KPMG
Private Enterprise

Venture Pulse Q4 2020

Global analysis of venture funding

January 20, 2021

Welcome message

Welcome to the Q4'20 edition of Venture Pulse — KPMG Private Enterprise's quarterly report highlighting the key issues, trends, and opportunities facing the VC market globally and in key jurisdictions around the world.

2020 was a year of tremendous change. While the global pandemic severely impacted countless industries — from travel and sports to hospitality and live entertainment — it also acted as a catalyst for technology transformation and innovation as startups capitalized on accelerating digital trends and corporates worked to rapidly advance their digital strategies in order to survive and effectively meet the shifting needs of their customers.

The VC market globally showed incredible resilience in 2020, defying early expectations of a potential dip due to COVID-19. While the total number of VC deals globally dropped sharply in 2020, total global VC investment grew year-over-year as VC investors focused primarily on late-stage deals and on supporting companies within their existing portfolios. VC investment in the earliest deal stages dropped off in most jurisdictions, a multi-quarter trend that could affect the pipeline for deals over the longer term.

During Q4'20, VC investment was very strong in all regions of the world. After a lacklustre first half of the year, VC investment in Asia continued to rebound, particularly in China where truck-hailing company Manbang Group raised $1.7 billion and edtechs Zuoyebang and Yuanfudao raised $1.6 billion and $1 billion respectively. Both the Americas and Europe also saw strong levels of VC investment in Q4'20, helping to propel them to new annual record highs. VC investment during the quarter continued to focus on sectors that have seen high demand given the ongoing pandemic, including logistics and mobility, healthcare and biotech, fintech, edtech, and gaming.

With barely a pause for the US presidential election in November, the stream of high-profile unicorn exits continued in Q4'20 with the successful US-based IPOs of Airbnb and DoorDash. Hong Kong also continued to see very strong IPO activity during the quarter, despite the sudden cancellation of Ant Financial's IPO a few days prior to its expected double-listing.

Low interest rates in many jurisdictions combined with large amounts of dry powder are expected to keep VC investment robust heading into Q1'20. IPO activity is also expected to remain very strong, both in the US and Asia.

In this quarter's edition of Venture Pulse, we examine both annual and Q4'20 VC market results, in addition to delving into a number of global and regional trends, including:

- The increasing focus on mega funds
- The strengthening focus on domestic investment in China
- The surge in IPO activity by unicorn companies
- The expanding focus on healthtech beyond COVID-19 related solutions

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

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Global Co-Leader — Emerging Giants, KPMG Private Enterprise
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Kevin Smith
Head of KPMG Private Enterprise in EMA, Global Co-Leader — Emerging Giants, KPMG Private Enterprise
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In Q4'20 US VC-backed companies raised

$38.8B

across

2,526 deals

VC investment in the US reaches new annual record high

VC investment in the US stayed robust in Q4'20, helping drive total annual VC investment to a new record high of $156.2 billion in 2020, compared to $138 billion last year. While the US faced a number of uncertainties during the quarter, including the presidential election in November, a seemingly endless supply of cash on the sidelines and an ample exit market helped to keep confidence in the VC market relatively robust through the end of the year.

During Q4'20, VC investment in the US remained focused on key sectors relevant in the current pandemic environment, including fintech, health and biotech, and transportation. These sectors accounted for many of the quarter's largest funding rounds, including Resilience ($725 million), Robinhood ($668 million), Chime ($533 million), Nuro ($500 million), Tempus Labs ($450 million), and Hippo Insurance ($350 million).

Large VC funds grow more attractive, while smaller funds struggle

Fundraising activity in the US reached a near-record high in 2020. In Q4'20, in particular, Andreessen Horowitz announced two mega funds totalling $4.5 billion[1]. Over the course of the year, large US VC funds attracted the lion's share of capital, while some smaller funds had difficulties with capitalization. This trend towards larger funds has been building for a couple of years, although it accelerated in recent quarters as investors increased their focus on metrics like cash-flow, unit economics, and the long-term sustainability of target companies. With a lot of capital sitting on the sidelines, large institutional investors and pension funds moved to put their capital into safe and knowledgeable hands – which predominantly meant larger VC firms with proven fund managers offering a consistent track record for delivering high returns over the lifespan of their funds.

COVID-19 driving disruption across US healthcare sector

The health and biotech sector continued to be a hot priority for US-based VC and corporate investors in Q4'20, with interest stretching well beyond COVID-19 specific activities. Over the last few quarters, the pandemic highlighted significant gaps in the healthcare ecosystem in the US ripe for disruption, which has led to an uptick in investor interest in a wide-range of health and biotech areas, including remote diagnostics, medical imaging solutions, fitness, and wellness. The wellness industry in particular saw significant growth throughout 2020 as consumers became more concerned about their health — a trend expected to continue well into 2021.

IPO activity in the US continues to surge

Following a strong quarter in Q3'20, IPO activity in the US continued to surge in Q4'20, despite the uncertainty related to the US presidential election. December saw a number of highly successful unicorn IPOs, including vacation rental marketplace Airbnb, delivery company DoorDash, and AI-driven enterprise SaaS company C3.ai. Airbnb raised $3.5 billion in its IPO, with shares rising 112 percent on the first day of trading, propelling the company's valuation

[1] https://www.finsmes.com/2020/11/andreessen-horowitz-closes-two-funds-totalling-4-5-billion.html

VC investment in the US reaches new annual record high, cont'd.

over $100 billion[2]. DoorDash raised $3.3 billion, with shares climbing 85 percent on the first day, giving it a market cap of $44 billion[3]. C3.ai, meanwhile, raised $651 million, with shares spiking over 170 percent on the first day of trading, giving it a market cap of $10 billion[4].

The ongoing march of unicorn exits in the US propelled the exit value of VC backed companies in the US to a record $290 billion in 2020 — well above the previous record of $257 billion seen in 2019.

No slowdown in M&A activity

M&A exit activity remained strong in the US during Q4'20, led by the announcement of the $27.7 billion acquisition of enterprise communications company Slack by Salesforce[5]. The acquisition follows less than two years after Slack's IPO via a direct listing[6].

The strong M&A activity in the US is likely due to a number of competing factors, including acquirers looking for deals from companies hit hard by the pandemic and others acting quickly to acquire companies in growing sectors before they became too expensive. Corporates also continued to make acquisitions during the quarter — primarily targeted at companies able to help them accelerate their digital efforts in order to not be left behind by more nimble and responsive competitors.

Trends to watch for in the US

VC investment in the US is expected to remain strong heading into Q1'21, in addition to M&A and traditional IPO activity. The use of SPACs for IPOs is also expected to continue into Q1'21, although the time horizon of SPACs — which (typically) require target companies to be acquired within a two-year period — could lead to some suboptimal choices over time given the number of SPACs currently in the market looking for targets.

Investment in the fintech, delivery and logistics, automotive, and health and biotech sectors is expected to remain strong well into 2021, while investments related to cybersecurity are expected to heat up given the expectation that digital channels and offerings will remain important to consumers in a post-pandemic world.

