



Private Enterprise

Venture Pulse Q3 2020

Global analysis of
venture funding

21 October, 2020



Welcome message



Welcome to the Q3'20 edition of KPMG Private 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.

Despite ongoing concerns related to COVID-19, geopolitical tensions, the upcoming US presidential election, and a potential hard Brexit, VC investment during the quarter remained robust across all regions of the world.

An increasing number of mega-deals helped drive investment value up, with three deals above \$1 billion. Late-stage companies in general attracted the lion's share of investment in Q3'20, while funding for early-stage companies continued to falter across the globe. The prolonged decline in early-stage deals activity is concerning as it will likely have negative impacts on the pipeline, particularly for Series B rounds, down the road.

After 2 quiet quarters, Asia saw a strong rebound in VC investment, led by a \$1.5 billion raise WM Motor in China, and a \$1.3 billion raise by Flipkart in India. The Americas also saw strong VC activity, led by a \$1.9 billion raise by SpaceX and two \$600 million plus raises by RobinHood. VC investment in Europe remained steady, led by a \$650 million raise by Sweden-based Klarna, a \$632 million raise by Germany-based CureVac, and a \$580 million raise by Revolut in the UK.

IPO activity picked up during Q3'20, with strong IPO exits by Snowflake, JFrog, and Unity Software, direct listings by Palantir Technologies and Asana, and the announcement of SPAC-based IPOs by Skillz and Opendoor. With China-based mega-giant Ant Financial filing IPO documents for listing on the HKSE, in addition to Airbnb and Wish in the US, IPO activity is expected to increase further in Q4'20.

With many jurisdictions now entering a second wave of the COVID-19 pandemic, VC investors are expected to remain focused on companies able to help people and businesses adapt to and thrive within the 'new normal'. Health and biotech investment will likely remain very high, along with investment in fintech, business productivity solutions, and digital platforms.

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

- The ongoing strength and resilience of the VC market despite the ongoing pandemic
- The ramifications of a long-term decline in early-stage deals
- The rising tide of IPO activity
- The rebound in Asia-based VC investment

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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Jonathan Lavender

Global Head, KPMG Private Enterprise, KPMG International

Conor Moore

Global Co-Leader — Emerging Giants, KPMG Private Enterprise Partner, KPMG in the US

Kevin Smith

Head of KPMG Private Enterprise in EMA, Global Co-Leader — Emerging Giants, KPMG Private Enterprise Partner, KPMG in the UK



Private Enterprise

*In Q3'20 VC-backed
companies in the
Americas raised*

\$40.0B

across

2,477 deals



Americas sees strong VC investment in Q3'20, led by the US

VC investment in the Americas remained relatively strong in Q3'20, driven primarily by VC investment in the US. VC investment in Canada was quiet during the quarter, although the IPO activity showcased the strength of Canada's technology innovation ecosystem. In Latin America, the fintech sector continued to attract most of the attention from VC investors, led by Neobank Neon's \$300 million raise.



VC investors in the Americas remain focused on late-stage deals and big bets

During Q3'20, VC investors across the Americas continued to flock towards late-stage deals and companies with proven business models. Investors also focused on companies in sectors that have seen opportunities grow as a result of the pandemic, including delivery and logistics, business productivity solutions, fintech, and health and biotech.

The focus of VC investors on safe bets, late-stage deals, and companies within their existing portfolios has made it even more challenging for seed and early-stage companies to attract funding. The prolonged decline in early-stage deals, which started several quarters prior to the pandemic, is concerning as it could affect the pipeline of middle and late-stage deals over the next few years.



VC investment taking a breather in Canada

VC investment in Canada slowed in Q3'20 as dealmakers worked to adapt to new ways of conducting business, from holding virtual meetings to conducting remote due diligence processes. This slowdown is not expected to be prolonged given the amount of dry powder in the Canadian market and the fact that VC and PE firms with fully capitalized funds will not be able to sit on the sidelines for long. This could lead to an upswing in deals activity beginning in Q4'20 and into Q1'21.



Brazil VC market continues to mature

With interest rates at the lowest in the country's history, Brazil-based investors exhibited more interest in making higher risk VC investments. During Q3'20, the level of VC investment in Brazil rose for the third straight quarter. While fintech continued to drive the vast majority of VC investments in Brazil, and across Latin America, during the quarter, other sectors also saw interest from VC investors, including healthtech and delivery and logistics. Mobile gaming company Wildlife Studio also raised \$120 million during the quarter.

As the VC market in Brazil continues to mature, more startups are moving to the stage where they are looking to grow either regionally or globally, and will require the funds to do so. This will likely lead to larger deals in the region over time.



Canada sees largest tech IPO in the TSX's history

In late September, Canadian payments company Nuvei raised over \$800 million as part of the largest technology IPO to be held on the Toronto Stock Exchange. The company's stock rose more than 62 percent on the first day of trading. Following on a Canadian IPO in 2019, POS company Lightspeed also held a US IPO, raising approximately \$305 million in order to help fuel its growth given the acceleration of digital trends due to COVID-19¹.

On the M&A front, the Canadian subsidiary of Enterprise Holdings completed its acquisition of Discount Car and Truck Rentals during Q3'20 — in a move to enhance its transportation and logistics offerings².

¹ <https://financialpost.com/technology/lightspeed-looking-to-capitalize-on-pandemic-trends-with-u-s-ipo-says-ceo>

² <https://www.businesswire.com/news/home/20200902005270/en/Enterprise-Holdings-Closes-Acquisition-of-Discount-Car-and-Truck-Rentals>

Americas sees strong VC investment in Q3'20, led by the US, cont'd.



Rethinking the future of work

After six months of dealing with the challenges associated with COVID-19, companies and investors across the Americas are beginning to imagine what the future of work will look like and how traditional models will be disrupted long-term. For example, some companies are asking whether they need specific office or retail spaces or how they can better utilize their space given changing requirements. This could lead to increasing investments in less mature areas of innovation over time, such as proptech.



Edtech gaining traction

With most students back to school in the Americas, particularly in the US and Canada, there have been some challenges and concerns related to the quality of online learning platforms and offerings. This has led to increasing investor interest in edtech solutions, both geared toward enhancing traditional online education models and toward providing unique educational opportunities. Existing corporates are also making investments in edtech in order to strengthen or expand their digital education offerings.



