

Greater China Venture Report

H1 2021

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

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



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Key takeaways

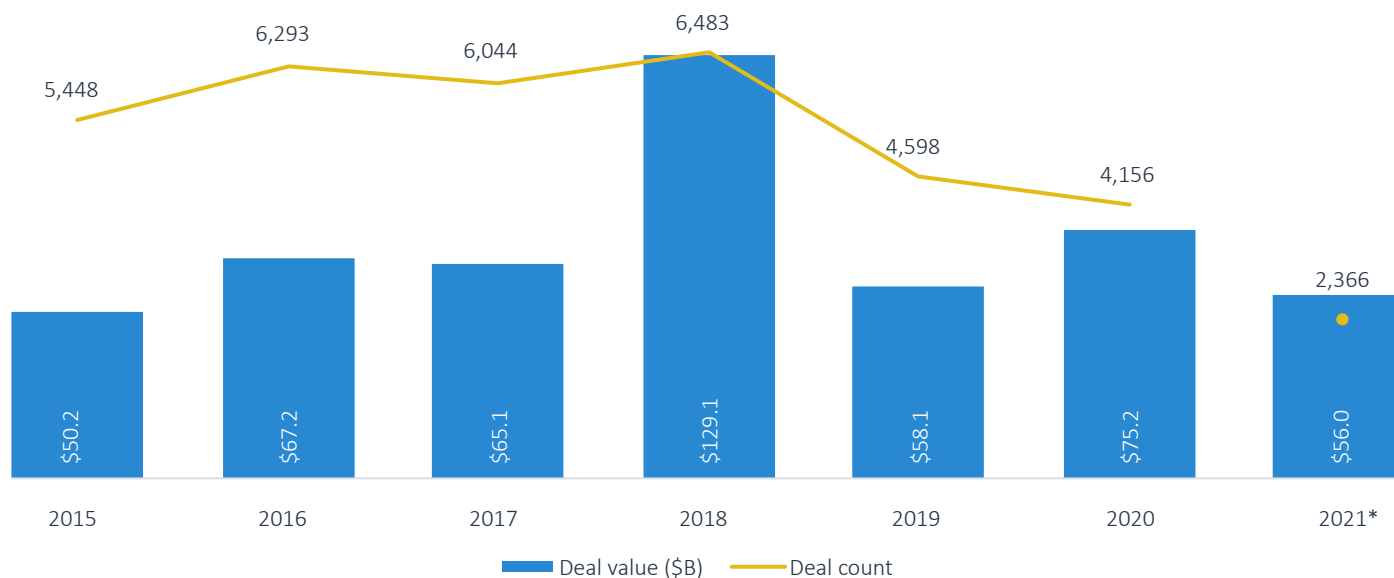
VC financings within the Greater China region have drastically increased since 2015. Disruptive startups are taking advantage of building businesses in a region served by both the most populous country and second-largest economy in the world. Relative to pandemic-mired 2020, the pace of deals in H1 2021 has been robust. Indeed, the region's capital investment reached \$56.0 billion across 2,366 deals—on pace to significantly grow YoY and break \$100 billion by year's end.

An influx in cross-border investor interest has led to a recent boon in the region's VC landscape. Attracted to the region's rapidly expanding middle class, accelerated mobile adoption, multinational corporation penetration, and high-tech initiatives from economic development councils, among other things, nondomestic investors participated in nearly a fourth of all the area's VC deals in H1 2021.

VC exits within Greater China have soared in recent years, with H1 already notching \$137.5 billion in exit value across 99 exits. Heading into H2, exit opportunities appear strong, with annual exit value on pace to shatter records. So far in 2021, 20 \$1 billion+ exits have been completed—19 of which were public offerings. That said, recent scrutiny and new legislation from Chinese regulators could be a headwind for companies attempting to list on overseas stock exchanges and will likely push more high-profile offerings onto Shanghai-, Shenzhen-, or Hong Kong-based exchanges. Time will tell the effect these changes will have on the region's VC market overall; for now, the current environment is generating sufficient exits to continue powering Greater China's venture industry.

Overview

VC deal activity



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Capital availability and venture investment within the Greater China region has drastically increased since 2015, as disruptive startups aim to take advantage of building new businesses for a region served by the most populous country and the second-largest economy in the world. Likewise, institutional capital has followed as investors continue to raise new VC funds to satiate the entrepreneurial appetite within the region.

The VC landscape in Greater China has seen a recent boon as swaths of investors based outside of the region have flocked to it. Indeed, in recent years, investors headquartered in the US, such as Sequoia Capital and Lightspeed Venture Partners, have established teams and fund entities aimed at investing in promising companies based in the region. Our data indicates that nearly a quarter of all VC deals in the region include at least one investor based outside of Greater China. For many VCs, investing in Chinese startups represents both a paradigm shift from Western companies, given the sheer operational scale and speed of the region's innovation economy, as well as an opportunity to invest in first-in-class startups in a rapidly growing market.

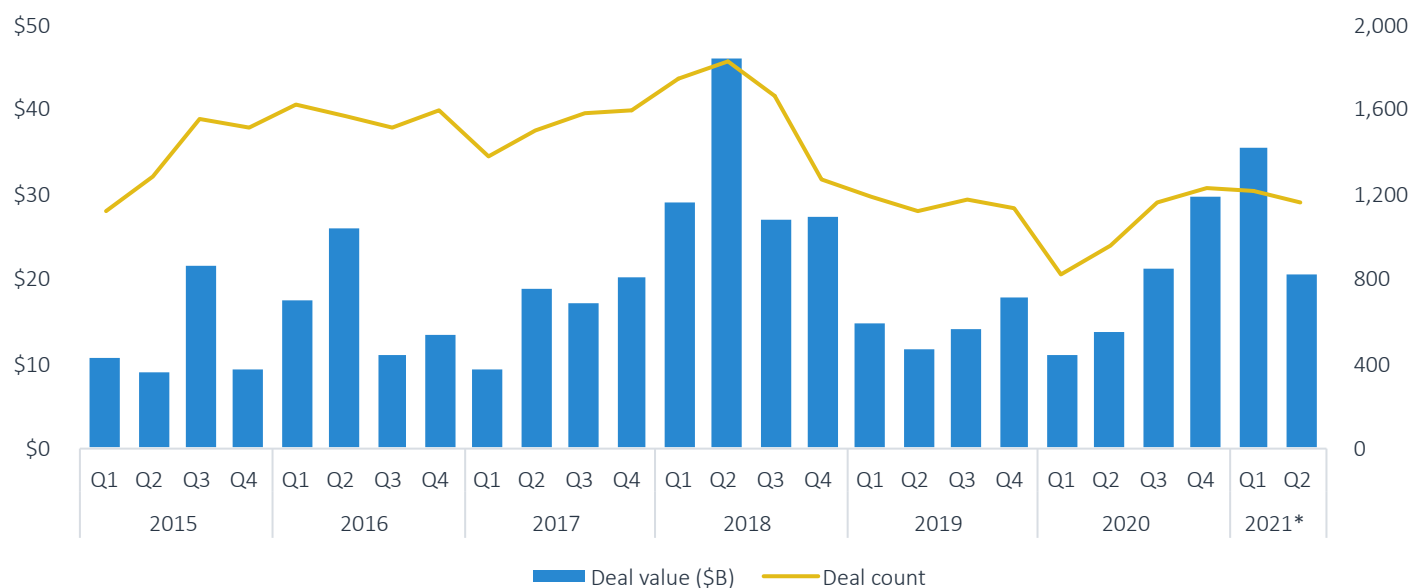
Greater China's accelerated mobile adoption has outpaced much of the world while simultaneously bypassing the personal computer (PC) Internet era of the 1990s and 2000s. Furthermore, the ubiquity of mobile payment systems and the advent of advanced digital infrastructure have paved the way for companies focused on next-generation technologies such as 5G and artificial intelligence & machine learning (AI & ML). Latest estimates from mobile network industry organization GSM Association anticipate 2.7 billion mobile internet users by 2025 in the Asia Pacific region, forecasting strong penetration and growth at a compound annual growth rate (CAGR) of 4.9%.¹

Furthermore, the Greater China region's middle class has expanded rapidly in the last decade. Wealth accumulation among the younger generation of consumers has greatly increased as the region has cemented its position as a global superpower. Estimations from the Brookings Institution predict that 1.2 billion Chinese residents will be in the middle class by 2027, representing 25% of the world's total.² A rise in the middle class tends to be correlated with strong economic growth and increases the total

1: "The Mobile Economy: Asia Pacific 2020," GSM Association, June 2020.

2: "China's Influence on the Global Middle Class," Brookings Institution, October 2020.

VC deal activity by quarter



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

addressable market of consumers that many startups can capture.

Also, multinational corporation penetration in China is notably higher than that of the US, according to a report by the McKinsey Global Institute.³ This influx of nondomestic companies dominating market share in categories such as apparel, health & wellness, and toys & games have exposed new opportunities for entrepreneurs looking to integrate solutions in the e-commerce technology stack. Most recently, new economic initiatives detailed in China's 14th Five-Year Plan for 2021-2025 aim to increase scientific and technical capabilities within areas such as renewable energy, quantum computing, biotechnology, and semiconductors. Investors with the network and capacity to invest in these companies in their earlier stages will reap great financial benefit as governments and economic development councils within the region look to boost capital deployment into these industries.

Our dataset shows that Greater China notched \$56.0 billion in VC deal value in H1 2021 and is on pace to break \$100 billion by end of year. If so, 2021 would be only the second year on record in which VC deal

activity has eclipsed the \$100 billion mark annually, with the last high-water mark of \$129.1 billion seen in 2018. Mega-deal activity in H1 2021 has been robust, with 113 mega-deals accounting for \$36.7 billion of capital.⁴ At its current pace, annual mega-deal count will likely set a record high in 2021.