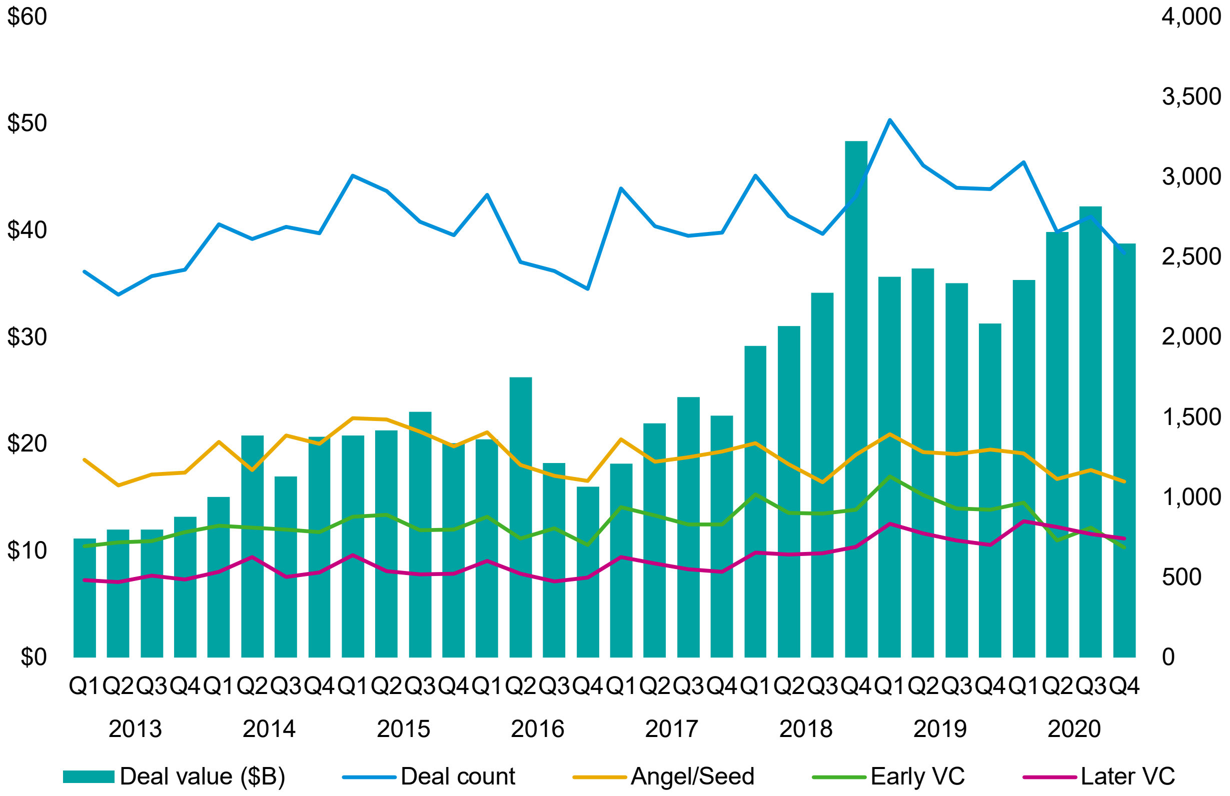
The change in administration in the US will also be critical to watch heading into 2021 as it will likely drive a shift in key government priorities and policies over time, which could affect key sectors of VC investment. One area well positioned to see an increase in activity is cleantech — such as cloud-based software solutions and energy storage and battery technologies.

[1] https://www.forbes.com/sites/jonathanponciano/2020/12/10/airbnb-ipo-shares-valuation-billion-more-than-marriott-hilton-hyatt/?sh=6abb42cb20ef
[2] https://investorplace.com/2020/12/why-post-ipo-pullback-doordash-stock-will-likely-continue/
[3] https://www.businessinsider.in/stock-market/news/software-firm-c3-ai-skyrockets-174-after-651-million-ipo/articleshow/79652222.cms
[4] https://www.nytimes.com/2020/12/01/technology/salesforce-slack-deal.html
[5] https://venturebeat.com/2019/06/20/slack-ipo-starts-trading-at-38-50-for-23-billion-valuation/

Volume evens out while VC invested stays strong

Venture financing in the US

2013–Q4'20



Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 1/20/2021.

Despite a modest decrease in the number of financings, the sheer weight of dry powder across US venture drove a remarkable outcome to close out the majority of 2020: a record three-quarter stretch of VC invested either eclipsing or nearing $40 billion apiece. Ongoing unicorn funding as well as continued focus on mature companies contributed to this significant slew of investment.

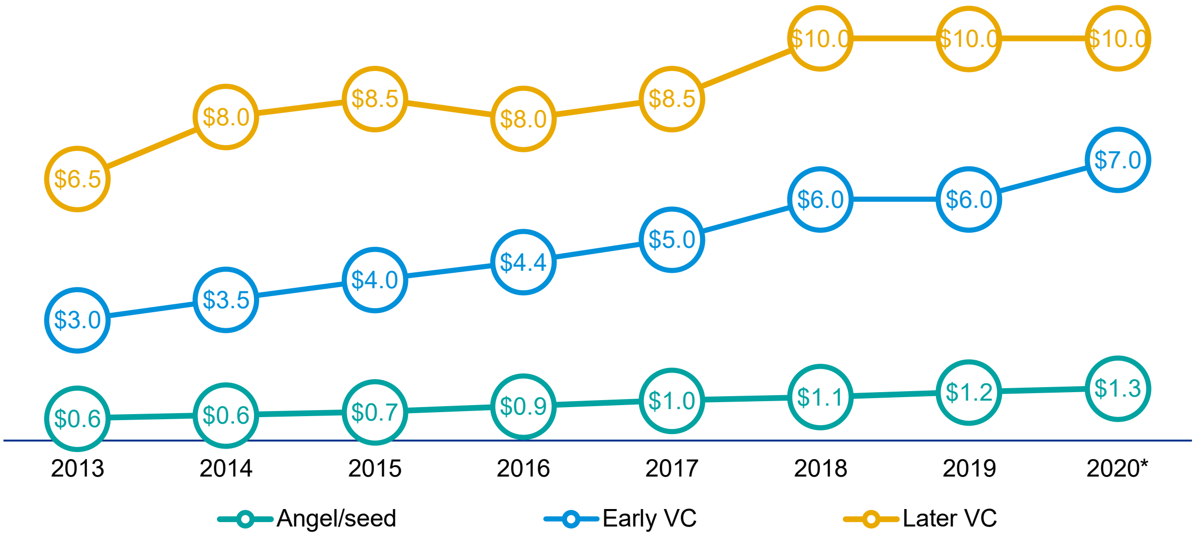
"If you'd have asked me back in March or April, when the world shut down, if the VC market would be this strong, I would've said no. But based on what we saw in Q2 and Q3, the continued strength of the VC market is no longer a huge surprise. And I think the market is only going to get better in light of the exits that we've seen recently — both the IPOs and the M&As, based on this the outlook for 2021 is positive."

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

Late-stage metrics hold steady

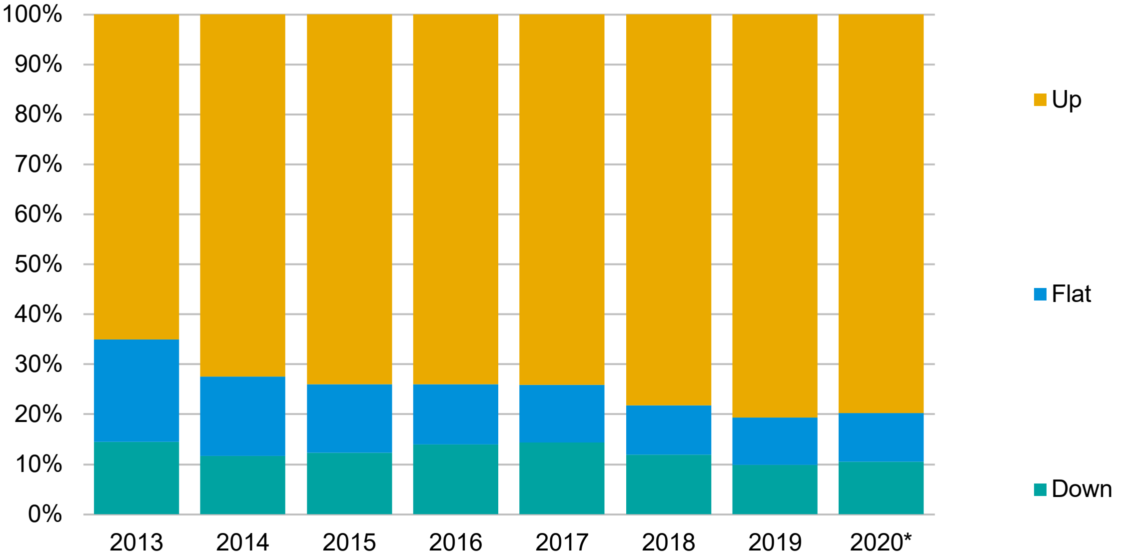
Median deal size ($M) by stage in the US

