



Venture Pulse Q3 2019

Global analysis of
venture funding

10 October 2019



Welcome message



Welcome to the Q3'19 edition of KPMG Enterprise's *Venture Pulse* — a quarterly report highlighting the key trends, opportunities, and challenges facing the venture capital market globally and in key jurisdictions around the world.

Strong investment in the Americas and Europe continued to fuel the global VC market this quarter, while VC investment in Asia remained weak, particularly in comparison to 2018's record-shattering high.

Given the ongoing Brexit challenge in the UK, Europe's positive performance was particularly noteworthy in Q3'19. The region has already achieved a new record of VC investment with a full quarter left to go in the year. The strength of Europe remains its diversity, with Germany, the UK, Sweden, Belgium, and Israel all attracting \$100 million+ deals in Q3'19.

In the Americas, the US continued to see a diverse mix of companies attracting VC investment, including the quarter's top global deal: a \$785 million raise by e-cigarette manufacturer Juul. At the same time, other jurisdictions also saw significant deals. In Brazil, Nubank's \$400 million raise propelled it to deca-unicorn status — the first Brazil-based tech company to be valued at more than \$10 billion. Meanwhile, business software developer Clio raised \$250 million in Canada.

At an industry level, numerous sectors accounted for relatively large deals, with fintech and transportation remaining very hot areas of investment globally. Looking forward, these areas are expected to continue to be attractive to VC investors on a global basis, in addition to industry-spanning solutions like artificial intelligence (AI) and machine learning.

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

- The increasing uncertainty permeating the global VC market
- The ongoing strength and resilience of Europe
- The slowdown in fundraising activity, particularly in Asia
- Concerns about valuations and the post-IPO performance of US unicorns
- The growing strength of jurisdictions in the Americas outside of the US

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

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***In Q3'19 VC-backed
companies in the
Americas raised***

\$30.8B

across

2,420 deals



Jurisdictions across the Americas see robust investment in Q3'19

Q3'19 was a robust quarter of VC investment across the Americas. While the US continued to dominate region in terms of both investment and the number of VC deals, both Brazil and Canada experienced strong quarters. In Brazil, fintech garnered substantial investment, while AI, healthtech, and biotech continued to attract significant investment in Canada.



US VC investment remains robust despite lack of massive deals

The US continued to see significant VC investment in Q3'19, despite the lack of massive megadeals. The diversity of the US market — both geographically and on an industry basis — have helped the country remain the clear leader globally in terms of VC investment. A look at the country's top ten VC deals highlights the breadth of organizations attracting investment, from e-cigarette maker Juul and insurtech Root Insurance to proptech firm Compass and mobility company Lime.



Fintech industry growing and maturing in Brazil

The fintech industry in Brazil drove a substantial level of VC investment during Q3'19, led by a \$400 million raise by Nubank — a funding round that made the neobank Latin America's first Decacorn with a valuation above \$10 billion. Given the significant percentage of unbanked people in Brazil and across Latin America, many VC investors see a lot of room for growth in the space. Over the past few quarters, fintech in Brazil has continued to mature, with a number of fintechs now offering white label banking for other brands. At the same time, there is increasing interest in fintech from traditional banks. With interest rates at a historical low in the country — and expected to decline further — banks recognize the increasing need to invest to remain competitive.



Canada sees phenomenal quarter of investment amid Verafin, Clio, and Element AI deals

Canada experienced a record quarter of VC investment in Q3'19, led by a \$250 million raise by Clio — a software platform for lawyers, and a \$151 million raise by Element AI — a software firm focused on providing machine learning solutions to businesses. These large deals highlight the growing focus of Canadian firms on the B2B market, in addition to solutions that align with Canada's strong AI and machine learning capabilities. They also showcase the growing maturity of Canada's tech sector, with companies attracting larger and larger deals in a diversity of locations across the country. Verafin, by example, is based in St. John's, Newfoundland.



Productivity driving significant interest from VC investors

Across the Americas, productivity-focused startups gained traction among VC investors. In the US, the focus of productivity companies continued to evolve — with many focusing on B2B and enterprise software solutions rather than direct consumer apps. VC investors are particularly keen on these opportunities given the strong performance maturing companies have experienced in the market. Of the enterprise productivity companies that became unicorns in Q3'19, several have been in the enterprise technology space — such as Monday.com and DataRobot. A number have also performed well following IPOs earlier this year, making the space even more attractive in the eyes of investors.

Jurisdictions across the Americas see robust investment in Q3'19, cont'd.



International investors driving interest in Latin America

International investors continued to spur the vast majority of VC investment in Latin America, with US-based TCV leading Nubank's \$400 million raise — a round that also saw participation from Tencent Holdings, Sequoia Capital, DST Global and other investors.

Meanwhile, Japan's SoftBank led September's \$250 million Series D funding round for QuintoAndar, making the property rental website company Brazil's newest VC-backed unicorn. Earlier this year, Softbank announced a \$5 billion Innovation Fund focused on Latin America. It is expected that this fund will continue to spur direct investment in the region and additional attention from global VC investors.

Mexico also continues to be attractive to international investors; in Q3'19, fintech payments startup Klar raised \$57.5 million in funds from international investors including Santander InnoVentures.



