



The Ecosystem of Early-Stage Investment in China

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The logo for Shanghai Invest is shown. It consists of the word "SHANGHAIVEST" in a bold, blue, sans-serif font. Below it, the Chinese characters "灵石投资" (Líng Shí Tóu Zī) are written in a blue, sans-serif font. The logo is set against a white background.

SHANGHAIVEST
灵石投资

Foreword about Shanghaivest

- ▶ **Pioneering** investment banking advisory firm focusing on cross-border M&A and capital raising transactions between China/Asia & Europe. Shanghaivest was set up in 2010 by veterans from the M&A and technology investment industries.
- ▶ **Shanghaivest has presence** in Shanghai (HQ), Paris and San Francisco
- ▶ **Building** cross-border synergies in :
 1. Technology and advanced manufacturing (Internet and telecom, automotive, aeronautics, electronics, clean energy, etc.)
 2. Cosmetics, Luxury, Retail
 3. Healthcare
- ▶ **Clients** include SMEs, funds looking for cross-border exit or expansions strategies (Europe -> China, China -> Europe, Europe -> US, etc.)

Landmark deals in the TMT Space

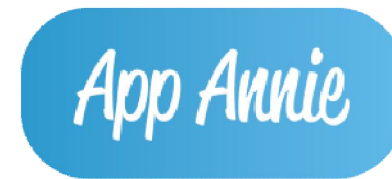


*In the
Acquisition of*

sage Wireless

R&D Center & Assets

—SHANGHAIVEST—



*In Raising Series A
from*

IDG Capital Partners

—SHANGHAIVEST—

Other Transactions closed in 2013-2015



***In Fundraising &
Partial Sale to***



SHANGHAIVEST



***In Raising
Series A from***



SHANGHAIVEST



***In Raising Series
A&B from***

**A Pool of
Institutional
Investors**

SHANGHAIVEST

Entering a Rapidly Changing Business Environment

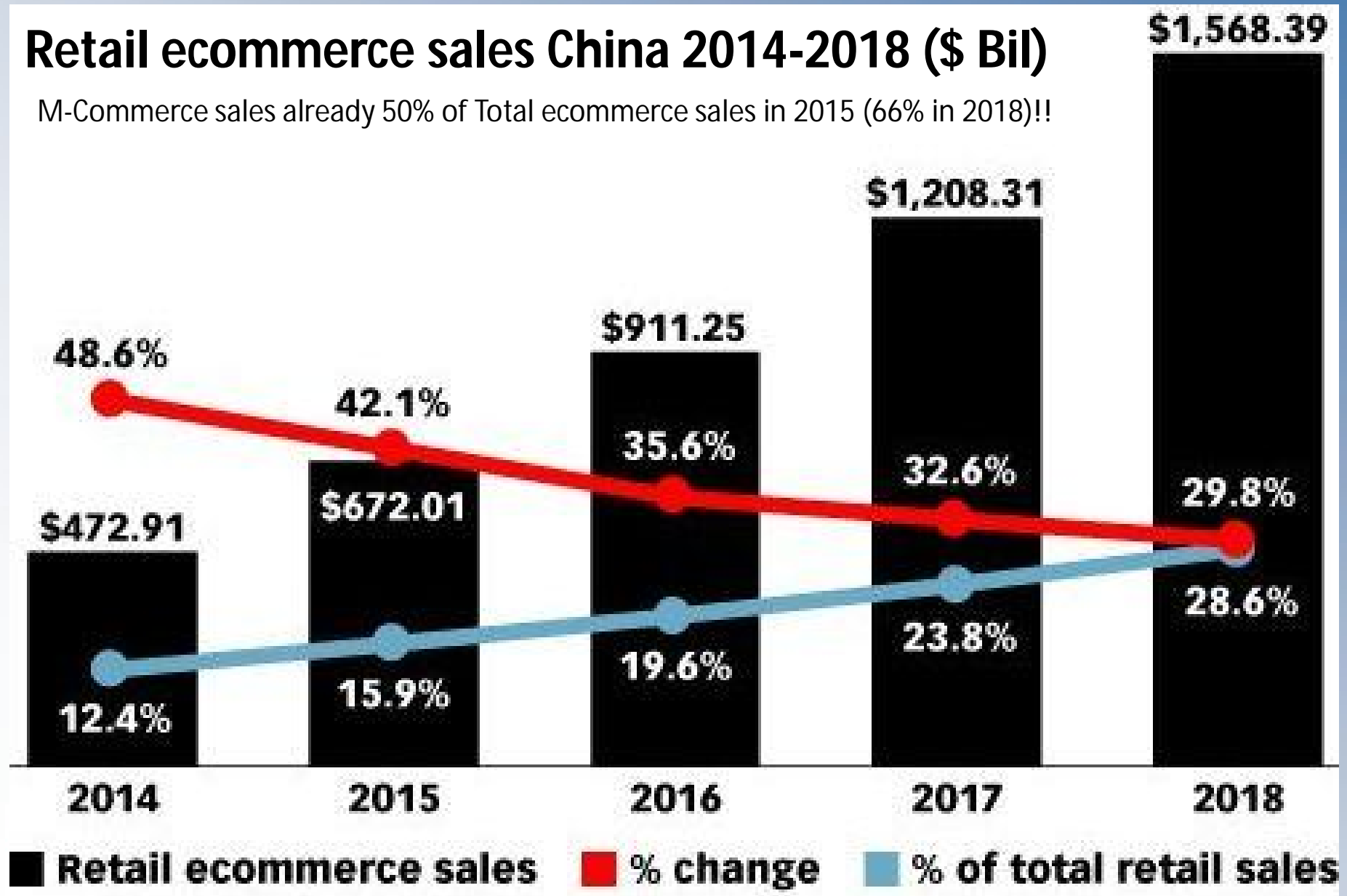
Amidst Chinese slowing Economy, Shanghai Stock Exchange Composite Index (SHCOMP) went down 42% in 3 Months!!