2013–2020*



Up, flat or down rounds in the US

2013–2020*

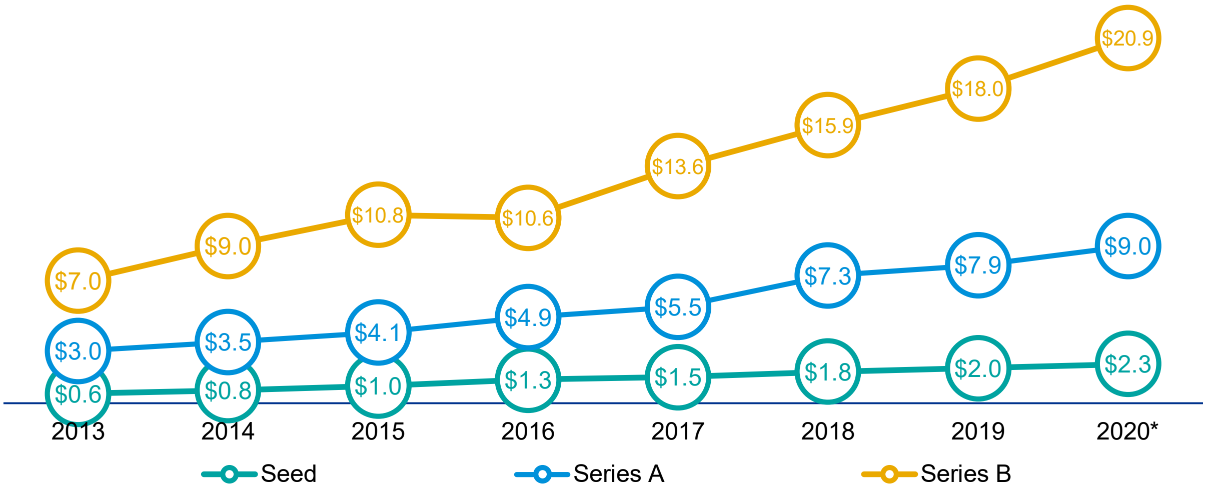


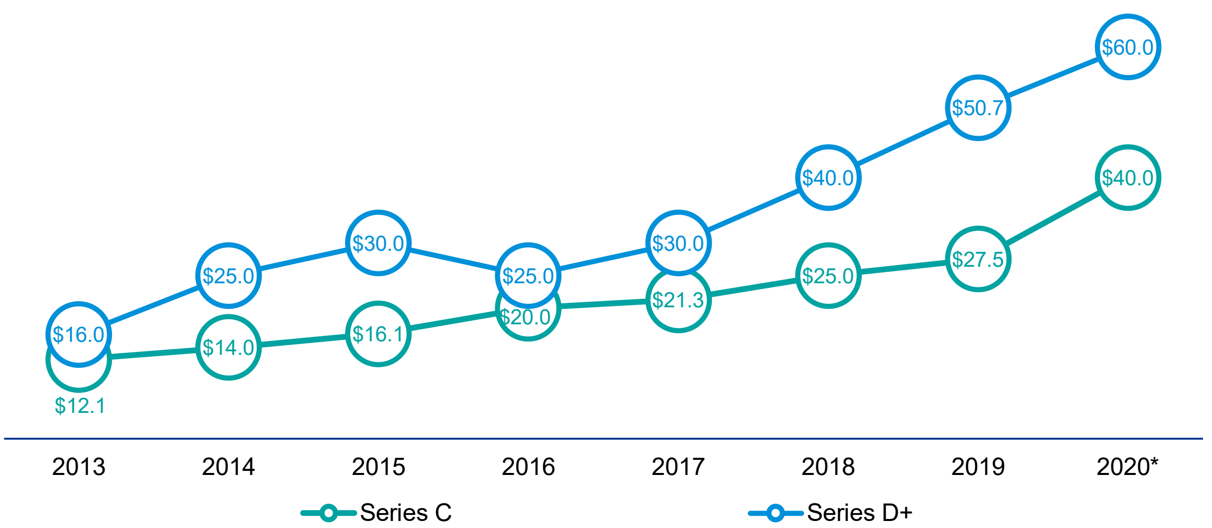
Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

Modest rises at the earlier stages

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

2013–2020*





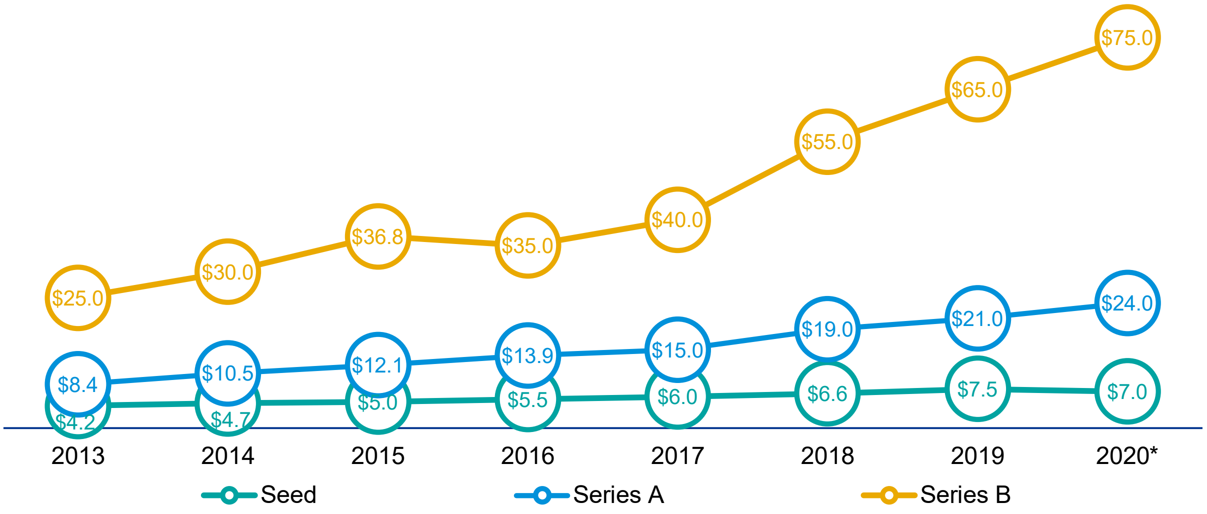
Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

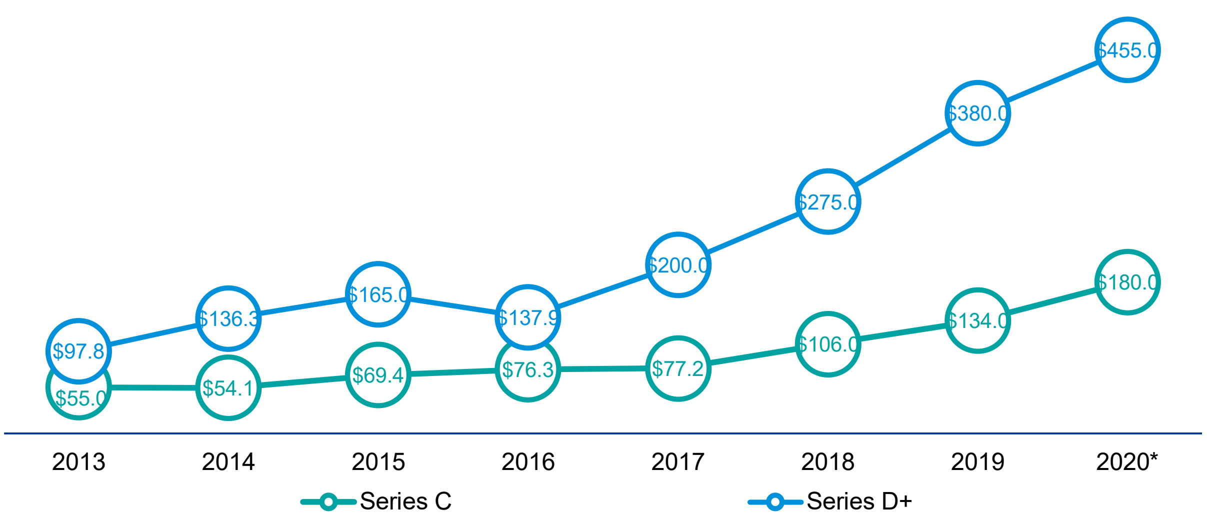
Note: Figures rounded in some cases for legibility.

