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# The 21st AVCJ Awards

Asian Venture Capital Journal tasks itself with highlighting the firms, professionals, investments, exits and fundraises that are a cut above the rest. We do this on a continuous basis through our editorial coverage and then on an annual basis through the AVCJ Private Equity & Venture Capital Awards.

The awards are a showcase for first-class innovation, ingenuity and performance. They are also unique in how they are distributed – relying primarily on nominations and votes cast by Asia's private equity and venture capital community, but with contributions from select panels of industry judges and the AVCJ Editorial Board.

For the 21st awards, nominations opened in August 2021 and names were put forward on behalf of third parties as well as directly. Individual firms were restricted to one submission per category. All submissions had to relate to fundraising, investment and exit activity over the 12-month period ended September 24, 2021.

The entries were evaluated by the AVCJ Editorial Board and a long list was created. The judges assessed the long list and had the opportunity to review original submission papers and propose alternative candidates. Their collective recommendations formed the basis of the final shortlists drawn up for each category.

The shortlists were posted online for the private equity and venture capital community to cast their votes through November 2. No more than 10 votes were accepted from the employees of a single firm. Registered voters and the judging panel each had a 50% say in the result.

This assessment process did not apply in three categories. The Operational Value Add Award and the Responsible Investment Award were both presented based on recommendations by industry

professionals with experience in those fields. The AVCJ Special Achievement Award was presented at the discretion of the AVCJ Editorial Board, although external suggestions were considered.

We are indebted to our expert judges, who made the time to participate in the process. For 2021, they included representatives from:

- |                            |  |
|----------------------------|--|
| • Adams Street Partners    | • HarbourVest Partners                           |
| • Allianz Capital Partners | • HQ Capital                                     |
| • AlpInvest Partners       | • LGT Capital Partners                           |
| • Asia Alternatives        | • Morgan Stanley Alternative Investment Partners |
| • Azimuth Asset Consulting | • Pantheon                                       |
| • Capital Dynamics         | • Portfolio Advisors                             |
| • Future Fund              | • StepStone Group                                |

For the Responsible Investment Award:

- |                          |                        |
|--------------------------|------------------------|
| • Asian Development Bank | • GPCA                 |
| • Control Risks          | • LGT Capital Partners |
|                          | • Turnkey Group        |

For the Operational Value Add Award:

- |                             |                  |
|-----------------------------|------------------|
| • AlixPartners              | • Bain & Company |
| • Alvarez & Marsal          | • KPMG           |
| • Anchor Strategic Partners | • PwC            |

Congratulations to those who took home prizes, and many thanks to everyone who participated.

We will preserve in our efforts to make the AVCJ Awards relevant, appealing and reflective of the work being done throughout the asset class in Asia. With this in mind, any feedback is much appreciated.

**Tim Burroughs**  
Managing Editor  
Asian Venture Capital Journal

Sponsored by



**Baker  
McKenzie.**

# AVCJ Private Equity & Venture Forum – Korea

20 May 2022

📍 Four Seasons Hotel, Seoul and Online



The 9th Annual AVCJ Korea Forum will bring together over 400 senior alternative investment professionals from around the globe for a day of insightful discussions on domestic and international private markets. The forum will provide an exclusive platform to network and connect with over 150 local institutional investors who are looking to commit capital to alternatives.

## Topics to be discussed:

1. What is the outlook for global private markets in 2022 and beyond?
2. After a bounce back year for dealmaking in South Korea, will the momentum continue?
3. With increased access to private credit opportunities, how should Korean investors approach this asset class?
4. How will the technology landscape change with more and more investors entering this space?
5. How are Korean LPs planning their future commitments in alternatives?

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A snapshot of the  
AVCJ Korea Forum:

**365+**  
Attendees

**230+**  
Organisations

**230+**  
Limited Partners

**30**  
Expert Speakers

**24**  
Countries

<https://community.ionanalytics.com/avcj-korea-2022>

  #avcj-korea



# Roll of honour

## FUNDRAISING OF THE YEAR – VENTURE CAPITAL

5Y Capital Evolution Fund II & 5Y Capital Growth Fund I (5Y Capital)

## FUNDRAISING OF THE YEAR – MID CAP

Kedaara Capital III (Kedaara Capital)

## FUNDRAISING OF THE YEAR – LARGE CAP

KKR Asian Fund IV (KKR)

## DEAL OF THE YEAR – SMALL CAP

Ajaib (Alpha JWC Ventures/Horizons Ventures/Insignia Ventures/SoftBank Ventures Asia/Y Combinator)

## DEAL OF THE YEAR – MID CAP

Danggeun Market (Altos Ventures/Aspex Management/Capstone Partners/DST Global/Goodwater Capital/Kakao Ventures/Reverent Partners/SoftBank Ventures Asia/Strong Ventures)

## DEAL OF THE YEAR – LARGE CAP

China Biologic Products Holdings (Centurium Capital/Hillhouse Capital/Temasek Holdings/Trustar Capital)

## EXIT OF THE YEAR – IPO

Zomato (Ant Group/Baillie Gifford/Bow Wave Capital Management/D1 Capital Partners/Dragoneer Investment Group/Fidelity/Glade Brook Capital/Info Edge India/Kora Management/Sequoia Capital India/Shunwei Capital/Temasek Holdings/Tiger Global Management/Uber/Vy Capital)

## EXIT OF THE YEAR – SMALL CAP

Integreon (NewQuest Capital Partners)

## EXIT OF THE YEAR – MID CAP

Infogain (ChrysCapital)

## EXIT OF THE YEAR – LARGE CAP

Softex Indonesia (CVC Capital Partners)

## OPERATIONAL VALUE ADD

Best & Less (Allegro Funds) & Integreon (NewQuest Capital Partners)

## RESPONSIBLE INVESTMENT

The Arnott's Group (KKR)

## FIRM OF THE YEAR – MID CAP

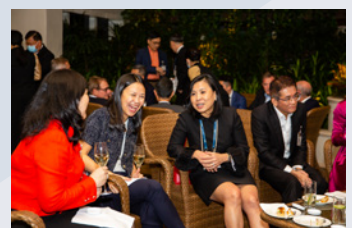
Quadrant Private Equity

## FIRM OF THE YEAR – LARGE CAP

Baring Private Equity Asia

## AVCJ SPECIAL ACHIEVEMENT AWARD

Weijian Shan



# AVCJ Awards 2021: Firm of the Year – Large Cap: Baring Private Equity Asia

**Baring Private Equity Asia claims that a thematic approach to origination and flexibility on deal structure allow it to pursue opportunities with greater conviction in a high-valuation environment**

**Y**ou need growth today to justify the valuations we are seeing in the market. Unless you can underwrite strong growth, how do you make your return?” said Jean Eric Salata, CEO of Baring Private Equity Asia (BPEA). “That is an important part of our playbook: find growth sectors and have a plan to transform companies so they are more digital and benefit from those growth trends.”

It has underpinned a prolific year for the private equity firm. Around USD 3.3bn of equity was deployed across eight deals with a combined enterprise value of USD 20bn in the 12 months ended September 2021. At the same time, USD 8bn in liquidity was generated, including USD 6bn in cash proceeds, through two trade sales, two IPOs, and various recapitalisations and other exits.

The common factor across new and realised positions – from Virtusa to Telus International, Hinduja Global Services to JD Health, and The CrownX to Hexaware – is not only growth, or even elevated valuations. It is a thematic approach to deal origination rooted in a few key areas where repetition leads to the accumulation of expertise and the conviction to compete for assets.

Salata admits there are dynamics beyond BPEA's control. In a world where 10-year fixed-income returns are 1.5%, companies with cash flow profiles expanding at 20% per annum are commanding 20x multiples because that represents the present value of future cash flows. In this way, the multiples being paid for high-growth assets are the inverse of the interest rate.

Value creation can differentiate one proposal from others, but it is also the buffer PE firms build into investments in case growth scenarios don't play out as planned or multiples contract on exit. ►



Gordon Shaw of BPEA and Baker & McKenzie's Tracy Wut

**“You must pick the areas you are most interested in and build expertise so you can affect the outcome of an investment”**

*– Jean Eric Salata*

BPEA's thematic approach – driven by IT services, healthcare, financial services, and consumer – is based on a recognition that it cannot be competitive in every situation because it can't know everything.

"You must pick the areas you are most interested in, build expertise so you can really affect the outcome of an investment, and identify potential targets and go after them if they become available," Salata explained. "For example, if we see something in medical aesthetics in China, that's going to be a priority because we've looked at five other deals in the space and we liked them."

### Into the cloud

This is best demonstrated in technology services, where BPEA has made 10 investments, tracking a shift to cloud-based operations, an increase in demand for outsourced services that has accelerated due to COVID-19, and more scope for niche providers. These trends are encompassed by three companies that featured prominently in 2021: Hexaware, Telus, and Virtuos Games.

Hexaware represented an early foray into the sector in 2013. Jimmy Mahtani knew the business well from his time at General Atlantic (GA), which invested in Hexaware not long after he was recruited by BPEA in 2006. A controlling position became available because NEC dallied over an acquisition, allowing BPEA to buy shares held by GA, ChrysCapital, and the promoter.

It took a 52% stake, launched an open offer for the rest and reached 71%, not enough to complete a privatisation. Undeterred, the GP embarked on a transformation program, moving from legacy support work characteristic of business process outsourcing (BPO) to digital solutions such as cloud applications and development. These now account for more than 60% of revenue.

"We honoured the price agreed by NEC, INR 135 per share, which was 6.5x EBITDA," said Mahtani, a managing director at BPEA. "At the time, Hexaware was relatively undermanaged and growing at 6.5% per year. We replaced 14 of the 15 top leaders, including the CEO, augmented the board, and brought in industry specialists. The CAGR [compound annual revenue growth] in our core digital segments was 18% through the life of the investment."

A sale of Hexaware to The Carlyle Group was agreed in autumn 2021 at a reported valuation of USD 3bn – versus USD 560m on entry – but this misses a crucial part of the story: on exit, BPEA owned the company outright, making it a much more attractive prospect to strategic and financial investors. That was the result of some quick thinking during the initial stages of COVID-19.

Like most GPs, BPEA responded to the pandemic at a portfolio level by scrutinising cash reserves and cost structures, as well as operational sustainability. Best practices were shared among the IT services companies, and it soon became apparent that a rebound was underway. Corporates were not cutting IT spend; in fact, they were investing in work-from-home platforms.

"Helped by some farsighted CEOs who introduced contingency measures, we were able to demonstrate to customers that we could still deliver services," said Kenneth Cheong, a managing director in Singapore. "We saw a surge in business as other companies in the space were not able to react as quickly and meet their service level offerings in terms of security and privacy."

Nevertheless, Hexaware's stock remained stubbornly low. Having seen the price halve from its pre-COVID peak of INR 450, BPEA submitted a take-private proposal of INR 275 per share and eventually got a deal at INR 475 – a premium justified by the broader array of exit options. "If it weren't for the pandemic, I'm not sure we would have been able to get it done," Mahtani added.

### Refining the model

If Hexaware helped establish BPEA's technology services playbook and COVID-19 reinforced the thesis, then Telus and Virtuos capture different aspects of its execution and evolution.

The Telus opportunity arose in 2016 because Canadian telecom giant Telus Corporation wanted an Asia-based partner to help develop what was essentially a call centre business. BPEA acquired 35% at a valuation of USD 930m and worked with management on a blueprint for transitioning into a digital-first customer support operation that blended voice services with email and chatbots.

Telus doubled down on fast-growing technology verticals and used bolt-on acquisitions to bring in new capabilities and customers such ►





as artificial intelligence-enabled data cleaning and curation for Google and content moderation for Facebook. Meanwhile, an Asia-centric geographic footprint with a touch of Latin America and Eastern Europe was extended across Europe.

BPEA received USD 367.5m from the company's USD 1.06bn dual IPO in New York and Toronto in early 2021, and another USD 405.3m from a secondary offering. This left it with a 26% stake worth USD 2.5bn as of mid-October 2021, implying an overall return – realised and unrealised – of 10x.