Yet the New Economy has never been Stronger

Retail ecommerce sales China 2014-2018 (\$ Bil)

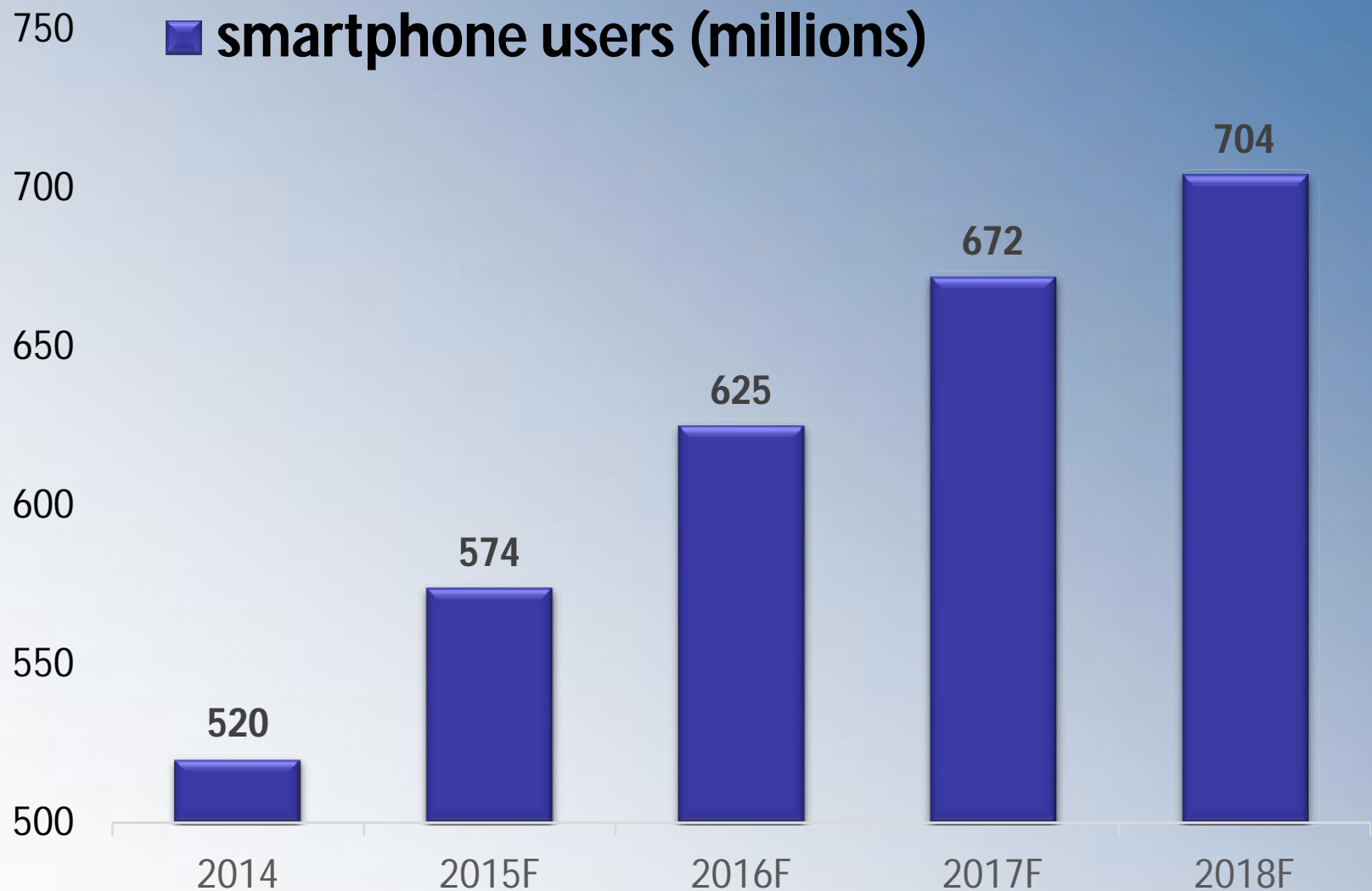
M-Commerce sales already 50% of Total ecommerce sales in 2015 (66% in 2018)!!



