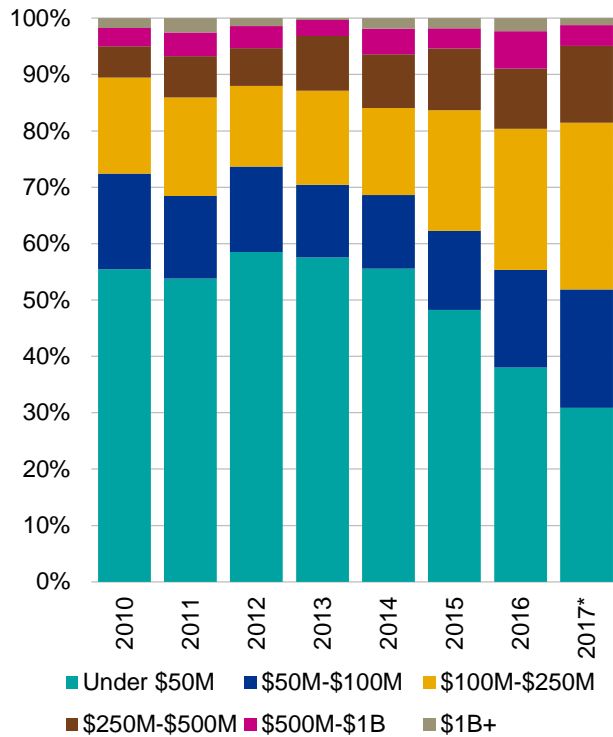


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

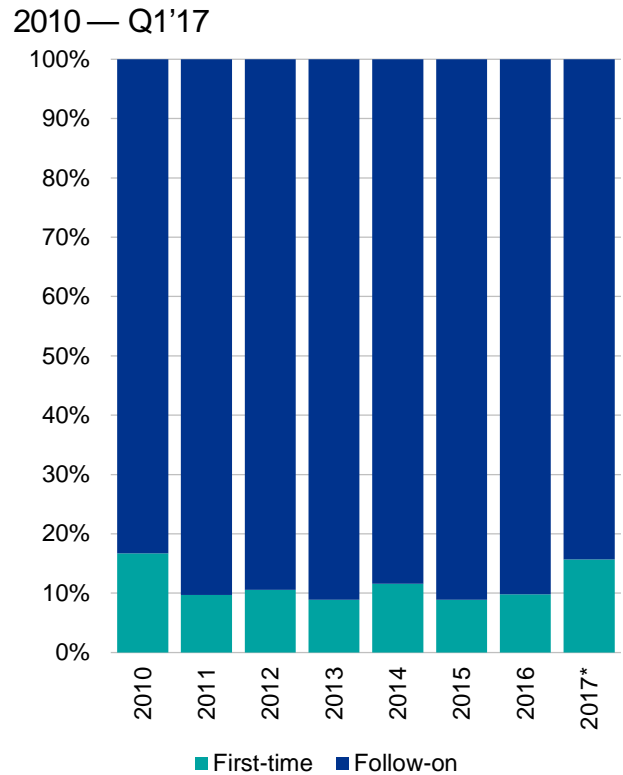
A slight, yet distinct trend upward in quarterly totals of VC raised is perceptible since the end of 2013. On the other hand, there is significant variability in the number of funds closed by quarter. More so than that latter figure, however, the sheer mass of capital committed to the venture asset class signifies investors' desire for exposure to innovation and the growth opportunities as the gap between late-stage VC and growth equity has increased opportunities for scale.

Q1 '17 sees temporary reversal of longer-term trends

Global venture fundraising (#) by size
2010 — Q1'17



Global first-time vs. follow-on venture funds (#)
2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

In the longer run, the number of first-time funds as well as vehicles at the smaller end of fund size ranges has been declining. However, in Q1'17, the percentage of first-time funds surged considerably, even as the trend toward larger vehicles only intensified.



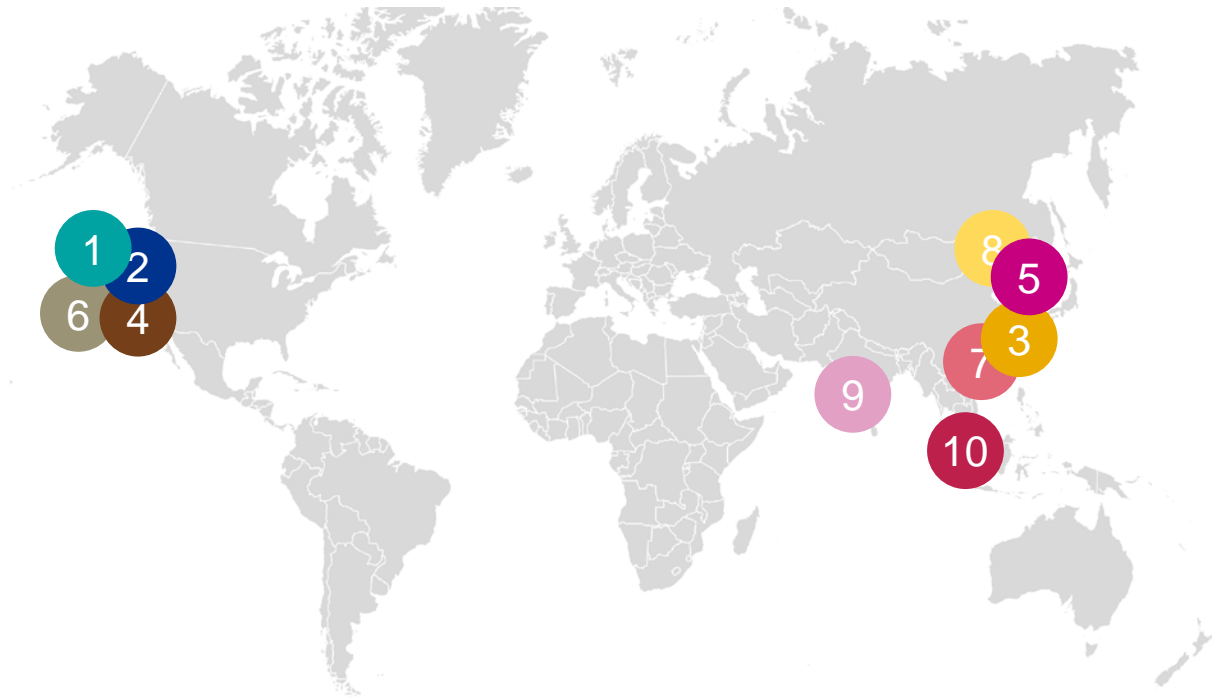
Globally, investors are not only focusing on the potential of new technologies to solve current problems, they are also seem to be looking at how solutions can pave the way for other innovations in the future. This is why so many investors appear to be keen on ride hailing platforms. Investors likely recognize the potential to upsell platforms for other uses, like managing autonomous vehicles. ”



Arik Speier

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

San Francisco & China dominate the rankings



Top 10 global financings in Q1'17

- | | |
|---|--|
| <p>1 Airbnb — \$1,003M, San Francisco
Platform software
<i>Series F</i></p> | <p>6 Instacart — \$413M, San Francisco
Platform software
<i>Series D</i></p> |
| <p>2 Grail — \$914M, Menlo Park
Biotechnology
<i>Series B tranche*</i></p> | <p>7 Hive Box Technology — \$362M, Shenzhen
Logistics
<i>Series A</i></p> |
| <p>3 NIO — \$600M, Shanghai
Transportation
<i>Series C</i></p> | <p>8 Kuaishou Technology — \$350M, Beijing
Platform software
<i>Series D</i></p> |
| <p>4 SoFi — \$454M, San Francisco
Consumer finance
<i>Series F</i></p> | <p>9 Ola — \$330M, Bangalore
Application software
<i>Late stage VC</i></p> |
| <p>5 Ofo — \$450M, Beijing
Transportation
<i>Series D</i></p> | <p>10 Mobike — \$300M, Singapore
Application software
<i>Series D</i></p> |

Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

*Note: Typically one single tranche of a round is not included until the round is confirmed as complete, yet given the magnitude of the raise, in this case an exception was made.

*In Q1'17 VC-backed
companies in the
Americas raised*

\$17.8B

across

1,878 deals



Deals down as caution continues to permeate VC market in the Americas



The number of VC deals declined in the Americas as investor caution continued to permeate the market in Q1'17, particularly outside of the US. Despite the cautious start, VC market conditions appear to be becoming more stable. With a very high level of dry powder in the market, it is likely that VC deals will accelerate in the region over the remainder of 2017.



Opening of US IPO market could help Americas-based companies

Following the successful IPOs of Snap and MuleSoft, investors throughout the Americas appear to be hopeful that the US IPO market is opening again. One sign of this confidence was the decision by San Francisco-based Okta, a cloud-based identity management services provider, to file for an IPO in mid-March. If Okta conducts a successful IPO, other companies that have held off their own filings may begin to move forward. Such a move could bode well for the Americas VC market as a whole.



VC investment in Mexico takes a hit amidst political uncertainty

The result of the US presidential election has prompted some uncertainty in the Americas, particularly in Mexico. This has led many investors to take a 'wait and see' approach until the ramifications associated with the change in the US administration are better known. This investment pause, however, does not mean investors are less interested in the region as a whole. VC investors and private equity firms continue to show an appetite for Latin America, with dedicated funds to support their efforts.



US VC investment critical to late-stage companies across Americas

The US remains the world leader in terms of VC investment. It is no surprise that, in less mature markets across the Americas, the inflow of US VC investment is a critical contributor to the advancement of startup companies. Despite US investment in Mexico stalling during the quarter, regional US VC investment continued at a very strong pace. Central and Latin America experienced the fourth highest quarter of US VC investment since 2013.

Typically, this US VC funding has focused on later stage companies as most early-stage investors want to be close to a startup in order to provide stronger handholding. As companies move along the evolutionary spectrum, geographic boundaries tend to recede, with high potential companies attracting capital from a variety of international sources, whether US-based or otherwise.



Fintech and artificial intelligence remain big bets

The large underbanked and unbanked populations in Mexico, Brazil and other Central and South American countries has led to significant interest in fintech-related offerings, particularly related to electronic payments methods and remittances. Given the caution in the market, however, investors in the Americas have taken a highly selective view of potential investments, looking for those with the best potential for success.

Artificial intelligence has also attracted attention throughout the Americas, particularly for its ability to replace human effort with technology, mechanical and robotic processes, in addition to its ability to analyze big data outputs from social media networks.

Deals down as caution continues to permeate VC market in the Americas, cont'd.



US-related uncertainties hampering Mexico's VC market

Despite a relatively stable economy and low exchange rate, Mexico's VC market was hampered by US-based uncertainties throughout Q1'17. However, the current pause in Mexico-based VC activity has not stopped other innovation ecosystem developments from taking shape in the country. In March 2017, Startupbootcamp introduced FinTech Mexico City, a new fintech accelerator program. While based in Mexico, it is expected that the new accelerator will act as a hub to assist startup companies throughout the region.

Caution is expected to remain a dominant force in Mexico's VC market over the next quarter. It will not be enough for companies to have good ideas. They will need to have ideas with big impact and significant revenue potential in order to attract funding.



Quiet start to year for VC investment in Canada

After a record-setting 2016, Canada's VC market experienced a more measured start to 2017, recording the lowest quarter of investment in 3 years. This sharp decline may simply reflect an investor pause to take stock of previous investments, as the country continues to have a strong ecosystem for innovation, although the ramifications of the US election have likely also contributed to the lessening of activity.

The Canadian government continues to be a strong supporter of the innovation economy in the country, beyond its 2014 Venture Capital Action Plan. In its 2017 budget, released in March, the government reconfirmed its commitment to innovation by allocating \$400 million over 3 years to the Business Development Bank of Canada to support a Capital Catalyst initiative aimed at increasing the availability of late-stage VC funding to Canadian startups¹. Given its strong government programs, thriving innovation hubs, highly skilled workforce, and the valuation of the loonie, it is expected that Canada will continue to see significant VC investment over the next few quarters.



Renewed stability improves outlook in Brazil

Following a year beset by political and economic strife, increasing stability is turning the tide on investor sentiment in Brazil. As interest rates slowly declined throughout Q1'17, investors began to seek alternatives that could offer higher yields, prompting a resurgence in startup activity. Brazil-based ride hailing company, 99Taxis, raised \$100 million to start the year off, with funds expected to support the company's expansion of service into Rio de Janeiro. Looking ahead, corporate venturing is expected to accelerate over the next few quarters, especially within the country's strong fintech sector, where new plays surrounding supply chain efficiency and regulatory document management have been turning heads.



Trends to watch for in the Americas

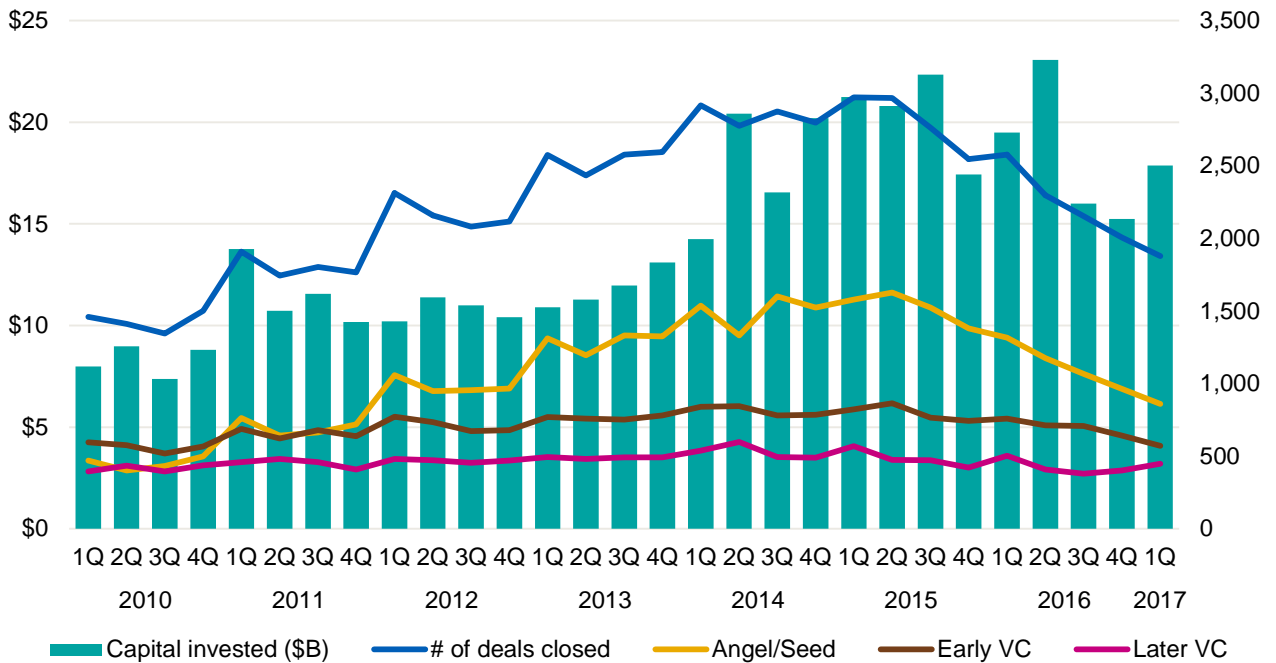
It is expected that investor uncertainties will calm in the Americas over the coming quarters as the new US administration provides clarity on its trade policies. Until then, investors will likely remain focused on safer bets and companies with high-potential opportunities. Fintech and artificial intelligence will likely continue to be dominant focus areas for investment across the Americas, in addition to healthtech and biotech in Canada.

¹. <http://www.budget.gc.ca/2017/docs/themes/innovation-en.html>

VC investment stays strong

Venture financing in the Americas

2010 — Q1'17



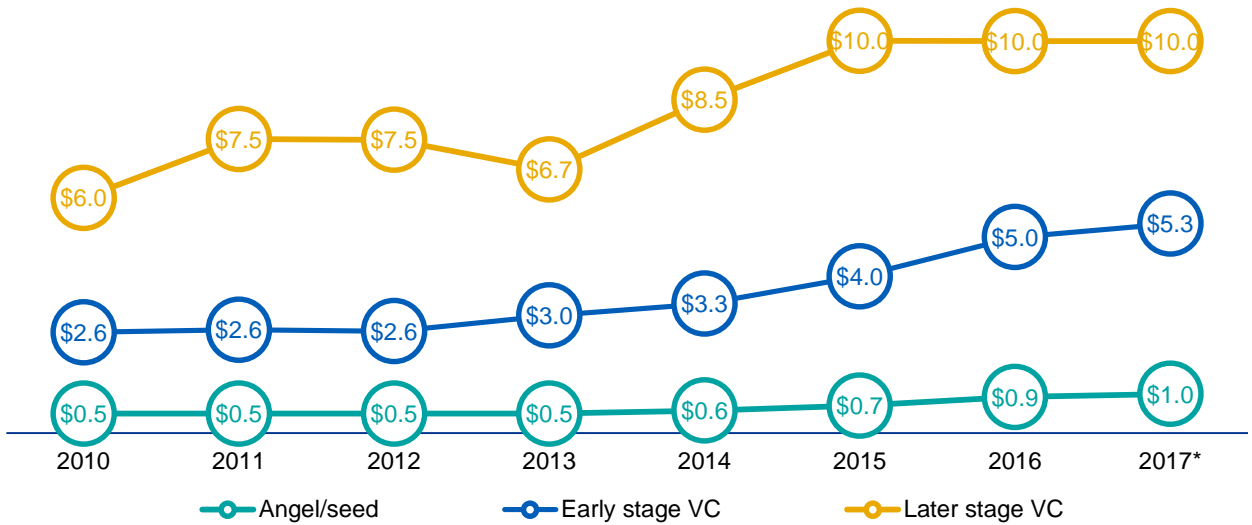
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Amid the decline in total volume, the significantly strong totals of VC investment are important to note. Non-traditional investors, such as hedge or mutual funds, have pulled back from participating in financings of high-growth, late-stage businesses to a fair degree, while other 'tourist' investors also have begun dialing back their activity. In addition, angel financiers have definitely pulled back to a considerable degree, as evidenced by the steepest decline being at the angel/seed stage. But on an anecdotal basis, both those trends only further highlight how the most experienced venture firms have kept up their pace, while it's only more fledgling or non-traditional firms at the periphery of the industry that initially helped drive up the venture boom, only to thereupon contribute to the general, ensuing decline.

Ample sums of VC remain to be invested

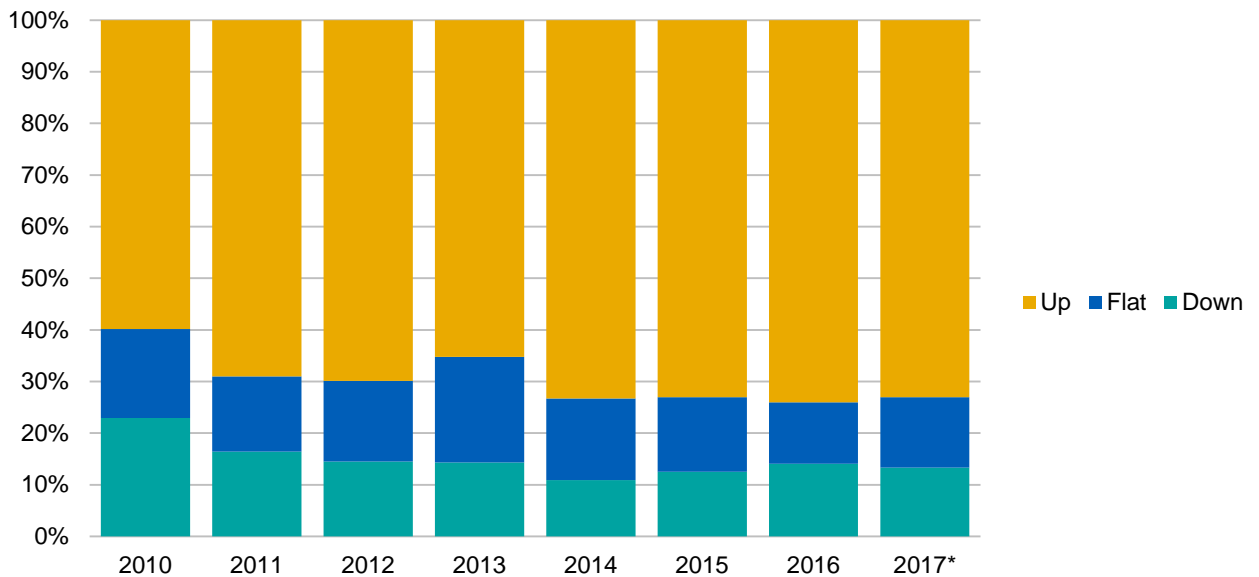
Median deal size (\$M) by stage in the Americas

2010 — Q1'17



Up, flat or down rounds in Americas

2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Round sizes remain elevated

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

2010 — Q1'17

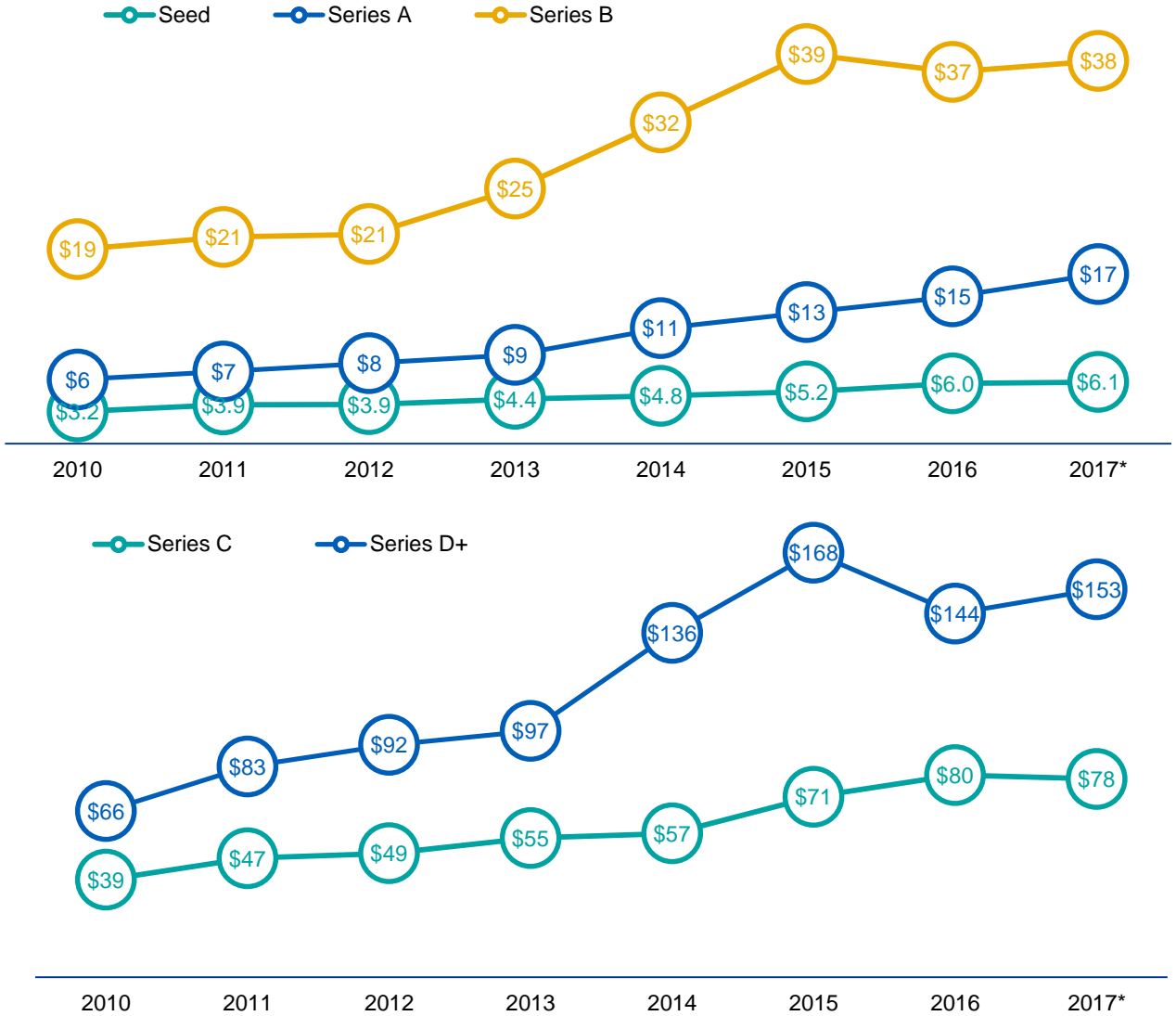


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Assessing by just how high median financing sizes have remained across every stage, the venture industry in the Americas has yet to return to normalcy but, at the very least, has entered a plateau of heated valuations and hefty rounds, driven in no small part by the ample sums of VC recently raised.

The latest stage declined, only to tick upward

Median pre-money valuation (\$M) by series in the Americas
2010 — Q1'17



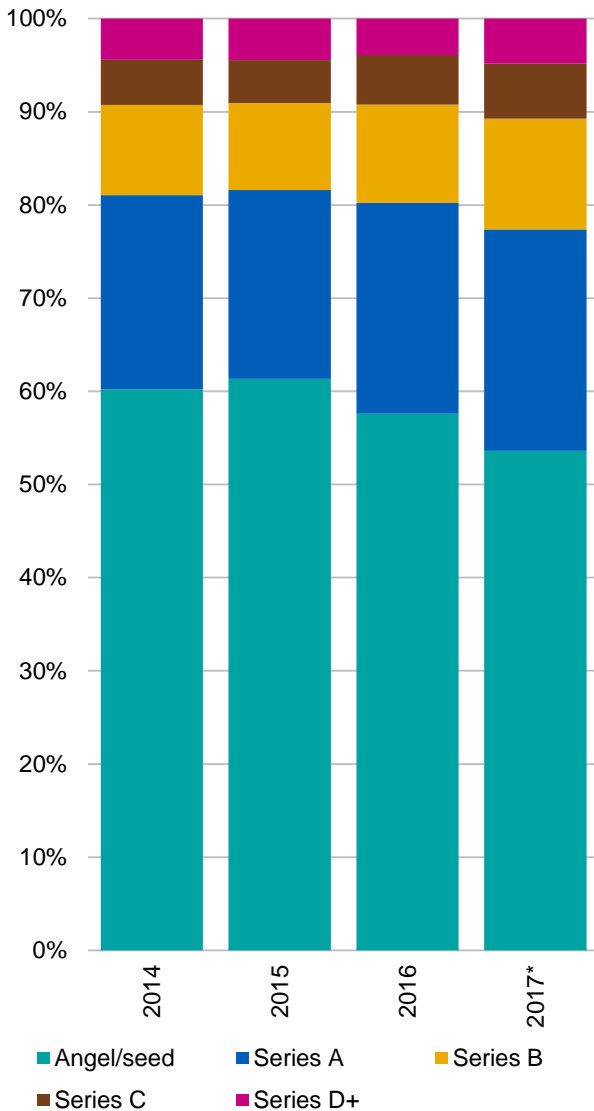
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

There has been a slight increase, even at the later stages, among median pre-money valuations in the Americas, testifying only further to the fact that the venture industry is hardly cooling down rapidly, at least as of yet.

Early stage investing continues to diminish

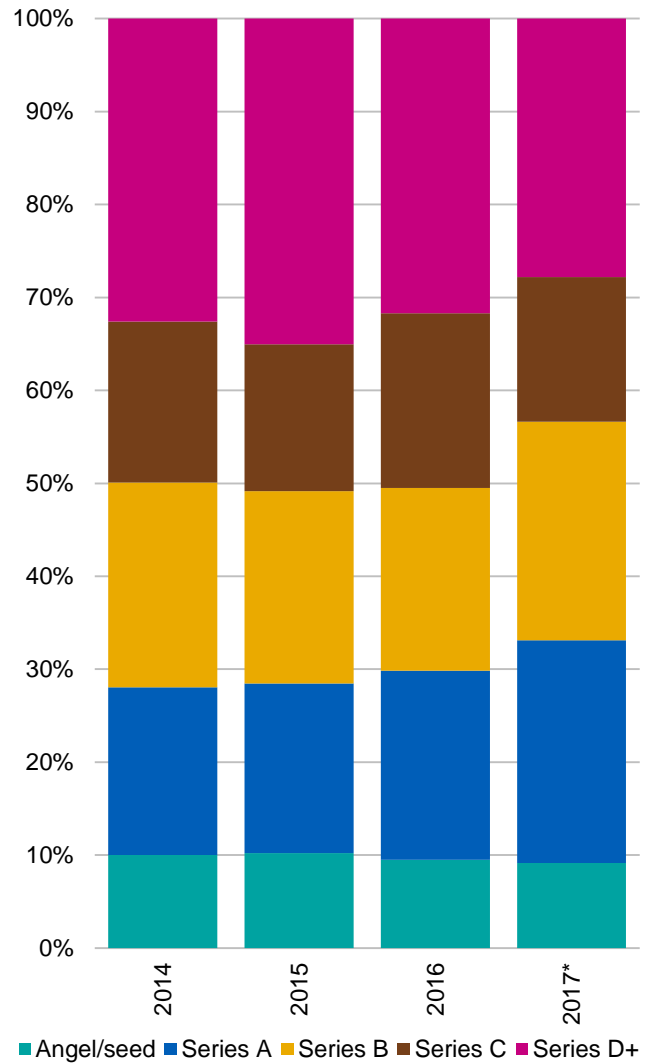
Deal share by series in the Americas

2014 — Q1'17, number of closed deals



Deal share by series in the Americas

2014 — Q1'17, VC invested (\$B)

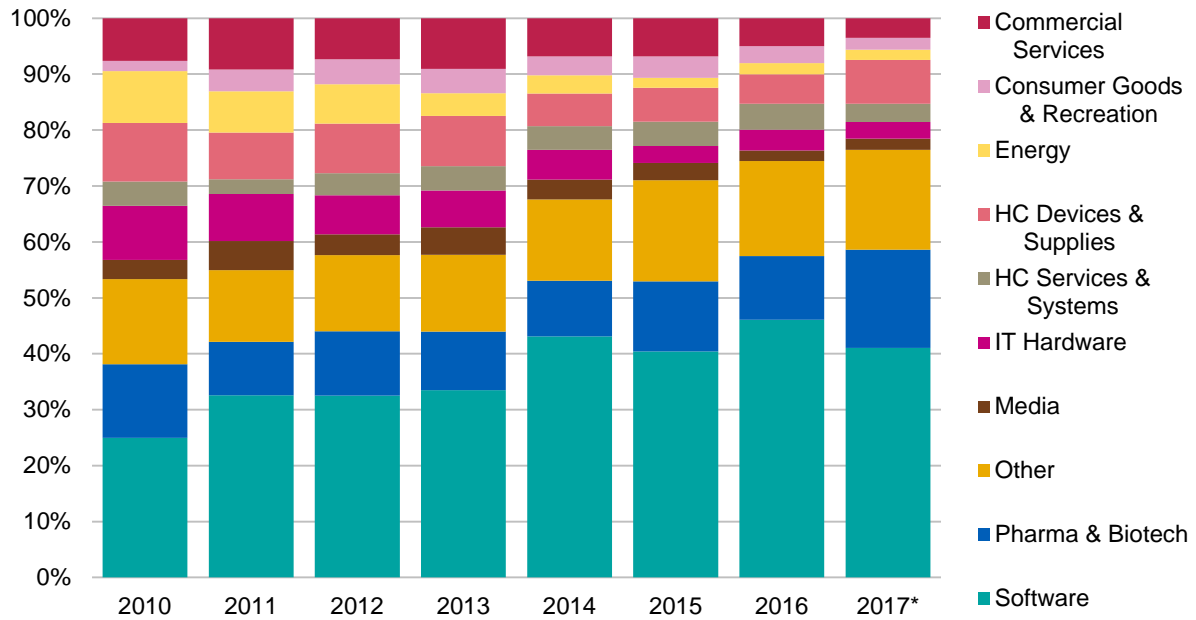


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

VC diversifies further

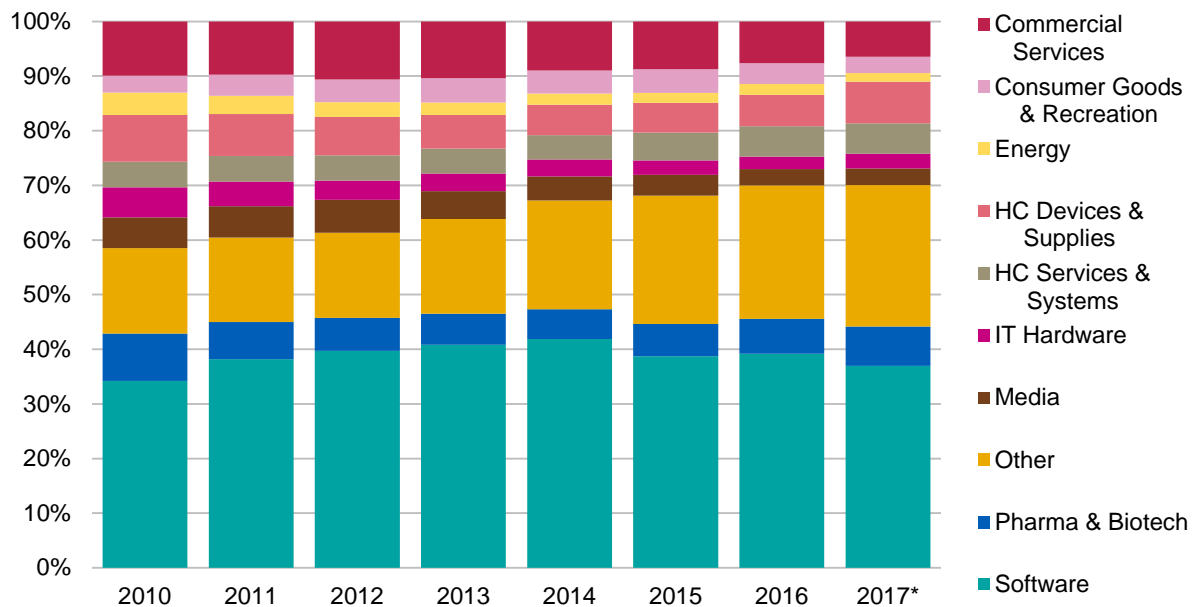
Venture financing of VC-backed companies by sector in the Americas

2010 — Q1'17, VC invested (\$B)



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

2010 — Q1'17, # of closed deals



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.



