

Overview

Brazil Digital Report

This document provides
a perspective of Brazil's
Digital Landscape



Today's Objectives

During the months of November 2019 and February 2020, together with Brazil @ Silicon Valley, McKinsey built the second edition of Brazil Digital Report – a broad view of the Brazilian Macroeconomic scenario, digital landscape, startup ecosystem and the digital maturity of incumbent companies

However, due to COVID-19, we decided to postpone the publication

Today, we bring a summary of the findings from the startup ecosystem in Brazil pre-Covid-19

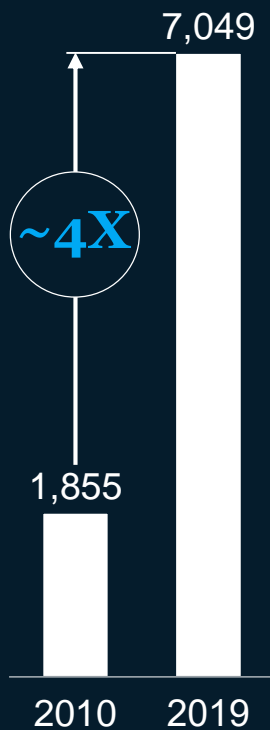


Dominant Incumbents

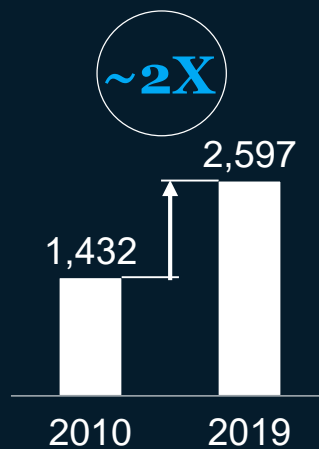


xx Growth in market cap

Top 10 companies market cap¹
USD B



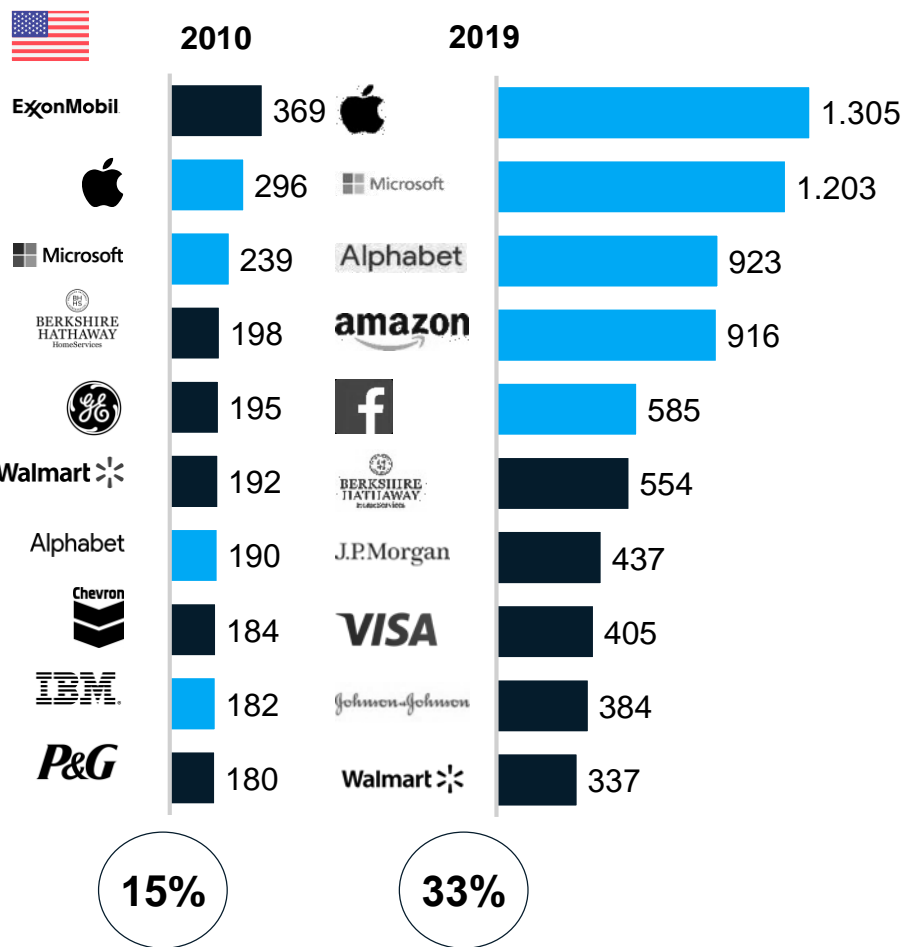
USA



China

While the top
companies in
the US and
China became
more valuable...

Top 10 companies market cap¹ USD Bi



Other companies Technology companies % of total GDP



And more high-tech over the years...



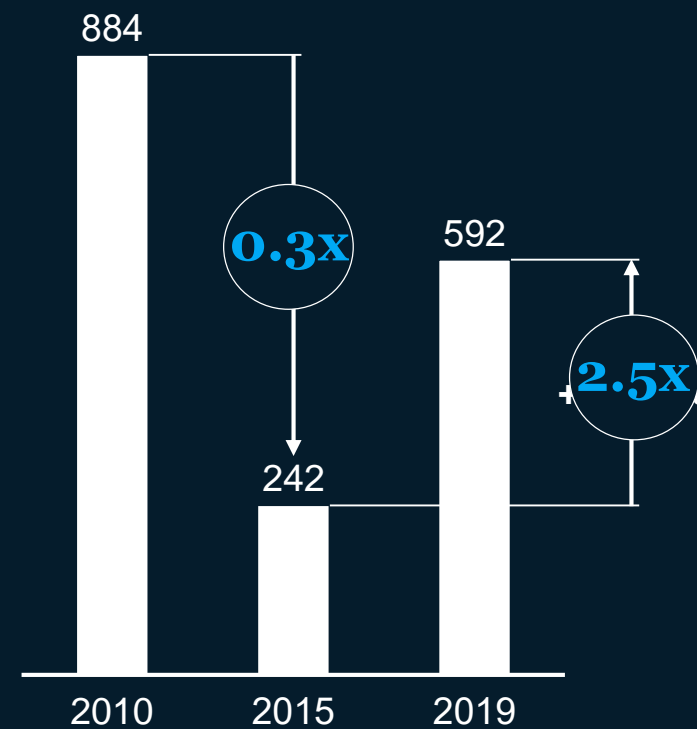
Brazil's top companies experienced considerable value loss before recent recovery...

Top 10 companies market cap on Dec 31st of each year
Source: Capital IQ



Top 10 companies market cap¹
USD B

xx Growth in market cap



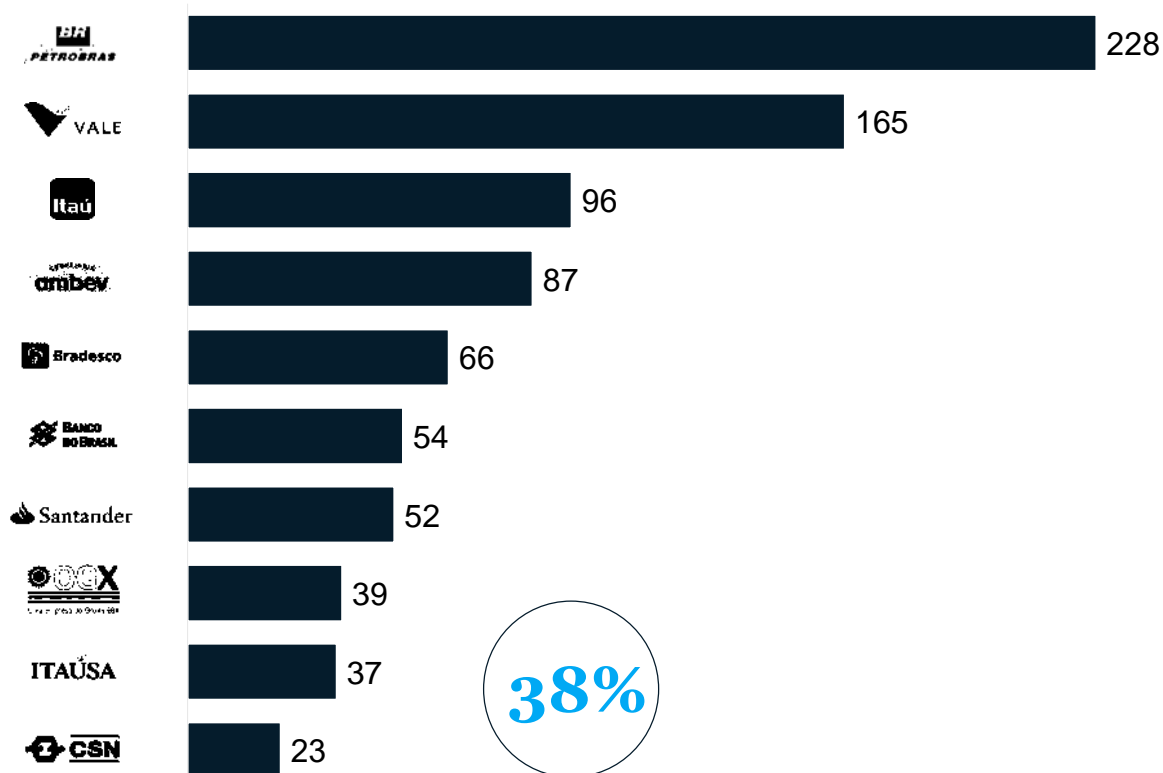
...and remained mostly traditional players

