KPMG Enterprise

Venture Pulse Q4 2017

Global analysis of venture funding

16 January 2018

Welcome message

Welcome to the Q4'17 edition of KPMG Enterprise's *Venture Pulse Report* — a quarterly report highlighting the key issues, trends, and opportunities facing the VC market globally and in key jurisdictions around the world.

A robust Q4'17 propelled total annual global VC funding to $155 billion, the highest tally of the decade. A number of billion-dollar mega-deals over the course of the year, including six $1 billion+ rounds in Q4, drove the significant funding upswing. VC funding was up year-over-year across all regions, including Asia, the Americas and Europe.

Meanwhile, the number of deals continued to decline globally during Q4'17, reflecting a shifting investor focus on quality over quantity. Rather than invest in a myriad of different companies, investors at all deal levels have leaned toward placing bigger bets on a smaller group of companies they feel have the strongest path to profitability/potential.

While the software sector continued to attract the bulk of VC funding, the biotech and healthech sectors experienced strong growth this year, with pharma & biotech companies alone raising a record high of over $16 billion in VC funding globally.

Heading into 2018, the VC market is expected to remain robust, particularly in areas such as AI, biotech, agtech and autotech. With many companies choosing to stay private longer, 2018 is also expected to bring an increase in secondary market activity in order to provide some liquidity to early-stage investors. There is also likely to be a modest increase in IPO activity, particularly in biotech.

In this quarter's edition of the Venture Pulse Report, we examine both annual and Q4'17 VC market trends, including:

— The increase in deal size across all deal stages
— The rapid upswing in healthtech and biotech
— The growing focus on cross industry innovation and applicability
— The rapid evolution of France as an innovation center.

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 Enterprise adviser in your area.

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Q4'17 summary

Deal volume declines gently as capital invested continues to climb

The final quarter of 2017 set a new quarterly high for total VC invested worldwide, at nearly $46 billion. This sum comes close to Q3'15 and Q2'16 tallies, which saw $46.5 billion and $47 billion+, respectively, yet also coincided with another slight decline in the total number of completed financings. Accordingly, the strength of venture funding is still primarily exhibited by a concentration at the larger, later stage of financings, which further implies the continued influence of the vast inflows of capital committed to the venture asset class over the past few years.

The late-stage has never been more prominent, signaling a large proportion of mature, growth-stage VC-backed companies that want to stay private

2017 has been marked by massive financings, many of them occurring in China. Yet, the yearly total only further emphasizes how much of an effect gamechangers such as SoftBank's Vision Fund have had, with over 70% of all VC invested in 2017 worldwide concentrated in rounds of $25 million or more. In terms of transactional volume, such $25 million+ rounds are closing in on 10% of the global market, which is an unprecedented portion.

Valuations close the year at a new high, due to competition and concentrated capital

Although concerns around the level of valuations persisted or became even more pronounced in 2017, venture-backed companies still enjoyed one of the most lucrative climates in history, with the late-stage driving an overall increase in median pre-money valuations to a new high for the decade. Although the late-stage typically draws all the attention due to how eye-popping the checks can be, early-stage valuations are also persisting at high or record levels, signifying that the entire capital stack of VC funding has been affected by the sheer amount of money allocated to the class. Looking forward, at the very least, a plateau in early-stage figures is to be expected on the bullish side, while it is possible that numbers will begin to deflate slightly as investors and company founders alike re-center expectations.

Europe sees pronounced effects of VC inflation

Q4'17 saw the highest quarterly tally for VC invested in Europe-headquartered companies, just barely outstripping Q3'15. Moreover, this occurred even as overall transaction volume slid for the third-straight quarter. A more stark microcosm of global venture trends, Europe is still both benefiting and suffering from a relatively more fragmented venture market. Certain metro areas are still hotspots of activity and seeing higher and higher sums invested while round counts steady, yet other areas are seeing the effects of round size and valuation inflation, with accompanying fewer financings.

Third-highest quarter of VC invested ever in Asia

Similarly to Europe, key metro areas in a few countries are powering the Asian region's overall venture scene, with Beijing emerging as most prominent in 2017 by a sizable margin. Overall, $15.5 billion was invested in Asia in Q4'17 alone, easily the third-highest tally ever, and once again owing primarily, to mega-rounds. Three venture rounds of $1 billion or more were completed in Q4, all of China-based companies, which speaks to the extent government-affiliated investment corporations (as well as private corporations) are backing the nation's flourishing technology scene.

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

Q4'17 summary

Corporate participation signals the evolution of the VC industry

Over the past year, the percentage of global VC activity that had corporate venture capital (CVC) participation rose to a new high, exceeding 18.7% in the final quarter of 2017. There are many reasons for this historic level, ranging from younger technology corporations' desire to remain exposed to all relevant innovations within their given fields of operation as well as older multinationals and industry stalwarts finally spinning out supplemental R&D efforts into CVC arms in order to capitalize on advances that are finally coming to fruition, such as autonomous vehicles. Yet, the primary effect is to further render early-stage VC investing more sophisticated, as corporate players look to corner promising advances or pave the way for merging down the road even earlier in company lifecycles.

The fundraising cycle begins to wind down

After climbing for 3 straight years in terms of capital raised, numbers of fundraising looks set to finally decline by a significant margin in 2017. Although the $47 billion+ raised still outstrips past years to be robust on a historical basis, volume is down by a more appreciable amount, with over 300 funds closed as opposed to 400+, which the past 3 years each achieved. After such strong fundraising for years, it is likely many large limited partners have met their desired private equity (including VC) allocations. It is also worth noting that, especially at the early-stage, fundraising demands an ever more niche focus, and there is simply a finite supply of general partners that can raise a fund solely dedicated to backing AI-focused startups at the seed stage, for example.

Exit cycle subsides further

As the year closes, it is easier to place 2017 totals against full-year tallies from the past decade for context and rely on quarterly figures for indications of momentum. For the third year in a row, exits were down by both count and value, with the latter relatively more resilient, thanks to a still-strong, matured M&A cycle. The key implications of an exit cycle's typical downtrend are various, however, timing is especially critical, given the level of inflation seen in the current venture market. Public capital markets will likely remain the best if not only option for many large, late-stage venture-backed companies, such as Pinterest or Airbnb. However, there is still opportunity for M&A at significant scale, given how persistently healthy that cycle has been. It remains to be seen whether 2018 will see a final return to health for IPOs. It will remain a tenuous balance between how accessible private capital is for embattled giants, and their need to finally achieve liquidity or further financing via traditional exits in the year to come. The former will probably predominate, mainly because secondary markets for early employees' and potentially investors' shares, as well as later rounds, are able to provide some forms of liquidity and circumvent more common methods.

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

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Globally, in Q4'17 VC-backed companies raised

$46B

across

2,662 deals

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Global VC investment hits record annual high

A strong Q4'17 across the Americas, Asia, and Europe helped propel the global VC market to a record high level of annual investment for 2017 of $155 billion. A number of multi-billion-dollar mega-deals during the quarter buoyed investment levels despite the continuing decline in deals volume across all deal stages.

US dominates VC market globally

The United States continued to lead the VC market globally in Q4'17, accounting for well over $23 billion of investment during the quarter, although both Asia and Europe had strong quarters of their own, with $15 billion and $5 billion invested, respectively.

China sees largest VC deals of the quarter, mega-deals blossom worldwide

Asia saw the largest deals of the quarter, including $4 billion mega-deals to Chinese companies Didi-Chuxing and Meituan-Dianping. AI-focused company Nio also raised $1 billion in Series D funding. The US also accounted for three $1 billion+ funding rounds (i.e. Lyft, Grail, and Faraday Future), making this one of the best quarters ever in terms of the number of $1 billion+ mega-deals.

VC market continues to see decline in number of angel and seed stage deals

During Q4'17, the volume of angel and seed stage deals continued to decline, highlighting a long-term trend that began 3 years ago. Every major region of the world has been affected by this trend. The long-term decline can be attributed partly to VC investors focusing on a smaller number of companies that they feel have the best potential, although the decline in funding to software-as-a-service companies, also likely had an influence.

Despite the declining number of angel and seed deals, median deal sizes for early deal stages continued to be robust, suggesting that while fewer deals are occurring, the companies being funded are of high quality.

Aging unicorns, availability and size of late-stage funding signals companies are staying private longer

This year, there were 93 fundings of current and newly minted unicorns (companies with a valuation over $1 billion) created, exceeding the 77 fundings during 2016. At the same time, the average age of unicorn companies rose to 8.8 years, a trend that highlights the propensity of late-stage companies remaining private much longer as a result of the continued availability of late-stage funding. Given the relatively slow IPO market globally and the availability of late-stage funding, it is no surprise that companies are staying private as long as possible[1].

Uptick in secondary market activity providing much-needed liquidity

While companies are staying private longer, many of their investors still want exits. This has led to a more robust secondary market in order to allow companies to provide liquidity to their employees and early-stage investors. If the secondary market were to dry out, companies could be pressured to go public more quickly. However, this is not expected to be a concern for companies over the next few quarters.

IPO activity remains weak in 2017

IPO activity globally remained relatively slow compared to previous years. While a number of companies held successful IPOs in 2017, step-up valuations have been relatively slight[2]. This suggests that the last private valuation pre-IPO for some companies may have been inflated.

At the same time, the slight step-up valuations may simply suggest that more time is required before a company's post-IPO performance can be truly evaluated. For example, Square's valuation 12 months post-IPO was not significantly above its IPO price, but 2 years out, the valuation is now five times greater. Watching the performance of companies which held IPOs during 2017, such as Okta and Snap, over the next year, may provide a better indication of value.

[1] https://pitchbook.com/news/articles/beware-the-rise-of-the-zombiecorn
[2] https://pitchbook.com/news/articles/beware-the-rise-of-the-zombiecorn

Global VC investment hits record annual high, cont'd.

Alternative financing mechanisms beginning to gain traction

2017 saw a significant increase in interest in alternative financing mechanisms, particularly Initial Coin Offerings (ICOs). While cryptocurrencies, such as Bitcoin have been of some interest to investors over the last couple of years, this year, there was a substantial increase in the number of ICOs which, together, raised over $2 billion in capital.

The challenge with ICOs is that many financial regulators are still working to wrap their heads around the value, benefits, risks and opportunities presented by ICOs. Over the next year, regulators will likely begin to evaluate ICOs more actively. Based on the results of these analyses, there could be significant positive or negative ramifications to current or future ICOs in various countries and regions.

Pharma & Biotech a big winner in 2017, poised for additional growth

Pharma & biotech investment experienced significant growth globally in 2017, reaching over $16 billion in investment compared to $12.2 billion in 2016. Q4'17 saw the most successful quarter of biotech funding yet, capped by US-based cancer-screening company Grail's $1.2 billion Series B funding round. While the US accounted for the vast majority of all biotech investment, Europe also saw several biotech focused mega-deals, including Switzerland-based ADC Therapeutics ($200 million) and Germany-based CureVac's ($100 million), both in Q4'17. The general healthtech sector also saw a record high level of investment in 2017, reaching over $4.5 billion in investment globally[3 and 4].

Artificial intelligence experiences bumper year of investment

In 2017, VC investment in artificial intelligence almost doubled, attracting $12 billion of investment globally, compared to $6 billion in 2016. Q4'17 saw a significant number of AI-focused VC deals, including Nio ($1 billion), Face++ ($460 million), and Indigo ($206 million). As well, Didi-Chuxing, China's top ride hailing company, raised $4 billion this quarter, in part to enhance their AI capabilities. AI is expected to remain a hot area of investment given the widespread application AI offers across industries, from autotech to fintech, robotics and healthtech[5].

AR/VR also saw significant interest from investors globally throughout 2017. The definition of AR/VR continued to expand over the course of the year, with mobile AR and computer vision/machine learning (CV/ML) coming into their own as innovation opportunities.

Trends to watch for in 2018

Heading into 2018, the outlook for the global VC market is very positive. There are a number of indications that some VC firms globally will raise larger global funds than they have in the past in order to compete with the $100 billion Softbank Vision Fund[6].

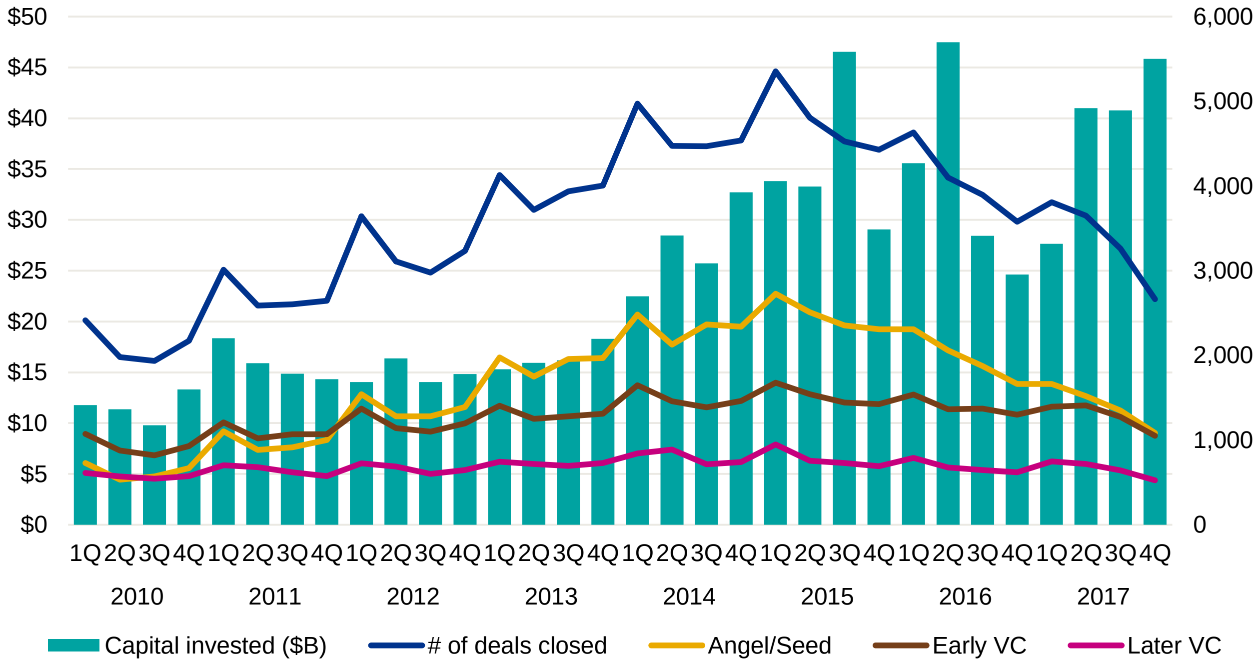
Areas such as healthtech, biotech, and autotech are expected to gain more attention from investors over the next few quarters, while newer areas such foodtech and agtech are well-positioned to become hot. In addition, 2018 is also poised to see a major increase in investor focus on cross-industry solutions, such as the applicability of AI across sectors, and the use of technology to increase the effectiveness and efficiency of less technology mature industries. Blockchain is also expected to remain an investment priority.

[3] https://pitchbook.com/news/articles/4-trends-in-vc-healthtech-investment
[4] https://pitchbook.com/news/articles/vc-investment-in-biotech-blasts-through-10b-barrier-in-2017 and https://techcrunch.com/2017/11/30/theres-an-implosion-of-early-stage-vc-funding-and-no-ones-talking-about-it/
[5] https://pitchbook.com/news/articles/rise-of-ai-excites-vc-investors-challenges-society and https://pitchbook.com/news/articles/2017-year-in-review-the-top-vc-rounds-investors-in-ai
[6] https://www.recode.net/2017/12/20/16804282/sequoia-raising-new-fund-6-billion-softbank

VC invested & volume diverge even further

Global venture financing by stage

2010 — Q4'17



Source: Venture Pulse, Q4'17. Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.
Note: Refer to the Methodology section on page 103 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

The divergence between the number of completed venture financings and overall capital invested crested in the final quarter of 2017, further emphasizes the ongoing effects of significant amounts of capital within the overall VC ecosystem, with investor caution and required benchmarks on the rise as round sizes and valuations remain stubbornly inflated.

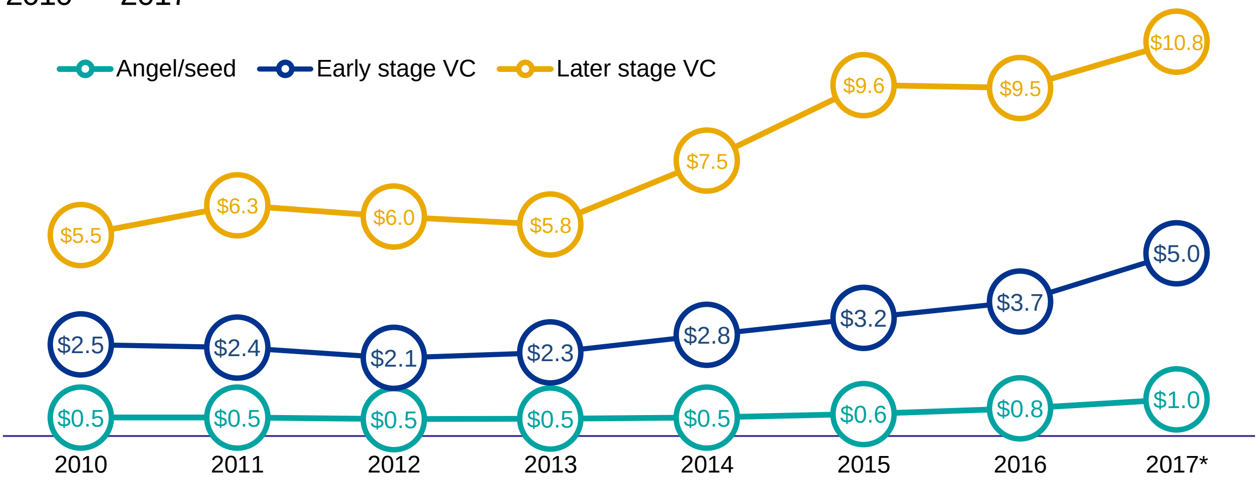
"The five largest VC mega-deals accounted for over $16 billion in funding in 2017. These massive deals, combined with continued investor focus on investing more money in fewer companies easily accounts for why the VC market has seen an up swell in investment despite a sharp decline in the number of deals."

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

Across all stages, underlying dry powder reserves exert upward pressure

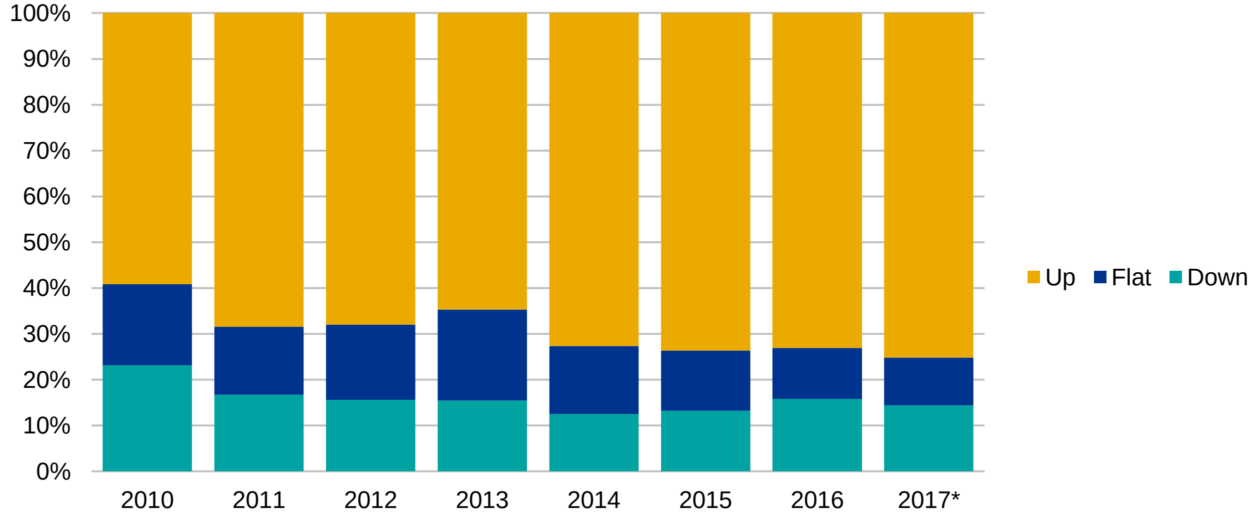
Global median deal size ($M) by stage

2010 — 2017*



Global up, flat or down rounds

2010 — 2017*



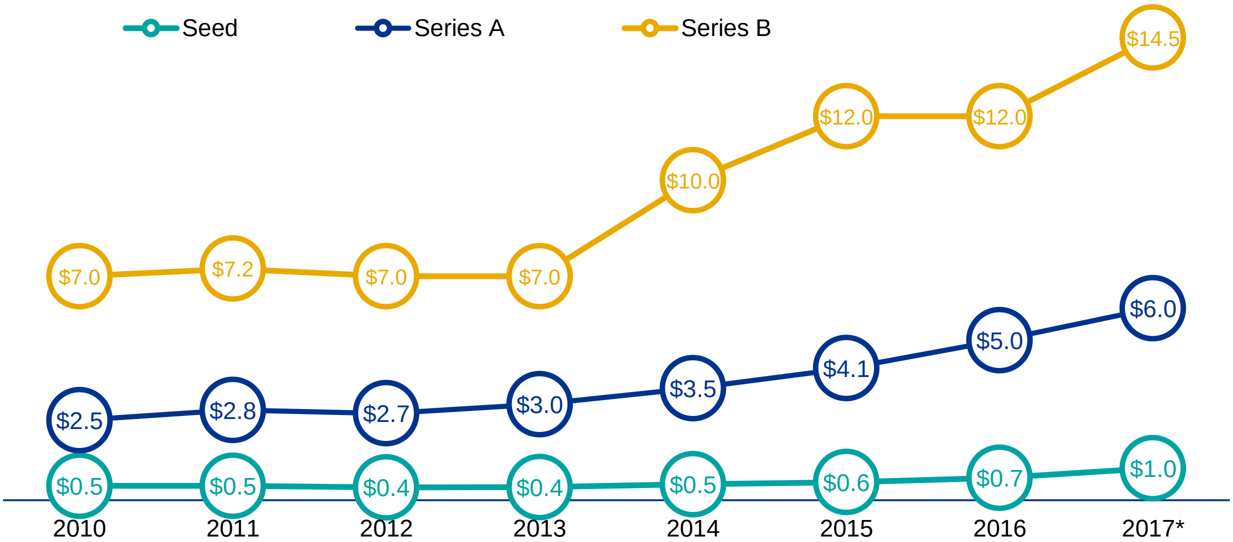
2017 marked either a continued or new high for median financing sizes across the board, reflecting how much money is sloshing around in the underlying venture ecosystem.

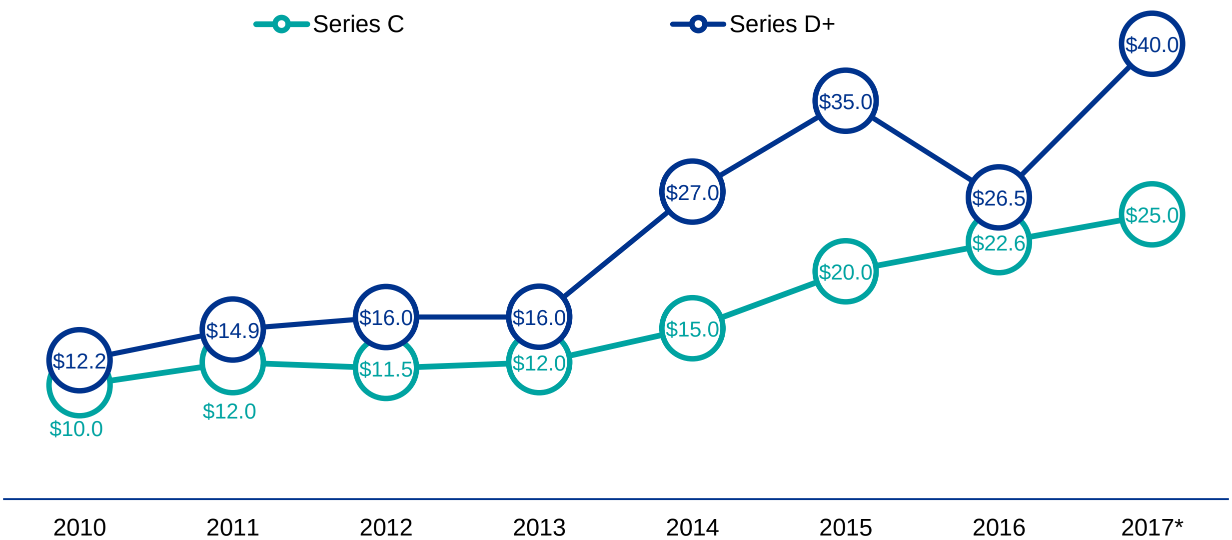
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

The latest stage resurges once more

Global median deal size ($M) by series

2010 — 2017*





Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

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 are most likely at that stage of development for startups seeking financings.

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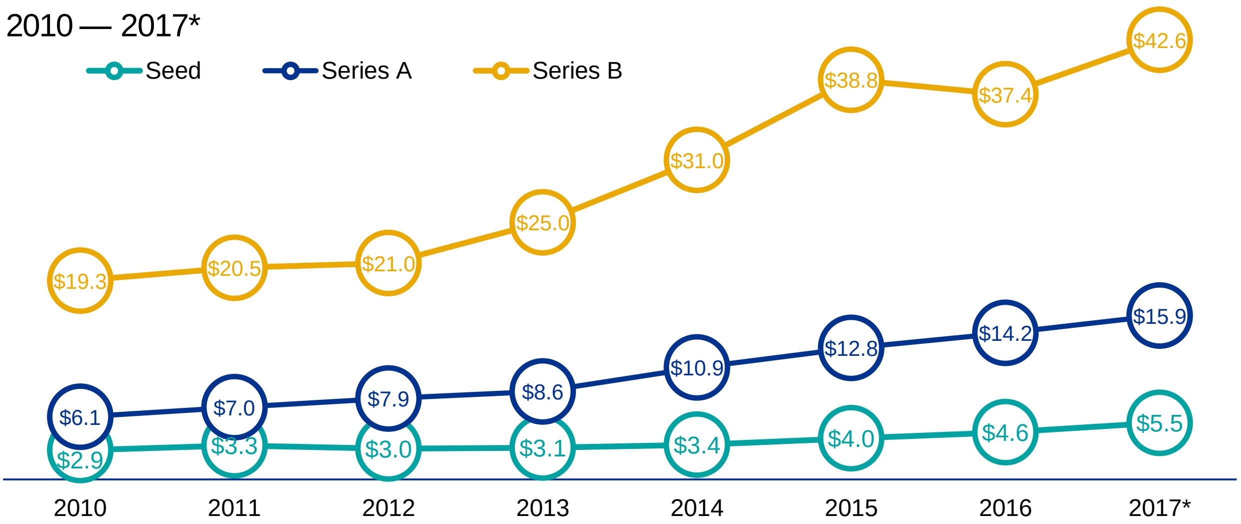
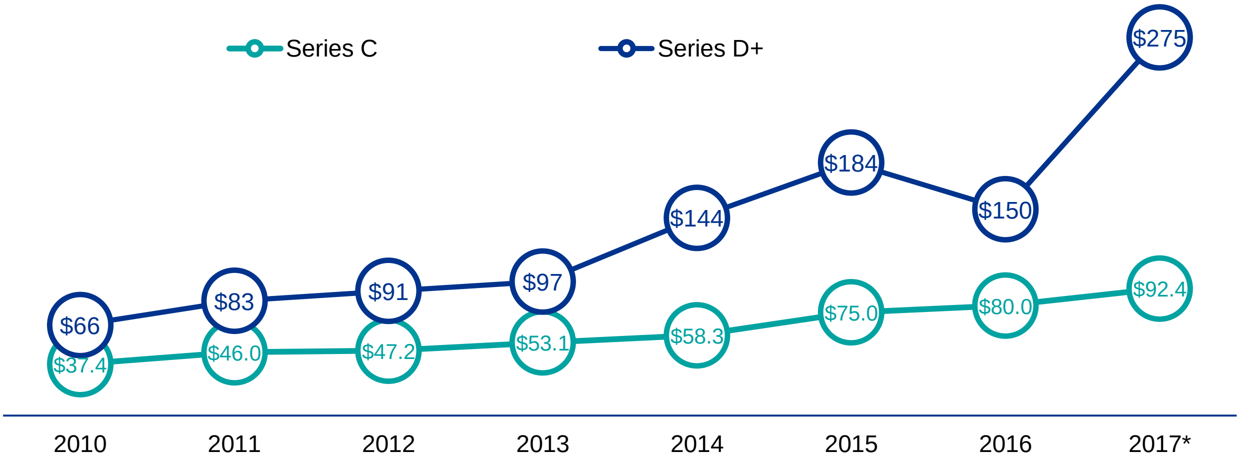
Outliers signify the trend of companies staying private longer

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

2010 — 2017*





Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

The narrative of a new class of large, mature, venture-backed companies opting to continue growth in the private markets rather than embark on traditional avenues, such as IPOs, was even more pronounced in 2017. The numbers depict why: at close to $300 million, the median, pre-money valuation for Series D or later financings has never been higher, and far outstrips any prior years. Such a sum is clearly driven by outliers. However, the existence of such outliers speaks to how investors have been unprecedentedly willing to fuel growth in private markets.

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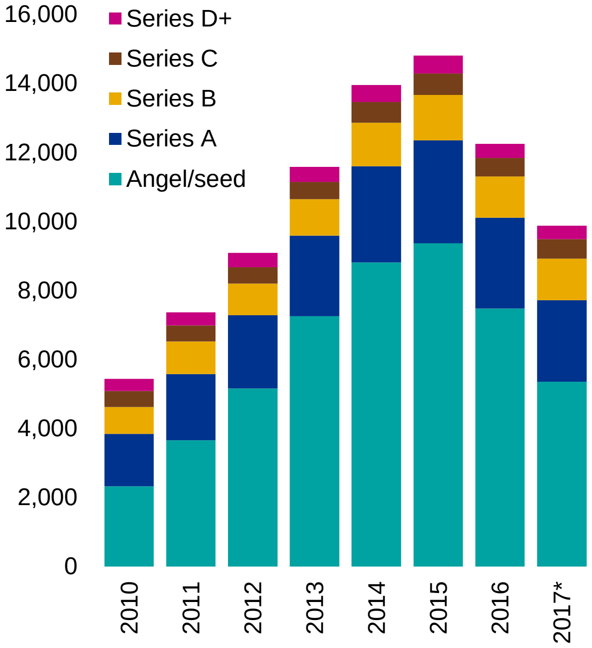
The early-stage slump: Crash or correction?

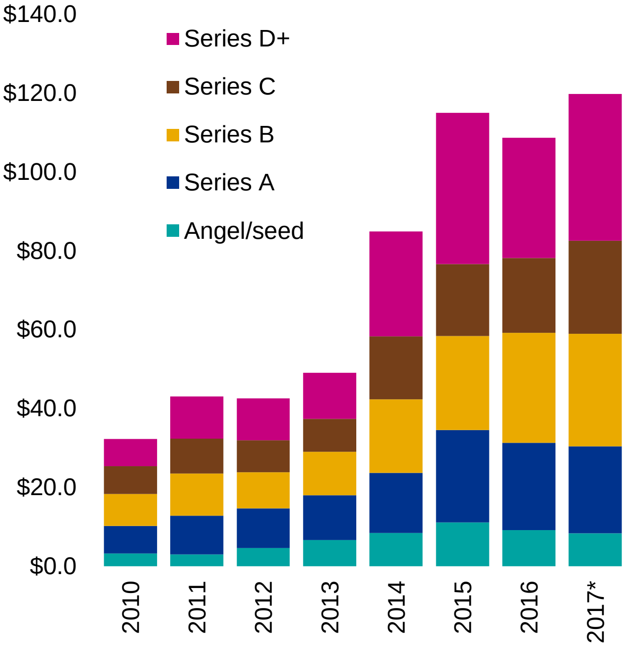
Global deal share by series

2010 — 2017*, number of closed deals



Global deal share by series

2010 — 2017*, VC invested ($B)



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

Although reflected in figures for some time, as of late, there has been a resurgence in attention paid to the decline in the volume of completed financings at the earliest of stages: angel and seed. The severity of the decline is due partially to a time lag in tracking the sheer flow of angel deal flow. However, the larger takeaway is that as the VC investing game has grown more sophisticated, the early-stage became too pricey for many, while protracted liquidity only further disincentivized angel investors from maintaining the same torrid pace as earlier in the decade. Accordingly, as is typical of investing cycles, the pace has slowed markedly, in an expected manner.

"Investors globally remain focused on late-stage companies with proven technologies and markets, paying relatively high prices to reduce their risk of failure. It became more challenging for early-stage companies to get the VC community's attention and funding – a fact that will likely impact the pipeline down the road."

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

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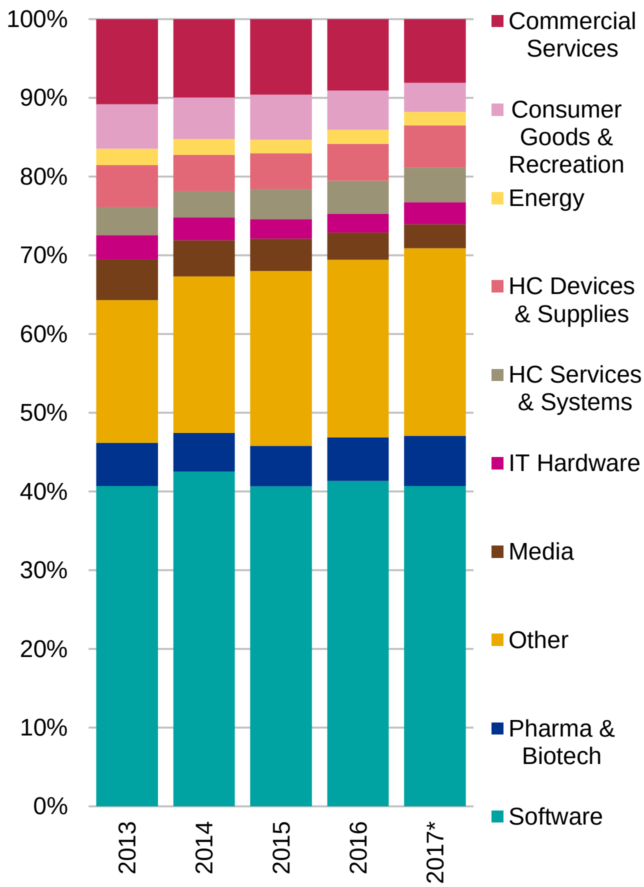
Software dominates, as diversity grows slightly

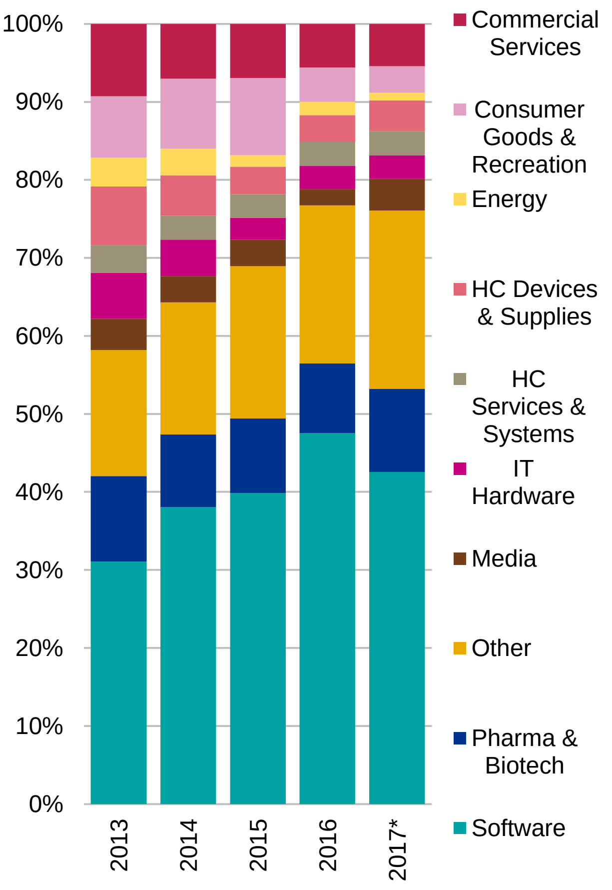
Global financing trends to VC-backed companies by sector

2013 — 2017*, number of closed deals



Global financing trends to VC-backed companies by sector

2013 — 2017*, VC invested ($B)



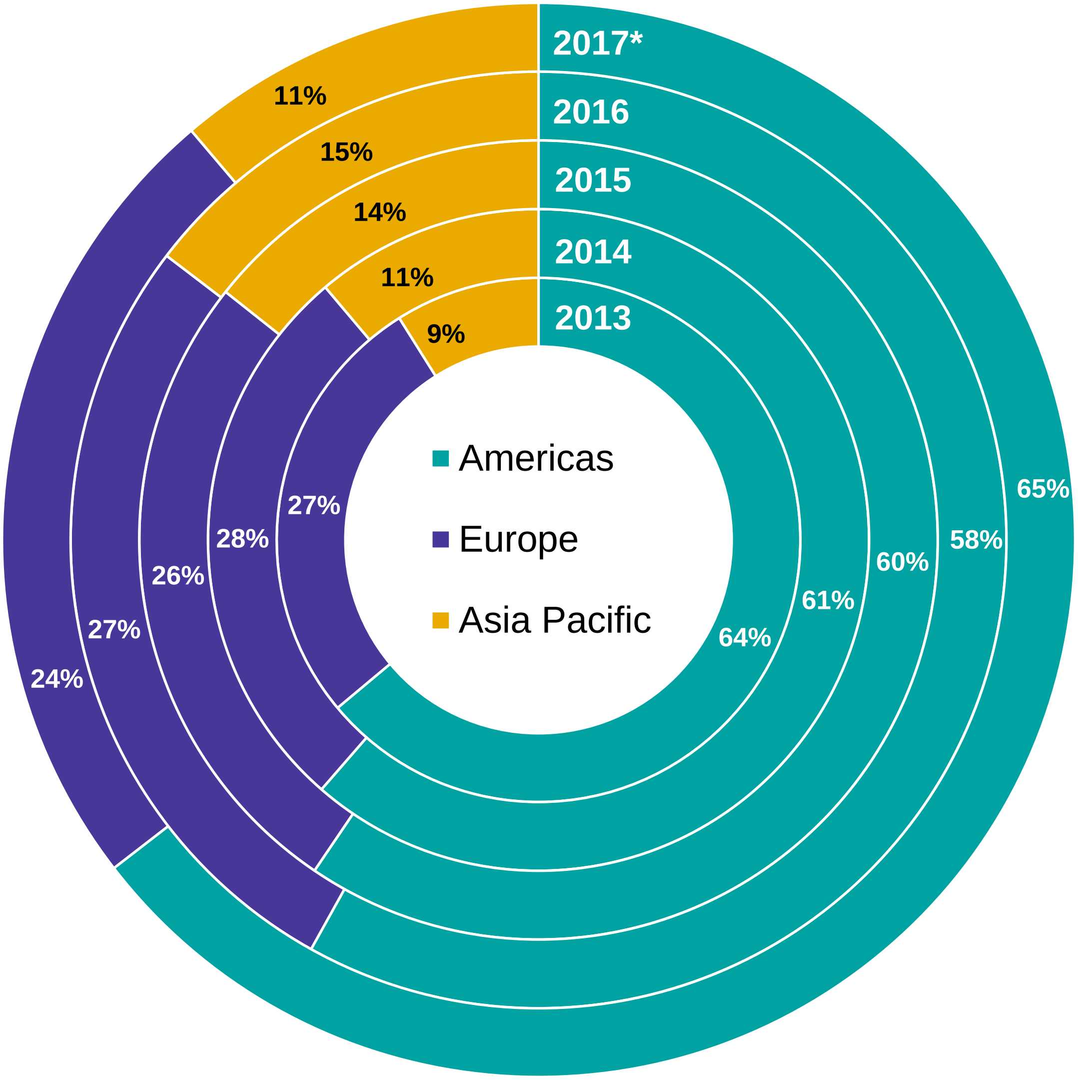
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

As has been expected for some time, since much of the lowest-hanging fruit in pure software plays has already been tackled, particularly on the consumer side, the proportions of relatively less popular (by deal volume) sectors have been somewhat resilient, such as pharma & biotech or healthcare services, systems, devices and supplies. Although the decline has impacted all, healthcare devices and supplies startups, for example, will close the year at a proportion of 4%+ of all global VC activity, close to a full percentage point increase year-over-year.

