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Data Stories:

Q3 2022 Private Equity and Venture Capital Trends in China

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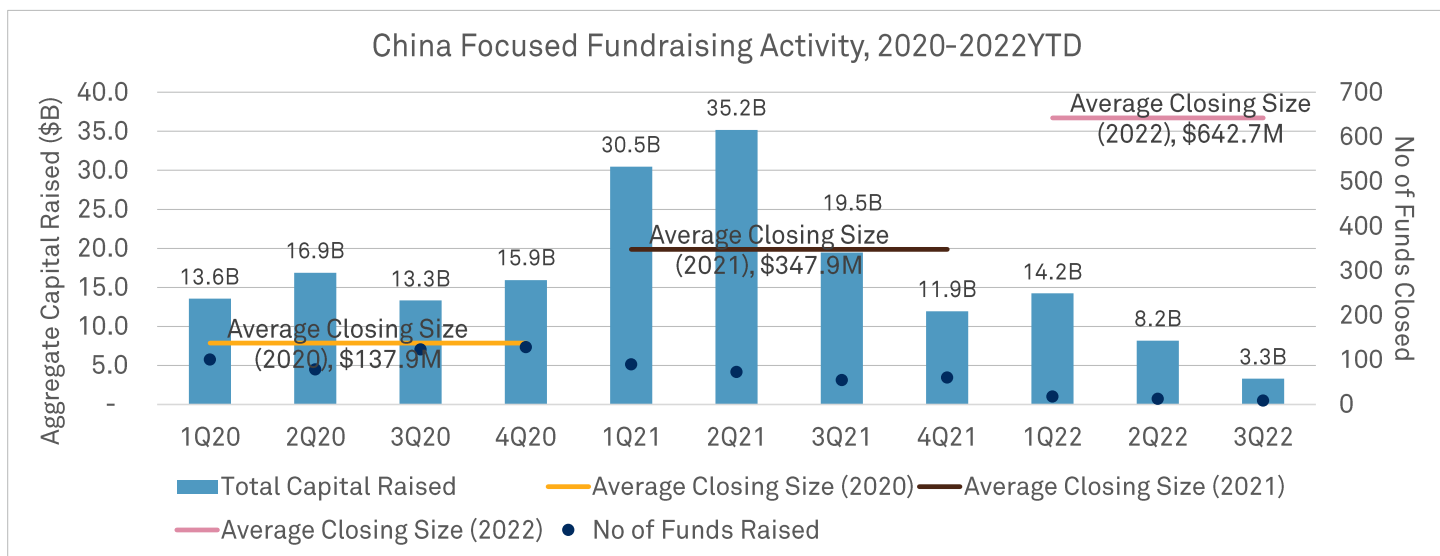
Fundraising Trends

A rebound in China-focused fundraising activity in 2021 reversed in 2022 as investors were skeptical as regulation tightening, geopolitical tensions, and pandemic-related headwinds lingered.

Following a string of quarterly declines since the start of the year, only nine funds raised USD3.3bn in the third quarter, down 83% from USD19.5bn a year earlier, according to Preqin data on the [S&P Capital IQ Pro platform](#).

Despite the smaller number of funds closing, the average year-to-date (YTD) closing size has grown for the second year in a row to USD642.7mn, nearly five times the USD137.9mn in 2020. The substantial growth in recent years can be attributed to the closings of several large funds in 2021 and 2022, including the USD18bn Hillhouse Fund V of Hillhouse Investment Management, Ltd., KKR & Co. Inc.'s USD13.7bn KKR Asian Fund IV, and the USD11bn Blackstone Capital Partners Asia II L.P. Blackstone Inc. closed at the beginning of the year.

