



Silicon Valley Bank

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CHINA STARTUP OUTLOOK 2016

Chinese startup executives seek venture capital, plan for IPOs



Letter from SVB's CEO

We are pleased to present Startup Outlook 2016, Silicon Valley Bank's annual report on the health of the innovation economy. For each of the past seven years, we have taken a survey of companies to learn what entrepreneurs are thinking about business conditions, access to capital and talent, and the policy issues that help or hinder their success.

This year, we are drawing on responses from more than 900 technology and life science executives, and for the first time we expanded the survey to China. SVB conducted the survey portion of the report in December 2015, just as significant market volatility was taking hold. They say timing is everything, and in the past several weeks it has become apparent that entrepreneurs' perceptions at the end of 2015 had already shifted by mid-January.

The public conversation about 2016 is filled with doom and gloom about the innovation sector, with exaggerated predictions of the death of unicorns, a funding crisis and lackluster results all around.

At Silicon Valley Bank, we see it differently. We think it's a healthy recalibration but it doesn't mean it's going to be easy for entrepreneurs.

Valuations were high, now they are coming back to earth. Growth at any cost is being replaced with a focus on profitability. Companies were priced for perfection, and we may see some stumble or even go out of business.

Entrepreneurs we speak with, while remaining naturally optimistic, are adopting a new attitude: Be prepared. They are pulling the reins tighter on operations and retooling strategies. They are anticipating a more balanced funding environment. They are considering M&A an even more viable exit strategy. In 2016, access to capital will get harder. But it's not supposed to be easy, and there will be opportunities for good companies with good ideas. That's healthy.

Thank you for taking a look at this report. 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. Entrepreneurs are strong-willed men and women who want to have a positive impact on the world. That's never going to change.



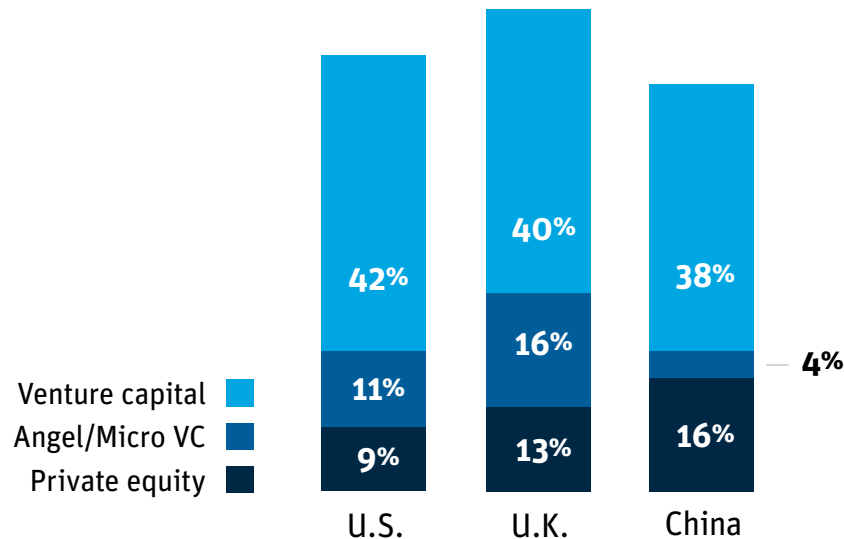
Greg Becker

President and CEO, Silicon Valley Bank

Chinese innovators are seeking venture capital to prime growth and say their long-term goal is to go public. They are also navigating challenges similar to those of other startups around the world. Entrepreneurs expect continued difficulty raising funds and finding the talent they need to move their businesses forward.

Venture capital is the top funding source for Chinese startups

As the Chinese government takes steps to move from an industrial economy to an innovation economy, startups plan to tap venture capital as their top funding source. Thirty-eight percent of Chinese startups expect their next source of funding to come from venture capital. Numbers are similarly high in other parts of the world: 42 percent of U.S. startups and 40 percent of U.K. startups expect to use venture capital.



What do you expect your company's next source of funding will be?