Exploring bolt-ons in certain verticals has contributed to the GP's direct investment activity. Nothing came of attempts to take Telus into healthcare IT, but BPEA picked up CitiusTech and AGS Health in 2019 and Hinduja Global Solutions in 2021. Meanwhile, a pivot by Coforge – also backed by BPEA since 2019 and partially exited last year – helped minimise COVID-19 impact.

"About 30% of the client base was in travel, tourism, and hospitality, and the rest was insurance, financial services, and a few other generic areas. They landed a large client during the downturn, so the financial services business grew 30-40% while travel contracted by 10%," said Mahtani. "It's not easy, but if you have existing reference points in sectors, it helps."

Virtusa was BPEA's largest acquisition of 2021 at USD 2bn, but it appealed because the revenue base is so concentrated in terms of sector coverage (financial services, technology,

and healthcare) and customer (J.P. Morgan, Citi, Google, and Anthem). Virtuos, on the other hand, is a smaller pureplay pursued in part because of the growth Telus is seeing in its game developer services vertical.

"Our original investments in tech services were generic, with companies providing multiple service offerings. As we got more experience and knowledge, we identified sub-sectors where we saw growth potential or market tailwinds. It's on a flywheel with new things popping up and existing models changing," said Cheong.

"With Virtuos, we looked at ancillary areas in the gaming ecosystem. We differentiated ourselves in a competitive process through our knowledge of gaming and our ability to bring portfolio synergies."

### Beyond buyouts

The Virtuos situation demonstrates BPEA's appreciation of the need for greater structural flexibility in execution as well as its thematic approach to deal sourcing. Had a significant control opportunity been available in the gaming space, the firm would have mounted a pursuit. But none were forthcoming, so it opted for a minority position in a high-growth business.

While buyouts remain core to BPEA's strategy, minority investments are increasingly significant. Around 10% of Fund VIII – which had surpassed its USD 8.5bn target as of year-end 2021 – is expected to be deployed in high-growth



companies and special situations, with additional capital earmarked for corporate partnering.

“When you are organised around sectors, in addition to looking for buyout opportunities, you pay attention to what’s happening in other types of investments or companies. If you don’t do that, you risk getting blindsided,” said Salata. “Sometimes, we see opportunities from a top-down perspective, but control isn’t available, so we combine our buyout strategy with a very selective growth or minority strategy.”

This played out to great effect with JD Health. BPEA’s interest in healthcare IT was well-established, and within a China context, the most interesting opportunities were in consumer-facing online-to-offline platforms offering telemedicine and prescription drug services. JD Health was the market leader, but online retail giant JD.com could hardly be expected to cede control.

BPEA participated in a USD 1bn round for the company in 2019 at a valuation of USD 7bn. JD Health listed in late 2020 and now has a market capitalisation of around USD 30bn. The private equity firm made a partial realisation by borrowing against the value of its shares, given this was considerably higher than the investment cost.

Other high-growth, minority investments include artificial intelligence chip designer Horizon Robotics. The CrownX, an O2O consumer-retail business controlled by Vietnam’s Masan Group, qualifies as high growth and corporate partnering, much like JD Health. Meanwhile, Shinhan Financial Group and RBL Bank are special situations plays.

Strategic diversification of exposure at the portfolio level feeds into a broader debate at the fund level. In the past few years, real estate, real estate logistics, and credit vehicles have been introduced alongside BPEA’s buyout offering.

“Each of our strategies has a different risk-return profile and different underlying exposure. We want to provide the most return for the least amount of risk at any point along the curve,” said Salata. “Private markets are creating more ways for investors to get access to private company returns. We are a partner for LPs in this process.”

### **A broader platform**

BPEA now numbers about 220 people. While investment teams continue to grow – typically by

recruiting out of business schools and promoting from within – it has bulked up across other areas as well. There is now an in-house debt capital markets function as well as more expertise across digital, legal and risk, ESG, and investor relations.

Equipped with a platform capable of supporting multiple strategies, the firm has considered launching a growth fund. Long-dated capital structures could also be on the agenda, a concept Salata favours above permanent capital.

“The ultimate beneficiaries of what we do are mainly pension funds and retirees of those funds. When you are paying a monthly benefit off a pool of capital, that is easier with longer dated assets to match your longer dated liabilities,” he said. “A 10-year asset is pretty good, but a 15-year asset is even better, if you can generate similar IRRs.”

BPEA has experimented with different ways of extending the holding periods for companies, including selling on assets to later-vintage funds and single-asset continuation vehicles.

Assets suited to longer-dated funds, however, must demonstrate a certain kind of risk-return dynamic: the corporate transformation has been completed, and the business is stable enough to generate consistent returns over a 10-year period. Not everything fits this profile, as evidenced by the surge in sponsor-to-sponsor transactions in Asia.

BPEA has been a frequent participant in these deals, as buyer and seller. Outsourced content provider Straive and, more recently, corporate services specialist Tricor Global were both acquired from other financial sponsors, while Hexaware, the mapping business of Japan’s Pioneer Corporation, and precision engineering business Interplex went in the opposite direction.

Hexaware attracted substantial interest from strategic investors as well as global PE players, and even as the field thinned to three, Mathani wasn’t sure which way it would go. However, Salata believes the momentum has shifted fundamentally towards financial sponsors – as evidenced by their willingness to bid up multiples.

“Until recently, you would have got a higher valuation from a strategic, but now private equity has moved it up,” he said. “People look around and they want to buy growth. It goes back to that cash generative business, growing at 20% a year. In certain sectors, you can underwrite that.” ■

# AVCJ Awards 2021: Firm of the Year – Mid Cap: Quadrant Private Equity

**Quadrant Private Equity's recent deals have focused on defensive, non-cyclical sectors, but the Australian GP continues to track a consumer story driven by technology and new modes of delivery**

**T**he flurry of dealmaking that followed the close of Quadrant Private Equity's fifth fund – and eighth overall – in late 2017 reflected several consumer themes: the consolidation of fragmented industries; expansion beyond Australia; and bringing traffic to shopping malls under pressure to counteract the rise of online retail.

The gyms, restaurants, and entertainment centres that characterised this approach were all hit by pandemic-related lockdowns. Even as customers returned with the reopening of the economy – supporting Quadrant's belief that it was investing in essential services, given the degree of consumer discretion was relatively low – the PE firm has become more cautious.

"We have probably moved to a more defensive orientation given the environment. That consumer-experience thesis has been impacted by COVID, but importantly we are seeing these consumer businesses bounce back quickly. And demand remains very strong," said Alex Eady, a managing partner at Quadrant. "Consumer investments will remain a pillar of our portfolio, although the way we deploy those products may evolve."

Investments made from Quadrant's flagship mid-market fund over the past year capture this dynamic. The tail-end of Fund VI and the beginning of Fund VII feature primary healthcare provider Fullerton Health Australia, early education business Affinity Education, and project consultancy TSA Management.

The consolidation theme is still there, but all three investments are supported by non-cyclical megatrends. Stability of funding is another common characteristic. Users of both Fullerton and Affinity receive government support, through childcare subsidies and universal health insurance,

respectively, while TSA consults on many capital works projects for government clients.

"With TSA, there is exposure to huge infrastructure spend on Australia's east coast, as well as pre-COVID and post-COVID commitments from the government to create jobs. It represents a suitably long-term macro trend with a government counterparty, and we liked that," said Eady.

## Going direct

At the same time, Quadrant invested in My Muscle Chef, which represents a tech-enabled evolution in the typical consumer model. The company sells around 20m pre-packaged meals every year to more than 90,000 online customers. In the past two years, revenue and customers on weekly subscriptions have grown 5.5x and 3x, respectively.

Quadrant identified the opportunity through bottom-up research, initially driven by developments in its existing portfolio. First, the potential for health and nutrition-oriented offerings like My Muscle Chef was evident in demand patterns among the 800,000 members of Fitness & Lifestyle Group, Australia's largest gym chain, which the private equity firm acquired in 2016.

Second, My Muscle Chef advocates a direct-to-consumer (D2C) approach, delivering 70% of its meals to the customer's doorstep. Quadrant has backed several D2C companies through its growth fund, notably Adore Beauty, an online beauty products retailer that went public in late 2020.

"We like D2C because we own the customer, we don't rely on retailers or other traditional distribution channels," said Eady. "We see more pureplay D2C opportunities as well as traditional businesses pivoting to D2C. The challenge of the model is achieving scale and finding companies ►

with a trajectory that is attractive to buyout.”

Nevertheless, D2C is filtering through from growth to buyout funds. The former was introduced as means of acting on opportunities – sourced through Quadrant’s advisory networks – that were being overlooked due to minimum cheque size constraints. But there appear to be synergies between the two strategies as well: the growth fund explores new ideas that influence decisions at buyout level.

Quadrant has raised new capital across both strategies in the past year, defying COVID-19-related complications to complete each process within eight weeks. Fund VII closed on AUD 1.24bn (USD 938m) in December 2020 and a second growth vehicle of AUD 530m followed eight months later. The firm raised AUD 1.15bn and AUD 400m in the previous vintage.

“COVID certainly changed the fundraising process in that meetings were virtual rather than physical. Given the LPs know us well this was not really a hurdle and in fact probably streamlined the process if anything, particularly for scheduling,” said Chris Hadley, Quadrant’s executive chairman.

Only one new investor was admitted to the latest buyout fund. There were a few new faces in the growth vehicle, which was previously raised solely from existing buyout LPs. The strength of the returns that underpin Quadrant’s popularity were confirmed last year when it became the first Asia-based manager to make the top 10 of the HEC-Dow Jones Private Equity Ranking.

### Exit options

The seven new investments completed during the 12 months ended September 2021 (four for the buyout fund, three for the growth fund) were accompanied by two partial exits by IPO (Adore

and care dealership Peter Warren Automotive) and one full exit (diagnostic imaging business Qscan).

Demonstrating exits from Fund V helped lay the ground for the latest fundraise, Eady noted. In addition to Qscan and Peter Warren, disability services provider APM and experiential tourism business Journey Beyond were sold in 2020 and early 2022, respectively. Three companies remain. More recently, customer experience provider Probe CX (Fund VI) was exited to KKR.

Quadrant generated a near 3x return on Qscan, having acquired a 48.8% stake in 2017 and worked with the partner doctors to grow the company’s network to 72 clinics. The GP’s position was taken out by Infratil and HRL Morrison, which bought 70% of the company at a valuation of AUD 735m.

It is one of numerous recent examples of infrastructure managers targeting core-plus infrastructure assets – known for stable income streams, but requiring some operational involvement, and generating returns that fall in between infrastructure and private equity.

“These tend to be large-scale, structurally supported businesses, often government-funded, with high barriers to entry and portfolios of physical assets that are hard to replicate,” said Eady.

Quadrant has exited businesses with similar characteristics in the past, such as Canberra Data Centres, which was sold to Infratil and Commonwealth Superannuation Corporation in 2016. Last year, cancer care provider Icon Group – which Quadrant sold to a PE consortium in 2017 – was acquired by EQT via an infrastructure fund.

As the list of business types deemed appropriate for core-plus infrastructure funds lengthens, it’s conceivable that Fullerton Health will be targeted. The possibility of raising separate pools of capital so these assets can be retained by rather than sold off has been discussed, but it might be seen as odds with the focus on velocity of capital that is responsible for much of Quadrant’s success.

“We talk a lot, internally and externally, about the velocity of our business – raising capital, deploying capital, and working hard to return capital. That really drives our economic model,” said Eady. “The opportunity set is broad, our brand is strong, we have a loyal set of investors that have supported us for many funds.” ■

“Consumer investments will remain a pillar of our portfolio, although the way we deploy those products may evolve” – Alex Eady

# AVCJ Awards 2021: Fundraising of the Year – Venture Capital: 5Y Capital

**5Y Capital's history encompasses early bets on change across mobile internet, smart cars, and biotech in China. The VC firm remains committed to challenging consensus views**

**5**Y Capital's latest fundraise was not only significant in terms of size – USD 700m was collected for a venture fund and USD 1bn for an accompanying growth-stage vehicle – it also coincided with a rebranding. The name Morningside Venture Capital is no longer a feature of China's technology, media, and telecom (TMT) space.

