



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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Private Enterprise

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

\$21.1B

across

1,285 deals



VC investment in Asia rebounds, driven by two \$1 billion+ mega-deals

After two soft quarters of investment, VC investment in Asia rebounded significantly in Q3'20, led by a \$1.5 billion raise by Shanghai-based automotive company Weltmeister and a \$1.3 billion raise by India-based internet retailer Flipkart.



Surging focus on healthtech and edtech

The pandemic continued to drive a strong boom in VC investment in health and biotech in Asia over the past couple of quarters. In addition to investment in areas such as testing and contact tracing, the pandemic also spurred investment in other areas, like remote diagnostics, cancer screening, medical devices, online pharmacies, and even remote surgery. Edtech was also a booming sector in Asia in Q3'20, particularly in India, where it accounted for four of the largest deals, including raises by BYJU (\$500m), Unacademy (\$150m), Eruditus Executive Education (\$113m), and Vedantu (\$100 million).



China sees renewed VC investment in Q3'20

VC investment in China rebounded in Q3'20, as China continued to recover from the impacts of COVID-19. While VC investment remained slow compared to pre-pandemic levels, China saw an increasing number of large deals, including the \$1.5 billion raise by Weltmeister and a robust number of \$100 million+ deals, including raises by JD Health (\$830m), electric vehicle company Xpeng (\$500m) — which also held a successful IPO on the NYSE during the quarter, grocery delivery company Miss Fresh (\$495m), edtech company Zhangmen.com (\$450m), internet retail company Xiaohongshu (\$450m), medtech company MicroPort Medical Robots (\$432 million) and discount grocery company Yipin Shengxian (\$353m).

In China, the pandemic has had a major impact on companies, particularly those in hard-hit sectors such as commercial real estate. This is expected to drive up consolidation activity over the next few quarters as companies run out of cash. Less proven new economy companies looking to raise funding will likely face significant downward valuation pressure from investors.



VC investment in India grows in Q3'20

Despite very challenging economic conditions due to COVID-19, VC investment in India rose during Q3'20. VC investment primarily focused on highly relevant companies and industries; in the highly competitive food and grocery delivery, Flipkart raised \$1.3 billion. Large tech giants continued to be very active in India during the quarter. In July, Google announced a \$10 billion fund to help accelerate India's transition to a digital economy; Google also will make a \$4.5 billion investment in Jio Platforms, following on Facebook's \$5.7 billion investment in the same company in Q2'20. Jio Platforms also made its own investments in Q3'20, including the acquisition of online pharmacy Netmeds in August.

VC investment in Asia rebounds, driven by three \$1 billion+ mega-deals, cont'd.



Tensions with the US driving some Chinese companies to shift their IPO focus

With tensions rising between the US and China and increased scrutiny of publicly listed Chinese companies in the US, Chinese companies have been shifting their attention to public markets closer to home, including the Hong Kong Stock Exchange. In Q3'20, Ant Financial filed its IPO intent with the HKSE. If the IPO occurs, it is poised to become the largest tech IPO ever. During Q3'20, several US-listed Chinese companies moved to delist from US exchanges, including search engine Sogou, which is being taken private by Tencent in a \$3.5 billion deal¹.

Not all Chinese companies are shifting away from holding US IPOs. In August, electric vehicle manufacturer Xpeng raised \$1.5 billion in its IPO on the NYSE. On the first day of trading, the company's stock rose 40 percent². Xpeng's IPO followed closely after another China-based EV company, Li Auto, raised \$1.1 billion in an IPO on the Nasdaq in July³.



Australia's VC market continues to mature and evolve

Australia's VC market and innovation ecosystem has matured significantly over the last year. A number of Australian companies have grown significantly, including unicorn companies Canva and Airwallex. In Q3'20, Airwallex raised \$200 million in order to support its US expansion plans⁴. Fintech has been an extremely hot sector for VC investment in Australia, in addition to B2B services. Other growing subsectors of investment in Australia include agtech and proptech.

Despite the challenges associated with COVID-19, Australia has continued to see activity and VC fundraising activity. Earlier this year, Square Peg raised \$350 million as part of its fourth fund, making it Australia's largest domestic VC firm with over \$1 billion under management⁵. Technology companies are expected to be a big part of Australia's COVID-19 recovery as they continue to grow.



Trends to watch for in Asia

VC investment in Asia is expected to continue to pick up, particularly in areas such as healthtech, eCommerce, AI, and digital enablement. Fintech investment is also expected to grow, particularly in terms of SME financing solutions.

¹ <https://in.reuters.com/article/us-sogou-m-a-tencent-holdings-idINKBN26K22M>

² <https://www.cnn.com/2020/08/27/investing/xpeng-ipo-price-hnk-intl/index.html>

³ <https://techcrunch.com/2020/07/30/li-auto-ipo/>

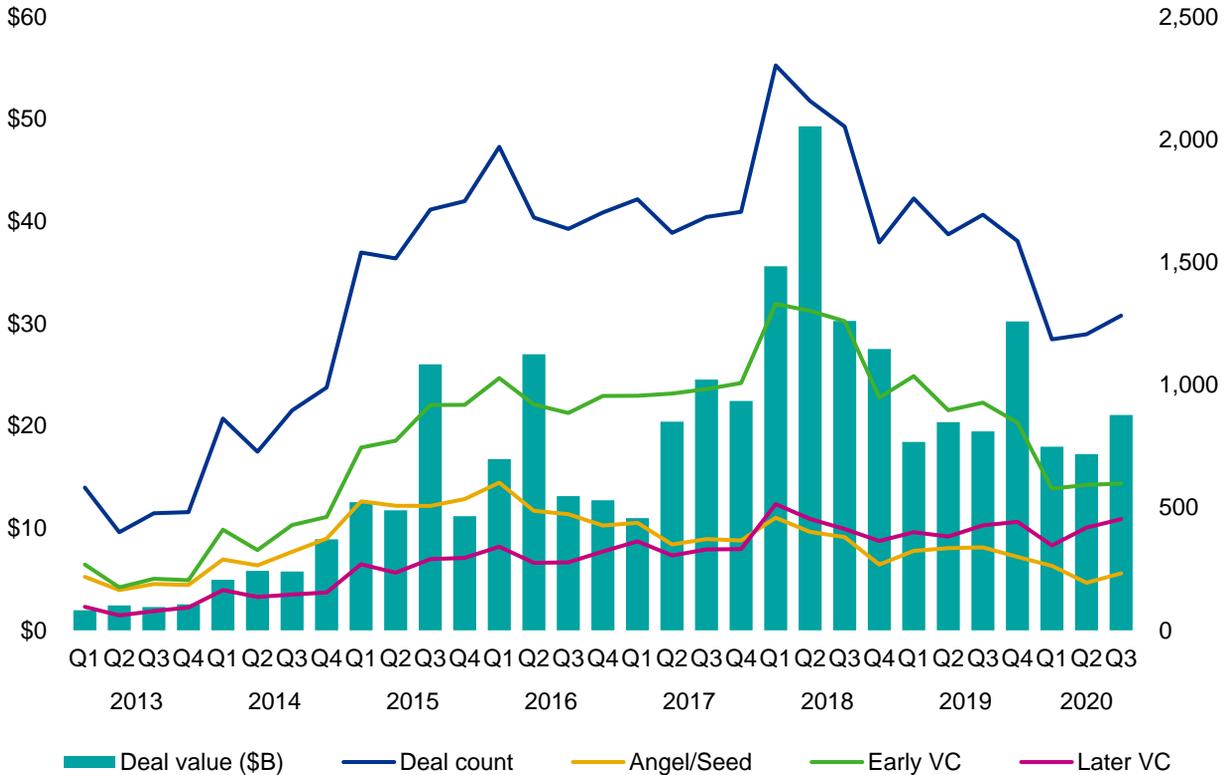
⁴ <https://www.scmp.com/business/banking-finance/article/3103409/fintech-unicorn-airwallex-raises-us200-million-capital-us>

