



Empowering
the Sino-European
Start-up Ecosystem
汇聚中欧资源，开辟创业新路

Milan / Beijing - 16/01/2017

Innovation with Chinese Characteristics & Chinas' Venture Financing Overview



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CV

- Bachelor degree in Management Engineering at Tor Vergata University
 - Board of European Student of Technology
 - InnovActionLab
- Master degree in Industrial Engineering at Tsinghua University
 - Foxconn
 - X-lab accelerator
- Business Consultant at P&P
- AGIC
- Founder at Tech Silu



“You must continue to gain expertise, but avoid thinking like an expert” *[Denis Waitley]*



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AGENDA

- Innovation with Chinese Characteristics
 - *Startup Ecosystems & Global Trends*
 - *Chinas' overview*
- Chinas' Venture Financing Overview
 - *Global trends*
 - *China focus*



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Innovation with Chinese Characteristics



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STARTUP ECOSYSTEM





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GLOBAL TRENDS

1990: Startup Ecosystem = Silicon Valley & Boston

2016: Startup Ecosystem = Global Phenomenon

RANKING		Performance	Funding	Market Reach	Talent	Growth Index
Silicon Valley	1	1	1	4	1	2.1
NYC	2 +3	2	2	1	9	1.8
LA	3	4	4	2	10	1.8
Boston	4 +2	3	3	7	12	2.7
Tel Aviv	5 -3	6	5	13	3	2.9
London	6 +1	5	10	3	7	3.3
Chicago	7 +3	8	12	5	11	2.8
Seattle	8 -4	12	11	12	4	2.1
Berlin	9 +6	7	8	19	8	10
Singapore	10 +7	11	9	9	20	1.9

Beijing to rank in the top 5

Shanghai to rank in the top 15

Hong Kong among the fastest growing ecosystem

Technology startups are the primary growth engine of the Industry of the Future and nurturing startup ecosystems can keep the world on a path to greater prosperity.



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GLOBAL TRENDS

- 37% of all funding rounds have at least one investor from another ecosystem.
- Globally distributed: 2nd office in another ecosystem.
- International Team: 30% foreign employees.
- + New York, Austin, Bangalore, Singapore, Berlin and Chicago.
- - Vancouver, Toronto, Sydney, Santiago, Seattle, Melbourne, Waterloo.

Startup Ecosystems change quickly and have become more interconnected and Startup teams more international.



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CHINESE STARTUP ECOSYSTEM IN A NUTSHELL

1. A powerful government;
2. A massive domestic market;
3. Under transformation from a planned economy to a market economy;
4. Abundant capital;

**China is the land of
Technology Scaling ! ! !**



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COMMONPLACES & LESS KNOWN

- **2nd largest GDP** in the world with a **+7%** annual growth.
- **1.3B populations** (4x UE or US) and 50% in rural areas.
- **Lack of innovation:** Chinese entrepreneurs are mainly cloning Western startups adding 90s style logos.
- Strong manufacturing capacity with **low quality and efficiency**.
- Big startups are built in 3-5 years (avg. in US is 5-8 years) & **40 Unicorns** on 174 (23%) are Chinese-based.
- 1st/2nd tier cities with large early adoption market for new technology and consumer trends. Today **530M carry smartphone**, in 2020 700M (in the U.S. are 190M).
- **Cloning is the starting point, not the end point:** a wave of innovation is coming from China:
 - *Entrepreneurship is encouraged. New policies to support investors and entrepreneurs: Since cloning reached is max, the **next fastest way to win is innovation**.*
 - **#1 in patent application:** 1M in 2016 with focus in electrical machinery, energy, computer technology (#3 in PCT applications) & **#2 in Science & Technology Journal publications;**
 - Produce **8M college graduates** a year (10% PhD and Master) & pragmatic entrepreneurs: **9/9/6**.



