

 GREATER CHINA
Venture Report



Contents

Introduction	4
Overview	5
A word from Apex Group	7
Dealmaking	9
Investor breakdown	12
Deals by sector	13
Deals by region and native currency types	17
Exits	18
Fundraising	20

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Source: Forester Consulting's Total Economic Impact™ Study of Apex Group

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Introduction

Mega-round activity has slowed significantly. Deals of \$100 million or greater have been a symbol of the growth of VC worldwide, especially in Greater China. These deals had outpaced those in the US in 2016 and 2017 but have not been able to keep pace with the growth in number since. Just 56 mega-rounds have closed in 2022, well below the 356 in the US and on a slower pace than 2021, when a record 261 mega-deals closed in Greater China.

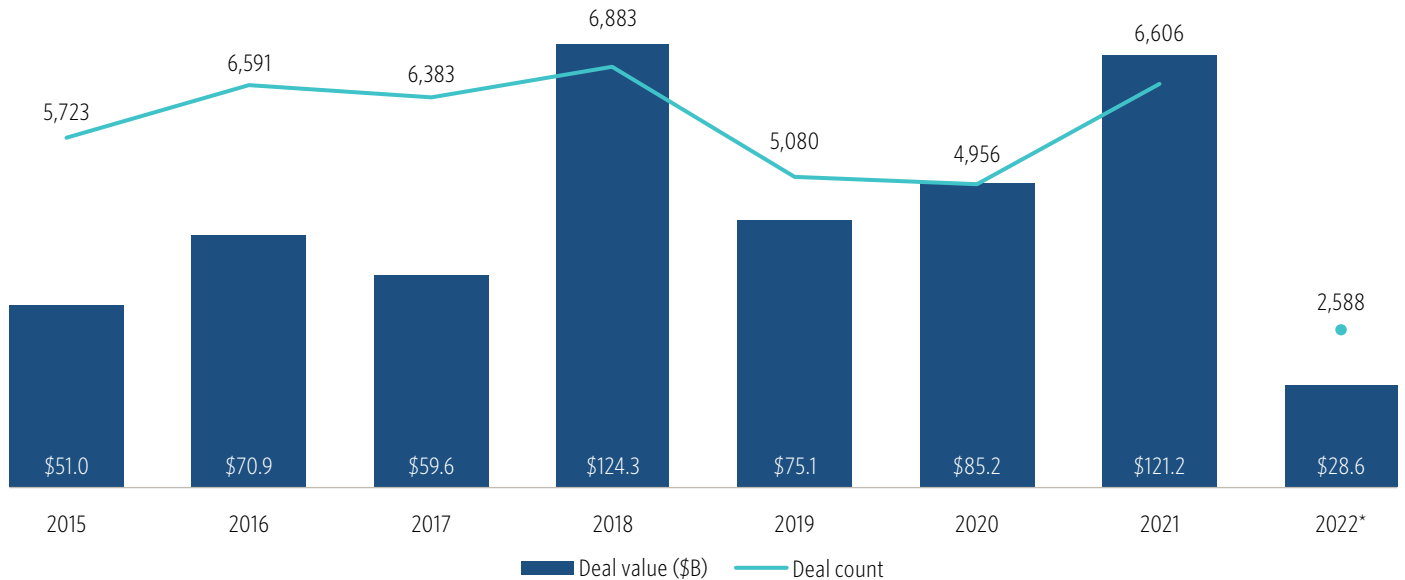
Exits face a significant year-over-year slowdown, especially in terms of public listings. Only \$40.6 billion of exit value was generated across 64 exits in the first six months of 2022, with a notable lack of IPOs. This is a critical gap given that public listings have accounted for 95% or more of the

total exit value since 2019, as investors increasingly rely on liquidity from public markets to drive returns. As of the end of H1, the IPO slowdown for Greater China had extended for 12 months, which is around the time we might expect to see the effect bleed into other sections of the VC cycle.

Fundraising activity remains somewhat tepid. Following another year of decreased fundraising activity, the region's dry powder figure has fallen significantly since its high of \$188.0 billion in 2018. The figure now is just \$122.7 billion, causing some concern about long-term capital availability, especially if foreign capital is increasingly discouraged from entering the market.

Overview

VC deal activity



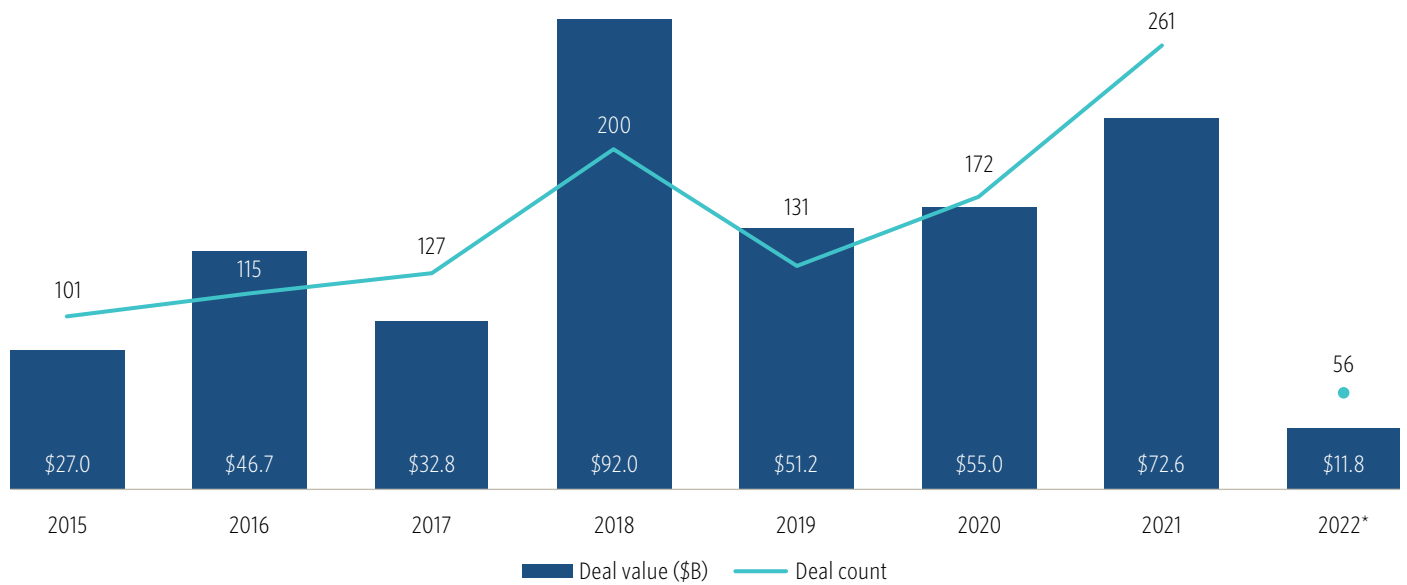
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

VC deal activity by quarter



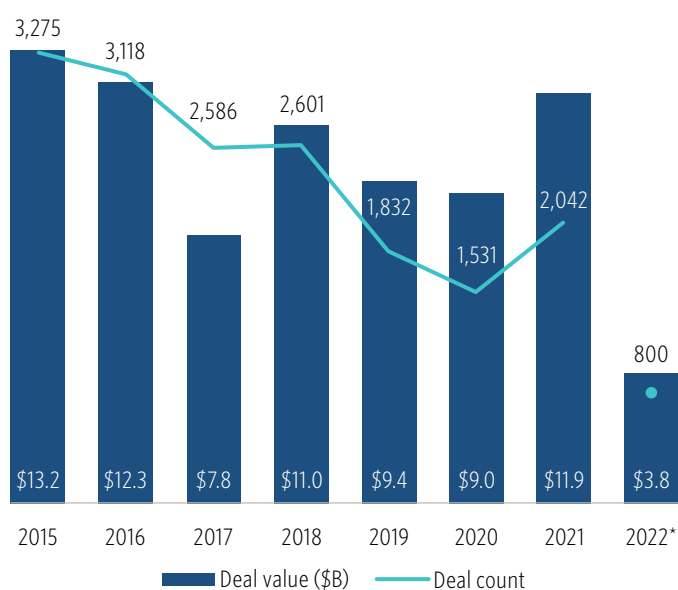
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

VC mega-deal (\$100M+) activity



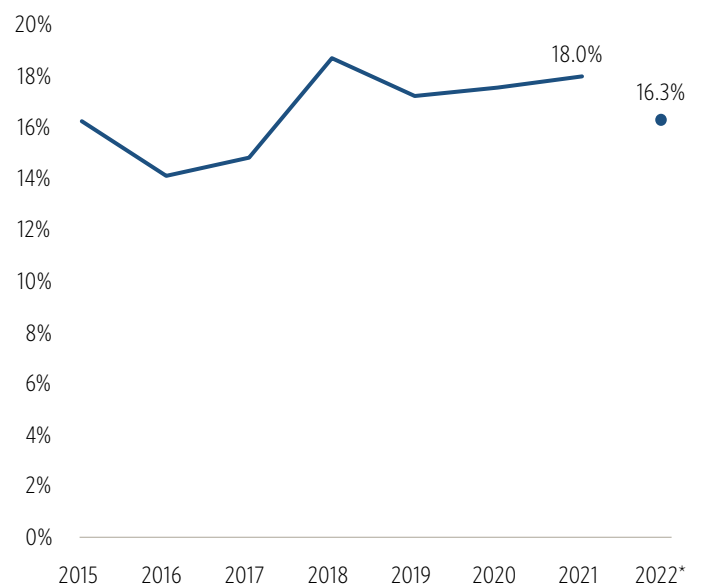
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

First-financing VC deal activity



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Deals with participation from investors outside of Greater China as a share of all VC deal counts



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

A WORD FROM APEX GROUP

Managing risk while reaching for future rewards

What are your initial thoughts on the current market landscape in China? Can you contextualize them for the broader Asia-Pacific region?

It has been a challenging period for venture capital (VC) in China, with activity in the market slowing significantly in early 2022 as the macroeconomic environment became less favorable for venture investors. Restrictions relating to technology and the COVID-19 pandemic, coupled with ongoing geopolitical risks, have exacerbated the challenges facing many investors. We've seen LPs holding back from making allocation decisions, and early-stage companies are finding it more difficult to source necessary funding.

