

Past, Present and Future:
**Reflections and Outlook on China's
Technology Venture Investment**

Gobi Partners China

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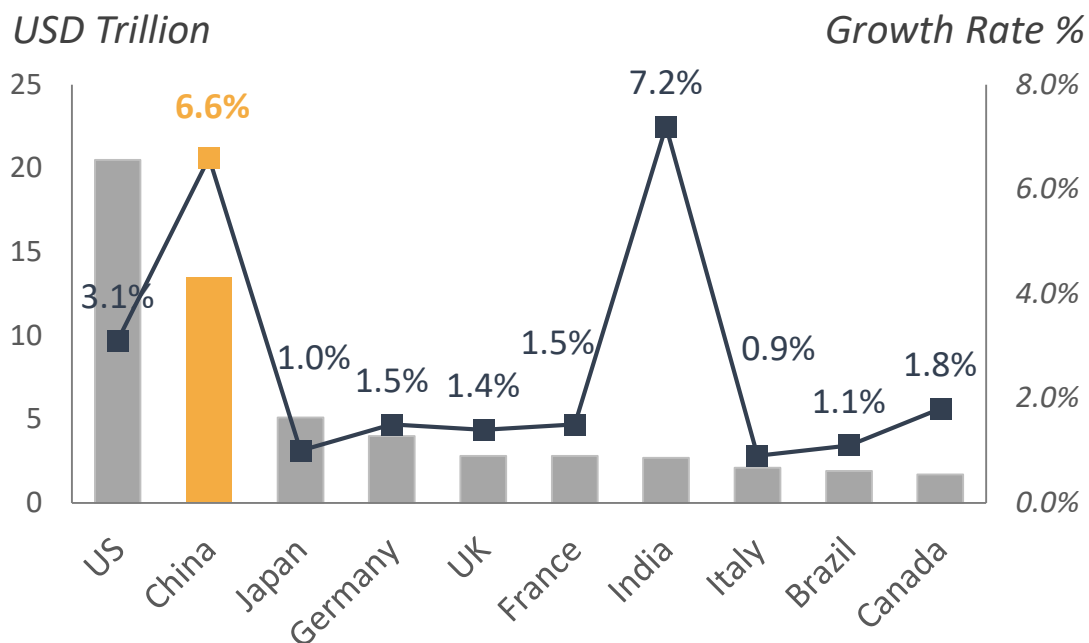
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China is Transitioning to Service-Driven Economy

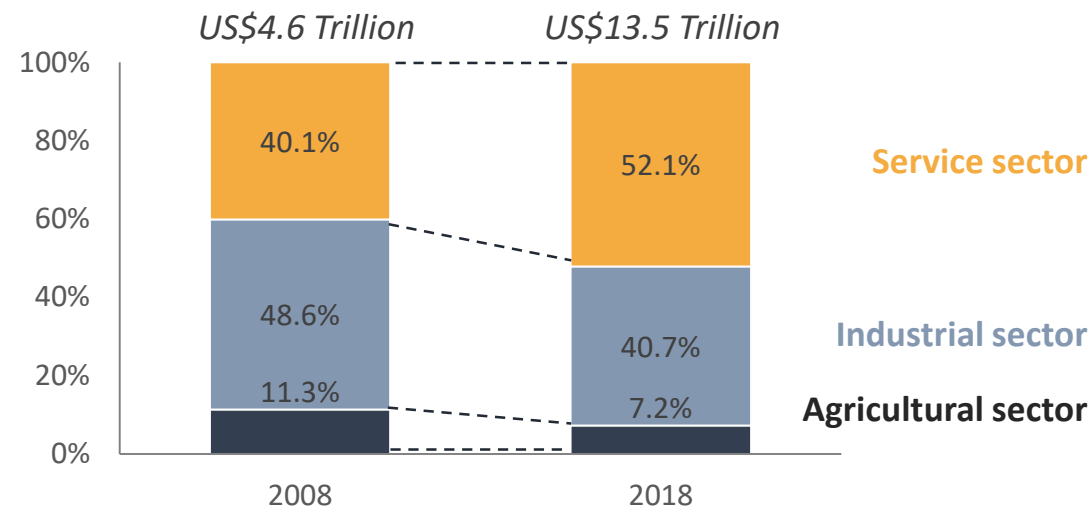
- As China's economy matures, its GDP growth has softened but is still high compared to other developed markets around the world.