Trends to watch for in Q4'19

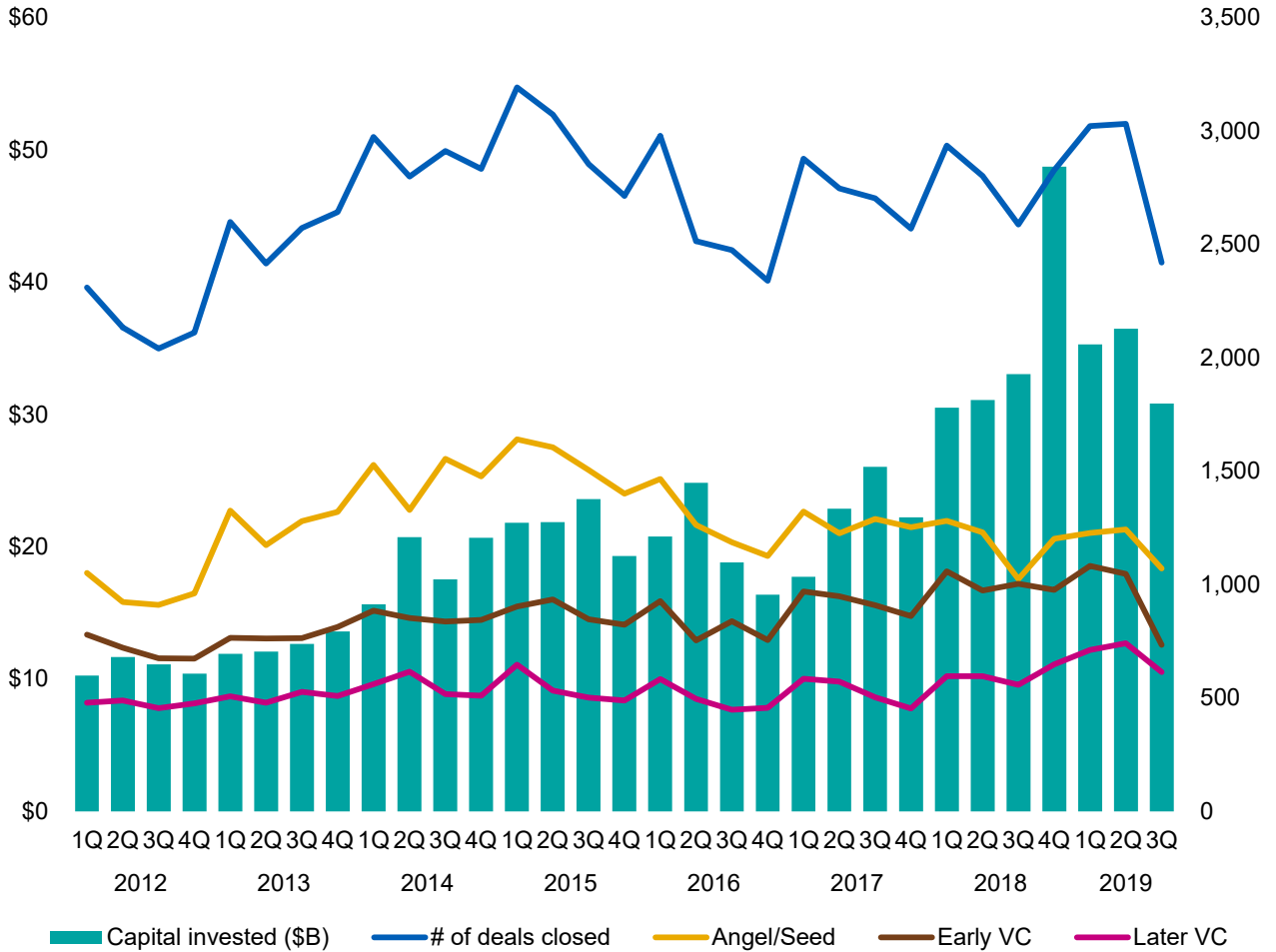
VC investment across the Americas is expected to remain strong moving into Q4'19. In Latin America, fintech is expected to continue to be the hottest area of investment. Both the size of checks and the number of late-stage fintech deals are expected to grow as companies in the industry begin to mature, particularly in Brazil. International interest in the region is also expected to grow, with the \$5 billion Latin America-focused SoftBank Innovation Fund expected to increase international investor attention on the region.

In the US, VC investment is expected to remain strong for the remainder of the year given the amount of capital in the market. AI is expected to remain a top priority for US investors given its broad applicability, while transportation is expected to continue to gain attraction — particularly as it relates to commercial solutions.

