

VanceInfo IPO buoys VC backers Sequoia, DCM

by David Shabelman

VanceInfo Technologies Inc. on Wednesday became the first Chinese technology services company to launch an initial public offering.

Shares of the software outsourcing company, which priced at \$8.50 on Tuesday, closed at \$9.96, up 17.2%, helped in part by a rally in the broader market. The IPO raised \$65 million, with VanceInfo selling 6.3 million American Depository Shares and investors selling 1.35 million shares. The company, which is incorporated in the Cayman Islands but whose home office is in Beijing, said it will use the proceeds for general corporate purposes.

VanceInfo, formerly WorkSoft, provides offshore software development services for North American and European companies. Its services include research and development, application development and maintenance, and quality assurance and testing. Its customers include Citigroup Inc., Hewlett-Packard Co., IBM Corp., Microsoft Corp., Motorola Inc. and Tibco Software Inc.

Although Indian, Eastern European and other non-U.S. outsourcing companies have been building technology for corporate customers for years, Chinese players have entered the fray more recently. In China, VanceInfo will compete with domestic outsourcers such as Achievo Corp., Augmentum Inc. and Chinasoft International, while publicly held Indian heavyweights include Infosys Technologies Ltd., Satyam Computer and Wipro Ltd.

For the first six months of 2007, VanceInfo reported net income of \$3.6 million on revenue of \$25.4 million, compared with earnings of \$1.7 million on revenue of \$11.1 million for the year-ago period. For all of 2006, the company reported net income of \$4.4 million on sales of \$29.1 million.

Although VanceInfo's customer base is expanding, it still depends heavily on business from Microsoft Corp. and IBM, which together accounted for 40.5% of its revenue for the first six months of 2007, although that was down from 53.1% for all of 2006.

Alexei Miller, executive vice president of [DataArt Enterprises Inc.](#), a New York provider of software outsourcing services with development offices in Russia and other locations, said Western companies are increasingly turning to foreign tech developers for sophisticated information technology tools, rather than for only call center, systems management and other lower-level services.

"Initially the offshore outsourcing industry was all about cost," he said. "Eventually, people started to think in terms of efficiency, not just cost, because there's a shortage of IT professionals in the U.S., London and other areas. You have to plug in all those talent holes."

VanceInfo's investors include venture capital powerhouses DCM and Sequoia Capital, both of Menlo Park, Calif., with Sequoia Capital China partner Kui Zhou sitting on the software developer's board. Other backers include Legend Capital, the corporate venture arm of Chinese information technology giant Legend Holdings Ltd.

DCM is selling 1% of its stake in VanceInfo, which is worth \$2.5 million, but will keep 16.3% of the company, worth \$50 million. Sequoia Capital is selling 100,000 shares worth \$850,000, but retain 20.3% of the company, which is worth \$62.4 million.

Citigroup Global Markets Inc. and Merrill Lynch & Co. served as joint book-runners for the IPO. Working on the deal for Citigroup were Ben Druskin, David Lau, Karen Yau, Ernest Fung, Min-Taik Oh, David Mastrangelo, John Scuzo and Brian Li worked on the deal, while Robert Chiu led Merrill Lynch's team. Jefferies & Co. and Susquehanna Financial Group LLP served as co-underwriters. David Zhang of Latham & Watkins LLP represented VanceInfo in the offering, while W. Clayton Johnson of Cleary Gottlieb Steen & Hamilton LLP represented the underwriters.

VanceInfo trades on the New York Stock Exchange under ticker symbol VIT.