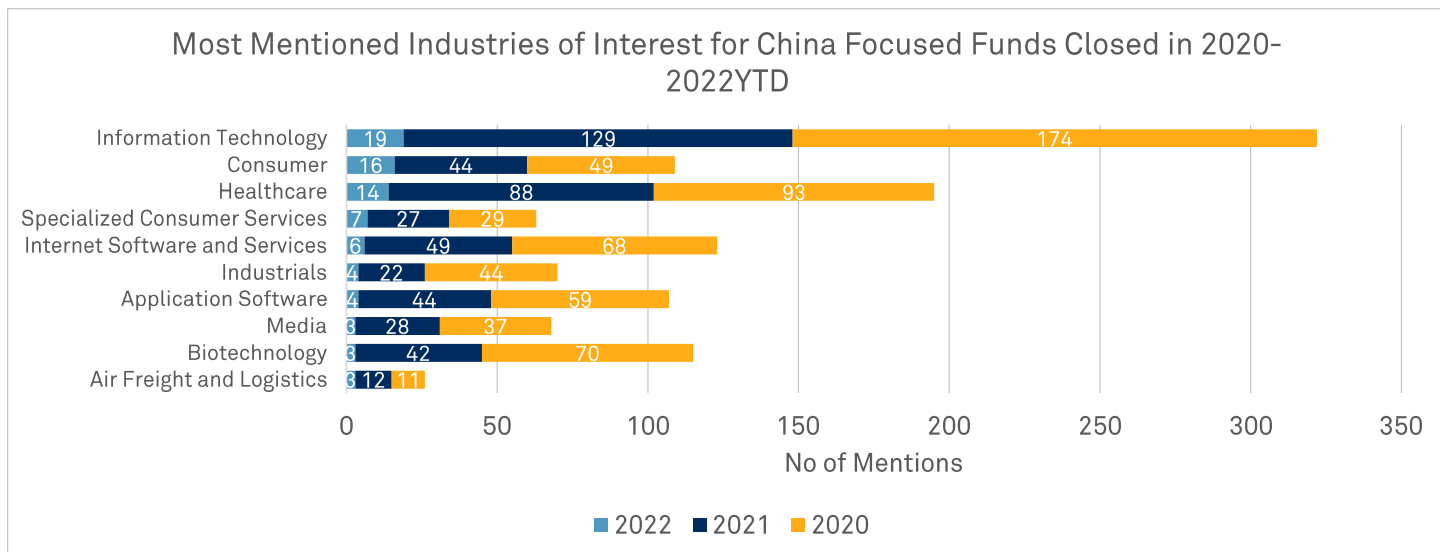
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Source: Preqin data on the [S&P Capital IQ Pro platform](#) as of October 10, 2022. Charts/Tables for illustrative purposes only.

Regarding industry scope, information technology remains the most closely watched sector across all newly closed China-focused funds, with 19 mentions year-to-date, followed by consumer and healthcare with 16 and 14 mentions, respectively.

The recent trend of private equity investors shifting away from the internet and software sectors towards consumer and healthcare is no coincidence with China's short-term strategy to boost post-covid economic recovery and its long-term strategy underpinned by "dual circulation" and "shared prosperity" initiatives, in which consumption is at the heart of both successes.



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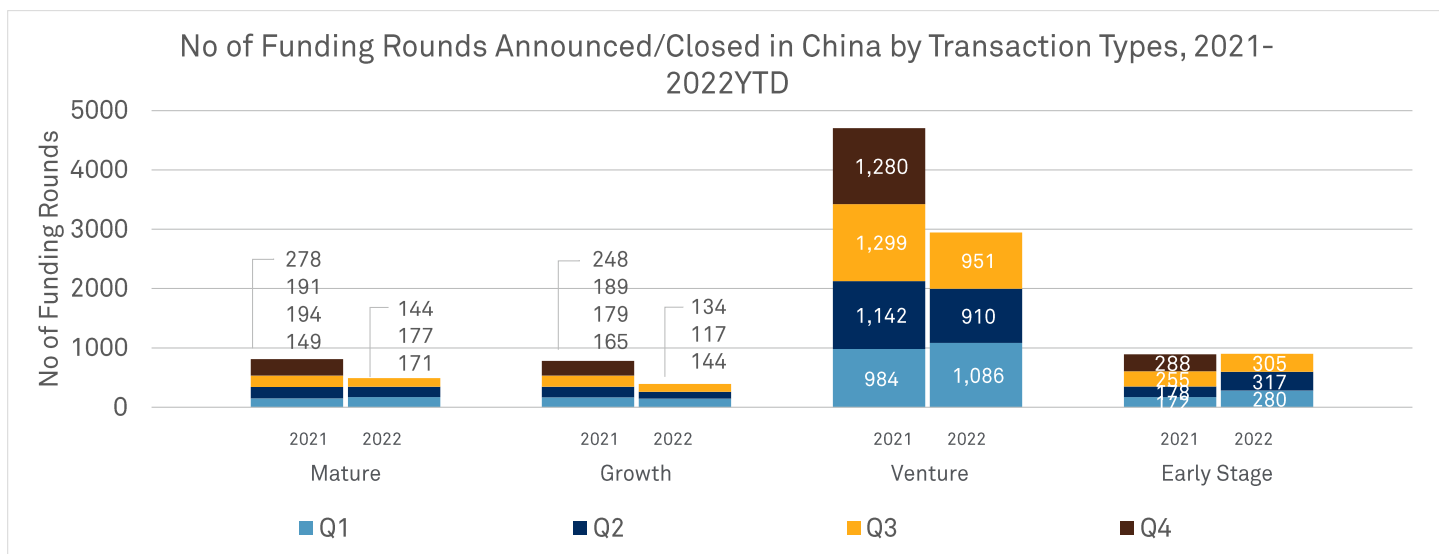
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Private Market Transaction Trends

