



Dadao Capital

Overview of China's Venture Capital/Private Equity Market

December 2022

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INTRODUCTION

In our three previous articles, we introduced the overview of i) China's Stock Market, ii) Panda Bonds and iii) Venture Capital in Latin America: Unicorns and Soonicorns.

In this fourth article, we will explore the overview of China's Venture Capital (VC) and Private Equity (PE). There are three core chapters in this article: a) background of China's VC/PE market, b) China's VC/PE overview including a case of study and c) China-U.S. VC/PE market comparison.



BACKGROUND OF CHINA'S VC/PE MARKET

Reviewing the past 20 years, many huge changes took place in the macro-environment, policy environment, technology cycle, population structure, economic environment and financial environment of China. Following that, the impacts have gradually emerged in the recent years. According to the report of Zero2IPO Research Center, in terms of macro-environment, the orientation of economic development has switched from high-speed growth to high-quality growth. Meanwhile, the international environment has become more and more complex. In terms of policy environment, the active fiscal policies and prudent monetary policies are adopted by Chinese government. Also, the open-door policy has been promoted and accelerated. In terms of technology cycle, China has been experiencing three technology waves during the past 20 years. The first wave was PC & Internet era from 1990 to 2010. The second was Mobile Internet era from 2010 to 2020. Currently, the third technology wave of Intelligent IOT is just accelerating. In terms of population structure, the birth rate in China is decreasing while the aging of the population is increasing, so the demographic dividend has gradually disappeared. In terms of economic environment, China has become the second largest economy in the world, and the gap between China and the U.S. has narrowed down. At the same time, the Exportation structure has changed, where the proportion of exporting high-tech products has increased.

China's VC/PE market has experienced three stages in the past 20 years: budding period from year 1992 to 2008, initial period from year 2009 to 2014 and development period from 2015. In the budding period, more and more foreign enterprises entered into Chinese market. Companies in the Internet industry rose and the supporting systems of the market were initially established. China's capital market was taking shape. China's VC/PE market achieved rapid development. In the initial period, after the financial crisis in 2008, the VC/PE market recovered gradually, the industry of Internet continued to develop. The private equity funds were recognized by Chinese market and government. The structure of regulations was clarified and multi-level capital market was promoted step by step. Since 2015, the market entered into development period and achieved continuous development. More and more start-ups enter science and technology innovation industry, meanwhile, consumer demands have stimulated investments. China's VC/PE market becomes more and more diversified, at the same time, the competition among enterprises intensifies.

In order to deal with the “unpredictable” VC/PE market, timely and accurate analysis can not only help the domestic and overseas investors to get better understanding of China’s VC/PE market, but also make reasonable forecasts for investment market and industries in time to help investors make correct decisions.

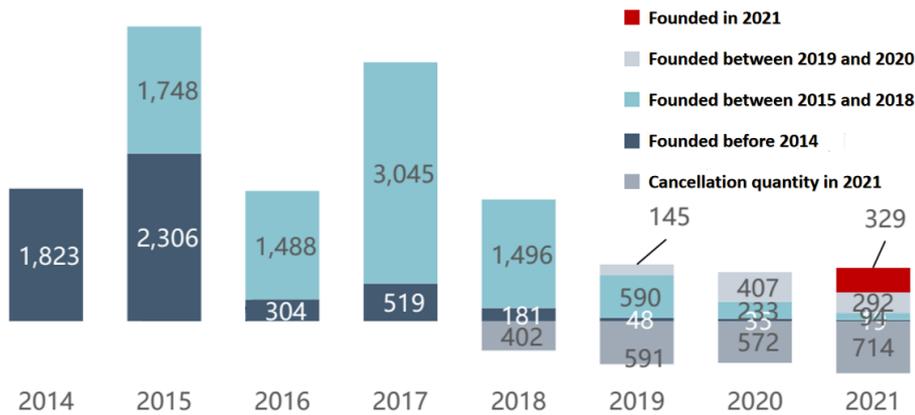


CHINA'S VC/PE MARKET OVERVIEW

Market Overview

In 2021, there were 734 equity investment fund management institutions under registration of Asset Management Association of China (AMAC).

2014-2021 Distribution of Registration and Cancellation of Equity Investment Fund Management Institutions



Source: Database of Asset Management Association of China

Source: Database of Asset Management Association of China

From the historical perspective, the above chart shows that the years 2015, 2016 and 2017 have been the years with the creation of more new funds, whilst from 2018 on the cancellation of funds began, this mainly due to the life cycle of the funds. From the above chart it can be seen that, in 2021, the cancellation number reached 714, while 329 new funds were founded.

Ranking	City	No. of Fund Management Institutions	Proportion
1	北京市Beijing	2,812	18.6%
2	深圳市Shenzhen	2,334	15.5%
3	上海市Shanghai	2,248	14.9%
4	杭州市Hangzhou	901	6.0%
5	宁波市Ningbo	562	3.7%
6	广州市Guangzhou	462	3.1%
7	苏州市Suzhou	373	2.5%
8	珠海市Zhuhai	366	2.4%
9	天津市Tianjin	346	2.3%
10	成都市Chengdu	291	1.9%
11	南京市Nanjing	258	1.7%
12	武汉市Wuhan	257	1.7%
13	青岛市Qingdao	239	1.6%
14	厦门市Xiamen	235	1.6%
15	嘉兴市Jiaxing	175	1.2%

Source: Zero2IPO Research

From the perspective of geographical distribution (above table), the number of fund management institutions is highly concentrated in three large cities in China: Beijing, Shanghai and Shenzhen.

Fund raising Overview

From the historical perspective, the year 2021 has been the year with higher fundraising amount and large number of fund. From the chart below, we can tell that the new fundraising amount achieved 2.2085 trillion RMB in 2021, with a growth rate of 84.5%. The number of new fundraising cases reached 6,979, with a year-on-year growth rate of 100.7%.

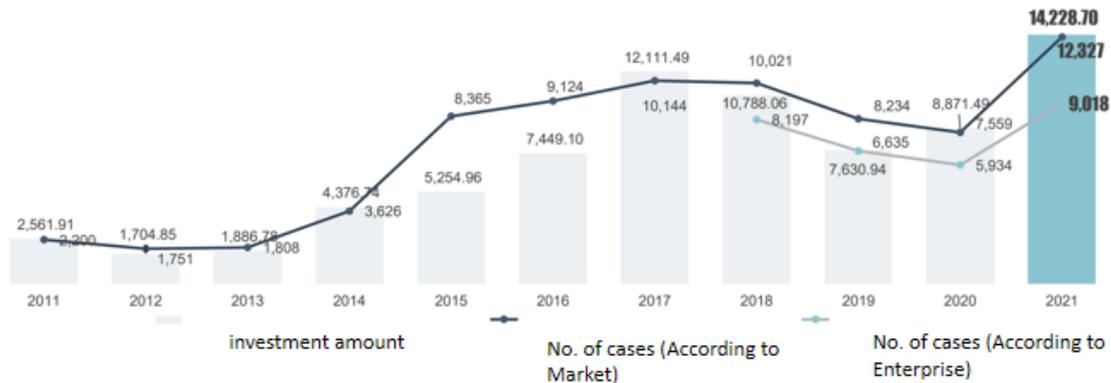


Source: Zero2IPO Research

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET

According to the figures shown below from Zero2IPO database, 2021 reflects a significant increase on the investment amount and the number of transactions cases compared to 2020.

Investment in China's equity investment market 2011-2021



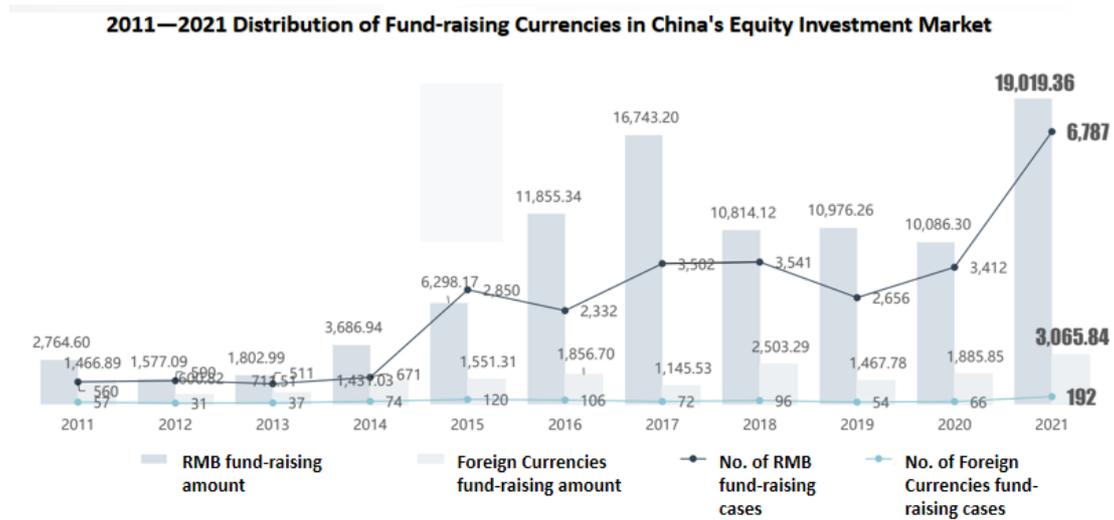
Source: Zero2IPO Research

As illustrated in the above chart, the number of investment transactions cases achieved 12,327 and the amount of investment exceed 1.42 trillion RMB. The year-on-year growth rate of the number of investment transactions cases and investment amount in 2021 shows a strong recovery compared to 2020 when the pandemic started globally.

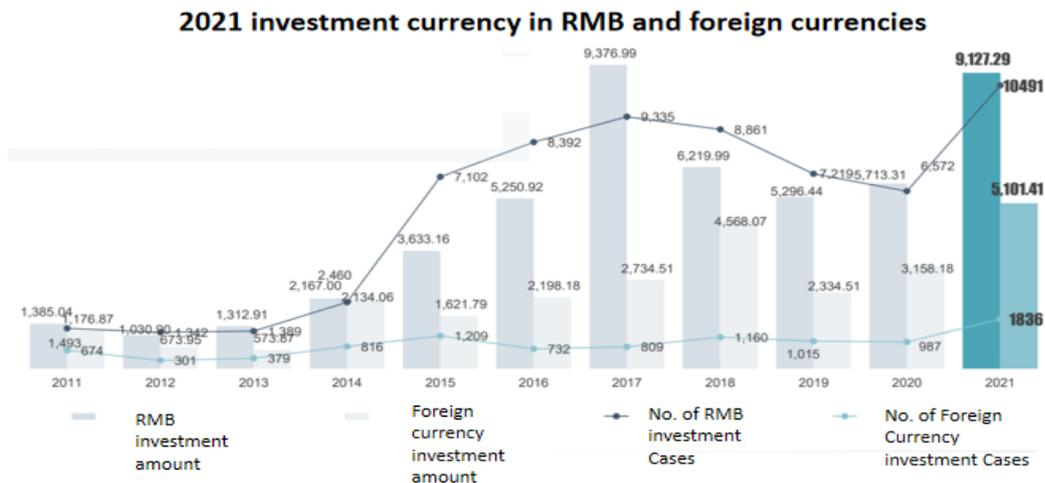


Currency Overview

In 2021, as is shown in the chart below, both RMB and foreign currency fundraising scale realized rapid growth. For the overall amount of fundraising in China's VC/PE market in 2021, the total amount of fund raised in RMB exceeded 1.9 trillion yuan, with a year-on-year growth of 88.6%. While those in foreign currency reached more than 300 billion yuan, with a year-on-year increase of 62.6%.



