

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

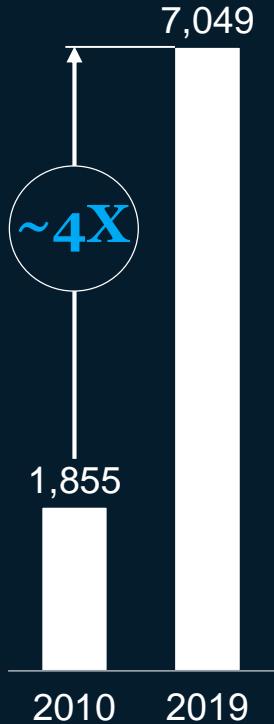
Dominant Incumbents



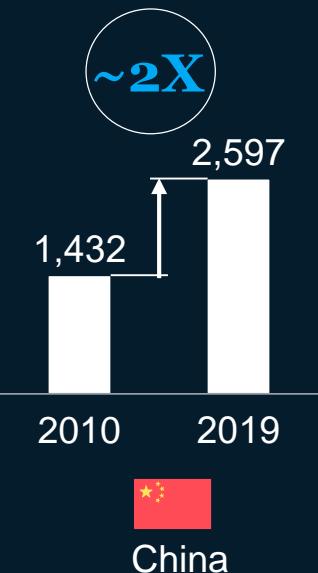
xx Growth in market cap

Top 10 companies market cap¹

USD B



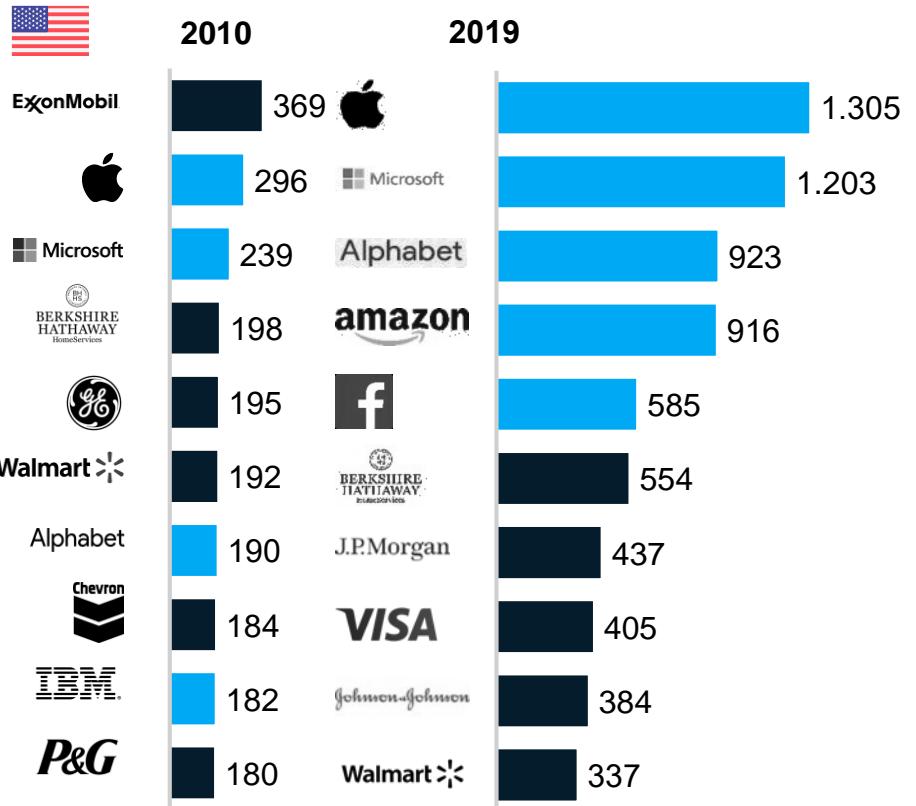
USA



China

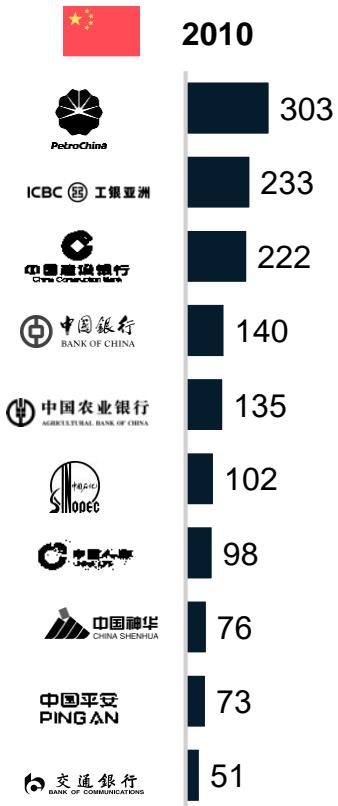
While the top companies in the US and China became more valuable...

Top 10 companies market cap¹ USD Bi



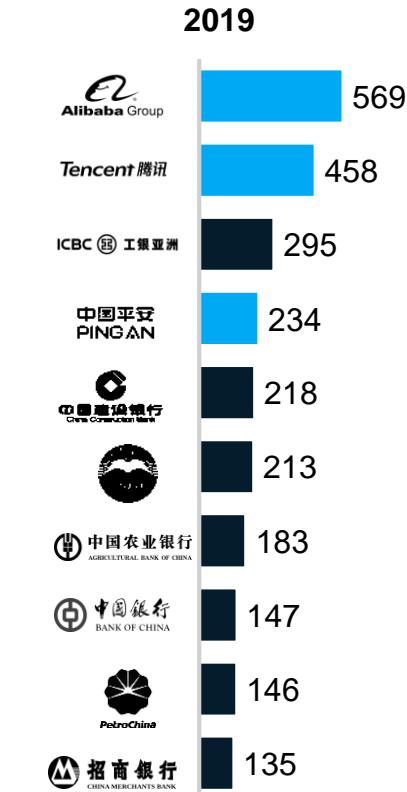
15%

33%



24%

Other companies Technology companies % of total GDP



18%

And more high-tech over the years...



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

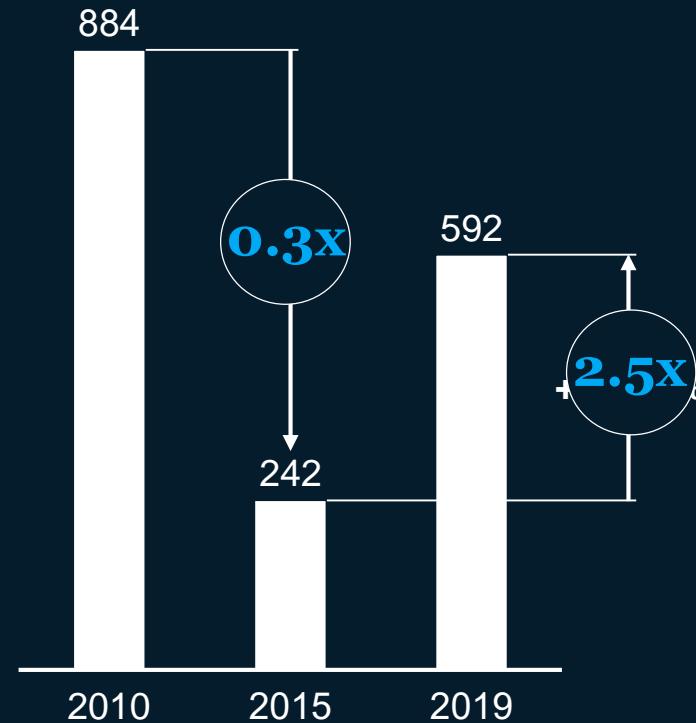
1. Brazil's market cap on Dec 31st of each year

