

**FOREIGN FINDS:  
Venture and Private Equity Investors Eye Overseas Markets**

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Don't look now, but venture capital and private equity firms could be next to move some of their operations overseas.

A cheap but maturing labor force and emerging economies are making for some interesting opportunities abroad, according to local investors who normally shy away from investing beyond the U.S.

"While we have not invested in companies that have a predominant portion of their activities offshore, we are certainly looking at the issues and opportunities there," said Murray Rudin, an Irvine-based partner with Los Angeles-based private equity firm Riordan Lewis & Haden LLC.

To be sure, investing in local companies still is the priority for many Orange County and Los Angeles-based investors.

But some foreign-based technology and biotechnology startups interest them, as do others that provide outsourcing and consulting services.

A big enticer: Startups can be grown cheaper overseas, said William Quigley, managing director of Santa Monica-based Clearstone Venture Partners LLC. Quigley said he's looking at a potential investment in a telecommunications gear maker in India.

"In the U.S. it would probably take a \$50 million to \$75 million (investment) to reach breakeven," he said. "Overseas it will be substantially cheaper."

The Indian company eventually could sell for \$100 million or \$150 million—"the range of valuations that exist today," he said. So an initial investment of \$30 million in a comparable overseas startup could yield better returns.

"It takes away one of the barriers for making the investment," he said.

Global venture investing isn't new to everyone.

Irvine-based Ventana Capital Management LLC has an affiliated global unit that invests in Latin American startups through a Chile and Mexico venture fund. Past Mexico investments include Celsol SA de CV, a maker of solar energy products, and Colorantes y Oxidos SA de CV, a producer of iron oxide pigments.

Venture firms in the Bay area have done substantial spadework to launch overseas operations. San Francisco-based Walden International Investment Group

counts offices in India, Malaysia, Singapore and other Pacific Rim countries that help invest its \$1.5 billion in venture funds.

Proximity has kept Southern California venture capitalists closer to home.

"It's our personal philosophy that we want to be close to our portfolio companies," said one Los Angeles-based venture investor who declined to be named. "That means (looking at) San Diego, Orange County, Arizona, Colorado or any other nearby area. These companies are new babies. They can go sideways in a very short period of time."

Additionally, venture investors here say that foreign stock exchanges aren't as efficient as they are here, making cashing out their investments more cumbersome.

And venture sources cite the existing support system for startups in the U.S., which has helped build thousands of small companies. The legal system here is far more advanced, too.

So many venture capitalists looking to get a piece of the outsourcing pie are eyeing local companies with strong ties abroad.

"How private equity investors look at it is to invest in domestic companies that have established offshore relationships," Rudin said. "Maybe they do some portion of their manufacturing subassemblies in China. It may be that (the companies) outsource one particular function, like an accounting function."

Most technology startups here are all but required to have an overseas component, said Shivbir S. Grewal, an attorney at Newport Beach's Stradling Yocca Carlson & Rauth LLP who works with startups.

"Just about everyone that has any sense in the IT environment is going to do front-end work here but back-end work overseas because it's so much cheaper for them to do stuff there," Grewal said. "There are no serious IT companies today that are not doing that. So if you're doing a U.S. investment, in effect you are investing in assets that are overseas."

Another venture play: Invest in U.S. companies that hook up clients with outsourcing services from other countries.

One such company, Los Angeles-based Outsource Partners International Inc. offers clients finance and accounting services out of its Bangalore, India facility. Outsource nabbed \$20 million in venture funding last year, in part from Palo Alto-based Trident Capital Inc.

Along with Ventana, other Southland firms have invested abroad directly.

Gores Technology Group LLC, a Los Angeles-based private equity firm, invests in private European companies.

"In the last year and half we have been active in acquiring non-US domiciled business-to us that means Europe," said Scott Honour, Gores' managing

director. The company's investments until then had been with U.S.-based companies doing business overseas.

But European-based companies don't operate as efficiently as U.S. companies do, Honour said. Typically, private equity firms target under-performing companies that need a capital infusion or management makeover or both. Then they reposition them for growth.

"There's a natural breakup play that's occurring (in Europe)," said Honour, who notes that Europe's private equity market is less developed than that in the U.S.

Foreign-based biotechnology startups and drug makers are sure to get a closer look in the next few years as countries look to jump on opportunities in the healthcare sector.

"In the pharmaceutical field, you're getting a lot of generic drugs being developed overseas," Grewal said. In particular, India looks promising to venture and private equity firms.

"There are generic drug factory R&D centers there," he said. "And, while it's not really happening yet, you will see some biotech R&D money going into places like India, which have intellectual capital in the biotech area."