Source: Zero2IPO Research



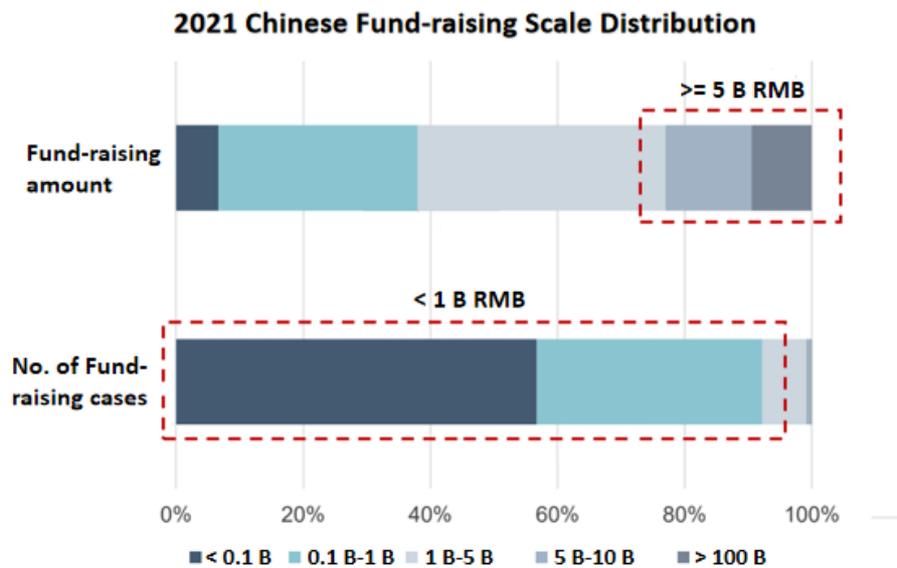
Source: Zero2IPO Research

From the above two graphs, comparing to the circumstances of fund-raising currency, unlike the RMB fund-raising growth rate is higher than that of foreign currency fund-raising, the foreign currency investment grew faster than RMB investment. In 2021, RMB investments amount exceed 910 billion and the cases number reached 10,491, with growth rates of 59.8%

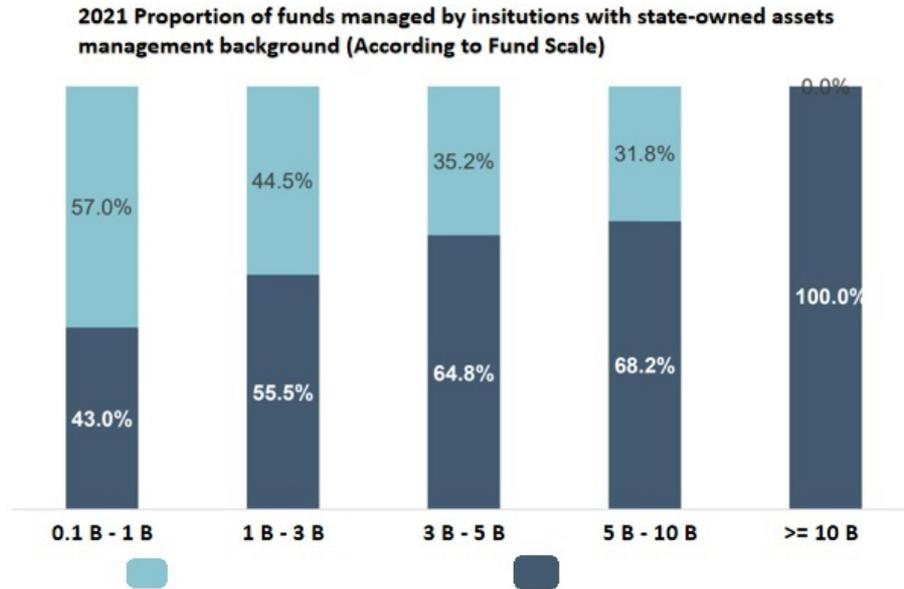
and 59.6% respectively. For foreign currency investment, the amount was beyond 510 billion with 1,836 cases. The growth rates were 61.5% and 86.0% respectively.

Scale Overview

The differentiation of the fund-raising structure of China equity investment market became serious in 2021. It can be seen from the following chart that the number of funds whose amount is under 1 billion took the percentage of more than 90%. However, the amounts of these funds only took the percentage of less than 40% of the total market. Compared to that, the number of fund-raising cases with more than 5 billion accounts for less than 1% but the fund-raising amounts account for more than 20% of the total market. The polarization of the fund-raising structure was significant.



Source: Zero2IPO Research



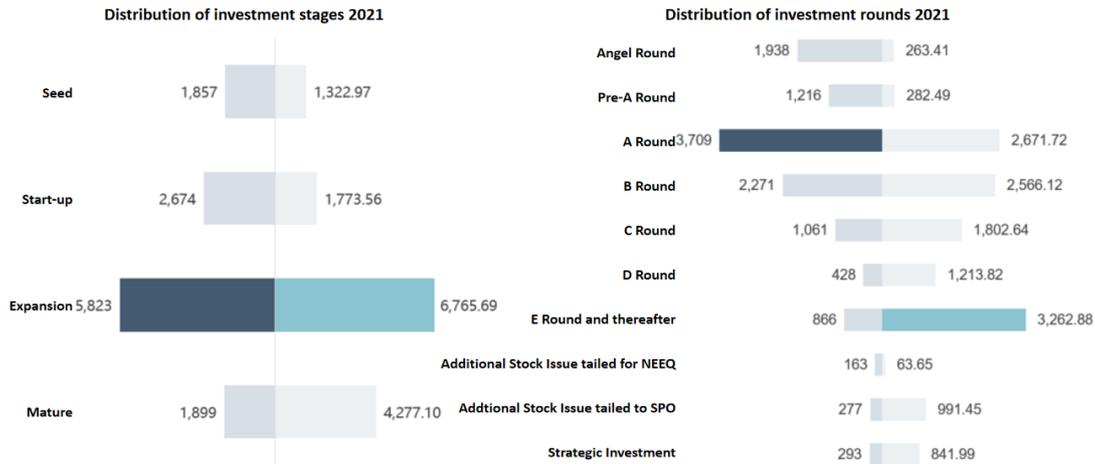
Source: Zero2IPO Research

Through analyzing the nature of newly raised RMB funds institutional managers, it is found that the larger the scale of a single fund is, the more state-owned background is shown. According to the table above, more than half of the RMB funds with more than 1 billion are managed by state-owned institutional fund managers. All of the RMB funds with more than 10 billion are managed by state-owned institutional fund manager.

Investment Rounds Overview

In China's equity investment market, most investors prefer to invest in the middle and late stages. The investment rounds are still concentrated in Round A and Round B in 2021. The main reason of these circumstances is the unpredictable changes of the international environment and the pandemic of COVID-19, more and more investment institutions showed their attitude of risk aversion. According to the below tables, the investments in the middle and late stages took large proportion in the China's equity market in 2021.

Analysis of investment rounds in China's equity investment market



(For each column: Left: No. of transactions; Right: investment amount)

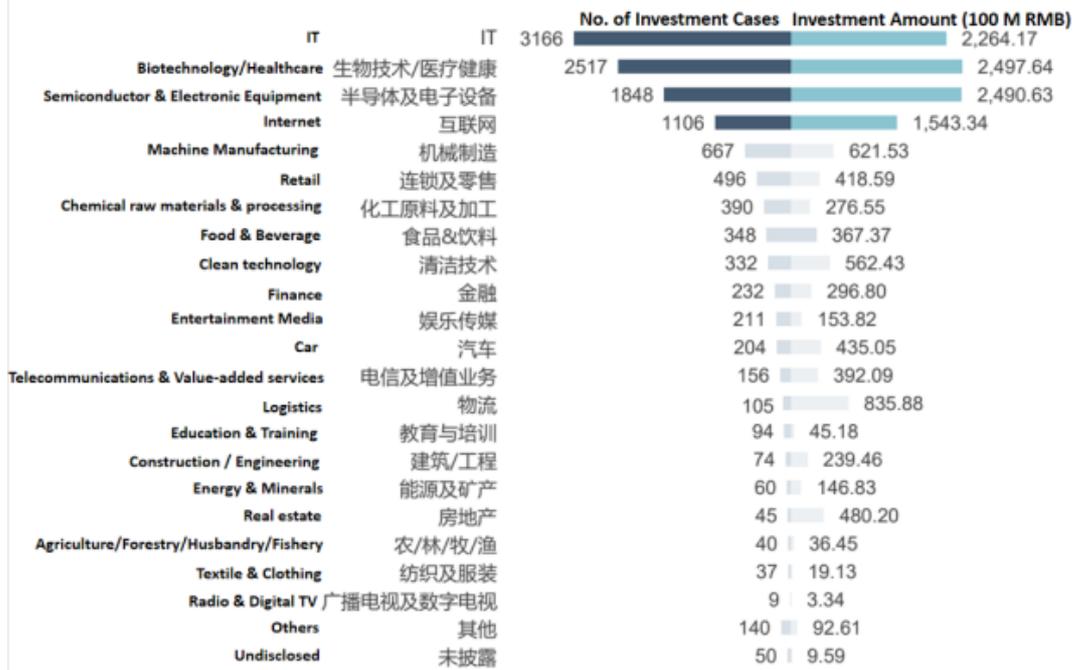
Source: Zero2IPO Research

The number of investment cases in the expansion and the mature period accounted for 62.6%, more than half of the total investment cases. In addition, according to the chart of distribution of investment rounds (above table), the most active rounds are Round A and Round B, the proportions of number of investment cases are 30.1% and 18.4% respectively. Also, the average investment amount of Round D and Round E and thereafter increased in 2021, with the year-on-year growth rates of 44.3% and 10.9% respectively.

Industry Distribution

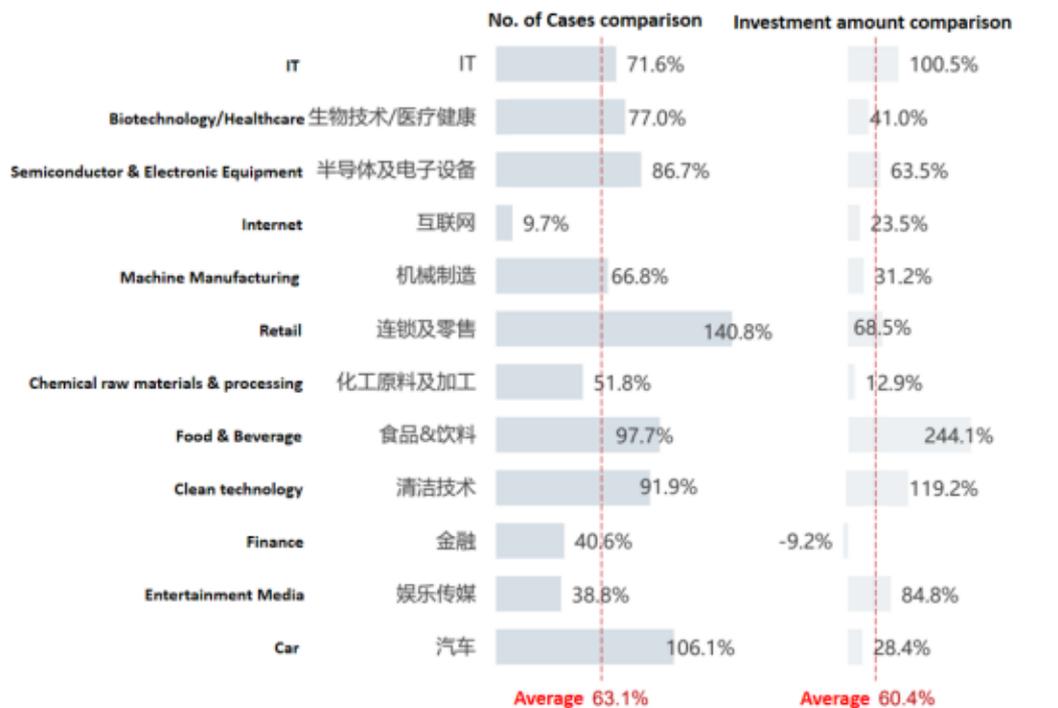
According to the following two charts, 70% of the investment cases distributed in the TOP 4 industries, IT, Biotechnology/Healthcare, Semiconductor& Electronic Equipment and Internet. The largest number of investment cases happened in IT industry. However, the largest investment amount occurred in Biotechnology/Healthcare, following was the Semiconductor & Electronic Equipment industry. Compared to the year 2020, the growth rate of investment cases in Retail industry was the highest. Meanwhile, the investment amount growth rate of Food and Beverage industry was the highest.

