2024

GREATER CHINA

Private Capital Breakdown

Contents

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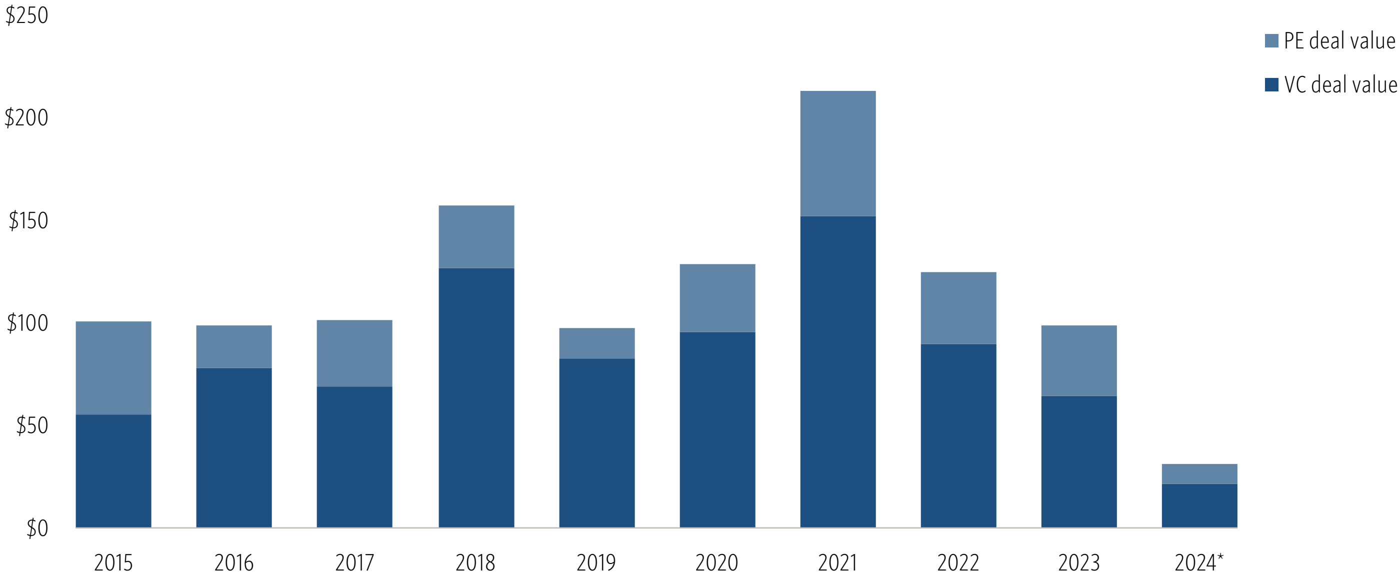
Click here for PitchBook's report methodologies.

Note: Greater China is defined as mainland China, Hong Kong, Macao, and Taiwan.

The accompanying Excel file contains additional charts and all underlying data for this report. Download the XLS summary here.

Greater China market overview

Private capital deal value ($B)



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

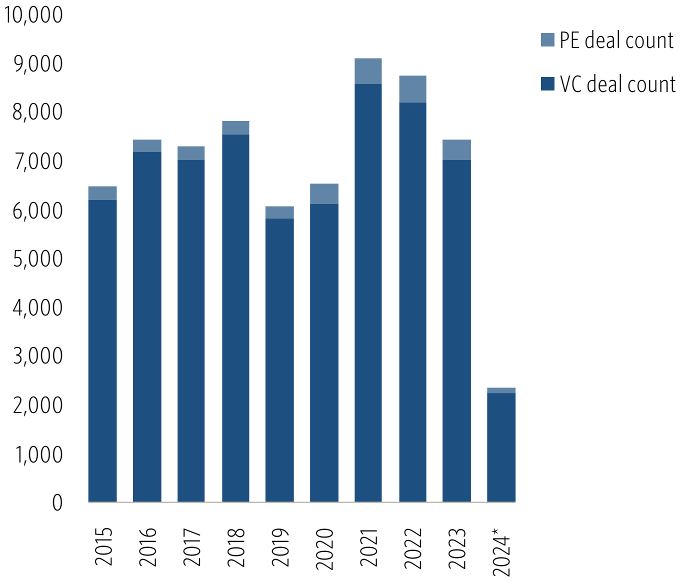
China

Among global emerging markets, mainland China has a large and relatively more mature private capital ecosystem. With mounting macroeconomic challenges and geopolitical concerns, the private market in Greater China has experienced a slowdown. During the first half of 2024, $31.3 billion was invested across 2,345 PE and VC deals. Should the current pace of dealmaking continue, the annualized deal value and count in 2024 are both projected to settle at their lowest levels since 2015. In addition, from 2023 to H1 2024, the number of active VC investors in Greater China dropped by 52.3% while the number of active PE investors dropped by 69.5%, further attesting to the overall market sluggishness. From a macro perspective, the expected rebound in economic activity following the lifting of COVID-19 restrictions has so far failed to materialize. Indeed, recovery in the region will likely be a more gradual process than expected. China has been grappling with a series of headwinds, including deflation pressure, an elevated youth unemployment rate, and most prominently, a troubled real estate market. The collapse of the Evergrande Group in 2021 marked the beginning of the housing sector crisis in China, where property investment and home sales have declined. All major cities in China have eased home-purchase restrictions, and the housing sector is watching for further government stimulus in light of weak demand. However, the property market has yet to see light at the end of the tunnel, and the market correction has dragged down consumer sentiment, as a significant portion of household wealth flows to real estate.

As a result of the economic downturn, consumers have become more cautious with large purchases, in particular discretionary spending. While total consumption is not necessarily trending downward, consumers are placing greater emphasis on cost-effectiveness and price points. Shopping around for the best price and quality has become the mainstream consumer behavior. “Consumption downgrade” has become a trendy phrase, and homegrown brands have gained further popularity in China. In the B2B space, companies are opting for higher efficiency, potentially by becoming more streamlined and scaling down operations. Companies may be open to trying out new technologies to drive this efficiency, which could be a booster for the enterprise software-as-a-service sector.

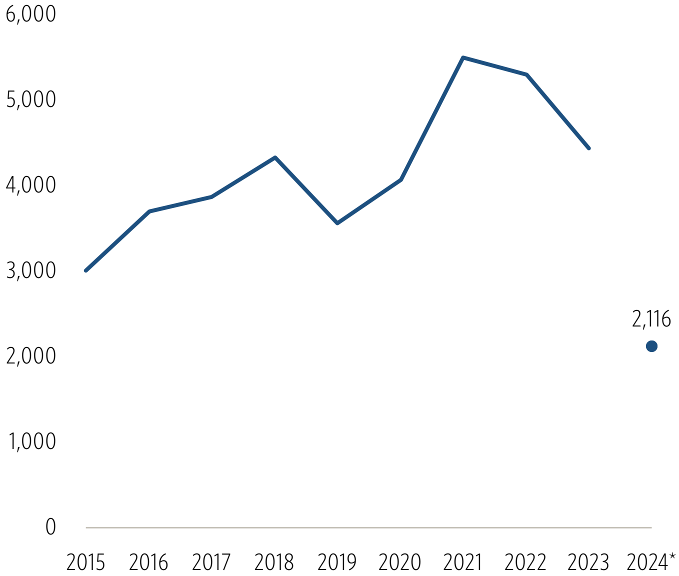
Elsewhere within the region, a slow rebound can be seen in industrials, including in electric vehicles (EVs), hardware tech, and IT equipment manufacturing, areas in which China has historically demonstrated global competitiveness. In particular, the EV market in China is large and growing rapidly. More than 100 Chinese EV makers fiercely compete in this space. The competitive landscape can largely be attributed to China’s industrial policy, where government subsidies fueled the emergence of new EV players. The ones that survive from the intense competition will be the strongest and therefore the best positioned to compete globally. However, a major headwind for Chinese EVs tackling the global market is high tariffs, particularly those imposed by the US and the EU.

Private capital deal count



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Unique VC investor count



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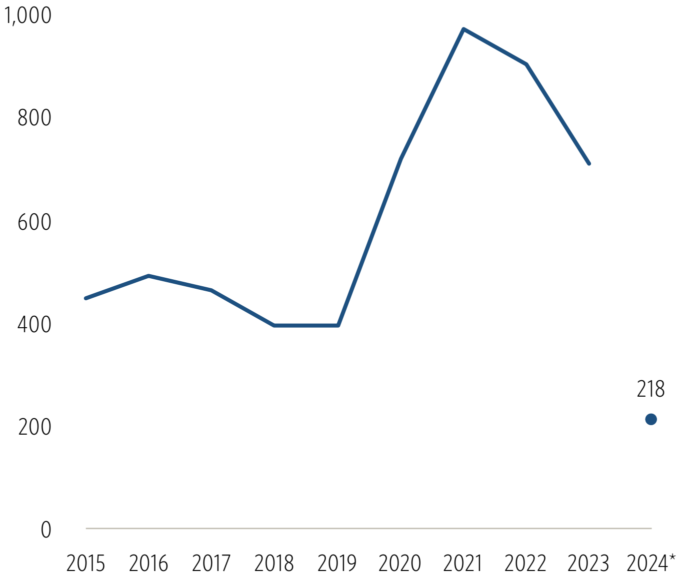
Private market investors have taken note of the shifting trajectories of consumers and businesses, adapting their strategies to take advantage of their position in the market wherever they can. The ebbs and flows of more normal economic cycles are not unique to Greater China, as similar changes have occurred globally over the past few years, albeit due to differing reasons. However, the Greater China private market also needs to adapt to shifting preferences of global VCs and LPs due to geopolitical tensions between China and the US. The increasing risks induced by these tensions have led to a potentially significant reallocation of capital away from the Greater China market.

This capital will need to be deployed elsewhere. Global investors looking to diversify away from China have been looking at countries such as India, Japan, and Vietnam, which stand as attractive alternatives due to their states of economic development and warmer relationships with the Western block, the US in particular. During the past couple of years, a number of nondomestic enterprises have partially or entirely shifted their manufacturing bases away from China to elsewhere in Asia-Pacific, such as India and Vietnam. This pattern was particularly pronounced during the COVID-19 lockdown but has continued since the pandemic.

Geopolitics between the world's two largest economies have been weighing on private market activity in China. With elevated US-China tensions and the US seeking to curb cross-border investments and high-tech development in China, the upcoming US election in November will be a pivotal event. For now, the outlook for trade relations and tariffs is uncertain. A pullback of US institutional investors, such as pensions and endowments, has led to a fundraising predicament for Chinese funds denominated in US dollars (referred to as "USD funds" throughout this report), which historically raised from US LPs. Regional market participants long for a smoothing of the sociopolitical tensions across the Pacific Ocean. Investors are nostalgic for the "good old days" between around 2016 and the breakout of COVID-19, during which there was a high volume and frequency of Sino-US listings. The question remains as to whether that will be the case again. In the meantime, investors and founders are trying to push through headwinds amid heightened geopolitical tensions.

Unique PE investor count



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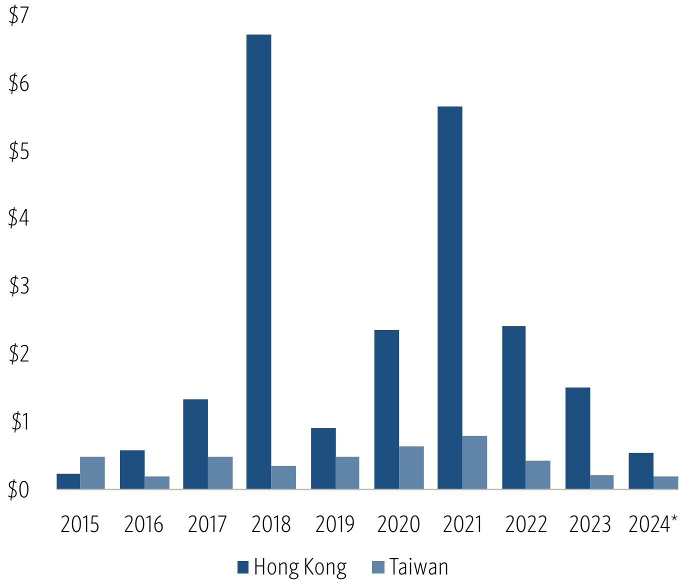
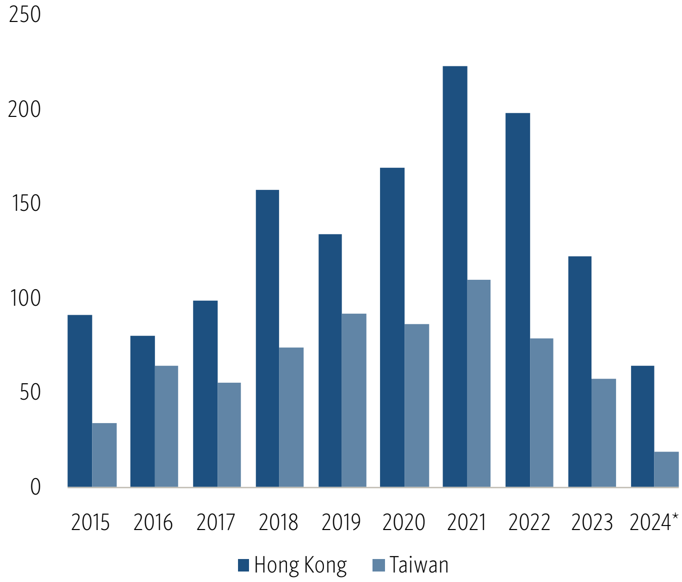
VC deal value ($B) by select region



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

VC deal count by select region



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Hong Kong

Regionally, Greater China varies widely in market development and maturity. Regional economies and sector trends drive distinct private market investment. The market in Hong Kong has been going through a downturn. During the pandemic, Hong Kong saw an exodus of expats and locals. Following the lifting of pandemic restrictions, some have returned. Hong Kong used to be a hub and an intermediary for overseas investors to play in the China story. Previously, the market in Hong Kong saw abundant liquidity from global investors because of the low tax rate and China's fast-growing economy. Global private funds could set up in Hong Kong and invest into China with more flexibility.

During the past few years, however, the private market in Hong Kong has been stuck in a tough spot. From 2021 onwards, VC and PE deal values in Hong Kong have steadily declined. The annualized deal value and deal count for PE in 2024 are on track to settle at the lowest levels in our dataset. On the VC side, while the annualized deal count in 2024 is projected to exceed 2023's level, the annualized deal value lags the previous year by one-third, illustrating a lack of outsized deals that tend to hold up total deal value.

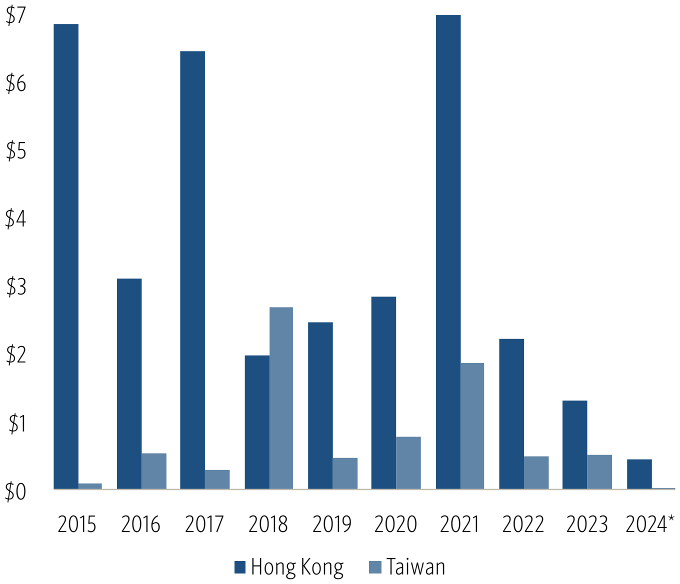
The Hong Kong public market has faced strong headwinds as investor appetite has diminished in light of a lackluster performance of its listings. Liquidity has been thin during the past few years, and local retail investors have been able to access many types of products, such as nondomestic stocks and cryptocurrency. The top part of Hong Kong's Hang Seng Index is primarily made up of China-based companies. As those corporations have faltered in the slowing economy, the index has felt the brunt of the shift inside China. Even Big Tech names such as Tencent, Alibaba, and Meituan, which are among the top 10 largest Hong Kong-listed companies by market capitalization,[1] have struggled since China's reopening from COVID-19 restrictions. The close relationship between China's corporations and Hong Kong exchanges further intertwines their investment environments.