Trends to watch for in the Americas

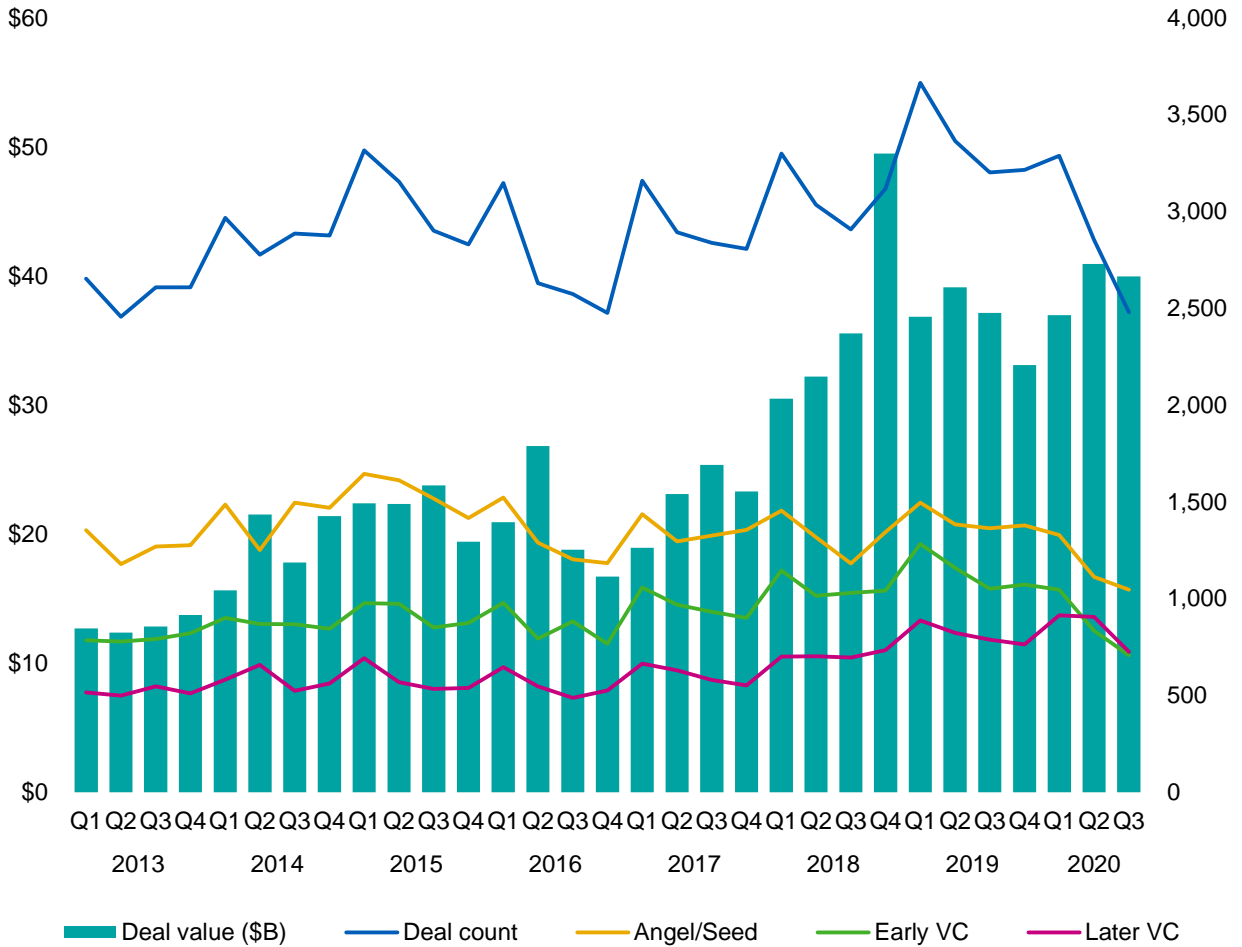
Despite current economic challenges related to COVID-19 and the approaching US presidential election, VC investment is expected to remain steady in the Americas. Fintech is expected to remain a hot area of VC investment over the next quarter, in addition to health and biotech, transportation and logistics, and edtech.

During Q4'20, the Central Bank of Brazil is expected to rollout its new instant digital payments model, PIX, which will be mandatory for all major banks and financial institutions in Brazil³. This new model could spur significant VC investment in Brazil over the next few quarters.

³ <https://news.bitcoin.com/brazil-instant-payment-system-pix/>

Caution remains apparent if modest

Venture financing in the Americas 2013–Q3'20



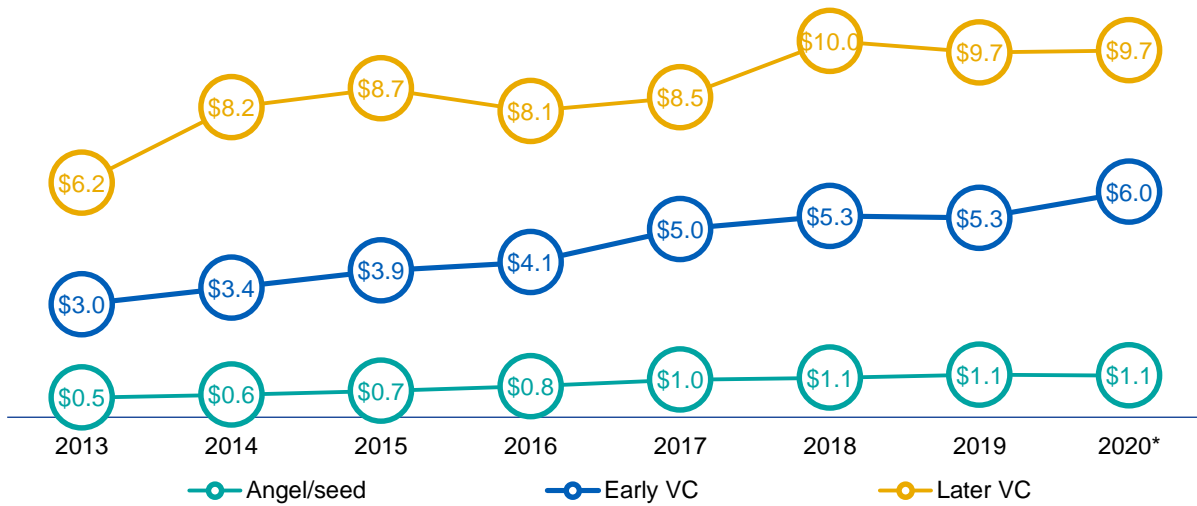
Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 10/21/2020.

