



China Startup Outlook 2017

KEY INSIGHTS FROM THE SILICON VALLEY BANK
STARTUP OUTLOOK SURVEY

Strength in the Innovation Sector

Silicon Valley Bank presents Startup Outlook 2017, the bank's annual report on the health of the innovation economy. This year, it comes at a time of significant transition around the world and opportunity in the innovation sector. In its eighth year, the Startup Outlook survey asks entrepreneurs to share what they are thinking about business conditions, access to capital and talent and the critical policy issues that help or hinder their success.

Nearly 950 technology and healthcare executives, primarily from the United States, United Kingdom and China, participated in the survey, which was conducted shortly after the November 2016 United States presidential election. Given this timing, we did recognize some uncertainty in the responses from what is historically an optimistic group. As the United States transitions to a new administration and the United Kingdom negotiates Brexit, startup sentiments and markets may shift when policies and priorities become clearer. In China, we're seeing similar themes as the country navigates a historic transition from an industrial to an innovation economy.

Against this backdrop, there is good news. The innovation sector is building strength after a healthy recalibration in 2016. Public markets have bounced back, jobs reports are more optimistic, investors are doing deals, valuations corrected, more funding options are available and the exit market has improved. No matter where they are located, at least 85 percent of entrepreneurs are expecting M&A, the ultimate exit

for most startups, to increase or stay the same. In the United States, SVB is predicting the number of venture capital-backed IPOs to double or even triple over 2016.

Here's what else we see: There is more potential now for innovation to thrive than in the last 25 years. The breadth of opportunity created by old-world industries being transformed by technology continues to expand globally. Still, companies forming now will have to prove their value with a higher bar as investors continue to identify opportunities with the most promise. We have a long-term positive outlook for the innovation economy, but individual startups will face challenges. It's the nature of the business of building disruptive companies. So mindful of the unicorn lineup awaiting exits, we will not be surprised to see companies struggle and fail this year, potentially even more than in recent years. This is healthy innovation.

Thank you for your interest in Startup Outlook 2017. We hope the findings can be useful as you chart your own path or follow this sector. Looking globally, the opportunities for innovation are abundant.



Greg Becker

President and CEO, Silicon Valley Bank

About the Startup Outlook 2017 survey

Our eighth annual survey of technology and healthcare executives offers insight into what's on the minds of innovation leaders today. For this year's survey, we received 941 responses covering such topics as how innovation companies are faring, hiring projections and how government policies are affecting business growth.

Total respondents

941

Industry sector



69%
Technology
(net)



15%
Healthcare
(net)

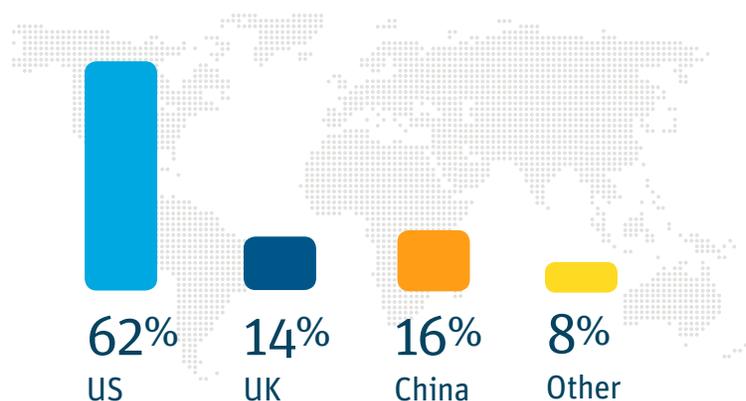
16%
Other

Profitable

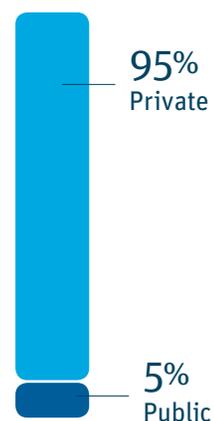


56% Yes
44% No

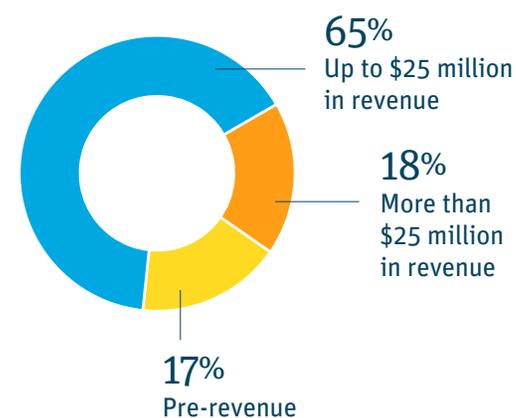
Primary place of business



Ownership



Revenue stage



Peerless Insights Survey, a third-party firm, conducted the Startup Outlook 2017 survey online on Silicon Valley Bank's behalf from November 14, 2016, to January 3, 2017.

