

Equity Financing for Early-Stage Companies in China

Ning Jia

School of Economics and Management
Tsinghua University

CARE Conference ‘Understanding China’s Capital Markets’

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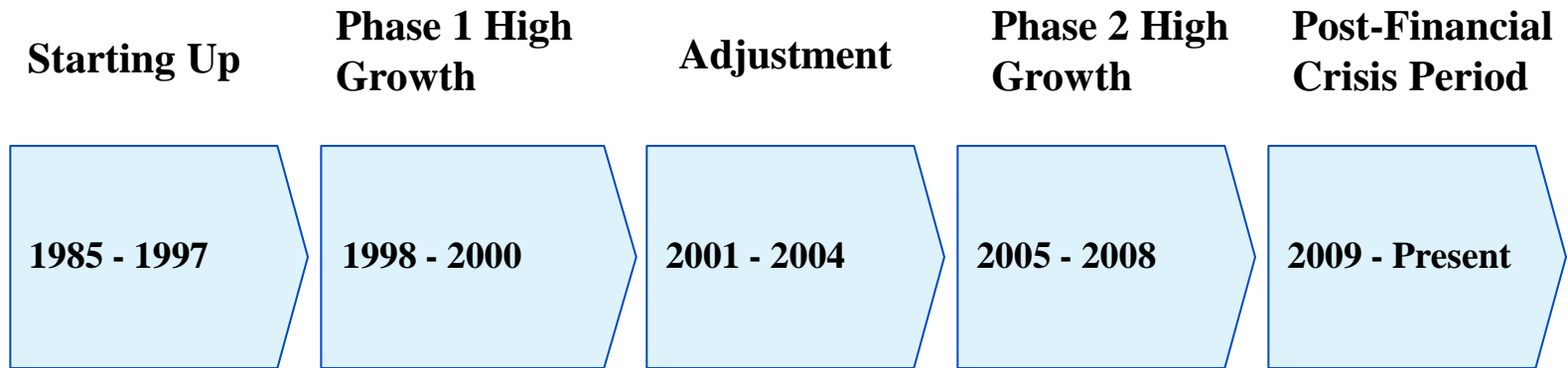


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Development of China's VC/PE Market



Key Features

- ◆ Early attempt at VC/PE to support economic reform and innovation

- ◆ Dot com fever & bubble
- ◆ “Copy to China”
- ◆ Foreign VC/PE enter China

- ◆ Dot Com bubble burst & VC winter
- ◆ Government contemplating new policies
- ◆ Launch of SME board

- ◆ Government enact favorable policies
- ◆ Rise of government-backed funds
- ◆ High return

