KPMG Enterprise

Venture Pulse Q3 2017

Global analysis of venture funding

11 October 2017

Welcome message

Welcome to the Q3'17 edition of the KPMG Enterprise *Venture Pulse Report* – a quarterly report discussing the key trends, opportunities and challenges facing the venture capital market globally.

While the number of VC deals globally continued to decline, the total amount of VC investment remained strong quarter over quarter. New York based WeWork raised a massive $3 billion in Series G funding in this quarter's largest deal, followed by a $2 billion raise by Toutiao and a $1.6 billion raise by BAIC BJEV both in Beijing. The top 10 deals globally accounted for almost one-third of total VC funding, highlighting the pivotal role of large deals in the ongoing health of the VC market.

The continued decline in the number of deals, particularly at the earliest deal stages, has also shown how investors continue to be cautious with their investments – conducting significant due diligence of potential deals even at the seed and angel funding stages. This has led to significantly fewer deals, although the companies' that are getting funding are proving to be ones of high quality with strong business plans and expected paths to profitability.

Healthtech and autotech remained key areas of investment during Q3'17, in addition to artificial intelligence (AI) and augmented reality/virtual reality. Agtech also made strong waves this quarter, with large rounds by US-based Plenty and Indigo.

Looking ahead, while there appears to be a significant degree of geopolitical uncertainty around the world expected over the next few quarters amid elections, Brexit and the potential for changes to US trade and tax policies, VC investors appear to be taking a status quo approach to their activities. Barring an unexpected event or catastrophe, the VC market is expected to remain healthy into Q4'17 and into the beginning of 2018.

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

- The rising number of mega-deals across the globe
- The increased due diligence being conducted on deals of all sizes
- The evolution of virtual reality and augmented reality – and its application across sectors
- The growing importance of corporates amid a pullback from 'tourist' investors.

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.

KPMG Enterprise

You know KPMG, you might not know KPMG Enterprise.

KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. Whether you're an entrepreneur looking to get started, an innovative, fast growing company, or an established company looking to an exit, KPMG Enterprise advisers understand what is important to you and can help you navigate your challenges — no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

Jonathan Lavender
Global Chairman,
KPMG Enterprise,
KPMG International

Brian Hughes
Co-Leader,
KPMG Enterprise
Innovative Startups
Network, KPMG
International, and Partner,
KPMG in the US

Arik Speier
Co-Leader,
KPMG Enterprise
Innovative Startups
Network, KPMG
International, and Partner,
KPMG in Israel

Contents

KPMG Enterprise

Q3'17 summary

Deal volume gently declines as capital invested continues to climb

With one quarter left in the year, it is easier to assess macro trends with greater confidence. Accordingly, even though the tally of completed venture financings slid between Q2 and Q3'17 by 23.3%, the VC industry appears to be entering more of a subdued plateau in terms of deal volume, far below the heights observed throughout 2014 and 2015, yet by no means an alarming crash. What is especially telling in the context of this gentle decline in completed financings is the still-mammoth sum of capital invested. The past two quarters are the third and fourth highest when it comes to aggregate VC invested worldwide, of the past nearly 8 years. There is still plenty of money for venture investors to deploy; they are simply investing more cautiously, on the whole, in the later stages of a maturing investment cycle.

The Americas remain high-priced, with regional variability

As early-stage and late-stage deal volume tapers off into a slightly lower plateau, so have the aggregate quarterly counts for the Americas on the whole. That said, VC invested still stands at historic highs, significantly boosted by large financings in the US. This is typical of a high-priced environment in the later stages of an investing cycle. With plenty of money sloshing around in the industry, certain areas can still experience a significant skew in volume or VC invested on a quarterly basis. Even though less-mature venture markets, such as Mexico or Brazil saw slow quarters, Canada came just shy of matching its second-highest quarter for VC invested ever, logging $795.3 million across 77 transactions.

Valuations hold steady at an elevated level, competition remains intense

After a decline between 2015 and 2016, the median round size for the latest stage—Series D or later—soared once more in 2017 to date to its highest tally ever of $40 million. Moreover, every other series either held steady or increased as well. By now, the longer term trend in 2017 is becoming clearer. The late-stage remains characterized by massive fundings as more and more mature companies are still able to rake in significantly sized rounds via private sources. Meanwhile, the early-stage has become even more competitive, with a significant spread in the year thus far between Series A and B rounds, resulting in fewer companies being able to meet the metrics investors demand for such sums.

European venture scene steadies

For the third quarter in a row, VC invested rose in Europe, albeit by 9.2%. In tandem with declining aggregate volume, particularly at the angel and seed stages, it is clear that European and international VCs have reframed their focus along more cautious terms, especially given general macroeconomic and political variables. Late-stage outliers such as Deliveroo or Tricentis can still raise massive sums, with those two alone raising a combined $550 million in Q3'17. Evidently, plenty of capital remains awaiting the right targets.

Back-to-back quarters of massive sums invested

It is still too early to say if the Asian venture scene on the whole clearly marked a turning point of maturity and capital depth in the past few years, but VC invested easily overtopping $12 billion in Q2 and Q3'17 apiece certainly speaks to the maturation of at least a few key metro areas. Beijing leads the way, followed by a handful of other cities in China and India, in hosting companies that continually top the charts when it comes to raking in VC hand over fist to underpin spurts of growth from a mix of traditional and non-traditional investors.

All currency amounts are in USD, unless otherwise specified, data provided by PitchBook.

Q3'17 summary

Corporate participation shows no sign of stopping

Starting in the middle of 2015, even as global VC financing volume by count began to decline slowly, corporate VC participation began an inexorable rise. Q3'17 has seen the latest high, 17.7% of worldwide venture financings included a corporate venture arm or related entity participating. Such a significant uptick has been chalked up to a variety of factors, from regional monetary policies encouraging alternate forms of investment to the influence of the first major technology corporations that themselves once benefited from injections of VC at the early-stage. It appears that the corporate VC model is still adapting to the ongoing transformation of traditional business lines by information technology first and related innovations second. While engaging in traditional research and development (R&D), more and more businesses are also looking to gain exposure to emerging technologies via other means, whether for pure business reasons or for that plus the lure of potential profit. Corporate VCs' continued pace even as the venture industry cooled from its recent heights testifies to the adaptation of the model on a worldwide basis.

Will the fundraising cycle finally subside?

Still supported by mega-funds closing in the year to date, overall, 246 venture funds have been closed through the end of Q3 for a combined $38 billion in total capital commitments. Given that the full-year figures for 2016 were $425 and $65 billion, respectively, it is critical to underline that the timeline of the typical venture fund life cycle spans about 10 years. If anything, given the evolution of private markets, that timeline could lengthen. Global fundraising by count overtopped 400 each year from 2014 to 2016, and even if 2017 ends on a cyclically downward note, that myriad of venture vehicles and massive hoard of dry powder will exert a consistent upward force on dealmaking going forward. All that acknowledged, in light of such recent heightened activity, it will likely the fundraising cycle will subside for at least a period.

Exit cycle continues to wind down

With three quarters in, it is easier to place 2017 totals to date against full-year tallies from the past decade for context and rely on quarterly figures for indications of momentum. On a quarterly basis, accordingly, completed exit volume is certainly subsiding, while the Q3'17 exit tally of $13.9 billion remains within historical bounds, although below the mean of the prior three years, which stood at $22.65 billion. Mostly driven by the decline in the M&A cycle and recent diminishing of debuts on public markets, venture-backed exits have definitely entered a cyclical decline for now. The pressing question is the duration of the decline and how the later stages of the exit cycle may allow for the mature crop of late-stage, venture-backed companies that are highly valued on paper to finally realize their gains.

A comeback for first-time fundraising, of sorts

At 44 through its first three quarters, 2017 has already seen more first-time funds closed than either 2015 or 2016. While a far cry from the heights of 2006 to 2007, which saw 79 and 67 respectively, it is clear that there is still appetite on the part of limited partners to back new investment theses targeting new niches. Some of this is due to the partners of recently successful VC funds that rode the booming venture cycle over the past few years spinning off their own vehicles.

All currency amounts are in USD, unless otherwise specified, data provided by PitchBook.

KPMG Enterprise

Globally, in Q3'17 VC-backed companies raised

$39.4B

across

2,672 deals

Due diligence remains investor priority as global VC market strengthens

VC investment globally continued to show strength in Q3'17, with significant funding rounds seen in every major region of the world. Despite the positive investment climate, in every region, the total number of VC deals globally continued to decline. The combination of strong investment and lower deal volume has led to a higher median deal size at all deal stages. This suggests that investors are being more selective with all deals – even those at the earliest stages of funding.

Large funding rounds across the globe signals strength of VC market

Following in the footsteps of Q2'17, large transactions continued to account for a high percentage of VC deals globally during the third quarter. Three companies led $1 billion+ funding rounds, including US-based WeWork ($3 billion), and China-based Toutiao ($2 billion) and BAIC BJEV ($1.6 billion). The top 10 deals globally together accounted for almost $10 billion in funding.

China accounted for half of the biggest deals globally, with Ofo, WeWork China and SenseTime also having significant mega-rounds. While only one Europe-based deal made the global top 10 list this quarter, the region was not immune to large deals. The region saw three $100 million+ mega-rounds during Q3'17, in addition to Deliveroo ($385 million), with large deals closed by Prodigy Finance ($240 million), Sound Cloud ($169.5 million) and Tricentis ($165 million).

Number of deals declines further as investors focus on due diligence even at early deal stages

Despite a significant number of $100 million+ mega-rounds in all regions of the world, deal volume globally continued to fall. In Q3'17, the total number of deals fell to levels not experienced since 2011 – driven primarily by the continued drop in angel and seed stage deal volume. The ongoing decline in deal volume highlights the focus investors have placed on investing in companies with the highest potential for success

'Tourist' investors pull back from global VC market

In 2015 and 2016, mutual funds and hedge funds significantly increased their participation in the VC market globally, primarily due to the rapid growth of unicorn companies, the low interest rate environment in many jurisdictions, and expectations of high ROI over relatively short periods of time. Unfortunately, the rapid slowdown in the IPO market meant many of these tourist investors found it difficult to achieve their expected returns, with some even taking hits from the write downs of high profile unicorn companies. These institutional investors shifted their attention back to more traditional investments during Q3'17 – a trend expected to continue for the foreseeable future.

Corporate participation remains strong given strategic priorities

Corporate participation in the VC market continued to grow in Asia, Europe and the Americas during Q3'17, compensating for the decline in funding from other investor groups. Many corporates see VC investment as an opportunity to obtain technologies for their own use without the need to invest heavily in R&D. In fact, they often view VC investment as the less risky (and quicker) path to addressing innovation. Given the strategic importance placed on innovation by many corporates, it is expected that their participation as a percentage of all VC deals will remain high in Q4'17 and into 2018.

Due diligence remains investor priority as global VC market strengthens, cont'd.

Emerging tech companies see record pace M&A activity

M&A activity remained strong in Q3'17 for emerging tech companies at $34.9 billion so far in 2017. Among some of the more prominent M&A deals in Q3'17 were Cloudera's acquisition of Fast Forward Labs – a company focused on machine learning and Volvo's acquisition of Luxe – a company focused on providing valet and concierge service for vehicles[2].

IPO market continues to make slow rebound

Compared to 2016, 2017 has seen an uptick in the number of IPO exits. While many investors believed the IPO market would rebound more quickly, there are signs that the market will improve over Q4'17, including an increase in IPO filings, a decrease in withdrawals and relatively good IPO returns. Looking across the entire portfolio of companies that have gone to IPO in 2017, post-IPO results have also been positive, on average, despite lackluster results from a number of high profile companies such as Snap and Blue Apron.

Secondary transactions on the rise as IPO alternatives take center stage

Globally, many technology companies have chosen to remain private longer, helping to drive an increase in late-stage mega-round financings. At the same time, such decisions have also increased the number of secondary transactions over the last few quarters as companies have worked to provide some liquidity to their employees and early investors.

There has also been an increase in interest in IPO alternatives – such as the use of special purchase acquisition companies (SPAC) in order to create liquidity for private companies without the need to conduct an IPO. For example, in Q3'17, Social Capital Hedosophia Holdings listed an SPAC in order to raise $600 million for the purchase of a technology company[1]. If Hedosophia is successful, the use of SPACs in the technology space may increase over time as an alternative means of providing liquidity.

Virtual reality and AI hot areas of investment across all regions of the world

The opportunities related to virtual reality and AI have grown exponentially in recent quarters, with both areas considered to be big bets on the VC investment front. The applicability of these technologies to a diverse range of sectors – from medical research and retail to manufacturing and transportation - is expected to keep them among the hottest VC investment areas over the next few quarters. In addition to AI and VR, healthtech and biotech remained hot areas of investment during Q3'17, with deals by Intarcia Therapeutics ($615 million) and Auris Surgical Robotics ($280 million) among the largest global VC deals.

Trends to watch for globally

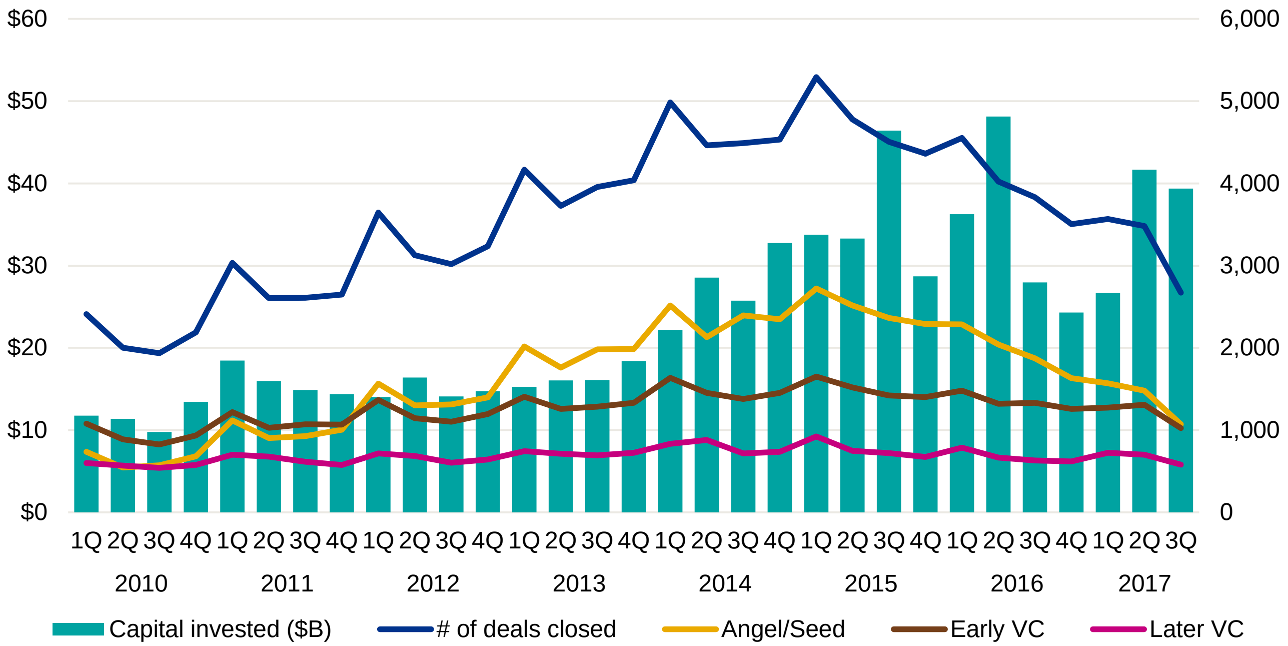
VC investment is expected to remain relatively steady in Q4'17 and heading into 2018 barring an unforeseen global catastrophe or a major shift in US tax or trade policies. Corporate investment, which represents an increasingly high percentage of overall venture activity, is expected to remain strong through the remainder of the year and well into 2018, with numerous traditional companies across jurisdictions looking to invest in innovation opportunities. AI, robotics, blockchain and healthtech will likely remain hot areas of investment into the next quarter, while Agtech is expected to gain traction among investors over the next two to three quarters following a major investment push in Q3'17. The IPO market is also expected to continue to improve, although there is little expectation that it will return to historical highs in the near term.

[1] https://techcrunch.com/2017/09/14/social-capital-to-take-startups-public-without-an-ipo/
[2] https://pitchbook.com/news/articles/ma-in-emerging-tech-on-pace-for-record-deal-value

VC invested still bolstered by mammoth rounds

Global venture financing by stage

2010 — Q3'17



Source: Venture Pulse, Q3'17. Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.
Note: Refer to the Methodology section on page 103 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

Completed transaction volume is still gently sliding, in a clear sign of investors' caution. Yet the impact of the massive sums raised by venture firms and nontraditional investors' continued involvement still is clear, judging by the large sums still invested.

"Mega-deals continued to dominate the VC landscape in Q3, and China led the way with more than $5 billion invested in their top 6 deals alone. The US also saw a number of massive deals, including WeWorks and Intarcia Therapeutics. Not to be outdone, Europe enjoyed a busy Q3'17 with Deliveroo, Prodigy Finance, and Sound Cloud. We expect to see continued investment in late stage deals as VC investors place bigger bets in established companies in an effort to reduce risk"

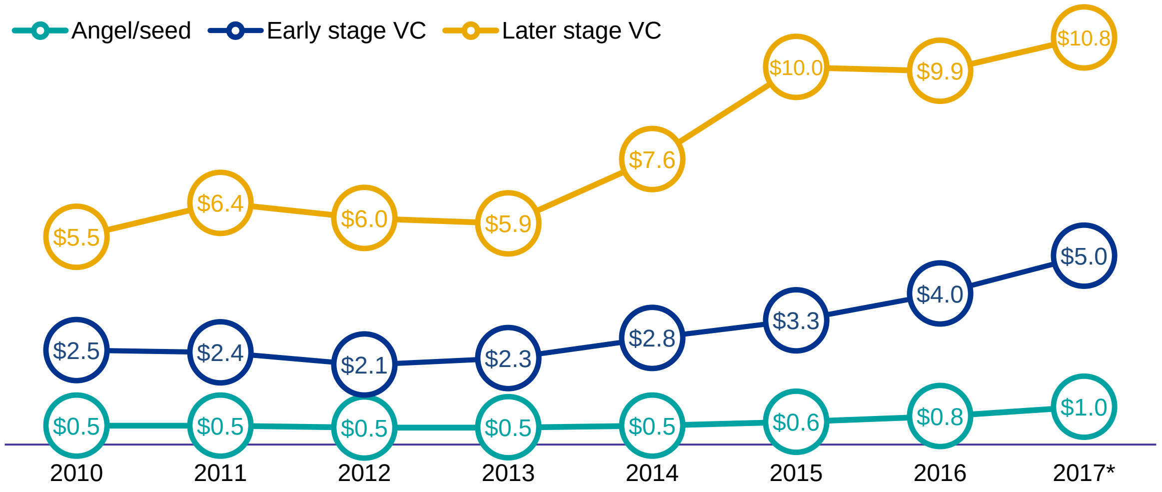
Brian Hughes
Co-Leader, KPMG Enterprise Innovative Startups Network, KPMG International and National Co-Lead Partner, KPMG Venture Capital Practice, **KPMG in the US**

KPMG Enterprise

Diminishing volume & hefty dry powder provide a boost

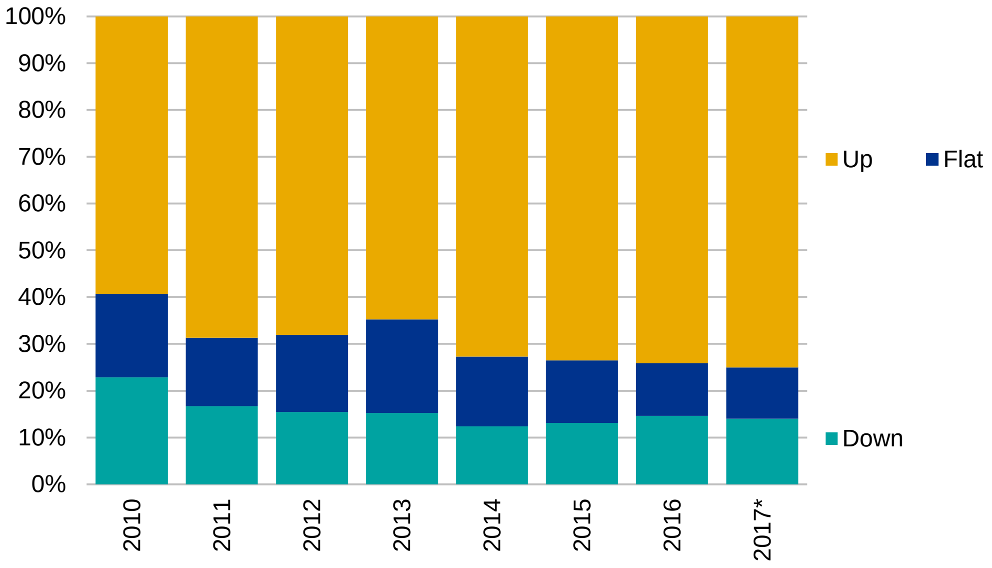
Global median deal size ($M) by stage

2010 — 2017*



Global up, flat or down rounds

2010 — 2017*



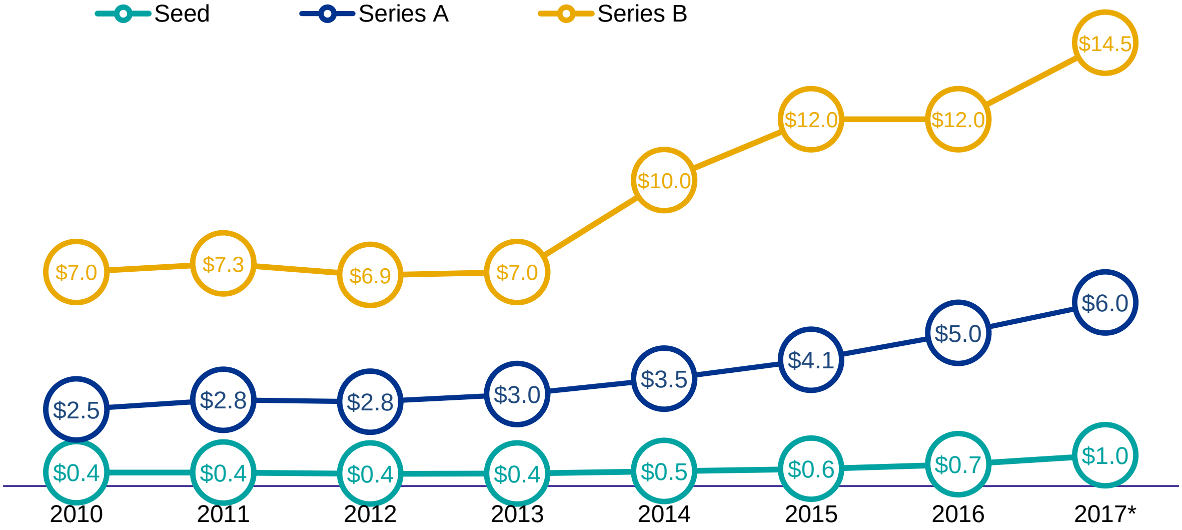
Few figures illustrate the sustained shift in the global venture environment toward a new normal of high prices than the continued elevation of median transaction sizes.

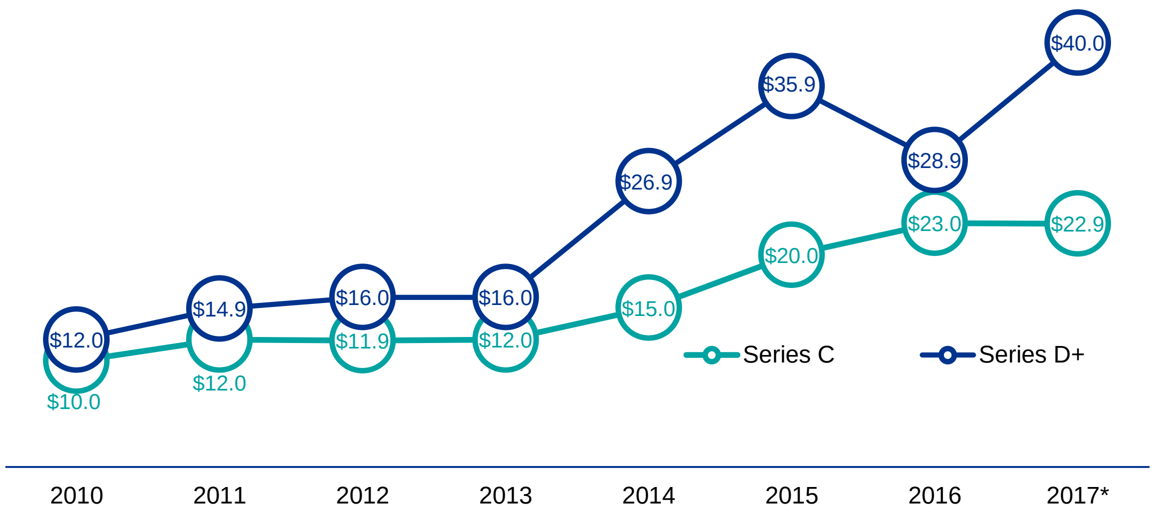
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

The latest stage resurges once more

Global median deal size ($M) by series

2010 — 2017*





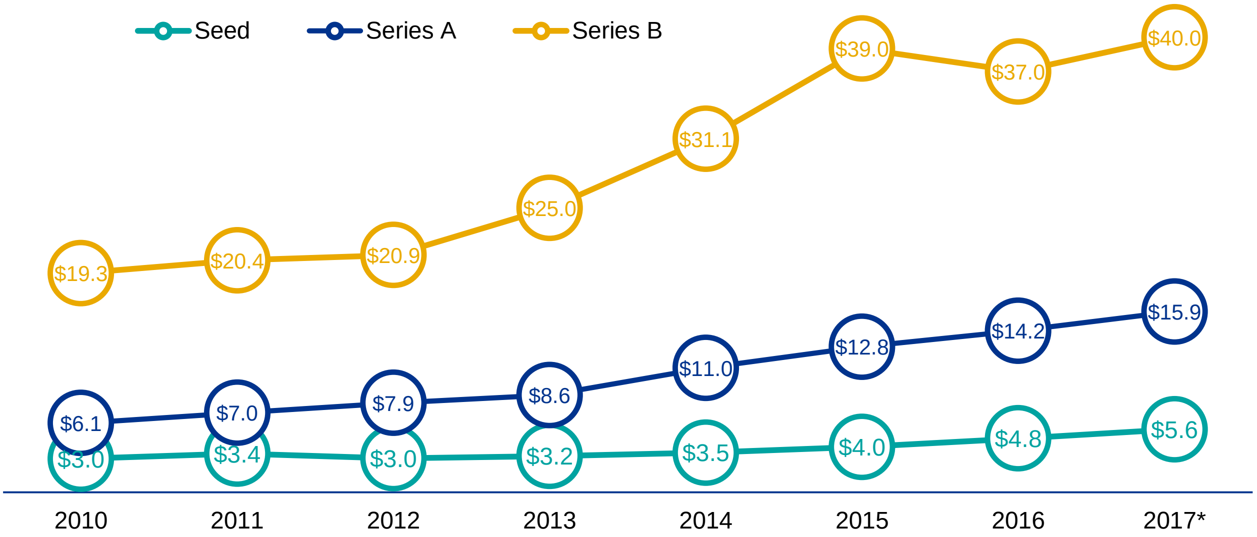
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

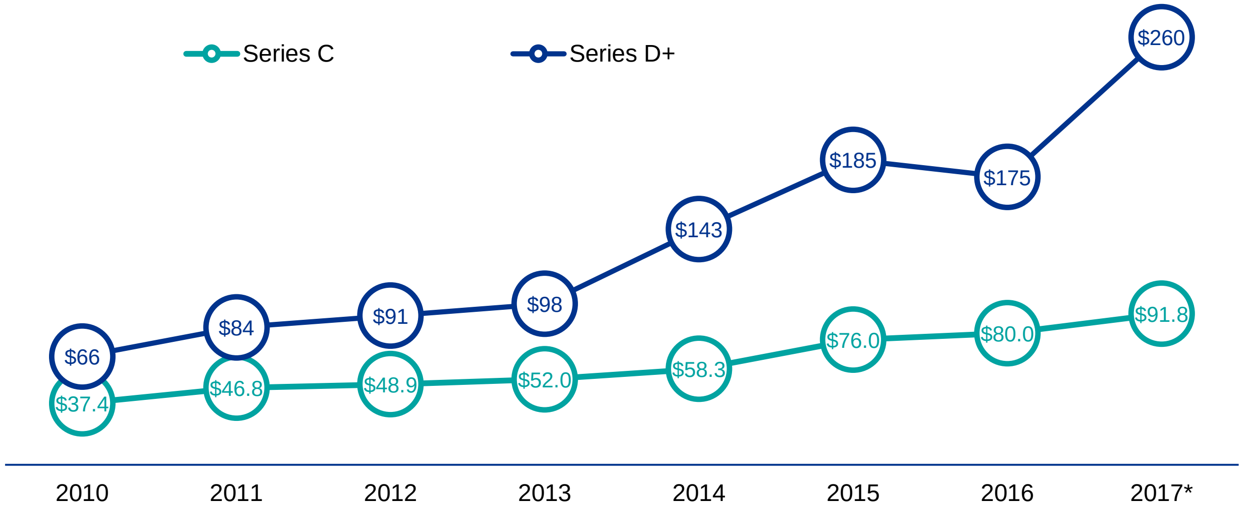
Analyzing median tallies by series adds shades of nuance to investors' attitudes as well as strategies. The fact Series D and later rounds have never seen a higher median financing size speaks volumes about VCs' desires for exposure to costly yet safer prospects, while the disparity between Series A and B financings in terms of size suggests that distinct hurdles for startups seeking financings are likeliest at that stage of development.

Outliers predominate; significant inflation

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

2010 — 2017*





Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

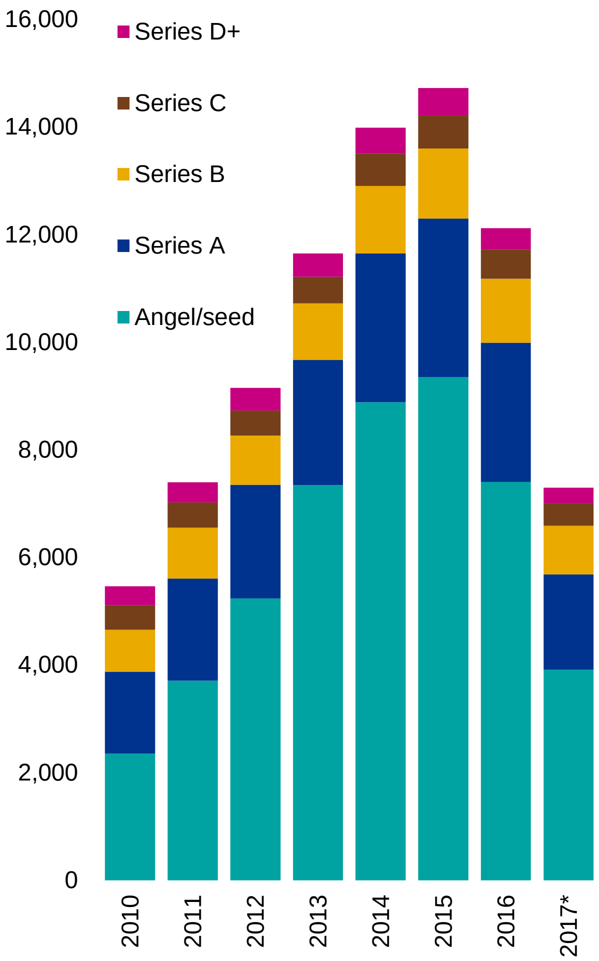
At this point, the most remarkable trend is not merely the staggering surge in the median pre-money valuation at the Series D or later stage, but rather the sustained or increasing comparable tallies for every other series. The global venture industry is still experiencing an inflated pricing environment, when all is said and done. That does not mean tremendous value isn't being created, but it does speak to the level of investor demand for exposure to private markets.

KPMG Enterprise

Caution entails slowing early-stage volume

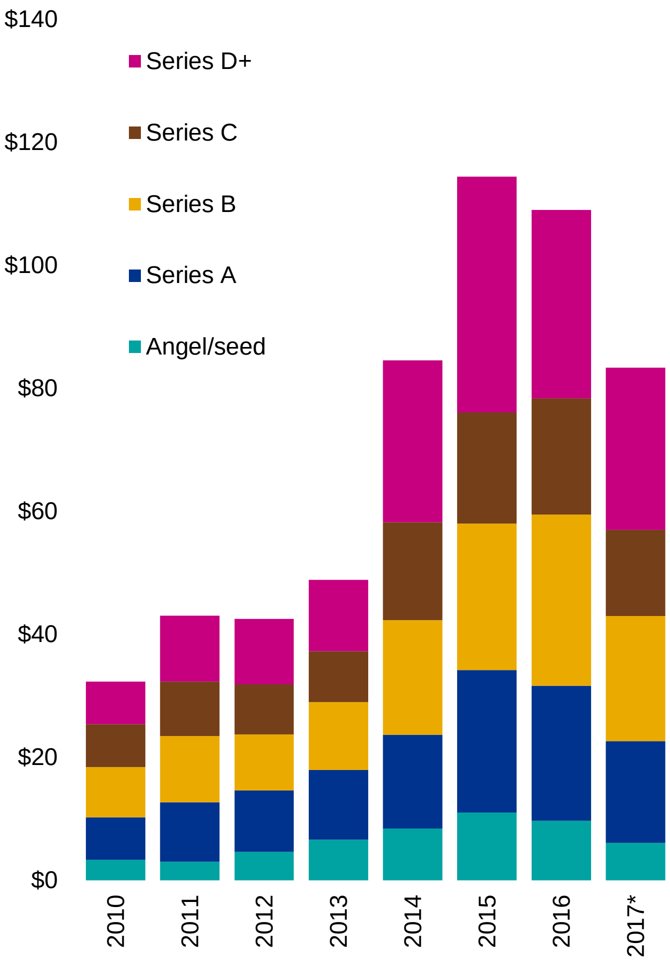
Global deal share by series

2010 — 2017*, number of closed deals



Global deal share by series

2010 — 2017*, VC invested ($B)



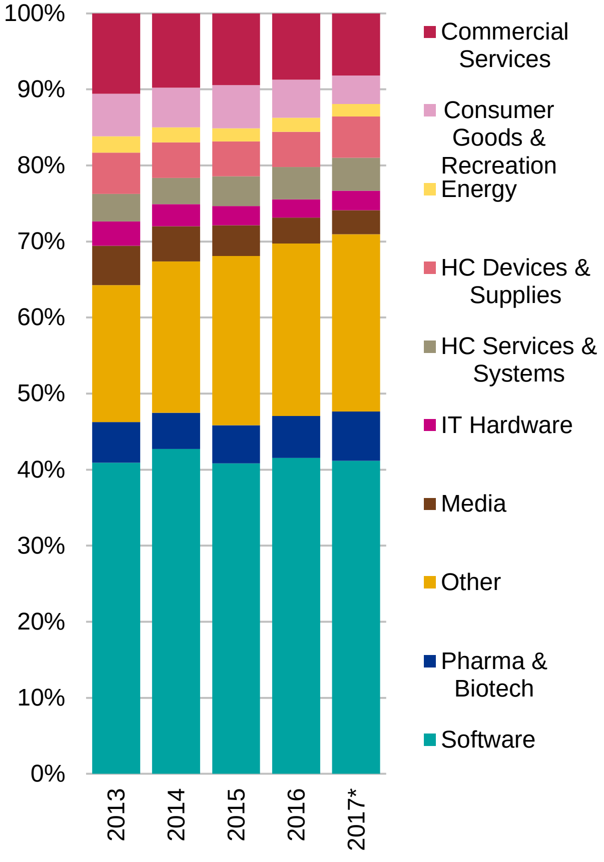
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Diminishing angel/seed activity still continues to be the predominant driver in overall global VC deal counts sliding. Investors are simply more cautious nowadays, although it is worth noting the traditional nomenclature of different series has changed to the point certain rounds that would once have been seed are being priced into Series A territory.

Traditional hotbeds stay centers of focus

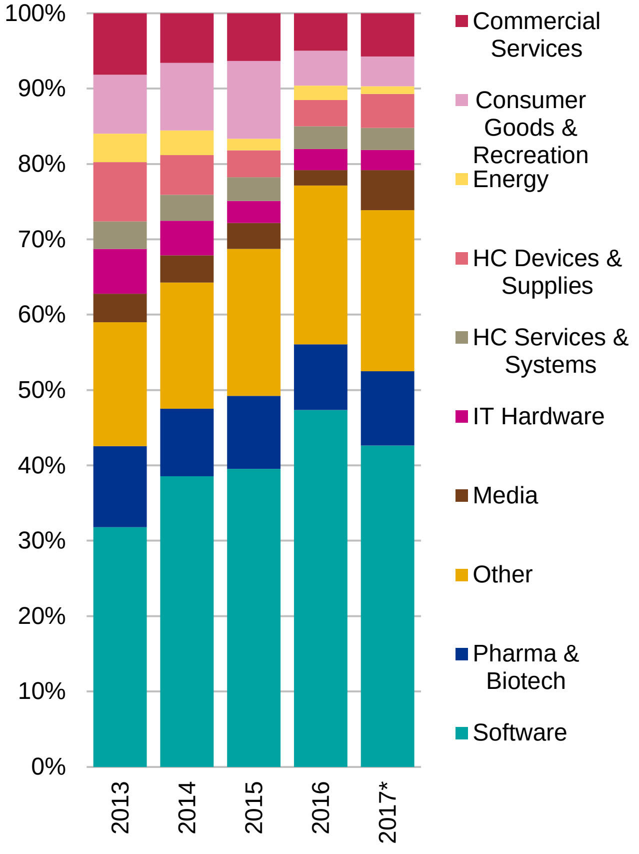
Global financing trends to VC-backed companies by sector

2013 — 2017*, number of closed deals



Global financing trends to VC-backed companies by sector

2013 — 2017*, VC invested ($B)



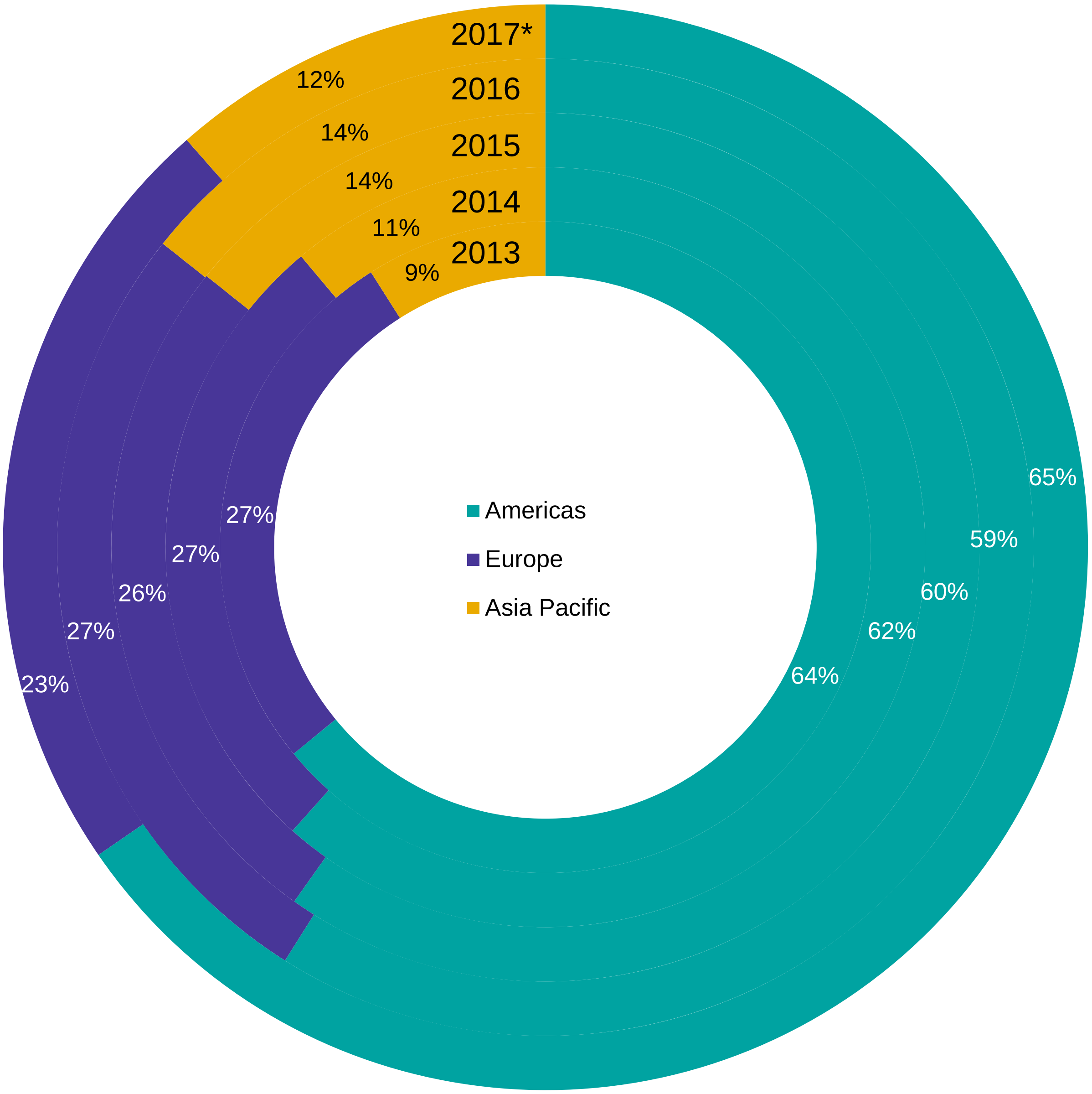
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Analyzing the pace of financings by sector compared to those of 2016, amid the overall decline in volume, healthcare remains a key area of focus, resilient amid a downturn that is affecting even software's totals. That said, the continued significant share of industries that fall outside traditional norms when it comes to primary industry classification only further indicates the blurring of customary business lines as technology advances.