With China's manufacturing activity waning and US-China trade relations weakening, the economy in Hong Kong has significantly slowed down. Hong Kong's main business activity revolves around financial services, a sector that primarily provides services to businesses in mainland China, including Chinese companies seeking offshore financing or looking to list on the Hong Kong or other overseas stock exchanges. Service providers such as investment bankers and lawyers assist clients with IPO and M&A transactions. When the number of Chinese companies looking to debut on overseas stock exchanges dropped sharply, the decrease in business activity led to layoffs in the past few years.

Many market participants hold a relatively bearish outlook when they are asked about their long-term view of Hong Kong. The negative undertone associated with the sentiment on Hong Kong's financial market largely comes from Hong Kong's market being closely related to that of China. Historically, nondomestic investors interested in conducting business in China tended to set up office within Hong Kong. However, the interest and appetite in China

1: "Welcome to the Global Home of the IPO," HKEX, n.d., accessed August 8, 2024.

PE deal value ($B) by select region



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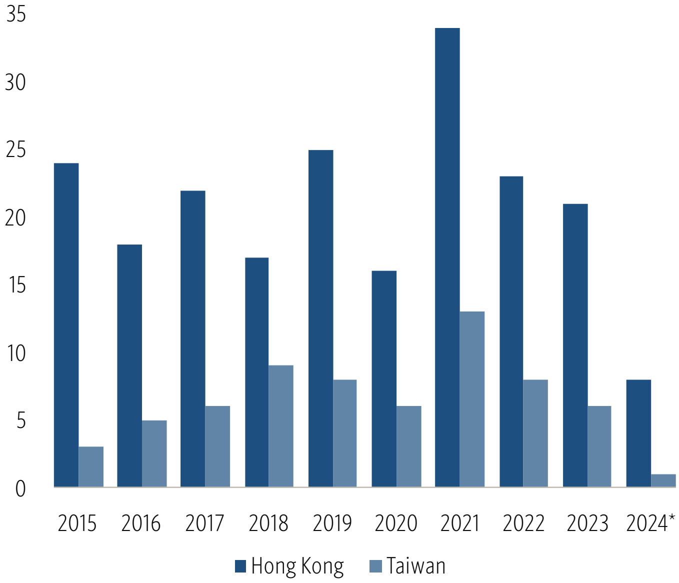
PE deal count by select region



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has waned. With a slowdown in China's economic growth, Hong Kong's market has been negatively impacted with a shrinking number of Chinese businesses planning to list on nondomestic exchanges.

From a political lens, international financial institutions have started to re-evaluate their China strategy as Hong Kong is being tied more closely to China. Previously, everything except for politics in Hong Kong was run independently. For example, the financial and legal systems are all different and separate from those in China. A major concern for global investors is whether Hong Kong has less independence from China currently and if that will continue to be the case going forward. With the tightening of policy from the Beijing government, Hong Kong is now seen by many global investors more as a part of China than as an independent administration. From a risk management perspective, the concern has led to private wealth flowing elsewhere.

Taiwan

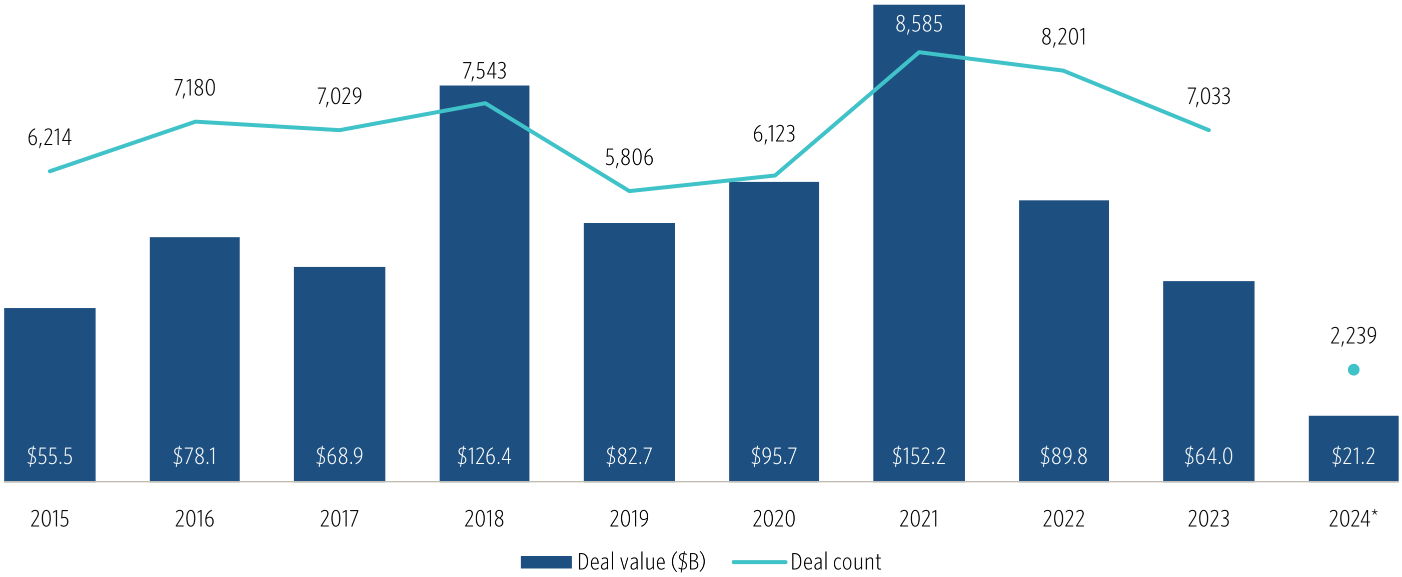
Compared with that of Hong Kong, the private market in Taiwan is small, highly localized, and still in a relatively early stage of development. Take the 2021 market height as an example. In 2021, $12.7 billion was invested across 257 VC and PE deals in Hong Kong. In the same year, $2.7 billion was deployed to 123 VC and PE deals in Taiwan. In H1 2024, Hong Kong's private market deal value ($0.9 billion) exceeded that of Taiwan ($0.2 billion) by 77.8%. One of the reasons behind the disparity is a lack of large market players in Taiwan. The regional ecosystem features a powerful presence of conglomerates, namely a small number of families and their affiliated companies. From a PE perspective, only a handful of independent PE firms focus on Taiwan, along with investment vehicles with ties to a conglomerate or owned by a family business. As a result, the market has a lesser competitive mix than Hong Kong, which historically tends to be the Asia-Pacific headquarters for nondomestic companies.

Taiwan's real GDP growth has partially rebounded from the post-pandemic low, notching 3.1% as of April 2024.[2] While a strong AI sector and GDP growth act as tailwinds for the regional market, geopolitics weigh on the island's future development. With the recent election, uncertainty surrounds the island's relationship with mainland China and its future policy direction under the new administration, influencing its growth prospects in turn. Apart from AI, the fintech sector is an area of interest for investors. Specifically, the insurance technology space is ripe for disruption, as Taiwan has a highly insured population in terms of the number of policies held and the range of coverages purchased. Through the introduction of the government-administered National Health Insurance program nearly three decades ago, 99.9% of the population in Taiwan has health coverage.[3]

2: "Taiwan Province of China," International Monetary Fund, April 2024.
3: "Healthcare Resource Guide - Taiwan," International Trade Administration, n.d., accessed August 8, 2024.

Dealmaking

VC deal activity



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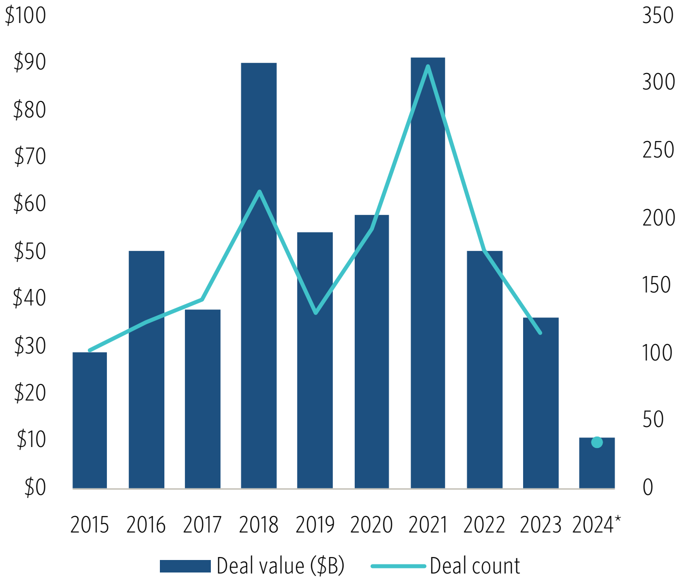
Following the COVID-19 pandemic, the private market in Greater China remains in a recovery phase, and we have yet to see a meaningful rebound. Deal activity remains slow despite sector variances, and some VCs have slowed down their investing pace due to a lack of highly investable deals and fundraising challenges. In H1 2024, $21.2 billion was deployed across 2,239 VC deals. Deal value from the first half of the year is less than one-third of the 2023 annual figure, and 2023 was already a slow year. A lack of megadeals (rounds that are at or above $100 million) helps explain the low deal value. 2024's annualized megadeal value of $21.6 billion is on track to hit the lowest point in our dataset, lagging the 2015 nadir. A similar, while slightly more resilient, trend was observed from the PE side. The annualized PE deal value in 2024 is projected to land at a four-year low, although it will be higher than the dip in 2019.

Valuations have declined broadly as exit opportunities and expectations have waned and competition within investments has dropped. The median PE deal value slid by 27.1% between 2023 and the first half of 2024, settling at $19.7 million. On a positive note, this figure sits above the 2022 level. Similar to global markets, 2022 and 2023 were two of the most difficult years in the past decade for companies in Greater China as economic challenges and liquidity problems were rampant throughout the private market. Anecdotally, some investors have noted a slight uptick in deal momentum during the first half of 2024, but the trend has not shown up in the data.

VC megadeal activity



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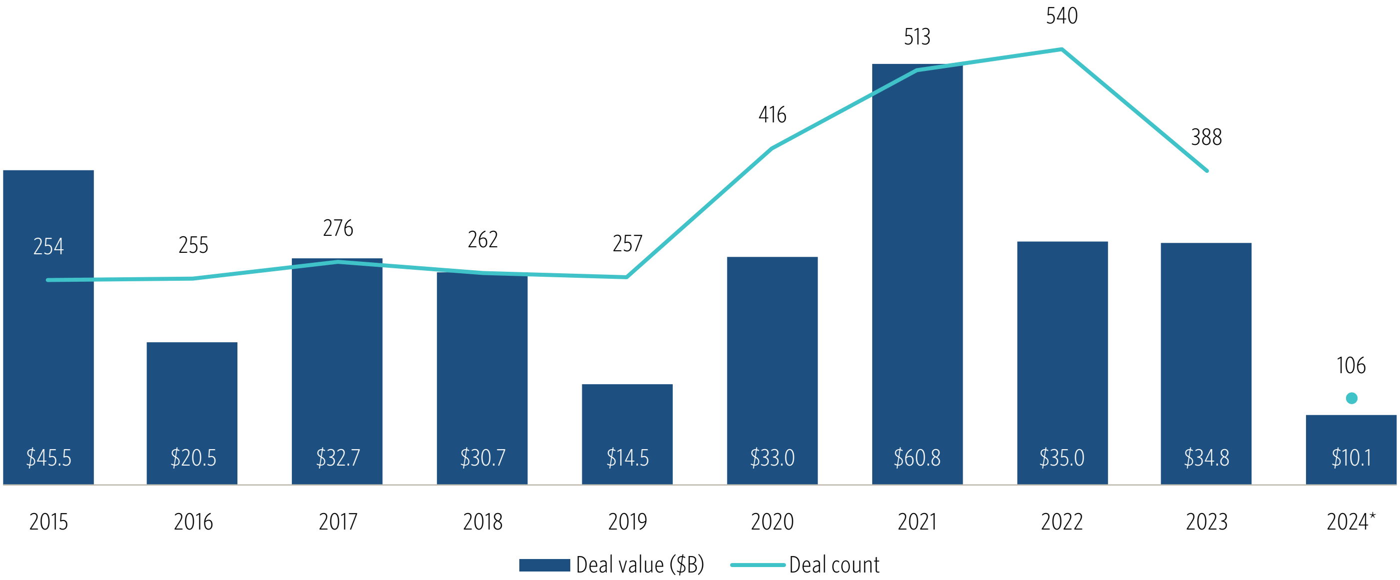
PE deal activity



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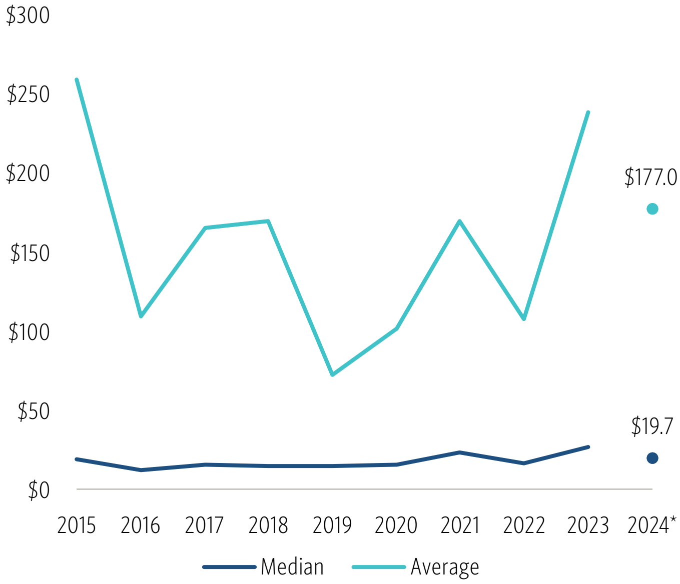
As nondomestic investment wanes, Chinese GPs and founders are looking at overseas markets

Since 2021, direct investments made by US investors have steadily declined as a proportion of all venture deals in Greater China. In 2021, 13.7% of VC deals in Greater China had US investor involvement. During the first half of 2024, the figure dropped to 5.0%, roughly the same level as 2023 but significantly lower than pre-pandemic years. Alongside economic uncertainty, regulatory scrutiny from both sides of the Pacific has been a major factor in the pullback of US investors.

US investors are not alone in re-evaluating their China investment strategy. The number of VC deals with non-Chinese investor involvement notched 7.3% in H1 2024, the second-lowest level in our dataset. The biggest concern for nondomestic investors that historically have been active in China is the ability to repatriate investment gains. The worry about policy shifts that may take place abruptly and negatively affect business activities and investment returns weighs on nondomestic investor sentiment.

Median and average PE deal value ($M)



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Alongside this slowdown, a major trend emerging in the Chinese VC market is that GPs have increasingly been emphasizing the importance of overseas expansion for new deals and to their portfolio companies. Some funds go as far as considering cross-border expansion as a prerequisite for investment. Previously, tech-focused VCs tended to consider overseas expansion as a plus, as opposed to a must, because the market in China alone was sufficient for a large venture-style outcome. However, with the consumption downgrading and cost-cutting trends, global ambitions and a plan to expand cross-border have become ever more important.

Concurrent to Chinese companies going global, investing in overseas Chinese entrepreneurs is becoming more commonplace for investors that had been active in China.