Source: Capital IQ



Top 10 companies market cap¹

USD B



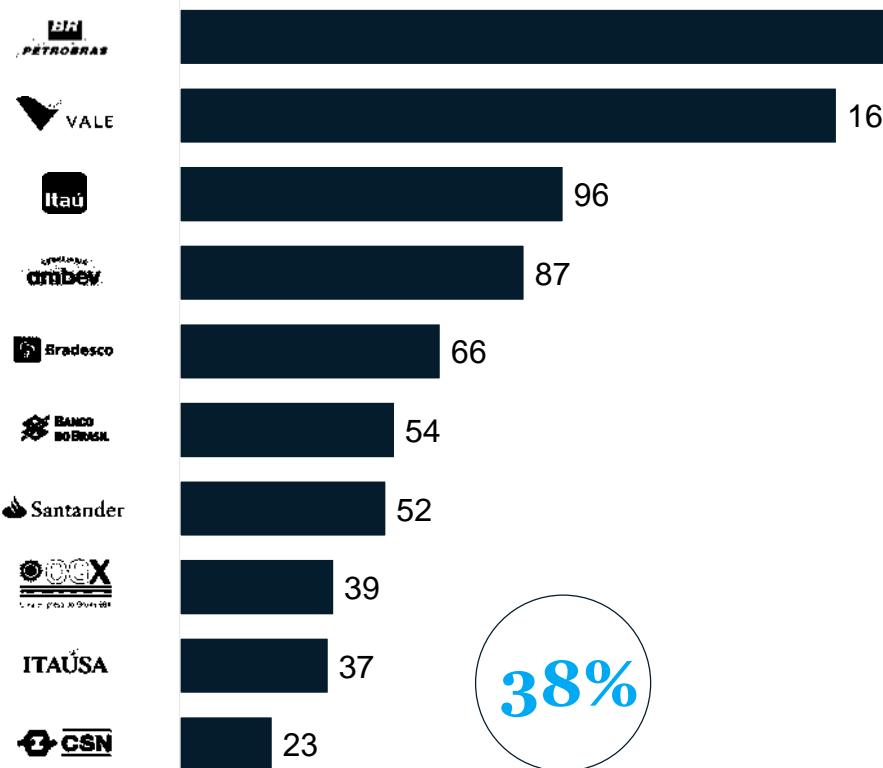
Growth in market cap

...and remained mostly traditional players

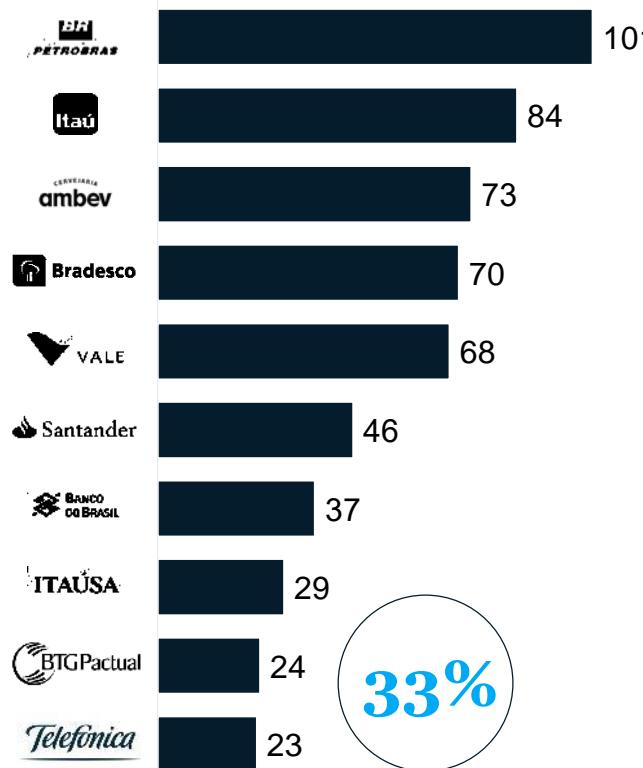
Top 10 companies market cap¹

USD B

2010



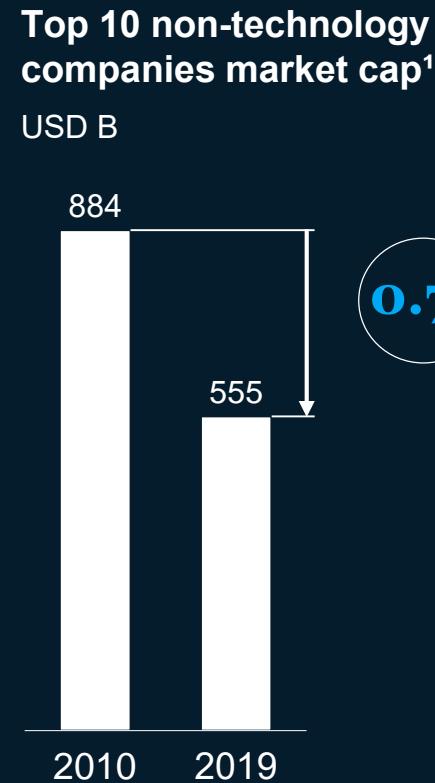
2019

¹ Considers market cap on Dec 31st of each year

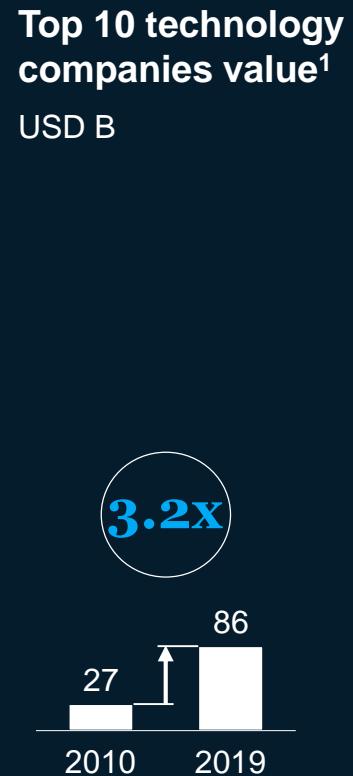
Source: Capital IQ

The new tech era

Tech companies greatly outperformed companies from other sectors...



