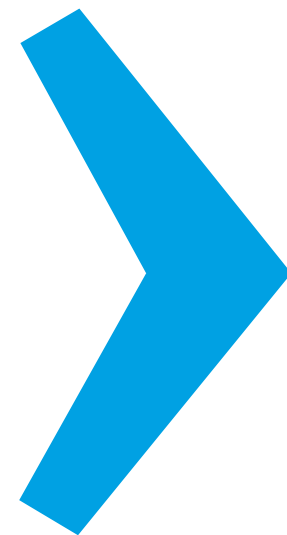


svb >

Silicon Valley Bank

China Startup Outlook 2018

Key insights from the Silicon Valley Bank
Startup Outlook Survey



Startups enter 2018 with confidence

*For the ninth year, Silicon Valley Bank is pleased to share the thoughts of more than 1,000 startup companies from innovation hubs around the world. In our **Startup Outlook 2018** report, we monitor the perspectives of technology and healthcare founders and executives who are part of the expanding startup ecosystem.*

We ask about business conditions, access to the funding and talent necessary to grow their companies and the public policy issues that affect them most. Their outlook matters because the innovation economy is a high-powered engine, driving job creation and opportunity, creating wealth and stability and inventing what comes next.

The majority of survey respondents are based in the United States, the United Kingdom and China, but many do business across borders. Despite political and economic volatility, the good news is that large numbers are signaling confidence and optimism for their businesses in 2018. In fact, 30 percent of startups globally believe that 2018 will be much better than 2017, and very few believe that it will be worse. Chinese entrepreneurs tend to be more optimistic about business conditions overall, and this year is no exception.

Startups globally are forecasting a strong M&A environment. The percentage of US startups that say they plan to hire is at a five-year high. US and UK startups believe that raising capital is getting easier. That is not the case in China, however. New sources of funding, such as initial coin offerings (ICOs), are available to the innovation economy, yet startups globally still expect to rely largely on the well-funded venture capital industry.

There are challenges of course, including difficulty finding the talent needed to grow their businesses, which is the No. 1 policy issue reported by startups for the fifth straight year. In comments collected from respondents in the US and

the UK, we heard this common refrain: Innovation succeeds when you have the ability to attract the world's best and brightest. Overall, more than 90 percent of startups globally again report that hiring is a challenge. Seeking growth and opportunity, nearly 30 percent of US and UK startups are locating critical divisions of their operations offshore due to immigration policy, tax policy or the regulatory environment.

Despite significant growth among US startups reporting that they have programs to increase the number of women in leadership positions, the percentage of US startups with female executives and board members remains low, and little has changed.

We live in dynamic and fast-changing times. The innovation economy now contributes to most of the key measures of overall economic health and is the major driver of job growth. For those reasons, we are more committed than ever to promoting innovation and the companies that are working to invent the future. Thank you for your interest in this report. Let us know what you think.



Greg Becker
CEO, Silicon Valley Bank

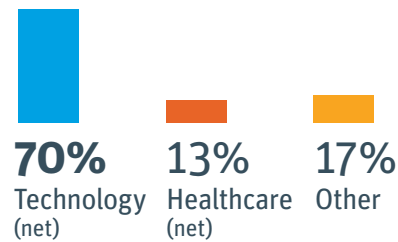
About the Startup Outlook survey

Our annual survey of technology and healthcare startup executives offers insights into what is on the minds of today's technology and healthcare leaders. For this year's survey, we received responses from startup executives in innovation hubs around the world.