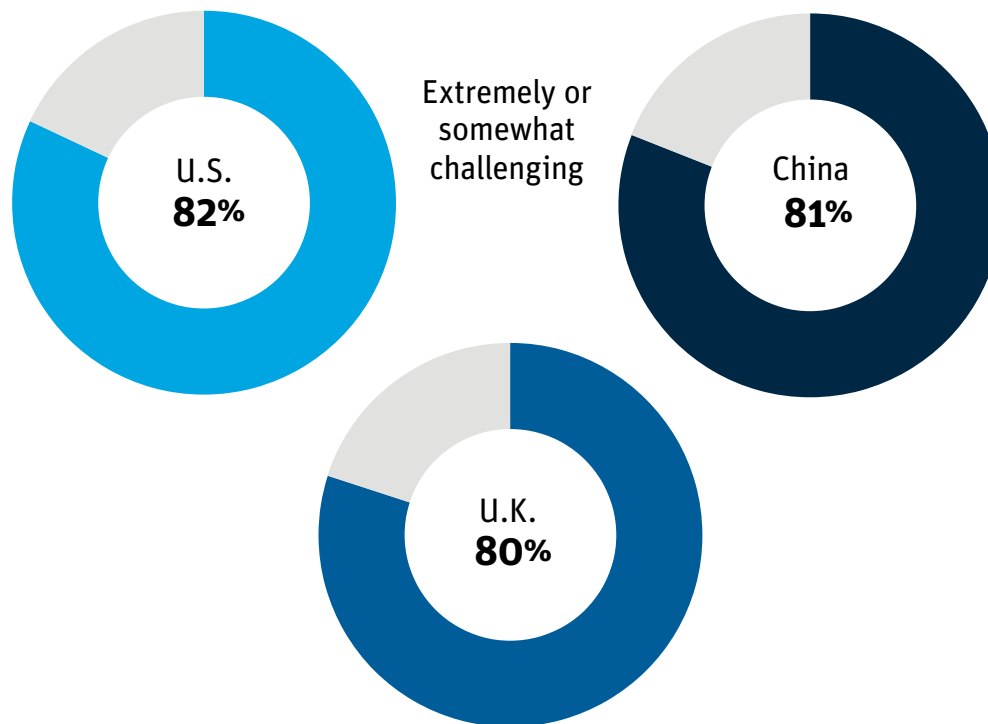
Of the Chinese executives surveyed, 38% said they expect venture capital will be their next source of funding.

Fundraising is difficult regardless of geography

Fundraising is hard worldwide. Among the Chinese startups surveyed, 81 percent said the fundraising environment is extremely or somewhat challenging, compared with 82 percent in the U.S. and 80 percent in the U.K.

What is your view of the current fundraising environment?

At least 80% of Chinese, U.S. and U.K. startups surveyed believed fundraising is extremely or somewhat challenging.