Record valuations hold steady

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

2013–2020*





Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

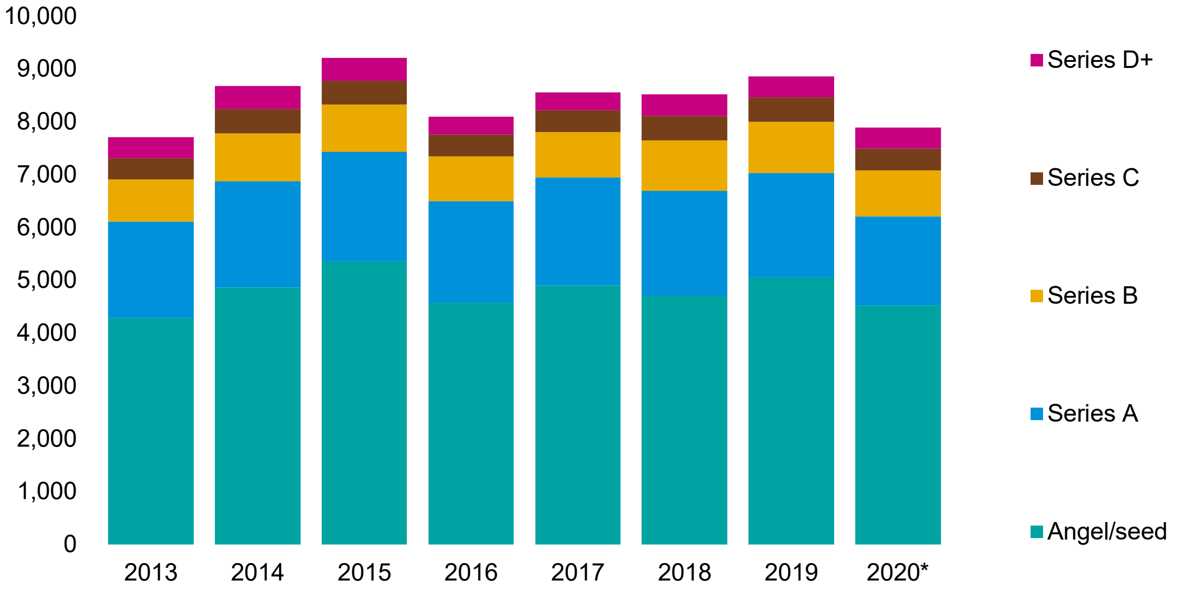
Note: Figures rounded in some cases for legibility.

2020 closed out with record valuations, indicating VCs focused on the longer term and in safer prospects due to company maturity and sheer size throughout the year, continuing to fuel record valuations across nearly every series. Tellingly, only the seed stage saw a modest decline, hinting at the tumult throughout 2020 and the general air of caution due to the degree of unknown economic, market and political factors.

Angel & seed ended up contracting

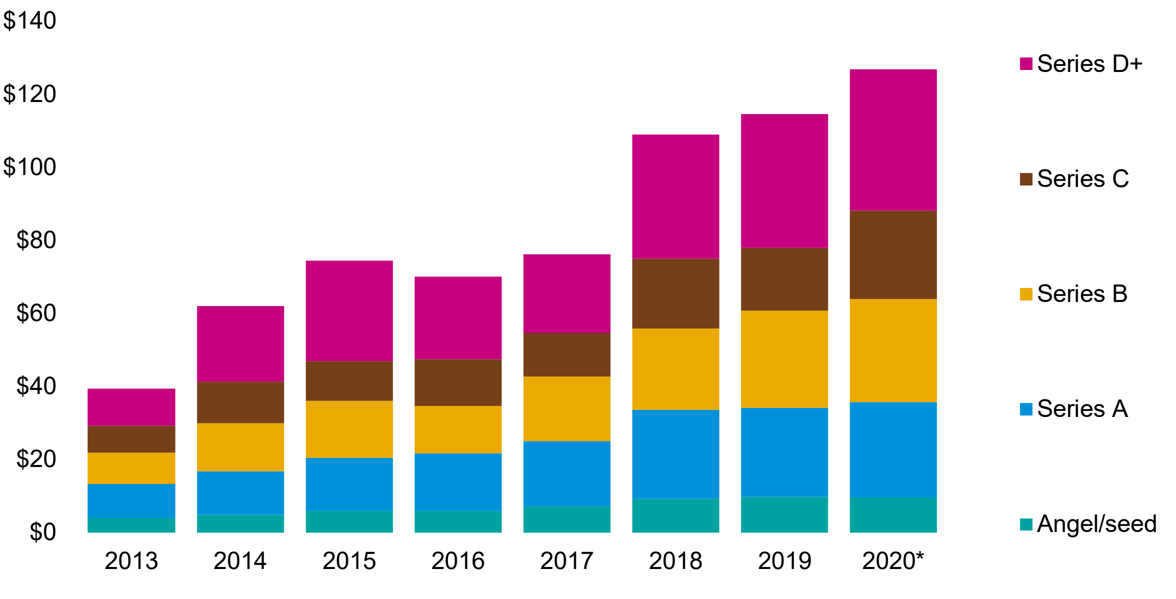
Deal share by series in the US

2013–2020*, number of closed deals



Deal share by series in the US

2013–2020*, VC invested ($B)

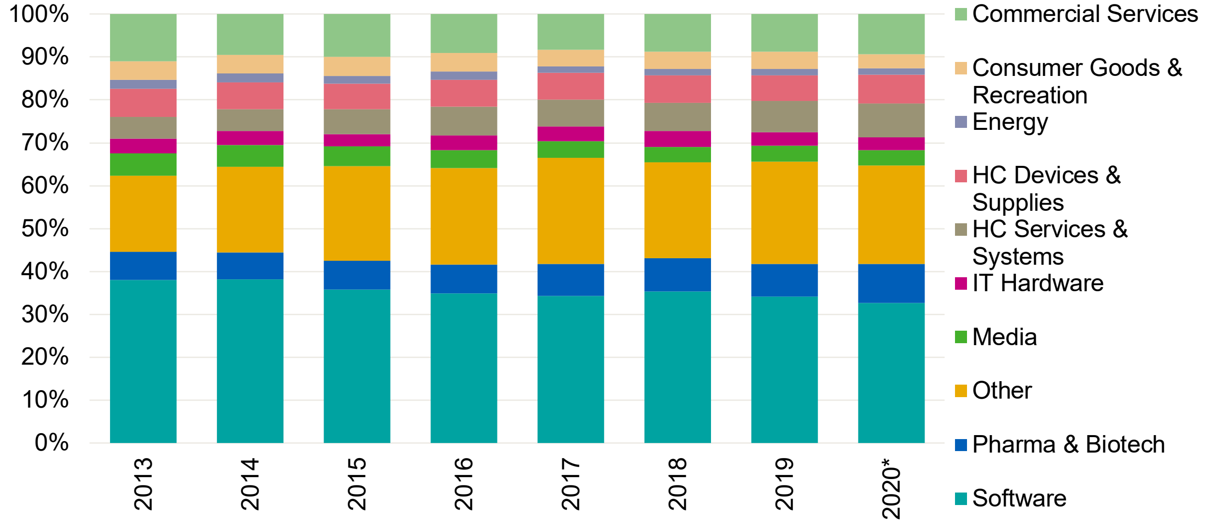


Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

Pharma & biotech notch a new high

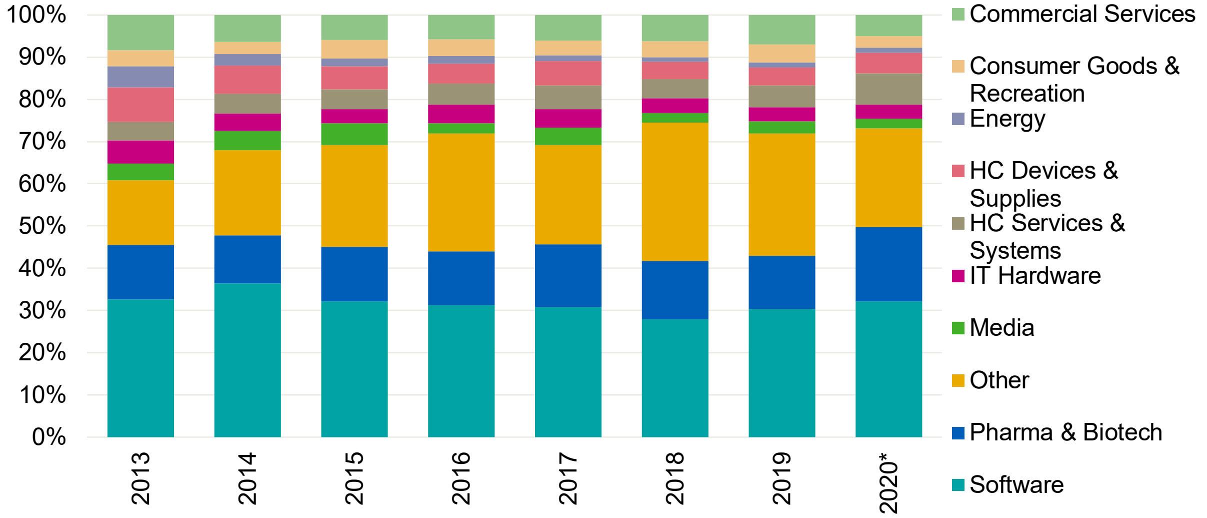
Venture financing by sector in the US

2013–2020*, number of closed deals



Venture financing by sector in the US

2014–2020*, VC invested ($B)

