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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In Q2‘20 US VC-backed companies raised

$34.3B

across

2,197 deals

US sees solid VC investment in Q2'20 despite COVID-19

VC investment in the US held relatively steady in Q2'20, even as VC investors and businesses juggled the challenges of COVID-19. While Q2'20 included some deals that would have been initiated prior to the pandemic, it also included a significant number of deals supporting companies offering 'go-to' solutions given the current situation.

VC investors taking a longer-term view

Despite the number of deals in the US plummeting, numerous large deals occurred during Q2'20, including a $3 billion raise by Waymo, an $850 million raise by e-payments facilitator Stripe, and a $700 million raise by IOT and AI-powered business productivity firm Samsara.

VC investors in the US appear to be taking a longer-term view of the pandemic's impacts. While VC investors may have had to rethink their assumptions as to the timing of their portfolio companies to become profitable or to hold a successful IPO, they are continuing to support the ones they expect will be able to be successful after COVID-19 has run its course.

At the same time, the sudden impact of the pandemic has caused VC investors to further enhance their focus on the efficiency, effectiveness, and profitability of companies. Changes that startups are making to improve their operations and cash flow to better weather COVID-19 could have the added benefit of helping them reach profitability sooner, a win-win for both startups and their investors.

Companies aligned with the 'new reality' attracting investments

While many VC investors in the US focused on managing the needs of companies within their existing portfolios during Q2'20, they also showed interest in companies with highly relevant, scalable business models aligned to meeting the needs of consumers and businesses within the 'new reality' particularly companies focused on B2B productivity, cybersecurity, digital services, and e-commerce. In addition to the $700 million raise by Samsara, productivity firm Palantir Technologies also raised $500 million.

Corporate investors continue to make big investments and acquisitions in Q2'20

Corporate investors made several large deals in Q2'20, although the overall pace of corporate investment at mid-year was slower compared to 2019. During the quarter, Facebook announced it was investing $5.7 billion in India-based Reliance Jio (now called Jio Platforms) and acquiring GIF sharing platform Giphy for $400 million, while Microsoft acquired cloud communications provider Metaswitch Networks[1] and Apple bought VR sports company NextVR.[2]

The continued investment from corporates likely reflects a combination of factors, including massive pressure to adapt their business models and the ability of startups to help them do so quickly, a desire to improve their revenue by investing in high-growth startups, and the increasing availability of bargains given the downward pressure on valuations.

[1] https://www.cnbc.com/2020/05/14/microsoft-acquires-metaswitch-in-telecom-push.html
[2] https://www.bloomberg.com/news/articles/2020-05-14/apple-acquires-startup-nextvr-to-gain-virtual-reality-content

US sees solid VC investment in Q2'20 despite COVID-19, cont'd.

Recognition of the need for healthcare disruption growing

Life sciences and biotech solutions garnered significant attention from VC investors in the US during Q2'20, led by a $435 million raise by gene-focused biotech Sana Biotechnology, a $390 million raise by cancer screening company Grail, and a $200 million raise by drug developer Erasca. While these sectors had already grown on the radar of VC investors in recent quarters, the pandemic significantly raised the importance of the need for healthcare disruption. It opened peoples' eyes to existing sector challenges, from obtaining personal protective equipment and facilitating remote medical appointments to conducting widespread testing and the long timeframes required to develop and distribute a vaccine.

Major IPO exits in the US likely delayed to 2021

Given the widespread impact of COVID-19, IPO exit activity has effectively ground to a halt in the US. With the US presidential election scheduled for November, most planned IPO activity is expected to be pushed back until 2021. Biotech companies will likely be the primary exception, regardless of whether they are focused on COVID-19 treatments or on other diseases.

While mainstream IPO activity might be non-existent for the remainder of 2020, there could be increasing M&A activity in the US over the same timeframe, particularly related to companies without the runway to delay their exit into 2021. Given the increasing scrutiny of companies looking to IPO, startups that do not expect their financial performance to improve considerably over the next year could also turn their attention to pursuing buyers. Both PE firms and corporates will likely be hunting for strategic acquisition opportunities given companies will likely be more cost effective given current market challenges.

Trends to watch for in the US

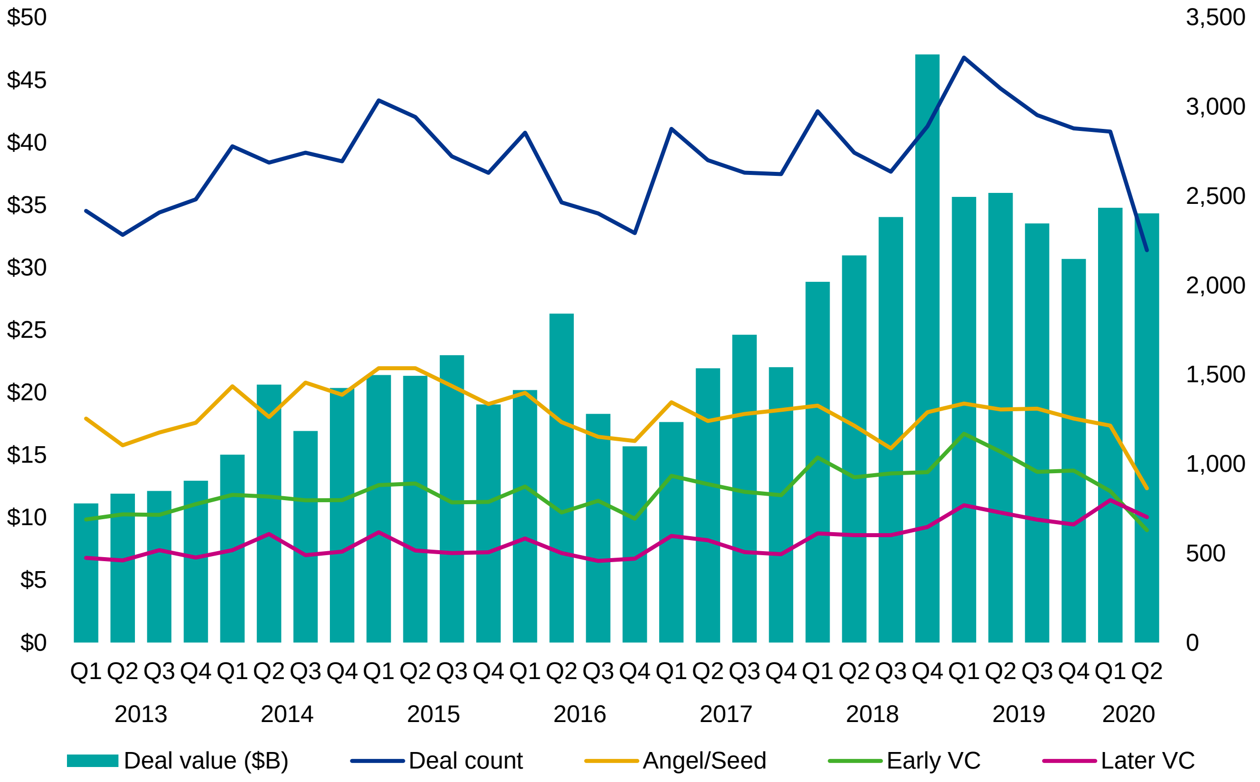
Looking ahead to Q3'20, there is expected to be an acceleration of several key trends that have been affecting the US VC market over the past few quarters, including the scrutiny VC investors are giving to profitability and unit economics, the prioritization of late-stage over early-stage deals, and the increasing interest in B2B solutions, AI and data analytics, and life sciences. Given the increasing use of digital business models and remote work arrangements, cybersecurity is also expected to see increasing interest from VC investors in the US.