As has been stated in previous editions of the Venture Pulse, inevitable lags in private markets data collection or clarification can result in penultimate quarter tallies adjusting upward. However, the continuation in the slide of the volume of closed deals does speak to an uptick in caution, if only modest, as plenty of capital continues to flow at the later stages.

Deal sizes hold steady, down rounds tick up

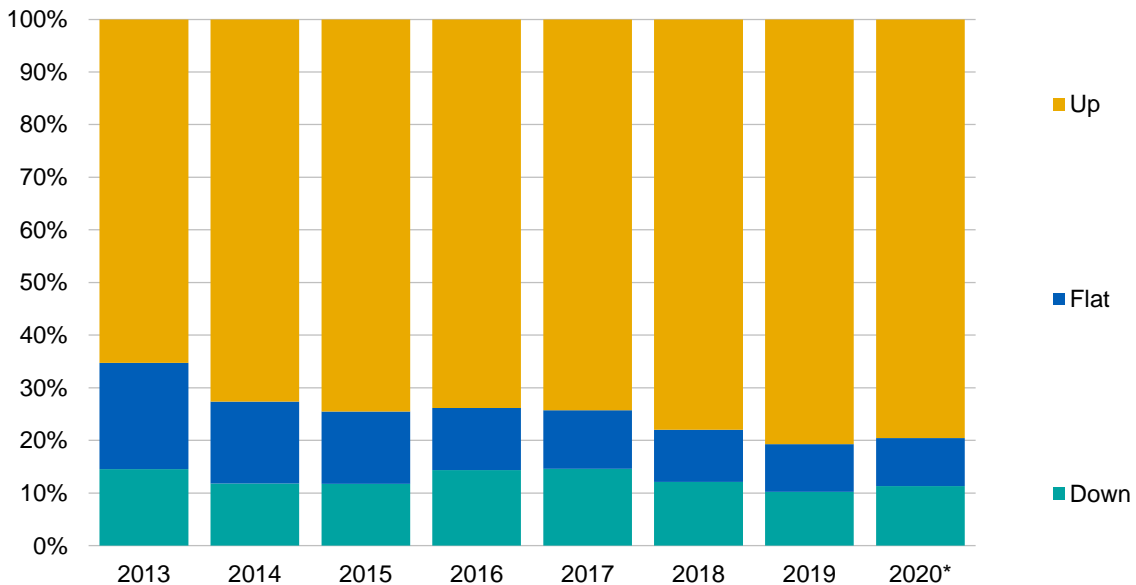
Median deal size (\$M) by stage in the Americas

