

# US investors open to good ideas

11 Mar 2008 | The Australian Financial Review | Jason Clout

Businesses making the daunting trip across the Pacific to break into the US market might not realize it, but they can have some genuine advantage over American businesses.

Experienced entrepreneur Larry Marshall said Australian companies often had much more in their repertoire than just a concept.

Mr Marshall, executive director of listed optoelectronics company, Arasor, has returned to Australia as part of the “Success in the US” tour, which has been organized by the ANZA Technology Network and Southern Cross Venture Partners.

Mr Marshall is also the managing director of SXVP, which has offices in Sydney and Palo Alto, California.

The ANZA Technology Network, itself based in Silicon Valley, works with chief executives and entrepreneurs to explore opportunities for Australian and New Zealand business in the US.

Mr Marshall said the lack of arrogance in most Australian researchers went over well in the US.

“They arrive and they wonder whether they are up to it because they haven’t worked in the big labs or had massive funding behind them,” he said.

“But they are adaptable and they often have a real operating business behind them.”

“In the US, venture capitalists [VCs] get used to dealing with PhDs who just take them through the Powerpoint presentation.

“Then the PhD packs up, walks up the road to the next VC and makes the pitch again.”

Often that was the extent of the “business”, he said.

Mr Marshall contrasted that with many Australian hi-tech firms. Those that journeyed to the US were usually well past the “just a good idea” stage, he said.

“To have got that far they had to establish the start-up business and probably had to meet some commercial targets, as well. The US VCs like that as they are dealing with a proper

business. Also, the Australian researchers tend to be willing to get on with things, whereas the PhDs from Berkeley or Stanford aren't always easy to deal with."

The small size of the Australian businesses can confer another advantage. With only a tiny domestic market, most innovative domestic businesses have to offer a range of products and services.

"There is a broad, but not deep, marketplace in Australia. It normally means a business here will be able to do three or four things," he said, increasing the chances the business might have one idea that could crack the US market.

"In the US, they can then focus on the one idea that has the most potential."

Last year SXVP, which has its local headquarters in North Sydney, raised \$170 million to invest in early-stage Australian business. When it launched the fund, Southern Cross's target investee companies were in advanced materials, technology, electronics, clean energy, defence technology, information telecommunications, nanotechnology and environmental science.

Much of that effort is going towards developing businesses that can carve a market in the US. SXVP introduces them to the so-called Tier 1 venture capitalists in the US.

Those top-level firms specialise in certain industries, which is harder for Australian VCs to do.

"We know which US firms to speak to. They know us and that makes it easier."

While Australian businesses might have appeal in the US, they also have to follow some rules. One is to establish a US office.

"Actually, what the US VCs like is the business to have an office there and here. Often these emerging businesses have two founders, which works as one can run the operation here while the other sets up in the US."

Retaining an Australian presence assists in keeping research and development costs down, given the lower cost of researchers here.

By bridging Australia and the US, Mr Marshall said the SXVP fund could provide long-term support for innovative businesses.

The problem some Australian VC funds had when they co-invested with the US giants was that the US funds could almost always outspend them, Mr Marshall said. That led to a dilution of the Australian VC's shareholding.

"So we wanted our fund to be large. We've got enough capital for the right businesses that we can make an initial investment of between \$US3 million (\$3.2 million) to \$US5

million, then another \$US4 million to \$US5 million in the next round of funding and then maybe another \$US3 million to \$US4 million a few years later.

“That possible total investment of \$US10 million to \$US12 million shows we’re in for the long run.”

Arasor’s chairman, Simon Cao, would take Arasor to its next stage of development, Mr Marshall said. It is involved in the laser-based display for the next generation of televisions.

But for Mr Marshall, it is the emerging businesses that are the most appealing. “I love start-up companies. That’s where my strengths are, rather than running a public company.”

Digital version available at <http://digitaledge.afr.com/today.html>  
Tuesday 11 March 2008, p. 21. Subscription required.

© [Copyright](#) 2008 Fairfax Media Publications Pty Ltd |