Given the ongoing travel restrictions in many jurisdictions, there will likely be a slowdown in international investment by US-based VC firms. With several large unicorn companies laying off skilled workers, there could also be a slowdown in investment outside of major hubs as talent becomes more readily accessible.

Q2 shows first likely impact during pandemic

Venture financing in the US

2013–Q2'20



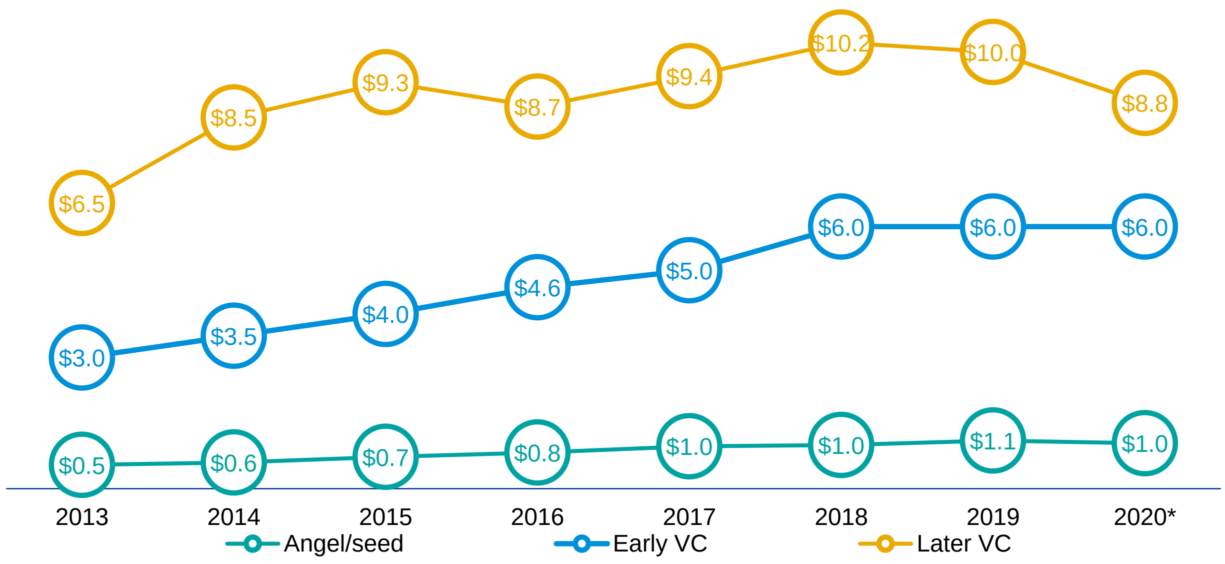
Source: Venture Pulse, Q2'20. Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 7/22/20.
Note: Refer to the Methodology section on page 22 to understand any possible data discrepancies between this edition and previous editions of Venture Pulse

VC invested stayed very strong in the US, continuing a remarkable stretch of $30 billion+ quarterly tallies stretching back nearly unbroken to the start of 2018. However, volume cratered overall. Bearing in mind the usual caveat that additional financings may come to light and thus boost that volume, it is clear that caution took reign in Q2, as the full effect of the first surge of COVID-19 in the US was seen.

The late stage slides further

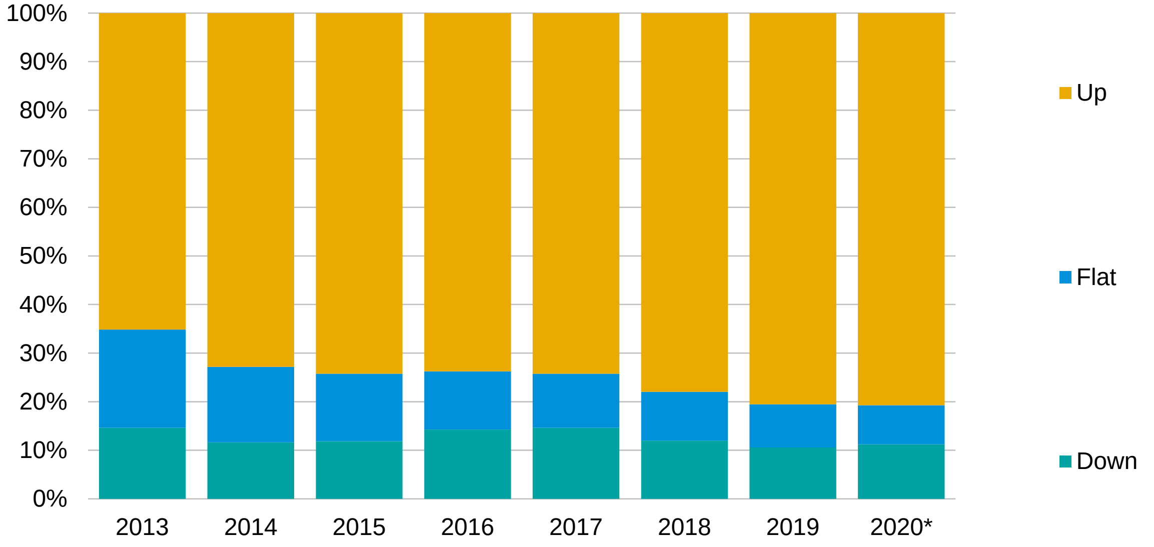
Median deal size ($M) by stage in the US

