KPMG Private Enterprise

Venture Pulse Q2 2021

Global analysis of venture funding

21 July 2021

Welcome message

Welcome to the Q2'21 edition of *Venture Pulse,* KPMG Private Enterprise's quarterly report highlighting the major trends, opportunities, and challenges facing the venture capital market globally and in key regions around the world.

Global VC investment soared to a new high in Q2'21, as investors continued to prioritize larger and later stage deals. High valuations, a robust IPO market, and a hearty supply of dry powder also helped fuel investment across numerous jurisdictions. In the Americas and Europe, VC investment reached near-record highs, while Asia attracted its second-highest level of VC investment since Q3'19.

The quarter saw 10 deals over $1 billion, led by a $2.75 billion raise by Northvolt AB in Switzerland, and a $2.5 billion raise by US-based Waymo. While fintech was the most attractive sector of investment in all regions of the world, health and biotech continued to see significant investment activity, in addition to areas such as edtech, gaming and food delivery.

Exit activity continued to be robust, with interest in IPOs stretching well outside of the US. In Q2'21, companies including Monday.com (Israel), Oatly (Sweden), Darktrace (UK) held IPOs. While interest in SPACs slowed somewhat in the US, it grew in other regions. The SPACs that have been created, however, will need to find targets, which will be a key activity to watch over the remainder of the year.

With a significant amount of cash looking for investments, the VC market is expected to remain very robust heading into Q3'21. VC investors will likely focus on many of the sectors expected to remain attractive as the world emerges from the pandemic, including B2B business productivity, fintech, and delivery.

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

- The explosion of unicorn births compared to previous years
- The major focus on fintech investment across all regions
- The ongoing interest in health and biotech as the world emerges from the pandemic
- The increasing participation of non-traditional VC investors

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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You know KPMG, you might not know KPMG Private Enterprise.

KPMG Private Enterprise advisers in KPMG 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 US

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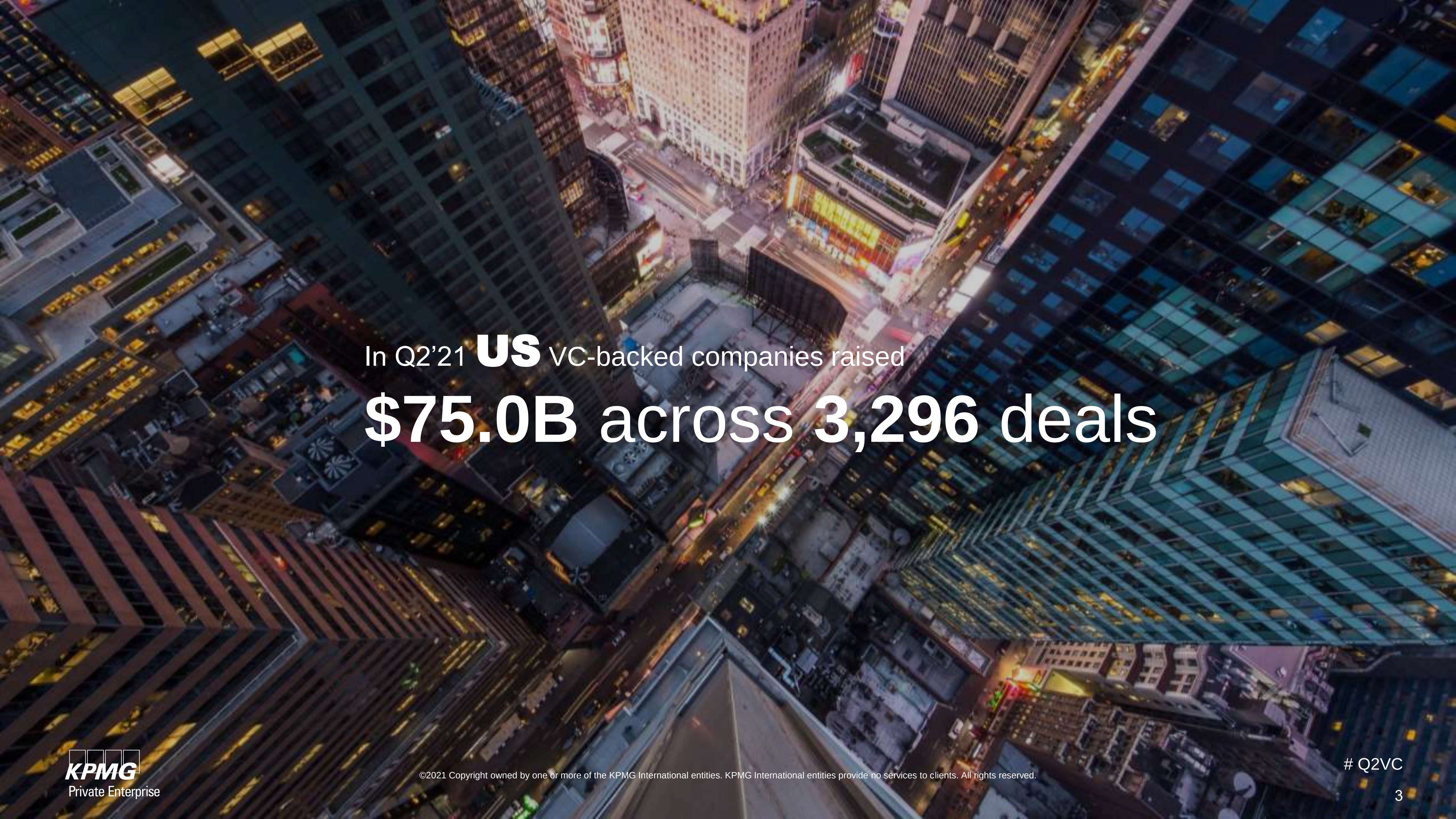

In Q2'21 **US** VC-backed companies raised

$75.0B across **3,296** deals

KPMG
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Q2VC

VC investment in US reaches record high in Q2'21

In Q2'2021, VC investment reached yet another record high in terms of total deal value, slightly surpassing the previous quarter's total in deal value.

Growing diversity of sectors attracting large funding rounds

A wide variety of US-based companies attracted $500 million+ funding rounds during Q2'21, including autonomous driving company Waymo ($2.5 billion), aerospace-focused SpaceX ($1.2 billion), gaming company Epic Games ($1 billion), and biotech firm Treeline Biosciences ($678 million). Three fintech companies also raised large rounds during the quarter, including Perch ($775 million), Better ($500 million), and Daily Pay ($500 million). These deals highlight the breadth of sectors attracting attention from investors in the US.

Fundraising poised to shatter previous high

Fundraising activity in the US continued to be red hot in the US during Q2'21, with the total raised to date just shy of the previous annual record high. The burst in fundraising activity highlights the wealth of dry powder in the market looking for a home, while also emphasizing the successes of a number of the well-established VC firms. These firms are delivering higher returns over the life of their funds, returns that are expected to grow further given the IPO and exit successes that have been seen over the last few quarters. This is driving some institutional investors and less traditional investors to invest in funds led by highly successful VC firms, thus boosting fundraising totals even further.

Institutional investors following the smart money

A growing number of institutional investors are investing in late stage VC deals, in part by following the smart VC money. They are identifying opportunities related to startups that are well established, Series C and beyond, and evaluating whether companies have legs before making investments. Many of these institutional investors see these late stage investments as relatively safe bets given the confidence such companies have gained from highly successful VC firms.

Corporate VC investment shows continued strength

Corporate VC investment in the US showed continued strength in Q2'21. Many corporates are using VC investments as their R&D center, in part so they can make a range of investments in order to see what sticks. Many corporates have also recognized that they need to enhance their innovation capacity, and see VC investments and M&A activity as a means to make leaps forward in terms of their capabilities.

IPO Market remains strong

The IPO market in the US continued to show strength in Q2'21, with no slow down in activity in terms of companies preparing to go public. The quarter saw a number of IPOs, including plant-based milk company Oatly, which raised $1.4 billion in its May debut, with shares rising as much as 34% in first day trading.[1]

The quarter also saw several direct listings, including cryptocurrency exchange Coinbase in April and website hosting company Squarespace. A number of SPAC mergers also occurred during Q2'21, including fintech company SoFi with Social Capital Hedosophia Holdings Corp. V[2] and subscription service Barkbox with Northern Star Acquisition.[3]

[1] https://markets.businessinsider.com/news/stocks/oatly-stock-price-ipo-10-billion-valuation-plant-based-milk-2021-5-1030452000
[2] https://investorplace.com/hypergrowthinvesting/2021/06/sofi-stock-spac-merger-beginning-of-huge-breakout/
[3] https://news.spacconference.com/2021/06/02/bark-and-northern-star-close-merger/

VC investment in US reaches record high in Q2'21, cont'd.