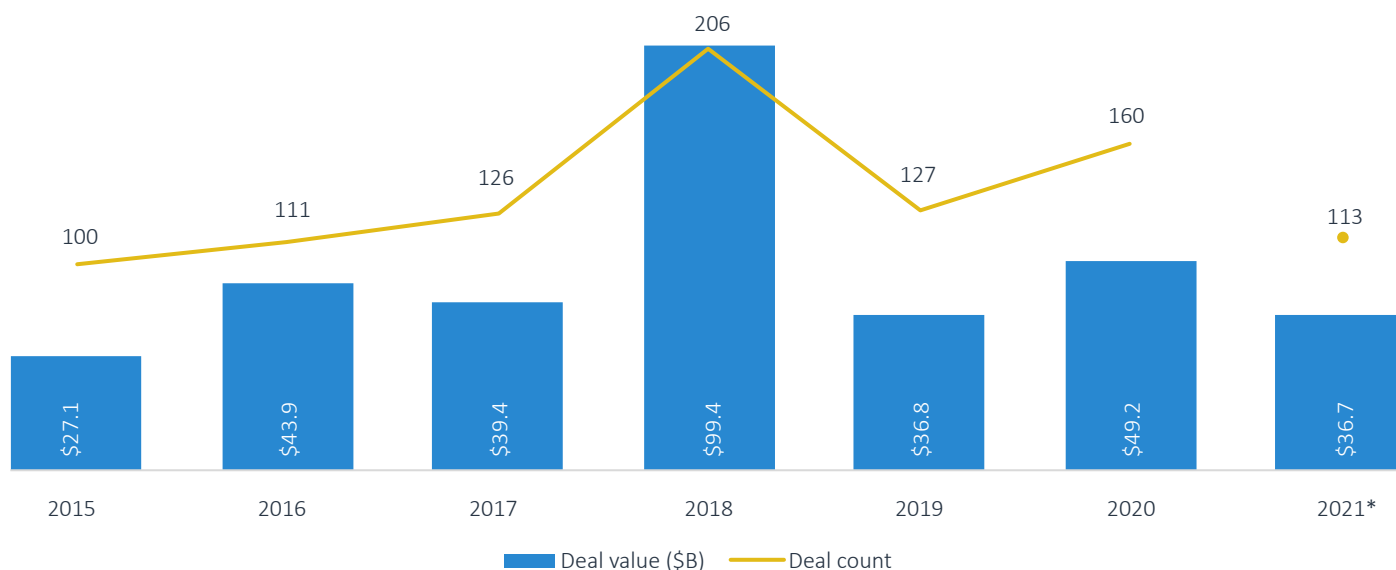
Meanwhile, capital deployed in first-time financings has risen, with \$4.2 billion of capital deployed through H1—veering from the downward trend seen since 2015. First-time financings continue to represent only a small fraction of overall VC deal activity, indicative of the region's strong follow-on financing environment as companies mature and expand into new markets.

VC exits within the Greater China region have soared in recent years. H1 has already notched \$137.5 billion in exit value across 99 exits. However, scrutiny and new legislation from Chinese regulators could be a headwind for companies attempting to list on overseas stock exchanges. Yet, exit opportunities within the region look to be quite strong as we go into H2 2021 with annual exit value on pace to shatter prior records.

3: "China and the World," McKinsey Global Institute, July 2019.

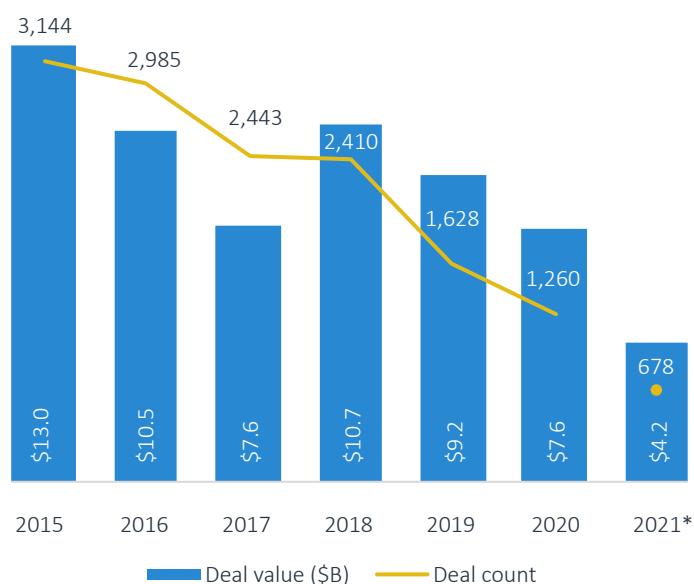
4: Mega-deals are defined as those at or exceeding \$100 million.

VC mega-deal activity



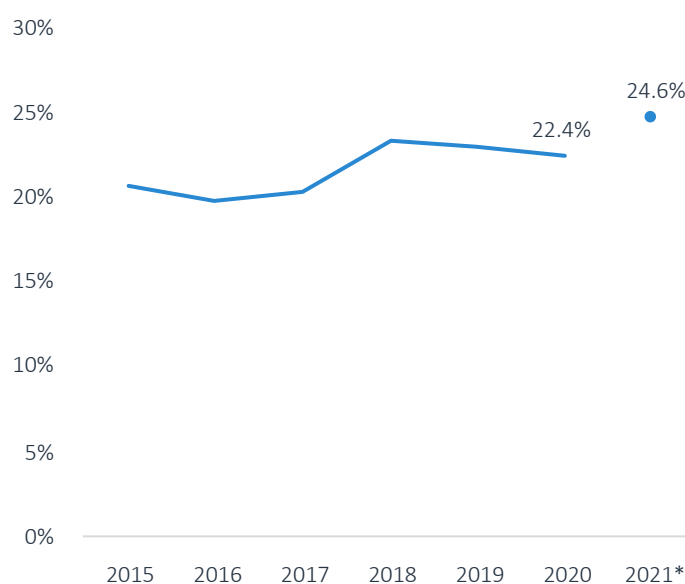
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

First-financing VC deal activity



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

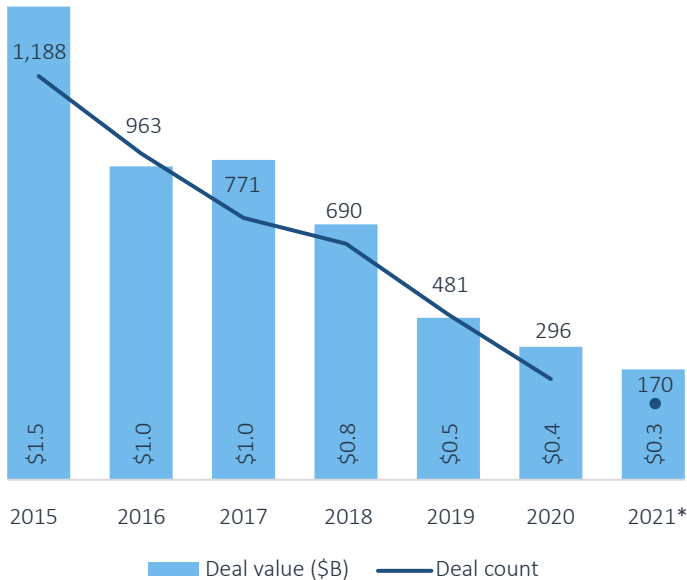
Deals with participation from investors outside of Greater China as a share of all VC deals



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

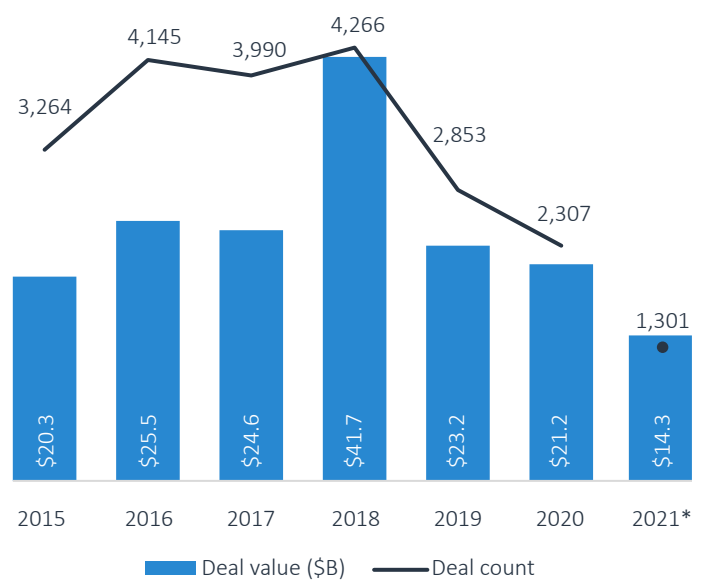
Dealmaking

Angel & seed deal activity



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Early-stage VC deal activity

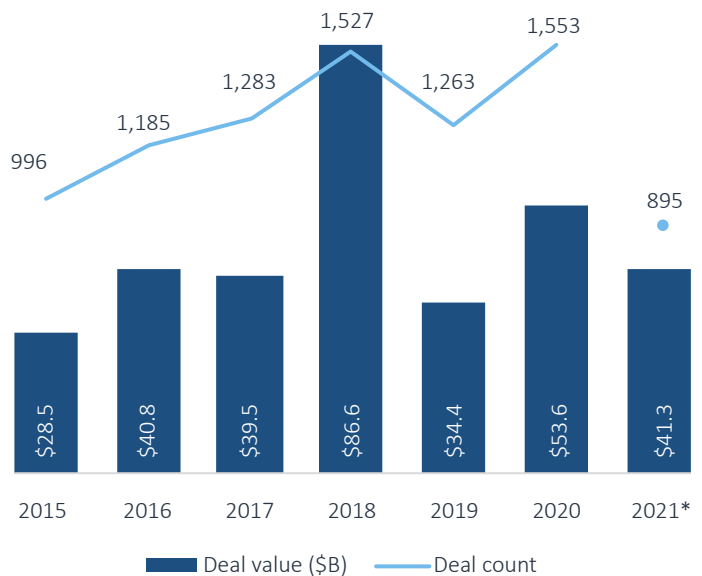


Source: PitchBook | Geography: Greater China
*As of June 30, 2021

The pace of VC financing in the first half of 2021 has been extremely robust relative to a pandemic-mired 2020. Capital investment across the region reached \$56 billion across 2,366 deals, on pace to grow significantly YoY. The exceptional deal value in 2018 obscures the longer-term strength of VC activity in Greater China. Indeed, 2018 saw seven \$3 billion+ VC deals, headlined by Ant Group's \$14.0 billion Series C and Didi Chuxing's \$4.6 billion late-stage round. So far, the largest VC deals seen in 2021 occurred in Q1—namely, ByteDance's \$5.0 billion late-stage round from China Internet Investment Fund and Funcity Capital, Xingsheng Selected's \$3.0 billion late-stage round led by Sequoia Capital China, and Didi Chuxing's \$1.6 billion late-stage round of convertible debt. Outliers are a key driver of VC data, so the creation of new unicorns at the pace we have seen will be crucial to growth in total VC investment.