2013–2020*



Up, flat or down rounds in the US

2013–2020*

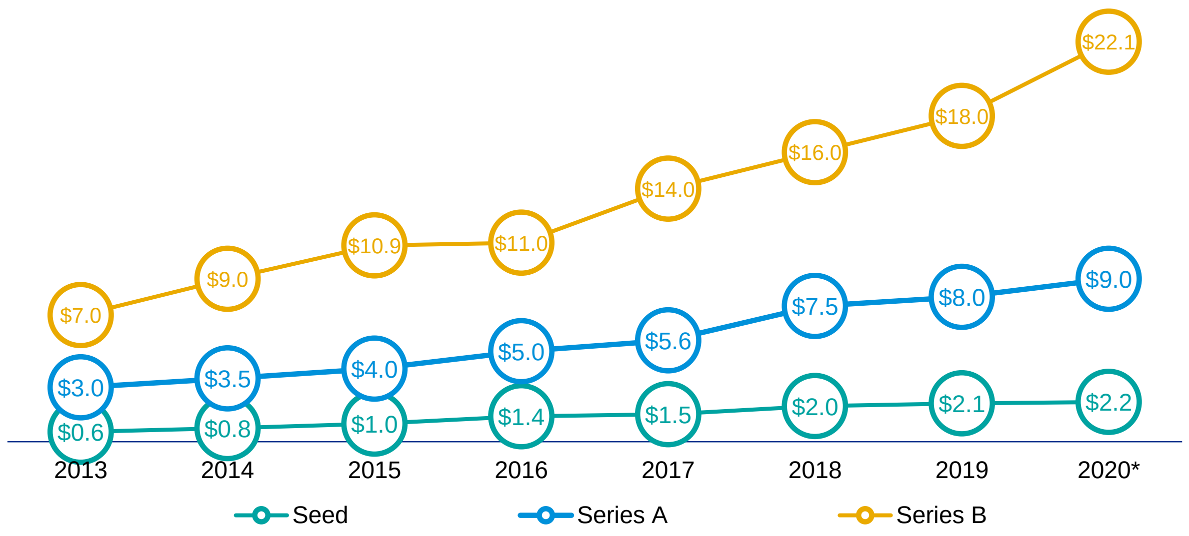


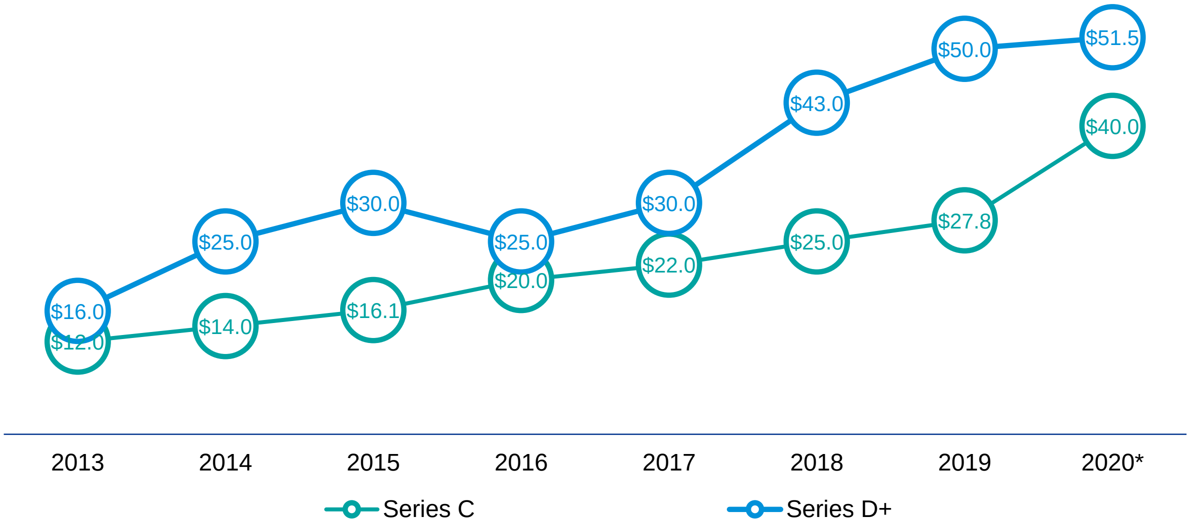
Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

Valuations hold

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

2013–2020*





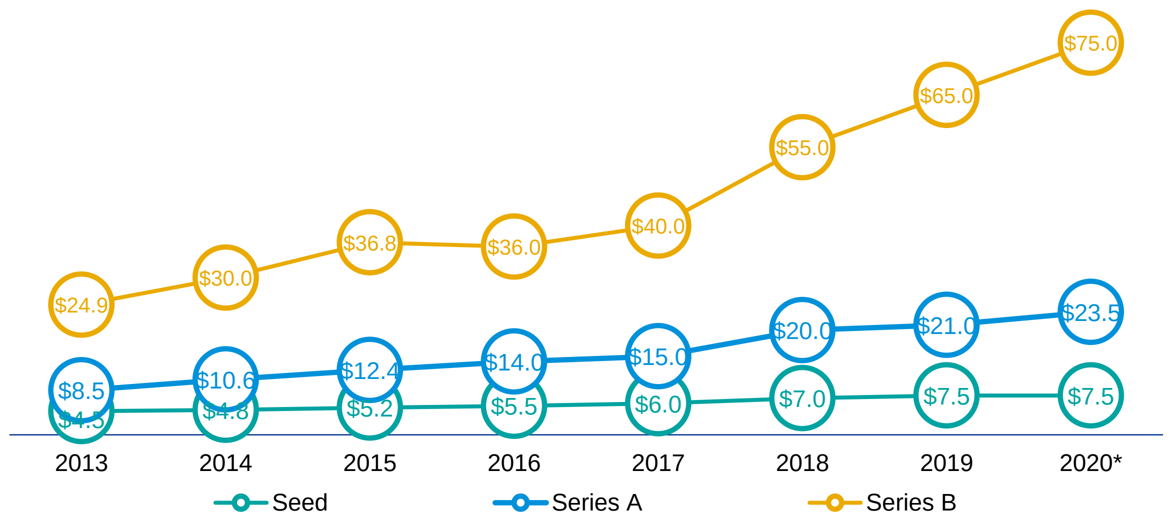
Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

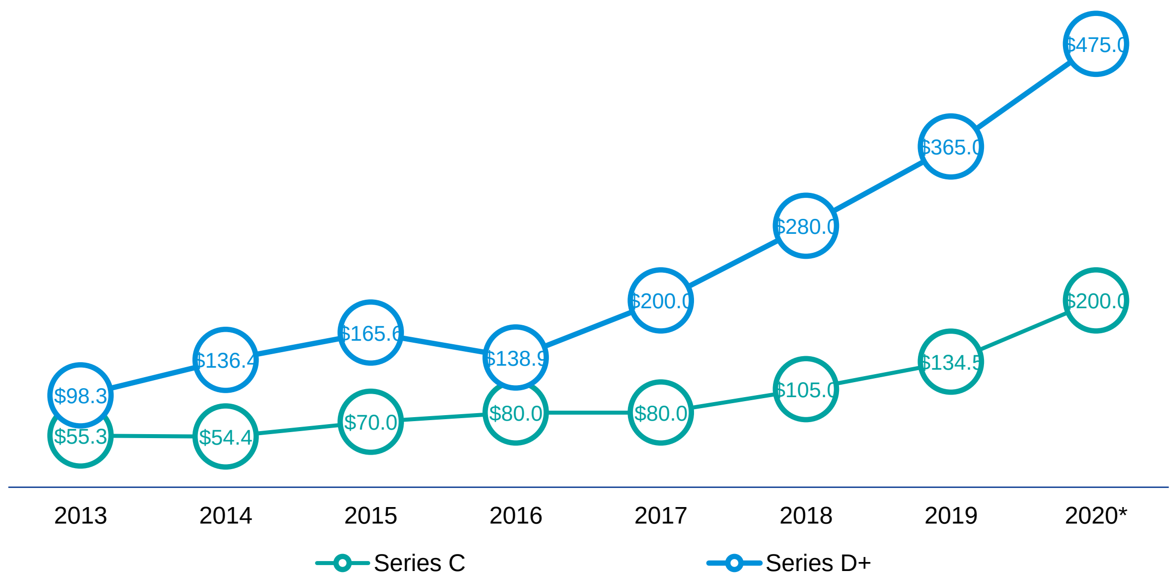
Note: Figures rounded in some cases for legibility.

Record valuations are intact

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

2013–2020*





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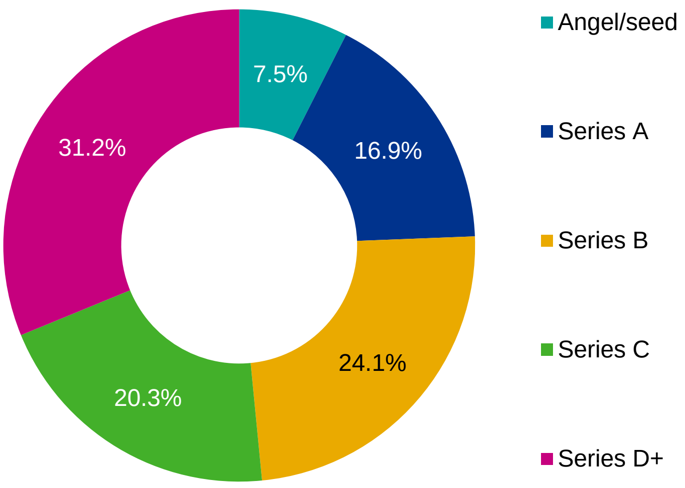
Note: Figures rounded in some cases for legibility.