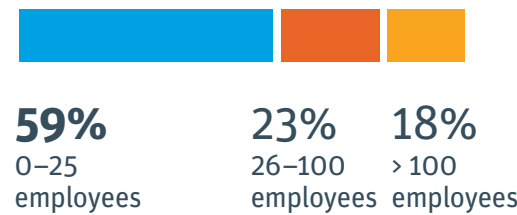
Total respondents

1,045

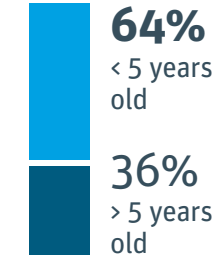
Industry sector



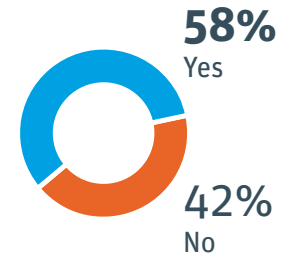
Size



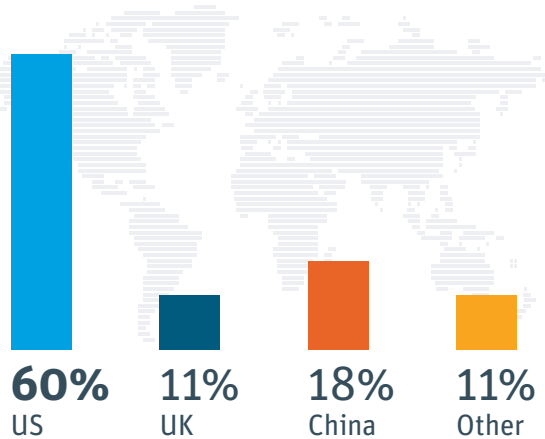
Company age



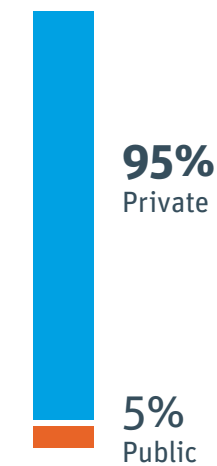
Profitable



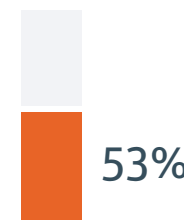
Primary place of business



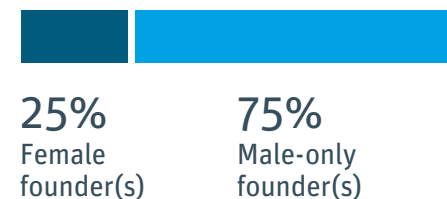
Ownership



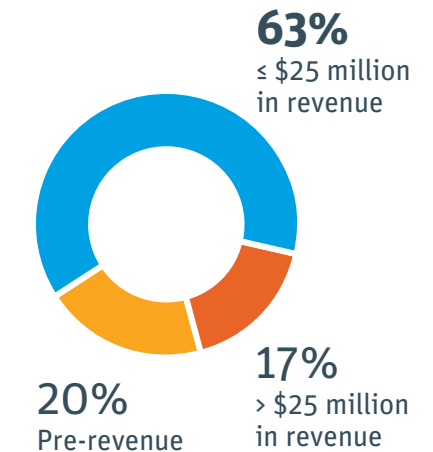
US companies with at least one founder born outside the United States



Founder gender



Revenue stage

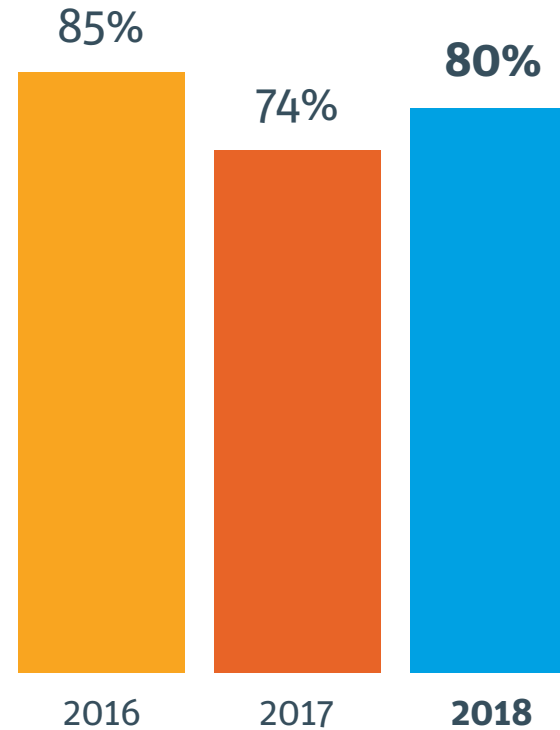


Chinese startups are optimistic about 2018

Eight in 10 Chinese startups say business conditions in 2018 will be better than in 2017. This reflects the optimism in the country's economic prospects and a growing demand by mobile-first consumers for goods and services.

Describe your outlook on business conditions for your company this year compared with last year.