In time of caution, volume favors mature markets

Financing of VC-backed companies by continent

2013 — 2017*, number of closed deals

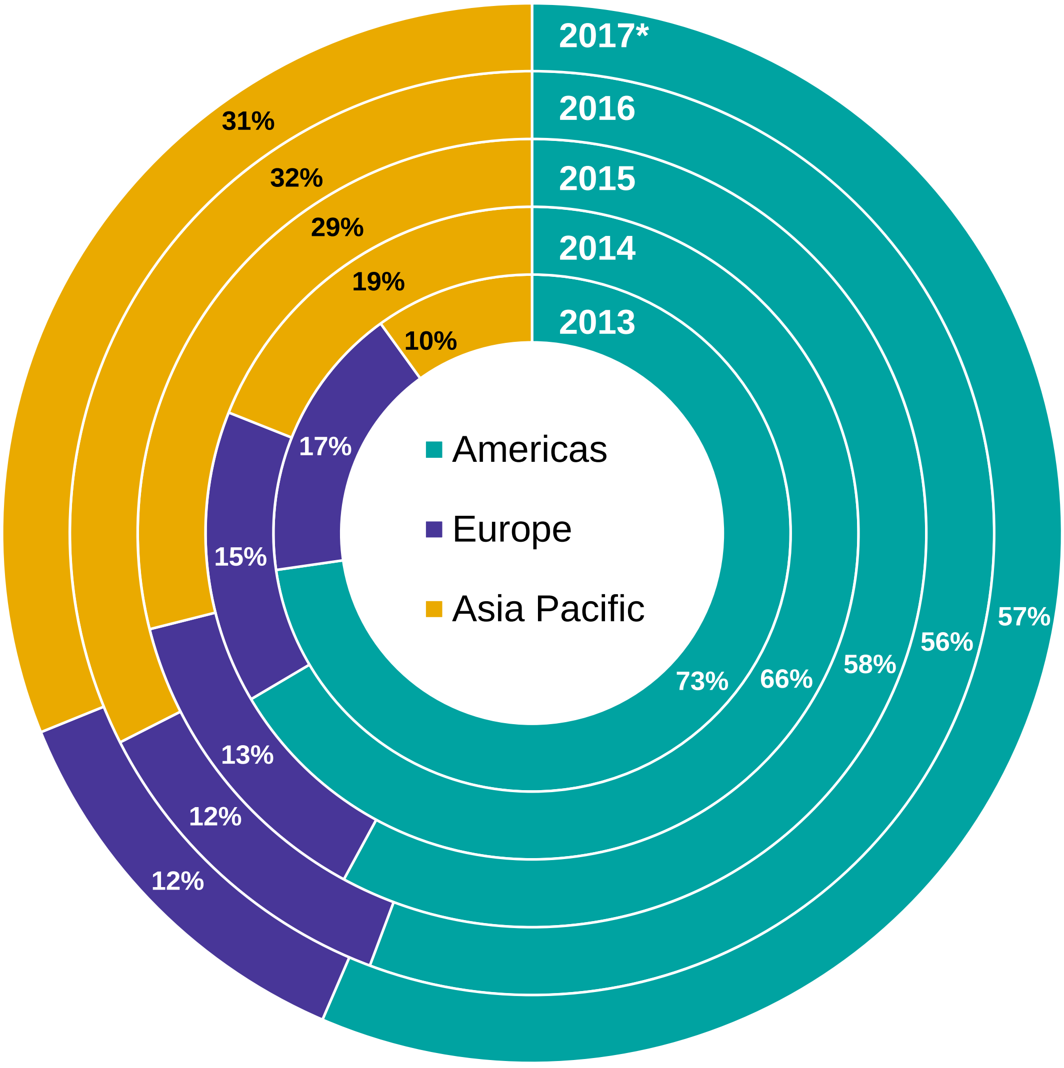


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

Asian growth caps off a highly impressive year for sheer sums deployed

Financing of VC-backed companies by continent

2013 — 2017*, VC invested ($B)

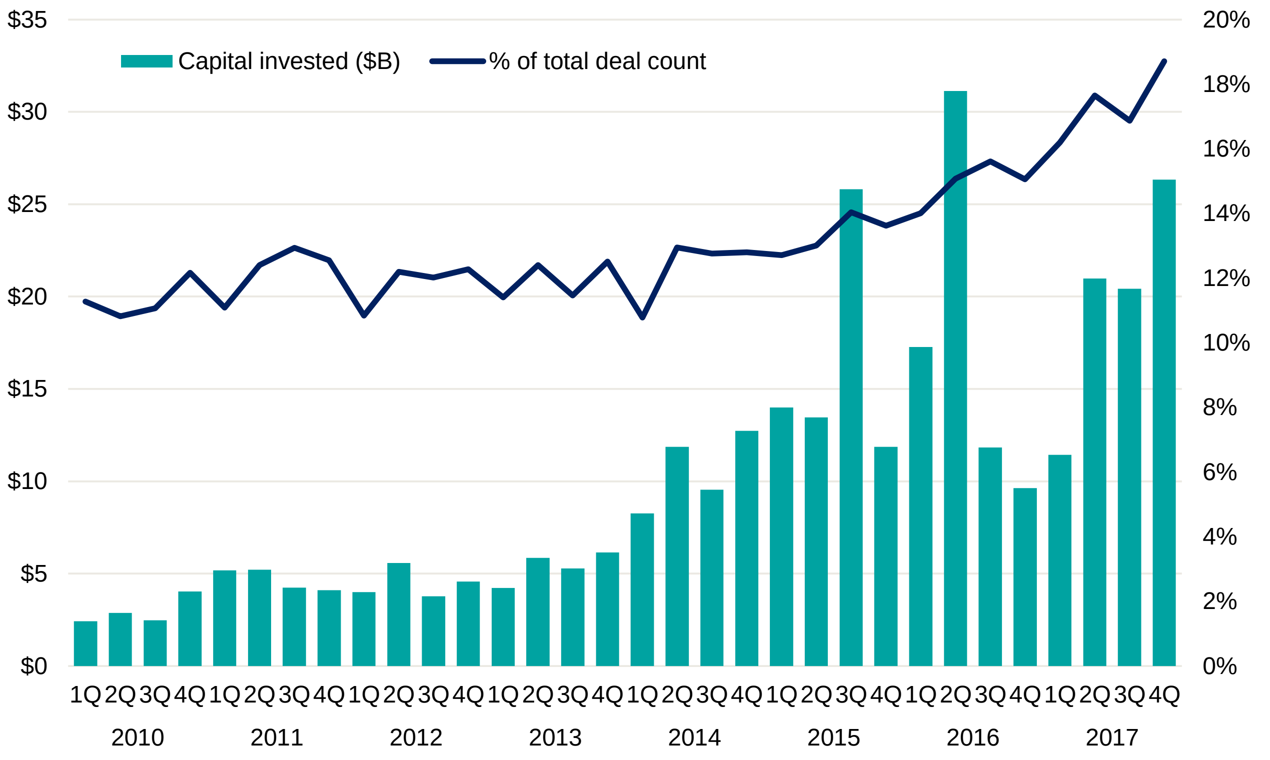


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Corporate VCs look set to remain highly active after year of remarkable participation

Corporate VC participation in global venture deals

2010 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

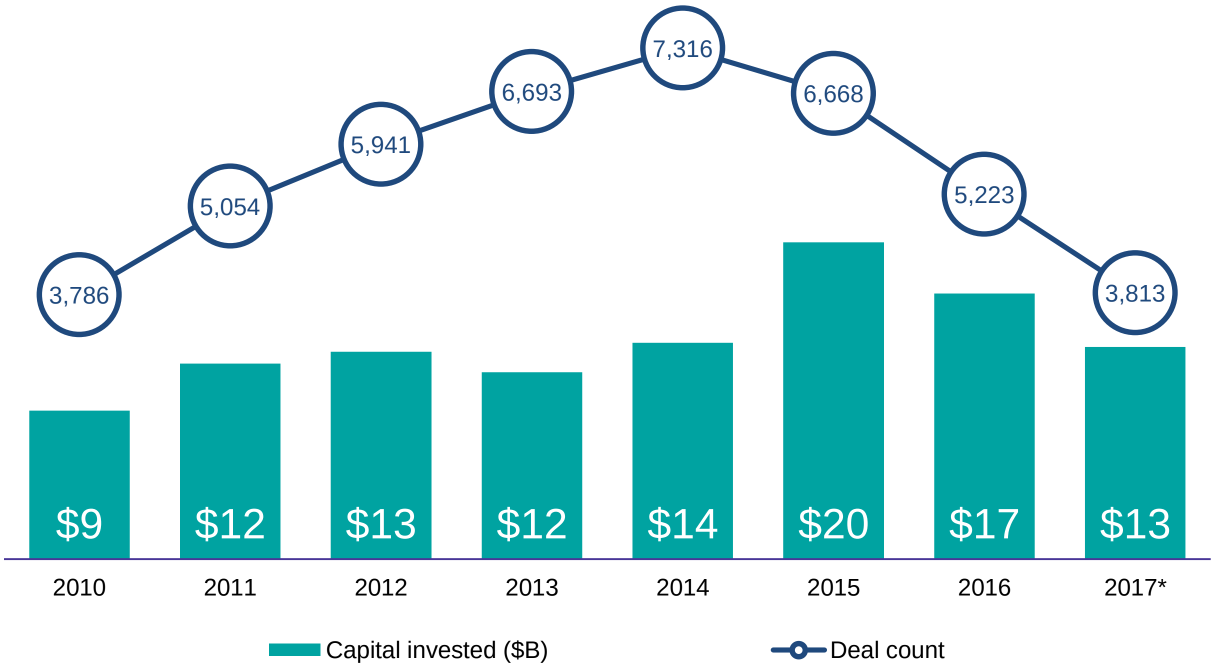
Ecosystems mutate slowly, yet it has been clear for some time now that the role CVCs play within the global venture ecosystem has only grown more important and sizable over time. The significant ramp-up not only in participation percentages but also associated deal value, is impacted highly by countries such as China fostering massive financings of nascent tech enterprises in order to contribute to overall economic growth and innovation, while multinational corporations are also staying engaged simply to shore up or augment business lines.

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*



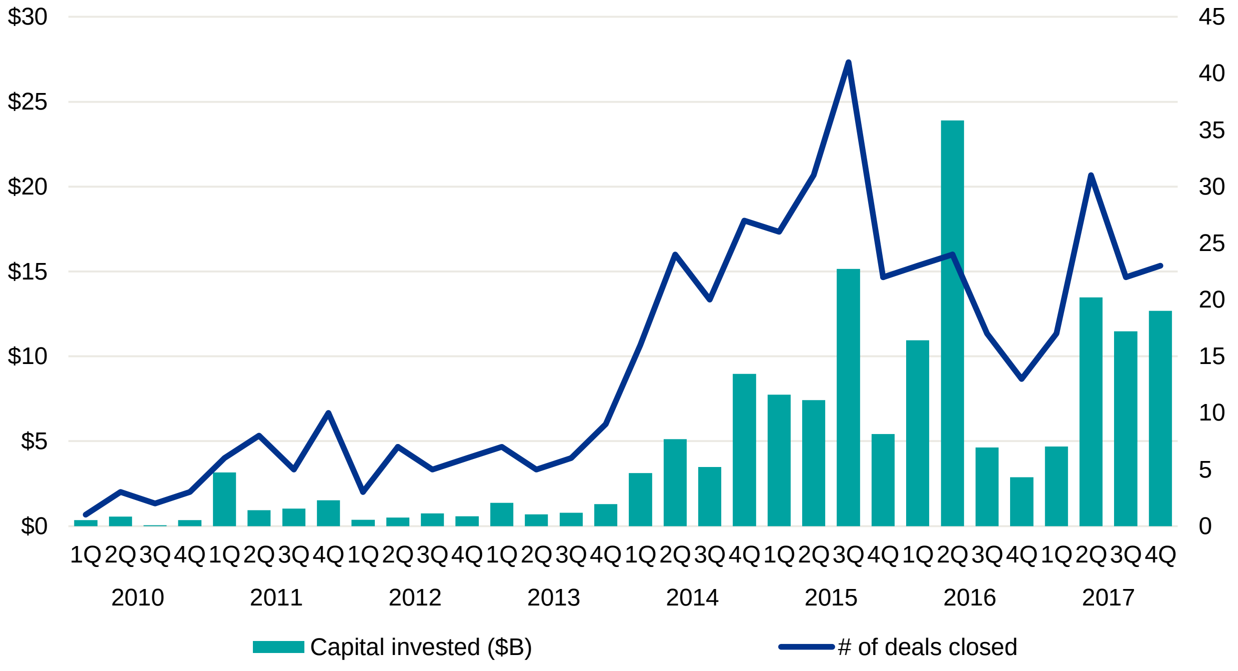
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

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 are, 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.

Q4'17 caps off a massive year with fourth-highest sum of unicorn VC invested ever

Global unicorn rounds

2010 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

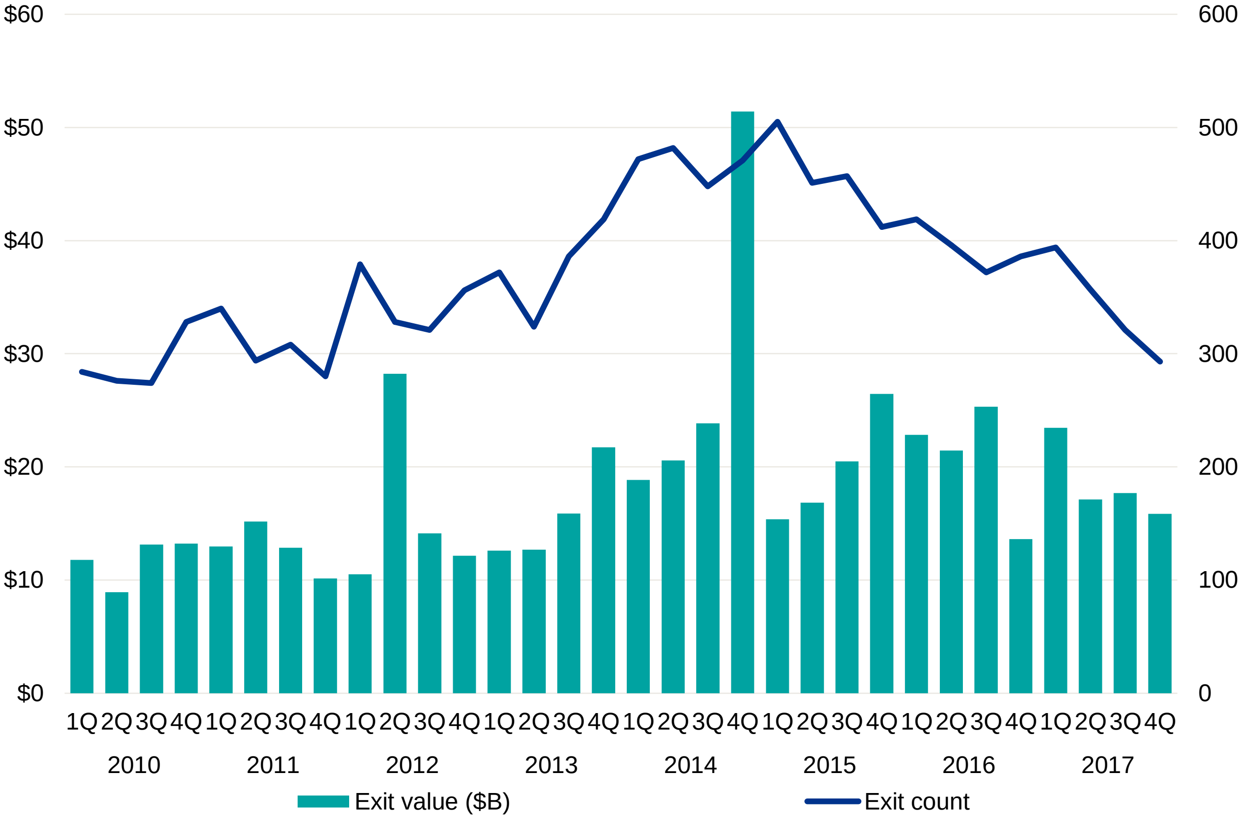
Note: PitchBook defines a unicorn venture financing as a VC round that generates a post-money valuation of $1 billion or more.

Unicorn financing trends are always going to be quite volatile. Having said that, it's highly telling that not only did 2017 see a steadier clip in more quarters than all of 2016, but also experienced the strongest consecutive 3 quarters of unicorn financing value ever.

Will the exit cycle subside further or plateau?

Global venture-backed exit activity

2010 — Q4'17



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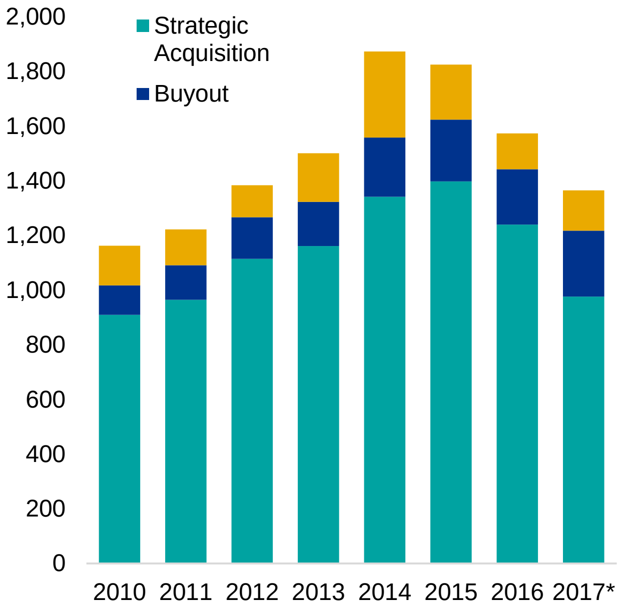
From 2014 through the end of 2016, venture-backed exit volume remained fairly elevated, even though much of 2015 and 2016 saw a slow decline in momentum on a quarterly basis. Moreover, exit value stayed historically healthy. However, since 2017 began, there has been a sharper tilt downward in exiting by VCs. That is not yet cause for alarm, given that private markets and funds timelines are fairly prolonged. However, what matters more in the year to come is whether the exit cycle winds down even further (by both count and value) especially for the largest, late-stage private companies that will need to consider liquidity concerns sooner rather than later.

Will the IPO window open further in 2018?

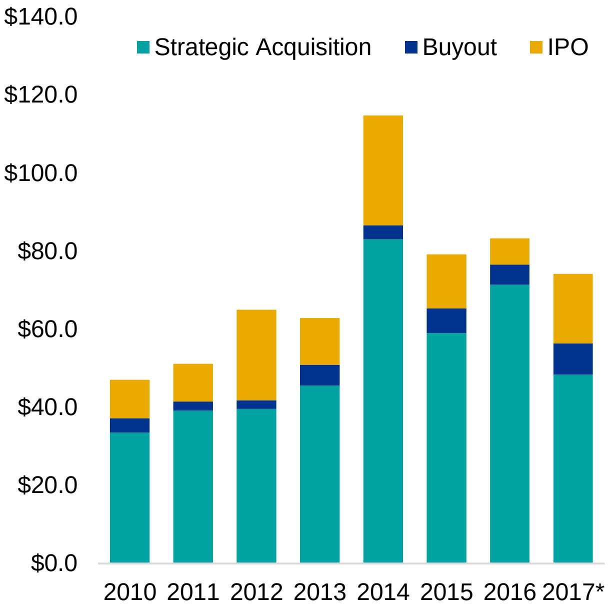
Global venture-backed exit activity (#) by type

2010 — 2017*



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

2010 — 2017*



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

The prospects of a small but highly publicized group of companies, such as Pinterest, Airbnb, Cloudera, etc., to go public have rarely been hyped as much as they are going into 2018. It's worth noting, many presumed 2017 would see more tech IPOs than the year ended up recording, as well. However, with economic and consumer sentiment more bullish in the wake of a year in which so many macropolitical and macroeconomic factors refused to slump and financial markets' bull run remained unabated, perhaps the timing is more auspicious now.

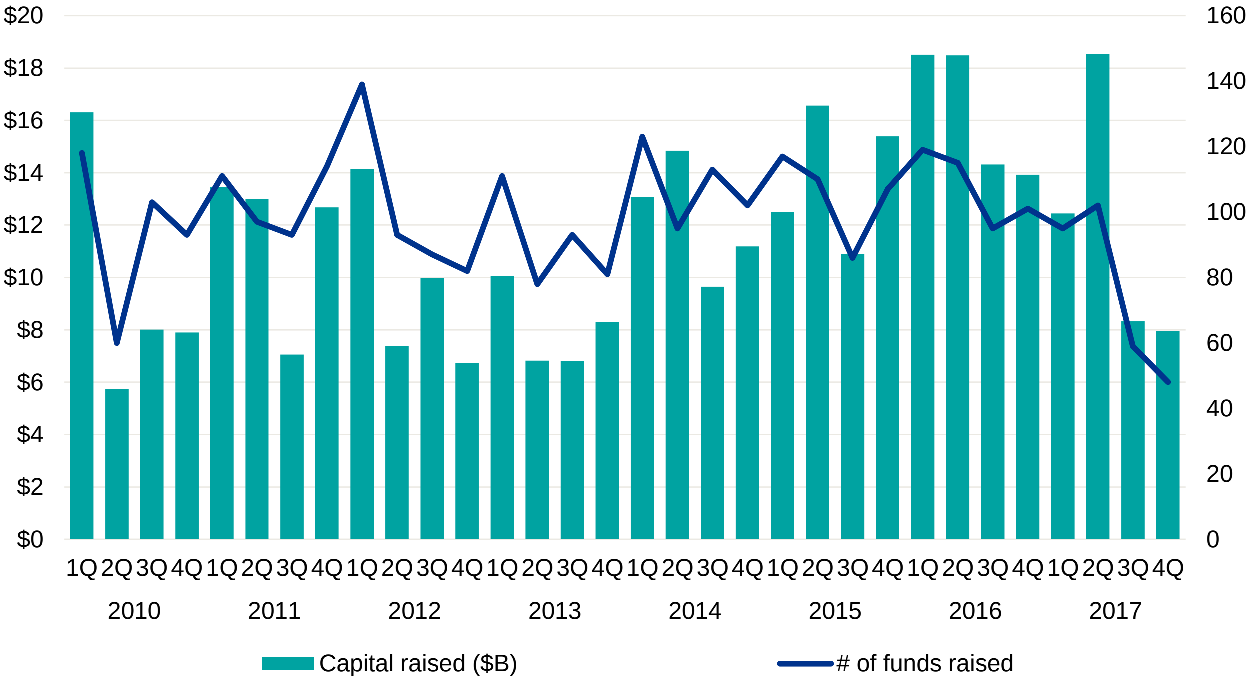
"2018 will likely build off the optimism that returned to the global and US VC market in 2017. We will likely see more IPOs, more VC deals and cash coming back from overseas, which will likely help drive M&A activity, share buyback and dividends, in addition to creating more liquidity in the market. Barring an unexpected event, 2018 has the potential to be a strong year for VC."

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

Fundraising finally subsiding

Global venture fundraising

2010 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

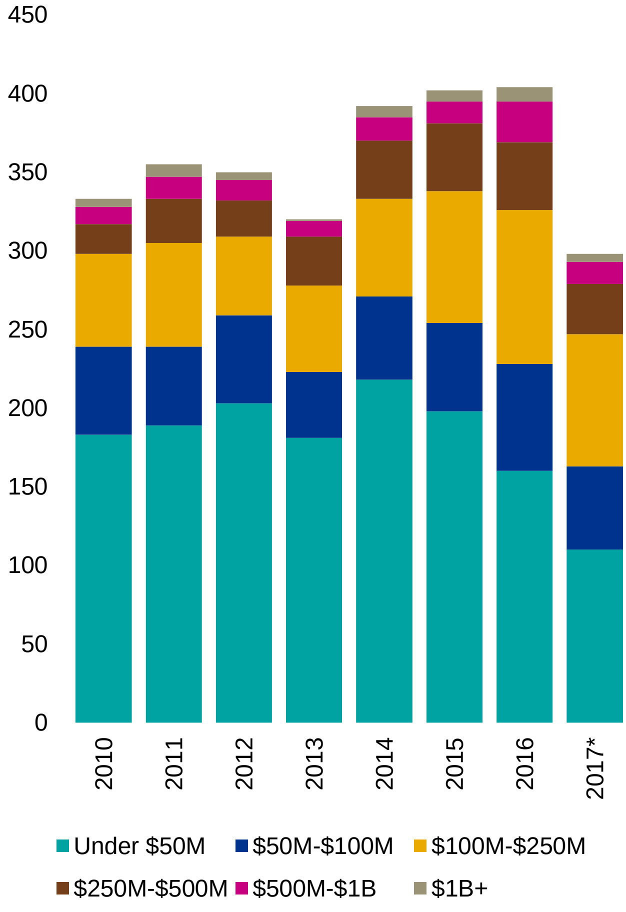
In the back half of 2017, venture fundraising finally experienced a significant decline in both aggregate capital committed, as well as volume of closed vehicles, after a very healthy period of nearly 3 years. Given the recency of the decline and the fact that even the weaker tallies are not atypical on a historical basis, it is clear the venture fundraising cycle is gently subsiding after a very bullish period, in a typical manner. Investors in VC funds are likely drawing back as funds continue drawing down capital to maintain investing in a pricey climate, and biding their time to see how returns play out.

KPMG Enterprise

Prior successes have led to more fundraising centered in the middle of the market

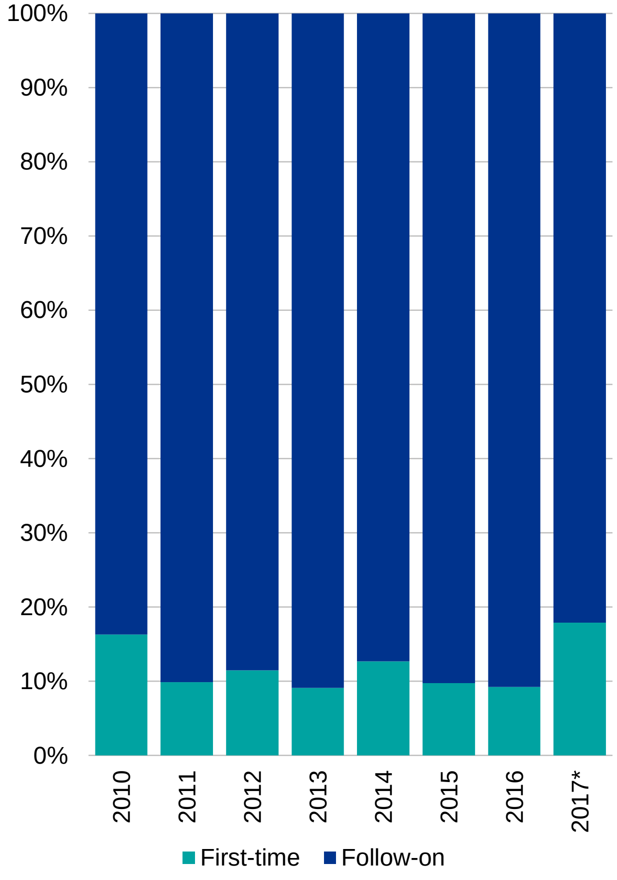
Global venture fundraising (#) by size

2010 — 2017*



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

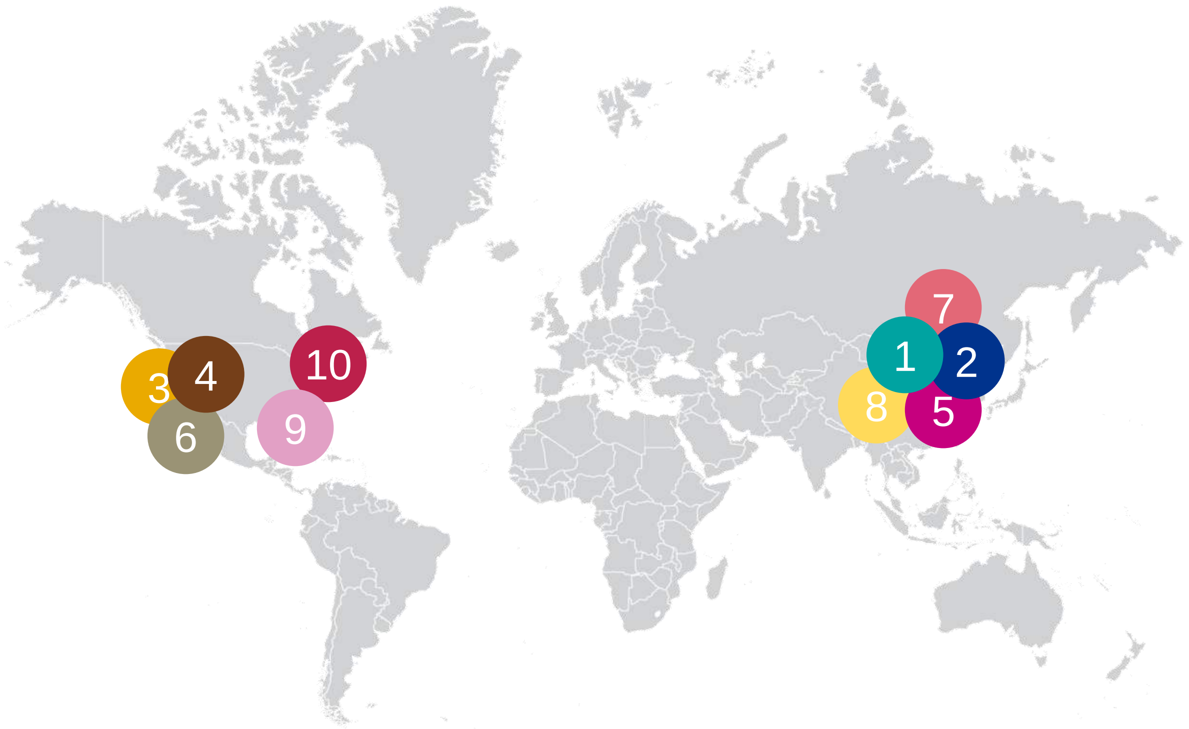
2010 — 2017*



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

As the current boom market in the venture industry kicked off several years ago, it is clear that the earliest successes for many VC firms paid off in even more successful fundraising efforts with larger vehicles down the road, given the increasing concentration of activity in the middle of the market over the past 4 years. The decline in the early-stage makes sense given the complexities of seed investing and investment models in general growing more sophisticated at that stage.

Q4'17 top deals split between China & US



Top 10 global financings in Q4'17

1 **Didi Chuxing** — $4,000M, Beijing
Transportation
Late-stage VC

2 **Meituan-Dianping** — $4,000M, Beijing
E-commerce
Series C

3 **Lyft** — $1,500M, San Francisco
Transportation
Series H

4 **Grail (Biotechnology)** — $1,212M, Menlo Park, CA
Biotechnology
Series B

5 **Nio** — $1,000M, Shanghai
Transportation
Series D

6 **Faraday Future** — $1,000M, Los Angeles
Transportation
Early-stage VC

7 **Guazi.com** — $580M, Beijing
E-commerce
Series B

8 **Hellobike** — $502M, Shanghai
Transportation
Series D

9 **Magic Leap** — $502M, Plantation, FL
Application software
Series D

10 **Compass** — $500M, New York
Real estate services
Late-stage VC

Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

KPMG Enterprise

In Q4'17 VC-backed companies in the Americas raised

$24.5B

across

1,858 deals

VC investment in the Americas gains strength

Overall investment trends in the Americas mirrored many of the trends seen in the US throughout 2017, although Canada, Mexico, and Brazil also saw unique VC trends given their different priorities.

VC funding in the Americas driven by the US

Total VC investment in the Americas reached a new high in 2017, buoyed by massive deals in the US, including Q4'17 deals such as Lyft ($1.5 billion), Grail Technologies ($1.2 billion), Faraday Future ($1 billion), Magic Leap ($502 million), and Compass ($500 million).

As one of the more advanced markets for technology innovation, the US also saw the rapid maturation of specific new technology sectors considered to be in their infancy in other regions. For example, while ride-sharing continued to be a big play market during 2017, most US-based VC investments in ride-sharing during the year revolved around dominant market players Uber and Lyft. The same could be said for the food delivery market, in which a small number of companies have achieved economies of scale, while others have fallen by the wayside.

Canada drives Americas' biggest VC deals outside of the US

Outside of deals conducted in the US, Canada accounted for the biggest VC deals in the Americas this quarter, raising over $435 million, including a $166 million round by e-commerce company Lightspeed POS, a $50 million round by infrastructure platform provider Loraxian, and a $49 million round by storytelling app Wattpad. In Canada, foreign VC investment, primarily from the US, continued to outpace investment by domestic VC firms.

While both the amount of VC investment and the number of VC deals declined quarter-over-quarter in Canada, the average deal size rose somewhat. Unlike in the US, where the proportion of early-stage deals declined compared to other deal stages, in Canada, early-stage deals accounted for the highest percentage of total deals since 2009.

Information and communications (ICT) sector continues to spur Canada's innovation ecosystem

The ICT sector continued to be a key driver behind Canada's technology ecosystem in 2017, attracting a significant amount of investor attention. At a technology level, Artificial Intelligence was a clear area of investor interest, in addition to software-as-a-service solutions and healthtech. Innovation hubs in Toronto and Vancouver saw the majority of VC investment during the year, although Quebec attracted its highest proportion of VC deals since 2011. This likely reflects the increasing importance being placed on Montreal as a major technology hub.

Canadian government strongly supporting innovation

The Canadian government remained committed to further developing Canada's VC market and innovation ecosystems throughout 2017[7]. The government announced a Venture Capital Catalyst Initiative earlier in the year, which is expected to be implemented in the near future. This program commits $400 million over 3 years through the Business Development Bank of Canada to increase last-stage VC available to Canadian companies. The government also announced $125 million in funding for a Pan-Canadian Artificial Intelligence Strategy to help cement Canada's position as a global leader in the field.

VC investors in Canada remain concerned about a number of uncertainties heading into 2018, including the impact of the US tax reform bill, expected Canadian tax changes, and the ongoing NAFTA renegotiation process.

[7] https://www.itbusiness.ca/news/venture-capital-catalyst-initiative-expected-to-fuel-canadas-innovation-capital-market-by-1-5b/97641

VC investment in the Americas gains strength, cont'd.

Brazil sees massive increase in VC funding during Q4'17

After a very weak Q3'17, Brazil saw a massive uptick in VC investment, with $233 million invested during the fourth quarter. Several large deals led this funding spike, including mobile market place Movile ($82 million), personal finance platform GuiaBolso ($39 million) and secure lending platform Creditas ($50 million). Fintech is a clear driver of VC investment in Brazil[8].

On a year-over-year basis, VC investment in Brazil rose significantly, from $392 million in 2016 to over $575 million this year. While US investors have pulled back from Latin America[9], Chinese investors, particularly China's big tech giants, have been increasingly interested in both Brazil and the broader Latin America region. For example, Alibaba recently announced a program to share logistics and payment best practices with companies in Mexico.

VC investment in Mexico falls off a cliff in Q4

VC investment in Mexico dropped for the second straight quarter in Q4'17. Despite the decreasing levels of VC investment, optimism remains high for future VC investment in the country, particularly in fintech, given Mexico's large unbanked and underbanked populations. Currently, over 300 fintech companies are operating in Mexico. Of these, more than 120 have incorporated over the last year. While much of the VC interest in Mexico has come from the US to-date, there has also been increasing interest from Asia and Europe based VC investors. If this interest begins to bear fruit in terms of investment dollars, the VC market in Mexico could see an upswing over the next year or 2.

Trends to watch for in 2018

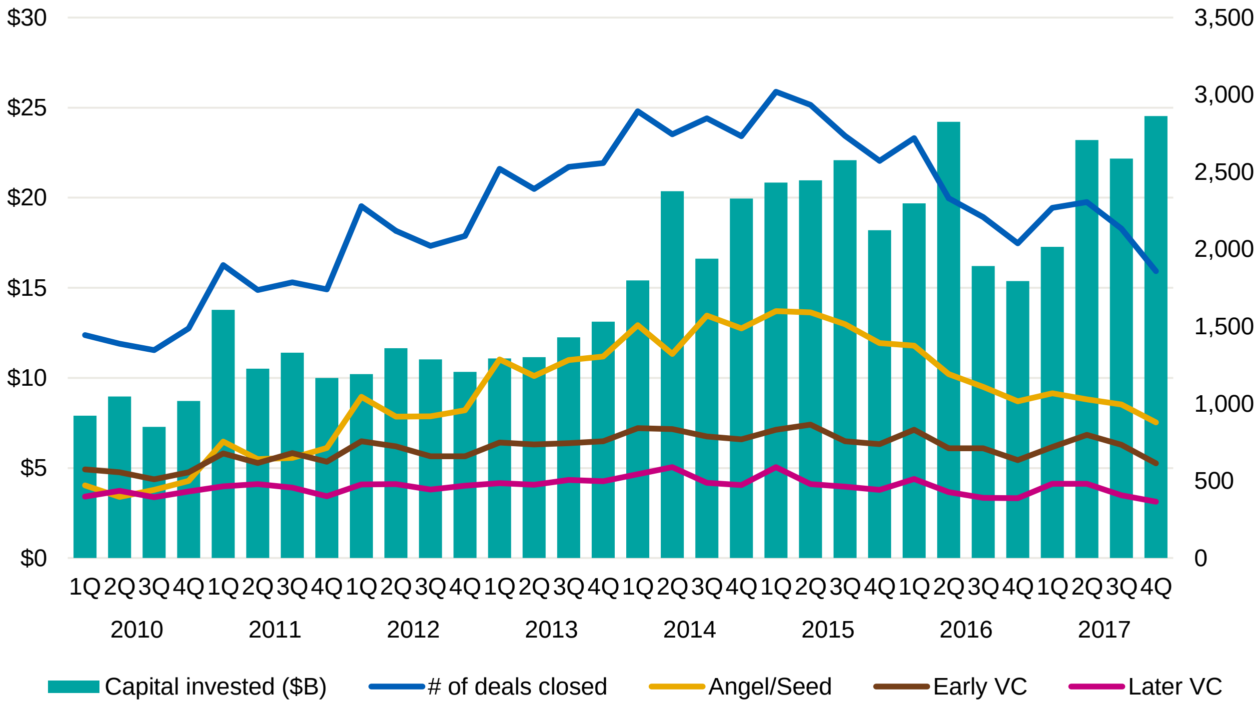
In 2018, VC investment in the Americas is expected to grow. In the US and Canada, healthtech, biotech and agtech are expected to be key areas of investment, in addition to blockchain and AI. In Brazil and Latin America, there is likely to be continued interest in fintech, from payments to microlending and small business financing.

[8] https://techcrunch.com/2017/12/12/brazilian-startup-creditas-is-revolutionizing-credit-in-the-worlds-third-largest-lending-market/ and https://techcrunch.com/2017/09/15/corporate-venture-in-brazil-gains-steam-as-giants-amp-up-startup-investments/
[9] https://venturebeat.com/2017/12/17/chinese-investors-target-latin-american-startups-as-u-s-vcs-shy-away/

Volume takes a turn down in a rich climate

Venture financing in the Americas

2010 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

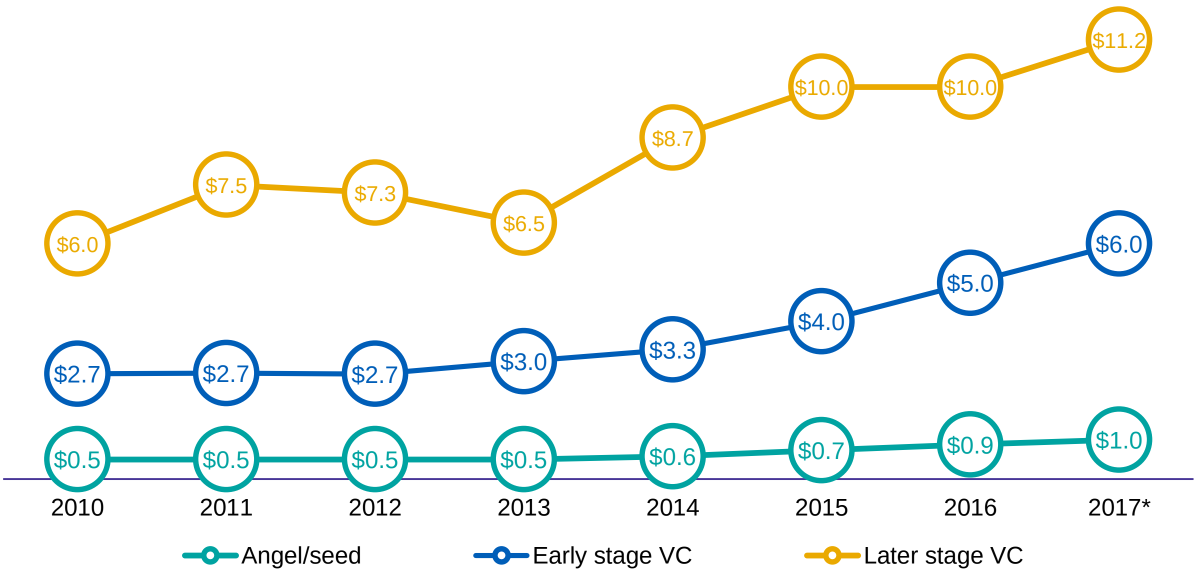
Even with all additional data intakes accounted, it is clear there was a mild decline between Q2 and Q3 in 2017 in terms of volume in the Americas and, as of now, an even steeper decrease between Q3 and the final quarter of the year. Paired with such lofty quarterly tallies of VC invested, it is clear the late-stage boom has yet to end, with massive streams of VC still flowing to fund the growth of mature tech companies.