Electric vehicle ecosystem gaining traction

In recent quarters, VC investors have shown increasing interest in everything to do with electric vehicles. In addition to specific car technologies and charging platforms, there has been a growing focus on the ecosystem supporting electric vehicles. For example, the development of destination charging options that allow vehicles to be charged while owners are shopping or at work.

SPACs losing some shine

After two quarters of surging interest in SPAC transactions, interest waned somewhat in Q2'21. While SPACs remain a viable option for companies looking to exit, there is growing recognition of the reality surrounding SPAC transactions, including the need to be ready to perform as a public company from day 1. In April, the SEC also issued accounting guidance classifying SPAC warrants as liabilities rather than as equity instruments.[4] This sparked some concern that the SEC will enhance its regulatory scrutiny of SPACs in the future.

Betting on the new normal

COVID-19 changed the world, shifting how people work, how they shop, and how they engage with companies. VC investors recognize that the world will never be the same and are placing big bets on companies expected to thrive in the post-pandemic new normal. This is driving investment in a wide range of sectors, from fintech and healthcare to gaming, ESG, and e-commerce.

One subsector beginning to attract attention from investors is staffing. This is because many companies are expected to leverage hybrid work models moving forward. Such an approach also allows companies to draw on a broader talent pool for filling critical and highly competitive roles, thus increasing the need for companies with technologies able to make staffing processes more efficient and effective.

Trends to watch for in the US

VC investment is expected to remain strong heading into Q3'21, particularly in areas such as fintech, automotive, and AI. Given the supply chain issues identified as a result of the Evergreen ship blocking the Suez Canal and the ransomware attack on the Colonial Pipeline, there could also be increasing interest in logistics and supply chain solutions. Investment in agtech and foodtech is also expected to grow, particularly in areas such as alternative packaging and delivery, in addition to investment in touchless store related technologies.

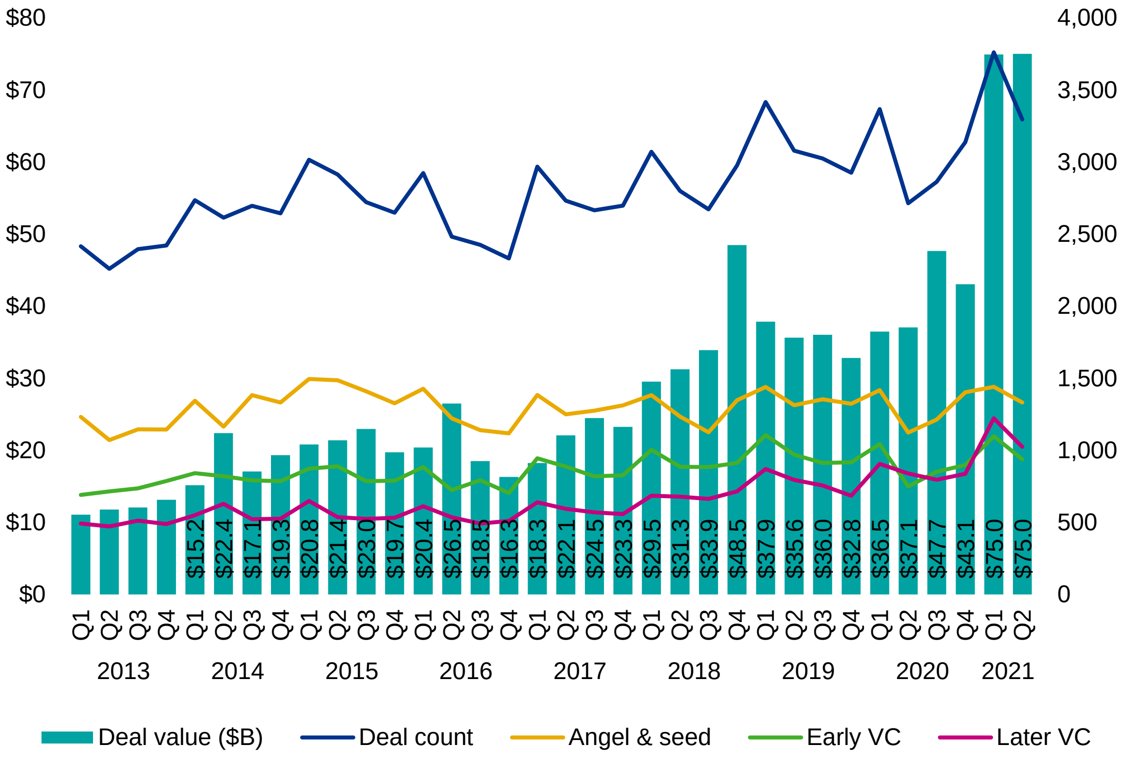
IPO activity will likely remain strong well into Q3'21. SPAC transactions will be an area to watch over the next few quarters given that the multitude of SPACs that have been formed in recent months will need to find target companies.

[4] https://www.cnbc.com/2021/04/21/spac-transactions-come-to-a-halt-amid-sec-crackdown-cooling-retail-investor-interest.html

The first half of 2021 sees an unprecedented influx of capital

Venture financing in the US

2013–Q2'21



Source: Venture Pulse, Q2'21, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2021. Data provided by PitchBook, July 21, 2021.

As financing volume looks primed to set new highs, so too has the sheer influx of capital into the US venture ecosystem led to all-time new highs. The first two quarters of 2021 have each notched $75 billion in VC invested, a sum close to double much of prior quarterly highs. Fund managers' enthusiasm can be explained in part by the multiple indications that the rate of adoption of multiple key digital technologies and the need for even more across a wide range of business operations has accelerated to a point that it will not slow for years, which has created opportunities for many extant and fledgling startups. However, the degree of competition also by now necessitates notes of caution.

> "Here in the US, valuations continue to be high, and capital from numerous sources continues to be plentiful. This is providing significant optionality for companies as they mature, e.g., ability to do a later-stage round and delay a potential IPO. This optionality is excellent as companies wait to see what the post-pandemic outcomes are for consumer and corporate behaviors."

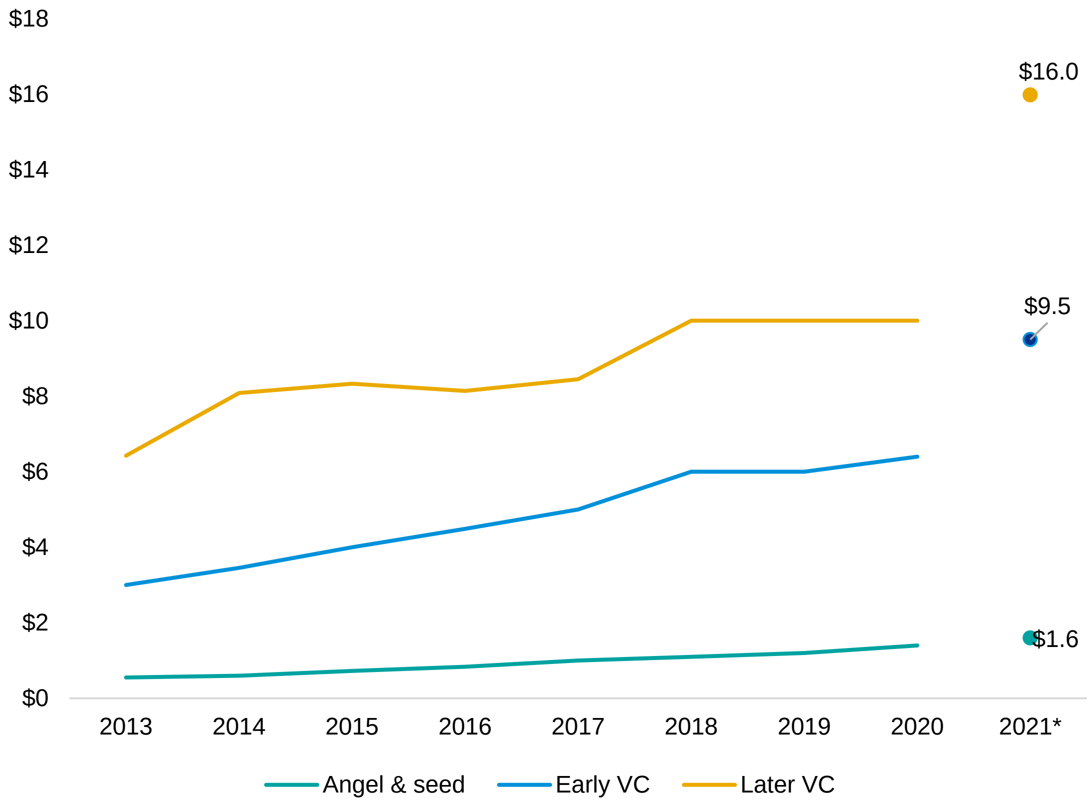
Conor Moore
Global Co-Leader — Emerging Giants, KPMG Private Enterprise, KPMG Partner, **KPMG in the US**

