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Interactive

ASIAN VENTURE CAPITAL JOURNAL

THE ASIAN PRIVATE EQUITY
NEWS SOURCE

July 2003

FOUNDED IN 1988

Volume 16, Number 7

THE STATE OF ASIAN PRIVATE EQUITY

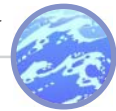
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Itochu Tech uses parent's market intelligence in VC investments

Tucked in an innocuous office suite along the Great American Parkway in Santa Clara, California, resides one of the more silent but powerful strategic investors in venture capital, Itochu Technology, part of the huge Japanese trading company Itochu Corp.

While typically press shy, the group is having a “coming out” party of sorts. Indeed, *AVCJ* was granted an hour-long interview with Takahiro “Terry” Susaki, President and CEO, and Frank Thibodeau, Director of Venture Investment. The two executives walked this writer through a tutorial on Itochu Technology, its strategies, and the impact it is having.



Frank Thibodeau

Itochu Technology is rather unique among corporate strategic investors. It looks to invest in US technology companies and then helps them succeed in Japan and elsewhere in Asia. There's some self-interest involved too, of course – Itochu, being a trading company, is looking for products it can help develop and sell through its distribution channels in Japan and beyond.

Lengthy tentacles

While a small group of only 40 individuals, the Itochu Technology team has a lengthy reach. It has invested in 90 US technology companies through an evergreen fund. The focus is on mid- to late-stage investments, and Itochu typically antes up \$1 million to \$3 million per deal. Perhaps less known is the fact that Itochu is also a limited partner in several Silicon Valley venture funds, including Kleiner Perkins' Java fund, Doll Capital Management, Horizon Ventures and JAFCO – all tidbits that Susaki proudly points out.

Then there's the group's IRR – an impressive 45% average return on direct investments made since 1994. Susaki and Thibodeau tick off how Itochu has generated those returns: 30% of their investee companies have gone public, another 40% were acquired. Among the success stories are Siebel Systems (an IPO in 1996 with a 47x return on an investment made in 1995); Openwave (merged in 1999 with phone.com); Nvidia (public listing in 1999 with a 114% IRR at the IPO on a 1994 investment); and Recourse Technologies (acquired in 2002 by Symantec at a 300% IRR on a 2001 original investment).

They admit too, that there were one or two write-offs and a write-down or two – just like every venture firm in the Valley has experienced.

Itochu has a better performance record than most venture firms here though, mostly because it goes way beyond providing capital to its “investees.” Thibodeau



Terry Susaki

explains that Itochu's involvement with its portfolio companies is the firm's “secret sauce.” Through the trading firm's 1500 salespeople in Japan, Itochu gets first-hand market intelligence into what its customers want. Through these insights, it makes an assessment of how ready a portfolio company is for Japan and how ready the Japanese market is for the product. If it looks like a go, then Itochu counsels the firm on market strategy and introduces the management to Itochu distributors.

Knowing what the market wants

“Through our market intelligence, we know where the opportunities are,” says Thibodeau. It also will negotiate distribution agreements and perform the usual trading company duties of handling export regulation and tax paperwork. “We are able to see growth in certain market sectors and we help firms to develop the Japan market. It would be very hard for them to do it on their own,” he adds.

With lots of firms looking for funds in the Valley, Itochu has its pick of IT companies. This year, funds will go to about five companies, Thibodeau says, up from a slower pace during the post-bubble period of only two or three investments per year.

With a slowdown in tech spending in the US, Itochu is in a good spot as more and more firms in the Valley are looking overseas for growth. Japan, as the world's second-largest IT market, is a natural place to look for increased sales, says Susaki, who adding five staff people to evaluate market opportunities and test products for market readiness.

Right now, Susaki sees opportunities for US high-tech companies in Japan and Asia in four areas: wireless, security, storage and broadband. He ticks off two specific areas where he spots promising markets right now, in advanced navigational tools for automobiles and wireless communications for passengers on Japan's JR trains in Tokyo.

Putting its money to work, Itochu recently invested \$1 million in Mesh Networks, a wireless networking provider, and is busy helping the firm figure out how to capitalize on the market opportunities in Japan. □



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