0.7x



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



Other companies

Technology companies

% Market cap / Country GDP

1 Considers market cap on Dec 31st of each year

Source: Capital IQ

Only 2 of the biggest tech companies were in top 10 in 2010

1%

5%



**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

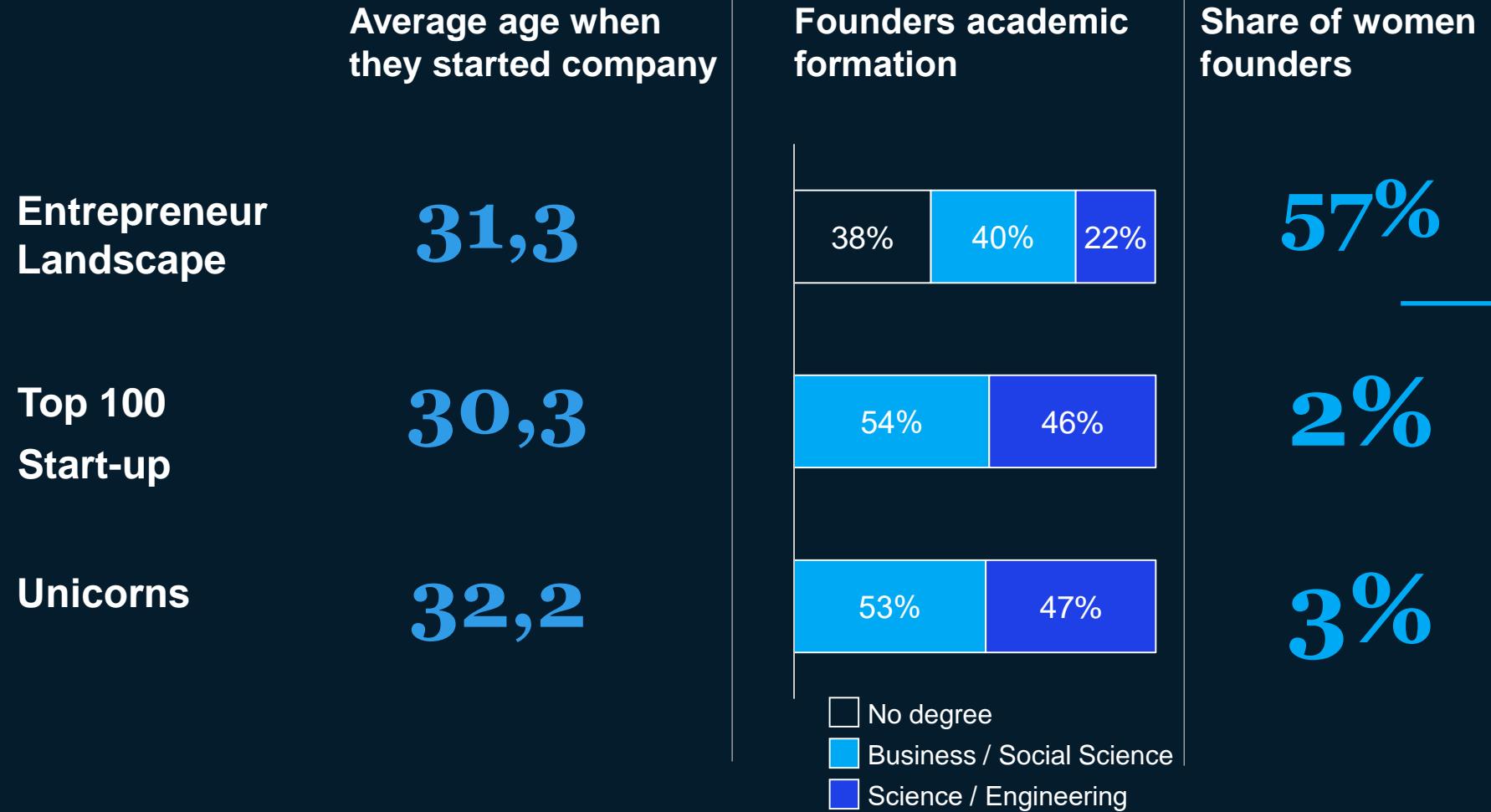
Age **55%**

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

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



