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COVID-19's Impact on the Venture Ecosystem

Data provided by

PitchBook

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The first six months of the year

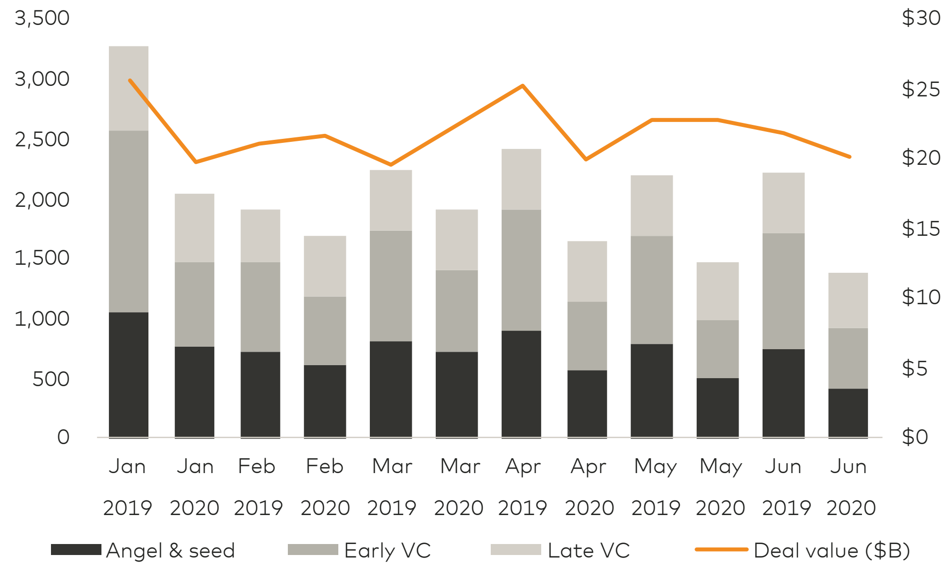
While the industry has faced significant headwinds before, as in the 2001 dot-com crash and 2008 recession, the speed and widespread impact of the pandemic have had a whipsaw effect on the marketplace. Venture capitalists, corporate ventures and accelerators have seen varying impacts, some tumultuous and some unexpectedly subtle. Nonetheless, the result is likely to result in a dramatic and ongoing transformation of the global venture ecosystem that will affect all stakeholders.

In this report produced by PitchBook for Mastercard Start Path we provide a review and analysis of global investment activity for first half of 2020, compare the monthly figures to those from 2019, and offer insights as to what these findings suggest for the industry's ecosystem going forward.

Not surprisingly, given COVID-19's dramatic onset, global VC deal activity fell immediately between March and April (see figure 1.1). Deal count declined by almost a third within a month, and the volume recorded in June is 38% lower than March's posting.

But while volume was down, combined value has been relatively robust in 2020 – a strong sign that the underlying value of these deals remains strong. Even with financial markets in turmoil as the pandemic grew, investors deployed $22.5 billion into VC-backed companies in March, a higher total than in March 2019. By April, even as much of the world's economy was on hold, $19.9 billion worth of financings took place, not far off pre-COVID-19 levels.

FIGURE 1.1: VC deal activity by month (2019 versus 2020)



Source: PitchBook | Geography: Global
*As of June 30, 2020

FIGURE 1.2: Median VC pre-money valuations ($M) by stage and month (2019 versus 2020)

	Jan	Feb	Mar	Apr	May	Jun
2019 angel & seed	$5.0	$5.0	$6.0	$5.5	$5.2	$5.1
2020 angel & seed	$6.0	$7.7	$5.6	$4.9	$5.7	$5.3
2019 early VC	$20.0	$16.0	$13.5	$13.0	$19.0	$20.1
2020 early VC	$20.0	$20.0	$19.3	$16.6	$32.0	$43.9

Source: PitchBook | Geography: Global
*As of June 30, 2020

Flush with dry powder, investors had capital to put to work where it was most needed. One reason why combined value remained steady while volume declined was an emphasis on late-stage investments, which tend to be bigger in size. As a result, the aggregate value of all VC investments has stayed relatively consistent month to month, even while the number of new investments slowed down after March. Between March and June, late-stage deal volume declined by only 11%. Early-stage volume, on the other hand, declined 25% in the same timeframe, while seed volume fell by 42%.