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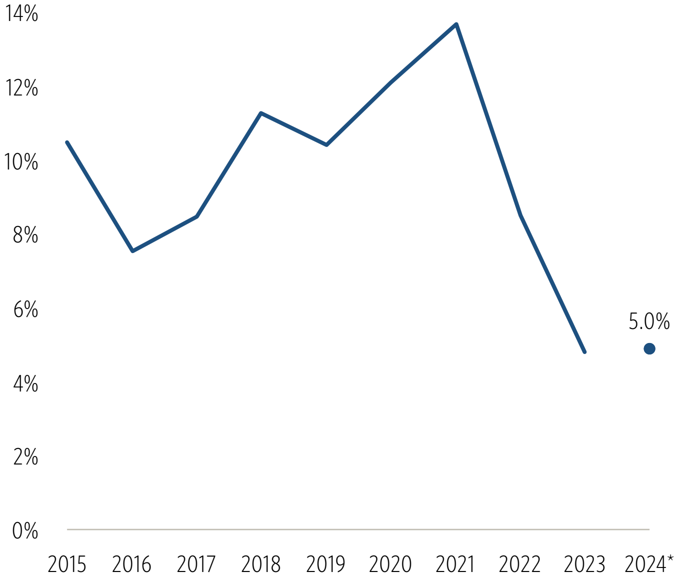
Deals with US investor participation as a share of all VC deal count



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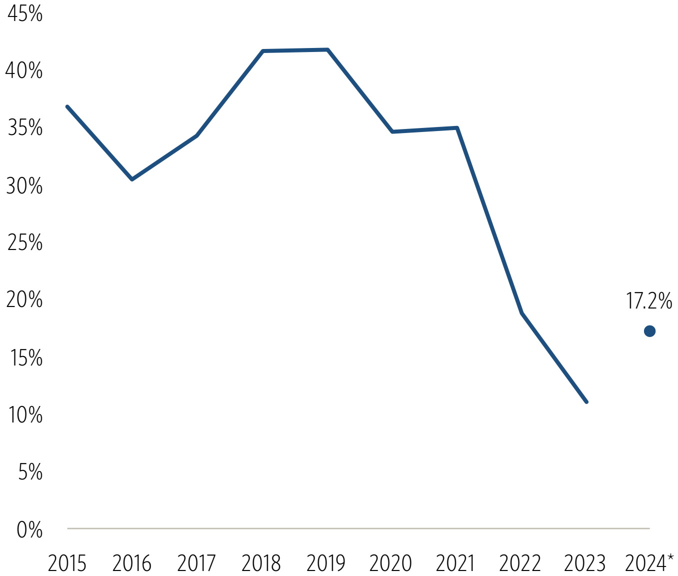
Deals with US investor participation as a share of all VC deal value



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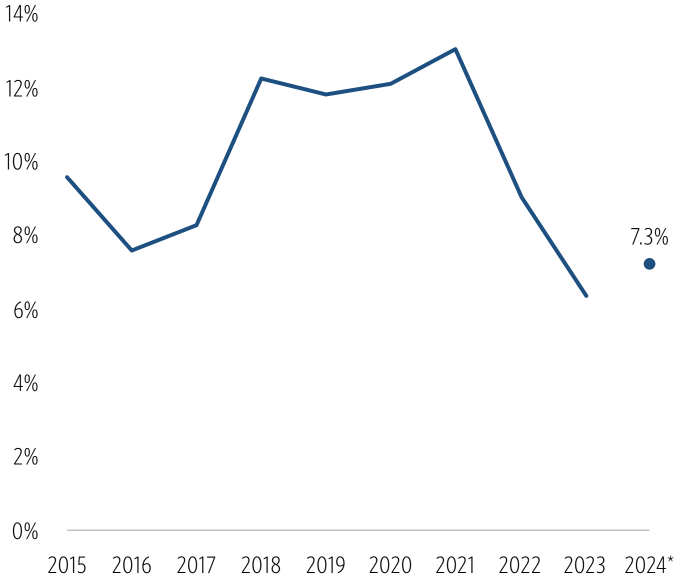
Deals with non-Chinese investor participation as a share of all VC deal count



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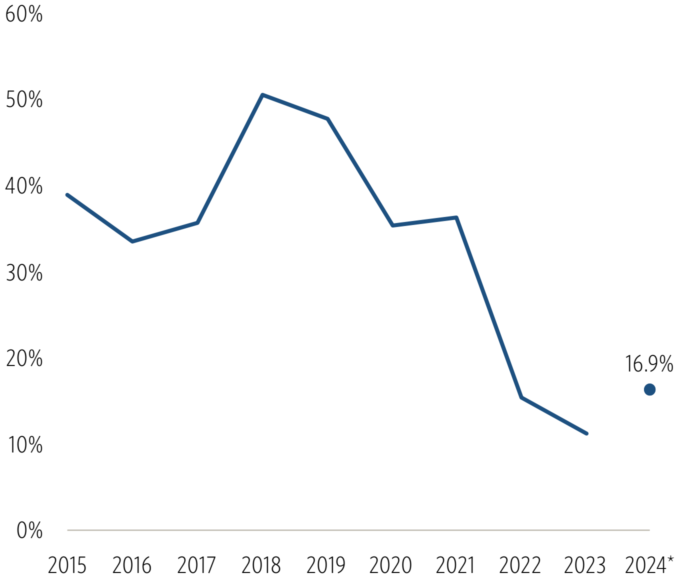
Deals with non-Chinese investor participation as a share of all VC deal value



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For US-headquartered investors that were historically active in China, working with Chinese founders abroad provides an alternative to supporting high-quality, talented entrepreneurs. It is not uncommon for Chinese founders to launch a startup outside of China and assemble a team that is dispersed across the world. Some startups that are headquartered in China, particularly those in fintech and logistics, have also been trying to sell their assets and move abroad to access the greater appetite for investment and a larger market. VC firms headquartered in China also seek to invest in overseas Chinese founders, such as those who graduated from or are affiliated with top research institutions abroad, with the idea that those companies will later expand into the Chinese market. The shared cultural background and language between GPs and overseas Chinese founders also help facilitate communications.

Many Chinese private market investors with a global strategy have been actively sourcing, evaluating, and investing in deals outside of China. Chinese VCs that have a presence in North America tend to avoid investing in sensitive areas, such as those pertaining to national security or high tech. VCs with a heavy US LP base tend to report that their LPs are in support of such a cautious approach, as those investments can be complicated by the geopolitics between the US and China.

Geopolitical tensions have pressured the market beyond the investor base. Non-Chinese founders who are keen to tap into the market in China are likely interested in working with China-headquartered investors. Meanwhile, startups headquartered outside of China that operate in potentially sensitive sectors are likely cautious about taking China-related capital. This is particularly relevant to AI-driven startups. Despite ongoing liquidity constraints, much capital has been deployed to—and is still available to funnel into—high-quality AI companies. For a sought-after AI-first startup that has garnered traction from multiple groups of investors, GPs in China may find themselves at a disadvantage in light of a potential selection bias from startups. Without a China-first approach, startups are unlikely to prioritize a Chinese GP over a top US-based fund.

The state of PE in China

A somewhat unique phenomenon in the Chinese private market is the blurred line between PE and VC. Many PE investors participate in both late-stage VC investments and deals that may be viewed as PE growth in other markets. As a result, it can be difficult to distinguish between later-stage VC and PE within Greater China. The PE market in China is growth and minority stake driven, with general exit timelines of five to six years. With this time frame in mind, a PE firm invests with a strong conviction in a platform company's growth trajectory, helping the business trim inefficiencies and unlock new revenue streams, thereby generating high multiples.

Though control deals have been relatively uncommon over the past decade, this deal type has been gaining popularity because of the shifting return profiles of companies in the market. Challenges for the IPO market have created an environment that has pushed more PE firms to start considering control deals. These deals enable PE firms to create operational efficiencies and build companies into attractive acquisition targets. Importantly, in majority-stake deals, PE investors have more room and flexibility when strategizing an exit alternative to a public listing.

A challenge for the PE market in China lies in the maturity and the depth of the economy as the market continues to grow. In a subscale model, smaller companies point to higher risk and competitive pressure. From a positive angle, in the middle market of China, many companies are being PE owned for the first time, which translates into opportunities for simple efficiency enhancements, such as business digitalization.

In China, a small number of PE firms also do early-stage VC deals. The main reason for this phenomenon is that China is a dynamic market where different platforms have various strategies, with some players being more opportunistic, participating in deals with a high return potential without getting tied to a specific asset class or deal type. Smaller platforms may take a more generalist approach to opportunism and do a variety of deals using their judgment, leveraging their advantage of being nimbler. Those small-scale PE firms may tap into their network to participate in early-stage VC deals that they perceive as value drivers. For larger firms, some may focus on key segments where they can go deep into a sector by doing a series of investments and be more flexible with a blurred line between the two asset classes. Another example of an opportunistic approach is when a firm leverages its existing network and resources to add a new strategy, such as investing in both PE and VC while focusing on the same sectors.

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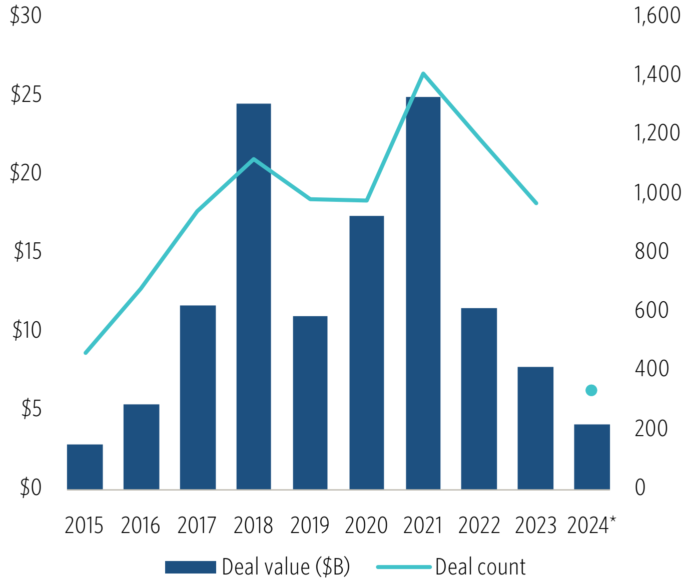
Sector-specific analysis: AI

Thematically speaking, AI has been one of the most sought-after sectors in China in recent years. During the first half of 2024, $4.2 billion was invested across 338 deals in artificial intelligence & machine learning (AI & ML) in Greater China. Should the current pace of dealmaking continue, the annualized deal value in this vertical in 2024 is expected to exceed the previous year, although remaining below pre-pandemic levels. The median pre-money valuation in AI & ML was nearly slashed in half from 2023 to H1 2024, a phenomenon in line with the overall descending valuation trend in the regional VC ecosystem. Meanwhile, the median AI & ML deal value slightly ticked up YoY, suggesting that investors are willing to deploy capital to high-quality startups in this space. Similar to what we saw in Silicon Valley, both large language models (LLMs) and vertical applications have been booming in China. AI-generated content (AIGC) is a popular focus, and investors and entrepreneurs alike have expressed enthusiasm in generative AI (GenAI) content. Winning in the AIGC sector is also top of mind for VC investors and large players such as Baidu, ByteDance, Alibaba, and Tencent.

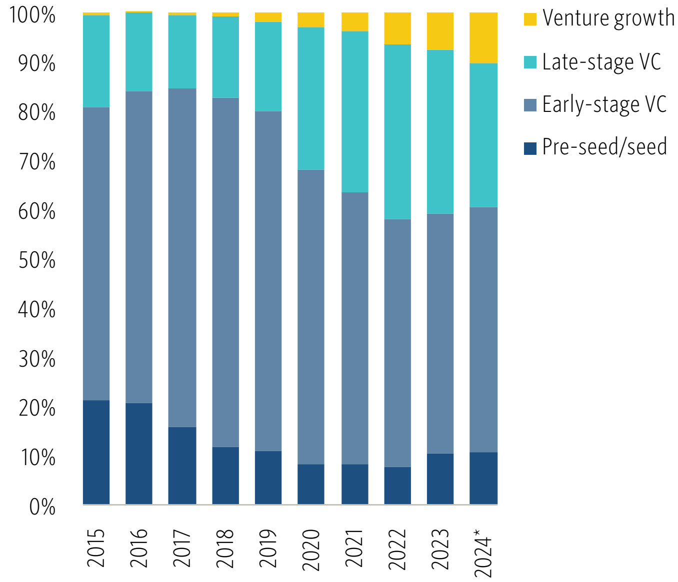
Many investors hold the view that it is difficult for startups to win in the LLM category in China. First, large incumbents such as Baidu and Tencent are keenly aware of the importance of LLMs and have been devoting a significant amount of time and effort toward the LLM sector accordingly. In comparison with those big firms that sit on abundant financial resources, data, and human capital, startups do not have the lead time to compete effectively. Second, LLMs can be a sensitive area. GenAI content will likely be closely monitored by the Chinese government. Large players have already established close relationships and built trust with the government over the years, which puts them in a favorable position to garner state support. Along the same vein, state-owned or state-affiliated enterprises are another group that likely has a higher chance of winning in the LLM category.

AI & ML VC deal activity



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of AI & ML VC deal count by stage



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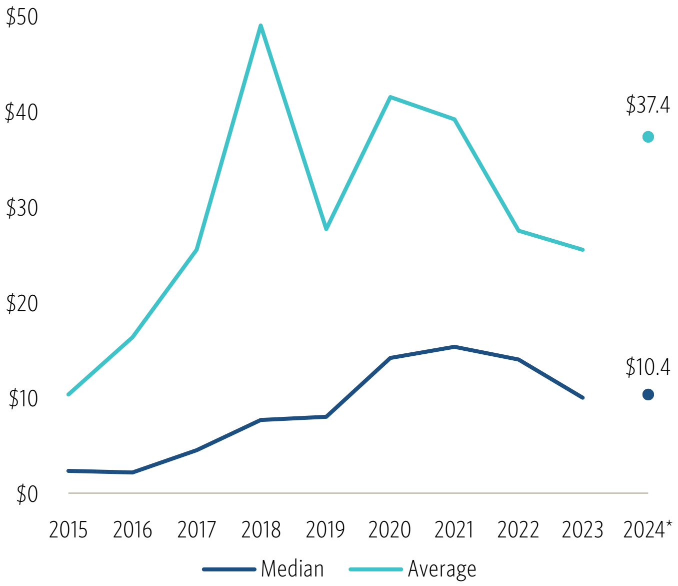
Median and average AI & ML VC deal value ($M)



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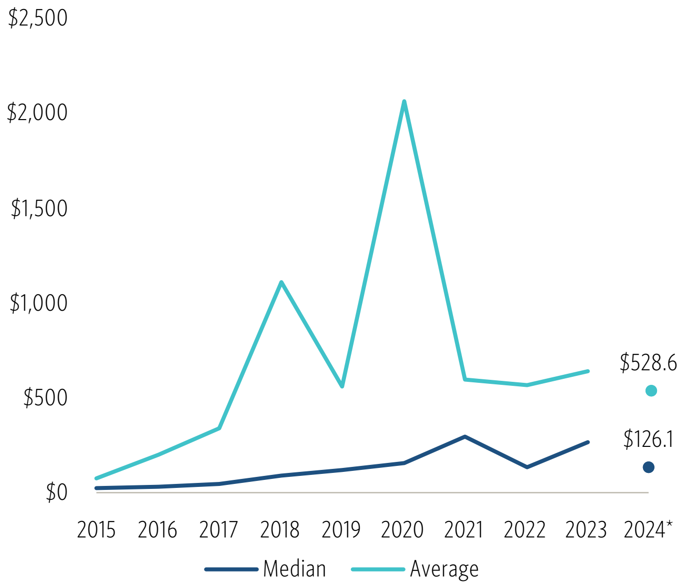
Median and average AI & ML VC pre-money valuation ($M)



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From a vertical application perspective, many investors share a bullish view on the outlook of AIGC in healthcare. In China, AI applications in healthcare benefit from several tailwinds. Compared with physicians in developed countries such as the US, Chinese doctors see a much higher volume of patients in a day on average. The sheer demand in office visits calls for increased efficiency with AI integration.

