KPMG Private Enterprise

Venture Pulse Q2 2020

Global analysis of venture funding

22 July, 2020

Welcome message

Welcome to the Q2'20 edition of *Venture Pulse,* KPMG Private Enterprise's quarterly report highlighting the key trends, opportunities, and challenges facing the venture capital market globally and in major regions around the world.

Q2'20 saw regions across the globe continuing to grapple with the challenges associated with COVID-19, including economic turbulence, sudden spikes in unemployment rates, restrictions on travel and movement, and the ramifications of the continued shutdown or slowdown of many sectors and industries. As countries and territories began to re-open their economies during Q2'20, both Venture Capital (VC) investors and startups worked to understand the 'new reality' and how it would affect business operations.

Venture Capital investment continued to show some resilience compared to broader economic trends, particularly in the US and Europe. In the US, autonomous driving company Waymo raised a massive $3 billion in the largest VC deal of the quarter. Fintech investment was particularly hot in the US during Q2'20, with Stripe, Samsara, Palantir Technologies and Indigo (Horticulture) all raising large deals. In Europe, sectors seen as high potential despite or because of COVID-19 attracted significant investors attention, including food delivery, fintech and health and biotech. VC investment in Asia remained relatively soft in Q2'20, despite $1 billion raises by China-based Didi Bike and MGI Tech.

Over the next quarter, many VC investors are expected to remain highly focused on their own portfolio companies, assessing whether they can thrive in the new reality and providing follow-on funding for companies that have had to delay their exit plans. While early-stage companies globally will likely continue to find it difficult to attract funding, companies that respond to accelerating trends, such as remote working, ecommerce, and health and biotech, could see an uptick in investment interest. It is also likely that companies looking for investment will need to demonstrate an even greater commitment to equality and diversity.

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

- The impact of travel restrictions on VC investment in key jurisdictions
- The downward pressure on valuations as a result of COVID-19
- The longer-term impact of COVID-19 on consumer and business behaviors
- The increasing focus on profitability and cash management

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.

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

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KPMG Private Enterprise advisers in member firms around the world are dedicated to working with you and your business, no matter where you are in your growth journey — whether you're looking to reach new heights, embrace technology, plan for an exit, or manage the transition of wealth or your business to the next generation.

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Partner, KPMG in the UK

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In Q2'20 VC-backed companies in the Asia region raised

$16.9B

across

1,011 deals

KPMG Private Enterprise

Soft VC investment in Asia during Q2'20, yet cautious optimism for future

VC investment in Asia was severely impacted by Covid-19 in Q1'20 due to its early exposure to Covid-19. While VC investment in Asia remained suppressed in Q2'20, the VC market did see some early signs of recovery. In China, for example, both deal volume and VC investment rose slightly compared to Q1'20. While the pandemic is still having a major impact in jurisdictions such as India, the increasing focus on recovery in others is creating cautious optimism in the overarching Asia market heading into Q3'20.

Digital business models attracting significant attention

Despite VC investment in many sectors remaining suppressed in Q2'20, several sectors continued to thrive due to their applicability in the current business environment. Digital platform businesses focused on meeting consumer needs, such as edtech, home delivery, and online gaming, remained very attractive, in addition to healthtechs. With the employees of many corporations in Asia working from home, B2B digital solutions enabling employees to work remotely also attracted substantial investor attention.

Corporates looking for potential opportunities

At mid-year, corporate VC investment was only slightly off the pace set last year, a sign that corporates remain confident in opportunities in the Asia region. In China, the large platform companies began to resume investment activity in April. These and other large corporate investors in Asia are looking to see what companies have the agility, versatility, and strong management needed to survive. They are also looking for opportunities to make investments given the downward pressure on valuations.

Cybersecurity, AI, and data analytics remain hot in Asia

Given the rise in digital business models due to the pandemic, digital payments, e-commerce, and cybersecurity continued to be hot areas of investment. VC investors were also interested in AI, data analytics, and cybersecurity solutions able to assist with monitoring the spread of COVID-19 and with tracking, tracing, and isolating individuals. China's central government was a key driving force behind leveraging technology to support track and trace models due to the sensitive personal information being collected.

VC investors focusing on existing portfolios, putting early-stage companies at higher risk

Given the heightened levels of uncertainty, VC investors in Asia continued to focus heavily on the needs of their existing portfolio companies, primarily late-stage companies, in order to ensure they would be able to weather the effects of COVID-19 rather than on making investments in new startups. This drove increasing concern for smaller companies without the cash reserves or liquidity to survive the protracted decline in demand. The focus on late-stage companies could drive consolidation in maturing sectors as smaller competitors lose market share to their nimble, better capitalized competitors.

The early-stage companies in Asia able to attract investments in Q2'20 typically showed very strong paths to profitability. Investors in Asia are only growing increasingly wary of companies with high burn rates, preferring more efficient companies with a focus on profitability.

Soft VC investment in Asia during Q2'20, yet cautious optimism for future, cont'd.

VC investors in China taking very cautious approach

China accounted for the five largest deals in Asia during Q2'20, including $1 billion raises by biotech MGI Tech and Didi Bike, a $$750 million raise by edtech Zuoyebang, a $500 million raise by Didi Autonomous Driving, and a $400 million raise by produce delivery company Xingsheng Selected. Growing investor confidence in China's economic recovery, combined with ongoing international travel restrictions and concerns related to US-China trade relations, led many VC investors in China to focus on domestic investment in Q2'20. VC investors in China — including traditional VC investors, private equity firms, and family offices — are starting to look for opportunities to invest due to the unexpected downward pressure on valuations. Given the significant amount of dry powder in the VC market, VC investment in China could rise heading into Q3'20.

India sees ongoing interest from investors despite Q2'20 dip in VC investment

After outperforming China in terms of VC investment in fintech in Q1'20,[1] fintech continued to be the strongest area of focus for VC investors in India in Q2'20, led by the $397 million raise by lending company Navi Technologies. Despite the slowdown in VC funding, India remains a key market for investors. In April, Facebook announced a massive $5.7 billion equity investment in Reliance Jio, India's largest telecom operator.[2] During Q2'20, Reliance Jio launched both JioMart[3] a direct e-commerce platform and a JioMart Whatsapp-based platform.[4] The ongoing interest in India is expected to help keep VC deals occurring in the country, if at a slower rate. While Q3 results may also be soft, investment is expected to rebound by the end of 2020.

Hong Kong Stock Exchange continues to attract secondary listings

Despite the impact and ongoing uncertainty related to COVID-19, the Hong Kong Stock Exchange saw solid performance during Q2'20, attracting two secondary listings from large Chinese companies JD.com and NetEase. NetEase raised $2.7 billion from its listing, with shares gaining 8 percent on their first day of trading. JD.com, meanwhile, raised almost $4 billion, with its shares gaining 5 percent on the first day.[5]

In Q2'20, the Nasdaq issued a delisting notice to China-based Luckin Coffee following a massive fraud uncovered by the company,[6] which has intensified the push for stronger investor protections and changes by the SEC. This, combined with an increasing focus on domestic opportunities, other tensions and trade disputes with the US, and a fairly strong domestic IPO market could encourage China-based companies to focus their sights on domestic IPOs over the near-term.