Source: eMarketer July 2015

Driven by a Mobile-First Market (+100% cell penetration)

Smartphone Adoption to reach 50% Penetration 2018 (700 Mil Units)

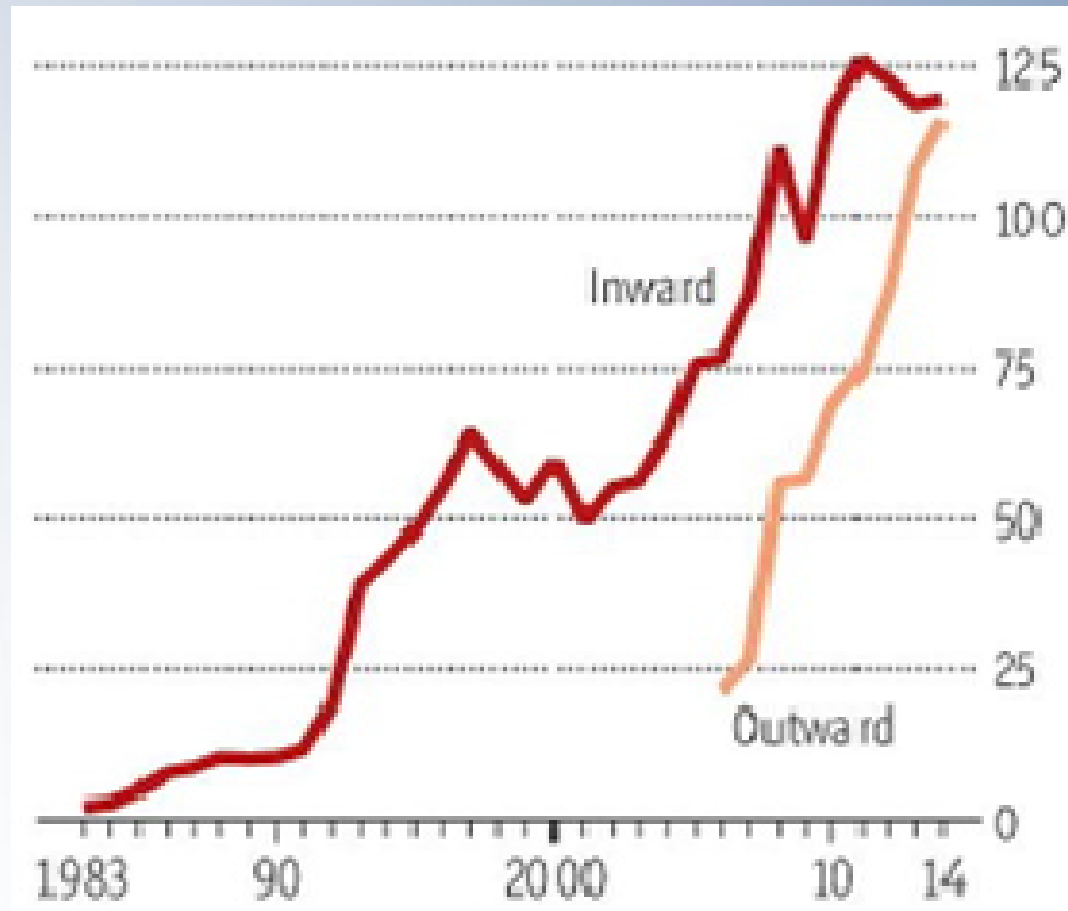


Stiff Local Competition and Government Endorsement push Chinese Companies To Look Overseas for Solutions

- **From “Copy-to-China & Just Good Enough” to “World Class Innovators”**
 - *Many firms tried to innovate and failed, whereas those who copied became billionaires. But now, local firms need to innovate in sophisticated industries like cars to compete in global markets* (Dean of Cheung Kong Graduate School of Business)
 - *Chinese consumers are now so demanding and globally minded that you can't get away with Just Good Enough...you need to be world-class to serve China* (Gary Rieschel, Head of Qiming Ventures)
- **Rise of Chinese national champions to compete on the global markets**
 - In all key industry sectors, China is building national champions that may be publicly or privately-owned (Huawei, Xiaomi etc).
 - These champions challenge existing Western players in / out of China

Making it the best year for China outbound investments, and European companies are high on the shopping list!

