KPMG CB INSIGHTS

Venture Pulse Q2 2016

Global Analysis of Venture Funding

July 19, 2016

Welcome message

The second quarter of 2016 saw venture capital market activity rise slightly following 2 quarters of declines. Large rounds by companies like Uber, Snapchat and Didi Chuxing helped buoy investment despite the ongoing decline in the number of deals.

While the Brexit referendum in the UK caused many investors to hold back from making significant investments, over the quarter, specifically in the UK, the upcoming US presidential election, the potential increase in US interest rates, and an economic slowdown in China also added to investor caution.

Despite the further drop in the number of VC deals, there are strong indications that market activity will rebound heading into the second half of 2016 and into 2017. Many investors appear to be taking a 'wait-and-see' approach to the VC market rather than switching their investment focus entirely, ending the days of FOMO (fear of missing out).

In fact, many VC investors are using the current market climate as an impetus to raise additional funds, rethink their portfolio of investments and focus more diligently on identifying companies that have strong business models and plans to achieve profitability. As market uncertainties resolve, these investors are expected to be looking to deploy the significant amount of dry powder they have accumulated over the past 6 months.

In this quarter's Venture Pulse Report — a collaboration between KPMG Enterprise and CB Insights — we explore the top-of-mind issues for investors in key regions of the world and reflect on a number of questions that will affect the VC market going forward, including:

— What factors are driving the declining number of deals in the VC market?
— How will the results of the UK's Brexit referendum affect VC investment?
— Are VC-backed unicorns starting to die off?
— How are artificial intelligence technologies poised to reshape business?

We hope you find this edition of our Venture Pulse Report informative. If you would like to discuss any of the results in more detail, contact a KPMG adviser in your area.

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KPMG Enterprise

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63	Europe	$2.8B in funding | 385 deals
80	Asia	$7.4B in funding | 343 deals

All monetary references contained in this report are in USD

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SUMMARY OF FINDINGS

GLOBAL INVESTORS CONTINUE TO DIAL BACK DEAL ACTIVITY IN Q2'16

Funding ticks up: Following 2 consecutive quarters of declines, global funding to VC-backed companies edged up 3% to $27.4B in Q2'16, lifted by $1B+ rounds to 'decacorns' valued at $10B+ such as Uber, Snapchat and Didi Chuxing.

Deals see further decline: Deal activity had already slowed noticeably in Q4'15 and Q1'16 but global financings dropped a further 6% in Q2'16, down to 1886. Deal count fell in both Asia and North America, though it rose slightly in Europe.

Slight recovery in unicorn birth rate: As existing unicorns continue to face increased scrutiny, only seven new VC-backed unicorns were minted in Q2'16. That's two more than the previous quarter, but still considerably fewer than the double-digit births seen in 2015.

Corporates maintain deal pace: Corporates and CVCs participated in over 25% of deals for a second-straight quarter, as corporations continue activity in private markets.

US DEALS FALL IN Q2'16, WHILE FUNDING SEES SLIGHT GROWTH FROM Q1'16

US deal activity continues to reset: US funding was up to $16.7B, rising 10% from Q1'16. However, the quarterly deal count of 1048 slipped 9% from the quarter prior, and represents a 26% year-on-year plunge.

Late-stage deal sizes stay low: Median late-stage deal size in North America ended the quarter at $25M, well below the $30M median in Q4'15 and $34M in Q3'15.

Early-stage deal share depressed: Seed to Series A deal share in North America fell to 51% of all deals to VC-backed companies, representing a 5-quarter low. Other stages remained relatively range-bound.

Early-stage deal sizes remain high: Median early-stage deals in North America matched last quarter's high of $3M, up a full 50% from the same quarter a year before.

Deals fall across top US states: Quarterly deal growth was flat or negative across the top three states of California, Massachusetts and New York. However, a few outsized mega-rounds lifted California's total funding 63% from Q1'16.

Note: Report includes all rounds to VC-backed companies
Mega-deals to VC-backed companies from hedge funds or mutual funds would be included, for example. This report includes all of those rounds. All data is sourced from CB Insights. Page 99 details the rules and definitions we use.

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SUMMARY OF FINDINGS

EUROPE Q2'16 FUNDING DROPS BELOW $3B BUT DEAL ACTIVITY RISES

Mixed results in Europe: Deal count in Europe crept up 5% to 385, although the funding total of $2.8B is 20% lower than that of Q1'16. This reverses the deal and dollar trends seen in the quarter prior. Europe surpassed Asia for deal activity.

Seed-stage deal share recovers in Europe: Seed/angel share jumped back to 49% after suddenly falling below 40% last quarter. Meanwhile, most other stage shares decreased slightly as deals rebalanced towards seed.

UK deal, dollar activity continues to fall: UK VC-backed startups raised $729M in funding across 104 deals, both numbers representing back-to-back quarterly declines. Funding hit a 5-quarter low with the sub-$1B total.

Germany deal, dollar activity diverges: Funding to German VC-backed startups rose to $492M in Q2'16, reversing 4-straight quarters of negative growth. Deal count dropped to 70, likewise snapping a 4-quarter streak of deal growth.

INVESTMENT PACE IN ASIA CONTINUES TO PLUMMET

Asia funding essentially flat: Funding to VC-backed Asian companies was up just 2% to $7.4B, while deals dropped a further 12% from the already-cooling activity seen in Q1'16.

Late-stage deal size recovers to $100M: Q1'16 saw median late-stage deals in Asia plunge after ballooning throughout 2015. Median deal size has returned to $100M in Q2'16, with sizeable rounds going to companies like Didi Chuxing, Spring Rain and Tokopedia.

Deal activity slips in China: Funding to VC-backed companies in China rose to $5.6B, though deal count shrank 20%, down to 74 for the quarter.

India funding craters to $583M: With investors growing increasingly wary, financing to Indian VC-backed companies continued to drop in Q2'16. A dearth of mega-rounds contributed to a 59% slide in funding from Q1'16.

Corporates maintain investment pace in Asia: Corporates participated in over 30% of deals to Asian VC-backed companies for the fourth-straight quarter.

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Global VC activity continues decline amid market uncertainties

Global VC investment rose slightly between Q1 and Q2 as a result of $1 billion+ funding rounds by 'decacorns' — companies valued at over $10 billion, including Uber, SnapChat and Didi Chuxing. Comparatively, deal volume continued to decline, likely a result of numerous factors, from market uncertainties associated with Brexit, the November US presidential election, a slowdown of the Chinese economy and the potential increase in US interest rates to the hangover resulting from the valuation highs created in 2015, which continues to see VC investors questioning high valuations.

Investor caution drives 'wait-and-see' approach

Many investors across regions chose to wait on the sidelines in Q2'16, seemingly with the belief that market uncertainties will resolve themselves over the next couple of quarters. Rather than make new investments, many of these investors chose to take the time to raise capital or to evaluate their current portfolio of investments. Crossover investors (mutual funds and hedge funds) appeared to be particularly cautious during the quarter.

Brexit outcome may introduce new uncertainties but also new opportunities

Following the Brexit referendum, there was some short-term turmoil in the global public markets. While the corresponding ripple-effects are beginning to stabilize, the fact that there is no concrete plan for the exit of the UK from the EU may introduce new uncertainties, especially in the European VC market. With many investors wondering: 'What next?' — the plethora of caution in the VC market today is not expected to dissolve in the near future. At the same time, other locations may find this a prime opportunity to attract VC investor attention away from the UK, allowing other startup hubs to gain prominence.

IPO failures continue to drive demands for investor protections

Following a number of high profile IPOs failing to achieve their private valuations, investors remained cautious during Q2 when it came to making significant late-stage investments. As companies worked to keep valuations at their current levels during Q2, more investors demanded investor protections as a key component of any funding granted — wanting assurance of protection in the event of a down round or less than ideal IPO exit.

The rise and fall of unicorns

2015 saw the highest number of unicorns (companies with a valuation above $1 billion) created. This number has been reined in significantly so far in 2016, with just 12 new unicorns in total introduced: five in Q1 and seven in Q2. While some existing unicorns have held highly successful follow-up funding rounds, low valuations may cause others to lose or fail to attract financing in the quarters to come. This may create a new trend of 'uni-corpses' as some unicorns disappear.

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Global VC activity continues decline amid market uncertainties (cont.)

Proven companies continue to attract investment

With current market uncertainties, experienced and proven companies were seen to win the majority of investment in Q2, especially in North America and Asia, where large funding rounds went to Uber, Didi Chuxing and Snapchat. While Europe continued to fund significant seed and early-stage deals, the other two regions saw investment leaning toward later stage deals.

Regardless of deal stage, VC investors across all regions appeared to be more hesitant with respect to their investments. They are no longer willing to throw money at promising but poorly organized companies. Instead, they are focusing their attention on those that can show a clear path to profitability and which have a strong business model and control of their expenses. Companies that do not have their financial house in order will likely be left behind by those that do.

AI and virtual reality attracting attention — poised for growth

Q2'16 investments in artificial intelligence (AI) increased globally compared to other high-profile sectors such as digital health, which saw a decrease in investment over the quarter. AI is an area that has experienced rapid growth over the last 5 years and is poised for further growth over the next year. The relative resilience of this industry can be attributed to the fact that AI technologies underpin countless innovations, from driverless cars to robo advisory platforms.

Virtual reality also received a significant boost during Q2'16, as VC investors and virtual reality companies announced the development of a $10 billion fund focused on augmented reality and related innovation. This new fund is a prime example of how VC investors are placing bets that this field will grow exponentially in the years ahead.

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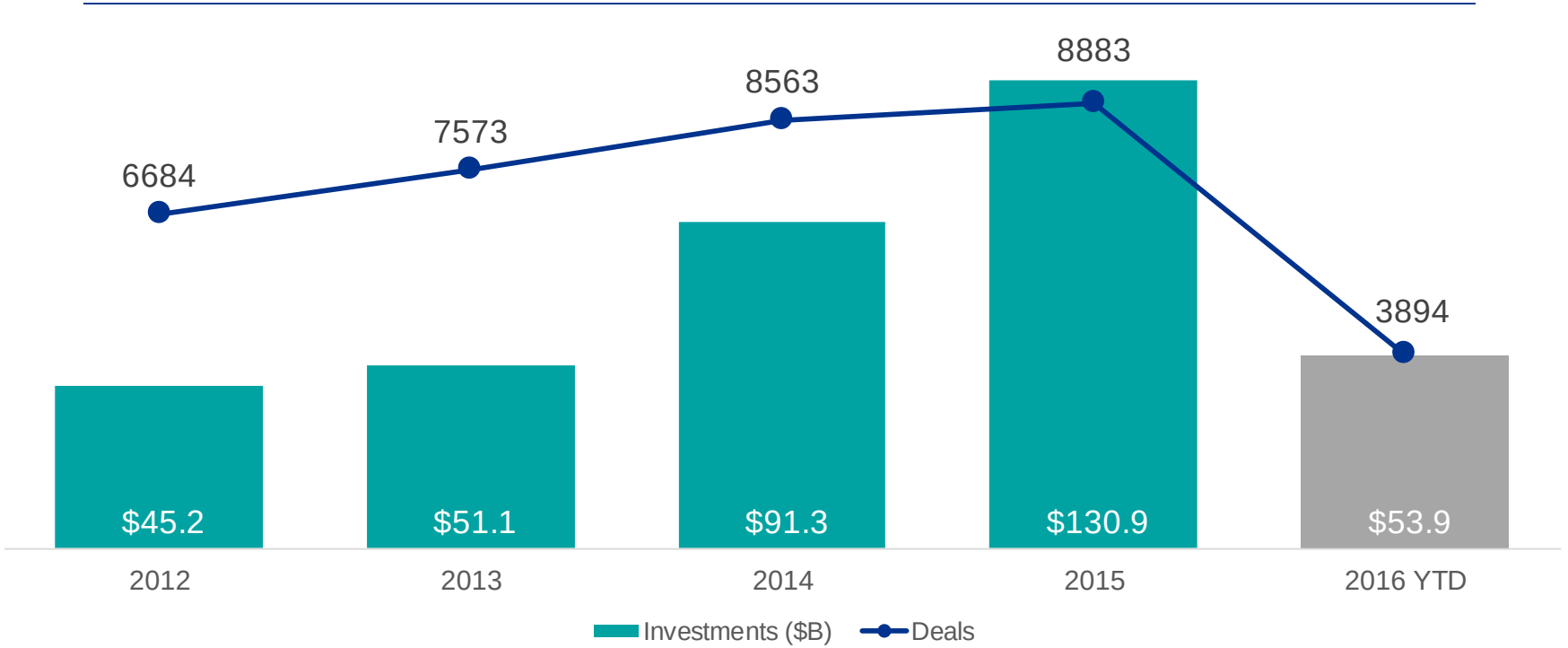
$53.9B DEPLOYED ACROSS 3894 DEALS TO VC-BACKED COMPANIES IN THE FIRST HALF OF 2016

While 2015 was a record year in both deals and dollars invested in VC-backed companies, 2016 has seen a significant pullback in activity. At the current run rate, deal activity is barely on pace to beat 2013's numbers, although investment is on pace to break $100B.

Annual Global Financing Trends to VC-Backed Companies

2012 – 2016 YTD (Q2'16)



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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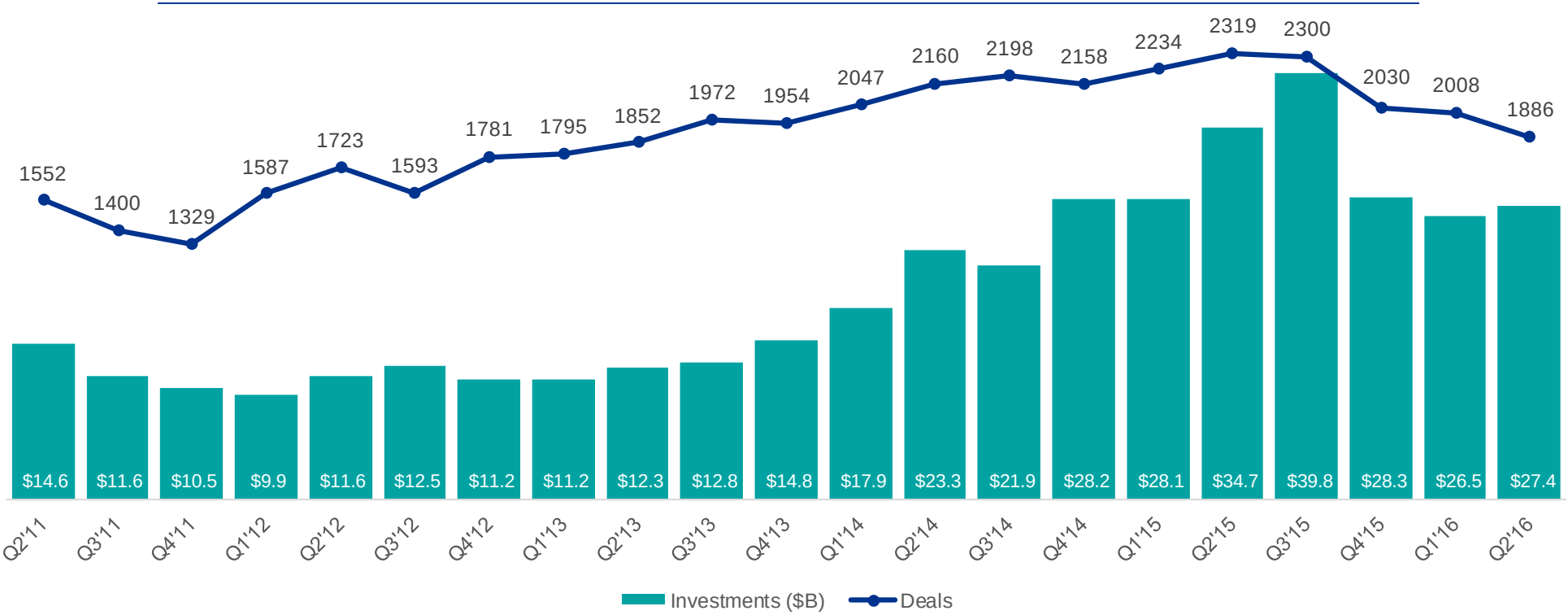
DEAL ACTIVITY TO VC-BACKED COMPANIES IN Q2'16 DROPS TO LOWEST LEVEL SINCE Q2'13

Financings to VC-backed companies continued a downward trend in Q2'16, seeing $27.4B invested across 1886 deals. This marks the fourth consecutive quarter of declining deal activity, while funding levels have remained stagnant in the past 3 quarters.

Quarterly Global Financing Trends to VC-Backed Companies

Q2'11 – Q2'16



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"With only a slight increase in global funding in venture capital, crossover investors seem particularly cautious. Many of the high-profile tech IPO's from 2015 continue to trade well below their initial offering price, putting pressure on private company valuations and this, combined with economic concerns in China and Europe, has continued to put a damper on VC investment."

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

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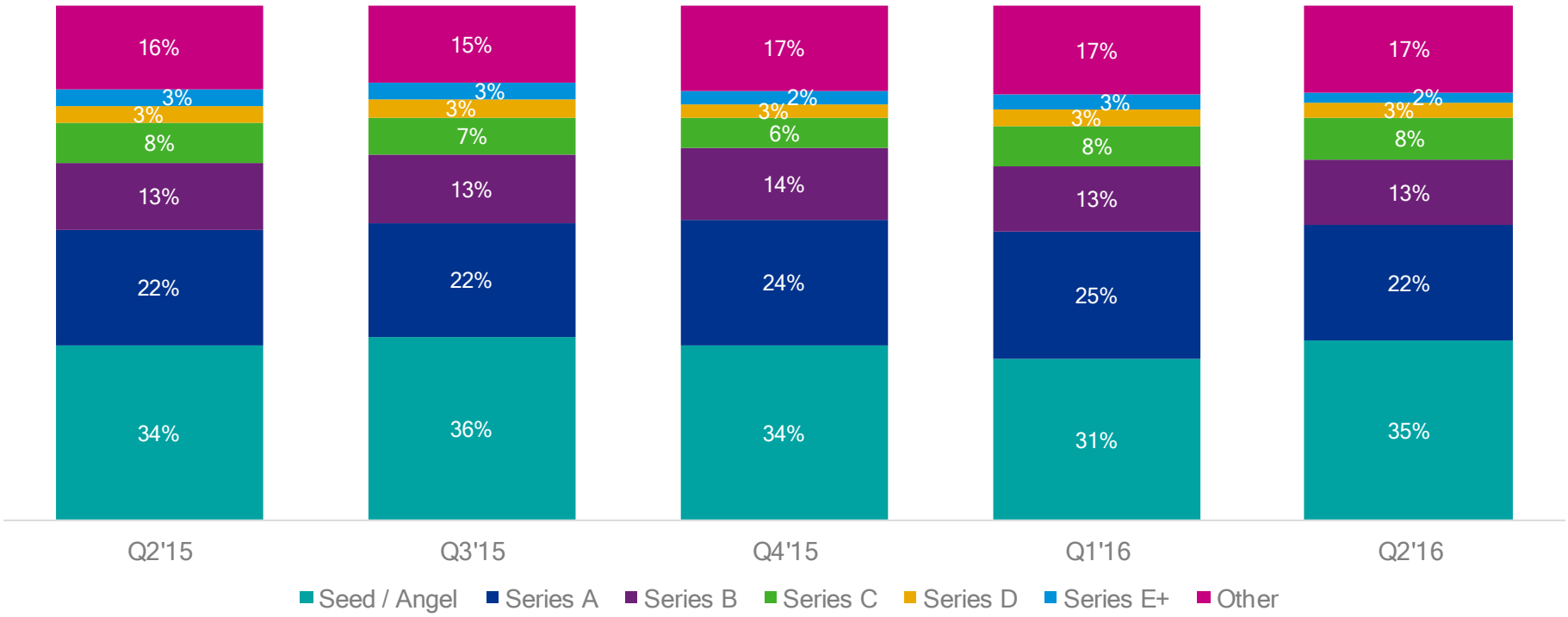
SEED-STAGE DEAL SHARE REBOUNDS IN Q2'16 AS SERIES A SHRINKS

After last quarter's noticeable decline in seed/angel deal share, Q2'16 saw an uptick to account for 35% of deals. At the same time, Series A deals shrank in Q2'16, taking less than a quarter of all deals in the quarter. All other stages remained relatively range-bound.

Quarterly Global Deal Share by Stage

Q2'15 – Q2'16



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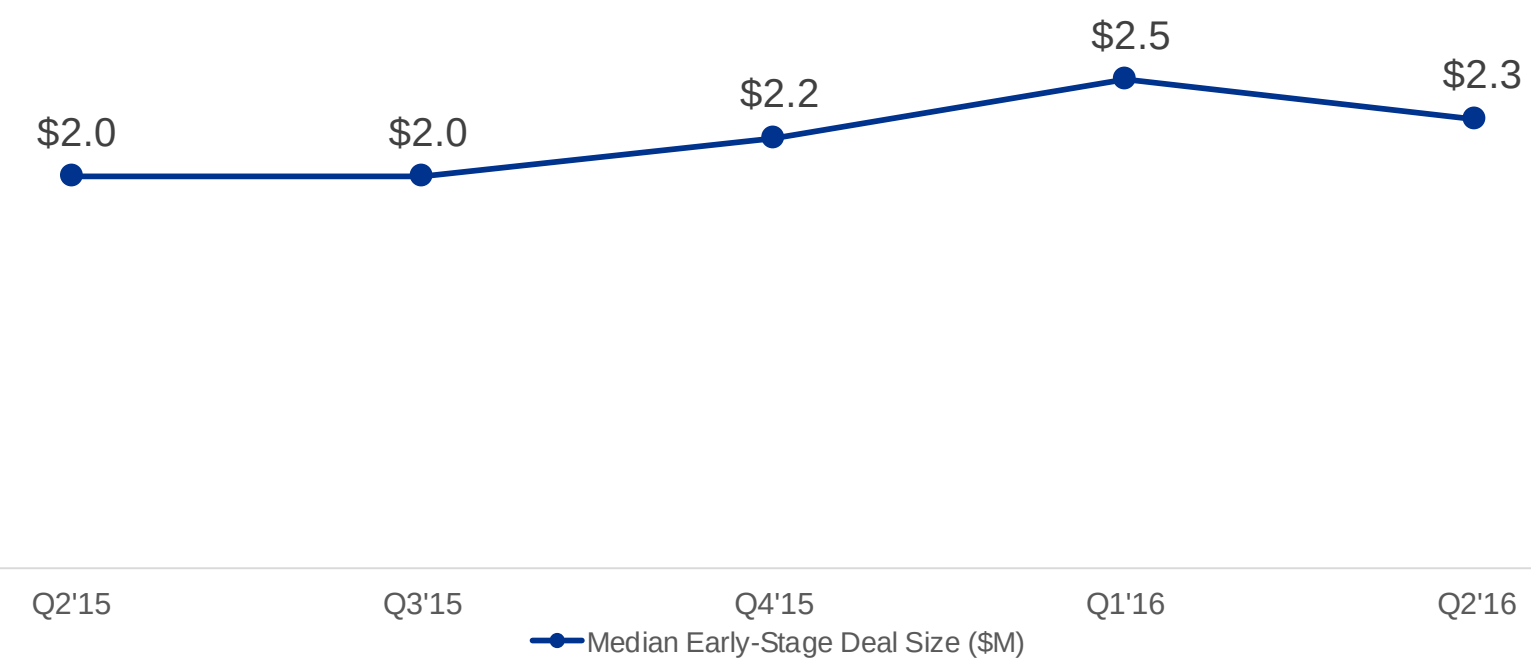
MEDIAN EARLY-STAGE DEAL SIZE SHRINKS AFTER TWO CONSECUTIVE INCREASES

Median early-stage (Seed — Series A) deal size among all VC-backed companies hit a high of $2.5M in Q1'16, but then shrunk back to $2.3M in the following quarter.

Global Early-Stage Deal Size

Q2'15 – Q2'16



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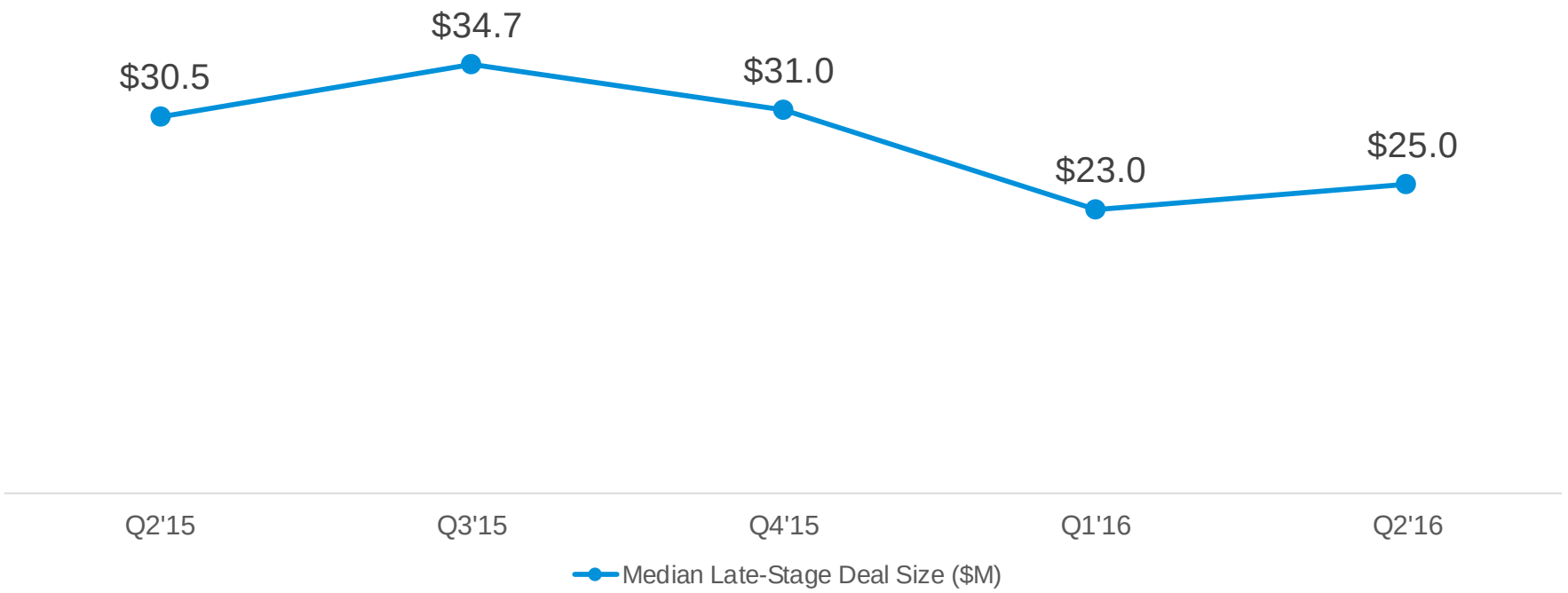
GLOBAL MEDIAN LATE-STAGE DEAL SIZES REBOUND SLIGHTLY IN Q2'16

Global median late-stage (Series D or later) deal sizes bounced back after 2 quarters of decline. Q2'16 saw a median late stage deal size of $25M, a 28% drop from the peak of $34.7M in Q3'15.

Global Late-Stage Deal Size

Q2'15 – Q2'16



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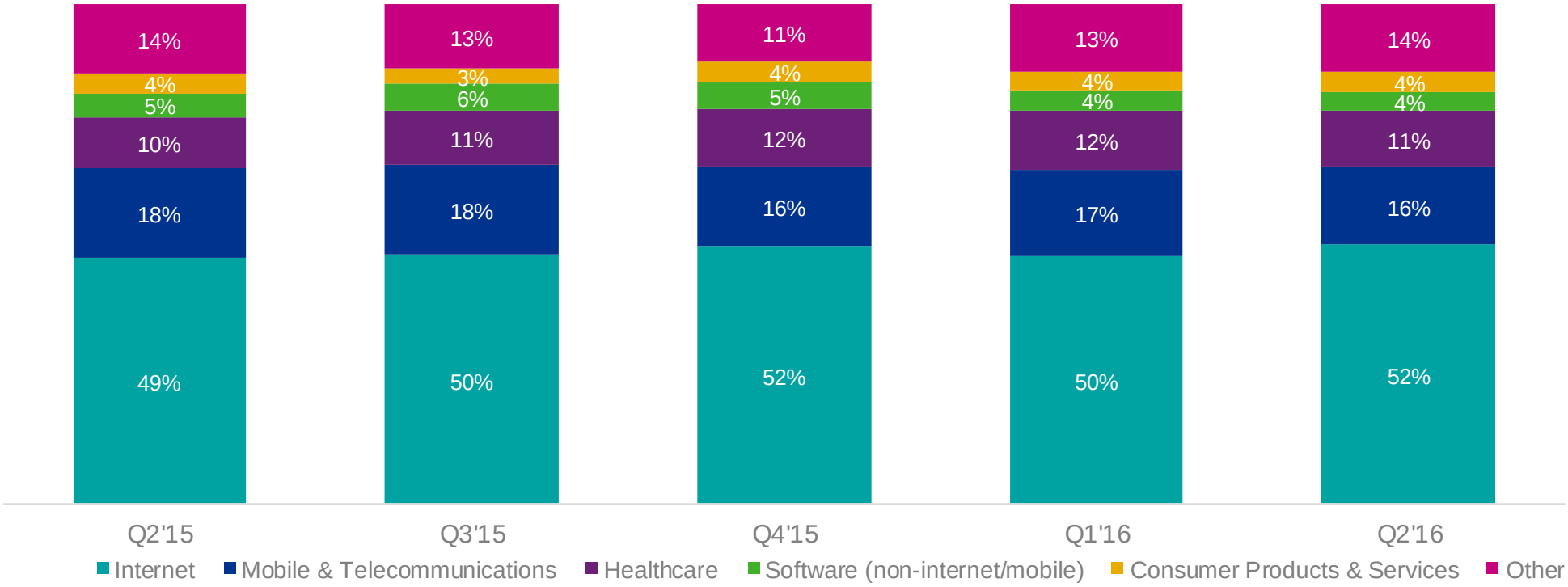
INTERNET AND MOBILE CONTINUE TO ACCOUNT FOR TWO-THIRDS OF ALL VC-BACKED DEALS

Internet and mobile once again took the majority of deals going to VC-backed companies. These two major sectors accounted for 68% of all deals in Q2'16. All other sectors remained fairly range-bound, with healthcare taking 11% and non-internet/mobile software remaining at 4% for the second quarter in a row.