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CHINA'S NATIONAL STRATEGY

- From a GDP driven to a **Innovation driven economy**; Xi-Li government: “*by 2020 China shall become one of the leading nations in innovations.*”
- Innovation (+ entrepreneurship) is set as the Key National Development Strategy for transforming old business & creating new business.
- 中国制造2025" - "**Made in China 2025**": innovation-driven manufacturing.
- 自主创新2006 - "**Indigenous Innovation 2006**": a 15-years plan focused entirely on advanced technologies, boosted in 2010 with:
 - *Investment in R&D;*
 - *Accumulation of intellectual property;*
 - *Leveraging access to the Chinese market in exchange for foreign technologies.*



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GLOBAL INNOVATION INDEX

Country/Economy	Score (0-100)	Rank	Income	Rank	Region	Rank	Efficiency Ratio	Rank	Median: 0.65
Switzerland	66.28	1	HI	1	EUR	1	0.94	5	
Sweden	63.57	2	HI	2	EUR	2	0.86	10	
United Kingdom	61.93	3	HI	3	EUR	3	0.83	14	
United States of America	61.40	4	HI	4	NAC	1	0.79	25	
Finland	59.90	5	HI	5	EUR	4	0.75	32	
Singapore	59.16	6	HI	6	SEAO	1	0.62	78	
Ireland	59.03	7	HI	7	EUR	5	0.89	8	
Denmark	58.45	8	HI	8	EUR	6	0.74	34	
Netherlands	58.29	9	HI	9	EUR	7	0.82	20	
Germany	57.94	10	HI	10	EUR	8	0.87	9	
Korea, Rep.	57.15	11	HI	11	SEAO	2	0.80	24	
Luxembourg	57.11	12	HI	12	EUR	9	1.02	1	
Iceland	55.99	13	HI	13	EUR	10	0.98	3	
Hong Kong (China)	55.69	14	HI	14	SEAO	3	0.61	83	
Canada	54.71	15	HI	15	NAC	2	0.67	57	
Japan	54.52	16	HI	16	SEAO	4	0.65	65	
New Zealand	54.23	17	HI	17	SEAO	5	0.73	40	
France	54.04	18	HI	18	EUR	11	0.73	44	
Australia	53.07	19	HI	19	SEAO	6	0.64	73	
Austria	52.65	20	HI	20	EUR	12	0.73	43	
Israel	52.28	21	HI	21	NAWA	1	0.81	23	
Norway	52.01	22	HI	22	EUR	13	0.68	55	
Belgium	51.97	23	HI	23	EUR	14	0.78	27	
Estonia	51.73	24	HI	24	EUR	15	0.91	6	
China	50.57	25	UM	1	SEAO	7	0.90	7	
Malta	50.44	26	HI	25	EUR	16	0.98	2	
Czech Republic	49.40	27	HI	26	EUR	17	0.82	21	
Spain	49.19	28	HI	27	EUR	18	0.72	48	
Italy	47.17	29	HI	28	EUR	19	0.74	33	

National R&D Spending in China 2015: USD 410B (US 480B)

Only China has seen its R&D expenditures or other innovation input and output metrics move closer to rich countries such as the USA.



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MASSIVE DEVELOPMENT of INFRASTRUCTURE & SUPPORT

- 2000 Incubators/
Accelerators
(5000 in 2020)

- 115 University
Science Parks

- 60 Science &
Technology
Industrial Parks

- 1000 VC firms

..... *Capital sources for China's incubation spaces are*

- 28,4% government backed;
- 22,8% enterprise or private (e.g. BAT, Microsoft);
- 17,7% universities (e.g. Tsinghua);
- 33,1% mixed resources.



Beijing is not only the center for tech, business, politics and culture in China. It is not also just a nice startup playground. Beijing is the big leagues now.