⁵ <https://www.bnnbloomberg.ca/australia-venture-fund-tops-a-1-billion-with-pension-backing-1.1451543>

A modest recovery continues

Venture financing in Asia

2013–Q3'20



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

As it was first hit, the Asia-Pacific ecosystem saw the impact of the pandemic on venture activity first of any region. Thus, activity continuing to even out is a very promising sign overall for the ecosystem, as local funds and investors abroad, plus corporate players, continue to stay active if at a more modest level.

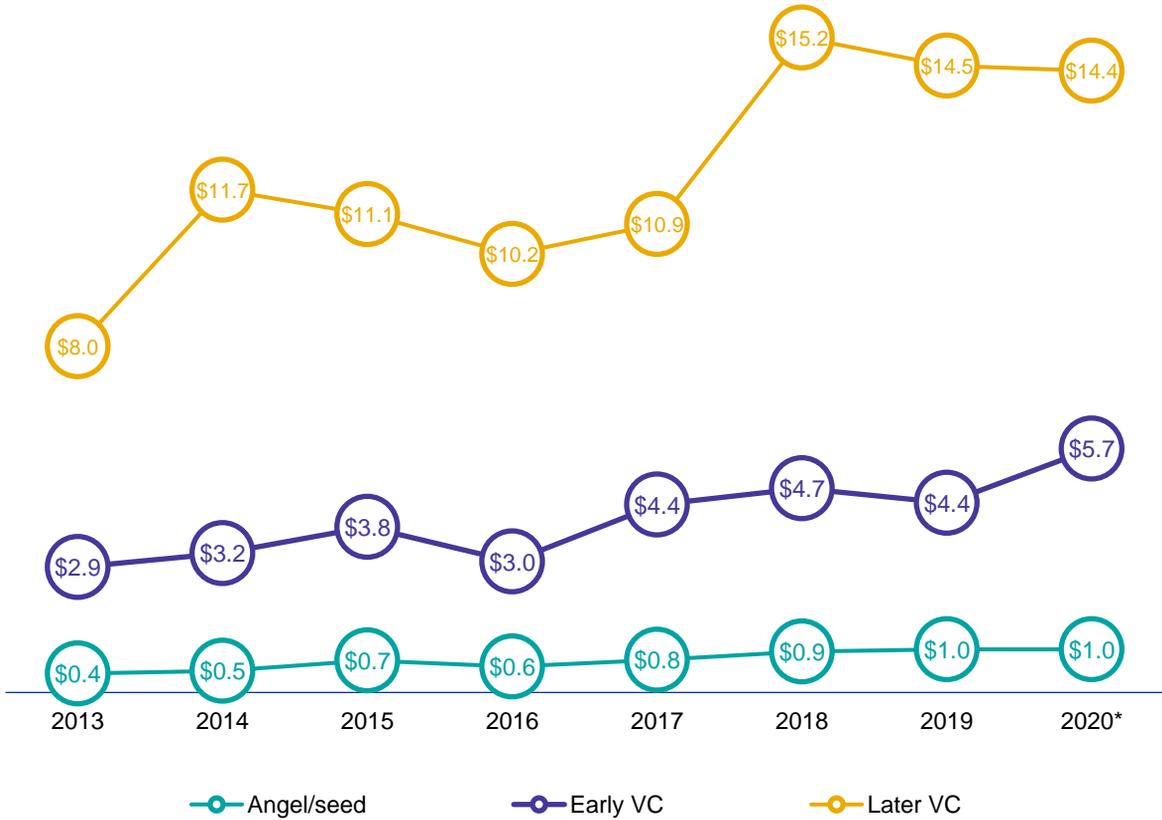
“Given the pandemic, geopolitical tensions, and other challenges, what we may see for foreseeable future is more regionalization and more focus on localized investment. This is particularly true in Asia where Chinese tech mega-giants are making major investments in the region in order to fuel their continued growth and expansion.”



Egidio Zarrella
Partner, Clients and Innovation
KPMG China

Figures hold largely steady

Median deal size (\$M) by stage in Asia
2013–2020*



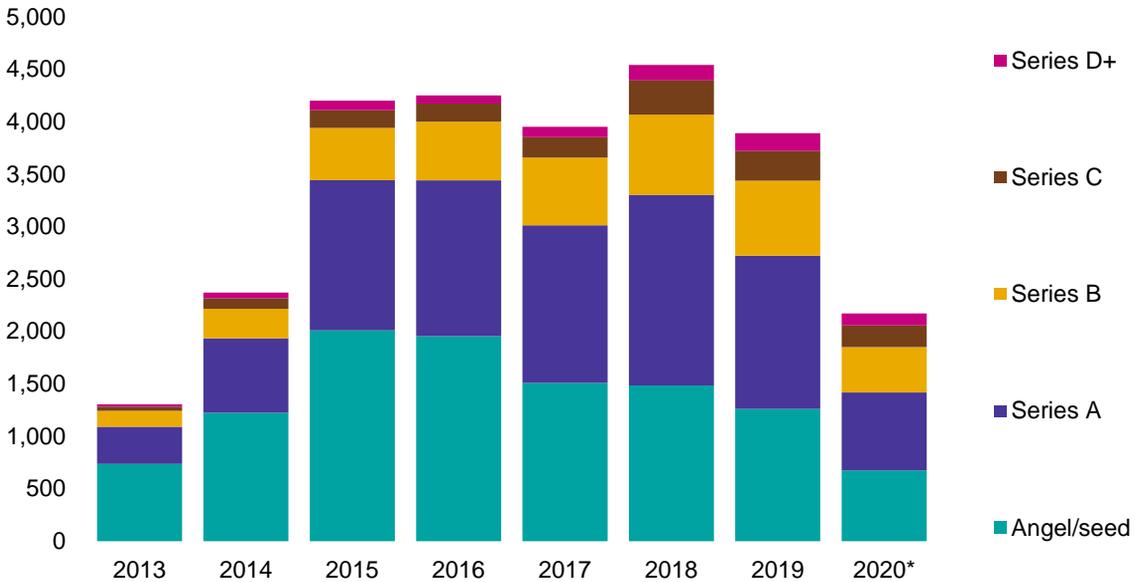
Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