VC investment volume favors developed markets

Financing of VC-backed companies by continent

2013 — 2017*, number of closed deals

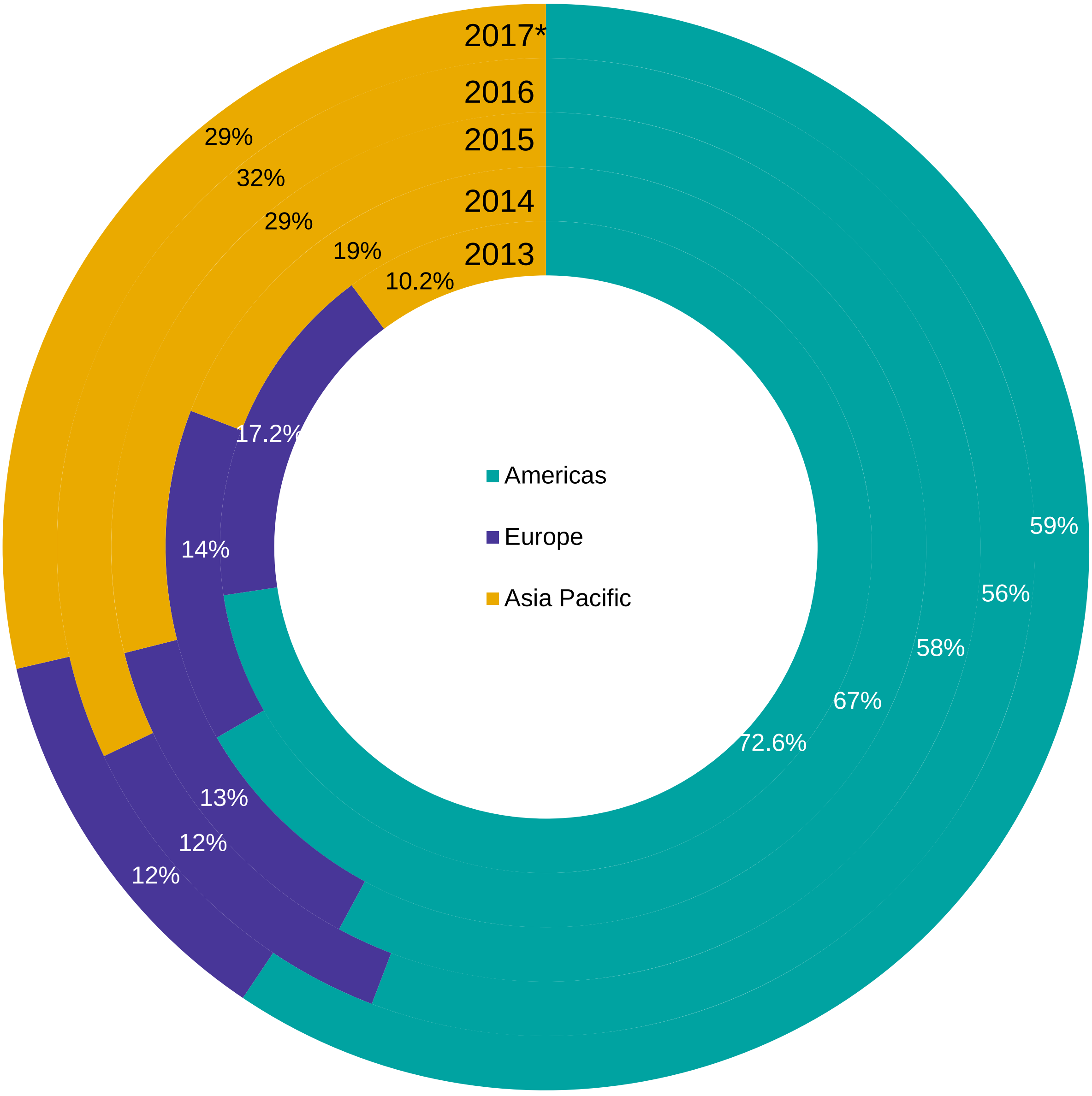


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Over the long term, Asia's growth has been impressive

Financing of VC-backed companies by continent

2013 — 2017*, VC invested ($B)

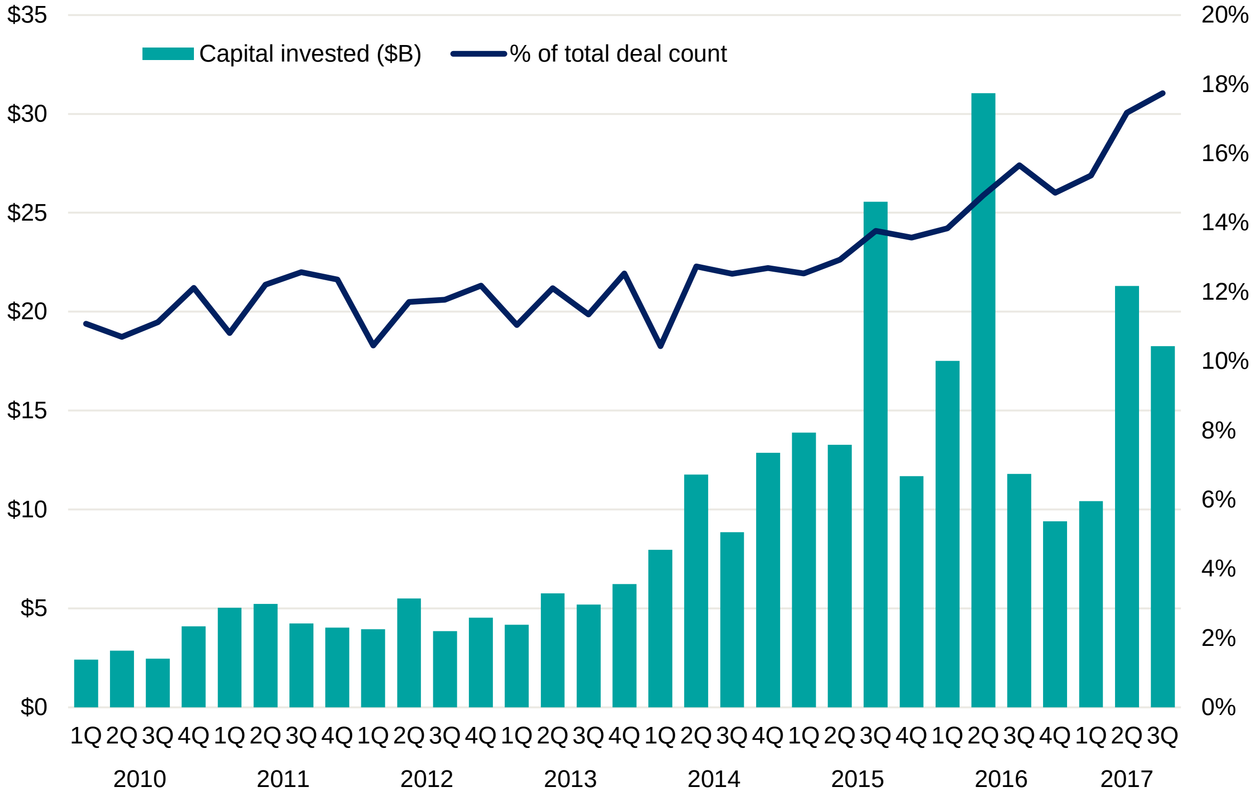


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Sustained CVC involvement testifies to the evolving corporate role in general VC

Corporate VC participation in global venture deals

2010 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

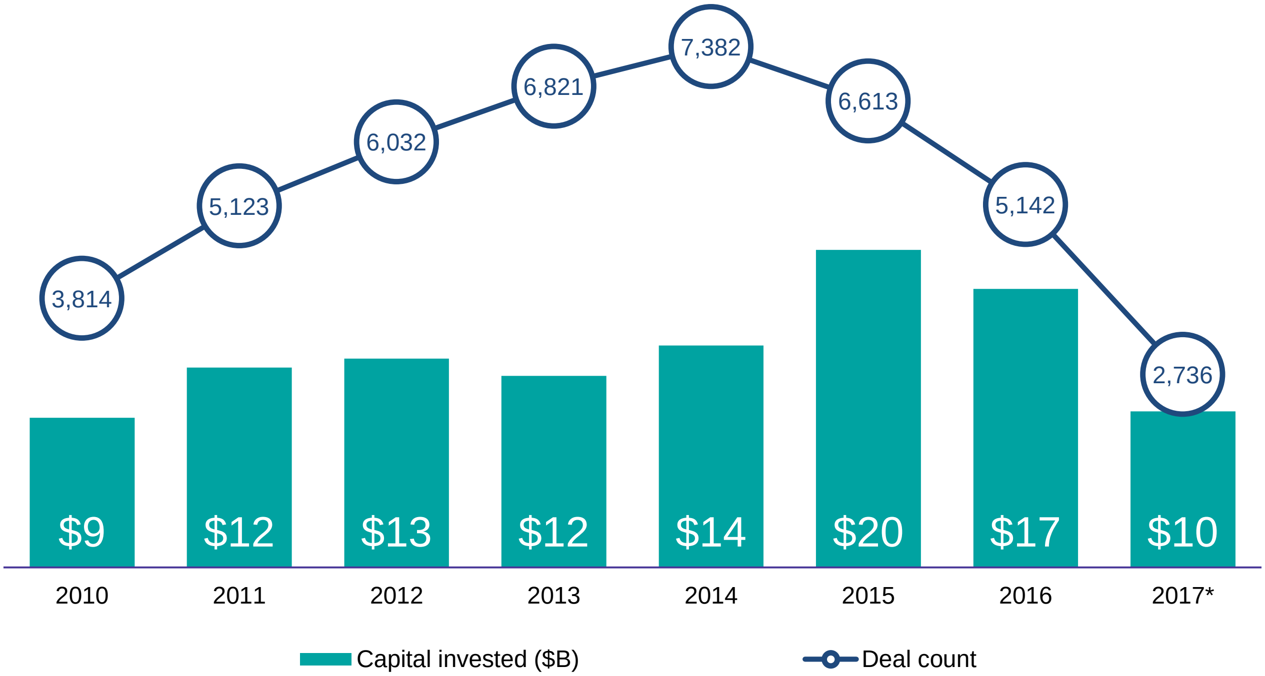
Continuing at a remarkably high percentage of overall venture activity, corporate venture arms' involvement speaks to the evolving role of corporations when it comes to the venture landscape, with their investment firm affiliates only becoming evermore important sources of capital and talent. As founders and investors alike grow more sophisticated, so do corporate players, with ever-attentive focus on garnering exposure to relevant technological advances in a global environment of fast-paced innovation.

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.

Volume & VC invested remain off the pace of prior years

Global first-time venture financings of companies

2010 — 2017*



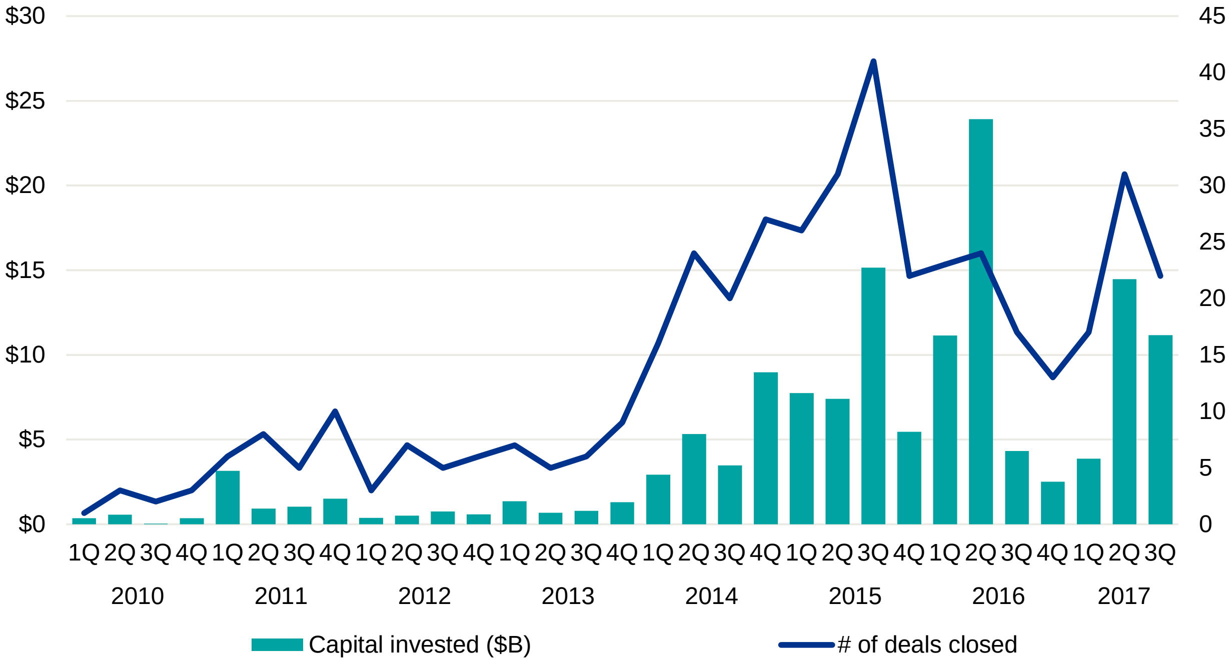
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

This year has been fraught with significant tensions in nearly every realm, ranging from worry over the persistence of public market valuations to numerous policy changes. Accordingly, when it comes to the riskiest of all ventures — pledging capital in the first institutional round of funding for a nascent company — it is of little surprise that the pace of headier, prior years remains unmatched. That said, the staggering sums still invested in such deals speaks to how deep the pockets of the venture industry currently is, as well as the emergence of newer company models in buzzed-about verticals such as autonomous vehicles that can command plenty of capital even at the outset.

Owing largely to a boom in Asian unicorns, Q3'17 sees resurgence in unicorn value and volume

Global unicorn rounds

2010 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 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 volatility inherent in the count of unicorn financings on a worldwide basis should not deflect attention from the fact massive sums are still being invested in private companies, bestowing the coveted $1 billion-plus valuation.

"Globally it was a particularly strong quarter for late stage investments. Over a dozen new unicorns have been born in the past 3 months including high profile organizations like Deliveroo, SenseTime and Vipkid. The unicorn landscape has changed tremendously from five years ago, when it was US and Europe producing billion-dollar companies. Today, China is quickly catching up to the US and has far surpassed Europe.".

Arik Speier
Co-Leader, KPMG Enterprise Innovative Startups Network, KPMG International and Partner, Head of Technology, **KPMG in Israel**

Virtual reality on track to transform multiple industries

The Virtual Reality/Augmented Reality (VR/AR) has become a hot area to watch as startups are attracting a significant amount of VC attention. Both technologies are breaking out from their original application in video games with the potential to transform a number of industries. VR/AR is attracting the attention of large corporate investors and VCs alike. The first three quarters of 2017 saw $1.65 billion dollars in VC investment and has already surpassed the total of $1.56 billion invested in this space globally in 2016 and is on track to explode in 2018.

VR/AR is a hot area for corporate investment and VC dollars

Although VR/AR is still in the nascent stages as the must-have feature for video games, it is also set to transform a number of other industries, including entertainment, training and development, health care, and the online retail experience.

Entertainment is a new emerging category creating substantial interest. Traditionally, live events have audiences that are limited by those who could attend in person. VR provides a mechanism to reach a larger audience by creating an immersive experience that can be accessed from anywhere. Sports and concert organizers are experimenting with streaming events using VR, allowing them to capture a larger audience outside the geographic area of the live event. For example, concert organizers are partnering with VR developers to develop the necessary technology to broadcast concerts in VR as was the case with Live Nation Entertainment and Citi partnering with NextVR for a slate of concerts performed throughout 2017.

The use of detailed simulations has applications in a broad range of industries from online retail to field operations to medical research. Startups creating either the software or hardware for these VR simulations are becoming hot commodities[3].

US and China hold the advantage in VR/AR

As large corporate players become immersed in AR/VR, the activity has become centered in the US and China. The interest is coming from companies like Alibaba seeking to enhance the shopping experience and deploy content to 700 million users. The activity can also be seen in the development of hardware for headsets, as well as software for creating these virtual worlds. Although the US and China have a strong position, Europe is holding its own in the development evidenced by Improbable's $500 million deal in Q2'17[4].

An attractive proposition for corporate VC

VR/AR is becoming an important digital play for large companies with connectivity to a large number of customer and content. They are joined by large platforms that may have an advantage in deploying the technology to huge user bases. Media companies are also seeking to acquire a position in this space, as they cannot afford to be left behind. Telcos see the potential for harnessing the mobility of the technology. Corporate investors are often partnering with smaller companies that can offer specialty capabilities. While large funding victories are garnering attention, an inordinate amount of investment is going to seed rounds being leveraged by startup developers.

[3] http://www.siliconhillsnews.com/2017/09/09/experts-say-mass-adoption-augmented-virtual-reality-many-years-away/
[4] https://techcrunch.com/2017/05/11/improbable-grabs-502m-led-by-softbank-at-a-1b-valuation-for-its-virtual-world-spatial-os/

Virtual reality on track to transform multiple industries, cont'd.

VR/AR trends to watch for

As VR/AR matures beyond the gaming and entertainment industry, there are challenges ranging from issues of fragmentation and scaling. The distribution model for VR/AR content is still in development. If it follows the path of applications with large stores similar to Apple or Android, there is less of a threat of fragmenting that could cause issues with interoperability.

The technology still needs improvement, as consumers complain that for gaming, the experience is not quite as immersive as presented to be. Although big industries see the huge potential for VR/AR, the software is not quite meeting the requirement to be streamlined into standard workflows. It will require a dedicated degree of investment to close the gap between what the potential is and actually building workable models.

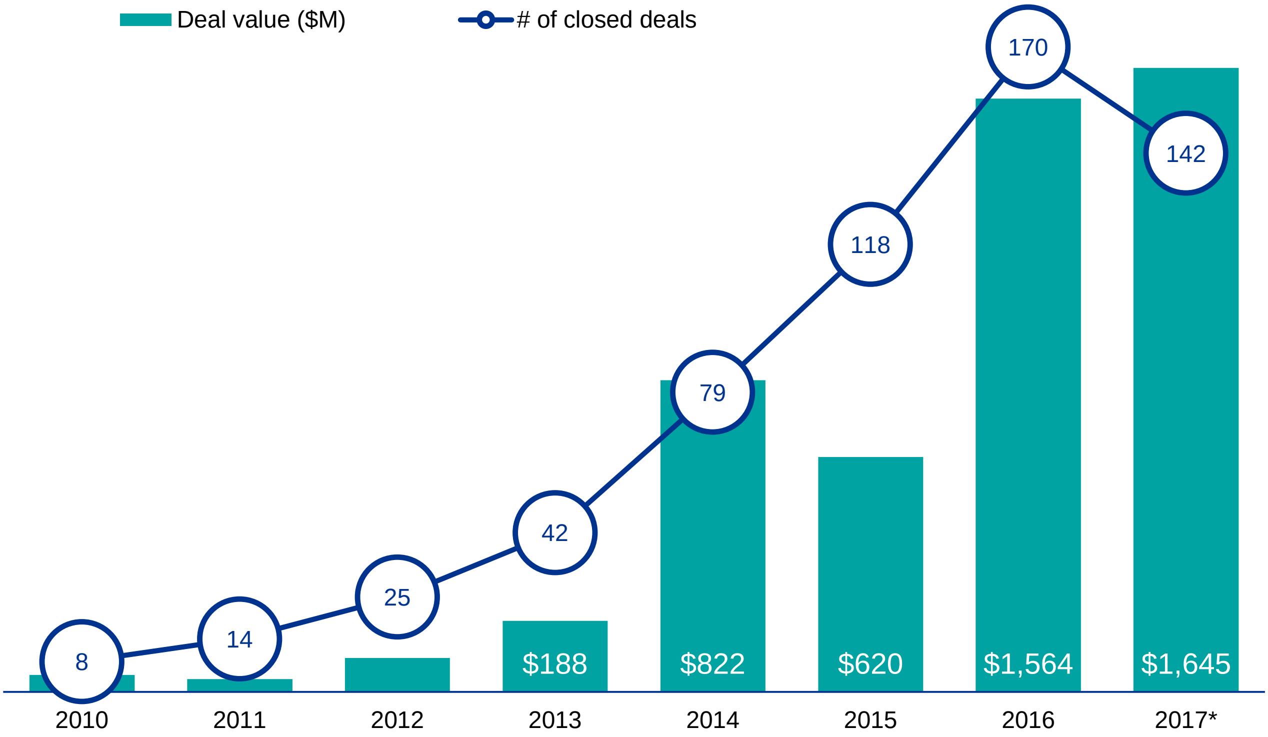
The competition for software developers could also slow the pace of advancing the technology, as companies have to compete with each other and other industries to attract talent. Interest in new technology is not expected to waiver as the large players are all looking for ways to deploy content to their users[5].

[5] http://www.businessinsider.com/virtual-reality-report-2016-11

Virtual reality raking in large sums of VC

Global venture investment activity in virtual & augmented reality

2010 — 2017*



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Especially with the hyped release of Apple's latest iPhone X, it is clear the numerous applications of augmented and virtual reality within consumer and enterprise segments still excite plenty of investor interest. From therapy of patients with post traumatic stress disorder to workstations in the office equipped with 3-D holographic images to expedite workflows, multiple use cases for a variety of AR- or VR-capable software suites exist, and many companies including highly valued giants such as Magic Leap are determined to get in on the ground floor.

"The rise of AR/VR technology has many interesting consequences for the platform economy and the business models that drive the specific platform business models. In some cases, AR/VR is expanding the value of existing platform companies. Consider how Facebook and Google are all working to leverage this technology to strengthen the experience on their platforms. However, the technology is also opening up opportunities to create new interactive platforms, which is very exciting and consequently attracting new investment and a new round of creative innovation."

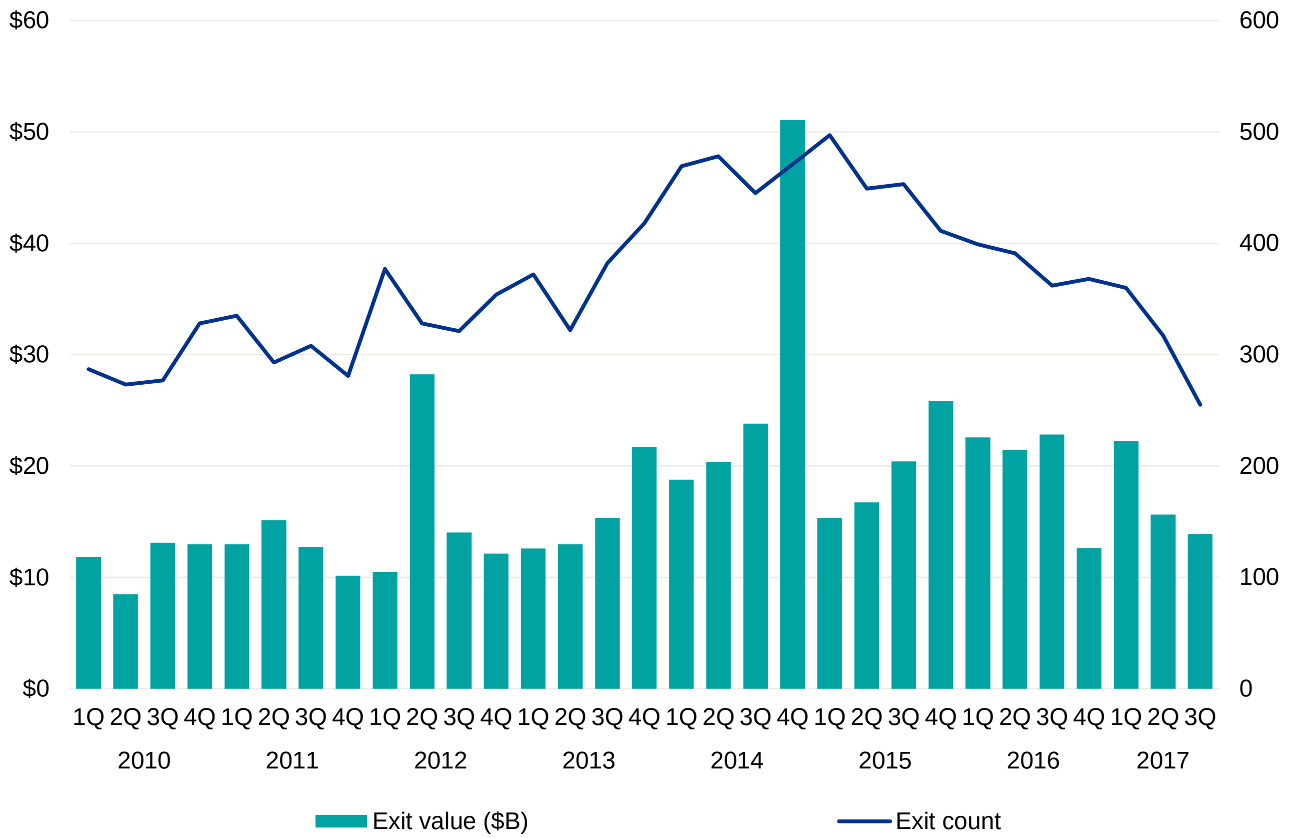
Peter C. Evans
Principal
Innovation and Enterprise Solutions
KPMG LLP

KPMG Enterprise

Will falling exit volume pose a problem?

Global venture-backed exit activity

2010 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

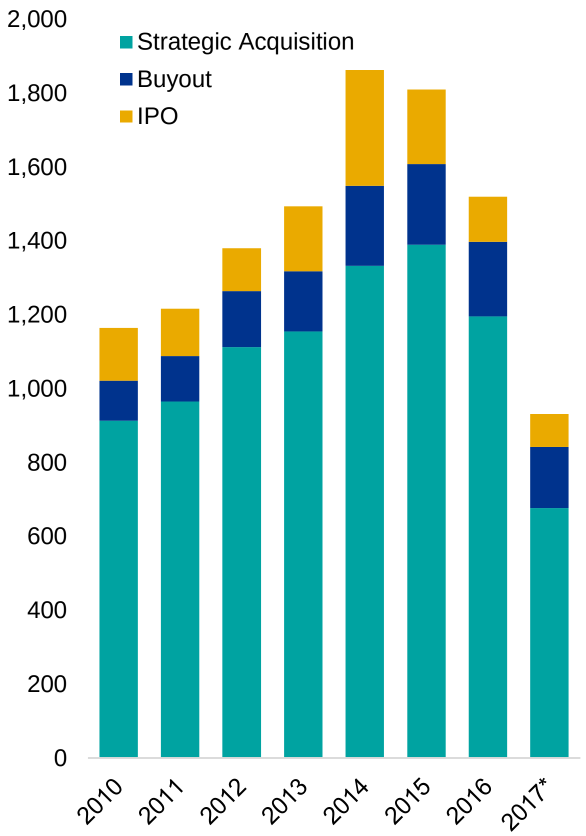
Given typical venture fund timelines, and especially in the context of the overall M&A cycle, it is not yet apparent that the decline in venture-backed exit count is cause for alarm. Hefty tallies in exit value have been achieved after all, with a full quarter to go. That said, should exit activity continue to decline, without the most highly valued of private companies being able to provide some liquidity to investors and employees alike, VCs would do well to become more concerned regarding market-wide liquidity prospects.

KPMG Enterprise

M&A remains most common recourse

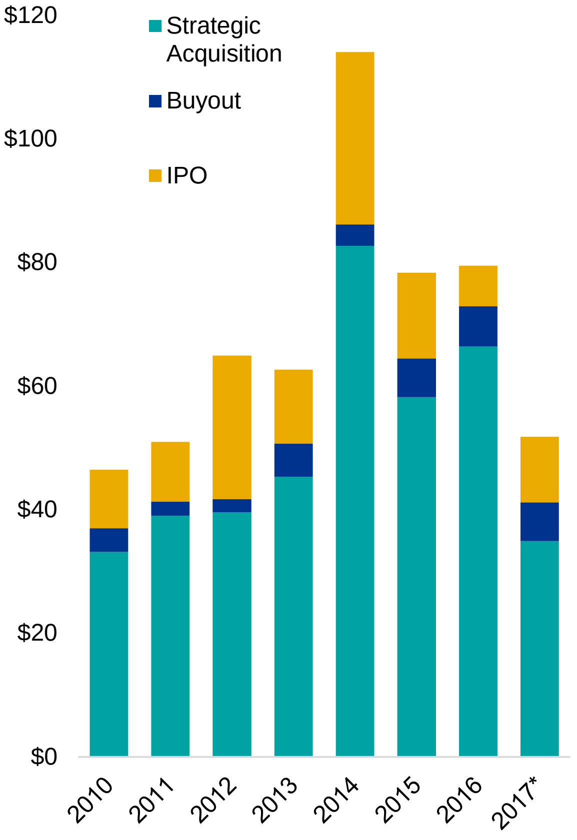
Global venture-backed exit activity (#) by type

2010 — 2017*



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

2010 — 2017*



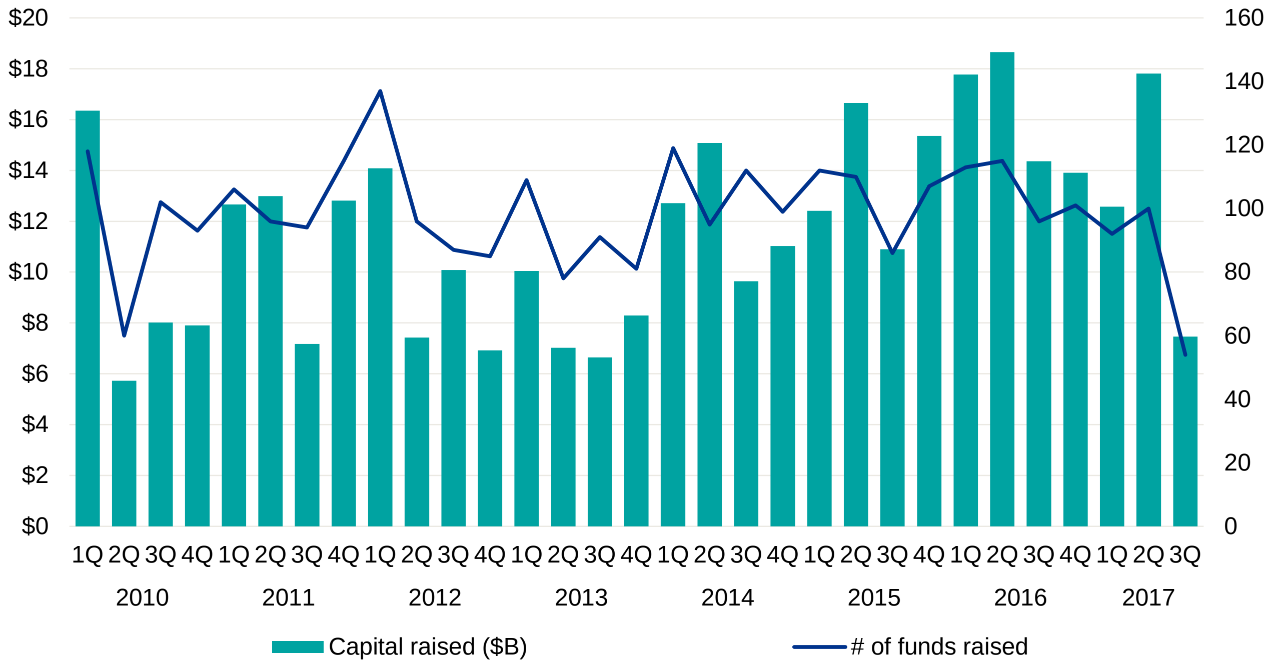
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

The IPO window has cracked open to a wider degree than in 2016, yet still is not anywhere near past heights. That said, it is intriguing to note, especially in the wake of Hellman & Friedman's announced purchase of Nets, that PE firms have been responsible for a decently sized proportion of VC exits this year.

Fundraising declined only slightly

Global venture fundraising

2010 — Q3'17



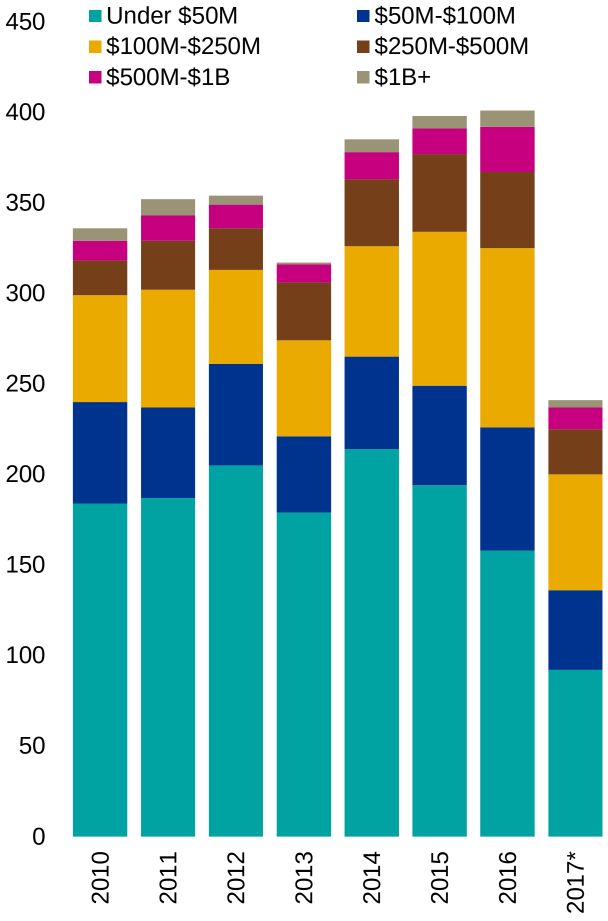
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Q2'17 saw such massive tallies in capital commitments raked in by venture firms that a reversion to the historical mean in the next quarter was more than likely. What is more telling is that even after 3 years of sustained high fundraising totals by both count and value, there is significant demand by limited partners for exposure to VC. This is indicative of the overall tidal shift of institutions' demand for exposure to private asset classes, as well.

Middle of fundraising market remains most alluring to investors

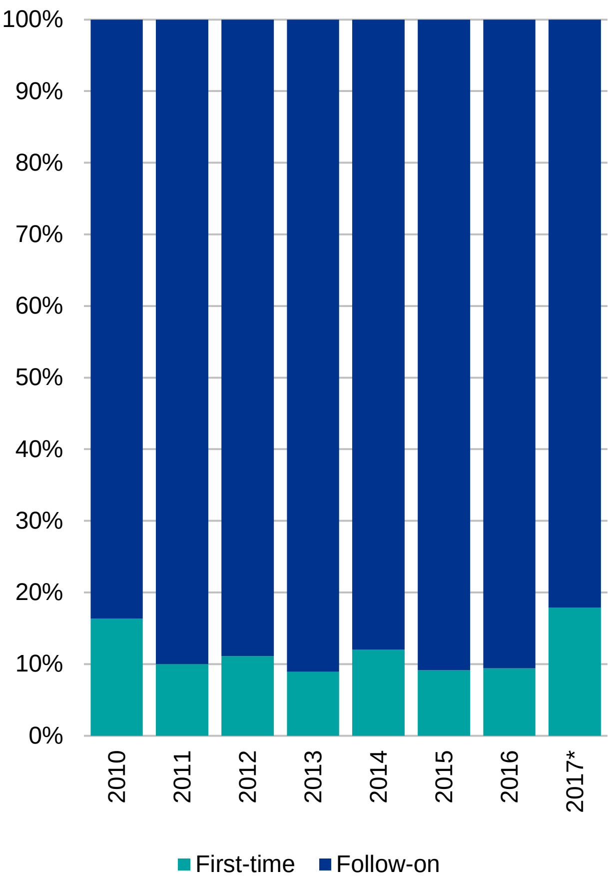
Global venture fundraising (#) by size

2010 — 2017*



Global first-time vs. follow-on venture funds (#)

2010 — 2017*

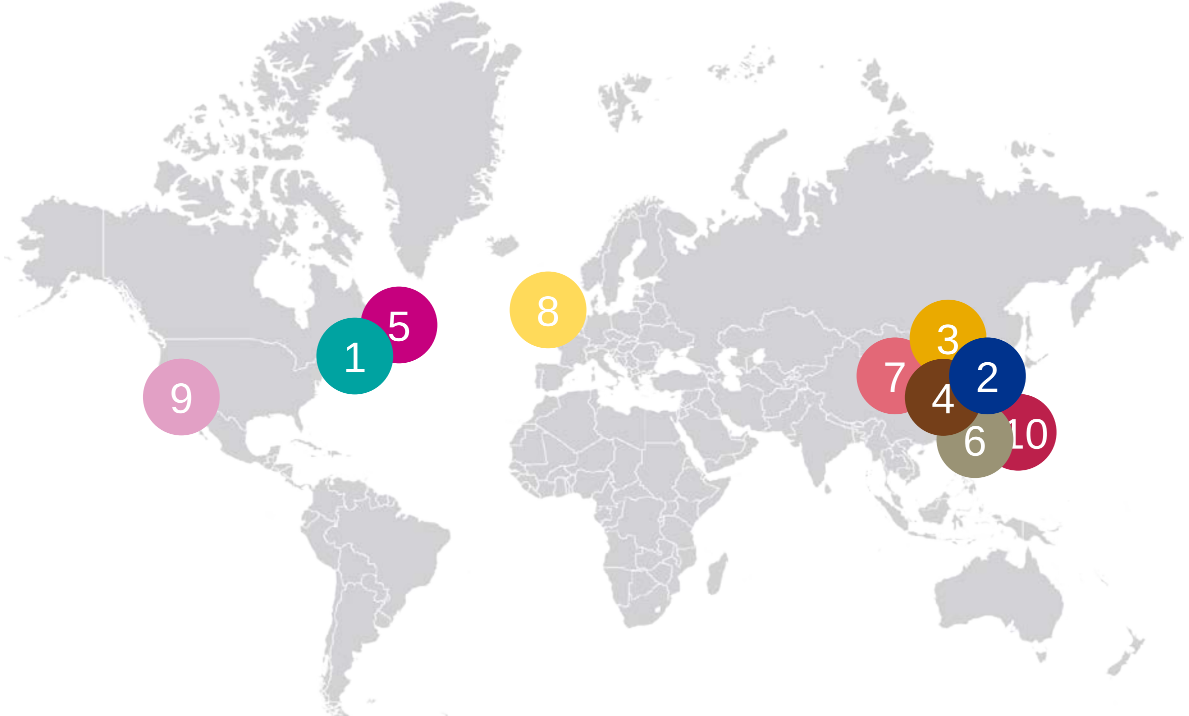


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

The middle of the fundraising market continues to account for the most volume when it comes to closed funds, by far and away. Partially driven by the continued success of the venture fund managers that launched debut funds in the immediate wake of the financial crisis, such a shift speaks to the inflation observed in the venture industry over the past few years as well, along with the diversification of strategies up and down the capital stack on the part of larger firms.

KPMG Enterprise

Beijing-based companies once again stand out



Top 10 global financings in Q3'17

1 **WeWork** — $3,000M, New York
Buildings & property
Series G

2 **Toutiao** — $2,000M, Beijing
Information services
Late-stage VC

3 **BAIC BJEV** — $1,600M, Beijing
Transportation
Series B

4 **Ofo** — $700M, Beijing
Transportation
Series E

5 **Intarcia Therapeutics** — $615M, Boston
Drug discovery
Series EE

6 **WeWork China** — $500M, Shanghai
Buildings & property
Early-stage VC

7 **SenseTime** — $410M, Beijing
Application software
Series B

8 **Deliveroo** — $385M, London
Internet retail
Series F

9 **SpaceX** — $351M, Hawthorne, CA
Aerospace
Series H

10 **Gogoro** — $300M, Guishan, Taiwan
Transportation
Series C

Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

KPMG Enterprise

In Q3'17 VC-backed companies in the Americas raised

$22.4B

across

1,811 deals

VC investment in the Americas on pace to exceed 2016 totals

VC investment in the Americas remained strong during Q3'17, with funding to date well positioned to match or exceed 2016 totals. The vast majority of VC investment in the Americas continued to be driven out of the United States, with the top US funding rounds – including $3 billion by WeWork, $615 million by Intarcia Therapeutics and $351 million by SpaceX – dwarfing fundraising in other countries.

While a significantly smaller market compared to the US, Canada saw a strong bump in VC investment activity following a slow first half of the year. Activity intended to encourage the development of startups and startup ecosystems also continued pace in the Americas in Q3'17 – particularly in Brazil.

Deals activity plummets, while median deal size increases

The number of VC deals plummeted to a 6 year low in the Americas during the third quarter. Deals activity declined across all deal stages, with the extended decline in angel and seed stage deals the most concerning trend for future VC activity in the region.

