

Linear Capital - 2024Q1 Newsletter

May 20, 2024

Dear Friends & Partners,

Thank you for being supportive along the way. We are very glad to present this letter to summarize our quarterly activities in Q1 2024

--- Observation and Insights ---

First up, let's dive into the macro perspective.

The anticipated interest rate cut didn't happen, signaling that US inflation is still riding high. In essence, this also indicates that the private market will continue to grapple with a tight capital supply, leading to persistent valuation pressures. So, in the short run, don't set your hopes too high for any significant uptick in private market valuations.

The economic figures released by China for Q1 were surprisingly strong (https://www.gov.cn/lianbo/bumen/202404/content_6945462.htm). In my view, the most reliable indicators are export and import numbers, which both saw about a 5% increase. This data can be cross-checked with other sources, making it harder to fudge. We're cautiously optimistic that it bodes well. However, we're fully prepped for scenarios where the rebound is delayed or sluggish. After all, it's an election year in the US, and the geopolitical tension that could ultimately impact China's economy is palpable. Our strategy is flexible enough to weather an even tougher climate if it comes to that.

But Q1 actually wasn't bad for us.

Why? Well, we've got some encouraging updates on exits and significant advancements on the investment front, particularly when it comes to AI-related ventures.

Exits

- Sale of old shares

I'd hold off on dropping names for now. We're looking at some promising exits for USD Fund 2 (~50 million RMB) and for USD Fund 3 (~17 million USD). We haven't mentioned these in our previous communications due to the high level of uncertainty in deal closures these days. We're still playing it safe, but we're nearly there with 90% confidence level.

- Horizon Robotics' IPO Announcement in the Hong Kong Stock Market

One of our earliest investments is finally gearing up for an IPO. Despite the current challenges in the Hong Kong market, I can't see a better option for genuine tech companies with scale to go public. This move sets the stage for China's leading AI inference chip company to expand its horizons even further.

Investment Strategy Shift - Doubling Down on GAS

We've been talking about the "Global Arbitrage Strategy" (GAS) for a while, and we're taking it increasingly seriously. Our reasons are twofold: 1) We're witnessing stellar performance from international players like Agile Robots, Kujiale, and CloudBox, etc. Tech products and services refined in the Chinese market are proving fiercely competitive abroad. 2) The domestic market is experiencing a bit of a slowdown. In our view, it may take another 2-3 years for a full recovery (and yes, we're confident China will bounce back). In the meantime, we're set on bolstering our GAS approach.

GAS hinges on three key elements:

1. Aiming for the global market. 5 years back, the Chinese market alone could nurture major success stories. Today, we need to cast our gaze worldwide.
2. Leveraging 'China Premium 2.0'. This refers to the ultra-efficient supply chain and the vast pool of talent, particularly in engineering, where China offers the largest group of high-quality engineers and skilled technical workers in the world. I've highlighted China's unparalleled engineering workforce in past quarterly letters.
3. Embracing Chinese founders with international backgrounds, or international founders eager to capitalize on the first two points. Those who understand how to harness the best offerings from different regions and synergize them effectively will have a significant competitive edge.

GAS manifests in three scenarios:

1. Companies established in China that take GAS to heart, often founded by overseas returnees—a common thread in our past investments (~80%). Now we'll ensure these companies are built with a GAS mindset from day 1. An interesting note: there's a significant contingent of open-source contributors in China who are highly technical and active in the global GitHub community. They're inherently GAS-oriented.
2. European startups adopting a GAS approach. We began laying the groundwork here

6 years ago with Agile Robots in Munich, now nearing a \$4 billion valuation. We hope to mirror this success, albeit uniquely. Agile Robotics can be a close ally in scouting for new ventures in the region. While no two successes are identical, the synergy of "European technology, Chinese scalability, Global Market" is a compelling recipe. We'll encourage local incorporation and job creation, positioning these startups as European entities with a global market reach (China included). Companies in this setting will have no problem of getting listed anywhere, including in the US, once they reach the appropriate size. To seize these opportunities, we'll be stationing 2 key investment team members in Munich, Germany by the end of Q2 and hiring Europeans to strengthen our local presence. We're possibly the first China-origin VC to set up shop in Europe, with a keen interest in Europe's strengths: smart robotics and precision hardware.