KPMG Enterprise

Up rounds & capital invested on the upswing

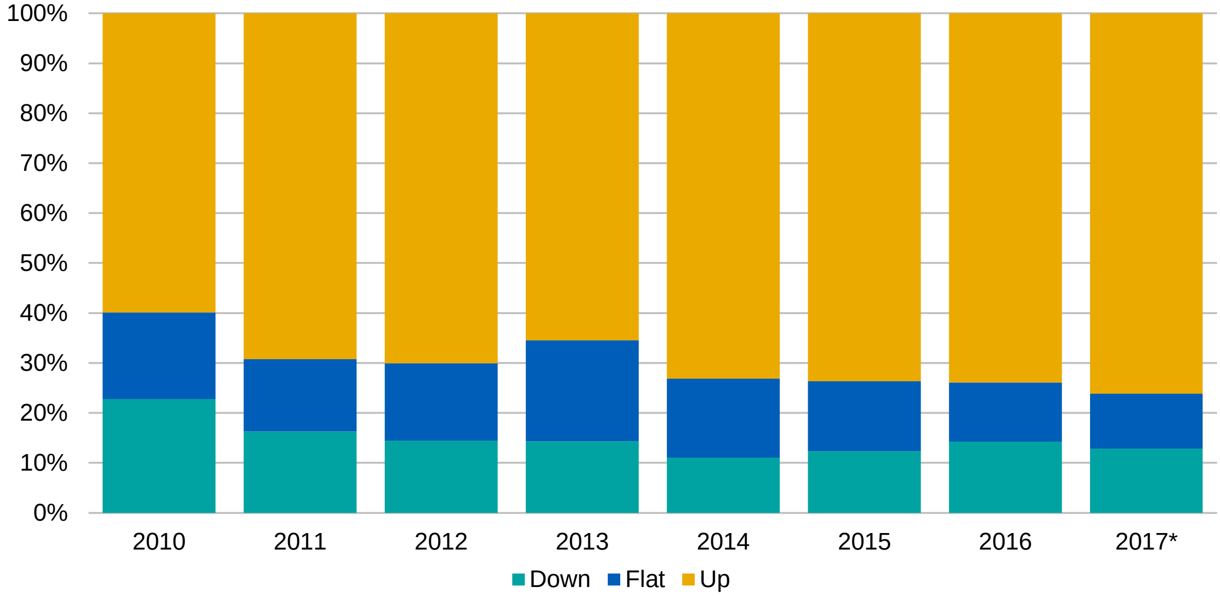
Median deal size ($M) by stage in the Americas

2010 — 2017*



Up, flat or down rounds in Americas

2010 — 2017*



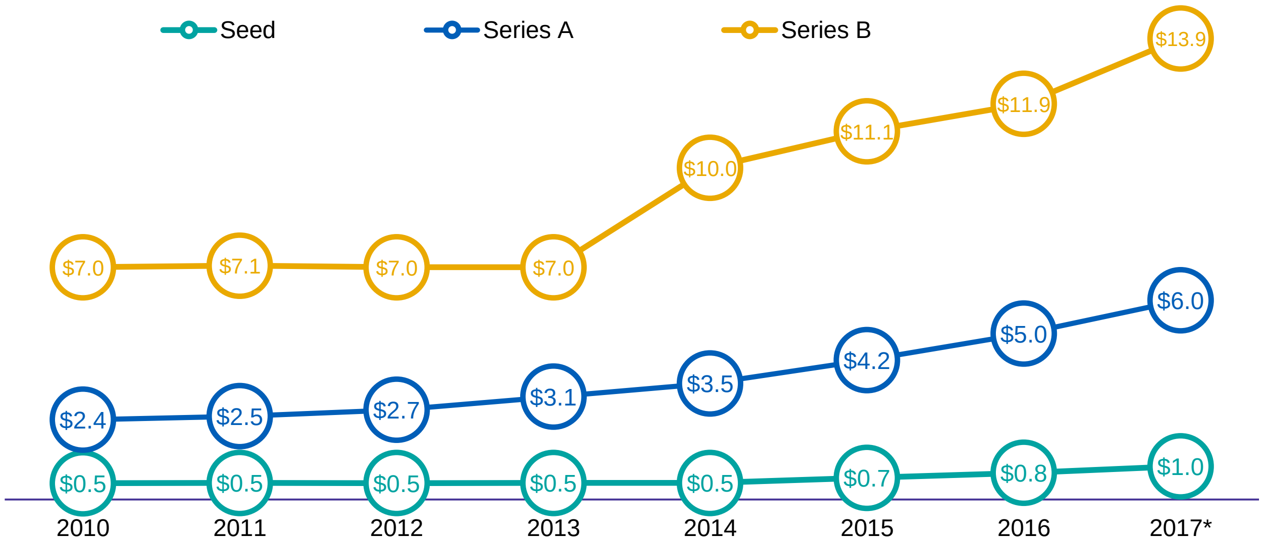
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

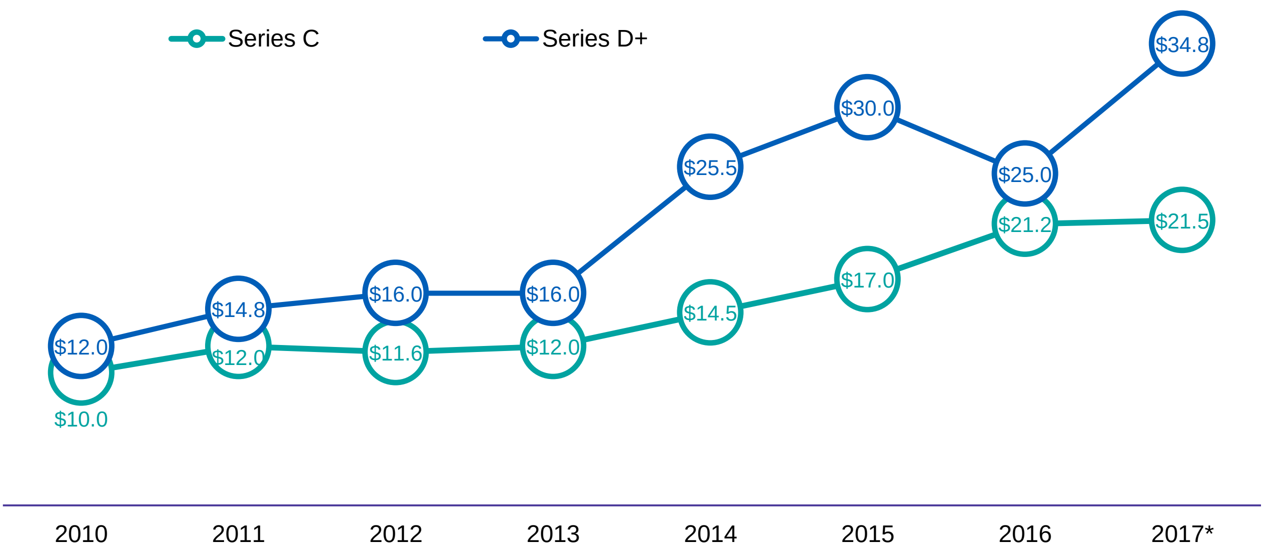
KPMG Enterprise

Early-stage still sees steady growth

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

2010 — 2017*





Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

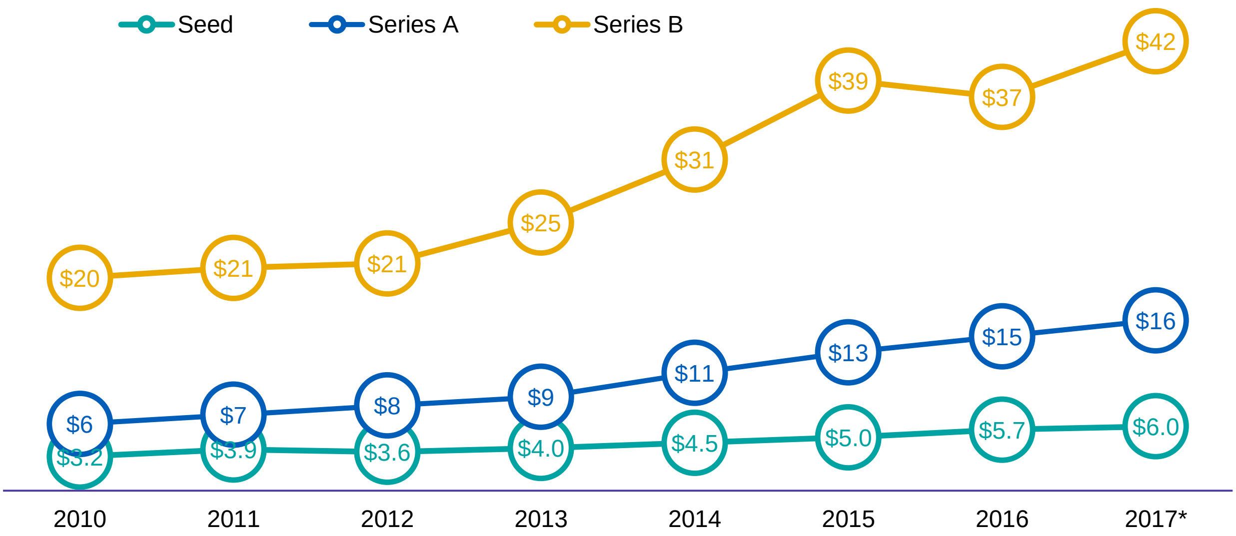
Venture industry dynamics remain marked by high prices, with median deal metrics still remaining at an elevated level across all series, although the pace of growth is unequal. Moreover, it is worth pointing out just how high the latest-stage rounds have reached in 2017 to-date.

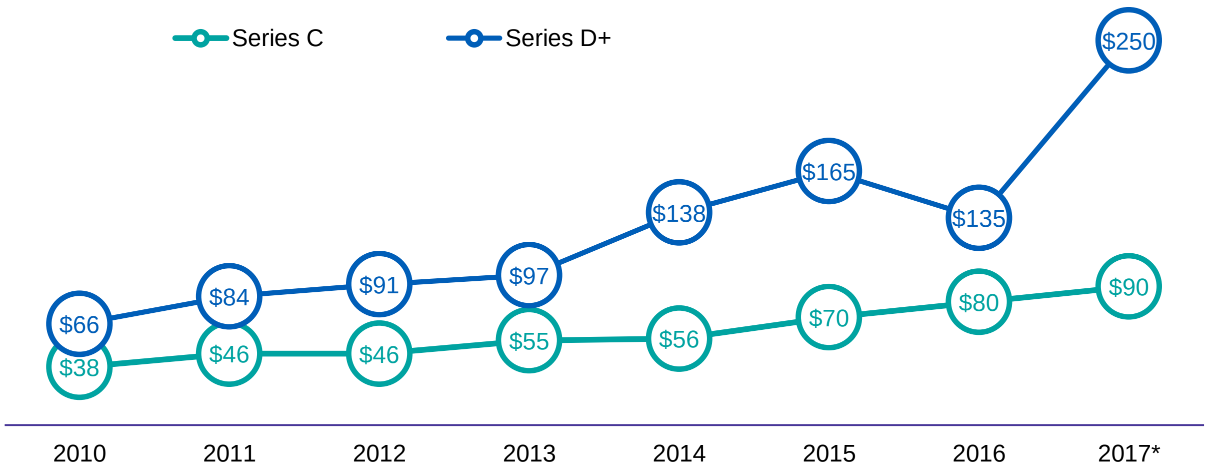
KPMG Enterprise

Every series closes 2017 on a high note

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

2010 — 2017*





Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

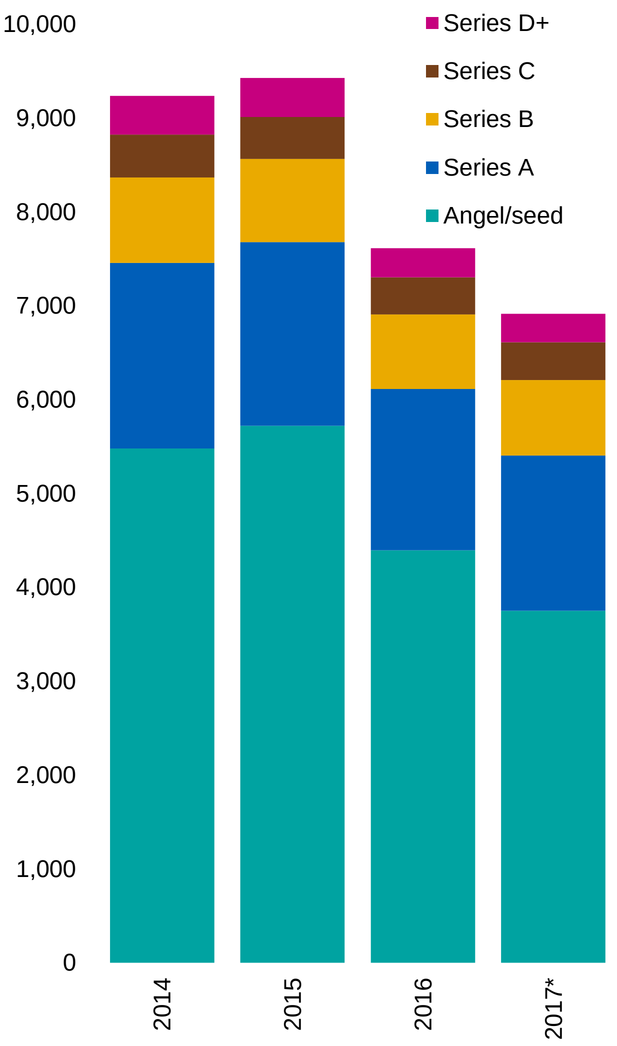
Although the degree of growth varies considerably, every single financing series in the Americas closed 2017 at a new high, most dramatically the latest and largest cluster of Series D or later. The sheer heft of dry powder, as well as investors' willingness to cut deals with large, mature companies, continues to tell.

KPMG Enterprise

Series B and onward staying strong in 2017

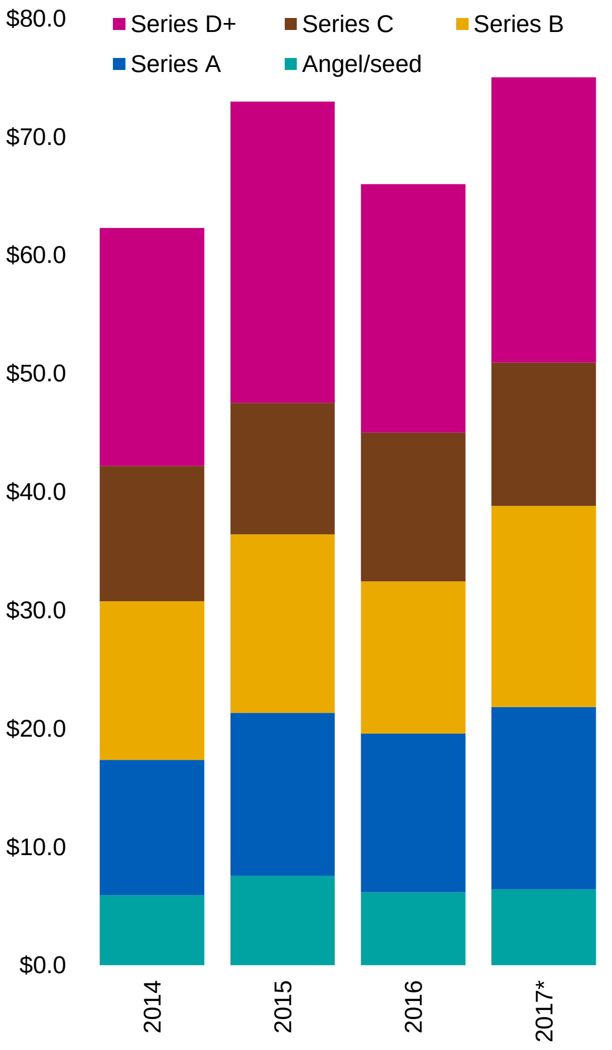
Deal share by series in the Americas

2014 — 2017*, number of closed deals



Deal share by series in the Americas

2014 — 2017*, VC invested ($B)



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

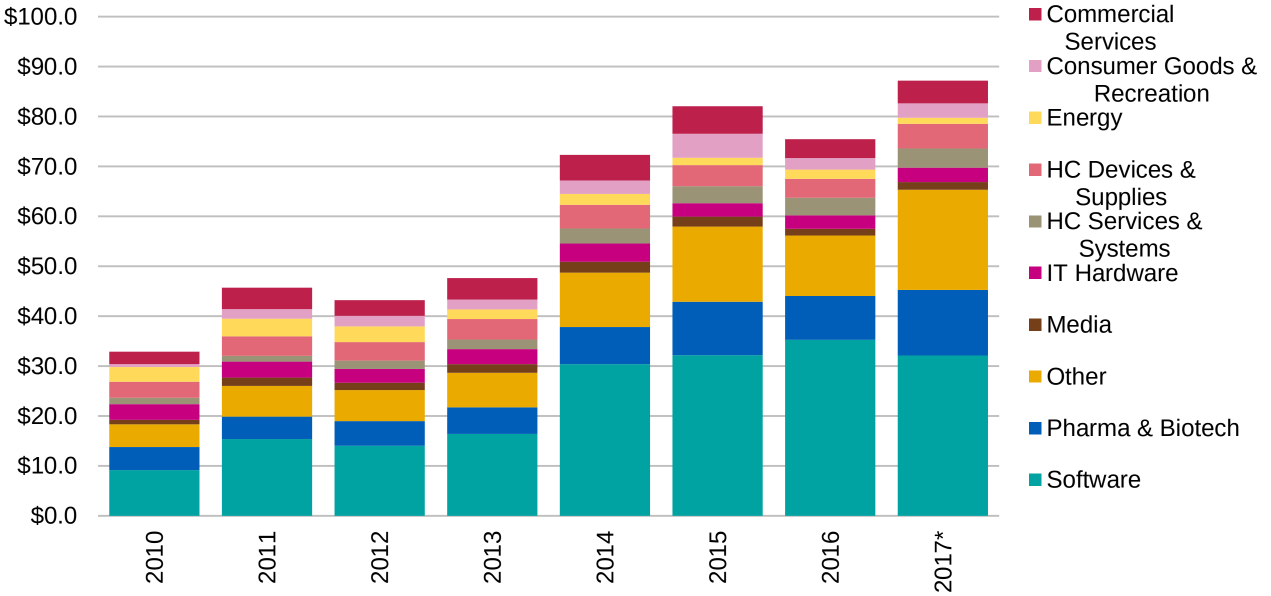
The capital stack is contracting somewhat at the earliest of stages after a multi-year period of exuberance, with only financing series from B and onward seeing volume, resembling those of 2016. Although not a single class of transaction is likely to reach the highs seen in 2014 or 2015, the eventual contraction of the earliest stage will transform later-stage volume down the road.

KPMG Enterprise

Pockets of healthcare finish strong

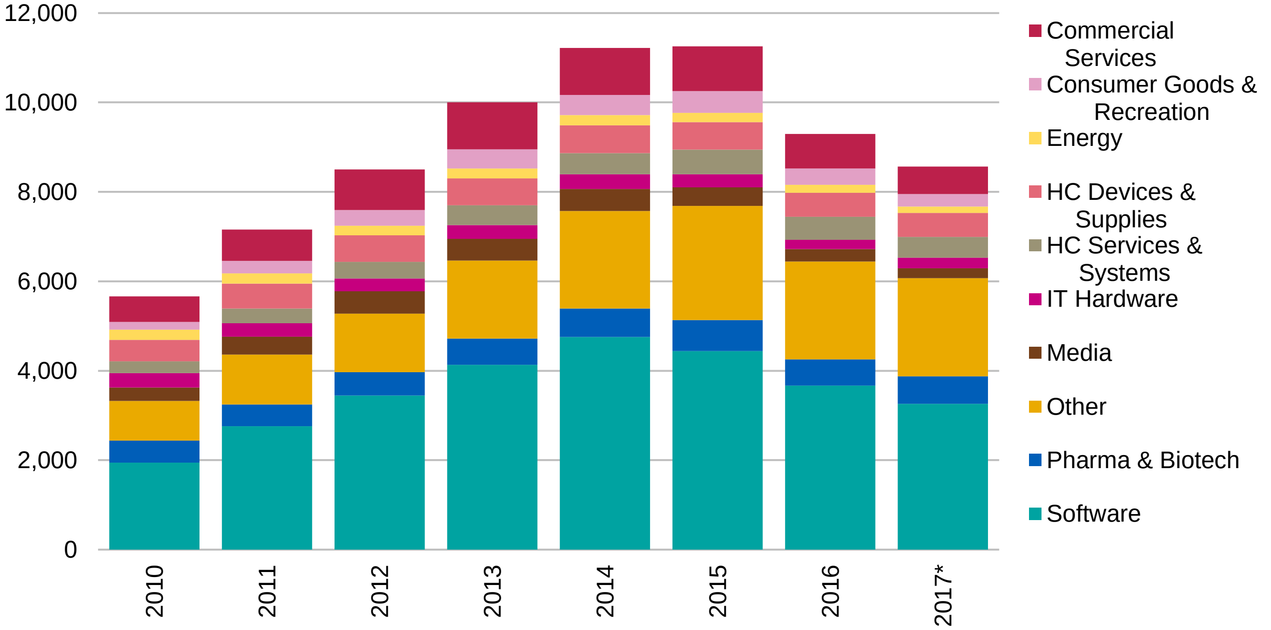
Venture financing of VC-backed companies by sector in the Americas

2010 — 2017*, VC invested ($B)



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

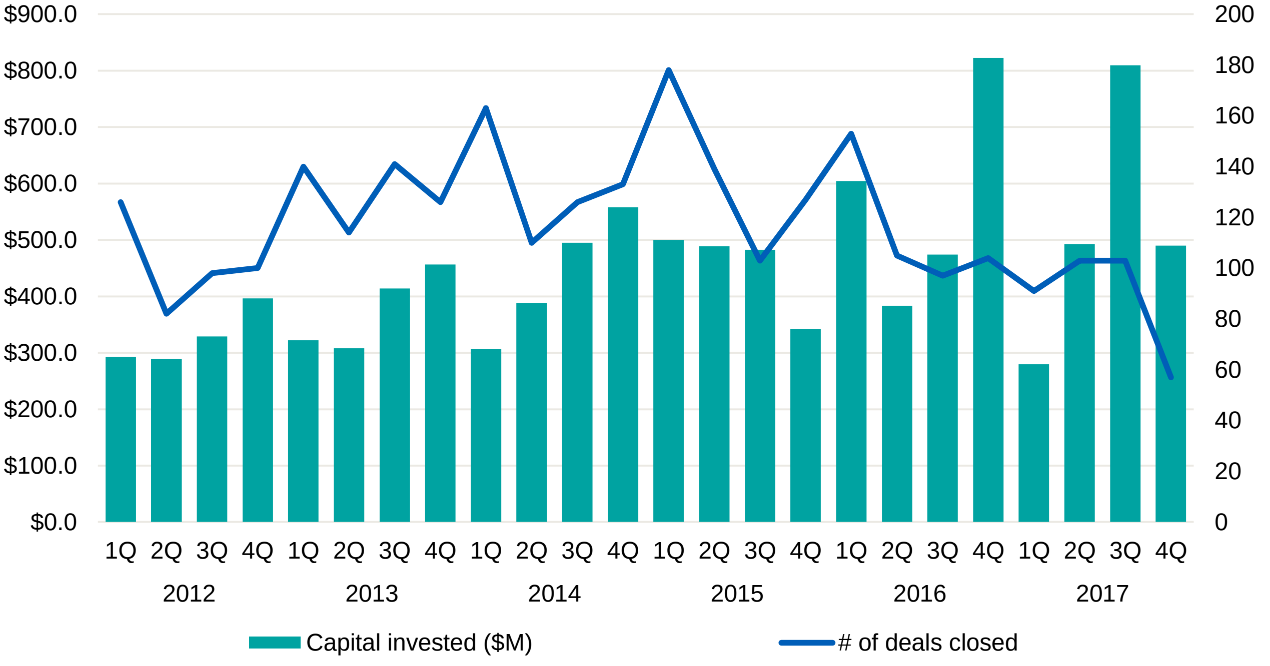
2010 — 2017*, # of closed deals



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

2017 sees second-highest year for VC invested

Venture financing in Canada
2012 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Since the middle of 2016, VC activity has been healthy within the Canadian ecosystem, with outlier quarters of VC invested. The final quarter of 2017 saw a steep downturn in volume, yet as VC invested still neared $500 million, it is clear the nation can still attract plenty of investor interest.

"Canada continues to provide a strong base for VC investment thanks, to its stable economy, low interest rates and top-notch innovation hubs. A very active incubator system has helped spur early-stage VC investment activity, although later-stage funding can be challenging, making it difficult for some companies to achieve scale."

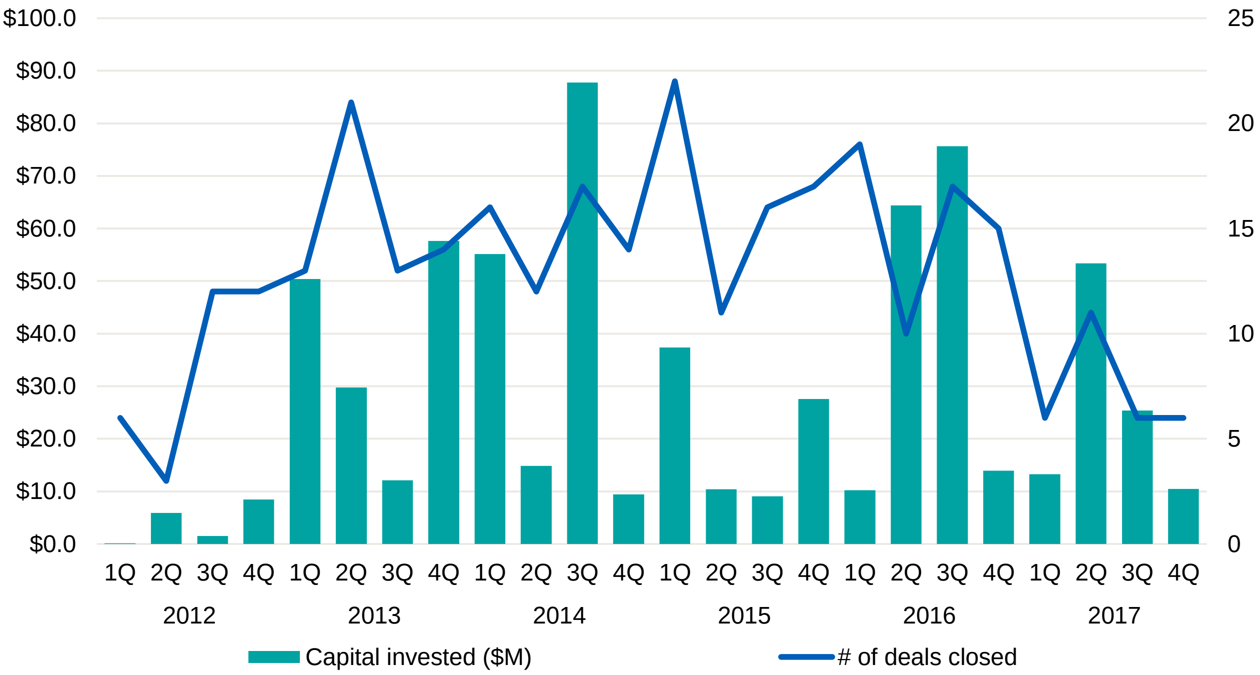
Sunil Mistry
Partner, KPMG Enterprise, Technology, Media and Telecommunications,
KPMG in Canada

KPMG Enterprise

Amid a decline in volume, VC invested is strong

Venture financing in Mexico

2012 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

The volume of completed venture financings in Mexico in 2017 fell far below the levels achieved in the 4 prior years. However, as the aggregate tally of VC invested just barely overtopped $100 million, it is clear there is still appetite for funding Mexican startups. Macropolitical factors clouded investment landscapes across international borders for much of 2017, so if sentiment becomes more positive, then the Mexican venture scene could pick up.

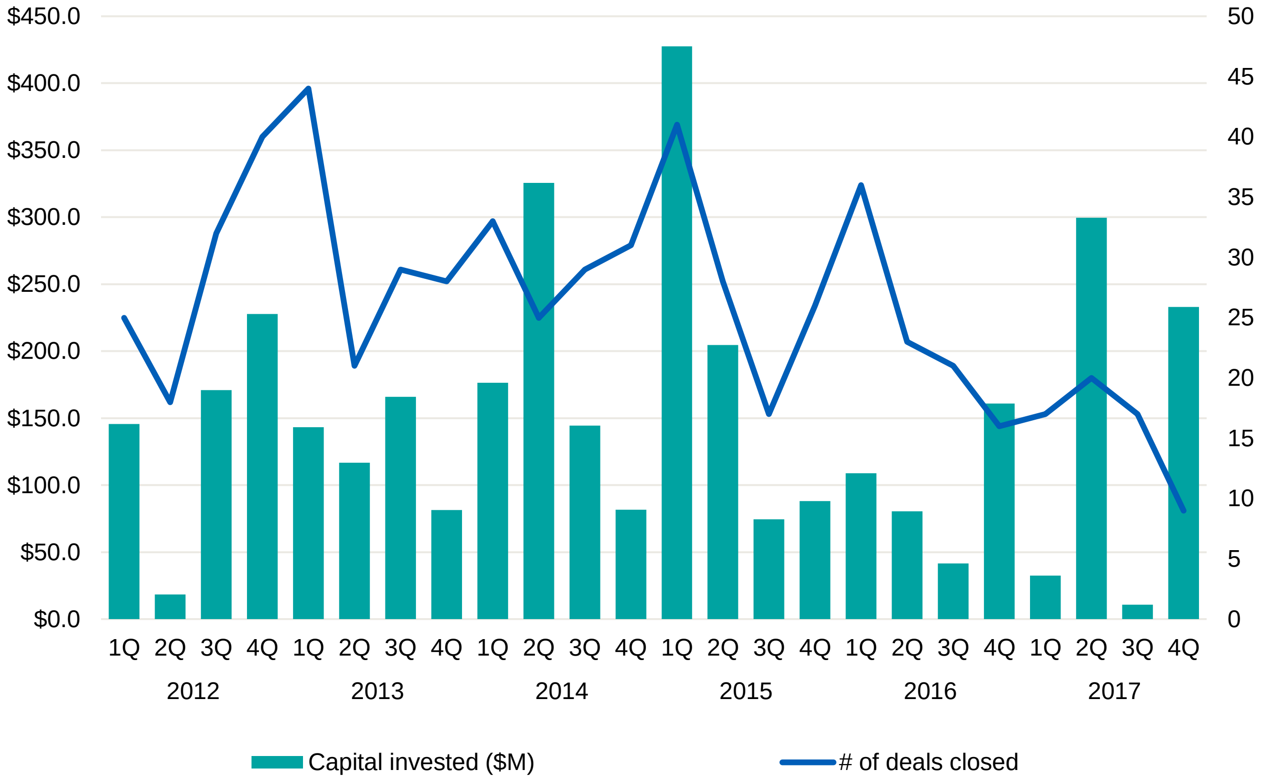
"VC investment in Mexico declined significantly early in 2017 as a result of shifting trade policies in the United States. Over the second half of the year, investment rebounded somewhat, particularly in the fintech space, with many fintechs focused on providing services to the large percentage of unbanked and underbanked people in the country. This slow rebound is expected to continue heading into the first quarter of 2018"

Gerardo Rojas
Partner,
KPMG in Mexico

All in all a quieter 2017, with B2C the focus

Venture financing in Brazil

2012 — Q4'17

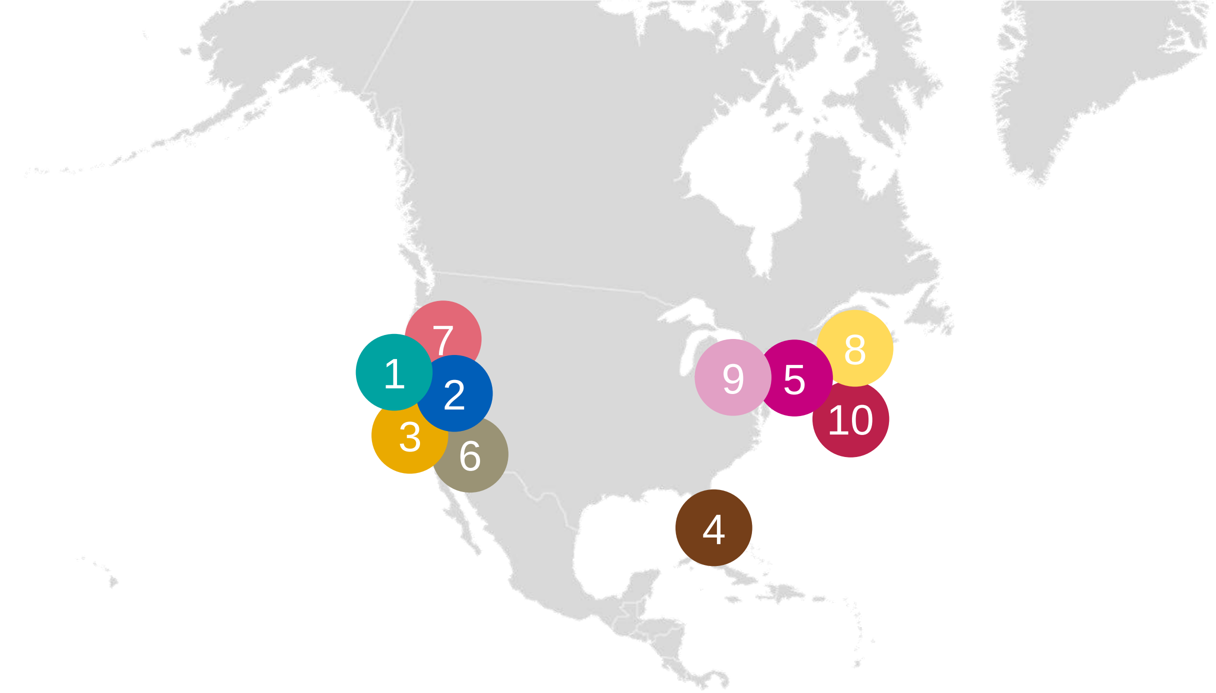


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

The Brazilian venture scene in 2017 enjoyed a boost from two companies' success: 99's massive $200 million funding in May and Movile's fundraising of multimillion-dollar rounds in June and December. It looks unlikely that Brazil's key arenas of consumer-focused fintech, commerce and transportation will cease to be of interest to venture firms in the year to come, so as the nation's political and economic fortunes stabilize, impacting consumer spending, there could be an upswing in 2018.

Enterprise

The coasts in the US close off 2017 strong, accounting for most mega-deals



1 **Lyft** — $1,500M, San Francisco
Transportation
Series H

2 **Grail (Biotechnology)** — $1,212M, Menlo Park, CA
Biotechnology
Series B

3 **Faraday Future** — $1,000M, Los Angeles
Transportation
Early-stage VC

4 **Magic Leap** — $502M, Plantation, FL
Application software
Series D

5 **Compass** — $500M, New York
Real estate services
Late-stage VC

6 **SpaceX** — $450M, Hawthorne, CA
Aerospace
Series H

7 **Essential Products** — $300M, Palo Alto, CA
Electronics (B2C)
Series B

8 **Ginkgo Bioworks** — $275M, Boston
Biotechnology
Series D

9 **Harmony Biosciences** — $270M, Plymouth Meeting, PA
Biotechnology
Early-stage VC

10 **Via (Carpooling)** — $250M, New York
Transportation
Late-stage VC

Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

KPMG Enterprise

In Q4'17 US VC-backed companies raised

$23.75B

across

1,778 deals

US VC investment achieves new high in 2017

In 2017, VC investment in the United States soared past the $83 billion mark, making it the strongest year of VC investment ever. Despite rising investment, deals volume plummeted as investors focused on placing bigger bets on a smaller number of companies.

Q4'17 results lifted by three $1 billion+ mega-deals

In Q4'17, three US-based companies raised $1 billion+ funding rounds, including ride-hailing company Lyft ($1.5 billion), cancer-screening biotech Grail Technology ($1.2 billion), and automotive financing company Faraday Future ($1 billion). The US also saw numerous additional $100 million+ rounds, with the top 10 deals in the country accounting for over a quarter of the total investment during Q4'17.

Investors remain focused on late-stage deals

In the US, VC investors focused on late-stage deals throughout 2017. While earlier in the year this trend was attributed primarily to investors de-risking their portfolios, the ongoing lack of exit activity has no doubt also become a contributing factor. As companies continued to choose to stay private longer, VC investors stepped in to bridge the gap.

With late-stage deals given priority, the number of deals at other funding levels have taken a significant hit. The decline in seed deals has been the most prominent, with the percentage of seed deals as a part of all deals during 2017 dropping to less than 30% compared to the 40% to 50% seen in previous years. Predictably, given the decline in seed deals, the number of first time financings in the US also declined, most notably in Q4'17.

While deal count has dropped, the size of seed and Series A deals has increased rapidly. Investors appear to be moving further downstream, making bigger investments into early-stage companies and turning some seed deals into Series A deals.

Secondary market providing much liquidity

With companies staying private longer, there has been growing pressure on US companies to provide liquidity opportunities to founders, employees and early-stage investors. As a result, there has been a significant increase in secondary market activity to fund liquidity opportunities and lessen the pressure to exit. Should the secondary market slow, the pressure to exit could return.

Decline in step up valuations

While the median valuation size of VC deals continued to increase during Q4'17, step-up valuations between companies' last private financings and their initial public offering valuations have been lower than historical norms. This suggests that the private sector valuations of some companies that went public during the year were likely inflated. Although, the low step-up valuations could also simply reflect that companies have not been public long enough to truly show their value. It will be important to watch how companies like Snap, Okta and Delivery Hero perform over the next few quarters to gain a better sense of post-IPO valuation trends[10].

Healthtech and biotech see strong growth in the US to close out 2017

Venture capital and corporate investor interest in healthtech and biotech grew significantly over the course of 2017, as demonstrated by several large deals in Q4'17, including Grail Technology's $1.2 billion Series B funding round and Harmony Biosciences' $270 million raise. Healthtech companies also topped the charts in terms of exits. The increase in exit activity has helped to spur more activity overall. Interest and investment in both outcomes-based healthtech and biotech are expected to remain hot well into 2018 given the aging population in the US and the increasing focus on prevention and lifestyle monitoring[11].

[10] https://pitchbook.com/news/articles/the-private-for-longer-effect-step-up-valuations-at-ipo-declining-for-us-vc-backed-companies
[11] https://pitchbook.com/news/articles/4-trends-in-vc-healthtech-investment

US VC investment achieves new high in 2017, cont'd.

This focus is only poised to grow given the size of the market and rising healthcare costs. Healthcare administration itself is also a massive industry ripe for disruption, with medical organizations hindered by legacy processes and systems and patients demanding greater access to their personal health and treatment information.

Corporates becoming more interested in transformative agtech

Agtech investment, particularly by corporates, grew significantly during 2017, reaching well above $600 million for the year. Interest in agtech is expected to grow in 2018, both in terms of technology-enabled marketplaces for the agriculture sector, and technology aimed at improving the effectiveness or sustainability of agriculture-related activities[12].

Corporate VCs have primarily focused on the latter case, seeing synergistic opportunities to increase the effectiveness of their operations or extend their product reach.

Trends to watch for in 2018

2018 is expected to build off the optimism that returned to the US VC market during 2017. The newly passed tax reform legislation is expected to have a positive impact on VC investment, and could draw capital back from overseas. This could have a resonating impact on M&A and drive more liquidity. The outlook for IPO activity in the early part of 2018 is also positive, particularly for companies in the life sciences and biotech markets, given the significant momentum these industries have gained over the last 12 months.