■ Other companies ■ Technology companies (x) % Market cap / Country GDP

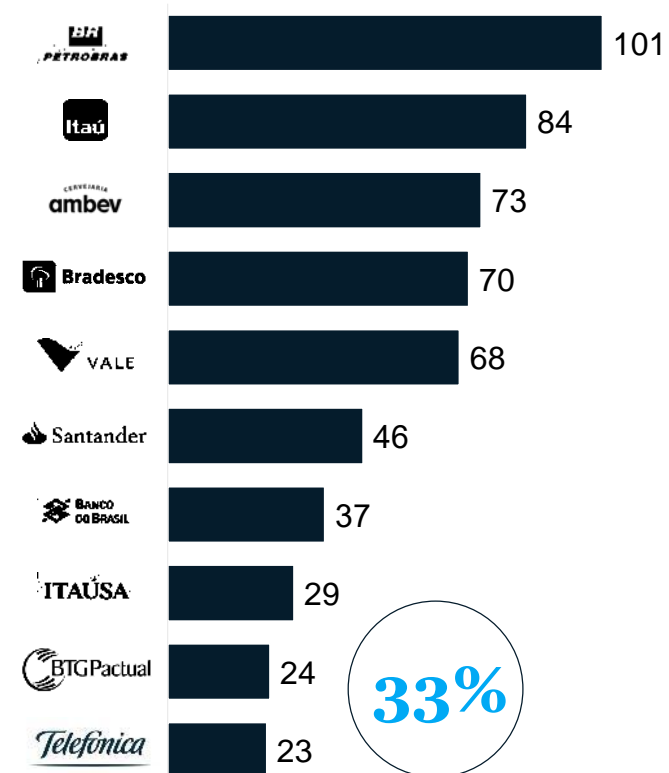
Top 10 companies market cap¹

USD B

2010



2019



¹ Considers market cap on Dec 31st of each year

Source: Capital IQ

**The new
tech era**

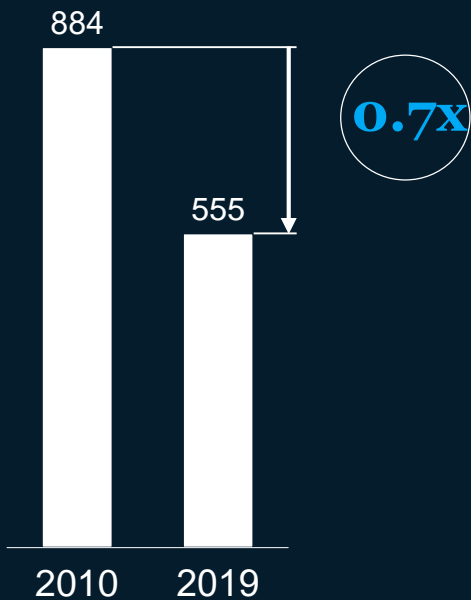
A dark blue background with a light blue diagonal line running from the top right towards the bottom right. A horizontal light blue line extends from the text 'The new tech era' to the right, intersecting the diagonal line.

Tech companies greatly outperformed companies from other sectors...



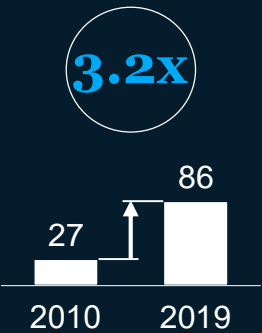
Top 10 non-technology companies market cap¹

USD B



Top 10 technology companies value¹

USD B



xx Growth in market cap/value



1. Considers market cap for listed companies and latest valuation for non-listed companies
Source: Capital IQ

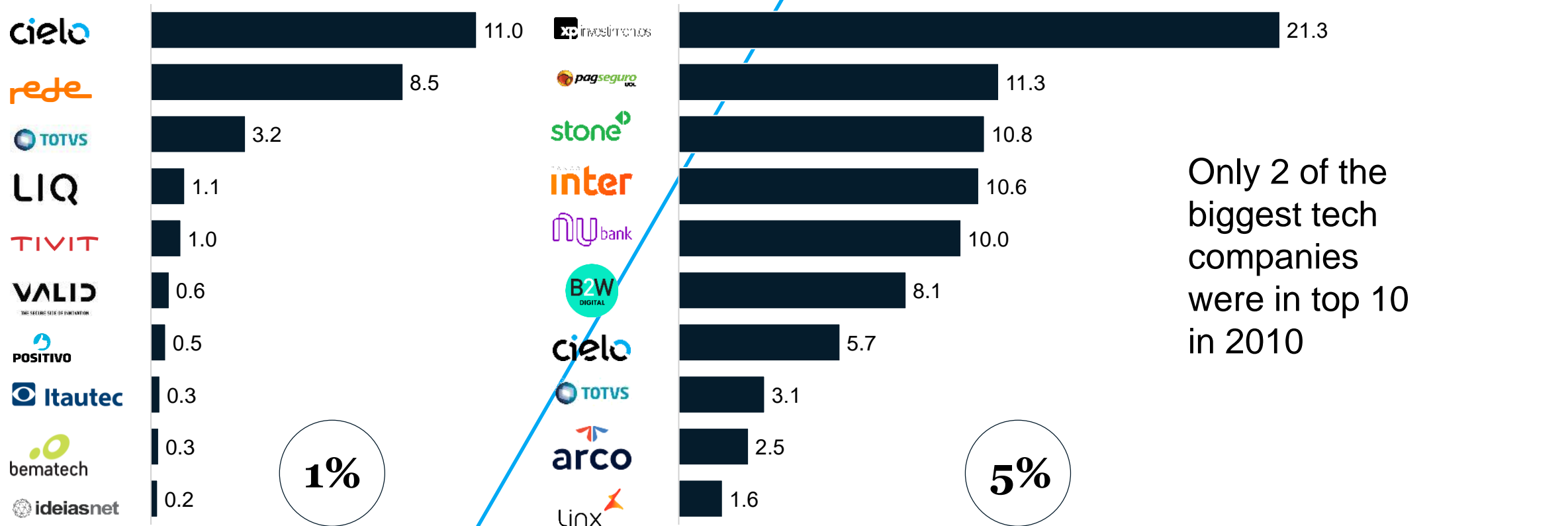
... while their profile changed: most top 10 technology companies in 2019 are digital attackers

Top 10 technology companies market cap

USD B

2010

2019

1 Considers market cap on Dec 31st of each year

Source: Capital IQ



**For Brazil to
evolve on the new
tech area...**

**... Brazilian start-
ups need to thrive**

**To understand
Brazil's
technological
start-up
environment,
we surveyed
400+ start-ups
and interviewed
~40 leaders
between Nov/19
and Feb/20**

Quantitative survey

400+

Brazilian start-ups
across different
industries,
regions, and
development
stages

Qualitative interviews

~50

Leaders occupying various
positions in the market:
Start-up founders, top
executives, Venture Capital
investors, Institutional
leaders, regulatory experts

