KPMG Private Enterprise

Venture Pulse Q1 2020

Global analysis of venture funding

21 April, 2020

Welcome message

In a departure from our normal format we wanted to let you all know that you are in our thoughts as we all work through what is likely the biggest global test that we will likely deal with in our lifetimes.

Venture Capital investment trends are obviously irrelevant in comparison to what is currently facing us, but supporting and showcasing this community remains critical to those of us leading KPMG Private Enterprise.

We have no doubt that the human spirit will triumph over this adversity and we have seen this evidenced in the tremendous accomplishments of our employees and of our clients over the last several weeks. It has been inspirational to see, and we are sure to see more over the next few weeks and months.

Remember we are here to provide assistance to you in any way we can — even if it is a simple conversation around how you are doing.

Q1'20 was unlike any quarter on record. The emergence of the novel coronavirus COVID-19 shattered original expectations for the year, putting previous trends and concerns, such as Brexit and the US-China trade tensions, on the backburner. The spread of the virus, deemed a pandemic by the World Health Organization on March 11th created turmoil in nations, economies, and public markets around the world.

Despite the impact of COVID-19, VC investment globally remained quite robust in Q1'20, primarily due to the strong pipeline of deals in many jurisdictions around the world. In particular, VC investment in the US remained strong, led by a $2.25 billion raise by Waymo, a $1 billion raise by Generate Capital, and a $750 million raise by Quibi. VC investment was also strong in Europe, led by a $500 million raise by Revolut and a $240 million raise by Lilium.

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Unless otherwise noted, all currencies reflected throughout this document are US Dollar.

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Asia, meanwhile, saw VC investment drop significantly, driven by a slowdown in deals activity in China, where the fight against COVID-19 began much earlier than in other jurisdictions. Despite a sharp decline in the number of deals, Asia saw a number of megarounds during Q1'20, including $3 billion raises by Gojek and Kuaishou, and a $1 billion raise by Yuanfudao.

With unprecedented shutdowns around the world, Q2'20 is expected to be a rough quarter for VC investment in every jurisdiction. While there continues to be an enormous amount of dry powder in the global VC

market, many investors will likely sit on the fence until the ramifications of the pandemic become clearer. VC deals that do occur will likely involve follow-on funding to companies within the existing portfolios of VC investors or companies that have a clear value proposition given the current situation.

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

— The implications of COVID-19 on each of the key jurisdictions
— The rise in demand for digital business models
— The rise in benevolent investments in companies focused on addressing COVID-19 challenges
— The long-term ramifications of the pandemic on potential investment trends.

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 Private Enterprise adviser in your area.

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KPMG Private Enterprise

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In Q1'20 US VC-backed companies raised

$34.25B

across

2,298 deals

VC investment in the US rises in Q1'20

VC investment in the US rose in Q1'20, led by a $2.25 billion raise by autonomous mobility company Waymo and a $1 billion raise by cleantech infrastructure provider Generate Capital. The relatively long lead times for deals helped keep the VC market on an even keel, even as COVID-19 began to make waves in the US economy and public markets.

First 2 months of 2020 mirror previous trends

The first 2 months of 2020 saw a continuation of the trends experienced in Q4'19. VC investors in the US continued to have a significant amount of dry powder at their fingertips. Despite the failed WeWork IPO and the weak performance of a number of IPOs during 2019, there continued to be a competitive market for high quality VC deals. VC investors enhanced their focus on profitability, putting pressure on companies within their portfolios to improve their bottom line and unit economics, particularly those considering a 2020 IPO.

Deal sizes were quite robust in the early part of Q1'20, led by Waymo's $2.25 billion round, a $1 billion raise by cleantech infrastructure investor Generate Capital and a $700 million raise by e-cigarette manufacturer Juul. The diversity of investments remained a hallmark of the VC market in the US with the largest deals of the quarter going to companies in finance, B2B productivity, aerospace, entertainment, network management, and autonomous driving.

As COVID-19 makes waves, VC investment remains strong

The sudden emergence of COVID-19 in different areas of the US created significant ripples within the US economy and created major waves in the public markets. A significant amount of in-progress IPO activity ground to a halt, with a number of companies due to file postponing their offerings indefinitely.

Despite surging uncertainty, VC investment in the US remained strong into March 2020, including the massive $2.25 billion raise by Waymo, a $750 million raise by mobile video company Quibi, a $700 million raise by digital bank Chime, a $500 million raise by alternative meat company Impossible Foods, and a $493 million raise by biotech company Lyell.

VC investors prioritizing existing portfolio companies

Given the unexpected turmoil in the US and global markets, US-based VC investors are poised to become even more cautious with their investments moving forward. They will likely also need to re-evaluate the needs of their existing portfolio companies given the changing business environment. Most companies that had planned to exit in the near-term, whether through acquisition or IPO, are likely changing or delaying their plans. Depending on the financial situation of these companies, VC investors might need to use their dry powder to shore up companies so they have the resources to maintain operations until the economy rebounds. This could significantly reduce the availability of funding for early stage companies over the next quarter.

Increasing focus on digital solutions could spur pockets of investment

The significant push to have employees work from home is already having a significant impact on companies with productivity solutions. For example, while most stocks have seen enormous hits, videoconferencing solutions company Zoom has seen its stock price increase 100 percent since the beginning of 2020 and 32 percent since the market began to sink in mid-February[1]. In addition to productivity-focused companies, others that could see an uptick in investment include those focused on biotech, delivery, online services, or digital entertainment.

[1] https://www.fool.com/investing/2020/03/25/should-you-buy-zoom-stock-right-now.aspx

VC investment in the US rises in Q1'20, cont'd.

Focusing on building companies, rather than growing companies

The current reality will make it extremely difficult for most US startups to grow their business in the near-term. As a result, VC investors may find it an opportune time to work with their portfolio companies to build their businesses, helping them to create new technologies or advance their R&D efforts. Given the strength of the US economy prior to COVID-19, and the US government's commitment of $2 trillion dollars[2] in economic relief, companies that are well-positioned from an operational perspective could be in a strong position to resume their growth agenda in the second half of 2020 and into 2021.

Deal-making processes set to slow

The increasing restrictions on the movement of people in many US states is expected to cause a significant slowdown in the VC deal-making process. With travel difficult, the logistics associated with conducting deal due diligence could be a major barrier to finalizing deals. While VC investors and target companies will likely adapt and embrace digital support solutions, it is expected the implementation of such activities will take time. Given the uncertainty of COVID-19's impacts, VC investors could also simply put deal-making activity on hold until the pandemic runs its course.

It is expected that any deals that get completed moving into Q2'20 will include increased due diligence in order to understand the impact of COVID-19.

Trends to watch for in the US

Looking forward, VC investment in the US is expected to slow substantially in Q2'20 as deals get more difficult to complete and VC investors hold back from making major new investments in order to focus on their existing portfolios. A small number of companies could see upticks in VC investment should their products or services be particularly conducive to the current economic situation; for example, companies in biotech, digital services, or delivery and logistics.

