

Venture Capital in China: An Insiders View

Kevin Fong



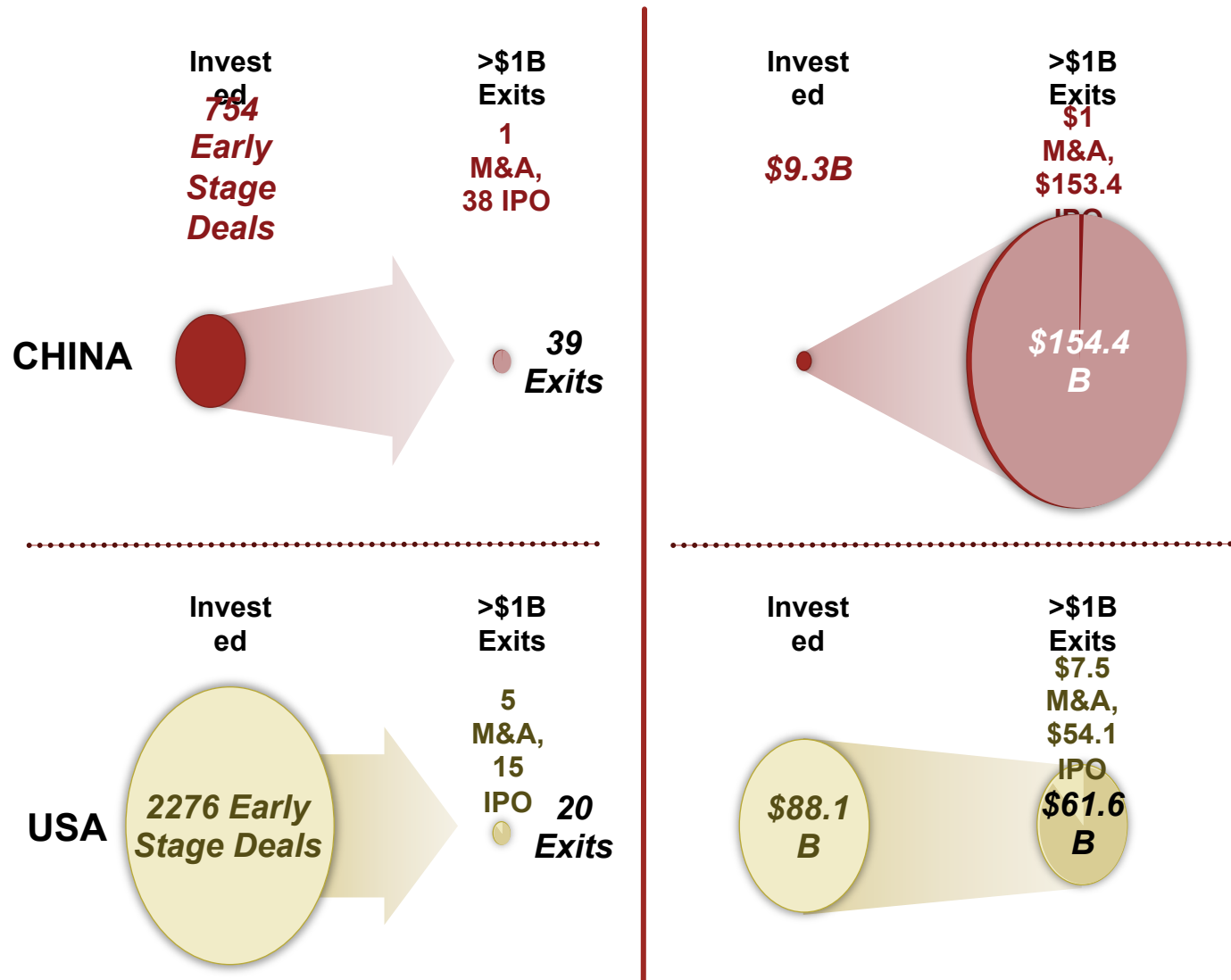
金沙江创业投资
GSR Ventures

Building World Class
Technology Companies in China

Who Am I? Old enough to be your father

- Over educated
 - Most people that are successful drop out or at a minimum don't finish their PhDs dissertation
 - UC Berkeley BS, EECS '76, Stanford MSEE '79, MBA '82
- Stayed too long at one company
 - Most people change jobs every 4 years (when their vesting is done)
 - 20 years at Mayfield Fund ('88-'08) starting as an Associate becoming Managing Partner
 - Started and funded GSR Ventures in 2004, worked there since 2008
 - Returned \$1B to limited partners, invested in companies that created over \$13B in market capitalization.
 - Invested in over 54 companies, 9 that went public, 15 acquired
 - Most recent deal success was 3Par which was a public company acquired by HP in 2010 in an infamous public auction between HP and Dell (for \$2.3B)

