

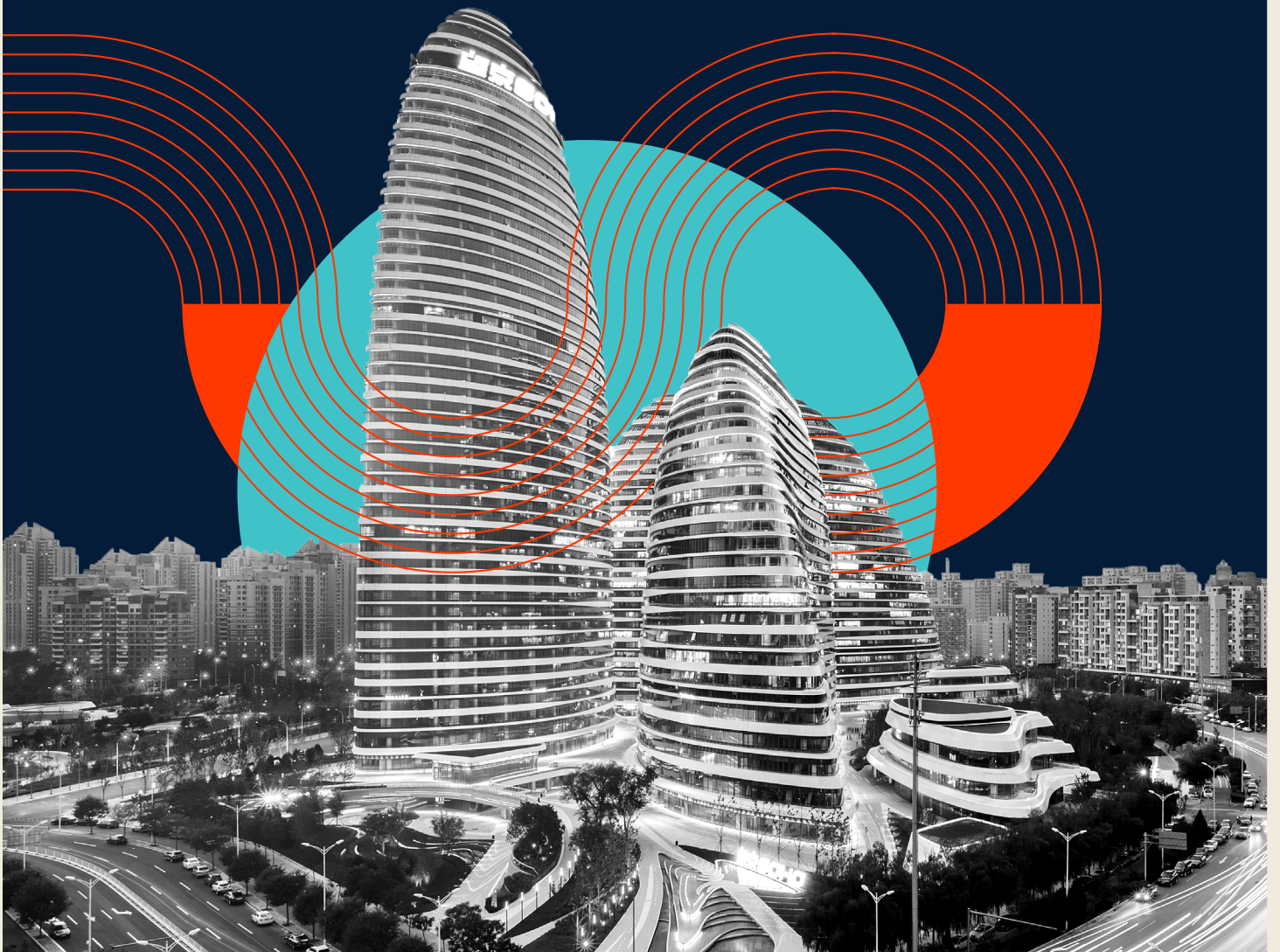
PitchBook

H1
2023



GREATER CHINA

Venture Report



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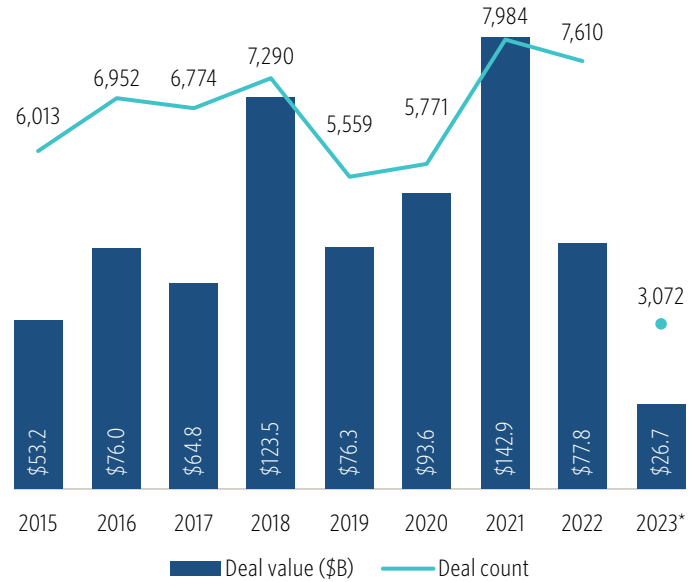
Note: Greater China is defined as mainland China, Hong Kong, Macao, and Taiwan.

An accompanying Excel file contains additional charts and all underlying data for this report. Download the XLS summary [here](#).

Key takeaways

- Through the first half of 2023, the Greater China venture ecosystem continued its lack of investment momentum. On the dealmaking front, an aggregate of \$26.7 billion was invested across 3,072 deals during the first two quarters of the year. Amid a harsh fundraising climate and with a lack of outsized returns being produced via public exits, GPs have slowed the pace of capital deployment. The projected annualized deal value from megadeals, or rounds that are at or over \$100 million, is on track to land at the lowest point observed since 2015, signifying a reduced capital availability for the regional venture ecosystem.
- Foreign investment into the region continued to decline as a proportion of total deal activity. Just 10.0% of deals in H1 2023 included an investor headquartered outside the region—the lowest figure in our dataset. There are several factors that contributed to this slowdown. First, the Chinese government has added extra challenges for foreign investment in VC over the past few years through its tech crackdown, limitations on foreign IPOs—though Beijing’s stance on the issue has been softened—and protective nature of high-interest sectors. China’s economy has also sputtered coming out of the pandemic, creating further reason for foreign investors to slow investment. On August 9, 2023, the Biden administration issued an executive order prohibiting US VC firms from investing in Chinese startups operating in high-tech

VC deal activity



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

sectors, including semiconductor, quantum computing, and AI. From a US investor perspective, close scrutiny and regulatory cases bring an additional layer of challenges for them to put substantial amount of capital to work in the Chinese market.

VC deal activity by quarter



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

- In H1 2023, Greater China’s exit environment continued its slowdown, with the total exit value declining to about \$77.5 billion from 130 exits, compared to \$100.2 billion from 177 exits in H2 2022. Headwinds stemmed from the Chinese government’s intensified regulation of the tech sector in late 2020, which negatively impacted major public internet-based companies and hampered investor confidence for exit prospects. Despite the dip, the region has positive long-term prospects, projecting an annualized exit value of about \$145.0 billion for 2023. Amid geopolitical uncertainty, the majority of exit value

for Chinese unicorns will likely be generated via domestic IPOs in the near future.

- Fundraising activity remained relatively subdued through H1 2023, as just \$31.7 billion was committed to 194 funds. Notably, RMB-denominated funds dominated the market on both a fund value and count basis. Due to geopolitical concerns, China’s economic slowdown, and other factors, USD-denominated funds accounted for a mere 1.5% of the total funds closed through the first half of the year.

VC megadeal activity by quarter



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Dealmaking

When China effectively reopened its borders at the beginning of the year, many forecasted a rapid rebound of the region's economic growth and commercial activity. However, through the first two quarters following the Chinese government lifting its COVID-19 restrictions, the world's second-largest economy faced a series of challenges, including tested consumer confidence and weakened consumer spending adding downward pressure to the supply side; the country appearing to be closing in on deflationary territory; and escalating tensions with the US driving to de-risk and diversify away from China, to name a few.

On the dealmaking front, the regional venture ecosystem continued to grapple with a lack of investment momentum. Through the first half of 2023, \$26.7 billion was invested across 3,072 deals, with the projected annualized deal value surfacing a 31.4% drop from the 2022 figure and on track to fall below the 2016 level, should the sluggish dealmaking pace drag on. In addition, Q2 was the fourth consecutive quarter of deal value declines, landing at the lowest level since Q1 2017 (with a caveat in a natural lag in deal reporting).

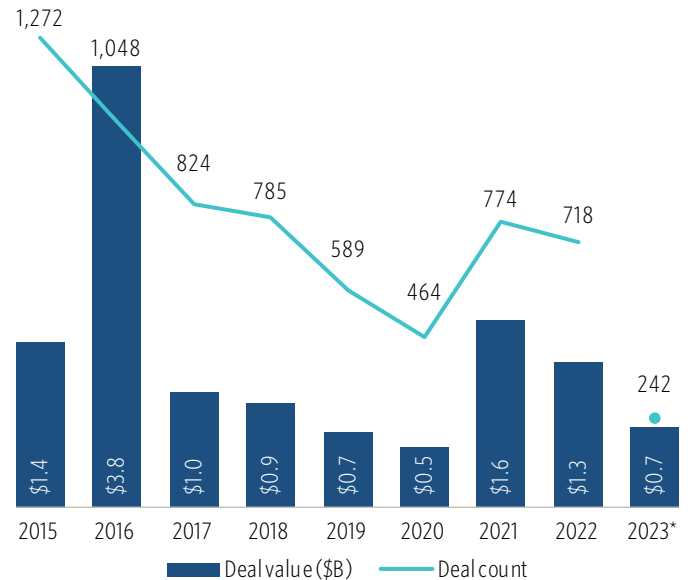
Pressure from a challenging fundraising environment in combination with a dearth of outsized exit returns being generated has trickled down to dealmaking, where GPs have reportedly slowed committing to both new and follow-on opportunities. Visible declines in the aggregate deal