Figures are now evening out across all stages after initial declines or volatility, in a promising sign for the overall domestic ecosystem as local economies look to get back into recovery and rely on ongoing innovation and job creation within their startup spheres.

Capital still concentrates at the late stage

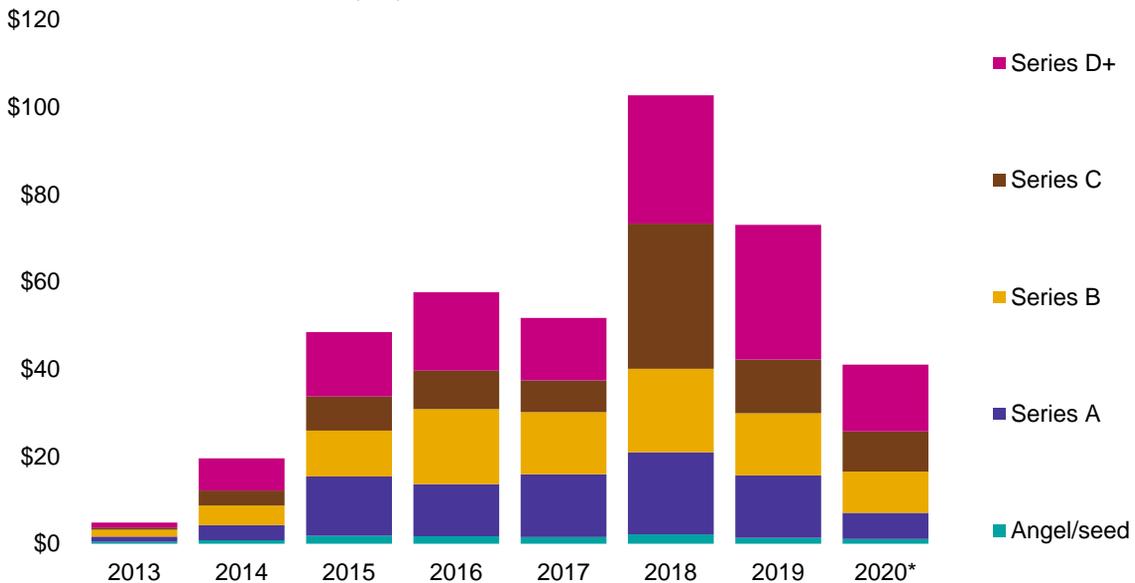
Deal share by series in Asia

2013–2020*, number of closed deals



Deal share by series in Asia

2013–2020*, VC invested (\$B)

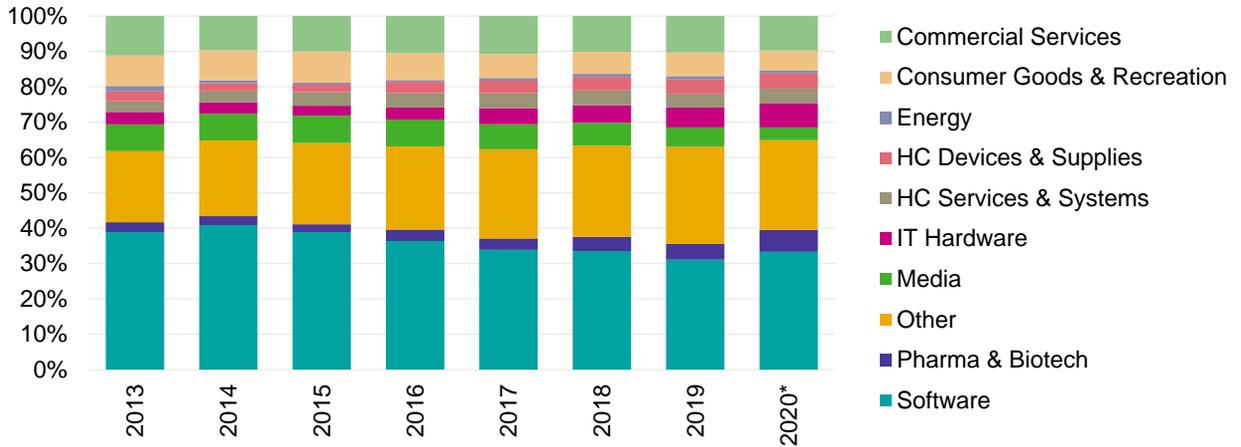


Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

Biotech persists in its record pace

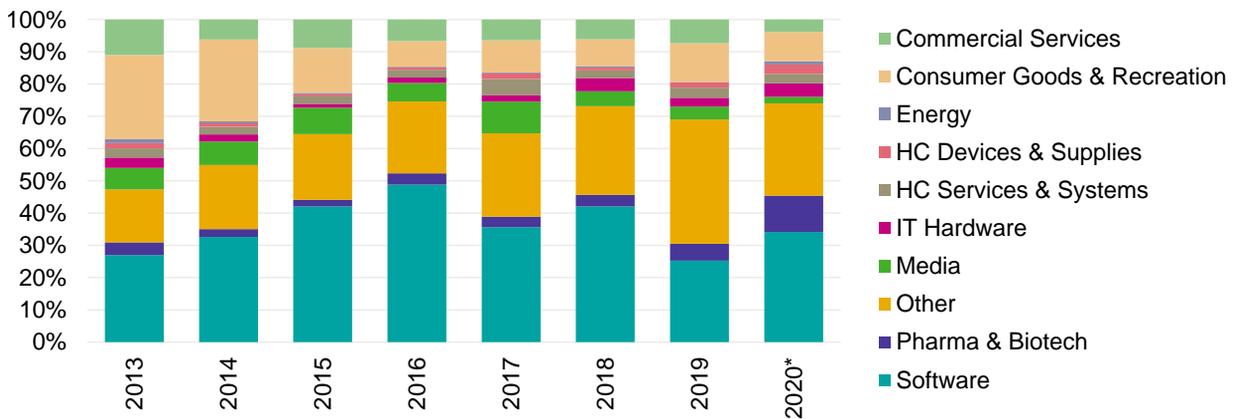
Asia venture financings by sector

2013–2020*, number of closed deals



Asia venture financings by sector

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.

