AVCJ
ASIAN VENTURE CAPITAL JOURNAL

AVCJ Private Equity & Venture Forum 2012
USA
10 July 2012
avcjusa.com

AVCJ Private Equity & Venture Forum 2012
Singapore
18 - 19 July 2012
www.avcjsingapore.com

Asia's Private Equity News Source

avcj.com June 19 2012 Volume 25 Number 23

Know your options

Growth capital mezzanine firms offer an alternative to equity dilution Page 7

EDITOR'S VIEWPOINT

Rise of the China PIPE deal
Page 3

NEWS

BlackRock, CITIC PE, CVC, Goldman Sachs, Hopu, Kaizen, Mekong Capital
Page 4

CHINA AWARDS

Full coverage of the winners, including interviews with Hony Capital, KKR's David Liu, Silver Lake, Sequoia Capital, Qiming Ventures, Unitas Capital, Ceyuan Ventures' Bo Feng, and Cowin Capital
Page 9-15

DEAL OF THE WEEK

VCs invest $45 in media platform PubMatic
Page 18

Jacob Ballas supports Indian diagnostic chain
Page 19

FOCUS

Out with the old?

PE ponders Australia's traditional media Page 16

DEAL OF THE WEEK

The great outdoors

Unitas invests in Korean apparel specialist Page 18

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EDITOR'S VIEWPOINT

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Rise of the China PIPE deal

IT HAS TAKEN INDIAN FUND MANAGERS years to convince their LPs of the merits of PIPE deals, and efforts haven't been wholly successful. The knee-jerk response, "Why should I pay you fees to invest in companies that I could just invest in myself?" had to be gently countered by observations on the merits of flexibility. Ignoring 7,000 companies because they are publicly listed doesn't necessarily make sense when some might be mismanaged gems trading at attractive valuations.

Are we about enter a similar debate on China PIPE deals? The plunge in public market valuations has certainly made such transactions more of a talking point among investors. At *AVCJ*'s recent China Forum, Francis Leung, chairman of CVC Capital China, and David Liu, head of KKR China, both said they expect to see more investment opportunities in the listed space.

The important distinction to make is that PIPE deals come in various forms.

First, there are investments in large-scale companies, such as the series of minority stakes purchased by Temasek Holdings in China's state-owned banks. Temasek might be permitted to nominate a board representative, but it can't expect to have any meaningful impact on bank operations. The sovereign wealth fund is effectively making a long-term bet on the stock price.

Second, there are cornerstone investments in companies that are preparing to go public. CVC's Leung rejected this approach, arguing that such investors are merely one of several and so the impact on the company is once again minimal.

Others apparently disagree. In April, PAG took up $300 million of Haitong Securities' $1.7 billion offering, while Baring Private Equity Asia agreed to come in for about one quarter of China Yongda Automobile Service's $435 million IPO in May, which was subsequently shelved. Their justification would no doubt be based on the expected financial appreciation of their holdings plus assurances from the companies regarding governance and consultation over business strategy.

Third, there are significant minority investments in listed companies. These might be bets on companies that are on a growth trajectory not reflected in current valuations (KKR's recent $65 million injection in China Cord Blood) or turnaround jobs on struggling players (TPG Capital's participation in a $119 million convertible bond issue by Li Ning).

In some cases, a PIPE deal offers greater certainty than a buyout. Many of the public equity opportunities are among US-listed Chinese firms that have been hit by negative sentiment in the wake of a spate of accounting scandals among their peers. Sensing that their holdings are undervalued, company chairmen are looking to align with PE investors on take-private deals with a view to re-listing in Asia. However, success stories are still relatively few in number. The tax implications of switching a company registration from the US to the Cayman Islands don't always justify the perceived valuation arbitrage.

The quicker, cleaner option is to buy a stake in the company and keep it public. Morgan Stanley Private Equity Asia completed significant minority investments in two US-listed Chinese firms last year and KKR followed up with China Cord Blood. As KKR's Liu points out in his interview on Page 11, this is not mere stock-picking. The private equity firms conduct the same kind of due diligence and often receive the same kind of rights as in standard private market deals.

The crux is identifying a management team with which you can work and, in this sense, PIPE deals represent a different form to standard growth capital, but not a different approach. Rather than dismiss these transactions out of hand, the savvy LP should ask: "Is this a value-driven strategy or a manager grasping for ways in which to deploy capital in the absence of other alternatives?" Not all PIPE deals are the same.

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NEWS

ASIA PACIFIC

Schwartz rejoins Goldman Sachs to head Asia Pacific

Mark Schwartz, co-founder of Asia-focused New Silk Route and chairman of investment firm MissionPoint Capital Partners, is the new head of Goldman Sachs' Asia Pacific. He is returning to the bank after a hiatus of 11 years.

LaSalle Investment to raise $700m Asia property fund

LaSalle Investment Management, a unit of Chicago-based Jones Lang LaSalle, is seeking to raise $700 million for an Asia Pacific property fund. The manager has already purchased an industrial asset in China, as well as an office property in Japan to seed the new Asia Opportunity Fund IV.

Blackrock appopoints Asia Pacific vice chair

BlackRock has hired Philipp Hildebrand as vice chairman for Asia Pacific and EMEA. He will oversee the firm's largest institutional client relationships in these regions.

Cathay Life invests $30m in KKR's Asian fund

Taiwan-based Cathay Life Insurance has committed $30 million to KKR's second pan-Asian fund, which has a target of $6 billion. It comes two weeks after the Oregon Public Employees Retirement Fund said it had committed $200 million to the vehicle, with Oregon's Common School Fund putting in another $25 million.

Hui to head Goldman's regional merchant banking

Stephanie Hui has been named head of Goldman Sachs' merchant banking operations for Asia Pacific ex-Japan. She will report to Andrew Wolff, who is moving from Hong Kong to London to lead European merchant banking but will remain co-head of the business in Asia.

AUSTRALASIA

OneVentures backs Paloma Mobile with $1.5m

Australia-focused venture capital firm OneVentures has led a $1.5 million Series A round of funding for Paloma Mobile, a developer of smartphone services for emerging markets. Paloma plans to use the funding to accelerate the development of smartphone services for its mobile operator partners in Southeast Asia, Latin America and other high-growth regions.

CVC leads investment in HK-listed shoe company

CVC Capital Partners has led a PIPE investment in Chinese footwear company C.banner. China Consumer Capital Partners and MouseeDragon also participated in the round. CVC bought RMB138.6 million ($21.8 million) worth of convertible bonds and HK$294.5 million ($38 million) in exchangeable bonds.

Established in 1995, C.banner has become the second-largest player in China's mid-to-premium women's footwear market, with a 7.4% market share. The Hong Kong-listed company sells its

products under five brands: C.banner, EBLAN, Sundance, Mio and Naturalizer. "C.banner is a leading player in the fast growing ladies' footwear market in China with a strong and stable management team," said Francis Leung, chairman of Greater China and managing partner of CVC.

Landman leads BlackRock's Australia alternatives unit

Andrew Landman, CEO of Ascalon Capital, will join BlackRock as head of alternatives in Australia. Landman has more than 18 years of experiences in alternative assets. Joseph Pacini, head of BlackRock's alternatives business in Asia ex Japan, will lead the Australian alternatives business until Landman joins the firm.

GREATER CHINA

Lefei Liu resigns as chairman of CITIC PE

Lefei Liu has resigned as chairman of CITIC Private Equity, although he will remain as CEO of the company. The change is expected to have minimal impact on the day-to-day operations of the PE firm. Dongming Wang, chairman of CITIC Securities, will now assume the same role at the private equity unit.

San Diego pension fund commits to FountainVest

The San Diego County Employees Retirement Association (SDCERA) has committed $50 million to FountainVest China Growth Capital Fund II. FountainVest Partners, set up by former Temasek Holdings executives in 2007, raised $950 million for its first vehicle four years ago and is targeting $1.25 billion this time around.

