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Buyout firms optimistic about Japan again

A COUPLE OF WEEKS AGO, I WROTE ABOUT the signs of positive change in the Japanese private equity industry and that we can be optimistic again about Japan (See page 3 of the September 4th edition of AVCJ). This view has more or less been shared by many of our speakers at our recently concluded AVCJ Private Equity & Venture Forum - Japan, especially those in the buyout space.

In the opening keynote panel chaired by HarbourVest’s Sebastiaan Van Den Berg, the Japan heads of some of the largest private equity firms in the world were saying that the scope for private equity buyouts in Japan is widening due to falling public market valuations and clear opportunities for value-add within portfolio companies.

The panel, which comprised of speakers from Bain, KKR, PAG and TPG, argued that pricing for Japanese companies is much more attractive than it has been historically. It is worth noting that while US and Chinese companies are trading at similar levels in terms of EBITDA and price-to-book, the Nikkei 225 Index is trading 20% lower at 6x EBITDA. On a relative basis therefore, Japan is cheap right now. There are more than 800 companies valued between $150 million and $700 million, and 60% of them are trading at less than 0.8x book value.

More importantly, Japan is one of few markets where control-oriented buyout deals are possible. By contrast, in China, Asia’s most active market, almost 90% of deals completed last year was for minority stakes. That number increases to 94% in India, while the current hotbed of Southeast Asia is cheap.

Speakers also observed that corporate Japan is more open to the idea of working with private equity partners, although ensuring alignment of interests remains a challenge. The changes, which have occurred over the last 10 years, have been driven in part by a greater sense of urgency among the big corporations. As for smaller Japanese companies, especially those with an enterprise value of $500 million to $2 billion, a major selling point would be helping them with their China strategy, as their ability to expand in China is going to be critical part of their future.

The recent political tension between the two countries over the Diaoyu/Senkaku Islands may dampen the short-term interest.

Credit needs to be given to the private equity firms that are targeting growth segments in an economy that is flat-lining. Bain Capital, the most active firm in Japan (in terms of volume), has recently invested in two such opportunities: Skylark, the restaurant chain it bought last year from Nomura Principal Finance and Mitsu for $2.1 billion plus debt, and Jupiter Shop Channel, Japan’s number one TV shopping channel.

According to Shintaro Hori, chairman at Bain Capital Japan, the former was attractive because of its good price-line strategies that ensure the restaurant chain caters to most consumer segments. As for the latter, their core customers, women aged 40 years and over are spending JPY10,000 ($127) a week. With an expanding women aged 40 years and over are spending JPY10,000 ($127) a week. With an expanding

Finally, as for returns, TPG’s Jun Tsusaka dispelled common perceptions of Japan as a low-return market for private equity. According to him, TPG’s Japan return of 2.4x is ahead of India and Southeast Asia, which both returned 1.8x.

So there you go. Buyout firms again are maximum bullish on Japan.
**ASIA PACIFIC**

**Affinity launches $3.5b pan-Asia fund**

Affinity Equity Partners is reportedly looking to raise up to $3.5 million for a new pan-regional vehicle. The firm – which was founded by former UBS Asia chairman KY Tang – has given MVison the mandate as placement agent. The Asia-focused private equity firm has already begun marketing the fund and has arranged a meeting with LPs for later this month.

**Carlyle offers LPs quick exit route from Asia fund**

The Carlyle Group has introduced a liquidity mechanism for its latest Asia buyout fund that facilitates the exit of LPs that want to sell their positions in the vehicle, industry participants tell AVCJ. The private equity firm has used a similar mechanism elsewhere in the world, but this is the first time it has been deployed in Asia.

**PAG announces final close of $2.4b on Asia fund**

PAG has announced a final close on its debut private equity fund at $2.4 billion. PAG Asia I is a pan-regional buyout vehicle with a particular focus on China. It is the largest Asia fund to achieve a final close since Baring Private Equity Asia raised $2.46 billion for its fifth vehicle in January 2011.