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WHO LEAD THE INNOVATION

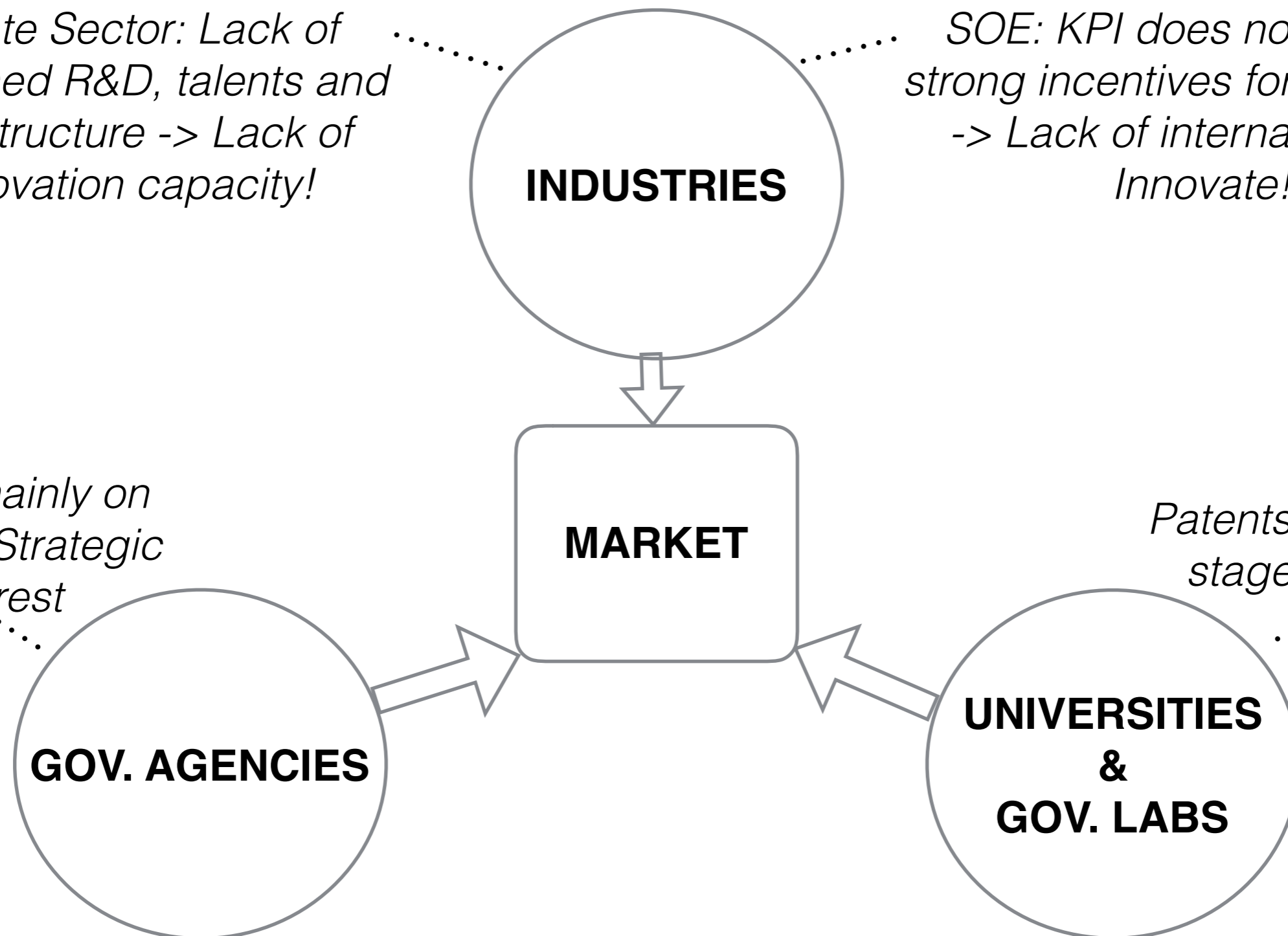
Collaborative model

Private Sector: Lack of advanced R&D, talents and infrastructure -> Lack of innovation capacity!

SOE: KPI does not provide strong incentives for risk taking -> Lack of internal drive to Innovate!