Best Performing Venture Market (2004-2010)



49 Billion \$ Technology Exits since 2003

Year of IPO	Market	Company Name	Sector	Market Capitalization as of 12/31/2012
2004	HKSE	Tencent Holdings Ltd	Internet / Software	\$ 59,069,436,707
2005	NASDAQ	Baidu.com Inc	Internet / Software	\$ 35,060,316,400
2008	SZSE	Goertek Inc.	Other Tech	\$ 31,970,230,834
2008	SZSE	Zhejiang Dahua Technology Co., Ltd.	Other Tech	\$ 25,870,753,080
2010	ChiNext	Beijing Originwater Technology Co.,Ltd.	Clean Tech	\$ 22,046,178,000
2011	SHSE	Sinovel Wind Group Co., Ltd.	Clean Tech	\$ 21,147,304,000
2007	SZSE	Xinjiang Goldwind Science&Technology Co.,Ltd	Clean Tech	\$ 14,523,829,320
2003	SHSE	Aisino Co.Ltd	Other Tech	\$ 13,684,788,000
2012	SHSE	Universal Scientific Industrial(Shanghai)Co., Ltd.	Other Tech	\$ 11,978,809,804
2008	SZSE	Anhui USTC iFLYTEK Co.,Ltd.	Internet / Software	\$ 11,456,911,043
2007	SZSE	Tianjin Zhonghuan Semiconductor Co., Ltd.	Semiconductor	\$ 11,205,230,974
2012	SHSE	People.Cn Co.,Ltd	Internet / Software	\$ 10,423,902,430
2006	SZSE	DHC Software Co.,Ltd.	Internet / Software	\$ 9,700,938,832
2007	SZSE	Shenzhen Laibao High-Technology Co.,Ltd.	Other Tech	\$ 9,192,065,210
2007	SZSE	GRG Banking Equipment Co., Ltd.	Other Tech	\$ 8,836,081,143
2004	SZSE	Han's Laser Technology Co.,Ltd.	Other Tech	\$ 8,543,164,188
2010	ChiNext	Leshi Internet Information & Technology Corp.	Internet / Software	\$ 7,854,220,000
2011	SHSE	Camel Group Co.,Ltd.	Other Tech	\$ 7,453,545,313
2003	SHSE	Hunan Corun New Energy Co.,Ltd.	Clean Tech	\$ 7,070,935,024
2003	SHSE	Hundsun Technologies Inc.	Internet / Software	\$ 6,992,241,984
2010	SZSE	Glodon Software Company Limited	Internet / Software	\$ 6,937,650,000
2010	SZSE	Navinfo Co.. Ltd.	Internet / Software	\$ 6.760.357.844

Most Valuable Internet Companies

December 31, 2005 vs. December 31, 2012

Rank	Company	Market Capitalization
1	Google	\$ 122.50
2	eBay	\$ 60.24
3	Yahoo! Japan	\$ 60.09
4	Yahoo!	\$ 55.59
5	Amazon	\$ 19.54
6	Rakuten	\$ 16.51
7	Apollo (UOP)	\$ 10.67
8	IAC	\$ 9.04
9	E*Trade	\$ 8.55
10	Expedia	\$ 8.22

Rank	Company	Market Capitalization
1	Google	\$ 232.44
2	Amazon	\$ 113.63
3	eBay	\$ 65.99
4	Tencent	\$ 59.07
5	Facebook	\$ 57.67
6	Alibaba	\$ 40.00
7	Baidu	\$ 35.06

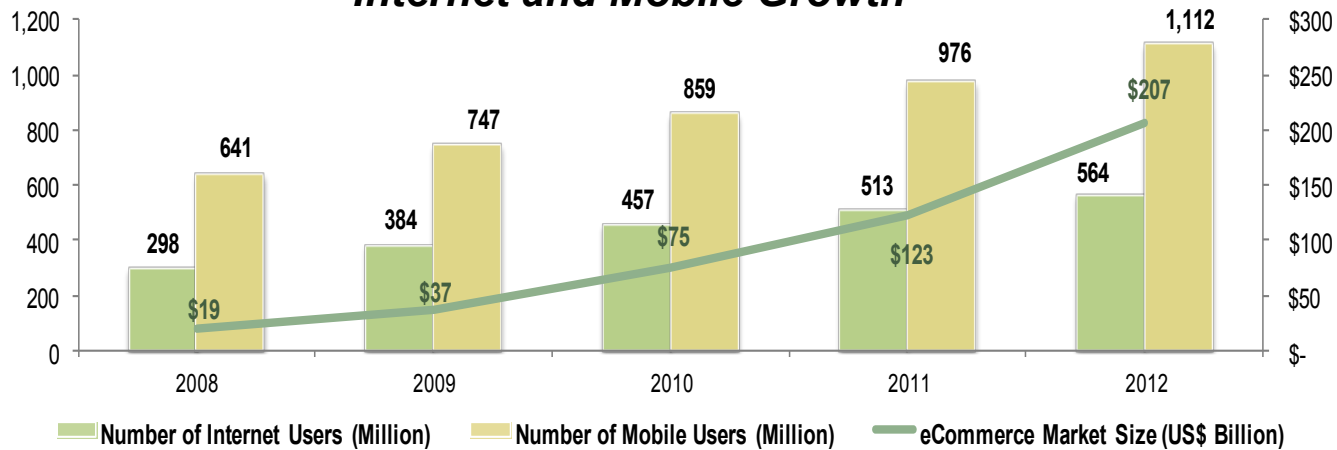
Recent Chinese Tech IPOs Show Better Performance