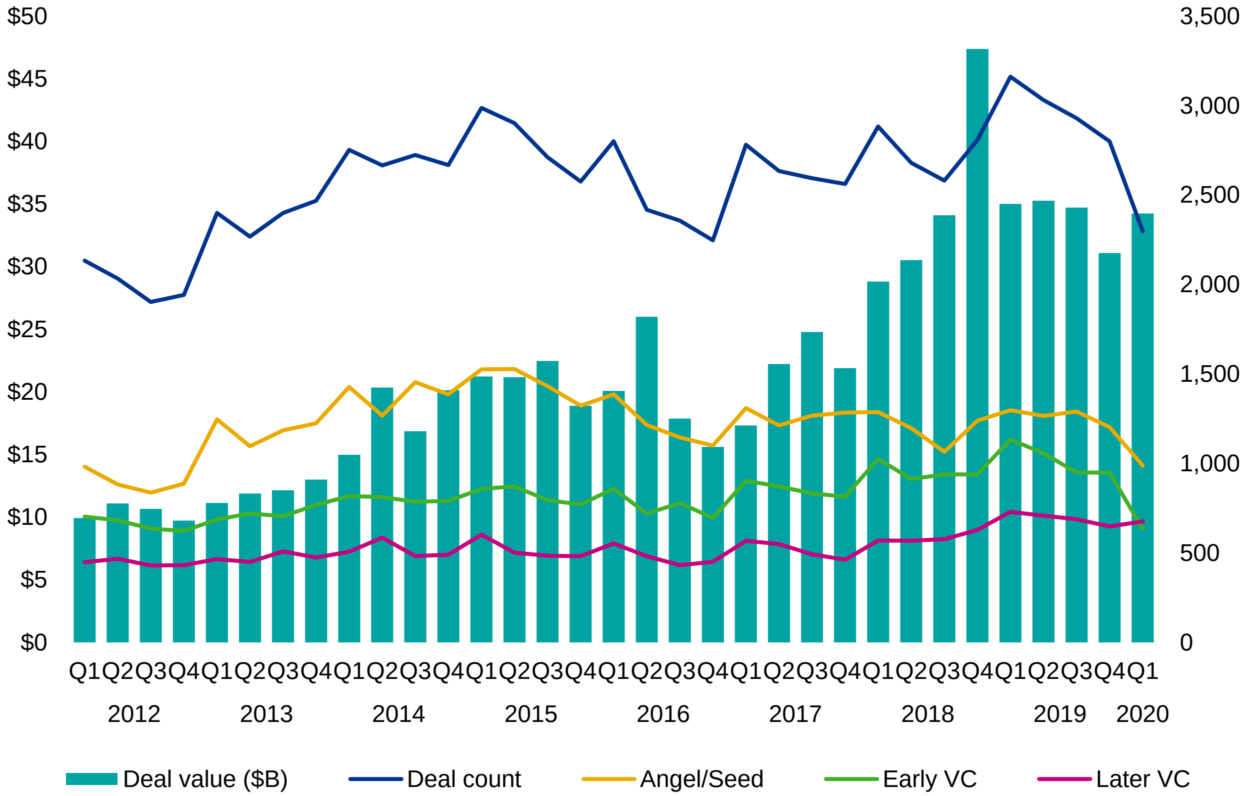
In the event the pandemic continues for several months, there could be an increase in distressed investing as startups struggle to cope with the impact of COVID-19 and both VC and corporate investors with large pocketbooks look for deals.

[2] https://www.nytimes.com/article/coronavirus-stimulus-package-questions-answers.html

2020 starts with diminishing volumes

Venture financing in the US

2012–Q1'20



Source: Venture Pulse, Q1'20. Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 4/21/20. Note: Refer to the Methodology section on page 23 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

After a remarkably robust stretch of VC invested and a record peak in volume of the decade, 2020 may finally see some significant slowing in the US. Q1 2020 volume hinted at such a trend, although the true ramifications of the COVID-19 pandemic really only began to be seen to considerable effect in the back half of March. It remains to be seen how much multi-state lockdowns impede deal-making in Q2, though the extent is highly likely to be considerable.

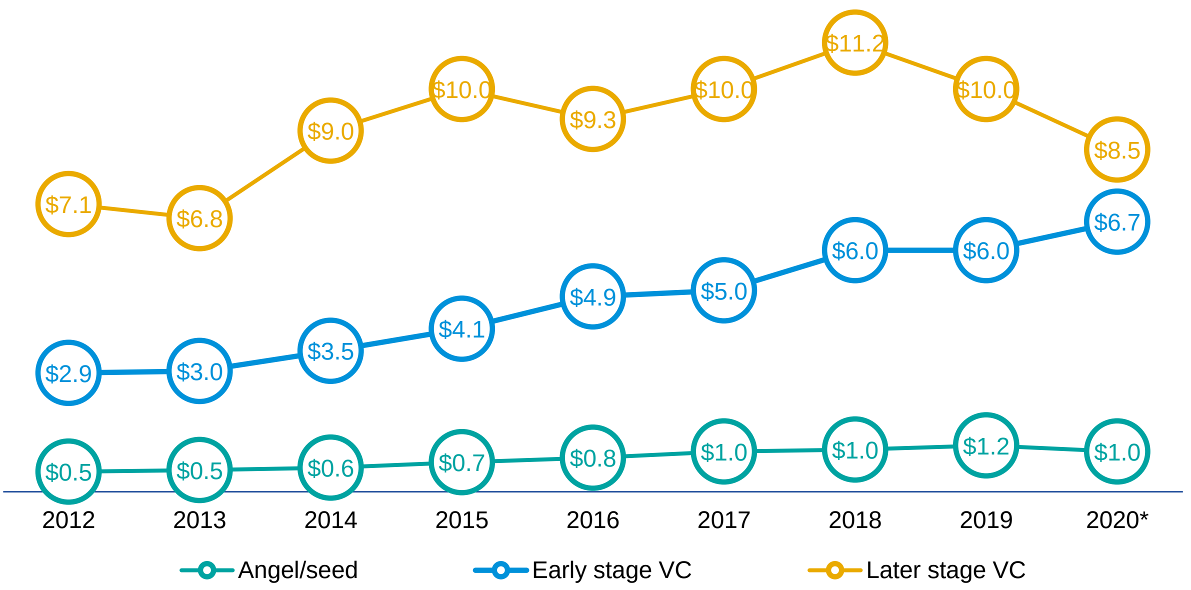
"The VC market in the US was quite robust pre-COVID-19. Valuations were high. Dollar amounts were high. Companies across sectors attracted funding, from plant-based meats to fintech. What we're experiencing now is not necessarily going to cause an investor that's substantially complete with due diligence to actually pull back financing, so we will likely see more deals come through, but I'd expect April and May to be pretty bleak."

Conor Moore
Co-Leader, KPMG Private Enterprise Emerging Giants Network, KPMG International and National Lead Partner, KPMG Private Enterprise, **KPMG in the US**

The late stage slides once more

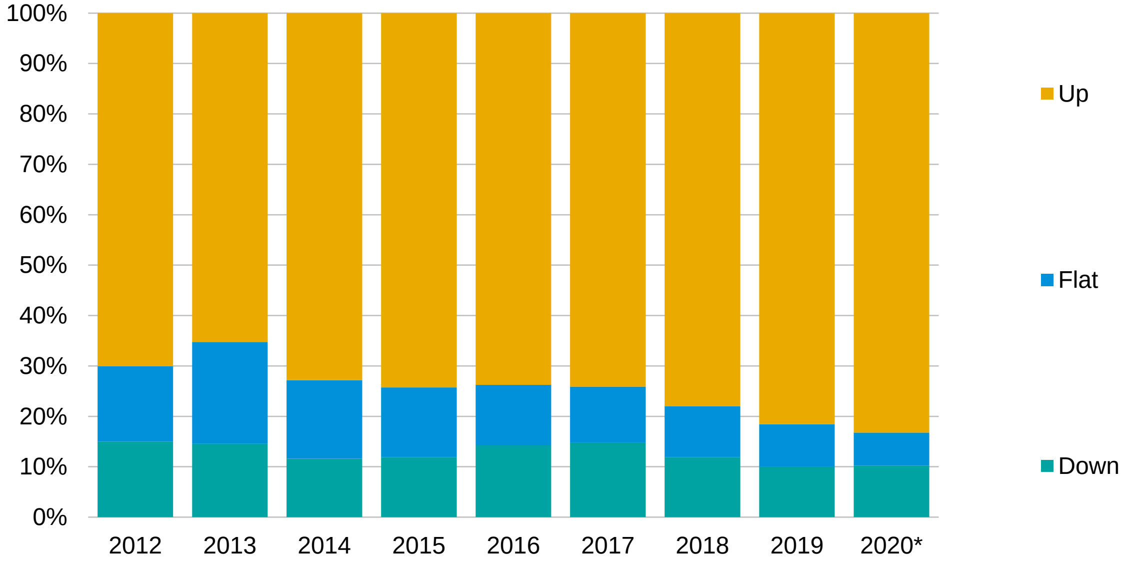
Median deal size ($M) by stage in the US