AI is also a major trend in Taiwan, but for a slightly different set of reasons. With its leadership in chip manufacturing, the island has a strong AI sector, which is also a focal point for VC. Semiconductors constitute a large market for PE. Outside of semiconductors, deal sizes tend to be on the smaller side. Given Taiwan's strength in hardware and infrastructure technology, both of which have been long-standing centers of innovation and advancement for the island, opportunity lies in AI-related areas. Investors are closely watching the AI space, from semiconductors to infrastructure-related companies that support AI adoption and growth. With Taiwan's leading position in chip manufacturing, the island has a large pool of engineering talent, some of whom have been applying their technical skill sets to launch startups across various sectors. The continued growth of AI, as well as AI-related sectors that stand to benefit from this growth, serves as a tailwind for Taiwan's venture ecosystem development.

Sector-specific analysis: Healthcare

In line with the broader regional market, healthcare investment activity in China has declined. During the first half of 2024, $3.0 billion was invested across 404 healthcare deals in Greater China. The annualized deal value and count are projected to fall below 2016 levels. Muted capital market activity and policy constraints in the healthcare space led to an overall bearish market sentiment. With a slowdown across the healthcare space in China, healthcare-focused Greater China-based investors saw a decline in high-quality deals in their pipeline. As a result, some have shifted their focus to overseas markets by building up an offshore team or expanding upon an existing presence. A similar pattern was seen from the founder side. About a decade ago, the market in China experienced a repatriation trend, in which Chinese scientists and researchers moved from developed countries such as the US back to China to launch companies. During the past few years, the trend has reversed. Many Chinese founders now prefer to stay overseas and start a company, thereby keeping the option to get listed abroad, especially in the US. With headquarters overseas, some Chinese founders opt to establish a research & development (R&D) center in China to tap into the local talent pool.

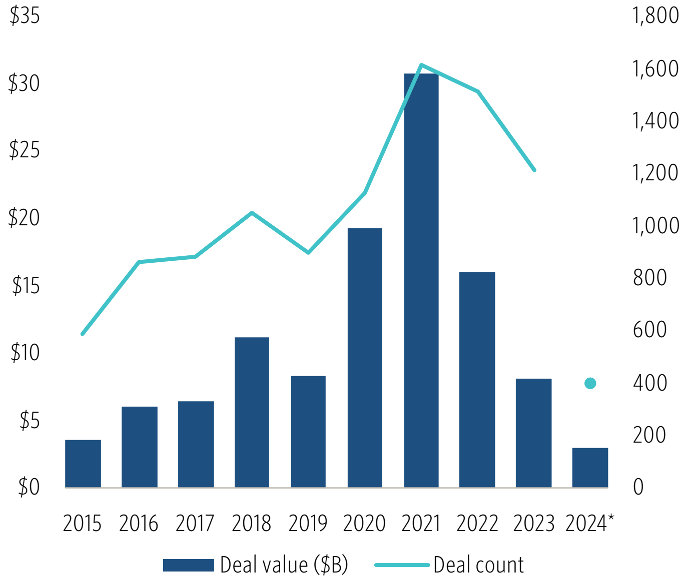
PitchBook

Compared with the healthcare market in the US, the two major benefits of investing in Chinese healthcare companies lie in pricing and cost. Founders in China are increasingly willing to accept a flat or down round. With a pricing correction, valuations for Chinese companies are more attractive. In addition, conducting clinical trials and recruiting local talent are both more economical in China than in the US. On the flip side, the sophistication of technology and R&D in China lags that of its US counterparts, particularly when it comes to the most innovative technology.

Within healthcare, cost control and innovation are key themes for biotech development. Boosting cost-efficiency is top of mind for healthcare and pharma companies, primarily due to a regulatory shift from the past few years that presses down margins. With an aging population, pension funding will be tougher going forward. It is unlikely that China will adopt a US model, where health spending took up 17.3% of the nation's GDP in 2022.[4] The Chinese government is motivated to build more buffer for the funding gap as well as the burden on public health insurance caused by the structural change in population. With the mindset that healthcare should not make a patient go bankrupt and a goal to replace higher-end imported medicine with local alternatives, the state has pushed for policy changes that exert downward pressure on pricing for healthcare companies that typically have high profit margins.

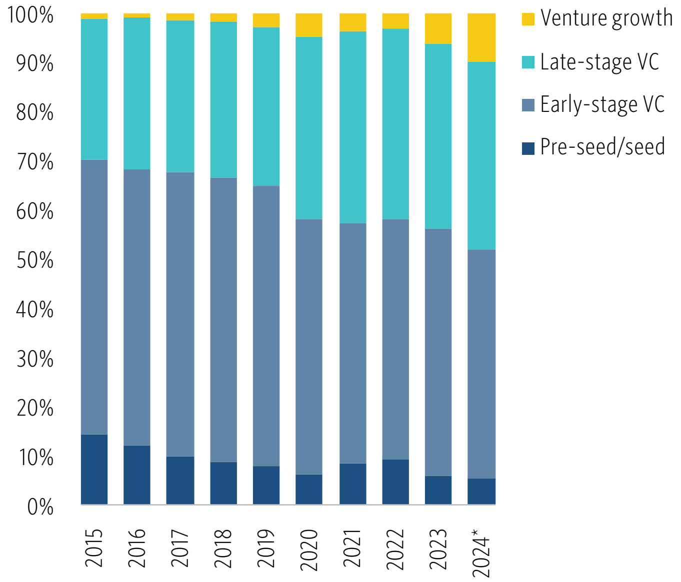
Meanwhile, the government is aware that compressing margins of healthcare companies could negatively impact innovation. As a counterbalance initiative, the National Medical Products Administration (NMPA) of China has been pushing for fast-track approval for innovative drugs, particularly those related to urgent use and major disease prevention.[5] Up until 2022, the NMPA had approved 82 innovative drugs and 138 innovative medical devices cumulatively.[6] During the first five months of 2024, the NMPA approved 20 innovative drugs and 21 medical devices.[7] The fastened pace is illustrative of the state's efforts to encourage biotech innovation.

Healthcare VC deal activity



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of healthcare VC deal count by stage



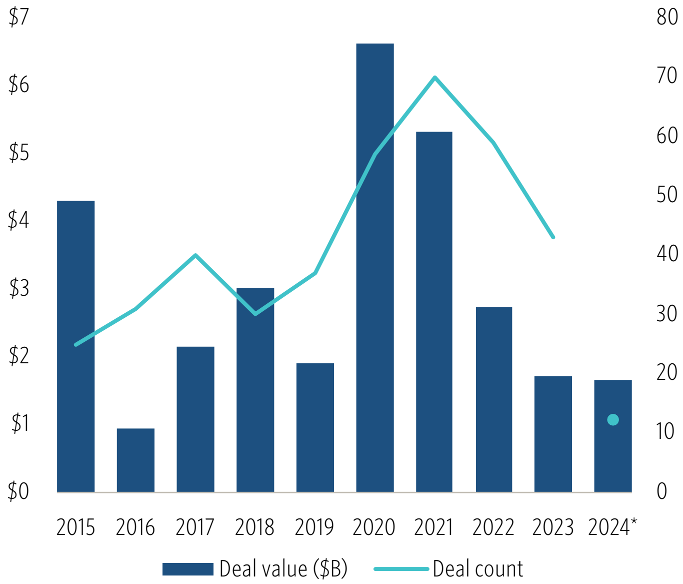
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

In the life sciences space, out-licensing and cross-border M&A are two other recent trends. With regards to the former, Chinese pharmaceutical companies tend to license out patents or technology to US and European companies. Companies typically retain proceeds from licensing, and some investors may ask companies to distribute earnings beyond a set threshold in the form of dividends. A recent example is Jiangsu Hengrui Pharmaceuticals licensing its global rights of three GLP-1 drugs to Hercules CM Newco. Regarding the latter trend of cross-border M&A, between the end of 2023 and the first half of 2024, several Chinese healthcare and medical companies were sold to US companies, which is historically a rare occurrence. ProfoundBio's definitive agreement to be acquired by Genmab and Gracell Biotechnologies' acquisition by AstraZeneca serve as examples of early-stage (Series A and B) companies getting acquired well ahead of an IPO.

4: "National Health Expenditure Data: Historical," Centers for Medicare & Medicaid Services, July 8, 2024.
5: "Notice of the National Medical Products Administration on Issuing the Pilot Work Plan for Optimizing the Review and Approval of Clinical Trials of Innovative Drugs" (Google translation), National Medical Products Administration, July 31, 2024.
6: "Improving the Sense of Health and Deepening the Medical Reform in 2024," (Google translation), Xinhua News Agency, China Government Network, June 15, 2024.
7: Ibid.

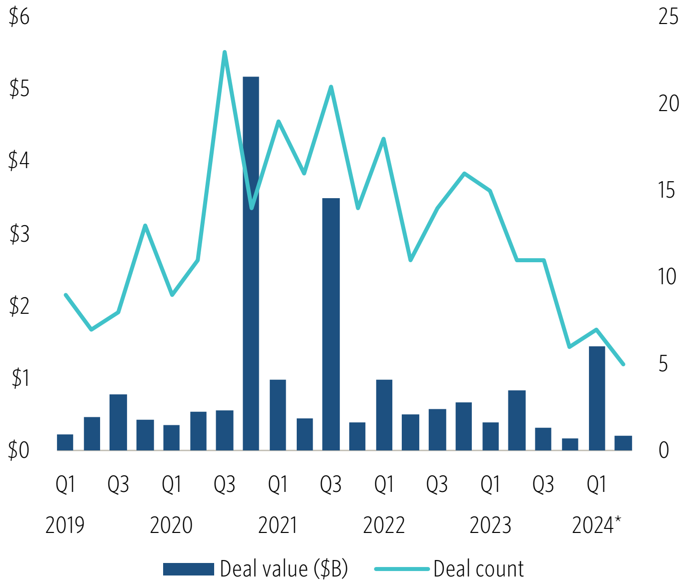
PitchBook

Healthcare PE deal activity



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Healthcare PE deal activity by quarter



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

From an exit perspective, it has become highly challenging for Chinese companies to list on US exchanges due to geopolitics. For domestic listings, stricter regulatory requirements for getting listed on the China A-share market are a key driver of this lack of momentum. The bar for revenue and profit has risen, and many healthcare companies are pre-revenue and still in a clinical trial stage. As a result, investors want to see more progress from companies that are already in later clinical trial stages before getting listed in the China market. Between 2022 and H1 2024, late- and venture-growth-stage deals consistently expanded their proportion of overall healthcare deals, further attesting to this trend.

Valuations for healthcare companies have gone down significantly, in large part due to these trends. The drop is also regulatory driven, as the government seeks to centralize drug procurement. The government is keen to promote innovative technologies, such as new drugs and treatments, and does not want to see a large number of healthcare players crowding into a handful of areas or targeting select diseases. Additionally, healthcare companies that want to sell into the public healthcare system face the headwind of bulk purchases, in which the government buys a large volume but asks for steep discounts in turn.

Another factor that drives down valuations is a lack of cutting-edge, globally competitive technology. In the past, a common strategy for Chinese healthcare companies was to try to replicate or follow what leading global players, such as US companies, had done. As a result, many of those companies have focused solely on the market in China and often do not have the ability to compete globally.

Healthcare investors are keeping their fingers on the pulse when it comes to the BIOSECURE Act in the US that seeks to curb federal-backed US businesses from working with select Chinese genomics companies.[8] The act has not been formally implemented yet, and there is a chance that it may come into effect later this year. Alleging that certain Chinese drug development and genomics companies are affiliated with the Chinese military,[9] the BIOSECURE Act introduces a risk factor from an investment standpoint and is illustrative of the regulatory scrutiny faced by Chinese companies that makes them less enthusiastic about a US listing.

Within healthcare, some of the areas that have gained strong investor traction include gene cell therapy, antibody-drug conjugates, and GLP-1-related weight loss drugs. The popularity of weight loss drugs in Greater China can be viewed not only from a health angle but also through a cosmetics and aesthetics lens. Some healthcare investors have noted that many companies operating in adjacent areas have been trying to tag themselves into the weight loss theme to be a part of the overarching trend within the sector. On a related note, consumer healthcare tied into the beauty market has also been gaining traction. With a beauty-driven theme, this area of the market has been less affected by regulations, as there is no drug process associated and it is not tied down by pricing.

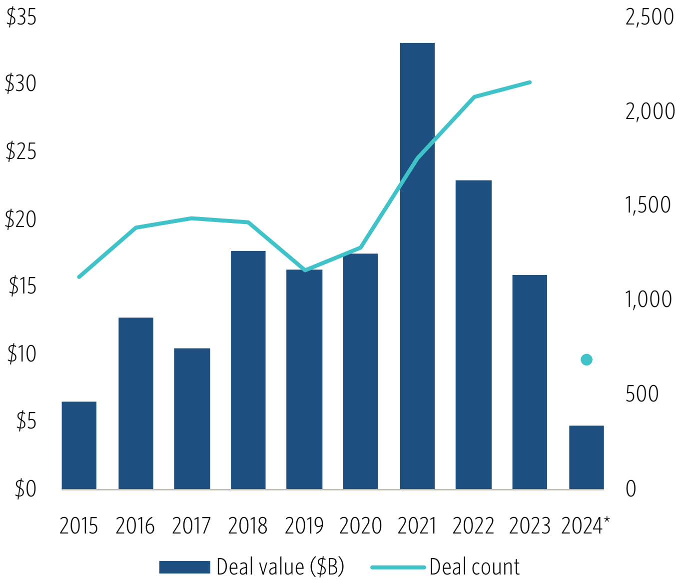
8: "H.R.7085 - BIOSECURE Act," Congress.gov, January 25, 2024.
9: Ibid.