Global Quarterly Deal Share by Sector

Q2'15 – Q2'16



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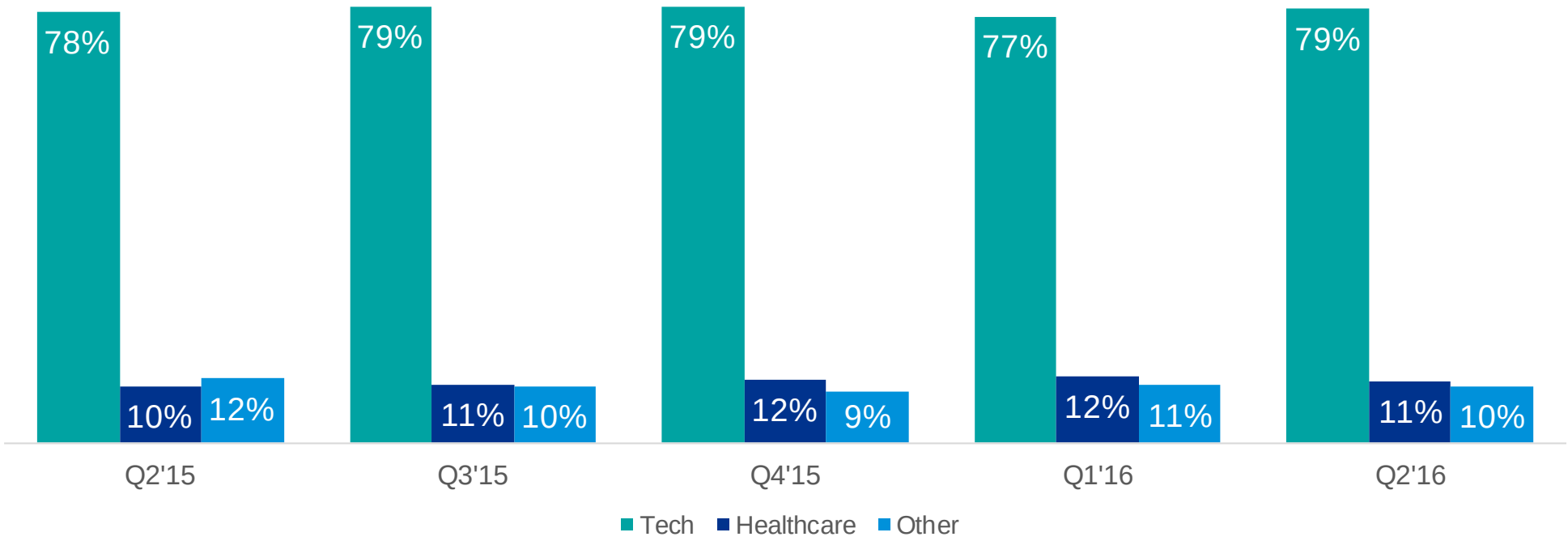
TECH MAINTAINS GIANT INVESTMENT DEAL LEAD OVER HEALTHCARE AND OTHER SECTORS

Tech companies have taken 77%+ of all deal activity to VC-backed firms in each of the past 5 quarters. Healthcare failed to receive more than 12% in any quarter over the same period, while all other sectors combined remain even lower, hovering between 9% and 11% since Q4'15.

Quarterly Global Tech vs. Healthcare Deal Share

Q2'15 – Q2'16



*percentages in chart are rounded to nearest whole number

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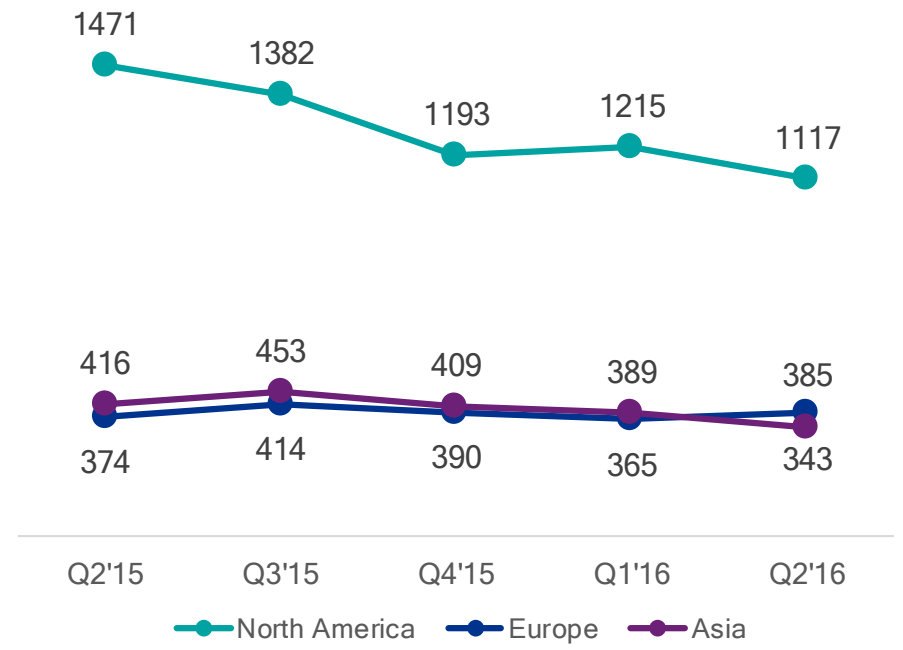
VC-BACKED DEAL ACTIVITY IN NORTH AMERICA FALLS AS EUROPE REBOUNDS AND PASSES ASIA

Activity in North America continues to fall, reaching just 1117 deals in the quarter, while funding in the region simultaneously increased to $17B+, suggesting fewer but larger deals. Europe surpassed Asia in deal activity for the first time in 5 quarters as well as closing the funding gap between the regions in the past 2 quarters.

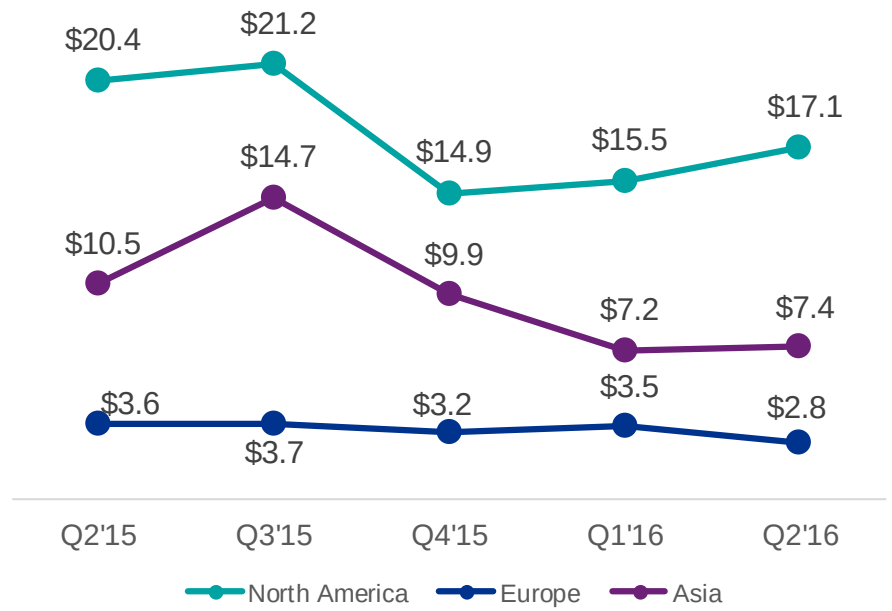
Deal Count by Continent

Q2'15 – Q2'16



Investment ($B) by Continent

Q2'15 – Q2'16



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“Brexit has the potential to disrupt the disruptors. In the current environment, forecasting how much of an implication there will be on VC investment is difficult. Concerns over key factors, including challenges around the free movement of labor and availability of capital, seem to have taken their toll on venture capital investment. But there is no doubt the aftershocks will be felt not only in the UK, but across Europe and, ultimately, the globe.”

Jonathan Lavender
Principal,
Head of Markets,
KPMG in Israel

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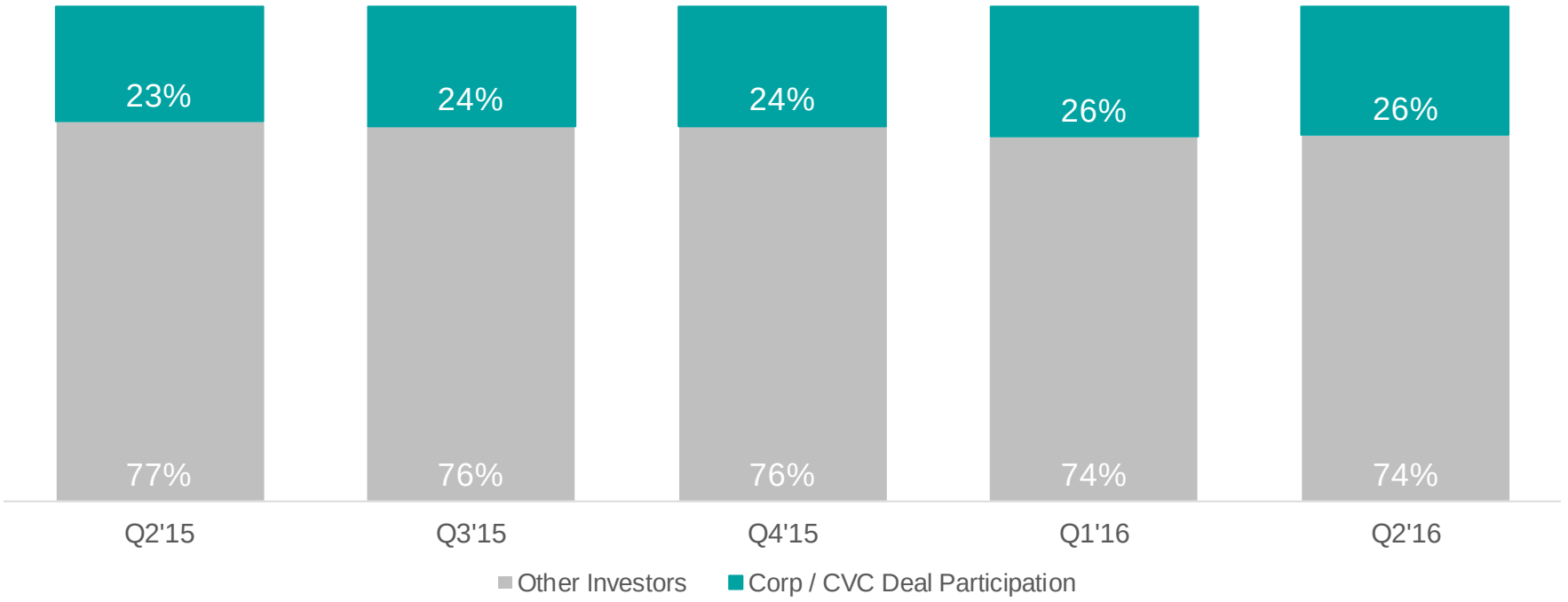
CORPORATES PARTICIPATE IN OVER A QUARTER OF DEALS FOR SECOND STRAIGHT QUARTER

2016 has seen corporates participate in 26% of all deals to VC-backed companies in both quarters, with more large companies setting up CVC arms and maintaining activity in private markets

CVC Participation in Global Deals to VC-Backed Companies

Q2'15 – Q2'16



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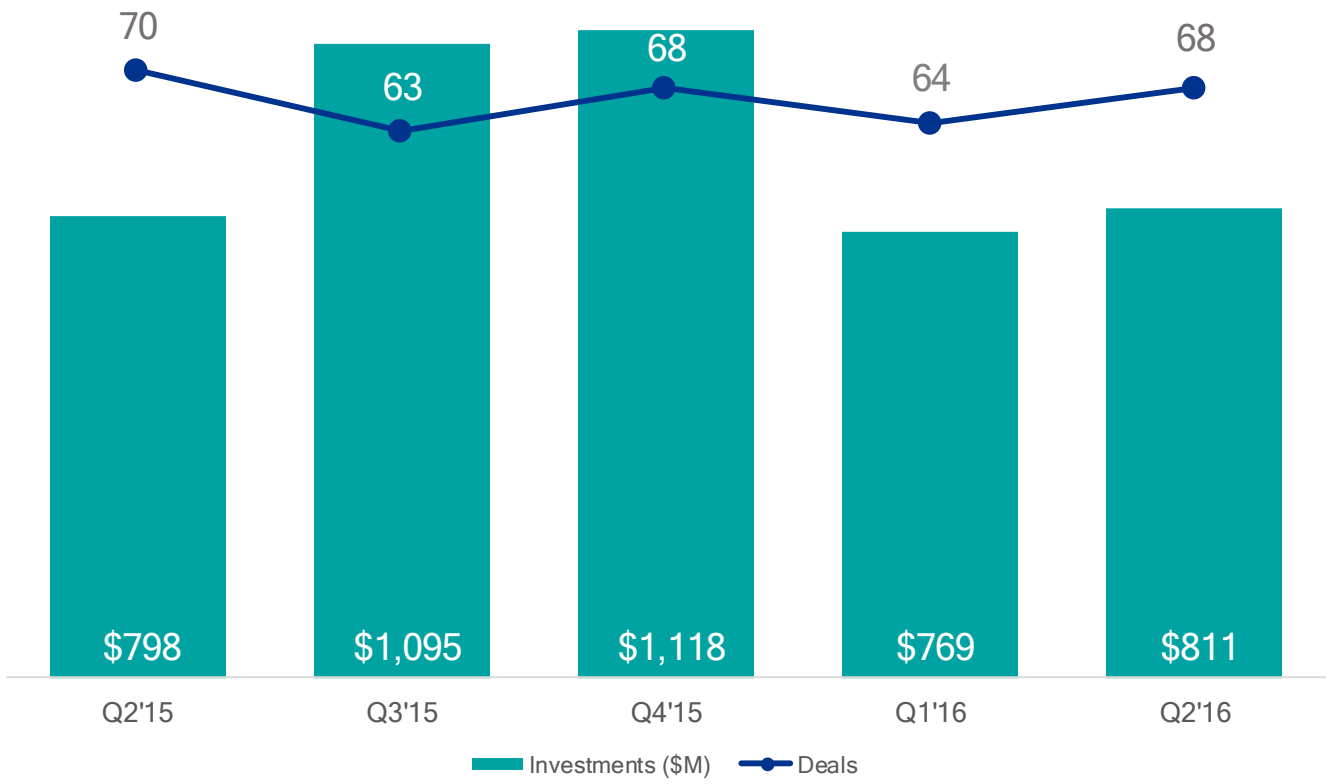
CYBERSECURITY VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16

Cybersecurity Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

LogicMonitor

$130M // Growth Equity

Cylance

$100M // Series D

vArmour Network

$41M // Series D

Top Countries

United States

42 Deals // $694.2M

Israel

4 Deals // $27.5M

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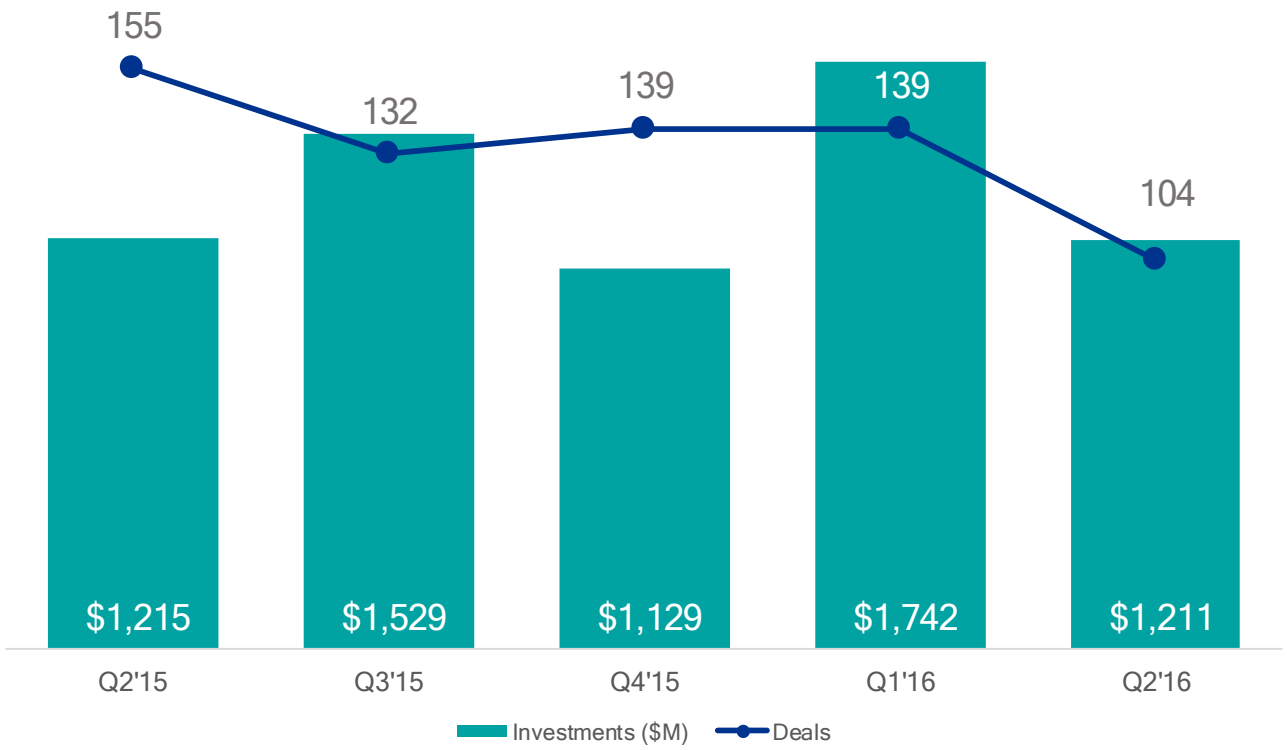
DIGITAL HEALTH VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16

Digital Health Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Spring Rain Software

$183M // Series D

Clover Health

$160M // Series C

Bright Health

$80M // Series A

Top Countries

United States

74 Deals // $825.8M

India

9 Deals // $24.5M

China

6 Deals // $288.1M

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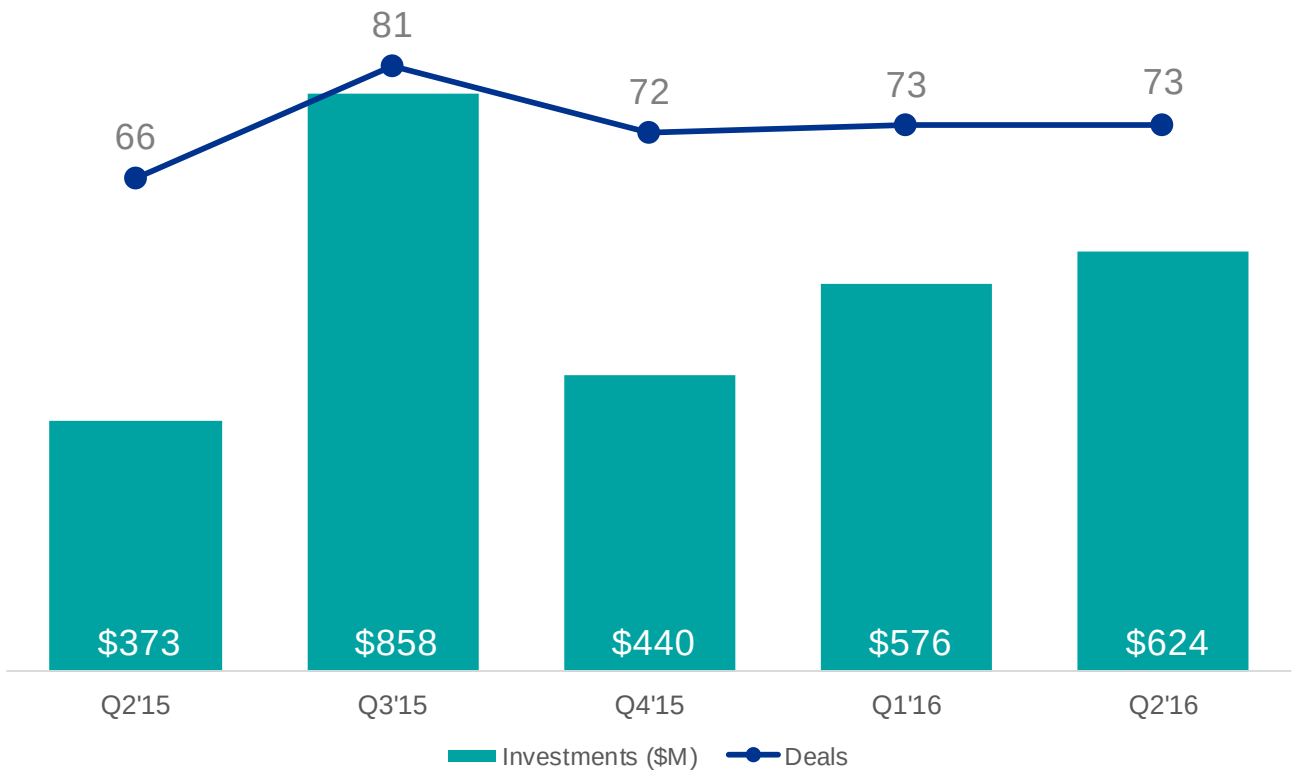
AI VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16

Artificial Intelligence Tech Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Cylance

$100M // Series D

Anki

$52.5M // Series D

MOOGsoft

$31.6M // Series C

Top Country

United States

47 Deals // $524.5M

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Artificial Intelligence technologies underpin wide range of innovations

When it comes to innovation, many VC investors are focusing on opportunities that aim to automate activities typically handled by people, whether by their internal staff personnel or their end customers. From self-driving cars to healthcare solutions to providing robo advisory, the opportunities are myriad and underpinning each of these offerings are different forms of artificial intelligence (AI) technology.

Automating human thinking

Artificial intelligence technology is a 'catch all' phrase that reflects the use of algorithms encoded in software to perform tasks typically considered to require human knowledge, judgement and skill to execute.

While many companies have been using forms of AI software to conduct basic digital labour, such as transaction processing or data analytics, companies today are more focused on finding AI solutions to tasks that include a higher level of uncertainty when it comes to determining the appropriate response. For example, the algorithms embedded in a self-driving car need to consider the responses of real-time humans in other vehicles on the road in order to be effective – responses that may not be rational depending on a given situation.

The value AI offers to companies is manifold as evidenced by investments from numerous big BPO players. For many, the opportunity to decouple headcount increases from revenue increases is a significant driver. With more complex AI technologies, companies can reduce headcount and automate many back-office jobs. While the ethical ramifications of these types of activities have yet to be explored in detail, many companies see enormous potential benefits from utilizing or integrating such technologies.

Sparking a new wave of investment opportunities

VC investors see the same significant market potential that individual companies do. Over the past 5 years, investment in AI technologies has risen substantially, from $282 million in 2011 to almost $2.4 billion in 2015. A number of well-known VC investors are significantly active in the AI space, including Google Ventures, GE Ventures, Intel Capital and Samsung Ventures.

VC investment in artificial technologies rose between Q1'16 and Q2'16, from $576 million up to $620 million, while the number of deals remained stable at 73. AI companies to gain VC investment in 2016 ranged from Pathway Genomics, a company focused on DNA testing, to Digital Reasoning Systems, a firm focused on cognitive computing opportunities.

There have also been a number of high profile acquisitions in the AI space during 2016, including the June announcement of Twitter's acquisition of Magic Pony Technology, a company focused on machine learning related to visual processing, for $150 million.

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Artificial Intelligence technologies underpin wide range of innovations (cont.)

Broad application enhances investment resiliency

Compared to other identified VC growth sectors such as digital health, VC investment in artificial intelligence performed more strongly between the first and second quarters of 2016. The relative strength of AI investment can likely be attributed to its broad-reaching applications, with investors across industries and regions interested in finding ways to utilize AI to create or enhance business offerings or to extend a company's customer reach.

Growth around the corner

Over the next several quarters, VC interest and investment in AI and cognitive computing are expected to continue to increase, in addition to interest in related technologies like robotics and robo advisory. To a degree, it is difficult to decouple AI technologies from other solutions – which makes it a strong bet to VC investors despite current market uncertainties.

Over the next year or 2, we will also likely see organizations and regulators begin to look more in-depth at AI offerings and potential governance issues associated with their use as it relates to connecting machine learning to physical devices and real-world applications.

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“From automating simple tasks to augmenting complex decisions, there are very few areas of business that AI and cognitive computing will not impact. KPMG in the US is currently piloting cognitive technology to help augment our services which underscores our commitment to reinforcing confidence in the capital markets.”

Cliff Justice
Principal,
Innovation & Enterprise Solutions,
KPMG in the US

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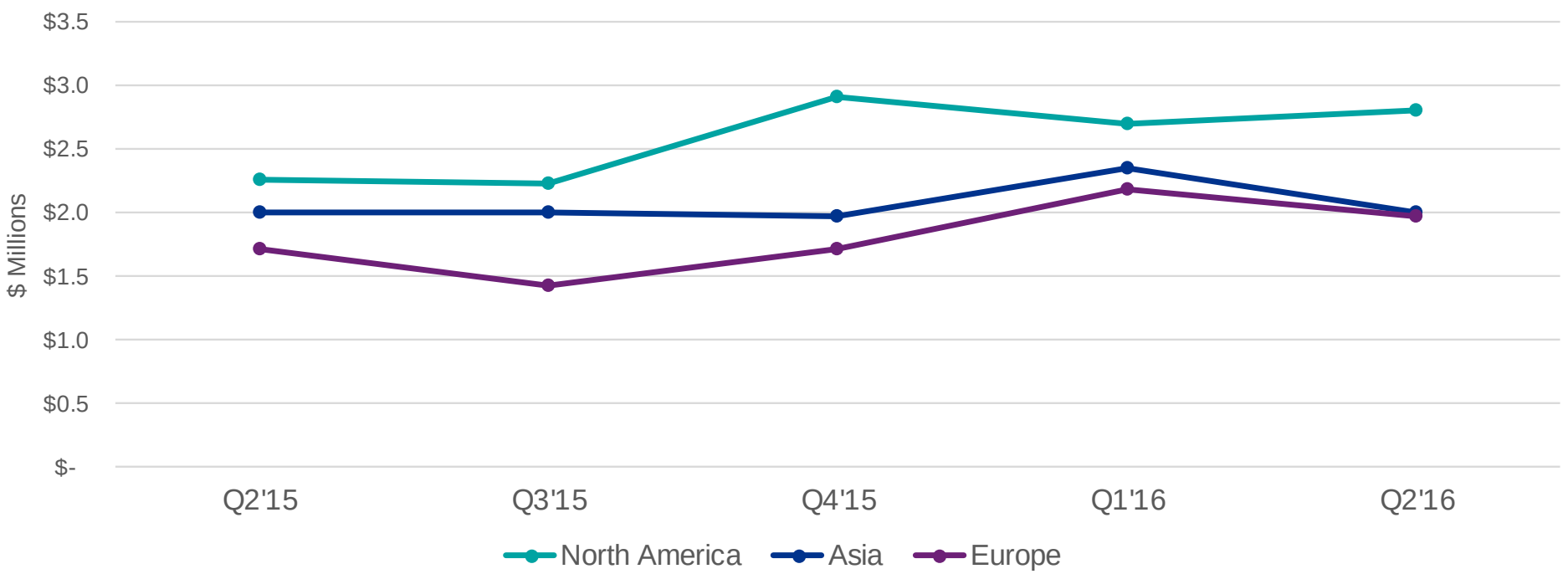
NORTH AMERICA INCREASES EARLY-STAGE DEAL SIZE GAP AS ASIA AND EUROPE CONVERGE

North American VC-backed companies continued to see larger median early-stage deals, holding steady between $2.5M and $3M since Q4'15. Asia and Europe both saw an increase going into Q1'16 and a subsequent decrease in Q2'16, as both fell to a median deal size of $2M.

