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News

China sees VC investments in Q2 triple to USD10.7bn, finds KPMG analysis

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Venture capital (VC) investment in China startups tripled in Q2 2017 driven by an uptick in mega-deals, finds *Venture Pulse,* KPMG's quarterly global report on VC trends.

The number of VC deals in China were relatively stable at 79 in Q2 (86 deals in Q1), however VC investment in startups hit USD10.7 billion, compared to USD3.5 billion the previous quarter. The strong performance was largely bolstered by two megarounds, including ridesharing platform Didi Chuxing which raised USD5.5 billion - the largest private venture funding round to-date for a technology company, and a USD1 billion VC investment raised by news aggregator Toutiao.

Egidio Zarrella, Partner and Head of Clients and Innovation, KPMG China says: "The total number of deals continues to decline, but the large size of some of these deals means that in terms of the total deal value, it was a pretty solid quarter. The market remains very focused on fintech. Artificial intelligence (AI) and robotics continue to be a hot topic in China and healthcare is going from strength to strength each quarter."

Globally, VC funding in Q2 totalled USD40.1 billion, 55.3 percent higher than Q1, due to the global resurgence in mega-deals and a robust performance in China. The number of deals continued to decline for a fifth straight quarter to 2,985, however the biotech and autotech sectors saw continued interest. These technologies, together with AI, analytics, virtual reality technologies and blockchain are expected to remain on investors' radars in Q3.

The Asian region saw a different investment focus; the hottest areas were AI, robotics, fintech, edtech and healthtech, although cloud and infrastructure services saw increased interest. The report highlights that venture capital activity in Asia is poised to remain strong, with deep tech, autotech and healthtech continuing to be major sectors of interest, while China is expected to see the momentum continue in Q3.

Philip Ng, Partner and Head of Technology, KPMG China, says: "Increasingly, the government backed funds in China are stepping into the space of traditional VCs and making investments that support the national priorities in innovation, the priority areas include industrial automation, next generation vehicles, and new technologies in healthcare. There are also many government innovation initiatives being launched over the last three quarters and we do not anticipate the pace slowing down in the near future."

In addition, the report highlights that fintech remains a key area of interest for Mainland China and Hong Kong investors, despite a dip in funding in Q2. Capital is being deployed in the region to develop technologies to improve front office and customer experience, in order to stimulate growth. This is unique compared to other regions such as the US and Europe, where fintech investment often focuses on achieving back office efficiencies, primarily to drive cost savings.

Lyndon Fung, Partner, US Capital Markets Group, KPMG China, says: "Enhancing the overall customer experience is becoming a key driver as more developed businesses refine their business models to boost their path to profitability. Apps like food delivery and ride-share are starting to heavily invest in training staff."

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About Venture Pulse

The Q2 2017 edition of the *Venture Pulse* report produced by KPMG Enterprise's Global Network for Innovative Startup, analyzes the latest global trends in venture capital investment data and provides insights from both a global and regional perspective. KPMG Enterprise has expanded the scope of Venture Pulse; this edition of the quarterly series provides in-depth analysis on the lifecycle of venture capital investments across the Americas, EMA and ASPAC***,*** including a look at investment activity such as valuations, financing, deal sizes, mergers & acquisitions, exits, corporate investment and industry highlights.

About KPMG China

KPMG China operates in 16 cities across China, with around 10,000 partners and staff in Beijing, Beijing Zhongguancun, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 152 countries and regions, and have 189,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

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