Investors' attention in recent years has increasingly turned toward other growth markets in Asia. VC has been booming in Southeast Asia, with the region growing in reputation and stature following several high-profile unicorn success stories, while markets such as India and Japan have also seen a strong appetite for allocations.

However, there is cause to be cautiously optimistic about China's VC market. Despite the persistence of the conditions that caused market activity to drop, since May 2022, the market has rebounded in a positive sign for the world's second-largest economy. Industry experts are looking toward the National People's Congress in November, wherein Xi Jinping looks likely to secure a third term. The Congress should provide more clarity on the direction of Chinese policy, including the potential easing of COVID-19 restrictions, which would be a significant boost to the VC market.

While China's technology and internet sectors have taken a hit in popularity, other industries are benefiting from the Communist Party's longer-term economic growth strategy. Industries such as electric vehicles, energy transition, and artificial intelligence (AI) are gaining traction with early-stage investors.

What are your clients' most pressing concerns? Where have you seen the most growth across your services, and why?

In the "new normal" environment for the sector, VC GPs are exploring new and sustainable allocations from longer-term or "patient" capital, such as family offices and wealth managers. VCs are becoming more sophisticated and institutionalized,



Debbie Lee

Managing Director, China

[Apex Group](#)

Debbie joined [Apex Group](#) in 2020 in the capacity of Managing Director, China. In this role, she leads the services delivery team to serve assets managers, corporates, and family offices with a focus on hedge fund, private equity, real estate, and venture capital clients.

with an enhanced focus on governance to meet the demands of regulators and their LPs, which are emphasizing regulatory and operational compliance, transparency on investor reporting, and corporate governance.

In this environment, VCs are increasingly outsourcing their fund operations to an independent third-party service provider, not only to create a more efficient operating model but also to take steps toward a framework that promotes operational compliance and exercises professionally accredited levels of controls. This is becoming essential to meeting the growing requirements of LPs that screen and benchmark extensively on operational areas during their investment proposal stages.

For the first time, more and more VCs are outsourcing their fund accounting, investor reporting, and anti-money laundering (AML) services. In addition to supporting VC GPs that are planning their first fund or subsequent strategy vehicles, we have been helping VC GPs build enhanced and operationally compliant frameworks on areas including investment portfolio analytics and monitoring; performance tracking; investment AML compliance; environmental, social, and governance (ESG) advisory (both regulatory and strategic aspects); industry standards and transparency reporting; and tax and Automatic Exchange of Information services.

Given the unique evolution of Chinese private capital markets, how do you foresee the VC space developing? How do you anticipate different VC investing strategies, regardless of firm type, will adapt?

In China, the government's influence on the direction of business and economic growth has remained significant. As part of this, the government has been expressly committed

to creating a healthy investment environment, including suitable tax incentives, a stable financial market, and a sound legal system for VC investors.

With the high levels of competition for high-quality assets and bigger-ticket deals, including encroachment from private equity (PE), we anticipate that VC investors will increasingly focus on smaller, earlier-stage investments. VC has an important opportunity to be a “channel” to funnel capital toward smaller businesses, providing not only capital but also additional support through innovation initiatives and the necessary strategic and management experience to drive success.

In another trend, some VCs are shifting their strategies and approaches to become active even earlier in the life cycle of a business, not only in the early stage but also in the preliminary research preparation stage of the investee entities.

In which sector are you most bullish for VC fundraising?

The investment strategies of VCs will continue to diversify, meaning that the investable space for VC will be greatly expanded, with fundraising targeting more industries that they may not have considered in the past.

Significant changes in China’s macroeconomic policy have shifted investment preferences toward more innovation-oriented sectors, such as pharmaceuticals, semiconductor development, high-precision manufacturing, and AI.

Previous investment focused on TMT, healthcare, the Internet of Things, medical devices, and food and drink. This fits with wider trends that suggest technology and consumer products & services will continue to attract the most VC funding in China. Catalyzed by the pandemic, the biomedical sector has become a hot spot for VC investment, attracting significant capital in China in 2020 and 2021.

ESG has become a focal point for the Chinese government, regulators, institutional LPs, and major PE funds. Since the government announced its goal of carbon neutrality by 2060, interest from major private markets investors has grown rapidly. Areas such as sustainable food, impact investing, and renewables (energy transition) are of high interest. Market players, including VCs, are now seeking to quantify ESG credentials and carbon emissions, both pre- and post-investment, and to reduce the carbon emissions of their portfolios.

What are your observations of the current VC market in China?

The current VC market landscape in China is seeing a slowdown in fundraising activity due to a fundamental change in the market landscape. In the last decade, the VC community has found opportunities created by the mobile internet increasing efficiency and disrupting traditional business models. Investors are becoming more cautious and need real returns on investment instead of just buying into the digitization narrative. Meanwhile, PE managers are more inclined to find earlier-stage projects, thus creating more competition for VC investors. Based on this new trend, VCs are seeking value-add services from their fund services partners. We are seeing a lot of demand in China for fundraising services, ESG advisory, cross-border support and insight, and an understanding of different jurisdictions’ regulatory updates, all of which can be delivered via one relationship: Apex Group’s single-source solution.

Which regulatory and technical developments are you monitoring most closely?

As China’s economic growth trajectory continues, a major trend is the further expansion of the scope and depth of Chinese investment markets for foreign investors in 2022. We expect to see not only closer cooperation between the Chinese stock exchange and international markets but also the liberalization of restrictions on the licenses and capital size requirements for foreign private markets investors.

Changes to the Qualified Foreign Limited Partnership (QFLP) scheme have made it easier for foreign-owned asset management and investment funds to invest in private markets in China. Since the pilot scheme was launched in Shanghai a decade ago, it has expanded to 10 other mainland cities. At Apex Group, we help companies navigate these programs with a connected approach by supporting the implementation of complex business structures across all asset classes.

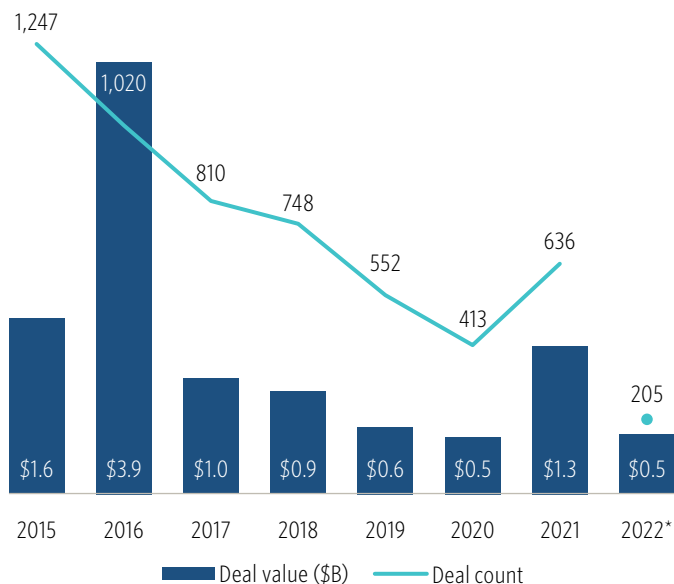
The trend of continuous inflows of foreign capital in 2022 will continue, and we expect to see more international VC managers investing in Chinese businesses under the QFLP scheme. As a result, international service providers for financial services and talent in the China market will continue to be in demand.

Dealmaking

The venture market in Greater China has seen a slowdown since Q3 2021 when nearly 1,800 deals were completed in the region for a deal value of \$29.4 billion. Greater China has seen quarterly deal counts fall to 1,571 in Q1 2022 and just 1,017 in Q2, with the total deal value in the first half of the year falling short of the Q3 2021 figure (each of these will likely rise due to lags in data reporting but are unlikely to approach the Q3 2021 figure).

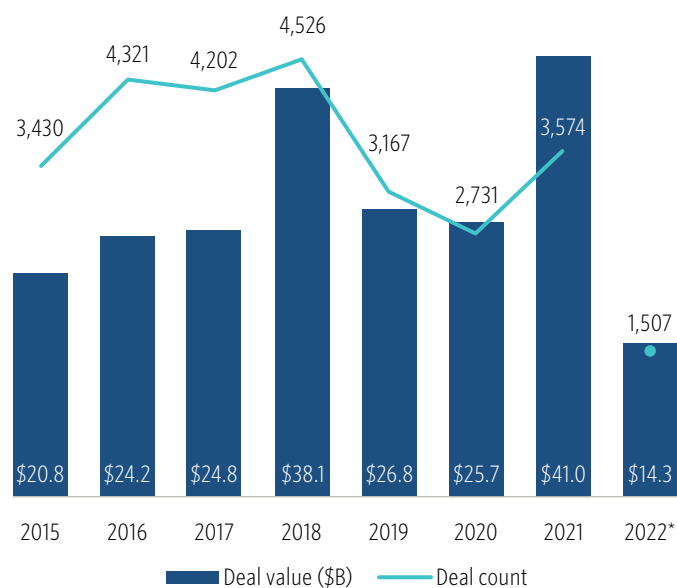
Greater China has faced many hurdles over the past year, coinciding with the decline in deal activity. For one, the Chinese government announced its plan to limit listings of companies headquartered in China on foreign exchanges. While this isn't a complete barrier to exits, many of the country's largest exits were via public listing onto foreign markets, and the intervention by the government has likely made investors based outside China think twice about investing into the country—just 367 deals in 2022 have included participation from an investor headquartered outside of Greater China, well off the pace of recent years. The Chinese economy has also struggled with supply chain issues brought on by the COVID-19 pandemic, which the country is still addressing with strict policies and measures. The economic headwinds faced by other markets and regions have not missed Greater China.

