

International Investing & The Rise of China

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500 Startups - Partner, Greater China. November 7, 2014

What Is 500 Startups?

Global Seed Fund and Startup Accelerator Program

- **115MM** USD under management across four Funds
- **800+** Investments, since 2010 (4 years)
- **40+** Countries (Ghana, Denmark, Ukraine, Philippines ... **19** Greater China)
- 25%+ Outside of US
- Brazil, Mexico, India, SEAsia
SF, Mountain View (HQ)



Who is Rui Ma? 马睿

- Born in China, raised in US (Silicon Valley)
- U.C. Berkeley B.S. Elec. Eng. Comp. Sci.
- Tsinghua-INSEAD EMBA (c/o 2015)
- 11 years working experience, 7 in China
 - Merrill Lynch & Morgan Stanley Tech IBD (coverage + M&A), real estate principal investing
 - CITIC Securities M&A
 - Raine (TMT PE & advisory)
- Joined 500 in Jan. 2013 ...



China's the #1 Internet Market

- **780 mm+** smart devices
 - **449.6mm** 3G/4G subscriptions, 33.2% penetration
 - 26.6% globally, vs. **287.4mm** / 91.6% in US (#2 market)
- 2013 smartphone sales: **27%** \$50+, **57%** <\$350
 - 83.9% Android, 29.4% Samsung
- **632mm** Chinese Internet users
- **464mm** mobile internet users (#1 market)
- **78.5%** access internet via mobile vs. 70.6% via web
- e-Commerce - \$296Bn (estimated) in 2013 (US: \$262Bn) up 53%
 - **8%** of total consumption is online, **302mm** shoppers
 - Largest 1-Day Purchase: **\$5.75Bn** on Singles Day, >4x \$1.25Bn on Cyber Monday

China's Startup Ecosystem

1. Local Heroes

- Two \$100Bn+ Internet Giants, numerous other \$5Bn+
 - Tencent (\$149Bn) + Alibaba (\$271Bn)

2. Access to Capital

- 2x (??) # of seed funds in 2014 to 200+
- 1200+ active angel investors

3. Exit Opportunities Increasing

- IPOs (10 in Q3 2014, 2 in US, vs. 18 total tech IPOs worldwide)
- M&A & strategic investments by Internet Giants

4. Talent is Growing

- Economically viable, culturally acceptable to do startups

5. Expanding Ecosystem of Supporting Players

- Proliferation of accelerators, entrepreneurship education, events

China does everything **AT SCALE**

Meet the Local Heroes

Forbes

The List

Overall

Youngest

Oldest

Women

[View complete list »](#)

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 #1 Jack Ma
\$19.5 B



#2 Robin Li
\$14.7 B




#3 Ma Huateng
\$14.4 B




#4 Wang Jianlin
\$13.2 B



#5 Li Hejun
\$13 B



#6 Zong Qinghou
\$11 B



#7 Wang Wenjin
\$10 B



#8 Lei Jun
\$9.1 B




#9 He Xiangjian
\$7.5 B



#10 Liu Qiangdong
\$7.1 B


The Alibaba Phenomenon

- Founder: Jack Ma (\$25Bn family net worth)
 - Founded: 4/4/99, Hangzhou
 - Employees: 26,845
 - **\$25Bn** was largest IPO ever
 - Expected to create over 10,000 millionaires at average \$4.2MM net worth
- In 2013, USD\$296Bn total GMV, mobile GMV \$71Bn (vs ~\$50Bn in US)
 - **279M** users, **52** orders / yr
 - ~80% of Chinese e-commerce
 - **~86%** of total mobile GMV in China
 - 188mm mobile MAUs
 - 7 mm people started their business on Alibaba
- Current Market Capitalization: **\$271Bn** (Nov. 2014) vs. AMZN **\$138Bn**



Later Stage Investing is Mature

- China was **12%** of global VC market in 2012, **7%** in 2013
- SV funds been active 10 yrs+
 - Sequoia, DCM, GGV, Matrix, KP