Stock Performance for Offshore Chinese Technology IPO Since Youku,

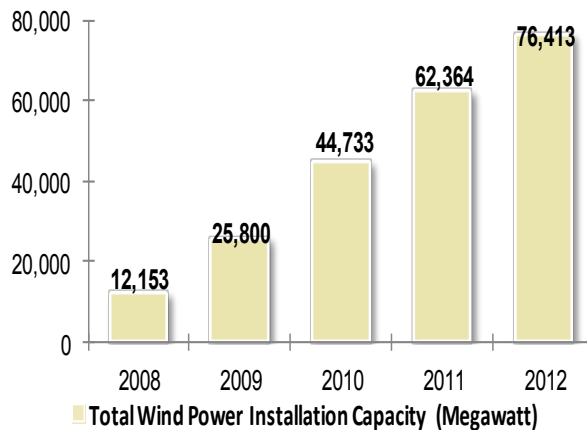
Ticker	Company Name	Offering Date	Offering Amount (US\$ M)	Offering Share Price	2013-3-15 Share Price	Gain (Loss) %	Gain (Loss) (US\$ M)
YY	YY Inc	11/21/12	\$ 82	\$ 10.50	\$ 15.67	49%	\$ 40
VIPS	Vipshop Holdings Ltd	03/23/12	\$ 72	\$ 6.50	\$ 28.48	338%	\$ 242
ISS	iSoftStone Holdings Ltd	12/14/11	\$ 141	\$ 13.00	\$ 4.99	-62%	\$(87)
TAOM	Taomee Holdings Ltd	06/09/11	\$ 65	\$ 9.00	\$ 3.88	-57%	\$(37)
YOKU	Youku Tudou Inc*	05/20/11	\$ 679	\$ 48.18	\$ 17.46	-64%	\$(433)
FENG	Phoenix New Media Ltd	05/12/11	\$ 140	\$ 11.00	\$ 4.12	-63%	\$(88)
DATE	Jiayuan.com International Ltd	05/11/11	\$ 78	\$ 11.00	\$ 4.91	-55%	\$(43)
NQ	NQ Mobile Inc	05/05/11	\$ 89	\$ 11.50	\$ 8.22	-29%	\$(25)
RENN	Renren Inc	05/04/11	\$ 743	\$ 14.00	\$ 2.97	-79%	\$(586)
VNET	21Vianet Group Inc	04/21/11	\$ 195	\$ 15.00	\$ 8.88	-41%	\$(80)
QIHU	Qihoo 360 Technology Co Ltd	03/30/11	\$ 202	\$ 14.50	\$ 29.02	100%	\$ 202
MOBI	Sky mobi Ltd	12/10/10	\$ 58	\$ 8.00	\$ 1.86	-77%	\$(45)
YOKU	Youku Tudou Inc	12/08/10	\$ 218	\$ 12.80	\$ 17.46	36%	\$ 79
	E Commerce China						\$
DANG	Dangdang Inc	12/08/10	\$ 272	\$ 16.00	\$ 3.89	-76%	\$(206)
			\$				\$

