

# India/China Report

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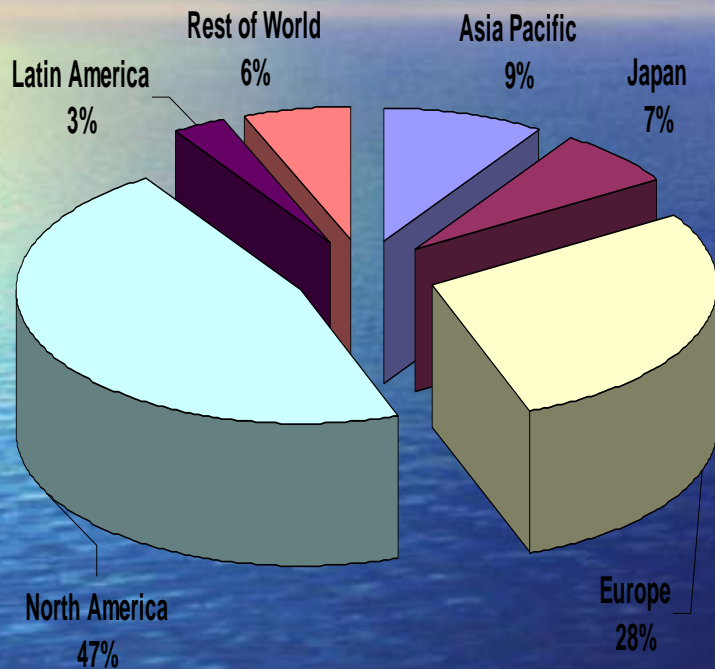
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## China Overview

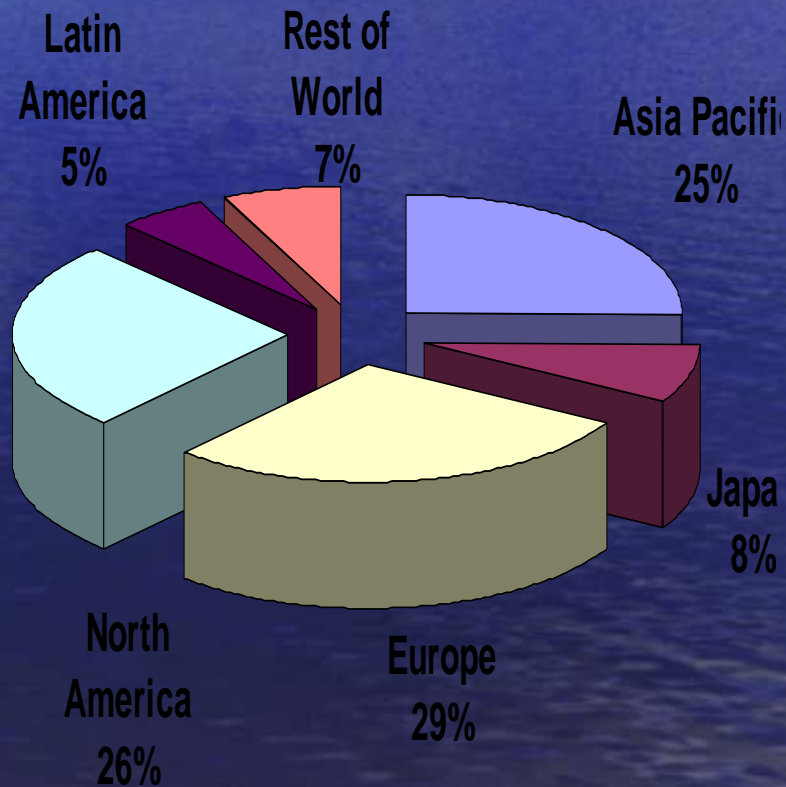
- Population: 1.3 billion
- Age Structure 0-14: 23% (male 155 M, female 141 M)
- 15-64: 70% (male 461 M, female 433M)
- Median age: 31.5 years
- GDP - Per capita: US \$4,800
- Labor Force: 800M
- GDP: US \$5.7 Trillion. Real Growth 8%

North America accounts for 26% of Internet Users. Down from 46% in 1998

1998 147MM Internet Users



2003E - 751MM Internet User



# Leading Internet User Markets – China Opportunity is Significant

Country	Internet Users	2002 Growth	Penetration	World
1 USA	162	14%	58%	27%
<b>2 China</b>	<b>59 (79)</b>	<b>75%</b>	<b>5%</b>	<b>10%</b>
3 Japan	53	27%	42%	9%
4 Germany	34	14%	41%	6%
5 UK	32	33%	54%	5%