Early-stage VC deal activity



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

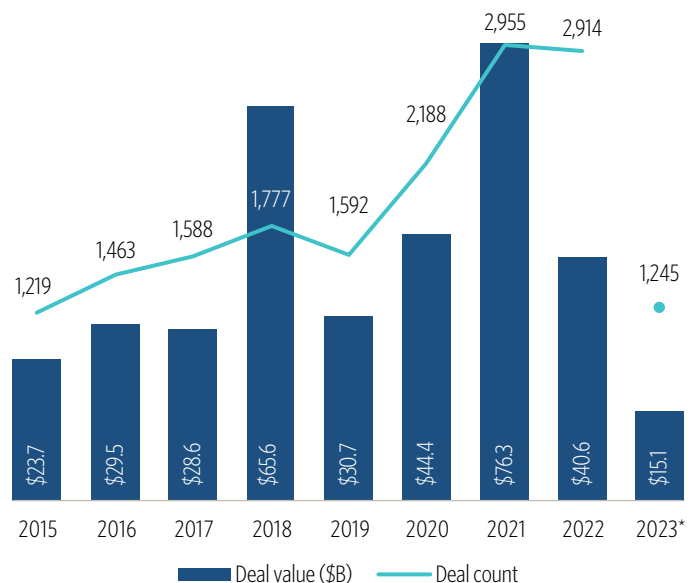
Angel and seed deal activity



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

value for both relatively smaller initial financings as well as late-stage deals that tend to have larger ticket sizes signal dwindled capital supply for the regional venture ecosystem. Mega-rounds, or deals that are \$100 million or larger, were getting done at a tepid pace, with an annualized deal value of \$30.0 billion reaching the lowest point observed since 2015. Looking at first-time financing, while annualized deal

Late-stage VC deal activity



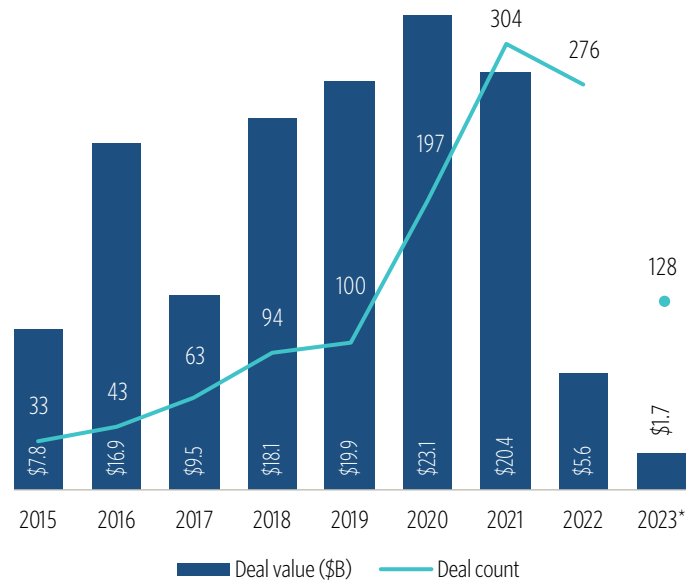
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

count stayed elevated, narrowly surpassing the 2019 level, an annualized deal value of \$8.6 billion is on track to settle at a five-year low.

Anecdotally, the regional GP landscape has become increasingly competitive, with a lack of highly investable deals involving innovative startups with sound tech stacks, reasonable valuations, and clear business-development trajectories exemplifying strong and sustainable growth momentum. A popular meme being circulated among the Chinese venture investor community summarizes the reasons why GPs have slowed the pace of capital deployment: unable to find the hidden gems, not having industry-level insights to properly evaluate early-stage deals, and having to sit out on late-stage deals due to their expensive price tags. The context helps explain why startups across different phases of the venture lifecycle were impacted by the capital shortage and waning investor confidence. During the first half of 2023, annualized deal value experienced a pronounced drop across the early-, late-, and venture-growth stages of 39.9%, 25.6%, and 39.3%, respectively.

While the percentage of investments into software declined on both a deal value and count basis, on a positive note, certain industries experienced strong investor traction, either by benefiting from tailwinds from the pandemic era or due to their ties to strategically important sectors. For

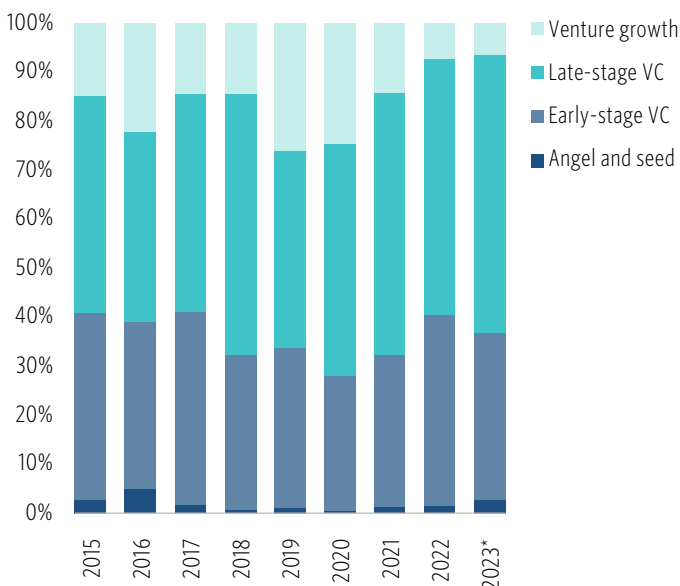
Venture-growth deal activity



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

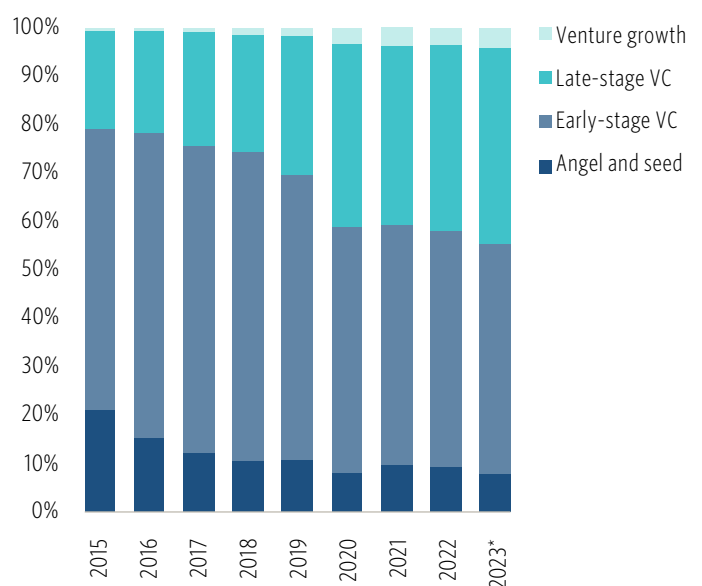
example, from both deal value and count standpoints, as of 2023 YTD, the share of deal activity in consumer goods & services ascended to the highest point since 2015, notching 37.3% and 31.1%, respectively.

Share of VC deal value by stage



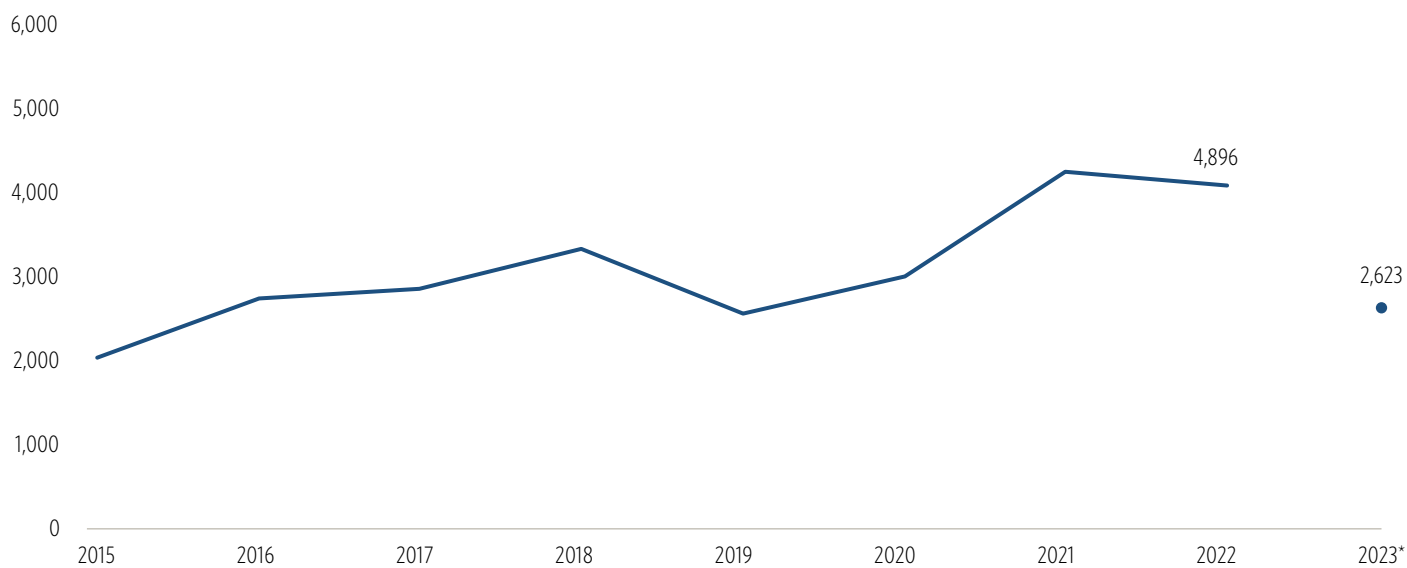
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of VC deal count by stage