2021 Industry Distribution of Investment Cases



Source: Zero2IPO Research

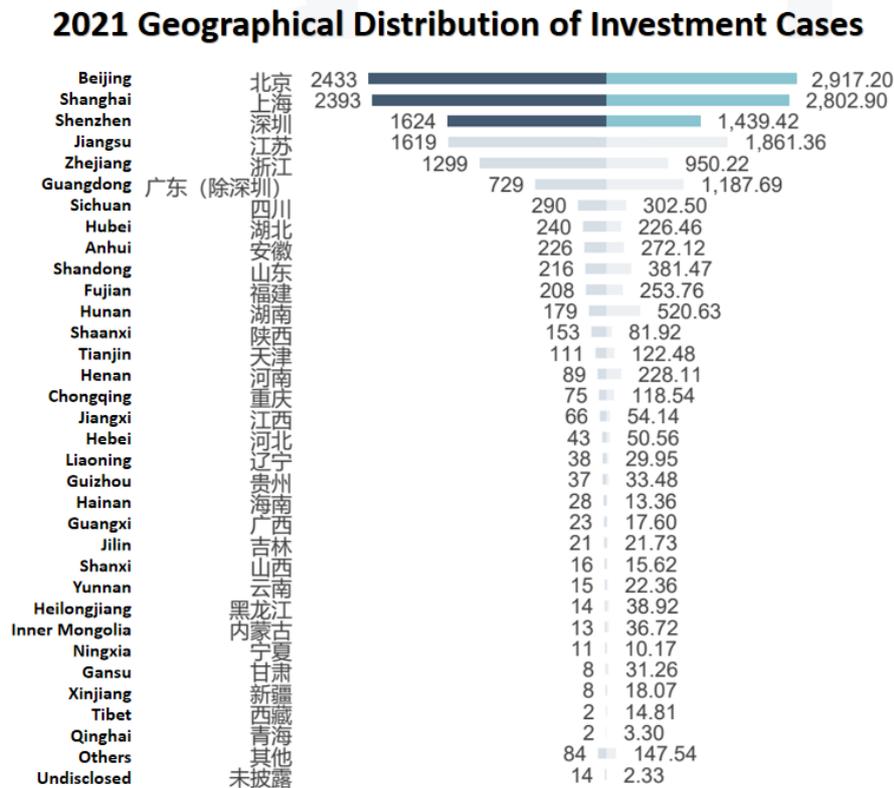
2021 Industry distribution of investment comparison



Source: Zero2IPO Research

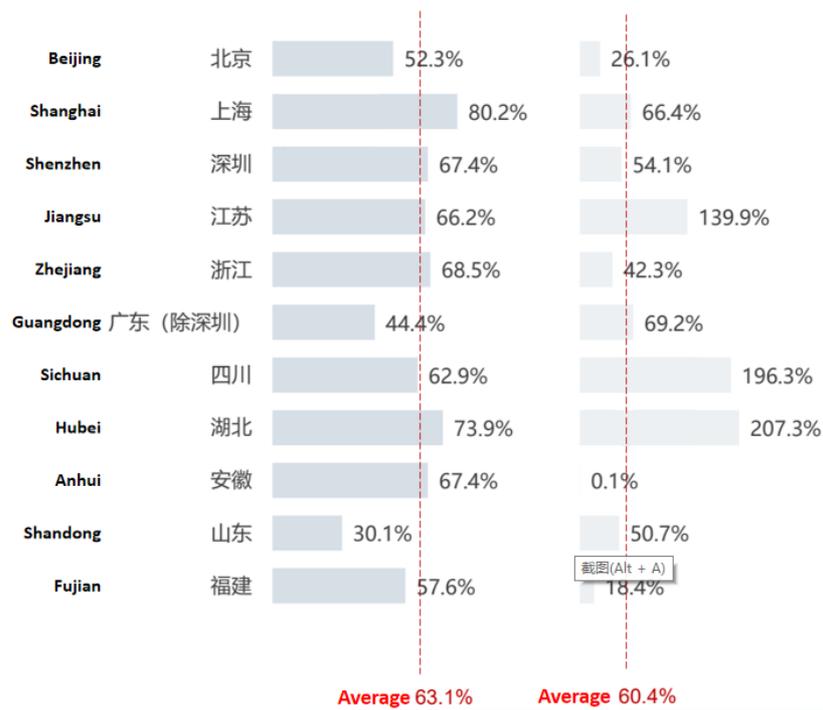
Regional Distribution

According to the geographical distribution of investment cases and amount tables, both the total number of investment transactions and investment amount in Beijing, Shanghai and Shenzhen took more than 50% of China investment market. The number of investment transactions and investment amounts in Beijing and Shanghai were really close to each other.



Source: Zero2IPO Research

2021 Geographical distribution of investment comparison

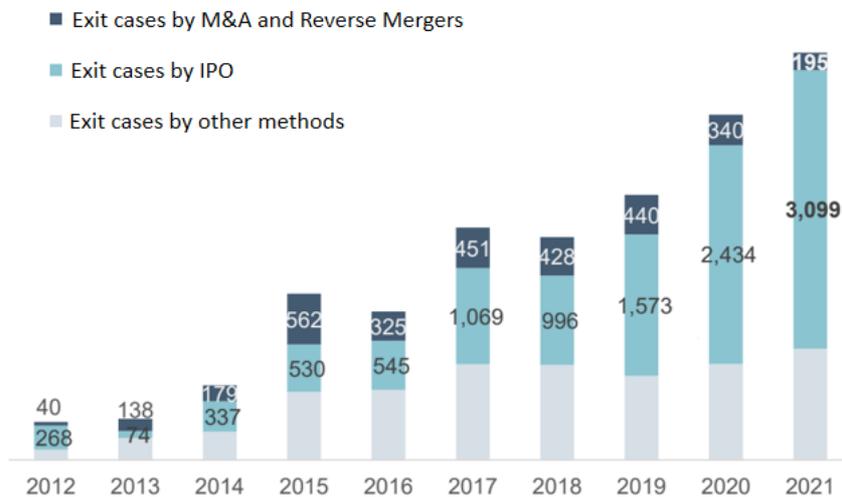


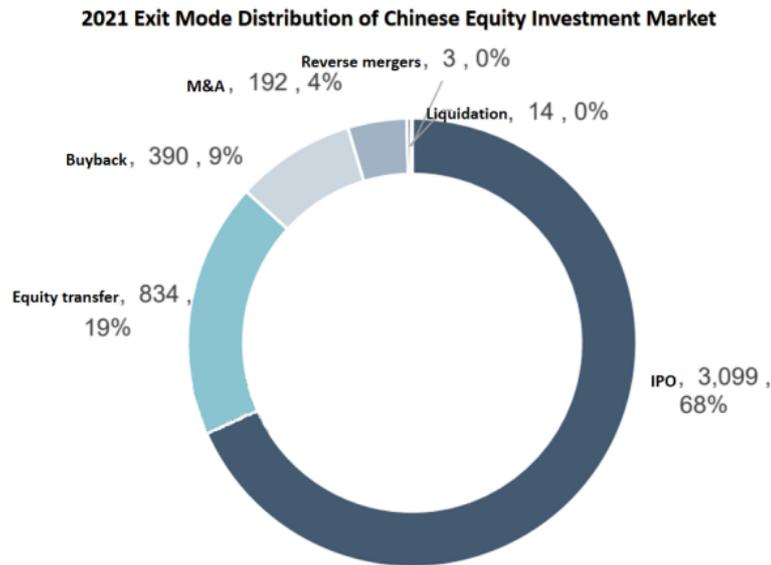
Source: Zero2IPO Research

Exit Situation Overview

In 2021, there were 4,532 Exit cases in China's equity investment market, with a year-on-year growth rate of 18.0%, which can be seen from the following two charts. In 2021, Exits by IPO remains the most common way to Exit comparing to M&A and reverse mergers.

2012-2021 Number of Exits cases in China's equity investment market



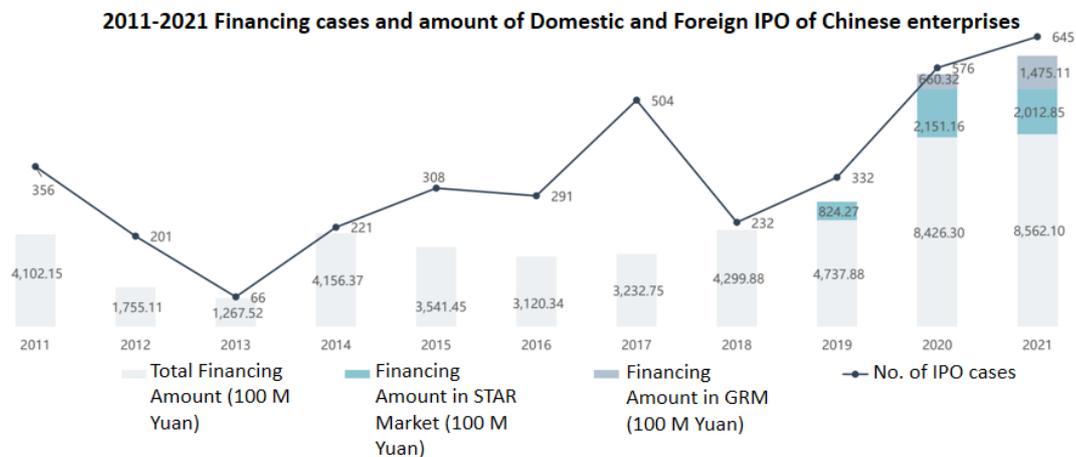


Source: Zero2IPO Research

Meanwhile, the number of IPO Exit cases increased significantly compared to that of the year before, which reached 3,099 cases with a growth rate of 27.3%.

IPO Situation Overview

According to the chart below, in 2021, there were 645 Chinese enterprises newly listed in domestic and foreign market, with a growth rate of 12.0%. The total financing amount achieved 856.21 billion Yuan, with a growth rate of 1.6%. The following part will be a brief analysis of domestic and foreign markets circumstances.



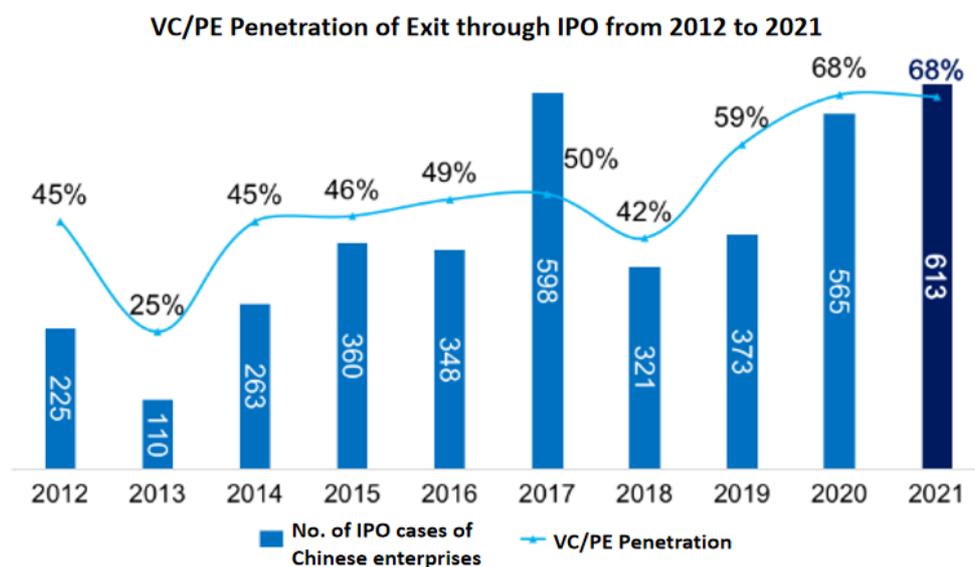
Source: Zero2IPO Research

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET

From the perspective of domestic market, thanks to the recovery of the economy, the reform of registration system and the establishment of Beijing Stock Exchange Market, the number of newly listed companies rose to 522 in 2021, with the YoY increase rate of 19.7% compared to 2020. The financing amount of IPO reached RMB 534.46 billion yuan, with a year-on-year growth rate of 15.6%. (Zero2IPO Report)

In terms of foreign market, due to the impact of China-U.S. regulatory policies, the listing process of Chinese enterprises in foreign market have been delayed. Concretely, in 2021, there were 36 Chinese shares listed in the U.S. market, which was 5 more compared to 2020, and all of them were done before August 2021. Besides, the Hong Kong market was sluggish in 2021, the number of newly listed of Chinese enterprises in Hong Kong was 87, a YoY decreased rate of 17.1%. However, driven by the boom of second listing, the amount of IPO financing still maintained high. (Zero2IPO Report)

According to the graphs, there were 613 Chinese enterprises in total achieved the IPO in 2021, among them there were 415 listed enterprises have received supports from VC/PE institutions, with a penetration rate of 68%. The growth rate of this maintains the same with last year and still at the peak of last ten years.