Focus mainly on National Strategic Interest

Patents and Early stage spin-off

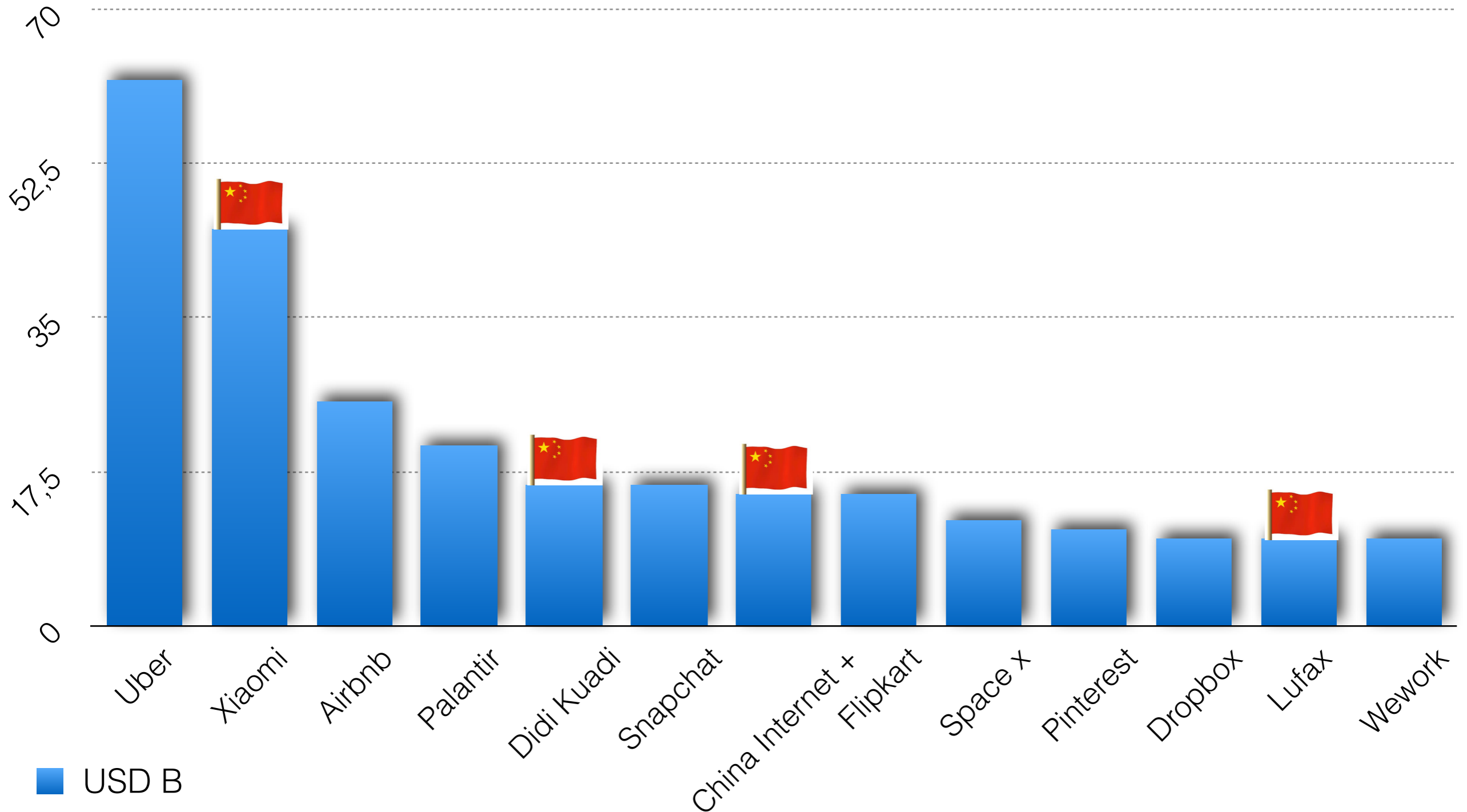




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GLOBAL TOP "DECACORNS"