54%

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

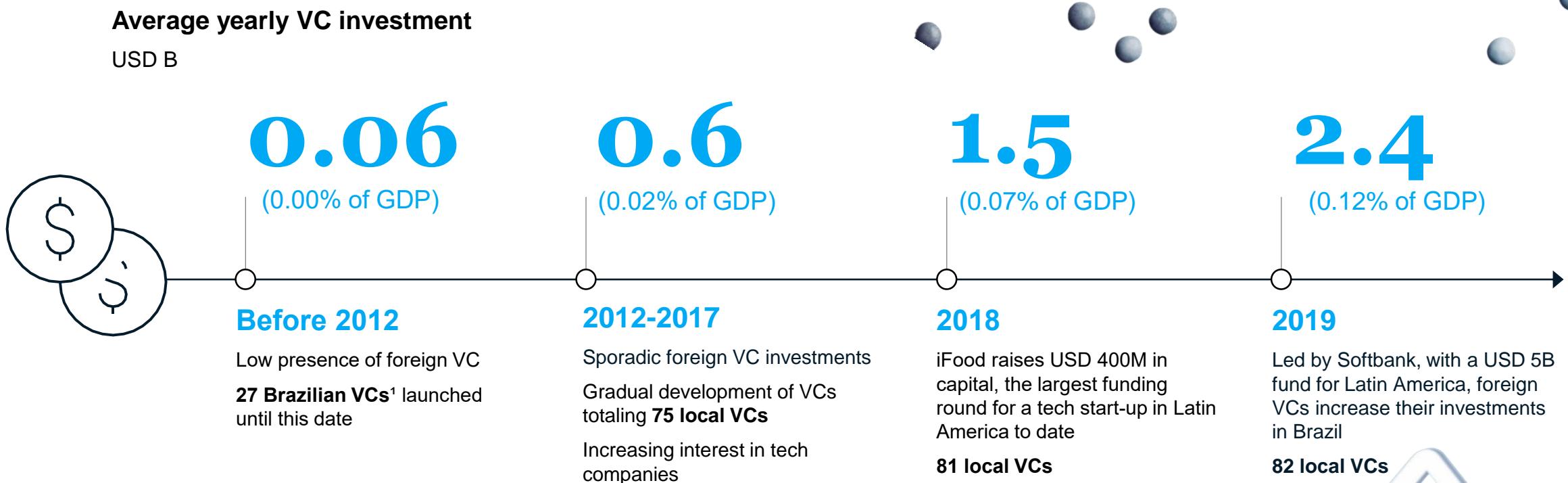
Angel investment USD M

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



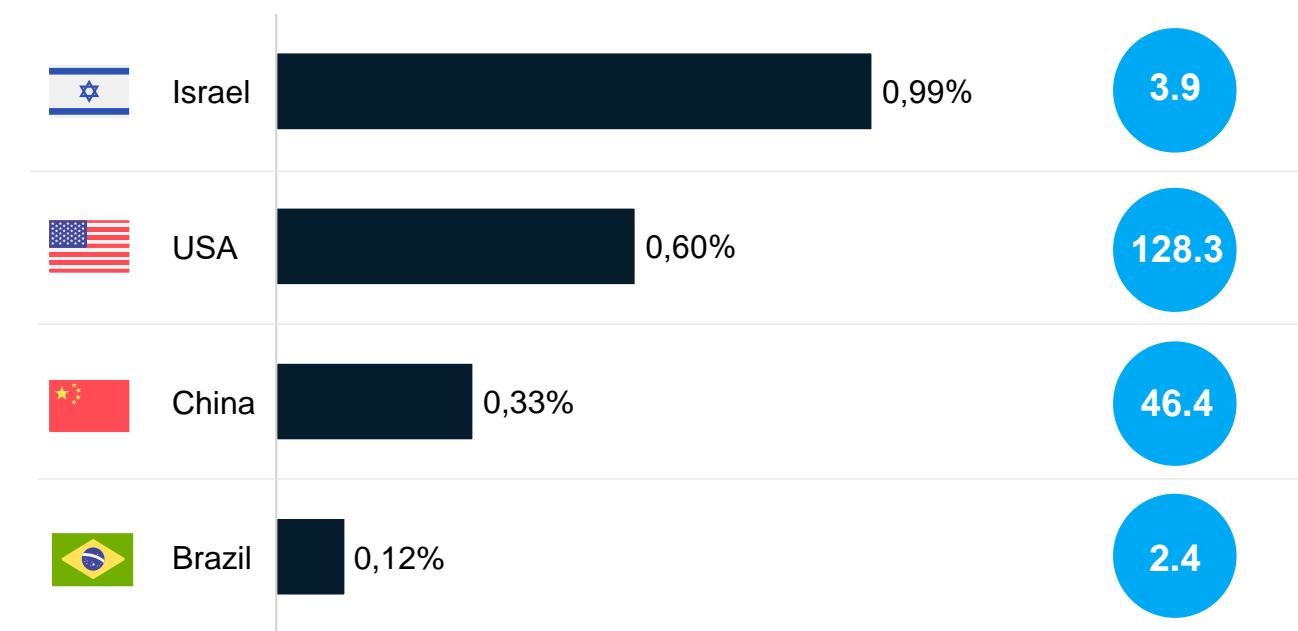
1. Considers tech-related VCs

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

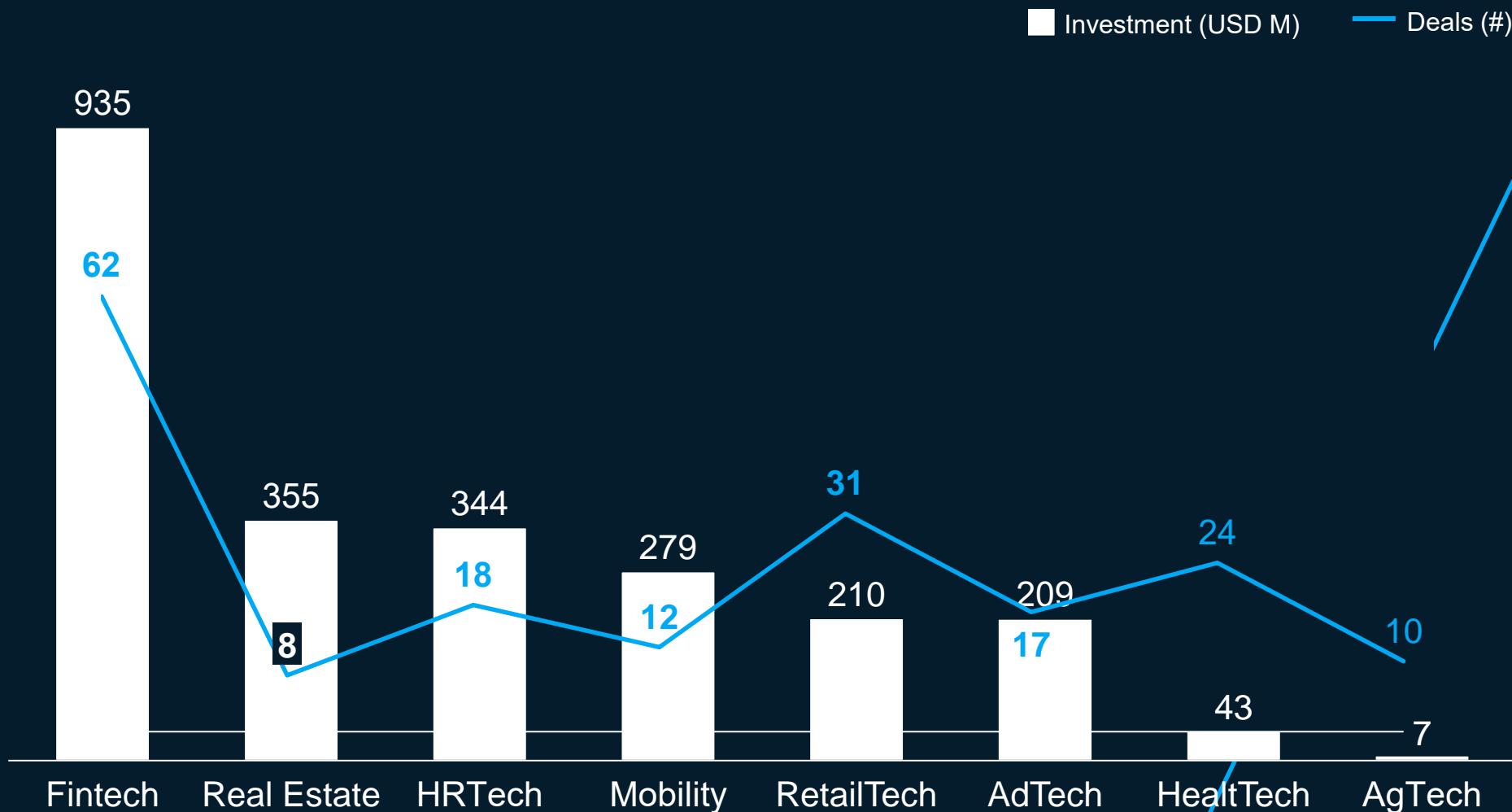


Total Venture Capital amount

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

(debit or credit card)

