KPMG 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

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In Q3'20 US VC-backed companies raised

$37.8B

across

2,285 deals

VC investment in the US shows continued strength

VC investment in the US remained buoyant in Q3'20, led by a $1.9 billion raise by SpaceX. The acceleration of digital trends given the ongoing pandemic helped spur VC investment, particularly in key areas such as health care, business services, and edtech. Renewed IPO activity, including Snowflake's $3.4 billion IPO, also helped showcase the resilience of the US market.

Digital business models attracting significant VC investment

During Q3'20, digital business models were a top priority for investors, with both VC investors and corporates embracing solutions aligned with doing business successfully in the current environment, such as enhancing digital service channels for consumers, enhancing productivity within a highly remote workforce, or helping companies understand how consumer behaviors are changing. Fintech was a primary focus of US VC investors in Q3'20, with wealthtech Robinhood raising more than $1.2 billion over two deals, alternative payments model company Affirm raising $500 million, and digital bank Chime raising $435 million. During the quarter, data analytics firm Palantir Technologies also raised $549 million (followed by their IPO), while digital C2C marketplace OfferUp raised $453 million.

Valuations becoming more grounded as VC investors focus on profitability

When making funding decisions, US-based VC investors continued to emphasize profitability during Q3'20, including metrics such as unit economics and cost per dollar of revenue. This focus has had a grounding effect on valuations, making them more realistic and supportable.

The intense focus on profitability has put pressure on companies seeking funding to improve their financial discipline. This has led many startups to more rigorously examine their business and operating models. As a result, several companies have learned that they can be as effective with less resources or by using a remote workforce, allowing them to trim costs and speed up their path to profitability despite the challenging business environment.

Healthcare remains hot for VC investors in the US

Health and biotech remained a very robust area of interest for VC investors in the US. Interest extended well beyond pandemic response-related solutions, with primary care solution VillageMD raising $275 million and cancer screening company Freenome raising $270 million during Q3'20. As potential vaccines for COVID-19 move closer to approval, there has also been increasing recognition of the significant challenges associated with efficient vaccine production and distribution. This is beginning to drive an increase in interest in logistics solutions able to support rapid and efficient vaccine distribution.

IPO market improves in Q3'20 as unicorns look to exit

IPO activity increased significantly in the US in Q3'20 as companies looked to take advantage of the strong public markets combined with a window of opportunity to exit in advance of the US presidential election. The largest IPO of the quarter came from cloud software company Snowflake, which raised $3.36 billion and saw its share price more than double on its first day of trading. Unity Software and JFrog also held successful IPO exits during Q3'20, while unicorn companies AirBnb and Wish both filed confidentially.

Several technology companies also announced plans to IPO through mergers with special public acquisition companies (SPACs). In September, gaming company Skillz announced a merger with blank check company Flying Eagle Acquisition Corp[1], while proptech Opendoor announced a similar strategy with Social Capital Hedosophia Holdings II[2].

1 https://www.pymnts.com/news/ipo/2020/mobile-gaming-firm-skillz-plans-ipo-via-spac/
2 https://therealdeal.com/2020/09/15/opendoor-confirms-4-8-billion-ipo/

VC investment in the US shows continued strength, cont'd.

Direct listings garner attention as listing rules change

At the end of Q3'20, both data analytics company Palantir Technologies and work management software provider Asana held direct listings, the first companies to do so since Slack in mid-2019. The Securities and Exchange Commission (SEC) also approved new rules proposed by the New York Stock Exchange in relation to direct listings during the quarter[3]. The new rules allow for companies meeting specific criteria (e.g., publicly held shares must have an aggregate market value of at least $100 million) to raise new funds through a direct listing in addition to the selling of shares by existing shareholders. Previously, companies were not allowed to raise new funds as part of a direct listing. These changes could spur additional interest in direct listings heading into Q4'20.

Trends to watch for in the US

VC investment is expected to hold steady heading into Q4'20, although early-stage companies will likely continue to struggle for funding as investors remain focused on later stage deals. Investor interest in business productivity solutions, health and biotech, fintech, and edtech will likely remain very high.

The pipeline for IPO exits is expected to remain strong heading into Q4'20 due to pent up demand, particularly among unicorn companies. IPO activity could pause as the US presidential election approaches in November, before picking up again heading into Q1'21.

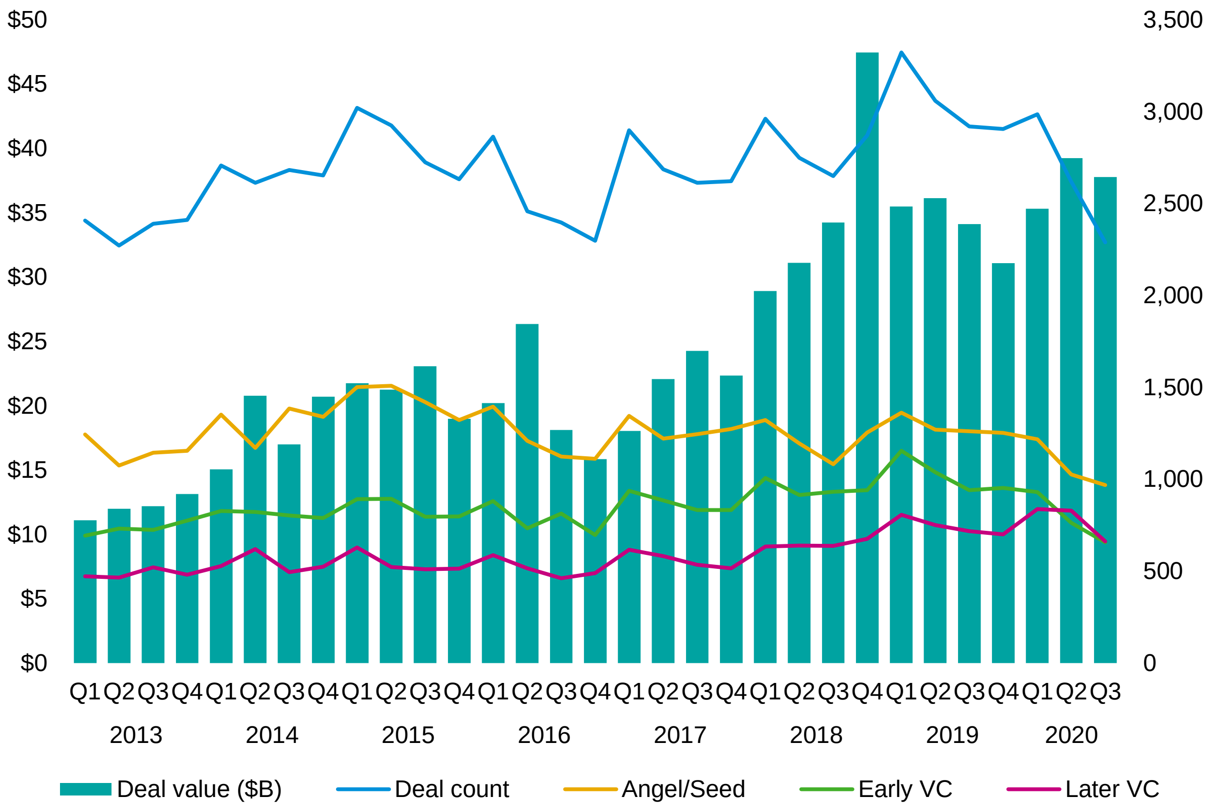
Given the challenges facing many businesses due to the protracted duration of COVID-19, there could be an increase in consolidation activity in the US, particularly in sectors more negatively affected. Acquisition activity could also increase as investors with deep pockets look for opportunities related to distressed companies.