China Inbound/Outbound investments (\$ Bil)

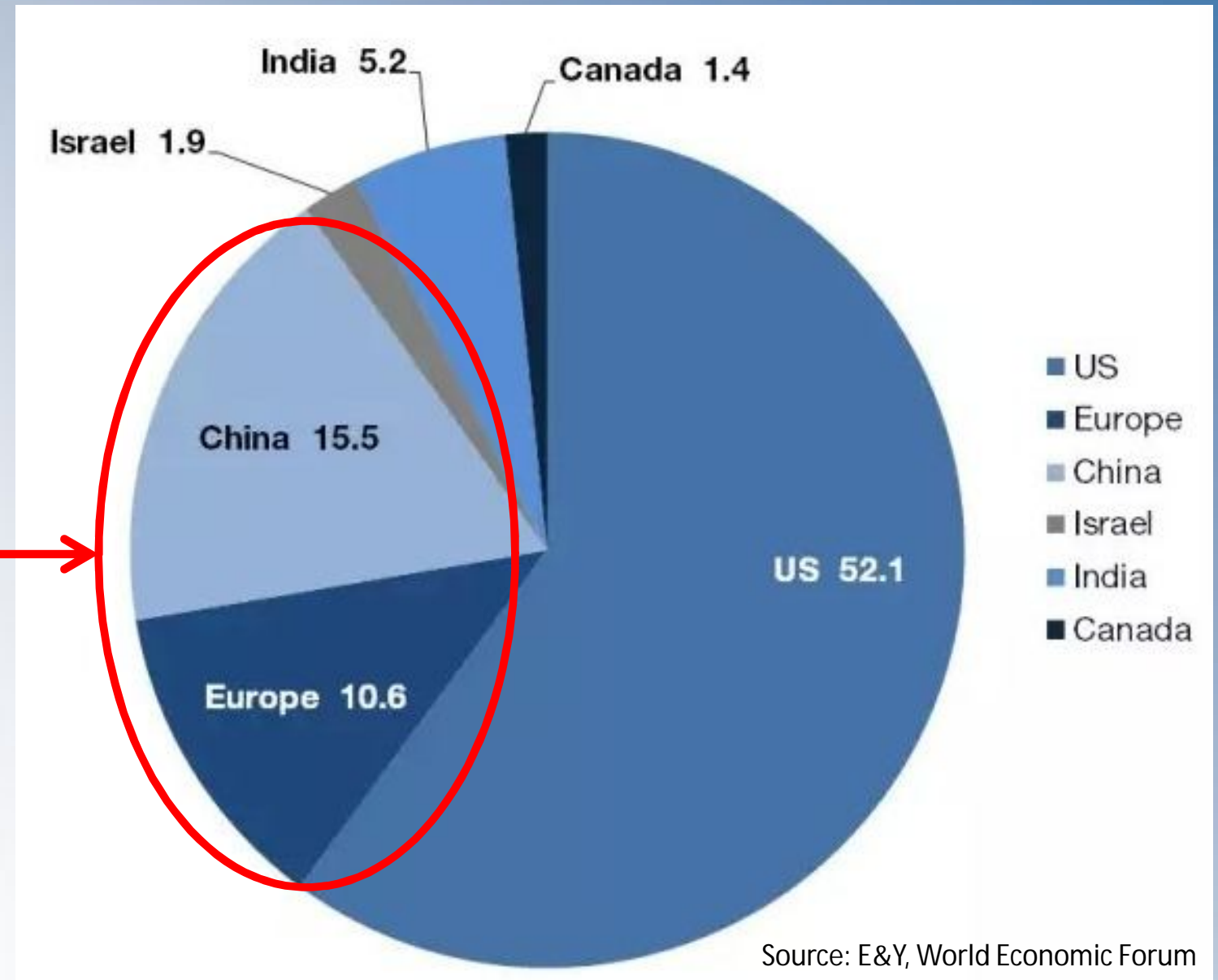
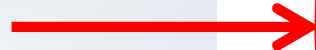


- China outbound investments rose 14% YOY to \$56 Bil in H1'2015 (MOFCOM)
- Investments in Europe rose to \$18 Bil in 2014, particularly looking at brands, technology and know-how (EU research published by Bank of Finland)