Despite a dip in volume, VC invested stays strong

Venture financing in the Americas

2012–Q3'19



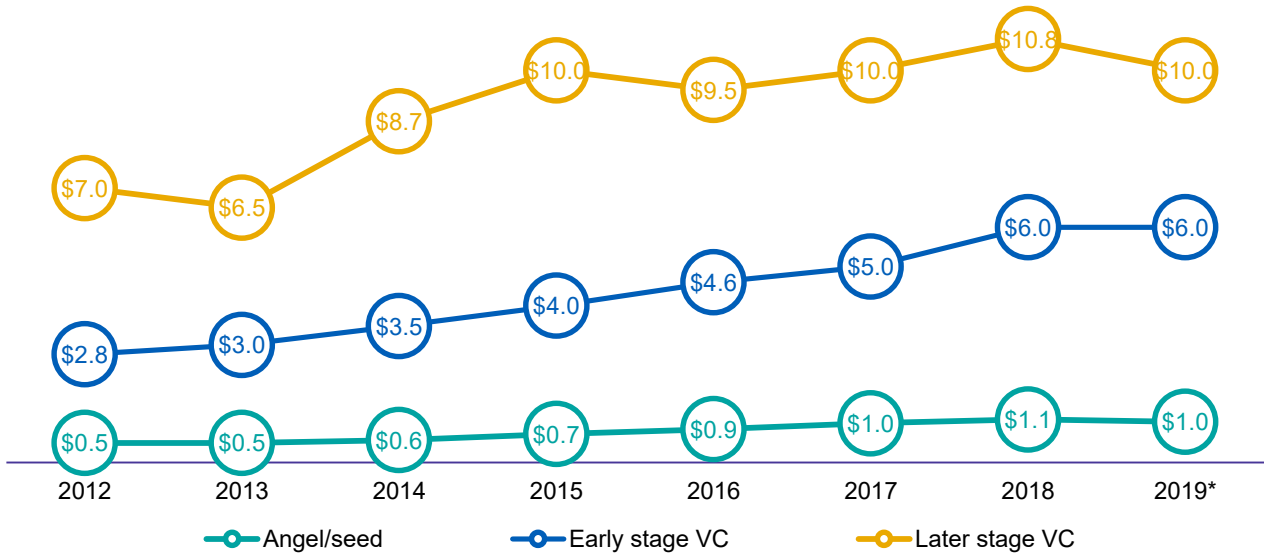
Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019 Note: Refer to the Methodology section on page 19 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

It is likely that the dip in volume between Q2 and Q3 2019 will be mitigated over time by additional data being uncovered or reported; what is more telling is that despite that dip, VC invested is still quite robust across the entire Americas, continuing a near-historic run. Beyond the US, strong performance from other nations and the growth of their metro startup ecosystems continues to bolster the continent's venture landscape.

Positive sentiment stays intact

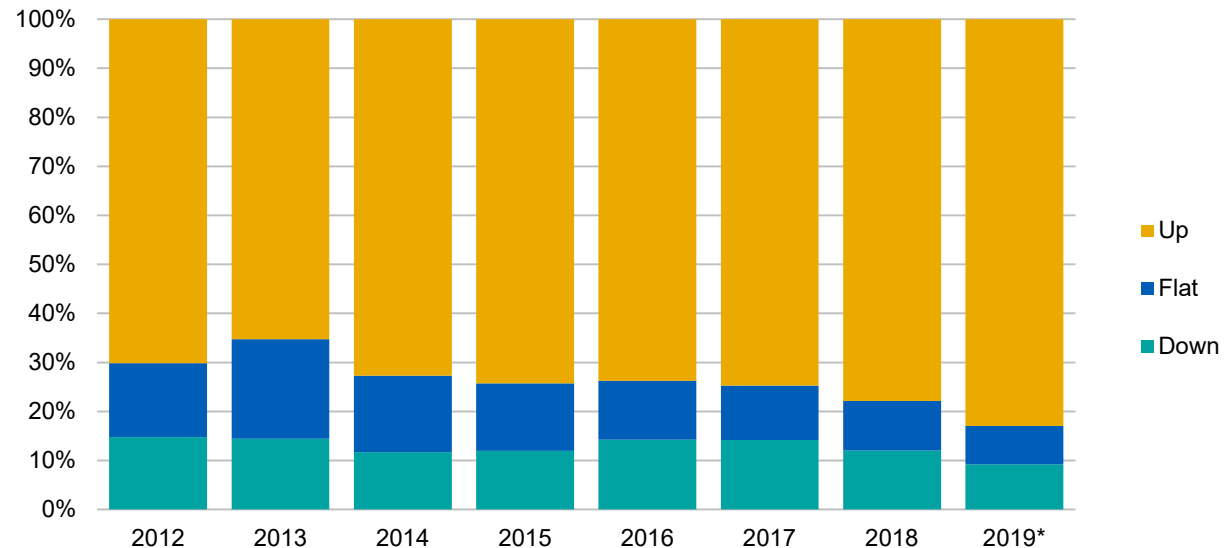
Median deal size (\$M) by stage in the Americas

2012–2019*



Up, flat or down rounds in the Americas

2012–2019*



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Late-stage pulls further away