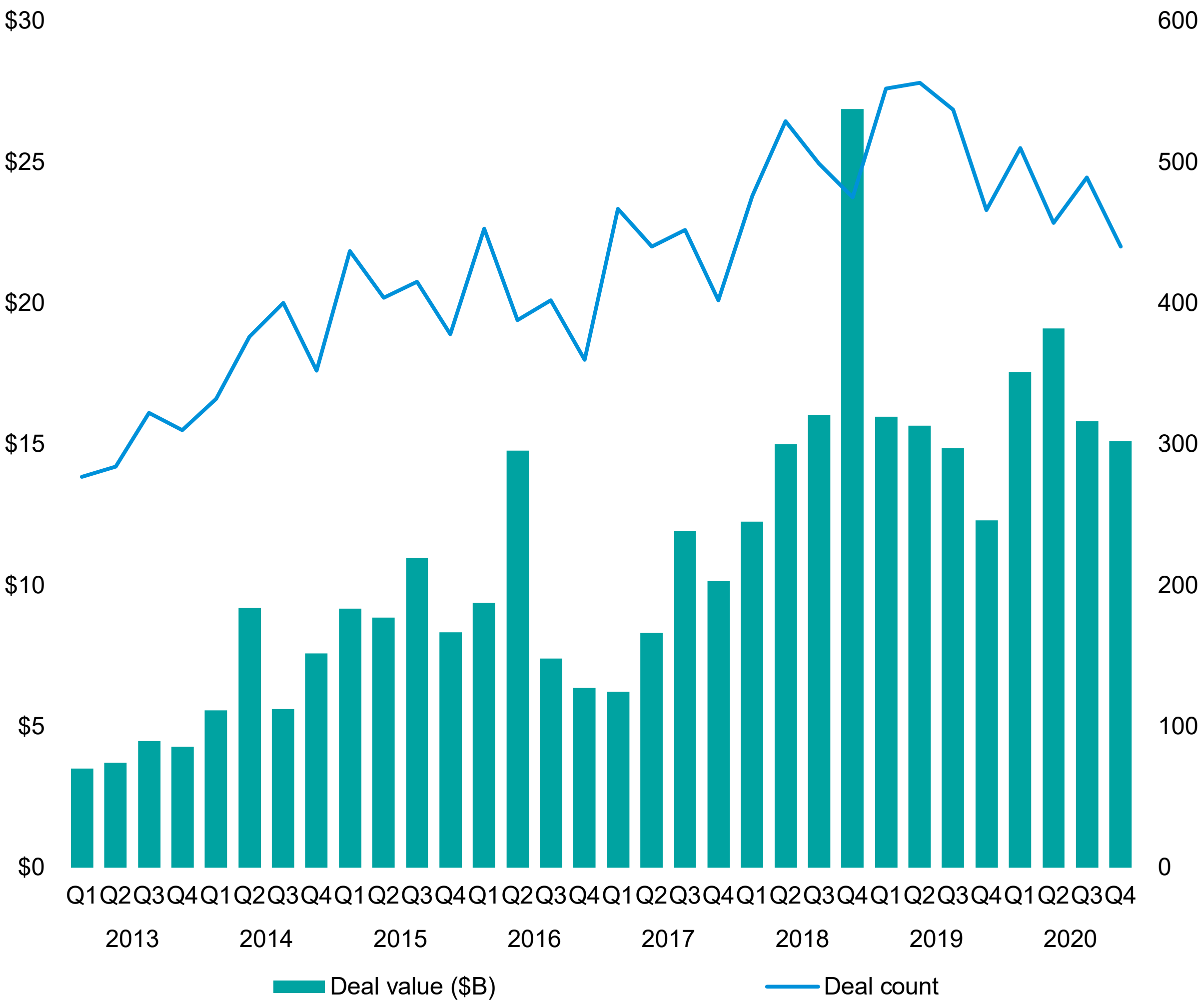


Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

CVC activity declines slightly in the US

Corporate participation in venture deals in the US

2013–Q4'20



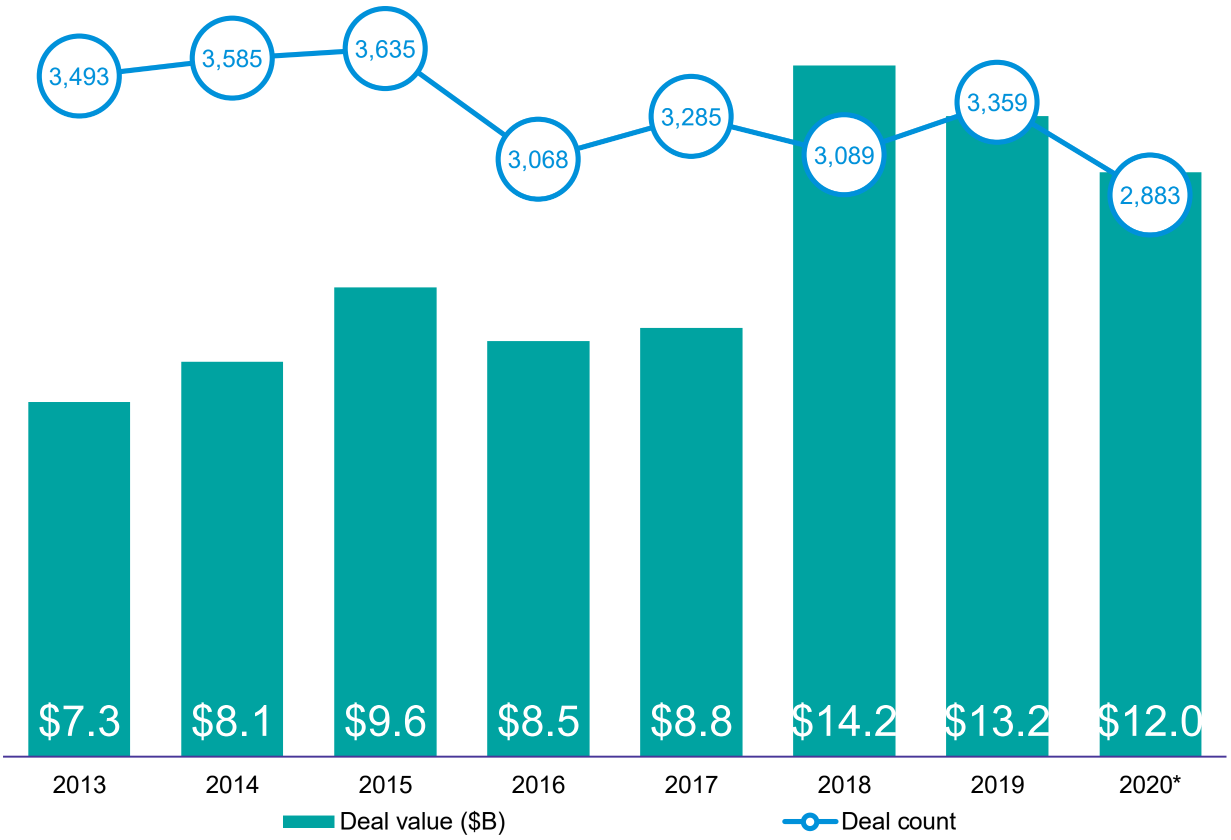
Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 1/20/2021.