©2020; McKinsey analysis, Press search, Company websites

Launch ¹

2014

nubank

2015

BANCO
inter

2016

Banco
ORIGINAL

2016

neon

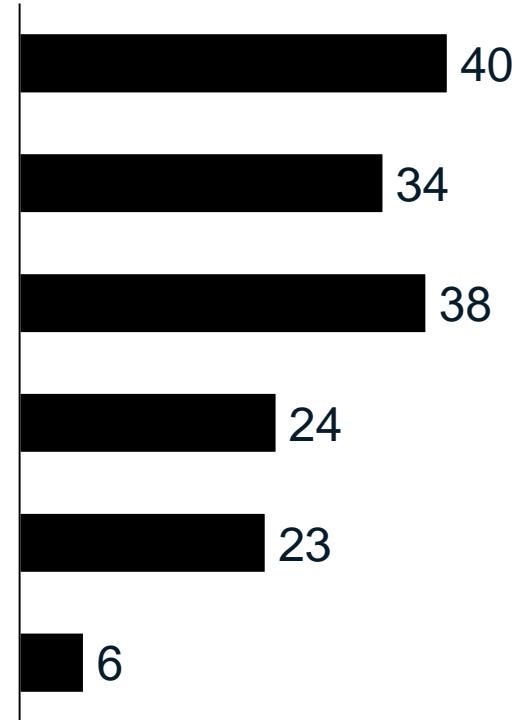
2017

next

2019

c6BANK

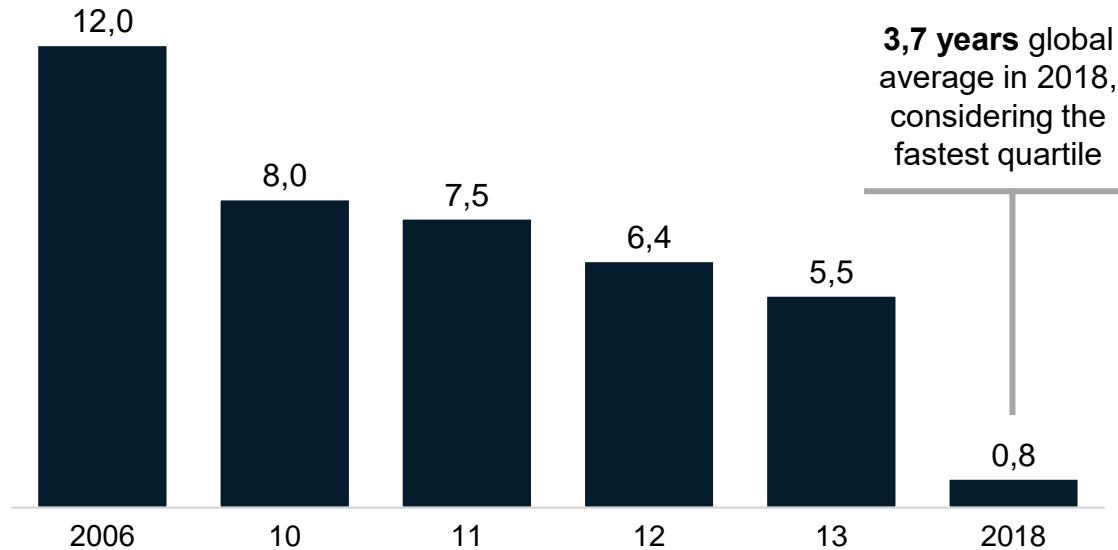
of months to reach 1
million clients



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



Ascenty

WILD
LIFE

ifood

Gympass
stone⁹⁹
QUINTOANDAR

Loggi
nu bank

loft

EBANX

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

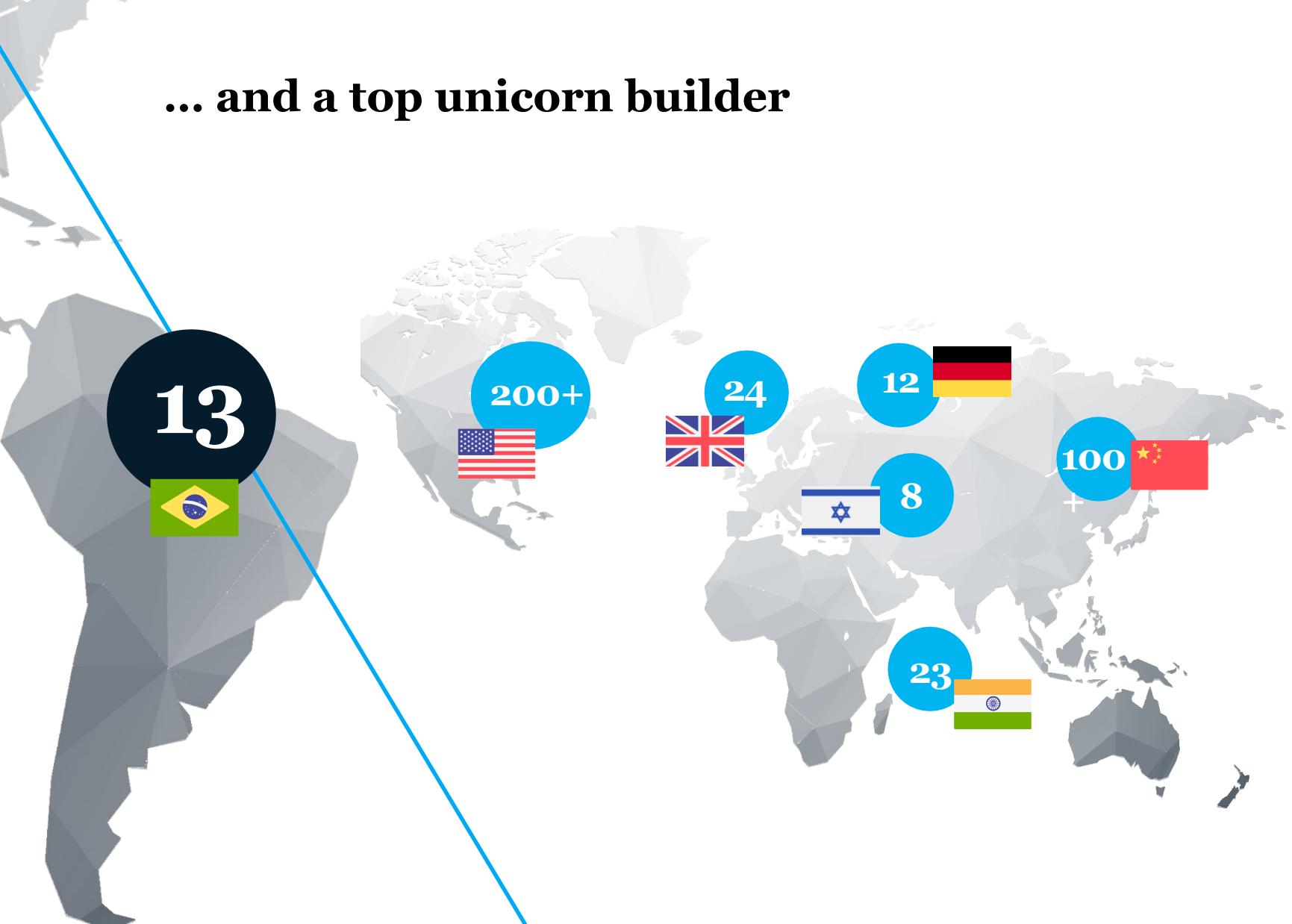


#1
Fastest growing market
for Prime users



... and a top unicorn builder

13 Unicorns¹
In Dec/2019



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: CB Insights Unicorn Ranking, Crunchbase, 2019; Team analysis

2019 M&A activity in start-ups

Company	Segment	Acquirer
 Zup	Business Software	 Itaú
 beleza NA WEB	Personal Products	 oBoticário
 Meifácil	Consulting Services (B2B)	 neon
 Creditoo	Consumer Finance	 creditas
 YELLOW	Mobility	 grow
 GAMERSCLUB	Entertainment Software	 IMMORTALS
 hiper	Business Software	 Linx
 WORLDSENSE HYPER YOUR CONTENT	Media and Information Services	 Loggi
 SUPER NOW.com	E-commerce	 B2W DIGITAL
 cheftime	Retail	 GPA