- GDP growth in Services reached 7.6% in 2018, considerably outpacing Industrial (5.8%) and Agricultural sector growth (3.5%).
 - The growth is largely driven by IT & service segment, which grew by 37%.

Top 10 Economies' GDP and YoY Growth (2018)



China's GDP Breakdown by Sectors (2008 vs. 2018)



Two Main Growth Engines: Productivity and Consumption

Productivity

- China is undergoing industry upgrade and modernization to achieve higher productivity.
- Productivity growth is the key to shifting toward a consumption- and service-driven economy.
- As a result, Chinese government has made innovation a top priority in economic planning.



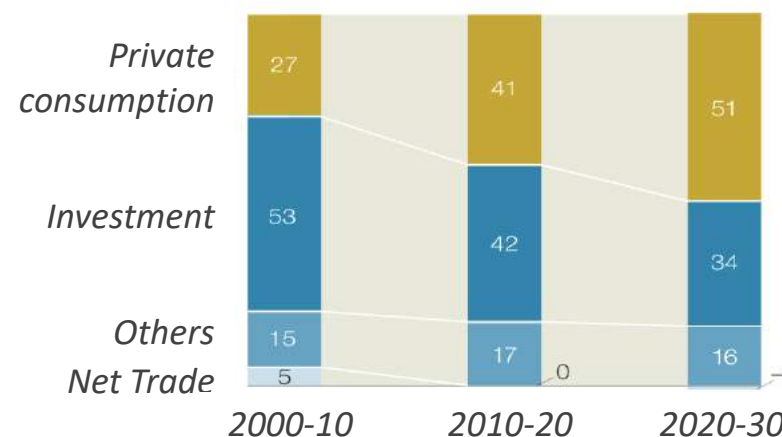
“Made in China 2025”

Announced in 2015, the government initiative aims to upgrade and modernize China’s manufacturing in 10 key sectors through extensive government assistance.

Consumption

- China is rebalancing from an export- and investment-driven economy to a consumption- and service-driven economy.
- It is estimated that private consumption will contribute over half of real GDP growth by 2030.

Real GDP Growth Decomposition Estimation, %



Trade War Further Pressures China to Focus on Rebalance

Key Impact on China

Tariffs

- Increased tariffs force exporters to shift to non-U.S. markets or move facilities outside of China.

Investment

- Outbound investments from China into the U.S. will slow down due to heightened scrutiny of CFIUS.

Market Access

- Chinese enterprises, especially ones in high tech sectors will face limited access to the U.S. market.

IP Access

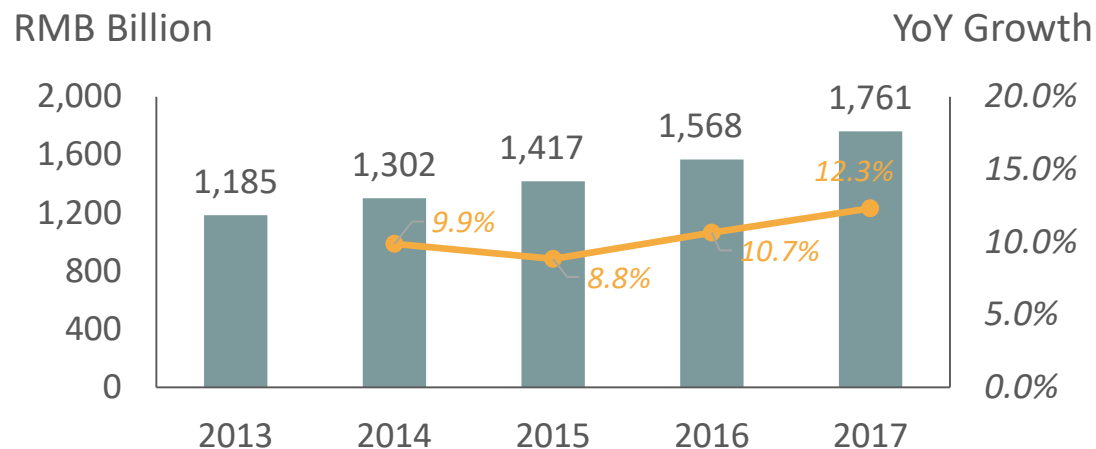
- Chinese technology companies will suffer from limited access to U.S. technologies and key products along the value chain.