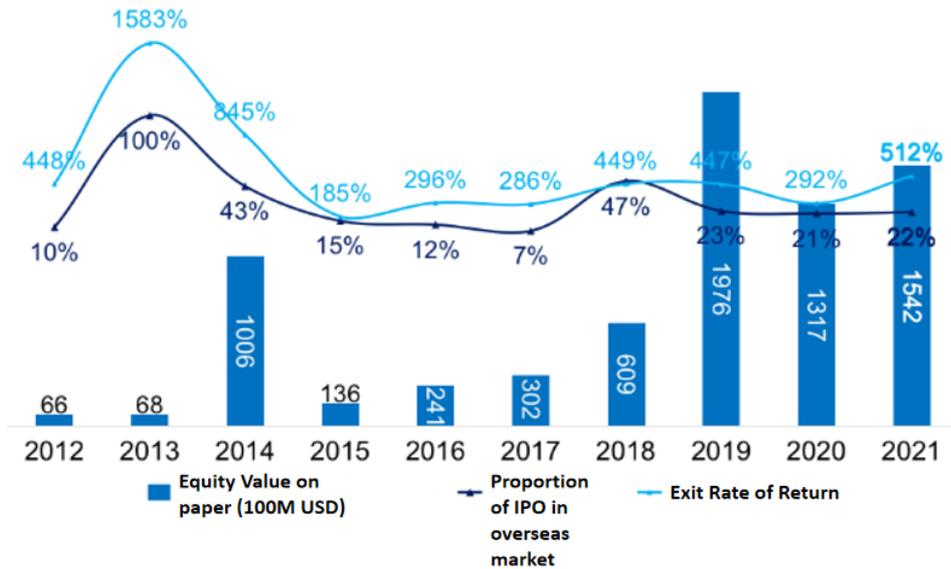


Source: CVINFO

The VC/PE Penetration of Exit through IPO of Chinese Enterprises was 68% in 2021, similar as in 2020, while the number of IPO in overseas markets maintains basically the same in 2021 compared to the previous year.

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET

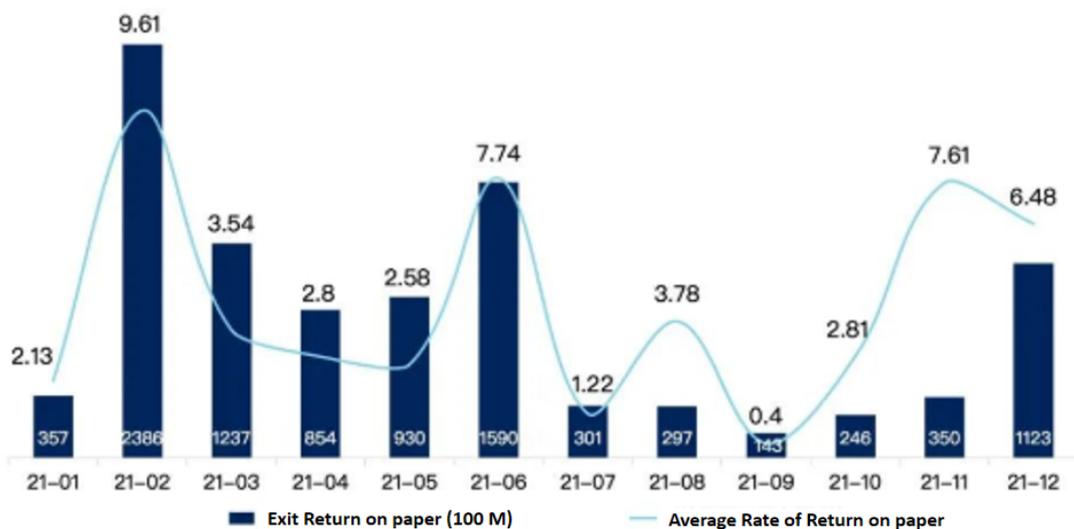
Exit Return on paper of IPO of VC/PE institutions and Proportion of IPO in overseas market from 2012 to 2021



Source: CVINFO

The Exit Rate of Return on paper achieved 512% in 2021, the highest since 2014, compared to 292% in 2020, while the proportion of IPO in overseas market maintained basically the same in 2021 compared to the previous year.

Exit Return on paper of IPO of VE/PE institutions from Jan. to Dec. 2021



Source: CVINFO

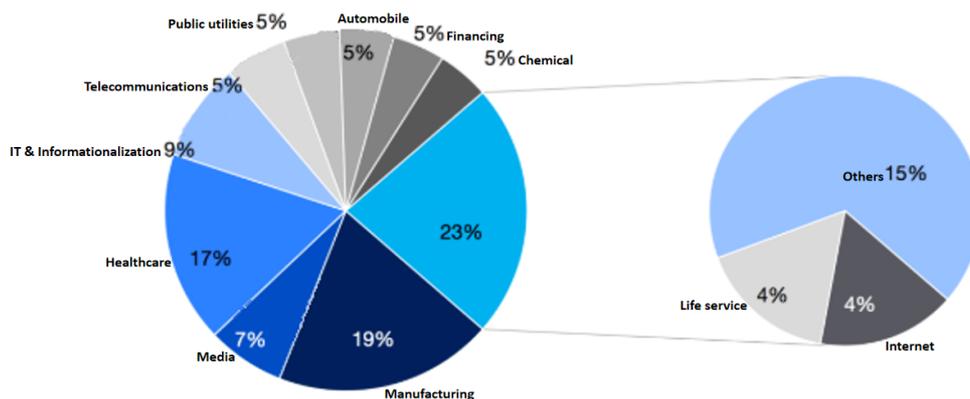
Key IPO industries Exit Analysis in 2021

Key industries	VC/PE Penetration	Exit Return on paper (100M)	Times of Return on paper
Artificial Intelligence	100%	430.15	2.45
Logistics	90%	397.57	0.64
IT & Informatization	83.64%	1,533.53	4.40
Health Care	81.72%	1,328.59	5.75
Internet	69.23%	575.28	5.34

Source: CVINFO

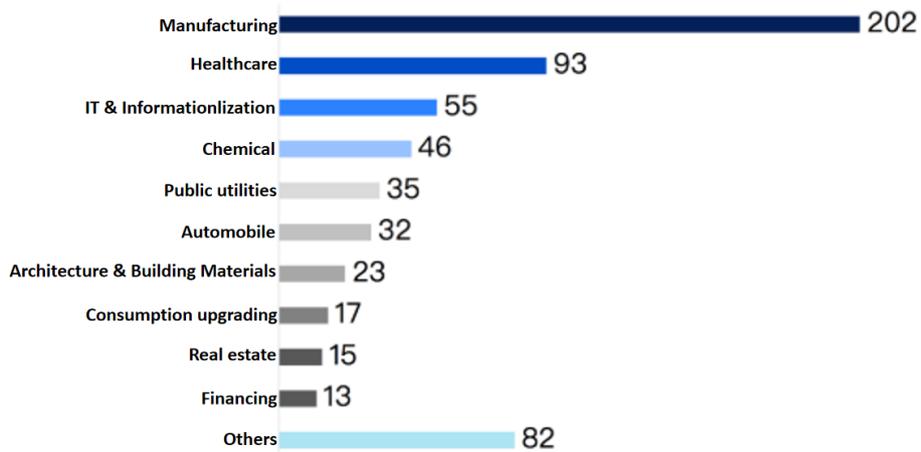
From the above chart, it can be seen that the industries of successful IPO cases with higher Return on paper were Healthcare, Internet and IT & Information. As shown in the following chart, in terms of IPO scale and industry distribution of Chinese enterprises in 2021, Manufacturing concentrated 19% of the pie and had 202 successful IPO cases and ranked first, followed by Healthcare enterprises with 93 successful IPO cases. The third was IT & Information industry enterprises, with 55 successful IPO cases.

IPO scale and industry distribution of Chinese enterprises in 2021



Source: CVINFO

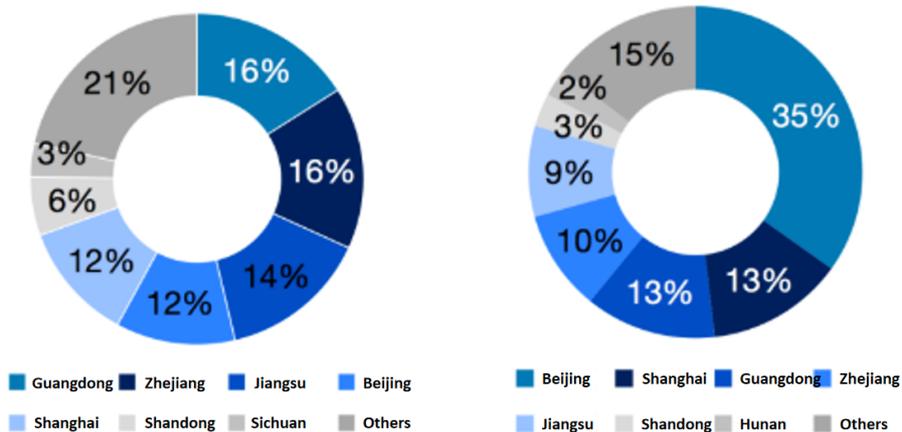
Industry distribution of the No. of IPO of Chinese enterprises in 2021



Source: CVINFO

From the two charts below, it can be seen that successful IPO cases were concentrated in Guangdong, Zhejiang, Jiangsu, Beijing and Shanghai. In 2021, in terms of the number of IPOs, the top 3 provinces were Guangdong, Zhejiang and Jiangsu. There were 98 successful IPO cases in Guangdong. In the perspective of transaction size, Beijing was in the first position with 302.62 billion yuan, followed by Shanghai and Guangdong. For single transaction scale, Beijing has an outstanding performance compared to other cities.

Regional distribution of No. of cases (Left) and Fund-raising amount (Right) of IPO of Chinese enterprises in 2021



Source: CVINFO

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET

No. of IPO cases, Fund-raising scale and Average Fund-raising level in 2021 according to different regions

Regions	No. of IPO cases	Total transaction size (100M)	Single transaction size (100M)
Guangdong	98 (6.52% ↑)	1260.94 (12.71% ↓)	12.87 (6.13% ↓)
Zhejiang	97 (25.97% ↑)	853.03 (2.27 ↑)	8.79 (18.84% ↓)
Jiangsu	89 (23.61% ↑)	765.87 (21.63% ↑)	8.61 (1.6% ↓)
Beijing	71 (8.97% ↓)	3026.72(40.68% ↑)	42.63 (54.57% ↑)
Shanghai	71 (5.97% ↑)	1154.02 (45.16% ↓)	16.25 (48.26% ↓)
Shandong	35 (75% ↑)	283.22 (26.38% ↑)	8.09 (27.83% ↓)
Sichuan	20 (66.67% ↑)	182.43 (96.12% ↑)	9.12 (17.68% ↑)
Anhui	18 (10.00% ↓)	121.52 (6.23% ↓)	6.75 (4.17% ↑)
Fujian	17 (0%)	87.04 (34.76% ↓)	5.12 (34.78% ↓)
Hunan	13	226.73	17.44
Hubei	12	127.70	10.64
Henan	10	60.05	6.01
Hebei	8	72.08	9.01
Shaanxi	7	40.83	5.83
Hong Kong	7	39.91	5.70
Jiangxi	6	56.13	9.36
Tianjin	4	91.38	22.85
Inner Mongolia	4	70.22	17.56
Liaoning	4	64.25	16.06
Chongqing	4	59.33	14.83
Jilin	4	27.32	6.83
Yunnan	3	57.42	19.14
Guizhou	2	17.03	8.52
Guangxi	2	12.08	6.04
Xinjiang	1	64.47	64.47
Tibet	1	5.45	5.45
Hainan	1	4.3	4.3
Shanxi	1	3.84	3.84
Heilongjiang	1	2.66	2.66
Ningxia	1	2.13	2.13
Gansu	1	1.62	1.62

Source: CVINFO

First batch of IPO in Beijing Stock Exchange

Name	Ticker	Industry	Region	Fund-raising amount (M)
Keda Automatic Control	831832	IT & Informationalization	Shanxi	234.00
Yoshioka Precision Technology	836720	Manufacturing	Jiangsu	220.81
Jing Sai Technology	871981	IT & Informationalization	Anhui	217.61
Suntang High-tech	839680	IT & Informationalization	Guangdong	178.42
Nantong Great Electric	870436	Automobile	Jiangsu	156.24
Zhongshe Consulting	833873	Architecture	Chongqing	150.21
Hiacent Technology	837092	IT & Informationalization	Shandong	140.80
Henghe Information & Technology	832145	Manufacturing	Beijing	136.00
Zhonghuan Flow Controls Mfg.	836260	Manufacturing	Sichuan	114.33
Raisesun Information Technology	832171	IT & Informationalization	Hebei	98.81
Tongxin Transmission	833454	Automobile	Henan	98.75

Source: CVINFO

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET

In November 2021, The Beijing Stock Exchange officially opened for trading. There were 82 Chinese enterprises as the first batch listed on Beijing Stock Exchange. All of the 82 enterprises showed the features of growing, innovative and small-to-medium sized, and covered 25 major industries of national economy. As shown in the above chart, according to industry's distribution of the first batch of listed enterprises, they are mainly about IT & Information, Manufacturing, Healthcare and Automobile.