PitchBook

VC DEALS BY SECTOR

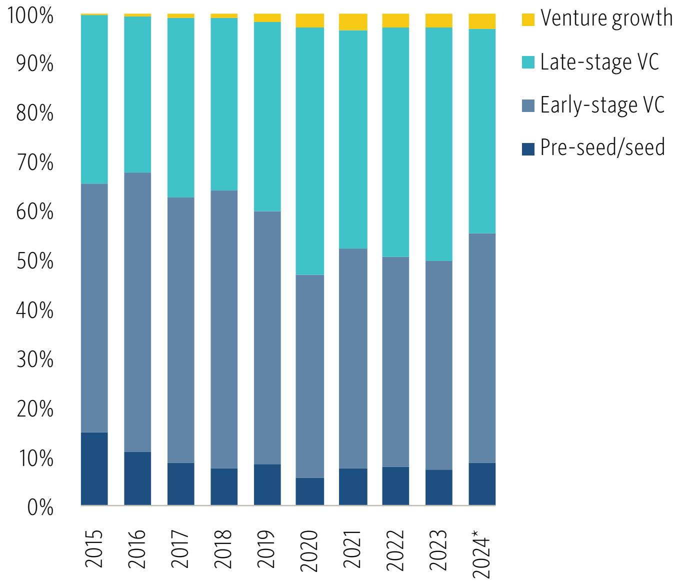
Commercial products & services

Commercial products & services VC deal activity



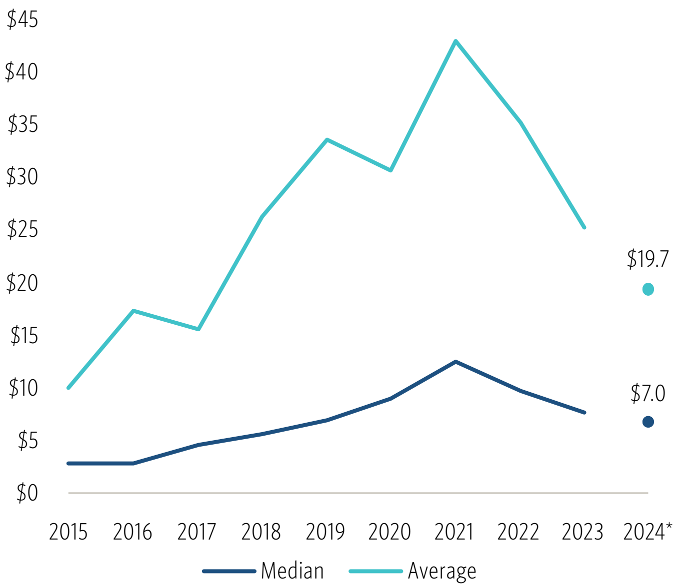
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of commercial products & services VC deal count by stage



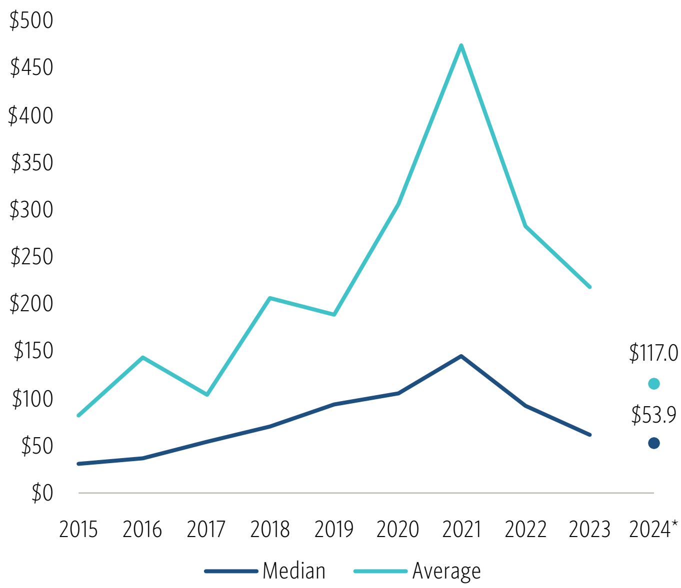
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Median and average commercial products & services VC deal value ($M)



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Median and average commercial products & services VC pre-money valuation ($M)

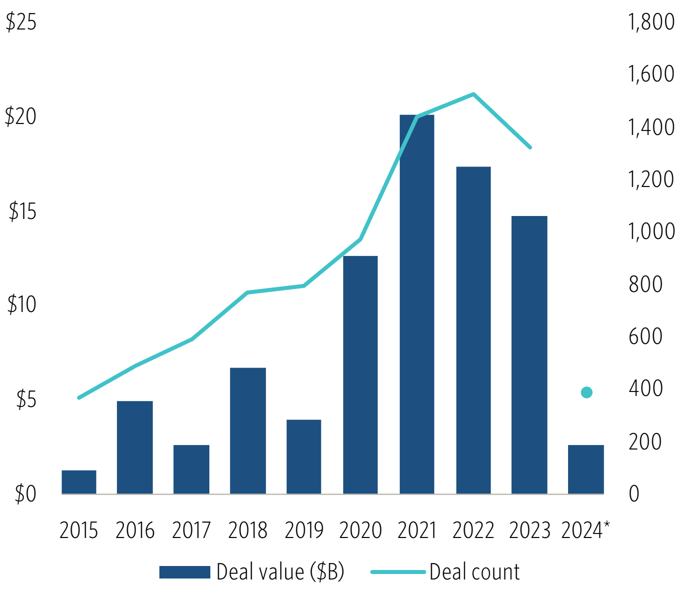


Source: PitchBook • Geography: Greater China • *As of June 30, 2024

VC DEALS BY SECTOR

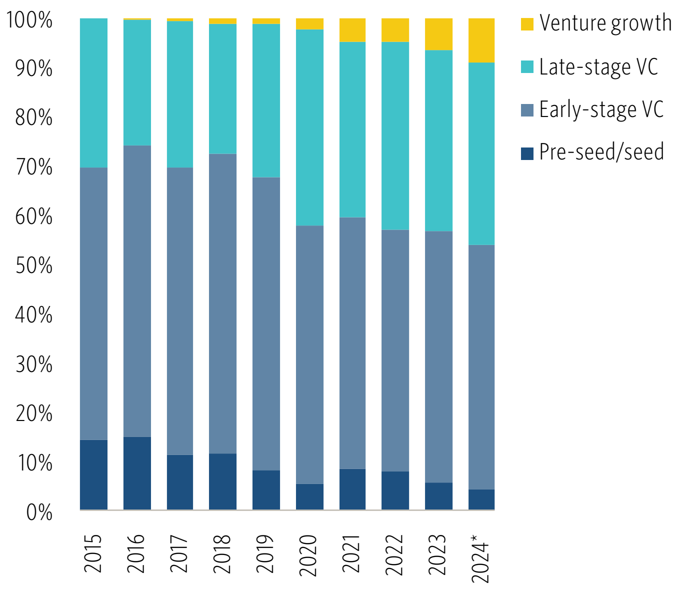
IT hardware

IT hardware VC deal activity



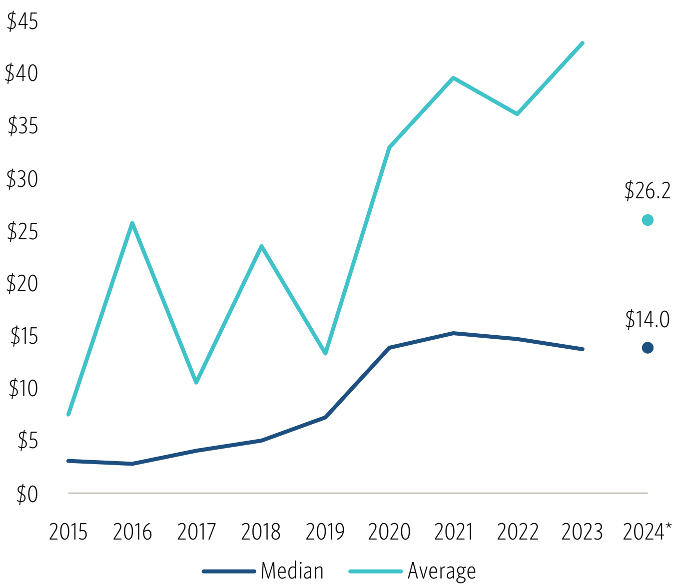
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of IT hardware VC deal count by stage



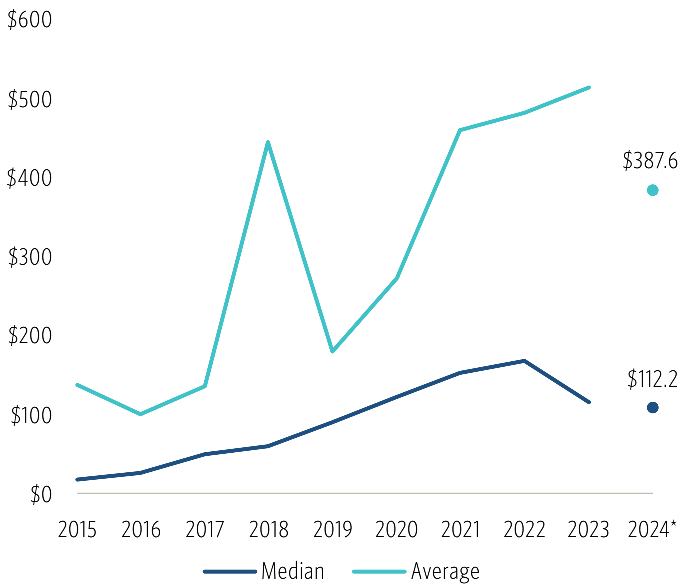
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Median and average IT hardware VC deal value ($M)



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

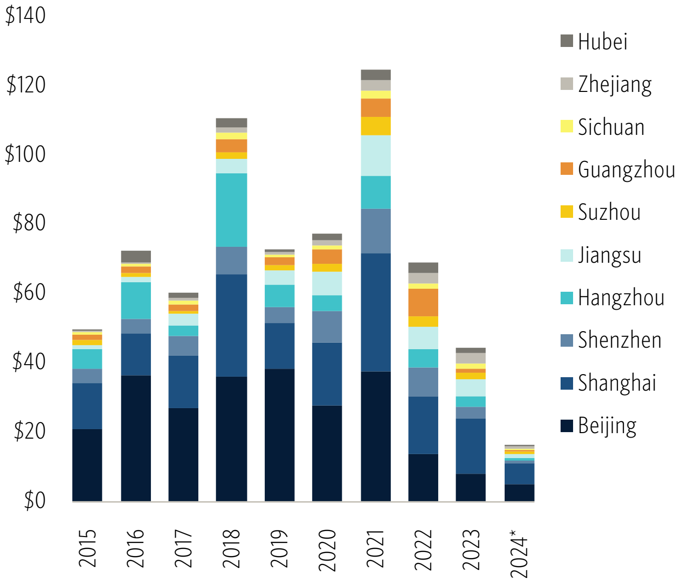
Median and average IT hardware VC pre-money valuation ($M)



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

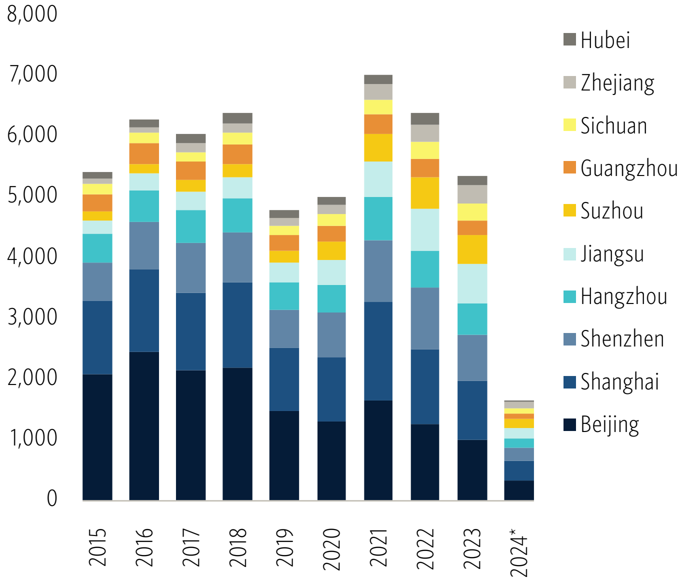
Deals by region

VC deal value ($B) by region



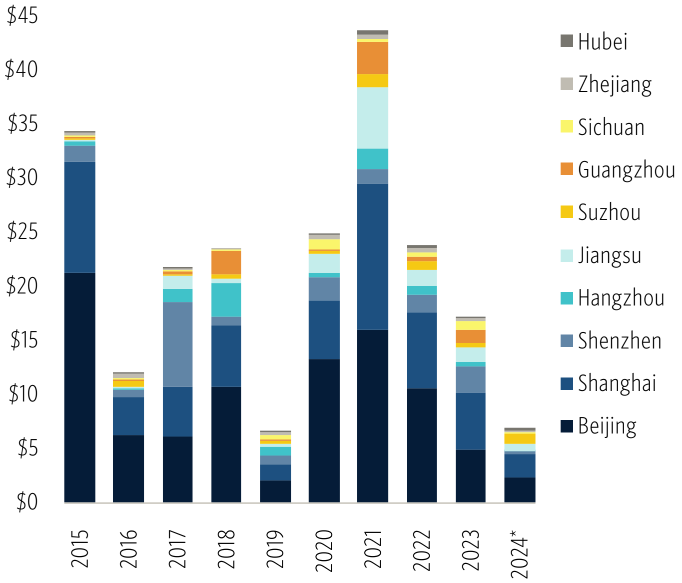
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

VC deal count by region



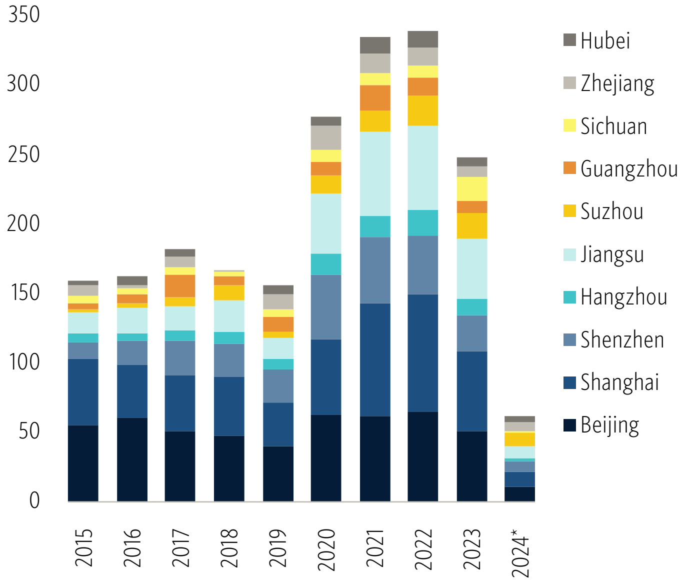
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

PE deal value ($B) by region



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

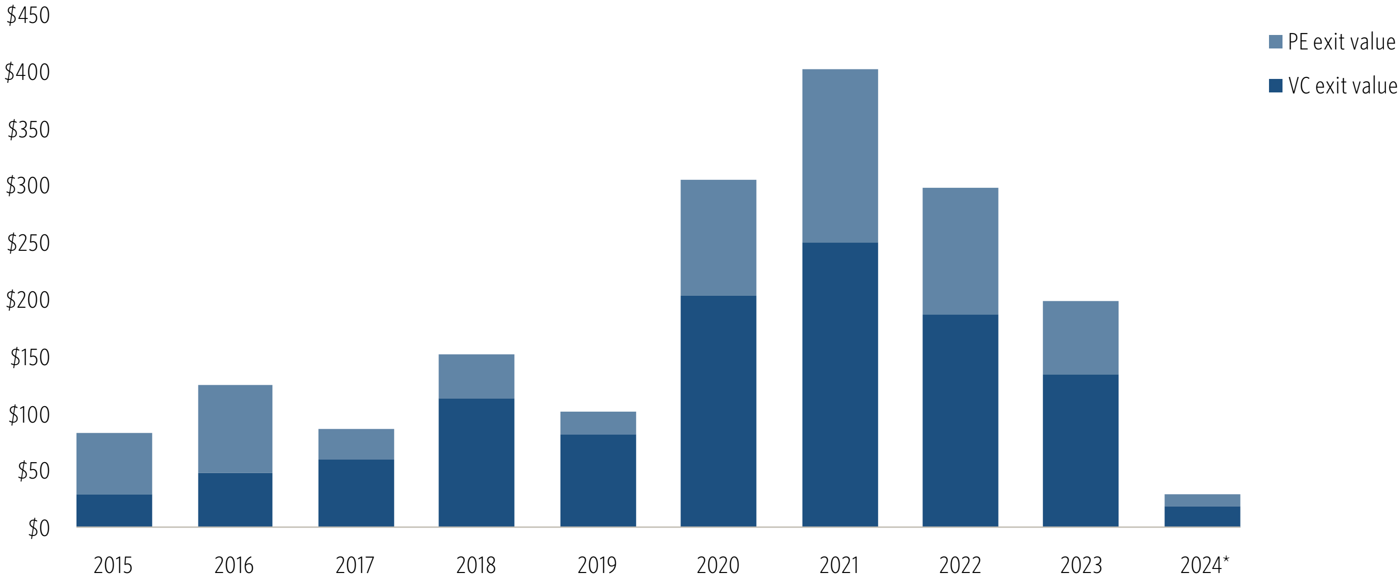
PE deal count by region



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Exits

Private capital exit value ($B)