Much better or somewhat better



Fundraising remains difficult

More Chinese startups (88 percent) say the fundraising environment is extremely challenging or somewhat challenging compared with peers in the US and the UK.

What is your view of the current fundraising environment?

Extremely challenging or somewhat challenging

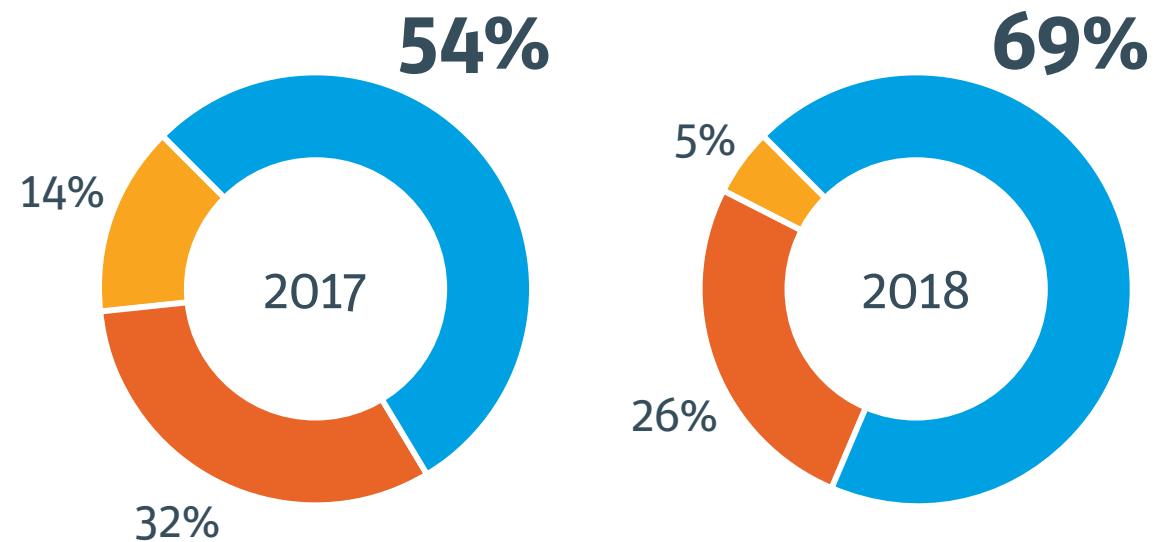


Most startups say M&A will increase

More than two-thirds (69 percent) of Chinese startups believe that acquisitions will increase in 2018. The percentage is up significantly from a year ago. In September 2017, the China Securities Regulatory Commission (CSRC) revised rules to encourage more domestic M&A activity, and large, successful tech companies such as Tencent and Alibaba are making acquisitions. Additionally, large companies themselves have merged to dominate certain sectors.

How do you think the M&A market will change in 2018?