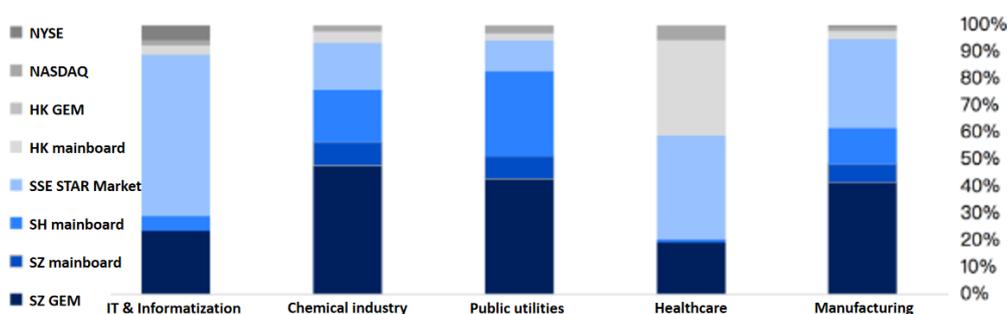
Statistics on the number and scale of IPOs in each trading sectors in 2021

Stock Market	Trading Sectors	No. of IPO	Scale of IPO (100 M)
A Shares	SZ Stock Exchange - GEM	199	1475.11
	SH Stock Exchange - STAR	162	2012.85
	SH Stock Exchange - Main Board	87	1617.13
	SZ Stock Exchange - Main Board	33	221.47
HK Stocks	HK Stock Exchange - Main Board	94	2468.82 🏆
	HK Stock Exchange - GEM	1	0.46
U.S. Shares	NASDAQ	24	218.30
	NY Stock Exchange	13	667.33

(Unit: RMB)

Source: CVINFO

Distribution of trading boards of important industries in 2021



Source: CVINFO

Enterprises in different industries have preferences when choosing different Trading Sectors for listing. Generally speaking, IT & Information enterprises prefer to list on the GEM of SZ Stock Exchange, Public utilities companies prefer to list on the GEM and Main-board of SH Stock Exchange, Healthcare enterprises prefer to list on the STAR Market and Main-board of HK Stock Exchange and Manufacture companies prefer to list on SH and SZ Stock Exchange.

All in all, thanks to the comprehensive promotion of the registration system, IPOs of SH and SZ Stock Exchange continue increasing.

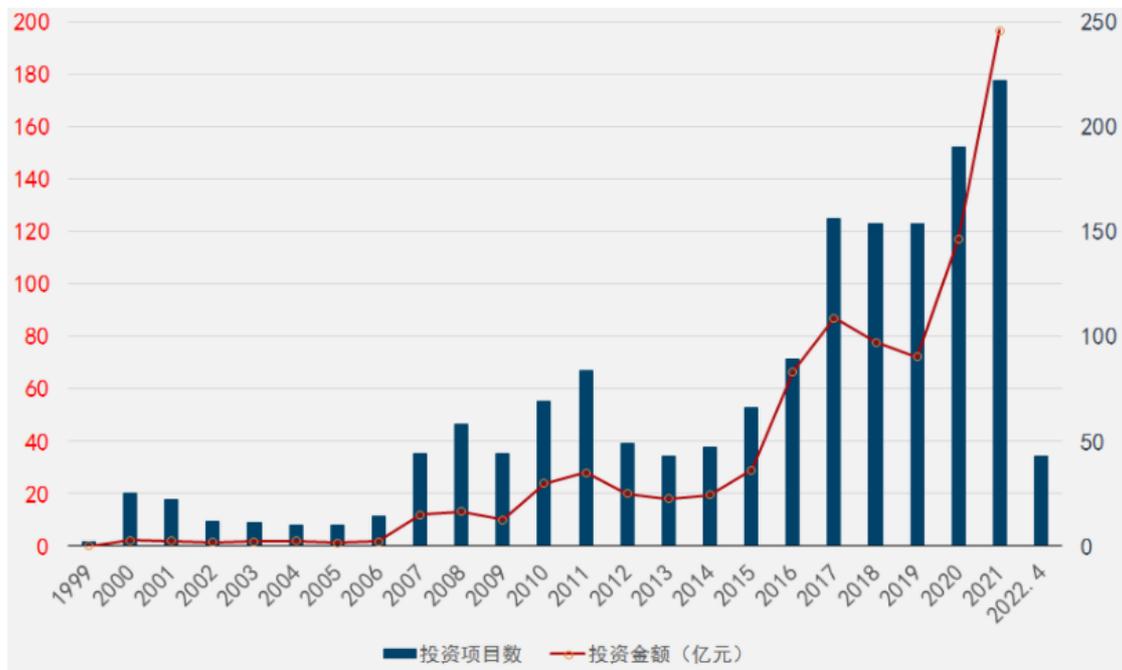
By analyzing successful IPO cases in the above table, in 2021, in terms of successful IPO cases, there were 199 cases listed on the GEM of SZ Stock Exchange, which ranks the first among all Trading Sectors, followed by the SSE STAR Market and Main-board of HK Stock Exchange. Because of the improvement of registration system, the speed of IPOs on STAR and GEM leveled up.



CASE OF STUDY

This case study is about a Chinese Venture Capital involved mainly in IT, Biotechnology, Semiconductors and Electronic Equipment. This article takes Shenzhen Capital Group Co., Ltd. (SCGC) as a representative company of this vertical. The SCGC was founded back in 1999, led by Shenzhen local government. SCGC invests mainly in small and medium-sized, independent innovative high-tech enterprises and enterprises in emerging industries.

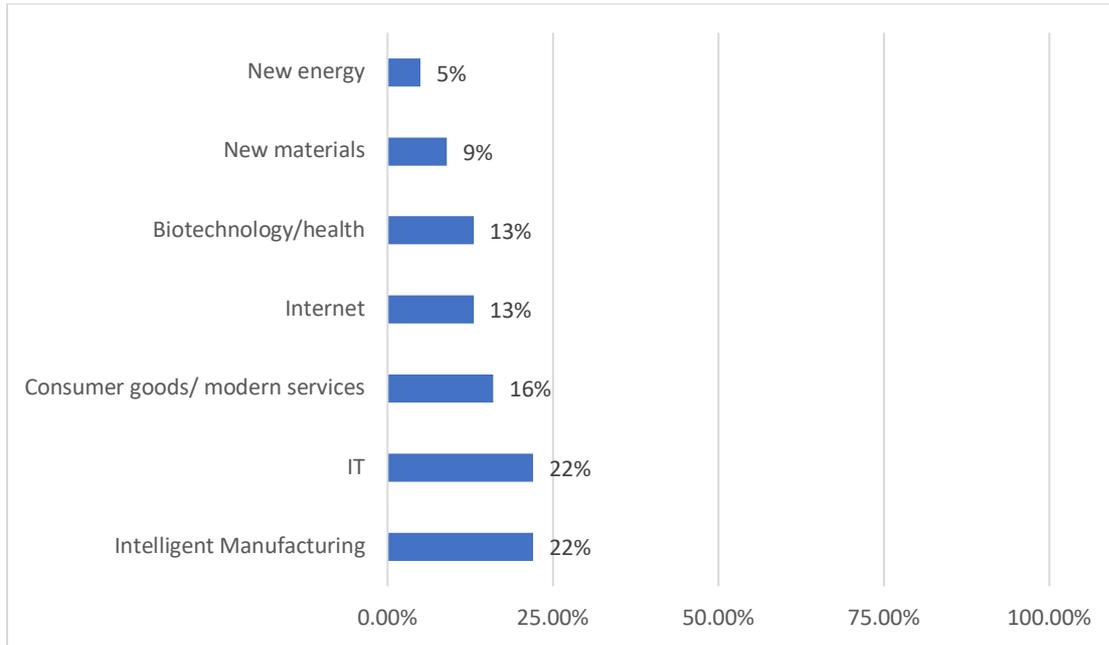
Over the past 22 years, there were in total 364 successful exists and it has brought 194 startups to IPO stage among all its investment cases, so it is called by Chinese VC investors the IPO incubator and those innovative enterprises invested by SCGC have become the mainstay of China's real economy, and SCGC itself has also become one of the trendsetters in China's venture capital industry.



Source: Shenzhen Capital Group

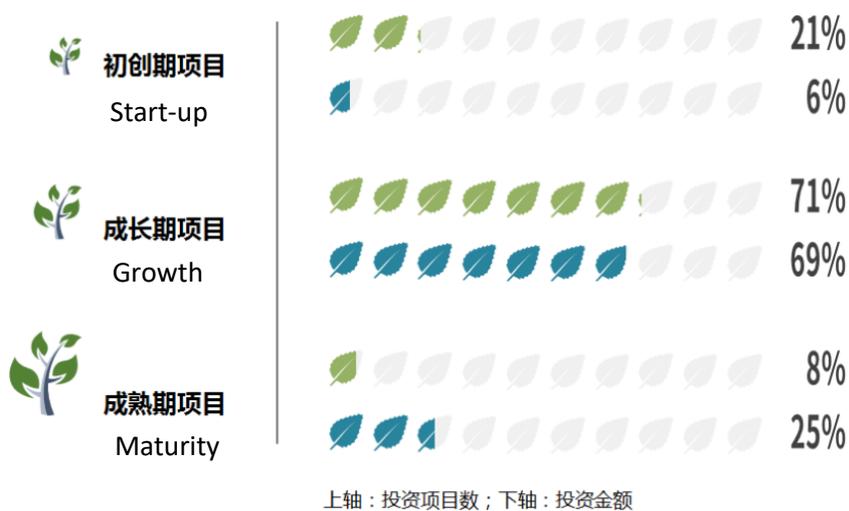
As of April 30, 2022, it has already invested in 1,448 projects with the total investment amount of 84.3 billion RMB. As it is showed in this chart, the investment amount in 2021 reached around 25 billion RMB, even during the pandemic period in 2020, it didn't slow down its path.

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET



Source: Shenzhen Capital Group

According to the SCGC's investment deployment, almost half of the investment cases are concentrated on the IT and Intelligent Manufacturing, which coincides with the top industries in Chinese VC/PE market, as long as we consider the later one as a combination of manufacturing, artificial intelligence and Semiconductor& Electronic Equipment. The other key industries are Internet, Consumer goods/Modern services, Biotechnology/Health, New materials, and New energy.



Above: Investment cases; Below: Investment amount

Source: Shenzhen Capital Group

With respect to the investment stage, the SCGC mainly focus on projects in growth stage, 71% of the investment are done within this stage, of which 35% were Round A; 12% were Round B; 15% were equity-financed projects; and 11% were strategic investments.

CHINA-U.S. MARKET COMPARISON (2021)

Amount Raised

In the U.S. VC/PE market, the amount of fund raising achieved 429.528 billion USD, with an annually growth rate of 55.2%. Compared to that, the amount of Chinese VC/PE market achieved 2.21 trillion RMB, which is approximately 343.114 billion USD, with a year-on-year growth of 84.5%.

Investment Quantity

The number of investment cases in 2021 in the U.S. VC/PE market was 25,678, and that number in Chinese market was 12,327. The annual growth rate was 46.2% and 63.1% respectively.

Investment Amount

The amount of investment in the U.S. VC/PE market reached 1.57 trillion USD with an annual growth rate of 81.3%. For Chinese VC/PE market, the amount was 1.42 trillion RMB, which is approximately 220.463 billion USD, with a year-on-year growth rate of 60.4%.

Exit Quantity

In terms of exit cases quantity, there were 3,606 cases exit in the U.S. VC/PE market, and in Chinese VC/PE market, the quantity reached 4,532 cases.

In 2021, the fund-raising amount in the U.S. market reached a new high point. The main reason is the huge return brought by Exits. Lots of funds allow Limited Partners make more arrangements in PE/VC market and also, for General Partners, they are much easier to raise funds.