Key China VC statistics

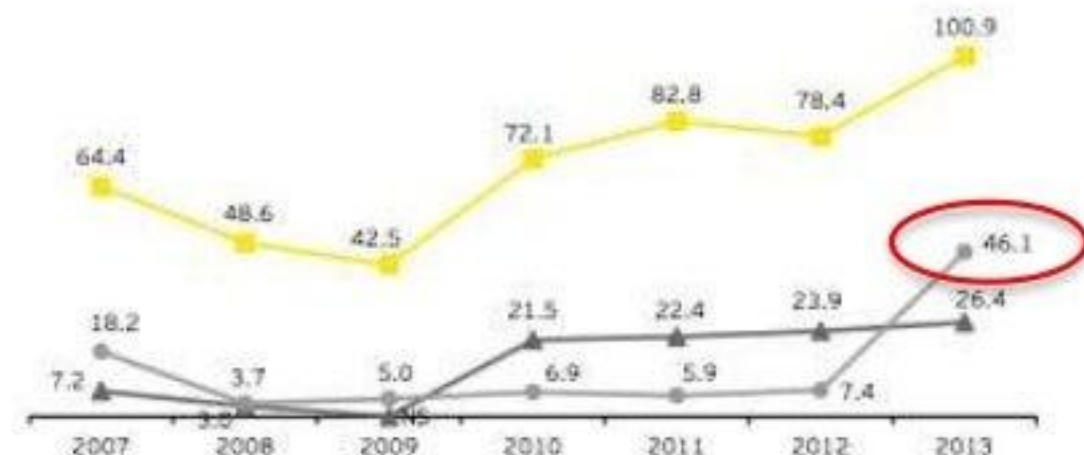
| | 2010 | 2011 | 2012 | 2013 |
|-------------------------------|------|-------|------|------|
| Invested capital (US\$b) | 6.1 | 6.5 | 5.0 | 3.5 |
| Invested rounds | 388 | 404 | 261 | 314 |
| Median round size (US\$m) | 7.47 | 10.00 | 8.00 | 7.00 |
| Number of VC-backed IPOs | 141 | 99 | 46 | 15 |
| Dollars raised (US\$b) | 22.0 | 15.6 | 4.4 | 2.0 |
| Median time to exit (years) | 2.6 | 2.5 | 2.4 | 3.9 |
| Number of VC-backed M&As | 18 | 11 | 11 | 20 |
| Median M&A valuations (US\$m) | 61.4 | 80.0 | 33.0 | 87.5 |
| Median time to M&A (years) | 3.8 | 4.1 | 4.4 | 3.5 |

Source: Dow Jones VentureSource, 2014

2013 median by round class (US\$m)



Median amount raised prior to IPO (US\$m)



Early Stage Investing is Growing

- 5% of rounds are now angels / incubators⁽¹⁾
- Very little **syndicate** investing
- VCs are major seed investors (IDG, Ceyuan, Lightspeed, Matrix ...)
- Valuations can be frothy
 - Anecdotally, **60-70% pre-launch** funding at **\$5mm++** val
 - **\$1-3MM** seed rounds, **\$10MM+** Series A



Quick Comparison vs. U.S.

- **30,000+** early stage startups (*vs. 45,000+*)
- **~1,200+** angel investors (*vs. 35,000+*)
- **~200** seed funds (*similar?*)

(1) [http://www.ey.com/Publication/vwLUAssets/Global_venture_capital_insights_and_trends_2014/\\$FILE/EY_Global_VC_insights_and_trends_report_2014.pdf](http://www.ey.com/Publication/vwLUAssets/Global_venture_capital_insights_and_trends_2014/$FILE/EY_Global_VC_insights_and_trends_report_2014.pdf)

Leading Chinese Angel/Seed Funds

| Superangel | Prior Successes | Fund | AUM |
|--------------------------|-----------------------------|-----------------|---------|
| Lei Jun | Xiaomi, VANCL, DXY | Shunwei Capital | 300MM+ |
| Bob Xu (Xiaoping) | Jumei, Jiayuan | Zhenfund | 190MM |
| Hongyi Zhou | Xunlei, Huohi | Personal Fund | ~150MM |
| Jason Zeng (Liqing) | Taomee, 7 th Ave | Decent Capital | 70MM+ |
| Fan Bao | Jumei, Edian | CRK2 | 50MM+ |
| Wensheng Cai | Meitu | 4399 Park | 35MM+ |
| Ray Yang (Lei) | Lashou, Ayibang | Taishan Angels | \$20MM+ |
| Yi Sun | Xianbian (game) | Zhenshun | \$5MM+ |
| Leo Wang, Zhuohuan Li | SXBBM | Pre-Angel | \$5MM+ |
| Yiming Feng | BabyPlan | Yuanzi (Atom) | \$4MM+ |

Based on data from ChinaVenture, http://research.chinaventure.com.cn/report_822.html, augmented with updated information.