2012–2020*



Up, flat or down rounds in the US

2012–2020*

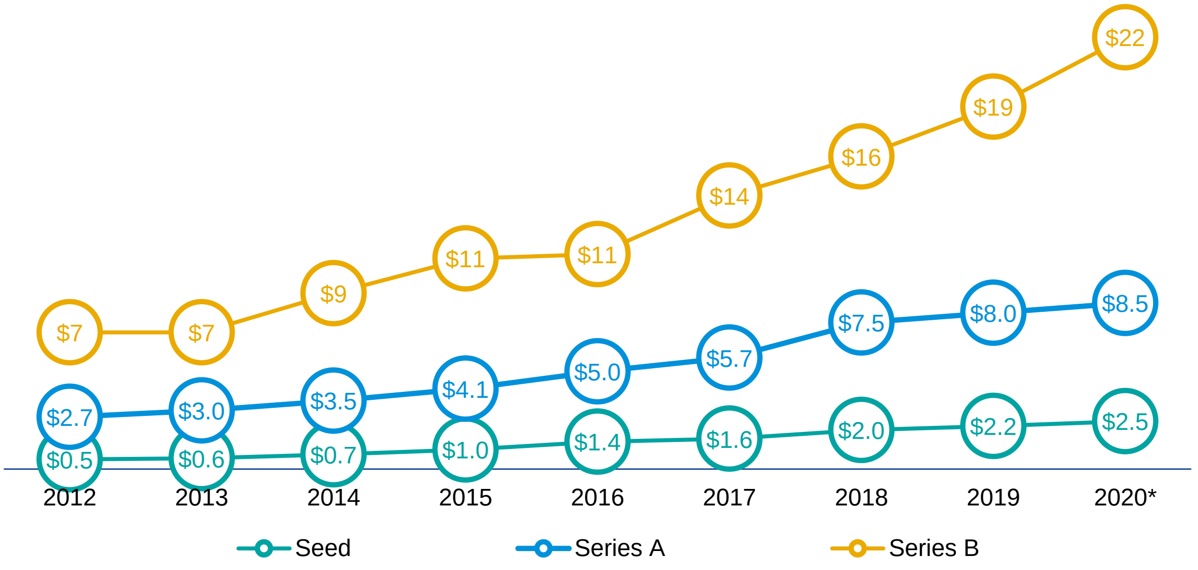


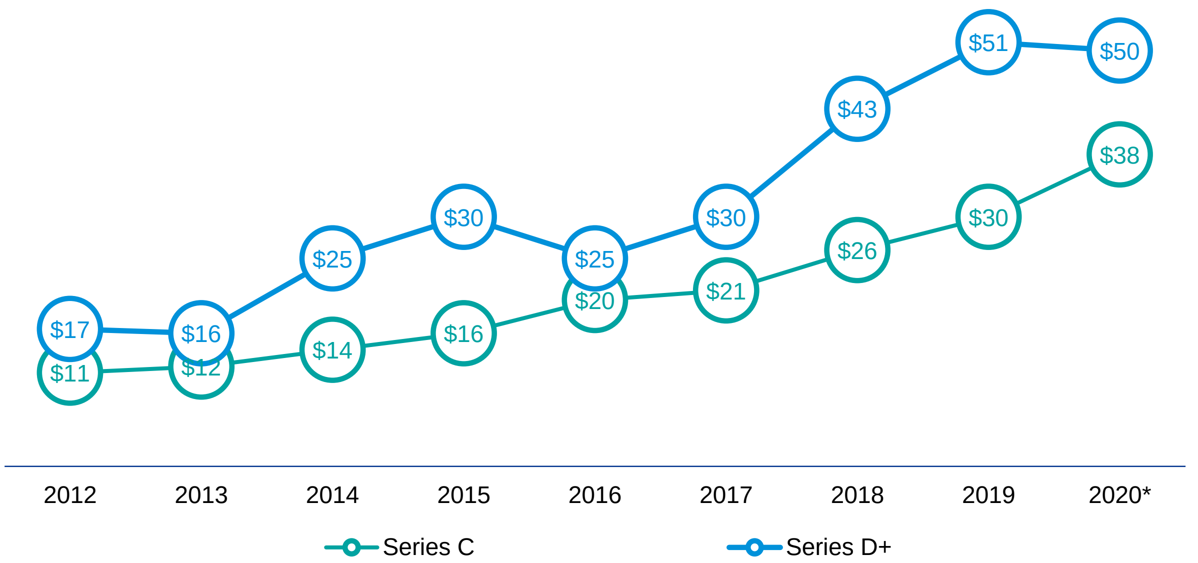
Source: Venture Pulse, Q1'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 3/31/20. Data provided by PitchBook, 4/21/20.

The latest stage slides ever so slightly

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

2012–2020*





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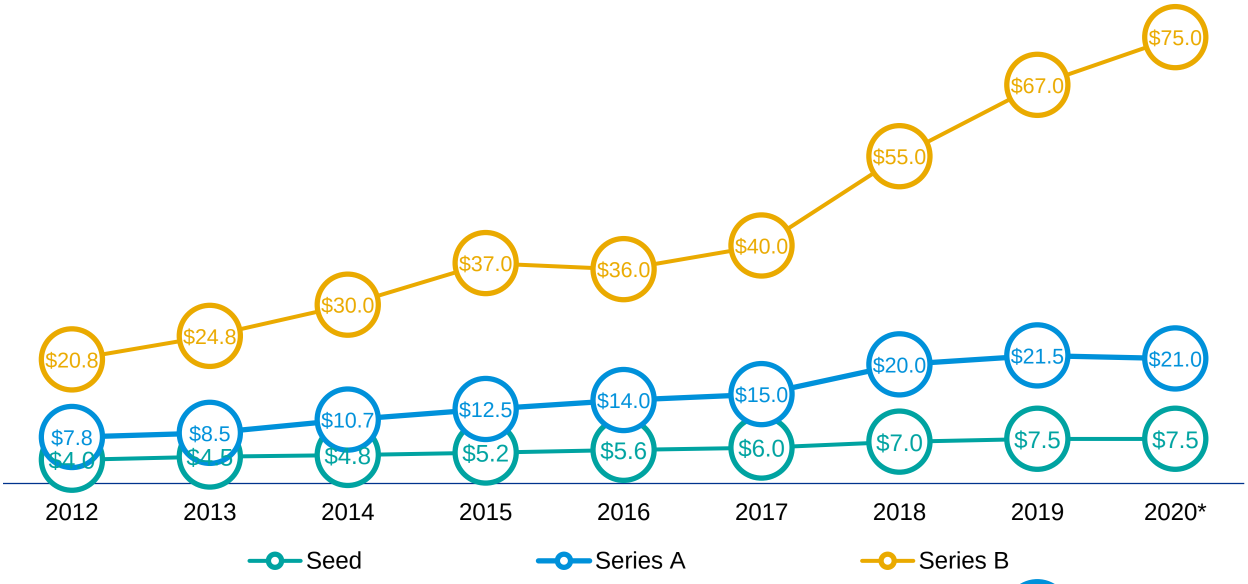
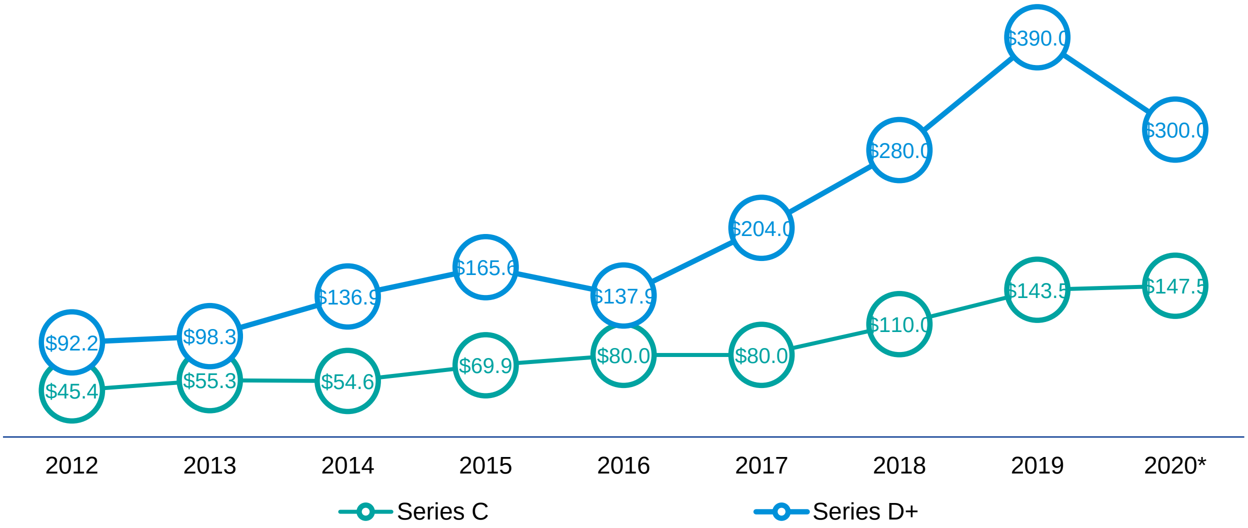
Note: Figures rounded in some cases for legibility.