"Rebranding is a precious opportunity to stimulate curiosity about us in the market and to communicate with others; it's also precious opportunity for us to reflect internally on what 5Y Capital is, the value we provide, and our differentiated methodology," explained Richard Liu, a founding partner of 5Y.

That said, most LPs in the new fund were present in the previous vintage – the firm raised USD 1bn for its previous set of venture and growth funds in 2018 – and in several preceding vintages. They were familiar with the team and with a strategy that has changed little in years.

The rebranding included a new slogan: You who are crazy in the eyes of others are beginning to be believed. This is essentially a message to entrepreneurs as 5Y looks to back visionary start-ups that bring paradigm change.

"Such change might be very unclear and non-consensus in the early stages. It may begin to make sense only several years later. But once embraced by the mass-market, it leads to huge innovation and makes a significant impact on society," Liu added.

## **Pivotal transitions**

The first paradigm change the 5Y team bet on was mobile internet. It was the first institutional investor in Xiaomi, a mobile phone manufacturer that built a smart devices ecosystem, and an early backer

of short video platform Kuaishou. Both companies went on to list in Hong Kong, with 5Y said to have generated an 886x return on Xiaomi.

The focus then shifted to artificial intelligence (AI) and robotics – 5Y began tracking AI-enabled trends in 2014 – and from there to autonomous driving and smart cars.

"In 2014-2015, we concluded that the next paradigm shift in AI would be robotics, with smart cars as the first killer application," said Liu. "The biggest difference between robots and mobile phones or PCs is that robots have the ability to perceive and make intelligent decisions."

5Y's three key early investments were in electric vehicle (EV) manufacturer Xpeng, automotive AI computing platform Horizon Robotics, and autonomous driving technology player Pony.ai.

There were several reasons for the emphasis on smart cars. First, 5Y recognised that the need to comply with passenger safety standards meant that autonomous driving would require intense computing power. Second, the relatively high unit price of cars would translate into demand for expensive microchips and sensors. Third, progress would stimulate automation in other industries.

"We expected large car delivery volumes to create a scale effect, bringing down the cost of relevant chips and devices. This would help build a comprehensive supply chain," Liu said. "Consequently, a cleaning robot would enjoy the spill-over effect of the technology and supply chain that developed around smart cars."

Meanwhile, AI is behind a similar paradigm change in biotech, facilitating the adoption of new drug discovery methods. Four years ago, 5Y incorporated ITBT – IT plus biotech – as a key strategy. It is underpinned by the integration of



## “We are, to some extent, a knowledge management institution”

– *Richard Liu*

computer science and life science: the use of algorithms to predict the structures of proteins based on DNA or RNA sequencing and accelerate macromolecular drug development.

Nevertheless, 5Y continues to define itself as a generalist. The firm started out pursuing a single strategy – consumer internet or model innovation – and then moved into hard technology, such as cloud computing, AI, and semiconductors, and life sciences, but evolution has been natural and logical.

“We don’t recklessly expand our investment field. For example, our entry into life sciences came from the accumulation of knowledge in AI and cloud computing over a long period. We are constantly expanding our cognition boundary and learning ability. We are, to some extent, a knowledge management institution,” Liu explained.

### Later and larger

The firm also broke new ground with the latest fundraise by introducing a separate growth fund. Previously, sidecar vehicles were employed to re-up in later-stage rounds for companies and avoid excessive dilution. Now, 5Y can do this and explore new growth-stage opportunities. The LP bases for the venture and growth funds are identical.

The new investment strategy is run by a separate team that is expected to rely more heavily on quantitative analysis tools than in the early-stage space. Modelling is easier when target companies have greater balance sheet transparency and the future drivers of business growth and operating costs are better understood.

Growth-stage activity in China has surged in recent years, but momentum ground to halt midway through 2021 as regulatory uncertainty descended on the technology sector, especially consumer-facing companies.

Valuations corrected across public markets, almost regardless of impact to specific business models, and this filtered through to private markets. But Liu is relaxed about immediate turbulence, regarding valuation cycles as a recurring phenomenon across early- and growth-stage investments and the secondary market.

“The value of a good portfolio may grow 5-10x over five years, and we have found this growth rides out most short-term volatility,” he said.

“When the market is high, the best way to manage valuation risk is to stick to or even raise your standards and back only the best companies. When the market drops substantially, don’t lose your nerve and cash out; there might be great opportunities to screen and observe which are the best quality companies and entrepreneurs.”

Moreover, 5Y claims a differentiated investment rhythm. For example, Liu disputes the notion that the potential of model innovation has expired and hard technology will deliver the best returns. Consumer internet is still core to 5Y’s strategy and the firm is tracking opportunities in local brands, new consumer retail, and immersive interaction.

Model innovation and technological innovation are inseparable; indeed they are complementary and mutually reinforcing, Liu stressed. “China has entered a new era where model innovation alone is not enough. Technology must be lockstep with model innovation – when the model moves forward, so does the technology.”

This is perhaps best characterised by the sheer scale of China’s internet industry. Many local companies have more than 500 million users, which means they must deploy cloud computing and cloud-native infrastructure on a level beyond the comprehension of most foreign competitors.

The theme resonates in the mission statement behind 5Y’s new slogan: to support ideas that are not yet widely understood. And in embracing the new, the firm benefits from the decisions of old – a network of portfolio companies and entrepreneurs that includes board seats at Xpeng and Xiaomi, now global leaders in mobile and automotive.

“A lot of intelligent products will emerge in these two industries, and they will integrate a lot of technology,” Liu added. “We have grown up with these industries, so we can bring resources to start-ups and be part of that development.” ■

# AVCJ Awards 2021: Fundraising of the Year – Large Cap: KKR

Working around travel restrictions and reaching into the high-net-worth segment were key themes as KKR raised USD 15bn for its fourth pan-Asia fund, the largest vehicle of its kind to date

**W**ith 290 LPs, KKR's fourth pan-Asian fund boasts more investors than any other vehicle raised by the PE firm globally. This is partly the result of efforts to develop the family office and high net worth individual (HNWI) constituency – where a lot of relatively small checks can add up to a significant amount.

“Building out our private wealth business has been a key strategic priority for KKR globally. We now have dedicated people in this area, including a head of private wealth in Asia who is building a team to cover private banking channels, ultra HNWIs, and single- and multi-family offices,” said Sarah Zhang, an Asia-based principal in the firm's client and partner group.

“Of the Asian Fund IV investors who were not in Fund III, 50% of them were private wealth clients.”

KKR's global investor relations team numbers more than 100 people, and it is growing in depth as well as in size. The introduction or repurposing of talent to focus on HNWIs reflects a broader strategic evolution. Where previously relationship managers were siloed by geography, now they are becoming specific to client types or even product families, such as credit or real estate.

This greater bandwidth underpinned a three-pronged Asia fundraising effort across private equity, infrastructure, and real estate in the past 24 months, with aggregate commitments amounting to more than USD 20bn. Of this, USD 15bn went into the fourth regional PE fund, which has become the largest vehicle of its kind ever raised.

Launched in November 2019 and closed in March 2021, the Fund IV process largely coincided with COVID-19. However, it wasn't unduly disrupted, something Zhang credits to concerted pre-marketing, which began in the summer of 2019 ▶



Markus Elgoff of KKR (left) and Alvarez & Marsal's Xuong Liu

“We did not experience any slowdown in fundraising, even in the early stages of the crisis”

– Sarah Zhang

when deployment of Fund III reached 70%.

Soft launches in Southeast Asia, Japan, and China were followed by KKR's global investor conference in June. Numerous Asian executives attended and then toured the US, giving LPs progress updates. The firm's Asian investor conference took place in September with a lot of existing investors in attendance. Further meetings coincided with the AVCJ Forum in November.

"By the time of the formal launch, we had met a lot of investors in person on listening tours and pre-marketing meetings. We then held group due diligence sessions in London, New York, and San Francisco, with a lot of LPs attending each one. Our country heads and macro team gave presentations and had one-on-one meetings said Zhang. "Many overseas investors got what they needed from these sessions, so when COVID hit, we were in a good position in terms of due diligence."

At the end of February 2020, with international travel increasingly difficult, the IR team ceased in-person meetings. Public markets tanked soon after, leaving many LPs overexposed to alternatives on a relative basis. The release of revised private market valuations a few weeks later redressed the balance, but investors were already working towards a planned mid-year first close for Fund IV. Awareness of the deadline may have been heightened by memories of investors being cut back in Fund III after coming in late.

"We did not experience any slowdown in fundraising, even in the early stages of the crisis," said Zhang.

Tensions between China and the US posed another problem. KKR's portfolio is diversified, with China accounting for about 30%, but some family offices in Europe and the US – that don't necessarily have to maintain Asia allocations – stayed away. This did not prevent the firm reaching a first close of approximately USD 10bn in June.

Even though many LPs were able to conduct early due diligence in person, Zoom played an important role in the fundraise. Anyone writing a check of USD 100m or more would typically meet with Asia head Ming Lu plus the six country leads. They might also engage with the Capstone operations, capital markets, and product teams.

"On traditional in-person roadshows, the team was usually constrained by how long they can

spend in a single location, and meetings would be crammed into a few days. The beauty of virtual is that you can schedule at the investors' convenience. I give a lot of credit to our leadership team for prioritizing LP meetings. Even our senior-most leadership made themselves available around the clock," said Zhang.

### A broad footprint

Of the 85 investors in Fund IV that had previously not committed to KKR's Asian PE strategy, few came in purely based on virtual diligence. Yet the broader fundraising dynamics during COVID-19 – a flight to familiar names with established franchises in the region – have been beneficial.

The firm has one of the largest footprints in Asia with 75 investment professionals spread across eight offices. As of September 2021, it had backed 96 companies, deploying more than USD 23bn. Meanwhile, Fund III looked promising, marked at a 44.1% gross IRR and a 1.9x multiple in June 2021. There was a significant early exit, with Korea's KCF Technologies generating a 6.5x return.

KKR's investment thesis is rooted in the broad Asia consumption story and the rise of the region's middle class. Zhang believes this broad thematic approach – and KKR's willingness to contribute its own capital to the cause, with a balance sheet and employee commitment of USD 1.3bn – was a compelling proposition for LPs that may draw comfort from a pan-regional strategy.

At the same time, it is important to include narrative context and trace the sectoral threads that make up a portfolio that stretches from corporate carve-outs in Australia to growth-stage rounds in China. For example, KKR received a lot of questions about the increasingly prominent role of technology in its investments, not only as a value creation tool but also as a target sector.

"A lot of what we do in the technology sector is buyouts or control investments. We have defined rules as to what gets invested by the fund, and companies are typically profitable or on track to profitability," said Zhang. "Under the standard mandate of the Asia PE fund, we usually shy away from backing companies that haven't proven their ability to scale or become profitable. We do also have an opportunistic bucket that backs companies in the growth equity category." ■

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# AVCJ Awards 2021: Deal of the Year – Small Cap: Ajaib

Having spent more than a year perfecting its product, Ajaib turned Indonesia's brokerage industry on its head in six months. Emphasis on product and customer engagement have paid dividends

**A**jaib was no overnight success, but founder Anderson Sumarli firmly believed that “slow is fast.” The company spent 12 months finding the right product-market fit and launched in early 2020. Within six months, it had become Indonesia's fifth-largest stockbroker by trading volume.

For Sumarli, the planning began in 2018 while he was still an MBA student. He wanted to launch a digital platform for insurance, but soon realised that Indonesian consumers were using insurance as a means of investment. This provided the impetus for turning the business plan on its head and creating mutual fund platform instead.