Angel & seed deal activity



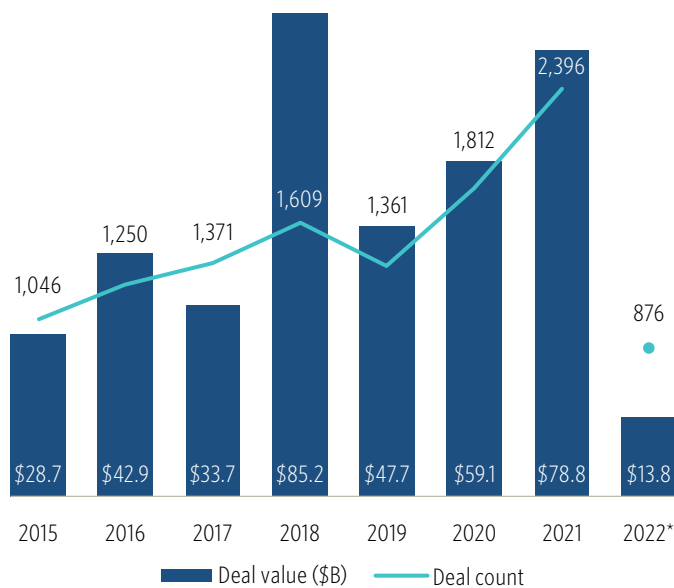
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Early-stage VC deal activity



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Late-stage VC deal activity



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Mega-round activity has also slowed significantly. Deals of \$100 million or more have symbolized the growth of venture capital (VC) worldwide, especially in Greater China. These deals had outpaced those in the US in 2016 and 2017 but have not kept pace with the growth in number since. Just 56 mega-rounds have closed in 2022, well below the 356 in the US and on a slower pace than 2021, when a record 261 mega-deals closed in Greater China. VC fundraising in China has been falling for several years by both fund count and fund

value. It's likely not a coincidence that 2016 and 2017 were both record years for Greater China fundraising because mega-deals in Greater China outpaced those in the USA. The capital necessary to support large numbers of mega-deals is located outside Greater China, and as fund count and value fall, those outside VC firms are facing more hurdles to participate in the region's VC market. The region's dry power figure has fallen significantly since reaching a high of \$188.0 billion in 2018. The figure now sits at just \$122.7 billion.

Early-stage VC deal activity by quarter



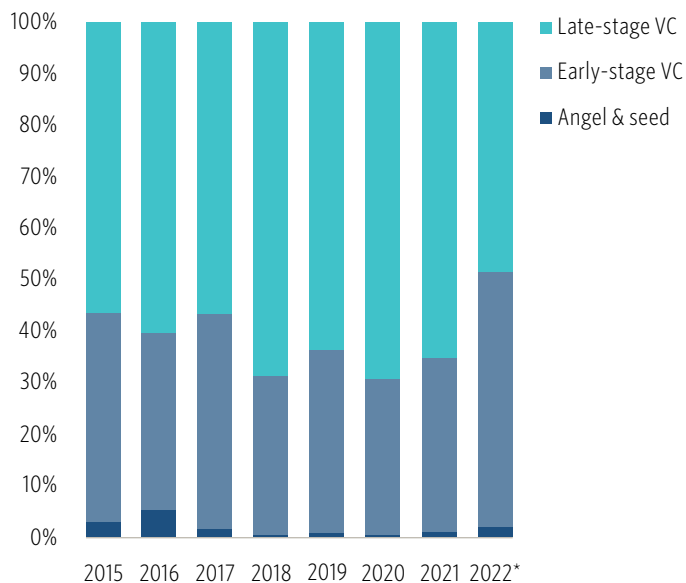
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*As of June 30, 2022

Late-stage VC deal activity by quarter



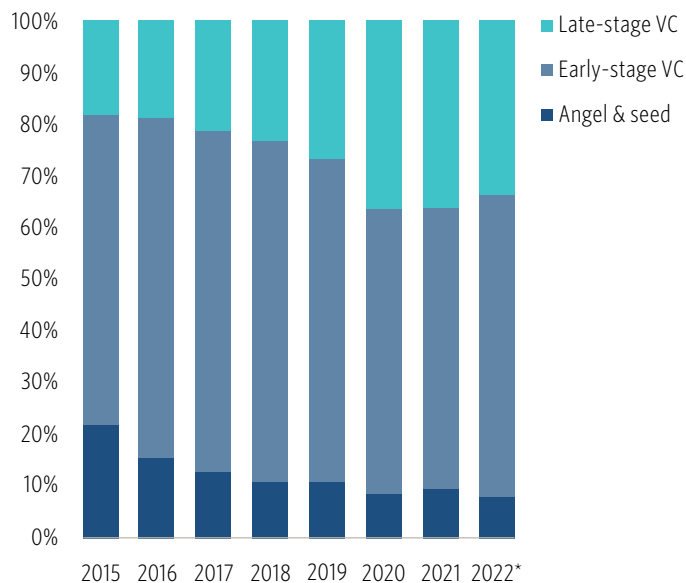
Source: PitchBook | Geography: Greater China
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Share of VC deal value by stage



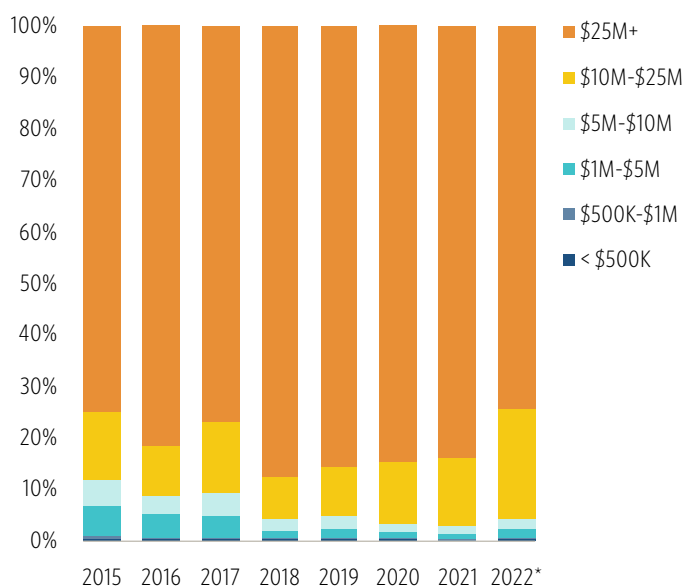
Source: PitchBook | Geography: Greater China
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Share of VC deal count by stage



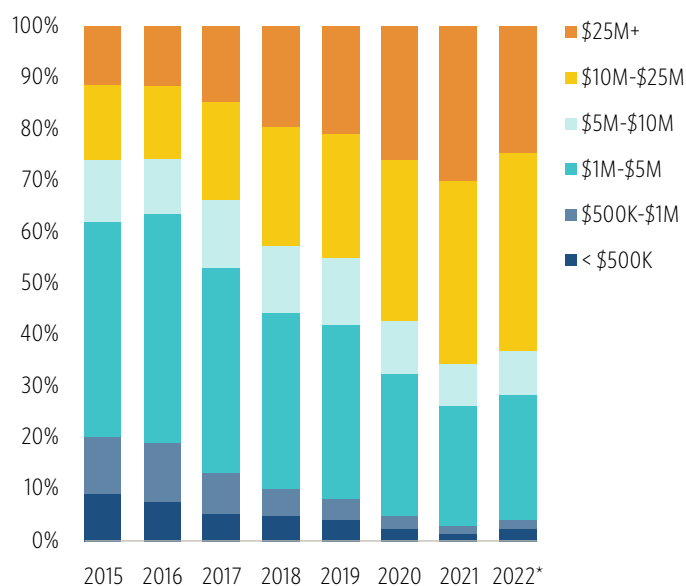
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of VC deal value by size



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

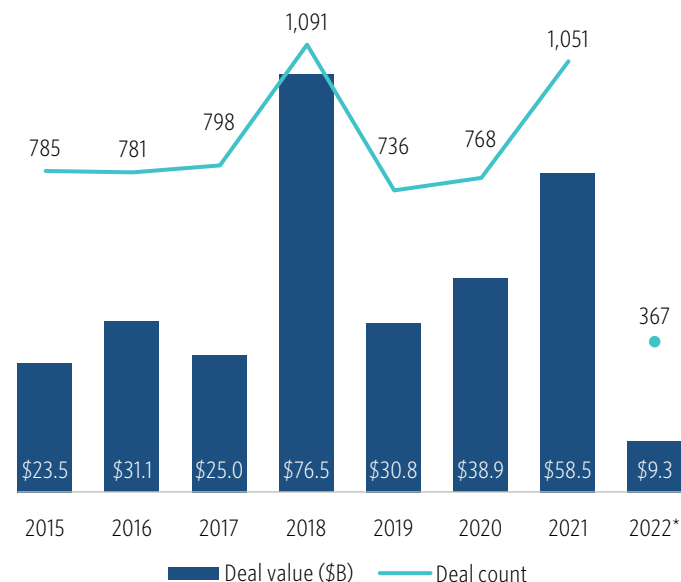
Share of VC deal count by size



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

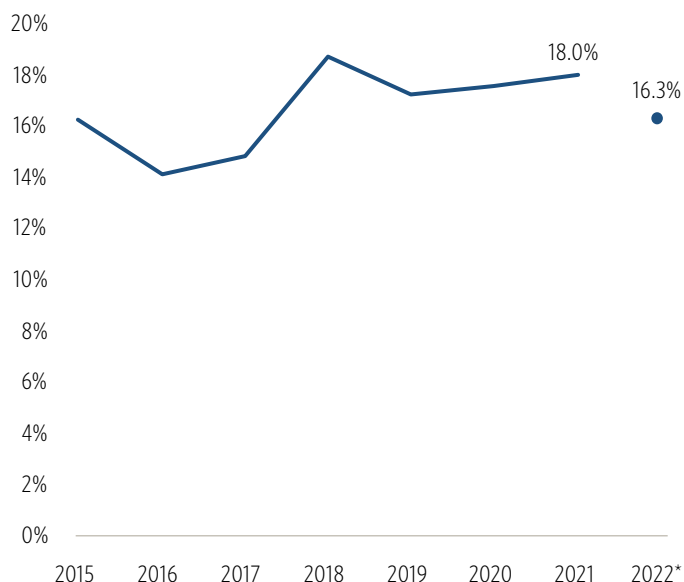
Investor breakdown

VC deal activity with participation from investors outside of Greater China



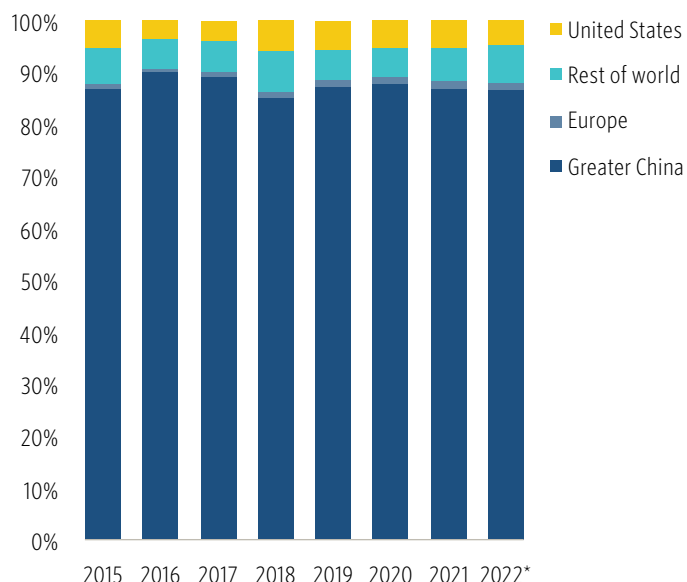
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Deals with participation from investors outside of Greater China as a share of all VC deal counts