While Canada experienced a slowdown in VC activity in Q1, we remain optimistic in the resilience of the tech ecosystem. Low interest rates, strong innovation and a renewed commitment by the federal government to support the tech sector through Venture Capital – these factors will continue to help Canada buck the recent trends experienced elsewhere in the Americas. ””

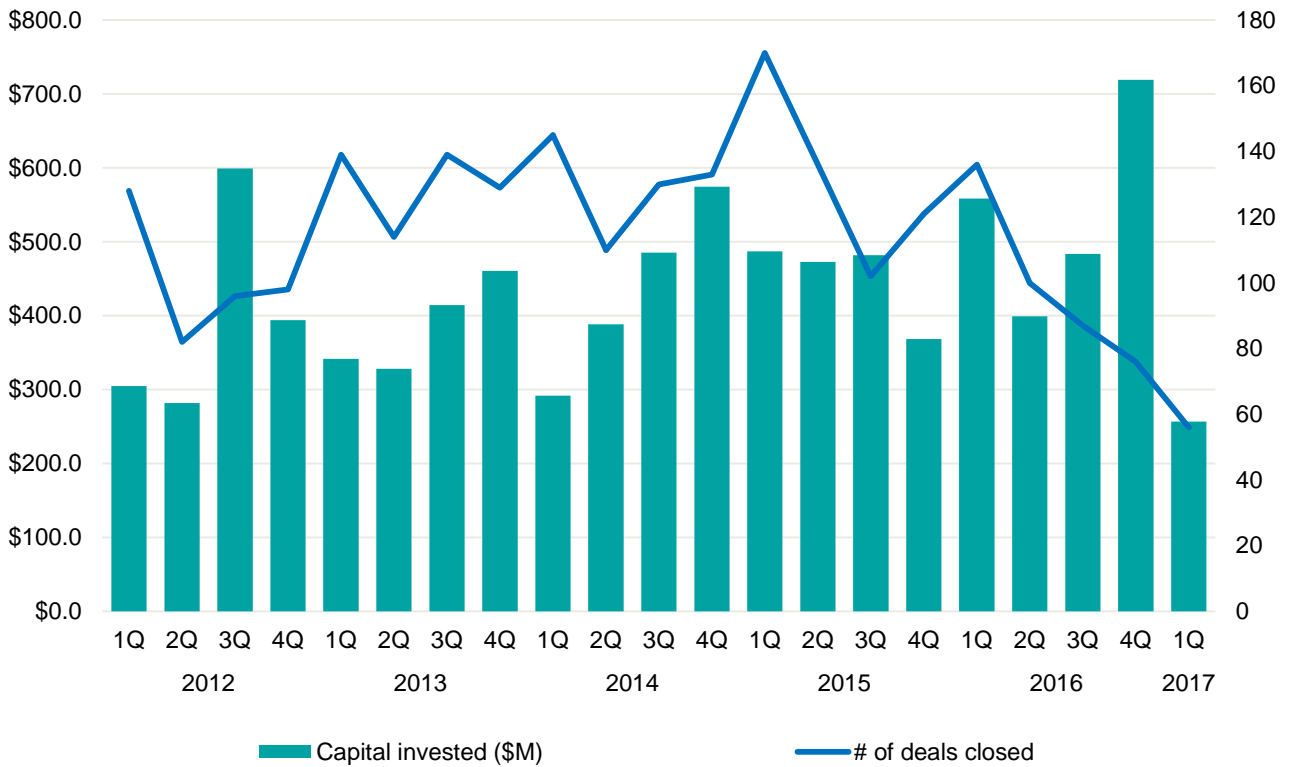


Sunil Mistry

*Partner, KPMG Enterprise,
Technology, Media and
Telecommunications,
KPMG in Canada*

A down quarter after a record year

Venture financing in Canada 2012 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Almost as if obeying the statistical rule of thumb of reversion to the mean, VC invested in Q1'17 in Canadian companies, fell considerably from the outlier-skewed, massive tally of Q4 2016. Although completed deals also fell in count, it remains to be seen whether the slow slide in Canadian venture financing volume is steepening.



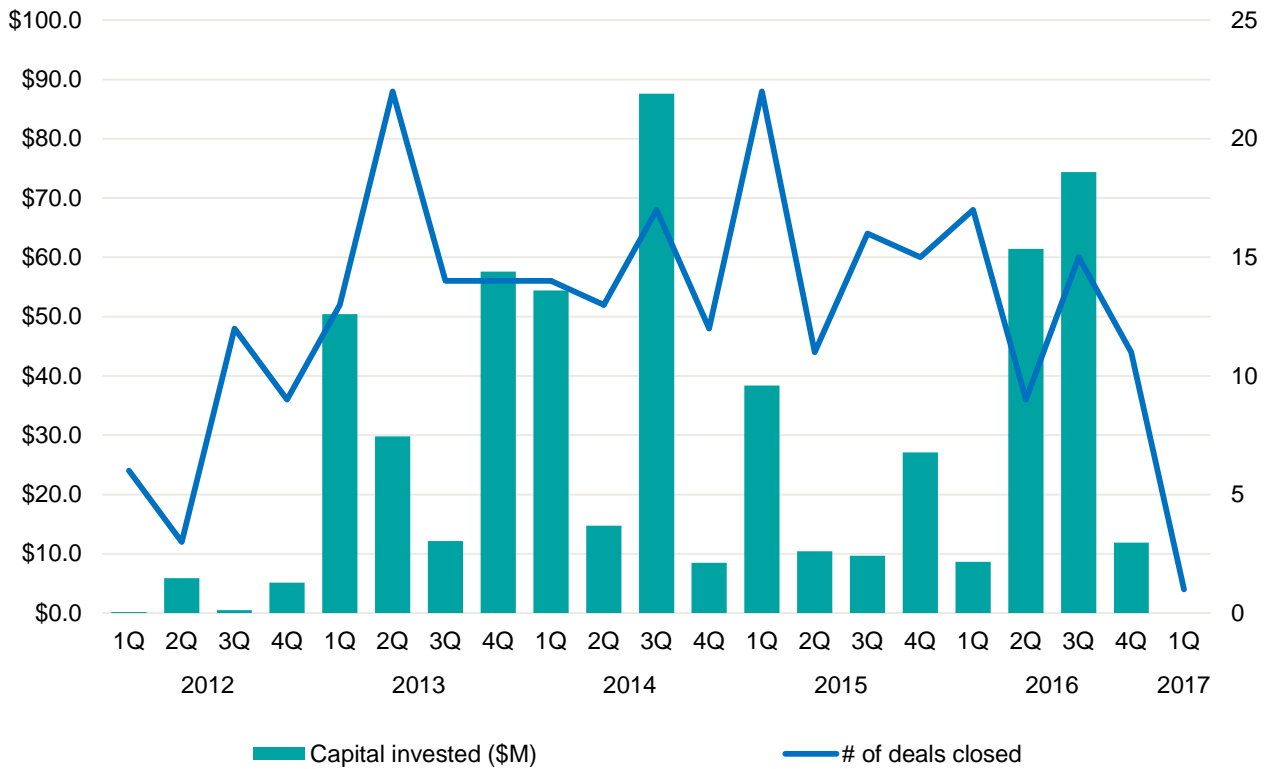
The results of the US presidential election are now resonating across the Americas, particularly in Mexico and Latin America. While investors continue to show an appetite for the region, many are waiting to see what will happen with the economy and trade agreements now that the new US administration is in place. ”



Gerardo Rojas
Head of Deal Advisory
KPMG in Mexico

Uncertainty impacts the venture scene

Venture financing in Mexico 2012 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Bearing in mind that 2016 totals stayed relatively within historical averages, it's clear that the Mexican venture scene has been significantly affected by the degree of uncertainty around potential US policy shifts and their subsequent economic and trade impacts.



Q1 has seen renewed startup activity in Brazil. While we have yet to see many unicorns or serial entrepreneurs from this ecosystem, the return of capital investment, especially from the corporate venturing space, shows great promise for continued maturation.

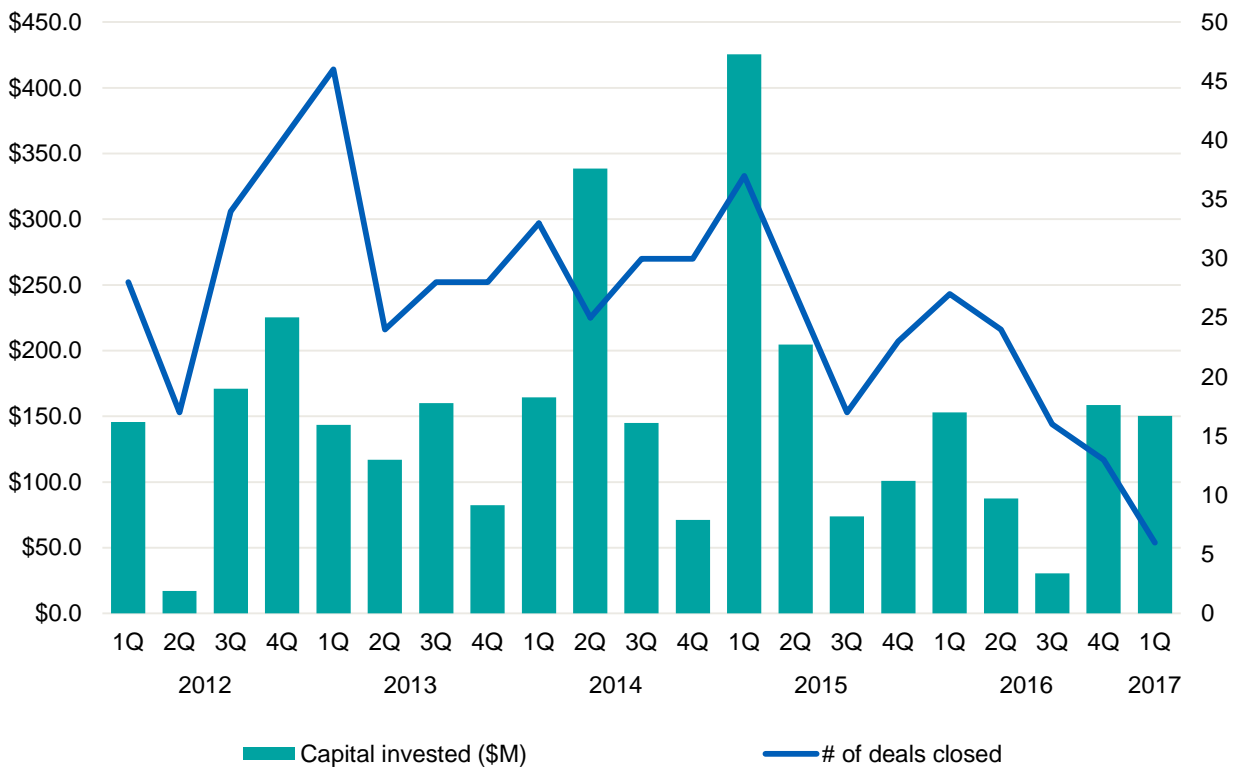


Oliver Cunningham

*Partner,
KPMG in Brazil*

Macro factors take a toll

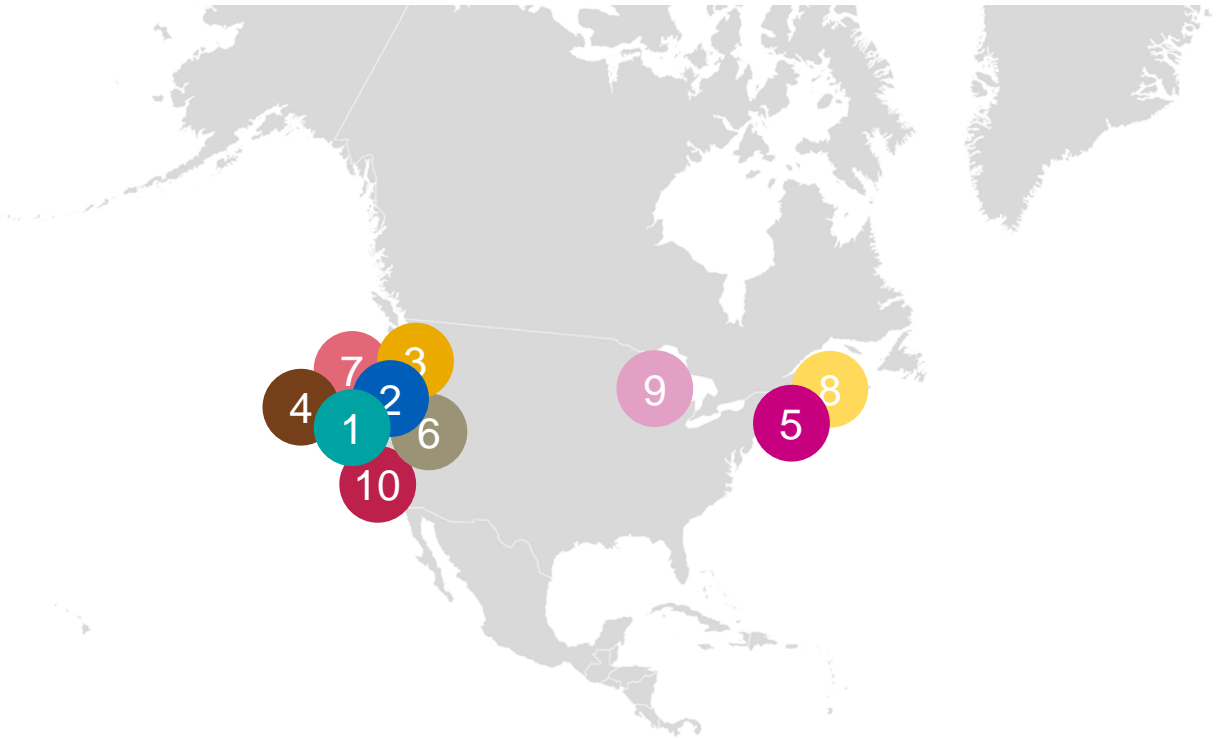
Venture financing in Brazil 2012 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

The economic turmoil in Brazil, as well as political volatility, has taken a toll on overall venture investment, with a few select companies driving most of the investment totals in the past 2 quarters, such as 99Taxi, which drew in a massive funding from Didi Chuxing.

Coastal US epicenters accounted for Americas' largest deals



- | | |
|--|---|
| <p>1 Airbnb – \$1,003M, San Francisco
Platform software
<i>Series F</i></p> | <p>6 Vir Biotechnology – \$150M, San Francisco
Biotechnology
<i>Early stage VC</i></p> |
| <p>2 Grail – \$914M, San Francisco
Consumer finance
<i>Series B tranche*</i></p> | <p>7 Proterra – \$140M, Burlingame
Commercial products
<i>Late stage VC</i></p> |
| <p>3 SoFi – \$454M, San Francisco
Consumer finance
<i>Series F</i></p> | <p>8 DraftKings – \$119M, Boston
Entertainment software
<i>Series E1</i></p> |
| <p>4 Instacart – \$413M, San Francisco
Platform software
<i>Series D</i></p> | <p>9 Bright Health – \$115.2M, Minneapolis
Insurance
<i>Series A</i></p> |
| <p>5 letgo – \$175M, New York
Platform software
<i>Series C</i></p> | <p>10 Zoom Video Communications – \$115M, San Jose
Communication software
<i>Series D</i></p> |

Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

*Note: Typically one single tranche of a round is not included until the round is confirmed as complete, yet given the magnitude of the raise, in this case an exception was made.

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DRAFT

*In Q1'17 US VC-
backed companies
raised*

\$17.3B

across

1,809 deals



Signs of optimism in US, despite lackadaisical Q1



Despite a further decline in VC deal activity in the US during Q1'17, there are indications that the tide is turning. With the new US administration in place, US economic indicators are looking relatively stable, and the IPO market is beginning to open, there seems to be significant optimism that VC interest and activity will rebound. It may take some time for VC activity to recover fully, as investors are likely to remain cautious in the near term. Any significant issue, from a poor IPO exit to an unexpected regulatory change or a national incident, could prompt an immediate pullback in activity.



Late-stage funding continues to dominate in Q1'17

Late-stage deals continued to drive VC investment in the US during Q1'17, as investors remained focused on sure bets, on existing portfolio companies and those with proven business models. For example, Airbnb had the largest funding round of the quarter, a \$1 billion Series F round. Fellow unicorn company SoFi also raised \$454 million in order to fund expansion into other service areas¹. Meanwhile, angel/seed-stage deals continued to decline, while early-stage deals also took a hit.



IPO market awakening after year-long hibernation

After a year that saw IPO activity come almost to a standstill, all eyes were on the IPO market in Q1'17. The highly anticipated IPO of Snap Inc., the company behind Snapchat, was a success in early March with the largest US-based IPO since 2014's Alibaba. However, many investors have been cautious about using Snap as a model for IPO. The successful IPO of MuleSoft Inc., a business integration company, was seen as more characteristic of the potential for tech IPOs, with the company's business model focused on a software-as-a-service approach. Alteryx, a data analytics company, also held a successful IPO in mid-March. While it is still early days of trading for both companies, other enterprise-focused technology companies are already indicating a desire to follow in their footsteps.



Corporate VC remains high in Q1'17

Corporate VC investment remained significant in Q1'17 and is poised for additional growth over the next 12 to 24 months. The draw of corporate investment is two-fold. A number of traditional corporates view innovation as the only way to compete against more agile players, while others see it as a way to open up new avenues of growth to offset slower growth in their core business. Traditional corporates are investing in innovation in a variety of ways, from setting up internal VC arms to conducting outright acquisitions. While not a VC investment, Cisco's \$3.7 billion acquisition of performance analytics company AppDynamics, shortly before it was set to IPO in January 2017, is a prime example of corporate interest and commitment to transformational innovation.



Myriad technologies garnering VC investor attention

VC investors showed interest in a number of technology sub-sectors during Q1'17. Medical technologies continued to gain traction on the investor radar, with early cancer detection company Grail raising \$914 million in Series B funding².

Grocery delivery also gained attention in Q1'17, with Instacart's \$413 million Series D fundraising round to support further US expansion. With companies like Uber and Amazon making inroads into grocery delivery, this sector is under increasing scrutiny, with later-stage companies that have realistic plans for profitability likely being the ones to escape the impending industry shakeout.

Other areas continuing to attract interest from US VC investors include fintech, artificial intelligence, autonomous driving, virtual reality, and the Internet of Things.

¹ <http://venturebeat.com/2017/02/24/personal-lending-company-sofi-confirms-500-million-funding-round/>

² <https://www.siliconrepublic.com/start-ups/grail-cancer-medtech-funding-startups>

Signs of optimism in US, despite lackadaisical Q1, cont'd.



Trends to watch for in the US

Given the increasing positivity in the US economy and the amount of dry powder in the market, VC activity is expected to accelerate over the coming quarters. As the US administration moves forward with deregulation plans, there may also be an upsurge in interest as corporate investors shift their attention from regulatory compliance to innovation. The legalization of marijuana in many states could also prompt interest in related technologies over the next 12 months.

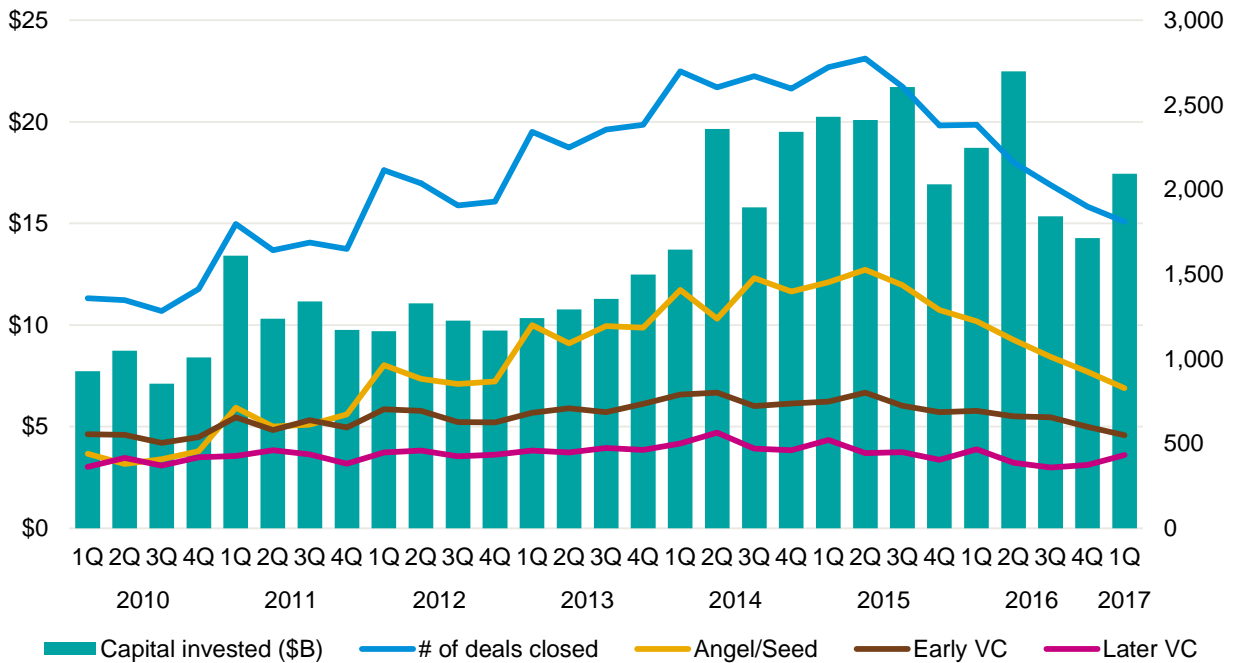
If the market continues to improve, the number of early-stage and angel/seed-stage deals is also expected to increase. With a significant amount of dry powder in the market and a number of technology subsectors evolving rapidly, investors will likely be keen to invest. Investor caution will not be thrown to the wayside, however. Companies seeking funding will still need to show strong business cases and paths to profitability in order to raise funds.

While artificial intelligence, fintech and the Internet of Things are likely to remain big bets in the VC market, automated driving is also expected to spur broad-ranging investments over the next year, particularly in tangential or affected fields such as insurance, ride hailing and post-market maintenance. With the technology advancing quickly, investors are starting to consider how the technology could affect the wider world.

VC barely takes a breather to kick off 2017

Venture financing in the US

2010 — Q1'17



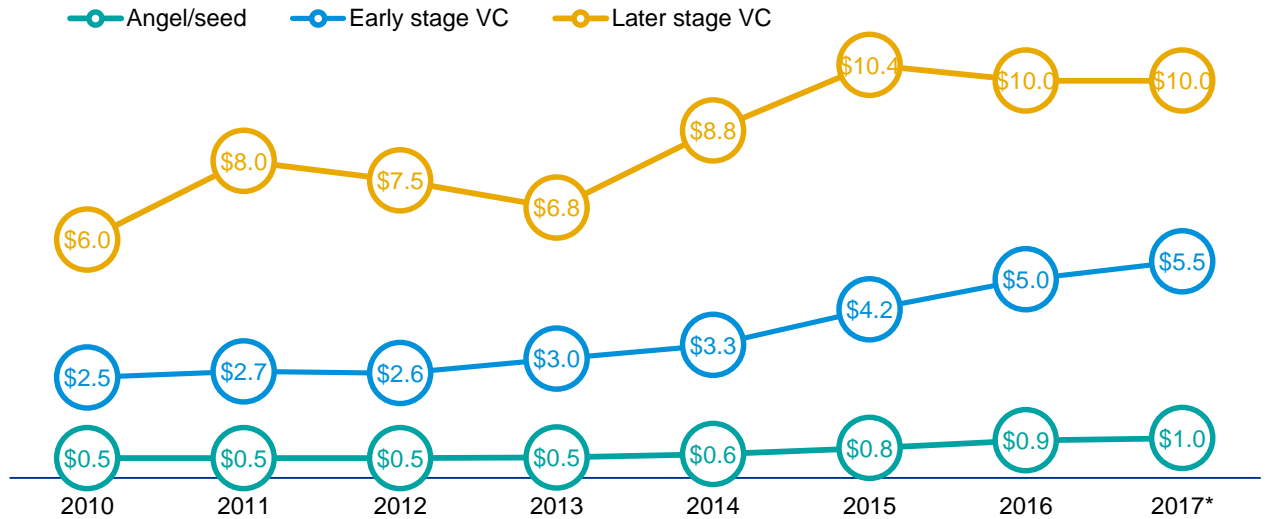
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Given that two mammoth financings alone accounted for close to \$2 billion invested in the first quarter of 2017, it's best to weight the level of completed venture financings when taking the pulse of the US VC scene. Accordingly, the minute decline between the final quarter of 2016 and Q1'17 speaks to what was forecasted in the prior Venture Pulse, a gradual leveling off in venture financing as investors remain cautious rather than concerned and, consequently, still continue to ply plenty of companies with VC.

Over 73% of all US VC rounds in Q1'17 were up

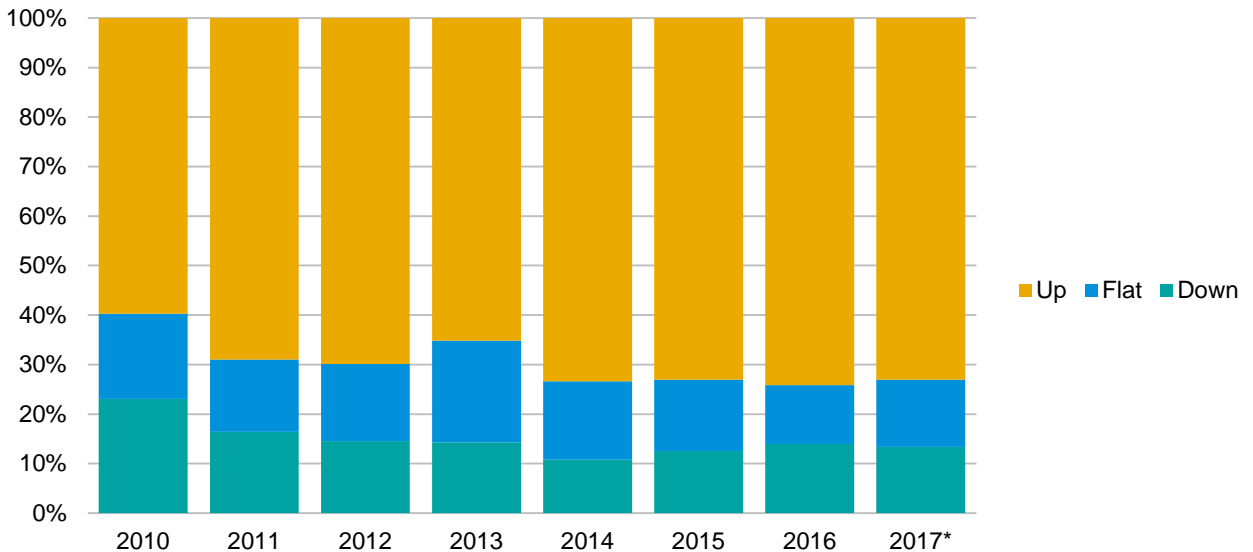
Median deal size (\$M) by stage in the US

2010 — Q1'17



Up, flat or down rounds in the US

2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

In another sign of leveling off amid what is admittedly a relatively pricey environment, median financing sizes have essentially plateaued, while proportionally up rounds remain, by and large, the norm.