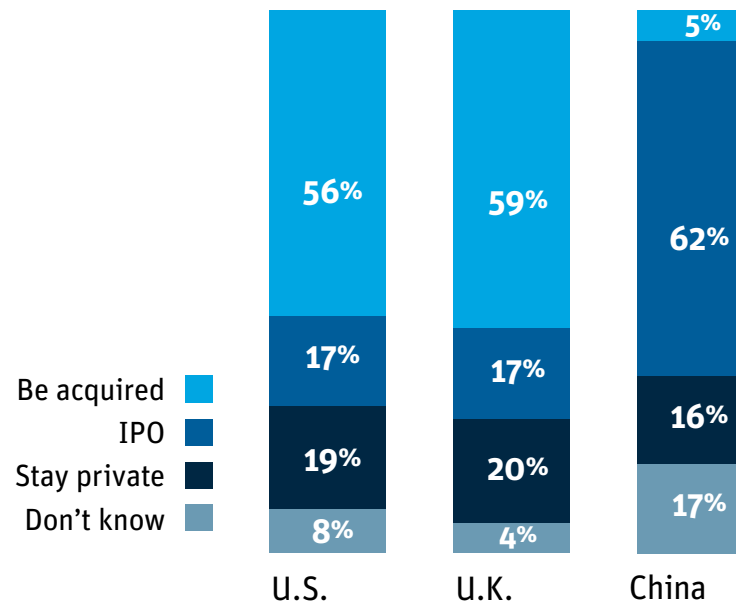


Chinese startups are aiming for IPOs

Of the Chinese startups surveyed, 62 percent said their long-term exit strategy is an IPO, while 5 percent planned to be acquired. Startups in the U.S. and U.K. have a different end goal. Some 56 percent of U.S. startups and 59 percent of U.K. startups said they are setting a course toward acquisition.

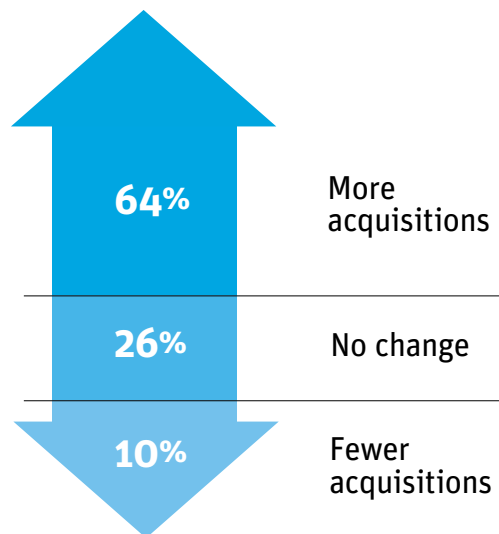
What is the realistic long-term goal for your company?

Of the Chinese startups surveyed, 62% said their long-term exit strategy is an IPO, compared with 17% in the U.S. and U.K.



China expects the strong M&A market to continue

While an IPO may be their long-term goal, Chinese startups are looking for M&A opportunities inside and outside the country as a way to access technology know-how and new markets. Among the Chinese startups surveyed, 90 percent believed there will be as many or more acquisitions than there were last year.

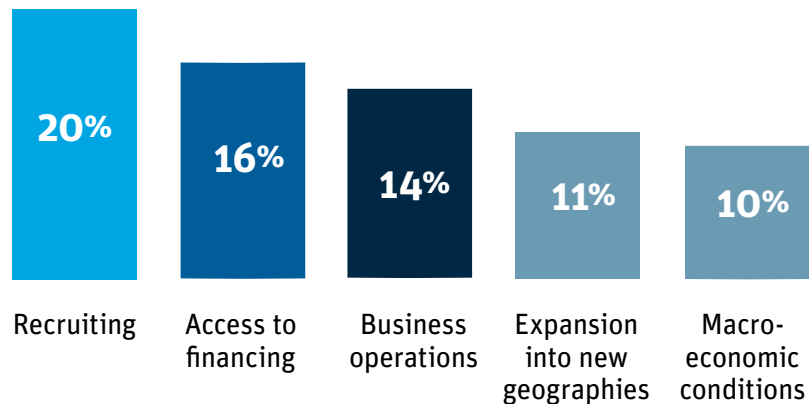


How do you think the M&A market will change over the next 12 months?

Among the innovators surveyed, 90% said that the next 12 months will deliver as many or more mergers and acquisitions than 2015.

Recruiting and access to financing challenge startups around the world

Similar to startups in the U.S. and the U.K., 20 percent of Chinese startups said recruiting is their biggest challenge, and 16 percent said it's access to financing.



What is the biggest challenge your company faces?