[3] https://www.natlawreview.com/article/direct-listing-new-york-stock-exchange-undertaking-underwriting

Q3 sees volume contract as value stays strong

Venture financing in the US

2013–Q3'20



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

VC invested stayed very strong in the US once again, in fact notching the third-highest quarterly tally of VC invested of the decade. The continued slide in volume may ameliorate somewhat when additional, currently undisclosed datasets are tallied, but all in all it is likely a moderation due to caution on the part of investors is still driving down the rate of financings.

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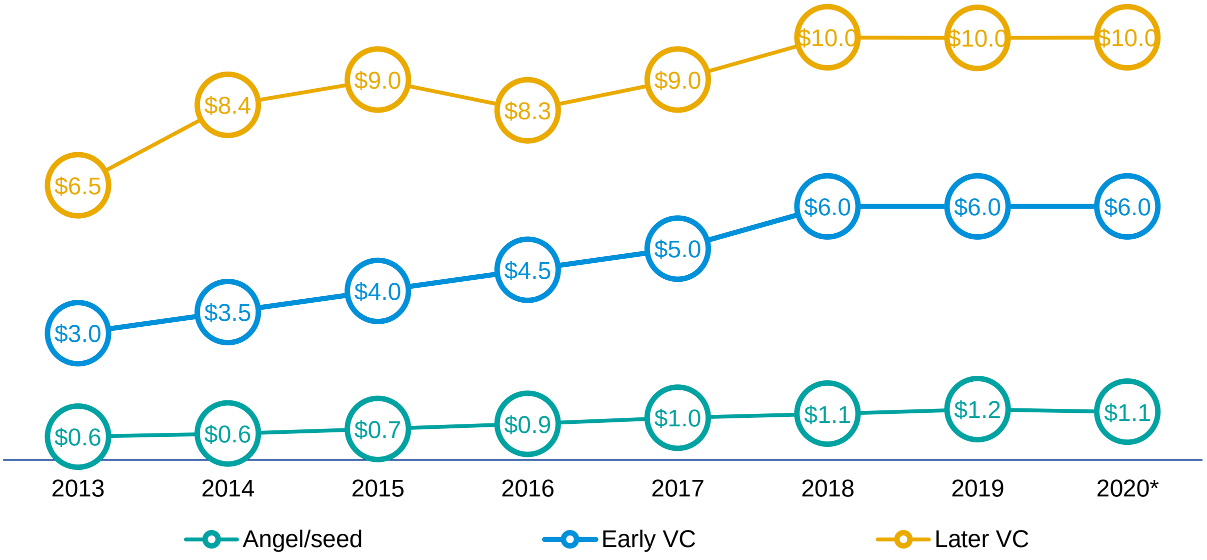
Deal sizes stay steady

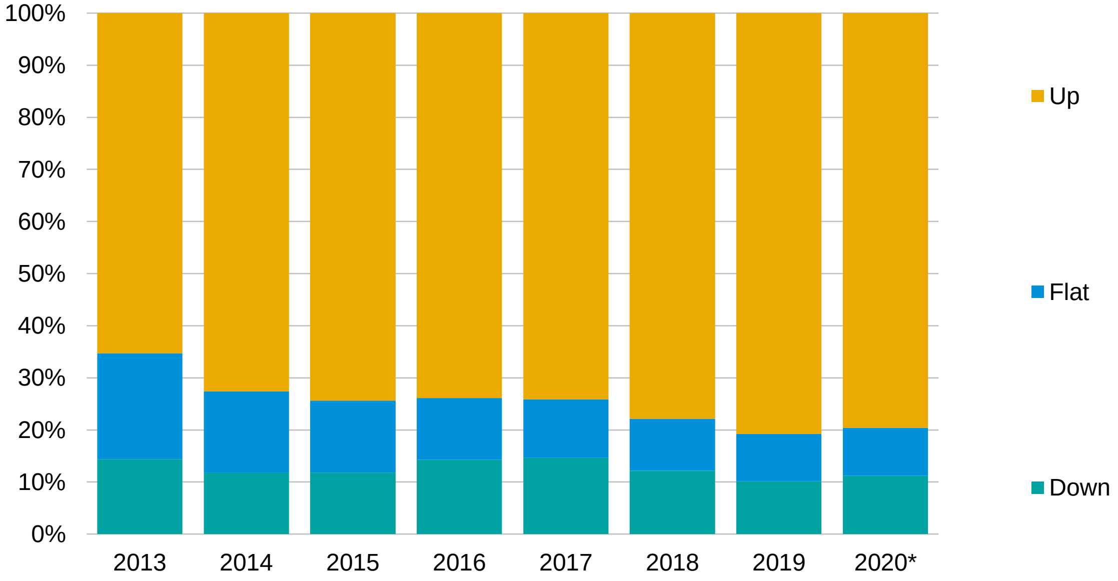
Median deal size ($M) by stage in the US

2013–2020*



Up, flat or down rounds in the US

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.

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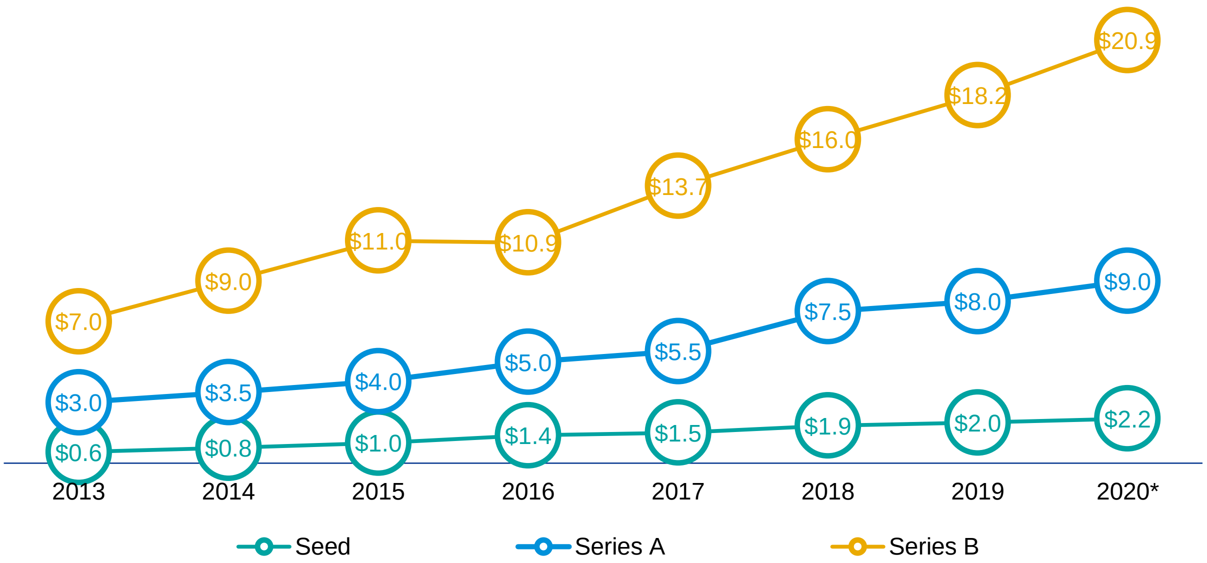
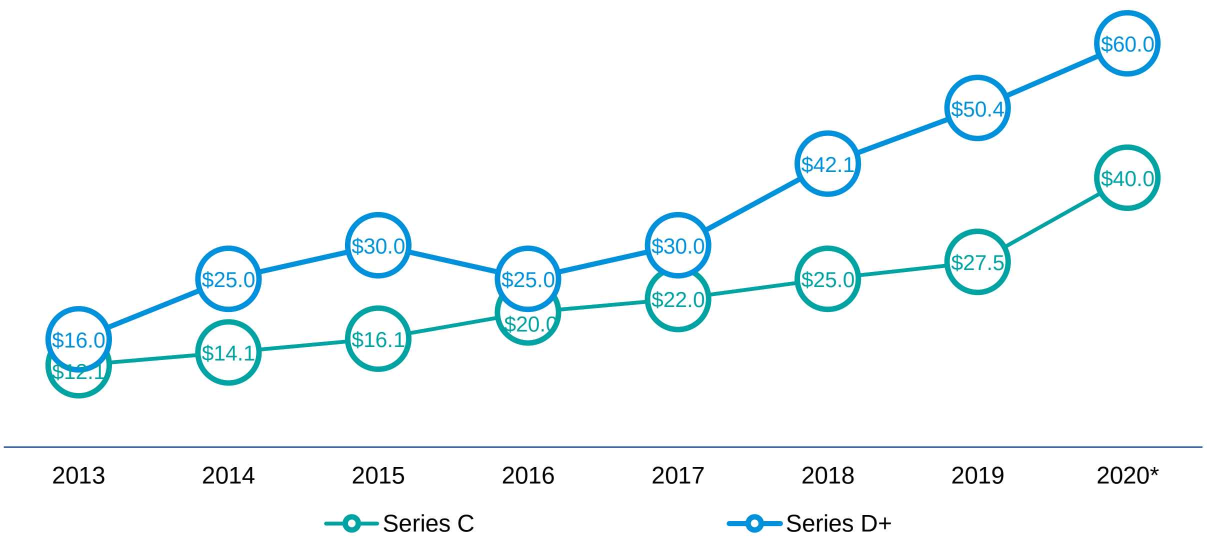
Late-stage rounds see sustained strength