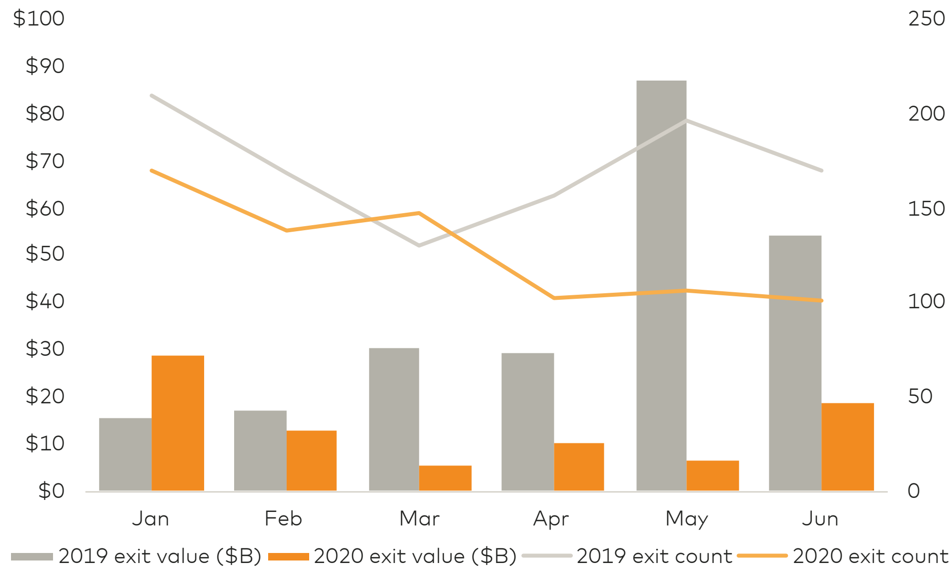
Data shows that median valuations in the last two quarters have actually increased, which is contrary to what many suspected. (see chart 1.2) For a myriad of startups, post-COVID-19 valuations will be lower, but many of them haven't raised rounds since mid-March, and their new valuations aren't reflected in the numbers yet. As mentioned, however, there may be hundreds of startups that stand to benefit from consumer changes resulting from months under quarantine. Accordingly, e-commerce, fintech, digital health and supply chain technologies are expected to emerge with newfound strength in the years ahead. Moreover, recent valuation increases for early-stage companies include some survivorship bias; investors are enthusiastically backing startups and technologies that will thrive in the new economy, and their potential impacts post-COVID-19 may merit higher valuations, even in the midst of a downturn.

Exits are harder to come by in the aftermath of financial crises. PitchBook data bears this out, with VC exits down 31% between March and June 2020 (see figure 1.3); further, the preliminary Q2 exit data shows a decline of 36%, which would be the highest for one quarter since the 2008 financial crisis. Nevertheless, it's worth remembering that April, May and June exits were likely negotiated several months ago and don't necessarily reflect current exit sentiment. We'll likely see subdued exit statistics for the next few months before trends become healthy again.

IPO activity in the second quarter didn't falter, however, as many feared, primarily due to outperformance of healthcare stocks. Since quarantines began in the US, for example, the vast majority of VC-backed IPOs have been in pharmaceuticals and biotechnology, according to PitchBook. According to their just-released Q2 Venture Monitor Report, 16 VC-backed IPOs were done in the second quarter, more than the 10 completed in Q1. Corporate acquisitions, meanwhile, fell 40% quarter-over-quarter.

That being said, incumbent corporations that are investing in

FIGURE 1.3: VC exit activity by month (2019 versus 2020)



Source: PitchBook | Geography: Global
*As of June 30, 2020

startups or other emerging initiatives recognize the same trends as venture capitalists do. As the world quickly evolves, especially in the fintech arena, corporate incumbents will continue to diversify themselves through opportunistic M&A. A recent example is Mastercard, which in late June – and despite ongoing market uncertainty -- agreed to buy Finicity for $825 million. Mastercard noted in the announcement that Finicity will strengthen the existing Mastercard open banking platform, enabling the company to offer customers a greater choice of financial services in today's digital economy. The same motivations will likely be seen in other pockets of the economy, and corporations around the world will continue to improve themselves through M&A, even in uncertain markets.