**Actis appoints two new directors in Asia**

Actis has appointed two new directors, Danny Koh and Max Lin, who will be based in Singapore and Beijing, respectively. Koh will be head of deal origination for Southeast Asia while Lin will focus on China investments. Koh started his career in the tax division of PricewaterhouseCoopers (PwC), before moving to its corporate finance in the tax division of PricewaterhouseCoopers (PwC), before moving to its corporate finance

**CVC, RBS raise $286m in Samsonite sell-down**

CVC and Royal Bank of Scotland (RBS) have reportedly sold a combined 153.6 million shares in Hong Kong-listed Samsonite International, the world’s biggest travel luggage company, for HK$2.22 billion ($286 million). The deal accounted for roughly 10% of the company, with 65% of the shares sold by CVC and the remaining 35% by RBS.

The shares were purchased by a small number of global investors through a reverse enquiry. The vendors sold at HK$14.50 per share, which represents a 3.3% discount to Friday’s closing price. Goldman Sachs was the sole book-runner. CVC bought Samsonite in 2007 for $1.7 billion, including debt, and funded most of the transaction with a loan from RBS.

**Quay poaches Reed from Pantheon for US**

Australian private equity fund-of-funds and advisory firm Quay Partners has hired Jeffrey Reed from Pantheon Ventures, the UK fund-of-funds, to help manage its US operations in San Francisco. Reed, a secondary investment specialist, joins Ian Deas, also ex-Pantheon, who has been with Quay Partners since 2010.

**GREATER CHINA**

**Banks invited to finance Focus Media buyout**

Banks in Asia are reportedly being approached to provide up to $1.7 billion in financing for the private equity-backed management buyout of NASDAQ-listed Focus Media Holding. Citigroup, Credit Suisse and DBS Bank have assembled a package comprising a term loan of up to $1 billion term loan, a $200-300 million bridge-to-bond facility and a $450 million cash bridge.

**Citic PE backs take-private bid for China’s 3SBio**

Citic Private Equity is supporting a $331 million management buyout offer for NASDAQ-listed Chinese pharmaceuticals company 3SBio. It is the latest in a string of attempted take-private deals for US-traded Chinese firms that are perceived to be undervalued by the public market.

**Yahoo Japan launches VC fund**

Yahoo Japan has joined the corporate venture capital club by launching a JPY1 billion ($12.8 million) fund. It will principally target start-ups in the smart phone, internet advertising and cloud computing spaces. The VC subsidiary - YJ Capital - will be entirely sponsored by Yahoo’s own balance sheet.

**MBK targets $2.25b for fund III**

MBK Partners has launched its third buyout fund with a target of $2.25 billion, AVCJ has been told. It is the latest in a string of large-cap pan-regional funds to enter the market, joining the likes of KKR, TPG Capital, The Carlyle Group and RRJ Capital. MBK Partners III will follow a similar strategy to its predecessor.

**Global buyout firms see rich pickings in Japan**

The scope for private equity buyouts in Japan is widening due to falling public market valuations and clear opportunities for value-add within portfolio companies, according to panelists at the AVCJ Japan Forum. “Pricing is much more attractive than it has been historically,” said Jun Tsusaka, partner and managing director at TPG Capital Japan.

**Longreach nears $400m final close on second fund**

The Longreach Group is nearing a final close of around $400 million for its second fund. An announcement is expected within a month, market sources told AVCJ. The Japan-focused GP has spent more than two years on the fundraising trail. It held a first close of $135 million in March 2011.
**SOUTH ASIA**

**Blackstone ups Financial Technologies stake to 6%**

The Blackstone Group has increased its stake in financial services company Financial Technologies India to more than 6% through open market transactions. Investing via its entity Blackstone GPV Capital Partners Mauritius VI FII, the private equity firm has snapped up an extra 1.1% stake or 5,24,054 shares in the company.

**Motilal Oswal PE invests in Indian realty project**

Motilal Oswal Private Equity Advisors has teamed up with two real estate firms - Supreme Universal and the Mirchandani Group – to invest INR600 million ($11 million) in an Indian realty project. The investment, made via the INR2 billion India Realty Excellence Fund, aims to develop a 1.6-acre land parcel located at Somatane, in Pune.

**L Capital Asia in talks to back Kingdom of Dreams**

LVMH Group’s private equity investment arm L Capital is reportedly investing around INR2 billion ($37 million) in The Great India Nautanki Company (GINC), which runs the Gurgaon-based Kingdom of Dreams, an entertainment destination designed to play host to live musicals, Indian culture, heritage, art and cuisine. The two parties have already signed a term sheet.