Despite the lackluster VC activity in Q1'17 we exited 2016 with a lot of dry powder. That dry powder combined with a strengthening stock market, an improving IPO market and expectations of healthcare, regulatory and tax reform by the trump administration, suggests positive changes are on the horizon and clouds may be clearing for VC investments and exits for the rest of 2017. ”



Brian Hughes

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

Only the latest stages exhibit signs of tempering

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

2010 — Q1'17



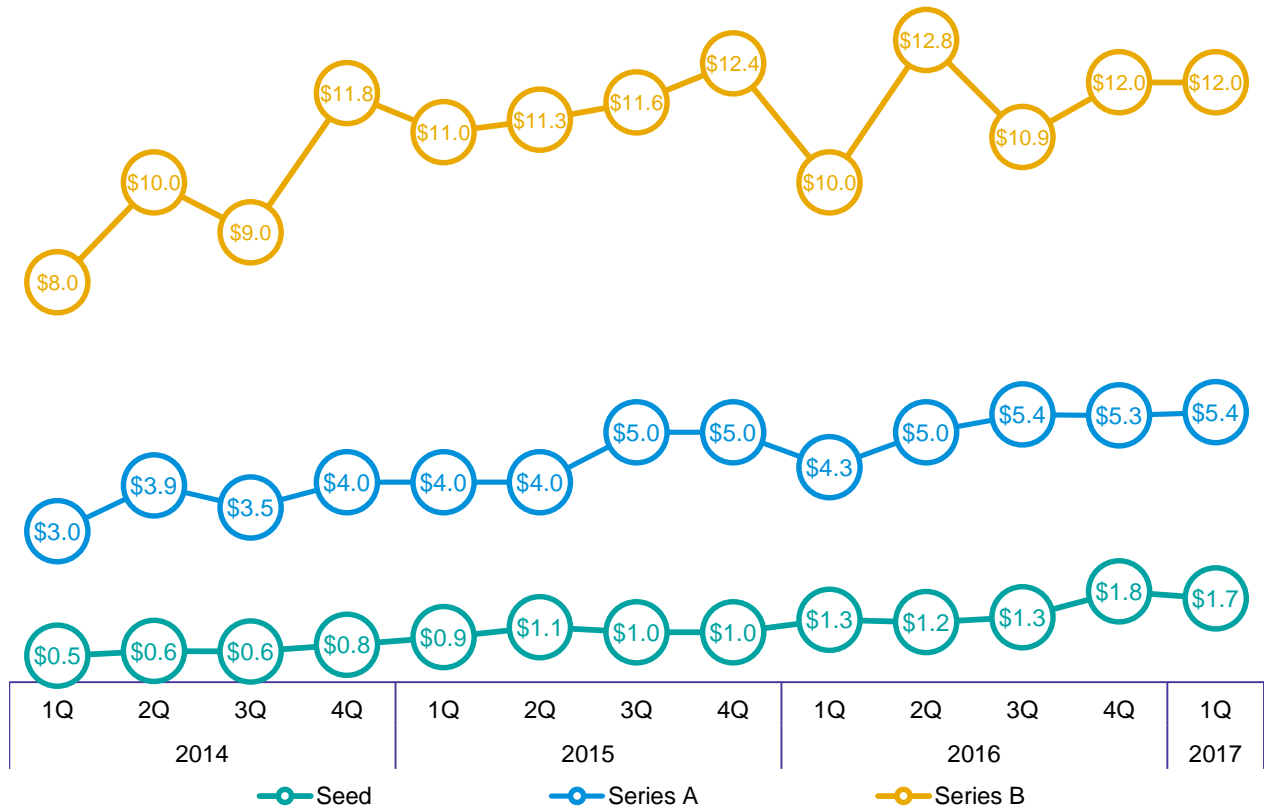
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Note: Figures rounded in some cases for legibility.

Will seed financings & valuations level off?

Median early-stage deal size by quarter in US

2014 — Q1'17



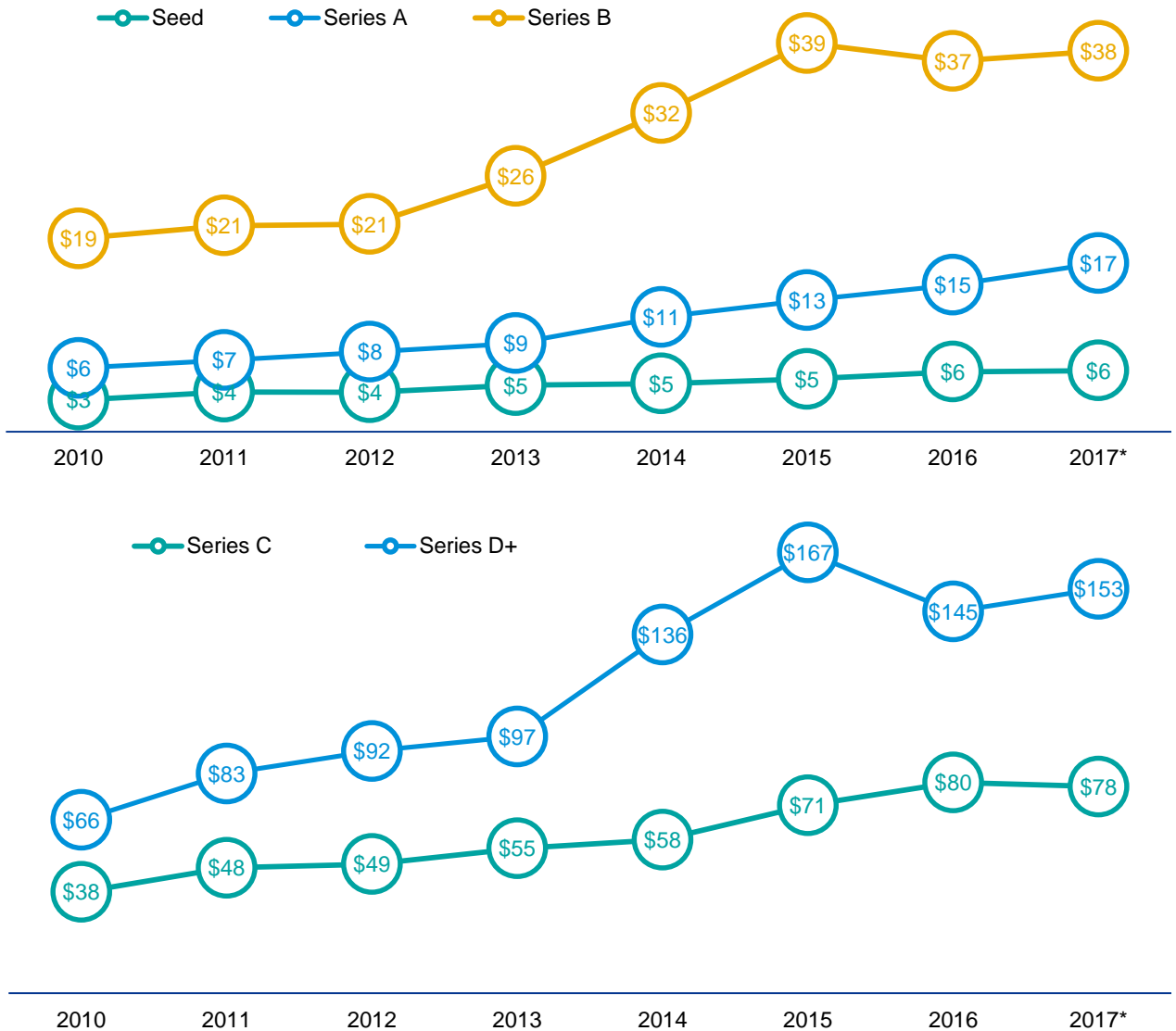
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Note: Figures rounded in some cases for legibility.

One of the more significant strategic shifts in the US venture scene, if not the world, has been the segmentation of the seed investment market into what some have dubbed pre-seed, seed and post-seed stages. The nomenclature may be vague, at best, but when considered in context of traditional early-stage rounds, it's clear just how dramatically the historical seed round has changed. Now, the question for investors and founders alike in 2017 is whether or not the seed market is set to level off? As can be seen on this page and the next, financing sizes and valuations have both leveled off, at least for the past half-year, at what is essentially double what used to be normal at the start of 2014. But, at the same time, both Series A and B rounds have also leveled off in size. This simultaneously occurring plateau hints that more of an equilibrium between investor demand and hefty amounts of capital available to deploy at even the earliest of stages could be establishing.

Valuations enter a heightened plateau

Median pre-money valuation (\$M) by series in the US
2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

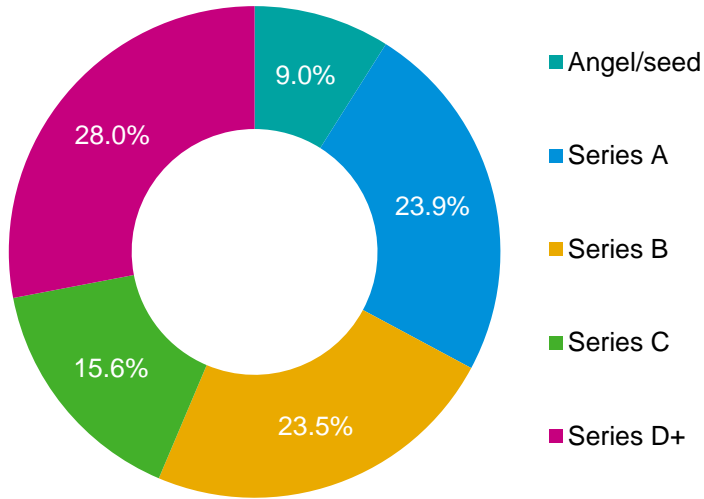
Note: Figures rounded in some cases for legibility.

Robust late-stage businesses can still command outsized financings and valuations at the late stage, as is evident from the mild uptick in Series D+ valuations to \$153 million in Q1'17. It should be noted that median valuations themselves may well still normalize as time goes on.

Volume tilts toward later stage

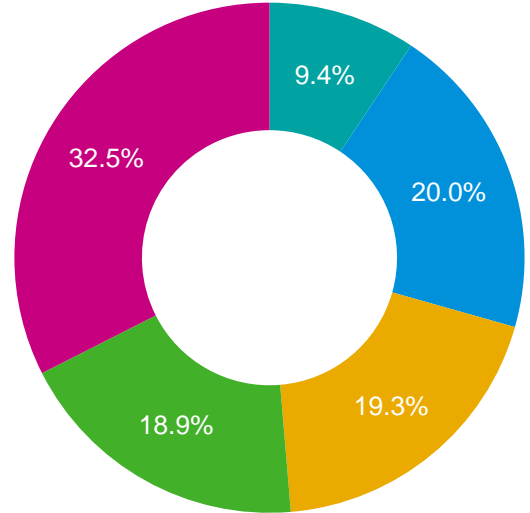
Deal share by series in the US

Q1'17, VC invested (\$B)



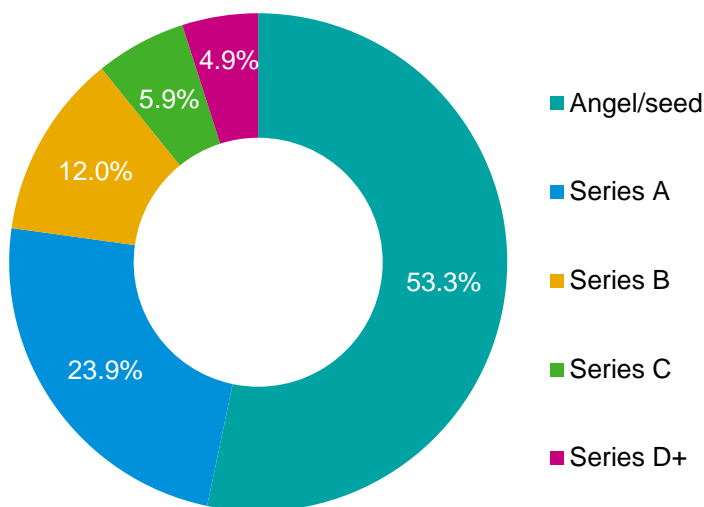
Deal share by series in the US

2016, VC invested (\$B)



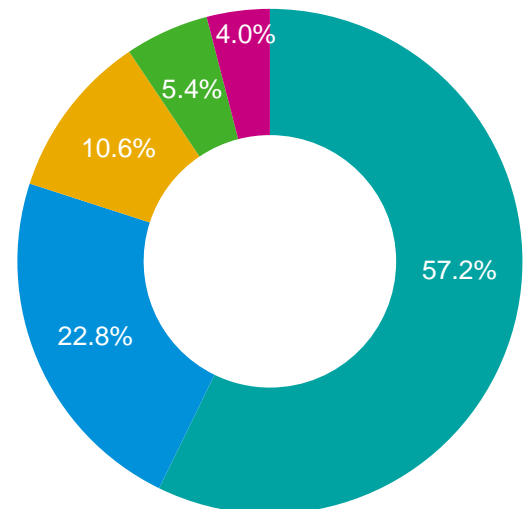
Deal share by series in the US

Q1'17, number of closed deals



Deal share by series in the US

2016, number of closed deals

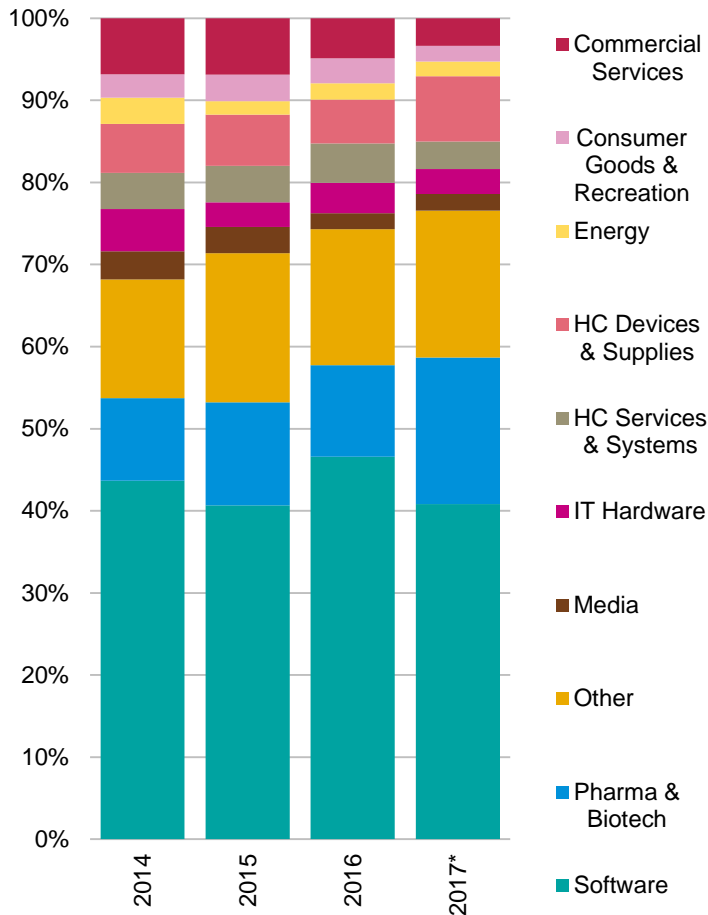


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Pharma & biotech account for \$3.1B

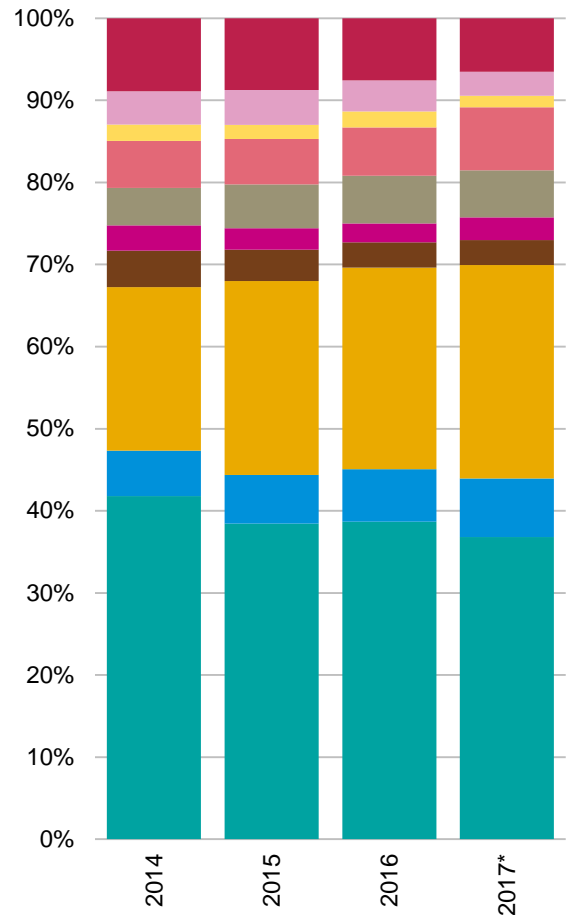
Venture financing by sector in the US

2014 — Q1'17, VC invested (\$B)



Venture financing by sector in the US

2014 — Q1'17, number of closed deals



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

The extent to which pharma & biotech companies saw their proportion of capital invested in Q1'17, relative to their number of financings, is striking. Granted, the disparity is likely to resolve as 2017 proceeds, however at \$3.1 billion in VC invested alone, it's clear firms are willing to make huge bets on even fledgling businesses such as Grail, which raked in a tranche of \$914 million alone in February 2017.



Corporate VC investment is only expected to grow over the next year, both in terms of traditional innovation investments aimed at making companies more competitive in light of new competition, and in terms of transformational investment and acquisitions in order to allow corporates to pivot faster to enable growth and venture into new customer channels. Intel's massive investment in Mobileye is a prime example of this. ”



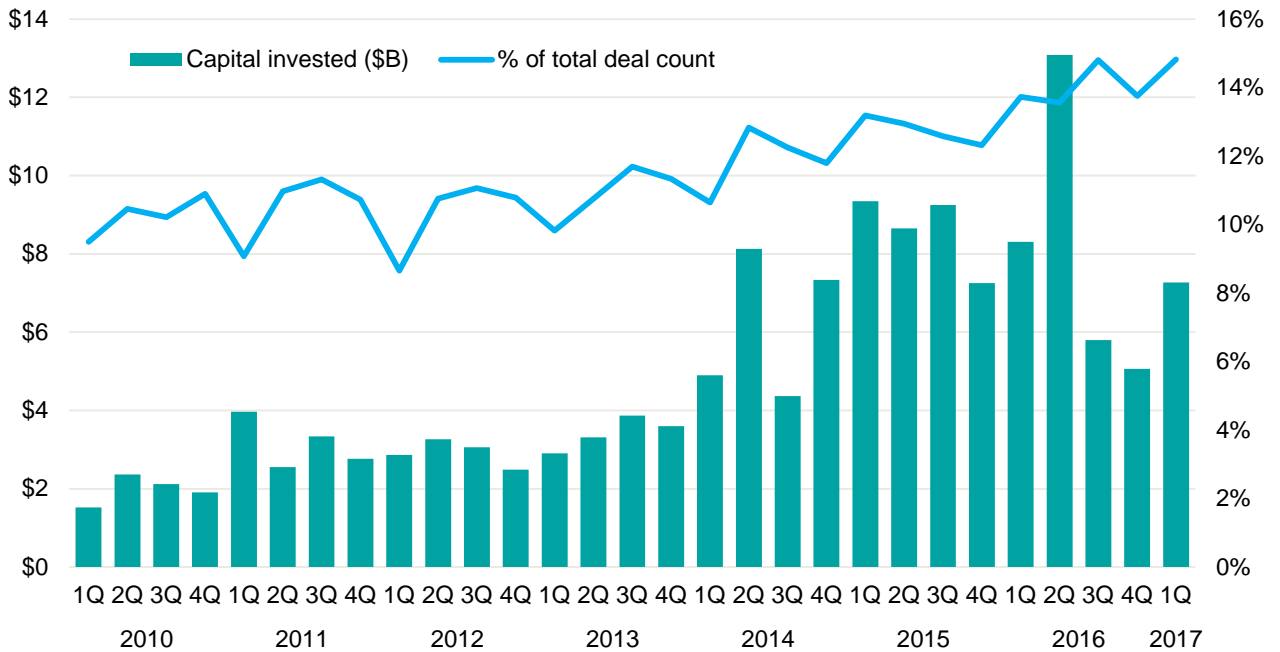
Mihir Jobalia

Managing Director, Corporate Finance
KPMG in the US

Corporates remain involved in VC at all-time highs

Corporate participation in venture deals in the US

2010 — Q1'17



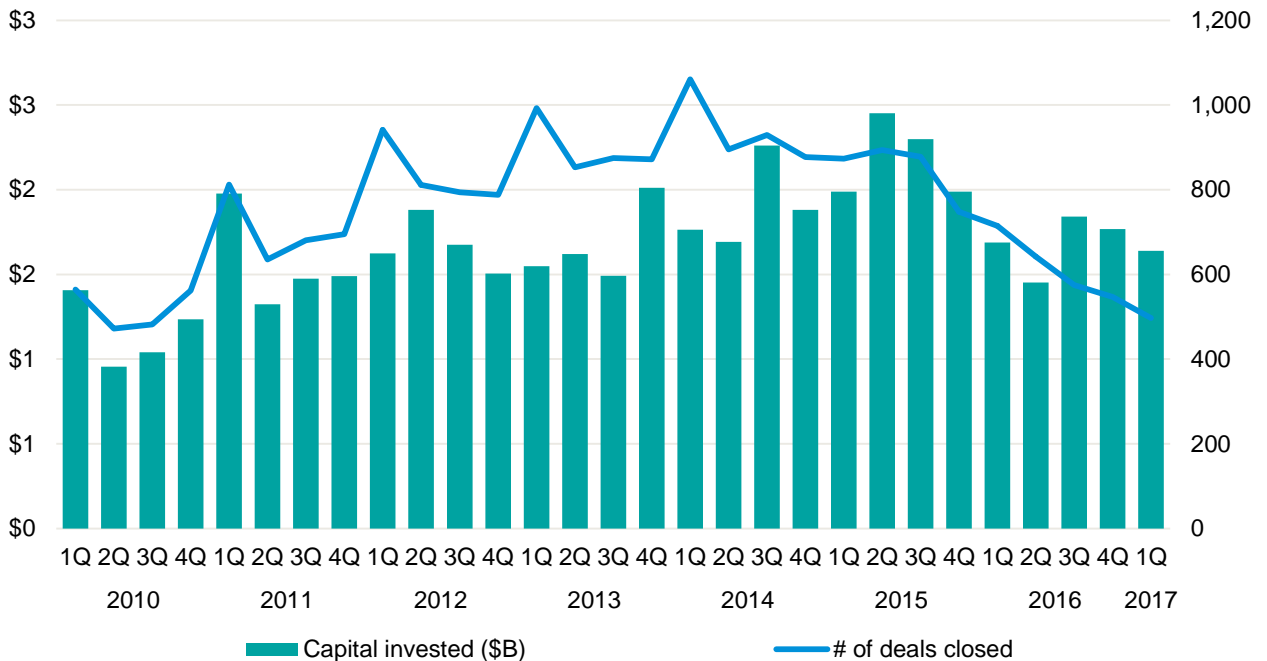
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

At over 14% of all completed US venture financings in Q1'17, the participation of CVCs has rarely been as significant to the overall industry. The aggregate value of accompanying financings, which surged back up to \$7.3 billion after dwindling somewhat, only further testifies to how focused corporations and other affiliated investment arms are on maintaining exposure to potentially disruptive startups within their fields or related niches.

Even as activity has trended down, sums invested remain resilient

First-time venture financings of companies in the US

2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

First-time financings in the US remain at levels unseen since 2010, yet the fact no less than \$1.6 billion was invested, even amid so many fewer rounds, is telling. The perception of risk by investors is taking its toll to some degree, but more as to the number of companies that are deemed eligible for the hefty kinds of rounds that are still in vogue these days.



Similar to MuleSoft in Q1'17, other business process companies — those startups focused on making traditional corporates more efficient and effective — will likely be represent successful IPOs through the remainder of the year. This is a function of less agile businesses feeling the pressure to become more nimble, more flexible and more able to protect against the threat of cyber attacks. ”



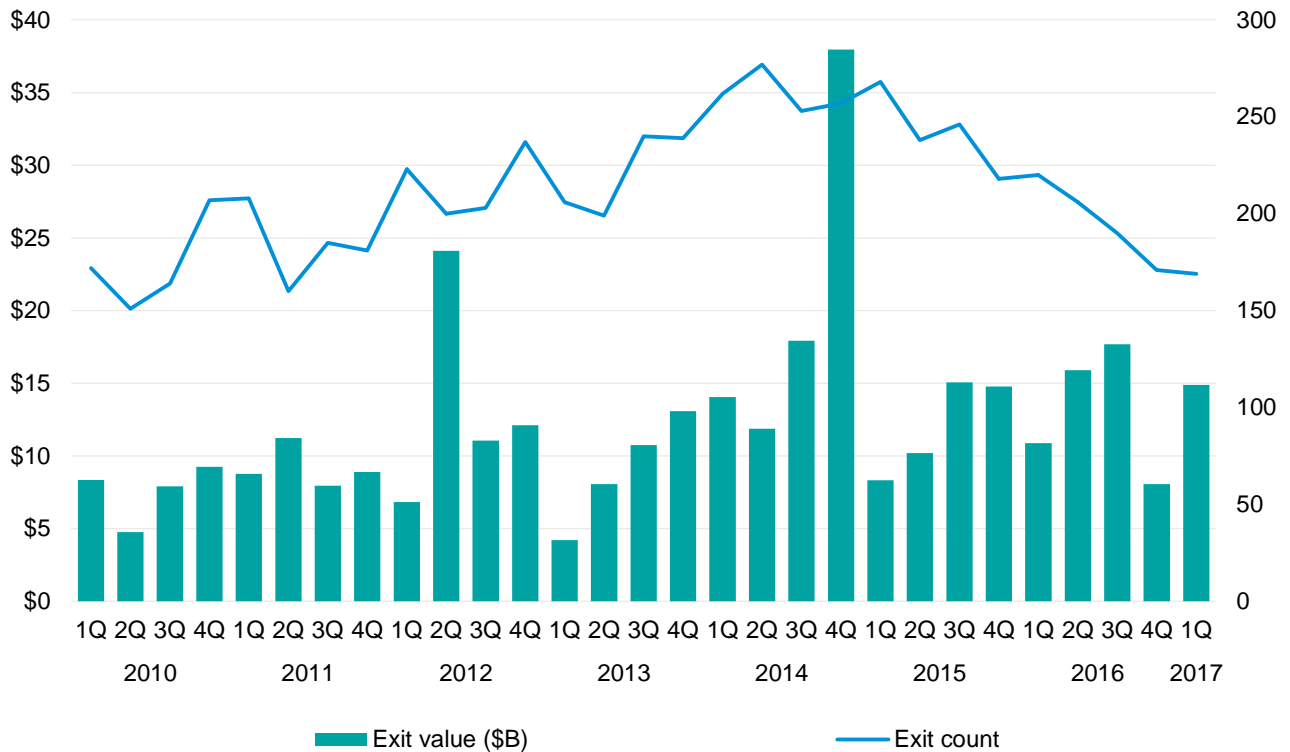
Conor Moore

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

US exit tallies return to historical mean in volume, overall value still variable

Venture-backed exit activity in the US

2010 — Q1'17



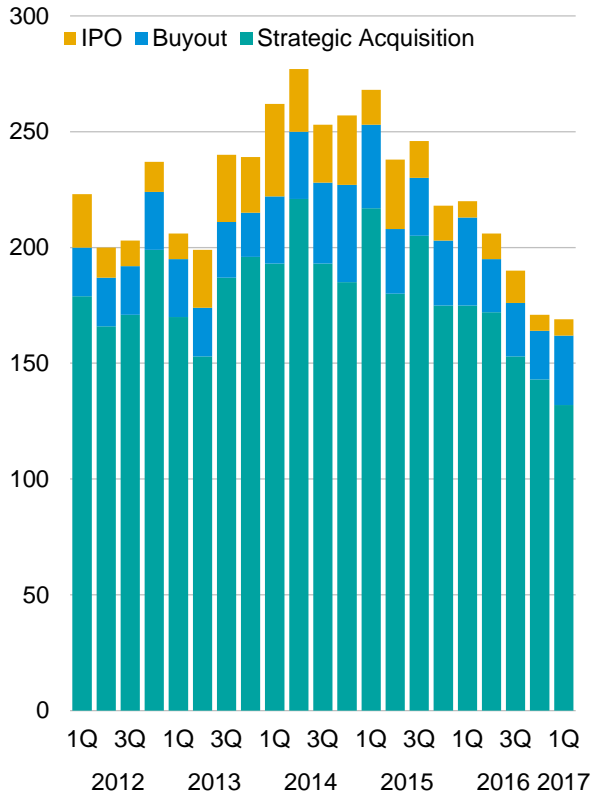
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Skewed by Snap's highly publicized debut, exit value in Q1'17 rebounded significantly from the depths of the final quarter of 2016, hitting close to \$15 billion. Furthermore, exit counts leveled off. All in all, sales of venture-backed companies could have bottomed out at roughly around historical averages and, although any rebound to anything like what was observed in 2014 and 2015 is unlikely, prospects may be brightening somewhat.

M&A still likely to drive exit value

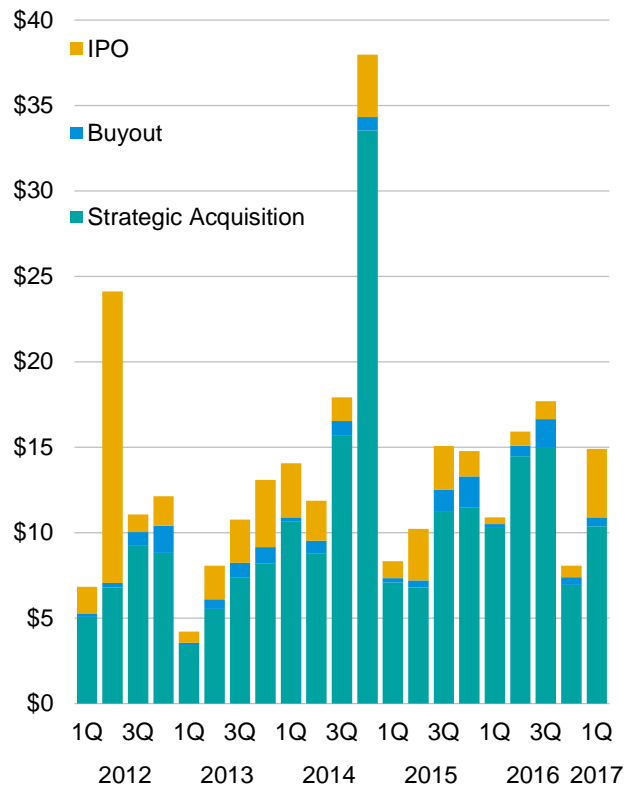
Venture-backed exit activity (#) by type in the US

2012 — Q1'17



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

2012 — Q1'17

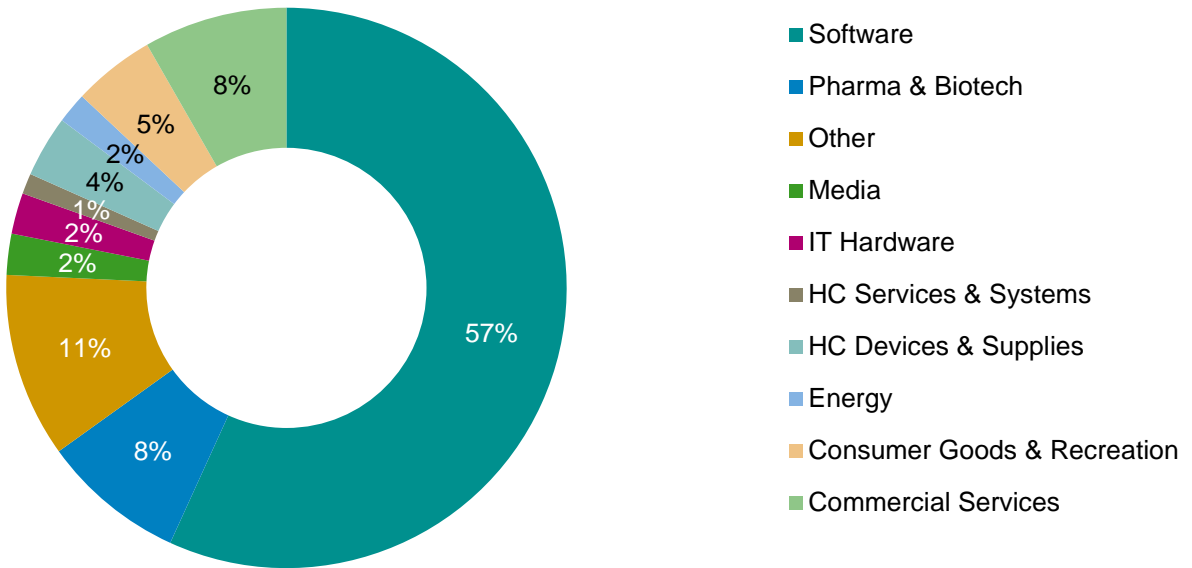


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

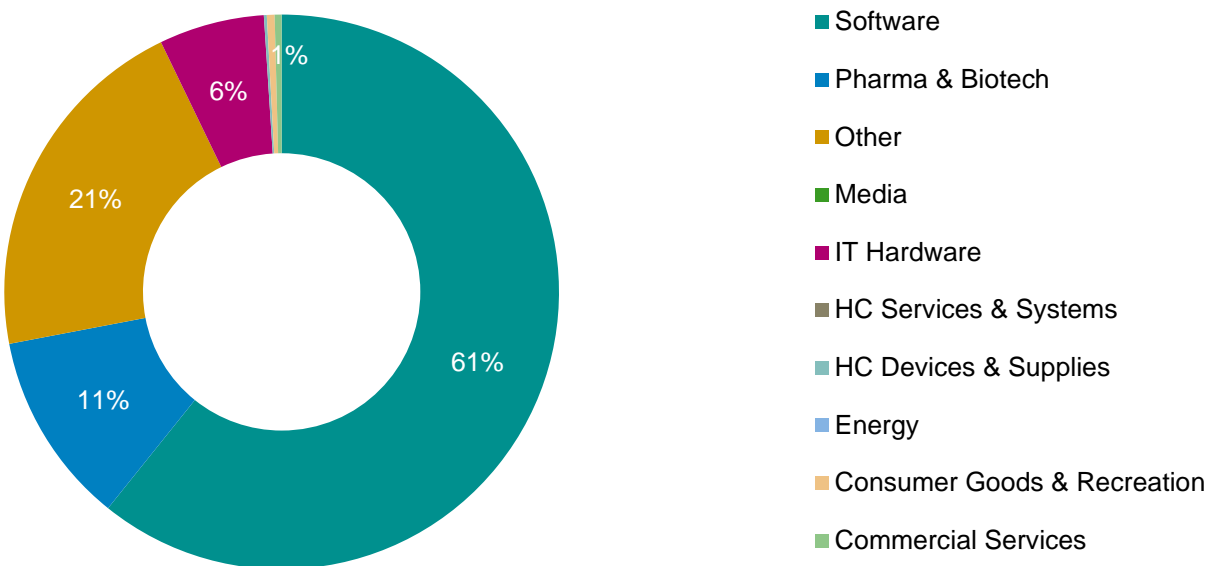
Strategic buyers paid just under \$10.4 billion for US-based, venture-backed companies in Q1'17, a recovery of sorts from the low of \$6.9 billion recorded in the closing quarter of 2016. Corporates are still willing to pay up for VC portfolio companies, with notable acquisitions, such as Cisco's pending purchase of AppDynamics still exemplifying appetites for innovation and acquisitive growth.