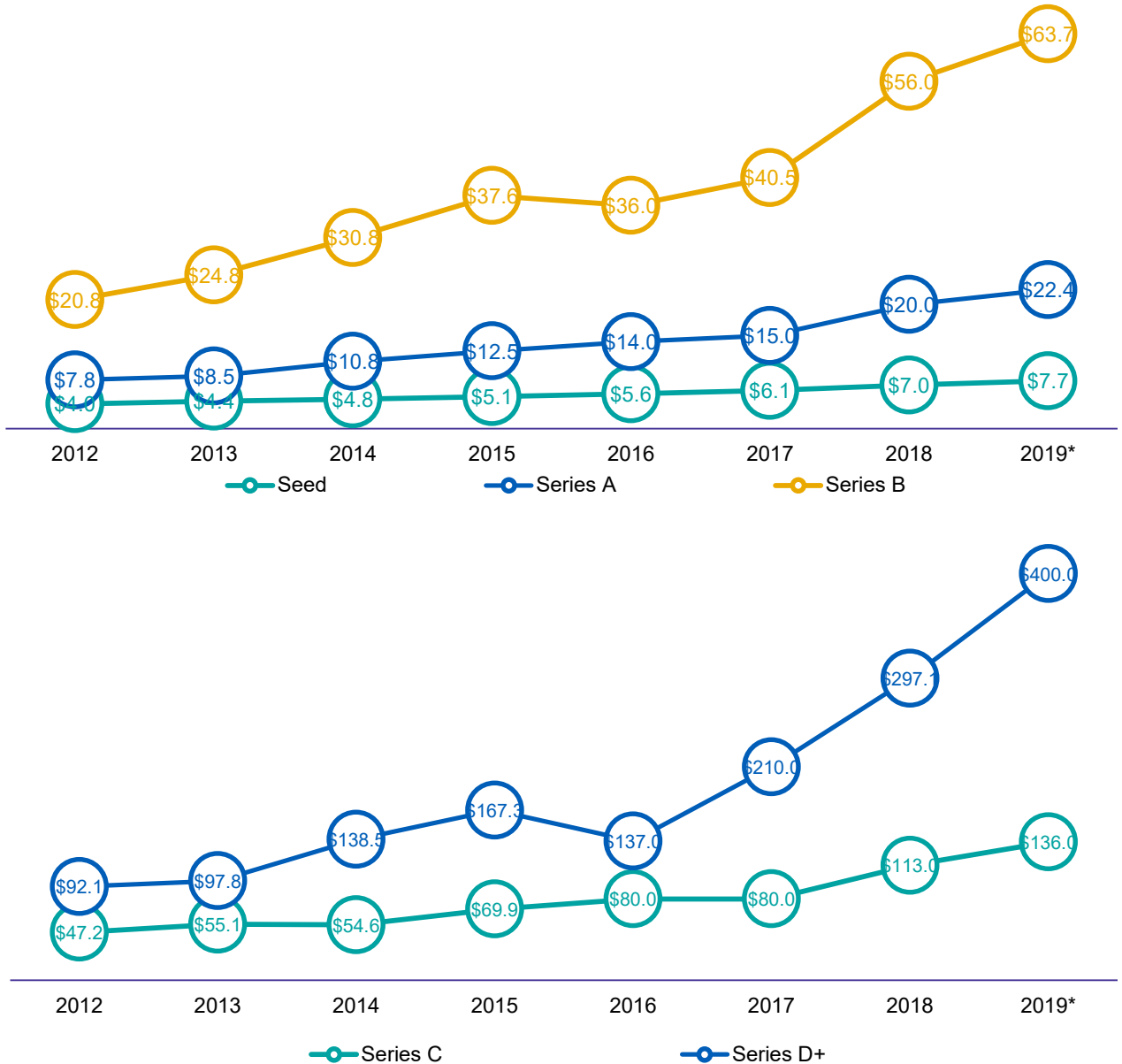
Median deal size (\$M) by series in the Americas
2012–2019*



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Strong US tallies help keep medians high