Trends to watch for in Asia

Despite short-term challenges, the outlook for the VC market in Asia remains relatively optimistic as the region continues with its recovery from COVID-19. There will likely be continued downward pressure on valuations over the next quarter, however, along with increasing consolidation in sectors particularly hard hit by the economic downturn caused by the pandemic.

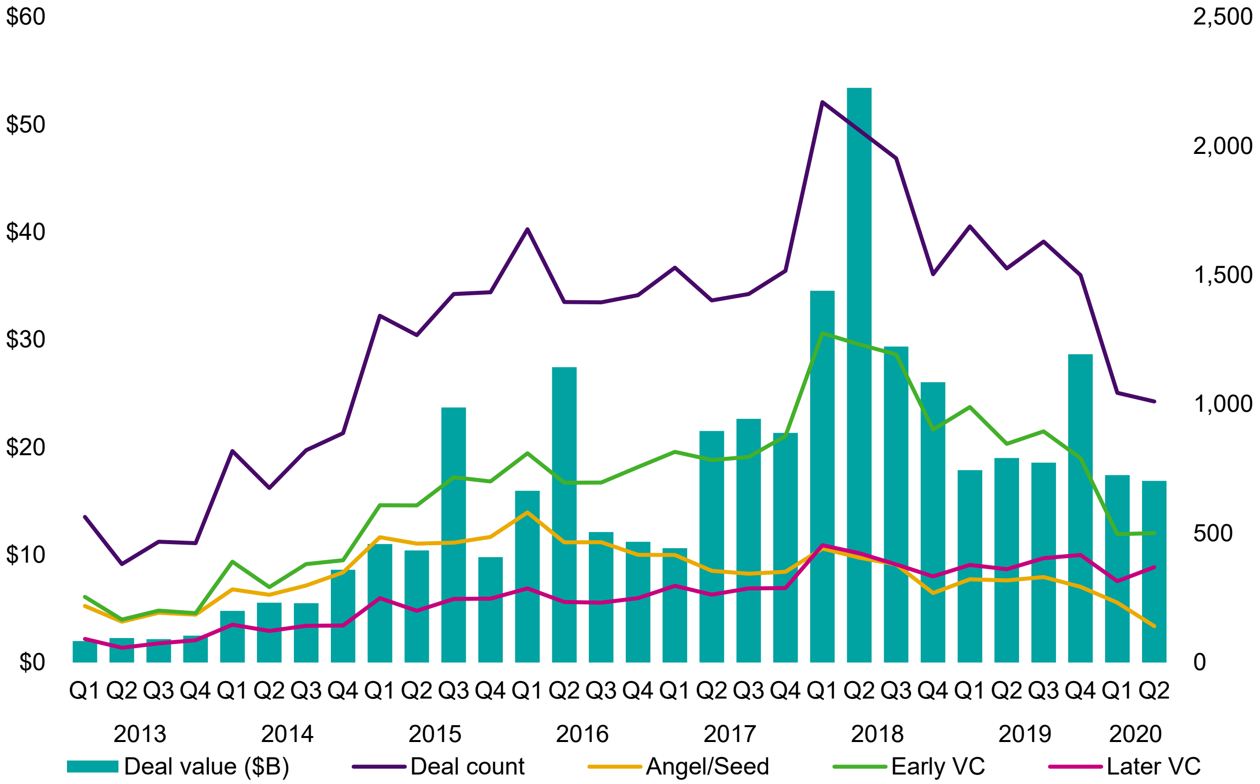
In China, there continues to be concern regarding the ongoing trade dispute with the US, which could affect investment. VC investors in China will likely remain very interested in areas like 5G, smart cities, IoT, and health care innovation. VC investment in India is expected to remain muted in Q3'20, with the exception of fintech, healthtech, agritech, and gaming.

1 https://www.scmp.com/tech/venture-capital/article/3086117/india-tops-china-fintech-funding-first-quarter-pandemic-us
2 https://techcrunch.com/2020/04/21/facebook-reliance-jio/
3 https://thetechportal.com/2020/05/24/reliance-jio-jiomart-ecommerce-platform-launch/
4 https://thetechportal.com/2020/04/26/jiomart-has-reportedly-gone-live-after-receiving-its-official-whatsapp-number/
5 https://www.bbc.com/news/business-53049177
6 https://fortune.com/2020/05/20/luckin-coffee-stock-delisting-nasdaq-china-ipo/

VC activity evens out

Venture financing in Asia

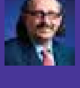
2013–Q2'20



Source: Venture Pulse, Q2'20. Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 7/22/20. Note: Refer to the Methodology section on page 22 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse.

As it was first hit, the Asia-Pacific ecosystem saw the impact of the pandemic on venture activity first of any region. Thus, activity evening out in both volume and VC invested is a promising sign that at minimum a plateau may have been established, rather than another dip expected.

"COVID-19's impact on travel and global supply chains combined with the ongoing political tension between China and the US is causing many investors to refocus on local market opportunities. This could lead to an upswell in domestic VC investment over the next quarter."