Lilly ups stake in Chinese pharma firm

Lilly Asian Ventures, the venture capital arm of pharmaceutical giant Eli Lilly & Co., has injected an additional $20 million of capital into existing portfolio company Novast. It has committed to setting up a platform to support Lilly-branded generic products.

Hopu sells 6% stake in Chinese dairy firm Mengniu

Hopu Investment Management has sold its 6% stake in Hong Kong-listed Chinese daiy company China Mengniu Dairy for DKK1.7 billion ($289 million) to Denmark's Arla Foods. Ecostar Investment, a wholly-owned subsidiary of Hopu Master Fund I, has entered into a agreement with Arla Foods to sell its 30% stake in COFCO Dairy, which in turn holds 19.66% of the total issued shares of Mengniu Dairy.

Burger King teams up with Cartesian in China

Burger King is teaming up with New York-based Cartesian Capital and members of Turkey's Kurdoglu family to form a China joint venture that will open 1,000 restaurants nationwide in the next 5-7 years. The deal represents the largest multi-unit development agreement in Burger King's history.

Eminent Venture Capital raises $34m cleantech fund

Eminent Venture Capital, an investment arm of TaiAn Technologies, has raised over NT$1 billion ($33.5 million) for its new biotechnology and green energy fund. The fund is expected to close in late June and start operating as early as July. China Steel Corporation, National Development

Fund, Taiwan Fertilizer are Oriental Union Chemical are among the LPs.

China to expand insurers' investment scope

The China Insurance Regulatory Commission (CIRC) is likely to announce a new set of rules allowing insurers to expand their investment scope in order to diversify portfolios. As part of the move, the ceiling for domestic private equity investments will be raised. The regulator will also broaden insurers' investment remit to include foreign private equity funds.

NORTH ASIA

SK Group raises fund to support struggling firms

Korea's SK Group has created a KRW100 billion ($85 million) private equity fund intended to promote shared growth with smaller partner companies. The fund will invest directly in competitive firms that are struggling financially. Korea Finance Corporation, KDB Capital, SK Securities, SK Telecom and SK Global Chemical will contribute capital to the new vehicle.

Kumho Industrial sells assets to Korean PE fund

Kumho Industrial, the struggling South Korean conglomerate, has sold KRW946.5 billion ($811.9 million) worth of assets to a private equity fund operated by Korea Finance Corp. in order to boost liquidity. The jettisoned assets include a stake in Daewoo Engineering & Construction. As part of the transaction, Kumho will invest KRW150 billion in the fund, taking a 30% stake.

SOUTH ASIA

Sony increases take in PE-backed India subsidiary

Sony Pictures Television has increased its stake in Indian subsidiary Multi Screen Media (MSM), which is also backed by private equity investor Capital International. Sony has agreed to buy a 32% stake from several investors for $271 million, taking its overall holding to just over 94%. Capital International owns the remainder.

KKR funds $22m Air Works bolt-on

KKR has provided Air Works India Engineering with INR1.2 billion ($22 million) of structured debt financing to help fund its acquisition of Dubai-based private aviation specialist Empire Aviation Group (EAG). Air Works also used internal accruals to finance the bolt-on, which is designed to increase its footprint in the Middle East and provide superior aircraft management services to its customers in India.

Fosun in strategic alliance with Denmark's Axcel

Fosun International, the investment arm of Chinese conglomerate Fosun Group, has announced a strategic collaboration with Danish private equity fund Axcel, in a move to identify business opportunities in both China and Europe. The agreement is expected to be signed during President Hu Jintao's official visit to Denmark in mid-June.

The partnership will see Fosun facilitate Axcel in deal-sourcing in China, where personal relationships always play a crucial role. Fosun has also expressed interests in co-investing with Axcel regarding companies with exposure to the Chinese market. Fosun's expertise in identifying business opportunities in China will contribute to bring a new model of global collaboration which combines China's growth momentum with global resources.

Kaizen injects $4m in Indian childcare provider

Education-focused PE firm Kaizen Management Advisors has invested INR200 million ($4 million) in Indian childcare services provider Your Kids 'R' Our Kids (YKROK). Established in 2002, the Bangalore-based company offers childcare services to professionals and has 15 centers across India in partnership with 50 corporations.

SpiceJet in talks with private equity giants

Budget airline SpiceJet is planning to raise capital from private equity investors including KKR, The Blackstone Group and Bain Capital, as well as other foreign airlines. As of March, Kalanithi Maran's Kal Airways held 35.4% of SpiceJet, with Reliance Capital owning 5.7% and Maran controlling the remainder.

Accion, Pragati India boost Saija Finance with $4m

Accion and Pragati India Fund have invested $4.5 million in Indian microfinance company Saija Finance. Around $2.2 million came from the Gateway Fund run by Accion, a non-profit entity working in the microfinance sector, while Pragati contributed $2.3 million. The two investors now hold a 74.9% stake.

SOUTHEAST ASIA

Temasek buys stake in Asia-focused Ivanhoe Mines

Temasek Holdings has purchased a 5.5% stake in Canada's Ivanhoe Mines, a move seen as part of ongoing efforts to increase the natural resources share of its portfolio. The transaction was channeled through Tembusu Capital, a PE firm affiliated to the Singapore sovereign wealth fund.

Serasi's Veronica John joins Mekong Capital

Veronica John, founder of Serasi Capital and formerly CEO of IDFC Capital, has joined Mekong Capital as a senior advisor. She is responsible for various aspects of the Vietnam-focused GP's operations, including investments, fundraising and private equity best practices.

Indonesian pay-TV firm targets $260m IPO

PT MNC Skyvision has reduced the fundraising expectations for its IPO this summer from $400 million to $260 million. Saban Capital Group was previously reported to have expressed interest in becoming an anchor investor.

Palatine-backed Air Energi bolts on Indonesia's Satoil

Air Energi, a portfolio company of Palatine Private Equity, has purchased the technical consulting and professional manpower division of Indonesian oil services company Satoil. Made through its subsidiary Air Energy Consulting, the bolt-on acquisition gives the international recruitment company a larger base to expand its Indonesian oil and gas offerings and service its global clients who operate in the country.

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The third way

Growth capital mezzanine players are still few in number in Asia. Will struggling equity markets and tighter credit conditions open up the market for these alternative capital providers?

IHH GLOBAL ISN'T TAKING ANY CHANCES. The hospital chain, which is controlled by Malaysia's Khazanah Nasional, has lined up cornerstone investors to cover more than 60% of its $2 billion IPO. It is likely to be one of Asia's largest listings of the year, joining the ranks of Felda Global Ventures and Haitong Securities, but those two relied on cornerstones to pick up only about one third of their offerings. IHH knows it is up against an increasingly unfriendly market, and is taking appropriate precautions.

The list of Asian IPOs that have been abandoned in recent months is long and distinguished. Graff Diamonds, Formula One, Hyundai Oilbank and China Yongda Automobile Services are the highest profile cases in a string of failures. As of June 1, 46 companies have withdrawn or postponed offerings worth a total of $7.7 billion, according to Thomson Reuters.

Investors are pulling out of equities with a vengeance, spooked by uncertainty in the euro zone, the weak state of the global economy and concerns that the China growth story won't be there to shore up demand. Lower public market valuations are welcomed by mainstream PE firms, but what of specialist mezzanine providers?

Companies that were preparing for IPOs suddenly find themselves without the expected resources; others face debt refinancing issues in a tough credit environment. Growth-oriented mezzanine funds are a natural port of call for firms in need of capital to tide them over.

Industry participants say their phones are ringing more frequently, but this doesn't guarantee a favorable response.

"Although we are seeing deal flow, I would have to say the quality isn't appearing right now," says Stephane Delatte, who heads up CLSA Capital Partners' mezzanine fund in Singapore. "It might be a function of the current macro environment. People are looking for refinancing or they want to take out existing investors, but these situations aren't easy, with the business struggling operationally."