Software booms back in Q1'17 at \$9.05B in exit value

Venture-backed exit activity (#) by sector in the US
Q1'17



Venture-backed exit activity (\$B) by sector in the US
Q1'17

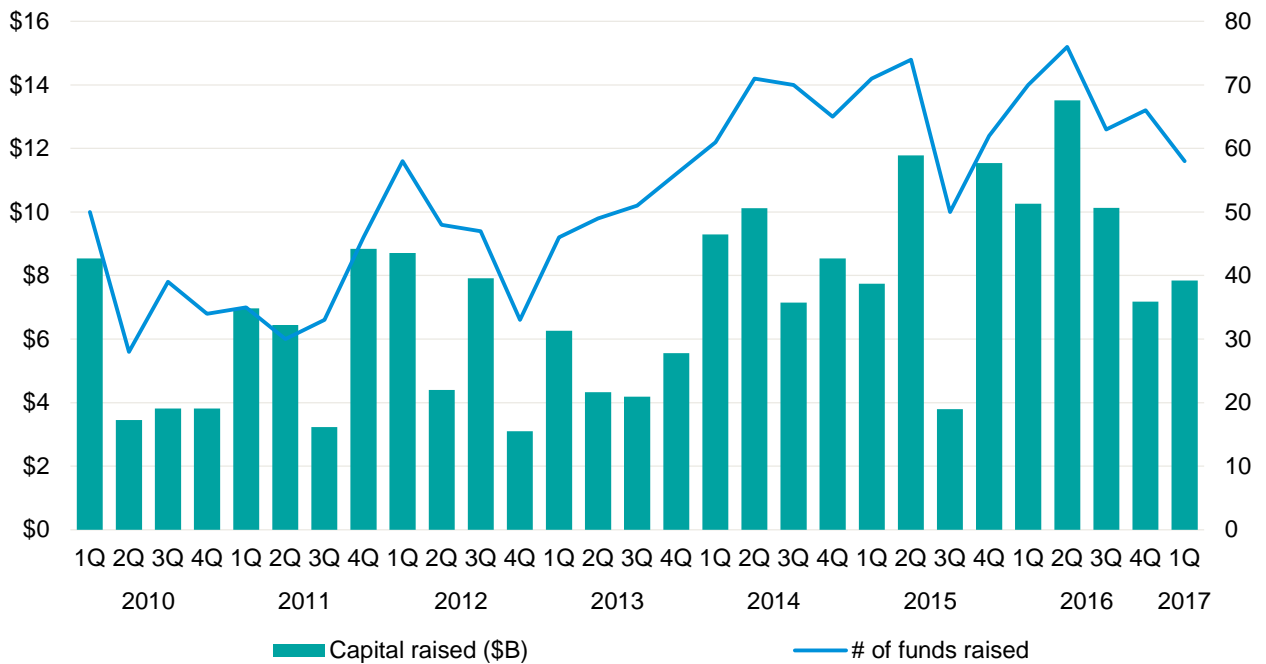


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

US venture fundraising remains by and large healthy in Q1'17

US venture fundraising

2010 — Q1'17



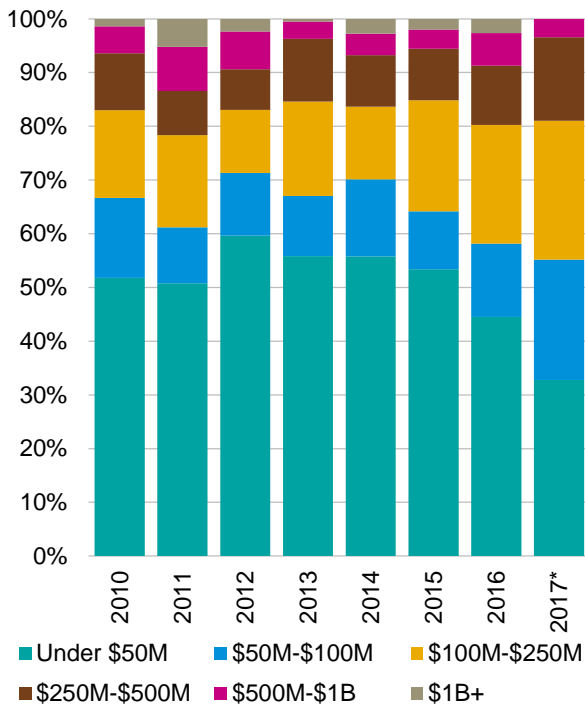
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Even after a remarkably robust year for US fundraisers, with \$41.1 billion amassed across 275 venture vehicles, the first quarter of 2017 saw significant success. No less than \$7.85 billion in commitments were collected across 58 completed fundraises. Limited partners' appetite for maintaining or increasing their VC allocations remains more than intact.

Fundraising leans even more toward larger vehicles

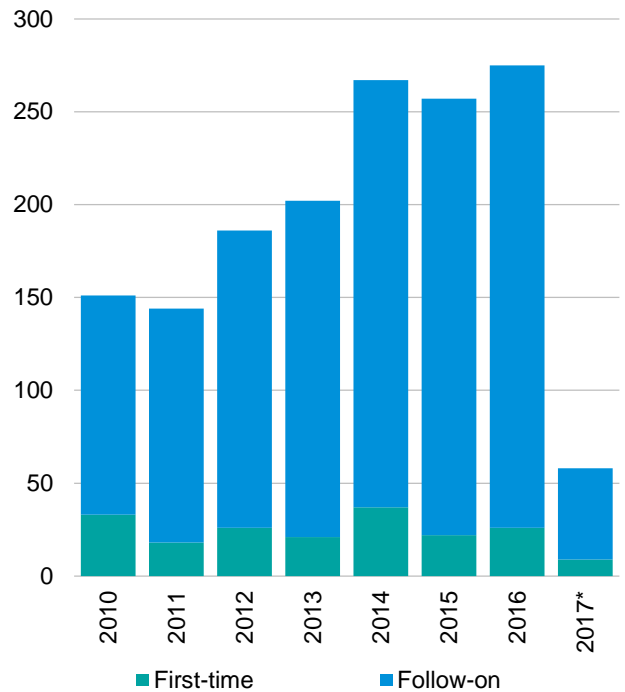
Venture fundraising (#) by size in the US

2010 — Q1'17



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

2010 — Q1'17



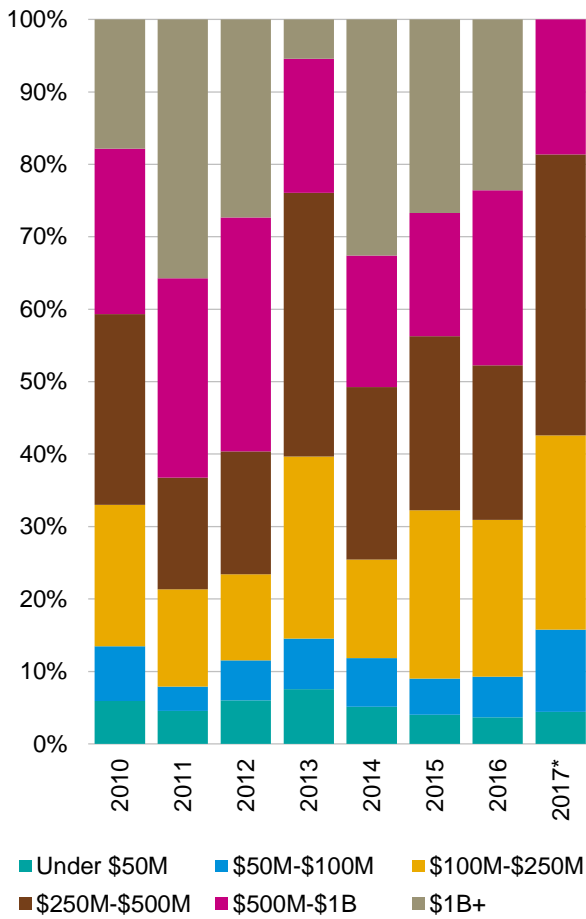
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

On a proportional basis, fund sizes in the US still trended even more in favor of larger vehicles throughout Q1'17, although no fewer than nine first-time funds closed on \$840 million. It's not so much a symptom of LPs' unwillingness to back first-time managers as an inevitable result of a maturing venture industry that the balance of fundraising is tilting toward larger and larger vehicles.

A temporary resurgence in VC raised by smaller or first-time funds

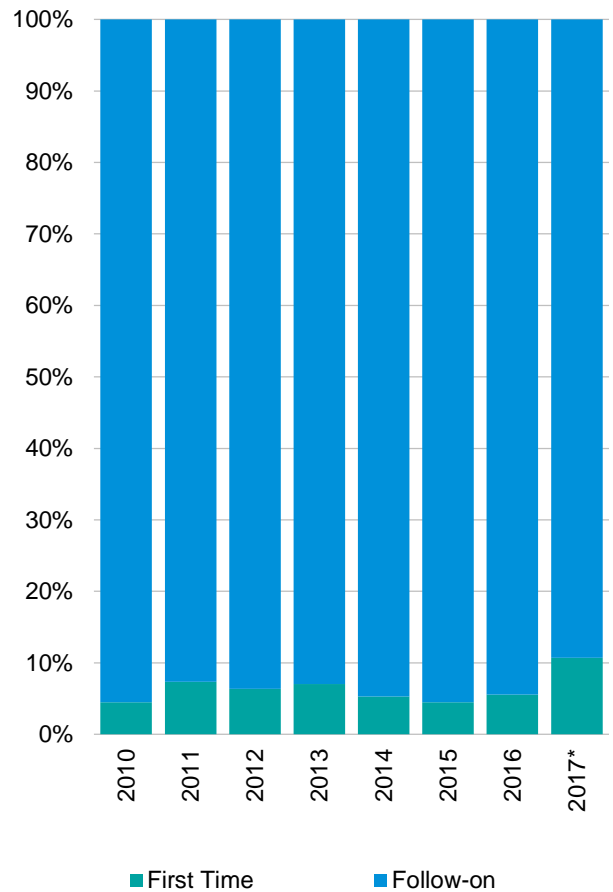
Venture fundraising (\$B) by size in the US

2010 — Q1'17



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

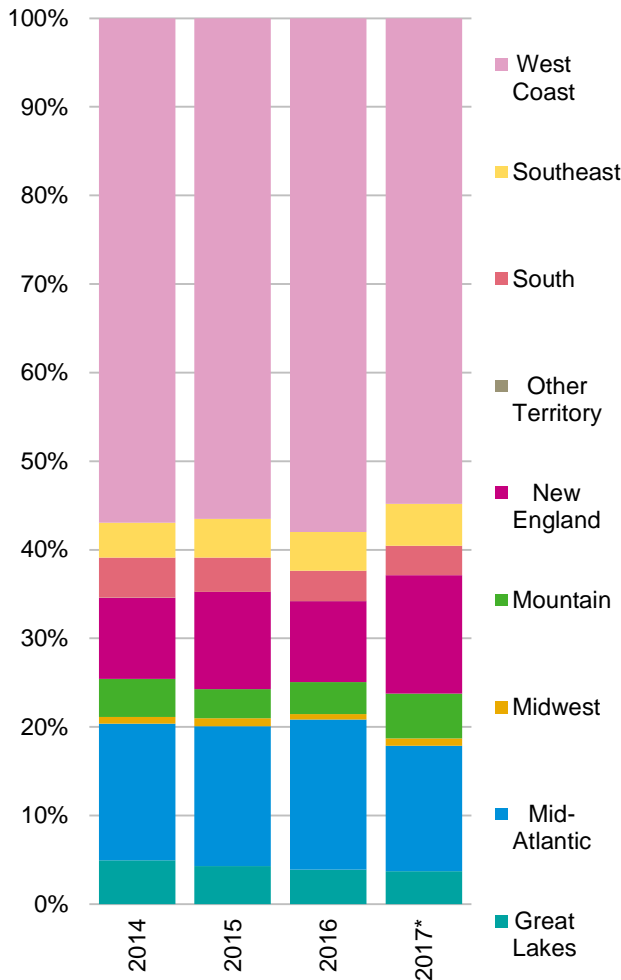
2010 — Q1'17



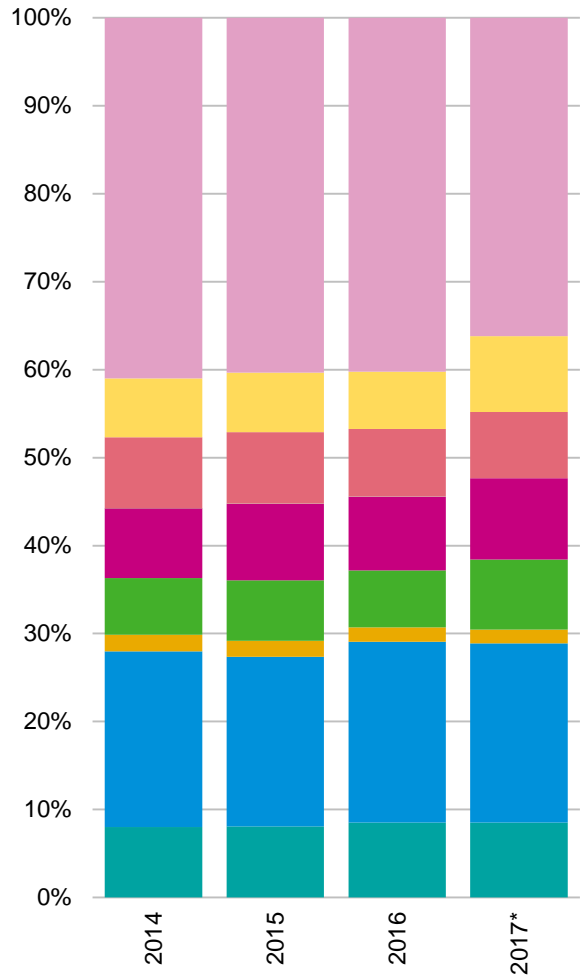
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

New England rakes in a disproportionate percentage of VC invested in Q1'17

US venture activity (\$B) by US region
2014 — Q1'17



US venture activity (#) by US region
2014 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Will 2017 see the IPO window reopen?

Select venture-backed US companies currently in IPO registration by offering size (\$M)

Company name	Offering size (\$M)	Last VC financing post-valuation (\$M)	Last financing series	HQ city	Industry group
Cloudera	\$200	\$4,110	Late stage	Palo Alto	Database software
Okta	\$154	\$1,180	Series F	San Francisco	Network management software
Elevate Credit	\$100.1	\$452.4	Revolving credit	Fort Worth	Consumer finance
Yext	\$94.5	\$525	Late stage	New York	Media & info services
Tocagen	\$79.6	\$356	Series H	San Diego	Drug discovery
OrthoPediatrics	\$75	\$91.6	Series B	Warsaw	Surgical devices
AppNexus	N/A	\$1,600	Series F	New York	Media & info services

Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

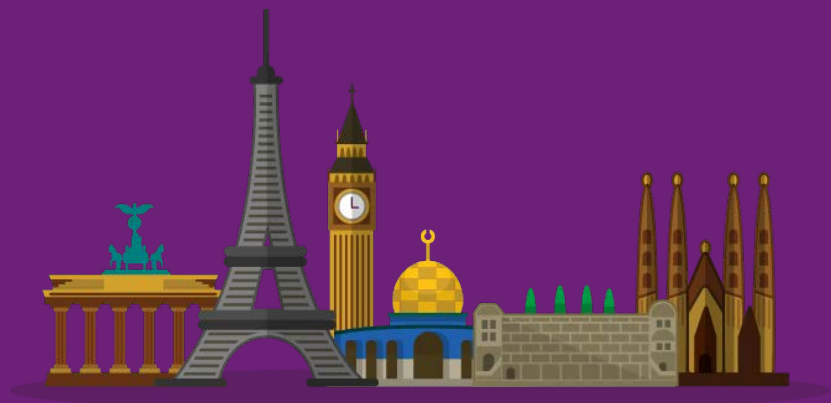
Some of the businesses on the above table do not immediately leap to mind as prime examples of the late-stage venture boom that produced unicorns, but regardless, their registration and late-stage status speaks to the potential that they are hoping to seize this year, with public markets still coasting high and still-strong appetite for exposure to potentially high-growth tech companies.

*In Q1'17 European
VC-backed companies
raised*

\$3.4B

across

565 deals



Slow deal activity in Q1'17 across Europe, however, fundraising remains strong



Fueled by political uncertainty, Europe's VC ecosystem had a reasonably slow start to the year. Despite a drop in both deal activity and total investment volume during Q1, there are positive signs for a turnaround. Brexit and related activity throughout the EU have been an ongoing source of uncertainty and a significant driver behind recent investor caution. However, with the UK formally triggering Article 50 of the Treaty of Lisbon in late March and the continued strength of the UK seen in Q1, investors may resume more normal activity levels in coming quarters.



Late-stage funding a safe harbor during uncertainty

Big raises for established, late-stage businesses dominated much of Q1, as investors sought more stable investments. Early-stage deal activity continued a 4-quarter pattern of decline, as VCs looked to de-risk their investments and backed primarily proven ideas and startups that had demonstrated early traction.



Strong VC fundraising throughout quarter

Q1 was a strong quarter for investment in VC funds. London-based VC Atomico made headlines, raising \$765 million for its Atomico IV fund, which will focus on investments from Series A onwards. This, and other similar fundraises is part of a growing trend for capital to be concentrated in a smaller number of VCs with proven portfolios, providing investors with the ability to support mature, later stage companies, while ensuring that their investment does not become diluted. The corporate venture arm of Rocket Internet out of Berlin also raised \$1 billion during Q1 to back internet companies around the globe. At the same time, a number of smaller funds has recently been established across Europe by serial entrepreneurs and angels who are using their networks to gain line-of-sight on the best deals at the earliest possible stages. For example, Front Line Ventures, in Ireland, closed a €60 million seed and pre-seed fund, which is expected to provide a stronger local capacity for early-stage funding.



Growing interest and investment in European startups from US VCs

The foreign exchange rate post-Brexit encouraged an increase in US VC participation, and this trend has continued to grow. As prices and valuations in the US have become more aggressive, investors have started looking elsewhere for investment opportunities, and companies in maturing European markets, such as Ireland, Israel and Spain present attractive opportunities. To enable a closer connection with their investments, and to overcome challenges imposed by physical location, many US investors are choosing to syndicate with European VC partners, with the funding rounds led by the EU investors.

In some areas, the state of US politics has caused a slight slowdown in investment activity, with indications that some VCs are holding off on bigger plays until details of US tax reforms are announced. This should resolve within a few months, once clarity around tax reform is achieved.



Ireland poised to become a springboard to European market

Dublin is increasingly being chosen as the European headquarters for multinational companies such as Amazon and LinkedIn, as well as growing firms, such as Kabbage. Other companies, especially in Ireland's strong fintech market, increased operations and added headcount throughout Q1¹.

Brexit is certainly a factor in this trend, as Ireland will remain a member of the EU and is well-positioned to serve as a springboard to the vast European market. Ireland's straightforward tax regime and strong tech talent base are also motivators. When Ireland's General Data Protection Regulations come into law on 18th of May, the country will also be able provide a consistent data protection framework, an important factor for firms that hold significant banks of customer data.

¹ <https://www.siliconrepublic.com/start-ups/life-sciences-start-ups-ireland>

Slow deal activity in Q1'17 across Europe, however, fundraising remains strong, cont'd.



Tech giants confident in a post-Brexit UK

While concerns remain over the potential impacts of Brexit on the UK technology scene remain, major players in the industry are showing their confidence in the UK's strength in years to come. Apple, social media powerhouse Snap, and Japanese tech fund SoftBank have all recently chosen London for their international headquarters. UK startups in traditional industries such as financial services, life sciences and biotech have also continued to attract attention, during Q1, with strong raises from Currency Cloud, Funding Circle and Atlas Genetics.



Increased emphasis on corporate VC in France

Much of the current investment activity within France stems from state and corporate venture capital investment, rather than VC firms². Big players in banking, insurance, energy and utilities have all increased their investments in smaller or mid-sized companies in recent quarters, especially within the tech sector, as a method of transforming their business models. The French government is also increasing activity to both organize the ecosystem and provide more support for early-stage tech startups³.



Uncertain outlook for exits

While a number of more mature players in the European market have announced their intent to IPO, concerns remain that the appetite of institutional investors is not where it needs to be for a liquid capital market, especially for younger companies. Spotify and Deliveroo are near the top of a list of about half a dozen larger companies that are expected to look for an IPO, however, the IPO market is expected to remain quiet in coming quarters.



European trends to watch for

Following the trigger of Article 50 and the news from early Brexit negotiations, activity in Q2 is expected to be decisive for the rest of the year. The current sentiment appears positive, with expectations of increased levels of activity, especially in deep tech sectors, including AI, cognitive learning, Internet of Things, and blockchain.

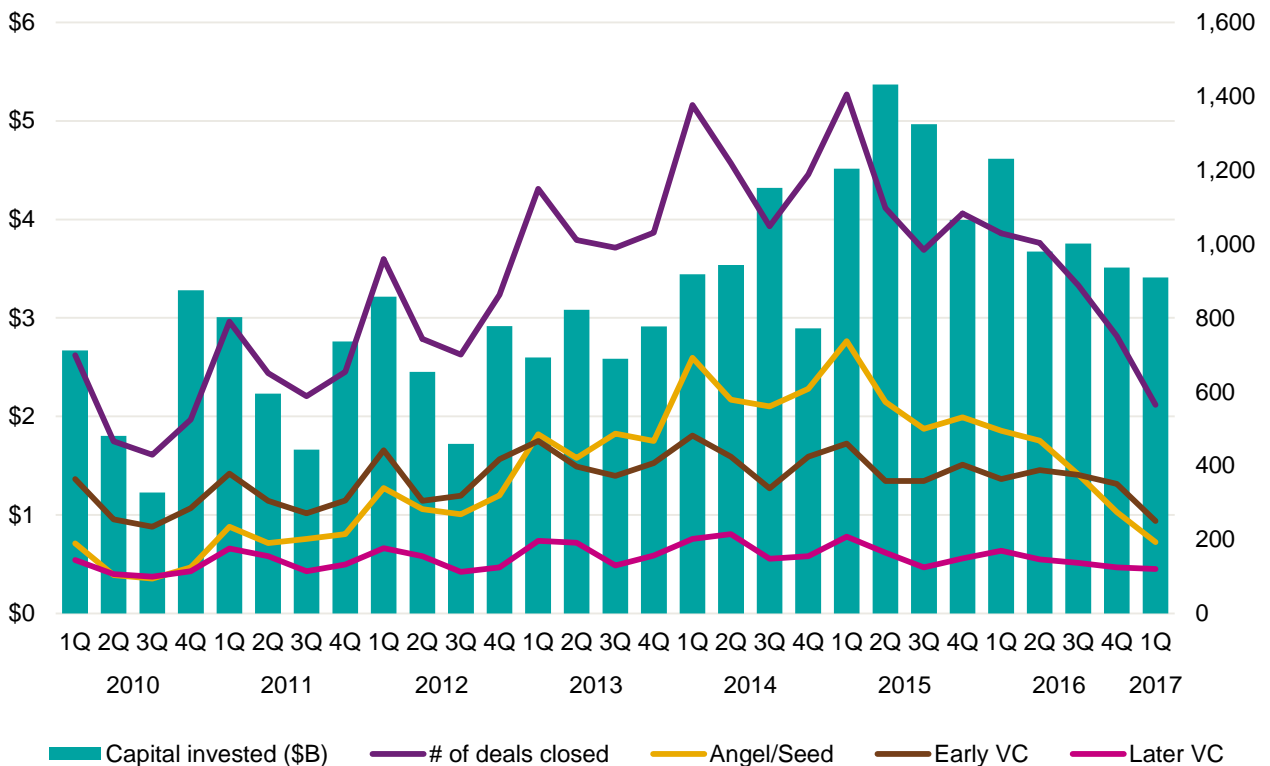
² <http://venturebeat.com/2017/02/01/how-a-new-wave-of-french-startups-are-taking-a-global-approach-to-change-frances-economy/>

³ <https://www.ft.com/content/d0f0d09a-b6fc-11e6-ba85-95d1533d9a62>

Total sums invested stay relatively flat, even as completed transactions' volume slides

Venture financing in Europe

2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Although European venture activity slid again between the final quarter of 2016 and Q1'17—by no less than 45% when compared to Q1 2016 volume—the robustness of total capital invested is noteworthy. In total \$3.4 billion was invested in the first quarter of 2017, a tally higher than some quarters in 2014 registered. More so than in other developed venture markets, European figures are skewed by timing and the predominance of metropolitan areas.



The slow start to 2017 is not surprising, as macroeconomic matters across the EU and in the US are contributing to investor caution. However, we do expect investor appetites to pick up later in the year as we all come to terms with the new normal.