# China's Leading Global Rank in TMT Categories

<u>TMT Category</u>	<u>Global Ranking</u>	<u>Units (MM)</u>	<u>2002 Growth</u>
Mobile Phones	1	207 (280)	43%
Cable TV	1	100	10%
Telephone Lines	1	207	16%
Internet Users	2	79	75%
Installed PCs	4	31	21%

# Market Conditions

1. Many US software products will be copied in China. Therefore, any venture must establish its reputation as the “legitimate” market leader and the product of choice for users.
2. Young professionals who have who are internet savvy and have the money
3. Cannot depend on the Government to help since it is focused on ensuring local competitiveness, including technology transfer
4. The government is pushing very hard on Linux (Red Flag Linux) or Open Source.
5. A limit on what consumers will pay or else consumers will just do it manually.
6. Size of the local market while growing is still smaller than Europe as a whole and still less open for many types of products

# Major Portals in China

1 Sina \$2,140 Market cap (MM) Sales: \$114 M

- Yahoo of China
- Has relationships with over 600 content providers.
- Has over 30 channels.
- Especially strong in the mobile space

2 Netease \$1.81 (MM) Sales:\$66 M

- #1 email provider in China. 48 M email users.
- 300 M average daily pageviews
- #1 online gaming channel. Publishes their own games.
- China Mobile CFO sits on the board.
- 6 M active monthly paying users
- US \$12.6 million quarterly operating cash flow

3 Sohu \$1.0 (MM) Sales: \$80 M

- #1 School Alumni club. 44 M (classmates.com)
- #2 gaming channel
- #1 real estate channel
- Exclusive partner of the NBA (Yao Ming)
- Exclusive partner of the Disney company
- Strong on e-marketing, targeting individual and corporate clients.

4 Foxmail Private Internet email client 3 M users

5 US portals with a strong userbase in China: Yahoo, MSN , Google

# How to Operate in China (Asia)

Be like Ebay. Become the dominant Player.

- 1 Stealth Growth. Stay under the radar.
- 2 Use China as the base for localization. Chinese, Japanese, Korean.
3. Establish a local SWAT team. (Business Development team)
4. Build critical mass through word of mouth.
5. Explore partnerships with the three portals
6. Generate Revenue.

## China copies and Exit opportunities

- Netease was the #1 performing stock on the Nasdaq in 2002
- Linktone: IPO 3/4/04 on the Nasdaq at \$14 a share. Market Cap \$85 M.
- Pending 2004 IPO's: Tom online, Shanda Networks, KongZhong.com (mobile games) Around 20 companies scheduled to IPO on the Nasdaq, HengSeng (HK) , Taiex and Singapore exchange.

### US Companies:

### Copy Cats: (Not If, but When)

- Amazon: DangDang.com, YooYoo.com.
- Yahoo, MSN, AOL: Sina, Sohu, Netease
- Expedia: Ctrip IPO on the Nasdaq 2003. Market cap \$460M.
- Google: Baidu (pending IPO), 3721 acquired by Yahoo for \$120M,
- Ebay: Alibaba, Taobao, Eachnet acquired by Ebay \$225M
- Monster: Job51.com (pending IPO), Crillion (acquired by Sina)
- PayPal: Chinapay
- Friendster: UUme (Accell, Doll), efriendsnet (Tim Draper), Smartfriends

# India opportunity

- Unlike China, India does not yet offer a significant local market
- Lot more focused on software and services outsourcing
- Over \$10B in exports of above in 2003
- 300,000 new jobs in sector in 2003, mostly in call centres/BPO services
- Most major and small US companies looking at India for development to customer service
- Telecom investments and qualified high quality workforce have been enablers of this trend

# India opportunity (2)

- Many young start-ups in technology are emerging in India
- US venture capital is showing broad interest in India resulting in many new ventures
- In the next phase entire software product families will be designed in India for the global market (moving from task oriented to product oriented)
- Fortune 500 getting very comfortable with India
- Infrastructure is still a challenge, but less so than in the 1990s (facilities/transport, power plant, telecom to site)
- Wipro, Infosys, TCS, HCL, Satyam etc have become large role models for a whole new generation
- However, not much manufacturing in India (compared to China)
- Pharma, autos and financial services are other areas of oppty

# Conclusions

- This coming decade could be that of India and China
- Structural problems remain in both countries but change agents abound
- Sustained 7-8% GDP growth likely 04-09
- Many Indians and Chinese returning to their native lands to start businesses
- Success stories driving individual desire to be part of the "gold rush"
- Foreign investments likely to grow esp in India in the coming years (India has less than \$10b vs China at \$50b plus in foreign direct investments)

Q & A