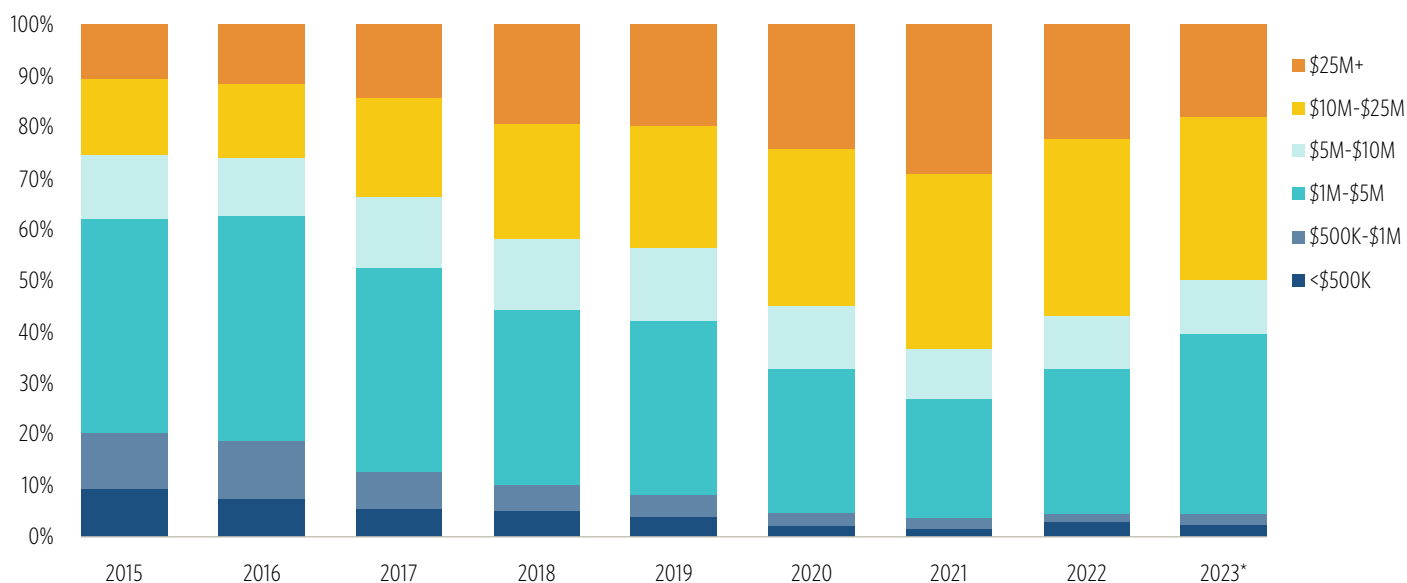
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Unique VC investor count



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of VC deal count by size bucket



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

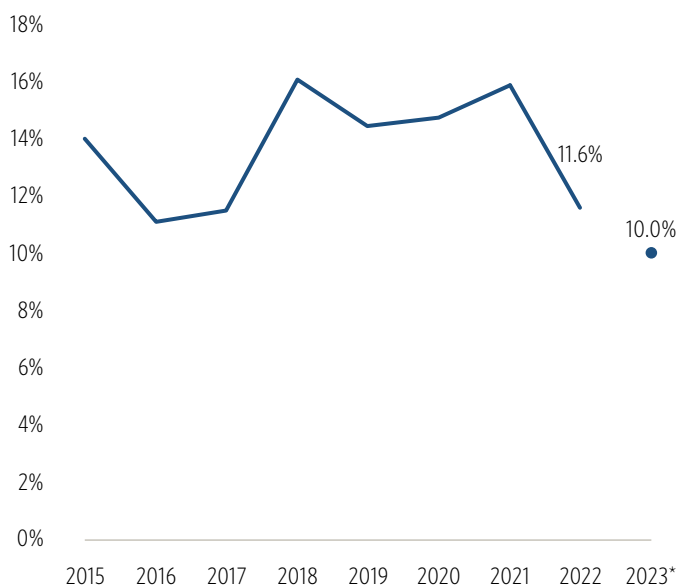
SPOTLIGHT

Foreign investment in Greater China

Foreign investors have significantly slowed their involvement in Greater China’s venture market despite the Beijing government’s attempts to attract overseas investment.¹ Over the past few years, the regional VC market in particular has battled IPO restrictions and government intervention in large tech companies,^{2,3} increasing the risks involved with foreign investors pushing money into the market. Meanwhile, the Beijing government’s stance on tech and foreign investment has shifted, at times quickly, leaving foreign investors with capital deployed into the market at the mercy of these policy changes made in the name of national security.

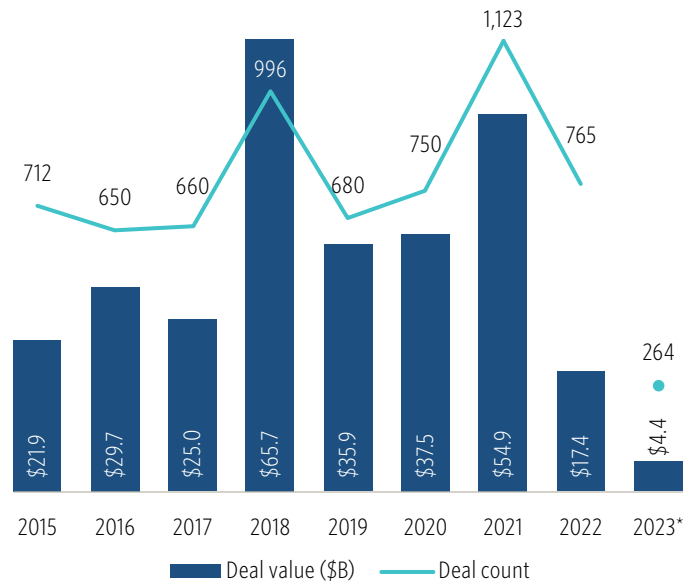
Foreign investors themselves have generally been a small piece of the venture market in Greater China. Just 10.0% of VC deals within the region during the first half of 2023 included investors not headquartered in the region. That is a decline of roughly 6% from the high in 2018, highlighting the insulated nature of Greater China’s venture markets—a majority of investments are financed solely by domestic market participants. Foreign investors have found inroads into the Greater China market to be challenging, and without

VC deals with foreign investor participation as share of all VC deal count



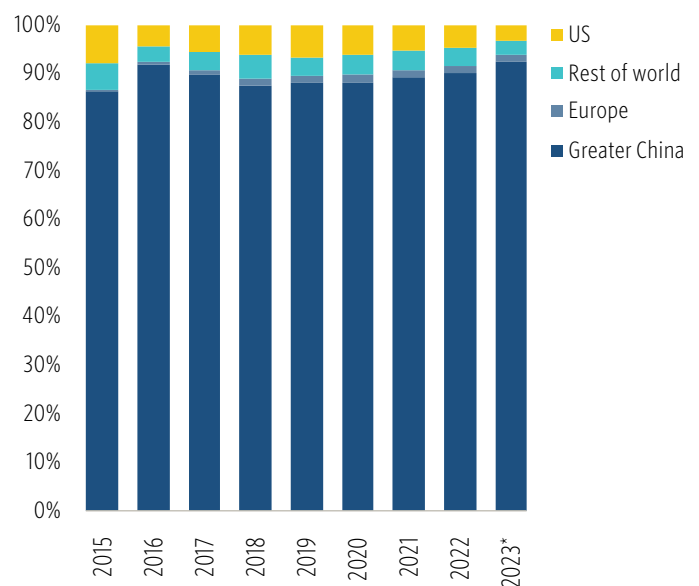
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

VC deal activity with non-Chinese investor participation



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of VC deals by investor region



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

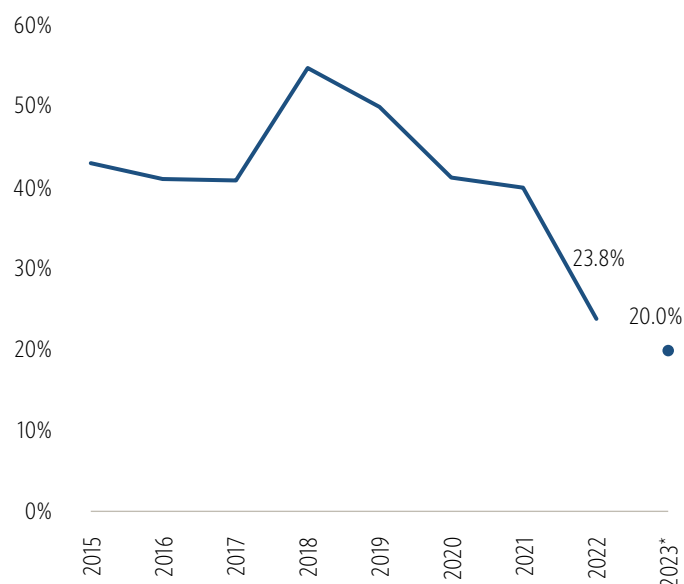
1: "China's Premier Criticizes West's De-Risking Drive at 'Summer Davos,'" Financial Times, Thomas Hale, June 27, 2023.
2: "China's Proposed IPO Overhaul Comes With Restrictions," Bloomberg, Bloomberg News, February 1, 2023.
3: "Bitcoin Rises After Fed Boosts Rates and US Lawmakers Debate Crypto Regulation," Barron's, Adam Clark, July 27, 2023.

dedicated local investment teams, deploying the desired strategy is difficult.

Much of the recent narrative surrounding foreign investment into China has centered on US-China tensions, including de-risking from China, increased scrutiny over US firms that have invested in the Chinese high-tech area, and curbing of exports around sensitive areas like semiconductors. Just 3.2% of completed deals in Greater China included a US investor through 2023 YTD. That figure is less than half the proportion from 2015, suggesting that US investors' role in the Greater China market has waned in recent years. For US investors, too, the Biden administration's Executive Order prohibiting US firms from investing into Chinese startups operating in sectors including semiconductors, quantum computing, and AI further adds barriers to cross-border activity in the region.

H1 produced one of the largest-ever shifts in foreign investor strategy on China when Sequoia Capital broke into three, separating its China and US/EU operations and breaking out its India Fund. This breakup was telegraphed for some time, so while it wasn't an immediate response to US-China tensions, the added challenges that have arisen likely pushed this breakup sooner than planned. While we haven't yet seen any other large US firms with China operations enact the same breakup, the situation is likely being closely watched and continually evaluated. Heightened risks to deploying strategies due to challenges from both countries will continue to increase pressure on cross-border dealmaking.

VC deals with foreign investor participation as a share of all VC deal value



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Beyond the political risks, as economic growth slows, the incentive for investors taking outsized risks on venture deals within China is being limited, especially if China was seen as a more opportunistic strategy for some investors. Without the ability to freely access AI or other high-growth sectors due to restrictions on investment by the Beijing government or by the home government of the investor, the economic risks are weighing heavy on activity by foreign firms in the Greater China venture market.