Driven by Leading Technology Markets in China

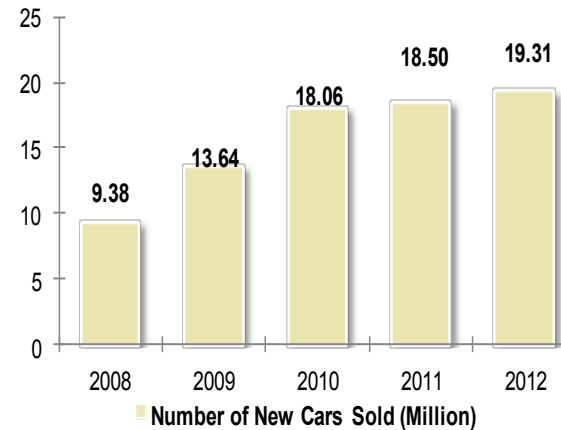
Internet and Mobile Growth



Renewable Energy Growth

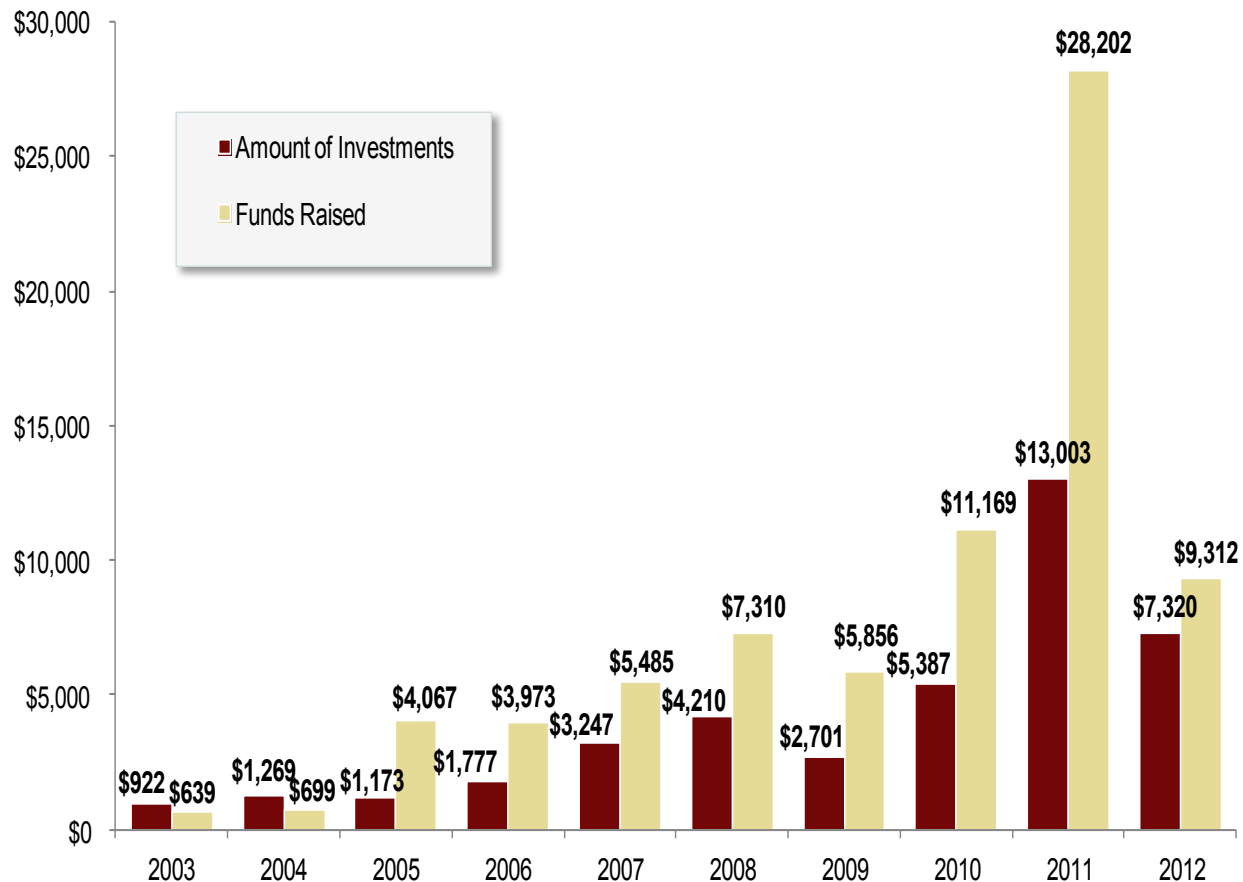


Automotive Market Growth



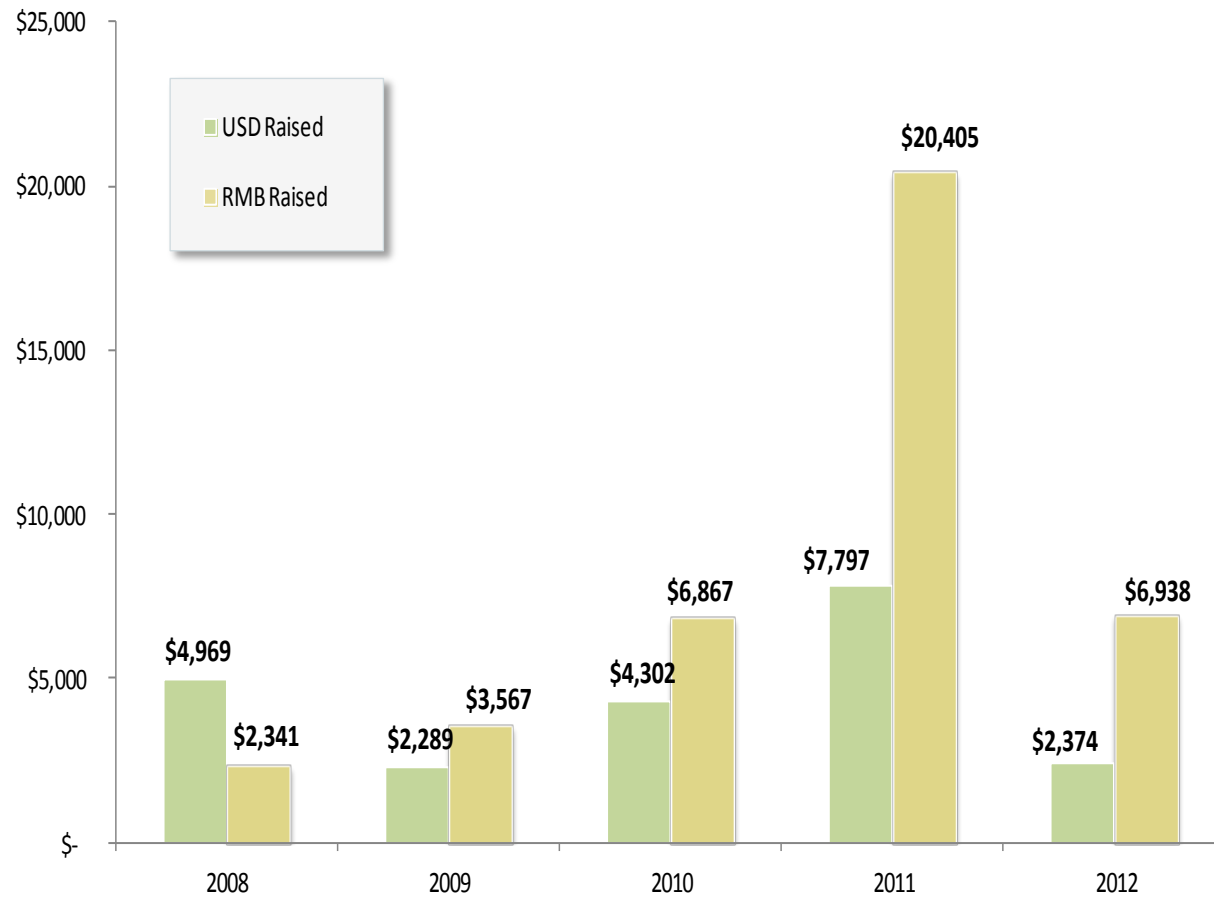