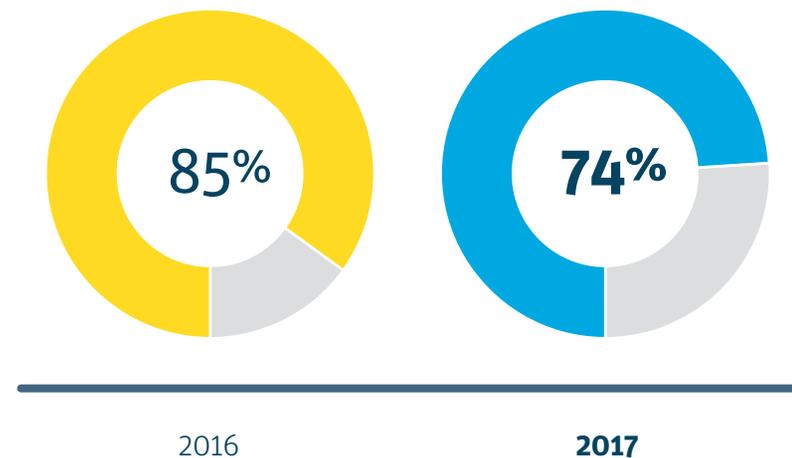
Chinese entrepreneurs are cautiously optimistic about business prospects in 2017. They also say fundraising and hiring are challenging. But they are making progress as they navigate through China's shift from an industrial to an innovation economy.

Chinese entrepreneurs temper optimism in 2017

74% of Chinese startups say business conditions in 2017 will be better than 2016. That reflects a drop in optimism from a year earlier when 85% said 2016 would be better than the previous year. As the Chinese government pursues policies to continue the shift from an industrial to a digital economy, startups may be getting more realistic about how long it will take.

Describe your outlook on business conditions for your company this year compared to last:

Much or somewhat better

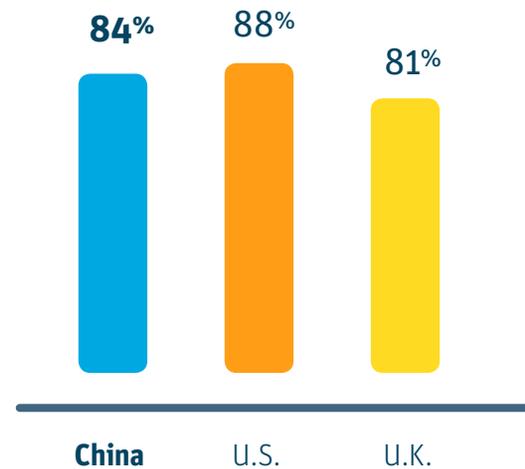


Fundraising remains difficult

84% of Chinese startups believe the fundraising environment is extremely or somewhat challenging. Young companies always find it difficult to raise money, and it's no different in China.

What is your view of the current fundraising environment for companies like yours?