Private market transactions in China have been impacted by the slowdown in fundraising and subdued investor sentiment. Chinese start-ups raised a total of USD39.7bn in the third quarter of 2022, down 34.3% from USD60.4bn a year earlier.

The number of deals declined across all deal types except early-stage funding rounds. Year-to-date, 902 early-stage deals have already been announced/closed, surpassing the 893 deals announced/closed throughout 2021.

Across all deal types, venture capital rounds topped the number of deals, with 951 deals announced/closed in the third quarter, more than the other three funding types combined.



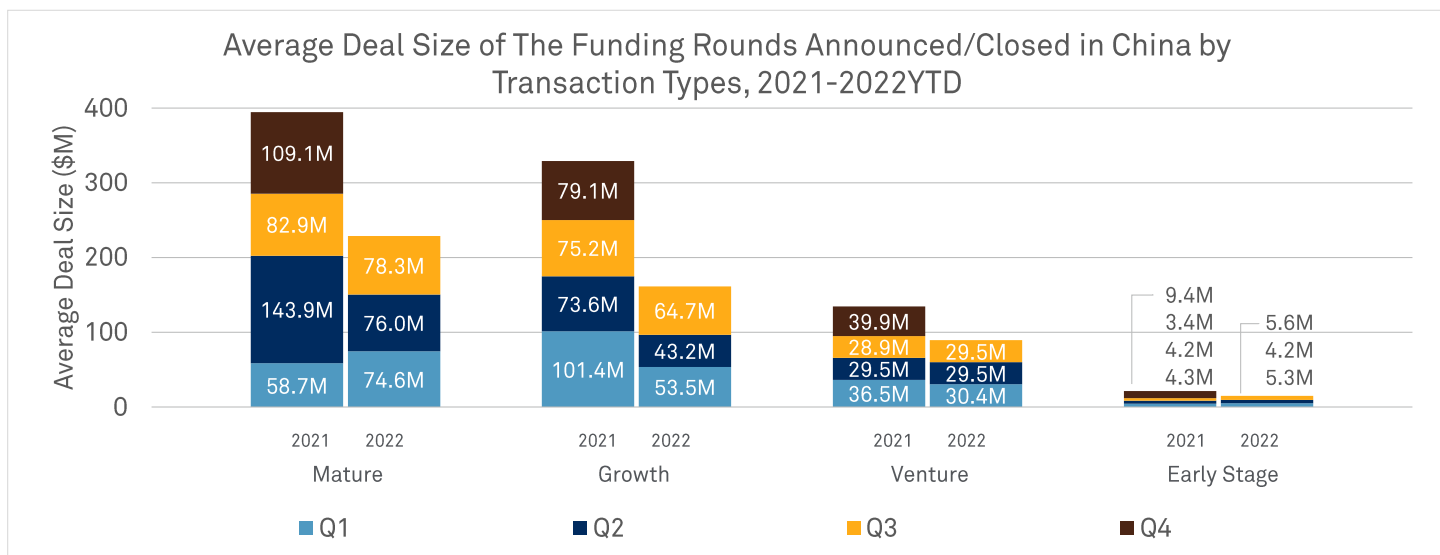
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The average ticket size of mature and growth financing rounds in the third quarter decreased to USD78.3mn and USD64.7mn, respectively, from USD82.9mn and USD75.2mn in the third quarter of 2021.

Early-stage investments continued to be strong, with the average deal size being USD5.6mn, up from USD3.4mn a year earlier.

Venture capital investments edged up to USD29.5mn from USD28.9mn over the same period.