- ◆ Recovery and reaching new height
- ◆ Launch of ChiNext

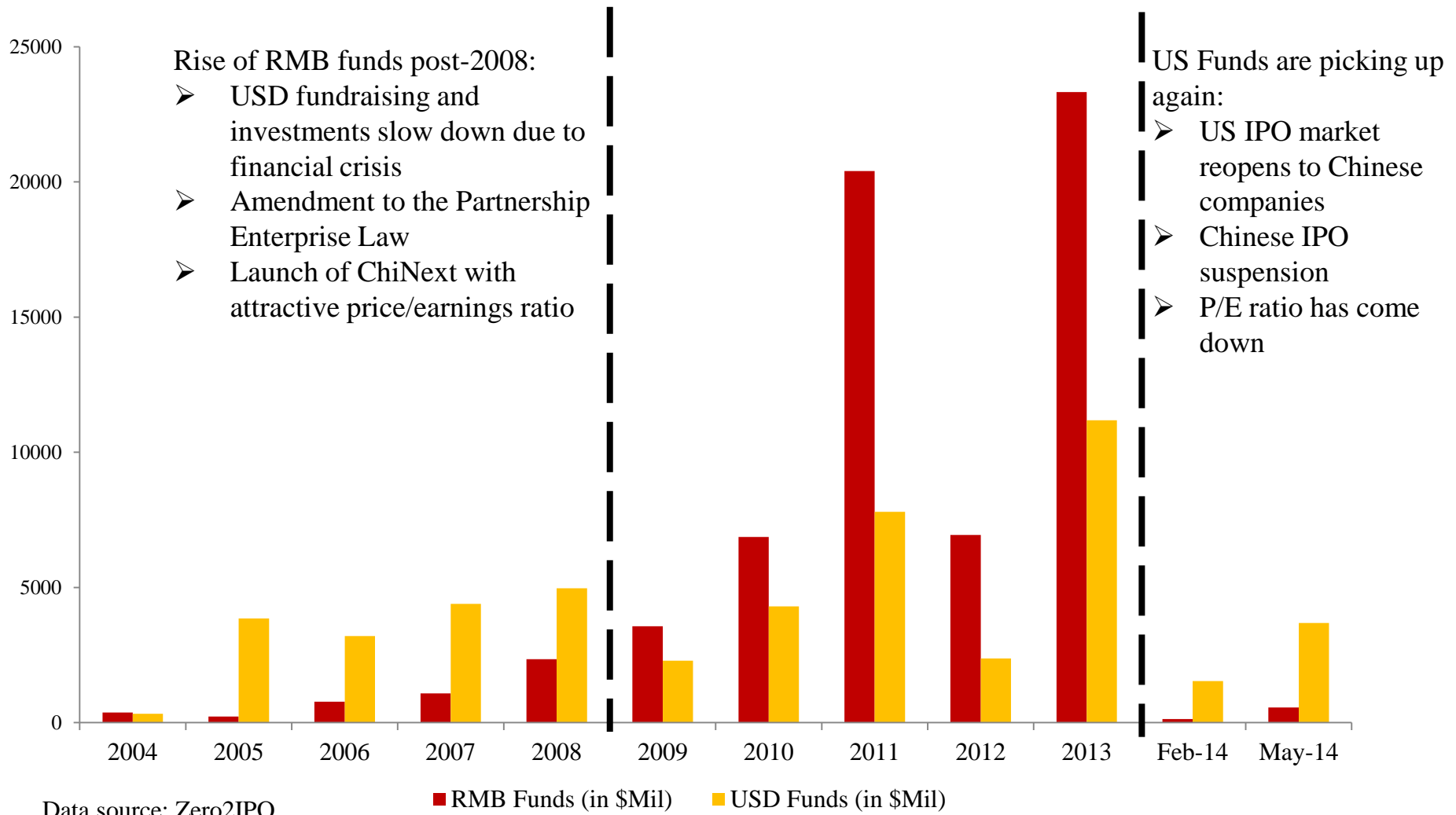


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Fundraising (融)



Data source: Zero2IPO



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Investment (投)