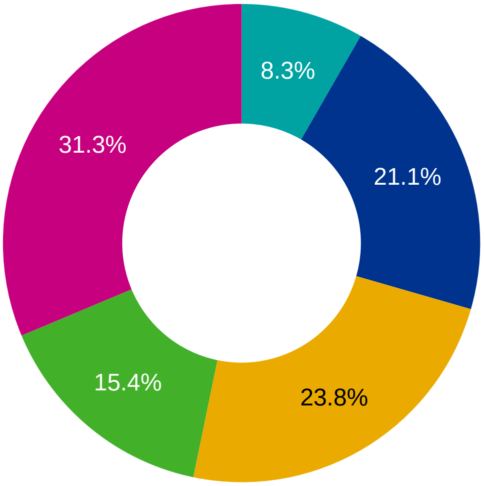
Even as COVID-19 appeared to impact the overall volume of venture financing, valuations remained intact at record levels across every series of stock in the US. The explanations for this steadiness are numerous, from the vast amount of dry powder on hand for investing to the fact the economic impact of the pandemic has been remarkably severe but short thus far. Accordingly, it still remains to be seen whether the trend shifts as we enter the second half of the year.

Riskiest stages contract more

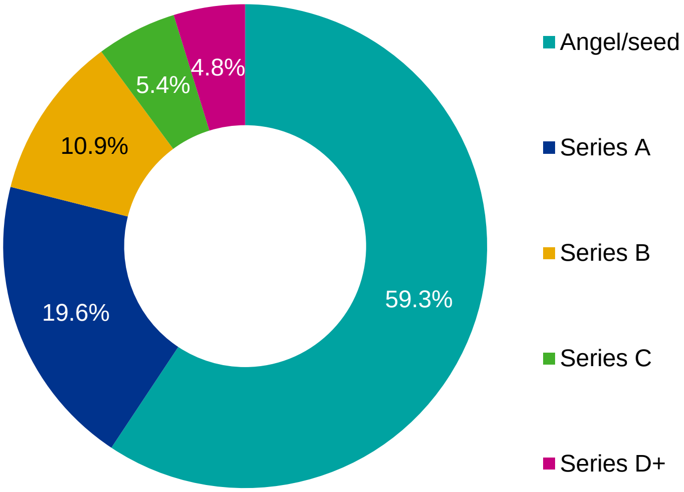
Deal share by series in the US
2020*, VC invested ($B)



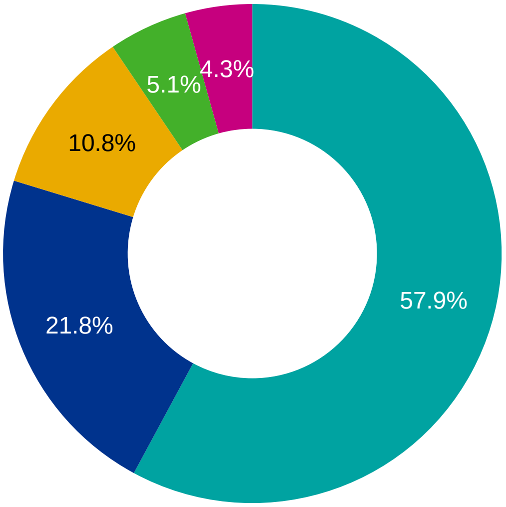
Deal share by series in the US
2019, VC invested ($B)



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



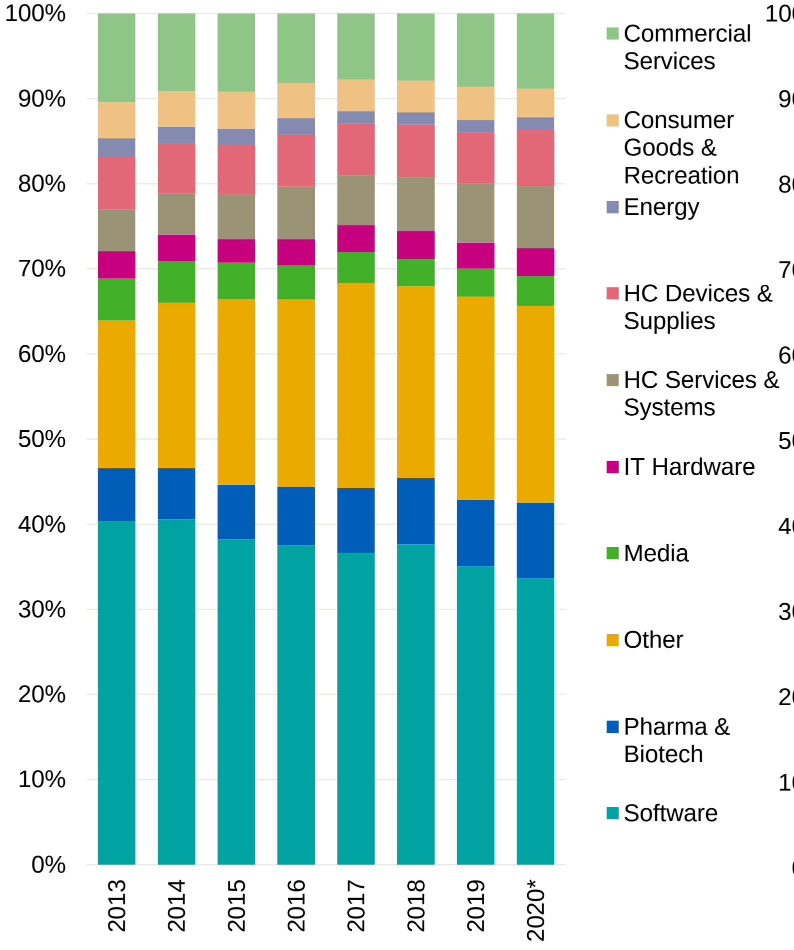
Deal share by series in the US
2019, number of closed deals



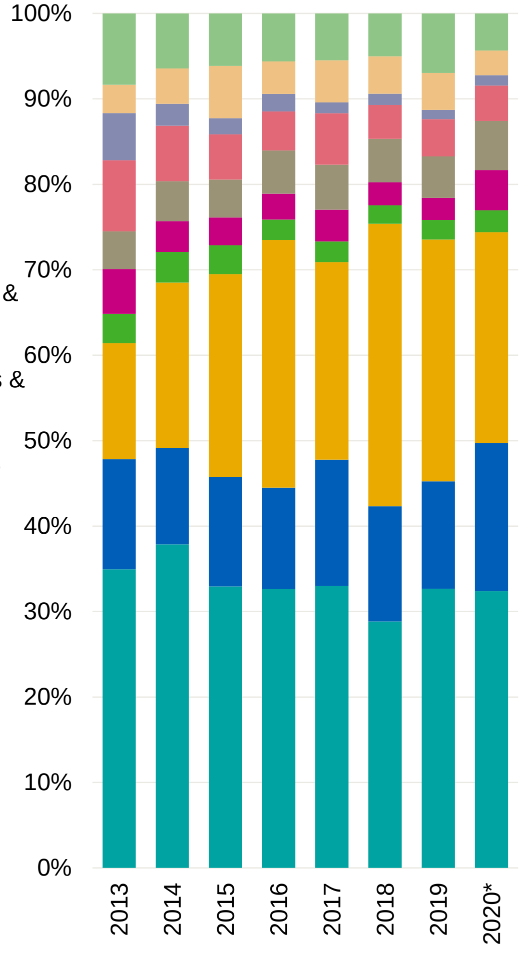
Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