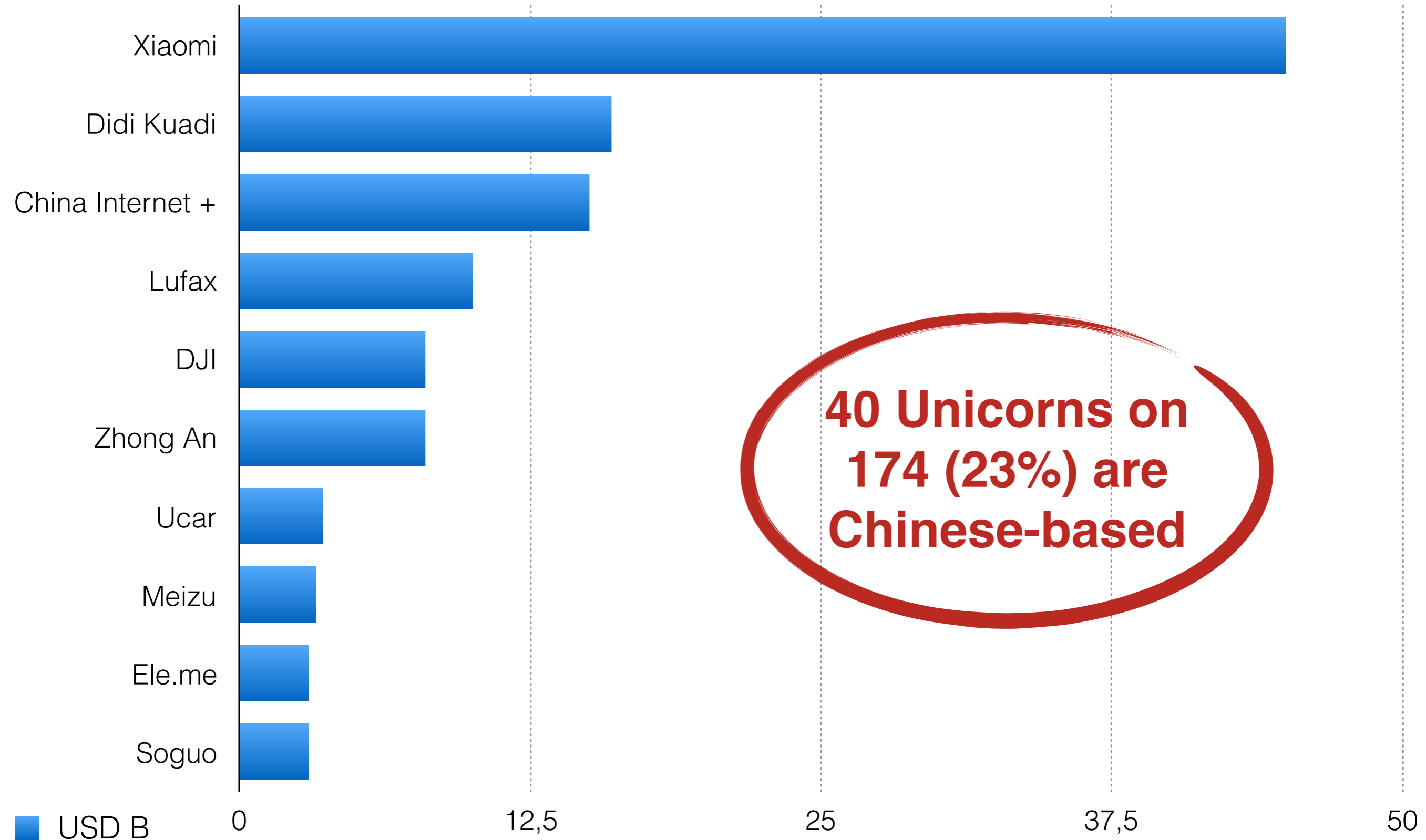
Unicorns are startups that are not yet publicly traded and are worth over \$ 1 billion





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CHINA'S 10 MOST VALUABLE STARTUPS





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CHALLENGES & OPPORTUNITIES

1. **Money mindset:** “get rich fast” is not working in innovation-based startups where time is needed.
2. Knowledge on how to run **high-quality product** development in parallel with rapid distribution growth.
3. Expertise on **how to enter markets outside China** quickly and efficiently.
4. Clean air!

10 priority sectors

- 1) New advanced information technology;
- 2) Automated machine tools & robotics;
- 3) Aerospace and aeronautical equipment;
- 4) Maritime equipment and high-tech shipping;
- 5) Modern rail transport equipment;
- 6) New-energy vehicles and equipment;
- 7) Power equipment;
- 8) Agricultural equipment;
- 9) New materials;
- 10) Biopharma and advanced medical products.