Reduce dependence on exports by rebalancing economy structure toward service and consumption.

Reduce technological dependence by ramping up domestic R&D and accelerating home grown innovation.

Chinese Companies Are Increasingly Innovation-Driven

China's Total Annual R&D Spending

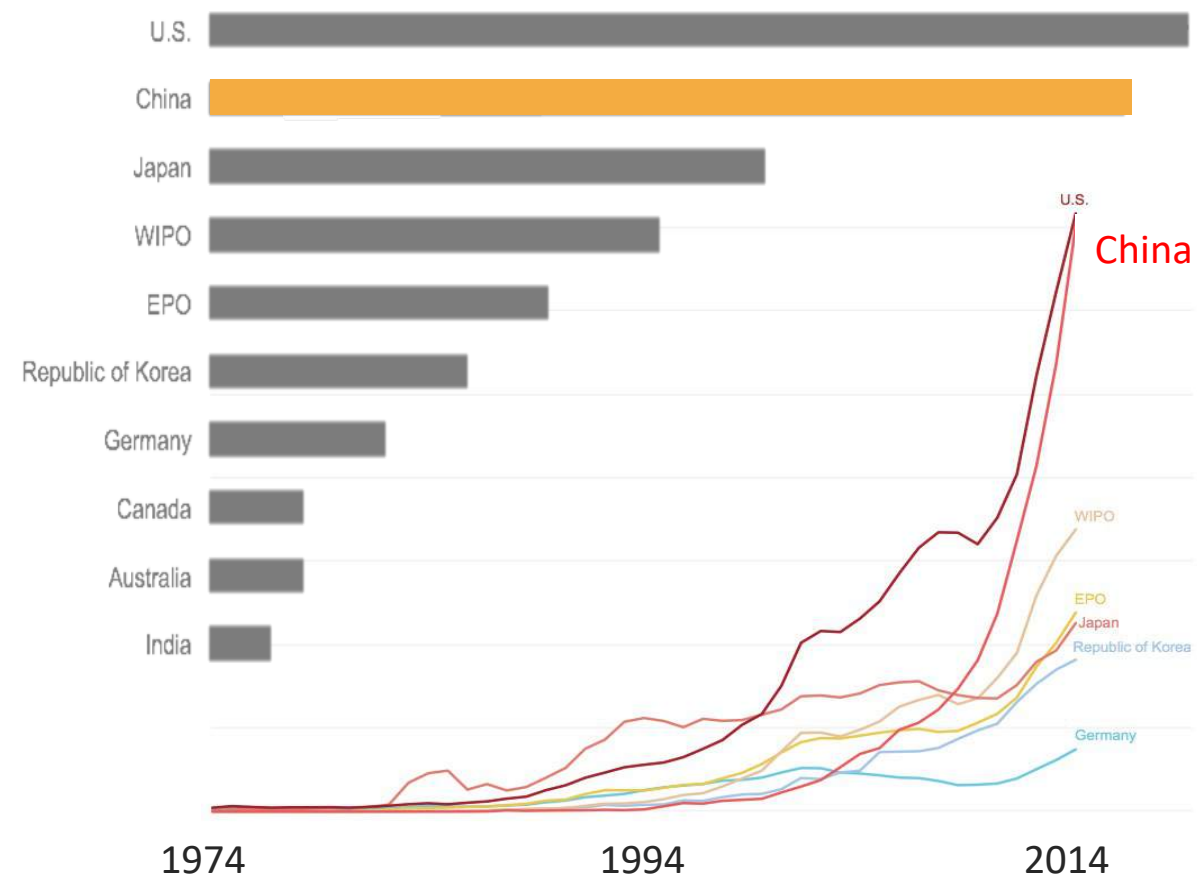