A steady supply of new companies is typically needed to drive growth in the late stage, and deal counts at the angel & seed and early stage have shown some signs of decline in the past five years. However, both of those markets are on track to best the totals from 2020. The early stage is still likely to record a deal count below the 4,000 deals that we recorded each year between 2016 and 2018, but the current

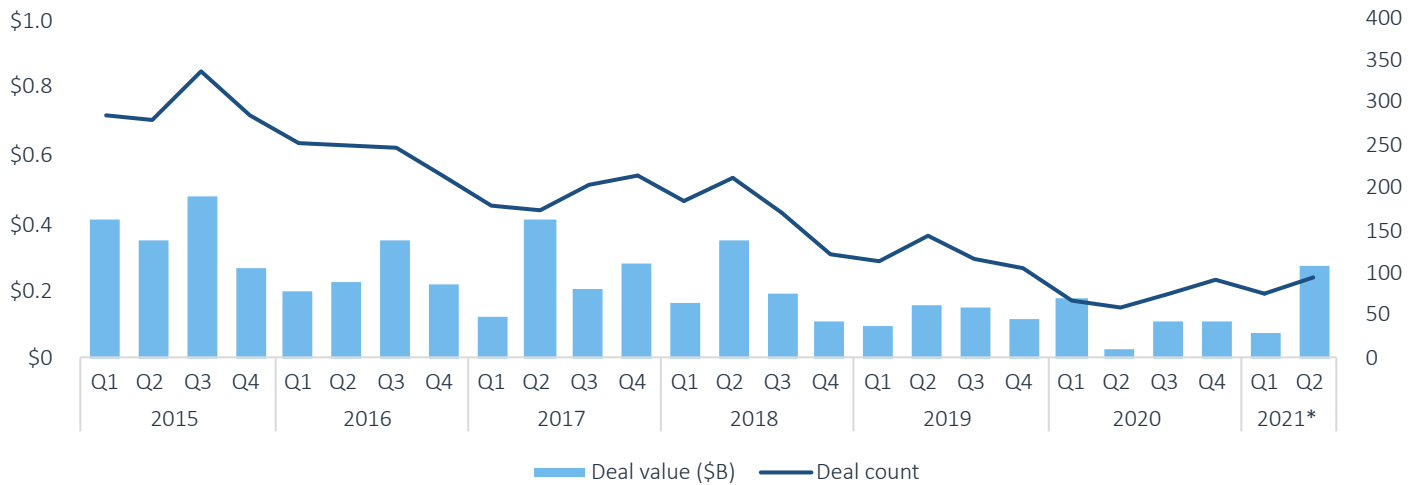
Late-stage VC deal activity



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

trajectory is still encouraging. Furthermore, angel & seed activity recorded the strongest quarterly capital investment total in Q2 2021 since Q2 2018, adding more positive momentum to these earliest stages.

Angel & seed VC deal activity by quarter



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Early-stage VC deal activity by quarter



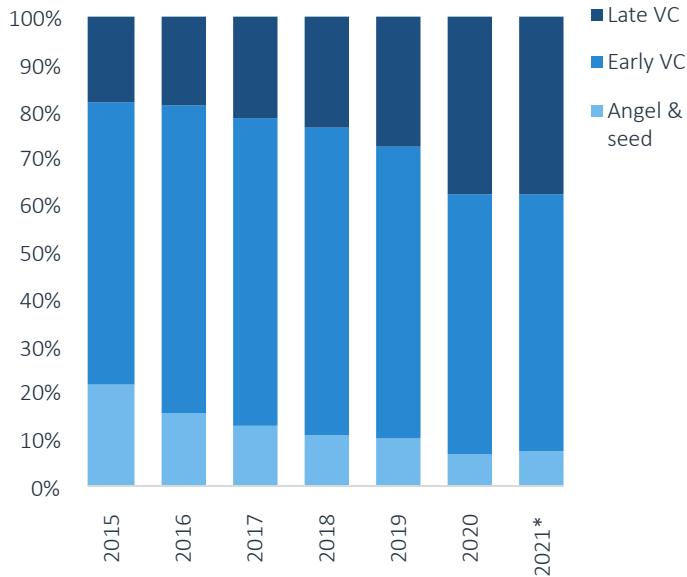
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Late-stage VC deal activity by quarter



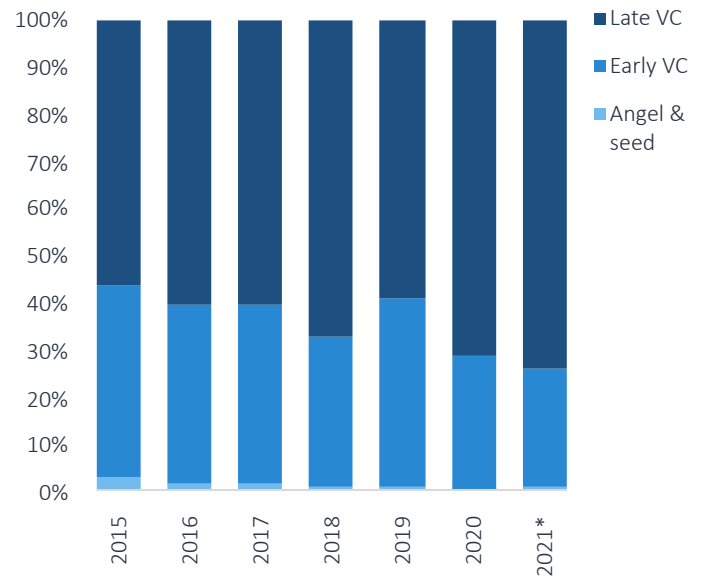
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC deal count by stage



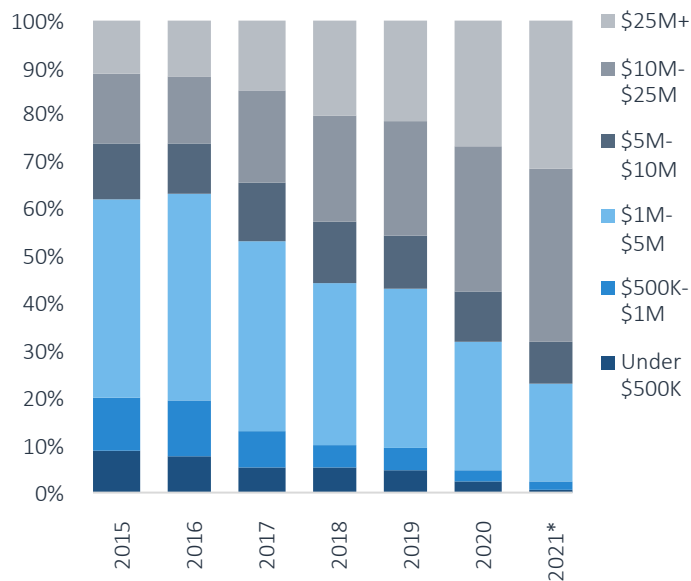
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC deal value by stage



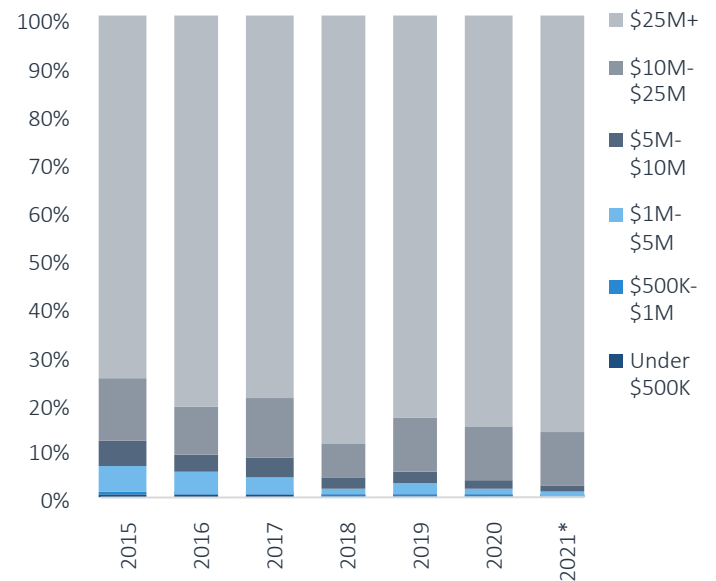
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC deal count by size