The ongoing decline in deal volume emphasises the continued focus investors are placing on their existing portfolios and on later stage deals in efforts to de-risk investments. Their desire to de-risk has also led them to conduct more due diligence on early-stage deals than has traditionally been done. This has led to fewer yet more high quality early-stage deals as investors have looked for companies with clear business plans and paths to profitability.

Canada experiences strong rebound following slow start to 2017

After a banner year of VC investment in 2016, VC investment and deals activity slowed in Canada during the first half of the year. As predicted, Q3'17 saw a strong reversal of this trend, suggesting the short-term slump was simply a reflection of investors absorbing the impact of their earlier activities. Canadian VC investment in Q3'17 was up quarter-over-quarter and almost double the investment seen in Q1'17. The increase in investment came despite an ongoing decline in the number of deals, thus raising the median deal size quite substantially for the quarter as well.

The ICT sector continued to attract a proportionately high percentage of VC investment in Canada during Q3'17. According to the Canadian Venture Capital and Private Equity Association[6], the ICT sector attracted 68% of funding in the first half of 2017. Life sciences came a distant second with 21% of VC funding for the quarter. The strength of Canada's ICT sector is likely buoyed by the breadth of technology ecosystems in the country; with strong hubs in Ontario, Quebec and British Columbia each attracting significant funding.

Despite relatively weak VC investment, Brazil continues to evolve as a startup hub

While VC investment in Brazil accounts for only a small percentage of the investment seen across the Americas, interest continues to grow for the country's expanding startup ecosystem. Global corporate VC interest in particular appears to be growing, with major investments in Brazil by Softbank, Cisco and Didi Chuxing over the past few quarters.

Startup accelerators and incubators are thriving in Brazil amidst the focus on encouraging technology innovation. During Q3'17, Cubo – a major accelerator based in São Paulo – announced plans to quadruple its size. This expansion will make the accelerator one of the biggest in all of Latin America. This, combined with the existing presence of global tech leaders Google, Airbnb and Uber suggest São Paulo will only become increasingly attractive to VC investors over the next few quarters.

[6] http://news.cvca.ca/cvcas-h1-2017-canadian-vc-pe-market-overview/2017/08/23/

VC investment in the Americas on pace to exceed 2016 totals, cont'd.

Startup activity in Latin America increases

As a less mature market for technology innovation, it is no surprise that many startups in Latin America have focused on localizing the business models of companies that have experienced success in other regions of the world.While these and other verticals – such as food and grocery delivery – considered to be saturated in other regions of the world are expected to remain high, true disruptors are also starting to emerge in the region as startup ecosystems begin to mature.

Trends to watch for in the Americas

Over the next quarter, VC investment in the Americas is expected to continue at a solid pace with AI, healthtech and agtech posed to attract a significant amount of attention.

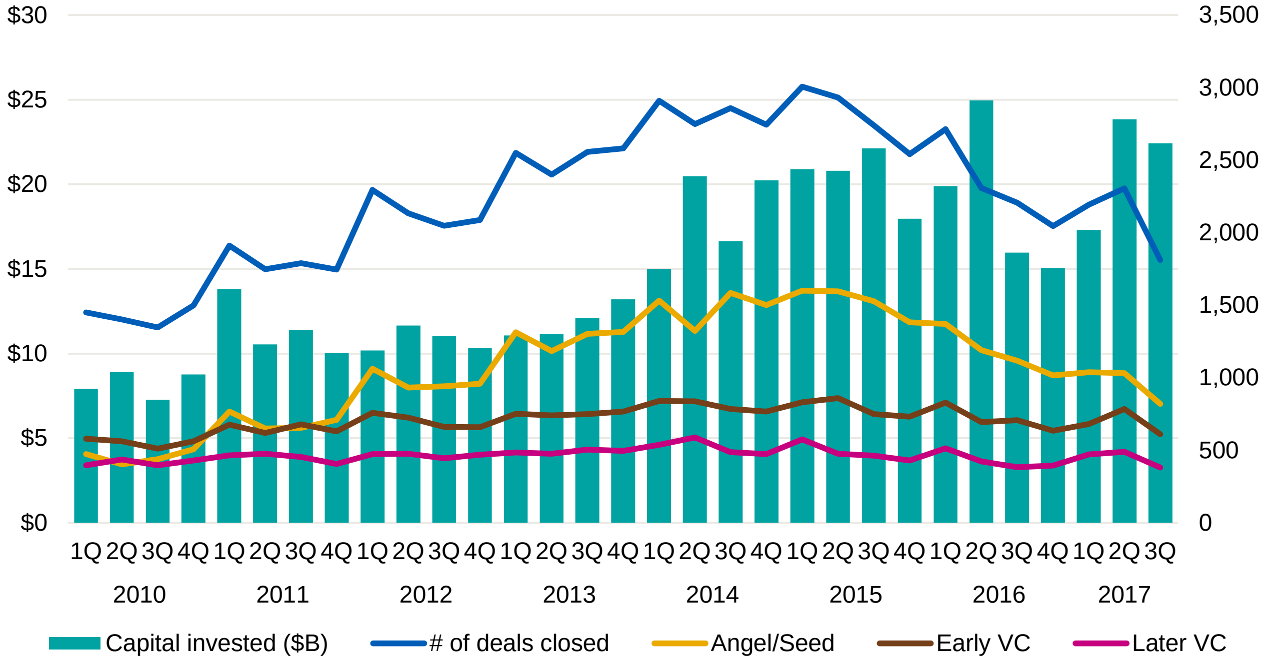
The protracted decline of seed and angel funding, combined with decreasing activity at later deal stages could have some impact on the VC market heading into 2018. This declining activity, however, may be mitigated by the fact that while investors have made fewer deals, the deals they have made have been larger and focused on higher quality opportunities.

Canada will be a key jurisdiction to watch over the next few quarters. Should the value of the Canadian dollar and Canadian interest rates continue to increase, there could be an impact on the attractiveness of the country's VC market to global investors. Investors in Canada and Mexico are also keenly watching the current renegotiations of NAFTA as any changes could have significant ramifications.

VC invested stays high even as volume flattens

Venture financing in the Americas

2010 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

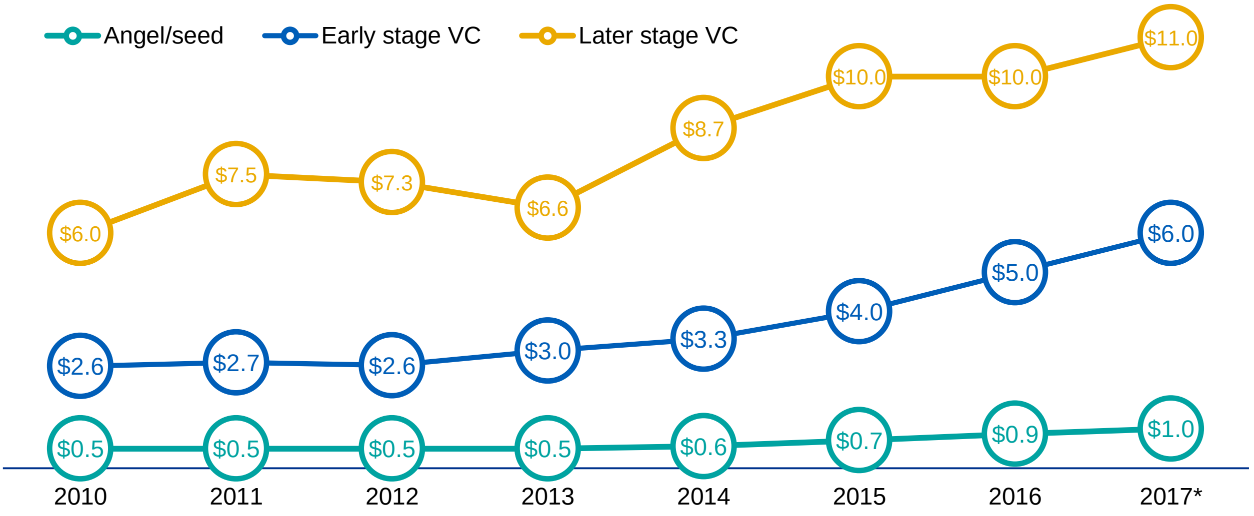
Once further time elapses and deal counts tick upward, the decline between Q2 and Q3 is unlikely to be as sharp, yet it is still clear that activity is pacing for the fourth quarter in a row to remain around the level observed prior to 2013. VC invested, however, remains quite high, exemplifying the impact of sustained strong fundraising.

KPMG Enterprise

Up rounds continue to proliferate

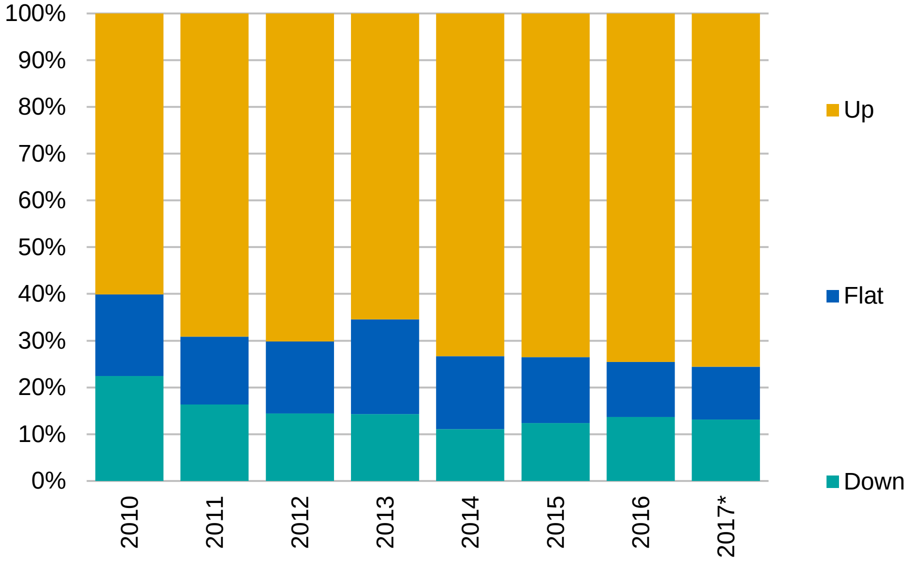
Median deal size ($M) by stage in the Americas

2010 — 2017*



Up, flat or down rounds in Americas

2010 — 2017*

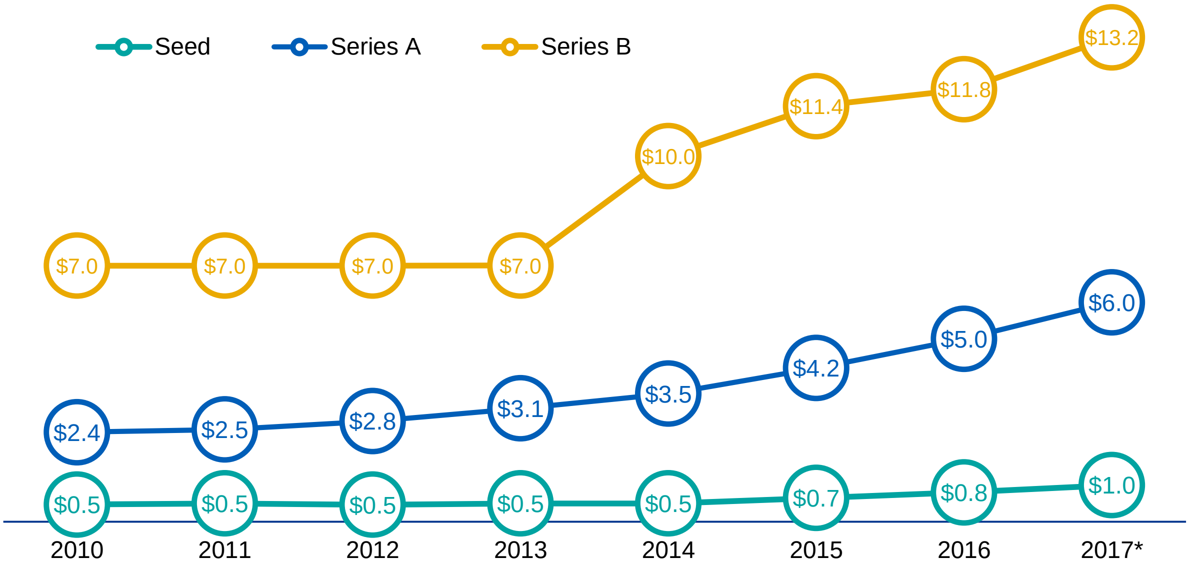


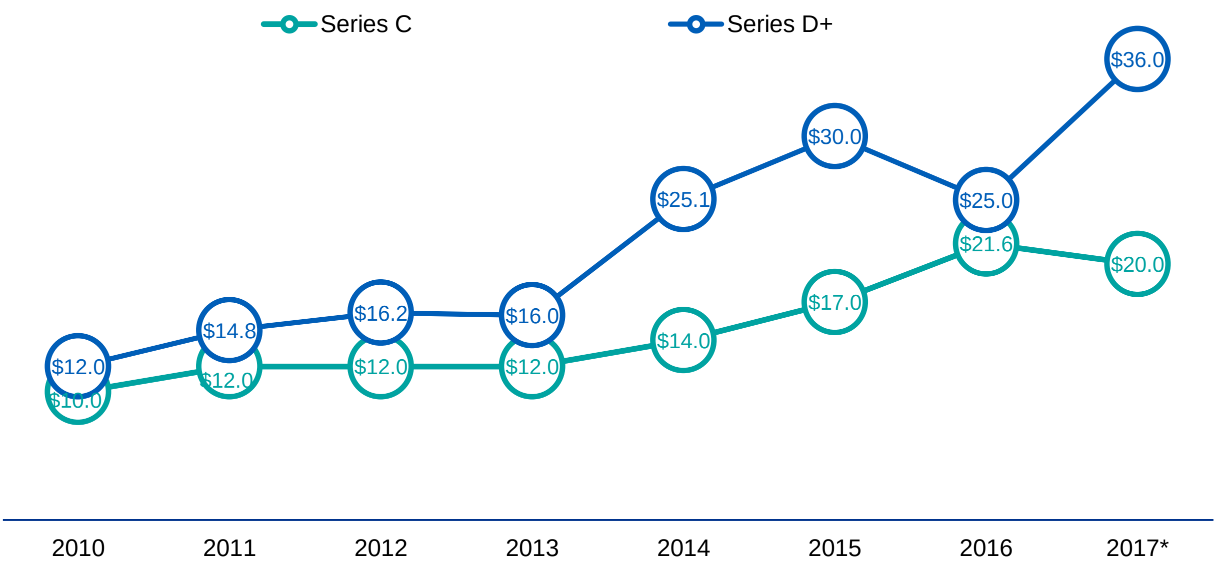
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Early-stage still sees steady growth

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

2010 — 2017*





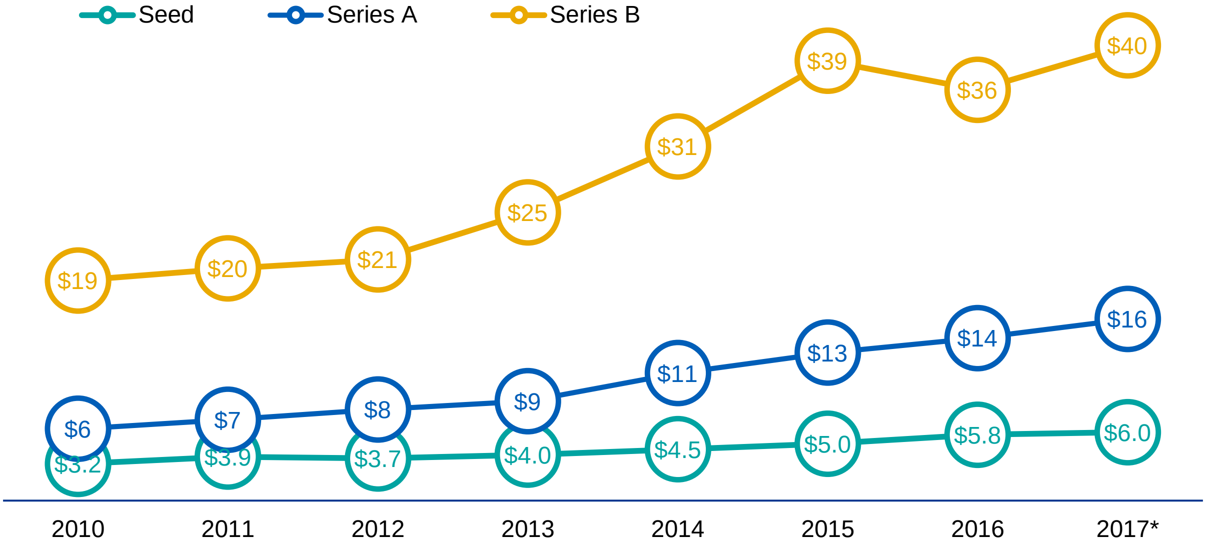
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

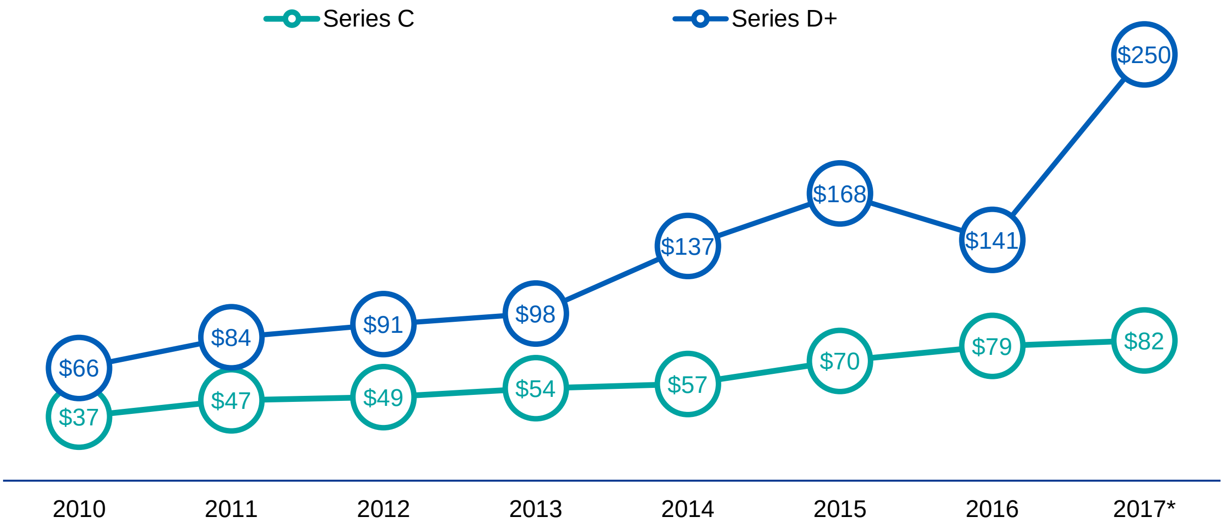
Venture industry dynamics remain marked by high prices, with median deal metrics still remaining at an elevated level across all series, although the pace of growth is unequal. Moreover, it is worth pointing out just how high the latest-stage rounds have reached in 2017 to date.

Late-stage valuations bounce back in a big way

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

2010 — 2017*





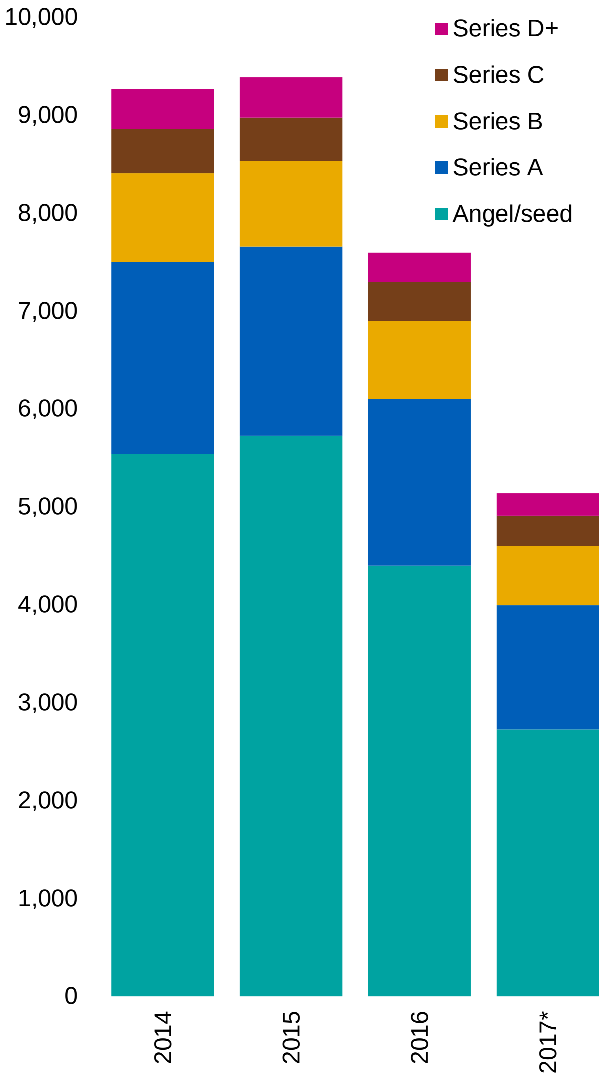
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Even as median pre-money valuations steady across most series, the impact of the massive sums of capital at the disposal of the largest investment firms — SoftBank's $93 billion Vision Fund chief among them — can be seen in the continued, ahistorical outlier of Series D or later valuations in 2017 to date.

Angel & seed stage returns to pre-boom levels

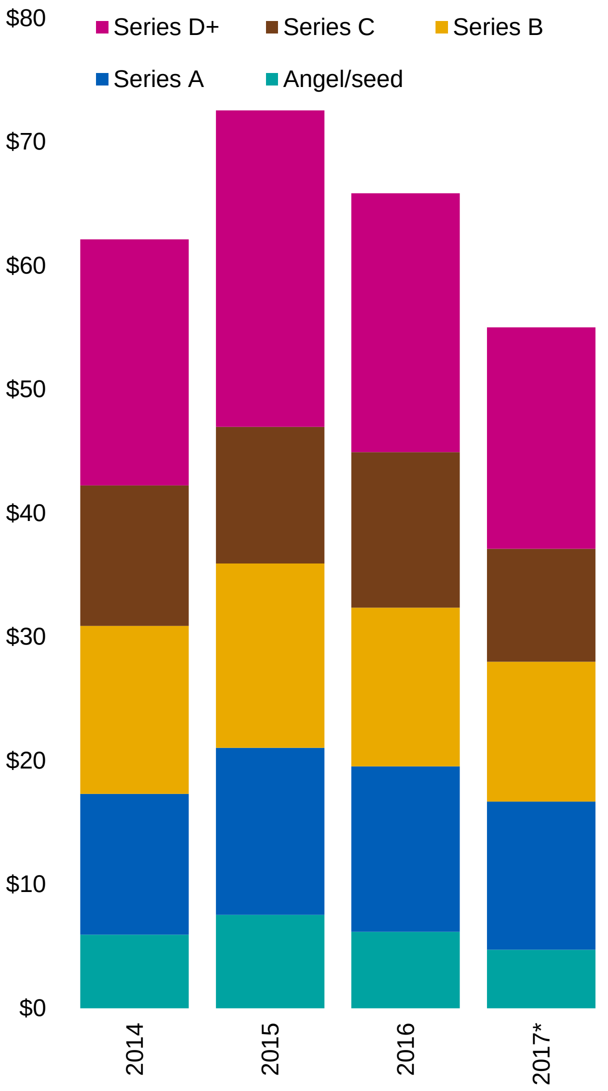
Deal share by series in the Americas

2014 — 2017*, number of closed deals



Deal share by series in the Americas

2014 — 2017*, VC invested ($B)



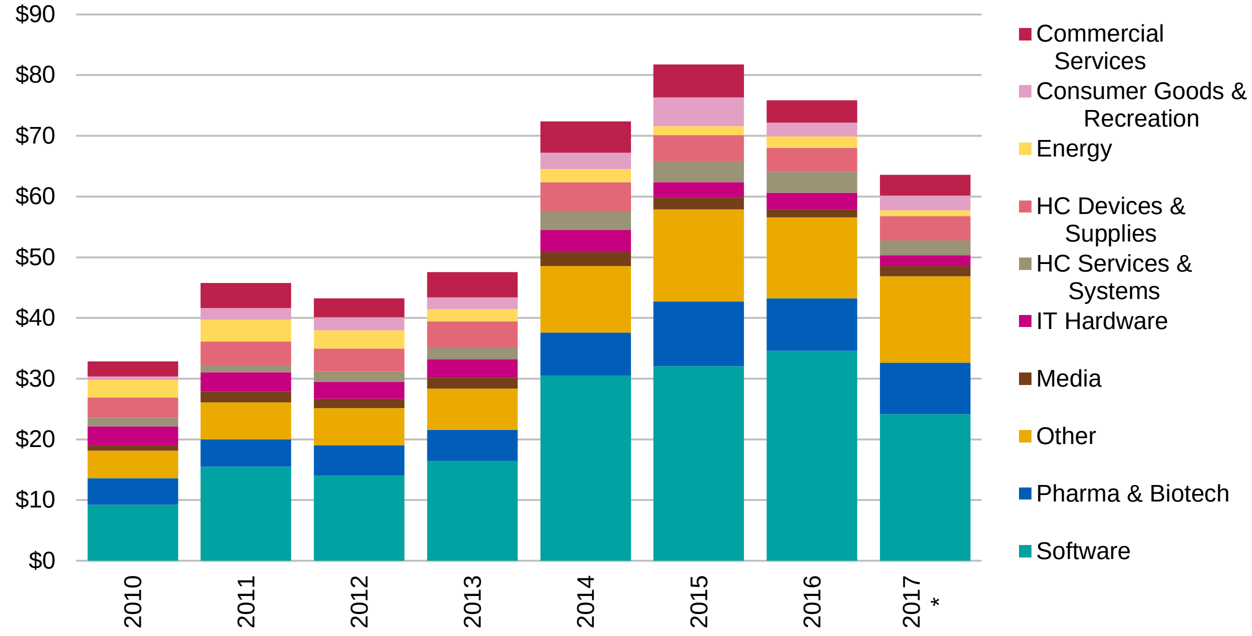
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Aggregate angel and seed financing volume is looking to close the year at a tally much more reminiscent of 2011, or rather, a halfway mark between 2011 and 2012, than prior boom years. This is likely attributable in large part to the growing evolution of the industry toward higher prices that shift traditional nomenclature of series as well as the shift in angel and seed funding models.

Software, pharma & biotech hold strong

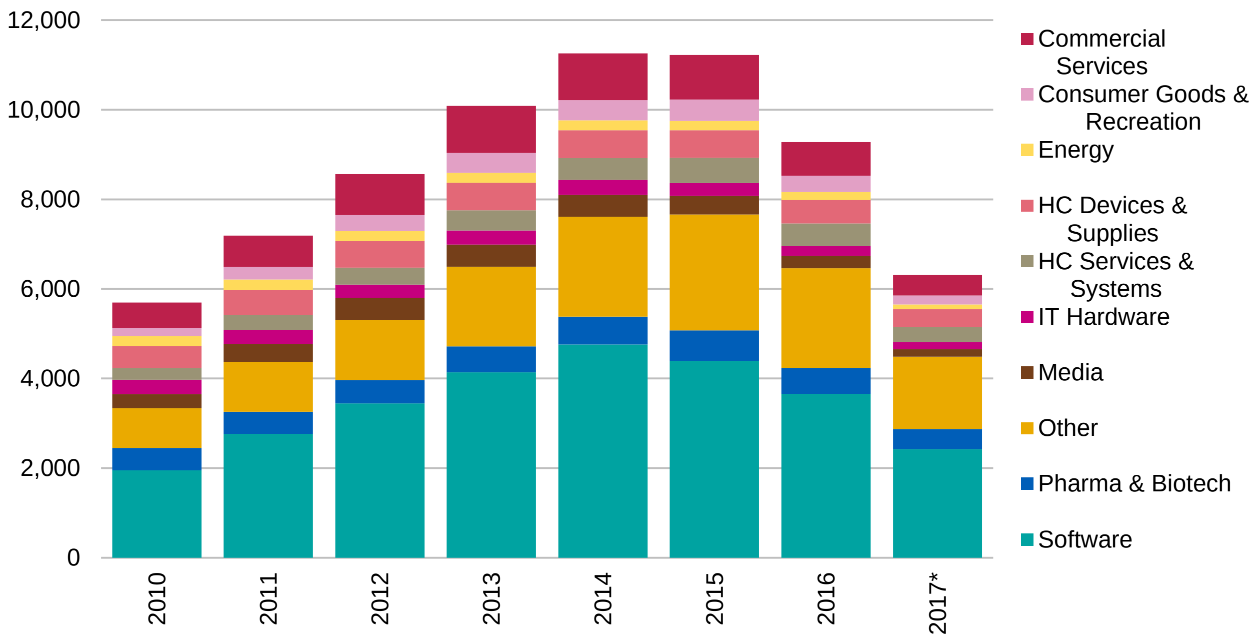
Venture financing of VC-backed companies by sector in the Americas

2010 — 2017*, VC invested ($B)



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

2010 — 2017*, # of closed deals



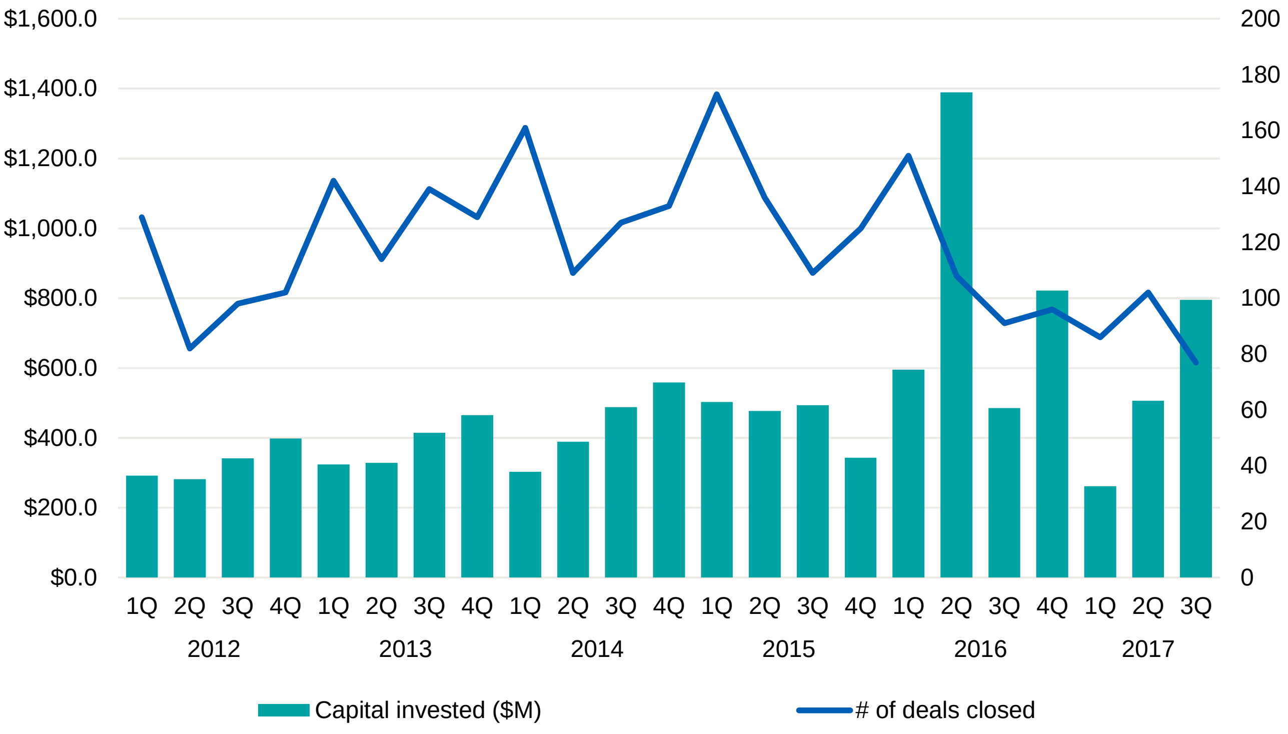
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Quote done

VC invested stays strong up North

Venture financing in Canada

2012 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

VC activity may be persisting at a lower level in Canada, which can be attributed to investors' increased caution in general, yet VC invested stayed remarkably robust, which may end up resulting in a continued funding gap for earlier-stage enterprises.

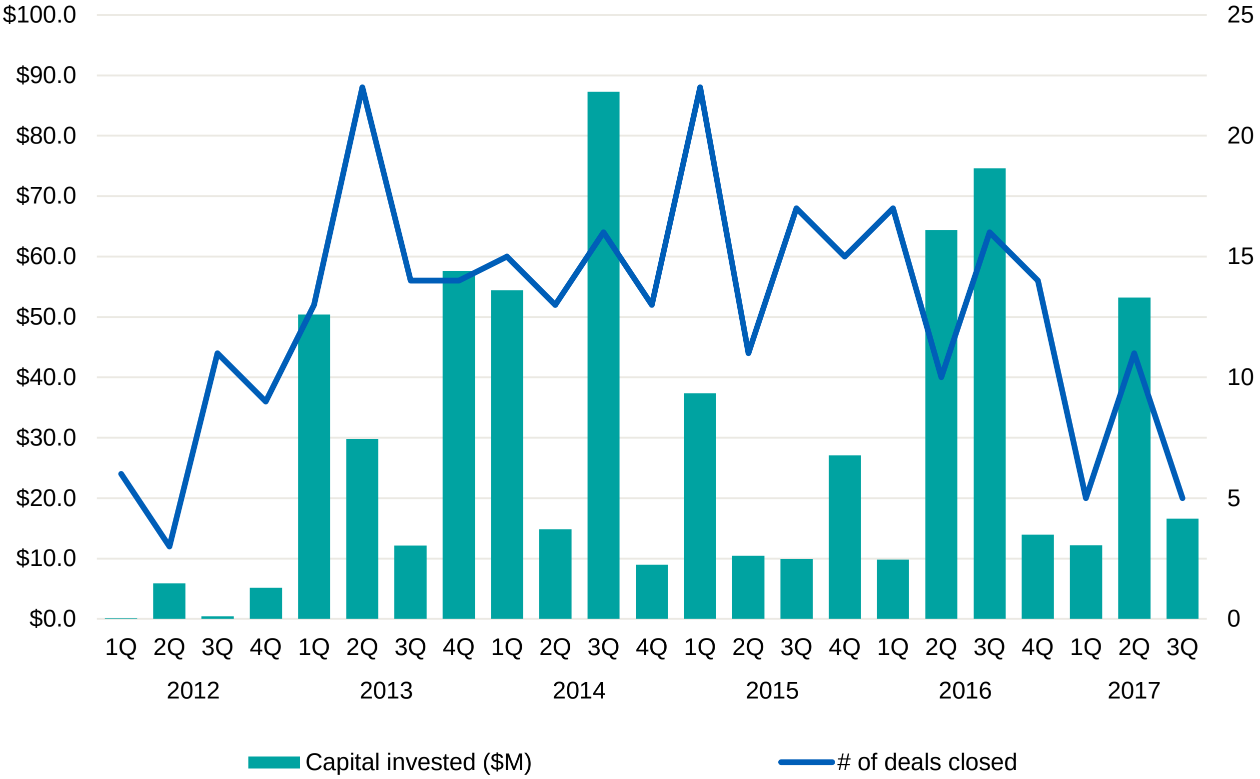
"Canada is facing a number of regulatory unknowns right now. Between the renegotiation of NAFTA and proposed federal rule changes related to the taxation of private companies in Canada – there could be a lot of changes coming down the pipe. Depending on the outcome of these initiatives there could be major ramifications for private companies across every sector and vertical."

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

Lower levels persist

Venture financing in Mexico

2012 — Q3'17

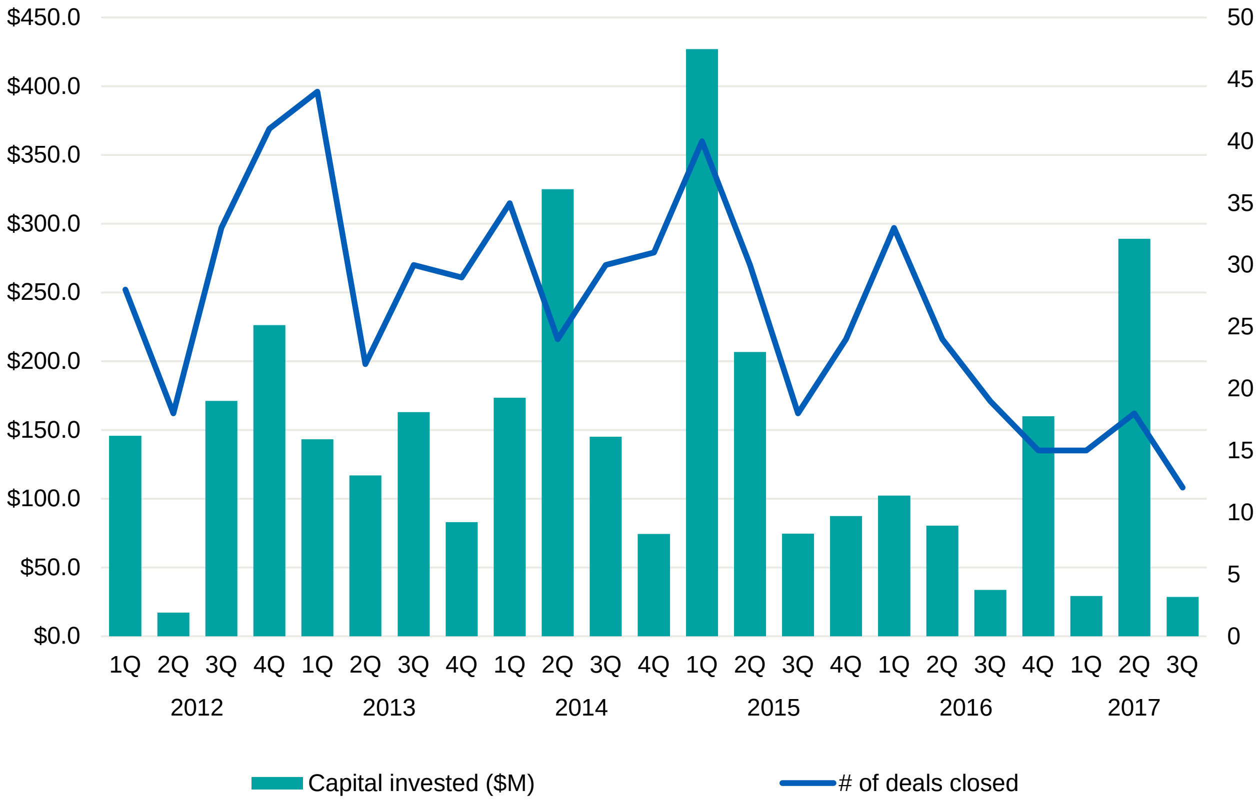


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

All in all, venture activity persists at lower levels in terms of both VC invested and completed transaction volume. As exemplified in prior quarters, significant venture rounds can still skew overall VC invested totals, but as of yet, there remains an insufficient number of such financings to overly move the needle. Greater access to capital and cessation of political uncertainty remain key needs.

A slump after an outlier-skewed quarter

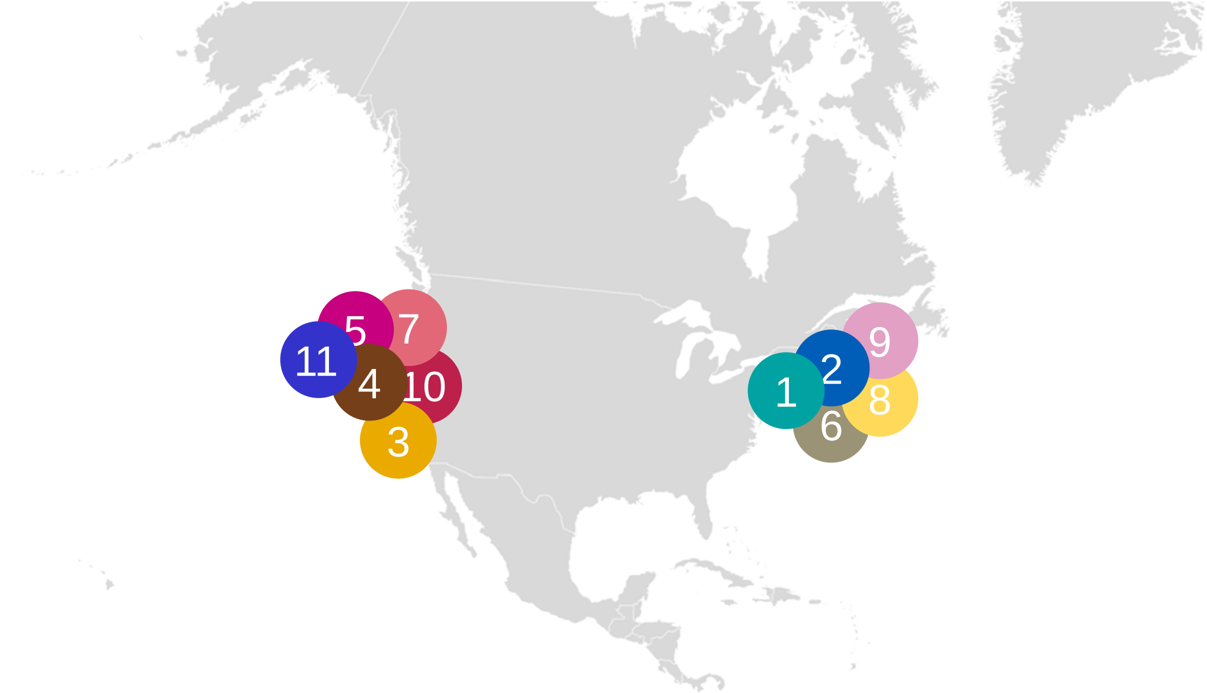
Venture financing in Brazil
2012 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Brazil's macroeconomic and policy-related challenges continue to play a role in discouraging outside venture investors' attention, and given the lack of domestic capital, there remain few financings of startups. That said, there is still the possibility for a privileged few, as evidenced by 99Taxis' recent massive financing, but for now, such opportunities lie few and far between.