KPMG Private Enterprise

The flood of capital widens across both early & late stages

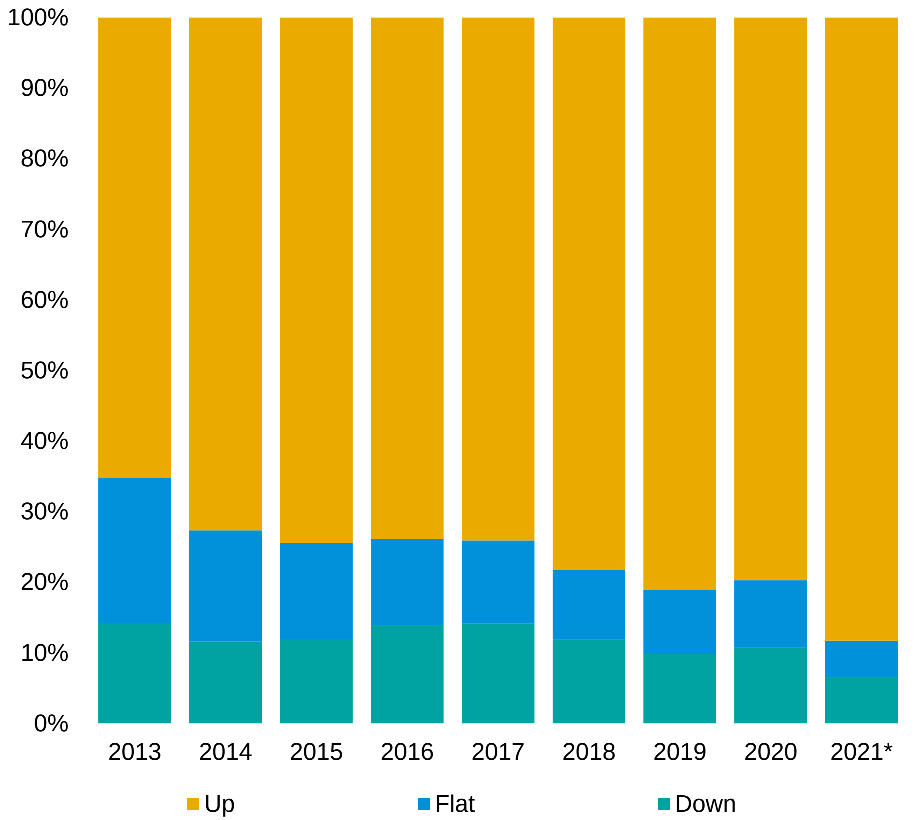
Median deal size ($M) by stage in the US

2013–2021*



Up, flat or down rounds in the US

2013–2021*



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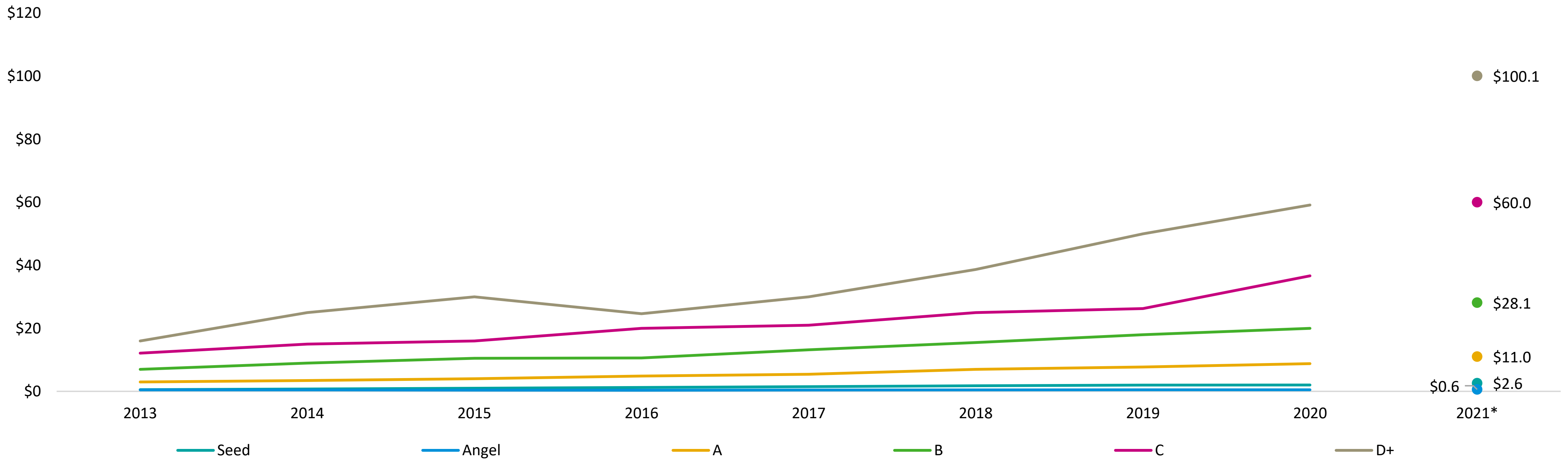
Modest rises at the earlier stages; big jumps at the late-stage

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

2013–2021*



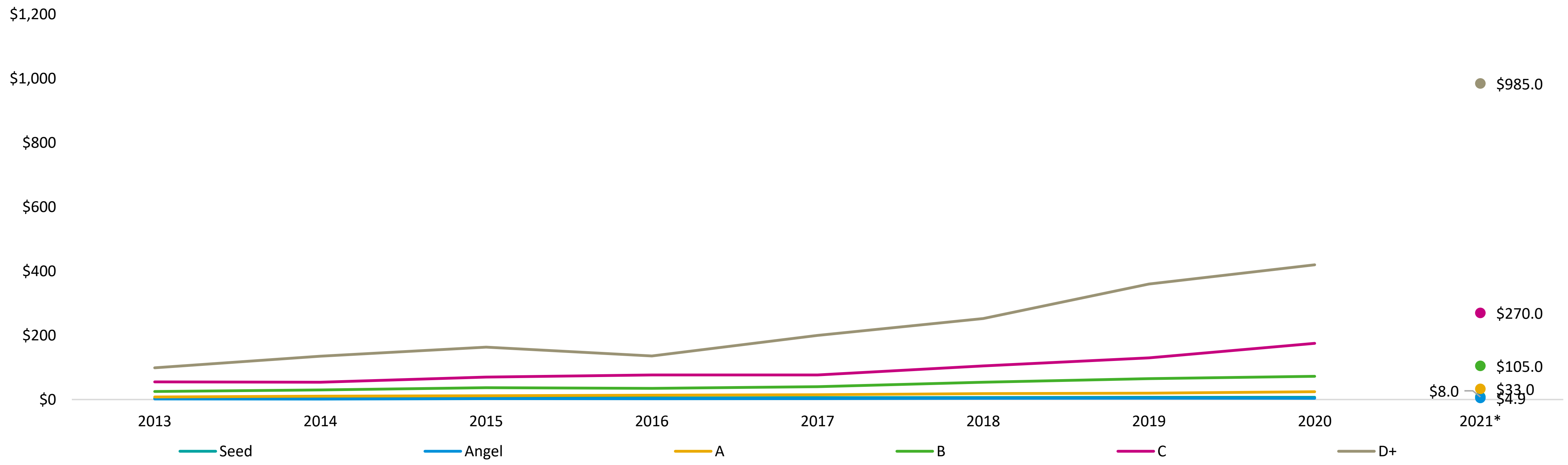
Source: Venture Pulse, Q2'21, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2021. Data provided by PitchBook, July 21, 2021.

Note: Figures rounded in some cases for legibility.