2013–2020*



Up, flat or down rounds in the Americas

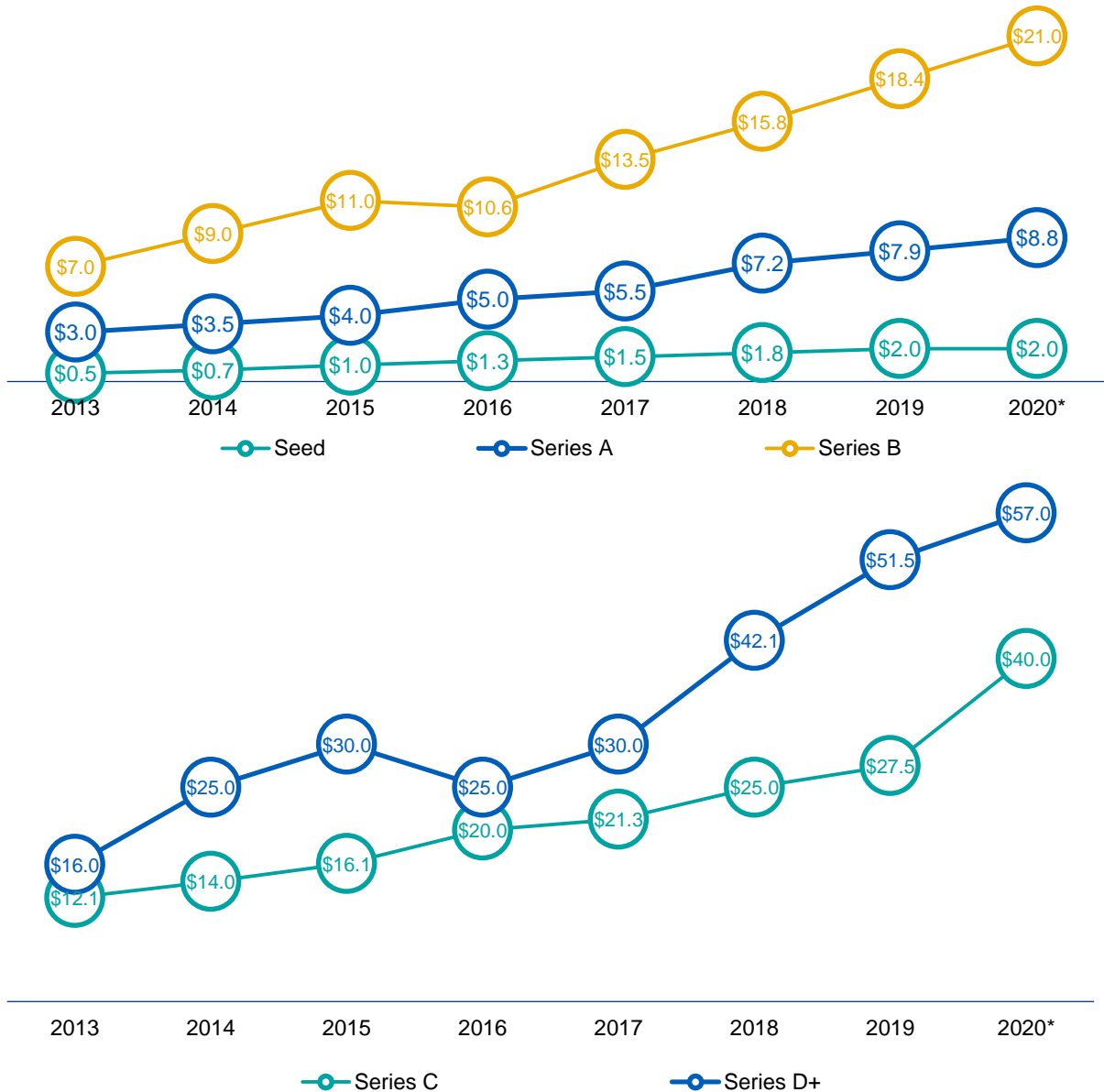
2013–2020*



Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

Modest rises across most series of stock

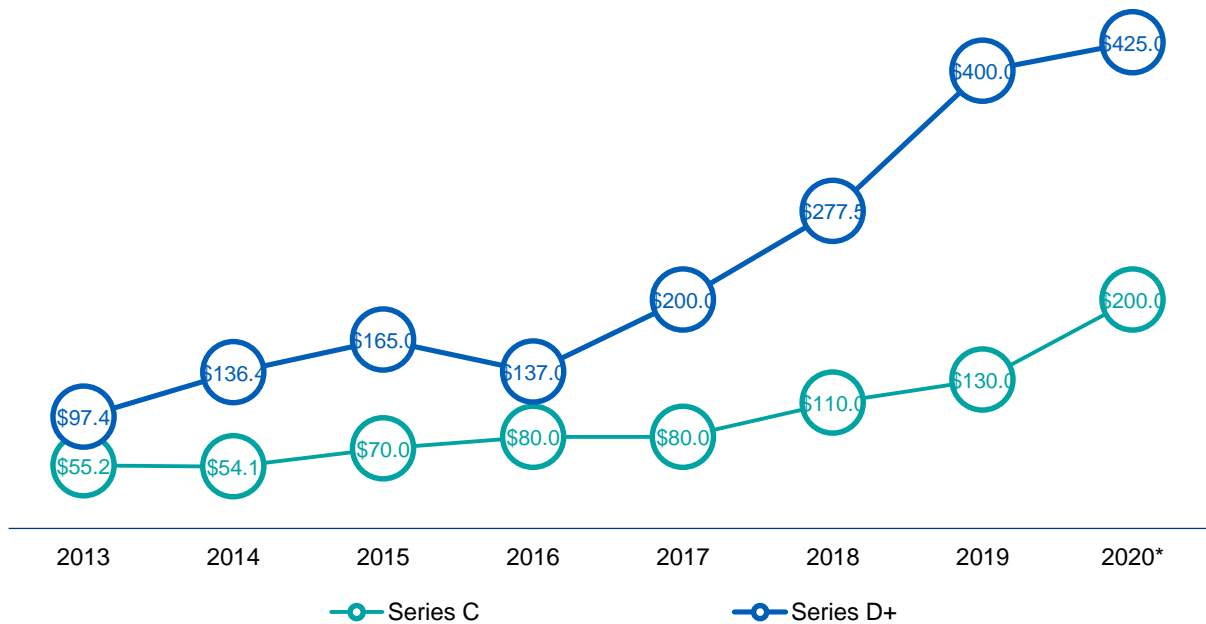
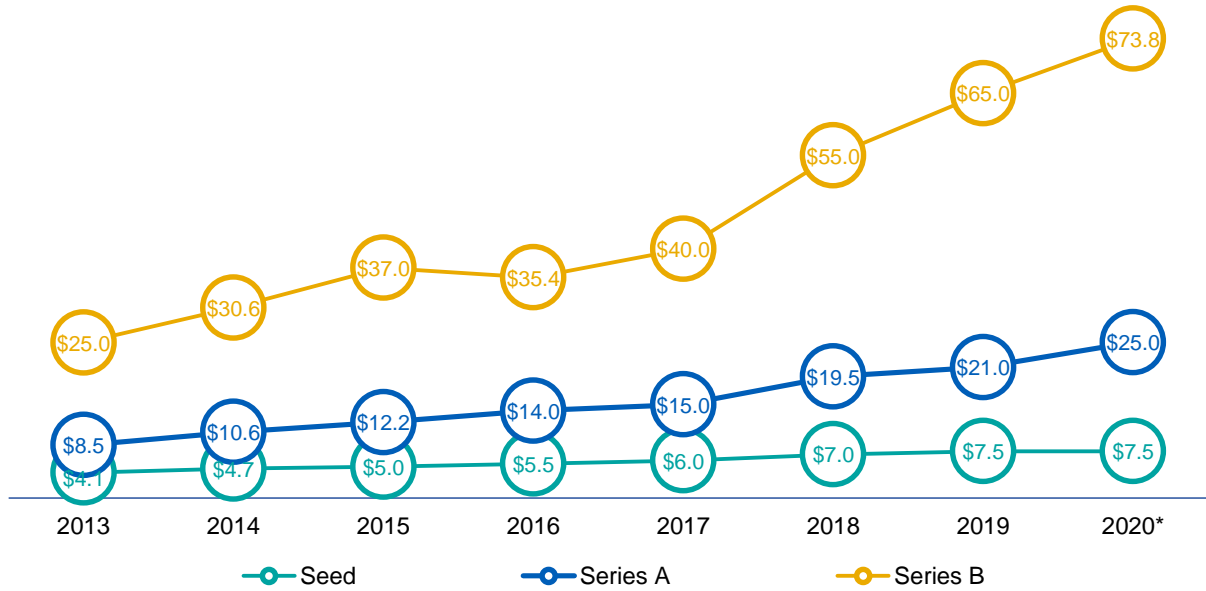
Median deal size (\$M) by series in the Americas
2013–2020*



Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

2020's highs stay intact

Median pre-money valuation (\$M) by series in the Americas
2013–2020*

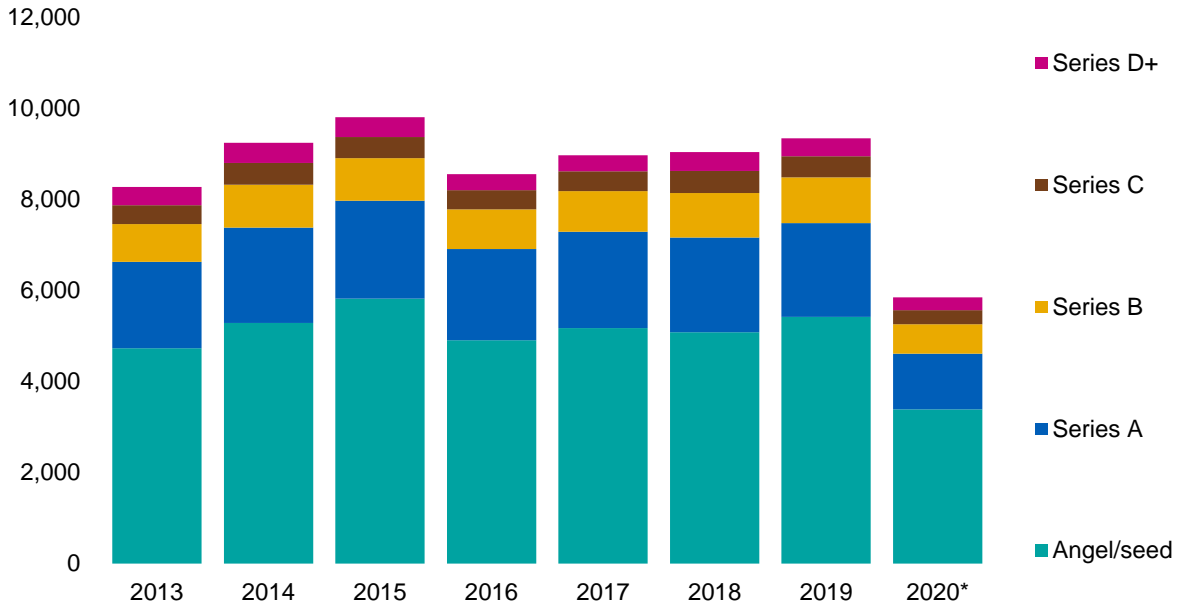


Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

Late-stage volume stays on track

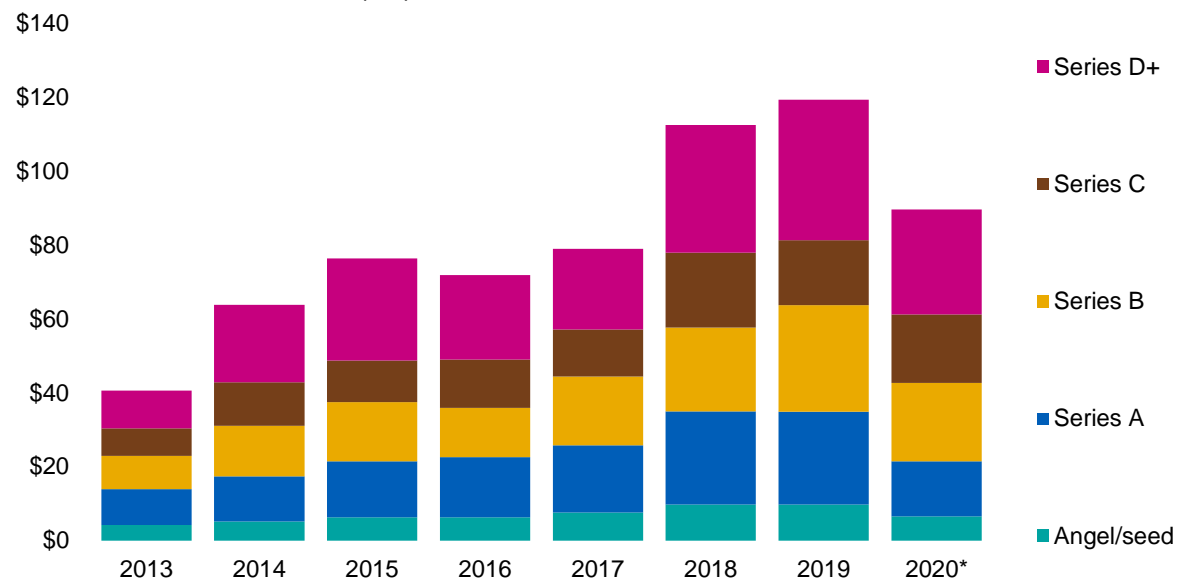
Deal share by series in the Americas

2013–2020*, number of closed deals



Deal share by series in the Americas

2013–2020*, VC invested (\$B)

