



Silicon Valley VCs warm to Asian investments

Venture capitalists in Silicon Valley have been trying to anticipate the future for years, and now they see the future in Asia.

This is a marked contrast from just a year ago, when few traditional Sand Hill Road players would consider investing in Asia. But now, old Asia hands such as Walden International, Baring Private Equity, Crimson Capital and H&Q Asia Pacific are being joined in cross-border deals by top-tier Valley firms such as NEA and DCM.

NEA has made three investments in China over the past two years, and partner Stewart Alsop said that the firm is looking at at least two more deals. DCM has inked three deals in China, and partner David Chao said that the firm is getting ready to close two deals with fabless chip design companies there. Other Bay Area firms scouting around Asia, and especially China, include Accel Partners, August Capital, Matrix Ventures, Sequoia Capital, Greylock Capital, Morgenthaler Partners and Mayfield Ventures.

The Asia/Silicon Valley highway has never been so well-traveled. Silicon Valley Bank typifies the trend. Lately, it has been leading week-long tours to Asia: one



Daniel Quon

in December to India for 23 venture capitalists and another coming this June to China with some 20 VCs in tow. "We are over-subscribed for the China trip and have a wait list," said Daniel Quon, managing director of the international venture capital group at the bank, which plans to open offices in Shanghai and Bangalore later this year. "It's a learning trip for the VCs, with networking, government meetings and education about the Chinese market to give a broad overview."

Interest meets concern

This keen interest has some veterans in the business worried. "We are concerned with the US funds going over and making a mistake and then saying 'Asia is not ready for private equity'," said Jack Hennessy, a partner with Baring Private Equity in Foster City. "They all have the same limited partners," he pointed out, noting that LPs could withdraw support for Asian VCs if the track record of these US newcomers proves disappointing.

DCM's Chao echoed these concerns. "If US venture capitalists treat Chinese investments like a US company and don't understand the cultural and legal differences, a

lot will end up being surprised," said Chao. He cautioned that: "people forget that the level of quality deals is lower in China" than it is in the US.

So far, many of the newer players have not done direct investing in Asian companies. But, with many of their portfolio companies generating sales revenues from Asia, they want to be informed about the region and to assist these companies in building relationships on the other side of the Pacific.

Mayfield Ventures falls into that category. While Mayfield made a direct investment in a Chinese company called Interwave Communications in 1995, the firm hasn't made any additional direct investments in Asia. "We like to be conservative and take it slow, and you have to understand what you don't know," said managing director Kevin Fong, who recalls that, when the Asian currency crisis hit in 1996-97, he helped Interwave shift its strategy to Europe from Asia.

Playing it safe, many venture firms are opting to bring in consultants with Asian experience. Mayfield has recruited Priscilla Lu, chairman of the board at Interwave and its founder, as a consultant to advise on its China strategy and help its portfolio companies build partnerships and sales with Chinese-side firms. Lu organized a two-week trip to China in January for Fong, which included stops in five cities to check out investment prospects. "At some point, you have to stop



David Chao



Kevin Fong



touring and start investing,” said Fong.

Likewise, NEA general partner Scott Sandell, who has been in China several times this year, as have other NEA partners, is working with Kauffman Fellow Paul Hsiao on China plans. Also offering his China expertise is new NEA venture partner Min Zhu, who is best known as the founder of WebEx Communications, but who also serves on the board of the Shanghai Pudong Software Park.

Partnering with locals

Both NEA and DCM got a head start in doing deals in Asia by working with stalwart Asian VCs such as Walden International chairman Lip-Bu Tan and H&Q Asia Pacific chairman Ta-Lin Hsu. Tan got DCM and NEA involved with a Chinese VOIP start-up that he set up last year called UpTech, as well as Semiconductor Manufacturing International Corporation (SMIC).