Excessive leverage is a common problem. In the last fortnight, Delatte was visited by a company that raised funds from a private equity investor three years ago and then saw its business go through a downturn. The leverage on the original deal was 3x but the company's EBITDA tumbled and it failed to pay down the debt. As a result, the leverage ratcheted up to 5x and out of CLSA's comfort zone in this instance. Restricted due diligence and industries facing significant headwinds are also frequent turn-offs.

Long term, short term

"It's an interesting time, but reading the risk profile is very important," adds Chris Chia, managing partner of Kendall Court Capital. "What we do is not a cyclical business – there will always be a group of people that won't be able or prefer not to get traditional forms of financing, depending on factors such as the size and the complexity of the business and the investment."

Capital is a commodity and it will always be available from multiple sources, although liquidity and cost inevitably vary. Growth mezzanine providers are competing against the equity and debt markets, commercial banks and corporations, depending on their remits.

However, the crux of Chia's remark is that the short-term opportunities presented by stumbling capital markets or tighter monetary policy aren't as significant as more enduring factors. Broadly speaking, in Asia these are twofold: inefficiencies in emerging economies' banking systems that deny small- and medium-sized enterprises (SMEs) access to growth capital; and a hesitancy among entrepreneurs to dilute their ownership by selling large amounts of equity to investors.

The mezzanine package of debt plus an equity kicker is attractive option for companies caught in this kind of bind. They get capital that might not otherwise be available in return for a relatively small portion of ownership, and business growth is fast enough to meet interest payments on the debt. "What excites people the most is realizing that we don't require 30% of the equity," says Joseph W. Ferrigno III, managing partner of AMCG.

While the opportunities in this niche seem compelling, there are relatively few pan-Asian participants. Strip out the short-term players – funds that focus on subordinated debt in leveraged buyouts or 3-6 month commitments to M&A transactions and pre-IPO deals – and the mezzanine growth capital space is populated by AMCG, CLSA, Darby Asia and Kendall Court. A few banks, notably UOB, DBS, Credit Suisse and UBS, provide financing from their balance sheets.

This may be tied to the breadth of what these operators do and the extent to which other capital providers can cover parts of the market.

Growth capital-oriented mezzanine funds in Asia

Fund	Manager	Launch date	Assets (US$m)	Status
Darby Asia Mezzanine Fund	Darby Asia Investors	2002	-	Disinvestment
MezzAsia Capital	CLSA Capital Partners	2002	112	Final close
Kendall Court Mezzanine (Asia) Fund I	Kendall Court Capital Partners	2004	90	Final close
Darby Asia Mezzanine Fund II	Darby Asia Investors	2005	254	Final close
Development Partners Fund	Development Principles/ FMO/Value Partners	2005	86	Final close
Asia Strategic Capital Fund	AMCG	2007	-	First close
Kendall Court Mezzanine (Asia) Bristol Fund	Kendall Court Capital Partners	2009	150	Final close
CITIC Mezzanine Fund	CITIC Private Equity	2011	-	Raising

Source: AVCJ Research

Generally speaking, to qualify for mezzanine support, a company must have at least $200-300 million in annual revenue and $15 million in profit. Beyond that, roles are difficult to define. CLSA dismisses pre-IPO deals out of hand but UOB will look at them in certain circumstances; AMCG won't touch real estate; Credit Suisse and UBS will be asked to provide working capital to a company in return for securing its IPO mandate.

Financing structures, though they fit

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the basic debt-plus-equity rubric, are also highly customized. Kendall Court's Chia says instruments used "range from senior equity to a straight loan," and there is no real template for what comes in between. All kinds of preference shares, bonds, loans, warrants and debentures feature in deal structures, depending on the risk, the client's requirements and the regulations.

Mode of entry

According to Ferrigno, AMCG gets involved when a company requires capital to go in a new strategic direction or pursue a build-out. This is a broad explanation of what often become highly nuanced situations.

Coming in after an IPO has been pulled and there is no money available for planned acquisitions or participating in a Series C round because the founders don't want to dilute much more of their stake are relatively straightforward mezzanine opportunities. Ferrigno takes it a step further. "We recently met with a guy from a major buyout fund who wants financing for portfolio companies," he says. "The PE firm doesn't want to put in any more equity but it doesn't want to hold back the companies' development. Our kind of mezzanine growth capital fills the gap."

This is not the only way mezzanine performs a service for traditional private equity investors. In a leveraged buyout, much of the projected cash flow is locked down by lenders in order to repay the debt, often leaving little in the company's strategic reserve. Mezzanine can play a quasi-equity role, providing capital for expansion.

The nature of mezzanine participation varies still further in response to geographical peculiarities. In China, for example, offshore loans secured against onshore assets remain a concern. "Unless you have a presence onshore and are able to do direct lending, you cannot recreate the same level of security by being an offshore lender," says CLSA's Delatte. "You have to take the view that collateral must be offshore and, as a result, seek businesses with less leverage than you would normally go for because you are one level removed from the assets."

Ideally, loans are made to the owners of an offshore company that controls the onshore operating business and receives a share of the profits through dividends. The collateral is essentially shares in this offshore vehicle, but it is possible to go deeper. CLSA invested in a Singapore-listed Chinese firm through a bond issue, using a separate infrastructure business, also owned by the offshore company, as security. CLSA took comfort from the fact that, if the company defaulted, it would be relatively easy to realize value from the infrastructure assets.

This approach is par for the course in Southeast Asia, where entrepreneurs tend to own multiple businesses. Only 1-2 of these companies might need financial support, so the others can be used as a counterweight. Even if the pledged assets aren't sufficient to cover the collateral, standard equity investments – where the entrepreneur is just a passive shareholder – can be used instead, according to Wee Yap Yeo, head of mezzanine capital at UOB.

Yeo recalls putting together an acquisition financing package for an entrepreneur who wanted to buy a PE firm's 25% stake in his business. The entrepreneur only owned about 10% of the listed company, so the structure had to meet his significant capital needs without stretching beyond UOB's risk profile.

> "There is always a need to educate potential portfolio companies on the structures, terms and benefits of a mezzanine capital investment" – Joseph W. Ferrigno III

"The CEO had a separate business in the same space, so we took a security charge over that asset and agreed that, after 12 months, he would arrange for the listed company to buy this business," Yeo says. "That transaction was used to take us out, so we were assured of an exit."

As a commercial bank, UOB can claim to have an edge over independent funds in that it has a ready-made deal network. Many potential customers already have a corporate or retail banking relationship with the Singapore-based lender and are referred to the mezzanine department when appropriate. This has more of an impact in Southeast Asia, where UOB has 485 branches, than in China, where it has only 10.

Denied access to a broad-based referrals system, growth capital mezzanine players must rely on their own networks. Up to one third of deals come from PE firms and the chances of participation tend to be higher because most PE investors know what their mezzanine counterparts are looking for. Beyond that, word-of-mouth is the single biggest driver of business.

"There are many reasons why people might be interested in what we have to offer, but awareness of this type of capital is very limited in Asian countries," says AMCG's Ferrigno. "There is always a need to educate potential portfolio companies on the structures, terms and benefits of a mezzanine capital investment."

Some countries in the region are more open to mezzanine solutions than others. Attitudes are strongly influenced by perceptions of interest rates on loans that exceed standard bank rates versus the value placed on equity dilution. China and Indonesia are good examples.

While Chinese small- to mid-size companies often find domestic banks don't meet their needs, some entrepreneurs baulk at a debt instrument with a coupon in the high teens. Compromise positions usually involve a lower interest rate but a larger portion of equity warrants. This attitude can be traced back to a stable domestic lending environment – in the last six years, the country's one-year benchmark lending rate has shifted no more than 120 basis points above or below its current level of 6.31%.