3. US startups that may consider GAS down the line. The AI epicenter is in Silicon Valley, and we can't ignore it. With plenty of top-tier VCs there and no strategic partners like Agile Robots, our Valley strategy begins with a 'tag-along' approach. We'll send team members to the Valley quarterly for 1-2 weeks to immerse in the market. Thanks to our great LPs and old friends in high senior positions there, we can count on them for solid introductions to local entrepreneurs and fellow investors. With a primary focus on cutting-edge AI, we believe we have deep understanding and can add value, particularly in the supply chain for embodied AI or by broadening market reach.

Introduce a new program - Linear Bolt

We're eager to back the new wave of AI-driven applications. Our prediction is that most apps will be remade with a new AI-native framework, with a premium subscription model becoming the norm. These markets will have a global reach from the very beginning. We're committed to making swift investment decisions within 3-4 weeks, allocating between US\$0.5-1m for a 10% stake. If the startup demonstrates impressive growth in its user base and revenue trends (yes, both required for AI-native apps), we're open to upping our investment in subsequent funding rounds. As we're still fine-tuning Linear Bolt, we'll share more details as they unfold.

Due to these strategic changes, we have seen an increase in the pace of our investments since the beginning of March. Quality remains a priority for us, but the surge in AI and the internationalization trend of GAS are currents we must not only keep up with but also strive to lead. Being intelligently resilient and resourcefully adaptive is the only way to navigate through the tide. We are hopeful that we will perform well during this transitional period.

Best regards,

Harry

--- Investments ---

We have two new deals that are under closing in Q1 2024. Please see below for details.

- Main Fund V - Company D
 - The company focuses on AI-guided chemical material discovery through the integration of dry and wet. A basic chemical reaction consists of reactants, transition states, and products. Among these, transition states are particularly important for understanding the mechanism of chemical reactions and estimating the height of the reaction barrier. Typically, quantum chemical calculation methods (DFT) are used to search for transition states based on known reactants and products. However, these calculations are expensive and often notorious for their high failure rate. The company's module significantly accelerates the efficiency of DFT calculations and greatly increases accuracy.
- Main Fund V - Company F
 - Company F aims to assist job seekers in preparing for and navigating complex recruitment processes using a series of native AI tools. With a focus on the interview stage, it offers a range of AI functions, from resume editing and polishing to virtual interviews and Interview Copilot.

The traditional recruitment market is vast, but has long relied heavily on expensive human resources for service delivery. This is primarily due to the processing of large amounts of content and the non-standard nature of user needs. In terms of product innovation, industry insights, and team execution, Company F is one of the leading teams internationally in this field, and one of the earliest to apply large language model technology to the field of career development.

--- Other things you may be interested in ---

Media reports, public events and awards about Linear or our portfolio companies

- [Core Control](#), a leader in smart production and Linear was the leading investor in Angel Round, has completed nearly one hundred million RMB in B round financing.
- [Yuansuan Technology](#), an industrial digital technology company and Linear was the leading investor in Angel Round, has completed several hundred million RMB in C1 round financing.
- Zeren Bai, VP of Linear Capital, was interviewed by Geek Park, discussing Linear Capital's [AI investment plans for 2024](#) and [thoughts on AI investments in the first quarter](#).
- Linear Capital continues to assist our portfolio companies with publicity for subsequent financing rounds. This quarter, the "Linear Portfolio Companies Interview Series" launched three in-depth interview articles, inviting founders of [SynMetabio Biotechnology](#), [Shanghai Ecovative Materials](#) and [Hangzhou Dessight Biomedical](#) to share their entrepreneurial stories and industry perspectives.
- Wefly Aviation, a Linear portfolio company focused on designing, manufacturing, and operating electric vertical take-off and landing (eVTOL) aircraft fleets for future urban air traffic markets, [published an in-depth report](#) on Chinaventure.com.
- The founder of Orthogonal Technology, focusing on the computer-aided design and engineering market, specializing in providing professional software and dedicated hardware solutions for smart product design, [was featured in a media interview](#).
- [Linear portfolio companies Bangtang Technology, Rokid, and Whale were selected](#) for the inaugural Forbes China 30 Under 30 Globalization list.
- [Several Linear portfolio companies were selected](#) for the 2023 Venture50 list by Zero2ipo.com.

Events We Hosted and Joined

- Linear Capital, in collaboration with DBS Bank, [hosted a private event](#) at Linear Capital's office, introducing the latest international macro trends to Linear Capital portfolio companies.
- Harry Wang, founder and CEO of Linear Capital, [attended an event hosted by CICC](#), sharing investment strategies in frontier technologies with a global perspective.

Best regards,

Linear Team