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

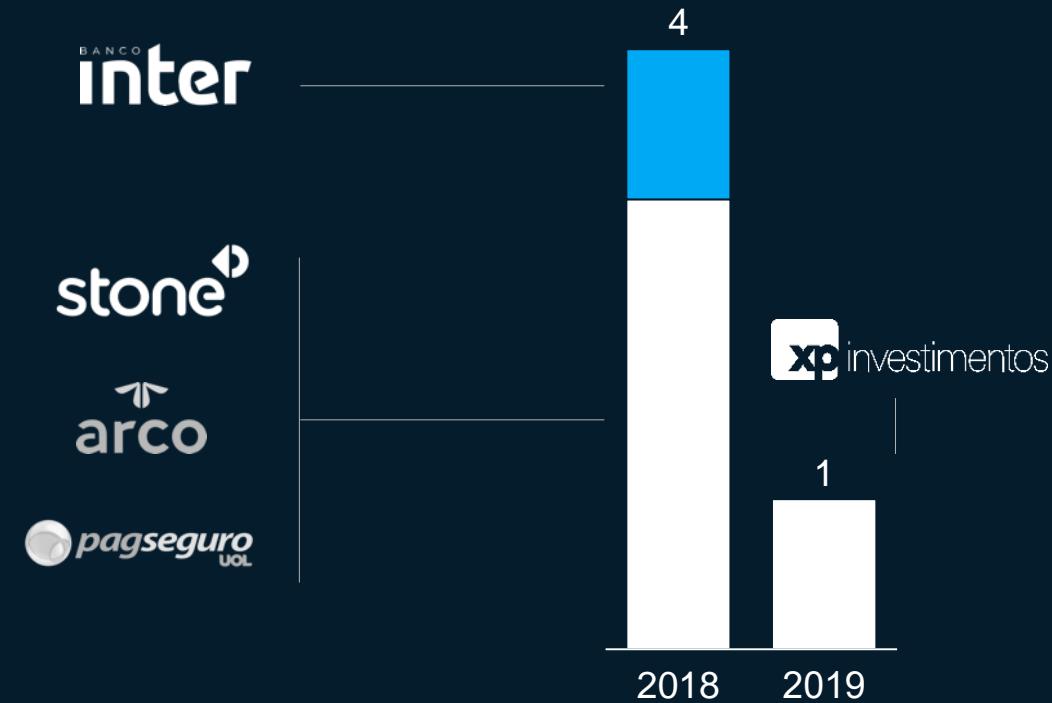
... and IPOs



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

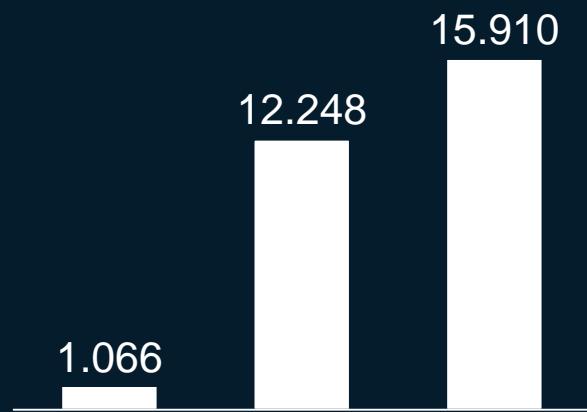


5x cheaper trading and clearing costs



Greater control over company voting rights

Volume of equities traded
USD B, 2019, annual



of listed companies

328

2,143

3,140

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%

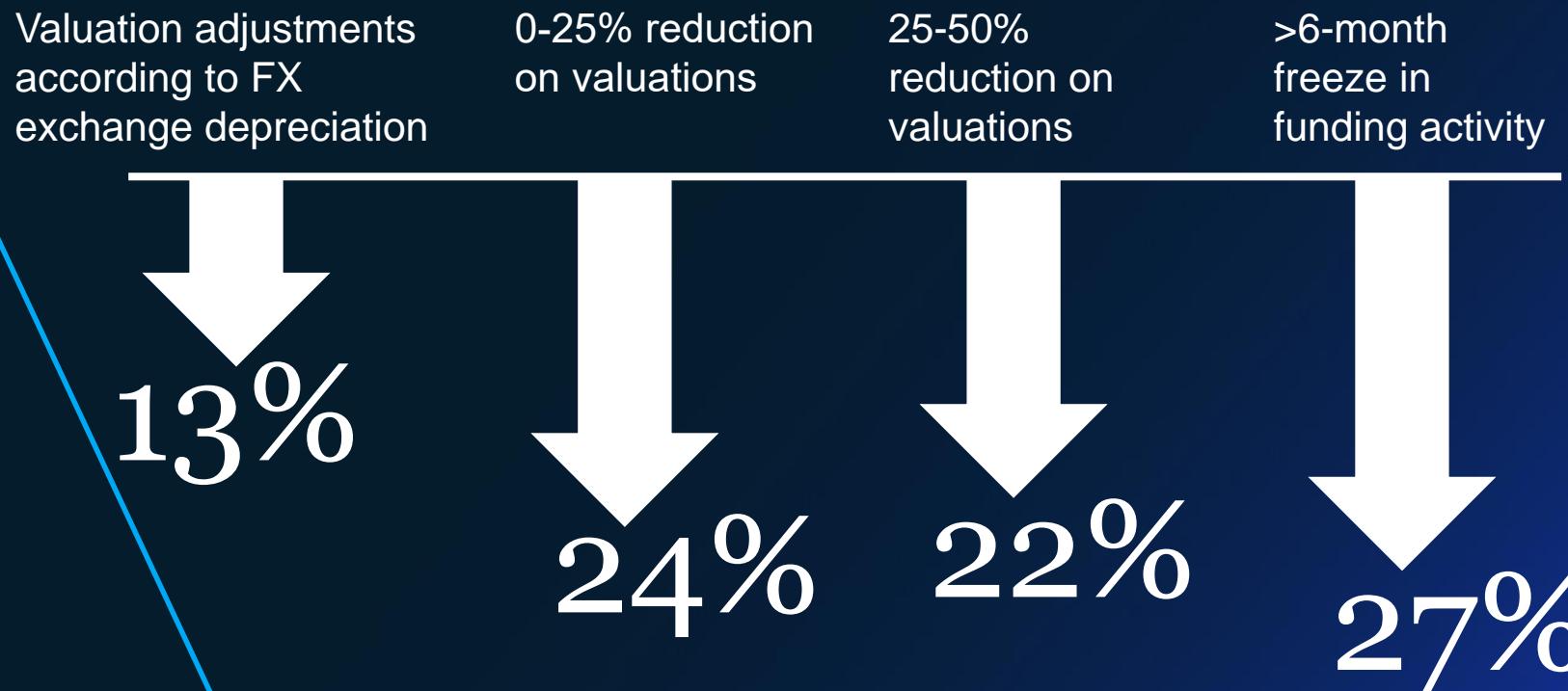
Of startups were **able to close** their Fundraising round during COVID-19 (2% after renegotiation)





... And should impact
future valuations...