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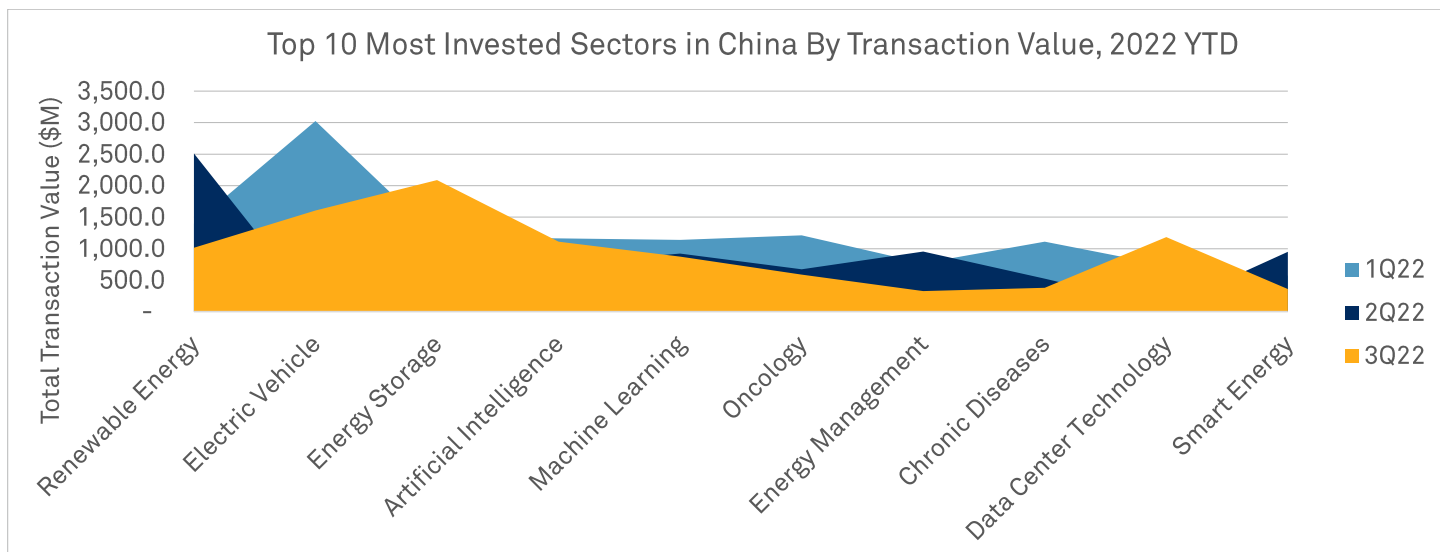
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Environmental, Social and Governance ("ESG") Investing

There has been a notable surge in ESG investing by private equity and venture capital investors across all deal types since the beginning of the year.

Year-to-date, renewable energy, electric vehicle, and energy storage topped the list of the most invested sectors in China by deal value, followed by artificial intelligence, machine learning, and oncology.

As regulators and policymakers continue to drive the ESG agenda across all sectors to accelerate efforts towards net zero targets, we expect ESG investing to continue to gain momentum from private equity and venture capital investors, driving future deal value and volume.