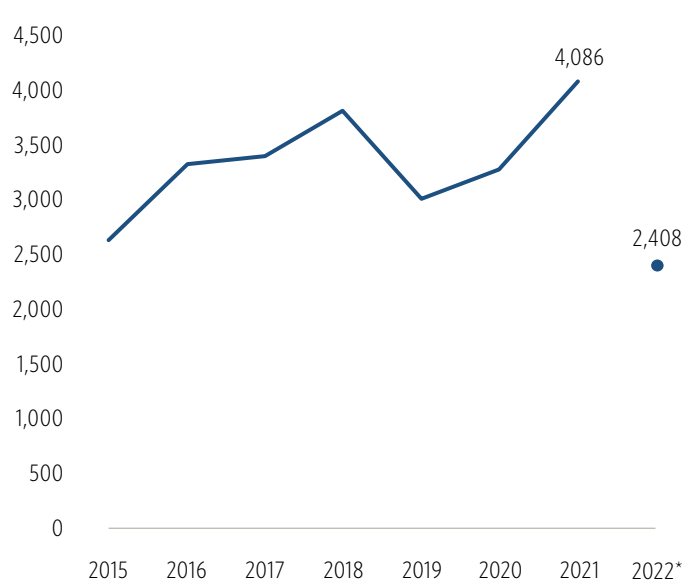
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of VC deals by investor region



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Number of unique VC investors

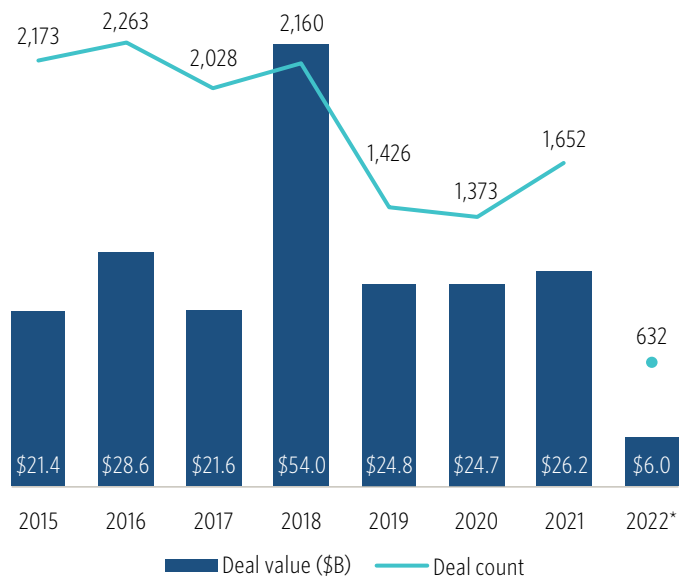


Source: PitchBook | Geography: Greater China
*As of June 30, 2022

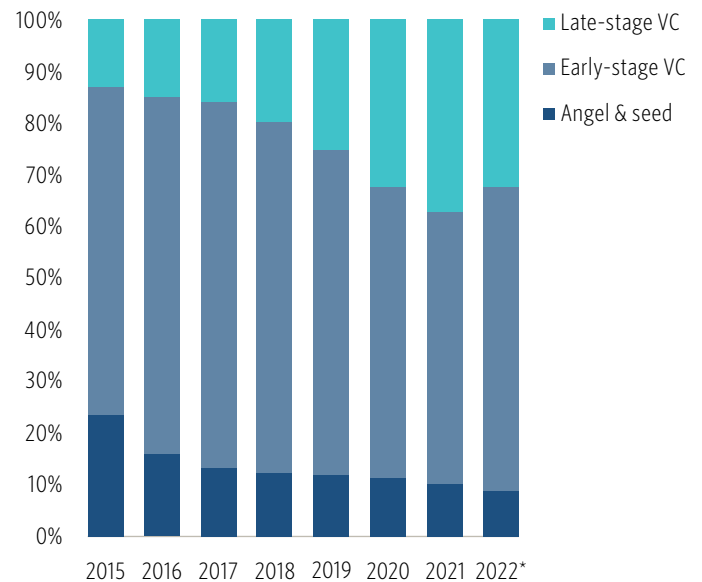
DEALS BY SECTOR

Software

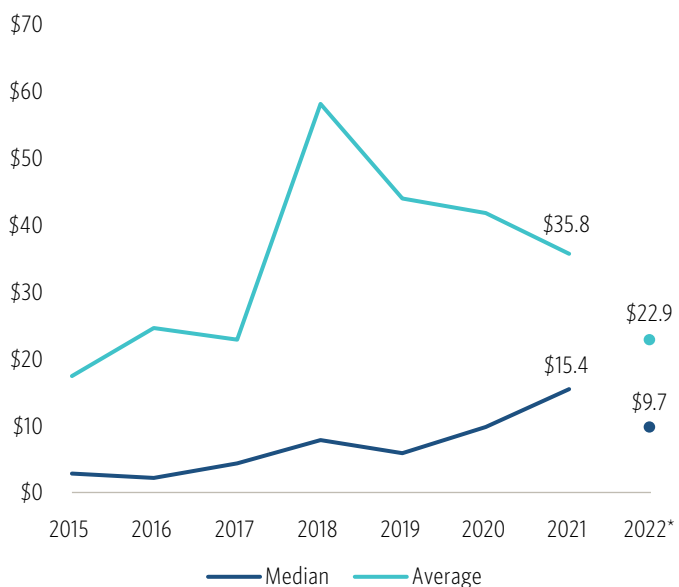
Software VC deal activity



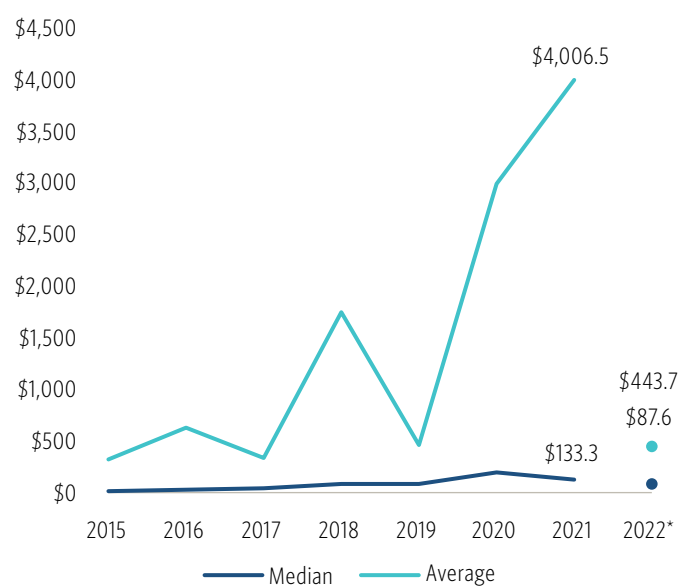
Share of software VC deal count by stage



Median and average software VC deal sizes (\$M)



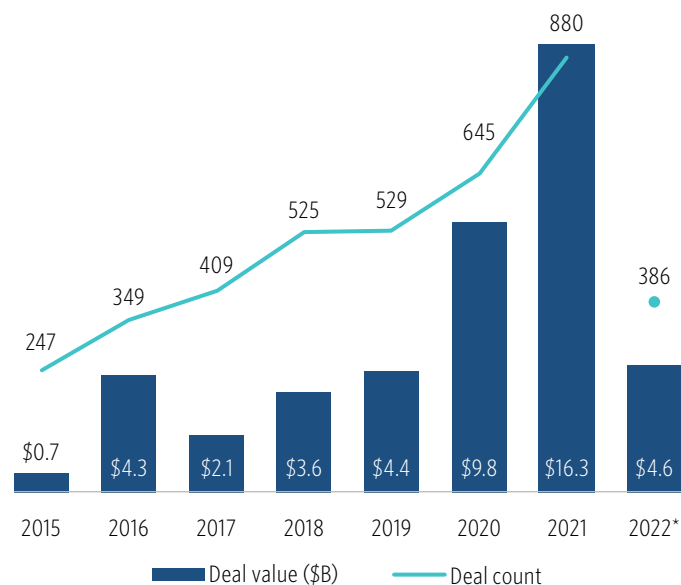
Median and average software VC pre-money valuations (\$M)



