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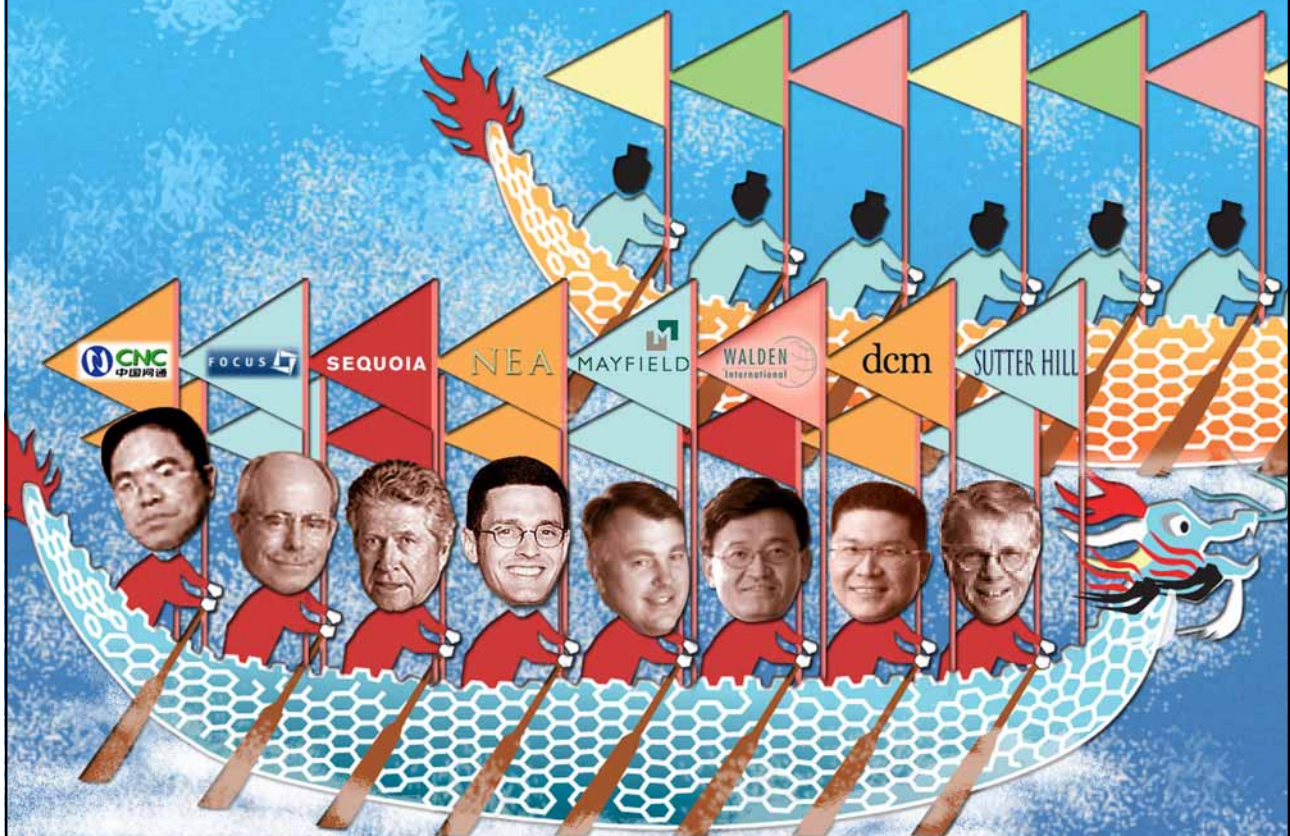
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ARE WE ALMOST THERE?

Is Sand Hill Road finally willing
to invest in Asian deals?



*Working for Dad, Ken Courtis on Japan's
economy, NPL food fight in Korea and more*

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‘Are we almost there?’

American VCs debate the allure of Asian investment opportunities

BY REBECCA FANNIN



That well-rehearsed refrain any parent knows all too well, and too often hears a mere 15 minutes into the trip, seems apropro to Sand Hill Road’s long-awaited foray into Asia.

On a clear day, SUVs, Jaguars and BMWs race along Route 280, the Santa Cruz mountains off in the distance. But even without a cloud in the sky, it’s impossible to see the rugged Pacific coastline beyond.