Indonesia is markedly different. In January 2006, the lending rate was more than 12% and it is only since late 2010 that some semblance of order has been restored. "If Indonesian corporates are borrowing from commercial banks, they are paying 6-7%. In a Singapore context, they pay LIBOR plus 100-200 basis points, which is less than 3-4%. We are seeing people pay at least high teens to low 20s, depending on the equity position," says UOB's Yeo.

This also means there is more competition from other sources. Hedge funds and the investment units of family conglomerates are willing to lend rather than take equity, and one domestic GP – Quvat Management – even has a sideline mezzanine business. According to a source familiar with the firm, entrepreneurs are happy to take out a $35 million loan at 17% if their revenues are growing at 25% year-on-year.

Enlightenment?

For growth capital mezzanine to break through into something more like the mainstream in Asia, patience is required. The difference between mezzanine and hedge funds is longevity and the impact this has on alignment of interest, but few funds or SMEs have been around long enough to see beyond the cycle they are currently in. Global markets haven't helped either, offering up cheap credit and equity market bubbles in recent years.

Perhaps most damning of all is that rapid growth in many of the region's emerging economies has encouraged short-termism. Awareness and acceptance of mezzanine solutions – which are by definition more conservative and reliant on credit assessment than much of growth capital – is therefore limited because there has been little call for them. Why would a Chinese entrepreneur choose a financing package he doesn't fully understand when a local VC is promising a quick 20x return?

It's possible that an extended period of market volatility may change this thinking.

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Firm of the Year – Hony Capital

Hony Capital further endorsed its claim to be China's preeminent domestic PE firm, raising a $2.4 billion US dollar fund and securing some landmark investments

FOR HONY CAPITAL, ANOTHER BUSY year of investments, exits and fundraising was reflected by continued dominance at the AVCJ China Awards. The firm retained its Firm of the Year title and also took away the prize for best US dollar fundraise, coming after it won the parallel award for renminbi fundraising in 2011.

With more than $6.8 billion under management across six funds, Hony can legitimately claim to have an influence in Asia that matches some of the pan-regional players. The strength of demand for an LP ticket in the Chinese GP's fifth US dollar-denominated vehicle was a stark illustration of its emergence as a heavyweight.

Hony Capital Fund V entered the market in September 2011, with a target of $2 billion. It closed four months later on $2.4 billion, nearly $1 billion larger than its predecessor. It is China's biggest country-focused US dollar vehicle since Hopu Investment Management attracted $2.5 billion for its one and only fund in 2008.

"China's continuous rapid growth with economic restructuring call for tremendous needs for capital backed with resources, which means that China will continue to be one of the most active and important PE markets," says John Zhao, Hony's founder and CEO.

When the private equity firm rolled out its maiden fund in 2003, parent company Legend Holdings was the only investor. No more than 25 LPs were said to have committed capital to its second and third vehicles.

John Zhao, founder and CEO of Hony Capital, speaks at the AVCJ China Forum

Gaining momentum

By the time of the fourth fund in 2008, however, Hony's track record had won over some of the biggest institutions. According to AVCJ Research, California State Teachers Retirement System (CalSTRS) and Canada Pension Plan Investment Board (CPPIB) participated. Sources tell *AVCJ* that around 45 LPs applied to commit more than $1.4 billion to the fund and another 70 or so were on the sidelines looking for a way in.

It was likely a similar situation with fund five. CalSTRS and CPPIB both re-upped, while Los Angeles City Employees' Retirement System (LACERS) was among the first-time participants.

The level of demand presents Hony with a gilt-edged chance to diversify its LP base. The priority is securing investors that are large enough to support the firm's future growth, but Zhao says he wants to develop a healthy mix of family offices, pension funds, endowments, sovereign wealth funds and insurance companies. Roughly one-third of the LPs come from North America, one third from Asia, and the remaining from Europe and the rest of the world.

The larger fund will inevitably have a knock-on effect on average deal size. The company expects to handle 20-25 transactions each year ranging from $20 million to $500 million, but its sweet spot is sliding up the scale and now sits at $80-200 million.

State-owned enterprise (SOE) restructuring is a clearly an area in which these larger-scale transactions might be found. Hony is already looking for appropriate targets. In August 2011, it paid $100 million for a 60% stake in China Yaohua Glass Group, with a view to tapping a rich vein in glass industry consolidation opportunities. The PE firm previously bought Jiangsu Glass Group, taking the company public as China Glass and supporting an acquisition spree of other state-owned glass assets.

Yaohua is using the capital to boost its output and has targeted annual sales in excess of RMB5 billion ($777 million) by the end of 2015.

"There are substantial opportunities investing into state-owned enterprises (SOEs) as they require capital to become more competitive amid global competition," Zhao told *AVCJ* earlier. "We have around 60 portfolio companies, and around half of them are SOEs that achieve growth IRR as well as our other investments in the private sector."

Opportunities overseas

Outbound are also likely to feature prominently in Hony Capital Fund V. The firm completed its first ever cross-border investment last July, buying a 20% stake in Tokyo-listed hotel and real estate business Tokai Kanko for $17.8 million. The link with Hony and Tokai Kanko could be traced back to Zhao's interest in investing in Japanese hotel businesses due to a growing demand from Chinese tourists.

"The focus of our cross-border investments is always on the Chinese economy as many international companies now want to better serve Chinese consumers," Zhao added.

Finally, on the exit front, the highlight of Hony's year came in December 2011 as New China Life Insurance raised $1.9 billion in its dual Hong Kong and Shanghai listing. The private equity firm secured a $208 million partial exit from the insurer, and still retains about 6% of the A-share equity.

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PE Professional of the Year – David Liu

David Liu, KKR member and head of the firm's China operations, explains how the drop in public market valuations has created a swath of deal-making opportunities

Q: In the past 12 months, KKR has invested in United Envirotech, Rundong Auto, China Outfitter, Sino Prosperity, China Cord Blood and Novo Retail. How does the deal flow compare with other years?

A: Our investment activity has been picking up as we enlarge our team in China. We are also taking advantage of the market downturn to identify more attractive investment opportunities. Today, banks are not lending aggressively, IPO markets are difficult, and valuations for public companies have come down significantly. This means it's a good time for long-term, operationally-focused investors. I much prefer to be more aggressive today than a few years ago when the Chinese stock market was at an all-time high.

Q: Sino Prosperity was a real estate JV while China Cord Blood was a PIPE deal. Do you feel transaction types are becoming more varied?

A: The form of these transactions was different, but in essence, the principles for the investment are not. From our perspective, the key is to find good businesses run by good management teams whose interests are aligned with us. If it's a private company, then we can do a standard growth capital deal; if it's a public company and they are open to us doing a PIPE, that's what happens; if the company is in an industry where a joint venture is most appropriate, we do that. With public deals such as China Cord Blood, it's not like we bought some stocks and hoped the market would recover and the price would go up. The kind of due diligence we did and the type of partnership with management and governance we have is no different to any private company we invest in.

Q: But on a general level, is the deal landscape broadening in China?

A: Yes. Part of that is driven by the current market downturn – we see a larger number of PIPE deals than normal because public market valuations have fallen significantly. Then on a general level, as PE in China develops, you see more types of transactions, which is good for the industry overall.

Q: Do you envisage doing more control deals?

A: Most of our deals in China to date have been minority transactions and we expect this will be the case in the foreseeable future. As previously discussed, ownership percentage is secondary to us. We would much rather partner with a strong management team with an alignment of interest as a minority, value-added shareholder in a good business than be a controlling shareholder in a mediocre business with a mediocre management team.

David Liu receives his trophy at the AVCJ China Awards

Q: Who do you see as the major competitors for deals?

A: To be a market-leading private equity team in China, you have to be able to source deals on a proprietary basis. It comes from developing long-term relationships with management teams and entrepreneurs who want to work with you as partners because of who you are and the value you can bring in addition to capital. We see competition from time to time. Capital is a commodity today and there are always investors who can pay a higher price or close deals quicker. Good investors need to differentiate themselves by their experience, track record and the value they can bring.