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

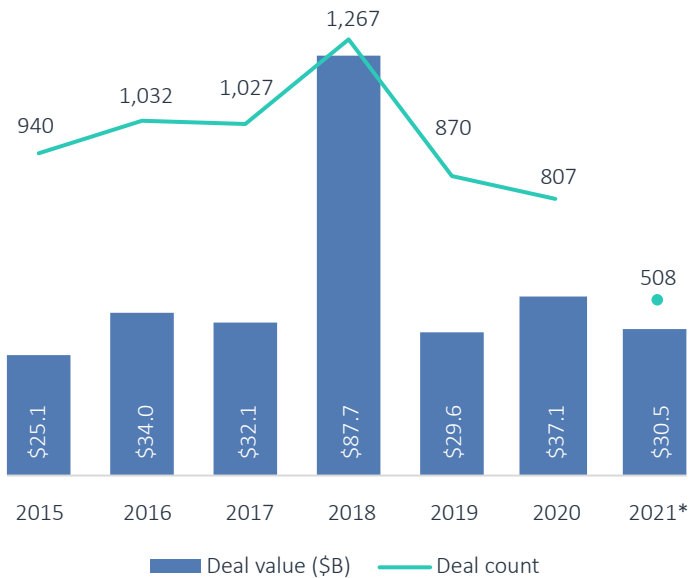
Share of VC deal value by size



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

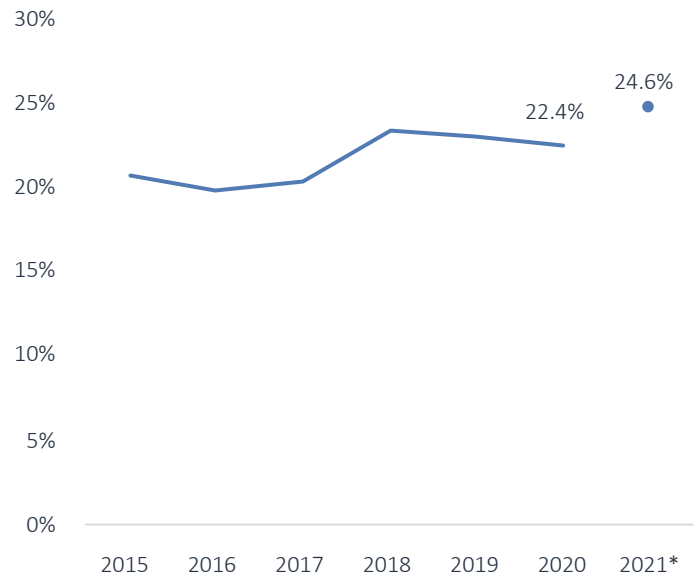
Investor breakdown

VC deal activity with participation from investors outside of Greater China



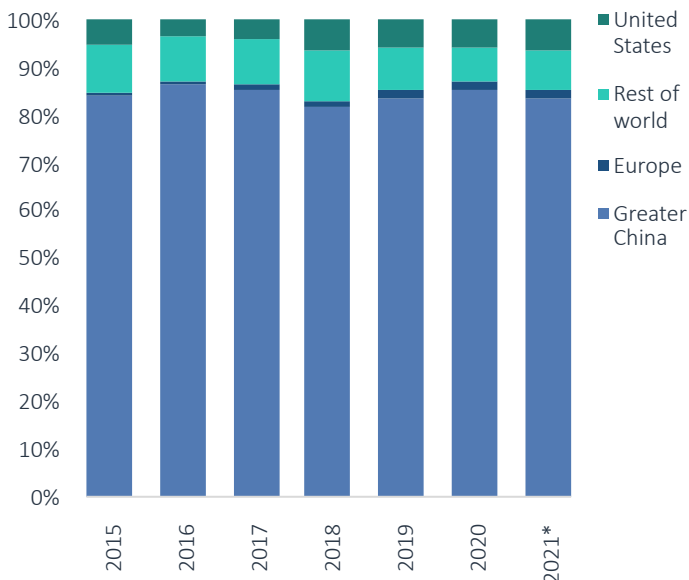
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

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



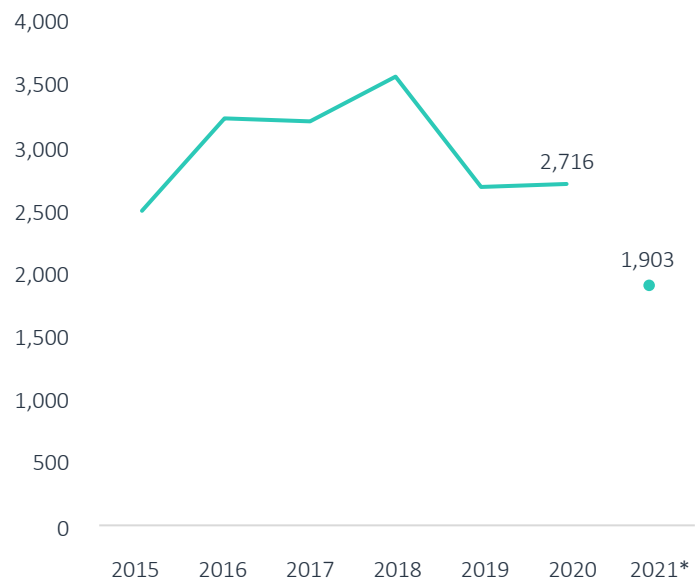
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC deals by investor region



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

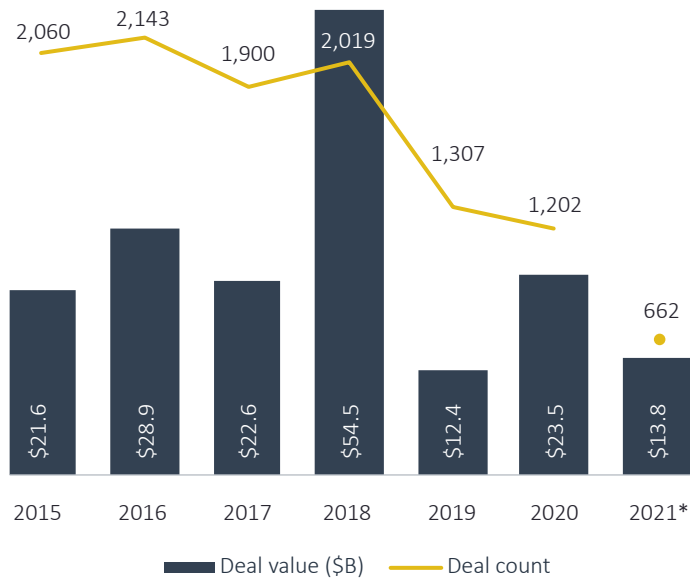
Number of unique VC investors



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

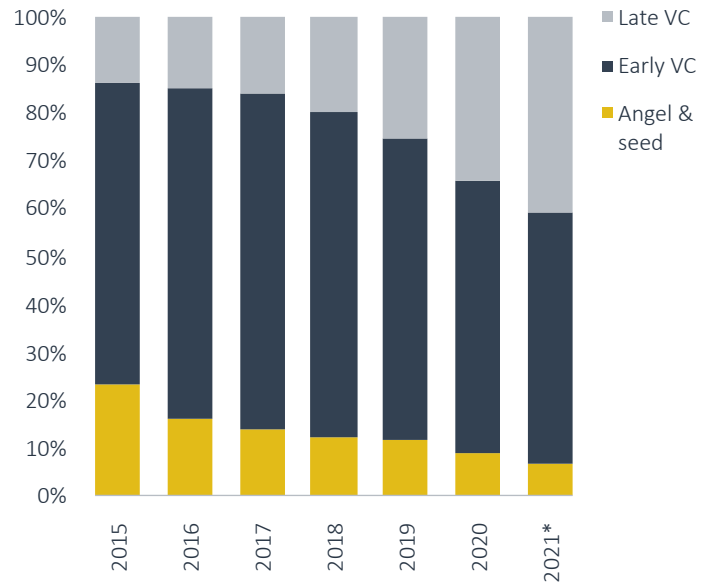
Deals by sector: Software

Software VC deal activity



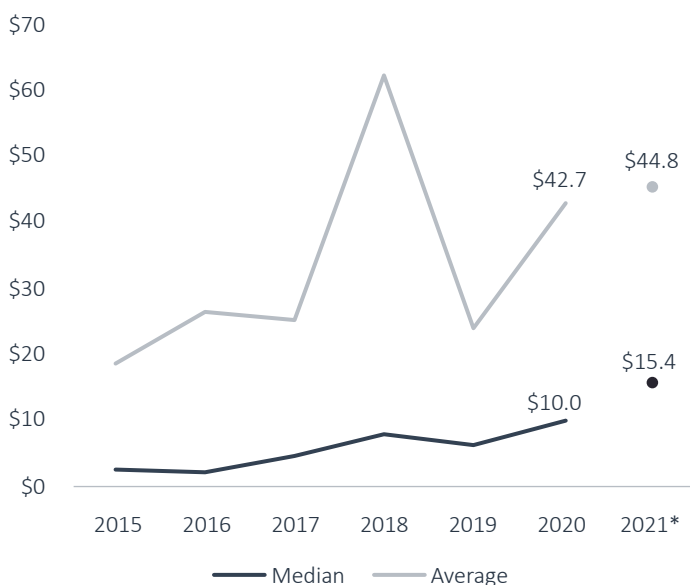
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of software VC deal count by stage



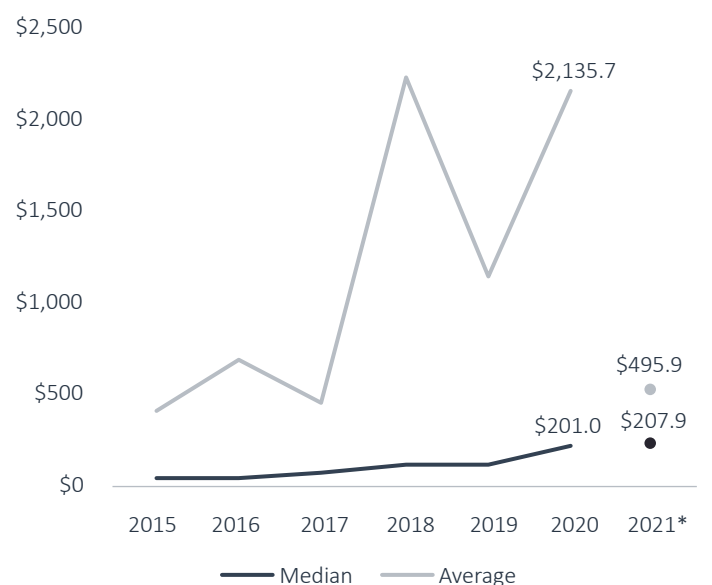
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

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



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

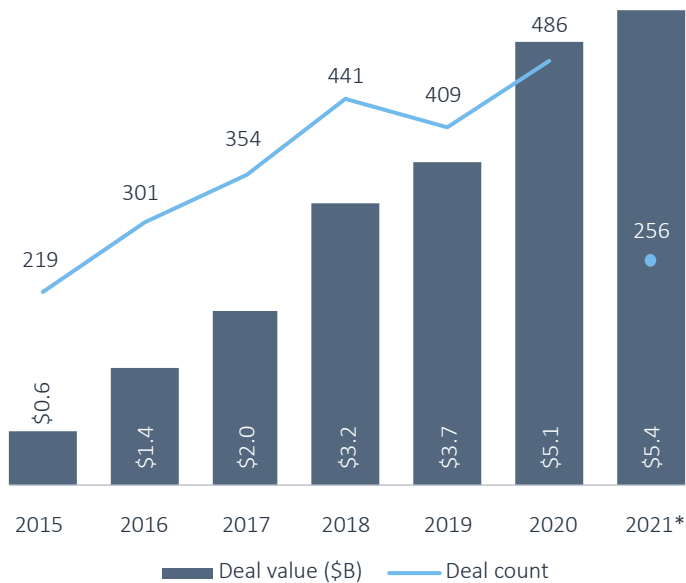
Median and average software VC pre-money valuations (\$M)



