Semiannual IPO and M&A Outlook Webcast

Hosted by KPMG's Venture Capital practice

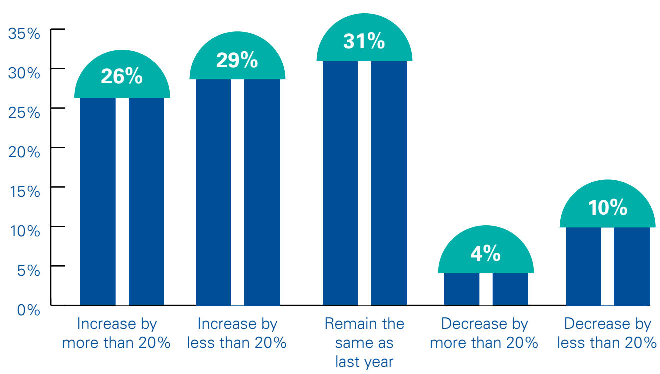
Survey Findings | February 2019

> A replay of the webcast can be found at www.kpmg.com/us/venturecapital

Last year (2018) was a banner year for venture capital (VC) investing in the U.S. as a perfect storm of positivity in the VC market spurred investment results well above the previous year's record high of $83 billion, climbing above the $130 billion mark. A strong public market, a record number of $100 million+ deals, renewed initial public offering (IPO) activity, an increase in new unicorn births, and an expansion of capital all added strength to the U.S. VC market in 2018, according to the recent *Venture Pulse* report by KPMG. As 2019 unfolds, will IPO, mergers and acquisitions (M&A), and overall VC investment activity continue their upward trajectory or has the market reached its apex?

According to a recent KPMG survey of over 450 key industry professionals and stakeholders, the outlook for 2019 is very positive. Conducted during the *Semiannual IPO and M&A Outlook Webcast* hosted by KPMG's Venture Capital practice on January 22, 2019, the survey results depict a community that believes VC-backed company exits will remain robust especially as a number of massive unicorns prepare to go public. Industry professionals also anticipate continued strength in the VC market with plenty of capital still available for private companies.

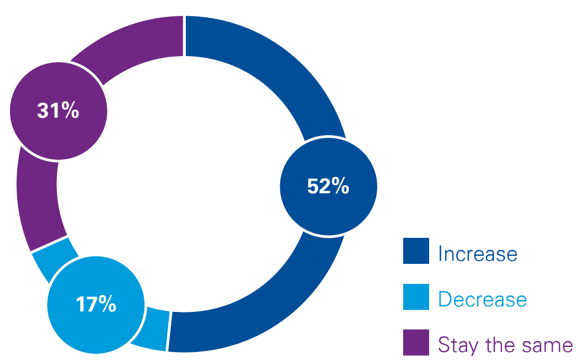
2018 experienced 22 Unicorn IPO exits. There are some indications that the number of Unicorn IPO exits could pick up over the course of 2019. Do you anticipate Unicorn IPO exits in 2019 to:



With regards to IPO exits, more than half of the respondents, 55 percent, anticipate an increase in the number of Unicorn IPOs (companies valued at more than $1 billion) in 2019, while 31 percent believe the market will see the same number of Unicorn IPOs in 2019 as seen in 2018 at 22 exits.

Indeed, the U.S. IPO market gained strength in 2018, which was the best since 2014. We anticipate 2019 to be the year of the Mega IPO with many Unicorns going public.

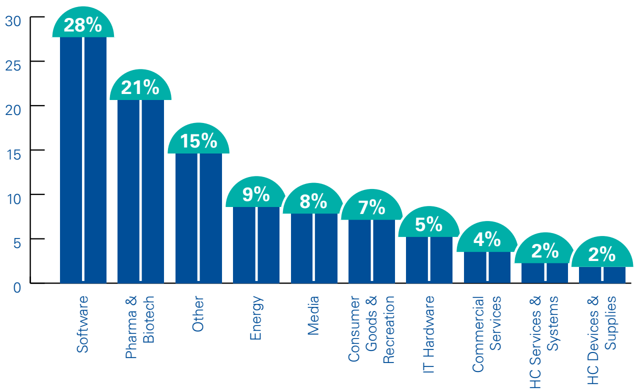
For a company's investors, M&A can make for a lucrative exit given that companies looking to make strategic acquisitions are more likely to do so at a higher valuation than the public market valuation. With this in mind, do you expect U.S. M&A activity in 2019 to:



The U.S. M&A market continued to be strong during 2018, as a number of the companies looking to exit took a two-track approach, catering to either an IPO or an M&A deal.

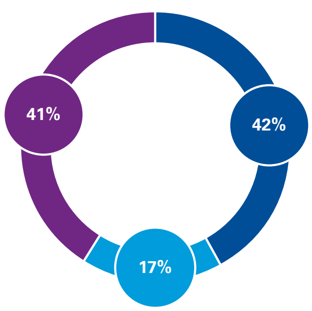
As noted in our survey question, M&A can make for a lucrative exit, and respondents agreed with 52 percent of industry professionals expecting an increase in M&A activity in 2019. M&A will remain critical to sellers' hopes for liquidity in the coming year.

There were a significant number of exits by software companies in 2018. Which sector do you think will experience the most exits in 2019?



In terms of exits by sector, 28 percent of our survey respondents expect software companies to continue to see the majority of the exits in 2019, while 21 percent of respondents predict the pharma and biotech sector will experience the most exits. As the demand grows for more effective and personalized drug treatments led by leading-edge technology, pharma and biotech could be riding the same wave as software companies through 2019.

VC investment in the U.S. increased substantially during 2018, with most capital invested in later-stage companies. In 2019, do you anticipate investments in later-stage companies to:



U.S. VC investment increased substantially in 2018, surpassing the $130 billion mark for the first time. While there was plenty of capital available for startups, most of it went to later-stage companies. We asked industry professionals if this trend would continue and an overwhelming majority, 83 percent, believe that later-stage companies will continue to benefit from the available dry powder—42 percent of respondents anticipate investments in later-stage companies to increase, while 41 percent expect investments to stay at the same level as 2018.

In 2019, fundraising may continue to be challenging for early-stage companies. In order to attract funding, early-stage companies may have to prove themselves to investors by becoming more cash flow positive earlier in their lifecycle or creating a robust path to profitability that could win over cautious investors.

The venture industry has evolved markedly in the past decade. Funds increasingly focus upon particular stages as the capital stack has grown more segmented, while a significant increase in capital committed to private equity and venture capital in general has also transformed market conditions, with more players chasing more opportunities. Looking ahead to 2019, it may be difficult to improve upon the results achieved in 2018. However, there will continue to be a substantial amount of capital invested, particularly in safe bets and later-stage companies. Despite the turbulence in the public markets seen at the end of 2018, there are positive signs that exit activity could continue, particularly from Unicorn IPOs. As our survey of industry professionals illustrates, the sentiment is quite positive that the VC ecosystem will experience more of the same activity this year as it did in 2018.

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