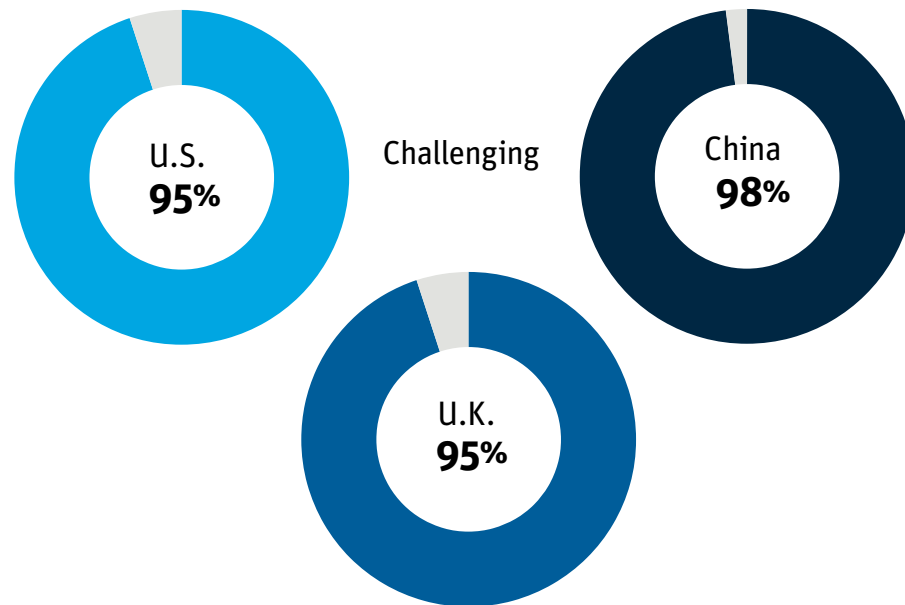
While 20% of Chinese respondents said recruiting is their biggest challenge, 16% said it's access to financing.

Startups struggle to fill jobs with the right talent

Finding the right talent is difficult no matter where entrepreneurs live. Among the Chinese executives surveyed, 98 percent said it is challenging to hire. In the U.S. and U.K., 95 percent of entrepreneurs said it's challenging to find workers with the necessary skills.

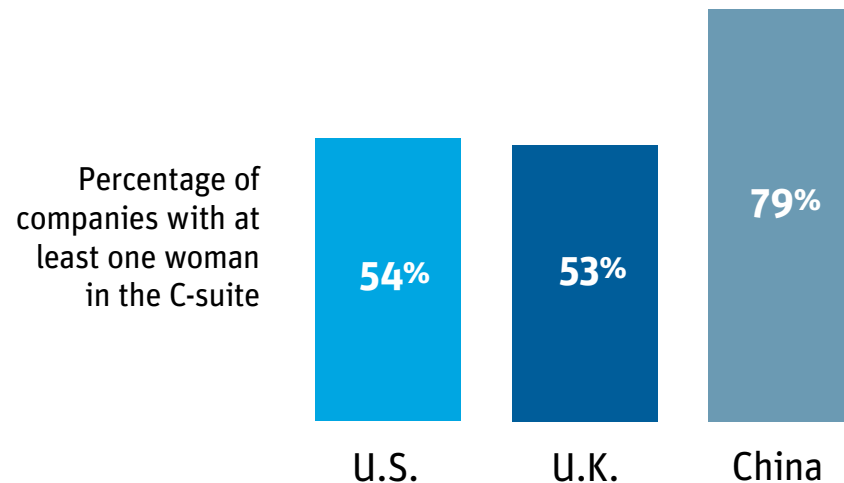
How challenging is it to find workers with the skills necessary to grow your business?

Across China, the U.S. and the U.K., at least 95% of the startups surveyed said finding workers with the right skills is a challenge.



Chinese startups have more women in leadership

Chinese startups outpace their U.S. and U.K. counterparts when it comes to the number of women in leadership positions. Among the startups surveyed, 79 percent have women in C-level roles, compared with 54 percent of U.S. startups and 53 percent of U.K. startups.



How many women are in leadership positions within your company?