Annual R&D spending by Chinese companies increased by

12.3%

in 2017, accounting for 2.12% of national GDP output

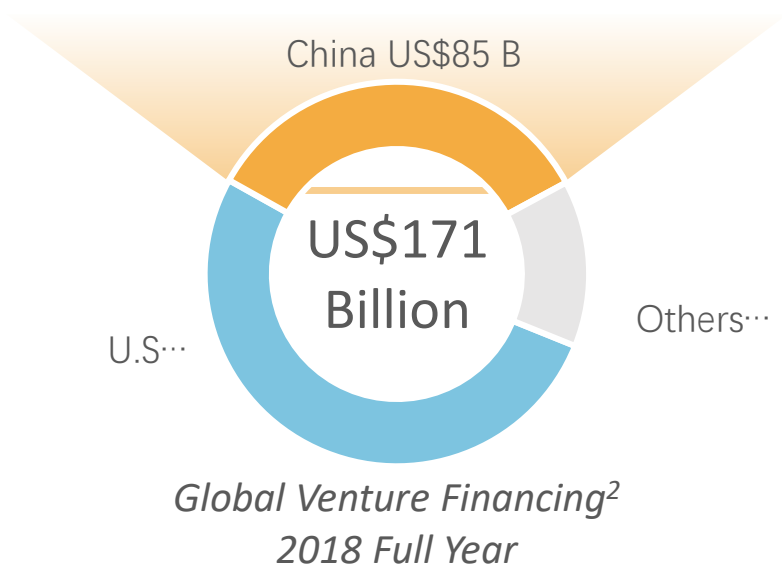
China Ranks 2nd Globally in AI Patent Filing



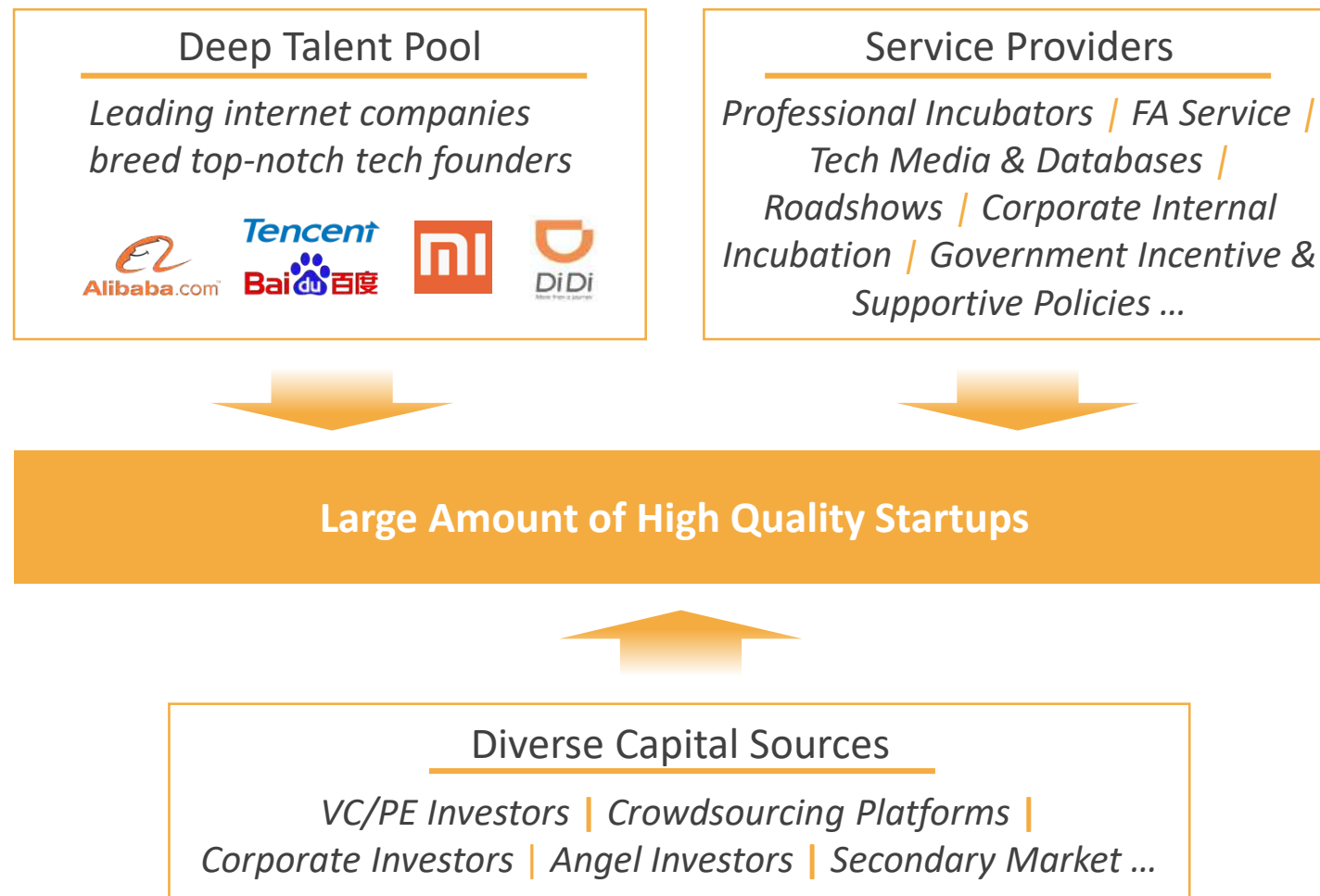
Today China Is a Startup Powerhouse Rivaling the U.S.