DEALS BY SECTOR

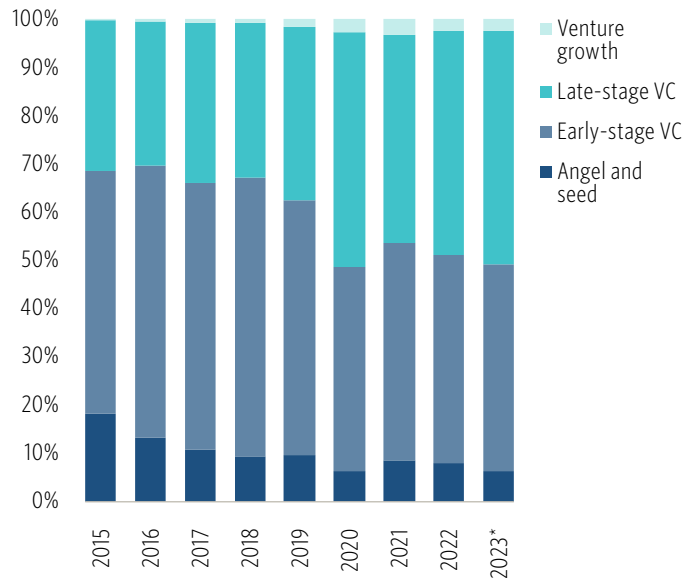
Commercial products & services

Commercial products & services VC deal activity



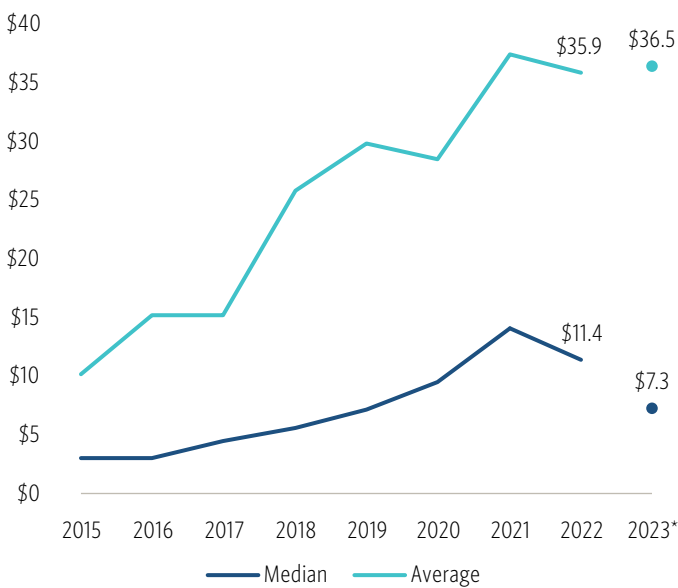
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of commercial products & services VC deal count by stage



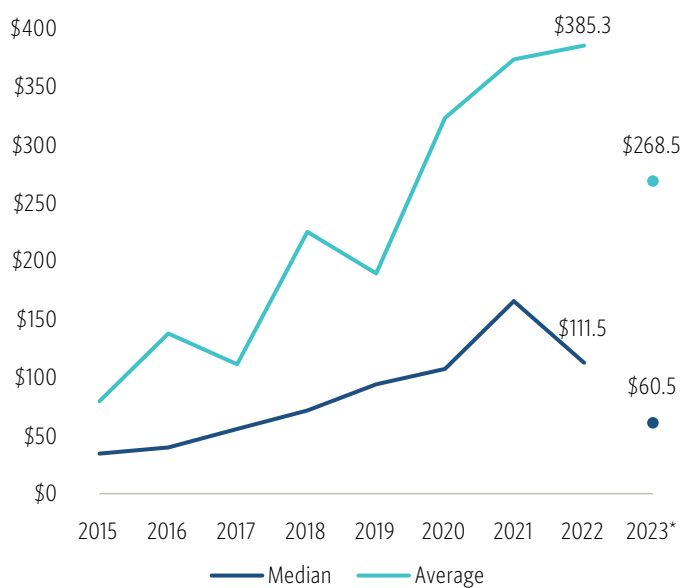
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

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



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

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

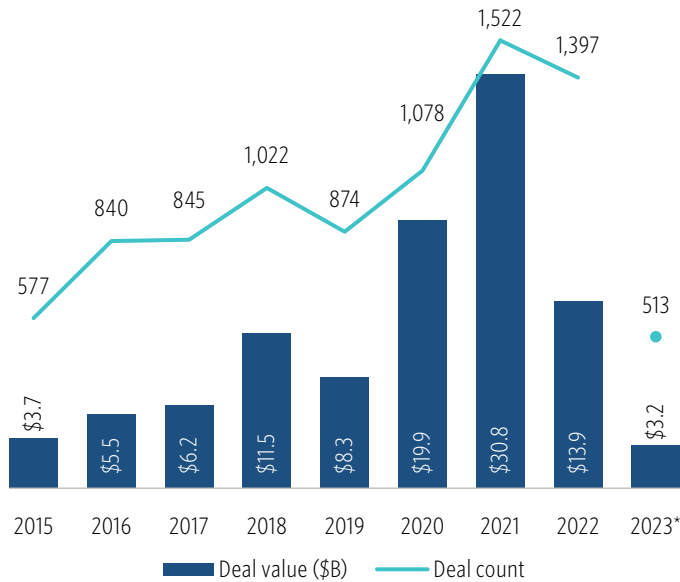


Source: PitchBook • Geography: Greater China
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DEALS BY SECTOR

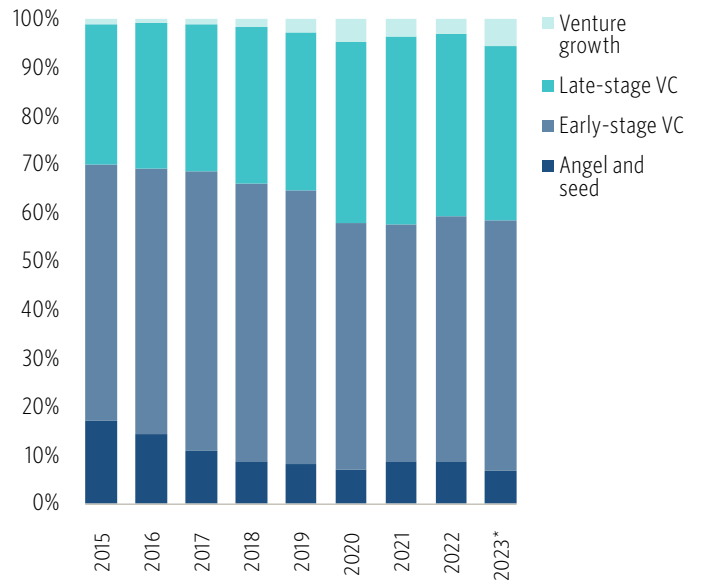
Healthcare

Healthcare VC deal activity



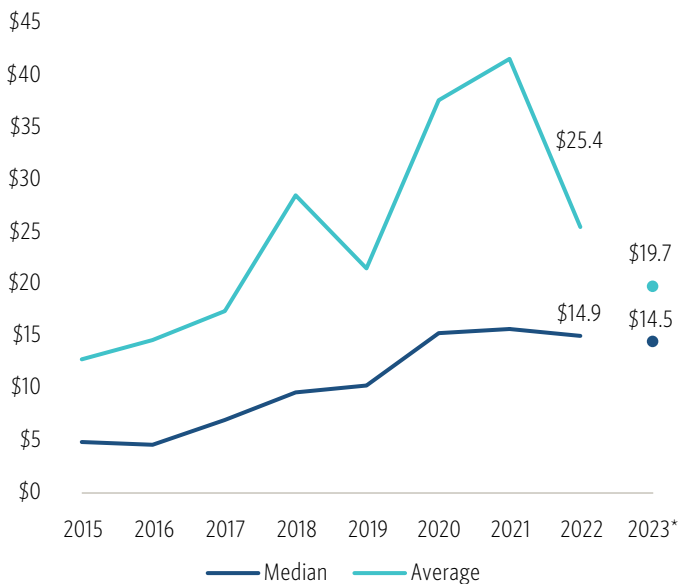
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of healthcare VC deal count by stage



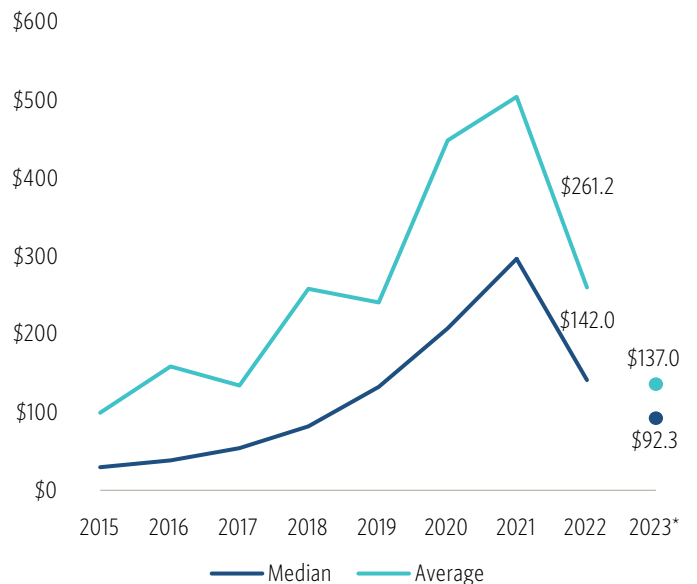
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Median and average healthcare VC deal value (\$M)



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Median and average healthcare VC pre-money valuation (\$M)