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. Although the deal value of the rounds in which they participated stayed quite high by historical standards, volume slid slightly in a choppy fashion throughout 2020, to culminate at still-strong levels. It is likeliest that CVCs stay involved at a high level, and such choppiness was more due to quirks of timing than anything else.

First-time VC stays strong as volume slides

First-time venture financings of companies in the US

2013–2020*



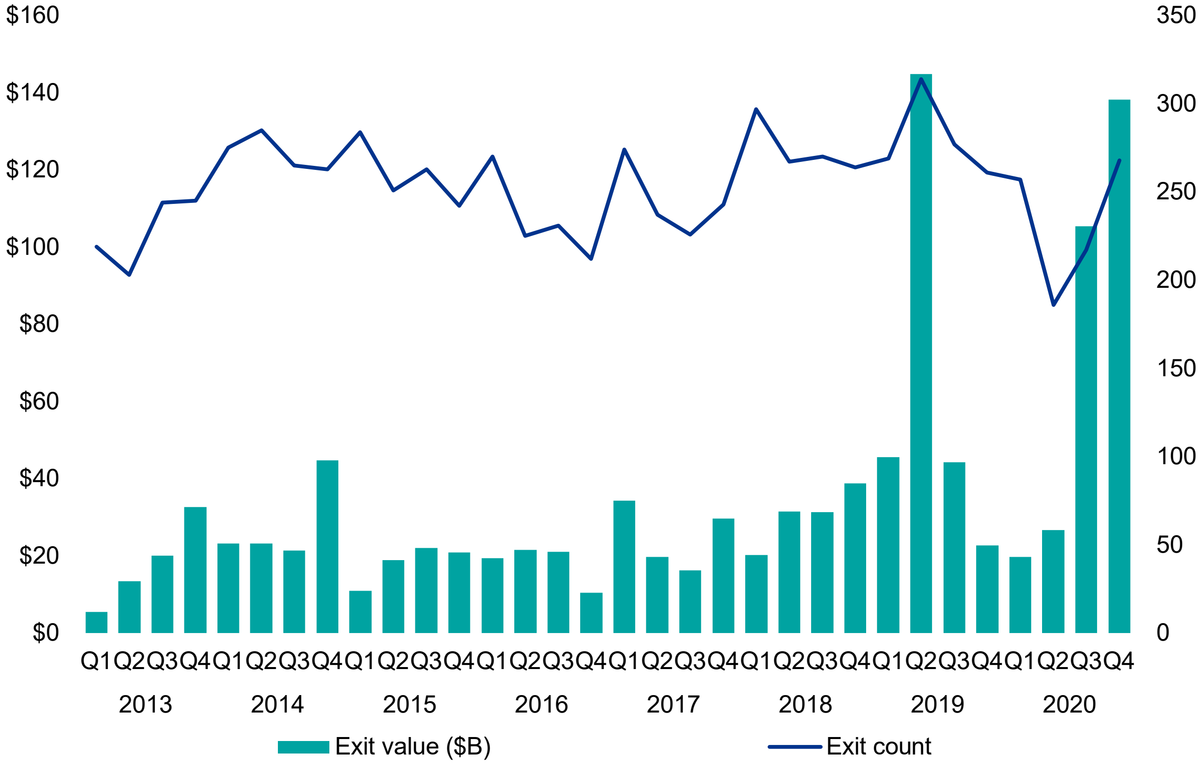
Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

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 ended up actually recording very robust figures. Volume understandably declined to sheer overall uncertainty, but by and large, investors still plowed plenty of funds into new ideas and relatively youthful entities, by and large.

Exits come roaring back to near records

Venture-backed exit activity in the US

2013–Q4'20



Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, 1/20/2021.

After a plunge to start the year, exit volume as well as value came roaring back to a near-unprecedented degree, borne of a slew of M&A as well as huge IPOs by unicorns, at long last. It remains to be seen how much liquidity highs unicorns will keep propelling, or if the record wave of SPACs formed in 2020 will actually yield a fruitful crop of M&A for venture backers, in 2021.

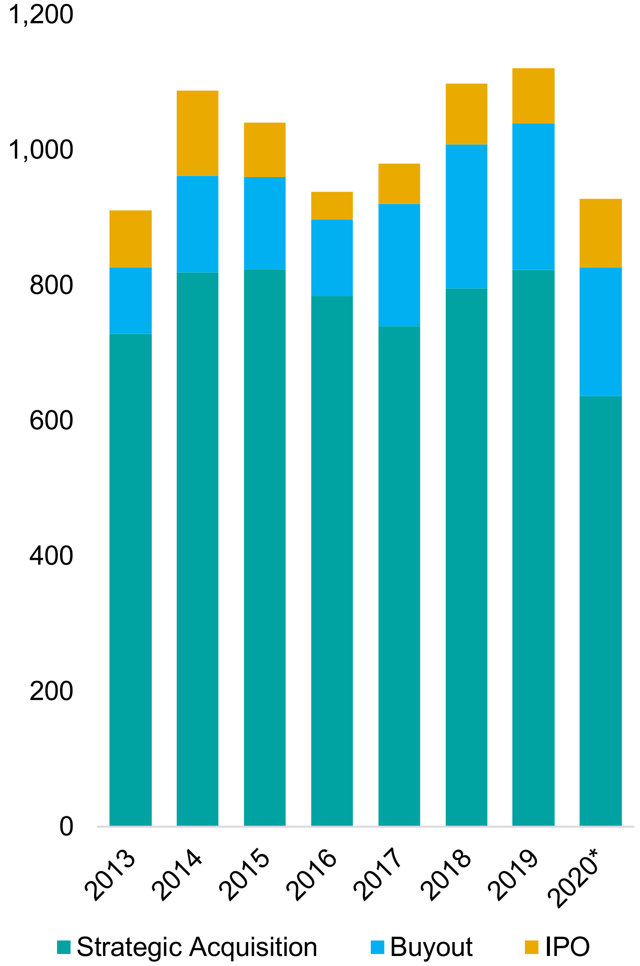
"Here in the US, we've seen unprecedented IPO activity this quarter, with Airbnb and DoorDash leading the unicorn herd to the public markets and being valued at astronomical amounts. And we have significant pent-up demand from other VC-backed companies that have been growing fast, raising private money and holding off on going public. Now those companies are looking at the success stories and thinking about the money they could raise. The IPO door is wide open and that pent up demand is likely going to lead to 2021 being another big year."

Jules Walker
Senior Director, Business Development,
KPMG in the US

IPOs set a record for exit value

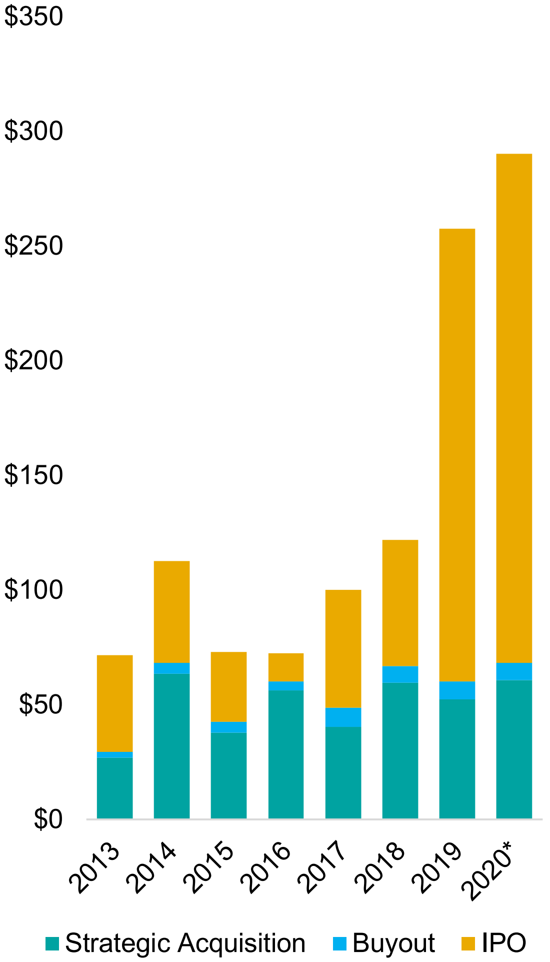
Venture-backed exit activity (#) by type in the US