“When we started out and launched in early 2019, very few investors believed that Indonesians actually want to save and invest their money for the long term. Everyone assumed that people were just purchasing a lot of stuff on e-commerce sites. We were very lucky to have investors who really believed in what we were doing from the beginning,” said Sumarli.

Ajaib raised a USD 2.1 million angel round in 2019 from Insignia Ventures Partners, SoftBank Ventures Asia, and Silicon Valley-based Y Combinator.

With the growth of the mutual fund platform, it became apparent that investors preferred to invest in stocks directly rather than have managers make trades for them. Ajaib duly altered course. Sumarli would speak to 50 customers per week in the early days, trying to understand their needs and motivations. Lacking reliable data, he favoured direct and deep interaction over surveys.

The most telling insights often came in the last five seconds of conversations, when the customer thought the interview was over. For example,

one customer was effusive in his praise for the product, then at the very end, said that he wished there was a place where he could learn about investment. Ajaib added an education feature, which is now among the most popular.

These moves were motivated by gut instinct – something Sumarli believes is responsible for the best and worst decisions people make. His rule is to be conscious of where decisions come from.

Sumarli laboured over perfecting his product because it had seen so many start-ups embark on aggressive and expensive marketing campaigns before they were ready. By contrast, Ajaib didn't spend anything on marketing in year one. This led to slower growth, but relying on word-of-mouth translated into greater stickiness because customers actively sought out the platform.

“It's really important to start with the right foundations. You don't want to fool yourself and think that you have product-market fit when in fact your exponential growth is coming from exponential spending of money, not from a superior product that wins over a long period of time,” Sumarli explained.

In this sense, he borrowed from Y Combinator's philosophy: it's better to have 100 customers who love your products than 1,000 customers who just like your products.

## Scale proposition

With the right product and a loyal customer base, Ajaib entered 2021 aiming to hyper-scale. More capital was raised to support these ambitions, with Li Ka-Shing-controlled Horizons Ventures and Alpha JWC Ventures leading a \$25 million Series A round in January. SoftBank Ventures Asia, Insignia Ventures, and Y Combinator re-upped. ►

Two months later, Ribbit Capital led a USD 65m extension. In October 2021 [after the qualification period for the AVCJ awards had ended; Ajaib won for the Series A], a Series B closed on USD 153m. DST Global took the lead, with Insignia, Ribbit, Horizons, and SoftBank contributing additional capital. The valuation was USD 1bn, making Ajaib Indonesia's seventh unicorn.

Sumarli noted that the investors are contributing more than capital. Y Combinator, which has seen thousands of companies graduate from start-up to IPO, helped the company on organisational structure as headcount 50-fold to 500. Alpha JWC, an Indonesia-based venture capital firm, has provided input on recruitment.

Ribbit, meanwhile, facilitated access to other financial technology start-ups in its portfolio. There were introductions to David Vélez of Nubank, a Brazilian digital bank that listed last year, and S.G. Lee of Viva Republica, operator of Korean money transfer app Toss, which is valued at USD 7.2bn. Both gave advice on scaling and strategy.

Returning to the topic of product-market fit, Sumarli noted that it is possible to have the right product but the wrong customers. Ajaib initially targeted the upper income segment, but it turned out the middle-income and low-middle-income brackets were the most underserved.

The company emphasised attracting first-time users, especially millennials, leveraging education-driven communities, lower commission fees than local brokerages, and fractional shares that lower the financial entry barrier. This was supported by slick technology. New users can open an account in as little as two hours, while transactions can be executed and portfolios tracked via mobile.

"There are three key factors in launching a good fintech product: a user-centric product; the

development of a strong distribution network and community to lower customer acquisition costs; and close ties with regulators and the ability to securing licenses. Ajaib has demonstrated strong capability in all these areas," said Yinglan Tan, founding managing partner at Insignia.

### Quality control

Ajaib was also careful in its regulatory positioning, which delayed its launch. The company wanted to hold its own brokerage license, rather than partner with an existing financial institution, even though this meant building the entire service stack from scratch. A license was secured in 2020 through the acquisition of Primasia Securities, a decades-old brokerage firm.

Sumarli – who believes regulators should be treated as partners – felt vindicated in that it allowed Ajaib to pursue its own vision and retain full control over product, operations, and distribution channels. "You need to establish a direct relationship with your customer and not go through another platform to distribute your products," he added.

With the company headed in the right direction, Sumarli's focus has shifted from questioning customers to ensuring he has the right people to maintain quality at scale. Recruitment now accounts for approximately half his time, up from less than one-quarter in the early days.

The company has barely scratched the surface in terms of expansion. It counts more than one-third of Indonesia's 2.6m retail stock investors as customers, but there are still many prospective first-time users waiting to be converted in a country with a population of 270m. While cross-border moves have been considered, Indonesia is the current priority.

"Indonesia is the largest market in the region, if you win Indonesia, you win Southeast Asia," said Insignia's Tan.

Indeed, Ajaib may have his eye on a broader product offering within the domestic market. The company is readily compared to Robinhood Markets, which is credited with leading a revolution in retail trading services in the US. Sumarli, however, would prefer to be the Indonesian equivalent of blue chip asset manager that serves institutional and retail clients: Charles Schwab. ■

**"You need to establish a direct relationship with your customer and not go through another platform"**  
*– Anderson Sumarli*

# AVCJ Awards 2021: Deal of the Year – Mid Cap: Danggeun Market

A social, hyperlocal overlay has made Korea's Danggeun Market a subversively complex e-commerce play. As the company scales and experiments, it reflects new confidence in its home market

**D**anggeun Market's Series A and B rounds in 2016 and 2018 were provided by VCs already familiar with an overlooked Korean start-up opportunity set; Strong Ventures, Capstone Partners, Kakao Ventures, and SoftBank Ventures Asia (SBVA). By 2019, when fellow local player Altos Ventures co-led a USD 33.6m Series C for the flea market app with US-based Goodwater Capital, the secret was out.

Now, it appears the floodgates have opened in earnest. In the past 18 months, unicorn IPOs and trade sales with global strategics have given Korea's traditionally insular tech scene a global, heavyweight profile for the first time. Few investments demonstrated this evolution as dramatically as Danggeun's Series D in April 2021.

Altos, Goodwater, Strong, Capstone, Kakao Ventures, and SBVA returned for the USD 162m round, with incoming investor DST Global taking the lead. They were joined by Aspex Management and Reverent Partners at a valuation of USD 2.7bn, a 15x increase on 2019. It followed a growth spurt that saw the number of monthly active users (MAUs) jump from 500,000 to 15m in the space of three years.

"What's interesting about this Series D is that more people are understanding that it's more about community than commerce transactions, and that this idea could be something very interesting," said Moon-Suk Oh, a partner at Altos. "We think of it as a hyperlocal version of Naver, the Google of Korea."

## Local lynchpin

Being hyperlocal is the key. P2P used goods sales were a helpful way to engage users and initially build up audiences in tightly defined geographies.

Once that is achieved, the most intuitive course of action would be to focus on straight advertising – but that's not the plan. The voluntarily social, neighbourhood-level intimacy Danggeun mimics online creates much more interesting possibilities.

To date, business growth has centred around the commerce function and establishing Danggeun as a kind of hyperlocal Yellow Pages. Small merchants are opening their own storefronts on the platform to target their immediate communities, and a payments app is currently being rolled out to further monetize their participation.

But in the years to come, the fact that Danggeun is facilitating communication and data gathering at a sub-suburb level is hoped to reveal new business lines in areas such as hyperlocal social media and classifieds for group activities. This is addictive behaviour territory; Danggeun's MAUs already spend 2.5 hours a day on services of this kind.

Already, micro-communities are forming on Danggeun around meetups for breakfast, coffee, and jogging. To some extent, this is believed to be a reaction to the isolation that has come with pandemic-altered lifestyles. To keep things close-knit and neighbourly, GPS is used to verify the local residency of users, who are peer-reviewed via an eBay-style feedback system.

"We've invested in some start-ups that have grown to meaningful size, but we're seeing some of the best talent choosing Danggeun over others. Engineers and product people are very excited about the vision, the growth, the amount of work that can be done, and the opportunity that represents in terms of dealing with a new type of service and traffic," Oh said. ▶



“That is really the strongest validation that we have. Whether the valuation is right or wrong, or whether the company can grow 5x from here, no one knows. But they’ve been hiring the best talent in Korea for the past 12-24 months.”

The influx of talent has led Danggeun to experiment with going abroad earlier than most Korean start-ups, adopting the name Karrot, an alternate spelling of its literal English translation, in overseas markets.

The first moves were into Japan and the UK; developed economies with massive urbanisation are seen as the best fit for second-hand commerce platforms. Canada is the current priority, with co-founder and CEO Gary Kim having relocated to the country earlier this year.

Danggeun’s dominance back home hints at the potential of these international beachheads. It is now said to have 93% market share in the domestic second-hand goods space (compared to 77% in April 2021), surpassing Netflix, TikTok, and Instagram in terms of downloads. MAUs have ticked up to 16m since the Series D, and total

users amount to some 21m, or 41% of Korea’s population.

### Naver gazing

Scaling a P2P used goods business comes with significant challenges related to the taxation of big-ticket items and dispute resolution between buyers and sellers. To some extent, the hyperlocal focus is seen as helping minimise these issues; the idea being that neighbours are less likely to post misleading item descriptions to each other.

“Not many apps have achieved that kind of traffic in Korea. It requires substantial investment, and given Danggeun’s foothold in the hyperlocal area, we’re not seeing that many new entrants,” Oh said. “We’re seeing founders attempting different categories like restaurants, real estate, or connecting for classes. But it’s hard to find one platform that does everything.”

The most comparable player is Naver, which set up Korea’s first online flea market, Joonggonara, in 2003, and it’s worth noting that that Danggeun’s Kim was a product manager at the search engine as the platform expanded. Joonggonara was acquired last year by a consortium including Lotte Shopping and Opus Private Equity.

Meanwhile, Naver has launched a hyperlocal community bulletin board called Neighbor within its Naver Café app as well as a sneaker reselling platform called Kream, which is backed by Altos and SBVA. Korea’s largest retailer, Shinsegae, is making similar moves, sometimes via VC unit Signite Partners. These include a tie-up with E-mart to sell used luxury goods and an investment in community-centric marketplace Bungaejangter.

The point being, while all eyes have been trained on signs of an IPO since Danggeun’s Series D, hyperlocal and second-hand have become hot themes in the strategic M&A market. This is an emerging opportunity set in Korea that Altos knows well, having recently realized separate exits via trade sales to US-based Match Group and Germany’s Delivery Hero.

“There’s going to be more M&A, and it’s not just going to be these global players,” Oh said, emphasizing that Danggeun was still in the early stages of going global and not yet in exit mode. “I think Korean companies are going to be more proactive in terms of acquisitions.” ■



# AVCJ Awards 2021: Deal of the Year – Large Cap: China Biologic

**For Centurium Capital, China Biologic was no ordinary take-private. It was the culmination of a multi-year effort to tighten the company's shareholding structure and root out management inefficiencies**

**T**he second half of China Biologic Products' six-year stint on NASDAQ was punctuated by competing buyout offers, a PIPE to relieve the pressure, and finally a protracted USD 4.76bn privatisation. Following the latter deal in April 2021, China Biologic is expected to re-emerge on a bourse nearer to home.

"It's better to return to Asian capital markets than to stay in the US, both from a regulatory perspective and from the investor base," said Zhixing Chen, a managing director at Centurium Capital, which led the privatisation.

China Biologic specialises in blood plasma-based pharmaceuticals, a highly regulated area in China. With strict limits on imports and exports, companies operating in the space are entirely domestic – sourcing from local suppliers and selling to local customers. Seldom has the mantra that a business should list where it is best known and best understood seemed more appropriate.

Now rebranded as Taibang Biologic Group, China Biologic's logical next step is a Hong Kong IPO, potentially followed by an A-share listing. The likes of Boya Bio-Pharmaceutical Group, Hualan Biological Engineering, and Shanghai RAAS Blood Products already trade solidly in Shenzhen.