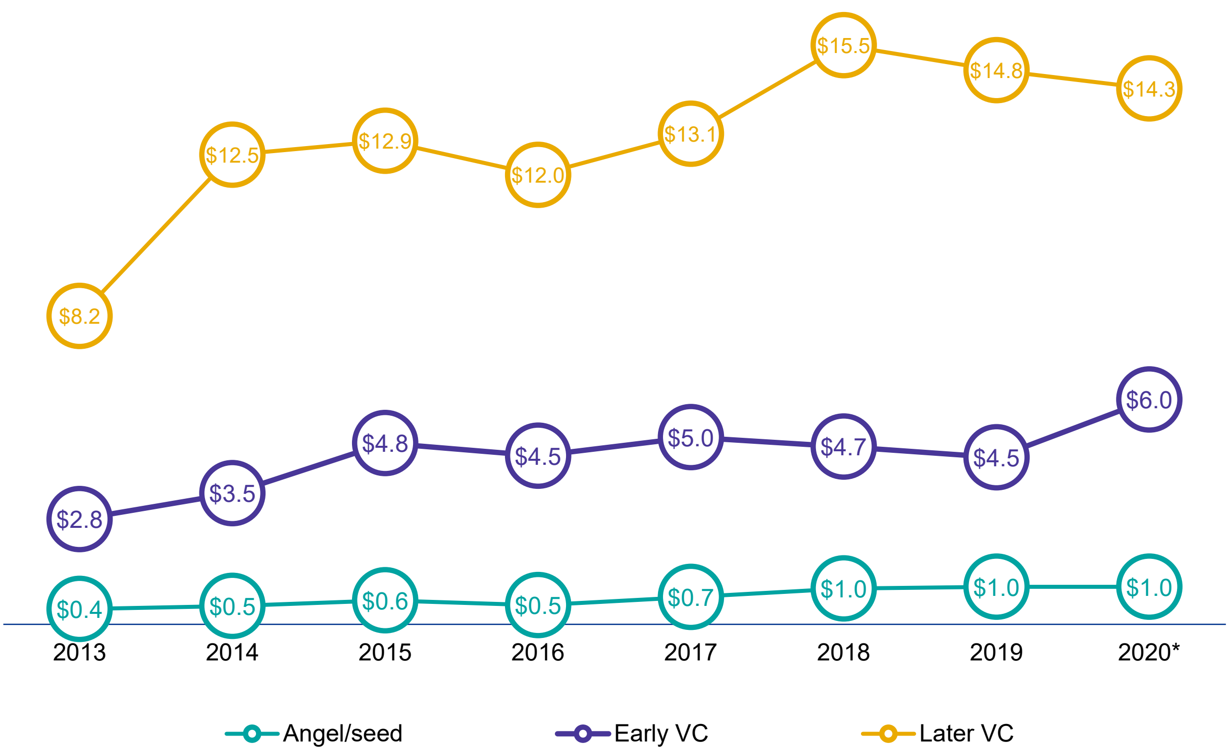


Egidio Zarrella
Head of Clients and Innovation Partner
KPMG China

Figures hold largely steady

Median deal size ($M) by stage in Asia

2013–2020*



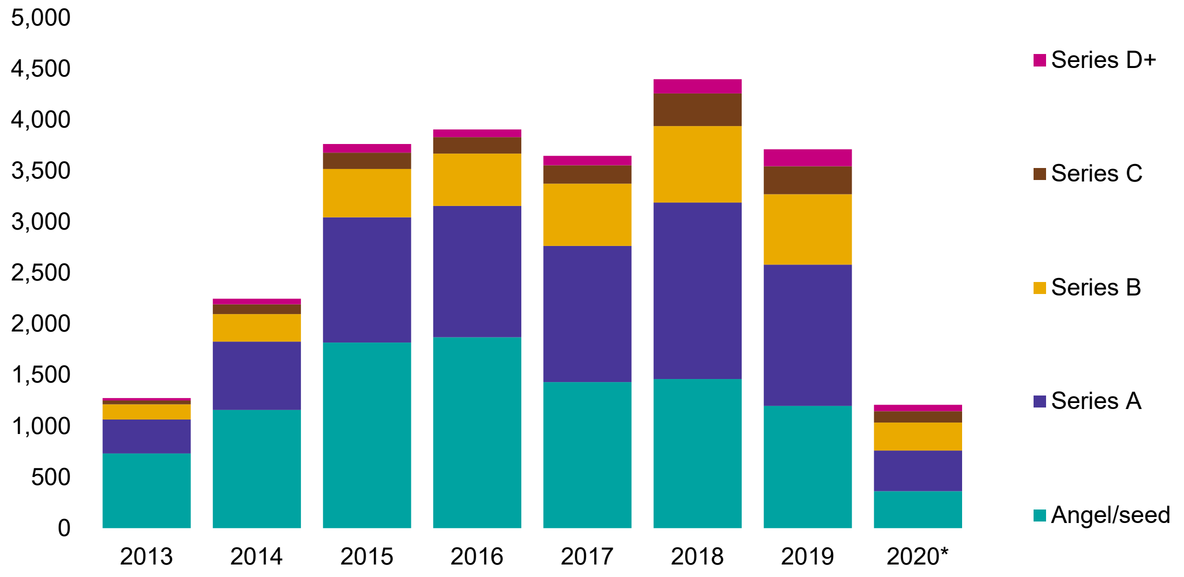
Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

The decline in median financing size at the latest stage is minimal, while an increase or plateau elsewhere continues to show that investors are mainly pressing pause as opposed to retreating. Both VCs and entrepreneurs are in it for the long haul, and, thus are still moving forward, albeit with more caution.

Late stage predominates

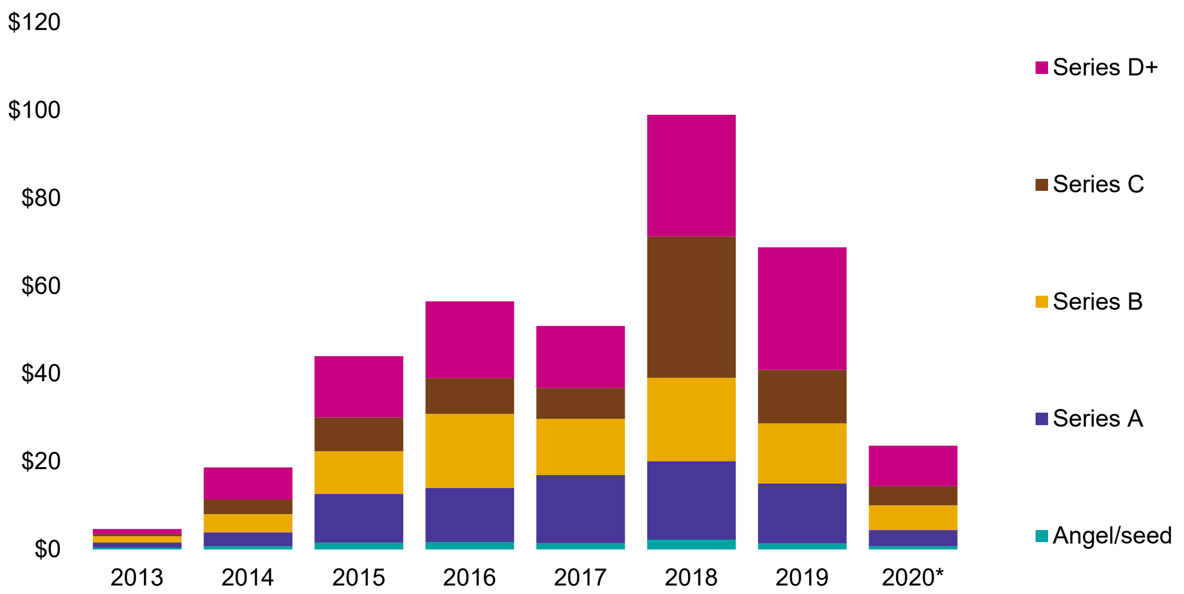
Deal share by series in Asia

2013–2020*, number of closed deals



Deal share by series in Asia

2013–2020*, VC invested ($B)

