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MONEY AND INVESTING

Venture Capitalist Breaks Silicon Valley Mold

By REBECCA BUCKMAN
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TOKYO -- As a brash executive at Apple Computer Inc. in the late 1980s and early 1990s, David Katsujin Chao sometimes slept at the office and worked in his pajamas. His ambition and quirky approach paid off: He helped launch Apple's aggressive growth plan in Japan, striking innovative software deals and even sponsoring a Janet Jackson concert. In just four years, sales in Japan jumped to \$1 billion from about \$70 million, former Apple Japan executives say.

Now, the 39-year-old Mr. Chao is trying to break the rules in a new industry -- the clubby world of Silicon Valley investing.



**David Katsujin
Chao**

Venture capitalists play a key role in funding risky start-up companies early on, when they may have big ideas but little cash. Until recently, it has been a local business: Many investors are based in Silicon Valley and still don't like to drive more than an hour to scout out investments. Mr. Chao wants to take the business global. "The world is changing," he says. "Companies can go public anywhere."

The jet-setting Mr. Chao, who is ethnically Chinese but was born and raised in Japan, is a pioneer in investing abroad. He started putting money in China in the late 1990s, and the firm he founded with partner Dixon Doll 10 years ago, DCM-Doll Capital Management, has devoted 25% of its latest \$375 million fund to international deals, an unusually large percentage for a firm its size.

Recent investments include a Spanish online-travel company, a Chinese semiconductor firm and a Japanese Internet-phone company. Now it is sniffing for deals in Romania and Ukraine.

The strategy implies that, "while his firm is located in Silicon Valley, its future isn't in Silicon Valley," says Sam Jadallah, a partner with rival Mohr Davidow Ventures in Menlo Park, Calif. "It's a provocative idea." Mr. Jadallah's own firm hasn't made any direct overseas investments.

Venture capitalists make money when the companies they back sell shares to the public or are bought out by another company. They had a heyday in the 1980s and 1990s

backing tech companies such as Cisco Systems Inc. and Amazon.com Inc. But many got clobbered by the dot-com bust earlier this decade.

Now, investment is picking up, including investment overseas in places like China, India and several countries in Europe. While a handful of firms have long had a modest overseas presence, particularly in Europe, a number of other venture firms recently have started cautiously dabbling in more-exotic overseas markets -- including China, a market some investors say already has become overheated. Venture-capital firms raised \$4.07 billion last year world-wide to invest in China, nearly five times the average of the previous three years, according to Zero2ipo Ltd., a Beijing research firm. That is one reason Mr. Chao's firm is also focusing on Japan.

Mr. Chao's mother was born in Japan, and his father emigrated from China during the communist revolution. Being ethnically Chinese growing up in Japan, he says he always felt like an outsider. His father's mantra, he says, was that being a minority meant working "three times harder than everybody else."

After graduating from Brown University, he worked at a Japanese employment-advertising company and at Apple Computer's Japan offices. He attended Stanford University's business school and worked in the U.S. as a business consultant before helping start Japan Communications in 1995.

Through an old Apple alumnus, Mr. Chao met Mr. Doll, a veteran U.S. telecom-industry consultant and investor who was looking for a partner. "I could see he was very coachable," says Mr. Doll, who is a managing general partner at the firm. He says he also thought Mr. Chao could help him build a more internationally oriented firm. Doll Capital now has about \$1.1 billion under management.

The firm's approach is risky. Traditionally, U.S. venture capitalists provide hands-on assistance to entrepreneurs, often in person, which is harder to do if the company is far away. However, investing globally can be lucrative. The appetite for stock offerings from small companies in the U.S. is still languishing, making it tough for venture capitalists to make money there. So taking companies public on foreign stock exchanges is increasingly attractive.

Doll Capital says companies can be nurtured anywhere. The firm's eight partners do much of their work through email and late-night conference calls, and also travel frequently. Five partners, including a newly hired partner based in Beijing, serve on the boards of overseas companies.

Mr. Chao is on the road so much that "I never really know where the heck he is," says Blake Krikorian of Sling Media Inc., a San Mateo, Calif., company that makes gizmos that let people watch TV shows on a computer; Doll Capital is an investor. Heidi Roizen, a venture capitalist who serves with Mr. Chao on Sling Media's board, notes Mr. Chao's globe-trotting makes him "sick a lot." Indeed, last year he got pneumonia. Mr. Chao sometimes wears a surgical mask when traveling to ward off germs.

So far, Mr. Chao's investments appear to be paying off. Last year, four of Doll Capital's companies completed IPOs in Japan, a market that hasn't been popular with American early-stage investors. Shares of three of the four Doll Capital companies in Japan, including Web-information provider All About Inc. and wireless-communications provider **Japan Communications Inc.**, a company Mr. Chao co-founded eleven years ago, have at least doubled since their debuts. All About's shares have nearly quadrupled. Japan's benchmark Nikkei stock average soared 40% last year, compared with a slightly negative return of minus 0.6% for the Dow Jones Industrial Average.

Not everything has worked out quite so well. Mr. Chao had a bumpy stretch in China for a while with 51job Inc., a Shanghai job-recruiting and advertising company that went public on the Nasdaq in 2004. Last year, 51job was caught off guard by a drop in recruitment-ad sales. Its shares plunged on the news, though they have since rebounded to \$14.61 a share from a 52-week intraday low of \$9.71. Still, the company has returned about 10 times Doll Capital's original \$14 million investment, making it a huge overall winner, says Mr. Chao.

And Doll Capital, despite its presence in China since 1999, missed out on Web-search engine **Baidu.com** Inc.'s IPO, the hottest Chinese offering on the Nasdaq last year. Mr. Chao says his firm had a chance to invest in Baidu but felt the price was too high.

Doll Capital also has struggled with chief executives who are less experienced than many start-up chiefs in the U.S. and with language and cultural issues. Such issues may explain why many U.S. venture firms are partnering with local investors in countries like China, instead of ferreting companies out themselves, and why Doll Capital recently hired the new partner in Beijing. It may also add a staff member in Japan.

And despite Mr. Chao's roots in the region, cultural snafus still pop up. At a party Doll Capital held in Beijing in January, many attendees said they were offended by the firm's business cards, which listed some contact information in Japanese in addition to English. Many Chinese harbor animosity toward Japan because of Japan's aggression in Asia during World War II, though the two countries now have extensive business ties.

Mr. Chao says Doll Capital has now told its partners they can use different business cards, including some without Japanese.

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