Deal Sourcing

- Traditional method – referral
- Social & Entrepreneurial Media



Due Diligence

- Incubation + Investment



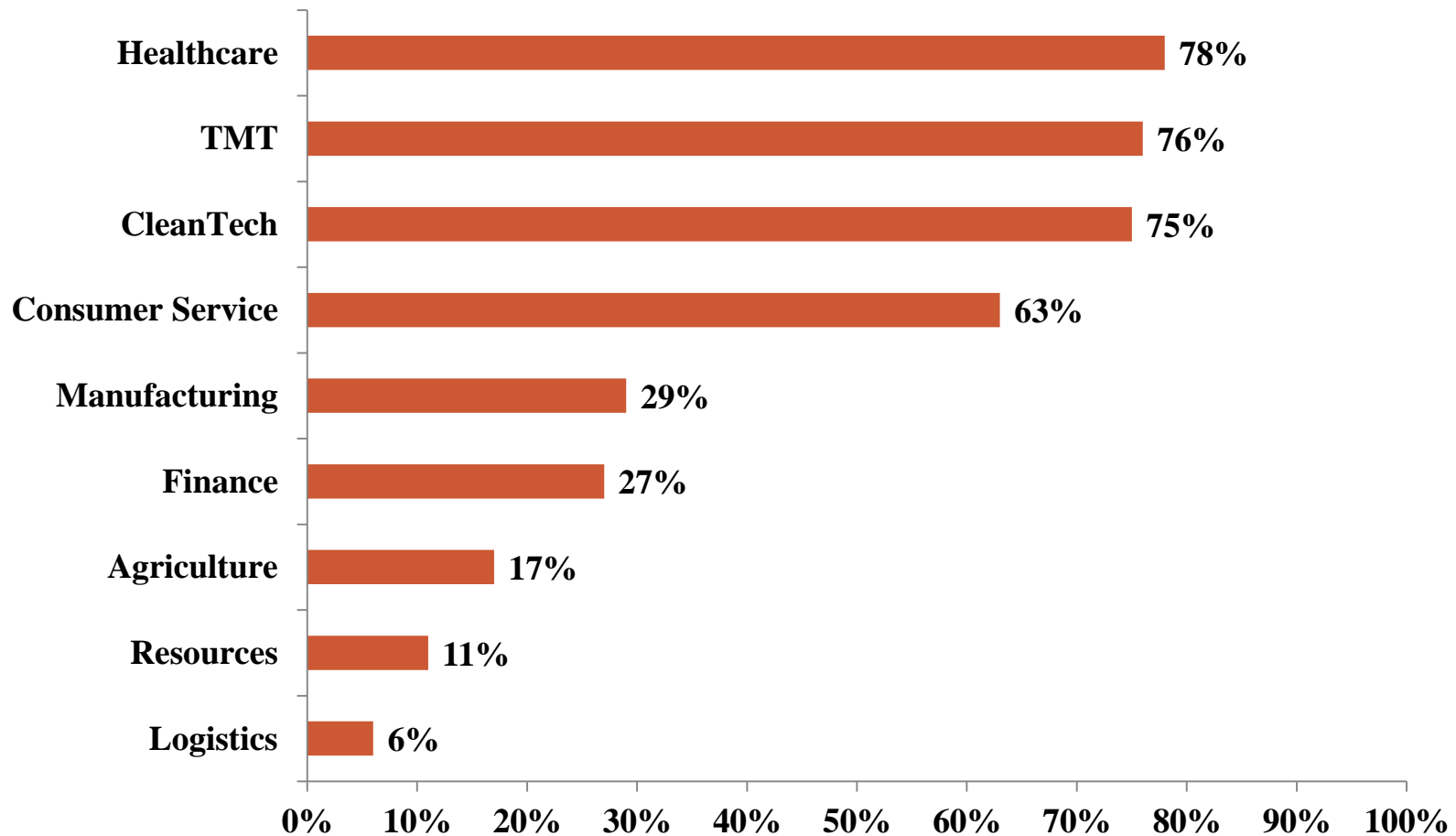
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