2013–2020*



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

2013–2020*



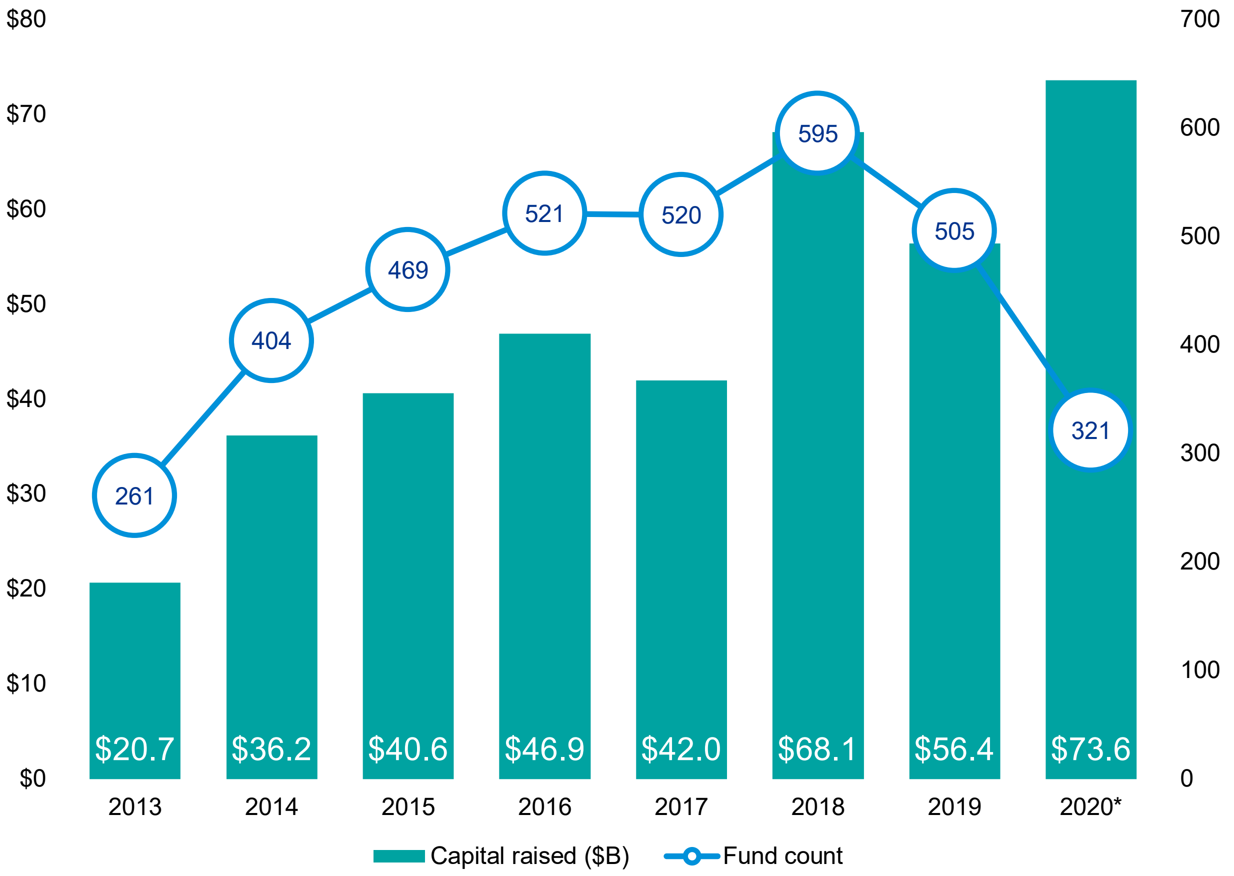
Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

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. Given sheer uncertainty in public markets, it was difficult to be confident in predicting that 2020 would eventually outpace that year, but 2020 ended up once again proving surprising to a significant degree, and saw a new high for IPOs borne on the surge of public markets to record highs.

2020 sets a record

US venture fundraising

2013–2020*



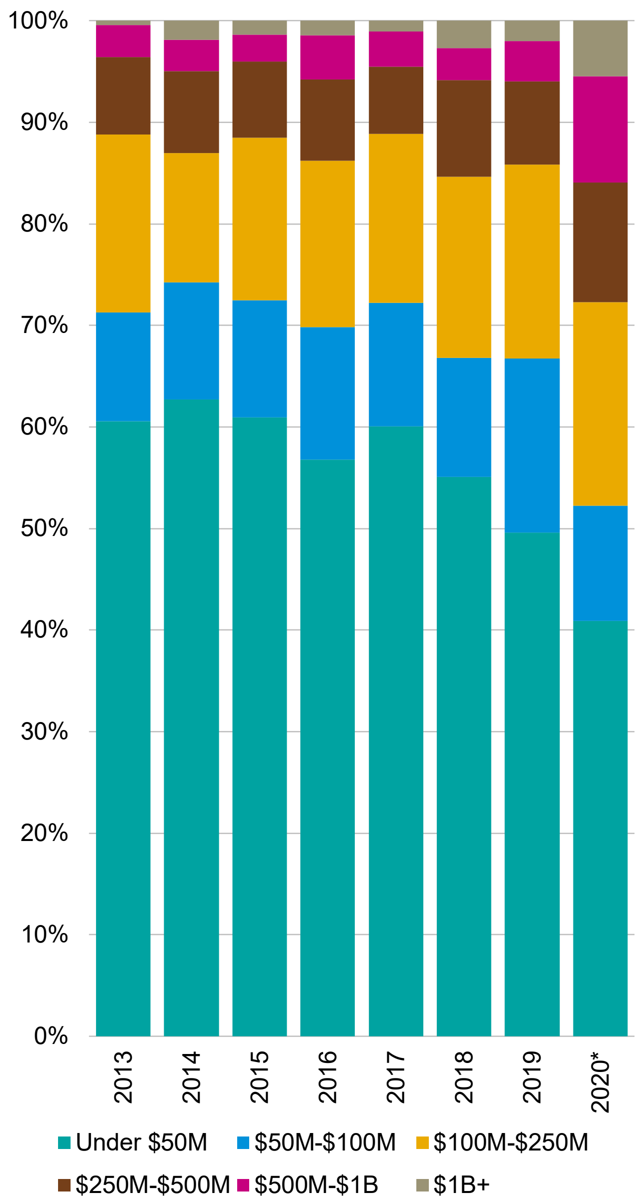
Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

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 ended up with a truly mammoth $73.6 billion committed to US-based venture funds, even as the volume of fundraising fell to the lowest level since 2013. Of course, such a trend indicates the presence of mega-funds. 14 funds alone in the US closed on $1 billion or more, raised by the likes of Lightspeed Venture Partners, New Enterprise Associates, Battery Ventures and other prominent VCs.

Fundraising skews bigger in era of caution

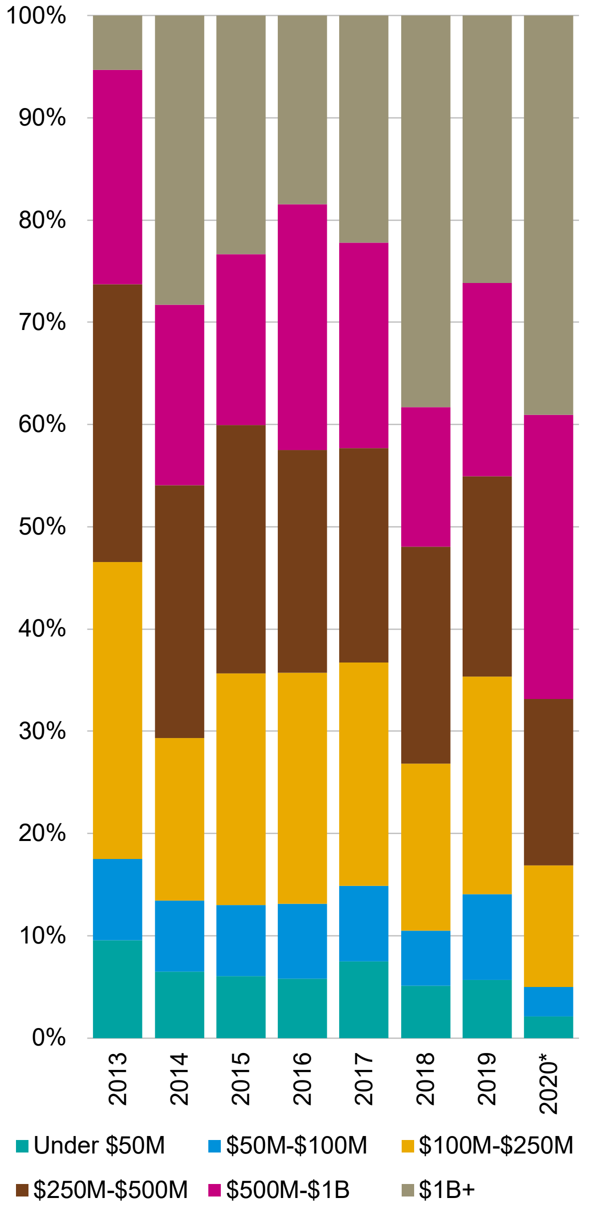
Venture fundraising (#) by size in the US