After 2 decades of fast growth, China has become the world's 2nd largest venture investment market

US\$85 B invested in
6,052 deals in 2018¹, representing
34% of Global Venture Investment



China's continued momentum is propelled by a highly mature startup ecosystem



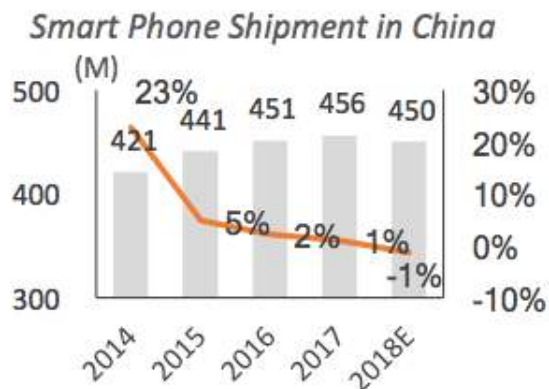
China's Next Wave of Innovation Lies in Enterprise Sector

In the past 2 decades, Chinese internet growth has been largely driven by the consumer sector ...



... However, the landscape is increasingly saturated and competitive as online user growth slows down

- Smart phone shipment in China is seeing first time decline in 2018; passenger vehicle market has seen first decrease in nearly 3 decades
- Business models relying on high burn rate and low entry barrier are attracting less VC financing



Enterprise sector is well-positioned for accelerated growth in the decade ahead

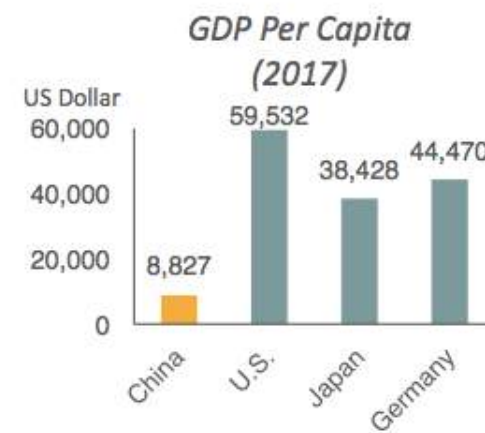
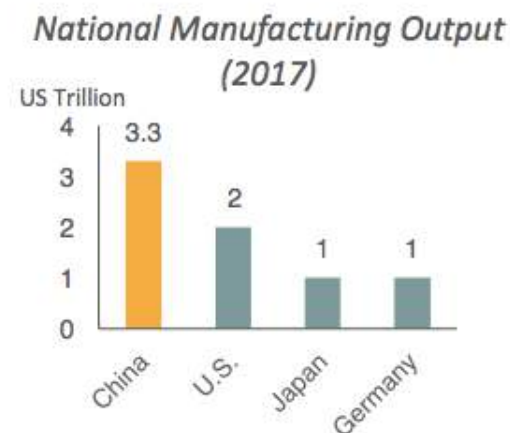
- Penetration of digital infrastructure in Chinese enterprises remains low, representing enormous opportunity:
 - 6.5% of total IT spending is spent on public cloud by Chinese companies, as opposed to 24% in U.S.*
- Driven by rising awareness and pressure for industry upgrade, adoption of digital infrastructure is quickly on the rise, and is projected to remain double digit growth for the next decade