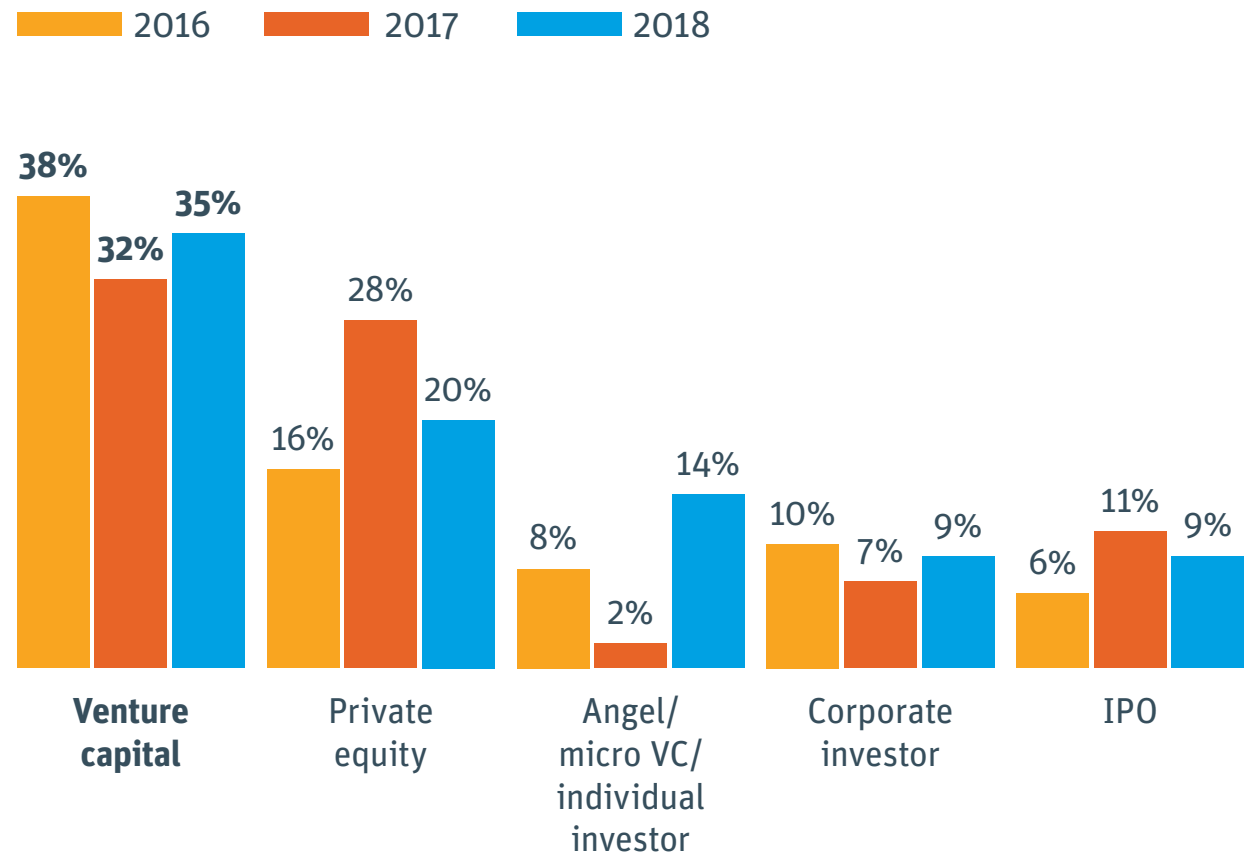
↑ Expect more acquisitions ● No change ↓ Expect fewer acquisitions



VC and private equity are top sources of capital

Looking ahead, 55 percent of Chinese startups expect their next source of funding to come from either venture capital or private equity. Those saying angel/micro VC/individual sources increased substantially in the past year, from 2 percent to 14 percent, signaling that companies hope to raise money earlier in their life stage.