China: 2nd Venture Capital Market in the World

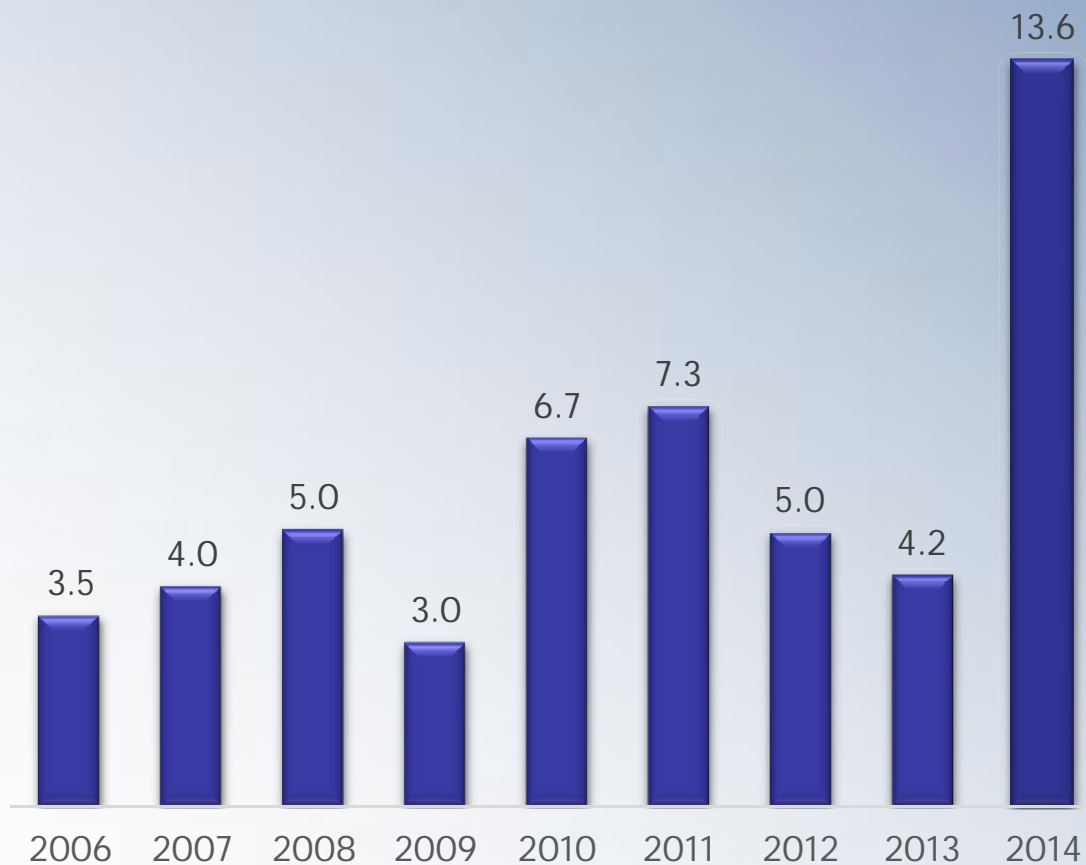
Share of Total Venture Capital Invested in 2014 - \$ Bil

You are
chasing
the \$\$\$
here 😊



Large VC rounds financed Marketplace, Mobile and Ecommerce plays in 2014 and H1'2015

China VC investments (\$ Bil)



| | | |
|---|---------------|--------|
|  | Dianping.com | \$850M |
|  | Meituan | \$700M |
|  | Kuaidi Dache | \$600M |
|  | Meizu | \$590M |
|  | Enlight Media | \$383M |
|  | Ele.me | \$350M |
|  | To8to | \$200M |
|  | Youxinpai | \$200M |
|  | Imgo.tv | \$200M |

2015 still hot but belt-tightening is coming

In H1'2015, investment in early-stage tech startups reached US\$ 2.2 Bil (up 3X YoY from US\$648 Mil) but Investors might adopt a more cautious approach in 2015-2016 (post market turmoil) and focus on the following industries:

- Consumer business (aged care, domestic consumption, tourism, education, cultural industry)
- Internet O2O (Online to Offline)
- Internet and mobile industry (mobile internet, cloud computing, big data, Internet of Things, e-commerce, financial tech, assurance tech, artificial intelligence, Virtual Reality etc)
- Environmental protection
- Infrastructure projects – PPP (Public Private Partnership)

A maturing Early-Stage (& Cross-Border) Entrepreneurial and Investment Ecosystem



Many local Tech CEOs ventured in Early-Stage Investment

- ▶ **Local tech superstar CEOs have joined the innovation investment bandwagon and used their celebrity to raise capital and attract top quality project deal flow and employees:**
 - **Innovation Works (IW):** created in 2009 by Ex-Google China CEO, Canadian-Taiwanese Lee Kai Fu. IW is both an incubator and a VC firm, to support the growth of incubated companies (e.g. Wandoujia, China's largest app store, raised \$120 Mil). IW raised \$385 Mil in 2 funds
 - Raymond Yang, ex-CEO of Linktone, the first Chinese internet company to IPO in the US, founded cross-border **West Summit Capital** (\$400 Mil)
 - Xiaomi's founder, Lei Jun, is also running **Shunwei**, a \$525 Mil VC fund
 - Former Alibaba CEO, David Wei, set up **Vision Knight Capital** in 2012. its second fund closed \$550 million fundraising within four months only
 - GMAT/TOELF cram school New Oriental co-founders (Xu Xiaoping & Wang Jiang) set up **ZhenFund** to invest in seed/angel-stage local companies (some with foreign founders)

Government Playing Their Role in building the Ecosystem: Beijing (Zhong Guan Cun)



► **Top local universities and governments are creating innovative models, incl. VC**

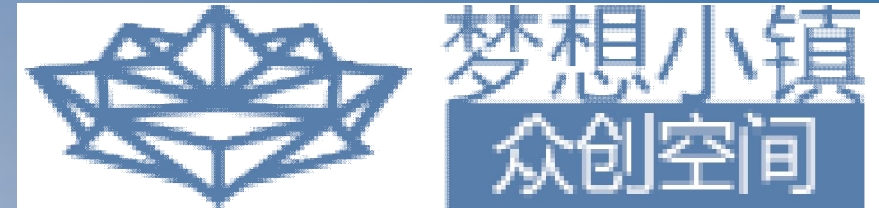
- In 2001, Tsinghua University set up Tsinghua Science Park Business Incubator, Tsinghua Science Park Technology Asset Management, and Tuspark Ventures (raised 3 funds since 2006)
- Tsinghua University's x-lab, an accelerator program launched in April 2013, with 80+ teams in the program at end of 2013, is aiming to expand from 500m² to 5,000m² within 3 years!
- Virtue Inno Valley, a Tsinghua-affiliated (x-lab alike) accelerator