Median Early-Stage Deal Size Continent Comparison

Q2'15 – Q2'16



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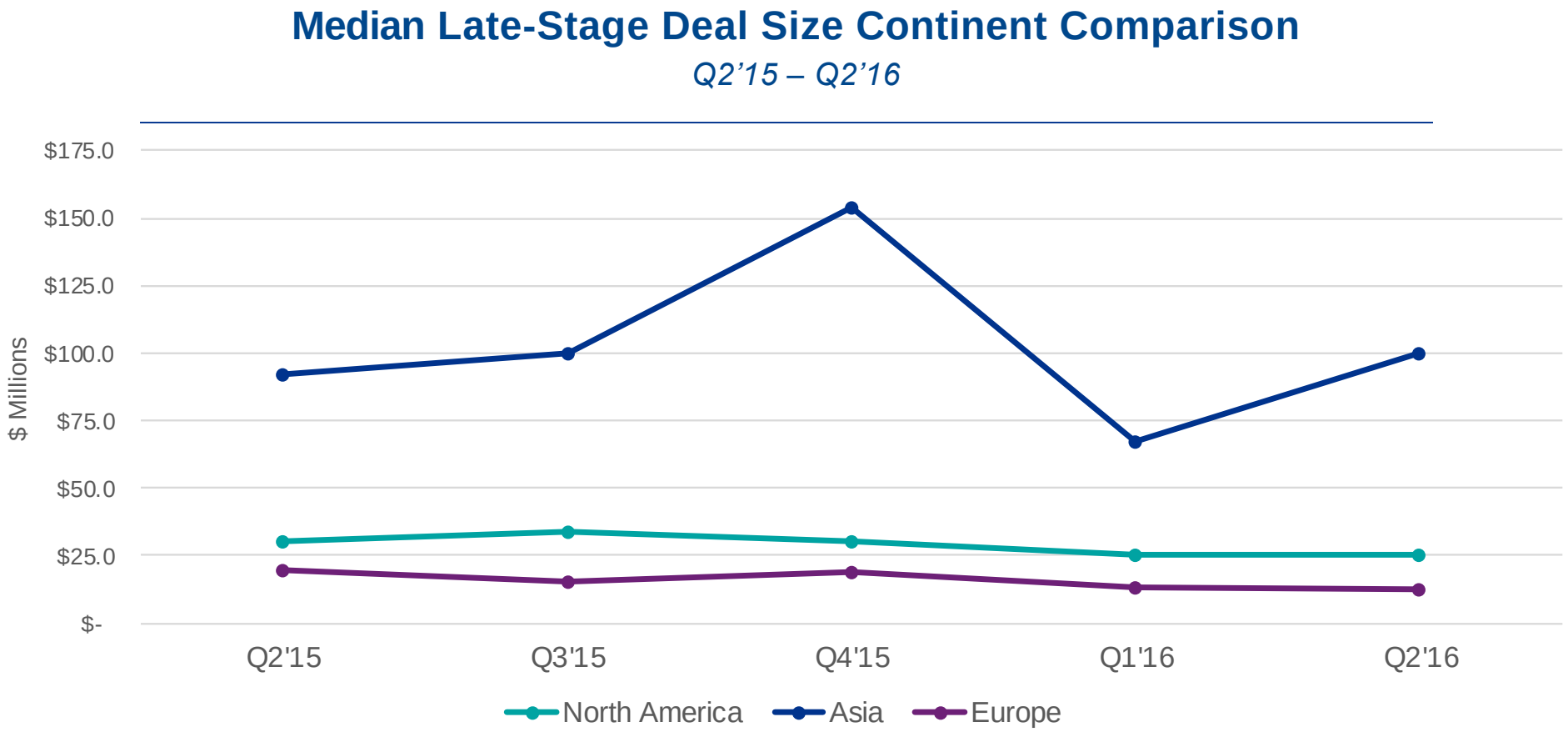
MEDIAN LATE-STAGE DEAL SIZE IN ASIA SEES A SLIGHT REBOUND

After a jump in late-stage deal size to $150M and subsequent crash below $75M, Asia has seen median late-stage deal size bounce back to $100M in Q2’16. Both North America and Europe have seen relatively less volatility in the last few quarters.



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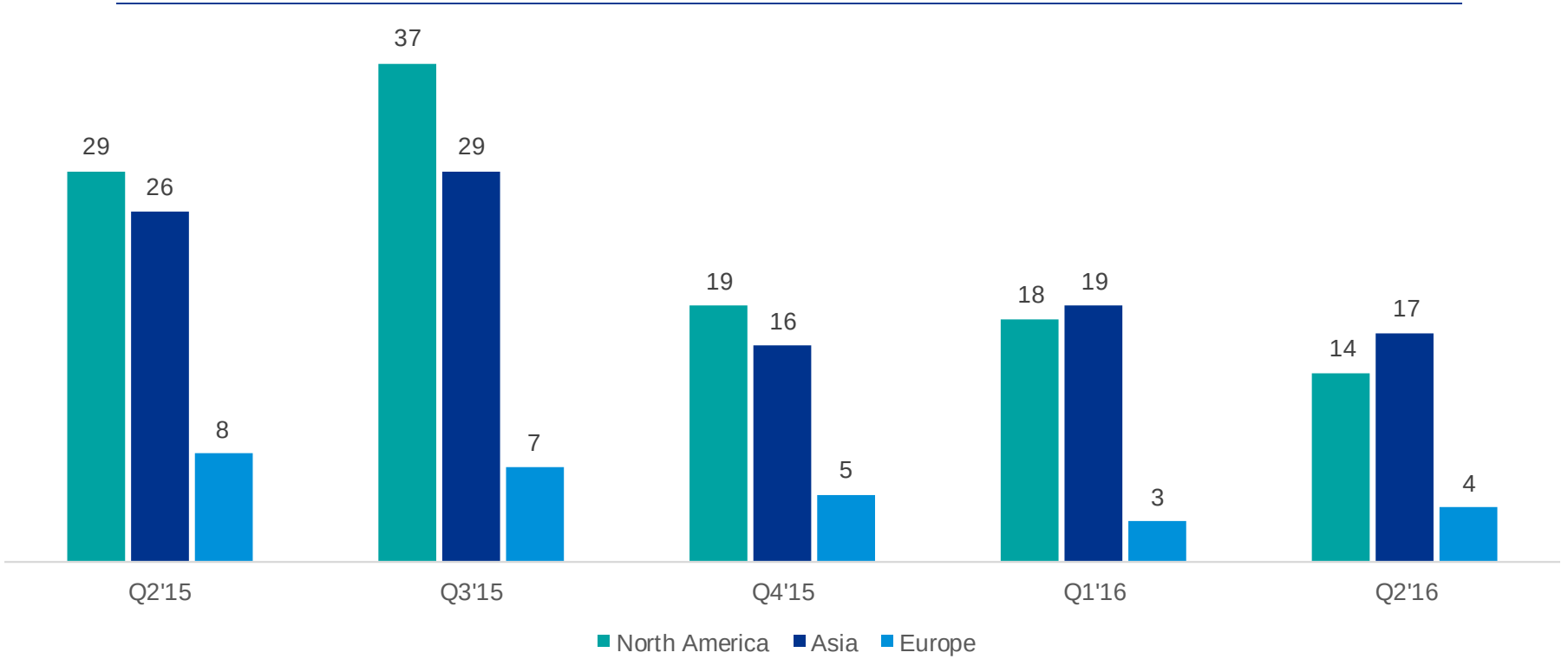
$100M+ MEGA-ROUNDS TO VC-BACKED CONTINUE TO FALL

2015 saw investors write many $100M+ checks into private tech companies thanks to crossover investors, corporates and other-deep pocketed investors entering private markets. 2016 has seen that trend cool significantly, with North America seeing just 14 $100M+ rounds in Q2'16 compared to 37 in Q3'15. Asia outpaced North America in $100M deals for the second quarter in a row.

$100M+ Financings to VC-Backed Companies

North America vs. Asia vs. Europe, Q2'15 – Q2'16



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“Investors seem to be becoming much more involved with their companies. They want to see that the money they invest will help sustain and grow the business. Investors also seem to be much more vocal with their opinions on the business models of companies and the identified short and long-term goals.”

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

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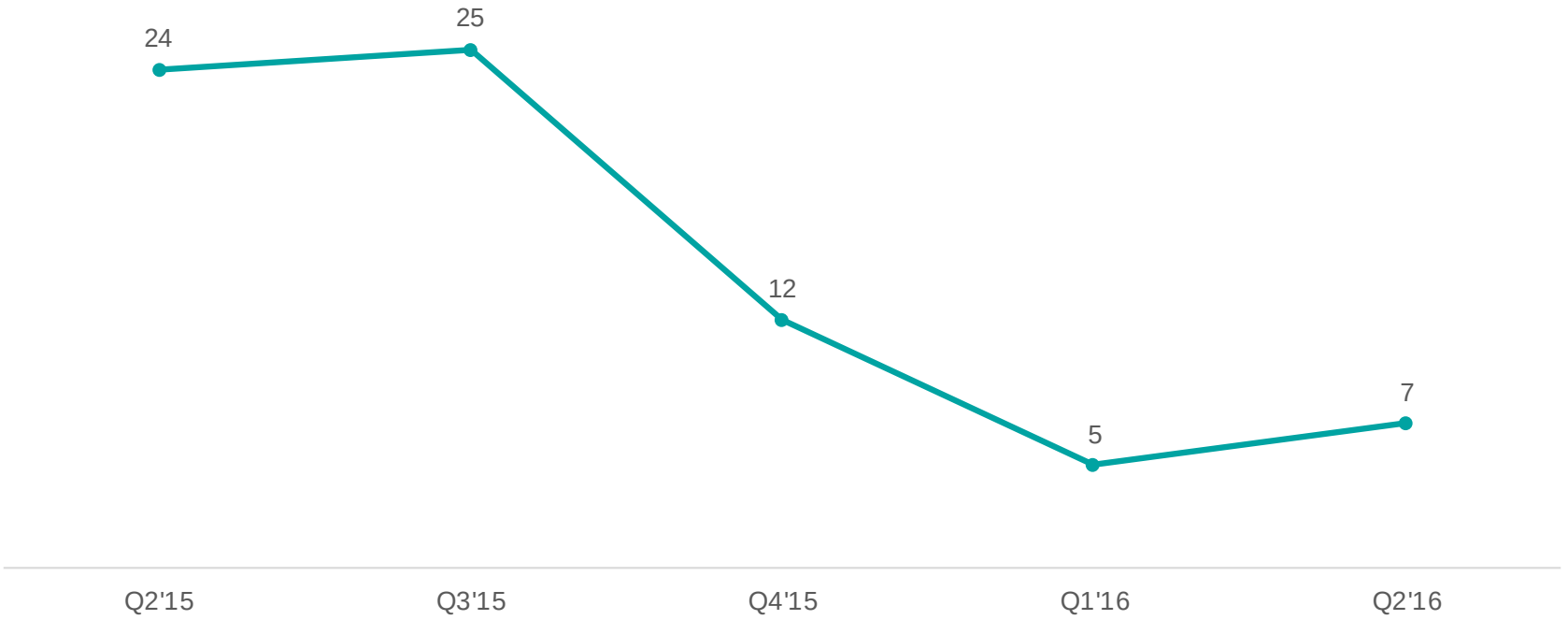
NUMBER OF NEW UNICORNS REMAINS IN SINGLE DIGITS

Q2’16 has seen further regulatory issues, layoffs and valuation markdowns within the unicorn club. Although Q2’16 saw 2 more new unicorns than in the previous quarter, tightening in private markets has resulted in fewer than 10 VC-backed companies reaching $1B+ valuations in consecutive quarters.

VC-Backed Companies Entering The Unicorn Club

Q2’15 – Q2’16



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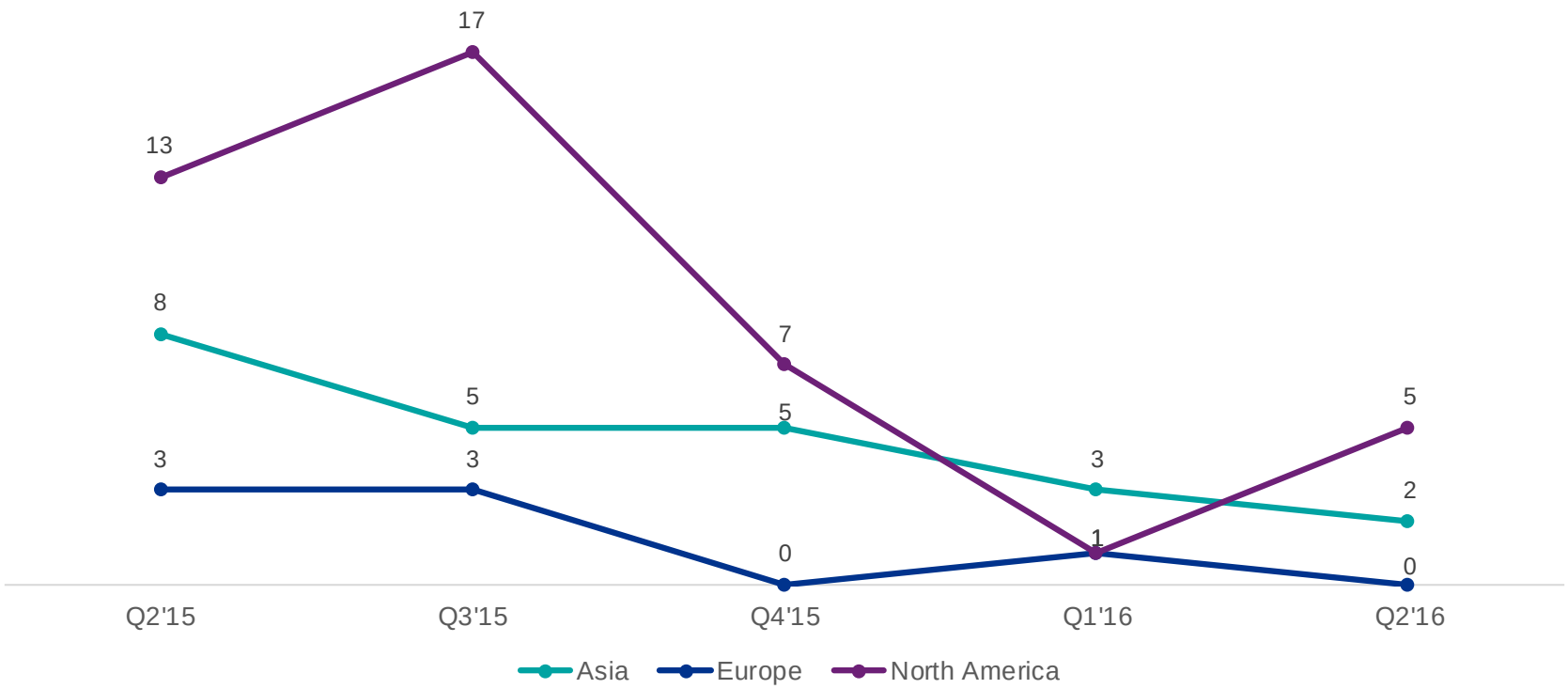
NEW UNICORNS RARE IN Q2'16, BUT NORTH AMERICA SEES A REBOUND IN UNICORN CREATION

After seeing just one new VC-backed unicorn in Q1'16, North America rebounded in Q2'16 with the arrival of five new unicorns, including Human Longevity, Zoox, and SMS Assist. The number of new unicorns in Asia continues to decline from Q2'15, and Europe saw no new VC-backed unicorns this quarter.

VC-Backed New Unicorn Companies by Continent

North America vs. Europe vs. Asia, Q2'15 – Q2'16



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SELECT 'REST OF WORLD' Q2'16 FINANCINGS

Company	Round	Country	Select Investors
SocietyOne	$19M (Series C)	Australia	Consolidated Press Holdings, Australian Capital Equity, News Corp Australia
GuiaBolso	$17.3M (Series C)	Brazil	QED Investors, Kaszek Ventures, Ribbit Capital
Airtasker	$16.4M (Series B)	Australia	Seven West Media
PromisePay	$10M (Series A)	Australia	Cultivation Capital, Rampersand, Reinventure
90 Seconds	$7.5M (Series A)	New Zealand	Sequoia Capital India, AirTree Ventures, SKY TV New Zealand
Trocafone	$5.6M (Series A)	Brazil	Sallfort Privatbank, FundersClub, Quasar
BankFacil	$4.42M (Series A - II)	Brazil	Kaszek Ventures, Redpoint e.ventures, Quona Capital

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SELECT VC-BACKED EXITS IN NORTH AMERICA

Company	Exit Type	Valuation	Select Investors
Stemcentrx	Acquisition (AbbVie)	$10.2B	Artis Ventures, Founders Fund, Sequoia Capital
Afferent Pharmaceuticals	Acquisition (Merck & Co.)	$1.25B	New Leaf Venture Partners, Redmile Group, Third Rock Ventures
Twilio	IPO	$1.23B	Bessemer Venture Partners, Union Square Ventures, Redpoint Ventures
Acacia Communications	IPO	$820M	Matrix Partners, Summit Partners, Commonwealth Capital Ventures
Intellia Therapeutics	IPO	$617M	Atlas Venture, Novartis Venture Funds, Orbimed Advisors

"The addition of Stemcentrx and its late-stage compound Rova-T provide AbbVie with a unique platform in solid tumor therapeutics and complement our leadership position in hematologic oncology."

Richard Gonzalez
CEO, AbbVie

Quote source: Fortune

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SELECT VC-BACKED EXITS INTERNATIONALLY

Company	Exit Type	Valuation	Select Investors
Lazada	Corporate Majority (Alibaba)	$1.5B	Rocket Internet, Holtzbrinck Ventures, Tengelmann Ventures
O3B Networks	Acquisition (SES)	$1.43B	Delphi Ventures, Versant Ventures, US Venture Partners
Privalia	Acquisition (Vente Privee)	$560M	Insights Venture Partners, Index Ventures, General Atlantic
China Online Education Group	IPO	$374M	DCM Ventures, Sequoia Capital China, Shunwei Capital Partners
PapayaMobile	IPO	$337M	DCM Ventures, Keytone Ventures

"This new step in our development is part of our long-term vision for the company. The expansion reflects our continued active approach to European deployment."

Jacques-Antoine Granjon
CEO & Founder, Vente Privee

Quote source: Index Ventures

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VC investment in North America remains relatively stable as a result of unicorn fundraising rounds

Fundraising rounds by Uber and Snapchat alone accounted for more than $4.5 billion in VC investment in North America during Q2'16, helping raise the region's total investment to over $17 billion. The drop in the number of deals, however, highlights that the region has not been immune to global market uncertainties.

With the upcoming US presidential election, some choppiness in the public markets and ongoing concern regarding an increase in US interest rates, most North American VC investors have remained cautious, with some investors becoming more sensitive to possible valuations and pulling back from making major investments.

Late-stage deals drawing significant investor attention

Given current market uncertainty, it's not surprising that VC investors are focusing on late-stage, more established companies. Companies that demonstrate a strong business plan and path to profitability are likely to continue to gain investment. While some unicorns like Uber and Snapchat are growing, there may also be some 'uni-corpses' in the near future.

Building on trends highlighted earlier in the year, there has been continued interest in investor protections for investors in late-stage deals, with many requiring 'ratchet-type' provisions. Interest in such protections is likely to continue, given the number of IPO exits that have failed to achieve their expected valuations.

IPO activity remains low

IPO exits remained low in Q2'16. Given the retrenchment in share prices among tech companies in 2015, many companies are holding off from considering an IPO or are looking at M&A as an attractive exit strategy. Of the 10 biggest IPOs in 2015, approximately two-thirds are now trading below their offering price.

The challenge for VC-backed companies, especially large unicorn companies like Uber and Airbnb, will be the pressure to eventually go public. As valuations go higher, IPO becomes the only viable exit option. The light at the end of the tunnel in Q2'16 was Twilio's IPO, which has had a very successful initial trading period. If Twilio continues to do well, it could help renew interest in IPOs heading into the latter half of the year.

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VC investment in North America remains relatively stable as a result of unicorn fundraising rounds (cont.)

Strong market and stakeholder activism puts focus on M&A

The lending environment continues to be very strong in North America, with banks acting aggressively in terms of funding acquisitions with debt. At the same time, larger companies have seen an increase in investor activism. With many large companies sitting on cash reserves, investors are demanding they either use the money or give it back to shareholders. This has led to significant M&A activity, including Microsoft's $26 billion acquisition of LinkedIn. These large companies, including Google and Facebook, are providing significant competition for VC investors.

Future outlook remains bright for key innovation sectors

VC investment in North America is likely to remain uneven heading into Q3, as market uncertainties such as the US presidential election continue to drive uncertainty. Despite this caution, the longer-term outlook is strong, with many VC investors using the current lull in activity to raise cash and renew focus on their investment portfolio.

A number of key sectors are likely to buck any potential downward pressures given intense investor interest. Among these are artificial intelligence which is seen to power advancements in many high tech industries and virtual reality. In late June, a number of VC investors and virtual reality companies announced the creation of the Virtual Reality Venture Capital Alliance, a $10 billion fund focused on augmented reality and VR innovation. This new fund is a clear example of how companies and investors see the field as one of the next 'big bets.'

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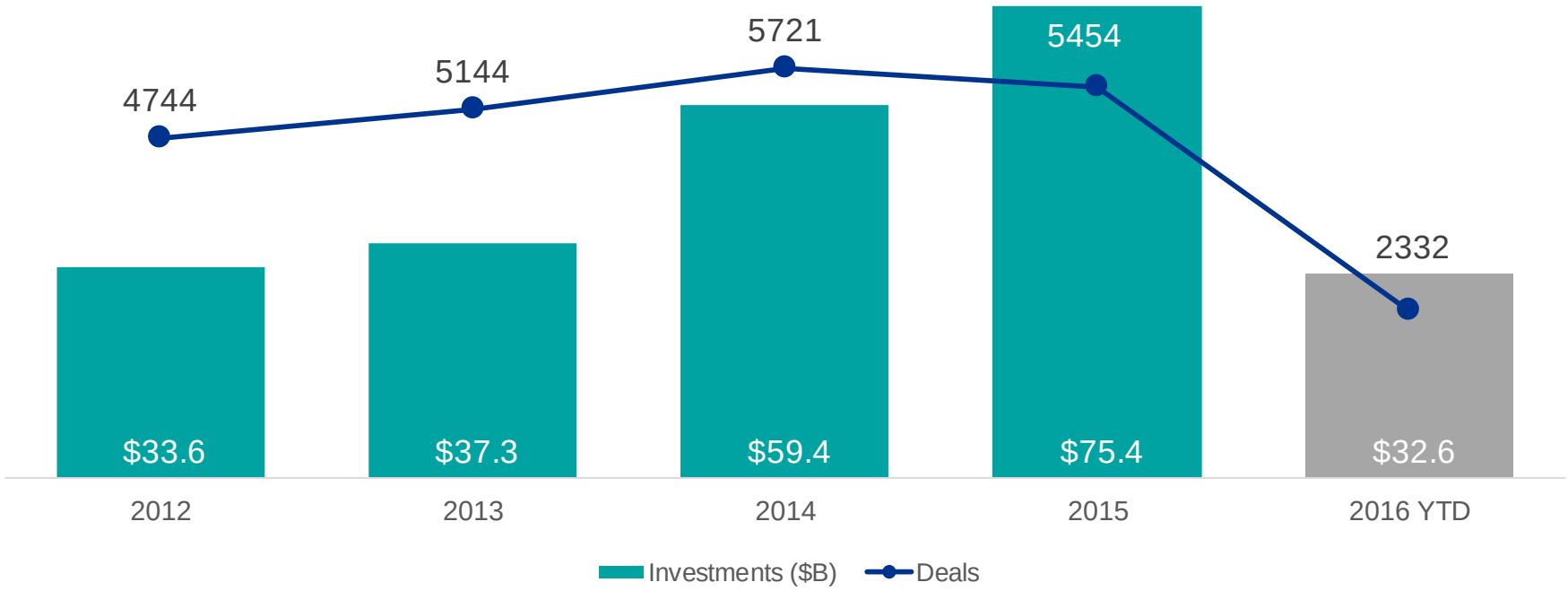
NORTH AMERICA: $32.6B ACROSS 2332 DEALS IN THE FIRST HALF OF 2016

North America saw record highs in funding last year fueled by strong mega-round activity. However, deal and dollar activity has slowed in 2016, with the year on track to have less activity than 2012. Dollars invested have seen less of a slowdown thanks to more than $4.5B in financing to Uber and Snapchat.

North American Annual Financing Trends to VC-Backed Companies

2012 – 2016 YTD (Q2'16)



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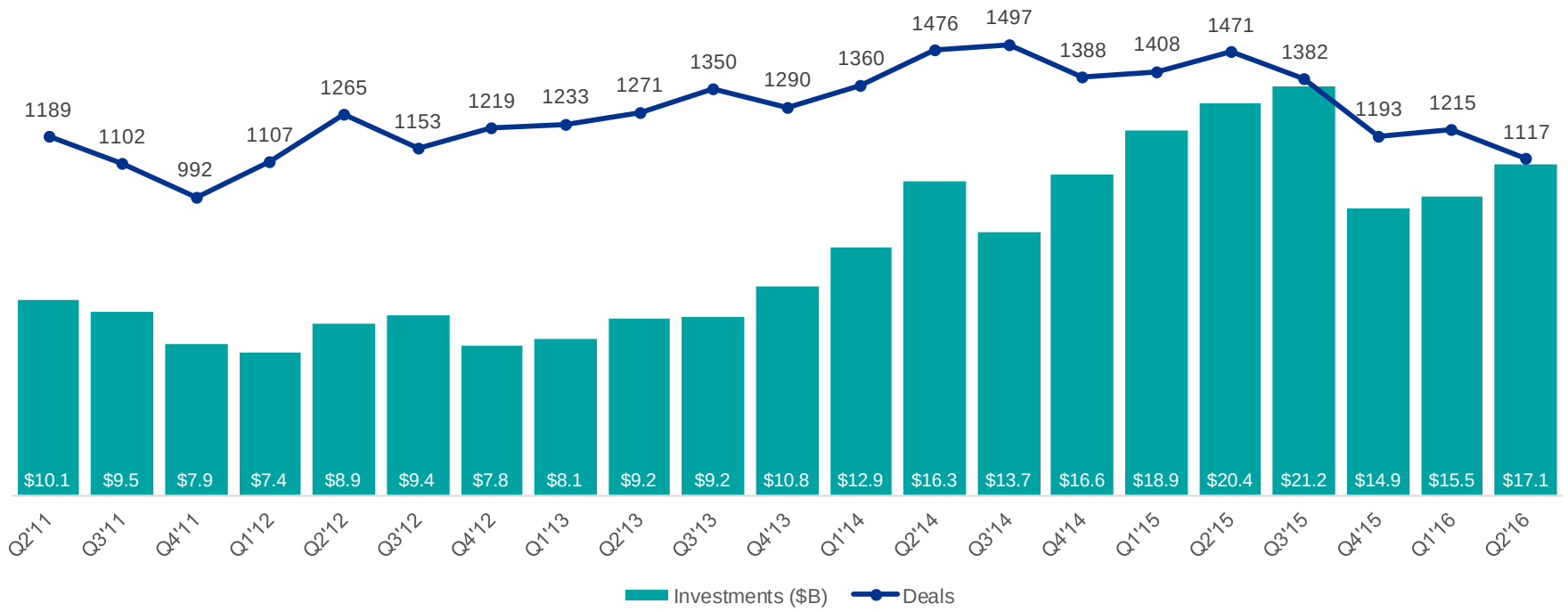
DEAL ACTIVITY INTO NORTH AMERICAN VC-BACKED COMPANIES DROPS TO LEVELS NOT SEEN SINCE 2012

After a slight uptick in deal activity in Q1'16, North America saw another sharp drop in Q2'16, with just 1117 deals into VC-backed companies. This is the lowest level of deal activity in the region since Q1'12. Funding, however, increased for the second quarter in a row, on the backs of Uber raising $3B+ and Snapchat raising $1B+.

North American Quarterly Financing Trends to VC-Backed Companies

Q2'11 – Q2'16



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“The increase in dollars invested but reduction in number of deals suggests a continuation of the ‘quality, not quantity’ investing strategy. The short and medium term future of the VC ecosystem will, therefore, be heavily impacted by the success or failure of a concentrated number of investments.”

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

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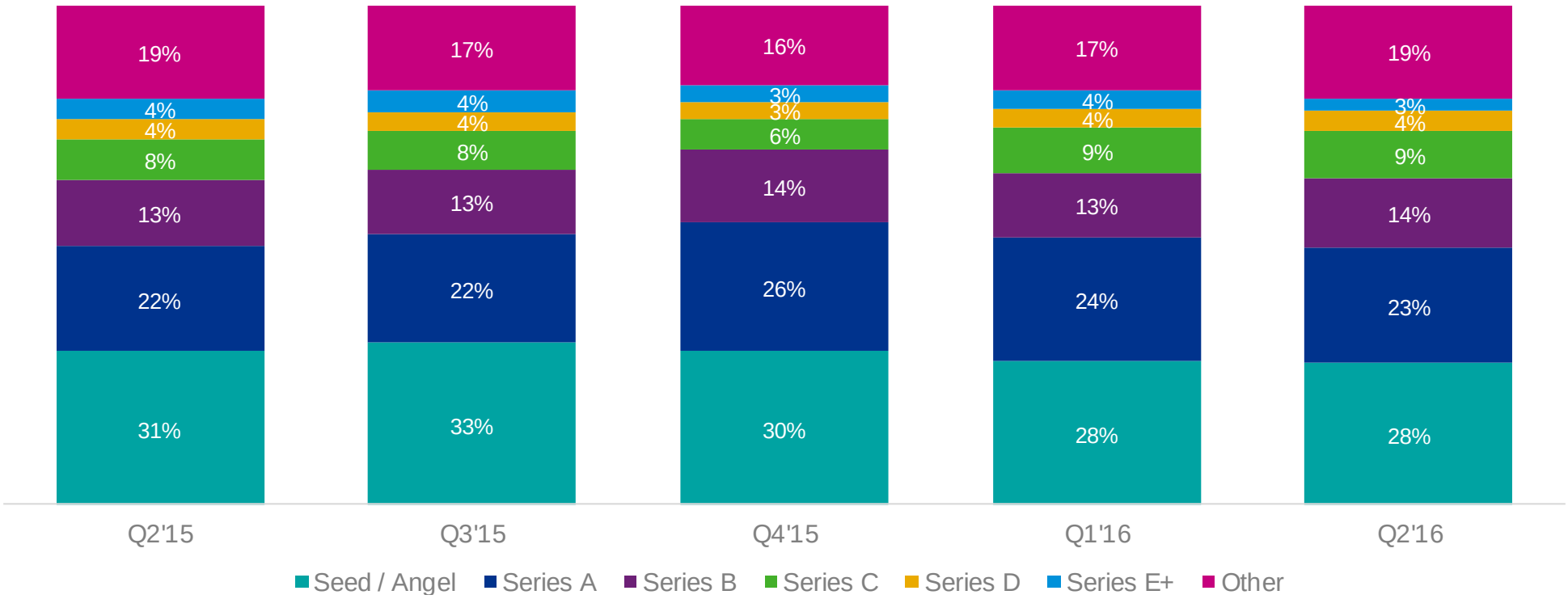
NORTH AMERICAN EARLY-STAGE DEAL SHARE REMAINS DEPRESSED

In North America, seed deal share fell noticeably in Q1'16 and has remained at that level in Q2'16. Series A share dropped for a second consecutive quarter, with the entire early-stage (seed–Series A) deal share taking just over half of all deals. All other stages remained range-bound.