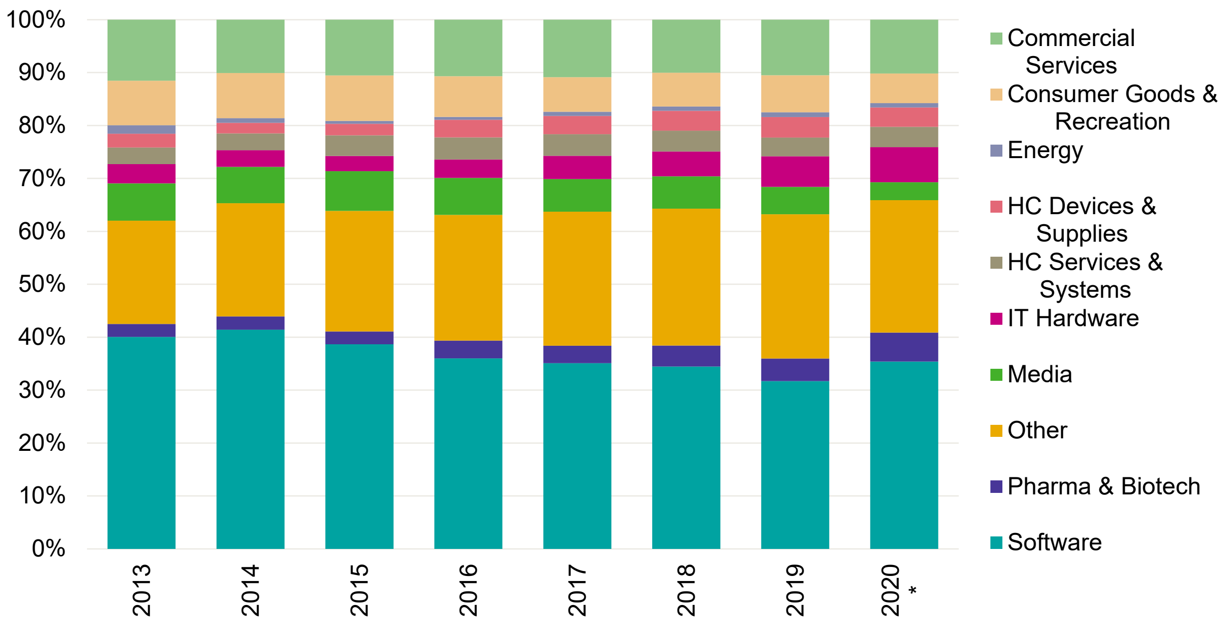


Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

Biotech roars at record pace

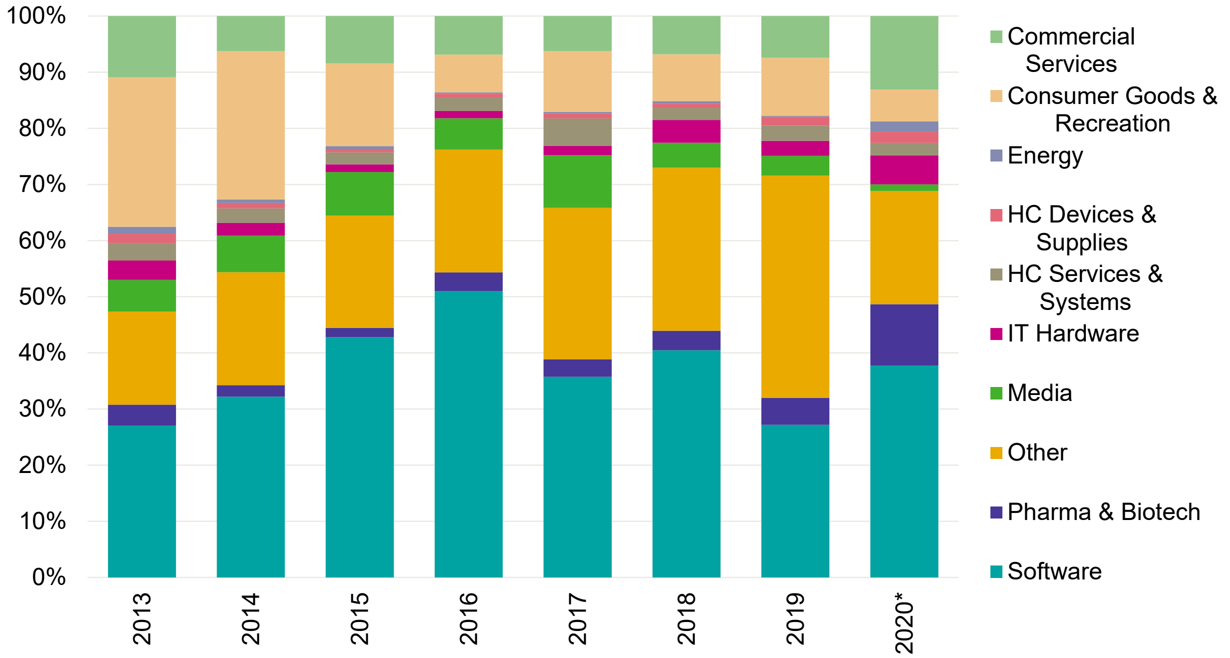
Asia venture financings by sector

2013–2020*, number of closed deals



Asia venture financings by sector

2013–2020*, VC invested ($B)