Investment (投)

Industry Preference: 2014 Survey of Chinese GPs



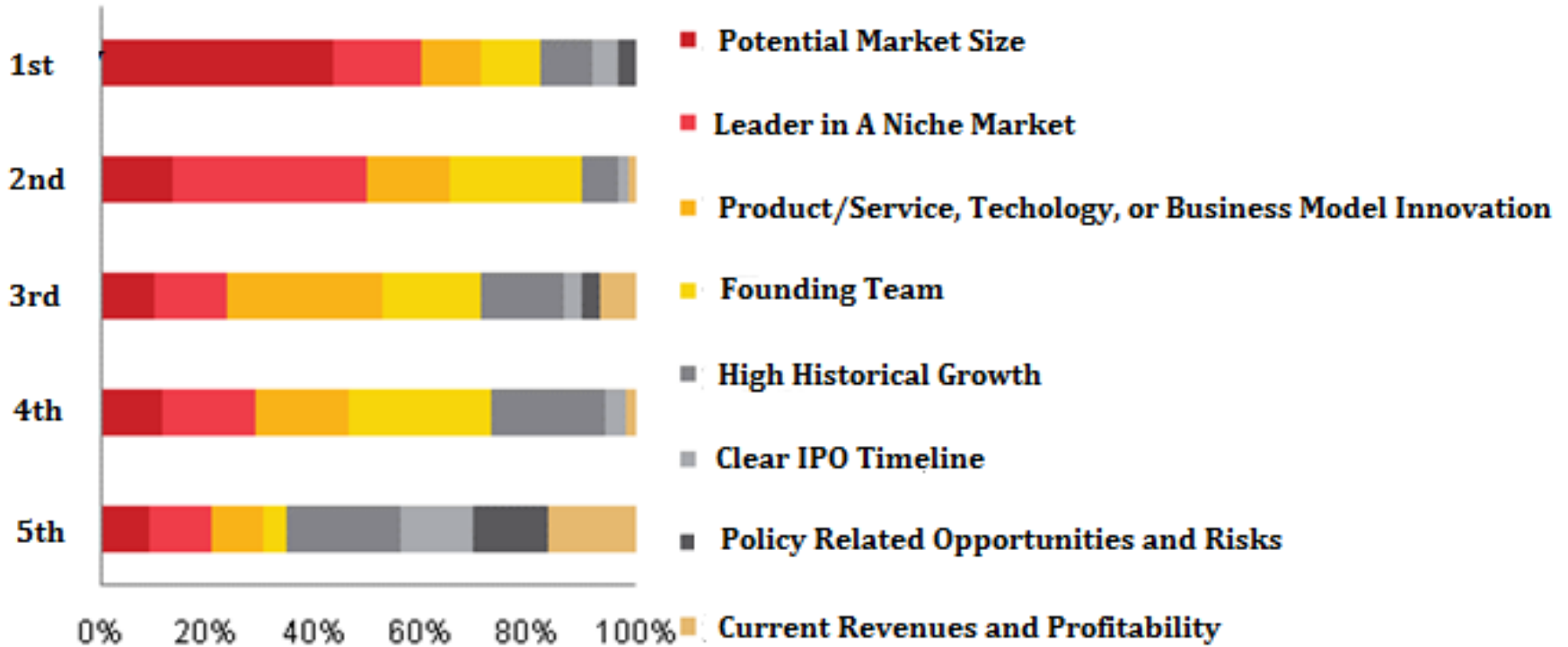
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Investment (投)