Record valuations to be put to the test

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

2012–2020*





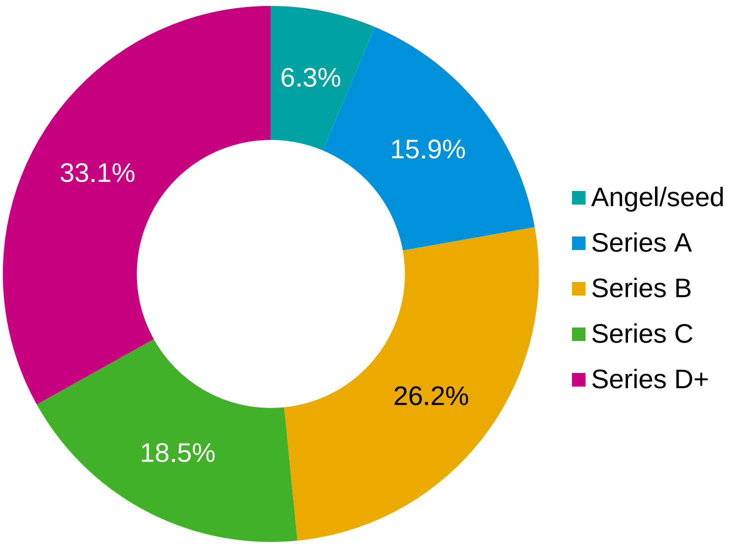
Source: Venture Pulse, Q1'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 3/31/20. Data provided by PitchBook, 4/21/20.

Note: Figures rounded in some cases for legibility.

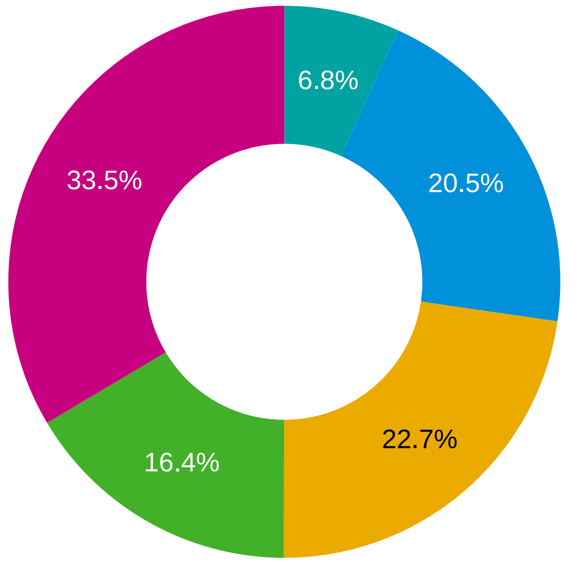
After record and near-record highs in VC valuations notched last year, it is difficult to know with certainty what will happen when COVID-19 inevitably impacts the volume of deal-making. It is possible that the companies that are best-placed to raise and that are able to close on funding rounds in the current climate may still be able to command significant valuations. However, it is also likely investors may demand different terms and more favorable valuations. Additional time resulting in more data will yield a clearer picture.

Earlier stages contract in VC invested

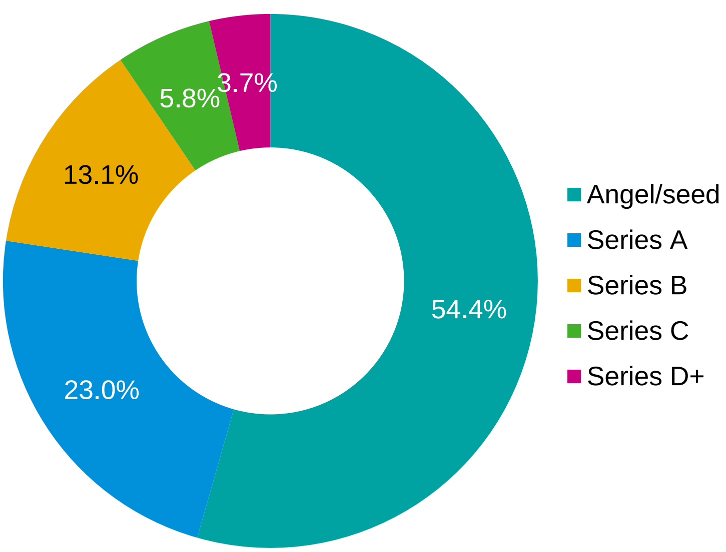
Deal share by series in the US
2020*, VC invested ($B)



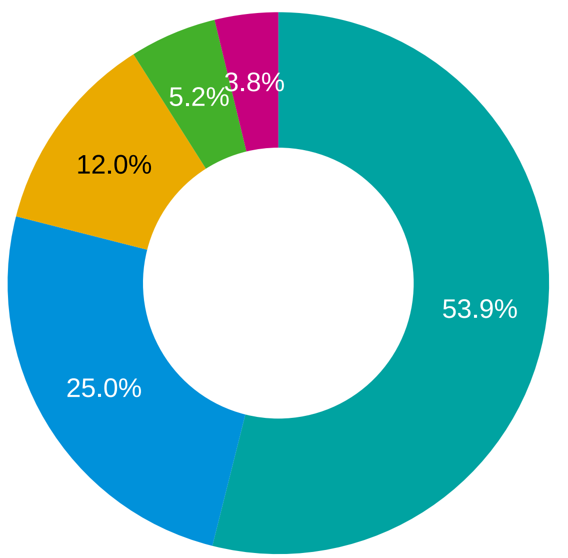
Deal share by series in the US
2019, VC invested ($B)



Deal share by series in the US
2020*, number of closed deals



Deal share by series in the US
2019, number of closed deals

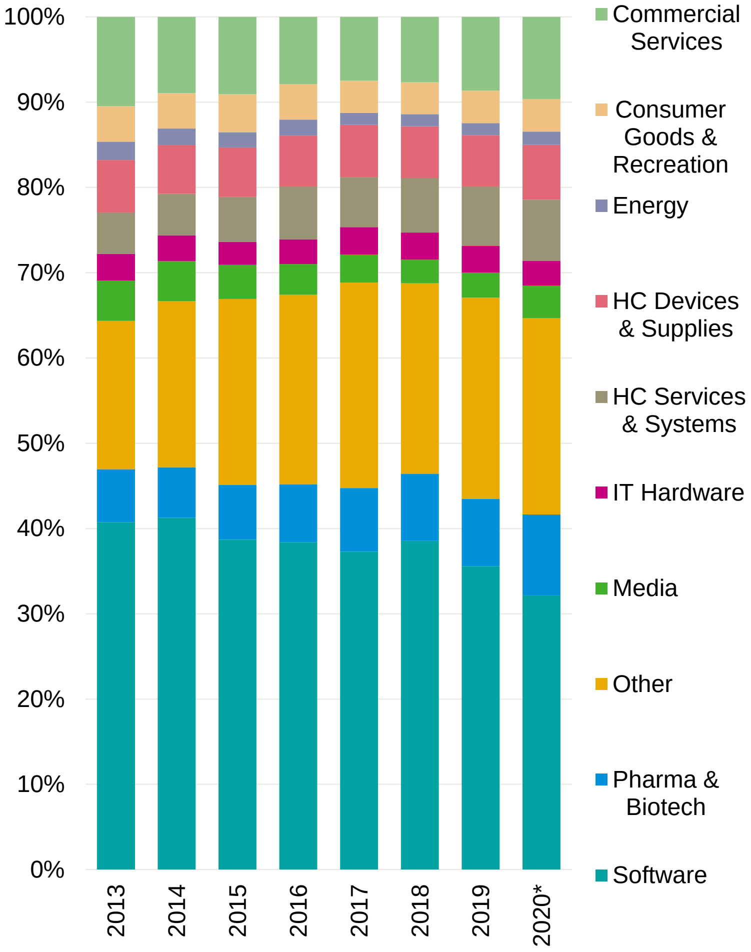


Source: Venture Pulse, Q1'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 3/31/20. Data provided by PitchBook, 4/21/20.