Ta-Lin Hsu

Tan and Hsu were influential in bringing NEA and DCM into the SMIC IPO. Sand Hill Road’s interest in Asia is spurred by a number of exits this year from Asian investments – including several from China that have listed on NASDAQ despite the new, more rigorous standards of the Sarbanes-Oxley Act, said Shane Byrne, a partner with Baker & McKenzie in San Francisco. The list of recent Chinese IPOs on NASDAQ includes travel site Ctrip and wireless content provider Linktone. Online gaming firm Shanda Networking and cell-phone ring tone provider MTone

Wireless have recently filed for NASDAQ listings.

The upcoming IPOs from Asian investments indicate that the post-IPO trading price dip of SMIC has not been a deterrent. Indeed, VC investors in SMIC are taking a long-term view.

“It is way too early to talk about SMIC in the past tense,” said Chao of DCM. “From a long-term perspective, the IPO is a stepping stone, and fundamentally, the company is doing very well.”

More and more venture firms in the Valley are following the Asian VC cross-border model of investing in firms with

“The Silicon Valley/Asia connections are humming like never before”

sales and finance headquarters in the US, but subsidiaries and often research and development in Asia. US firms with low-cost offshore operations in India and China are increasingly targeted by Sand Hill Road VCs, Byrne pointed out. China and India are consistently in VCs’ sights.

China is eyed for its vast market potential and its origination of innovative home-grown technology, while India is primarily an outsourcing play for software development of business processes. Much of Westbridge Capital’s portfolio, for instance, is focused on the fast-growing outsourcing sector in India, according to principal Rishi Navani.

Back to active investment

Venture firms gearing up for more public listings this year include Walden, which expects to list another two companies this year on NASDAQ, according to Tan. Pacific Venture Partners is eyeing, “at least six liquidity events, including the IPO of SirF on NASDAQ, as well as the IPO of one of our China technology investments on the Hong Kong Main Board in the 2nd quarter,” according to general partner Laure Wang. Crimson too has been keeping investment bankers and lawyers busy, with seven liquidity events in 2003 and 2004, including a recent sale of Filipino portfolio company SPI to T.H. Lee Putnam and the public listing of SiliTech in Taiwan in March.

With the hangover from the dotcom frenzy abating, venture firms are actively investing again, after several



Jim Boettcher

years of helping some troubled portfolio companies cut their burn rates and survive steep sales declines, and unwinding others. Setting the pace, Pacific Venture Partners, “has deployed about \$96 million in 17 transactions since 2003,” according to Wang. Focus Ventures has inked three deals in Asia this year: Starent in Japan, and two India-based deals, NetScaler and Virtusa. “We’ve been doing about a deal a month,” said Jim Boettcher, general partner at Focus Ventures. Corporate venture capitalists, such as Itochu Technology in the Valley, are being joined by newcomers such as Samsung Ventures, which set up shop in the Bay Area



about seven months ago, according to Jay Eum, managing director.

Walden has made two new investments this year, according to Tan: a fabless design company with Taiwan



Lip-Bu Tan

R&D called Ambararella, and a Wi-Max chipset company, Becelm. He added that he is working on investing in two more fabless design companies, in Shanghai and Beijing. Likewise, iGlobe has invested alongside AsiaTech Management in Vima Microsystems, a fabless chip designer for flat panel displays.

New funds are being raised too. Among those in fund-raising mode are Crystal Ventures, Pacific Venture Partners, iGlobe Partners, Crimson Capital, DCM and Granite Global. In addition, Walden plans to begin raising a new fund by the second quarter of 2005, Tan said, as the firm has passed the halfway mark in investing a \$750 million fund that was downsized twice in the recent downturn. Most of the fund sizes are in the \$350 million range, reflecting the more realistic valuations and deal terms of today.

With all the buzz, lawyers are working day and night. "Between outsourcing, vitality in the Chinese market, a roaring securities market in Hong Kong/China, and the increasing ability of the Internet to obliterate distance and time," said Robert Townsend, a partner at Morrison & Foerster in San Francisco, "the Silicon Valley/Asia connections are humming like never before." □