Median deal size ($M) by series in the US

2013–2020*





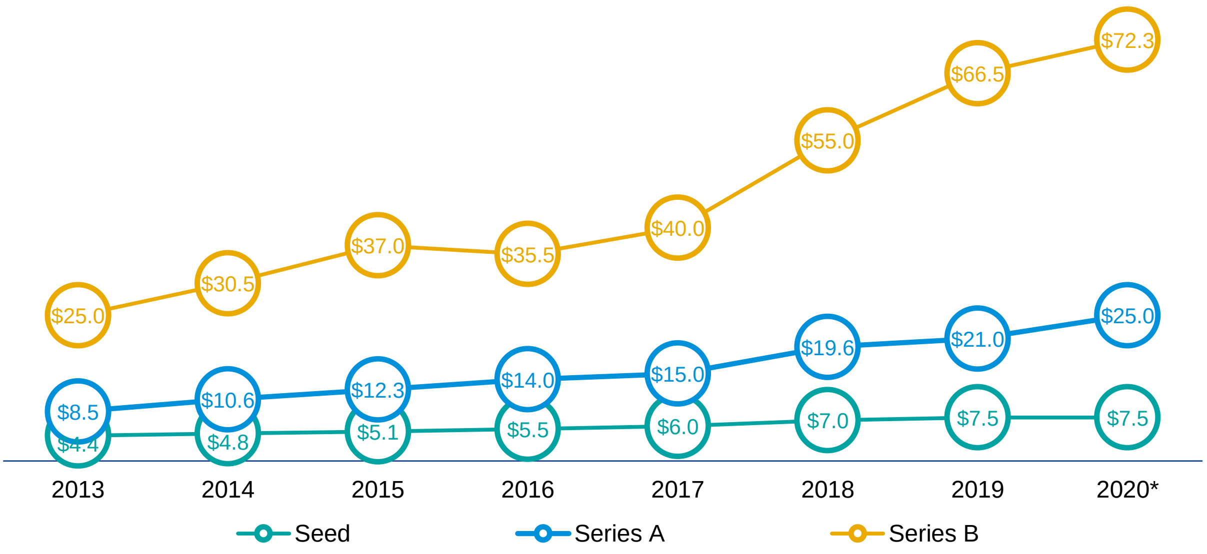
Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

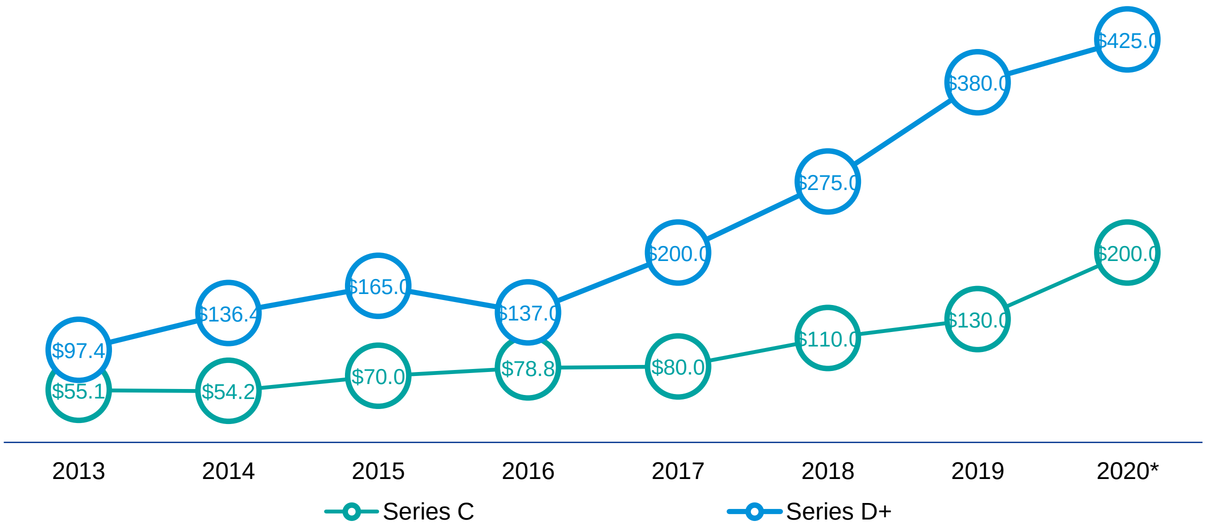
Note: Figures rounded in some cases for legibility.

Record valuations hold steady

Median pre-money valuation ($M) by series in the US

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.