**Creation Investments leads Sonata Finance round**

Sonata Finance, an Indian microfinance institution (MFI), has raised INR350 million ($6.4 million) in a Series D financing round led by Chicago-based Creation Investments. Promoter Anup Kumar Singh and two existing investors in the company - family office the Michael and Susan Dell Foundation and local economist Swaminathan Aiyar – also participated in this round.

**Goldman, Temasek to part-exit Bharti Infratel via IPO**

Goldman Sachs, Temasek and Nomura are among the investors planning to offload part of their shareholdings in the mobile phone tower unit of Bharti Infratel, the Indian telecommunications infrastructure firm, which has filed for an IPO. Bharti Infratel, which is also backed by PE players include KKR, India Equity Partners and Axa Private Equity, could raise almost $1 billion.

**CVCI achieves 2x return on Chinfon Vietnam exit**

Citi Venture Capital International (CVCI) has achieved a return of 2x on its exit from Chinfon Vietnam, after holding the company for four years. “CVCI has spent six to nine months to search for an exit until it finally divested the company six months ago to a strategic investor,” a source familiar with the transaction told AVCJ. “The exit has been the largest exit in Vietnam so far.” Chinfon, which CVCI invested in in 2008, is one of the largest cement manufacturers in Vietnam, with clinker and cement production capacity of 3.2 million tons and 4.2 million tons, respectively.

**PE-backed Max India sells polypropylene film unit**

Max India, which is backed by Goldman Sachs, International Financial Corporation (IFC) and Temasek Holdings, has sold its biaxially oriented polypropylene (BOPP) film division to Germany’s Treofan for INR5.4 billion ($97 million). The divestment allows the Indian company to focus on its core healthcare and insurance businesses. Max India has sold various units over the years.

**Motilal Oswal PE to set up real estate fund**

Motilal Oswal Private Equity is planning to set up a real estate fund worth up to INR6 billion ($108 million). The fund will tap institutional investors as well as its traditional LP base of high net worth individuals (HNWIs) because new alternate investment fund guidelines have raised the minimum ticket size for investments to INR10 million from INR2.5 million.

**IndoUS Ventures backs Vyome Biosciences**

Vyome Biosciences, a Delhi-based biopharmaceutical company that focuses on dermatology, has raised $3.3 million in Series A financing. The round was led by IndoUS Venture Partners, with Aarin Capital and existing investor Navam Capital also participating. Established in August 2010, Vyome develops treatments for a variety of medical conditions including fungal and bacterial infections.

**Carlyle, Multiples back South Indian Bank**

The Carlyle Group and Multiples Alternate Asset Management have participated in a qualified institutional placement (QIP) for South Indian Bank, which raised INR4.4 billion ($80 million) from eight investors. The bank launched the allotment program on September 3 and sold 200 million shares, or a 15% stake, at a price of INR22.13 per share.

**Carlyle-backed Haier offers $705m for Fisher & Paykel**

Carlyle-backed Haier Group has put in a NZ$869 million ($705 million) buyout offer for Fisher & Paykel Appliances (F&P), the New Zealand-based kitchen and appliance manufacturer. The Chinese company is willing to pay NZ$1.20 per share in cash. Haier New Zealand Investment Holding Company, a wholly-owned subsidiary of Haier Group, already owns 20% of F&P.

**Temasek, Bain in race for Shriram Transport stake**

Temasek Holdings, Bain Capital and Piramal Group, a conglomerate run by Ajay Piramal, are reportedly leading the race to acquire TPG Capital’s 20% stake in Shriram Transport Finance Corp (STFC), one of the leading commercial vehicle lenders in India. The transaction is expected to close next month. TPG is said to have been looking to exit STFC since early last year.

**SOUTHEAST ASIA**

**Capstone Partners opens office in Asia**

Placement agent Capstone Partners has opened its maiden Asia office in Singapore. Two senior executives - Alexandre Schmitz and Teena Jilka – were hired to lead the firm’s operations. Schmitz will be the head of Capstone’s operations in Asia. Prior to the appointment, he served as the investment director at PAI Partners, and was a member of the executive committee at Cobepa, and CEO of BeCapital.
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China’s FOF experiment

China has started to witness the emergence of renminbi-denominated fund-of-funds, but only a few institutional and individual investors appreciate their investment philosophy.

MAGIC STONE ALTERNATIVE INVESTMENT is one of the first investment firms in China to experiment in the renminbi fund-of-funds market. However, getting things right in China’s nascent private equity market is never an easy task.