► **Privately or publicly backed co-working spaces:**

- Government-backed Z-innoway is a CNY 200 million, 45,000m² project. It covers 339 startups. 123 have raised funding
- 3W is one of the accelerators operating in Z-innoway
- 36KR, Cheku Café, Moment Café, Bingo Café etc, are among the cafés/ co-working space / media outlets / accelerators

Government Playing Their Role: Hangzhou

► Newly Created Impressive Tech and Investment Zone: DreamValley



- Aims to gather 10,000 entrepreneurs, 2,000 startups projects, and host 300 investment funds or vehicles, an aggregate of RMB 100 Bil Capital
- Already gathered 350 startups, including one listed on the NTB (New Third Board, a recently established Beijing OTC Board)
- 43 startups have already raised more than RMB 1 Mil each. In total, RMB 1.1 Bil has already been raised by these startups.
- 89 investment funds already on site (RMB 31.9 Bil AUM)
- Some « star » startups » of DreamValley
 - 59store raised RMB 200 Mil in Pre-B round in August 2015
 - 买好车 (maihaoshe) raised RMB 100 Mil round A with Northern Light VC

Local Internet Giants have major investment firepower

- **Tencent** earmarked \$1.5 Bil to small and large scale investments in China and overseas since 2011...
- **Qunar** (online travel company acquired by Baidu in 2011, and IPO in 2014) launched a U\$160M incubator fund to help entrepreneurs in the online travel space in 2014
- **Xiaomi** heavily investing in content (\$290 Mil co-invest. in iQiyi), wearables (\$35 Mil invested in Huami), IP / patents (\$35 Mil co-investment with Kingsoft and others to create a pure IP fund).
- **Qihoo 360** is to establish a \$60M Internet-Of-Things Venture Fund and becoming limited partner in \$197 Mil Israel-based Carmel Ventures, along with Baidu and Ping An Insurance....
- **DJI** set up an investment vehicle to develop a drone ecosystem

MNCs in China also joining the Corporate Venture craze

- **St-Gobain** set up Nova External Venturing, tasked with facilitating partnerships (joint-development, licensing, marketing, investment, etc.) between St-Gobain Group's activities and innovative start-ups. They also work closely with 40+ VC funds, incubators & corporate venturing organizations.



- **Telstra Group** (Australia's #1 telco) setup a corporate development team and a VC fund (Telstra Ventures) to screen and invest in early/growth stage companies with synergies with the Group



- **MNC Media** (Indonesia's largest media group) has a corporate development team and an investment execution team to screen and invest in early or growth stage companies in China / SEA to build synergies and diversify



New Sino-Europe Early-Stage Cross-Border Funds, focused on Innovation, run by experienced GPs

- “King of Sino-Europe Cross-Border Funds” – **Cathay Capital** is now deploying its Sino-French Innovation Fund



- IDInvest manages **Electranova**, a recent fund invested by EDF targeting companies with strong China presence or potential



- **Demeter Partners and Emerald Technology Ventures** signed an agreement in June 2015 with China Energy Conservation and Environmental Protection Group and Europe-China Commercial Union to setup a Sino-French fund



Cross Border Angel Groups / Accelerators now on the Map

- ▶ **China Entry Specialists** are now firmly established on the local market:
 - **Angelvest**, a 100-strong angel investor network, Shanghai-based has invested in over 30 companies (now with BJ/HK/SGP antennas too)
 - **Chinaccelerator** (software accelerator in Shanghai) now in Batch VIII
 - **HAX** (hardware accelerator in Shenzhen) also backed by SOS Ventures



- ▶ **NEST (Hong Kong incubator and investor) setting up affiliate accelerators for different verticals**
 - Teaming up with Infiniti Motors for an accelerator in Transportation
 - Teaming up with DBS bank for an accelerator in Fintech
 - Teaming up with AIA for an accelerator in Insurance Tech