Q: So has the proliferation of renminbi-denominated funds had much impact on your business?

A: I know that many LPs are worried about the increasing competition, but I don't spend much time worrying about that at all. Yes, as the China PE industry develops, the supply of private equity capital in China has gone up a lot. But so has the demand for private equity capital. If you look the market-leading teams, everyone is deploying more capital every five years than before despite the increasing competition. And I still the think the competitive situation in China is significantly less than that of the US. Most of the good deals done in China by leading firms are proprietary or semi-proprietary transactions as opposed to the full auction deals we typically see in mature markets.

Q: What are you expectations for the deal-making environment over the coming 12 months?

A: Everyone is worried about China slowing down from 9-10% GDP growth to 7-8%. But at the same time, public market valuations for Chinese companies have come down from 30x earnings to 10x. I do not know when the market will exactly bottom, but as investors with a 5-7 year investment horizon, we see value today. Human beings are sometimes too pro-cyclical. Investing in a 9-10% GDP growth economy at 30x earnings versus a 7-8% GDP growth economy at 10x earnings, I would prefer the second scenario all-day long.

Q: The heady market also contributed to team volatility, with various PE executives spinning out to raise their own funds. How do you achieve stability?

A: Our team has been investing in China for nearly 20 years, first at Morgan Stanley and now at KKR. We focus on bringing in young people and spend a lot of time training them. Many of the team members started here not long after graduating from college. We train them from ground zero so they fit the culture and understand our investment approach. KKR as a firm is focusing on building the most localized global investment platform in China. We believe our team is as local as any of the best in class domestic firms. And we are empowered to build our business in a way that makes sense for China.

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PE Exit of the Year – Beijing Leader & Harvest

MUCH IS MADE OF THE COMMERCIAL implications of China's clean energy drive. The government has pledged to reduce carbon dioxide emissions and energy intensity, promote industrial efficiency and minimize industrial pollution, protect forests, curb motor vehicle emissions, encourage recycling, and support renewable energy.

This will have clear knock-on effects for certain industries. New energy and materials, energy saving and environmental protection, biotechnology, advanced machinery, IT, and new energy cars account for less than 5% of China's GDP. By 2015 it will be 8% and by 2020, 15%.

Beijing Leader & Harvest Electric Technologies is one example of a firm whose fortunes have been transformed by the changing political winds. As one of China's leading producers of medium-voltage variable frequency drives, Beijing Leader is a smart play on demand for energy efficiency products. Affinity Equity Partners and Unitas Capital didn't want for buyers when they decided to exit the firm last year.

"The company represents a very important segment of a very large industry," says Jim Tsao, a partner at Unitas. "It is the missing piece of a large puzzle."

The investors bought Beijing Leader in 2009 with a view to holding it for 5-6 years, but growth was faster than expected. "Five years earlier no one cared about this company, but suddenly the industry became a national priority and the market for energy efficiency products opened up," according to a source familiar with the transaction.

Affinity and Unitas opted for a dual track IPO and trade sale process but the lure of a full acquisition of a large Chinese company – the PE firms held 94% – meant strategic players were willing to pay a premium. A total of 10 prospective buyers from the US, Europe and Asia entered the bidding process, with Schneider Electric eventually overcoming ABB.

Affinity and Unitas sold the company for $650 million, giving them a 3x return on an investment of $200 million. The transaction won Trade Sale of the Year at the 2011 AVCJ Asia Awards and added the Private Equity Exit of the Year honor at the 2012 AVCJ China Awards. The prizes were recognition for a rare China buyout by a foreign private equity firm, followed by an equally rare trade sale exit.

Unitas Capital's Jim Zhao at the AVCJ China Forum

Schneider's bid is said to have been received favorably not only due to the price, but also because it added relatively few pre-conditions for closure. As a result, arrangements were concluded swiftly and smoothly. "When we put it up for sale in June, someone said to me, 'See you in 9-12 months,' but we closed it in four months," the source adds.

The deal was originally sourced by Affinity, which then sold on a 23% stake to Unitas, keeping 71% for itself. Company management held the remaining 6%. The private equity firms brought in a new CEO and CFO and set about turning the company around – no small task given that it hadn't drawn up a formal budget in 12 years.

During their tenure, Beijing Leader saw annual growth of 20%.

PE Deal of the Year – Alibaba Group

SILVER LAKE STARTED BUILDING relations with Alibaba Group almost as soon as it launched its Asia operations in 2008. It was the logical thing to do: the private equity firm assiduously builds relationships with senior management at most of the world's largest tech companies; Alibaba is one of the biggest and certainly the most diverse operator in China's internet space.

When Alibaba decided last year that it wanted to facilitate the sale of a 5.7% stake – offering employees and other early investors in the company a liquidity opportunity – Silver Lake was an obvious port of call. The specialist technology investor teamed up with DST Global to lead a transaction worth $1.6 billion, valuing Alibaba at $32 billion. Temasek Holdings and Yunfeng Capital, an investment firm set up by Focus Media's David Yu and Alibaba founder Jack Ma, were among the other participants.

"There is nothing like working with someone as a partner and trying to solve a problem," says Ken Hao, head of Silver Lake in Asia. "Alibaba wanted to wait longer before going public and they reached out to parties that could add value to the company as long-term investors."

Part of the complexity for Alibaba was Yahoo, which took a 40% equity stake in the Chinese company in 2005 in exchange for $1 billion and Yahoo's China-based assets.

The strategic directions of the two firms have diverged over the years and, given the challenges Yahoo faces in its core business, it seemed inevitable that the relationship would be restructured. However, with the bulk of Alibaba under private ownership – B2B trading platform Alibaba.com went public in 2007 but the group's remaining assets, including e-commerce platform Taobao, did not – replacement investors would be required.

Silver Lake and its counterparts presented the right solution at the right time in September 2011, and this transaction was named Private Equity Deal of the Year at the AVCJ China Awards.

In May 2012, Alibaba and Yahoo reached an agreement on the long-awaited restructuring. Alibaba will repurchase half of Yahoo's stake for at least $7.1 billion. The Chinese company has said that it will partially finance the repurchase transaction by issuing equity to investors, possibly including existing shareholders.

Silver Lake is well positioned to work with Alibaba on various strategic initiatives, including future overseas expansion possibilities. It is already performing a similar role with one of its other China portfolio companies, digital marketing platform Allyes.

"We have our opinions about technology trends and the sea changes we see happening in terms of global technology and Asian companies," says Hao. "When we invest in China a good deal of the investment thesis tends to be outside of China. The companies want to be global leaders in their respective fields."

While the Alibaba investment isn't a typical deal for Silver Lake – it focuses on control deals and usually enters at lower valuations – the company's growth prospects, and the role the PE firm can play in fulfilling them, were suitably compelling.

VC Deal of the Year – Dianping.com

As China's leading restaurant reviews website, Dianping.com has developed a business model that is difficult for others to replicate. VC backers TrustBridge, Lightspeed, Sequoia and Qiming don't expect this to change

SEQUOIA CAPITAL FIRST FOUND OUT about Dianping.com because its employees were using it. Back in 2006, the restaurant listings and reviews site was only three years old and coverage was still largely restricted to Shanghai, but its reputation was impeccable.

"With review sites in China it's very difficult to tell if the comments are real, but Dianping was careful about this and controlled its brand very effectively," says Steven Ji, a partner at Sequoia.

The VC firm was the sole participant in a Series A round of funding worth $1 million. Google led a second round of funding in 2007, but the big pay-off came last year. TrustBridge Partners led a $100 million Series C round, which also featured Lightspeed Venture Partners, Qiming and Sequoia.

This striking validation of Dianping's business model reportedly valued the company at $1 billion and the transaction was subsequently named Venture Capital Deal of the Year at the AVCJ China Awards.