The latest stage nears $1B

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

2013–2021*



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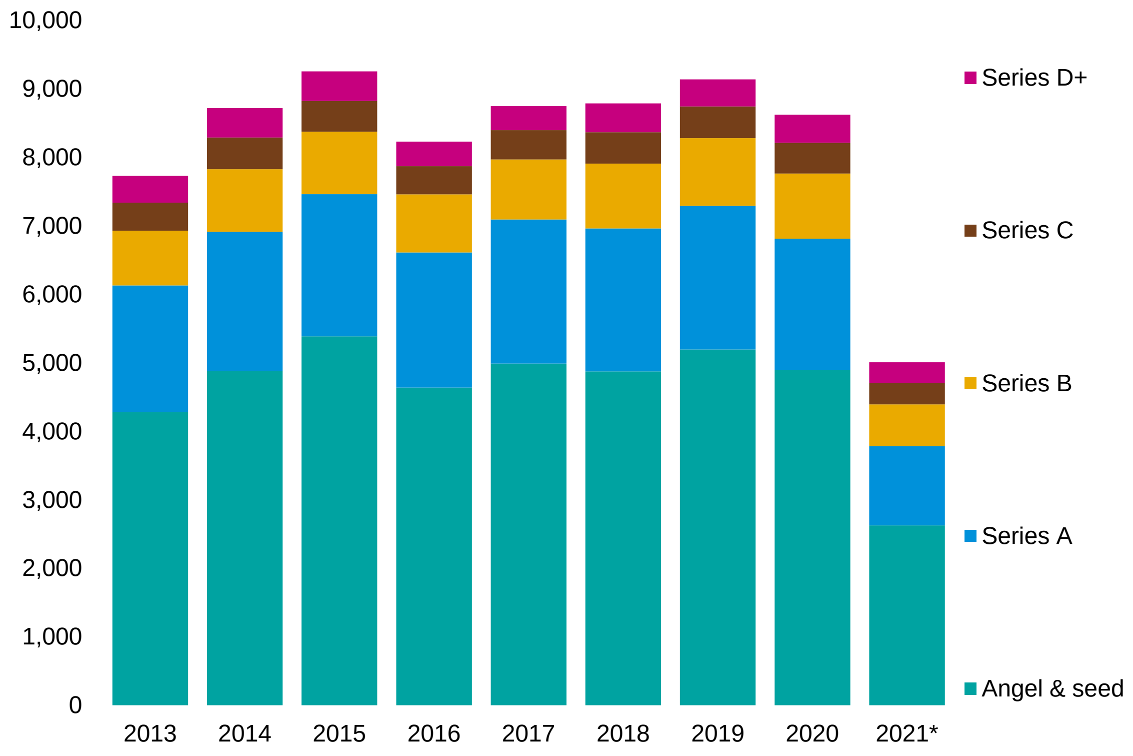
Note: Figures rounded in some cases for legibility.

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. But 2021 seems to be approaching signs of remarkable levels of both confidence and the ramifications of record dry powder, with the latest stage of financings seeing a surge near $1 billion in the median Series D+ financing.

Financing volume remains healthy across all stages

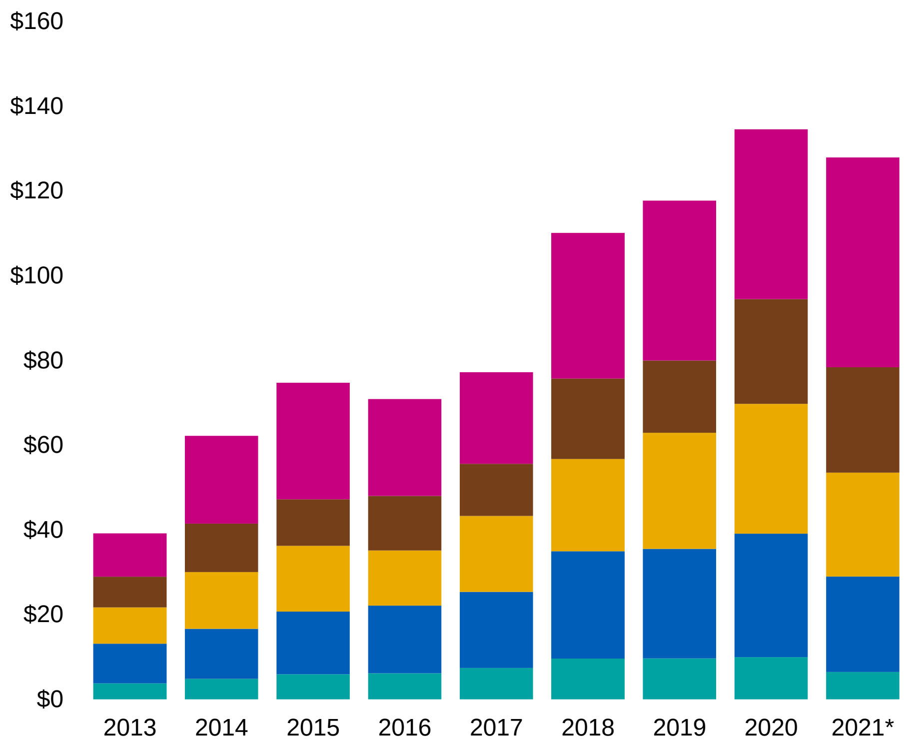
Deal share by series in the US

2013–2021*, number of closed deals



Deal share by series in the US

2013–2021*, VC invested ($B)



Source: Venture Pulse, Q2'21, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2021. Data provided by PitchBook, July 21, 2021.

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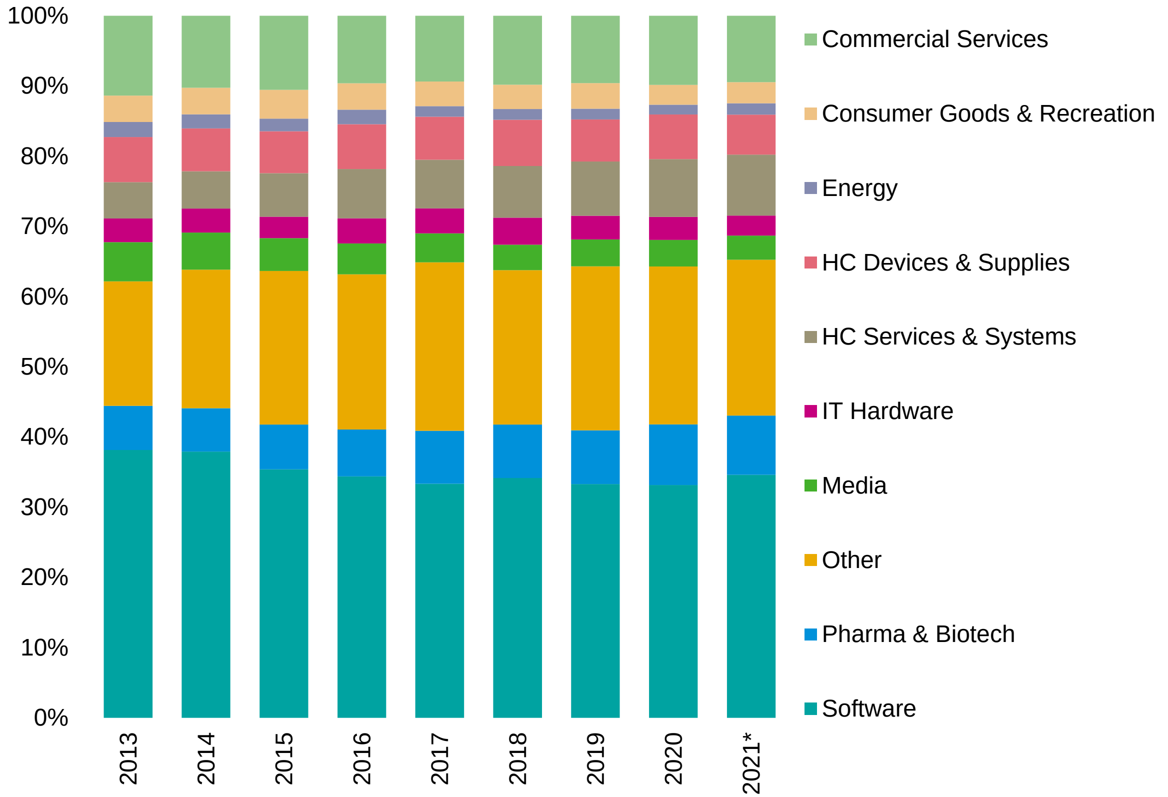
Life sciences increasingly attracts more capital