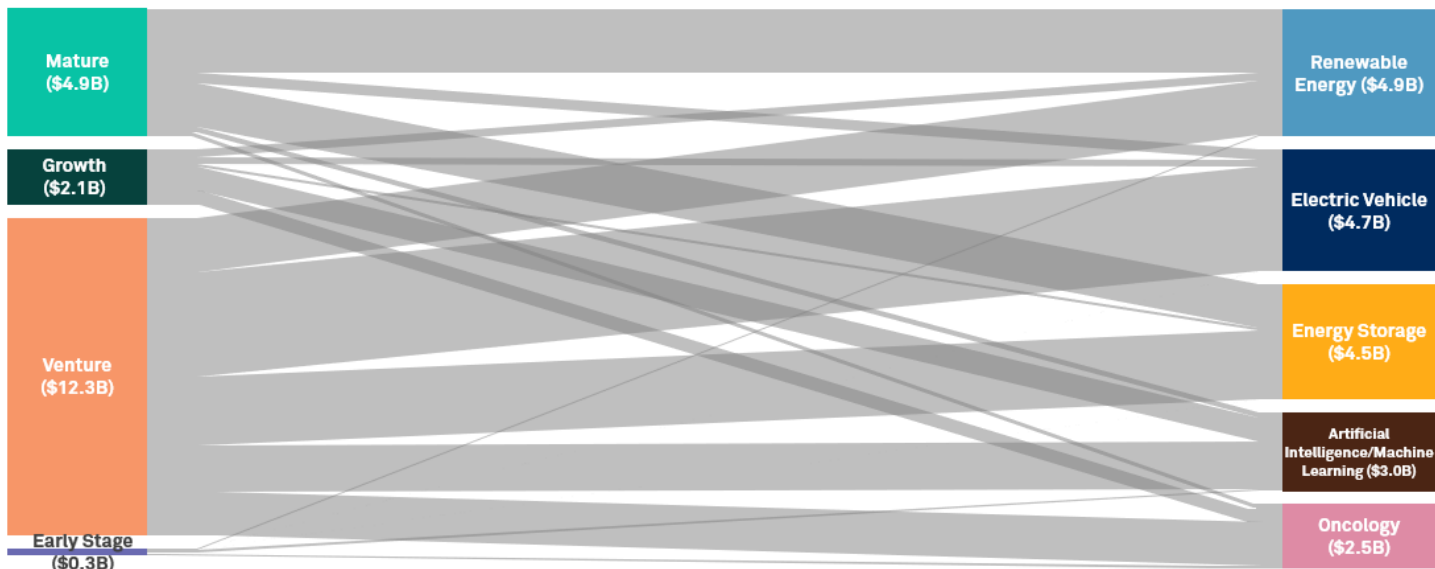


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In terms of funding flows, ESG-themed renewable energy, electric vehicle, and energy storage are attracting more capital through mature and venture capital rounds, while growth and early-stage rounds are betting more on the high-tech (such as artificial intelligence and machine learning) and healthcare (such as oncology) related sectors.

Funding Flow for The Top 5 Most Invested Sectors in China, 2022YTD



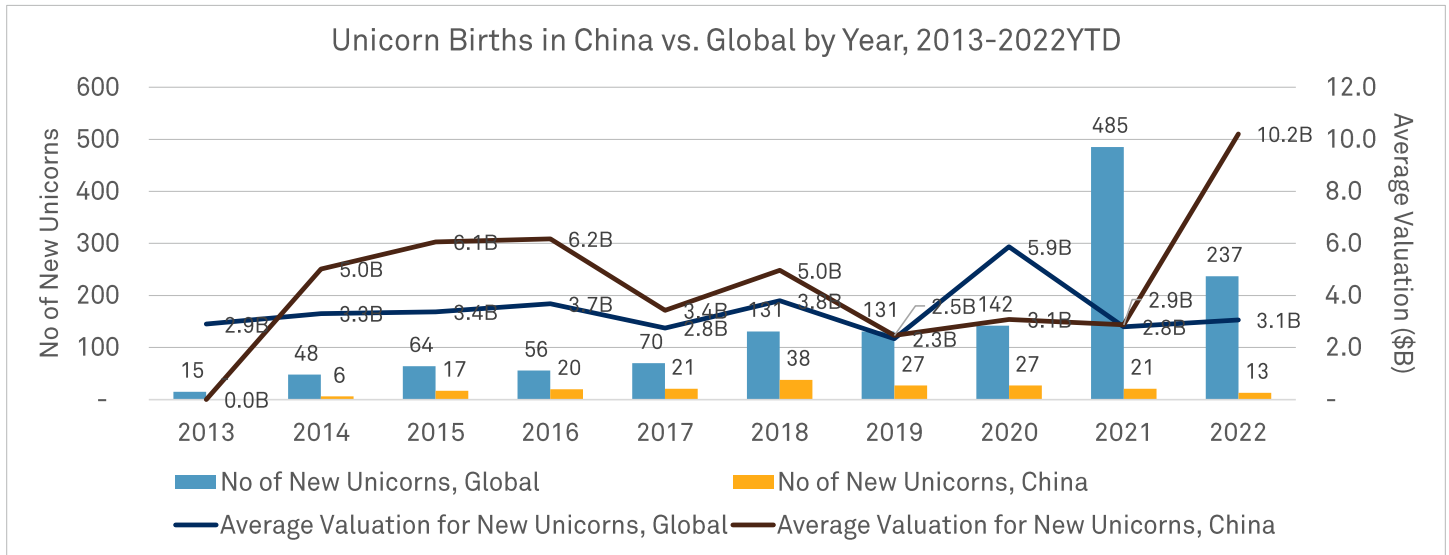
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Unicorn Births in China

The number of unicorns born in China continued to decline from 19 the previous year to 13 year-to-date, following a sequential decline since 2018, while the average valuation of new Chinese unicorns jumped to USD10.2bn from USD2.7bn in 2021.