Exit Environment Is Excellent

■ IPOs

- Weibo (*Twitter*) \$286MM IPO, **\$3.9B**
- 58.com (*craigslist*) \$187MM IPO, **\$3.6B**
- Jumei (*cosmetics ecomm*) \$245MM IPO, **\$3.7B**
- Tuniu (*travel*), \$72MM IPO, **\$850MM**
- Zhaopin (*monster.com*) \$76MM IPO, **\$640MM**
- JD.com (*Amazon*) \$1.8B IPO, **\$33B**
- iDreamSky (*gaming*) \$116MM IPO, **\$650MM**
- ... and of course Alibaba (*eBay+Amazon+PayPal+??*), **\$271B**

■ M&A

- UCWeb (*browser*) by Alibaba, **\$2B plus**, undisclosed
- Autonavi (*mapping*) by Alibaba, **\$1.5Bn**
- China Vision Media (*TV*) by Alibaba, 60% for **\$804MM**
- Dianping (*Yelp*) by Tencent, 25% for **\$500MM+**
- 58.com (*craigslist*) by Tencent, 20% for **\$738MM**
- Didi (*taxi hailing*) by Tencent, ??% for **\$100MM**
- LY.com (*travel ticketing*) by Ctrip, **\$200MM**

Talent is Piling In

- It's "cool" to be in a startup
 - 31,110 startups on VC.cn (vs. 45,539 on angel.co)
 - Numerous media mentions, even celeb angel investors
- It's also profitable to be in a startup
 - Developers ain't cheap, and they're hard to find

| MAINLAND CHINA INTERNET SECTOR (Software Engineer, Individual Contributor) | | | | |
|----------------------------------------------------------------------------|------------|-----------|-------------------|-----------|
| | Global MNC | | Chinese Local Co. | |
| | <i>Lo</i> | <i>Hi</i> | <i>Lo</i> | <i>Hi</i> |
| Junior (1~4 yrs exp) | \$40K | \$65K | \$24K | \$56K |
| Senior (5 ~ 9 yrs exp) | \$56K | \$97K | \$56K | \$113K |
| Principal (9 yrs+ exp) | \$81K | \$145K | \$105K | \$161K |

Clan Alibaba – 130+ Startups

| Company | Des. | Founded | Founder | Notable |
|----------------------------------------------------------------------------------------------------------|--------------------------|---------|-------------------|---------------------------------------------------|
|  LY.com | Travel | 2002 | Zhixiang Wu | \$80MM Series C, \$200MM investment by Ctrip 4/14 |
|  V音乐Tai | Music | 2002 | Dou Zhang | Series A 12/12 |
|  车蚂蚁网 CHEMAYI.COM | Auto | 2010 | Liheng Li | \$2MM Series A Morningside 10/12 |
|  丁香园 WWW.DXY.CN | Medical / Pharma Info | 2010 | Dahui Feng | 9/14 \$60MM investment by Tencent |
|  蘑菇街 mogu.com | Social Commerce | 2011 | Qi Chen | \$200MM investment in 6/14 |
|  米折网 mizhe.com | Flash Sales | 2011 | Lianglun Zhang | \$30MM Series B 6/14 |
|  淘粉吧 taofen8.com | Coupons | 2011 | Jun Liu | \$16MM Series A 6/14 |
|  Dididache | Taxi hailing | 2012 | Wei Cheng | \$100MM Series C by Tencent 1/14 |
|  口袋通 | Shopify | 2012 | Ning Zhu | Angel round 2013 |
|  WITOWN 商用智能 Wi-Fi | Wifi | 2012 | Jie Lai | Series A from Alibaba 8/14 |

Beijing's Startup Street

- 450K sqft (under cons.)
 - Gov't backed/subsidized
 - 9+ accelerators/ coworking
 - 300+ co's have "moved in"