Venture financing by sector in the US

2013–2021*, number of closed deals



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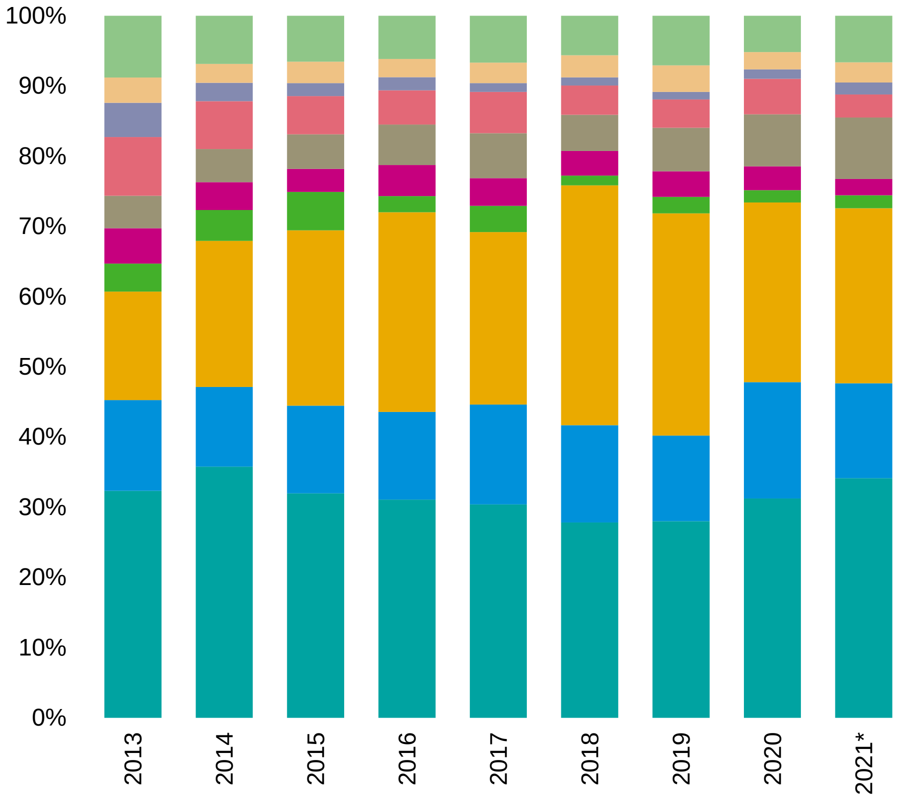

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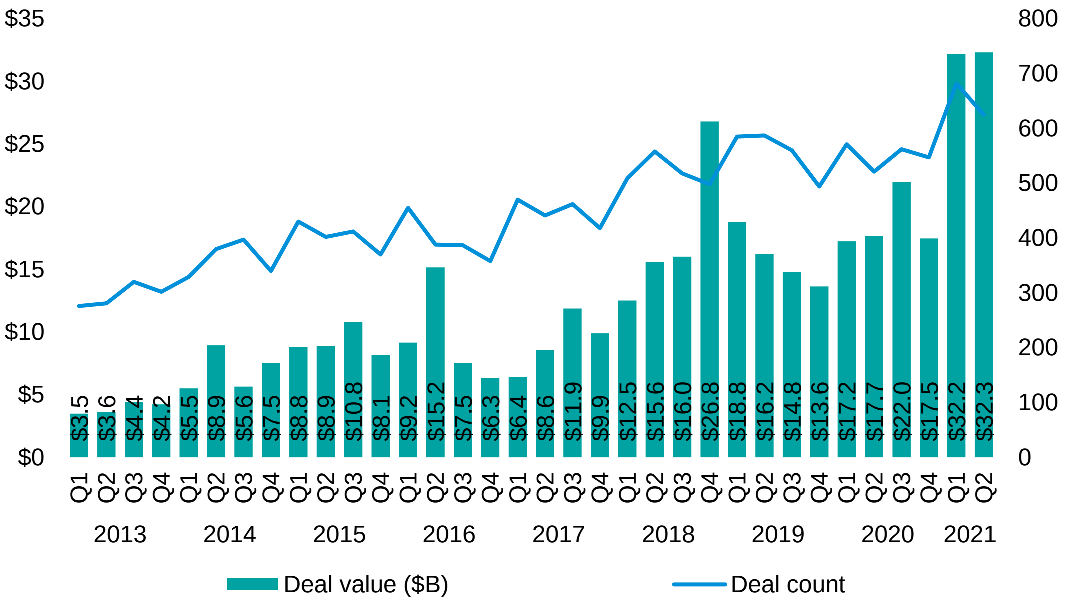
CVCs continue to boost record VC invested tallies

Corporate participation in venture deals in the US

2013–Q2'21



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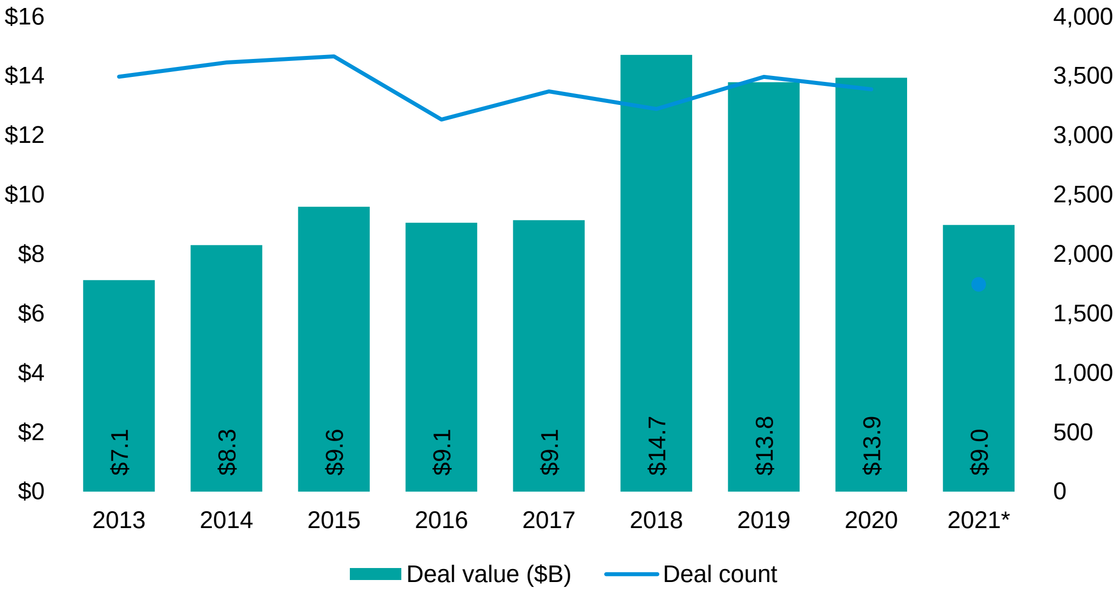
Key contributors to the record tallies of VC invested, corporates and their venture arms both have participated at an elevated rate in some of the larger financings observed in H1 2021, pushing the aggregate value of associated financings to well over $30 billion per quarter. Among the key drivers of this increased desire for exposure to new technologies is the push by multiple businesses to accelerate their planned digitization and R&D efforts, further fueled by the rapid acceleration in change for consumer and corporate behavior due to the pandemic.