Like their startup predecessors from the downturns of 2001 and 2008, most of today's entrepreneurs have never before experienced a downturn of this magnitude. Today's cohort is under pressure to innovate quickly and amid uncertainty, and several are rising to the challenge by addressing issues and opportunities that have resulted from the pandemic.

Voca.ai, a Start Path portfolio company, is developing a potential voice test and open-source dataset to detect COVID-19 in a patient's voice or cough using voice biomarkers. This is a different application from the company's previous innovations. Before the pandemic, Voca.ai focused on building virtual call center voice assistants for a wide variety of corporate clients. TruRating, a Start Path alum that collects in-store and online ecommerce customer ratings, developed a program to help measure customer safety concerns for businesses with physical stores.

There are scores of other examples of startups reorienting their plans to help alleviate the healthcare crisis and its economic consequences.

Corporate venturing

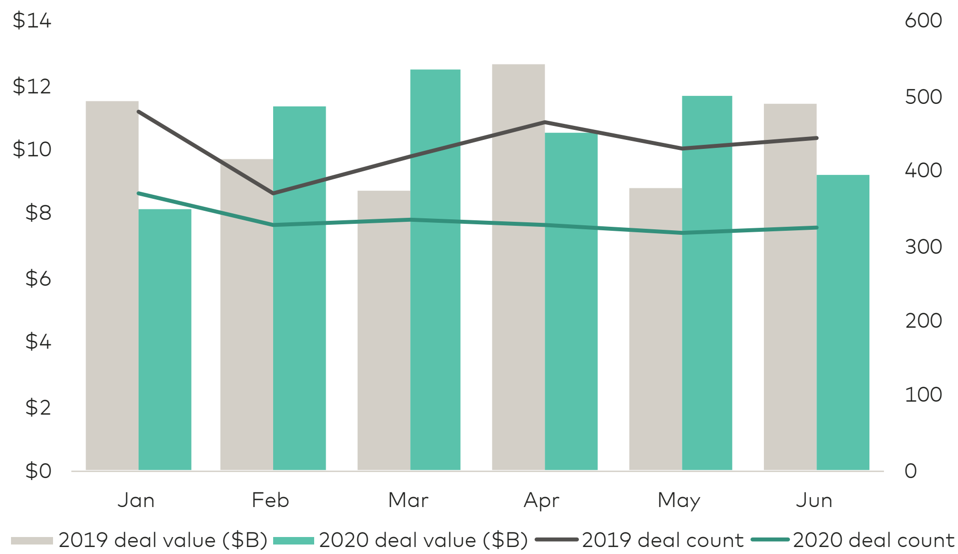
According to PitchBook data, monthly CVC volume remained strong between March and June 2020, declining only marginally (see figure 2.1) in comparison to the same months in 2019. As the pandemic grew, CVC volume fluctuated by only 3% between its best month (March) and its worst (May). That reaction contrasted with the broader VC market, which saw a swift decline in volume beginning in April and continuing into May.

Corporate investors, however, continued writing checks at the same pace over the first six months of 2020. Moreover, CVC rounds have been valued higher in 2020 compared to 2019; between March and June 2020, the median CVC-involved valuation never fell below $60 million, while the median CVC-involved valuation in early 2019 never went higher than $50 million. Healthcare innovation in particular had been in high demand with these investors even prior to COVID-19.

Other CVC-heavy sectors are showing similar appetites for innovation. Portfolio companies of telecom investors, for example, are developing new applications for locating hotspots, maintaining customer communications and helping healthcare officials improve contact tracing.