Given its management profile, Magic Stone - led by a team of Chinese PE veterans including former founding partner of Jade Invest Jenny Zeng and ex-president of China Venture Capital and Private Equity Association Frances Huang - has tried to approach the local fund-of-funds space with institutional practices, unlike many of its local counterparts. It has established a database that houses information from more than 1,000 GPs, it follows precise due diligence and investment processes, and organizes tailor-made roundtables to bring together institutional investors and high net worth individuals (HNWIs) and entrepreneurs, to talk about the changing dynamics in the industry.

Its international approach, however, has not borne fruit just yet. The private equity player launched its maiden renminbi-denominated fund-of-funds in January 2009 with a target of RMB1 billion ($158 million). The vehicle – which is yet to count institutional investors as its LPs – is still on the fundraising trail after more than three years, according to a source close with the situation.

It goes without saying that Magic Stone – which also manages US dollar fund-of-funds – is not the only recent player to attempt the renminbi fund-of-funds market first started in late 2009, when China witnessed ample liquidity and investors were impressed by the high returns generated from private equity investments. At that time, a large number of intermediaries – some of which called themselves fund-of-funds – were set up with the primary motive of pairing up rich individuals with the large number of GPs that were flocking into the market. Noah Holdings has been a classical example. Founded in 2005, the New York-listed company first began its private equity business to experiment in the renminbi fund-of-funds market. According to market sources, the US-listed company first began its private equity business by setting up centers in each city to cold-call individuals with bank balances above a certain level, in a move to match prospective investors with GPs. The business model has proved itself as very profitable in the last few years, with another 6,000-8,000 copy-cat operations having been set up in Shanghai and Beijing.

“People were invited to events where GPs could introduce their funds. After that you had to sign a document,” a pan-Asian LP who joined one of these matching events recalls. “Because of the lack of channels to LPs, these intermediaries – who have developed a large network of HNWIs – have the bargaining power to charge up to 3% up front and half of the carried interest from GPs. No one has ever done that.”

While local structures do serve as a bridge between retail investors and GPs that are thirsty for capital, most of them focus on screening the most popular funds without an institutionalized due diligence system. Although some of these so-called fund-of-funds have generated good returns from China’s previous private equity frenzy, it is questionable whether they will be sustainable when clients become more sophisticated.

In addition, given that IPO exit multiples have fallen sharply in domestic bourses in recent
Insurance companies such as Ping An Insurance, in-house fund management professionals. equity and venture capital funds through its sophisticated enough to invest into private money faster than hiring a manager.”

by themselves as they believe they can make investors want to do private equity investments HNWIs,” Zheng adds. “Yet, most of the Chinese insurers, not to mention large conglomerates and private equity commitments - an existing RMB34 fund-of-funds account for roughly 10% of total Group, claims, citing official figures. James Zheng, managing director of Fosun Capital equity allocation of more than RMB250 billion, regulatory system - also have a potential private renminbi capital in the private equity sector.

have the potential to deploy a large amount of eyes on the few institutional investors that may are selling their stakes and there is currently a big mess.”

Immature LP Base
As HNWIs fail to guarantee long-term capital sources for local currency funds, PE players eyes on the few institutional investors that may have the potential to deploy a large amount of renminbi capital in the private equity sector.

In one corner, the National Social Security Fund (NSSF) is allowed to deploy as much as RMB90 billion to the asset class; in the other, the top 10 insurance companies - under the current regulatory system - also have a potential private equity allocation of more than RMB250 billion, James Zheng, managing director of Fosun Capital Group, claims, citing official figures.

“If we apply the global average - which is that fund-of-funds account for roughly 10% of total private equity commitments - an existing RMB34 billion can be channeled from the NSSF and local insurers, not to mention large conglomerates and HNWIs,” Zheng adds. “Yet, most of the Chinese investors want to do private equity investments by themselves as they believe they can make money faster than hiring a manager.”

For example, the NSSF is already large and sophisticated enough to invest into private equity and venture capital funds through its in-house fund management professionals. Insurance companies such as Ping An Insurance, China Life and China Insurance are all said to have hired consultants to provide private equity advice instead of outsourcing their investment activity. Small insurance companies – which have not been able to develop their own fund management teams – will be potential investors for local fund-of-funds, but none of them have put their thoughts into action so far.