Venture Investments Steadily Increased Since '03

VC Fund Raising and Investments in China
(Amount in \$M USD)



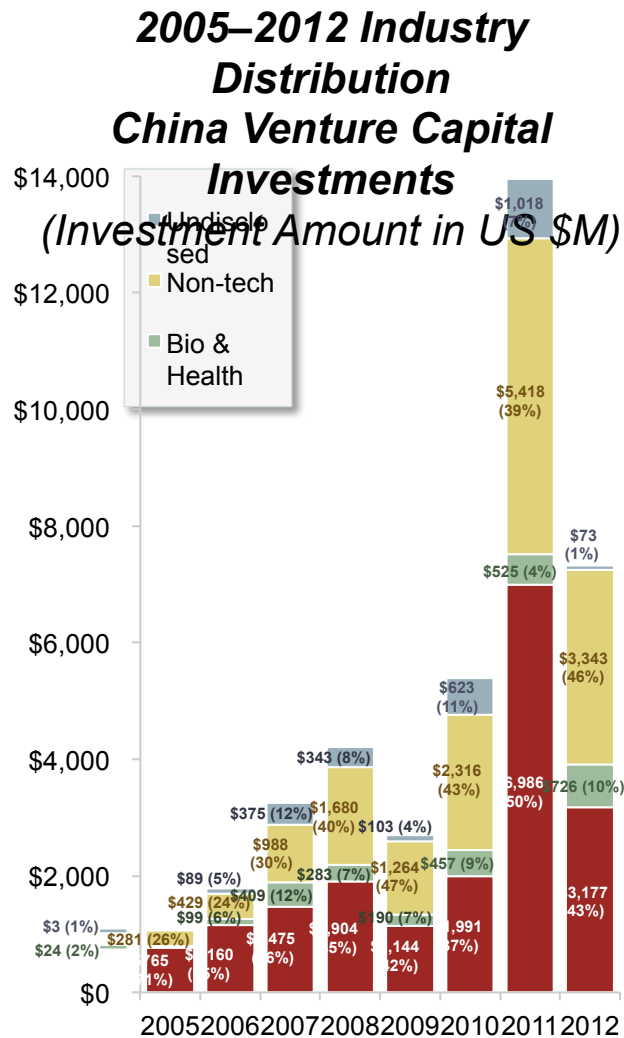
RMB Funds Rapidly Increasing

VC Fund Raising by Type
(Amount in \$M USD)