The highest valuation so far this year comes from Nanjing Xiyin Electronic Commerce Co., Ltd. (or shein), a Chinese fast fashion e-commerce platform, which completed a USD1.5bn series F round in April, valuing the company at a whopping USD100bn. It is followed by lithium-ion battery maker Jiangsu Horizon New Energy Technology Co., Ltd. and electric vehicle maker Zhiji Motor Technology Co., Ltd., which were last valued at USD10bn and USD4.4bn, respectively.

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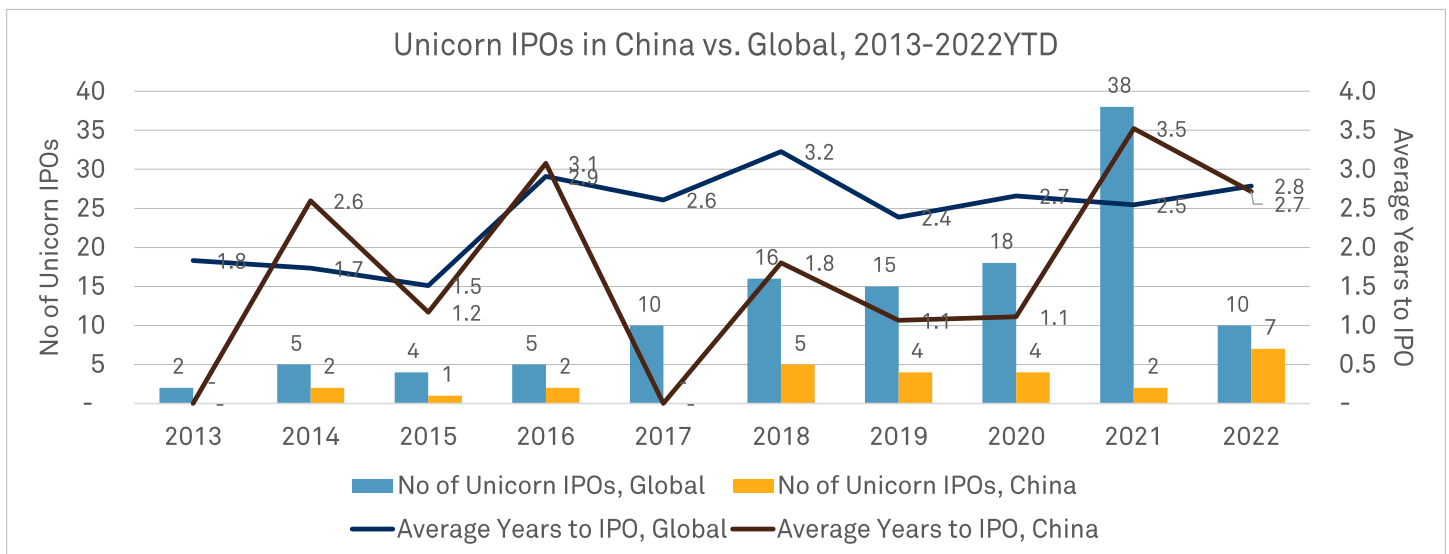


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China's unicorn IPOs surged in 2022, with seven listings year-to-date, compared to just two in 2021.

Due to regulatory crackdowns in the tech and education sectors as well as the ongoing healthcare crisis, only two unicorns entered the IPO market last year, and the average time to market after unicorn status was 3.5 years, the longest in the past decade.

As China's tech crackdown has shown signs of easing this year, the market has responded positively, with an increase in the number of successful unicorn IPOs and a shortening of the average time to market to 2.7 years.



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Private Equity Exits

While private equity exits fell from 103 deals last year to 53 year-to-date, total deal value topped USD21.9bn, surpassing last year's record USD20.6bn.

The surge in total deal value was driven by mega-deals in the information technology space, with 12 exits worth USD14.3bn. This is followed by materials and industrials, with 8 and 11 exits, worth USD4.8bn and USD1.9bn, respectively.