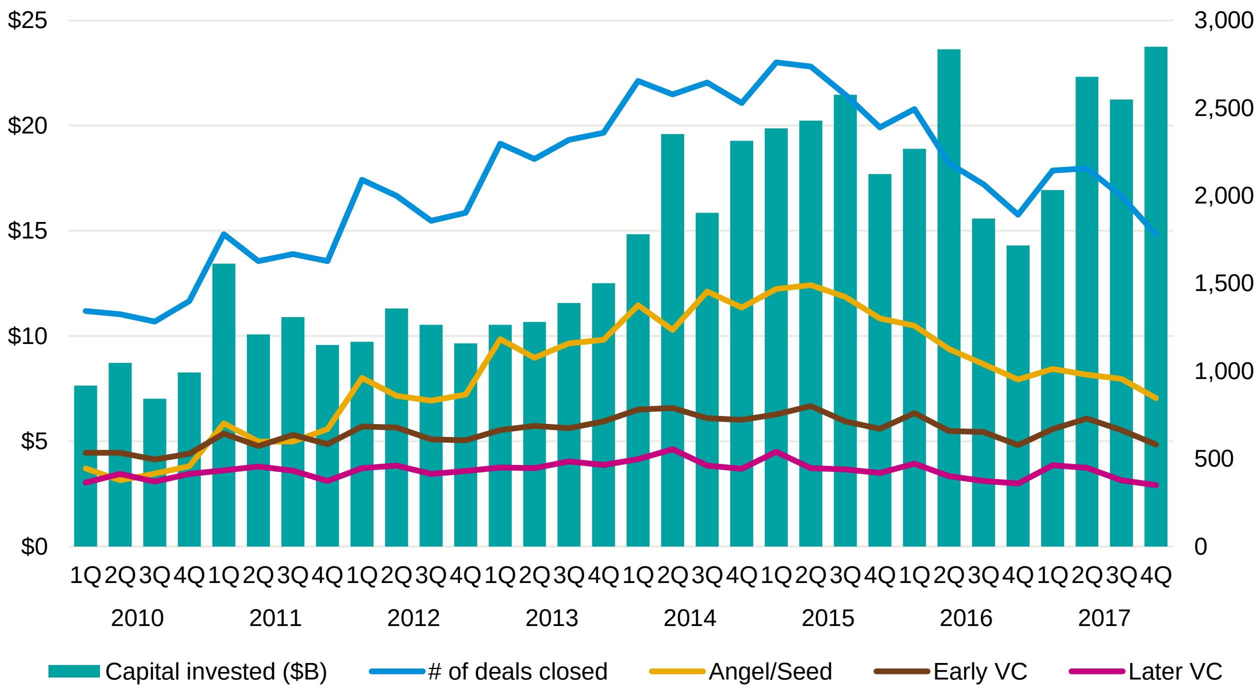
VC investor interest is also expected to strengthen as it relates to technologies such as, artificial intelligence, which have strong cross-industry applicability[13]. Blockchain investment is also expected to grow as VC investors recognize the opportunities blockchain presents in terms of making industries and verticals more efficient.

[12] https://pitchbook.com/news/articles/agtech-a-cvc-case-study
[13] https://pitchbook.com/news/articles/ai-is-replacing-software-a-look-at-the-industrys-unrelenting-rise

Three straight quarters of $20B+

Venture financing in the US

2010 — Q4'17



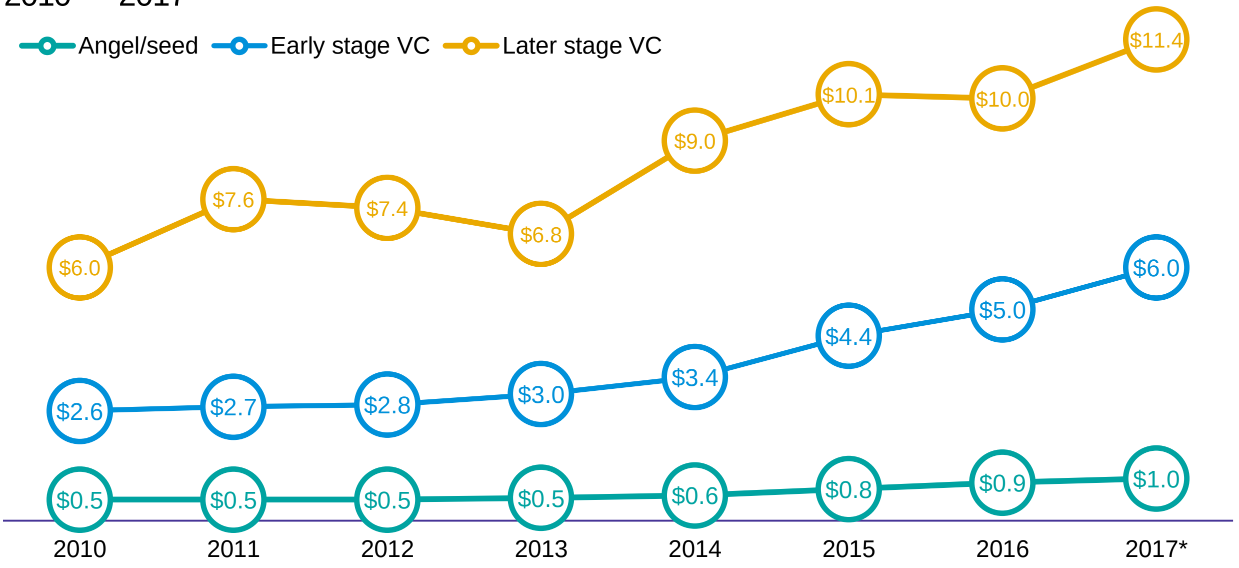
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

After a somewhat lower start to the year, the next 3 quarters of 2017 saw no less than $20 billion or more invested apiece, in an unprecedented run of largesse. Although the first 3 quarters of 2015 came close, Q1 fell just short. Such a massive tally of VC invested speaks not only to the ongoing impact of the unicorn population, but also the fact investors have now become more accustomed to such a lofty climate.

The new normal has been fully priced in

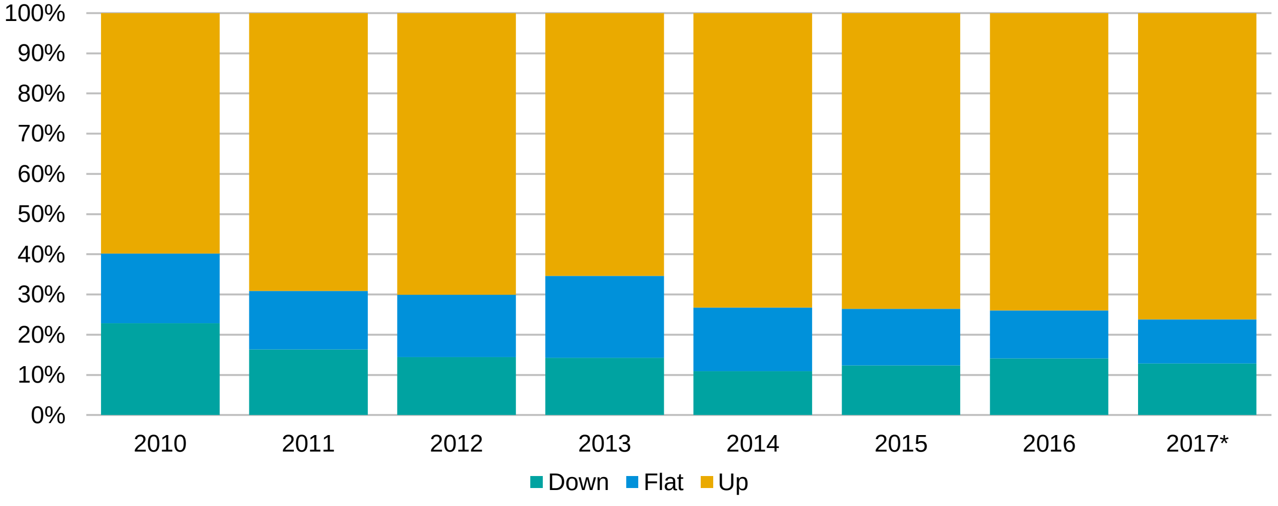
Median deal size ($M) by stage in the US

2010 — 2017*



Up, flat or down rounds in the US

2010 — 2017*



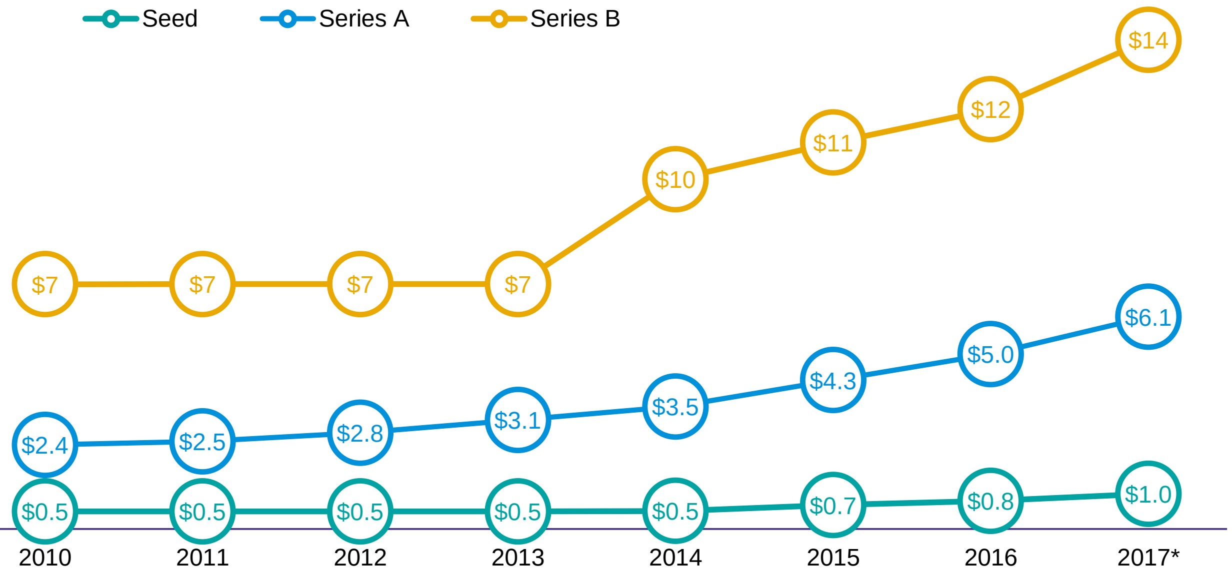
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

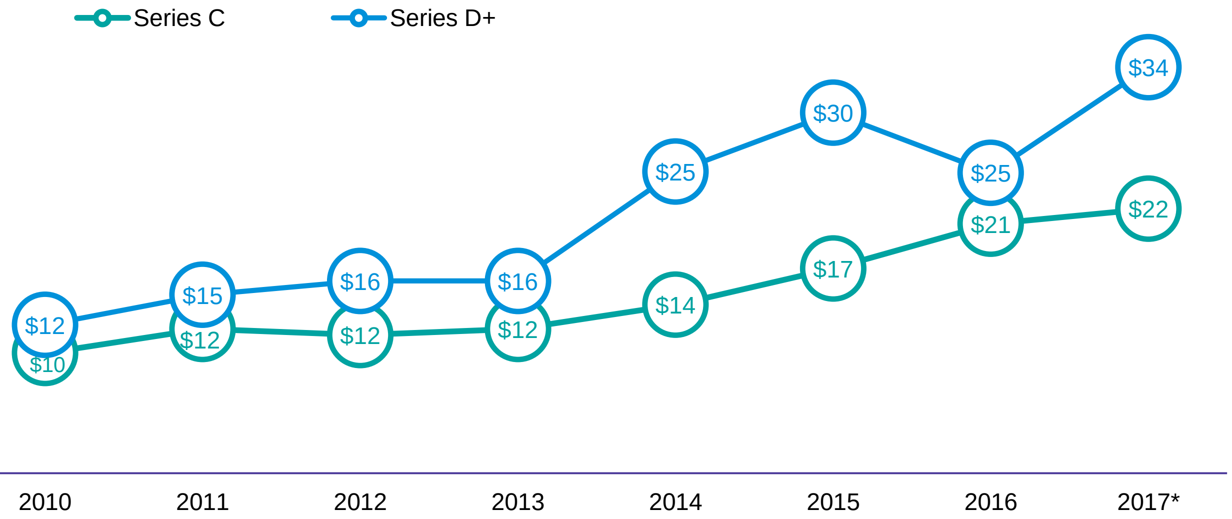
2017 has recorded higher figures for median deal size across all stages than any other year this decade. The question moving into 2018 is whether the rate of increase is leveling off, sustaining at that admittedly elevated plateau. It is likeliest figures will maintain more than anything, as there are few clear drivers for an increase.

Latest stage soars high once again

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

2010 — 2017*





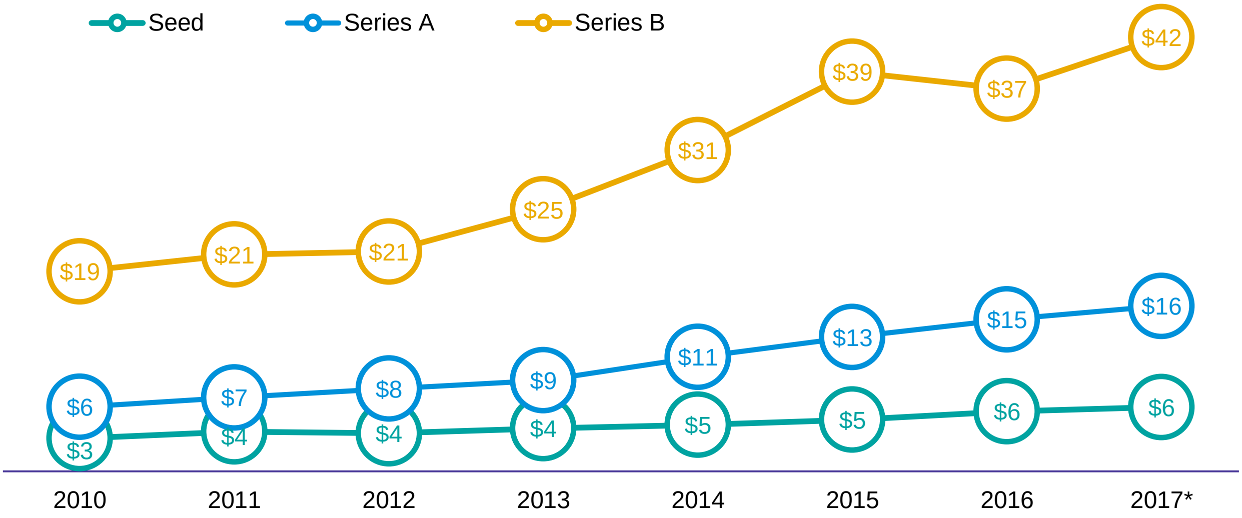
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

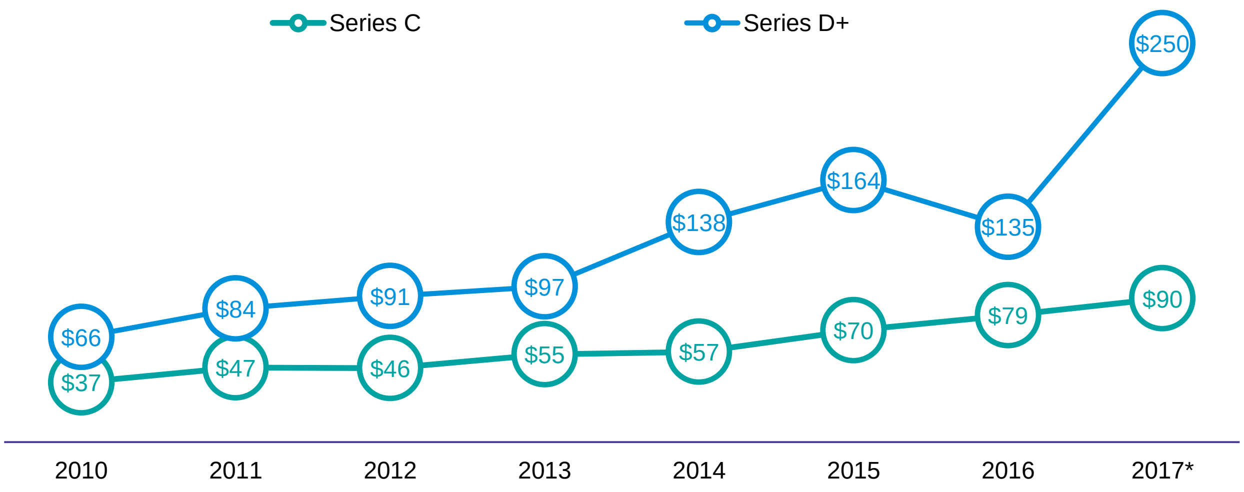
Note: Figures rounded in some cases for legibility.

Valuations close a historic year

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

2010 — 2017*





Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

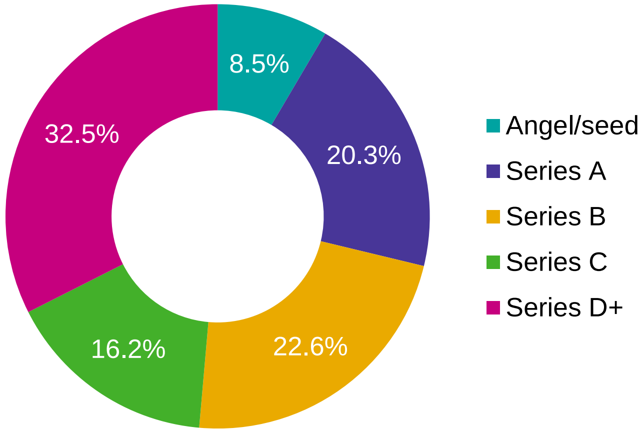
Note: Figures rounded in some cases for legibility.

Across the board, every single series notched a new high for the decade in terms of median, pre-money valuations. Especially when analyzing a single country's tallies, it is clear the US unicorn population is skewing the Series D or later category, but across the entire capital stack, valuations inched up higher. It is telling, however, that the rate of increase at the earliest level has been trending slower as of late, perhaps signifying a plateau to come.

The capital stack contracts at earlier stages

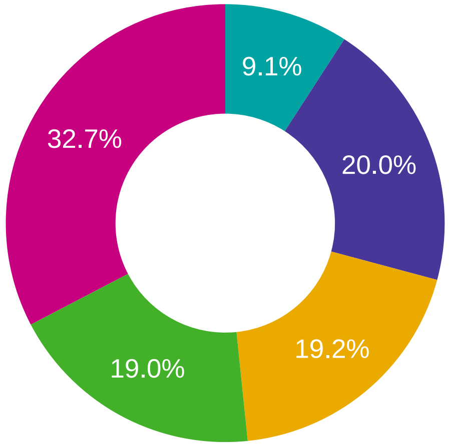
Deal share by series in the US

2017*, VC invested ($B)



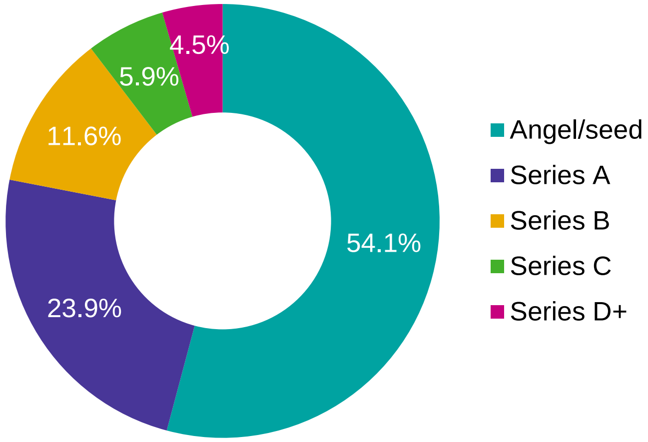
Deal share by series in the US

2016, VC invested ($B)



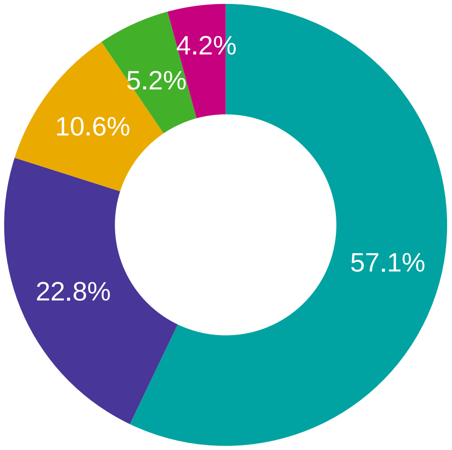
Deal share by series in the US

2017*, number of closed deals



Deal share by series in the US

2016, number of closed deals



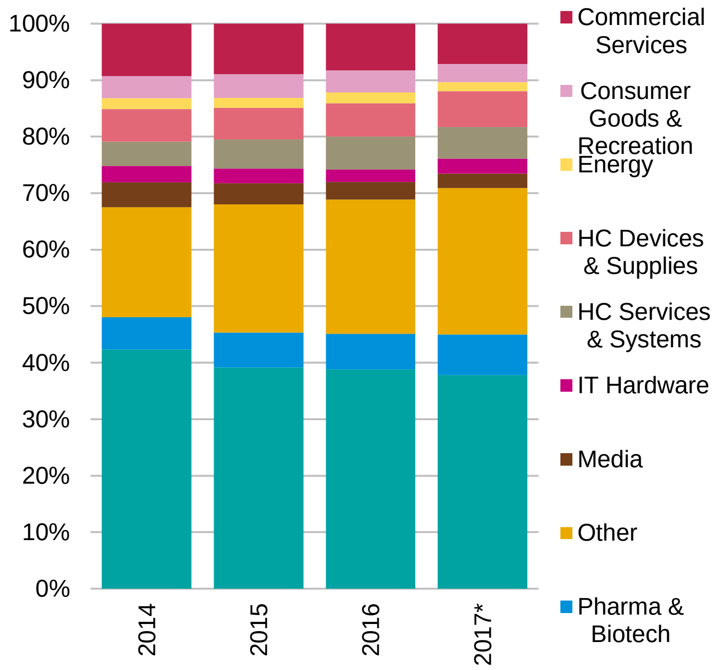
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/17. Data provided by PitchBook, January 16, 2018.

KPMG Enterprise

Pharma & biotech hit a record $12B+

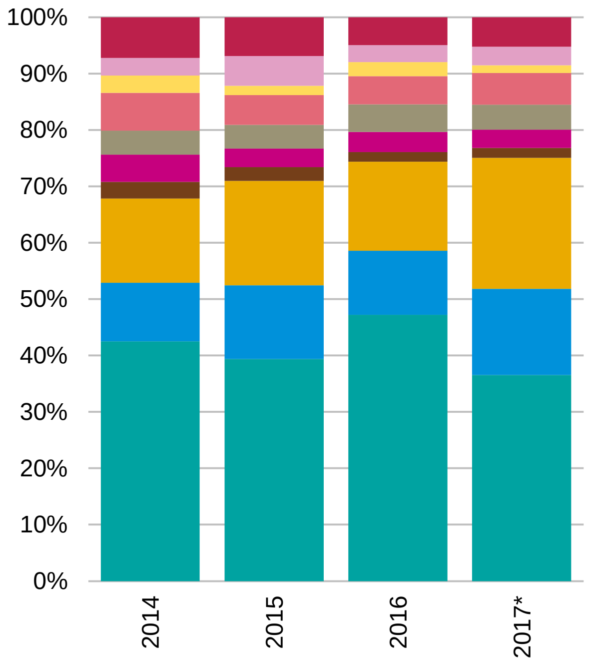
Venture financing by sector in the US

2014 — 2017*, number of closed deals



Venture financing by sector in the US

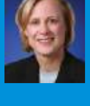
2014 — 2017*, VC invested ($B)



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

Going all the way back to 2006, there has never been another year to see as much VC invested in the pharma & biotech scene as 2017, with a truly mammoth $12 billion+ deployed by venture investors within the space. Although skewed significantly by the massive $1.2 billion financing of Grail in late November, finally closing after an initial tranche announced in March, it is clear that investors are keen to back the most promising ventures in the drug treatment ecosystem.

"VC investment in biotechnology and pharmaceuticals boomed in 2017, particularly in the US where Grail Technologies and Harmony Biosciences both had significant rounds in Q4. 2018 is expected to bring continued growth in the space, with strong IPOs projected to bring in premium valuations and therefore additional investments across deal stages"

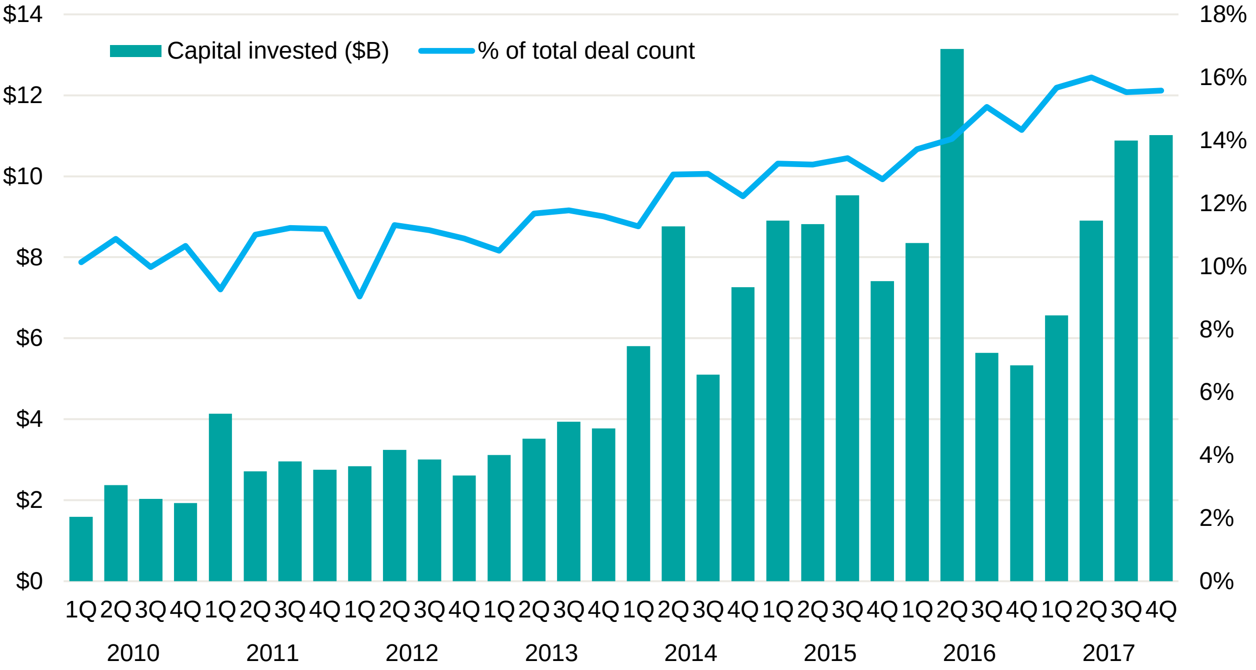


Janet Lehman
Partner in Charge, New England Clinical Life Science Practice, **KPMG in the US**

CVCs participate in another $10B+ quarter

Corporate participation in venture deals in the US

2010 — Q4'17



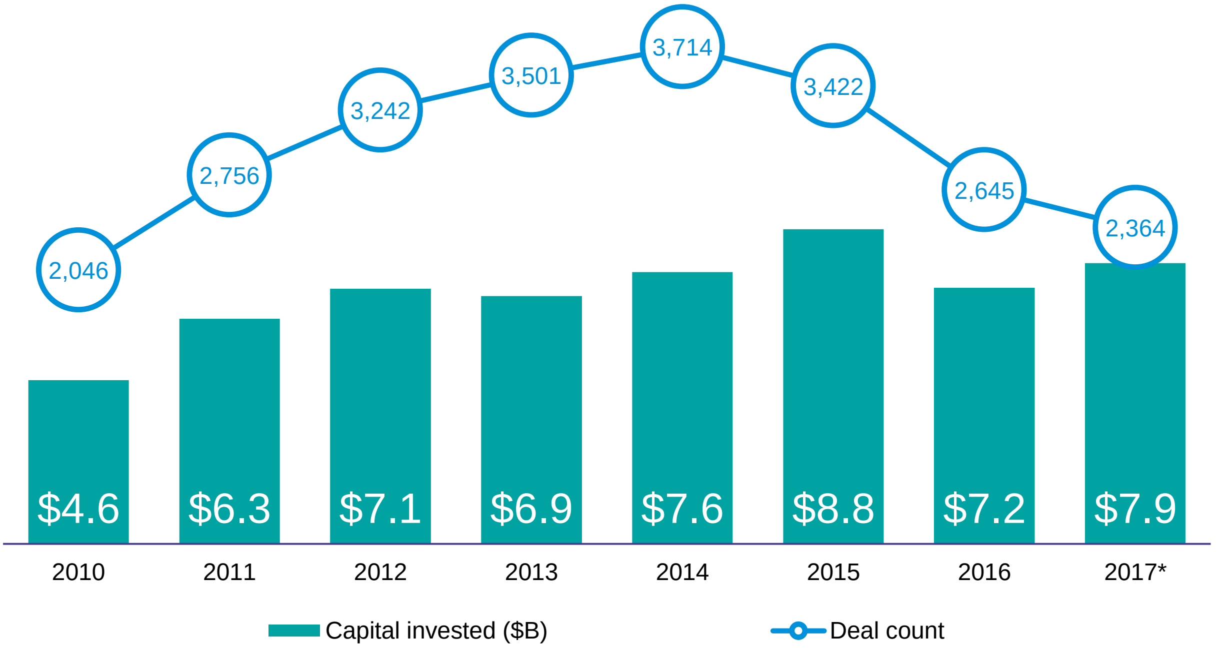
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

For the first time ever, corporate venture arms participated in venture financings summing to more than $10 billion in value in back-to-back quarters to close off 2017. Testifying to a continued late-stage focus on the part of many, but also, given their related proportion of overall venture activity, a greater focus on expanding their investment purviews, it is clear CVCs aren't going anywhere as 2018 kicks off.

VC invested outpaces 2016 to match second-highest tally yet, even as volume steadies

First-time venture financings of companies in the US

2010 — 2017*



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

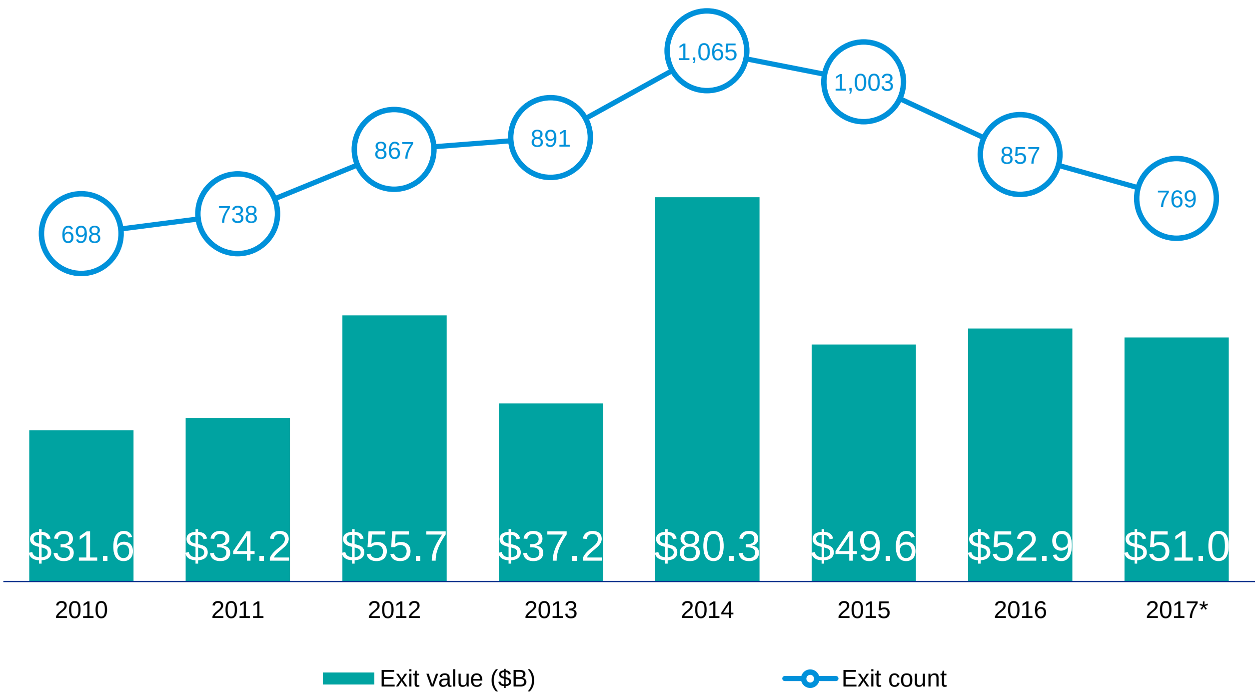
VCs remained quite selective in 2017, although the amount of capital committed to their coffers they are willing to dispense to even first-time enterprises remained lofty. 2017 will go down as one of the most lucrative years on record, even as the tally of first-time financings slumped to the lowest level since 2010.

KPMG Enterprise

A lucrative year even as selling contracts in count

Venture-backed exit activity in the US

2010 — Q4'17



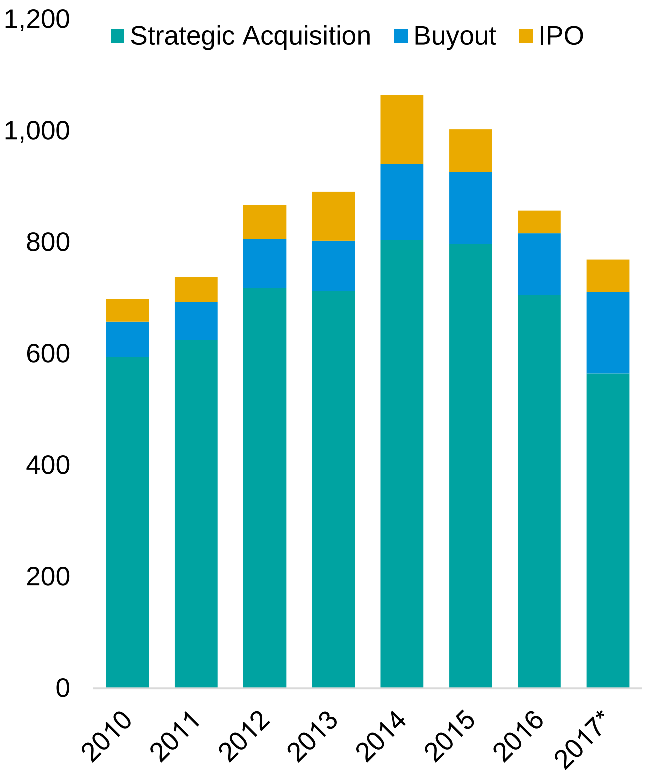
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

It's clear that 2017 marked another down year for exit volume in the US. VCs have already taken advantage of the massive M&A cycle that characterized the past few years, and the IPO window has yet to reopen to the extent seen in past years. Accordingly, in this maturing exit cycle, it's clear that timing will become ever more crucial for investors looking for liquidity, although given the positivity of macro factors in the US it is likely the subsiding exit cycle will be quite prolonged.

As IPOs remain a question, M&A remains popular

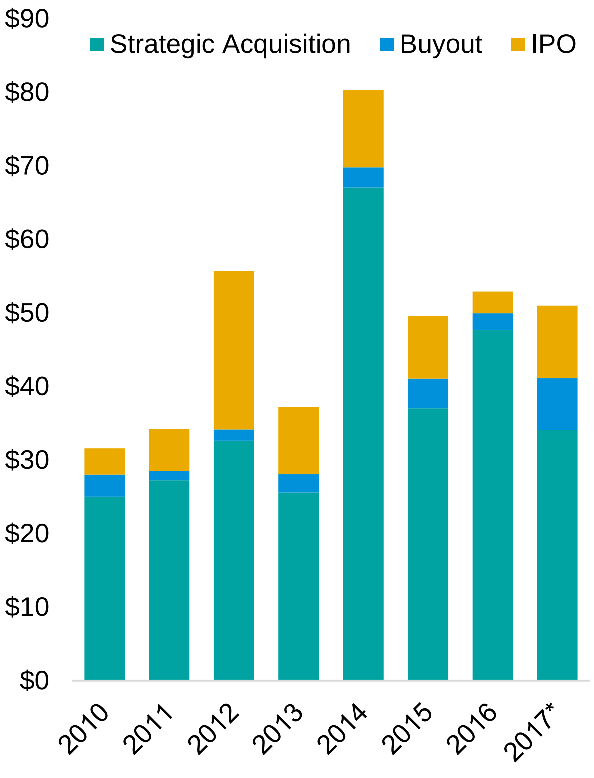
Venture-backed exit activity (#) by type in the US

2010 — 2017*



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

2010 — 2017*



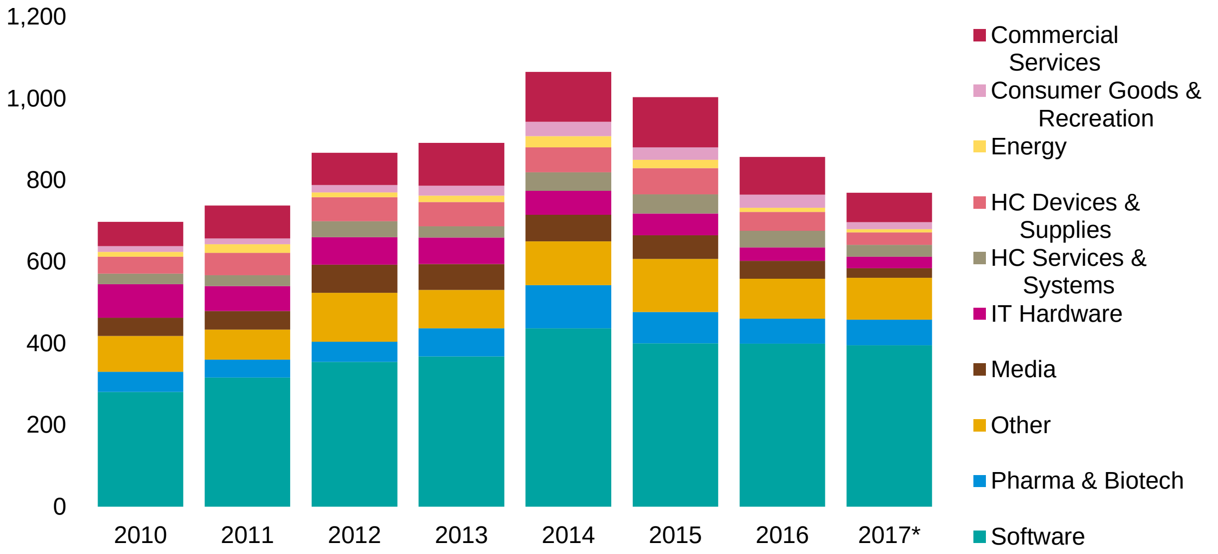
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

The bullish case for M&A as a source of liquidity for venture-backed companies in the US in 2018 is quite strong. Economic growth and consumer sentiment remain on the upswing, stock prices are remarkably high, and corporates hoard plenty of cash still. Moreover, many enterprises are still anxious to stay abreast of the clearly critical yet slowly moving fields of automated commerce, or to consolidate further in hard-pressed industries, such as healthcare services.