However, the fog over Asia is lifting for venture capitalists along this famous roadway; they’re now taking an increasingly serious look at what lies on the other side of the ocean. Are we there yet? Maybe.

Does this signal a seismic shift in strategic thinking? Mainland China is now the flavour of the season, just as India was a few years ago. Indeed, current talk among Asia-Silicon Valley circles is about a \$50-million Walden International-led telecom equipment deal in China called Uptech, which has attracted investors from the heart of

SUTTER HILL VENTURES Sand Hill Road.



Len Baker

“China is going to kick our butts,” says Len Baker, a Managing Partner at Sutter Hill Partners in Palo Alto. His firm is one of the more outward-reaching of the Sand Hill crowd. A few years ago, Sutter Hill made a \$7.5-million investment in a mainland Chinese venture capital firm, Chengwei Ventures. The Shanghai-based firm went on to attract Yale

University as a limited partner and has made around a dozen hi-tech investments in China. Even so, Baker acknowledges that it remains to be seen whether the Silicon Valley model can be replicated successfully in China.

Still, some firms are beginning to realize that the Valley is no longer the epicenter of the technology world, but just one of at least five tech zones worldwide, including Bangalore and Shanghai/Beijing. But many remain sceptical.

“Everybody went crazy and opened European and Asian offices,” says David Chao, a Managing Director at Doll Capital Management. “Now that the economy is flat or down, it’s back to basics, and back to staying local. Very few firms are willing to invest in Asia”

But, says Chao: “Some of the next generation technologies will come out of China over the next 10 years. The centre of gravity is shifting.” He points to rapidly growing telecom and personal computer markets in China. “Once European and US carriers recover, what equipment will they buy? They will buy tested and proven products coming out of China.”



Lip-bu Tan

Looking for portfolio-company revenues

While not everyone agrees, more and more venture capitalists are being prodded into looking at Asia. As well, their portfolio companies are dragging them there to look for revenues to take the place of shrinking revenues in the sluggish US market. Potential revenues in Asia — particularly China — are convincing some venture capitalists to open their minds to the idea of investing in Asia, if not yet their wallets.

“The Sand Hill venture capitalists are still very domestic but I am seeing more flexibility because of the US slowdown,” says Lip-Bu Tan, Chairman of Walden International. “In telecom, major carriers are cutting capital expenditures and now equipment makers are looking for low-hanging fruit, customers in China and India.”

Taking the next step of actually putting dollars into an Asian private equity deal is entirely different — a point made by Don Valentine, a Partner and founder at Sequoia Capital (which counts Cisco as one of its finds). “There are huge sales opportunities for our portfolio companies in

Asia,” says Valentine. But he points to several issues — lack of liquidity, no rule of law, no common language, intellectual property theft — that are deterrents to making a direct investment in China. It is no wonder Valentine’s worried; he’s on the board of Cisco which recently sued a mainland Chinese competitor, Huawei Technologies, for software piracy. Still, Valentine acknowledges that he is personally intrigued by China and is studying up on the country’s political and economic



Todd Brooks



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structure. He also mentions he is relying on market intelligence on China from a well-connected Hong Kong family that is a limited partner in Sequoia.

At Mayfield Venture Capital, Managing Partner Todd Brooks sums up the typical view of investing in Asian private equity. “We are exploring Asia, but we are not yet ready to commit.”

Brooks, who used to work at JAFCO, is planning to lead a trade mission-like



Rob Coneybeer

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tour of key spots in Asia for portfolio companies later this spring.

Ready to commit ... to an experienced player

A small group of VC firms, however, are ready to commit their LPs’ dollars to Asian deals. National Enterprise Associates (NEA) has recently invested in the new Walden deal in China, says Rob Coneybeer, a Managing Partner who worked on the deal brought in by colleague Peter Morris. NEA came in even though it had been burned on a prior Chinese investment, now-bankrupt iAsiaWorks, an Internet service provider.

“We’re looking at a lot of things going on over there [China],” says Coneybeer. “A huge market capital formation is taking hold, entrepreneurs are returning to their homeland, and the telecom and info-tech markets look bright. A lot of the companies we back focus on the US market first. We are telling them to go overseas.”