VC floods into 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)



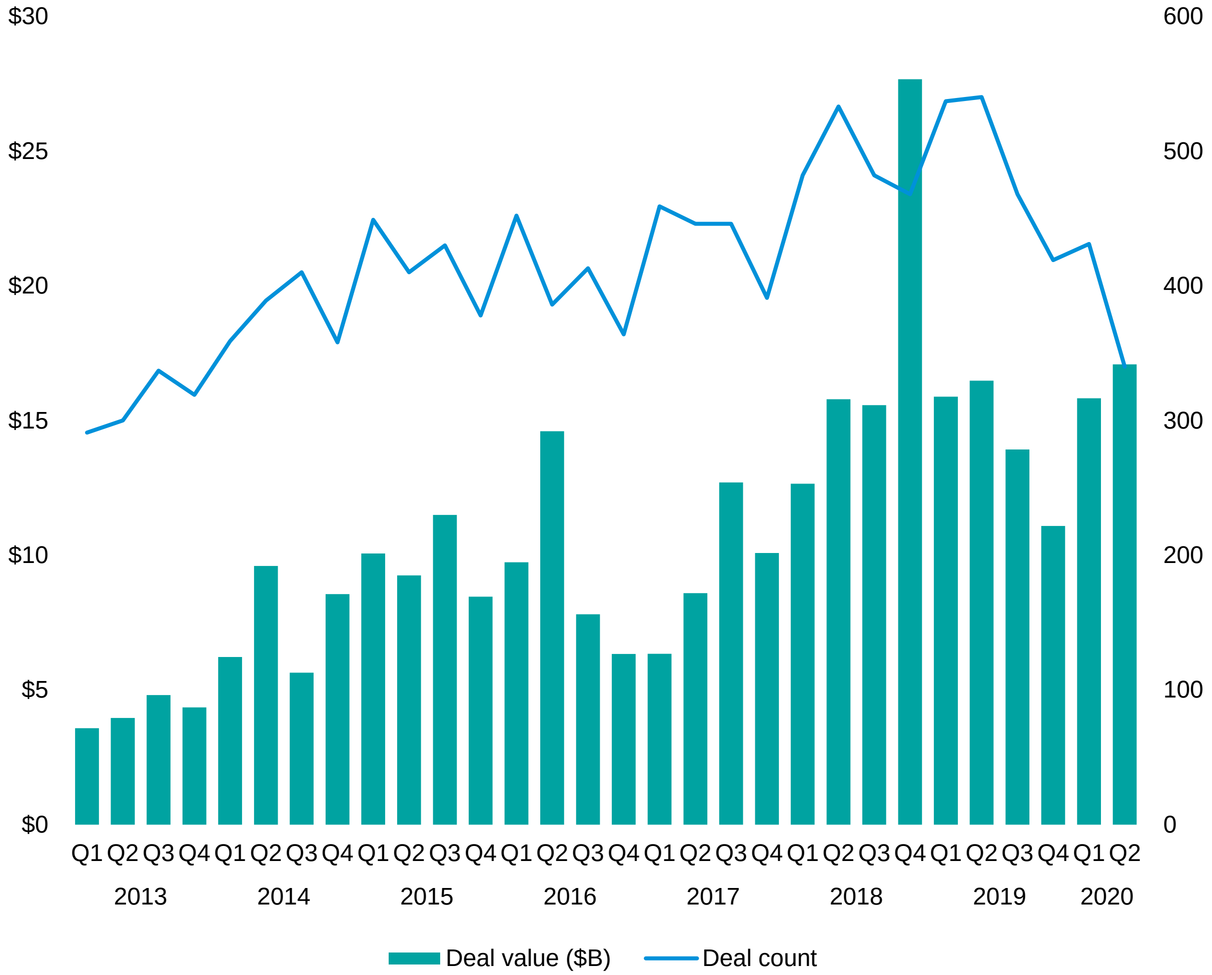
Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

It may seem obvious, but the data clearly illustrates even more dollars than before were flowing into biotech throughout the first half of 2020, from both a volume and value standpoint. Although that trend had begun prior to the pandemic, the crisis only accelerated the flood of capital and investor interest.

CVC hits a high in VC invested

Corporate participation in venture deals in the US

2013–Q2'20



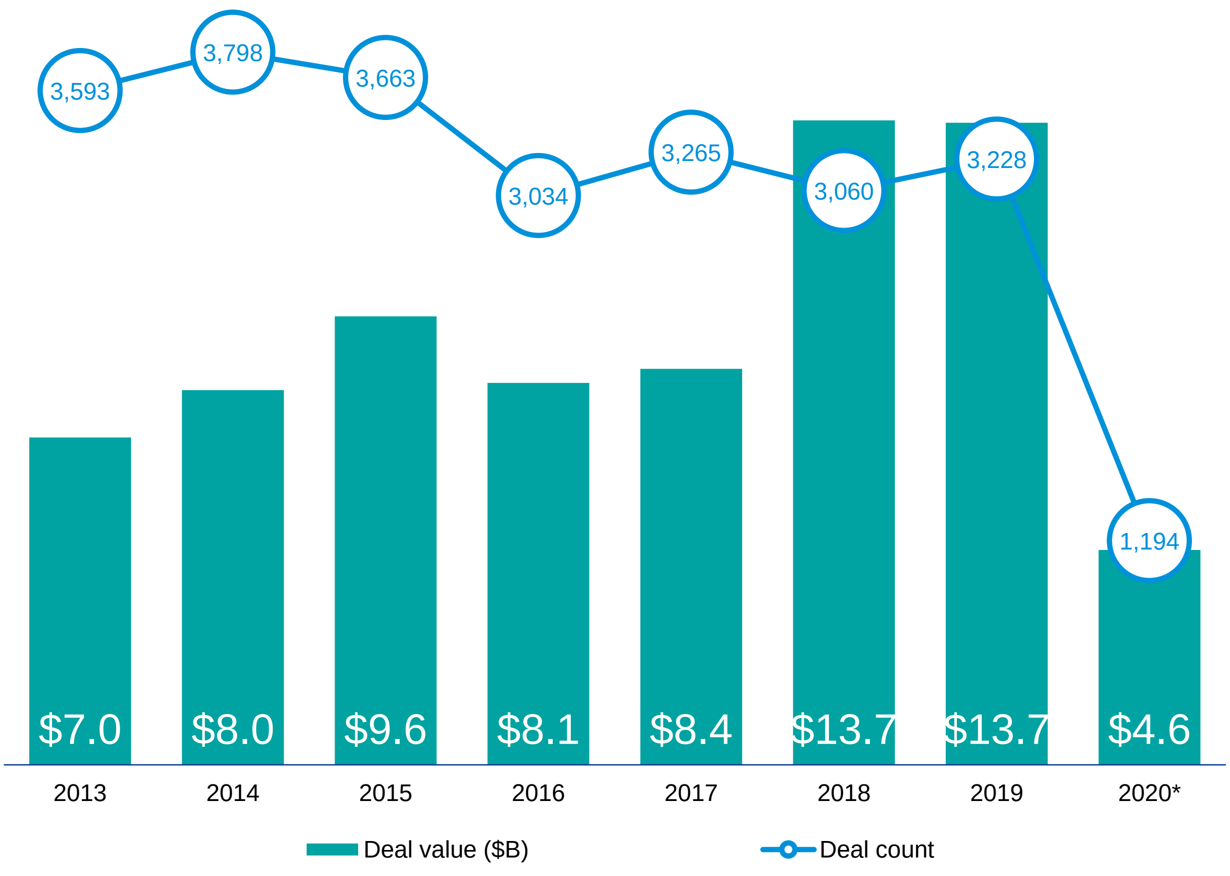
Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 7/22/20.