"This is the best and most convenient way, without any structural adjustments. From an investor perspective, future liquidity and exits may be easier in Hong Kong. The current shareholders are all US dollar-denominated funds," Chen said. "But we do not rule out an A-share listing in the future."

## Origin story

Centurium teamed up with Trustar Capital, Hillhouse Capital, Temasek Holdings, and the

company management on the take-private, submitting a bid of USD 120 per share in September 2019.

Hong Kong-listed medical device manufacturer PW Medtech Group was slated to join in but dropped out and ended up selling to them instead. This meant the consortium went into the process with control of about 50% of China's Biologic's equity and more than two-thirds of the voting rights – the threshold required for board approval. An agreement was signed in November 2020.

Ping An Bank and Shanghai Pudong Development Bank provided a USD 1bn seven-year term loan in support of the deal. From a shortlist of 10 lenders, these two offered the most favourable terms. Moreover, they were able to match the speed of the deal.

Centurium found that many Chinese banks – less experienced in leveraged financing than their foreign peers – were wary of structures under which borrowers only repay interest and then settle the principal on maturity. They wanted more risk controls in return, asking China Biologic to open domestic bank accounts in their branches. This wasn't feasible because the banks didn't have coverage in some of tier-three and tier-four cities where the company does business.

Such obstacles were negotiated in time, which Chen believes speaks to the maturity of Centurium's investment approach. "Although we are a relatively new private equity firm, this deal reflects our ability to source and execute complex transactions," he said.

Centurium also embarked on the privatisation with a clear idea of China Biologic's needs on the operational side. David Li, the firm's founder, ►



was involved in several growth investments in China Biologic during his time at Warburg Pincus. It helped resolve some shareholding structure issues – owning as much as 40% at one point – and exited in 2016, having generated USD 700m in proceeds.

Up until 2018, China Biologic operated in a seller's market: underpenetrated, undersupplied, and with a stable client base. The dynamics then changed, and the company required improvements in sales and marketing and operational efficiencies to ease pressure on the bottom line.

This set the scene for two competing take-private offers submitted in mid-2018: one from Tristar (then known as CITIC Capital) and another from a consortium including CDH Investments, GL Capital, and former China Biologic CEO David Gao. Several weeks later, CITIC withdrew its bid, the other was rejected – and Centurium helped fashion an arrangement to protect the company.

The private equity firm featured prominently in a USD 590m private placement alongside CITIC, Hillhouse, and PW Medtech in August 2018. Altogether, it pumped about USD 500m into China Biologic, approximately one-quarter of its debut fund. Meanwhile, Joseph Chow, a founding partner at Centurium and chairman of China

Biologic, became acting CEO. Later, he quit the private equity firm to take on the job fulltime.

### Driving change

Reforms followed swiftly. China Biologic had two major subsidiaries, in Shandong and Guizhou, that operated independently. Plasma collection was cash-based and poorly documented. Chow placed them under a unified management structure and established standardised financial management and IT systems to track all activity at plasma collection stations. This facilitated proper business analysis and financial auditing.

At the same time, steps were taken to properly incentivise the workforce. On completion of the privatisation, a 3% equity interest was reserved for management. This replaced an existing employee stock ownership plan (ESOP), which had a high bar for qualification and no ongoing assessment, Chen added. China Biologic also promoted a younger generation of staff to manage plasma stations.

China Biologic generated USD 524.4m in revenue for 2020, up from USD 503.7m the previous year, while net profit rose from USD 163.4m to USD 178.3m. Behind the scenes, a portfolio rebalancing was taking place.

Human albumin, used to in standard infusions to increase blood flow, remained the largest revenue contributor in 2020. However, the main revenue growth drivers were intravenous immune globulin (IVIG), a form of blood plasma full of antibodies for fighting disease, and coagulation products, which address bleeding disorders. The IVIG revenue share is nearing that of human albumin.

"IVIG accounts for most blood plasma products sales in foreign markets. In China, the biggest contributor is human albumin," said Chen. "China bans IVIG imports, so there are no overseas brands to educate doctors. On the other hand, just selling albumin would be lucrative, but manufacturers are not incentivised to develop new products."

China Biologic currently manufactures 20 different dosage forms and distributes to 1,000 hospitals and clinics in China. According to Chen, blood plasma collection volume reached 1,450 tons last year, up 30% year-on-year. The company's operating profit margin in the first three quarters of 2021 improved three percentage points on the same period in 2020. ■

# AVCJ Awards 2021: Exit of the Year – IPO: Zomato

**Zomato's milestone offering last year saw a pandemic-ready business model awaken the local market to internet-based risk profiles as global investors shifted interest from China to India**

**T**he INR 93.7bn (USD 1.2bn) IPO last year by Indian dining platform Zomato was only the country's fifth-largest PE-backed listing, but few transactions, if any, have had as many directly traceable market-wide knock-on effects.

The most obvious of these ramifications was the wave of pre-profit technology IPOs that ensued on domestic stock exchanges, a heretofore unpalatable concept for local regulators and investors alike. The likes of Oyo, Paytm, Mobikwik, PolicyBazaar, Delhivery, and Nykaa have all followed suit.

The momentum in turn triggered a surge in pre-IPO fundraising, with several local GPs targeting the strategy for the first time. This has been interpreted as not only a reaction to a market event but a fundamental shift in mindset across government, high net worth individuals (HNWIs), retail investors, and institutions.

Mohit Bhatnagar, a managing director at Sequoia Capital India, one of Zomato's earliest backers, described the IPO as myth-busting in terms of confirming the long-term viability of fast-growing companies. This is in addition to its potential to motivate India's incalculable population of would-be entrepreneurs.

"Deepinder [Goyal] is a founder who is self-made, from a small town in India, Muktsar," Bhatnagar said. "Hopefully, this will inspire the next generation of entrepreneurs, who instead of taking professional roles in established companies can create their own companies."

## **Pandemic beneficiary**

Sequoia secured a liquidity event alongside Ant Group, Baillie Gifford, Bow Wave Capital Management, D1 Capital Partners, Dragoner

Investment Group, Fidelity, Glade Brook Capital, Kora Management, Shunwei Capital, Temasek Holdings, Tiger Global Management, Uber, and Vy Capital. Info Edge India was the largest shareholder at the time with 18.5%; it first invested in 2010, two years after Zomato's establishment.

A significant amount of their windfall was tied to COVID-19, which not only lifted operational metrics for Zomato's food delivery service, it made the brand a household name. The retail portion of the IPO was 7.5 times oversubscribed.

The allocations for HNWIs and qualified institutional buyers (QIBs) were oversubscribed 33 times and 52 times, respectively. QIBs represented INR 41.9bn of the offering.

"This has fuelled our ambitions further and we are now thinking about how we can create a \$10 billion business by revenue in a few years' time," Goyal said in November 2021. "The paradigm for India has changed within a year and that gives us a new opportunity to build a much bigger Zomato than what we dreamt of a year ago."

Zomato – which currently trades 17% above its IPO price with a market capitalisation of USD 9bn – appears to be rallying around its core interests rather than diversifying, having recently announced plans to double down on food and hyperlocal e-commerce. It said India's food delivery market alone had potential to grow 10x over the next few years.

"We are adamant that we will not let our IPO change anything, and we aren't going to morph into a QSQT business," Goyal added, referencing "Qayamat Se Qayamat Tak," the Hindi cinema blockbuster that has become local shorthand for short-termism. "We will continue to focus relentlessly on the long term." ■

# AVCJ Awards 2021: Exit of the Year – Small Cap: Integreon

Helping Integreon re-focus and renew management was all part of the plan; delaying the exit as COVID-19 amplified demand was the unexpected coup. NewQuest Capital Partners also received the Operational Value Add Award for its work

**A**s a secondaries specialist, NewQuest Capital Partners rarely gets involved in control situations, so the incentives to do so must be fairly convincing.

When the GP acquired 100% of Integreon in September 2016, the US and Philippines-based business process outsourcing (BPO) player was mired in stagnant economic metrics despite being one of the most respected brands in its field. This offset was made all the more interesting by the company's niche focus within the BPO space: legal process outsourcing, or LPO.

"It was – and continues to be – an exciting opportunity globally," said Sachin Khandelwal, a managing director at NewQuest. "Finance, accounting, and recruitment functions have all been outsourced at a large scale for the past 20-plus years. Legal functions have been one of the last areas to get that focus where enterprises are looking to get better services at optimal costs."

NewQuest acquired the company via its third fund, which wrote checks of USD 25-75m and exited with a more than 5x return. The growth was primarily attributable to efforts around bringing in a new management team and culture of accountability while pivoting the sales strategy toward deeper, longer-term relationships with more cross-selling.

In addition to its presence in the US and Philippines, Integreon maintains two offices in India and a footprint in the UK, with more than 3,500 employees globally. The Mumbai office doubled in size during the NewQuest hold.

BPO services span multi-lingual and around-the-clock, onshore, offshore, and onsite support in areas such as litigation, contract and compliance, legal administration, research, and ►



Bonnie Lo of NewQuest and Baker & McKenzie's Derek Poon

**"In our experience, the only thing that you can count on definitely happening is that things will go wrong"**

*– Sachin Khandelwal*



business enablement. Clients include law firms, corporations, and financial institutions. In 2019, a 10-year partnership with Microsoft was recognised with the launch of a cyber incident response and subpoena processing service.

### Unloved subsidiary

Under the ownership of Philippine conglomerate Ayala Corporation, between 2006 and 2012 Integreon saw its revenue grow tenfold, but cash flows had flatlined in the years leading up to NewQuest's due diligence. This was a period of extensive M&A, with Integreon realising seven bolt-on acquisitions, sometimes of dubious relevance.

The result was a haphazard collection of business units, a bloated cost base, consistently negative EBITDA, and a lack of strategic direction. The expansion yielded a promising knowledge process outsourcing (KPO) business, but there were few sales and marketing synergies with the LPO offering in terms of sales and marketing. Meanwhile, everything was overseen by an inorganically grown team that never gelled.

For the owners during this period, the entire LPO-KPO opportunity was a small part of their portfolio and strategy. This is believed to have contributed to a situation where management lacked the passion to build their careers at the company and perfect the business model.

One of NewQuest's first moves was to split the LPO and KPO businesses into separately managed and more focused entities, with the latter continuing as Grail Insight. During the ensuing three-year period, Grail nearly doubled its revenue and increased EBITDA by about 6x.

Grail was established as a separate entity in 2018 and by the following year had begun its own expansions with the acquisition of US-based business technology researcher ConStat. The enlarged company eventually extended across the US, the Philippines, China, India, Singapore, Canada, Ireland, Italy, South Africa, the UK, and the United Arab Emirates.

In addition to company-level operational benefits, the spinout provided more flexibility in terms of NewQuest exiting its initial investment. The spanner in the works was COVID-19, which had started to become a global phenomenon just as divestment plans were put in motion. At the

time, the pandemic-driven rise of outsourcing and related IT businesses had not yet come into focus, with the market still in wait-and-see mode.

Likewise, although the shift to work-from-home business models due to COVID-19 naturally proved to be a net positive for Integreon, it was initially a challenge to implement internally. India and the Philippines were home to some of the hardest hit workforces in Asia and suffered from some of the least coherent government policy support.

The situation was complicated by the fact that much of the content Integreon handles is confidential and legal in nature. This obliged the company to ensure its clients that information would be as protected in its employees' homes as it was in more formal delivery centres.

Nevertheless, the transition enabled Integreon to gain market share, modernise its communication channels, reduce costs, and increase productivity. In the midst of lockdowns, NewQuest was able to complete a dividend recap, allowing it to return a substantial part of its original investment to LPs.

