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Redpoint Ventures Geoff Yang On Changes In China's VC Market Over Past Decade

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Despite what has been said and written about the capital “winter” in China, there’s enough evidence to show that China is still an investment hotspot globally. With over 3,000 funds managing more than 1 trillion RMB, the country is world’s second largest destination for venture capital, next only to the United States.

As one of the first foreign venture capital firms seeing the potential of this market, Redpoint Venture set up its China team in 2005 and has invested in over 35 Chinese companies, including Qihoo 360, iDreamSky, Yixia, and APUS. The firm adopted a more aggressive strategy despite slowing market growth with the launch of a dedicated 180 million USD fund this October to back innovations coming from China.

At the Integral Conversation hosted by Esquel Group, we had the pleasure of speaking with Geoff Yang, founding partner of Redpoint Ventures, on a range of topics from his insights on China’s VC market, his investment philosophy, and the traits of successful investors and entrepreneurs.

Geoff co-founded Redpoint Ventures in 1999 and has backed trailblazing consumer and communications platform companies from their founding including Arista, Ask.com, Bluefin, Calix, Efficient Frontier, Foundry Networks, Excite, Juniper Networks, MySpace, and TiVo.

gyRedpoint Ventures has been in China for more than 10 years, what do you think are the biggest changes in China’s venture world?

The biggest change is probably how good the entrepreneurs are. Over the last 11 years, we have experienced three generations of entrepreneurs, which is extraordinarily fast. When we first came to China it was “copy-to-China”, local companies basically looking at what works in the U.S. and do a Chinese version. Today some of the things in the U.S. are copied from China. It’s about things that really best suited and almost unique here.

There are very few exits when we first came and almost all of them were U.S. listed exits. Now, there’s lots of U.S.-listed exits but also China-listed exits as well as M&A. One decade ago, it was all about whether a company we developed could be one of the few U.S.-listed Chinese companies. Now the number of exits is quite large. If you look at the top-15 valuable technology companies on the NASDAQ, my guess is six or seven of them are Chinese companies.

Like you said, U.S. market is the top option for Chinese companies to get listed. But now China becomes their No.1 choice and a series of U.S. listed tech stocks choose to seek a relisting the in domestic market. Two of Redpoint Venture’s portfolio companies: iDreamsky and Qihoo 360 chose this path. Why do you think companies are doing this?

There are a couple of reasons for this trend. Firstly, certain industries are almost deemed strategic, for certain businesses, they might not access the government businesses or certain company businesses because they are an U.S. listed company. The other is because there’s an arbitrage value of what the company was worth as a U.S-listed company versus what it could be worth on the China's stock exchange. Some companies explained it as we are not understood in the U.S. market. But I think the main reason was the arbitrage value in the two markets. Entrepreneurs felt their market value is under appreciated in the U.S. and more properly appreciated in China.

Redpoint Ventures announced a new fund dedicated to China's market this October. What's your plan for the funding and what possible verticals are you aiming for?

We have invested in Chinese companies out of our core fund and China represents only 15% of the portfolio in the past. We decided to raise a separate China fund because the number of opportunities in China has skyrocketed in the past few years and there are more opportunities in China than we had capacity for.

I think the opportunities we will go after are still the same ones we have been looking at. Stage wise, it will be early-stage series. In terms of industries, it will be largely consumer, but enterprise is becoming an increasingly important part of the portfolio.

The fund comes at a time when Chinese startups grapple with the so-called "capital winter" or funding shortage. What's your opinion on this issue? Is China's VC market going to warm up in the near future?

I think there's more normalization. For the attractive deals, we still see a very competitive market and there's still lot of people who are interested in putting money behind great entrepreneurs in various interesting spaces.

A few years ago, China was very hot and a lot of LPs were putting money in China funds. I think everybody is chasing the potential of China and now that things are normalized, people have pulled back some because they are a little bit concerned with the growth rate of China; some funds didn't get great results. But we still think it's a very attractive market.

What do you see are the most important characteristics in a successful entrepreneur or startup team?

The biggest is definitely being able to see patterns where other people see chaos. The opportunity comes when nobody know which way to go and one or two people see where the world is going and they move forward in that direction. The second is the ability to articulate to others. If you can't, you can't convince others to come joining you.

The third is to be able to adjust on the fly and not to give up. Along every entrepreneurial journey, there's time when you think you should give up. However, the best entrepreneurs are the ones that can wheel a company into existence. Last is probably the ability to hire people who are smarter than they are and not compromise on hires. It's very difficult to hire above you, but great entrepreneurs can hire the best people and they are not afraid to hire people that are even smarter than they are.

What have you learned from your past investments that weren't successful?

One of the things I have learned is that you could be right but timing may be wrong. The second is management makes all the difference in the world. You can never act too early on making management changes. The last is that there are outright failures, stuff that just doesn't work, but it's rarely the technology doesn't work; it's that the market wasn't ready and poor management wasn't addressed quickly enough.

What makes a great venture capitalist? How is it different between China and Silicon Valley?

It's the same in some aspects. In both places someone sees what there is and imagine what it could be. Someone who has the contacts and network with entrepreneurs and convinces them to partner. Someone who always looks less at what could go wrong and focuses more on what can go right.

In China, understanding of the local landscape is really important. You have to live in the market and understand the dynamics and culture of the market. In China, more than in anywhere else in the world, you really have to have a strong network. You have to know the right people to ask the right questions in order to figure something. Whereas in Silicon Valley, they can talk to people they don't know as well. People in China tend to do business with someone they're comfortable. You can usually get a straighter answer if you have the right connection.

What do you think will be the biggest opportunities in the next 5 years?

I think the venture business has been a great business since 2007, when the smartphone revolution really started to take off. We rode that wave until 2014 to 2015. Right now, people are looking to see what's the next wave, but nothing is really obvious. Machine learning/AI and data analytics are the most obvious candidates.

The real question is: what's the next platform? I think it's probably autonomous vehicles and AI, but I am a bit skeptical about VR/AR, which has been seen as a new platform by many people. For applications, it's digital health and fintech. But, on the whole, it's a lot less obvious than it was in 2008.

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