First-time venture financings of companies in the US

2013–2021*



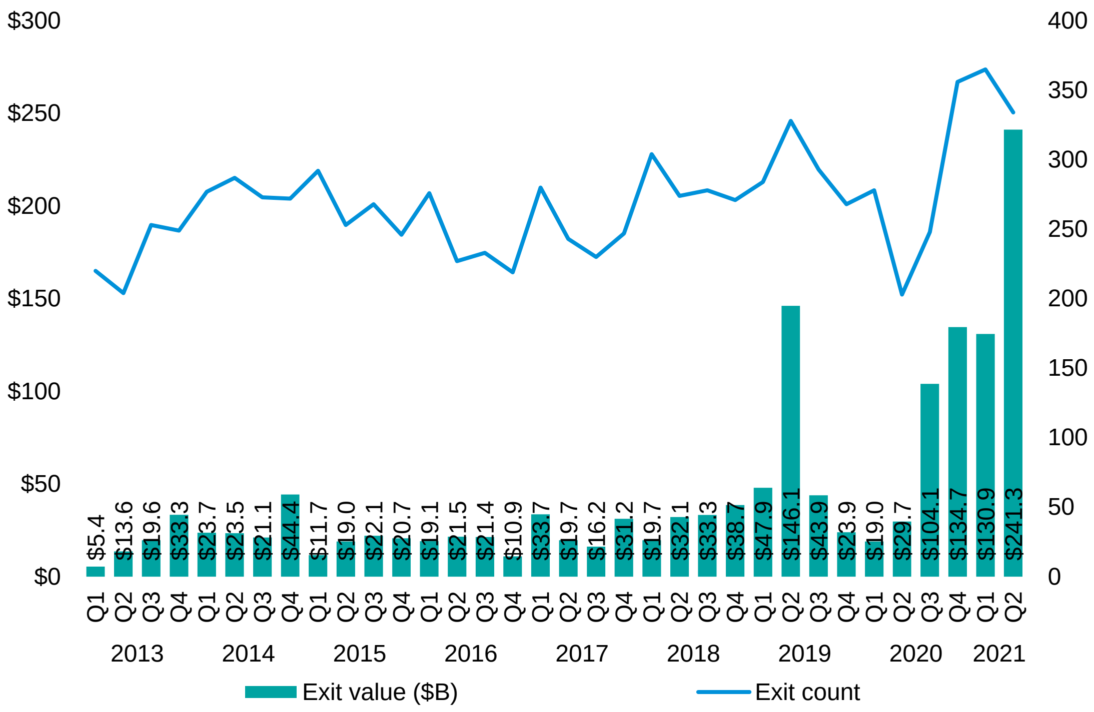
Source: Venture Pulse, Q2'21, Global Analysis of Venture Funding, KPMG Enterprise. *As of June 30, 2021. Data provided by PitchBook, July 21, 2021.

First-time financing volume has held steady in the US over the past few years, albeit at a slightly more muted rate than observed in the first half of the 2010s. However, a key indication of how the venture financing market has shifted is the inflation in VC invested even at the first-time stage, where 2021 is poised to eclipse all prior levels and set a new record should the pace of funding in the first half of the year continue.

Massive liquidity flows backdrop record dealmaking figures

Venture-backed exit activity in the US

2013–Q2'21



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2021 shows no signs of slowing down when it comes to liquidity for VC-backed portfolio companies. In turn, this surge helps provide an encouraging backdrop for the billions of dollars of investment flowing in on the dealmaking side. Capitalizing on one of the most remarkable public market environments in history, mature unicorns are finally debuting while large companies are closing acquisitions of others. As long as no significant shocks to markets persist for some time, even upticks in volatility are unlikely to discourage this ongoing flood of exit value.

“Over the years, we’ve seen nontraditional investors such as corporations, mutual funds, sovereign wealth funds and hedge funds dip their toes into the VC market, but as soon as there is any sort of hiccup or downturn in the market, they’ll very quickly reduce their allocation to the asset class. Right now, they’re going far beyond dipping a toe in; they’re putting their whole foot in and really adding to their exposure in the VC space.”

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

KPMG Private Enterprise

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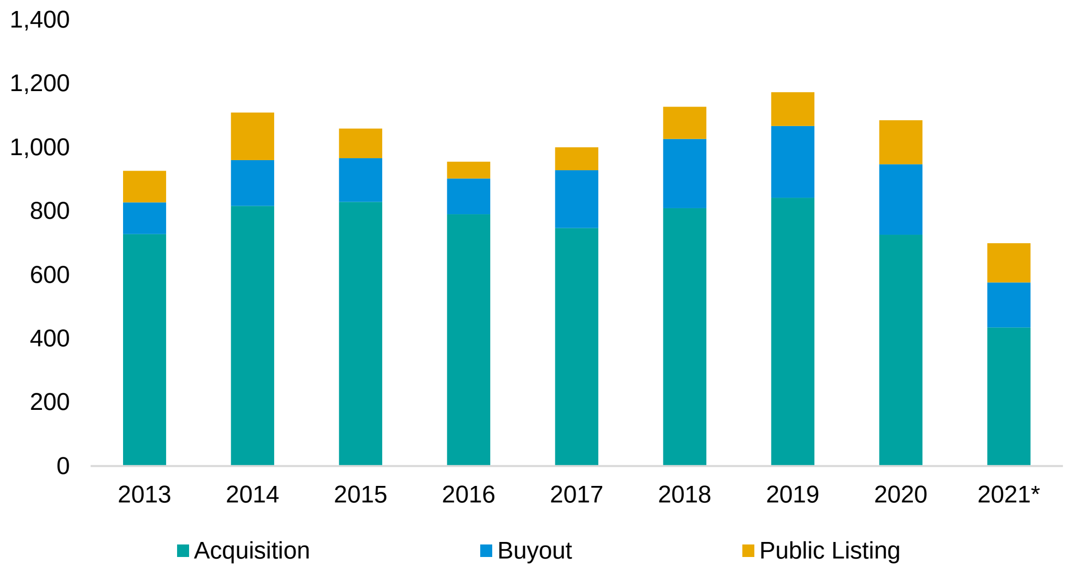
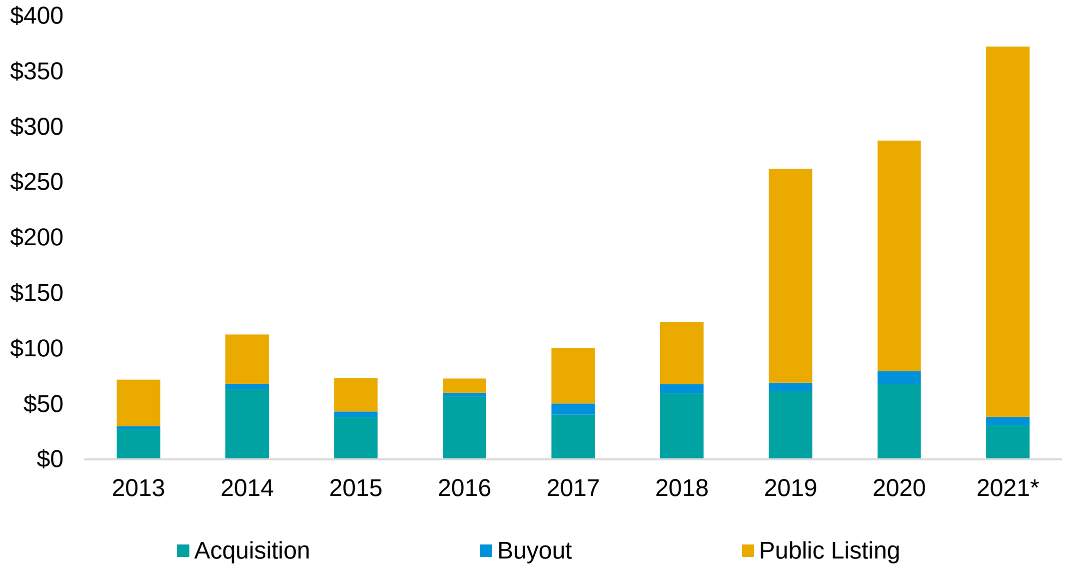
Red-hot IPO market continues to set new highs