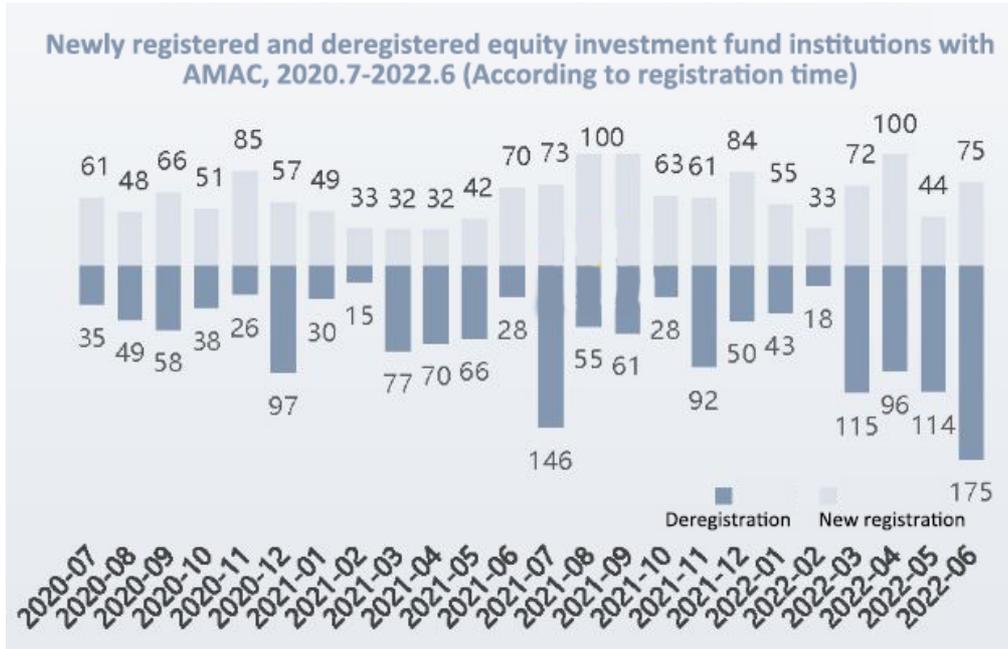
In Chinese market, the participation of insurance banks and institutional investors has been relatively “deregulated”, causing large scale of state-owned capital entered into the market. At the Exit end, the channel of IPO normalization has been dredged. Based on those, the total scale of fund-raising in Chinese PE/VC market achieved an explosive growth in 2021.

After the normalization of pandemic prevention and control, Chinese investment market has been activated. On the one hand, it was necessary to complete and make up the investment delayed in the early stage of the pandemic. On the other hand, the hard & core technology investment is in the ascendant. Large investment cases focused on the Internet, Advanced manufacturing and New infrastructure industries have been achieved in 2021.

SITUATION OF CHINA'S VC/PE MARKET IN THE FIRST HALF OF 2022

Market Overview

As shown in the following chart, in the first half of 2022 (H1'22), there have been 379 newly registered equity investment fund institutions with Asset Management Association of China (AMAC). However, there have been 561 deregistered equity investment funds, representing a year-on-year (YoY) increase rate of 46.9% and almost reached 80% of the total deregistration number of 2021.

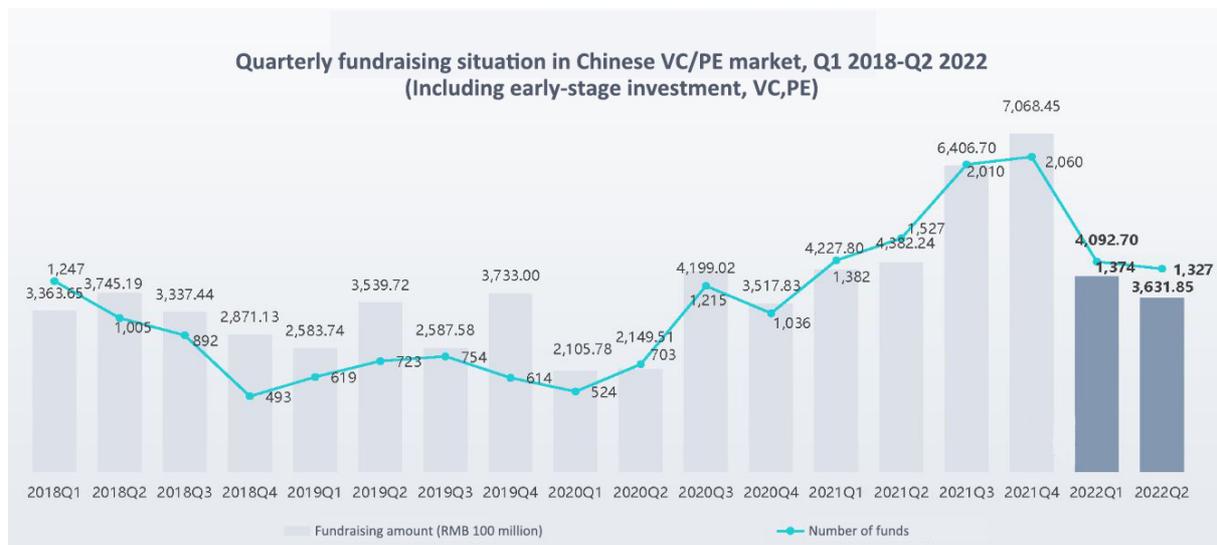


Source: Zero2IPO

Fundraising

- Overview

The fundraising recovery slowed down its pace in H1'22, with a noticeable drop in the number of newly raised funds and total fundraising amount. This has been the first drop of these two indicators in nearly a year, but they still remained above the pre-pandemic level. Specifically, the Chinese VC/PE market have raised RMB 772.46 billion and 2,701 funds in H1'22, a YoY decrease of 10.3% and 7.2% respectively.

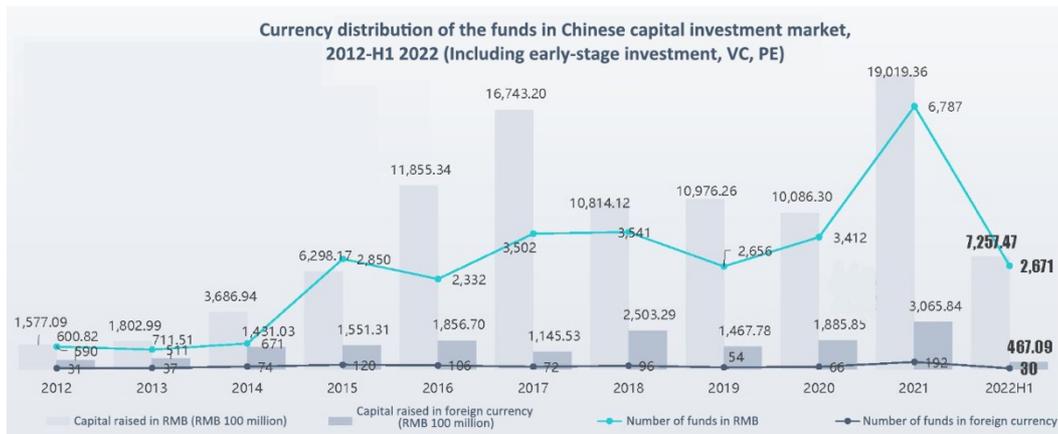


Source: Zero2IPO

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET

- **Currency:**

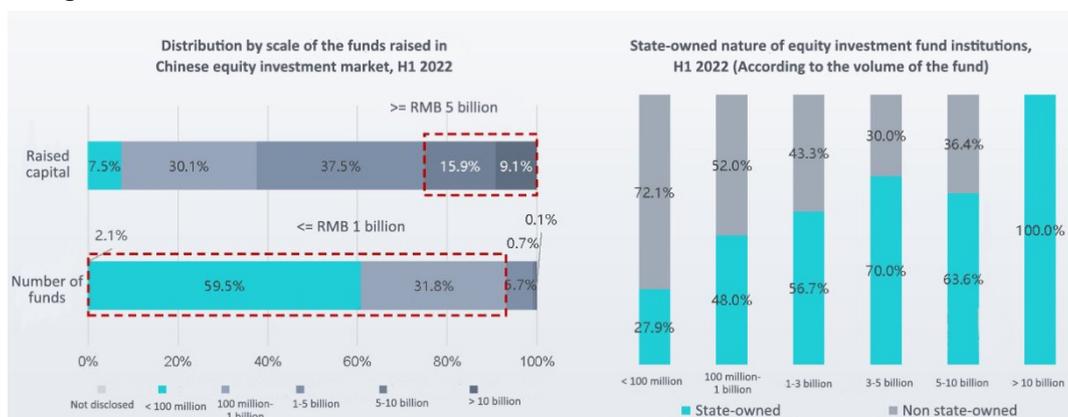
Fundraising in RMB dropped slightly with 2,671 newly raised funds and over 720 billion yuan of total raised amount, representing YoY decrease rate of 5.5% and 0.3% respectively. On the other side, both number and total amount of foreign currency fundraising dropped drastically by 64.3% and 65% YoY respectively, placing at 30 cases and 46.7 billion yuan. The main reason of this brutal drop is the difficulty of getting listed in foreign markets faced by Chinese enterprises, which has been blocking the exit tunnel of capital in foreign currencies. In this situation, QFLP continued to be an option for foreign investors to invest in Chinese enterprises.



Source: Zero2IPO

- **Scale:**

The polarization trend of the fundraising structure didn't change in H1'22. To be specific, nearly 60% of the funds have raised less than 100 million yuan, while the 24 funds raising more than 5 billion yuan each in this period, including large infrastructure investment funds and regional industrial development funds, accounted for more than 25% of the total fundraising amount of the market.



Source: Zero2IPO

The state-owned feature of those large-scale RMB funds continued to be significant. More than half of the RMB funds larger than 1 billion yuan and all those larger than 10 billion yuan are managed by state-owned fund institutions.

Investment Market

- Overview:

Affected by the complicated international situation and repeated domestic pandemic, the investment market slowed down significantly in H1'22, with the deal number and investment amount dropping by 31.9% and 54.9% respectively, placing at 3,094 done deals and a total investment amount of 314.9 billion yuan.

Both RMB and foreign currency investment declined with a greater drop of the latter, which dropped by 78.1% in investment amount and 60.6% in closed deals.



Source: Zero2IPO

- Investment rounds:

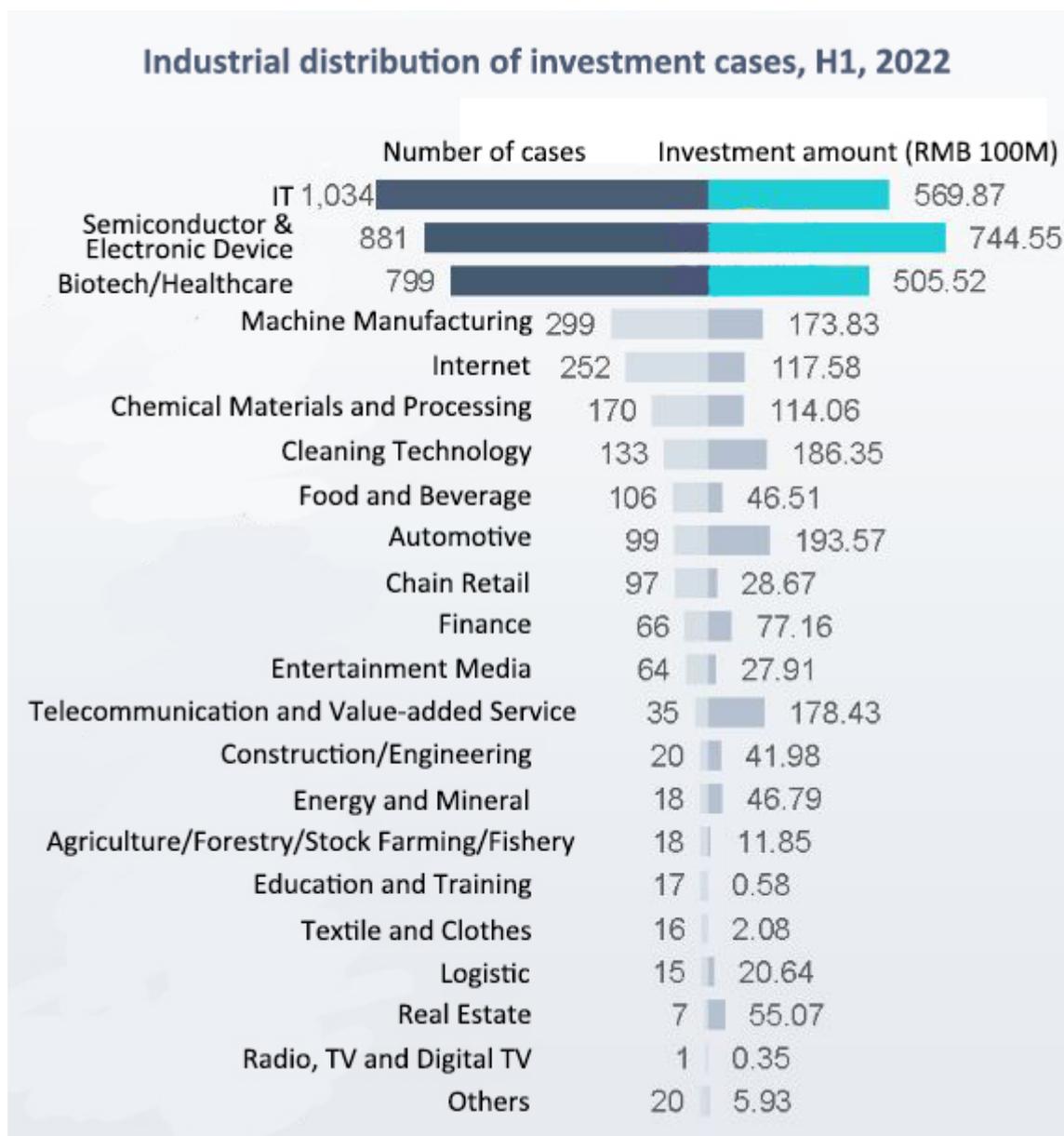
The investment round and stage situation kept with the trend of 2021, most investments have been focusing on the expansion and late stages, and the investment rounds continued to concentrate mainly in Round A and Round B. However, the average investment amount in each stage has decreased due to the general descending trend.