2013–2020*



Venture fundraising ($B) by size in the US

2013–2020*

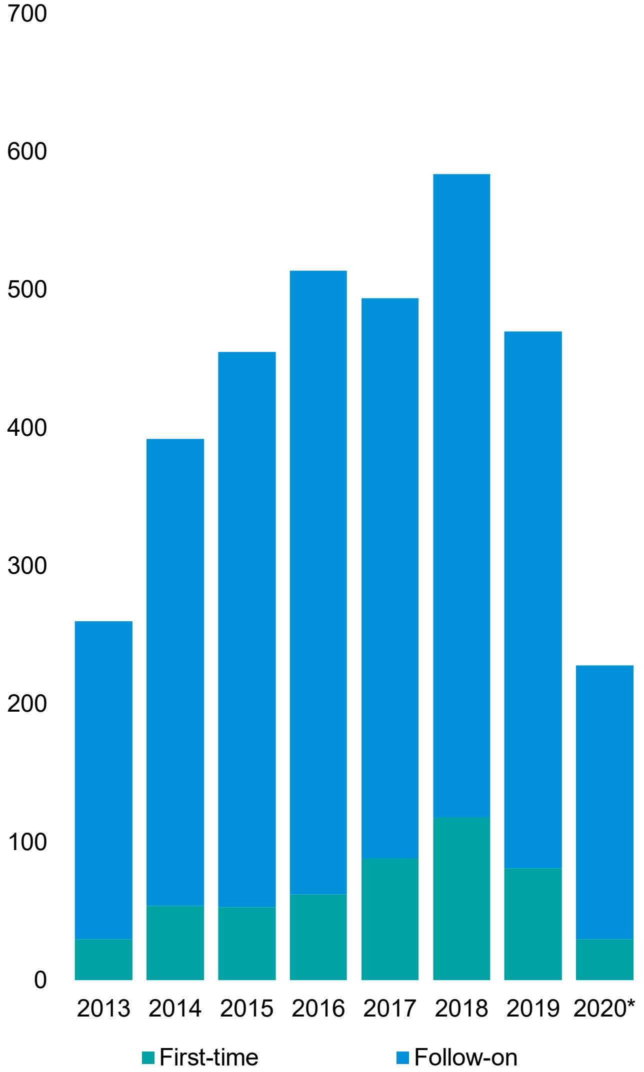


Source: Venture Pulse, Q4'20, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of 12/31/20. Data provided by PitchBook, 1/20/21.

In US, follow-on fundraising predominates

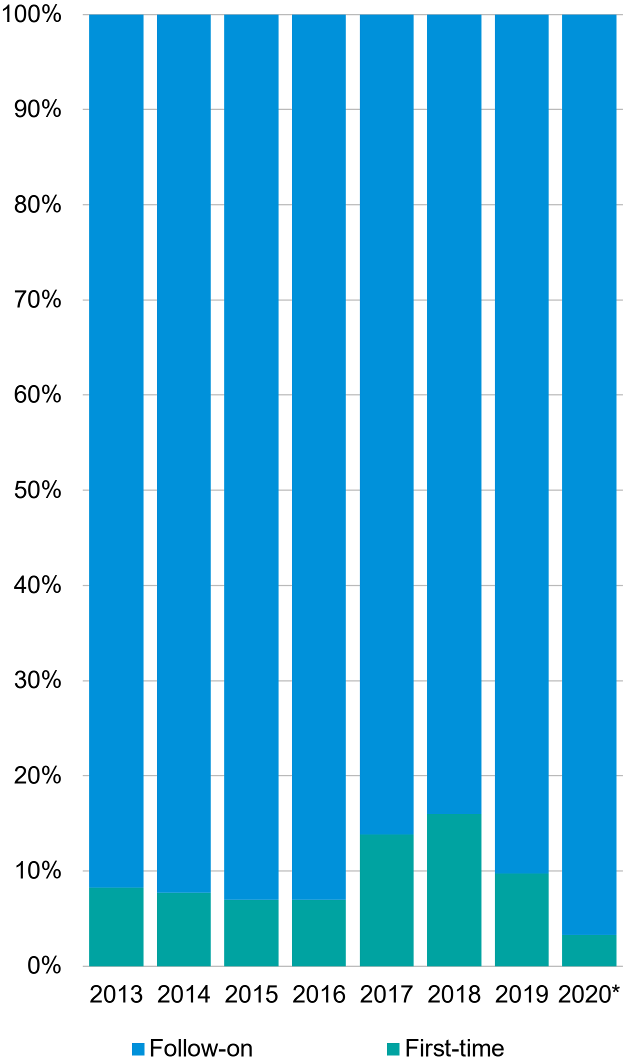
First-time vs. follow-on funds (#) in the US

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

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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

We acknowledge the contribution of the following individuals who assisted in the development of this publication:

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

Anshul Gupta, Partner, Head of Corporate Finance, KPMG United Arab Emirates

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Egidio Zarrella, Partner, Clients and Innovation, KPMG China

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

Tim Dümichen, Partner, KPMG in Germany

Methodology

KPMG uses PitchBook as the provider of venture data for the Venture Pulse report.

Please note that the MESA and Africa regions are NOT broken out in this report. Accordingly, if you add up the Americas, Asia-Pacific and Europe regional totals, they will not match the global total, as the global total considers those other regions. Those specific regions were not highlighted in this report due to a paucity of datasets and verifiable trends.

In addition, particularly within the European region, the Venture Pulse does not contain any transactions that are tracked as private equity growth by PitchBook. As such rounds are often conflated with late-stage venture capital in media coverage, there can be confusion regarding specific rounds of financing. The key difference is that PitchBook defines a PE growth round as a financial investment occurring when a PE investor acquires a minority stake in a privately held corporation. Thus, if the investor is classified as PE by PitchBook, and it is the sole participant in the recipient company's financing, then such a round will usually be classified as PE growth, and not included in the Venture Pulse datasets.

Also, if a company is tagged with any PitchBook vertical, excepting manufacturing and infrastructure, it is kept. Otherwise, the following industries are excluded from growth equity financing calculations: buildings and property, thrifts and mortgage finance, real estate investment trusts, and oil & gas equipment, utilities, exploration, production and refining. Lastly, the company in question must not have had an M&A event, buyout, or IPO completed prior to the round in question.

Fundraising

PitchBook defines venture capital funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional venture capital firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identifying 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 United States 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. Mega-funds are classified as those of $500 million or more in size for the following fund categories: venture and secondaries.

Deals

PitchBook includes minority equity investments, as well as investments combined of both equity and debt, 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, as well as from nontraditional investors such as hedge funds, mutual funds or private equity funds. 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.

Methodology, cont'd.

Angel/seed: PitchBook defines financings as angel rounds if there are no PE or VC firms involved in the company to date and we 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. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is for less than $500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which we typically aggregate 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 we typically aggregate 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 is employed.

Exits

PitchBook includes the first full liquidity event (i.e., M&A, buyout, IPO) for holders of equity securities of venture-backed companies. This does not include direct secondary sales, further share sales following an IPO, 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. Unless otherwise noted, IPO sizes are based on the pre-money valuation of the company at the time of the transaction.

In the edition of the KPMG Venture Pulse covering Q1 2019 and all ensuing, 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 in all subsequent editions yet is more reflective of how the industry views the true size of an exit via public markets.

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