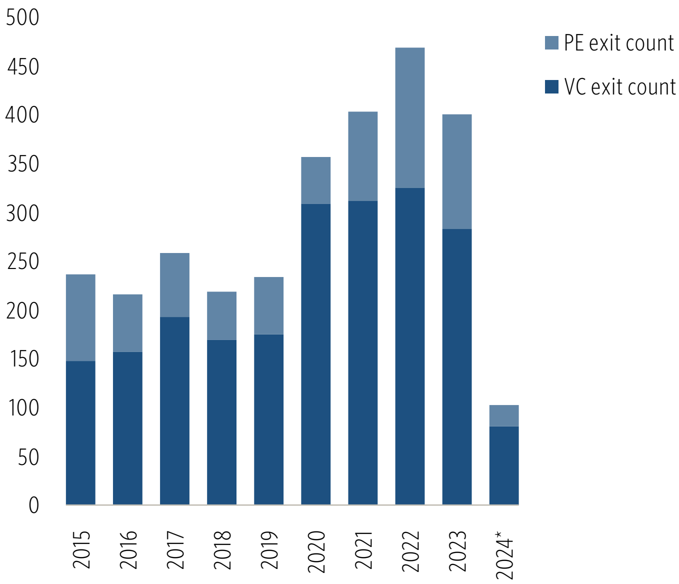


Source: PitchBook • Geography: Greater China • *As of June 30, 2024

The Greater China private market in a transitional period

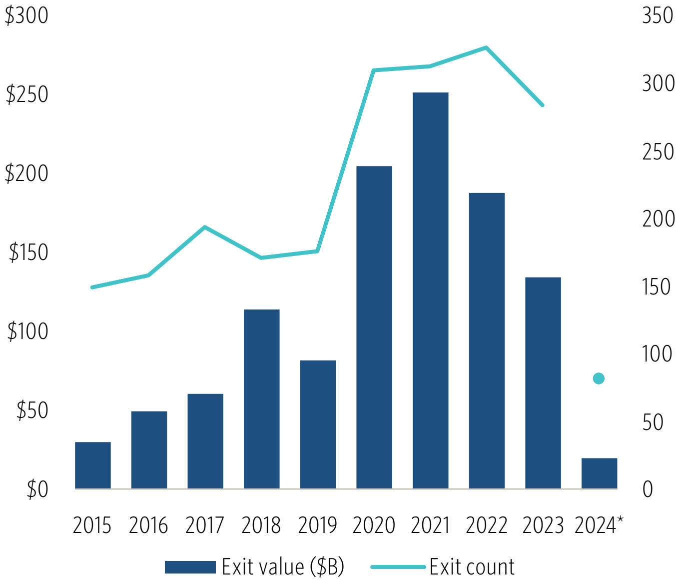
As of now, the private capital market in Greater China is in a weak state, and exits remain challenging. In 2023, $199.2 billion was generated across 400 exits in the private market. While 2021 had roughly the same number of exits, value created in 2021 more than doubled that of 2023, reflecting a lack of outsized exits last year. During the first half of 2024, total exit value and count both took a plunge. Should the sluggish pace of exits continue, the annualized exit value in 2024 is on track to land at $57.3 billion, a 71.2% drop from the previous year and the lowest since 2015. Looking at the Greater China PE market, $65.3 billion was generated across 117 exits in 2023. While exit count stayed relatively robust, second only to the 2022 record in our dataset, exit value experienced a drastic 41.4% YoY decline, further attesting to the lack of large exits. On the VC side, exit momentum remained diminished through the first half of 2024, where $19.1 billion was generated from 81 exits. The annualized exit count is on track to fall below pre-pandemic levels, and the annualized exit value is projected to land at the lowest point since 2015.

Private capital exit count



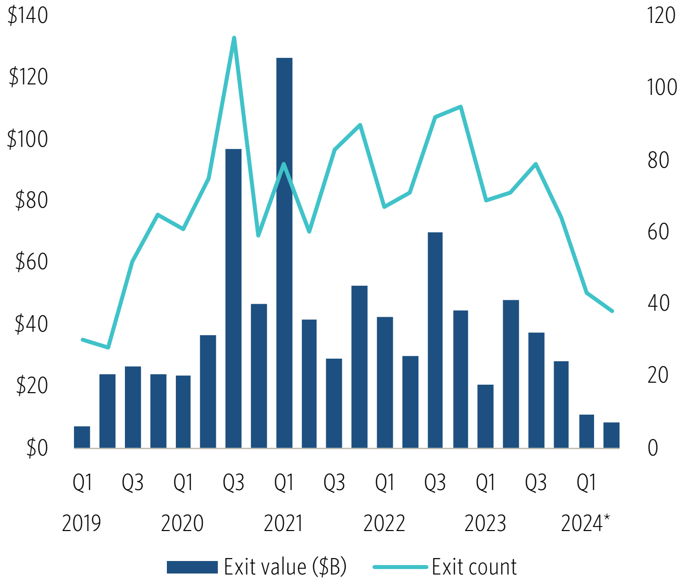
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

VC exit activity



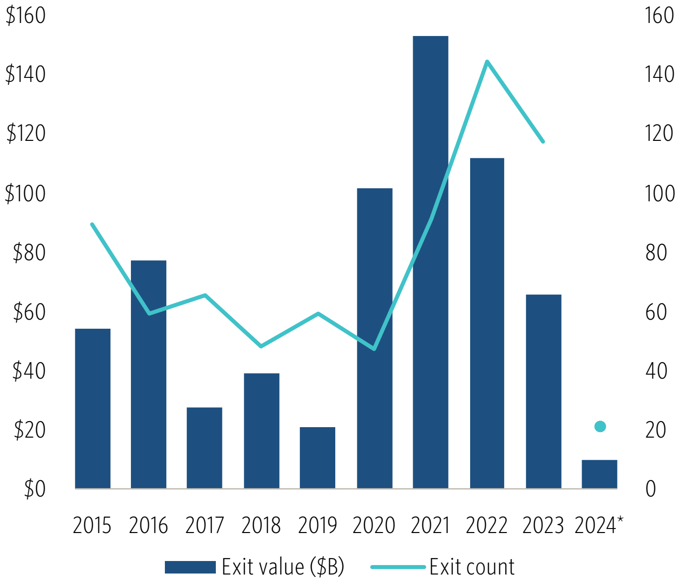
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

VC exit activity by quarter



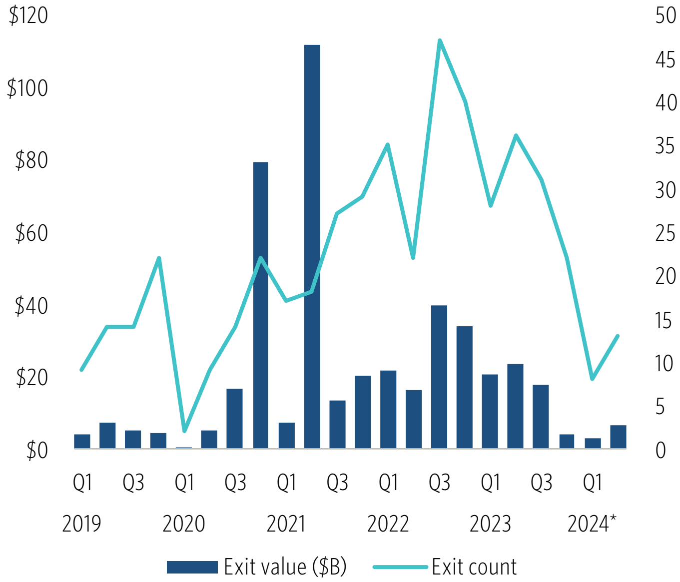
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

PE exit activity



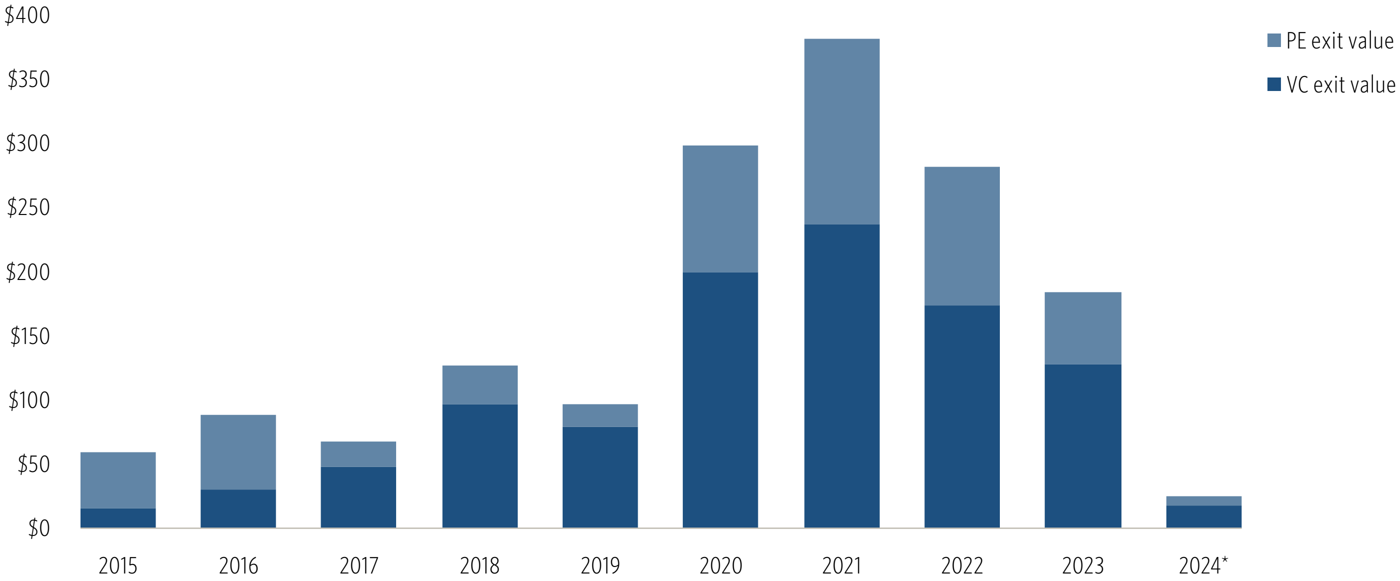
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

PE exit activity by quarter



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

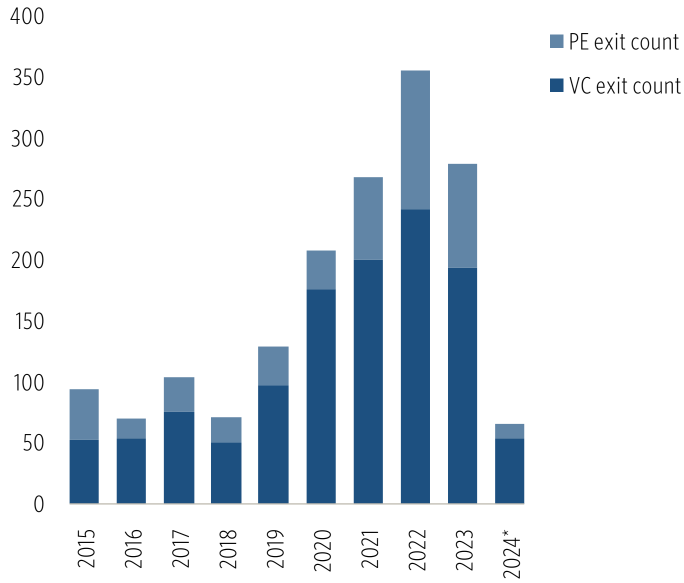
Private capital IPO exit value ($B)



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

With the economy slowing down, certain sectors are seeing single-digit growth, which leads to opportunities in market or sector consolidation. A popular view is that going forward, IPOs will likely be an exit strategy that is more difficult to execute due to regulatory constraints and weak demand from the public market. In H1 2024, $24.6 billion was generated across 66 VC- and PE-backed IPOs. While the annualized IPO count for 2024 is on par with pre-pandemic levels, the annualized IPO value is projected to settle at the lowest point in our dataset, attesting to a challenging public listing environment. A lack of investor confidence in the stock market, more commonly referred to as the "secondary (equity) market" in China, weighs on the outlook for venture-backed IPOs. Investors are concerned about the heightened uncertainty surrounding IPOs as a viable path to liquidity and profitability, as valuation levels remain diminished. In this context, many companies have shifted toward a profitability-driven mindset. Investors on the other side of the table are spending more time doing scenario analysis and trying to double down on supporting the strongest companies that are more likely to achieve an exit within a shorter time span versus those that are still very early stage.

Private capital IPO exit count

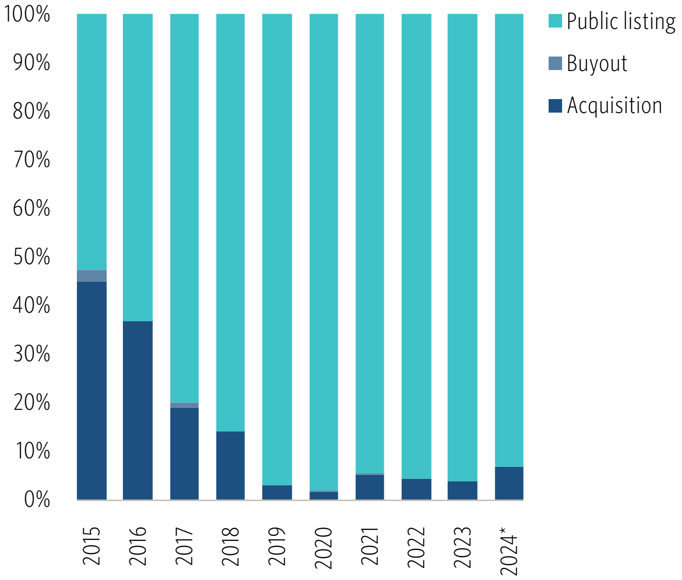


Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Among major exit channels, IPOs tend to drive the majority of returns but are closely tied to market conditions. In this sense, the timing for public listings is important from both PE and VC perspectives. Investors specializing in nascent markets tend to have a more positive outlook on exits.

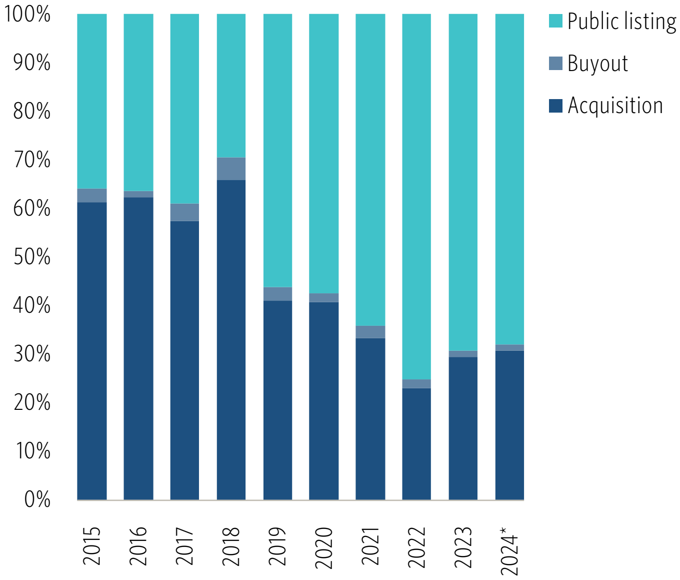
Emerging technology naturally needs time to become more full-fledged and reach its full growth potential. If nascent markets were to become more tangible over the next five or six years, the buffer time allows companies to get ready for an exit while the market recovers.