Median pre-money valuation (\$M) by series in the Americas 2012–2019*

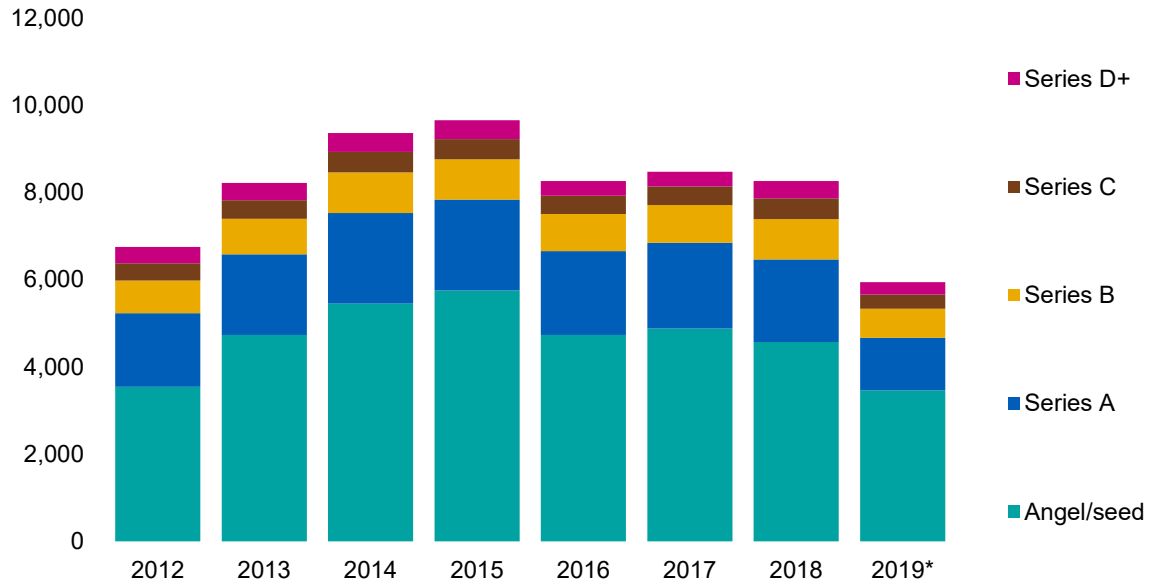


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

By and large, relative proportions stay similar

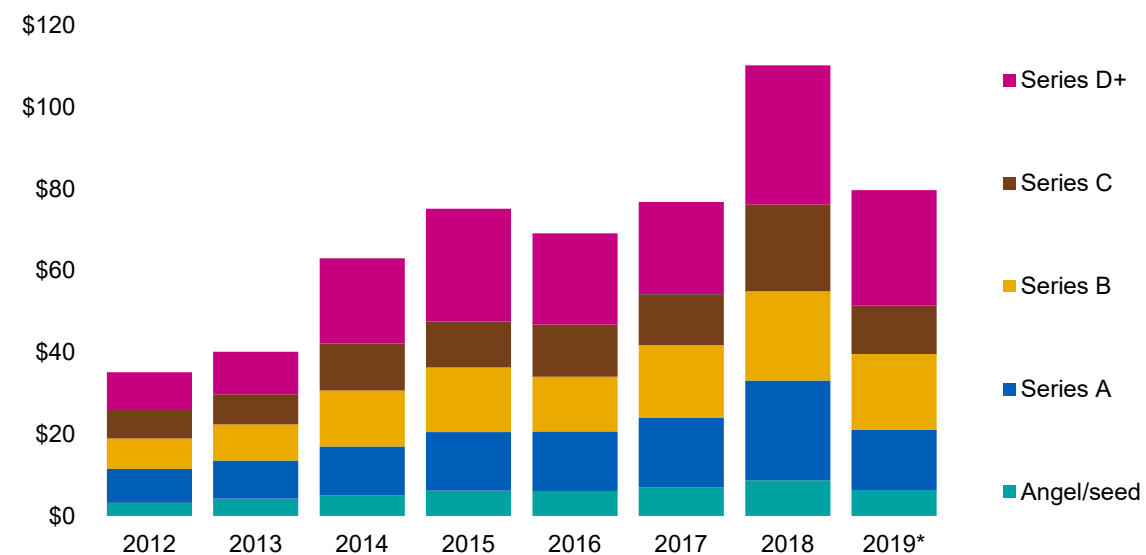
Deal share by series in the Americas

2012–2019*, number of closed deals



Deal share by series in the Americas

2012–2019*, VC invested (\$B)

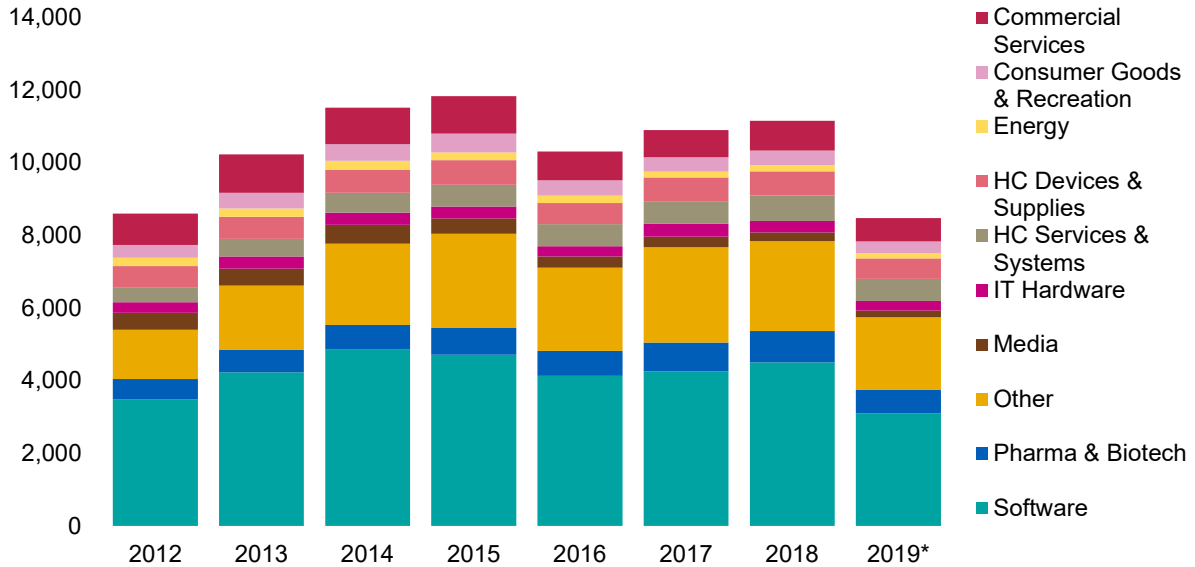


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Healthcare ecosystem stays resilient

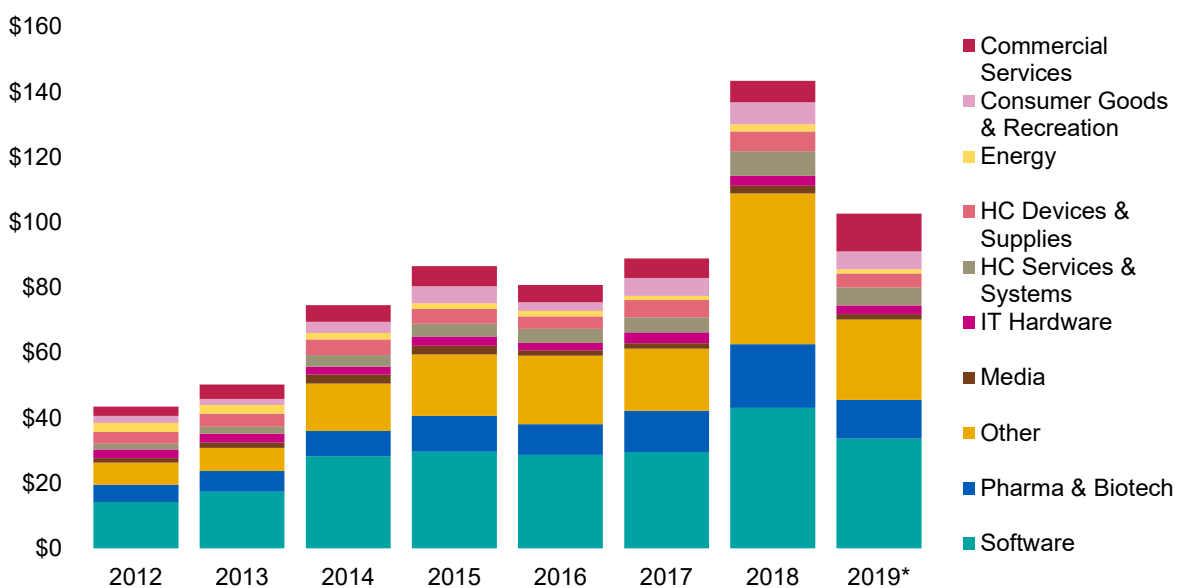
Venture financing of VC-backed companies by sector in the Americas