Software, pharma & biotech were most popular

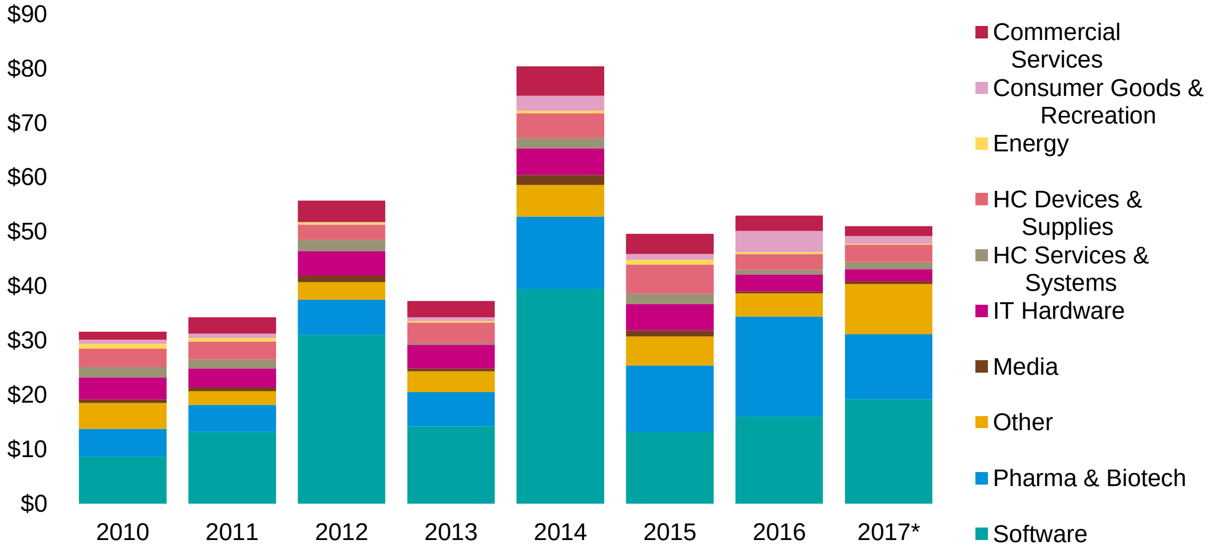
Venture-backed exit activity (#) by sector in the US

2010 — 2017*



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

2010 — 2017*

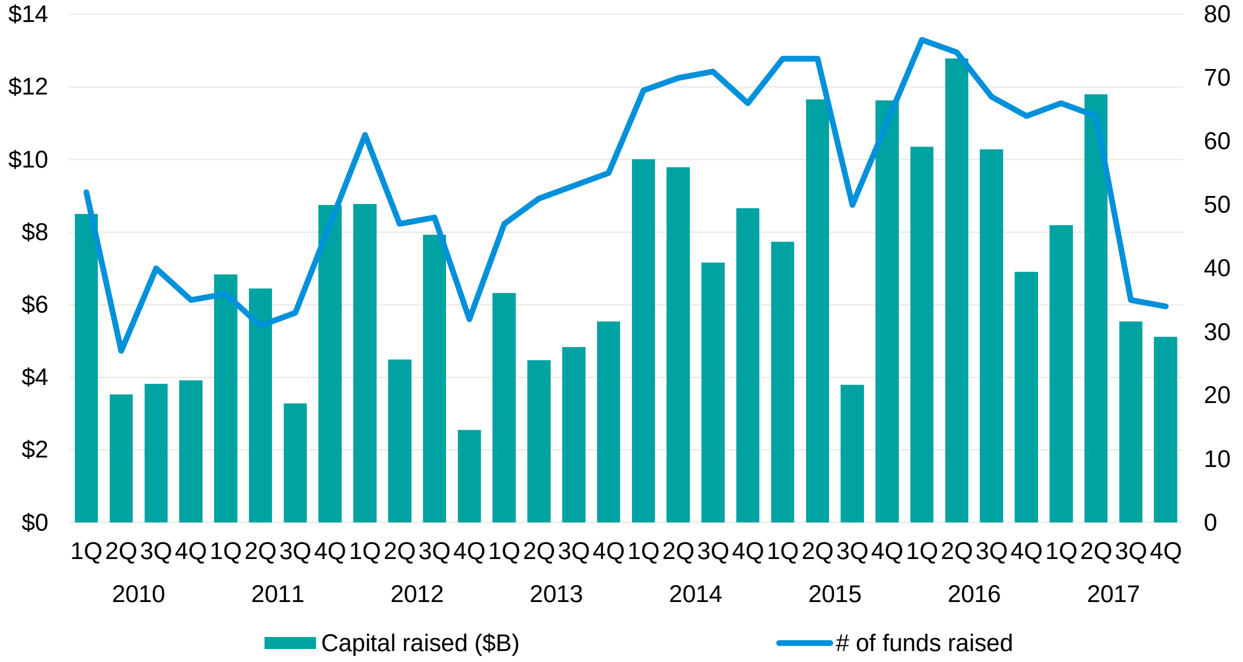


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

The fundraising cycle's latest figures signal a slowdown

US venture fundraising

2010 — Q4'17



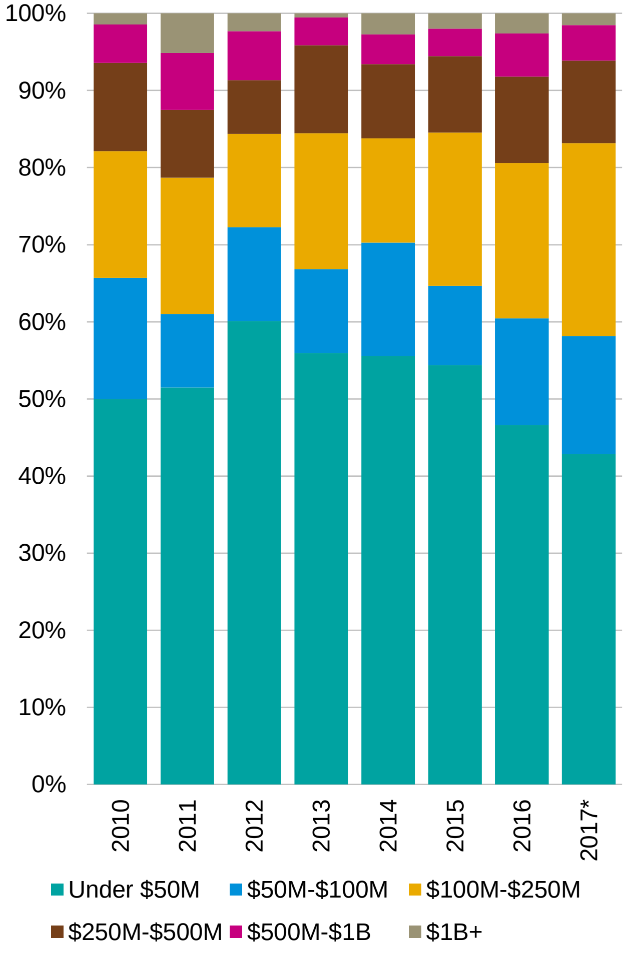
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Unless most venture fundraisers simply took a longer vacation than normal, it's likely that the fundraising cycle is signaling that it is ready for a slowdown. There haven't been back-to-back quarters of sub-40 funds closed since 2011, while the aggregate sums raised in the back half were much lower than any seen in the prior 3 years.

The early-stage slump affects fundraising prospects

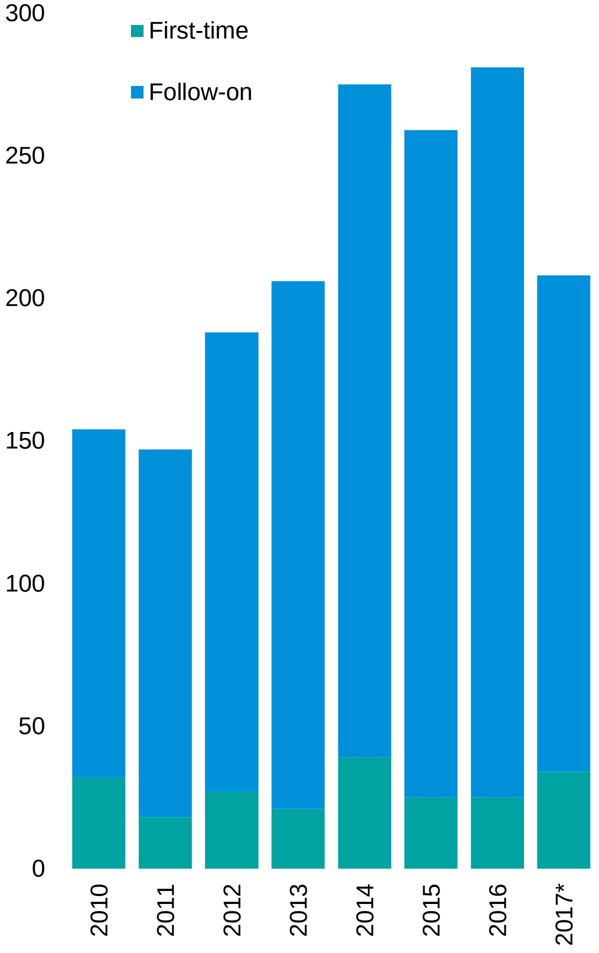
Venture fundraising (#) by size in the US

2010 — 2017*



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

2010 — 2017*



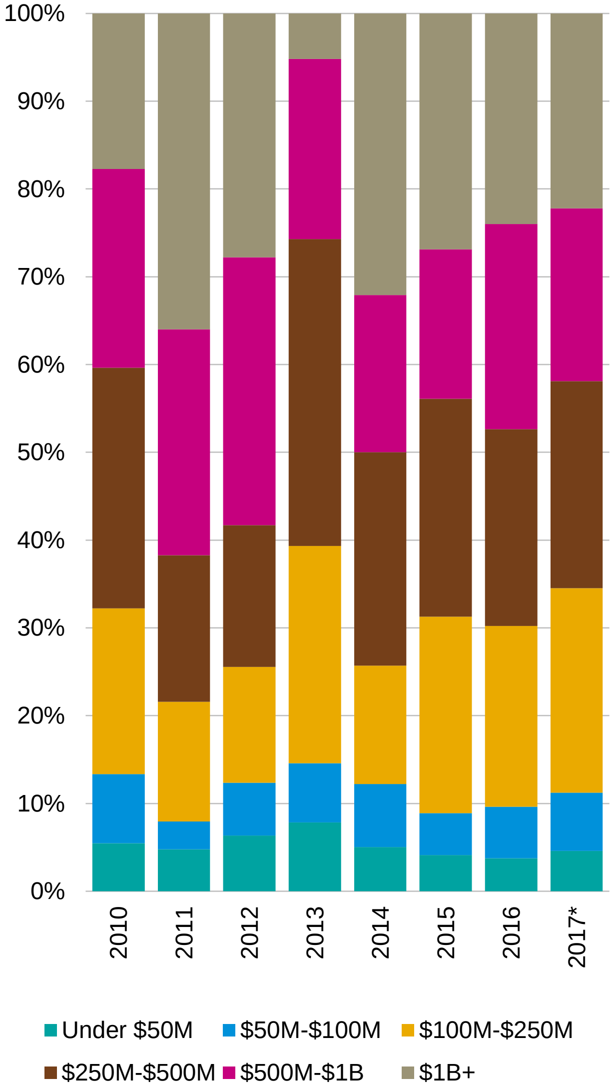
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

The shakeout in early-stage investing, wherein figures have declined for some time in a telling testimony to how difficult that high-risk arena is, also is reflected in fundraising tallies. Anecdotally, any manager looking to raise a seed fund these days simply needs a niche focus and demonstrated edge in a sector, usually, which are tough prerequisites to fill. Accordingly, volume is concentrated in the middle of the market for now.

But some VCs are successful in spinning out and raising their own funds nowadays

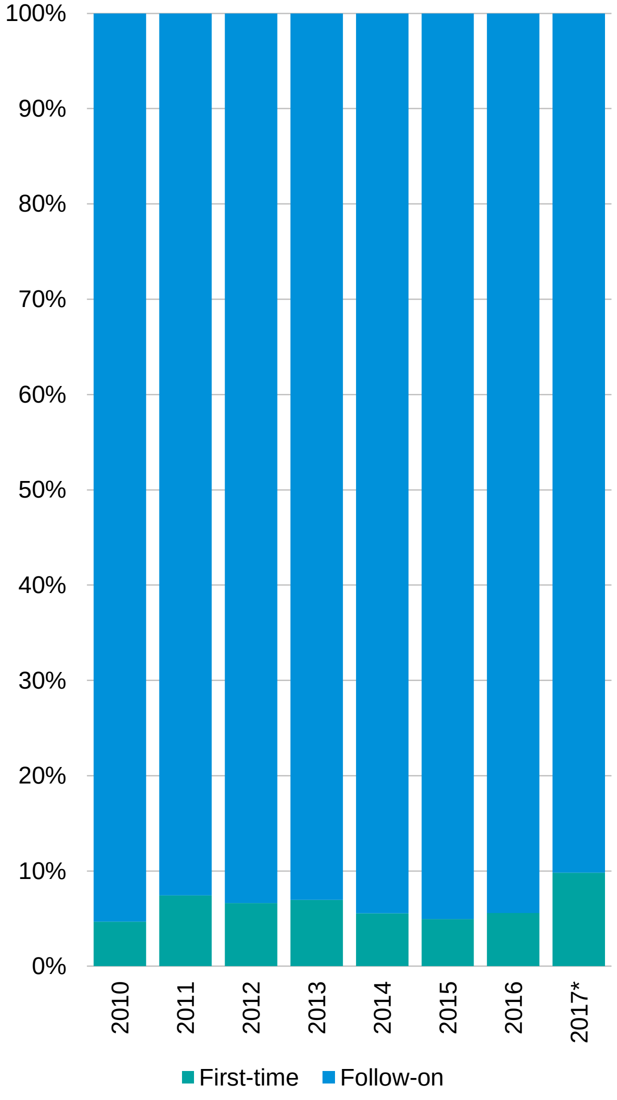
Venture fundraising ($B) by size in the US

2010 — 2017*



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

2010 — 2017*

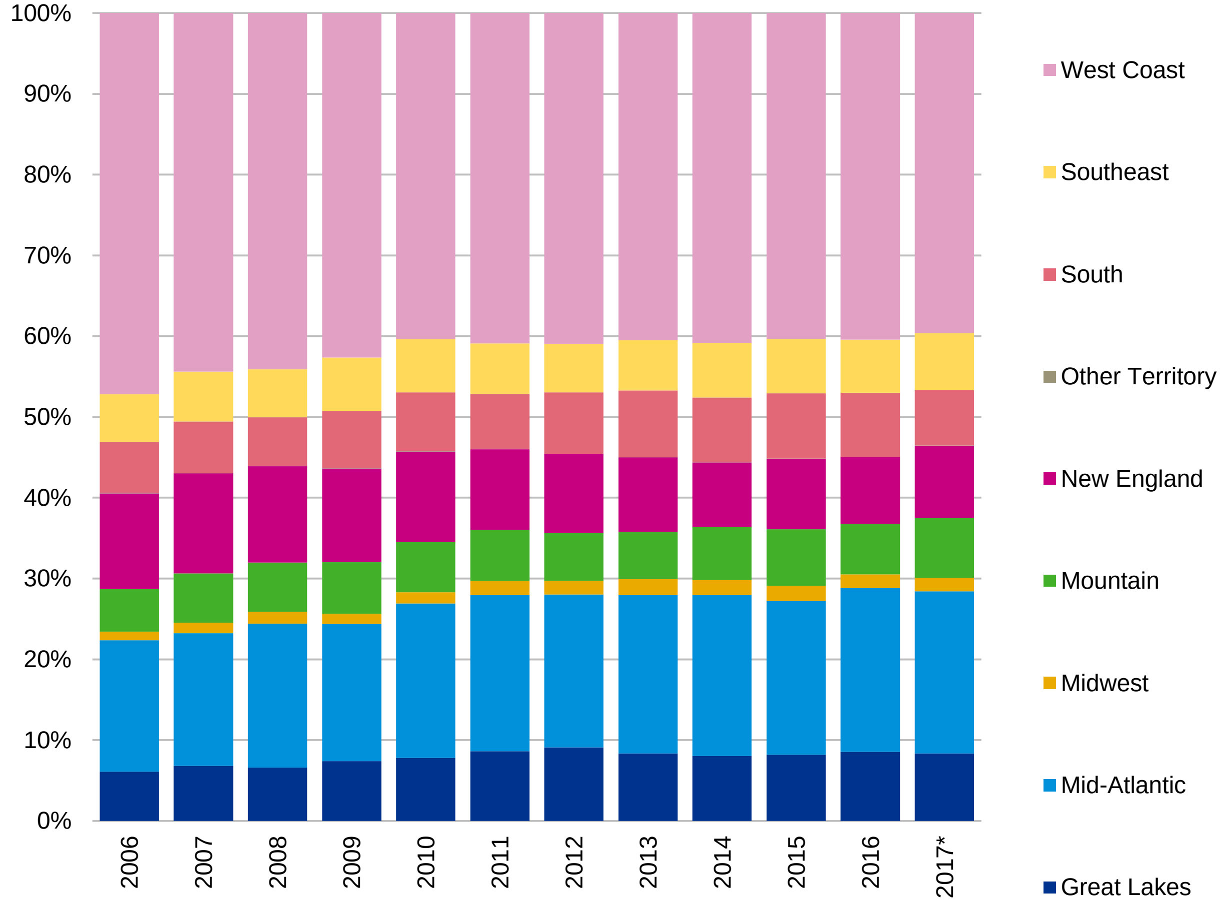


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

Geographic diversification becoming more worthwhile as prices remain high

US venture activity (#) by US region

2014 — 2017*

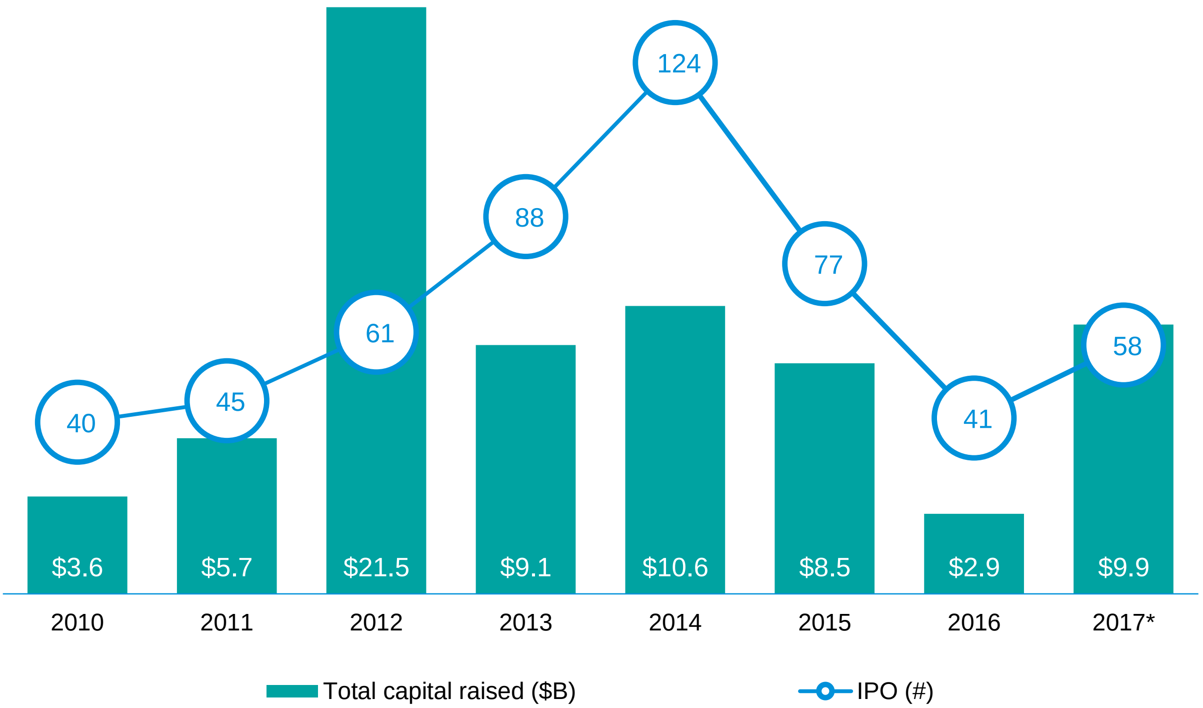


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

KPMG Enterprise

Slight uptick in IPOs setting stage for 2018?

US venture-backed IPO activity
2010 — 2017*



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

With 2017 in the rear-view mirror, it is clear that the IPO route remained much less popular than others. Still, some companies were able to experience stronger or at least stabler performance than expected, while the most prominent, such as Snap or Blue Apron, fizzled. However, one of the more pressing issues to keep an eye on is whether, encouraged by generally positive economic and market factors, more venture-backed unicorns brave the public markets in 2018.

“While there is no indication that we will return to the level of IPO activity we saw in 2015, there is a likelihood that 2018 will see an increased number of IPOs. However, the secondary market is poised to see even greater growth as many companies choose to remain private for longer.”

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

2017 IPOs ended up as a mixed bag

Select venture-backed US companies that went public in 2017 by offering size ($M)

Company name	Offering size ($M)	Last VC financing post-valuation ($M)	Market capitalization ($M)	HQ city	Industry group
Snap	$3,400	$16,270	$17,590	Los Angeles, CA	Application software
Blue Apron	$586.5	$2,000	$766.3	New York, NY	Food products
Roku	$252.3	$992.3	$5,070	Los Gatos, CA	Wireless Communications Equipment
Cloudera	$225	$4,110	$2,330	Palo Alto, CA	Database software
Okta	$187	$1,180	$2,610	San Francisco, CA	Network management software
CarGurus	$150.4	$1,010	$2,330	Cambridge, MA	Automotive
Rhythm Pharmaceuticals	$137.8	$80.7	$762.3	Boston, MA	Biotechnology
G1 Therapeutics	$116.7	$215	$543.1	Durham, NC	Biotechnology

Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Showcasing a selection of venture-backed IPOs in the US in 2017 is instructive, as it illustrates how it wasn't so much that no company could go public and do well, but that the public markets are still not nearly as forgiving as private markets have been. Blue Apron's IPO fizzled significantly, while Roku and Okta, and especially CarGurus, ended up performing decently relative to their last VC post-valuations. Helping boost overall IPOs completed, pharma & biotech companies went public at a decent clip, with Rhythm Pharmaceuticals finally completing an IPO after canceling initial plans three or so years ago.

KPMG Enterprise

In Q4'17 European VC-backed companies raised

$5.7B

across

535 deals

European VC funding up significantly in 2017, falls shy of 2015 peak

VC investment in Europe remained strong in Q4'17, bringing the total annual investment in the region to record levels, despite an ongoing decline in deal volume. Companies in the UK raised the lion's share of investment during Q4'17, accounting for seven of the top 10 European deals.

Median deal sizes up in Europe across all deal stages

VC investors in Europe continued to focus on quality over quantity in Q4'17, providing a smaller group of companies with more funding rather than investing in numerous opportunities. A look at median deal sizes shows the magnitude of this trend, with numbers up across all deal stages. Late-stage VC saw the largest increase, with a median deal size of $6.2 million in 2017[14].

Pharma & Biotech booming in Europe

Pharma & biotech attracted a significant amount of attention in Europe during Q4'17, with Switzerland-based ADC Therapeutics raising $200 million and Germany-based CureVac raising $100 million. On an annualized basis, investment in pharma & biotech was also up significantly in Europe, reaching a record high $2.37 billion. In addition to these large deals, there was a considerable amount of biotech investment in the UK, where biotech hubs have formed around Cambridge and Oxford[15].

US investors targeting European VC market

Following a drop-off in activity during 2016, the participation of US-based investors in European VC deals rose dramatically in 2017. During the year, US investors participated in 17.1% of European VC deals, up from 13% in 2016. The increase in US investor activity can attributed partly to the growing maturity of Europe-based technology companies seeking out later stage funding. Bigger deal opportunities have been particularly attractive to US investors, which has also helped increase their participation.

VC investment rises significantly in Germany

Despite a continued decline in the number of VC deals, VC investment in Germany increased year-over-year, with VC investors focusing on providing more money to a smaller number of high-quality companies rather than investing in numerous opportunities. This shift in focus has both helped investors to de-risk their portfolios and reduce the high transaction costs associated with making numerous deals.

Corporate participation in the German VC market also expanded over the course of 2017, with corporate venture capital not only acting as limited partners in deals or as contributors to VC funds, but some also working to set up their own VC funds.

While biotech company CureVac's $100 million raise was Germany's largest deal this quarter, fintech and autotech were also strong areas of investment, particularly for corporates. For example, smaller banks began to follow the lead of their larger competitors by setting up VC funds to invest in fintech.

Meanwhile, automotive giants such as Audi, Porsche and Volkswagen have increasingly invested in startups in order stay on top of industry changes. Heading into 2018, each of these areas is expected to remain attractive, while areas such as blockchain and cryptocurrencies are also expected to see growth.

[14] https://pitchbook.com/news/articles/the-state-of-vc-in-europe-and-israel-in-11-charts
[15] https://pitchbook.com/news/articles/vc-investment-in-biotech-blasts-through-10b-barrier-in-2017

European VC finding up significantly in 2017, falls shy of 2015 peak, cont'd.

UK sees massive increase in VC investment in Q4'17

VC investment in the UK achieved a record high in Q4'17, with seven deals attracting $100 million+ mega-rounds, including Deliveroo ($482 million), Truphone ($336 million), TransferWise ($280 million), OakNorth ($203 million), The Ink Factory ($180 million), Orchard Therapeutics ($112 million) and SecretEscapes ($109 million).

This increase in VC investment was somewhat noteworthy given the level of economic uncertainty in the UK this year. The depreciation of the British Pound may have driven some value-play investments, while the number of late-stage deals likely reflects the commitment of VC investors to established companies in their portfolios.

The UK government's firm support for innovation has no doubt also helped retain VC investor attention. In its recent budget[16], the UK government announced the creation of specific funds to support startup and scale-up opportunities, including £75 million for AI and £400 million for electric car charging points. During Q4'17, fintech was a major area of investment in the UK. In addition to TransferWise and OakNorth, Monzo, WorldRemit, and Salary Finance also raised significant funding during the quarter.

France growing in importance*

Over the past 12 months, France has become an increasingly important player in the overall VC market in Europe, with VC investments primarily focused on healthtech, biotech, and artificial intelligence. While total VC investment in France paled in comparison to the UK, the country hosted a greater number of deals, particularly at the earliest deal stages. France's innovation ecosystem is expected to continue to thrive heading into 2018, propelled by the recent opening of the Station F startup campus and the Macron government's strong commitment to supporting innovation. La French Tech has also continued to expand its global reach and to support France attractiveness. It recently implemented the "French Tech Visa", a simplified and accelerated procedure to welcome foreign entrepreneurs and facilitate their business development in France.[17]

Israel continues to attract global attention

Corporates continued to pour direct and indirect investments into Israel during Q4'17 in the wake of Intel's acquisition of Mobileye earlier this year. M&A activity also continued apace, particularly in autotech, where Germany-based Continental acquired autotech cybersecurity company Argus Security for $360 million, and US-based Lear Corp. acquired GPS technology developer EXO Technologies for $50 million.

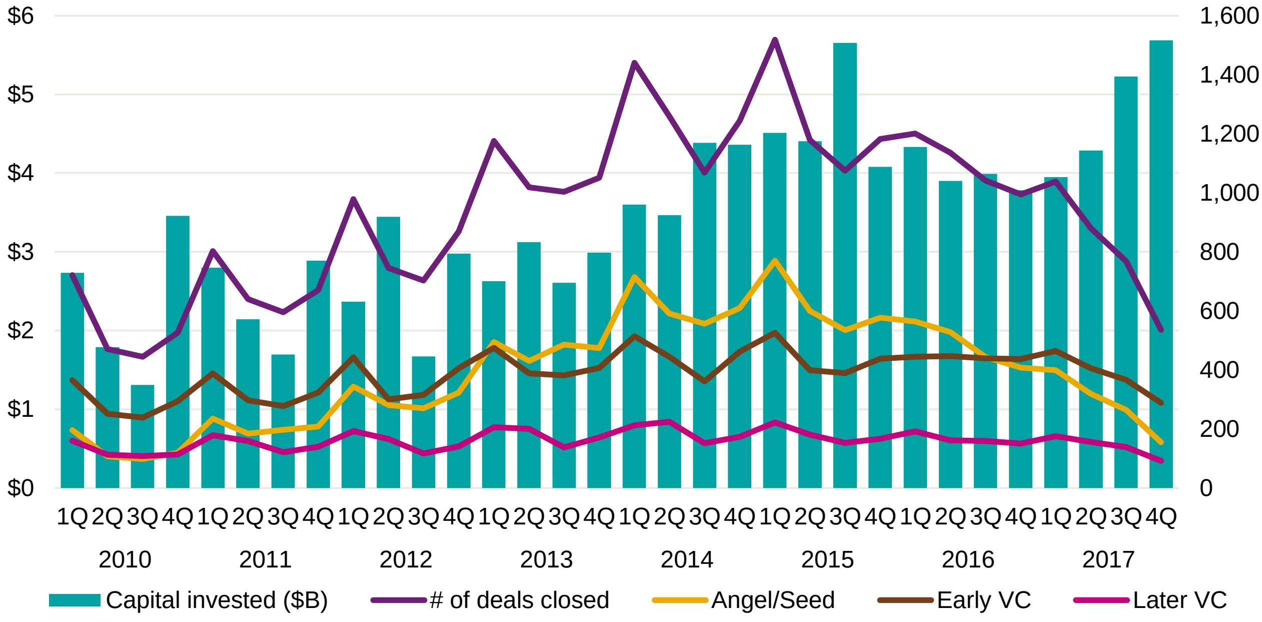
Trends to watch for in 2018

VC investment in Europe is expected to continue to thrive in 2018. The implementation of PSD2 is expected to have a strong influence on investment patterns within fintech, particularly in Europe, as companies look to take advantage of the new regulations and requirements. In addition to fintech, healthtech, autotech and agtech are also expected to gain additional traction from VC investors.

* See page 78 for a deep dive on VC investment in France
[16] https://medium.com/@Momentum_London/autumn-budget-2017-what-it-means-for-tech-and-startups-7fceac9837e6
[17] https://visa.lafrenchtech.com/

Europe set to match most VC invested in a single year, ever

Venture financing in Europe
2010 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Even as venture financing contracts in volume in Europe, the sums invested keep piling up. Still aided significantly by hefty financings such as those of Deliveroo's $482 million Series F in November, the European venture scene is unlikely to see such totals slump anytime soon, even as activity normalizes to more typical historical levels.

"Rather than spreading their investments more broadly, investors in European companies have also chosen to continue to back later stage companies. This is enabling companies to remain private longer but supporting them with the capital they need to compete at a very large scale. A case in point is UK based Deliveroo securing a major investment in Q4, pitching it squarely against its publically listed competitor Just Eat."

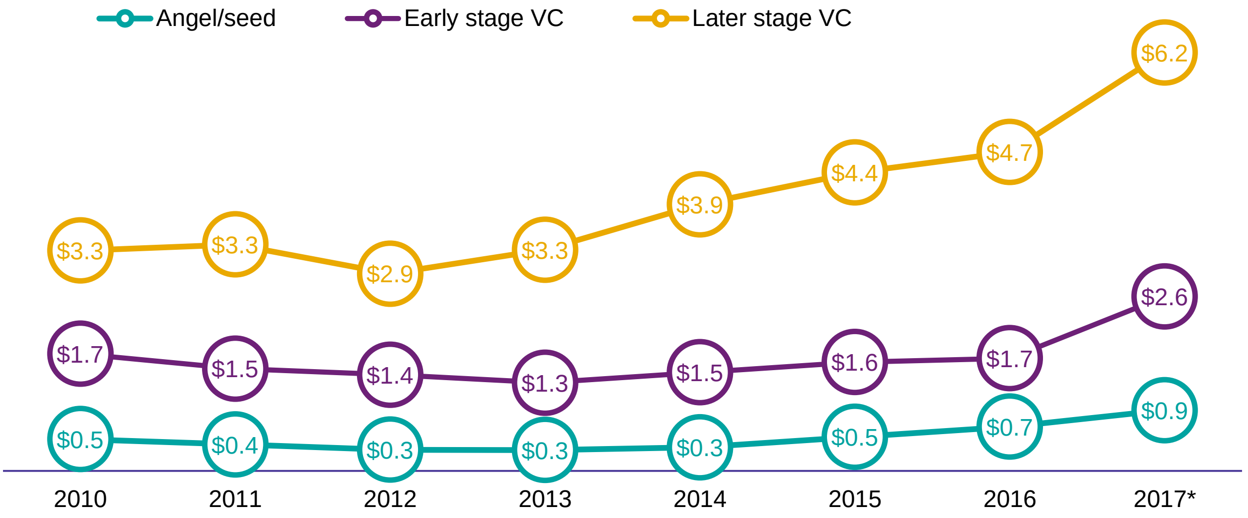
Anna Scally
Partner, Head of Technology, and Media and Fintech Lead, **KPMG in Ireland**

KPMG Enterprise

Rise in median deal sizes signals investor caution and availability of dry powder

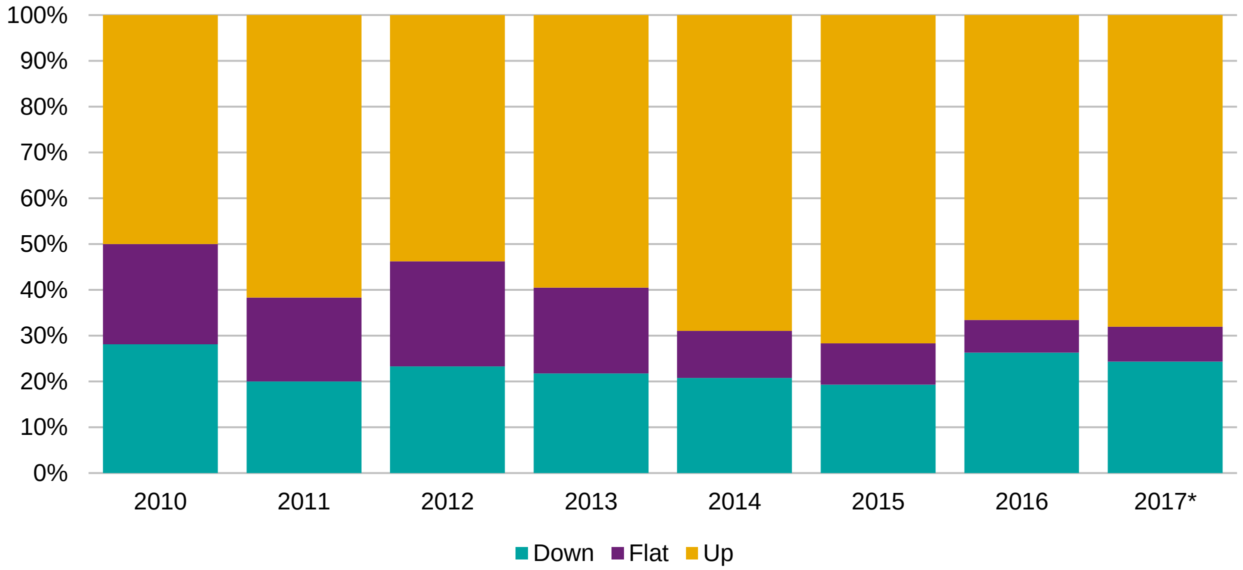
Median deal size ($M) by stage in Europe

2010 — 2017*



Up, flat or down rounds in Europe

2010 — 2017*



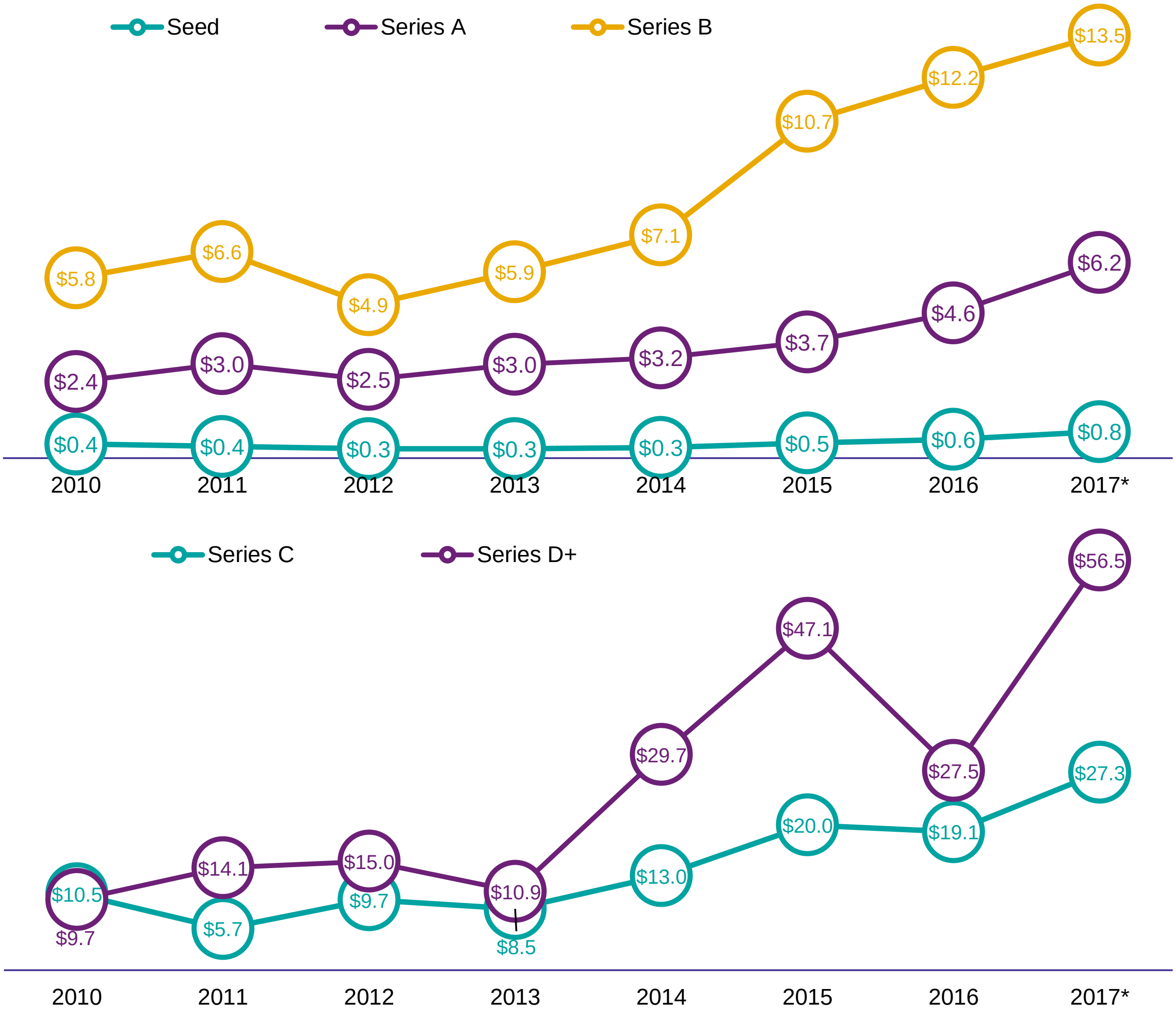
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

KPMG Enterprise

Series A & B stay at elevated level

Median deal size ($M) by series in Europe

2010 — 2017*



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

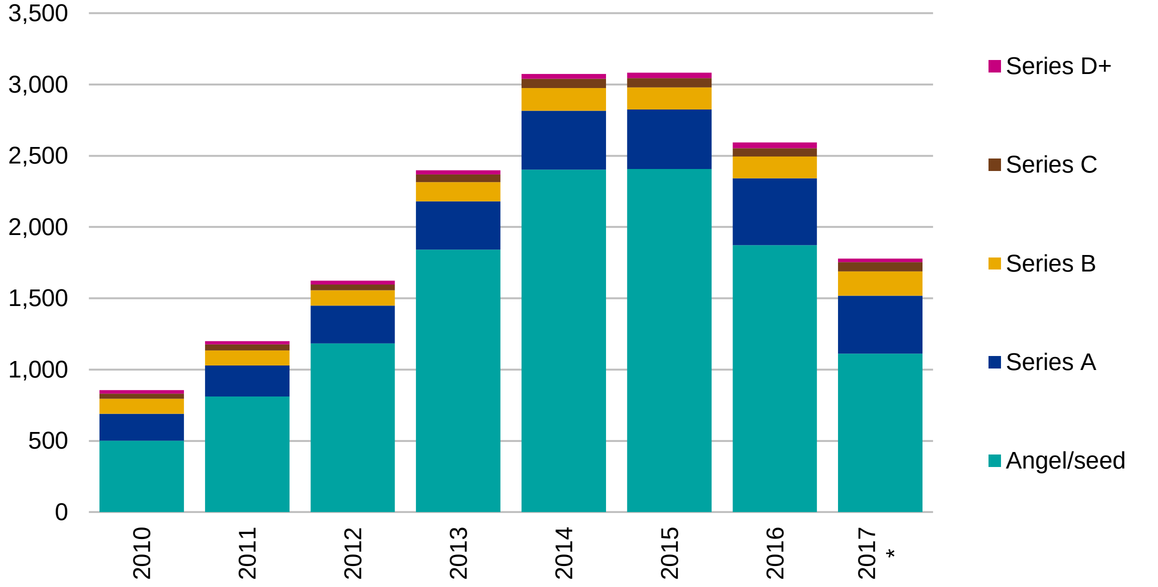
Driven in part by considerable upward pressure from dry powder, but also by macro dynamics still holding relatively steady, median financing sizes are still at an elevated or even increasing level.

