Linear Capital - 2024Q2 Newsletter

Aug 9, 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 Q2 2024.

--- Observation and Insights ---

European Office

The opening of our Europe office marks a significant milestone and serves as a great starting point for our expansion in the region. We had about 30 individuals, including PhD students from top universities in Europe and the UK, professors, and entrepreneurs, join us to celebrate this initial step in the opening ceremony. The diverse attendance highlights the broad interest and support for our initiative and sets a promising precedent for future engagement and collaboration.

This initial step allows us to respond to local entrepreneurs faster than any local or China-based VCs. We will use this office for sourcing and leverage our existing impact from China and elsewhere to help the best Europe-originated opportunities achieve scale-up and cost-down by tapping into China's scalability and productivity. Without this angle, there is no advantage to investing in local deals, which have been in Europe for many years without the chance to grow really big.

We will also showcase existing portfolios (Agile Robots, Swiss-Mile, etc.) to convince the best founders to work with us. So far, this strategy has been working pretty well.

CAGAS - Let It Fly

As for the continuation of the China Amplified Global Arbitrage Strategy (CAGAS), we are proceeding with this strategy at a cautious pace. Despite taking a measured approach, we maintain high standards for our investments, ensuring that we allocate resources to ventures that meet our stringent criteria. This strategy allows us to sustain growth while managing risks effectively.

The Bolt program we introduced last quarter is being carried out steadily, with more results to report in the near future. Now, we just need time to let it ferment.

The Three Flows

We diligently monitor three critical flows: talent flow, technology flow, and capital flow.

Regarding talent flow: With many top talents now actively practicing the Global Arbitrage Strategy (GAS) by starting businesses where they work or received their PhDs, we intend to track and support their progress closely. This monitoring ensures that we can adapt and respond swiftly to emerging opportunities and challenges in these areas.

Regarding technology flow: We need to distinguish the three key sets of frontier tech that we focus on differently:

1) AI + Software/Application: The location of startups is less critical as long as they can generate global revenue through mature pay-by-subscription models. New apps should be AI-native and global-native from day one. Just like Bongmi, one of our portfolio companies, which built an international app for women's health monitoring with a global subscription revenue of US$20-30m from their tech team in Hangzhou, no one needs to know where the app is made as long as it complies with regulations such as GDPR in Europe or HIPAA in California wherever it is required.

2) AI + Robotics/Hardware: Europe has an advantage given its solid industrial developments in precision engineering and robotics over the past century. However, China can significantly help scale up production and iteration at a much faster speed and lower cost. We will not be interested in Europe-only teams without a China angle, as there have been many beautiful but small opportunities in Europe that could never really grow big. No point in investing in these opportunities. Such a China scalability angle could help curate some potential big opportunities, as we did with Agile Robots. While it's challenging for Linear Capital to play a key role in smart robotics opportunities in the US, we believe we can bring something special to benefit Europe's specialty —Europe Tech, China Scalability, Global Capital, and Global Market.

3) New Energy/Materials/Bio: We think the epicenter for scalable and affordable innovations is in China. Europe and the US face systematic challenges in these capital-intensive and manufacturing-heavy innovations. The world will need these to move towards a more efficient and sustainable consumption model. There will be no other way except providing affordable sustainability tech products.

Regarding capital flow: In the short term, there will still be a lack of injections of capital into China-based startups, except for those whose revenue models are less coupled with China's domestic economic recovery progress. For startups based outside China, it's less challenging but the global capital market is only slightly better, with most capital concentrated in AI. We believe in fundamentals, we believe in self-sustainability, and we believe in commercialization as soon as possible but not sooner than the natural law, i.e., tech to product then to scalable sales at a reasonable but fast pace. We believe these unique innovations that fit the current era will survive the most difficult capital market.

Long-Term Conviction

Lastly, after a series of trips in the last month and continuous observations and thinking, it's clear that no place is perfect. However, I maintain long-term confidence in China's future. China boasts the most complete industrial sectors, the most efficient supply chain, and the largest pool of well-trained and hardworking engineers and scientists on this planet.