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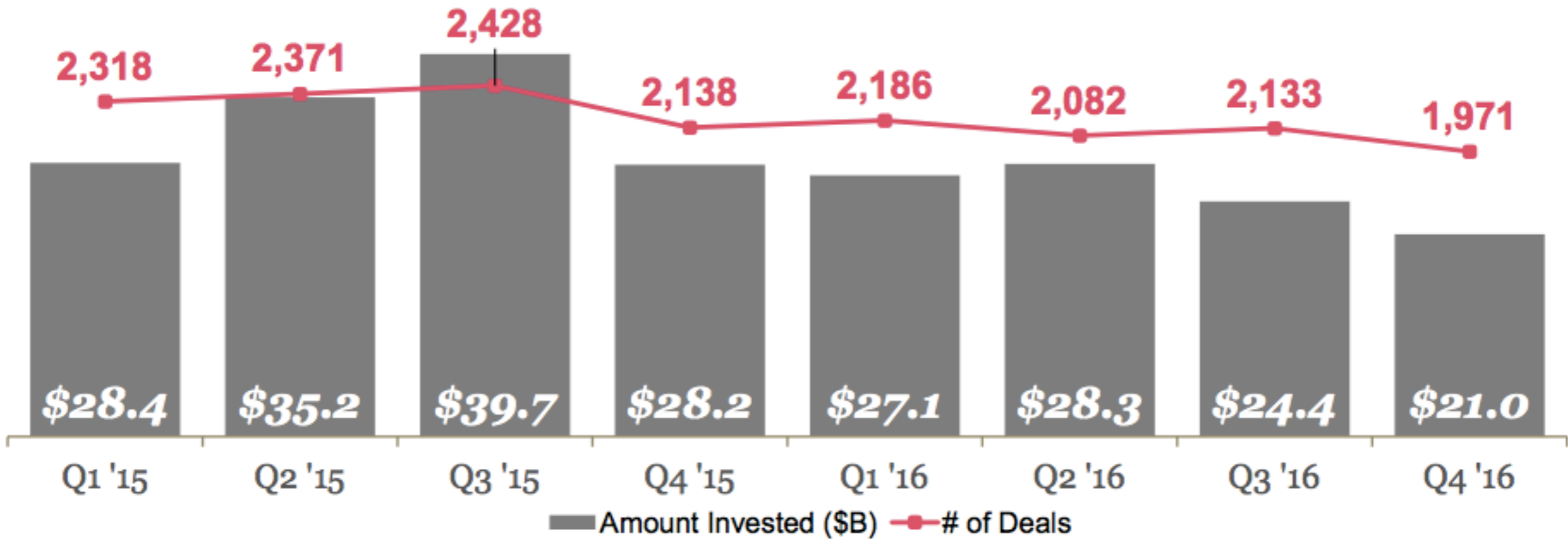
Chinas' Venture Financing Overview



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VENTURE MARKET: GLOBAL TRENDS 2016

In the whole of 2016, VC-backed companies received **\$100.8B (-23%)**
across **8,372 deals (-10%)**





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GLOBAL TRENDS

Europe beats the global slowdown:

- USD 3B of investment in Q4/16 (+22%) on #498 deals. Deals increased for a third-consecutive quarter.
- Healthcare saw the biggest jump in funding (+113%) together with Mobile deals (+27%).
- Corporate participation is constantly increasing and zero new VC-backed unicorns in the quarter.

North America sees funding low:

- USD 12.2B of investment in Q4/2016 on #1065 deals. (Canada +49%)
- Internet and Healthcare saw a significant slowdown (-16%) and Mobile had a stronger quarter (+10%)
- Early-stage deal size continue to increase for USD 3M.



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GLOBAL TRENDS

Asia continues to stall:

- USD 5.5B of investment in Q4/2016 (-25%) on #337 deals.
- Non-internet/mobile software jumped by 178%.
- Corporate participation pullback and early-stage deal size increase (USD 3M).

Since Q4/2015: Venture Capital Market Activity Decline & Q4/2016: Lowest quarterly funding since Q3/14

*Brexit (stabilising) + Trump Era (uncertainty)
+ Chinese Economy Slowdown*



*Investors hold back from
making significant investments*

Indications that market activity will rebound heading into 2017

- 'Wait-and-see' approach rather than switching investment focus entirely;
- Raising of additional funds + investment portfolio-rethinking + more diligently focus;
- High degree of liquidity + a growing sense of positivity among companies and investors;



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CHINA ACTIVITY IN VENTURE FINANCING - 2016