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

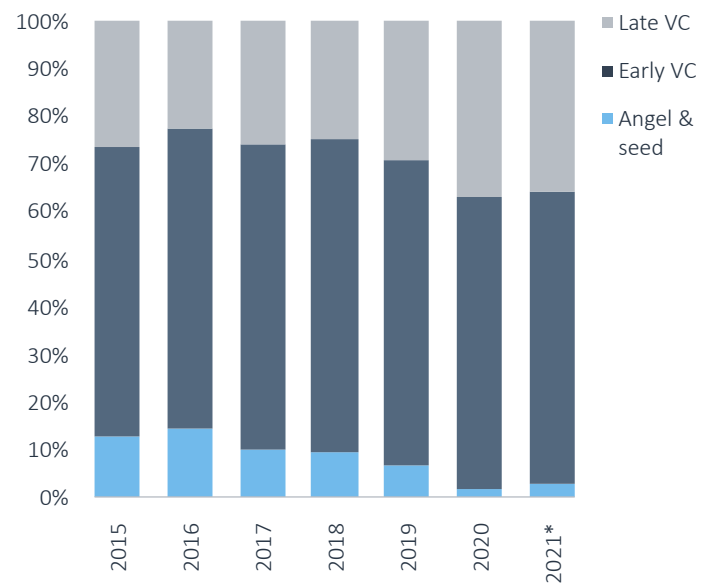
Deals by sector: Hardware

Hardware VC deal activity



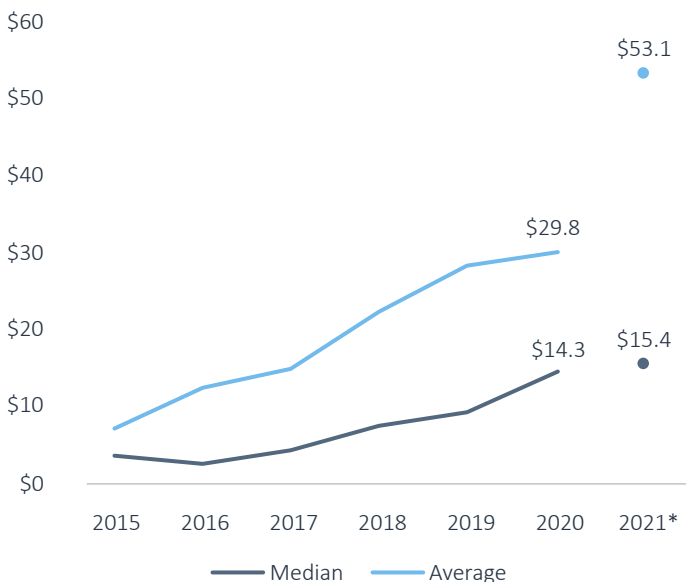
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of hardware VC deal count by stage



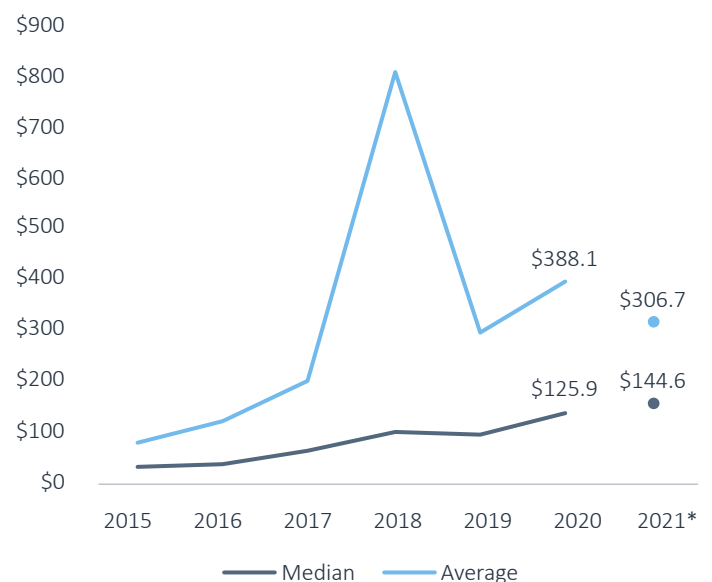
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

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



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

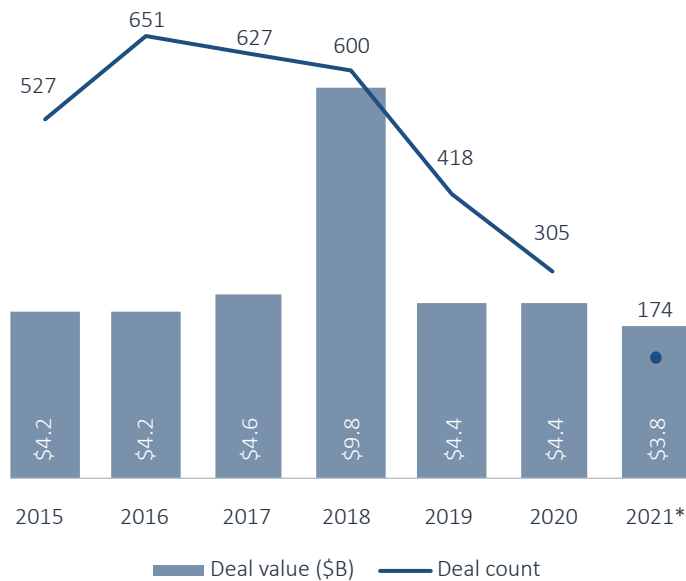
Median and average hardware VC pre-money valuations (\$M)



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

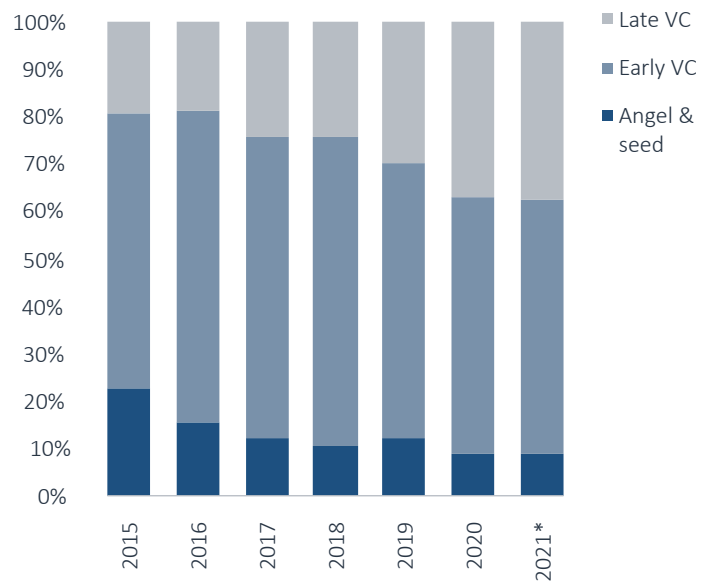
Deals by sector: Commercial services

Commercial services VC deal activity



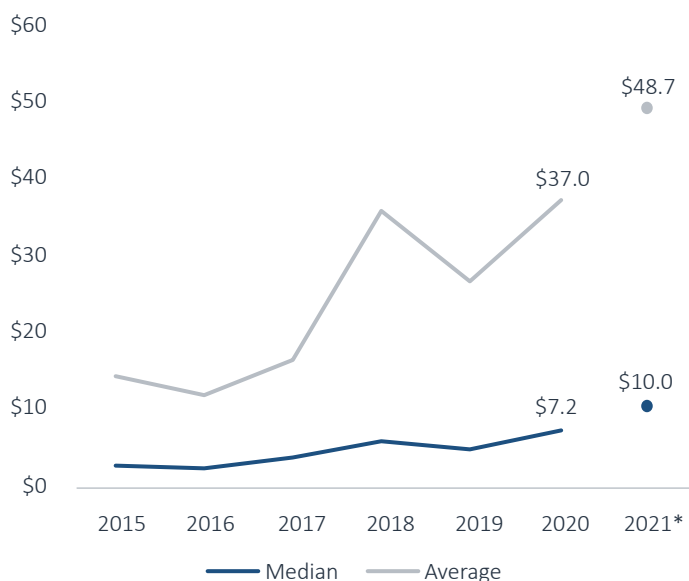
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of commercial services VC deal count by stage



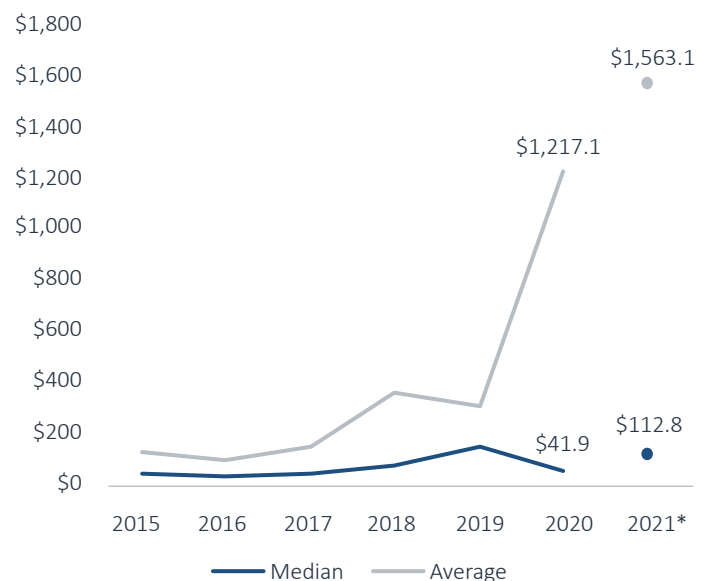
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

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



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

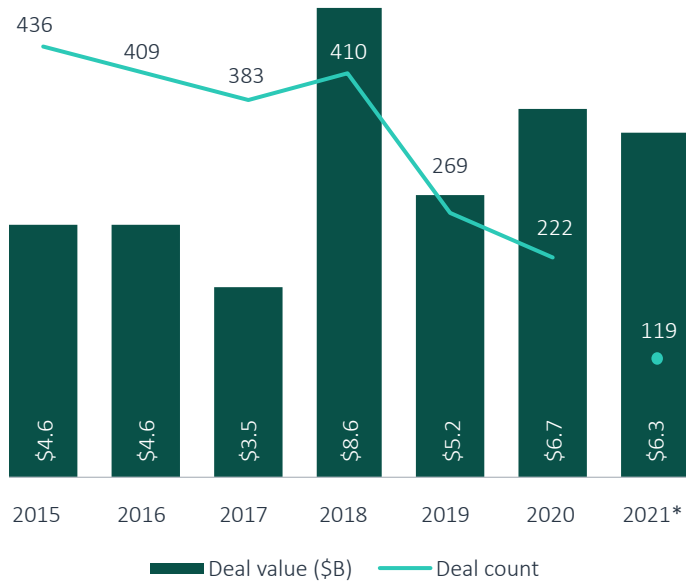
Median and average commercial services VC pre-money valuations (\$M)