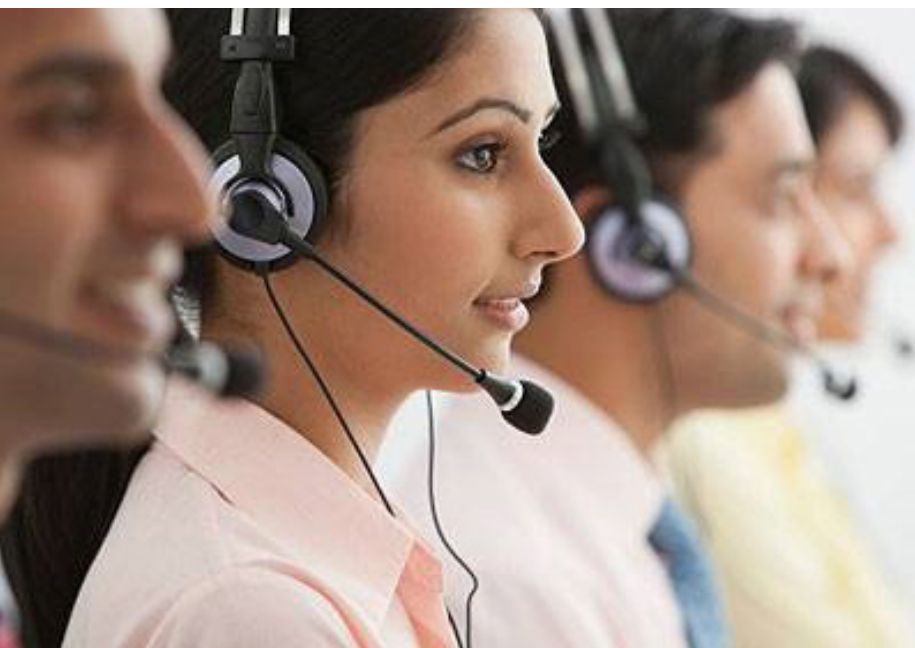
### From COVID to exit

A dual-track exit process saw 18 term sheets submitted for Integreon and six for Grail. They were sold simultaneously in June last year to separate US buyers, respectively private equity firm EagleTree Capital and analytics advisory player Escalent. The hold period was 4.7 years.

"At the macro level, the investment played out pretty much according to plan, COVID notwithstanding," Khandelwal said. "But in our experience managing other portfolio companies, the only thing that you can count on definitely happening is that things will go wrong."

For Integreon, most of the hiccups came in personnel – no surprise, given the extent of the staffing overhaul. Seven of the top eight management team members were replaced as well as the company's board of directors and a majority of the second-level management team.

The incoming CEOs of Integreon and Grail were largely left to build out the new teams at their discretion, with NewQuest's main intervention being guidance on the appointment of CFOs. A long-term employee incentive plan and a system of key result areas (KRAs) were implemented to promote the desired behaviour and alignment ►



across the leadership team.

Massive changes were also made in the lower ranks, with the size of the salesforce reduced by 46%. Swapping out talent involved some mismatching of expectations and cultural challenges, often tied to the significant domain expertise requirements of LPO-specific selling.

The core agenda was to focus more on “farming,” the cultivation of deeper cross-selling client relations, rather than “hunting” for new clients. After a few iterations in developing a new structure for this approach – along with the implementation of a new commission system – sales per staff improved 57%.

At the same time, high-cost delivery locations were replaced with lower-cost alternatives and investments were made in infrastructure to better manage staff productivity and increase efficiency. This included the opening of a new delivery centre in the US. The result was a 26% reduction in cost-per-seat during the holding period, as well as a doubling of delivery headcount despite an only 33% increase in facility area.

“Do you organise the go-to-market team with a central salesperson who drives everything with experts coming in, or do you have separate sales teams focused on their own stuff? That’s the classic dilemma since time immemorial for most

companies,” Khandelwal observed.

“What we’ve learned is there is no easy answer. And the answer you choose for any particular company could change over time, or it could be different depending on the company units or the people in them.”

### Aligning interests

Overseeing a holistic change in sales strategy was arguably NewQuest’s key contribution to the Integreon story. It had the most direct impact on achieving about a 66% increase in consolidated revenue and turning around from a negative EBITDA margin to margins in the high teens.

“There are some areas where we could have created even more value, but we got it to a level where the new shareholders have a strong runway to continue the work we’ve done. Getting the sales engine working properly was one,” Khandelwal said. “We did a lot of trial-and-error to get it right, and by the time we found a model that really suited Integreon, we had to start looking for an exit.”

The creation of transparent accountability measures, including weighable performance outcomes was no small part of the restructure. At the time of investment, non-sales staff were predominantly compensated with fixed salaries with no variable outcomes or long-term incentives. Similarly, the sales team operated under a short term-oriented commission structure.

“Now, everybody can pick up a calculator and know that if you meet certain KRAs, this is what you are going to make,” Khandelwal said. “There is always some objectivity in this area, but the idea was they could project it with 90% accuracy. That just gives a lot of confidence and clarity to people.”

Further alignment was achieved by allowing employees to have skin in the game, warehousing 2% of Integreon’s shares for incoming management. The long-term incentive plan also allocated 10% of profits at the time of exit to management.

“We didn’t limit it to the top five or six people – we went quite deep to make sure that everyone felt that this was a common joint mission, where everyone was working together for an outcome,” Khandelwal said. “That was an important learning for us that we’re taking forward as we look at our next investments and try to find the right ways to align management teams.” ■

# AVCJ Awards 2021: Exit of the Year – Mid Cap: Infogain

**ChrysCapital has realized its largest-ever exit from a single-fund investment with IT services provider Infogain. In the process, it opened one of private equity's richest cross-border opportunity sets**

**C**hrysCapital's investment in US and India-based IT services provider Infogain – it took a controlling stake for USD 63m in 2015 – returned more than the acquiring vehicle. Fund VI closed at USD 510m in 2012. Infogain was sold to Apax Partners last year for USD 550m, generating a 6.4x return, although ChrysCapital declined to comment on financial details.

Perhaps the first thing that must be said is that this transaction was realized during one of India's most frightening chapters of the pandemic, when the availability of hospital beds and life-saving oxygen had evaporated, and chilling death tolls were said to be radically underestimated.

During this period, Infogain experienced no work disruptions – having implemented a work-from-home policy – and re-planned its cash flow management considering various worse-case scenarios. This allowed it to help clients deal with their own challenges related to lockdowns as well as give comfort and visibility to employees in the face of extreme uncertainty.

The end result is unmistakable as the most important investment in ChrysCapital's history both in terms of potential to uplift the GP's brand and the resources deployed. Six investment professionals worked extensively on Infogain, including at least two who spend the majority of their time on it. This is from a 20-person shop that almost exclusively focuses on minority deals.

Akshat Babbar, a director at ChrysCapital, led the investment and value creation program, including supervising a string of key bolt-on acquisitions. Indeed, the initial acquisition was planned in parallel with the acquisition of Blue Star Infotech.

As a result, the first two years were not only about onboarding new technical capacities; there

was also a difficult matter of smoothing out a cultural integration. This process was extended with the acquisitions of Silicus Technologies and Revel Consulting in 2019 and Absolutdata in 2020. By the time of exit, headcount had more than doubled to around 5,000.

"There was a dearth of mid-tier assets in this space, which made us to ask, 'Why don't we create our own platform and transform it into the kind of asset we would like to invest in?' Babbar said. "If this white space indeed exists, then such an asset would have a lot of scarcity value. That is exactly how things played out with the incoming buyers."

## Shifting focus

Much of the development was about building up expertise in more advanced data-oriented services in areas such as cloud, analytics, and user experience design, while retaining the company's core engineering DNA. Overall revenue increased 220% during the holding period, with the digital services share of total income rising from about 20% to 85%.

The diversification helped Infogain begin branding itself as a "human-centred" digital platform engineering services specialist that optimizes IT transformation through a strong focus on end-user pain points and employee needs.

There was also a concerted effort to transition from a predominantly staffing approach to IT support toward a more practice-led model, where in-house technical knowhow is leveraged to cross-sell and suggest upgrades with clients. The idea is that a small analytics project could become a large, long-term partnership with multiple digital services components.

"We needed to take Infogain up the value curve ►



with an approach where we go to the client rather than the other way around and take ownership of projects,” Babbar explained. “That approach takes the perception of the vendor up a few notches in the minds of the clients. It helps you win far more strategic projects, deepen relationships, and grow fast, while also improving margins.”

The reorientation also involved a focus on improving quality of revenue through a greater focus on long-term order booking. This was to some extent a cultural issue as the sales staff were incentivised to win deals that were executed within the year rather than the kind of multi-year contracts large organizations prefer. Clients went on to include Microsoft, Sabre, Mitchell, HP, FedEx, and Facebook.

Much of the transformation on this front was realised through the engagement of Rajiv Naithani in 2018, initially as India HR head and later as chief HR officer. ChrysCapital also oversaw the hiring of Kulesh Bansal as CFO and Ayan Mukerji as president and COO. The latter has now become the CEO under Apax. (Blue Star’s CEO Sunil Bhatia, became Infogain CEO until mid-2021.)

“The initial cultural challenge was just linking two companies together and making sure everybody was aligned as part of the same company. After a couple years, that shifted to really creating an identity for Infogain that was about bigger deals and solutions-oriented thinking,” Babbar said. “That not only increased client satisfaction, it also

increased employee satisfaction, which you could see in our year-on-year improvements in attrition metrics and rankings for great places to work.”

### Corridor of opportunity

The most industry-significant angle of the Infogain story is its role in opening up a now flourishing US-India corridor in IT services.

ChrysCapital counts LiquidHub as its first major success in this theme; it took an approximately 40% stake in the company in 2013 as part of a USD 53m growth round and sold it to French counterpart Capgemini in 2018 at a valuation of USD 500m. Pre-pandemic, ChrysCapital’s India-based management regularly visited US portfolio companies in person, using the occasions to scout further in-country investments.

The logic for betting on the US-India IT opportunity is sturdy: the largest market for services and arguably the largest supplier of talent share, strong cultural ties, and a facility of language. At the same time, the emergence of new-age technologies in the sector have required vendors and clients in the two countries to cooperate more deeply, often leading many Indian service providers to relocate headquarters to the US.

“It used to be enough to have a classic IT company delivering services from India, but in the digital world, that wasn’t sufficient,” Babbar said. “It wasn’t enough to understand a client’s problem and provide talent to solve it. It was equally if not more important to be very close to the customer, co-creating solutions, and leveraging talent around the world. We were the first to identify that trend.”

The success of the Infogain exit – said to be the largest-ever divestment by an Indian fund – confirms that ChrysCapital not only pioneered the US-India play, it has now perfected it. This comes with the knowledge that the opening won’t last forever. New talent supply hotspots and rising demand centres across Europe and Asia will eventually redraw the global IT services map.

“The US-India corridor will probably continue for another 5-10 years, but the world is becoming more global in both supply and demand of digital services,” Babbar said. “This thesis still has legs, and we will continue to build on it, but we’re keeping an eye on how it is evolving so we can stay ahead of the curve.” ■



# AVCJ Awards 2021: Exit of the Year – Large Cap: Softex Indonesia

**CVC Capital Partners helped Softex Indonesia grow its market share by penetrating modern retail channels and launching an ESG program. A USD 1.2bn trade sale exit to Kimberly-Clark was its reward**

**T**he key objective for CVC Capital Partners on backing Softex Indonesia in 2015 was finding six percentage points in gross margin improvement.

Over the course of 12 months, the business was scoured for potential operational efficiencies: energy and labour costs were reduced within manufacturing; equipment was upgraded and sourced from a single supplier to improve product quality and cut raw material usage; procurement processes were revised to leverage volume and deliver better terms.

Six points was the cost of penetrating the modern trade segment.

Softex was already a domestic success story, holding its own against Kimberly-Clark, Procter & Gamble, and Unicharm. It ranked in the top three across baby diapers, adult diapers, and sanitary napkins in a market enjoying robust macro tailwinds. Indonesia is young and upwardly mobile. Families will keep producing children at a brisk pace, while simultaneously climbing the product tiers from no diapers to cloth diapers to disposable diapers to economy diapers to premium diapers.