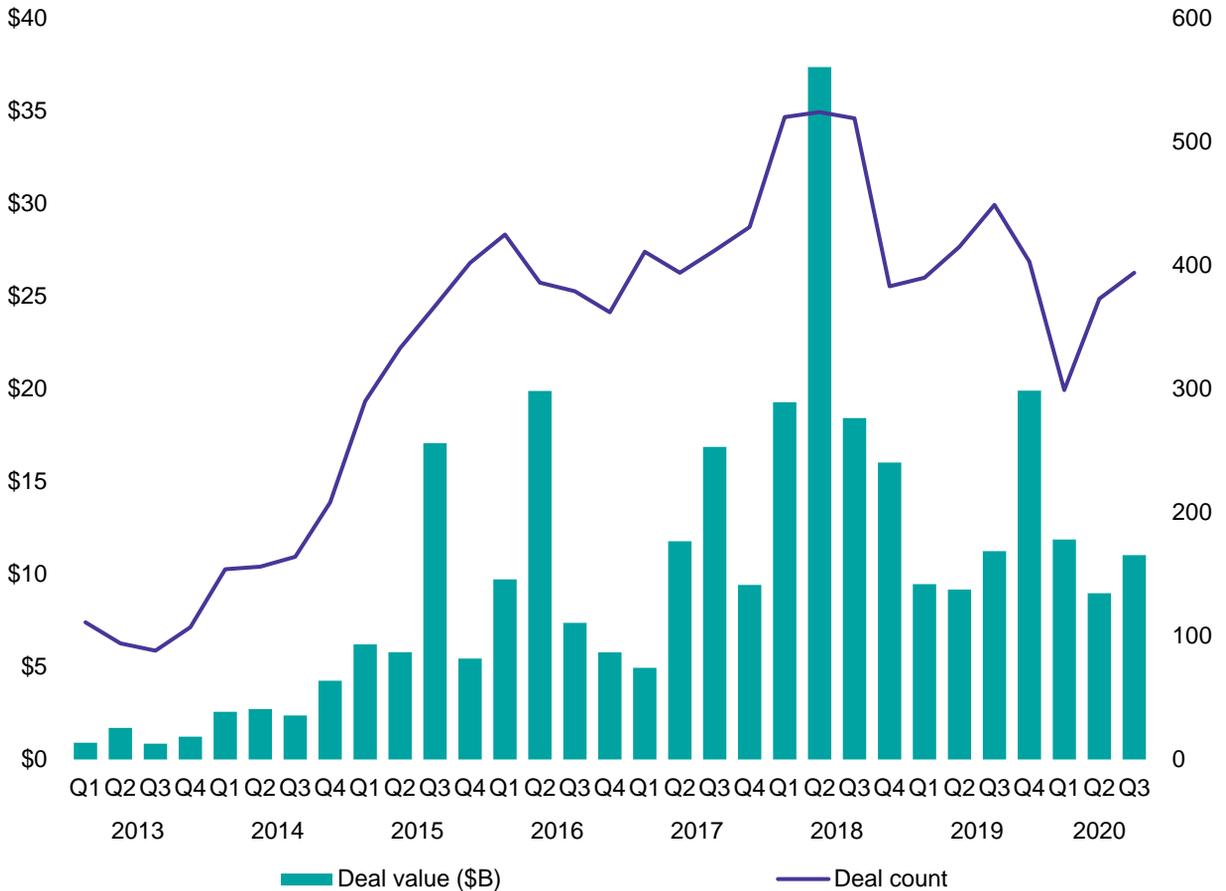
“The clear standout sector for VC investment in India has been edtech. This has been true for the past couple of quarters, but this quarter the list of deals just goes on and on. It’s quite a diverse area, going well beyond the traditional K-12 model. There are digital offerings focused on competitive exams, engineering or medical entrance exams — even programs to teach coding to children. It’s a very hot area for investment and will likely remain so for some time.”



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

Corporates keep participating

Corporate participation in venture deals in Asia 2013–Q3'20



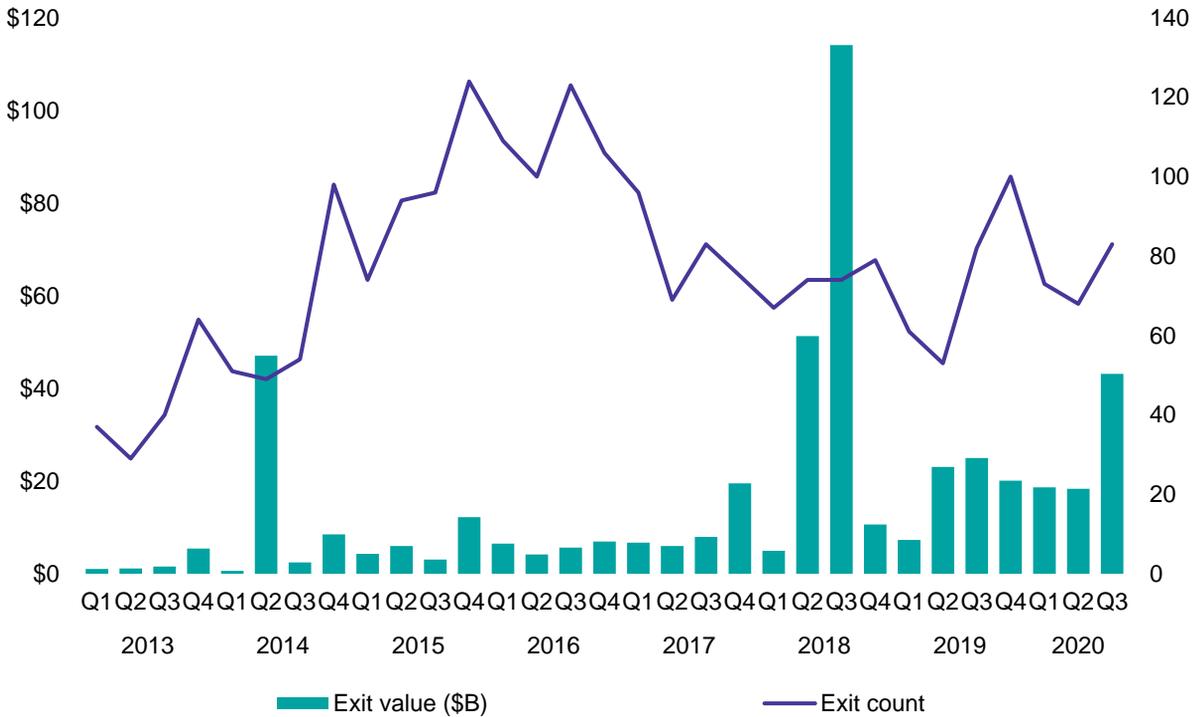
Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 10/21/2020.