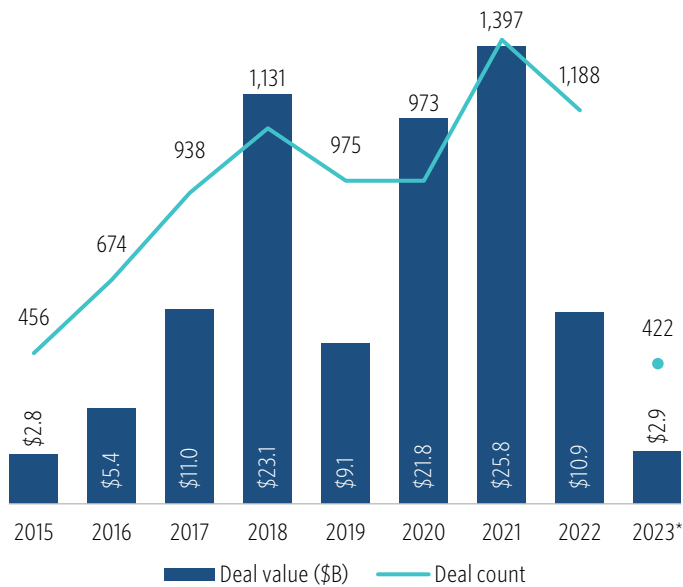


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DEALS BY SECTOR

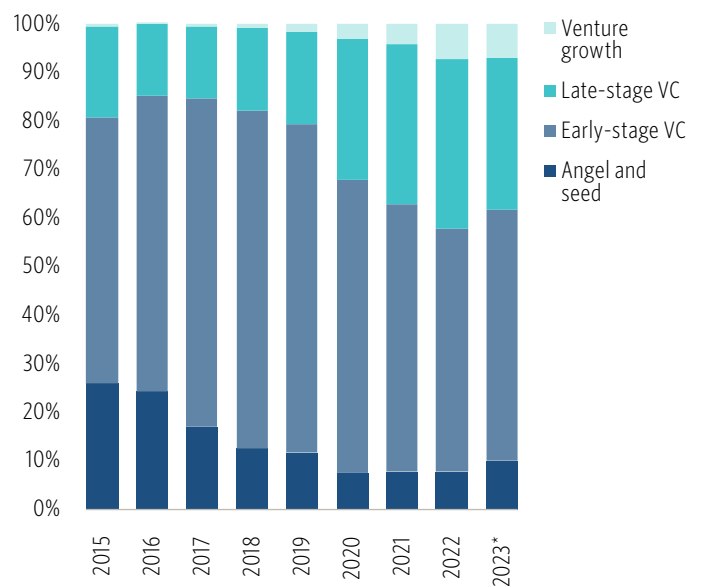
AI & ML

AI & ML VC deal activity



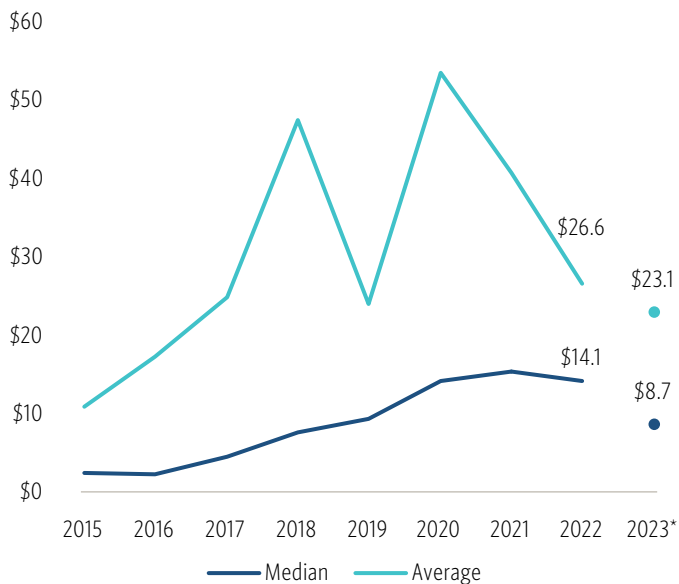
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of AI & ML VC deal count by stage



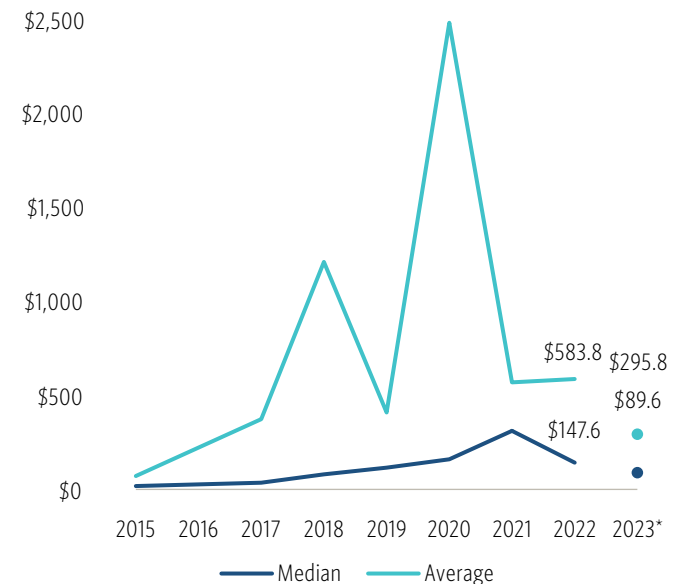
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

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



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

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

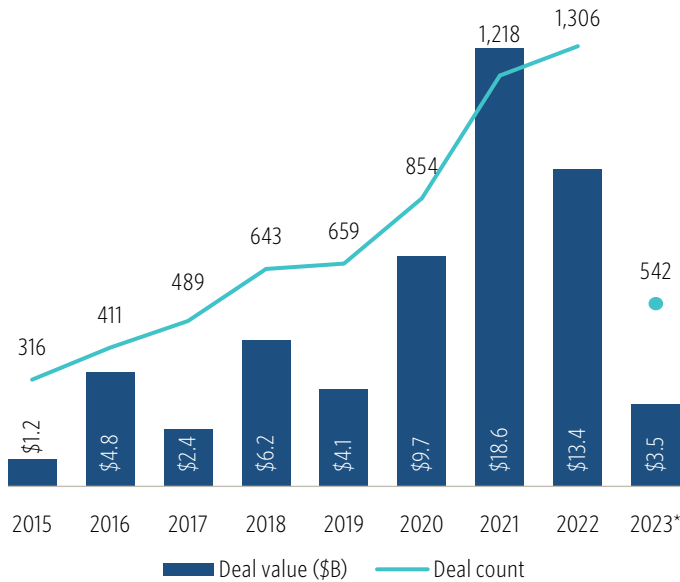


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DEALS BY SECTOR

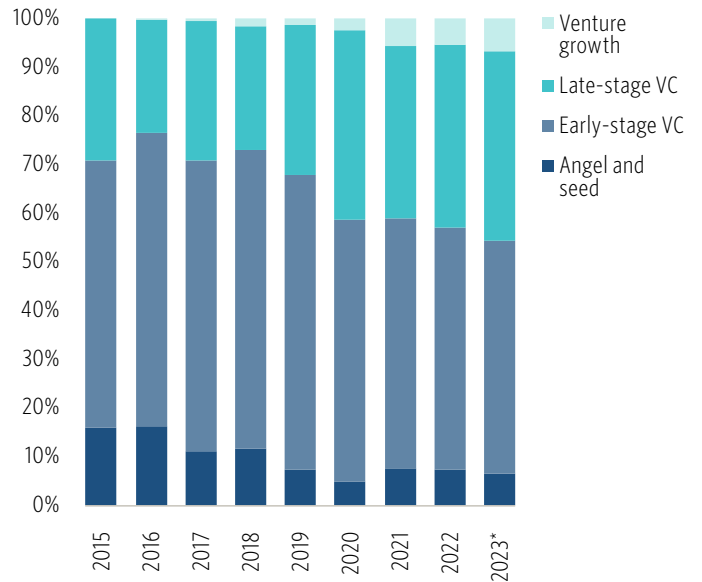
IT hardware

IT hardware VC deal activity



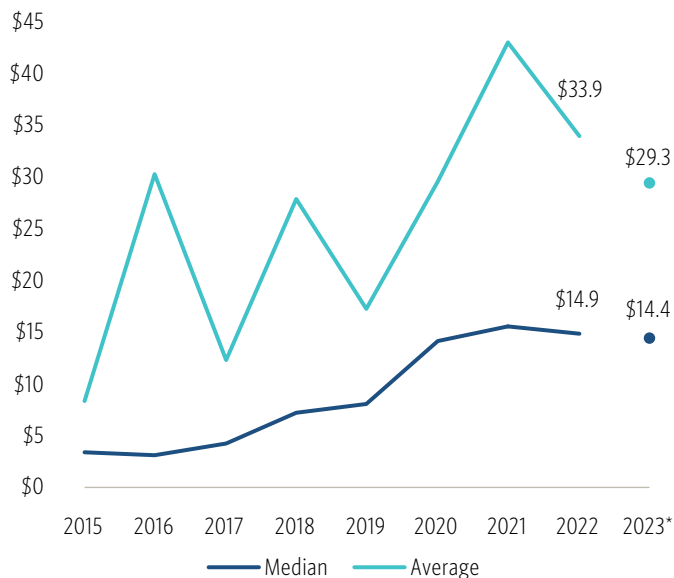
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*As of June 30, 2023

Share of IT hardware VC deal count by stage



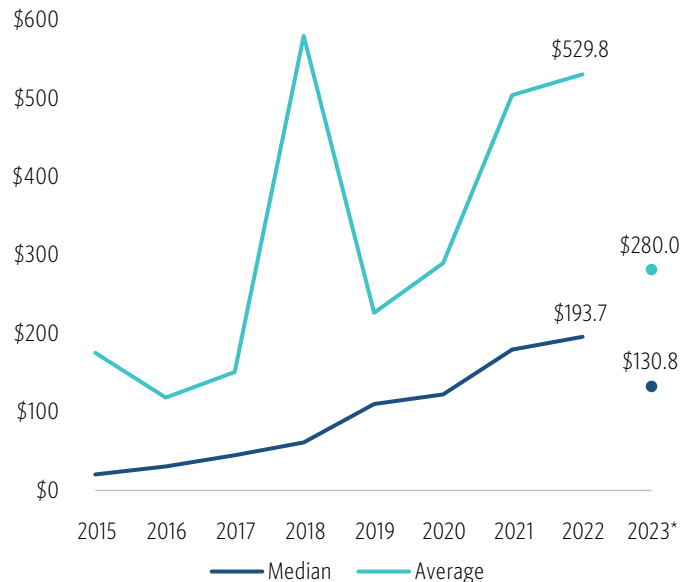
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