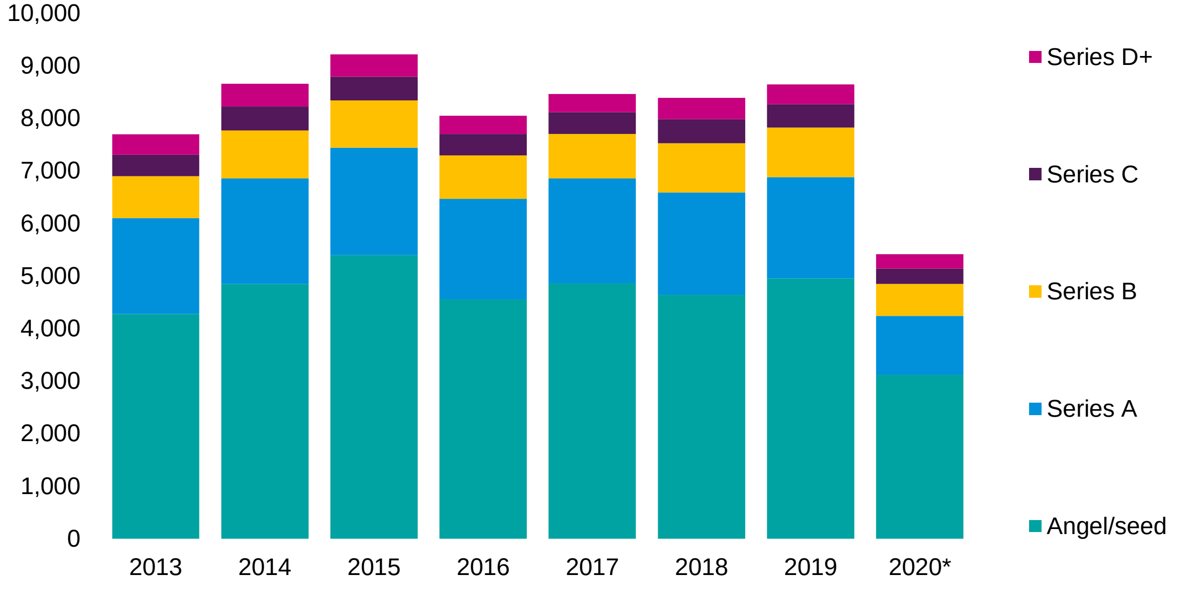
Note: Figures rounded in some cases for legibility.

Three quarters into a tumultuous year (to say the least), valuations are still holding steady at record highs across the board. Recently, there was talk of the new normal induced by record dry powder across the venture industry as well as the scale achievable by private companies. That new normal appears to essentially be now the normal, as lines continue to blur between private and public markets.

Angel & seed continue to contract

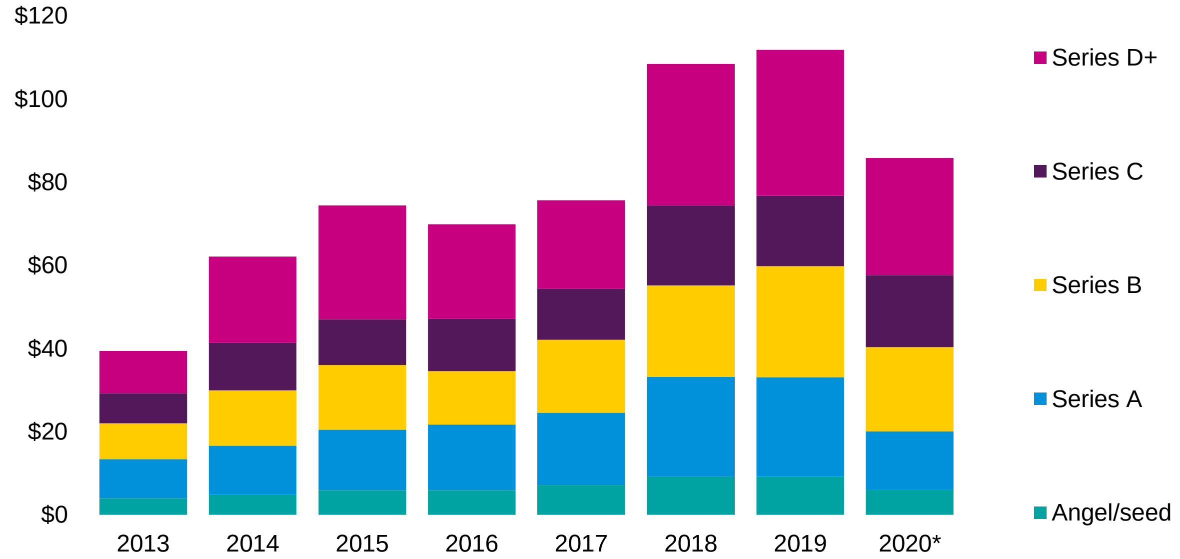
Deal share by series in the US

2013–2020*, number of closed deals



Deal share by series in the US

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.

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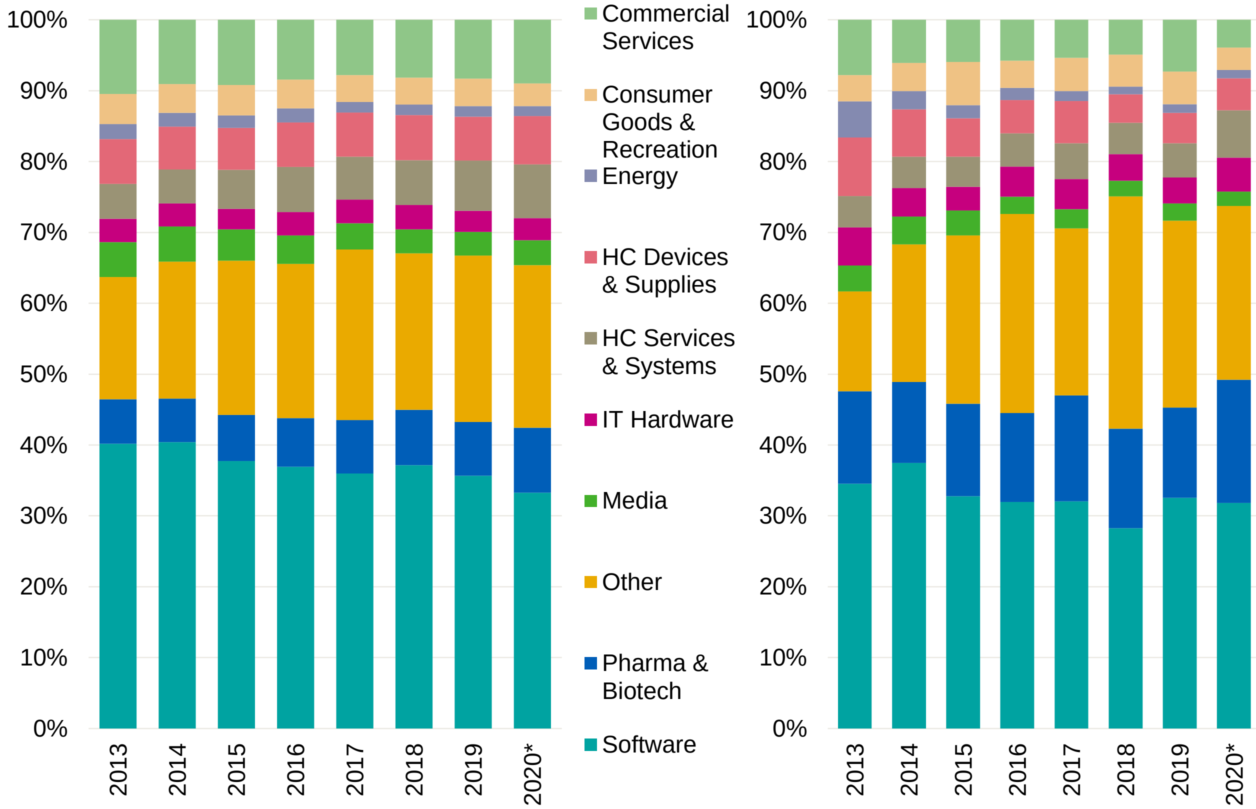
VC floods into pharma & biotech

Venture financing by sector in the US
2013–2020*, number of closed deals

Venture financing by sector in the US
2014–2020*, 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.

It's not necessarily that a pandemic of epic proportions has caused investors to immediately pursue opportunities across the healthcare spectrum, but that the steady growth in capital inflows to the space has continued unabated given the healthcare industry's broader dynamics, particularly that of biotech.