We were engineers, and now we've become engineer-turned-investors. We'll continue our role as "the best-engineered investors for the best-engineered entrepreneurs" to help make the best frontier tech successful under the new theme of CAGAS, sailing through "The Darkness Before Dawn".

Best regards,

Harry

--- Investments ---

We closed 5 new deals in Q2 2024. Please see below for details.

- Deep Principle
    - 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.

- LifeLight
    - LifeLight is an AI-powered companion product. Its key features include providing emotional support and engaging in instant conversations, using AI technology to offer personalized care. It accepts voice inputs and multi-modal data recording, enabling users to record their lives via text, images, and videos. Going forward, LifeLight aims to promote and adapt its services in international markets, endeavoring to deliver excellent emotional companionship services to users globally.

- Xbuddy
    - Xbuddy is an AI-assisted learning Chrome extension, with the ambition to become an AI-powered copilot in the learning process of overseas college students. It aims to cover the entire learning journey of overseas college students

across multiple platforms, combining professional subject knowledge and user interaction data to provide users with more efficient, customized, and cost-effective academic solutions.

- Cathoven
  - Cathoven is an AI-driven language teaching platform that offers personalized content to engage learners of different language proficiencies. This platform addresses low participation and inefficiency in language learning by providing adaptive content that aligns with each learner's progress and interests. Cathoven incorporates features such as a text analyzer to gauge the difficulty of teaching materials, a level adapter to modify the complexity of content, and a question generator for creating quizzes.

- D-Robotics
  - D-Robotics is an investment for a spin-off business from one of Linear's existing portfolio companies Horizon Robotics, the leading ADAS and automotive solution provider in China.
  - Generally speaking, D-Robotics is dedicated to the development and commercialization of AI inference chips applied in various robotic applications for commercial use. Prior to spin-off, it's been a growing BU embedded in D-Robotics's current business, with annual revenue of ~RMB 100M in 2023.
  - We believe D-Robotics has established a robust foundation for commercialization at the current stage and shows solid growth path in the next few years.

Highlights of Holdings

- Deep Principle, which leverages AI to accelerate the discovery of efficient catalytic materials, announced a seed round of funding led by Linear Capital. Alongside the press release, we've also conducted an in-depth interview with the two co-founders.
- Enzyme Technology (Mayoo), which uses AI to reduce the cost of enzymatic DNA synthesis, announced an angel round of funding, also led by Linear Capital.

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

Content and Media Reports about Linear Capital

- Linear Bolt: Linear Capital launched a project focused on AI investment, named Linear Bolt. As part of this series, the Linear Capital investment team has published a range of opinion articles.

- Interview: Harry Wang, founder and CEO of Linear Capital, was interviewed by 36kr, talking about the investment strategy of AGI. Songyan Huang, was interviewed by 36kr, sharing the investment strategy in Europe.
- Waves Conference: Harry Wang, founder and CEO of Linear Capital, was invited to speak at the 36Kr Waves Conference, where he delivered a speech titled "Opportunities for Young People in the Next Decade Amid the AI Wave".
- Recognitions: Partner Songyan Huang was again named in the "Under 40 Investors" list by Cyzone and the "36under36" list by 36Kr. Linear Capital's portfolio company founders, including Xiaojun Pan of Wefly, Di Cui of Dessight Biomedical, and Yuanbo Deng of ReaVis, were also featured in the "36under36" lists for entrepreneurs and scientists.
- Awards: Linear Capital was once again named the "Most Popular Investor among Entrepreneurs" by 36Kr, and Harry Wang retained his title as the "Most Popular Investor in China". Additionally, Linear Capital was listed in the "Top 10 Early-Stage Investment Institutions in China".

Events We Hosted and Joined

- Collaborations: Linear Capital co-launched the AI Art Festival with Xin Shixiang, co-hosted a hackathon with AdventureX, hosted an AI/SaaS global expansion discussion with Linkloud, and joined a frontier technology investment event with Cyzone.
- For AI investments, we organized community events on digital management for AI startups, growth and business model innovation for AI startups expanding overseas, and more.
- European themed events: We held a series of events in Europe, including ETH Zurich, Aachen, Delft, Leuven, Eindhoven, and an offline event during ICRA in Yokohama, Japan.