

The impact of Chinese money on venture valuations

October 3, 2016 By [Mark Boslet](#)



Has Chinese capital helped pump up startup valuations in the United States, or at least kept them from falling faster?

Investors are of two minds. Some argue the magnitude of the capital flow isn't yet significant enough. Others disagree and say the cash already is propping up deal pricing, at least in certain sectors.

Looking ahead, they add, greater deal competition could spark rising valuations in same way capital from hedge and mutual funds did during the past several years. And this might be just one of several repercussions the flood of Chinese capital could have U.S. venture.

The money at stake certainly seems abundant enough to have an impact. Chinese investors have participated in 196 deals since the start of 2015, or more than one every three days, joining \$9.8 billion in financings, or slightly more than 10 percent of all financings over the period, according to data from **Thomson Reuters**.

Many expect this flow of capital from Chinese family offices, wealthy individuals, corporations, venture firms and sovereign wealth funds to rise, making the ripples it creates even greater. And while U.S. venture has been able to successfully take advantage of new sources of capital in the past, the proof being that innovation continues to flower in Silicon Valley and elsewhere across the country, higher deal pricing naturally follows increased activity.

Already, higher prices are visible in technology sectors such as virtual reality, where interest is high among Chinese investors, said **Erik Lassila**, a managing partner at **Peakview Capital**.

Other technology areas commanding attention in China are robotics and value-added manufacturing, he added.

"If you are a U.S. entrepreneur, you now have a whole new pool of capital that is coming to take a look and decide whether to invest in your business," noted **Gary Rieschel**, a founding managing partner at **Qiming Venture Partners** in China. "The pool of money U.S. entrepreneurs has access to dramatically increases with the Chinese money coming into the US."

The same dynamic exists on the firm level. As more Chinese LPs put money in the hands of U.S. GPs, greater deal competition is a secondary effect.

"The Silicon Valley, or U.S. venture community, has a viable competitor in terms of LP money that is not in their funds that is probably more entrepreneurially friendly, or more entrepreneurially focused," Rieschel said.

One response U.S. firms may need to consider is to improve deal sourcing and portfolio support. After all, there isn't an endless supply of companies in which to invest, and competition already is stiff.

Another risk from the new capital flows is dependency. If China was to again tighten rules on capital outflows, as it did earlier this year, investors there may be forced to trim their offshore investments.

The result "may be a new exit of capital," said **Phil Sanderson**, a managing director at **IDG Ventures**. This could put pressures on GPs who are overly indexed toward one source of capital. "It's just a risk," he said.

On the other hand, great benefits could come from the mixing of the two cultures. This could include deal cooperation.

Founders and GPs could find themselves with new connections to Chinese investors able to help them build operations or distribution in China, said **Barry Kramer**, a partner at **Fenwick & West**. Trust will build over time.



Donald Dixon,
managing director,
Trident Capital Cybersecurity.
Photo courtesy of the firm

In the same vein, new bridges of understanding could grow between the two countries, a small step toward a better world order.

*"I believe they can be a force for stability," said **Donald Dixon**, a managing director at **Trident Capital Cybersecurity**. "As we develop trusted relationships with Chinese investors, I think it will be more stable."*

Whether any this plays out will likely depend on the success of the first wave of Chinese investing. These deals will be worth watching closely.