车库咖啡

成立于2011年4月，是中国大陆最早的一批创业主题咖啡馆之一。



36氪

国内最具影响力的创业平台，旗下拥有科技新媒体36氪、聚友网、36数+。



联想之星

成立于2008年，是联想控股旗下的综合性专业投资孵化机构。



3W咖啡

互联网主题咖啡馆，旗下包含3W咖啡、3W创客孵化器、3W孵化器、3W基金、拉勾招聘。



创业家

国内知名创业服务机构，拥有《创业家》杂志、黑马网、黑马营、等创业产品。



言几又

以书店为根基，咖啡为灵魂，主题书店为启动，提供新生活方式商品的创新文化消费一体机。



Binggo咖啡

一家以咖啡和空间为载体，利用群智，跨界创新的创新型孵化器。



飞马族

中国首家服务创业家及创业投资机构，关注四大领域：TMT、O2O、C2O、B2B。



天使汇

2011年11月11日正式上线运营，是个聚集创业者和投资人的投融资平台。

More Information:

www.forbes.com/sites/ruima/2014/10/20/one-billion-chinese-entrepreneurs/

<https://www.techinasia.com/beijings-massive-z-innoway-startup-complex-makes-your-local-coworking-space-look-pathetic/>

What Does it Mean for You?

How does one benefit from the Chinese tech boom?

- Should you **invest** in China?
 - ... Maybe. But How? ... And in What?
- Should your **portfolio co** come to China?
 - ... Maybe. But How? ... And for What?
- Are there **exit or funding opps** for your portfolio cos in China?
 - ... Maybe, and it's growing.
- Should you **visit** China?
 - This is an easy Yes. (Bring a mask.)

3 Things to Beware of

- Accuracy is optional
 - Spend time on the ground
 - Get a local partner
 - 360-degree DD is a must
- Conflicts of Interest rarely disclosed
 - Again, need trusted insiders
- Government relations don't make a business
 - Stay away from restricted industries



**Welcome to the
Shark Tank!**

More details - <https://www.techinasia.com/3-points-to-consider-before-you-make-your-first-angel-investment-in-china/>

Investment Opportunities

Have **specific know-how** and **clear value-add**

- **Crossborder**

- E-Commerce (10-15% of total, already \$80Bn)
- Education
- Travel

- **2B** (more SMB, less enterprise)

- <20% of China VC, but ~85% of US VC
- Device proliferation and increased wage pressures

- **Hardware**

- China plans to invest \$600Bn into IoT by 2020
- Shenzhen / Pearl River Delta = manufacturing hub
- Best mechanical, electrical, robotics engineers still in the West ... but industrial engineers are in China

- **Gaming**

- \$13Bn market, #1 for MMOs
- Mobile gaming more popular in China than anywhere else ... 86.7% of gamers

SV Co's Coming to China ...

-  **EVERNOTE**
 - Raised \$ in China, 2nd biggest mkt at 11.5mm users
-  **LinkedIn**  **CBC** 宽带资本
-  **RUBER** China (for 7%), 5mm users
-  **Facebook** Beijing, Shanghai, Shenzhen, Hangzhou, Chengdu
- sets up sales office

Baby steps ... no clear successes yet (aside from AAPL!)

Chinese Co's Are Looking Abroad

- **B**aidu **A**libaba **T**encent are increasingly active ex-China
 - **Baidu**
 - Control of Brazil's daily deals site Peixe Urbano – 10/14
 - Hired Andrew Ng for \$300MM R&D center in SV
 - **Alibaba**
 - **\$50MM** into Peel – 10/14
 - **\$75MM** into Shoprunner – 10/14
 - **\$120MM** into Kabam – 7/14
 - **\$215MM** into Tango – 3/14
 - **Tencent**
 - Part of **\$36MM** into Whisper – 5/14
 - Part of **\$27MM** into Cyanogen – 12/13
 - Led **\$150MM** into Fab – 6/13
 - Part of **\$35MM** into Weebly – 4/13
 - Part of **\$2.5MM** and **\$22MM** Series A & B in Plain Vanilla - 2013
 - 13% of KakaoTalk **\$63MM** – 5/12

Chinese Angels/Funds Overseas

- Coworking / Accelerators



- Angel Investors



- Investment Platforms



- Conferences



The Chinese are already here ;)

