An Interview with Richard Hsu, Managing Director of Intel Capital China (2013)

By Jeffrey Towson

Venture capital is one of those areas where foreigners can invest in China (and other emerging markets) from a position of strength. Having expertise in a cutting edge technology and / or having access to global customers is usually more powerful than having capital. These are deals where foreigners can often trump local investors relying on relationships / guanxi. And high technology venture capital is a particularly good investment strategy for foreigners in this regard.

I spoke with Richard Hsu, Managing Director of Intel Capital China, about his experience investing in China as a foreign-owned company. Based in Beijing, Richard and his team have invested over $650M in +100 Chinese companies since 1998.

Richard Hsu is a Managing Director at Intel Capital, overseeing investments in China. Based in Beijing, Richard manages a team of investment professionals located in Beijing, Shanghai, Hong Kong and Xiamen and is part of the investment committee that approves investments in the region. He is also responsible for the $500M Intel Capital China Technology Fund II.

Richard holds a BA degree in Economics from Pomona College in Claremont and an MBA from University of Chicago. (Source: Intel website)

Jeff: How do you approach investing in China? What gets you on a plane quick if you see an opportunity?

Richard: At the end of the day, we're a strategic investor. Our investments are aligned with what our businesses are doing. We're not going to go invest in something just because it can be a great financial opportunity. But we also can't go and invest if it has nothing to do with our business. That's the first filter we look at: Does a particular business have something to do with our industry and how does it help our overall strategy? Is this company going to help expand the overall market for our products? Is it going to enhance Intel’s capabilities?

The second filter we go look at is "Is this particular investment going to make money for us? Is it a viable, long-term company? Does it have a realistic business plan?" That's where we start converging with the traditional financial investor approach.

Jeff: How about specific sectors? Is anything a greater focus than others?

Richard: We are focused purely on technology. We're doing a lot of investment around how to build ecosystems for Intel products. We build out our partners and invest in areas that are under invested. And we're probably not going invest in a company that's semi-conductor related and directly competitive with what we're doing. What we will do is semi-conductor investments that are complementary to what we're doing internally. For example, memory buffer chips. We're not going to do our own memory buffer chips, but we will invest in companies that have products that will complement our core products.

When you think of it from that perspective, it opens up a wide field of possible investments for us. Early to late stage. And I think it really depends on how it comes back to what our core strategy is, and how it fits into what our business units want to do. How do we build out capabilities that help expand our market and our products?

Jeff: For China going forward, what's on your short list of areas or company types?

Richard: The most obvious one is anything mobility related. In the last year and a half, computing has shifted from traditional desktop computing to mobile computing. That's a big trend everyone is seeing all over the world. With more powerful processors going onto handsets, more services being delivered via your handset and the increased convenience, it's a tectonic shift in the way computing is happening in people's lives. It is a very important area for us.

Our customers have started shipping Intel based mobile phones, and Motorola came out with the Razr in Europe. I don't think it's been introduced in North America yet. But it's been introduced here with China Mobile. It's a sweet looking phone. There have also been launches of other Intel based handsets in Europe.

It's going to be a long battle for the architecture of the mobile handset. Our role at Intel Capital is to try to figure out how we invest to support our strategies. How do we get more people onto the Intel architecture of the mobile handsets?

If you think about it like that, we're interested in services, we're interested in applications, and we're interested in application platforms. We're interested in anything that's mobile-related that will help differentiate our products or expand the market for people that are going to be demanding higher computing needs on their mobile phones. For example, you can tell that there is a significant lag on some of the apps running on the iPhone 3 versus the iPhone 4S. That's basically because of the processing required.

Jeff: Can you talk about specific investments you've made recently?

Richard: We've announced quite a few deals this year. Cloud computing is an area that we're very interested in that wasn't around 2-3 years ago. Cloud computing has been one of those things that people talk about but when you get down the details of it it's still pretty amorphous.

We invested in ZZNode Technologies in Beijing this year. It's a local Chinese company that does data center management software to help enable the cloud. If you think about how the cloud is building out here in China, what you really need to do is have a base layer of infrastructure and on top of the infrastructure you have to lay the infrastructure management. And once you have the infrastructure management, then you can start deploying the platforms. Once you start to deploy the platforms, you can start deploying the services and applications on top of that.

In China, it's still pretty early in the deployment process. You talk to a lot of people and they say that the cloud is 2-3 years behind the U.S. We're investing to fill the gaps on the infrastructure side and on the software management side.

We've also invested in a company called Cloud Union which is the Gaikai equivalent in China. Gaikai is the cloud gaming company that was acquired by Sony for $280 million earlier this year. The idea is that if you deliver high quality gaming experiences, you really want to have the processing happen on the server side. And then deliver via video down to the terminal side. That's what this company does.

We've got some other investments that are complementing our investment aims here in China as well. This year we have done about seven deals in total. The other company that we invested in recently is called Focal Tech and they do touch controller chips. Everything is going toward touch, and the controller that enables this is a critical component in the supply chain. This company is one of the leading providers of the solution to enable touch on the screen.

Jeff: How is living and investing in China different or the same as when you were in the US?

Richard: I've been fortunate to see China develop over the last eight years. When I first got here, the market was fairly immature. You were still educating the entrepreneurs about what a term sheet was. You were working with co-investors who were inexperienced compared to what you're used to in Silicon Valley.

Over the last eight years the market has developed dramatically to the point now where entrepreneurs are now very savvy about what the deal terms are. Frankly, they learn very quickly.

I think the biggest difference has been that eight years ago there were very few repeat entrepreneurs, whereas now you're starting to see more and more companies being funded by second time entrepreneurs. These are guys who have had a company, whether it was a success or a failure, and are coming back to market. They have learned from their first venture and are applying it to their new venture. I think it's a very healthy development in the market over here.

There's still a market opportunity here in China because I don't think it's quite as crowded as the venture space in the U.S. You take a look at what's going on in Silicon Valley today. A lot more of the investment is going two tracks. One is angel investing. And you've now got things like Kickstarter that are crowdsourcing investments. It's an open debate as to whether or not that's a good idea, but those resources are available. Then you have the giant firms who are writing mega size checks for companies that may gain some traction, especially in the Web 2.0 space.

The dynamics in the market are still a little different here in China. People tend to be a little more cash flow and revenue focused than they are in the U.S. Although you are now seeing an angel community here as well. You have a different set of players and different dynamics in the way companies interact with investors as well because of the plethora of capital that is available here in China.

Jeff: Last question. What is your favorite book? Any book you've read in your life that's really significant for you?

Richard: I don't read too many books. I read mainly periodicals. I tend to focus on history rather than investing. In some ways, I think there's a lot you can learn from history in the investment world. It's funny how things can often repeat themselves.

A book that I've been prying my way through is *Engines That Move Markets*, by Alasdair Nairn. Basically he goes through all the major innovations in history, starting with the railroad, petroleum, even PCs, and recounts the development of these industries.

It's a history book in a sense that it goes through the history of how these things developed. But it's also an investment book in the sense that it talks about history from an investor's perspective. What were the things that went right for these giant companies to stand out? How much capital was pumped into particular industries?

It's amazing. You realize, "Wow. History really does repeat itself." It's an interesting book. It's not the most exciting reading per se. I think you have to have a certain mind frame to read it, but I found it very interesting.