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

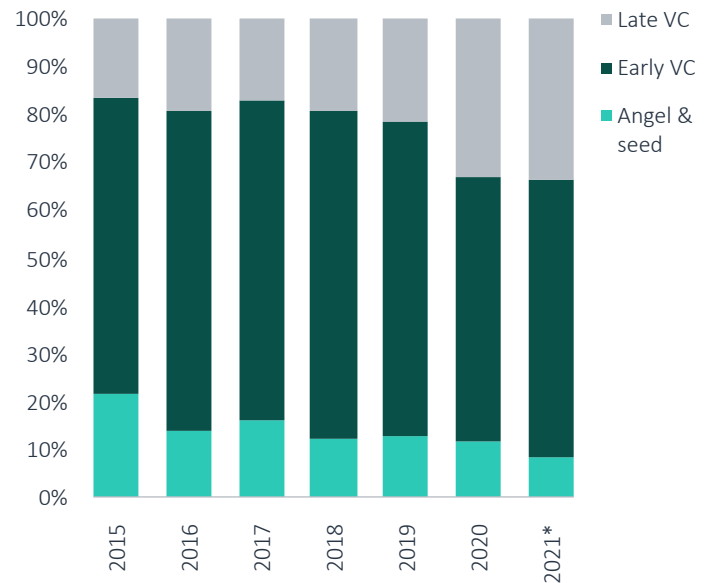
Deals by sector: Consumer goods & recreation

Consumer goods & recreation VC deal activity



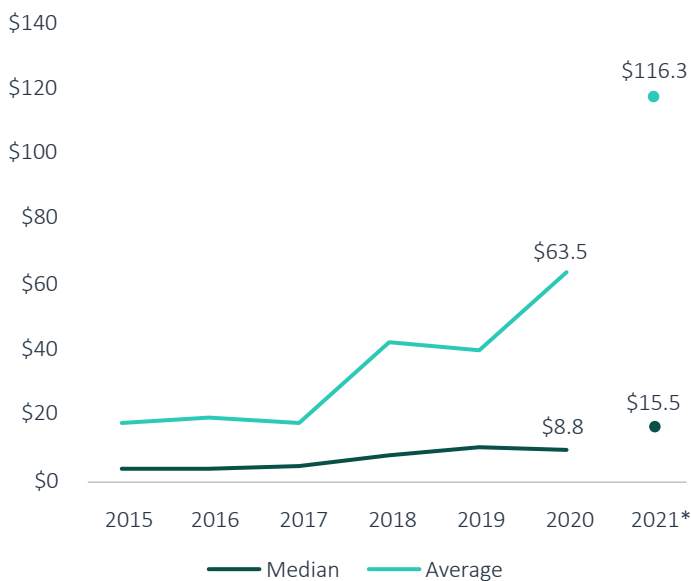
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of consumer goods & recreation VC count by stage



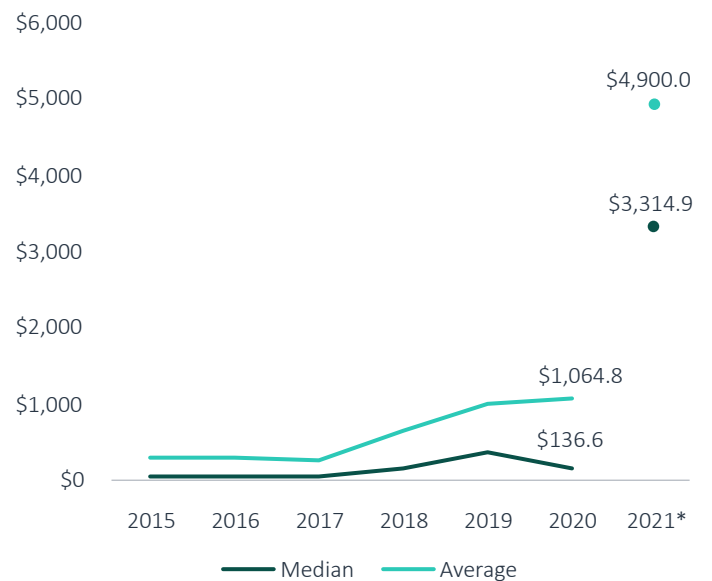
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Median and average consumer goods & recreation VC deal sizes (\$M)



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

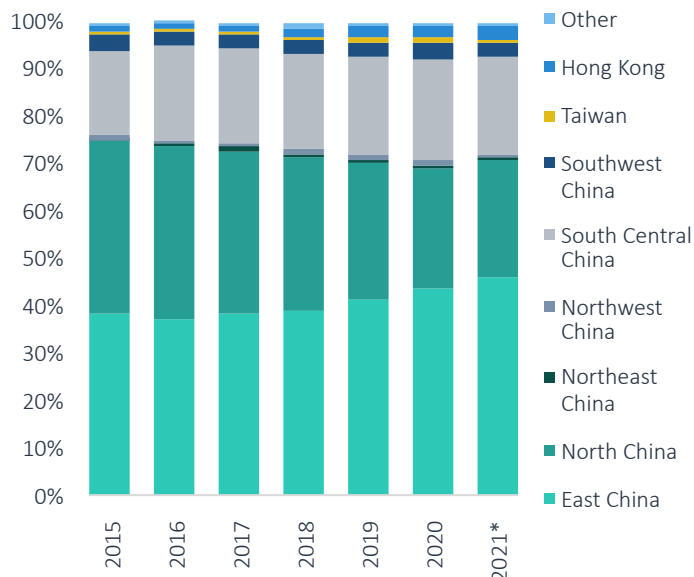
Median and average consumer goods & recreation VC pre-money valuations (\$M)



Source: PitchBook | Geography: Greater China
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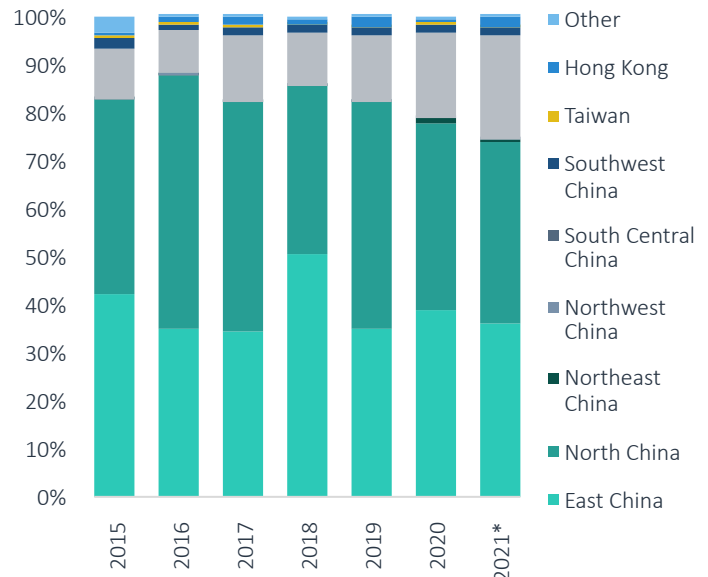
Deals by region and native currency type

Share of VC deal count by region



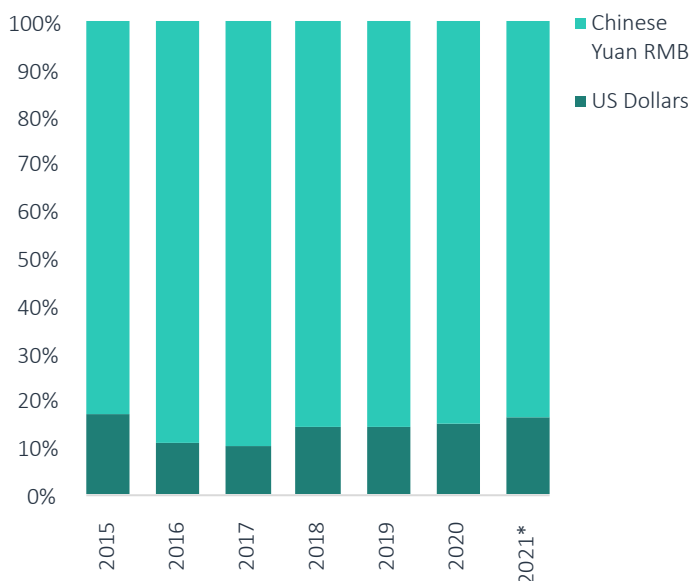
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC deal value by region



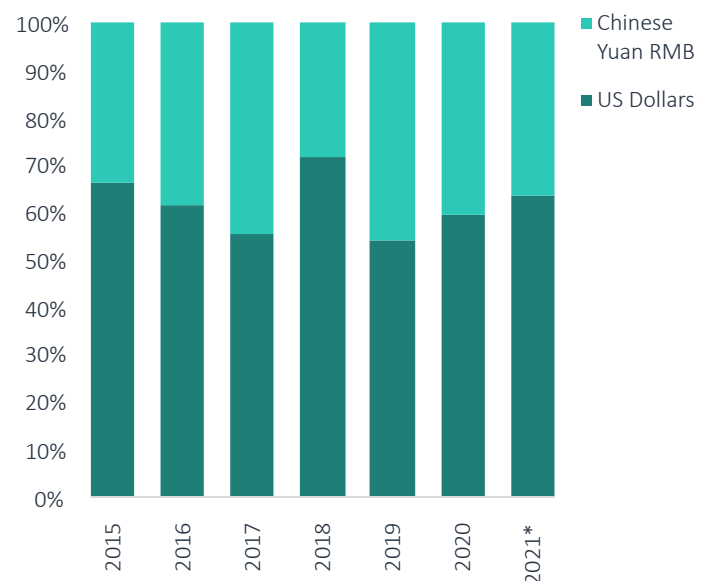
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC deal count by select native currency type