North American Quarterly Deal Share by Stage

Q2'15 – Q2'16



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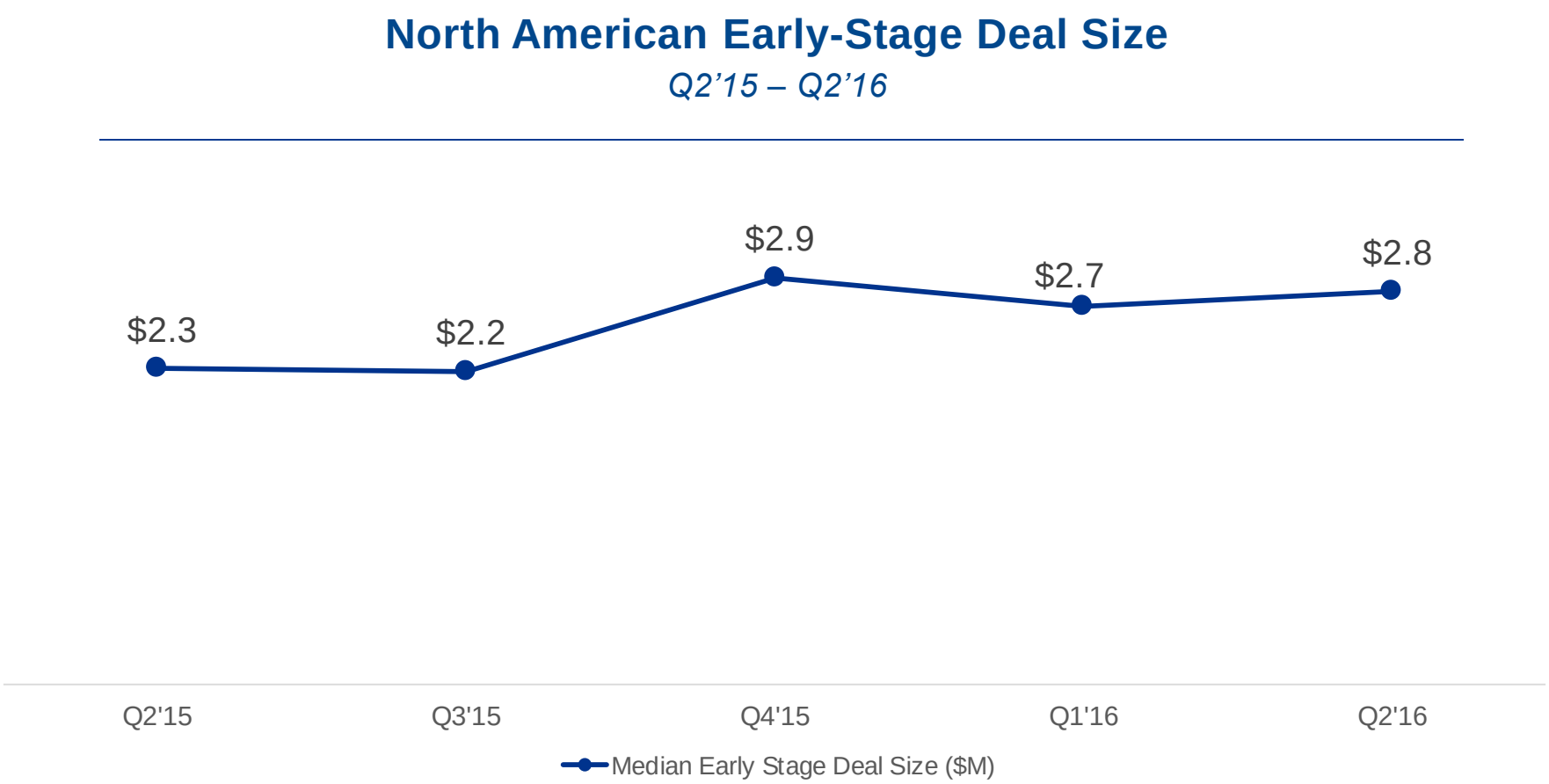
MEDIAN EARLY-STAGE DEAL SIZES IN NORTH AMERICA STAY ABOVE $2.5M

Median early-stage deals in Q2’16 crested $2.5M for the third quarter in a row, up 22% from the same quarter a year earlier.



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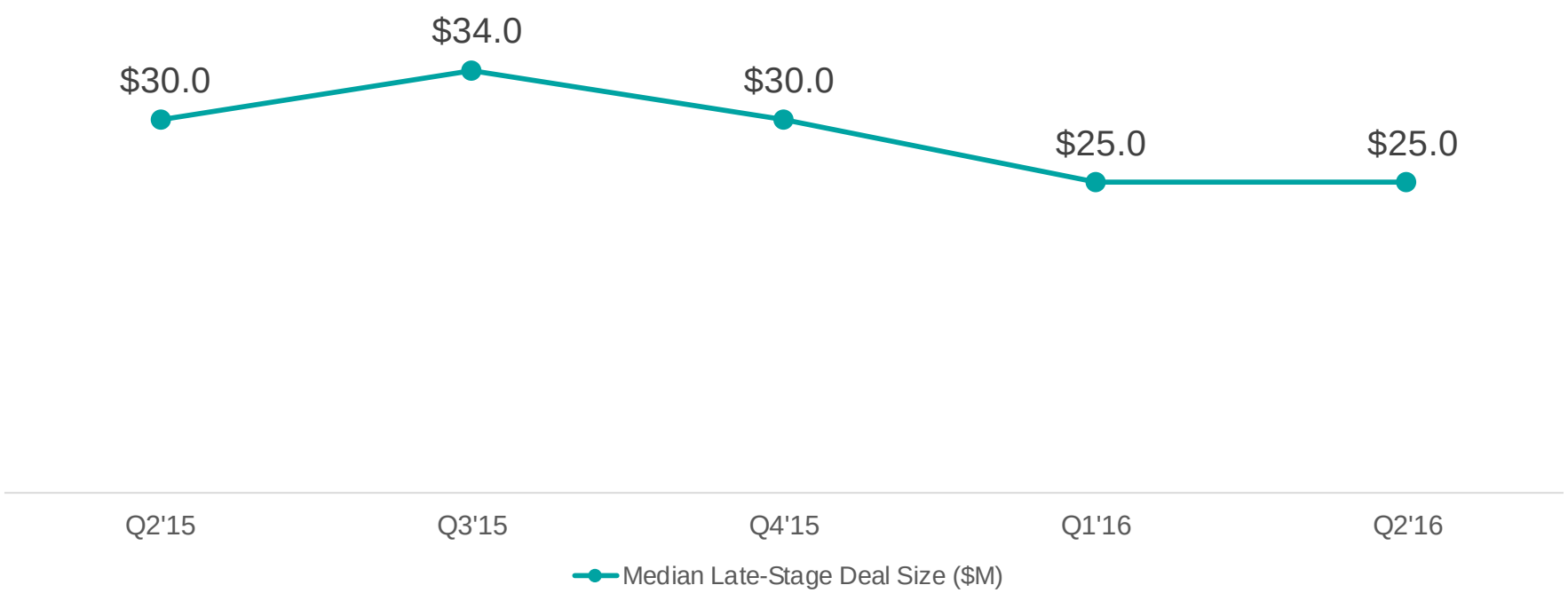
MEDIAN NORTH AMERICAN LATE-STAGE DEAL SIZE REMAINS LOW

Median late-stage deal size to North American VC-backed companies saw a significant dip in Q1'16, dropping 26% from a peak of $34M in Q3'15. Q2'16 remains at the 5-quarter low of $25M.

North American Late-Stage Deal Size

Q2'15 – Q2'16



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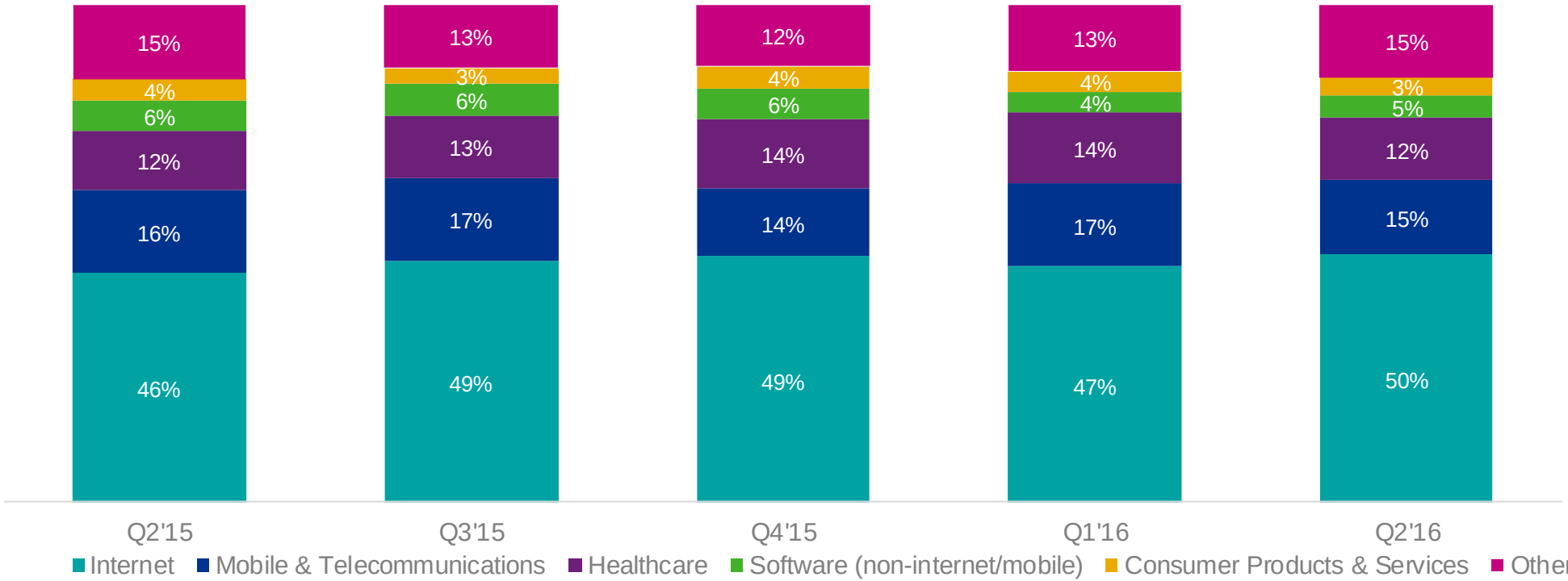
VC-BACKED INTERNET COMPANIES REACH 5-QUARTER HIGH, TAKING HALF OF ALL DEALS

Internet companies took 50% of deal share for the first time in 5 quarters, while healthcare and mobile saw decreased deal share in Q2'16.

North American Quarterly Deal Share by Sector

Q2'15 – Q2'16



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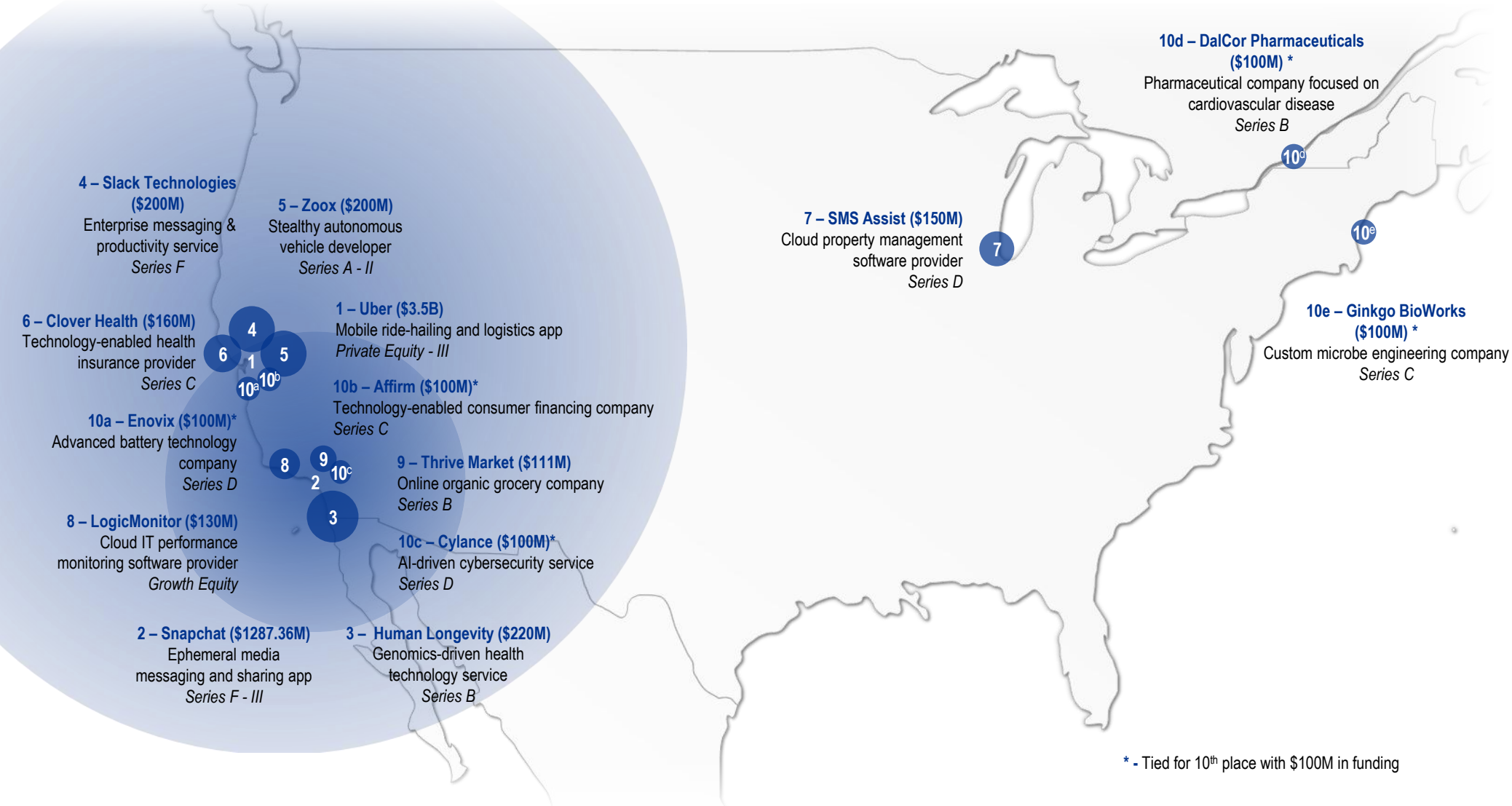
THE 14 LARGEST NORTH AMERICAN ROUNDS OF Q2'16 TOTALED OVER $6.4B IN FUNDING



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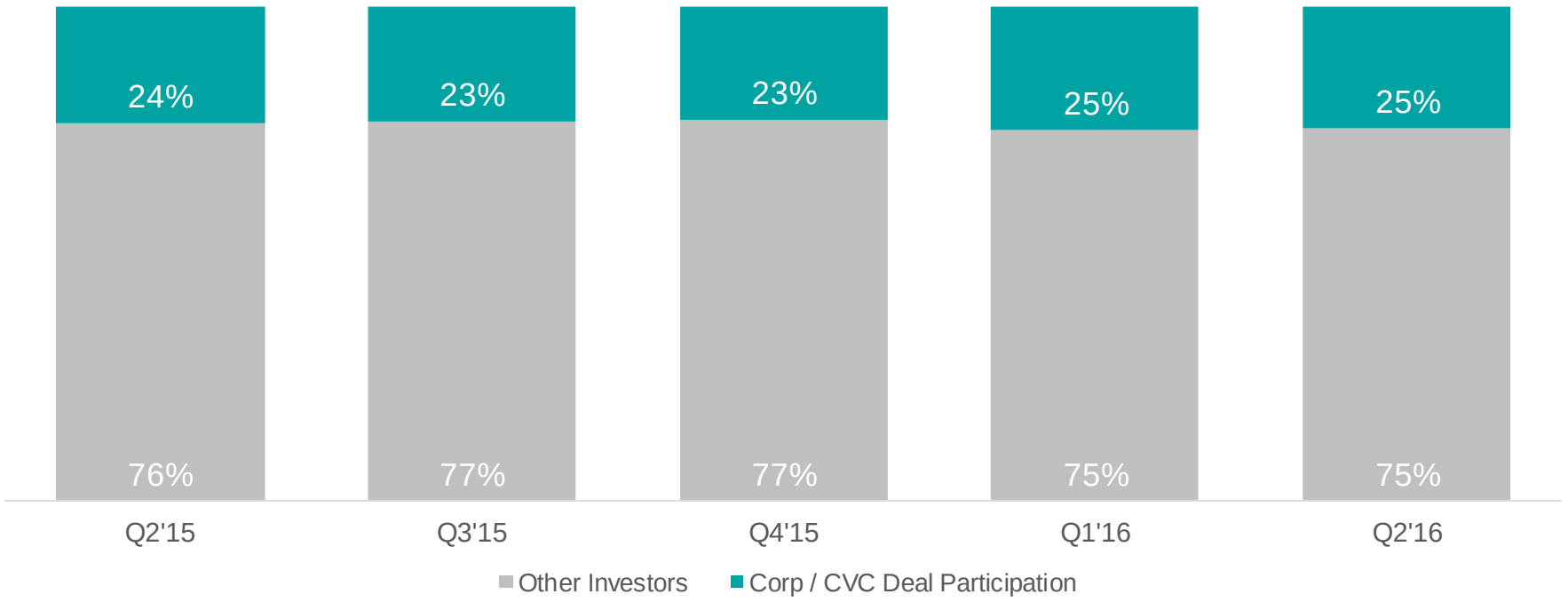
CORPORATES INVOLVED IN A QUARTER OF DEALS TO VC-BACKED NORTH AMERICAN COMPANIES

After a slight decrease to close 2015, 2016 has seen back-to-back quarters with corporate participation hitting 25% of all financings into North American VC-backed companies.

CVC Participation in North American Deals to VC-Backed Companies

Q2'15 – Q2'16



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"In North America, we are seeing an increase in investor activism among many large corporations, with investors demanding these companies use their money or give it back to shareholders. This is driving a significant amount of merger and acquisition activity as companies sitting on a lot of cash look for ways to put their capital to work."

Mihir Jobalia
Managing Director,
Corporate Finance,
KPMG in the US

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NEA WAS THE MOST ACTIVE VC INVESTOR IN NORTH AMERICA IN Q1'16

New Enterprise Associates (NEA) was the most active investor in North America in Q2'16, topping the most active investors for the fifth straight quarter. Khosla Ventures, Accel Partners, and General Catalyst all moved up the list and rounded out the top four names in the rankings.

Most Active VC Investors in North America

Q2'16

Rank	Investor	Rank	Investor
1	New Enterprise Associates	8	Comcast Ventures
2	Khosla Ventures	8	Greycroft Partners
2	Accel Partners	12	Social Capital
2	General Catalyst Partners	12	Sequoia Capital
5	Google Ventures	12	First Round Capital
5	Andreessen Horowitz	15	Bain Capital Ventures
5	Kleiner Perkins Caufield & Byers	15	DCM Ventures
8	Bessemer Venture Partners	15	500 Startups
8	Spark Capital	15	Battery Ventures

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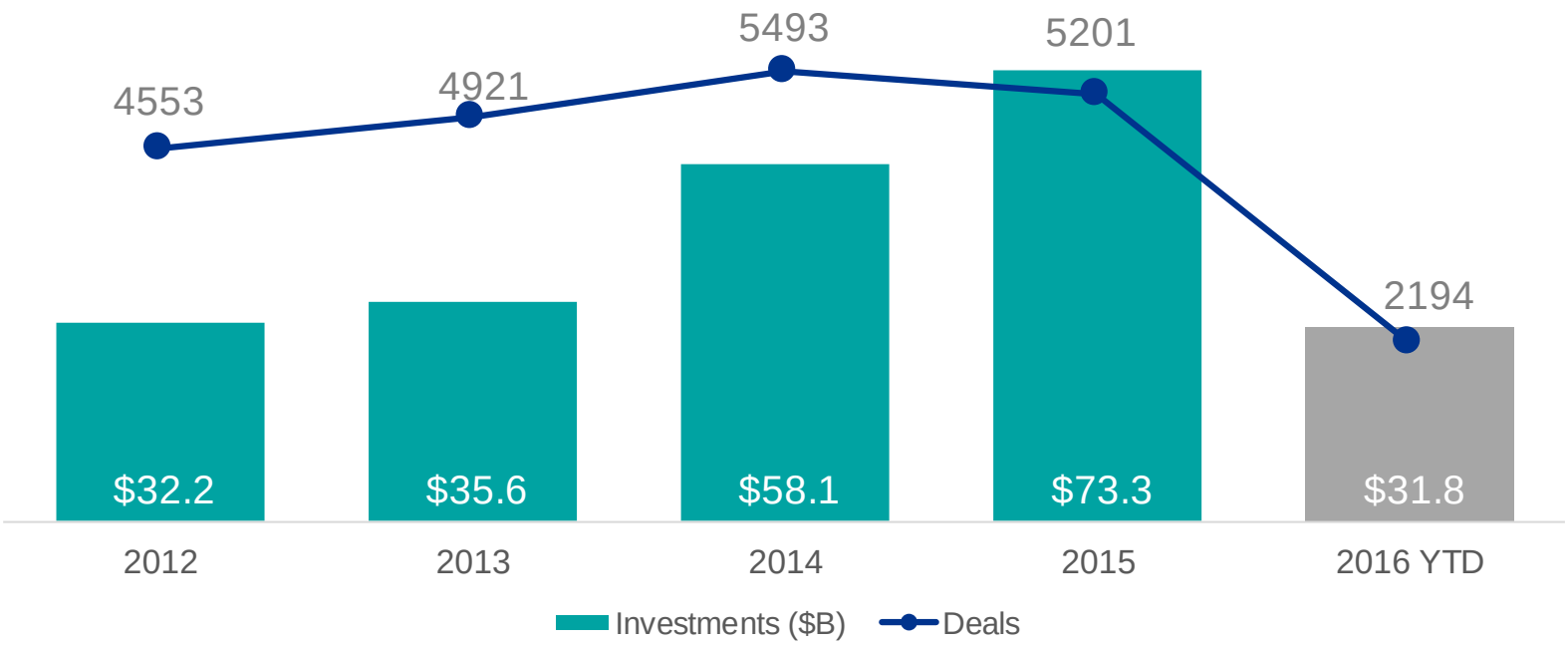
US VC-BACKED COMPANIES SEE $31.8B ACROSS 2194 DEALS IN 2016 YTD

2016 has seen a slow start for US VC-backed companies, seeing just 2194 deals in the first 2 quarters. This puts 2016 on pace for a slower year than 2012 in deal terms, though funding is still on track to break $60B.

US Annual Financing Trends to VC-Backed Companies

2012 – 2016 YTD (Q2'16)



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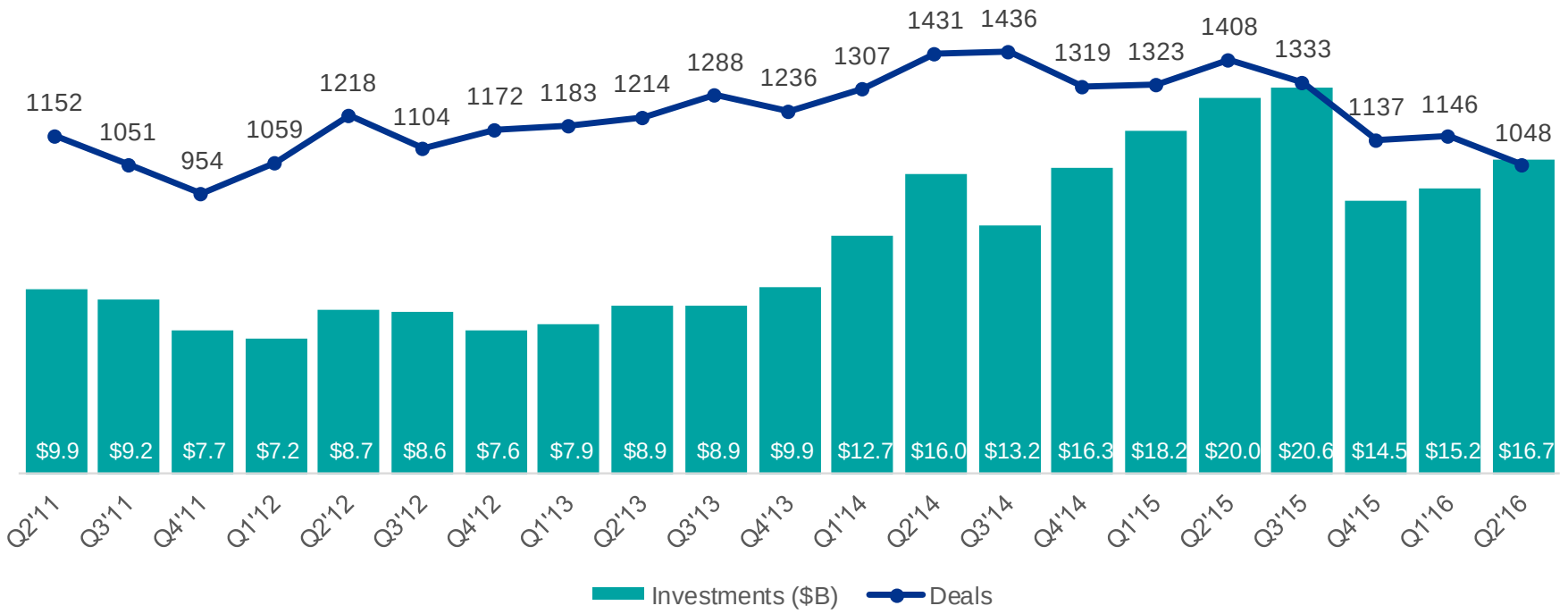
US DEAL ACTIVITY FALLS WHILE INVESTMENT DOLLARS SEE SMALL RECOVERY

Q2'16 saw the lowest level of deal activity since Q4'11, with 1048 deals in the quarter. This represents a 26% drop from the number of deals in Q2'15. The past quarter saw a slight funding uptick, but mostly on the back of a few outsize rounds such as Uber's $3.5B fundraise.

US Quarterly Financing Trends to VC-Backed Companies

Q2'11 – Q2'16



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"With lower valuations and tighter markets, it's seems that it is not that investors aren't spending, it's just that spending is happening slower. There's less 'fear of missing out' in the market, investors are implementing more processes — increasing due diligence and additional rounds of evaluations before a deal gets done."

David Pessah
Director,
KPMG Innovation Lab,
KPMG in the US

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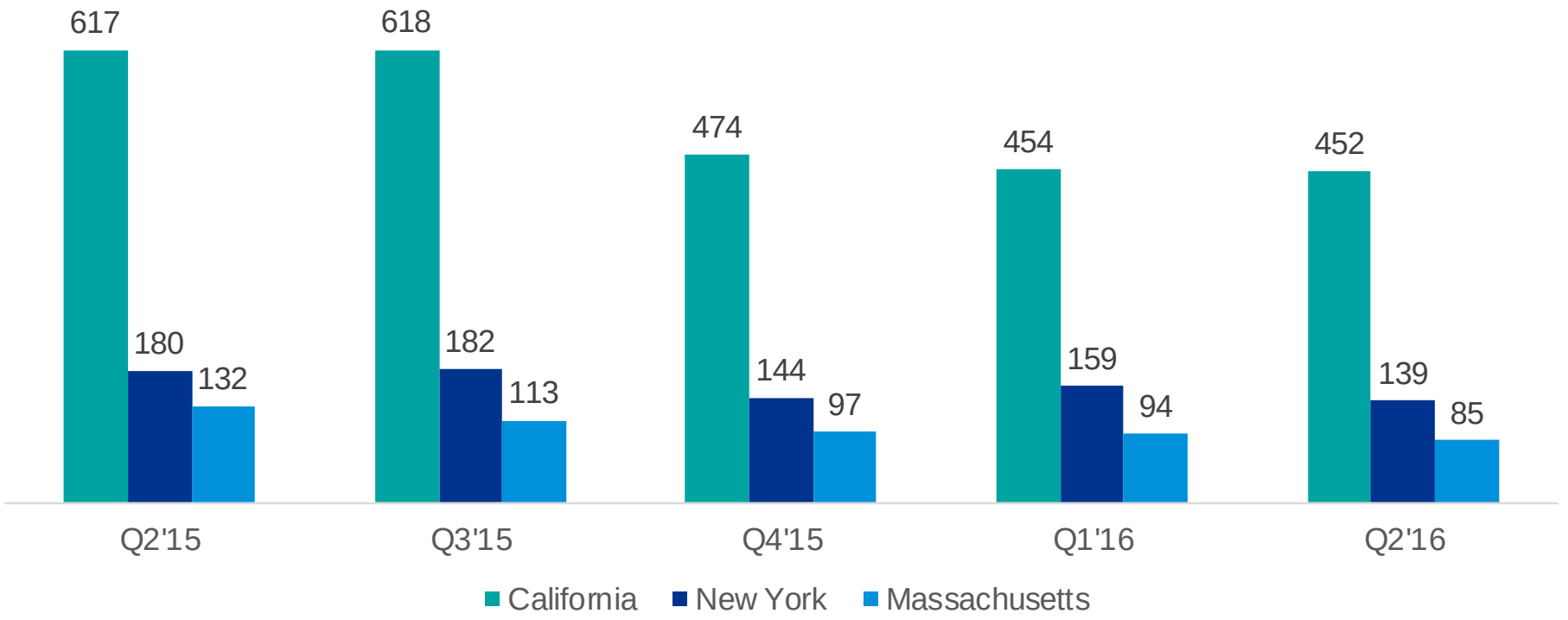
CALIFORNIA CONTINUES TO LEAD DEALS INTO VC-BACKED COMPANIES

Deal activity in California has now slowed for 3 consecutive quarters, seeing 452 deals in Q2'16. Massachusetts has seen continual declines across the last 5 quarters, dropping below 100 deals in Q4'15 onward. New York has fluctuated, but also saw a 5-quarter low of 139 deals in Q2'16.