Venture-backed exit activity (#) by type in the US
2013–2021*



Venture-backed exit activity ($B) by type in the US
2013–2021*



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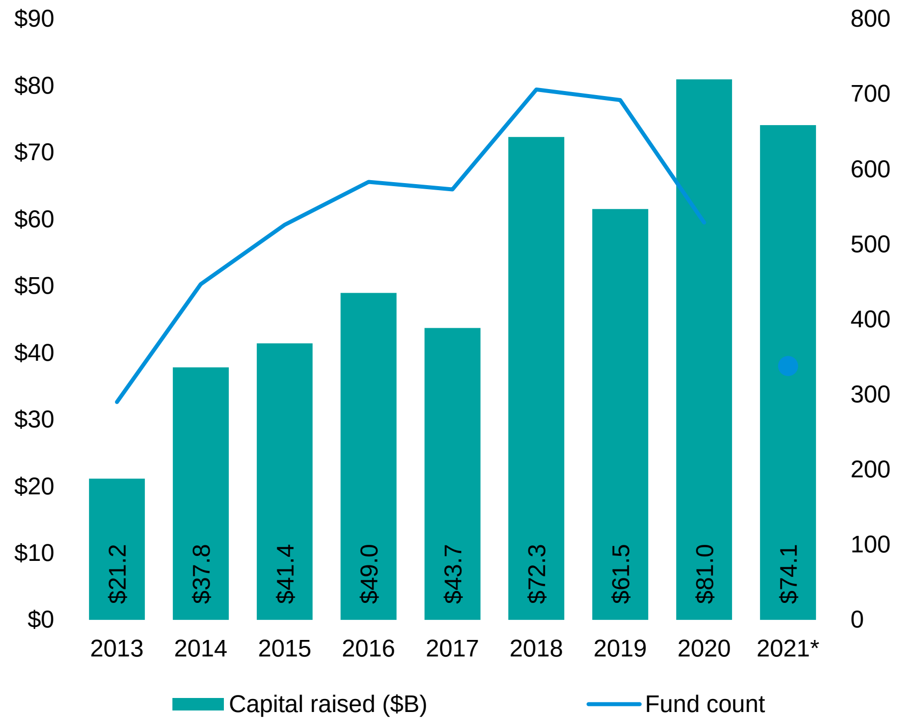
The red-hot, if increasingly volatile, equities market continues to encourage unicorns and other mature venture-backed companies to go public. Already 2021 has seen a new high in exit value achieved through public listings, with the second half of the year likely to bring such a flood of liquidity that new highs will be notched for the decade in both volume and value. Such a rate of debuts is healthy for the private market ecosystem, enabling the most mature and/or prepared companies to go public and achieve the ability to tap broader capital markets at a greater scale than ever before. Although far from perfectly efficient, the pricing mechanisms in public equity markets will also be useful for investors and entrepreneurs alike in assessing which business models are truly able to be proven out with additional validation beyond the private investment realm.

2021 poised to set new records by summer 2021

US venture fundraising

2013–2021*



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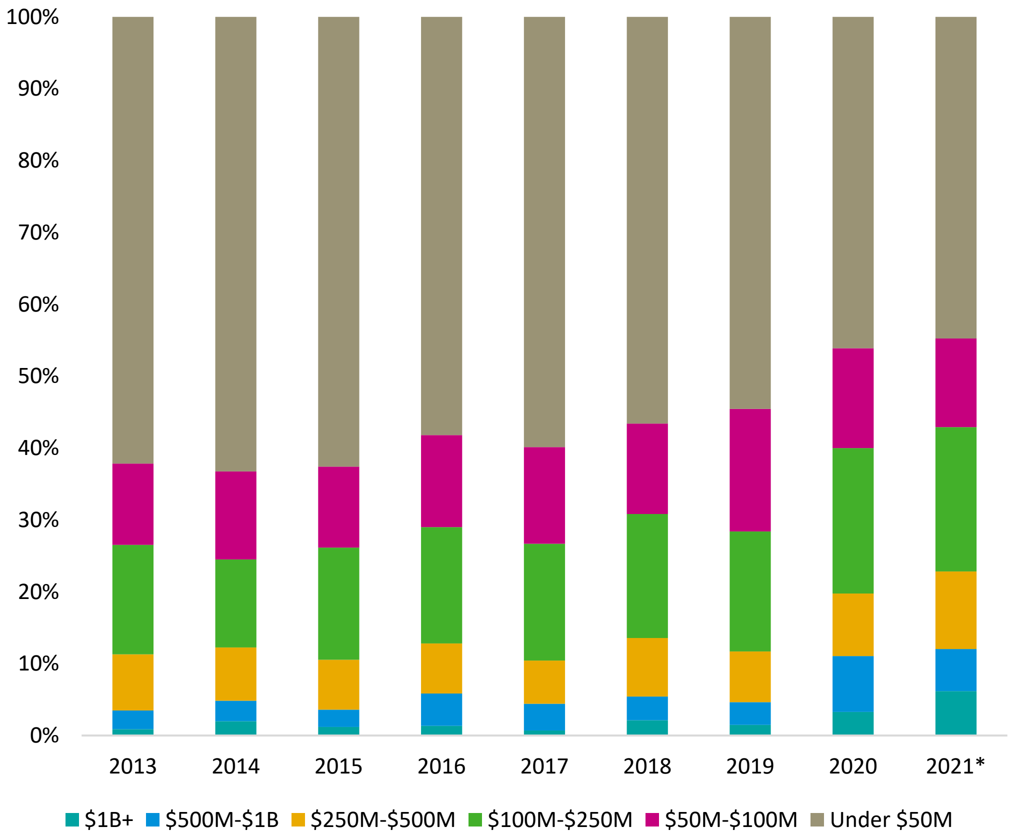
At 338 closed funds for an aggregate of $74.1 billion, the US is likely to see a new record set by mid-summer in terms of aggregate value allocated to the venture asset class. This is the culmination of not only an ever-increasing turn to alternative investments by allocators, but also the growth of and diversification among the venture firm universe.

… by midsummer 2021, **an all-time high** for capital committed to VC in the US **is likely,** potentially exceeding **$100 billion.**

Fundraising skews even larger

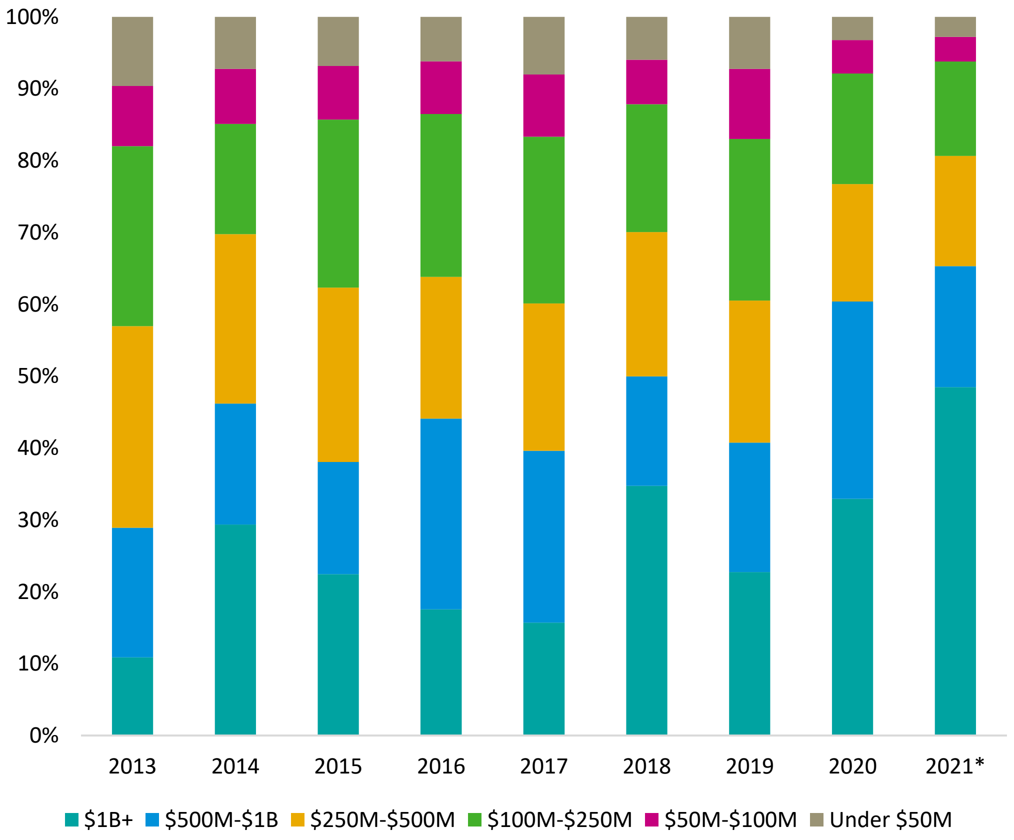
Venture fundraising (#) by size in the US