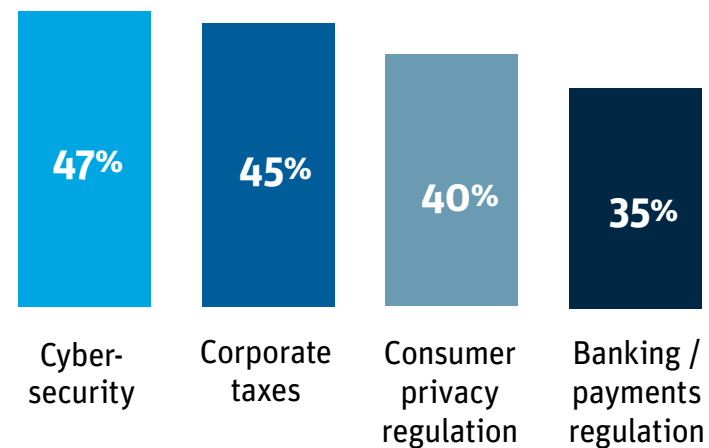
Among Chinese startups, 79% have women in the C-suite, compared with 54% of U.S. startups and 53% of U.K. startups.

Cybersecurity is the No. 1 policy concern for Chinese startups

Among the Chinese startups surveyed, 47 percent said cybersecurity regulation is the policy issue with the most impact on companies like theirs. Corporate taxes, consumer privacy regulations and banking regulation are also key concerns.

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

Nearly half of Chinese startups said cybersecurity — data security and data breach regulation — is the most important policy issue affecting companies like theirs, followed by corporate taxes.



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

About the Startup Outlook 2016 survey

Our seventh 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 more than 900 responses, covering such topics as how innovation companies are faring, hiring projections and how government policies are affecting business growth.

Total respondents
929

Industry sector



68%
Technology
(net)



15%
Healthcare
(net)

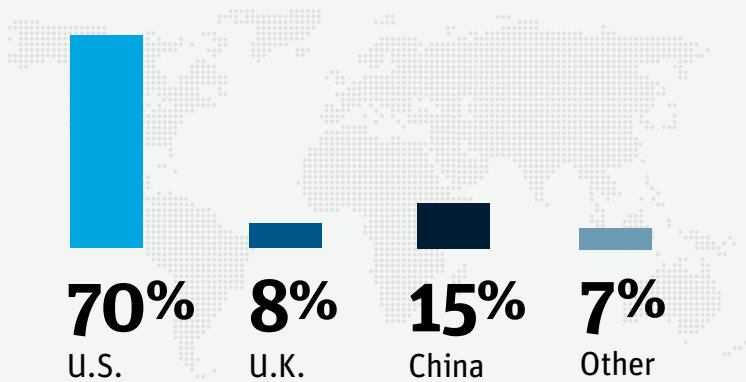
17%
Other

Profitable

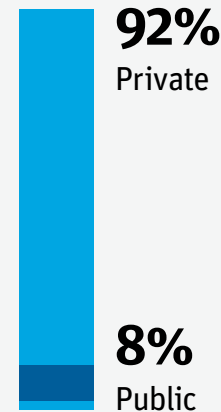


45% Yes
55% No

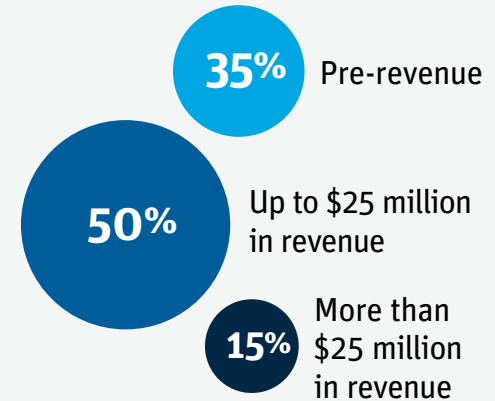
Primary place of business



Ownership



Revenue stage





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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. Silicon Valley Bank is the California bank subsidiary of SVB Financial Group (Nasdaq: SIVB). With commercial, international and private banking services, SVB helps address the unique needs of innovators. Forbes named SVB one of America's best banks (2015) and one of America's best-managed companies (2014).

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A third-party firm, Peerless Insights Survey, conducted the Innovation Economy Outlook 2016 survey online on Silicon Valley Bank's behalf from November 12, 2015, to January 6, 2016.

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