Coastal US epicenters still account for Americas' largest deals



1 **WeWork** — $3,000M, New York
Buildings & property
Series G

2 **Intarcia Therapeutics** — $615M, Boston
Drug discovery
Series EE

3 **SpaceX** — $351M, Hawthorne, CA
Aerospace
Series H

4 **Auris Surgical Robotics** — $280.2M, San Carlos, CA
Biotechnology
Series D

5 **23andMe** — $250M, Mountain View
Biotechnology
Series F

6 **Via** — $250M, New York
Platform software
Late-stage VC

7 **Slack** — $250M, San Francisco
Communication software
Series G

8 **WuXi NextCODE** — $240M, Cambridge, MA
Healthcare technology systems
Series B

9 **Vets First Choice** — $223.6M, Portland, ME
Healthcare services
Series F

10 **Plenty** — $200M, South San Francisco
Agriculture
Series B

11 **Reddit** — $200M, San Francisco
Information services
Series C

Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

KPMG Enterprise

In Q3'17 US VC-backed companies raised

$21.5B

across

1,706 deals

Large deals drive strength of US VC market

The VC market remained strong in the US during Q3'17, despite an ongoing decline in the total number of deals. While VC investment was down slightly next to Q2'17, the total was up significantly compared to Q3'16. Annual VC investment in the US is on pace to match or exceed last year's total, although the final amount is likely to fall shy of 2015's peak.

Big deals propel US VC investment in Q3'17

A massive $3 billion Series G funding round by WeWork – a New York based company providing co-working spaces – led VC funding in the US during Q3'17. Other large deals also helped to keep investment high, with the top 10 US VC deals accounting for over $5.8 billion of the $21.5 invested this quarter.

Healthcare, pharmaceuticals, and biotech attracted significant funding in Q3'17, with related companies accounting for half of the US's largest VC deals – including Intarcia Therapeutics ($615 million), Auris Surgical Robotics ($280 million), 23andMe ($250 million), Wuxi NextCODE ($240 million), and Vets First Choice ($223.6 million).

Number of seed and early-stage deals declines further, while median deal size rises

The US, similar to other major global jurisdictions, experienced a continued decline in the number of seed and angel stage deals during Q3'17. While the number of deals at the earliest investment stages has declined, the median deal size associated with early-stage deals has gone up substantially. The increase in median deal size suggests that in efforts to de-risk early-stage investments, investors are conducting more due diligence on early-stage deals and investing larger amounts into a smaller number of companies. As a result, there is more competition among VC investors for the best early-stage deals, while reducing the number of deals overall.

Agtech market heating up in US

VC investment in the US agtech sector gained enormous steam during Q3'17, with San Francisco based Plenty raising $200 million in Series B funding in the largest VC funding round for an agtech company in history. Boston-based Indigo also raised a significant $156 million in Series D funding during the quarter. Given the extent of food sustainability challenges globally, interest and investment in agtech is only expected to increase in the months and years ahead.

Corporates driving M&A activity

The M&A market for VC backed companies in the US remained strong in Q3'17, with corporates continuing to drive the majority of transactions. During the first half of 2017, 70% of all M&A in the country was driven by corporates. Corporate participation is expected to remain high throughout the remainder of 2017 as corporate cash reserves have been reported to be at a 10-year high[7].

Participation of institution investors decreases

Following increased participation in 2015 and early 2016, the participation of hedge funds and mutual funds in the VC market has decreased this year, likely due to the inability of funds to achieve quick returns and exits. Meanwhile, corporate participation has increased over the same time period as more and more companies have identified innovation as a key strategic priority and invested in startups accordingly.

[7] https://www.forbes.com/sites/jeffgolman/2017/09/20/corporate-buyers-account-for-an-all-time-high-in-ma-deal-activity/#6cadec632138

Large deals drive strength of US VC market, cont'd.

US IPO market improves despite some performance setbacks

To date, the IPO market in the US has been stronger in 2017 relative to 2016. However, activity in Q3'17 remained well below investor expectations. Despite the perceived weakness in the market, the average return on IPOs so far in 2017 has been fairly positive.

While a number of high profile companies, including Blue Apron and Snap, may not have performed as well as expected post IPO, others like Redfin, Delivery Hero, and Okta have seen positive post IPO results. Filing numbers suggest that the IPO market will continue to improve slowly over the coming quarters, although any major changes in the market could quickly result in a pullback.

Desire to provide liquidity driving secondary transactions

With companies choosing to remain private longer, there has been a perceived increase in secondary transactions in the US in order to provide some liquidity to their early employees and investors.
In Q3'17, other models for providing liquidity also emerged. In August, Social Capital Hedosophia Holdings listed a special purchase acquisition company (SPAC) in order to raise $600 million for the purchase of a technology company[8]. A relatively new approach in the technology space, SPACs are typically used to create liquidity for private companies without the need for an IPO. Hedosophia will be one to watch over the next few quarters as it works to prove its approach.

Trends to watch for in the US

AI, robotics, and blockchain solutions are expected to remain hot areas for VC investment in Q4'17 and heading into 2018, while interest in agtech is projected to grow exponentially over time.
Education also remains an area ripe for technology disruption, although its future evolution will likely be dependent on the ability to find sustainable funding models for related technologies.

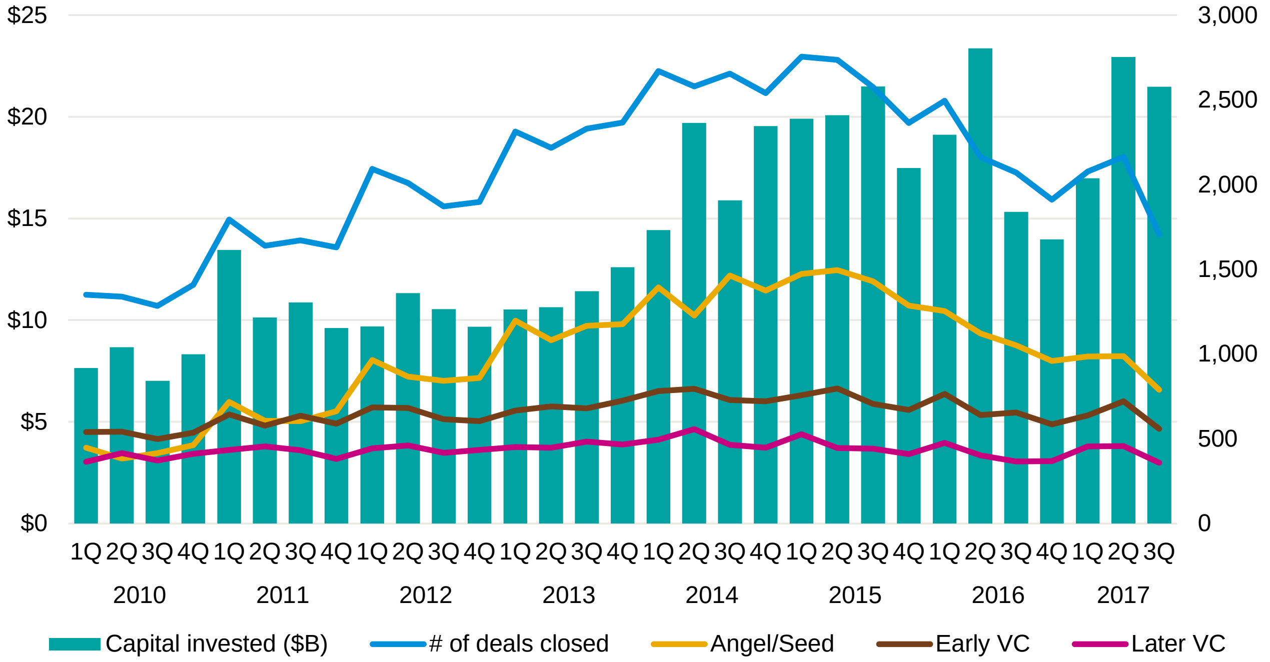
[8] https://techcrunch.com/2017/09/14/social-capital-to-take-startups-public-without-an-ipo/

KPMG Enterprise

VC activity takes a breather

Venture financing in the US

2010 — Q3'17



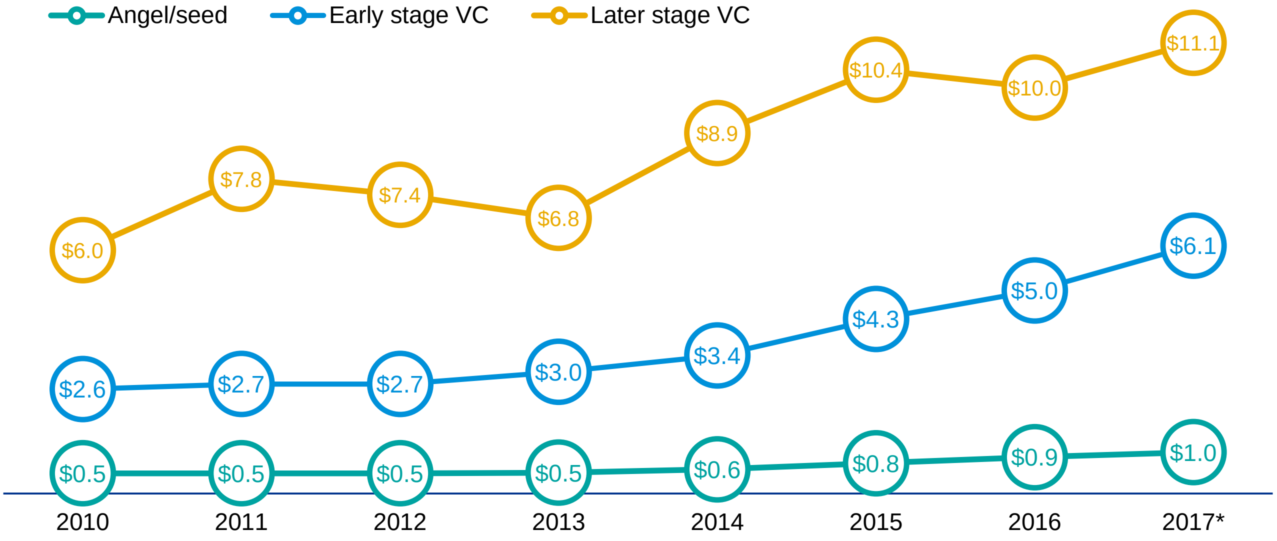
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Venture financing in the US appears to have entered something of a plateau in overall count, even as total VC invested remains quite high. Even angel and seed financing activity has stabilized after a steady decline between the middle of 2015 and the end of 2016. This speaks more to how the industry has normalized after the heady levels of 2014 and 2015 than anything else.

Deal sizes remain at an elevated level

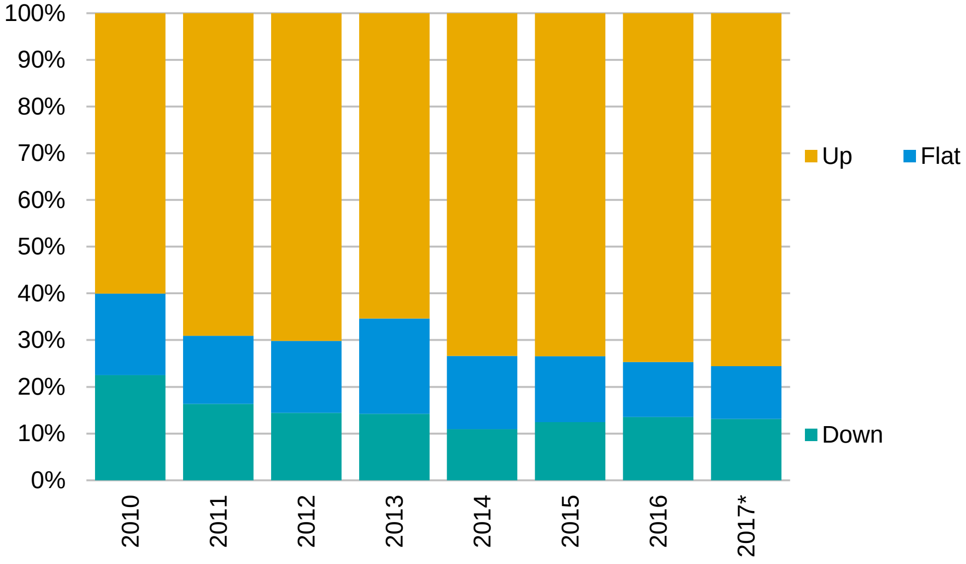
Median deal size ($M) by stage in the US

2010 — 2017*



Up, flat or down rounds in the US

2010 — 2017*



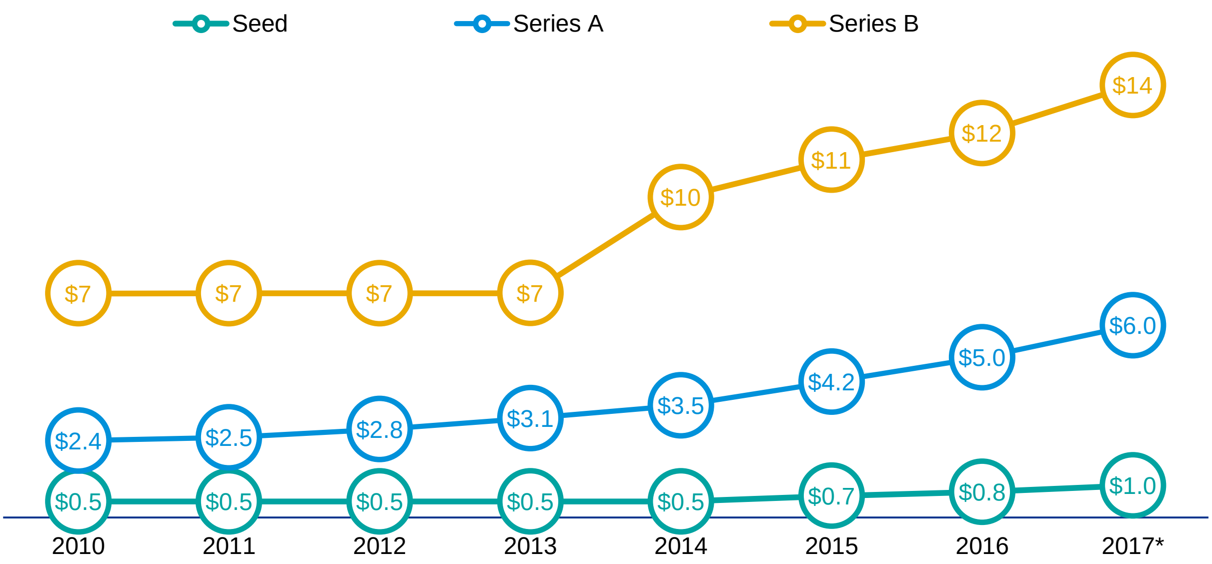
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

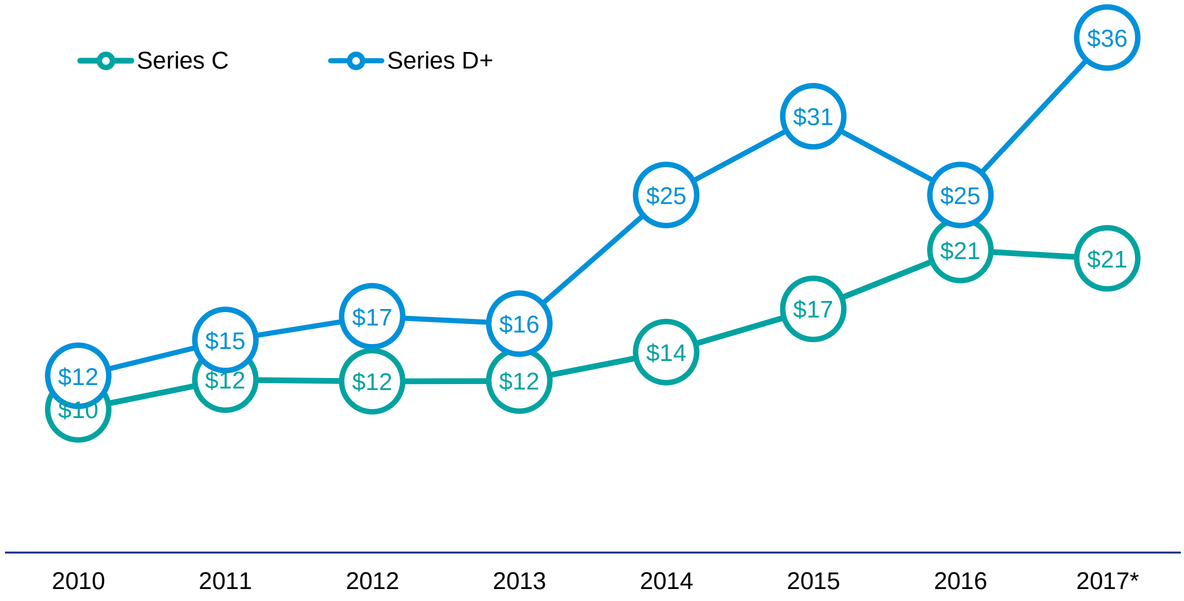
Even as more data for 2017 rolls in, it remains clear that median early-stage financing sizes continue to stay even higher than before. Late-stage numbers, however, seem to be holding steadier, although also at an elevated level.

Latest stage soars high once again

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

2010 — 2017*





Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

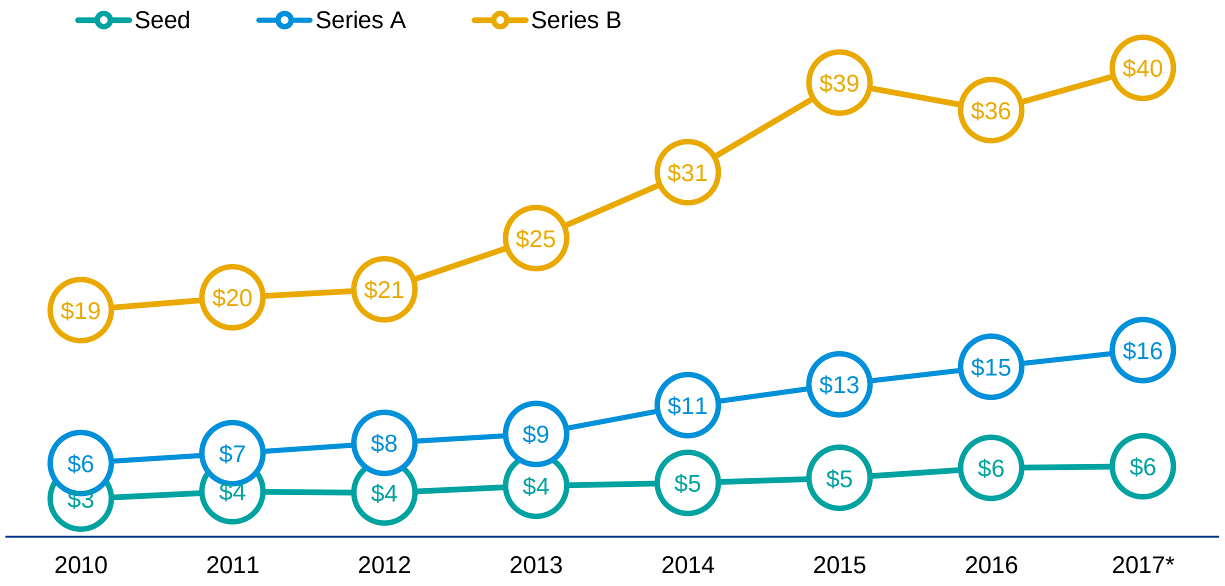
Note: Figures rounded in some cases for legibility.

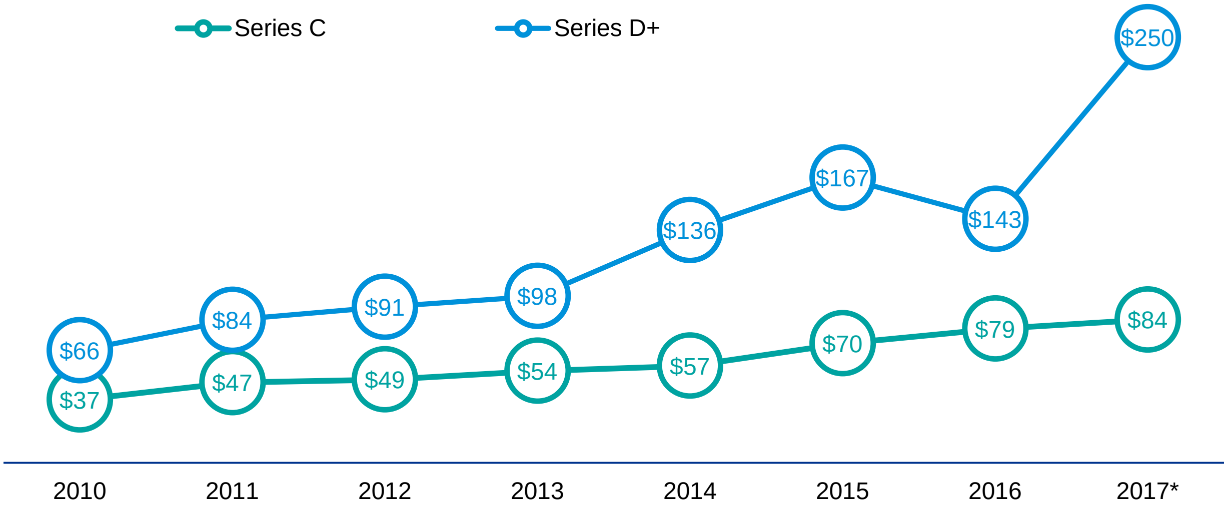
KPMG Enterprise

Valuations persist at historically high levels

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

2010 — 2017*





Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Note: Figures rounded in some cases for legibility.

Most dramatically observed at the Series B level, the remarkable growth in median pre-money valuations in the US over the past few years shows no sign of stopping. Testifying to the surplus of capital available for the asset class, such high numbers are unlikely to grow much further, but are likely to persist at that same high level.

KPMG Enterprise

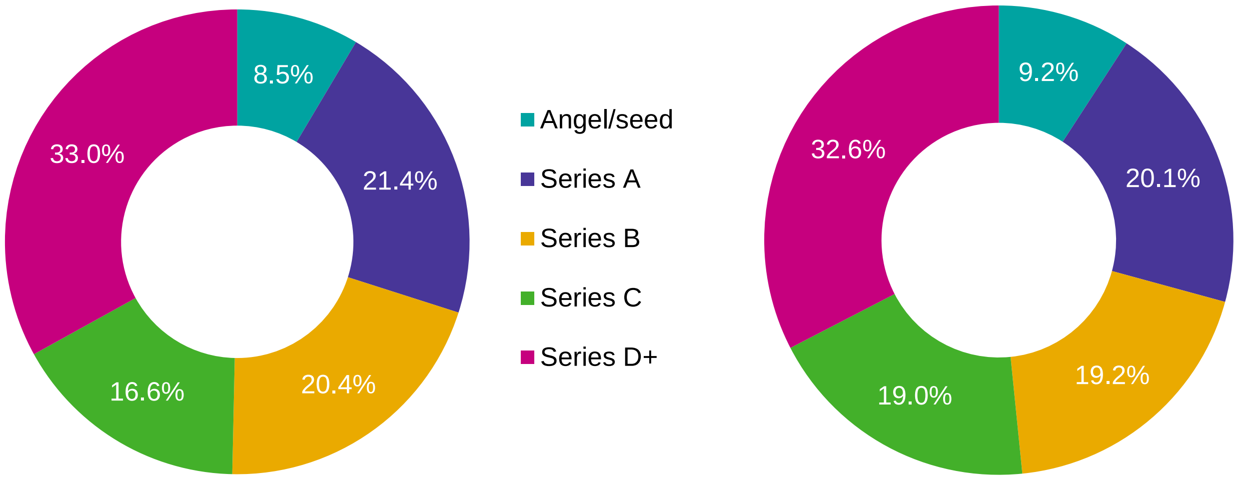
Earliest stages still see decreased deal flow

Deal share by series in the US

2017*, VC invested ($B)

Deal share by series in the US

2016, VC invested ($B)

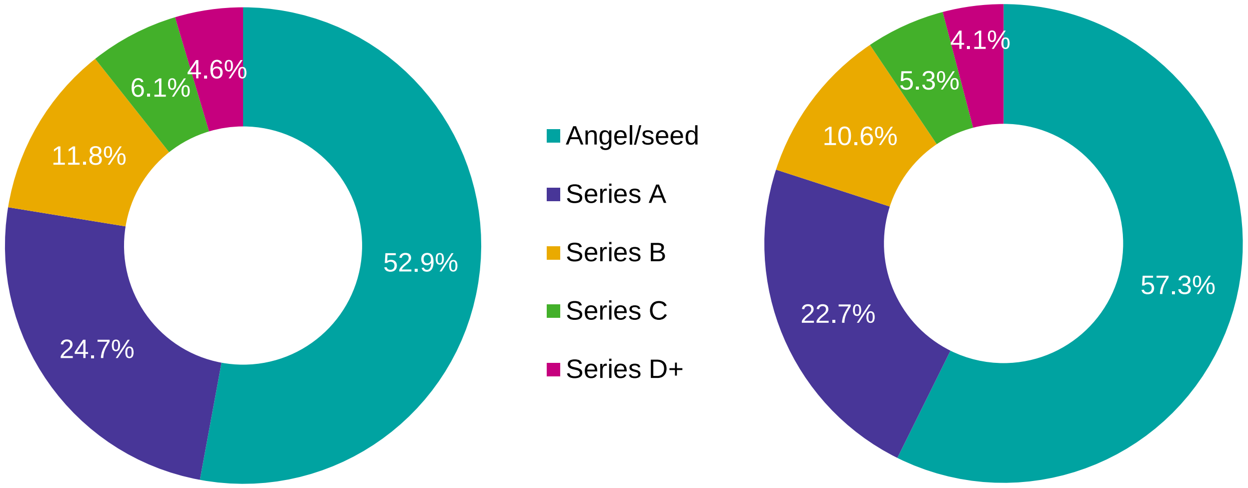


Deal share by series in the US

2017*, number of closed deals

Deal share by series in the US

2016, number of closed deals



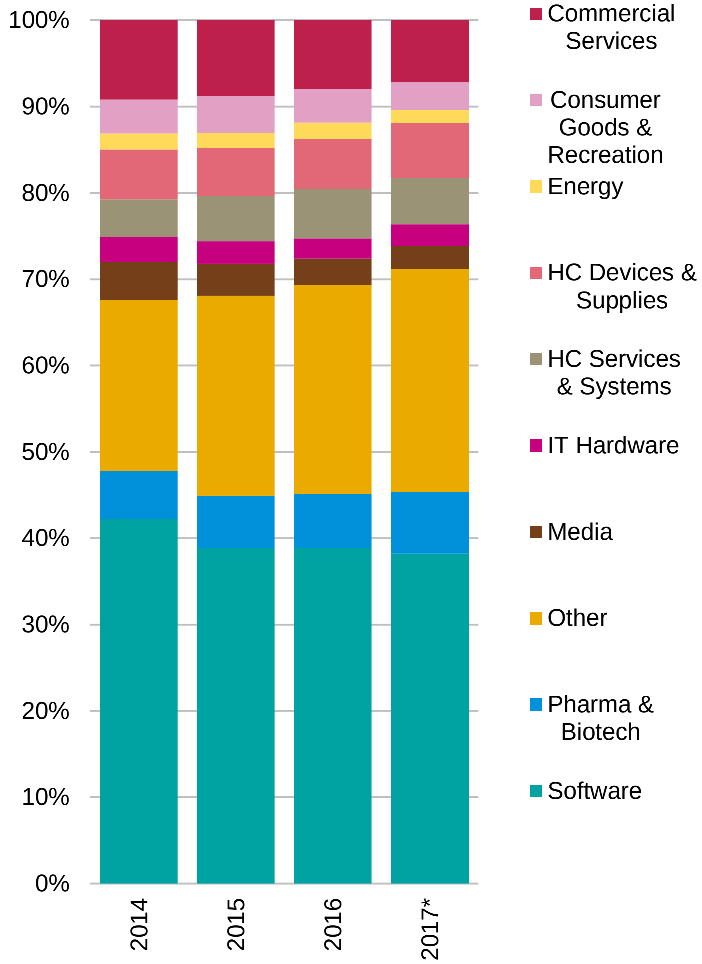
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/17. Data provided by PitchBook, October 11, 2017.

KPMG Enterprise

Healthcare retains significant proportion

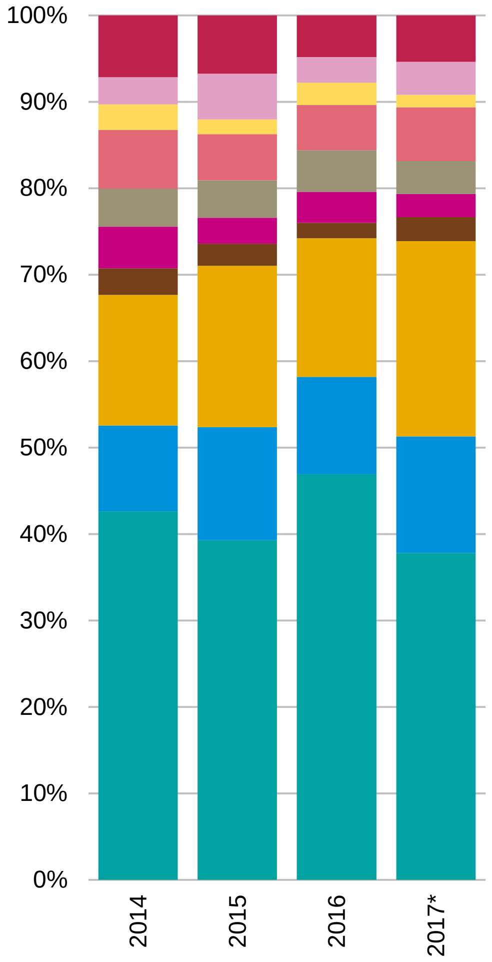
Venture financing by sector in the US

2014 — 2017*, number of closed deals



Venture financing by sector in the US

2014 — 2017*, VC invested ($B)



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

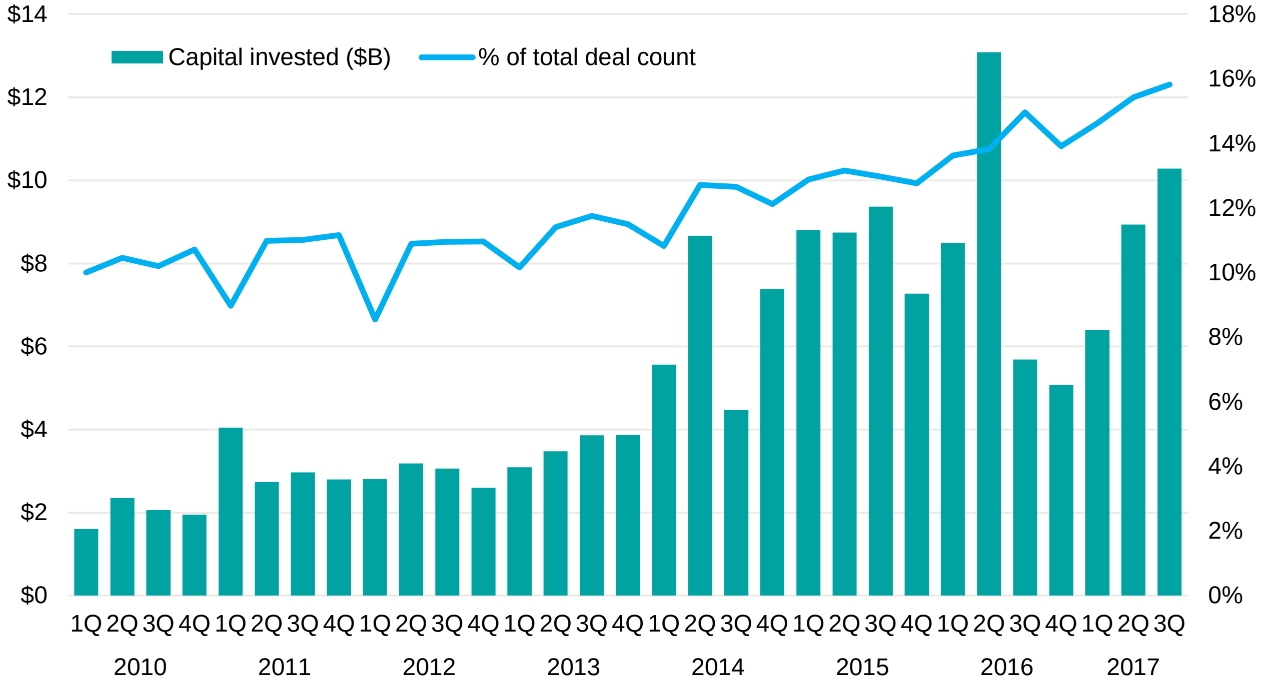
Interestingly, healthcare devices & supplies has already matched the full-year 2016 total for capital invested, while healthcare services and supplies remains quite high relative to the rest of the decade as well. Healthcare is somewhat of a recession-proof industry, and although it is a difficult field to innovate in given its regulatory requirements, it is likely to attract a disproportionate amount of interest from investors as time goes on because the industry is in need of innovation and digitization.

KPMG Enterprise

CVC activity stays at a remarkable high

Corporate participation in venture deals in the US

2010 — Q3'17



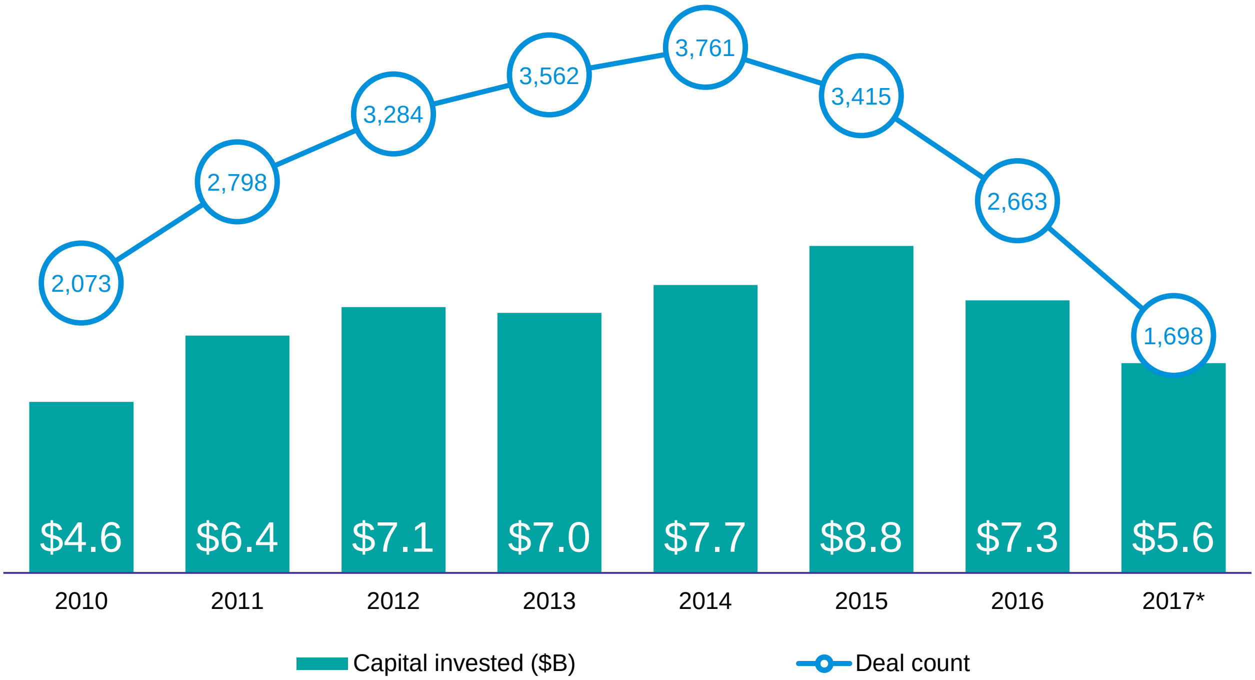
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

It is not that the venture industry has changed dramatically as corporations get more and more involved, it is that the corporate venture capital model itself has just grown more sophisticated, with companies that have seen firsthand the impact of long-term bets, such as Salesforce, continuing to stay active as they seek to stay on top of innovation.

Volume may be down, but VC invested is still relatively healthy

First-time venture financings of companies in the US

2010 — 2017*



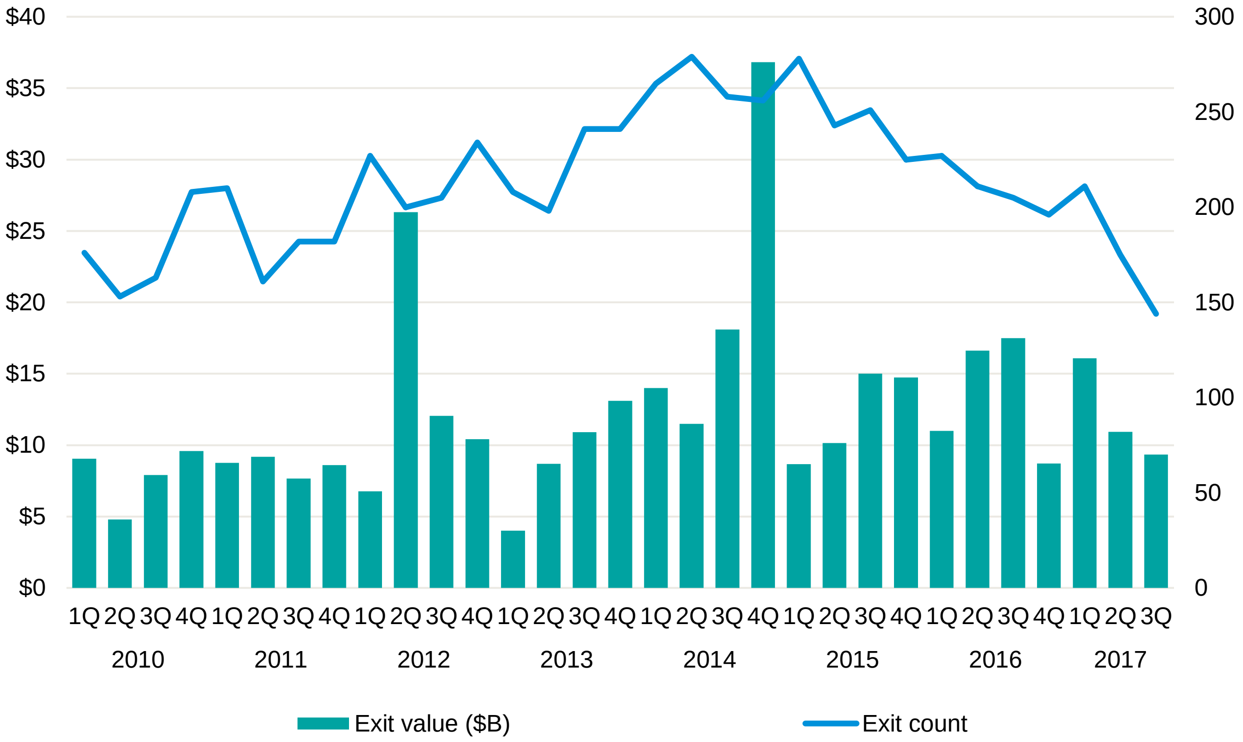
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

VCs are still willing to fund even the riskiest of enterprises with plenty of money, it's just that they are being far more selective than they used to. Hence the still-diminishing tally of first-time financings, yet with hefty sums of total capital invested.

Declining exit figures point to later stage of the investment & exit cycle

Venture-backed exit activity in the US

2010 — Q3'17



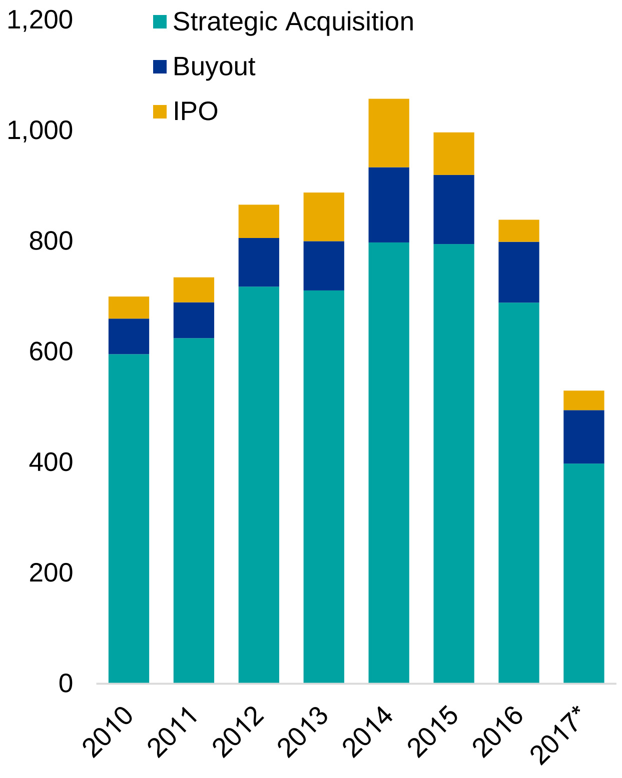
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Exit volume remains quite down relative to the prior few years. Such a cyclical downturn does not yet spell any trouble for venture fund investors but rather signals the later stage of the investment and exit cycle that the industry is in. That said, should liquidity for the oldest holdings in VCs' portfolios, especially those that have seen their valuations bidded up quite high, begin to subside, concerns are likely to become more apparent.