Investment Criteria



“Fit” between investor and entrepreneur



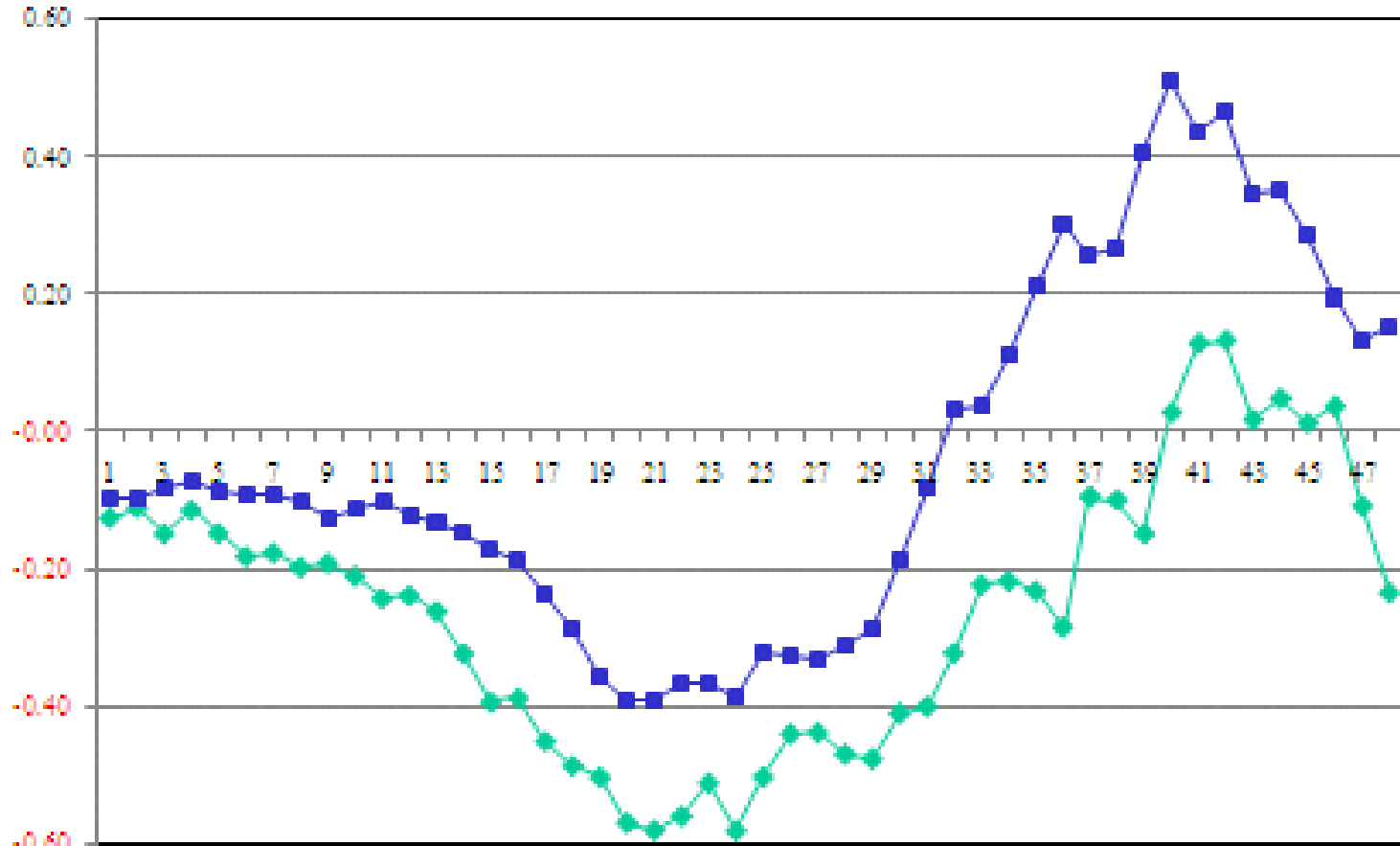
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Portfolio Management (管)