"It has already been a banner year for VC investment in life sciences and biotech, both in the US and globally. At the end of Q3'20, US and global VC dollars invested in the space was already higher than the level seen during all of 2019 — with no sign that it will let up heading into Q4. Given the widespread impact of the pandemic, it's no surprise that companies developing potential vaccines or therapeutics focused on COVID-19 continue to be a key target for VC investors."

Janet Lehman
National Leader VC Life Sciences
Partner, **KPMG in the US**

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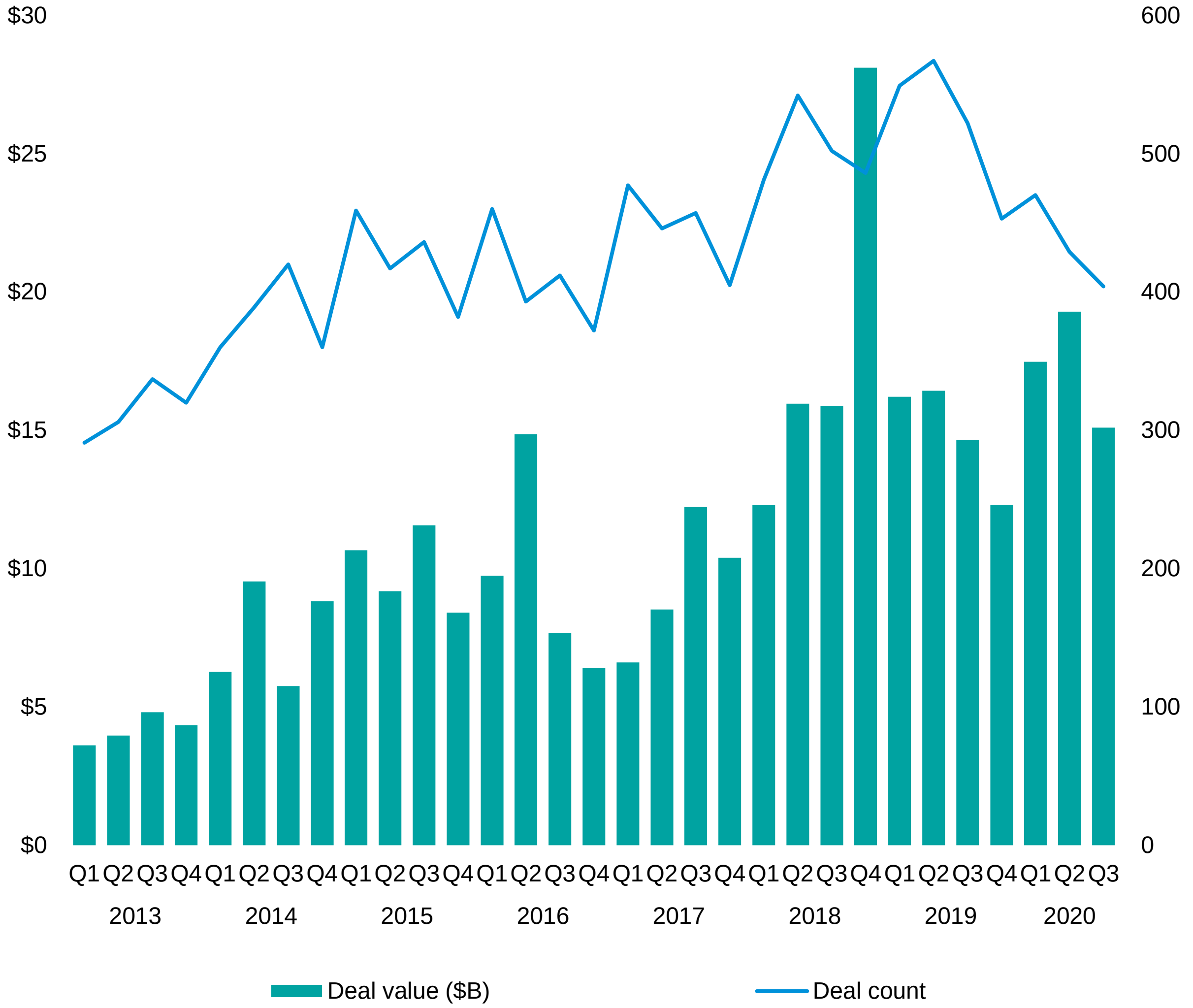
CVC activity declines in the US

Corporate participation in venture deals in the US

2013–Q3'20



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

Rather than the usual trendline of participation percentage, to better illustrate the environment in 2020, the trendline of actual deal count in which corporate players or their venture arms participated is depicted above. The second-highest ever quarterly tally of VC invested was logged in Q2, but the slide in Q3 does illustrate the variability that is a clear trait of corporate participation simply given their scale and involvement varying significantly across different sectors.

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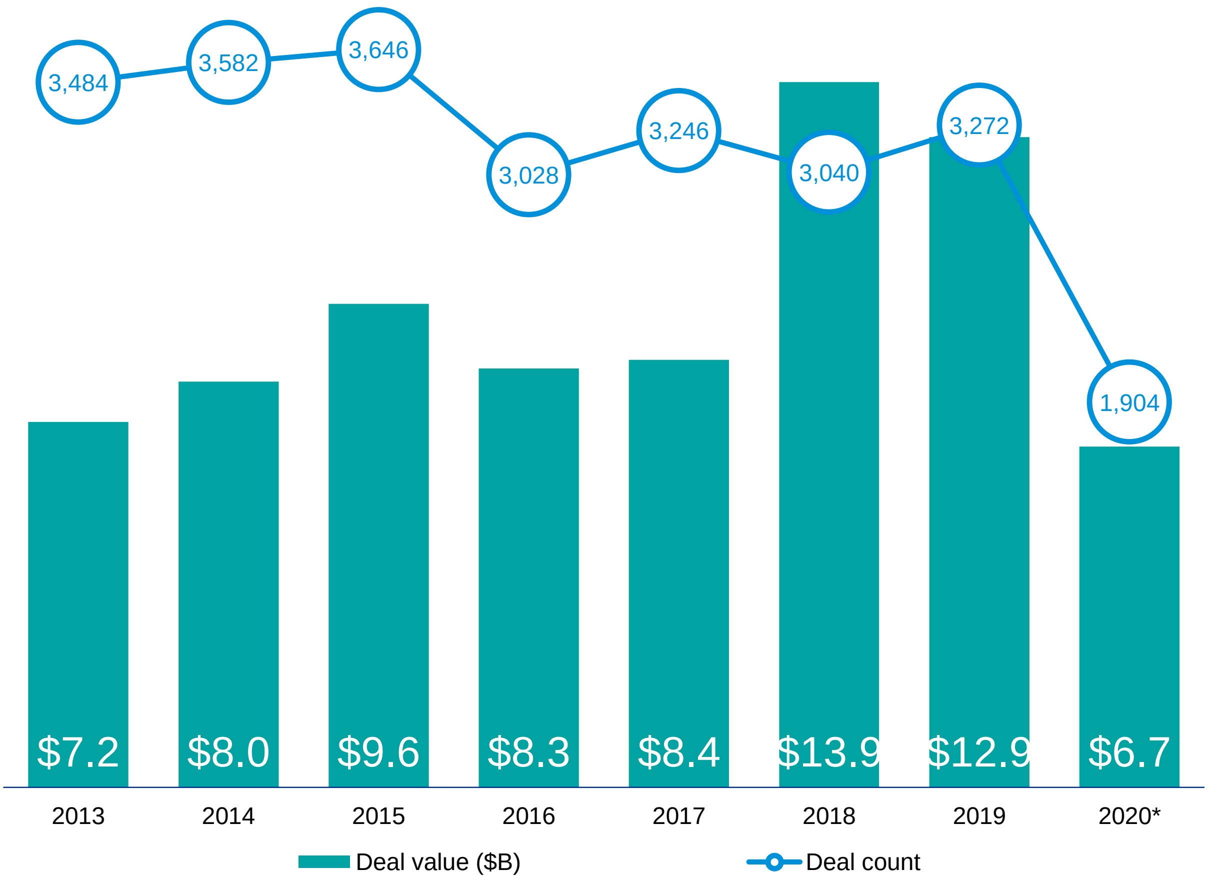
First-time venture funding set for an off year

First-time venture financings of companies in the US

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.