The surveyed start-up landscape presents a diversity of ventures

Region **56%**
are in the South East region

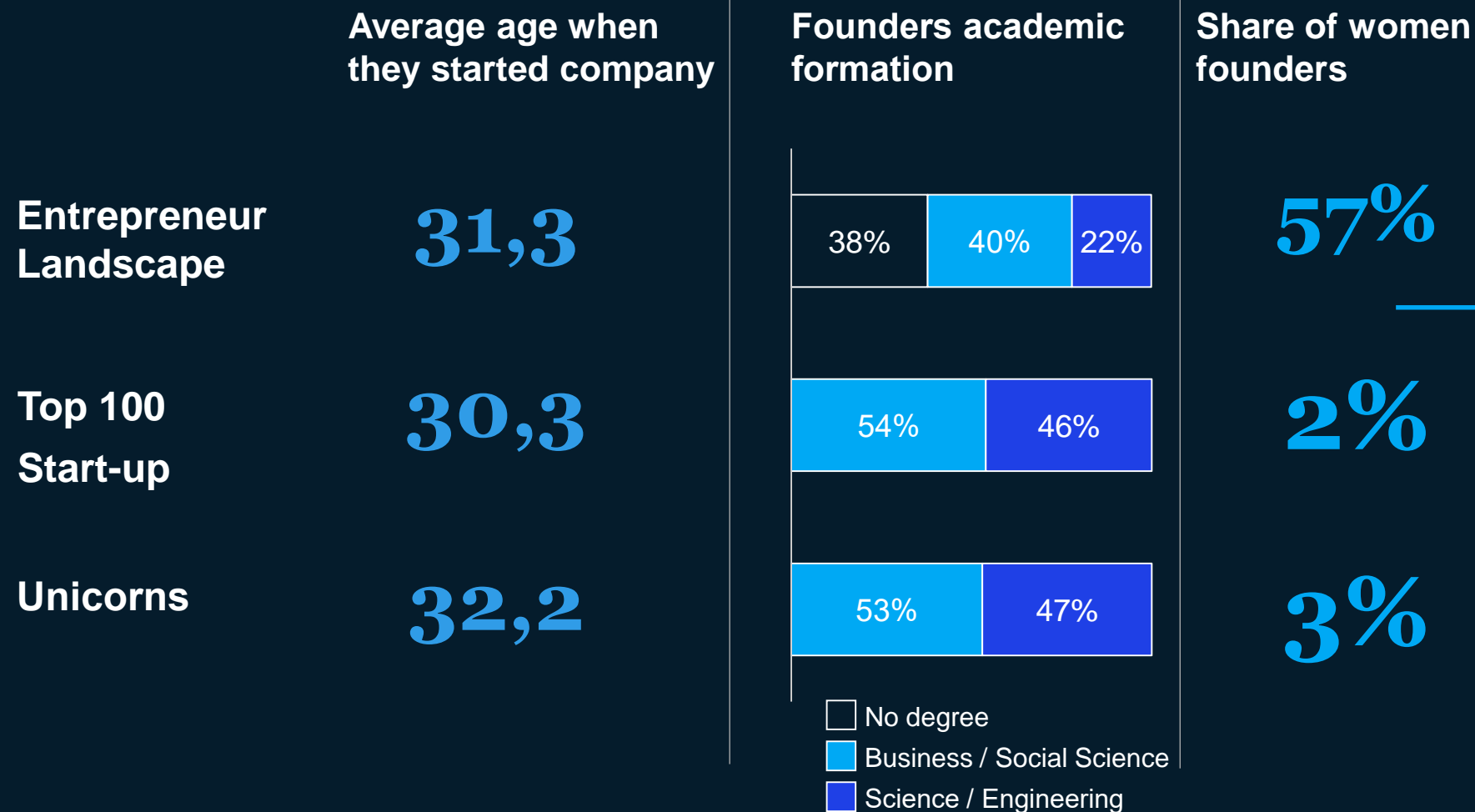
Team Size **66%**
have less than 21 members

Age **55%**
are less than 4 years old





In Brazil, start-ups are typically founded by individuals with business-education background profiles



Chances of success are significantly higher for serial entrepreneurs

26%

Top 100 founders
had a previous start-up
experience before
launching their
business

Unicorn founders,
the share of serial
entrepreneurs rises to

44%

Investment and Growth

A decorative graphic consisting of two thin, light blue lines. One line is horizontal and positioned below the word 'Investment'. The other line is diagonal, starting from the bottom left and extending towards the top right, intersecting the horizontal line.

**Most startups
are
funded with
own,
friends & family
money**

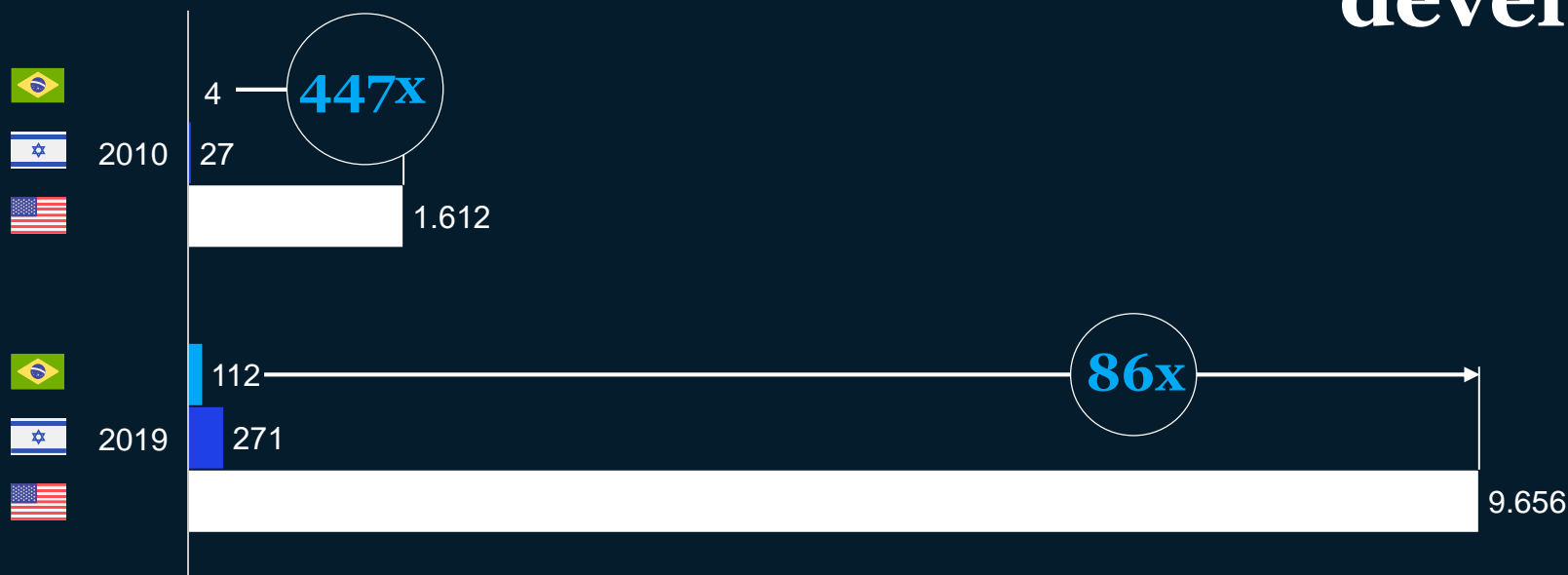
54%

of Brazilian start-
ups begin their
businesses with the
founders, family
and friends funding

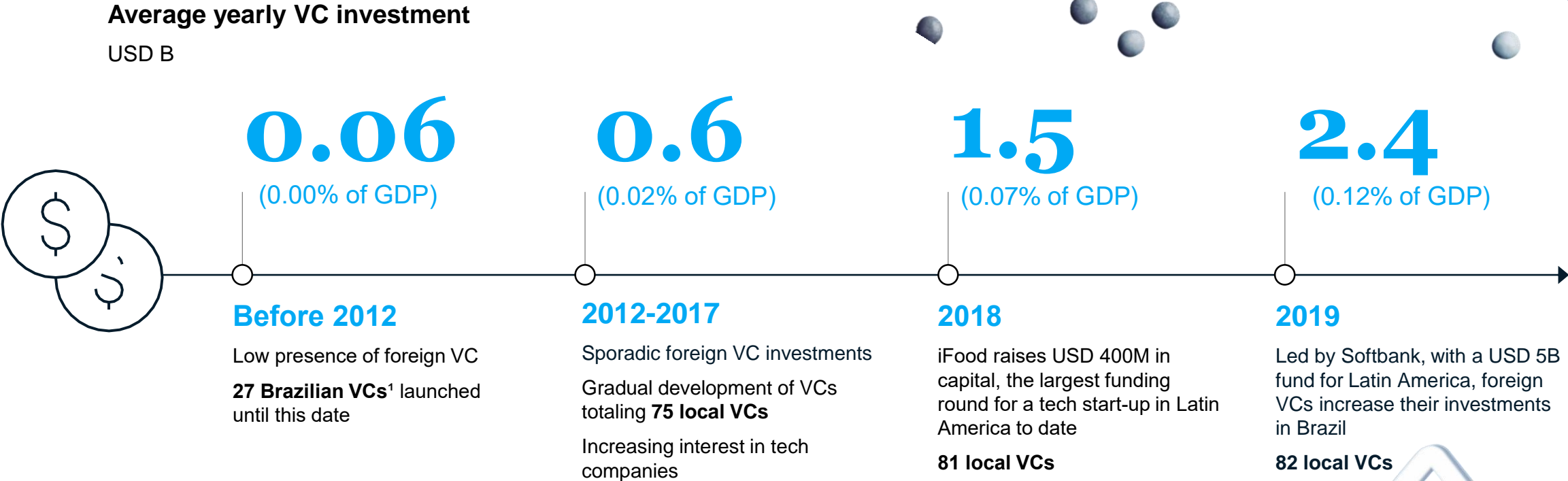
Angel investment USD M

xx Brazil / USA
investment gap

Angel investment is growing but still little developed



There has been a major increase in venture-capital investment over the last 5 years