However, Softex was behind the curve on modern trade. Around 60% of the company's business involved distributing to small-scale retailers, but the industry was gravitating towards large-scale hypermarkets.

For Softex to challenge Unicharm in this area, there needed to be changes in product, pricing, packaging and advertising and promotions (A&P). The company's A&P expenditure was 9% of revenue versus 15% for Unicharm – a six-point gap.

"We had to introduce new SKUs [stock keeping units] in modern trade, improve the trading terms, build strategic relationships, improve distribution ►



Brian Hong of CVC (left) and Alvarez & Marsal's Oliver Stratton

**“Trying to do an exit in the middle of COVID was not easy or straightforward, especially for Kimberly-Clark”**

*– Atiff Gill*

management systems, and get real-time sales data. We also had to reorganize the sales team so that incentives were fully aligned with our growth strategies,” said Atiff Gill, a principal in CVC’s Asia operations team. “To do all those things, we had to drive some operational efficiencies.”

### Unexpected outcome

This investment in growth meant that Softex’s EBITDA margin was generally flat, but the company’s overall market share – across all products, in general and modern trade – rose from 17% to 34%, a couple of points behind Unicharm. The modern trade initiative dovetailed with a move on the economy diaper segment. Softex studied Unicharm’s market-leading product, figured out how to offer the same or superior quality at a 10% lower price, and spent big on A&P.

The performance improvement prompted Kimberly-Clark to pay USD 1.2bn for 100% of the business, paving exits for CVC and Softex’s founder, the Leong family. The PE firm generated a 3.3x multiple and a 30% IRR on its 40% stake.

The sale, concluded in September 2020, wasn’t expected. In its previous minority investment alongside the Leong family – in sportswear retailer MAP Aktif Adiperskasa – CVC exited via IPO. However, it turned out the family was open to a trade sale, and advisors set about gauging interest. CVC couldn’t cultivate prospective buyers during a long lead-in or market the asset widely. As such, no groundwork was done prior to COVID-19.

“Trying to do an exit in the middle of COVID-19 was not easy or straightforward, especially for Kimberly-Clark. Just getting resources to diligence on the ground and get comfortable with all the different aspects of this business was challenging. Credit to them for mobilizing a lot of resources, including placing people in quarantine,” said Gill.

The process took about three months and involved inspecting Softex’s new USD 50m manufacturing facility in Jakarta that will double capacity. CVC created a virtual reality walk-through, but given the significant capital expenditure, Kimberly-Clark dispatched factory operations experts from headquarters.

It is the US multinational’s largest acquisition since 1995 and fills in a significant regional hole. While Kimberly-Clark had a strong presence

across Asia, its penetration of the baby and adult diapers market in Indonesia was lacking.

“It goes back to scarcity. If you want to be in the diaper business in Indonesia and you miss out on this one, there is nothing left,” said Brian Hong, co-head of Southeast Asia at CVC. “People who have strategic, high-quality assets can take them to market and get very high prices.”

In addition to the push into modern trade and the construction of the new manufacturing facility, CVC helped Softex strengthen its corporate infrastructure across financial reporting, internal processes, and key performance indicators and incentives. Softex was run by a Leong family member who had built up the business from nothing, so he remained in place but was augmented by senior hires.

Gill noted that Softex hit every annual incremental target in the five-year financial plan, even growing revenue and earnings in the first 12 months when the focus was on cost savings.

### Show not tell

Another significant win came in environment, social and governance (ESG). The company went from doing nothing in this area to conducting materiality assessments and setting up real-time reporting on metrics ranging from energy bills to societal trends. Planet Mark was brought in to assist with carbon footprint measurement and emissions reduction targets, while EcoVadis is the partner of choice for sustainability benchmarking.

The company has won awards for ESG reporting, but persuading management to put a program in place wasn’t easy. CVC made the pitch early on that diapers are a major contributor to pollution in Indonesia – they take 500 years to biodegrade in landfill and are often disposed of in rivers – and asked for USD 50,000 to fund a study on what could be done about it. The CEO was receptive but said there were other more pressing priorities.

“We said CVC would fund it and start by looking at something simple, to demonstrate the value of ESG. We brought in Turnkey Consulting to do an energy audit and they found USD 250,000 of savings,” said Gill. “That was the trigger to convince the CEO that someone could come in from outside, tell him about opportunities, and they were credible.” ■

# AVCJ Awards 2021: Responsible Investment: The Arnott's Group

In taking ownership of an iconic Australian brand like Tim Tam, KKR was conscious of the need to be a market leader on sustainability. Progress is being made across sourcing, emissions, and packaging

**K**KR's decision to buy Australian snack foods producer The Arnott's Group through its core investments strategy – intended for relatively stable assets that require extended holding periods – was driven by economics, but there could be an environment, social, and governance (ESG) payoff.

"The core fund has a longer hold period, 10-plus years rather than five years, and that factors into our thinking around all topics, including ESG. It means we have more time to achieve our long-term initiatives," said Rupert Pedler, an Australia-based principal with the firm's private equity unit.

"We asked what the market would look like in 10 years and where we wanted to be. The long-term horizon in which we are operating with The Arnott's Group allows us to be very proactive around sustainability in ways that go above and beyond what we can do with other investments in Australia."

KKR acquired the business in 2019 through a USD 2.2bn carve-out from Campbell International. It included a range of Asia-based food and beverage brands and distribution channels, assorted local manufacturing facilities, and exclusive rights to several global Campbell brands.

Arnott's was the crown jewel and key revenue driver – a portfolio of biscuits and snacks built around Tim Tam, one of Australia's most internationally recognisable brands. KKR was not only taking ownership of a company, but also becoming custodian of a 150-year-old institution. "We felt like we had a responsibility to be leaders on sustainability rather than followers," Pedler added.

Arnott's already had a history of sustainable sourcing. The 140 local counterparties responsible for the ingredients that comprise 99% of the company's products sold in Australia are bound ►



Markus Elgoff of KKR (right) and Alvarez & Marsal's Oliver Stratton

**"Sustainability is an industry effort. A lot of work needs to go into addressing how consumers deal with packaging at home, for example"**  
*– Simon Lowden*

by a responsible sourcing supplier code. The company was also a participant in numerous organisations devoted to ethical and responsible business practices.

KKR's arrival prompted a comprehensive ESG benchmarking exercise. Sourcing – principally the development and expansion of existing programs – was identified as one of three main areas of focus. There is a goal to become 100% sustainably sourced across key ingredients by 2035.

### Green citizen

Inevitably, Arnott's is addressing the amount of energy used to manufacture its products and the amount of plastic that features in the packaging. Progress has been made on greenhouse gas emissions reduction through initiatives such as fast tracking a renewable electricity pathway for the business and trialling solutions that eliminate or minimise gas power in the baking process.

"The majority of our operations are in Australia, and we are conducting a site-by-site assessment of the potential for renewable energy infrastructure," said Simon Lowden, chief transformation officer at Arnott's. "We are looking at the different options, whether it is solar, wind, or something else."

The company is targeting net-zero emissions from operations by 2040 and across its value chain by 2050. On scope three emissions, which cover the supply chain, efforts are ongoing to understand what policies partners have in place and how they align with the broader agenda.

Water and waste are also priorities, with Arnott's achieving significant reductions in water use in its facilities over the past three years and looking to reduce its waste footprint. Only 2.7% of total waste generated was sent to landfill in 2020 and there is internal consensus this could be lower.

The company purchased 20,000 tons of packaging in 2020 in Australia and New Zealand alone, of which 69% is recycled on a weight basis. Analysis shows that 98% of materials currently used – plastics, cardboard, and cans – could be recycled. For soft plastics, on a weight basis, it is 73%.

KKR is working with the company on a new sustainable packaging strategy. Two goals have been set for 2025: reduce, reuse, or repurpose plastic packaging by 10% to meet Australia's

national target; and making 100% of overall packaging reusable, recyclable, or compostable.

Arnott's recently pledged to make all its point-of-sale displays fully recyclable, which it is estimated will reduce plastic to landfill by 25.5 tons a year. In addition, the company has signed up to several programs that promote accessibility to recycling infrastructure and the use of recycled materials.

"Sustainability is an industry effort," Lowden said. "A lot of work needs to go into addressing how consumers deal with packaging at home, for example. It is education-led, helping to inform them about recycling. Discarded packaging is now collected by licensed recyclers and repurposed through various organisations."

The third focus area relates to the communities in which Arnott's operates and fostering inclusion, belonging and sustainability. This starts internally, with initiatives targeting gender balance and equality, and then extends outwards. The company has working groups addressing inclusion and belonging, and it is drawing up a reconciliation action plan aimed at indigenous Australians.

### Being proactive

KKR has an ESG playbook that begins in the due diligence phase and contributes to the 100-day plan. It is largely reactive, prioritising the resolution of existing issues, the introduction of strong systems and practices, and the rollout of a reporting framework. Taking a proactive approach to ESG – which doesn't happen on every investment – involves devising specific plans.

The recruitment of Lowden, who spent 20 years with PepsiCo, latterly as chief sustainability officer, at the start of 2021 has been integral to this effort.

The targets Arnott's has set are regarded as challenging but realistic. Lowden noted that they had to be achievable in the given timeframe, not "targets for the sake of targets." The company is also cognisant of the need for agility, so that it can head off problems before they gain momentum.

"We think it's really important to get ahead of consumers' expectations around brands being more sustainable and environmentally conscious," said Pedler. "If we fall behind there could be a negative impact on demand for our products and for our business financially. We want to preserve the brand love people have for The Arnott's Group." ■



# AVCJ Awards 2021: Operational Value Add: Best & Less Group

**Allegro Funds plucked Australian baby and kids retailer Best & Less from its underperforming parent and defied pandemic-related uncertainty to complete a turnaround that culminated in an IPO**

**S**teinhoff International's troubles were well known. Embroiled in a fraud scandal and needing to fill a hole in its balance sheet, the South Africa-based retail holding company was divesting assets and restructuring operations globally. Its portfolio of Australian brands, already underperforming at the local level, was unwanted. But who would want to buy the whole lot?

"Top line and profitability were declining, the balance sheet was bloated, and the parent was a motivated seller. At the time, retail was also on its nose and very few people were interested in that kind of business," said Fay Bou, a partner at Australian turnaround investor Allegro Funds.

"It was a question of how we could look where others do not by virtue of our investment strategy, how we could provide a solution to the vendor, and how we assessed that operational underperformance and thought we had the capabilities to de-risk transformation over time."

It was clear to Allegro that Best & Less, a baby and kids value retailer, was the most promising business held by Steinhoff-owned Greenlit Brands. However, in late 2019, it bought Harris Scarfe, Postie, and Debenhams Australia as well, dissolved the group structure, set up each brand as an independent entity, and executed separate transformation plans.

Greenlit's financial challenges led to difficulties in securing debt financing for investment in the brands. While the group-level restructuring was underway, Allegro secured an asset-backed loan from Gordon Brothers – the first of its kind in Australian M&A – to provide certainty of funding. This was replaced by a standard working capital facility once the transformation was complete.

Parts of this process were painful. For

years, Greenlit had sucked cash out of Best & Less to support the other loss-making brands. Allegro engaged individual landlords regarding compromise solutions on long-term store leases. When negotiations over Harris Scarfe and Debenhams proved fruitless, they went into administration, emerged with substantially smaller footprints, and were sold off.

## Transformation plan

Allegro's conviction around Best & Less was reinforced by teaming up with Jason Murray, a former managing director of Greenlit. Once the other brands were exited, they moved forward aggressively.

"There were ideas inside the business, but because it was within a group that sat within a group, it got little attention," said Bou. "We wrapped it into a governance structure and identified five things we wanted to go hard on. Previously, they had been spread wide; we were clear on what we wanted to achieve."