In addition, given the fact that most private equity and venture capital funds in China are not specialized funds, fund-of-funds do not necessarily serve a diversification purpose, considering there is an extra layer of management fees compared to directly investing into GPs. According to a source close to the China Insurance Regulatory Commission (CIRC), while insurers do not see local fund-of-funds being too different from what they have internally, none of them has even remotely considered investing in such vehicles.

“The key problem is that no one in the market is willing to pay for manager selection. Understandably, it is difficult to appreciate the value of manager selection until you have seen low or negative returns from brand name funds and deals,” says Jade Invest’s Nilsson. “Local institutions don’t want to pay because they can set up their own teams, neither do HNWIs because they just appreciate the placement meaning of investments. Jade Invest, for example, was approached but did not end up going to any of these partnerships as it doesn’t see the alignment of interests.

A learning process
Although many of the guidance funds do not consider financial numbers as their primary objective, they also have to achieve reasonable returns in order to defend the feasibility of establishing a private equity industry in their regions. As a result, some guidance funds have started to hire talented individuals from the market, in a move to transform themselves into commercial-driven entities that can make meaningful investments.

Suzhou Ventures has been the most successful case so far. In 2006, it launched a RMB1 billion fund-of-funds, Suzhou Industrial Park Venture Capital Guidance Fund, alongside China Development Bank (CDB). Four years later, the pair launched another fund-of-funds targeting RMB20 billion to invest in venture capital funds with an investment range between RMB200 million and RMB1.5 billion. The fund is expected to close at the end of 2012.
“It’s true that we started off being a guidance fund, but we have gone through restructuring processes to become a market-driven entity. Now we are open to various investment regions and stages,” Jipeng Wang, partner of Suzhou Ventures Group, tells AVCJ, adding that the company’s LP base will consist of institutional investors, financial investors and big private companies in the future.

While Suzhou Ventures has been the first case that has gradually taken a market-driven approach and attracted the continuous support of CDB, more similar cases are expected to emerge as time goes by. Given that guidance funds are currently the only local groups which have experience betting on a sizable number of funds, they would be in the best position to become the next wave of fund-of-funds in China. Some overseas players also recognize the opportunity to test the water through an initial partnership with local governments. EM Alternatives, through its China affiliate Yi Mei Capital Management, launched a local currency fund-of-funds targeting institutional and individual investors – who do not have the expertise in fund management – to access top-tier GPs. Second, large institutional investors hire fund-of-funds to access small-cap or specialized funds in areas in which they don’t have in-house expertise.

Similarly, once the LP base in China develops to a stage at which it can embrace different types of demand, it will be time for renminbi fund-of-funds to become a meaningful part of the private equity supply chain. It’s possible that intermediaries, which have developed a good client-base and start to adopt a more international approach – will emerge as another impetus for the fund-of-funds market, though not immediately.

“Some of the intermediaries have been able to bring their clients good quality renminbi GPs based on their own due diligence work,” says Rebecca Xu, co-founder and managing director of Asia Alternatives. “I would not be surprised if any of these players became a real fund-of-funds, given that investors will eventually need professional fund management services when they are overwhelmed by the market complexity as time goes by.”

Foreign players, which have institutional platforms and long-term experience, may also help educate the market. At the moment, there are plenty international fund-of-funds already working in the country, although they are using US dollars and investing in offshore funds. Based on the most recent definition from the National Development and Reform Commission (NDRC), any money managed by foreign GPs is still defined as foreign capital. As a result, GPs may have to rely on local fund-of-funds, if any, to enjoy domestic treatment.

“The race between fund-of-funds players will be determined by whether pure local fund-of-funds can develop institutionalized practices and a track record before the market opens up to allow groups like us to do renminbi fundraising,” says Vincent Huang, partner at Pantheon Ventures. “The entry barrier is still very high for renminbi fund-of-funds targeting institutional LPs. For any group that meets the hurdle, there is very little competition and the market is huge.”

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

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**Talk isn’t cheap**

Japan’s mid-market GPs must overcome perception issues and limited internal resources if they are to raise capital in a challenging market. Effective communication is the key.

**JAPANESE GPS ARE GRAPPLING WITH A**

perception problem. It is generally accepted that the bumper funds raised in the previous cycle, prior to the global financial crisis, have failed to meet expectations. As a result, investors are voting with their feet and many domestic LPs are reducing their exposure or withdrawing from the asset class.