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

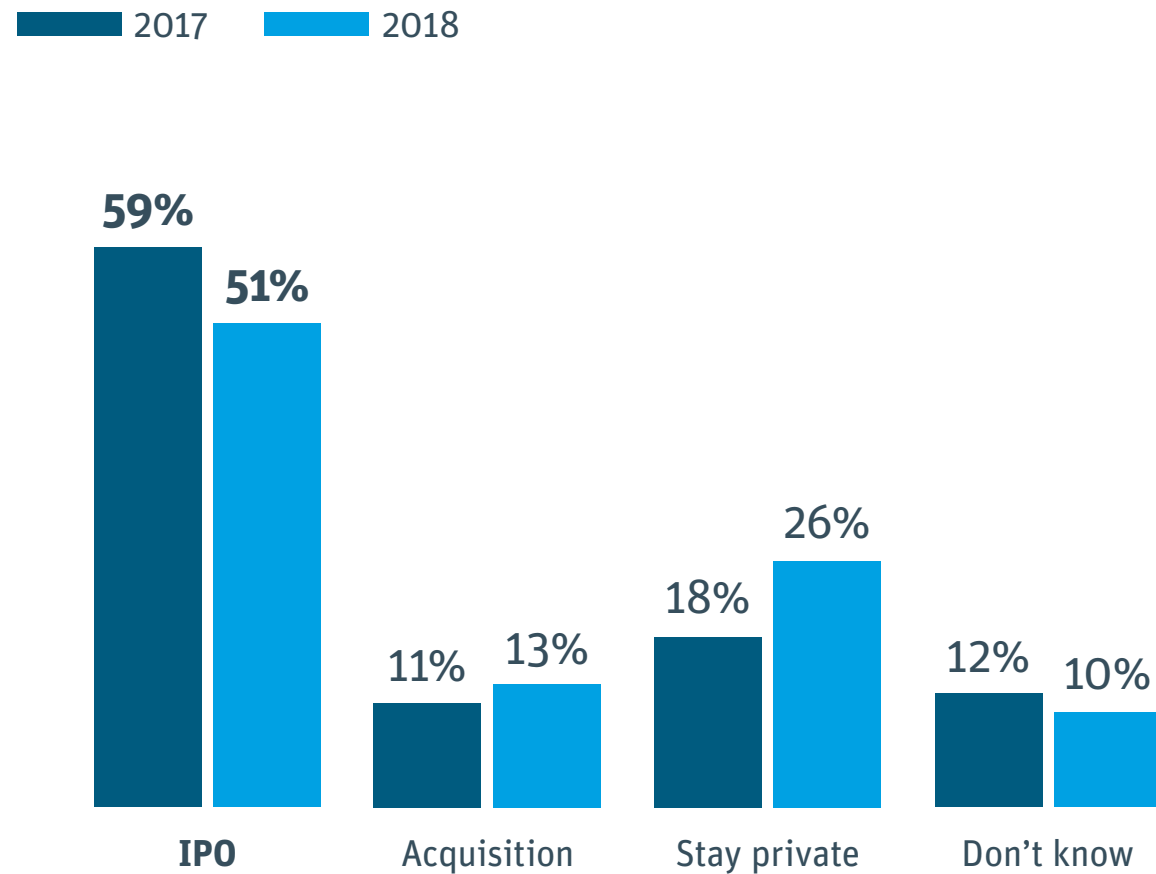


Note: Asked of private companies that successfully raised capital. Other sources of funding include bank debt, organic growth, merger, government grants and crowdfunding and represented 22% in 2016, 20% in 2017 and 13% in 2018.

Fewer startups say IPO is their long-term goal

Although IPOs hit a record high in 2017, looking ahead fewer entrepreneurs expect to go public and more expect to stay private.

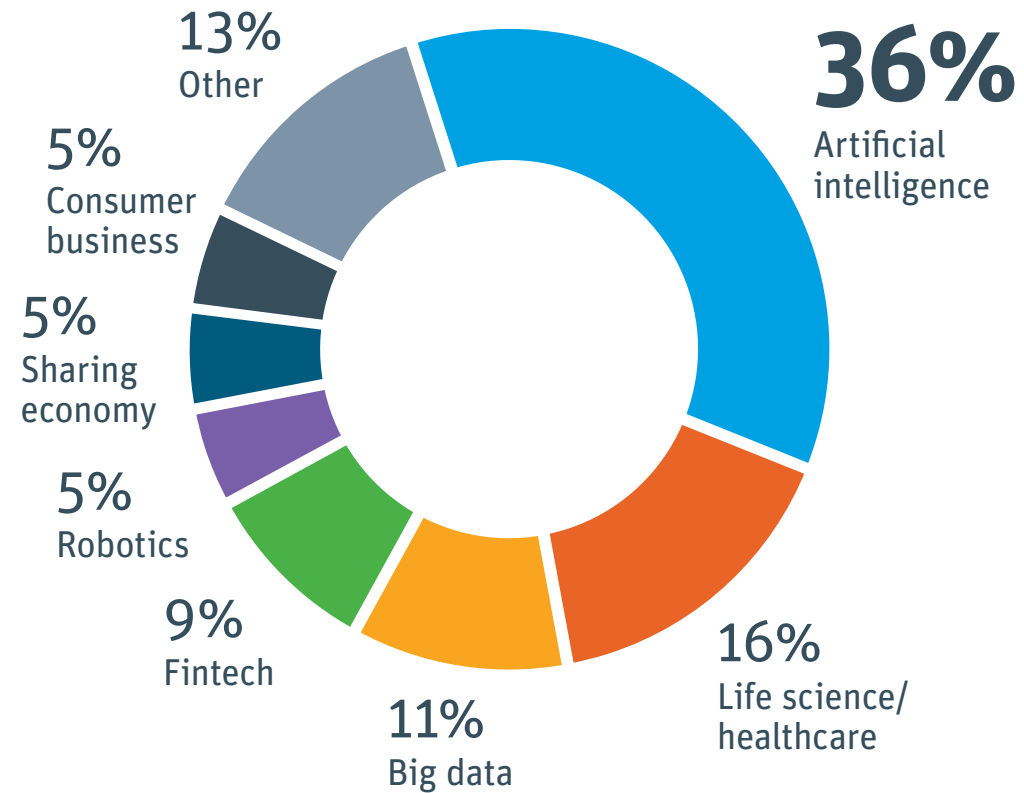
What is the realistic long-term goal for your company?