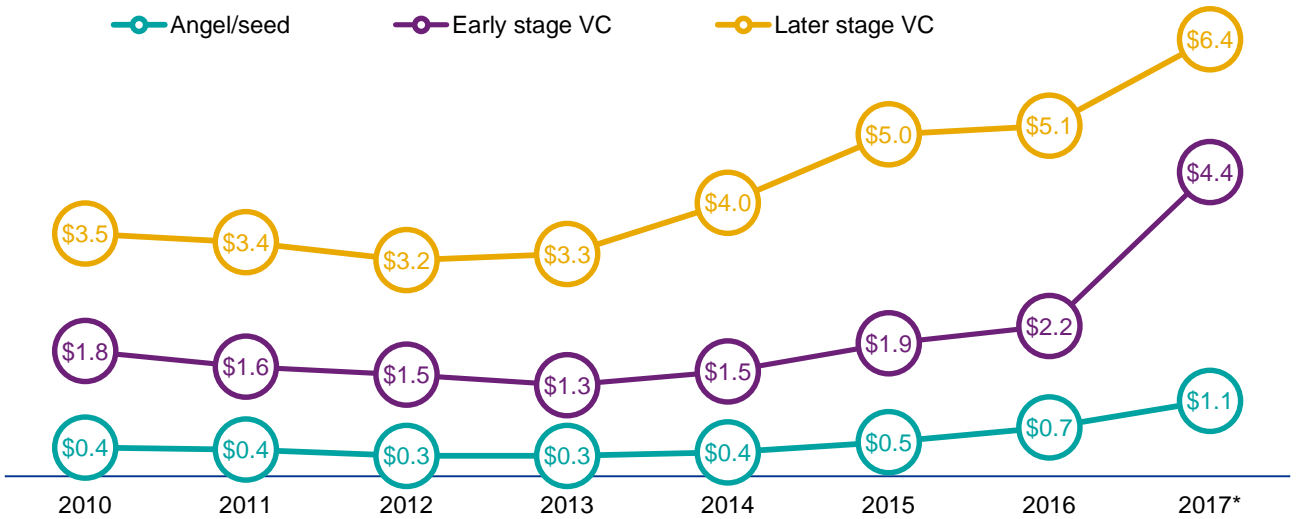
Anna Scally

*Partner, Head of Technology, Media and Telecommunications,
KPMG in Ireland*

Decline in completed financings leads to significant skew at the early stage

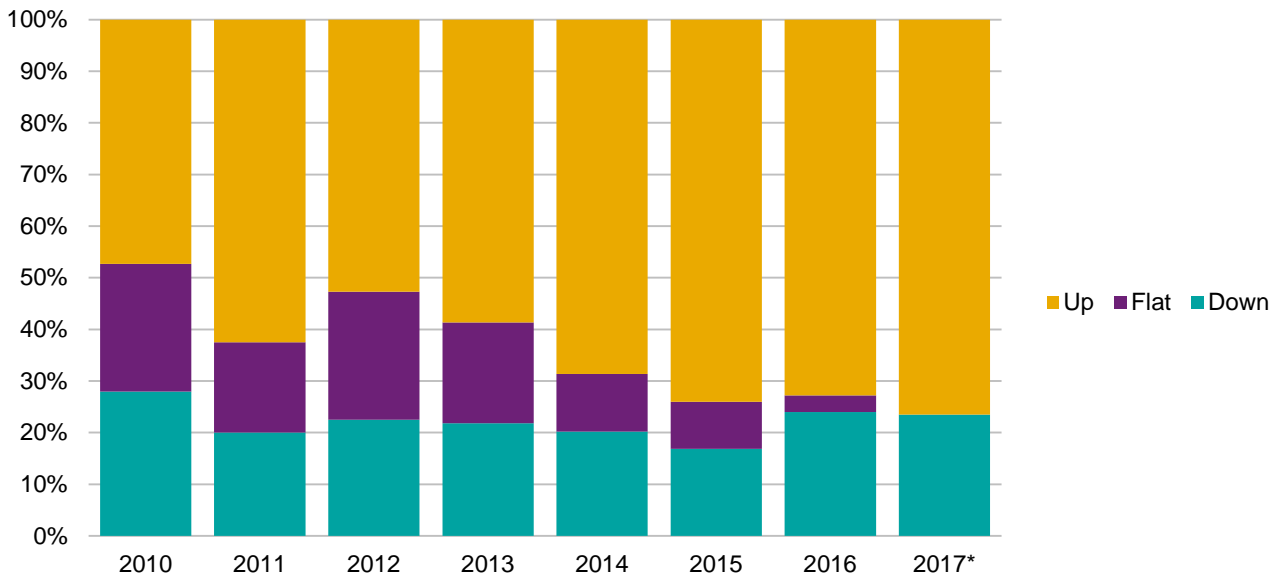
Median deal size (\$M) by stage in Europe

2010 — Q1'17



Up, flat or down rounds in Europe

2010 — Q1'17

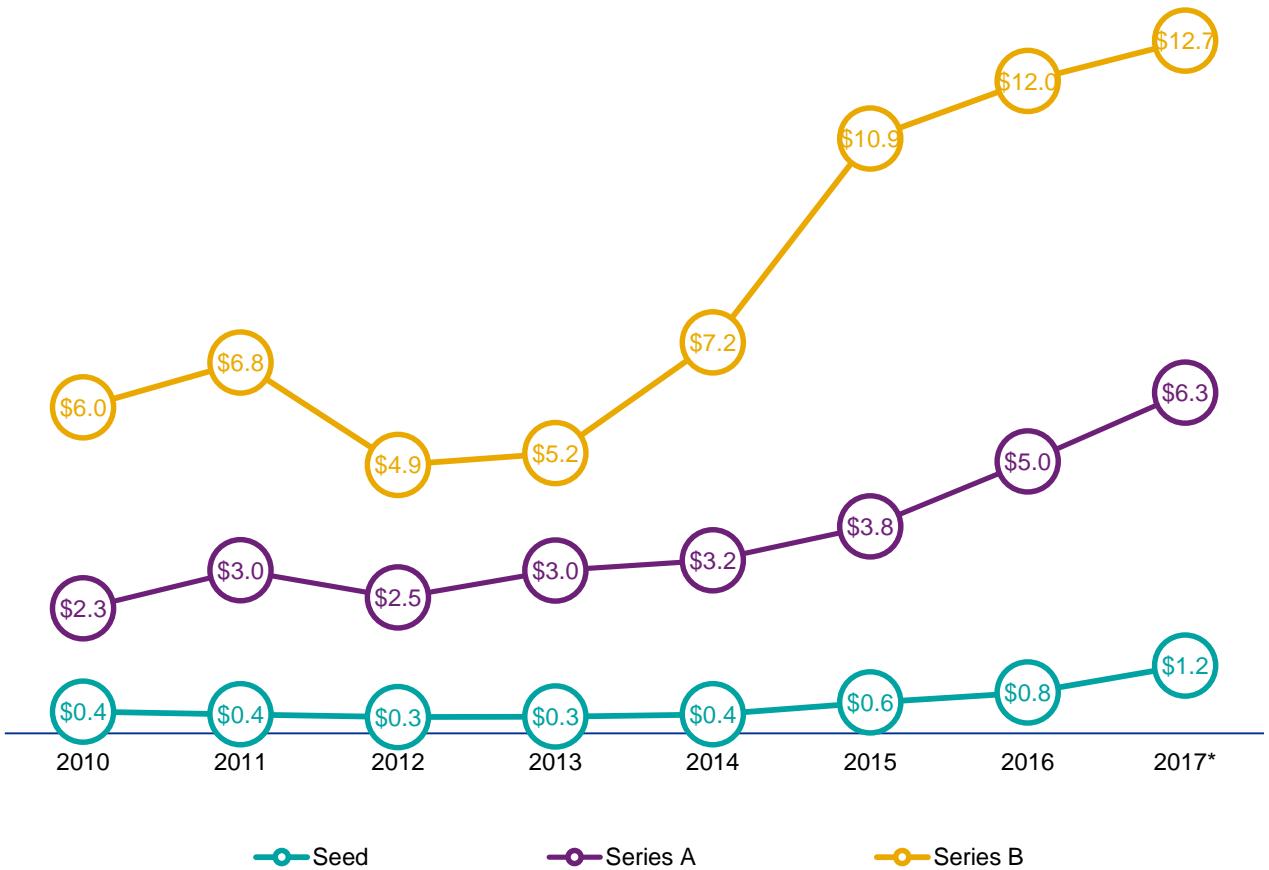


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Early-stage numbers continue to rise

Median deal size (\$M) by series in Europe

2010 — Q1'17



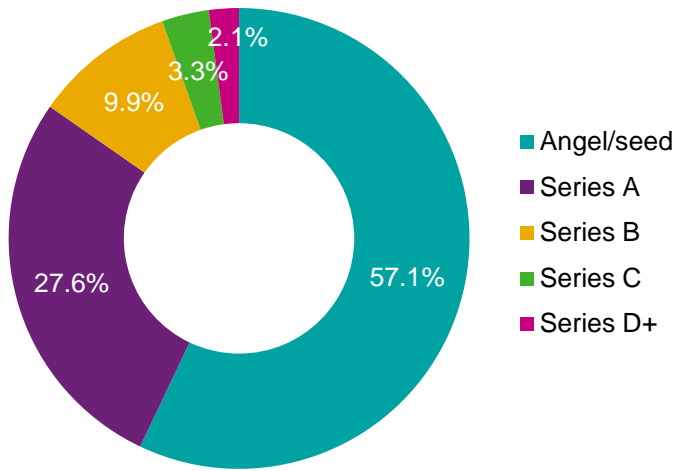
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

The unabated increase in median financing sizes at Series A and B is testament to timing, the limited number of companies deemed less risky by VCs and, last but not least, the significant amounts of dry powder investors have on hand to deploy. As demand remains high, yet supply of eligible targets dwindles, prices are simply rising.

Angel & seed investing takes a hit

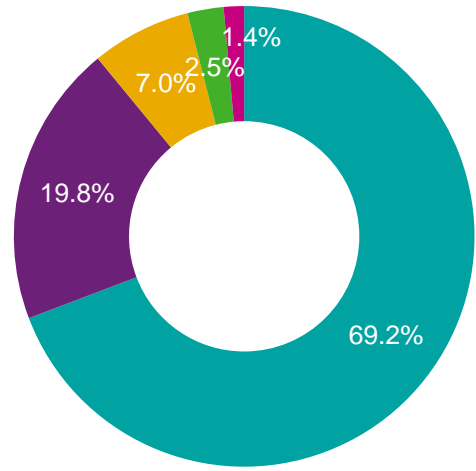
Deal share by series in Europe

Q1'17, number of closed deals



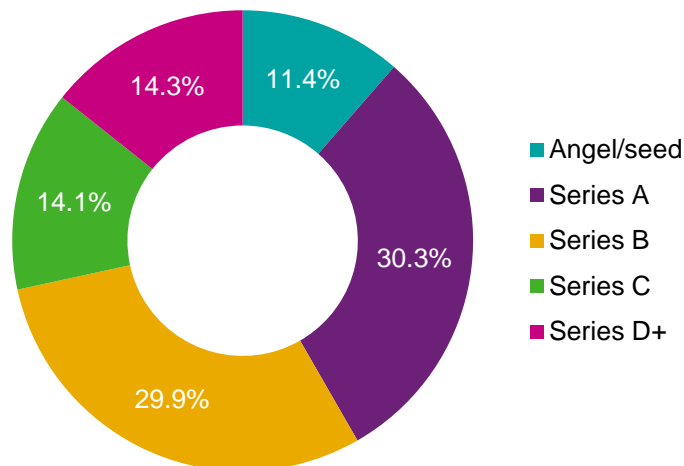
Deal share by series in Europe

2016, number of closed deals



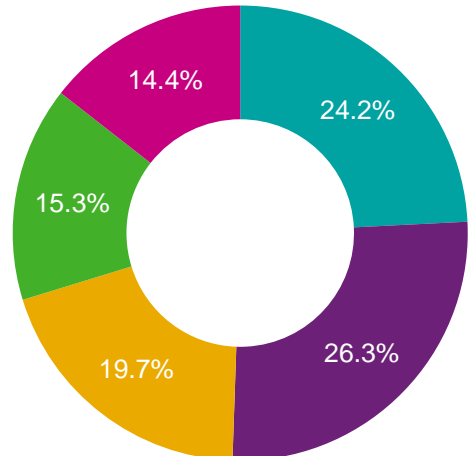
Deal share by series in Europe

Q1'17, VC invested (\$B)



Deal share by series in Europe

2016, VC invested (\$B)

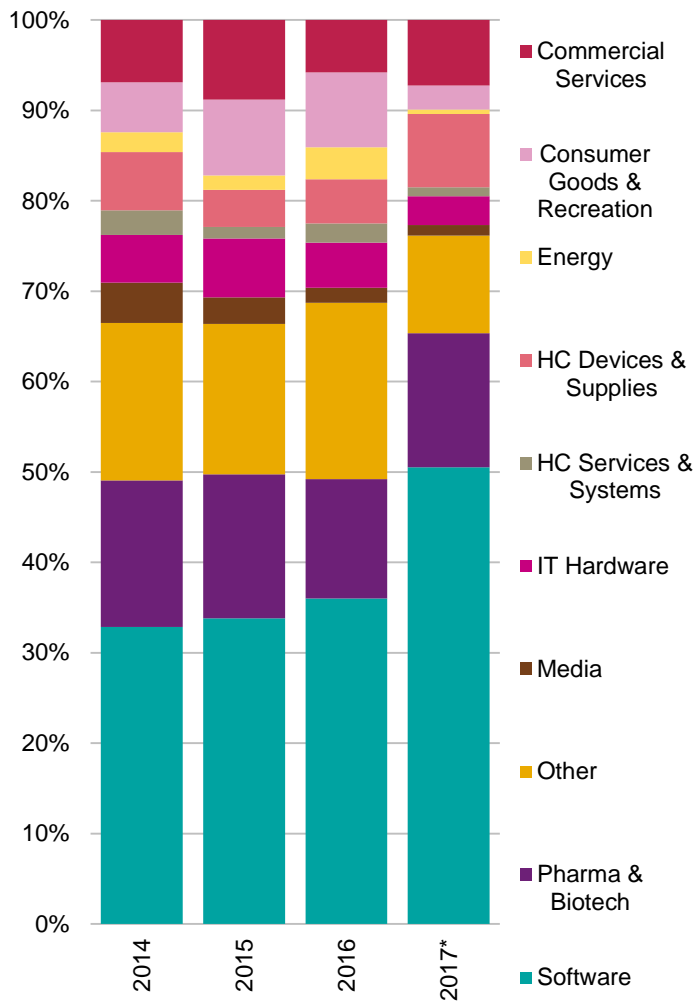


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Software experiences a surge

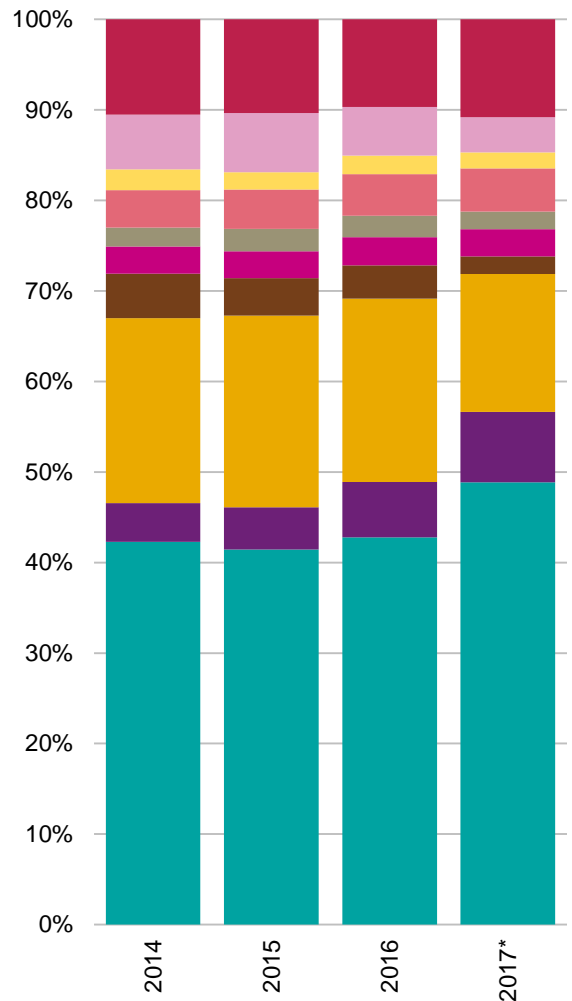
European venture financings by sector

2014 — Q1'17, VC invested (\$B)



European venture financings by sector

2014 — Q1'17, number of closed deals

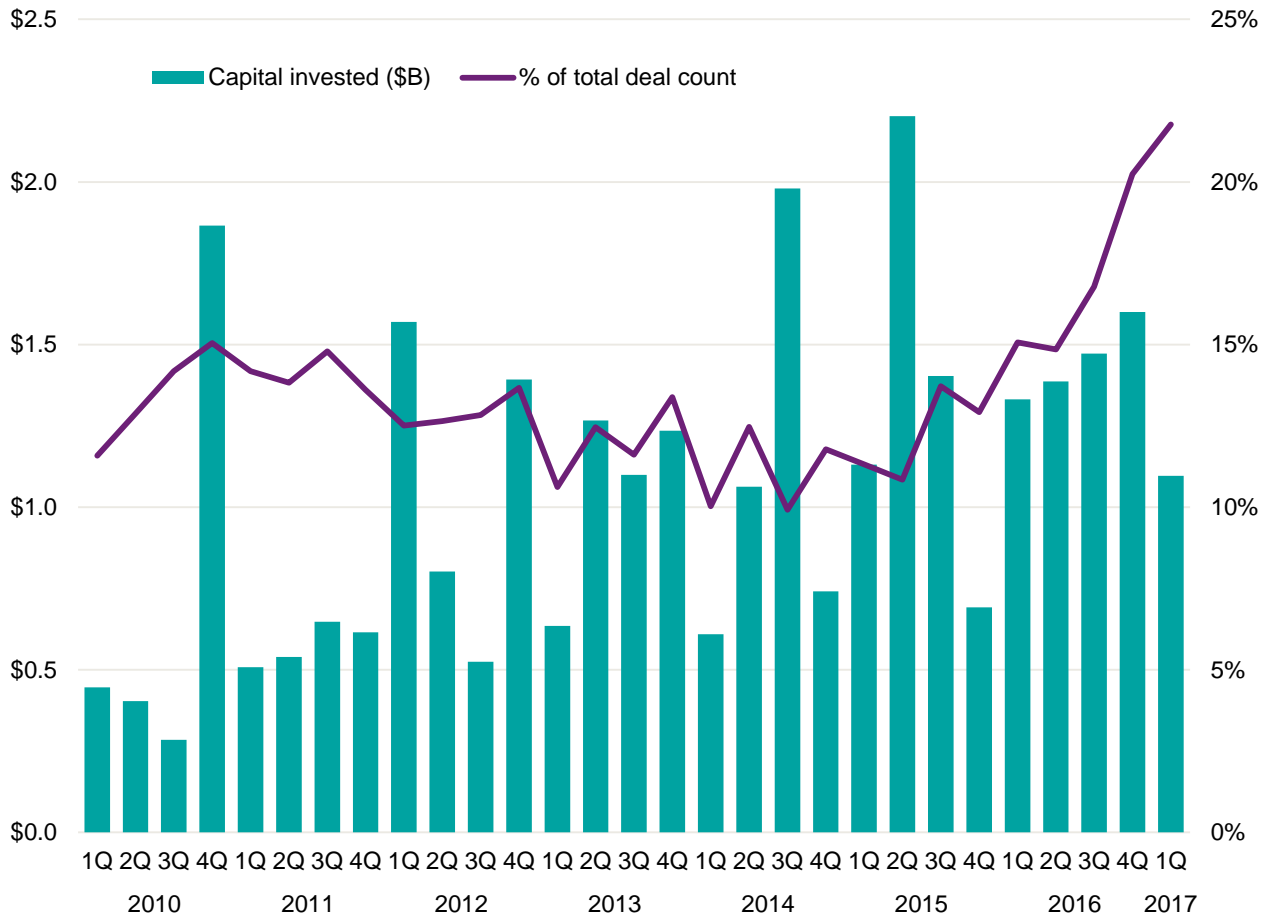


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

The relative surge in software is more attributable to timing and its relative popularity, given opportunities for scale and lower costs overall. At \$1.7 billion in total VC invested through the end of March 2017, software companies dwarfed their closest competitors, pharma & biotech startups, which raked in just over half a million dollars across the same time period.

Corporate participation surges even further

Corporate VC participation in venture deals in Europe 2010 — Q1'17



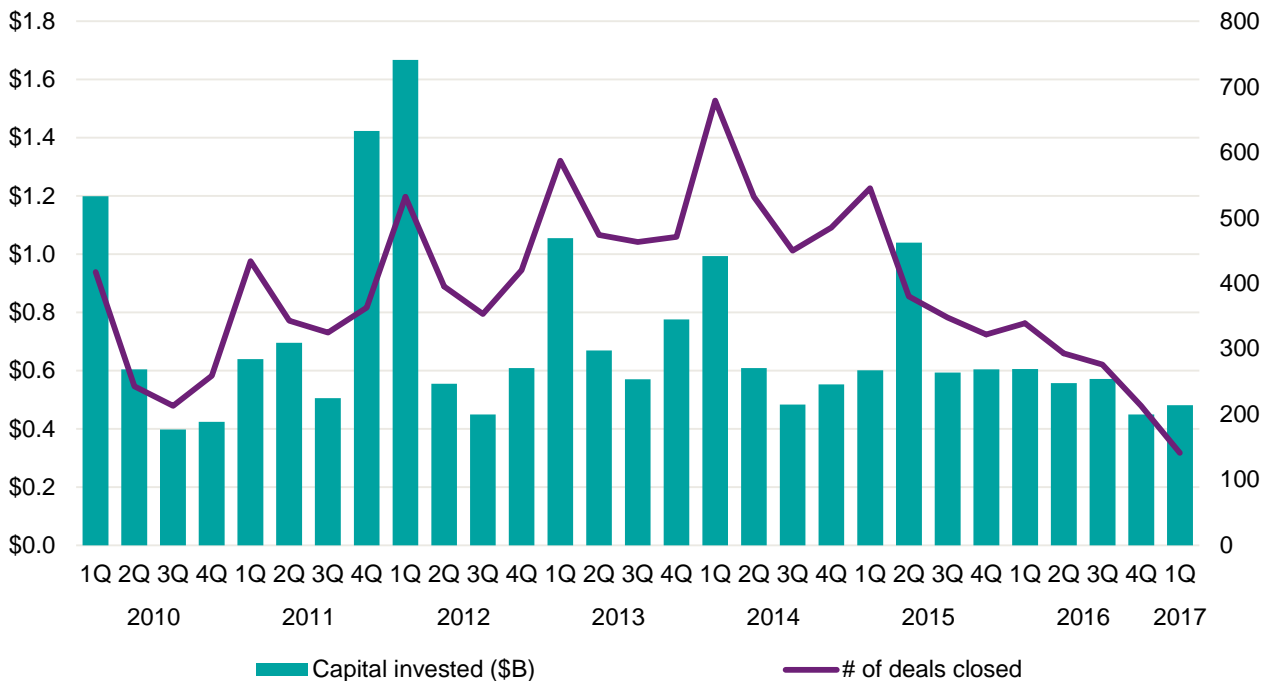
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Given the severity of the decline in venture capital financing volumes across the continent, the spike in CVC participation is much more understandable. Especially as European fundraising has been sliding by count for some time, it's corporate venture arms that boast not only the cash, but also the motivation to stay active across the venture spectrum.

Activity may have declined once more, but VC invested has steadied

First-time venture financings of companies in Europe

2010 — Q1'17



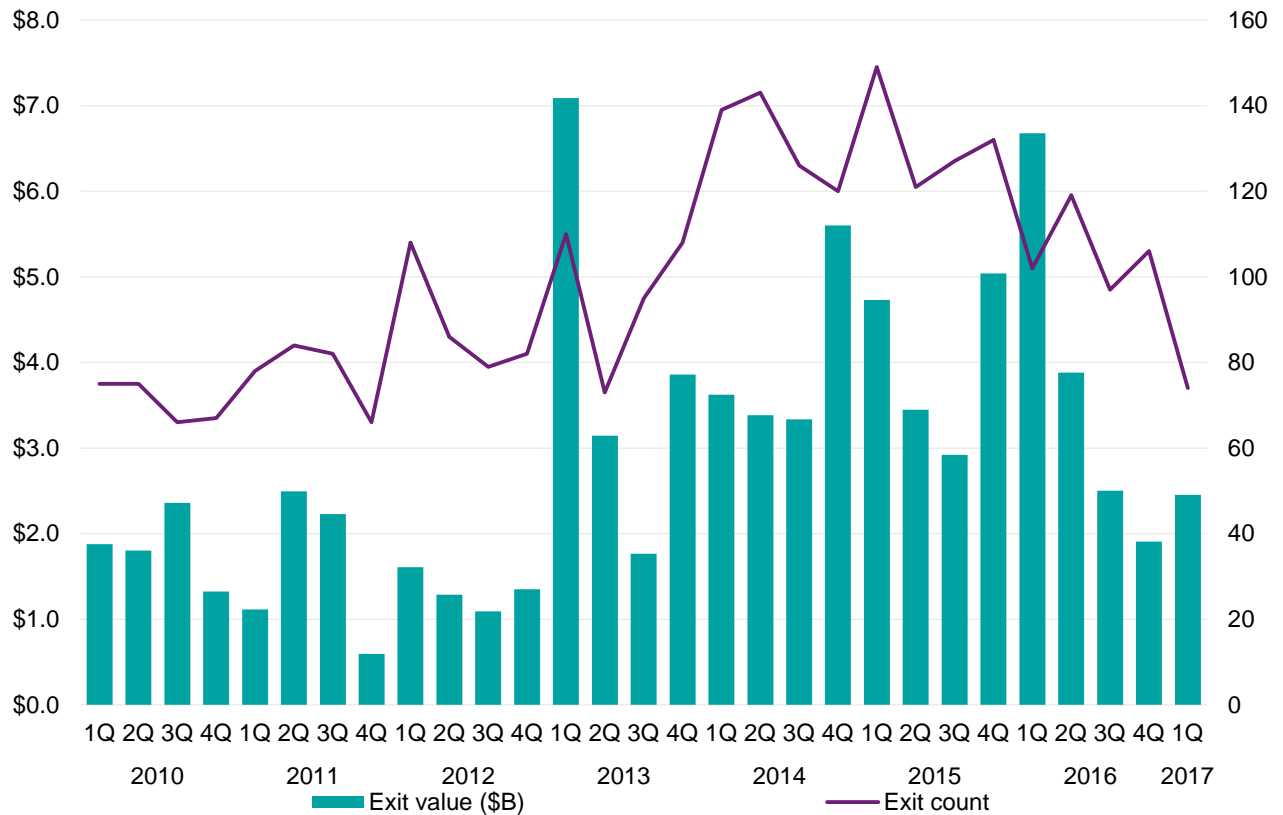
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Primarily due to the continued activity of government-affiliated programs such as Enterprise Ireland, first-time financings aren't likely to dwindle that much further, barring a significant macroeconomic shock. Moreover, VC invested appears to have entered a relatively stable range, propped up not only by those aforementioned programs, but also at least some appetite on the part of European and US venture firms for continued exposure to brand-new European innovation.

Exits plunge even further in Q1'17

Venture-backed exit activity in Europe

2010 — Q1'17



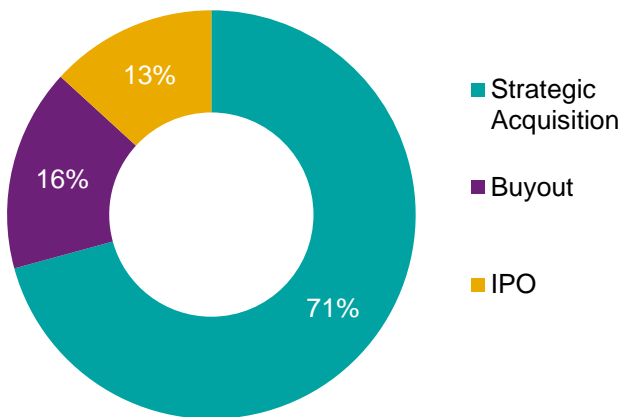
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

The value of venture-backed portfolio companies sold in Q1'17 may not be that far off historical means, but volume plunged once again. Historical tallies reveal the degree of variability in European venture-backed exit activity, but the recent downward trend is unmistakable.

Especially in Europe, corporate buyers drive most value, although IPOs hold steady

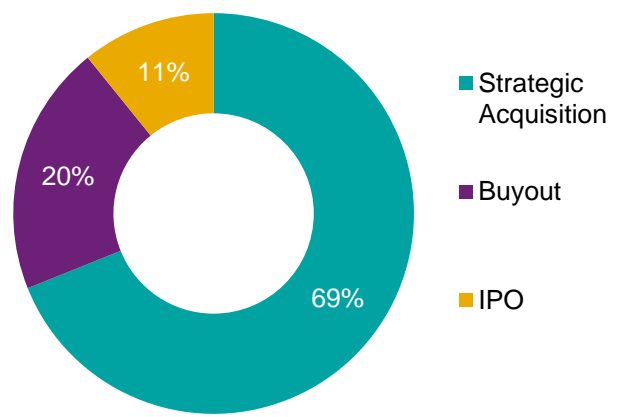
Venture-backed exit activity (#) by type in Europe

Q4 2016



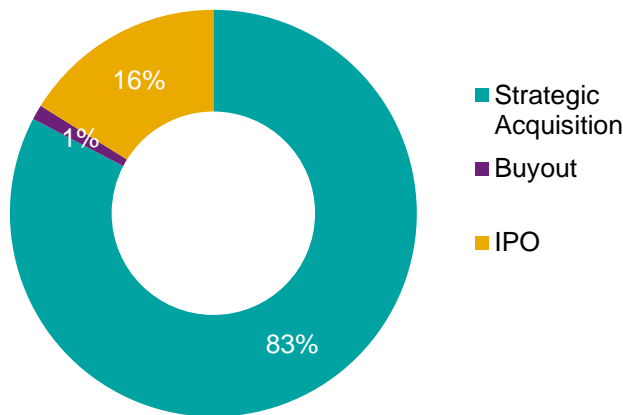
Venture-backed exit activity (#) by type in Europe

Q1'17



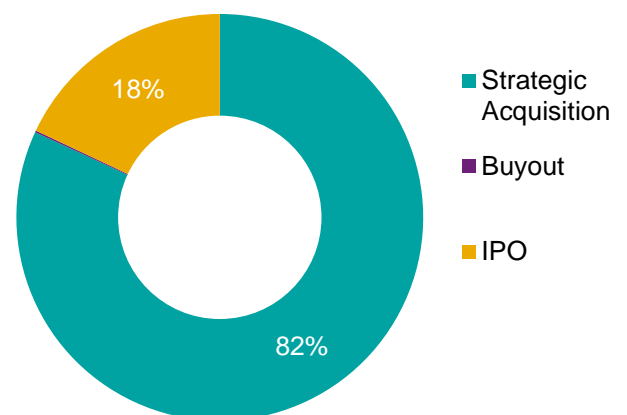
Venture-backed exit activity (\$B) by type in Europe

Q4 2016



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

Q1'17

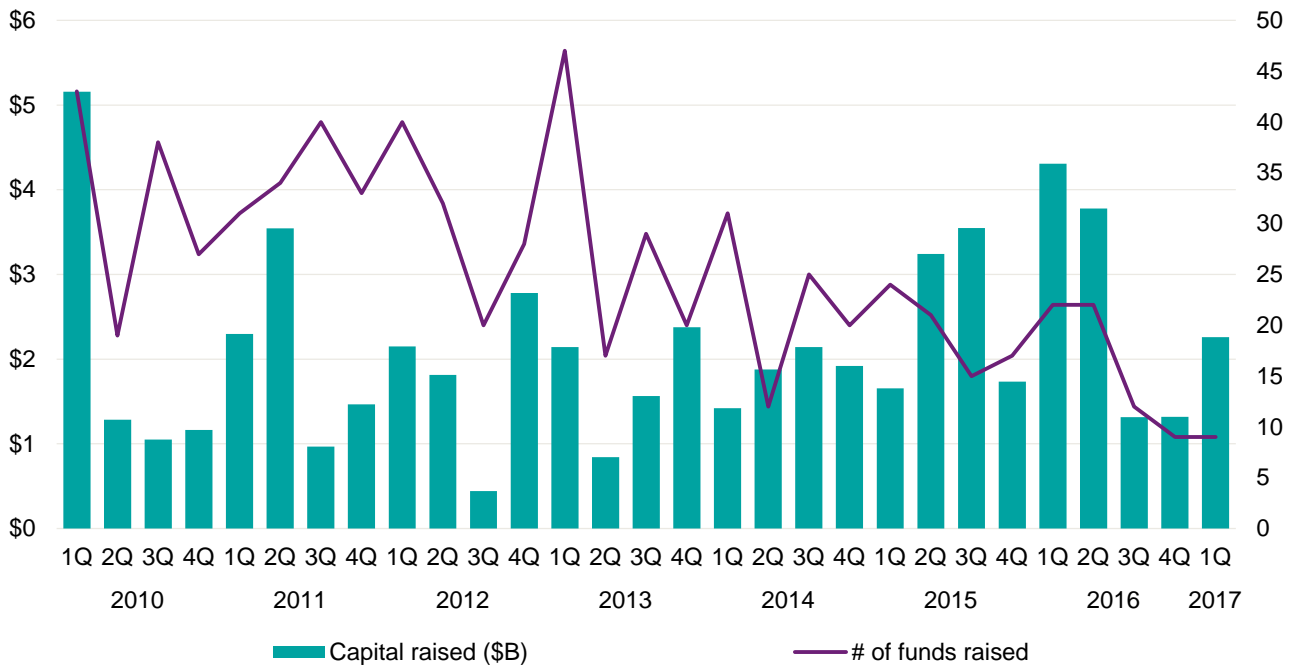


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

More and more, a select group of firms are dominating European VC fundraising

European venture fundraising

2010 — Q1'17



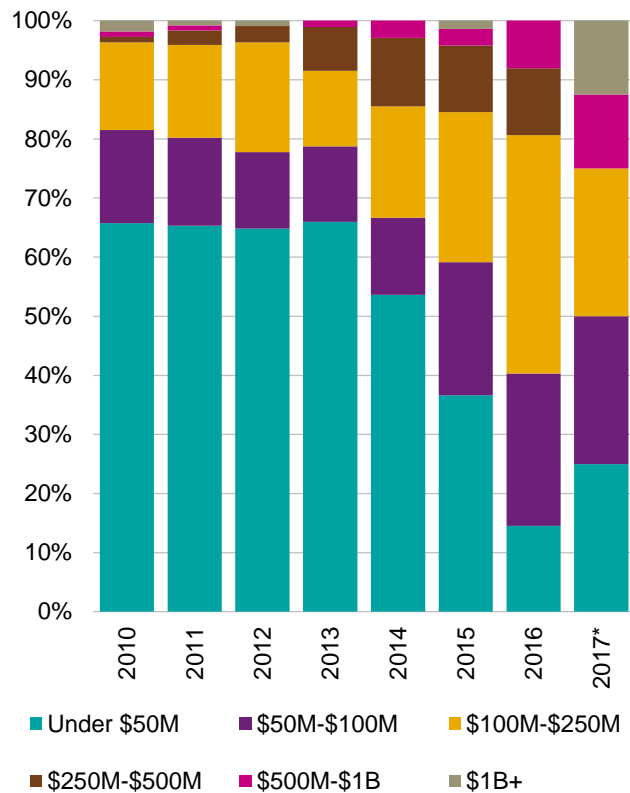
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

As evidenced by the pop in total VC raised in Q1'17, even as fundraising volume held steady at a subdued level, certain firms, such as Rocket Internet, Atomico or Octopus Ventures can skew totals considerably.