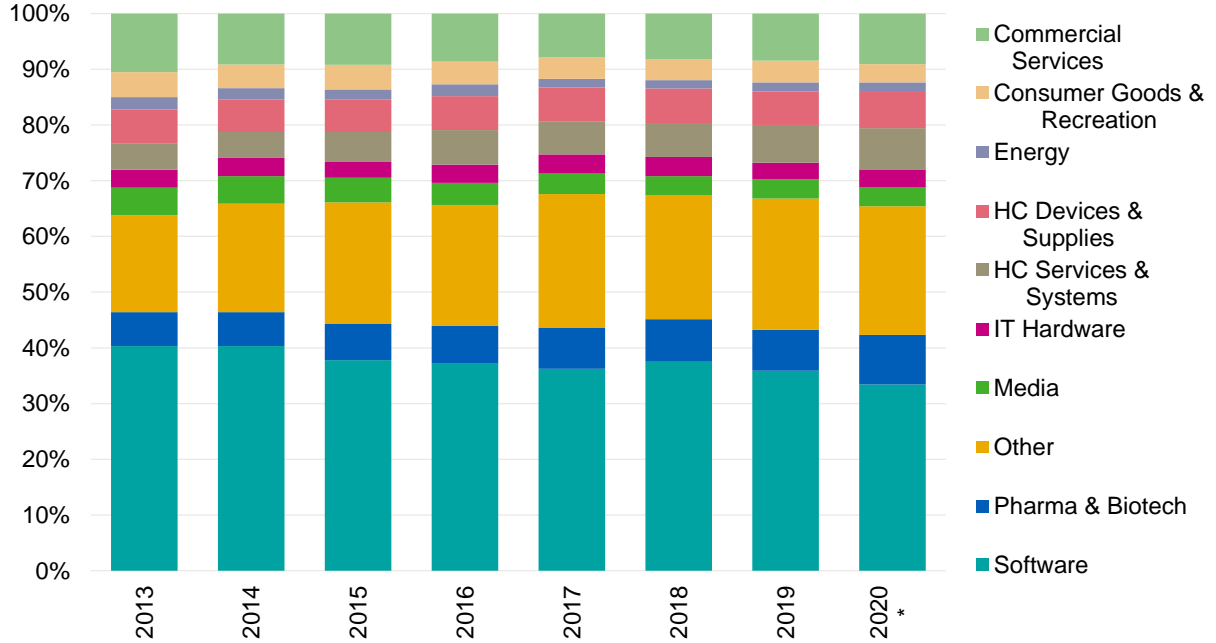


Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

Biotech on pace for records

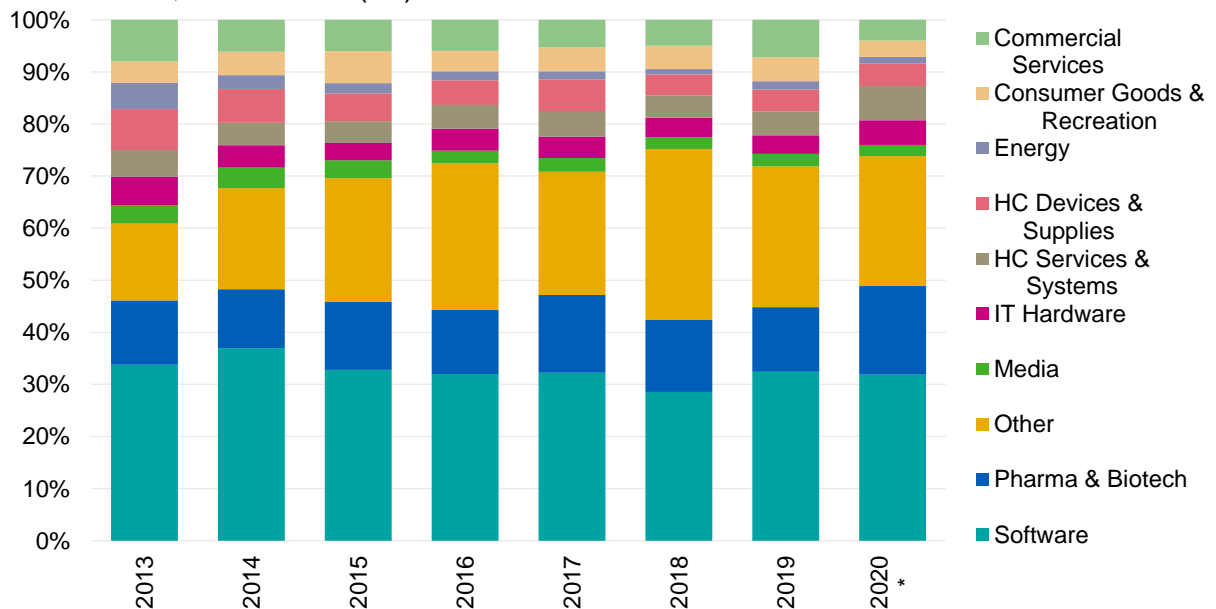
Venture financing of VC-backed companies by sector in the Americas

2013–2020*, # of closed deals



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

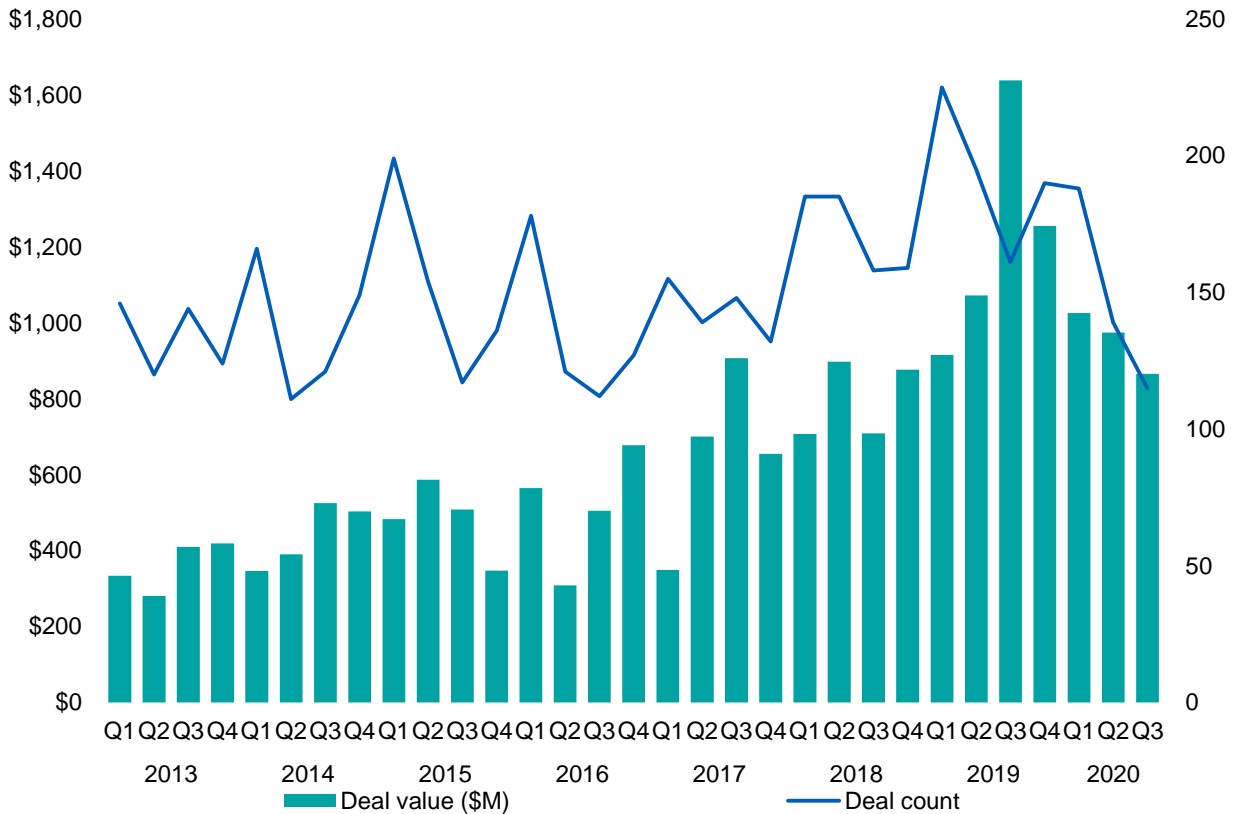
2013–2020*, VC invested (\$B)



Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

The rate of decline evens out more

Venture financing in Canada 2013–Q3'20



Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

The back half of 2019 set records in terms of VC invested for the Canadian startup ecosystem, with several late-stage fundings helping significantly. The first quarter of 2020 logged a plateau in deal volume, with VC invested staying quite robust, especially on a historical basis. However, since then, the drop-off in the flow of financing was significant, even if VC invested stayed relatively healthy. Investors across the board are simply more cautious, and the influx of capital from the US has been slowed due to digital diligence sometimes taking longer.

“In Canada, we are starting to see investors and startups finding different ways of conducting due diligence and meetings, but it is taking a long time for deals to get done. This isn’t really a surprise. The good news is that a lot of PE and VC funds are fully funded, they will need to spend their money. This should cause an uptick in Q4’20 and into 2021 as people get used to working in this new environment.”

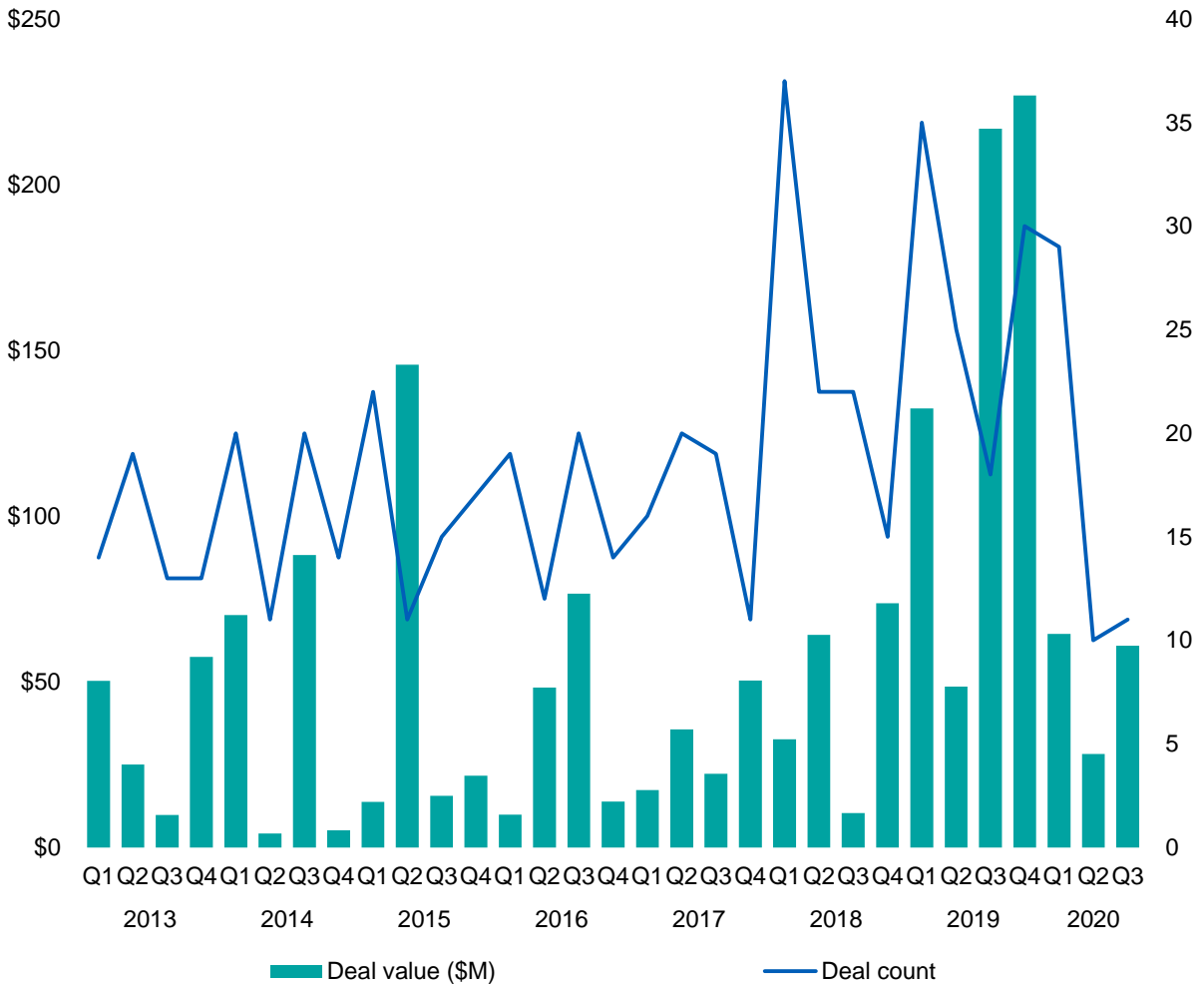


Sunil Mistry

Partner, KPMG Private Enterprise, Technology, Media and Telecommunications,
KPMG in Canada