KPMG Enterprise

Series Bs' biggest year yet

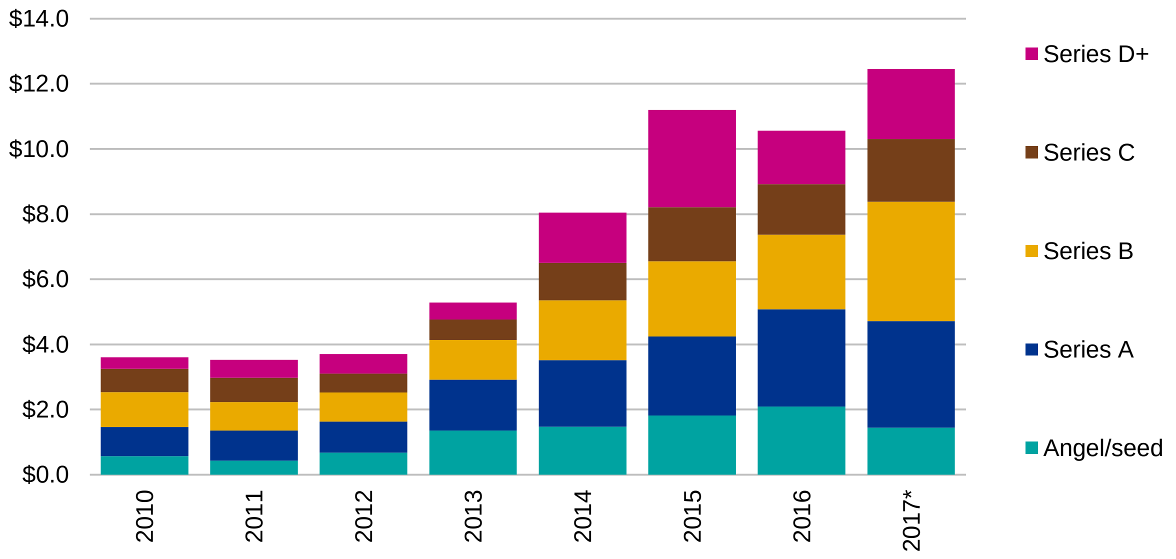
Deal share by series in Europe

2010 — 2017*, number of closed deals



Deal share by series in Europe

2010 — 2017*, VC invested ($B)

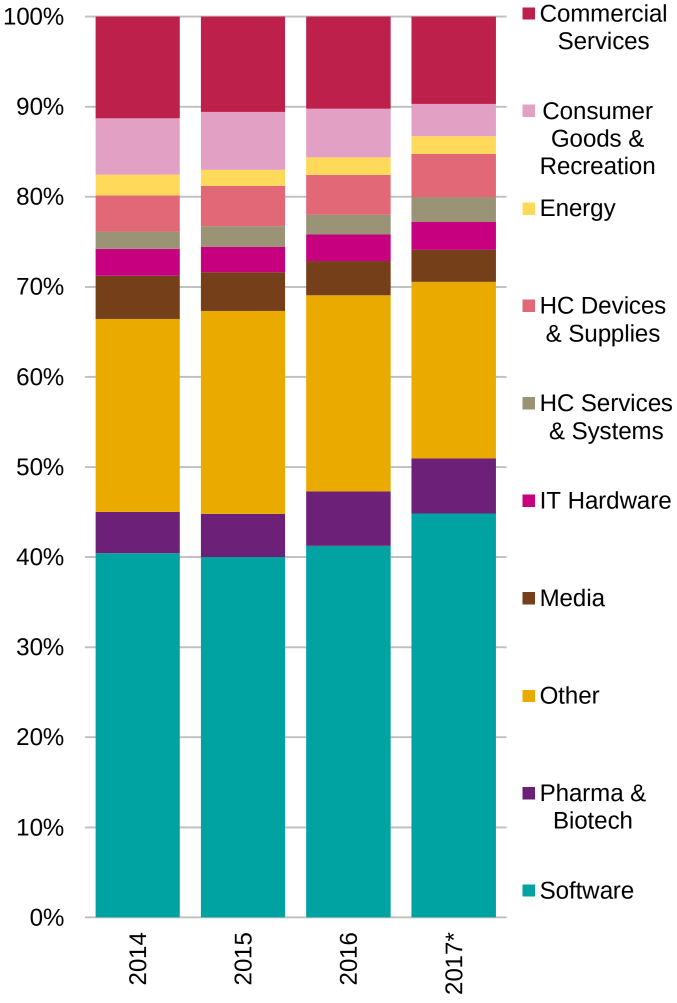


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/17. Data provided by PitchBook, January 16, 2018.

Software platforms reign supreme in 2017

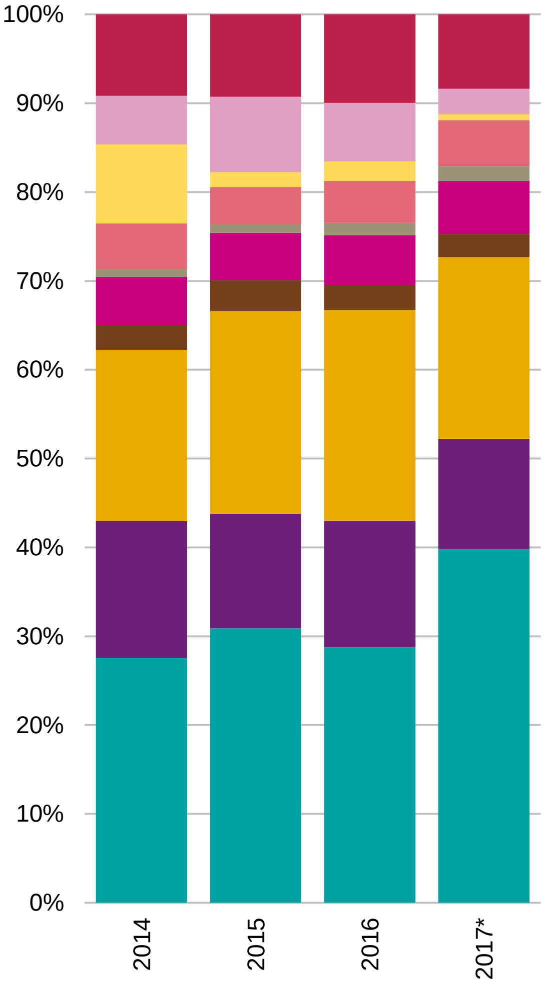
European venture financings by sector

2014 — 2017*, number of closed deals



European venture financings by sector

2014 — 2017*, VC invested ($B)



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

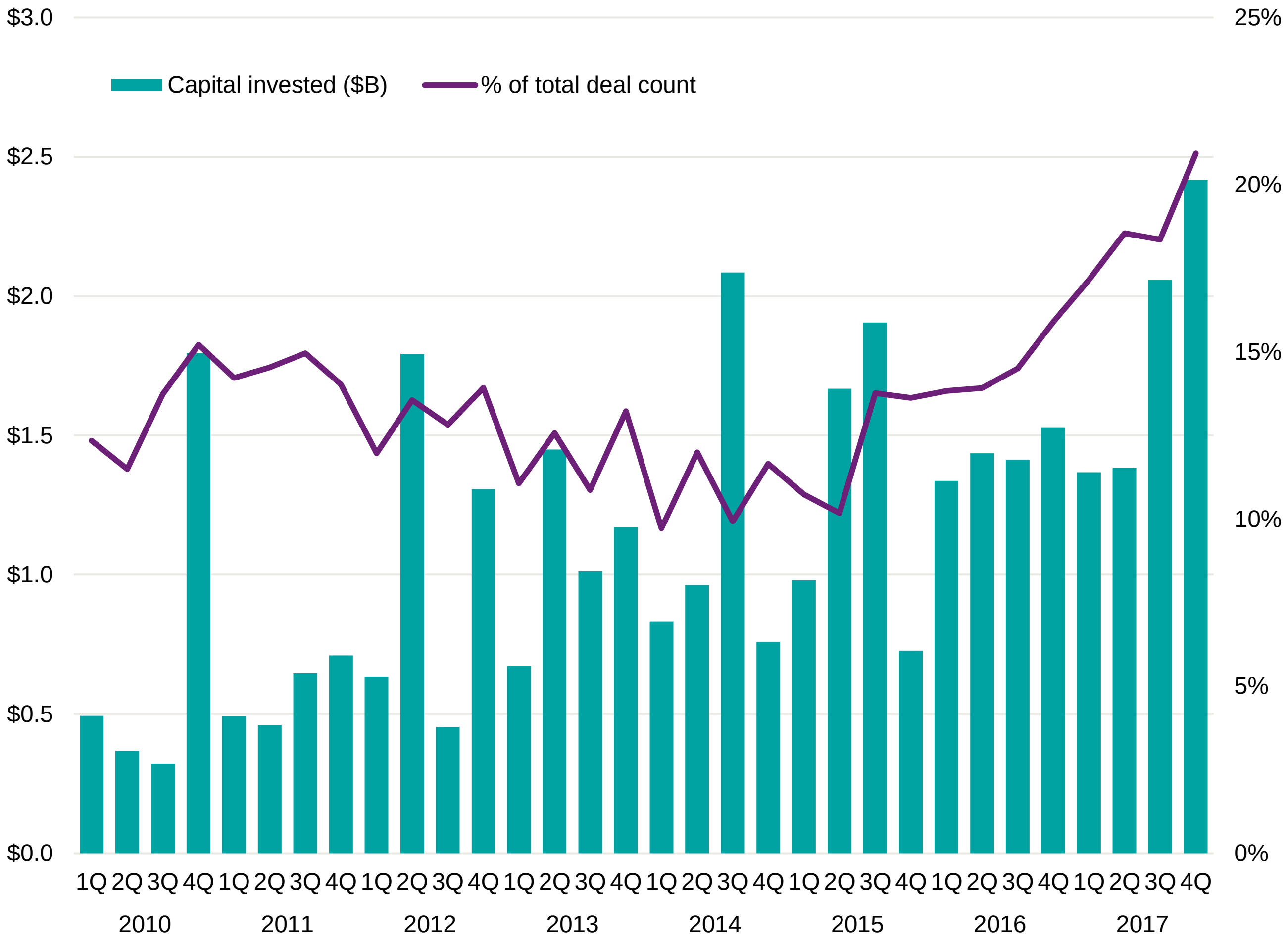
Given Europe's venture scene is a patchwork of hotspot metro areas and knitting together market areas by country is a more challenging commercial opportunity than elsewhere, it makes sense that significant sums are still flowing more into software platforms targeting specific niches than any other segment.

KPMG Enterprise

CVCs close in on nearly a quarter of all volume

Corporate VC participation in venture deals in Europe

2010 — Q4'17

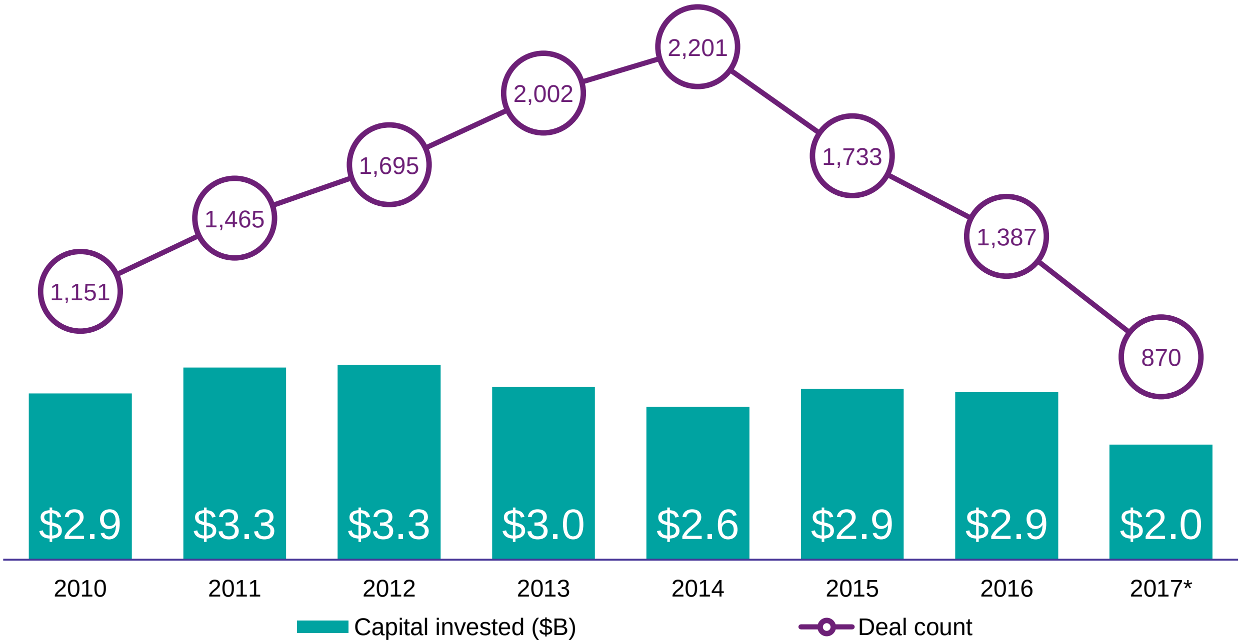


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

2017 fails to crack 1,000 for first-time financings of fledging startups

First-time venture financings of companies in Europe

2010 — 2017*



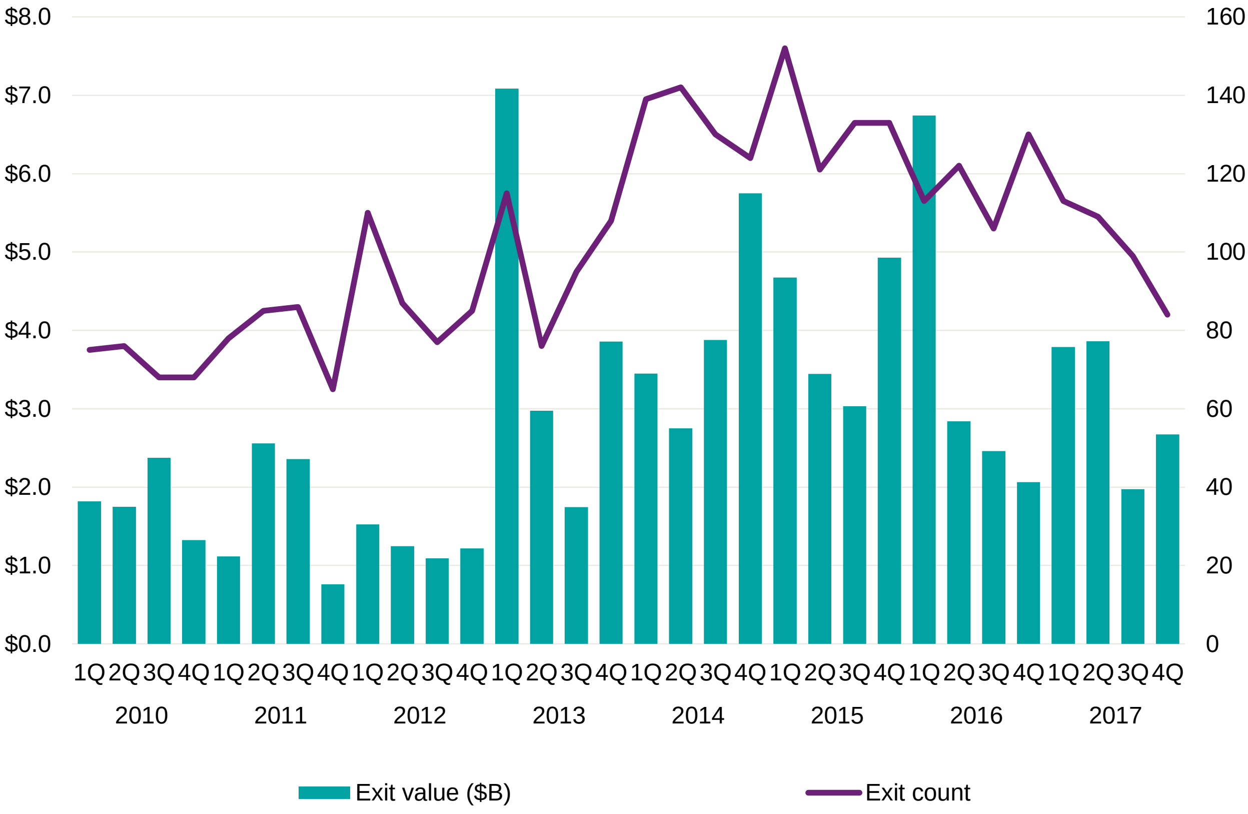
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

Until 2017, the European venture scene never failed to record at least 1,000 first-time financings of young companies, with the decade on the whole seeing significantly steady sums invested as well, even as the volume of such transactions waxed then waned. This is more attributable to the ongoing macro factors affecting the Eurozone than anything else, as well as the growth in sophistication on the part of already-funded startups and technology corporations in many sectors. The lowest-hanging fruit is often gone.

2017 closes at historically healthy figures

Venture-backed exit activity in Europe

2010 — Q4'17



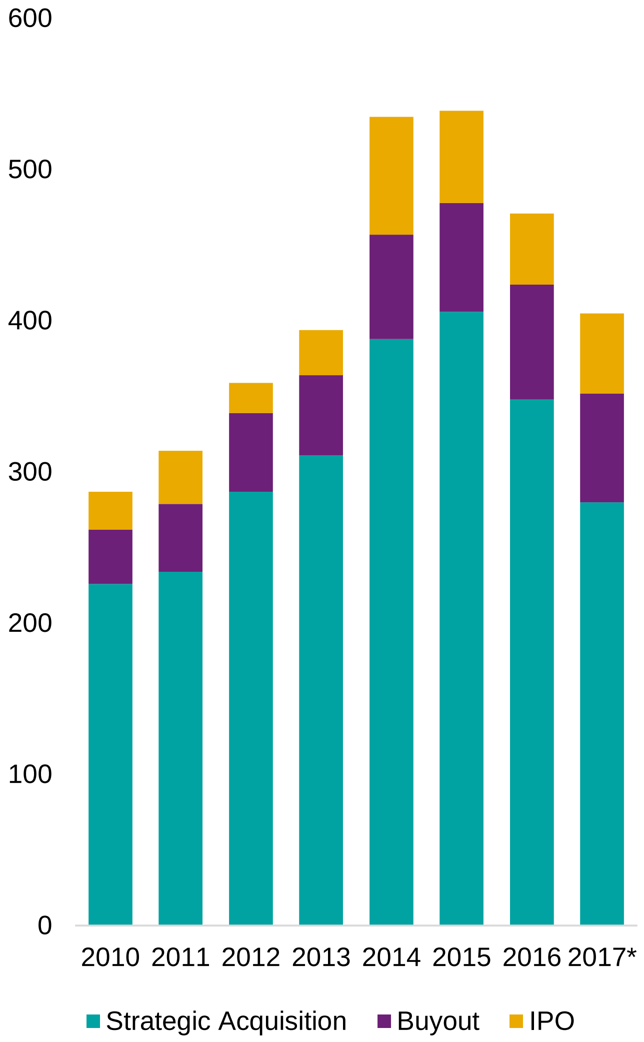
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Even though the heights of 2014 and 2015 are unlikely to be surpassed for some time, the European VC-backed exit cycle is still well within historical norms and exit value still remains quite high, all said and done, still far surpassing anything prior to 2013.

Strategics pull back as PE shops pick up the pace somewhat in 2017

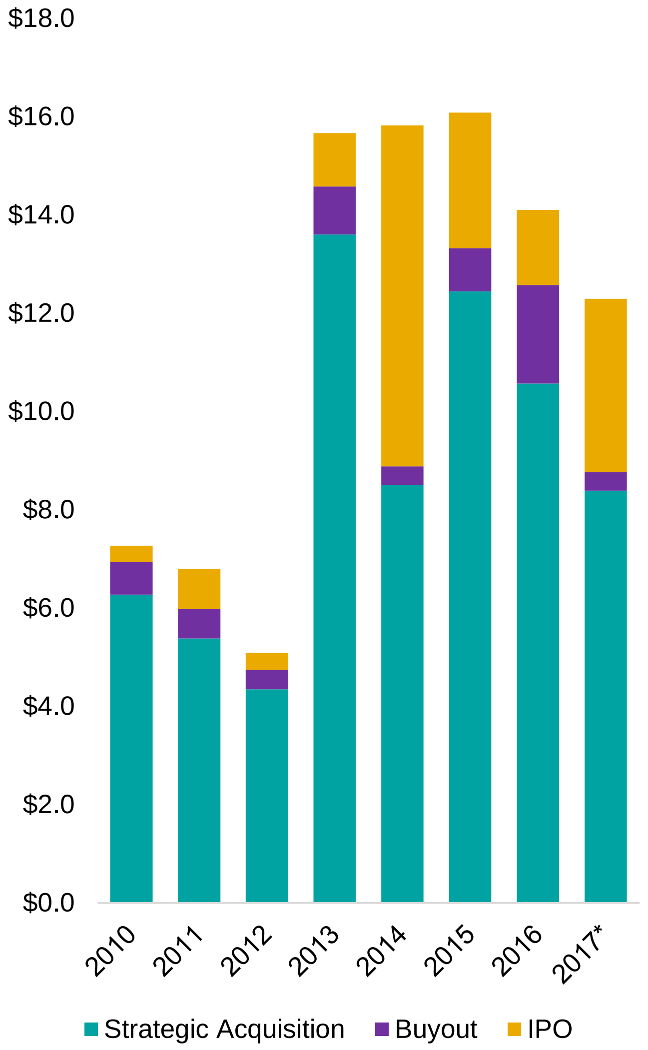
Venture-backed exit activity (#) by type in Europe

2010 — 2017*



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

2010 — 2017*

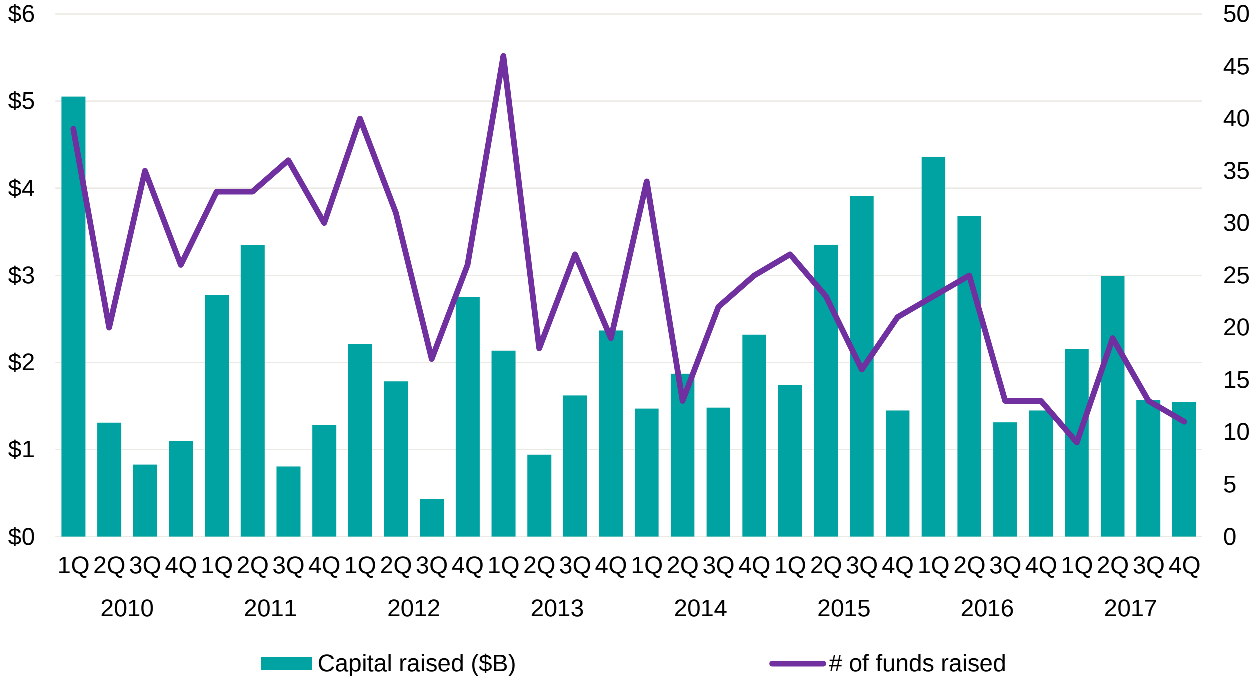


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/17. Data provided by PitchBook, January 16, 2018.

European fundraising steadies in the back half of 2017

European venture fundraising

2010 — Q4'17



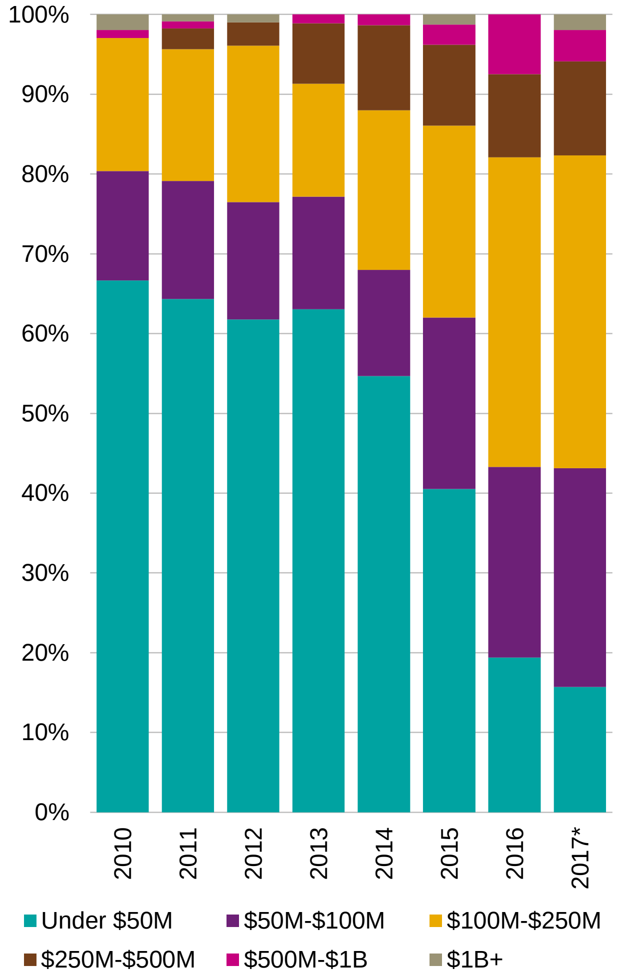
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Fundraising figures are quite variable when broken out by quarter. It is primarily a sign of the relatively fragmented European fundraising market. It does appear that volume mostly established a plateau of around 10 to 15 funds closed per quarter since the middle of 2016, with fairly healthy totals of VC raised. Should that continue, ongoing participation from foreign investors should still provide a substantial capital base for activity.

Micro-funds all but vanish, as middle of the market stays strong

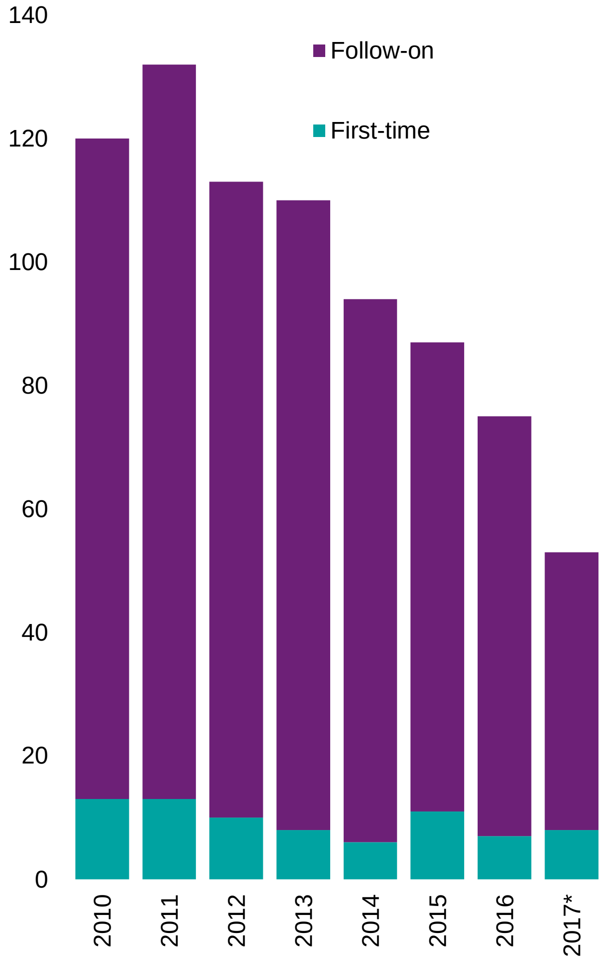
Venture fundraising (#) by size in Europe

2010 — 2017*



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

2010 — 2017*



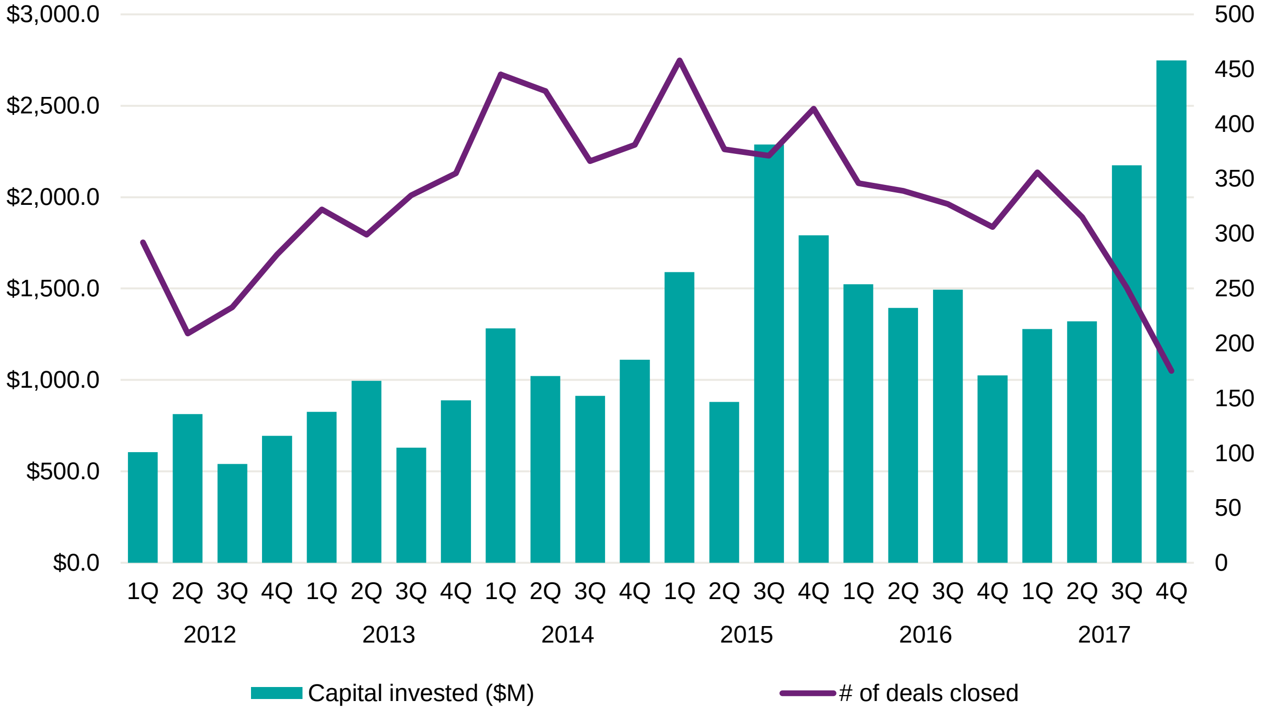
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

LPs remain cautious when it comes to the European fundraising market, committing more to established or spun-out fund managers. Although hardly very impactful as of yet, the number of first-time funds did stabilize between 2016 and 2017.

Second-highest tally of VC invested

Venture financing in the United Kingdom

2012 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

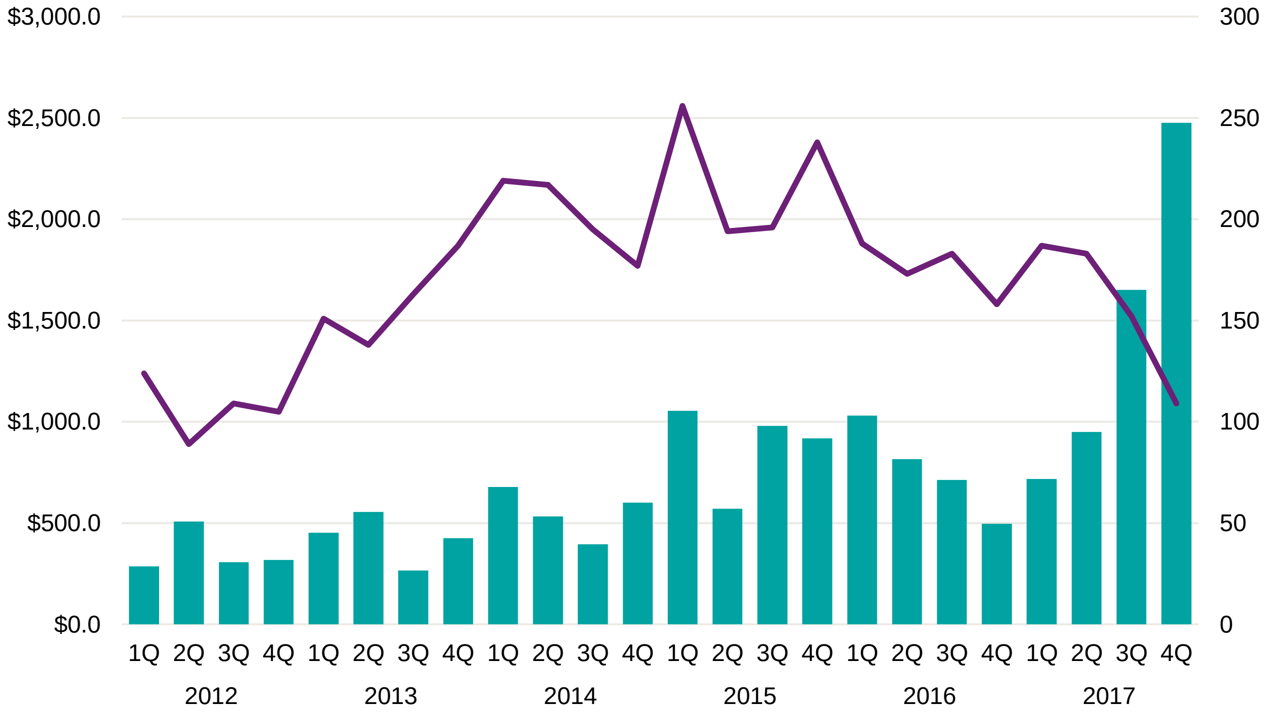
As 2017 wound down, it became clear that mega-financings could propel the UK's totals of VC raised to unmatched heights. Benefiting from the steady nurturing of innovative startups over the past decade toward full-fledged growth, plus ongoing interest from deep-pocketed foreign investment firms, the UK did record a surge in 2017 toward nearly $17 billion in aggregate VC invested, the second-highest tally of the decade by far.

"The UK VC market has performed strongly despite Brexit related uncertainties and London remains the epicentre of European startup investments. In order to secure its position as European leader in technology and innovation, the latest country's budget included a number of measures to fund and promote cutting-edge industries and technologies of the future."

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

Deliveroo's $482M Series F caps a strong year

Venture financing in London
2012 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

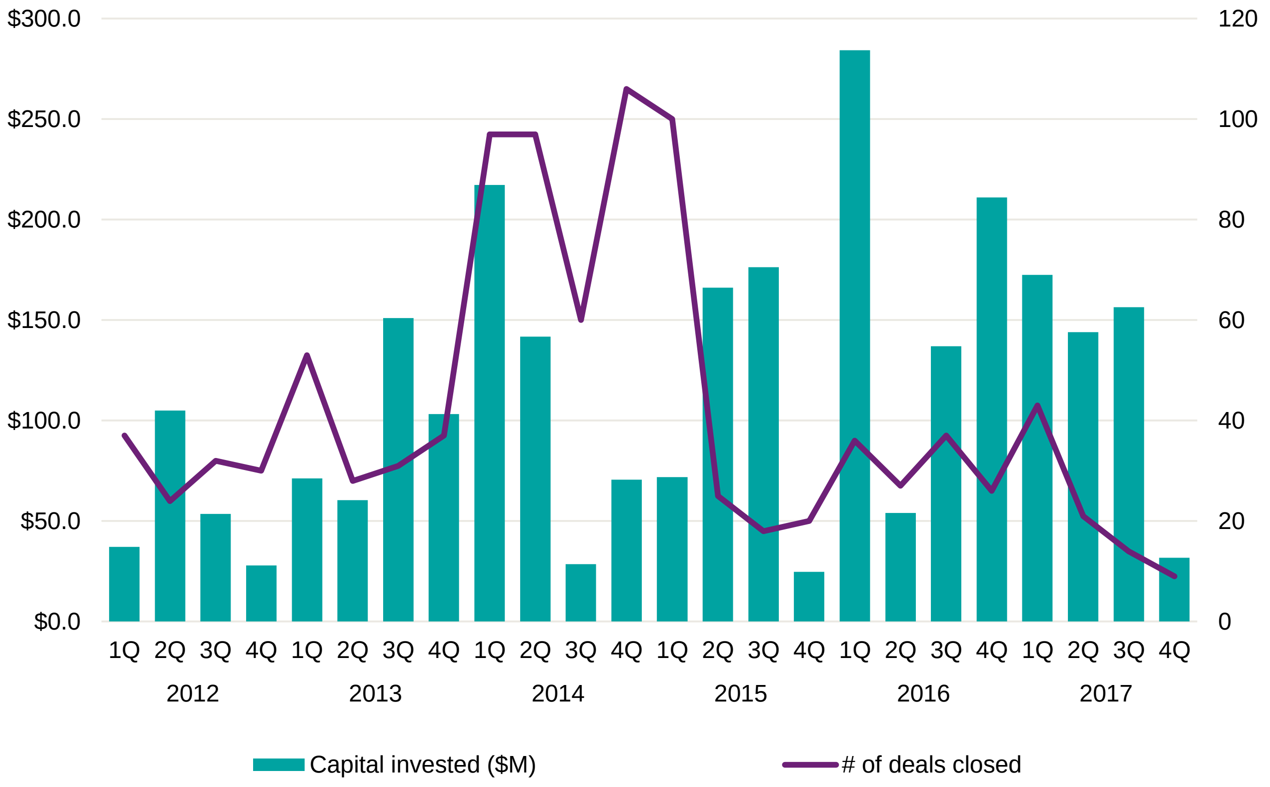
A near-record final quarter of 2017 helped London record a second consecutive quarter of growth in VC invested, even as the volume of financings hit a new low of the past 4 years. The city still enjoys plenty of advantages when it comes to attracting VC: it is one of the pre-eminent global financial centers, boasts a burgeoning, sophisticated tech scene and, as Brexit negotiations remain as murky as ever, looks set to have shrugged off any concerns around those.

KPMG Enterprise

Overall, 2017 reflects impact of dry powder

Venture financing in Ireland

2012 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

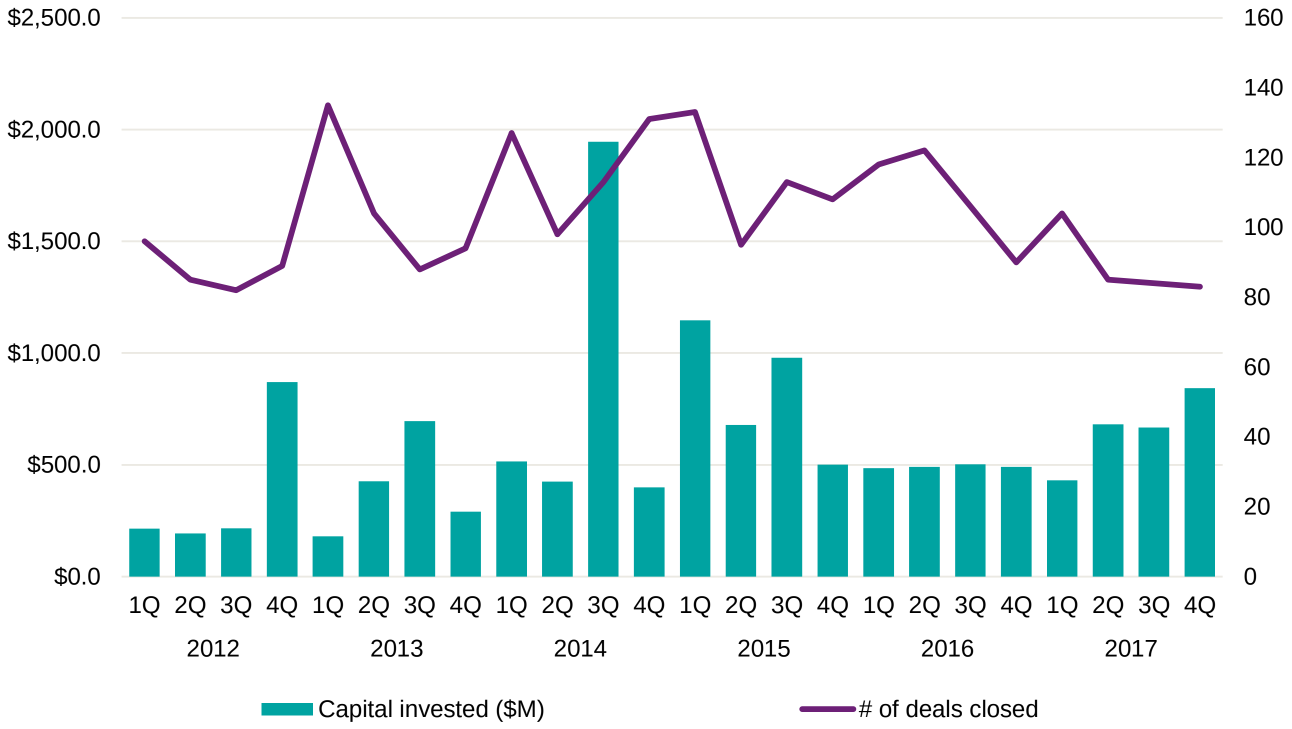
As expected, 2017 recorded enough strong tallies prior to Q4 that it ended up amassing the second-highest aggregate of VC invested of the decade, even as activity lowered significantly from a peak in 2014.

