

Gerard van Swieten of LvS Partners

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. Interested in learning more about investing in startups, launching a new startup need to raise funding to start funding espresso as a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso and to learn about startup funding to subscribe to Disconnect Dog and put your email into the Pop-Up Box.

Speaker2: [00:00:45] Hello, I'm the host of Investor Connect Hall Martin, where we connect startups and investors for funding. Today, we have joining us Gerard van Swieten , managing partner, LvS Partners. LvS Partners specializes in funding and executing the international expansion of innovative growth stage companies. They're especially active and experienced in Asia China expansion. Gerard , thank you for joining us.

Speaker3: [00:01:06] Thank you very much.

Speaker2: [00:01:08] Great. So your firm does expansion investment. What is this and how does it actually work?

Speaker3: [00:01:15] So expansion investment is the art of investing in a company and then expanding it to a new market. So it's a very active type of investment. So you practice to give you a concrete example. A few weeks back, we invested in a Singaporean company called Protec, which does basically IT service for the real estate sector. And we invest and at the same time we start working on their China expansion. So that can be a China expansion through a strategic joint venture. And in a few weeks, we've got an already pretty far with that joint venture. So in the long term, that value had a strategy of connecting a to be company. In our case, we only invest in it need to be high tech companies. So the value of helping that company expand to Asia and China in particular is a huge value added strategy. It's a huge driver of value gain. So that is the that is the expansion part. Now, of course, there's different facets to this. You have to be there's different options to invest and there's different options to expand. So what differs us is that we're very hands on on the expansion. So we're very on the ground. We take

over at that company's China expansion that companies China Asia expansion. So that means having the teams on the ground to distribute products, having managing factories here, managing production here, all these facets. And so that is where we see the biggest, let's say the biggest challenge for tech companies today is to reach Asia and particularly China. And it's very hard for a company to do that without having senior management personnel on the ground and kind of having board members or even shareholders on the ground. So that's that's what we combine.

Speaker2: [00:03:23] So have you incorporated the strategy and your firm's practice? What have you done so far in this area?

Speaker3: [00:03:29] So we have by now we have two funds and made investments over currently 10 portfolio companies. So these 10 companies are in biotech. We have a company from Israel called Simon Seed. So to make an early stage, they're an early stage drug development company and a drug. We have five companies in new energy ranging from ranging from battery technology, fuel cells to energy saving technologies to recycling. And we have for media entertainment companies. So these are more I.T. companies, software companies mostly. So we built that out. We're very active on the ground expanding those companies. So that means every week we we help those companies execute their Asia in particular China expansion strategy. And so we work extremely close with the senior management and report back to them constantly on how the expansion is going, what the results are, what we can do more. So it's a very on the ground active post investment strategy. But in some cases, we also use expansion as a pre investment strategy. So there's a little bit different because as you probably know, if you come to a company and you ask them, do you want to they want they're looking for investment and then you you want to expand them, they will usually say, yes, let's do it. How about you invest first and then we go expand. Then in some cases, we want to see first whether this company can in fact, expand and whether that technology is ready. So then we will do a pre and pre investment expansion. So there's a lot of different options to do. And that's where the the nuances and that's where we are given our backgrounds have been working most on. So I've been here in China for twelve years. My partner, Nick Larsen from Denmark has been here twelve years as well. So we really yeah, we really focus on that in practice, kind of knowledge of how to do it on the ground.

Speaker2: [00:05:49] So what are the advantages of this strategy over other ones, such as the value added strategies?