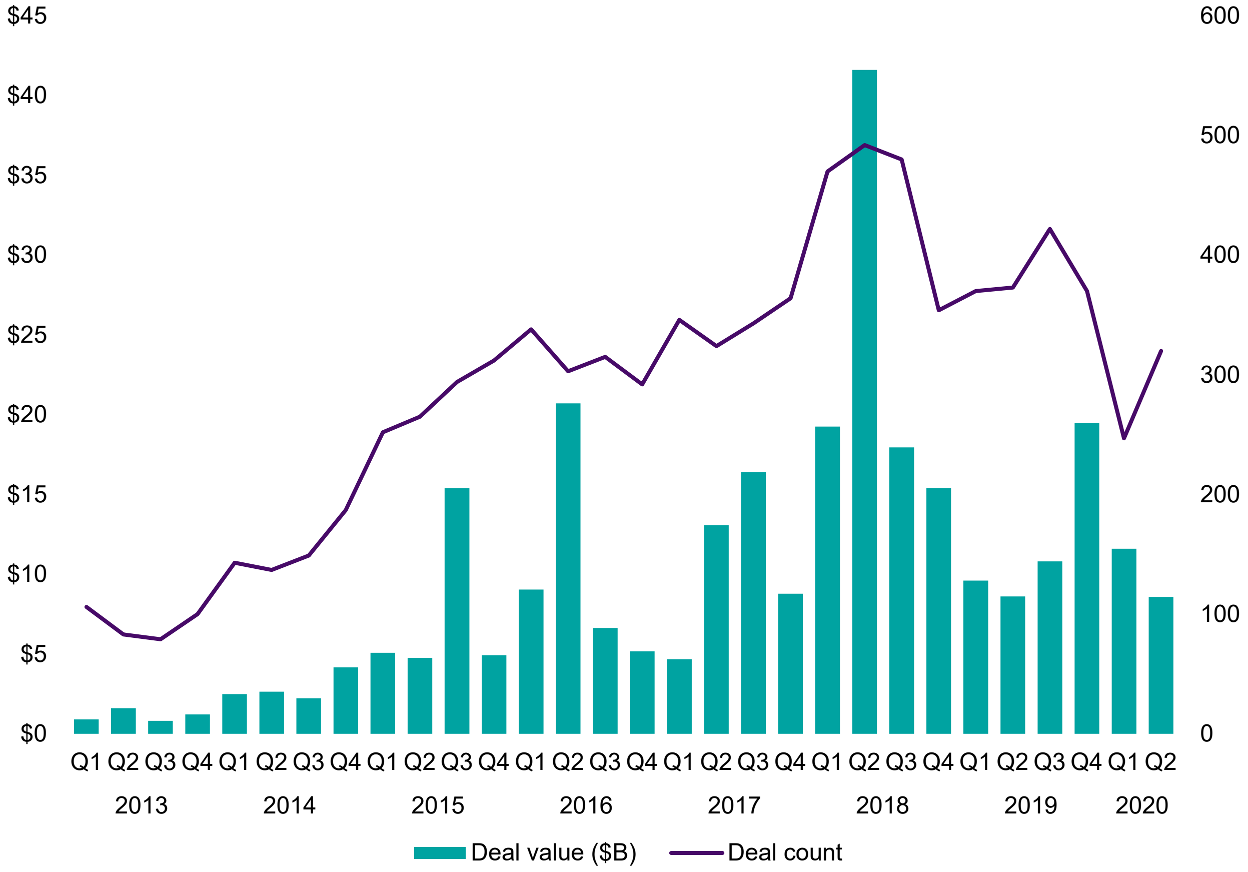


Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

Corporates dial back in

Corporate participation in venture deals in Asia

2013–Q2'20



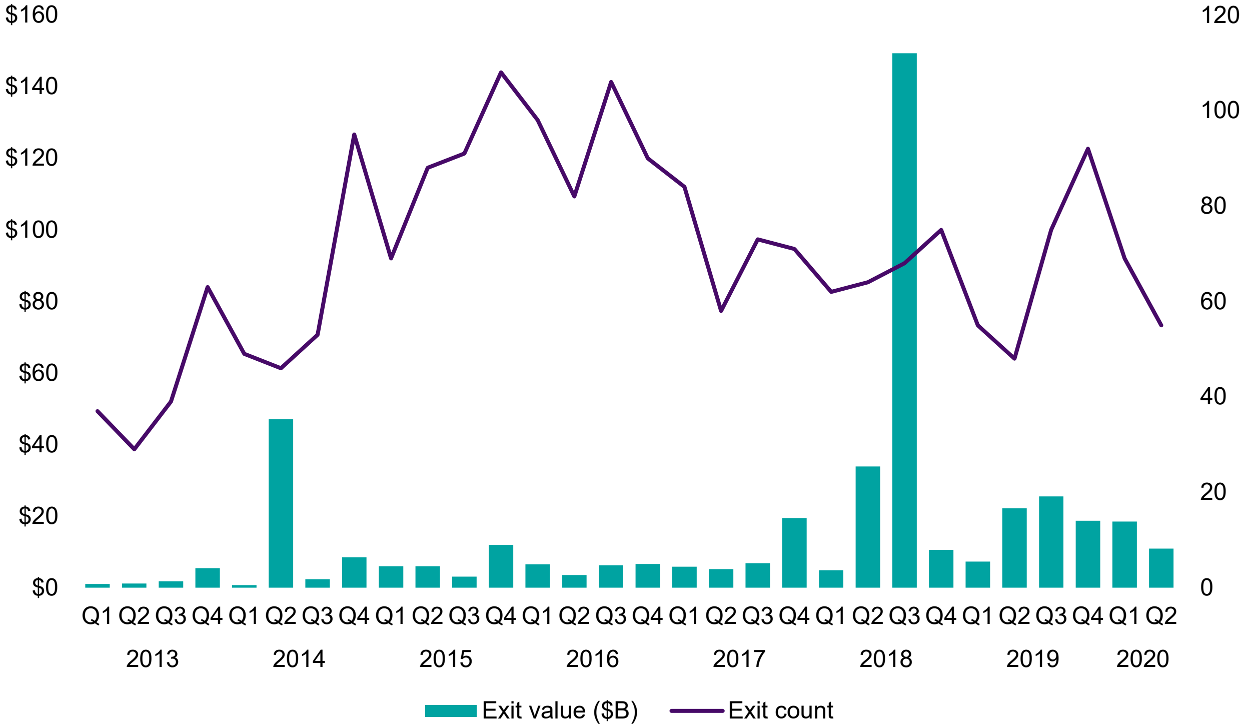
Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 7/22/20.

Corporations and their venture arms have been a mainstay of the Asia venture ecosystem for years, their temporary dip proved to be just that, as they engaged in far more deals in Q2 than to start off the year. This is a highly positive sign for the entire ecosystem.

Exits still in temporary slump

Venture-backed exit activity in Asia

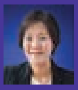
2013–Q2'20



Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 7/22/20.

Exits slid in volume but, relative to historical norms, still recorded a robust tally of exit value in Q1 2020. Another quarter-over-quarter decline still isn't sustained long enough to prove dire for the regional ecosystem, but it is worth keeping an eye on for potential issues with liquidity going forward.

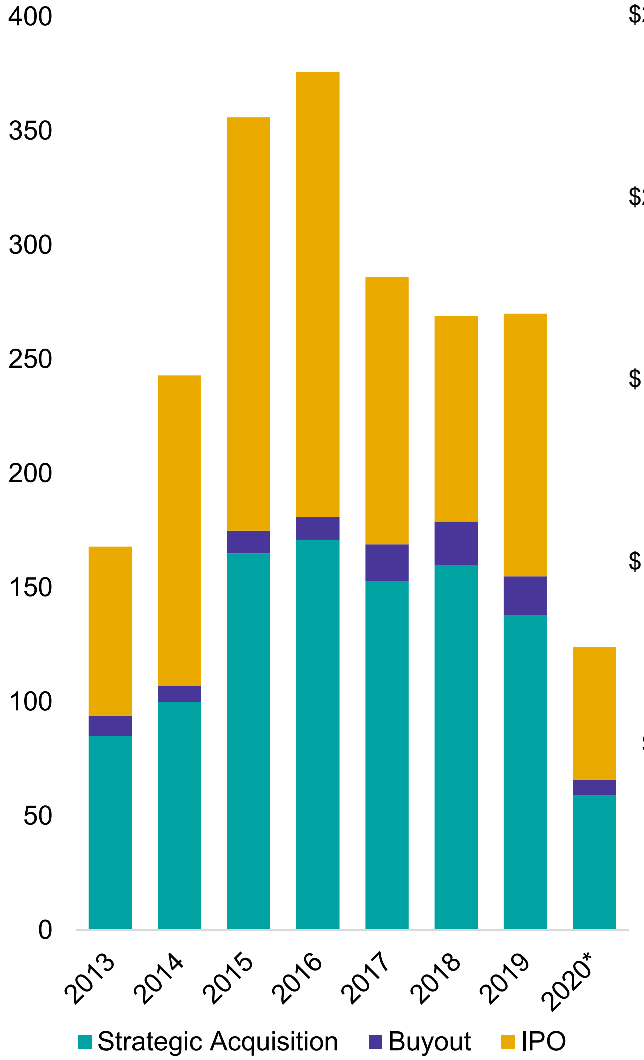
"We have seen very positive activity despite the current situation with several successful IPOs and secondary listings. The strong momentum and sentiment in Hong Kong SAR and mainland China's capital markets in Q2 is expected to continue into the second half of 2020. I expect VC and PE activities in the region to pick up in the coming quarters as China will not only continue its economic recovery from the pandemic but focus on investing in new infrastructure to support the digital transformation of the economy."