Diminishing M&A cycle remains the major factor

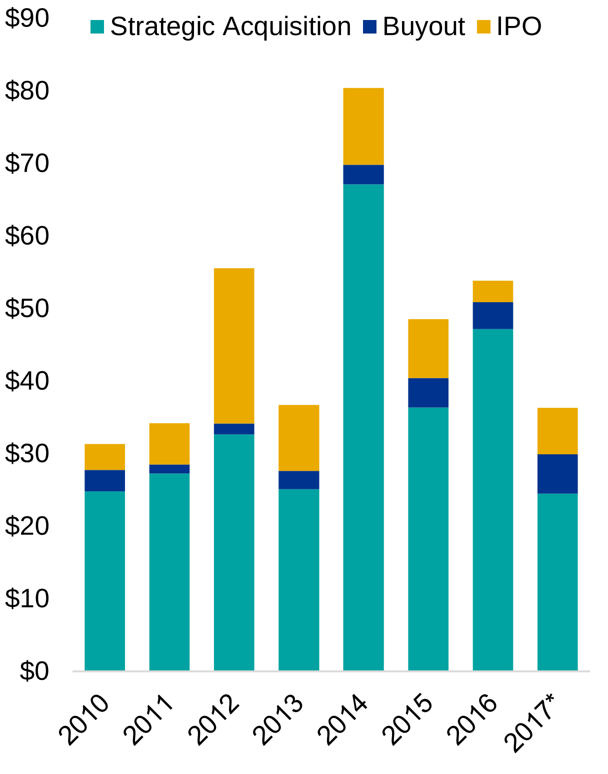
Venture-backed exit activity (#) by type in the US

2010 — 2017*



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

2010 — 2017*



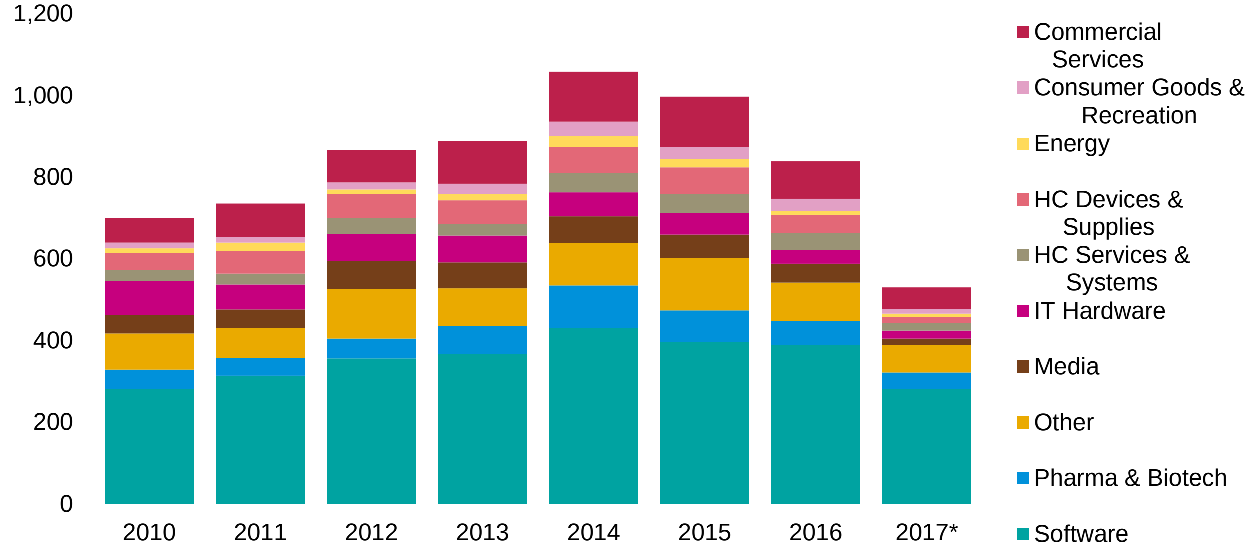
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

IPOs have come back in a mild fashion in 2017, although such exits are still definitely on the downswing. The M&A cycle's tempering after a blockbuster 2016 is likely to be the most significant driver behind diminishing exit volume.

Software still accounts for plurality of exit value

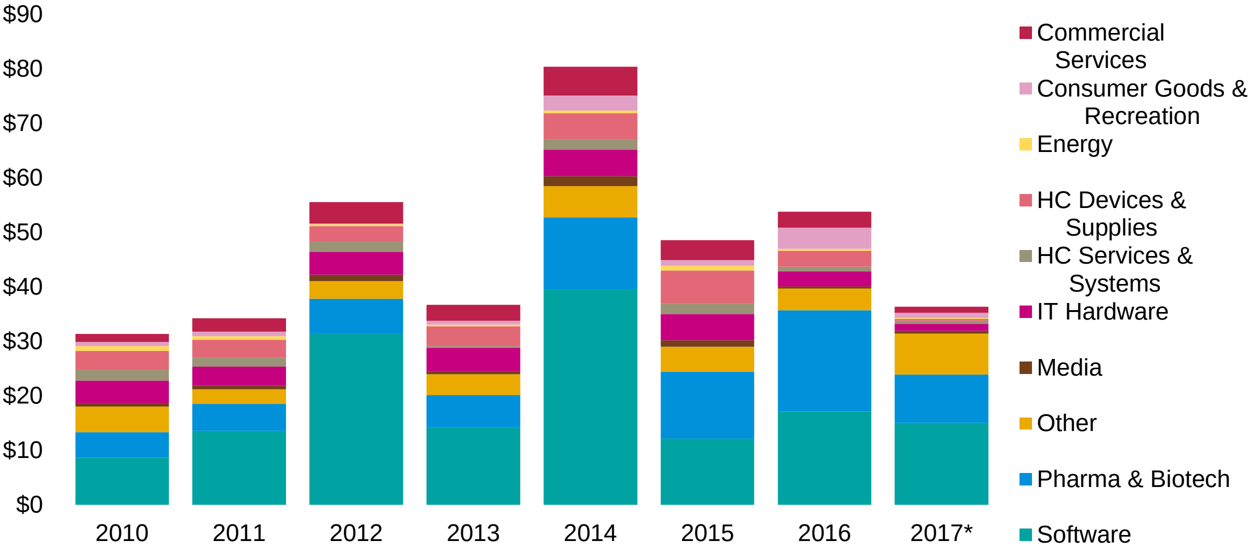
Venture-backed exit activity (#) by sector in the US

2010 — 2017*



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

2010 — 2017*

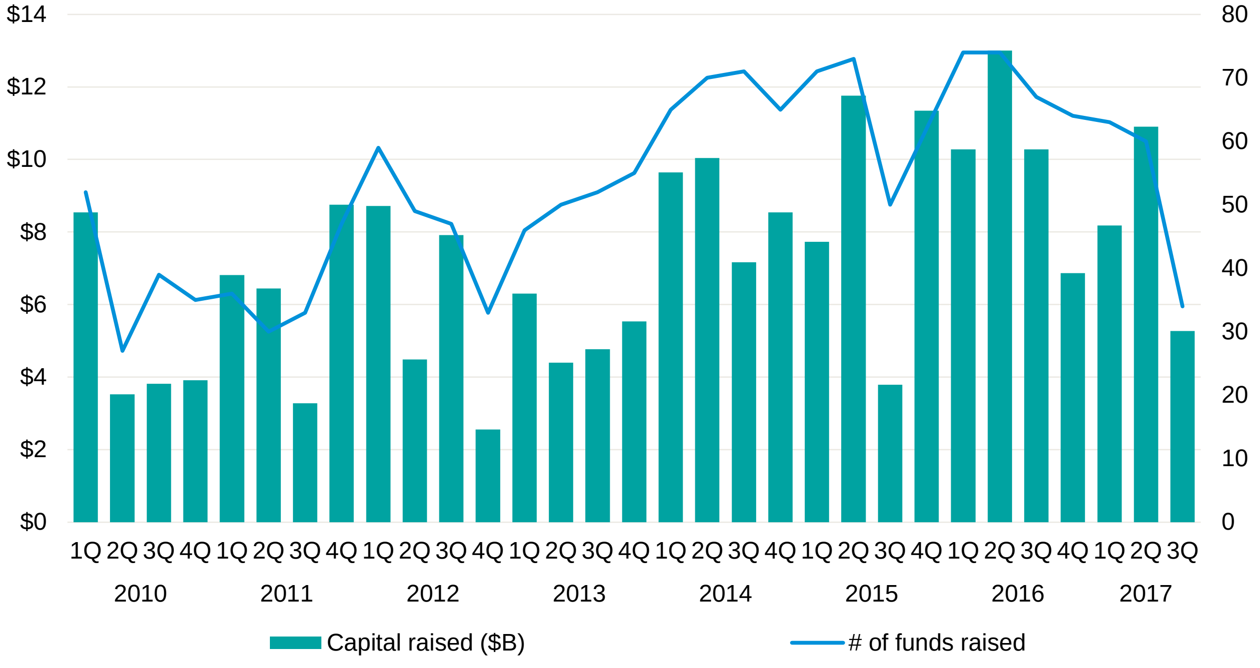


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

After mammoth Q2, fundraising cycle takes a breather

US venture fundraising

2010 — Q3'17



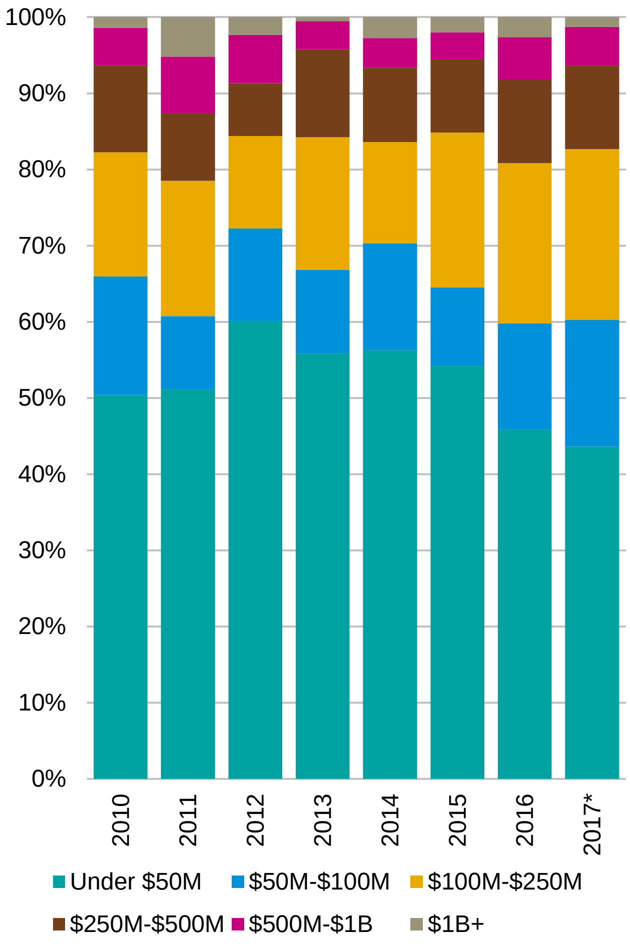
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

After 3 straight years of such highly active fundraising, with over $35 billion raised per year between 2014 and 2016, it makes sense that volume would cycle down eventually as limited partners reach desired levels of exposure to VC.

Fund sizes still tend to remain in the midsize range, as early-stage models transform

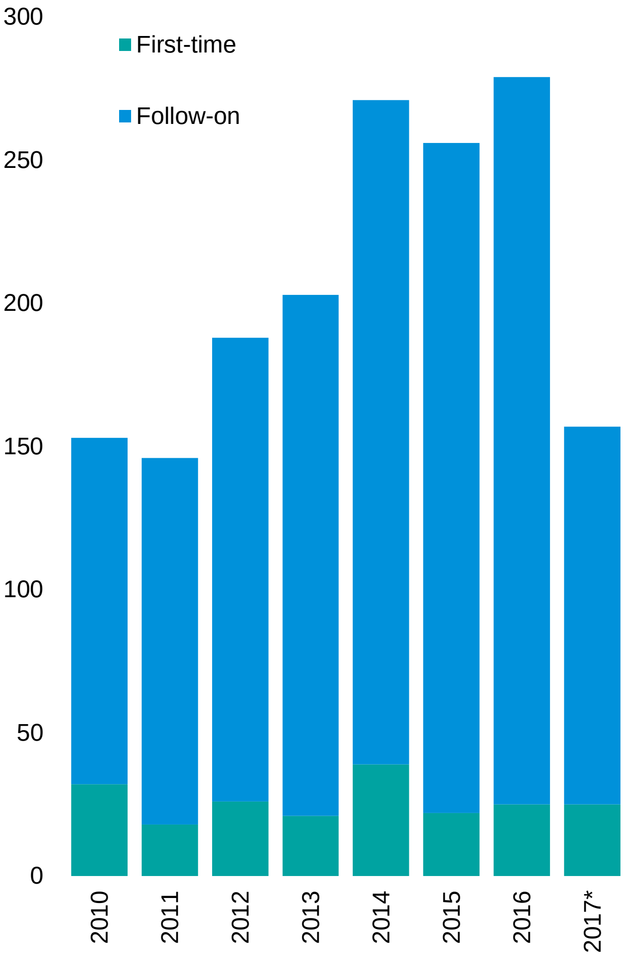
Venture fundraising (#) by size in the US

2010 — 2017*



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

2010 — 2017*



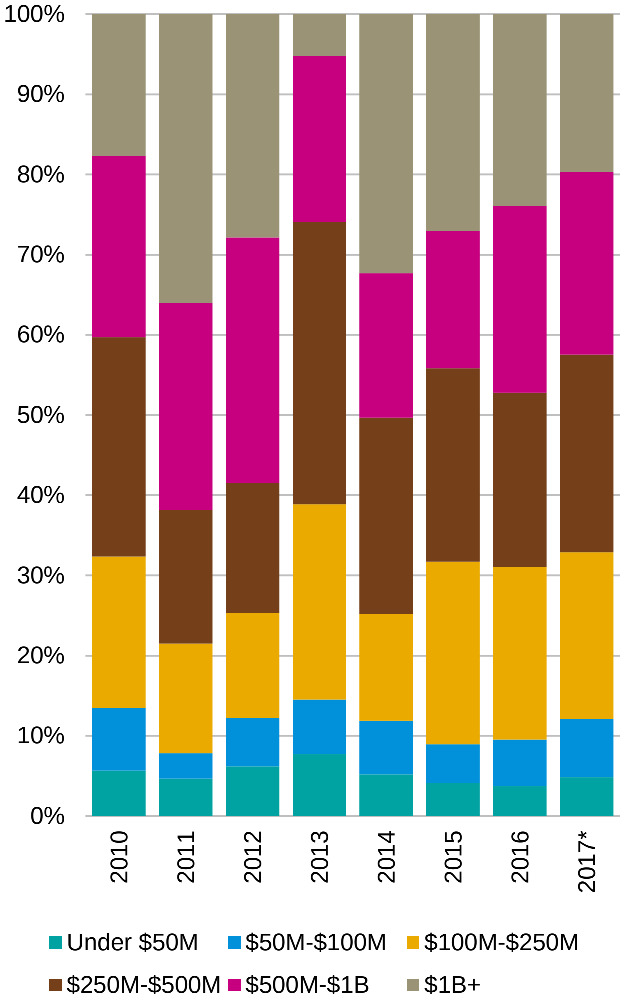
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Given the sheer level of risk and difficulty inherent in investing at the earliest stages, it makes sense that in an era of heightened caution fund investors tend to facilitate the raising of larger funds with more experienced managers.

First-time funds remain on relatively robust pace overall

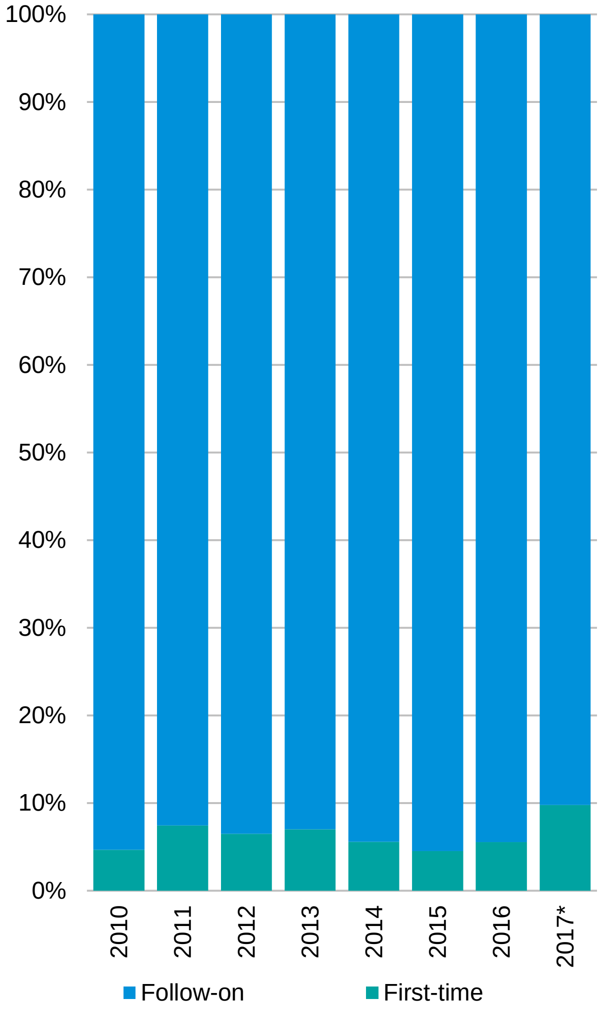
Venture fundraising ($B) by size in the US

2010 — 2017*



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

2010 — 2017*

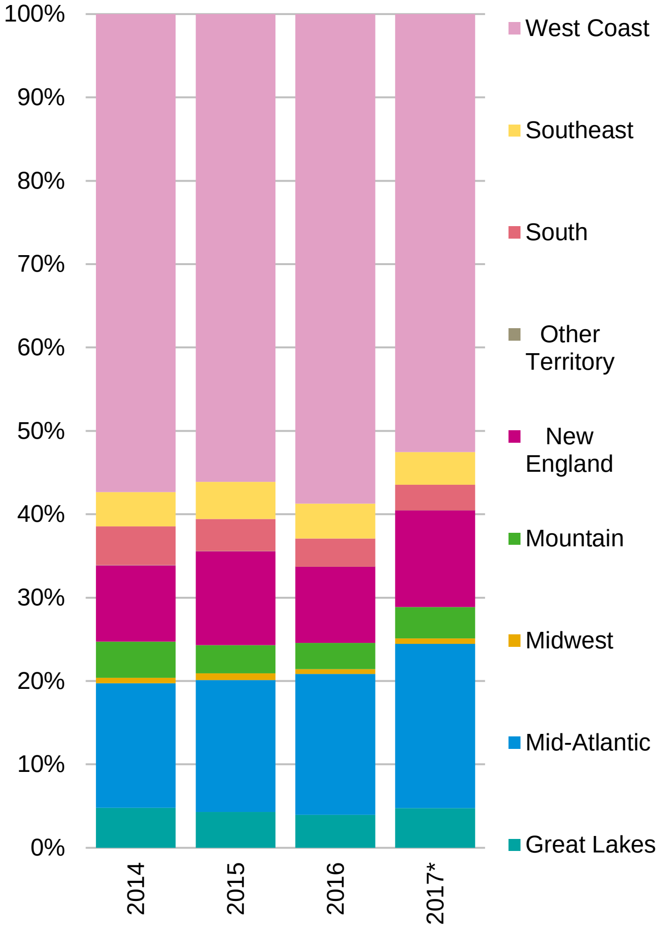


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

As US industry matures, geographic expansion still going strong

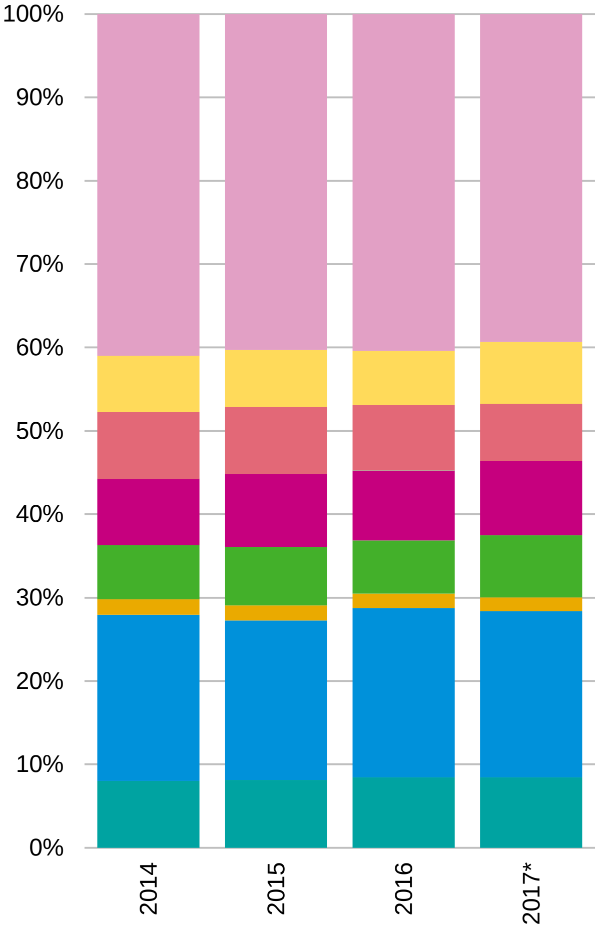
US venture activity ($B) by US region

2014 — 2017*



US venture activity (#) by US region

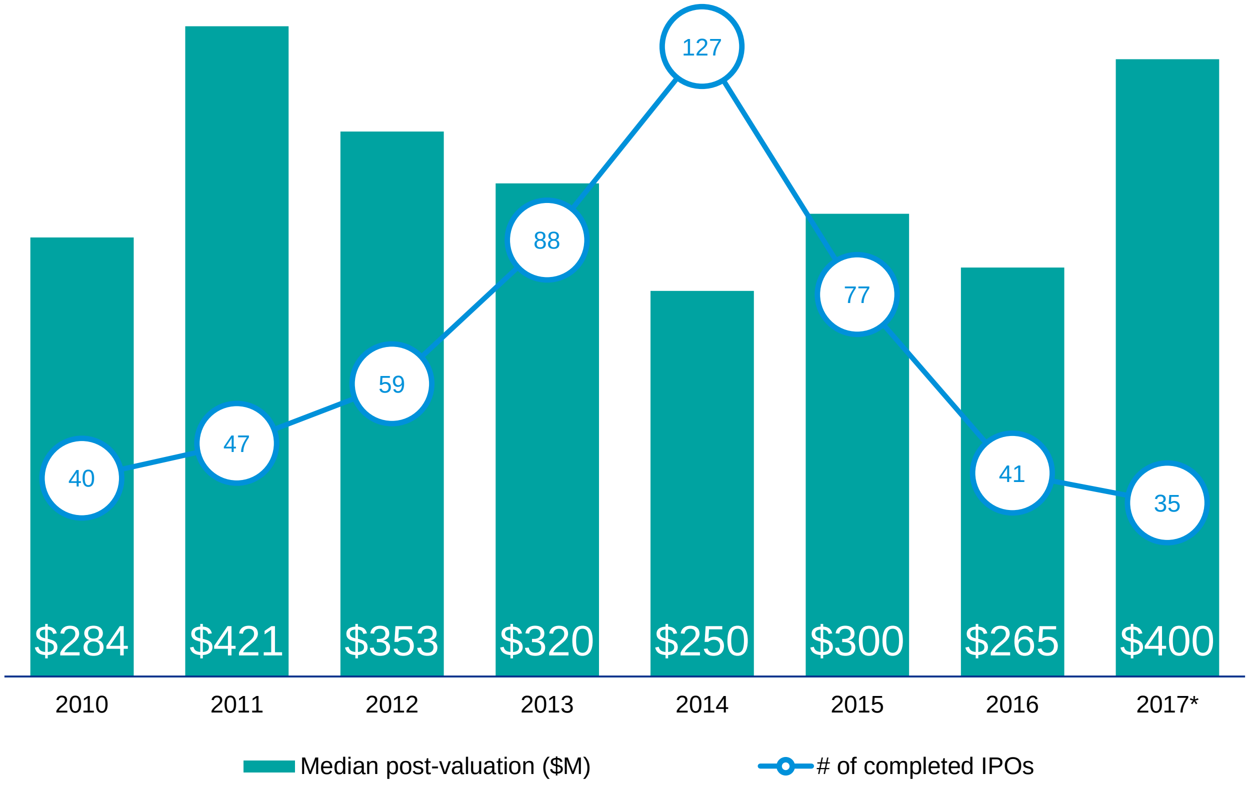
2014 — 2017*



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Less-traveled IPO route still a solid option for some

US venture-backed IPO activity
2010 — 2017*



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Median post-valuations for the few intrepid venture-backed companies going public remain high, signifying the overall markets' appetite for new offerings. That said, the risks still remain clear, with Snap's sliding performance and Blue Apron's fizzle-out the clearest portents of just how exposed businesses are when public. Of course, other unicorns and venture-backed companies have quietly gone public and performed well, it is important to note, such as Okta.

KPMG Enterprise

2017 IPO window update

Select venture-backed US companies that recently went public by offering size ($M)

Company name	Offering size ($M)	Last VC financing post-valuation ($M)	Market capitalization ($M)	HQ city	Industry group
Roku	$219.4	$1,107	$2,230	Los Gatos, CA	Wireless Communications Equipment
Redfin	$138.5	$1,055	$2,070	Seattle, WA	Information services
Kala Pharmaceuticals	$90	$260	$559	Waltham, MA	Biotechnology
Dova Pharmaceuticals	$75.1	$274	$628	Charlottesville, VA	Biotechnology
Appian	$75	$629	$1,510	Reston, VA	Business software
Tintri	$67	$156	$106	Mountain View, CA	Business software

Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

"VC firms in the US are taking less of a 'quantity' approach than they have in the past – whereby they invested in a lot of companies looking to get one or two big winners. Today it appears that investors are being more selective as where to place their investments. They are taking more time to find the real quality opportunities."

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

KPMG Enterprise

In Q3'17 European VC-backed companies raised

$4.7B

across

561 deals

Europe finding new ways to open the door to global investors

The number of venture capital deals in Europe declined for the sixth straight quarter in Q3'17. However, total VC investment in Europe remained strong, bolstered by mega-deals and late-stage financings. Seed and early-stage deals were particularly hard hit this quarter, with investors continuing to be very selective about their early-stage investments.

While some companies struggled to find the financing they needed to scale up, others took advantage of the competition and commanded large valuations for early-stage investment. The top four European deals during Q3'17 combined for a total of more than $900 million dollars – with $385 million to Deliveroo, $240 million to Prodigy Finance, $169.5 million to Sound Cloud and $165 million to Tricentis.

Investors banking on late-stage investment

The situation in Europe mirrored global conditions as VCs continued to concentrate on later stage deals in Q3'17 as an approach to de-risk portfolios. The investor trend toward working with more mature businesses that have shown a propensity for sales and proven monetization models may be in reaction to the disappointing early-stage results seen over the last two to three years whereby many early-stage companies struggled with delivering expected growth in the expected time frame.

Big deals reflect geographic diversity

The top ten largest venture financings in Europe this quarter were diversified across seven different cities and five different countries, demonstrating the growing maturity of the European ecosystem as a whole and the recognition of Europe as one market by global investors.

With less attachment to a company's country of origin, investors recognize it is possible to do business anywhere. Ireland is an excellent example of this phenomenon as international investors, and in particular corporate VCs, have shown increasing interest in the relatively small country because of its strong startup ecosystem, maturing startups, available talent, and access to the entire European market.

France's ecosystem gaining steam

France has invested considerable effort into strengthening its startup ecosystem over the past few quarters and has enjoyed growing international attention as a result. This quarter over $470 million was raised over 50 deals, including a $71 million raise by ManoMano to fund expansion across Europe. France has also experienced a dramatic increase in median deal size, from €1 million in all of 2016 to €2 million in the first half of 2017.

The new French government remains very supportive of the tech sector, recently announcing asset sales to finance President Emmanuel Macron's election promise of an $11 billion fund for investment in disruptive innovation. Mr. Macron is also a key proponent of La French Tech, which is credited with helping French companies looking to scale up and compete around the world. Meanwhile, Station F, the startup incubator billed as the largest in the world, has played host to 1,000 small technology startups since June.

Europe finding new ways to open the door to global investors, cont'd.

UK remains undeterred by Brexit negotiations

Despite a certain level of uncertainty connected to Brexit negotiations, investors remained committed to the potential of UK companies across a wide range of industries in Q3'17, including fintech. This quarter, the UK saw over $1.8 billion invested across 185 deals, including several $100 million+ mega-rounds: Deliveroo ($385 million) and Prodigy Finance ($240 million). While the UK remains a hotbed for innovation in Europe at present, there are some concerns related to the long-term ramifications of Brexit – particularly the impact on European talent living and working in the UK. While investment in the UK appears to be stable, Germany, Ireland and France have all invested in actively promoting their countries as tech friendly alternatives to the UK in hopes of claiming a larger portion of European investment dollars[9, 10].

Corporate VC remains strong in Germany

During Q3'17, Germany saw more than 70 deals worth a total of $680M, including a number of large deals led by international investors. Music service Sound Cloud, which had been struggling as of late, was able to secure $169.5 million in funding from Singapore based investment company Temasek and New York based The Raine Group. Chinese internet giant Tencent is leading the $90 million investment in Lilium Aviation after it recently demonstrated the successful test flight of a two-seater electric 'flying taxi'. Meanwhile, Corporate VC has remained particularly strong in Germany this year, with many corporate VCs continuing to actively engage with the startup community in search of opportunities to diversify their product portfolios and extend their value chains. This is particularly important given the lack of large-scale institutional investment in the German tech ecosystem. On the M&A front, Naspers, the e-commerce giant based in South Africa, announced plans to buy 50% of Rocket's stake online food take out service, Delivery Hero. The deal will allow Rocket to calm investors who are nervous about the level of start up funding in their current portfolio.

AI and autotech continue to be the hot areas to watch

With artificial intelligence capturing headlines around the globe, it's not surprising that it continues to be one of the key areas to watch in Europe. At the same time, virtual reality and augmented reality companies have also started to attract investor interest, with many VR/AR companies partnering with corporate VC players to find practical applications for existing technologies. While VR/AR may be in the nascent stages as the must-have feature for video games, it has the potential to transform a number of other industries – including entertainment, health care, training and development, and online retail.

Interest in autonomous driving also accelerated over the last quarter in Europe, particularly in Israel following Intel's massive $15 billion investment in Mobileye earlier in 2017. For example, Innoviz – a company making LiDAR sensors to support the development and deployment of autonomous driving, has a pending $65 million in Series B funding round[11], while StoreDot – a company developing a new kind of quick-charging battery for use in a range of products including electric cars, raised $60 million in a funding round led by carmaker Daimler. Both of these companies are based in Israel.

Trends to watch for in Europe

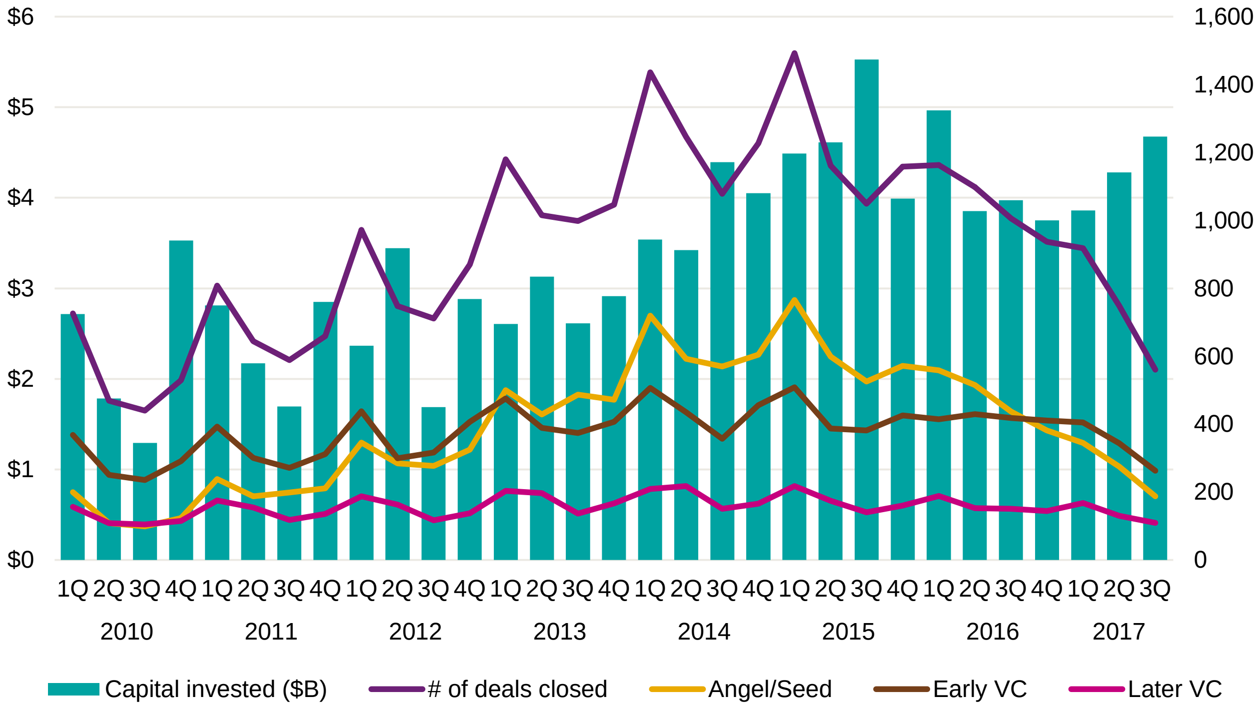
Regtech has already drawn significant investment and attention in Europe, particularly in the UK. This trend is expected to continue for some time, fueled by upcoming changes to the regulatory landscape such as MiFIDII, PSD2 and GRPR. The fintech and insurtech sectors more broadly are expected to draw strong investment in the coming months as banking and insurance industries seek to deploy new technology solutions and modernize legacy systems.

[9] https://www.siliconrepublic.com/start-ups/venture-capital-ireland-h1-2017
[10] https://www.rte.ie/news/business/2017/0907/902926-european-investment-fund/
[11] https://techcrunch.com/2017/09/07/lidar-maker-innoviz-raises-65m-from-delphi-magna-and-more/

VC still available for deployment, even as activity dwindles further

Venture financing in Europe

2010 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Venture capital activity in Europe continues to decline in volume, even as VC invested remains robust and on the historically higher end. This is primarily due to heightened apprehension around all manner of risks, from the economic to the political, as is clearly evidenced by the earliest stages seeing the sharpest slide.

"In Europe, we saw over $4.5 billion dollars in fundraising in Q3'17. There is a tremendous amount of 'dry powder' out there, waiting for the right opportunity. However, many VC's and in particular institutional investors continue to be very selective in their investments – insisting on a defined strategy for growth. "

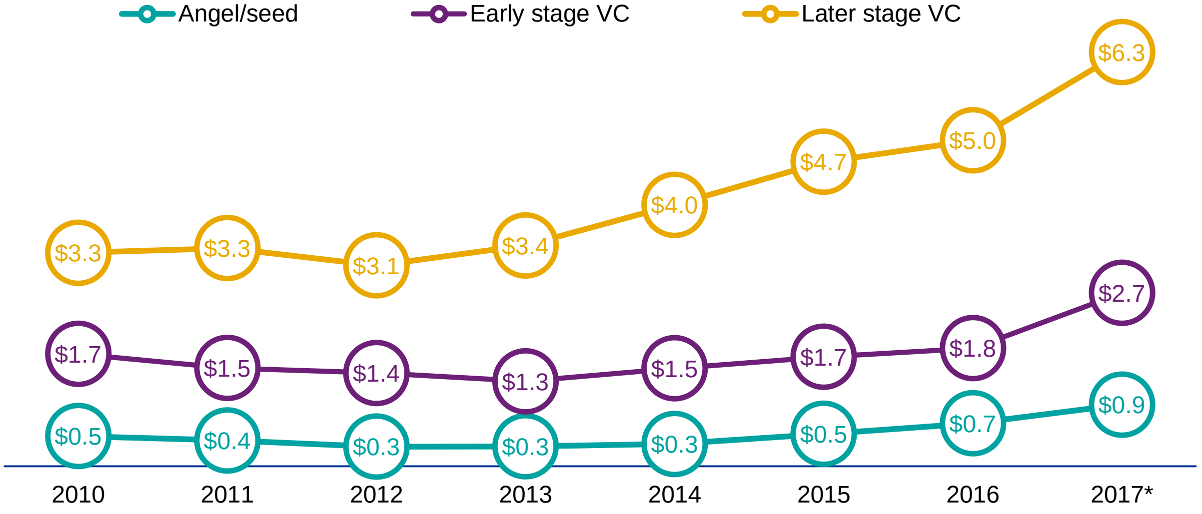
Sonia Chiu
Manager, **KPMG in the UK**

KPMG Enterprise

Rise in median deal sizes signals investors are still willing to invest sizable sums

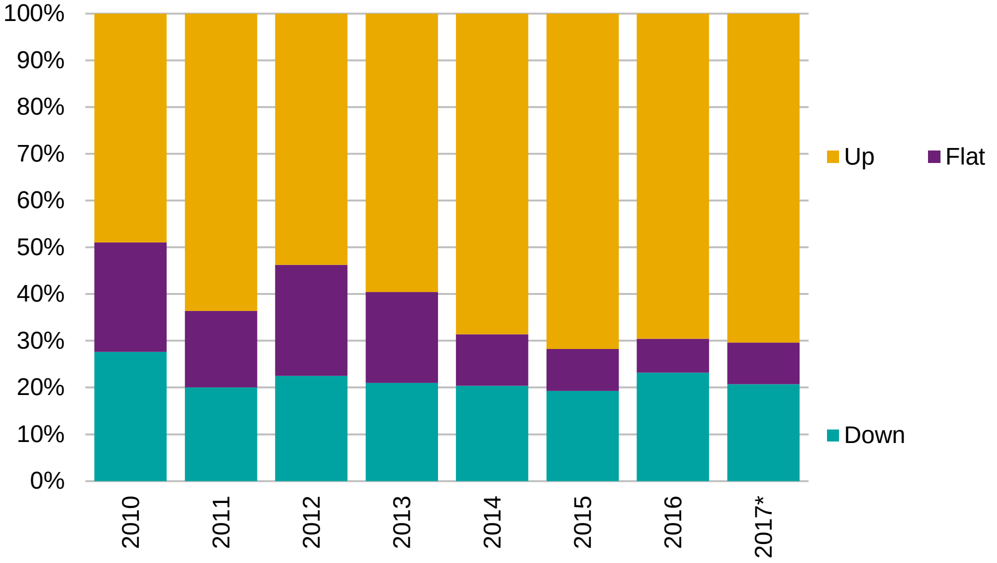
Median deal size ($M) by stage in Europe

2010 — 2017*



Up, flat or down rounds in Europe

2010 — 2017*

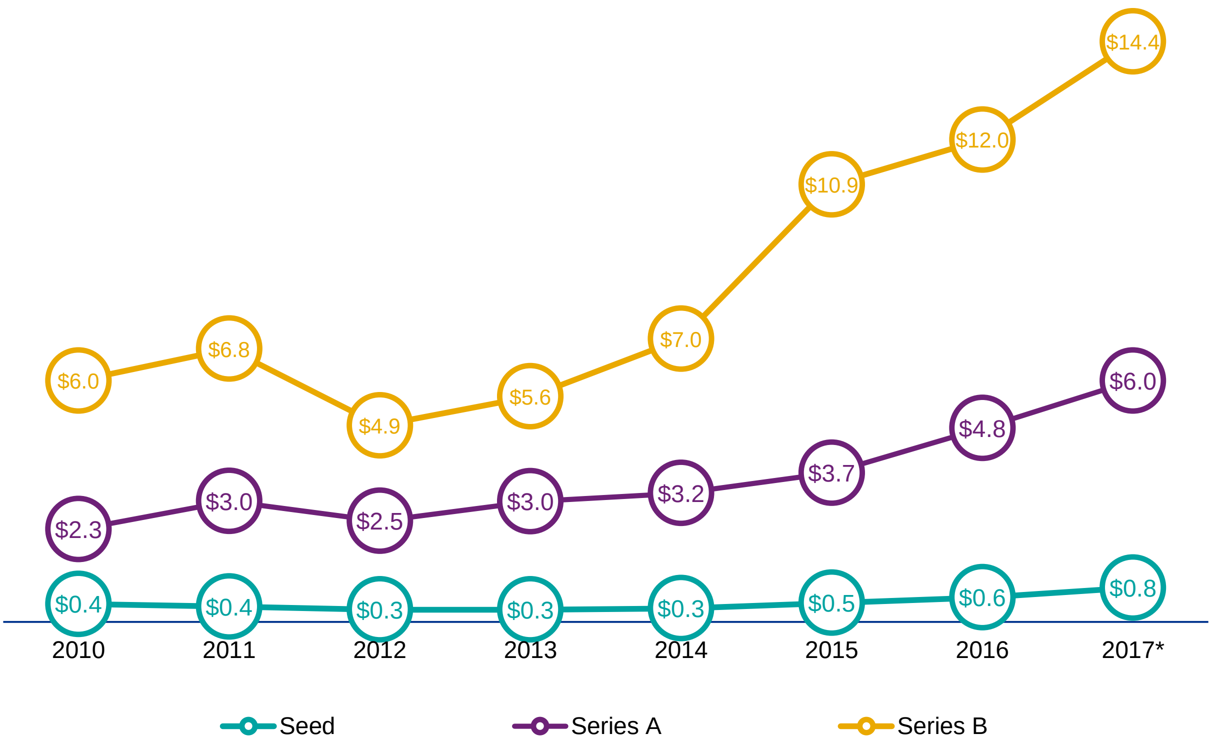


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Series A & B stay at elevated level

Median deal size ($M) by series in Europe

2010 — 2017*



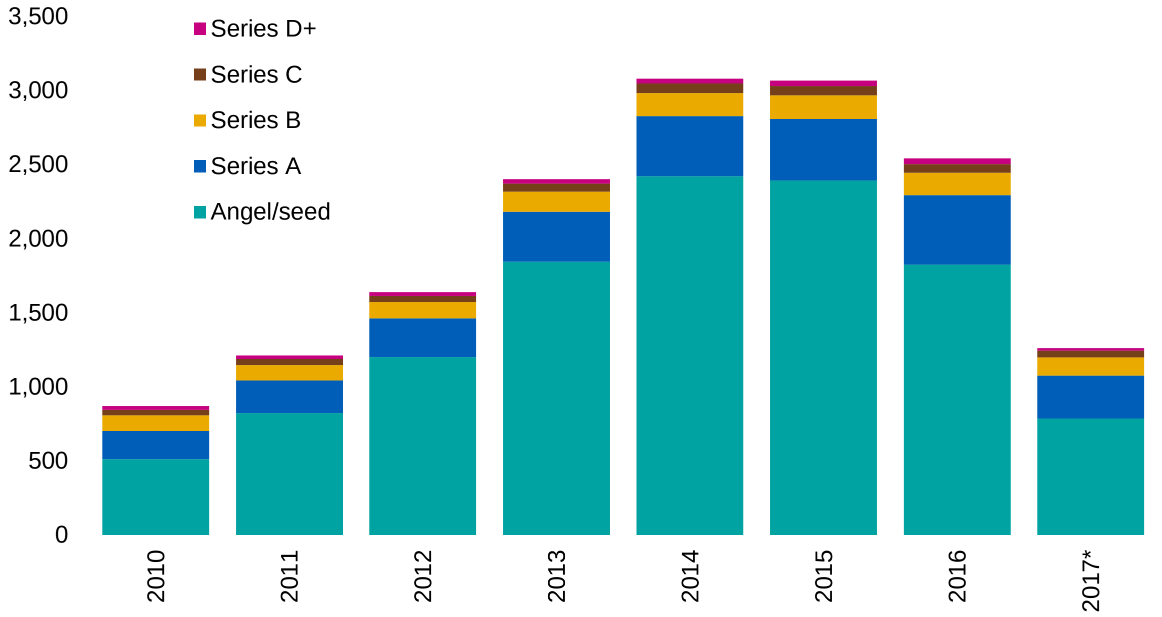
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Driven in part by considerable upward pressure from dry powder, but also by macro dynamics still holding relatively steady, median financing sizes are still at an elevated or even increasing level.