Speaker3: [00:05:54] Yeah, so the advantages are for the company is that you get smart money, you get not just investment, but you also get access to new market, potentially you. And reduce production costs. I mean, as you know, China is especially in Asia, China is is the biggest player and the fastest moving market. When you look at the macroeconomics and the gravity point of the world is is already moved to Asia. And there's so many more STEM graduates, there's so much more GDP to so much R&D budgets. So in our opinion, for every European or let's say American or Western, because we we also have Australian companies, but every Western company that they're either their key competitors coming from China or Asia or the biggest market is going to be China or Asia. So we help them make make it the biggest market rather than sit in Europe, sit in the US, say, oh, my God, there's another competitor coming over the next 10 years. So that's the clear advantage for the company and the advantage for the investors is that when you come in as a partner, as an investor expansion investor, you come in at a different proposal to these companies. Do you you always have a seat on the table when you're talking not just investment, but you're talking expansion. So this creates a better preferential investment terms. We can invest in investment terms that are better because the company wants us involved, because it strengthens their their team and it kind of gives them also a different kind of return, which means we are in different markets now. We have an expansion in Asia. We have new users or we have a strategic partner or we're able to produce a different prices. So that is yeah, that is how it works for both.

Speaker2: [00:07:56] Great. So what's the primary trend in the Asia China expansion for Western companies?

Speaker3: [00:08:03] The trends I mean, the trends have been moving for a long time. So as you see now, you see actually a lot of foreign companies have are reducing their manpower here. So you see more and more expats moving out of China. Of course, pre Koven This was already happening, but now post covid, it's getting more. I would say that the most of the international communities have been have their cut in half and there's several reasons. One of course, is people going home before covid and never returning. The other one is the pricing. So so I expect employees have been quite pricey compared to Chinese employees and Chinese

employees have become more competitive. What that means, though, is that you're still looking for you're still looking for somebody to really understand your company abroad and really understands the Chinese market and can build that bridge. So that long term trend is something that we see a lot because a lot of foreign companies also, let's say, should themselves in the foot when they're when they're going too quickly for a Chinese partner or choose choosing too quickly for a local CEO without really knowing that person. So there's a trust gap that is widening and we are there to to build bridges in that trust gap and basically achieve that, that a lot of different corporations can be executed because you have a third party involved. You have your investor who also knows the other side, who's down on the ground and knows the market here, speaks the language, has a wide network and is able to execute.

Speaker2: [00:09:54] Great. So what makes for a successful company to invest in and expand to China? Where are the characteristics?

Speaker3: [00:10:00] So in our case, we have we have a whole set of criteria where we we check these companies on for for China readiness or Asia readiness. So this includes the readiness of their technology, but also how it can be. Is it ready for mass production? Is it ready for mass use? Because in many cases people underestimate what mass production or mass usage does to your product. If you have a into it and you're looking at a million users and now you're looking at ten million users, then the let's say the small problems in the software become very visible. And the same is for production. You need to have a product is ready for mass production in China and there's a lot of challenges that come with it. So that's what we check. Number one, we also do a lot of checks for the management. So when we meet managers, we need to be sure that they are, let's say, open minded enough or. Have the right. Viewpoint about China to be able to to work on an expansion here. So those are the main criteria. And for us, we invest in three categories, Olby to be so we don't look at expanding brands, consumer brands to China, I must say. Yet you never know. But but biotech, health care, industry 4.0 and especially especially new energy, these are categories that where China is really looking for foreign technology and currently with the 20, 30, 20, 60 agenda. So the decarbonization agenda in China, this is such a gigantic need and an opportunity for Western companies with suitable technology to move to an impressive scale very, very quickly. So that's that's China. You can you can also scale you cannot imagine at a very quick speed. And so that's what we what we do.

Speaker2: [00:12:09] Right. So what else should we know about this segment? What what do you think is the key criteria to make this thing actually work,

Speaker3: [00:12:17] To make the expansion work or to make the investment work?

Speaker2: [00:12:22] Well, both started with the expansions working. The investment would work, or is that not the case?