Corporations and their venture arms have been a mainstay of the Asia venture ecosystem for years. In the absence of strong domestic fundraising, their ongoing activity and slight resurgence in 2020 to date will likely prove critical to the overall regional ecosystem.

IPOs lead exits to roar back

Venture-backed exit activity in Asia

2013–Q3'20



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

A surge of tech IPOs across exchanges in Asia led to a new record for exit value, far outstripping the previous highs notched in 2018. Xpeng, which also raised capital just prior to its debut, Qi Anxin, Li Auto, Big Hit Entertainment and more all contributed to this massive total.

“A lot of VCs are putting capital into supporting their existing portfolio companies. Part of the reason for this is because the capital markets in Hong Kong SAR and mainland China are actually going quite strong and a lot of companies are looking to file for an IPO over the next six to 12 months. So I think some of the investments we are seeing now being put into late-stage companies are really to pave the way for an upcoming IPO.”



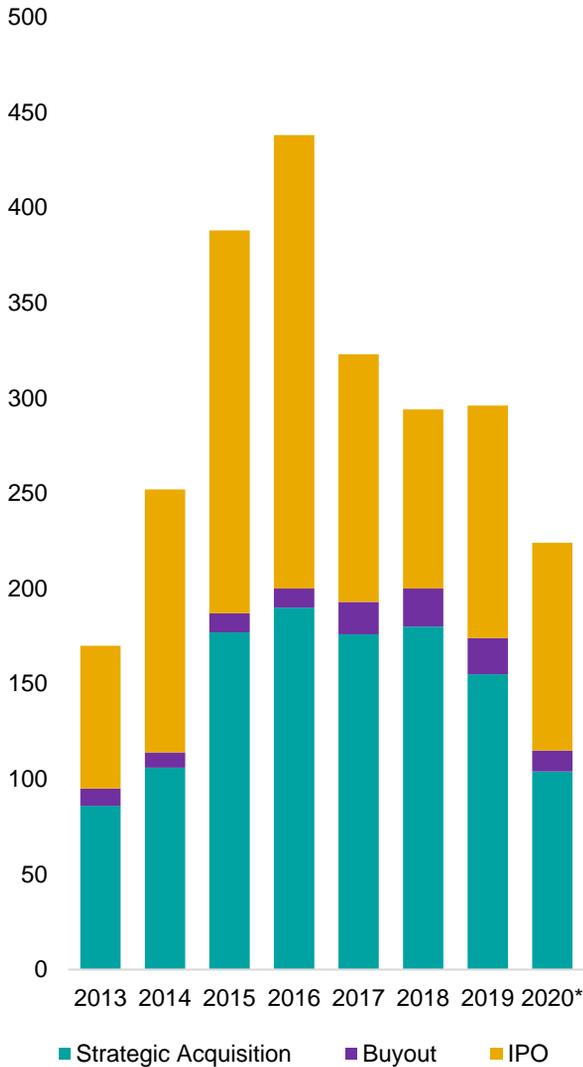
Irene Chu

Partner, Head of New Economy and Life Sciences, Hong Kong Region,
KPMG China

M&A powers volume; IPOs power exit value

Venture-backed exit activity (#) by type in Asia

2013–2020*



Venture-backed exit activity (\$B) by type in Asia

2013–2020*

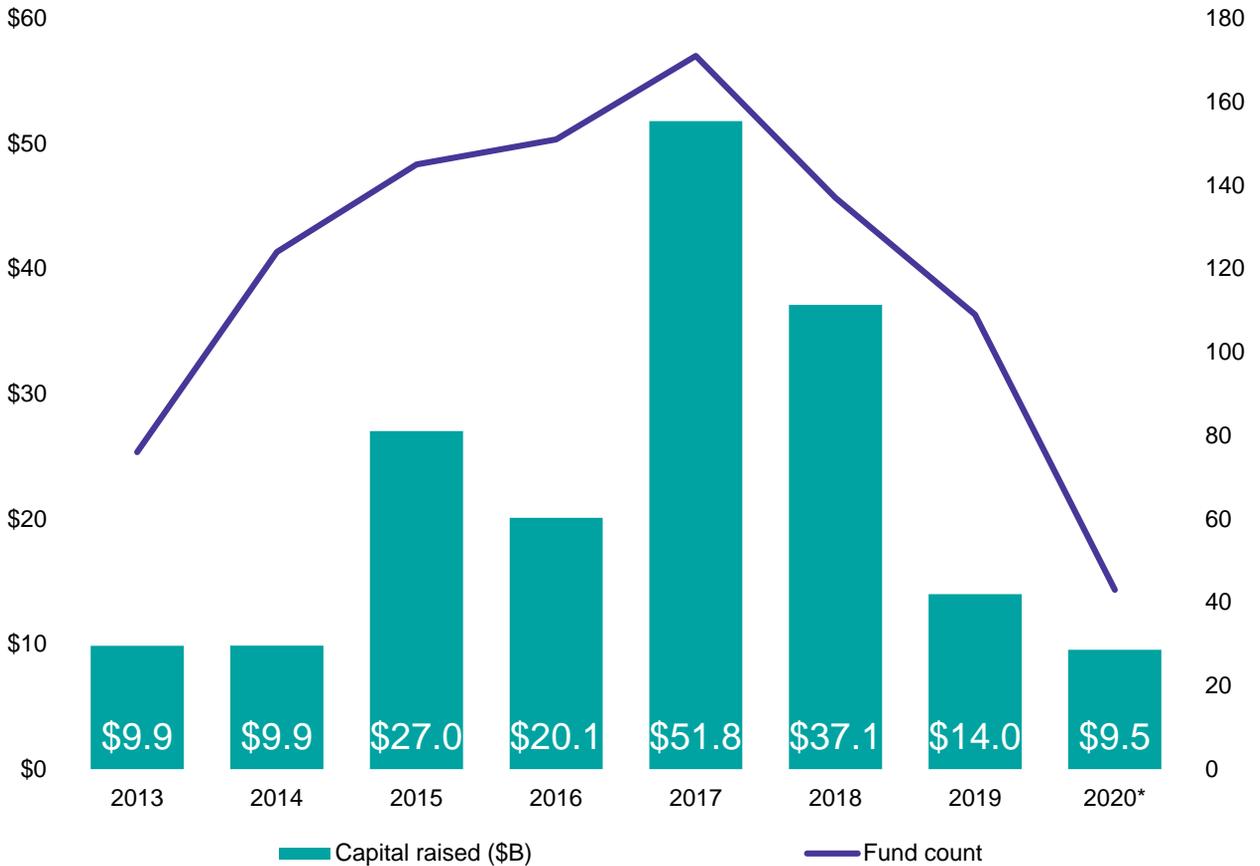


Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

Select large funds can close

Venture fundraising in Asia

2013–2020*



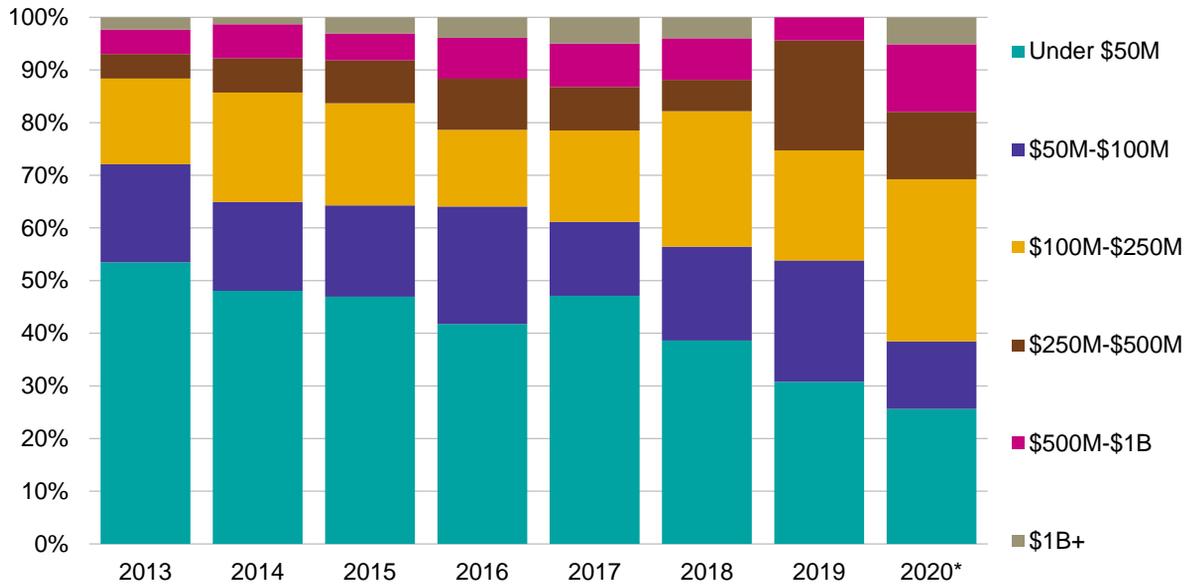
Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

After a 2017 peak, it is clear the region has been in a significant decline for domestic fundraising. Promisingly, there has been a resurgence in first-time fundraising volume, which could signal at least the very modest beginnings of a new wave of local firms looking to help foster regional networks of startup ecosystems. In the meantime, corporate players will likely remain critical.