Late-stage portion stays commensurately larger

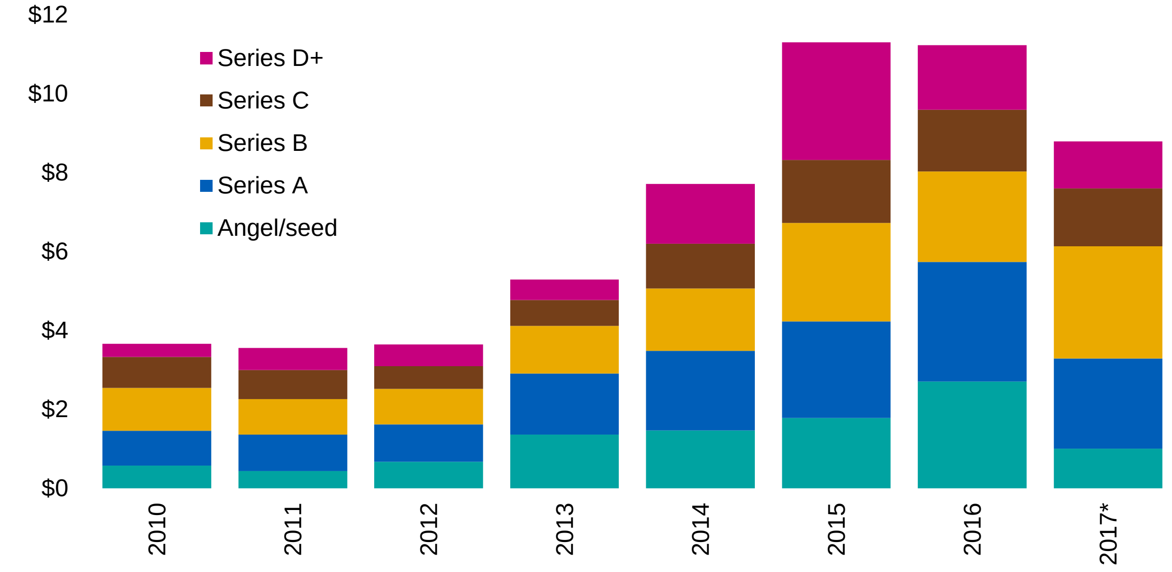
Deal share by series in Europe

2010 — 2017*, number of closed deals



Deal share by series in Europe

2010 — 2017*, VC invested ($B)

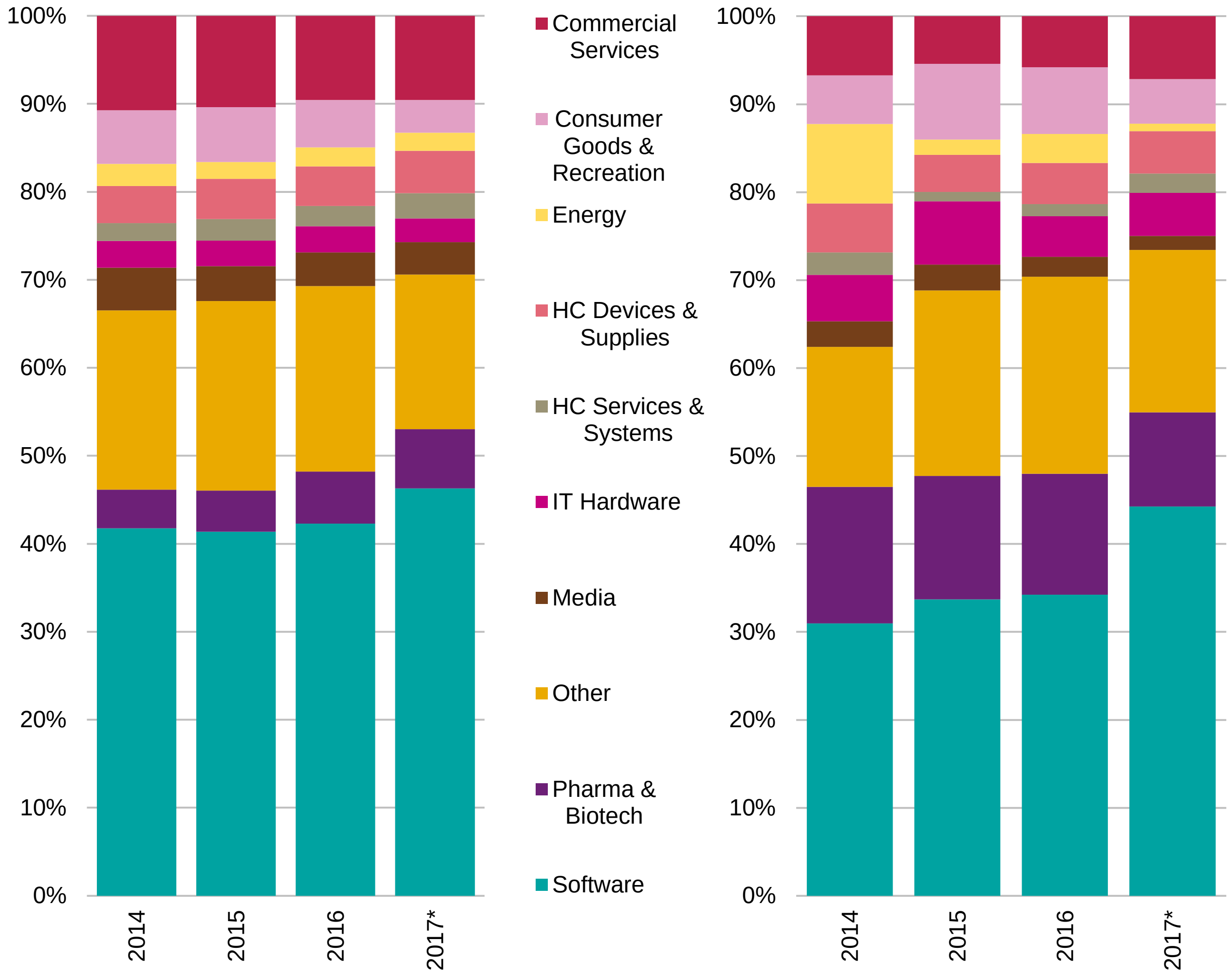


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/17. Data provided by PitchBook, October 11, 2017.

Software remains predominant

European venture financings by sector
2014 — 2017*, number of closed deals

European venture financings by sector
2014 — 2017*, VC invested ($B)



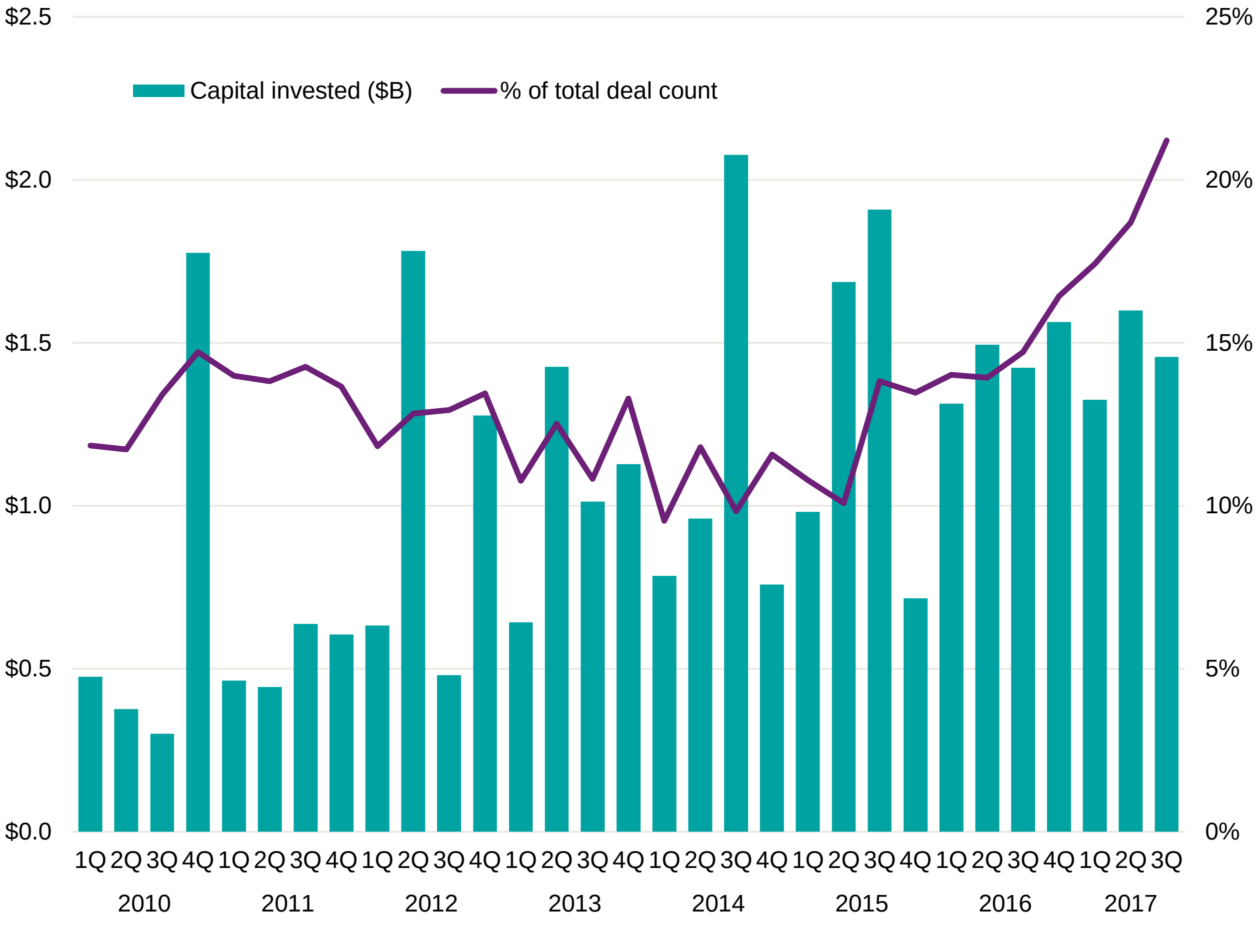
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

These days, software businesses are relatively cheap to start up. So in an era of heightened valuations and a fair degree of uncertainty around significant policy and economic risks, it makes sense investors are choosing to still fund software businesses at a fair clip.

Yet another high for CVC participation

Corporate VC participation in venture deals in Europe

2010 — Q3'17

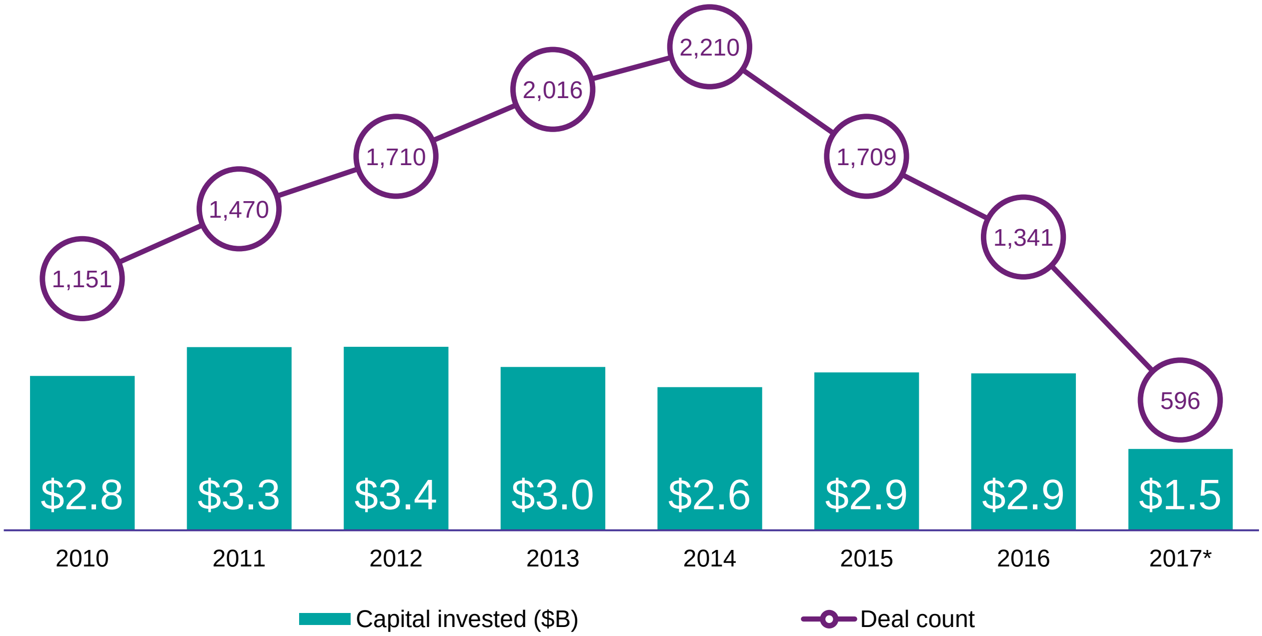


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

After disparity in VC invested & volume, both set to decline significantly in 2017

First-time venture financings of companies in Europe

2010 — 2017*



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Interestingly, even as first-time financing volume continued to slide after a peak in 2014, VC invested remained quite high, with 2016 seeing the largest such sum ever invested in Europe. That is likely due to how pricey the environment was as well as the large sums on hand for VCs to dispense, but in 2017, it appears such conditions are no longer holding for first-time financings, as VC invested and volume are finally both quite down.

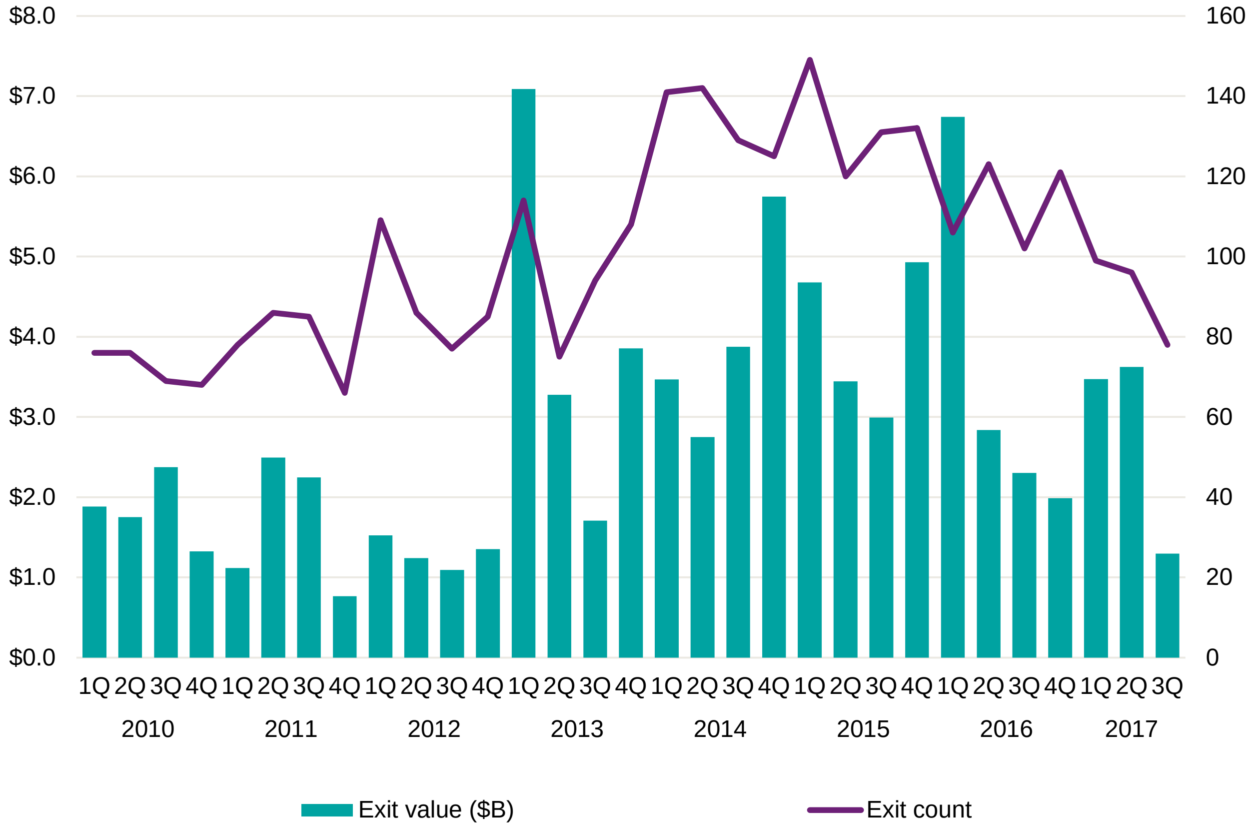
"Given their experience with 2015 down rounds, investors are being very careful with their investments. They know valuations can't be too high, or they run the risk that at exit they might sell at below financed levels. This is putting increased pressure on valuations for later stage companies."

Tim Dümichen
Partner, **KPMG in Germany**

Variable exit activity records a low quarter

Venture-backed exit activity in Europe

2010 — Q3'17



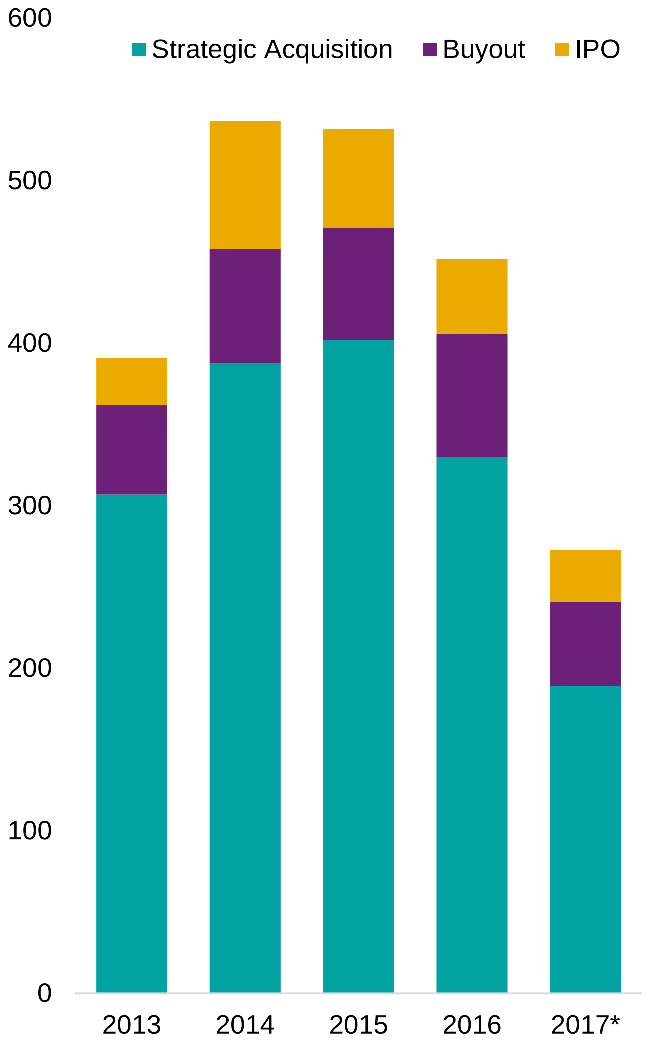
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Continuing to slide back down to levels reminiscent of 2010 through 2013, venture-backed exit activity in Europe is clearly entering a cyclical decline. The prolongation of such a decline is not yet anything out of the ordinary, but does hold the normal implications for venture fund investors, namely management of portfolios and investing with an eye toward potential fund timeline lengthening.

M&A volume falls the most, relatively speaking, although all exit channels see declines

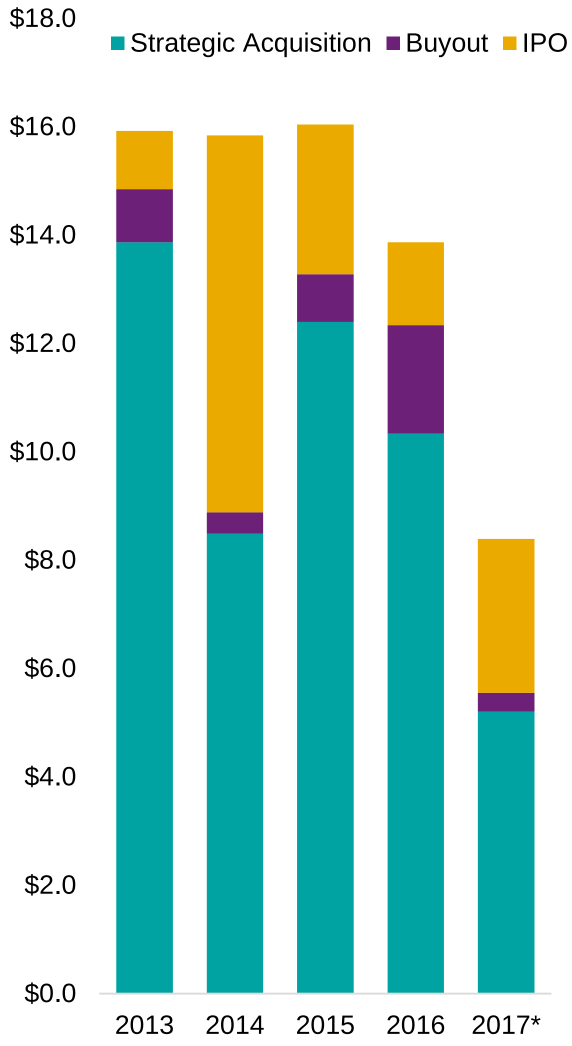
Venture-backed exit activity (#) by type in Europe

2013 — 2017*



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

2013 — 2017*

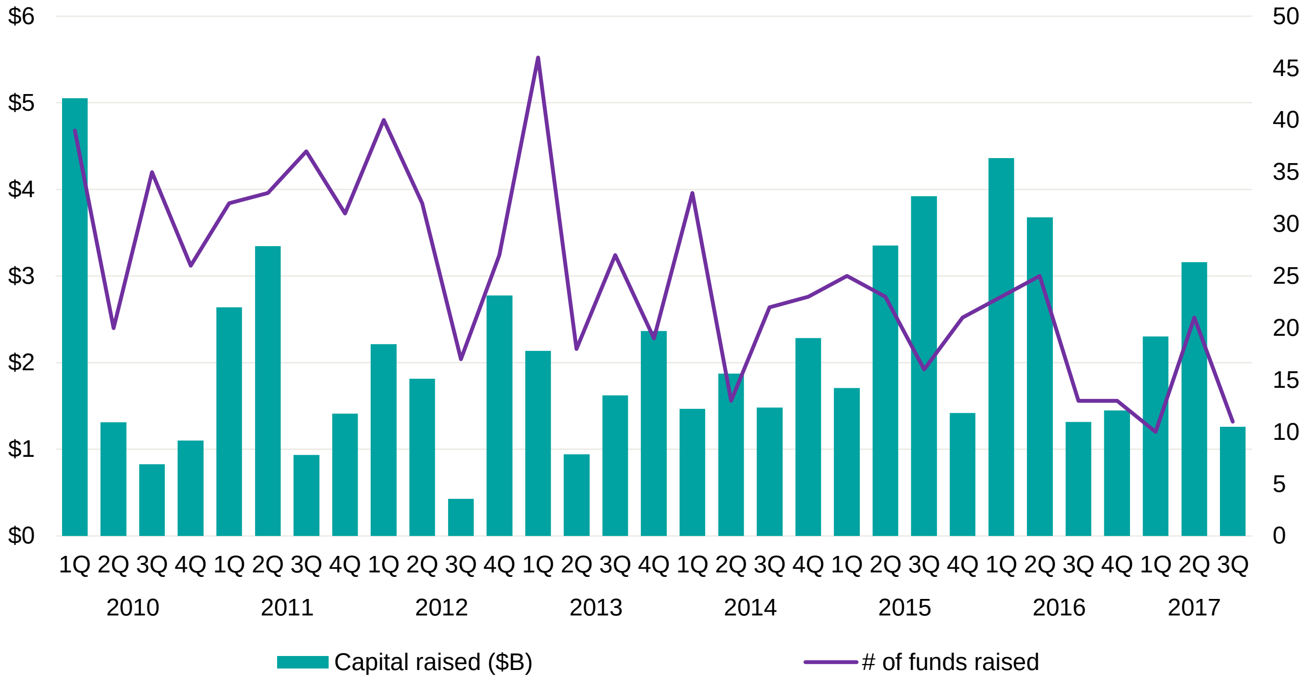


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/17. Data provided by PitchBook, October 11, 2017.

A slower quarter after highs in Q2, testament to European fundraising variability

European venture fundraising

2010 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Fundraising figures are quite variable when broken out by quarter. It is primarily a sign of the relatively fragmented European fundraising market. That said, there can still be significant highs for the current European fundraising scene, especially driven by those nations that are intently focusing on fostering domestic innovation in efforts to help solve systemic unemployment and growth trends.

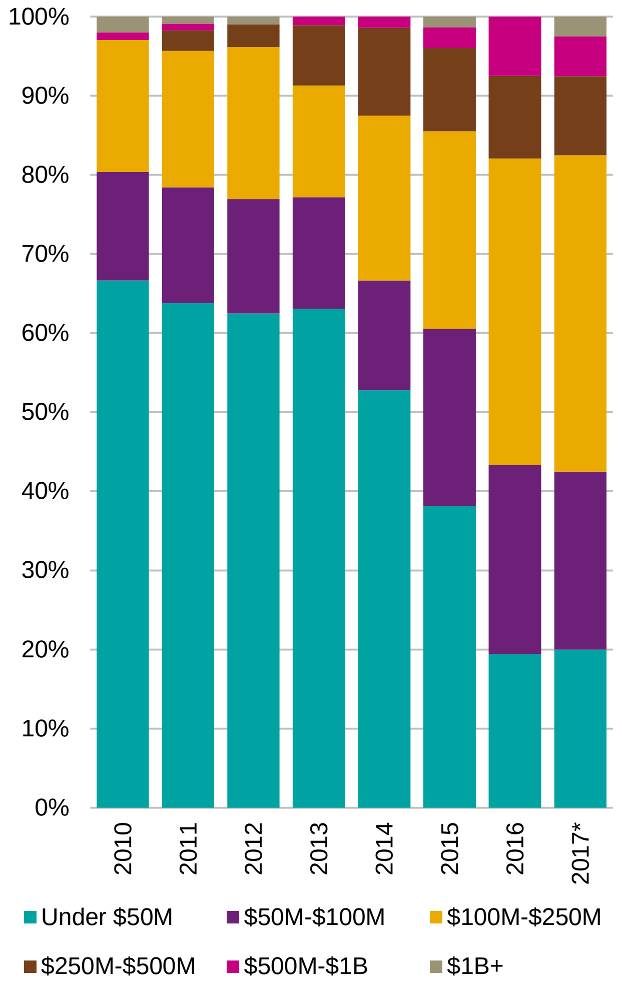
"Brexit negotiations seem to be moving toward a hard exit, which raises the question of the impact on European nationals living and working in the UK. For UK businesses, the question seems to be whether they can secure funding from the rest of Europe? Meanwhile, countries like Germany and France are vying to attract funding away from the UK to their own startups hubs."

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

Fundraising still primarily dominated by the largest classes of funds

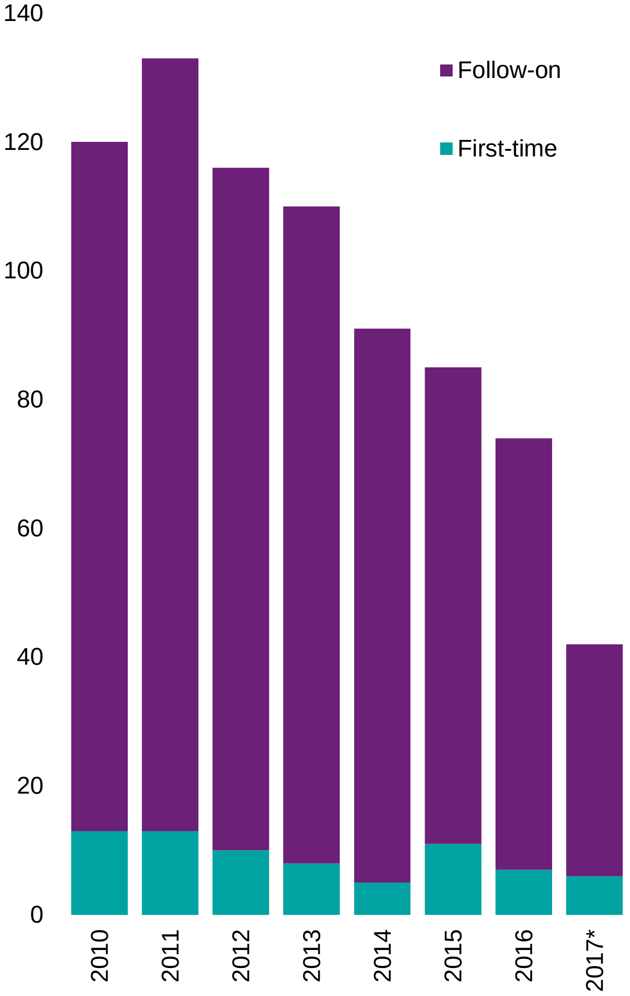
Venture fundraising (#) by size in Europe

2010 — 2017*



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

2010 — 2017*



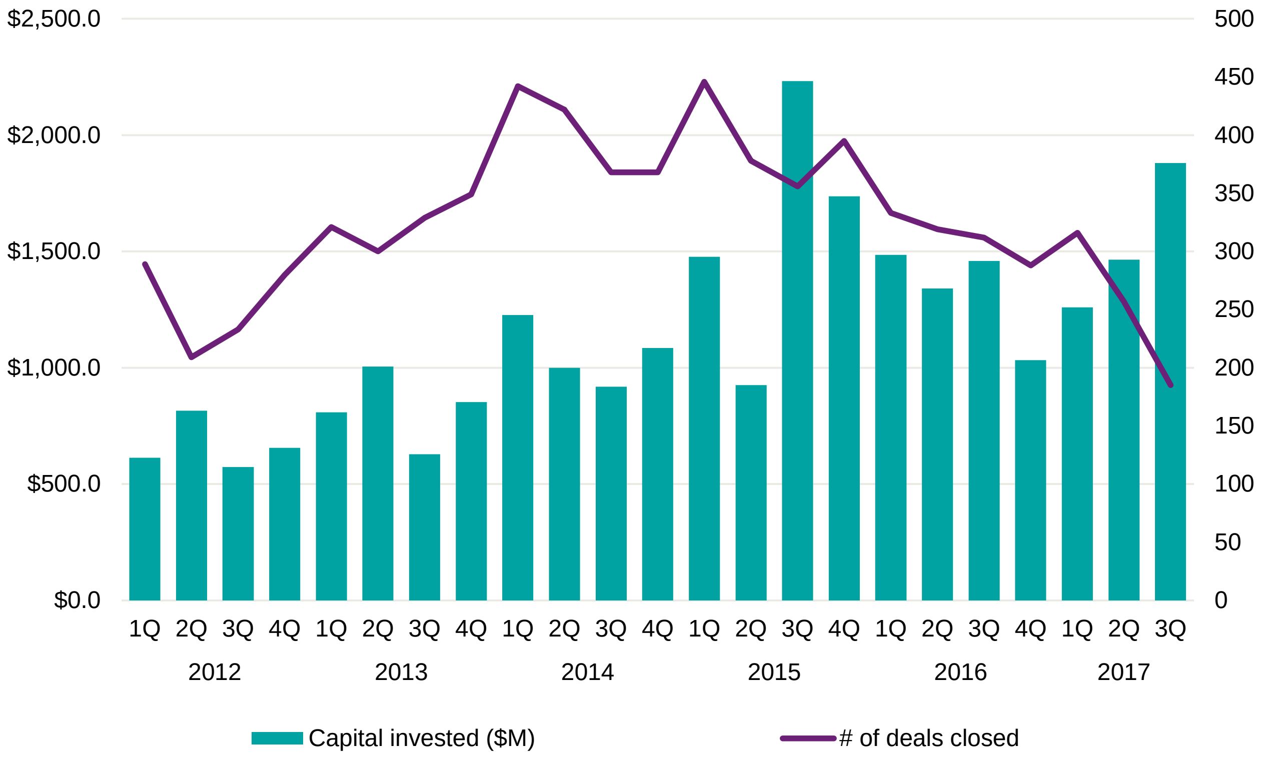
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Even more so than in 2016, the largest fund size classes are seeing the most activity, which makes sense, as cautious LPs prefer to commit capital to larger, more experienced, better - diversified managers.

Deal value comes roaring back in Q3

Venture financing in the United Kingdom

2012 — Q3'17



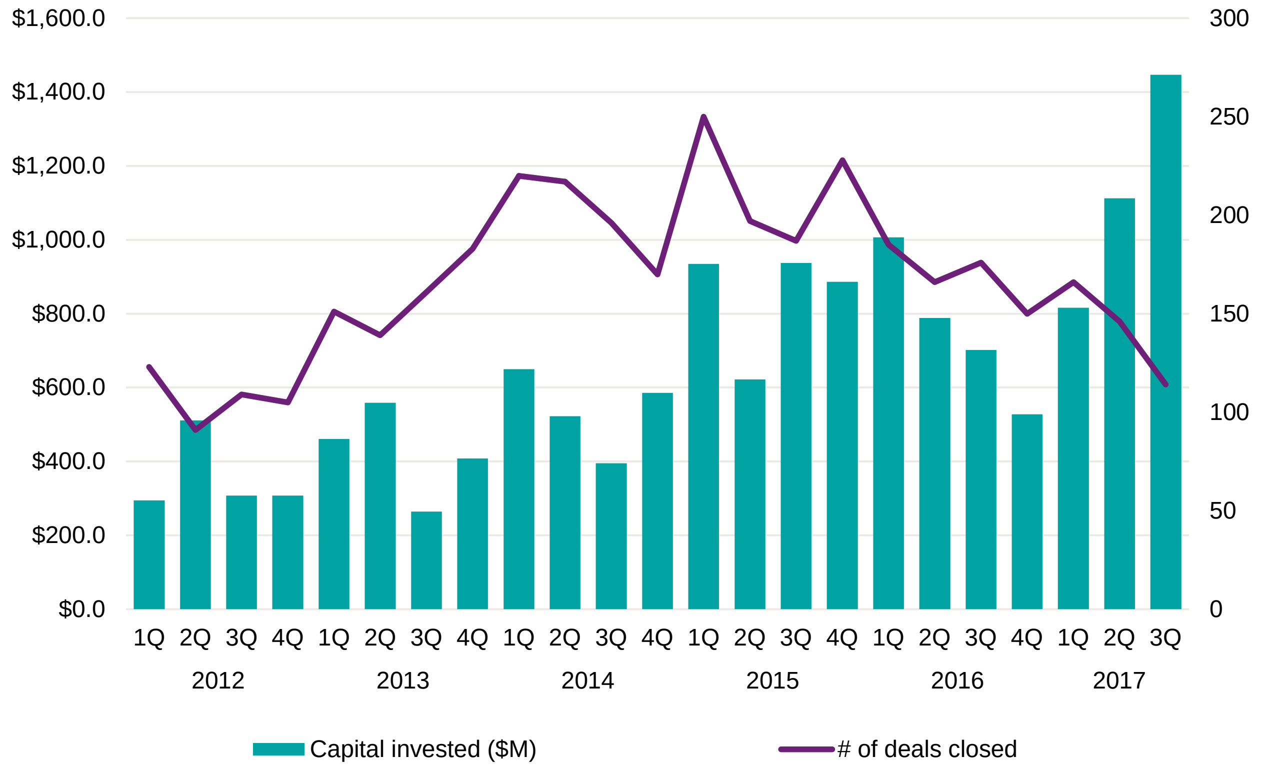
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Two large financings skewed the overall total of VC invested in the United Kingdom in Q3: Deliveroo's $385 million round and Prodigy Finance's hefty $240 million infusion. Although other notable transactions occurred, with fintech companies once again driving considerable interest on the part of investors, it is clear that the overall decline in the VC investing cycle within the country is still inexorably moving forward, with a gentle subsiding of completed transaction volume.