Biotech remains unsurprisingly robust

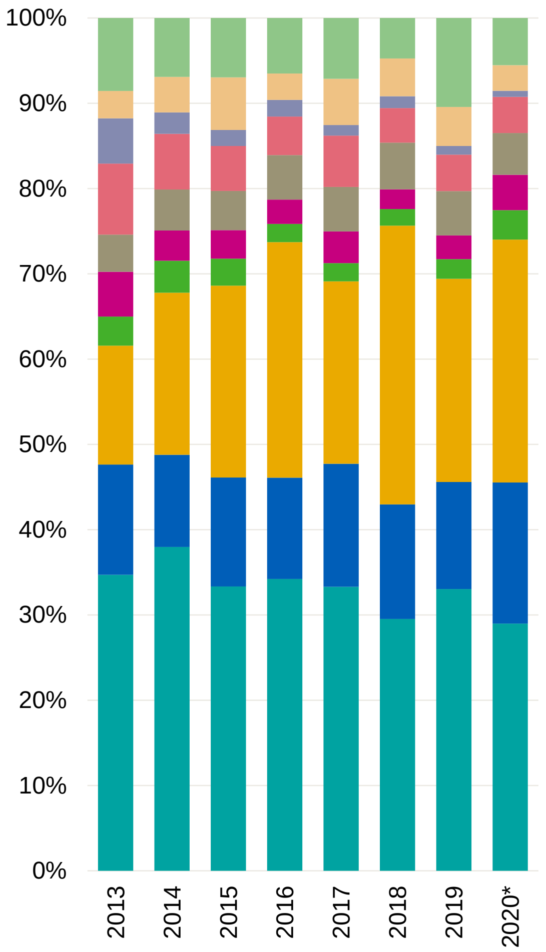
Venture financing by sector in the US

2013–2020*, number of closed deals



Venture financing by sector in the US

2014–2020*, VC invested ($B)



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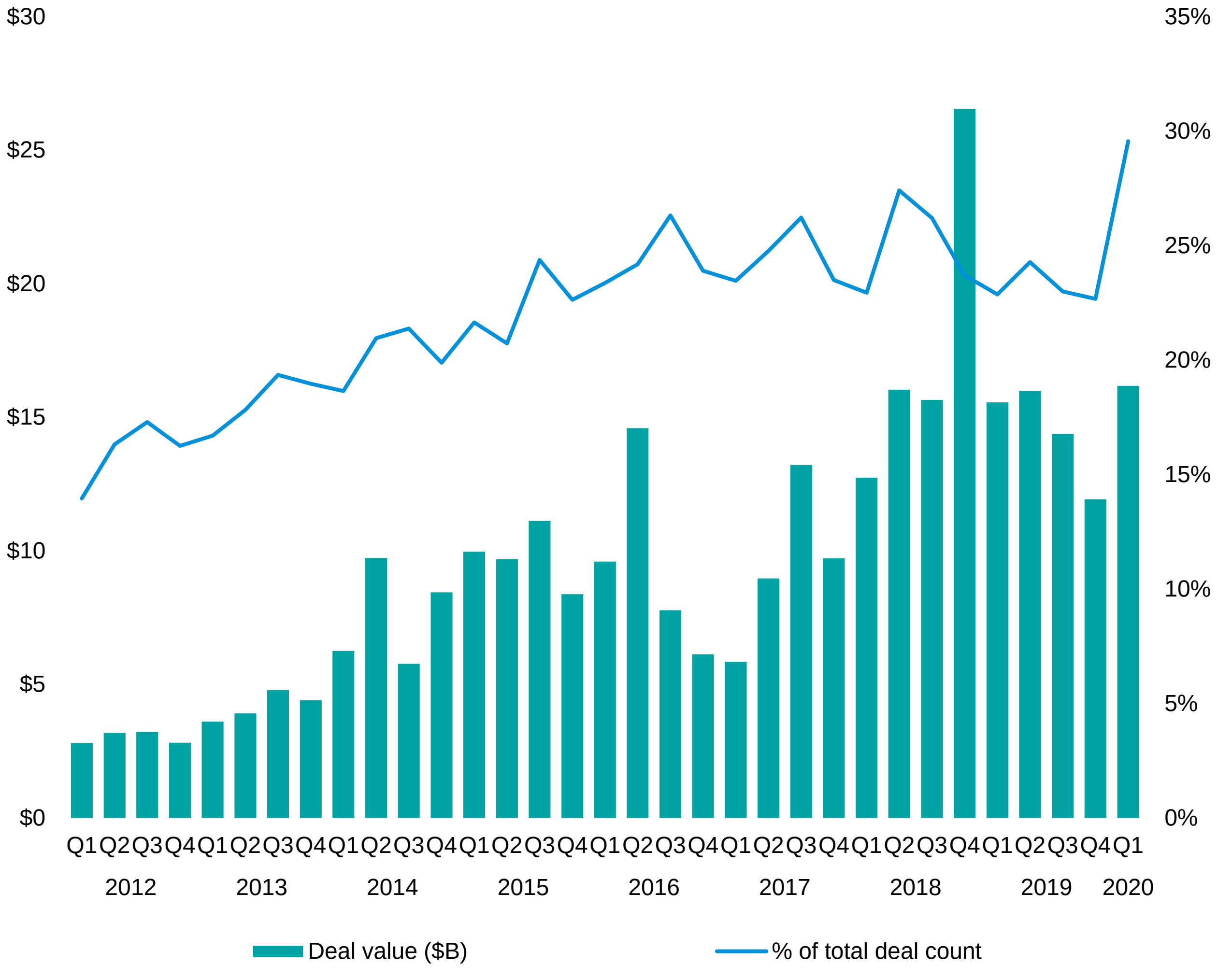
Even before the COVID-19 pandemic began impacting the US economy, more venture dollars were flowing to biotech and healthcare in general, as the industry still poses very favorable dynamics for innovation. Now, that appeal is only further underlined, from telehealth to antiviral research.