Private Equity Exits in China by Industry, 2020-2022YTD

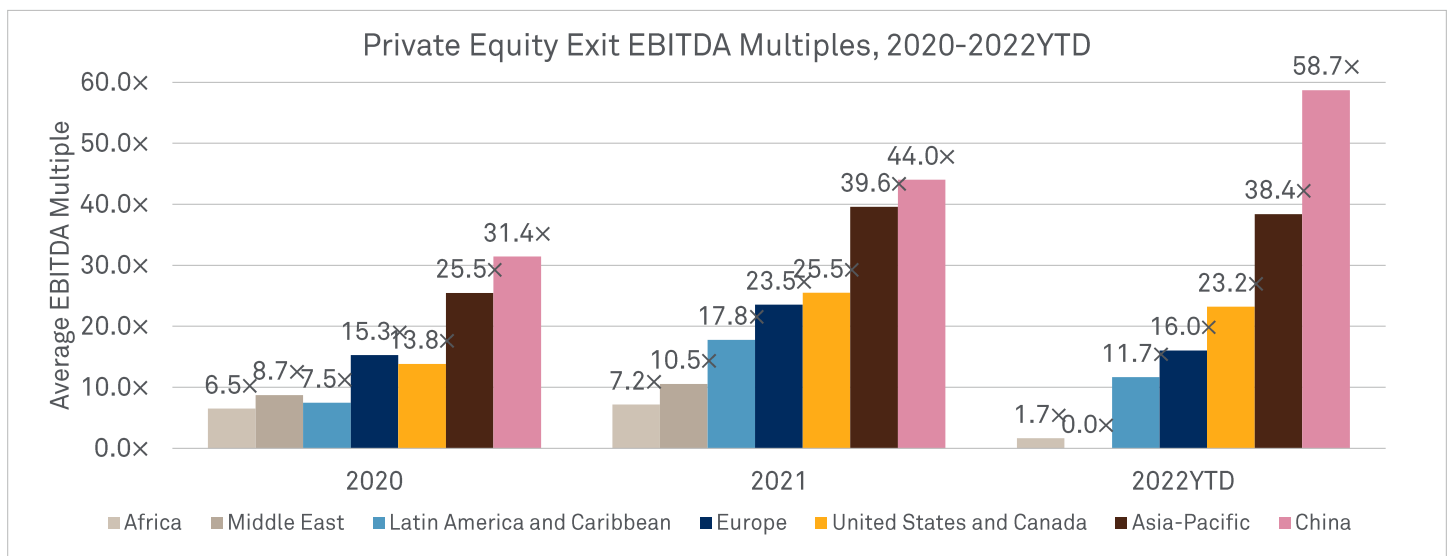
	Aggregate Deal Value (\$M)			Total No of Deals		
	2020	2021	2022	2020	2021	2022
Financials	950.8	4.5	74.1	5	4	2
Real Estate	70.0	42.1	-	3	1	-
Energy	-	-	-	2	-	-
Utilities	8.4	585.2	-	1	3	1
Materials	108.9	211.9	4,752.4	3	7	8
Health Care	1,573.9	877.1	129.7	14	14	4
Industrials	795.7	8,749.6	1,894.8	11	24	11
Consumer Staples	662.5	840.9	384.8	2	4	3
Consumer Discretionary	1,131.5	598.4	188.5	13	11	4
Information Technology	3,117.9	1,186.9	14,270.9	29	10	12
Communication Services	8,624.8	980.1	1.7	8	9	3
Total	17,879.3	20,580.3	21,911.3	102	103	53

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Valuations remain high in current market conditions. The average exit EBITDA multiple for private equity firms in China hit a record high of 58.7x year-to-date, up from 44.0x in 2021 and 31.4x in 2020.

The high valuations are driven primarily by the information technology space, reflecting increased competition from potential buyers in the sector chasing high-quality assets such as semiconductors and application software, as well as the greater selectivity of sponsors for many of these opportunities.

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Beyond The Numbers

Looking ahead, what does the future hold for private equity and venture capital firms in China?

ESG, healthcare, electric vehicle, semiconductors, and the metaverse are the five hottest topics widely discussed by research brokers covering companies, sectors, and trends in the region, according to the [findings](#) of our after-market research team. China tech and net zero targets are also among the most popular reports among private equity firms in this region.

Given the increasing complexity of today's ever-changing markets, private equity firms will continue to seek the latest insights to help them better navigate the current environment.

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