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



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

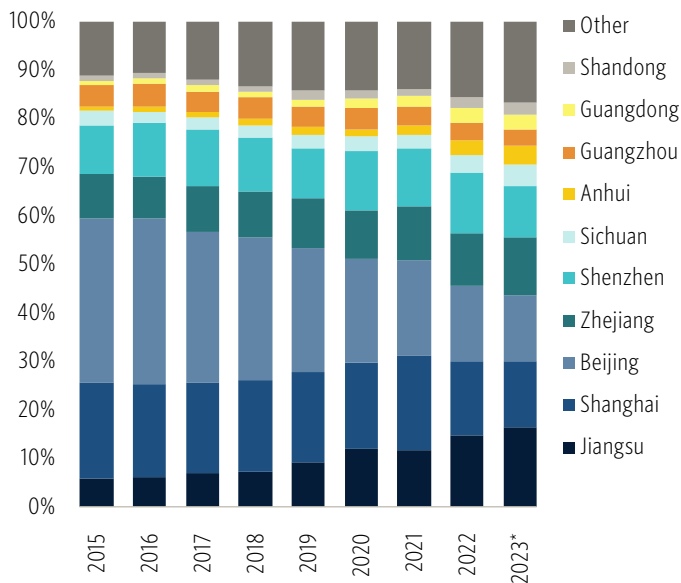
Median and average IT hardware VC pre-money valuation (\$M)



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

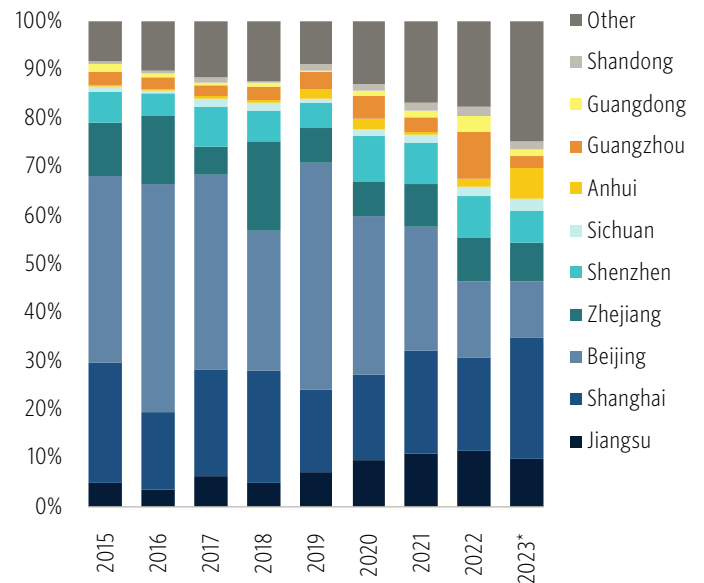
Deals by region and native currency type

Share of VC deal count by region



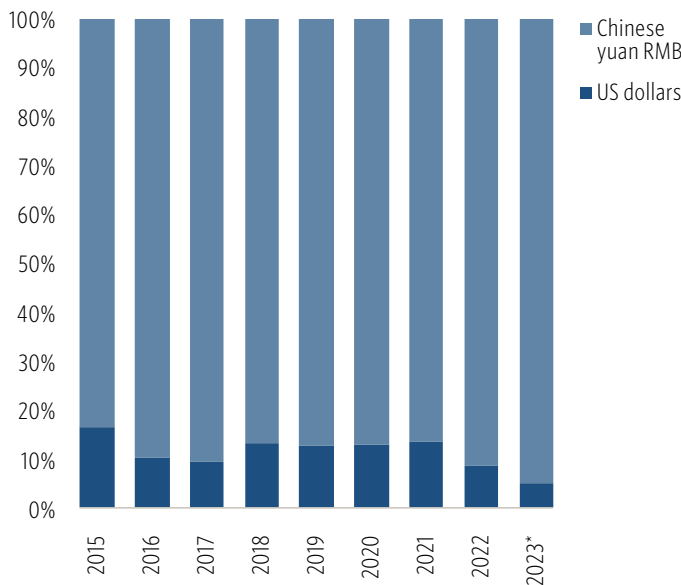
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of VC deal value by region



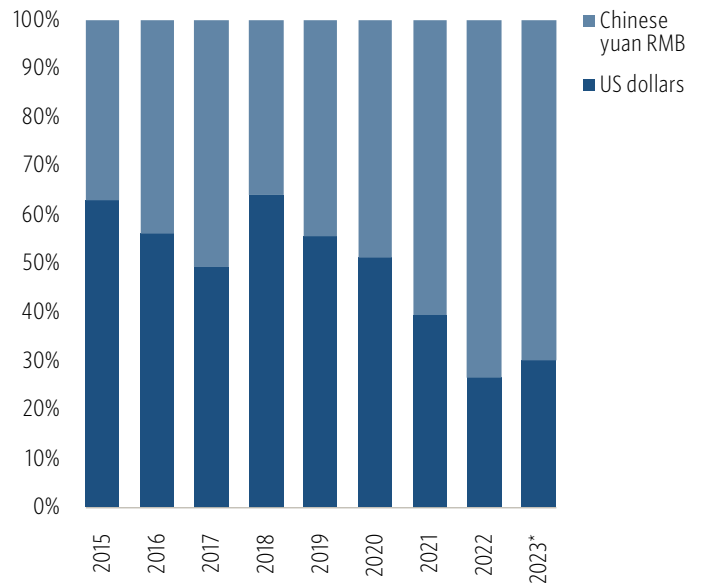
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of VC deal count by select native currency type



Source: PitchBook • Geography: Greater China
*As of June 30, 2023
Note: Per deal information disclosed

Share of VC deal value by select native currency type



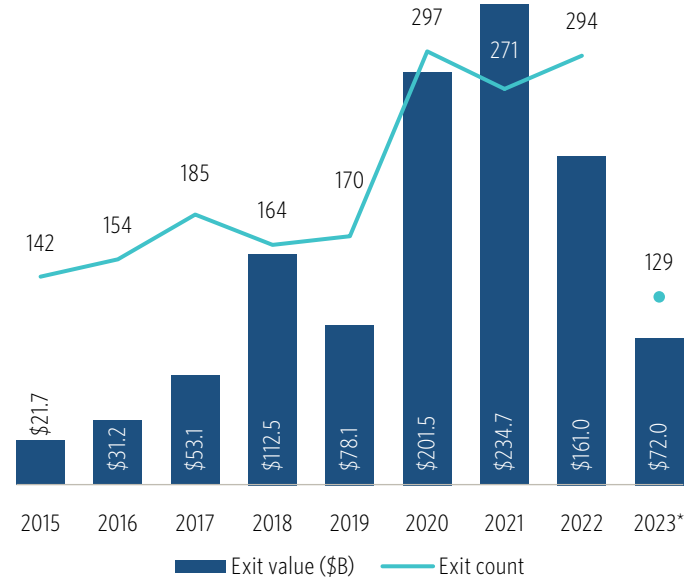
Source: PitchBook • Geography: Greater China
*As of June 30, 2023
Note: Per deal information disclosed

Exits

During the first half of 2023, the exit environment in Greater China continued to show signs of a slowdown. The total exit value declined, with approximately \$72.0 billion generated across 129 exits during this period, a notable contrast to the second half of 2022, when \$100.2 billion was achieved through 177 exits. The downward trend can be attributed to various factors that have impacted exit prospects as well as the Greater Chinese economy in recent years. Notably, in late 2020, the Chinese government intensified its regulation of the fintech sector, affecting major internet-based conglomerates and prompting them to shift their focus to local compliance following a period of rapid expansion. This crackdown involved substantial fines on corporate giants like Alibaba, as well as the introduction of new privacy laws, modified regulations for data transfer, and restrictions on certain internet content. As a result, companies like Alibaba, Didi, and JD.com faced price drops in their shares and a decline in investment and financing due to hampered investor confidence.

Despite the dip in exit activity the first half of 2023, there are positive indicators for Greater China's long-term prospects. The annualized exit value for 2023 is projected to reach approximately \$145.0 billion if the current pace persists. This would mark the fourth consecutive year where the annual exit value has surpassed \$140.0 billion, showcasing sustained investor confidence for high-quality companies and growth opportunities in the region. However, foreign investors participating in the region

VC exit activity



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

have experienced a sharp decline in VC exit activity during 2023, with just \$2.5 billion recorded in H1. This is in stark contrast to two years ago, when the total annual exit value reached \$69.9 billion in 2021. The decline in foreign investor participation has been evident since last year, with the 2022 exit value involving foreign investors dropping by 92.4% year-on-year. If the current pace continues, 2023 would

VC exit activity by quarter

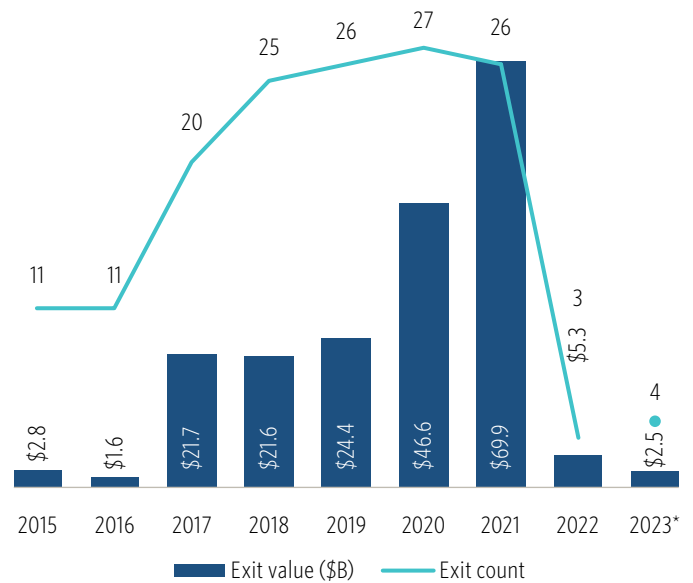


Source: PitchBook • Geography: Greater China
*As of June 30, 2023

represent the lowest annual figure since 2016. Influencing factors include uncertainties over offshoring listing rules, which have raised concerns among foreign investors about the government’s influence on operations and eventual outcomes for companies.