CVC notches a new high

Corporate participation in venture deals in the US

2012–Q1'20



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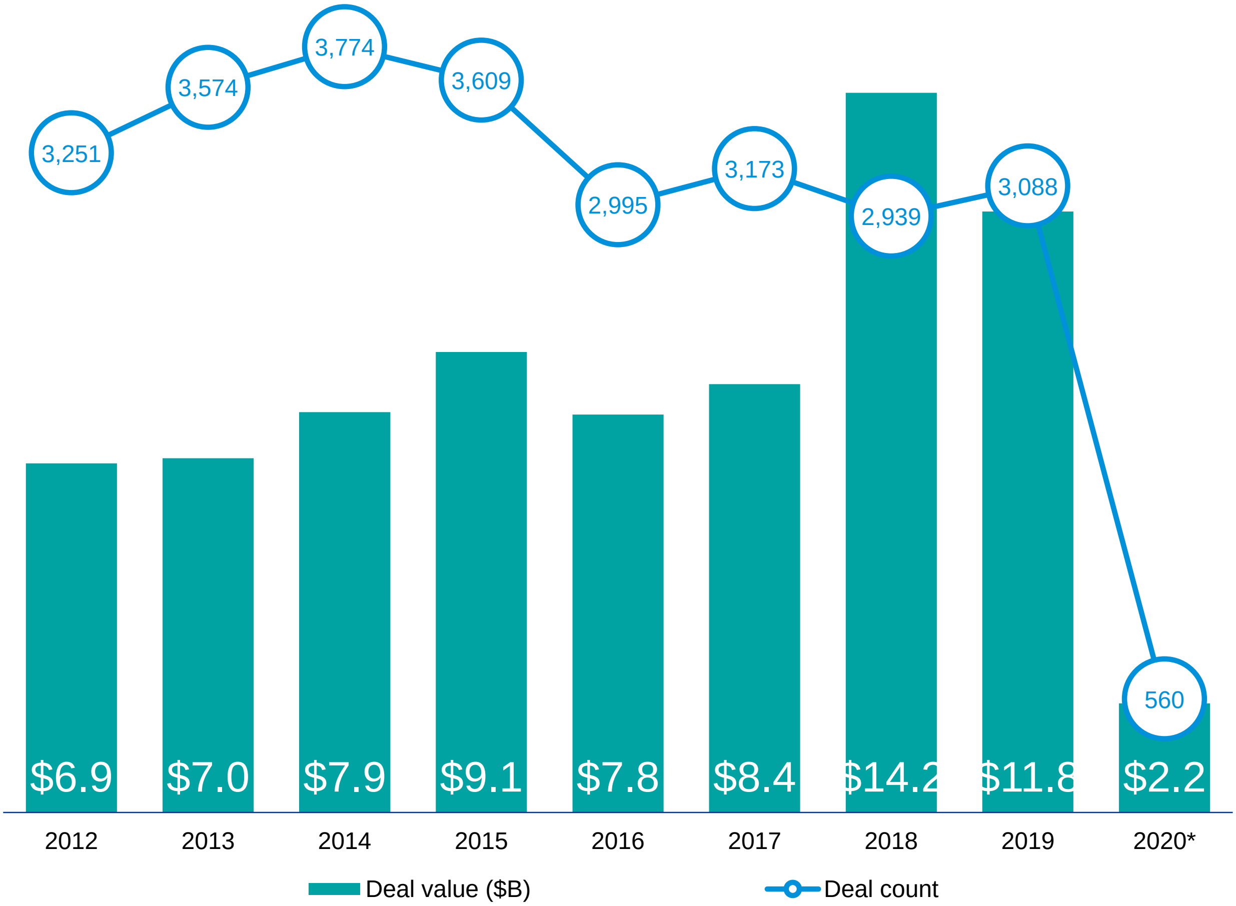
Finishing 2019 strong in continuation of an elevated plateau, Q1 2020 saw corporate players reach a new high in terms of participation proportions. It is likely that statistics are skewed by the steadiness of late-stage rounds, which typically see the involvement of corporates and larger CVC arms; accordingly, as overall VC volume looks set to contract sharply, it'll be interesting to see how corporate players behave in the environment, given what their affiliated parent may be experiencing.

Off to a rough start

First-time venture financings of companies in the US

2012–2020*



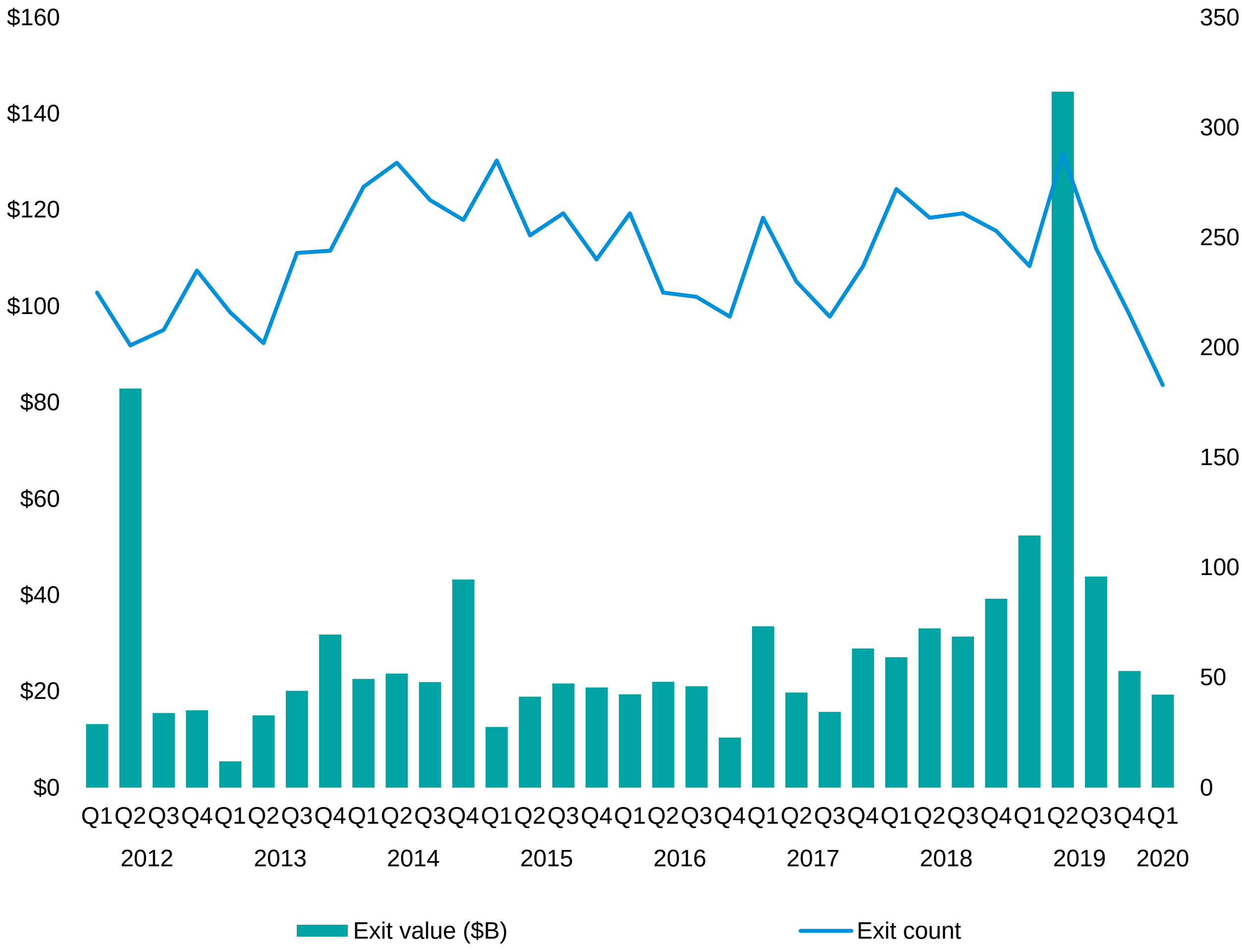
Source: Venture Pulse, Q1'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 3/31/20. Data provided by PitchBook, 4/21/20.

First-time funding finished 2019 strong, at no less than $10.9 billion invested across a remarkably consistent 2,766 transactions. But now, 2020 is looking likely to be quite a different story. Even though venture ecosystems often proclaim how recessions produce the most resilient startups that can be successful going forward, that doesn't mean that volume of first-time financings is likely to roar back anytime soon. For now, it depends on the duration and the depth of the recession.

Exits nosedive even further

Venture-backed exit activity in the US

2012–Q1'20



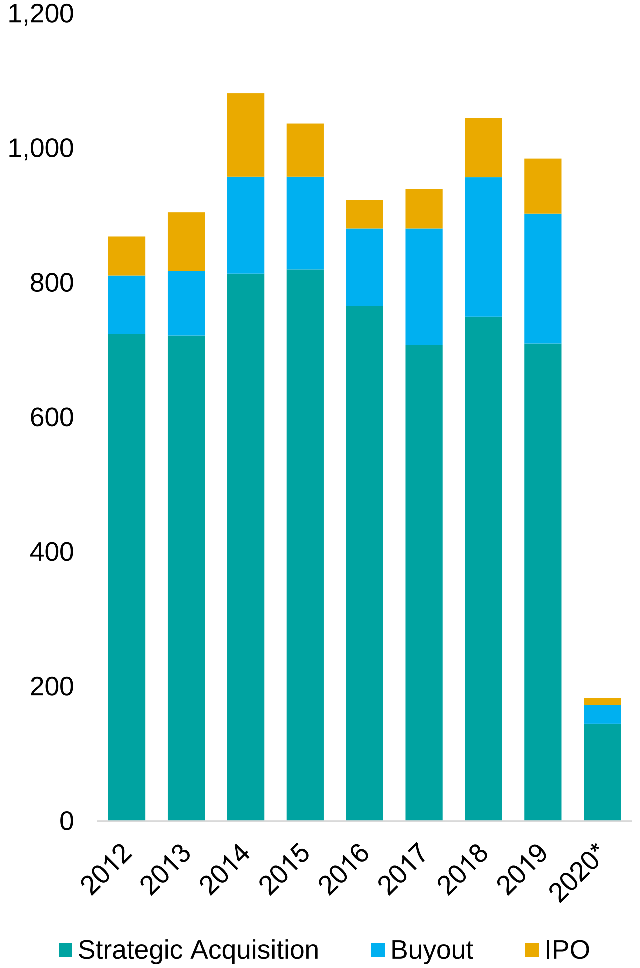
Source: Venture Pulse, Q1'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 4/21/20.