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, which speaks to both a flight to caution as well as, in tandem with the drop in volume of deals in which corporates participated, the impetus to still maintain some exposure to more mature and relatively stable businesses.

Set for a down year

First-time venture financings of companies in the US

2013–2020*



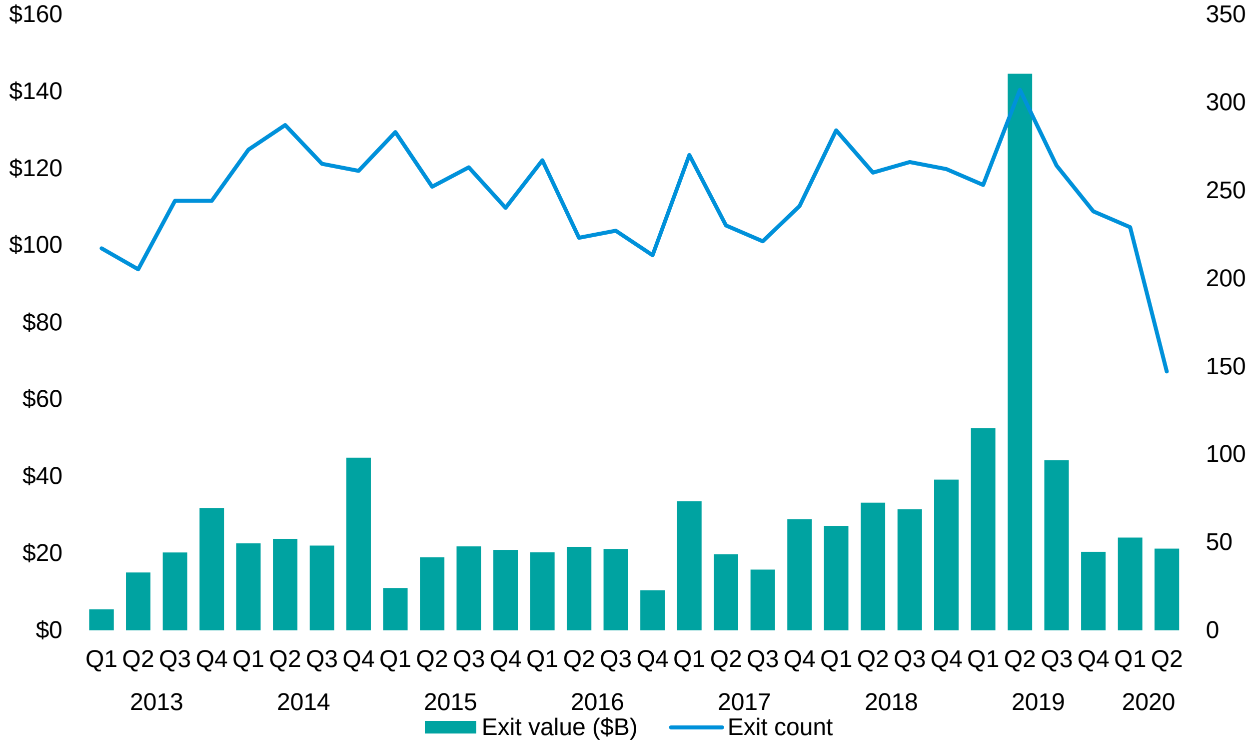
Source: Venture Pulse, Q2'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 6/30/20. Data provided by PitchBook, 7/22/20.

After a strong finish in 2019, the 2020 tallies to date for first-time funding in the US look quite grim, relatively speaking. However, $4.6 billion invested across 1,000+ transactions is not necessarily that low relative to many prior years, but rather signifies a concentration of dollars in the most robust prospects given the broader business climate. That should only be accentuated in coming months as additional certainty around the ultimate net effect of the pandemic on the US becomes clearer.

Exits nosedive even further

Venture-backed exit activity in the US

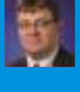
2013–Q2'20



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

Although opportunistic acquisitions and IPOs will still occur, hence the relatively steady tally of exit value in Q2 2020, volume is likely to remain muted for at least some time, given the broader economic climate. Public equities may remain puzzlingly strong given underlying fundamentals, but should they do so, some companies that were set to go public may still decide to list — anecdotally, those that were in process are still going ahead, albeit more slowly.

"Necessity is the mother of invention and the next wave of great companies will likely come from this global pandemic. Venture investors have plenty of capital available but are faced with the choice of deploying it on existing investments to optimize return or choose to deploy on these newer companies."



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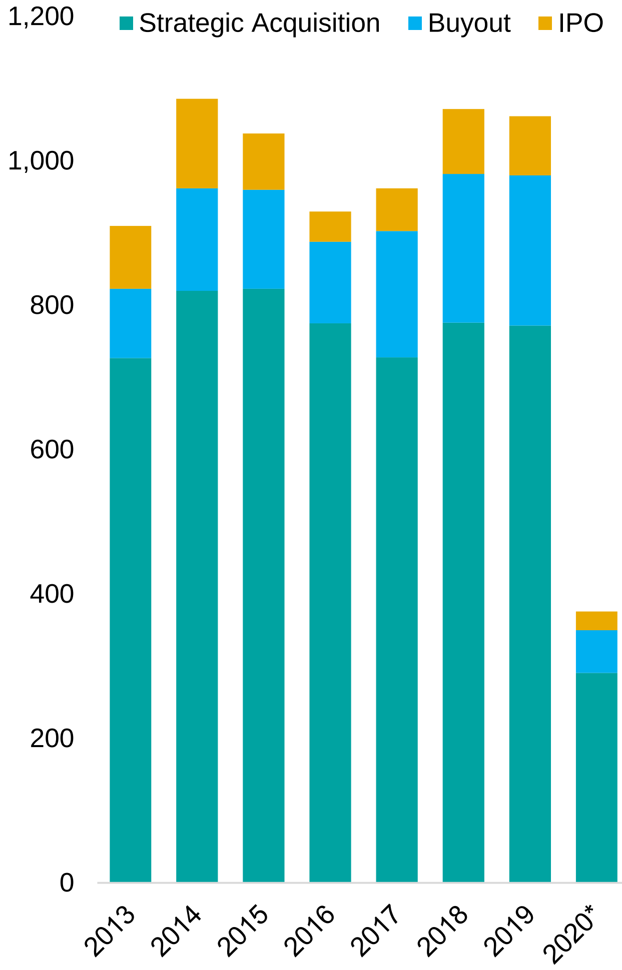
Partner, **KPMG in the US**