First-time funds resurge in promising sign

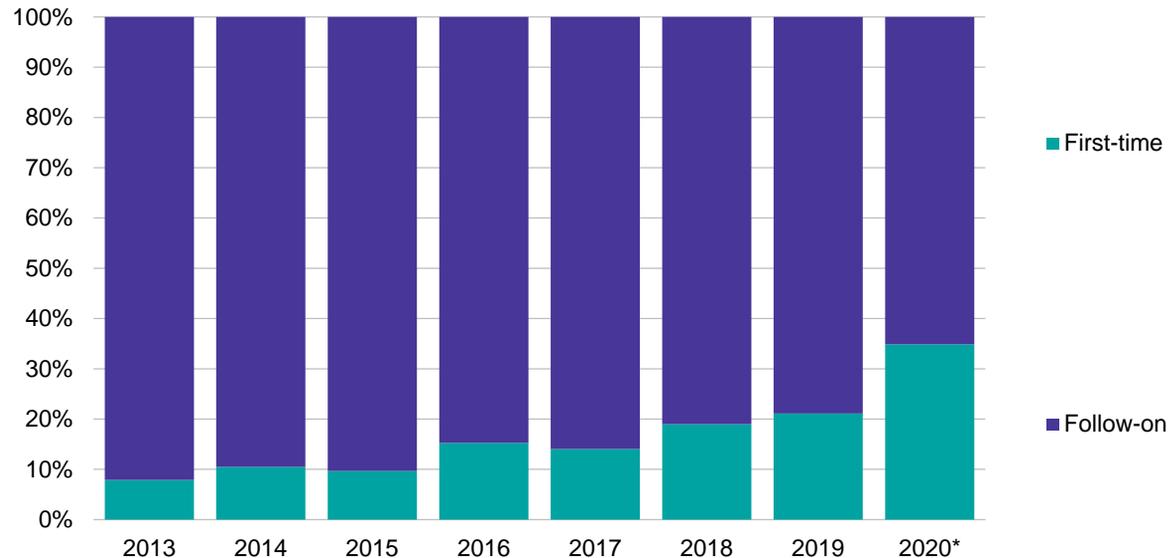
Venture fundraising (#) by size in Asia

2013–2020*



First-time vs. follow-on venture funds (#) in Asia

2013–2020*

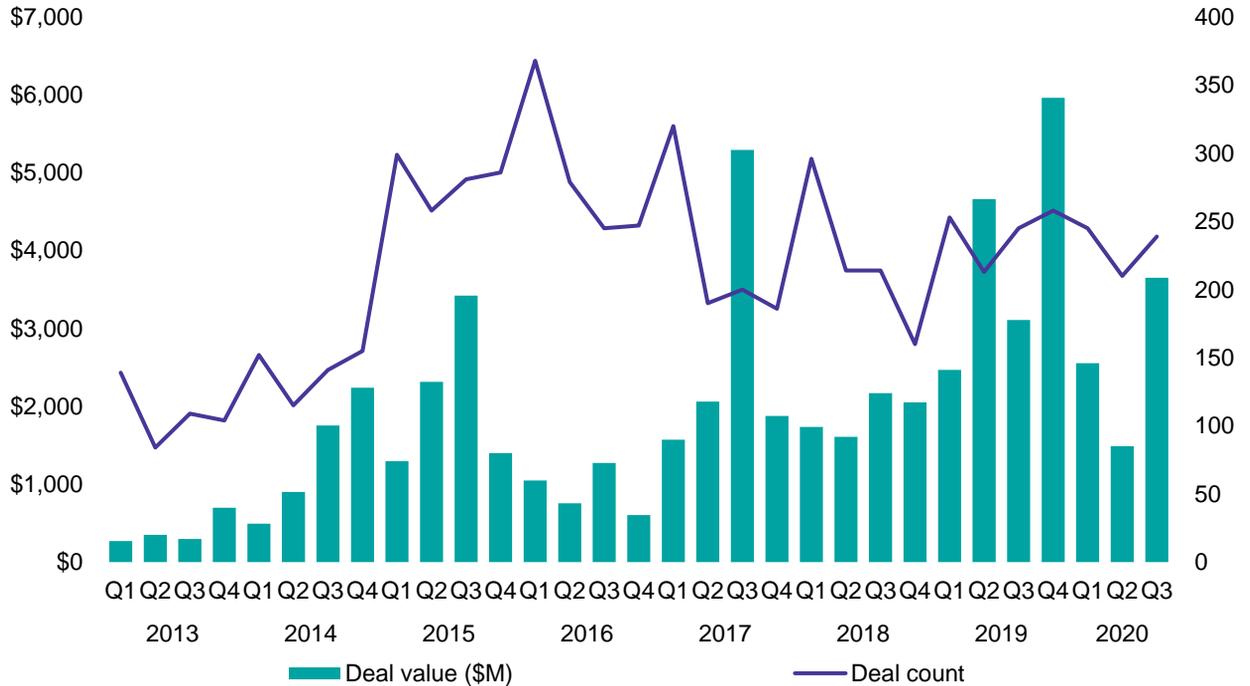


Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

India is boosted by existing unicorns

Venture financing in India

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.

After steadily rising throughout 2019, India saw a record quarter to close off the year. 2020 has been a mixed bag since, although Q3 2020 saw two large financings close in the top 10 biggest funding rounds to close in the quarter: Flipkart's \$1.3 billion infusion of corporate capital and BYJU'S \$500 million late-stage funding. India is still expected to see mega-deals, they just may be fewer and farther between for some time.

“India continues to be attractive market for VC investors. With the impact of the pandemic and the new normal paving the way for disruption in business models, there is significant demand in the EdTech, HealthTech & FinTech segments. While funding is likely going to be on the rise in Q4 of 2020, investment is expected to pick up substantially again by the end of the year. Indian startups that have survived the slowdown and pandemic, are ready for the next