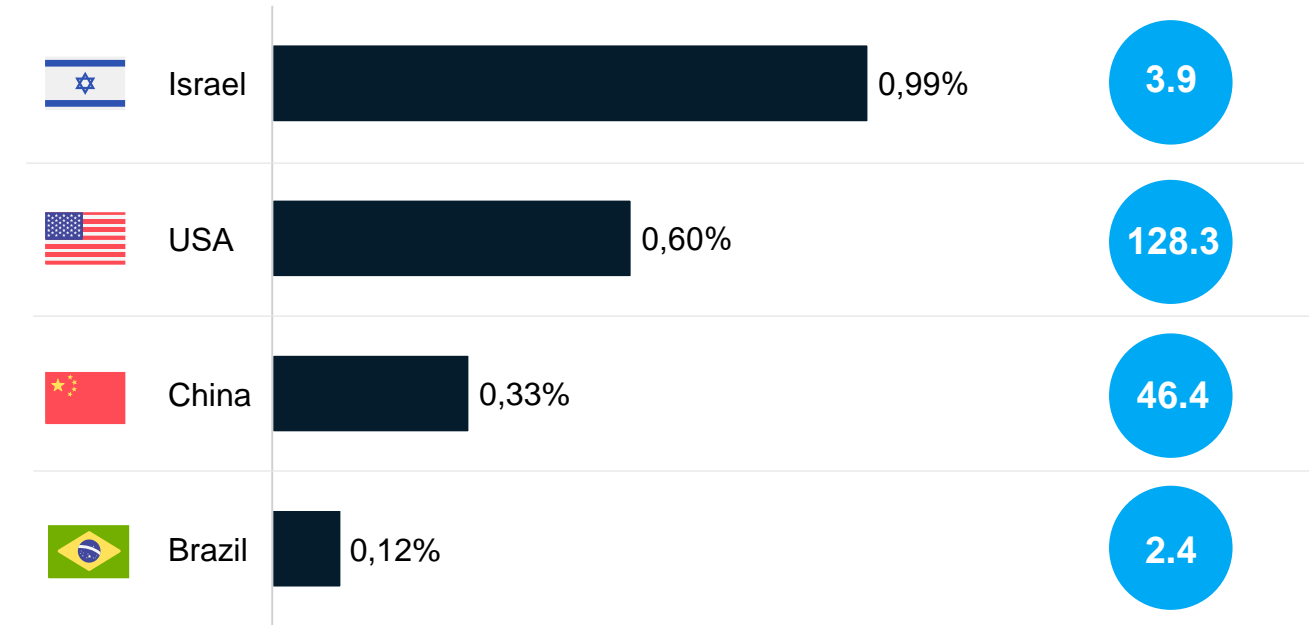


1. Considers tech-related VCs
Source: Distrito; Pitchbook

However, as a % of GDP, VC in Brazil still lags behind mature nations

Total Venture Capital activity - 2019

Total Venture Capital/GDP

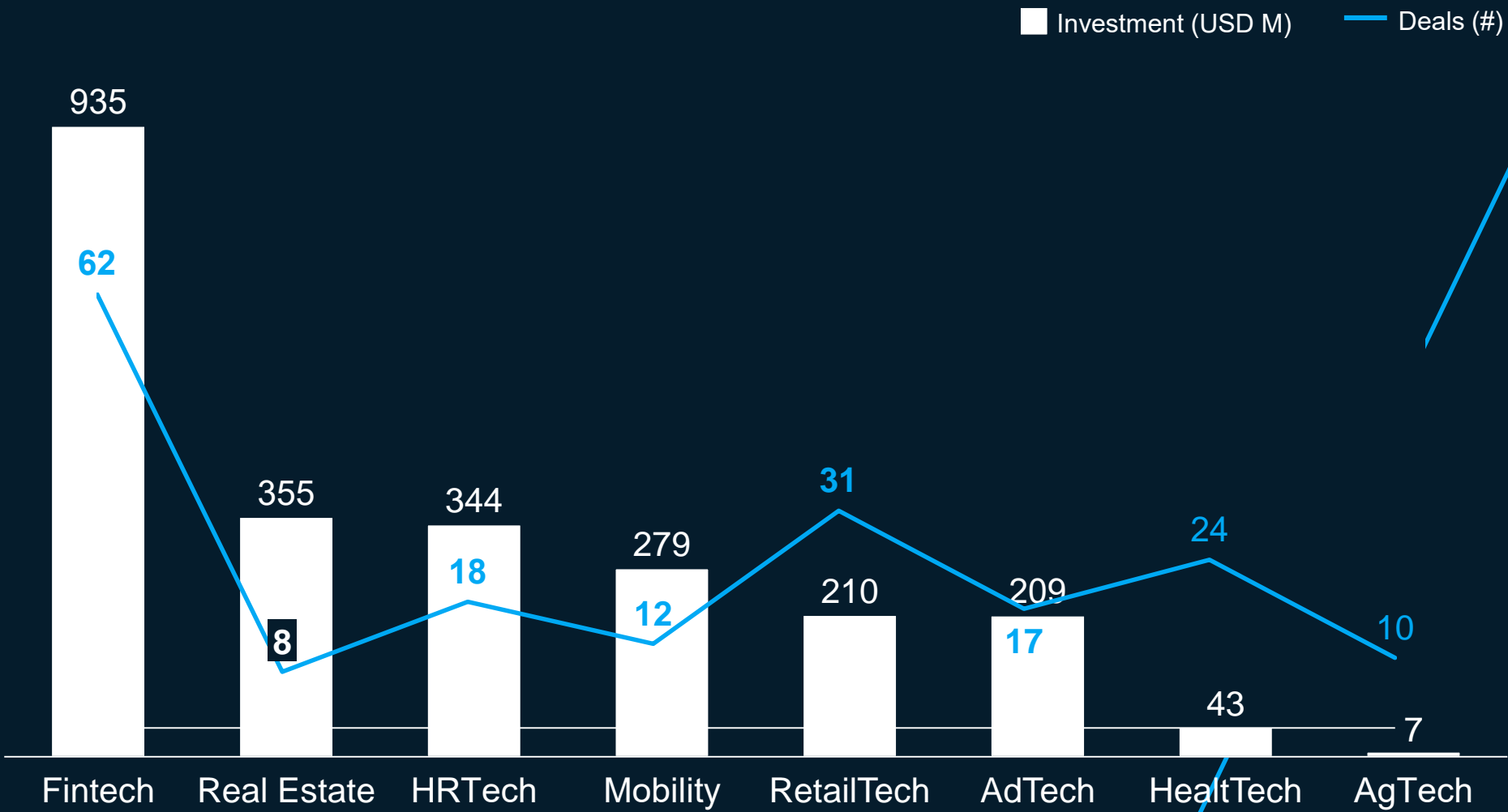


Total Venture Capital amount

USD Bi, 2019



In 2019, FinTech's have attracted ~40% of VC investment volume





Higher valuations created the imperative to go big or go home...