Similar to previous years, public listings have played a dominant role in Greater China’s exit landscape, constituting nearly all of the total exit value in the region. A striking 96.2% of the exit value came from 95 public listings, with notable contributions from large listings. These listings highlighted a surge in investor interest in the semiconductor sector, as well as the broader public market. Looking ahead, several preeminent unicorns based in China could be on the horizon for large IPOs. For instance, ByteDance, parent company of the app TikTok, remains private as one of the highest-valued companies globally. Yet in recent months, ByteDance has found itself more entangled amid China-US tensions. A series of challenges, including close scrutiny from US regulatory bodies, threaten the company’s ability to unlock lofty gains via a public exit in the near future. As political tensions between the world’s two largest economies continue to mount, valuations are being compressed, and Chinese market participants are gauging and evaluating effects following the implementation of the new IPO system,⁴ exit value for Chinese unicorns will likely

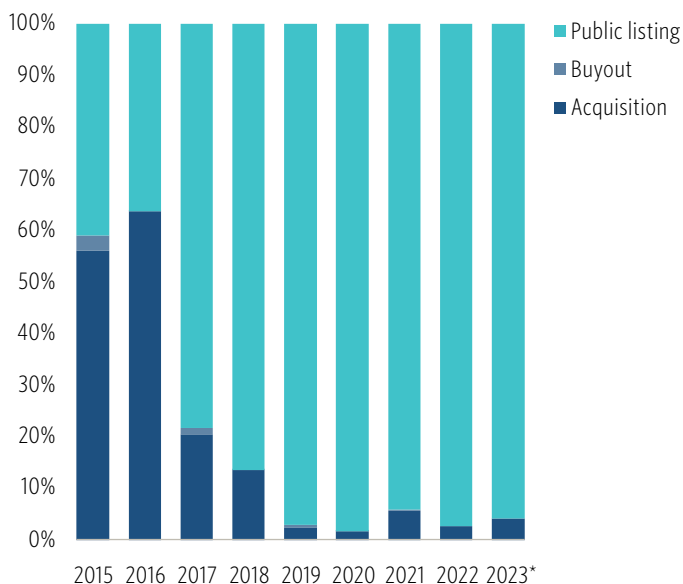
VC exit activity with participation from investors outside of Greater China



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

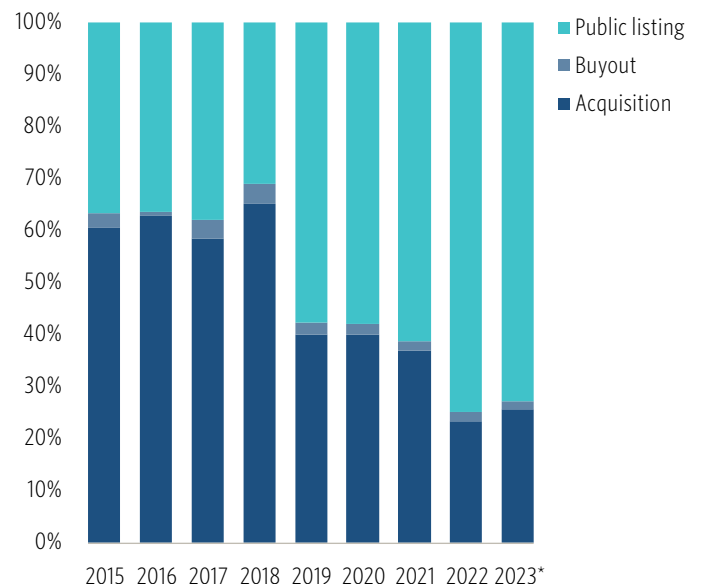
derive a majority of exit value through domestic IPOs for an extended period of time.

Share of VC exit value by type



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

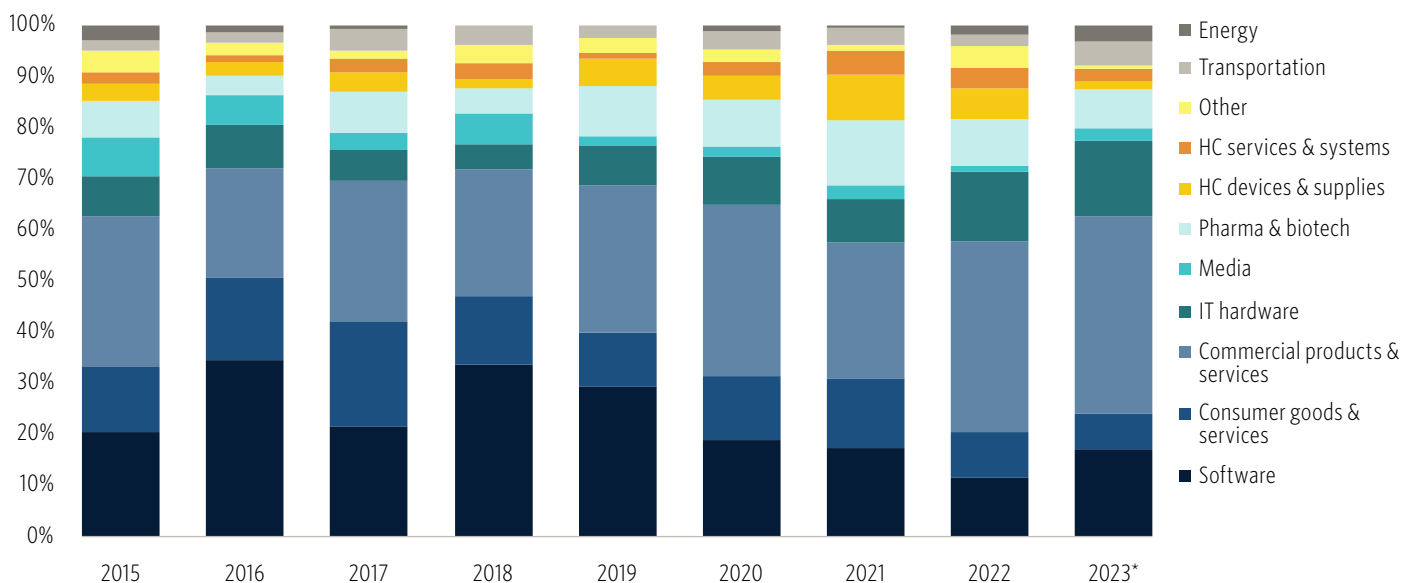
Share of VC exit count by type



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

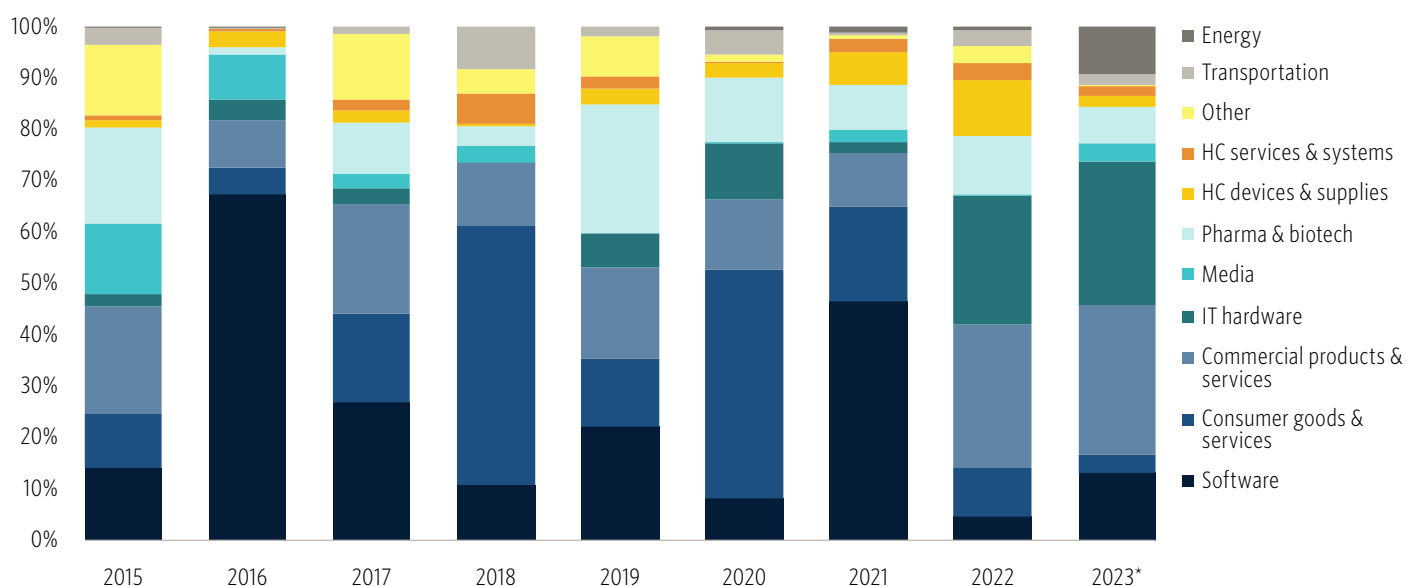
4: Our Q2 2023 analyst note, [Chinese Tech Conglomerates’ Split Expected To Shake Up VC](#), includes a timeline of major initiatives from the Chinese government that are aimed at accelerating growth in the Chinese IPO market.

Share of VC exit count by sector



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of VC exit value by sector



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

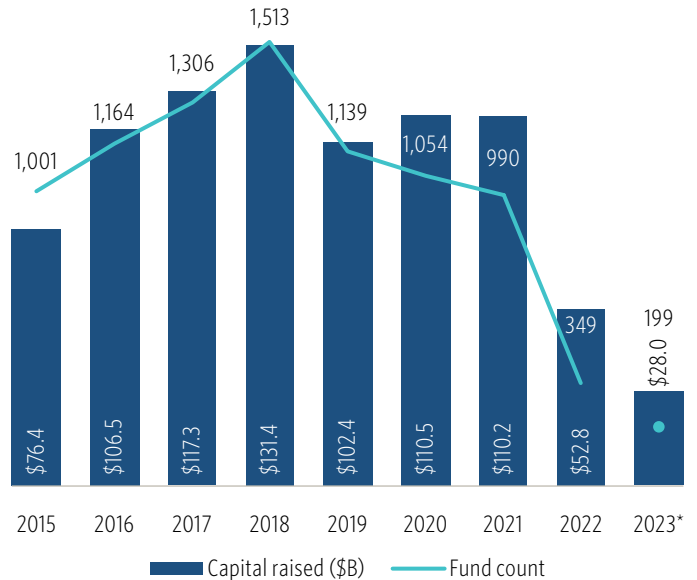
Fundraising

Greater China's fundraising activity has remained relatively subdued through H1 2023, as just \$28.0 billion was committed over 199 funds. Despite a dramatic slowdown from the 2018 record high, 2023 is on pace to exceed 2022 on a capital raised and fund count basis. The minor rebound in fundraising activity has been marked by a few shifts in the market, including an increasing concentration of midsized and RMB-denominated funds.