IPOs shrink the most

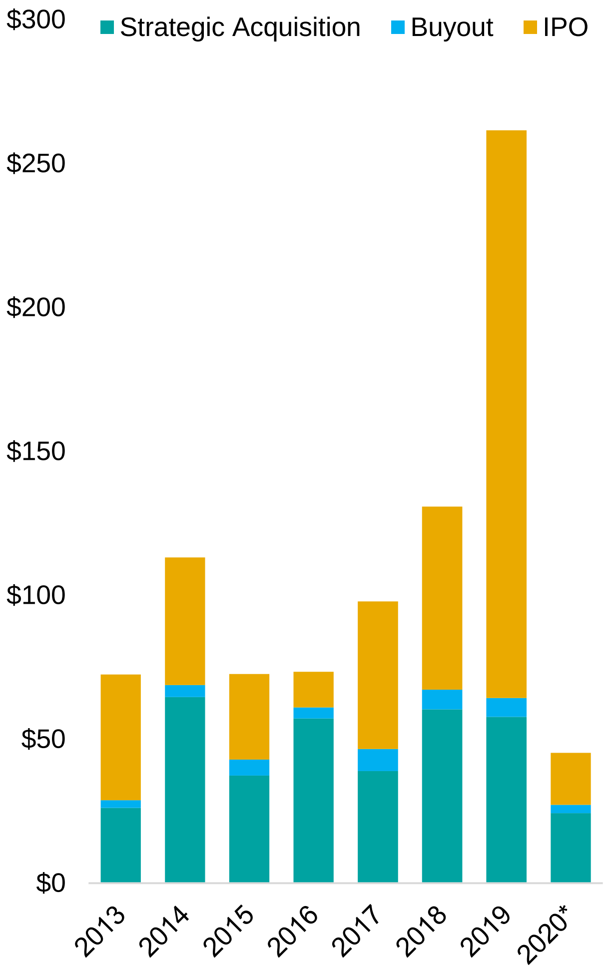
Venture-backed exit activity (#) by type in the US

2013–2020*



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

2013–2020*



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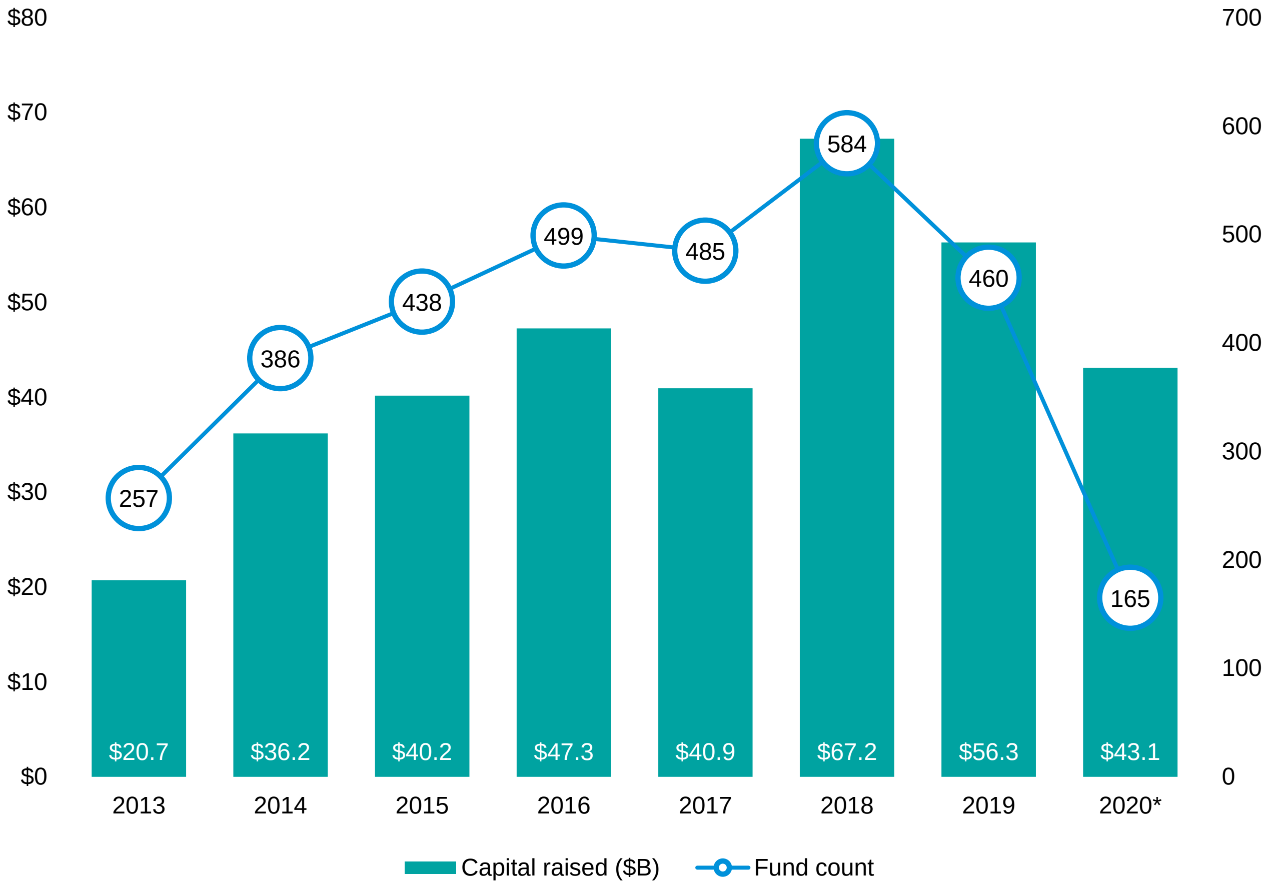
The bevy of unicorns that went public in 2019, whatever their later troubles, propelled exit values via that route to a new high for the decade, even outstripping Facebook's debut in 2013. This year does not look set to repeat that in the slightest. Even if some companies are still determined to move ahead with their debuts, it will take a more sustained duration of robust public equities' performance, sans significant volatility, to have most businesses that were planning to list proceed accordingly.

A massive first half

US venture fundraising

2013–2020*



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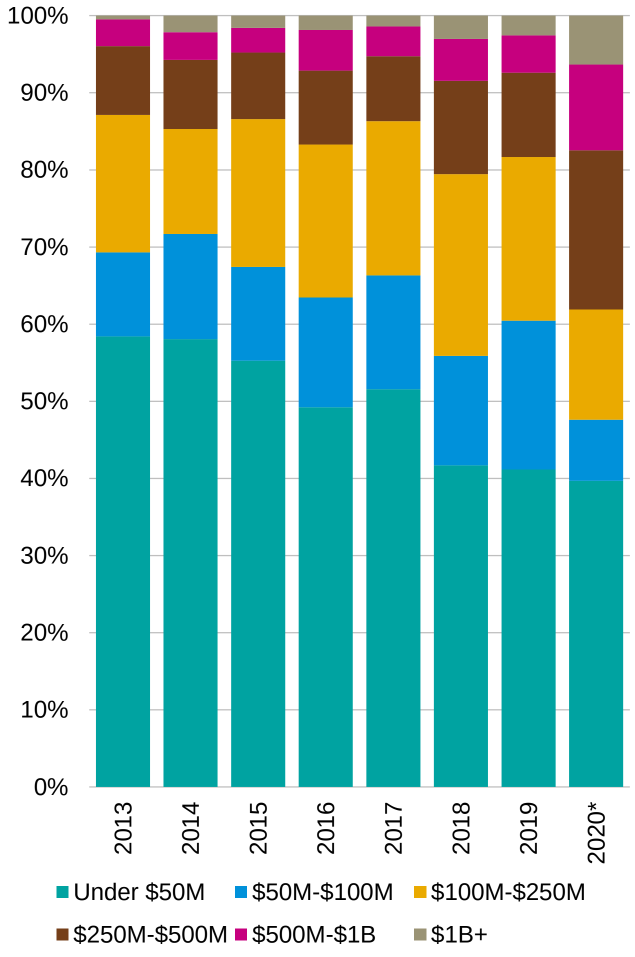
After a record haul in terms of dollars committed and volume in the past two years, one would think venture firms may let up the pace of fundraising. However, 2020 roared off to a strong start and, at only halfway through, already $43.1 billion has been committed to just 165 funds. Mega-funds understandably stand out, signaling that LPs are eager to double down on exposure to proven fund managers in order to potentially capitalize on the current environment.

