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Coronavirus deals latest blow to China's struggling VC landscape

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China's once-booming venture capital scene is grappling with its latest setback as the coronavirus outbreak derails fundraising for companies in the region.

In the past month and a half, venture capital activity in China—both in terms of the number of deals and the money raised by startups—has fallen more than 60% compared with the same period last year, according to PitchBook data.

"It's very difficult to be able to get things done," said Drew Bernstein, co-managing partner at Marcum BP, an accounting firm that advises Chinese companies. "It would be hard for me to imagine a business in China that's not affected by this."

From the start of the year through Feb. 12, venture capital activity in China fell from 340 to 144 deals, and the capital raised declined from \$4.3 billion to \$1.4 billion, when compared to the same period last year. The drop-off was particularly pronounced following the Lunar New Year in late January.

Even before the outbreak, the venture landscape in China suffered from waning confidence in the domestic startup scene. After years of red-hot funding activity, investors were shaken by the poor post-IPO performance of several tech companies, including electric car maker NIO and smartphone manufacturer Xiaomi.

"The valuations of a lot of companies got cut" after going public, said Ted Chan, a data analyst at PitchBook. "Investors were seeing that happen and got more careful about

investing."

Past outbreaks, such as SARS in 2003 and the 2016 Zika virus, both weighed on public and private investment activity. In the case of Zika, the amount raised through venture deals in South and Central America declined by a third, according to PitchBook data.

Chinese businesses are facing a cash crisis amid a broad economic slowdown, and the Chinese central bank has cut rates and injected hundreds of billions of dollars worth of liquidity into markets.

"We are in the age of unicorn companies," said Bernstein. "Most of these companies basically live off the concept of growth and innovation ... so there's an incredible need for money."

If the coronavirus leads to a backup of available capital, the venture ecosystem could see a surge in activity later in the year, Chan said.

As quarantines and travel restrictions limit movement, some firms are getting creative to make deals happen. Sequoia Capital China is reportedly taking its "demo day" online, encouraging a group of 30 startups to pitch 50 investors virtually, in lieu of canceling the event. Concerns over the virus this week led to the cancellation of Mobile World Congress in Barcelona, which has attracted more than 100,000 people in past years.

Correction: An earlier version of this article incorrectly reported that VC activity fell from 381 to 137 deals, and the capital raised declined from \$4.05 billion to \$1.37 billion. The article was updated on Feb. 20 after a revised analysis showed that VC activity fell from 340 to 144 deals, and the capital raised went from \$4.3 billion to \$1.4 billion, when compared to the same period last year.