Larger, more experienced VC firms dominate fundraising in Europe

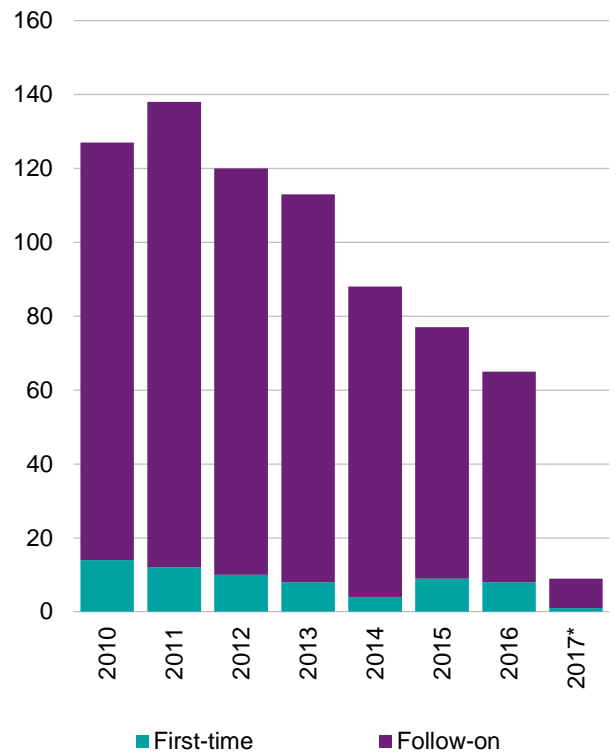
Venture fundraising (#) by size in Europe

2010 — Q1'17



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

2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Albeit a Q1'17 surge in the number of funds closed at the smaller end of the range, the longer-term trend toward larger, more established firms is especially unmistakable in Europe.



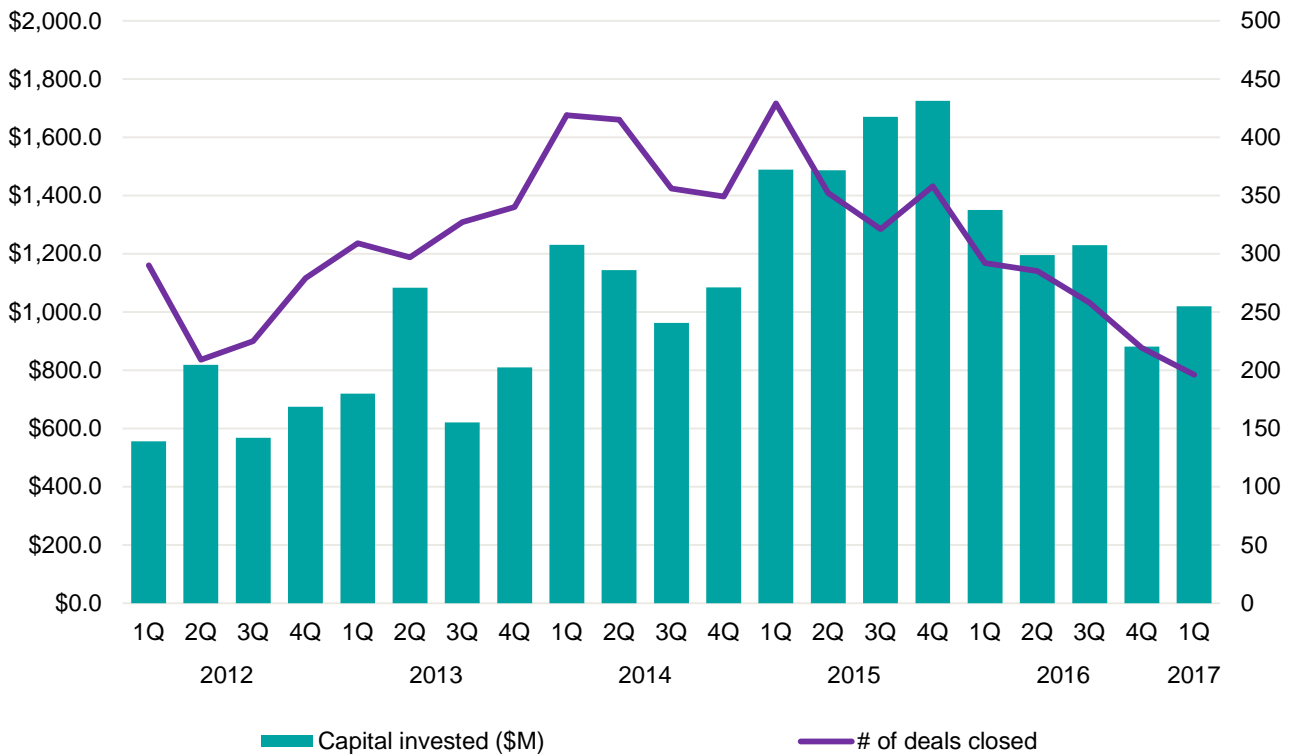
In the UK, sentiment hasn't changed. It's business as usual in a challenging environment. Despite uncertainty, we're seeing a healthy volume of investments, with strong showings in financial services, and healthcare. ”



Patrick Imbach
*Co-Head of KPMG Tech Growth,
KPMG in the UK*

A market tinged with caution

Venture financing in the United Kingdom 2012 — Q1'17

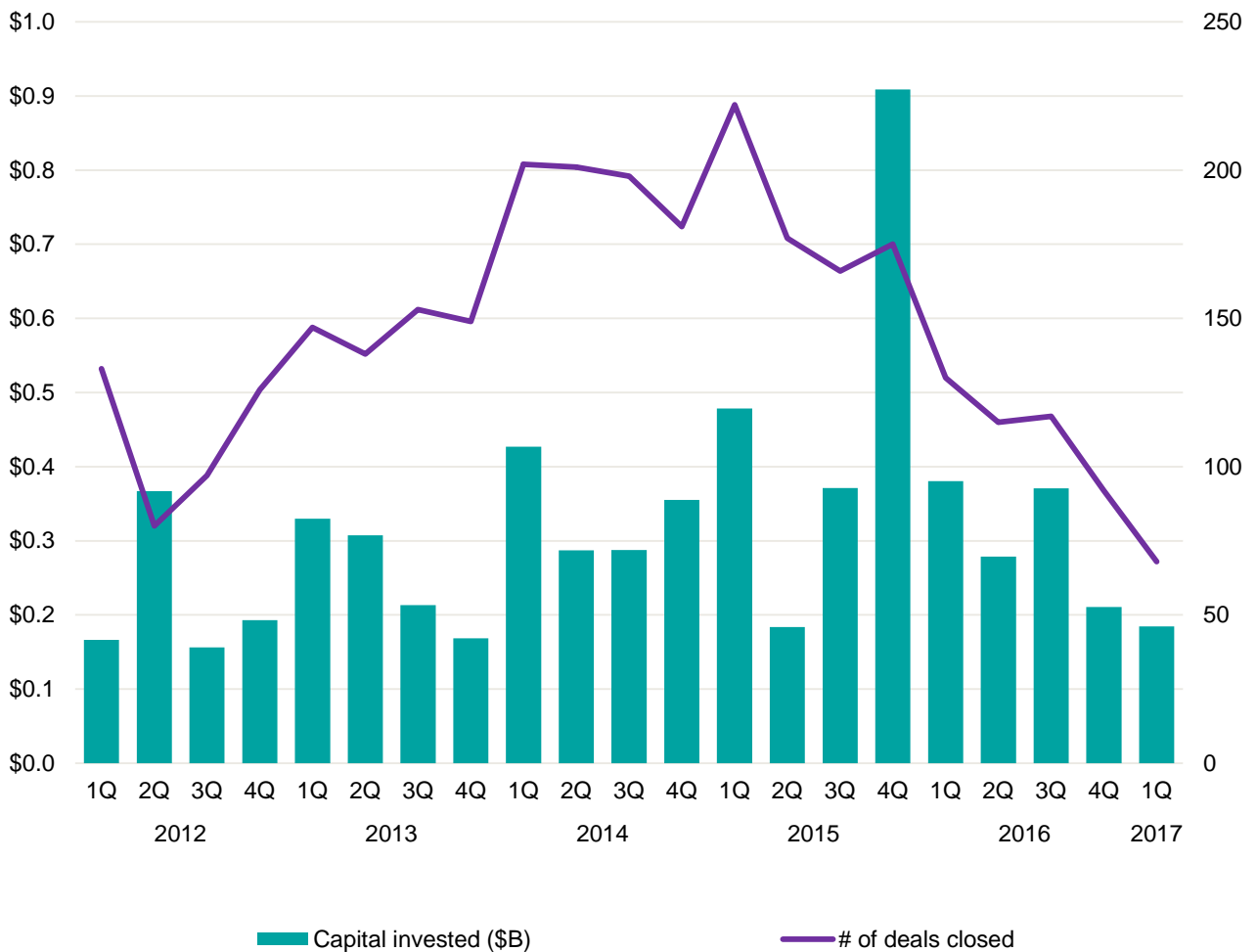


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Much like the broader venture market, the number of completed financings may well have slid for some time in the United Kingdom, but capital invested has yet to diminish by a considerable amount, in further testament to VCs' growing caution around the potential ramifications of Brexit, if not outright consternation as of yet.

Foreign firms exhibiting caution

Venture financing in the United Kingdom without UK-based investor participation 2012 — Q1'17

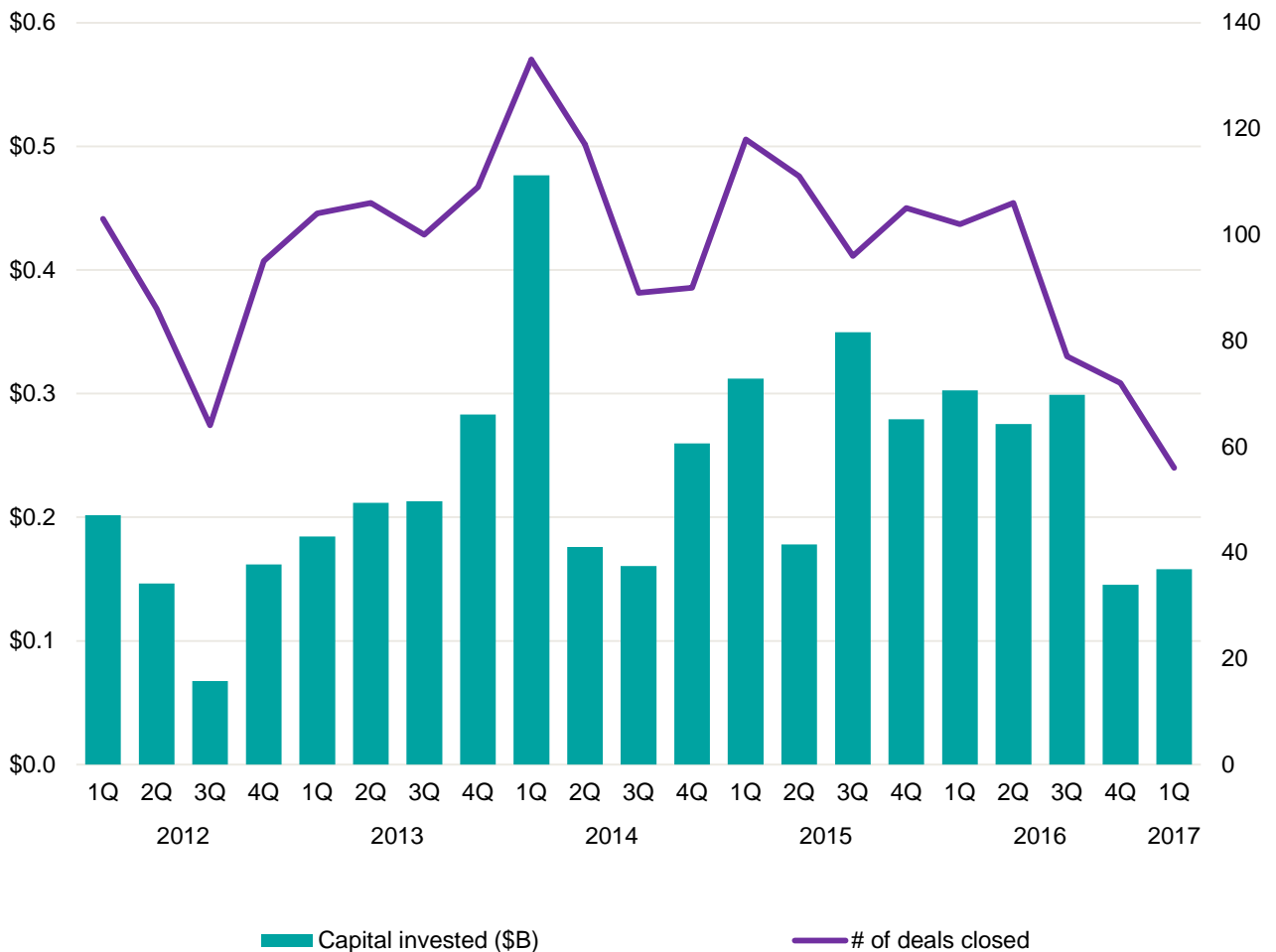


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

In light of Article 50 finally being triggered in Q1'17, it is instructive to break down UK venture financing trends by investor headquarters, to better assess whether it is primarily domestic firms driving overall deal flow or not. As the precipitous decline in financing volume that doesn't involve a UK-based firm illustrates, foreign investors have gradually been pulling back, albeit fairly slowly, exhibiting comparably more concern than overall numbers would suggest.

Local VCs also pulling back, if not as much

Venture financing in the United Kingdom by only UK-based firms 2012 — Q1'17

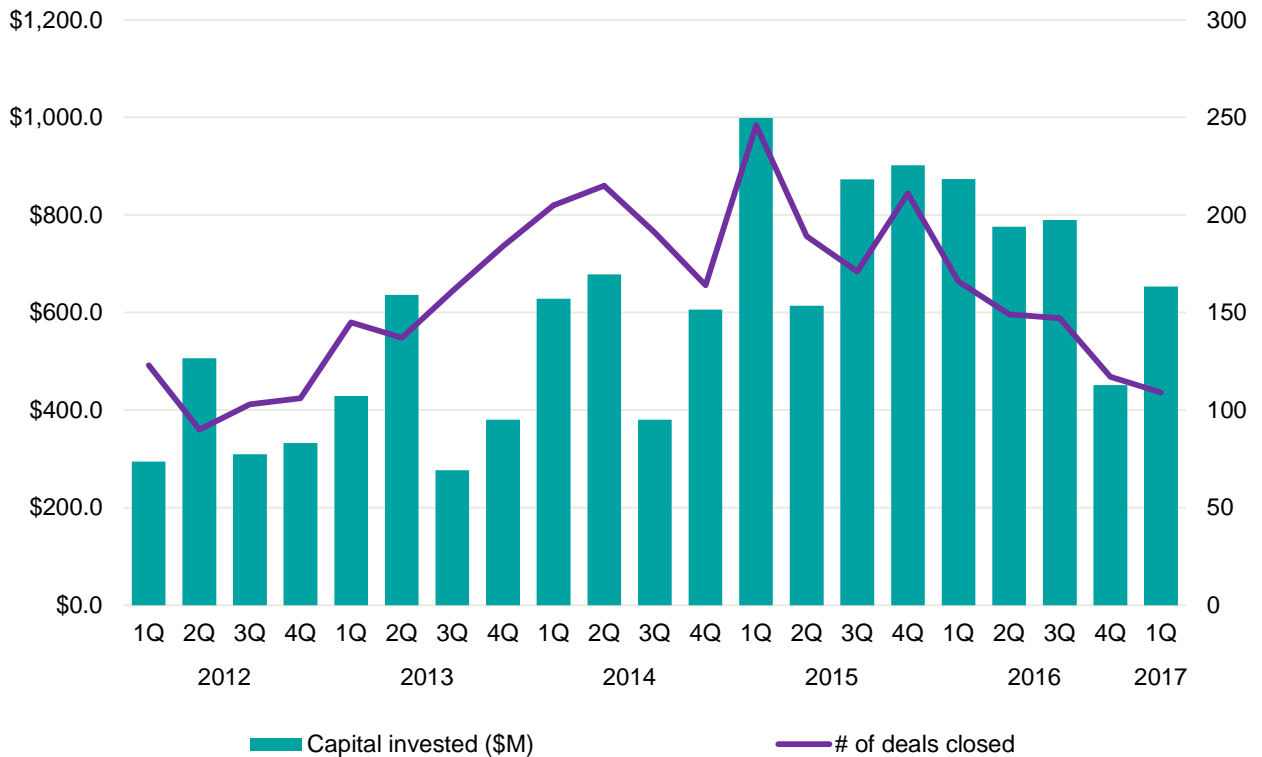


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

As perhaps is to be expected, domestic investors in the UK haven't pulled back to quite the same degree (relative to past heights) as foreign firms, although over the past 3 quarters, there has been a fairly steep decrease in overall deal volume.

London bounces back in VC invested

Venture financing in London 2012 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Simply given all its advantages, London was set to enjoy robust investor attention paid to its various startups. Once again, as evidenced in multiple other developed venture hubs, outlier financings helped push its total of VC invested up to the higher end of the historical mean, despite another slight slide in completed financings. Unsurprisingly, chief among those was a £82 million Series F financing of lending platform Funding Circle.



Last year, we saw a number of very large deals underpinning activity across Europe, reflecting the maturation of the market. Round sizes in Europe are now declining as valuations are tested and VCs become more selective. VC interest remains high, but that attention is not immediately translating into deals.

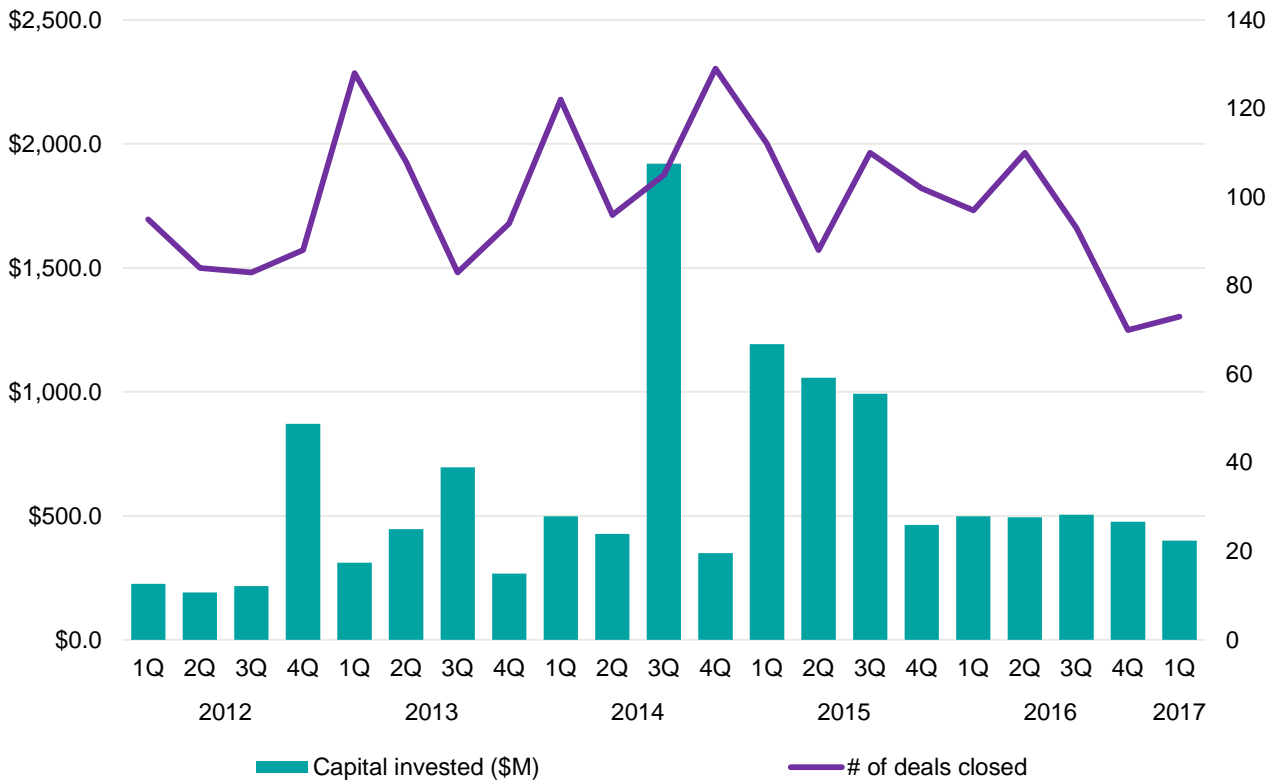


Tim Dümichen,
Partner,
KPMG in Germany

Set for a subdued rate?

Venture financing in Germany

2012 — Q1'17

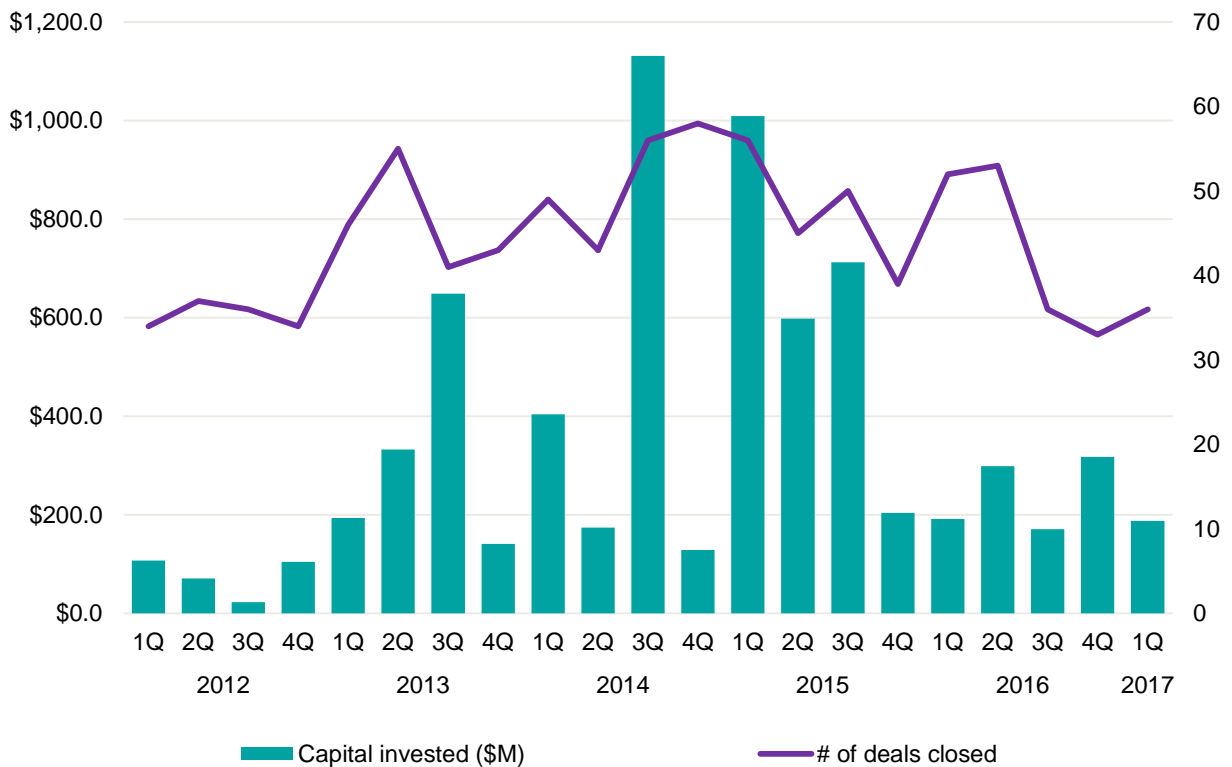


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Venture sums invested have stayed steady in Germany for some time, even through some fluctuations in quarterly deal counts. Buoyed by government-affiliated programs as well continued corporate venture investor participation, VC activity in Germany looks set to continue but at a subdued rate.

Berlin enters a plateau of activity

Venture financing in Berlin 2012 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

For the third quarter in a row, VC financing stayed at relatively the same level in terms of counts, even as total VC invested declined significantly from 4Q'16's tally. Despite premature media interest in potential shifts of investor interest in the wake of Brexit, little concrete evidence has emerged yet of a significant positive impact on the Berlin venture scene, although it is early days yet.



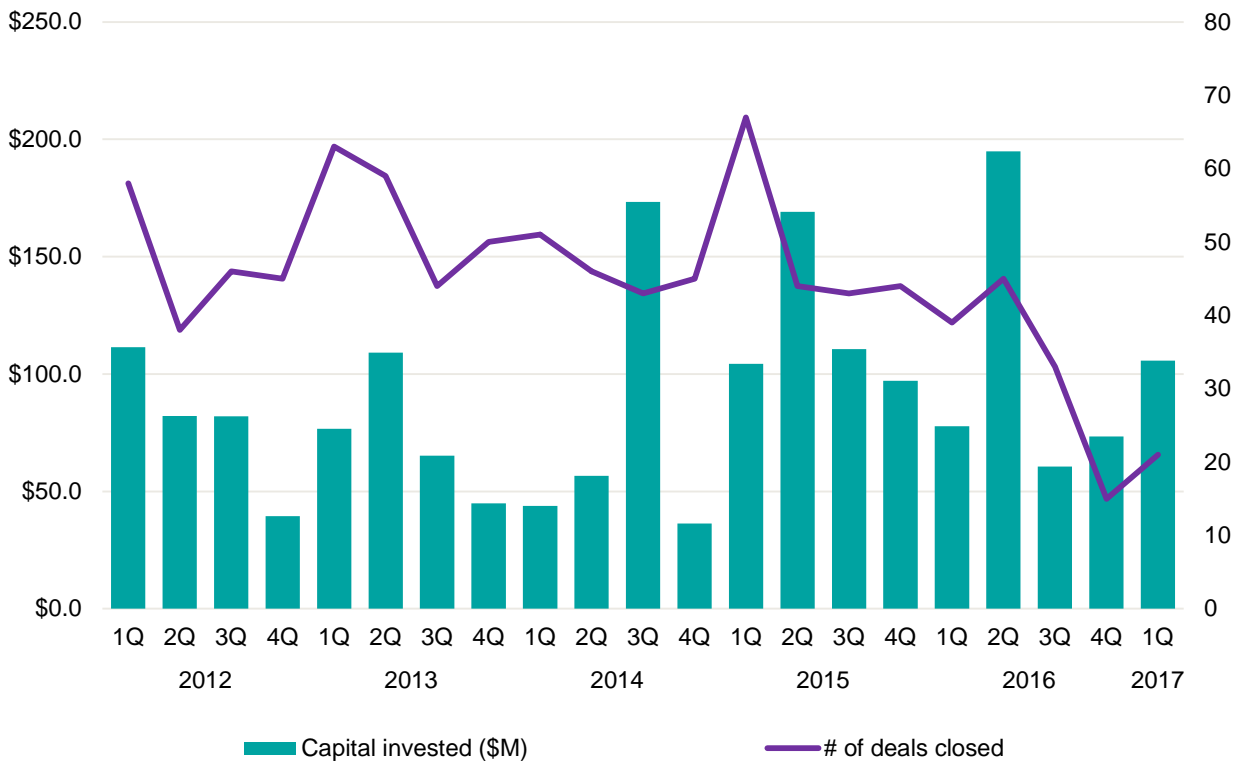
Spain's existing research and development capabilities provide a strong foundation for innovation and venture capital investment. While public sector support for the Spanish startup ecosystem has lagged due to the deficit, sector-based entities are helping to promote and encourage local activity. ”



Fernando Garcia Ferrer
Partner, Head of Private Equity
KPMG in Spain

A bump in Q1 starts the year off strong

Venture financing in Spain 2012 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

After sliding for a couple of quarters, Spain saw a bump in both VC invested and deal flow to start off 2017, although the latter remained on the historical low end. A single financing, MedLumics' €34.4 million Series B round, helped put the capital raised over the top.



French accelerators are trending toward collaborating with large corporates across industries and working together to create an open innovation system that supports startup activity. Even direct competitors realize that collaboration—sharing means, money and knowledge—is required to be competitive on the world sphere.



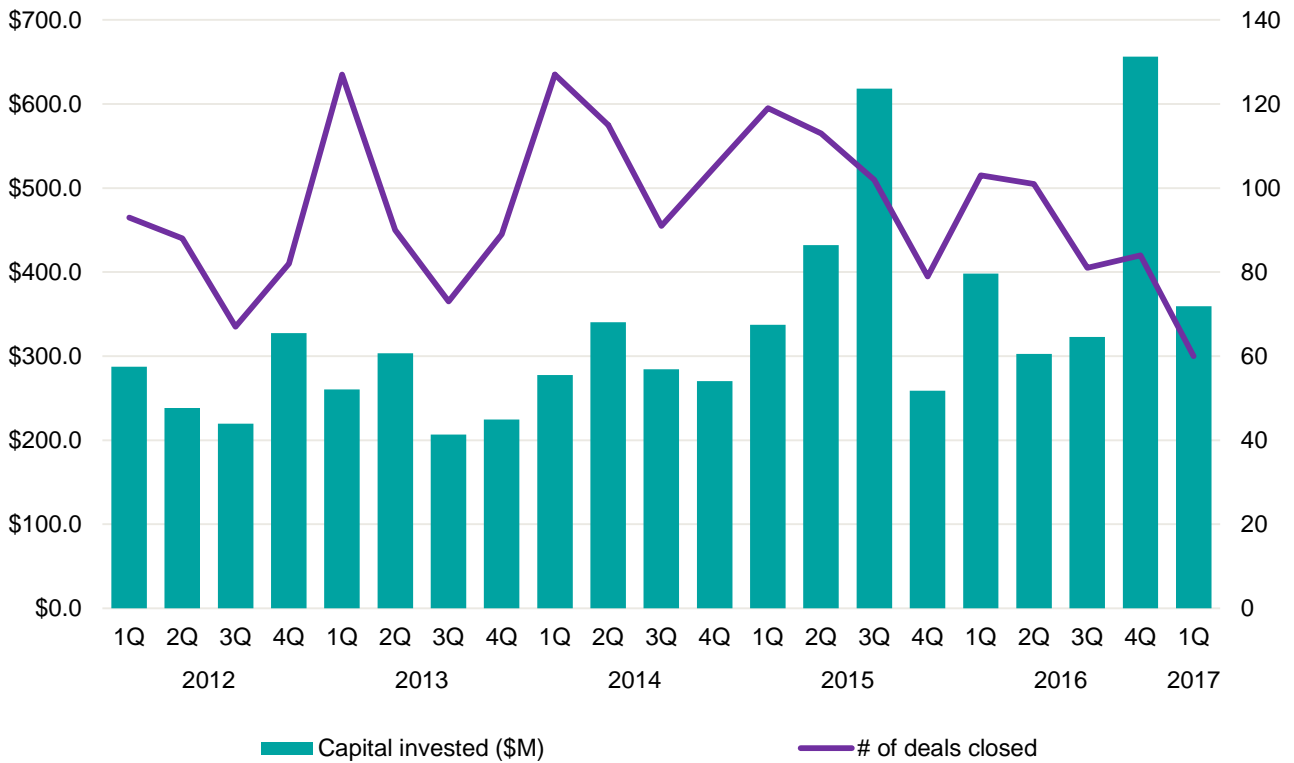
Michel Paolucci

Partner

KPMG in France

VC invested hits fourth-highest since 2012

Venture financing in France 2012 — Q1'17

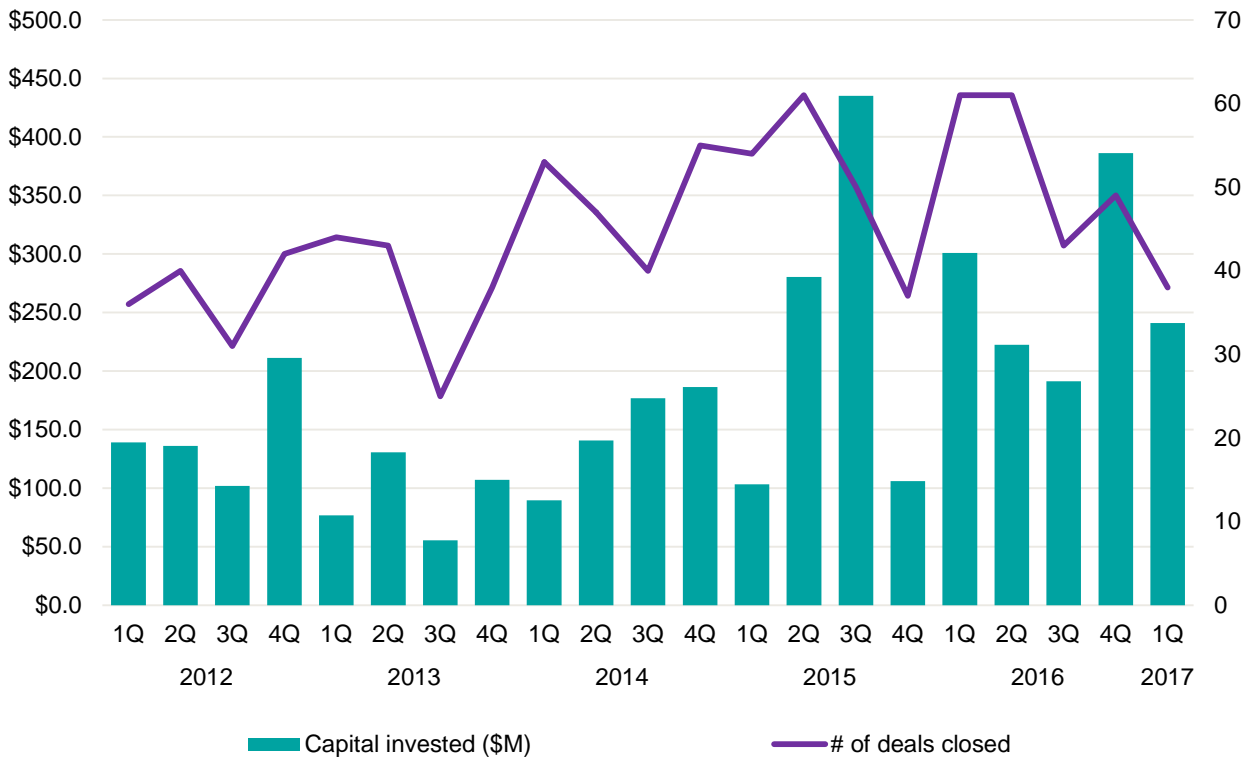


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Although venture financings were down by count in France quarter-over-quarter to start 2017, the slower rate of decline relative to historical tallies when compared to other nations is intriguing, particularly given the robustness of capital invested.