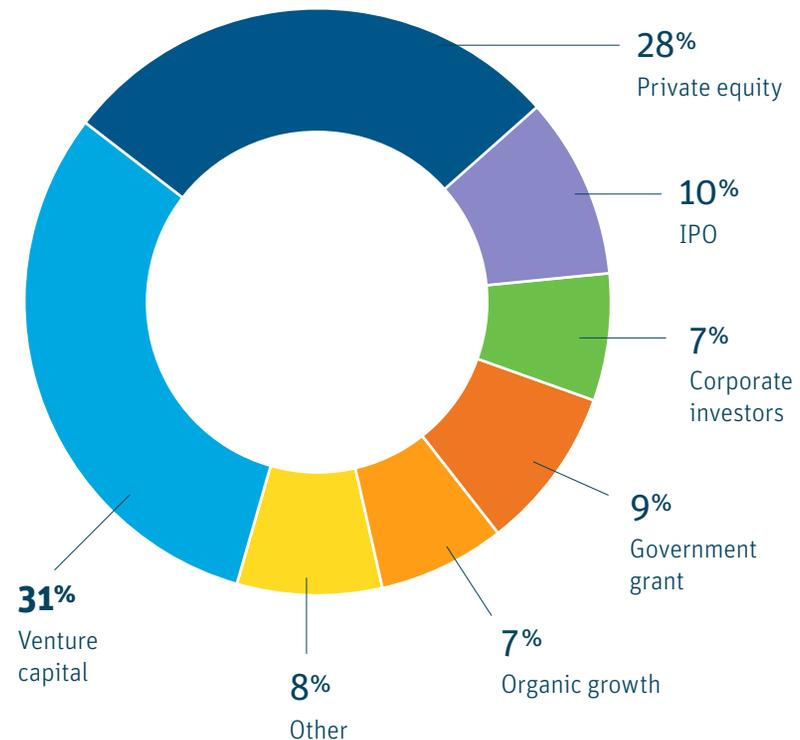
Extremely or somewhat challenging



Chinese startups see venture capital and private equity as top sources of capital

Looking ahead, 59% expect their next source of funding to come from either venture capital or private equity.

What do you expect the next source of funding will be?

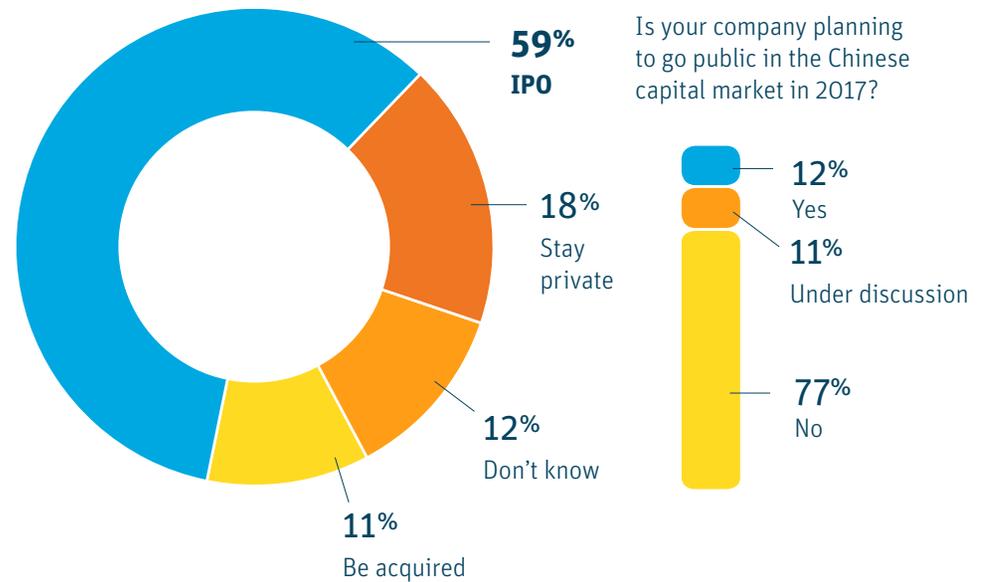


Other includes: crowdfunding, angel and bank debt.

Chinese startups see IPOs as long-term goal

Most Chinese startups (59%) say their long-term exit strategy is an IPO, and 18% plan to stay private. However, only 23% are planning or discussing going public in the China capital market in 2017.

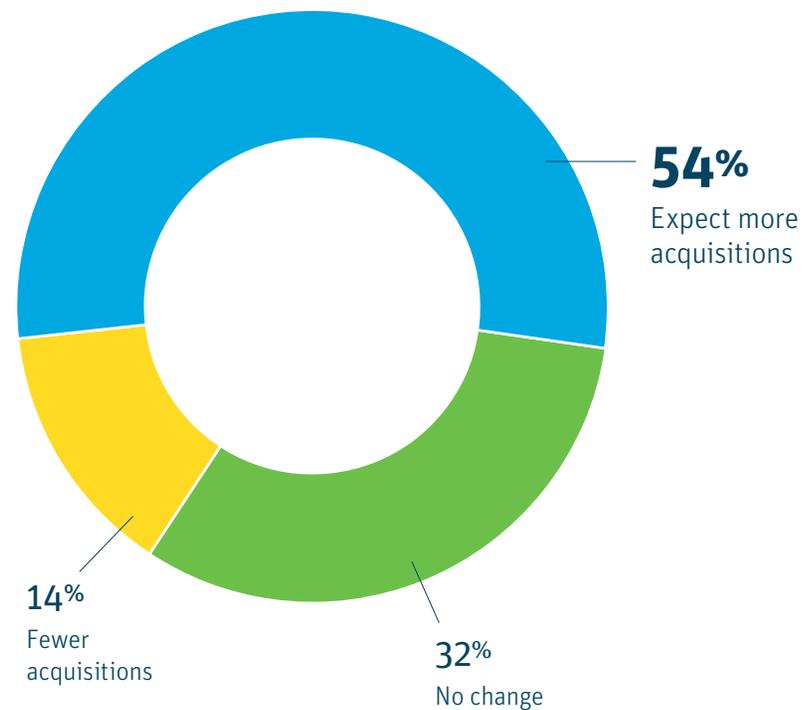
Which of the following best describes the realistic long-term goal for your company?