The most promising sector is AI

Artificial intelligence and life science/healthcare are the top two areas that Chinese entrepreneurs say have the most promise.

Which area will be the most promising in the innovation economy in 2018?

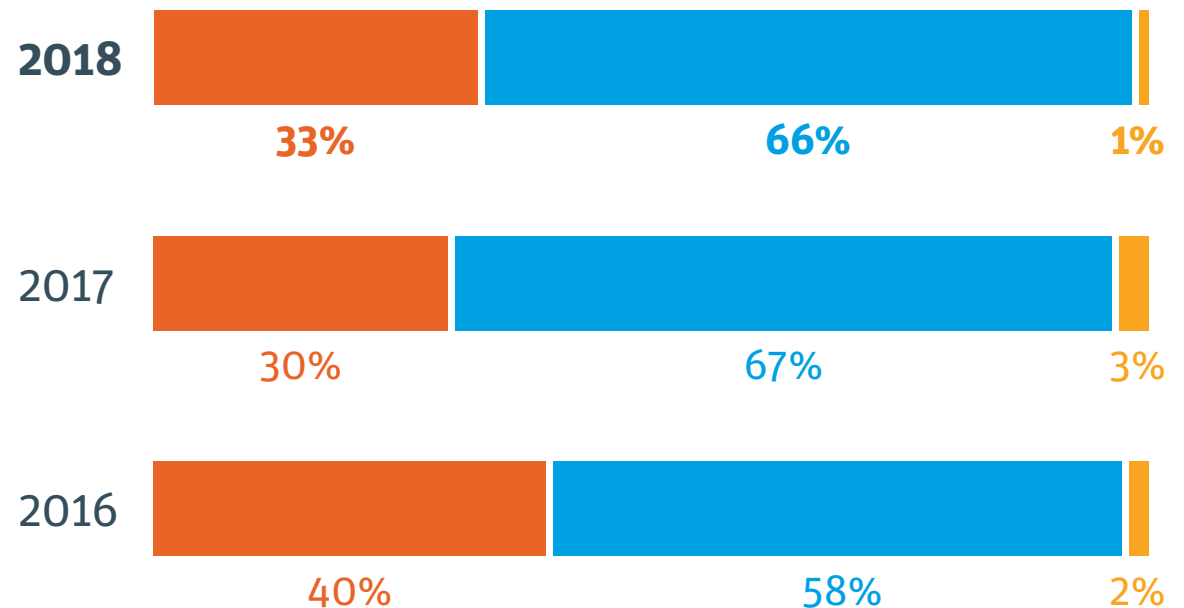


Finding tech talent is challenging

Reflecting China's expanding tech ecosystem, Chinese startups, like their US and UK peers, say it is challenging to hire talent with the skills needed to grow their businesses.