2012–2019*, # of closed deals



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

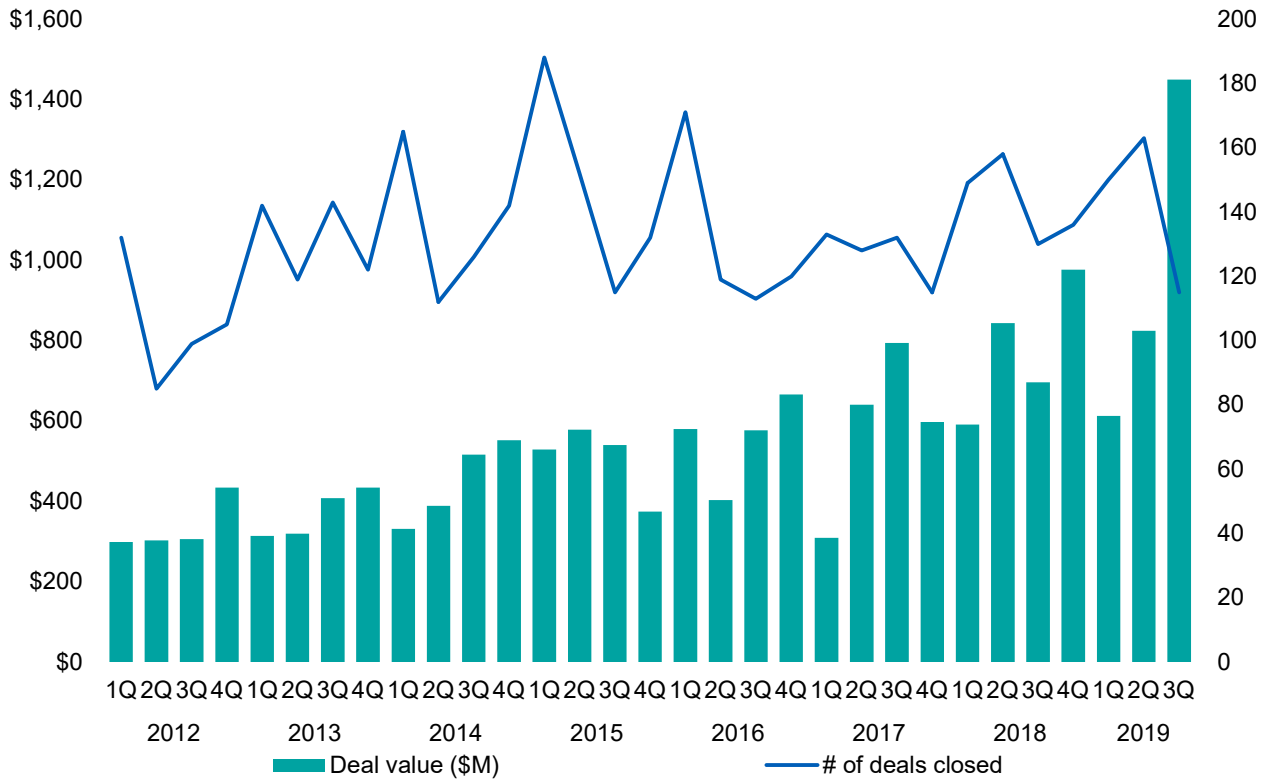
2012–2019*, VC invested (\$B)



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

Another record quarter for Canada

Venture financing in Canada 2012–Q3'19



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

After one of the highest quarters on record for volume, VC invested in Canada surged to a brand-new high, thanks in large part to a bevy of significantly sized deals. However, it is worth pointing out that such companies are now able to scale to such a size given the growth and proliferation of the Canadian tech ecosystem across key metro areas, attracting investor dollars from abroad in rounds such as the \$250 million funding of business software provider Clio.