2018 and 2019 were both so strong in terms of first-time funding within the US that it is easy to forget that, on a historical basis, 2020 is actually recording very robust figures for fledgling startups getting their first institutional rounds of venture capital. The unknown extent of the economic damage wrought by the COVID-19 pandemic, with its ripple effects currently muted by fiscal and monetary stimulus, have not aided in helping founders garner additional capital.

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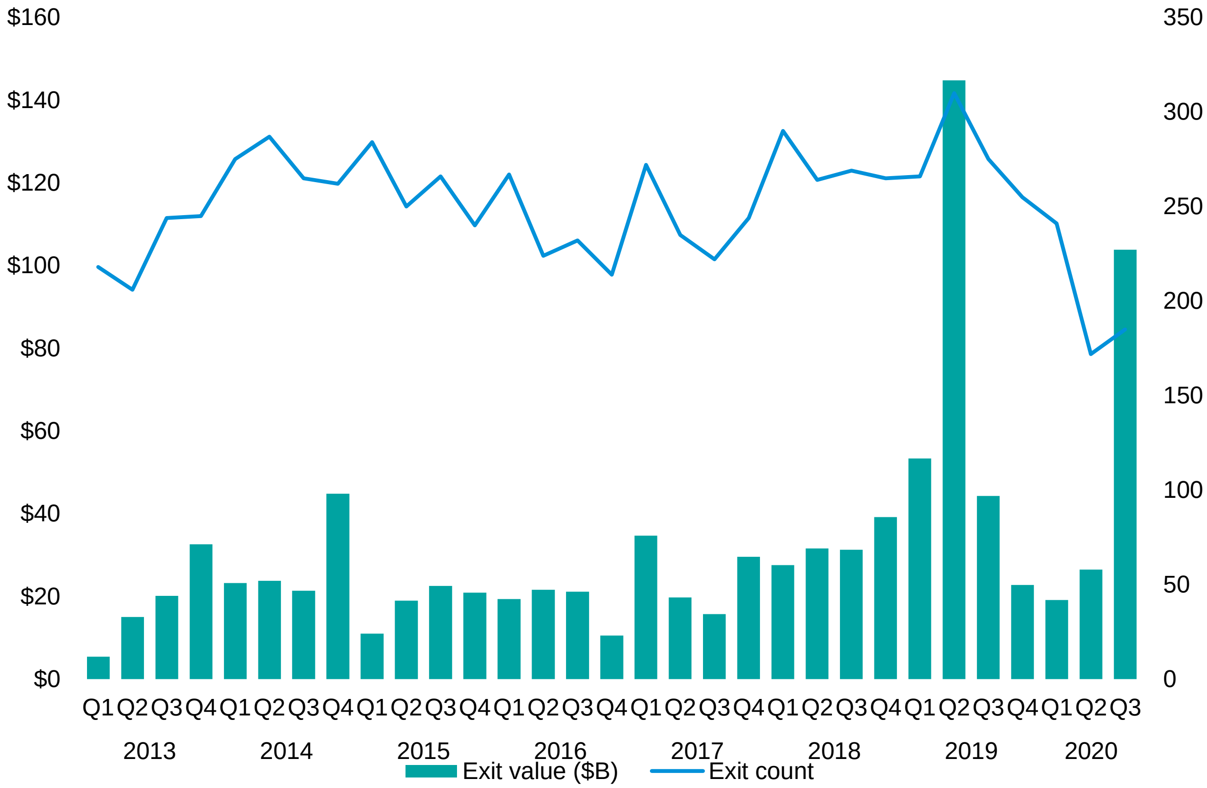
Exits come roaring back

Venture-backed exit activity in the US

2013–Q3'20



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

The first half of 2020 did not see exit values that were overly depressed compared to prior periods. Although the slide in volume was troubling, given turmoil in public markets and economies worldwide, it was not unanticipated. However, what was not necessarily predictable was the sheer extent of all the unicorn debuts that occurred in Q3, which pushed exit value to a near-record high.

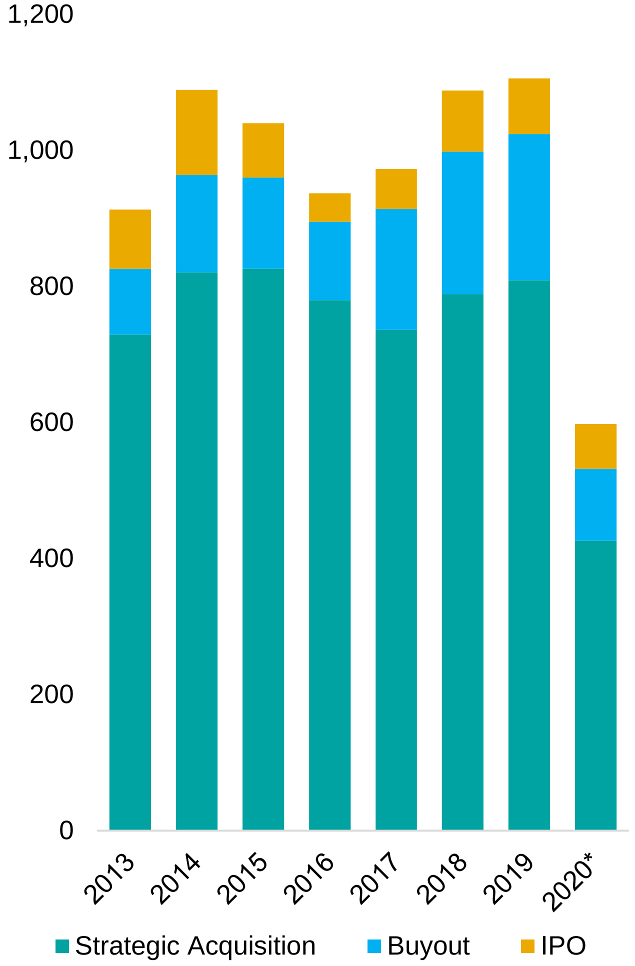
"The expectation is almost always there for startups to have a liquidity event within 10 years. So, for aging unicorns, there is a ton of pressure internally to create a liquidity event for early stakeholders. This is likely why you're seeing a lot of unicorns making exit plans, whether through traditional IPO exits, direct listings, or by using SPACs."