Quarterly Deal Activity to VC-Backed Companies

CA vs. NY vs. MA, Q2'15 – Q2'16



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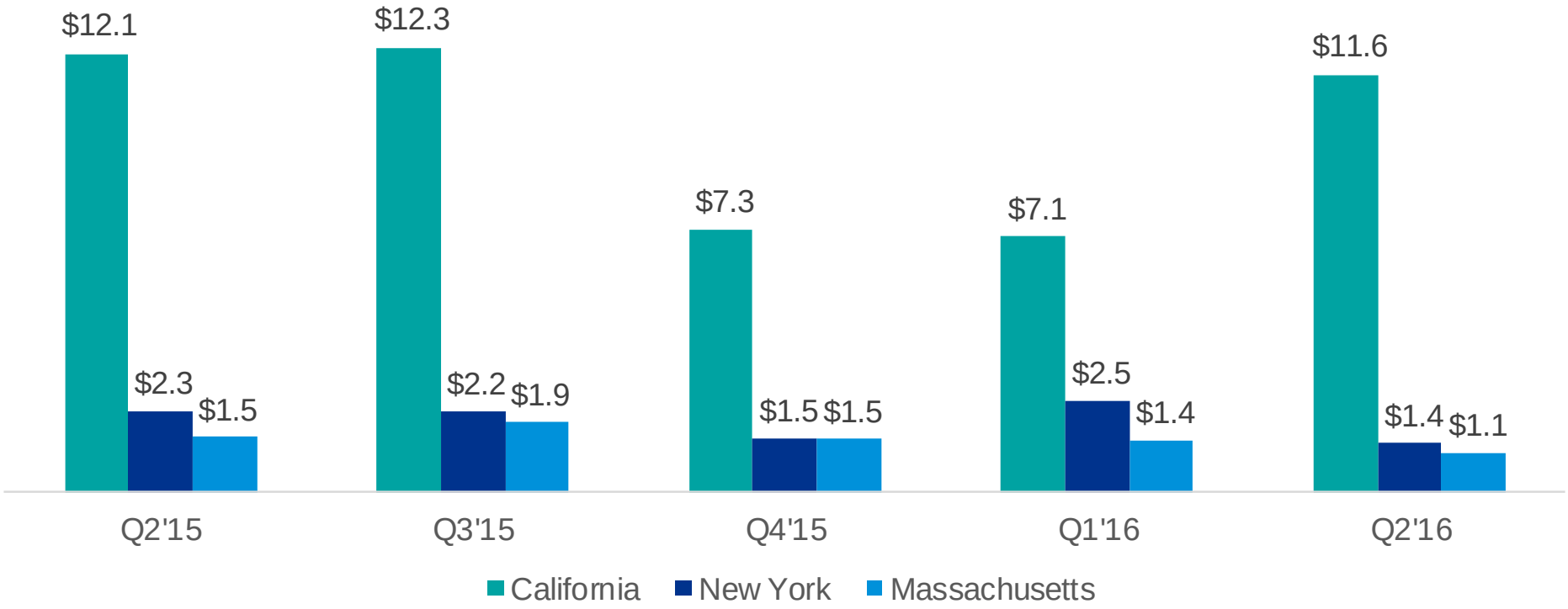
CALIFORNIA FUNDING REBOUNDS, BUOYED BY MEGAROUNDS, NY AND MASSACHUSETTS DECLINE

After 2 quarters below $8B in financing, funding to California jumped by 63% from Q1'16 to Q2'16, largely due to more than $4.5B invested into Snapchat and Uber. Massachusetts and New York both dipped in funding, reaching 5-quarter lows here as well.

Quarterly Investment Activity to VC-Backed Companies

$B, CA vs. NY vs. MA, Q2'15 – Q2'16



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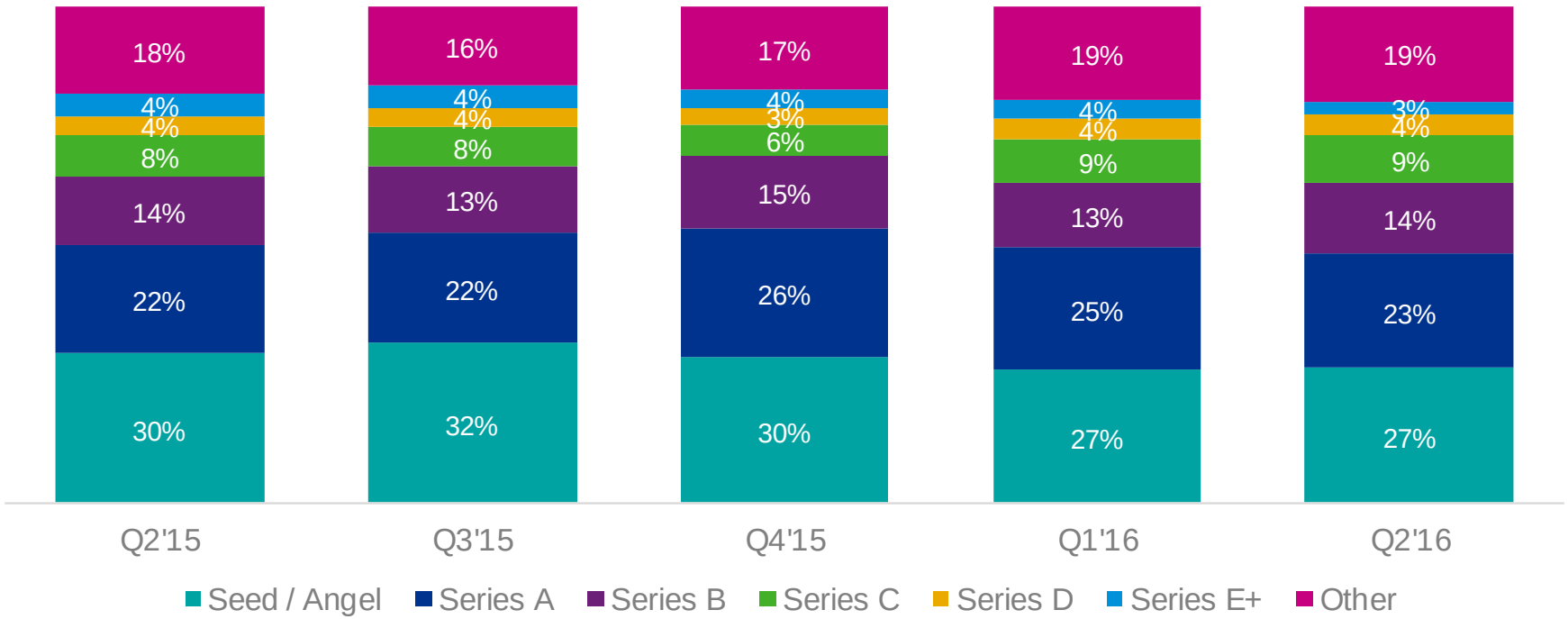
EARLY-STAGE DEALS TAKE HALF OF US DEALS TO VC-BACKED COMPANIES

Early-stage investment into US VC-backed companies accounted for 50% of all deals, a 5-quarter low. Meanwhile, Series A share shrank to 23% and seed-stage deals stayed flat at 27% after falling in Q1'16.

Quarterly US Deal Share by Stage

Q2'15 – Q2'16



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34% OF VENTURE CAPITAL INVESTORS IN US COMPANIES ARE BASED IN CALIFORNIA

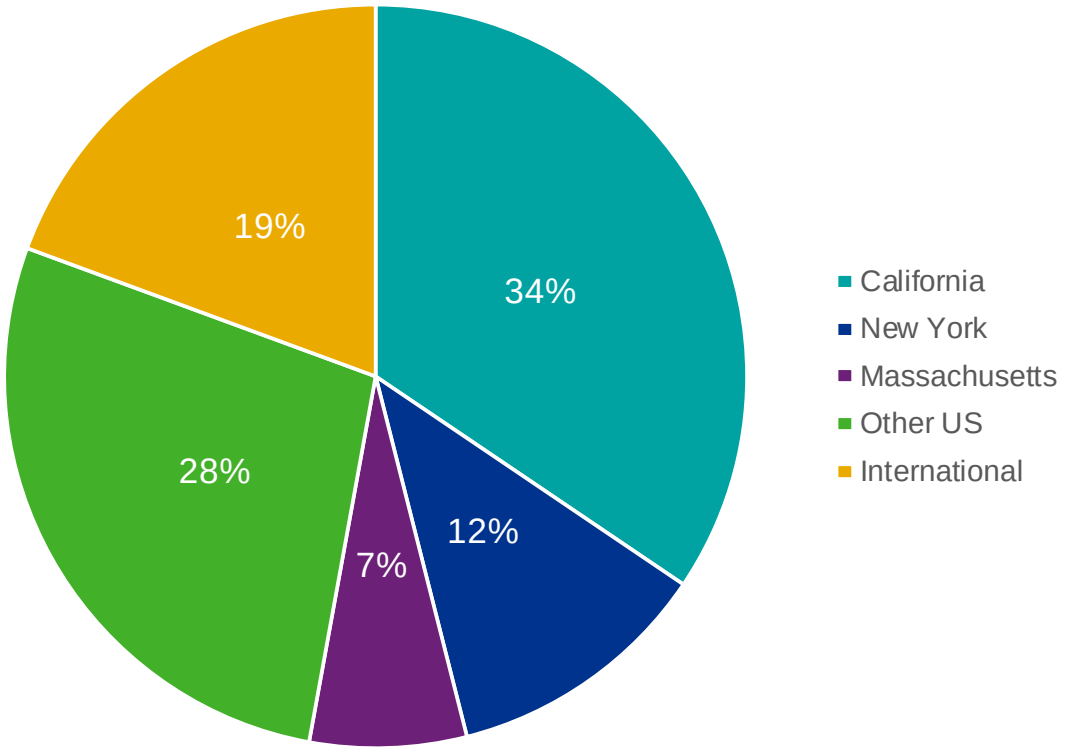
Of all VCs that participated in a US investment in Q2'16, 53% were based in either California, New York or Massachusetts.

California led all states, with 34% of all active VCs calling the Golden State home while Illinois, Texas and Pennsylvania led the other US states, which represented a sizeable 28% in aggregate.

Investors from the UK, China and Israel were most prevalent among international VCs, which represented 19% of active VC investors into US companies.

HQ of VCs Investing in US Companies

As % of all VCs investing in US-based companies in Q2'16



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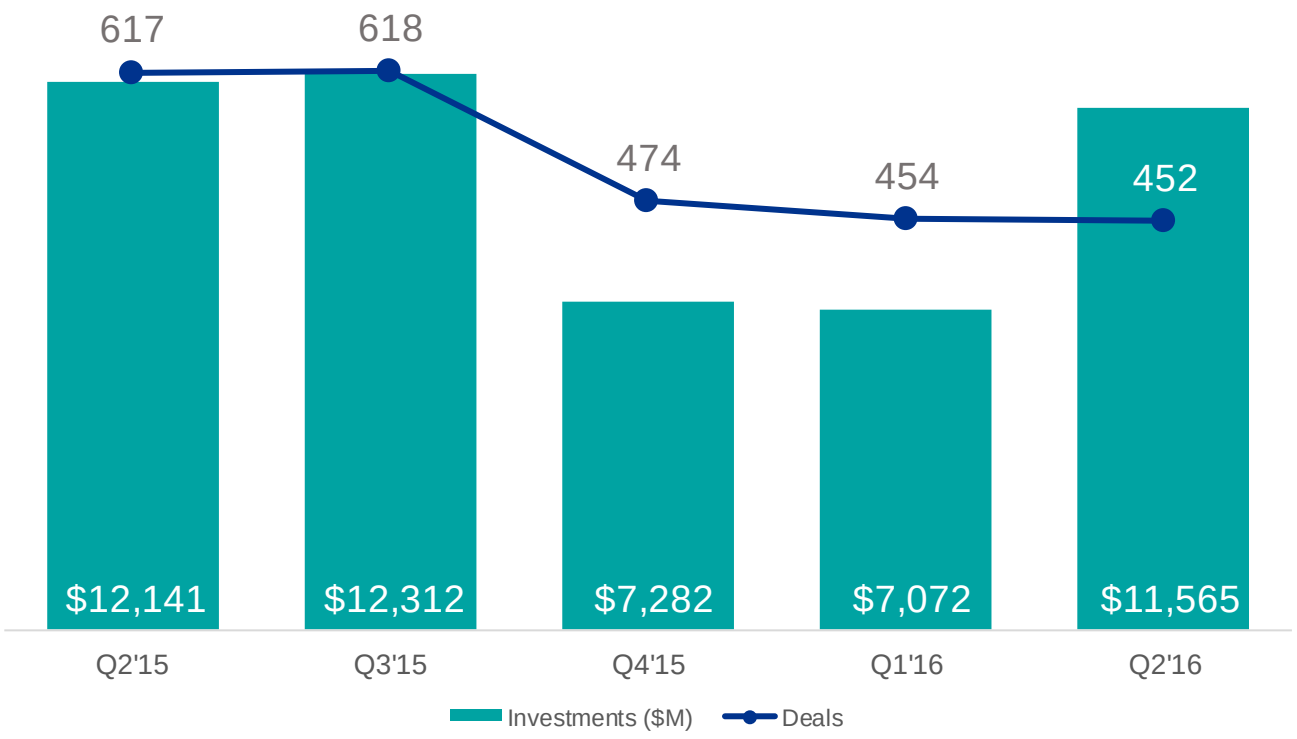
CALIFORNIA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

California Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Uber

$3.5B // Private Equity

Snapchat

$1.3B // Series F - III

Human Longevity

$220M // Series B

Top Cities

San Francisco

169 Deals // $5.6B

Palo Alto

25 Deals // $303.8M

Los Angeles

22 Deals // $279.8M

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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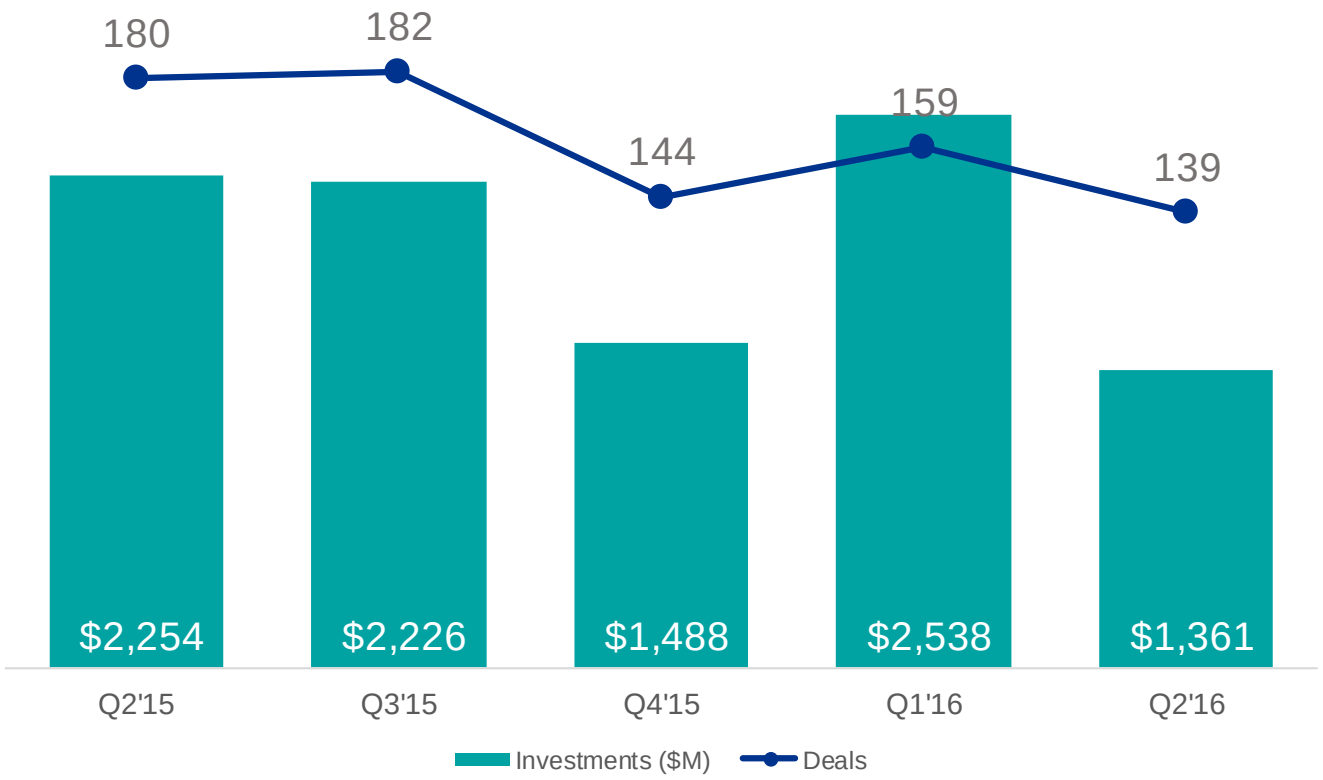
NEW YORK VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

New York Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Via Transportation

$70M // Series C

BarkBox

$60M // Series C

VTS

$55M // Series C

Top City

New York

134 Deals // $1.4B

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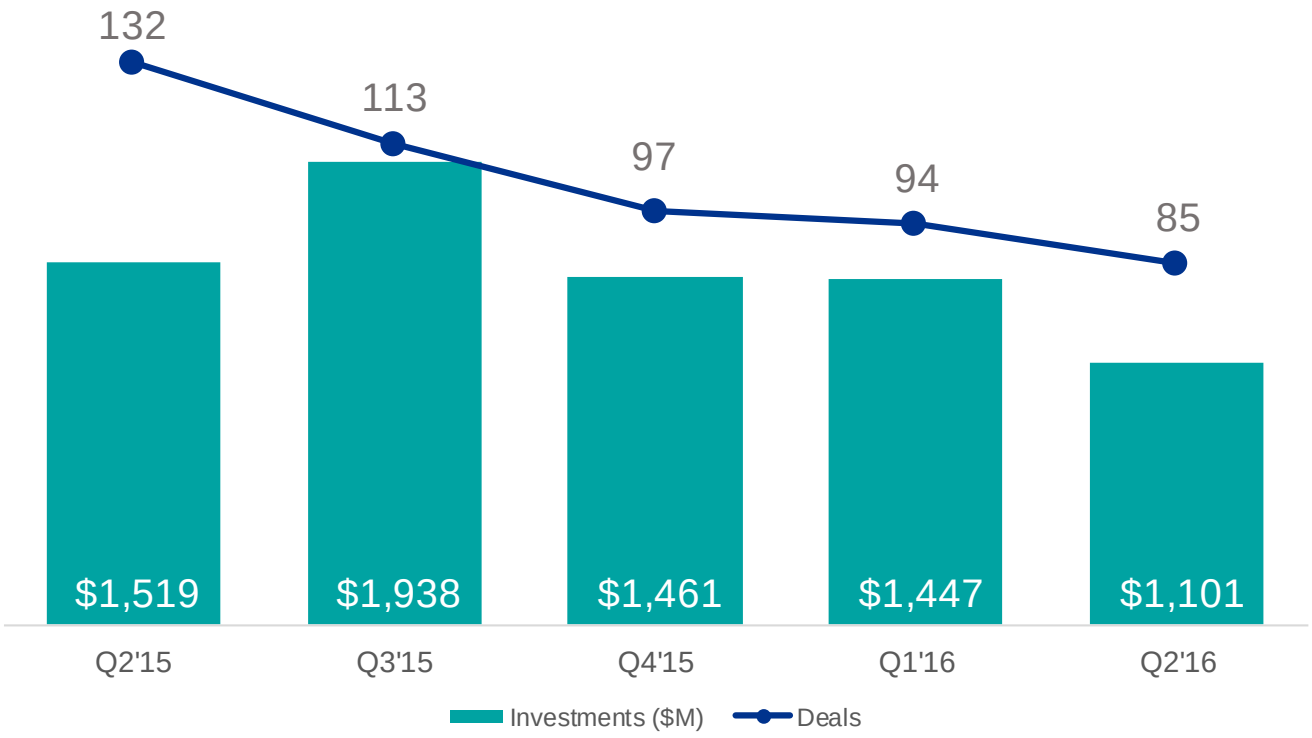
MASS VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

Massachusetts Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Ginkgo BioWorks

$100M // Series C

Kala Pharmaceuticals

$68M // Series C

Circle Internet Financial

$60M // Series D

Top Cities

Boston

33 Deals // $342.7M

Cambridge

19 Deals // $253.2M

Waltham

6 Deals // $199M

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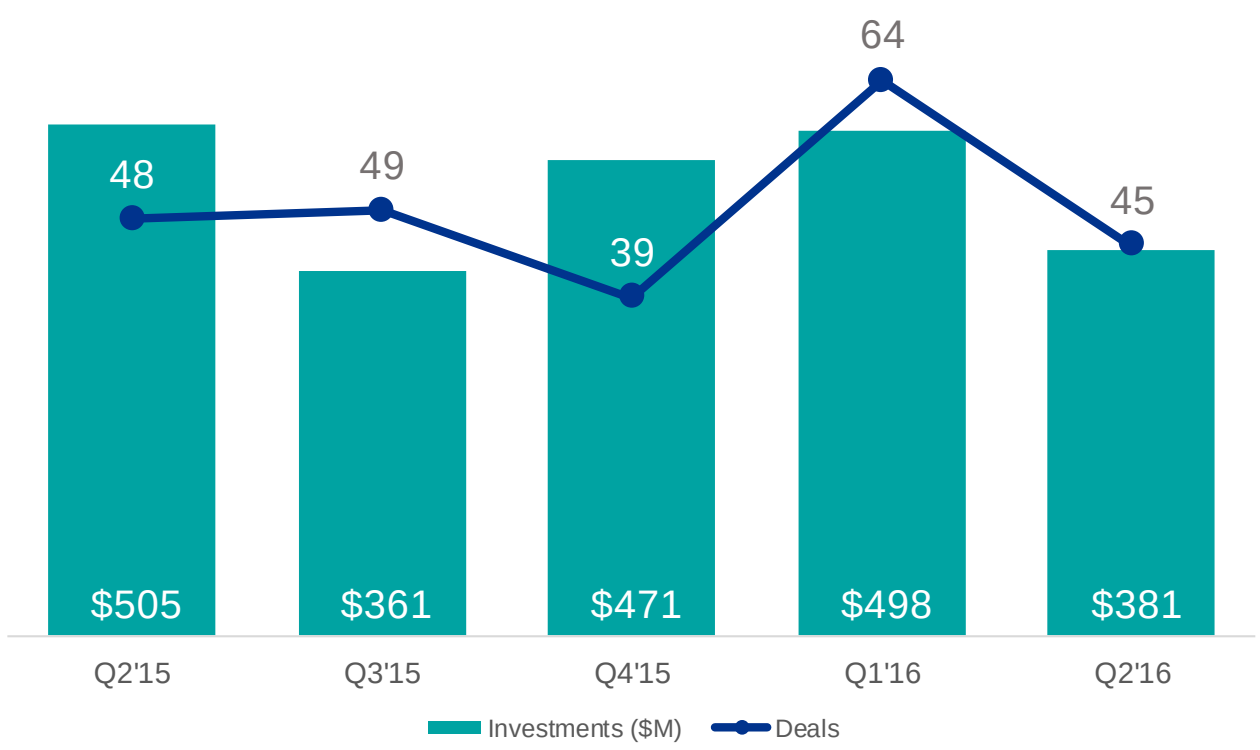
TEXAS VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

Texas Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Spredfast

$50M // Series F

Lumos Pharma

$34M // Series B

BigCommerce

$30M // Series E

Top Cities

Austin

28 Deals // $307.1M

Houston

6 Deals // $19M

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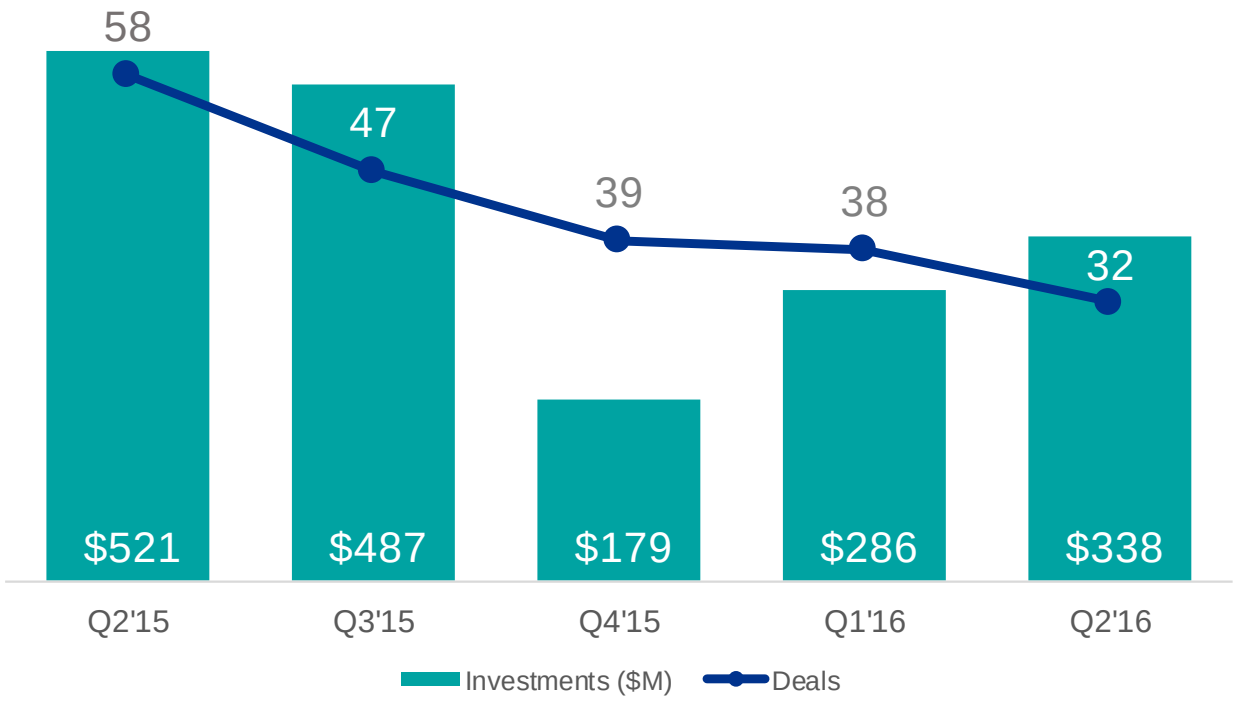
PACIFIC-NW VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

Pacific Northwest Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Alpine Immune Sciences

$48M // Series A

Remitly

$38.5M // Series C

Vacasa

$35M // Series A

Top Cities

Seattle

18 Deals // $236.9M

Portland

5 Deals // $45M

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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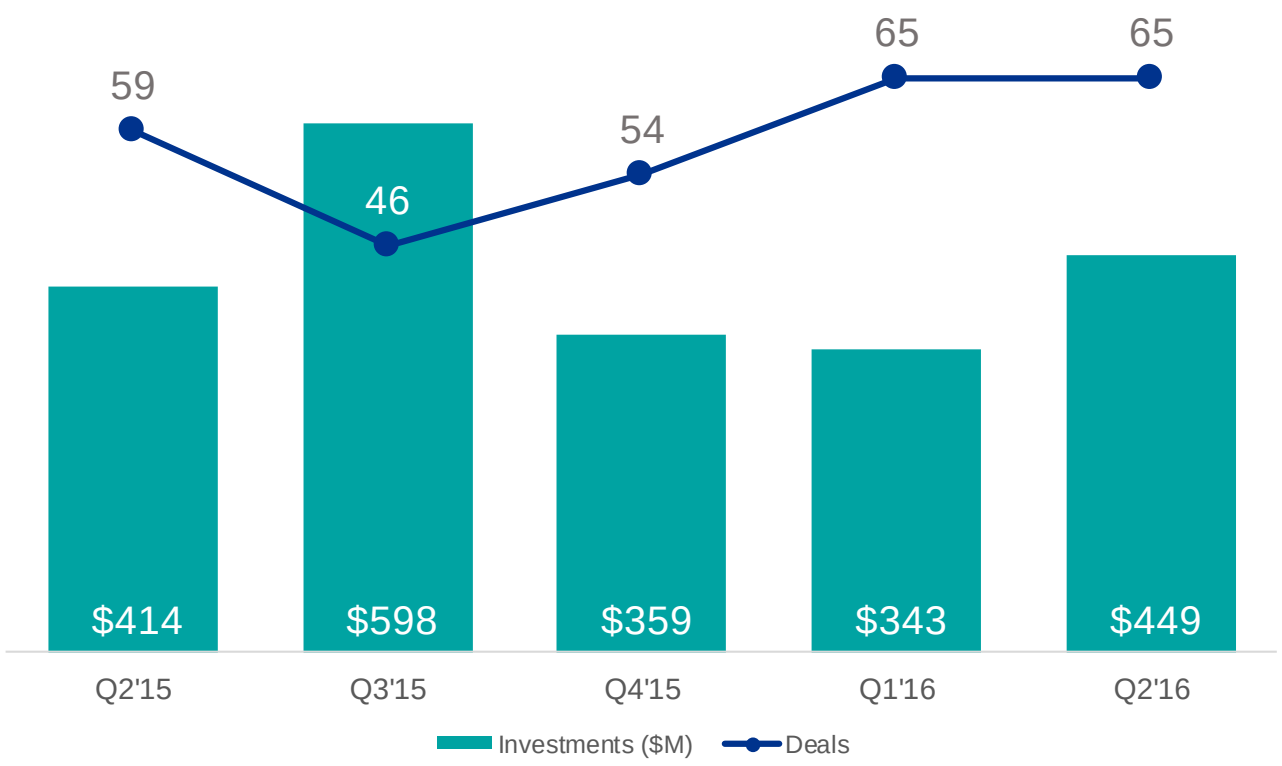
CANADA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

Canada Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

DalCor Pharmaceuticals

$100M // Series B

Flipp

$61M // Growth Equity

LEAGUE

$25M // Series A

Top Cities

Toronto

17 Deals // $177.8M

Montreal

13 Deals // $156.1M

Vancouver

6 Deals // $25.4M

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In Q2 2016

EUROPEAN

VC-backed companies raised

$2.8 billion

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Brexit uncertainty causes dip in European VC activity

Despite an increase in the number of deals, European VC investment dipped below $3 billion in Q2'16, the first time since Q4'14. A sharp decline in UK investment was the primary cause of Europe's slide, as countries like Germany saw an increase in investment quarter over quarter.