35%

Had as the main objective
expand locally

19%

Had as the main objective
expand internationally

(not or credit card)
2020; McKinsey analysis, Press search, Company websites

Launch ¹

2014



2015



2016



2016



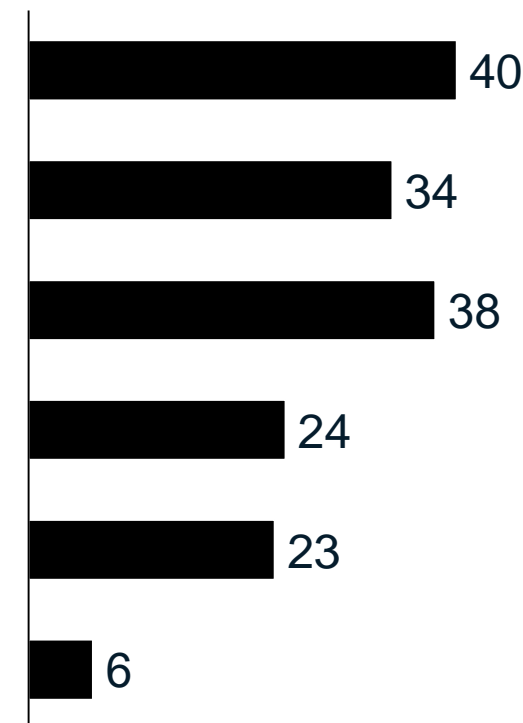
2017



2019



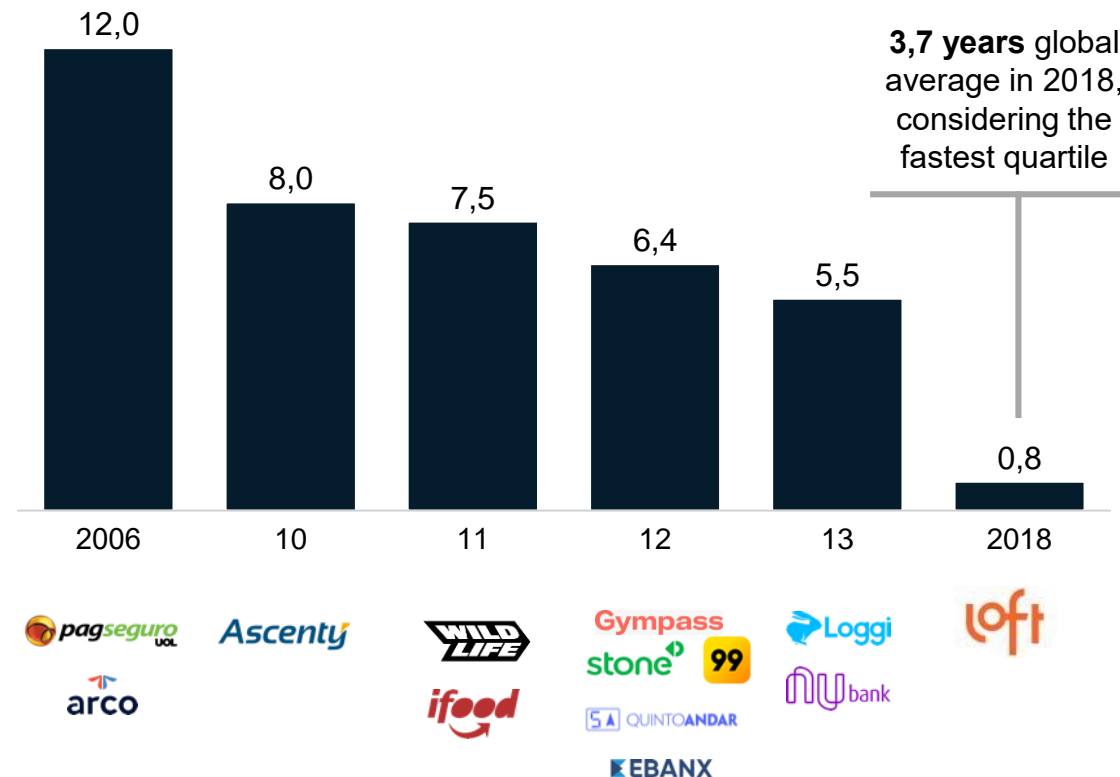
of months to reach 1 million clients



Faster burn rates, faster unicorns and faster failures

Average time to become a unicorn since year of foundation

Number of years to reach a USD 1B valuation or more



“With higher burn rates, there’s no more room for zombie start-ups just trying to survive.”
VC Founder

Brazil has consolidated itself as a continental hub, attracting players from all over the world...



2/3
of gross revenue



#1
Fastest growing market
for Prime users



North America



Europe



South America



Asia



... and a top unicorn builder

13 Unicorns¹
In Dec/2019



13



200+



24



12



8



100























23



1. Considers disclosed private investments over USD 1B, recent IPOs by companies with a market cap over USD 1B, and non-disclosed investments with a market perspective over USD 1B
2 CB Insights criteria
Source: CBInsights Unicorn Ranking, Crunchbase, 2019; Team analysis

2019 M&A activity in start-ups

Company	Segment	Acquirer
	Business Software	
	Personal Products	
	Consulting Services (B2B)	
	Consumer Finance	
	Mobility	
	Entertainment Software	
	Business Software	
	Media and Information Services	
	E-commerce	
	Retail	

In 2019, there were big structural exit opportunities through M&As...

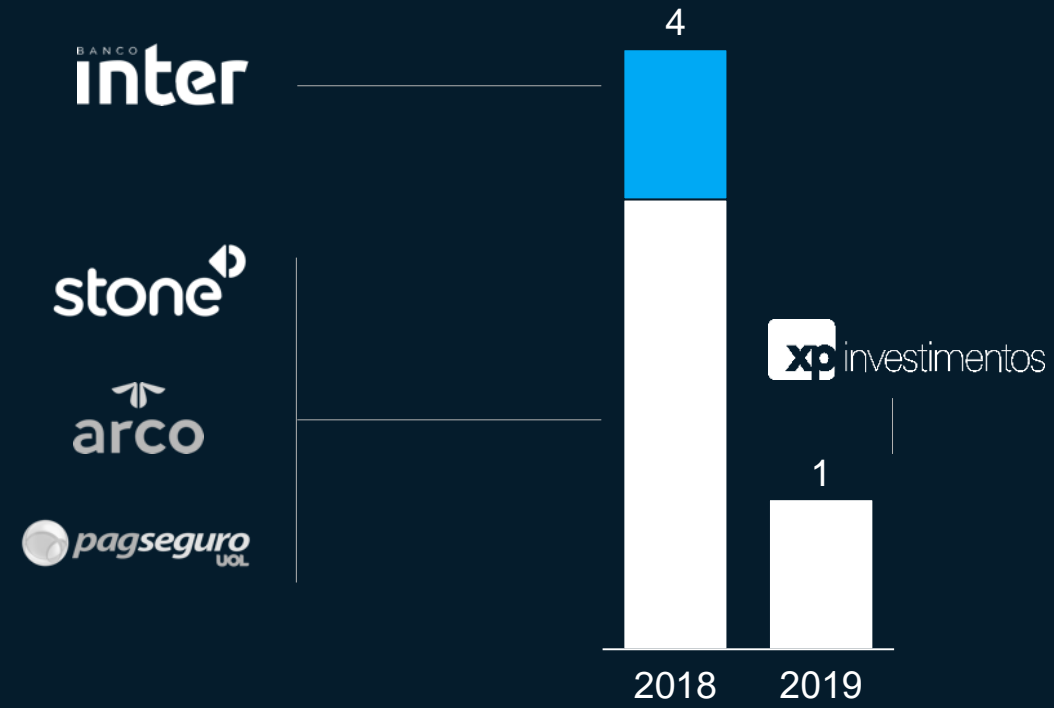
... and IPOs



Main tech IPOs per year

Number of IPOs

■ Brazilian Stock Exchange
■ American Stock Exchanges



Local champions favored US stock exchanges



Higher demand and volume



More savvy and specialized investors

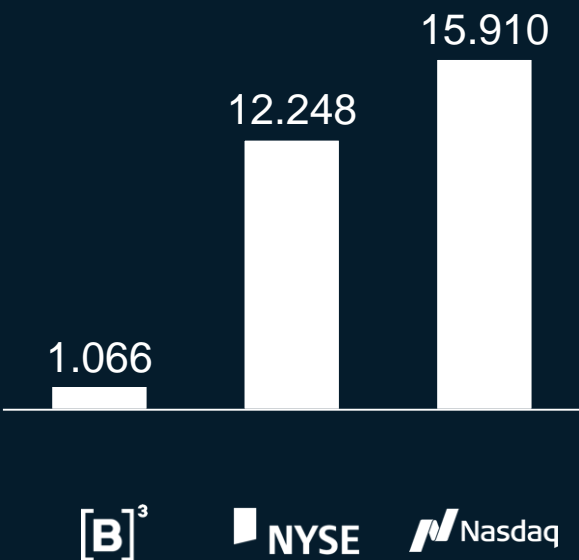


5x cheaper trading and clearing costs



Greater control over company voting rights

Volume of equities traded
USD B, 2019, annual



of listed companies



Source: World Federation of Exchanges, McKinsey Analysis

COVID-19, however, already impacted funding rounds...