Not just another clone

It is tempting to label Dianping a Yelp clone, following the all-too-familiar pattern of internet-based business models being transplanted from North America to China with mixed success. However, Dianping predates its US counterpart by about two years.

As of the end of 2011, Dianping had in excess of 42 million active users posting 20 million reviews per month, and a network of more than 1.5 million member merchants.

The company has local operations in more than 20 first- and second-tier cities in China, led by Shanghai, Beijing and Guangzhou, but its reach is far wider. It is estimated that users from approximately 2,300 cities post reviews. "Even if you go to small places in central China, users are generating content even before Dianping has a presence there," says Sequoia's Ji.

What this means is that when the company does enter these cities and seeks advertising revenue from local restaurants, it has a ready-made platform.

> "We are not looking to Dianping.com for a short-term IPO" – Steven Ji

J.P. Gan, managing partner at Qiming, claim the company has created a very "sticky" community that is difficult for would-be competitors to emulate – even cash-rich and user-heavy internet behemoths like Baidu and Tencent. "Dianping has accumulated a loyal and unbiased group of bloggers who enjoy going to restaurants and reviewing them," Gan says. "You can't build up this kind of business overnight."

Dianping has been profitable since 2008, largely thanks to the traction it gets from word-of-mouth advertising. One of the main reasons for the $100 million Series C round was to raise capital that can be put towards developing new products and services.

In addition to geographical expansion, Dianping is already targeting retailers beyond the food and drink space and has launched a mobile internet offering. The company envisages becoming a one-stop marketing solution and, to this end, a group-buying service was launched last year. Much of the capital put in by the four VC firms has ended up here.

Evade the black hole

Group-buying sites are widely seen as a black hole in China. The flood of entrants into the segment in 2010 and 2011 forced down prices and profit margins, and a round consolidation is inevitable. But Gan argues this may actually be of benefit to Dianping because it offers something its rivals cannot.

"They are already in contact with local merchants about advertising, so group-buying becomes part of a comprehensive marketing package," he says. "A hotpot restaurant, for example, doesn't get a lot of business in summer, so it might want to try banner ads; in winter, when it gets more business, group buying offers are a better option."

Now that Dianping is generating sufficient cash flow to meet its day-to-day needs, a Series D round of funding it unlikely, although the VC firms would be delighted to participate should the opportunity arise. Meanwhile, the logical exit route – an IPO in the US – isn't on the agenda either. The onus is on building the business and consolidating market share in the lucrative social-local-mobile space.

"We are not looking to Dianping for a short-term IPO," Ji says. "The firm wants to build new functions that provide value to customers by closing the loop between users and merchants, thereby making transactions easier."

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Awards presented:

Firm of the Year: Hony Capital
PE Professional of the Year: David Liu (KKR)
VC Professional of the Year: Bo Feng (Ceyuan Ventures)
PE Deal of the Year: Alibaba Group (Silver Lake/DST Advisors/Temasek Holdings/Yunfeng Capital)
VC Deal of the Year: Dianping.com (Lightspeed Venture Partners/Qiming Venture Partners/Sequoia Capital/Trust Bridge Partners)
PE Exit of the Year: Beijing Leader & Harvest Electric Technologies (Affinity Equity Partners/Unitas Capital)
Fundraising of the Year – US Dollar: Hony Capital Fund V (Hony Capital)
Fundraising of the Year – Renminbi: Nanhai Growth Fund V (Cowin Capital)
AVCJ Special Achievement Award: Lou Jiwei (China Investment Corporation)

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25 years in Asian Private Equity

Alex Zheng, CEO of Cowin Capital, receives his award from Shearman & Sterling's Lorna Chen

RMB Fundraising of the Year – Cowin Capital

AFTER BARELY THREE MONTHS IN THE market, Shenzhen-based Cowin Capital successfully closed its Nanhai Growth Fund V in June 2011 at a total of RMB2.5 billion ($393 million). The vehicle took the VC firm's total assets under management past RMB7.5 billion.

The significance of this fundraise, however, is arguably in what it allows Cowin to do next. The firm has reached a critical mass by attracting LP commitments from high net worth individuals. Now it is looking to embrace international private equity practices with a view to reaching out to institutional investors.

"The majority of the LPs in our renminbi-denominated funds are still individual investors," says Alex Zheng, CEO of Cowin Capital. "In our future fundraising, we will try to take in more institutional investors, both locally and globally."

Cowin was among the early movers in China's domestic venture capital space, launching its debut Nanhai fund in 2007 with a target size of RMB250 million. This vehicle was the first domestic limited partnership to emerge after the government revised regulations on partnership enterprises, enabling domestic partnership funds to be treated as pass-through vehicles for tax purposes. This meant that different kinds of investors could participate more easily.

Since then, Cowin has raised four more vehicles in as many years. Nanhai Growth Fund V, which was named Fundraising of the Year – Renminbi at the AVCJ China Awards, targets investments in consumer goods, biomedicine, clean energy automobiles, energy conservation and advanced manufacturing.

Cowin raised most of the corpus directly and through its strategic partners, while also employ placement agents to help with the rest. Its fundraising efforts stood out due to the relatively transparent way in which they were conducted.

Cowin set a participation threshold for LPs – at least RMB20 million from individual investors and RMB30 million from institutions – in a bid to make the investor base more manageable. The firm also published a detailed investment strategy, stating that it would only back companies that had track records of more than 12 months, valuations in excess of RMB50 million, and realized profits.

The ultimate objective in presenting a clean face to the world is to tap overseas LPs for a US dollar-denominated fund. This has become a priority for a domestic managers who have witnessed the defaults that followed the flood of inexperienced investors into renminbi funds and now see the benefits of a more mature LP base.

"We are in the process of raising our first US dollar offshore fund recently," Zheng adds. "In the future, Cowin will keep trying to provide good returns for our investors, as well as offering opportunities for strategic cooperation."

The firm is also nearing a close of RMB300 million for a new venture capital fund that will target early- to mid-stage companies in fast-growing industries.

VC Professional of the Year – Bo Feng

Bo Feng, founding partner of Ceyuan Ventures, on the treats and trials of VC investing in China

Q: What has been your most prized accomplishment at Ceyuan Ventures?

A: We are far from being successful, but as well as a lot of luck, one thing that has helped us is conviction. We believe in the industry, the sectors and teams we back and in ourselves, working alongside them. In 2006, I took the whole team to California and we held a discussion on Web 2.0, wireless internet and e-commerce. We were ahead of most VCs in focusing our activities on these sectors.

Q: What do you enjoy most about your job?

A: Learning about new things; and learning how to become a part of the advancement of life and society.

Q: How have China's venture capital players changed since you first arrived?

A: As one of the earliest VCs in China, starting in 1994, I have witnessed great changes. More companies are being founded and funded, more angel investors are helping entrepreneurs, and more capital is willing to take risks. But the biggest change is in the number of VC firms. They are everywhere. It means more competition for us, which makes our job more difficult.

Q: What transactions stick out for you?

A: We have some great portfolio companies: Vancl, Douban, UC Mobile, Netqin, Uc , Netqin, Light in the Box, Dianping. If I had to pick, I would choose [online clothing retailer] Vancl as our best deal. We started with Chen Nian, the CEO, when the company was founded and have invested across five rounds.

Q: What are the biggest challenges facing VCs in China today?

A: It's very tough to start a new fund and decide on a size that make sense. Running a fund is expensive and the opportunities are few, so there's very little room for VCs to make money – 2008-2012 have been tough vintages.

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Australia's old media: Where did it all go wrong?

Traditional media in Australia has been colonized by buyout houses since 2006, but a number of these assets are now in distress. Can private equity use this situation to its advantage?

TEN YEARS AGO, MEDIA CONSULTANT Paul Budde was advising Fairfax Media Group. Free newspaper websites were popping up all over the internet at the time, and Budde was perplexed as to why so much content was being given away for nothing. "Why on earth don't you link your websites to your subscribers?" he asked the company.