\$45.3bn

Funding in last year

+8.37%

YoY Funding Growth

601

Deals in last year

-5.95%

YoY Deal Growth

155

Avg Deals per Quarter

\$10.9bn

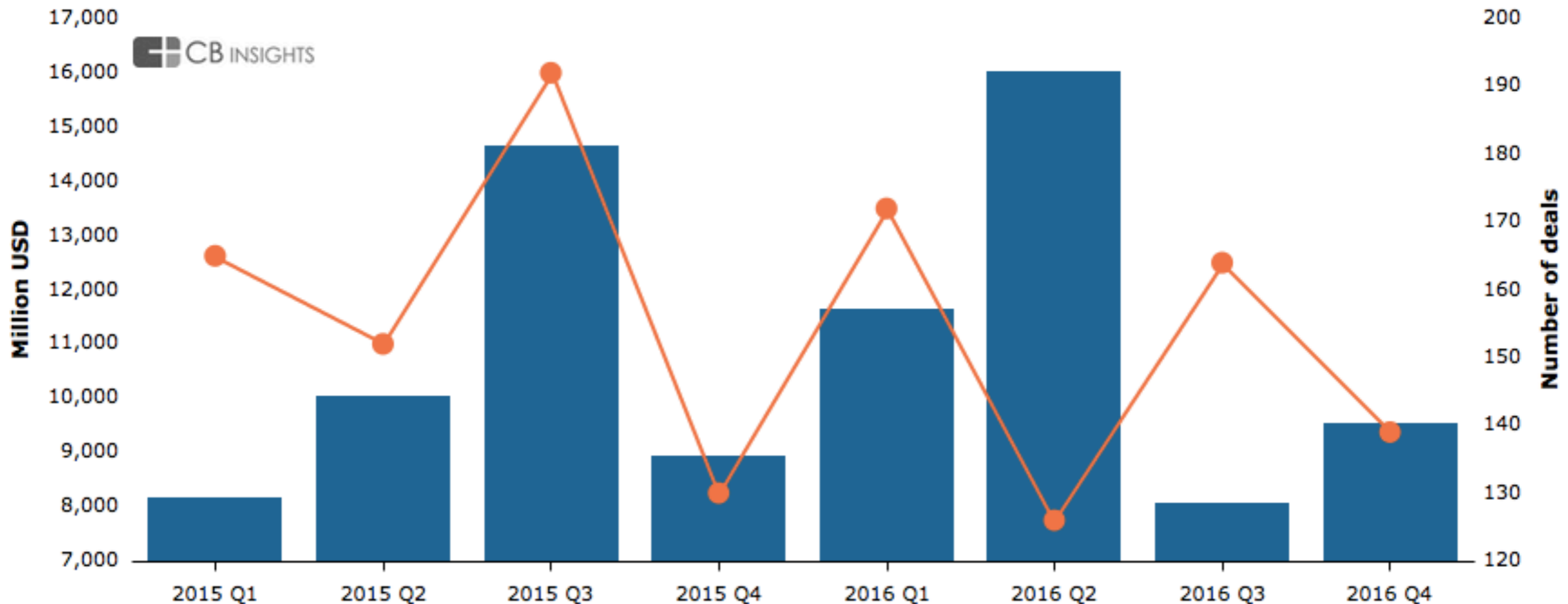
Avg Funding per Quarter

Q2'16

Biggest Quarter
(\$ Funding)

Q3'15

Biggest Quarter
(# of deals)





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CHINA VENTURE FINANCING by STAGE - 2016

	Seed/ Angel	Series A	Series B	Series C	Series D	Series E
% of deals	11%	32%	33%	16%	6%	3%
Avg deal size	\$ 3M	\$ 43M	\$ 80M	\$ 92M	\$ 117M	\$ 417M
Median deal size	\$ 1M	\$ 15M	\$ 25M	\$ 60M	\$ 100M	\$ 200M
Deal growth (yoy)	-52%	-24%	-9%	+42%	-23%	-25%



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CHINA VENTURE FINANCING by INDUSTRY - 2016

	INTERNET	MOBILE	SOFTWARE	HEALTHCARE	GREENTECH	OTHER
% of deals	48%	26%	2%	5%	1%	20%
Avg deal size	\$ 95M	\$ 100M	\$ 42M	\$ 77M	\$ 250M	\$ 113M
Median deal size	\$ 29M	\$ 24M	\$ 25M	\$ 25M	\$ 241M	\$ 23M
Deal growth (yoy)	-19%	-16%	+1100%	+56%	0%	0%



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MOST ACTIVE INVESTORS IN CHINA - 2016

	NAME	N. of DEALS
1	Tencent Holdings	21
2	IDG Capital Partners	12
3	Matrix Partners China	12
4	Sequoia Capital China	8
5	Baidu	5
6	ZhenFund	5
7	Legend Capital	4
8	Morningside Ventures	4
9	SAIF Partners	4
10	Shunwei Capital Partners	4
11	Alibaba Group	3
12	Fortune Venture Capital	3
13	GGV Capital	3
14	Redpoint Ventures	3
15	Trustbridge Partners	3



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TOP DEALS - 2016

Didi Chuxing: **\$7.3 billion** late-stage financing in June 2016 (\$28 billion valuation). *\$4.5 billion in equity + \$2.8 billion in debt (in August bought Uber's China)*

Ant Financial: **\$4.5 billion** late-stage financing in April (\$60 billion valuation). *Alipay + China Investment Corporation + China Post Group.*