KPMG Enterprise

A bump in Q4 to close the year

Venture financing in Germany

2012 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

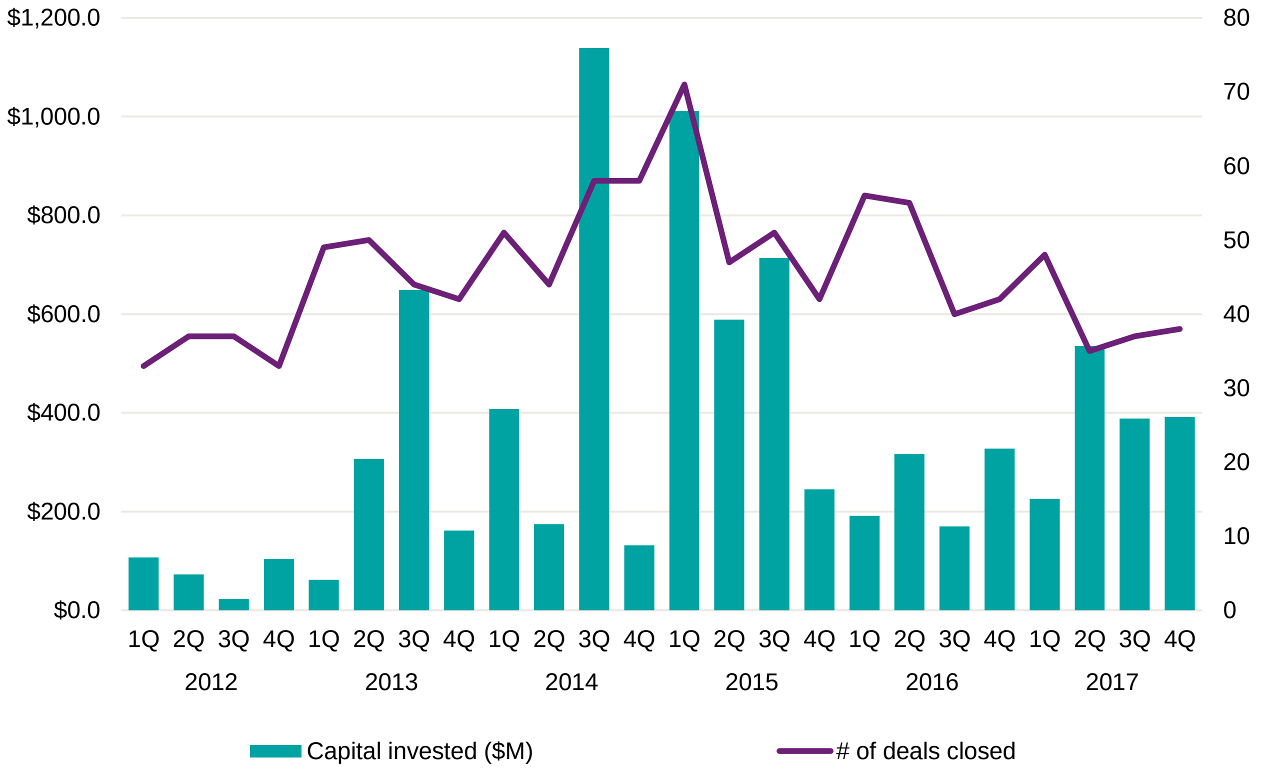
Germany is still experiencing some modest growth in terms of venture sums invested, even as completed financings persist in a plateau. The overall European venture investment trend is highly suggestive of a late-stage cycle, wherein plenty of capital chases fewer deals more selectively. Germany is seeing nothing different.

"In Germany, corporate participation in the VC market has grown rapidly, with more and more big corporates moving to set up their own VC funds in the country. This is one reason we've seen a big up-tick in the amount of VC investment here. This model of investing has really gained traction among corporates over the last 12 months and there are no expectations that it will trail off anytime soon."

Stefan Kimmel
Partner, KPMG Law, Deal Advisory, M&A, Venture Capital and Private Equity
KPMG in Germany

Germany's hot spot remains steady as ever

Venture financing in Berlin
2012 — Q4'17



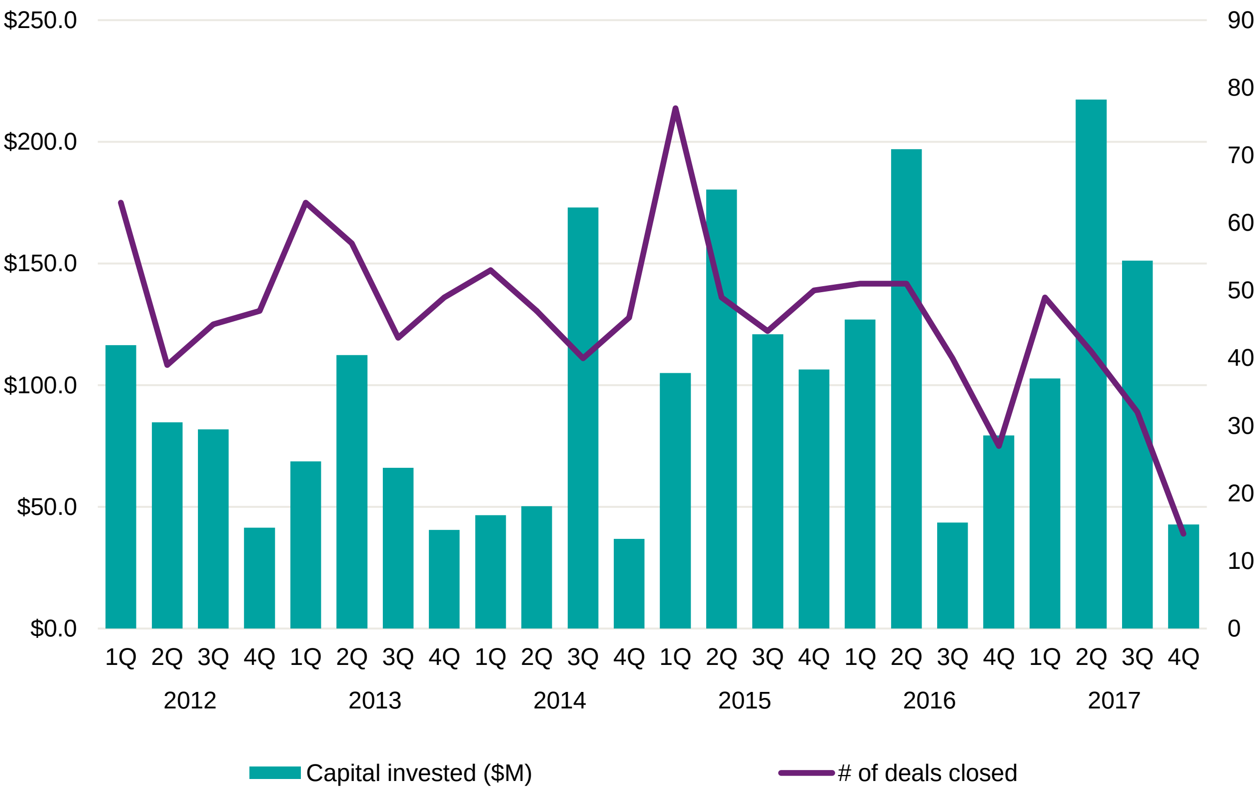
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Although other nations and cities record much more variability, both Germany and its epicenter of VC activity, Berlin, have seen remarkably persistent tallies of both VC invested and accompanying transactional volume since the end of 2015. Given capital availability and macro factors, it is likely such steadiness will continue, with a potential for a slight decline as investors assess any shifts in politics or economic growth.

Momentum slides but overall, 2017 is robust

Venture financing in Spain

2012 — Q4'17

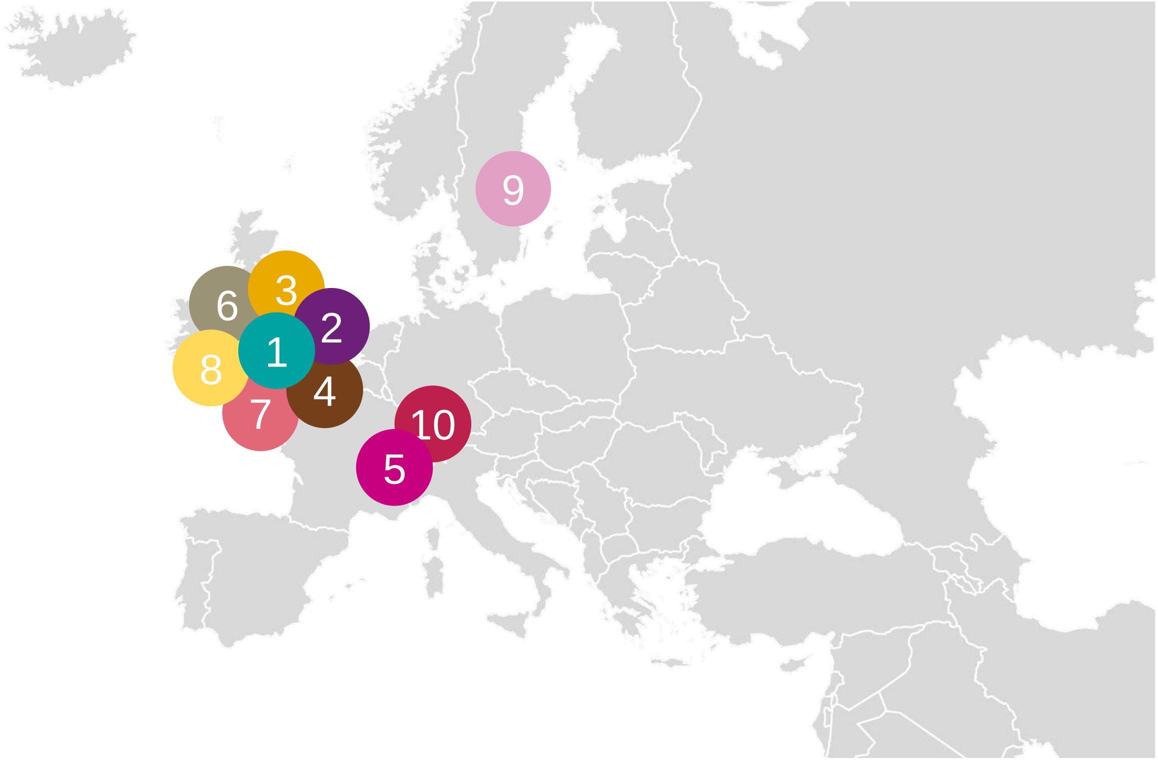


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Spain has experienced considerable volatility on a quarterly basis and, thus, a slump to close the year shouldn't be overinterpreted. What's more interesting is that the country's tech and entrepreneurial scenes are developing to the extent they are able to rake in more money than ever before, albeit slightly. Spain saw well over $500 million invested in local startups in 2017, just overtopping 2015's tally, even as activity lowered far more. Driven in large part by mega-rounds, as has been the narrative everywhere in 2017, it nonetheless testifies to how the Spanish tech scene has developed.

KPMG Enterprise

London accounts for a majority of Q4'17 top deals



1 **Deliveroo** — $482M, London
Internet retail
Series F

2 **Truphone** — $336.7M, London
Communications
Late-stage VC

3 **TransferWise** — $280M, London
Financial software
Series E

4 **OakNorth** — $203.3M, London
Consumer finance
Late-stage VC

5 **ADC Therapeutics** — $200M, Épalinges, Switzerland
Biotechnology
Late-stage VC

6 **The Ink Factory** — $180M, London
Entertainment
Late-stage VC

7 **Orchard Therapeutics** — $112.3M, London
Drug discovery
Series B

8 **Secret Escapes** — $109.5M, London
Leisure
Series D

9 **BIMA** — $107M, Stockholm
Insurtech
Late-stage VC

10 **CureVac** — $100M, Tübingen
Biotechnology
Late-stage VC

Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

France coming into its own as an innovation leader

Historically, France has been overlooked as it relates to European technology hubs, despite being home to a number of successful startups, including BlaBlaCar, Criteo, and Talend. This has changed in recent quarters. The good economic perspectives, combined with a new government committed to innovation and a strong ecosystem for early-stage startups, have helped transform France into an innovation force to be reckoned with.

A strong year for VC investment in France

2017 was a banner year for France in terms of VC investment. In Q4'17, the country saw over $275 million of VC funding invested, led by a $41 million raise by online medical booking company Doctolib, a $28 million raise by Shift Technology, an organization focused on fraud detection and a $22 million raise by gene therapy firm Horama.

On the deals activity front, France closed the most funding deals in Europe for the first time in 5 years. This only highlights the growing interest of VC investors in the country. While France's innovation ecosystem is still in the early-stages of maturity, companies in the country have seen robust investment, particularly at the seed and early-stage deal levels.

A committed government

Early in 2017, France elected a new president with a strong mandate for encouraging innovation and entrepreneurship in order to help the country become more competitive both in Europe and internationally. Recently, President Macron announced the establishment of an $11 billion fund to help support disruptive innovation, such as Industry 4.0 and other innovative solutions that address the key challenges of energy, environmental, digital and demographic transformation. The government is also expected to make tax changes in order to help encourage innovation investments[18].

BPI France, the country's public investment bank, also has a strong mandate to support startups, providing VC funding, lending programs, and other supports to new enterprises. In France's startup ecosystem, obtaining funding from BPI France is typically considered to be a positive sign, giving legitimacy to projects and making it easier for companies to raise additional funds. Over the past year, Beyond seed funding, BPI France is also taking part in larger strategic deal such as the $75M raised by Actility in 2017 Q2. This is likely a natural progression along the maturity curve as local startups grow and require more capital.

Station F taking innovation to the next level

In 2017, Station F, the world's largest startup incubator, opened its doors in Paris. Once filled, Station F is expected to house over 1,000 startups in its 34,000-square foot campus. The focus of Station F is to create a hive of innovation and collaboration, in addition to providing unique access to the support needed to help startups succeed. As a part of this objective, Station F has already forged innovation partnerships with a number of global technology leaders, including Ubisoft, Facebook, Microsoft, L'Oreal and Thales[19].

[18] https://www.wsj.com/articles/france-to-create-10-billion-fund-to-invest-in-innovation-1499279714
[19] https://stationf.co/

France coming into its own as an innovation leader, cont'd.

Station F may be the largest incubator in the country, but other accelerators and incubator programs have also helped encourage innovation in France. La French Tech, first established in 2013, has been uniquely successful in developing a range of local and international offices to help support innovative French companies. Since 2015, La French Tech opened 22 international hubs including offices in San Francisco, New York, London, Berlin, Hong Kong to help French startup to expand into foreign markets. A number of France-based incubators/accelerators, such as Axeleo, are also starting hybrid strategies by launching their own VC funds in order to become more competitive and attractive to both partners and potential members.

Deeptech a key focus for investment in France

While VC investment in France crosses a number of sectors, from healthtech and biotech to fintech, the country is becoming a strong center for the basket of technologies referred to as deeptech, including AI, data analytics, speech recognition algorithms, and IoT. The rapid evolution of deeptech innovation is not a surprise given France has a long history of scientific competence, with numerous dedicated research centers focused on computing science and a thriving and highly skilled scientific workforce. With more public focus on innovation, it is expected that investments in deeptech sectors will only increase over the next few quarters.

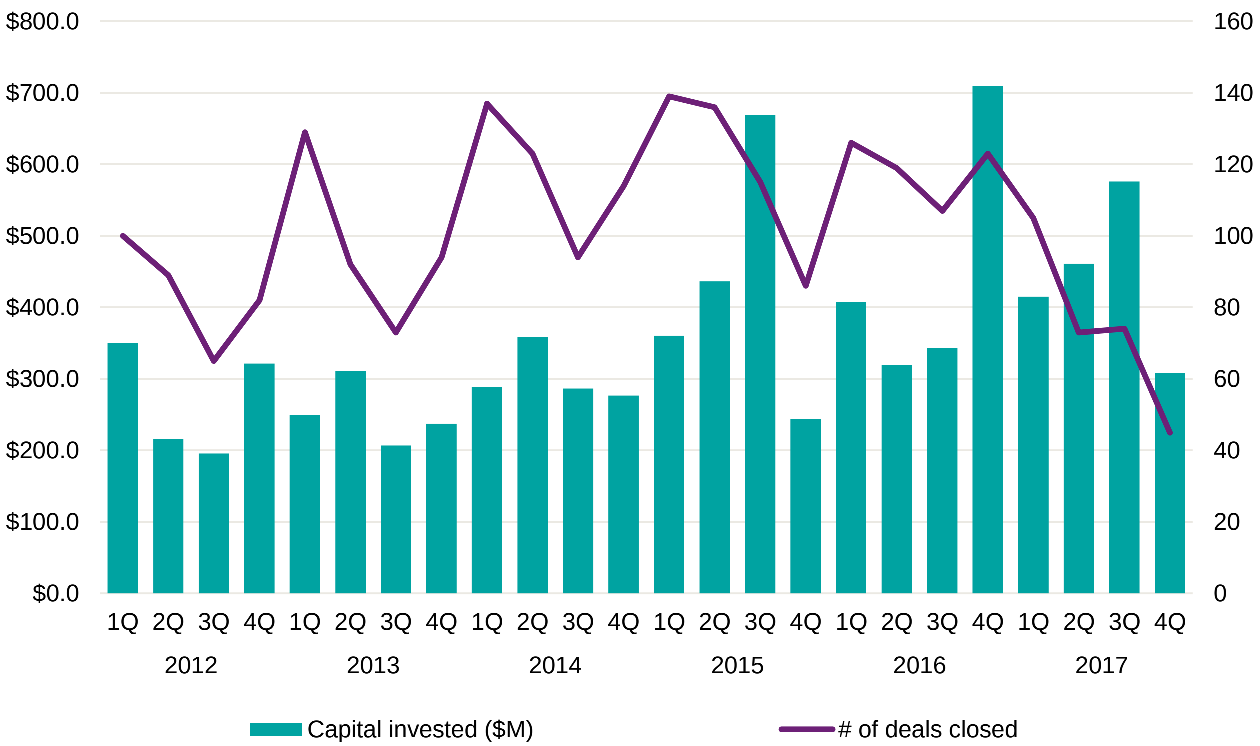
The future looks bright in France

Given the ongoing government commitment to innovation, VC interest and investment in France is expected to accelerate heading into 2018. Over the next 12 to 18 months, it is expected that many early-stage French companies will need to focus on achieving scale and beginning to grow. The ability of these companies to attract additional funding rounds will be critical for ensuring the French innovation ecosystem can continue to mature and evolve.

$1.7B+ invested for third year in a row

Venture financing in France

2012 — Q4'17



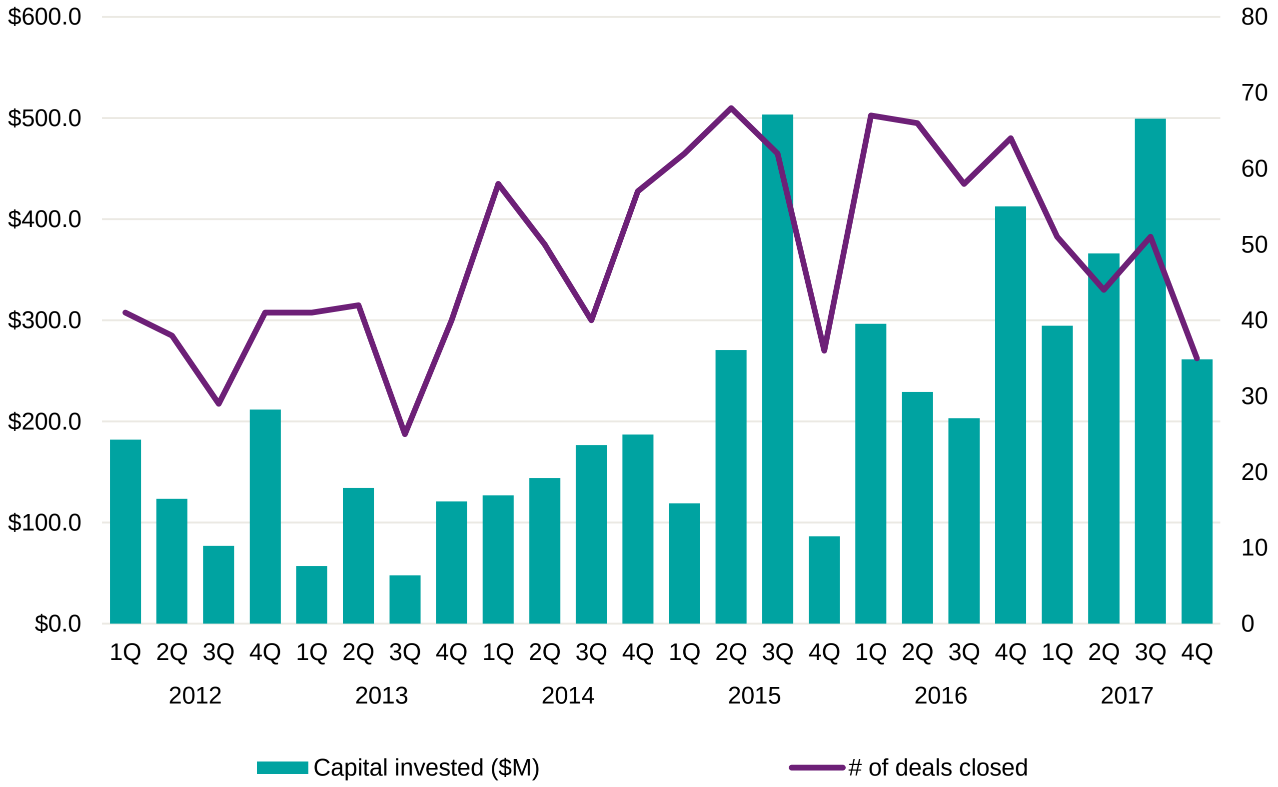
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Even if the French venture ecosystem is seeing fewer financings, in a shift largely attributable to early-stage investing developments such as the decline in angels' activity identified earlier, plenty of VC is still being raked in. A slow Q4 still couldn't prevent 2017 from eclipsing more than $1.7 billion invested.

Paris shines as epicenter of French ecosystem

Venture financing in Paris

2012 — Q4'17



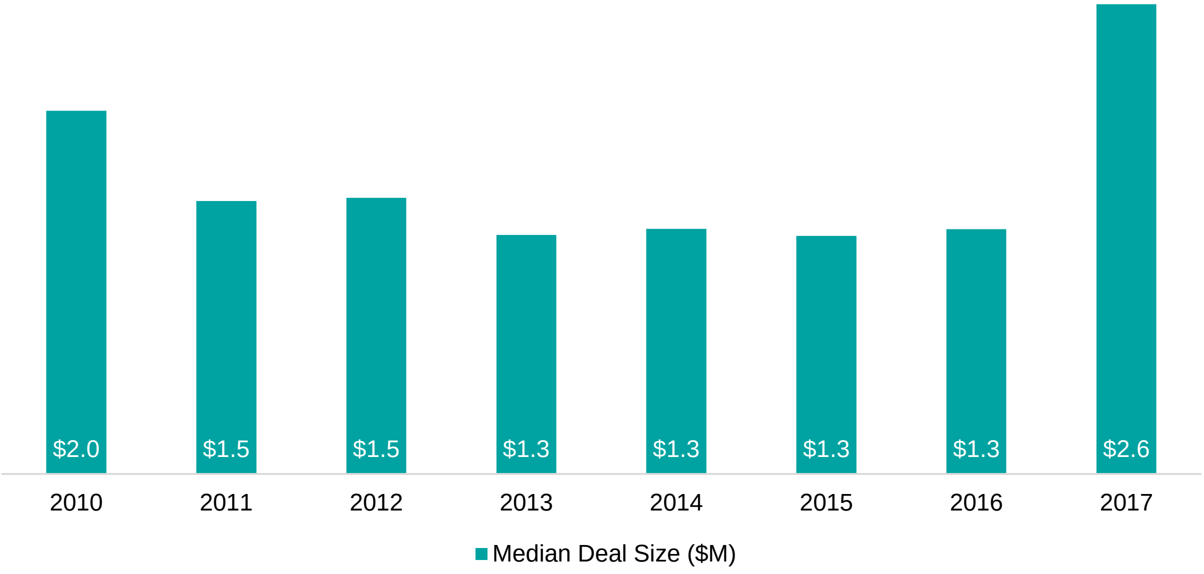
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Despite a downturn in both volume and VC invested, Q4's tally of fundings for Paris-based startups speaks to the diversity of its ecosystem. Online healthcare platform Doctolib's €35 million funding, ride-sharing app Less's $19 million Series A round, and biotech Step Pharma's €14.5 million Series A financing all speak to how the Parisian startup scene is quite buoyant and attracting plenty of capital still.

France VC ecosystem sees a splurge of VC

Median venture financing size ($M) in France

2010 — 2017*



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

The extent to which the French venture scene has been abuzz with activity is easily seen by the massive surge in median transaction size last year. Even though that must be contrasted with the decline in overall volume of completed financings, the amounts VCs are happy to invest in local startups are quite high, especially on a historical basis. Partially attributable to dry powder levels partially due to the supply of French enterprises looking for funding, similarly high figures are to be expected in 2018.

"In 2017, France took a giant leap forward in terms of both the growing maturity of its startup ecosystem and in terms of its expanding VC market. The political support with initiatives like Station F's opening, foster the French entrepreneurial dynamism, while the growing maturity of VC and corporate venture markets allows increased support for startups growth."

Georges Gambarini
Manager
KPMG in France

KPMG Enterprise

In Q4'17 VC-backed companies in the Asia region raised

$15.6B

across

245 deals

KPMG Enterprise

Asia VC propelled by two $4 billion mega-deals in Q4'17

VC investment in Asia closed out 2017 at a new high on the heels of two massive $4 billion mega-deals in China, one by Didi-Chuxing and the other by Meituan-Dianping. The strong quarter helped propel Asia to over $45 billion of VC investment for the year, despite the drop in the number of VC deals.

Q4'17 results reach $15 billion

Q4'17 saw Asia attract a 6-quarter high in VC investment. The top three mega-rounds accounted for well over half of this investment. These, combined with an additional six rounds over $200 million highlight the growing trend in Asia for bigger and bigger deals. Given this investor focus, it was not surprising to see the number of deals decline, although the drop was particularly noticeable at the seed and angel deal stage. Seed and angel-stage deals plummeted from nearly 50% of total financings to just over 10% this past quarter.

Strategic focus fostering Chinese VC investment globally

Over the last 2 quarters, Chinese investors have become more strategic with respect to their global investments, focusing primarily on value-added technologies or on geographic or vertical growth. Many of the big tech giants in China have increasingly eyed Southeast Asia for growth opportunities. Given Southeast Asia's large population, growing middle class and increasing appetite for consumer products and services, the big Chinese technology companies believe the opportunities are very significant there[20].

Hong Kong sees larger rounds in Q4'17

Hong Kong experienced a nice end to 2017 with over $425 million in VC invested in Q4'17, including funding rounds to WeLab ($220 million), Lalamove ($100 million), Klook ($60 million) and Prenetics ($40 million). VC investors from mainland China have shown a strong appetite for Hong Kong companies, which has helped drive investment activity. Heading into Q1'18, the outlook for Hong Kong is quite positive.

Autotech becoming hot in China

VC investment in autotech boomed in China during Q4'17, highlighted by China-based electric car company Nio attracting a $1 billion Series D round from Tencent[21]. VC investors in Asia have also been attracted to companies providing technology enabled solutions to the automotive industry, from new models of ownership to post-sale servicing. Local governments in China are highly supportive of autotech, with many strongly incenting autotechs to set up local operations.

India VC investment strengthens

VC investment in India was relatively strong this year. One of the key areas of investment was fintech, where demonetization and the implementation of India's new GST both helped drive investment. Foodtech also attracted significant investor interest, primarily in the first half of the year, when FoodPanda and Swiggy both raised significant rounds. Software-as-a-service and cross-industry applicable technologies like AI, CRM, and data analytics were also hot areas of investor attention. Each of these areas is poised for additional growth, in addition to health and wellness.

Many of India's unicorns performed well in recent months. Unlike in China, however, India also saw a strong level of seed and angel deals. The challenge in India continues to be the big gap at the middle stages of deal funding.

[20] http://www.scmp.com/week-asia/business/article/2111431/whats-drawing-chinese-internet-giants-indian-southeast-asian-tech
[21] https://www.reuters.com/article/us-nio-fundraising/china-electric-car-startup-nio-raises-over-1-billion-from-tencent-others-sources-idUSKBN1D90MS

Asia VC propelled by two $4 billion mega-deals in Q4'17

In Q4'17, India saw the creation of Indiatech — a new group focused on lobbying the government against the aggressive expansion plans of American tech giants like Amazon and Uber, although its identified focus has received some pushback from the government[22].

Over the next year, investment is expected to grow related to internet products and services offered in Indian languages. The Indian language internet user base has grown significantly in recent years, reaching 234 million users in 2017. With Indian language users expected to account for almost 75% of the internet user base by 2021, interest in language specific platforms is only expected to increase[23].

AI continues to expand reach and investor pull

In Asia, AI has gained a significant amount of attention from investors, particularly AI related to healthtech and fintech. In Q4'17, SenseTime Group, a Hong Kong-based artificial intelligence company specializing in facial recognition is in the process of attracting $500 million from US mobile chip giant Qualcomm Technologies. In Q4'17, China-based Face++ also raised $460 million.

China has made great strides in the advancement of AI technologies and is increasingly taking a lead globally in certain areas of AI innovation. The speed of adaptation and rapidly growing interest by corporates has helped with this push as it has only accelerated the development of a broad range of AI technologies[24].

Trends to watch for in 2018

Looking forward, the success of Asia VC will likely continue to be driven by significant mega-deals for the near term. Over the next few quarters, autotech, AI and enterprise services are expected to continue to receive significant investment.

Given the increasing Indian language internet user base, there will likely be increasing demand for multi-language technologies and accessibility. This could drive some exciting investments in 2018 and beyond.

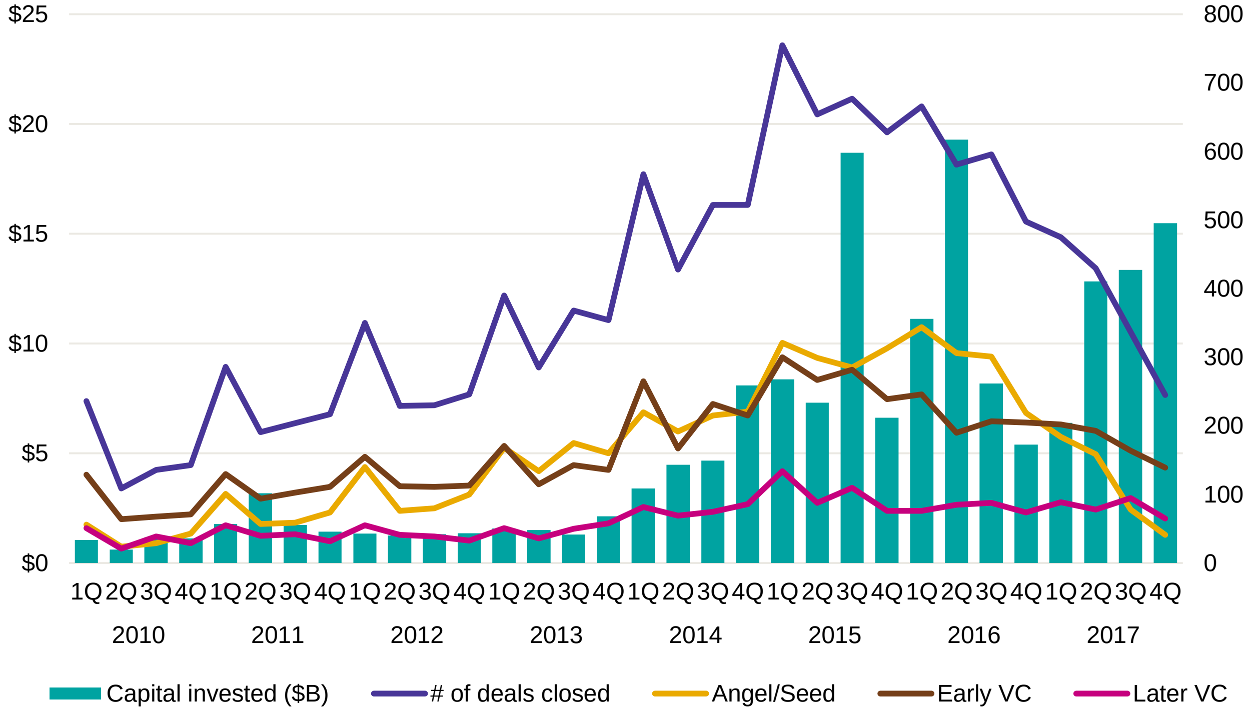
After a volley of funding over the past 2 years, the bike sharing market has become very saturated. While Mobike and Ofo have evolved into dominant players, others have collapsed and died out in recent months[25]. Heading into 2018, there will likely be consolidations in the space as companies look to achieve economies of scale.

22 https://www.cnbc.com/2017/12/06/india-tech-start-ups-ask-for-government-help-as-global-firms-threaten.html
23 https://assets.kpmg.com/content/dam/kpmg/in/pdf/2017/04/Indian-languages-Defining-Indias-Internet.pdf
24 http://www.scmp.com/tech/start-ups/article/2120009/qualcomm-bets-chinese-ai-start-sensetime-bid-make-mobile-devices and https://www.forbes.com/sites/ywang/2017/11/06/will-the-future-of-artificial-intelligence-look-chinese/#499859e77fdc
25 http://www.businessinsider.com/china-bike-sharing-frenzy-collapsing-2017-11

Even as volume continued to plunge, VC invested stays stubbornly strong

Venture financing in Asia

2010 — Q4'17



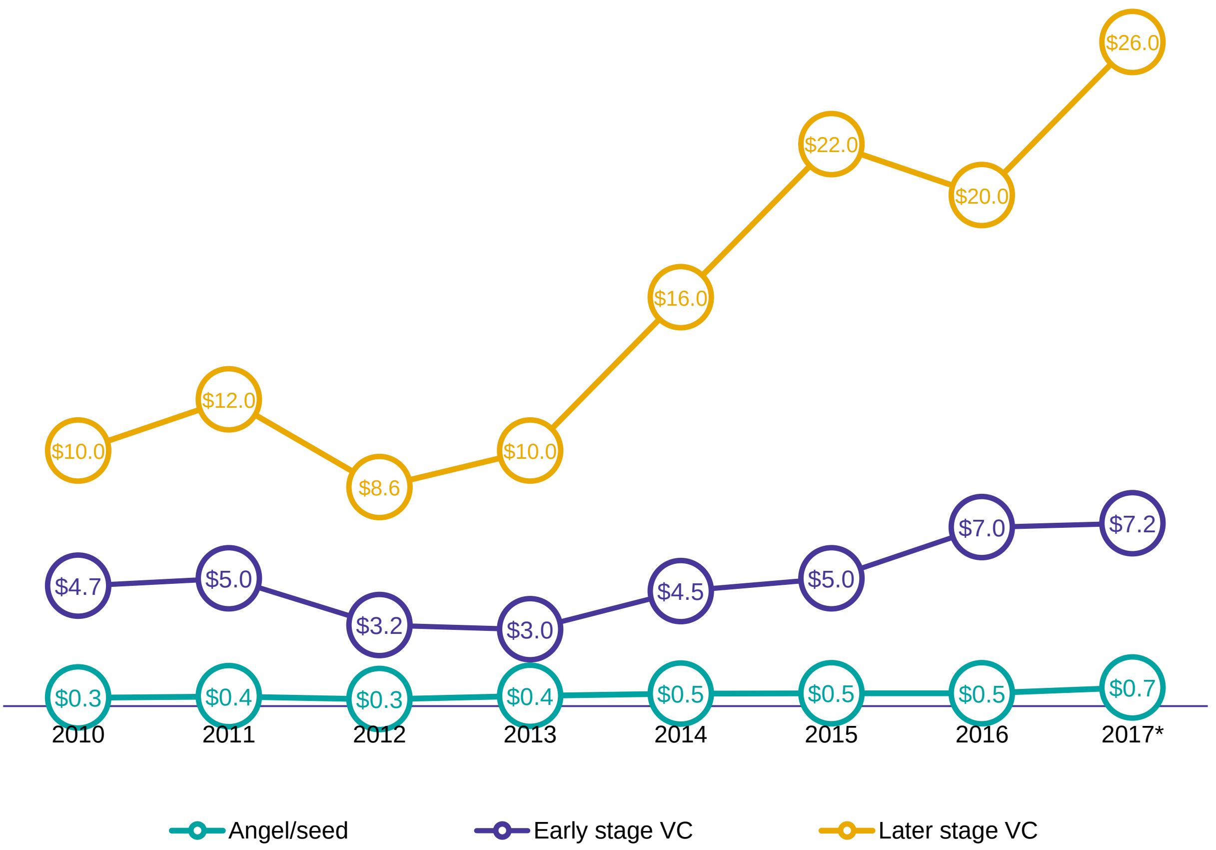
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

It's difficult to overstate how remarkably robust 2017 was when it comes to the flow of capital into Asia's emerging tech scene. Three consecutive quarters handily recorded well over $10 billion, an unsurpassed feat. Led by China, local governments are fostering as much innovation and consequent growth in jobs and technological development as possible. 2018 looks set to see only more of the same.

Deal sizes signal the maturation of the tech scene and developing VC ecosystem

Median deal size ($M) by stage in Asia

2010 — 2017*



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

Median transaction sizes remained quite low until 2014, when the late-stage began to see its explosive rise. The steadiness at earlier stages speaks more to how the Asian venture ecosystem is still ramping up, by and large, and has to develop at a depth sufficient to support a range of enterprises able to attract and even require early-stage funding sources.