Q1 2020 saw a continuation in the steep plunge of venture-backed exits in the US. The massive spike in volatility and records set in the stock market for the worst declines and quarterly starts obviously helped dissuade companies from going public, while M&A talks are now extremely complex. The full extent to which venture-backed liquidity contracts remains to be seen, as its duration.

Stark drops across all exit avenues

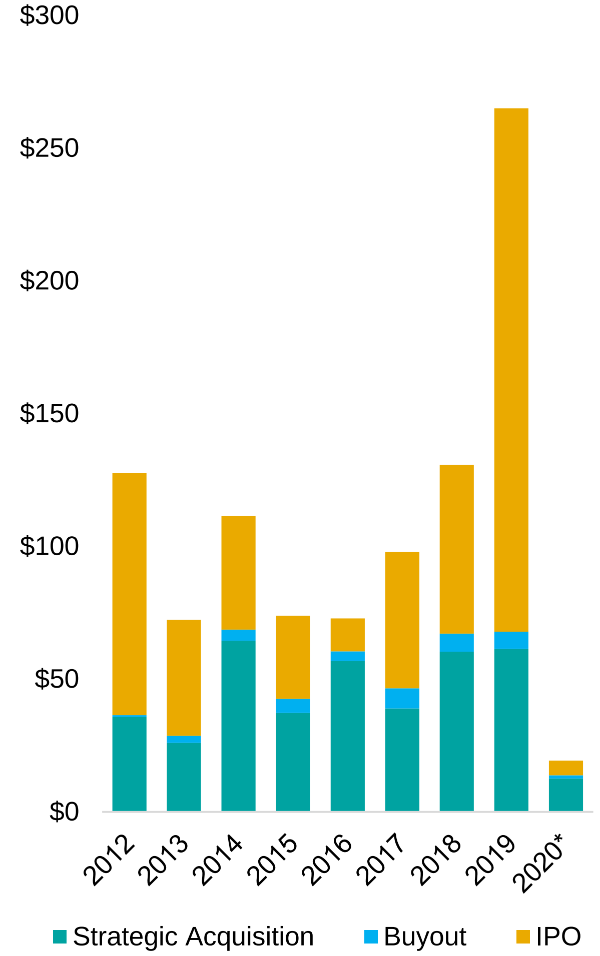
Venture-backed exit activity (#) by type in the US

2012–2020*



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

2012–2020*



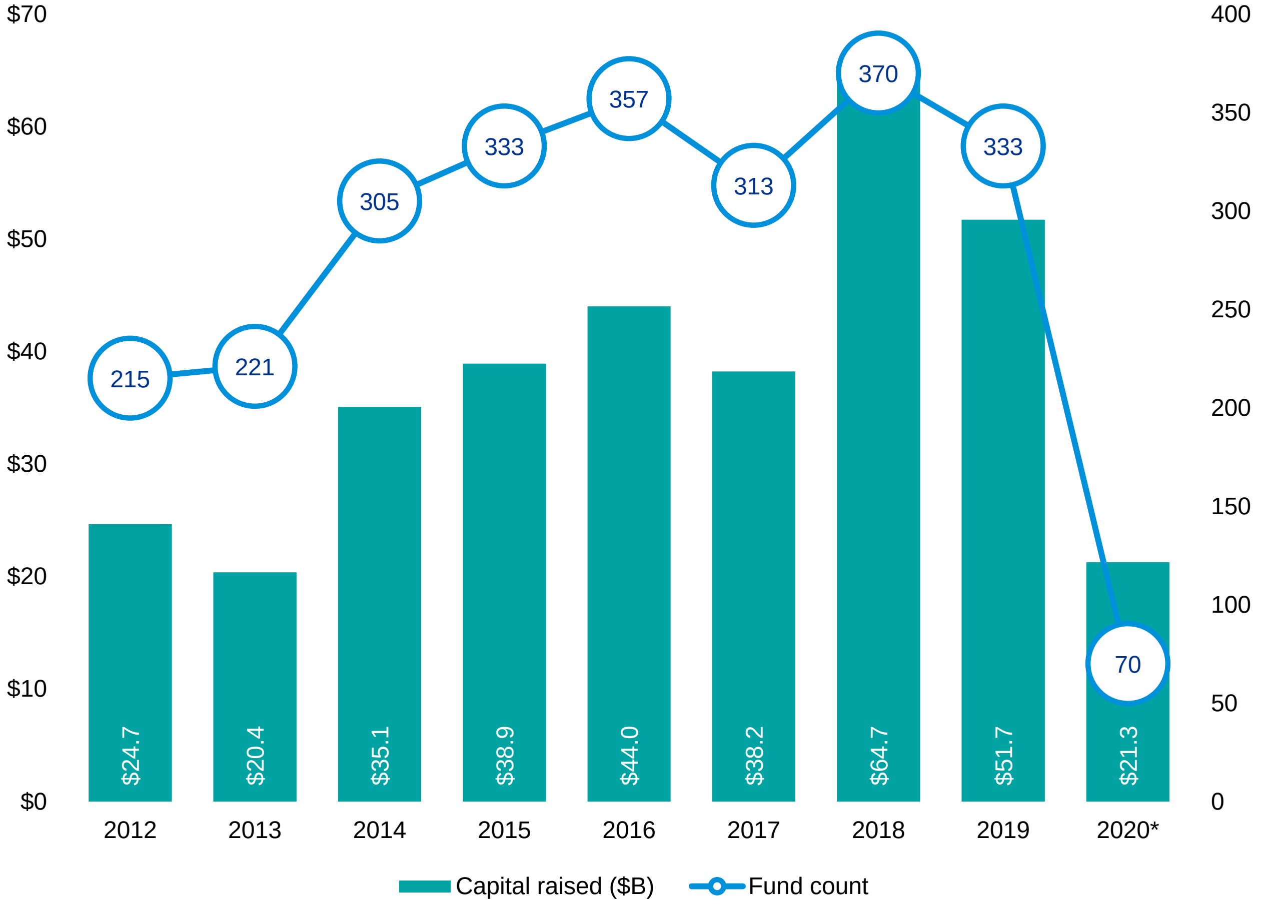
Source: Venture Pulse, Q1'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 3/31/20. Data provided by PitchBook, 4/21/20.

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 2012. This year does not look set to repeat that in the slightest. Nobody currently knows how long the full effects of the COVID-19 pandemic may persist in the US, closing markets to companies looking to go public. Even if markets return to normalcy quickly, companies that were looking to go public may still hold back, except in rare circumstances. M&A is likely to be put on pause in many instances.

VCs store up to start the year

US venture fundraising

2012–2020*



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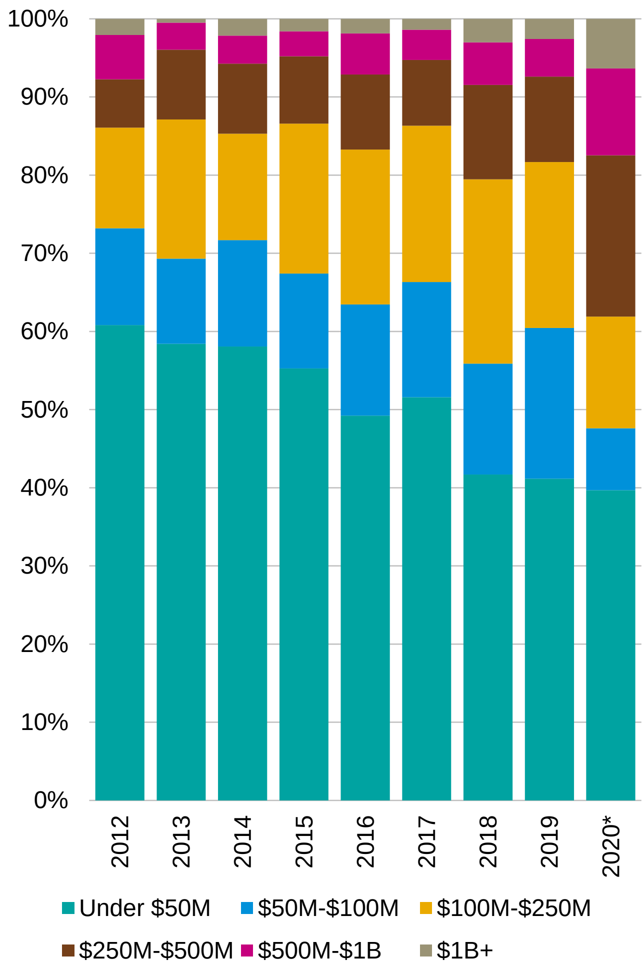
After a record haul in terms of dollars committed and volume in the past two years, one would think venture firms may let up the pace of fundraising. However, 2020 roared off to a strong start with well over $20 billion raised even if the count of funds closed was down considerably. VCs will still have plenty to invest barring distressing scenarios wherein limited partners cannot commit, should fund managers choose to deploy. The question is whether they will do so or not.