For mid-market private equity firms looking to replace exiting Japanese LPs with offshore capital, communicating their investment story – i.e. that they shouldn’t be bundled in with bigger players – has become a make-or-break issue.

“The primary challenge we are facing is the deep perception gap between the international view of Japan and the reality,” says Naoto Mizoguchi, managing director at GPDRC, Capital, speaking at the AVCJ Japan Forum in Tokyo.

Certainly, less capital is flowing into Japan-focused funds. In the first half of 2012, a total of nine vehicles attracted about $253 million in capital, data from AVCJ Research shows. In the three years following the global financial crisis, annual average fundraising surpassed $2 billion; for 2006-2008, it averaged $6.6 billion.

DRC reached a final close on its most recent fund in April 2012 at JPY6.6 billion ($82 million). The entire process took two-and-a-half years. Domestic investors were first approached in 2009 and a parallel structure for international LPs was set up in 2011. This was the first time DRC had accommodated foreign investors, and it held road shows in Hong Kong, Singapore and the US in order to drum up appeal.

Other mid-market GPs are making similar efforts, undertaking frequent trips to Hong Kong to meet potential investors. Gregory Hara, director and president of J-Star, which is targeting around JPY15 billion for its second fund, told AVCJ last month that he has been communicating with foreign LPs for several years with a view to building direct relationships.

**Know your markets**

Turning around the situation requires effort on the LP side as well. Resources must be deployed to fully understand what the Japanese market has to offer: governance and cultural issues that feed into the Western-style private equity models aren’t necessarily applicable in Japan. According to Greg Bayles, senior portfolio manager – private capital at Australia’s Commonwealth Superannuation Corporation, achieving this level of comfort involved 5-6 years of dedicated effort using people on the ground.

A failure to understand the Japan market is one of several reasons for the perception gap, adds Saki Georgiadis, head of Asia at Hermes GPE, a UK-based private pension fund. Western investors have been trimming their Japan exposure for macro reasons: the country’s economy has been treading water for a decade, while LPs have become accustomed to 2-3% GDP growth from the developed markets in which they deploy capital.

“*There is a deep perception gap between the international view of Japan and the reality*”

– Naoto Mizoguchi

Attitudes might change now that Europe, for example, has run into economic difficulties of its own, but Georgiadis notes that there isn’t always a correlation between GDP growth and private equity returns. “We’ve been investing in the Italian market for a long time and the economy hasn’t moved in the last 10 years,” he says. “It has lost about 30% of its competitiveness since joining the euro, but we’ve made good returns.”

The most important issue, however, is fund size. Negative sentiment tied to the bubble in the last cycle means that GPs must convince prospective investors that their target fund size is commensurate to the opportunities available.

Asked what they look for in a manager, LPs participating in the forum panel express a preference for smaller vehicles. Bayles says it is Commonwealth Super’s policy to move down into the mid-market when targeting country funds, because there are more ways to add value as opposed to relying on leverage multiples. Motoya Kitamura, senior vice president at Macquarie Funds Group, adds that he is biased towards smaller funds because he doesn’t want to bet on the growth of the larger buyout market in Japan.

Georgiadis is the exception, saying that Hermes is agnostic towards fund size, but close attention is paid to average equity check size and the kinds of deals a GP wants to do.

**Stretched too far**

Even if the fund size is appropriate and the manager succeeds in explaining that Japan’s mid-market differs from the larger buyout space, two challenges remain. Firstly, although the corpus fits the market, it is large enough to make the partnership sustainable and able to retain staff at all levels? Secondly, do smaller GPs have the internal skills and resources to raise money from a reconstituted LP base?

“Smaller GPs are less sophisticated in terms of the GP-LP relationship because they haven’t got as much experience or they haven’t been to Harvard,” says Commonwealth Super’s Bayles. “We have to ask how much money can the GP raise?”

For a GP that operates with limited resources and that can’t support a large investor relations team, it is standard practice for investment professionals to spend months on the road fundraising. At the same time, they might be coordinating exit strategies for portfolio companies in order to prove to prospective LPs that they have ability to return money to investors.

The process is made even more difficult if intermediaries are unwilling to help out. According to John Fadely, a Hong Kong-based partner with Weil’s global fund formation group, placement agents tend to focus on funds raising $250 million or more.