This governance structure equated to what would be expected of an ASX200-listed company, including the establishment of a new board, sub-committees, and reporting processes. Meanwhile, the balance sheet was optimised to position Best & Less for a growth strategy driven by an emphasis on the value segment with baby and kids as the core category and an omnichannel buildout.

In addition to creating new store formats and devising an expansion plan, the company added click-and-collect and fulfil-from-store functions, launched a mobile app, and improved digital marketing. New customer relationship management systems and loyalty programs were also introduced.



Fay Bou of Allegro (centre) with Best & Less' Jason Murray and Rodney Orrock

Digitisation extended into the back office as well, with the rollout or revamp of attendance and rostering software and employee engagement tools. These were complemented on the human resources side by new incentive schemes and a management equity plan.

Ten Allegro professionals, five from deal team and five from the operating partner team, were actively involved at Best & Less. The challenge they faced – turning around an unprofitable business in a struggling sector – was further complicated by COVID-19. Best & Less has 185 stores in Australia and 60 in New Zealand. All were impacted by lockdowns relatively early in the investment.

"All our 13 portfolio companies went into liquidity protection mode when COVID hit," said Bou. "We formed a steering committee under our investment committee to address key issues, in part so companies could learn from each other. We brought advisors – lawyers, bankers, restructuring professionals – onto the steering committee because we wanted to know what lever we could pull."

Retail was hit especially hard. With New Zealand in complete lockdown, for a time Best & Less was running at zero revenue and 100% cost, and it was uncertain how long the situation would persist. Government stimulus effort averted a deep

recession, and Best & Less has bolstered its focus on the baby and kids value segment, which stands up well against changes in discretionary demand.

The company continued to trade in Australia because it was designated an essential retailer, but online sales penetration rose from 3% to 10% during that initial six-month period of uncertainty. It laid the ground for a rapid turnaround, with EBITDA tripling to AUD 70m within the first 20 months of ownership. Revenue rose 9% to AUD 663m.

"You don't underwrite for two-year turnarounds, but that's the beauty of investing in retail businesses. When you change something, you get an answer the next day, and when it keeps working you double down and triple down," said Bou.

"But things can go down as well. It depends on whether you have a valuable proposition, whether you can control your brand and your margins, and whether you have scale. Best & Less ticked all three boxes. However, if you don't have just one of the three, it can go wrong very fast."

### Exit routes

About one year in, once the major pandemic-related challenges had been negotiated, Allegro could see its plans were working. A dual-track exit process was launched several months later, but an IPO was always more likely, especially as potential global buyers couldn't travel to Australia.

Best & Less Group raised AUD 100m in July 2021: AUD 60m via a share offering and AUD 40m through a strategic investment by retail industry veteran Brett Blundy. Allegro realised AUD 91.3m and retained a 43.5% stake. As of October 2021, the stock was up 55% on the IPO price, giving Best & Less a market capitalisation of over AUD 400m. Allegro was sitting on an IRR of more than 500%.

The public markets are highly selective, particularly when it comes to PE-backed retail businesses, with memories of the post-IPO meltdown of Dick Smith still lingering. Bou places Best & Less in the category of companies that have performed well because they have a unique commercial proposition and a growth story.

"We build the foundations and set the strategic pillars for the business, ensure we have a strong team, and then execute," he said. "Best & Less has a great management team that demonstrated they could execute during a crazy time." ■

# AVCJ Awards 2021: Special Achievement: Weijian Shan

Weijian Shan, CEO of PAG, discusses rising valuations, the implications of China's regulatory crackdown, heightened sensitivity around social responsibility, and escalating fund sizes

**Q: How do you get comfortable with the notion that 20x is the new 15x in terms of EBITDA multiples?**

**A:** I don't think we've ever invested at 15x, let alone 20x. For very stable, growing, high cashflow businesses, you can pay higher valuations because interest rates are low, and a lot of leverage is available. But those transactions are rare. Many years ago, a Europe-based PE firm was kind enough to reveal its portfolio to me in detail. One revelation I came away with was that the companies they got for low valuations weren't doing well, but where they paid higher valuations, the companies were doing better. I came back and discussed it with my team, and we recalled what Warren Buffett once said: It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price. The quality of the business really matters. A mistake we have made in the past 10 years is to have been very disciplined on valuations and consequently we have missed some new economy deals. But discipline is important. If it's too high a valuation and there's too much debt, you will run into trouble when the economy turns.

**Q: What is the level of competition for new economy businesses in China?**

**A:** It seems to me the situation is getting better. Until last year, we competed for deals with the likes of Tencent and Alibaba. They have deep pockets, and they weren't as sensitive to valuations as we were, so it was difficult. Following the introduction of the antitrust measures and other regulations, I see fewer big tech companies competing with us for deals.



Weijian Shan of PAG (centre) with AVCJ's Tim Burroughs and Allen Lee

**“A mistake we have made in the past 10 years is to have been very disciplined on valuations and consequently we have missed some new economy deals”**



**Q: How do you explain the regulatory barrage of 2021?**

**A:** If you look at the regulatory measures and policy initiatives one by one, in each case there is arguably a socially desirable purpose. With after-school tutoring, they genuinely want to reduce the burden on children and parents. The antitrust and data privacy measures were probably long overdue. In the property sector, the goal was to squeeze out the price bubble and the debt bubble. Most countries go through economic cycles, but China hasn't experienced a recession in 40 years because it can squeeze out systemic risks – like price and debt bubbles – before they do real damage. Having said that, the way they have gone about it, without much guidance for the market, is clumsy. They came in suddenly and there were unintended consequences, second or third-order effects. Investors were spooked. There were questions about whether China is too unpredictable and whether it is investable. That is damaging to the market. I hope lessons have been learned, the regulators have done most of what they intended to do, and we have a calmer year. With economic growth slowing so significantly, I hope also that the government eases macroeconomic policies.

**Q: Tencent Music Entertainment (TME), a former PAG portfolio company, had to give up its exclusive label rights following an antitrust investigation...**

**A:** Thankfully, we got out in time and made good money out of it. Having exclusive copyrights was a huge competitive advantage. There were 800 million unique monthly subscribers; only in China would you have such a business. Before the company was required to sub-license copyrights to competitors – which is how it works in the US; Spotify, iTunes, and Amazon have equal access – there was no chance for the likes of NetEase Music and Alibaba Shrimp. Now they are doing well.

**Q: Have technology companies in China grown so fast that regulation couldn't keep up with them?**

**A:** Yes, but when you look globally, many of the same complaints about technology companies exist. Some countries are better at dealing with them than others. Europe is typically one step ahead of the US, and then China is quite far behind. The initial intentions of new economy companies are good. Why did TME have exclusive copyrights? Until we invested in China Music Corporation [which ultimately merged with TME], copyrights weren't protected. Universal Music and Sony were happy to license to anyone who wanted to pay. TME and others played an important role in upholding international copyrights in China. Now, though, the market is more mature, everyone respects copyrights, and it makes sense that you need to take antitrust measure for the good of consumers.

**Q: PAG has existing exposure to education through Golden Apple Education Group and Lilly English. How have they been impacted by regulatory action in the industry?**

**A:** Golden Apple is a profitable and high-quality kindergarten operator; it's not after-school tuition, so it hasn't been impacted. While the stock of all education companies has fallen, the fundamentals are still strong. Lilly English is not a big investment, it doesn't need much money, and the business remains in good shape. It used to be an offline business, but we started migrating online because of COVID. It sells canned programs to parents who teach their kids when it is convenient – unlike some other English teaching businesses, which pair children with overseas teachers and it happens live.

**Q: What about the exit prospects for these businesses?**

**A:** For kindergartens, the exit options changed shortly after we invested. Companies were barred from listing domestically or overseas. It doesn't prevent you from doing a trade sale, and as a majority shareholder [in Golden Apple] that might be preferable. Valuations changed when it was announced that more education companies cannot do public listings, but we are not as affected as others. One area we did get out



“Ten years ago, it would be a stretch to find investments where you could deploy USD 500m. Now, you can deploy USD 1bn”

of earlier, for regulatory reasons, was consumer finance. We saw the regulatory regime was changing, with interest rates being lowered and capital requirements increased, so we exercised our put.

**Q: Is there anything you now do differently because of the events of the last 12 months?**

**A:** It has heightened our sensitivities, but it hasn't changed the way we do business. We have always been careful on ESG [environment, social, and governance]. The tricky part is social responsibility. We stay away from gambling, smoking, and gaming. But recently we were evaluating a business involved in hiring blue-collar workers and one of the questions posed was whether it would be consistent with the policies promoting common prosperity. We concluded that the business helps these workers rather than create social security issues, so from an ESG perspective, it got a pass. Previously, private equity investors weren't so sensitive about paying social security, healthcare benefits, and giving employees time off. Now, though, you must ensure the companies you invest in are compliant.

**Q: How do you feel about the surge in “policy-aligned” sustainability-related investments?**

**A:** Whenever there is policy support for a sector, people try to take advantage of the tailwinds. We've seen this over the years in areas like solar panel manufacturing. It's good that electric vehicles and clean energy are getting support, but there are risks to piling into businesses that are one of many. There is no lack of capital in China or Asia. If you adopt me-too strategies, it leads

to overcapacity and corrections. We've seen this happen repeatedly because China's growth story is a story of overbuilding in almost every industry. You need differentiation and competitive advantage.

**Q: Would the same apply to emerging consumer brands?**

**A:** Yes. This happens in the food business from time to time. How sustainable is the brand? How sustainable is the business? Consumers go from one fad to another. If something does well, everyone wants to imitate. It comes down to where you have a differentiated product, not just a brand, and you keep innovating.

**Q: How has the China-other Asia split in PAG's funds changed as you've put more resources in markets like India?**

**A:** Our funds have always been labelled as Asia funds, but with our brand name, team, and track record we have an advantage in China. At the same time, China is three times the size of Japan and more than five times the size of India. More than 50% of the private equity capital deployed regionally goes into China. All our funds have been two-thirds China, one-third rest of Asia, so we are slightly above average. This is not by design; we don't do capital allocation by geography. If there's a good investment opportunity, we try to capture it, one deal at a time.

**Q: How does this influence fund size?**

**A:** The market has become bigger. Fund I was USD 2.5bn and the largest investment, Universal Studios Japan, was USD 250m. TME was about USD 130m. In Fund II, which was USD 3.66bn, the largest deal was Yingde Industrial Gases at USD 1.5bn. In Fund III, which was USD 6.1bn, the largest investment was USD 2.8bn. That was Wanda Commercial Management. Ten years ago, it would be a stretch to find an investment opportunity where you could deploy USD 500m. Now, you can deploy USD 1bn. As the market has grown, fund sizes have grown just to stay in the game. Our underwriting hasn't changed in any way at all. ■

# AVCJ Private Equity & Venture Forum – Australia & New Zealand



AVCJ

21-22 June 2022

📍 Four Seasons Hotel, Sydney and Online

The Australian private equity industry withstood the challenges of Covid-19 very well with investments in 2021 exceeding the combined totals for 2019 and 2020 and exit activity returning in Q4 buoyed by a strong IPO and secondary market. However, uncertainty is still present so it will be interesting to see how fund managers and LPs are adapting their investment theses and the outlook for the industry as it reflects on the pandemic and plans for the next wave of activity.

Since 2003, the AVCJ Australia & New Zealand Forum has been a must attend for the leaders of the alternative investments industry in the region. From private equity and venture capital funds, to superannuation funds and family offices, the AVCJ Forum is where the community gather to exchange ideas, catch up with friends and meet their next business partner.

## Topics to be discussed:

- HOW are LPs managing their current portfolios and planning for future commitments?
- WHAT approaches have GPs used to fundraise globally and how receptive are LPs?
- WHAT are the prevailing trends in deal structuring and financing?
- HOW will ESG practices in the alternatives space evolve in 2022 and beyond?
- WHAT are the hot sectors that will keep growing during and after the crisis?
- WHAT is the state of the debt market and how best should investors access it?
- HOW are new LPs approaching the asset class and how should GPs approach them for investments?

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