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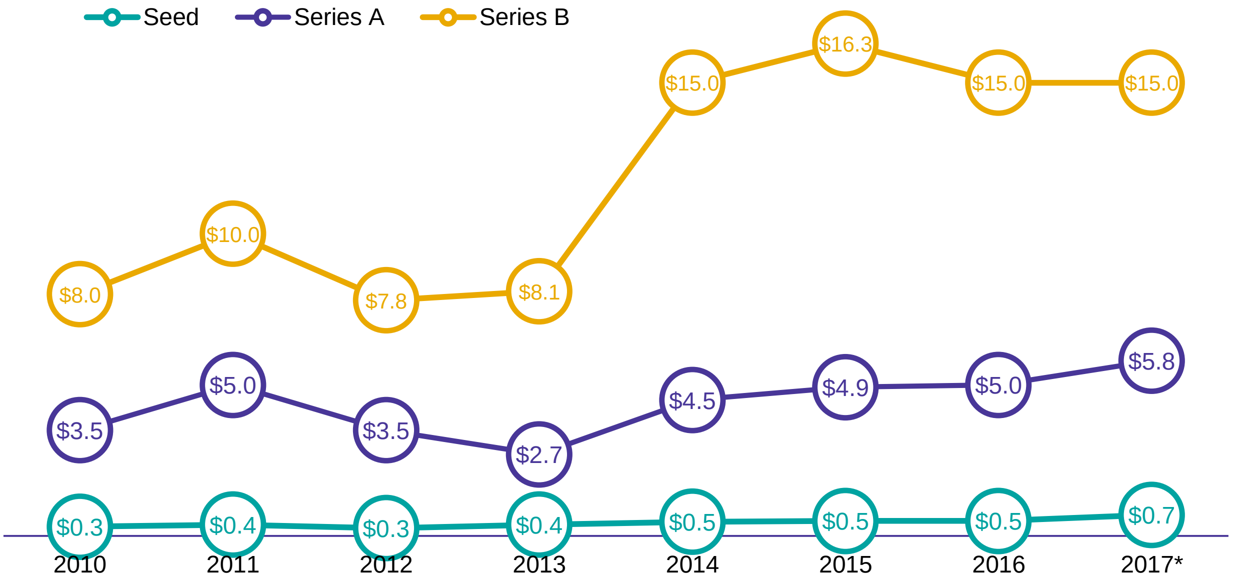
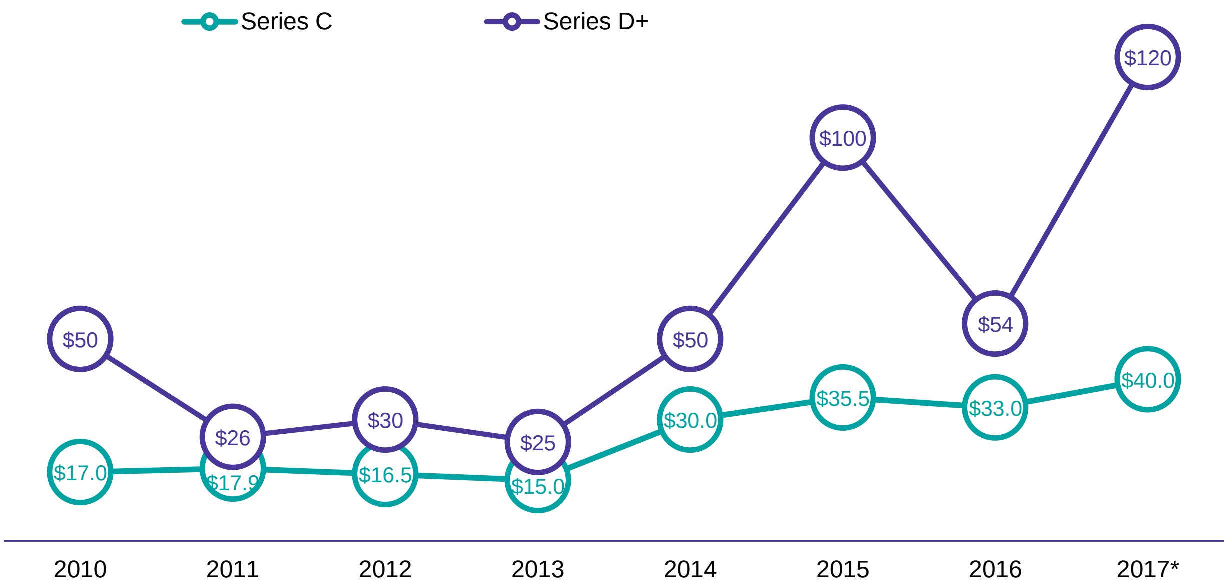
Deal metrics hold steady

Median deal size ($M) by series in Asia

2010 — 2017*





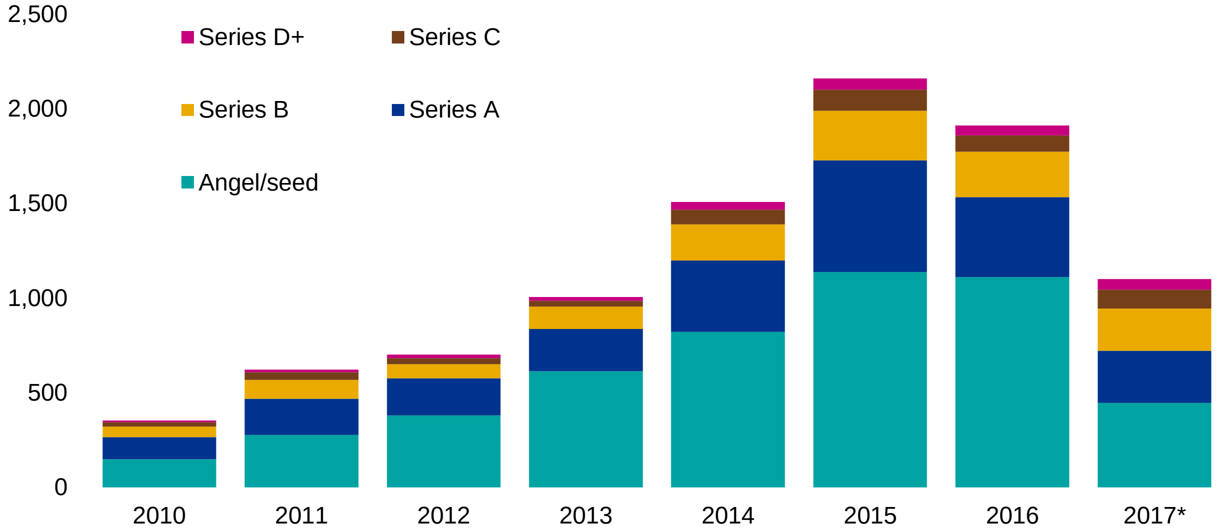
Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

Note: Select figures are rounded for legibility.

In a significant downturn by volume, the earliest winners propel shift toward later stage

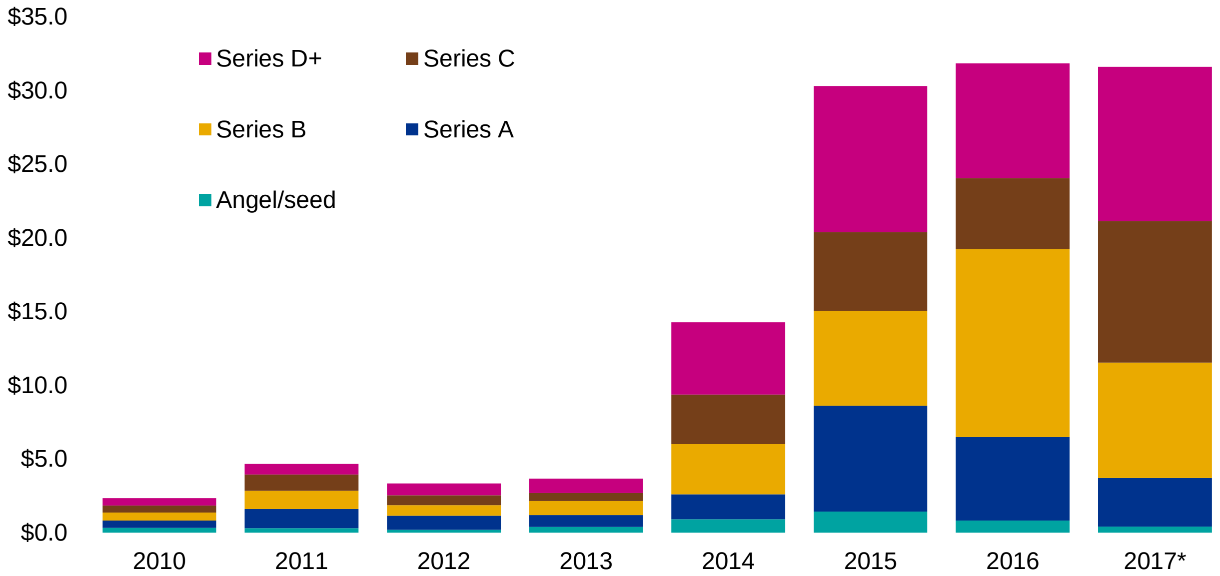
Deal share by series in Asia

2010 — 2017*, number of closed deals



Deal share by series in Asia

2010 — 2017*, VC invested ($B)

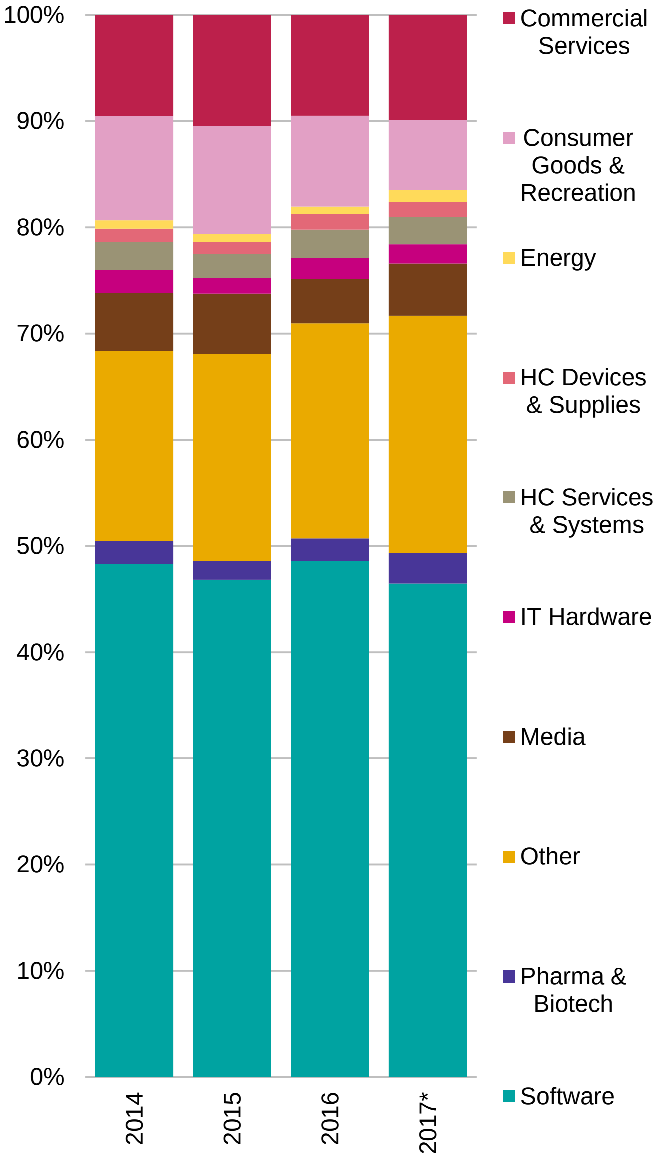


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/17. Data provided by PitchBook, January 16, 2018.

Software remains main game in town

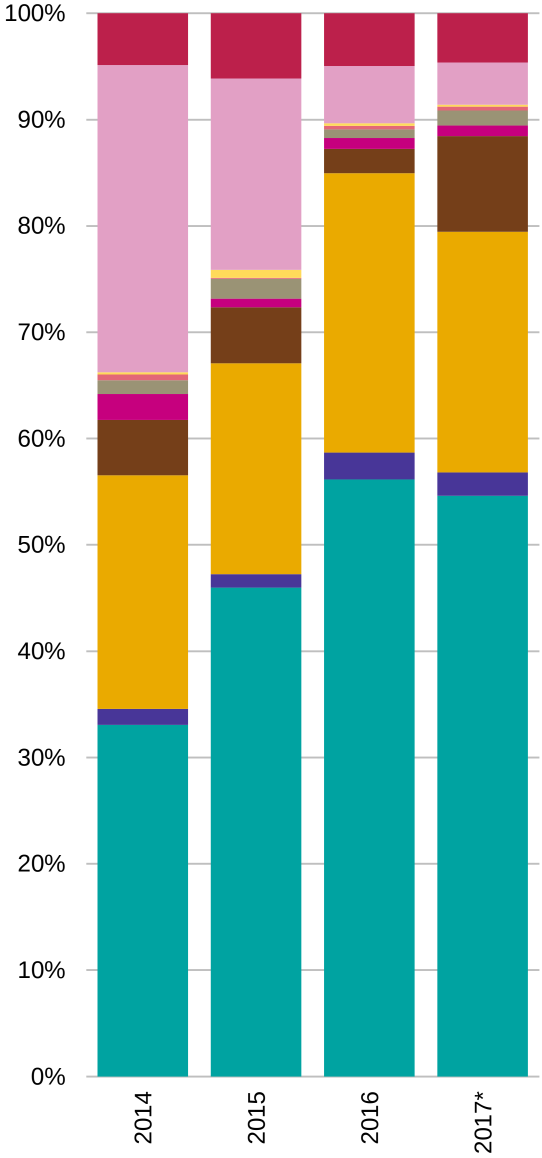
Asia venture financings by sector

2014 — 2017*, number of closed deals



Asia venture financings by sector

2014 — 2017*, VC invested ($B)

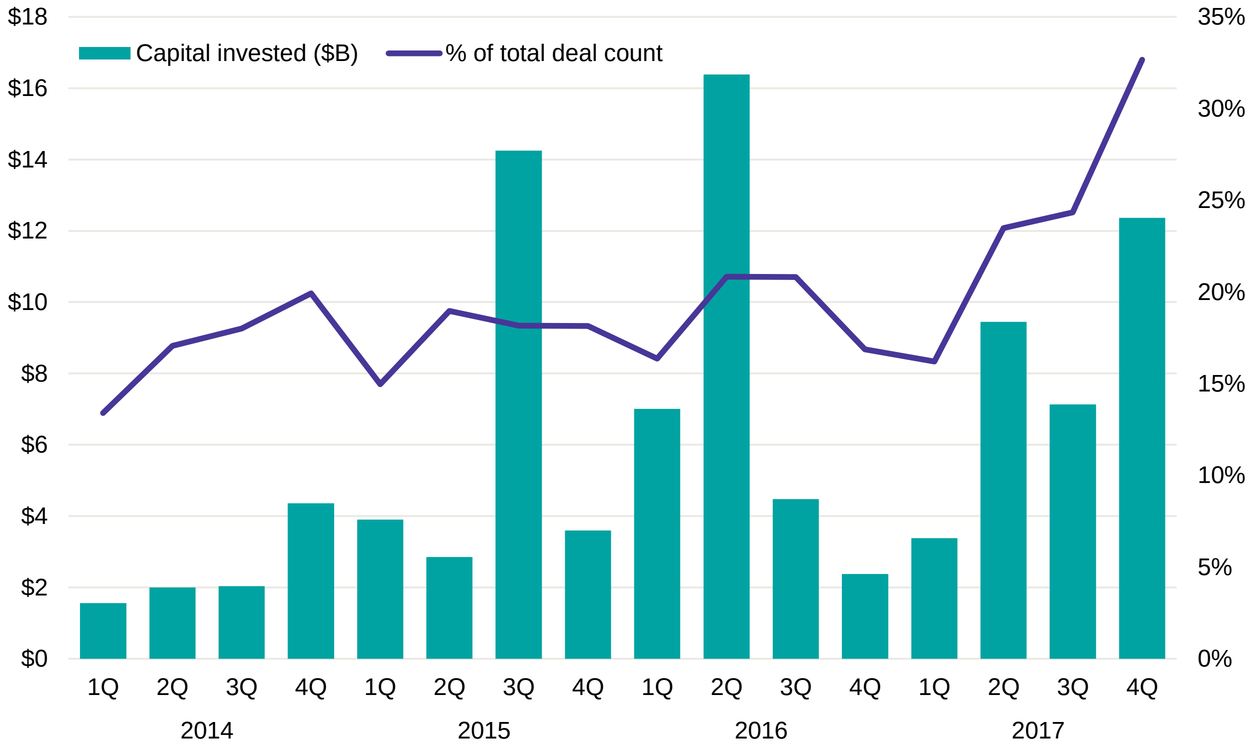


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

CVCs remain a far more significant factor

Corporate participation in venture deals in Asia

2014 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

The role played by Asian corporations in fostering VC activity is critical. Government-affiliated enterprises, multinationals like Alibaba and others are all either investing directly or via their corporate venture arms in order to stay abreast of all emerging opportunities. The Chinese government, in particular, is doubling down on support of major growth-boosting initiatives to shift its economy more firmly toward technology, especially as its regional push toward One Belt, One Road only continues apace.

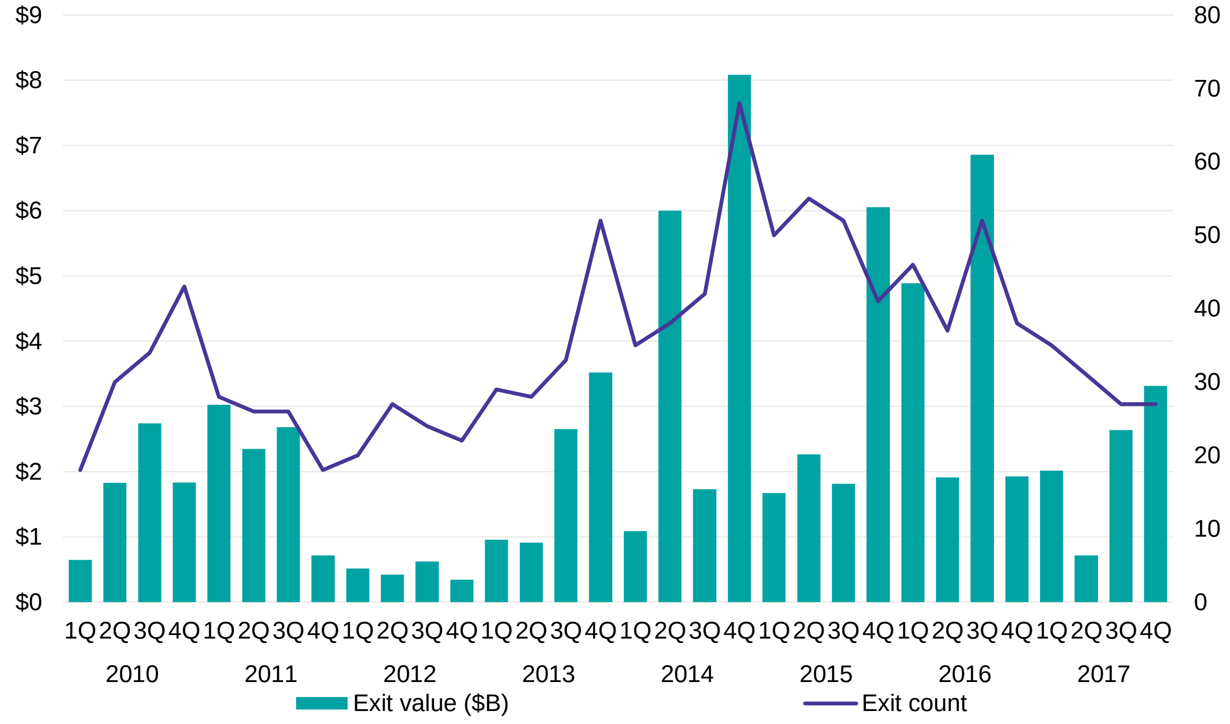
> "AI investment is a big focus in China, not just for VC investors but for the big tech players like Baidu, Alibaba and Tencent. The challenge for many will come down to talent. Corporates, in particular, are making strategic acquisitions simply as a means to capture talent."

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

A slow year for exits

Venture-backed exit activity in Asia

2010 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

It's obvious that the Asian startup ecosystem has much growth in store. Accordingly, significant variability in venture-backed exits is only to be expected, as the supply of businesses that are prepared for liquidity is simply not that large. However, sustained strength in exit value in the back half of 2017 illustrates what is possible, even as the exit cycle wound down throughout 2017.

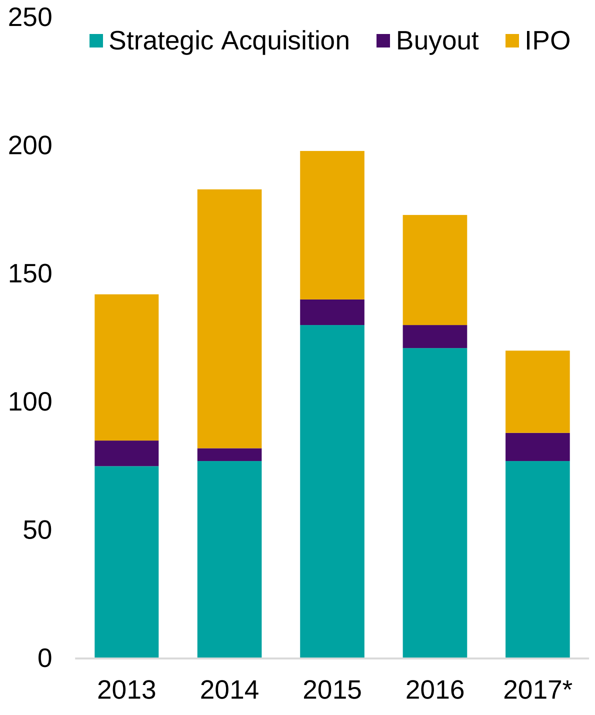
"Unlike other large Asian markets, Japanese venture investments in 2017 remained primarily in the seed and Series A stages, with fewer large subsequent follow-on rounds (with some notable exceptions such as Preferred Networks). This reflects not only the overall maturity of Japan's venture market, but also the tendency of Japanese venture companies to seek IPO exits at earlier stages and at smaller amounts than in other markets."

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

Strategics took a breather in 2017 and exits diminished significantly as a result

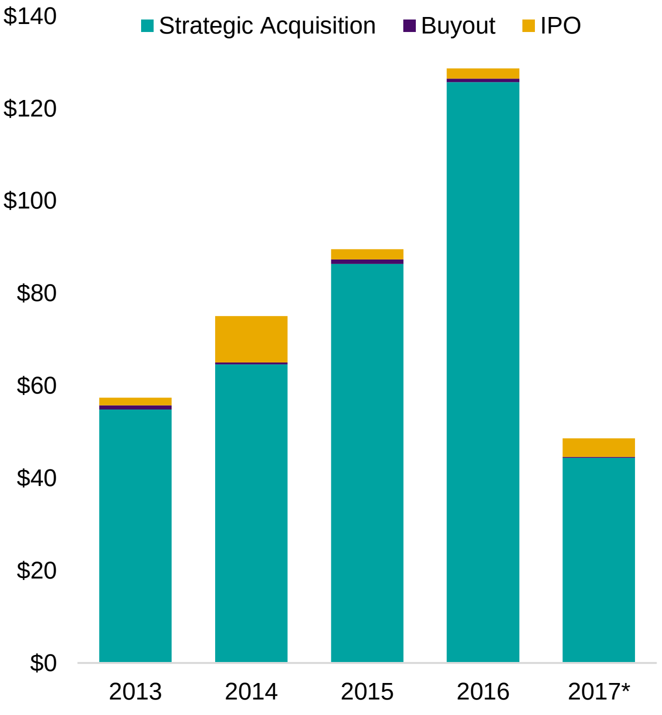
Venture-backed exit activity (#) by type in Asia

2013 — 2017*



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

2013 — 2017*



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

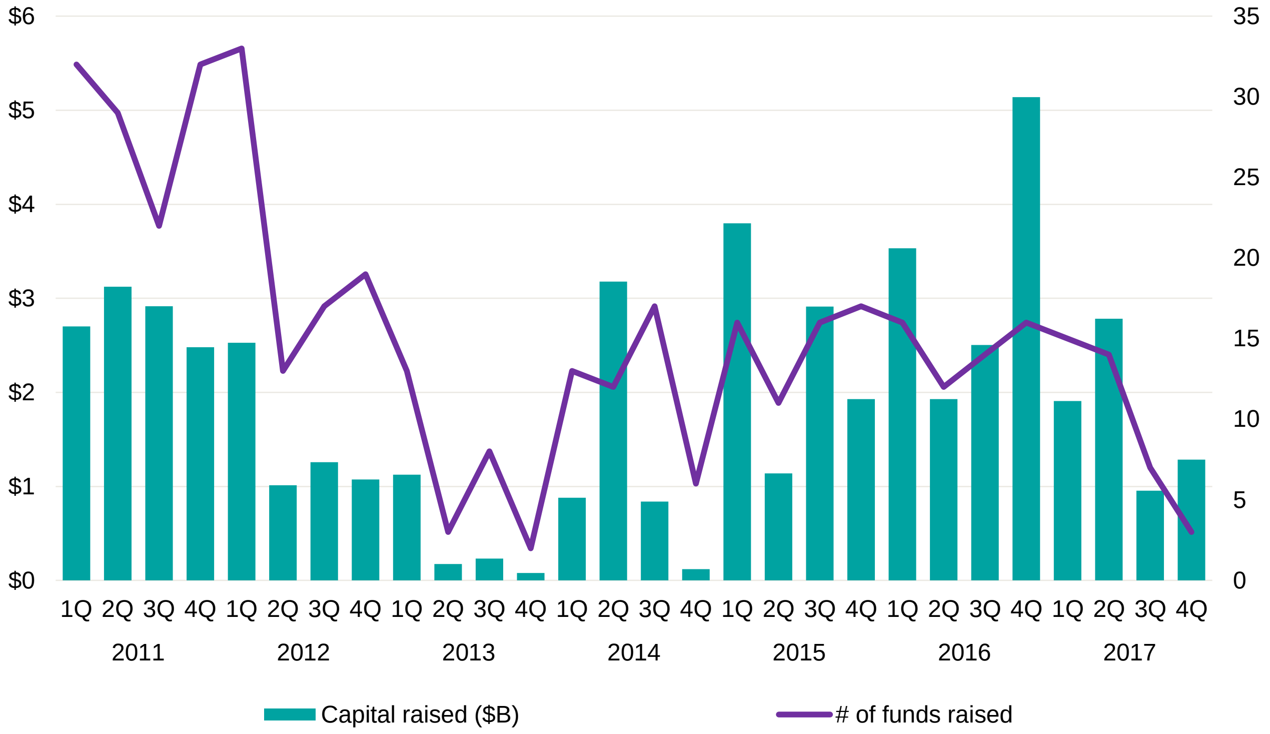
"Chinese investors are highly focused on rapidly scaling and gaining market share so that they can quickly dominate the market. This is why we are seeing bigger and bigger acquisitions – many driven by China's biggest tech giants, as they look to take out their competition in different sub and adjacent verticals."

Irene Chu
Partner, Head of Technology, Hong Kong Region, **KPMG China**

Local fundraising still outpaced by foreign investors' interest

Venture fundraising in Asia

2011 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Surveying quarterly fundraising tallies from 2015 through much of 2017, it's clear that there is plenty of capital raised recently to support financing activity in the Asian ecosystem. The recent slowdown is more a testament to timing than anything else. It's also worth noting that as global investment firms, particularly those housed primarily in the US, look abroad, there is more competition on the horizon.

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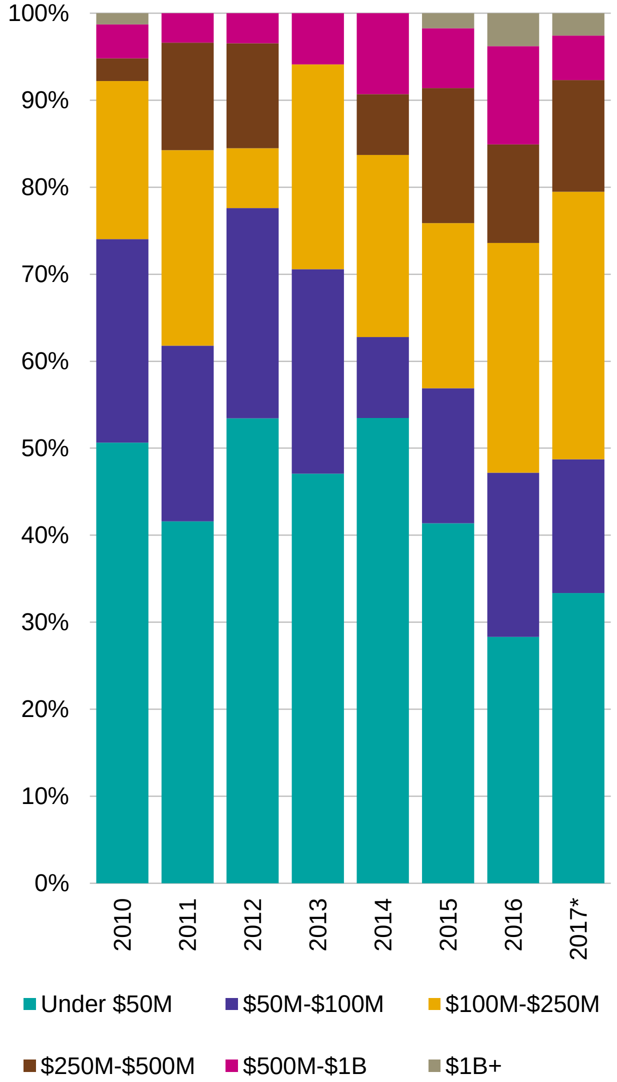
Sub-$50M funds hold steady in 2017, as middle of the market sees most of the action

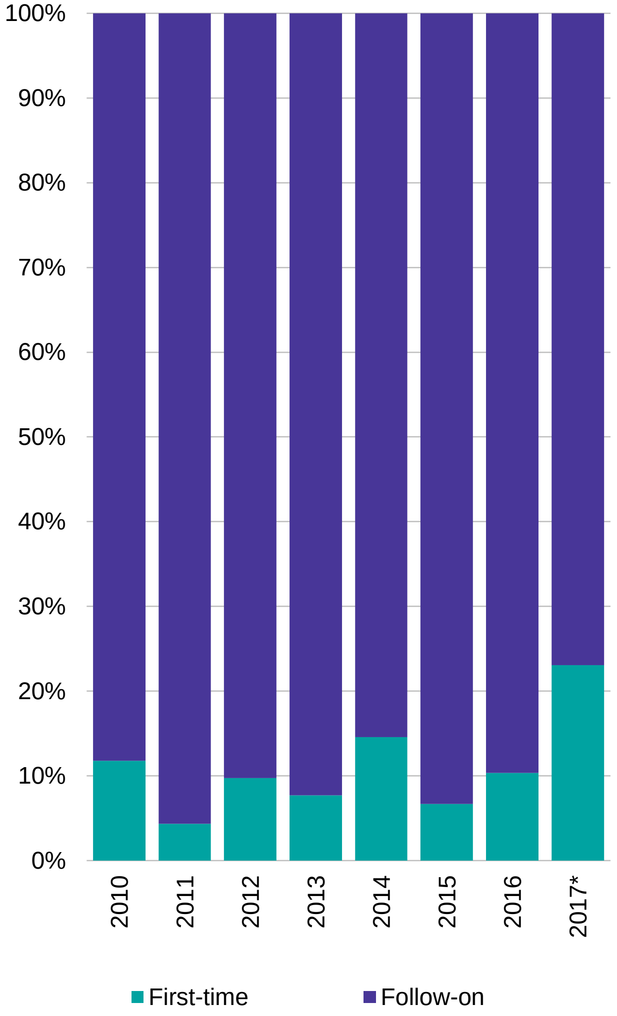
Venture fundraising (#) by size in Asia

2010 — 2017*



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

2010 — 2017*

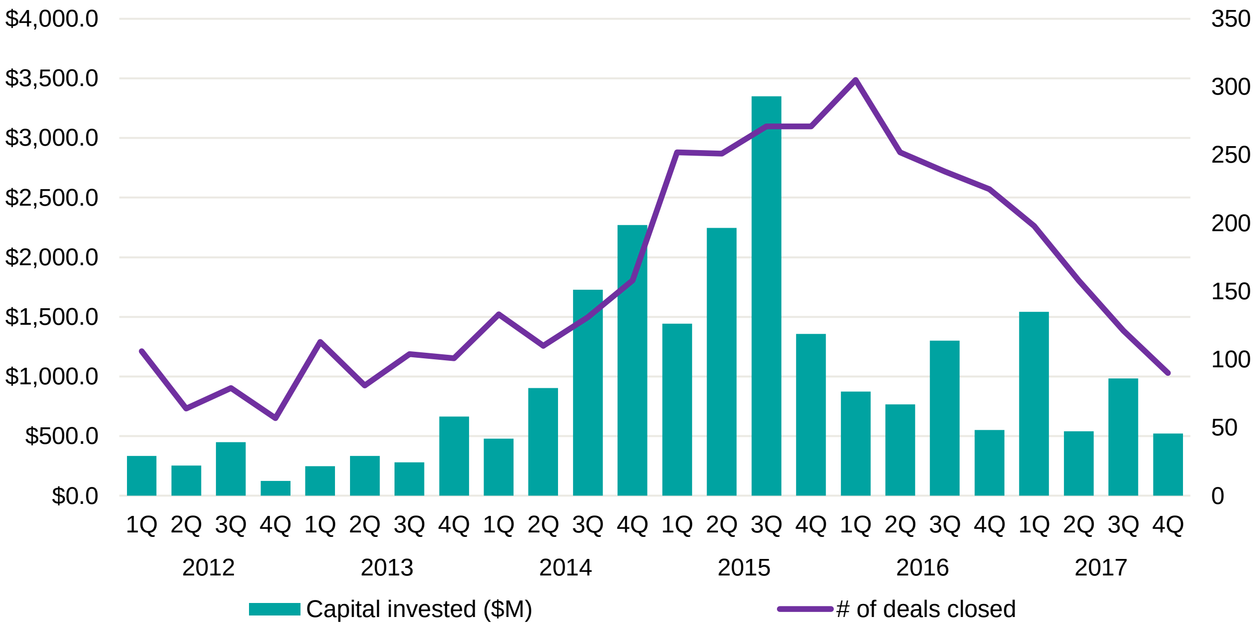


Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. *As of 12/31/2017. Data provided by PitchBook, January 16, 2018.

The investing cycle is resetting

Venture financing in India

2012 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

The Indian venture scene in 2017 was marked once again by mega-rounds, for even as the volume of completed transactions fell steeply from the levels seen in 2015 and 2016, VC invested stayed even with the prior year. No fewer than six transactions exceeding $100 million in size occurred in 2017, speaking to the growth of the Indian tech scene overall to-date, even if the investing cycle is resetting as it winds down.

"2017 was relatively a good year for VC investment in India. Big deals early in the year by Unicorns helped drive momentum in later quarters. Moving forward, we expect to see continued growth in digital players focused on providing services in fintech, healthtech, foodtech, as well as other ecosystem players. A possible new trend could be Indian language internet users. Indian language internet users have already surpassed English users in the country, and are forecast to represent nearly 75% of India's internet user base by 2021[26]. This is a new set of customers who are digitally enabled and prefer an Indian language over English. Most consumer internet companies, as well as the digital initiatives of consumer brands are expected to target this consumer base in the coming years."

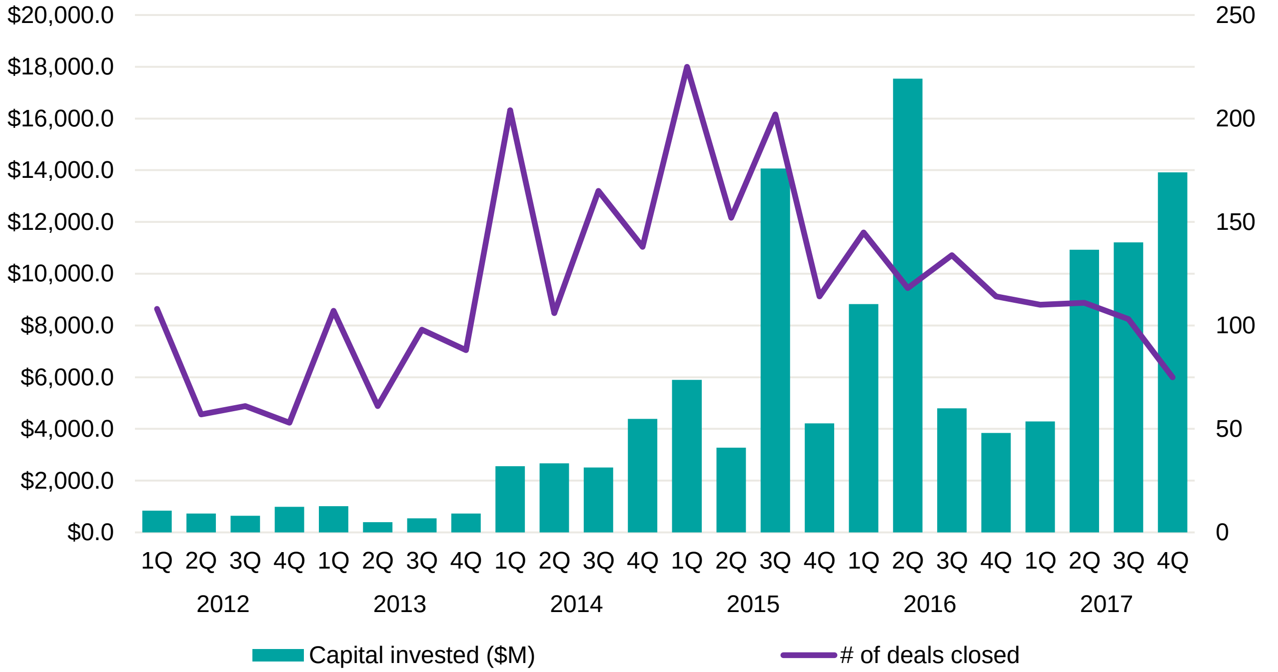
Sreedhar Prasad
Partner, Consumer Markets, Internet Business and Startups, **KPMG in India**

[26] https://assets.kpmg.com/content/dam/kpmg/in/pdf/2017/04/Indian-languages-Defining-Indias-Internet.pdf

Mega-rounds push to a new high in VC invested

Venture financing in China

2012 — Q4'17



Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

Owing to dynamics identified previously (significant government support, corporations' role, large investment firms' push into the tech sector, etc.) China recorded well over $40 billion in VC invested in 2017. That not only represents as massive increase over the $35 billion seen in 2016, it also showcases just how avidly investors, both foreign and domestic, are piling into the nation's tech scene to capitalize on its emerging middle class.

"Enterprise services companies are gaining a lot of ground in Asia, but particularly in China. In Q4'17, more than 70 deals closed in the B2B enterprise services space, with over $1.3 billion USD invested. Over time, this area is only expected to grow as companies realize the value of leveraging startups to drive both increased efficiency and customer value. Additionally, autotech continues to attract significant investments in China. We are seeing a strong inflow of capital in this area, as signaled by a number of sizable deals this quarter, we expect this trend to continue in the next few quarters."

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

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China accounts for all Q4'17 top financings

1 **Didi Chuxing** — $4,000M, Beijing
Transportation
Late-stage VC

2 **Meituan-Dianping** — $4,000M, Beijing
E-commerce
Series C

3 **Nio** — $1,000M, Shanghai
Transportation
Series D

4 **Guazi.com** — $580M, Beijing
E-commerce
Series B

5 **Hellobike** — $502M, Shanghai
Transportation
Series D

6 **Face++** — $460M, Beijing
Application software
Series C

7 **Souche.com** — $335M, Hangzhou
E-commerce
Series E

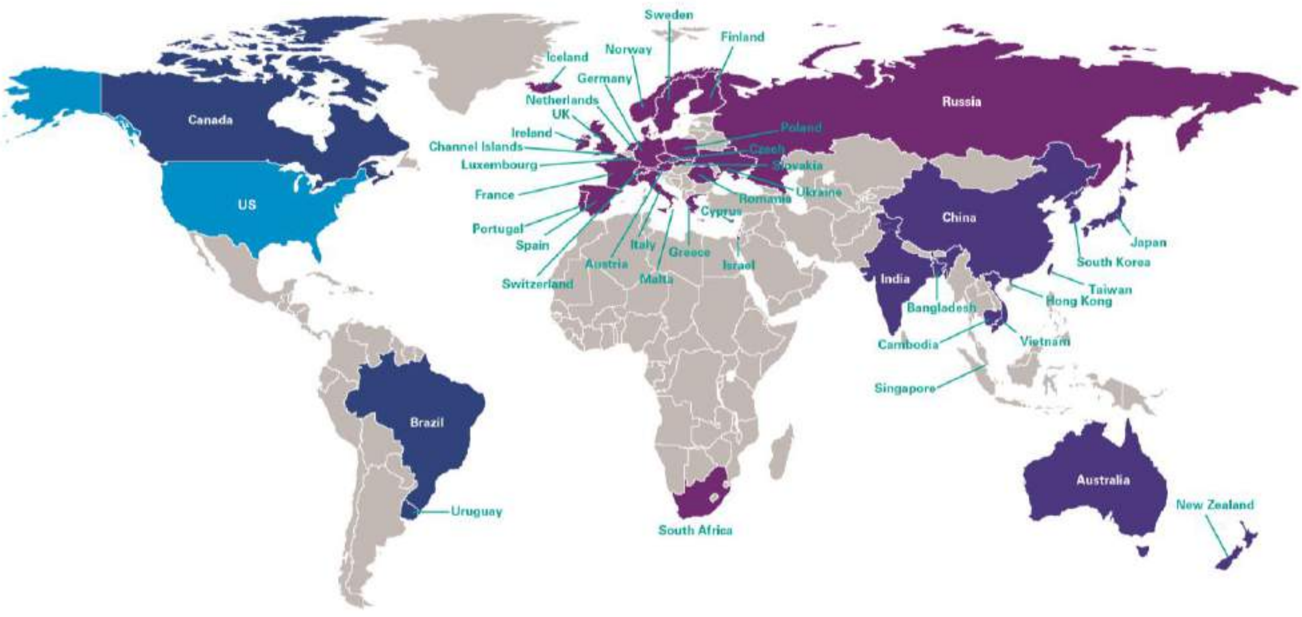
8 **Tujia** — $300M, Beijing
Leisure
Series E

9 **WeLab Holdings** — $220M, Hong Kong
Consumer finance
Series B

10 **ExPace Technology** — $181.2M, Wuhan
Aerospace
Series A

Source: Venture Pulse, Q4'17, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, January 16, 2018.

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



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About KPMG Enterprise

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

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Methodology

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

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

Fundraising

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

Deals

PitchBook includes equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, venture capital firms, corporate venture firms, and corporate investors. Investments received as part of an accelerator program are not included, however, if the accelerator continues to invest in follow-on rounds, those further financings are included. All financings are of companies headquartered in the US.

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

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

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.

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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.

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