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

IPOs reverse course, surging to near-record highs

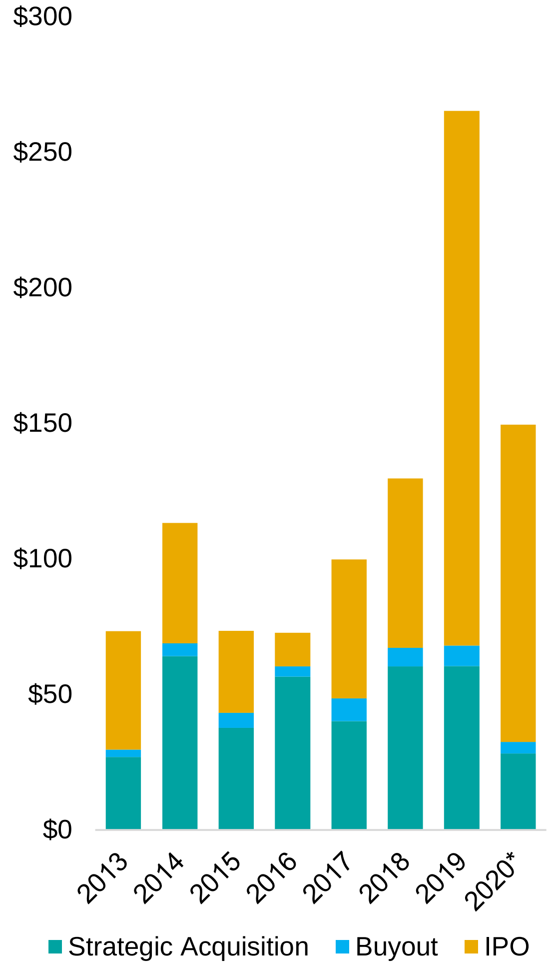
Venture-backed exit activity (#) by type in the US

2013–2020*



Venture-backed exit activity ($B) by type in the US

2013–2020*



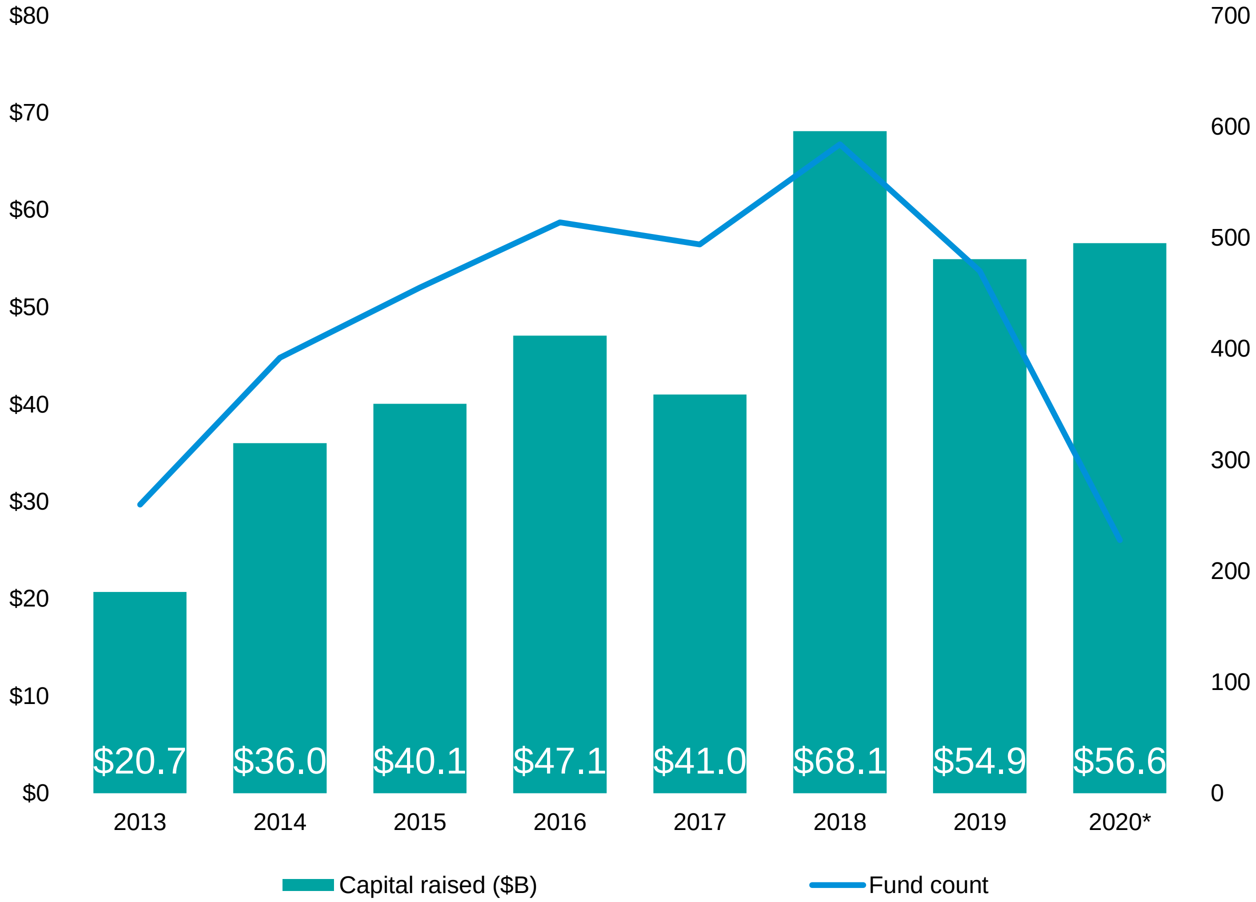
Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

The bevy of unicorns that went public in 2019, whatever their later troubles, propelled exit values via that route to a new high for the decade, even outstripping Facebook's debut in 2013. In the last edition of the Venture Pulse, it was noted that this year did not look set to repeat that in the slightest, which was erroneous in its extreme adjective. Instead, a slew of unicorn debuts, including Palantir and Snowflake in particular, pushed exit valuations upon public debut to a near-record high.

2020 outpaces 2019 with a quarter to go

US venture fundraising

2013–2020*



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After a record haul in terms of dollars committed and volume in the past two years, one would think venture firms may let up the pace of fundraising. However, 2020 has already eclipsed 2019 in terms of capital committed to venture firms, even across one of the lowest tallies on record. This speaks to the sheer success of mega-fundraising by the most experienced, largest venture firms, as limited partners seek refuge in alternative investments as options shrink elsewhere for good returns.

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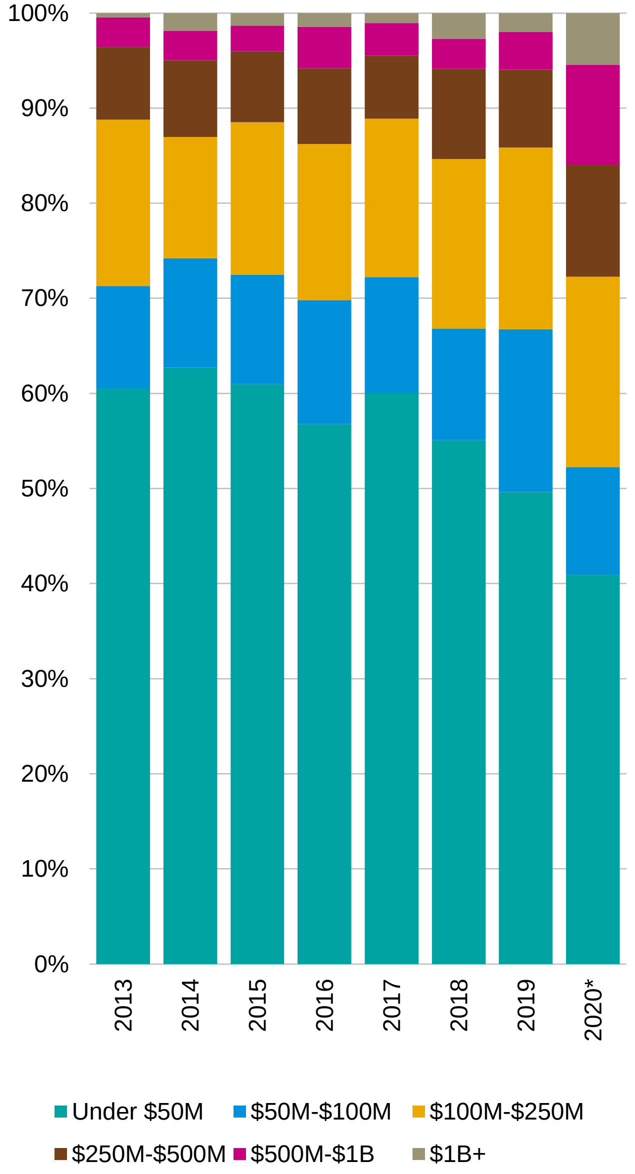
Fundraising skews even bigger