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

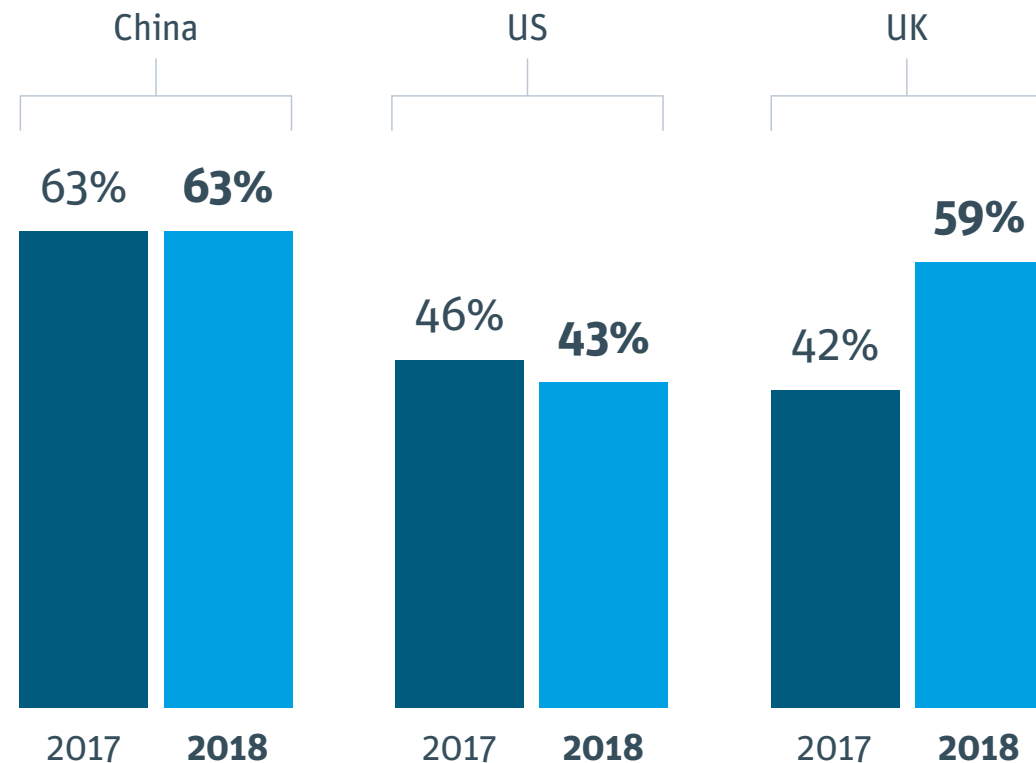
Extremely challenging Somewhat challenging Not challenging



The majority of startups have women in leadership

About two-thirds of Chinese startups (63 percent) have at least one woman in a senior role, a considerably higher percentage than in the US. Half of Chinese startups say they have programs in place to increase the number of women in leadership roles.

Percentage of startups with women in a senior role:



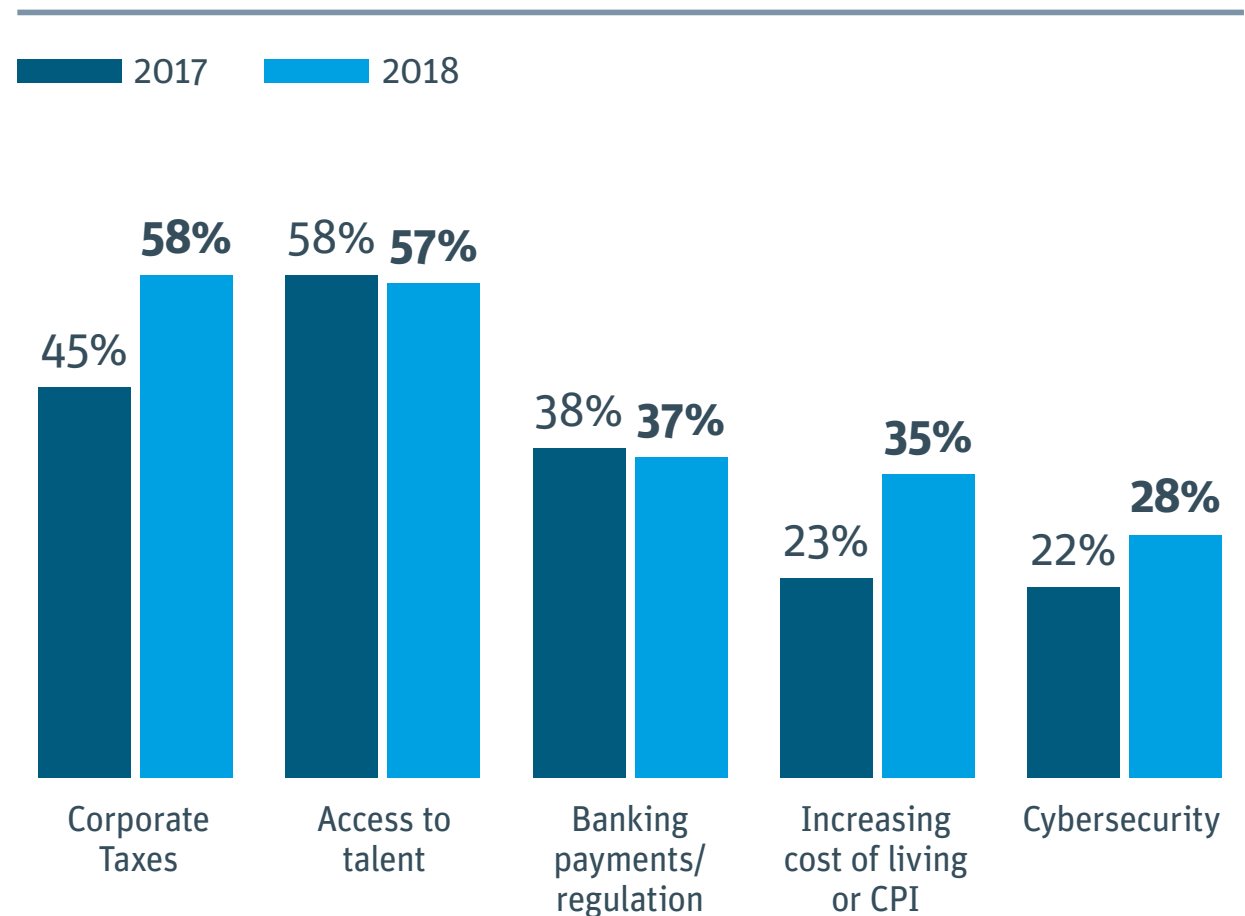
Taxes and access to talent are top policy concerns