Post-IPO stock performance (buy-and-hold return) of 273 companies listed on the SME board



VC Backed

Non-VC Backed



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Grandstanding As an Explanation?

	Chinese Funds	Foreign Funds
Duration of Fund	5-7 Years	10-12 Years
LP Composition	High Net Worth Individuals (Private Business Owners)	Institutional Investors (Pension funds, Insurance Companies, Endowment)
Role of LPs	Active	Passive

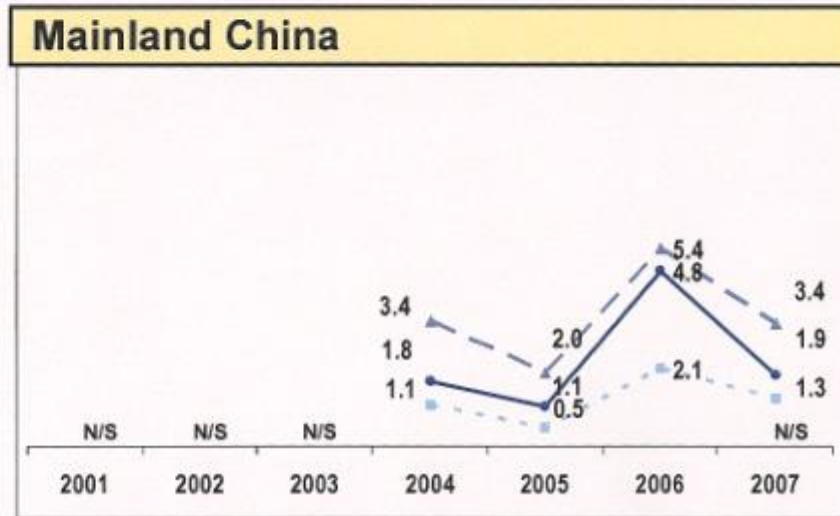
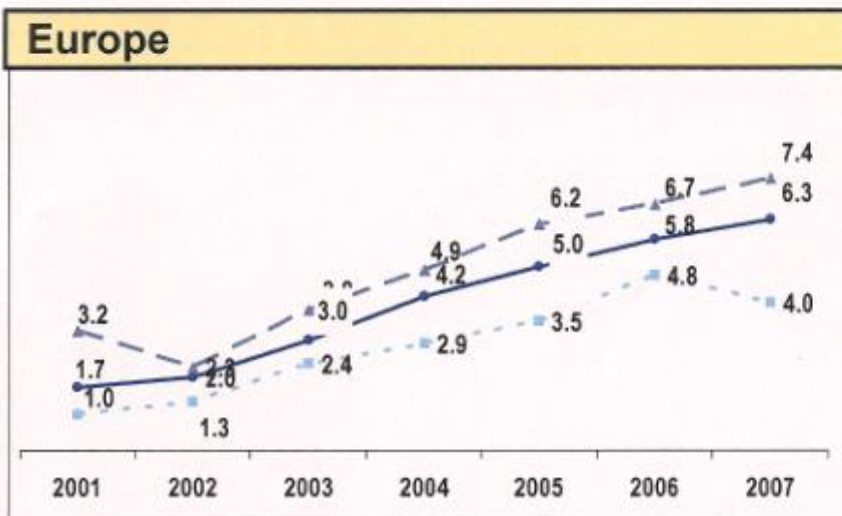
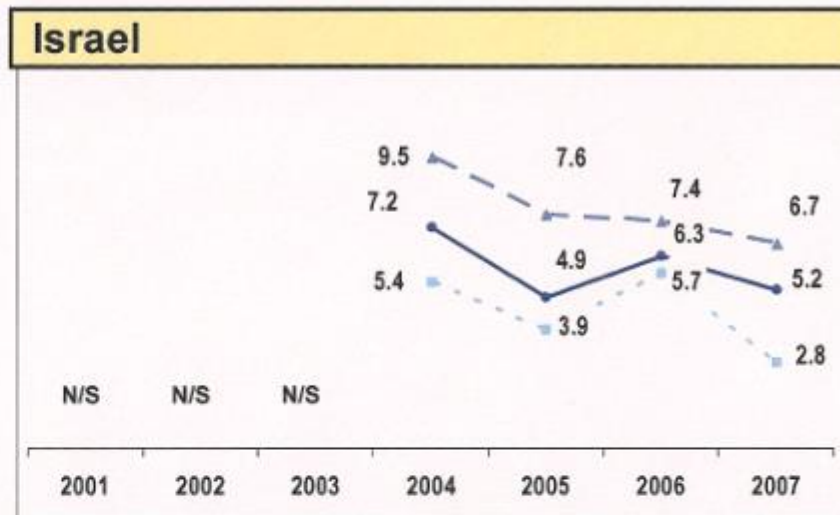
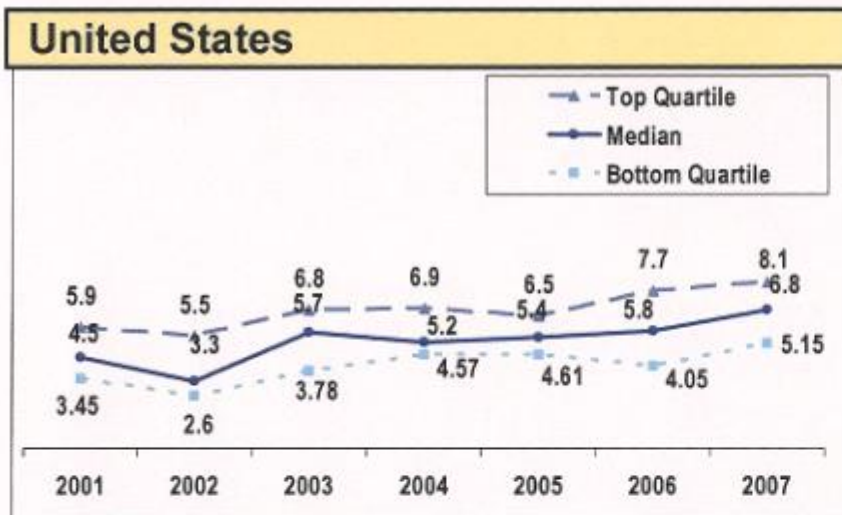