UK VC investment plummets over 40% from Q1'16

Uncertainty around Brexit dominated talk in the UK, no doubt contributing to the over 40% drop in VC investment in the country over the quarter. Many VC investors held back from making investments, taking a 'wait and see' approach prior to the vote. The outcome of the referendum caused brief havoc in the public markets, although we are starting to see some stabilization with the recognition that any separation process will take years to complete.

A number of late-stage deals occurred in the UK despite uncertainties, many of which focused on financial services (e.g. Transferwise or LendInvest) and life sciences (e.g. F2G), segments which have been historically strong in the UK. Furthermore, unicorn Farfetch raised a noteworthy $110 million funding round.

Seed deal activity remains strong percentage of overall VC funding

While Europe as a whole lags behind the US and Asia in terms of VC investments, the region has long been a hotbed for early stage and seed deal funding. In Q2, seed or angel funding reflected 49% of all funding rounds in Europe. While funding remains available to companies, investors in Europe are scrutinizing investments more rigorously prior to making investments, looking for companies that are able to control costs and that have a clear path to achieving profitability.

A number of high-profile mid-stage funding rounds took place in Q2, including Tradeshift in Copenhagen and Lightbend in Switzerland, suggesting that some European startup companies are coming of age, bringing the European VC market with them.

Nice exits highlight value of AI and cognitive learning tech

During the first 2 quarters of 2016, Europe has seen some noteworthy AI and cognitive learning related exits, with Twitter's $150 million acquisition of machine learning company Magic Pony and Microsoft's $250 million acquisition of SwiftKey. These exits bode well for other companies in the AI and cognitive learning space and could spur activities and investment in these sectors.

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Brexit uncertainty causes dip in European VC activity (cont.)

Dry powder bodes well for Europe long term

Despite the outcome of the Brexit vote, Europe is poised to see substantial additional VC activity in the future, with a significant amount of dry powder collecting in the market. As the VC community comes to grips with the Brexit upheaval, this money will need to be invested. In fact, a number of VC funds have openly articulated that it is 'business as usual' for them and that they will continue to invest in companies in the UK.

Brexit creates new uncertainties, new opportunities

The outcome of the UK's referendum to leave the European Union has introduced new uncertainties into the VC market – ones that could linger in the quarters and years ahead. With no defined plan in place as of yet for an exit, however, most investors recognize that knee-jerk reactions post-Brexit are not the right solution.

While it is too early to predict Brexit's impact on talent acquisition and other key business activities, it is expected that concerns may cause investors to seriously scrutinize UK-based investments. In the interim, the uncertainties may create opportunities for other startup hubs to attract additional VC investment and interest. Cities like Barcelona, Berlin, Dublin and Paris may be able to attract attention, especially in fintech, where the UK's relatively friendly and accommodating regulatory environment up to now makes it the one of the most attractive place to base EU-focused fintech activities.

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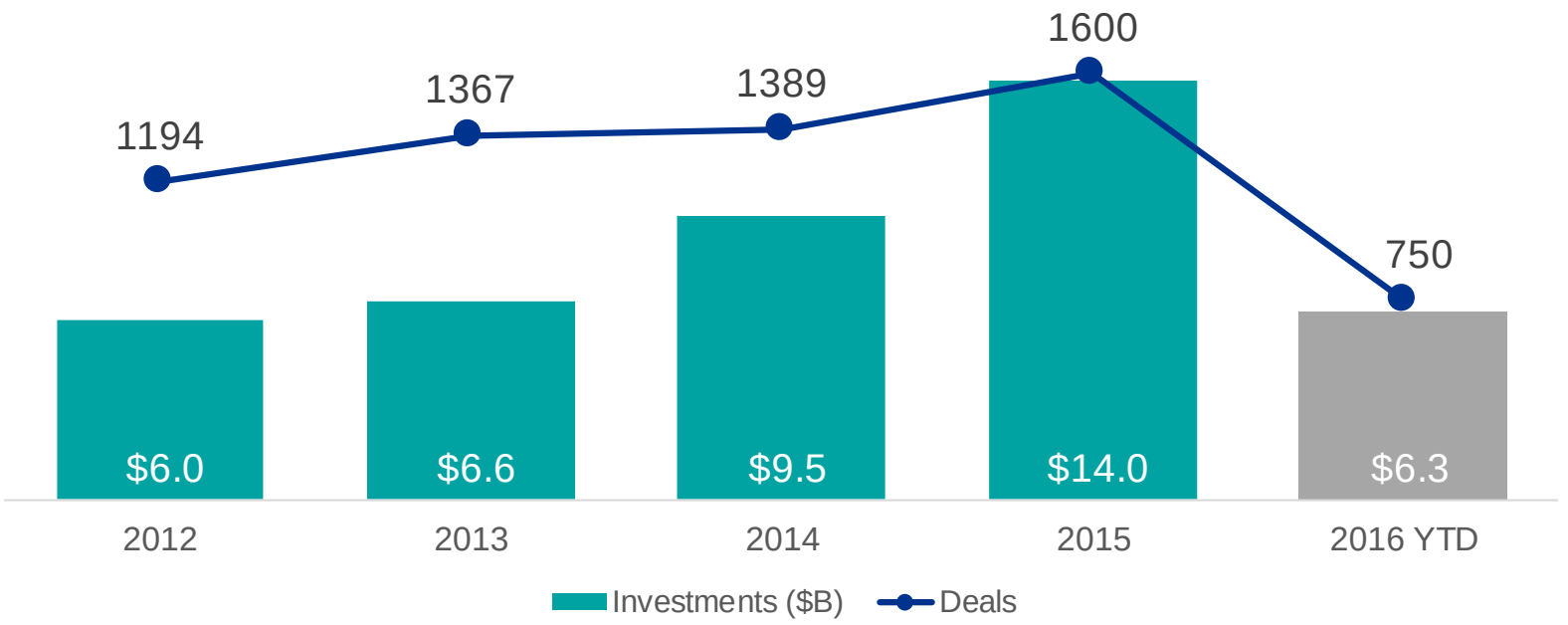
VC-BACKED EUROPEAN FUNDING OFF TO A SLOWER START IN 2016

VC-backed companies in Europe saw a new peak in funding and deal activity in 2015, with $14B invested across 1600 deals. 2016 has so far seen $6.3B invested across 750 deals, slotting it between 2014's and 2015's levels of activity and investment at the current run rate.

European Annual Financing Trends to VC-Backed Companies

2012 – 2016 YTD (Q2'16)



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"VC-backed, technology rich companies depend on skilled, innovative professionals and diversity of thinking. If the UK leaves the EU, will this disrupt the free movement of labor and inhibit companies attracting the right talent? There are many other uncertainties, including access to markets, the regulatory framework, data privacy and tax. Of course, it will be a long time before the full implications of Brexit are clear."

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

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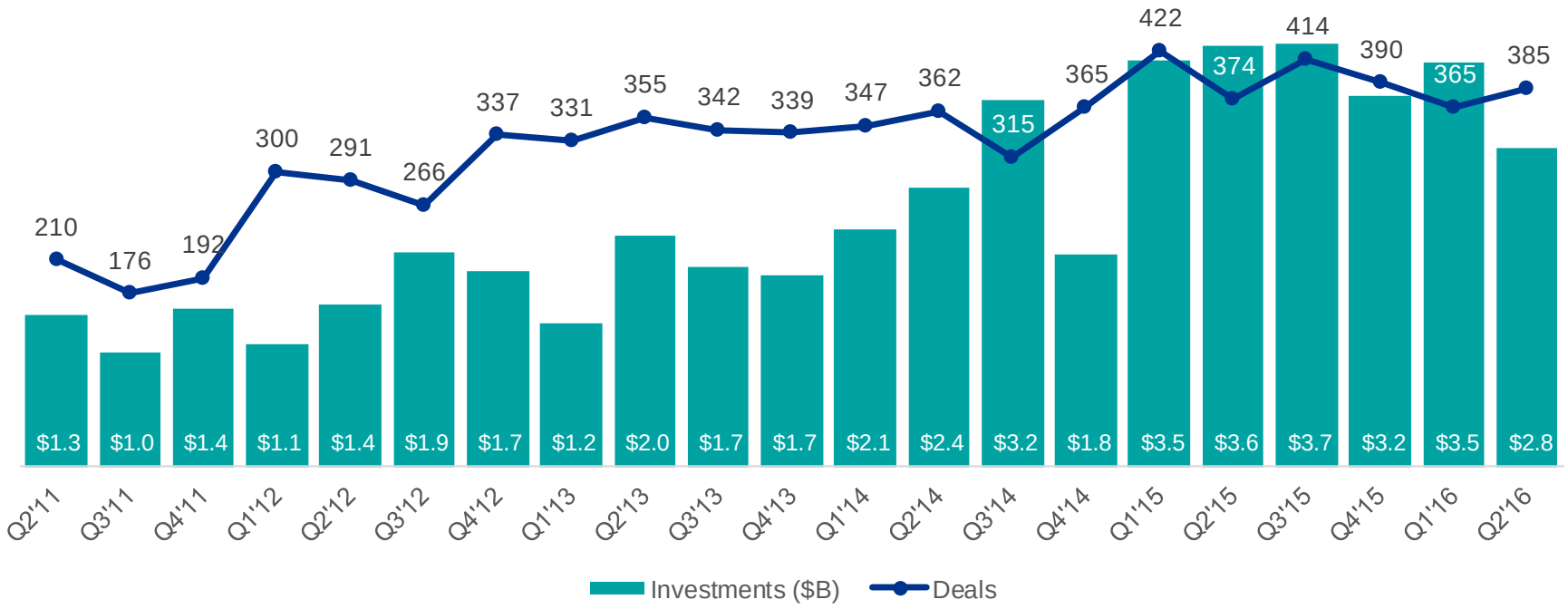
DEAL COUNT RISES IN EUROPE WHILE DOLLARS INVESTED FALL BELOW $3B

After 2 quarters of declining deal activity, Q2'16 saw an uptick with 385 deals in the quarter. Funding, however, shrank below $3B for the first time since Q4'14 owing to a dearth of mega-rounds.

European Quarterly Financing Trends to VC-Backed Companies

Q2'11 – Q2'16



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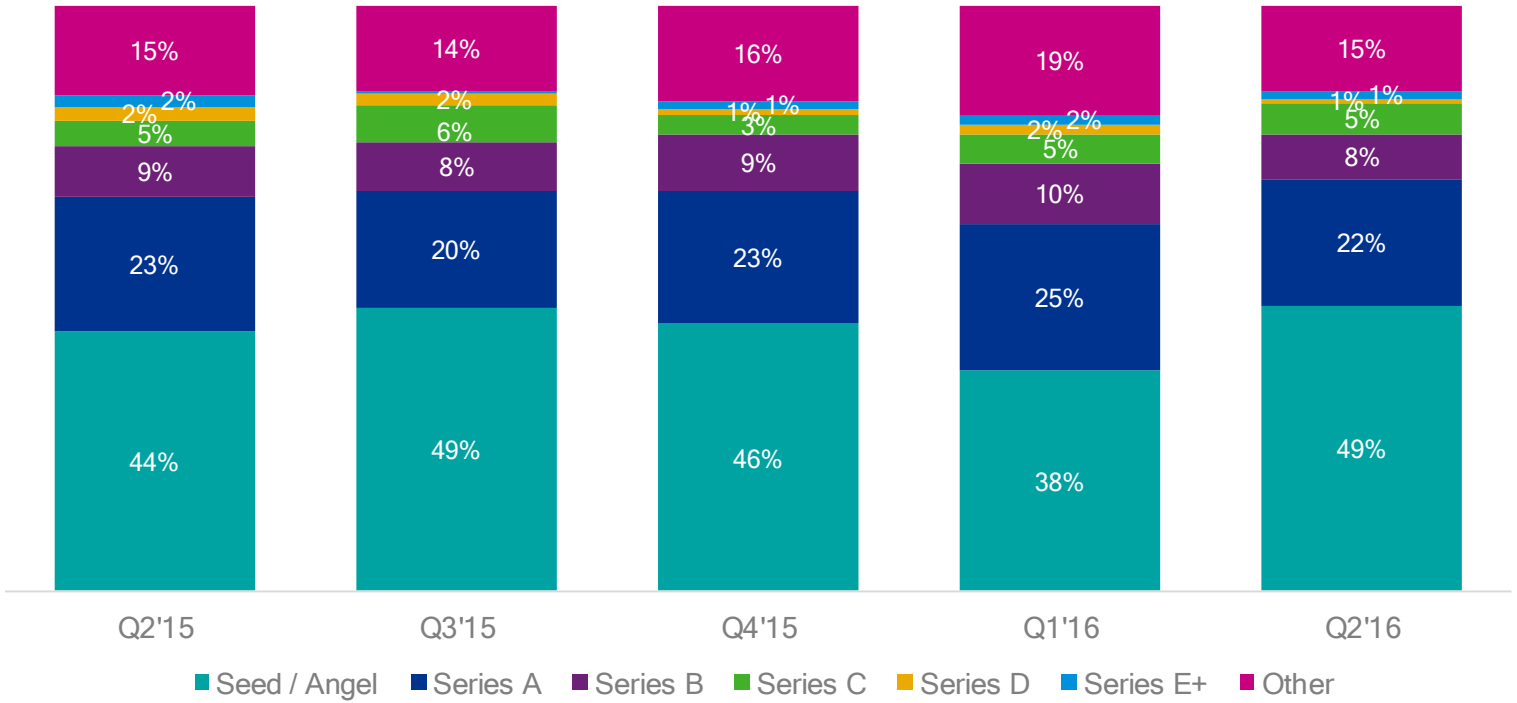
SEED DEAL SHARE IN EUROPE JUMPS AFTER A RECORD LOW

After seed-stage deal share suddenly plunged below 40% in Q1'16, Q2'16 saw a recovery with nearly half of all European deals happening at the seed/angel stage. Most other stages decreased slightly as deal share rebalanced towards seed.

European Quarterly Deal Share by Stage

Q2'15 – Q2'16



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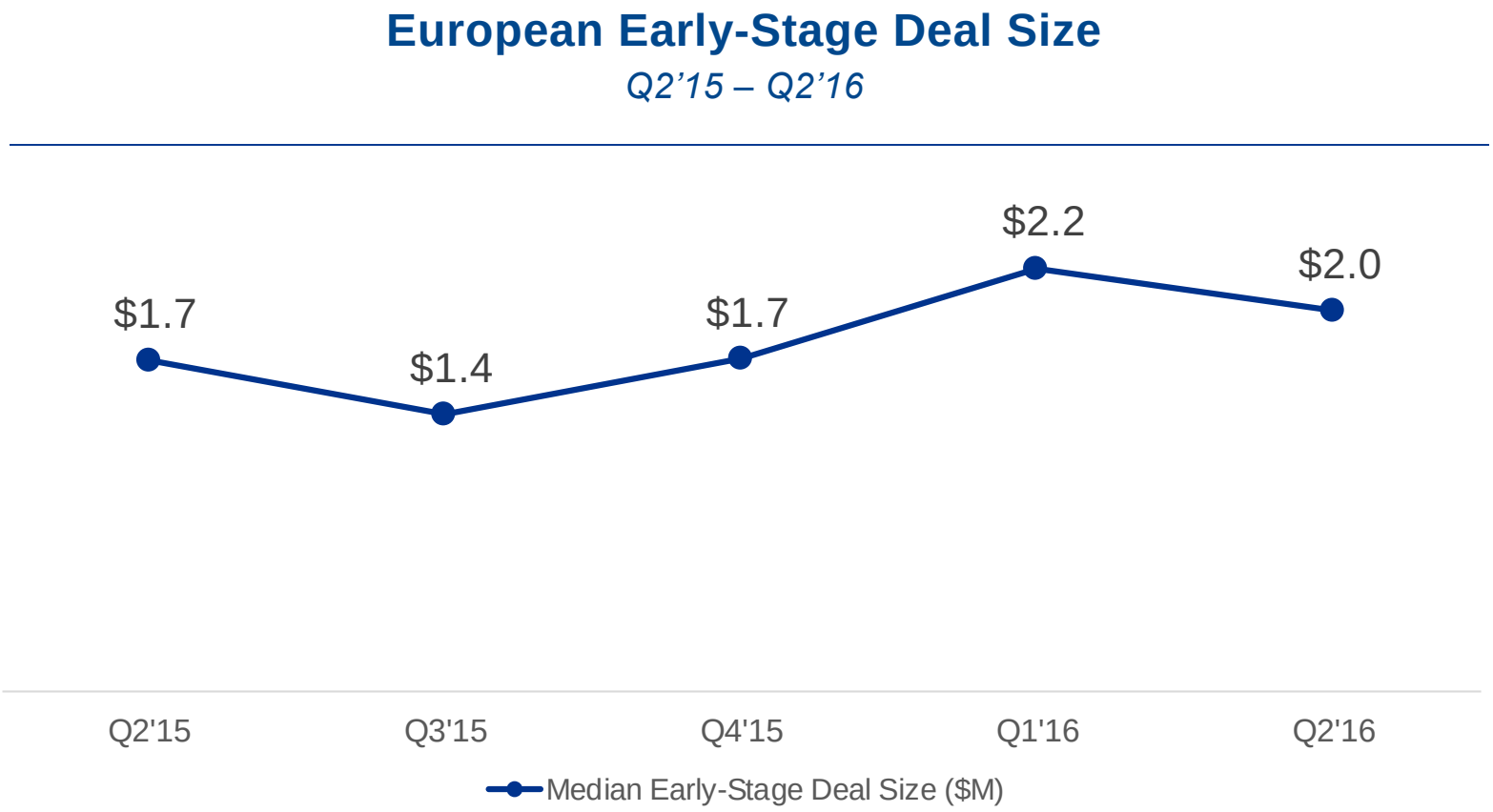
EARLY-STAGE DEAL SIZE DROPS SLIGHTLY AFTER TWO CONSECUTIVE INCREASES

Early-stage deal size in Europe increased from $1.4M in Q3’15 to $2.2M in Q1’16 after increases in 2 back-to-back quarters. Q2’16 dipped slightly but still broke the $2M mark.



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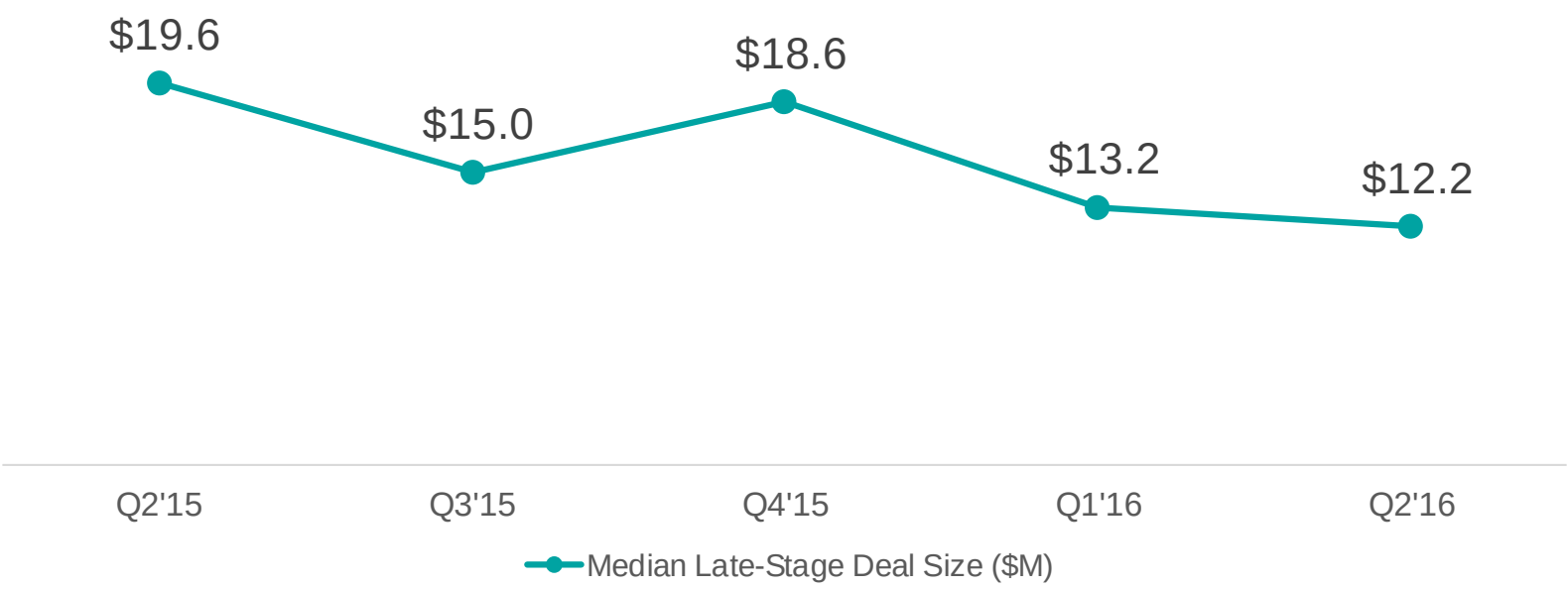
EUROPEAN LATE-STAGE DEAL SIZE FALLS AGAIN IN Q2'16

Median late-stage deal sizes continue to decline in Europe after breaking $15M for 3 straight quarters in 2015. The average late-stage deal size was $12.2M in Q2'16, a 38% drop from the same quarter a year prior.

European Late-Stage Deal Size

Q2'15 – Q2'16



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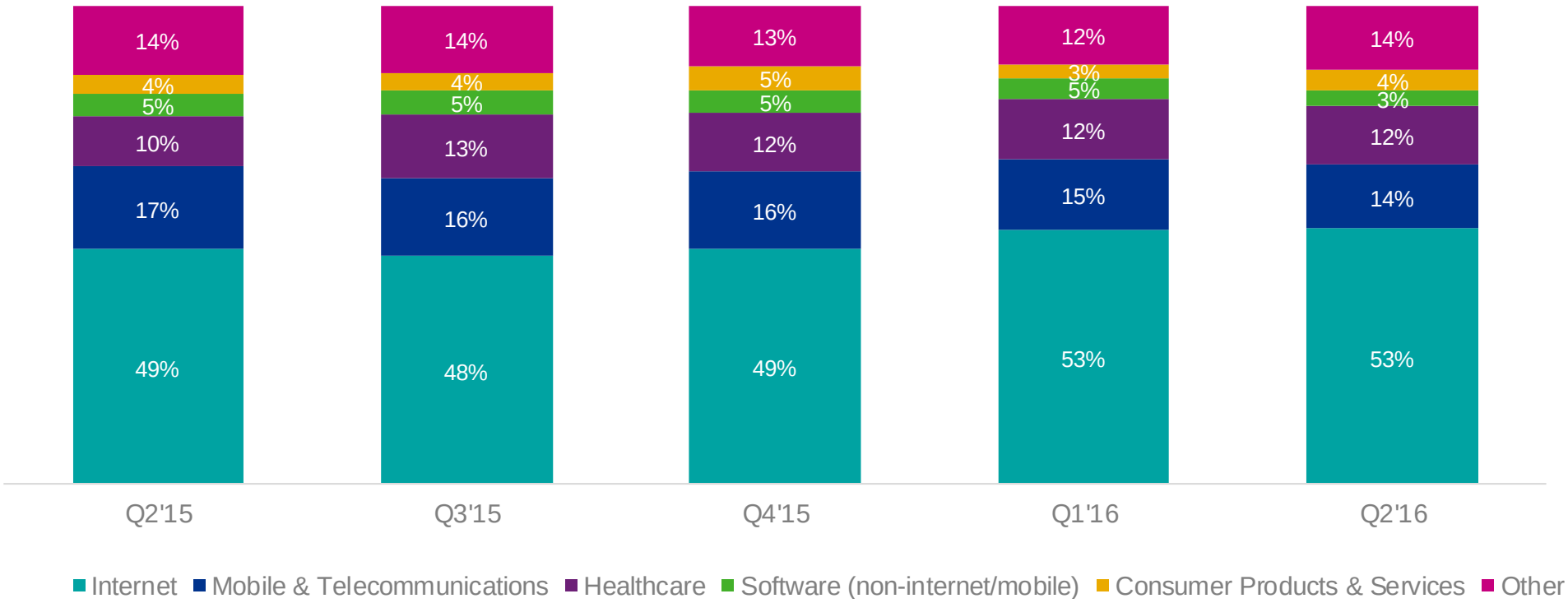
INTERNET TAKES MORE THAN HALF OF ALL DEALS FOR THE SECOND QUARTER IN A ROW

After a 3-quarter slowdown in internet deal share, 2016 has seen both quarters take more than half of all deals into VC-backed companies in Europe. Mobile reached a 5-quarter low of 14% after continuously shrinking in deal share since Q2'15.