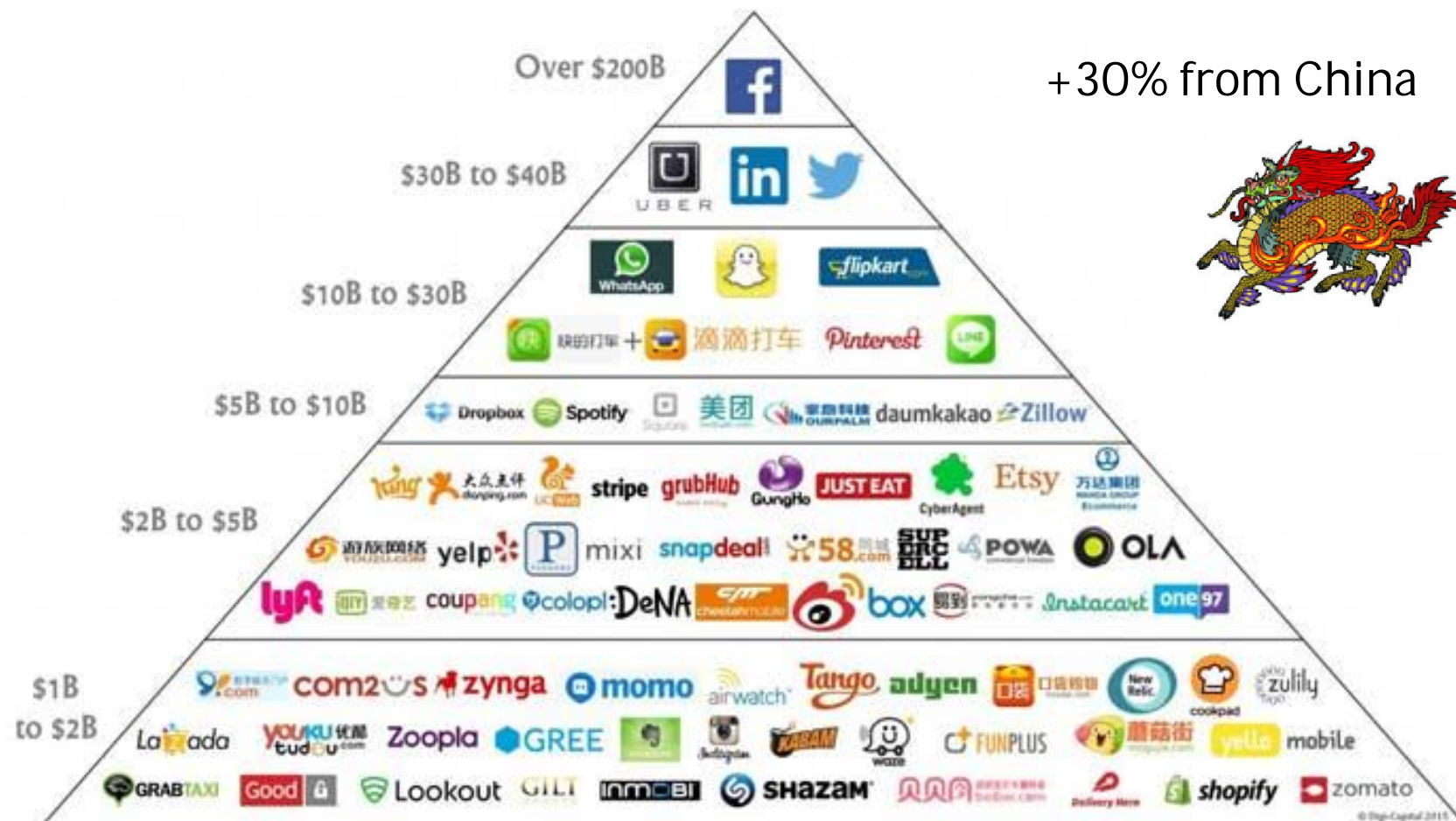
Don't Fight China Unicorns, Ride Them!!



**Unicorn = Venture-backed Company with
Valuation > US\$ 1 Bil**

China Counts 1/3rd of the World's Unicorns

Digi-Capital™ Mobile Internet Unicorns Q1 2015



Some of the well-known China Unicorns



Founded April 2010
\$1.1 B latest round (Dec. 2014)
Now valued \$46 B



Founded in Sept 2010 and Aug 2012
Last funding rounds: \$2B (July)&\$1B (Sept)
Group valued at \$17.5bn (Sept 1205)



Founded in 2013
\$931M funding
Val \$8B (Jun 15)



Founded in 2012
\$485M funding
Val.\$10B (May 15)



Founded in 2006
\$105M funding
Val \$8-10B (May 15)



Founded April 2003
\$1.04B funding
Val \$4B (Mar 15)



Founded Nov 2014
\$1.6B funded
Val.\$7B (Mar 15)



Founded in 1999
\$200M funding
Val \$2B (Sept14)



Founded in 2003
\$900M funding
Val. \$3B (Sept 14)



Founded in 2008
\$360M funding
Val \$2.3 B (Sep14)



Founded in 2011
\$212M financing
Val \$1B (Jun 14)



Founded in 2007
\$570M financing
Val \$3B (Jul 15)



联想控股成员企业
Founded in 2005
\$242M financing
Val. \$1.6B (Jun 15)



Founded in 2011
\$155M financing
Val. \$1B



Founded in Dec 09
\$128M financing
Val \$1B (Jun 14)