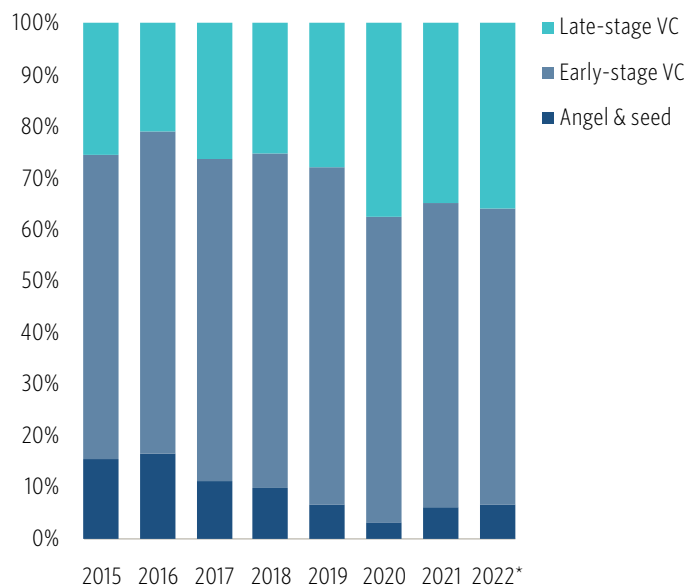
DEALS BY SECTOR

IT hardware

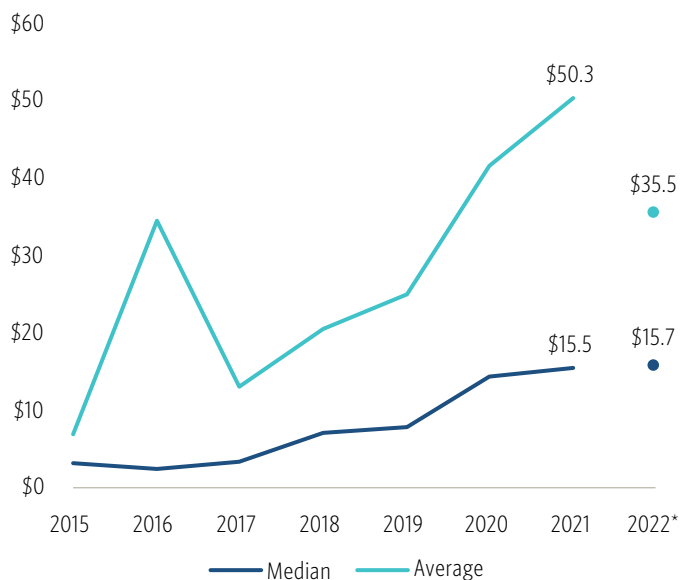
IT hardware VC deal activity



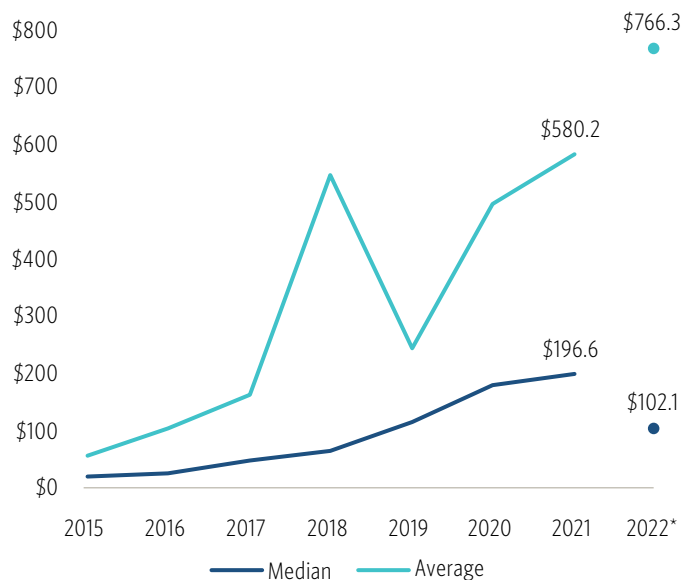
Share of IT hardware VC deal count by stage



Median and average IT hardware VC deal sizes (\$M)



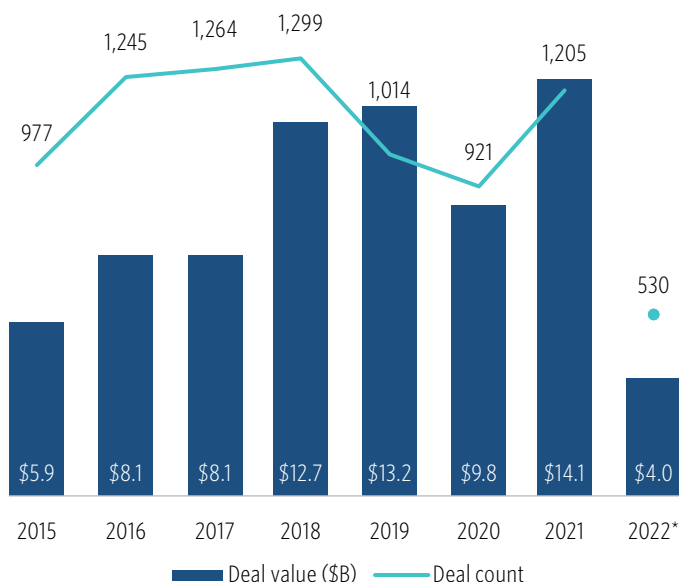
Median and average IT hardware VC pre-money valuations (\$M)



DEALS BY SECTOR

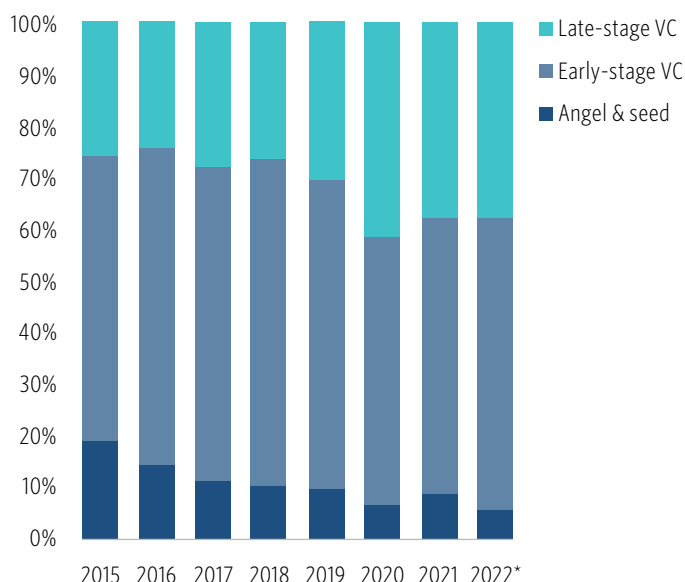
Commercial products & services

Commercial products & services VC deal activity



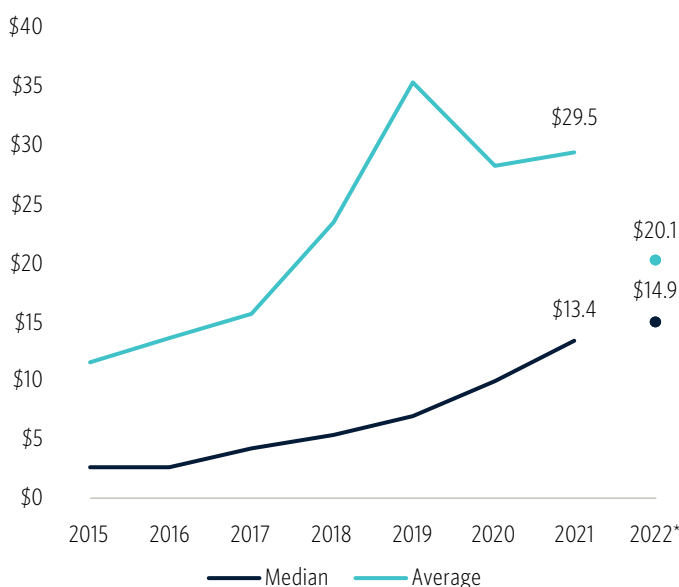
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of commercial products & services VC deal count by stage



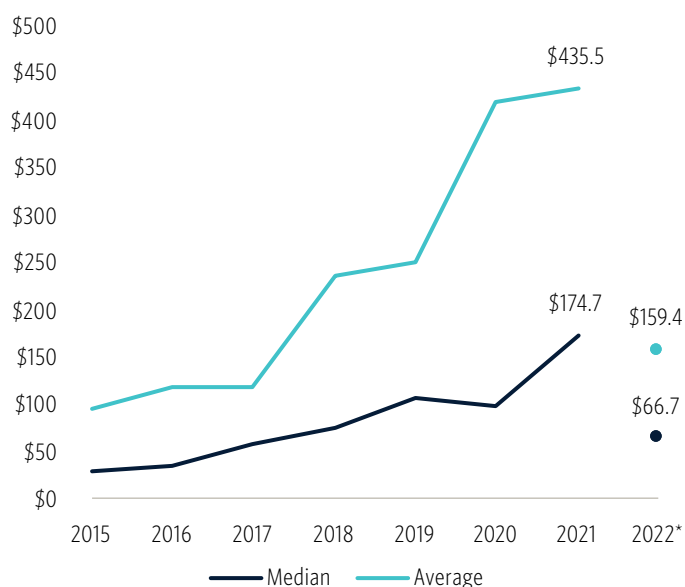
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