Digitization Also Addresses Key Demographic Challenges

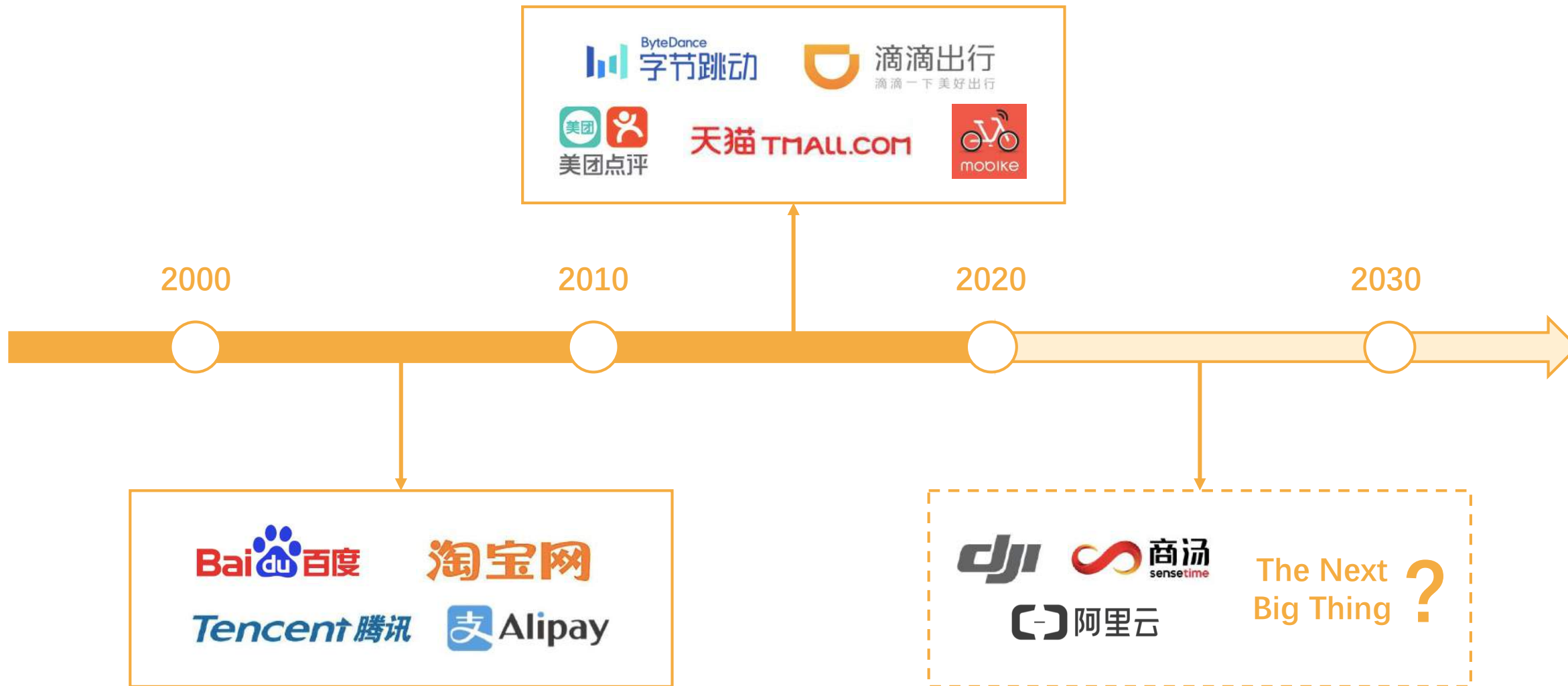
Rising labor costs and shifting demographics are top challenges for Chinese enterprises:

- Labor costs in China have **tripled in the past 10 years**, quickly compressing profit margin for enterprises.
- China's working-age population has **declined for 6 years in a row**, and is expected to keep dropping.
- China boasts a large production base, but suffers from low efficiency and low technology barrier.
- Traditional industries face the imperative to move up value chain via digitization.



Digitization is the key to transformation

Looking Forward: Another Decade of Disruption



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