A healthy quarter for Parisian VC

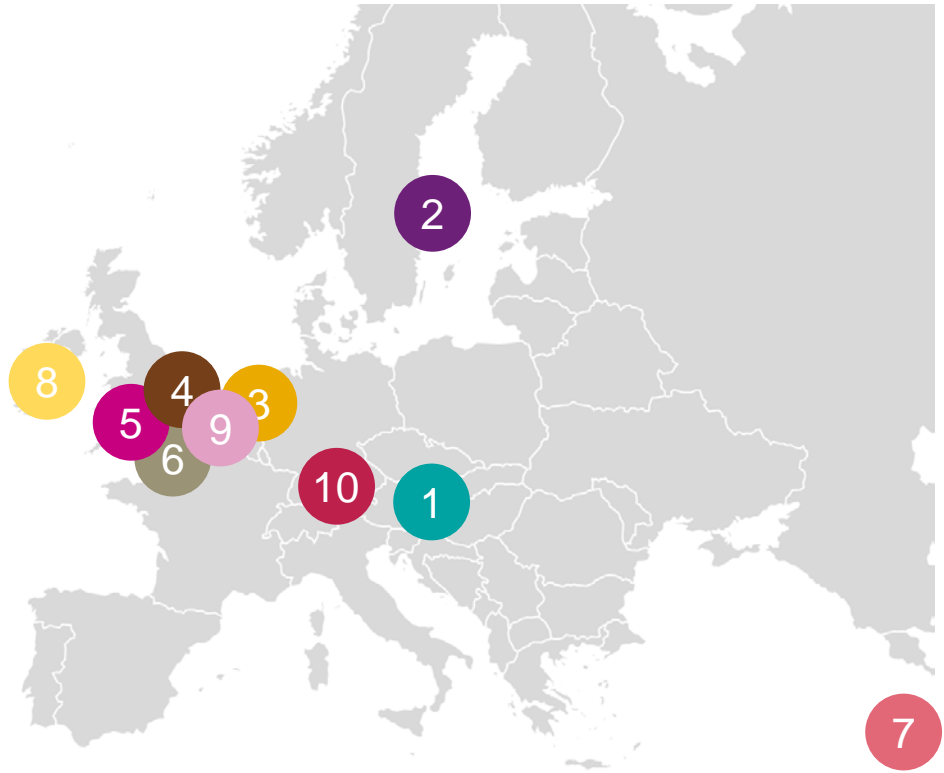
Venture financing in Paris 2012 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Thanks in large part to hosting the recipient of one of Europe's largest Q1 2017 financings—e-commerce platform Vestiaire Collective—Paris enjoyed not only a healthy total of VC invested, but also a substantial level of completed venture rounds.

Major metros drew in outlier financings



- | | |
|---|--|
| <p>1 Tricentis — \$165M, Vienna
Application software
<i>Series B</i></p> | <p>6 Vestiaire Collective — \$62M, Paris
Platform software
<i>Late stage VC</i></p> |
| <p>2 iZettle — \$127M, Stockholm
Financial software
<i>Series D</i></p> | <p>7 AppsFlyer — \$56M, Hertzelia
Media & information services
<i>Series C</i></p> |
| <p>3 Picnic — \$109M, Amsterdam
Platform software
<i>Series B</i></p> | <p>8 Arralis — \$53.3M, Limerick
Aerospace & defense
<i>Early stage VC</i></p> |
| <p>4 Funding Circle — \$101M, London
Financial software
<i>Series F</i></p> | <p>9 Collibra — \$50M, Brussels
Business software
<i>Series C</i></p> |
| <p>5 Cell Medica — \$75M, London
Pharmaceuticals
<i>Series C</i></p> | <p>10 Breath Therapeutics — \$46M, Munich
Drug discovery
<i>Series A</i></p> |

Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

*In Q1'17 VC-backed
companies in the Asia
region raised*

\$5.6B

across

258 deals



Unicorns emerge in Asia despite slow quarter



Similar to other regions, VC investment was off to a cautious start in many of the Asian markets, with modest investment volumes and a noticeable decline in the total number of deals. However, news of new unicorns may help bolster confidence moving forward. China's Ofo raised \$450 million, which not only made records as the largest bike-sharing investment round, but also makes them the first unicorn in this sub-sector. Paytm became India's latest unicorn with its latest raise of \$200 million to support its e-commerce business and URWork surpassed the billion dollar valuation with its \$58 million round from Ant Financial.



Stratification evident in China

In addition to Ofo's unicorn deal, there were a number of standout late-stage raises in China, including a raise of \$300 million by bike-sharing competitor Mobike. Video sharing and live broadcasting app Kuaishou raised \$350 million, while courier self-service company Hive Box attracted \$360 million in Series A funding. While some good smaller deals were also seen and VC interest remains high, global uncertainty, the Chinese capital markets, and limited access to IPOs are all playing a part in an extended decision cycle and a reduction in deal volume. Financing for early-stage companies, in particular, experienced a drop in both deal volume and total dollars invested.

Investor caution is contributing to Chinese private equity and venture capital funds' significant buildup of dry powder, or capital ready to be deployed, which was in excess of \$291 billion US at the start of the year. Unrealized investments in companies that have yet to turn a profit may be a factor in early-stage deal reduction. However, there is also the sense that many investors are waiting for the 'next big thing', rather than pursuing trends that may be close to playing out¹.



Chinese government encouraging technology investment within China

The government of China appears to have taken a conservative approach in their approval for investment in companies abroad, looking to encourage investment within China. However, foreign currency control has been eased in particular areas, such as technology investments that can help Chinese companies improve efficiency or address issues facing the Chinese people². Chinese VC investments in foreign startups are expected to continue in targeted areas, particularly in deep tech, environmental and healthcare technologies.

Significant technology investments are expected in coming quarters within China, to address challenges such as air pollution, healthcare issues, and the needs of an aging population. The government's recent review and relaxation of regulations that prohibited for-profit or publicly listed education companies³ may also spark more activity in the education sector, especially edtech.



Growing number of joint investments

One way that VCs are mitigating their risk, despite uncertainty, is through joint investments in early-stage startups, further decreasing total deal numbers despite ongoing activity. There is also a growing trend for tier-one investors to aggregate and support more mature companies in round B or C. For example, aggregate VC investment was evident in the larger funding rounds for popular bike sharing companies Ofo and Mobike.

¹ <http://fortune.com/2017/03/12/china-economic-growth/>

² http://www.chinadaily.com.cn/china/2016-03/30/content_24194930.htm

³ <http://www.mondaq.com/china/x/563566/Education/Overview+Of+The+New+Regulations+For+Private+Schools>

Unicorns emerge in Asia despite slow quarter, cont'd.



Despite reduced activity, Indian VCs show interest in early-stage startups

Numbers in India were lackluster during Q1'17, with 102 deals for \$976 million, despite positive investor sentiment. Deal volume was down from the quarterly average of 234 on 2015 and 2016..

Defying the global trend of VC investment concentrated on proven, later-stage companies, VC funders in India are showing interest in early-stage and seed deals. The Indian arms of global venture capital firms in particular are choosing to back strong 2- to 3-year-old companies instead of more mature companies, with an eye to making a higher profit upon exit. The continued maturation of India's startup ecosystem is playing a clear role in this trend as business models are strong, and investors are better able to swiftly ascertain which ideas will excel in the market.



Japan's startup ecosystem showing steady growth

The VC market in Japan remains relatively small compared to other markets, with a high level of quarterly volatility in funds deployed and number of transactions. Local market data showed a record level of new funds established in 2016, which bodes well for an overall rising tide despite occasional quarterly setbacks. On the ground, the mood within the venture ecosystem and entrepreneurial community is generally optimistic, and Japan is increasingly on the radar of global investors. While quarterly 2017 data is still under development given the predominance of domestically focused venture capital deals which are often not globally announced, we note that 2016 venture investment levels were the highest in recent years and we expect further growth in 2017.

Japan's SoftBank remains highly active globally, investing \$300 million in office leasing startup WeWork, and making further headlines with its new Vision Fund. The \$100 billion Vision Fund is expected to be a game changer in coming quarters, with an extensive remit and active interest in businesses with broad technology, social or business implications.

Artificial intelligence and robotics continue to generate high levels of attention in Japan, especially companies pursuing industrial applications of these technologies. One other point to note is that recent deregulation in Japan's tightly controlled home-sharing market has increased interest and activity in Airbnb-type companies, with further activity in this sector expected throughout 2017.



Trends to watch for in coming quarters

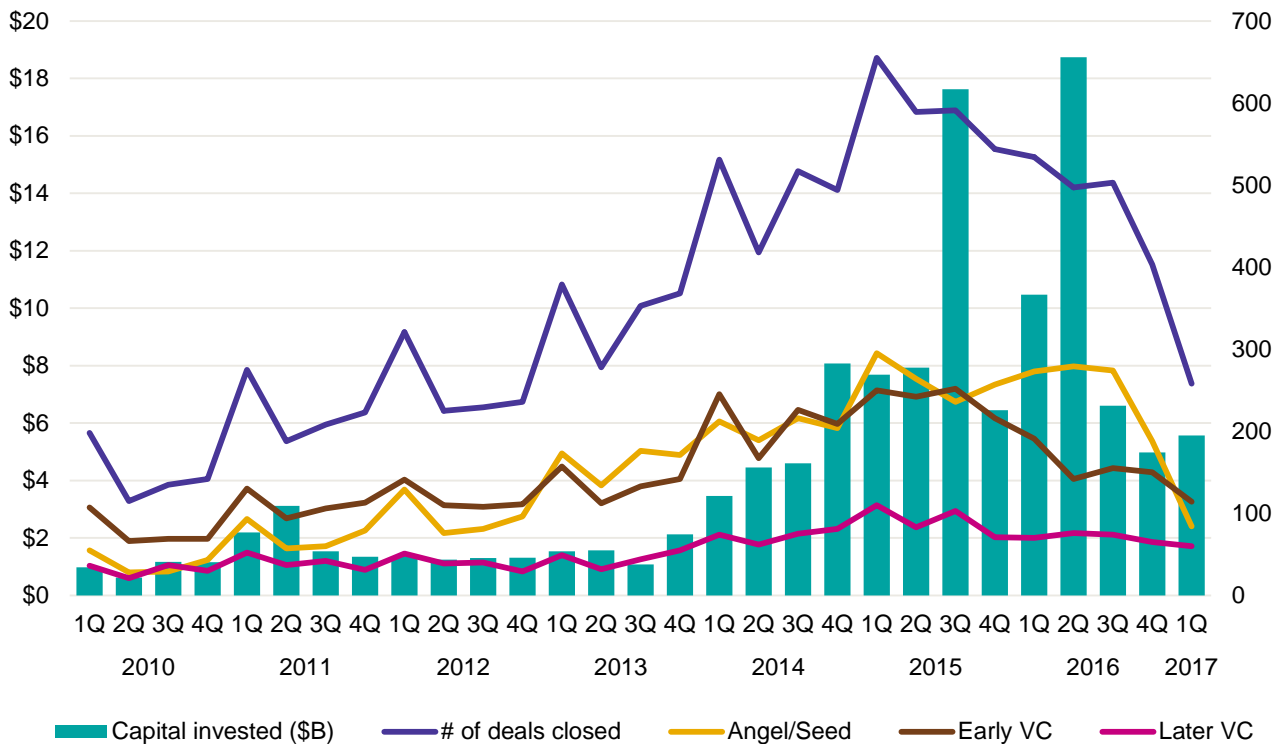
Depending on interest rates, the VC investment market is likely to remain cautious stepping into Q2, with unused funding amounts increasing. Within China, a sizable portion of startup investment will be led by the three big data leaders: Baidu, Tencent, and Alibaba. In India, a higher volume of small deals is expected as companies and VCs alike become more cautious about where and with whom to partner.

Deep tech areas like artificial intelligence, big data, cognitive learning and robotics are expected to continue to receive strong attention and backing in China and Japan, as in other jurisdictions. Healthcare technologies, fintech, and ecommerce are also expected to be strong sectors in Asia in Q2 and beyond.

Timing plays an important role in Asia's sudden decline in VC activity

Venture financing in Asia

2010 — Q1'17



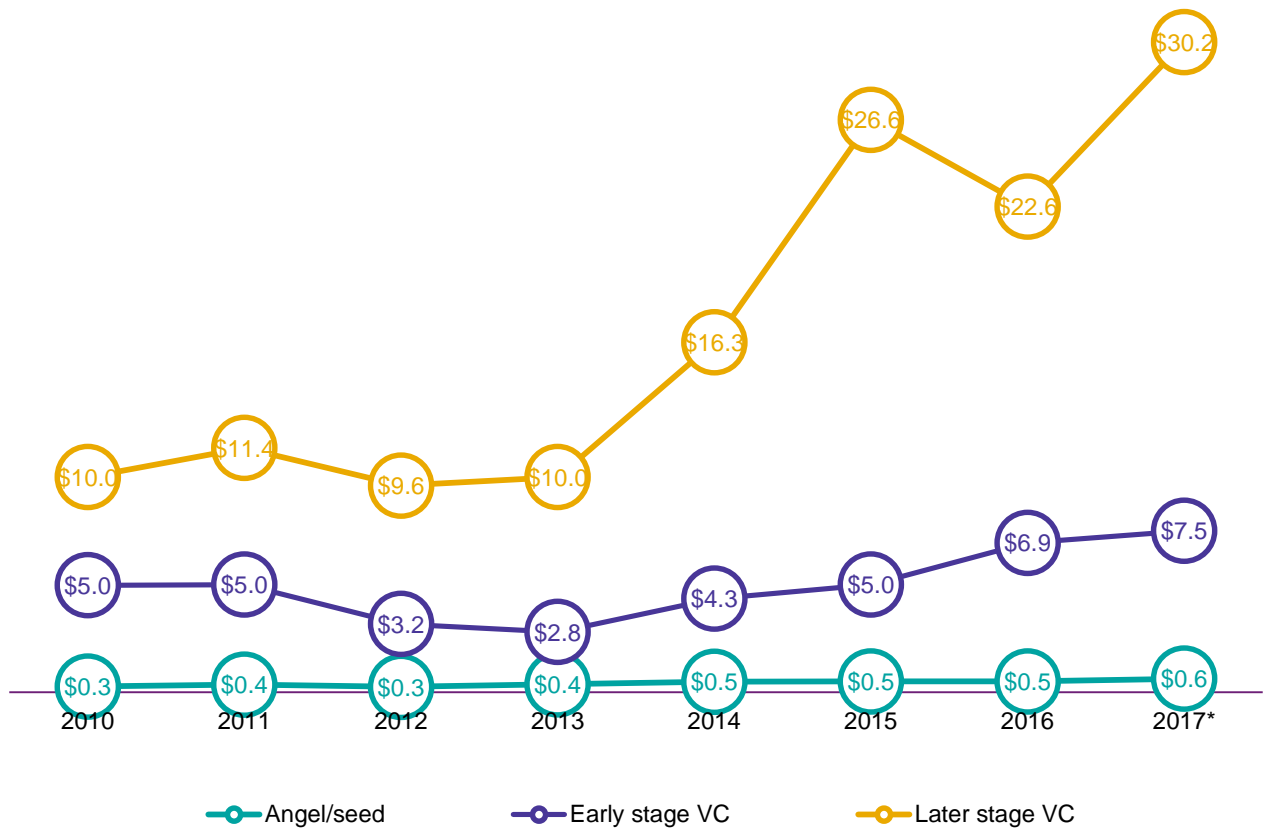
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Any emerging market's investment prospects are highly subject to fluctuating fortunes, especially given the lack of a well-developed domestic investor base. Consequently, the precipitous drop in VC investing activity over the past half-year is more telling of foreign investor perceptions than necessarily the array of potential investment opportunities within the region. The historically robust total of VC invested in Q1'17 also speaks to the fact that much like in other venture markets, firms are simply even more cautious when it comes to Asia companies these days, yet, when they find an opportunity worth pursuing, they are willing to invest large sums.

Q1'17 sees rallies in median financing sizes across all stages

Median deal size (\$M) by stage in Asia

2010 — Q1'17



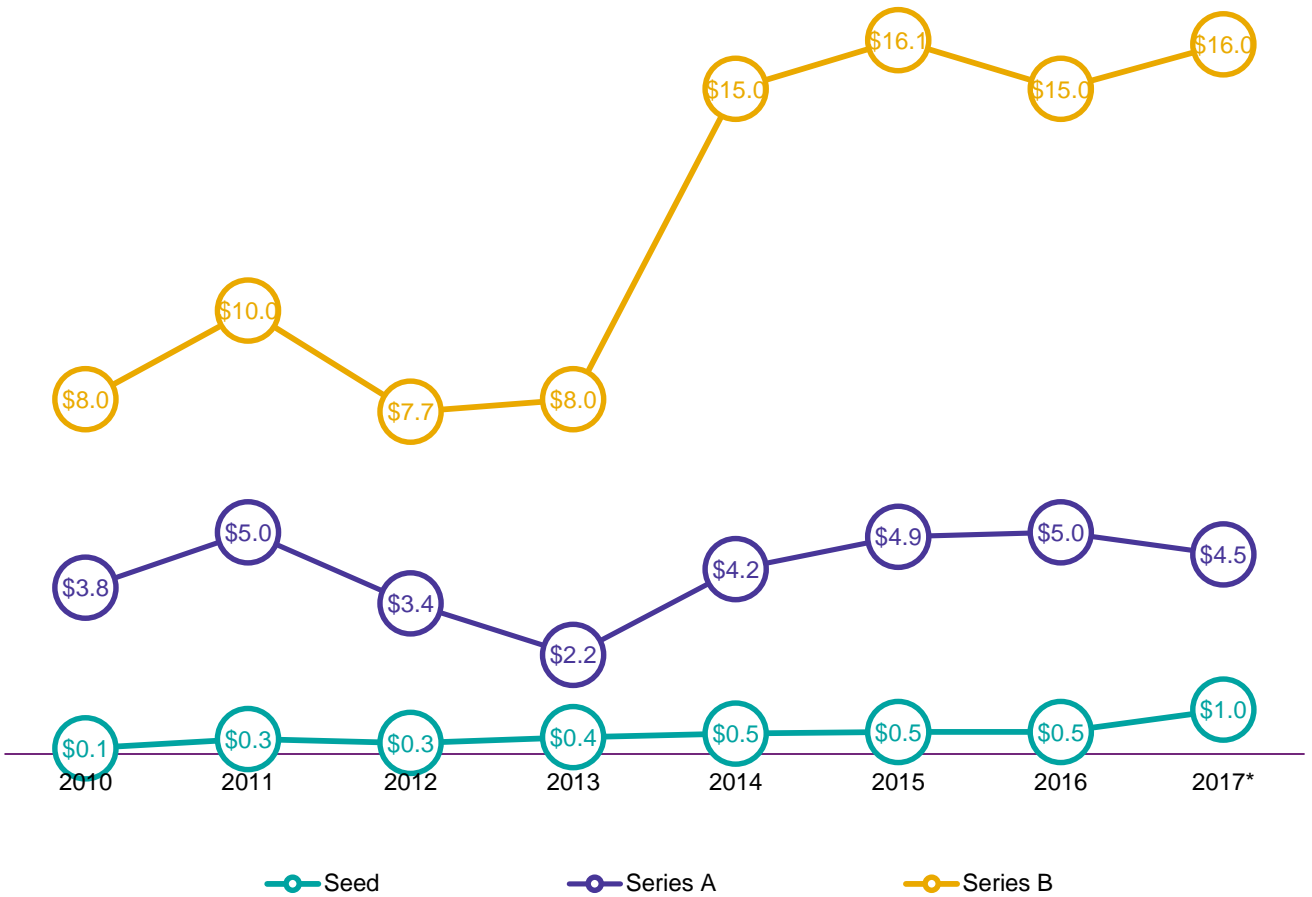
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

The median late-stage financing in the Asia region remains well above historical comparables in terms of size, still. Moreover, even the early stage has seen yet another increase in the median round size. These increases speak volumes to how eagerly investors whether foreign or domestic are willing to back the best-positioned startups within the region, should they pass initial muster.

Early-stage series enter a plateau

Median deal size (\$M) by early-stage series in Asia

2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Note: Select figures are rounded for legibility.



The Chinese government is approving and encouraging traditional banks to step into VC areas to invest in early-stage companies. The exact model will take time to crystallize, but this could become a massive new force in the market.



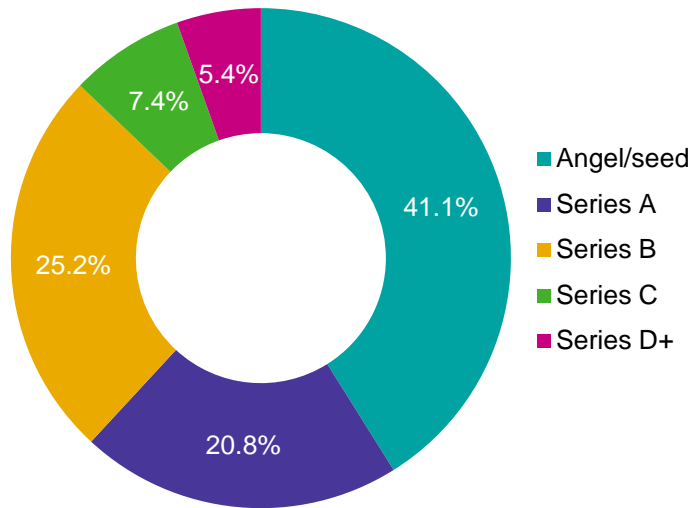
Philip Ng

Partner, Head of Technology
KPMG China

More so than in other regions, select series are skewed by a few late-stage companies

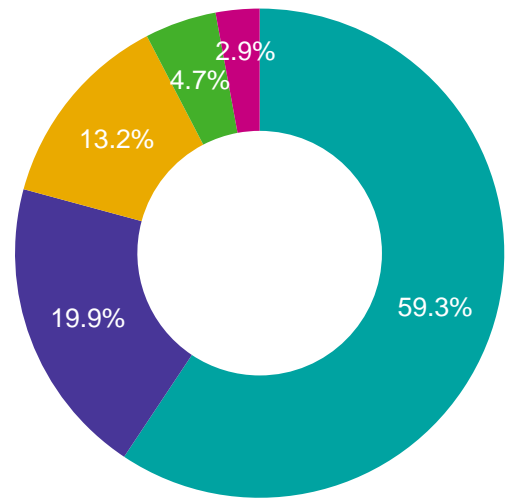
Deal share by series in the Asia region

Q1'17, number of closed deals



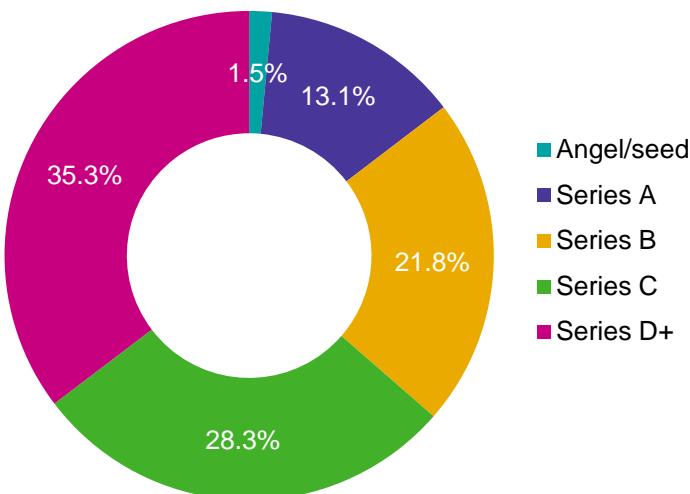
Deal share by series in the Asia region

2016, number of closed deals



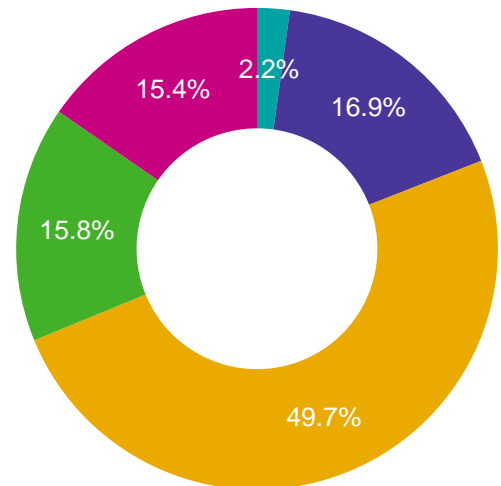
Deal share by series in the Asia region

Q1'17, VC invested (\$B)



Deal share by series in the Asia region

2016, VC invested (\$B)



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.



With growth slowing in traditional industries, Asian companies must find new ways to remain competitive. They can no longer just rise with the tide. Technology is the obvious choice to develop new sales channels and respond to customer needs, while reducing costs in both headcount and working capital.