Speaker3: [00:12:28] That is definitely the case. So that is also why we are so hands on. So if we if the expansion works, if you have any Western company that has successfully been able to have a sustainably growing China business or a China sales channel, that company globally becomes very valuable. So it's it's really about making sure that company in the twenty first century has not just access to, let's say, European company has access to the European market and the American market, but is also able to have inroads in Asia and China in particular. That is going to be the defining factor for a true multinational. So when you're looking at investments, it's rather I would say it's rather turning it around is rather saying how can a company be truly successful if it's missing out in the future and about at least half or one third of of the world economy, if it's not present there, if it's not present in the fastest growing sector, how can it how can it really compete if it's not connected to the most advanced production chains? How can it how can it really perfect its technology and perfect its product? So that's how we see

Speaker2: [00:13:46] What's a good point. So what changes do you expect to see in the coming 12 months in this area?

Speaker3: [00:13:52] Not too much changes. It's been going on for a long time. That's what we see. So we are also very much on the ground. So we are really active with our projects. And one of the advantages is that you are very detailed, but it also means that you're less focused on less in macroeconomics because so much is determined in how you execute. Even in a difficult market, you can win so, so, so that and and the larger changes really have been happening for a long time. I think the most impressive trends and let's say for the next 12 months that will continue is is decarbonisation. I think each one of us who would have thought five, 10 years ago that oil oil companies would really that most the car brands are going for one hundred percent electric. That is it's incredible. I mean, and also in China, because worldwide there is a large

perception of China as, oh, this is just the polluting country. But China is moving for a carbon peak in twenty thirty and complete carbon neutrality by twenty sixty. And if you see that it's basically the world's factory, right. Then that's even more impressive. And if you see if you talk with with large Chinese companies, you find that the large, especially the energy generation companies, they they have a limitless budget for new energy and they have they cannot build another coal plant. So it's it's so extreme for the thought. And so this is going to continue. And there's a lot of issues in this. So there's a lot of issues for different new energies, for different types of batteries. And I think that is something that everybody should get on board with. And it's it's a good development. We should we should support it worldwide.

Speaker2: [00:15:57] Well, that's a good point. In the last few minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:16:02] I think we we covered everything. I think one of the final things. Say, is that in our opinion? So we are a little bit different in that we're very hands on working very closely with the company and we really see that that is a trend that I think will continue, because you can kind of you can kind of always most investors look for the same thing and there's an overcrowded mess and looking for the same kind of companies, looking for the same kind of strategies. And I think being very hands on is something that for many investors is quite uncomfortable because you need to be in the fields. You need to be in the factories, you need to be in in in the distribution teams everywhere. But I think in the future, that is where a real big differentiator is, because if you look worldwide, I'm sure the same in the US. This basically everybody's going to college. And so having a college degree or having being able to think at a college level is not really that unique. What is unique, I think, is somebody can use a college degree but also can execute on the ground and also can understand investment. So it's it's no longer about having the perfect term, let's say, the perfect Excel sheet. But I think it's going to be increasingly about what can you execute in my company? What can you bring to the table and execute? And so we see that our experience is really that even when we are investing in companies that have much larger investors on board, that is still a differentiator. That always get you on the table because it's it's it's something so different. So I think that's a trend that that is very positive. And I hope that more and more investors will will will roll up their sleeves and really actively do something in companies rather than have to have a large strategy. I mean, this has always been our approach. And so I hope that continues.

Speaker2: [00:18:15] Well, that's a great point. I hope it continues as well. So how best for listeners to get back in touch with you?

Speaker3: [00:18:20] Yeah, this is a place connect with me on LinkedIn. LinkedIn is the preferred way we always watch this. We we we have a we have a LinkedIn page for four hours and some tweets and as well. So we we show our all our updates whenever we start and expansion, whenever we complete an investment so people can follow us there. Please connect.

Speaker2: [00:18:45] We'll put that in the show notes. Want to thank you for joining us today. Hope to have you back for a follow up soon.

Speaker3: [00:18:50] Thank you very much, Martin. It's been a great experience.

Speaker1: [00:18:59] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect. Doug Alti Martin is the director of Investor Connect, which is a 5.1 C3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.