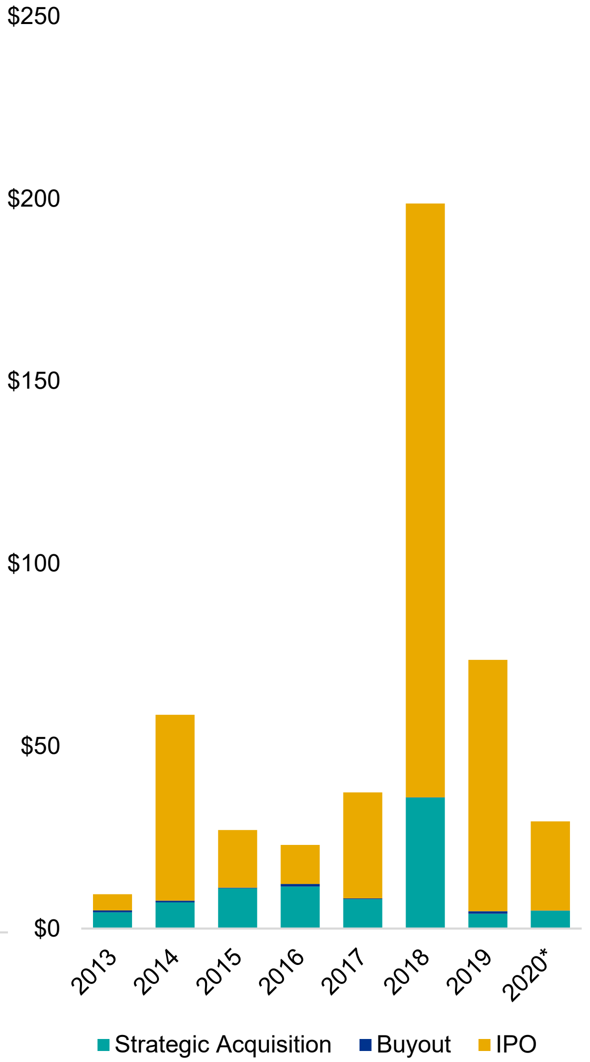
Irene Chu
Partner, Head of New Economy and Life Sciences, Hong Kong Region,
KPMG Hong Kong (SAR)/China

IPOs and M&A power volume

Venture-backed exit activity (#) by type in Asia
2013–2020*



Venture-backed exit activity ($B) by type in Asia
2013–2020*

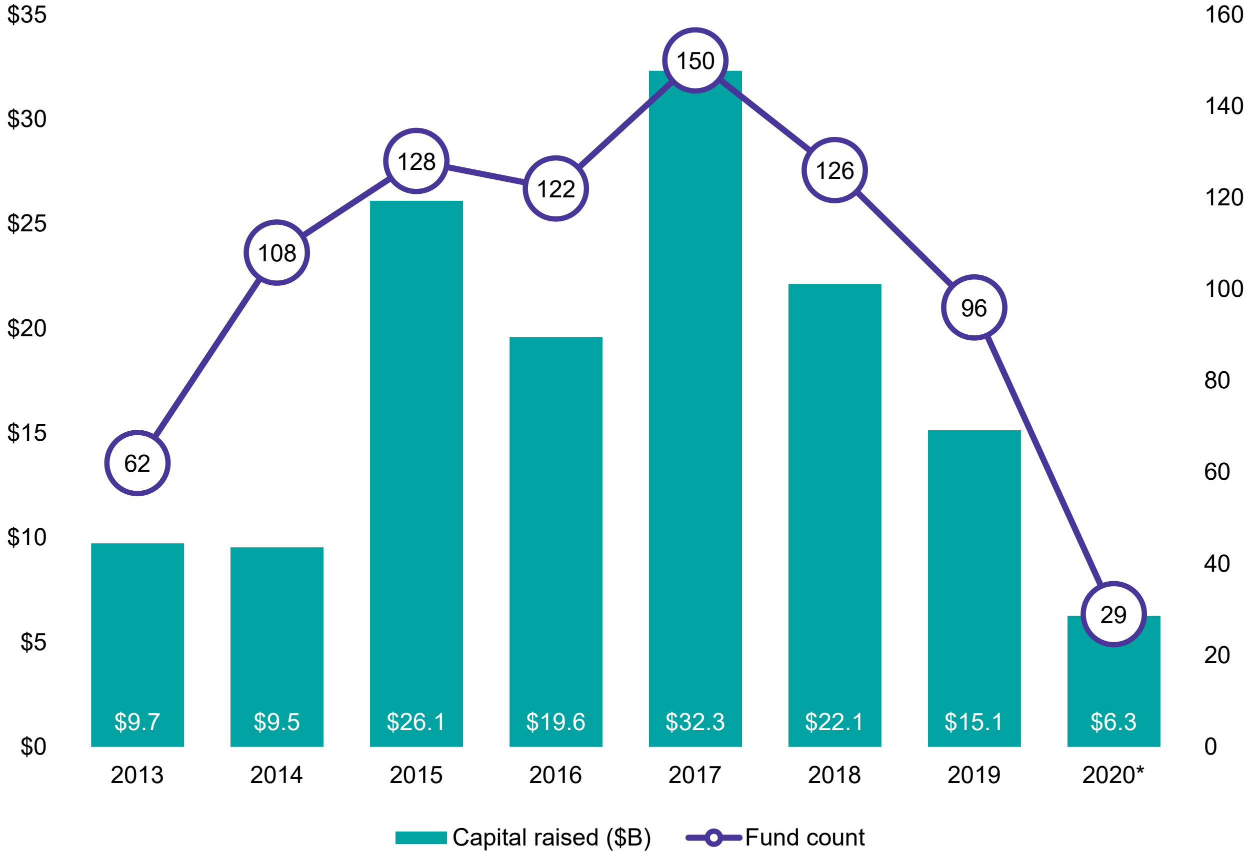


Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

Select large funds can close

Venture fundraising in Asia

2013–2020*



Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

Fundraising is quite choppy on a quarterly basis for even established ecosystems, hence the focus on yearly charting only. However, volume for the region is off to quite a slow start for the year, even if the handful of vehicles that have closed have been able to boost VC committed tallies to decent levels. Extant dry powder continues to propel deal making forward.

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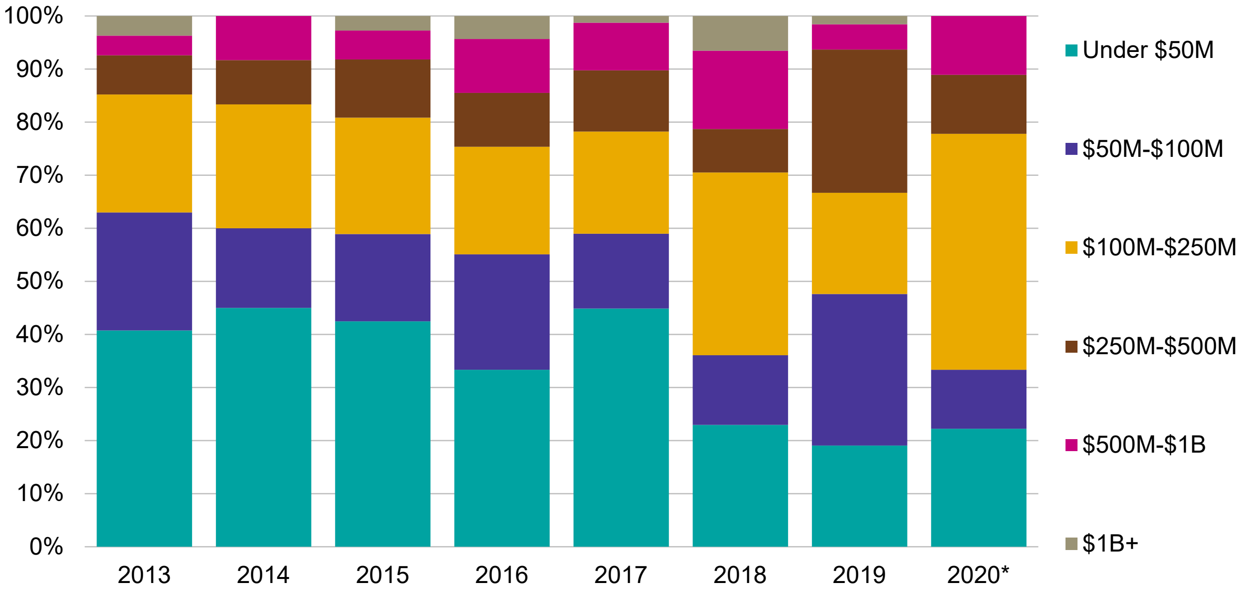
First-time funds tick up