European Quarterly Deal Share by Sector

Q2'15 – Q2'16



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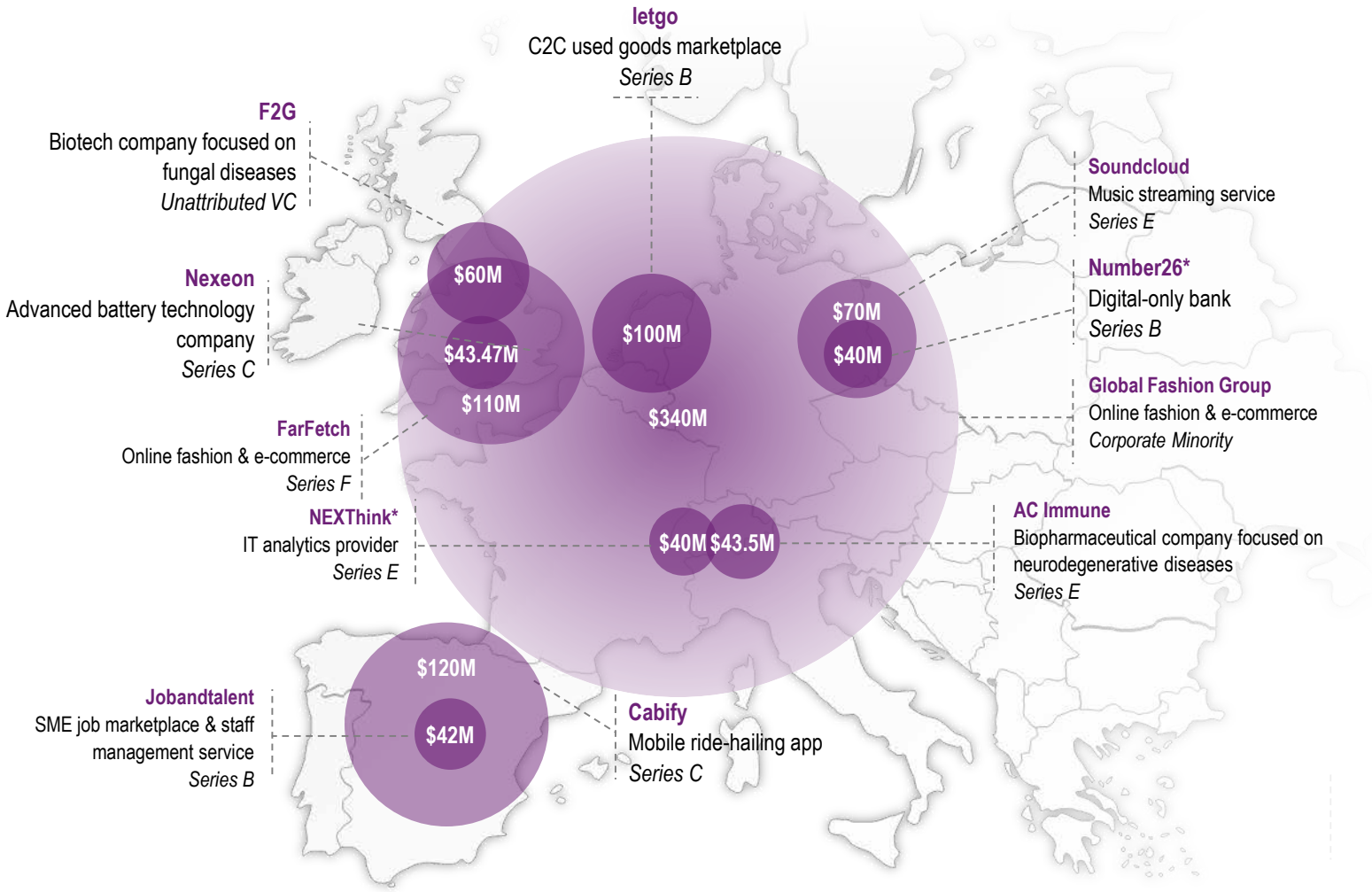
THE 11 LARGEST EUROPEAN ROUNDS OF Q2'16 REPRESENTED MORE THAN $1B IN FUNDING



* - Tied for 10th place with $40M in funding

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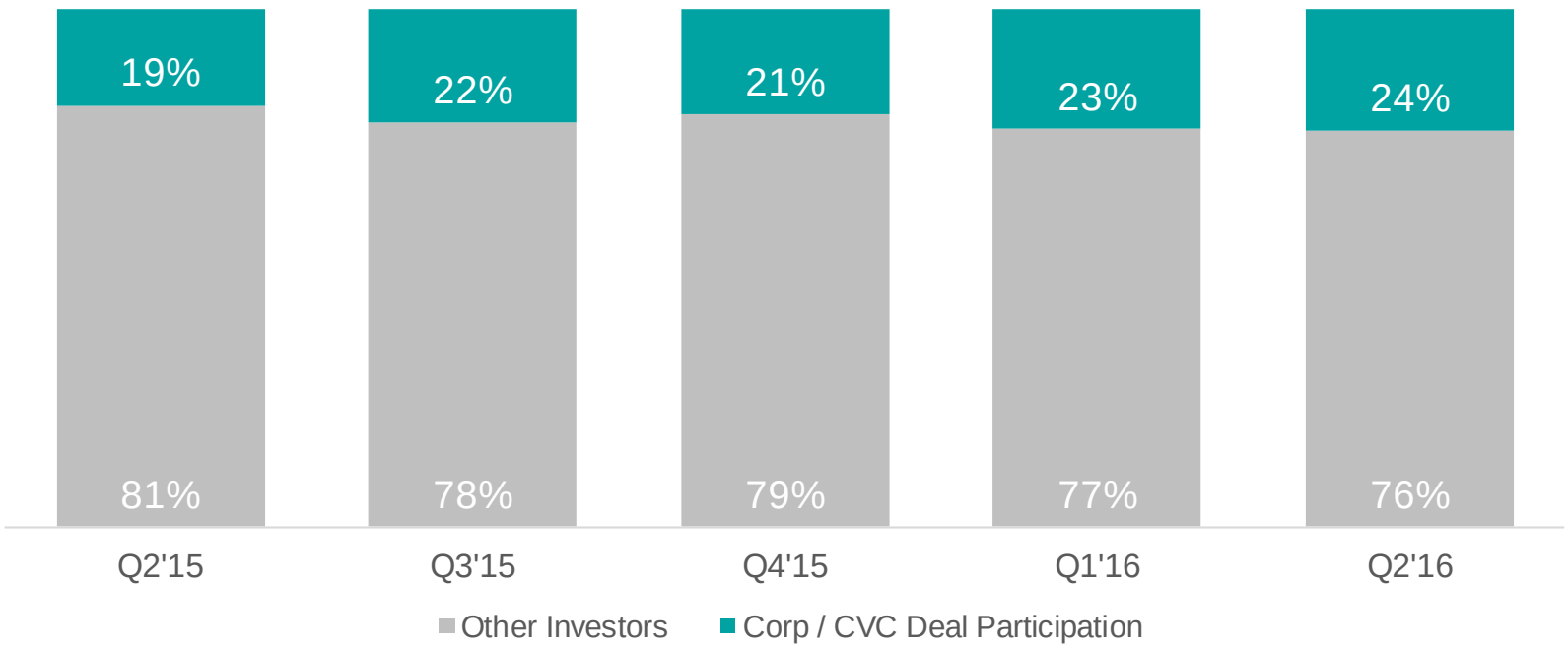
CORPORATE PARTICIPATION TOPS 20% FOR 4 OF THE LAST 5 QUARTERS

Corporate investors participated in 24% of all deals to European VC-backed companies in Q2'16, representing a 5-quarter high. Corporate participation has now topped 20% for 4 of the last 5 quarters.

CVC Participation in European Deals to VC-Backed Companies

Q2'15 – Q2'16



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"In the first half of the year, we have seen US technology giants acquiring UK tech startups in emerging areas such as machine learning and artificial intelligence. This highlights the strength of the UK technology ecosystem and the quality of companies it produces."

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

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HIGH-TECH GRUENDERFONDS IS MOST ACTIVE VC INVESTOR IN EUROPE IN Q2'16

High-Tech Gruenderfonds continues to hold its spot as the most active VC investor in Europe, with investments in more than 10 unique companies in the quarter, including Thermosome and Juniqe. Denmark-based Sunstone Capital ranked second.

Most Active VC Investors in Europe

Q2'16

Rank	Investor	Rank	Investor
1	High-Tech Gruenderfonds	11	e.ventures
2	Sunstone Capital	11	Accel Partners
3	Global Founders Capital	11	Partech Ventures
3	Point Nine Capital	11	SEED Capital
3	Bayern Kapital	11	Alma Mundi Fund
3	Business Growth Fund	11	Wellington Partners
7	SpeedInvest	11	Caixa Capital Risc
7	Index Ventures	11	LocalGlobe
9	Holtzbrinck Ventures	11	PMV
9	Imperial Innovations	11	Project A Ventures
11	Octopus Ventures	11	IBB Beteiligungsgesellschaft

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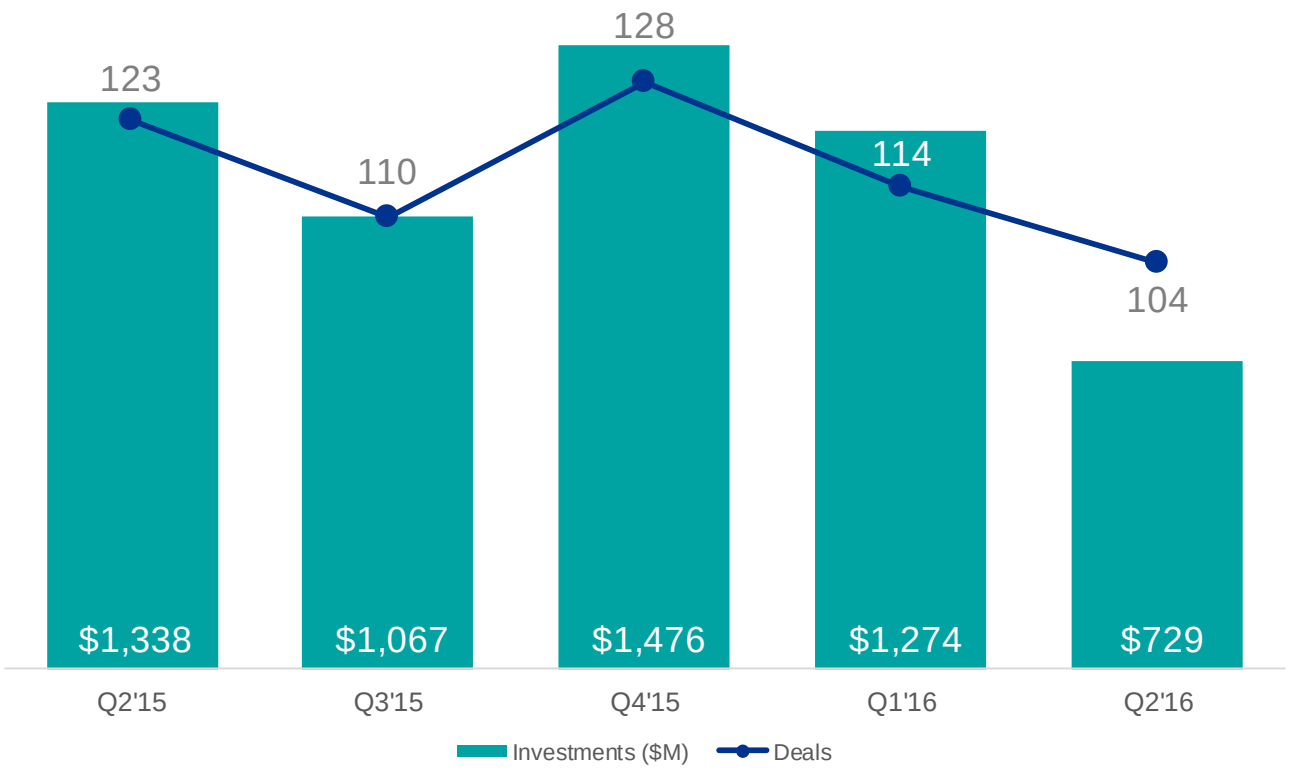
UK VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

UK Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

FarFetch

$110M // Series F

F2G

$60M // Unattributed VC - III

Nexeon

$43.5M // Series C

Top Cities

London

64 Deals // $469.3M

Cambridge

5 Deals // $46.7M

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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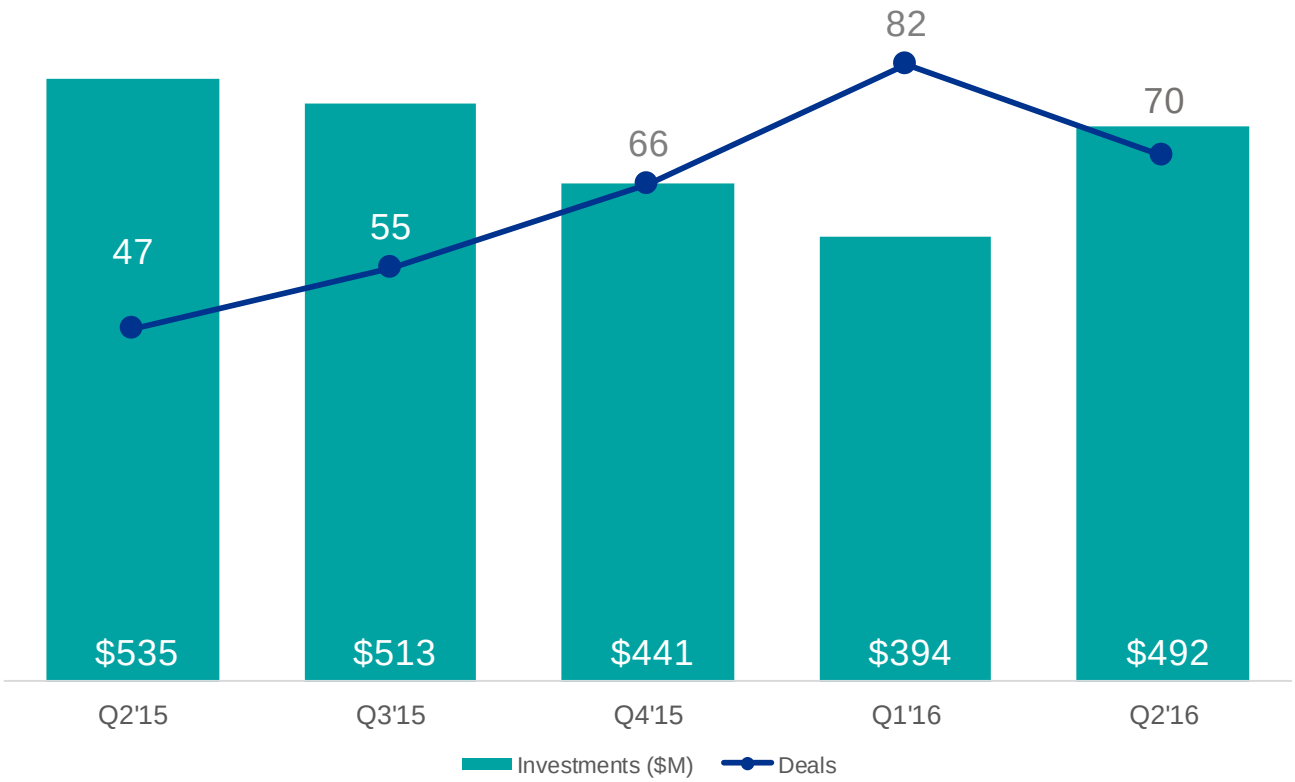
GERMANY VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

Germany Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Soundcloud

$70M // Series E

Finanzcheck

$46M // Series C

Number26

$40M // Series B

Top Cities

Berlin

39 Deals // $293.4M

Munich

9 Deals // $71.1M

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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“In Europe, there are a number of non-tech players that are looking to find accompanying business models that complement their business to increase their profitability. In the future more of these companies will look to M&A in the digital space in order to redefine their value chain and business models.”

Tim Dümichen
Partner,
KPMG in Germany

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In Q2 2016

ASIAN

VC-backed companies raised

$7.4 billion

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Asia-based VC investment continues to plummet

VC investment and deal activity in Asia dropped sharply for the third straight quarter, highlighting concerns regarding global uncertainties, the slowing of the Chinese economy and depreciation of the Chinese Yuan. Deal activity in other parts of Asia shrank significantly, with India-based investment, in particular, dropping well under $600 million this quarter.

VC investors focus on fundraising and portfolio balancing

Following a strong period of growth in 2015, investors are recognizing that the ROI is no longer as lucrative and that potential interest rate increases in the US could further erode potential returns. As a result, Asia-based VC investors continue to tighten their purse strings, taking time to re-evaluate their portfolios and adjust their investment strategies.

In India, VC investors are scrutinizing early-stage investments more than ever before. While investments are still occurring, investors are taking significant time to evaluate bootstrap and pre-Series A funding, which has created some challenges for startups who traditionally need money quickly.

IPOs in China continue to stagnate amid regulatory roadblocks

Over the second quarter, Chinese regulators intensified scrutiny of potential IPO filings with an increase in bounce-backs to companies. This has led to the list of companies waiting for IPO increasing to approximately 850. Companies that may have considered an IPO exit in the US have also held back, understanding that their US valuation would likely be significantly lower. With IPO activities stifled, it is not surprising that M&A activities have increased.

International cooperation and investment continues to rise

During the second quarter of 2016, cooperation increased between Chinese and US-based VC funds. Chinese VC funds are interested in leveraging the experience and resources of their US counterparts in order to globalize their investment activities. With Asia-based investment decreasing, interest in globalization of potential offerings has increased accordingly. The support of the Chinese government for globalization has also been a key factor in the rise of international joint ventures.

The Asia-based VC community has also been focusing on outbound investment, with countries such as Canada gaining attention as a result of the current valuation of the Canadian dollar. Investment in Europe may also rise over the next couple of quarters, given the devaluation of the euro and the pound in the wake of the Brexit vote.

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Asia-based VC investment continues to plummet (cont.)

Corporate participation remains strong

Traditional companies in Asia continue to invest more in startups, hoping to leverage new technologies to enhance their business processes, service offerings or customer reach. Most companies with idle cash have invested in startups or in international projects in order to achieve their desired objectives. At the same time, corporate investors are becoming somewhat more cautious. For example, in Hong Kong, corporate investors are evaluating potential companies from a strong strategic standpoint, investing only in those that can show clear strategic value add to their organization.

Japan VC investment climate strengthening

While Japan has not traditionally been seen as a significant player in VC activity in Asia, there are indications that this will change substantially over the next year or two. Total VC investment has risen in the first half of 2016 with respect to the previous two quarters, with much of this investment focused on early and seed-stage companies.

Japan has also seen more interest from corporate VCs, corporate pension funds and organizations focused on enhancing VC market activities. For example, 500 Startups launched its first fund in Japan earlier in 2016, which has brought significant attention to the Japanese VC market.

Future focus remains international and on key sectors

Over the next quarter, it is expected that the global economy will continue to be uncertain, causing investors in Asia to remain cautious. This does not mean that investments will continue to wane across the board. Key industries such as healthcare, which saw an increase in investment during Q2'16, and InsuranceTech are expected to maintain a positive investment outlook. Companies with the potential to grow internationally are also expected to do well, especially those with a clear plan for profitability.

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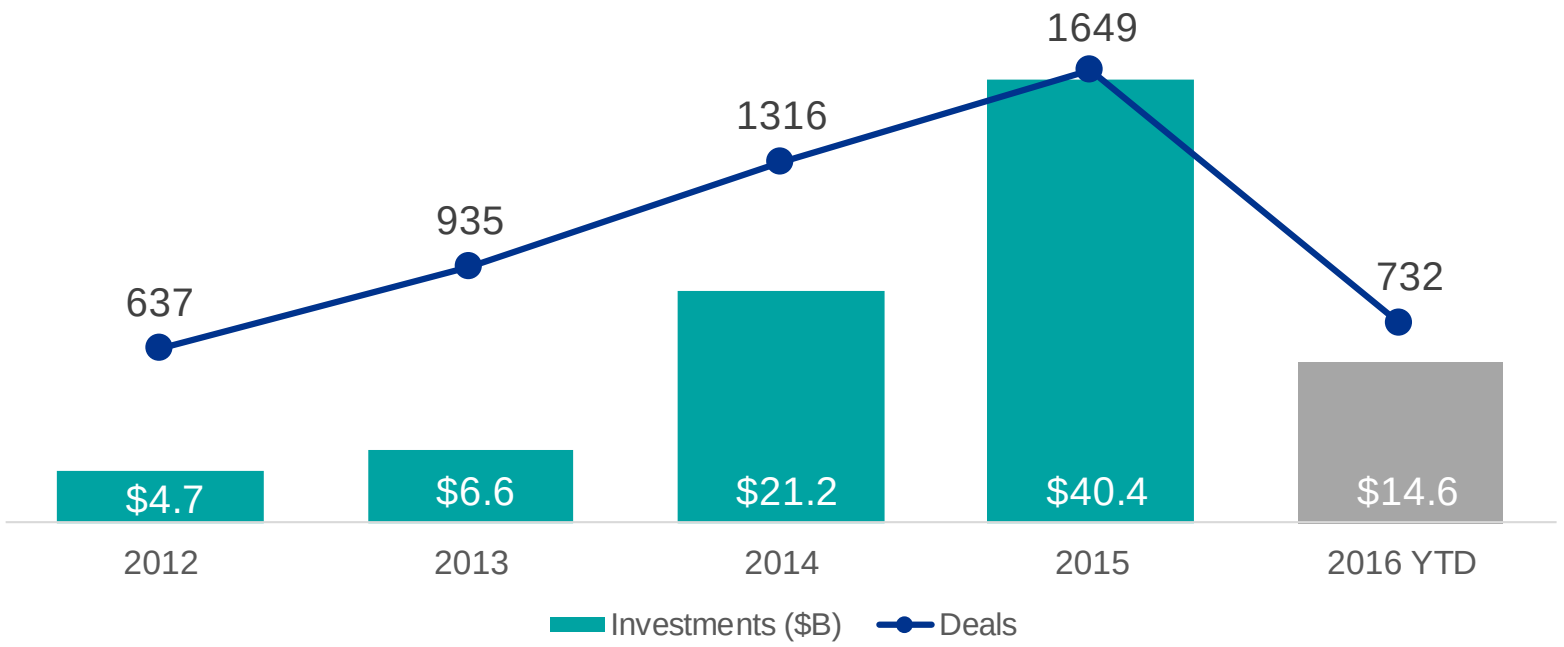
H1’16: INVESTORS DEPLOY $14.6B ACROSS 732 DEALS TO VC-BACKED COMPANIES IN ASIA

Asia witnessed a steady rise in deal activity to VC-backed companies in recent years, accompanied by an especially dramatic increase in funding. However, at the current run rate, 2016 is on track to end both annual growth streaks, with $14.6B invested across 732 deals in the first half of the year.

Asian Annual Financing Trends to VC-Backed Companies

2012 – 2016 YTD (Q2’16)



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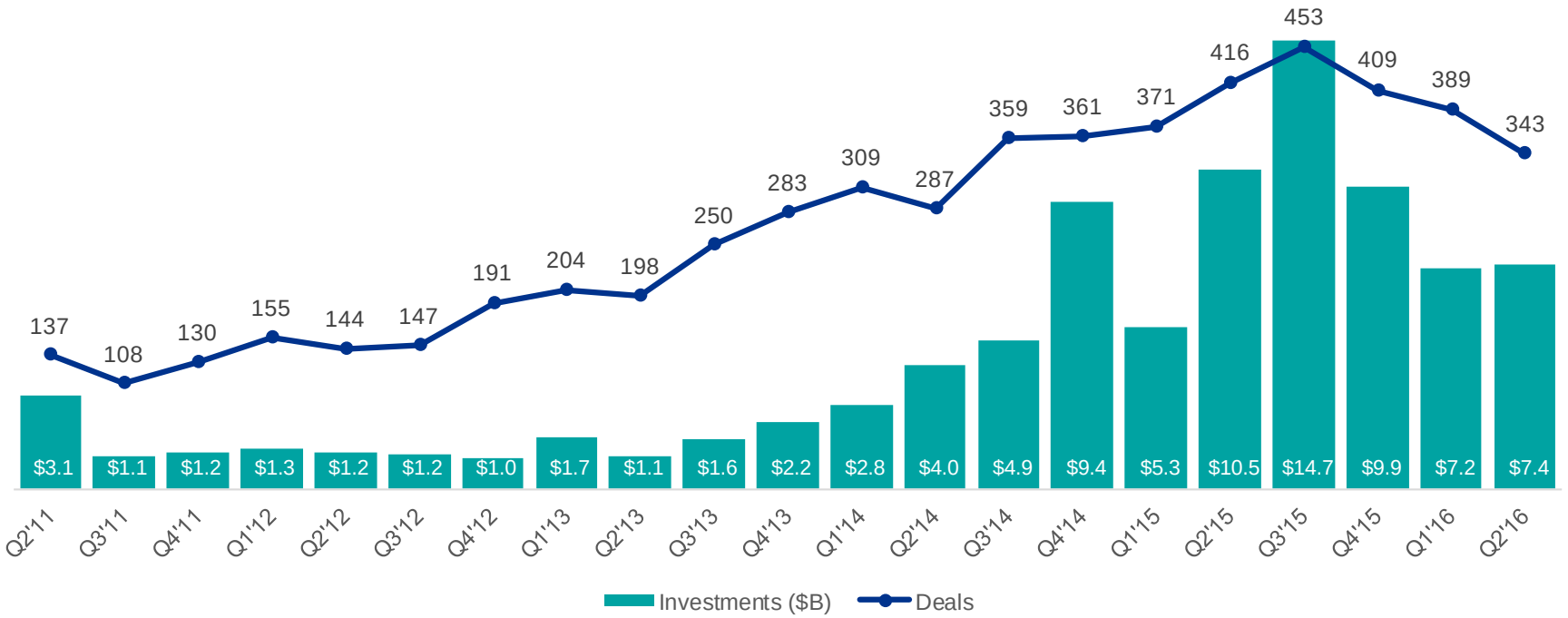
DEALS TO ASIAN VC-BACKED COMPANIES DROP FOR THIRD CONSECUTIVE QUARTER

Q2’16 saw deal count drop a further 12% from the already-cooling activity in Q1. Funding edged up 2% to $7.4B, mostly lifted by several $500M+ rounds to Didi Chuxing, Weiyang Technology and Ucar Group.

Asian Quarterly Financing Trends to VC-Backed Companies

Q2’11 – Q2’16



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“ The venture capital investment environment in Asia is a lot more cautious at the moment. It’s harder now to ask for a big valuation if you aren’t able to show the ability to become profitable – or at least cash flow positive – in the near term. Investors appear to be becoming more selective and increasingly focused on core fundamentals.”

Irene Chu
Partner, Head of High Growth Technology & Innovation Group, KPMG in Hong Kong

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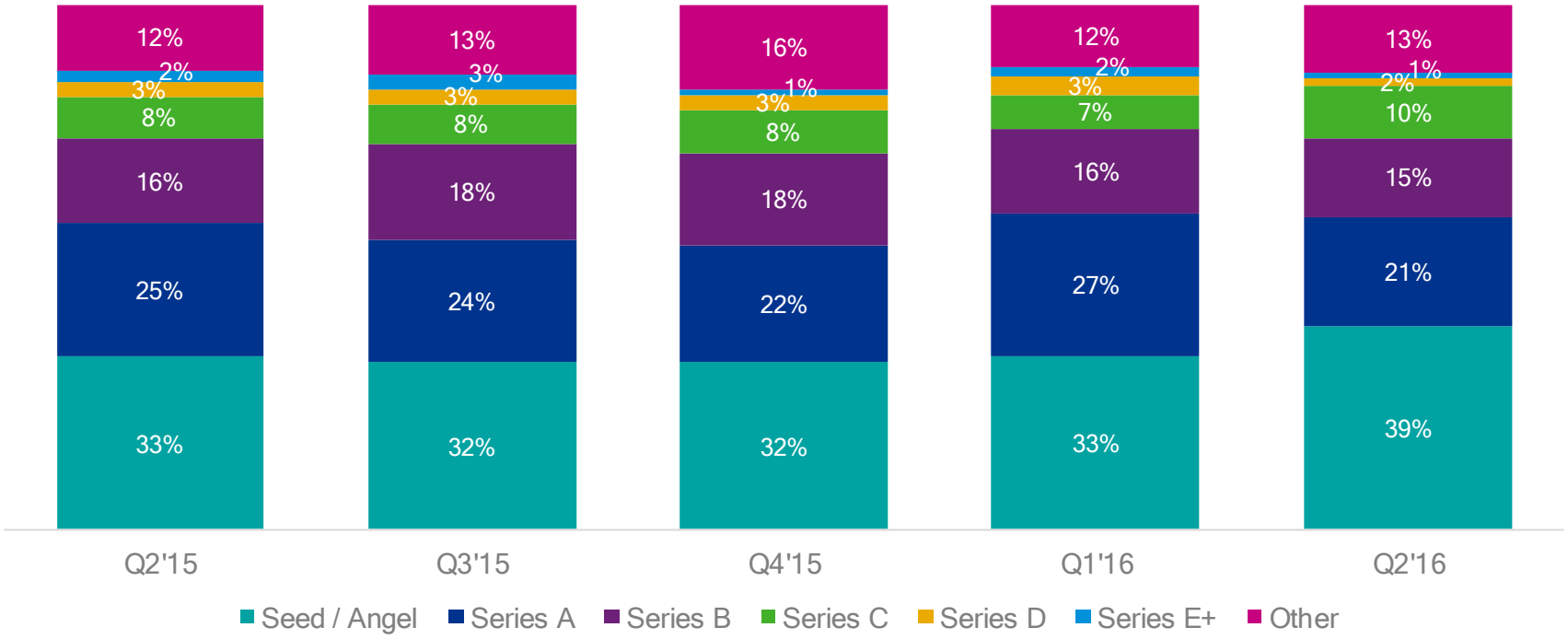
ASIAN SEED/ANGEL DEAL SHARE TICKS UPWARD IN Q2'16

Asian seed/angel deal share rose to a 5-quarter high of 39% in Q2'16, up from 33% the quarter prior. In absolute terms, seed/angel deals held relatively steady from Q1'16, while most other stages fell (particularly Series A, which saw a corresponding drop in deal share).

Asian Quarterly Deal Share by Stage

Q2'15 – Q2'16



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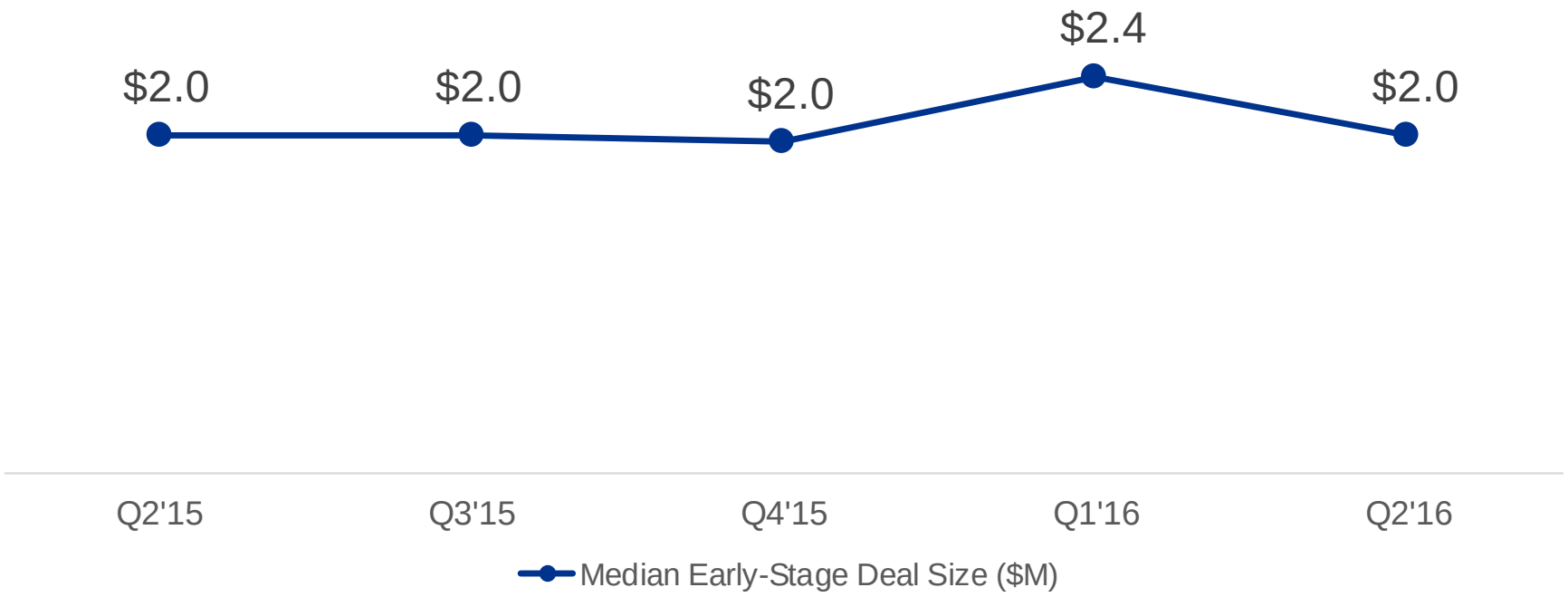
MEDIAN EARLY-STAGE DEAL SIZE IN ASIA FALLS TO $2.0M

Median early-stage deal size to Asian VC-backed companies remains at or above $2.0M across the past 5 quarters. After trending upward in Q1'16, early-stage deal size dipped in Q2'16. This largely coincides with the greater share of seed/angel deals (versus larger Series A rounds) seen previously.