Share of VC exit value by type



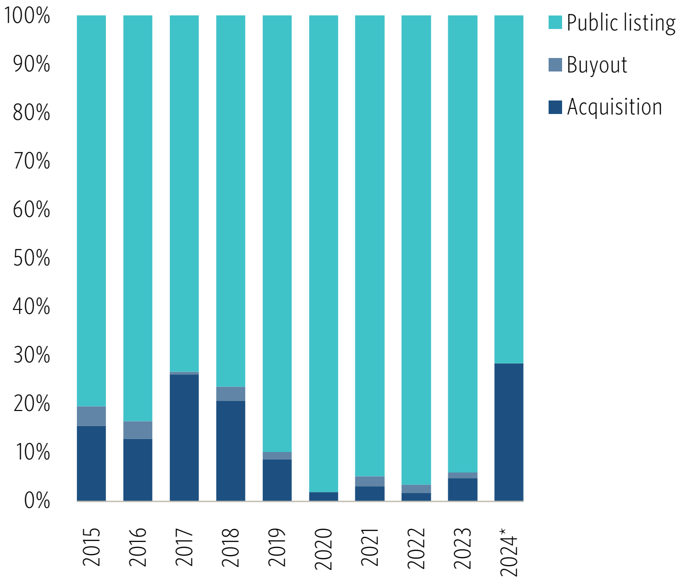
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of VC exit count by type



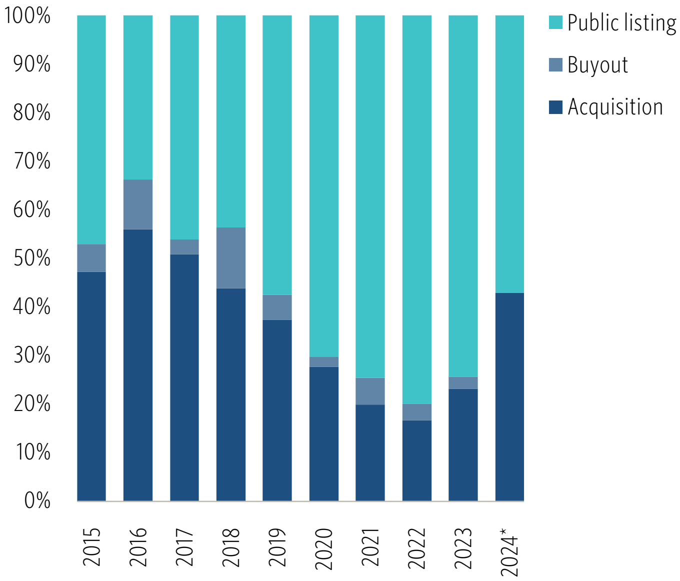
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of PE exit value by type



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of PE exit count by type



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

In light of the IPO quandary, M&A as a share of total exit activity in the regional private capital market has ticked up during the past two years. Acquisitions provide an alternative route to liquidity—a top concern for LPs—and generate DPI faster than public listings. From 2023 to H1 2024, acquisitions' proportion of total exit count ticked up for both VC and PE. In venture, acquisitions' proportion of total exit count ascended to 30.9%, a three-year high. The growing importance of M&A during the past two years is more pronounced on the PE side, where acquisitions made up 42.9% of total exit count in 2024, almost doubling the 2023 figure.

Should headwinds in the IPO market persist, it is likely that more investors and founders will be more willing to explore M&A opportunities. Meanwhile, acquisitions are not necessarily an easy path to exit. Apart from potential disagreements on pricing, market mechanisms such as bet-on agreements (also known as valuation adjustment mechanisms) that are commonly used in acquisitions by public companies add to uncertainties to seal the deal.

PE-backed exits in China

Prior to the introduction of new listing requirements, the domestic stock exchange used to be a prime listing place for small and mid-cap companies in China. From a PE perspective, the China A-share market was ideal for minority exits because of friendly valuations for middle-market companies. However, with the release of new regulations, listing in the Chinese stock exchange has become more difficult. The change in exit moat has pushed PE firms to rethink their exit strategy.

An advantage that control deals have over minority-stake deals is that the PE investor has more room to negotiate or pursue an alternative solution in an exit scenario. For control deals, with a majority ownership, a PE firm could push toward different means of exits, whereas in a minority deal, their position is a lot more passive. In a minority deal, if public listing is not a viable option for the company, a PE firm may opt for a typical share repurchase or may buy back shares from a founding partner or large shareholders of the company to hold more power. Alternatively, for a minority deal in a sector favored by national industrial policies, a GP may sell their stakes to a government-backed fund with lower IRR targets.

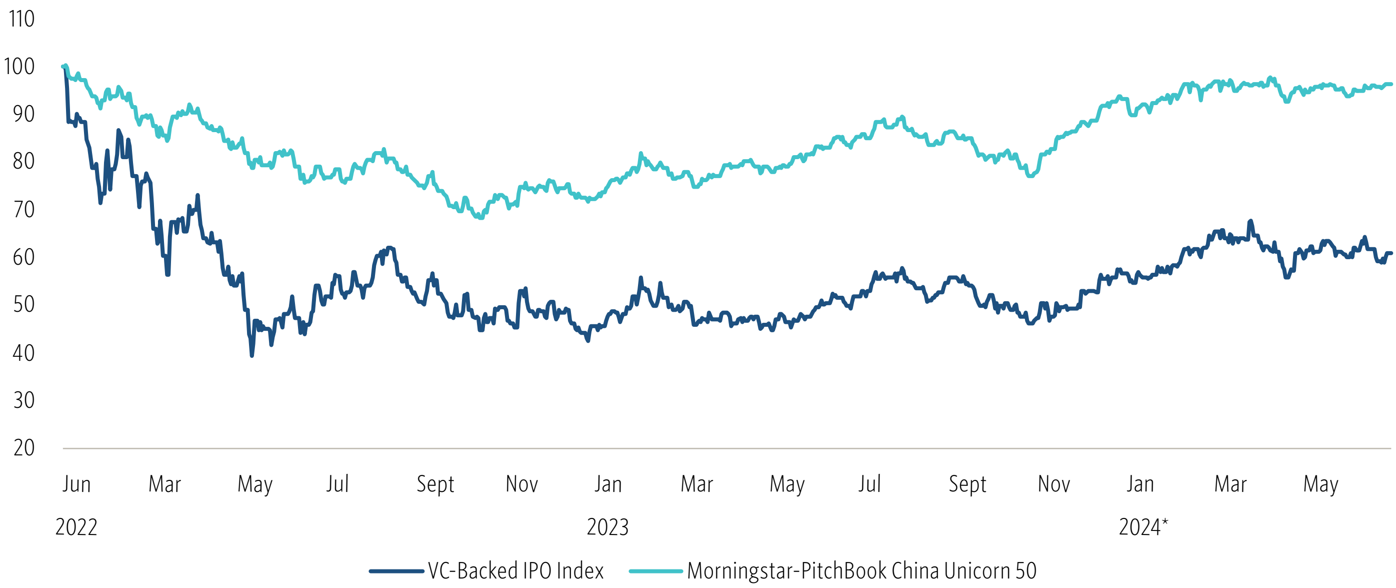
Secondaries as an alternative route to liquidity and DPI generation

The secondary market in China has been active during the past few years. Similar to global trends during the broad market slowdown, selling ownership is a common practice. For many investors, liquidity is more important than generating returns at their full potential by locking up capital. Secondaries can take the form of a continuation vehicle toward the end of a fund's life, a transfer of LP interest, or a secondary purchase or sale. Unlike in the US, where continuation vehicles are primarily a PE feature, in China, both VC and PE actively use continuation vehicles.

On the VC side, existing investors may opt to sell down some of their stakes when a portfolio company raises a new equity round. With a goal of maintaining their valuations, companies may be more conservative in their fundraising approach and set out to raise a small round. Some companies may already have sufficient capital on their balance sheets and do not need further financing. In either case, an existing investor may choose to make a partial exit after negotiating with their portfolio company. If the investor has been holding their stakes for a long time, and it is unlikely that the company will exit via a public listing in the near future, the investor will have more negotiating power.

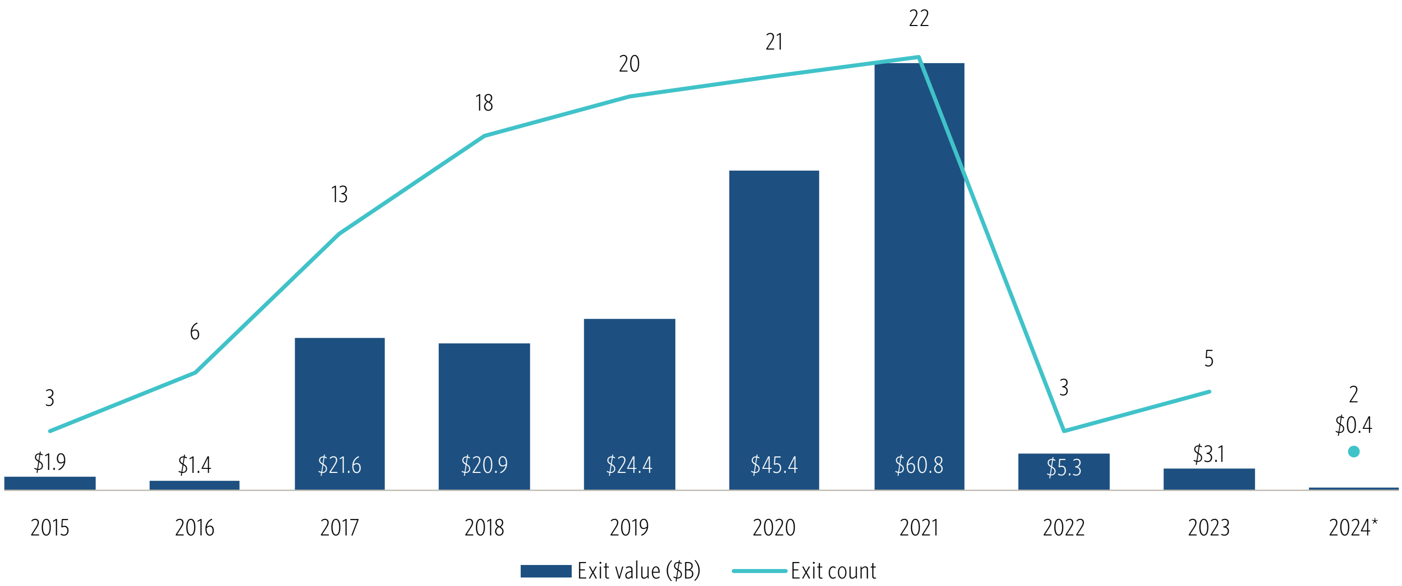
From a PE secondary perspective, the macro picture plays a prominent role in pricing. There is a large number of high-quality companies in China, but secondary pricing for Chinese companies has dropped due to the overall market picture. In some cases, despite a GP being willing to take a haircut on pricing, market participants may remain hesitant to take a leap into the market at this point. Meanwhile, buyer appetite is contingent upon a firm's strategy as well.

VC-Backed IPO Index and Morningstar-PitchBook China Unicorn 50



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

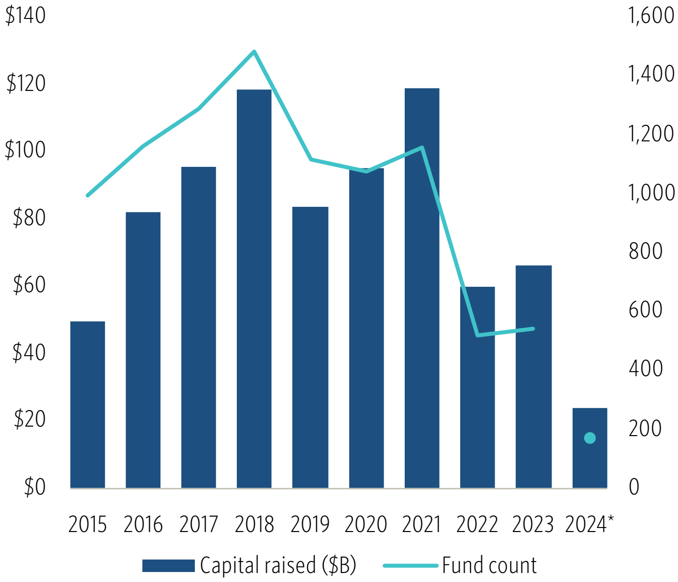
IPO VC exit activity on nondomestic exchanges



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

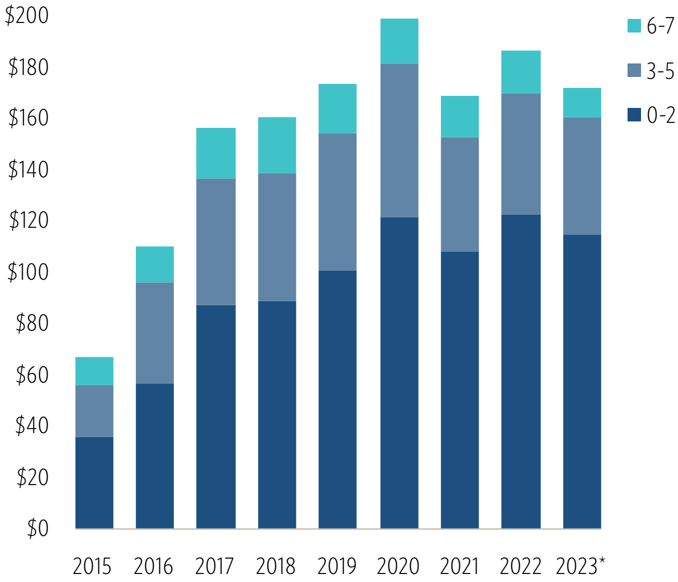
Fundraising

VC fundraising activity



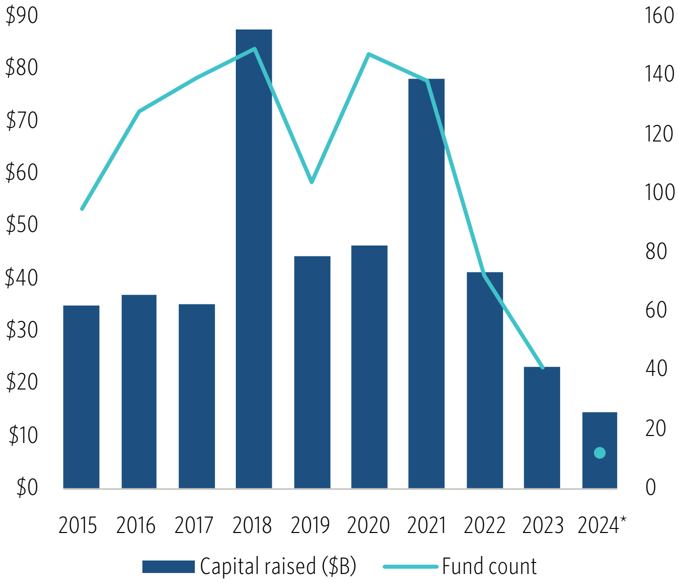
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

VC dry powder ($B) by age bucket (years)



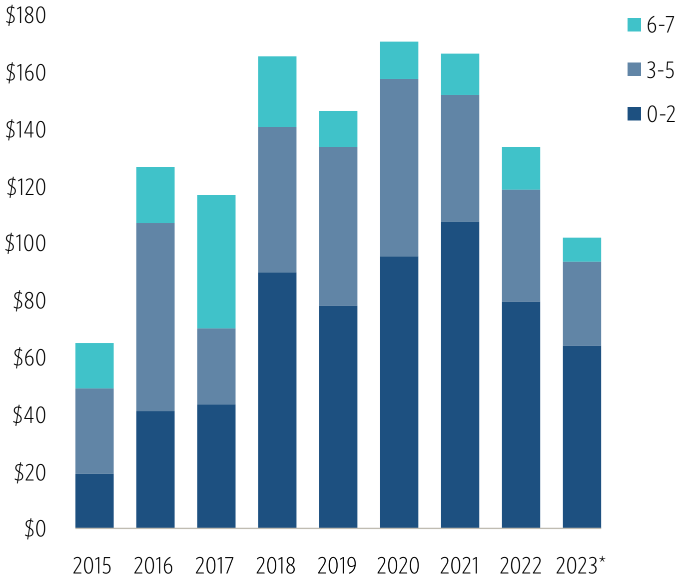
Source: PitchBook • Geography: Greater China • *As of December 31, 2023

PE fundraising activity



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

PE dry powder ($B) by age bucket (years)

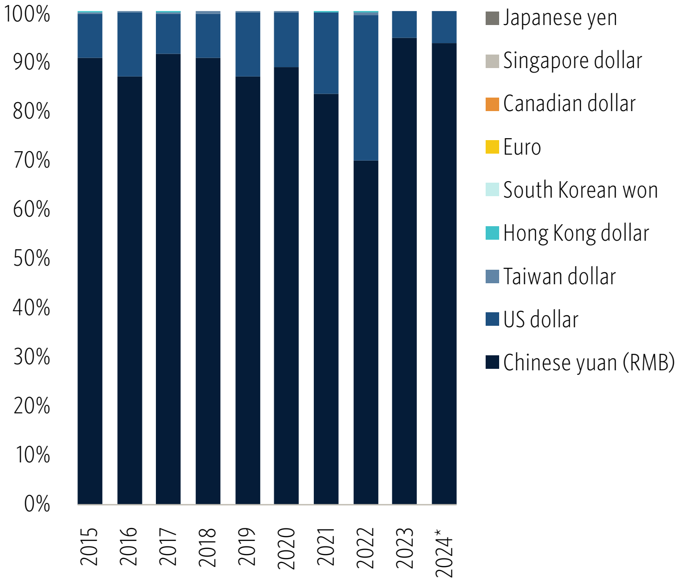


Source: PitchBook • Geography: Greater China • *As of December 31, 2023

In line with a challenging exit environment, private market fundraising in Greater China features a liquidity drought. Capital raised and fund count have both dropped to the lowest levels we have observed since 2015. The one exception is with PE, where the 2024 annualized fundraising figure of $29.2 billion is on track to exceed the 2023 level by 25.9%. During the first half of 2024, merely 183 VC and PE funds were raised in Greater China, foreshadowing ripple effects in the regional market down the road.