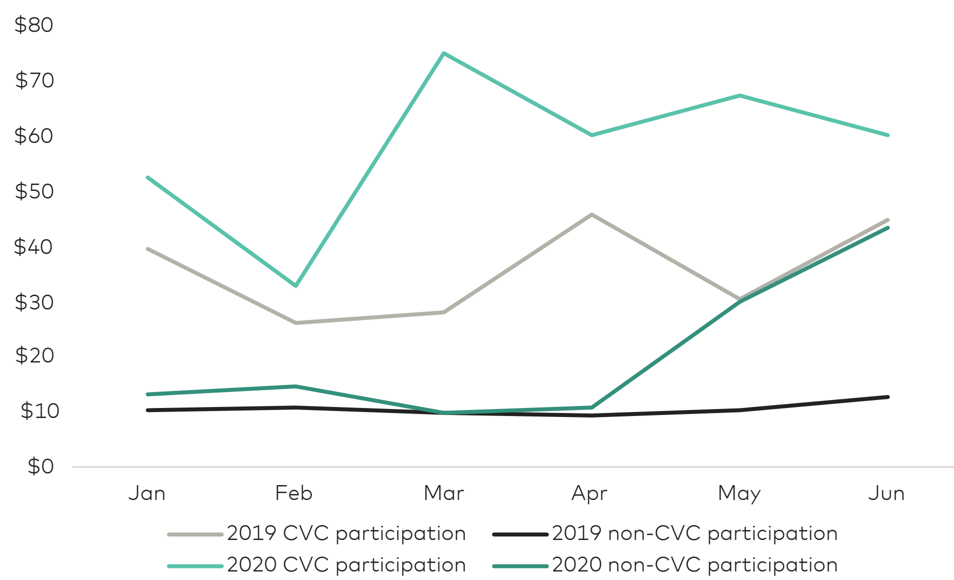
The consistency of overall CVC investing statistics is a testament to the maturation of the CVC model itself, which has attracted hundreds of additional entrants following the 2008 financial crisis, according to PitchBook. The number of active CVC firms in 2009 (121) more than tripled by the end of the decade (to 369 active CVC firms in 2019).

FIGURE 2.1: VC deal activity with CVC participation by month (2019 versus 2020)



Source: PitchBook | Geography: Global
*As of June 30, 2020

FIGURE 2.2: Median VC pre-money valuations ($M) by backing and by month (2019 versus 2020)



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Alternative venture market

Corporate accelerators

- Disney accelerator
- Intel Ingenuity Partner Program
- IBM Alpha Zone accelerator
- Airbus BizLab Aerospace Accelerator
- Dream Brewery
- AT&T aspire
- mastercard start path
- City Accelerator
- The Bridge
- Google Developers Launchpad
- Innovation Studio
- The Unilever Foundry

Traditional accelerators

- 500 startups
- Y Combinator
- techstars
- Plug and Play
- AngelPad
- MassChallenge
- Seedcamp
- wayra

Corporate venture capital

Healthcare

- Pfizer Ventures
- Johnson & Johnson Innovation
- Merck
- Kaiser Permanente Ventures
- Humana
- McKesson Ventures
- Mayo Clinic
- abbvie
- BlueCross BlueShield Venture Partners
- NVF

IT

- G/
- salesforce ventures
- intel capital
- Microsoft Ventures
- Dell Technologies Capital
- Samsung Venture Investment
- cisco investments
- amazon alexa accelerator
- Sony Innovation Fund
- The Slack Fund

Utilities/telecom

- Qualcomm ventures
- Comcast Ventures
- T-Venture
- Verizon Ventures

Financial services

- citi ventures
- Transamerica Ventures
- Bloomberg BETA
- Nasdaq Ventures

Transportation/logistics

- GE Ventures
- Boeing HorizonX
- Ventures
- BASF The Chemical Company

Energy

- bp ventures
- Shell Ventures
- chevron technology ventures
- Castrol innoVentures