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Exit (退) - Time to Liquidation



Data Source: Ernst & Young

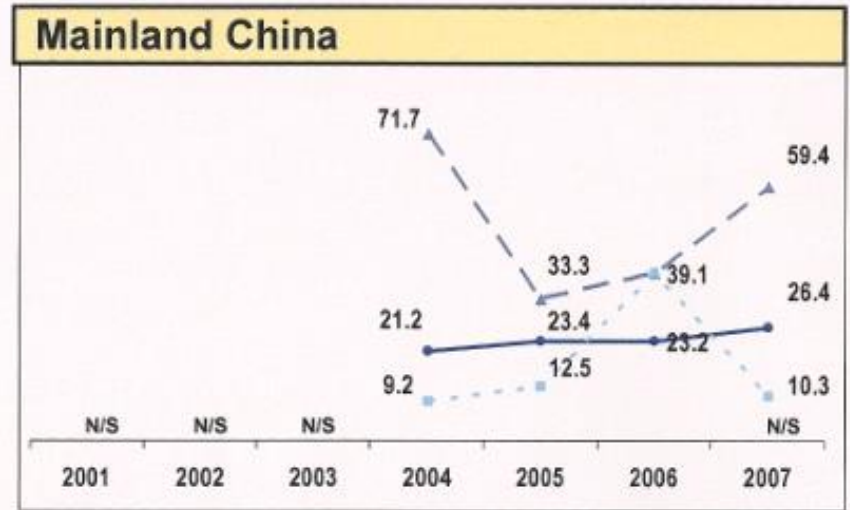
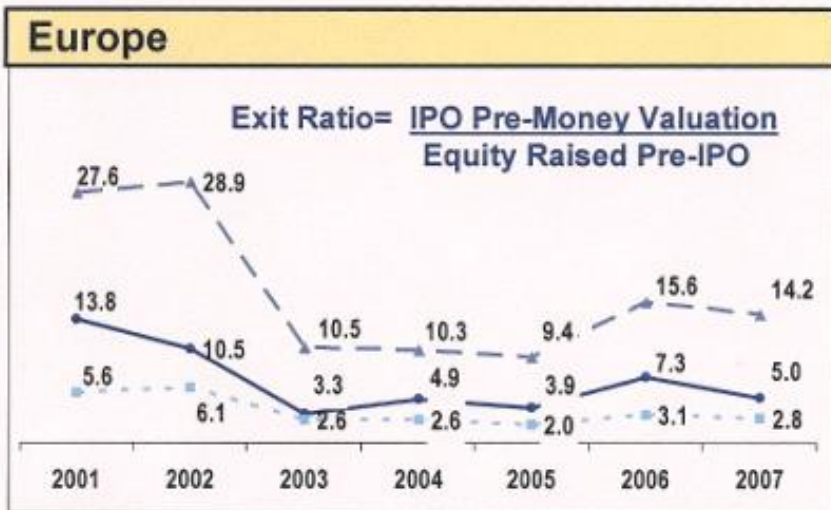
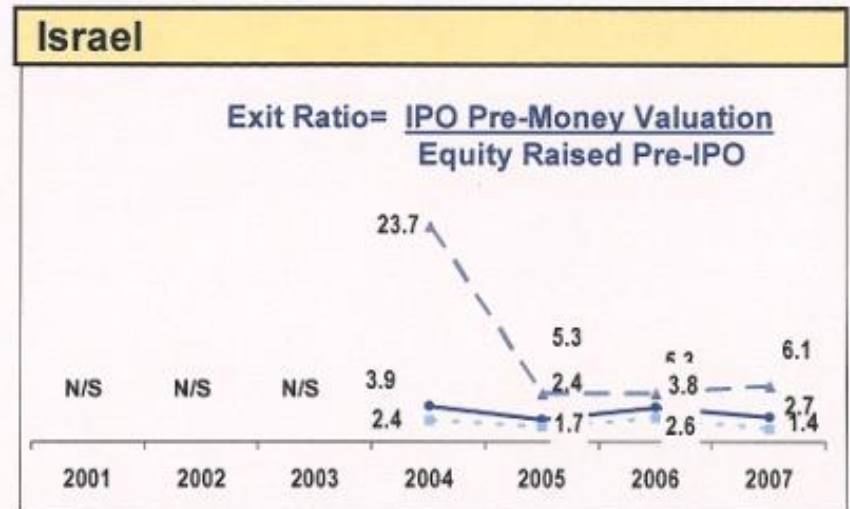
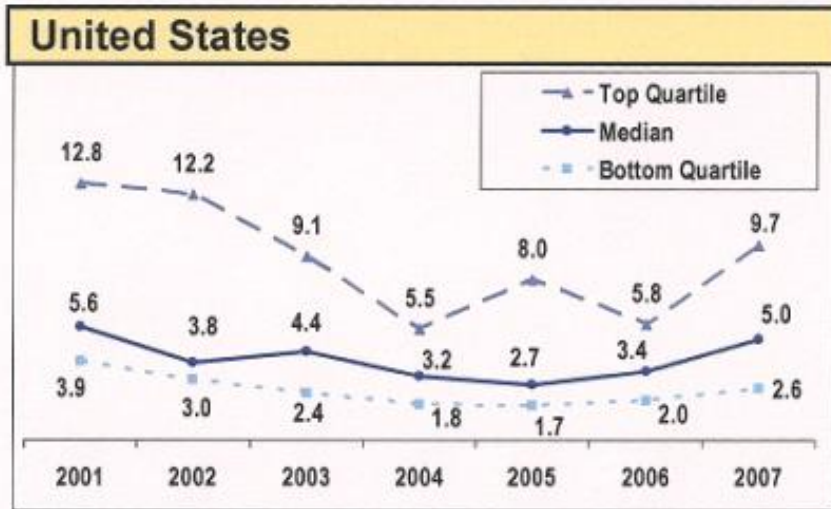