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



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

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

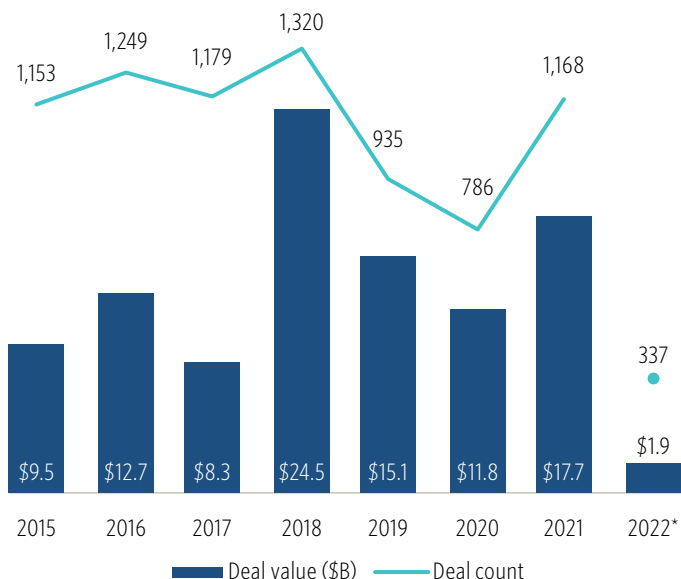


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DEALS BY SECTOR

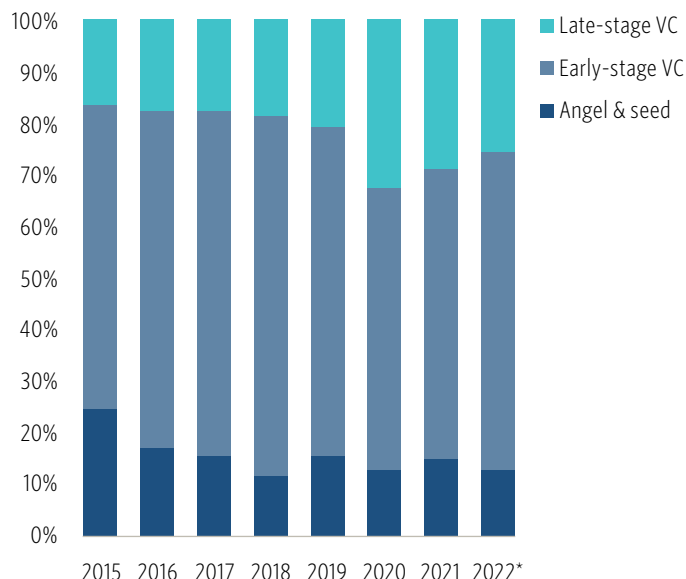
Consumer products & services

Consumer products & services VC deal activity



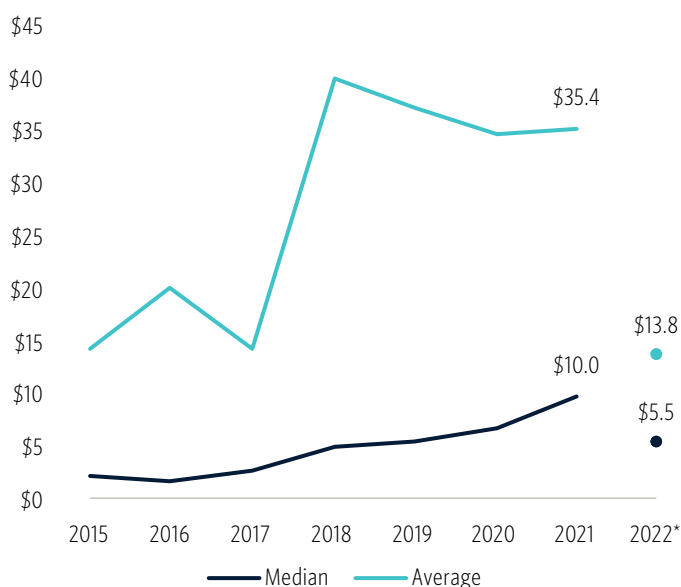
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of consumer products & services VC deal count by stage



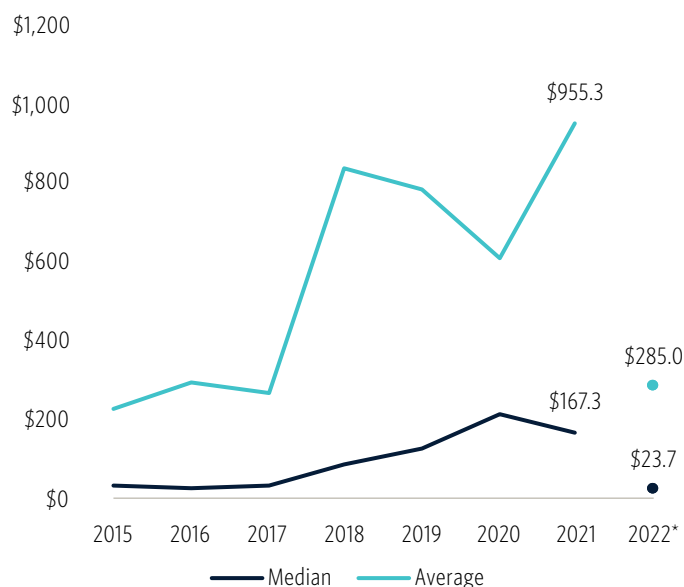
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Median and average consumer products & services VC deal sizes (\$M)



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

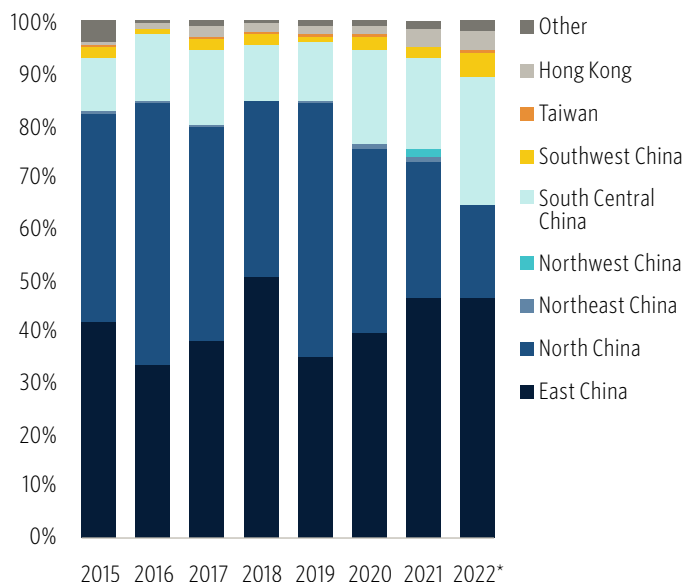
Median and average consumer products & services VC pre-money valuations (\$M)



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

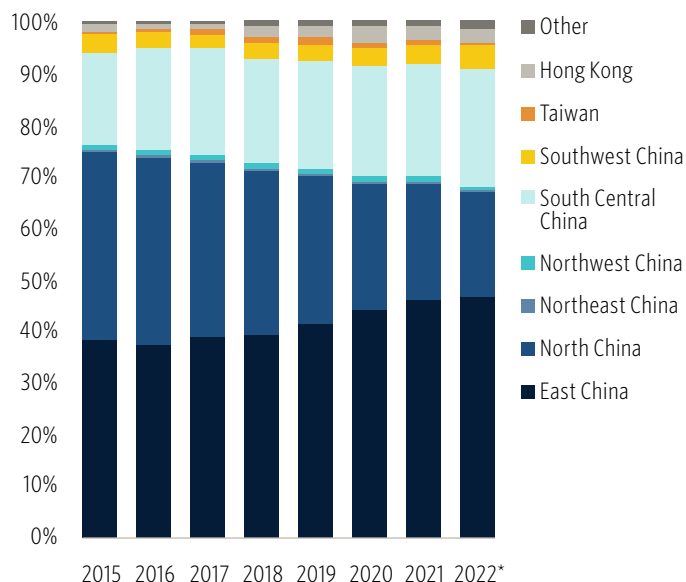
Deals by region and native currency types

Share of VC deal value by region



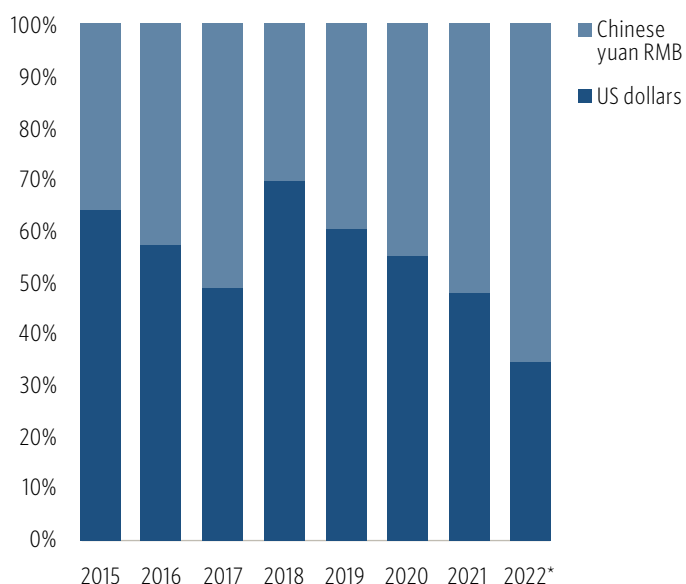
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of VC deal count by region



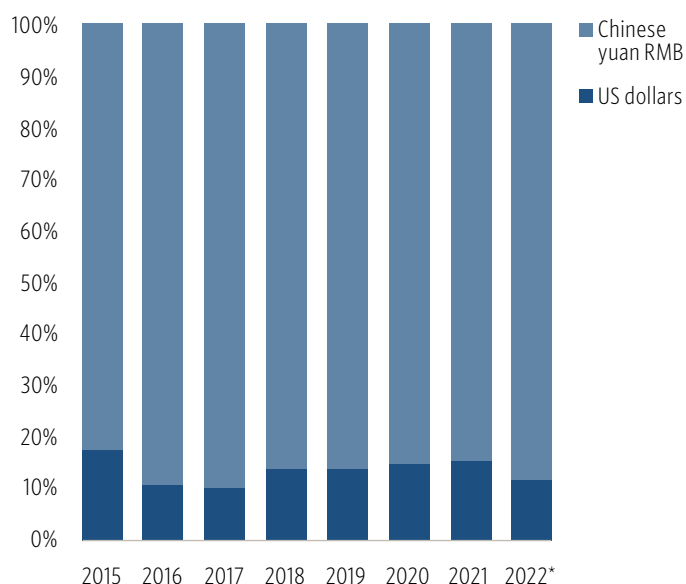
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of VC deal value by select native currency type



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

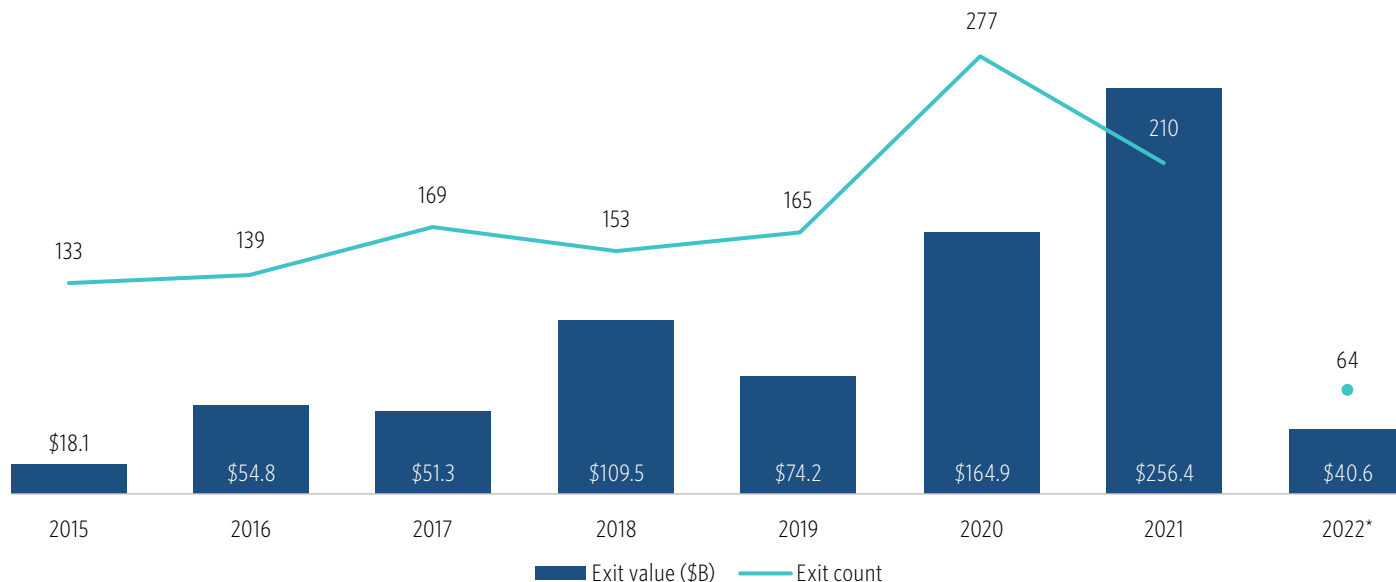
Share of VC deal count by select native currency type