Two massive deals propel London figures higher

Venture financing in London

2012 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

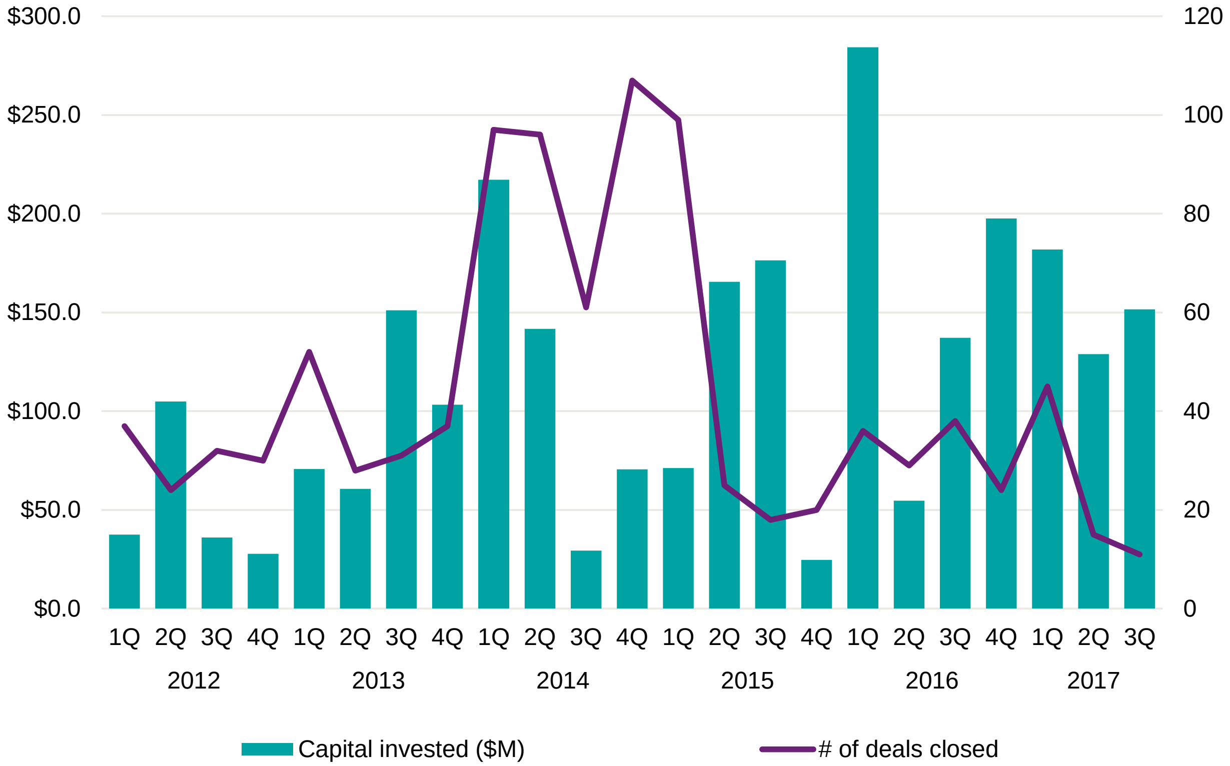
Host to most of the companies attracting massive, multimillion-dollar rounds from late-stage investors, London's figures continue to account for most of the venture activity – at least in terms of value – for the nation as a whole. Deliveroo and Prodigy Finance both raised hefty late-stage rounds in Q3'17, helping it surge even higher than the Q2 tally.

KPMG Enterprise

Deal count plateaus at lower level

Venture financing in Ireland

2012 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

VC invested in Q3 remained relatively robust, on a historical basis, putting 2017 on pace to be the second-most lucrative year of the decade for Ireland's venture capital industry.

"By engaging in late-stage investment, VCs appear to be genuinely interested in building sustainable companies of real scale. This marks a change from the traditional approach which has involved investing in businesses that could provide a quick exit and a high return on investment. It's quite an exciting shift as its leading to a slate of larger, more sustainable VC-backed companies."

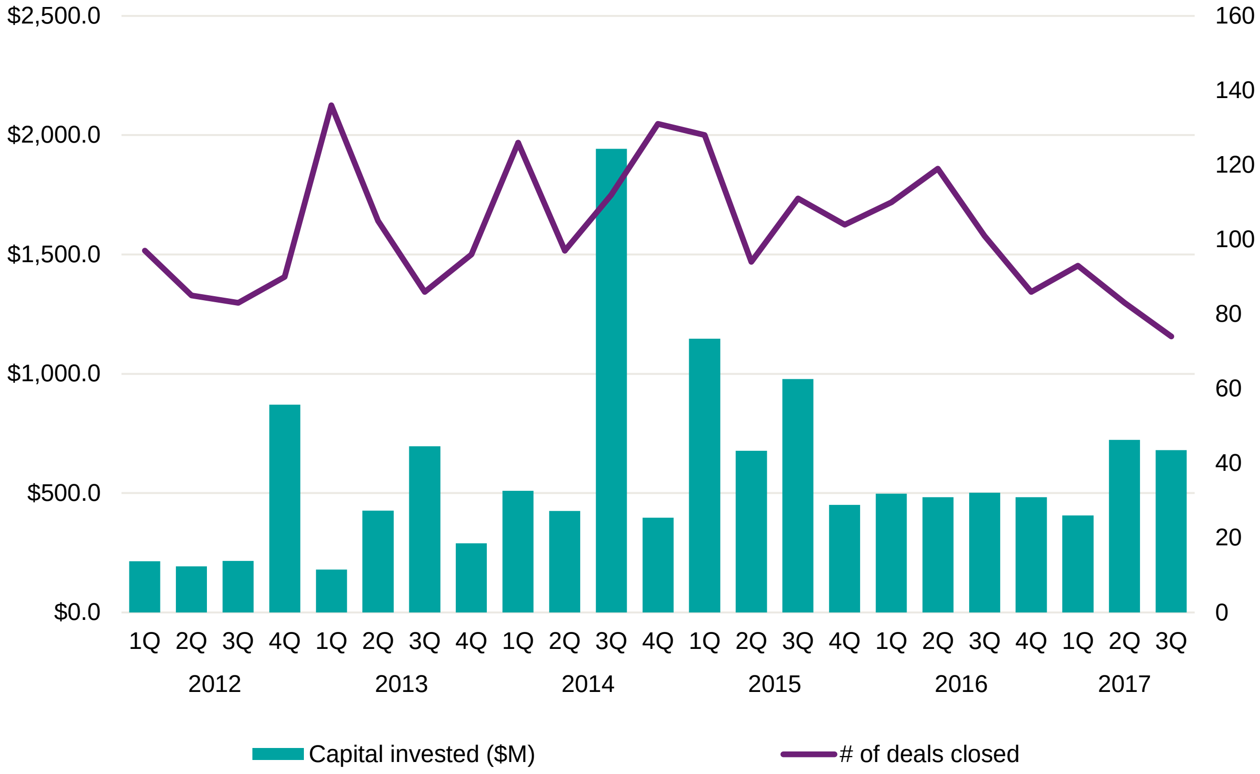
Anna Scally
Partner, Head of Technology, and Media and Fintech Lead, **KPMG in Ireland**

KPMG Enterprise

A plateau in completed VC financing volume

Venture financing in Germany

2012 — Q3'17

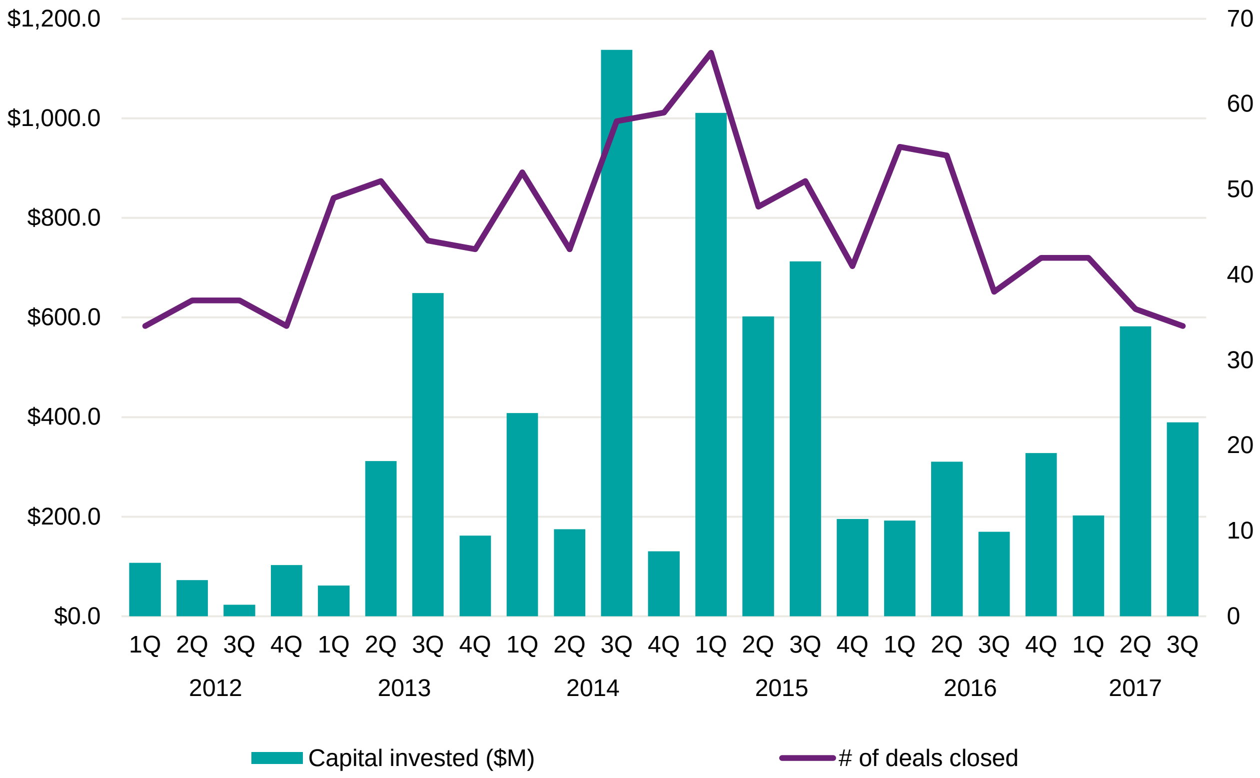


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

For the second quarter in a row, aggregate VC invested remained quite high relative to much of 2016 and 2015. Completed VC financing tallies, however, remained relatively flat. This trend is highly suggestive of a late-stage investment cycle marked by a surplus of available capital and heightened investor caution within a high-priced climate.

A decline after a healthy quarter

Venture financing in Berlin
2012 — Q3'17



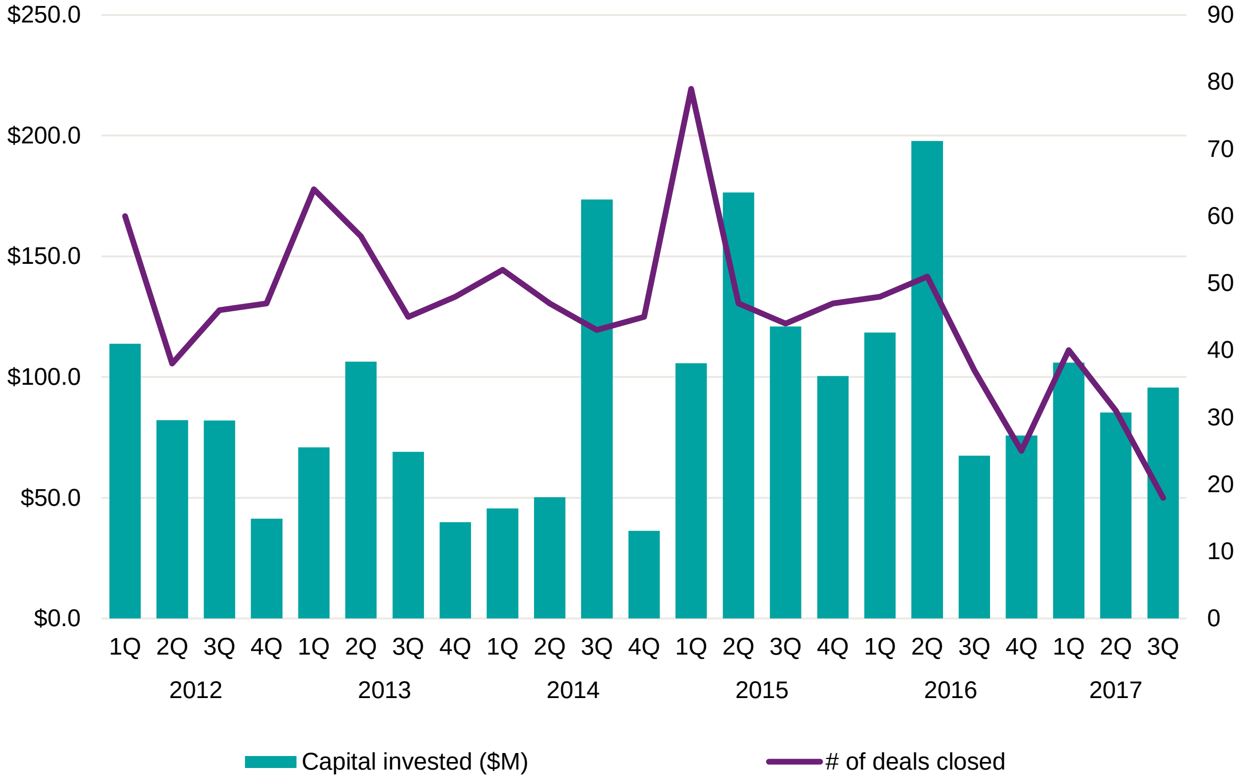
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

After a high tally for overall VC invested in Q2, Berlin's venture scene would have been hard-pressed to record another massive series of fundings, which helps explain the decline in capital invested. Yet, overall, VC invested remained healthy relative to historical totals.

Diminishing activity even as VC invested steadies

Venture financing in Spain

2012 — Q3'17



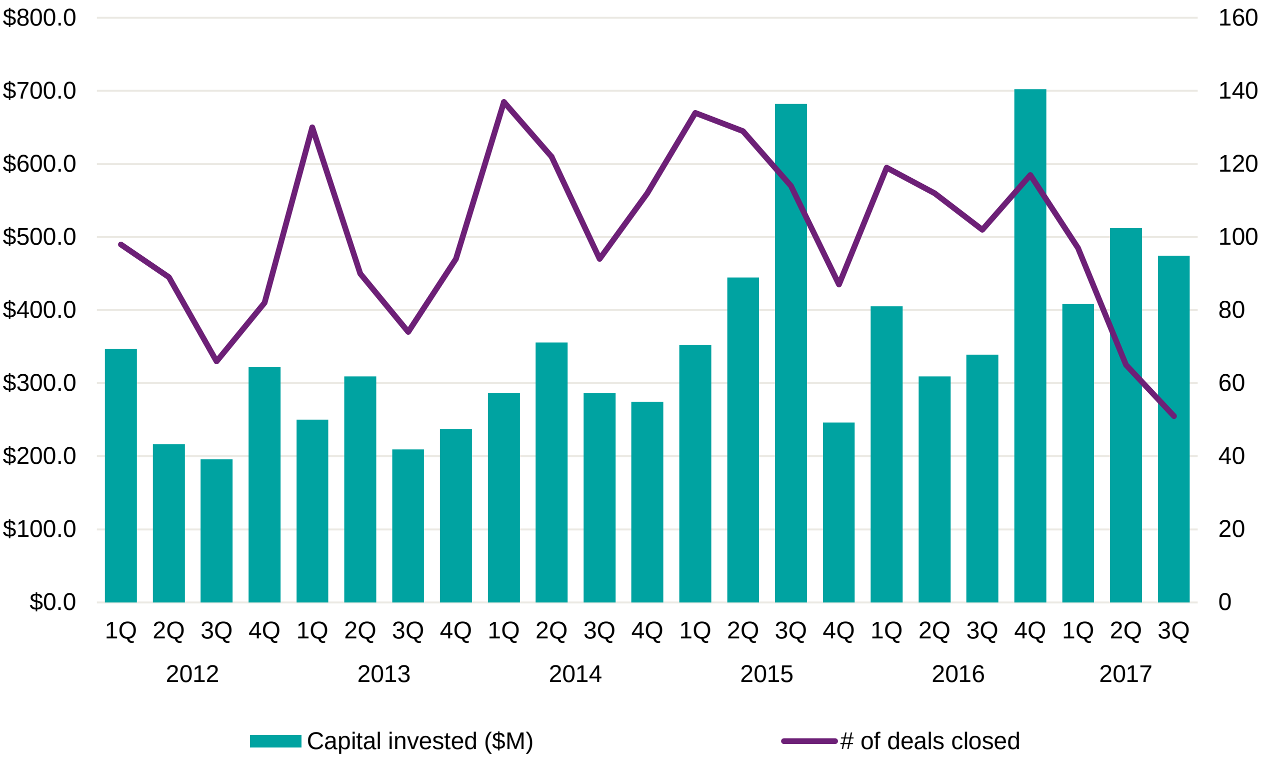
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Interestingly, Spain experienced a resurgence in the count of financings between the back half of 2016 and the first half of 2017. Moreover, capital invested remains steady, with four quarters in a row recording healthy tallies. Outlier financings still contribute, to be fair, with SaaS web application Typeform's $35 million funding standing out for Q3.

Even as activity slides, VC invested stays strong

Venture financing in France

2012 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Outlier financings continue to prop up France's overall tallies of VC invested, even as activity lowers again in the third consecutive quarterly decline. Five financings of $20 million or more, for example, accounted for a hefty majority of the country's Q3 total.

"The French ecosystem is in an excellent position with exciting times ahead. French companies are moving into a wide variety of sub-verticals and are attracting global attention thanks to the great work of talented entrepreneurs, the support of a fast growing VC market and initiatives like La French Tech, which is actively promoting French companies abroad. Between Station F, which is the largest incubator in the world housing over 1000 start ups, and President Macron's support and encouragement to help French companies scale-up locally, everything looks very promising for French VC financing."

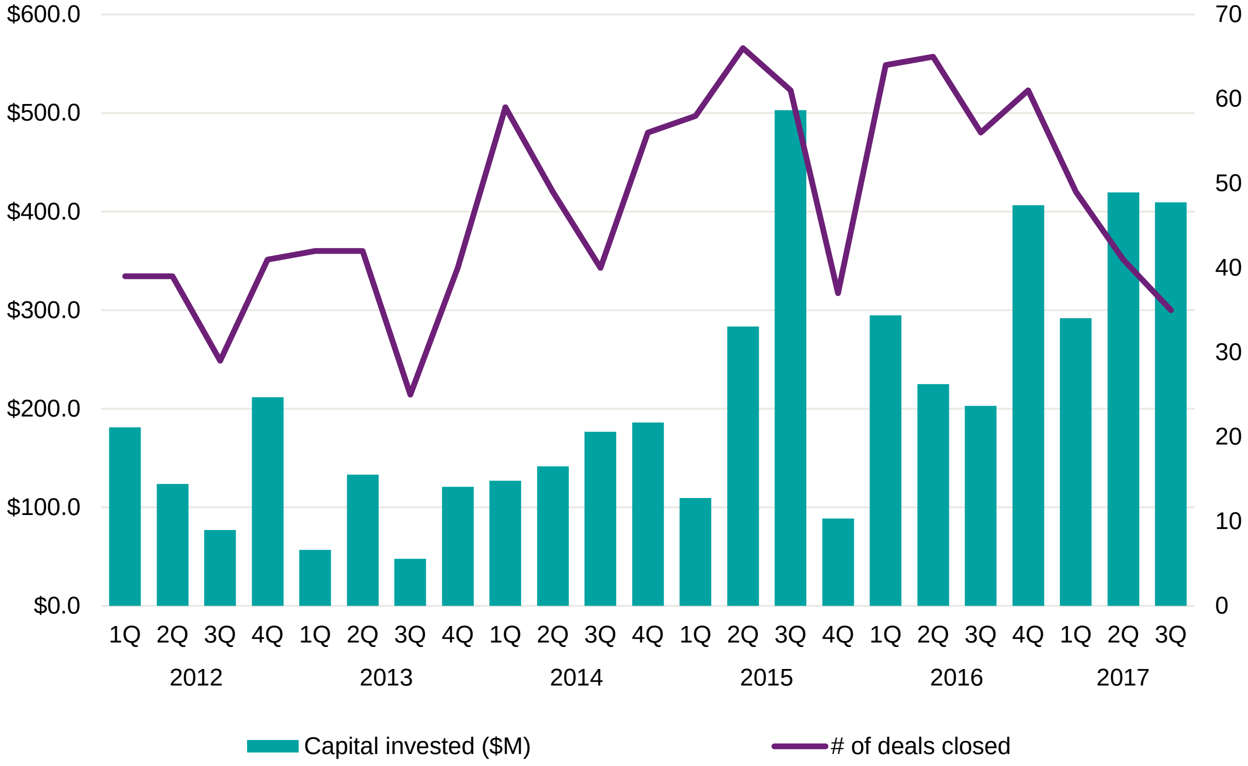
Guillaume Cauchoix
Partner, **KPMG in France**

KPMG Enterprise

Another robust quarter for Paris

Venture financing in Paris

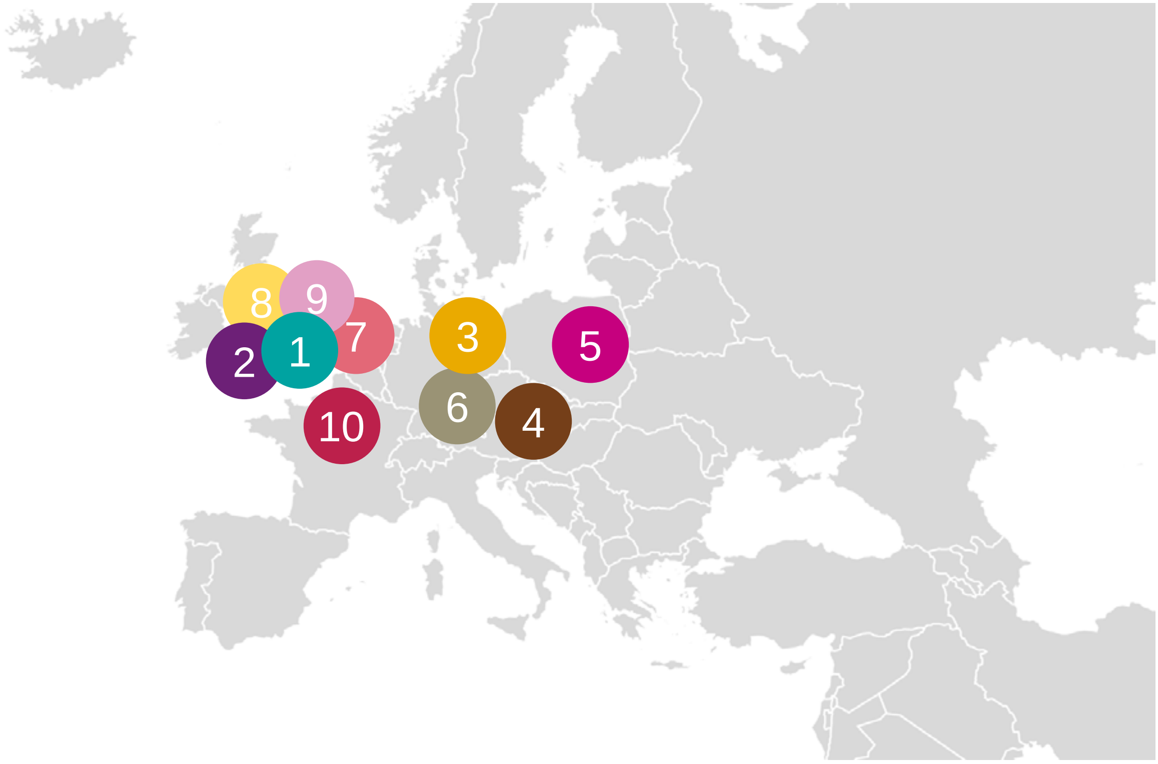
2012 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Hosting nearly all the major fundraising companies in Q3, Paris understandably saw yet another significant quarter in terms of deal value. There is plenty of appetite for backing startups on the continent yet – investors are simply warier, although a handful of hefty Series A financing rounds, such as those of antibiotic developer Eligo Bioscience or SaaS digital marketing suite SendinBlue, did occur in Q3.

London hosts most prominently in Q3'17



1 **Deliveroo** — $385M, London
Internet retail
Series F

2 **Prodigy Finance** — $240M, London
Financial services
Series C

3 **SoundCloud** — $169.5M, Berlin
Application software
Series F

4 **Tricentis** — $165M, Vienna
Software development applications
Series B

5 **Grupa Pracuj** — $95M, Warsaw
Human capital services
Late-stage VC

6 **Lilium** — $90M, Gilching, Germany
Air
Series B

7 **Autolus** — $80M, London
Drug discovery
Series C

8 **Revolut** — $76M, London
Financial software
Series B

9 **Darktrace** — $75M, Cambridge
Network management software
Series D

10 **ManoMano** — $70.9M, Paris
Platform software
Series C

Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

KPMG Enterprise

In Q3'17 VC-backed companies in the Asia region raised

$12.3B

across

283 deals

Asia sees positive quarter fueled by AI, e-commerce and financial services

Despite a continued decline in the number of VC deals across the region, Asia experienced another strong quarter fueled by high valuations in Q3'17. Once again, China led the way with huge mega-deals in AI, autonomous vehicles, and edtech. India also experienced a positive quarter, with ecommerce and fintech standing out as favorite industries for VC investors.

China finding the way to monetize Artificial Intelligence

While AI has been a hot topic throughout 2017, many startups have struggled with monetizing the technology. Recently, however, China experienced a significant amount of interest in facial recognition technologies, culminating in a $410 million raise by SenseTime in July[12].

Meanwhile, Face++ is expected to close a round of fundraising in Q4'17 that could bring in upwards of $300 million in investment. Tech giants in China, such as Tencent Holdings, Baidu, Alibaba and JD.com are also looking at ways to build their AI capabilities in-house, investing significant amounts of money and snapping up AI talent to build out their teams.

China's tech giants going global

As Chinese tech giants like Alibaba, Tencent, and JD.com eye global expansion, they are looking to India and Southeast Asia to acquire the technology and talent to fuel their advancement. Investment in the Southeast Asia tech market has skyrocketed from an already high position of $3.1 billion in all of 2016 to nearly $5 billion in the first two quarters of 2017.

These Chinese tech giants have been connected to a number of massive deals, such as Alibaba's $2 billion commitment to e-commerce startup Lazada Group, and its lead position in the $1.1 billion investment in Tokopedia. Tencent has been equally at play in the market, recently signing a deal with Sea – a gaming and ecommerce firm. JD.com, meanwhile, is working with Thailand's Central Group on a $500 million joint venture.

Edtech emerging in China as an area to watch

Edtech is set to join fintech and autonomous vehicles as a key areas to watch, garnering significant attention in Q3'17 for its potential to open up education channels over the internet. English teaching service VIPKID raised $200 million this quarter which saw the company valued at $1.5 billion. The service, which began as a platform for teaching English to the Chinese market, is now also offering Mandarin to the western market. VIPKID boasts that they have 20,000 teachers on their service.

Japan focusing on autonomous vehicles and fintech

As a global leader in the automotive sector, Japanese industry leaders are keenly aware of the implications of autonomous mobility. The country's largest venture deal in this area this past quarter was Toyota's $95 million follow-on investment in Preferred Networks, a Tokyo-based provider of IoT-centric deep learning systems.

Fintech continues to be a hot topic in Japan as well. Japan has become the largest global bitcoin market, which has led to increased government scrutiny and desire for transparency and regulation in this area. Overall fintech venture formation and investment activity in Japan are high, with some investors noting fintech valuations to be higher than in Silicon Valley. As Japan hits "peak fintech", the technology continues to gain support and investment from the Japanese government and the broader investment community.

[12] http://news.xinhuanet.com/english/2017-09/29/c_136648659.htm

KPMG Enterprise

Asia sees positive quarter fueled by AI, e-commerce and financial services

Positive sentiment bolstering investment in India

India experienced a solid Q3'17, buoyed by ongoing positive investor sentiment. Internet, mobile, and e-commerce companies all enjoyed considerable funding in Q3'17, while traditional financial services and banking companies increased their interest and VC investments.

Japan-based investment giant Softbank invested $4 billion in India in over the past few quarters, across a number of investments – including $1.4 billion into Paytm, the largest mobile wallet company in India, $1.25 billion into ecommerce company Flipkart, and $260 million in hotel room aggregator Oyo Rooms. It appears Softbank's activity will continue into Q4'17, with early reports linking the investor and Chinese giant Tencent with a $2 billion round for ride hailing startup Ola.

Fintech continued to gain traction in India during the quarter, receiving a boost from several economic developments this year. India's demonetization greatly accelerated the adoption of digital transactions, to the benefit of mobile wallet companies like Paytm and Mobikwik. In addition, the implementation of a new goods and services tax in India has led to investment interest in software that can help businesses file their taxes.

Government programs promoting startups across Asia

Government support does not appear to be slowing down in any part of Asia. In India, individual states are setting up ecosystems to promote investment in specific niche markets. The programs focus on investing time, encouraging mentorship, hosting meetings, and providing funds to set up startups and system infrastructure.

In China, the government is working with major cities to set up funds to support innovation across the country. To date, the government has invested more than $1 billion in funds for early-stage company to help commercialize projects. All cities have funds to distribute, which range from $10 to $50 million depending on the city. One key initiative billed as China 2025, is looking at helping industry to modernize manufacturing. In addition, Hong Kong recently launched a $256 million fund to encourage investment in local innovation and technology startups[13].

Trends to watch for in Asia

AI will likely continue to dominate the headlines as the technology becomes integrated into other sectors and companies begin to realize monetization opportunities. With fintech activity ripe across Asia, from the digital currency movements in Japan to the transformation of payment methods in India, investors will likely continue to support initiatives aimed at digitizing the banking and financial services sector.

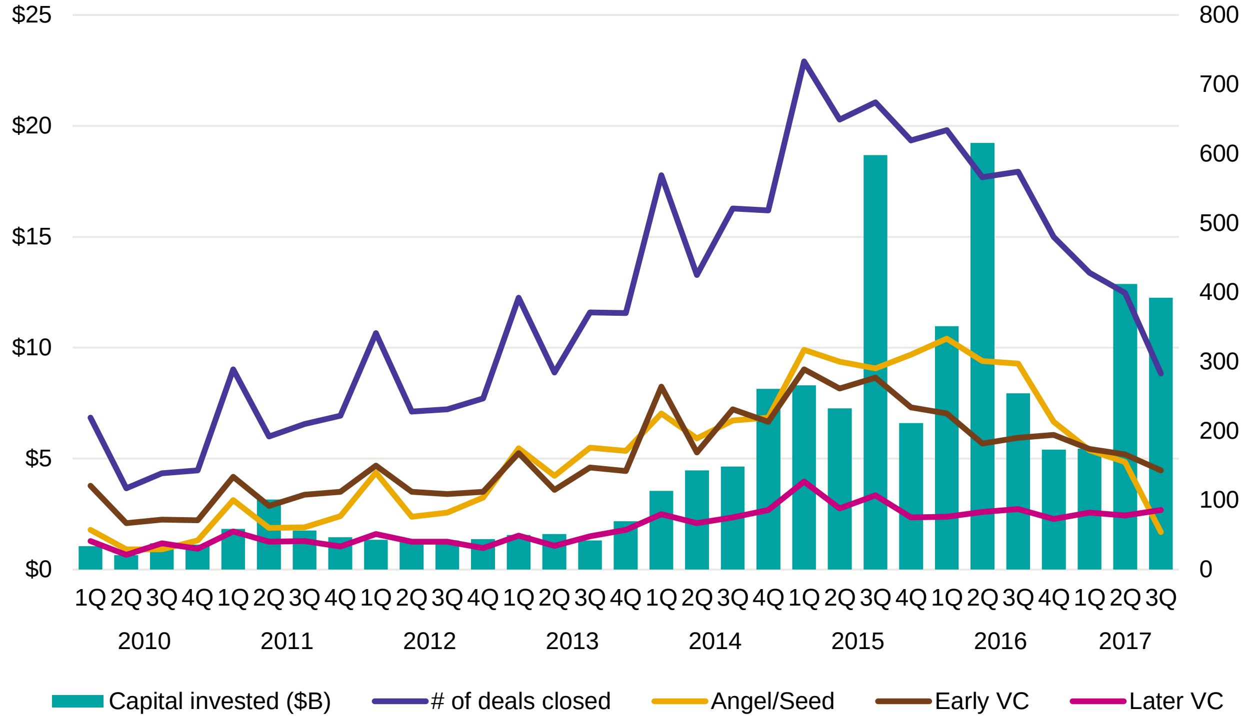
While AI advancements will likely continue to drive interest in autonomous vehicles, China's recent announcement to replace gasoline cars by 2030 should also drive new innovation and funding. In India, packaged food, consumer goods, and overall transport, logistics and warehousing space will be unique industries to watch.

[13] http://www.scmp.com/business/banking-finance/article/2111340/hong-kong-launches-hk2-billion-fund-support-tech-start-ups

Total VC invested remains remarkably high, especially on a historical basis

Venture financing in Asia

2010 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

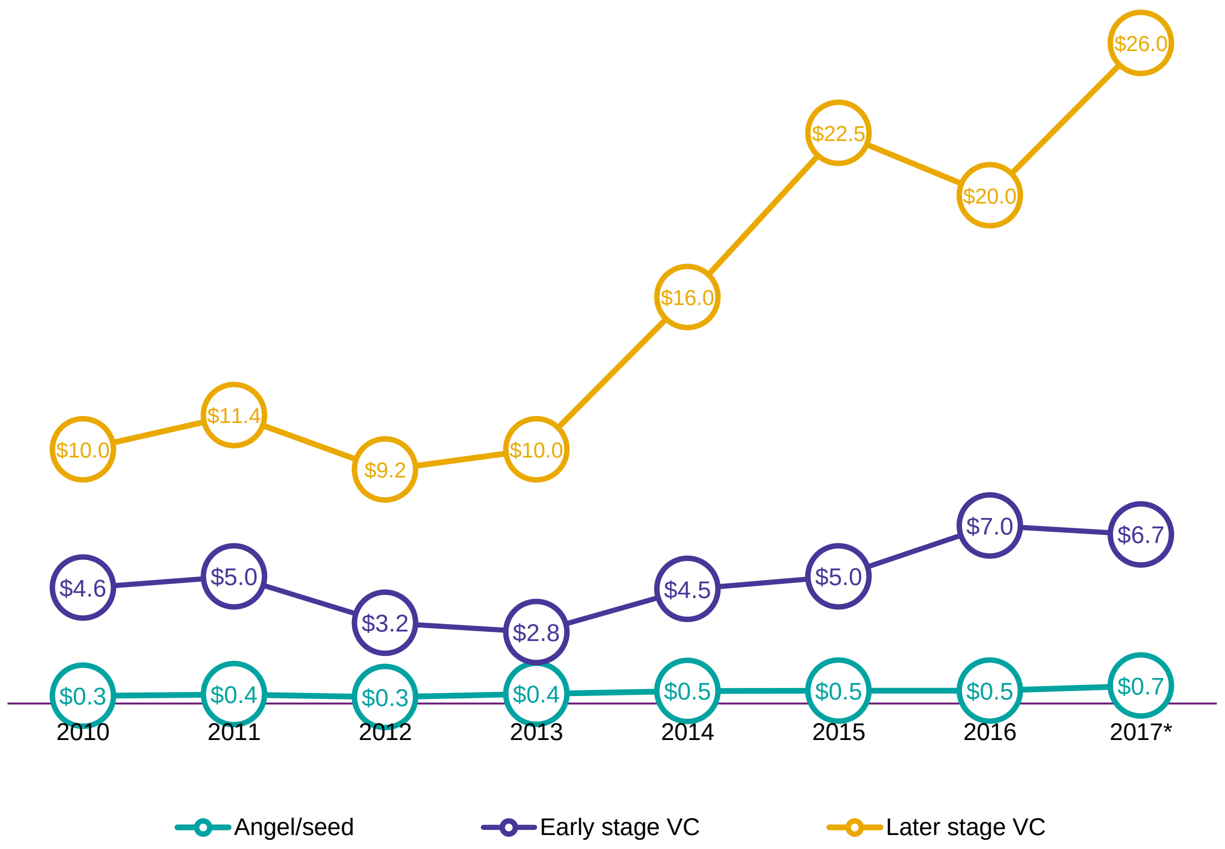
VC activity may be on a long-term decline back to pre-2014 levels, but enormous rounds still propel total capital invested to significant highs. Although local investment firms and corporations are playing a huge role, it is clear fund managers want exposure to Asia's fastest-growing startups.

Enterprise

Early-stage numbers finally decline with the addition of Q3 data

Median deal size ($M) by stage in Asia

2010 — 2017*



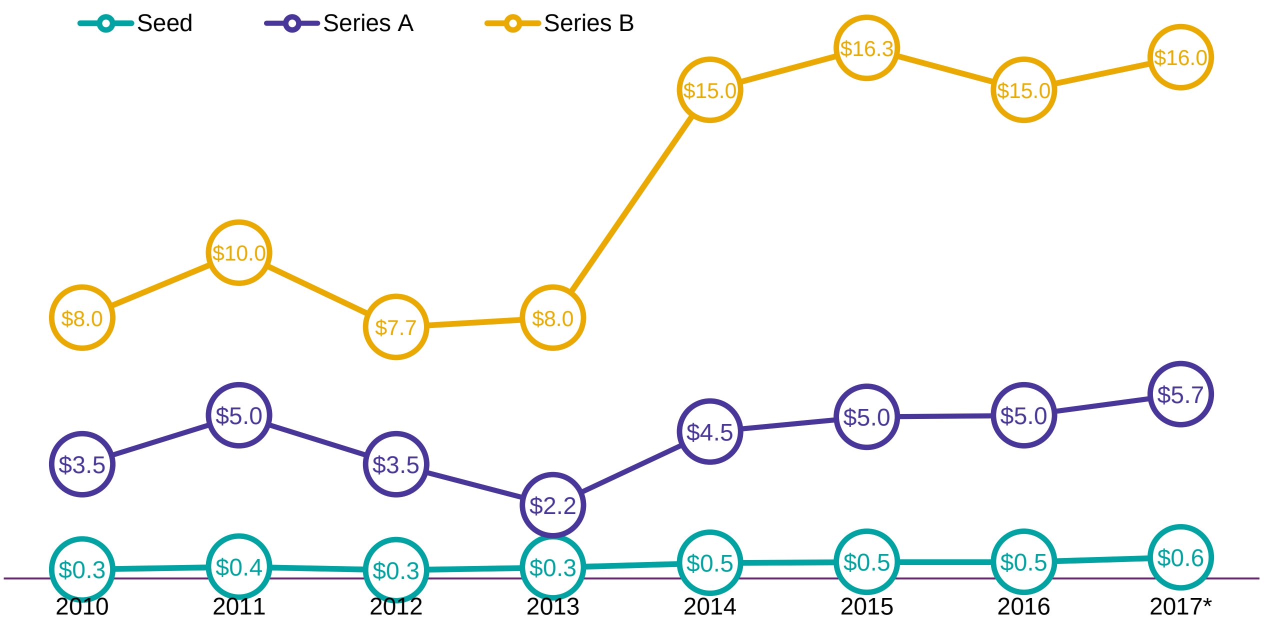
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

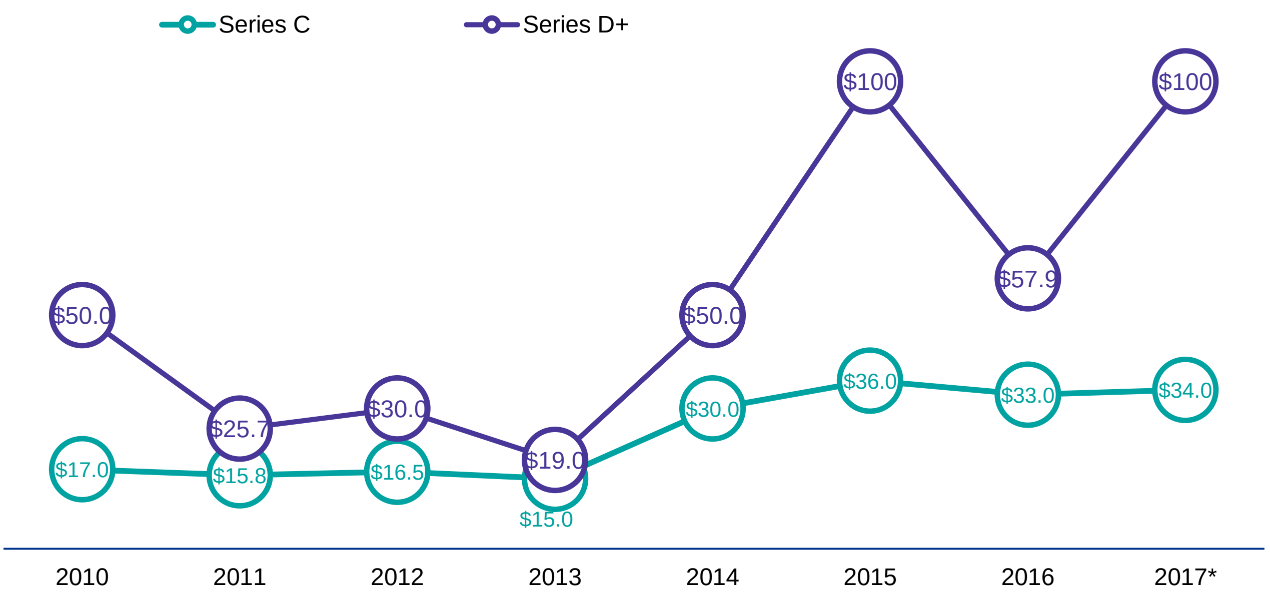
When it comes to the Asia region, the disparity in the late versus early-stage is clear. The early-stage is still mainly driven by a few key countries, while much of the overall venture scene is still skewed toward the massive late-stage rounds being injected into the small crop of mature, large businesses such as Flipkart or Paytm.