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Exit (退) - Exit Ratio



Data Source: Ernst & Young

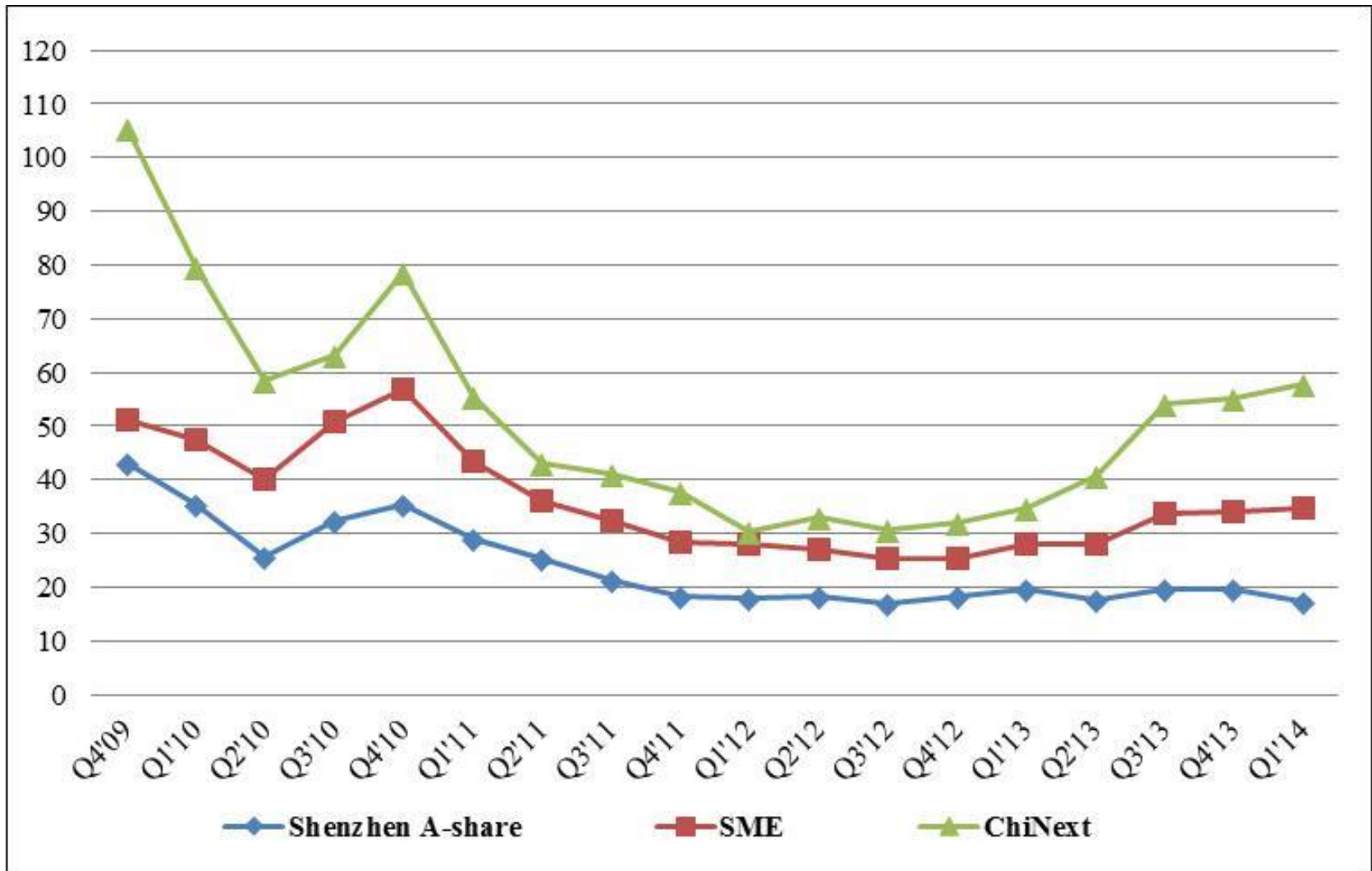


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Exit (退) – Arbitrage Opportunity is Gone



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Key Features of VC/PE in China

1

Fundraising and Investments are growing

2

Foreign, Domestic and Government-back Funds each has distinct advantages

3

Arbitrage opportunities are gone, investment focus moves to early-stage deals

4

Limited post-investment value-added services

5

Limited exit channels

6

Grandstanding phenomena



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Thank You !

jian@sem.tsinghua.edu.cn



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