level of growth and hence would attract funding as they have proved their mettle. Another interesting development we have seen is that a new set of investors are looking at India and these fresh set of eyes will be in an investment mode within the next few quarters.”

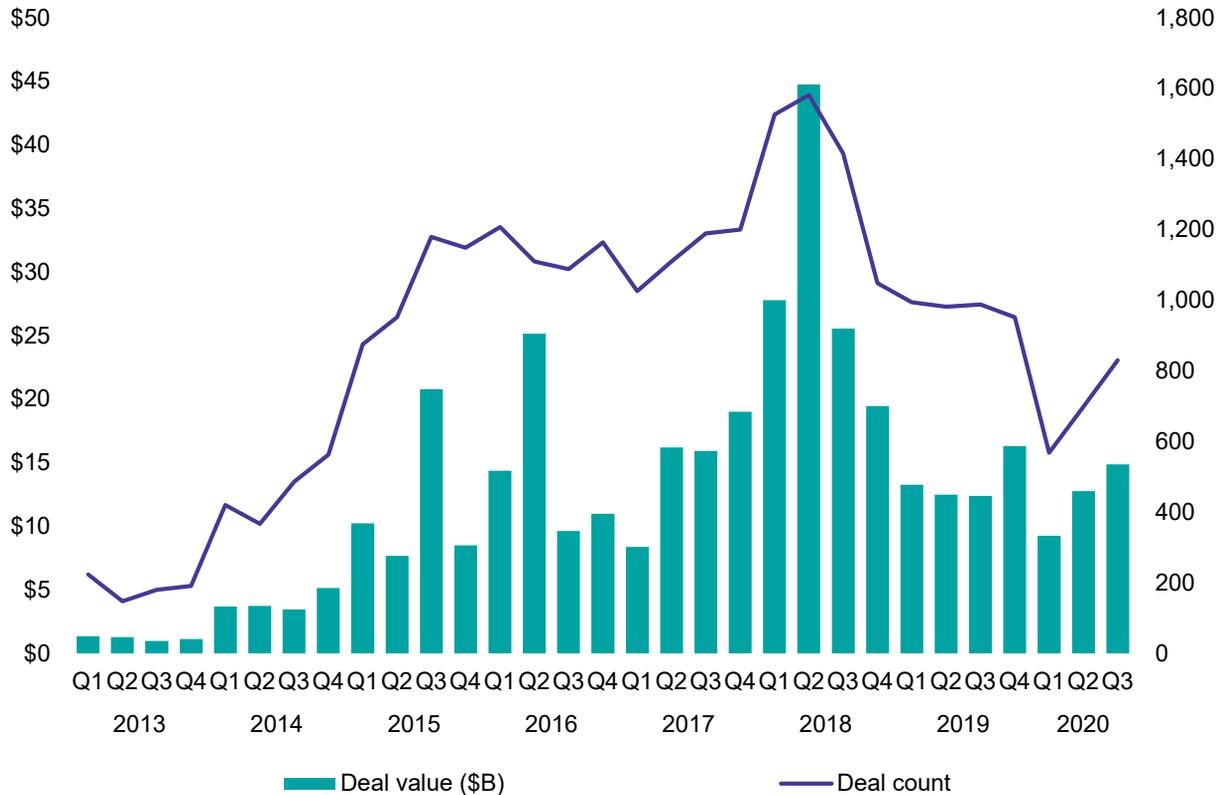


Amarjeet Singh
Partner
KPMG in India

China sees slight resurgence

Venture financing in China

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 first nation hit by the pandemic, China is now one of the few that has seen a modest but steady increase in venture funding volume, along with a rise in VC invested. Mega-deals — many of them centered around e-commerce, continue to propel some of the nation’s largest businesses forward.

“COVID-19 is driving a lot of investments in healthcare, accelerating innovations quite significantly even outside of virus-specific solutions. We’re seeing rapid advancement in remote diagnostics and remote surgeries. Part of this is because of the development of 5G technology which is reducing the transmission delays. On the other hand, COVID-19 is having a huge impact on many businesses, particularly in retail and commercial real estate. We are expecting M&A to become quite common heading into the next few quarters as cashflow becomes a major challenge.”