Meituan-Dianping: **\$3.3 billion** late-stage financing in January (\$18 billion valuation). *Investors include Tencent, DST Global and Temasek.*

Top Cities Q3/2016

Beijing

31 Deals // \$1.9B

Shanghai

20 Deals // \$609.7M

Hangzhou

4 Deals // \$127M

The other two world top-5 deals in 2016 are Uber and Snap



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KEY FINDINGS #1

Chinese investors focused globally - Chinese VC investors continue to focus on markets outside of China. VC investors are taking advantage of **government incentives** and imperatives aimed at transitioning the Chinese economy to an **innovative and technology-driven economy** from its current manufacturing focus. Many **state-owned enterprises** are also looking outward in order to obtain access to new technologies that can be brought back to China within the **next 2 to 3 years**. In particular, Chinese companies have recently acquired or invested in technology companies in **Israel**, Canada and the UK. Of these, Israel has been the most aggressive about working with tech VC funds in China in order to **promote** their **technologies** to the Chinese market for their **mutual benefit**. This international focus is likely to have a **positive impact on China in the long-term** by allowing Chinese companies to leverage new technologies as part of products and services in the future.

Corp VC continuously rise - Corporate VC investment continues to rise as traditional companies realize the **value that investing in startups can provide**. The return for corporates can be significant - if the transformation of their organizations is managed strategically - from more **agile innovation and creative solutions** to access to stronger data analytics and new sales channels. Corporate VC ROI can go well beyond financial results.



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KEY FINDINGS #2

VC investors in China remain cautious - There is liquidity in the market, but VC investors are very hesitant to put the money to work. VC investors take **more time to evaluate a company** and undertake the **proper due diligence** associated with a transaction. Investment committees are taking more time to approve projects and many are starting to require deal teams to put personal stakes or shares into a company so that they have **more skin-in-the game from a risk perspective**. In this cautious investment environment, in many cases, it is taking longer for deals to get completed, extending the time to close a given transaction. The longer lead time has likely affected deal volume over the past few quarters.

International growth is paramount for Sino-based VC - Historically, Chinese investors seemed to have thought mostly about a company's potential within the Chinese and Asian markets. The next wave of innovation will likely be about **building globally competitive companies**. To excel, companies need to **understand** how **foreign businesses** are run, including their different cultures and management styles.



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KEY FINDINGS #3

Technology enablement: the wave of future in China - Over the next few quarters, Sino-based VC investment is likely to remain focused on technology enablement, **using technology to help improve service or product quality or to make them more accessible for individuals.** The **healthcare** sector is poised to be a big winner in this regard both in terms of providing accessible primary healthcare and in terms of making processes such as booking appointments and writing prescriptions easier for both doctors and patients. Investment in **entertainment and media technologies** is also expected to rise dramatically heading into 2017. This sector continues to be fuelled by an insatiable appetite from Asian consumers for such technologies.

Energetic VC Market - The availability of capital is influenced by the broader cultural environment. When there are **more** people who want to become **entrepreneurs** and more corporates setting up **VC arms or investing funds** into startups directly this helps **de-risk** the market for investors. This cultural shift is happening in China and it's putting a lot of energy and vitality into the VC market.



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ITALY: VC 2016

- +24% investments in 2016;
- EUR 182M (EUR 217*);
- *+EUR 35M international-backed;
- EUR 101M (+33%) from VC, Corp VC and Gov;
- EUR 81M (+14%) from Incubators, Angels, FO and crowdfunding;



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ITALY: OVERVIEW

Typically Italian Problems

- Venture Capital is nowhere close to really available.
- Terms and Conditions are too strict for new entrepreneurs to really try new solutions.
- Business Models are only looking to the silicon valley paradigm.

Typically Italian Advantages

- Italy export quality code and developers.
- Our startup don't scale up but our solution are cutting edge.
- We cost less than the average startup HR market in China.



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CONNECTING DOTS

- Startup Ecosystem changes quickly: Italy/Europe is growing faster.
- Ecosystems have become more interconnected and startup teams have become more international.
- “Continental Europe currently does not create new business destined for growth [...]. There is a need of helping the best startups emerge from these local ecosystems and scale-up.” [SEP]
- China has abundant liquidity, has a huge domestic market with large tech-adoption and it is looking for innovation abroad.

EUROPE ← STARTUP → CHINA




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