As to how all this feeds through to the wider perception issue, Fadely offers a neat contrast with China up until about 12 months ago. Such a level of investor enthusiasm there that joining the euro, but we’ve made good returns.”

As to how all this feeds through to the wider perception issue, Fadely offers a neat contrast with China up until about 12 months ago. Such a level of investor enthusiasm there that joining the euro, but we’ve made good returns.” Hara, director and president of J-Star, which is targeting around JPY15 billion for its second fund, told AVCJ last month that he has been communicating with foreign LPs for several years with a view to building direct relationships.

**Know your markets**

Turning around the situation requires effort on the LP side as well. Resources must be deployed to fully understand what the Japanese market has to offer: governance and cultural issues that feed into the Western-style private equity models aren’t necessarily applicable in Japan. According to Greg Bayles, senior portfolio manager –
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NBC Capital reaps 20% IRR from Fenix Fitness

**WHEN IT COMES TO ASSISTING THE**
growth of their portfolio companies, some PE firms are more hands-on than others. At the more pro-active end of the scale sit the likes of NBC Capital, which during its four-and-a-half-year ownership of local health club chain Fenix Fitness, held daily discussions with the company’s CEO and CFO. It also met with management on a weekly basis.

This week, Brisbane-based NBC announced that it had exited its investment, having agreed the sale of Fenix to Goodlife Health Clubs – owned by ASX-listed Ardent Leisure Group - for A$60.9 million ($64 million). The deal, which is subject to landlord consent and the securing of financing on the part of the buyer, sees the private equity firm reap an IRR of 20% on its investment, which equates to a money multiple of around 2x.

According to Ardent, the purchase price is the equivalent of 4.7x the company’s forecast EBITDA for 2013. “Strategically and tactically we were very strong in leading the way,” said Shane Lawrence, general partner at NBC. “We provided a financial platform [supplied by Bank of Western Australia] right through the great financial crisis, despite the strange looks the banks were given the sector at the time.”

NBC was in a strong position to influence Fenix ever since it entered into the company in January 2008, picking up a 65% stake as part of a proprietary buy-in management buy-out (BIMBO) transaction worth A$21 million. Back then the company consisted of four clubs, which had been in operation since 2004 as franchisees of the Genesis Fitness Clubs chain. Those clubs’ founders invested alongside NBC in the deal, which was financed by roughly equal amounts of equity and debt.

It was then that Fenix Fitness was born. A new CEO and CFO were installed by NBC, while Lawrence was appointed as chairman of the board, and Bernard Stapleton, director, occupied an additional seat. Their strategy was three-fold. They wanted to bring in a corporate structure – policies and procedures; drive organic growth, and support the firm in making acquisitions. “We executed very successfully on one and two, but only made two acquisitions, because there wasn’t the quality out there that we had expected,” said Lawrence. “When we get into the bowels of our various competitors – the mums and dads who were out running gyms – we struggled to find good quality assets, and when we did, the pricing was often not appropriate.”

Fenix thus grew by mostly organic means. Over time, NBC injected additional equity into Fenix, thereby increasing its stakeholding to the more than 80% it held up until this week. The company, which operates in Victoria and Queensland, opened its eleventh outlet on Monday, and has a twelfth under development. It now employs more than 1,000 people.

MGPA reaches first close on real estate fund

**THE LATEST FUND BEING RAISED BY**
MGPA marks a departure from the investment firm’s previous real estate vehicles. MGPA Asien Spezialfonds, which announced a first close on EUR85 million ($111 million) last week, represents the firm’s first so-called yield-focused core-plus product for Asia, and is a contrast to opportunity-focused vehicles MGPA Asia Funds I, II and III.

Whereas MGPA’s first three funds have concentrated on acquiring assets requiring heavy refurbishment and development - often including buildings which are unlet or have very low occupancy, which they then lease and reposition - Asien Spezialfonds will largely buy buildings that are already let, reposition them and collect the yield from rental and management income.

“The fund will focus on buying things that either have an existing yield or that you can create a decent yield from very quickly,” MGPA’s Asia CEO John Saunders tells AVCJ. “You’re taking a lot less risk in the process but you’d typically expect to get around a 5% yield and a 10-12% IRR rather than the 17-20% IRR and 1.8x equity multiple that you’d get from an opportunity fund.”