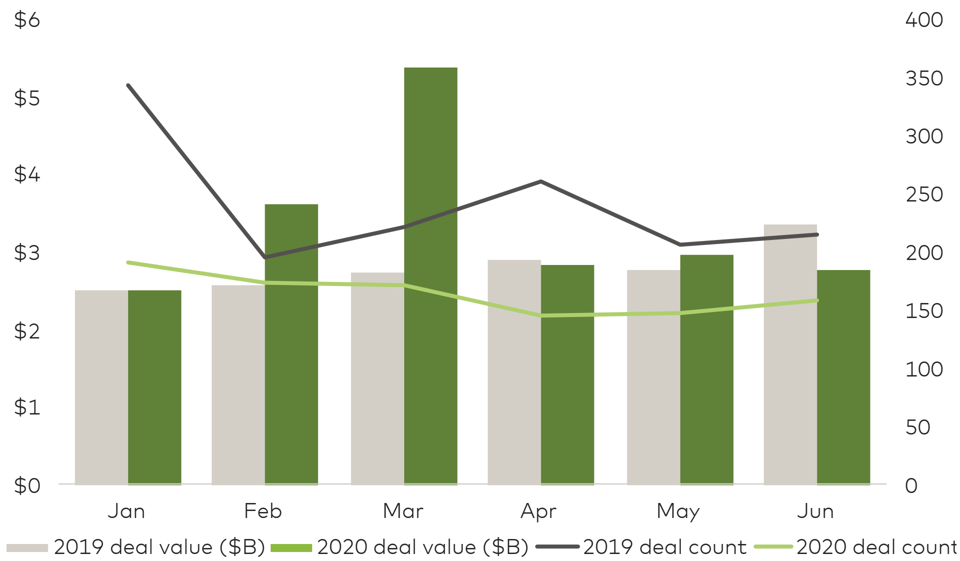
The fintech exception

The dramatic impact of COVID-19 on the world's economy has reinforced the strength of the fintech sector. Indeed, fintech is one of the few pockets within the economy that has seen a dramatic surge in usage, due to changing consumer preferences and requirements that have accelerated due to the pandemic. Many fintech tools and applications have been available for years, and offer battle-proven reliability to individuals and businesses who are more reliant than ever on technology when conducting financial transactions.

The data illustrates fintech's enduring strength. By Q2, fintech deal value was as solid as it was in the two months prior to COVID. May 2020, for example, saw $3.0 billion funnelled globally to fintech startups, which was slightly higher than May 2019 ($2.8 billion) (see figure 3.1). April and June 2020 also saw comparable numbers year-over-year.

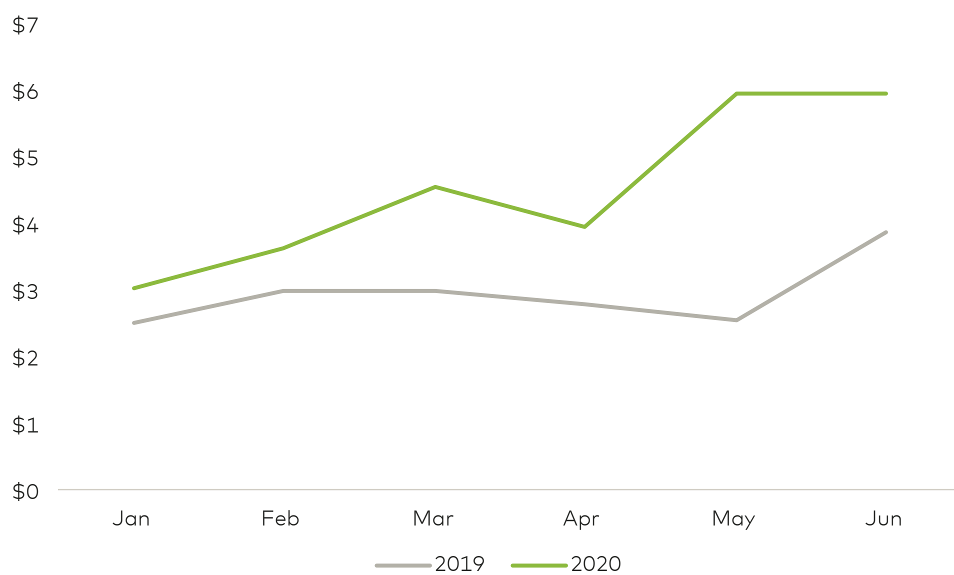
While fintech activity was seeing some decline heading into 2020, COVID-19 does not seem to have further accelerated the decline. While deal volume totals, overall, are about 25% lower than they were in the first half of 2019, the number dipped only slightly in April 2020. Fintech deal activity fell only 16% in April, when lockdowns were in full effect across much of the world. That drop was minimal compared to other VC-heavy sectors and proved to be a temporary blip; beginning in May, fintech volume was back to normal. Both May and June saw higher volume than April, and the 160 financings in June approached pre-COVID levels seen in February (see figure 3.1).

FIGURE 3.1: Fintech VC deal activity by month (2019 versus 2020)



Source: PitchBook | Geography: Global
*As of June 30, 2020

FIGURE 3.2: Median fintech VC deal sizes ($M) by month (2019 versus 2020)



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