Fundraising skews big

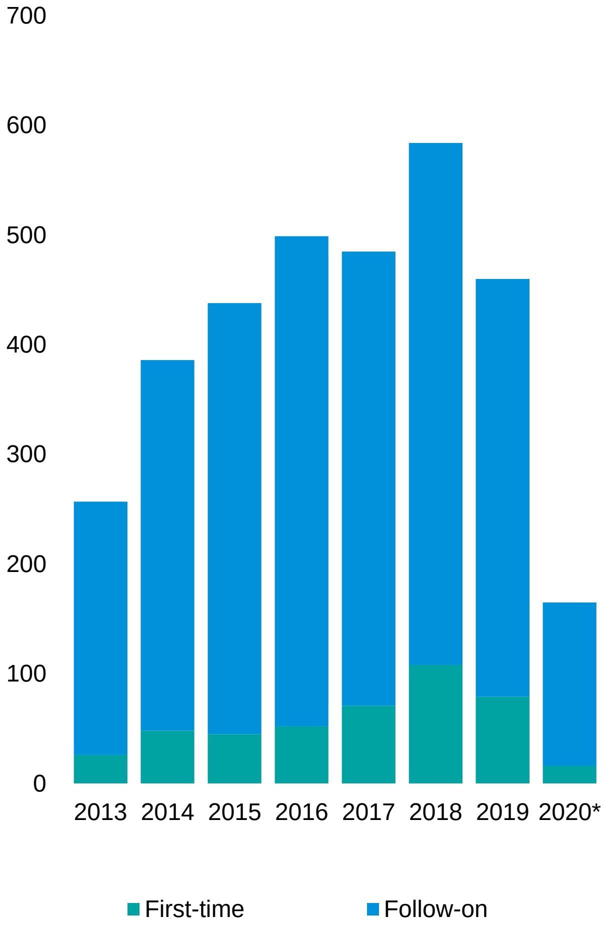
Venture fundraising (#) by size in the US

2013–2020*



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

2013–2020*



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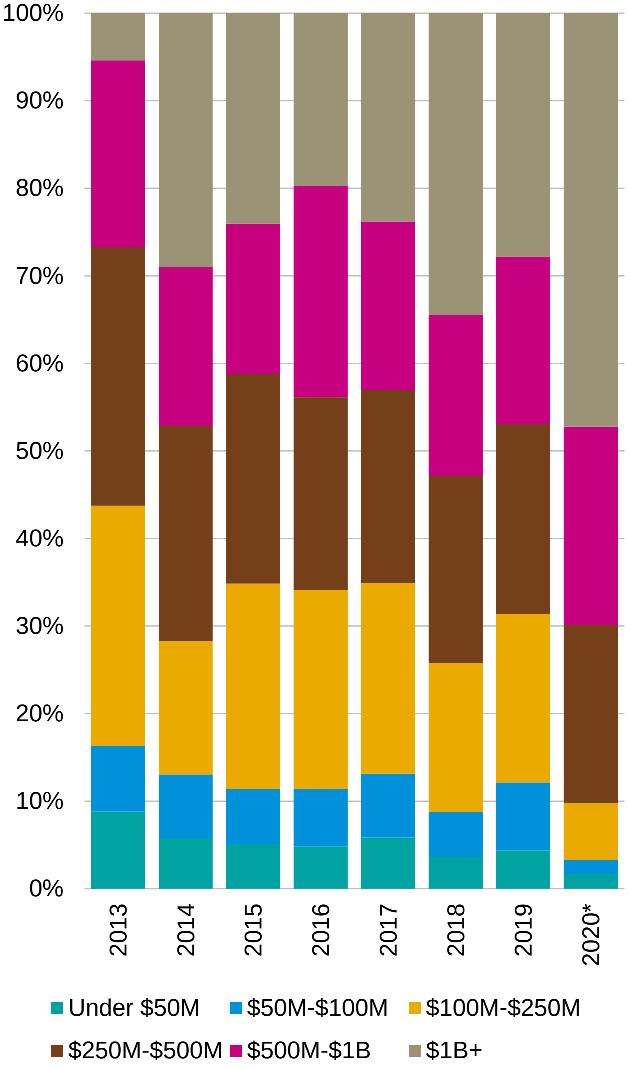
As is clear from the breakdown of funds closed in count by size range, the biggest only got bigger, with the firms that had multi-billion-dollar pools of capital in the market still being able to close, pandemic or no. Other proven managers had a similar experience. It was emerging fund managers or those striking out on their own for the first time that truly had to do extra legwork to take their vehicles to a close, though it's worth noting some were able to do so.

Mega-funds dominate

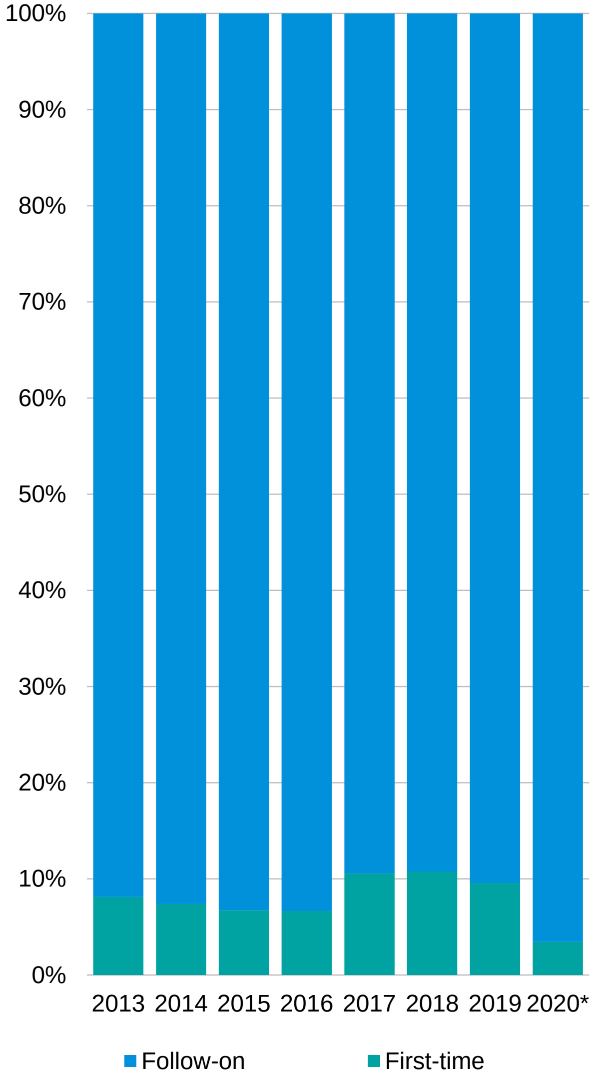
Venture fundraising ($B) by size in the US

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

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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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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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