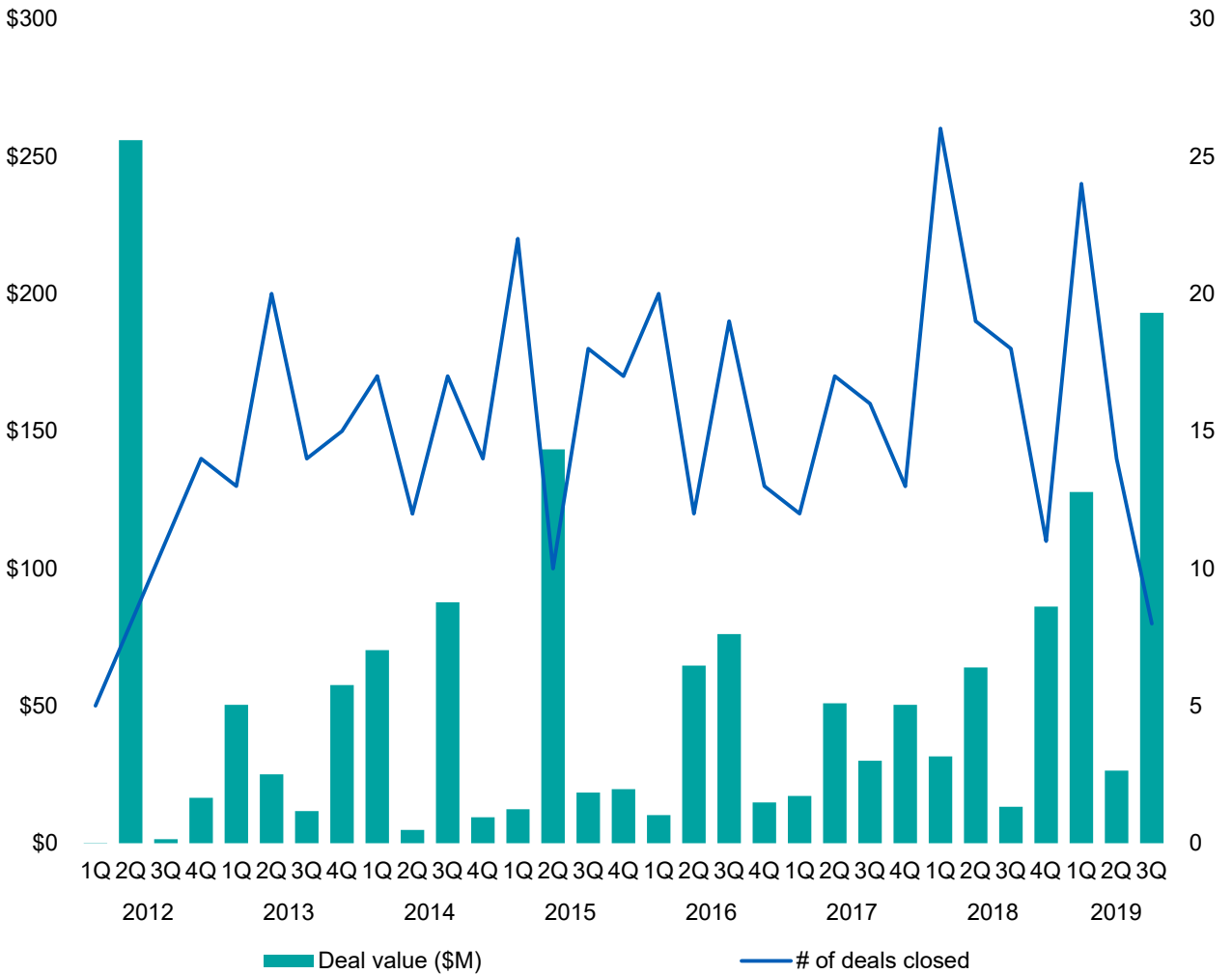
“The innovation ecosystems across Canada are maturing rapidly – not only in Toronto, Montreal, and Vancouver, but in other cities as well. We’re seeing larger and larger deal sizes, which is helping to increase the buoyancy of the VC market in the country. VC investment will likely continue to be significant heading into Q4’19 and into 2020.”