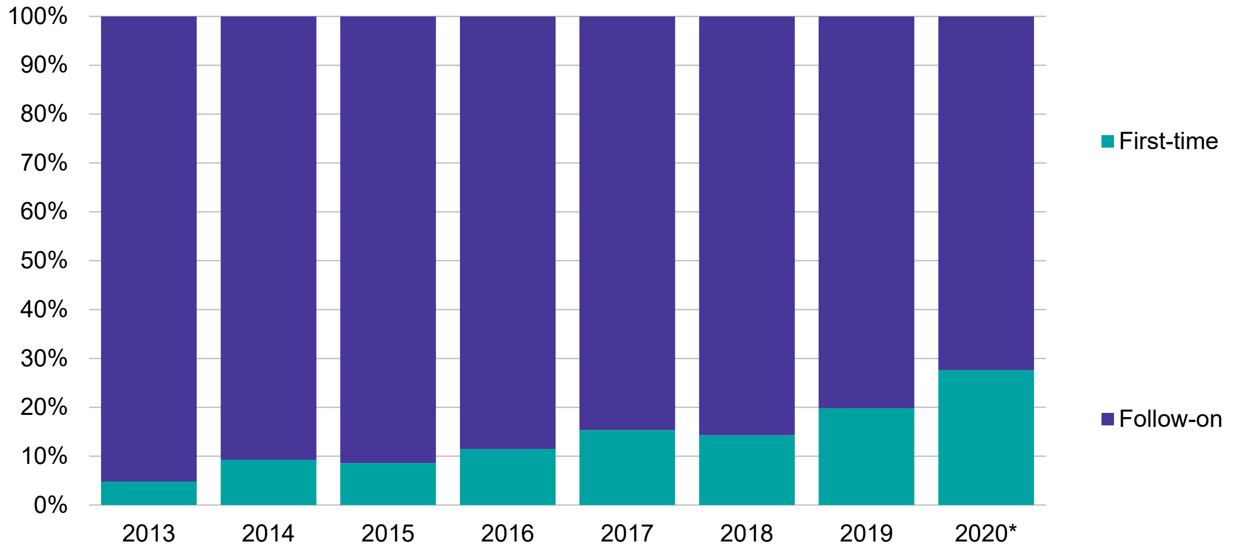
Venture fundraising (#) by size in Asia

2013–2020*



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

2013–2020*



Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

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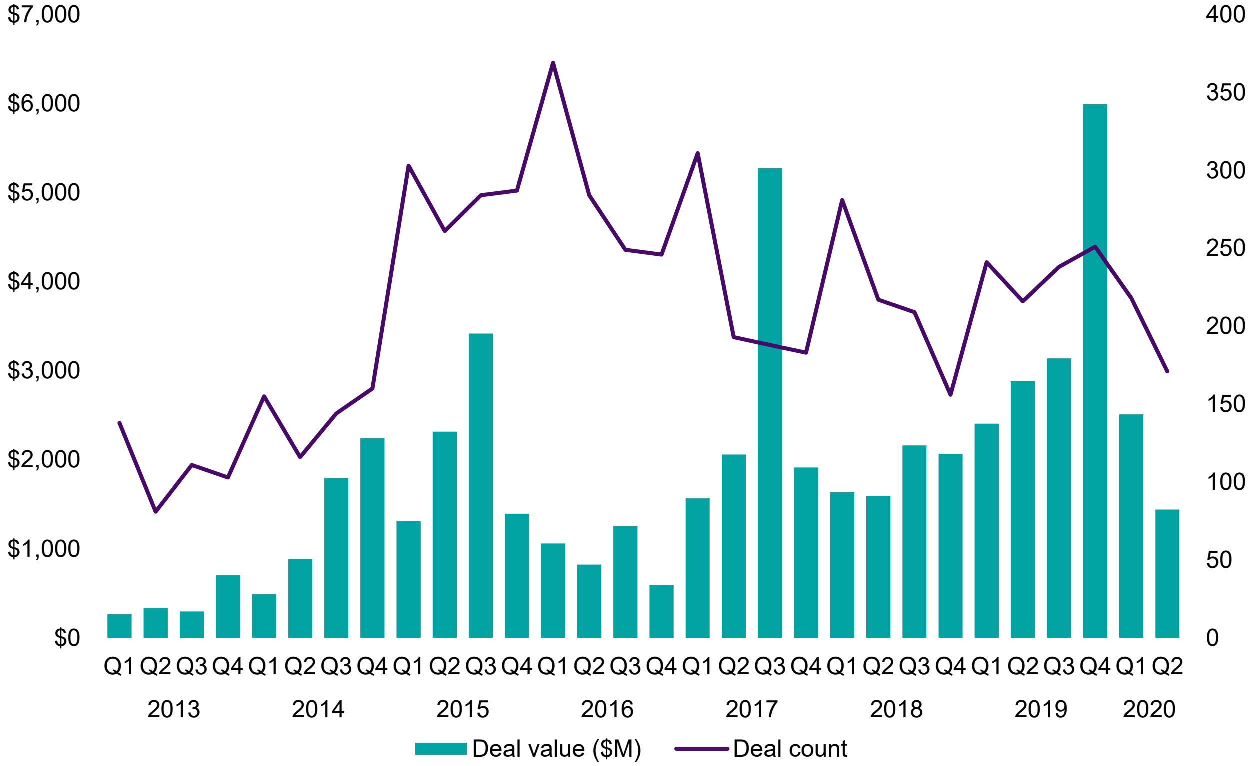
India records decline

Venture financing in India

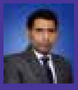
2013–Q2'20



Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

After steadily rising throughout 2019, India saw a record quarter to close off the year. That has since reversed inevitably given the impact of the pandemic. It remains to be seen how long the slump will persist, or even its true depth, although deals are still able to get done if need be, as evidenced by the mega-round of Navi Technologies in Q2 2020.

"India is a very attractive market for VC investors. While funding is likely going to be muted again in Q3'20 due to the impact of COVID-19, investment is expected to pick up again by the end of the year. Fintech remains one of India's most attractive sectors for investment, in addition to healthtech, medtech, and gaming. Over the longer-term, agritech is well-positioned to see increasing investment as well."

