International Investing & The Rise of China

Rui Ma 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)











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+0, 57% <\$350</p>
 - 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

Local Heroes

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

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

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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#2 Robin Li \$14.7 B Bai db 百度



\$14.4 B Tencent



#4 Wang Jianlin \$13.2 B



#5 Li Hejun \$13 B



#6 Zong Qinghou \$11 B



#7 Wang Wenyin \$10 B



#8 Lei Jun \$9.1 B





#9 He Xiangjian \$7.5 B



#10 Liu Qiangdong \$7.1 B

The Alibaba Phenomenon

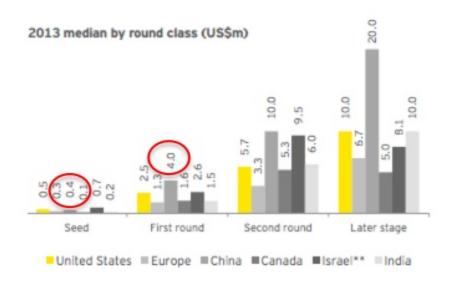
- Founder: Jack Ma (\$25Bn family net worth)
 - Founded: 4/4/99, Hangzhou
 - Employees: 26,845
 - \$25Bn was largest IPO ever
 - Expected to create over 10,000 millionaires at average \$4.2MM net worth

Alibaba Group 「阿里巴里集団

- 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

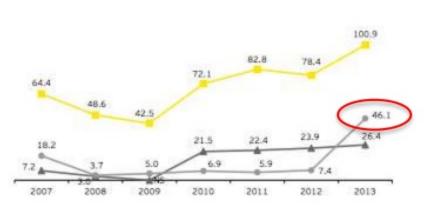


Key China VC statistics

	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

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



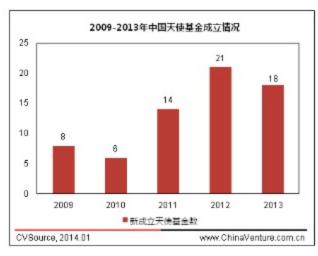
Early Stage Investing is Growing

- 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?)





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

	Global MNC		Chinese Local Co.	
	Lo	Hi	Lo	Hi
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
VL 意松Tai	Music	2002	Dou Zhang	Series A 12/12
车蚂蚁网	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 ringula zuli	Social Commerce	2011	Qi Chen	\$200MM investment in 6/14
光析 M mizhe.com	Flash Sales	2011	Lianglun Zhang	\$30MM Series B 6/14
ial份IE taofen8.com	Coupons	2011	Jun Liu	\$16MM Series A 6/14
Dididache	Taxi hailing	2012	Wei Cheng	\$100MM Series C by Tencent 1/14
□袋通	Shopify	2012	Ning Zhu	Angel round 2013
WÎTOWN R R B B 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"







成立于2011年4月、集中英利位 **亚大胆上数型的一轮似业主题由**



3W util still 五层同主通型。加下包含3Win IES, SWEETER, SWING 器、TW基金、拉勾拉網



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成立于2006年、是原想的股旗下 的综合性单点投资额记忆的

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飞马施 中国首章服务会创业或监管理会 持机构。关注四大规模 TAXT



天使汇 2011年17月11日正式上報報 質。是个簡單似分离和投资人的

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
 - 36o-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

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



Welcome to the Shark Tank!

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</p>
 - 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
 - Linked in CBC | 宽带资本
 - Tu BER China (for 7%), 5mm users
 - faleijingk Shanghai, Shenzhen, Hangzhou, Chengdu sets up sales office

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

Chinese Co's Are Looking Abroad

- Baidu Alibaba Tencent 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

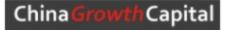




■ Angel Investors Test 清华企业家协会









Investment Platforms \(\mathcal{F}_{50} \)



Conferences GMIC 何些







The Chinese are already here ;)