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

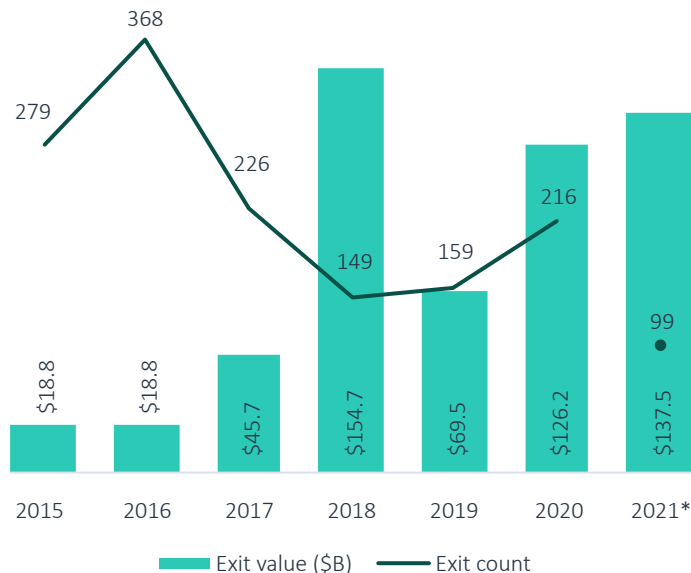
Share of VC deal value by select native currency type



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Exits

VC exit activity



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

VC exit activity by quarter



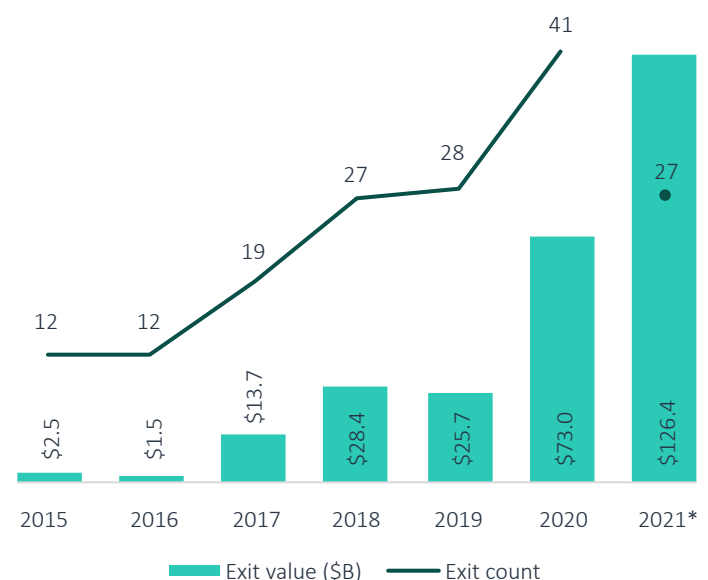
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Exit activity of VC-backed companies based in Greater China has been recovering its strength over the past few years after a steep decline from 2016 figures. While the current 2021 exit count of 99 is currently on a slower pace than 2020's, we expect that figure to eventually outpace last year's, if only slightly, due to lags in private financial data.

Just as public offerings generate the bulk of the exit value in the US and Europe, IPOs are far and away the main exit route for the largest VC-backed companies within the region. There have been 20 \$1B+ exits through H1—19 of which were public offerings. These 20 events alone have created more than \$133 billion in value, with Kuaishuo (\$55.5 billion), RELX Technology (\$17.2 billion), and DiDi Chuxing (\$10.8 billion) headlining the group this year.

The recent tightening of rules regarding large Chinese companies publicly listing shares overseas has caused substantial uncertainty. Through H1, 14 China-based companies have listed on US exchanges, but the now-mandatory cybersecurity approval from the Chinese government has put a temporary hold on new offerings. Just days after Didi's IPO, it was announced that the company would be investigated due to its non-compliance with the rules, which quickly erased billions from its market cap. The tightened regulations may cause fewer companies to attempt overseas listings, pushing more high-profile offerings onto Shanghai, Shenzhen, or Hong Kong-based exchanges.

VC exit activity with participation from investors outside of Greater China

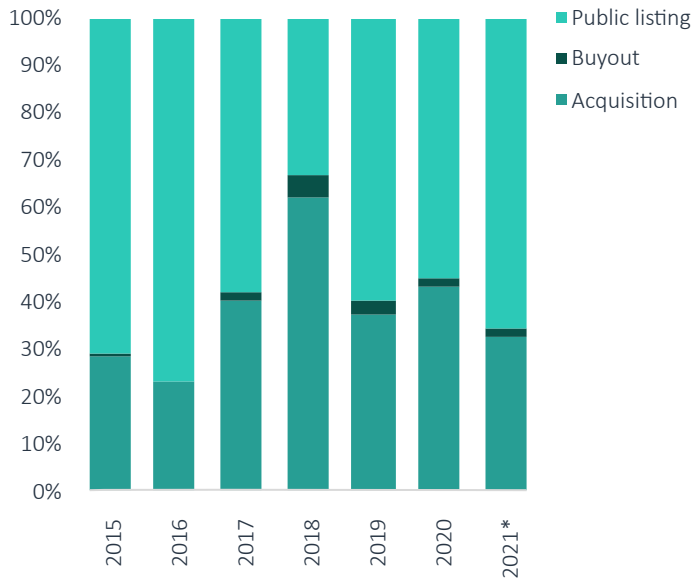


Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Time will tell how these changes may have an impact on the region's VC market overall, but for now the current environment is generating sufficient exits to continue powering Greater China's venture industry.

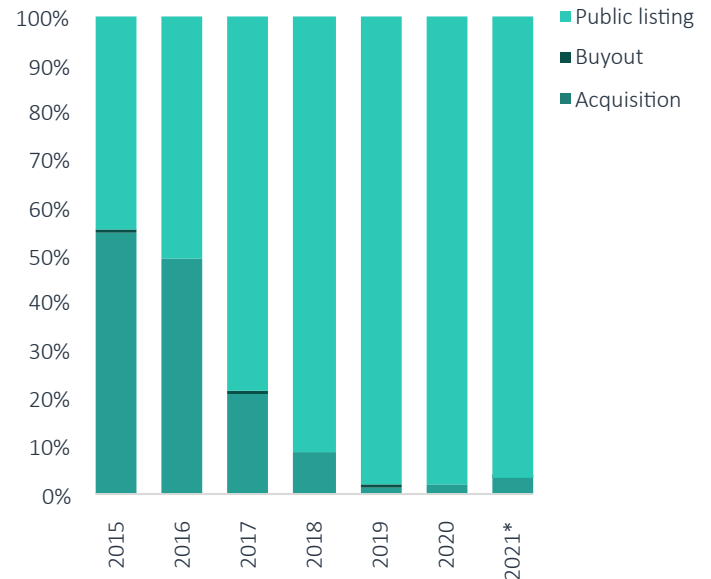
Exits

Share of VC exit count by exit type



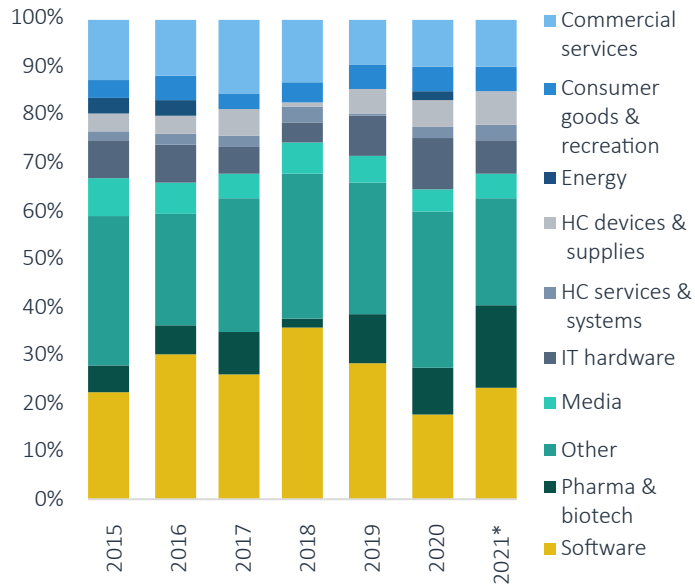
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC exit value by exit type



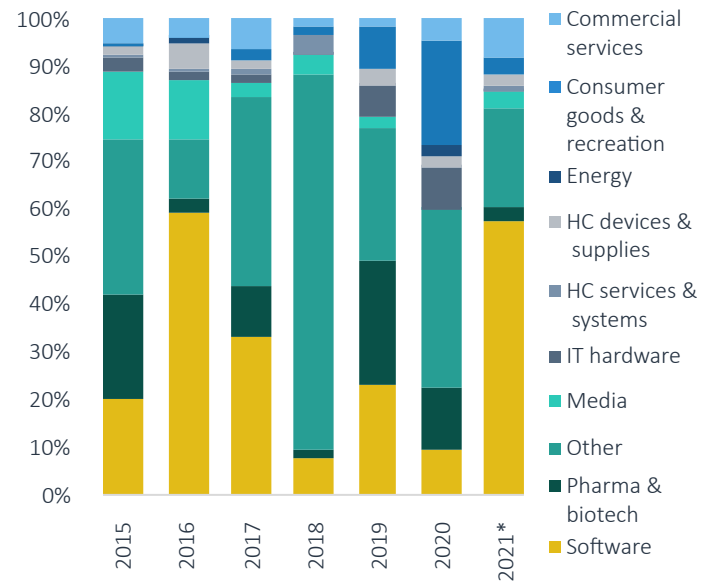
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC exit count by sector