Note: valuation figures are estimates exc. when disclosed by companies

Leverage What Unicorns Have to Offer

- E-commerce infrastructure (Tmall, Taobao, JD) are the main channels to online merchant distribution
- Mobile-first Social Networking Massive Adoption (Wechat!)
- Online payment infrastructure ready (Alipay, Lakala...)
- Cloud Infrastructure ready (Aliyun, AWS etc)
- Xiaomi and others commoditizing the hardware industry and needing ecosystem partners and developers for apps
- Online – Offline integration (O2O) is becoming a reality, but could have less friction and need more developers too
- Health, Home, Virtual Reality, Wearable, Food, Entertainment, Tourism, drones etc are key areas where Unicorns need to build ecosystems

Tencent's Wechat has become THE platform no-one can avoid, driving a huge ecosystem behind it



Connecting a half billion people
just got more personal



Disrupting the whole hardware economy, nothing less...

"Xiaomi is a software and ecommerce company that just happens to manufacture hardware" Hugo Barra, VP International, Xiaomi



Didi-Kuaidi (Tencent/Alibaba) fighting its way up again Uber China (backed by Baidu etc) – fueling the revolution of the sharing industry



中国联通 3G 6:48

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10日起,微信支付,立减10元!

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| 商 品 | 滴滴车费 |
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| 交易时间 | 2014-01-05 06:56:15 |
| 银行名称 | 招商银行 |
| 当前状态 | 支付成功 |
| 联系商家 | 400-000-1999 |

¥ 15.00

Chinese Offline Payments Lakala -> From hardware innovator to a diversified financial services company



Drone Developer DJI develops its own ecosystem and fuels investments in the budding drone economy

SKYFUND



Case Studies of Successful fundraisings of Western-lead Companies in China



Now Called



WITHME.COM (US/China founders)

Focusing on ecommerce workflow tools including cross-border ecommerce.

- Incubated by Chinaccelerator (batch II) in Dalian
- Won its Demo Day and pocketed first investment from SOS Ventures and Infinity Ventures Partners (\$3 Mil) Series A in 2011
- Moved to Las Vegas in 2013 following Series B investment from several investors (\$6 Mil) including Zappos CEO
- Series B' (\$28 Mil) in 2014 with a syndicate of existing and new investors

Case Studies of Successful fundraisings of Western-lead Companies in China

VISUALEAD (Israel)

Visual QR code technology

- Had raised series A in Israel
- Founders decided to relocate to China in 2013 with NO TRACTION at all on the local market
- Failed to raise \$\$\$ from local angel groups (mainly because of high valuation)
- Finally got hooked onto an Alibaba team and after a year of negotiations, landed a \$5 Mil Series B investment (Jan 2015)



Case Studies of Successful fundraisings of Western-lead Companies in China



APPANNIE (US)

App Annie is the largest mobile app intelligence platform in the world

- Spin-off of a Norwegian-owned game outsourcing company in Beijing
- Unsuccessfully tried to raise formal angel \$\$\$ in China
- Successfully raised \$1 Mil (IDG VC) in Beijing in 2011
- Raised 4 subsequent round totalling \$93 Mil from IDG, Sequoia Capital, Greycroft Partners etc.
- Subsequently relocated to San Francisco

Case Studies of Successful fundraisings of Western-lead Companies in China

GLAMOUR SALES / MEI.COM (France)

Leading Luxury Items Flash sales site

- Created by a team of French executives, formerly from Coach, L'Oreal etc.
- Raised \$13 Mil seed capital from AXA Private Equity & Mandra Capital (2010)
- Raised several follow on round from Neiman Marcus (\$28 Mil) in 2012 and Chow Tai Fook (\$65 Mil) in 2013
- Partial sellout and last fundraising round with Alibaba July 2015 (\$100 Mil)



Case Studies of Successful fundraisings of Western-lead Companies in China



VIRTUOS GAMES (France)

Outsourcing Shop to major movie and gaming studios

- Created by a former (French) Ubisoft GM in Shanghai
- Raised Series A with Legend Holdings
- Raised Series B from Xuhui Venture Capital (2014)
- Now more than 500 staff working on the most popular franchises

Challenge of Fundraising in China:

Local Entrepreneurs will be in favor at first ... Deal with it

- ▶ **Attracting local money is unnatural** -> **find an angle** (IP? clients? Traction?) and **put yourself in the shoes** of the local venture capital firms' fund managers, help them defend the project to their Investment Committee
- ▶ Investors are wary of communication issues between them and foreign owners of local (or Western) companies -> **Localize founding team; try hiring a local "co-founder" or CTO, CMO etc.**
- ▶ VCs will gauge you against more pragmatic local competition
-> **Research competition before pitching**
- ▶ **Do your due diligence on Investors**, Select the ones that can and want to work cross-border. No need to waste your time and others'
- ▶ Local investors often offer **quirky terms** that even local entrepreneurs have difficulty dealing with (liquidation preference, high equity requirements, milestones-based disbursement etc). Keep looking for your match.



We are here to help!



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Shanghaivest in the News lately



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Thank You!

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