Through H1 2023, a record 33.2% of funds closed and 53.6% of capital raised were within funds with commitments totaling between \$100 million and \$500 million. On both a fund count and capital raised basis, fewer micro- and billion-dollar funds closed through H1 2023 than any year since 2015. This is likely the result of valuation compressions and the lack of exceptional investment opportunities in the regional VC market, where larger funds cannot effectively deploy large swaths of capital in the same manner they did in 2018, when a wave of tech startups raised enormous amounts of capital (such as Ant Group's \$14.0 billion Series C). At the same time, the harshened fundraising environment has meant fewer firms are entering the VC market trying to raise funds smaller than \$100 million—and those that are may have found access to government funds to bring their fund sizes above that threshold. Our [Q1 2023 Global Private Market Fundraising Report](#) highlights three massive China-domiciled funds that did so.

RMB-denominated funds have come to dominate the market, as this structure likely better caters to domestic

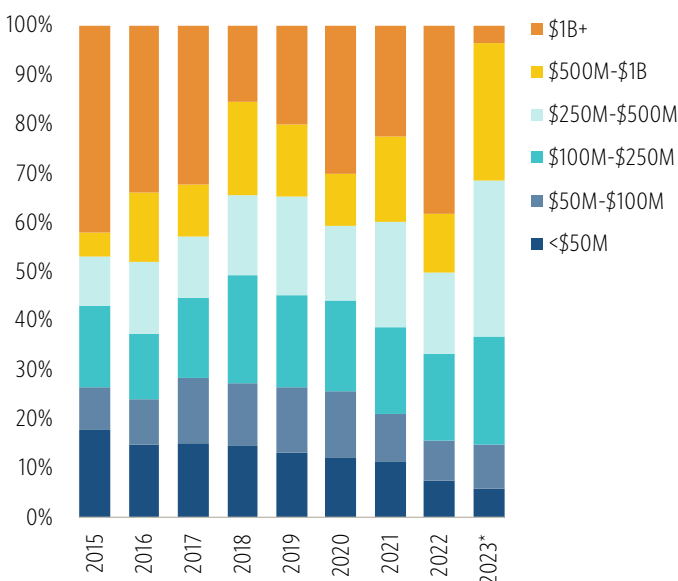
VC fundraising activity



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

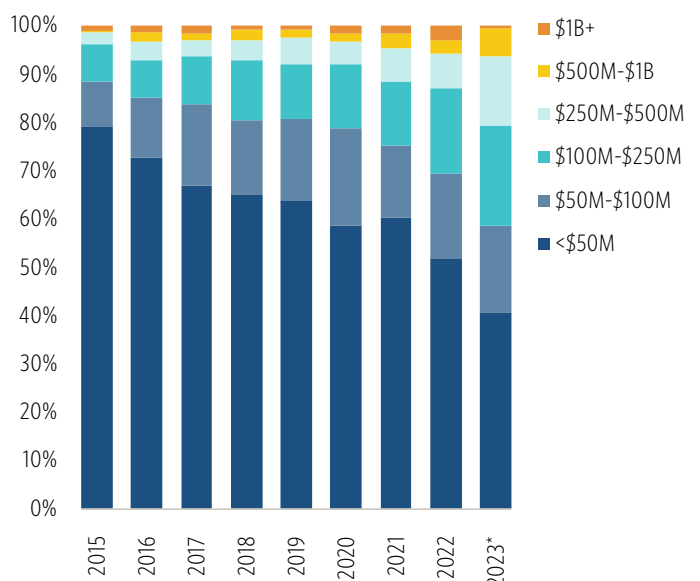
LPs and investments and synergizes with government-sponsored investment initiatives. As a result, just three funds denominated in USD were closed, or 1.5% of the total funds closed in H1. US investors have historically been a strong source of capital for Greater China-based GPs, but mounting US-China tensions and the US Congress' increased scrutiny of US firms' historical investments in China have made US

Share of VC capital raised by size bucket



Source: PitchBook • Geography: Greater China
*As of June 30, 2023

Share of VC fund count by size bucket



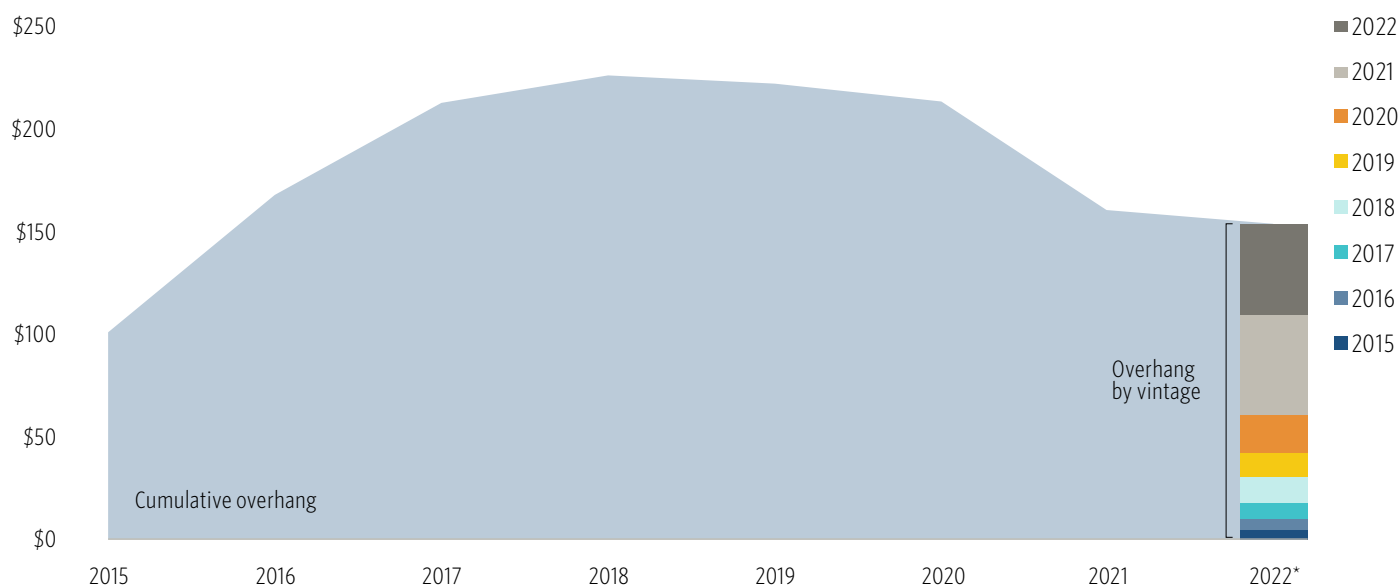
Source: PitchBook • Geography: Greater China
*As of June 30, 2023

investors more wary of potential ramifications.⁵ Anecdotally, we've heard that some US investors have pulled back from allocating to China mainly due to geopolitical concerns and several other factors, including a Chinese economic slowdown and crackdowns on the tech sector. Moreover, Chinese GPs are more cautious of accepting commitments from US investors due to increased tensions.

Globally, VC rolling one-year fund IRRs have underperformed compared to prior years and turned negative. The same goes for funds investing in Greater China, which saw IRRs fall to -14.7% at the end of 2022—the lowest return across all private capital investment strategies and a significant drop from the H2 2022 rolling one-year IRR of -7.4%. While this a tough statistic for newer LPs, those that have been investing for the greater part of the last decade are still seeing positive three- and five-year rolling IRRs.

Despite this slight rebound in fundraising momentum, dry powder has fallen for the fourth consecutive year, landing at \$153.8 billion, the lowest figure since 2015. Dry powder is often thought of as a backstop against declining deal activity, as it can supplement startup capital needs amid a poor fundraising environment. Declines in dry powder and fundraising bode negatively for long-term dealmaking. \$111.7 billion, or 72.6%

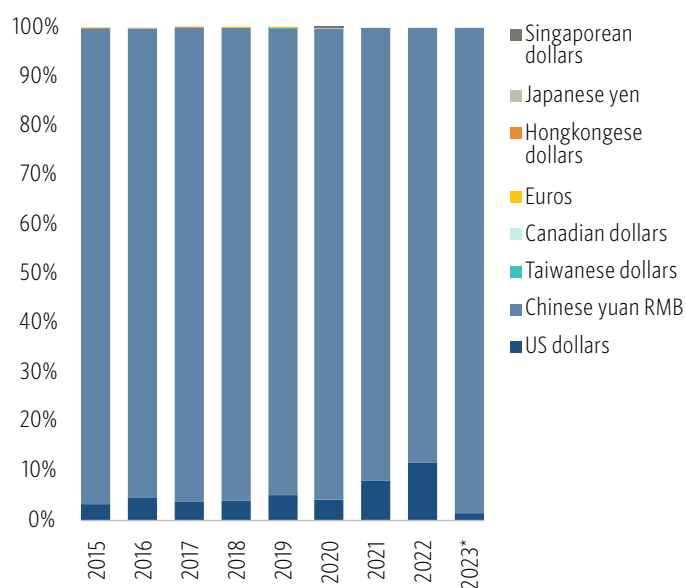
VC dry powder (\$B) by vintage



Source: PitchBook • Geography: Greater China
*As of December 31, 2022

5: "US Venture Firms' Deals in China Tech Investigated by Congress Panel," Wall Street Journal, Kate O'Keefe, July 19, 2023.

Share of VC fund count by native currency type

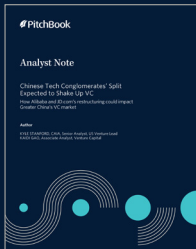


Source: PitchBook • Geography: Greater China
*As of June 30, 2023

of the cumulative dry powder, resides in funds with a 2020 or younger vintage. These funds will need to deploy capital in the next few years in order to capture returns within their funds' lifespan, which should help boost near-term dealmaking.

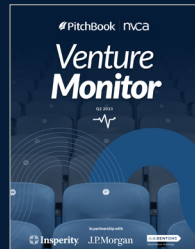
Additional research

Private markets



Q2 2023 Analyst Note: Chinese Tech Conglomerates' Split Expected to Shake Up VC

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Q2 2023 PitchBook-NVCA Venture Monitor

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Q2 2023 US VC Valuations Report

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