

NIKKEI ASIAN REVIEW

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Interview

A 'unicorn' investor turns his attention to China

SHENZHEN -- Few technology entrepreneurs start even one company that reaches "unicorn" status, achieving a market valuation of \$1 billion or more. Elon Musk has started three. Xiaomi's Lei Jun has built two.

Bill Gross has started and exited from seven unicorns and has another two in his active portfolio. Gross is the founder and chairman of Idealab, one of America's oldest and most successful technology incubators.



Bill Gross, founder and chairman of tech incubator Idealab

Gross was born in Japan, but moved to California as a boy and got his start as an entrepreneur while in middle school. He started Idealab in 1996 when he was 38 in Pasadena, near where he studied at the California Institute of Technology. He had already started and sold two software companies before deciding to use some of the proceeds and funds from investors he knew to start his own incubator.

Unlike most other incubators and venture capital funds, Gross comes up with most of the ideas for new Idealab companies. Idealab then provides the first round of capital for each new company and hires a chief executive while Gross takes on the role of nonexecutive chairman. Idealab also takes care of back-office work like human resources and accounting during the early stages.

In the last 20 years, Gross has started 150 businesses. Of these, he has successfully exited 45 through initial public offerings or sale to private buyers including Tickets.com and Citysearch. Over the years, Gross has sold companies to Google, eBay, AOL and Airbnb. Besides internet companies, he has also launched ventures in solar and renewable energy, robotics, online education, wireless networking, 3D printing machinery and home medical care.

Gross long ago stopped raising money from outside investors. Idealab is a corporation, not a fund. Gross has the kind of freedom most tech entrepreneurs can only dream of, with the imagination, drive and capital to start a few new technology companies every year. Idealab's capital contribution into each new company is about \$250,000. If a company grows according to plan, Idealab then raises outside money from venture capital firms, mainly the large ones based in Silicon Valley. Idealab has so far generated returns of 13.5 times its invested capital and still has about 45 companies in its portfolio.

For 20 years, Gross has seen technology business opportunities earlier than most people. Gross recently sat down with Peter Fuhrman, founder, chairman and CEO of China First Capital, an investment bank based in Shenzhen, China, and the Nikkei Asian Review to discuss his growing interest in China and the rest of East Asia.

Q: Can we have a peek inside the current Idealab portfolio? Talk to us about companies you think have the potential to grow into billion-dollar businesses within the next few years.

A: I have mentioned my lifelong passion for clean energy and making solar energy cheaper and more efficient. We have two companies now, Edisun

[Microgrids] and Cool Energy, that have unique solutions that are finding a lot of market acceptance. Edisun both generates and stores solar energy, so it can be delivered to the grid when it's needed. Cool Energy uses a Stirling engine to capture low-temperature waste heat, like from machines in a large factory, and turn it into clean electricity. It can also make electricity from waste cold, like the huge refrigeration vessels used for LNG storage.

Mark Andreessen, the guy who invented the first commercial web browser and is now a successful venture capital investor, has said that "software is eating the world." He means that just about every product and service is going to need more and better software in the future. I agree.

The problem is, where are all those new software engineers going to come from? We've started two companies to teach kids how to write software, codeSpark and UCode. We're noticing codeSpark has more and more kids in China using it to learn to write software. We need to come up with a Chinese version, as well as Japanese and Korean ones.

One other area where we see huge potential is capturing and analyzing more and better mobile data, then using it for more efficient advertising. This could be as big a future market as "pay-per-click" online advertising that earns so much money for Google and Baidu. I have a longer history in this area than most people. Overture, a company I started and sold to Yahoo for \$1.6 billion in 2003, was an early successful pioneer of online advertising.

Q: Up to now, you have focused only on building breakthrough tech companies in California to serve the U.S. market. There are other places in the world with money and markets for good technology.

A: I think we are in a very exciting time where technology and innovation permeates everything we do, and every company. If the previous 20 years of my life were devoted to fostering entrepreneurship, I would love my next 20 to be about pushing new technological boundaries to make the world a better place.

I see a fusion of powerful and positive forces taking place in Asia that could allow greater China to emerge as an important constituent in globally important innovation, both as a market and as a base of ideas and manufacturing. This will be good for China, good for Asia, good for the U.S. and good for the world.

I'm an inventor, and so I have always looked to China. I have huge respect for the ingenuity, diligence and entrepreneurship of the Chinese people. Look at

the example of China's greatest inventor, Lu Ban, who lived almost 2,500 years before America's Thomas Edison. He came up with ideas for flying machines and all kinds of advanced wooden implements.

China should not only be a source of innovation to the world but also a large market to deploy new technologies to upgrade China's economy, especially in manufacturing and high-tech. This excites us more and more at Idealab.

Q: Can there be breakthrough innovation where there isn't complete and reliable protection for intellectual property?

A: Possibly, but it's certainly much harder. There's been perhaps too much of a reliance up to now in China on tech transfer and reverse engineering. These can speed up economic development in the short term, but may discourage the conditions and incentives to optimize China's own capabilities and ingenuity.

Q: So what role can you envision China playing as one of the world's centers of technology innovation?

A: China, like the U.S., is a place where a large domestic market, manufacturing strength, capital and entrepreneurial culture all come together.

A few years ago, I gave myself a challenge, to come up with one new business idea every day. I've mainly been able to keep up that pace. We could start even more companies, but there's often one big constraint. We can't find enough great people to run each new company. Greater China is blessed with having a large number of talented managers and engineers. That's a huge and valuable resource.

Q: China and America are the two places with the heft to deliver in collaboration dramatic improvements to the world's well-being. Shouldn't Idealab be more in the lead?

A: We need to play on a larger global stage, in particular to become more deeply integrated in East Asia. It is both an important market for new breakthrough technologies and well as an ideal place to prototype and manufacture new products.

We want to be part of the process of finding technology solutions to the biggest and most important problems. Equally, we want to tap into and help develop into important global companies the ideas, insights and solutions from smart people in Asia. Stay tuned.

Interviewed by Peter Fuhrman, founder, chairman and CEO of China First Capital, an investment bank based in Shenzhen.

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