Note: Among the 252 new funds in 2012, 236 were denominated in RMB, representing 93.7% of the total. As for the average fundraising amount, offshore funds persistently outweighed their RMB peers (USD 158 Million vs USD 30 Million).

4x Increase in Chinese Technology Investments



Tech Bubble in China

- Peaked in 2011 Q2 and Q3
- 2012 Reverted back to pre-bubble levels

About GSR Ventures

Startups & VC – a Historical Perspective

- **Slow growth from 1960's to 2000**
 - Small till 1997/1998
 - Dominated by same group of top performers
 - Startups and VCs had low current compensation and high upside
 - Changed in US/Europe post-Internet boom
 - Might be going back to pre-2000 norms
- **VC funds had accelerated development in China**
 - 12 to 18 month fund cycles instead of 30 to 40 months
 - Leading funds comparable in size to US counterparts
 - Lack of experienced investors and process
 - Small number of leaders emerging
- **Startups in China equivalent in value to US**
 - Smaller revenues, faster growth and much higher profits

GSR – Best Early Stage VC in China

- **4 funds, over \$1 billion under management**

- Started in 2004
- 50+ active portfolio companies
- 2 IPOs, 1 substantial M&A



- **Focus on early stage technology investments**

- Disruptive, multi-billion dollar market opportunities
- Internet / Software, Wireless, Green Technology, and Systems / Component

- **Consistent strategy and team**

- Active early stage investor
- High bar: one successful investment returns the fund
- Extensive operating experience, complementary expertise

What it Takes to Succeed as a VC

- **Generate great returns**
 - Deal flow (networks and relationships)
 - Judgment (experience and knowledge)
 - Access (impress the best entrepreneurs)
- **Long cycles**
 - 5+ years from investment to exit (early stage)
- **Most partners have substantial prior working experience in the industry**
 - Entrepreneurs, Executive Management, Research Analysts
 - Very few associates get promoted to partner

What it takes to Succeed as an Entrepreneur

- **Vision**

- “This is how the world will be after me”

- **Balance**

- Strength of Conviction vs. Taking Feedback

- **Failure is Opportunity – No Fear of Failure**

- I selectively apply “Failure is Not an Option” , see item 2

- **Resourcefulness**

- **A Good Network of People**

- **\$\$\$**

How to Raise Venture Capital



CHINA

China

- Get a good team
- Build a great value proposition for a great and big market
- Put a great presentation together
- Email or LinkedIn Me
- Friends and Family
- Network and find like-minded VCs



US

Silicon Valley

- Get a good team
- Build a great value proposition for a great and big market
- Put a great presentation together
- Email or LinkedIn Me
- Friends and Family
- Network and find like-minded VCs

What's Different in China?

- People networks are not as large and apparent
- Fewer experienced managers (startup and otherwise)
 - Not just CEOs but CFOs, VPs, Engineering Managers, Sales, Marketing, Key technical areas
- General “tribal knowledge” is not as good
- Support infrastructure vastly different and underdeveloped
 - Like: startup lawyers, accountants, landlords, developers, engineering and manufacturing services, consultants
- Smaller number of experienced VCs and funds



What's Different in China? Part 2 - Implications

- Changing/adding to management in companies
 - Number 1 determinant as to whether China will be as successful as Silicon Valley
 - After all: Change is Good, Change is your friend
 - If it isn't working, don't do the same thing (pick your favorite quote here)
 - A key ingredient to the success of Silicon Valley
 - Tough to do in China, cultural problems as well as alternative options
 - Do you want to be successful or do you want to protect your ego?
- Liquidity Events
 - Mergers and Acquisitions are still new
 - Capital Market Strategies are different (The 2 meanings of: “The China Factor”)
 - Rapid Market growth vs. Accounting transparency/VIE

What's Different in China? Part 3 - Implications

- Can get more done in China with less \$\$
- Investing in Early Stage Startups has a higher bar
 - Some product prototype, website, or customer traction
- VCs have more time to choose deals
- Different relationships with Central and Provincial Government
 - Good and Bad, Easy and Hard, it depends
- Translating experience from Silicon Valley to China takes an experienced translation to Chinese business and culture. GSR's developed it for 8 years.