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



Source: Atlantico Survey April/2020

Talent and retention



Salary Gap

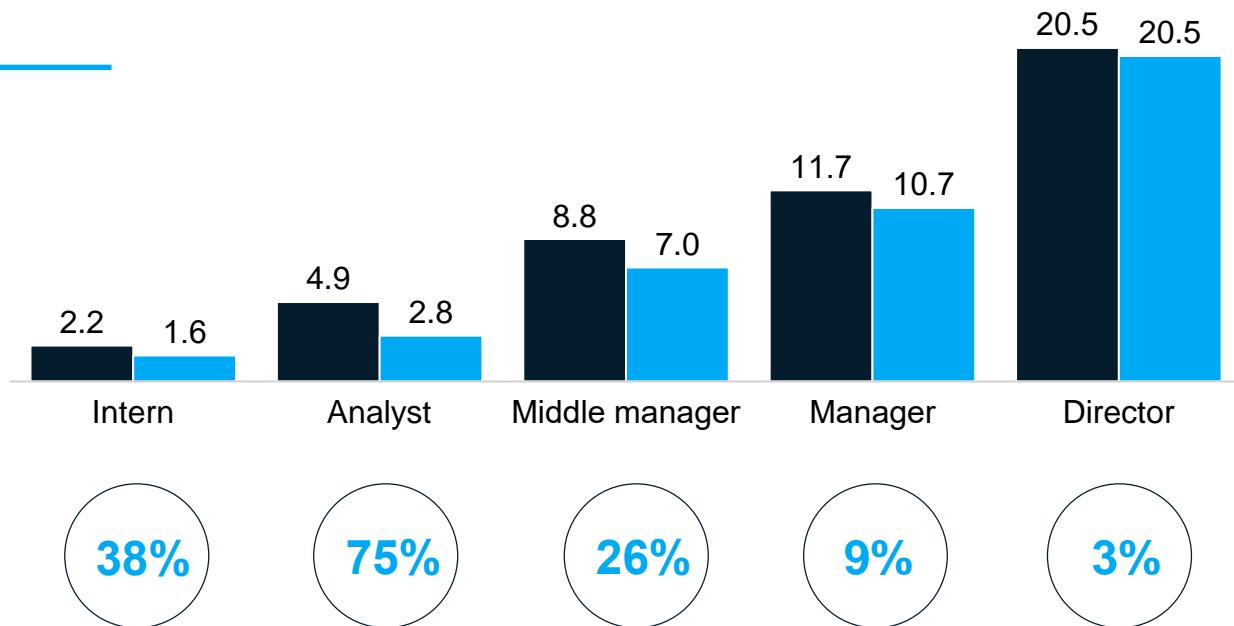
Top 12 Corporate

Top 12 Start-ups

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

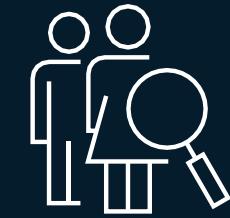
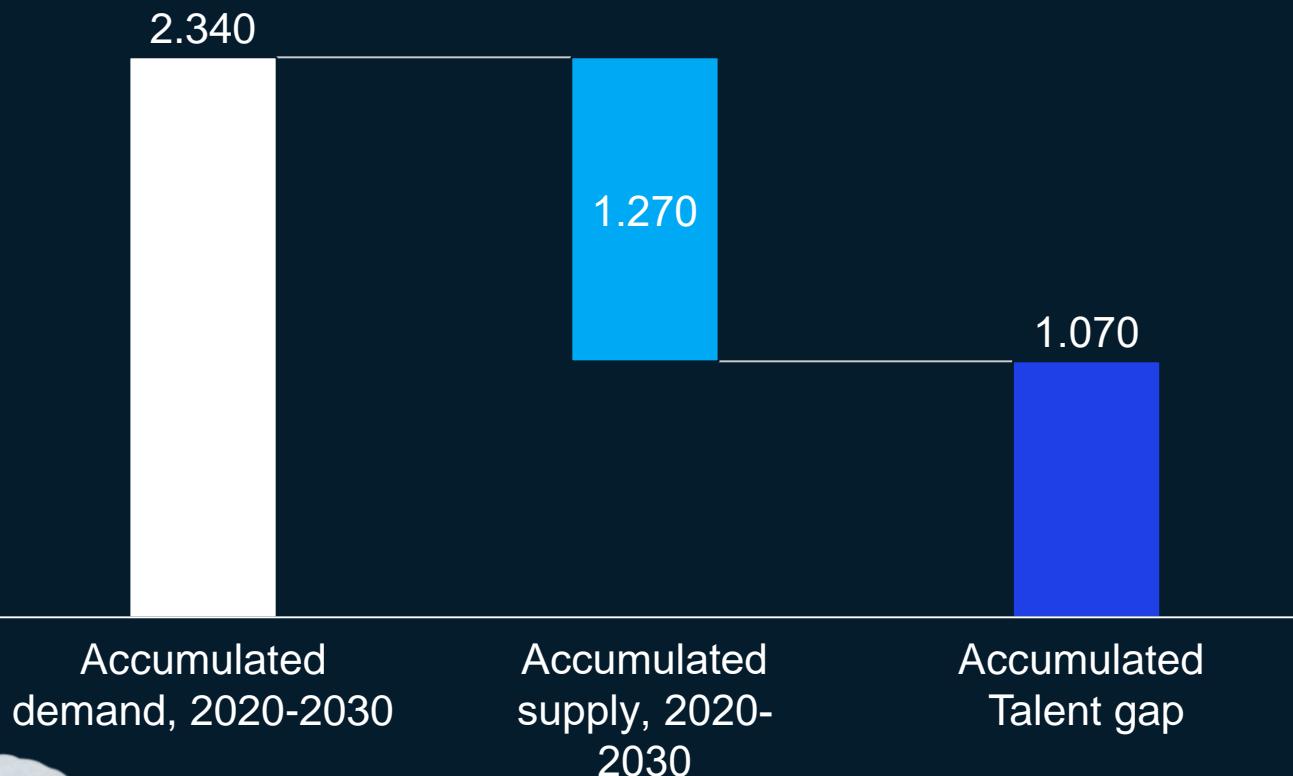
Source: Brazilian Start-ups Landscape Survey – McKinsey 2020, Love Mondays



However, tech talent seems to be a bottle neck

Expected demand for tech professionals

Thousands, 2020-2030

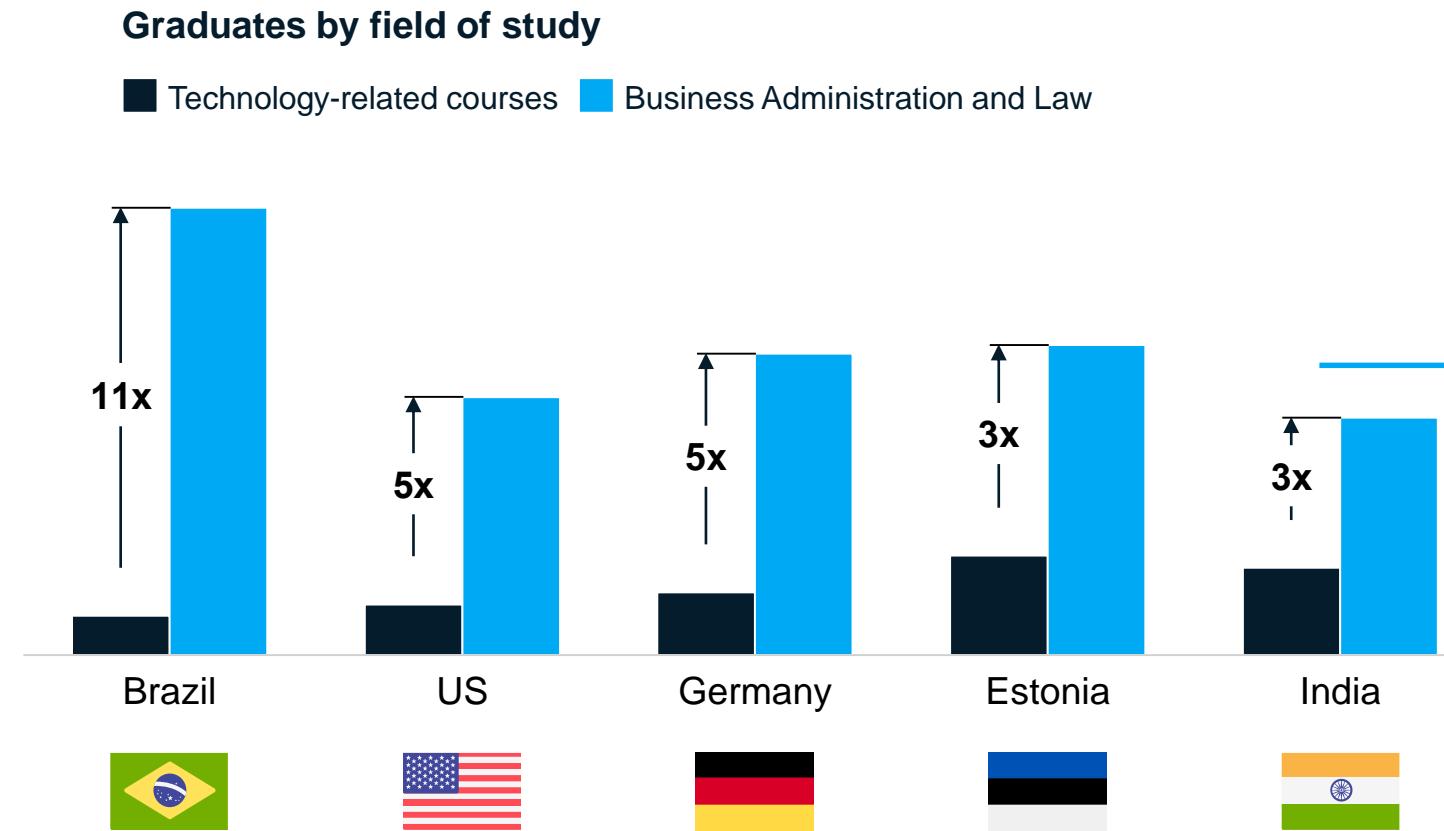


>1 mn

**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

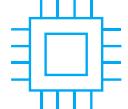
35%
of **tech courses** are
below minimum level¹
to satisfy market
expectations