Despite the lower return expectations, MGPA believes Asien Spezialfonds constitutes an opportunity to take advantage of the strong pipeline of core-plus real estate deals available. Regulated under German investment laws, it will focus on established markets such as Japan, Australia, Hong Kong, Singapore and Malaysia, with a particular interest in the office and retail sectors. Ticket sizes are likely to oscillate between $40 million and $100 million.

The German-based vehicle – which, unusually, is principally targeting investors in German-speaking countries - has so far received commitments from three German institutions towards its target of EUR500 million. Two of these investors contributed substantially more than the third. Placement agent Selinus Capital is helping to shore up funds, with minimum subscriptions in the $20-25 million range.

As LPs will be able to enter the vehicle under equal terms at any point in the investment cycle, the lifespan of the fund is as yet underdetermined but is likely to be in excess of 10 years. Up to five fund closes are expected in total, with the second forecast for later this year and the final close anticipated in 2013.

MGPA has operated in Asia since 1999 and has 13 offices across Asia-Pacific and Europe. Asien Spezialfonds will be mainly managed from Hong Kong.

In June 2008, the firm closed its third Asia fund at $3.9 billion, nearly $3 billion more than its predecessor, which was launched in 2005. The vehicle invests in offices, retail, residential, logistics and hotel properties. ❯
PRIVATE EQUITY IN ASIA

Investment Breakdown by Country From 1 January to 30 August 2012

<table>
<thead>
<tr>
<th>Investee Country</th>
<th>Amt. Invested US$m</th>
<th>No. of Deals</th>
<th>(Disc.)</th>
<th>No. of Investees</th>
</tr>
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<tbody>
<tr>
<td>China (PRC)</td>
<td>15,905.6</td>
<td>294</td>
<td>166</td>
<td>293</td>
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<tr>
<td>Australia</td>
<td>6,392.9</td>
<td>58</td>
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<td>South Korea</td>
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<tr>
<td>India</td>
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<td>188</td>
<td>260</td>
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<td>Malaysia</td>
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<tr>
<td>Hong Kong</td>
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<td>Indonesia</td>
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<tr>
<td>Philippines</td>
<td>2.0</td>
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<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

CLOSED FUND

Location: Hong Kong
Fund Name: Asia Alternatives Capital Partners III, LP
Closing Amount: US$1.52 billion (final close)
Launch Date: January 2011
Fund Manager/Advisor: Asia Alternatives Management LLC
Stage Focus: Buy-outs (MBO/MBI/LBO), Expansion/ Growth Capital, Mezzanine/ Pre-IPO, PIPE Financing, Start-up/ Early Stage, Turnaround/ Restructuring
Geographical Focus: Australia, China (PRC), India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam
Contact: Rebecca Xu
Phone: (852) 2588-7500
Email: rxu@asiaalt.com
Website: www.asiaalternatives.com
Update: Asia Alternatives Capital Partners III at $1.52 billion. The fund-of-funds targets at top performing private equity fund managers across the dynamic and growing markets of Asia. It invests in Greater China, Japan, Korea, South East Asia, India and Australia and across buyout, growth, venture capital and special situations funds. The pool of capital is divided between $908 million in one flagship fund called Asia Alternatives Capital Partners III and about $600 million in separate accounts for large individual investors. Institutional investors include Cathay Life Insurance, the Church Pension, Comprehensive Financial Management, Massachusetts Mutual Life Insurance Company, New Mexico State Investment Council, New York State Common Retirement Fund, OHIM Asia Investors, an affiliate of Oak Hill Investment Management and Pennsylvania State Employees’ Retirement System.

NEW FUNDS

Location: Indonesia
Fund Name: Capsquare Asia Partners Fund I, L.P
Target Amount: US$75 million
Launch Date: August 2012
Fund Manager/Advisor: Capsquare Asia Partners Ltd.
Stage Focus: No Preference
Industry Focus: Consumer products/services, Medical, Services - Non-Financial
Geographical Focus: Indonesia
Contact: Ridwan Budijono
Phone: (62) 21-2993-7270
Email: rbudijono@capsquare-asia.com
Website: www.capsquare-asia.com
Update: Capsquare Asia Partners has raised $56 million for its first private equity fund targeting at $75 million. The Fund will invest in Indonesia in consumer-driven industries, notably FMCG, retail, education and healthcare for $10-15 million each. The Fund is looking to complete the final close in fourth quarter of 2012.
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