Another Sand Hill VC that invested in the Walden-led Chinese deal is Doll Capital Management. The firm typically has invested 80% of its capital toward US-only deals, but is now doing cross-border deals and Asian-only deals. Doll’s David Chao says the firm has two direct



DOLL CAPITAL MANAGEMENT



David Chao

investments in China and 10 in Japan through a joint venture with Itochu.

What convinced these two stalwart Silicon Valley venture capitalists to invest in this particular deal is simple: Walden International as lead investor and Lip-Bu Tan’s involvement.

Tan, who was finalizing the round of investment in the start-up during early February, says he has spent the last nine months putting the deal together. He is Chairman of Uptech — short for United Platform Technologies — and has recruited a well-known executive in China as CEO, Chareleson Zheng (from broadband telecommunications operator China NetCom). Based in Beijing with research and development in Shanghai, Uptech will rely on US technology initially but will shift over to home-grown Chinese technology later on. Walden has made an \$18-million commitment to the firm, the largest.

Not everyone that Tan went to see about investing in the deal was won over, however. Mayfield was one of the hold-outs. “We decided to pass on it because we just couldn’t get comfortable with it,” says Brooks. “We know the team and like the template, but we would have had to deal with distances, time zones differences, taxation issues, geo-political risks and regulatory hurdles.”



Don Valentine

SEQUOIA CAPITAL™

Burned before

Or take Fremont Ventures in San Francisco, an investment arm for the Bechtel family. Managing Partner Blake Winchell used to traverse the US-China bridge quite often when he was a venture capitalist at a now-defunct firm, Generation Ventures. But he hasn’t returned to China in three years. The reason? His firm was finalizing negotiations to close a deal and had requested an independent audit of the books. When the Chinese side of the deal balked, the CFO of the mainland firm took Winchell aside and showed him a separate set of accounting books for the company that showed the firm faced substantial debts. “I asked the guy why he didn’t show me those books in the first place and he said, ‘Because we thought you wouldn’t invest in us,’” says Winchell. “I gave up and returned the money to our investors. It was just too difficult and too risky.”

Winchell had visited China 15 times in 18 months in search of a lucrative deal. While he’s hardly unique, experiences like these have persuaded most Silicon Valley players that they are right in staying close to the Valley. The joke among the traditional VC players here is that if they can’t drive to a portfolio company easily, it is just too far away to bother with.

When it comes to picking potential investment opportunities, venture firms like Walden that have Asian credentials and connections have an advantage in the Valley. Comfortable with the culture and language, they can navigate the waters successfully, not only in helping portfolio companies tap customers in Asia, but in spotting breakthrough technologies and recruiting top-quality management teams.



Focus Ventures in Palo Alto also uses its footprint in both the US and Asia to advantage. While primarily an investor in US deals, Focus maintains a close alliance with the Hong Kong-based Cha Group, run by real estate and textile entrepreneur Payson Cha. The Cha family, a founding limited partner in Focus Ventures, helps its portfolio companies establish relationships in Asia. Focus General Partner Jim Boettcher knows Asia from the 1980s, when he was head of an investment banking group for Bank of America.



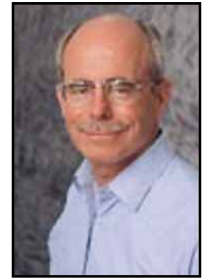
Chareleson Zheng

For example, Boettcher convinced the Sanyo Corp to invest \$5 million in Pixelworks, a fabless semiconductor firm in Portland, Oregon. He also helped the company line up Asian customers. When the company went public in May 2000, Sanyo made \$40 million on its investment, says Boettcher.

Of course, H&Q Asia Pacific's Dr. Ta-lin Hsu would argue, 'What took you so long?' The prophetic deal-maker has been

investing in Asia since his first Taiwanese fund launched back in the ancient mid-1980s.

And then there's lawyer Carmen Chang's schedule. Chang — a partner at Wilson, Sonsini Goodrich & Rosati, who worked on the Uptech deal and shows up frequently at the negotiating table for Asian deals — says her calendar is booked with appointments with domestic VCs who are trying to figure out what to do in China. When last seen back on the West Coast, the Taiwanese-born Chang was waiting in a taxi queue, chatting with a colleague while simultaneously trying to close a deal in Beijing via her cell phone. Attests Chang: "I have never been busier." □



Jim Boettcher



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