“For those during fundraising process, how was your fundraising impacted by COVID-19?”

30%

Of startups **canceled** their Fundraising process due to COVID-19

16%

Of startups had **informal agreements that were canceled** or are in re-negotiation

11%

Of startups decided to focus on **insiders investors** instead

20%

Of startups **maintained** their Fundraising process unchanged during COVID-19

13%

Of startups were **able to close** their Fundraising round during COVID-19 (2% after renegotiation)



... And should impact
future valuations...

“What is your expectation on the funding
scenario after COVID-19?”

Valuation adjustments
according to FX
exchange depreciation

13%

0-25% reduction
on valuations

24%

25-50%
reduction on
valuations

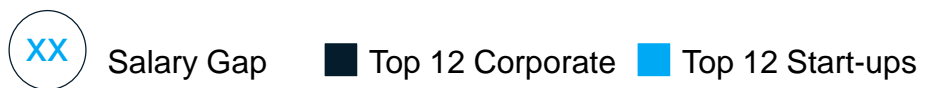
22%

>6-month
freeze in
funding activity

27%

Source: Atlantico Survey April/2020

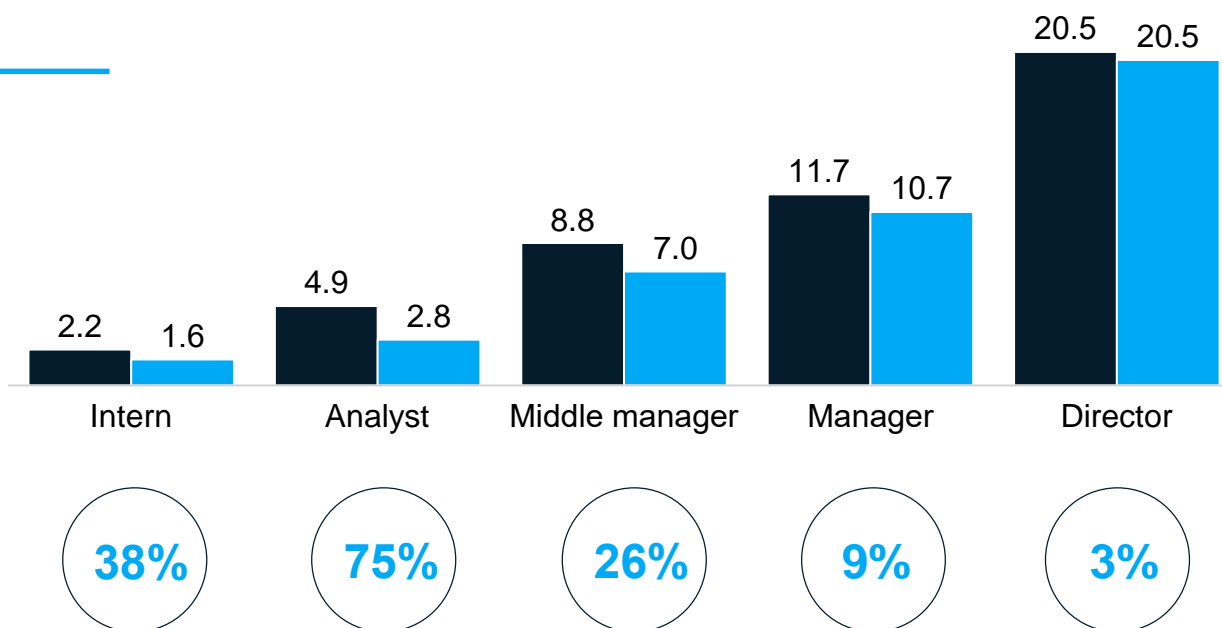
Talent and retention



Salary gap tends to decrease with more-senior roles

Average monthly Salary¹

BRL thousands, 2019



Start-ups compete for top talents

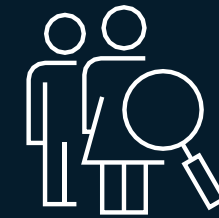
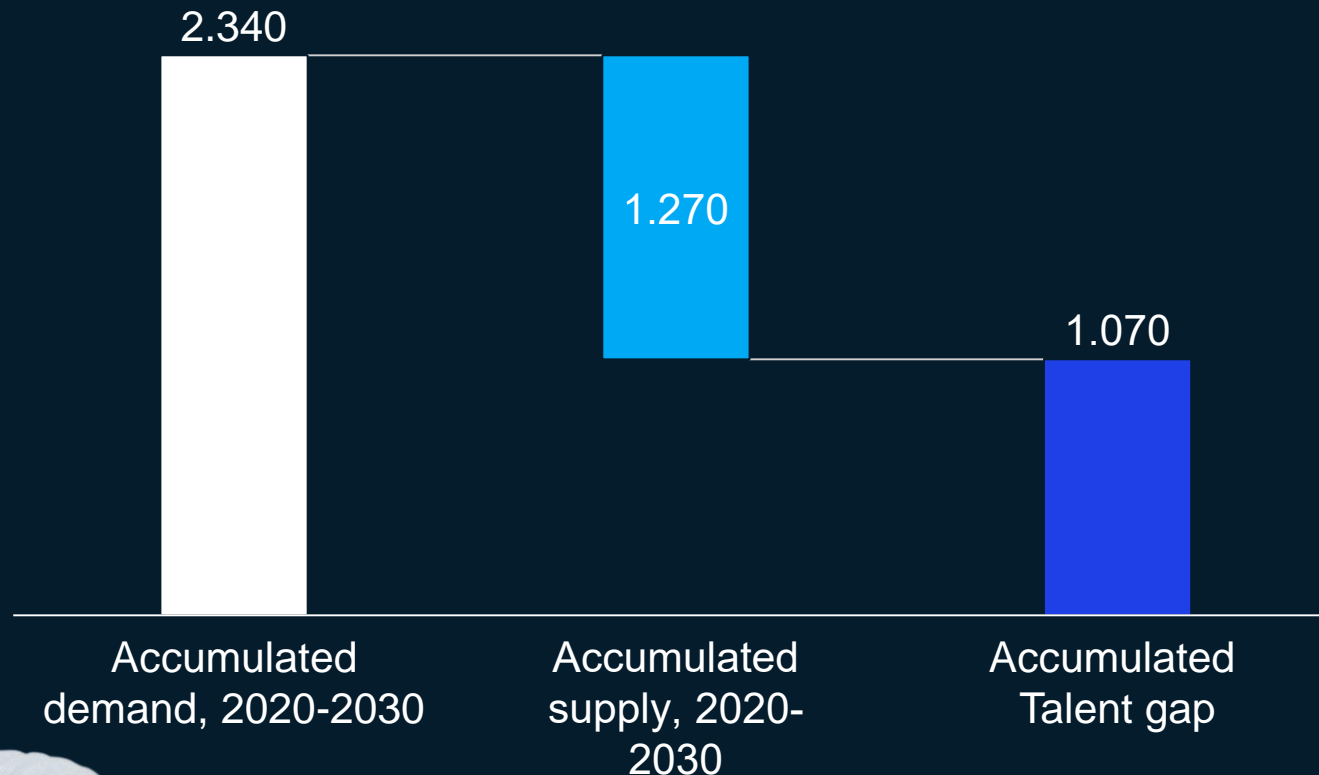


1. 8,373 salaries, 12 start-ups and 12 incumbent corporations – does not include equity
Source: Brazilian Start-ups Landscape Survey – McKinsey 2020, Love Mondays