Fairfax's hundreds of thousands of subscribers should be given free access to the website as part of their package, Budde believed, and the rest of the news should be limited to mere teasers.

Only this week, a full decade later, has Fairfax announced its plan to erect pay walls around the websites of its two main metropolitan newspapers, The Sydney Morning Herald and The Age. It appears this could be too little, too late, though, as the company's shares have slumped to such an extent over the intervening years that its market capitalization now stands at A$1.4 billion ($1.4 billion), down from A$7 billion five years ago. This makes it the cheapest media company in the world, according to Bloomberg – and a prime target for a private equity takeover.

"If The Australian [the biggest-selling national daily] wasn't the flagship of [Rupert] Murdoch because he started his empire with that in the 1960s, I don't think it would survive anymore," adds Budde, who runs media consultancy Budde.com.

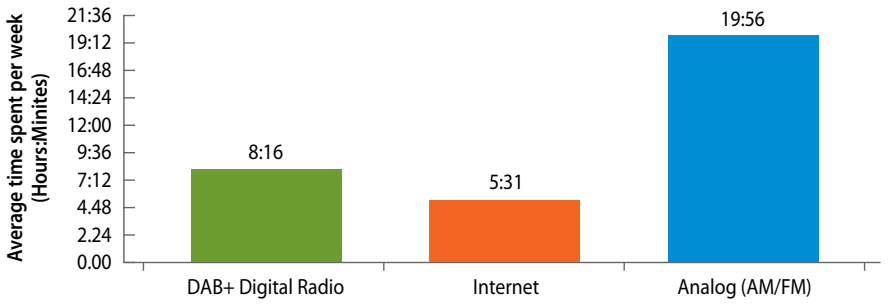
Fairfax, which commands a 30% share of the Australian newspaper market, is not alone in its fortunes (or lack thereof). Seven West Media, which is still 12.6%-owned by KKR, is struggling under a heavy debt burden and was last week urged by a Citi analyst to raise fresh capital due to the potential risk of a covenant breach should the market deteriorate.

And the troubles aren't confined to print media either, for Nine Entertainment Group, one of the nation's most powerful TV networks, is widely perceived as the most embarrassing deal ever realized by its majority owner, CVC Capital Partners.

CVC bought Nine for A$5.3 billion in cash through several transactions between 2006 and 2008, but has seen the value of the asset drop significantly since then. The company has A$2.7 billion in senior debt on its books, and Oaktree Capital and Apollo Global Management, who hold A$1 billion between them, are pushing for greater control of the company through a debt-to-equity swap.

The challenges facing local media companies are three-fold. Firstly, though advertising spend is actually increasing, the growth in online advertising – Australia became Asia Pacific's third-largest internet advertising market last year with revenues of $2.5 billion – has come at the expense of more traditional media. Newspapers and free-to-air broadcasting channels are finding it difficult to keep up.

Online news sites access in Australia during June 2010



Source: Nielsen Online

> "If The Australian wasn't the flagship of Murdoch because he started his empire with that in the 1960s, I don't think it would survive anymore" – Paul Budde

"Many media companies went into the digital space using an ad model that was very reflective of their traditional model, which is display advertising. Display ads are sold on a cost per 1,000 page views basis, whereas the big innovation that the pure digital companies like Google and Apple came in on was the click model," explains Megan Brownlow, executive director at PricewaterhouseCoopers and editor of the firm's Australian Entertainment and Media Outlook. "That is a much more risk-averse model, so it's much more successful and is growing more steadily than display ads."

As a result, $1.4 billion – or 54% - of Australia's online advertising spend now sits with Google rather than traditional media brands.

Something for nothing

A second factor was a global mistake. Instead of putting their content behind pay walls as soon as they launched websites online, virtually all of the world's newspaper companies initially provided their content for free. The wisdom at the time was that publishing was an advertising-supported business model and therefore papers should give away their content to build audience. Only now are the big players changing their stance: The Australian, owned by News Ltd, which controls 70% of the market, became the country's first mainstream newspaper site to use a subscription model late last year.

A third explanation for the declining profits in this segment is the unwillingness of Australian

media companies to rethink their business models when first making the push online. Instead of streamlining their offerings, they kept publishing platforms relatively separate and therefore all of the high fixed costs that sat in traditional media – such as printing and design costs – stayed on the books. PwC's Brownlow believes this makes some of these companies, and print assets in particular, an ideal proposition for private equity firms looking for turnaround investments.

But multiple industry participants argue that the long-term structural decline in traditional newspapers signifies a bleak future for these assets. "So if you're private equity, if it's fundamentally structural and there's no long-term future, then you've got to consider very carefully what your exit options are for the business," a source tells AVCJ.

Free-to-air television assets might inspire more confidence among PE acquirers, though, because Australia's anti-siphoning laws prevent pay-TV broadcasters – such as Foxtel or Telstra – from buying monopoly rights to televise core sporting and cultural events before their free-to-air television have had a chance to bid on them. "We've got structural dynamics in our sector here which mean that you could take the view that the volatility in free-to-air revenues and advertising is cyclical not structural, whereas in papers, it's structural," says the source.

Exit options

Regardless of the specific nature of the asset, when it comes to offloading these companies – Nine, Seven West Media or New Zealand's Mediaworks, in which Ironbridge Capital owns part of the debt – timing is crucial. CVC is no doubt all too aware of this, having rejected various exit options over the years, including an IPO last year that could have brought in as much as A$5 billion ($4.9 billion).

Is it still possible to sell these assets for a profit, though, by diversifying into other areas? Industry participants believe it is. Australian brands command the loyalty of a wealthy domestic consumer base. What media firms need to do is to work out how to exploit those brands by getting revenues directly from consumers rather than relying on advertising revenues. One opportunity could lie in live entertainment.

"Live entertainment is booming in Australia, and we're seeing regular increases in ticket prices across all types of events," says PwC's Brownlow. "If you take your brands that have long relationships with consumers, and you allow your consumer to get closer to your brand through a live event – whether that's a stage show or a conference or an exhibition – then that's really smart."

Methods such as this, of cross-pollinating customer relationships across different platforms, could even represent opportunities for the likes of CVC, which has repeatedly declined to entertain proposals from Nine's creditors. In an ideal world, the PE firm would structure a deal that doesn't constitute a crushing loss, perhaps working alongside a partner that has synergies with Nine, and which sees value in the firm that other players don't.

Brownlow puts it thus: "The nature of media historically is that fortunes wax and wane and reinvention is possible, but it does require focus and courage."

Worldwide ad spend versus online ad spend, 2009–2012

Advertising platform	2009 ($billion)	2010 ($billion)	2011 (e) ($billion)	2012 (e) ($billion)
Global ad spend	430	443	460	485
Online ad spend	55	60	65	82

Source: BuddeComm / ZenithOptimedia

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Unitas in timely bet on Korea's outdoor market

AS IN MOST PROPRIETARY DEALS, TIMING was everything when it came to Unitas' most recent investment. By fortuitous coincidence, the Asia-focused private equity firm approached Korean outdoor apparel and equipment manufacturer NEPA at the very moment that its CEO was looking for support to help spin out the unit from its then parent company, PyungAhn L&C.

"The owner wanted to make NEPA a global brand and was actually talking to some Korean PE funds, but he realized that they weren't able to help him become a global player," a source close to the deal tells *AVCJ*. "He was also thinking about approaching some foreign funds, but was skeptical, because a lot of these funds don't have a lot of experience in Korea."

Outdoor activities: Big in Korea

Then Unitas came on the scene. Impressed with the firm's track record in Korea and its experience of taking companies global, NEPA CEO Hyung Seob Kim gave Unitas partner and COO Eugene Suh – who led the deal – exclusivity after several meetings. A deal was signed within six months.