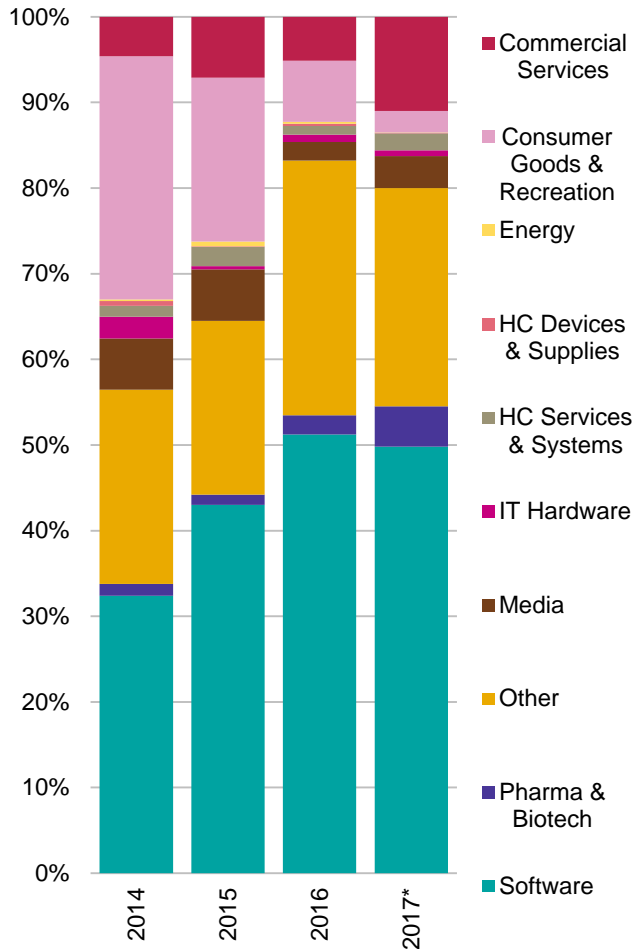


Egidio Zarrella
Clients and Innovation Partner,
KPMG Hong Kong

Amid a decline, commercial services surges

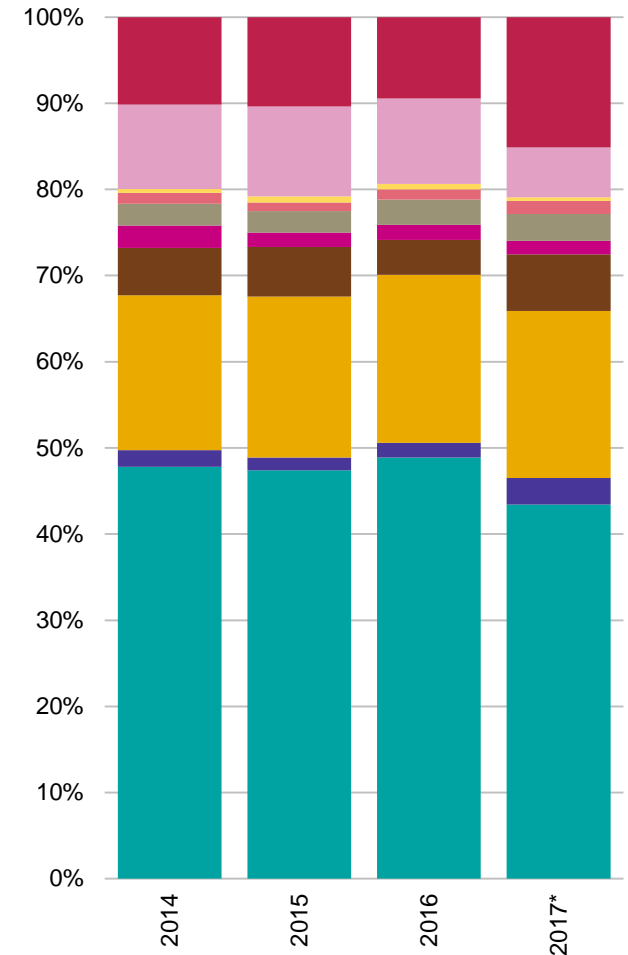
Asia venture financings by sector

2014 — Q1'17, VC invested (\$B)



Asia venture financings by sector

2014 — Q1'17, number of closed deals

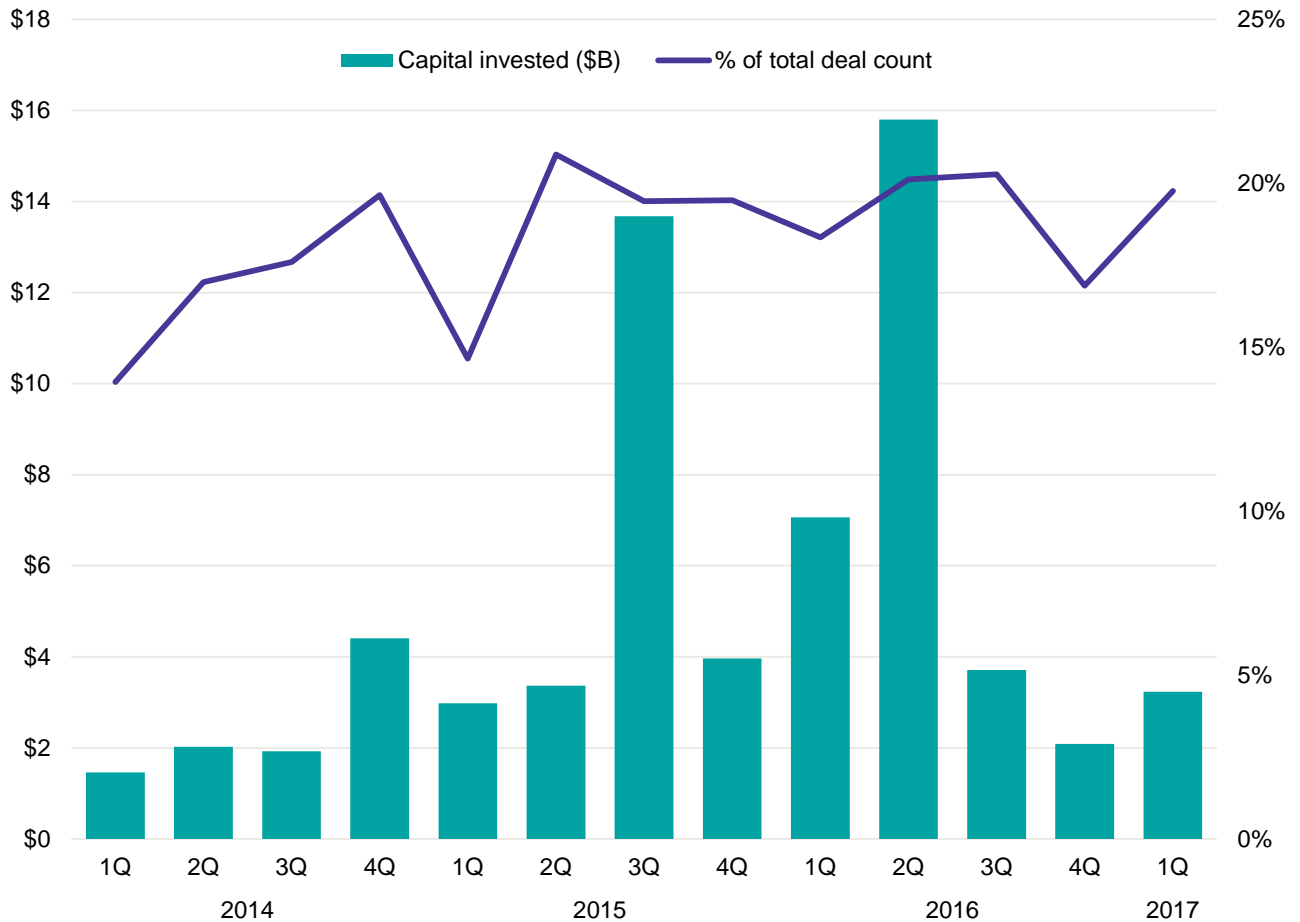


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.

Corporate VCs keep up the pace

Corporate participation in venture deals in Asia

2014 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

As noted in the prior edition of the Venture Pulse, corporate venture arms are more likely to maintain a consistent pace in the Asia region primarily due to the fact, many of the most munificent and prolific venture investors simply are the monolithic corporations, such as Baidu or Alibaba, that have already staked out significant incumbency advantages in certain arenas. However, they are as keen as any other corporate investor to maintain primacy in areas, such as machine learning or new consumer applications and, consequently, continue to boost local investment tallies.



The IPO market in China opened slightly in Q1, though there is still a decent queue of companies looking for an exit. We expect to see more funding in later-stage companies in coming quarters, with a clear IPO trend within the next 1 to 2 years. ”

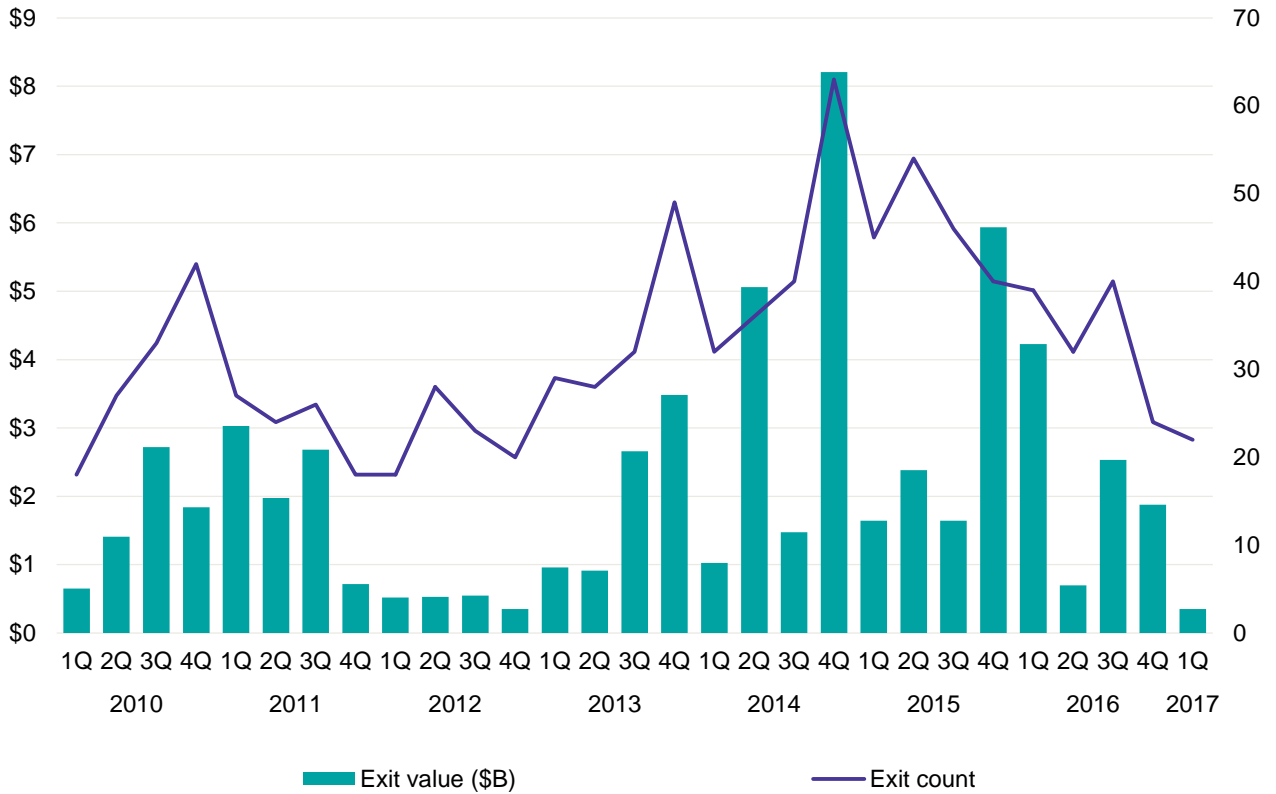


Lyndon Fung
US Capital Markets Group,
KPMG China

Asia exits continue their slide

Venture-backed exit activity in Asia

2010 — Q1'17



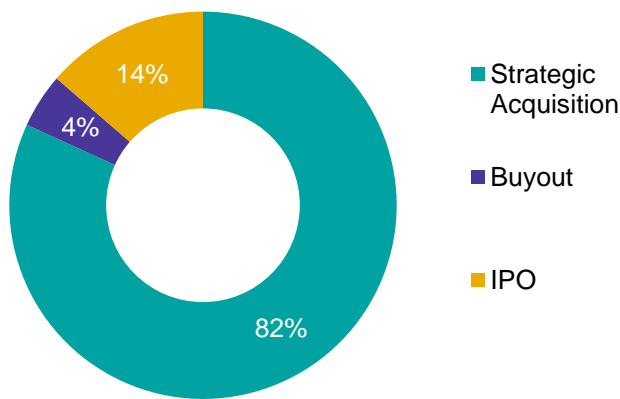
Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

Especially on a quarterly basis, it is important to stress the impact timing has on overall venture-backed exit tallies. The fact the Asia region is such a developing venture ecosystem only underlines the role of timing, especially as many corporate buyers that purchase mid-sized startups in the US or Europe simply aren't active abroad. Accordingly, the steady decline over the past couple of quarters could shift to some degree in even the near future, yet, until general perceptions of volatility within the region soften and the relative allure of M&A in more developed markets diminishes, exits could persist at a subdued level for some time more.

Strategic M&A provides the broadest avenue, although IPOs can be lucrative

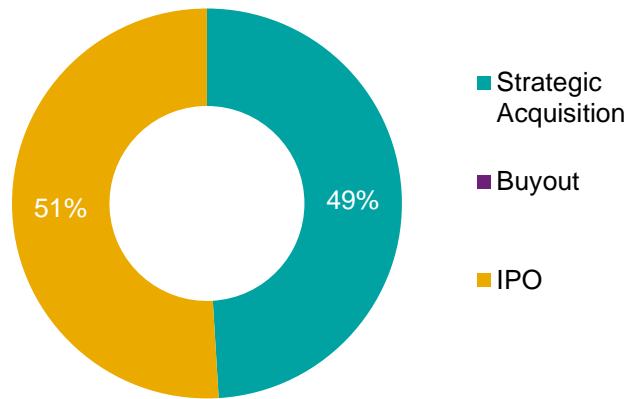
Venture-backed exit activity (#) by type in the Asia region

Q1'17



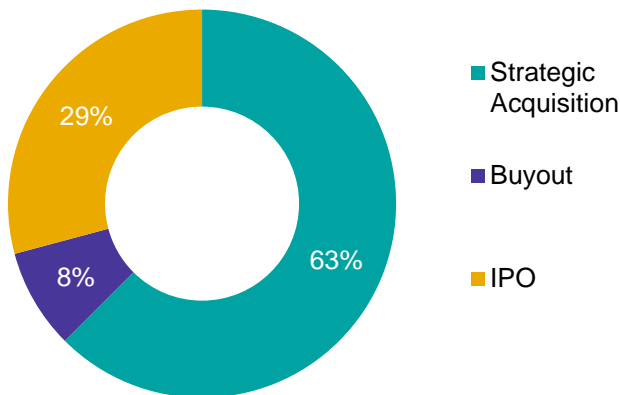
Venture-backed exit activity (\$B) by type in the Asia region

Q1'17



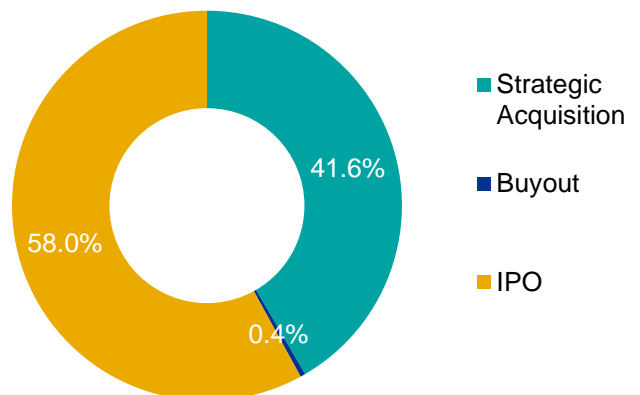
Venture-backed exit activity (#) by type in the Asia region

Q4 2016



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

Q4 2016

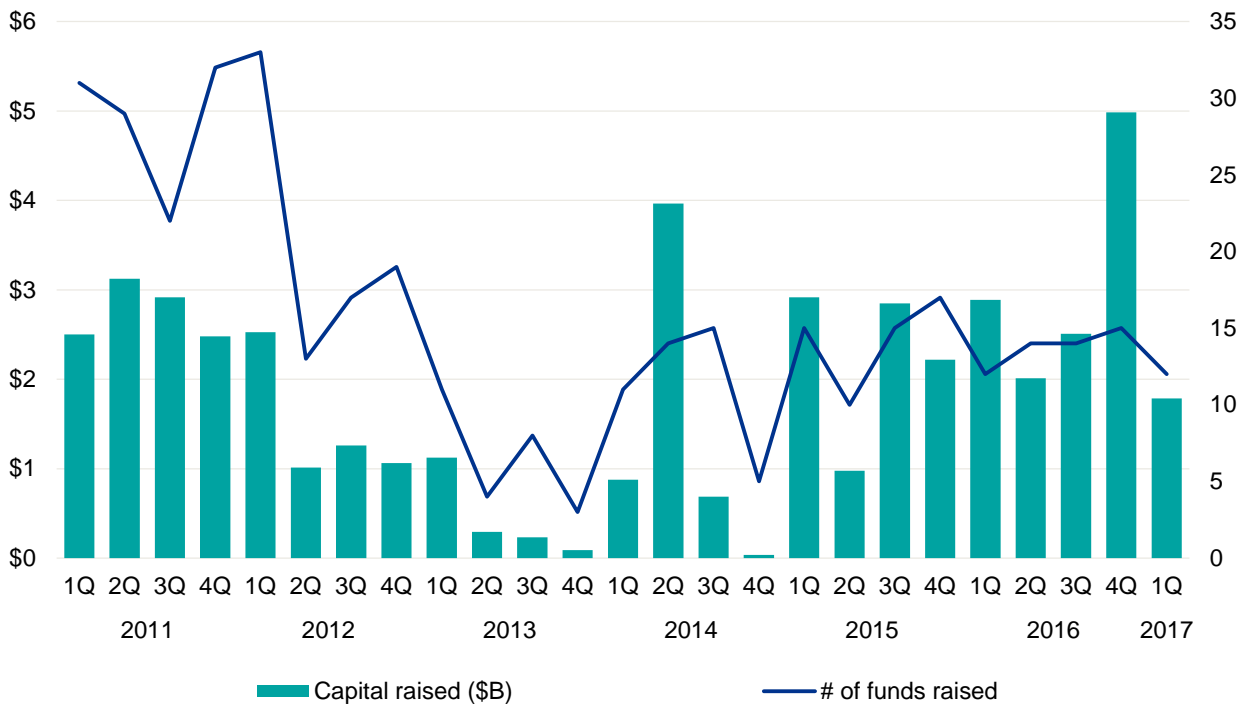


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

After a surge in VC raised, back to historical health

Venture fundraising in Asia

2011 — Q1'17

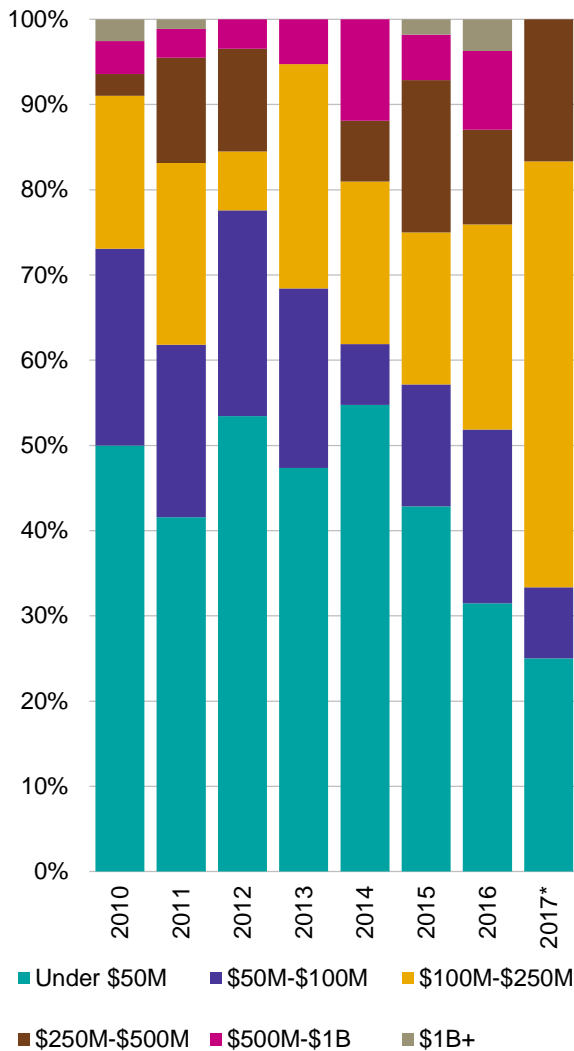


Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

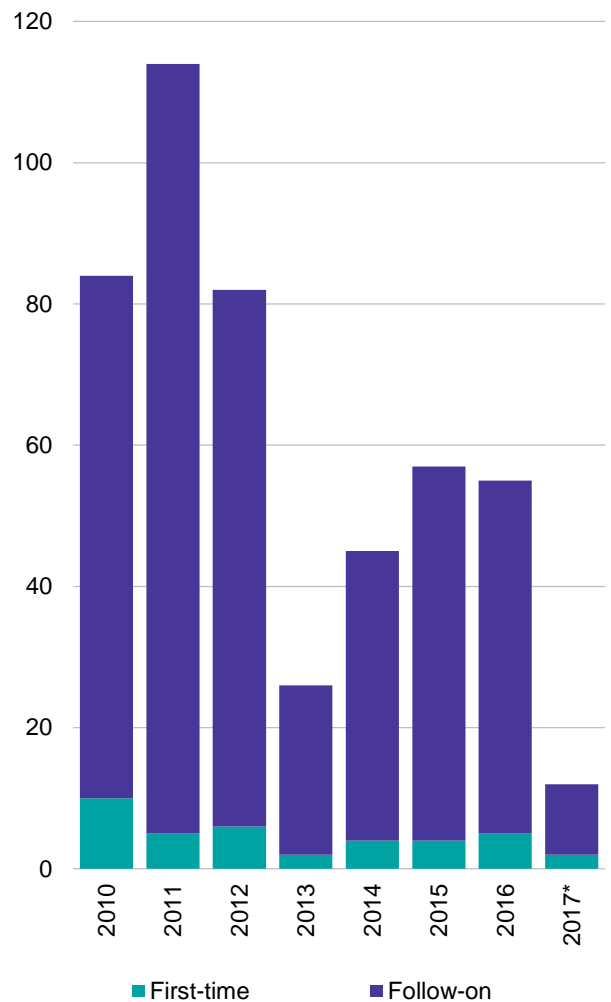
Fundraising activity remained fairly consistent in the Asia region. The number of closed funds dipped by a handful of closed pools of capital, while the total sum raised fell just shy of \$1.8 billion, although it is important to note that the consistency in fundraising speaks more toward LPs' perception of opportunities in emerging markets than anything else.

As in other regions, fund sizes are trending larger

Venture fundraising (#) by size in Asia
2010 — Q1'17



First-time vs. follow-on venture funds (#) in Asia
2010 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 3/31/2017. Data provided by PitchBook, April 11, 2017.



Due to the increasing maturity in business models and technology, Indian startup companies with a clear technology based offering have been attracting a lot of VC interest. There is high level of early stage activity though many deals do not get reported in the media. Fintech, Edtech, Healthtech and other consumer tech companies still are the favorites. With impending strategic consolidations and IPOs, the coming quarter is expected to be an exciting one for India. ”

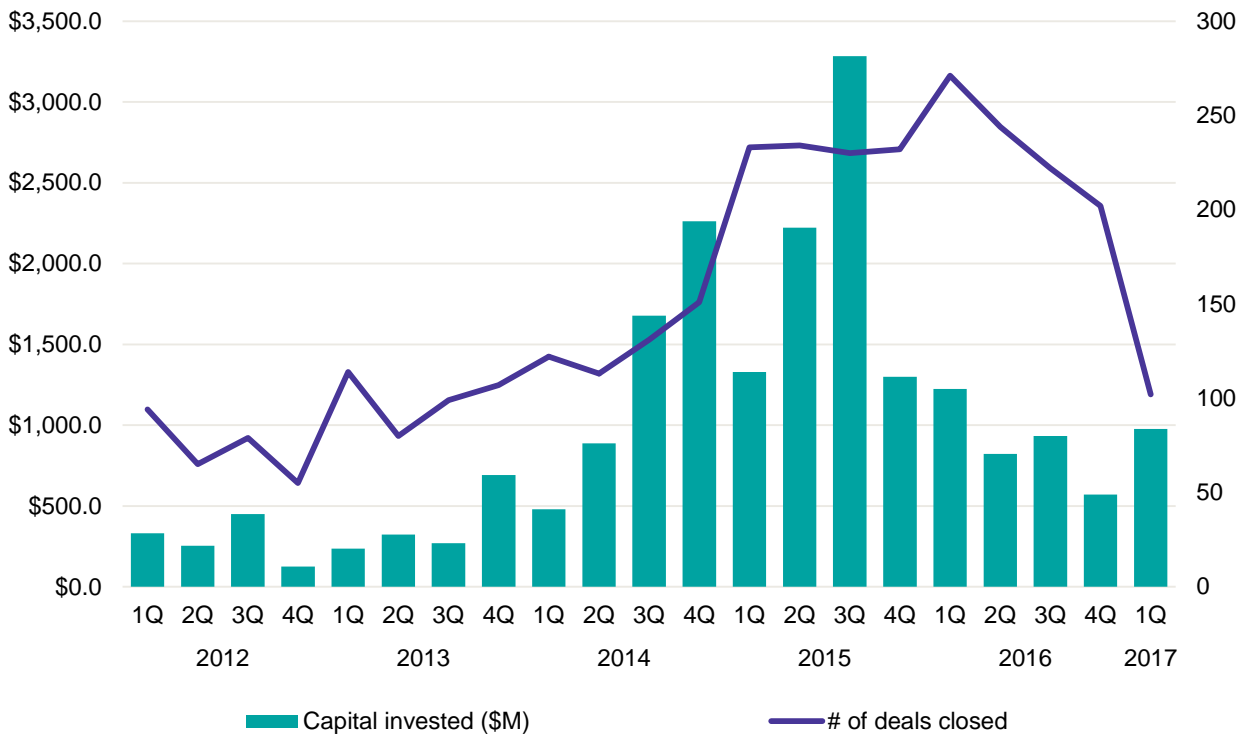


Sreedhar Prasad

*Partner, Internet Business and Startups,
KPMG in India*

Investors are still interested in India

Venture financing in India 2012 — Q1'17



Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

VC invested bounced back in India, even as the number of completed financings dropped. There is still plenty of interest on the part of corporate financiers as well as VCs both foreign and domestic in the Indian startup ecosystem, Flipkart's pending billion-dollar raise is just one example of continued, avid desire for exposure to the emerging Indian middle class.



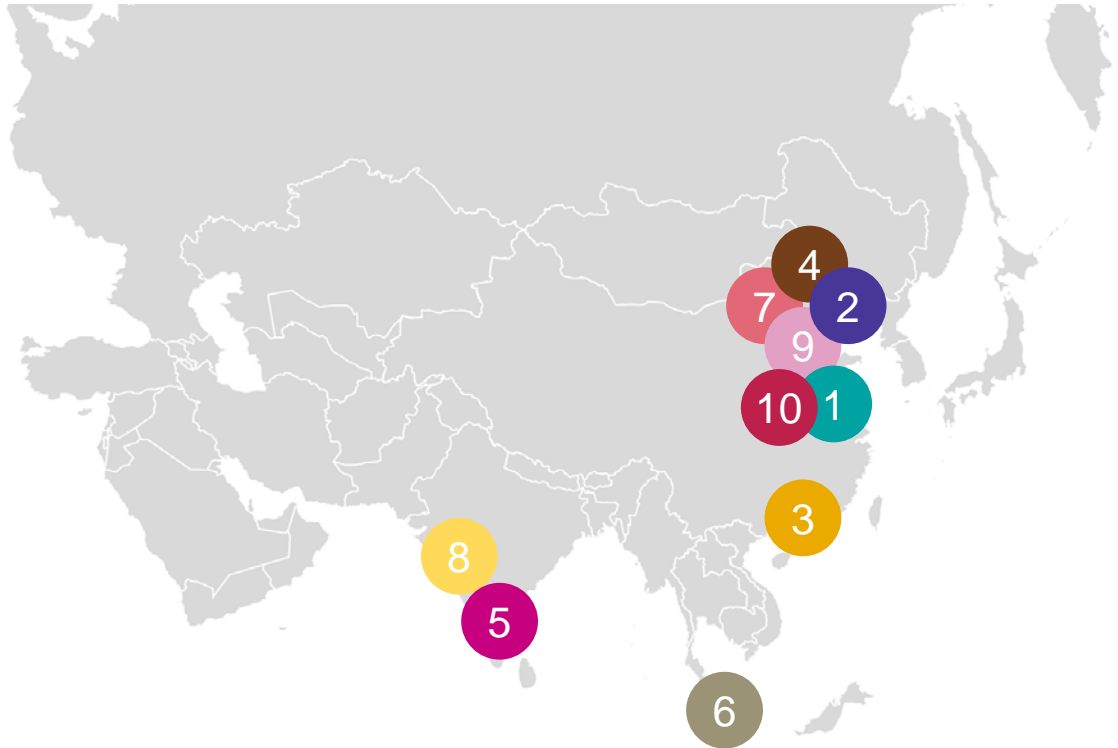
Asia is very much a country-specific region, with issues and opportunities varying considerably from market to market. Global funds who have found success in India, China and Japan have all taken a very strong localized approach. In Japan, the relatively nascent venture ecosystem provides a high degree of variability in valuations and venture deal terms, creating opportunities for savvy and well-networked investors. ”



Paul Ford

*Partner, Deal Advisory,
KPMG in Japan*

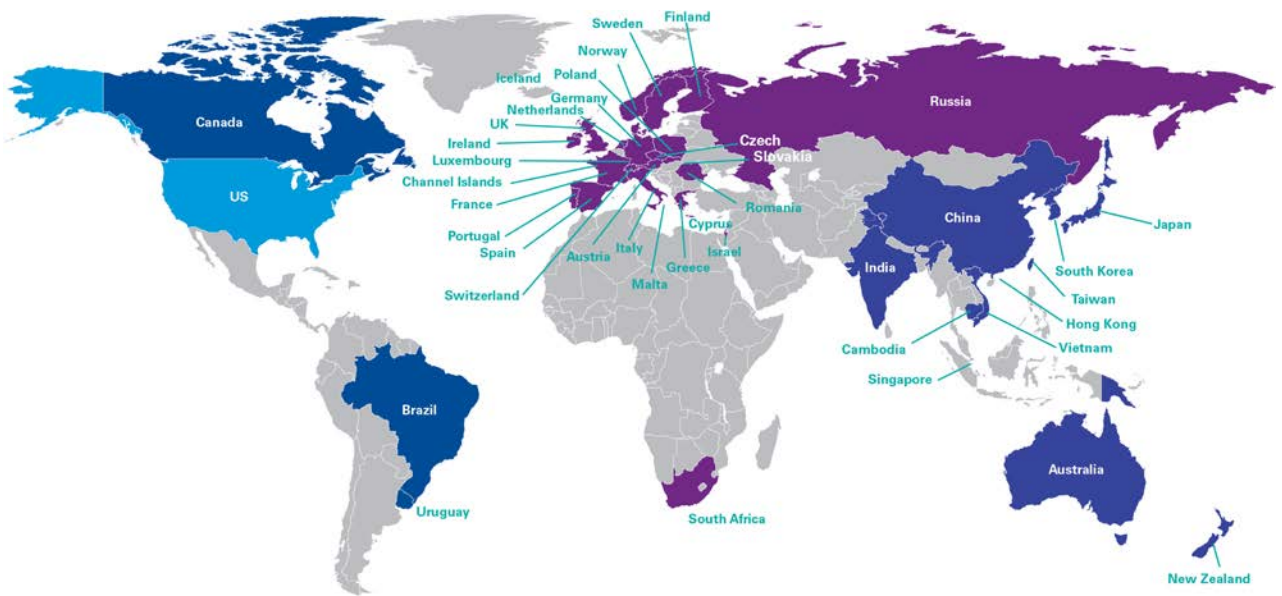
Shanghai surpasses Beijing in Q1'17



- | | |
|--|--|
| <p>1 NIO – \$600M, Shanghai
Transportation
<i>Series C</i></p> | <p>6 Mobike – \$300M, Singapore
Application software
<i>Series D</i></p> |
| <p>2 Ofo – \$450M, Beijing
Transportation
<i>Series D</i></p> | <p>7 Haodf.com – \$200M, Beijing
Healthcare
<i>Series D</i></p> |
| <p>3 Hive Box Technology – \$362M, Shenzhen
Logistics
<i>Series A</i></p> | <p>8 Paytm – \$200M, Mumbai
Platform software
<i>Early stage VC</i></p> |
| <p>4 Kuaishou Technology – \$350M, Beijing
Platform software
<i>Series D</i></p> | <p>9 UCloud – \$140M, Shanghai
Network management software
<i>Series D</i></p> |
| <p>5 Ola – \$330M, Bangalore
Application software
<i>Late stage VC</i></p> | <p>10 Asclletis – \$101M, Hangzhou
Biotechnology
<i>Series B</i></p> |

Source: Venture Pulse, Q1'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, April 11, 2017.

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



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About KPMG Enterprise

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

The Pulse of Fintech....coming soon

The VC market globally is dynamic and ever-changing. Technology companies looking to attract investment reflect a myriad of sectors, products and solutions. In today's technology-centric society, however, one sector stands apart: Fintech. Globally, fintech innovators are changing the very foundation of how business works and are enabling incumbent financial institutions. Every day, new fintech companies are finding ways to make banking, financial and insurance services more personalized, smarter and faster. Fintech solutions have the potential to reach every market sector, business, and consumer on the planet. The opportunities fintech offers are significant, and investors know it. That's why KPMG International created the Pulse of Fintech Report. Every quarter, we bring you insights on the fintech deals and trends making headlines. Our annual summary and Q1'17 report will be released soon. If you wish to join the Pulse of Fintech subscription list, contact us at enterprise@kpmg.com.

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Methodology

KPMG has switched to PitchBook as the provider of venture data for the Venture Pulse report. Due to differing methodologies between data providers, there may be discrepancies between this and prior editions of 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.

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.

Angel/seed: PitchBook defines financings as angel rounds if there are no PE or VC firms involved in the company to date and it cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which PitchBook typically aggregates together as early-stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Late-stage: Rounds are generally classified as Series C or D or later (which PitchBook typically aggregates together as late-stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Growth equity: Rounds must include at least one investor tagged as growth/expansion, while deal size must either be \$15 million or more (although rounds of undisclosed size that meet all other criteria are included). In addition, the deal must be classified as growth/expansion or later-stage VC in the PitchBook Platform. If the financing is tagged as late-stage VC it is included regardless of industry.

Methodology, cont'd

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.

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.

DRAFT

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