Larger funds squeak by in closing in Q1

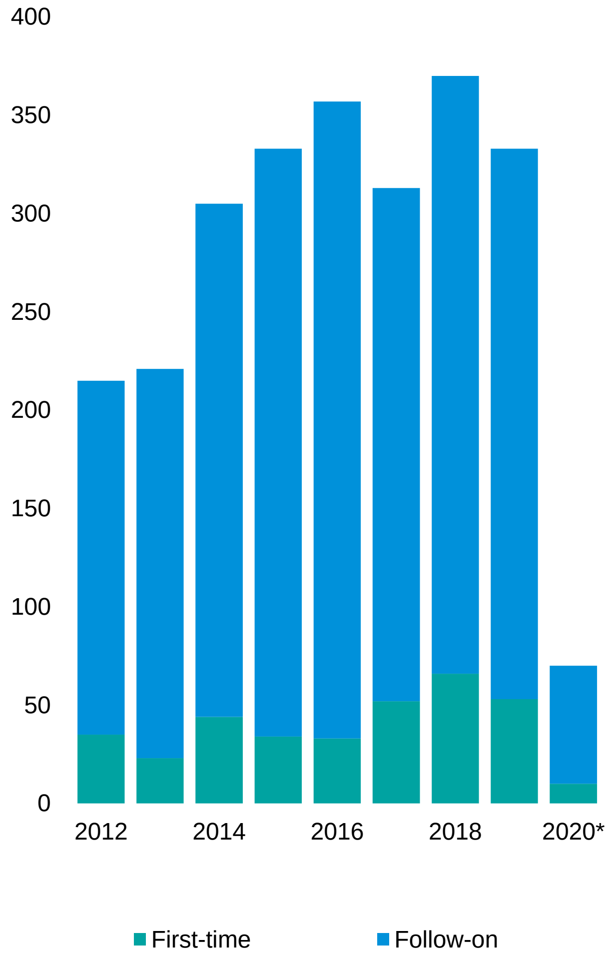
Venture fundraising (#) by size in the US

2012–2020*



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

2012–2020*



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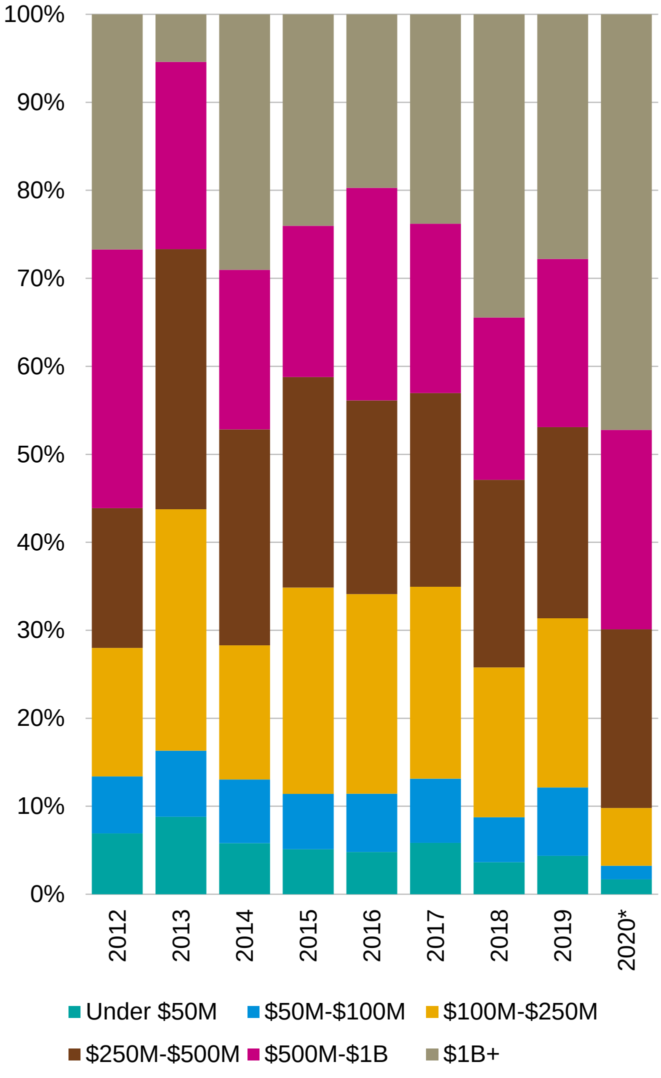
As is clear from the breakdown of funds closed in count by size range, the larger vehicles fundraising in Q1 2020 were able to close at a heightened rate, especially relative to first-timers. Although that is partially due to the fact more-established firms tend to close more easily given track records, resources and more, it was possibly also driven by heightening concerns from fund investors that then opted for safer harbors for their commitments.

Dollars committed tilt ever larger

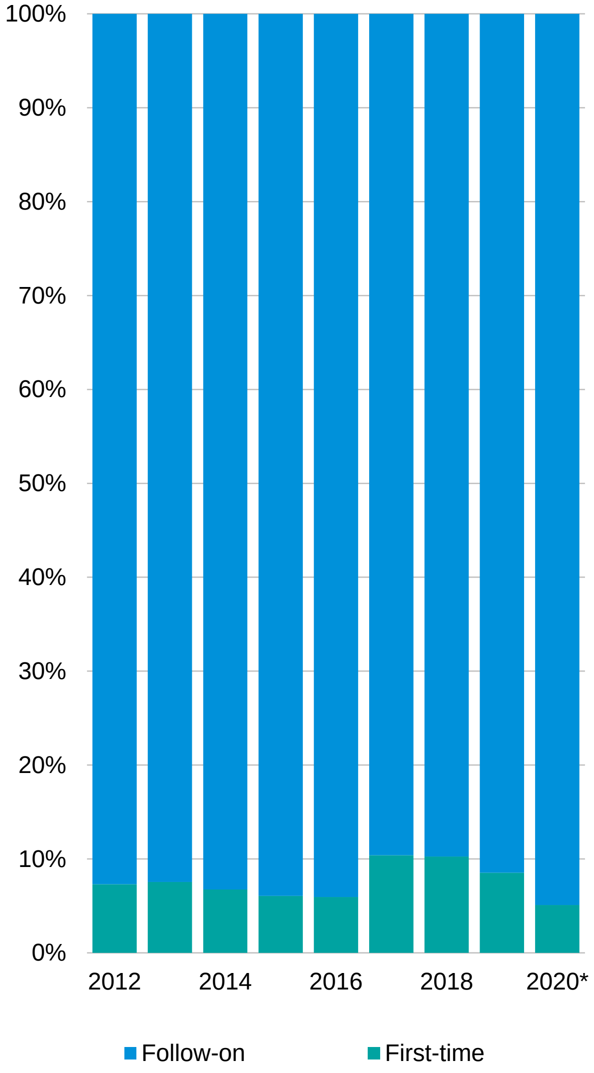
Venture fundraising ($B) by size in the US

2012–2020*



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

2012–2020*



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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.

Acknowledgements

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Tim Dümichen, Partner, KPMG in Germany

Tim Kay, Director, KPMG in the UK

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 takes into account 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 this 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, yet is more reflective of how the industry views the true size of an exit via public markets.

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