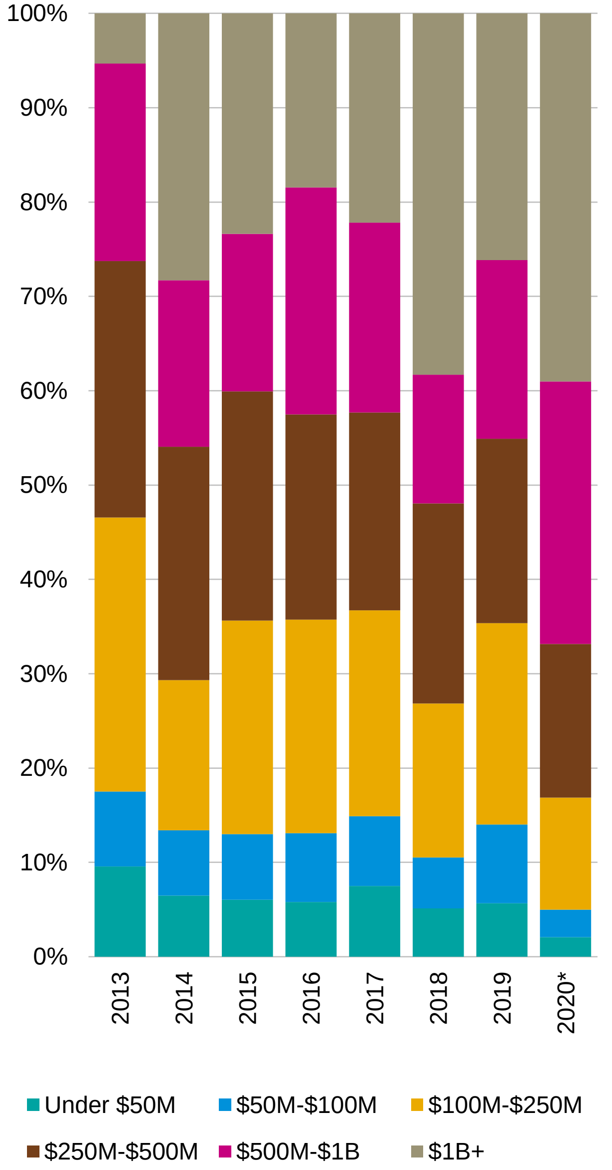
Venture fundraising (#) by size in the US

2013–2020*



Venture fundraising ($B) by size in the US

2013–2020*

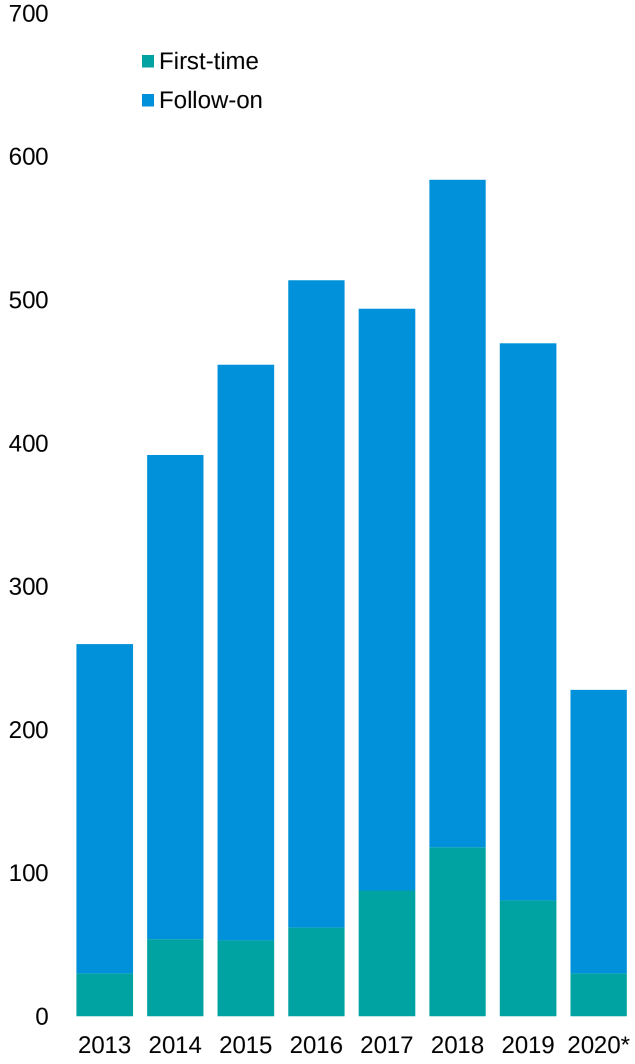


Source: Venture Pulse, Q3'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 9/30/20. Data provided by PitchBook, 10/21/20.

Follow-on fundraising predominates

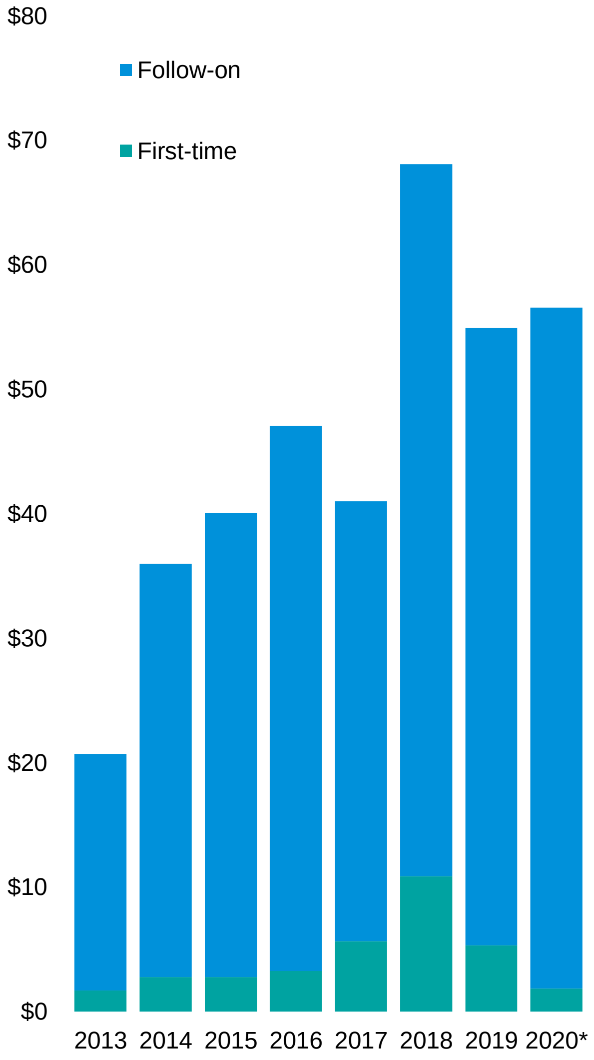
First-time vs. follow-on funds (#) in the US

2013–2020*



First-time vs. follow-on funds ($B) in the US

2013–2020*



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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.

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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

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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 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.

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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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