Corporate taxes and access to talent are the top two public policy issues that Chinese startups say have the most impact on companies like theirs.

“Reducing corporate taxes would help R&D-intensive companies spend less on operations and focus more on research and development.”

Biotechnology executive, China

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



Note: Respondents could choose up to three responses.

Startups plan to expand offshore

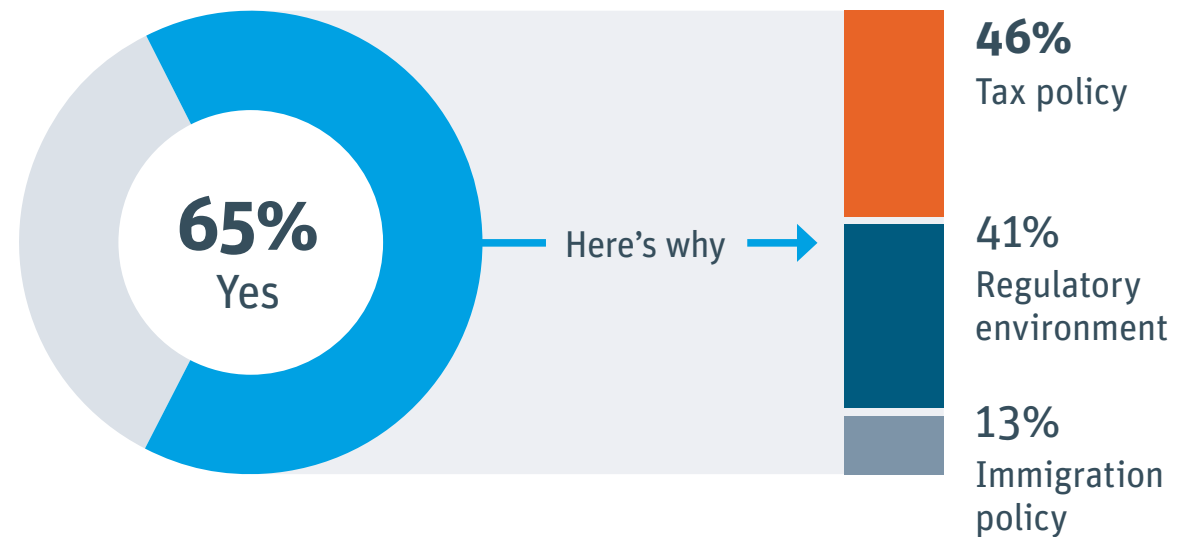
Seeking to expand their opportunities and access to resources, two in three Chinese startups say they are locating nonsales jobs and operations outside China. In part, local laws and regulations have affected these decisions. Respondents cite tax policy and the regulatory environment as leading factors.

“We need more flexible tax policies to reduce operations costs and simplify the process for technology, media and telecom (TMT) companies like us.”

TMT executive, Beijing

Have laws and regulations in China materially affected your company’s decision to locate facilities or hire nonsales employees outside China?

Expanding operations offshore





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