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

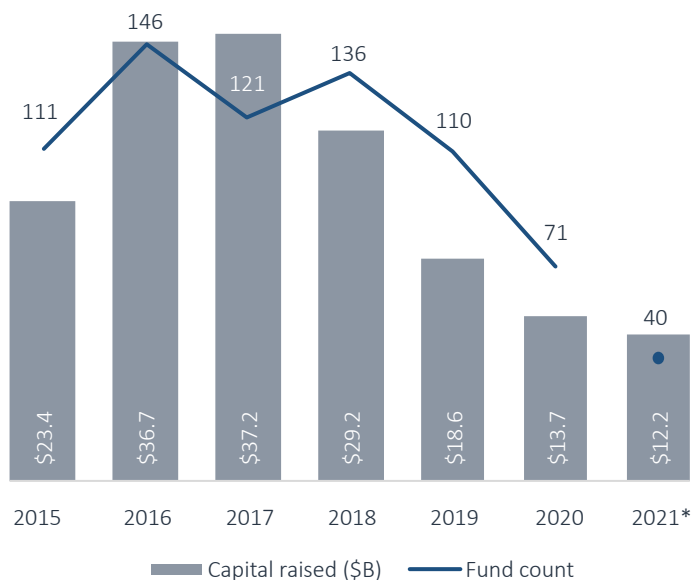
Share of VC exit value by sector



Source: PitchBook | Geography: Greater China
*As of June 30, 2021

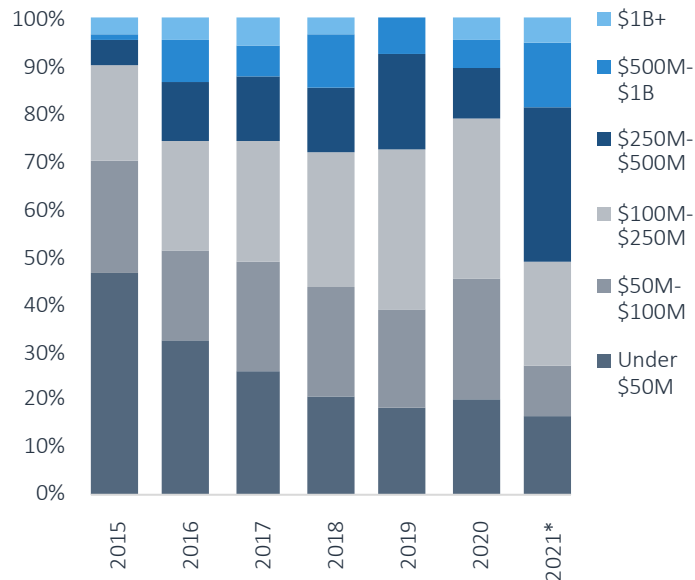
Fundraising

VC fundraising activity



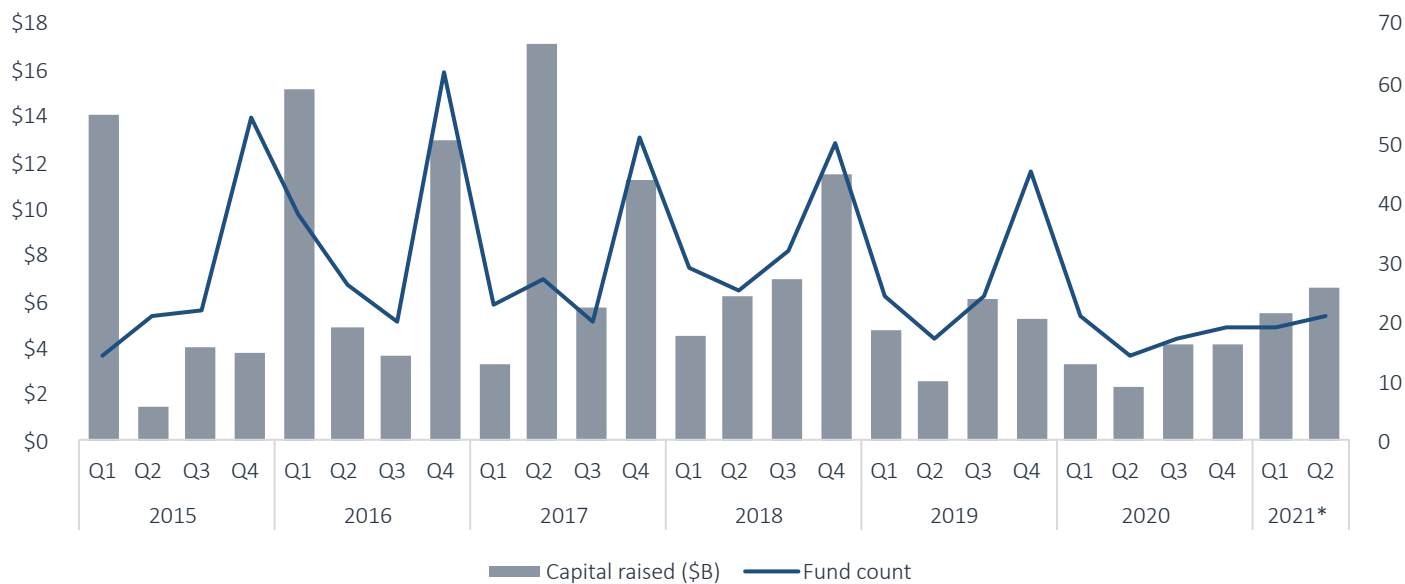
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Share of VC fund count by fund size



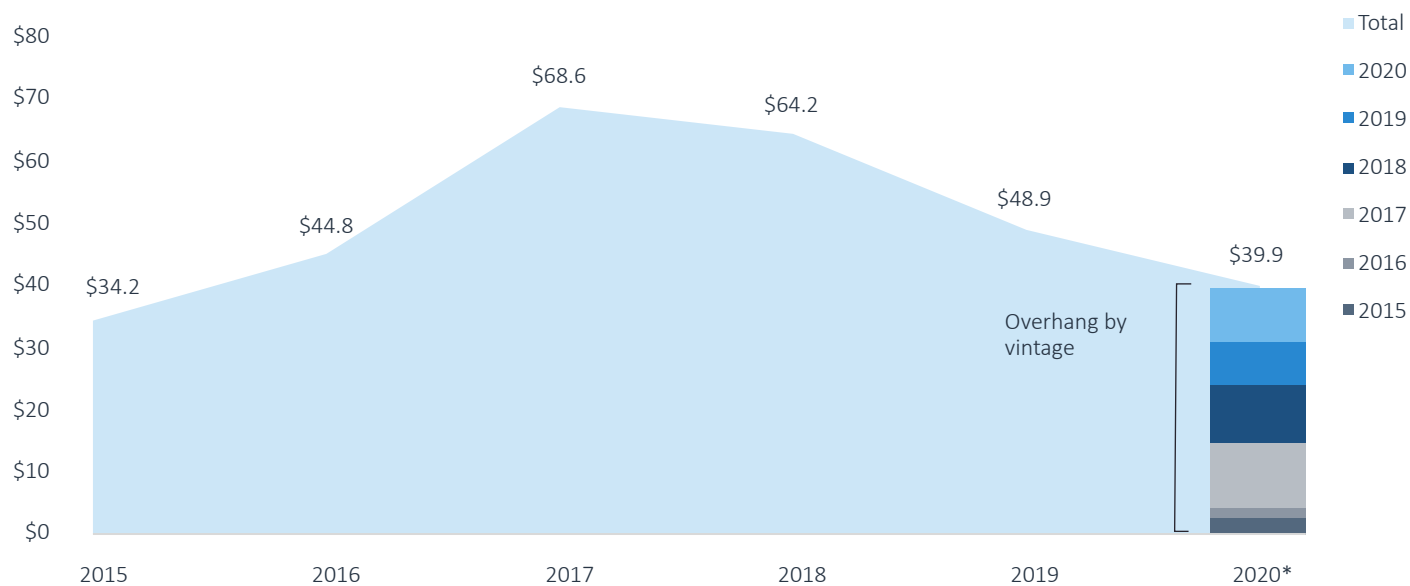
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

VC fundraising activity by quarter



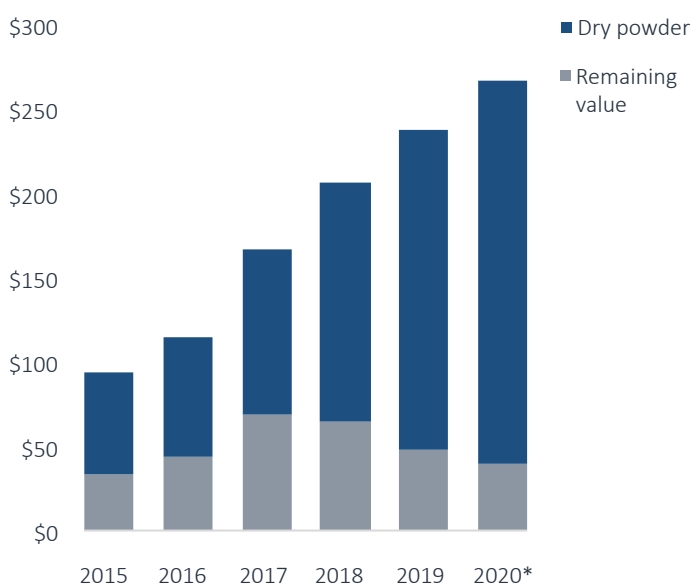
Source: PitchBook | Geography: Greater China
*As of June 30, 2021

Private capital overhang (\$B) by vintage year



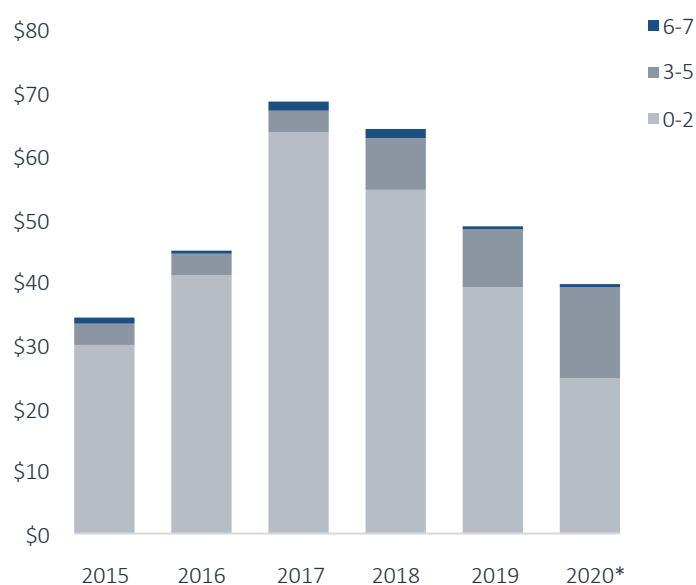
Source: PitchBook | Geography: Greater China
*As of December 31, 2020

Private capital AUM (\$B)



Source: PitchBook | Geography: Greater China
*As of December 31, 2020

Private capital overhang (\$B) by age bucket



Source: PitchBook | Geography: Greater China
*As of December 31, 2020