Source: Zero2IPO

● Industry distribution:

In H1'22, more than 60% of investment deals were closed in the Top 3 sectors: IT, Semiconductor & Electronic Equipments and BioTech/Health Care. Meanwhile, investing in industries like Automobile and Semiconductor continues to be an important trend in Chinese investment market. According to the chart below, the above mentioned two industries have been the only industries with positive growth in terms of the number of closed deal in comparison with the same period of the previous year.



Source: Zero2IPO

● Regional distribution:

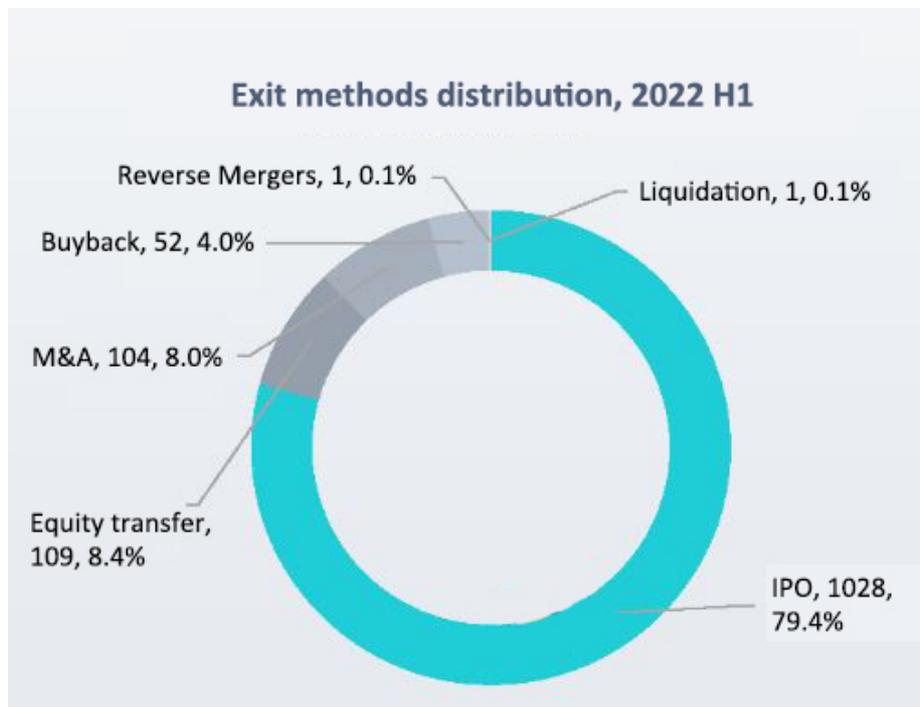
Geographically speaking, in H1'22, Jiangsu was the province with the most closed deals (725), slightly ahead of Beijing and Shanghai. Besides, Shenzhen, Zhejiang also witnessed more than 400 deals. In terms of the total investment amount, Beijing was the leading city with more than 61 billion yuan, while Jiangsu, Shanghai and Shenzhen also had good performances. Generally speaking, most of the Chinese cities and provinces had a YoY drop on both statistics, and the repeated pandemic in Zhejiang, Jiangsu and Shanghai area may affect future investment.



Source: Zero2IPO

Exit Market Overview

In H1'22, there have been 1,295 cases of exit occurred on Chinese equity investment market, which means a 50% YoY decrease. Among all exit methods, IPO of portfolio companies remained to be the main exit channel with 1,028 cases, and counted for 79.4% of all exits. However, all types of exits fell in these 6 months except M&A, which counted for 104 cases and a 1% YoY increase.



Source: Zero2IPO

Semiconductor & Electronic Equipment, Biotech/healthcare and IT were the leading sectors in the exit market in H1'22. And Jiangsu was the province with most exit cases, followed by Beijing, Shanghai and Guangdong.

IPO Situation

- Overview:

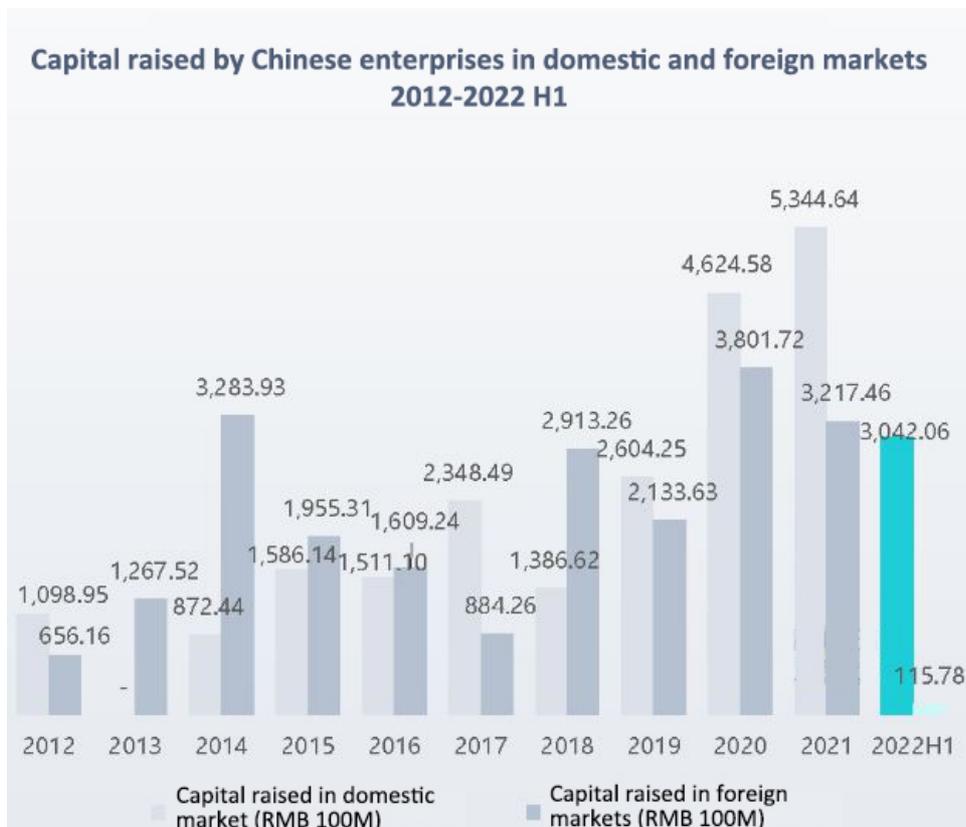
H1'22 has seen 192 newly listed Chinese companies in domestic and overseas markets, and the total financing amount reached RMB 315.78 billion, representing a YoY decrease of 39.6% and 28.6% respectively.



Source: Zero2IPO

From the following two charts, we can tell that the number of domestic listing went down by 31% YoY, but the total financing amount reached 304.2 billion yuan and achieved a 45.3% YoY increase. Meanwhile, the overseas listing market only saw 23 Chinese companies going public in the first half of 2022, with 20 companies in Hong Kong Exchange and 3 in Nasdaq. The total financing amount was 11.14 billion yuan, representing a huge YoY decrease of 92.7%.

In general, the overseas listing of Chinese companies hit the bottom, while the normalized IPO trend in the domestic market remained the same.

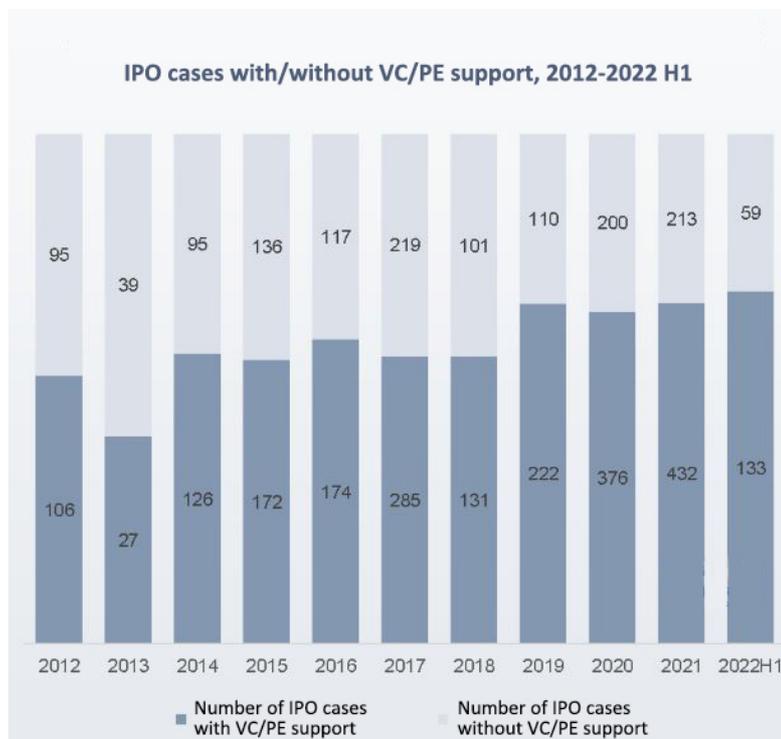
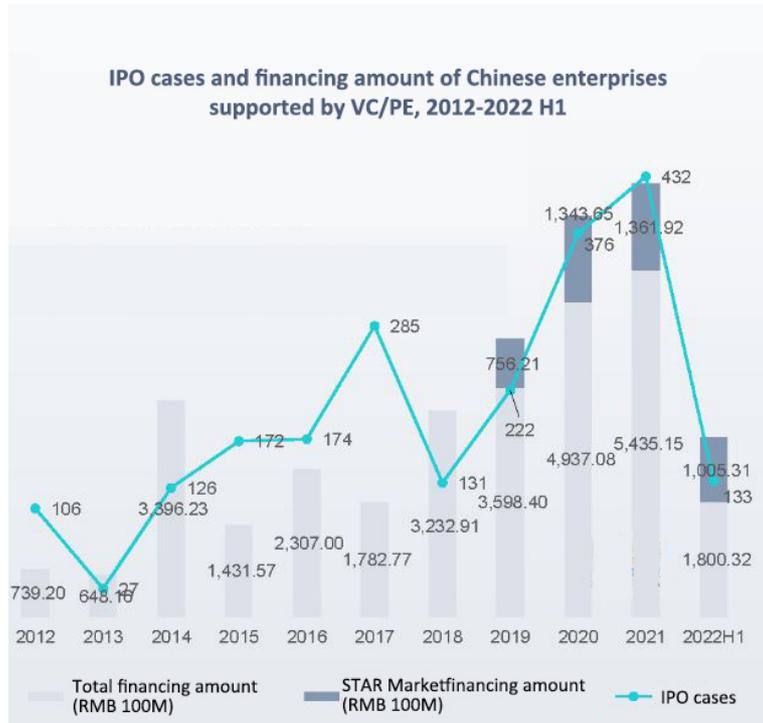


Source: Zero2IPO

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET

- VC/PE penetration and Return rate:

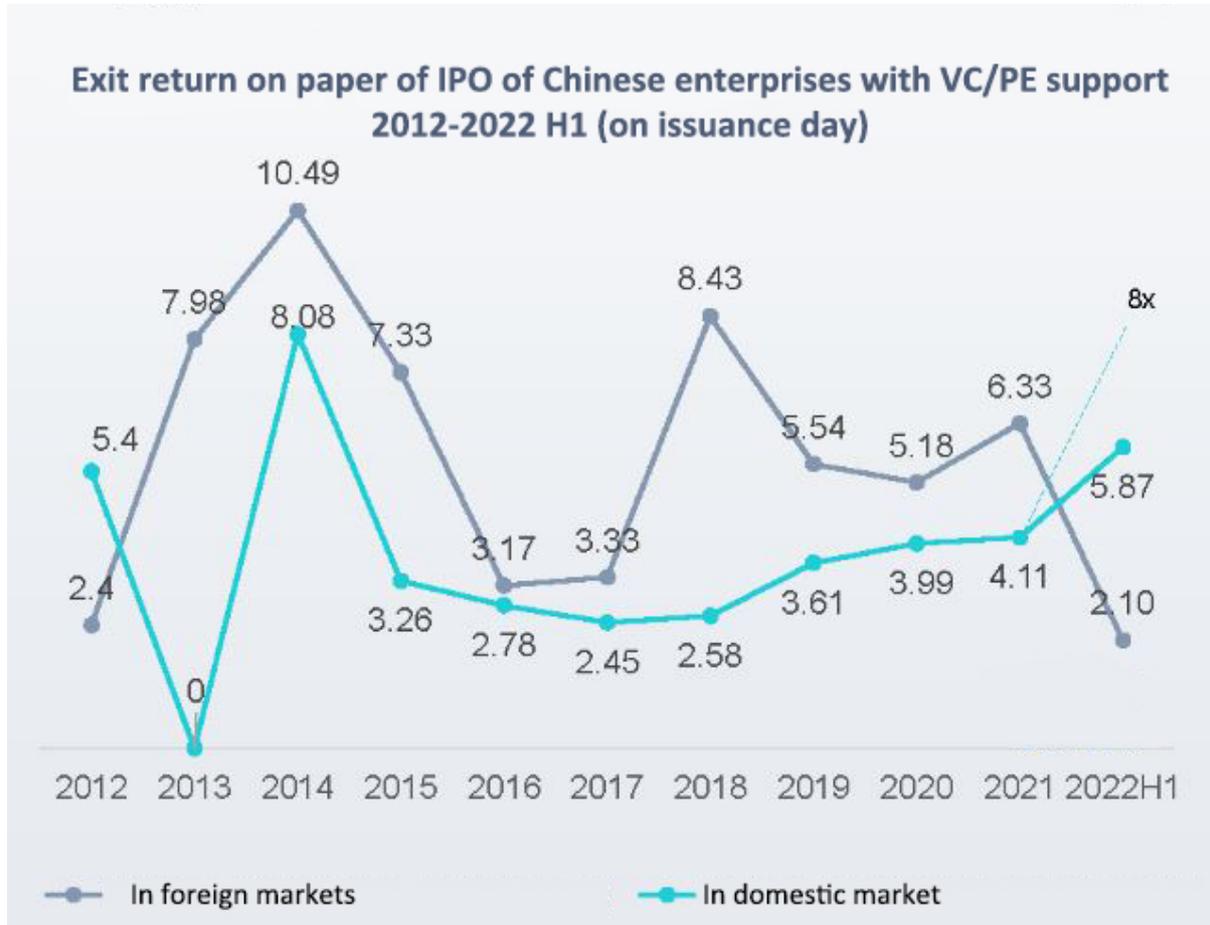
In H1'22, the VC/PE-backed IPO went down both in number and in financing amount, respectively by 40.1% and 45.5% YoY, but the VC/PE penetration rate remained high at 69.3%.



Source: Zero2IPO

OVERVIEW OF CHINA'S VENTURE CAPITAL/PRIVATE EQUITY MARKET

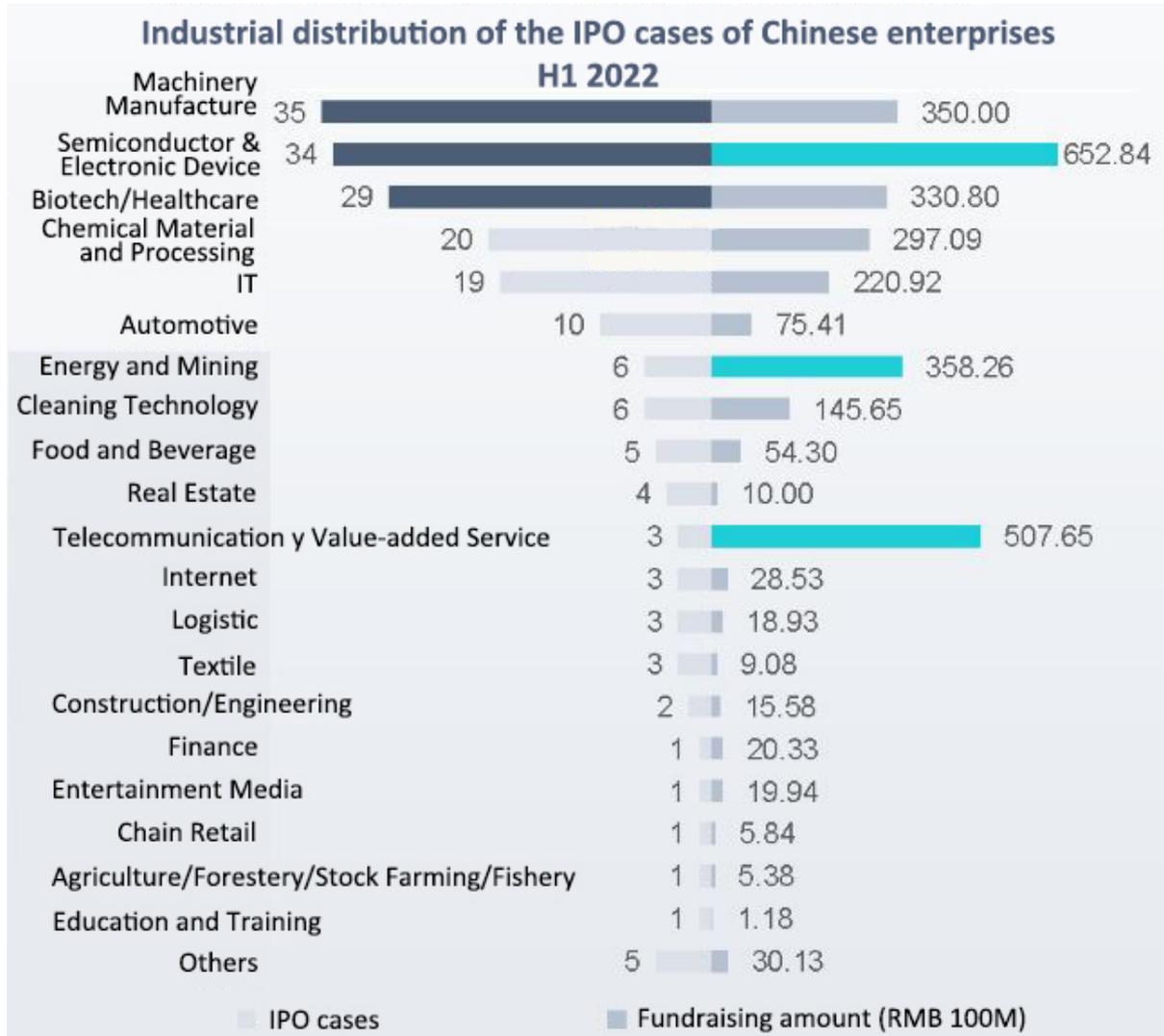
On the other hand, the average return rate (MOIC) of VC/PE-backed domestic IPOs surpass that of overseas IPOs for the first time since 2013, and the main reason lied in the stagnant listing process of Chinese enterprises in the US market. Being specific, the average domestic IPO return rate on issuance day was 5.87x in the first half of 2022, while that of overseas IPO was 2.10x.



Source: Zero2IPO

- IPO industry distribution:

As we can see in the graph below (Zero2IPO), Machinery Manufacturing, Semiconductor & Electronic Equipment, Biotech/Healthcare, Chemical Raw Materials & Processing and IT led the number of successful IPO cases in H1'22, with Semiconductor & Electronic Equipment receiving the biggest financing amount of RMB 65.28 billion. At the same time, Telecom & Value-added Services also had good performance in total financing amount thanks to the RMB 48.69 billion yuan fund raised by China Mobile.

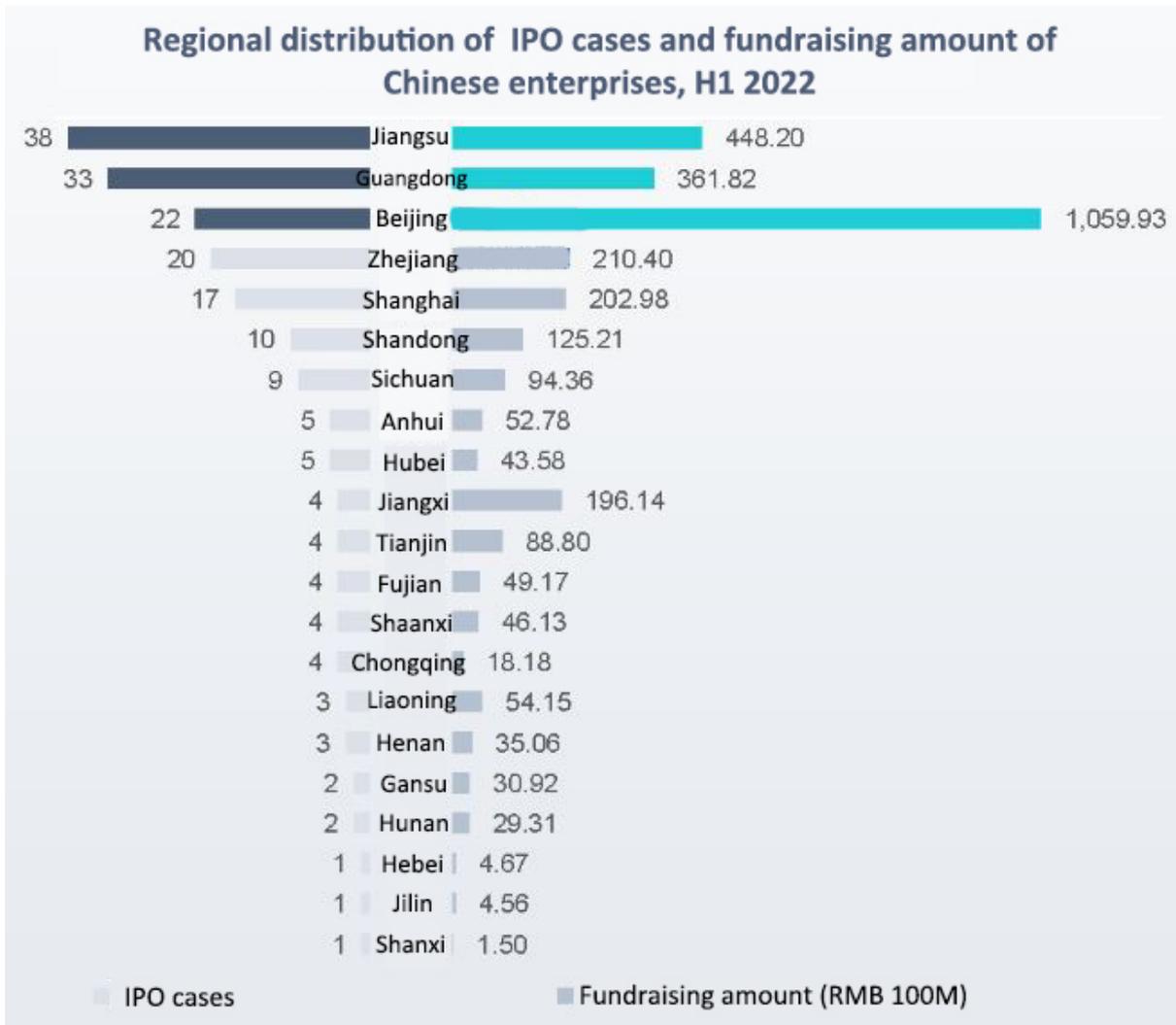


Source: Zero2IPO

● IPO regional distribution:

In the first half of 2022, Jiangsu ended to be the leading province in the number of listed companies (38), followed by Guangdong and Beijing. In terms of total financing amount, Beijing led the ranking with 105.99 billion yuan, followed by Jiangsu, Guangdong and other provinces.

As for the Trading Sectors, ChiNext and STAR still dominated the domestic market with 68 and 53 newly listed companies in H1'22, and their financing amount were RMB 87 billion and 115.56 billion respectively. Besides, a total of 19 companies went public on the Beijing Stock Exchange (BSE), raising a total amount of RMB 2.75 billion (Zero2IPO report).



Source: Zero2IPO

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About

Dadao Capital



DADAO CAPITAL is a boutique investment and consulting firm focused on cross-border investment and trade opportunities between China and North-South America.

DADAO's services includes: cross border transactions, M&A, capital raising, strategic advisory and negotiation for solving international commercial disputes.

Our team includes hands on experienced professionals graduated from top universities. We speak fluent Spanish, Chinese and English.

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