Most Chinese startups say M&A opportunities will increase

More than half (54%) of startups believe there will be more acquisitions in 2017 compared with 2016.

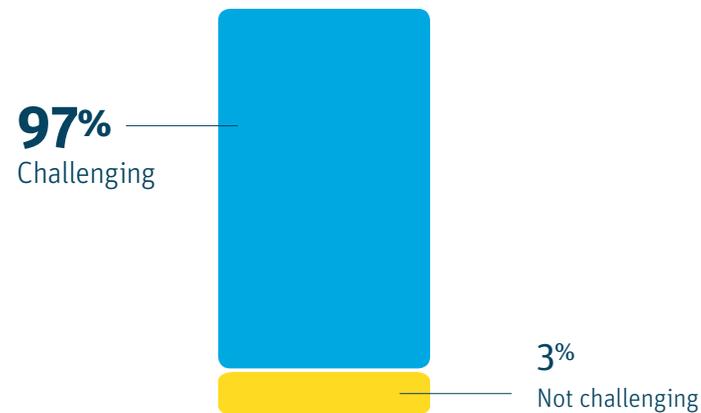
How do you think the M&A market will change in 2017?



Startups say finding workers with the right skills is difficult

Nearly all Chinese startups, like their peers in the U.S. and U.K., say it is challenging to hire talent with the skills needed to grow their business. Chinese entrepreneurs say lack of access to talent inhibits expansion in new markets and product development.

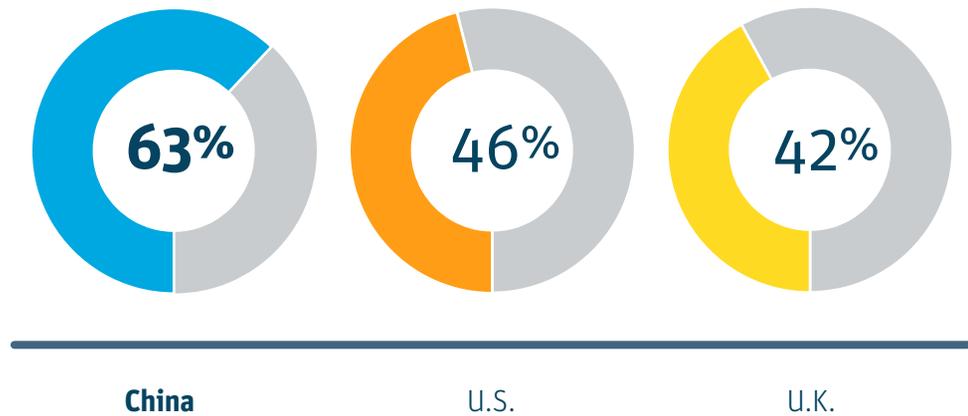
How challenging is it to find workers with the skills necessary to grow your business?



A higher percentage of Chinese startups has women in leadership than U.S. and U.K.

For the second year in a row, Chinese startups report having a higher percentage of women in senior-level positions than U.S. and U.K. startups.