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

Mexico sees resurgence in VC invested

Venture financing in Mexico 2012–Q3'19

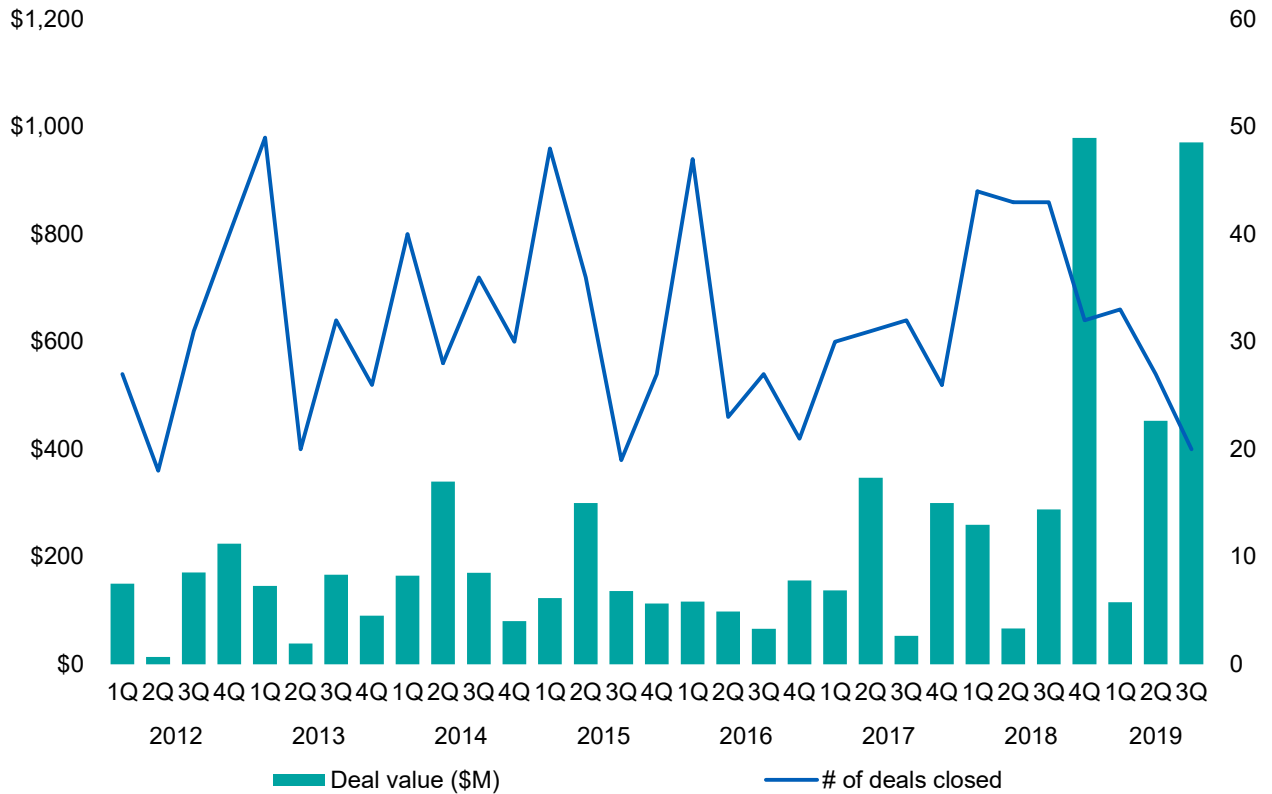


Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

As noted before, the nascency of the Mexican venture ecosystem will result in significant variability across quarters. Q3 2019 was no exception, seeing a spike in venture invested thanks to a handful of large deals, such as the \$80 million funding of Smart Lending and the \$57.5 million seed raise by Klar, a challenger bank.

Nubank once again skews quarterly tallies

Venture financing in Brazil 2012–Q3'19



Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. *As of 9/30/19. Data provided by PitchBook, October 9, 2019.

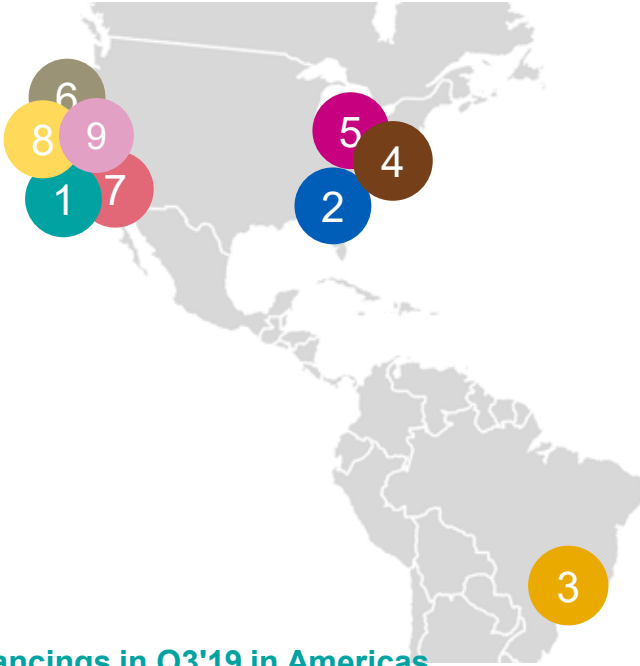
Much like how Ant Financial singlehandedly skewed figures for China in past years, Nubank’s aggressive growth and expansion has helped it rake in plenty of capital from investors abroad; its \$400 million Series F round in July put the company’s pre-money valuation at close to \$10 billion.

“The new \$5 billion SoftBank fund is truly raising the bar on VC investment in Latin America, driving more interest from foreign investors. Here in Brazil, we are seeing bigger deals, more investors, and more rounds of capital raising. Fintech has been particularly hot, and there’s still plenty of room for growth. In addition to payments, there’s growing interest in the P2P credit space, electronic payments, and even white labeling of platforms for other brands to use.”



Raphael Vianna
Director
KPMG Enterprise in Brazil

Without record-breaking deals, multiple cities are represented in Q3's top transactions



Top 10 financings in Q3'19 in Americas

- | | |
|---|--|
| <p>1 JUUL — \$785.2M, San Francisco
Consumer durables
<i>Late-stage VC</i></p> <p>2 Mission Lane — \$500M, Atlanta
Consumer finance
<i>Series A</i></p> <p>3 Nubank — \$400M, Sao Paulo
Financial software
<i>Series F</i></p> <p>4 Compass — \$370M, New York
Real estate services
<i>Series G</i></p> <p>5 Root Insurance — \$350M, Columbus
Automotive insurance
<i>Series E</i></p> | <p>6 Fundbox — \$326M, San Francisco
Financial software
<i>Series C</i></p> <p>7 Robinhood — \$323M, Menlo Park
Brokerage
<i>Series E</i></p> <p>8 Lime — \$310M, San Francisco
Automotive
<i>Series D</i></p> <p>9 Samsara — \$300M, San Francisco
Business software
<i>Series F</i></p> <p>9 Clearbanc — \$300M, San Francisco
Financial software
<i>Series B</i></p> <p>9 Automattic — \$300M, San Francisco
Publishing
<i>Series D</i></p> |
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Source: Venture Pulse, Q3'19, Global Analysis of Venture Funding, KPMG Enterprise. Data provided by PitchBook, October 9, 2019.

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



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

Acknowledgements

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Methodology

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

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

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

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

Fundraising

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

Deals

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

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

Methodology, cont'd.

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

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

Corporate: Corporate rounds of funding for currently venture-backed startups that meet the criteria for other PitchBook venture financings are included in the Venture Pulse as of March 2018.

Corporate venture capital: Financings classified as corporate venture capital include rounds that saw both firms investing via established CVC arms or corporations making equity investments off balance sheets or whatever other non-CVC method actually employed.

Exits

PitchBook includes the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of the majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown.

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

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