Some Examples Translating to China

- **Gaming**

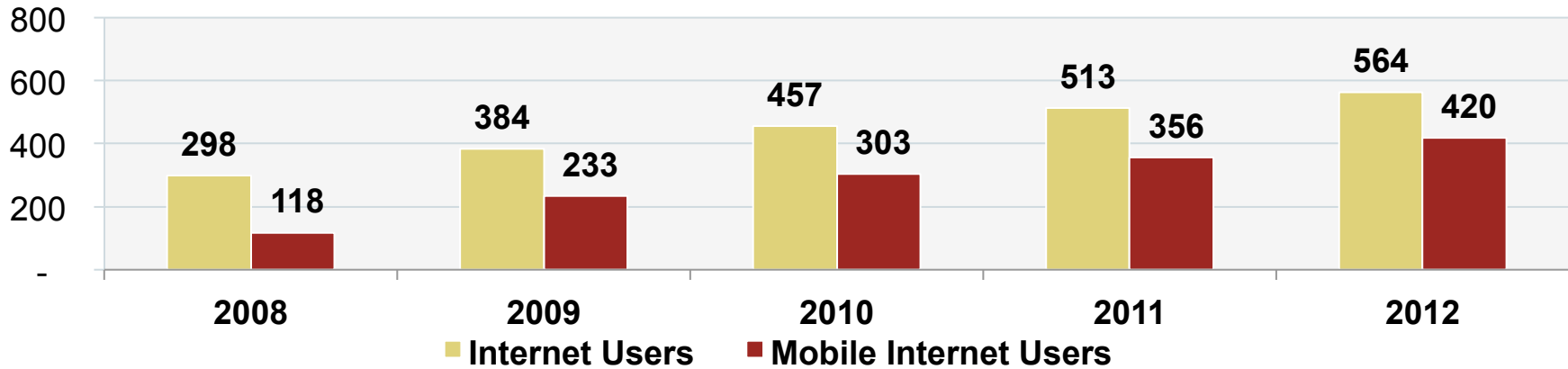
- No console games
- Unique and well developed choices for monetization
- Chinese gamers spent more time in PvP rather than PvE content

- **Mobile**

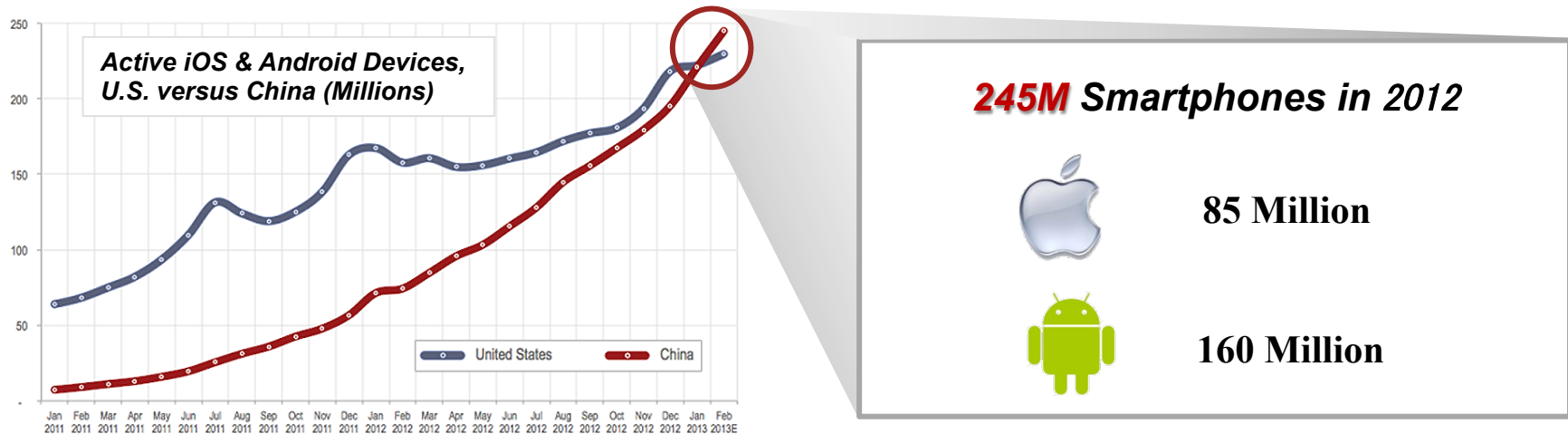
- Exploding growth with a technology oriented customer
- Huge domination by China Mobile
- Distribution and Payment in Android platform are highly fragmented