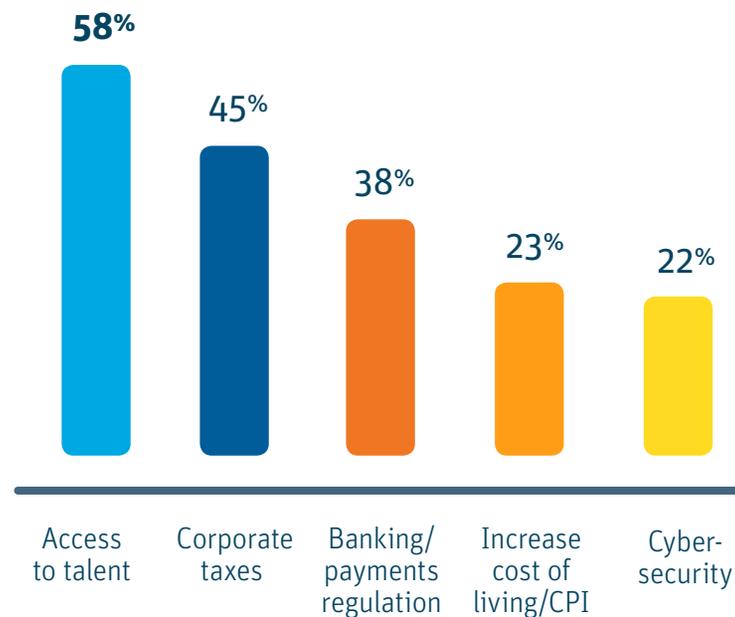
Startups with women in executive positions:



Access to talent ranks as top policy concern of Chinese startups

58% of startups say access to talent is the public policy issue that has the most impact on companies like theirs, followed by corporate taxes at 45%.

What are the most important public policy issues affecting companies like yours?



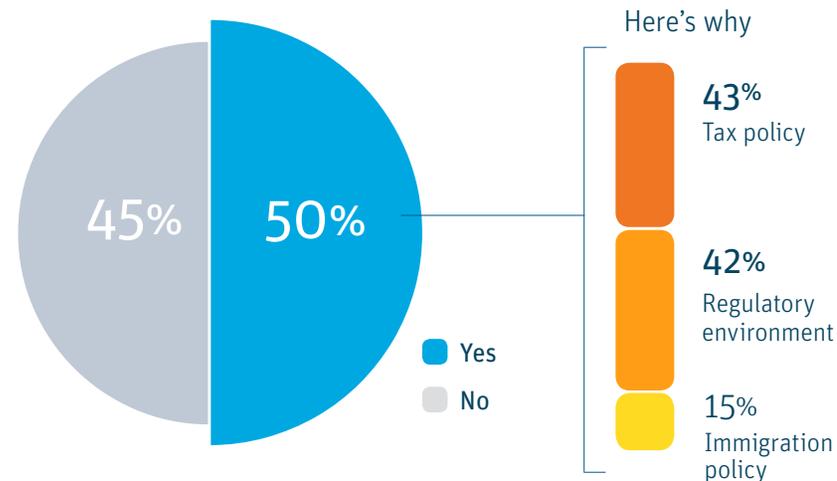
Note: Respondents were given the opportunity to select multiple responses.

Chinese laws and regulations prompt startups to expand abroad

50% of startups say laws and regulations have affected their decision to move non-sales jobs and operations out of China. Tax policy and the regulatory environment are the leading factors cited by Chinese startups when asked what has materially affected that decision.

Have laws and regulations of China materially affected your company's decision to locate facilities or hire employees for non-sales activities outside China?

Hired or moved operations offshore





Silicon Valley Bank

Make next happen now.



About Silicon Valley Bank

For more than 30 years, Silicon Valley Bank (SVB) has helped innovative companies and their investors move bold ideas forward, fast. SVB provides targeted financial services and expertise through its offices in innovation centers around the world. With commercial, international and private banking services, SVB helps address the unique needs of innovators.

Learn more at svb.com/startup-outlook-report

About SPD Silicon Valley Bank

Headquartered in Shanghai, China, SPD Silicon Valley Bank (SSVB) is a joint venture between Shanghai Pudong Development Bank Co., Ltd. (“SPDB” SSE: 600000) and Silicon Valley Bank (“SVB” NASDAQ: SIVB (SVB Financial Group)). SSVB is the first technology and innovation bank in China serving as an independent legal entity. It is also the first Sino-US joint venture bank. SSVB’s mission is to “increase our clients’ probability of success” by providing unique financial products and services to the technology and innovation industry and redefining the banking experience for innovation companies of all sizes. SSVB aims to create the “Innovation Ecosystem” and strives to be the most sought-after bank for China’s innovation economy. Target clients include those in the hardware, software, Internet, mobile, consumer technology, life science, biotechnology and clean-tech sectors.

A third-party firm, Peerless Insights Survey, conducted the Startup Outlook 2017 survey online on Silicon Valley Bank’s behalf from November 14, 2016 to January 3, 2017.

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