Asian Early-Stage Deal Size

Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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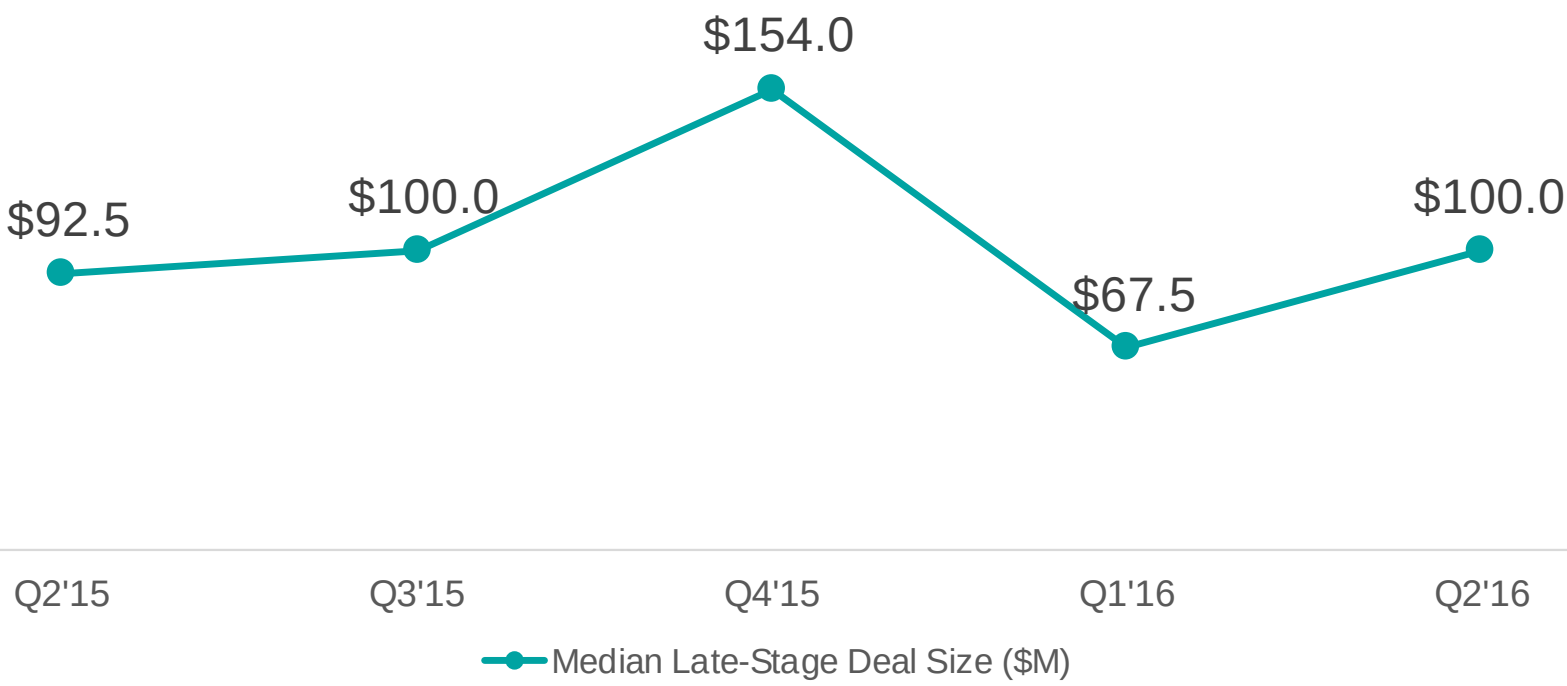
MEDIAN LATE-STAGE DEAL SIZE IN ASIA RETURNS TO $100M MARK

Median late-stage deal size has recovered somewhat after plunging last quarter, rising 48% from the 5-quarter low of Q1'16. Sizeable late-stage deals to companies like Didi Chuxing, Spring Rain Technologies, and Tokopedia have buoyed the median figure for Q2'16.

Asian Late-Stage Deal Size

Q2'15 – Q2'16



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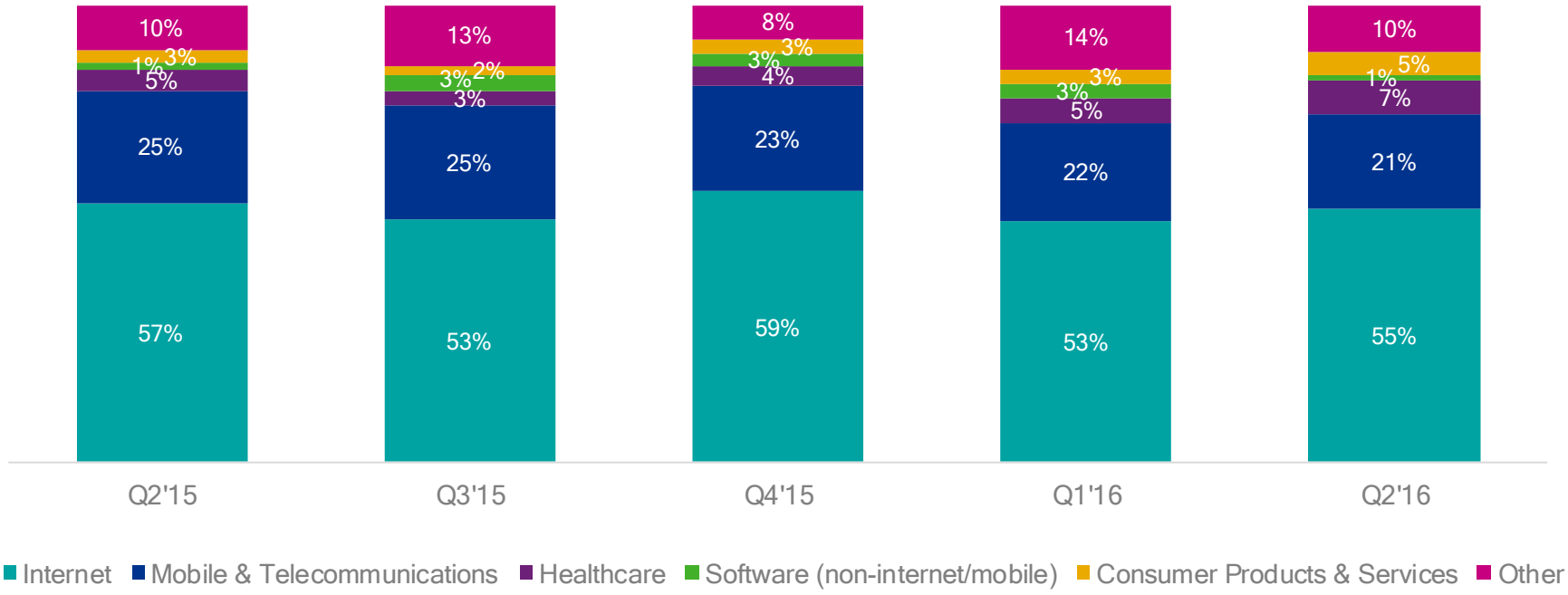
INTERNET AND MOBILE SHARE STILL DOMINANT IN ASIA, WHILE HEALTHCARE RISES

Internet deal share climbed back to 55% after dipping in Q1'16. Mobile, though still in second place, declined for a third consecutive quarter. Meanwhile, healthcare deal share rose for the third quarter straight, up to a 5-quarter high of 7%.

Asian Quarterly Deal Share by Sector

Q2'15 – Q2'16



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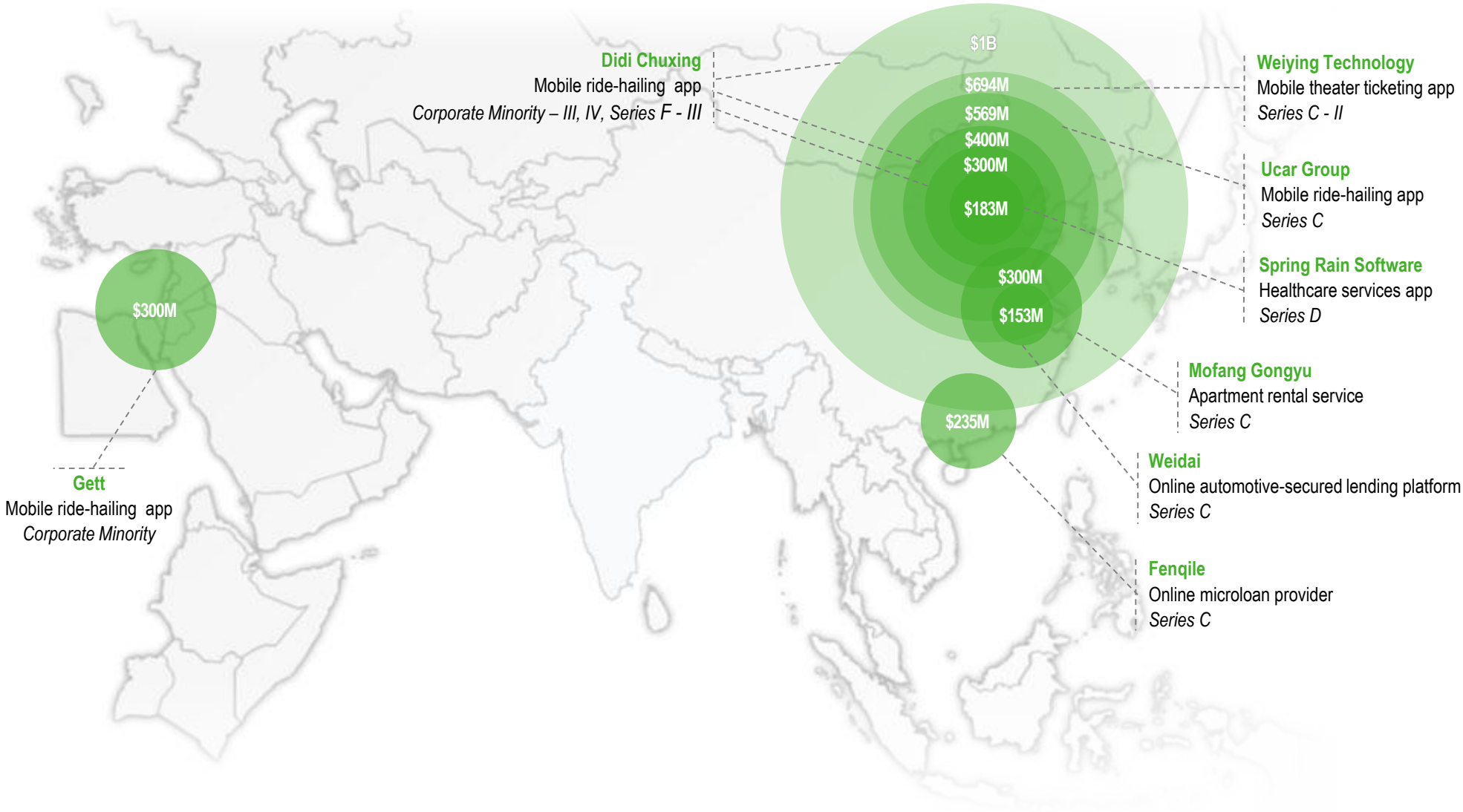
10 LARGEST ASIAN ROUNDS OF Q2'16 REPRESENT MORE THAN $4.1B IN FUNDING



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“Historically, Chinese investors seemed to have thought mostly about a company’s potential within the Chinese and Asian markets. However, we are increasingly seeing these same investors looking outside local markets and turning their focus to companies with the potential to expand globally.”

Lyndon Fung
US Capital Markets Group, KPMG China

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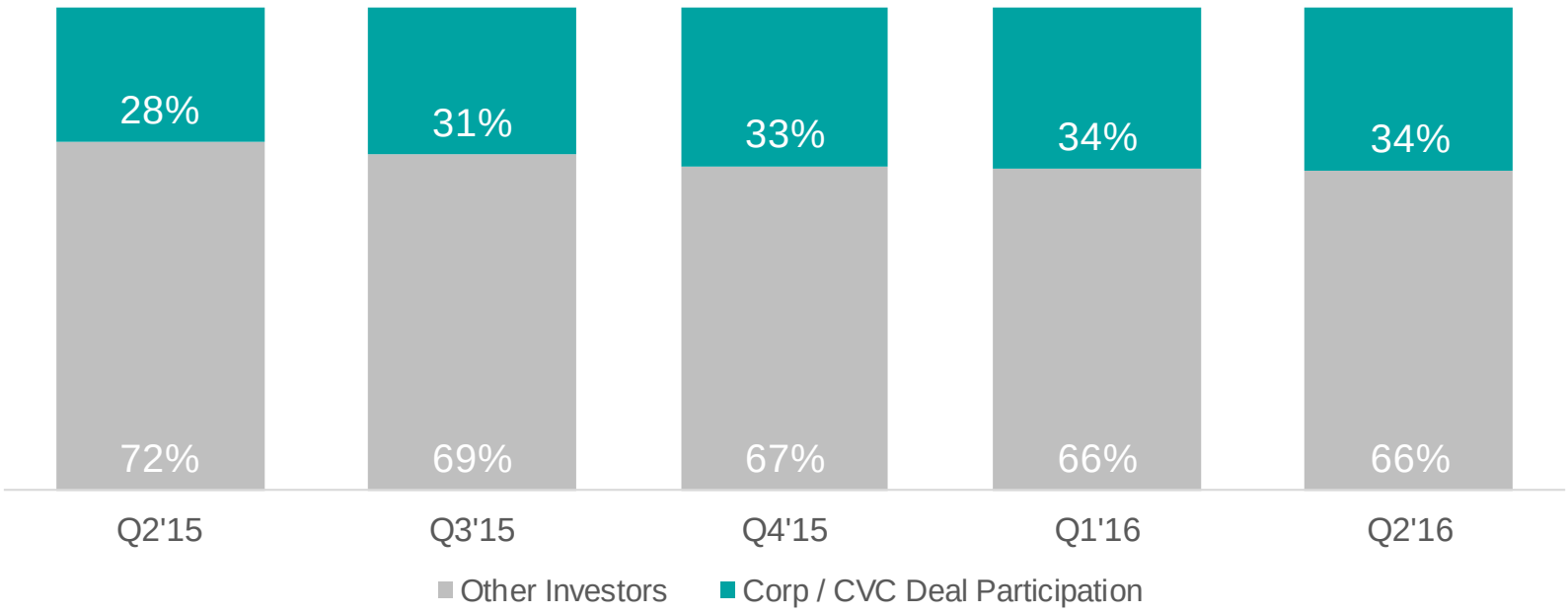
ASIAN CORPORATES CONTINUE TO ACCOUNT FOR OVER 30% OF DEALS TO VC-BACKED COMPANIES

CVCs and corporates (especially Alibaba, Tencent, Baidu, Rakuten, etc.) are maintaining a high pace of investment into VC-backed companies. CVC and corporate share has steadily increased across recent quarters to 34% in Q2'16.

CVC Participation in Asian Deals to VC-Backed Companies

Q2'15 – Q2'16



Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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BLUME VENTURES WAS THE MOST ACTIVE VC IN ASIA IN Q2'16

Blume Ventures edged out Q1'16 leader 500 Startups to rank as the most active VC investor in Asia for the quarter. 500 Startups itself ranked second, while Sequoia Capital India rounded out the top three.

Most Active VC Investors in Asia

Q2'16

Rank	Investor	Rank	Investor
1	Blume Ventures	6	Future Now Ventures
2	500 Startups	10	CyberAgent Ventures
3	Sequoia Capital India	10	Unitus Seed Fund
4	Accel Partners	10	IDG Capital Partners
4	Ibtikar Fund	13	BEENEXT
6	SAIF Partners	13	IDG Ventures India
6	Matrix Partners China	13	New Enterprise Associates
6	East Ventures		

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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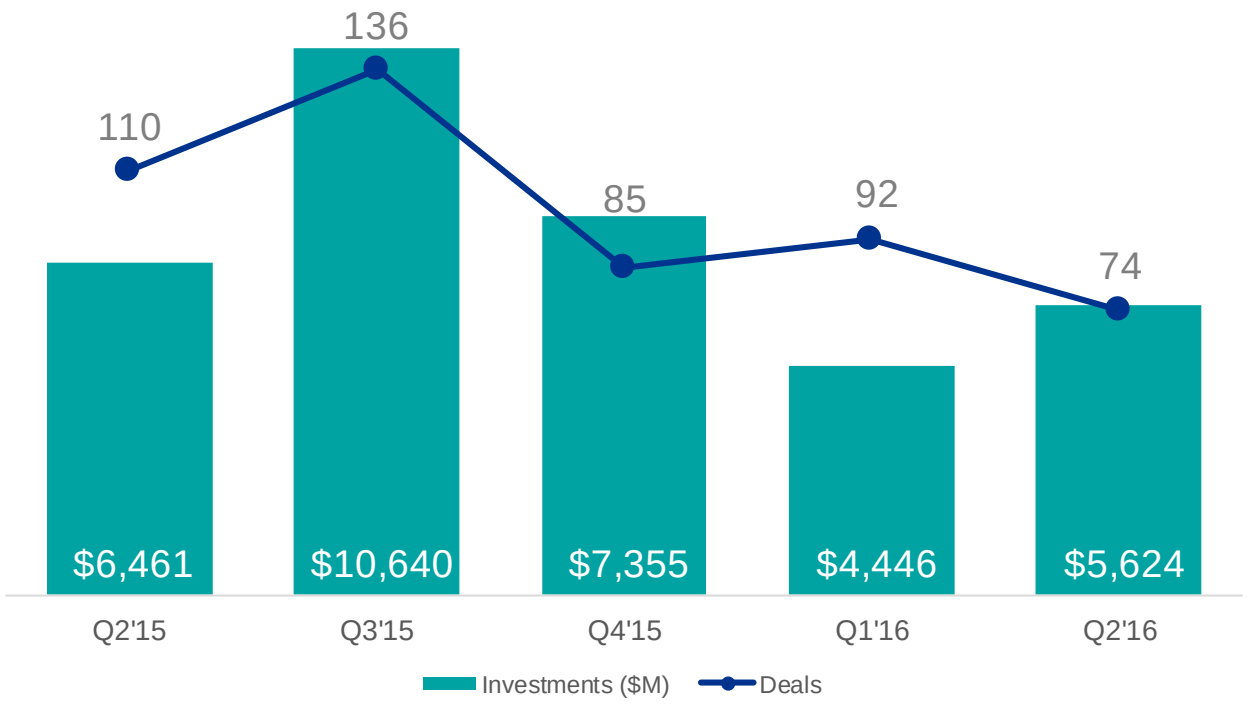
CHINA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

China Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Didi Chuxing

$1B // Series F - III

Weiying Technology

$694M // Series C - II

Ucar Group

$569M // Series C

Top Cities

Beijing

30 Deals // $3.3B

Shanghai

10 Deals // $451.2M

Hangzhou

7 Deals // $332.4M

Source: Venture Pulse, Q2'16, Global Analysis of Venture Funding, KPMG International and CB Insights (data provided by CB Insights) July 19th, 2016.

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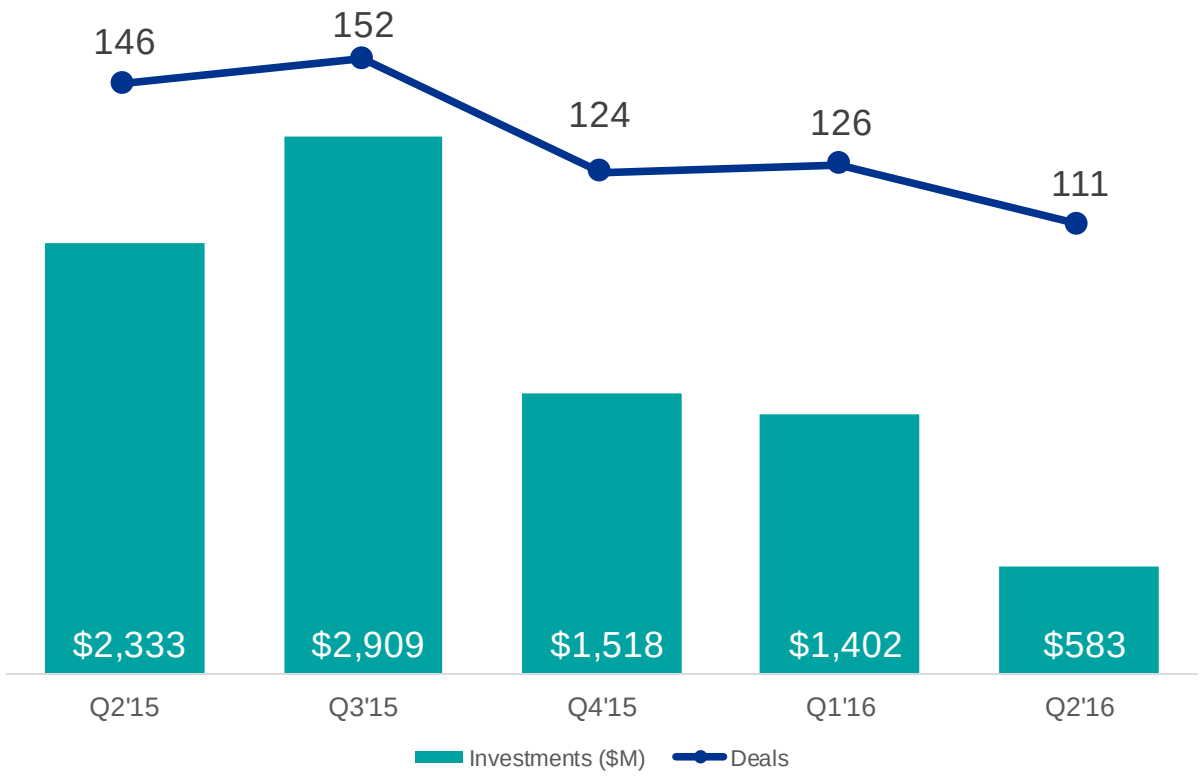
INDIA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Cities, Q2'16

India Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Oyo Rooms

$100M // Series D

MobiKwik

$50M // Series C

Lendingkart

$32M // Series B

Top Cities

Bangalore

28 Deals // $136.7M

Mumbai

22 Deals // $111.9M

New Delhi

13 Deals // $119.8M

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“ The Indian investment market is still optimistic with strong interests by the investor community. We see increasing interests in the online business for financial services products, healthcare, consumer goods and specialized verticals in ecommerce.

Uniqueness of the business proposition and multiple revenue streams from the same product/platform are of higher interest today. However the decision to go ahead with investments in Series A/Bootstrap is taking more time than earlier which is a cause of concern for start-ups, who typically require money quickly to scale up. One strong positive trend is the rise of family houses and investment arms of Indian business houses who are actively looking in to funding the start up space in sectors which are adjacent to their core businesses.”

Sreedhar Prasad
Partner, E-Commerce and Startups,
KPMG in India

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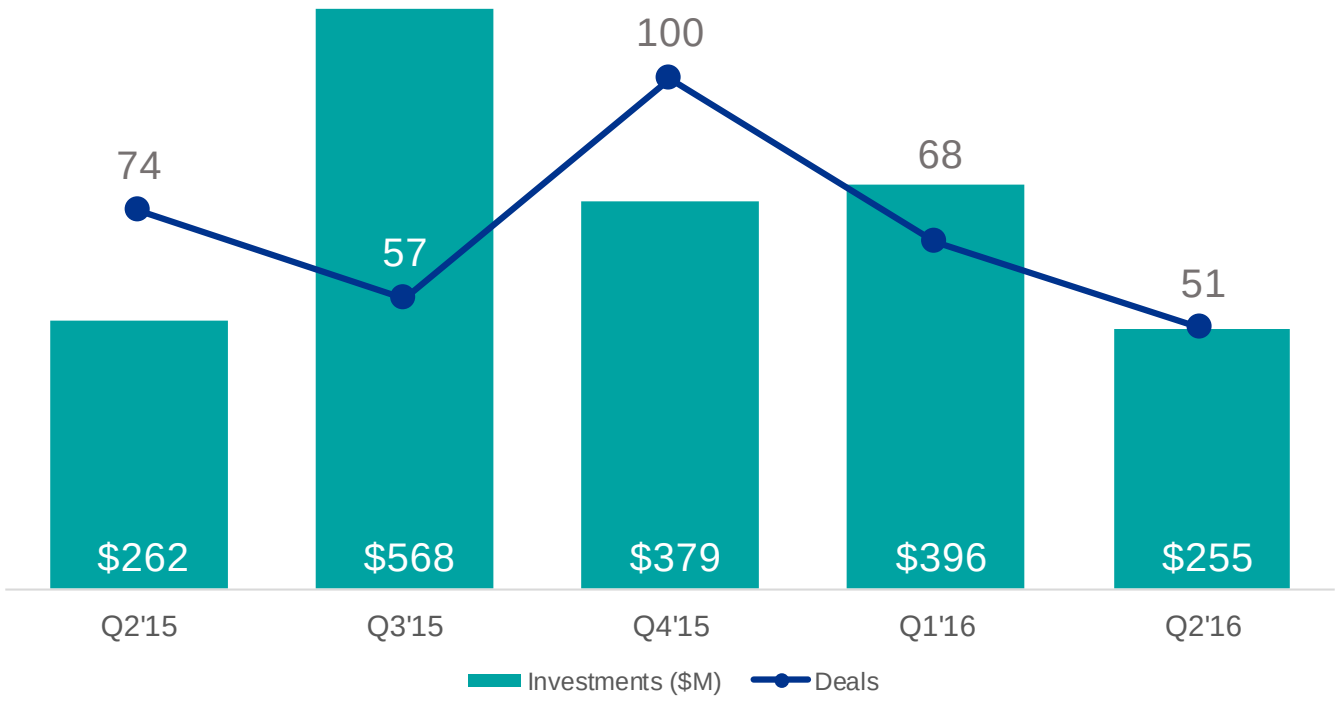
SOUTHEAST ASIA VC-BACKED INVESTMENT ACTIVITY

Top Deals & Countries, Q2'16

Southeast Asia Investment Activity

VC-Backed Companies, Q2'15 – Q2'16



Top Deals

Tokopedia

$147M // Series E

Ninja Van

$30M // Series B

Tiki

$16.7M // Corp. Minority

Top Countries

Singapore

15 Deals // $54.6M

Indonesia

13 Deals // $158.3M

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“ **While still relatively small on a global level, VC activity in Japan is getting stronger. A lot of entrepreneurs and investors are coming up to the starting line. There are more funds being launched and more money coming in. Corporate investment continues to dominate but VC investment is clearly on the rise.”**

Paul Ford
Partner, Deal Advisory, KPMG in Japan

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METHODOLOGY — WHAT'S INCLUDED? WHAT'S NOT?

CB Insights and KPMG Enterprise encourage you to review the methodology and definitions employed to better understand the numbers presented in this report. If you have any questions about the definitions or methodological principles used, we encourage you to reach out to CB Insights directly. Additionally, if you feel your firm has been underrepresented please send an email to info@cbinsights.com and we can work together to ensure your firm's investment data is up-to-date.

What is included:

- Equity financings into emerging companies. Fundings must come from VC-backed companies, which are defined as companies who have received funding at any point from either: venture capital firms, corporate venture group or super angel investors.
- Fundings of only private companies. Funding rounds raised by public companies of any kind on any exchange (including Pink Sheets) are excluded from our numbers even if they received investment by a venture firm(s).
- Only includes the investment made in the quarter for tranched investments. If a company does a second closing of its Series B round for $5M and previously had closed $2M in a prior quarter, only the $5M is reflected in our results.
- Round numbers reflect what has closed – not what is intended. If a company indicates the closing of $5M out of a desired raise of $15M, our numbers reflect only the amount which has closed.
- Only verifiable fundings are included. Fundings are verified via (1) various federal and state regulatory filings; (2) direct confirmation with firm or investor; or (3) press release.
- Previous quarterly VC reports issued by CBI have exclusively included VC-backed rounds. In this report any rounds raised by VC-backed companies are included, with the exceptions listed.
- Geography note: Israel funding figures are classified in Asia.

What is excluded:

- No contingent funding. If a company receives a commitment for $20M subject to hitting certain milestones but first gets $8M, only the $8M is included in our data.
- No business development / R&D arrangements whether transferable into equity now, later or never. If a company signs a $300M R&D partnership with a larger corporation, this is not equity financing nor is it from venture capital firms. As a result, it is not included.
- No buyouts, consolidations or recapitalizations. All three of these transaction types are commonly employed by private equity firms and are tracked by CB Insights. However, they are excluded for the purposes of this report.
- No private placements. These investments, also known as PIPEs (Private Investment in Public Equities), even if made by a venture capital firm(s).
- No debt / loans of any kind (except convertible notes). Venture debt or any kind of debt / loan issued to emerging, startup companies, even if included as an additional part of an equity financing is not included. If a company receives $3M with $2M from venture investors and $1M in debt, only the $2M is included in these statistics.
- No government funding. Grants, loans or equity financings by the federal government, state agencies or public-private partnerships to emerging, startup companies are not included.

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KPMG ENTERPRISE INNOVATIVE STARTUP NETWORK. FROM SEED TO SPEED, WE'RE HERE THROUGHOUT YOUR JOURNEY

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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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Tim Dümichen, Partner, KPMG in Germany

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