2013–2021*



Venture fundraising ($B) by size in the US

2013–2021*



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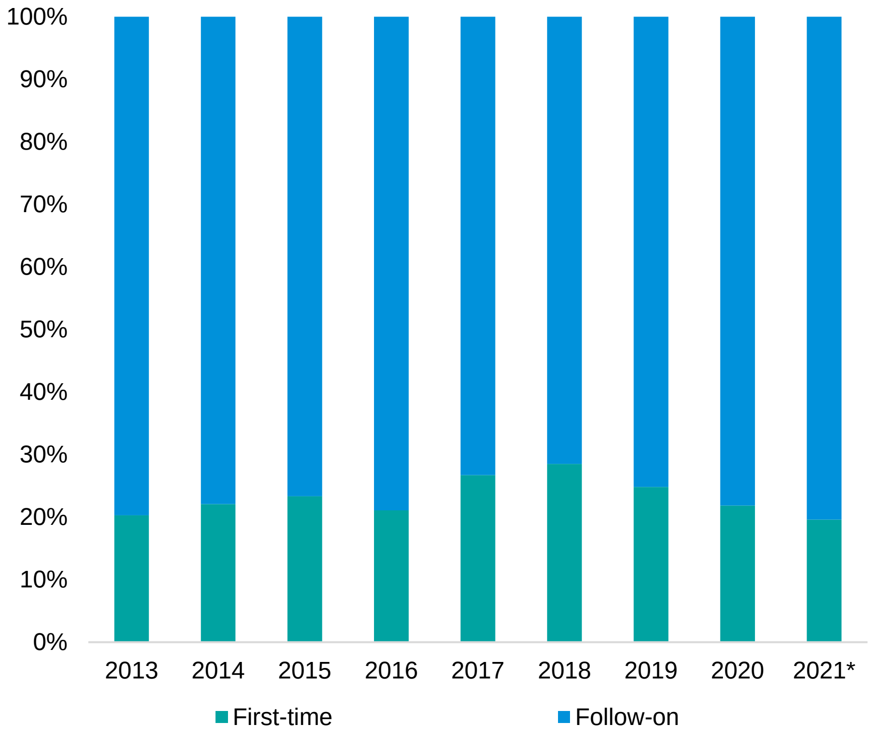
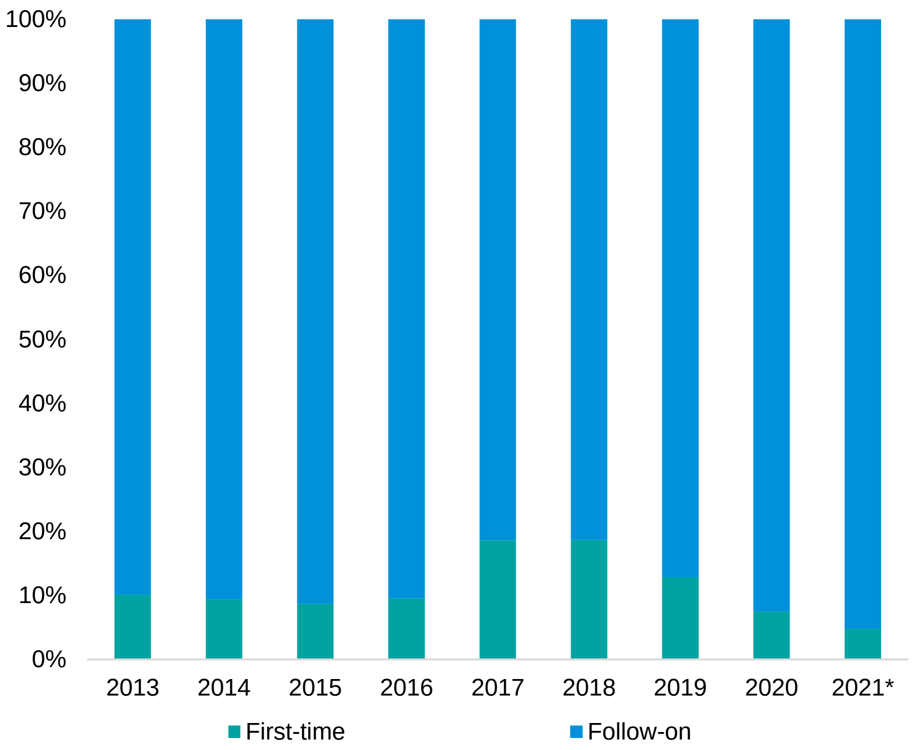
Experienced managers have dominated VC invested tallies thus far

First-time vs. follow-on funds (#) in the US
2013–2021*



First-time vs. follow-on funds ($B) in the US
2013–2021*



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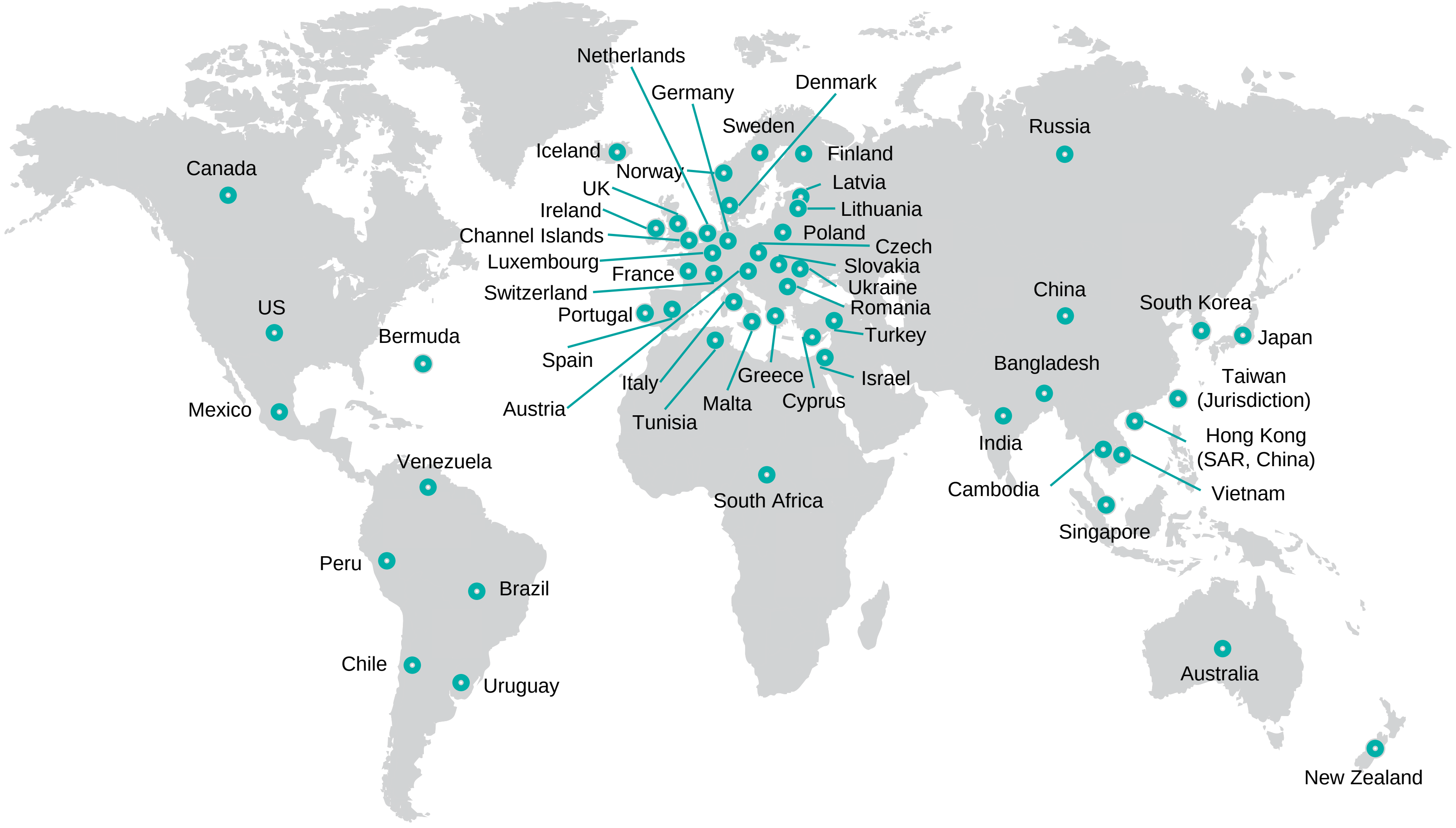
KPMG Private Enterprise Emerging Giants Network.

From seed to speed, we're here throughout your journey



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About us

About KPMG Private Enterprise

You know KPMG, you might not know KPMG Private Enterprise. KPMG Private Enterprise advisers in KPMG 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. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It is a local touch with a global reach.

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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- **Dan Wilson** Partner, National Sector Lead for Technology, KPMG in Canada
- **Dr. Ashkan Kalantary,** Partner, Deal Advisory Venture, KPMG in Germany Services
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- **Tim Dümichen,** Partner, KPMG in Germany

About the report

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.

- **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. In the edition of the KPMG Venture Pulse covering Q1 2021 and all ensuing, the IPO exit type was updated to include all types of public listings, including special purpose acquisition companies (SPACs) and other reverse mergers.

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