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Exits

VC exit activity

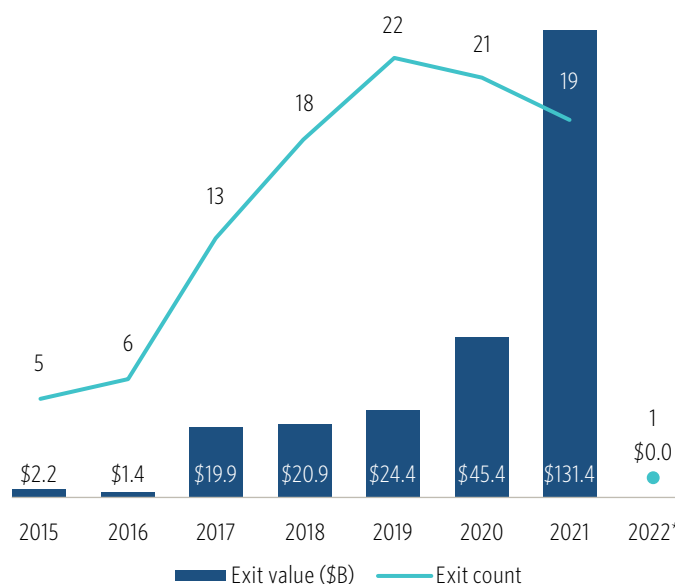


Source: PitchBook | Geography: Greater China
*As of June 30, 2022

The exit environment in Greater China during H1 2022 continued at the more subdued pace we've recorded since Q3 2021. In the first six months of the year \$40.6 billion of exit value was generated across 64 exits, which will likely result in full-year 2022 showing a significant YoY decline relative to 2021. This YoY slowdown was more or less expected, as the drought of IPOs has only worsened since the start of 2022 in response to increased volatility and a global repricing of growth equities. An improvement in the macroeconomic environment in both Greater China and the rest of the world will be a key factor in the return of IPO activity, as investor confidence in taking more risk still needs to recover.

This is a critical gap, not only for startup liquidity but also because public listings have accounted for almost all the total exit value since 2019, meaning that investors increasingly rely on liquidity from public markets to drive returns. Through the end of H1, the IPO slowdown for Greater China has extended for a full 12 months, which is around the time we might expect to see the slowdown begin to affect other sections of the VC cycle. For instance, we've also seen a slowdown in fundraising activity during the first half of 2022. While that decline isn't fully driven by the lack of IPOs since that will take time to flow through VC fund returns, the current portfolio markdowns and uncertainty are likely key considerations for LPs when evaluating new allocations to VC. Changes in public market performance

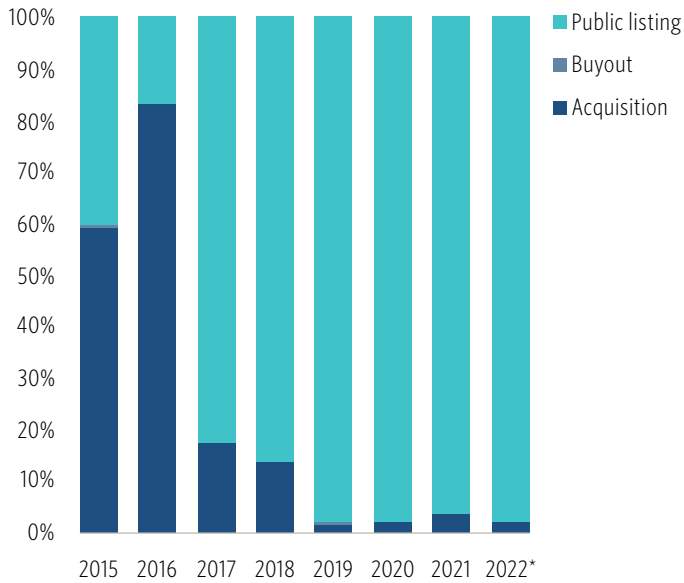
VC exit activity with participation from investors outside of Greater China



Source: PitchBook | Geography: Greater China
*As of June 30, 2022
Note: Exit size for 2022 not available.

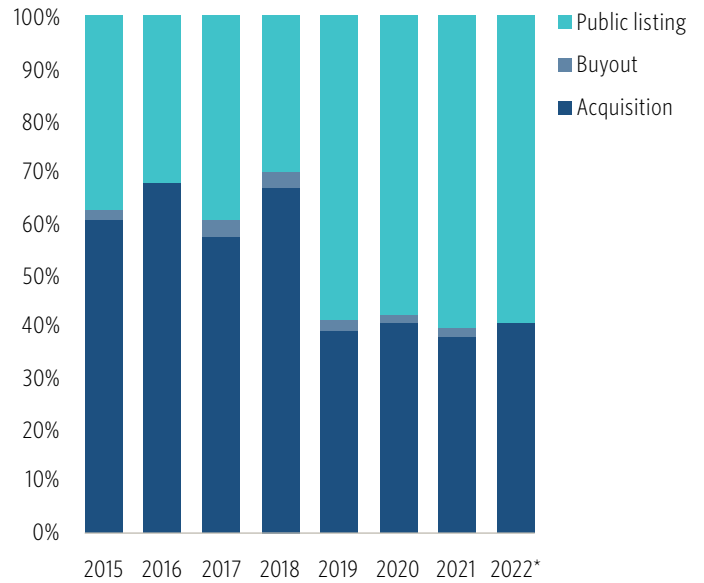
and the willingness of public market investors to undertake risk will be key indicators of a potential turn around in IPO volume; however, there may be a few more quiet quarters before that is possible.

Share of VC exit value by exit type



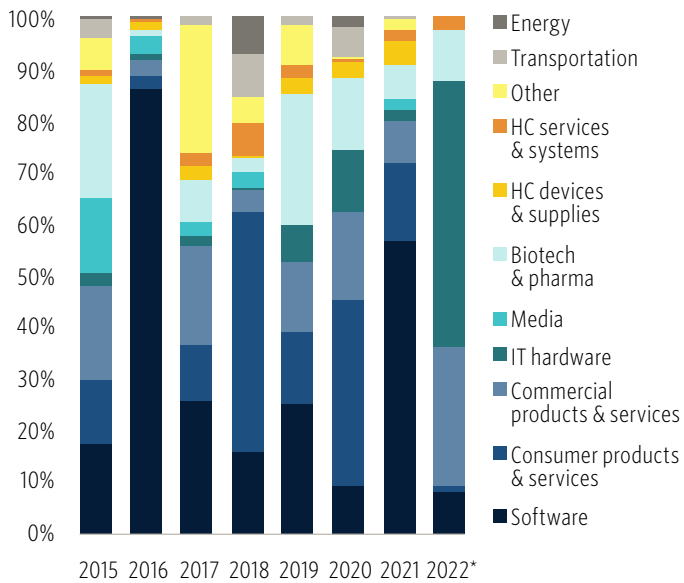
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of VC exit count by exit type



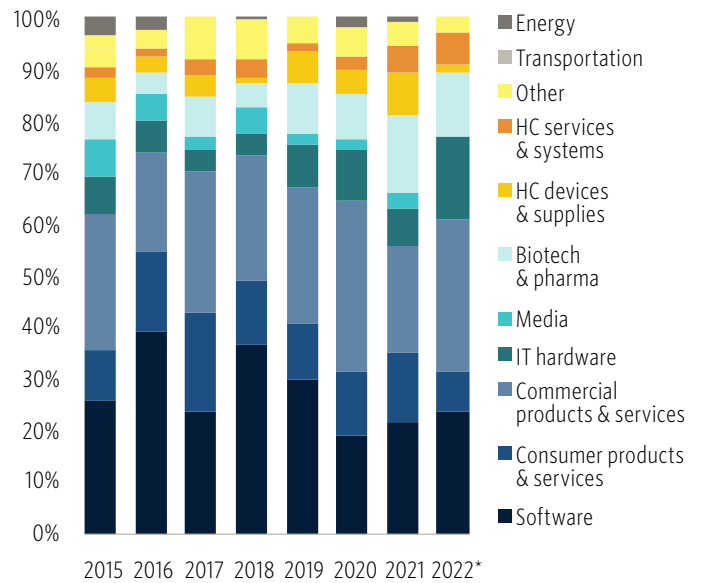
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of VC exit value by sector