As part of the agreement, Unitas established a newco – Amsterdam-based Asia Mountaineering Holdings – and pledged to invest KRW190 billion ($162.4 million) in Seoul-based NEPA in return for a significant minority stake in the new entity. It is a horizontal spin-out, so shareholders in the parent firm will also be shareholders of the spun-out NEPA, in which H.S. Kim holds a majority stake.

The attraction for Unitas was the chance to participate in the fast-growing outdoor apparel market – itself the most rapidly-expanding segment of the apparel sector globally. "The outdoor apparel companies in Korea have the best performance technology," says *AVCJ*'s source. NEPA claims to be the fastest-growing outdoor player in Korea and successfully convinced Unitas of the superiority of its design, performance and technological capabilities.

Korea is currently the world's second fastest-growing market for outdoor clothing and equipment, and recent changes to the working week might offer some explanation as to why. The government introduced mandatory 40-hour, five-day weeks in 2011 for all workers, and school weeks have also been reduced from six to five days as of this year. As a result, Koreans are benefitting from additional leisure time, which many are devoting to activities such as hiking and mountaineering. Furthermore, winters in the country are often very cold, creating demand for apparel that offers moisture management and temperature control technology.

An active player in a Korean outdoor industry that is growing at 19.1% a year, NEPA's next stop is global expansion. This will take the form of both organic growth and overseas M&A, with prominence in China – whose outdoor market is growing at more than 50% per annum – a particular ambition. Later down the line, Unitas may also assist the firm in extending its footprint into Europe.

VC players back $45m PubMatic mezz round

IT IS NO EXAGGERATION TO SAY THAT real-time bidding (RBT) is transforming online display advertising. For years, customers bid for slots in bulk, paying a flat rate for each one; there was no way to improve cost efficiency by bidding for particular opportunities. Under a real-time system, users' cookies are tracked automatically and matched with advertisers' specific requirements. Whoever bids highest, wins the slot – and it all happens in the blink of an eye.

Through RBT technology advertisers can spend less to reach more of their target consumers. According to International Data Corporation, the global market for the technology will be worth $6.5 billion by 2015.

This explains why PubMatic, a real-time media selling platform that helps publishers automate the process of evaluating and selling their advertising inventory, is a popular among VCs. Last week, Nexus Venture Partners and Helion Ventures, participated in a $45 million round of mezzanine/pre-IPO financing for the company alongside fellow existing investors Draper Fisher Jurveston and Silicon Valley Bank. The round was led by new arrival August Capital.

"We're thrilled to partner with PubMatic to increase their investment in superior technology and top executive talent to more effectively serve premium publishers," says Eric Carlborg, a partner at August Capital, who joined PubMatic's board as part of the investment. "The advertising automation space has huge growth potential."

PubMatic was established in India in 2006, when the country's digital advertising market was still in its infancy. The company raised $6 million in Series A funding from Nexus, Helion and DFJ in 2008 and moved to the US in search of better growth opportunities. The same investors participated in a $3.5 million second round and then also joined for the $7.5 million third round.

VCs like PuMatic's RBT offering

PubMatic has seen revenue growth in excess of 150% year-on-year, broadly tracking RBT's rapid penetration of the online display advertising market. The latest investment will be used to support expansion in Europe and Asia.

"Digital advertising started in the US but now we have seen a significant market in Asia, which is small but growing very fast," says, Naren Gupta, co-founder of Nexus Venture Partners. "The India market has been growing annually at over 100% for the last few years."

PubMatic's next step is likely to be an IPO. Speculation about a listing began last year when former Kodak Gallery CFO Steve Pantelick joined and said that his experiences helping firms expand globally and prepare for IPOs were a good fit for PubMatic.

Gupta notes that the timing depends on market conditions, but there he thinks the company would be a hit with US investors. "Investors there understand the demand for such technology; Asia is also an option, given the company's founders come from India."

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Jacob Ballas supports Indian diagnostics chain

THE $40 BILLION INDIAN HEALTHCARE market is growing rapidly and has seen numerous PE investments into hospital chains and pharmaceutical companies. However, the country's diagnostic expertise and infrastructure still lag behind. Jacob Ballas Capital India has made its latest bet by committing INR2.5 billion ($44.7 million) to Super Religare Laboratories (SRL), the diagnostic unit of Fortis Healthcare.

According to a report from consultancy firm RNCOS, the Indian diagnostic market is set for compound annual growth of 26% between 2012 and 2015, on the back of increasing investment, expansion into smaller cities and government support. Meanwhile, the industry is shifting from small, unorganized laboratories into sizeable institutions that provide reliable quality services with a larger range of diagnostic tests.

SRL is one of the notable examples. As of March 2012, the diagnostic chain had a network of eight reference laboratories, eight centers of excellence, 208 network laboratories, 21 wellness centers and in excess of 1,088 collection centers.

"SRL is the largest company within the corporate sector in India's diagnostic market, of which 90% is still in the hands of local neighborhood laboratories run by doctors and medical professionals," Srinivas Chidambaram, managing director of Jacob Ballas Capital India, tells AVCJ. "We were attracte by the company's growth dynamics, its strong presence across India and its institutional background"

The dialog between Fortis and Jacob Ballas started last year, when the healthcare group suspended its IPO plans for SRL due to the depressed state of the capital markets. As Jacob Ballas had already backed Religare Finvest, a non-banking finance company run by the Singh family, the founders of Fortis Healthcare, the private equity firm was invited to make an investment into Fortis' diagnostic unit.

This is the third round of private equity investment into the diagnostics company. In 2011, Sabre Partners and Avigo Capital Partners invested a total amount of INR1.5 billion.

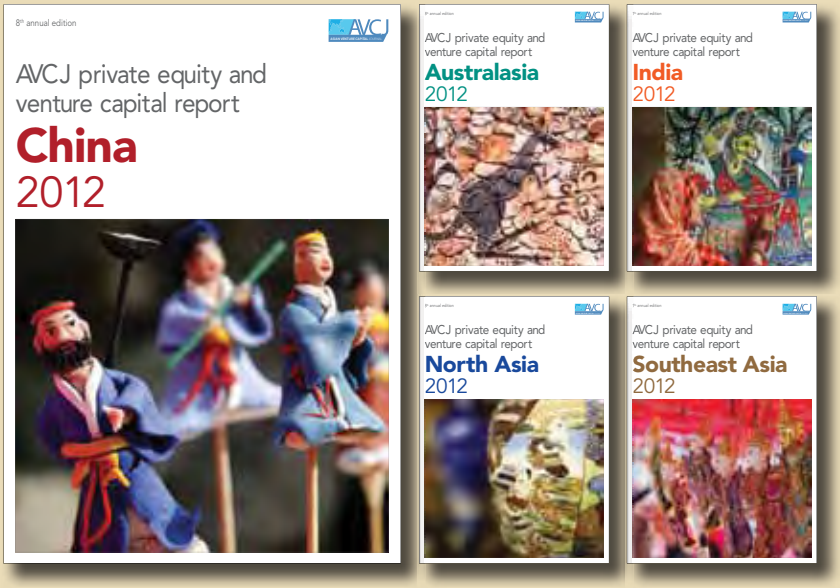
India's diagnostic market is upgrading

Jacob Ballas' cash injection took the form of compulsorily convertible preference shares, with a conversion price of INR201-220. The International Finance Corporation (IFC) also participated in the round, contributing another INR1.2 billion. The funding will be used to strengthen the balance sheet of SRL to expand its consolidation strategy, in a move to improve market share and create sector leadership.

After the conversion, Fortis Healthcare will retain 55-56% of SRL. The company will not be listed immediately after this latest funding round, but it IPO are likely to be revived in 2-3 years' time.

The investment was channeled through Jabob Ballas India fund III, a $400 million country-focused vehicle that closed in 2008. It has so far made 12 investments, of which four closed in 2012.

Asia has over US$318 billion in private equity funds under management



* as of September 30, 2011. Source: AVCJ

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