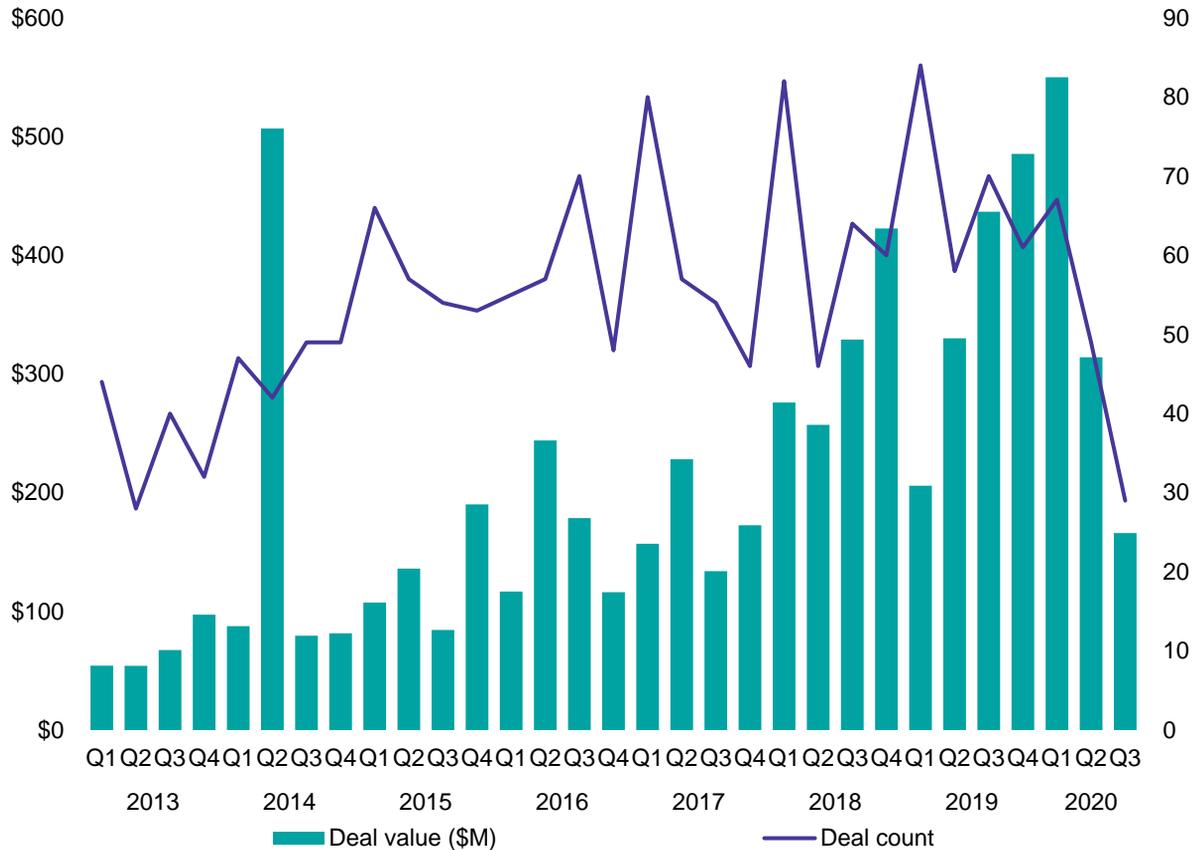


Philip Ng
Partner, Head of Technology
KPMG China

Australia ecosystem maturing

Venture financing in Australia

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.

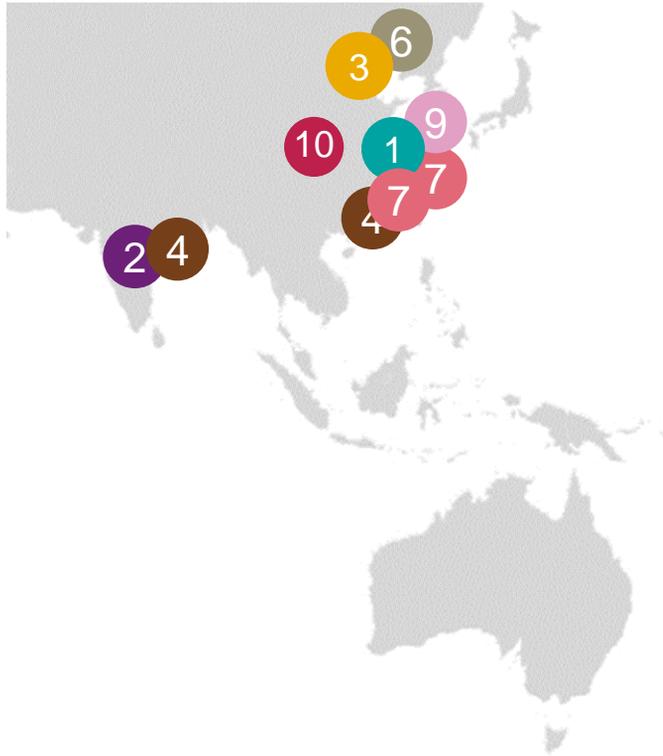
The ongoing measures taken in response to the pandemic's ravages are likely contributing to investor caution and, frankly, the sheer logistics involved in dealmaking. That would help explain the quarter-over-quarter (QoQ) slide in overall deal volume in Australia.

“Australia’s ecosystem is going through a very exciting stage, with a huge amount of activity happening. Over the past year, we’ve seen incredible growth — companies becoming unicorns and others getting close to the unicorn stage. The funding environment is also maturing. We’re starting to see a second cycle of investment from founders, more activity from family offices, and more sophisticated funding options.”



Amanda Price
Head of High Growth Ventures, KPMG Private Enterprise
KPMG in Australia

Internet retail predominates



Top 10 financings in Q3'20 in Asia-Pacific

- | | |
|---|---|
| <p>1 Weltmeister — \$1.5B, Shanghai
Automotive
Series D</p> | <p>6 Miss Fresh — \$495M, Beijing
E-commerce
Late-stage VC</p> |
| <p>2 Flipkart — \$1.3B, Bengaluru
Internet retail
Corporate</p> | <p>7 Zhangmen.com — \$450M, Shenzhen
Edtech
Late-stage VC</p> |
| <p>3 JD Health — \$830M, Beijing
Internet retail
Series B</p> | <p>7 Xiaohongshu — \$450M, Shanghai
Internet retail
Late-stage VC</p> |
| <p>4 Xpeng — \$500M, Guangzhou
Automotive
Series C1</p> | <p>9 MicroPort Medical Robots — \$432.6M, Shanghai
Surgical devices
Late-stage VC</p> |
| <p>4 BYJU'S — \$500M, Bengaluru
Edtech
Late-stage VC</p> | <p>10 Yipin Shengxian — \$353M, Chongqing
Food products
Series C</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



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About KPMG Private Enterprise

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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.

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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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