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

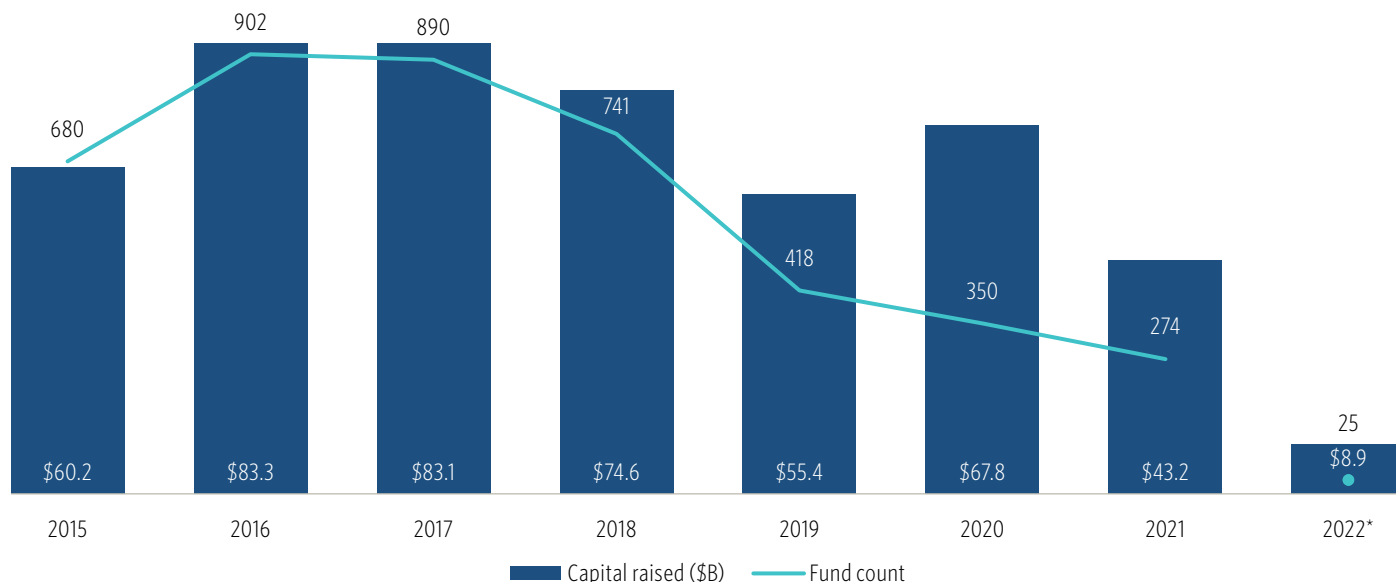
Share of VC exit count by sector



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

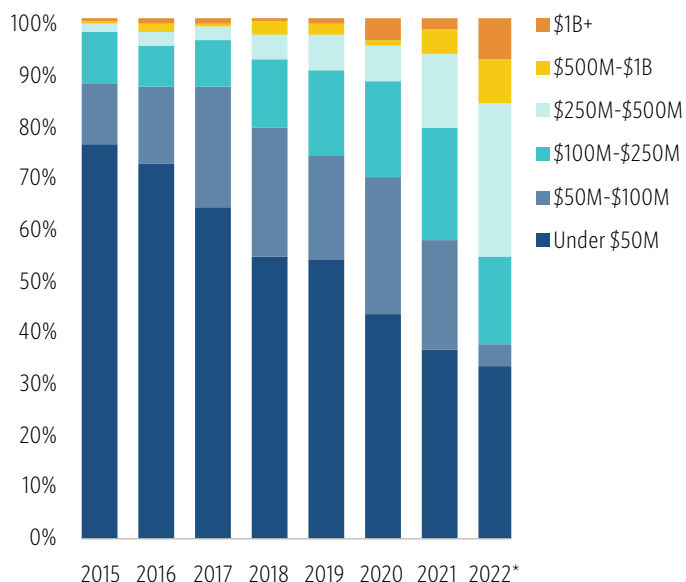
Fundraising

VC fundraising activity



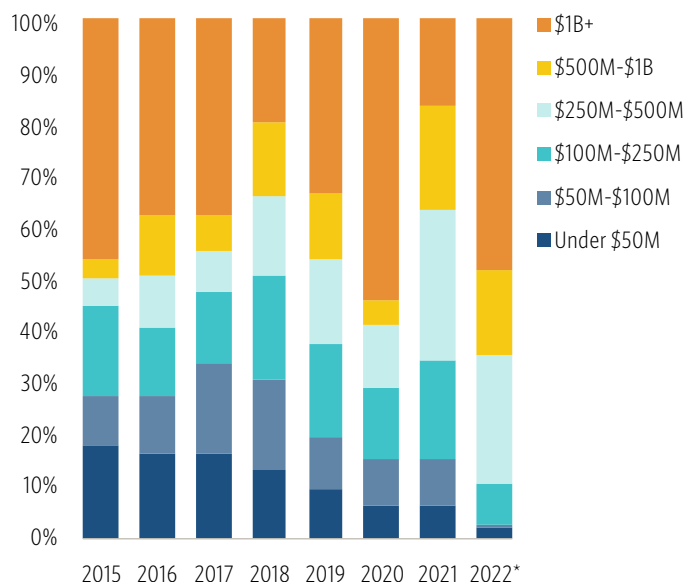
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of VC fund value by fund size



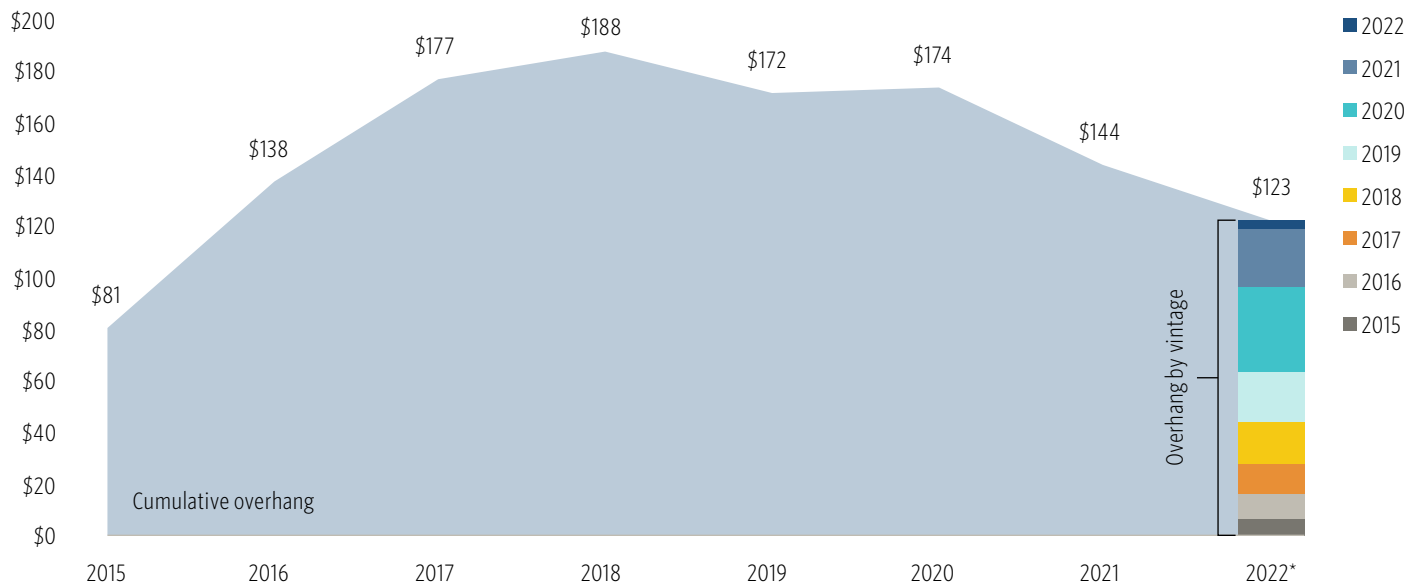
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

Share of VC fund count by fund size



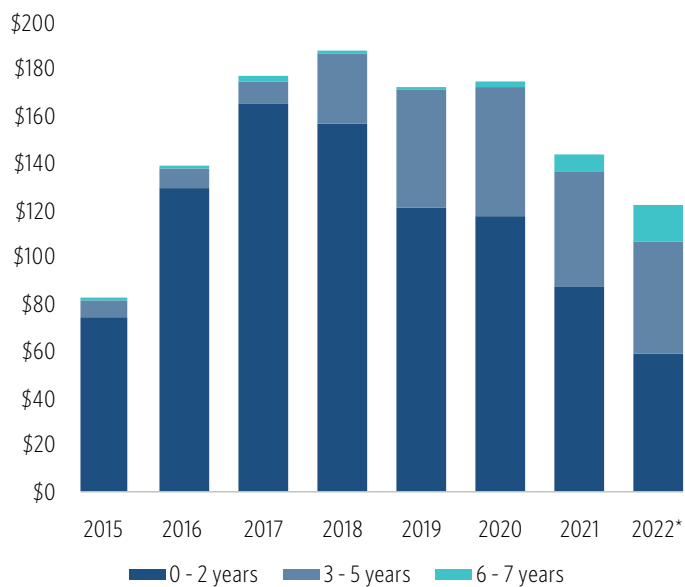
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

VC overhang (\$B) by vintage year



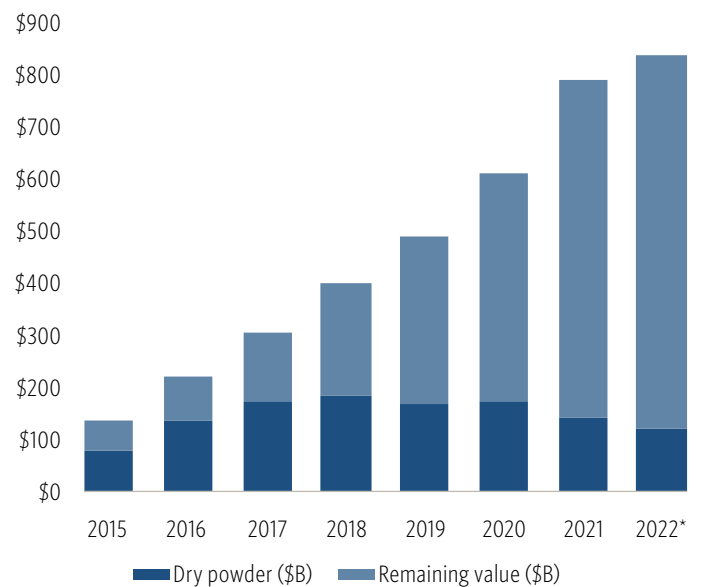
Source: PitchBook | Geography: Greater China
*As of June 30, 2022

VC overhang (\$B) by age bucket



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

VC AUM (\$B)



Source: PitchBook | Geography: Greater China
*As of June 30, 2022

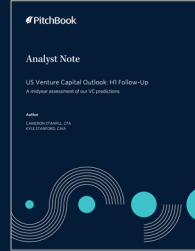
Additional research

Venture Capital



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