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Attention, VC-backed Chinese Startups, U.S. Exchanges Want You

China DCM IPOs Nasdaq Renren Sequoia Capital SinoTech Energy Ltd. Youku.com

China-based, VC-backed companies dominated the IPO landscape in 2010 and it seems as if they're ready to continue their pace this year. Last November, six venture-backed companies in China went public, raising more than \$1 billion in proceeds. Last October, seven from Hong Kong or China launched an IPO, raising more than \$1.2 billion.

Last year, Chinese IPOs in the United States hit a record high of 35. Based on the number of offerings, Chinese issuers accounted for 23% of U.S. market IPO activity, up from 1% the year before, according to Thomson Reuters (publisher of this blog).

I recently asked David Chao, co-founder and general partner of DCM, about the trend and whether it would continue now. DCM is an investor in newly public BitAuto.com and Dangdang. Chao's response: "Yes. We're going to see a whole lot more of them."

This will likely include another DCM portfolio company; Renren, known as the "Facebook of China" and which has hired an investment banker to underwrite its IPO, slated for the first half of this year, according to a recent Reuters report.

U.S. investors seem to have an insatiable appetite for new Chinese tech stocks. Take for example online video company Youku.com, which raised funding from Sutter Hill Ventures and other backers and which is sometimes called the "YouTube of China." The Beijing company went IPO on Dec. 8 at \$12.80 a share and saw its price rise 161% on its first day of trading, making its IPO the best first-day return for company in five years.

It should come as no surprise, then, that Nasdaq has about a dozen employees combing China in search of new businesses to list. And it's the reason why Bob McCooey, who became head of listings for Nasdaq two years ago, has his business cards printed in both English and Mandarin and why one of the first things he did was order more lapel pins with a crossed American and Chinese flag. He realized China would increasingly become a source of U.S. listings.

What remains to be seen is how long aftermarket enthusiasm for China IPOs will continue. Sequoia Capital-backed SinoTech Energy Ltd., for instance, saw its share price drop a quarter of its value in early December 2010 when the oilfield services company reported a net loss for the fourth quarter of \$6.5 million, compared to a profit of \$3.2 million, a year prior. Nevertheless, in its forecast, SinoTech expects sales to reach between \$90 million and \$95 million in this year, up from \$45.3 million in 2010.

A few years ago, Baidu ("the Google of China") and Alibaba ("the eBay of China") made an enormous splash on the stock market. Now, more VC-backed startups are following in their footsteps. As such, no letup appears to be in sight for Chinese startups seeking an IPO, especially for those with an Internet scheme.

In other words, expect this story to continue in 2011.