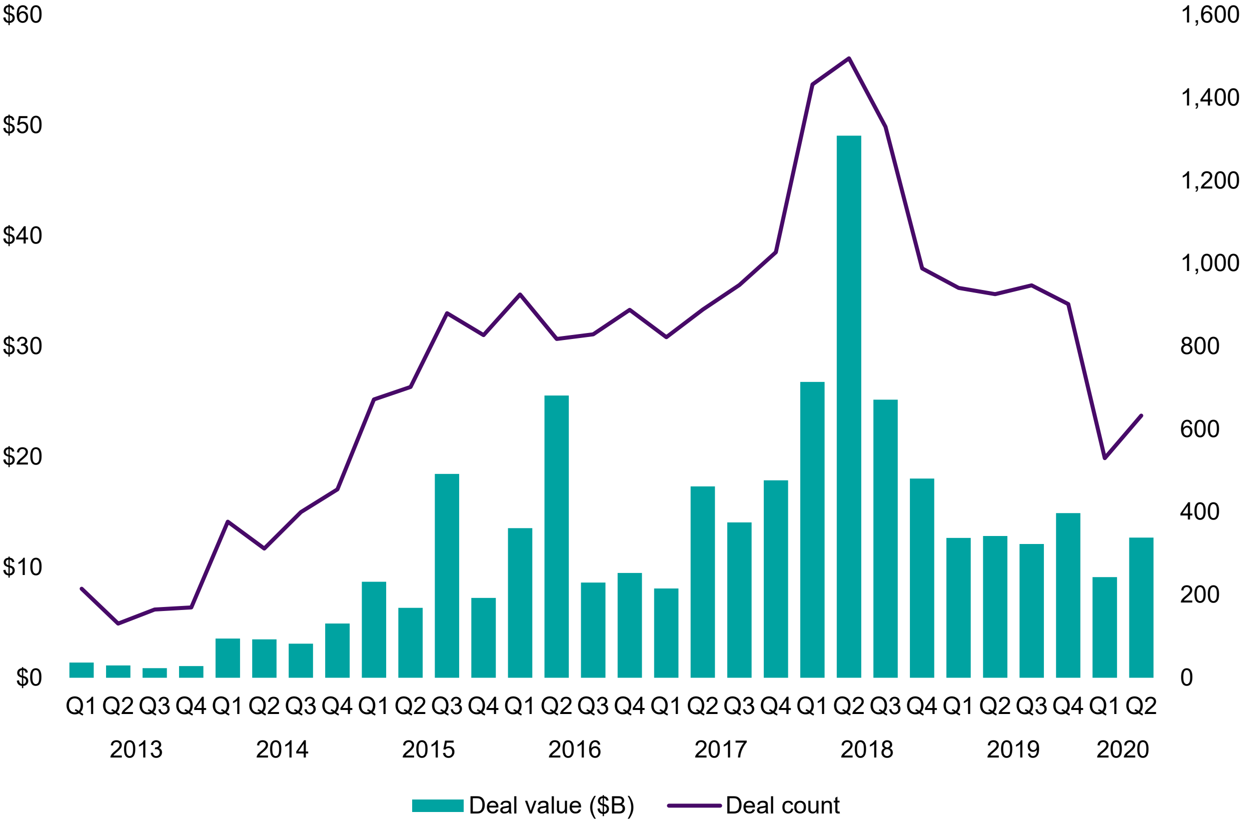


Nitish Poddar
Partner and National Leader, Private Equity
KPMG in India

China sees slight resurgence

Venture financing in China

2013–Q2'20



Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

The first nation hit by the pandemic, China also may now be the first nation to lead the way toward a recovery, however gradual. Venture funding followed a similar path, with VC invested and volume both rebounding in Q2 to still-low but somewhat brighter levels.

"Digital business models were a hot area of investment in China during Q2'20 — particularly in areas of digital payments, e-commerce, remote office solutions, cybersecurity, digital health, and track-and-trace solutions for managing disease spread. These sectors will likely remain attractive for VC investors heading into Q3'20 — with digital health innovation expected to be a long term investment trend given the increasing challenges in the space."

Philip Ng
Partner, Head of Technology
KPMG China

KPMG Private Enterprise

Australia holds steady

Venture financing in Australia

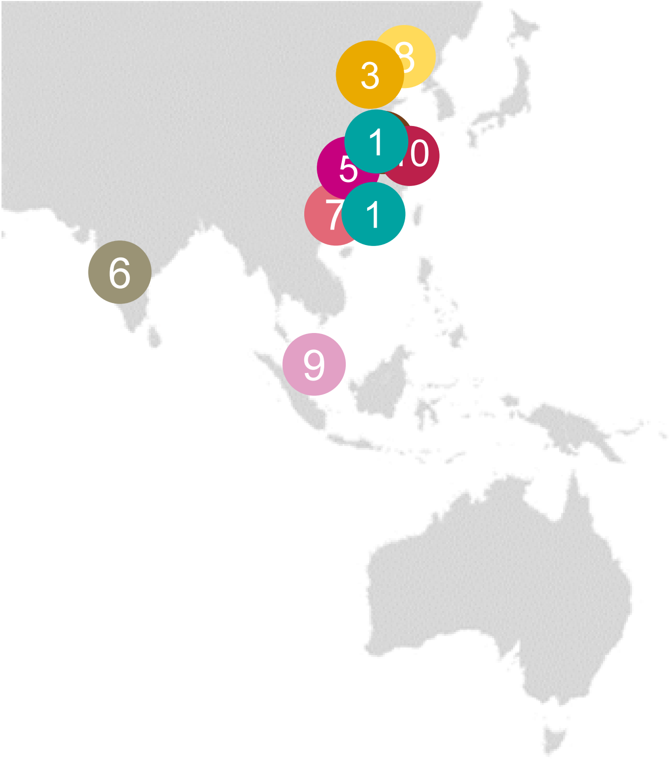
2013–Q2'20

Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

The pandemic undoubtedly contributed to the slide in volume between Q1 and Q2 2020 for Australia, and yet the robustness of VC invested implies that this downturn may yet be temporary depending on how the economic fallout may fully impact the nation although, again, it is worth noting many of VC's favored sectors are somewhat more insulated from the immediate effects of any policies such as stay-home orders.

Private Enterprise

A diverse array of sectors



Top 10 financings in Q2'20 in Asia-Pacific

1 **MGI Tech** — $1B, Shenzhen
Biotechnology
Series B

1 **Didi Bike** — $1B, Hangzhou
Application software
Early-stage VC

3 **Zuoyebang** — $750M, Beijing
Edtech
Series E

4 **Didi Autonomous Driving** — $500M, Shanghai
Automotive
Early-stage VC

5 **Xingsheng Selected** — $400M, Changsha
Internet retail
Early-stage VC

6 **Navi Technologies** — $397.9M, Bengaluru
Fintech
Angel

7 **Royole** — $300M, Shenzhen
Electronics (B2C)
Series F

8 **Eswin** — $281M, Beijing
Semiconductors
Series B

9 **Ninja Van** — $279M, Singapore
Logistics
Series D

10 **Mabwell** — $278.4M, Shanghai
Biotechnology
Series A

Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 7/22/20.

KPMG Private Enterprise

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

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About KPMG Private Enterprise

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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Philip Ng, Partner, Head of Technology, KPMG China

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

Tim Dümichen, Partner, KPMG in Germany

Tim Kay, Director, KPMG in the UK

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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.

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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