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



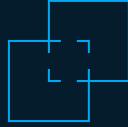
Rising own talents



Strengthening ties with academia



Importing talents



Acquiring companies for talents



Offering non financial incentives



The “young entrepreneur” is a myth

USA example

■ All start-ups ■ Highest growth start-ups

Age of start-up founders

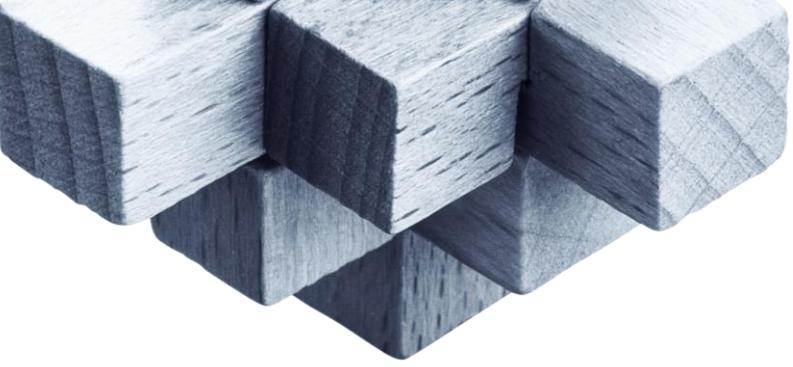


42

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

45

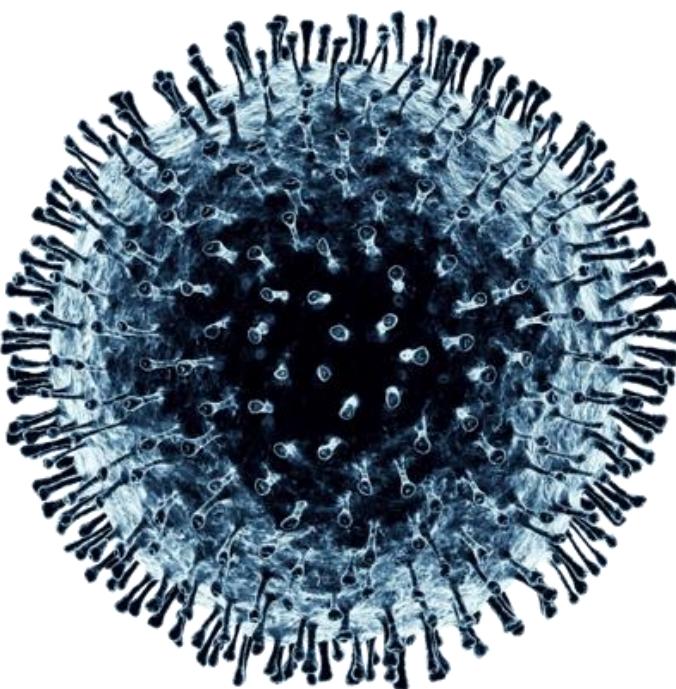
**is the average age
of founders
starting the top
0.1% of start-ups**



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

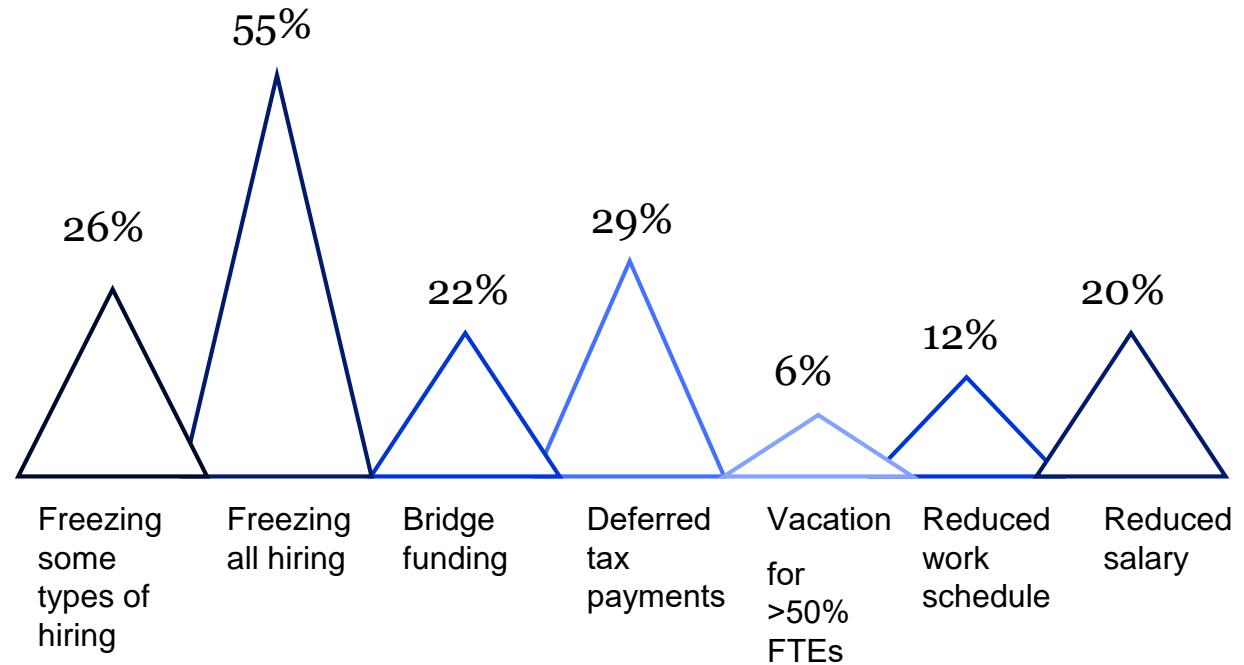
“ *Fast growth comes with talent challenges: the young professionals that were great on starting the business not necessarily are good on leading a big organization. When growth comes, startups need **experience professionals** to lead big operational teams and standardize processes.* ”

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?”

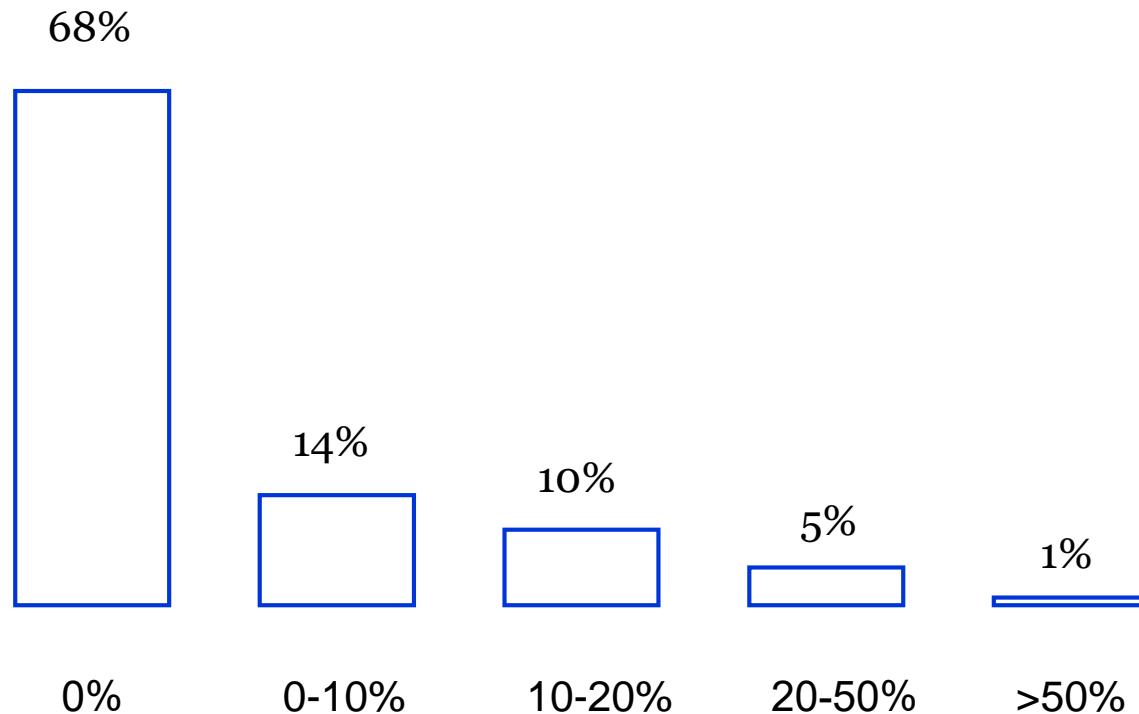


Source: Atlantico Survey April/2020



... 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!