Mexico sees mild uptick, albeit to a low level

Venture financing in Mexico 2013–Q3'20

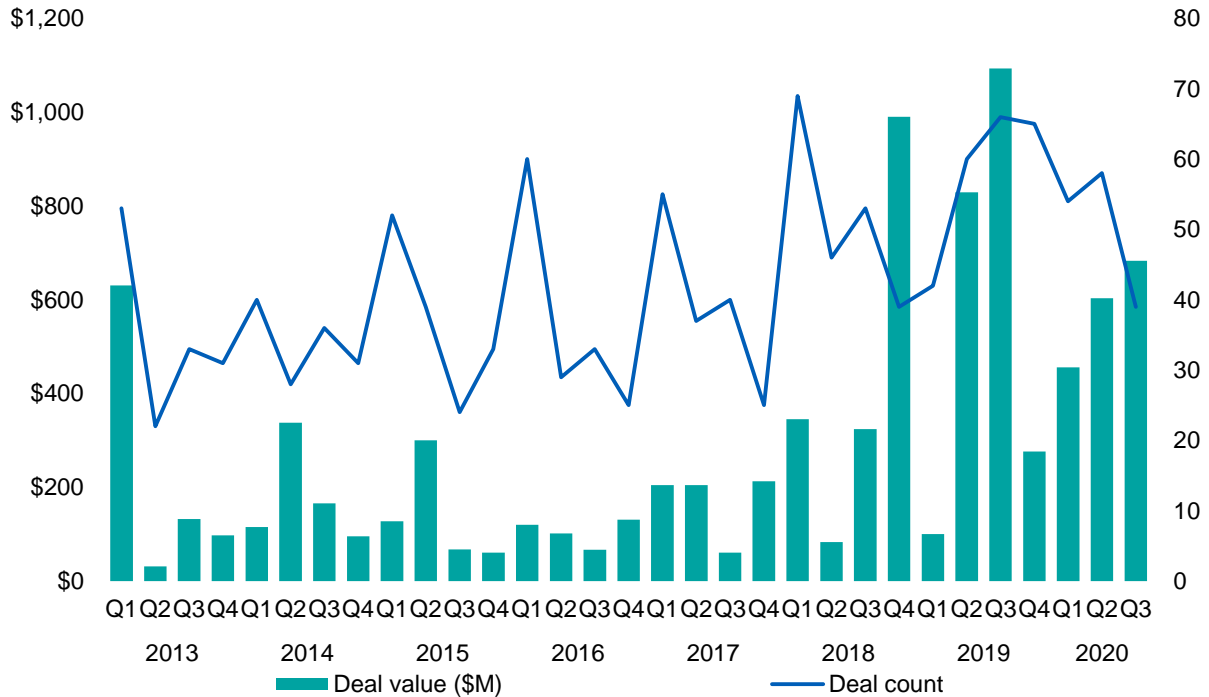


Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

The past variability in the flow of venture funding in the Mexican ecosystem makes it difficult for any clear trend to emerge, but it was clear that higher peaks in volume were achieved more consistently between 2018 and 2019 than now. Ongoing economic uncertainty, not to mention a relatively volatile domestic political environment, still discourage significant confidence on the part of investors.

Brazil sees third consecutive rise in VC invested

Venture financing in Brazil 2013–Q3'20



Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

In the first half of 2020, investor caution led to a mild drop in the volume of funding, milder than observed in other nations, likely due to the nation’s particular policy responses that did not necessarily impede the typical logistics of dealmaking. However, given the Brazilian ecosystem’s strengths have been in consumer finance and ongoing digitization of tools for small to midsized businesses, it stands to reason that businesses benefiting from any lockdowns or customer caution pushing the flow of commerce online would keep attracting funding.

“One trend we are starting to see in Brazil is M&A among fintechs that want to expand. For example, payments companies looking to acquire POS companies in order to have the total supply chain covered. These kinds of activities will create very powerful companies in Brazil, which means the competition for targets to acquire is also very high.”



Robson Del Fiol
Partner, Head of Emerging Giants & Digital Marketing Strategist,
KPMG in Brazil

Investors flock to unicorns



Top 10 financings in Q3'20 in Americas

- | | |
|--|---|
| <p>1 SpaceX — \$1.9B, Hawthorne Spacetech <i>Late-stage VC</i></p> | <p>5 Affirm — \$500M, San Francisco Fintech <i>Series G</i></p> |
| <p>2 Robinhood — \$660M, Menlo Park Fintech <i>Series G</i></p> | <p>7 Chime — \$485M, San Francisco Financial software <i>Series F</i></p> |
| <p>3 Robinhood — \$600M, Menlo Park Fintech <i>Series F</i></p> | <p>8 OfferUp — \$453.35M, Bellevue Internet retail <i>Late-stage VC</i></p> |
| <p>4 Palantir Technologies — \$549.7M, Palo Alto Business/productivity software <i>Late-stage VC</i></p> | <p>9 Zwift — \$450M, Long Beach Gaming <i>Series C</i></p> |
| <p>5 Bright Health — \$500M, Minneapolis Insurance <i>Series E</i></p> | <p>10 ChargePoint — \$367.25M, Campbell Energy services <i>Series H</i></p> |

Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 10/21/2020.

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



Contact us:

Conor Moore
Co-Leader, KPMG Private Enterprise
Emerging Giants Network
E: conormoore@kpmg.com

Kevin Smith
Co-Leader, KPMG Private Enterprise
Emerging Giants Network
E: kevin.smith@kpmg.co.uk

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The KPMG Private 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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Jonathan Lavender, Global Head, KPMG Private Enterprise, KPMG International

Conor Moore, Global Co-Leader Emerging Giants, KPMG Private Enterprise, KPMG International, Partner, KPMG in the US

Kevin Smith, Head of KPMG Private Enterprise in EMA, Global Co-Leader Emerging Giants, KPMG Private Enterprise, KPMG International, Partner, KPMG in the UK

Amarjeet Singh, Partner, KPMG in India

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

Dr. Ashkan Kalantary, Partner, Deal Advisory Venture, KPMG in Germany

Dina Pasca-Raz, Partner, Head of Technology, KPMG in Israel

Diogo Garcia Correia, Venture Capital & Emerging Giants Business Development, KPMG in Brazil

Egidio Zarrella, Partner, Clients and Innovation, KPMG China

Irene Chu, Head of New Economy and Life Sciences, Hong Kong, KPMG China

Lindsay Hull, Director, Emerging Giants Global Network, KPMG Private Enterprise, KPMG International

Melany Eli, Managing Director, Marketing and Communications, KPMG Private Enterprise, KPMG International

Nitish Poddar, Partner and National Leader, Private Equity, KPMG in India

Philip Ng, Partner, Head of Technology, KPMG China

Robson Del Fiol, Partner, Head of Emerging Giants & Digital Marketing Strategist, KPMG in Brazil

Sidharth Tewari, Associate Director, KPMG in India

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

Tim Dümichen, Partner, KPMG in Germany

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 considers 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 the edition of the KPMG Venture Pulse covering 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 since, yet is more reflective of how the industry views the true size of an exit via public markets.

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