However, tech talent seems to be a bottle neck

Expected demand for tech professionals

Thousands, 2020-2030

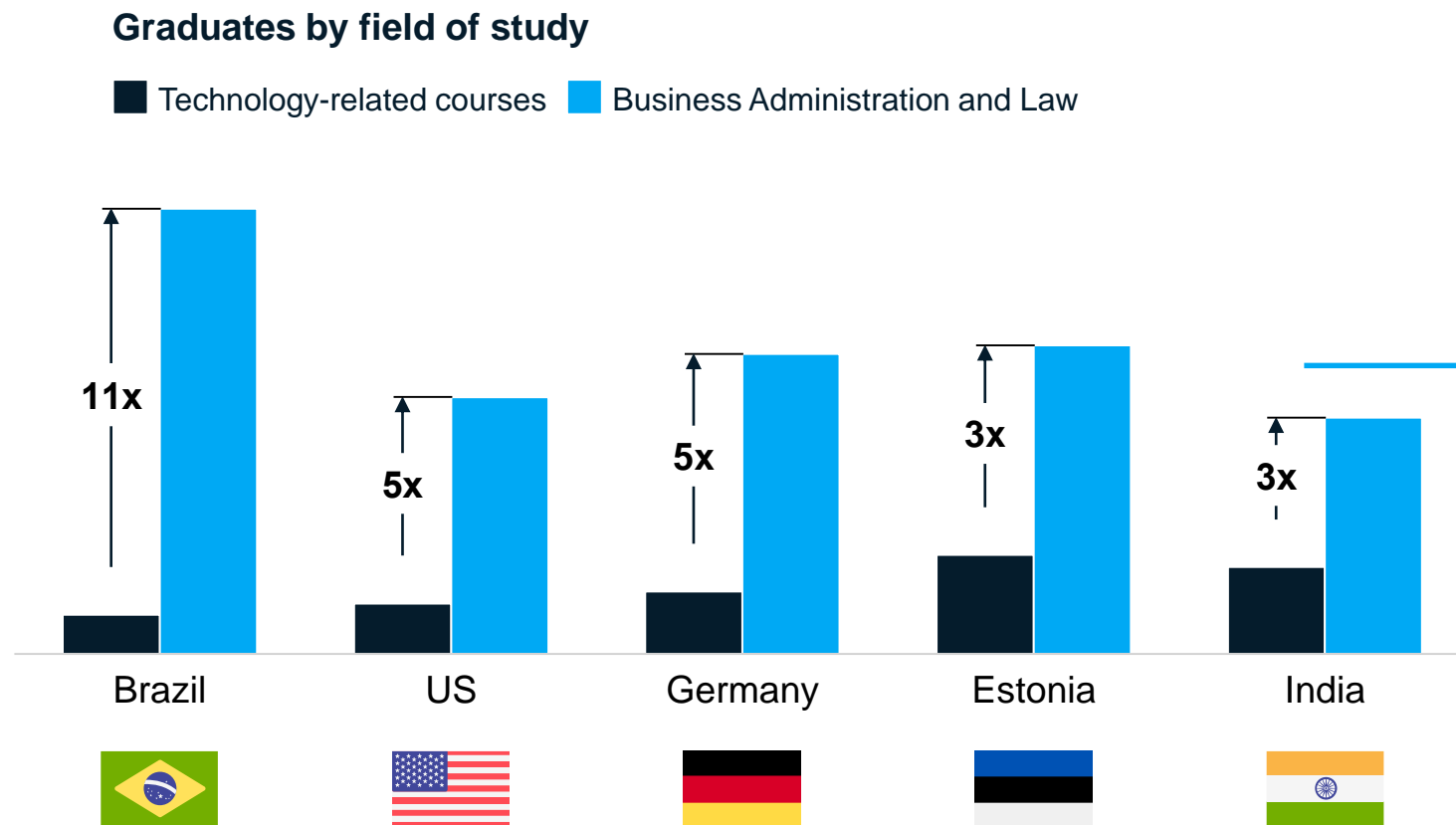


> 1 mn

Cumulated talent gap for tech professionals by 2030

Data Scientists / Engineers, UX designers, Mobile and Web Developers and Agile Coaches are among the most wanted profiles

Technology talent-gap remains significantly bigger in Brazil: for each new tech professional, Brazil graduates more than 11 law or business students



There is a huge quality gap in tech education

“Tech education in Brazil is oriented to academia, and there is a gap between what students learn and what the market needs.”

Start-up CEO

35%

of tech courses are
below minimum level¹
to satisfy market
expectations

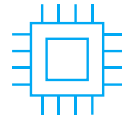
1. Considers in-person college education courses (Ensino Superior) in 2018
Are considered on track courses rated 3, 4 or 5 by CAPES institute
Source: Brasscom, MEC, SEMESP



Globally, governments have been promoting education initiatives to address the gap in technical education

Type of initiatives

Global example



Increase of technology spots at traditional universities

In 2019, China opened around 400 majors related to big data, artificial intelligence (AI) and robotics in universities



Revamp university curricula to address market needs

Traditional universities have been adapting the programs



Develop online learning to increase access to technical education

In 2020, India's government authorized its top 100 institutions to offer fully online degrees to support its ambition to double graduates by 2035



Investment in **alternative technical-education** initiatives

The Israel Innovation Authority funds extra-academic coding bootcamp since 2018



Offer incentives for **tech professionals immigration**

Beijing government is easing visa policies and offering cash incentives to attract top class global talent



Start-ups develop their own alternatives to fill the talent pipeline



**Going where
talents are**



**Rising own
talents**



**Strengthening ties
with academia**



**Importing
talents**



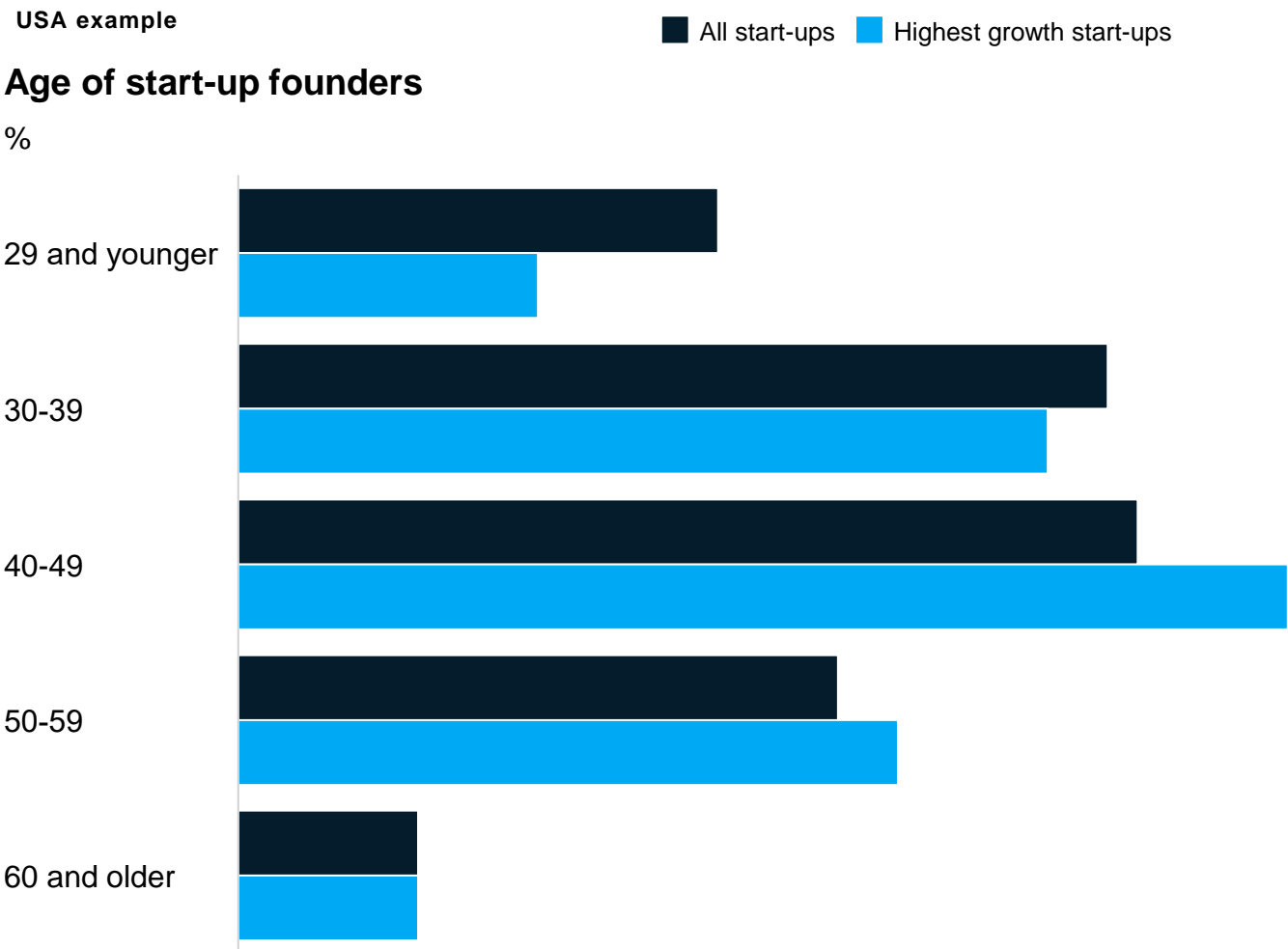
**Acquiring
companies
for talents**



**Offering non
financial incentives**



The “young entrepreneur” is a myth



Source: Age and high-growth entrepreneurship; MIT, Northwestern and U.S. Census Bureau