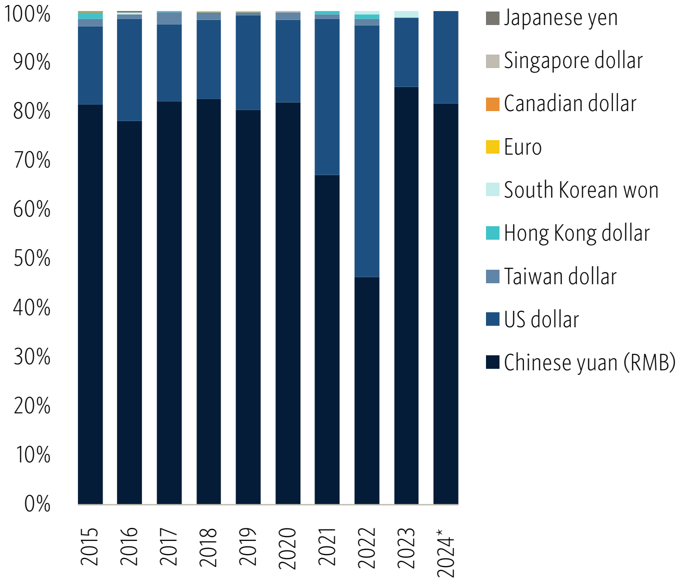
PitchBook

Share of VC fund value by native currency type



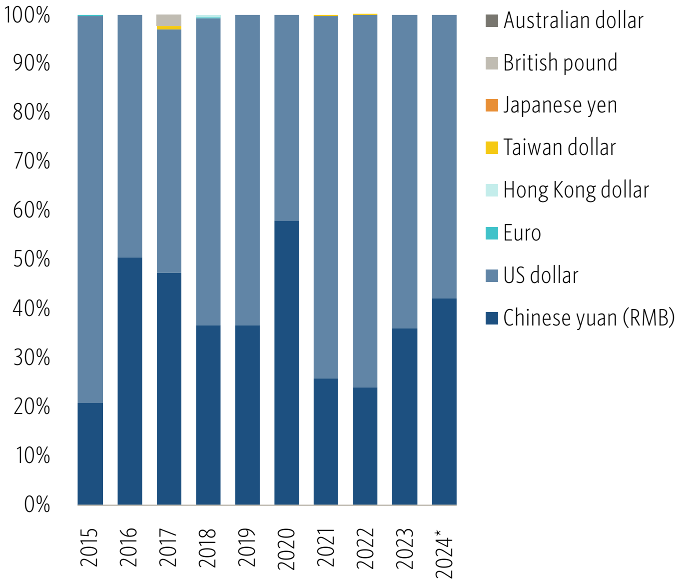
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of VC fund count by native currency type



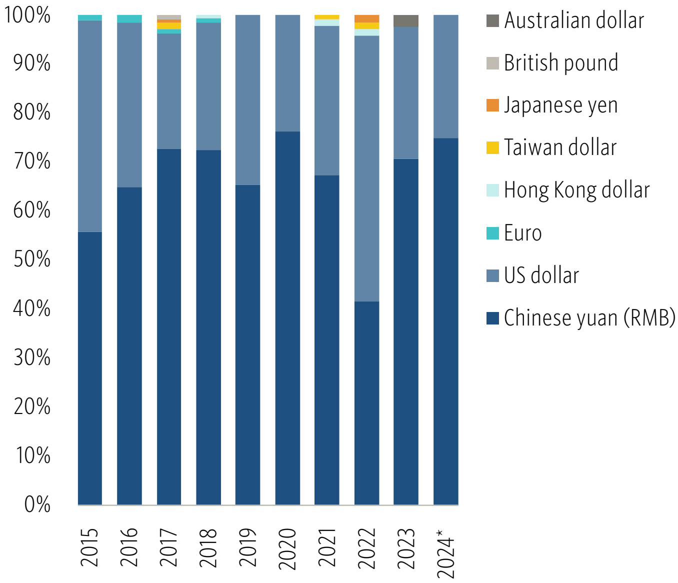
Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of PE fund value by native currency type



Source: PitchBook • Geography: Greater China • *As of June 30, 2024

Share of PE fund count by native currency type



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Divergence between RMB and USD funds

In the private market in China, renminbi (RMB) and USD funds,[10] or funds with onshore versus offshore funding, are highly dichotomized with little overlap. Our past analyst note [Examining US Investments in China]() provides an overview of the distinct investment style and LP base of the two fund types. USD funds tend to fundraise from nondomestic institutional investors such as sovereign wealth funds and US pensions and endowments. Historically, USD funds were focused on the internet and e-commerce sectors, putting massive amounts of capital to work in creating a dominant market player before going public in Hong Kong or the US. With tighter regulations and slowed growth in the e-commerce and internet spaces, USD funds need to find new ways to create value. RMB funds, on the other hand, tend to fundraise onshore and pursue domestic listing.

10: To ensure consistency and conciseness, in this report, we characterize VC and PE funds in China that are denominated in Chinese yuan, or renminbi, as RMB funds. Similarly, VC and PE funds that are denominated in US dollars are referred to as USD funds.

With escalated US-China tensions and a pullback of US institutional investors, USD funds face significant challenges. Between 2023 and the first half of 2024, $5.0 billion was raised by VC funds denominated in US dollars. This figure is less than one-third of the amount of capital raised by USD venture funds in 2022. The number of new USD funds raised has also sharply declined since 2021. PE USD funds remained more robust. The annualized capital raised by PE funds denominated in US dollars notched $16.8 billion in the first half of 2024, on track to exceed the 2023 level but falling below the pre-pandemic record. While USD funds are going through a transitional period, it would be inaccurate to claim that USD funds are no longer important or that they will fade away. On the contrary, domestic private market players need USD funds for equity and debt investments for overseas expansion. In the context of the massive size of China's outward direct investment market and existing offshore wealth, USD funds have a large ecosystem to tap in to and are important to large deals such as take-private transactions and cross-border M&As.

For RMB funds, a dominant market narrative has been the growing importance of government-affiliated LPs. Non-government LPs such as corporations and insurance companies have limited capital, which means those LPs may not be able to commit to all of a GP's funds or vintages. Government-related entities, on the other hand, are powerful funding sources and are expected to become even more influential. The growing influence of RMB funds in the regional ecosystem is particularly pronounced in venture. In H1 2024, at least three times as many PE funds denominated in RMB were raised than those denominated in USD. During the same period, 163 VC funds denominated in RMB were raised, surpassing USD VC funds by more than 20x.

Three products of receiving government-affiliated commitments are top of mind for GPs. First, it is more common to see state-backed funds involved in strategically important areas. EVs and semiconductors are examples of key sectors that are favored by government policy. Government LPs may be incentivized to commit to managers that specialize in those high-tech segments. Second, state-backed LPs—a regional government, for example—typically require their managers to invest a certain amount of their fund back to the local municipality, a practice known as "reinvestment." For tier-one cities such as Shanghai or Beijing, this requirement may not be much of a concern because of the large volume of high-quality deals that are available. However, for tier-two or tier-three cities or other cities with a lack of highly investable deals, the condition becomes a potential bottleneck. Third, potential conflict of interest is a major consideration for GPs, in particular those of USD funds. USD funds tend to be purely financially driven, which translates into potential misalignment when state sponsorship has a different set of priorities. The state's objective could be fostering business development of the city or province, a focus that could stand in the way of maximizing a fund's investment return.

USD funds reacting to a pullback of US institutional investors

The private market in China—PE and VC alike—has entered a transitional period. A shakeout of the GP landscape and sector consolidation are likely to take place over time. GPs that are disciplined with their investments and have access to resources for portfolio and exit management are set to stand out from the crowd. The fundraising predicament led to a stronger sense of urgency of distributions back to LPs, as DPI generation is an effective way of demonstrating performance.

With a slowed economy, escalated US-China tensions, a pullback of US institutional investors, and a multitude of other uncertainties, regional GPs have been experimenting with different ways to get through the fundraising winter. Since 2023, heightened US-China tensions have been a key point of contention. Geopolitics across the Pacific have directly impacted USD funds, many of which have North American LPs, particularly US institutional investors. While not all US institutional investors have pulled back, many have become more cautious and have become less keen in deploying more capital to GPs in China. Between 2021 and H1 2024, US LP allocation to GPs in Greater China declined steadily. The annualized US LP commitment count of 16 in 2024 is on track to be the lowest in our dataset and is merely 7.4% of the 2019 level. It is rare to see US LPs wanting to eliminate exposure to China altogether. Rather, China is still an important part of their overall asset allocation and geographic diversification. Many US institutional investors have adopted a wait-and-see approach and are further evaluating their long-term China strategy.

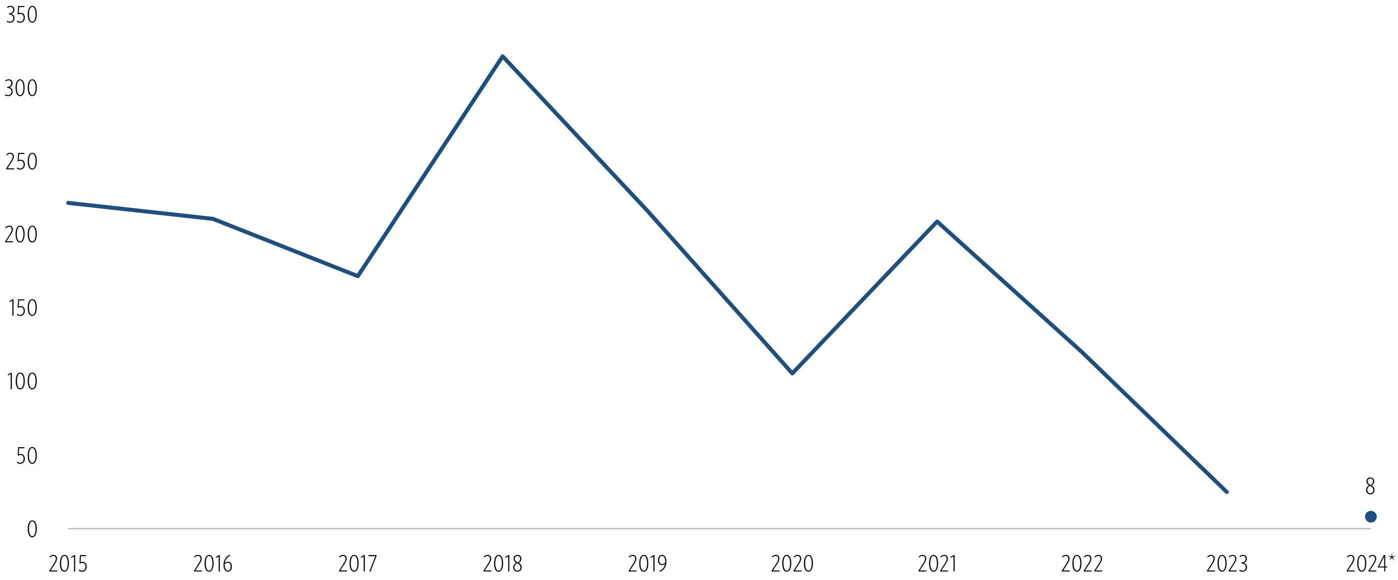
Despite elevated US-China tensions, there has been an emerging trend of Chinese corporations with ample cash reserves establishing a presence in the US and acting as LPs to funds investing in strategically relevant spaces. Some tech and gaming companies with an abundance of cash on their balance sheets have set up a US subsidiary to make direct investments into relevant industries and to commit to funds. Those initiatives tend to be return-driven, commercial behaviors as opposed to having a political end goal. Most of those LPs avoid sensitive areas such as semiconductors and AI. Instead, they may commit to established PE and VC managers to diversify their investment portfolios from a corporation perspective.

Acknowledging mounting challenges in fundraising from US institutional investors, many Chinese GPs have emphasized the importance of diversification in the LP base in terms of both investor type and geography. First, GPs in China have been actively seeking out ways to build relationships with noninstitutional investors such as family offices. Second, the need to strike new frontier markets is top of mind for USD fund managers. Chinese GPs noted that the Middle East appears to be more receptive toward investments in Asia, with stronger interest in adding China exposure. Middle Eastern investors, including sovereign wealth funds and corporations, are also trying to attract investments and bringing tech, products, and services to their part of the world. Additionally, parts of Europe—also with less geopolitical tension—still hold a warm attitude toward investing in China. Shifting the fundraising destination from the US to the Middle East and Europe poses one caveat: While US investors have a well-established history of investing in China, many things must still be figured out for the Middle East and Europe.

Certain types of GPs, including those with a dual currency mode (a firm with both RMB and USD funds) and a broader geographic coverage (for example, a GP that invests in China and across Asia-Pacific), will have more flexibility with fundraising going forward. Regarding onshore funding sources, or fundraising from domestic investors, mainstream LPs include high-net-worth individuals, corporations, and financial institutions, such as insurance companies. For RMB fundraising, the market consensus is that government-sponsored vehicles have become more important.

For PE, during the past few years, some managers have been tinkering with raising single-asset funds as opposed to multi-asset funds. The practice is a prevailing one in the Chinese fundraising market and applies to both USD and RMB fund managers. For single-portfolio vehicles, fundraising could potentially be easier because there is more certainty from an LP perspective with a single underlying asset. In addition, after the company makes an exit, the GP is eligible to receive carried interest immediately. If the single asset is a sought-after deal, the GP may position the fund as a means of getting exclusive access to a hot company, which less sophisticated LPs may find attractive. Alternatively, some GPs may staple a single-asset special-purpose vehicle with a sought-after deal onto their main fund. In this case, the LP makes a commitment to the two concurrent offerings to get access to the single-asset vehicle.

US LP commitment count to Greater China funds



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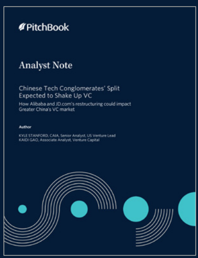
Additional research

Private markets



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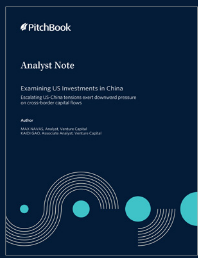

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