Deal metrics hold steady

Median deal size ($M) by series in Asia

2010 — 2017*





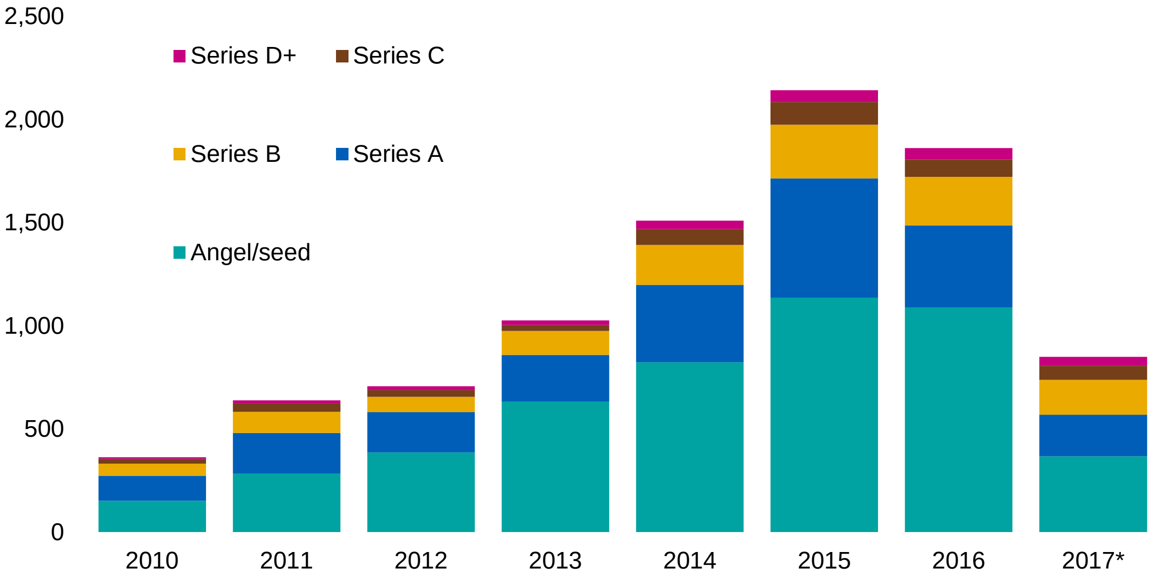
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Note: Select figures are rounded for legibility.

Trends toward middle & later stages remain pronounced

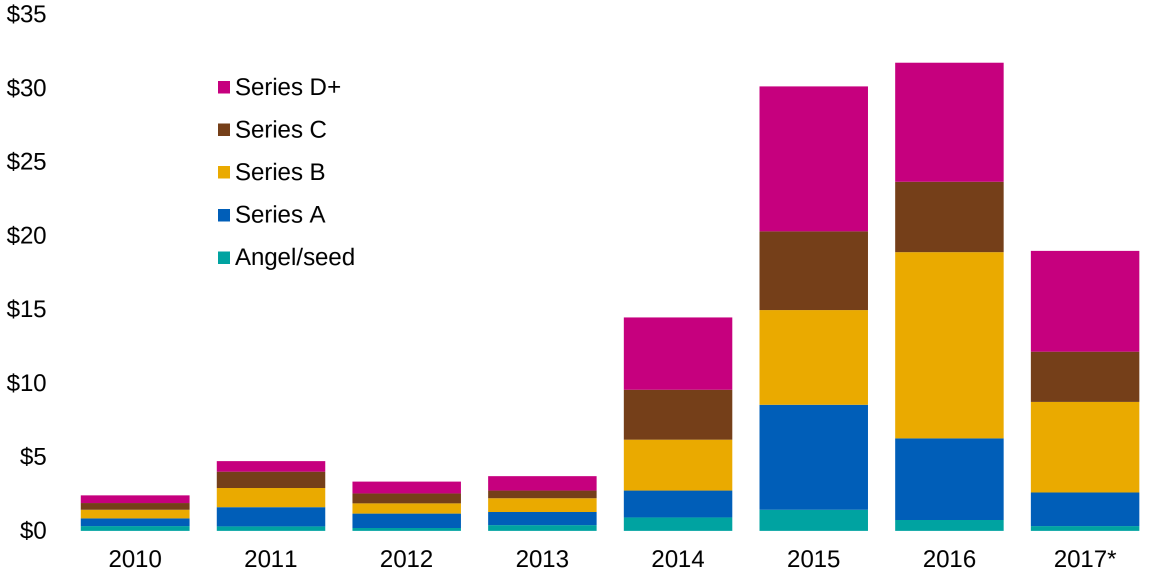
Deal share by series in Asia

2010 — 2017*, number of closed deals



Deal share by series in the Asia-Pacific region

2010 — 2017*, VC invested ($B)



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/17. Data provided by PitchBook, October 11, 2017.

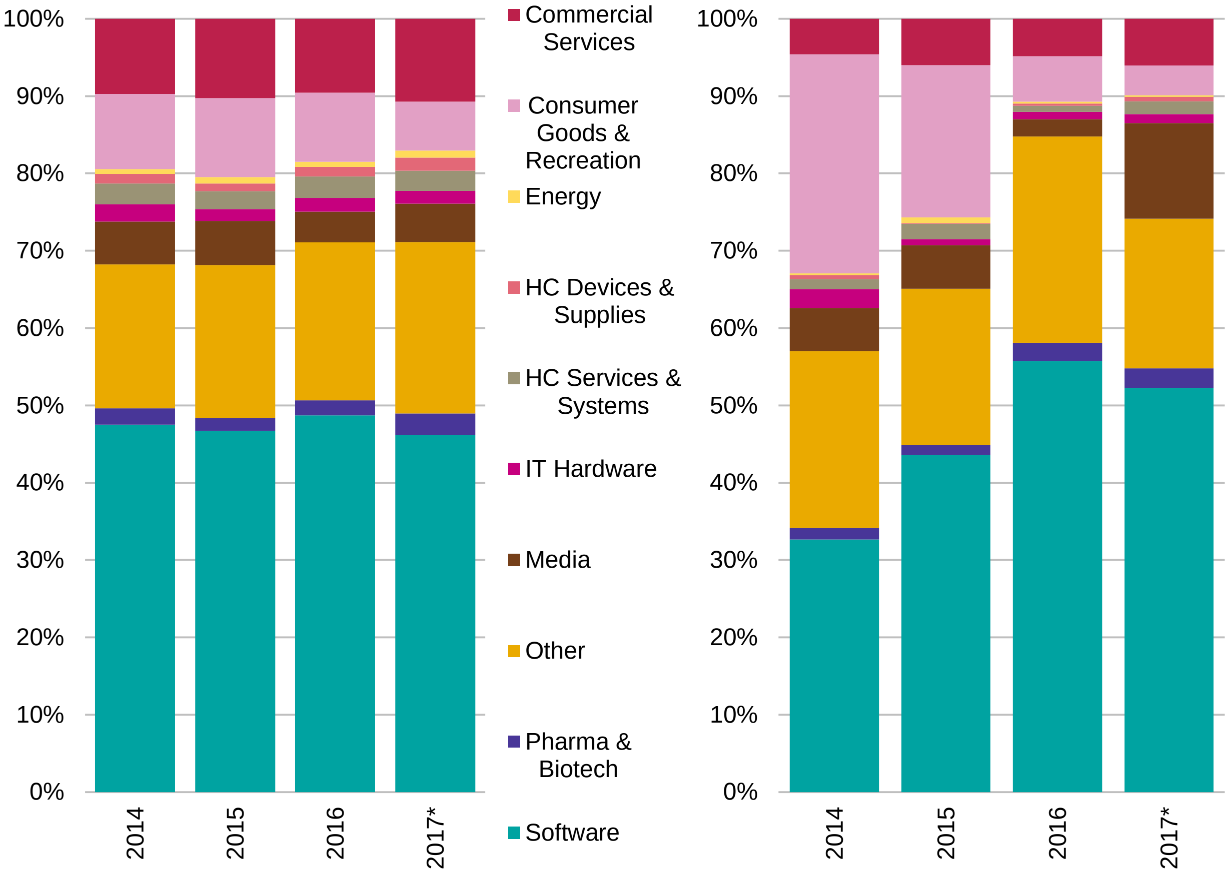
Fragmented market entails skew in VC invested

Asia venture financings by sector

2014 — 2017*, number of closed deals

Asia venture financings by sector

2014 — 2017*, VC invested ($B)



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

"AI has been a hot topic for VC investors for several quarters. The question is how AI can be integrated into commercialized products. Industries such as financial services and health care are currently concentrating on AI as a means to transform data analytics, but the possibilities are almost endless when it comes to the applicability of AI. There is no doubt AI will continue to be a trend for years to come."

Egidio Zarrella
Clients and Innovation Partner, **KPMG Hong Kong**

CVCs drive increasing share of venture activity

Corporate participation in venture deals in Asia

2014 — Q3'17

Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

For the second quarter in a row, Asian corporations maintained a remarkably active interest in venture, plowing plenty of capital into a fair number of rounds. Understandably, the financings with CVC participation account for a hefty portion of overall Q3 deal value, mainly because much of corporate investor interest is at the later stage. That said, for certain fledgling businesses, non-traditional VCs and corporate VC arms are willing to invest heavily right at the outset, should the opportunity for massive scaling up appear ripe.

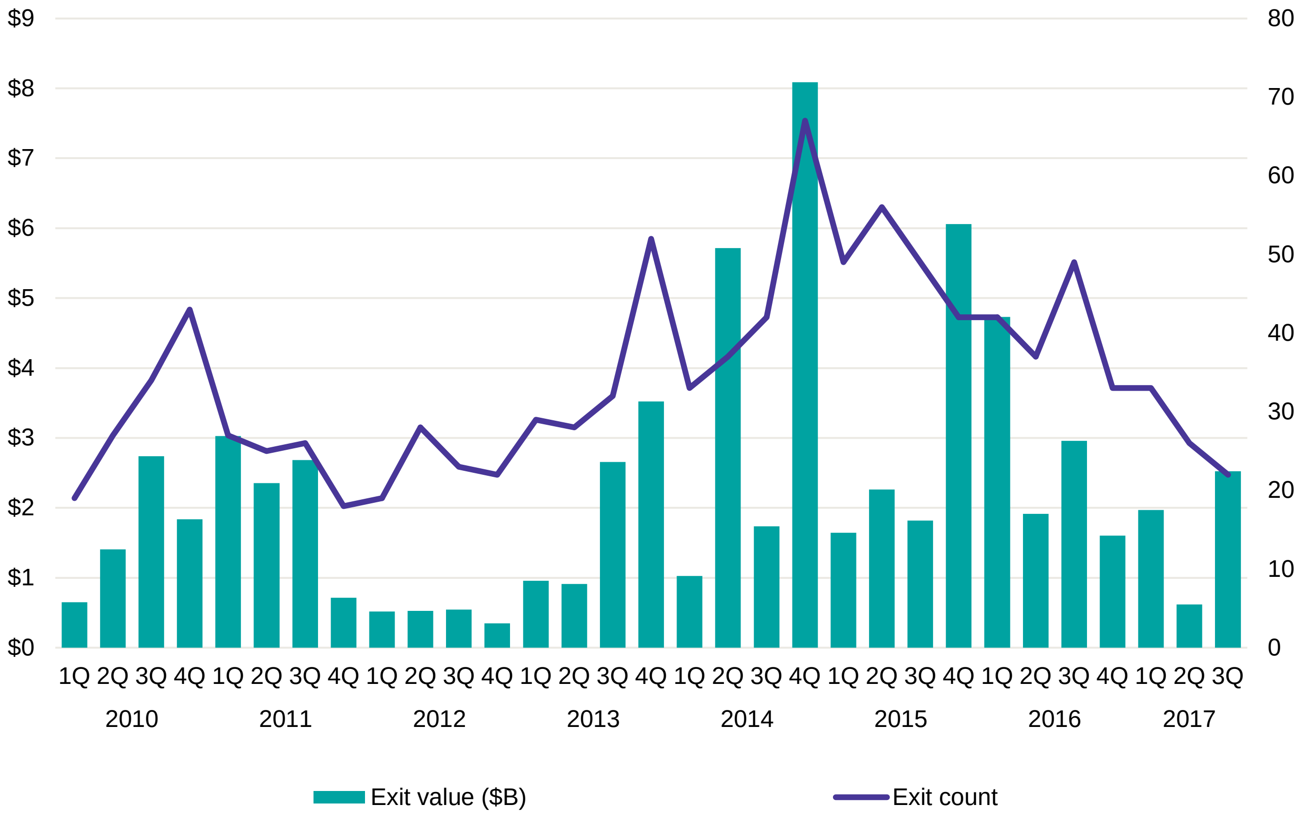
"Many large corporations in Japan are currently cash rich with extremely low cost of capital. Under pressure to grow returns and respond to competitive pressures, there is increased focus on investing in innovation, whether through venture investment or outright acquisition, particularly in businesses outside Japan."

Paul Ford
Partner, Deal Advisory, **KPMG in Japan**

Resurgent exit value signifies exits' variability

Venture-backed exit activity in Asia

2010 — Q3'17



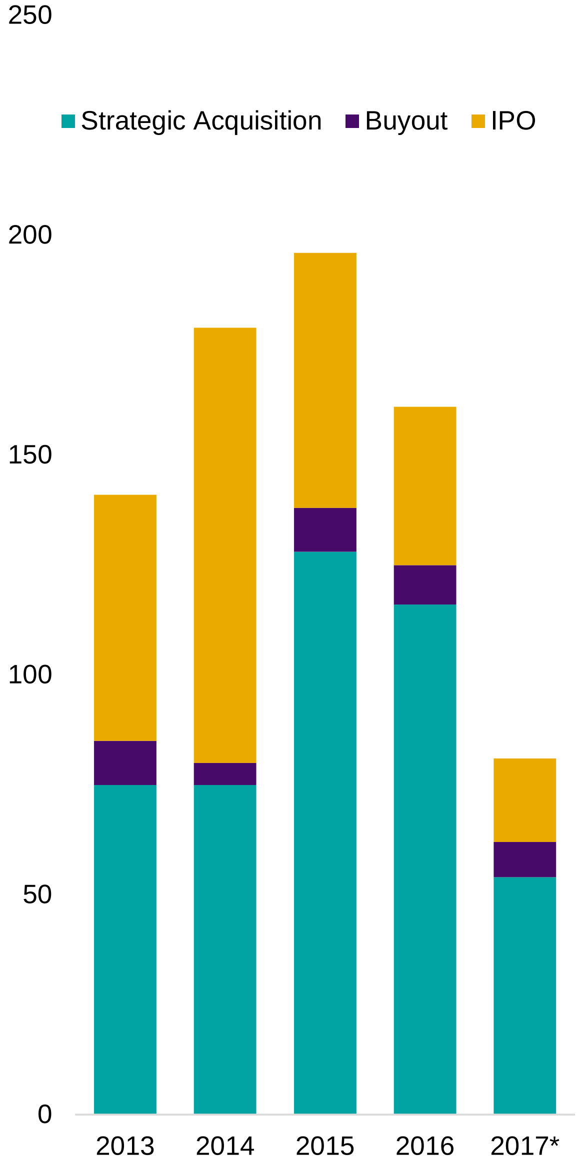
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

After a rather lackluster quarter in terms of exit value, the resurgence in Q3 was promising, even as the volume of completed exits declined. Much of the volatility in quarterly exit figures for the Asia region simply results from the lack of a significant population of mature, venture-backed companies, as of yet. In future years, the increased level of VC funding as of late should turn that around.

Subsiding M&A primary factor in overall slower rate of exits

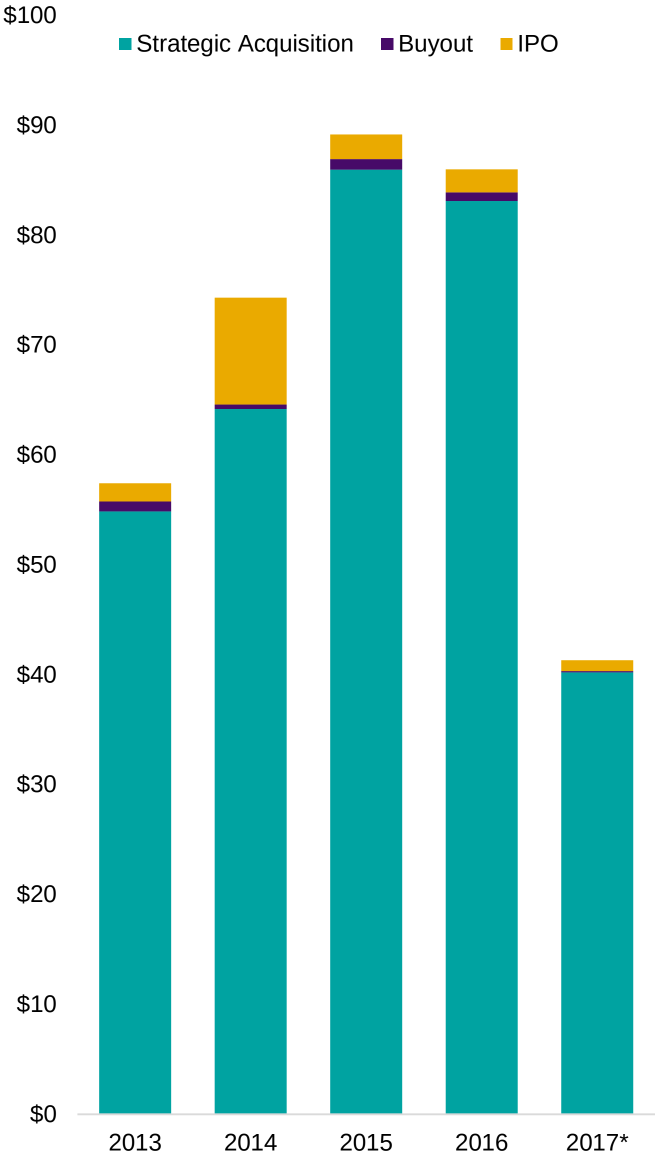
Venture-backed exit activity (#) by type in Asia

2013 — 2017*



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

2013 — 2017*

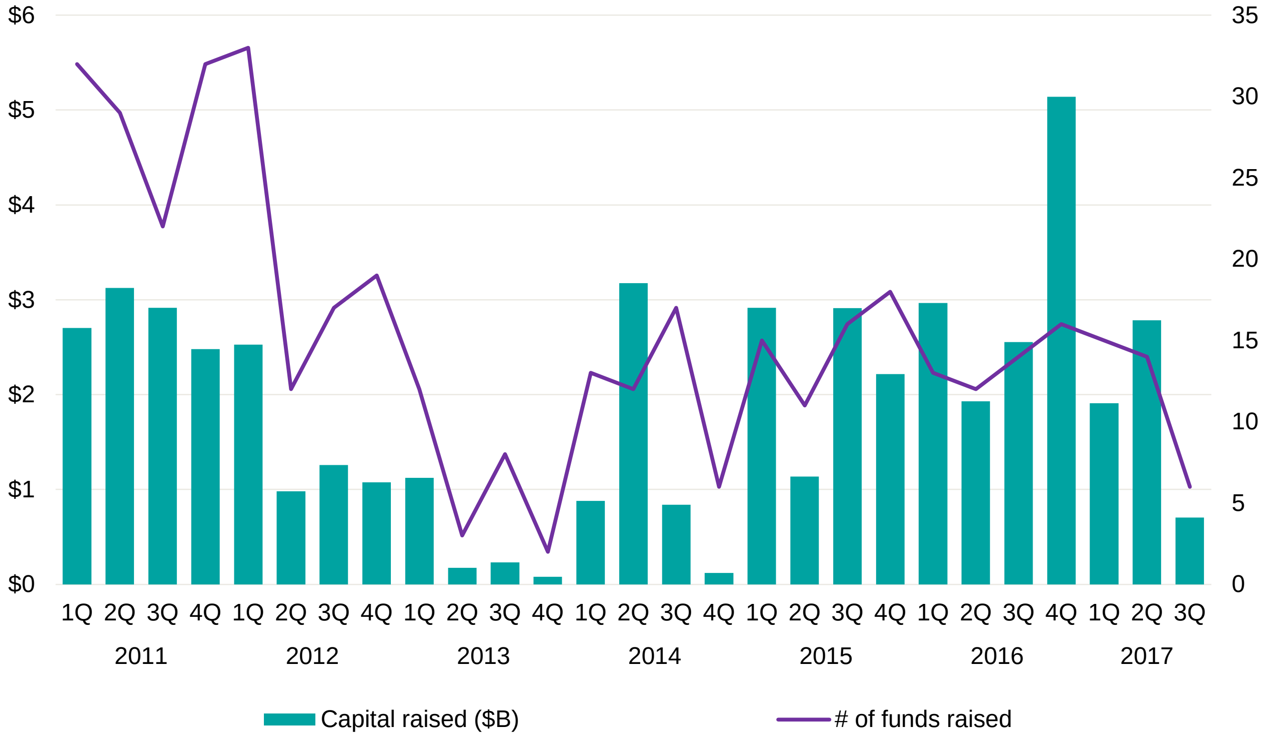


Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

An off quarter for fundraising, primarily due to still-evolving VC market

Venture fundraising in Asia

2011 — Q3'17



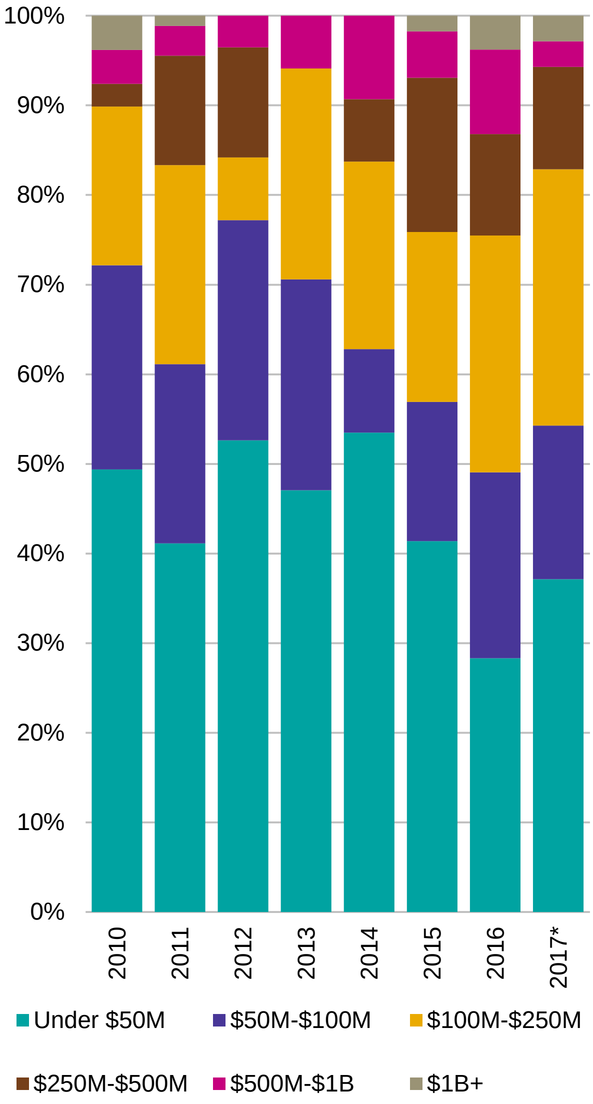
Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

Surveying quarterly fundraising tallies from 2015 through the first half of 2017, the impressively consecutive volume of closed funds along with aggregate capital raised bodes well for the Asian venture scene. That said, just due to mean reversion a decline in both was bound to happen sooner rather than later. The region's private capital markets, when it comes to VC, are still developing.

A proportionate increase in sub-$50M funds, with majority of activity still in the midrange

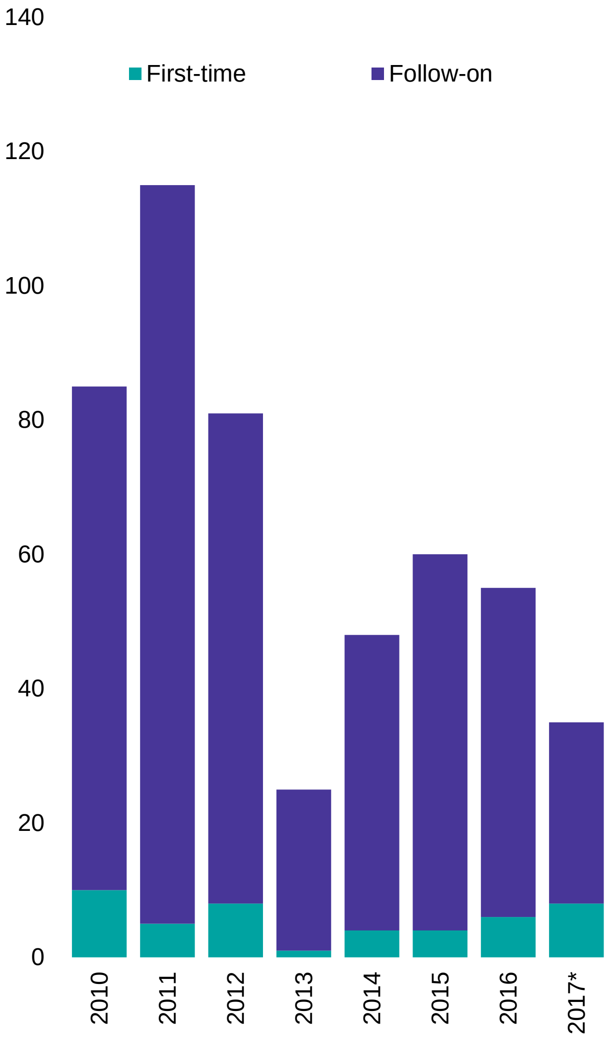
Venture fundraising (#) by size in Asia

2010 — 2017*



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

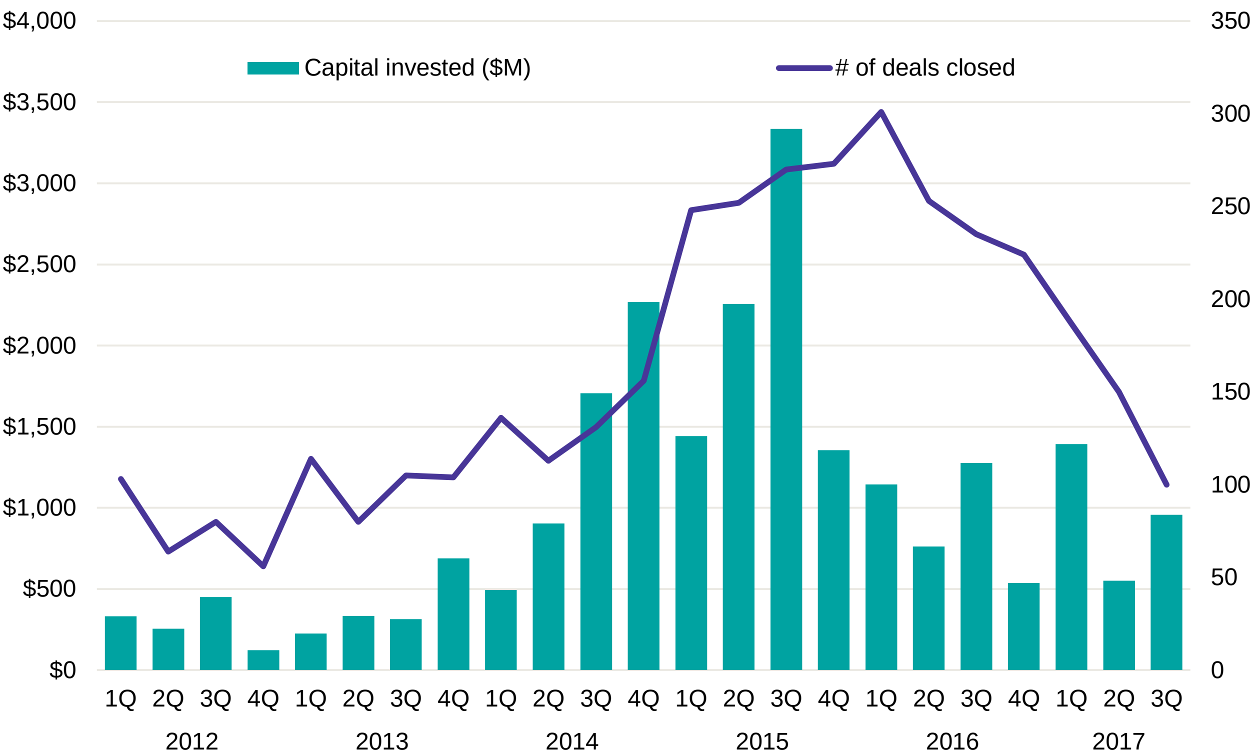
2010 — 2017*



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/2017. Data provided by PitchBook, October 11, 2017.

Large financings boost VC back up somewhat

Venture financing in India
2012 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

The Indian venture scene remains considerably marked by the influence of a handful of large rounds, with the $260 million funding of hotel network OYO Rooms or another massive round for taxi app Ola the most prominent examples in Q3. Accordingly, VC invested may resurge on a quarterly basis, even as overall volume diminishes in a typically cyclical fashion.

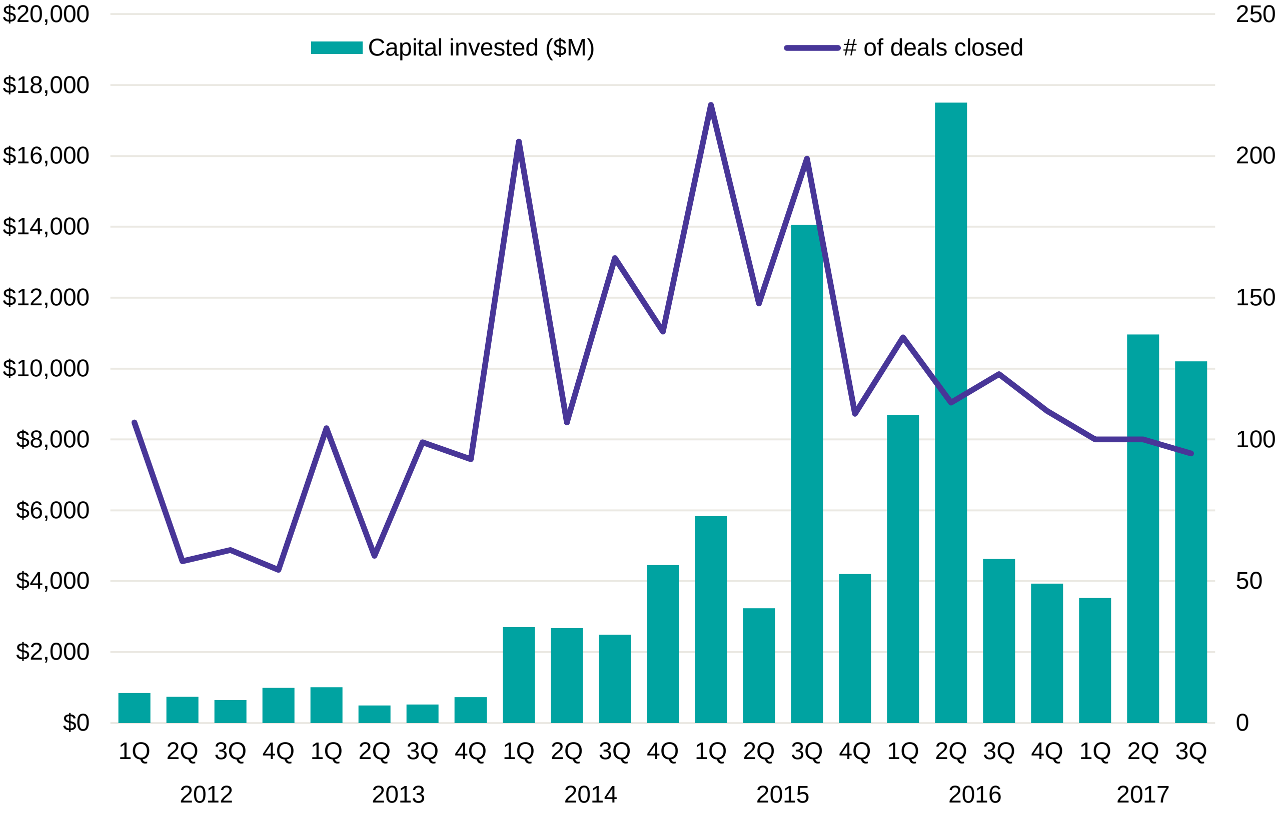
"Investment in the Indian startup ecosystem is once again showing an uptrend. However, the focus is not just limited to online marketplaces and aggregators, it has expanded to include areas such as fintech, healthcare and alternate energy. Bolstered by the recent demonetization and push for digital transactions as well as a conscious movement towards alternate energy solutions, specifically in mobility and domestic energy needs, these areas are both the hotbeds of innovation as well as viable targets of incoming investments."

Sreedhar Prasad
Partner, Consumer Markets, nternet Business and Startups, **KPMG in India**

Mega-rounds maintain total tally of VC invested

Venture financing in China

2012 — Q3'17



Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

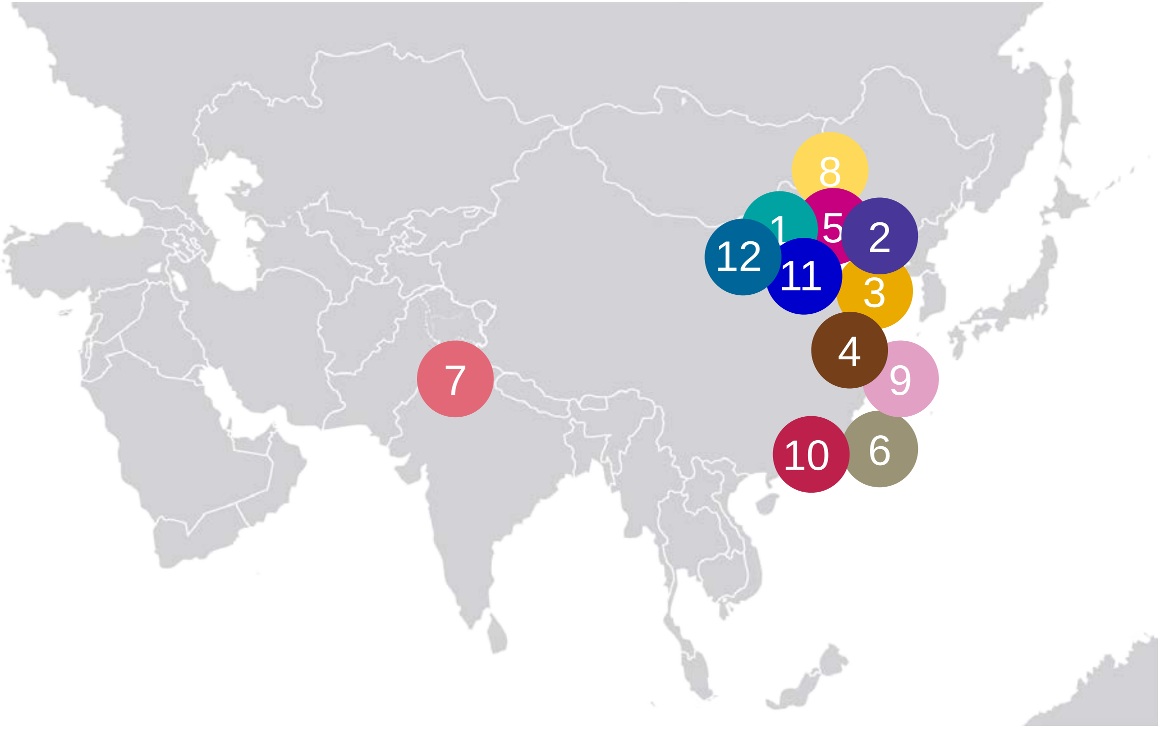
Even after a Q2 that saw the largest venture round in history close, China has seen massive capital infusions within its venture scene, with Toutiao's $2 billion financing paramount in bringing the total tally of VC invested for Q3 to nearly match that of the prior quarter. The diversity of nontraditional VC investment firms is still clear, as General Atlantic, Hony Capital, SoftBank, KKR, GIC and more all were active in the past few months.

"AI has the potential to transform service delivery in China – we have already seen AI being adopted rapidly in public security, fintech, autotech, consumer products, and healthcare sectors. This quarter garnered large AI deals, we expect more sizable deals to be closed in the next few quarters."

Philip Ng
Partner, Head of Technology, **KPMG China**

KPMG Enterprise

Beijing continues to dominate quarterly rankings



1 **Toutiao** — $2,000M, Beijing
Information services
Late-stage VC

2 **BAIC BJEV** — $1,600M, Beijing
Transportation
Series B

3 **Ofo** — $700M, Beijing
Transportation
Series E

4 **WeWork China** — $500M, Shanghai
Buildings & property
Early-stage VC

5 **SenseTime** — $410M, Beijing
Application software
Series B

6 **Gogoro** — $300M, Guishan, Taiwan
Transportation
Series C

7 **OYO Rooms** — $260M, Gurgaon
Hotels
Series D

8 **Miss Fresh** — $230M, Beijing
Platform software
Series C

9 **Dianrong** — $220M, Shanghai
Financial software
Series D

10 **Feidee** — $200M, Shenzhen
Financial software
Series C

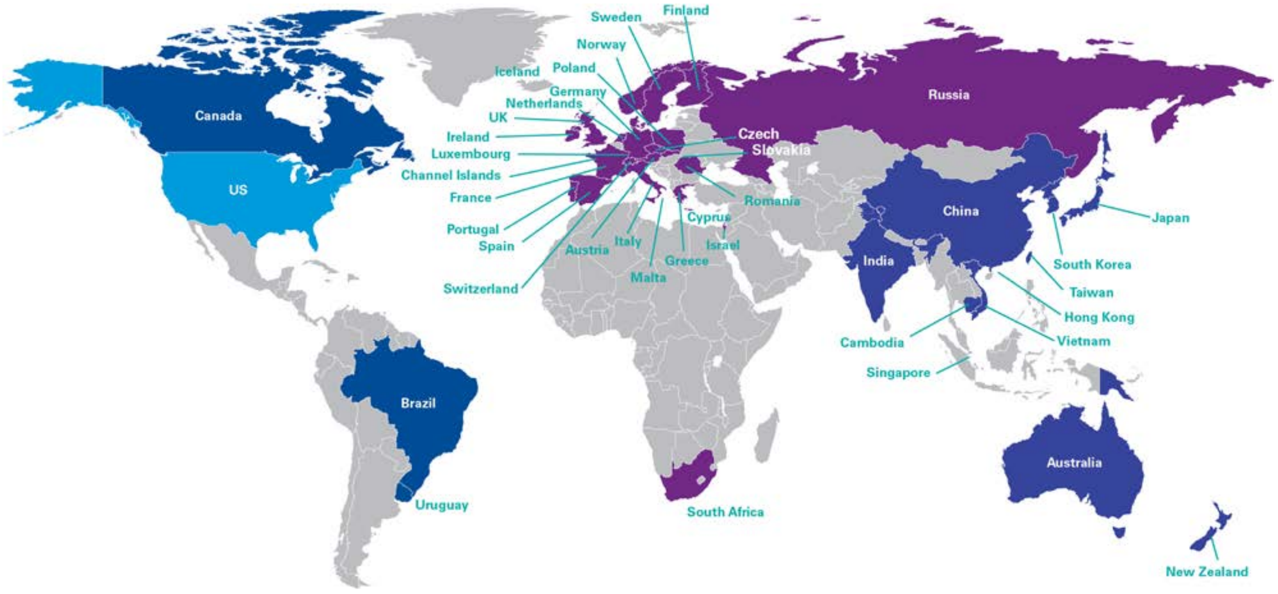
11 **Renrenche.com** — $200M, Beijing
Application software
Late-stage VC

12 **VIPKid** — $200M, Beijing
Education
Series D

Source: Venture Pulse, Q3'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 11, 2017.

KPMG Enterprise

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



Contact us:

Brian Hughes

Co-Leader, KPMG Enterprise
Innovative Startups Network
E: bfhughes@kpmg.com

Arik Speier

Co-Leader, KPMG Enterprise
Innovative Startups Network
E: aspeier@kpmg.com

KPMG Enterprise

About KPMG Enterprise

About KPMG Enterprise

You know KPMG, you might not know KPMG Enterprise.

KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. Whether you're an entrepreneur looking to get started, an innovative, fast growing company, or an established company looking to an exit, KPMG Enterprise advisers understand what is important to you and can help you navigate your challenges — no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

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, KPMG International brings you insights on the fintech deals and trends making headlines. The Q3'17 report will be released soon. If you wish to join the Pulse of Fintech subscription list, contact us at enterprise@kpmg.com.

Acknowledgements

We acknowledge the contribution of the following individuals who assisted in the development of this publication:

Jonathan Lavender, Global Chairman, KPMG Enterprise, KPMG International

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

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

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

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

Egidio Zarrella, Clients and Innovation Partner, KPMG Hong Kong

Guillaume Cauchoix, Partner, KPMG in France

Lindsay Hull, Associate Director, KPMG Enterprise Global Innovative Startups Network, KPMG in the US

Melany Eli, Global Head of Marketing and Communications, KPMG Enterprise, KPMG International

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

Paul Ford, Partner, Deal Advisory, KPMG in Japan

Peter Evans, Principal, Innovation and Enterprise Solutions, KPMG in the US

Philip Ng, Head of Technology, KPMG China

Rachel Bentley, Manager, KPMG Enterprise, KPMG in the U.K.

Sonia Chiu, Manager, KPMG in the U.K.

Sreedhar Prasad, Partner, Consumer Markets, Internet Business and Startups, KPMG in India

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

Tim Dümichen, Partner, KPMG in Germany

KPMG Enterprise

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.

The impact of initial coin offerings on early-stage venture financing as of yet remains indefinite. Furthermore, as classification and characterization of ICOs, particularly given their security concerns, remains crucial to render accurately, we have not detailed such activity in this publication until a sufficiently robust methodology and underlying store of datasets have been reached.

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.

KPMG Enterprise

Methodology, cont'd

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.

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.

To connect with a KPMG adviser in your region email enterprise@kpmg.com

kpmg.com/venturepulse [website]
@kpmg [Twitter]

KPMG Enterprise