42
is the average age
of entrepreneurs at
the time they founded
their companies

45
is the average age
of founders
starting the top
0.1% of start-ups





As they grow,
start-ups
thrive on
“white hair”
experience

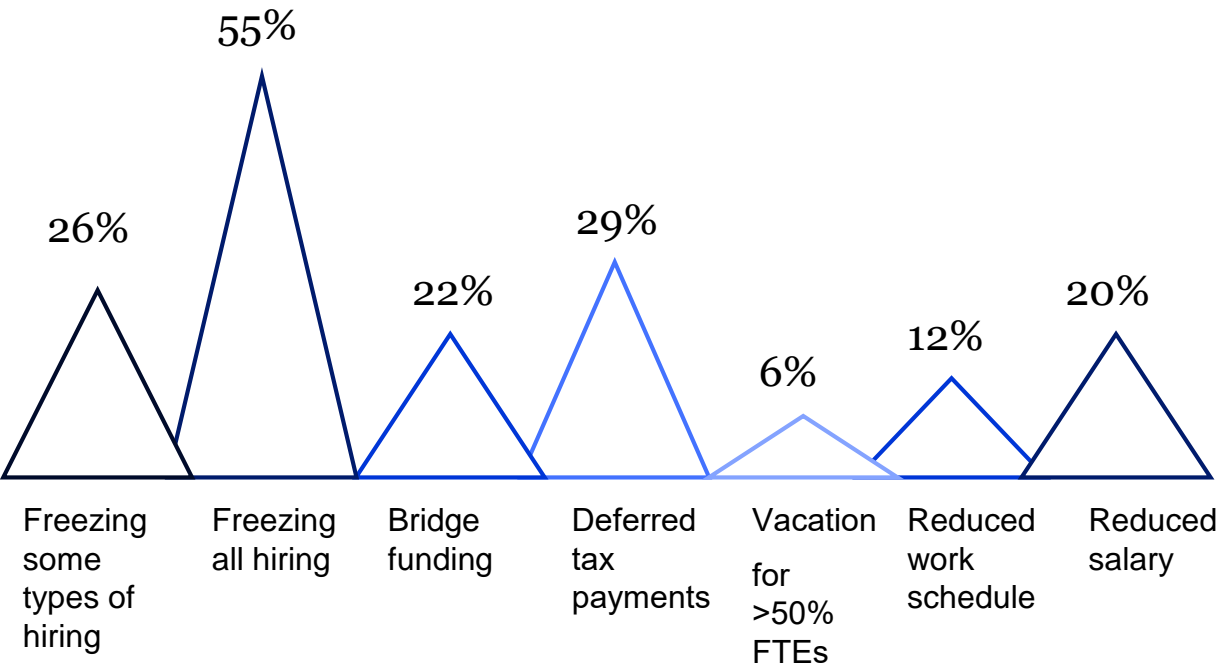
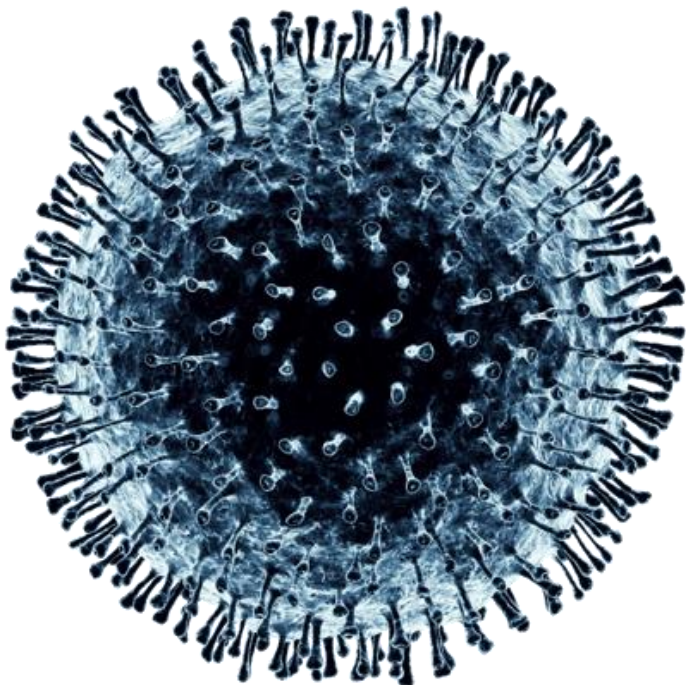


“Fast growth comes with talent challenges: the young professionals that were great on starting the business not necessarily are good on leading a big organization. When growth comes, startups need **experience professionals to lead big operational teams and standardize processes.**”

CEO of Startup

The pressure for lower burning rates due to the COVID-19 crisis should impact talent acquisition...

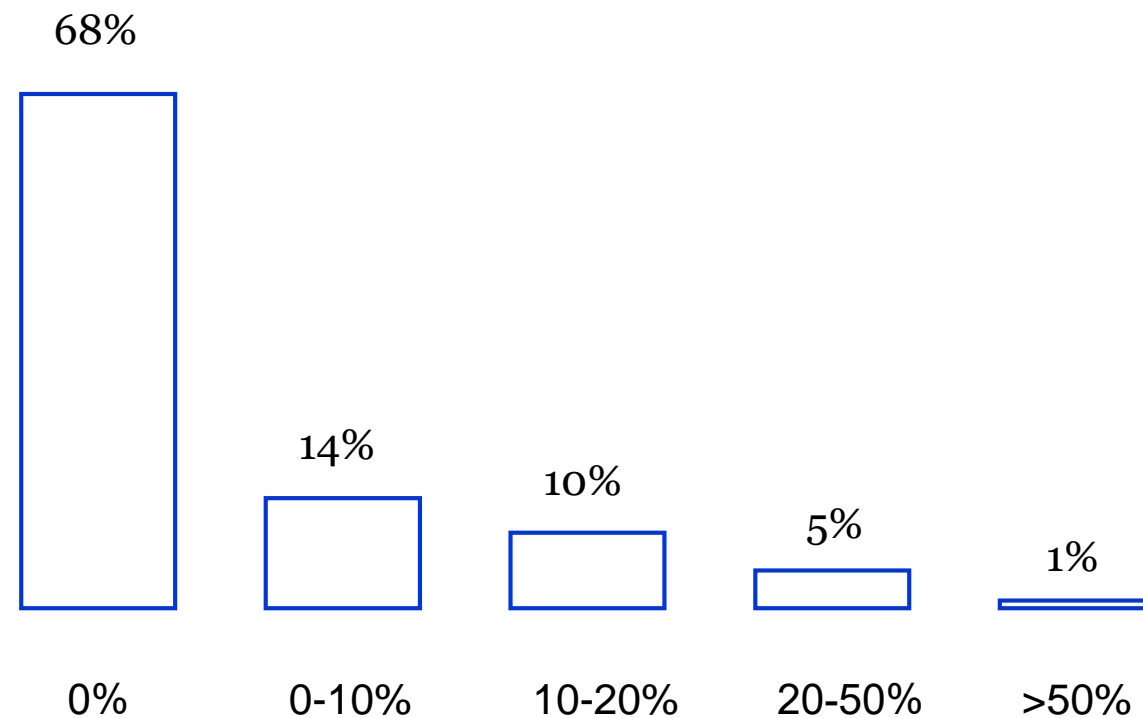
“Which of these actions did you already implement (post COVID-19 crisis) or will implement?”



Source: Atlantico Survey April/2020

... but massive layoffs are yet a question mark

Predictable layoff due to COVID-19



Source: Atlantico Survey April/2020

In summary:

On funding: we were happy and we knew it!

- We reached an all times high in terms of money inflow for innovation, with higher valuations and faster growth
- COVID-19 should cool down momentum, but maintaining higher landing
- Bridge funding or new rounds on lower valuation will likely emerge

On talent: the challenges of BC are still here, but now is time to bootstrap and hang in there.

- Startups are competing for top talents
- Tech skills are a bottle neck and companies need to be creative to attract and retain; the country should have a broad plan to close the gap
- The young entrepreneur is a myth, and with growth, comes the need for experienced professionals
- COVID-19 should put pressure on new hiring and massive layoffs are yet a question mark

Obrigado, stay safe!