Exploding Growth with a Technology Oriented Customer

**China Internet and Mobile Internet Users Growth
(Million)**



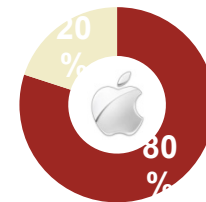
Largest Smartphone Market



“Freemium” is the Dominant Business Model

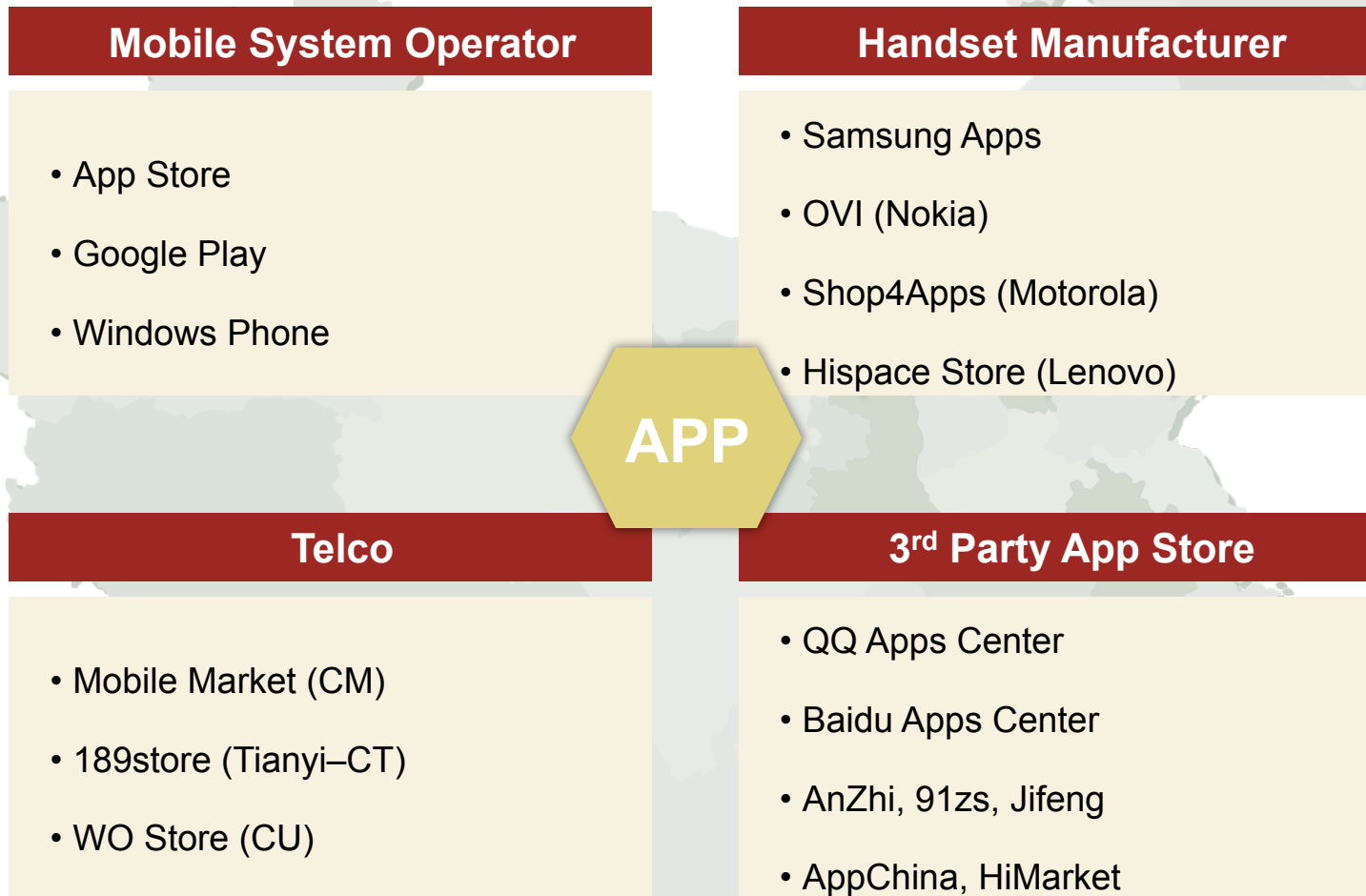


Almost all of the top grossing apps are free-to-play games with in-app purchase of virtual goods.



- In-App Purchase
- One-Off Fees

Publishers in China Challenged by Distribution Fragmentation



Some Examples Translating to China – Part 2

- **Enterprise Infrastructure SW & HW**
 - Non-existent for Startups
 - IT spending has been HW-centric
 - Challenge for public cloud adoption, security and trust
- **CleanTech**
 - Huge, but with government support
 - Large, flexible and low cost manufacturing base
 - Oversupply leads to industry consolidation
- **Semiconductor**
 - Possible but still hard